



“Havells India Limited Q1 FY16 Earnings Conference Call”

July 27, 2015



MANAGEMENT:

MR. ANIL RAI GUPTA – CHAIRMAN AND MANAGING DIRECTOR

MR. RAJESH GUPTA – DIRECTOR FINANCE & GROUP CHIEF FINANCIAL OFFICER

MR. RAJIV GOEL – EXECUTIVE PRESIDENT

MODERATOR: MS. BHOOMIKA NAIR – IDFC SECURITIES LIMITED



*Havells India Limited
July 27, 2015*

Moderator

Ladies and Gentlemen, Good day and welcome to Havells India Limited Q1 FY16 Earnings Conference Call hosted by IDFC Securities Limited. As a remainder, all participant lines are in listen-only mode and there will be an opportunity for you to ask 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 Ms. Bhoomika Nair from IDFC Securities Limited. Thank you and over to you, Ms. Nair.

Bhoomika Nair:

Thanks Margret. Good morning everyone. Welcome to Havells India Limited 1Q FY16 earnings call. The management is today being represented by Mr. Anil Rai Gupta– Chairman and Managing Director, Mr. Rajesh Gupta – Director Finance and Group CFO, and Mr. Rajiv Goel – Executive President. I will now hand over the call to the management for initial remarks, post which we will open up the floor for Q&A. Over to you, sir.

Anil Rai Gupta:

Thank you Bhoomika. Good morning everybody and thank you very much for joining this call. As far as the first quarter goes, it has mixed feelings inside, there are some positives that are not so very positive. We believe that the market has still not turned around since the third quarter of last year where it entered into sort of a phase where the demand started slowing down after a good first quarter and second quarter and on the infrastructure side, industrial side as well as on the residential side things have slowed down since the third quarter of last year. And it has not turned around in the first quarter as well and hopefully again going into the second quarter, third quarter things should start looking up, but this is something which we are facing in the market that the market demand has not turned around to the extent that we would have liked to. However, the positives are that during this time we are properly utilizing it to continuing strengthening of the brand and distribution as well as making sure the company is ready for the future in terms of our distribution transforming from a more of a push based system into the distributors finally to the retailers to become a very pull oriented company from the consumers and retailers. So the whole idea is to utilize this time of sort of a bearish phase in the market to strengthen ourselves internally so that when the markets turnaround even a little bit our company should come out with much better flying colors.

On the Sylvania side things have started slowing down also on the Eurozone, however the Americas have started showing some positive results. We are taking this year to make some corrective actions so that we are fully prepared of any weakness which continues if it continues and we should remain a profitable company so the entire focus is to maintain margins and maintain profitability. And hence we are taking certain actions where the cost structures are adjusted fully and also take out some loss making parts of the businesses during this year. Whatever changes will be made will all be funded through the cash flows of Sylvania itself and hence we do not foresee any fund infusion from Havells but we are pretty clear that with all these

changes despite a bearish phase in the Eurozone as well the company would continue to remain profitable and should come to very good margins in coming year as well.

Bhoomika, I think we will now open for questions.

Bhoomika Nair: Sure sir. Margret, can you please do the needful.

Moderator: Sure. Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Renjith Sivaram from B&K Securities. Please go ahead.

Renjith Sivaram: I would like to know, is it correct that the low commodity prices in terms of crude and metal supported in higher margins, because we have not reduced our prices under switchgears and cables? And also just extending the same question, this LED lighting we have seen a reduction in margin so is that expected to normalize going forward, so both the phenomena the higher margins of switchgears and cables and the lower margins of lighting can we expect that to normalize going forward? And is there any change in the Sylvania guidance or the overall our standalone guidance after this 1Q or will we wait for one more quarter for that? These are two questions, I will come back for further questions.

Anil Rai Gupta: Right. As far as switchgear is concerned, whatever improvements in margins we are seeing is due to the internal working of the company in terms of cost rationalization. There is not much impact of crude or commodity prices in terms of switchgear because the cost of components and cost of this part is very low as compared to the cables and wires segment. So switchgear margins is something which is not due to the commodities and it is more of as I have said that we have changed our go to the market strategy of more of a pull based system, that is affecting the margins positively on the switchgear side.

On the cables and wires, to some extent yes, because there has been more growth in the domestic wire segment which has higher margins as compared to the industrial cables, so because of the product mix change the margins have improved and also the lower commodity prices also affect to some extent but that is all temporary and the blended margins should come down to normal levels but definitely higher than last year because we have been making a lot of internal correction. So maybe in cables and wires the margin of 14% might not be fully sustainable because of product mix and commodity prices, but I think it should not go much below lower than this as well.

As far as lighting is concerned, there were a few things which contributed to low margins, there was a change in the excise system of the LED lighting and LED now comprising almost 40% of the business affected margins in the beginning, and we had to pass on the price to the consumer which could not be done very quickly. Over this quarter and next quarter things should start normalizing in lighting segment as well, so I think we might come back to the same margins by the third quarter in lighting.

As far as Sylvania is concerned, as I said we expect margins to be better next year, this year it might get affected by one offs.

Renjith Sivaram: In terms of growth both standalone and Sylvania?

Anil Rai Gupta: I think we will be looking at the second quarter as well as the starting of the third quarter to give a better picture on the standalone side. On the Sylvania side our focus is again more on the profitability side, as I have already said there is a Eurozone weakness however it is being taken care of by the growth in the Americas.

Renjith Sivaram: Okay. And sir if you can, what is the restructuring, will that continue or is it completely done with?

Anil Rai Gupta: No, there is we are continuing to evaluate this, as I have said we would want our cost structures unlike the scenario where we in 2008, 2009 where we were very late in bringing down our cost structures to the extent of the business that we are doing, we will continue to evaluate in this year but whatever it is done it will be done most probably during this year itself. And since I have said that it will be funded from Sylvania cash flows only, so I do not think it will be very sizable in this year.

Moderator: Thank you. The next question is from the line of Aditya Bhartia from Investec. Please go ahead.

Aditya Bhartia: Sir just wanted to understand a bit more about the restructuring expenses at Sylvania, what exactly did they relate to?

Rajiv Goel: So this is regarding one of our lamp plant in Erlangen, Erlangen is in Germany, so we have taken a shift out of that because that was not being fully utilized. So as Anil just mentioned we are creating more and more our cost structure with the new realities of the lighting business where the lamps, particularly the traditional lamps are declining much steeper than earlier anticipated, so basically it is in response to the same.

Aditya Bhartia: Okay. And you mentioned that you would be evaluating further actions at Sylvania as well, what kind of steps could they be?

Rajiv Goel: So again we see there could be further restructuring as may be warranted and for the sake of confidentiality of negotiation we will not like to discuss much more on the same. All we can say that it is again in the split of realigning the business with the new realities of the lighting world, so more or less it will be more in the lamps businesses across the board.

Aditya Bhartia: Okay. And sir on the LED business, both for Sylvania as well as India, do you think that growth in LED business an offset the weakness in the CFL market?

Anil Rai Gupta: Yes, it will be but it will take some time because CFL business which is declining will stabilize, we definitely feel that CFL still has a future, it all depends upon the speed at which the LED prices come down. And I think over a period of time yes, if not quarter-on-quarter but at least over a year or so it will get compensated.

Aditya Bhartia: Okay. But in the near-term you would not be seeing a major growth in the lighting segment as such, because at best LED would be able to kind of offset the CFL business?

Anil Rai Gupta: That would be right, actually growth is more dependent on the economic growth wherein more installations start coming in on the residential side or on the industrial side or on the commercial side. So growth will come in because lighting is not just lamps, there is a lot of fixtures involved, half of the business or maybe more is coming from the fixtures side, and that is all dependent upon the infrastructure development.

Aditya Bhartia: Sure sir. And sir on the Reo switches you had earlier indicated that the launch should help you penetrate into smaller towns and rural areas, how is that progressing?

Anil Rai Gupta: I guess this is the biggest benefit that we are getting, our expansion is happening more and more, our connect with the retailers is expanding on a quarter-on-quarter basis and today we have a pretty good direct contact with the retailers, it all is also reflecting not only just because of Reo but there is a conscious effort of the company to be closer to the trade both on the dealer side and on the retailer side, so that is progressing very well. As I have already said the company continues to invest in this both on brand investment as well as distribution investment, so that is continuing very well.

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

Ruchi Vora: My first question is on your segments, just wanted to hear your qualitative thoughts on how each of these segments are doing at the moment in terms of our pricing, volume, market share and also if you could give us some color on the subscripts and segments, we would like to hear that and also how July has been in terms of, has it been better than last quarter or it has probably been worse or the same?

Anil Rai Gupta: Right. So segment wise if we see, all are reflecting weakness in the overall macroeconomic condition. So as far as controls and pricing are concerned, we have always maintained that we are a very disciplined and margin oriented company and hence despite these conditions we are seeing improvements in many parts of the businesses some much more and some will show some more results in the future. So the focus has always been to continue to find ways of improving margins also. There is no doubt that the market has been weak and it is not just reflecting in our numbers with the other companies as well hence we are not too concerned about losing any market share, in fact in certain businesses we might be gaining as well. But I think I have also said that we might take some more time to really comment on whether there is improvement

coming in or not, it might take some more time to say because things are not really looking very different as in the last two or three quarters.

Ruchi Vora: Sure. And just coming to the margins for this year, is there a headroom you believe for some margin expansion year-over-year for the early average, given the fact that you mentioned that you have done something on the cost front, so is it a fair assumption to kind of believe that margins could go up here on to?

Anil Rai Gupta: To some extent it will depend up on the product mix, but I think division wise except in lighting we will see improvement in most of the businesses because in lighting the first quarter has been lower for many reasons that I have already said and it will take some time to come back to the normal, so it might not show any expansion in this year, but overall with ECDs remaining stable the other two businesses will definitely show expansion.

Ruchi Vora: Sure. And my last question is on Sylvania, just wanted to hear your thoughts broadly from a business perspective that will this year continue to be loss making like it was in 1Q, given the fact that you mentioned that you could do some more restructuring through the year and how do we really look at this business Sylvania as a part of Havells, is there any potential for doing all these things in one go or we will continue to see these one offs going forward because that does limit your consolidated results and how do we look at that?

Anil Rai Gupta: No, I think Ruchi the one offs is something hopefully by the end of this year, I am talking of the financial year not calendar year Sylvania but Havells financial year, I think we should be able to capture that. However, you would appreciate that lot of these things are just beyond our own wish because this also depends upon the negotiations, there are regulations locally which we have to be sort of compliant with. However, as for the intent, it would be that as much as possible we should capture them as you see in the current financial year and that has been the approach in the past as well. I can share that you see the things are evolving fast in the European context and I think we need to react on them sometime on preemptive basis but definitely on the moment they arrive on the scene. So this is what is happening, the hope is that by the end of this financial we should be able to capture most of the challenges particularly what we see on the manufacturing side in Sylvania in terms of one offs.

Moderator: Thank you. The next question is from the line of Chockalingam Narayanan from Deutsche Equities. Please go ahead.

Chockalingam Narayanan: I think to the last question you mentioned that the company is a margin oriented company and commodity prices have also come down, but at the same time demand is weak, so how should we look at it, would you able to take price increases in absence of demand or what is more important, market share or margins?

Anil Rai Gupta: I think market share as I have already mentioned that we are very focused on market share as well and there is at least if not improvement but there is no reduction in market share and we do not envisage any market share reduction as well. No, we are not looking at any major price increases because the commodities are not in the right direction to increase prices or anything of that sort but lot of internal efficiencies are taking place which will improve margins.

Chockalingam Narayanan: Okay. No the reason I asked that was because in your information update you mentioned about better price management in switchgear and cables, now does that mean...

Anil Rai Gupta: That does not necessarily mean price increase. So I would not go too much into detail of this as you can very well understand some of could be sensitive information for the competition as well but there are a lot of improvements that we are making in our whole distribution chain and retailer management as well so which is definitely impacting the margins on a better side.

Chockalingam Narayanan: Okay. And the second question is on the MTM impact as far as hardening of the German bond yields are concerned, because in the last quarter you mentioned that you would benefit from it but we have not seen any accounting entry related to that. Could you elaborate on that as to how you account for it?

Anil Rai Gupta: Actually you might be aware we normally do it annually only, yes you are right the hardening of German bond yield has definitely helped but as a prudent accounting practice we have decided not to take into account any gains which were resulted from there and this is something we would evaluate only at the end of the year both December as well as the March. But yes, I think there has been certainly a beneficial movement it is around to the extent of 8 million but as I again said this is not something we are absorbing in the financial as of now.

Chockalingam Narayanan: Okay. And the related question is with regards to, I think the earlier participant as well asked on this Sylvania aspect on the restructuring, would it be possible to quantify on how many of the plants are currently manufacturing some of the traditional products which are not seeing as much demand, is that something you would be able to elaborate?

Rajiv Goel: See we have around four plants, two of them are into fixtures and two of them into lamps, as you would know the lamps might be under pressure. So I think this will be under constant evaluation, we have already highlighted the Erlangen which was one of our lamp plant has undergone a partial restructuring in the current year. There will be other plants which will be under scrutiny, as of now I think this is the only information I will be able to share with you.

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

Achal Lohade: Sir one question on the Sylvania part, if I look at the net debt it seems to have gone up by about EUR6.5 million QoQ, even if I have to adjust for the restructuring cost, it still means that there is

an incremental EUR 3 million borrowed, wanted to understand what is the reason, is it anything to do with the working capital or something else? Net debt number I am looking at.

Rajiv Goel: No, you are looking from March to June?

Achal Lohade: Yes, yes.

Rajiv Goel: See that might be, I do not have the numbers right now because I think the numbers we have given is comparison between 30th June 2014 and 2015 but this could be some of the cash which would have gone down which keeps getting managed. So normal just a static date of the quarter end may not fully represent the cash number basically.

Achal Lohade: Right. I was looking at net debt number sir.

Rajiv Goel: Yes, that's why see net debt is also impacted by the cash, usually the cash was 33 million, now cash is 26 million. If you look at the total debt, it's same, it is just that the net debt has gone down because the cash has gone down and due to 5 million, 6 million cash in the larger thing is very difficult to capture on a particular date, so I do not think you should look at any structural issues on that.

Achal Lohade: Okay, got it. And second quarter sir on the CAPEX, I just read that you talked about 150 crores of CAPEX for the next two years, just wanted to get a clarity, earlier we were looking at 100 crores kind of CAPEX annually.

Rajiv Goel: Right. So 100 to 150, I don't know where you read it but it is we consider maintenance CAPEX between 100 to 150 crores.

Achal Lohade: Okay. Any other large scale I mean new product CAPEX like water heaters we have planned sir?

Anil Rai Gupta: Water heater is already done, we are expanding some capacity in HV cables that is undergoing so this will be the part of the overall CAPEX, nothing very new in this CAPEX.

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

Ashutosh Narkar: Two questions, first on Sylvania, if you can elaborate standing as on today what synergies we would derive keeping Sylvania in our product portfolio and if it makes sense to sell it off. The second one is on your consumer durables, if you can highlight some of the sub segments within the consumer durable segment which are showing some improvement and which could be potentially growth drivers over the next two years' time?

Anil Rai Gupta: Right. First of all I do not think there is any way we are looking at Sylvania as any difference than that of Havells, so we have long-term plans for Sylvania to be fully integrated with Havells and we have shared many times what each company benefits from each other, so there are a lot

of technology benefits and production benefits. As far as within the ECD segment is concerned, all segments are showing descent growth this year, in fact water heater growth is also quite good, fans has also grown well but we do not give specific numbers of sub segments.

Ashutosh Narkar: Just a follow-up on the Sylvania aspect, if you can just elaborate what is the kind of investment we would need to invest into Sylvania over the next three years, one, and either for restructuring or for expansion for building up the brand further?

Anil Rai Gupta: I think we have always said this and we have maintained this that we do not envisage any further investments from Havells into Sylvania, Sylvania operationally is making money and it has funded its entire CAPEX plans through that. Even the amount of restructuring if any required would also be funded through internal accruals only.

Moderator: Thank you. The next question is from the line of Kalpak. S from Sharekhan. Please go ahead.

Kalpak S: I just wanted to know that you said about pull market strategy, so that is a plan of a long-term strategy. So I wanted to know how it is going to be done, what could be the size and how it would impact margins and would it replace our current push market into pull market or it is going to be a different market altogether?

Anil Rai Gupta: So I don't know how I can reply to this question because how it would affect market shares margin, it is just that there is a little bit of a change in our whole distribution policy wherein we are involving more and more retailers to stock the products and buying from the dealers which otherwise it was a different system where we were pushing more into the distributors to finally go into the retailers. How it would impact margins and the volumes, every pull strategy is definitely better than the push strategy this is what we believe, this is where the company is transiting towards.

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

Vikash Mantri: Just wanted to understand the LED and lighting space, is it that structurally LED will be a lower margin business than what are historically LED plus or CFL business was?

Anil Rai Gupta: No, we do not envisage LED business to be a lower margin business.

Vikash Mantri: So margins over a period will recover back to or will be similar to what we have done in the past?

Anil Rai Gupta: That is right.

Vikash Mantri: Okay. Just to understand, so this CFL business is down around 35% to 40% YoY?



*Havells India Limited
July 27, 2015*

- Anil Rai Gupta:** For the market or for us?
- Vikash Mantri:** For you.
- Anil Rai Gupta:** No, not as yet.
- Vikash Mantri:** Led was 27% last year, is that right?
- Anil Rai Gupta:** Yes, but this comprises of fixtures as well right.
- Vikash Mantri:** So fixtures was 35%, 37% so the CFL portion was another 30% odd, which if LED has gained 13% so just trying to do the extrapolation.
- Anil Rai Gupta:** No, so I do not have this number where you are coming from this 35% to 40% growth, but it is not.
- Vikash Mantri:** No, decline is what I said?
- Anil Rai Gupta:** Yes decline, so it is not.
- Vikash Mantri:** Okay, fair enough. Sir on the inventory levels, now while we have managed our inventory well, has in this slowdown also the inventory levels at our dealer distributor plus retailer increased which gives us reasons to believe that maybe a poor trend might only be later in the second half or maybe fag end of this year?
- Anil Rai Gupta:** I think over a longer period of time the dealer inventory gets adjusted, so because this slowdown trend has been there for now quite some time, it can happen over a month or two but since it has been continuing for about 7 months or 8 months the dealers inventory gets adjusted and we do not see that the dealers inventories have gone up in this. So we are expecting as suddenly there is a little bit of an uptake in the economy, suddenly the business will start coming in.
- Moderator:** Thank you. The next question is from the line of Sumit Agarwal from ICICI Bank. Please go ahead.
- Sumit Agarwal:** Sir just wanted to get a sense in terms of your cable and wire business, you mentioned that the wire business has been relatively doing well, just wanted to understand in terms of this decline what would be the volume value mix, do you see the volume at least sustaining, is there any growth on the volume side and the overall revenue decline is primarily because of the commodity fall?
- Anil Rai Gupta:** It is true for the domestic cables that the volume growth is higher than the value growth, however, there is no change in the value and volume growth, this is mainly due to the lower CAPEX cycle of the country. So overall cables is down mainly because of that but otherwise as



*Havells India Limited
July 27, 2015*

far as wires is concerned because there has been a decline in copper prices so there we see a better volume growth as compared to value.

Sumit Agarwal: And is the volume growth positive?

Anil Rai Gupta: It is.

Sumit Agarwal: For both, even for cables?

Anil Rai Gupta: No, in fact for cables it is down that's why the overall business is down, yes.

Sumit Agarwal: And how is the trend for the last say three, four quarters in terms of the volume, I am more looking from the volume side.

Anil Rai Gupta: It is varying quarter-to-quarter because for industrial cables it has been down for the last three quarters except the last quarter there is definitely a surge in the fourth quarter of every year, but last three quarters things have slowed down because the industrial CAPEX cycle has slowed down.

Sumit Agarwal: And would you like to put a number to both the volume numbers for both the wires and the cables, some number?

Anil Rai Gupta: No, as I said we do not divide subsets of the segments.

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

Arnab Mitra: Sir firstly on the GTM strategy change that you mentioned, I just wanted to understand, so basically are there more Havells sales people who are actually directly going and talking to end retailer rather than earlier your dealers doing that job and does it any way reduce the power of the dealer who is kind of in between you and the end retailers?

Anil Rai Gupta: I think it is more of **(Inaudible) 31.12** in between dealers rather than reducing the powers wherein we are trying to generate more for our dealers, ultimately all the sales are being done by the dealers themselves so they are more of a conduit in between so we are ensuring that whether it is the retailers or the customers directly or even the architects, consultants who are the influencers, our teams are meeting more and more so it becomes more of a pull strategy, the dealer is still key to the company for making sure that the service is available to all kinds of customers.

Arnab Mitra: Right. And to do this is there any change in the overall margin structure in the trade and are there additional costs that come on Havells because you are trying to influence the end users?



*Havells India Limited
July 27, 2015*

- Anil Rai Gupta:** No, so if there was an additional cost, things would not have looked positively on the margin side, so there is no additional cost.
- Arnab Mitra:** And no change in the trade margin structures or has there been some changes there in terms of margins to dealers?
- Anil Rai Gupta:** No, no dealer change in the trade margin structure.
- Arnab Mitra:** Okay. And sir the second question on the appliance side, you had entered into air coolers in a small way and also you had mentioned the focus on standard last quarter. So have these two disproportionately grown this quarter compared to the overall growth of the appliance division?
- Anil Rai Gupta:** Air coolers of course because it is a new product because we did not have this last year and starting this year we should start manufacturing this in-house as well, so there will be more and more focus on the air coolers in the future. As far as standard is concerned it is a long-term process, it is not something which will show immediate quarter-on-quarter result but there is a long-term strategy to develop it into an another powerful brand from the Havells portfolio.
- Arnab Mitra:** And on air coolers last quarter you had mentioned about 10 crores of revenues, is it similar run rate till the next season comes where you will probably have your own manufacturing and larger model range?
- Anil Rai Gupta:** I would not like to give specific numbers on sub-segments.
- Arnab Mitra:** Okay sure. And just lastly on Sylvania, so even excluding the restructuring element your EBITDA margins are at around 3.4%, so do you expect even ex-restructuring the margins to remain low through the year?
- Anil Rai Gupta:** Yes, they will be soft because of this change in the Euro demand and I think this will remain till the entire cost structures are well-adjusted. So I think this year there might be some lowering of the operational margins but the entire work of this cost restructuring and cost rationalization is being done for a very good margin profile in the next year.
- Arnab Mitra:** Sure. And sir one more question if I may, just on the E-Commerce thing, we have seen some other companies trying to actually get more aggressive on E-Commerce having their own warehouses to deliver and also I just wanted to understand how you are looking at that as an opportunity or a threat?
- Anil Rai Gupta:** I think right now we are let's say a little bit slow on that side because we feel that this is not a very disciplined market at this moment and we will continue to evaluate this market because we do believe that there is disturbance if you become too aggressive on this then it becomes disturbing for the existing traditional channel. So we are continuing to evaluate it, I do not think

we are missing a big part of the market for the consumers if we are not participating in it because unnecessarily the same product is just sold to the consumer at a cheaper rate.

Moderator: Thank you. Our next question is from the line of Jay Kakkad from Espirito Santo. Please go ahead.

Jay Kakkad: Sir my first question is related to Sylvania, now after the restructuring what percentage of the sales will be through outsource, I mean outsourcing percentage will increase right in this year?

Rajiv Goel: See outsourcing if we talk about Europe already is around inching towards 54%, 55% and particular this restructuring we have done is primarily to reduce the capacity which is no longer utilized because of fall in the demand of traditional product, so this will not significantly alter the outsourcing ratio. Having said that clearly there would be more restructuring, sort of more outsourcing you see in future, so this percentage has gone up and I think it will keep inching up. But this is something which is independent of restructuring.

Jay Kakkad: Okay. These two factors that you mentioned of lamps, what would be the gross block and employee cost related to these factories?

Anil Rai Gupta: Again, we will not share the independent figure from that because these are right now a sensitive zone right now.

Jay Kakkad: No problem, okay. And sir receivable financing you have started there, so how will be the trend, what do you see this year how much will you be able to do on the receivable financing side at Sylvania?

Anil Rai Gupta: Our facility is around EUR 35 million, we believe we should be able to utilize that depending upon the fluctuation in the sales. The whole idea is that this is no longer on the balance sheet now linked with the fluctuation of the business if any. So we believe they are depending upon our sales performance we could utilize this but this is a facility which if we do reasonably in line with our expectation we should be able to fully utilize this facility.

Jay Kakkad: Okay. And what would be the cost related to this facility, like we have here in India also a cost what percentage...

Anil Rai Gupta: No, the overall cost is pretty much actually lower than what we had earlier, so I see there has been benefit on this, again I will not go into the individual cost but I think these are fairly competitive available cost for the current European situation and I think we have got a fairly good rate on the same which, or I can tell you is that it is lower than the existing cost we had.

Jay Kakkad: Okay. Last question sir on the competitive intensity in the fixtures segment, how do you think is the competition evolving in the fixtures segment in Europe specifically and what kind of product launches do you see this year from your staple?



*Havells India Limited
July 27, 2015*

- Anil Rai Gupta:** See, competition is intense and obviously the market demand is also very limited, so that won't go away. In terms of launches it is all LED now and we cannot put **(Inaudible) 37.53** these things but yes I think there are fairly good amount of launches being done by everyone including us in the industry.
- Moderator:** Thank you. Our next question is from the line of Deepak Narnolia from Antique Stock Broking. Please go ahead.
- Deepak Narnolia:** I have a question about your lighting business, one of you competitors had reported very good growth in lighting business while your lighting business has seen de-growth. So any particular reason for that about product mix or losing market share or if you throw some light on that?
- Anil Rai Gupta:** No, I am not sure about which competitor you are talking about but there could be a possibility that certain companies have taken some government oriented tenders and because of the pricing we have refrained from that.
- Deepak Narnolia:** Okay. So it is mainly because that the government contracts...
- Anil Rai Gupta:** I am not sure, I am just making assumption.
- Deepak Narnolia:** But you have not lost any markets here in the lighting business as such?
- Anil Rai Gupta:** Not in the trade segment, no.
- Moderator:** Thank you. The next question is from the line of Harish Biyani from Kotak Institutional Equities. Please go ahead.
- Harish Biyani:** Sir we have shared the number for LED which is 39% of segment sales, how much would CFL be?
- Anil Rai Gupta:** At this moment I would not have the figures.
- Harish Biyani:** Okay sure. On the LED business, if you can explain what percentage would be institutional business for Havells and what percentage is retail qualitative margin indication for both the segments? And for the industry per say what would these numbers be in terms of institutional versus retail share for LED business?
- Anil Rai Gupta:** So for the overall fixtures business this is how we look at our business, almost 50% is retail and 50% is institutional and we definitely have a much higher share in the retail segment as compared with the competition because the institutional sales in the overall scheme of things we are still a new player in the institutional segment, it takes time to develop because of the relationships with the kind of customers that are there in the institutional business, so there our share will be lower as compared to the retail business.

- Harish Biyani:** And sir the qualitative margin indication for these segments?
- Anil Rai Gupta:** Similar.
- Harish Biyani:** And sir when we look at the pricing for LED coming down very sharply on the institutional side over the last one year or so, how do we read that?
- Anil Rai Gupta:** I think the way we are doing that is we are more of a trade and customer oriented company and there will be prices coming down but similarly on the other side the costs are also coming down. So in future we expect the margins to remain stable, but whatever cost are coming down will be passed on to the consumer.
- Harish Biyani:** Okay. Sir two more questions, when you look at the market difference this time in shift from CFL to LED, what is the difference versus the earlier shift from traditional lighting CFL and being in terms of the LED manufacturing in India what do you think will be finally manufactured and what will remain outsourced eventually?
- Anil Rai Gupta:** I think maybe specifically we can take your question separately because there is too much of detail which I don't want to give on this call.
- Moderator:** Thank you. The next question is from the line of Jasdeep Walia from Kotak Institutional Equities. Please go ahead.
- Jasdeep Walia:** Sir can you describe some of the main investments and initiatives the company has been taking to strengthen the distribution over the last two years?
- Anil Rai Gupta:** Last couple of years as I said there has been a lot of better connect with the trade and distribution.
- Jasdeep Walia:** But how do you enable that sir?
- Anil Rai Gupta:** Through direct contact as well as lot of use of technology but a lot is through direct contact.
- Jasdeep Walia:** Direct contact as in your employees going and meeting retailers?
- Anil Rai Gupta:** Yes, and very senior management as well.
- Jasdeep Walia:** Okay. Sir that's the only initiative that you have taken or there are other initiatives also?
- Anil Rai Gupta:** Again, I would refrain from speaking a lot on this call regarding this, we are bit vary about how we deal with their distribution because that is something which is very unique to us and here we would want to refrain from sharing too much with the competition as well.



*Havells India Limited
July 27, 2015*

- Moderator:** Thank you. The next question is from the line of Ashish Jain from Morgan Stanley. Please go ahead.
- Ashish Jain:** Sir I have two questions, both on margins. One is, earlier in the call you said that at a segmental level we expect margins this year to be better than last year but if I look at your unallocable expenses which has gone up and I understand that it is probably because of your focus on SG&A, so is that number now peaked out for this year or you think from here on also we can see what the growth in that number?
- Anil Rai Gupta:** For the growth in percentage you mean?
- Ashish Jain:** In absolute number on the unallocable, I am assuming it is because of the higher employee cost for SG&A.
- Anil Rai Gupta:** Yes, so this will be remaining constant this year, of course next year there will be more enhancement of salaries and all that, but this year yes it will be costing.
- Ashish Jain:** Okay. And sir from an SG&A perspective, are we done in terms of whatever team building we wanted to do or you think there is massive room to grow that part from here on as well?
- Anil Rai Gupta:** No, pretty much we are fairly well equipped that way.
- Ashish Jain:** Okay. And sir secondly my margin question is on the lighting side, can you give some color on the margins within the three sub-segments of lighting which is LED, CFL?
- Anil Rai Gupta:** Ashish, we would not like to divide any margins or sales numbers separately within the sub-segment.
- Ashish Jain:** No sir, I am not looking for absolute numbers, I am just saying in terms of is there a meaningful difference between the margins in these three lines of business?
- Anil Rai Gupta:** Generally speaking, and it has always been the case that fixtures have been better in margins as compared to lamps.
- Ashish Jain:** And, I am sorry to persist but between LED and CFL?
- Anil Rai Gupta:** Not much difference.
- Ashish Jain:** Sir in that scenario given LED pricing is continuing to come down, theoretically is there a reason to believe that 6-8 quarters down the line LED margins will be lower?



*Havells India Limited
July 27, 2015*

- Anil Rai Gupta:** No, because unlike the other technologies the costs are also coming down similarly. So as I said in response to an earlier question, we expect the margins and LEDs to be similar continuing as what they are today because the cost will keep coming down.
- Moderator:** Thank you. Our next question is from the line of Kashyap Pujara from Axis Capital. Please go ahead.
- Kashyap Pujara:** Basically I had a couple of questions, first on, if you can just let us know some progress on the power plus scheme that you have for loyalty electrician **(Inaudible) 45.49** could you just highlight what is the progress there, how many what are the kinds of enrollments we have seen and where are we?
- Anil Rai Gupta:** I do not have the numbers at the present moment, maybe our IR department can share with you.
- Kashyap Pujara:** Sure. And secondly is that are we anywhere close to basically seeing or tying up future avenue visibility based on the points that have been accumulated or the signups that has already happened, can we actually peg some numbers that based on these amount of points that are being given out, this is the future avenue visibility that we can see from there going forward?
- Anil Rai Gupta:** No.
- Kashyap Pujara:** Okay. And second would be about ad spend, that while I understand that the scenario has been a bit tepid off late and it is respectable that we are able to maintain our numbers and profitability, but in a scenario where we start seeing a pickup do you foresee that the ad spends will require to be increased to get to double-digit growth towards the mid-teens that we have always been growing at?
- Anil Rai Gupta:** No, on the contrary normally in such scenarios many companies would chose to reduce the ad spends, in fact we are not believing in that because we believe that this slow down is temporary and our product category is something where we believe that continuous advertising should be there rather than just impulsive advertising where we expect huge numbers to go up or go down because of advertising, it is more of a top of the mind recall kind of a strategy that we have and that's why we do not tinker with advertising percentages despite the market is going up or down.
- Kashyap Pujara:** Okay. So basically we will be continuing that percentage with the increased sales, basically that much incremental of that we'll continue to spend on ad spend?
- Anil Rai Gupta:** That's right. It is again not so much of a percentage, this all depends upon media strategy and all that, but it will be range bound.
- Kashyap Pujara:** Okay. And just a broader question on the information update you have mentioned like say for example in switchgears that we did see an industrial switchgear slowdown because of which the numbers were flat, so could you give us a broad sense in terms of breakup as to what would be

industrial switchgear of this as a percentage versus the non-industrial piece and if you can just give us some sense there.

Anil Rai Gupta: I think within switchgear also it is very difficult to completely differentiate that because industrial products also go into residential and commercial use and on the contrary residential products also go into the commercial and industrial use. So we do not really define it, we basically define industrial products as product that we mentioned and as I have already said, within this segment we do not give specific numbers for sub-segments.

Kashyap Pujara: Okay. No, my broad question was from a perspective that if a non-industrial section grows higher like especially in cables where in switchgears and in cables the domestic side would basically be a better contribution, right?

Anil Rai Gupta: That is right, so as we have said that industrial business both in the industrial cables as well as in the switchgear side we have seen a de-growth while it has been offset by residential demand. But it is still not in the same manner which it was a year ago or a couple of years ago so that's why we say that there is definitely a slowdown and that's why you see that there is still some growth in the consumer durables and on the residential side, but what is pulling down is the industrial side.

Kashyap Pujara: Okay. And on a broader sense, like if I were to look at it from overall domestic sales, what would your industrial bucket be of this? Obviously elected consumer durables would not be part of that, but in the other segments what would your total industrial mix be?

Anil Rai Gupta: Maybe around 33% to 35%.

Kashyap Pujara: Okay. And finally I think while I understand you being a bit measured in terms of giving out guidance because you might not be seeing traction on the ground so far and having said that I think on the macro front we cannot deny that there are certain enablers in place in terms of the kind of corrections that we have seen in global commodity prices, oil prices and gold prices and essentially there is a macro tailwind in that sense that consumption can revive maybe second or third quarter or maybe in the next year. So what is your sense on inherent optimism there, are you really that optimistic on the macro front that second half onwards you can start seeing some semblance of recovery setting in?

Anil Rai Gupta: See, I think we have always been optimistic and that is the reason that we continue to invest in all activities that we are currently doing whether it is product development, brand, distribution. So we continue to remain optimistic. India is not a country where these small blips can really affect the future to a great extent. So you guys do far more analysis of the world markets than we do, I am sure if you see positive trends coming in from the other factors definitely it will help the Indian economy and it will help all businesses.



*Havells India Limited
July 27, 2015*

- Moderator:** Thank you. Our next question is from the line of Achal Lohade from JM Financial. Please go ahead.
- Achal Lohade:** Just wanted to understand the LATAM side the growth has been pretty good, even the margins have improved, what is driving it and how do you see whether it is sustaining, non-sustaining, is it purely because of the low base or something, could you please elaborate a little bit on that sir?
- Anil Rai Gupta:** Part of that is definitely the euro depreciation against the dollar, but I think in each country which we define as a growth country there has been growth and also there have been some managed decline in sales in some of key loss making country as we had earlier allocated particularly Brazil and US. So I think it is a mix of managing the loss making businesses and improving the sort of profitable territory. We believe this trend is sustainable and we will look to invest and further grow our profit-oriented countries in LATAM region.
- Achal Lohade:** So what would be the local currency growth for LATAM?
- Anil Rai Gupta:** Local currency growth actually if you see this number it will pretty much represent that because if the dollar has appreciated against the euro it does appreciate the local currencies. So we have not gone into each and every but normally we do not report in local currency because it could distort the number but you will argue that it is not that the LATAM countries have not suffered against dollar, so I am sure you are aware of that in the last one year.
- Achal Lohade:** Right. So what would be the outlook in terms of the growth and margins for LATAM sir?
- Anil Rai Gupta:** I think the margins are pretty much sustainable what they have shown now, because that is not dependent upon the currency per say and the growth you see I think let's wait for another quarter before we give any further guidance on the same, but yes we remain pretty sanguine on LATAM countries.
- Moderator:** Thank you. The next question is from the line of Renjith Sivaram from B&K Securities. Please go ahead.
- Renjith Sivaram:** Sir just if I have missed anything in terms of this unallocable apart from the ad expenditure, was there anything else or is it only the ad spend because of the unallocable expenses have been higher?
- Anil Rai Gupta:** Nothing, this is general SG&A and ad spend, nothing very one-off or anything.
- Moderator:** Thank you. The next question is from the line of Naveen Trivedi from Trust Group. Please go ahead.
- Naveen Trivedi:** Sir in your earlier comment you mentioned that the raw material for LED segment is also lowering down, so I just want to understand in the last two quarters we have witnessed a sharp

decline in the contribution margin, so if raw material is softening down then why margins are in that falling mode?

Anil Rai Gupta: Yes, I have already mentioned that it is not because of lowering margin in the LED business, it is also because of certain changes which have come in especially in the LED category where in March the excise duty was based on MRP system and we had old stocks which had to be passed on to the market, it takes some time to pass on the entire cost increase to the market and also because of the lowering sales of CFLs also there were some unobserved manufacturing overheads, I think over a period of this quarter and next quarter we will see that lighting margins will stabilize.

Naveen Trivedi: Okay. So third quarter onwards we can expect stabilization in the margin as well as in the growth also?

Anil Rai Gupta: That's right.

Naveen Trivedi: Okay. Sir my second question is on the segmental thing, we gave unallocable expenditure so the large part of the unallocable expenditure is a part of ASP; however, in this quarter this percentage as net sales has moved up to 11% which is like 9% growth on a YoY basis while our ASP is flat this quarter. So what are the big components basically has led to this growth?

Anil Rai Gupta: No, as you can very well see that SG&A has grown at a similar pace as compared to last year and it is showing as a higher percentage only because of the fact that revenues were not grown to that extent.

Naveen Trivedi: It is growing by 9% on YoY while ASP is only 1.2% on YoY basis, so I am sure the other component has shown like 12%, 13% growth.

Anil Rai Gupta: Right. So again we can go specifically into numbers separately but there is nothing unusual in this.

Moderator: Thank you. The next question is from the line of Chockalingam Narayanan from Deutsche Equities. Please go ahead.

Chockalingam Narayanan: Sorry for ignorance here, but just to understand, in Sylvania you have taken some restructuring cost because some of the technology has gone out. Would you have to do something similar as far as some of the old products in the India business is concerned at least as far as CFL or the old products, because now your estimated life of plants would have come down, so is there any depreciation related hits that you might have to take?

Anil Rai Gupta: Not anything specific at this moment, over a period of time may be in the next three to four years we might have to, but at this moment we do not see a major decline coming in CFL.

Chockalingam Narayanan: Okay. So you have not made any changes as far as estimated useful life is concerned as of today?

Anil Rai Gupta: Not at the moment, no.

Chockalingam Narayanan: Okay. And on the go to market strategy or the pull strategy being a bigger component going ahead, would that mean your working capital levels would sort of trend down over a period of time or how should one look at that aspect?

Anil Rai Gupta: So I think we continue to remain focused on providing the best service to the consumer by having the right mix of finished goods, inventories available for sale, so that would not be changing.

Chockalingam Narayanan: And last one question if I may on the higher manufacturing component as far as consumer durables is concerned, when should we start to look at that reflecting as far as margins is concerned?

Anil Rai Gupta: I think there is not a sizable change in the overall thing except in case of water heater which will take some more time to show because the plant has to stabilize and all that, it will take some more time but as far as small domestic appliances are concerned we will continue to outsource them.

Chockalingam Narayanan: Okay. No, in water heater your investment was if I remember right was about 50 crores?

Anil Rai Gupta: That's right.

Chockalingam Narayanan: And what sort of asset turns do you expect when that plant is fully operational?

Anil Rai Gupta: You mean turnover from that plant?

Chockalingam Narayanan: Yes.

Anil Rai Gupta: Yes, I think about three times yes, initially.

Chockalingam Narayanan: And that would be achieved say sometime in two years?

Anil Rai Gupta: Next year itself.

Chockalingam Narayanan: So we are in that ramp up phase?

Anil Rai Gupta: Right.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand the floor over to Ms. Bhoomika Nair for closing comments.



Havells India Limited
July 27, 2015

Bhoomika Nair: Thank you everyone for participating on the call particularly the management for patiently answering all the questions sir. Thank you very much.

Moderator: Thank you. On behalf of IDFC Securities Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.