"Havells India Limited Q4 FY 2015 Earnings Results Conference Call"

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ANALYST: **MR. ASHISH JAIN – MORGAN STANLEY**

MANAGEMENT: **MR. ANIL RAI GUPTA – CHAIRMAN AND MANAGING DIRECTOR – HAVELLS INDIA LIMITED**
MR. RAJESH GUPTA – DIRECTOR FINANCE AND GROUP CFO – HAVELLS INDIA LIMITED
MR. RAJIV GOEL – EXECUTIVE PRESIDENT - HAVELLS INDIA LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Havells India Limited Q4 FY 2015 Earnings Conference Call, hosted by Morgan Stanley India Company Limited. As a reminder all participant lines will be in the listen only mode, there will be an opportunity for you to ask the questions after the presentation concludes. Should you need assistance during this 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. Ashish Jain from Morgan Stanley. Thank you and over to you Mr. Jain!

Ashish Jain: Thank you Mallika. Good morning and welcome everyone to Havells India Limited 4Q 2015 earnings call. From Havells, we have with us Mr. Anil Rai Gupta – Chairman and Managing Director, Mr. Rajesh Gupta – Director Finance and Group CFO and Mr. Rajiv Goel – Executive President. With that I hand over the call to Mr. Anil Rai Gupta for his opening remarks. Over to you Sir!

Anil Rai Gupta: Thank you Ashish. Good morning everybody. We are on the conference call for the financial year 2014-2015. Last year we saw a good growth in the first half with a tepid growth in the second half. I think overall a growth of 11% was good similar to the growth which we achieved in 2013-2014; however, it was definitely lower than our expectation given the fact the way we started off our first year.

Primarily it was driven by the macroeconomic conditions which were not very favourable for all the sectors that we operate in whether it is the infrastructure sector, industrial sector, commercial sector or residential sector. All these sectors did not show the uptake which we were expecting especially during the entire year, but I believe we are in a position where there seems that this year or at least in the second half we might see some uptake coming in with lowering interest rates and inflation being under control; however, there were lot of positives during the entire year. We saw that wherever we have invested in terms of brand and distribution whenever there is an uptake in the economy, we do definitely better than the market and that is definitely a positive for us.

We have continued to invest in brand and distribution enhancement throughout the year, which is reflected in our increased, spends on advertising. We have been able to maintain margins despite a tough year in terms of growth in the second half of the year, which clearly indicates that the brand is very positive and the consumer is very positive to the product category. Also the fact that the margins were maintained despite some one offs like out of court settlement of a major dispute which had been there for quite number of years and that has already been taking care off and we have ended out of court settlement.

On the balance sheet side also we were able to generate healthy cash flows for the company and were able to reduce the debt on the balance sheet whether the corporate guarantee debt or in terms of receivables and inventories we were able to maintain a healthy position. On the Sylvania side, we were looking at a flattish growth for the year with focus on profit and cash.

On both fronts we have been able to generate a good profit and a good cash flow, though not as per the expected lines but generally given the fact that there were major volatility in foreign exchange throughout the year. We have been able to generate a decent performance there. Again on the balance sheet side we have been able to achieve receivable, financing in Sylvania as well, non-recourse receivable financing, which has brought down the debt levels in Sylvania balance sheet as well. So overall we are satisfied though not to the expected levels for the year 2014-2015 and we would expect the much better 2015-2016. Ashish we can open the question now.

Moderator: Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Renjith Sivaram from B&K. Please go ahead.

Renjith Sivaram: Just wanted to know like, in the LED in the lighting segment, the LED you mentioned that hit on 27%. So of that if you can give some more clarity like how much will be lamps of this, and with this new acquisition of Promptec, how do you see this whole lighting segment? It would not be consolidated, it is 51%, but overall lighting as a segment next year, how do you see that?

Anil Rai Gupta: I do not have the numbers exactly but overall 27% but in fixtures if we see it is close to around 35% to 37% and lamps would be lower because it is still dominated a lot by the CFL numbers, though CFL had a declining trend in the LED lamps are increasing trend throughout the year. Overall growth in LED if we see has been around 80% - 85%over the last year. I think there will be a lot of focus on LED with reducing prices with improved efficiency of the products. This demand will continue to grow a lot. With the Promptec acquisition we also hope to enter into a market where we were not very strong especially the street light segment and something which is completely new to us was solar lighting, so these two segments will be catering through the Promptec acquisition and we believe that in the next two or three years there will be a good demand coming out for street lights especially and there we will be able to do a better job with the Promptec in our fold.

Renjith Sivaram: So for lighting as a whole, 10% growth, is it possible next year?

Anil Rai Gupta: It is possible.

Renjith Sivaram: Okay. And overall, Sir, what is the growth guidance in terms of, if you can help us with the switchgears and cables as well?

Anil Rai Gupta: You see all the businesses we believe are related to as I have already said the infrastructure, residential, commercial as well as industrial demand and I think I would not like to give any numbers specific to any particular division because all our products are except for underground cables to some extent all our products are going into the similar sectors and there could be a lag effect in one product category or the other. The demand uptake comes faster for certain product categories, hence we would maintain that there is no doubt that the third and fourth quarter had been slow growth overall, we do not expect a huge change in the first quarter at least because it takes some more time for on ground effect to come. Also the fact that there was base effect in the first quarter in the first half, which was definitely higher. There was a lot of good demand or pepped up demand in the first half of last year. So overall we see that may be we might see first and second quarter a little bit lower growth but in the second half with all the changes as I have already said lower interest rates and all that should increase the demand and overall growth should be better in the overall year.

Renjith Sivaram: Sir, last question from my side will be this consumer durables, which you can help us with the normalized growth to exclude the new products and also fan segment growth.

Anil Rai Gupta: I would not be able to give you the exact number but fan growth has been around 15%, if we take just the Havells brand growth the rest of the growth in the fan segment has come because of the new launch of the standard brand and hence overall growth in the fan category is around 23% but if we just take the branded, separate brand Havells brand growth that is around 15%.

Renjith Sivaram: And normalized growth for consumer durables, if you exclude the new products?

Anil Rai Gupta: The new product is only the air cooler is only 10 Crores out of the overall sales.

Renjith Sivaram: Thank you Sir. I will come back for further.

Moderator: Thank you. Next question is from the line of Ruchi Vora from CLSA. Please go ahead.

Ruchi Vora: Good morning. Thank you for the opportunity. Just wanted to delve a little bit on the previous question, how is the month of April been in terms of topline growth, has it been better than Q4 or it has broadly been the same across segments?

Anil Rai Gupta: I think too early to say. April definitely is more affected with the fact that March is the year ending and generally speaking most of the trade channels takes a lot of stock in the end of the year to complete their trade schemes and everything so generally April would not be the barometer for the entire year's demand and we would continue to see May and June how it pans out.

Ruchi Vora: Sure, and on the electrical consumer durable segment just wanted to hear your thoughts on is there more headroom to launch new products or how do we see that segment evolving over the next two years?

Anil Rai Gupta: I think all our product categories do give opportunities to keep expanding product categories especially consumer durables we have been continuously expanding so there could be more product categories in the same segment.

Ruchi Vora: Do you think there are more gaps?

Anil Rai Gupta: I also believe that electrical consumer durables especially the domestic appliances, air coolers and the water heaters there is a lot of organic growth which is possible, because we are still I would say fairly new in all these segments, although the fan segment has been there for 10 years but all the other businesses, appliances, water heaters, air coolers we are fairly new. So there is a lot of possibility of distribution enhancement in these product categories, which can give more organic growth in the segment.

Ruchi Vora: Sure, and on the overall balance sheet just wanted to hear your thoughts there has been some reduction in the inventory, just wanted to understand if the FY 2015 levels should be sustainable going forward or will the inventory bounce back up it?

Anil Rai Gupta: I think it will depend upon the growth in this year, so we have been managing with the particular number of days over the years, our six months inventory had gone up because the first half sales were quite good, but we have been able to bring it down to reasonable levels by the end of March. In number of days it should remain at the similar level.

Ruchi Vora: On the accounts receivable we see a significant reduction in the Sylvania receivable cycle from almost 90 to 55 days, is that sustainable will we continue to maintain the channel financing what we have highlighted in the result note?

Rajiv Goel: I think that is possible, so it is similar on the lines what we are doing in Havells and as you are aware Havells has been doing for last 7 years now. Yes I think this is sustainable and may be there is a scope for further reduction, but for the time being we will continue with these numbers because these are very stable countries we have picked up in the first phase so I think there is little reason to believe that this cannot be maintained.

Ruchi Vora: My last question is on Sylvania just wanted to hear your thoughts in terms of the strategy on that business. One is there headroom for cost reduction especially on the fixed cost and how do we see margins evolving? Second is how do we look I mean I reckon that the debt on the overall scheme of things is not very large anymore but how do we look at debt repayment and last is any scope for value unlocking over the medium term?

Rajiv Goel: So I think there are three questions Ruchi from your side, on Sylvania, so one yes, there is a scope for particularly fixed cost reduction. I think the European environment particularly with the shift in the trend from lamps from LED fixtures I think it would require some degree of further cost rationalization, I think which is continuing as we speak particularly in European context. You see two, you talked about, reduction of debt I think we have already reduced these entire reduction of debt will basically accrue from the internal earnings of the company. So I think Havells has already done what it is supposed to do and I think this is a sustainable debt we are less than two times EBITDA. I think this is something, which is easily manageable by Sylvania itself. So I think this will be an organic debt to be paid out the organic earnings of the company. Third, value unlocking that continues to be under evaluation of management, there could be several options it could be throw up in the medium term. So I think we will continue to evaluate them as they evolve but nothing particular as of now.

Ruchi Vora: Thank you so much and wish you luck.

Moderator: Next question is from the line of Venugopal Garre from Barclays. Please go ahead.

Venugopal Garre: Good morning Sir. Sir, again, just a question on Sylvania just to get again slightly better clarity. Now since you know the business of course has stabilized over the years and debt has reduced. From a strategy point of view, what are the things that you intend to do in the long-term to let us say come back to 7%, 8% margin level or maybe reduce certain geographies or just focus on certain areas or change the outsourcing mix, etc., and plus the pension liability thing, how do we intend to now manage it because it's impacting our numbers a lot in terms of PAT?

Rajiv Goel: So Venu on for 7% to 8% and that continues to be our target. You are right. I think it has been a lot of keep throwing us some surprises, and that maybe because of the various territories and the way it is geographically diverse. It will basically emerge from few things, some cost rationalization as we just spoke earlier. Also I think more focus on the LED fixtures, which we are doing particularly in the Europe and Latin America, which are our large markets. So, I think that will help us also to create more headroom on the margin side, which is getting difficult on the pure lamps business. Luckily for us in Europe we are 50:50 unlike the larger peers like Osram, which have 80% lamps. So the focus would be to do both the things. If you keep trying to be more value add products, which we are doing in Europe and also keep reducing the cost thereby expanding the margins. It might be a bit of a slower process because of the kind of territories we run, but definitely I think we are heading in the right direction there. Sometime the currency, you know, last year currency as been as really traumatic particularly in Latin America and Brazil but we believe with certain degree of stability in the macros also I think this is something we are heading towards. That is one. Second one on the pension. I think this entire thing of again volatility in the yield this does not impact our operating or the cash flows at all and as you are aware we have highlighted even earlier that for the next eight to ten years our outgo on the pension will continue to be €1.4 million to €1.5 million which is already a part of our operating cost as well. In that process definitely we believe in a few years we should start to contributing to investable fund, you see, which will then bring us at par with what we are currently in UK. So that is I think two things, which way we will try to mitigate the risk on the pension. Again actually what is happening is just one month because of the way yields have hardened in Germany actually we had a gain of almost €3 Million in almost 15 days so this is something we see the volatility in the macro one has to live with but the good thing is that it does not impact our day-to-day business or the day-to-day viability of Sylvania.

Venugopal Garre: Sir, just to highlight, in Germany since the funding capital is there, the unfunded liability? I mean, technically can anyone just fund it entirely now so that the volatility doesn't come in, or is it like not even something because the liability is not immediate in any case, it's going to come over a period of time?

Rajiv Goel: Well, if I can choose to borrow 15 Million and fund it but that does not make sense, borrow at 3% and then not why should I get a negative carry, so yes technically anything is possible, but as you rightly mentioned since this liability is somewhere in 10 years going to benign as 1.4-1.5 Million currently it does not make sense, because we have the valuation. Having said that I think part of our earnings we will like to start now dedicating towards this liability as well we do recognize this is the liability but this is something we can address over a period of time.

Venugopal Garre: Sir, my second and last question. Standard brand, you just started fans last year in terms of incremental product beyond what already Standard had, is it something which you have seen fair degree of initial successes and you want to extend that to other product ranges or it is like you want to go slow? Is it something that you think potentially could even impact your existing range or is it like completely out of the way in terms of where you are distributing it in terms of no overlaps, etc?

Anil Rai Gupta: Yes, we have seen quite a good success in launch of the Standard brand of fans and that is more because of the strategy of having a clear distribution positioning rather than a price positioning. As we have mentioned before, Standard pricing is similar to Havells pricing which is again in the premium category, the margins are similar, the distribution is different and only Standard is present only with Havells in those counters which are multibrand counters otherwise all dealers and distributors of Standard are separate. So we have seen initial success. As far as product categories are concerned Standard is already present in switchgears, switches and sockets, wires as well as fans so I would not say that we would want to go slow because of the fact that we have not been very successful but in fact in all these product categories we will continue to invest in the brand of Standard and try to make it a bigger brand as compared to what its size is today, so we will try to take best advantage of having distribution positioning. We would not be very fast in adding more product categories because we still believe that there is a lot of potential for Standard to grow in the existing product categories.

Venugopal: Thank you so much Sir.

Moderator: Thank you. Next question is from the line of Aditya Bhartiya from Investec. Please go ahead.

Aditya Bhartiya: Good morning Sir. Sir what are your expectations from the revenue growth in the switchgear segment, by when do you expect the revenue momentum to recover?

Anil Rai Gupta: As I said all our product divisions are linked directly to various sectors that we operate in and it is in one quarter or something we might see some difference in growth in one division or the other, but generally speaking all mature product categories of powers would grow at a similar "level, so I do not think we will see much difference growth in switchgear as compared to other" product categories may be new product categories will grow faster, but at least the mature product categories will continue to grow at a decent pace, we cannot look at one quarter growth and make assumptions that one will grow slower than the other.

Aditya Bhartiya: Sure. And generally, is switchgear, would you consider it more of a late-cycle product?

Anil Rai Gupta: As compared to it is sort of in the middle so cables and wires would come in between and the switchgear and then the final lighting and appliances.

Aditya Bhartiya: Sir, do you expect a lower copper prices to impact a Havells and let us say the first two quarters of next year, realizations mainly in cables and wires positions and therefore the revenue growth?

Anil Rai Gupta: Lower commodity prices, in fact we have seen a lot of volatility in the commodity prices post December prices have been reducing and now since April prices have been increasing but as we have already mentioned in many of our conferences earlier it really does not affect the margin situation of Havells in a big way because we keep limited inventories of these products and generally whether it is lowering of the commodity price or uptake in the commodity price is generally passed on to the market at a lag of not more than 15 to 20 days so it really does not affect in a big way. There might be one or two quarters where one or two months where the demand offtake might be lower because of lowering commodity prices but that gets even out in the next few months.

Aditya Bhartiya: Sir actually I was not asking much from the margin perspective but purely the realization part I mean is it possible that revenue growth would lack the volume growth in the first half of this fiscal because copper prices are now at a lower level than where they were a year back?

Anil Rai Gupta: Revenue growth lacks volume growth in the fourth quarter but we expect that it will be different in the first quarter because already commodity prices have started rising because of the dollar.

Aditya Bhartiya: Sir, separately how the European and LatAm Markets looking to Sylvania I mean just wanted to get an outlook on both these markets and with some of the issues that we were facing earlier in Asia have been resolved?

Rajiv Goel: I think the European market continue to be I would argue stable, and I think this is what reflect in our performance but as a industry there is a sort of greater shift from lamps to fixtures and from commodity to LED and I think that is playing its own role in the demand scenario there. LatAm continues to do good except for Brazil where this entire currency has almost created havoc in the business and I think we are also toning down business in Brazil. Asia you know we have a very sort of small presence in Thailand and we are still sort of catching up on the issues, which started late last year. So I think the overall as we have mentioned the performance will continue to be stable and with a focus on margins and cash generation.

Aditya Bhartiya: Thanks a lot Sir.

Moderator: Thank you. Next question is from the line of Atul Tiwari from Citigroup. Please go ahead.

Atul Tiwari: Sir, in your opening remarks you did mention that you expect FY 2016 revenue growth to be better than in FY 2015 given then it was 11% in FY 2015 and historically you know whenever Havells has guided at the beginning of the year usually the guidance has been 15% plus so I mean does that guidance still hold for FY 2016 or because you did mention that it is better in FY 2016 than FY 2015?

Anil Rai Gupta: I am not sure whether I have said it will be better for the whole year. I just mentioned that the first one or two quarters are key to see how the year pans out. There is a base effect over the first two quarters over the last year where we grew by 19% and given the fact that we are coming out of the third and fourth quarter which was slower growth so we still need to see how the first and second quarter pans out. All I said was that we are expecting by the third and fourth quarter things should definitely improve which should be helpful in making the overall year growth quite decent. So I would rather wait for one or two quarters and especially this time to give a particular number for the guidance.

Atul Tiwari: Sir, especially the contrast between the first half and the second half for Havells in terms of the revenue growth has been very sharp 19% versus 4% so what suddenly changed in the second half in the market? Can you share any color from the ground because I am asking a question simply because the growth virtually fell off the cliff in the second half so what really changed on the ground, because the economy etc. has been struggling for almost past one and half two years at least?

Anil Rai Gupta: That is true, so we have already mentioned it, if you see the year 2013-2014 you know growth was much lower than the year 2012-2013 and so we were coming out of a year where we were not very positive and even the growth was only 11%-12% in the year 2013-2014. Suddenly you know and everybody was expecting that post elections things will change, pre-elections in April going into the entire first and second quarter, I think the market sentiments were quite high. A lot of projects were being closed and we saw a good demand in the first and second quarter, but on ground situation had not changed so much except the fact that the projects were getting closed and there was a little bit better availability of capital in the sectors that we were operating in, so by August or September things had started slowing down and this is what was reflected in the third and fourth quarter so as I have already said our efforts to keep expanding the distribution channel or enhancement of the brand that continues to remain the same, the market situations changed in the first half of the year for the better.

Atul Tiwari: Thank you Sir, thanks a lot.

Moderator: Thank you. Next question is from the line of Vikash Mantri from ICICI Securities. Please go ahead.

Vikash Mantri: Good morning Sir. One question on the lighting business, now we are hearing a lot more advertisement by other players in the LED segment as well, as the transition move towards LED will the margin profile change overall for the lighting business is LED higher or lower?

Anil Rai Gupta: I think LEDs will have a similar margin to the existing lighting products over a period of time. Some sanity will come into the pricing and the industry as a whole. As you rightly said few new players are coming in, it still seems to be seen on the kind of profitability that these new players are making but I think overall the established lighting players because they have been in lighting and they will be able to cater to all the sectors of the demand so I think overall the margins would remain similar, the costs will continue to come down which will be passed on to the consumer.

Vikash Mantri: By the next two years, LED should be a bigger segment than the lamps, CFL?

Anil Rai Gupta: It is difficult to say at this moment. I would say that LED lamps is generally going to see a good growth, whether CFL would see a drastic degrowth that is yet to be seen because India is a large country and you know B&C class towns, rural sectors could continue to use significant number of CFL so I think it is still early days to say that.

Vikash Mantri: Sir on the Thailand business things seems to not have settled down yet. The numbers have not come back to their earlier numbers, any progress on that business there?

Anil Rai Gupta: As I said Thailand still continues to sort of emerge out the shadow of the last year. I think the steps are being taken, but since it is almost recuperating from where it had gone into, there is some challenge on the customer side as well, so I think it will require next few months to clean it out, but I think good thing is the brand is continues to be fairly significant in that market and I think when the year sort of pans out we should be able to stage a comeback in that country.

Vikash Mantri: Thank you and best of luck.

Moderator: The next question is from the line of Gunjan Prithyani from JP Morgan. Please go ahead.

Gunjan Prithyani: Thanks for taking my questions. I have two questions. Firstly, on the cable segment, could you please share what would have been the volume growth in this quarter and for the full year, given we saw the value growth impacted by the lower realizations?

Secondly within this segment with the copper prices now stabilizing, have we seen any improvement in the channel demand with the restocking starting in the market?

Anil Rai Gupta: We can come back to you with numbers on the cable segment, but the destocking did happen in the fourth quarter especially in the domestic wire segment, which I think the situation will change in the first quarter.

Gunjan Prithyani: Even in this segment, we have seen margins in this quarter going up to 13.5% levels on contribution margins. So and these margins, if I look at like at least six, seven quarters back used to be about 10%, 10.5%. So, what is it changing in this segment and what should be the stabilized margins here on, I mean, is 13.5% sustainable?

Anil Rai Gupta: No I think you should look at the overall year numbers which is also an improvement over last year but the year end there are end adjustments of rebate and now it is fully representative for the whole year and for cables and wires this might be a better thing to see the overall year numbers, the reason that it is improving is because of the strength of brand in the domestic wire segment plus also the fact that the product mix within cables and wires is also same, so hence this increase in the quantum **(unclear-32.39)**.

Gunjan Prithyani: Secondly, on the switchgear segment, we have seen this degrowth in this segment almost after four, five years. I mean, what is it that is dragging the growth down here, is it the domestic switches, which I thought was growing seasonably okay until last year, I mean, what is the mix in terms of domestic switches and the MCBs?

Anil Rai Gupta: I think overall again it might not be a good idea to look at this quarter. Generally speaking the overall demand offtake was lower in the second half and sometimes it does happen in a particular quarter that dealers on trade chooses not to stock extra at the end of the year, because of general benign or soft demand. So I would not look too much into one quarter performance again might be better to look at the whole year number.

Gunjan Prithyani: Just last question on cash flows. Now that we are of course generating good cash flows and this year we also prepaid the Havells Holding loans. Now next year, is it that you are looking to pay out more in terms of dividend or looking at smaller acquisitions like we did in the industrial lighting segment last month?

Anil Rai Gupta: Yes, I think generally speaking we will continue with the similar dividend policy for future and yes it is a business where we expect good cash generation in the future as well, so the company will be open to look at more opportunities in the future, keep looking growth possibilities and organic growth possibilities which could be synergistic to the Havells' overall portfolio.

Gunjan Prithyani: Thank you so much.

Moderator: Thank you. Next question is from the line of Fatema Pacha from ICICI Prudential. Please go ahead.

Fatema Pacha: Sylvania, just couple of questions. What is your sense on the European demand? We know it is just steadying out, but do you expect, if you believe that fundamentally on the product side, we have an issue, or it is just an economic downturn issue and the moment that at least comes out of this bad phase will recover? Because like first two, three quarters was okay, first two quarters actually, and then I think third quarter and then fourth quarter was quite bad, so what is your sense on the European demand?

Rajiv Goel: Fatema, I think definitely demand is an issue, at the same time there will be because of LED there will be some disruption in the entire industry. There will be some sort of more agile start up players who get you see in few quarters can take the lead even if it is India you see LED is sort of playing its own challenge to the legacy players, so I will say the combination of both but largely it has got to do with that the economy is not growing and maybe it is shrinking. There are few countries who are growing but then as a overall European Union I think we do see pretty much flat or shrinking demand and then, so I think that I would say the driver there will be certain point of issue but I think they get evened out over a period of time, it is not that there is a substantial different in the product portfolio.

Fatema Pacha: Sir, would you say that next one, two years, one can actually have a degrowth in revenues, that is what I am trying to figure out and that is on Euro terms, forget the currency impact, but just in Euro million?

Rajiv Goel: I would say as a whole in Europe it could be flat or slight degrowth this year, but I think overall because of LatAm we believe that we should be either flat or growing a few percentages on the Sylvania side that is how I will put it.

Fatema Pacha: On the pension side, are we looking a quarterly provisioning number, we are just moving the number so that these fluctuations in Q3, Q4 do not come in, I know a very static number where we all know it is part of the base, so that we know how the pure EBITDA will look like, rather than having these volatile?

Rajiv Goel: Actually the problem is the number keep beating us so last time we have started almost 400k per month but suddenly the number came so high it is difficult to anticipate. Yes we do have a smoothening policy, but it just become much there, but I think this year hopefully should be much calmer maybe just we have reversed the direction this year.

Fatema Pacha: And the last question, what is the brand positioning for Standard?

Anil Rai Gupta: As I said, Standard brand is the brand which is strong in certain markets, certain kinds of customers so again the general perception is that Standard would probably not be the same price segment or is it inferior brand or a cheaper brand to Havells. In fact we never base brands on pricing and hence Standard is similar in terms of positioning, in terms of pricing as a brand is concerned but it definitely is an under-leveraged brand and we will be investing more in the future with the good product mix now that we have in over last couple of years that we have developed, we should be investing more in this brand and making sure that the distribution reach of this brand also increases.

Fatema Pacha: Is it a South brand?

Anil Rai Gupta: It is stronger in South in certain markets but it is fairly strong in north and east as well.

Fatema Pacha: So we are just going to have two flanking as is have it as a flanking brand, is it?

Anil Rai Gupta: Flanking I do not know what do you mean by flanking if you are talking about pricing, no it will not be.

Fatema Pacha: No, not pricing, just to have a me-too brand and capture more market share, is that?

Anil Rai Gupta: Yes, it is to have more market share again more presence in the electrical outlets.

Fatema Pacha: Thanks a lot.

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

Achal Lohade: Thank you for the opportunity Sir. Could you please talk a little bit about what has been the investment in the CFL plant and equipments and just a case of given the degrowth we are seeing, a risk of any write-downs or anything of that sort?

Anil Rai Gupta: I think overall investment should be around 40 Crores or something but we will cross that scenario over the next few years I think it is not something which is right now evident because again we are focusing a lot of increasing our reach in the distribution channels. We have initiated a big program in last four months to go deeper into the retail outlets which are being serviced by a direct dealers so we believe that CFL would continue to remain as a market, might not be at the same levels of growth that we have seen in the past.

Achal Lohade: In terms of the capex, if you could talk a little bit about what is the expectation for the current year, where do you plan to add capacities, and what is the current utilization broadly?

Anil Rai Gupta: Major capex will be a little bit more in the cable and wire segment where we are adding capacity in our HT cable unit, but generally speaking in all the other plants there will be a maintenance capex and our expectation of capex will be close to around 120 Crores.

Achal Lohade: This includes the new capex in the cables and wires for HT cables, is that right Sir?

Anil Rai Gupta: That is right.

Achal Lohade: In terms of the margin guidance in Sylvania specifically, you had talked about moving into closer to double-digit margin for a period of time. Now given the issues we are facing the slowdown our currency, now, what is the revised assessment, by when do you think you will probably target double-digit margins in Sylvania?

Anil Rai Gupta: I think given the change in technology, given the sluggishness of demand in Europe as well as some volatility in foreign exchange over the past few years, I would not say that we are very bullish about reaching double figures very soon, so even this year we would look at 5% to 5.5% margins and we will keep improving our cost structures to see how we can grow from here.

Achal Lohade: Just last question in terms of India growth, when you said, you would not be giving a guidance at this point in time. Given the 20%-plus growth actually we have seen in first half last year, is it fair to assume that there could be a risk of a negative growth in the first two quarters of this year?

Anil Rai Gupta: It is very difficult to say at this moment I think while the second half of the year grew at only 4% but we did not see a major fall over the first half. So I think we should be let us see over the next one-quarter or so how things pan out.

Achal Lohade: That is all from my side. Thank you so much.

Moderator: Thank you. Next question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra: My first question is on the air coolers, so you have done this launch, what is your expectation of a ramp up here, is it going to be pretty gradual or and the other thing is, Havells historically has worked on a differentiation and quality strategy. So do you think this category, which has strong incumbents, there is enough scope and how have you tried to differentiate yourself here?

Anil Rai Gupta: I think you are exactly right that because of Havells strategy to give a premium positioning to its products bring in more features and I would not go into the features specifically here but all to do with aesthetic, better technical capabilities of the product we have already brought a product which is definitely better than the market incumbent and going forward the more we manufacture in-house which will give us cost competitiveness also which we will start this year. We do see a good positioning, differentiated positioning for ourselves in this category; however, because of this strategy itself and time taken to communicate to the consumer it is generally a gradual process, so it is not something which will be completely something where we will be storming the market for anything, it will be a gradual process and in product categories additions to appliances normally you expect the first year or so to be somewhere between the 30 and 50 Crores range.

Arnab Mitra: In terms of manufacturing, when do you expect to have your own manufacturing in this?

Anil Rai Gupta: So by the time the season starts and that is by season that I mean is the stocking season, which will be the second half of this year we would have our own manufacturing ready.

Arnab Mitra: Second question is on the project business, which you now have that acquisition, which is the street lighting business. Is it going to be like a high-working capital low-margin business, brand does not matter because typically Havells has not worked in those kinds of businesses? So, do you see just that the top-line opportunity is very large or do you see it genuinely being a profitable and a high-return kind of business?

Anil Rai Gupta: No, it will be both topline as well as bottomline driven so there is a lot of scope for topline growth because of the market dynamics, but Havells generally believes only in decent margin businesses.

Arnab Mitra: But, my question was more also because that would not these be more tender based things where you know typically the pricing would be the lowest price which I would get it or is it also a lot on technical expertise and hence margins could be okay here also?

Anil Rai Gupta: We might choose not to be too aggressive on the tender kind of businesses but there are huge opportunities around that as well.

Arnab Mitra: Just a last question, a general question on distribution. So, you have pointed out during this call that you have tried to go deeper into the channel, so if you could just highlight FY 2015 over FY 2014, what are the key steps you have taken, is it more a range within the same dealers or is the total dealer set also growing this year?

Anil Rai Gupta: Well at this stage, I would say that our distribution reach directly to the retailers who were not so much associated directly with us, they were buying from our dealers has definitely improved in the last one year. I would not go specific into the details on this, as I would say this would be for competitive reasons, so I would say that the reach as well as our access to these outlets is definitely improved.

Arnab Mitra: Thanks and all the best.

Moderator: Thank you. Next question is from the line of Pritesh Chheda from Emkay Global. Please go ahead.

Pritesh Chheda: Thank you for the opportunity. If you could dissect the growth in the lighting and the fixtures segment as to which part of the market would have grown much slower?

Anil Rai Gupta: Fixtures has grown faster so overall if you see fixtures has grown faster as against lightings, we have seen a degrowth in CFL so approximately lamps has grown by about 1% and fixtures has grown by about 8%.

Pritesh Chheda: Second, if you could tell us some color on the margin on the standalone business, what kind of headwinds or tailwinds do you see?

Anil Rai Gupta: On the margins.

Pritesh Chheda: On the margins of the India operations?

Anil Rai Gupta: I think we have been maintaining margins whether it is tailwinds or headwinds, so first quarter, first half second half our margins were quite similar, so this is again I would say the strength of the brand and distribution as well as the overall strategy of the company, so we expect the margins to remain on similar lines.

Pritesh Chheda: Then, on the Standard brand, what is the size of the brand that it has reached in FY 2015 now?

Anil Rai Gupta: Close to about 300 Crores.

Pritesh Chheda: This would be versus FY 2014?

Anil Rai Gupta: FY 2014 I do not have the numbers right now, around 230 Crores in FY 2014 and 280 in FY 2015.

Pritesh Chheda: Lastly on Sylvania, considering that even this year when we understand from you, a growth is always a bit of a challenge in this part of the business. Would at any point in time over the medium-term or the long-term, would you be open to complete value unlocking in Sylvania or what would be then your medium-term or long-term strategy for Sylvania?

Rajiv Goel: I think complete value unlocking I do not know whether you mean exiting I think that something has not crossed our mind as yet, I think the whole idea is to make this business more proficient and at that time look at can we engage maybe local investor or whether strategies or otherwise and maybe reduce if required of the management bandwidth and also unlock some financial resources from there. You see the complete exit on I think as of now this will not something, which is on the table.

Pritesh Chheda: Many thanks and all the best to you.

Moderator: Thank you. Next question is from the line of Jasdeep Walia from Kotak Securities. Please go ahead.

Jasdeep Walia: Good morning Sir. Sir Sylvania generated significant amount of cash last year because of reduction in debtor. So, why could not Sylvania repay the debt at the holding company level rather than the parent infusing cash into the Company?

Rajiv Goel: No, that reduction in debt was primarily done through the payment of the debtor so which are the debtors by never you could argue hypothetically to those lenders. Further Havells has only if you remember clear that when we refinanced this Havells had to contribute equity, at that time Havells chose not to build equity but to take it guaranteed debt and pay through that equity. So it is not that Havells infuse any additional money this is part of their commitment they had done for the refinancing.

Jasdeep Walia: So was not that initially the debt at the holding company level supposed to be paid out of dividends from Sylvania?

Rajiv Goel: No, not this one, you see this was always the obligation of Havells as an equity this was never presented to the lender as a debt, which we repaid out of the dividend. So Havells could have chosen at that time to invest through its own cash but because of the low interest rate they chose okay let us take a loan there and then do it from there.

Jasdeep Walia: So what was the capex in Sylvania last year?

Rajiv Goel: Sylvania capex has always been very normal of 3 to 5 million Euro. There is not significant capex there.

Jasdeep Walia: Can use split the capex in the standalone business for last year, so out of 177 Crores and your information update mentioned that 50 Crores has gone into water heater plant, what has been the spend on the, where have you increased capacity basically in the business out of remaining 120 Crores of capex?

Rajiv Goel: Capex will be around 80 to 70 crores this will be kind of replacement capex and growth capex and this year there is a 50 crore capex on water heater.

Jasdeep Walia: Sir can you give us gross debt figures for the consolidated and standalone business for last year?

Anil Rai Gupta: Any other questions Jasdeep while we look at the figure.

Jasdeep Walia: No Sir that is all from my side.

Rajiv Goel: 425 gross debt at the consolidated level.

Jasdeep Walia: This includes debt, which is part of current liabilities, right?

Rajiv Goel: Yes.

Jasdeep Walia: 425 Crores.

Rajiv Goel: Yes.

Jasdeep Walia: Standalone Sir?

Rajiv Goel: 80 Crores.

Jasdeep Walia: Got it sir, thank you.

Moderator: The next question is from the line of Aditya Ahluwalia from Invesco. Please go ahead.

Aditya Ahluwalia: I just wanted to know the topline guidance that you were giving. I joined the call a little bit late actually?

Anil Rai Gupta: No we have not given any specific number.

Aditya Ahluwalia: So what are you saying?

Anil Rai Gupta: I think maybe you could read the transcript so there has been a long discussion of how we see the year panning out.

Aditya Ahluwalia: Thank you.

Moderator: Thank you. The next question is from the line of Kashyap Pujara from Axis Capital. Please go ahead.

Kashyap Pujara: Most of the questions have been answered. Just wanted to quiz you guys that where do you see maximum stress when we are talking of sluggish growth in the portfolio. If we basically look at all the four segments, while consumer is doing fairly well for now, where do you see the highest stress as far as sluggish market is concerned amongst the product segments that we have?

Anil Rai Gupta: I think overall the economy effects all the segments. As I said ECDs or consumer durables have a specific amount of new product category and hence but otherwise most of the mature product categories follow a similar trend because of the economy uptake or if there is slowness in the demand. So I would not say that we see any major stress in one particular segment or the other except the fact that lighting is definitely seeing change of product mix and technology, which will be a challenge as well as an opportunity.

Kashyap Pujara: So basically where I was coming from is that lighting is more a shift in the industry dynamics, it is not about sluggish economy largely and you are still growing well in fixtures, and I think on the call sometime earlier, you did mention that we could grow at 10% there. I mean you do have that impact of CFL to LED, but broadly that is what you mentioned. Your consumer durable side fans, be it Havells or the consolidated, including Standard did end up growing at high-double digits and you are seeing growth from other categories. So clearly there in these two segments, it seems that you know it is not as stressful compared to switchgears and cables and wires, hence you know the point was that, what are the trends that you are reading from wherever you are? Are you seeing the demand, which is an issue more a function of higher competitive intensity or are you seeing that markets that you are predominantly leveraged to are saturated and distribution expansion in other geographies like western region and southern is not going at a pace that should have gone. So, if you can give us some color of this growth and the softness of the growth?

Anil Rai Gupta: What you mentioned about whether it is west or southern markets these are definitely opportunities for us to grow faster than the market, and last year in any of the product categories we have not lost market share. In fact in the one or two product categories we have gained market share that clearly indicates the fact that there the overall year was something which we did not see much growth in the market and in future we will continue to look at opportunities to grow faster than the market through such opportunities like you said may be better distribution enhancement in markets where we have traditionally been our market shares have been lower and looking at those kind of opportunities in future.

Kashyap Pujara: So clearly this year we are not giving guidance like what we used to. When do you think we will be in a position to give a comment as to what the growth would be like? What are the signals, which you would look at waiting for?

Anil Rai Gupta: I think the signals that we will wait for is definitely a demand uptake and a little bit more of clarity on how do we see the year panning out. As I said it would have been difficult for us to predict at the end of the second half last year that the market will slowdown like this the way it has slowed down so it will be difficult for us to predict even now how it will take up in the coming year, so I think it would be just too early to comment anything on the growth guidance.

Kashyap Pujara: Secondly, as far as margins are concerned, we have seen a reasonable improvement on a YOY basis across categories. I am not looking at quarter-to-quarter, but the contribution margins have moved up across the board, if I look at adding back the one-time settlement that we have done, the margins in switchgears are at virtually they are all time highs. We have seen ad spend moving up during the year. So clearly the incremental margins are not as a function of cutting costs on ad spend, at least the way it appears. So where are the margin, what is the factor that is driving the margins? Is it raw material cost? Is it better product mix? If you can give us some sense on that and whether these margins are sustainable like these contributions, are they sustainable going ahead? So if growth actually kicks in, in double-digits that we have seen in the past then can we expect that the trajectory of margins for the company would be higher, based on where we are currently?

Anil Rai Gupta: I think one is the mindset of the company so the company's mindset is to get efficiencies for margins on all fronts whether it is cost structures company has worked a lot in last couple of years to get efficiencies in their costs in all the plants. The other factor is right pricing in the market making sure that the product retains its premium position because of the innovations that we keep bringing in the product and so we do see that in future these margins would be sustainable and the more the market starts increasing the more we will keep investing so that our future continues to remain better whether it is in terms of distribution or R&D or in brand building so I would say that at least in the sort-term, medium-term we will see sustainable levels of margin.

Kashyap Pujara: Lastly on Sylvania, while I think there has been a lot of discussion there, I think I did hear that someone mentioned that there is room for further improvement in debtor days because we have just done some amount of channel financing, but we have not yet captured the full benefit. So, is it fair to say that we will be utilizing more of that and eventually knocking off the debt at Sylvania level further in the next year?

Rajiv Goel: I think that kind of pressure will continue to explore. Having said that I think it will depend upon what kind of agreement we have with the lender this is the first phase and I think it will take some time for them to gain confidence as it has happened with Havells as well. Having said that I think this is the debt numbers are fairly manageable now, so even if it does not matter it is not something we see which is sort of going to really disturb our working there, but we are looking at various other revenues to reduce the debt on the balance sheet and deleveraging hedge in our consistent team for last five years in Sylvania which we have largely succeeded it.

Kashyap Pujara: That is all from my side, and all the best.

Moderator: The last question is from the line of Bhargav Buddhadev from Ambit Capital. Please go ahead.

Bhargav Buddhadev: Thank you for the opportunity, Sir. Sir, in the information update, there is a statement that the company has seen some increased activity in the trade channel with the introduction of Standard brand. So would it be possible to elaborate on this more?

Anil Rai Gupta: Increased activity with the introduction of Standard brand?

Bhargav Buddhadev: There is a mention that growth in the consumer durables has been facilitated by increased activity in trade channel with the introduction…

Anil Rai Gupta: Well I think what it means is that Standard fans have been launched last year and so we definitely see more outlets, keeping more fans from the Havells on Standard portfolio so that has called it what it means is just that new product has been added, which has helped increase the overall fan portfolio faster than just one single brand.

Bhargav Buddhadev: Secondly Sir, is it possible to know the growth in water heaters and appliances separately for the quarter and for the full year?

Anil Rai Gupta: No, we will not be able to give those numbers.

Bhargav Buddhadev: Lastly, Sir, if you exclude the one-off compensation and other expenses, the other expenses seems to have declined by 9% YOY for the quarter in the standalone business. Any sense in terms of which head item have we seen a decline, which is part of other expenses?

Anil Rai Gupta: Buddhadev, this is a large line item so we will come back to you with specifics on this.

Bhargav Buddhadev: Sure, no problem. Thank you very much.

Moderator: I now hand the conference over to Mr. Ashish Jain for his closing comments.

Ashish Jain: Thank you Mallika. On behalf of Morgan Stanley, we thank the management of Havells and all the participants' for taking time out to attend. You can please go ahead and conclude the call now.

Moderator: Thank you very much members of the management. Ladies and gentlemen on behalf of Morgan Stanley that concludes this conference call. Thank you for joining us. You may now disconnect your lines.