"Havells India Limited Q3 FY18 Earnings Conference Call"

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Moderator Ladies and Gentlemen, Good Day and Welcome to the Havells Limited Q3 FY18 Results Conference Call, hosted by HSBC Securities & Capital Markets Pvt. Ltd.

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I now hand the conference over to Ms. Shrinidhi Karlekar. Thank you and over to you, sir.

Shrinidhi Karlekar: Thanks Lizann. Good afternoon, everyone. Welcome to the Q3 FY18 Earnings Conference Call of Havells Limited. The management today is being represented by Mr. Anil Rai Gupta – Chairman and Managing Director; Mr. Rajesh Kumar Gupta – Director (Finance) & Group CFO; and Mr. Rajiv Goel – Executive Director. I now would like to hand over the call to Mr. Anil Rai Gupta for the initial remarks, post which we will open the floor to question-and-answer session. Over to you, sir.

Anil Rai Gupta: Thank you, Shrinidhi. Thank you very much. Thank you all for joining the call. We have just finished our board meeting a couple of hours back and hopefully you would have received the investors note by now.

Basically, I can say the performance wise a good quarter. Last year if you all remember this was a demonetization quarter, in this the company did very well, so I really cannot call it a base effect over the demonetization. So, hence, what we see as 11% growth or 14% excise-adjusted growth is quite a satisfactory performance for us. Margins have seen improvement across the category which also is in line with whatever we had been working over last year or so. As we had communicated to you that post-demonetization there was some pressure on the margins, but over a period of time with the raw material prices stabilizing we have been able to adjust the pricing in the market along with that.

The GST stabilization happened during the last quarter, especially we got a good fillip on the 15th of November with many of our product categories coming under the 18% regime. Havells was probably the first company to pass on the entire benefit through our trade channel to the consumers, directly the entire saving was passed on to the consumer on the same day. And hence it also talks about the strength of our IT systems, the way we have been able to pass on the entire savings.

I believe that going into the fourth quarter this will also have an impact on generating additional demand for the branded segments, and especially the organized sector. So we are quite hopeful of the upcoming quarters. Consumer Durables and Lighting has definitely shown good growth. I would say that the Switchgears and domestic wires have also stabilized and come back with a little bit of growth in the coming quarter, which definitely is very positive for the future quarters. Underground Cables for the six months after GST saw a big slowdown because initially all the government contractors and the infrastructure projects were very slow in facing orders because of the confusion and the high rate of 28% on underground cable. With underground cable also coming under 18% and now the confusion going away, we expect that this should also turn around. So I believe that the next few quarters should be quite decent, both in terms of growth as well as in terms of margins retention.

As far as Lloyd is concerned, I think when we acquired the company after April, both second quarter and third quarter are weaker quarters because of the higher alliance on air conditioning business in this. And going into the fourth quarter we are now heading into the season, so the next six months should see a definite uptick in the Lloyds business as well, which should help the margins also to come to the normalized levels in the coming six months.

Thank you very much Shrinidhi. And now we can start the question-and-answer session.

Moderator: Thank you. Ladies and Gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Manish Agarwal from Bernstein. Please go ahead.

Manish Agarwal: Firstly, on the Lloyd business, how did the transition to the new labeling norms impact the margins for the quarter and also did you see any element of pre-buy in the quarter? I am asking about pre-buy to get a sense of inventory level in the channels and if it could impact sales in the first few months of the season ahead?

Anil Rai Gupta: Manish, last quarter did see a little bit of preponement of sales for not only Lloyd but also all brands. And which hopefully should affect the demands because the original demand, the tertiary demand will be low in the month of January and February, so there might be a little bit of slowness in demand offtake in the first one or two months. As far as transitioning to the new star ratings are concerned, it will happen, it has already started since January but there are stocks in the system with many of the traders. So over a period of time it will happen. So the first quarter will be a mix of old stocks and the new stocks, and hopefully by end of March this will all be new stock.

Manish Agarwal: And sir, so how does impact your margins?

Anil Rai Gupta: So, I think because most of the competition was clearing stocks in the third quarter, so there was some impact on the margins. And it was also sort of impacted by the fact that the foreign exchange gains were to some extent passed on to the consumers. So, that has also affected. But I think in the coming quarters the margins will get normalized.

Manish Agarwal: Okay. And secondly, just one question on the income, sir bulk of the other income in the quarter is due to FOREX gain, so going forward should we factor in Rs. 8 crores to Rs. 10 crores of other income or normal Rs. 25 crores - Rs. 30 crores?

Anil Rai Gupta: We do not know how foreign exchange will behave, so we cannot really quantify this number.

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

Aditya Bhartia: Sir, this is second consecutive quarter of extremely strong margins in the wires business. Just wanted to understand the reasons for the same, is it only on account of mix or is there some inventory gains involved as well?

Anil Rai Gupta: No, so last quarter we had a gain on inventory and the mix. But this quarter has been a normalized levels, so it will range between because underground Cables is a business where the margins can vary because of some old orders in hand and all that. So, I think this would be somewhere in this range, if not may be 1% here or there.

Aditya Bhartia: Okay. So, we can consider them as sustainable margins?

Anil Rai Gupta: Sustainable margins, as I said it is very difficult to predict 100% but similar margins can be attained.

Aditya Bhartia: And sir what really has changed between let's say today's situation and a year back for margins to be expanding sharply, is it on account of organized players gaining and therefore you having better pricing power?

Anil Rai Gupta: No, I think one year back would not be the best comparison. As I said, one year back we were just coming out of the demonetization impact, and at that point of time on one side the raw material prices were going higher and we were not able to pass it on to the market. So, I think maybe you can see the margin uptake over a longer period of time and that could be seen as a more of a sustainable kind of a growth.

Aditya Bhartia: But sir, even from a longer period of time we typically used to have may be between 12% to 14% kind of contribution margins, and that is why my question that from 12% - 14% to 17% kind of an improvement, is there anything that has changed in the market as well?

Anil Rai Gupta: Not so much in the market place but I think it's underground cable especially has started doing better, you are right, unorganized sector could have created a little bit of impact. May be a little bit more pricing discipline on the company front. So a lot of factors have contributed to this.

Aditya Bhartia: And sir on switchgear business, how are you seeing demand on the switchgear side panning out? And how has been our B2B foray?

Anil Rai Gupta: B2B I would still say that we have the teams there, it is improving, however it is still a very small part of the business, over a period of time it will become larger. And right now more effect is seen in light, because it is directly going for refurbishment and changing of the old technology to the new technology. On the switchgear side, I believe we have had let's say a very slow growth in the last few quarters, namely because of residential sector contributing low, construction demand was low. I think over a period of time this should improve. As we have seen 11% growth in this quarter, domestic demand will increase, also we are putting a lot of focus on exports. So everything should put together and lead to a decent growth now.

Moderator: Thank you. We have the next question from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: First question is on the ECD side where this quarter you have seen strong 33% comparable growth. So, can you help us understand what proportion of this growth was driven by fans, which was also hurt because of higher GST rate and an off-season? And how has the water heater, which we recently gained market share in the top two or three categories, how did that perform overall well?

Anil Rai Gupta: So, I think you can say that, obviously, fans is the largest category, but still that has also shown good growth. But one of the reasons that I would say also is that in this category I can consider a little bit of a base effect over last year of demonetization, because that was probably the demand which was hit in third quarter last year and a lot of sales came from Cables and wires in November, December last year. So, a little bit of a base effect, but generally speaking we are seeing a good growth coming in all business segments whether it is fans, water heaters, particularly water heaters as well.

Renu Baid: Right. And in the comments specifically you mentioned about the premium fan segment, but is it that you have seen growth coming in your core segment back or it has been much more broad-based across all the segments, as in stocking activity picking up for next season or so?

Anil Rai Gupta: So, one is of course the November, December is also a little bit of stocking period, but we are seeing growth across categories, across segments also. And I think premium fans last one, one and half years we have focused a lot on developing new models with great innovation, possibilities in various models. And now we are definitely by far, almost two-thirds of our ceiling fans are coming from premium fans. So, that also indicates a lot of market share gains in the premium fan.

Renu Baid: Right. Sir one more quick question here is, in the ECD segment we have launching of a lot of new products, water purifier has been one where the position again has been at the mass premium segment. So, what is our view in the medium-term, how could some of these categories, including water heaters, water purifiers could be in the entire ECD space say from the next 12 to 15 months perspective, can they cumulatively be almost a third or more of your ECD segment, closer to 40% plus or it will take time?

Anil Rai Gupta: No, I think water heaters plus appliances put together it is already, are you including the domestic appliances as well?

Renu Baid: No, in this I was not including. But yes, if we include than how do the numbers look like?

Anil Rai Gupta: It is already around 30% and going forward I think it should range between 40% and 50%.

Renu Baid: Okay. And sir was there only a one range of price hike during the last quarter or there was something else even after the GST rates being rolled back, any further price increase for commodity inflation?

Anil Rai Gupta: So, before the GST rollback I think there was one price increase because of the commodities. So by that time the commodity price increase had been backed in, but I think almost after that also it is 8% reduction in prices with GST coming down from 28% to 18%.

Renu Baid: Okay, so some benefit was further passed on?

Anil Rai Gupta: Yes. The entire benefit was passed on. However still, despite this reduction also we are definitely in terms of fans our average price realization continues to remain the highest in the industry.

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

Atul Tiwari: Sir, I have a question on the P&L, the quarter's P&L. So this item change in inventories of finished goods, etc, it is about Rs. 247 crores positive, so it is a very high number for the quarter because normally this number is between Rs. 70 crores to Rs. 100 crores. So, what is driving this kind of very big number?

Anil Rai Gupta: So, one, on a small scale it is mainly collection of products for the upcoming season, for example, fans. But in this case the big difference is coming because of Lloyd, so that is also going into the season, so inventory gets piled up during the season and gets liquidated in the next six months. So this is normal for Lloyd over last few years, but because it is coming for the first time in Havells so that is visible here.

Atul Tiwari: Okay. So, this purchase of credit goods is like Rs. 623 crores, this is also for Lloyd, so probably you have quad components and their stuff?

Anil Rai Gupta: Correct.

Atul Tiwari: Okay. So we should like kind of see both these items together in a way, the purchase of credit goods?

Anil Rai Gupta: That is right.

Atul Tiwari: Okay. And sir in terms of say the medium-term outlook, now in this quarter we have seen 13% - 14% kind of excise adjusted growth, so now are we confident that this 14% - 15% kind of growth can continue for two, three years?

Anil Rai Gupta: Two, three years, yes. I think over a period of time yes that is something at least we are looking at.

Moderator: Thank you. We have the next question from the line of Gunjan Prithyani from JP Morgan. Please go ahead.

Gunjan Prithyani: I just wanted your thoughts on this margin for the core Havells business, ex-Lloyd if I look at margins they are now at about 15%, they were closer to about 16% last quarter but there were clearly some one-offs in the last quarter. So, does this mean that the margin trajectory for the core Havells business has moved up to let's say 14%to 15% range now?

Anil Rai Gupta: Yes, we can say safely assume 14% to 15%, depending up on the product mix, but yes that is what we continue to strive for.

Gunjan Prithyani: Okay. And sir second question I had on this Lighting segment de-growth, now we are clearly seeing huge value growth in this business, is this just got to do with the price stabilization in the industry or is there more to it? If you can share your thoughts, how should we look at growth for the next two, three years for this segment?

Rajiv Goel: So, Gunjan, this is more driven by the product. Price stabilization, yes, on the consumer side it is helping, but largely you should see our initiative. If you remember on the investor day we articulated how we have strengthened the team on the B2B, Anil just mentioned that the lightening is the biggest beneficiary for the time being, it will spread to other product categories as well. So, I think we are winning several projects now, we are moving very confidently in that space. And obviously the entire retrofitting in the industry as well as the corporate offices and all these BPOs and all is now catching up. So, I believe this is at least a five-year story, if not the decade, the Lighting will continue to stay ahead with entire transformation in the landscape.

Gunjan Prithyani: And would you be able to share as to how much B2B is currently and how do you see that progressing in terms of the segmental revenue mix?

Rajiv Goel: So, we will not go into those details. What we can say is that it has started on a very promising note and there is no reason why one-third of our business in times to come should not be B2B. And eventually it will converge, you see the Lighting will become B2B as far as professional Luminaires is concerned. So, right now let's say we have a consumer Luminaire and professional Luminaire, but B2B will become part of professional Luminaire and consumer will be on distribution driven business, that is how overall segregation will work in future.

Gunjan Prithyani: And just last question, these GST rate cuts which got effective towards the second half of the last quarter, have we seen any acceleration in demand post that or what are you picking from the market, does that really lead to demand improvement? And also again on the cable segment, any movement from unorganized to organized on the back of this rate cut rejig which happened?

Rajiv Goel: Clearly, I think it is a very morale booster for the industry and I think it is a positive sentiment, both for the consumer and we believe for network as well. So, I think we are now seeing… look, everything takes some time, but we definitely see, A) I think it settles the entire GST disruption, the trade also know this is here to stay now, 18% is very reasonable and customer also knows this is something and he does not no longer postpone his **(Inaudible) 21:06.9**. So all I was saying was that the entire ecosystem seems to have stabilized now, which I believe will really put a strong building block for the growth from here on. That is why we feel more positive about growth and each stakeholder whether it is manufacturer, distributor and the consumer, I think seems aligned to this GST stabilization. So, hopefully, things should only look up from here.

Gunjan Prithyani: And sir, unorganized to organized, any movement seen there?

Rajiv Goel: I think too early to say. But definitely I think these people will also move to organized. So, we have always maintained, it is not the unorganized will go away, I think they will also move towards organized, the ones who are willing to change, which means there is a level playing field for the incumbent organized players. So, I think their translation is already under way.

Moderator: Thank you. We have the next question from the line of Nilesh Bhaiya from Macquarie Group. Please go ahead.

Nilesh Bhaiya: I wanted to ask that on the Cables business what we saw during the quarter was GST rates being brought down. My understanding is that pre that there would have been a little bit of unorganized trade picking up market share. Is it possible to kind of give us a number or a sense that without that or post that reduction back to 18% how much was the growth in Cables?

Anil Rai Gupta: The Cables have not grown, as we said, this quarter. Where we say cable, it is underground cable, the more B2B distribution business. I think there has been a general slowdown because of the GST even after the rates have come down it is just sort of a month or so. But we believe from this quarter onwards all those pent-up orders which have not been released should start seeing the growth. And cable, may be at times quarterly revenue may not be the best way to evaluate these businesses. So, we believe that end of the year we should end on a strong note on the cable side as well.

Nilesh Bhaiya: Sure. My second question is on Lloyd, now where are we in terms of getting the products on the new labeling and everything. Have you fully sorted that out or is there still you need some more time to get all those products in the market?

Anil Rai Gupta: We are fully sorted out and we are fully ready, product ranges are fully available now.

Moderator: Thank you. We have the next question from the line of Charanjeet Singh from B&K Securities. Please go ahead.

Charanjeet Singh: Sir, just wanted to understand this thing, in a very transitional environment where GST changes are happening, and we have been able to clock a decent growth and FY19 we could see big pickup in the infrastructure spending from the government side. So, I think the 15% kind of a growth which we are talking could be very conservative. So, if you can just highlight the infrastructure demand which can drive the growth in different segments, how that can pan out in FY19 and it could sustain may be for next two to three years?

Anil Rai Gupta: See, one thing we are very positive about is this whole GST transition, though it has initial hiccups, initial demands, might have slowed down a little bit, but ultimately it is a great move by the industry which is benefitting the consumer, the industry as well as the government taxes will improve with compliances improving. So this is a great move. I think whatever was left in terms of reforms has already been done. I would say that we are moving into FY18, FY19 with a very high degree of optimism. However, the overall dynamics of the industry or the infrastructure development, infrastructure requirements has to be still seen, and it has to be taken with a pinch of salt. We can only probably comment whether we are in a very fast growth phase or we are still struggling to get this double-digit growth. I think over a period of time we will come to know. But things have started looking a bit up, especially in the last couple of months.

Charanjeet Singh: And sir, the other question would be on the pricing for the Lloyd products. Post this change in the energy norms how is our pricing now and how is it comparable with the competitors, if you can highlight that?

Anil Rai Gupta: No, I think the comparison remains same, if the new norms come in, the cost increase or whichever is there has been passed on to the consumers by all the manufacturers. Still they are very early in the season, so it is very difficult to say, but I do not see that they are changing in any way dramatically.

Moderator: Thank you. We have the next question from the line of Vikash Mantri from ICICI securities. Please go ahead.

Vikash Mantri: Wanted to understand in the Lloyd business what has been the growth for us there, and what has been the profile change or the revenue change from when we acquired and this year performance?

Anil Rai Gupta: Sorry, can you repeat the question? So, growth is 16%, Vikas, for this quarter, if that is your question.

Moderator: The line for the current participant seems to have dropped off from the queue. We will move on to the next, that is from the line of Naveen Trivedi from HDFC Securities. Please go ahead.

Naveen Trivedi: Sir, if you can just give some more dope about our ECD performance, because if I see the base also of ECD that is also very high as compared to the other segments, there also we had seen around 16% - 17% growth in the third quarter FY17. So if I see that base and if I look at the growth which we had achieved this quarter, it is an excellent performance from the point of view where our large part of the contribution still comes from fans. So if you can give some dope about the segment performance?

Anil Rai Gupta: So, I think I have already mentioned here, there is a little bit of maybe you can say that there is a base effect over the last quarter. And second quarter growth was slower as compared to the third quarter, also because of the fact because of the high GST rate which has now come to **(Inaudible) 28:37.1** level. I think we are going for the season, quite hopeful that ECD will continue to be a good backbone for growth for us. We have done very well in the water heater business despite the industry going through a tough last year. And fans also has done well with our new launches, with our focus on the premium segment, it has also done well. So, I would say that second quarter should see little bit more of an aberration because of the new GST implementation which happened.

Naveen Trivedi: So we may say that the full restocking benefit had come in the quarter rather than quarter two?

Anil Rai Gupta: That is right.

Naveen Trivedi: So, sir is it possible to share the fan contribution in the ECD segment, if not the quarterly, on an annual basis how now things have changed in terms of mix?

Anil Rai Gupta: Sorry?

Naveen Trivedi: The fan contribution in the ECD segment, if not for the quarter if you can give some dope about the yearly numbers?

Anil Rai Gupta: We said that fan should be around 60% - 65%, on an annual basis it could be 70% also because normally water heater, as you are aware, is a seasonal product. So, in a quarter the fan could be 60%, but I think come summer overall fan should be around 70% of the ECD business.

Naveen Trivedi: And the second is water heater in that segment?

Anil Rai Gupta: Appliances and water heater will be almost at par.

Moderator: Thank you. We have the next question from the line of Nishid Jalan from Kotak Securities. Please go ahead.

Nishid Jalan: Sir, you mentioned that you are seeing signs of turnaround in the switchgear segment which has been slow for the last few quarters. Can you throw some examples or more light as to what gives you so much optimism on the segment, is it that you have started seeing construction picking up in the residential segment or you think that you are gaining market share, what is the basic reason why you are saying that switchgear segment should also see growth improvement going ahead?

Anil Rai Gupta: No, actually switchgear we are coming from a negative growth, if you would have observed in the past I think we seem to be stabilizing. I would not claim there is too much optimism, you see at 8% - 10% in switchgear this will not be really optimistic growth. Construction continues to be the challenge I think for the economy, so one could not claim that things have really turnaround. I think what we have been mentioning here is that there seems to be a stabilization in the business, then slight de-growth what we observed in the last few quarters. And within that the switches segment has grown and also because of new ranges which we have launched, there is a lot happening from the company side on this entire switchgear and switches range. But yes, I think the construction I would not claim that it has opened up. The way we could talk about infrastructure, infrastructure we definitely believe is opening up much more, I think there is a lot more opportunity on the infra side both for our Cables business, the wire, the retrofit businesses. But construction I am sure it has been your observation as well, it has not really started in a way one would have desired.

Nishid Jalan: Okay, sir. Sir just one more question if I can squeeze in. In the ECD segment you have mentioned that fan has shown very good growth because of premiumization as well. Is it possible to split the fan growth in terms of value and volumes, we just want to understand how is the industry doing in terms of volumes and how much of that is because of premiumization that you have been doing constantly?

Anil Rai Gupta: I think it would be almost similar for us, it is not that there is a significant price increase, there had been some but that is largely because of commodity. In fact if you argue, the numbers have slightly come down because of the GST changes and all, so it is a mix of that. So, if at all there will be a 2% - 3% value and volume difference but not significant, we normally do not segregate them because we have a very wide range of fans. But if you really push us then I would say not more than 2% to 3% difference between volume and value.

Moderator: Thank you. We have the next question from the line of Shrinidhi Karlekar from HSBC Securities and Capital Markets. Please go ahead.

Shrinidhi Karlekar: Sir, my question is on Lloyds margins, will it be fair to expect about 4% to 5% incremental EBITDA margin should be possible due to in sourcing of manufacturing in Lloyd business over say next three to four years?

Anil Rai Gupta: Shrinidhi, look in three to four years I am sure a lot will change, I think on a quarterly call it is very difficult.

Shrinidhi Karlekar: What I am trying to say, like currently we have brand margin and distribution margin while the manufacturing margin is still with Lloyd. So when we are insourcing the manufacturing, because of that decision should we expect 4% to 5% EBITDA margin, that is really the question?

Anil Rai Gupta: So, one would expect that one manufacturers if the value chain should belong to the manufacture and like in this case if they are aligned, like we have in other product category, I think this should be normal expectation. But I think you must be aware because of the competition, how the things will stack up in next few years, changing landscape of the companies and what their strategies would be, so there is a lot which goes into the margins than just the insourcing. However, I think definitely it would have a positive influence. How much that would be, I am sure they will have more opportunities to interact with better data analysis as well.

Moderator: Thank you. We have the next question from the line of Bhargav Buddhadev from Ambit Capital. Please go ahead.

Bhargav Buddhadev: Sir, I have just one question. Lloyds positioning in the MBO market has been fairly weak, so is there any plan in place to improve Lloyds presence in the MBO market?

Anil Rai Gupta: I think there have been very encouraging results on that, Buddhadev, and I do not know whether you are aware even we have started national chains like Reliance and Croma. And other regional retails where traditionally Lloyd has been weak which was primarily part of the strategy, so it is not that they could not have done that, but I think the entire strategy was different. Obviously, once it is with us we are trying to also tweak the similar strategy so that we really become a brand which is available to every segment of the customer then we see being excluded from anywhere. So yes, as part of that I think we have been reaching out to everyone and we must share that we have got a very positive response from them.

Bhargav Buddhadev: So sir, are we saying that we are now available with Reliance, Croma, Nehanjali, Kohinoor?

Anil Rai Gupta: We are not talking only Bombay, Buddhadev, we will be beyond Bombay as well. So, yes, I think on different level we are engaging with everybody and I am sure in next few months you will see us with all leading brand chains.

Moderator: Thank you. We have the next question from the line of Dhaval Mehta from Yes Securities. Please go ahead.

Dhaval Mehta: Sir, my question is on A&P spends, in this quarter there has been a sharp increase in our A&P spends, so somewhere around 4% of sales. So, I understand that on a quarterly basis it will not be right to say on a quarterly basis but anything to call out over here?

Anil Rai Gupta: You are talking about general or specifically for Lloyd?

Dhaval Mehta: In general.

Anil Rai Gupta: General it is a seasonal impact, last quarter post demonetization we had curtailed our A&P spends a little bit just to see how the demand is panning out, it was seasonal as well. So this was a festival season both for Lloyd as well as for Havells. So, I think it is nothing out of the ordinary.

Dhaval Mehta: Okay, so annually we should expect in the range of 3.5% to 3.7% of sales?

Anil Rai Gupta: Right.

Moderator: Thank you. We have the next question from the line of Pulkit Patni from Goldman Sachs. Please go ahead.

Pulkit Patni: Sir, my first question is, you did explain earlier on why the margins for Cables and wires has gone up in the last two quarters. I did not quite understand that the competition was under pressure which is why we could get better margins, if you could just please explain that part on how come the margins have increased so significantly in Q2 and Q3 in the Cables and wires business? That is my question number one.

Rajiv Goel: Pulkit, where we spoke about the competition may be there is some confusion there. What we said that last year even in the increase in commodity prices we were unable to pass on because of various reasons, demonetization was one, weak demand scenario, then the GST disruption. So if you see this quarter and may be slightly but last quarter also has some inventory gains, you are aware of that. So, it is the first one where we have taken the step, because finally you have to pass on which is the cost increase to the market. And this is where you see sort of improvement in that. And we believe that depending on the product mix because even this quarter the Cables had been pretty weak, so the mix was stated in favor of wires, generally it has been a better margin profile than the Cables. So it is a mix of few things which we believe has given us these margins, and going forward we believe this should be the margin profile of this business, given and take a couple of percentage or one and half percentage here and there, depending upon how much is the cable part of our overall product mix.

Anil Rai Gupta: And also as the underground cable increases as a percentage the overall margin goes down, but in absolute terms it will go up. So, for example, in the fourth quarter the infrastructure the government demand starts kicking in, so there might be a higher off-take for underground Cables as compared to domestic wires. And hence may be on an overall basis the margin might look lower, but individually it may not be lower.

Pulkit Patni: Sure, sir. Sir, actually the reason I asked that was because in the previous demonetization quarters we did not have margin compression as much as we have seen expansion, which is why I was wondering that a 20% or 17% margin, because then if it continues it is a very good news.

Anil Rai Gupta: 20% is an outlier, we mentioned last time also, it is because of inventory gain. So I think anywhere between let's say between 15% and 16% that should be ongoing sustainable basis.

Pulkit Patni: Sure sir, that is useful. One more question, if you could share the Lloyd number for Q4 last year, I understand you did not own the company then but just for us to work the Q4 number for this quarter?

Anil Rai Gupta: Pulkit, we will come back because right now we do not have that handy with us.

Moderator: Thank you. We have the next question from the line of Ajit Motwani from Bhartia Axa Life Insurance. Please go ahead.

Ajit Motwani: Sir, just wanted to understand the pricing part on the Lloyds business, post this new rating you have seen the pricing?

Anil Rai Gupta: Sorry, what is the question again?

Ajit Motwani: On the pricing side, on the new ACs after the rating change have you hiked prices?

Anil Rai Gupta: Yes, everybody has hiked pricing including Lloyd.

Ajit Motwani: The extent would be how much, 5% - 7%?

Anil Rai Gupta: Cannot give you a number because part of it is due to raw material based and part of it is due to rating change. But it could be in the range of may be 8% to 10%.

Ajit Motwani: Okay. And secondly on the revenue mix side of the ECD, you said 40% is water heaters plus appliances and 60% is fans, right?

Anil Rai Gupta: Yes, for the quarter.

Ajit Motwani: And the growth you are saying is higher for the water heaters and kitchen appliances as compared to fans?

Anil Rai Gupta: Yes.

Moderator: Thank you. We have the next question from the line of Abhineet Anand from SBICAP Securities. Please go ahead.

Abhineet Anand: Sir, first question is, can you give the volume growth for wires and Cables separately for nine months?

Rajiv Goel: I think nine months we will revert back to you because nine months we do not have. For the quarter wires has been flat and cable has been negative.

Abhineet Anand: Negative to what extent, is it possible to state that sir?

Rajiv Goel: Low single-digits.

Abhineet Anand: Okay. My second question is now that Lloyd is almost 2.5 quarters, is it possible to give some range as to full year what could be Lloyd margin for the full year, because two quarters that it has operated has been the lean quarters and summer is may be coming. So for the full year any guidance on the Lloyds margin?

Rajiv Goel: As of now, no, I think may be the next quarter when we are discussing, because we would have seen at least one season. See, the season is basically from Feb to June, so it has not even started, so that will be a better discussion at that time because we will have some more data.

Anil Rai Gupta: Plus I think there is a lot of moving parts in that season as well because of the rating changes. So I would suggest that we give it some more time to establish, let's say, regular basis. And I think over the time there will be lot of investment on Lloyd as well, so just give us some more time.

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

Vikash Mantri: Sir, just wanted to understand the Lloyd's business growth, we talked about 16% growth and 11% growth last quarter. Can you help us what is the full year number as base that we are working for at Lloyds and what should be the steady state margins which we should assume for this business now?

Anil Rai Gupta: So we are working on the gross sale as the base on this of the last year, on this basis we have computed the 11%.

Vikash Mantri: What is that amount, for the full year if you can give.

Anil Rai Gupta: Rs. 2,000-odd crores gross.

Vikash Mantri: So we have done Rs. 830 crores as of now, and we are still saying we have had growth?

Anil Rai Gupta: Vikas, that is net. So, I think I suggest you engage independently with Manish, because you see there are lot of moving parts in this, the way they used to compute their shares and the way we do it in our own accounting system I think there is a difference, because otherwise we will end up confusing each other.

Moderator: Thank you. We have the next question from the line of Achal Lohade from JM financials. Please go ahead.

Achal Lohade: Sir, a couple of questions. You said for the switchgear segments switches was one of the key drivers, if you could quantify in terms of how much is switches' contribution now and how do you see that moving on next let's say two to three years?

Anil Rai Gupta: I think we do not differentiate within the product category. We just gave you a little bit of guideline that this has helped.

Achal Lohade: No, because the reason I am asking I imagine switches will be more replacement as compared to Switchgears, so one could see much higher growth and much less dependence on the new construction as compared to switchgear.

Anil Rai Gupta: Yes, I think in general that is what is playing out, Achal. What we are saying is for various reasons we do not want to go deep into the allocation of various businesses.

Achal Lohade: Fine. The second question I had was with respect to the Lighting segment, how much does LED now constitute because I think we used to give that number before. So I was just curious to know what is the LED contribution now and would we see the percentage growth improving as in non-LED actually percentage come off?

Anil Rai Gupta: Look, last time also we mentioned that Lighting now means LED, so I think almost 80% plus now is LED, so that is why we have stopped differentiating in giving separate numbers. So the growth is all LED led, LED is Lighting now.

Achal Lohade: Right. So, in that case why I am asking sir is because earlier the growth used to be in high double-digit, I understand it is now the function of base as well, but is it fair to assume that growth of between 20% to 30% is definitely doable as compared to 70% - 80% what LED growth earlier used to be?

Anil Rai Gupta: Yes. So, LED, you see this 21% growth as I said I think this looks sustainable, hopefully it could be better from here. But yes, now other thing you have to appreciate that LED as a base has also become the Lighting base, earlier if you used to see LED, the LED used to be very small part of the business and you could see 35% - 45% growth, but overall number used to be 10% - 12% of Lighting, may be lower, 8%. So now the entire itself is constituted by LED itself.

Achal Lohade: Precisely, that is what my question was sir that given the base now is it fair to assume between 20% to 30% growth.

Moderator: Thank you. We have the next question from the line of Aamir Zeb from Advent. Please go ahead.

Aamir Zeb: Could you just help me understand there was a statement which gave ECD growth as 21%, could you just help me understand the bridge to the 26% and 33% given in the financials which are reported?

Anil Rai Gupta: I think this is part of our fans facility which comes from the exempted unit, so if we do it from the excise adjusted, that is why this difference is coming from 26% to 33%. It is 26%, not 21%.

Aamir Zeb: Yes, my apologies.

Anil Rai Gupta: So, this relates to our Haridwar facility which is an exempted unit. So, for example, what is to be done is a like-to-like comparison, the last year fan figures would have included excise component to it because it was coming from excise exemption zone. So now it is net of GST completely.

Aamir Zeb: Understood. The second question was, you gave the breakup of fans as 60% within ECD, could you just help me understand how much was the newer segment, like water purifier or male grooming, the newer segment, how much do they constitute within ECD?

Anil Rai Gupta: No, they are marginal. See, water purifier we started on the last week of December, so they are not part of this.

Aamir Zeb: So, primarily you can say rest of 40% is 95% appliances and water heaters.

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

Ravi Swaminathan: What is the breakup between the fixtures and lamps and Lighting, just wanted to know.

Anil Rai Gupta: No, we actually do not do it on that basis. Actually, Lighting has become very different than what it used to be earlier when we could differentiate between CFLs and Luminaires, now it has become completely a one consolidated thing. So now we can probably look at consumer side and professional side, but the rest otherwise to actually go down what is LED lamps and LED fixtures does not make much sense any more.

Ravi Swaminathan: Okay. Because why I am asking is that lamps, because of the fall in prices there could be some margin pressures and whereas fixtures if it is a bigger portion of the revenue it could sustain a margin higher or there could be more scope for growth, so that is why I was just asking on this.

Anil Rai Gupta: Not really, most of these products we sell as branded product and we are very high quality. So the lamps are also viewed by the consumer with that perception.

Ravi Swaminathan: And the bifurcation between B2C and B2B and B2G, I mean basically to government EESL orders and how will that be?

Anil Rai Gupta: So, I think approximately 5% EESL.

Ravi Swaminathan: And going forward would we pick these orders, what is the visibility in that?

Anil Rai Gupta: 5% to 10%, not more.

Ravi Swaminathan: But orders are there in the pipeline regarding EESL?

Anil Rai Gupta: Not much at the present moment.

Rajiv Goel: I think we are very conscious of the EESL, in general government business. In fact, we do not do much government business. So we are very conscious, our core play would continue to be branded and distribution and now more of B2B where we do see great retrofitting opportunities.

Ravi Swaminathan: And sir, across all segments our distribution touchpoints compared to this year how much it would be? That is my last question.

Anil Rai Gupta: That we are not tracking for this call. But all I can say in general there is an improvement in all our touchpoint, largely on the retail side. So the whole focus is on the distribution on the retail side and getting more into so called what we call unbanked areas where we were not present earlier.

Moderator: Thank you. We have the next question from the line of Harshi Kapadia from Elara capital. Please go ahead.

Harshit Kapadia: As per government directive industries have been asked to stop the production of IE1 motors, so have we done that and have we shifted completely to IE2 based motors? And what is the price difference between two, can we see any uptick because of that?

Anil Rai Gupta: Look, motor itself is not a very significant part of business as we see, but I am informed that we have already stopped this, frankly we could not make much sort of understanding on what you are seeing. But I have just informed that we have already stopped that.

Harshit Kapadia: Okay. Is there a price difference between IE1 based motors and IE2 based motors?

Anil Rai Gupta: We do not know, I think this is something we are not focusing on this call. You can engage sort of independently on this.

Harshit Kapadia: Okay. Sir, next question is on Lighting segment, earlier you used to give breakup in Lighting in terms of how much is part of street Lighting, because that is based on the order book. So, if you could just help us the revenue that you have out of 287 how much is that portion?

Anil Rai Gupta: We just said, before this question was a similar one, around 5% of that is on the EESL. We not really used to give on street Lighting, basically we used to give on EESL, so that is 5% of the business.

Harshit Kapadia: But you do not supply directly to any state?

Anil Rai Gupta: No.

Harshit Kapadia: But do you plan to do that in the future?

Anil Rai Gupta: We will see when the opportunity comes in dealing with EESL.

Harshit Kapadia: And sir, final question is on margin front. In last conference call you had suggested if you are looking for long-term improvement in margins there are only three ways that you plan to do it, it is either through consolidation of warehouses or integration of backend operations. So, are we looking at that as a long-term improvement and how much can you quantify, would there be an improvement because of these two factors?

Rajiv Goel: We are not consolidating much on the warehousing side. The profit margins as we just said should be between 14% and 15%. So, however, there are multiple efforts being done in every respect, out of which these could be one or two ways to do it, but these are not the only ways. But yes, our whole idea will be to maintain our margins in the business.

Harshit Kapadia: So, one of the way would be just improvement in the product mix, is that my answer correct?

Rajiv Goel: Product mix and product costing, you see efficiency both at the sales side as well as the production side, there will be just one or two ways of doing this.

Moderator: Thank you. We have the next question from the line of Atul Tiwari from Citigroup. Please go ahead.

Atul Tiwari: Sir, just a clarification, in response to an earlier question you did mention that there was some bit of pre-buying in the AC segment because of the change in rating. Did it apply to any other product category as well?

Rajiv Goel: No, it is only for ACs.

Atul Tiwari: So it is only for ACs, right, because you said that it affects, okay. And the second thing is, is it fair to assume that there was some deferment of purchase decision in the core business in the previous quarter because of high GST and that kind of spilled over into this quarter after the sharp GST cut. So, that could normalize going ahead?

Rajiv Goel: This is largely on the cable side, all these large contractors are expecting that 28% is very high, there should be rationalization. So when it happened somewhere in the middle of November, probably they will take time before they start releasing order from that. So, that is why we said hopefully there should be a bit of pent up demand of the stuck projects which now should see the light of the day.

Atul Tiwari: Okay. But apart from Cables did any of your category see such a sharp decline?

Rajiv Goel: No.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to Mr. Shrinidhi Karlekar for his closing comments.

Shrinidhi Karlekar: On behalf of HSBC thanks to all of you participants for joining this call. We also want to thank management of Havells India for giving us the opportunity to host this call. Sir, do we have any closing comments?

Rajiv Goel: No, everything is fine, Shrinidhi. Thanks for arranging this call and thanks everybody to be on the call.

Moderator: Thank you. Ladies and Gentlemen, on behalf of HSBC Securities and Capital Markets Private Limited, that concludes this conference. Thank you for joining us and you may now disconnect your line. Thank you.