"Havells Limited Q4 FY 2018 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Havells Q4 FY2018 Earnings Conference Call hosted by Motilal Oswal Securities. 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 the operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ankur Sharma, from Motilal Oswal Securities. Thank you and over to you Sir!

Ankur Sharma: Thanks Lizaan. Good afternoon ladies and gentlemen. Welcome to the Q4 post results earnings call of Havells Limited. With us today from the management, we have Mr. Anil Rai Gupta – Chairman and Managing Director, Mr. Rajesh Kumar Gupta – Director (Finance) & Group CFO and Mr. Rajiv Goel – Executive Director. We shall begin with the opening remarks from Mr. Gupta and then open up the floor for Q&A session. Over to you Sir!

Anil Rai Gupta: Thank you very much. Good afternoon everyone. The quarterly and annual results are already shared with yourselves. We are quite enthused with the growth in revenues and profitability across all verticals at Havells and Lloyd. We believe that GST and demonetisation impact are receding and there is a general optimism to perform in the recent past.

Directionally switchgear being overtly dependent upon real estate and new construction continues to be slow; however, we are seeing some progress in the second half of the year. Lighting and ECD spearheaded the growth trajectory backed by cables and wires. We also are satisfied with the assimilation of Lloyd as we complete a year of acquisition. Post acquisition in terms has been well achieved and we are quite positive on its prospects going forward.

To summarise we are optimistic on sustaining growth ahead in both revenues and profitability and a wider portfolio to serve our customers and delve deeper into homes. We can now proceed to Q&A.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Venu Garre from Bernstein. Please go ahead.

Venu Garre: Thanks for the opportunity. Sir firstly on Lloyd, just wanted to understand how we should look at growth given that it was not a full year especially Q1 of last year had only 50-days of Lloyd, but if I look at quarter-to-quarter revenue growth except for Q3 where there is a 16% growth it seems to be the commentary of Lloyd revenue growth was not that strong, so firstly wanted to know how should we look at what was the revenue growth baseline for FY2018 if we were to look at what has been the performance? And going forward in FY2019 what is the sort of target that one should look at for that business? Both from a margin and from a revenue perspective factoring in any new launches or any new product categories that you will want to bring within the Lloyd fold?

Rajiv Goel: Venu this year I think if we include sale our entire Lloyd brand including what they did April and erstwhile company and rest in the Havells I think it was 1875 and this includes the main player as well. And we believe that there are industry wide also, I think you might be aware that there has not been a great start to the year because of the delayed summers and heat so I think it will evolve over the years, but we remain confident that there should be a load of energy as we see today and hopefully, if we can add more products the growth can be higher, but I think on Lloyd we believe it is an evolution of the business. I think this is not something which can be valued over the last four quarters, the next four quarters, it is a journey which we are taking let us say at least for three to five years and there I think we remain fairly confident of what the potential this brand holds. This is entire consumer sort of appliances space, not just the A/Cs but then going into both TVs and washing machines, hopefully over a period of time into the rest as well.

Venu Garre: So low double-digit growth is what you cite has a potential at least in the medium term?

Anil Rai Gupta: Correct. So, I think again, as Rajiv has just mentioned that this is more of a directional thing, it is not something that we still have to see 1) the market, 2) integration of our marketing policies into the network which has been well accepted now by the trade and so all these things have to be put into the cocktail to get the final go as again I said it is whether roll over of double-digit and all this depends upon the market as well as how each and everything is working in the market there. All we can say is that we are moving in the right direction, pricing, our policy, our focus on products, our focus on future manufacturing, our spends on creating capability in terms of people, brand perception changes, because of the investments into the brand, so all those things are moving in the right direction and hence we should look at this play over a longer period of time.

Venu Garre: Sir, my second question is on lighting segment, Q4 there has been a fairly sharp increase in margins on a sequential basis, more so from a like-to-like comparison, and the growth has been strong which is sustained compared to how it was in the last quarter, so this margin increase in lighting is it to do with any project business which we do for ESL, there were more bookings in this quarter or is it sort of a margin that you are seeing to sustain because of maybe pricing not coming off and things like that?

Anil Rai Gupta: Sometimes again, the margins you have to also see at a longer-term basis like may be two or three quarters and the whole year because at the end of the fourth quarter sometimes there are year-end adjustments, some warranties which may be we may have provided for a target back and all that, so I would say you may want to look in last few two to three years on an average as we run rate for the market.

Venu Garre: Which brings me to the same margin question that on an EBITDA margin perspective the fourth quarter core excluding, I should not say core, actually excluding Lloyd, the part of the business, that is not extrapolatable especially given I cannot extrapolate that given the potential commodity price increase in effect, so this is not the way we should look at the businesses?

Anil Rai Gupta: That is something we have to look into.

Venu Garre: Thanks a lot.

Moderator: Thank you. The next question is from the line of Fatema Pacha from ICICI Prudential Life Insurance. Please go ahead.

Fatema Pacha: Congratulations. I think a great set of numbers and a great year is what you have had. Sir, the way I see here, this excellent cost cutting or margin expansion in Lloyds going forward in FY2019-2020 are we looking at only double-digit kind of margins?

Anil Rai Gupta: You are talking about the EBITDA margins with Lloyds?

Fatema Pacha: Yes, EBITDA margins.

Anil Rai Gupta: EBITDA margins again because of the seasonality of this business one needs to look at the overall entire year margins. So, obviously the aspiration is to achieve double-digit margins, but it is as I said, journey is there to achieve it, it will not happen immediately. We are putting in a lot of investments into people. So, because this fourth quarter and the first quarter are much higher in terms of revenues and it averages the entire years EBITDA margins, so this quarter will be high and may be first quarter will be high and then the second and third quarter will generally be lower.

Fatema Pacha: But I am saying implied FY2018 margins as in 1875 Crores will either way upwards of 8, right?

Anil Rai Gupta: Something around 7.5% to 8%.

Fatema Pacha: Fair enough, so I think, you had guided for 100 BPS around margin expansion, is that?

Anil Rai Gupta: I would say we have already started the journey and yes we are moving towards margin expansion basis.

Fatema Pacha: Sir, on the core business, is it fair that 15% growth is extremely doable with flattish margins? For our core business ex-Lloyd 15% growth is flattish margins pays away once we look at it?

Anil Rai Gupta: So I think we have to wait for the next few quarters, almost as if you are asking me for guidance.

Fatema Pacha: You have already given guidance, so I do not know?

Anil Rai Gupta: We do not give guidance.

Fatema Pacha: Is it fair the lightings and durables those two businesses will be continuing to be your growth engines, and cable and wires is pretty much be lower?

Anil Rai Gupta: There is a tailwind for the lighting business and the consumer durable business. Consumer durable business has more new launches which are happening as well as deeper penetration is also helping. Lighting is also helped by the fact there is refurbishment and change of old technology into new technology with LED coming in, but the fact is that the overall we definitely see that does not pick up so well in the last couple of years, and hence at this moment we see that the switchgears and cables and wires have not grown to that extent. But over a longer period of time, we do not see there should be much of a difference between these businesses. It may remain for sometime because the real estate is still struggling and new launches, new home launches. It is still struggling at the moment, but hence the differentiation between lighting, consumer durable and cables and wires and switchgear, but over a longer period of time, they should have a similar trajectory.

Fatema Pacha: Thanks a lot and all the best.

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

Aditya Bhartia: Good afternoon Sir. So, we had seen margins of the wires and cable business improves quite in the last three quarters. Do you think that the correct margins can be sustained with commodity prices going up? And is there anything that changes the way?

Anil Rai Gupta: We have reported earlier that the second quarter margins were much higher because of certain advantage that we had due to the commodity prices. After that we have been able to sustain the margins in third and fourth quarter. We continue to hope to reach; you know margin focused on that. Yes you are right that the commodity prices have increased sharply in the last couple of months and we always maintain that we pass it on to the consumer, but in a very inflationary rate environment the challenge in the next quarter and six months will be to see how much we are able to pass on and whether there will be a time lag in between or not, but generally speaking there is overall improvement in both the businesses of underground cables and domestic wires and hence this margin improvement.

Aditya Bhartia: Sure. And Sir, we have seen a fairly strong growth in the ECD segment this quarter and I think the same was the case last quarter as well. Are we seeing the company getting market share in the fans vertical?

Anil Rai Gupta: In which vertical?

Aditya Bhartia: In fans business?

Anil Rai Gupta: In fan vertical, yes, definitely we have gained market share because our growth has been much better than many of the competition. We have number that we have available. Overall also one reason for the fourth quarter increase was also may be of lower base in the last year quarter because it was coming out of the demonetisation impact, but yes, if you specifically ask about fans, we definitely believe that this year we will gain market share.

Aditya Bhartia: Sure. Any rough numbers that you can indicate how strong this market gains could have been?

Anil Rai Gupta: So our growth in the fan business has been close to about 11% and on a quarterly basis it is about 18%, so what we hear is that the industry has been somewhat flattish because of the GST disruption in the months of June and July, August, September, so the industry has seen very small growth, or has been flattish but so that is what we believe.

Aditya Bhartia: Okay. And lastly, the cash balance is has again risen to almost Rs.1500 Crores, almost the same level that used to exist pre-Lloyd acquisition. How do you intend to utilize this? And are there any new acquisitions that we would be targeting, what would the focus be on growing Lloyd?

Anil Rai Gupta: So the cash utilisation this year specifically there will be a higher capex because of the new air conditioning manufacturing facility coming up and in the future it will come down to more normal levels, but this year will be more of a thing, plus normally they also keep at least 700 to 800 Crores of cash in hand, generally speaking.

Aditya Bhartia: Thanks a lot Sir.

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

Renu Baid: Good evening Sir. Congratulations for the strong results. A few things from my side. First on Lloyds; the trade that we have seen with respect to better margins and lower volumes, can one say that the lower volumes were relatively also attributable to the pricing actions that we have taken and relative to the price increases that we saw in the market and overall compared to the peers of the overall market, how was our growth? Have you seen some marginal erosion in market shift for air conditioner for us?

Anil Rai Gupta: I cannot say on a month-on-month basis, but generally if you see the entire year, there is no market share erosion, and I would say that we have grown as per the market and definitely pricing decisions are not affecting. We have seen it in Havells also. The industry is not as price elastic as what is normally thought of and hence it is unique to make the right investments, so yes we have improved the pricing or changed the pricing structure in the market, but also we have reinvested that back into brand building, expansion of channels and those kinds of things and growth has not been impacted, so we are very satisfied with the overall performance.

Renu Baid: Sir, do we have targeted level of ad spend in Lloyds or we would be broadly maintaining what we are seeing on an annualized base of almost 7% on ad and sales promo?

Anil Rai Gupta: It is because of the 11 month that we have otherwise normally it should remain between 5.5% and 6%.

Renu Baid: So broadly for the Lloyd side, we are very much on track with our strategy to slowly move towards marked premium market from the currently mass market, which the brand has brought the position?

Anil Rai Gupta: That is right.

Renu Baid: Sir, in fourth quarter typically we also see incidence in the core business. These incidents of higher winter products in the initial months and then fans. So overall if we see the growth in this quarter would have also been driven by reasonable growth coming in from the winter portfolio that we have and how has been the overall over a season, which was last two quarters, the growth and the market share for us in the water heaters and the winter product segment?

Anil Rai Gupta: The water heater again this year our growth has also been at around let us says 10% or so, but the market has been flat, gaining market share or in fact the market has actually factored in this year. So we have seen market share gains both in fans as well as water heater, but winter product is not such a huge part of the portfolio that it will impact in the third and fourth quarter.

Rajiv Goel: There are three categories in appliances also we have grown well in this quarter. So I think the growth has been as you would observe pretty sort of spread across the entire segment of the ECD.

Renu Baid: Right, and then Sir, in all probability then at one end when we are looking at probably low double-digit growth at Lloyds at least the core business should then be looking at higher double-digit growth given that the momentum and the GST headwinds are behind us, and overall if you see improvement in the consumption and the related real estate outlook for the second half of the year?

Anil Rai Gupta: Let us continue to have positive hopes.

Renu Baid: Sir, my last question if you can just share with us what was the volume numbers for growth in the cable segment or industrial domestic cables for the quarter and the full year as a whole?

Anil Rai Gupta: Full year as a whole, Renu we will combine, so the quarter is 6% volume and 7% value, there is a mix of 13% how we have broken up and for the year it is flattish for volume and 9% value.

Renu Baid: Thank you so much Sir. All the best.

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

Arnab Mitra: Congrats on a great set of numbers. On the ECD growth I am just trying to understand because you said that the fans probably have grown at 18% and water heater has also grown like 10%, so the overall such a high growth in the second half is there a substantial chunk of new products you have added outside these two categories and if you could kind of give a sense of how much incremental growth has come from just new products this year or the second half?

Anil Rai Gupta: That is right. I do not have the numbers and we normally do not give revision in the sales of each product categories, but yes water purification has been added in this year, which has come into consumer durable, but this is still a very, very nascent business, so, I do not see any new businesses contributing to water heater.

Rajiv Goel: We have not done the exact number, Arnab, but it is fair to say let us say almost 20%-odd plus could be from fan and other related growth will be largely coming from appliances. Though the appliance has been on a low base, if you recall for the past few years, but I think that is really now taking care of, for us. I think these are large quantities, but apart from the smaller vertical like personal grooming and water purification, which was just added, so we have not done any base. These have been added in this quarter.

Arnab Mitra: Secondly on switchgears you said that this side was still weak, but the second half has actually been quite good for you and this quarter even the base was not really low. Is there something you were doing on the B2B side that you had earlier highlighted or the industrial, which is driving this growth despite the weak cycle?

Anil Rai Gupta: So, a couple of things, one we have also got new orders from Hyundai Electric which we signed for switchgears, so that started kicking it up only after the fourth quarter, as well as you rightly said the B2B segment has also started contributing some parts, since the sizable part comes for us from the trade segment only, and overall the first half if you compare it with the first half, things were really bad not just because of the market, it was also because the destocking of the market taking place because of the GST disruptions. So third and fourth quarter has to be better.

Arnab Mitra: Right understood, and just one last question on capex, if you could just give the FY2019 how much it is likely to be?

Anil Rai Gupta: Including the new plant, it will be around 500 Crores.

Arnab Mitra: Thanks so much. All the best for next year.

Moderator: Thank you. The next question is from the line of Sonali Salgaonkar from BOB Capital Markets. Please go ahead.

Sonali Salgaonkar: Sir thank you for the opportunity. Congratulations on a great set of numbers. Sir my first question is regarding Lloyds. Sir how has been the AC demand in the months of April and the first two weeks of May?

Anil Rai Gupta: This year I would say in north the summer has not really been very good because it had rain and so I would say that the first quarter has been a little bit soft.

Sonali Salgaonkar: And Sir, if you could also share with us how has the inventories been as in, the channel inventory, are they fully stocked up or are they liquidating right now?

Anil Rai Gupta: They are in the process of liquidation right now because generally in this industry in the first quarter they stock up and suddenly when the summer comes, we will start liquidating, so the sales have been going on at a decent pace.

Sonali Salgaonkar: Sure. Sir, and so, if you could also approximate quantum of cumulative price hike that you've taken in Lloyd, since Jan start?

Anil Rai Gupta: It is a mix of many things, because the energy rating change, the cost of the product, the copper aluminium and so there are various things associated with that and you know it is very difficult to give a specific number because the complete rating system change from January 1.

Sonali Salgaonkar: Sure. Sir, my last question. Also, if you could share the number of distributors and retail touch points separately for Lloyd and Havells core business currently?

Anil Rai Gupta: That we can share with you separately because at this moment, I do not have the figure at hand.

Sonali Salgaonkar: Thank you Sir. That is it from my side.

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

Gunjan Prithyani: Thanks for taking my question. Just a couple of followups. On the cable segment could you give some color on how have been the growth across the industrial and the domestic table because domestic wires are sufficient similar headwind like the switchgears? So the growth here seems retail seems to have positively surprised. Any color on that?

Anil Rai Gupta: Gunjan, we have the combined number. That is what I just mentioned that this quarter we have grown volumes 6% and value 7% and on the year the volume has been flat, but the value growth has been 9%. So, I think, a lot of these growth is coming what you see is also coming from the value growth because the copper is increasing and you know in this business, particularly we pass on whatever the increase has been in the commodity, largely copper and aluminium. So, in that way switchgear may not be exactly comparable in terms of the growth.

Gunjan Prithyani: Okay. But is it fair to assume that the 6%, 7% volume growth that you have seen is also to do a lot from the industrial cable because that seeing a lot of action from the government side as well?

Anil Rai Gupta: Yes, but this quarter I will not say it is entirely because of that and cable normally you will appreciate it is not a quarterly business, sometimes it will just get bunched up in a particular quarter, so I do not think it is overvaluing the industrial cable. I think it has a fair share of the consumer cable, the wire as well. So I think it pretty much representative of both the segments.

Gunjan Prithyani: And anything you have seen on the unorganized market any stress there, or do you think there is anything is still going the way it was past?

Anil Rai Gupta: I think gradually it is making a difference, but I think may be too little and too early to comment upon that but I think the combined efforts of GST and this copper pricing, I think lead us into that direction, but as of now there are not very sort of large movers which we can indicate to you, directionally I think it is in that direction.

Gunjan Prithyani: And then second question on Lloyd. Just wanted to get your thoughts is it that we are not deliberately pushing too much volume in the market, because we also had the same time have to look at the margin improvement, because when we really look at some of the bigger markets, of course, led by what I see in Bombay. The Lloyd has been far less present then probably last year? Is it we are not aggressively pushing volumes then looking at margin improvement?

Anil Rai Gupta: Absolutely not, these are very exclusive kind of things. Pricing improvement is an industry phenomenon because of the industrial efficiency as well as commodity prices going up, so it is not only restricted to Lloyd but as a whole. Generally there are certain weaker markets and stronger markets and we believe that that Lloyd has taken a lot of positive steps towards availability at more and more counters in this year because we have modern format retail like Reliance are now stocking the product which earlier hitherto was obviously more of a distribution of the product, so many, many new channels have been opened up this year, so I would not attribute this to any internal decisions, it is more related to the markets.

Gunjan Prithyani: So we have tied up with the modern format now for the Lloyd distribution?

Anil Rai Gupta: The modern format this year is getting tied on us. A lot of regional retailers are getting tied up. Basically just like Havells it is only channel philosophy.

Gunjan Prithyani: Okay. And this last question on the ECD segment, can you just share what will be the scale of the non-fan product portfolio now?

Anil Rai Gupta: As a percentage, we may want to reduce it.

Moderator: Thank you. The next question is from the line of Akshen Thakkar from Fidelity Investments. Please go ahead.

Akshen Thakkar: Congratulations on a great set of numbers. Just couple of clarifications; you mentioned the Lloyd’s full year sale numbers at the start of the call. Could you may be just repeat those numbers?

Anil Rai Gupta: 1870 Crores.

Akshen Thakkar: 1870 Crores and that is like-to-like on which you are saying you expect a low double-digit growth. To that we do not need to make any adjustments for VAT or GST or some such stuff?

Rajesh Kumar Gupta: Could be possible in Q1, because in Q1 there was an excise limit.

Anil Rai Gupta: There could be but we have not gone into that.

Akshen Thakkar: Second was maybe if you could comment on the switchgear margins? As you start doing a little more B2B and you have some contracts from Hyundai, which you are sort of executing, may not have the same margins as B2C. How do you think about margins of switchgear? That is question number one.

Anil Rai Gupta: If you look at the domestic market and export market separately, yes may be the additional volumes, which come from the export markets may be at a lower margins but in domestic markets, we look at the blended margin and there we are confident of achieving similar margins.

Akshen Thakkar: But exports are going to go up, as a percentage of your switchgear sales, right?

Anil Rai Gupta: That is right.

Akshen Thakkar: Last question from my side. Could you just help us understand on the working capital side now? Overall number looks great but if I look at the creditor days that have gone up significantly. Was there something particularly about this year or this is what you expect the creditor days to be?

Anil Rai Gupta: Normally you see in Lloyd business and when you have these large Chinese suppliers, we have a large credit period from them, so we have merit from them. So there is no statutory policy we are targeting here and hopefully by next year, I think you will see a reasonableness in that but these are normally suppliers that will get extended to you over a period of time in the normal course of business.

Akshen Thakkar: Correct, but as you start ramping up your own manufacturing in Lloyds over may be not next year, but maybe over the next two or three years, you could see credit days normalizing.

Anil Rai Gupta: Yes but hopefully that should be compensated by better pricing power also with them otherwise and when we shift to our manufacturing in any case these will be rationalized into how Havells normal working capital days are.

Akshen Thakkar: The only question being that is there any reason to believe that the working capital at Lloyds could be significantly different from what your underlying working capital days have been?

Anil Rai Gupta: No it will not be. That is why I said because Havells is today 93% in-house manufacturing while Lloyd today is 90% outsourced. So I think once we start shifting that the model is going to be entirely the same as Havells.

Akshen Thakkar: Great. Thank you so much Sir.

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

Atul Tiwari: Thanks for the opportunity. Sir, if I look at the full year segmental numbers for Lloyd, 1400-odd Crores of topline and 260-odd Crores of EBIT, 19% EBIT margin is there some one-off for the full year's number in this because it looks really too high?

Anil Rai Gupta: These are 260 Crores of contribution margin not the EBIT numbers. EBIT number is 8%. So that is the normalised thing. 8% should be normal for Lloyds.

Atul Tiwari: And what was the Lloyd's revenue in Q4 FY2017? Can we get that number? Just to see how much was the year-on-year growth in Lloyds for the quarter?

Anil Rai Gupta: It is not comparable, but I think it will be only marginal growth over Q4 of last year. They have lot of import and CENVAT and all the numbers have changed because of GST.

Atul Tiwari: Thank you.

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

Achal Lohade: Thank you for the opportunity Sir. Sorry if I am repeating the question once again. This 1875 Crore is that a gross number or that is the number that we should work on?

Anil Rai Gupta: This is the net number, net of excise what they have reported in April and May and then we have added our reported numbers. So it is a summation of both the two. There is no adjustment of excise here.

Achal Lohade: Fair point. Secondly would it be possible to give some colour with respect to the distribution for Lloyd in terms of contribution from Tier I and Tier II towns and how do you look at going forward apart from the modern retail?

Anil Rai Gupta: I think Achal, this is something would not be available. I think we need to dig deeper and it would not be part of this call.

Achal Lohade: Understood. And in terms of the unorganised to organised we do now start hearing that in some of the product categories there is some shift that is happening, just wanted to get your perspective with respect to our product categories where you are seeing some experience with respect to such shifts?

Anil Rai Gupta: This we generally see it over a longer period of time. It is very difficult to say just after GST whether there is perceptible difference has happened. I think it is too early to say this.

Achal Lohade: Great Sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Naveen Trivedi from HDFC Securities. Please go ahead.

Naveen Trivedi: Good afternoon everyone. Congratulations to the management for strong numbers. Sir, my first question is on the Lloyd side. If you can give some breakup in terms of out of this 1870 Crores net revenues how has been the mix between the A/C, TV and others and how that has changed because our FY2017 numbers last time we were saying there is different way of accounting, so how has the mix changed?

Anil Rai Gupta: Mix is pretty much the same and we as in other divisions we do not give product-to-product revision, but it is generally been in the same ratio as earlier.

Naveen Trivedi: So, earlier we were saying 70% A/C, 22% panel and around 8% washing machine?

Anil Rai Gupta: I do not know the numbers, may be you know it better, but yes it is somewhere around that.

Naveen Trivedi: Fair point. So keeping this 1870 Crores net revenue for FY2018 this gives us an idea that our Q1 FY2018 number where we had partial Lloyd this must be around 700 Crores is it the right number that we are looking? Q1 FY2018 with the full like the way we are giving the 1870 Crores number considering the Lloyd is with us for 12 months then?

Anil Rai Gupta: Somewhere between 675 and 700 Crores.

Naveen Trivedi: So if you can just give similar numbers for EBIT margin or EBITDA margin for Lloyd like 8% we have given it for on 1400 Crores revenue but how has been the margin on a full year basis?

Anil Rai Gupta: Full year actually we do not add because that margin was retained by them and we **(inaudible)** that is why the revenue has been easier to consolidate, margins, we cannot consolidate on what is left with them, so I think we will take it up this year.

Naveen Trivedi: Okay, but tentatively, you can say that 8% is we can take it as a sustainable?

Anil Rai Gupta: So, therefore for the whole year is 8% that is what we said.

Naveen Trivedi: I was just thinking that you are capturing it only on the 1400 Crores kind of revenue?

Anil Rai Gupta: Yes, only 1400 but since we do not have, the safer thing is to assume that at least that part should have 8%. So the overall also should be 8%.

Naveen Trivedi: Thank you so much. That is all from my side.

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

Bhargav Buddhadev: Good evening Sir. Congratulations for good set of numbers. Sir around Lloyd just wanted to check that we understand that there is a tie up now with Vijay Sales and Croma, so is there any other modern retail formats also where you have undertaken a tie up?

Rajiv Goel: We are not sure about Vijay Sales, but I know at least in this call, from the level of this call, we are already present in Reliance and Croma.

Bhargav Buddhadev: Sorry, we are present with Reliance Digital?

Anil Rai Gupta: Reliance and Croma, yes.

Bhargav Buddhadev: How is the response Sir? I mean to start with, I know it is early days?

Anil Rai Gupta: It is a very new start, just in the last three or four months.

Bhargav Buddhadev: Second Sir, we did mention that we are looking at setting up an air-conditioning factory under Lloyd, so would it be possible to know if we would be manufacturing compressors as well in this factory?

Anil Rai Gupta: That is not in the plan.

Bhargav Buddhadev: Okay that is not in the plan and what would be the capacity Sir in this factory which you would be looking at?

Anil Rai Gupta: Initially we would be putting up a capacity of 600000.

Bhargav Buddhadev: And what would be the capex Sir for this?

Anil Rai Gupta: Around 300 Crores.

Bhargav Buddhadev: When do we expect this to kick start Sir?

Anil Rai Gupta: Sometime in the next financial year or closer to the fourth quarter of this year.

Bhargav Buddhadev: And Sir, are we also in talks with other modern retail formats and can we expect some?

Anil Rai Gupta: That is a continuous process. As I said earlier, Lloyd is now changing its strategy towards being an omni channel strategy in multibrand counters, regional retail, so this is now going to be a continuous process.

Bhargav Buddhadev: Sir on this B2B side, we had done a lot of hiring and what we understand there is almost 250-member team now, which is focusing on selling to real estate developers, so how is that progress happening. Can we say that in future Havells will also directly tap with developers and start selling them on a direct basis or the business will happen primarily through the distributor route only?

Anil Rai Gupta: The switchgear business and wires business and all it is very electrical consultants, contractors, trade is very much involved so, whilst our teams efforts are to create more pull for the product from the newer consumers like real estate, like industries, so that is the focus of the team and you know the 250-member team is a combination of many, it is not just real estate, it is basically B2B including many lines of enterprise business consumers also, but the entire business generally is run through the trade itself.

Bhargav Buddhadev: Sir, then what is the main activity of this team? Who does this team interact with in terms of new businesses?

Anil Rai Gupta: There are investors likes electrical consultants, architects, interior designers, direct customers, large consumers, real estate business, so large industries, large corporates, commercial complexes.

Bhargav Buddhadev: But the business happens through the distributors essentially?

Anil Rai Gupta: That is right, essentially.

Bhargav Buddhadev: Thanks for these clarifications and all the very best.

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

Pulkit Patni: Sir thanks a lot for taking my question. Sir, my first question is if you could explain why the depreciation in this quarter has actually come down compared to Q3, any particular adjustment there?

Rajesh Kumar Gupta: We have to look into this and we will come back to you.

Pulkit Patni: Sure Sir. Sir, second thing if you could also share the split in your lighting business, you had shared it last time around that about 128 Crores was EESL business could you give the split what it was in 2018 out of the total number of about 1168 Crores odd?

Anil Rai Gupta: Maybe you can check with Manish at some point of later time, but we do not have the exact numbers, I do not want to guess.

Pulkit Patni: Thank you Sir.

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

Ashish Jain: Good evening. Sir, my first question is on the cables and wires business, if I look at the margins, they have expanded significantly this year and this is on rising prices. Given we said that volumes this year was flat in 2018 versus 2017 does it imply that on per unit sales our margins have expanded significantly as in profits have expanded significantly? And what is driving that?

Anil Rai Gupta: One thing, which is driving is, there is an overall change towards how we are going to the market place. As we said, there is an enterprise business which is likely going to be consumers, creating a brand perception, I mean it is a long journey that we have seen focusing upon that you know changing commoditized products through a branded sale and it is showing some results, underground cables continues to be something which is definitely more competitive than the domestic wires industries, but overall we see an improvement.

Ashish Jain: Sir, could it mean that when commodity prices let us say start coming down our reported margins in cables and wires could actually increase from here?

Anil Rai Gupta: I am not sure about that. No, generally speaking you know it is a competitive environment. It is not somewhere we are just present there. So we will have to act according to how the competition behaves.

Ashish Jain: Sir, secondly in switchgear, you earlier alluded that second half we have seen some recovery versus let us say first half or the last few quarters, so is it something which seems sustainable to you or this could be something?

Anil Rai Gupta: I compare the second half to the first half more in the context of the GST reduction and the demonetisation aftermath so I think I still feel that the real estate has not picked up to the extent that we would like.

Ashish Jain: Sir, lastly on lighting, what specifically is driving the growth in lighting that we are seeing? Anything particular you would want to point out?

Anil Rai Gupta: It is a combination of many things, deeper distribution, reach, on the enterprise side, more access to the final consumers and also some part is going into the refurbishment of old technologies to newer technologies, so it is combination of many things.

Ashish Jain: Great Sir. Thank you so much.

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

Shrinidhi Karlekar: Thanks for the opportunity. I just wanted to understand that the opportunity that you have on organic growth front in magnetic contactor part as well as water purifier? Can you please help us visualize the category size, how is the competitive intensity in that and how has the initial response to your water purifier entry? That is the first question. And the other question is on Lloyd business. If it is not competitive or sensitive, may I ask you how many numbers of A/Cs you have actually sold in FY 2018 and how much it has grown in volume count?

Anil Rai Gupta: As far as the magnetic contractors go, it is a very large industry where we have many companies who are already invested in that. It goes as a part of our industrial switchgear portfolio. So at this moment, to give you any flavour of that industry it would not be right in this call. Water purification all I can say is that the initial response has been very encouraging. It is still is at that stage where we are creating the distribution, we are going deeper into the retail channel and waiting for and creating the right service network so I think over a period of time, it will continue to grow organically, but it will take its own time because it is doing extremely good. And I think the Lloyd numbers we are giving most of the numbers in value and not in terms of quantity?

Shrinidhi Karlekar: And last one if I can, so the Rs.1870 Crores revenue that we talked about considering the 40 days at Lloyd was erstwhile owner, there you talked about portfolio margin being 8%. Sir would it be possible to share how much is it different from the A/C portfolio and the non-A/C portfolio. And how materially different it is?

Anil Rai Gupta: What, the profit margin?

Shrinidhi Karlekar: Yes. Is it like 10% that we are already earning in A/C and maybe on panel part and washing machine is like 6%. Is it that mix? Is that the way 1 should look at it and lastly, both the segments like A/C and non-A/C is about 8%?

Anil Rai Gupta: We have to see it together because it goes through the same channel, sales, with marketing players, so it will be very difficult to allocate specific costs to each product category.

Shrinidhi Karlekar: Thank you. That is helpful. All the very best.

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

Snigdha Sharma: Thanks for taking my questions. So two quick questions from my side. On Lloyd, higher margin in a peak quarter is quite understandable, but given that this quarter we also saw input price inflation, INR depreciation also assuming that the advertising cost would be higher given a peak season, so I see it is quite a peak jump from the 2.9% EBITDA margin we reported last quarter to a 12% this quarter, so what has contributed to this increase? If you can just briefly talk about that, it would be very helpful?

Anil Rai Gupta: I think these businesses are very much related to sales, the higher the sales your expenses get advertised on that and obviously higher advertising happens but it is not in the same percentage. It happens during the other quarters, so I think I would say that we need to look at a larger period, longer period than this one quarter. Yes, quantity prices have increased, the dollar has moved unfavourably as well, so some of the impact may actually come in the subsequent quarters because there is a high degree let us say inventory and creditors. Specifically also will get passed on by the entire industry with the consumer, during the inflationary times it is a balancing act, we have to maintain.

Snigdha Sharma: Sure Sir, most of this is operating leverage, the increase in margins?

Anil Rai Gupta: Yes, and the whole year if you see it is around 8% which is I think pretty much in line with the industry. In fact it continues to be lower than the industry. I am sure you are well aware of the competition and how margins they track, so I think one should not read really unduly into the Q4 results and I think our efforts to continue to improve both on the volume and margins will continue in this year as well.

Snigdha Sharma: Sure and secondly, we have spoken about 11% growth this year on a like-to-like basis for Lloyd, so can we talk about how the market share has moved in the last one year. I am guessing we have likely lost shares because the industry has grown much faster and given the competition how easy or difficult is it to sort of gain us back in the next few quarters?

Anil Rai Gupta: We are not sure whether we have lost market share. It would be very difficult to say. I think we believe we are in the top three at least in the A/C segment, which is our predominant segment and again I think in month-to-month basis what changes is very difficult to comment upon that, but maybe we have a specific plan for Lloyd. We want to make it much more wide ranging both in terms of product as well as their distribution reach, get into manufacturing as well, build up the brand, take up the perception among the people, have competitors as well so I think there are so many things which are going to happen in Lloyd. Frankly we are not overtly focused just on one number of what is going into the market. We have lot to do and we believe we are sort of operating satisfactorily on all those counts.

Snigdha Sharma: Fair enough Sir. That is very helpful.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for their closing comments.

Anil Rai Gupta: No closing comments. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Motilal Oswal Securities that concludes today's conference. Thank you for joining us. You may now disconnect your lines. Thank you.