

Havells India Limited Earnings Conference Call

29th October 2020

- **Moderator**

- Ladies and gentlemen good day and welcome to Havells India Limited Earnings Conference Call hosted by Prabhudas Lilladher Private 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 touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amnish Agarwal from Prabhudas Lilladher Private Limited. Thank you and over to you sir.

- **Mr. Amnish Agarwal – Prabhudas Lilladher Private Limited**

- Hi everyone, on behalf of Prabhudas Lilladher I welcome you all to Havells India Conference call for Q2 FY21. We have with us the top management of Havells India represented by Mr. Anil Rai Gupta – Chairman and Managing Director, Mr. Rajesh Kumar Gupta – Director (Finance) and the Group CFO and Mr. Rajiv Goel who is the Executive Director. Now I hand over the call to the management for further proceedings.

- **Management – Havells India Limited**

- Thank you very much. Good afternoon everyone, welcome to the earnings conference call for the quarter ended September 2020. Hope you would have reviewed the results by now. So, for my initial remarks I would say COVID led disruptions seem to be declining. We are encouraged with the pace and extent of demand recovery. Consumer and residential demand especially are robust. However, industrial and infrastructure space remain sluggish, though they are also trending towards a gradual recovery. Our initiatives in rural, online and channel engagement have delivered well. Lloyd recovery is led by AC sales growth. Recent entry into refrigerators would further strengthen the product portfolio. We perceive the latest impetus to 'Atmanirbhar Bharat' with prohibition on AC import as positive for integrated manufactures like Lloyd. Advertisement expense and CAPEX remain low during the quarter though we expect a gradual recovery to normal levels. The festive season seems to be evolving decently, though COVID development needs to be observed for sustenance. There is a positive sentiment amongst the entire organization for growth as we continue to build on the momentum. We will now proceed for Q & A.

- **Moderator**

- Thank you very much. We will now begin the question and answer session. Anyone who wishes to ask a question may press '*' and '1' on their touch tone telephones. If you wish to remove yourself from the question queue, you may press '*' and '2'. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.
- The first question is from the line of Atul Tiwari from Citi Group. Please go ahead.
- **Mr. Atul Tiwari – Citi Group**
- Yeah, thanks. This is Atul here from Citi. Sir, my first question is on the margins for this quarter. So, congrats on very strong margins of about 17% and it seems to be driven primarily by raw material to sales ratio which is quite low. So, is it sustainable? This 17% kind of margin or ~400-500 bps higher than what you normally report?
- **Management – Havells India Limited**
- So, on the margin front if you see, we have also reported the contribution margins which have either remained constant or have improved. They have improved in the lighting and ECD segment but have also remained quite stable in the other segments. So, we believe that these margins would hopefully remain sustainable, though there is a pressure on commodity prices which might take a little bit of lag to pass it on into the market and hopefully things should ease out in the coming times also. But our focus usually is on the contribution margin and to keep expenses under control. Now you see in this particular quarter there were certain expenses which were lower than normal like the advertising spend which over a period of time will come back to normalcy. So, I believe the contribution margins have the ability to sustain and we will continue to build volumes to retain as much as of the overall margins. However, some of it may come off because of the increased expenses.
- **Mr. Atul Tiwari – Citi Group**
- Okay, so what about raw material to sales ratio or the gross margins? Because a lot of this EBITDA margin improvement appears to be driven by that in this quarter. So, will that sustain?
- **Management – Havells India Group**
- So, I think we look at the contribution margins. Contribution margins have primarily remained either equal or better than last quarter. So that is what we are striving for. All the cost initiatives in the factories, productivity improvements are working towards that.
- **Mr. Atul Tiwari – Citi Group**
- Okay sir. And sir, my final question is, any comments regarding the outlook for second half and especially how are things during the festival season looking?

- **Management – Havells India Limited**
- You know, what we have seen in the last quarter I mean the outcome has been positive. When we entered the quarter, we didn't expect that the consumer and residential demand would come back so strongly. So hopefully this should sustain. Regarding festival demand, couple of our product categories like domestic appliances and lighting cater to it and some part of Lloyd as well. But generally speaking, we look at overall recovery in the economy and that hopefully will sustain even after end of second quarter. So hopefully I think we should be looking at better times going forward
- **Mr. Atul Tiwari – Citi Group**
- Okay, thank you, thanks a lot.
- **Moderator**
- Thank you. The next question is from the line of Sonali Salgaonkar from Jefferies India. Please go ahead.
- **Ms. Sonali Salgaonkar – Jefferies India**
- Sir, thank you for the opportunity and congratulations on the great set of numbers. Sir I have two questions. The first related to the key strategies or initiatives that the company has undertaken during the pandemic which has helped us in delivering such a strong performance. And secondly, market share gains. So in Q1 conference call we had talked about market share tail winds from the unorganized sector. So have we gained market share in any of the categories in this quarter and do we see sustainable market share gains going forward as well?
- **Management – Havells India Limited**
- So if you talk about broad strategies, I think in any crisis situation some strategies are immediate and some things are taken forward from the past. Our focus on the channel, deeper entrenchment in the distribution channel that continued to remain as well as intensified during the pandemic times/the COVID times. Our connect with the channel definitely paid off results. Our initiatives in going deeper into Tier II, Tier III towns and rural markets and focus on online have helped. So being an omni present channel kind of a company really helped during these times. Thus, overall looking at all the good costs and bad costs; Good costs which can go temporarily and come back, Bad costs which can go away permanently. I think a lot of focus was put on improving cost efficiencies into the organization and obviously looking at newer growth opportunities for future. We believe, we have definitely taken market share gains in all the product categories and that's something which is very satisfying, and unlike an FMCG industry it is very difficult to get month on month numbers of the market share. Maybe we are not big fans of the market share reports because our industry is not well covered in that way whether it is switchgear or cables & wires from market share point of view. So, what we can find out is how the competition,

the organized competition is fairing as well as the unorganized competition. Definitely in last 6 months since it is a supply chain disruption, because of change in mindset of both consumer and channel we have seen market share gains from the unorganized channel as well. But over the last two weeks or months we have also seen market share gains in many product categories from the organized manufacturers. So, I think that is what is more satisfying that this growth is coming not only from the growth in the economy but also from growth in the market share in numbers.

- **Ms. Sonali Salgaonkar – Jefferies India**

- Understand. Sir and how much of your business would be B2B/ infrastructure related right now and secondly any quantification on terms of deepening of rural reach right now for us?

- **Management – Havells India Limited**

- Again many of our consumer and residential product category also go into industries and infra. But we have now started defining in two different broad segments which is consumer and residential oriented and the other one is infrastructure and industrial oriented. The products which go into industrial and infrastructure are contributing ~25% of the overall sales and there we have seen sales even lower than last year, whereas in consumer and residential we have seen sales grow at about 15% or so in this particular quarter, so that is very satisfying. And I think going forward the way we have started looking at last few weeks, the infra and industrial segment has also started coming back. I think hopefully things should start normalizing in the next couple of quarters.

- **Ms. Sonali Salgaonkar – Jefferies India**

- Sure sir, and any quantification of your rural reach which you think is sustainable?

- **Management – Havells India Limited**

- Well, our rural reach is deeply intensifying and, we have seen almost a 140% growth in the rural sales in this particular quarter though the number is small but now we can say that almost 4% of our consumer and residential sales is coming from the rural areas.

- **Ms. Sonali Salgaonkar – Jefferies India**

- Fair enough. And my last question, any views on the real estate demand returning and any CAPEX guidance? That's it from my side.

- **Management – Havells India Limited**

- So yes, as I said consumer and residential we have now started clubbing into one, so we are seeing some improvement in the residential demand as well. In fact, within the cables and wires if you see, our domestic wire business grew around 19-20%, so

that is an indication of improvement in residential demand as well. As far as CAPEX is concerned, when we started out the year we looked at the entire year. Because the COVID things happened, we had contracted our CAPEX. But now we have revisited our CAPEX and this year it seems we should be in the range of about Rs. 330 crores or so for the entire year.

- **Ms. Sonali Salgaonkar – Jefferies India**

- Sure sir, thank you very much.

- **Moderator**

- Thank you. We would request the participants to please press '*' and '1' to ask a question. The next question is from the line of Renu Baid from IIFL. Please go ahead.

- **Ms. Renu Baid – IIFL**

- Yeah good evening sir, and congratulations for a very strong performance in this quarter. So, you did mention different aspects of the market and growth. What part of the demand aspect do you think could be having some element of pent up demand or do you think the broad contours of the growth look very much sustainable for us. On the demand side how does that look in terms of the growth that you have secured in this quarter?

- **Management – Havells India Limited**

- So Renu it is difficult to say even after 4-4.5 months of lockdown opening up whether the pent up demand will be there. Things would have normalized by now. But we definitely feel that the inventory levels in the trade are lower than last year, than the normal levels. So this does indicate that there might have been some pent up demand. But overall we believe that the economy pick-up has been better than what we were expecting.

- **Ms. Renu Baid – IIFL**

- Sure, and second would be sir, again you did mentioned during your comments that growth of 19-20% in the housing wires and other categories. Within some of the large categories can you throw some insight in terms of the performance because overall ECDs grew 18%. So, within them some feelers in terms of the large categories, how did they performed and overall should we expect this kind of market share gains to be sustained as rest of the market comes back to normal towards the second half of the year?

- **Management – Havells India Limited**

- Renu, generally because we have so many different business units within the segments also, it is very difficult to get to specifically talk about one product segment or the other

- **Ms. Renu Baid – IIFL**

- Perhaps the highlights or the outlier growth which you think you want to highlight?

- **Management – Havells India Limited**

- So as I said, overall if you see the consumer and residential sector grew in mid-teens. Within that if you see lighting as an overall segment has grown by only about 4-5%. If you take out the professional luminaries business which is also related to industrial and infra, the consumer lighting business has grown around 15%. The ECD overall has grown around 18%. We believe within that also if you look at the large product category like fans we have grown fastest in the market, not only did we take share from the unorganized sector but we believe that we have grown faster than the competition in the organized sector as well. So, there is, I would say large segments in the industrial infra where we still have to come back to sales levels of last year. But definitely in the residential and consumer we have seen good traction.

- **Ms. Renu Baid – IIFL**

- Sure. And sir two follow up questions on the cost structure. I think we have taken various cost action, so are we now seeing some of the fixed cost being restored back, be it in terms of employee benefits and other details. At the same time on the A&P spend last quarter you mentioned there could be a structural cut down in terms of the spend which you were traditionally doing of almost 4-4.5% level. So should we see those levels now tapering to 2.5-3% at the company level or they should now come back to the previous pre-COVID levels the way you were spending

- **Management – Havells India Limited**

- Well, as I said we looked at the entire cost structure of the company, and we definitely don't want to curtail any expenditure which is required. In fact, on the employee expenses we had actually not taken any salary cuts in the first 6 months. So, I believe the employee expenses are the sustainable expenses and except whether it is related to growth in employment there would be an increase, otherwise those are sustainable expenses. Some of the cost will come back, like travel cost are still very low, they will come back. Advertising and promotion spends will start increasing in the 3rd and 4th quarter. It will take time to go up to the normal levels, or will never go back. Because as I said there are structural changes. But it will gradually step up. So we will not see an immediate rise because brand building for us is more of an investment, it is not something which is related to impulsive buying as in some FMCG category. So it is more of a brand investment and I think you will continue to see how the monies are distributed between digital and non-digital spend. So I think over a period of time this will come back to normal levels and may not be the same levels as pre-COVID levels.

- **Ms. Renu Baid – IIFL**

- Sure. Thank you so much, and all the best sir. I will come back in the queue with more questions. Thank you.
- **Management – Havells India Limited**
- Welcome.
- **Moderator**
- Thank you. We would request the participants to please press ‘*’ and ‘1’ to ask a question. The next question is from the line of Vishal Biraia from Aviva Insurance. Please go ahead.
- **Mr. Vishal Biraia – Aviva Insurance**
- Hi. Sir, in terms of the supply from China for small appliances business how is that shaping up and what is our market share currently in small appliances businesses for kitchen appliances and others etc.?
- **Management – Havells India Limited**
- Well from a China point of view, we are not depending upon China because almost 75% of SDA products, we manufacture in-house. Some of the products are sourced within India. So the dependence on China for small domestic appliances is extremely low, so that should not be a concern. Market share is still low in terms of kitchen appliances which clearly indicates a huge opportunity for us to grow in the segment. I would say that our market share would be close to about double digit levels about 10-11%.
- **Mr. Vishal Biraia – Aviva Insurance**
- Any kind of actions that we are taking for growing this market share and something specific for this other than normal?
- **Management – Havells India Limited**
- Well there is constant improvement in the product changes, the features and enhancement of the distribution presence all across. So there has been a decent growth in this segment because of all these strategies.
- **Mr. Vishal Biraia – Aviva Insurance**
- And next question is on the e-commerce proportion for us as to this quarter, did we see an increase in e-commerce sales and how is our profitability in e-commerce versus general side and modern trade?
- **Management – Havells India Limited**

- Well we did see a major increase in e-commerce sales. In fact, now it has come to almost about 4-4.5% of consumer and residential demand. So that is quite strong and going forward with Lloyd now focusing on the e-commerce channel along with the traditional channel also should increase our share in the e-commerce. You know consumers have also taken into e-commerce very well. So we have grown almost 100% in this particular quarter in the e-commerce segment. Profitability is not really a concern because we don't play on pricing. Our pricing to various channels are similar depending on the cost structures. So we are not too much concerned about the profitability in one channel or the other.
- **Mr. Vishal Biraia – Aviva Insurance**
- Okay. Thank you. And just one last question on the refrigerator market, sorry on the RAC market, what led to this stupendous growth in this quarter?
- **Management – Havells India Limited**
- Yeah, I think it is nearly a comeback from a dismal performance last year as we have made certain corrective actions in distribution, our product ranges, brand perception over the last couple of years. So, we have lost market share in the last year. I think it is a comeback from that position which we always knew that should happen and probably we just need to look at overall growth over the last two years rather than growth from last one month.
- **Mr. Vishal Biraia – Aviva Insurance**
- Would we have cut prices to compete and get this volume or would we have given higher incentives to the dealers or better working capital terms, something of that sort?
- **Management – Havells India Limited**
- No, in fact our credit terms are quite well disciplined right now. So, in fact post COVID our credit days are better. In fact, we have not cut down prices, our margins are better than last year. So, I don't see any reason why we will need to do that.
- **Mr. Vishal Biraia – Aviva Insurance**
- Okay. And do you think the momentum should continue for RAC market share growth?
- **Management – Havells India Limited**
- Let's see, as I said this is also dedicated on the fact that first six months in the last year were quite slow for us. Let's see how it pans out in the coming time and especially in the season time.
- **Mr. Vishal Biraia – Aviva Insurance**

- Thank you very much sir.
- **Moderator**
- Thank you. We would request the participants to please limit your question to two per participant. The next question is from the line of Bhoomika Nair from IDFC securities. Please go ahead.
- **Ms. Bhoomika Nair – IDFC Securities**
- Good evening sir and congratulations on a great set of numbers. Sir just wanted to dig a little deeper into the B2B segment which you highlighted has seen some decline. If you can just kind of explain which segments has seen a sharper decline and is it a single digit, double digit kind of a number and how are you seeing this kind of scale up across cable segment, switchgears and also B2B lighting?
- **Management – Havells India Limited**
- Yeah, so industrial switchgears, professional luminaires and cables comprise our industrial and infra. Overall, we are at about 85-86% of last year in industrial and infra. But this is improving month on month. We have seen a sharper decline in underground cables as against switchgears and professional luminaries which are almost coming back to normal levels in the very recent times. So hopefully this should also start coming up.
- **Ms. Bhoomika Nair – IDFC Securities**
- Okay. Secondly in terms of the price hikes that you mentioned that you have taken in the ECD and lighting segment. What kind of price hikes have we taken? And my last question is on Lloyd, we have entered into the refrigerator space and we have launched that. So how is that expected to scale up, what kind of market share are we looking at more from a 2-3year perspective if you can just throw some light on that.
- **Management – Havells India Limited**
- Well I didn't mention any price hikes in the ECD and lighting. So not sure what you are talking about here. But on the refrigerators part we are very, very new in this. The whole idea which we have been saying is that our main game in Lloyd would be to become a complete portfolio of consumer durables. Basically, offer the entire range to the dealer channel and eventually to the consumers. So, with the entry of refrigerators we are now a complete portfolio in the consumer durables just like in the electrical segment. So we need to see how this develops. We are very hopeful that the demand for this product will also remain strong and this will contribute to a good set of numbers to Lloyd.
- **Ms. Bhoomika Nair – IDFC Securities**
- Sure sir. Wish you all the best. I will join back in the queue.

- **Management – Havells India Limited**
- Thank you.
- **Moderator**
- Thank you. The next question is from the line of Achal Lohade from JM Financial. Please go ahead.
- **Mr. Achal Lohade – JM Financial**
- Yeah good evening, congratulations for the great numbers. My questions are specifically with respect to the fans business, just wanted to get your perspective in terms of the industry decline. Like in your opinion is the decline is in a single digit or double digit or kind of flattish for the quarter, and in terms of the unorganized player are you seeing the supply disruption getting minimized there as well?
- **Management – Havells India Limited**
- Achal, are you saying, are we seeing a decline in the fan industry?
- **Mr. Achal Lohade – JM Financial**
- Yeah is there any decline in the fan industry for the quarter?
- **Management – Havells India Limited**
- No, I won't be able to say that. I think there would be a growth in the industry but as I said it is very difficult to estimate because we do not know the strength of the businesses run by many other companies, including the unorganized sector. But we would estimate that at least there would be a single digit growth in the fan industry.
- **Mr. Achal Lohade – JM Financial**
- Right. And if I look at the employee cost, we see a significant increase quarter-on-quarter. I understand that you did say this is sustainable number but just wanted to get a clarification on that. Is this the run rate we should look at going forward in terms of the employee cost?
- **Management – Havells India Limited**
- Yeah, so as I said going forward this is the run rate that we will look at. In the first couple of quarters there were no increments, now there are increments coming in. So, this will be definitely higher than the past.
- **Mr. Achal Lohade – JM Financial**
- Okay, that was really helpful sir. Thank you so much.
- **Moderator**

- Thank you. The next question is from the line of Manish Agarwal from Edelweiss. Please go ahead.

- **Mr. Manish Agarwal – Edelweiss**

- Hello sir. Congratulations for great set of numbers. Sir would like to get your views on the current government's AC import ban, how are we looking at that opportunity and are we at an advantageous position. Obviously we have our own manufacturing but from even the competitive landscape position and the pricing perspective, if you could throw some light on that?

- **Management – Havells India Limited**

- I think first of all if you look at the broader picture it is a great incentive for 'Atmanirbhar Bharat' because unfortunately in this industry still quite a large part of ACs were being imported from China. As you know when we acquired Lloyd, we immediately decided to set up a manufacturing facility and do away with the import from China. And it is not that the Indian industry cannot become competitive against China, you need to make the right investment. And I think it is good that the government is realizing that AC is becoming more of a necessity for a consumer and more and more manufacturing jobs can be brought about by increasing manufacturing of air conditioners in India, not only for the growing markets in India because we believe that ACs is at an inflexion point. I think in the next 5-10 years; this industry shall grow considerably with better availability of power. But also it provides a great opportunity for increasing exports, once you have competitive manufacturing industry, because right now a lot of the world customers are depending on China. I think depending upon one country might not be the best strategy for many of the buyers. So India can potentially be that kind of a manufacturer for the world. So I think this is a great forward looking move by the government.

- **Mr. Manish Agarwal – Edelweiss**

- Okay. Thank you. And sir, basically from like maybe in the next season for summer, like next quarter onwards the supply will start. So how do you see us positioning there from the pricing and the competitive position because as you also mentioned that a large part of the ACs get imported. So in this disruption do you see us garnering very high market share?

- **Management – Havells India Limited**

- I think it provides an opportunity, but again as I said we should not look at this for the next 5-6 months. I think the government intentions are right here that they want to promote Indian manufacturing. So yes right now, the prohibited imports were for gas charged air conditioners. But it is a clear indication that they don't want 1/3rd of the production or 1/4th of the production to be imported from China. So this is the right time for integrated manufacturers like Lloyd and others to invest more in manufacturing in India rather than depending upon imports. So we made investment

at the right time. We should definitely look at maximizing our capacity utilization in this plant and hopefully going forward look at more capacities in the coming times. But again as I said it might be too short term oriented to see what is in the next season.

- **Mr. Manish Agarwal – Edelweiss**

- Okay, got it. Sir just last question on margins in Lloyd since our plant is fully functional now, so maybe from a one/two-year perspective any guidance that you would like to provide on how the margins will pan out?

- **Management – Havells India Limited**

- Yeah, I think margins will definitely improve with more and more production coming from in-house. The plant was fully coming to operation then suddenly COVID happened. So, going forward in next season we will see a major impact of a fully operational plant. So, we should be seeing improvement in margins in the coming times.

- **Mr. Manish Agarwal – Edelweiss**

- Okay that is it from my side. Thank you.

- **Moderator**

- Thank you. The next question is from the line of Bhavin Vithlani from SBI Mutual Funds. Please go ahead.

- **Mr. Bhavin Vithlani – SBI Mutual Funds**

- Thank you for the opportunity and congratulations for great set of results. Just one question. Over the last couple of years, we have seen considerable expansion in our addressable market. It would be useful if you could just help us in terms of the management level increases that you would have seen and it will be useful if you could just give some color on the new entrants where we are managing the newer businesses?

- **Management – Havells India Limited**

- I am sorry can you clarify the question; I couldn't really get it.

- **Mr. Bhavin Vithlani – SBI Mutual Funds**

- Okay, so we have seen increase in our addressable market into refrigerators and couple of other areas. So if you could just highlight the newer management driven entry into the company and in terms of background also that will be helpful because we are expanding our addressable market exponentially.

- **Management – Havells India Limited**

- So I would again say that it is not really related to one of the product categories that we have entered into, whether it is a refrigerator or water purifiers or something else that is in addition to our existing channel. But overall over the last 5 or 6 years there has been a considerable expansion in the management bandwidth at Havells and we are getting talent from different kinds of industry not necessarily only from the electrical industry. We are getting a lot of people from FMCG background, telecom background, which bring in different strengths of capabilities. Even in manufacturing we are getting a lot of people from the auto companies' side as well. So, the great thing, I can proudly say that we are amongst the top few companies with a great place to work with, there is great assimilation of culture and different kinds of people in the organization. There are lots of new learnings on both sides and some amount of new un-learnings on both sides also. So we have been able to assimilate huge amount of management bandwidth in the last 5 or 6 years and that is always very well in terms of expanding into new categories or whether if we are expanding into new channels.
- **Mr. Bhavin Vithlani – SBI Mutual Funds**
- Thanks sir. And one more question if I may. You know when I look at the R&D spend on innovation for Havells, I mean, it is twice that of industry. But when I compare with some of the global peers which could be a relevant comparison maybe, some of the global peers could be in the region of 3% odd. So if you could just highlight slightly on a longer term perspective where should one look at the R&D spends and if you could also include the areas on which we are focusing on our R&D initiatives.
- **Management – Havells India Limited**
- So R&D creation is not really a spending, it is more of a journey, you need to create infrastructure, you need to create the right kind of people in the organization to do real R&D. It is a journey which we have started. In the first phase, about 20 years back when we wanted to become self-reliant and not be dependent upon European technology, that phase started. But over the last 4 or 5 years there has been considerable increase in investment in terms of getting manpower and to develop newer technologies like IoTs, smart home, electronics into electromechanical products. So, there is a considerable investment which has gone into these areas. We have thoughtfully developed R&D center, one in Northern India but also in Bangalore which focuses on newer age technologies like smart homes, IoT and all. And so, I think going forward as I said, rather than looking at the percentage of sales, look at it as a journey of building capability within the organization. You can, wherever imagine this is an Indian company which is not dependent upon any technology from outside whether it is high level of switchgear which is being sold not only in India, but even in many developed parts of the world. We are manufacturing miniature circuit breakers, products which are extremely sensitive which are being sold in the brand name of Hyundai in many parts of the world. So, this is a true testament of what kind of technology development we have done without being dependent on any outside technology. A lot of people asked us this question whether you will be able to compete in air conditioner manufacturing in India

without any technology backup. Everything is developed in house whether it is washing machine, air conditioner, water purifiers. So, again as I said you can do R&D at a lower cost as compared to global peers. But there will be a cost associated with that and this will keep building up as and when our capability keeps building up, this is an investment I would say, not an expense, which we will keep building up.

- **Mr. Bhavin Vithlani – SBI Mutual Funds**

- Thank you so much for taking my question. Best wishes to all.

- **Moderator**

- Thank you. The next question is from the line of Chirag Shah from CLSA. Please go ahead.

- **Mr. Chirag Shah – CLSA**

- Yeah hi, thank you for taking my question. So, over the last couple of years, we have done a lot of hard work to revise the market share and margins in Lloyd. Can you just some spend some time on the progress that we have achieved on Lloyd on the distribution front, steps that we have taken for the margins and overall growth visibility on how we see Lloyd shaping up in the next 2-3 years?

- **Management – Havells India Limited**

- Well I have talked about it in the past also. But unfortunately, we didn't have the exact figures to back that up. Obviously, efforts you put in and then results come later, so hopefully the results have started coming in now. The distribution enhancement so, just to give you a few examples that when we acquired the company, we were depended upon only few key distributors all across the country, we were not present in the online channel, we were not present in traditional retailers, we were not present in modern format retail. So today we are an omni present company in terms of Lloyd. The complete distribution channel has been revamped in the last couple of years. The brand perception which was considered more of a cheap product, although quality product, has also been changed with many new additions of product features, high levels of product quality as well as service and lastly on the manufacturing front with control on supply chain now we have a better hang on the cost of the product as well. So, going forward on the channel side, on the brand side, on the product costing side we have a great control. So, going forward we definitely see that there will be expansion both in market share, distribution reach as well as margins for Lloyd.

- **Mr. Chirag Shah – CLSA**

- Sure, just a couple of follow up on that. So, if I have to now look at a three-year view, is it a good time to look at how the product mix would look at in the next 2 or 3 years given that now we are also getting into newer categories and also to the point on perception of the brand. Even the fact that now we have a world class

manufacturing facility and we have also added lot of new features, how are we communicating the same to the distribution channel and how well accepted is our product quality with the distribution channels in your view?

- **Management – Havells India Limited**

- Well it has been a tremendous I would say 180° change in perception in terms of the channel. And you will be surprised to hear that our factory came up in October last year and during that time till about February, almost 3,000 channel partners have visited the facility. So, they are very well capable, and we have been able to communicate it well and they were the people who can communicate the attributes to the customers as well. So, there is a great communication exercise happening in terms of the channel, so I don't see that as a concern at all.

- **Mr. Chirag Shah – CLSA**

- Yeah sure. And is it a good time now to start thinking about how the product mix will look like in the next 2-3 years given that we are now also getting into new categories?

- **Management – Havells India Limited**

- In terms of the proportion of sales for different product category?

- **Mr. Chirag Shah – CLSA**

- Yeah, ACs, washing machines

- **Management – Havells India Limited**

- So this will not be the right time to comment upon that.

- **Mr. Chirag Shah – CLSA**

- Sure. Thank you so much.

- **Moderator**

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

- **Mr. Pulkit Patni – Goldman Sachs**

- Sir thanks a lot for taking my question. Just one question. Could you give a sense of what our CAPEX guidance for the next couple of years would be and any particular segment where that CAPEX is going to go in particularly given that there is a thrust of manufacturing in India? If you could talk about that part?

- **Management – Havells India Limited**

- Yeah, so right now we believe that this year we will be looking at about Rs300 to Rs350, say around Rs330 crores as the CAPEX plan as of now. Next year not entering into new plants because we are expanding capacity in our existing facilities also, whose number could anywhere be between Rs250 to Rs300 crores. But there could be possibilities, we are reviewing of new manufacturing facility for any product category and that we will continue to review depending upon how the market situation improves. So, right now we are looking at Rs330 crores and may be closer to the end of the year we will be able to formulate for the next year.
- **Mr. Pulkit Patni – Goldman Sachs**
- So just to clarify we have done Rs80 crores in the first half and Rs330 for the full year is what we are targeting?
- **Management – Havells India Limited**
- As of now yeah.
- **Mr. Pulkit Patni – Goldman Sachs**
- Okay. That's it, thank you.
- **Moderator**
- Thank you. A reminder to the participants, anyone who wishes to ask a question may press '*' and '1' now. The next question is from the line of Naval Seth from Emkay Global. Please go ahead.
- **Mr. Naval Seth – Emkay Global**
- Thank you for the opportunity. I have two questions. First if you can share some insights on your O2O model, how much traction we have got, how many distributors we have already reached out, some sense over there. And second on, you have elaborated well on the cost structure where all things have kind of been structural and where things can come back. If you can highlight some large cost items or where savings are structural in nature if not the quantum but the cost heads where it is structural in nature.
- **Management – Havells India Limited**
- Okay. So, your first question was O2O model. Okay, yeah O2O model is developing and we almost have about 1,100 distributors on that platform. The sales build up is still very slow because we need to get the consumers attracted, they are still coming on the large market places, we also need better attraction tools for consumers to come on the havells.com site. And it will develop over a period of time, but we are quite excited about this opportunity where online consumers can get physical delivery from the physical stores in the neighborhood. So that is one. As far as structural costs are concerned, as I said these are somewhat the cost related to I would say more of virtual meetings with the channel partners as against physical

meetings, larger office spaces being converted to smaller office spaces. Those are the kind of structural costs or mix of physical travel with e-travels, those are the kind of changes which are happening that could subtly change the cost structure but not to a great extent. Ultimately, employment will be the largest part of the expense and that hopefully we will continue to drive some productivity there.

- **Mr. Naval Seth – Emkay Global**

- Okay so continuation to this, basically the question was to how to build margin going forward given the fact that you have reported strong numbers. Is it fair to assume that your margins going forward will be better than what we have reported in the past years which is 14% odd in previous years? So, is it fair to assume, some insights there if you can share?

- **Management – Havells India Limited**

- Frankly, margin is a culmination of the sales growth, the contribution margins and the expenses. So, it will be difficult for me to comment whether it will be 14%, 12% or 16%. You know, we are focusing on expanding market shares, we are focusing on increasing sales, we are focusing on improving efficiencies in the markets for product categories, for better contribution margins, and we will continue to keep cost under a tight control, whatever right cost have to be done. So, we have a mix of many, many product categories, so please don't hold on to me making your work easier of making your analyst reports by taking a number from me, you also work hard on it

- **Mr. Naval Seth – Emkay Global**

- Sure sir, thank you and all the best.

- **Management – Havells India Limited**

- Thank you.

- **Moderator**

- Thank you. The next question is from the line of Bharat Shah from ASK Investment Managers. Please go ahead.

- **Mr. Bharat Shah – ASK Investment Managers**

- Hi Anilji.

- **Management – Havells India Limited**

- Hello Bharatji. How are you?

- **Mr. Bharat Shah – ASK Investment Managers**

- I am doing really good, thank you. Anilji, would you say while pandemic is a huge interruption for everybody in their lives and in businesses. But in a way when you think about it, probably this may be a blessing in disguise for Havells in kind of reimagining our business models, cost structures, distribution, diversity, product portfolio and all of that. So, in a way whether this adversity is actually a long term benefit for Havells, would you think that or what will be your thoughts?

- **Management – Havells India Limited**

- I think Bharat bhai, when you have seen the markets which have always grown, sometimes you tend to keep an eye only on one thing. So, I think such rude disruptions though at a very high cost to the world are sometimes a good wakeup call for people like us. You know, that your companies are very resilient, but you need to even go deeper to ensure your company are really institutions which become strong whether it is a good time or a bad time, you remain strong. So, I think this first of couple of months when the pandemic happened when we saw factories being closed, each and every shop remaining closed, no sale. I think it was something which was never expected in the last 100 years or probably in the next 100 years. So, it gives a rude shock to everyone to see where your efficiencies lie, and I think only this kind of a shock could have woken us up or anybody else in a growing economy like India. So yes, I would say that it has improved us, and we need to maintain or continue with these gains that we have, I keep referring to good cost – bad cost, certain bad cost which have been taken out should not come back. Good cost need to come back, efficiency, focus on productivity, focus on competitiveness, focus on so many things which actually make a company strong and institution for a long time. But I agree with you that this kind of a shock has woken up the industry.

- **Mr. Bharat Shah – ASK Investment Managers**

- And Havells apart from industry?

- **Management – Havells India Limited**

- Of course, we really have worked hard in looking deep inside each and every aspect. I think last 6 months have been quite hyperactive for all our team members and I tell you the way teams have responded, also talks about the culture of the organization, how employees contribute. You know, I don't consider that it is a ownership only of the leadership but also how each and every employee comes forwards and acts in a very different way. In a time where the entire supply chain was disrupted how even the warehouse manager, the warehouse worker was trying to ensure if the products reached the customers in time. I think this reflects very well and so I will say that Havells has done a tremendous job in the last 6 months of serving the customers.

- **Moderator**

- Thank you. The next question is from the line of Charan Singh from DSP Mutual Fund. Please go ahead.

- **Mr. Charan Singh – DSP Mutual Fund**
- Yeah, hello sir, good afternoon. First of all, congratulations on great set of numbers in a very tough environment. My question is more on the core business. When we see the core business despite real estate being weak there have been some positives in terms of the growth. But if you have to take a little next 2-3 years view on the consumer electrical business, various categories, be it switchgear or be it wires and cables. So how do you see the market growth panning out? We have seen some benefits coming even for organized players taking share from smaller organized players, unorganized players getting out of the market, our channel getting deeper. So, from a 2-3 years growth perspective in the core business how do you see that?
- **Management – Havells India Limited**
- Yeah, I think this industry has seen a bit of a slowdown in the past few years. But again we need to go back to whether those were temporary losses. If you look at India as a whole, I don't see that there is a possibility of a low growth in any product category. So, we believe that the product categories that we are in definitely has great potential for growth in the next 3-5 years. As Bharat bhai had asked this question about what has changed in the last 6 months? I think it has opened our eyes to the kind of opportunity which lies ahead outside of India as well. So, there could be many, many opportunities in the global markets to expand exports as well. I think FMEG industry is definitely in a strong position to have a decent growth in the coming years.
- **Mr. Charan Singh – DSP Mutual Fund**
- Okay, and sir, the second question from my side on Lloyd. So, we had gone through a very disruptive last financial year, but things got stabilized in terms of our channel, now ready with a very strong manufacturing base where even policy measures are kind of favoring where Lloyd is standing at this point of time. So, in terms of scaling up of the market share from here on, stability of the channel for Lloyd if you can just highlight some aspects on that? And for the new product introduction for refrigerators what is the kind of ramp up which we are seeing now going forward in the coming years? Yeah, that is it from my side.
- **Management – Havells India Limited**
- I think I replied this question, also in the sense that, the stage is now set, we had not a great last year because of the many adjustments that we were making. Today we have the product sense, we have a distribution channel, we have the right positioning for the product category and also complete product portfolio as I said with addition of refrigerators. So, I think we need to really look at the coming times. We are playing in a huge industry which is more than Rs. 60,000 crores and I think huge opportunity for Lloyd to grow in the coming years.
- **Mr. Charan Singh – DSP Mutual Fund**

- Great sir! That's all from my side. Thanks for taking the questions. Thank you.
- **Moderator**
- Thank you. We take the last question from the line of Tejas Sheth from Nippon India Asset Management. Please go ahead.
- **Mr. Tejas Sheth – Nippon India Asset Management**
- Yeah good evening. I have two questions. One on the working capital side. I mean there are lot of channel efficiency which is being seen in post COVID towards receivable management as well as inventory management and leading to a higher cash conversion. How much of that do you see sustainable going ahead? Is that channel going to be in this efficient mode down the quarter as well?
- **Management – Havells India Limited**
- Well to a great extent, many of our channel partners are in channel financing. So, for us it really doesn't make too much of a difference, but we have also seen that there has been efficiency in terms of number of days' improvement from the channel to the banks. So that is a positive sign, I think it is also reflection of the fact that people have also cleaned up, the dealers and distributors have also cleaned up their houses, have put that in order, high levels of stocking has been reduced. Because of that they have been able to collect monies better and pay to the companies in a faster way. I think some of that will be sustainable because I was just referring to Mr. Bharat Shah also earlier that Havells has looked at any inefficiency within the company, industry has also looked at, similarly channel partners and dealers have also reviewed their efficiency in the system and it doesn't make sense to have very high levels of inventories or high levels of debtors in their systems. So, we believe that some of these gains will be sustainable.
- **Mr. Tejas Sheth – Nippon India Asset Management**
- Okay, second question on Lloyd. Are there any pockets of growth you are seeing on the regional basis in India for you in terms of market share as well as in terms of modern trade versus traditional trade? Which trade are we doing very well versus peer?
- **Management – Havells India Limited**
- You know I think this for us is not really that much of a difference but overall as the markets opened up, like for example Maharashtra, Pune they opened up much later as compared to other parts of the country. Eastern part of India – Calcutta opened up much later. So, we see variations there. That is for the entire industry and not necessarily for Lloyd. So, going forward I think when the markets come back to normal all the markets should grow in manner of market share strength for the brand.

- **Mr. Tejas Sheth – Nippon India Asset Management**
- No, I meant pre-acquisition; the Lloyd brand was very strong in Eastern India as well as in Gujarat market as well as very strong in traditional trade versus modern trade. How that composition has played out post the changing of the whole structure?
- **Management – Havells India Limited**
- No, I think the stronger areas has sustained very well like for example Gujarat, Andhra, Maharashtra. Actually, Lloyd unlike Havells was very weak in the Eastern region and that has come up very well after the acquisitions. But the major change has come in the proportion of the presence of modern formats retail and regional retailers as compared to pure distribution. So that as I said, that almost 95% of the sales used to come from distribution which is now down to about 65% and rest is coming from the other channels.
- **Mr. Tejas Sheth – Nippon India Asset Management**
- Okay, thank you very much.
- **Moderator**
- Thank you. That was the last question. I would now like to hand the conference over to the management for closing comments.
- **Management – Havells India Limited**
- Thanks for attending the call. Thank you.
- **Moderator**
- Thank you. On behalf of Prabhudas Lilladher Private Limited that conclude this conference. Thank you for joining us and you may now disconnect your lines.

END OF TRANSCRIPT