



“Havells India Limited
Q1 FY2020 Earnings Conference Call”

July 29, 2019



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Moderator: Ladies and gentlemen, good day, and welcome to the Havells India Limited Q1 FY2020 Earnings Conference Call hosted by IIFL Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Renu Baid from IIFL Securities. Thank you and over to you Madam!

Renu Baid: Thank you Steven. Good morning everyone. On behalf of IIFL, I would like to welcome you to the 1Q FY20 earnings call of Havells India. Today, we have with us from the management, Mr. Anil Rai Gupta, Chairman and Managing Director, Mr. Rajesh Kumar Gupta, Whole-Time Director (Finance) and Group CFO; and Mr. Rajiv Goel, Executive Director. Without taking much time, I would like to hand over the call to Anil ji for his opening remarks. Thereafter we can start with the Q&A. Thank you so much and over to you Sir!

Anil Rai Gupta: Good morning everyone. The financial results for Q1 have been reviewed by you during the weekend and since we had a couple of days I will take a bit of a time to explain the results also a little bit more in detail because you might have already gone through that. So starting with the ECD segment, which has grown by 24%, which is a followup on 30% growth in the financial year 2019. In fact in the first quarter it was 40%. The compounded growth is thus close to 26%, which is higher than industry. Fans have grown mid-teens while small domestic appliances, water heaters, water purifiers have performed significantly better. We have established a clear leadership in water heaters with impressive market gains in small domestic appliances as well. Fans continue to grow and consolidate its premium positioning. We feel that ECD would anchor superior growth mantle for Havells.

In Lighting, the professional luminaires have been impacted owing to slow government uptake pending election's conclusion. However, B2B growth in P Lum has helped to alleviate the dent from government business. Consumer luminaires have grown despite fall in LED prices implying higher volume growth. The focus on rural distribution expansion is spreading lighting footprint, auguring well for future growth plan. The regular government professional luminaires



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demand is gradually stabilizing, rendering optimism for a better lighting growth in the next quarter.

As far as Cables & Wires business is concerned, wires business is holding steady despite housing slowdown reflecting some gains from the unorganized sector. As for cables, the quarterly performance may not fully reflect its potential as there could be slippages of work orders versus dispatches. We also had certain production bottlenecks, which are now resolved with our planned capex investments. We see that cables will be a beneficiary of ongoing infrastructure investment particularly in highways and the urban transportation like metro. We are reasonably sanguine on growth in cables and wires in H2 as government accelerates economic investment in core sectors.

Switchgears post 26% growth in Q1 of 2019. Switchgears has borne the brunt of construction slowdown, liquidity squeeze for realtors, contractors and an almost stifling of new builds. We believe that industry has registered a negative growth since November of last year. We have also successfully launched new product ranges for affordable housing and rural penetration. We hope that things should be better than from the current performance; however, the recovery could be stretched out.

As far as Lloyd is concerned, during the last year AC business had been adversely impacted owing to delayed summers, higher costs from increase in import duty, substantial rupee depreciating, rendering elevated import costs and heightened competitive intensity contributing to lower margins and growth. We have been working on improving brand salience, expanding distribution channel to large store format, broadening product portfolio and derisking the procurement from imports and third parties. Lloyd is in transition as we progress on executing this strategy. The manufacturing plant is commercialized. The brand recognition has notably increased. The product is available at most of the leading appliance chains and portfolio has been strengthened. The loss from due to low-priced channels could not be completely compensated by gains in mass premium outlets, which we hope to improve going forward.

We have also extended Havells' corporate benefits to Lloyd dealers, laying foundation for a long-term relationship as experienced by Havells' dealers over decades. We are trading well on our chosen path and feel that Lloyd will gain traction from latter part of the year.



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There could be disruptions in next few quarters as the LED business remains a structural industry challenge and there may not be much reprieve in the near term; however, this continues to remain a small part of the overall business. With local production and stabilizing promotion and ad spend the margins would also trend up.

Overall on Havells, on costs, we have been investing upfront towards distribution reach, more feet on the ground, brand salience, R&D, digitization and technology as we build for higher impetus from the economy. These costs are now peaking which will result in operating leverage going forward and we are also raising sensitivity on managing nonessential costs.

We are also working with the channel partners to keep their cash flows healthy during the new uptake period while also maintaining internally a very strong fiscal discipline. Going forward there is scope for margin enhancement as commodity and crude remain benign. We aspire to reflect enhanced performance from the second half.

To summarize we are optimistic on improvement in economy as government investment starts yielding benefits. Havells has prepared to capitalize on the tailwinds and deliver growth in revenues and profitability. We can now proceed to Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: First question was regarding the Switches and Switchgear segment. Just wanted to know, are we not seeing traction from rural places because of all this rural electrification and all these, are we not seeing that need because of the government's effort to expand into the rural places or is it that we are very urban-centric and because of that the switches and switchgear sales is down in spite of that growing?

Anil Rai Gupta: Okay. So as far as rural penetration goes, I think this industry itself has been more metro-centric and large town-centric. In fact, Havells was the only company, which was more deeply distributed in smaller towns as well. While there is a lot of focus on increasing distribution channel to smaller places as well

as rural areas as well; however, this is difficult. It is not enough to offset the decline in the major towns where large builders are facing shortage of demand as well as the credit availability. So as far as Havells is concerned, I must say that there is increased focus on rural areas. We have set up a separate team over the last one-and-a-half years who are focusing on taking product to a completely new channel of rural distribution, which is through superstores and retail distributors and even within some semi-urban towns if we see over the last one year our increase of footprint on electrical outlets has almost grown by 30%. So in fact while we are having the strongest in terms of reach to the outlet, the increased level of focus on feet on the ground as well as using technology, there is definitely improved availability both in semi-urban towns as well as rural area footprint. As I said before, this is not enough to offset the slowdown in the overall real estate sector.

Ravi Swaminathan: Got it and in terms of shift from unorganized to organized, are we seeing something happening here obviously when we speak to dealers, etc., it is happening in the cable side, but are we seeing, observing that happening in the switches, switchgear side or is it like the unorganized guys are finding a way to grow their business and not cede share to organized players?

Anil Rai Gupta: No, I think, overall, if you see at a slow pace it is happening. The fact that real estate demand has been weak and switchgear has seen negative growth since November of last year in fact we came to have taken more market share even in this period. The fact that cables and wires continues to grow especially domestic wires business definitely reflects the fact that there is movement from unorganized sector to organized sector, but this is happening at a slow pace as the consumer as well as the trade is getting used to the new scenario. It is happening at a slow pace.

Ravi Swaminathan: Got it and in terms of the lighting business, so basically you would have grown at 9%. How much of it would be volume growth and blended what would have been the price decline and how much is the price decline in lamps and how much is the price decline in fixtures and what is the proportion?

Rajiv Goel: Ravi, see, right, the P Lum business, as Anil mentioned in his opening address, is largely affected because of the slowdown in the government orders, which typically happen during election time. As far as the P Lum is concerned, the



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decline in the pricing has been to the extent of 13% to 15% and the volume growth has been around 20%.

Anil Rai Gupta: Double digit volume growth and that is why I think overall you see the growth, but there is significant pressure on the pricing on the LED side.

Moderator: Mr. Swaminathan, sorry sir, request you to rejoin the queue please if you have any followup questions. Thank you. The next question is from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora: Sir my question is more on the Lloyd per se, a very strong season led to almost like 8%, 7.5% decline in sales for you. A season we just wanted to understand from a strategy per se when you acquired this business you were almost at similar sales after 2 years as well in this business obviously you wanted to transition more of the strategy side in terms of increasing prices, premiumization of what the other earlier Lloyd was, has it really backfired you because we are seeing this industry where price hike is becoming a challenge for a lot of existing, highest market share people also, so if you can throw some light then where do you see this Lloyd going ahead and number two if you can talk a little bit on the working capital side for Lloyd and the capex plan?

Anil Rai Gupta: Can you repeat the second question please?

Nitin Arora: On the working capital, the payment plan of what we are doing now with the Chinese vendors given the duties have been high, the plant is getting ready. If you can talk a little bit on that, that would be helpful?

Anil Rai Gupta: I think as far as Lloyd is concerned, I would not say that the new part of the strategy has backfired in fact we started with the manufacturing facility decision much before the changes have started happening on the supply chain and the customs duty front, so things have been moving in the right direction. What has definitely happened in the last one year is that last year the demand was slow because of the delayed summer last year or the short summer last year and hence there was a lot of inventory built up in this category and I think this definitely affects the competition in a big way. It is a more volume-focused rather than enterprise-focused. On the other hand, in fact, the energy ratings were changing in fact they changed again this year. So while the cost of the product was moving up, the custom duties were moving up. The competition

was behaving in a different way because the markets were not very, very positive last year. So hence I would say that the only way that practically things could have slowed down our growth in the last year. In fact even in the first quarter our volume growth has been flat in air conditioner. What has affected us is the LED panel. So I believe that strategically while we have not seen growth in Lloyd, but this is more of a transition period and as I said we are moving away from the low-priced channel to more of a premium outlet and sometimes it happens that it takes longer period of time to offset that kind of a loss, but otherwise with the new production coming out from our factory I think this has become a far more stable business as compared to earlier. In fact we continued with the strategy of what we were following at a low price as well as importing product, this would have been a much different picture as what it is showing today.

Rajiv Goel: The second was change in the strategy versus the long-term trend right now from China.

Anil Rai Gupta: So I think the working capital strategy would now mirror what has been done in Havells because, Havells, 95% of the production is done in-house, so with now the new plant coming up in Lloyd this has now mirrored the entire strategy of Havells.

Nitin Arora: But is there a plan, is there even a change in strategy where you think that pricing the product itself does not, that is a very different channel altogether. Keeping high prices does not really push the volumes at the end of the day when you have highest market share guy is not able to take a price hike. Would you change that strategy or you do know I would be higher than the top 3 players even in terms of their product prices that still help?

Anil Rai Gupta: I would say that even within Havells we do not believe in a strategy of being the top price player. We are a mass premium player and mass premium player means remaining competitive as against the top players. I do not think even in the air conditioning business other than one or two brands, which have shown a little bit of depreciation because of last year's market condition, most of the brands have continued to remain I would say stable. Some of the brands, which were operating in a very, I would say, premium category has come down in pricing because they also want to play in the mass premium category. So I think there is business sense in every company and we do not think that we want to



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be in a position where we will continue to remain a high price player than even the market leader. We will continue to remain competitive and the manufacturing facility will give us the right ammunition for doing so.

Nitin Arora: And in terms of inventory, are you very lean in terms of the AC inventory or you still have almost like 30, 40 days of inventory in the AC?

Anil Rai Gupta: I think we are pretty much same as last year. In fact, had the season been even better for Lloyd, things would have been a bit more tighter on the air condition industry, but this will be covered in the next couple of quarters.

Nitin Arora: Thank you very much.

Moderator: Thank you. The next question is from the line of Venugopal Garre from Bernstein. Please go ahead.

Venugopal Garre: Coming back to this Lloyd discussion, which is going on, so I just wanted to understand this kind of inventory that you have today is all the inventory based on the old cost structure would that be fair to say, so in a different sense what I wanted to understand is, from your own manufacturing, the output which is coming out, where will be the convergence point where you would start having a particular quarter where it is going to be completely in-house cost structure?

Rajiv Goel: I think Venu that will take a few more quarters. As you are aware the AC the large quarter is in our Q4. So I think we start accumulating on Q3. So I think it is fair to say next year, maybe three to four quarters you will start having that convergence, but I think the blending will start in the same and I think it will also reduce pressure on having the bulk import as one has been doing in the past and also the vagaries of the forex fluctuation hopefully should also diminish, but it is fair to say that this will take three to four quarters before you start sort of reflecting the domestic production. So the production has already started. I think we are already making smaller batches. We are accommodating the domestic inventory now.

Venugopal Garre: Two more smaller questions on Lloyd. One is LED in the opening remarks you mentioned about structural issues, is that a category that you intend to continue to remain and what will be the sort of mix at this juncture of that category in Lloyd's revenues?



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Anil Rai Gupta: So as far LED is concerned, I think going back to the overall strategy of Lloyd, which will mirror the strategy of what we have done in Havells that we continue to push the entire portfolio of products into a common channel and giving enough focus on each product category as well. So as I said the air conditioners will continue to remain the mainstay; however, this will be well backed by products like LED panels, washing machines and in the near future accelerated as well. So these four product categories will continue to be mainstay. I think as I said that LED is going through a structural change we will continue to remain a bit more passive about this particular category as against the other product categories, but this will be something, which will continue to remain because we want to get the entire product portfolio to the channel.

Venugopal Garre: Sir, lastly, if I may, on distribution from the time you acquired Lloyd versus now, the churn that you would have done from shifting from a low price sort of a dealer point to a mass premium sort of dealer so there has been a dealer churn too right, so are we at a stage where it is stable in terms of where we want to be or even more churn expected because that again would have...

Anil Rai Gupta: It is stable and it is continuously improving because most of the large-format stores as well as regional retailers are on board and even not only that, in fact, they have come back with a complete product range rather than just air conditioners, which is a strong point for Lloyd because they also want to present the brand in a much better way, so again, something which we are selling and that is why the retailer was selling. Now we are present as a full product category so, but these things take time and as I said the gains from this will come over a longer period of time, but at least we are present we are being noticed. The consumer is coming and asking for a product because of the investment into brand building as well and the right kind of brand investment as well. So it is meaningful trade as a more marketing player rather than this as a price player.

Venugopal Garre: Thanks a lot.

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

Bhavin Vithlani: The question, again, is on Lloyd. Sir, could you give us some color, what was the growth in air conditioners, what was the kind of impact on the LED televisions

and the washers and going forward, forward what I understand there was an upfront investment on the ad side because of the World Cup, so if you were to iron out and going forward how do you see the margins for year as a whole for Lloyd panning out?

Rajiv Goel: On the AC side, Bhavin, I believe you are asking about us is it correct? Yes. So on the AC side, as we just mentioned there has been a marginal decline in that. I think the larger decline is accruing from the LED panels in this quarter and as we said the structural sort of changes, which are happening in LED there may not be reprieve in the next few quarters as well, so that is on that.

Anil Rai Gupta: What was your question about the World Cup, sorry?

Bhavin Vithlani: Advertisement.

Rajiv Goel: So if you see advertisement and you see this is almost like 10% and as you rightly pointed out, we have seen three significant events, which are IPL, elections as well as the World Cup. I am sure these are not going to sort of repeat themselves. So I think we should not make it and part of that should be considered upfront investment we are making in Lloyd AC to shore up the brand equity. So if you look at Havells, which are more pertinent to our business around 5%, 5.5%. I think it should gradually even be normative in Lloyd as well to those levels.

Bhavin Vithlani: For the year as a whole could we expect margins of around 7% to 8% for Lloyd?

Rajiv Goel: I think, Bhavin, that I think like it evolves and I think it will be premature for us to comment. The fact remains, as Anil mentioned in his commentary as well there is a lot of work happening on all the levels whether in the cost or A&P or the pricing or the margins, so we will rather work towards that and discuss it thereafter.

Bhavin Vithlani: Sure. My second question is on the ECD side. So we have seen a strong growth. It will be helpful if you can break out what was the growth in fans and what was the growth in the other new products that we are introducing. Also fans too I understand has a lot of correlation on the real estate side, where we are seeing slowdown and impacting other business such as switchgear, are you also seeing some kind of softness in the fans as well?

Anil Rai Gupta: Yes. So generally I would say the fans is growing about mid-teens in this quarter, which is also coming off from what we were growing at a pace last year. So there is some slowdown in fans as well, but there is a difference between fans and switchgears. Switchgear is more towards new build and fans also does go into renovation of existing projects as well. So if you see businesses, which go more, for example, things, they go more into renovation. There you see not that much coming off as compared to businesses, which completely go into new build, so fans is somewhat in between as compared to pure consumer durables and switchgear kind of a play and hence we have been able to retain a decent growth in fans as well. Most of the other product categories, small domestic appliances, our market shares are low, so growth has been very good whereas water heaters we continue to dominate our position now with the number one position last year we continue to dominate that. Even in water purifiers and air cooler, which is still a very, very small part that is something, which is showing decent growth, very good growth in this year, so hopefully, all these categories over a period of time will definitely continue to support the growth in the coming times.

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

Moderator: Thank you. The next question is from the line of Bhoomika Nair from IDFC. Please go ahead.

Bhoomika Nair: Sir, just on Lloyd, over the last year-and-a-half or so we have kind of invested a lot into distribution and also in terms of our marketing and brand salience, in this current quarter somehow the industry has grown at a much faster pace whereas we have seen a marginal decline, so why is there such a variance and going forward how do you plan to recoup this in, will we be looking to pass on the cost savings from our in-house manufacturing to gain some market share?

Anil Rai Gupta: Well, I think your first part of the question already addressed by the fact that while there is continuous investment and there is a definite movement from the consumer point of view and the channel point of view, but however it was not enough to offset the other part of the market share loss in the low price segment where we wanted to be any way out of that segment. We have taken the right steps towards price rationalization given the fact that energy rating changes have happened and I think as I have said earlier also that we expect the competition would also remain, I would say, same about this thing once the

demand starts picking up. So I do not see any reason why we will want to reduce prices to gain market share. In fact bringing our own manufacturing and having right cost structure would definitely help us improve not only market share but also gain our margins back.

Bhoomika Nair: Sir, what kind of savings are we looking from once our plant is operational versus the overall cost structure?

Anil Rai Gupta: It is quite a moving target as Rajiv has already said, but we will be seeing more blending happening in the coming times. So it will take more than one-and-a-half years by the time we have full production happening and definitely it will be, as I said, in any case things would not have been right for us importing at 20% import duties anyway, so this will be right decision and hopefully again moving steps are not only from a cost point of view, but also from a pricing point of view how the competition behaves. So hopefully with the season coming well this year, this should not only help Lloyd but also help the industry to come back to the right price level.

Bhoomika Nair: Sure and my last question was on ECD. You mentioned fairly strong growth across all product categories, but if we look in contribution margins there has been a slight dip, so any particular reason for this?

Anil Rai Gupta: There is, I think, not much dip in fact sequentially if you see, we are maintaining healthy margins in ECD I think this is just because maybe of the product mix change. Otherwise, all the product categories are moving towards a better contribution margin in the coming times as well. As I said sometimes when things are going very fast, some things are taken off of the eye as well. I think there is a lot of focus both on the contribution part as well as nonessential costs, which sometimes we will try to pass through. So there is enough consciousness building in the organization which will start giving us margin improvements as well as operational leverage in the future.

Bhoomika Nair: Okay and if I may just squeeze in on capex, what is the capex outlook for the year and which areas?

Anil Rai Gupta: We have invested close to about 140 Crores in the first quarter and by the end of the year we think that will be around 500 Crores, which we had committed at the start of the year.

Bhoomika Nair: Great Sir. Wish you all the best and I will get back in the question queue. Thank you.

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

Aditya Bhartia: Sir, you mentioned that switchgear market as a whole has been declining since November, but in Q3 and Q4 we did report double-digit revenue growth. In fact, for that matter, construction market has been slow for the last couple of years, but we have been recording either low or mid double-digit growth for the last six quarters, why is it that we are seeing such a sharp slowdown now and are you seeing that recovering over the next couple of quarters?

Anil Rai Gupta: Maybe it is just the market, which is in further decline and that, as I said, while we were seeing real estate slow down over the last couple of years, but this has been doubly impacted with the cash crunch because of the NBFC crisis. So most of the small businesses, the real estate players are not only seeing a slowdown in demand, but also actually they do not have cash to construct and also the fact that because of this continued slowdown there is destocking happening in fact, which we are also promoting because we also do not want our channel to be stuck with high inventories and cash. So overall, I think I would say it is just a culmination of two of the things happening together, but at least, I do not think which will start unfolding, but as you rightly said, even in a slowdown, we were experiencing decent growth, but that is also because of our push into smaller towns, rural areas as well, which is continuing to offset certain losses, which are coming in these large metro accounts.

Aditya Bhartia: And Sir is reliance of the industry on wholesalers and distributors higher for switchgear and wires vis-à-vis the other categories?

Anil Rai Gupta: On wholesalers and distributors in a sense, as compared to what?

Aditya Bhartia: As compared to, let us say, ECD or lighting?

Anil Rai Gupta: Yes, so ECD, lighting also has a play in the large-format stores, the consumer durable areas, the canteen store department as well as online whereas, yes, switchgear definitely is more focused towards wholesalers and distributors too, and directly going into contractors and new builds.



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Aditya Bhartia: Understood Sir and Sir my second question is on margins wherein if we look at the core electrical business of Havells we have been seeing margins declining on a year-on-year basis for the last couple of quarters, this after accounting for unallocated overheads to these segments what has this mean on account of and has it got to do something with our increasing B2B presence and the presence in rural areas?

Anil Rai Gupta: So as far as pricing and contribution margins go they are intact and as I said, hopefully, we should be seeing some improvement in the coming time as well. So most of the, I would say, the muted performance in the margin front has been due to the investments that we have been making in technology, people, brand and R&D and I think I have already said this that this seems to be peaking at the present moment and given the fact that we are expecting growth in the coming times, in the overall blended businesses of Havells, we will be seeing operating leverage in the coming times, which will definitely bring back the EBITDA margin levels of Havells.

Aditya Bhartia: Thanks a lot.

Moderator: Thank you. The next question is from the line of Surbhi from Macquarie. Please go ahead.

Inderjeet Singh Bhatia: This is Inderjeet here from Macquarie. My question is on margins just continuing from the previous question. If I look at the segmental margins in most of our old businesses they more or less kind of still held on to the margin profile do you think that there is a risk that if the situation does not improve on the ground that the competitive pressures can take the margins down further from these levels, have you seen any signs of any of your competitors trying to kind of pull down pricing to chase volumes?

Anil Rai Gupta: First of all I think we have maintained contribution margins over a longer period of time and then we have seen such times, good and bad, over a longer period of time and I think it is more of a conscious effort of the company to give the right price to the consumer and I think in most of the product categories consumers do understand that and they pay for the right product. In fact, I would argue that this happens also in the air conditioning industry. As I said we are undergoing a structural change and hence we do not expect this issue coming up in the future as well as in Lloyd as well. So while the competition may

behave differently in electrical category at different points of time, as you are aware, our strategy on pricing the margins to the trade, everything is much stable so that we give a long-term benefit to the trade rather than being very sporadic or I would say reactive to the market situation. So that has helped us in the past as well as I think that is why it will help us maintain the margins in the coming times as well.

Inderjeet Singh Bhatia: Okay. Now given way, I think July is kind of turning out to be, would you want to kind of, in various key segments, you think that a double-digit kind of a growth is possible for the year or you think that high single digit is a number that is more likely for FY2020?

Anil Rai Gupta: As you know that we do not give guidance for the future, so why put this question in a roundabout way. So I would rather say that we will continue to strive to perform and definitely the way we have been performing.

Inderjeet Singh Bhatia: Thanks a lot.

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

Atul Tiwari: Sir, what would be the proportion of revenue of LED TV and washing machine in Lloyd's revenue and what would be the year-on-year degrowth or the growth in this segment?

Anil Rai Gupta: So generally, over the entire year, it is 25%. It increases in the second and third quarter with air conditioning volume coming down in these quarters, but then, so maybe around 15% to 18% in the first and the fourth quarter and overall about 25%.

Atul Tiwari: And Sir what was the degrowth in LEDs?

Anil Rai Gupta: At this moment, again, I would not like to give specific numbers. Thank you.

Atul Tiwari: Thank you Sir.

Moderator: Thank you. The next question is from the line of Vinod Bansal from Franklin Templeton. Please go ahead.

Vinod Bansal: A couple of questions that you might have answered in the past so I am sorry if I am repeating it. One is on the government business and the entire electrical portfolio are you seeing any improvement in the demand from that side in the ongoing quarter or the hope is entirely on the second half of the year?

Anil Rai Gupta: Yes. I think I would say there is slight improvement in the professional luminaires side, but I would rather say that things should start coming back to normal levels in the second half.

Vinod Bansal: And is there reason to believe that things should improve in second half or it is more of a sort of optimistic?

Anil Rai Gupta: Well, the fact that the government had been investing for four-and-a-half years and this started slowing down just before election. Definitely most of these state governments also they have hands tied down around election time results, so now things are coming back to normal, both in cable and professional luminaires I believe the second half should be better.

Vinod Bansal: If I may, broadly, in the electrical business, what is the percentage mix, say, a B2G, other private label B2B and B2C broadly?

Anil Rai Gupta: We will have to look at that difference and then come back later.

Vinod Bansal: Okay. On Lloyd's and LED TVs both put together, you said LED had some structural changes happening if you will explain that, another way of that, that will be helpful and second, in Lloyd, you had mentioned that you are letting go of some low price point channel and therefore they hit on volumes in this quarter in specific. I suppose that would have been the strategy all along of letting go of those unviable channels continuously. Any specific reason why a larger hit in the current quarter?

Anil Rai Gupta: So on the first part, LED panels I think the structural changes are well aware. Somebody alluded to it also that a lot of new brands, Chinese brands are coming at very, very low prices, which are more predatory rather than long term-oriented, so the competition has also reacted. We also had to react and hence the effect in volumes for LED panels as a category and while you are right that the strategy had been all along, but what has happened in the last one year or so, 6 to 8 months is that the competition has also reacted because it was slow

season last year and hence this particular channel, which was more aligned towards lower price points definitely moved away from the brand that they were doing through a brand, which suddenly offered at a much lower price. So that is why I think the effect was much deeper in this particular quarter, but the strategy had been all along to take the brand to a mass premium brand.

Vinod Bansal: Right. If I may slip in one more, if possible, your inventory levels would be now normal typically for the season close, both at your level and the channel level or still higher than usual should be for the season?

Anil Rai Gupta: On the Lloyd side, it is a bit higher than usual, but overall it is not very big.

Vinod Bansal: Could you quantify that number what is the number today and what it should usually be?

Anil Rai Gupta: At this moment we would not like to quantify.

Vinod Bansal: Thank you.

Moderator: Thank you. The next question is from the line of Charanjeet Singh from DSP Mutual Fund. Please go ahead.

Charanjeet Singh: You have highlighted that your optimism on the second half for the growth to pick up and if you can highlight one is like from the government spending itself, we have seen electrification kind of done to what extent and the real estate market is much worse shape or you think where do you think this optimism coming from and also we have put a lot of focus in terms of getting into the rural market how are the results in that segment and do you think that it can scale up to drive the demand growth? Yes, that is first question from my side.

Anil Rai Gupta: So optimism is in our DNA. So I think even if the markets continue to remain weak as had been remaining weak over the last couple of years or so, I think we know internally how we structurally adjust ourselves. So we are definitely getting decent growth, if not as a tailwind, but also the right margins in the coming times. So there is quite a lot of optimism, not only from the external factors, but also from the internal improvements that we will continue to make. The other question, what was your other question, please? What was your second question?

Charanjeet Singh: On the real estate market, so things have turned much more negative and on the rural market, how you see all the initiatives benefiting to the company?

Anil Rai Gupta: So I think by the time that rural strategy completely pans out we hope that we should be targeting almost 25000 retail outlets and right now we are already at about 10000 retail outlets in the rural areas almost 1000 rural distributors we have made. Sorry 25000 retail outlets we have already there. We are targeting close to more than 60000 retail outlets in the rural area, which is over and above our reach in the semi-urban and the urban areas, which has grown from...

Rajiv Goel: From 85000 to 117000.

Anil Rai Gupta: 85000 last year and this quarter it was about 117000. So our reach has definitely increased during this time. As I said markets continuing to remain and that gives us the confidence that the fact that even in switchgear the industry probably has seen a negative growth trend since November, but we have gained market share during this time.

Charanjeet Singh: And Sir just last question from my side on Lloyd. So have you seen market share erosion in this quarter what would have been our market share and with the kind of pricing now we want to premiumize like will we change our strategy to regain the market share Yes? That is all from my side.

Anil Rai Gupta: You were not clear. Can you repeat the question again?

Charanjeet Singh: Yes. So on the Lloyd, if you can just highlight what is your market share and how do we continue to expect the pricing because if you look at the larger players like the market leaders they are continuously keeping their prices low and there is more focus on the market share rather than on the margin profile?

Anil Rai Gupta: Well, I think, over a period of time, we will have to look at the whole year to get the market share figure, but I think we are giving too much importance to price on a product that sells on features and brand and service availability and overall reach and yes as I have said during the last year because of sudden change in the demand profile because of the season I think there is hyper intensity in the competitiveness in the pricing level, but that does not mean that it will continue to remain so and over a longer period of time you have seen branded products

playing out in the right pricing over a longer period of time. So I do not see this price discussion very meaningful at this stage. Yes, it has, not desperate, overall thing has affected us in this particular quarter, but going forward our long-term strategy remains very healthy for that.

Charanjeet Singh: Thanks a lot for taking my questions. All the best for the future.

Moderator: Thank you. The next question is from the line of Sonali Salgaonkar from Jefferies India. Please go ahead. As there is no reply from the current participant, we move to the next question, which is from the line of Ashish Poddar from Anand Rathi. Please go ahead.

Ashish Poddar: My question is on the unallocable expenses. Every quarter we are seeing this number increasing. So if you can explain, first, what is this unallocable expense and why is this high number we report while we do not see such numbers in other companies. If you can throw some highlight there.

Anil Rai Gupta: Well, I think over a longer period of time, I would say that in the last three years we have been saying that we will be investing heavily upfront on deploying more feet on the ground to take advantage of the change in the market, which will happen over a longer period of time which means the consumer going from metro towns to semi-urban towns. So on one side, it is on the sales and marketing side, more feet on the ground making the company far more equipped for faster growth in the coming years, making the company more digitally I would say ready for the coming years as well and on the product side as well, to create the right R&D for each product category to ensure that we remain meaningful to the consumer and innovative to the consumer in the coming years. So there has been a lot of upfront investment into this, which is reflecting in this high expenditure on brands, sales and marketing, R&D, IT and this effort and I have said it a few times on this call as well, but now we have seen that this is now peaking and definitely over the next one year or so we shall start to see operating leverage coming on these expenditures.

Ashish Poddar: So if you can highlight is this heavy on a particular segment or we can proportionately allocate these items to all the segments in that way?

Anil Rai Gupta: This is applicable to all the segments. As I said each product category requires its own marketing input as well as innovation input.

Ashish Poddar: Thank you so much Sir.

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

Shrinidhi Karlekar: Sir, would you attribute entire relative underperformance in AC category to this channel transition that you are playing or there are any other factors that are at the play and more importantly Sir in the channel that you are targeting that is relatively high price level, are you confident that you are gaining in line with industry or better than industry?

Anil Rai Gupta: I am sorry, can you repeat both the questions? I have not understood. Please talk slow. You are going very fast. We are not able to answer.

Shrinidhi Karlekar: Yes, Sir, we have seen a relative underperformance in AC category, right under Lloyd business, so I just want to understand whether this entire underperformance can be attributed to the distribution reform that you are trying to do and more importantly in the channel that you are targeting that is a relatively high price level are you growing at least in line with the industry or not?

Anil Rai Gupta: I think, first of all, the entire thing cannot be attributed to the distribution chain. As I said, the industry has also behaved differently in there because of the high inventories at both the company and the channel level. So everything cannot be attributed to that. Yes, definitely, we are seeing not only same market share gains in the premium outlets, but are higher than market gains in the premium outlets. However, as I said, this is not enough to offset the other loss, but this is more of a temporary phenomena.

Shrinidhi Karlekar: Right and Sir my second question is on the fundamental consumer behavior in this white good category compared to your stronghold electrical category. So would you say that just because of where these products are priced and all, our fundamental consumer is much more price elastic compared to say electrical category and given if you think so in that context would it be a correct strategy to like target Lloyd to be a mass premium player given that the last 12 months on a premium product supply chain are coming down to more of a mass level?

Anil Rai Gupta: Yes, I do not see any category piece in this other than commodities that the lowest price there is the market leader. So I do not see the consumer durable consumer is different than electrical consumer. They want the right product in their house. They want a long-term durable there. They get the best of the services. So all these investments have to be made by each company and then only the consumer can take the product from the company. So I do not see any major thing that the consumer is more price elastic in this industry than as compared to the electric industry.

Shrinidhi Karlekar: Thanks for answering my questions and all the very best.

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

Navin Trivedi: Sir, if you can share what was the RAC market growth in the first quarter and if you have seen any big divergence between the growth in north and south?

Anil Rai Gupta: We would not be able to give these numbers at this moment.

Navin Trivedi: Even for the market also?

Anil Rai Gupta: Yes. I am talking of the market.

Navin Trivedi: Okay. And is there any update on the energy rating change this year for the RAC?

Anil Rai Gupta: It is still not clear. I think there are still deliberations being held at the ministry. So we are, I think, have to sort of hear a final call from them.

Navin Trivedi: Okay and lastly if you can share about the device growth this quarter, both in the value and volume terms?

Anil Rai Gupta: Yes. So wire and cable, I think pretty much similar what we have given and volume growth is also similar there has not been much change in the market for the first quarter.

Navin Trivedi: And what was the growth I might missed out.

Anil Rai Gupta: 4%.



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- Navin Trivedi:** Thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Achal Lohade from JM Financial. Please go ahead.
- Achal Lohade:** Just wanted to check on the inventory part. In the core Havells business, you said, we also want our channel to kind of hold only optimal inventory, so are you seeing the inventory days are being too high at the moment for us, for our channel as well as for the industry?
- Anil Rai Gupta:** No, no, absolutely not. In fact, I would rather argue that it is at a lower level as compared to maybe what is usual level, so it is contrary.
- Achal Lohade:** So is it fair to say that the underlying demand continues to remain weak even in case of B2C and we are hoping that the government push kind of helps in the second half?
- Anil Rai Gupta:** Yes. So overall B2C also has been weak and also because of the general mood and the cash balance in the market, so yes hopefully, things should start improving.
- Achal Lohade:** Thank you so much. Wish you all the best.
- Moderator:** Thank you. The next question is from the line of Naval Seth from Emkay Global. Please go ahead.
- Naval Seth:** My question is on Lloyd. You have spent enough time on pricing, cost control, in-house manufacturing, but can you spend some time on what is the product USP you would be focusing to drive better market share on this transition to drive growth in Lloyd especially, which will differentiate you amongst the peers to drive impact of the growth?
- Anil Rai Gupta:** Maybe at some point of time you can spend time with our marketing teams at Lloyd, which will give you a better input on that. I think we can skip this question on this conference call.
- Naval Seth:** Okay and lastly on ECD, water heaters have seen strong growth for you and competitor Crompton Greaves, so is it, do we assume that you have gained

market share further and any player would have lost meaningfully that is record?

Anil Rai Gupta: So we do not know who would have lost, but definitely, we believe that there is market share gain in ECD category.

Naval Seth: Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Kunal Sheth from B&K Securities. Please go ahead.

Kunal Sheth: Sir, as you mentioned there is price erosion in lighting, so just clarification, which part of the lighting segment you are referring to Consumer or luminaires?

Anil Rai Gupta: Professional luminaires. So LED, if LED chip cost was down it affects both businesses.

Kunal Sheth: So mainly in LED, but within LED bulbs or both battens as well as bulbs?

Anil Rai Gupta: It affects both.

Kunal Sheth: And Sir one more clarification regarding your margins. Sir, you mentioned that while the margins have been impacted in Q1, but it will improve over the course of the year you are mainly referring to the Havells standalone margins, right?

Anil Rai Gupta: The Havells standalone I do not think we have seen Q1 getting affected, contribution margins. The EBITDA margins are lower because of the higher expenses, which I said over a period of time we will start getting operating leverage as well.

Kunal Sheth: Thank you so much.

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

Sonali Salgaonkar: Sir, my question is, earlier, you mentioned that this quarter also was impacted because of the market share loss from the move from low-cost channels to premium, any approximate understanding as to how many more quarters we can see this disruption before it normalizes?



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Anil Rai Gupta: I think, Sonali, this is an ongoing process, but clearly I think this shift will accelerate and there are more channels, which is getting into the fold of Lloyd. This is an ongoing process and the improvement should start accruing. This is a key season now with the Q4 largely. So hopefully you will see improvement from that quarter.

Sonali Salgaonkar: Fair enough. Sir, secondly, on the plant that we have commissioned for Lloyd after the full ramp up say by the start of FY2021 how much proportion of production could we expect in-house?

Anil Rai Gupta: I think almost 75% plus.

Sonali Salgaonkar: Which is currently almost negligible?

Anil Rai Gupta: Correct.

Sonali Salgaonkar: Right Sir and my third question is you spoke about the new launches earlier, but any specific segment that you are targeting for the new launches and what timeline could we expect on that? That is it from me.

Anil Rai Gupta: The new launches have been more towards focusing on the channel rather than just for new product categories. So let us say within the switchgear category we have over the last one-and-a-half years we have launched product categories, which are better equipped for affordable housing as well as rural distribution, so these are the new product launches that I was talking about.

Sonali Salgaonkar: Sure. Sir, lastly, just one more, the ad spend in Lloyd you called out that it could normalize at about 5 to 5.5 percentage of net sales. Sir, which year you are talking of or the medium term?

Anil Rai Gupta: Even next year we are definitely hoping to retain at that level.

Sonali Salgaonkar: That is FY2021?

Anil Rai Gupta: That is right.

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



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Moderator: Thank you. Ladies and gentlemen, due to time constraint that was the last question. I would now like to hand the conference over to Ms. Renu Baid from IIFL Securities for closing comments.

Renu Baid: Thank you everyone. I would like to thank the management for giving us the opportunity to host the call and everyone for participating in this. Over to Mr. Anil Gupta for his closing comments. Thank you.

Anil Rai Gupta: Thank you very much for being on the call. As I have already explained that we are quite hopeful of a very good recovery in the economy. So Havells should continue to benefit from these economy revivals. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of IIFL Securities, that concludes this conference. Thank you for joining us. You may now disconnect your lines.