



“Havells India Limited  
Q3 FY '23 Earnings Conference Call”  
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**MODERATOR:** **MS. BHOOMIKA NAIR – DAM CAPITAL**

**Moderator:** Ladies and gentlemen, good day, and welcome to the Q3 FY '23 Earnings Conference Call of Havells India Limited, hosted by DAM Capital Advisors Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Bhoomika Nair from DAM Capital. Thank you, and over to you.

**Bhoomika Nair:** Yes. Good evening, everyone, and welcome to the Q3 FY '23 Earnings Call of Havells India. We have the management today being represented by Mr. Anil Rai Gupta, Chairman and Managing Director; Mr. Rajesh Gupta, Whole-Time Director, Finance and Group CFO; Mr. Ameet Kumar Gupta, Whole-Time Director; and Mr. Rajiv Goel, Executive Director.

I'll now hand over the floor to Mr. Gupta for his initial remarks, post which we'll open up the floor for Q&A. Over to you, sir.

**Anil Rai Gupta:** Thank you, Bhoomika. Good evening, everyone, and wish you all a very Happy New Year. Thank you for joining the call today. Hope you would have reviewed the results published. Amidst the moderating consumer demand, a steady performance during the quarter was supported by the B2B businesses. Inflation remains a challenge for the industry and the consumer. Key commodities remain volatile and elevated.

Recent channel expansion initiatives such as rural and e-commerce continue to deliver healthy growth. Lloyd maintained its growth momentum; however, margin recovery has been slow. We expect further improvements from Q4 onwards. There was a strong recovery in contribution margins across segments, especially cables, on a sequential basis. Overall, there is a disproportionate focus by the company on technology, consumer journey and talent buildup.

Thank you very much. We will now proceed for Q&A.

**Moderator:** We have our first question from the line of Renu Baid from IIFL Securities.

**Renu Baid:** So, my first question is, can you comment something, what has been really ailing the demand in the B2C segment? And in your view, by when should we expect some rebound? So, is this weakness in demand more regionally focused, rural, semiurban, what is really ailing it? And by when do we expect some recovery and rebound in this end-market demand?

**Anil Rai Gupta:** Thank you, Renu. So, I think what was generally seen as a huge inflationary trend over the last 1-1.5 years, I think that is, to some extent, slowing down the consumer demand. And we had hoped that because prices would have started stabilizing in the third quarter, if not increasing, so that should have started giving advantages from the fourth quarter onwards.

But the fact is that there has been some volatility in raw materials again. So, it's difficult to say when we can see a come back to normal growth in the consumer products completely. So, if

your question is whether we will start seeing a turnaround in the fourth quarter, not very sure about that. But yes, I think inflationary trends would have ailed the growth in the consumer part.

**Renu Baid:**

And if I look on the margin side, while Lloyd has seen some sequential improvement, contribution positive, still overall negative at the EBIT level. Can you also comment on the overall margin outlook and status of high-cost inventory across Lloyd and other portfolio? Switchgear margins also were relatively weak this quarter. So, any comments there?

**Anil Rai Gupta:**

So, I think overall margins from the Havells point of view, which we've maintained that there were some high-cost inventories in fans and cables and wires that were taken care of in the third quarter, so we are now at normalized inventory costs in Havells side. On the Lloyd side, still some of it was left going into the fourth quarter. So that should be taken care of partly in this quarter, and the rest will be all new cost inventory.

But the fact is, as I said, the raw material prices have started showing some upward trend in the last few weeks as well. But at least the old inventory has already been consumed in Havells and a little bit of left in the upcoming season for the Lloyd AC products.

**Renu Baid:**

And one last question, if I can ask. While we have seen the RAC portfolio marching ahead with market share gains, even margins have been soft, how has been the performance of the non-RAC portfolio, washers and ref, which was relatively new enough in the Lloyd family? So, some comments on these would be welcome.

**Anil Rai Gupta:**

Yes. I think the growth there also has been very good till the second quarter. Third quarter was a bit slow because overall consumer demand was not great in the third quarter. Obviously, it is not reflecting in the AC sales because AC in the third quarter and early fourth quarter is more of a shelf fill-up and stuff fill-up for the distributors.

So, I would say that there has been some slowdown in the growth for the other categories just like any other consumer product, but still very small for us. So even that growth is quite high for us, but it has slowed down in the third quarter.

**Moderator:**

We have our next question from the line of Rahul Agarwal from Incred Capital.

**Rahul Agarwal:**

Congratulations for handling the fan transition well. It looks like there is no hiccup there. Sir, first question is on the upcoming summer season, both for the ACs and fans. ACs, I understand, obviously, the stocking has started and hence the inventory both at our level as well as at the channel level should be increasing. So, my question is on ACs and fans on the upcoming summer season. How would you see the channel inventory right now? And what do you expect from the season in terms of market share gains and overall demand?

**Anil Rai Gupta:**

So ACs, as you mentioned rightly, that right now is the time for shelf-filling. And the real season starts late January and in the northern parts in late February-March. So that is to pan out. On the fans side, because of the energy rating change, there was some shelf-filling on the lower segment of the fans, whereas actually on the higher segment of the fans, there was some destocking.

Because the cost increase in the higher high-rating fans was not so high. So, there was some destocking. And on the lower-end segments like the base fans, there was higher stocking. So, I would say this is normal inventory, not very high levels of inventory in the fans segment also because this is distributed amongst the lower end and the higher end.

**Rahul Agarwal:** And lastly, sir, on the margins, you explained a bit, but just on cable and wire and ECD, I think that's not back to normal levels. Obviously, the old inventory problem is sorted at the Havells level. So, in fourth quarter should we see better margins?

**Anil Rai Gupta:** The cable and wire, I think it's pretty much there. Generally, our margins are between 14% and 16%, and it's there. And I think ECD, with a combination of all the products, these are the normalized margin levels. So, we have come back to almost levels of last year.

**Moderator:** We have our next question from the line of Aniruddha Joshi from ICICI Securities.

**Aniruddha Joshi:** Sir, two questions. Well, B2B segment has done well. So, was there any onetime impact in that? Or do you see the B2B growth to sustain in Q4 also, question number one. And sir, question number two, ad spend. Now compared to the COVID level, definitely there is a recovery in this quarter in ad spend. But still the ad spend is not near the pre-COVID levels?

So, when do we see the ad spend moving up to the pre-COVID level, and I mean, whether the margins will increase with the correction in input prices, whether that will be largely utilized to improve the brand building efforts?

**Anil Rai Gupta:** I think pretty much the advertising spends are at normalized levels. Obviously, the volumes have gone up, so as a percentage, the advertisement spends have come down. But I think these are the right levels. We're not anticipating major increase in percentage spends on the advertising.

On the B2B, I think there was no onetime impact of any particular demand. So right now, I would say that the B2B segment has been showing robust demand.

**Moderator:** We have our next question from the line of Achal Lohade from JM Financial.

**Achal Lohade:** My question was, sir, you mentioned the B2B is doing better than the B2C. Is it possible to get some sense in terms of the mix? How was it for this quarter compared to 2Q FY '23 and 3Q FY '22 as well?

**Anil Rai Gupta:** In Non-Lloyd, approximately 75% is B2C and 25% is B2B

**Achal Lohade:** If I see in the past, it has been around the similar level. So, I'm just curious to understand.

**Anil Rai Gupta:** Yes. I mean percentage-wise it's not much different.

**Rajiv Goel:** It has gone down to maybe 21% or 23% but not very significantly changed. But yes, maybe when the B2C is high, it goes to 23%-22%.

- Achal Lohade:** Secondly, when you say about the B2C is facing some amount of slowdown or subdued demand, if I look at our numbers in terms of the three-year performance, and I presume more than half of that is volume growth, does it imply that there is a significant market share gain across the categories? Or you think you're talking more from the incremental perspective rather than really from a normalized growth perspective in terms of the slowdown, subdued demand perspective?
- Anil Rai Gupta:** Sorry, I have not really understood your question.
- Achal Lohade:** So subdued demand when you say, is it more from a Y-o-Y perspective? Because on a three-year CAGR, we are significantly better actually in terms of performance?
- Rajiv Goel:** Yes, it is Y-o-Y, incremental basically, because you want to grow all the time. There could be multiple reasons for that. We believe primarily it could also be inflation. You could also argue there's something catching up with the consumer demand as well. So, there could be multiple ways to look at it. But yes, there has been some fatigue in the consumer demand. I think that's what we are articulating.
- Achal Lohade:** And just a clarification, with respect to the employee cost, if you see Q-on-Q, it has gone up 6%. Is that a new normal run rate we should look at? Or like you said in the opening remarks, you intend to spend on the employee base as well?
- Anil Rai Gupta:** So, no. So, whatever the increase that you're seeing, that should be considered as the new normal.
- Moderator:** We have our next question from the line of Siddhartha Bera from Nomura.
- Siddhartha Bera:** Sir, my first question is again on this B2C demand, which you said that it is slightly weaker. So can we expect there can be some incentive or discount push, which can, to some extent, support the demand in the current year or do you think it will play out as overall gradual recovery, which you expect?
- Anil Rai Gupta:** Incentive to the trade you are saying?
- Siddhartha Bera:** Yes. Some higher promotion schemes for the consumers
- Anil Rai Gupta:** No. That may be just temporary. But it doesn't really change the demand scenario. These schemes and all these things are to push inventory into the channel. Ultimately, the consumer demand has to pick up.
- Siddhartha Bera:** Okay. And in terms of the margins, you said that ECD margins are largely back to the normal level. So will it be fair to assume that both for ECD and Lighting, we don't expect much benefit from the commodity and everything is reflected in the current quarter?
- Anil Rai Gupta:** Yes, pretty much it's reflected in the current quarter. In fact, I would argue that there will be some challenge in the coming one or two quarters if the raw material continues to remain volatile. But we will try and manage that as we have done in the past. Over a medium term, our margin levels remain quite steady.

- Siddhartha Bera:** Okay. And sir, lastly, on the Lloyd business, again, if we look at the capital employed, it has continuously, over the last so I'm not just looking at the current quarter, but as a trend, over the last few years, it has kept on rising from, say, INR 2,000 crores earlier to INR 3,000 crores now. So what should we think about this business in general? Shall we expect that it will keep on rising as a percentage of your overall capital employed in the medium term?
- Anil Rai Gupta:** Overall, we'll actually start seeing more efficiency there because we are now starting our second plant as well. So because the product is seasonal, because of having one plant and the demand growing at a pace of 30% to 40%, so we have been forced to actually keep inventory for the season. So, the working capital once we have two plants running, so overall inventory will come down in number of days.
- Siddhartha Bera:** Okay. And will it be possible to share the mix of Lloyd in case we have now REF and Washers portfolio also. So possible to share how much will be the ACs and other composition for Lloyd right now?
- Anil Rai Gupta:** Around 75% is ACs, but you know again, it varies quarter-to-quarter, but overall, approximately about 70% to 75%.
- Siddhartha Bera:** Okay. So there has not been much of a change in terms of the mix for Lloyd.
- Anil Rai Gupta:** Yes, because growth of air conditioners has been also quite fast. It's not like that it's become a mature product for us and hence the growth is limited.
- Moderator:** We have our next question from the line of Sonali Salgaonkar from Jefferies.
- Sonali Salgaonkar:** Thank you for this opportunity sir my first question is, have we completely transitioned to the new BEE norm inventory in fans and ACs. And if yes, what is the price hike that we have taken for the new inventory, or for the new models?
- Anil Rai Gupta:** Yes, we have moved to the new inventories. In fans, our average price hike is around 3% to 4%. And in air conditioners, approximately about 3% to 4%.
- Sonali Salgaonkar:** And would that be positive for our margins, accretive, or even the cost was higher up?
- Anil Rai Gupta:** The costs have also risen to similar levels.
- Sonali Salgaonkar:** Got it. Sir, my second question is, considering that many of the input commodities have started softening, is there any pricing action that we have taken or contemplated in terms of rollback? Because I think last year, on an average the price hike across categories was somewhere between 10% to 15%.
- Anil Rai Gupta:** Actually, during the second part of the quarter, raw material prices have started going up again. So there is no room for rollback at the present moment.

- Sonali Salgaonkar:** Got it. Sir, my last question is, in terms of inventory levels for the channels, you are saying that for fans and ACs, it's near normal. But looking at the weakness in the B2C demand, how would you think the other category inventory is?
- Anil Rai Gupta:** Other category in fact, ACs, I didn't say it is at normal level, because it is normally a time for shelf filling. Fans, it is at normal levels. Other products also, the inventories in the system are not very high.
- Sonali Salgaonkar:** So they are near normal?
- Anil Rai Gupta:** Yes.
- Sonali Salgaonkar:** Despite the demand weakness?
- Anil Rai Gupta:** That's right.
- Sonali Salgaonkar:** Got it sir thank you
- Moderator:** We have our next question from the line of Praveen Sahay from Prabhudas Lilladher.
- Praveen Sahay:** Thank you for taking my question sir my question is related to Lloyd. As you had mentioned that because of season, the inventory levels were on the higher side, but in the press release you had also mentioned that the inventory you hold high-cost inventory right now. And as well as you are mentioning that the fourth quarter will see some margin improvement. So like if you have a high cost inventory, so margin, how to improve in the Lloyd?
- Rajiv Goel:** No, all the inventory as on 31st December is not high cost. You see, the inventory is getting built up over the entire quarter. So yes, there was inventory in the September quarter, and September quarter is traditionally a low quarter, so that inventory we carried in this quarter, and that's where inventory we will be disposing in this quarter will be high cost. So some high cost inventory will be but entire inventory as on 31<sup>st</sup> December is not the high cost
- Praveen Sahay:** Okay. So on sequential basis, you are considering the improvement in your margin.
- Rajiv Goel:** Sure.
- Praveen Sahay:** Sir second question is related to lighting business. Continuously, we are seeing the contraction in the margin. So can you give some details like how the professional lighting mix is doing there? Why? And how long we will see the contraction in the margin there?
- Anil Rai Gupta:** Have you seen the contribution margins of lighting. So, Lighting contribution margins are fairly stable. There was a one-off spike in the third quarter of last year. Otherwise, generally around anywhere between 28% to 30% contribution margins for Lighting are there. And what you're seeing is a contraction in the particular segment results in this quarter is also because of new product launches in this quarter wherein some advertising inputs were done.

So, I would not actually see it anywhere contraction of margins. Though in fact we are ducking the trend in the Lighting industry where there is contraction of margins. But because of new product launches and technology enhancements, our Lighting business gross margins of all the products are maintained very well.

**Praveen Sahay:** What is the normal margin for this?

**Anil Rai Gupta:** 28% to 30% contribution margin.

**Moderator:** We have our next question from the line of Venkatesh Balasubramaniam from Axis Capital.

**Venkatesh B.:** Mr. Gupta, I had a few questions. The first thing is on ECD consumer durable margins. Your EBIT margins in this quarter were close to 13%. And you said these are like the normalized levels that you need to work with and these are like similar to last year. So, if I actually look at EBIT margins of the ECD division over FY '20 to '22, it was in a band of 14% to 17-odd percent. So, is there any reason to believe that structurally margins in the ECD have come down? Or is there like a one-off in this particular year why the margins are lower, like higher advertising costs?

**Anil Rai Gupta:** I would say the normalized margins will remain between 13% to 15%. And there cannot be a fixed number because the quarter-on-quarter advertising spends can vary, but somewhere around 13% to 15% will be there. And you saw margins of around 17%. Those were certain years where the COVID was there and the advertising spends were really curtailed and expenses were also curtailed. So those were, I would say, not the normalized margin, 13% to 15% would be the regular margins.

**Venkatesh B.:** Now moving on to Lloyd, I guess you did mention this quarter you have taken 3% to 4% price increases, right?

**Anil Rai Gupta:** We will be taking in the fourth quarter.

**Venkatesh B.:** In the fourth quarter. Okay.

**Anil Rai Gupta:** Once the season starts, because right now, as I said, it's the shelf-filling time.

**Venkatesh B.:** So are you seeing everybody else also taking these price increases?

**Rajesh Gupta:** We are expecting that the competition would also have to take similar price increases because of the cost increase of the ratings change from the 1st of January.

**Venkatesh B.:** Now you also in your press release mentioned that sequentially you are expecting an improvement in margins. Do you think we can kind of break in either in the fourth quarter, in terms of EBIT margins, can we turn positive? Or is it like, for that it is going to take a lot more time? And on an annual basis, FY '24, is there a potential of breaking even at the EBIT level, or it will take time?



**Anil Rai Gupta:** So that will be an endeavor. However, this margin improvement will happen over a period of time. Everything will not come back in the fourth quarter. In fact, the fourth quarter, the improvement will be very small, but we are expecting more improvement in the next financial year. Because as we said, we still have some high cost inventory in the fourth quarter. And this is -- the first 1-1.5 months is also shelf-filling time. So, the price increases will actually effectively happen during the season.

**Venkatesh B.:** One last question on Lloyd's. Now I guess with the tremendous growth in sales, you've already got to, depending on the quarter, you are either third or fourth in the market. Now are you satisfied with this third and fourth? Or do you really believe that you need to get to the second position or maybe even challenge the market leader to make your business economics work? Or is it like you are now satisfied with third?

Because when we talk to almost all the other players in the market and most people actually keep pointing fingers at Havells that Havells has become too aggressive. So, any thoughts on that? Where do you stop being aggressive and look for breakeven and things like that? Or is it like you're looking to increase your scale to such a level and then look for profitability?

**Anil Rai Gupta:** I think when you talk about competition and talking about Havells being aggressive. To some extent, the pricing is not dependent on the fact that we are leading the market. We can't lead the market on prices because, as you said, our position is still not the leadership position.

And in fact, the hyper-competitiveness in the pricing front is due to a few factors, especially after COVID, everybody wants to come back to their original levels of positions and market shares. So, a lot of people are sort of not fully passing on the cost increases which happened during the last one year. And that is how the competition is actually driving the prices, and Havells or Lloyd, to that extent, has to follow that as well. So, we will be following the market rather than actually leading the market on the pricing front.

As far as the market positioning is concerned, we do believe that not only in ACs, but in most product categories, we do want to play the top three positions. Sometimes we don't rush after the number one position also because of the fact that in certain kinds of markets like, for example, in fans, we don't operate in the economy segment of the fans.

So that's why we don't push ourselves to be actually. So, the same will be the strategy in Lloyd. We would continue to try to be a meaningful player amongst the top two or three players in the market. So, we are not running after a number, particularly, that we want to be one or two or three. It's just that our product offering, market shares continue to need to grow.

**Moderator:** We have our next question from the line of Ankur Sharma from HDFC Life.

**Ankur Sharma:** Yes. Sorry. So I had a question on the star rating on fans, which came in from January. So I was just wondering, with this star rating, do you believe there could be some consolidation within the industry? Would you believe that there'll be a shift towards more of BLDC fans, which would typically be 4-, 5-star rated, which probably also benefits players like Havells, probably the top 2-3 players. So there could be some market share gains for the top 3-4 players and some

consolidation as that, or would you believe there wouldn't be too much of a change post the star rating?

**Anil Rai Gupta:**

Generally, theoretically, you're right that any disruption towards higher and better products and technology should bring in consolidation towards better brands, better-quality brands. But we still have to see how this stands out because like, for example, actually, before this change, BLDC was a differentiation. Today, after this change, BLDC is just one of all the products which are energy efficient. So all the fans from now will be below 50 watts.

So I think it will again open the market from an energy saving point of view. But India is a very large market, and it's difficult to say that any such change would actually consolidate the market in a very short period of time, difficult to say. But long-term, it should benefit the branded products.

**Moderator:**

We have our next question from the line of Amit Mahawar from UBS.

**Amit Mahawar:**

Mr. Gupta, congratulations on a decent recovery, especially bottom line on cables and top line on Lloyd. Sir, I just have one question on Lloyd. If you assume maybe around one to two years a very gradual normalization of demand cycle, especially inflation cooling off, which can to an extent benefit Lloyd business naturally, but beyond that and beyond the expansion that you're planning, the second manufacturing plant in room ACs, could you throw some color on how Lloyd brand and manufacturing will progress, taking into account the supply chain development that are happening in India as well? That's my only question.

**Rajiv Goel:**

So Amit, as you're talking two years out, see we have got another plant already coming up. So I think supply chain, we believe, more and more will become domestic. You see whether we do in-house, we are already seeing some actions being taken even on the sort of compressors. So I think, first of all, we see the structural shift that most of the products will be sort of make-in-India and not just assembled in India.

Second, I think industry, we believe there will be growth and there will be disruption, as ARG just mentioned, because of COVID. We believe there will be a structural growth in this industry, because India is predominantly a hot country, and we expect this industry to structurally grow. This is the least penetrated in terms of large appliances as well. And within that, we feel there will be certain consolidations going forward. You see there have been times where multiple players or multiple categories had got into ACs. I think that's already getting corrected. So it could be that there could be a relevance of five to six players, and you see there will be sort of better signs of profitability as well. If you look at pre-COVID, this industry used to have good margins. We believe, in a couple of years it will catch up on profitability as well. Since you're asking slightly longer-term question and we're just trying to give a longer-term picture of what we believe for this industry.

**Amit Mahawar:**

Sure. I mean, I was just referring to -- can I say that from a 2-year view, 3-year view, bulk of our capital allocation capacity expansion will happen on the Lloyd side, barring...

- Rajiv Goel:** For two, three years, I think we have reached a bit of a peak on capital allocation or capital deployment in Lloyd now. What happens after 3-4 years, I think we'll watch out at that time. But now we are peaking in terms of capital deployment in Lloyd.
- Moderator:** We have our next question from the line of Shrinidhi Karlekar from HSBC.
- Shrinidhi Karlekar:** Congratulations on good set of numbers. Sir, would it be possible to share some color on how is new construction-driven demand playing out? Are you seeing a slowdown in that pie of the market as well?
- Rajiv Goel:** I think there is some pause there. I'm sure you would have looked at our switchgear segment. There is some pause on the new construction. We just hope this is temporary. So we still hold that the property cycle you see is in uptick. But sometimes it's very difficult to really generalize a particular quarter. So, construction, some pause but continue to be more optimistic.
- Anil Rai Gupta:** It could also be temporary because sometimes people delay their purchase.
- Shrinidhi Karlekar:** Right. Yes. And sir, on Lloyd business again. So there has been improvement in contribution margins sequentially and you're also guiding sequential margin improvement further into Q4. Wondering would you reiterate your guidance of low double-digit contribution margin in the Lloyd business by Q4, or we'll have to wait longer for that?
- Rajiv Goel:** I think that will take time, Shrinidhi, because as we said, we still hold certain inventory. Hyper competition continues to be there. So I think as of now, we will see improvement sequentially.
- Shrinidhi Karlekar:** Okay. And last one, sir, if I look at Havells' top line performance, okay, it is significantly above industry. In the past also, you used to grow much faster than the industry, but the whole quantum of outperformance has been significantly above, and not just at the company level, each and every segment you have been outperforming significantly. Wondering, in your own assessment, what is really driving this sharp outperformance? Would it be possible to share some color?
- Anil Rai Gupta:** I think if you're talking over long term, in the last five or six years, there has been a lot of new initiatives towards becoming an Omni-channel company and also becoming more and more relevant towards all kinds of customers, not just the trade-oriented customers, but also B2B projects.
- I would attribute a lot of it also to the consumer preference towards the investments that we made in our technology & innovations. And other than the brand building, which has always been there, but most of it is also consumer-led driven through innovation. So I think that also helps the protection of the margins on a long-term basis. So I don't know whether I've answered you the question, but it's a very long-term kind of a...
- Shrinidhi Karlekar:** I was wondering like you had been outperforming pre-COVID as well. The quantum of outperformance seems to have accentuated post COVID, which is good. Could I just understand more of the drivers of it?

**Anil Rai Gupta:** That also is reflected in the fact that with every disruption, there is movement towards organized players. And I think companies who have invested in product, distribution and brand, they get a higher share of the advantage.

**Shrinidhi Karlekar:** And last one, sir, is the air conditioner plant likely to contribute in servicing demand for this season?

**Anil Rai Gupta:** Yes. But in a very small percentage, but it will start contributing from this season.

**Moderator:** We have our next question from the line of Manoj Gori from Equirus Securities.

**Manoj Gori:** My first question is on the ECD segment. So obviously, when we look at demand environment which was pretty weak on the B2C side. So if you look at there was some pre-buying in fans, whereas I believe like there would have been some pressure on water heaters in the December month, especially when we look at the winters were not so strong. So can you just indicate like probably what would have been the impact on the overall growth numbers during the quarter because of the weakness in water heater?

**Anil Rai Gupta:** So first of all, on the pre-buying of fans, as I explained earlier, Havells was less benefited by the pre-buying because Havells does not operate in the economy segment. And these economy fans are in the major advantage of cost differential between pre-December and post-December. Hence, the shelf-filling happened for lower-end fans.

So, for us, the pre-buying was not such a big factor. Yes, the other products also include, not just water heater, appliances, fans overall, and has grown not significantly well. So it was not just related to water heaters, but overall, the demand had been muted in this quarter.

**Manoj Gori:** So probably for fans, again, the pre-buying or probably switch from non-energy compliant to BEE rating. So it should be a normalized quarter in the fourth quarter, what I mean, for us?

**Anil Rai Gupta:** Yes, hopefully, it should be. We do have a couple of brands like Standard and REO, but at least in Havells, our major foray is into upper-end segment. So that should be a normalized quarter.

There was increase in prices and the cost. So that can impact some amount of initial growth, because trade and then consumer finally takes some time to adjust as well.

**Manoj Gori:** And sir, how do you expect the industry to settle down, especially if you look at fans with the BEE rating, because if you look at today, we are like in the ACs, it's like roughly 70%-75% is 3-star, 5-star would be 20%-25%, somewhere near that. Like how do you plan your productions with regards to star ratings, what would be the execution challenges? Can you highlight something over there?

**Anil Rai Gupta:** Really can't answer that. I mean, we'll have to see how the demand pans out. But I think that way our supply chain is very agile to take care of how the demand is there. Everything has to depend on the consumer in terms of what they eventually buy. It could be possible that the push towards 5-star and 3-star, people may shift towards more 1-star, 2-star, but could also be they

can actually take a plunge and go for a 3-star or 5-star, but this has to be seen during the year. But generally, we are flexible. Our supply chain is quite flexible, and that is one of the big advantages that we have our own production team.

**Manoj Gori:** Sir, lastly, second question on Lloyd. So obviously, since quarters, we were not sure whether we would be doing breakeven in the current year. Can you offer some visibility on FY '24, whether we would be achieving breakeven in the current year. Can you offer some visibility on FY '24, whether we would be achieving breakeven at segmental margin levels for Lloyd?

**Anil Rai Gupta:** I think we'll comment after the season. That will be the right time to do that.

**Moderator:** We have our next question from the line of Bhavin Vithlani from SBI Mutual Funds.

**Bhavin Vithlani:** The question is on the Lloyd situation. Could you speak about the cost takeout initiatives, especially on the supply chain where a significant part is imported when you could localize and take cost out or working capital out? That's one.

Second, if you could also speak about your product differentiation strategy and also the initial promotion expenses that you could have been doing, which is an entry strategy to get your shelf space, and as that normalizes, when do you see the margins kind of improve because of that?

**Rajiv Goel:** So Bhavin, on cost takeout, as you said, I think this is an ongoing sort of endeavor. And the commodities, the way they have been volatile, I think they're not helping the cause, whether you import them or whether you do it domestically, because a lot of these products are globally sort of benchmarked in terms of the pricing.

So, I think it is a constant endeavor. I think wherever the cost optimisation possibilities are there, I think they are regularly evaluated. In fact, when you do things in-house, in beginning actually you incur costs which are higher than when you just outsource them, either from India or China. So, I think that takes some time to settle down. So now that we've got a new plant, you will see actually some costs which could be slightly higher than normal. But I think in a year or so, I think you will see the benefits of doing things in-house.

Coming to the promotions and the entry pricing and all, I think we have been in this industry for some time now. So, the promotion and making the brand preferable for the consumer will continue to be there. I think this is something what Havells has done over long years. And with Lloyd also, there's a similar journey.

So, we will not say this was something for a particular level or a particular period. Yes, as a percentage of sales, as sales grow, you see there may not be a similar increase in terms of percentage. But on the absolute numbers, we believe these commitments, whether in terms of the product, whether in terms of the promotions or advertisement, I think they will continue for the time being.

**Bhavin Vithlani:** Just a follow-up here. What would be A&P for Lloyd? I think historically, we have seen it's much higher than the company average?

- Anil Rai Gupta:** A&P we had it almost 9%-10%. Right now, it will be around 5%-5.5%.
- Moderator:** We have our next question from the line of Ashutosh Parashar from Mirabilis Investment Trust.
- Vipin Goel:** Yes. Vipin Goel from Mirabilis. Sir, I had just one question. If you could shed some light on the demand scenario in the wires, specifically on the house wire retail side. And also, if there was any inventory gains in the quarter for wires? So, if there was, then what was the quantum of type?
- Anil Rai Gupta:** I think wires is undergoing a little bit of a volatility because of the raw material fluctuations. And at times there where some shelf-filling also, because now the prices have started going up. There were no inventory gains, but in the third quarter, the secondary demand for wires would have been also impacted similar to other businesses, but we are seeing some higher sales because there's some shelf-filling as the costs started going up in the second part of the quarter.
- So, we do anticipate some higher levels of inventory at the end of the third quarter as far as domestic wires is concerned.
- Moderator:** We have our next question from the line of Rahul Agarwal from Incred Capital.
- Rahul Agarwal:** Sir, one question on the Lloyd's washing machine and Refs portfolio. In terms of SKUs, are we fully prepared for the next season? If you could just elaborate a bit on what kind of models we have and are we done with the largest portion there?
- Rajesh Gupta:** Yes, pretty much on the washing machines, and refrigerator is on its journey.
- Rahul Agarwal:** Washing machine, I think the season just went out, and refs will actually start summer. So, calendar year '23, we should be fully there as per vs competition right?
- Anil Rai Gupta:** Yes, that's right.
- Rahul Agarwal:** And lastly, you said Sri City will contribute in the season. So like March and April is where the timeline is for the plant to start?
- Anil Rai Gupta:** That's right.
- Rahul Agarwal:** And lastly, capex for the current year and next year, if you could guide please?
- Anil Rai Gupta:** So, this year, eventually, we'll finish around INR 700 crores. And next year, we'll let you know by the end of the fourth quarter.
- Moderator:** We have our next question from the line of Abhineet Anand from Emkay Global Financial Service.
- Abhineet Anand:** My first question is on the RAC side. Can you throw some light for nine months what has been the industry volume growth and what is for us?

**Anil Rai Gupta:** We don't normally give the product price breakup, but we definitely have been better than the industry growth.

**Abhineet Anand:** Yes, I think that's clear from the, I mean, numbers, but any at least qualitative thing will do in terms of industry and Lloyd both?

**Anil Rai Gupta:** Actually, it's not a great nine months to compare because the first quarter we were comparing against a lower quarter of the last year. So difficult to say what the real growth is in the first nine months.

**Abhineet Anand:** Secondly, on the cable & wires side, is it possible to give a breakup of the B2B and B2C part?

**Rajiv Goel:** 60:40. So, 60% is wire and 40% is cable.

**Moderator:** We have our next question from the line of Rajesh Aynor from ITI Limited.

**Rajesh Aynor:** So most of my questions have been answered, but I just wanted to ask something on the competitive intensities going forward which you expect in RAC as well as in cables and wires? Because in cables and wires also there are some players who were, let's say, predominantly on the B2B side, but now they have been guiding that they will also turn equally or even more aggressive on the B2C side? And even in RAC, I mean, we've seen the competition heightened and we are also focusing more on market share gain and establishing our volume presence in the market. So going forward, do you expect any change in the competitive intensity on the RAC side. And on the cables and wires, you can actually maybe give us some idea of how exactly are the things. Has there been any change over, let's say, last 12 months? And going forward, how is it expected?

**Anil Rai Gupta:** Cables and wires, I think, have been competitive right from the beginning and it will continue to remain so. As you've mentioned, some brands are coming on the B2C side. In fact, the more they come, in fact, it gets easier and it becomes better to actually reorganize the unorganized sector towards the organized sector. So that is all beneficial. I think our focus has always been that how do we grow faster than the market and gain market share.

On the RAC side, while there is competitive intensity, as I've said many times, due to post-COVID scenario, a lot of people wanting to regain or come back to their existing market share levels. I think the kind of growth that Lloyd is experiencing is not just by being aggressive. We are actually following the market. But also the fact that we are entering into the channels where we were not present, the modern format stores, the regional retailers, the e-commerce. So those are segments that we are entering into. Some sales are also coming from our projects business, the builder segment where Lloyd was not present. So, I think we are gaining market there, rather than actually gaining market share by being more competitive. We are actually more following the market there.

**Rajesh Aynor:** And sir, just on this note, if you have to look at it, how long let's say would it take for us to sort of have a saturated presence through all the channels as well as all the geographies and all the tiers, let's say, Tier 1 or metro. So how long will this journey continue? And then from there

onwards, it will be more like Lloyd will be present all across and then it will be up to the market or up to other factors other than distribution and presence.

**Anil Rai Gupta:** We've been in business since 50 years and since then we've never reached any saturated presence in any business category there. So hopefully, India will continue to give many more opportunities to expand.

**Rajesh Aynor:** Yes, that is there, but it is more to do with RAC and Lloyd as a brand, and there were initial lot of...

**Anil Rai Gupta:** In fact, our starting point in RAC and Lloyd has also been much lower. We started in 2017. So there the opportunity is even bigger to actually continue to make our presence across every nook and corner, then increasing market share where we are weak. So there will be a huge opportunity for Lloyd to increase its presence.

**Rajesh Aynor:** Sir, where is our market share, in case you can share that number? And where do you see it going forward, let's say, in almost 18 to 24 months? Any target we've set for ourselves?

**Anil Rai Gupta:** No, I don't think we'll give those numbers right now.

**Moderator:** We have our next question from the line of Rahul Gajare from Haitong Securities.

**Rahul Gajare:** You did indicate that the revenue during the quarter was driven by the volume, and you talked about 3% to 4% hike that you've seen in fans and AC. Is it possible you could highlight if you've taken any other pricing action in any other product category during the quarter? That's the first question.

**Anil Rai Gupta:** So in fans and ACs, I mentioned that the actions will happen in the fourth quarter, and there was no pricing action in the third quarter.

**Rahul Gajare:** Okay. Sir, my second question is on the ad spend. Given the consumer demand has been soft, you have increased or maybe normalized your ad spend. Is it possible you could help us understand how much is spent on actual advertisement and how much is basically towards distribution incentive schemes etc? Is that the kind of breakup that you could share?

**Anil Rai Gupta:** No. So all this advertising and promotion that you see is not the distribution. That is already taken out of the net revenue.

**Moderator:** We have our next question from the line of Harshit Kapadia from Elara Capital.

**Harshit Kapadia:** Thanks for the opportunity and good set of results. So just two questions, sir. We had seen a very subdued growth in switchgears in this quarter, as you have also highlighted, on the demand side. And similarly for lighting and ECD segment. But however, when I look at contribution margin, for switchgear it remains flat, whereas for lighting and ECD both have improved. So can you share some insights into why is this?



- Anil Rai Gupta:** Because the margins in the second quarter had actually gone down. So basically, they have just come back to the normal level. So if you see the ECD segment, the margins had gone down over the last few quarters because of the unprecedented increase in the raw material prices, that's started coming back up. And in the case of lighting, the second quarter margins were lower as compared to the normal level.
- Harshit Kapadia:** Okay. So there was no material benefit which was there in switchgear, which we saw in lighting and ECD. Is that the correct understanding?
- Rajiv Goel:** No. What we are saying that switchgear had not declined much in Q2. So I think switchgear has been largely stable. I think it was more profound in lighting and ECD, where the margins have slightly improved sequentially. But even in switchgear, if you see, the margins are pretty stable over last few quarters.
- Harshit Kapadia:** Okay. And my last question is, what would be the contribution of B2B and B2C at Havells as an entity for the quarter?
- Rajiv Goel:** Lloyd is all consumers. If we exclude that, we mentioned that 25% is B2B and 75% is B2C.
- Moderator:** We'll take our last question from the line of Achal Lohade from JM Financial.
- Achal Lohade:** Just a couple of questions. One is on the lighting business. If you could talk a little bit about in terms of how the professional and consumer luminaire growth strength have been? What is the outlook? And secondly, on the margins, in general, for the ex-Lloyd pieces, the margins what we have achieved in 3Q, are you suggesting that this is the normalized margins, because in case of lighting, the margins of 12.7% look low compared to the past. Just a clarification on that.
- Rajiv Goel:** Yes. No, I think professional and consumer in lighting, the professional has been slightly better, but I think it's still picking up and the consumer is almost 60% of our lighting business. As far as the margin is concerned on a segment, it should be mentioned that if you look at contribution, they are pretty much stable, almost 30%, which has been largely the average for lighting in last few years. As far as the segment is concerned, there have been new launches and also new advertisement campaigns for lighting, which could have, just for this quarter, have altered or impacted the segment results. I think lighting remains in good space. So we do not feel any structural challenge to the same.
- Achal Lohade:** And secondly, just on the cables and wires segment, if you look at the average copper price, it's down 8% Y-o-Y. We have reported 17%. Does that mean that volume growth is upwards of 20% in this quarter, and how do we tally that with the slowing consumer demand, the macro backdrop?
- Rajiv Goel:** Yes, let's say, 4% to 5% price decline has been absorbed. So, around 20%, 22% volume growth.
- Achal Lohade:** So how do we tally that against the slowing consumer-facing business, while the construction-led wires volume growth is growing at such a high pace? Is there shelf-filling?

- Rajiv Goel:** Yes. No, wire, particularly because there have been some anticipated price increases. I believe there had been shelf-filling in the last month, December, of the quarter. So everything I think maybe you can't just attribute to the organic demand for that quarter.
- Achal Lohade:** Right. What I was trying to imply is that is there any significant market share gains, particularly in the cables and wires business?
- Rajiv Goel:** No, no. And frankly, they are not tracked like that. But I think this will be some general industry performance as well.
- Moderator:** I now hand over the call to Ms. Bhoomika Nair for closing comments. Over to you.
- Bhoomika Nair:** Yes. I would just like to thank the management for giving us an opportunity to host the call and answering all the queries, and thank you to all the participants for being there. Thank you very much, sir, and wish you all the very best. Any closing remarks from your end?
- Anil Rai Gupta:** Thank you very much for organizing and thank you very much for attending.
- Moderator:** Thank you. On behalf of DAM Capital Advisors Limited that concludes this conference. Thank you for joining us, and you may now disconnect your lines.