"Havells India Limited
Q2 FY2020 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Havells India Limited Q2 FY2020 Earnings Conference Call hosted by SBICAP 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 Moderator by pressing "*" then "0"on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhineet Anand from SBICAP Securities Limited. Thank you and over to you Sir!

Abhineet Anand: Good morning, everyone, and welcome to Q2 FY2020 Post Result Conference Call of Havells India Limited. The management is being represented by Mr. Anil Rai Gupta, Chairman and Managing Director; Mr. Rajesh Kumar Gupta, Whole-Time Director and Group CFO; and Mr. Rajiv Goel, Executive Director. I will hand over to the management now. Over to you, Sir!

Anil Rai Gupta: Thank you very much. Good morning, everybody. Thank you for joining us on the Havells India Q2 Investor Call so as you might have seen the results already, I think the investor communication has already been reviewed since yesterday, so what we have seen in Havells and Lloyd, demand remains a bit sluggish, more so in the real estate, industrial and infrastructure segment, which has impacted growth in industrial switchgears, industrial cables and professional luminaires, which have experienced very muted growth. However, consumer demand is slow, but still residential switchgear, consumer luminaire, domestic wires and the Havells ECD business has sustained growth, which we believe is due to market share gains and new product launches.

On the Lloyd side, it is a mixed bag. We talked about distribution realignment in the last quarter. It is almost in its final stages. We have seen a lot of traction from large-format retail and regional retailers, which is a positive sign. Due to this you see sales, though the season was low after the summer things have slowed down and the second quarter and third quarter is slow so we have experienced flattish growth in AC sales. The major disruption has been in LED panels and I think because second quarter, third quarter are generally higher for LED panels, there has been a major decline. There has been a price decline in LED panels across the industry for about 25%.

The online channels launched by a few Chinese players, coupled with swift reaction from some leading LED brands further aggravated the pricing and volumes. So LED may have some overhang in the third quarter, but we are now looking at this business in a very different way and our mainstay business continues to remain ACs. Washing machines is showing a very positive sign. We are looking at more product launches in this product category and LED panels will continue to remain as a filler so that we have the comprehensive product range so the profit decline in Lloyd is largely attributed to the LED business.

I think, at Havells, we are quite positive. Their contribution margins have been sustained despite the sluggish sales or sluggish environment. There has been a strong instances of reducing nonessential costs. The results of which will be quite visible from the next quarter. With demand outlook remaining benign, we are focusing on improving the profitability through better pricing and cost control and materials in SG&A.

With this, I close my opening remarks and we can now open for the Q&A session.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Bhoomika Nair from IDFC. Please go ahead.

Bhoomika Nair: My first question is on Lloyd it has been about 2 years plus since we have taken over the company and we were at about Rs.100 Crores EBITDA plus and first half has seen a loss, in that sense so how are you seeing this business now moving ahead from a more medium to long-term perspective, It has been two years on. We have done dealer rationalization, trying to diversify the current portfolio was one of the aspects, which we were looking at when we acquired the company, so how are you seeing this company going ahead and how will things change now that we have our own factory?

Anil Rai Gupta: Thank you very much, Bhoomika, for asking a question on the medium and long-term prospects because there are challenges in the short term and I think those challenges are a little bit more aggravated because of the market situation in many of the product category, we saw a slowdown in AC sales last year, which impacted the behavior of many of the players in this industry and this year, we have seen a major disruption in the LED panels business, so I think while we are on the track of a distribution realignment, enhancing the product range, upping the premium image of the product category and the brand, and also setting up the complete supply chain for our mainstay business of air conditions so all these things happened in the background, including the distribution change also happened because some of the large distributors had to be changed to multiple distributors in many of the states and they all, obviously, take a little bit more time to get settled. On this backdrop, the things which have to happen on the positive side, which will impact us in the medium term, long term, that are continuing to happen so which gives us a very positive outlook. However, because a couple of disruptions in the last couple of years, I think it has impacted the business on the profitability side as well as the slowdown on the sales side. But we remain quite optimistic. The plant is now operational, which gives us far more control on the supply chain, the inventories, and the costs, and how we respond to the market situation. I think there, we have a much better control on the mainstay business, which almost 70% of the business is on the air conditioning business.

Washing machine, which was just a product pillar I think now it is becoming a little bit more sustained in terms of our product offering to the market. The dealers and distributors have started viewing us as a complete player rather than just an AC player and the fact that we are sustaining well even in this LED's disruption is actually creating positive impact amongst our dealer channels, which will show some results in the coming time. Though it had a negative impact in last quarter and maybe a little bit of an overhang in the third quarter, but at least the long-term prospects seem quite fine.

Bhoomika Nair: And how has our market share moved over the last two years and where do you see this settling at? By when do you see this dealer rationalization of the distribution thing settling down?

Anil Rai Gupta: I believe we probably gained market share in air conditioners in 2018-2019. However, we have seen a little bit of a decline in market share in this year because the AC sales for the competition grew well. But we were hit by our focus on some of high-cost air conditioners from China, distribution realignment so we have seen some market share loss in the first six months. But I think with the setting up of the factory, as I said, better control on costs as well as inventories, we will be retaining this very quickly.

We talked about the distribution realignment that is almost complete in most of the states. What I mean by distribution alignment is: one, some of the very, very large distributors whom the company was depending upon, have now been closed down and have been replaced by distributors who can become long-term player for us, and not just taking the company, dictating the terms on the company, as well as most of the large retail channel, regional retailers and modern format retailers have already completed their one year of operations with the company and in such relationships, it takes time to gain market share in those counters. But the first year has been extremely positive with people like Reliance Retail as well as regional retailers like Sargams, Viveks and all so it has been a very positive thing. I think this will continue to build from here itself in the coming years.

Bhoomika Nair: Okay and my second question is on if you can just comment in terms of demand, how it has panned out in the last couple of months, especially given the festive season. Are you seeing any uptick on ground?

Anil Rai Gupta: Well, in the second quarter, we did not see much of uptick. I think October is a special month with all these festivals coming in, so there is a little bit more positivity in the environment, and we are seeing that for example, last year, October, what we also saw the same thing, but November was the financial crisis, and things started slowing down from there, the NBFC crisis so we are seeing a similar optimism in the month of October. How long it sustains because it needs to be seen. But at least the initial phase of the season has been positive.

Bhoomika Nair: Okay and lastly, if you can give any guidance in terms of topline for both Havells as well as also Lloyd in terms of outcome?

Anil Rai Gupta: No, we will wait for how it pans out as I said, it is a good start, but let us see how it pans out.

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

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

Bhavin Vithlani: Thank you for the opportunity. Just one question Sir, for Lloyd, you mentioned that you are repositioning brand as a premium one and our checks on the channel suggest that the larger players are actually betting more on the pricing front so any rethought on the pricing front? Where do you want to gain scale and trying to strike a balance between...

Anil Rai Gupta: As I said already, that last couple of years has been a little bit of a disruption. First, in the AC business then LED business so yes, the competition has played a pricing role. For Lloyd, we are very clear that we need to have a medium to long-term strategy. For us, the only way up was because it was already a price there so the only way could we be different was to move upwards. Just to remain there, just to play on pricing with the kind of investments that we are putting in, in distribution, brand as well as in manufacturing of product, we could not have sustained that for a very long period of time so that readjustment had to happen. That investment in brand and channel has to happen. Yes, it is because of the competition behaving differently because of the market situation that puts additional pressure on us in the short term. But I think we believe the long-term strategy is very clear.

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

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

Venugopal Gare: On Lloyd, I just want to quickly ask, you have changed the format of your presentation. You have not given the EBITDA margin in this quarter so just wanted to check if you could give us that number and also, you mentioned about some unabsorbed costs. I am assuming that has more to do with the underutilization of the new facility and not really a one-off startup expense, right?

Rajiv Goel: Yes Venu, you might be aware that as per audit requirement both from SEBI and Corporate Law, we are no longer allowed because Lloyd has fully aligned now with Havells, the back office is completely integrated, the entire operations are completely integrated. So I think and since their quarterly results are audited from this year, I think, we have been advised by the auditors to not to have a different shelf so I think but if you look at the contribution sheet, we have given separately. I think, you can make out, but we are refrained from now disclosing the Lloyd's EBITDA margin independently. On your second question, yes, these are basically unabsorbed costs because of the factory. As you are aware, the factory has started, but this is a lean season for Lloyd ACs, and that is why there is a significant under absorption, which is probably a nonrecurring in nature.

Venugopal Gare: Got it. My second question again is on Lloyd. On the TV business, given that it was a fairly relevant product line for you at least last year and you would have analyzed competition in terms of what they have been doing over the last 12 months in terms of the channel strategy as well as the sourcing strategy so is there any way in which you can actually compete with them rather than lying low? Can you actually replicate a strategy where you can actually compete with them head on either by changing the way in which you are sourcing your products or by aligning the channels accordingly?

Anil Rai Gupta: I would say, Venu, I think there are learnings in the last 12 months and while you may say that it was a very relevant product category, it becomes more relevant in a particular time of the year and I think the learnings, which we have had over the last 12 months will definitely ensure that we continue to remain positive in this business, both on the sales side and the profitability side. But obviously, I do not think that we have the kind of market share at this point of time that we should think of taking head on the large players in this business. It is, as I have already mentioned, the strategy behind this is to build a comprehensiveness to the Lloyd product range in the channel and that is what very important for us right now, which supports our other product categories in Lloyd.

Rajiv Goel: And just to add, Venu, we are not going to vacate the space so we will continue to remain relevant, as Anil just mentioned, we have certain dynamics and definitely, they will be leveraged for our future strategy. However, let us be very clear that AC would be the mainstay of this business. Whatever your plan, they may be 50% of our business, other product categories will then cost to the other half, where I think TV plays own role. I think these disruptions also creates a new environment, new market so please be rest assured that we will continue to be relevant. But I think things like taking head on and all, these somehow, that is not the way we think. But relevance will continue, and there will be learnings, which should be aggressively deployed in our strategy going forward. Not only for TV, for all other product categories in the consumer segment.

Venugopal Gare: Sure thanks a lot.

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

Aditya Bhatia: Sir, my first question is on the demand scenario for the core electrical business. Now if you look at the residential construction market, it had been weak for last few years. But we have all of a sudden started seeing very, very sharp slowdown in demand. Is it because until last year may be project completions were still going on…Sir just wanted to understand that, is it a case that projects completions on the residential side have now started slowing down. While until last year, we were seeing launches being slow but completions were still going on and that is the reason that we are seeing a slowdown in our core business as well?

Anil Rai Gupta: I think two things, I would say. As I say, one is, we have seen a significant slowdown as compared to even the last three, four years, since November of last year, so the only way you can tie this is to the NBFC crisis so there is a shortage of capital for real estate in the marketplace so that is one reason that we can attribute it to. Also, SMEs, the small traders, there is suddenly cash has dried up in this segment so that is one reason and the other reason is also the sentiment. I think this overall sentiment in last one year has been of a slowdown. And it just has a ripple effect on the way people look at businesses, people delay their purchases and I think it is a combination of many things which we haveas you rightly said, 4 or 5, last 3 or 4 years things have been very slow in the real estate market. But I think it is just a delaying of decision in the last one year because of capital availability or tactics.

Aditya Bhatia: Sure, Sir and Sir, are we seeing destocking also happening at the distributor end?

Anil Rai Gupta: Yes, it is definitely much lower as compared to what used to be, because, right now, as I said, the sentiment. There is more thinking towards saving rather than actually spending so there is less positivity in the environment so people also stock less so I would say that the trade stock would also be at a lower level as compared to earlier.

Aditya Bhatia: And secondly Sir on the Lloyd business, you have stated in the past that you would like to get the room AC to pushing down to 50% in maybe 4, 5 years' time. Is that still a target that we are looking for, given that TV is now having its own set of challenges. And then in fact we are looking for a launch of refrigerators?

Anil Rai Gupta: You are right, the new product launches, we would definitely look at reducing the share of air conditioners. But as I said, TV has been more of a disruption in the last few months. It is very difficult to pan out a 4, 5-year strategy of how it would be in the next 4, 5 years so I think we also believe like in Havells, frankly, we have never seen what should be our share in three or four years for any particular business. The whole idea is how we can grow our market share in each product category, whether it is a small business or a large business so a smaller business item as small as a water purifier or a personal grooming business. There also we want to remain relevant and keep increasing our market share. A larger business like switch gears, wires also, and wherever it takes us to in terms of distribution of product categories so I think that is not really the aim, and I do not think we are really aiming for a number of what a particular product should be as a part of the portfolio.

Aditya Bhatia: Sure Sir and Sir when should we expect the launch of refrigerators?

Anil Rai Gupta: Most probably the first quarter of next year.

Aditya Bhatia: Okay that is helpful Sir. Thanks a lot.

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

Renu Baid: Sir, few questions from my end. First would be coming back on the Lloyd and the ref segment, do you think we would be required to make some more investments on the channel side? And how prepared are we with respect to the product? And what could be the potential sourcing model? Will it be more of a outsourcing model to start with imports or domestic assemblies of the existing plants? So if you can share some more structural thoughts on the ref segment, which you plan to enter?

Rajiv Goel: Renu, we would not like to speak a whole lot about the refrigerate segment, I think it will be more relevant when we start the product category, but it will be an outsourcing model that is one thing to begin with and secondly, we would not need to make major investments in the distribution side of the refrigerator business because it will be the same existing distributors and regional retailers and large format that would be dealing in this product category.

Renu Baid: Sure and on the Lloyd, what was the kind of A&P spend during the current quarter given it was anyway a weak quarter so how should we look at the comparable numbers on a sequential basis?

Rajiv Goel: It was similar to last year, Renu.

Renu Baid: Sure and now within Lloyd portfolio, also given that television is going through a consolidation phase and we have seen high double-digit declines of 15%, 16% plus so overall, as a portfolio, do you think the current year, one can still expect flattish revenues or the at least a 10% kind of correction would be more real in terms of how the year has already panned out in the first half, and we are already in October so how should we look at the revenues panning up in this, at least, for the given financial year, which is going through consolidation?

Rajiv Goel: I think, Renu as you know, the things are evolving, as you mentioned, hopefully, the festive season should bring more optimism. I think the only way we could articulate right now is that H2 should be better than H1. I think that is the way we should look at it and H2 hopefully should have some growth over last year. But maybe I think in the next quarter when we have a call, we have better visibility how things are panning out so and there is a lot of moving parts right now in the ecosystem.

Renu Baid: Correct and on the core business, if you look, we had mentioned that once after Lloyd's phase of expansion this year, next year, we are targeting capacity expansion across categories for the core portfolio so if you can highlight with the segments, are we expanding? What is the kind of capex outline individual? At least, broad segment wise? And do you think any of the new capex could benefit because of the lower manufacturing tax rate, which has been proposed by the government?

Anil Rai Gupta: So Renu, I think from the core side of the business, we talked about capex for most of the product categories, which is already underway so whether you would see water heaters and cables and wires, I think the major significant capex expansion, which will happen next year would be for fans. But the rest of the product categories in switchgear, lighting and ECD other than fans and cables and wires is pretty much already underway, which hopefully should get completed by March or April and some spillover for next year.

Renu Baid: Sure but no major benefit on account of any Greenfield expansion. Most of these are Brownfield in nature?

Rajiv Goel: Yes. Most of them are Brownfield.

Renu Baid: And Sir, my last question would be on ECDs. There was a base tool, which before this year growth tapering off. But would you read through that, despite this being a seasonally weak quarter and new product categories being added, growth rate tapering off below 20% should signal any red alert or do you think probably it is more of a short-term phenomena and we should be back to 20% kind of growth rate in this category for us?

Anil Rai Gupta: Well, I think we are used to quite good growth there. You see these smaller businesses, which were there last year, are now achieving a meaningful size and I think to keep expecting a very high-growth from those businesses on a larger base might be a bit of a difficult thing to do and of course, the demand environment has been realigned. It is not, we believe, it has turned around in a big way. In fact, the new product launches like small domestic appliances businesses, in fact, shown better growth so we are definitely seeing a little bit slower growth as compared to the overall product category growth in larger businesses so it is a good mix of things and I think we still believe that in most of the product categories, we are gaining market share.

Rajiv Goel: Yes and I think, Renu, by what we mentioned about the categories maturing, the most of the category now whether it is ECD, water heater and PG, I think they have broken into top three so we have achieved one of the objectives, we always take for ourselves that we should not remain only relevant, but also we should be in top three so I think this is a very healthy sign and despite this entire sort of consumer apathy, which has aggravated in Q2, I think, we are fairly sort of and choose better performance, which ECD has delivered and I think it will only gain from strength to strength here.

Renu Baid: And the performance for the water purifier segment should be improving and savings...

Rajiv Goel: Yes and all segments actually. If you look at every segment, as I said, not only remains relevant, they are breaking into top three.

Renu Baid: One last question, if I can ask. What is the kind of targeted quantum reduction in the nonessential costs that we are looking during the rest of the year or going into..

Rajiv Goel: No, I think there is no as we said, we do not move by targets, Renu, but there will be a positive impact. I think there is no denying that I think material costs are benign so you will see, I think, we believe that by the end of Q2, our margin performance should be sort of exclusively better than H1, the margin performance and there is a general higher consciousness built around this industry. That is the whole idea.

Renu Baid: Thank you so much Sir.

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

Keyur Pandya: Sir my first question is on the Lighting, so if you can throw some light on the source of degrowth as well as some fall in margins so is it because of the EESL or B2B, B2C segments? so if you can give more highlight on that. This is first and second, in the ECD or in general core business, so with the expansion of brands like REO and Standard, should we see that our profitability should plateau somewhere what it is currently?

Anil Rai Gupta: On the first part on the Lighting part, if you see a little bit of slowdown has happened in the industrial segment, which has impacted the growth in professional Luminaire business, I think the consumer business continues to grow. In fact, I would say that the margins in this business are quite healthy. A little bit of a slowdown in the professional Luminaire business has contributed to lower margins in this business because of the factory and other costs also but I think that is definitely these margins are sustainable margins. In fact, we definitely believe that our ASP management, our pricing management has been much better than the competition during this time. We have not succumbed to the pressures in the marketplace and, hence, also gained market share during this time. On the other part, I think Reo and Standard are brand strategies, these are needed for new channels, new markets, affordable housing, for example, or rural expansion. The way they are working on is that, as I was saying earlier, it is not really going to affect our margins in a big way. In fact, even we have been doing Switchgears in Reo brands in the last three or four years, and we have seen margin expansion over the last two, four years so it is not that these brands are affecting the margins in any way.

Keyur Pandya: Okay Sir, Lighting pricing pressure continues?

Rajiv Goel: You see pricing pressure is in every product category; Switchgear, Cables, Wires, Lighting that is how you manage the distribution channel, and frankly, we are not a company who believes in that lowering the prices can increase your market share. We work differently.

Keyur Pandya: Perfect okay. This was helpful. Happy Diwali and all the best. Thank you.

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

Arnab Mitra: Thanks for taking my question. My first question on Lloyd was that, you know, now that your capacity, the factory, started, would you expect a significant part of your production in the fourth quarter, which is a reasonably big quarter for ACs to come from in-house production? And whatever gains you have on margins, which is savings on import duty and other kind of things, are there significant savings in the context of the other costs in the factory? And will they lead to some kind of an improvement just because of the manufacturing, sourcing, shipping in-house?

Anil Rai Gupta: I think the Q4 will not fully reflect as you are aware supply chain decision are taken well in advance so I think the Q1 of next year in terms of financial would be more relevant. I think as far as the costs are concerned, these are buildup figures so normally factory takes almost three to four quarters before it can start realizing the benefits so I think next year would be more relevant for understanding the cost benefits of the factory. I think the real benefit is that the supply chain is far more secured, and I think it is not dependent upon the third-party in country so I think that is to our mind was the first feat which has been achieved. And I think the savings and all is an ongoing process but definitely, it will accrue, but that would be more relevant for next financial year.

Arnab Mitra: Okay, that is helpful. The second was on Cables where you have seen a big margin expansion so this 18.4% margin, is it sustainable? Or is there some kind of gain that you had in the quarter, which probably is commodity linked? How would you look at the margins in the quarter, this quarter that went by?

Anil Rai Gupta: There is no onetime gain, but there is a little bit of a time lag between commodity prices and the market price. But this is more operational only. This is only operational. However, we continue that it will be more at in between the levels of 15% to 17%, which has been cost consistent over the last many, many quarters.

Arnab Mitra: Okay thanks that is it myself, all the best.

Moderator: Thank you. The next question is from the line of Tanuj Mukhija from Bank of America. Please go ahead.

Tanuj Mukhija: Hi Sir two questions from my end. Firstly, could you give us some sense about your margins in the AC business and margins in the LED panels business?

Anil Rai Gupta: We do not do differently and we do not do independent assessment and do not share so we would not like to discuss that.

Tanuj Mukhija: Okay. Sir, just a follow-up on that front, I mean, given that it is difficult to head-on compete with the Chinese players in the LED panels, how do you plan to turn around the profitability of the LED panels business? Would not it be better to vacate this space?

Anil Rai Gupta: Well, I think we have already answered this question and as Rajiv has also already mentioned, that it is not right for a long-term strategy for us to vacate the space and we will continue to remain relevant and it will be relevant product category in our portfolio and we are a company who always believes in keeping product profitability, always top in mind, but also be a part of the relevant portfolio.

Tanuj Mukhija: Okay. And Sir, my second question on the core electricals business is that we have seen other building materials company with rural penetration do reasonably better-off in this quarter so could you just elaborate a bit more on your plans on targeting specifically towards rural and affordable housing in the core electricals business?

Anil Rai Gupta: There is a continuous development on the rural expansion business and I think much the distribution channel is already set up for expanding the rural business and we are continuing to see growth in our Reo brand business, which is primarily for the rural parts and affordable rural houses.

Tanuj Mukhija: Okay. Sir, as of now, do you only push in to segment to rural areas or even other categories get into the rural segment?

Anil Rai Gupta: We are expanding our product categories.

Tanuj Mukhija: Okay understood thanks.

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

Vinod Bansal: Couple of questions. One, beyond the numbers in the electricals business, if you could talk about overall sentiment, business environment in the more recent months, this month and the previous one, let us say? We will be 4 to 6 months back. Is the sentiment, overall, slight bit better? Is it improving? Or we are still in a sluggish phase currently?

Anil Rai Gupta: I would generally say that we are still in a sluggish phase. This is what we have been noticing even in the month of September. October is generally a more positive month because of the festival season. There is generally more optimism, I think, within the trade so we are seeing that uptick in the month of October. But as I said earlier, let us see how it pans out over the entire quarter and the next half so but I think there has not been a major change in terms of capital availability was changing on the market sentiment in a big way. Consumer segment is still not very bad, but I am talking maybe more on the infra side and the kind of direct capex side as well as on the residential building segment.

Vinod Bansal: Right earlier, you spoke about hoping for H2 to be better than H1. Sir, I was just wondering, are we seeing specific signs to have a hope of a better couple of quarters to come by? Or I mean, they are more and more…?

Anil Rai Gupta: Yes, I think as I said, we are a learning organization. We have learnt in the last 12 months so we have taken certain corrective actions, as well as there is a high degree of focus on consciousness on the cost side as well, so we are ensuring that this H2 will be better than H1. Depending upon the market environment, I think we will respond to the fact, but I think from a margins and a profitability front, we will be definitely better-off in the second half as compared to the first half.

Vinod Bansal: Sure Sir also on the tax rate cut, I wonder if it is possible to spell out a new strategy? Now that you have an extra money at hand, do you wish to retain it or some partly passed on to the consumers to lift demand? What is your sense on how companies would do when in general the industry would be looking at this extra money availability-wise?

Anil Rai Gupta: I think it is too early to say this. Let us see how it goes. I think we really do not believe in I mean, frankly, if more money was needed for more expansion, that could have been done through any other means as well, so tax cut is not going to change the way we retain our long-term strategy on business.

Vinod Bansal: Right if I may, what I meant here is that, let us say, reduce prices a bit or give higher commissions to dealers, all these things just to boost the near-term demand until the time overall macro improves. Is that something that is on the table? Or you...

Anil Rai Gupta: I think, as I have already mentioned, a brand in distribution-oriented business behaves differently than a commoditized business and it would have been in most of the businesses that we have, our pricing or our margins are higher than the competition, whether it is in ECD business, Lighting business or the Switchgear business and we have experienced this in the past, by reducing our prices or ASP, does not increase your market share, so there are 10 different things you need to do to increase your or even hurt your market share, so I believe pricing is not the main thing, and this is something where we believe this way of actually changing your strategy according to the market situation might not be the best way to deal with a brand in distribution-oriented business.

Vinod Bansal: Right thanks a lot. Thank you.

Moderator: Thank you. We move to the next question from the line of Sonali Salgaonkar from Jefferies India. Please go ahead.

Sonali Salgaonkar: Thank you for the opportunity. Sir, my first question is again towards the medium-term outlook for Lloyd, say over the next five years, what is the kind of product mix that we envisage in Lloyds post the new launches in terms of refrigerators and by then probably we would have attained a sizable amount in washing machines as well? And a follow-up to this is that, you mentioned earlier in your remarks that the impact of disruption in LED could also be seen some part into the third quarter as well so my question is, will we be seeing any further costs from the newly commissioned AC plant also in Q3?

Anil Rai Gupta: Yes, so I think, medium term, you have been sort of tracking this along so you are aware of our strategy when we acquired this also. It will be a full stack consumer appliances player, Lloyd, and I think that strategy has not changed a bit, so whether it is adding refrigerator or expanding their range in the washing machines anyway LED TV. You see there may be a disruption, but we believe we will continue to remain relevant in this business as well so I think that will continue and I think our vision in terms of what we want to achieve has not changed. There are disruptions in this market, but these are large markets and the boosting in this industry, the demand is unsaturated and I think there is a long-term growth, which is fairly visible and confirmed so I think that, that will continue to happen. On the other question, on the Q3 in fact, we have already started so that cost will continue to happen and over the Q3, we're having some more production than Q2 where the stabilization would also happen so unabsorption will continue, and I think it will only get addressed more so in Q4 and the better-off payoffs will come in the next financial year.

Sonali Salgaonkar: Got it, Sir and just one more question regarding the utilization of the sizable cash that we have on the balance sheet. Sir, any firm plans on this thing?

Anil Rai Gupta: No. I think that this is now what we require. I think I will not claim it sizable, our dividend payout has already gone to 40% to 45% so the plans are pretty much I think we want to retain that much sort of liquidity in the system so we do not see this in excess of what our needs and if it is that, that will be dealt appropriately by the Board.

Sonali Salgaonkar: All right. Sir, and any quantification of capex in terms of how much you would like to do in FY2021?

Rajiv Goel: In FY2021, I think we are looking more like Rs.300-odd Crores as you said, the major sort of what has been done this year but I think the Fans, we are going to expand our capacity and some spillovers will be there. I think it will be more likely Rs.300-odd Crores.

Sonali Salgaonkar: All right. Sir, my last question. New launches, any specific segments you would like to comment in which you would like to launch?

Anil Rai Gupta: No. I think these are now normal routine in all of our product category they are launching. But no, nothing specific big bang launches are going to happen.

Sonali Salgaonkar: All right Sir. All the best and thank you that is it from my side.

Moderator: Thank you. The next question is from the line of Rahul G from Haitong. Please go ahead.

Rahul G: Just one question. Basically, large performance this time was impacted by decline in LEDs that we have seen. Now I think that there is similar thing which is happening in the air-conditioning side also where a whole lot of private labels are actually almost having an onslaught on the market where the price differential between some of the leading players and the private labels are anywhere between 25% to 30% now that is a very large discounting that is going on so in that backdrop, where pricing pressure could also hit the AC business, what are your thoughts on dealing with Lloyd as a whole?

Anil Rai Gupta: The AC business, I do not know, private labels, what kind of differential you are talking about. You would have noticed that there have been a certain price decline and we believe these are markets where we have to go in and we have to see how things evolve. If you would see, we are far better positioned with our own plant, you see, in terms of flexibility as well in terms of costing so I think that is something we will have to take it as it comes. But just having a private branch and all does not mean the market is just going into a tailspin. In our view, this is more in terms of how the growth evolves for the industry as a whole and if there are reactions in the market, ultimately, we are part of the ecosystem, and we will have to take tactical approach based on what where it comes from.

Rahul G: Okay. Sir, just a continuation of this particular question along with private label, there have also been efforts by the government through EESL and all, to really bring down the ownership cost of air-conditioning. Any thoughts on participation in any of these such tenders from EESL?

Anil Rai Gupta: We think that is always evaluated on the merits, in particular cases and environment so we have been participant in the overall Havells environment in EESL, and but we think decision are not taken by the perspective SBU. There is no strategic bar or sort of push. We are just like any other segment for the demand, and we will react based on what comes out of that.

Rahul G: Okay thank you very 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 in terms of the Switchgear business, we have seen kind of very weak numbers for the last couple of quarters. Is it possible to highlight, in terms of the industrial Switchgears, tie-up with Hyundai? How it is panning out? And what kind of growth can we go back to the double-digit growth anytime soon in this particular segment?

Anil Rai Gupta: So as I mentioned, Achal, in this business, there are various parts. One is the domestic residential protection which continues to do well, where we definitely feel that we have gained market share, there are not many industrial players in this business, but what we understand from the marketplace is that we have gained market share in the domestic residential business. There has been a slowdown in the industrial business because till last year there was a lot of push on the government spending in infrastructure in the electrical space so there has been a slowdown on that side. Hyundai is continuing. It is a little bit of a long-term thing because development of industrial Switchgears along with Hyundai, it takes time, but it is on the right track and it is growing.

Achal Lohade: Got it and just with respect to the ECD, you said the growth was more driven by the small domestic appliances. In Fans, particularly, have you seen any further market share gains or any market share loss out there? Because we have seen other companies doing fairly well this quarter.

Anil Rai Gupta: Yes, I think it is not better, but we have definitely done very well in Fans as well so as I said, it is a larger product category, the growth is a little bit slower than the overall product category because there are smaller product categories, we would have grown faster. But I do not see, in fact, especially in the premium segment business, our market share continues to remain between 25% to 40% in each segment of the premium category and I think that we are doing extremely well.

Achal Lohade: Thank you and wish you all the best.

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

Charanjit Singh: Thanks for the opportunity. Sir I would just like to understand in terms of what is our manpower strength right now and what is the expectation for the year-end and secondly, on the Lloyd front, have we done any major leadership changes?

Anil Rai Gupta: We have never given our manpower numbers in the past and frankly, we do not even have it right now. But I think it is a regular process, so manpower is constantly being evaluated and being added wherever it is required in the business and there has been quite a lot of stability in terms of the leadership in all businesses, that is just not Lloyd, but all businesses all across the country.

Charanjit Singh: Okay and on the A&P spend, how do you expect for the full year number in terms of customer sales to pan out?

Anil Rai Gupta: So I think we have been tracking for the whole year if you take out the seasonality on around 3% for the Havells as a whole so we do not see much major changes on that account.

Charanjit Singh: Okay and Sir, just lastly from my side on the small kitchen appliances so right now what will be the contribution? I understand if it is very small, but how do you see this segment scaling up for the ECD over the next two to three years? That is all from my side.

Anil Rai Gupta: I think small domestic business is not any more small. It is as Rajiv has already mentioned, that we have a meaningful player relevance in this product category so we are quite bullish about this business and the best part is just like our Fans, we are not operating in a low price, low economy kind of segment in this product category. The product is perceived as a premium product and still, we are volume-wise, we are amongst the top three or four players in this industry within five years of our entry so I think the strategy that we have always for our products, we always have a medium- to long-term strategy that within 5 to 7 years, we want to be a meaningful player amongst the top few players so it is moving very well in that direction.

Charanjit Singh: Okay Sir. Thank Sir that is all from my side.

Moderator: Thank you. We move to the next question from the line of Avneesh Agarwal from Prabhudas Lilladher. Please go ahead.

Avneesh Agarwal: Sir my question is regarding the Lloyd business where you indicated that in the longer term, you are raising maybe 50% of the sales so can you share your long-term vision that which other products will account for the balance 50% of the sales?

Anil Rai Gupta: Yes. I think we have already answered this question, please. Can you move on to a different question, please?

Avneesh Agarwal: Okay. My second question is regarding the ECD business where Fans are a very dominant part of our business. But in Fans, now we are having lot of competition in the premium segments so what is the outlook on the category as such?

Anil Rai Gupta: Well, as I have already mentioned, that our market share continues to be extremely strong, we are the leaders in the premium segment. In various categories of premium segment, our market share ranges between 25% and 40%, and we are gaining market share so while there is competition, I understand and, obviously, people would want to take part of the market share. It all depends upon how we keep coming out with new product launches with new technologies in the premium segment category, both on the aesthetics as well as functional side so there, we are quite, I would say, positive on the thing that we will continue to dominate this part of the market of fans.

Moderator: Thank you. The next question is from the line of Latika Chopra from J.P. Morgan. Please go ahead.

Latika Chopra: Most of my questions have been answered. Just one bit on the online channel. We have seen a lot of disruption in the LED space coming from this channel. Do you envisage this channel becoming meaningful for any of the other consumer-facing businesses that you have? And what are the current failures that you have here? And how is the margin profile?

Anil Rai Gupta: I think the current salience that we have is the fact that we are not a discounted player on the online channel, which keeps us in good stead with all the other channels like modern format retail, CSD and the traditional channel so this is a differentiation that we carry out, whether we are dealing with the large players in the online channel as well, and in every product category, weak or strong and because of that, according to the product categories, let us say, relevance on the online channel, we continue to remain doing well. For example, a small product category like personal grooming, which is more of an online category, even there, our sales are 50% from the online channel, and still we continue to do well in the traditional channel so we are a very strong player on the online, as long as we are not discounting the product to kill the others so there is no point in actually taking away market share from the other channel and put it on the online channel so that is not what we do, and we are heavily relevant. We follow policies, even strategy of different model, different channels, all those kind of strategies are being put so that every alternate channel is a relevant channel for us.

Latika Chopra: Sure thank you.

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

Kunal Sheth: Thank you for the opportunity Sir. Sir in your remarks, you talked about some of the cost measures that you were planning so any specific measure that you would like to talk about and any number you want to put out in terms of savings that you are targeting?

Anil Rai Gupta: Well, I think, Rajiv has already mentioned, there is general consciousness built around the system to ensure that there is a higher focus on nonessential costs so the essential costs, whether it is manpower, distribution expansion, advertising, capex, there we continue to maintain the same path that we have been following.

Kunal Sheth: Sure so any number you would like to put out? Or it is more from a general belt-tightening perspective?

Anil Rai Gupta: Yes, that is right. General belt-tightening as you rightly mentioned.

Kunal Sheth: Sure. Thank you so much.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, that was the last question. I now hand the conference over to Mr. Abhineet Anand from SBICAP Securities for closing comments. Over to you, Sir!

Abhineet Anand: Yes. I would like to thank the management for giving us the opportunity to hold the call and I would like to thank all the participants who attended the call.

Anil Rai Gupta: Thank you.

Moderator: Thank you very much, ladies and gentlemen, on behalf of SBICAP Securities Limited. That concludes this conference call. Thank you for joining us. You may now disconnect your lines.