



“Havells India Limited
Q3 FY2020 Earnings Conference Call”

January 22, 2020



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Moderator: Ladies and gentlemen, good day, and welcome to the Havells India Limited Q3 FY2020 Earnings Conference Call, hosted by Spark Capital Advisors. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ravi Swaminathan from Spark Capital Advisors. Thank you, and over to you!

Ravi Swaminathan: Good afternoon everyone and welcome to the Q3 FY2020 Post Results Conference Call of Havells India. The management is being represented by Mr. Anil Rai Gupta, Chairman and Managing Director; Mr. Rajesh Kumar Gupta, Whole-Time Director and Group CFO; and Mr. Rajiv Goel, Executive Director. I will now hand over to the management. Over to you, Sir!

Anil Rai Gupta: Thank you, Ravi. Good afternoon everybody. Thank you for joining the Havells Q3 investor call. I hope you would have already reviewed the financial results for the quarter. Deterioration in economic macros, sectorial liquidity challenges and slowdown in infrastructure segment has impacted the demand for industrial products within Cables, Professional Lighting and Switchgears. The general consumer sentiment has also been weak, though we have managed to remain stable in consumer categories. Despite softness in revenues, contribution in EBITDA margins have been maintained owing to cost rationalization and increased cost consciousness.

On Lloyd, though the LED TV disruption has continued to impact the performance in Lloyd, there has been significant improvement sequentially on the back of growth in ACs. Recently, we have arranged AC factory visit for all our retailers and distributors and the feedback we got has been very encouraging. The level of backward integration and level of automation in the AC factories has helped boost the trade confidence for the upcoming season. Overall, there is optimism aimed to lower inventory levels at dealers and a modest recovery in consumer business. We expect decent recovery in the further quarters. Thank you, Ravi. We can start the Q&A now.

Moderator: Thank you very much. The first question is from the line of Sonali Salgaonkar from Jefferies. Please go ahead.

Sonali Salgaonkar: Thank you for the opportunity. Sir, my first question is regarding the demand highlights that you just gave and what kind of on the ground situation are you seeing right now, both in terms of B2B as well as B2C?



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Anil Rai Gupta: So on B2B, I think as the results also show, we have told you earlier also that around 30% of our business comes from B2B or government infra or industrial oriented products and customers, though that can also be going through dealer network, most of it still goes through dealer network, but primarily the consumers are more on the B2G, B2B side and so the entire shortfall in revenues as compared to last year has been from the industrial cables, professional luminaires as well as industrial switchgear. So, what we can see is that there is delay in payments by the electrical contractors, and hence, there is very limited offtake both by the industrial dealers as well as the customers' contractors, so that is on the industrial side and that continues to remain as a challenge at this present moment also, and I think more and more the liquidity situation improves, I think this will come back. So, I don't think there is a huge issue with the demand itself, but I think liquidity is really impacting the offtake at the present moment. On the consumer side, I think the consumer sentiment was a bit weak and with delayed winters, and overall, again credit situation in the market, the dealers have reduced their inventory levels and are basically taking the stocks only as and when it moves, so they are not really stocking a whole lot of products, so I would say that the sentiment is a bit low, mainly because of the liquidity situation.

Sonali Salgaonkar: Right, Sir and do you see that improving sometime soon probably in Q4?

Anil Rai Gupta: We do see intermittent improvements and just as in last two or three weeks, we have seen some improvement in offtake by the dealer network. Right now, it is difficult to say whether the entire thing can come back in the Q4, but there are slight improvements in the offtake.

Sonali Salgaonkar: Understand. Sir, my second question is on Lloyd. Sir, from a broader strategy perspective, could you please help us understand what are the corrective steps that we are taking in Lloyd and by when do you expect them to materialize or be accretive to your financials?

Anil Rai Gupta: I think the biggest corrective step which has taken place is the control on our supply chain, which is in Lloyd, as we have always said that the majority of the products, which is air conditioners, which is 70% of the sales, were dependent upon imports from China, which were hit by custom duty increases and by unfavorable exchange rate, so with that dependency going away with full production coming from the month of September, October in the plant, I think the majority of the corrective steps has been taken. The other steps, which we have taken in the last two years or so has been in the distribution front. Earlier we were dependent upon very large distributors for a particular state, today the distribution is far more spread and distributed as well as we are pretty much now in that same ratio of sales, for example, like regional retailers and modern format retail contributes almost 30% to 40% of the sales in the consumer durable category, so we are present in most

of these chains, so those are the corrective steps. I think from here onwards, the third thing, which hit us was the LED panel disruption and now all these corrective steps have been taken on the inventory side also. So, this is more of a portfolio figure and lastly, I would say the enhancement of the product range on the washing machine side, again changing the supply chain from import from China to depending on sourcing from India in our own design, so a lot of corrective steps have already been taken. I think things should definitely start looking very positive from here.

Sonali Salgaonkar: So, from Q4, do you expect the traction in air conditioners to be better in Q4?

Anil Rai Gupta: Absolutely, because even in third quarter, we had started seeing the benefits, as I said, the new costs which have started coming from our own plants as well as the confidence which has been created in the dealer network, so that should continue in the Q4 as well.

Sonali Salgaonkar: Understand, Sir. That is quite helpful. Sir, last question, if I may. Sir, on the new product launches in Lloyd, last time you had commented that you would launch washing machines in Q1 FY 2021, are we good to go for that deadline?

Anil Rai Gupta: We already have washing machines, but the range is getting expanded from Q1. I do not know whether you are talking about refrigerators, yes, we are launching refrigerators in Q1 FY 2021 as well.

Sonali Salgaonkar: Alright, Sir. That is from my side. Thank you.

Moderator: Thank you. The next question is from the line of Bhoomika Nair from IDFC Securities. Please go ahead.

Bhoomika Nair: Good afternoon Sir, just wanted to understand the ECD segment slightly better, which is largely a consumer demand driven segment, if you can just kind of, because there is a lot of sub-product categories, quantitatively how the different products have performed and how has market shares within that given the muted demand, have you seen any pressure in terms of market share out there?

Anil Rai Gupta: No. In fact, all the GSK reports suggest that we have gained market shares in the second and third quarter. On the fan side, which is a sizable part, and that actually affects the overall ECD growth or degrowth. On the fan side, I would say that because of the lack of liquidity in the marketplace in the dealer network, generally stocking which starts happening in the month of November-December was a bit delayed, so fans have remained flat during this quarter, so we do expect that the offtake will start improving in the fourth



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quarter, but generally in November-December, a lot of push happens into the trade for the incoming season, which actually happened last year as well, but was not, because it is again the credit situation. I mean, one strategy could be to open credit, which is again not a very good long-term decision for the channels you want to keep it maintained, so it would not have any way affected the market share where you are just pushing things into the channels and the other product category which got a little bit affected by the late onset of winter was water heaters, so again, there we see a very low single-digit growth. Appliances, again, I think, generally speaking, dealers and distributors have reduced their stock inventories during this last one or two quarters, so overall, I would say, though we are not affected in the market share, but the offtakes have been low.

Bhoomika Nair: Okay. Sir, in terms of lighting, there has been significant price erosion, so how is that moving, is it still continuing to see a deterioration on a month-on-month basis, or has it settled down?

Anil Rai Gupta: On the pricing, which is quite settled down now, maybe some reduction is happening, but it is also happening on the cost side also, so it is not really affecting our margins. Margins have continued to remain quite stable in lighting, but there is a significant reduction in the offtake of the professional luminaires and basically more on the infrastructure and the government side, so while we continue to do well on the professional lighting in the commercial segment, but on the infra and government where street lights used to go, there is reduction in offtake, on the consumer luminaire side, we continue to grow even in this particular quarter.

Bhoomika Nair: What would have been the growth levels in the consumer segment in lighting?

Anil Rai Gupta: Again, low single digits.

Rajiv Goel: Low-single-digit in consumer, but I think what is notable there is, as you mentioned, there has been continuous price decline, so despite 15% to 18% price depreciation, we have been able to hold up the entire value, so which, in a way, it sorts of implies that the volume growth there would have been around close to 18% to 20%. On the consumer, we continue to hold pretty well and I think it also underlines the way we continue to elevate our portfolio, so that we can preserve the value of the overall business, so I think in consumer, we continue to do well, though people do not track market share so closely in this, but I believe, our distribution network, the way we have gone into rural, there lighting is doing extremely well in the Havells brand. I think all these things, which we have been sort of investing for past couple of years will start coming to fruition, I think, in further quarters. So, I think there is a lot of confidence on the lighting side. I think premium also, I think, we



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believe it is a question of liquidity, hopefully, in a quarter or so that should improve, and I think it should rebound rather sooner than later.

Bhoomika Nair: And if I may just squeeze in a question on Lloyd, you spoke about that the plant is now operational and production is picking up and inventory correction in LED TV is also kind of done with, as we introduce and expand a range in washing machine and also refrigerators, etc, what is the kind of more from a medium- to long-term perspective, can the margins in that segment having now domestic inventory or domestic manufacturing can drive up margin profile to our historical 6% to 8% or you think that will be more over a period of two to three years?

Anil Rai Gupta: No, I think not over a period of two to three years, hopefully, it should happen much earlier and yes, margin improvements will happen. Though our first focus, because last year, we lost some market share in our category of air conditioners, mainly because of very high-cost inventory from China that we had, so first and foremost focus is to regain the market share and then, of course, margins should not be that much of an issue because, as I said, we have better control on costs and supply chain.

Bhoomika Nair: Great Sir. I wish you all the best and I will come back in the question queue. Thank you very much.

Moderator: Thank you. The next question is from the line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade: Thank you for the opportunity, Sir. My first question was with respect to the A&P spending. We have seen the A&P was about 15% lower Y-o-Y, so how do we look at A&P going forward given the demand scenario from a, let us say, 12 to 18 months perspective?

Anil Rai Gupta: I think in our industry, A&P is always looked at as a long-term investment, so one could see this that we continue to invest and we have been continuing to invest, and anywhere there is a little bit more discretionary spending, I think there has been some reduction depending upon the volume reduction, so I would say, prudence would continue to remain till we start getting more volumes.

Achal Lohade: Right and secondly, with respect to the cost rationalization, as you highlighted, could you be able to elaborate, as to if the entire benefit is already reflected in the third quarter or some more to come in fourth quarter or first quarter FY 2021?



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Anil Rai Gupta: Pretty much it is reflecting in the third quarter. I think, again, there are not huge amounts of discretionary spends in SG&A, so it is pretty much captured here.

Achal Lohade: Right, just one small question. If I look at, let us say last six to seven 7 years, we have seen a substantial improvement in the contribution margin for Havells business and correspondingly significant increase in the unallocable expense as a percentage of revenue, so I was just curious, if there is some more scope to cut down on the discretionary expense?

Anil Rai Gupta: No, I think earlier also our major spend is going to building the future, so there is enhancement in the distribution network, advertisement, R&D. See, we do not see many low hanging fruits there. I mean we have to run the organization for a very long term, it is not that we want to run quarter-on-quarter.

Achal Lohade: Thank you. I will come back in the queue.

Moderator: Thank you. The next question is from the line of Venugopal Garre from Bernstein. Please go ahead.

Venugopal Garre: To make it simple, I just wanted to ask that see the Cables & Wires and Switchgears business as two segments have generally seen low single-digits growth over the years, but it has been the previous year where there was a significant improvement in numbers and we had at that point of time had attributed that to be a pre-election phenomenon, where a lot of government projects come back in and they do bulk ordering, etc., now the point is not that, the point essentially is that at what status or stage are those projects that suddenly now that the economy has weakened over the last couple of quarters, those projects got probably stalled, and hence, the incremental ordering from those probably is not happening and that is a reason for Y-o-Y lower revenue in those businesses. To put in context, the idea is that are these projects still in a stage of execution and can quickly restart or is it a situation...

Anil Rai Gupta: Can you hear me?

Moderator: Sir, the line for Mr. Venugopal Garre is disconnected once again. We move to the next question. We will move to the next question from the line of Aditya Bhartia from Investec. Please go ahead.

Aditya Bhartia: Good afternoon Sir. Sir, you mentioned that dealer destocking has also contributed to revenues being weak, is it possible to give some sense how retail sales have been this quarter and also, do you think that retailers and dealers are now operating with minimal inventory, and therefore, there is very limited scope for further reduction?



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Anil Rai Gupta: I would say that in general, yes, the dealers and distributors are operating with lower inventories. So generally, we have not seen this kind of lowering on the inventory because there is high level of optimism even if you are sometimes pushing products also, they have a high degree of optimism. At this stage, I mean, there are ways and means to obviously keep pushing the channels, but those are the kind of practices that Havells has not resorted to in the past, like heavy discounting or high credit terms because again, as I said, it is a short-term measure, but not really good for the channel also because we are a channel-oriented organization, but the retail sales also have been muted, so for example, as I said, delayed winter in water heaters caused delayed installations for water heaters as well, so probably some amount of retail sales have gone down as far as the water heaters are concerned. The retail sales for a product like fans might have remained as it is, but some destocking has happened because, again, as I said, usually, in air conditioners and in fan, November-December is the month where distributor stuffing happens, but this time, it is not to that extent and again, I am saying this is not true for all companies, but at least, Havells has not stuffed the channel in these two months by extended discounts or credit.

Aditya Bhartia: And that brings me to my next question, which was pretty much relating to how competitors have responded to the slowdown in macro environment, do you think there has been heavy discounting or extension of dealer incentives or expanded payment terms that your competitors have extended to the dealership network?

Anil Rai Gupta: Yes, especially more so in seasonal products, also in some products where you know for example, even in industrial products also, so some companies have resorted to that as well.

Aditya Bhartia: Understood, Sir and my last question is on employee expenses, which have fallen on a sequential basis on a quarter-on-quarter basis, I do not really remember when this had happened last and to that extent, I want to understand how are we looking at it because we had been building up our employee strength over the last couple of years and similarly where else do you think there is any scope of cost rationalization?

Anil Rai Gupta: I would say that over a period of time when you start building costs and building the organization, some amount of excesses also happens in terms of structure and infrastructure. I think some time back we did re-look at the entire structure and I think now what you see is the optimum level at this stage, I would say. There is always a possibility of improvement going forward, enhancement also in terms of infrastructure as revenues, volumes or needs grow, but as I said earlier, I would say that we are at a prudent level.

Aditya Bhartia: Understood, Sir. That is helpful. Thanks a lot.



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- Moderator:** Thank you. The next question is from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.
- Bhavin Vithlani:** Thank you for the opportunity. Two questions, one, have you seen down trading in the recent months or quarters and maybe if you could highlight that, standard fans have grown faster than Havells?
- Anil Rai Gupta:** No, generally, it does not happen. Of course, this is a long-term phenomenon where some products will be developed for affordable housing and all that, but in these kinds of products, generally, there is not enough down trading.
- Bhavin Vithlani:** Understood and second question is, if you can talk a bit on the innovation and the R&D, so the R&D spends that we have and if you can just give us a color on some new products that we are actually developing?
- Anil Rai Gupta:** Well, this is a continuous exercise and I think this call may not be suitable for that, but there is a continuous exercise just because right now, I am sitting in the Ghiloth factory, a product which comes to mind, which we have very recently developed is the heavy-duty air conditioner. Now this is because we have our own factory, we can look at a product, which normally has only a couple of brands import from outside of India, which works at 60-degree ambient temperature and does not deviate even at 48 degrees, so these are developments which can happen if you have your own R&D and your own setup, so this is a product which we are now launching in competition with the imported brands, so I think, again, we will have a huge cost advantage in this kind of product category also because it has been developed and manufactured in India, so I mean, there are tens of examples of every product category like this.
- Bhavin Vithlani:** And last question is, you mentioned that you have changed the distribution model from large wholesalers to smaller ones in Lloyd, would it be possible to quantify on numerical basis the dealer distributor and the retail touch points?
- Anil Rai Gupta:** Yes, we can come back on this. I do not have the numbers off hand right now, but we can come back on that.
- Bhavin Vithlani:** Thank you so much for taking my questions. Those are my questions.
- Moderator:** Thank you. The next question is from the line of Renu Baid from IIFL. Please go ahead.



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Renu Baid: Good afternoon, Sir. Sir, my first question is on the fan segment. Overall, against the performance of appliances in winter seems like fans are more flattish or broadly, a marginal decline, so I know it is an off-season, but still despite that, anything to read with respect to the change in the energy efficiency norms, which are due from next financial year, any pre-season destocking on account of that event and how is our preparedness on the portfolio with respect to BLDC fans and the new norms?

Anil Rai Gupta: Yes, so on the preparedness we are quite there, so that is not an issue, because the event is somewhat far away at this point of time, I do not see any destocking in the dealer channel because of that and anyway the season is going to come very soon, so I do not think dealers are looking that far ahead to destock the material, but generally speaking, as I said, third quarter is considered more of a primary push kind of quarter rather than a secondary or tertiary sale, so that is something where some destocking has happened because, ultimately, people are a little bit more careful about how they invest their capital in stocks.

Renu Baid: Right, but during the fourth quarter, just at the edge of summer, so can one expect that there could be some destocking or channel averseness because of the change in norms or it should not be much of an issue with respect to the portfolio there?

Anil Rai Gupta: It could be possible in the first quarter in the end, there could be some, but not in Q4.

Renu Baid: Sir, we did mention a B2B business portfolio approximately 25%, 30% of mix and that has struggled, will it be possible to broadly quantify, as in I know segment-wise it is all merged across, but company as a whole, how has the core, within the core, Havells' portfolio, how has the B2B and B2C sales trend been, was it like a double-digit decline in B2B or consumers growing flattish or single-digit growth, what were the trends broadly like?

Anil Rai Gupta: Let us say, 70% of the business was flattish and 30% is contributing to this year.

Renu Baid: And lastly on the Lloyd side, just hoping back now that we have a fully integrated manufacturing facility in place, portfolio also is looking relatively comfortable and better, so in terms of operational performance, can one expect operating performance to be back to the post-acquisition levels of mixed single digit, 6%-7% kind of margins and does this factor in the increased price competition from players like Samsung and others who are ready to launch this season with aggression?

Anil Rai Gupta: No, I think we are quite hopeful that we should be coming back to those kind of margin levels whether it happens this quarter or next quarter or in a couple of quarters, I think that is something I cannot say at this present moment, but that is what we will be looking at.



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- Renu Baid:** Thank you so much and all the best.
- Moderator:** Thank you. The next question is from the line of Atul Tiwari from Citigroup. Please go ahead.
- Atul Tiwari:** Thank you. Sir, this AC plant, now that it has been commissioned, what will be the rough capacity and what was the total capex?
- Anil Rai Gupta:** We have invested close to about 400 Crores for the operation, the capacity on single shift basis is around 600,000.
- Atul Tiwari:** And is it fair to assume that except for the compressor unit, everything will be manufactured here, right?
- Anil Rai Gupta:** This is the most integrated facility in the country and yes, you are right we will not be manufacturing a couple of components. It does not make sense because of economies of scale; however, I can say that probably one of the most integrated facilities in Asia.
- Atul Tiwari:** And sir, compressors you will be sourcing from China or somewhere else?
- Anil Rai Gupta:** Compressors, we will source them.
- Atul Tiwari:** And that will be what percentage of AC value roughly?
- Anil Rai Gupta:** I cannot be so specific on this call, but you can ask this question to our IR team.
- Atul Tiwari:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Venugopal Garre from Bernstein. Please go ahead.
- Venugopal Garre:** I hope I do not get disconnected again. I will probably change my questions in case. Sir, if you have heard the question, I do not want to repeat it?
- Rajiv Goel:** Yes, we got the question. So Venu, on the question, I think, if I understand correctly was whether the project got stalled or they will never come back, I think the earnest hope is that as our liquidity situation improves both on the omni side and the system side, I think these projects have to be completed, so I think we do believe and fervently hope that in the next few quarters, I think the things get pretty smoother on that side, because as we are continually doing in these infrastructure to be put up there.



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Venugopal Garre: Got it. My second question is ECD, I missed a few questions, so I do not know if it has been asked, so is water heater the only driver for weakness in ECD because see, this is also a festive season, so I thought you might have benefited in some product categories, so is it primarily a water heater issue because of delayed winters, because of which you have seen a flattening of ECD growth, by which I mean that, ideally things should recover?

Anil Rai Gupta: Majority products, two of the major products, apart from appliances, water heaters and fans have seen flattish growth. Fans, primarily because of the primary push sales being low because of the liquidity situation in the dealer network and dealers being more prudent about the pre-season stocking. On the water heater front, I would say, it is more of because of delayed winter, as the tertiary sales were slow especially in the month of November, which is definitely the biggest month for water heaters in the entire year and because of delayed winter in the northern part of India, the initial sales were low, so I would say these two main categories not performing extremely well because of the different reasons, that is the reason for the ECD flattening.

Venugopal Garre: Sir, lastly, have you mentioned how much the AC sales growth has been this quarter for you relative to the market, more to see how the things are on the market share front, already starting to see some market share move or you have generally been now started to grow with the market?

Anil Rai Gupta: In the recent GSK report, we have seen some positive movement in the AC market share and in this particular quarter, we have seen lower double-digit growth only for ACs.

Venugopal Garre: Low double-digit revenue growth?

Anil Rai Gupta: Yes.

Venugopal Garre: Okay, thank you so much.

Moderator: Thank you. The next question is from the line of Vishal Biraia from Aviva Insurance. Please go ahead.

Vishal Biraia: Sir, in water heaters, because of the delayed winters we lost sales in November, have we caught up, are the trends encouraging in December-January, anything on that, Sir?

Anil Rai Gupta: Yes, December, generally, it was much better December than normal December, but it did not catch up to the extent of the loss of sales in November, so yes, water heaters continue to



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grow, but as I said, just at the right of the season time, there was delayed winter effects, but water heater continues to do well for the company.

Vishal Biraia: And Sir, coming to refrigerators, this would be a completely imported unit from China or would we be assembling a portion over here in the factory?

Rajiv Goel: It will be like in ODM approach, design will be ours and subject to our specification, most of it will be developed domestically.

Vishal Biraia: Okay, thank you very much, Sir.

Moderator: Thank you. The next question is from the line of Rahul Gajare from Haitong Securities. Please go ahead.

Rahul Gajare: Sir, I have got a couple of questions, in Lloyd, given your AC factory is up and running right now, is there any capex that you would incur for launching ref. and expanding the range of washers and connected question over here, continuing from the previous question of Vishal, given that in fans also you have basically been focusing only on the premium side of the fans, in refrigerator, would you focus only on frost free or you would do direct cooling also?

Anil Rai Gupta: In refrigerators, 70% of the market is still direct cooling, so we will be having a complete range. Even in fans, I would say that we are focusing on the premium side of the business, but the only space where we are not there is the economy fans, but otherwise, we are into every small category and in the premium category, so we are pretty much there in the entire portfolio of fans, 25%-30% of the market will be low cost, low quality fans, but on your question on capex, very limited capex will be done on washing machines and refrigerators. As I said, we are not putting our plant basically right now, but as Rajiv mentioned that we will invest on designs etc., so the investments in those will be there.

Rahul Gajare: Okay. Sir, my second question is basically, we have seen macro headwinds across all the product categories. Is there any specific region where you faced more headwinds or any specific region where you have actually seen encouraging trends?

Anil Rai Gupta: Geographically, there is not much distinction. On the customer segment wise, as we have already explained, industrial versus consumer, there is a difference in distinction, but not really geographically.

Rahul Gajare: Okay, that is it from my side. Thank you very much.



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Moderator: Thank you. The next question is from the line of Naveen Trivedi from HDFC Securities. Please go ahead.

Naveen Trivedi: Good afternoon everyone. Sir, considering many categories, you have seen the channel inventory at low level, do you expect that there can be an opportunity to channel filling in the near term and if that is so, which categories you prefer, do you think that there are chances of filling the inventory in the coming time?

Anil Rai Gupta: It depends upon two things. One, obviously, the secondary and tertiary sales, also on the liquidity situation, so hopefully things should start getting better and obviously the government is definitely taking steps to make sure that the consumer sentiment improves, the liquidity improves, so hopefully things should start getting better, but it depends upon a couple of such factors.

Naveen Trivedi: But nothing you are expecting at least in the near term?

Anil Rai Gupta: It is difficult to say. I do not know that it will happen immediately, or it will take some more time, but as I said, last couple of weeks we have seen some positive movement, so it is still early to say whether this continues to sustain.

Naveen Trivedi: Okay and that is all from my side.

Moderator: Thank you. The next question is from the line of Shrinidhi Karlekar from HSBC. Please go ahead.

Shrinidhi Karlekar: Thanks for the opportunity. Sir, my first question is on Lloyd ramp up at the capacity. I just want to know of the expected sales in summer season, what percentage of products would be manufactured in your own factory if you can give and how is it likely to ramp up say, coming into FY '22 and onwards?

Rajiv Goel: Approximately about 70%, let us say next three quarters, because, Shrinidhi, you must be aware that we are carrying inventory from the past as well, so I think by the time it fully ramps up, by the time it starts reflecting in our inventory and the sales, I think you should assume three rolling quarters before we start reaching 60% to 70% and eventually, it will be 80-odd percent also, but that could an take year plus.

Shrinidhi Karlekar: Sir, another question again on Lloyd, so we intend to launch ref. category, so initial cost related in terms of team building and investment in R&D, has that already reflected into your cost in SG&A and employee cost or it's likely to come on board in coming quarters?



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Rajiv Goel: Most of it is reflected. I do not think we need too many sales people. The whole idea of portfolio proliferation is also the leverage your overheads and the cost, so I do not think there will be significant cost increase because of the launch of the refrigerator. R&D, in any case, has been done for the last one year on the same.

Shrinidhi Karlekar: Right and Sir, last one, Sir, it seems like channel destocking have had impact on our consumer part of the business, would you say, the underlying retail offtake, has that, like, retail customer sales have kind of worsened in Q3 versus Q2, like removing the destocking impact, I just want to understand, has the retail offtake worsened in Q3 versus Q2, if you could add any color on that?

Anil Rai Gupta: Couple of quarters, yes, the retail offtake has been slow and when we say retail offtake, it also includes in our kind of product there are a lot of electrical contractors, so yes, because of the various liquidity situation, things have slowed down there as well.

Shrinidhi Karlekar: Okay. Thanks for answering my questions and all the very best.

Moderator: Thank you. The next question is from the line of Ashish Poddar from Anand Rathi. Please go ahead.

Ashish Poddar: My question is, again, on the Lloyd side. Sir, we are still saying that we have some old inventories and now we have also started our in-house production, so I think that our own product, which is to be tested in the market, but do you see the perception or the dealer feedback changing because of, they will be able to differentiate between what they were selling earlier and now what will be they selling in future, so what kind of communication is there with the dealer distributor, if you can highlight some of the points?

Anil Rai Gupta: I think if you are referring to change in perception on the quality, first of all, the product which Lloyd always gave was of a good quality, so reality is that the quality perception was good. The brand perception was not so high, which has been changing in the last couple of years and in terms of our own factory production, I think the way we have looked at it is not just the product, but seeing is believing, the way we are manufacturing the product is the best way to communicate to the dealer regarding the product we have brought, so that is what we will be focusing upon.

Ashish Poddar: And in terms of pricing, I think you have also done a lot of pricing corrections, now your pricing are very much competitive with the larger players, how do you see the acceptability of that in markets considering the brand perception of Lloyd, which was there earlier, so



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what kind of confidence you are getting from the channel that these kind of price revisions are very well accepted in the market?

Anil Rai Gupta: I think the price increases which happened last year was a bit forced upon us because of the cost of the product, but now, as again we have mentioned many times that we have a much better hand on quality, cost and supply chain, so costs remaining competitive, we have corrected our pricing to that extent, and which has created a very positive sentiment amongst the channel.

Ashish Poddar: Sir, if you can give some color on the larger players vis-a-vis your pricing, what kind of price gap is there on a like-to-like basis, just to give a flavor about our positioning in the category?

Anil Rai Gupta: In the last one year or so, there is no distinction between larger, better, multinational brands or anything. Everybody is working to selling ACs at competitive rates, so I think what we have done over the last couple of years regarding brand perception, channel expansion, the consumer end channel is accepting us among the top brands, so that is the reflection of the fact that whatever corrections that we now make, which are very close to all the other leading brands, is being accepted well by the channel.

Ashish Poddar: Okay. My last question is on your core category, you mentioned that in last two to three weeks, you have seen traction and so, which are the product categories, where you have seen better traction and where do you see there is scope for traction in this quarter, any green shoots there?

Anil Rai Gupta: The green shoots are positive generally, I cannot really go product by product at this stage, but generally, there is a little bit of positivity, but I do not want really to be sounding extremely positive because a lot of corrections still have to take place and I think let us try and remain a very strong organization for the next two or three quarters, that is the time when others definitely will be making mistakes. Our focus should be on winning market share during the next quarters.

Ashish Poddar: Okay, thank you so much and all the very best.

Moderator: Thank you. The next question is from the line of Ankit Babel from Subhkam Ventures. Please go ahead.

Ankit Babel: Sir, Good afternoon. Just two questions, one is, what was the volume growth or degrowth in Q3 in your cable business?



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Rajiv Goel: So, on the power cable side, I think as we talked even around the degrowth of close to 20% and I think there had been value growth also because the cost of aluminum has come down since last year, so I think 5% will be attributed to that, maybe, let us 18%, 20% volume, and I think 20-23% odd is value.

Ankit Babel: Okay. What is your outlook here, I mean, what kind of growth you are anticipating in this business going forward?

Rajiv Goel: The cables, sometimes it is very difficult to value it on a quarterly basis and I think each headwind business is facing, particularly in domestic, domestic market is where we talked about the liquidity issues, the government not releasing the payments, electrical contractors having challenges, so I think, to our mind, it is also related to macro. We will do whatever it takes to grow the business, but I think as of now, it is difficult to give sort of any guidance on the same.

Ankit Babel: Okay and my second question is on your capex, what are your capex plans for FY2020 and FY2021?

Anil Rai Gupta: FY2020, we will end around 500 and FY2021, we will announce sometime in March.

Ankit Babel: And sir, just one small question on your Switchgear business, now that business is very volatile, one year it grows at 0%, second year grows at double digit, so what is the outlook on that business, Sir?

Anil Rai Gupta: The outlook is very strong still, because we are growing not only in brands and products, on switchgears, this domestic circuit protection as well as switches and sockets where it has not performed very well is on the industrial circuit protection this year because our industrial circuit protection also goes in infra and government a lot, so there we have seen degrowth in this year, but domestic circuit protection, which is still the larger part of the business continues to do well. I mean overall there is sluggishness in the real estate demand generally over last three or four years and that has contributed to this muted growth in this category, but we cannot really be seeing quarter-on-quarter, some year it grows maybe, yes, with the liquidity and the better demand.

Ankit Babel: Okay, thank you so much, Sir.

Moderator: Thank you. The next question is from the line of Ansuman Deb from ICICI Securities. Please go ahead.



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Ansuman Deb: Thanks for the opportunity. My question was that in a lower demand scenario, when typically, dealers are stocking less of inventory, are we with the higher amount of premium portfolio being impacted more, that is one question and the second is, if you could elaborate some of the rural distribution initiatives that we were discussing in the last two quarters, these are my two questions?

Anil Rai Gupta: Yes, I do not see that there is down trading of the consumer or anything there and hence, the premium products help less as compared to the low-cost product. The general discounting will start happening by some of the companies during this time. For example, one of the AC companies would increase the credit terms in the month of December, if they have not completed their annual targets or something, but that is again depends upon company to company, so it is not really down trading by the consumer, so what was the other question?

Ansuman Deb: The rural distribution initiatives.

Anil Rai Gupta: So, on rural, we are expanding fast. We have appointed super distributors. We have appointed a full team and we have appointed close to about 1,800 distributors in the rural areas. The target is to take it up to 3,000 towns in another one year, which means 3,000 distributors, so that is running well for us. It is almost a new business, so all contributing maybe close to about 120 Crores-130 Crores of rural business this year.

Ansuman Deb: Thank you.

Moderator: Thank you. The next question is from the line of Amandeep Singh from Ambit Capital. Please go ahead.

Amandeep Singh: Thanks for the opportunity. Sir, as you earlier mentioned that fans stocking got delayed, which also impacted the ECD segment, can you guide us on how was the region-wise demand and if the momentum has picked up in this January month?

Anil Rai Gupta: Too short a period to say if the momentum has picked up or not, but yes, generally things are a bit positive now and hopefully this should be a good season for fans as well.

Amandeep Singh: And Sir, demand was impacted, any specific region wise or it was across geographies?

Anil Rai Gupta: Across geographies.

Amandeep Singh: Okay Sir, thank you.



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Moderator: Thank you. The next question is from the line of Amnish Agarwal from Prabhudas Lilladher. Please go ahead.

Amnish Agarwal: Sir, I have one question on the employee expenses, if we look at the employee expenses during the quarter, this is considerably lower in comparison to what we had in Q1 and Q2, so is there some rationalization which has happened at the company's end?

Anil Rai Gupta: Yes, a little bit of, as I said in my earlier question, that there is reworking on the structures and some rationalization has already happened, but I think we are now at a very prudent level of organizational structure.

Amnish Agarwal: So, this kind of the run rate is likely to sustain from here on?

Anil Rai Gupta: That is right.

Amnish Agarwal: Okay and secondly, Sir, you just talked about your expansion in rural distribution, so can you share with us as of now how much would be the sales contribution coming from rural areas and small towns?

Anil Rai Gupta: As I said, in the entire year, we will be doing close to about 120 Crores to 130 Crores.

Amnish Agarwal: Okay, thanks a lot, Sir.

Moderator: Thank you. The next question is from line of Pawan Parakh from Renaissance Investment. Please go ahead.

Shreyansh: This is Shreyansh. Just a question on the consumer side of the business, so what I wanted to understand is when the revival is and when it happens, do you think we are in a place where we can grow faster than the industry?

Anil Rai Gupta: Of course, I think that is the work that has been going on, our investment in brand, distribution, R&D, production, supply chain, I think that is a continuous process where we are not stopping any activity on that, so these are lines I believe that the company should strengthen its core strength and take advantage of when the markets turnaround, so definitely, we should be helped when the markets turnaround.

Shreyansh: Okay, and second was on the Lloyd side of the business, we have put up a plant and everything has worked in our favor now, second thing was, what are we doing on the consumer side of the business because what happens is when you talk to dealer distributors, their sense is the customers are not ready to pay a premium for the product because they do



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not resonate with higher price for Lloyd, so what is our sense on that side, are we doing anything to educate them or how do we plan to take to action?

Anil Rai Gupta: I think the first and foremost challenge is to change the mindsets of the dealers and distributors itself, which we are already doing by showing them the product, showing them the factory and this might be a little bit outdated information because over the last two years or so, our products have been selling at a premium to even the market leaders, so I do not think that is a big challenge anymore. We might be forced to take a little bit of a more premium because of the high cost last year for us, but now, considering today, I do not think that is a big challenge for us, and that is why growth has started coming back, so it might be a little bit outdated information. In fact, in this industry, I have seen that the volume leader is not really the price leader also, so that is a little bit of a typicality of this industry, otherwise, generally speaking volume leaders are the premium players and the price leaders as well.

Shreyansh: Got it. Thanks a lot.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, that was the last question. I now hand the conference over to Mr. Ravi Swaminathan for the closing comments.

Ravi Swaminathan: Yes, I would like to thank the management for giving us the opportunity to hold the call and I would like to thank all the participants who attended the call. Any closing comments from the management side, Sir?

Anil Rai Gupta: Thank you very much for being on the call. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Spark Capital Advisors, that concludes this conference. Thank you for joining us. You may now disconnect your lines.