



“Havells Limited  
Q3 FY2021 Earnings Conference Call”

January 21, 2021



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**Moderator:** Ladies and gentlemen, good day, and welcome to the Q3 FY2021 Earnings Conference Call of Havells hosted by DAM Capital Advisors Limited. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Bhoomika Nair from DAM Capital. Thank you, and over to you, Madam!

**Bhoomika Nair:** Thank you, Rutuja. Good morning, everyone. On behalf of DAM Capital, I would like to welcome you to the 3Q FY2021 earnings call of Havells India. The management today is being represented by Mr. Anil Rai Gupta, Chairman and Managing Director; Mr. Ameet Kumar Gupta, Whole-Time Director; Mr. Rajesh Kumar Gupta, Whole-Time Director, Finance and Group CFO; Mr. Rajiv Goel, Executive Director. I will now hand over the call to Mr. Anil Rai Gupta for his initial remarks, post which we will open up the floor for Q&A. Over to you, Sir!

**Anil Rai Gupta:** Thank you very much. Good morning, everyone. Thank you very much for joining this earnings call for the quarter ended December 2020. Wish you all a very, very Happy New Year. I am delighted to share that we had a remarkable all-round performance during the quarter with highest ever revenue and profitability. The growth has been broad-based with consumer and residential portfolio building up on the momentum created in Q2 and a decent recovery in industrial and infra portfolio. Improved consumer sentiment, expanding distribution network and strong manufacturing base have contributed to the healthy performance of the consumer and residential portfolio. Lloyd has been performing well. Growth is attributed to improving brand positioning and network expansion, supported by the recent developments, such as import prohibition for air conditioners and commodity inflation. Input costs have been on the rise since last couple of months, the impact of which is yet to be reflected, would be managed with regular review and swift decisions, in line with the market dynamics. Organization is now fully motivated towards maintaining the progression. We will now proceed for Q&A.

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

**Ravi Swaminathan:** Congrats on a good set of numbers. I just wanted to get your sense on to the kind of price increase that has been taken across products, given the commodity price inflation? And if you can also give the views on demand, whether the price increase will it have some kind of impact on demand next year.



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**Anil Rai Gupta:** So Ravi, the price increases are varying depending upon the product categories because some of them have a direct impact of metal prices or plastic prices, some have indirect impact. So I would say the copper-related products like domestic wires and all have seen a price increase of almost about 15% in the last quarter, and even in this quarter, there is more price increase, which is there. In product categories like domestic Switchgear, the price increases have been in the range of between 5% and 7%. Something like industrial products like Switchgears and motors, there have been over 10% price increases. But that has happened over the quarter, so it is not fully reflected in the third quarter numbers. From a demand point of view, I would say that while price increases overall may not impact demand to that much extent, but could be possible that people, the trade, especially because they have done some amount of prebuying in the last month of December. So could hold on to some purchases for some time, but it all depends upon the final demand output. If the demand continues to hold strong, for example, in the residential consumer segment. I think overall trade stocks will come down to normal levels in a very short period of time. So as I said, there might have been a little bit of prebuying in the last few days of December, one, because of the price increase; two, because of some import restrictions on air conditioners and people have bought in stocks anticipating a price increase. So there might have been some prebuying, but I think overall, the trade stocks will get depleted in a very short period of time and things should come back to normal.

**Ravi Swaminathan:** How to see employee cost going forward? I mean, third quarter, there has been an increase after two quarters of decline. So will there be a further increase in fourth quarter employee salary increases, etc.? On a blended basis, how much is it likely to go up, say, this year or rest of this year or next year?

**Anil Rai Gupta:** I think third quarter showed normalized levels of employee costs because the increment levels have now come in the third quarter. With the sales increases, the variable pay packages and incentives are being earned by the employee. So there is no major increase in cost, but I would say these are the normalized levels going forward.

**Ravi Swaminathan:** Got it, Sir, and finally question with respect to ad spend. So basically, how do we look at ad spends in FY2022? As a percentage of sales, will it be on par with FY2020? Or it might be lower?

**Anil Rai Gupta:** Again, ad spends; we do not look at it only as a percentage but in absolute terms. So on an absolute term, ad spends have started coming back. As I said earlier, also, that the good costs will come back. Because of the sales increase now, it could be possible that it may be lower in the percentage terms, but in absolute terms, things will start coming back to normal.



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- Ravi Swaminathan:** Got it Sir.
- Moderator:** Thank you. The next question is from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.
- Nitin Arora:** Sir, just wanted to understand how the retail sales panned out during the quarter. So as you explained in your press release and in your opening remarks, there is some prebuying by the sellers because of the price increase, but when you look at your counter in terms of actual retail sales, is it tracking largely the wholesale, if I exclude the prebuy part if you can throw some light on that?
- Anil Rai Gupta:** Yes. If you exclude the prebuying part in the last few days, I would say that the retail has been quite healthy, and the stock levels, which were more at a disciplined level in the trade continue to remain in the third quarter as well.
- Nitin Arora:** Great. Sir, second question is, one, you saw a surge in the real estate demand in the recent last 2, 3 months. How we should read into it? Because you are, like your products are the products which generally comes with a lag once the real estate demand comes back. So are you seeing something at the ground level- your own region, NCR and everywhere, the demand is coming also very strong?
- Anil Rai Gupta:** Yes. So the demand for real estate is increasing, but yes, you are right, in real estate construction, our product demand comes at a lag, but also, there was more completion of projects coming up post COVID with labor coming back and general sentiment being better. So it was not just new construction starting, but also completion of the projects which have started. So that is why the demand for our product categories would have been higher. I would not say that it is entirely the market demand has been so much, but maybe some shifts of market shares might have happened in the third quarter as well, which were happening in the second quarter might have continued as well, also from the unorganized to be organized. So between brands it is also the unorganized to organized sector. So it is a combination of many things.
- Nitin Arora:** Got it, and just lastly, on Lloyd. So we have been working very hard in the last 1 or 2 years in terms of expanding our distribution, getting our planned profit. So I understand, correct me if I am wrong, it is more of wholesale-led than retail, if I look at the last 2, 3 quarters in terms of growth because of going into the channel and all, but generally, how has been the response on the retail side of our products of refs, ACs if you can throw some light also in respect to your inventory position there? That is my last question.



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**Anil Rai Gupta:** For Lloyd, I would correct you that we have not just been working hard in the last 1 year, but we have been working hard ever since our acquisition. So there was a careful strategy towards building the brand and rebuilding the channel over the last 3 years, which has now started giving benefit over the last 1, 1.5 years, but I will not say that we have been pumping the wholesale channel in the last few quarters. It has been more of retail sales which is happening, and we have been recovering our market shares and gaining market shares in the last 2 or 3 quarters. So only in the last maybe a few days of the quarter, there would be some amount of prebuying for all the brands only because air conditioning market has not seen such kind of a price increase in the past few years. So obviously, post Diwali, the dealers have started stocking air conditioners because they felt that the season is coming in, but otherwise, if you see the last 6 months or so post lockdown, which was heavy washout during the summer season, it has been led by the retail demand only.

**Nitin Arora:** Thank you so much Sir I will back in the queue for more questions. Thank you.

**Moderator:** Thank you. The next question is from the line of Pankaj Tibrewal from Kotak Securities. Please go ahead.

**Pankaj Tibrewal:** This is Pankaj from Kotak Mutual Fund, not Kotak Securities. First of all, congratulations to the team on phenomenal performance. Just wanted to understand what are the key broad trends you are seeing in your sector? And if you can just help us understand what in your view is sustainable, what in your view is not sustainable? And also on the Indian trajectory, do you think there is a reset of the margins, which we have been operating over the last few years, current one post pandemic? That is one. The second one is that, again, you have shown a very strong comeback on Lloyd. It is a large sector. What are the key things you have done it right? And what gives you the confidence to expand the product portfolio now? And how you are looking at the outlook on Lloyd going forward?

**Anil Rai Gupta:** So I would say the key trends that we can point out are that there are structural tailwinds, which we experienced in the third quarter, the demand was definitely increasing even in the real estate and consumer segment, which had been tepid for a couple of years now. I would also point out that there were market share shifts, which is now happening, which we saw in the second quarter has continued in the third quarter from the unorganized to organized sector. Thirdly, I would say that Make in India is becoming a fashionable thing, which we had always invested in, now with the government push, with the consumer mindset also becoming more positive towards Make in India in the hitherto products, which were considered to be more anyway of Chinese origin, whether lighting or air conditioners, and people used to ask us this surprisingly that why do we manufacture these in India, and I think the trend is, which has completely turned around is the fact that people are preferring



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the trade, the consumer as well as the push from the government also for Make in India, and I think stronger brands, trustable brands, long-term brands, quality-oriented brands are gaining market shares from not only the unorganized but the regional brands as well. So these are the structural changes that I would say. I hope that the demand both in the residential consumer side, but also in the industrial infra side, the way it has started picking up, that continues to remain with the right amount of government inputs as well as low interest rates going forward, but overall, I would say that market share shift is the major change in trend that we have seen. On the Lloyd side, I think I would say that things are looking very positive with our in-house manufacturing for air conditioners, but the new launches, the revamped range of washing machines, the new launch of refrigerators, that is giving a lot of confidence to the trade also to see Lloyd just like Havells as a complete portfolio in consumer durables rather than just to make investment in brand. So that is what has been the strategy, which will continue to augur well for Lloyd in the coming times.

**Pankaj Tibrewal:** That is quite helpful. On the margins, if you can just help us understand, is there a reset to the margins we have been operating in the last few years and now post pandemic?

**Anil Rai Gupta:** So we believe that the contribution margins, we should strive to maintain these levels of contribution margins in various businesses, depending upon the raw material prices and all that, which could be more of short-term impacts rather than long term, but we have always maintained that the company is putting in investments in our SG&A, whether it is R&D, whether it is employment costs, to look for growth in the future, and when growth is coming in, then definitely, operating leverage will start kicking in, which it has started kicking in. So hopefully, we should be able to keep decent level of margins. I would say, this might be, certain good costs are coming back slowly and that may happen, the travel cost and the advertising cost will come back progressively, but overall, the growth continues to remain, we will continue to get advantage on operating leverage.

**Pankaj Tibrewal:** That is quite helpful. Thank you.

**Moderator:** Thank you. The next question is from the line of Jiten Doshi from ENAM Asset Management. Please go ahead.

**Jiten Doshi:** Many congratulations, Anil Ji and team for a wonderful performance. It was long overdue. I think you all have been doing all the right things over the last couple of years. I particularly place on record that Havells is the only company that has been investing in capacity well ahead of time believing in its own manufacturing versus everybody outsourcing. So I think that has paid off very well and we are very happy with that strategy. We only hope that you keep ramping up capacity on a continuous basis for all your products, and also, I want



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to understand that what is the ultimate capacity that you all are looking at in air conditioning and refrigerators both?

**Anil Rai Gupta:**

Thank you, Jiten Ji, for the kind words, and I believe our government has always pushed at least in the last 5 or 6 years- Make in India, Atmanirbhar Bharat, but we have always maintained that Havells is one company, which has been following these philosophies, not just in the last 5 or 6 years but over the past many decades. So thankfully, we are now seeing our strategy getting duplicated. So I believe that capacity evolution is dynamic and ongoing. Air conditioners came at the right time, and we believe that these recent changes in the policy on the import side as well as the possible PLI coming in on air conditioners, there will be more capacity buildup that we will be looking at. We are still firming up the plans, depending upon what the policy to come in, but we are quite bullish on Indian manufacturing for not only Indian markets but also for global markets. Like for air conditioners, as we have discussed in the past, there is a huge global market available also, and with this China plus 1 strategy, there could be an opportunity for Indian manufacturers to go outside of India as well. So we have always been aggressive on Capex and capacity building and will continue to remain so.

**Jiten Doshi:**

So I think one of the good things you have done was the acquisition of Lloyd, even though it has played out a little later than what you would have expected it to. You all are sitting on a good pile of cash, and I have always, as one of your shareholders, expressed that we would be very happy if you reinvest that very aggressively because we are very optimistic about the future. So are there any thoughts to deploy that money, A, on acquisitions; and B, on further capacity build up aggressively?

**Anil Rai Gupta:**

We definitely believe that. Right now, Havells' existing portfolio plus the Lloyd businesses where the refrigerator is also coming in, there is a huge possibility of using cash for capacity expansions in the coming years. So whether it is an acquisition or not, but definitely, capacity expansion would suck up a lot of cash in the coming years, and the kind of cash generation that the business can operate at, I think we are quite comfortable. We are always open to look at acquisition possibilities, but we are now very clear unless that what is the strategy behind an acquisition, whether it is a product expansion or a brand expansion or technology expansion. So just for growth, we do not need to acquire something. It is more to back some strategy.

**Jiten Doshi:**

Thank you so much and wishing you all the best and thank you really for taking care of your shareholders. Thank you very much.



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**Moderator:** Thank you. The next question is from the line of Latika Chopra from JPMorgan. Please go head.

**Latika Chopra:** You have talked about share gains from the unorganized players. Could you elaborate which of the segments growth, in particular, have benefited here? And more importantly, what is your confidence and stickiness of these recent share gains? This could also have been on account of supply chain disruptions? Or is there more here? And also, do you think this rising COG situation could actually help sustain or even improve these share dynamics? And the second bit was on infra and industrial segment, an encouraging mid-teens recovery. If you could throw some light on what is actually driving this? And do you expect this kind of a momentum to sustain or rather improve going forward?

**Anil Rai Gupta:** Thank you. On the market share gains from the unorganized to the organized, I believe, initially, we also thought it could be supply chain constraints, but 2 or 3 things have happened. One, once the market share changes, then it becomes a bit more sticky rather than being very, let us say, price-sensitive or something because the consumer, it is not just the supply chain disruption, but also the consumer, the preferences have also changed post COVID. China import constraints are a fundamental issue, and many of these so-called unorganized brands were dependent upon imports from China. So that supply chain constraint might continue to remain, but as I said, even if those things get eased out, whether it is the COGS issue or the imports issue, I believe that some of the market share gains that the companies have taken, that will stick for a longer period of time. On the industrial and infra, I would say that things have now started looking up both in the industrial switchgear side, power cable side, so there will be, we see a better demand coming in. Professional luminaire is still a little bit of a challenge because of commercial space not getting so much traction in the construction industry for some time. So professional luminaire is still hovering about almost same place as last year, with less growth. So the lighting growth that you are seeing primarily, everything has been contributed by the consumer luminaire segment. Professional luminaires is still yet to kick in, but I believe, I mean, over a longer period of time, definitely, all these segments will have huge opportunities for growth.

**Latika Chopra:** Sure.

**Moderator:** Thank you. The next question is from the line of Ankur S from HDFC Life Insurance. Please go ahead.

**Ankur S:** So a couple of questions on the ECD segment where we have seen this big 46% jump. So I would assume large part would be because of fans, water heaters in this quarter. So if you





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could just talk about both? So on the fan side, what we believe would have been the industry growth? And also, if you could share how we would have grown during the quarter and similarly for water heaters as well?

**Anil Rai Gupta:**

So obviously, there are 3 major segments in the consumer durables products, fans being the largest, followed by water heaters and domestic appliances. Domestic appliances did extremely well, one, because of the team focusing on distribution, expansion of product categories in the last couple of years. Moving well into the rural markets also. Plus, we also had an elongated Diwali, it is October and November, mid of November, we had Diwali. So there was better festive demand in this for the domestic appliances. Water heater continues to be there. We continue to retain our leadership position in water heaters, and we have grown quite well over a strong base of last year, and Fans actually has done extremely well. In fact, I mean, maybe one of the things could be the last few days of December, there was prebuying, as I have already said, there was a price increase, and the trade might have picked up some stock because of the upcoming season, but overall, if you look at all 3 months, October, November, December, Fans has grown at a very decent pace, and we believe that the industry might have also done well, but primarily, there might have been market share gains from the unorganized sector or brands, where there might have been higher supply chain disruptions.

**Ankur S:**

Okay. Okay, and just a second question on this whole PLI scheme, and I think we will hear more details shortly, but are you looking at it more from an export opportunity, both on the AC and the lighting side? Have you looked at how competitive would we be versus other Chinese players here on the AC side in key markets? So just wanted some color there, and how much can that be in the next couple of years?

**Anil Rai Gupta:**

I think the whole idea of PLI by the government is not only to promote domestic production but also to improve exports. So I believe that this is definitely going to help. India, as a manufacturing hub, can be competitive, both in lighting and air conditioners, and we have proven to do so in the past. So I do not see there should be any doubts, except the fact that in export markets, buyers will also take time, while there is a China plus one thinking, but the buyers will also take time, but in the meantime, I think the industry will prepare themselves for looking at these export markets. So there is a huge export potential, which will pan out in the next few not only quarters but years.

**Ankur S:**

Alright Sir, great. Thank you so much and all the best.

**Moderator:**

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



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**Renu Baid:** Congratulations for the strong performance. I have 2 questions. Firstly, if you can elaborate a bit more on the new product or diversification strategies that the company is working on? As in some of the channel interactions, the company is targeting to be more aggressive on large kitchen appliances and electronic products there? So if you can share some insights in terms of production pipeline? And second would be just more clarification on the PLI participation. You did mention that you want to expand the export portfolio. So what would be the GTM strategy here for exports, both for lighting as well as for air conditioners? Would we tie up with large houses or distribution chains? Or we would be having our own reach in some of these global markets where investments could be done?

**Anil Rai Gupta:** So on large appliances, we have always said, Renu, that we will be expanding the product range, and we now have the complete product range with refrigerators coming in as the latest product. So refrigerators, washing machines, air conditioners, LED panels and, of course, a very small part of dishwashers also. So we now have a complete range for the consumer durable part, and as manufacturing will continue to depend upon how the volumes build up. So for example, we have the volumes already for air conditioners. So we have our full scale manufacturing. As and when volumes build up for the other large appliances, then we will continue to do the right analysis of getting into manufacturing. Rajiv, would you answer the export question?

**Rajiv Goel:** Thanks, Anil. So Renu, I think international, we believe there is a great opportunity going forward, but as Anil just sort of elaborated that these things do take time, but I think our structure in Switchgear, you are aware of Hyundai, we have just struck another alliance with a large U.S. player for exports to their global markets. We believe this will also pan out, particularly in air conditioner, where China has an extremely disproportionate share, and I think there are players who are looking to reduce their dependence upon China, if not move altogether from China, which we believe could be a decent opportunity moving forward. This may take time because you also need to develop products conducive to the respective markets because there are variations in various markets, but not only we have seized the opportunity, we are very bullish particularly on air conditioner, and I think next few quarters, you will see some more sort of things coming out of this segment.

**Renu Baid:** And the air conditioner export largely would be under the Lloyd brand itself or it could also be tie up with the large multinational players or foreign players?

**Rajiv Goel:** So then we will be flexible as far as the international business is concerned. So we will follow dual strategy of our own brand as well, but for large players, we will not do small numbers. For large players, we will be open to also do branding further. Something like you could argue what large Chinese players also do for their global operations. So if you are



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aware, large AC companies in China have been very open and flexible. So we also want to take a flexible approach. We do not want to be rigid in our thinking on that, but as the things evolve, you will see sort of a greater play out from us, but we definitely want to take a very leading interest in this opportunity, a global AC business.

**Renu Baid:** Got it. Makes a lot of sense, and just a small clarification on the large appliances...

**Moderator:** I am sorry to interrupt you, Ms. Renu Baid. Can you please rejoin the queue because there are participants waiting for their turn?

**Renu Baid:** Sure.

**Moderator:** Thank you. The next question is from the line of Mayur Patel from IIFL Asset Management. Please go ahead.

**Mayur Patel:** I think you have already answered in some form or other, but is it possible this 40% growth in top line and very strong margins in the bottom line and tremendous, all credit to the entire management team for the execution, but just want to understand like Pankaj asked about the sustainability, what part of this could be attributed to slippages of sales from the previous few quarters because of the pandemic? And what is like real organic strength in demand you are witnessing, either quantitatively or qualitatively, whatever way, if you can give some thoughts around this?

**Anil Rai Gupta:** See, if I would know this earlier, I would be a soothsayer, but frankly, nobody knows what is coming out of the pent-up demand. When we came out of the lockdown, we said the pent-up demand is there, and it will stay for 1 or 2 months, but to expect that this pent-up demand would remain for 8 or 9 months, that does not support in logic, but some of it, as I said, maybe it is a little bit of prebuying, but not post buying. I do not think there was a whole lot of post buying in this particular quarter. Some amount of increased consumer spends might have happened because of entertainment hospitality is not happening. So maybe people spent a little bit more during the Diwali time, but that again does not explain the high purchases of products like refrigerators, washing machines and all. So I think overall, generally, there was a positive sentiment. Construction started coming back and market share shifts also. Now frankly, it is very difficult to pinpoint on sustainability also. I mean this kind of growth could be a onetime growth as well, but going forward and for next 2 quarters, growth is not really a number that, metric we should be looking at, but of course, if the demand in the market continues to pan out well and our competitiveness has, in our efforts, it will continue to be there, whether it is brand building, distribution, product



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expansion, that will continue to be there. To some extent, we are also depending upon how the markets pan out.

**Mayur Patel:** Sure, Sir. Sir, just 1 more question. In terms of, like always you used to guide us on what is the sustainable margin in the core business and excluding Lloyd, how should we see going forward, like this quarter was phenomenal in terms of margins across the board? But what should be a sustainable range we should work with going forward?

**Anil Rai Gupta:** I will say that, again, for the next 1 or 2 quarters, it is difficult to say because of the huge fluctuation in raw material prices, but going forward, we should be looking at similar contribution margins, and then operating leverage will help improve margins to these levels or maybe around this level, but somewhere, I would say, between 14% to 16%, those kind of levels, but it depends upon, again, the sales number, but at least, we are striving to retain contribution levels in each businesses.

**Mayur Patel:** Even in Lloyd around these current levels is sustainable, could improve?

**Anil Rai Gupta:** Lloyd is still very seasonal because 65%, 70% of the business continues to remain at the air conditioners, but I still believe that Lloyd needs a little bit more time for us to get a full hang on the margins going forward, but now getting fully self-reliant on air conditioners, I think we have a much better situation on, as control on costs and prices going forward. So we should be looking at decent margins in the coming years.

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

**Charanjit Singh:** First of all, congratulations on a great set of numbers. Sir, my question is one, pertaining to Lloyd, in terms of scale-up of our portfolio in refs and washing machines. What level we are in terms of the SKUs? And from the distribution network perspective also, you think what level we would have reached because you are rejigging the entire distribution network? That is my first question on Lloyd, and then I will follow up with one more question, Sir.

**Rajiv Goel:** Charanjit, so I think washing machine and the refrigerator, I think these are in the evolution space. All we can say that this has received enthusiastic response from the trade and now I think from the consumer as well. The bulk continues to be, see, but I think like what we played at Havells over the year, I think that is a strategy, if you remember from the day one, we have played out at Lloyd as well, and I think we are very satisfied with the outcome. So whether it is Make in India, whether it is improving our distribution and improving regional



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retail, whether it is improving the brand, and then lastly but not the least improving the portfolio. These need to be seen as part of the overall sort of jigsaw, which we are playing rather in isolation, and I think in few quarters and even couple of years, you will see we are playing out full stack. As you had said for the LED, I think we will play a full stack in Lloyd. So as of now, I think let us not evaluate on a Q-o-Q basis, and I think let us wait, but all I can say we are very enthused the way Lloyd entire can be spread out.

**Charanjit Singh:** Okay, and Sir, lastly, because of COVID, a lot of product refreshes, new category launches for a lot of companies we have seen are kind of on a hold. So how is that pipeline looking like? We have invested in new lab in Bangalore. R&D continues to be our focus. So if you can touch upon some, in terms of any new product categories or new refreshes, which we could think are, new categories, which you could think of? Yes, that is all from my side.

**Rajiv Goel:** So I think in terms of the divisions, we have ample. Today, we are present almost in sort of 18 to 20 categories. I think what is need to be done is to go deeper in those categories, and that was, if at all, has only accelerated during the pandemic. I think the new brands have emerged, whether on the health side, whether on the housing side, whether on the individual side. So I think, if at all, pandemic has posted into the direction of sort of emerging trends and identifying them and sort of capitalizing upon them. So previously, the ongoing process at Havells, you are aware of the thing. Maybe in the next few quarters, you will see more ranges coming out of Havells, looking at the new trends which have emerged during pandemic. So at this stage, wait for this space.

**Charanjit Singh:** Thanks Sir, that is all from my side.

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

**Shrinidhi Karlekar:** Congratulations for stellar set of numbers. Sir, just a couple of questions from my side. Sir, water purifier, it is still a small category but offers a great opportunity for Havells. Just wondering how has it been performing from both trade channel perspective as well as from a customer's perspective? And Sir, just wondering, is company investing enough on the promotion of this category, given the category leaders spent so much on A&P? So that is my first question, and second, Sir, on Lloyd, you attributed strong growth to 1 comment which says that perceived change in industry dynamics consequent to import prohibitions. Would it be possible to elaborate a bit? I know you touched upon it, but would it be possible to elaborate it further? Those are my 2 questions.



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**Anil Rai Gupta:** So water purifiers, I would say, progressively moving towards. I would say promotion and advertising requires more efforts once you have the complete distribution. So we are continuing to expand our distribution, and water purifiers, you can appreciate, it is also a very service-oriented product. So you need to have service also wherever your fans will reach. So it is a long-term play, but good thing is that we now started crossing the 100 Crore mark in the, so there is progressive improvement in water purifiers. As far as Lloyd is concerned, sorry Rajiv...

**Rajiv Goel:** Yes. On the structure change, which Shrinidhi you touched upon, we believe this is still to be played out fully. The reason being, actually the kind of restriction which government has put in, I think in the real season when it comes, which is, I believe, from February to extending up to May, June, I think this is where the real test will happen. We do believe it is creating both administrative and cost burden on the players who have been used to import from the overseas, and while we do see some gleams of that where the dealers are preferring the companies who have a strong supply chain, preferably indigenous like us. I think the real impact of that, you would see, and I think we need to watch out in the next few months. So maybe after April quarter, I believe we will be in a better position to address that question.

**Shrinidhi Karlekar:** Fair enough Sir. Thank you for answering my question.

**Moderator:** Thank you. The next question is from the line of Naval Seth from Emkay Global. Please go ahead.

**Naval Seth:** This is Naval Seth. Congratulations on good set of numbers. I have 1 question on rural distribution. Last time you elaborated by stating number in terms of 40% growth on the low base you achieved. So what kind of numbers you would have seen in 3Q? And have the larger town, cities or metros, which were lagging in terms of recovery, are they now fully back to the normalized growth- in terms of both retail as well as the channel filling?

**Anil Rai Gupta:** Yes. I would say rural is continuing to grow fast, not only because the rural markets are growing well but because of our reach is becoming better, and we have been working on this for the last 3 years or so. So rural has been growing at over 100% for Havells, and sorry, the next question was?

**Naval Seth:** On demand recovery. So as we progressed from...

**Anil Rai Gupta:** You talk about the big towns, with this kind of growth that we have experienced in the third quarter, it would have been difficult if the big towns, the metro towns would not have come



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back to normalized levels. I would not say they are also at the same pace of growth like these small towns and the rural areas, but still a large part/ chunk of business still comes from the main cities. So that is coming back to normal. That is a very healthy sign in the last quarter.

**Naval Seth:** Thank you so much and all the best Sir.

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

**Sonali Salgaonkar:** This is Sonali Salgaonkar. Sir, congratulations on a great set of numbers. I have 2 questions. Sir, firstly, you spoke about price hikes. So any indicative price hikes in appliances or durable segment of yours? That is the first question. Sir, and secondly, could you please elaborate on the distribution part a bit, probably the new channel expansions in terms of e-commerce and deeper rural penetration? And what kind of growth we are seeing in that? And also, the Capex guidance for the year, Sir?

**Anil Rai Gupta:** So as far as the channel is concerned, we are seeing now rural and online contributing almost 4% of the consumer and residential segment. So that is doing well. As far as the price increases are concerned, the raw materials have been a very fluctuating trend. So it is still underway, but in consumer durable category, I would say, they are ranging between 5% to 12% to 13% depending upon the product. So right from fans to air coolers, but overall, as of now, the raw materials have reset in the next few months or so starting from October, one would see a double-digit growth in prices in most of the product categories.

**Sonali Salgaonkar:** Sir, just to clarify, the 5% to 13% in durables and appliances, has it already been taken? Or are you envisaging going forward?

**Anil Rai Gupta:** So that is what I am saying, this is underway right now. So it is very difficult to say because some of it, when you implement a price increase, the trade also takes some time to accept it. So it is all underway. If the raw materials continue to remain at this, all the product categories in ECD would have seen a double-digit increase in prices.

**Sonali Salgaonkar:** Sure, Sir. Sir, and Capex guidance?

**Rajiv Goel:** So Capex, Sonali, this year has been fairly truncated. So I think we expect maybe in this quarter another 160 Crore. As far as the future Capex is concerned, I think we will wait out and maybe next quarter we will talk about it.



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**Sonali Salgaonkar:** Got it Sir. Thank you.

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

**Siddhartha Bera:** Congrats on the great set of results. My question is on the market share side, again, Sir. So basically, we have seen some good gains from unorganized. So I wanted to check, I mean, are we gaining market share from the smaller players as well in some of the categories like Fans and lights, heaters? And what will be our market share in these categories, if you can highlight that?

**Rajiv Goel:** It could be Siddhartha. There could be a possibility that smaller players also could be seeding certain ground. Again, our industry is not well tracked. So it is difficult to attribute to any specific player. As far as the market share, again, these are not easy to track, but as we elaborated, you see, during the call itself, I think we are definitely gaining market share, and we are now in top 3 in every product category. In fact, within ECD product, like OFR category, we are #1 now, and so I think we are very pleased with how things are panning out, and hopefully, this will only spill over into larger gains in future.

**Siddhartha Bera:** Understood, Sir, and second question is, Sir, again, on the outlook side. So as you indicated earlier in the commentary also that there has been some prebuying, but usually, what we see is that fourth quarter is the strongest quarter in terms of ECD segment historically. So do you think that with these price hikes also coming through now, there can be some impact and it may be not as high as compared to Q3 as it has been in the past?

**Rajiv Goel:** I think that, again, leads to sort of, I keep using the word, play out. I think let us wait, but I would just say one thing that we should not lose faith in the GDP growth in this country. You see we have been in the anemic growth for last few years. A lot of efforts are being made by the government as well. Things are coming back to normalcy. So let us keep faith in the strength of this country and the demand, and I think if developed countries can aspire to grow maybe with pumping of money, I think this country needs real demand. I think there are so many things which are still not been managed in this country. So I think at least we put faith in the sort of larger system playing out, and if that happens, I think we have to take advantage of those opportunities. So more than focusing on Havells, I think let us focus on the overall sort of demand scenario, which we believe should get right impetus from the government input as well as consumer demand for the funding up from here.

**Siddhartha Bera:** Thanks a lot Sir, I will come back in the queue.





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

**Rahul Agarwal:** Congratulations for the great result. So my question, one was there were certain national brands for Cables & Wires who are actually trying to get into FMEG and ECD, and there is a big kind of plan happening in terms of entering markets into north, south, east, west. Just from an industry angle in terms of rising competition, I wanted to get your view, some strategic views in terms of next 5 years, that what is the winning formula here in terms of getting things right? I mean, Havells obviously is the leader in the segment, and we are seeing a lot of new competition. There is another cable company, Kei, who was talking about getting into electricals, ECD. Could you help me understand what could be the differentiator here to sustain and gain market share further? That is my first question.

**Anil Rai Gupta:** Well, first of all, I would say that it is a good thing that more organized manufacturers are getting into the play of FMEG because that takes away the, I would say, the competitiveness of the unorganized manufacturers. One, the structural shifts are anyway happening and if the organized manufacturers take this opportunity, it is always better for the bigger brands and brands who have been there for a longer period of time. So I would say when this industry move towards higher amount of organization, which definitely helps the overall players. I would say that the winning formula for all, we actually operate in more than 20 different product categories, and the fact that we have always maintained that we want to be amongst the top 3 players in each product category, at least aspire to be the leader in each product category that we are in rather than just be a fringe player, is the fact that we invest heavily into each product category in itself. It is not just because we have the brand and channel, we can continue to be successful, whether it is in terms of product technology, whether it is in terms of branding, particularly for the product, whether it is in terms of manufacturing investments. So we treat each business separately, and I think I am sure many good companies would do the same way. Otherwise, there is no point in becoming just a fringe player on the strength of one particular brand, one particular product category strength that you have. So this is a mistake, which many companies have made in the past and they have always remained fringe players in the new product categories, but I think Havells has done well over the last couple of decades in this, be it fans or lighting or appliances, water heaters, any new product categories that we have entered into, we aspired to be amongst the top 3 players in this, on that category.

**Rahul Agarwal:** Okay, and secondly, another trend, what I was hoping is that most people are talking about next-generation products, trying to get technology into manufacturing and IoT and smart devices, could you help me understand, let us say, if you have launched such devices over the past 5 years, the sales growth for these kind of products might be faster on a lower base,



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but going forward, do you think India actually demands those kind of R&D investments and technology across product segments? And could we see a faster growth for these products going forward?

**Anil Rai Gupta:** See the consumer is changing very quickly, and I would say that the pandemic has actually fastened the change in the consumer aspiration insights, and especially more towards technology, connectivity, IoT. So I believe in the next 4 or 5 years, you will see more and more electronic and electrical products getting connected and the consumer will start accepting it. So I think this challenge of technology acceptance in India is almost over now, and I believe that investments in R&D are warranted in all our product categories.

**Rahul Agarwal:** Thank you so much. Thank you all the best for the next quarter. Thanks.

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

**Manish Agarwal:** Just a small question, Sir. You mentioned about the disruptions in the AC industry basically from the import ban. So Sir, can you bifurcate basically what, I mean, which are the players, which are actually seeing incremental gains, for example, the larger MNCs who do not have maybe their distribution or setup here? Are we supplying to them? Or it is more of a market share gain for us because we have a very large capacity, definitely? So are we looking at supplying to the players who are actually disrupted by this incrementally?

**Rajiv Goel:** So as I said earlier, also, this still needs to play out. I think there will be challenges for the players who have been entirely dependent upon import, and I think that challenge is very few always make some arrangements, for them as I said, there will be logistic as well as the cost issues as well. As far as manufacturing for the local player, that is not in our scheme of things because we are mostly going to focus on our own brand. If at all, we will look at international markets and large players for export in their brand, but for domestic, we will continue to focus on our own brand because maybe our capacity could be constrained even for our own sales in domestic markets. So we are not going to, or for any other brand as far as the domestic market is concerned.

**Manish Agarwal:** That was helpful Sir. Thank you.

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



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**Bhavin B. Vithlani:** Congratulations for great set of numbers. Sir, just a question on the underlying consumer preference you spoke about. Are you seeing that as you highlighted that doubling of sales in the rural, that a larger part of the sales are actually coming from the eco or subeco category of products? Or maybe if you could give more color on the kind of the product category that we are seeing as a preference and the growth? Second question is that as you are seeing increased number of players actually getting into the premium end, where Havells was a pioneer in Fans, are you seeing that the category growth of, let us say, the premium fans, which is one, as an example, is actually growing more faster than the other categories. That is all my questions.

**Anil Rai Gupta:** Is your question related to Fans?

**Bhavin B. Vithlani:** So Fans is an example, like on the premium category, but as more companies are launching premium fans, is it that the category of the premium fans is growing faster and it is expanding at a faster pace?

**Anil Rai Gupta:** So I would say that let us look at the consumer because, in fact, in the consumer, the expectation during the lockdown times was that the consumer would move towards or under, bring down their expectations and they would down trade to lower-quality products or low-priced products. Actually, we have seen, on the contrary, consumers are preferring better brands, better quality products and higher feature products also, even in consumer durables we have seen. So I would say that the Indian consumer is becoming more mature, and they are paying value for money rather than buying a cheap product. So I still believe that there is a huge market for so-called the mass premium, and I do not call it premium. Sometimes premium gives the feeling of luxury products, but I would say, mass premium, value for money products, where there are higher-tech, higher-feature products, and the consumer has now started preferring that. So I believe this trend will continue in the future and companies who focus on giving a better feature, better quality product at the right value to the consumer, they will continue to gain market share.

**Bhavin B. Vithlani:** thank you for taking my questions.

**Moderator:** Thank you. The next question is from the line of Ashish Poddar from Anand Rathi Shares and Stock. Please go ahead.

**Ashish Poddar:** So my question is a little macro related. I think you being into this business from last many decades, seen many cycles of ups and downs. Even in last 5 years, we saw many structural moves by the government in terms of GST, demonetization and all, but I think in initial years, we did not see any positives coming for the organized sector. Now what are those



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things which you feel that this time, the shift from unorganized to organized will sustain for a good part towards the organized sector because in the last many years, we have not seen any meaningful shift? So what are those things which make you believe that this time it will be sustainable?

**Anil Rai Gupta:**

So then you are talking about Havells looking at this market over decades, so I would not restrict our view only for the last 2 or 3 years, 4 years. If we go back and look at the last couple of decades at least, I have seen a huge shift in most product categories from an unorganized sector to organized sector, and that continues to remain and that will continue to be there for the future. Just imagine 20 years ago, there was no national brand for domestic wires. They were only regional brands, local brands. So they were completely 100% dominated by the unorganized sector. Today, at least, there is more than 50% being present with the organized sector. Whether you see fan, when we entered fans in 2004, most of the fan industry or maybe 40% was the organized brands and the rest was the unorganized sector. So there has been a continuous shift in the consumer preferences towards buying better quality brands and quality products and that, I think, will continue to sustain it in the future as well. I think that the particular change this time might be more in the supply chain disruption other than the consumer preferences also because many of these unorganized sector brands were also dependent upon Chinese imports, and there has been a change of move from the government policy side as well towards pushing more Indian production, and that would also give a higher impetus to better quality brands or organized brands. So then the focus becomes on manufacturing.

**Ashish Poddar:**

So again, sorry to interrupt, but do not you think these are more of a temporary thing and things will come back, even in the domestic side...

**Anil Rai Gupta:**

Yes. Exactly, that is why I was saying, you should look at the longer period rather than just the temporary changes, whether it be a GST or supply chain disruption, but over a longer period of time, consumers have moved from unorganized to organized, and that will continue to remain.

**Ashish Poddar:**

No, but in the current times, has this shift fastened because of many things coming together for unorganized...

**Anil Rai Gupta:**

No, I was saying the same thing, but I was saying the same thing. It has fastened, but you interrupted me, by saying that it may not remain sustainable. That is why I am saying, it is better to have a longer-term view rather than just a short-term view. You are right, it may or may not...



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- Ashish Poddar:** Yes. So these concerns remain, yes.
- Anil Rai Gupta:** Yes, if you call them concerns.
- Ashish Poddar:** Okay Sir. Thank you so much.
- Moderator:** Thank you. Ladies and gentlemen, due to time constraints, that was the last question for today. I would now like to hand the conference over to Ms. Bhoomika Nair for closing comments.
- Bhoomika Nair:** Yes, Sir. I would just like to thank all the participants on the call and particularly the management for giving us the opportunity to host it. Thank you very much, Sir, and wish you all the very best.
- Rajiv Goel:** Thank you.
- Anil Rai Gupta:** Thank you.
- Moderator:** Thank you. On behalf of DAM Capital Advisors Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your line.