



“Havells India Limited  
Q3 FY24 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to Q3 FY2024 Earnings Conference Call of Havells India 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 ‘\*’ then ‘0’ 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 Advisors. Thank you and over to you Ma’am!

**Bhoomika Nair:** Welcome to the conference call of Havells India Limited. We have the management being represented today by Mr. Anil Rai Gupta, Chairman and Managing Director, Mr. Rajesh Kumar Gupta, Whole-Time Director (Finance) and Group CFO, Mr. Ameet Kumar Gupta, Whole-Time Director and Mr. Rajiv Goel, Executive Director. At this point, I will hand over this floor to Mr. Anil Rai Gupta for his initial remarks post which we can open the floor for Q&A. Over to you Sir.

**Anil Rai Gupta:** Good morning everyone and wish you all a very Happy New Year. Thank you for attending the call today. Hope you would have received and reviewed the results by now. Sustained infrastructure spends lead the growth in the B2B category. We participated this quarter in several marquee projects through professional lighting. Proud to share that the lighting solutions illuminating Shri Ram Mandir in Ayodhya were done by Havells. Lighting delivered a strong volume growth in this quarter; however, price deflation continues to be a significant drag impacting the value growth. Small domestic appliances category benefitted with the festive demand. Higher base in fans led to muted growth in the ECD segment for the quarter. With the BEE transition now behind us, we expect normalcy in demand market and the summer season should augur well due to the low base in the last quarter of last year as well.

Lloyd with 18% two year growth approaches ensuing season with confidence to leverage on its strengths for further growth. Segmental contribution margins have improved; however, segment results are impacted due to high A&P spends.

During the quarter we have formed a subsidiary in the US with plans to distribute HVAC in US market. It is one of the steps forward forming a base for exports in the developed market.

Despite muted consumer demand, we carried on with brand and talent investments which remain the cornerstone for sustained growth. We can now move on to Q&A.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from Natasha Jain from Nirmal Bang. Please go ahead.

**Natasha Jain:** Thank you for the opportunity. Sir, my first question is on the Lloyd segment, can you just throw some light as to how the overall demand was especially in terms of volume growth and was there any pent up effect in the sales for third quarter and also how the pricing pressure has been given the stiff competition there?

**Anil Rai Gupta:** I think third quarter is not a very good representative, because almost 65% to 70% of our sales come from air conditioner, which is not a consumption quarter for air conditioners. So, I would say that we would be in a much better position to answer this question about the demand scenario, the pricing in the fourth quarter and especially the first quarter of the financial year. We are quite satisfied with the fact that overall Lloyd in the first nine months if you see over the last two years, we have gained market share, we have delivered a very strong over 30% kind of a CAGR growth which augurs well for upcoming season. I have also mentioned last year the season did not do very well because of intermittent rain. So, we are expecting both for air conditioners and fans, a good quarter in the fourth quarter and the first quarter.

**Natasha Jain:** Understood and in terms of fourth quarter, how would you say the shelf filling has the especially in the GT and MT channel?

**Anil Rai Gupta:** At least for our brand I would say that the shelf filling has been lower than last year, because as I said last year there was a very high expectation of a very high season in this fourth quarter and the trade did not see that, so I would say there was a muted enthusiasm in the trade. Also, the company's strategy has also been, because of the two manufacturing plants that we have and enough capacity we have during the season time as well, there will be lot of dependence on the actual consumer demand than the shelf filling.

**Natasha Jain:** Understood Sir. My second question is on the lighting segment. You mentioned that there was a strong volume growth, so was it driven by B2B or B2C lighting?

**Anil Rai Gupta:** We have seen strong volume growth both in B2B and B2C segment, but there has been a heavy price erosion in the overall last one year, which is now stabilizing over the last few months in terms of lighting. So if you see year-to-year, yes, there has been volume growth but value degrowth.

**Natasha Jain:** But then margins have improved significantly by 153-basis points on a Y-o-Y basis, can you just throw some light why that happened?

**Anil Rai Gupta:** Overall last year, margins were impacted due to the fire that we had in the lighting manufacturing unit, but also the company's focus has been to take projects which are not just based on pricing but based more on the innovation as well as in the consumer sector, so we are seeing margin improvements, but also coming back to normalized levels as well.

**Natasha Jain:** Understood sir and lastly in terms of wires and cables surprisingly there has been a margin decline here, so why is that so and if you could also particularly highlight which segments saw higher ad spends?

**Anil Rai Gupta:** Actually, ad spends were spent on all the businesses. Overall, we are happy with the fact that product to product we have seen improvement in contribution margins, it could be also because of the product mix that sometimes the margins are affected, but if you see contribution margins we are seeing improvement in businesses. Overall EBITDA margins are muted because of the higher ad spends in the quarter which will get normalized in the coming time.

**Natasha Jain:** For wires and cables you said the product mix has led to declining margins right?

**Anil Rai Gupta:** Yes.

**Natasha Jain:** Understood. Thank you so much Sir.

**Moderator:** Thank you. The next question is from the line of Rahul Agarwal from Incred Equities. Please go ahead.

**Rahul Agarwal:** Good morning. Thanks for the opportunity. Sir, two questions. Firstly, on consumer demand mainly on the residential real estate side, we see premium and luxury doing well in urban areas across the country. How far do you think we are before this should start contributing to Havells top line because I am sure that light, fan switches are being bought by these apartment and I am assuming that factories, warehouses anyway are contributing better? That is the first question.

**Anil Rai Gupta:** Overall if you see, you are actually right that we are seeing good traction in the residential segment especially on the premium side, but as you can see that the premium side is more in the urban areas and we are seeing good traction. We have seen in the last one or two years, some slowness in demand from the B2C areas as well as residential areas. We do believe that it is more because of an inflationary impact, because the raw materials have been on the higher side over the last couple of years which have now started abating and I think the deferred purchases from this geography, I think will start tricking in from the coming time. So overall the residential business and the consumer business will also start having decent growth.

**Rahul Agarwal:** So we should expect like starting summer next year obviously the base is also in favor. Next year should look better for B2C versus B2B right purely from a growth perspective?

- Anil Rai Gupta:** I think the B2B investments would continue to grow because we have seen high spend from the government sector. We have now started seeing investment in the private capex as well. So that also will have its own journey of growth, but yes you are right we will start seeing in the summer improved B2C as well.
- Rahul Agarwal:** Secondly on new capex all three segments cable, lighting and REF I think so cables we are investing Rs.300 Crores 3.5 lakh kilometers just wanted to know what is the sales potential here and what is the gestation period to reach 90% utilization from the south plant?
- Anil Rai Gupta:** Overall in the underground cables business, we believe that we are increasing our capacity by about 25% and domestic wires is also increasing, but that also is led by demand and we are putting a facility to cater to the southern markets. Overall where there is a capacity constraint, which is underground cable, we are seeing a 25% jump in capacity expansion. On the refrigerator side, the manufacturing plan is still under evaluation and we will come back to you once it is formulized.
- Rahul Agarwal:** So that is what started, the construction is not started on refrigerator, is it is under planning is it?
- Anil Rai Gupta:** That is right.
- Rahul Agarwal:** Okay and on the lighting side, what are the gaps we are filling on capex, what are we doing there?
- Anil Rai Gupta:** Pretty much what we had seen after the fire, the capex which was supposed to be done, has been done and so most of the production has now come in-house.
- Rahul Agarwal:** Got it sir and lastly just a small question on cable and wires, obviously last two years we have seen abnormal demand, these growth rates do not look long-term sustainable. Your sense on how does the next year look like on industry growth rate and based on your past experience, is there a possibility of pricing or margin pressure for this segment because there is some understanding that some capacities are coming up including yours over the next six to nine months in India and hence that might have an impact. That is my last question Sir.
- Anil Rai Gupta:** I think we have seen value growth in almost 60%-65% of our business which is domestic wires. It is more long-term structural in nature because of the residential demand and it is more brand and retail oriented as well. So, there we see that this sustenance of margins should continue in the future as well and there we also do not have much capacity constraints, more dependent on the brand acceptance and the distribution. On the underground cable side, while we are impacted with a lower capacity but I do not see a

major structure shift for at least a few years because we do believe that the investments and the capex will continue and will help the cable industry in the coming times as well, but that is still a smaller part of our overall business, but we will see improvement there as well.

**Rahul Agarwal:** Got it sir. I will come back in the queue. All the best.

**Moderator:** Thank you. The next question is from the line of Bhavin Vithlani from SBI MF. Please go ahead.

**Bhavin Vithlani:** Good afternoon gentlemen, the question is on the switchgear segment especially considering the low growth of 1% that we have been seeing for a reasonably long period and the growth that we are seeing in the real estate segment and the building material segment which is 15% to 25% so the question is that, is Havells losing market share in the switchgear segment that is one and second given the growth that you are anticipating in the real estate segment with a lag, do we have adequate capacity in the switchgear considering when we look at the segment capex which has been very low for the last five years?

**Anil Rai Gupta:** We have been constantly monitoring our market shares in the switchgear segment also where we believe that we have not lost market share. In fact, if we see in this particular quarter, we have seen growth both in the project segment as well as the retail segment. There has been a decline in sales to a particular segment of the market which is telecom OEM segment, we were very strong players but we have seen low demand in this third quarter as well as the exports have been flat over last year, because of some weakness in our strong markets of Middle East and Africa, but otherwise generally in the other market which is the retail and the project segments, we have seen growth as well as market share improvements. We do not have capacity constraints in the switchgear segment, we were constantly adding with maintenance capex and there we do not see visualize any problems from the capacity side.

**Bhavin Vithlani:** Just a followup here. Hypothetically in case we do see a 25% growth in the demand next year as the demand comes with a lag, would we have enough capacity to service such level of high growth?

**Anil Rai Gupta:** Yes, we have the capacity.

**Bhavin Vithlani:** Thank you so much for taking my questions.

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

**Renu Baid:** Good morning team. I have two questions. One, broadly the B2C demand and market uptake has continued to remain fairly soft now for three to four quarters after some green shoots which were visible September-October again that seems to have died down so what has been your reading on the demand environment and in your expectations by when can we see the demand turning positive?

**Anil Rai Gupta:** Good question but actually it is a little bit of a longish answer, because we have seen different things happening in the B2C segment. One of course, there is slowness in demand in the rural areas and hopefully with inflation abating I think this should start ticking in growth in the coming times. If you break it down as I said, we have seen strong volume growth in lighting. It is not just because of the market but also our internal efforts while we have seen degrowth because of value erosion in LEDs. Even within ECD, we have seen a high base for fans over last year because of the market, otherwise we have seen a stronger demand in case of ECD. We can say that okay yes for domestic appliances this was a Diwali quarter last year was not, but overall we have seen better growth in product other than fans. There is a mix bag as in switchgear also we have seen growth in the retail and the residential side, but we saw some degrowth in the telecom OEM side. So overall, this is a mixed bag I think some green shoots we are seeing and with a very low base for summer products in the coming quarter I think will start seeing improvement in the B2C side.

**Renu Baid:** Correct and secondly, how should we look at the pricing environment, because that also is a function of the demand especially for seasonal categories like fans as well as air conditioners, both these segments had seen change in energy ratings and BEE table change because of which cost structures were a bit elevated so where are we in terms of absorption of the fixed overheads and are there any impending price hikes which you think could be passed on in the forthcoming quarters?

**Anil Rai Gupta:** I think at least for Havells and Lloyds we have been able to pass on the cost increase due to the energy rating changes and we do not anticipate any further price increases in these two product categories, in fact we have seen margins improving over the last one year that is something which will also happen because of improved economies of scale in the fourth quarter and the first quarter.

**Renu Baid:** Lastly if I can, on the RAC side where we have had some arrangement for Middle East market and now also looking at distribution setup for US, so what kind of incremental investments you think we will have to deploy for distribution as well as product modifications for the developed markets.

**Anil Rai Gupta:** As far as the product modifications are concerned, pretty much it is already happened and that is where our certifications are happening, US markets, some of the products are under

development but these are not very large investments, even for brand building or distribution. These are ongoing operational investments which will happen, but this is again the way we are treating export markets is more of brand building and distribution reach rather than just going for volumes. So it is a longish term play, it will take its own time unlike in India there we have a very strong distribution channel and brand where we can grow faster but this Middle East US markets will be a long play.

**Renu Baid:** And just the clarification these would be all for Lloyd brand and not a kind of white labeling arrangement, the way we had for the switchgear segment for overseas market?

**Anil Rai Gupta:** We are more focused on Lloyd brand, but we are not closed to white labeling as well as long as it satisfies the margin needs and the volume needs of the business.

**Renu Baid:** Thanks much and best wishes to you. Thank you.

**Moderator:** Thank you. The next question is from the line of Fatema Hakim Pacha from Mahindra Manulife. Please go ahead.

**Fatema Hakim Pacha:** Just a macro question, do you think we have seen this in FMCG but even in durables, do you think a lot of new brands because of the entire online space have entered and at the margin the chipping away at the large guys market shares, do you think that is the reason that the margin our B2C franchise in a way is not able to grow as much like even if there is a 6%, 7% growth in the market you are able to grow at 3%, something like that would you say?

**Anil Rai Gupta:** I would say in the electrical market or consumer durable market, we have actually seen stronger brands grow stronger. If certain brands have entered the market, it is also at the cost of some brands going out the market and competition as well. In fact, if you see the air conditioning industry we have seen consolidation of market shares towards four or five big players as against having a very long tail of small players with low market shares. So, some of the competitors are also weakening there. Even in fans, if you see that certain market shares are being replaced with certain brands. More electrical brands are launching products is also replacing. Over a period of time these become large businesses and then investments have to be made into those businesses also where sometimes we have seen the large electrical players who specialized in some products are not able to increase market shares beyond a level.

**Fatema Hakim Pacha:** What I realized is they reached the 4%-5% market share and then they stall but that 4%, 5% if there are 10 players then they take away the growth from the others right in a way?



**Anil Rai Gupta:** That is what I was saying that it is also being replaced by some players going out of the market as well or stalling their growth, so I do not think this really impacting the market shares of the bigger brands or stronger brands, national brands in any meaningful way.

**Fatema Hakim Pacha:** Okay and second question are like if you want to see the entire durable industry both white and brown goods, so the last four quarter we had I think was post-COVID in December 2020 quarter, Diwali of 2020. Post that we have seen two years of absolutely not much volume growth, we have had revenue growth in between because of the price increases, but volume CAGR would have been minuscule in terms of a three-year CAGR. So what is your sense like is just that there is absolute apathy for the product or how would you ever signal a turnaround or any because like you have seen it in two-wheeler right first time you have seen two wheeler growth at least recover from the bottom but we are not seeing anything in our space, so how should one read this market?

**Anil Rai Gupta:** During this time a couple of things have happened. We have had two-three bad seasons because of the COVID as well including last season was marked by unseasonal climate, because of rains. So we have seen that as well as during this time also raw material prices were increasing unprecedentedly and hence when the industry was trying to pass on that cost increase to the market, it was facing headwinds in terms of consumer growth. I think with things stabilizing, we do not know what the climate will be, but at least we can be hopeful about that and the raw materials now stabilizing, we do believe that whatever we have seen muted growth in the last two or three years we should be seeing improvements in the coming years.

**Fatema Hakim Pacha:** Fair enough. Thank you.

**Moderator:** Thank you. The next question is from the line of Aniruddha Joshi from ICICI Securities. Please go ahead.

**Aniruddha Joshi:** Thanks for the opportunity. Sir, two question. One, the lighting and even switches segments are moving from basically functional categories to lifestyle or fashion kind of products and this transition may continue over next decade also, so now Havells is more of a functional or a high trust kind of a brand, so how do you see the brand transitioning in both the segments and also considering there are whole lot of smaller players who do not really have any ability to move towards or shift the brand perception also to some extent so how should we read about Havells efforts in these two categories that is question number. Question two is what is our real right to win in Middle East and USA these are really absolutely premium end of the market with very high per capita GDP so Lloyd which is more of a mid-price brand so how do we understand the winning strategy for Lloyd in these markets? Thanks.

**Rajiv Goel:**

I think to your first question which is more structural in nature. You are right that from the functionality it is also moving more for convenience and I think this is still in transition. These are sort of higher end of the market what we call the premium end of the market. So in a market like India you have to address across the spectrum so our both lighting and switches have this functionality of what we call the automation & IoT. So, that segment we are already addressing. If you recall on this call, this was asked how the margins are improving in lighting and a part of the reason also is attributed to a lot of innovation which is currently I would argue more pronounced in B2B but it is moving towards B2C as well. Similarly in switches, the automation is gradual but surely now taking the larger share of the overall switches category. These are the things which augur well for a trusted brand, as premium set of customers want to stick to the more premium brands which not only addresses their needs, but also the anxiety which is there when they move to a new technology. This is something we believe will continue to grow but this will take some time to reflect into the overall number because overall the market is still sort of transitioning to those levels.

Secondly, you asked a question on Middle East. So, Lloyd is a market leader in Kerala and Middle East is a very large market which has a lot of Kerala and NRI population. So, that is something what we start with. Also, if you look at that market, there are lot of Chinese player as well in that market, so we have positioned ourselves what we call the mass premium even in Middle East. So there is market for all the brands and we believe since we are the first Indian brand who has launched in such a serious manner in Middle East. This is something we will gain and we will invest behind the brand like we have been doing in India. So we have never claimed that we will just go there and acquire the market share but I think Middle East is also showcase to the world. These days there are lot of buyers who come from Africa, the CIS and the larger sort of Middle East cohort. So this is something what we believe is the brand building towards the international business which we want to take in the right direction as far as the Lloyd is concerned.

**Aniruddha Joshi:**

That is on the first thing, so should we continue to model market share gains as the category keeps transitioning more towards the top end?

**Rajiv Goel:**

Yes I think what you are saying is right, how fast that transition happens that remains to be seen because as I said India is a very diverse market, so you have to play for all kind of consumers, Havells is known for mass premium, this is something what we will continue to strive for.

**Aniruddha Joshi:**

Okay sure sir. Thank you.

**Moderator:** Thank you. The next question is from the line of Siddhartha Bera from Nomura. Please go ahead.

**Siddhartha Bera:** Thanks for the opportunity. Sir, first question again on this margin side in Lloyd we have seen a good improvement sequentially, can you just highlight it was purely due to the lower commodity cost which you have now or are you looking at any sort of pricing action or mix which has also led to this improvement?

**Rajiv Goel:** I would say these are the cost saving initiatives which we have been taking for quite some time in Lloyd, part of that definitely is commodity, but also we all agree when we start up to gear up in inefficiency and gradually the efficiency stick in. I think the process of efficiency which we are very hopeful will only continue to gain ground but there is no change the strategy of Lloyd per se, these are things which in any business after establishment, the efficiency should start getting factored in, so this is a part of that process.

**Siddhartha Bera:** Understood sir, but if I look at a longer term now it has been like nearly three years when we have been reporting sort of loss in this Lloyd entity going ahead like you are saying that summer season is expected to be good, can we expect some pricing action so that next year we probably come back to that sort of break even type of levels because of these efficiency initiatives also which you are taking?

**Rajiv Goel:** Everybody is very eager to get this question answered, so in various forms and impressions this question keeps coming back. We believe this is a very large opportunity, consumer durable as a whole. If there is one category where India is least penetrated is the air conditioners. We have established good credentials there, we are now part of the top four in market. As our Chairman just sort of elaborated that the market is getting consolidated in terms of the larger players. This journey will continue. Let us not measure them in few quarters here and there, we are here for long term. I am sure our investors are here for long term and this country is for long term. Let us just focus on that, let is not just get mired in this quarter and that quarter. So as we grow, as we progress everybody will be testimony to that but we are very focused on our long term commitment to India which we believe is a strong growth credentials available to us.

**Siddhartha Bera:** Got it Sir. Lastly on this ECD segment now if you see contribution margins are probably back to that earlier 2022 levels, but EBIT margins are still lagging a lot behind so going ahead if we see pick up in this category like you are expecting to sort of see in the coming years, because can we with an overhead costs also normalizing, can we sort of expect to see those 16-17% EBIT margins which we had reported sometime in the past or do you think the mix now or the competitive intensity is somewhat different and we may not go back to that earlier levels of margins?

**Rajiv Goel:** Our focus is on contribution margin because ultimately EBIT is a derivative. Sometime quarter-to-quarter, they got distorted like this quarter there has been disproportionate A&P, but you would see in our entire ECD, in fact across Havells categories I am sure you would have already observed that there will be a improvement in the margins as we move forward because of what we just elaborated both on the cost saving and also the premiumization drive. There is a lot of thrust on the Havells side, this will continue to improve from here.

**Siddhartha Bera:** Okay Sir. Got it. I will come back in the queue. Thanks sir.

**Moderator:** Thank you. The next question is from the line of Sonali Salgaokar from Jefferies. Please go ahead.

**Sonali Salgaokar:** Thank you for your opportunity. Sir, my first question is again on Lloyd EBIT margins, we understand that there has been a good and notable improvement in the contribution margin. The EBIT margins have sort of remained almost similar year-on-year, so should we assume that we will continue to spend more on the A&P and sales promotion as a part of our strategy behind the brand investment of Lloyd and when do we expect this to normalize?

**Rajiv Goel:** Sonali, as we have said A&P this quarter has been disproportionate, so I am not sure you should read too much into that. As far as all other costs, they will gradually get normalized in Lloyd also. When you start a business you always disproportionately invest in the business, so all these initiatives which we are taking, you will see further gradual but sure sort of normalization of all the expenses and percentage. Some percentage of the sales will be definitely required in case of the consumer businesses which will stabilize in sometimes, so that is something will reflect in Lloyd as well and in Havells.

**Sonali Salgaokar:** Got it Sir and what is the current capacity utilization of Lloyd and the volume market share also if you could just let us know?

**Rajiv Goel:** Let us not go to market share because people have different views on that, but we are part of the top three and top four in the country. As far as the utilization is concerned, we have kick started our Sri City facility. We are now balancing the production both in Ghiloth as well as Sri City depending on the regional requirements. So our capacity utilization will be close to some of 50-60% on across both these facilities.

**Sonali Salgaokar:** Got it Sir and my second question is regarding switchgears now we understand that the housing demand and the capex demand has been very strong over the past one, one-and-a-half year, is there any particular reason that we are showcasing just about a mid single digit growth in switchgear for the first nine months?

- Rajiv Goel:** So actually we just sort of elaborated earlier that there is a growth we have seen both in the B2C as well as project but there have been a lot of growth last year on the OEMs for telecom which for some time they have taken a pause hopefully it will sort of resume next year again. So you are seeing just the deceleration on that, but otherwise on both the projects as well as the B2C side we continue to sort of do well.
- Sonali Salgaokar:** Got it and just last question we understand that your demand focus is more domestic, but any issues that you see because of red sea logistic issues mainly for the procurement of raw material if any?
- Rajiv Goel:** Nothing, either on the supply chain incoming or outgoing, we have not seen any significant impact from red sea.
- Sonali Salgaokar:** Perfect. Thank you very much Sir. All the best.
- Moderator:** Thank you. The next question is from the line of Abhijit Akella from Kotak Securities. Please go ahead.
- Abhijit Akella:** Thank you so much for taking my question. Just if you could please help us understand what this Rs 40 crores provision write back within the segmental results pertains to?
- Rajiv Goel:** You would be aware that the government had brought out the E-waste regulation particularly consumer durables a few years back but at that time there was no clarity on how that should be treated. So out of abundant sort of conservatism, we started making ad hoc provision on the sales and it was largely applicable on the Lloyd products at that time. On the best estimate we did that. Now the government / CPCB has come out with a lot of clarity and we all the industry players have submitted all sort of data so they have come out with the specific number which every company needs to comply with. Which is what they need to either pay that or we should take that number of the material. Now that we have a clarity on that, we have taken provision based on that clarity and that is why our best estimate has been adjusted against that, which has resulted in one-time reversal of the provision.
- Abhijit Akella:** Okay, thank you and on the P&L this would have been reported in other expenses right?
- Rajiv Goel:** Yes, that is right.
- Abhijit Akella:** Just on the cable market, in light of the recent developments up and there in terms of income tax searches and that sort of thing. Just trying to seek your perspective on whether you think this these developments might potentially impact that category lasting way on a

structural basis and whether that might open up new opportunities for someone like Havells. Would appreciate your thoughts?

**Rajiv Goel:** Frankly, we do not have much comments to offer and I think these are still things which they are I am sure best managing so we will frankly just refrain from commenting on this.

**Abhijit Akella:** Okay. Thank you so much and all the best.

**Moderator:** Thank you. The next question is from the line of Praveen Sahay from PL India. Please go ahead.

**Praveen Sahay:** Thank you for taking my question. The first question is related to the cable business as you had already mentioned that the product mix led to the margin contraction, so can you bit elaborate on that this like a product mix of towards a cable sales is on the higher side for the quarter?

**Rajiv Goel:** Yes, between cable and wire, wire has better margins than cable, so in this quarter the cable growth has been slightly higher than wire that is why this is a product mix, but in terms of contribution improvement, there been improvement in both the categories as far as from the last year.

**Praveen Sahay:** Okay, is there any number to quantify sir, how much contribution.

**Rajiv Goel:** We do not give breakups.

**Praveen Sahay:** Usually 65% is wire, so this quarter is usually unlike.

**Rajiv Goel:** That is right.

**Praveen Sahay:** Right and the second question is related to commentary given in the press release also, in the call you had mentioned that one commentary is a recent trend suggest some recovery also, the comment you had made of a green shoot in the B2C portfolio, is there anything to quantify in that or to number to support your commentary?

**Rajiv Goel:** This is a feeling we have and let us not make it too specific because very difficult to put the number. What we believe that there has been some degree of muted performance by the industry as a whole on the consumer side. We believe it is coming out of that slack and there is the feeling we getting maybe in the last sort of couple of months. So we are just hoping that it should translate into some tangible results, but as of now we will keep it there and let us see how it pans out.

- Praveen Sahay:** Okay. Thank you Sir for taking my questions.
- Moderator:** Thank you. The next question is from the line of Bhavani Kumavat from Philip Capital. Please go ahead.
- Bhavani Kumavat:** Thank you for the opportunity. Most of my questions have been answered. Just one question if you can just share the advertisement spend in the Lloyd category.
- Rajiv Goel:** We got the gist of your question. We give the advertisement on the whole, so again we will not go into further breakup of the same.
- Bhavani Kumavat:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Lovish Soien from Phoenix Advisors. Please go ahead.
- Lovish Soien:** Good morning Sir and thank you for the opportunity. My question is related to the RAC business. We are seeing that new capacities are coming online for all major brands and contract manufacturers, so how do you think this will impact the overall industry supply along with the industry demand, so just wanted to have your thoughts on how this industry supply aligns with the industry demand over the next couple of years?
- Rajiv Goel:** These are all seasoned players, everybody is anticipating that the potential India offers is unparalleled and everybody wants to be ready for that and I am sure the long term players do not look at what they can achieve in one year or two years. These capex are very long-term plan and we can argue that these do justice to the potential we have considering the underpenetration related to just other developing market not just developed market. One cannot really look at what will happen in the next four quarters or six quarters but longer term these are aligned with what everybody perceives as a growth potential in India for the RAC market.
- Lovish Soien:** Thank you and just one followup, does this mean there is a possibility that we could see a price war in the coming quarters given that all these capacities and the brands, there would be a need for all these players to produce and sell to get these incentives?
- Rajiv Goel:** No, price war is like a war cry you are mentioning like. Everybody is positioning their product with the consumer on certain basis and that is something we continue to believe will happen, so no we are not expecting any significant price wars on that.
- Lovish Soien:** Got it. Thank you Sir.

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

**Keyur Pandya:** Thank you for the opportunity. First question is just an observation on the employee cost year to date employee cost is up around 19% so some gaps which you identified and have filled up the positions or just if you can clarify since last two years we are seeing more than mid teens kind of employee cost growth, so first question on that.

**Rajiv Goel:** There have been sort of investments in the people, in the talent across the categories. We are investing for growth, sometime the growth may not appear in the timeframe you look at, but there has been a lot of categories in Havells which we are disproportionately investing into, because we see a lot of potential for future growth there. So yes this has been partially which is organic, which is some growth will always happen in the employee cost in a year and some are obviously there has been lot of latent hiring and acquisitions in the company which is primarily investment for growth.

**Keyur Pandya:** Similar growth should we see going ahead also next four, five quarter?

**Rajiv Goel:** It will stabilize, but growth in this head will continue to be there.

**Keyur Pandya:** Of course yes. Second question is on both AC and fan more summer centric products, so how has been the channel stocking situation in AC. Last year AC had weak summer and fans had star rating introduction so if you can just clarify how is the channel inventory situation?

**Rajiv Goel:** Compared to last year definitely channel stocking is much lesser and last year in the fan because of the transition to BEE there was significant uplift by the channel, this year clearly this has not been the case. So, if you look at from the compared to last year, the channel stocking is lower and in AC also because last year there was some challenge with the channel, because of unseasonal rains and all, there has been slightly conservatism on the pickup in this quarter.

**Keyur Pandya:** Channel inventory levels in the system, are at normalized levels or there are still above normal level?

**Rajiv Goel:** Normal level and I would say that from last year may be a lower level that is what I meant basically.

**Keyur Pandya:** Okay and just last question on the AC side, so probably on Lloyd specific so since RM prices have stabilized, now the levers for the profitability are more on the pricing side, do we have to take price hikes or do we have internal cost levers to improve the profitability



and if there are any if you can just give few examples basically of the cost levers that we have?

**Rajiv Goel:** The cost initiative as we said and RM is just part of one of the cost initiatives. We have set up two plants as I said when you set a new plant there is certain degree of inefficiencies. So just because RM is stabilizing let us not conclude that the cost initiatives have reached their potential. They will continue and there will also be the product mix sort of improvement would also be there, and premiumization there as well. The profitability will be a combination of lot of effort, it is not just a single arrow, so there are lot of arrows there which we will continue to shoot.

**Keyur Pandya:** Basically just wanted to understand if pricing is an external factor, it depends on how competition also behave whereas the cost is one internal factor which is more in control of the company so on the cost side which are the lever just wanted to understand that part?

**Rajiv Goel:** As I said RM is one of the lever, efficiency in other lever, there will be multiple levers.

**Keyur Pandya:** Okay, thank you and all the best.

**Moderator:** Thank you. The next question is from the line of Amit Mahawar from UBS. Please go ahead.

**Amit Mahawar:** Good morning. Sir, I just have one question. In 9 months ex Lloyd growth in volume is definitely more than the value growth you have shown 8% plus, Lloyd in nine months 16% value and of course volume is definitely higher, so I do not have a question on growth, my question is more on the Lloyd supply chain as you build your brand gradually that is a journey. On the supply chain part, is my understanding correct that in the next maybe say three to five quarters, you optimize your current expanded capacity manufacturing, you will have a significant sourcing of compressors and motors broadly around 50% higher than the last year roughly, will that period where you will be able to get the cost right because only when you get the cost right can you get the price right? So I just wanted to have some qualitative colors, that is the only question.

**Rajiv Goel:** Do we need to answer?

**Moderator:** No Sir. The next question is from the line of Latika Chopra from JP Morgan. Please go ahead.

**Latika Chopra:** Thank you for the opportunity. I have two questions. The first one is specific to the key ECD segments of fans, geyser, kitchen appliances and let me also loop in Lloyd and you can answer separately for them, what is the salience of e-commerce channel now in the

revenue mix versus pre-COVID and are your market shares and margins for this channel lower versus the offline channels?

**Rajiv Goel:** This is around 5% Latika on the e-com side, obviously some categories it could be higher, but on the AC side is around 5% like for instance the SDA as well as the personal grooming normally it will be higher. On the net-net margins are not very different from the offline because our pricing is pretty much similar across the channels. On the net, the margins are not very different.

**Latika Chopra:** But what is the market share on this channel versus the offline channel?

**Rajiv Goel:** The market share also we are in top three in online which is again reflective of what we have in the offline.

**Latika Chopra:** And the second one was on just trying to get some color on how is the salience of consumer financing behaving for the Lloyd portfolio, are your competitors more aggressive on this metric incrementally versus you.

**Rajiv Goel:** Everybody here and there are similar. There is not much difference because it is being offered by similar players. Nobody is manufacturing them themselves, these are being offered by same players to everyone. So on the salient side everybody's on almost similar platform but yes the saliency is increasing. As we get more formulized as we get more MFR, large retail chain driven there is the propensity of financing is higher than on the standalone network.

**Latika Chopra:** And what roughly it would be for you now for Lloyd?

**Rajiv Goel:** Lloyd will be around 30-35%.

**Latika Chopra:** All right. Thank you so much.

**Moderator:** Thank you. The next question is from the line of Amit Mahawar from UBS. Please go ahead.

**Amit Mahawar:** No sir. I just wanted the answer that is it.

**Rajiv Goel:** Actually that is where we got confused, your voice was very feeble, you were talking about the compressor supply chain?

**Amit Mahawar:** No the question is very simple, this year you will have a very significant procurement right, last year Lloyd had a 2x increase in the raw material purchase of traded goods right from 7

billion to 14.5 billion obviously we are advanced sourcing here, so this year also when you start servicing the 2 million capacity, you will have a significant procurement of compressors and motors so I just want to understand, is this period the first period where you will be able to get the cost optimized in the next maybe three quarters and because of that you will be able to maybe price it better than you could have been, so I just wanted to understand qualitatively are we in this period heading toward a significant cost rationalization? Thank you.

**Rajiv Goel:** Your sort of prognosis is correct Amit and that is what we meant that it is not just a raw material, it is also a lot of efficiency which we are building in and procurement efficiency is definitely one of them. As our volumes grow we will also be able to negotiate better terms with the supplier because compressors also tend to be very sort of consolidated industry in terms of the supplier but now we have what we call the right sort of seat at the table where we can have better negotiations with them both in terms of the cost, but also in terms of the supplies, our inventories also can be much more efficiently managed now. We do not need to keep everything ourselves because they realize we have a better prediction on the supply side, so all these things this is what I meant when I said there will be multiple things we are working on the cost saving which hopefully should start reflecting in ensuing quarters.

**Amit Mahawar:** Very, very helpful. I will just add to this question if you allow me, is there any reason for your supplier sitting in China for compressors or a supplier sitting in India for motors because other everything else is internalized in Havells, is there any reason that supplier has not to give you the same cost sheet vis-à-vis the number one, number two, that he gives to the number one, number two, I just wanted to understand that.

**Rajiv Goel:** Hopefully as I said that will converge and these are the learning curves that one has to go through. First, we want to move up the value chain. When I say seat on the table that is what I mean that is what you ask hopefully that will happen. Things take time but we are in for long haul, just stay put.

**Amit Mahawar:** Thank you very much and good luck to the entire team.

**Moderator:** Thank you. The next question is from the line of Chintan Shah from JM Financial. Please go ahead.

**Chintan Shah:** Thanks so much for the opportunity. I just had one question and it is slightly longer term in nature, so over four, five years perspective do we think the Lloyd or most specifically RAC segment can deliver margins say similar to or close to what we do in other segments and if yes I mean if you could just help us understand what could be the levers?

**Rajiv Goel:** Other segment means I am sure you are not comparing them with Switchgears.

- Chintan Shah:** On overall basis excluding Lloyds.
- Rajiv Goel:** It will reflect what the industry structure is and what gives us sort of optimism is that the industry on a whole is making a decent amount of margins and return on capital. As we said and we have been saying this for quite some time now, this is the journey we investing behind the product, behind the brand, behind manufacturing, behind A&P and in the journey there will be disproportionate to begin with but then as things start getting normalized that is how we have seeded all the businesses since Havells has been born. This journey will continue here and there is no reason why like among the top in margins in all other categories as far as the industry is concerned, I think Lloyd will also have a similar journey when we reach there. That path is very clear, everybody wishes to reach there early but as long as we keep walking, we will start running also in some time.
- Chintan Shah:** Okay, got it that was helpful and secondly right now we have enough capacity say for one, two years, but say two years down the line also would like to add capacity in the RAC segment or again switch back to going more towards outsource.
- Rajiv Goel:** Our internal working on any capex is eventually at 70% or 75% of capacity, we start putting up the new manufacturing. We have been doing for fans, we have been doing for cables and wires, and the similar philosophy will be applied to Lloyd as well.
- Chintan Shah:** Okay, got it understood. That is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Pulkit Patni from Goldman Sachs. Please go ahead.
- Pulkit Patni:** Thank you for taking my questions. Most of them are answered. Maybe one question and sort of a repeat of what different people have been asking in different forms, but again slightly longer term. Few years back there were five, six players in each of these segments and margins used to be much better today thanks to how capital markets have been abundant capital available, a lot of the ODM now have raised cash which means they also have capital. How do we get comfort and how margins move for everybody or are we looking at maybe in a few years a situation like China where effectively margins compress for everybody as a sector and this becomes relevant in the context of the kind of commentary that has been coming from most companies in the last two years I understand demand has been weak, but how does margin actually as an industry go up from these levels so that is the only question I want you to answer.
- Rajiv Goel:** You are talking RAC or are you talking...

**Pulkit Patni:** Generally I think across I mean today lighting there are 20 players, today fans everybody is there and more people are entering, it is not so I am saying across the consumer durables, electrical segment, how do you look at margin in context of ample capital available everybody wanting to doing do everything, ample capex being committed now thanks to PLI and multiple other things, so generally is what I want to know.

**Anil Rai Gupta:** Your analysis is right that there is ample capital available, players coming in. I sometimes feel that some players are coming in and some players are also going out but if you last few years in every industry there is no meaningful player who has come up to the level of being number two or number three player in that industry. That also means that we have not seen in fact if you see our all product segments cables and wires have actually seen improvement, but in switchgear, lighting, consumer durables, overall structurally the margins of businesses have not gone down at least for Havells. Switchgear continues to remain at a similar level. Wherever there has been a dip those have been temporary maybe for a year or two because of the raw material volatility and sometimes it becomes more difficult to pass on the entire cost to the consumer because it is not just because of competition. As you know in last year there was 25% price increase in raw materials of copper and aluminum and we saw some contraction there but now you see these margins are coming back. While over the last five years or so if you see purely Havells as a whole, overall margins have not really made a difference in fact they are now improving and coming back to levels of what they were earlier. Generally the prognosis is correct, but strong brands, strong companies would try and maintain their margins despite the industry structure through innovation, through brand recognition and during this longer period of time brand investments and technology innovations also keep happening. So overall, the fact that Havells P&L without Lloyd has actually maintained or dipped only for during certain periods of time gives us confidence that we will be able to do that in future as well.

**Pulkit Patni:** Got it Sir. So, based on what you said I understand that leaving aside Lloyd it is fair to expect that even from these levels margins will inch up slightly over the next few years?

**Anil Rai Gupta:** And Lloyd definitely has a much better runway to improve the margins.

**Pulkit Patni:** Understandably, okay. This is very useful. Thank you.

**Moderator:** Thank you. Ladies and gentlemen due to time constraint that was the last question for today. I would now like to hand the conference over to Ms. Bhoomika Nair for closing comments. Over to you Ma'am.



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**Bhoomika Nair:** I would just like to thank everyone for being on the call and particularly the management for giving us an opportunity to host. So wishing you all the very best and look forward to a better calendar year 2024. Thank you very much Sir.

**Moderator:** On behalf of DAM Capital Advisors Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.