"Havells India Limited Q3 FY-16 Earnings Conference Call"

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MANAGEMENT: **MR. ANIL RAI GUPTA – CHAIRMAN & MANAGING DIRECTOR, HAVELLS INDIA LIMITED**
MR. RAJESH GUPTA – DIRECTOR-FINANCE & GROUP CHIEF FINANCIAL OFFICER, HAVELLS INDIA LIMITED
MR. RAJIV GOEL – EXECUTIVE PRESIDENT, HAVELLS INDIA LIMITED

MODERATOR: **MR. BHARGAV BUDDHADEV – ANALYST, AMBIT CAPITAL PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Havells India's 3Q FY16 Earnings Conference Call hosted by Ambit Capital. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your Touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Bhargav Buddhadev from Ambit Capital. Thank you and over to you, sir.

Bhargav Buddhadev: Good evening everyone on the call. I take this opportunity to thank the management of Havells for allowing Ambit to host the 3Q FY16 Post-Results Conference Call. From the management of Havells we have with us Mr. Anil Rai Gupta – CMD; Mr. Rajesh Gupta – Director (Finance) & Group CFO; Mr. Rajiv Goel – Executive President and Mr. Sushil Singhal – General Manager. I would request the management to please give a brief about the 3Q FY16 results post, which we will open the call for Q&A. Over to you, sir.

Anil Rai Gupta: Good evening everybody. We are very happy that all of you are present for the quarter 3 numbers and results for this conference call. Basically we are pleased with our performance during the last quarter. The domestic business has grown in line with our expectations with visible positivity in consumer confidence. On one side, the drop in commodity prices has offset volume growth but better price management and multiple cost efficiency measures has helped to improve contribution margins during the quarter.

Due to the festive period, we have invested heavily in our brand building initiatives; that has slightly impacted EBITDA margins though overall ad spend is within the budgeted range. We will continue to invest in brand and team building initiatives to expand our visibility and reach to smaller towns, Tier 2 and Tier 3 cities.

We are regaining growth in the lighting and consumer durables segment. We believe that we are gaining market share in these categories. For the cables business also, volume growth underline positivity in the infra spent. As discussed in the last conference, we anticipate growth to sustain and potentially accelerate from here, which actually means a very positive FY17 for us. And also we are happy to inform you that our subsidiary Havells Holding, Isle of Man has informed us that Havells Malta has consummated the transaction with Feilo of China to divest 80% of our stake in Sylvania.

With this Buddhadev, we can open the call for Q&A.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session.

The first question is from the line of Aditya Bhartiya from Investec. Please go ahead.

Aditya Bhartiya: Sir, my first question is on the lighting business. With LED business growing at a rapid pace and with the CFL business shrinking, how should we look at this segment for the next year, as in what should be the expectation on revenues and profitability here?

Anil Rai Gupta: I think our revenues will continue to see a massive increase in LED sales, though it will be coupled with the degrowth in the traditional technology. So already we see 50% of our business coming from the LED space. I think, overall, this business will grow, because overall the spend will increase, the lighting business spends on infra is also increasing, there will be a lot of focus on street lighting. So, overall, lighting business will grow though there will be a shift more towards the LED space and we do not see margins getting impacted in a big way because we are generally participating more and more in the branded and distribution space.

Aditya Bhartiya: Sir, you mentioned about street lighting. So is that an area which we are going to focus on and even over there do you think that margins can be sustained at current levels?

Anil Rai Gupta: I think with the acquisition of Promptec Lighting, street lighting will also become a part of our portfolio and because government is putting a lot of focus on this business, we will also participate in that growth. This will be additional to our overall lighting distribution based growth sales. So while margins may not remain the same, this will mean far more additional volumes and, overall, it will increase profitability of the lighting business.

Aditya Bhartiya: And sir, as far as the cables business is concerned, we had seen industrial cable volumes increasing sharply in the last couple of quarters. What is this on account of because the overall industrial CAPEX cycle appears to have remained weak?

Anil Rai Gupta: I think one is industrial CAPEX but also infra spends is higher, that is what we feel and that is why the growth in volume is coming out of cables. So though the value growth is lower but I think the infra spend may be some offshoot of capital expenditure is also increasing hence this increase.

Aditya Bhartiya: And when you say the infra spend, what all are you referring to, I mean, where are we seeing cables getting consumed more?

Anil Rai Gupta: So basically it is setting up of more and more road projects or public power development projects, public development projects like Noida Authority or the authorities business or municipality business, that is increasing.

Aditya Bhartiya: And sir, last question from my side. You mentioned that Sylvania consideration has been received, so is it fair to understand that as of now that money would be lying with Malta?

Anil Rai Gupta: No, that money has already been repatriated back to India.

Aditya Bhartiya: Okay, so it will be a part of the standalone entities, cash balance probably in Q4?

Anil Rai Gupta: Yes, that is right.

Moderator: Thank you. We have the next question from the line of Amit Sinha from Macquarie.

Inder: This is Inder here from Macquarie. My first question is on the various segments within India. If you could throw some light on the volume versus value growth and if this is being mainly led by market share gains, or do you think this is actually organic growth in the market, which is happening?

Anil Rai Gupta: I think we have already shared in our Memorandum where we have mentioned that in cables and wires the volume growth is 29% in underground cables and 9% in domestic wires. So overall if you take it, it was more than 15% volume growth.

Inder: Yes, then other than cables, the other segments?

Anil Rai Gupta: Other than those we normally do not report because there is not much difference between volume growth and value growth.

Inder: Okay and is it led by market share gains or is it a normal market growth, which is happening?

Anil Rai Gupta: We believe that there are market share gains as well, though it is very difficult to predict numbers right after the quarter but we believe so.

Inder: My second question is on this ad spending. Now is it that we are likely to sustain at this kind of absolute level of spend for some more period of time or if I have to think about the full year number maybe in FY16 and FY17, what is the right ballpark number to kind of look at?

Anil Rai Gupta: I think we always maintain that it is close to about 3.5% to 4% and that is the number that we should be looking at. There will be quarterly bursts and sometimes it will be reduced but overall it will be in that ballpark.

Moderator: Thank you. The next question is from the line of Renjith Sivaram from Antique Stock Broking.

Renjith Sivaram: Sir, in the lighting segment our margins are lower compared to last year, is it because of the change in mix because as we understand that LEDs will have a higher margin?

Anil Rai Gupta: I think I get the question. If you see the sequential margins in lighting, we have seen quarter-on-quarter improvement. Last year, we had mentioned that there will be first quarter there was a reduction in margins and every quarter we will be expanding the margins. So we have come to this level which was there almost last year. So I think it is a positive trend rather than comparing it with the third quarter of last year.

Renjith Sivaram: And for switchgear, was there any impact on margins owing to crude prices having gone up considerably? Is there anything to read on that?

Anil Rai Gupta: Not much on the crude prices, I think it has more to do with the fact that there was a lot of rationalization that we had done in our distribution throughout the country during this year and this is more reflective of that. There is a slight improvement because of commodity price reductions, which impacts copper as well as some plastic material, engineering plastics; but I would say, not very sizeable.

Renjith Sivaram: And in the switchgear segment our growth has been very muted, so any particular reason for that and how is it looking from a full year perspective or an FY17 perspective?

Anil Rai Gupta: I think again in switchgear we have seen a positive trend in domestic markets. In the first quarter the growth was very muted, this quarter we have seen a growth of about 7% in the domestic market. It is muted because of the fact that our major exports were to the Middle East and Africa, which have been impacted by some foreign currency fluctuations particularly in the African markets. But that we believe this is temporary and I think we should be able to regain those volumes in the coming quarters. So switchgear has come back to some growth levels of 7% and I think going forward this should be improving further.

Moderator: Thank you. The next question is from the line of Mitesh Shah from OHM Investments. Please go ahead.

Mitesh Shah: A couple of questions from my side. Just wanted to get an update on the royalty paid to the QRG Foundation? How would that be shaping up in FY17?

Anil Rai Gupta: So the brand as we had already shared with you earlier, the brand for the electrical parts. So, out of the business, monies will get transferred to Havells India Limited on the 1st of April 2016, which means there will be no royalty payment on the brand to QRG Enterprises next year.

Mitesh Shah: So approximately Rs. 40 crores, which was paid in FY15 may not continue going forward in FY17?

Anil Rai Gupta: That is true.

Mitesh Shah: And second question is just to understand: Is any of our existing plants going out of the excise duty exemption net over the next two years?

Anil Rai Gupta: In August 2017, our Haridwar plants will be going out of the excise zone but that is for the switchgear part of Haridwar - standard switchgear.

Mitesh Shah: Okay and sir, what would that plant be contributing or will the entire switchgear be coming from there?

Anil Rai Gupta: No, about Rs. 60 crores to Rs. 70 crores of business.

Mitesh Shah: And just to understand on the Sylvania balance companies, what will be the component of debt, which would be there in those companies to be reimbursed?

Anil Rai Gupta: So this year the debt will be around €9 million on two companies basically in Brazil and Thailand. The other companies do not have any debt.

Mitesh Shah: And any related pension liability which will be there in the 51 odd?

Anil Rai Gupta: There are no pension liabilities in those countries, it is only in Europe.

Mitesh Shah: Which has been completely transferred going with the 80% stake, which has been transferred as a part of it?

Anil Rai Gupta: That is right.

Mitesh Shah: So there will be no pension liability for the remaining company's part of it and that would be €9 million?

Anil Rai Gupta: That is right.

Mitesh Shah: And any indication of the approximate loss that will be incurred for those remaining companies for 9 months?

Anil Rai Gupta: The 9 months we have not because 9 months is no, they are not. You see this year maybe they have done around €10 million, €12 million loss, these four countries basically.

Mitesh Shah: In 9 months FY16?

Anil Rai Gupta: No, I am saying 12 months because this is the actual calendar, otherwise it will be too confusing.

Mitesh Shah: So FY15 these companies would have done a loss of around €10 million to €12 million?

Anil Rai Gupta: Correct, that is right.

Mitesh Shah: And any likely improvement, how do we shape up that going in next two?

Anil Rai Gupta: Out of these four, two, already Chile has been closed. And as far as the US is concerned, I think we are sort of running down the business there, we do not expect any loss to come from there. I think in terms of Thailand and Brazil is I think the joker in the pack is the currency in Brazil. I am sure you are aware that there was significant devaluation last year in Brazil. So I think we have extremely sort of risk-managed the business and we have reduced the operations there so that we do not have too much exposure. So our expectation is that we should not have any significant loss going forward, and if at all, it should be in the range maybe €2 million to

€3 million in the whole year. And I think we will continue to review the situation every quarter and if it looks like there is higher exposure, we may also evaluate what are the other mechanisms to manage the same.

Mitesh Shah: So on a CY15 basis how much would be the sales of these four companies be?

Anil Rai Gupta: Yes so 9 months was around €22 million.

Mitesh Shah: And when we say €10 million to €12 million, it is EBITDA loss or PAT loss?

Anil Rai Gupta: PAT.

Moderator: Thank you. Next question from the line of Chockalingam Narayanan from Deutsche Bank. Please go ahead.

Chockalingam Narayanan: Your details on you had put out that you would be putting in facilities for small appliances. Could you just elaborate on that? What sort of CAPEX are we looking at?

Anil Rai Gupta: You are talking about the domestic appliances capacity?

Chockalingam Narayanan: Yes, towards the end of December you had put in exchange release?

Anil Rai Gupta: So this is basically now the business for small domestic appliances has increased and hence we will be taking up a couple of ranges which will be manufactured in-house. But this will be done at our existing plant facility so the total CAPEX is close to about Rs. 10 crores.

Chockalingam Narayanan: That is the only thing, there is no other?

Anil Rai Gupta: Yes.

Chockalingam Narayanan: And how much are the proceeds, which has come for 80% stake, sir?

Anil Rai Gupta: See the overall money, which we have received is 138 million in Isle of Man, which is because they have disposed off 80% in Malta and 10 million we have received in Havells India on the sale of 80% stake in Havells Exim Limited, Hong Kong.

Chockalingam Narayanan: In terms of crores if you can just?

Anil Rai Gupta: You see this €138 million is the gross consideration; only there are some customary deposits, which we have to keep for six months in a transaction and then we have also retained around €18 million to manage our operations in four countries. So exact amount in India which we have received is around Rs. 875 crores.

Chockalingam Narayanan: And this profit is without indexation that you have mentioned? so what will that be with indexation?

Anil Rai Gupta: You see indexation is basically the tax indexation. If we do that obviously actually the cost will be higher because it is a 8 to 9 year investment. So I do not think indexation has any relevance in terms of the accounting and the EPS and all.

Chockalingam Narayanan: So there is no tax outgo per se that you foresee?

Anil Rai Gupta: I think that is something we are still evaluating but that is something we will not like to discuss on the call.

Chockalingam Narayanan: And last question sir, on the employee cost and overheads that are up almost 20% and 22% if you can just help us understand this?

Anil Rai Gupta: You are talking about the domestic business?

Chockalingam Narayanan: Yes domestic business how should we see this?

Anil Rai Gupta: That is the actual number.

Chockalingam Narayanan: No, but is this the employees which is it more salary hikes or is it higher work employee additions or?

Anil Rai Gupta: So both, it is a combination of both. I believe, as a good company, we are investing for growth in the future. I think we have done that in the past also, that whenever times have been tough in terms of growth we have continued to expand in enhancement of distribution as well as brand spends. So in the last couple of years we have seen that the growth might have slowed down because of macro-economic conditions we have continued to invest in both distribution and the brand. So our investment in brand has also not reduced, in fact it has increased. So I think this is a fair assumption that it is also because of the salary hikes as well as the expansion of manpower.

Chockalingam Narayanan: So we should presume that this will kind of continue?

Anil Rai Gupta: Yes.

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

Vikash Mantri: On the lighting side, we have seen some improvement in contribution margins sequentially. Can you help us post the transition from CFL to LED when more of our business is LED what should be the level of contribution margins we should estimate?

Anil Rai Gupta: Well we will continue to strive to achieve similar margins somewhere around 25% or so. See our LED business is quite dynamic right now and it is very difficult to predict whether there will be a major increase in this contribution margin or not. But I think as I have already said that primarily we are a brand and distribution will play and hence we would at least like to maintain these margins.

Vikash Mantri: See compared to CFL, are not LED margins more?

Anil Rai Gupta: Difficult to again say because some of the product categories it might be higher especially the lighting fixtures category but lesser in the lamps category. So it is difficult to generalize at the moment.

Vikash Mantri: On the consumer durable segment, now clearly we have some benefit of a different base in the festival season where last time Diwali was earlier. So if you were to do a like-to-like festival-to-festival comparison, can you help us with the growth because that would be?

Anil Rai Gupta: I think the best way to look at it is the 9-months growth because you are right because last year quarter demand met in the second quarter demand might have been better but I think 9 months growth would give you a better feel, which is 12% till now.

Vikash Mantri: So when you say that we are seeing better traction from the ground and acceleration, that 12% is moving upwards trajectory?

Anil Rai Gupta: That is right.

Vikash Mantri: Okay sir, last final question. Given the cash flows from Sylvania and the high cash now in books, what do we plan to do with, is a special dividend likely?

Anil Rai Gupta: Well again at this moment it is too early to comment upon that. We have not decided on a special dividend because we feel that the company can look at more opportunities for growth in the coming times. Definitely for the next couple of years at least there will be a lot of focus in the domestic market expansion, both organic and inorganic. So I would say that we would also want to be utilizing this cash over a period of time for better utilization, better returns in capital, but at this moment we have not contemplated any special dividend.

Moderator: Thank you. The next question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: Just wanted to dwell deeper into the LED segment. The Government is planning to distribute 70 crores pieces of LEDs over the next three years and it is a pretty sizable number and a lot of our peers and competitors are participating in this. What is our strategy in this, will we participate in the EESL orders? And also that the prices have been coming off considerably. Will it have any domino effect on the margins in the segment itself?

Anil Rai Gupta: Well I think it is one question but it is a very long answer. So prices are coming down but the costs are also coming down. But sometimes when such large quantities come and specially from the Government sometimes the prices go down faster than the cost coming down. And hence as a responsible company for the investors and the shareholders we would continue to look at the right margins and not run just after volumes. So we are participating in those tenders and these tenders are very transparent and the L1 gets these orders and so sometimes it becomes difficult to get these orders at very low prices. So as I said we look at specific margins and yes, once those orders are taken and once such volumes come in the overall cost of the product comes down and hence we are able to maintain our margins in the marketplace also. Having said that, we are participating in ESL tenders there are certain other products not just lamp products that you are talking about the 70 crores lamps that you are talking about.

So there are other categories like the street light for example. We have participated and we will be getting a 70 crores order in street light installations in LED. So like where we get a decent margin, I would not say as I said, it will not be the same as the market but we will be participating in these tenders. And that also is going to be huge volumes in the coming years. So we are doing this market in a very focused manner but also want to maintain a decent margin in this business.

Ravi Swaminathan: And sir, in our electrical consumer goods, we have seen good growth 23% and in the information update you had mentioned that it has been across all products. How that will be in fans and how it would have been in the other segments? Fans would be a sizable portion of this, right?

Anil Rai Gupta: Of the ECDs?

Ravi Swaminathan: Yes.

Anil Rai Gupta: Yes, fans is a sizable part.

Ravi Swaminathan: And the growth in that vis-à-vis the growth?

Anil Rai Gupta: So we have never given separate growth within the divisions.

Ravi Swaminathan: Okay but the growth would have been broad based is what we can assume?

Anil Rai Gupta: That is right.

Ravi Swaminathan: Okay and in the first two segments cables have grown, volume wise it would have grown at 9% and switchgears also at 7%. This is during a period when the housing market itself has been quite weak. We would have gained market share in this or that category might have grown in spite of housing market would have been weak?

Anil Rai Gupta: I think both these categories might have expanded but we also definitely have a feeling that we are gaining market share because of continued focus on the brand distribution.

Ravi Swaminathan: Okay distribution wise, how it would have been last year vis-à-vis this year, can you give a sense on this end points, end customer points?

Anil Rai Gupta: So we already are catering to about 6,000 distributors all across India.

Ravi Swaminathan: Okay vis-à-vis last year what would have been the numbers?

Anil Rai Gupta: Active distribution base would have been around 4,800.

Moderator: Thank you. Next question from the line of Mayur Patel from DSP Blackrock.

Mayur Patel: Sir, just want to understand you mentioned that 23% growth in consumer durable one should not look at more 9 months' data, which is more like a 12% right?

Anil Rai Gupta: Yes.

Mayur Patel: So going forward more on organic or a steady state, how are you finding, is there any change say three months back whatever we were looking at say consumer durables, lighting, cables and switchgears. If you can just give one-one line your thoughts, how has it changed three months back and now how are you looking at the market? Is there any change or is it same?

Anil Rai Gupta: First of all I do not see that there is a lot of positive change which should have been there till now. But as we mentioned three months ago, there is definitely some improvement over the first half of the year. And that is what we had started witnessing at the start of the third quarter, which actually has shown in numbers as well. So hopefully we still see that there is far more potential in the domestic market and hopefully this should get better from here. But it will take some more time so how fast it can grow and when it will grow it is difficult to say. But we are definitely seeing a positive trend right now.

Mayur Patel: Okay and secondly on the distribution side like we have been making a lot of changes in the way we have planned our distribution across India. So can you just want to give us an update or how is it going progressing well, how is it being received by the large distributors anything on that front would you like to share?

Anil Rai Gupta: Well, I think the whole idea was that we continue to focus not only on the large distributors but also on the smaller distributors so that we continue to expand in small as well. I think given the kind of policy changes that we had made, it was a win-win for all kinds of distributors. Only thing is that it has to be properly communicated and it takes some time to be absorbed by the entire distribution channel.

Mayur Patel: So how is it progressing just wanted to check?

Anil Rai Gupta: I think that it is a very positive move from all points of view whether they are big distributors or small distributors, it is a very positive movement.

Mayur Patel: Lastly if you can allow me. Keeping aside the royalty benefit, which will say next year onwards we will not be having that impact otherwise the core margins how do you see would you think that the current levels are sustainable or it would expand or what is your thought on that?

Anil Rai Gupta: I think we are looking at in each business we are looking at maintaining current margins. This is what we assume. Obviously there will be more efficiencies coming out of either higher volumes or manufacturing efficiencies but we will continue to believe that we will be able to sustain these margins definitely.

Mayur Patel: And on the ad spend on an annualized basis, can you give us some guidance on that going forward?

Anil Rai Gupta: We have always maintained that we will continue to be in the range of about 3.5% to 4%.

Mayur Patel: So this quarter was slightly higher right?

Anil Rai Gupta: Yes but again as I said, we have to look at the overall.

Moderator: Thank you. The next question is from the line of Leroy Dsouza from Cogencis. Please go ahead.

Leroy Dsouza: I just wanted to know about your CAPEX for 2017, is there any plans for the CAPEX right now?

Anil Rai Gupta: I think we will come back by the end of the quarter. On this number we will come back sometime later.

Moderator: Thank you. The next question is from the line of Atul Tiwari from Citi Group. Please go ahead.

Atul Tiwari: My question is on the revenue growth outlook. I mean if you could share your thoughts about how do you see the demand environment panning out across all the segments and should we continue to expect this like 11%, 12% plus kind of revenue growth in India business say over next one year?

Anil Rai Gupta: See it is very difficult to say. All I can say is I can generalize to say that things have looked up better in the second half and we have seen low macro-economic activity in last two or three years. So I do not see any reason why it should go down from here, so we should continue to look at the markets positively from here.

Atul Tiwari: And sir, if I may just put one more question. So this things looking better in second half I mean could a part of it be because of the low base of last year that the company had or is it actually like sequential improvement in demand in third quarter versus second quarter or first quarter?

Anil Rai Gupta: Combination of both. Generally speaking, yes. First of all, last year's second half was actually low but we have also seen that normally our third quarter is lower than second quarter. This time it is at par. So it definitely shows that the conditions are slightly improving.

Atul Tiwari: My last one is on this cash that you have received of about Rs. 875 crore. I know that you have not decided on whether you will payout it as a dividend or anything else but should we expect the similar run rate of interest income on this cash I mean if I look at your financials you roughly are making about 9% on your cash balance. So the same 8.5%, 9% should apply to this also in case you do not pay it out as dividend?

Anil Rai Gupta: I think first of all the dividend policy we would like to maintain at about 40% to 50% what we have been the payout ratio which we have been maintaining. So I do not think we are going to decide on a special dividend very soon. And overall the interest regime has softened a bit and hence what we were seeing 9.5%, 9% or so will be definitely lower given the fact that we will be still conservative on putting it into short term instruments so that we can utilize it any time we want. So it will not be generating the same kind of return.

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

Achal Lohade: Just wanted to check if I look at the gross margin, I think it is at a record level 24.8% for the quarter. I wanted to understand is it sustainable going forward or was there any slight one off out there in this particular quarter, sir?

Anil Rai Gupta: So Achal, I do not think there is any one off so I can confirm that. The only thing is that whether it is sustainable as a whole or not it depends upon that particular quarter's growth in particular division. So as you can see if you break it down the contribution levels are different in different businesses. Cables and wires is much lower compared to switchgear so it depends upon the particular division. Plus also may be it is also some part of it is also because of the lower commodity prices. But we would like to at least business-by-business we would like to maintain similar margins may be you can say as the cable and wires are peaked out a little bit may be they might sustain or come down a little bit lower depending upon the environment. But I think we would like to maintain, so there is no one off in these.

Achal Lohade: Sir, second question is you have talked about usage of the cash. If you could give some color as to how are you looking at it, do you think you would be looking at more of different products inclusion or more of distribution or particular region specific acquisitions?

Anil Rai Gupta: So as a policy, our acquisitions are driven by either product, geography or brand. So these three things will continue to guide us in the future as well.

Achal Lohade: Just last one. Is there any timeline you have in mind in terms of acquisitions, could one look at something happening in next couple of quarters or something like that, sir?

Anil Rai Gupta: Difficult to say at this moment because we will continue to look at opportunities nothing has held us back because when Havells was a strong balance sheet even in the past few years, nothing had held us back and it will not give us further impetus to buy more because we have more cash. So I think overall I would say we will continue to remain prudent about our acquisition policy.

Moderator: Thank you. Next question from the line of Charanjit Singh from B&K Securities. Please go ahead.

Charanjit Singh: In the press release you have mentioned about expanding more into the Tier II and Tier III cities and if you could highlight what is the kind of penetration in our channel base we have in these regions right now and where we intend to take it forward?

Anil Rai Gupta: I think what we can do is we can be a bit more prepared on this answer may be in the next call sometime because right now what I will be speaking is more general in terms of what we have said in the press release. But if you want more specific numbers we can be more prepared in the next call.

Charanjit Singh: And also on the exports front we saw a significant dip partially also due to the currency and see we are now trying to look at newer geographies as growth area. So which are these regions and which product segments which we will be targeting for these export markets?

Anil Rai Gupta: I think in general we will look at for instance strengthening in our existing market like we believe there is a good potential may be in this Sri Lanka, in Bangladesh and also Asia Pac which we have not been targeting. I think one thing you have to also appreciate now with Sylvania our global strategy was different. Now that Sylvania is no longer part of the portfolio, I think we will evaluate this entire export strategy once again. So there will be a lot more market which may open up but having said that these things will take time to germinate and start bearing fruit. But yes, the overall objective is to strengthen the entire export portfolio and I would say Asia Pac and SAARC apart from Africa I think will be the key focus.

Charanjit Singh: And sir, the last question. In the beginning of the call we talked about market share gains. If you could just help us identify the categories or segments where we saw these market share gains and what could have been the major drivers for this gain for us?

Anil Rai Gupta: First of all I think we cannot share any market share numbers because we have not done any research on these particular things. But I think this is more of a general feel that we get specifically talking to the trade as well as some competition and we feel that our growth has been faster. So obviously it has to do with our continued investment in brand distribution and the way in the go to market strategy that we have been following over the last couple of years.

Moderator: Thank you. Next question from the line of Ashish Jain from Morgan Stanley. Please go ahead.

Ashish Jain: Sir, firstly this Rs. 875 crores number that you said this includes the €10 million received by Havells India directly or that is excluding that?

Anil Rai Gupta: No, it is part of the Rs. 875 crores.

Ashish Jain: So the balance Rs. 200 crores by when do we see coming in?

Management: Which Rs. 200 crores?

Management: Is it that €18 million as I told you we have retained in Isle of Man because that maybe the exposure we may have in these four countries going forward. So what we have told you is the net amount which we received in India because that is what is the question. Probably amount received is higher but amount repatriated to India is Rs. 875 crores including EXIM.

Ashish Jain: And sir, can you give a sense of the losses that were booked in Chile during 2015?

Anil Rai Gupta: Actually specifically Chile I do not have. I have told you that in these four countries the exposure may be to the tune of €10 million to €12 million last year.

Ashish Jain: And sir, then this ECD in the consumer durable business growth that you have reported the strong growth, does it include the impact of channel inventory that we might have built for air coolers in particular this time because it is a new category?

Management: Yes, I think we do not have any channel inventory issues. I think Ashish you know as well. That is not the business we are in, so we do not do these things. And in any case, there will be some because you see seasonal team is doing but that is very insignificant. So I think we do not it is a very small business for us. It cannot really remove the needle for channel stuffing.

Ashish Jain: And just lastly, this Rs. 40 crores that we will discontinue paying to QRG from next year, is it safe to assume that that will be retained into our margins or given our focus on growth and distribution and all some part of it that could be used for higher advertising expenditure?

Anil Rai Gupta: No, I do not think our advertising policy or our spending policy will change because of this. So that will continue to maintain in the same manner. If there is more requirement for any particular investment that would have been done anyway. So this would not have been done only because of the fact that this royalty outgo will stop next year.

Ashish Jain: Because this could add roughly 50 bps to 60 bps to your margins going by the current revenue trend?

Rajiv Goel: Right yes, I think we will be driven by the need of the business. One because extra exuberant or if I use the word, so I know I think as Anil rightly said I think we will be driven by the need of the business whether this comes this is something which is there for us as a business and we will evaluate the needs of the business. This is not going to make any difference on what we are going to spend.

Ashish Jain: Rajiv, I understand that. So my question is basically is it safe to assume at least standing today that this will translate into better margins to that extent assuming everything else is status quo?

Rajiv Goel: Nothing is status quo in business. There are lot of changes which will happen in the future more digital marketing will happen, more investments in to Shop 'n' Shop. So nothing is static, this Rs. 40 crores is definitely in addition to what we had been achieving till now.

Moderator: Thank you. Next question is from the line of Pulkit Patni from Goldman Sachs. Please go ahead.

Pulkit Patni: First question was related to this Sylvania stake sale. So if you could just refresh on the balance 20% how does the transaction take place? When do you exit that in terms of consideration thereon?

Rajiv Goel: So we have this you see we have a put option after 18 months for 50% of the share and 13 months for the balance stake. So let us say we have a period between 18 to 13 months in which we can put the entire stake. And only if we wish to continue we can always continue after that, that is a decision, which the Board will have to take when the occasion arises. As far as the value is concerned I think it is better a fair market. Having said that we have a floor of the consideration we have received today plus 9% higher on the same in Euro terms.

Pulkit Patni: And in terms of our balance 20%, that does not reflect in the financials we have because it was a standalone, but how would you share those numbers on a frequent basis about the performance of those for the next say 13 months?

Rajiv Goel: I think it will be considered minority interest and I think it will be treated accordingly. So frankly I do not have the exact way how it works in accounting but it will no longer be consolidated because we hold just 20% in the same.

Pulkit Patni: So basically especially in this press release which you do separately the information update, there it will not be discussed separately the performance?

Rajiv Goel: No.

Pulkit Patni: And just lastly, if you could just repeat those numbers. You said €22 million of sales for the first nine months from those entities and cumulative loss of about €2 million to €3 million over that period?

Rajiv Goel: No, I think you are mixing up the numbers. So what we said that was for the last year. So let us say the overall year we may have done €26 million, €27 million do not hold me on to the exact number on the sales. And we have lost close to €10 million to €12 million PAT in the last year, which is CY15. What we are saying is that we have already closed down Chile, we are running down USA. We believe we will not have any incremental exposure from these two countries out of four. Now the balance is the other two countries where we have the option to sell it back provided these companies are profitable and that is the reason we are evaluating these countries on an ongoing basis.

We believe we can make them profitable during this year and there have been significant steps, which have been taken. If we believe at some time it will not be possible we believe the exposure could be to the tune of €18 million because of liabilities and the bank loans there. And which we have already kept the cash in Malta and also made a provision into the Malta entity into the Isle of Man entity for the same.

Moderator: Thank you. Next question from the line of Pankaj Bobade from Axis Securities. Please go ahead.

Pankaj Bobade: As I understand, LED is going to be a big business opportunity for us. As a company, I just wanted to understand where do we lie on the cost curve of LED manufacturing and as China being the potential dumping country, does China have the potential to disrupt Indian LED market by dumping LEDs manufactured there?

Anil Rai Gupta: If this would have been possible it would have been done till now. China I think is the largest manufacturer of LED, it has not happened till now. I think it is very difficult to say where we are on the cost curve. Right now we do not even know the curve, LED prices are dropping day-by-day and that is a benefit to both the manufacturer as well as the consumer. So I think over last couple of days the way the prices of LED has come down, that has all been passed on to the consumer. Neither has it increased the profitability for companies, nor has it reduced the profitability for companies.

I think the other caveat I would say is that whilst the demand for LEDs is increasing at a very fast pace, I think we should also be mindful of this fact that during this time a lot of new players also start coming in, a lot of fly-by-night operators and a lot of demand is actually generated through government tenders also. And EESL tenders, government tenders. In this yes, certain branded players will be there but there are lot of new fly-by-night operators will also be there.

And so I would say that you should not get overexcited by this huge opportunity in the LED portfolio. Our focus in lighting would continue to remain to service the customer, residential customers, industrial customers as well as commercial customers to give them the right lighting solutions. And now in future mostly it will be with LED. And if we find opportunities in the government business with decent margins we will play within that also.

Moderator: Thank you. Next question is from the line of Gunjan Prithyani from JP Morgan. Please go ahead.

Gunjan Prithyani: Most of my questions have been answered. I just had two follow-ups. Firstly, on the export. So of the Rs. 2 billion exports in the first nine months, how much was to Sylvania? And with Sylvania divestment now done, I mean what will be the exports then ex-Sylvania? I mean do the exports continue to Sylvania after the divestment as well?

Rajiv Goel: So these export to Sylvania is close to Rs. 58 crores out of this Rs. 200 crores. On your other question, I think even the brand we were owning the business it was fairly on a competitive basis. And there was no nomination in the same. So I think if we continue to be competitive for them we see no reason why this business will go with. So I think we will fight out for the business as we will do for any other customers.

Gunjan Prithyani: And the other question was on your working capital. So there has been a significant increase in the creditor days. What is that attributable to especially the trade payable number has increased quite a lot?

Rajiv Goel: There is nothing sort of significant in that. It can happen in quarter-to-quarter sometime in the last day things happen. So I do not think we need to read too much into it. This is something in a normal course of business. There is nothing extraordinary in this.

Gunjan Prithyani: And my last question is basically on the cables business and the lighting business. Can we get the break-up of how much of the business is domestic and industrial and lighting also how much would government be right now?

Rajiv Goel: There is no government in lighting business per se, so this is the same customer set which we continue to have. And I think we have already given this domestic cable and the industrial cable. So you could argue that industrial cable is largely for industry and the domestic cable is largely for commercial; in general I am talking.

Gunjan Prithyani: So mix will be what 50-50 both of these?

Rajiv Goel: Sort of, yes.

Gunjan Prithyani: And in lighting between professional and domestic what will be the mix right now?

Anil Rai Gupta: Professional would be close to about 30%.

Moderator: Thank you. Next question from the line of Prashant Kutty from Emkay Global. Please go ahead.

Prashant Kutty: Just one question over here with regard to the electrical consumer durable segment. If not at least quantitatively, could you at least give us qualitatively how has been the performance of these segments?

Anil Rai Gupta: Well, I think overall all three segments has shown good growth fans, water heaters has done very well this year and even domestic appliances is now coming under growth category. So I think all the three segments are showing decent growth.

Prashant Kutty: Is there also a case of any new product addition or any extension, which has been in this quarter, which has also led this growth in this particular quarter?

Anil Rai Gupta: I would say I think two businesses, which are fairly new, which is domestic pumps as well as standard fan. So these two businesses will have faster growth than the traditional businesses, but then those are still very small in number.

Prashant Kutty: And sir, also with regard to you are talking about improvement in the consumer confidence, you have highlighted about it. But I guess till the last quarter you were speaking about more of industrial green shoots and probably retail being still lukewarm. Is it also a function that this quarter was the festive quarter as to why we are seeing this positive surge and maybe how that trend would be in a December or maybe even in a January for that matter?

Anil Rai Gupta: I think partly I can say that it is because of the festive demand as well. But that again is more in our other businesses like lighting, even within that only the domestic appliances cater to that. But we are definitely looking at comparison over the last year, same quarter. So if we look at the fans business, it is over a similar season, or water heaters business is over a similar season. The only business that we can say is affected is the lighting business or the small domestic appliances.

Prashant Kutty: And sir, lastly on the gross margin side of it. There is reference to somebody's earlier question as well, our gross margin is almost at lifetime high. Obviously if I look at it, we are looking at still just growth rates improving and with efficiencies playing out and assuming that the commodity cycle stays where it is, are we not looking at a much better EBITDA margin profile as compared to what it is currently at? Because even at a relatively lower top line growth we are standing at almost about a 13.5% kind of an EBITDA margin. So correct me if I am going wrong anywhere over here?

Anil Rai Gupta: I think any faster revenue growth would definitely expand the margin but as I said we are also in the investment mode continuously. So some assumption of 13.5% to 14% would be the right assumption.

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

Ruchi Vora: My first question is on the cash that you received which is the Rs. 875 crores. Do you anticipate any one-off costs in Q4 beyond what you have retained in the overseas subsidiary?

Rajiv Goel: Actually Ruchi, the question is not clear, can you just? You are saying any extra cost in Q4?

Ruchi Vora: Yes, so Rs. 875 crores is what we have received or what we have kind of repatriated to India. Any costs that you envisage to kind of incur in Q4? Any one-offs that you believe can happen when we are downsizing the USA business or maybe in your other subsidiaries which you have retained?

Rajiv Goel: No, I think we have already as I had mentioned that definitely we retained around €18 million in our overseas entity and we expect that that should be sufficient to take care of any issues at this. So I think we have been fairly conservative in estimating these things and hopefully that should cover up. So we do not see any one off appearing in the Q4.

Ruchi Vora: And my next question is on the use of this for any inorganic growth, are you open to kind of buying any business in the international market or you are more focused on the domestic opportunity? I mean what are your thinking in terms of the deploying of that cash?

Rajiv Goel: No, the focus will be domestic markets one can never rule out what would happen but the priority will be domestic segment.

Ruchi Vora: And most of my questions have been answered but just last bit from the management. Any thoughts on next year, what is the kind of topline growth that you are looking at? I know it is too early and things are uncertain, but some kind of a guidance which you have kind of given historically would be helpful?

Rajiv Goel: I think it will be too early and it is certain. I think so you have already answered the question.

Ruchi Vora: But any number that you have?

Rajiv Goel: No, I think difficult Ruchi and I think let us hold our horses for another quarter and see. You know how tricky the economy is.

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

Arnab Mitra: Just one question on the export side. So this decline in exports that you saw in switchgears as well as lights, do you think it is going to get resolved soon or we will see this headwind from the export side for the next few quarters on those segments?

Rajiv Goel: I think we are already trying to recover the same. Having said that you know the situation in African countries, which is particularly the currency and I think it is not a question of currency the question of availability of the same. So I think these challenges headwinds would be there. I think it is a question of how well we can navigate through them. So our intention will be to regain it as soon as possible and but yes, you should expect some softening on the export front.

Arnab Mitra: And on the industrial cable segment where your growth in volumes has been very strong so most other companies which play on the industrial CAPEX cycle are still not seeing a major pickup. So are you seeing a general buoyancy in that market or is it something you have done because of which your growth is faster in that segment?

Rajiv Goel: It is difficult to say. As we said we believe we are gaining market share and maybe I think there are certain efforts we are doing there bearing fruits. But I think difficult to really pinpoint a specific action or a plan on the same.

Arnab Mitra: And just one last question on e-commerce. On your consumer durables business specifically, are you seeing some reasonable amount of sales coming from the e-commerce channels and has there been any disruption from smaller brands because of that channel being available now?

Anil Rai Gupta: No, not yet at the present moment. We are not seeing much disruption as well as not much traction on e-commerce sales for us. As we have already said that we do not believe in discounting prices for new channels hence our share also right now will work.

Arnab Mitra: And you have not seen any channel conflict within your system because some of the other companies have seen that issue that their own dealers have gone and discounted? So that you have not seen any major issue on that front?

Anil Rai Gupta: Exactly that is the reason that we are not seeing much traction because we are not promoting any discounting on newer channels.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions I now hand the conference over to Mr. Bhargav Buddhadev for closing comments. Thank you and over to you, sir.

Bhargav Buddhadev: We want to thank the management once again for allowing Ambit to host this conference call. Sir, would you have any closing remarks to be made?

Anil Rai Gupta: No, thank you so much Buddhadev. Thank you for having us.

Bhargav Buddhadev: Thank you very much and all the best.

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