



“Havells India Limited Q3 FY 2017 Earnings Results  
Conference Call”

January 18, 2017



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*Havells India Limited  
January 18, 2017*

- Moderator:** Ladies and gentlemen good day and welcome to the Havells India Q3 FY2017 Earnings Conference Call hosted by Edelweiss Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘\*’ then ‘0’ on your touchtone telephone. Please note this conference is being recorded. I would like to now hand the conference over to Mr. Amit Mahawar from Edelweiss Securities Limited. Thank you and over to you Sir!
- Amit Mahawar:** Good morning everyone, on behalf of Edelweiss I welcome you all to Havells India’s Quarter Three Fiscal 2017 Results Conference Call. We have with us today the management represented by Mr. Anil Rai Gupta – Chairman and Managing Director, Mr. Rajesh Gupta – Director (Finance) & Group CFO and Mr. Rajiv Goel – Executive President. Without Further delay I now hand over the call to the management for opening remark post, which floor will be open for Q&A session. Thank you and over to you Sir!
- Anil Rai Gupta:** Thank you Amit. Good morning everyone. It has been a very interesting quarter. We have already circulated the investor communication, which would have been reviewed by ourselves. I would provide a short overview on the last quarter performance before we proceeds onto the Q&A.
- As far as the performance is concerned we are quite satisfied with our quarterly performance amidst an uncertain and unpredictable demand environment. We have already shared the steps taken by the Company to actively outreach and communicate with the dealers to explain the demonetization impact.
- The relaxation in our policies and schemes was also an output of the feedback in the ground through our sales teams and leaders. We believe that it was an appropriate response to the event and has generated a significant goodwill for Havells and strengthened its relationships with the dealers. It also rejuvenated our sales team to doing their predictions around them and focused on reaching out to their customers. We secured a first mover initiative providing a potential market share gain as well. We continue to remain quite positive on business outlook albeit with short-term disruptions, but we are hopeful that things will come back to very quickly to normal situation. We can now have the Q&A.
- Moderator:** Thank you. Ladies and gentlemen we will now begin with the question and answer session. We will take the first question from the line of Aditya Bhartia from Investec. Please go ahead.
- Aditya Bhartia:** Good morning Sir. Sir it appears that Havells have gained market share in Q3. I just want to understand whether these market share gains have been mainly from unorganized sector or have we grown at a pace faster than the other organized players as well?
- Anil Rai Gupta:** Well I think the longer-term impact would be that we would definitely be getting market share from the unorganized sector as you guys can very well understand there was stocks already in the



*Havells India Limited  
January 18, 2017*

market place whether it is at the manufacturers end or the dealers end for the unorganized sector as well. So it is very difficult to say that the sales would have immediately come down but we believe that over a period of time with this demonetization impact and with the GST coming in there will be a shift from the unorganized sector to the organized sector. We believe that with the kind of information that we are receiving from the sales done by other companies also; we believe that we have gained market share not only from the unorganized sector but also from the organized sector in some of the categories.

**Aditya Bhartia:** Sir as far as incentive schemes for dealers are concerned are we seeing a normalization of those schemes in fourth quarter or could be impact of our incentive schemes persist in fourth quarter and may be next couple of quarters happen?

**Anil Rai Gupta:** I think it was a very significant event which happened in November this immediate Notebandi or demonetization what you can say and I think that was a reaction to what the immediate market required and I believe that the normalcy is coming back into the market whether it is in terms of availability of cash or the demand and hence the requirement of such schemes would not be required there may be a soft landing for the dealers because they immediately you cannot trace back everything. So within this quarter most of the things will be taken back to normal level.

**Aditya Bhartia:** Sir my last question is from a slightly longer-term perspective in the lighting business. Currently we are seeing very strong growth on the LED lightning side, but we also understand that replacement cycles for LED would be much longer. Do you think that we have sufficient headroom to go for the next couple of years or is they risk at saturation levels in India for LED lighting will become high and consequently growth will start to take care off?

**Anil Rai Gupta:** See strategically in the lighting business we are focusing more on the fixtures business, which is not a replacement business. It is more of a new build business as well. So the new constructions coming in there will be some replacement of the old fixtures to new fixtures, but generally speaking it is larger sales is for the new build. So and our dependence on the lamp business is extremely low so CFLs has come down or LED lamp business is not a big part of the overall percentage of the lighting sales. So we believe that we do not see much of a risk on the growth trajectory for the next two years.

**Aditya Bhartia:** Thanks a lot Sir.

**Moderator:** Thank you. We will take the next question from the line of Venugopal Garre from Bernstein. Please go ahead.

**Venugopal Garre:** Thanks for the opportunity. Sir firstly, I wanted to understand if you could just explain to us a bit on what were these demonetization initiatives that you took, what these across segments or was it is specifically directed at with the durable side?

**Anil Rai Gupta:** This was generally not product oriented; this is more dealer oriented and I think given the fact that just post demonetization there was a lot of confusion amongst the dealers, regarding what will be the demand scenario as well as what will be the payment scenario and we had various meeting with the dealers and understood what the ground realities and what the ground problems we are facing and immediately there was dryness of cash in the system and so we did a few things. I think one was the availability of cash to the dealers as working capital was released from the QRG growth fund that we already have for the dealers. Secondly, we understood that because of certain delays in payments they would have lost out in cash discounts or interests and we compensated a bit for that as well. Thirdly, we also the fear in their mind was that November, December sales may go down and hence it will overall impact their margins because they will not be able to achieve their quarterly targets or annual targets and hence we gave them a way to do sales as the demand progresses but also treat their sales as a booster of 50% so that they do not lose out on achieving their targets. So basically it was more to understand, it was not really reduction in the price to the consumer or anything, it was just to alleviate the concerns that the dealers had and I think they were taken very positively and in fact to the extent that they were feeling skeptical about achieving their targets, but most of them achieved the targets even without the booster. So it was actually turned out to be a much better thing, but it was more of a mental soothing for the dealers than any price reduction in the market.

**Venugopal Garre:** Thank you Sir. Sir my second question is more to do with the sort of commentary even earlier with respect to use of cash and you would look for potential acquisitions etc., so off late in the news there seems to be some specific names we mentioned or probably not mention them on the call, but I just wanted to understand are we close to taking a call on which product category is or which company that you would like to sort of acquire so if that a plan for this year?

**Anil Rai Gupta:** I think we have always maintained that we continue to engage to look at acquisition opportunities for which strategically fit into our brand and channel strategy. So that continues as a process and I would not like to comment on any market speculation here, but it is the process which continues and if there is anything we will definitely inform the markets in the due course of time.

**Venugopal Garre:** Thank you so much.

**Moderator:** Thank you. We will take the next question from the line of Gaurav Sanghvi from Bajaj Allianz. Please go ahead.

**Gaurav Sanghvi:** Good morning Sir. Sir I just would like to understand, because of the demonetization and incentive you have given to dealers and copper price moving up so there is what we believe is there could be some stocking happening at the dealers level; however in November the off-take from the dealers level were muted so in that backup you see demand coming back to normal level at the dealer or you think this restocking might have impact in probably coming quarter even the GST is also to be there from probably Q1 next year. So because of the tax uncertainly dealer might not like to have a fairly higher inventory?

**Anil Rai Gupta:** I think there are few parts to your question one is the commodity increase and yes whenever there is commodity increase especially in cables and wires there is a general tendency of the dealers to stock more materials, but that happens for a very short-term so if it happened in November the major impact came in November there was an overstocking by the dealers, but it takes care of itself in the market place in the next 15 to 20 days. So sitting in January I do not see that because of commodity price increase there has been a higher stock level at the trade level. So we can say that we are at the normal level. If we go by the impact of the schemes for demonetization on the stock levels we are keeping a close tab of this stock levels in a market place and we understand that they are at the normal levels and have not increased during the month of November, December so we do not see that as an impact coming in the fourth quarter as well. The GST date announced is 1st of July now and not 1st of April, so we do not see an impact coming through the demand from the dealer side on reducing stocks just before GST coming because of the ambiguity on the tax rate the GST rates so that might not happen in the fourth quarter, if it is there anything it might happen in the first quarter, but hopefully by then we might have more clarity on the GST rates as well.

**Gaurav Sanghavi:** Sir second question is on the gross margin obviously the contribution of the cables and wire has moved up, so there is some impact on the gross margin; however you see this quarter gross margin was slightly lower because of the demonetization schemes and as you withdraw the schemes I think the gross margin will come back to the normal level you think there would be some impact because of this continuation of the schemes?

**Anil Rai Gupta:** As I have already said there will be a little bit of a soft landing during this quarter so might be have a little bit of impact in this quarter as well but most of it will be taken away and things should come back to normal levels of gross margins it is not entirely in this quarter but at least for next quarter.

**Gaurav Sanghavi:** Thank you.

**Moderator:** Thank you. We will take the next question from the line of Prashant Kutty from Sundaram Mutual Fund. Please go ahead.

**Prashant Kutty:** Thank you for the opportunity Sir. Just one thing is you were just speaking about the fixtures business in the lighting side of it and the focus is more on the new build kind of segment. Now if we look at our switchgear business or the cables and wires business and to an extent even in the fixtures business the large part of it is obviously more new home driven and the backdrop of the overall real estate demand probably not expected to pickup at least for next few quarters. How do you really see the segments really to be doing going forward?

**Anil Rai Gupta:** First of all, I think, the kind of impact, which was felt that there will be on real estate in the medium-term and long-term also the real estate demand may remain muted. As a Company we feel that it may not remain like that for a long period of time first of all there is a lot of focus on low cost housing by the government, interest rates are coming down and anyway residential demand was not so much dependent upon cash in the market place. So I think overall it might not affect that



*Havells India Limited  
January 18, 2017*

much as initially it was thought. The lighting fixtures when I said there is a lot of new builds associated with that, but still a lot of commercial institutions, investment institutions are going in for relighting or refurbishing their old fixtures as well. So it is a mix of both and hence we believe that the lighting demand will continue to remain quite positive in the coming years and it also because in many areas even in homes as well as the commercial institutions, factories also industrial insulation, there is a general increase in lumen requirement, lumen output requirements, so overall if you see per square feet lumen output will also be increasing so the market will be growing faster than the normal real estate market growth.

**Prashant Kuttu:** Sir just an addition to the extent, if you look at the LED growth rate as well somewhere obviously from where it used to be probably growing at obviously the base is also caught up a lot of incrementally do we see the growth rates to be probably coming up quite significantly I guess this quarter we will see about a 30% kind of a growth rate number do we kind of anticipate the growth rates what are we looking at this LED business is concerned as going forward, purely because this become now a pretty large base of your lighting business right now?

**Anil Rai Gupta:** Yes that is true that initially LED was a very small part of the overall base and hence it was growing at a much faster phase. Now with traditional lighting almost coming down to 13% against 26% I last year levels of the overall lighting. So the base of growth will not be the same as what it used to be.

**Prashant Kuttu:** Sir but if it is possible to assume that because since we have got a luminaries growth rate kind of which is there with us gets and would still be a high double digit number a good number to be assuming?

**Anil Rai Gupta:** Yes we would be working towards that and there is still got scope for the company to grow so yes we will be definitely anticipating that.

**Prashant Kuttu:** Last one bit from my end, on the durable side of it if you could just explain us what really drove the growth on that part and incrementally what is our plan of action over there in the durable side of it, also just wanted to understand over here did new products also help us over here and what is the plan of action on the durable side of it?

**Anil Rai Gupta:** Yes I think this year we did very well on the water heater business. Fans has been steadily growing and water heater is because of the setting up our manufacturing facility we could expand the range very quickly so there was a good traction in the water heater business appliances are also growing steadily and the new product additions of in eating the equipment in the winter season as well as the air coolers now which will start kicking in the next year, this would actually be good growing category for us.

**Prashant Kuttu:** But anything specific to call out in this particular quarter like the way you kind of go in the cables and wires because would have also seen that some bit of talking happening in the durable business as well?

**Anil Rai Gupta:** No generally there is a little bit of I talking at the end of December anyway for fans because of the incoming season but that is every year, it is not necessarily nothing to do with this particular year.

**Prashant Kuttu:** Thank you very much sir and all the very best.

**Moderator:** Thank you. We will take the next question from the line of Jay Kakkar from Haitong. Please go ahead.

**Jay Kakkar:** Thanks for taking my question. I have just two questions. One is sir regarding demonetization are you seeing any structural change in the transactions at the dealer level, dealer, retailer in the entire chain are you seeing any structural change in the way transactions happen?

**Anil Rai Gupta:** I think quite positively just started the demonetization there was a lot of unorganized kind of transactions between dealers and retailers, retailers to customers without bills we immediately saw a spurt in those kind of transactions coming to organized way and I think we were one of the companies who were actually encouraging a lot of the trade people to get into this organized factors because we also told them that this is one impact the other impact GST is coming so we saw major shift happening towards that a lot of people were and we supported the fact that people start installing swipe machines in their counters so that the customers to use debit cards and credit cards so there was as structural change in terms of the way people used to sell and counters who had swipe card machines were already installed they reported better sales in their counters as well so I think there was a structural shift. How long it will retain with availability of cash coming in better in to the system it is difficult to say so I think the good thing is the GST is also coming, so we are quite still hopeful that this structural sale will be a habit shift rather in this temporary shift.

**Jay Kakkar:** Sir my second question is on the acquisition comments that you mentioning in a news article you are talking now about also looking at some other emerging markets apart from India. My question is, are you finding that domestic acquisition is a challenge and that is why are you looking at other areas or what is the thought process?

**Anil Rai Gupta:** I think the particular news item that you are talking about there is a little bit of a mix up in the heading. The way we are looking at is the focus right now is India and what we also meant was that we are not looking at necessarily very small acquisitions unless there is a product or a technology acquisition for that like Promptech that we did which brought us into a solar lighting business as well or overseas also if there is any technology, which we want to acquire at for the Indian market at low value but in India when we look at an acquisition which is more brand-oriented, channel-oriented or product category then we do not want to do a very small acquisition. So it was a little bit of mixed up heading where we said that we are looking at large acquisitions in



*Havells India Limited  
January 18, 2017*

emerging markets. Yes we are looking at emerging markets to expand shares through small acquisitions or something, but in India definitely we would look to do something, which will be meaningful and moves the needle significantly.

**Jay Kakkar:** Thank you.

**Moderator:** Thank you. We will take the next question from the line of Fatema Pacha from ICCI Prudential. Please go ahead.

**Fatema Pacha:** We have heard few consumer stable companies talking about how this would impact the profitability of the distributor chain because we all know how some profitability losses because we avoid pay some tax, somehow they are managing and that is how the profitability is what we did. So if they need to maintain that profitability to survive or if they require ROE do you think the distributor commission that the margin will go up as compliance increases?

**Anil Rai Gupta:** First of all can you just repeat the question because there was some disturbance?

**Fatema Pacha:** We have spoken to few consumer stable companies have voice or concern that some distributors will have a significant hidden profitability because they used to do working on to see rupee white or rupee black or whatever is the method and they were managing the ROE despite or no distributor commission because that is how they were working. Do you think that customer distribution cost at the margin will go up for all companies to compensate them for this higher compliance cost?

**Anil Rai Gupta:** No we do not see there has an issue.

**Fatema Pacha:** You do not think because I am assuming that a lot of them must be not showing 100% white right do you know that there has to be a hit to income?

**Anil Rai Gupta:** Yes but that is what exactly we want which brings in more parity in the marketplace in terms of pricing so whatever they were actually managing through unorganized means they were passed it on to the similar kind of consumers who were also buying in cash so we believe that it brings in non-parity amongst the consumers as well as amongst the retailers and this is why we are extremely excited by this whole demonetization as well as the incoming GST that this will bring in a lot of parity amongst the organized consumers as well as organized traders as well as organized manufacturers.

**Fatema Pacha:** Sir what would be these two in post the demonetization December end is January a normal January or how is it like our people coming back to normalcy?

**Anil Rai Gupta:** I think it is too early to say for companies like us we really cannot see a day today kind of an impact customers in the field is so it is too early to say we will have to look for a month or two months trend.





*Havells India Limited  
January 18, 2017*

- Fatema Pacha:** Thanks a lot.
- Moderator:** Thank you. We will take the next question from the line of Arnab Mitra from Credit Suisse. Please go ahead.
- Arnab Mitra:** Thanks for taking the question. Just carrying on with the previous question. Just wanted to get a sense that are you seeing December, January being more difficult than November because if I look at your full quarter growth of 13% that is actually pretty much normal so if you are saying that you are expecting normalcy to come back are you seeing actually the current scenario slightly tougher than what let us say November was in terms of your primary sales at least?
- Anil Rai Gupta:** Well actually November was surprisingly an easier month because we initially thought that November will be very tough but the final results came out to be better and not be expected December we then initially thought that November might be a lot of payments came in to the system so maybe December will be very tough. December actually turnout to be not a bad month and we attributed to being a quarter end as well as many things. So now we are on the 1st of January anticipated January will be very tough so it is a way companies have to think these days it we are living in the era of VUCA and I think for another few months or quarters we should be very close to the ground. So we just want the market situation.
- Arnab Mitra:** Sir any different trend you have seen in your Havells gallery stores because there you directly sell to lot of end consumers?
- Anil Rai Gupta:** No different trend. The only difference was that as I earlier said that initially the dealers or counters, which had swipe machines or use to do a lot of business in cheques they reported better sales and peoples who are not resorting to the packages. Now things are coming back to the similar levels many of them have now installed the swipe machines anyway people are now reporting that smaller purchases have started coming back in with cash, so which is a good thing, it is a good mix today.
- Arnab Mitra:** Just second question on lighting we have seen last three four quarters that total lighting growth coming down from the 20% kind of levels to low single digit now on the other hand margins have gone up from 22% to 28% this quarter actually each quarter it has inched up so how do you explain this kind of a trend separate kind on margin and topline?
- Anil Rai Gupta:** So I think initially the reason for slowing down in the growth rate is significant drop in the CFL category, which is growing down very fast now though it is only 12% to 13% of the overall sales so this should not impact in a big way in the coming quarter as well and the margins if you know in the previous quarters we had said that they had come down to lower level because of the CFLs and the returns in CFL, which we expected it to be coming back to normal levels to 25% to 27%. This particular quarter we saw a higher margin also because of some release of provisions because we had been maintaining high return provisions for CFL but it will come back to normal levels, the normal level should be about 25% or so.



*Havells India Limited  
January 18, 2017*

- Arnab Mitra:** Thanks. That is it from my side.
- Moderator:** Thank you. We will take the next question from the line of Renu Baid from IIFL. Please go ahead. Please go ahead.
- Renu Baid:** Good morning Sir. Sir firstly wanted to understand given that Havells presence is predominantly focused more on the north and the eastern side which are almost two-third of the sales so regionally did you see any divergence with respect to sales trend during this demonetization period of November, December and if you can highlight at least because this is an exceptional quarter so what was the regional impact with respect to sales growth numbers in this extraordinary situation?
- Anil Rai Gupta:** No we have not seen major change. Initially we were expecting north to be lower in sales because of high impact of cash transactions but generally we saw a similar trend across the country and yes there is a higher focus from our side anyway from the weaker markets like the southern market and western market but if you ask specifically about demonetization we did not see any different trends.
- Renu Baid:** Otherwise are we looking at because in the media there has been lot of news that in the southern and the western market you are initiating lot of steps, new variants to scale up presence in these markets, so anything specific that you would want to highlight or with respect to the growth that you would be expecting here new variants and new launches?
- Anil Rai Gupta:** No I think it is not necessarily new products. It is just more focused on those markets with regional focus in terms of dealers schemes and dealers incentives as well as the advertising specifically for those markets so wherein initially we were more focused nationally I think we have been able to gain good market shares in north and east. We would like to replicate that in the weaker markets for Havells.
- Renu Baid:** Any insights on the new product launches like air purifiers, which came into the market last quarter, so what are the growth outlooks? Would you want to market this more aggressively because it is a higher price SKU in your category?
- Anil Rai Gupta:** We see air purifier is a very small category and a small part of our overall domestic appliances business portfolio and since we are not manufacturing this product category also we do not really focus on this as much and it is very regional and very seasonal, so we see this as a very small category at the moment.
- Renu Baid:** Sure and my last question Sir we did mention that if the market shares gains from organized as well as unorganized market in the last quarter. What is your view how much of this gain would be sustainable in the subsequent quarters or you think the competition would get back and market shares would normalize?



*Havells India Limited  
January 18, 2017*

- Anil Rai Gupta:** So I think the organized competition would always have the opportunity to also get back the market shares or maybe it is very difficult to actually even pinpoint how much market shares we have gained or anybody has lost, but I think what we are quite confident about is the fact that unorganized sector will definitely it will become more and more difficult for them to come back.
- Renu Baid:** This should probably help you because northern region we see of more predominance of such players so probably that should help you more favourably than the others in the coming year?
- Anil Rai Gupta:** That is true.
- Renu Baid:** Thank you Sir. That is it from my side.
- Moderator:** Thank you. We take the next question from the line of Indrajit Bhatia from Macquarie. Please go ahead.
- Indrajit Bhatia:** Thanks for the opportunity. My first question is on the cables business. Now looking at an 18% topline growth and if I look at the commentary on volume, the volume growth also looks to be kind of fairly strong. Now can you please explain how much of price increases we have taken in this quarter and are you likely to see a bigger impact of price increases of copper in Q4?
- Anil Rai Gupta:** The copper is the major constituent in domestic buyers and we have seen almost 15% price increase in the third quarter if we take both November and December price increases put together. There was no relaxation in the copper after that, but it is now coming back. It is difficult to say anything about the Q4. Nobody can predict where copper will be in the next two days or so. So I think what we can report is that yes there was a price increase of almost 15%.
- Indrajit Bhatia:** I am just referring to the comment in the presentation, which says the volume growth was 21% in industrial and 17% volume growth in domestic cable and then we have a revenue growth, which is 18%. So where is the disconnect here? Should not the revenue growth been much higher than 18%.
- Anil Rai Gupta:** So what happens is there is generally a lag of passing it on to the market. So we have announced the price increase in the November. There is a 15 to 20 days gap. Even in December there is next 5% increase was done around December 25, 2016. Whilst we are now in January the full impact would have come, which would have been if not 15% because there was some relaxation in the copper price. It should be at least 12% to 13%.
- Indrajit Bhatia:** My last question is on GST...
- Moderator:** Thank you. We will take the next question from the line of Pulkit Patni from Goldman Sachs. Please go ahead.
- Pulkit Patni:** Thanks a lot for taking my questions. Most of them are answered. One thing, Sir, you mentioned about low cost housing, just because we are positioned more in the premium economy segment,



*Havells India Limited  
January 18, 2017*

could you just highlight which segment do you think for us could actually benefit with low cost housing? That is my first question.

**Anil Rai Gupta:**

So I think when we say we are in the premium-end, I would say that we are not a luxury brand. So we are a mass premium brand and even low cost housing, we believe, would take a lot of our existing product categories as well because generally speaking, electricals is a very small part of the overall house construction and people do not want to risk.

So we also would not like to compromise anything on the quality, but there will be certain product launches in the future, like a couple of years back, we launched the REO Switches, we upgraded it to the REO Modular. Now we are launching the REO Circuit Protection. So these kinds of products will definitely focus more towards the low cost housing business, which will start coming in.

**Pulkit Patni:**

Understood Sir. Basically and we could look at introducing some more products suited to that kind of range because we are talking about a house that costs between Rs.9 and Rs.12 lakhs.

**Anil Rai Gupta:**

Yes sort of Rs.15 to Rs.20 lakhs.

**Pulkit Patni:**

Sure. Sir, secondly, given the fact that last year, we have been building our sales force. Just wanted to get a sense, is it fair to assume that the benefit of all that increased sales force addition has sort of already started reflecting to numbers or do we think that, that is going to be visible over the next few quarters?

**Anil Rai Gupta:**

I would say next few years. These kinds of inputs do not have results immediately and these are long-term strategic decisions that we take. For example, strengthening the standard brand, increasing the workforce and sales force there, strengthening the new REO brand within new product categories, wherein you need people. So this is not really a short-term impact, which we can see, and yes, we see short-term cost impact, but the overall revenue impact, it takes some more time.

And hence, I cannot really comment upon whether it started kicking in the results today. I would believe that it would normally take longer period. It is like a brand building exercise. You do not do it for one particular quarter or we are not an impulse buying kind of a product category. So if you see even in the third quarter where many of the people felt that the best way to retain margins is to cut advertising cost. But we do not believe in those things because we believe that this is a long-term play and you don't alter your advertising expense quarter-on-quarter. So we continue to retain the similar advertising expense in the third quarter as well.

**Pulkit Patni:**

Thanks a lot. That is it from my side.

**Moderator:**

Thank you. We take the next question from the line of Indrajit Bhatia from Macquarie. Please go ahead.



*Havells India Limited  
January 18, 2017*

- Indrajit Bhatia:** Thanks. Sorry, my line got disconnected. My question that I was asking was on the GST. So based on the current understanding, from a Havells perspective, would our inventory on June 30 would that be eligible for credit under GST or we would also like to cut our inventory down significantly?
- Anil Rai Gupta:** Sir when you find out the answer please let us know.
- Indrajit Bhatia:** Thank you.
- Moderator:** Thank you. We take the next question from the line of Gunjan Prithyani from JP Morgan. Please go ahead.
- Gunjan Prithyani:** Thanks for taking my questions. I just wanted a clarification on the growth that you mentioned that you have not seen the inventory levels in the channel really go up. So is it fair to say that the kind of volume growth that you have shown in this quarter has also been seen at the retail level?
- Anil Rai Gupta:** That is safe to assume that, yes.
- Gunjan Prithyani:** Okay, which is very surprising given the kind of event we had in the December quarter. So I mean, is it that retail level, secondary level did not see any impact because the growth seems to be exactly similar what we were seeing in the first half as well?
- Anil Rai Gupta:** No, I would not say that the impact was not seen on the retail level. Maybe for our brand, it was not so visible and that is why we say that we might be in a position to say that we might have had some market share gains as well. But there was definitely an impact at the retail level. And we were very close to the market to understand how much demand is coming back overall, not just for the Havells products. And the retailers were saying that the demand has gone down to maybe 20% levels in the first eight to 10 days of demonetization.
- Then they started reporting 40% to 50%. And today, I would say people are reporting anywhere between 80% to normal levels. So that is why I am saying that it has taken some time, maybe 50 days to come up to this level. But since we have grown, we can say that probably there were some market share gains at the counter level.
- Gunjan Prithyani:** And the B2B business was it growing exceptionally better in terms of mix in the last quarter, like industrial or professional luminaries?
- Anil Rai Gupta:** No, I would not say exceptionally better. It is just that the second half for the industrial business or the institutional business is generally better anyway.
- Gunjan Prithyani:** Okay. And just moving on to margins, now these schemes, which you introduced in November-December; are these still ongoing? And will we see the impact still in March quarter as well on the margins?



*Havells India Limited  
January 18, 2017*

- Anil Rai Gupta:** So, as I said earlier, that there might be a soft landing for the dealers. We are not really too concerned about this fact that because it is not really a price reduction and we will have to take a price increase again. So it was more for the dealers soothing their concerns, which we understand now, it is pretty much back to normal. So there will be a gradual coming back to the similar levels in this quarter itself.
- Gunjan Prithyani:** Okay. And Sir, the last question on the acquisitions, of course, you mentioned that you are open to looking at acquisitions. But would you be able to share anything as to whether we are looking at a newer category or is it going to be a brand because the kind of acquisitions which have been reported in the press, I mean, some of them are not really complementary to the business that we are doing? So any thoughts on what are we really looking at in the domestic business?
- Anil Rai Gupta:** So, we always maintain that we would be looking at a new brand for similar products; a new category, which will be complementary to the existing product categories or similar or adjacencies to our business; a new channel which extends the channel for either the existing product or a new product category, but it has to make sense for the brand as well. So it is an intertwined brand, channel and product strategy and we will continue to look for such opportunities. And again, as I said, I would not like to really comment upon the news reports, but this is a general strategy that we will be following.
- Gunjan Prithyani:** Okay, alright. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Bhargav Buddhadev from Ambit Capital. Please go ahead.
- Bhargav Buddhadev:** Thank you for the opportunity. Sir, is it possible to know the pre and the post demonetization growth in consumer durables because one would have imagined a decline in this particular category, given the large dependence on cash?
- Anil Rai Gupta:** The pre and post demonetization for Havells.
- Bhargav Buddhadev:** Yes. So the growth in consumer durables, pre and post demonetization, is it possible to bifurcate?
- Anil Rai Gupta:** No. So you are just talking, let us say, from the October 1 to November 8 and November 8.
- Bhargav Buddhadev:** Yes.
- Anil Rai Gupta:** I have not looked at it like that Buddhadev, but we can come back to you on this. I doubt very much, whether it will be very different, but still we can come back to this specific number.
- Bhargav Buddhadev:** Great. Sir and in terms of planning for the fourth quarter, obviously we would have already planned the production schedules, given that fan season will start soon. So have we taken any production cuts or anything of that sort entering 4Q?



*Havells India Limited  
January 18, 2017*

- Anil Rai Gupta:** No, not at this moment. Given the fact that the growth has been satisfactory in November-December results. So we are sticking to our regular production schedules.
- Bhargav Buddhadev:** And on air coolers, obviously we would have started receiving advances, given that a lot of pre-booking happens in air cooler. Any trends you are seeing in terms of how the season can pan-out?
- Anil Rai Gupta:** I would say this is the first real year for our entry into air coolers because this is the first year when we would be selling in a major way manufactured products in our factory. So I would not give it too much importance to this because this is still a small product category in the entire consumer durable business for us.
- Bhargav Buddhadev:** And lastly, Sir, there is a Rs.100 Crores cash release from other item under the movement in working capital. If you look at the cash flows, is it possible to explain what is this item?
- Anil Rai Gupta:** So Rs.60 Crores out of that is inventory because there was a reduction in inventories. As we have said that at September 30, there was higher buildup of inventory, which we will be bringing it back to regular levels. So that was Rs.60 Crores out of that Rs.100 Crores was inventories. Anything else, specific?
- Rajesh Gupta:** And there was some increase in other provisions, but largely it is lead by the inventory.
- Bhargav Buddhadev:** Okay, Sir. Thank you for this clarification, and all the best.
- Moderator:** Thank you. We take the next question from the line of Bhoomika Nair from IDFC Securities. Please go ahead.
- Bhoomika Nair:** Good morning, Sir. Sir, earlier in the call, you actually mentioned that there has been some market share gains in some particular product categories. If you can just elaborate in which product categories are you seeing this market share gains?
- Anil Rai Gupta:** See, again, I would say that our industry does not report market figures month-on-month and it is more on the trends that we receive from the dealers and retailers. What I am saying here is that, generally speaking, there was a market contraction at least in the initial phases of the demonetization and which overall impacted the entire off-take at the dealer and retailer level in the months of November and December.
- The fact that we have been able to grow in businesses gives us an indication there has been a market share gain and to what extent it is coming from the organized sector and unorganized sector? It is very difficult to give numbers at this point of time. And hence, it is very difficult to say that in this product category, we have gained market shares. So again this is more going by what we see on ground what was happening and how our demand off-take took place.



*Havells India Limited  
January 18, 2017*

- Bhoomika Nair:** Sir, so in that sense, given that this quarter has gone by fairly satisfactorily. So we were looking at an earlier guidance of about double-digit 10% to 12% plus kind of a growth for the full year. So we would be on track for that?
- Anil Rai Gupta:** I have already mentioned that we are still in the VUCA zone and so the fourth quarter is at VUCA zone, so let us hope for the best.
- Bhoomika Nair:** Okay. And lastly on the acquisition, last quarter, there was some talk around it on the call and you had mentioned that right now we are not really looking at consumer durable segment. So would that be the same thought process even right now?
- Anil Rai Gupta:** I might have been misunderstood by you when I said that we are not looking at consumer durable segment. I keep saying that, that we are constantly reviewing opportunities in acquisitions, which adds more product categories or a brand or channel to our portfolio.
- Bhoomika Nair:** Okay. Great sir, and wish you all the very best.
- Moderator:** Thank you. We take the next question from the line of Ashish Jain from Morgan Stanley. Please go ahead.
- Ashish Jain:** Good morning. Sir my question is again pertaining to consumer durable segment because most of the dealers we spoke to, the key feedback we got was fans is one category, where there has been a slowdown because it is really off season for fans as such. And given the predominance of fan in your ECD segment, that growth looks pretty strong. So is it possible to breakdown the growth between fans and the other consumer products for this quarter?
- Anil Rai Gupta:** Generally, we do not report, but we can say that fans also grew well in this quarter.
- Ashish Jain:** Okay. And Sir, secondly on the dealer schemes and all that, again, I think you referred to earlier in the call. My understanding was that the bigger concern with dealers this quarter really was working capital and some support on that front is understandable. Is it possible to just elaborate couple of schemes that you offered to dealers, which has led to the margin hit that you have seen this quarter, because I had joined the call a bit late, so maybe I missed in case you referred to it already?
- Anil Rai Gupta:** So I think I have already mentioned; maybe I will repeat myself. So one is that we released certain funds, which we have been depositing fund for the dealers and we allowed them to access those funds, so that was release of some working capital for them. We also believe that they might have lost certain interest or cash discounts in their payments to the company, so we compensated against that. As well as we allowed them to reach their targets for turnover discounts and yearly or quarterly turnover discounts, we relaxed those targets and hence, they were able to get those in a much easier form. And of course, when sales went higher also that meant they could get a higher percentage. So these are the kind of schemes that we offer to the dealers.



- Ashish Jain:** Okay. But Sir, do you think that like easing the targets and all, if that has really benefited dealers, there is a case that there was an inventory build-up with dealers?
- Anil Rai Gupta:** First of all, you have to think that what kind of state of mind our people and the dealers were at that point of time, and they were really predicting a doomsday for the next few months and quarters. So it was more to soothen their nerves and focus on business rather than it was more about giving them just money or something.
- So, as I said, we anticipated that there might not be as much secondary sale as much as the primary sale, but that is not what the reality in the marketplace is suggesting. And normally, dealers do not really block their funds with a lot of inventory. So this is in fast-moving brands, they generally have a very fast inventory turns ratio. So we do not see that there has been a big build-up of inventory at the dealer or retailer level.
- Ashish Jain:** Thank you so much, Sir. Sir, sorry, I had one more question. Sir, just if you look at the cables and wires...? Sure thank you.
- Moderator:** Thank you. We take the next question from the line of Ravi Swaminathan from Spark Capital. Please go ahead.
- Ravi Swaminathan:** Sir, just wanted to know in the lighting segment, have you started seeing prices of LEDs stabilizing? And have they kind of the price drop has been arrested and would we aggressively look at increasing our share in lamps business, once the prices start stabilizing?
- Anil Rai Gupta:** So one, the prices were assumed to be stabilizing, but still we reported some price reductions, even in this particular quarter. And I think over a period of time, yes, maybe in the next one or two quarters, they will stabilize more. I think right now, the lamps business is too much price affected because of the government intervention in that and some of the non-lighting players also participating in that. And hence, the overall demand in the retail segment is not that very aggressive, and the margins of that business are also not very great.
- But the other aspect is that as a business in lighting, we are focusing more on solutions, so that we continue to get better margins as well as able to give a better brand-oriented feel to the customer. So the focus has been more on fixtures and providing solutions through architects and consultants.
- Ravi Swaminathan:** Okay. And I was going through your presentation, you had mentioned about IoT, etc., can you throw some more light on it as to what is that?
- Anil Rai Gupta:** No, I think the future is, with the start of home automation business and then our Crabtree brand that we started last year, we believe that in future, more and more individual products can be connected to the automation system. And hence, we believe and this is more of a medium-term to long-term strategy that more and more of our products would have IoT enablement.



*Havells India Limited  
January 18, 2017*

- Ravi Swaminathan:** Understood. And in the consumer durable piece, would our fan segment grown at mid-teens level in the sense is that assessment right?
- Anil Rai Gupta:** I would say double digits.
- Ravi Swaminathan:** Double-digit growth. Okay. And apart from water heaters, which are the other top three products for us in terms of value wise that you would have seen growth?
- Anil Rai Gupta:** There are basically three products. It is our domestic appliances, water heaters, and fans.
- Moderator:** Thank you. We take the next question from the line of Chockalingam Narayanan from Deutsche Bank. Please go ahead.
- Chockalingam N:** Thanks for the opportunity. Is it possible to quantify the impact of the incentives in absolute terms in terms of value, these one-offs?
- Anil Rai Gupta:** No not really. So I think these are more of incentives. They were actually mixed up with lot of schemes of products as well. So it is difficult to estimate that.
- Chockalingam N:** Okay. The second is on receivable quarter on quarter has not really seen too much of an improvement. Is it because of this even that it did not improve or this is the seasonality or how should we understand this.
- Anil Rai Gupta:** Most of it is seasonality.
- Chockalingam N:** The last thing on dividend we still have not declared any dividend?
- Anil Rai Gupta:** Dividend was declared.
- Chockalingam N:** That was for the last year, right?
- Anil Rai Gupta:** That is right. The next year will be declared in May.
- Chockalingam N:** So interim dividends or anything currently?
- Anil Rai Gupta:** That interim dividend was event-related to the sale of Sylvania.
- Chockalingam N:** Okay. So the payout policy has not changed of 40% to 50% of profits?
- Anil Rai Gupta:** We maintain that it will be in the range of 35% to 50%.
- Chockalingam N:** Thanks a lot Sir.



*Havells India Limited  
January 18, 2017*

- Moderator:** Thank you. We take the next question from the line of Charanjit Singh from B&K Securities. Please go ahead.
- Charanjit Singh:** Thanks for the opportunity. Sir, when we are talking about this unorganized to organized shift. Sir, if you can highlight like which segments we are seeing this shift and what is the kind of pricing differential now in the major segments where the shift is happening and which could keep on accelerating further as the GST implementation happens?
- Anil Rai Gupta:** Yes. Too early to report. We will have to see a trend coming in. Right now, it is too early to say that what happened exactly in November-December. Initially, most of these unorganized sales had also stopped supplies because of this whole thing. I think the supplies will start coming in, how much will that be in organized kind of sales, it is difficult to say. But we should be able to report that in a couple of quarters.
- Charanjit Singh:** Sir for the GST implementation now there could be a lot of uncertainty, which could pan out even further the dealer channel network and the suppliers. So how we are trying to deal with that and preparing our suppliers and dealers to become compliant with the GST implementation. Could it bring an impact on the sales like in the highlighted Q1 or it could be a longer duration of back on the sales.
- Anil Rai Gupta:** I think once the things are becoming more clear on the ways of refunds and the clarity on refunds and the rates of GST start coming in. At that point of time, we will be definitely reaching out to our trade network to explain them how this will happen. And frankly speaking, this will be a positive move. Initially for a few days, there might be some sort of a confusion but it will be generally a positive move and you have seen even in case of demonetization, which is completely unexpected event, things come back to normal very quickly in a marketplace like India. So, we believe GST which is a predicted event, things will not be as difficult as what we are predicting right now.
- Charanjit Singh:** Okay, Sir. And the last question from my side is on the switchgear segment. Now for the last two quarters the segment has been almost flat, while we delivered a very strong Q1 number. So, how is that market looking like going forward and if you can just share some outlook on that perspective?
- Anil Rai Gupta:** I think there has been some slowdown in the overall residential sector, residential demand which is impacting this. I think the Company is really working hard to continue to focus, especially on the switches and sockets segment, I also talked about introducing new products on the low cost housing circuit protection. So, there is a focus to get growth even in a scenario where the demand is not very strong. So we should be able to get back to decent levels of growth very soon.
- Charanjit Singh:** Thanks a lot for taking my question. That is all from my side.



*Havells India Limited  
January 18, 2017*

- Moderator:** Thank you. We take the last question from the line of Achal Lodha from JM Financial. Please go ahead.
- Achal Lodha:** Thank you for the opportunity, Sir. Just wanted to get the clarity in terms of the capex, because last time we spoke, you had indicated Rs.250 Crores to Rs.270 Crores kind of capex and if I look at nine-months we have spent around Rs.150 Crores, Rs.160 Crores. So just wanted to get your thought on the capex number for FY 2017 or incremental for fourth quarter and for next year?
- Anil Rai Gupta:** Yes. The target is still around that Rs.250 Crores to Rs.270 Crores number. There might be some spillover, which we will only know in the month of March, but otherwise, it will happen in the first quarter.
- Achal Lodha:** So, the incremental Rs.100 Crores would be towards would you be able to talk about what is it towards?
- Anil Rai Gupta:** Sorry, what incremental?
- Achal Lodha:** We have spent around Rs.150 Crores, Rs.160 Crores till December. So, the additional Rs.80 Crores, Rs.100 Crores, it is pertaining to which facility or which product category, if you could talk?
- Anil Rai Gupta:** Yes. But most of it as we have already announced that we are taking land in Karnataka which part payment has been done. We are also taking land in Rajasthan, again part payment has been done. So it is some around that and some around plant and machinery as well.
- Achal Lodha:** Understood. And secondly, in terms of the advertisement, you had indicated in the call that we are not really looking at the short-term to protect margins, to cut down on the advertisement etc., So would it be fair to assume that these similar trend will continue even in the coming quarters and years like 3%, 3.5% of revenues?
- Anil Rai Gupta:** That is right.
- Achal Lodha:** Okay. Great. I wish you all the best, sir. Thank you so much.
- Moderator:** Thank you. That was the last question. I would now the floor over to Mr. Amit Mahawar for his closing comments.
- Amit Mahawar:** I thank the management of Havells for giving us the opportunity. Sir, do you have any closing remark to make?
- Anil Rai Gupta:** No, thank you very much. Thank you everybody for joining.



*Havells India Limited  
January 18, 2017*

**Moderator:** Thank you. On behalf of Edelweiss Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.