



“Havells India Limited  
Q1 FY22 Conference Call”

July 22, 2021



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**Moderator:** Ladies and gentlemen, good day, and welcome to the Havells India Limited Q1 FY2022 Conference Call, hosted by Batlivala and Karani Securities India 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 this 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 Mr. Kunal Sheth from Batlivala and Karani Securities India Private Limited. Thank you, and over to you, Sir!

**Kunal Sheth:** Thank you, Mallika. I would like to welcome the management of Havells India Limited on the call and would like to thank them for giving us this opportunity. From the Havells management, we have Mr. Anil Rai Gupta, Chairman and Managing Director; Mr. Rajesh Kumar Gupta, Director of Finance and Group CFO; Mr. Rajiv Goel, Executive Director; and Mr. Ameet Kumar Gupta, Whole-time Director. I would request Anil Sir you to give us some opening remarks post which we will open the floor for a question-and-answer session. Over to you Sir!

**Anil Rai Gupta:** Thank you very much Kunal. Good morning everyone. Hope you would have reviewed the Q1 results. We are satisfied with the operational performance. As COVID recedes further we expect the demand environment to stabilize and improve. The structured shift in favour of the organized sector and recovery in projects in institutional segment augers well for the demand outlook. We can now proceed for Q&A Kunal.

**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 the touchtone telephone. 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 Ravi Swaminathan from Spark Capital. Please go ahead.

**Ravi Swaminathan:** Good morning, congrats on a good set of numbers. My first question is with respect to the margins in the switchgear and cable segment. We have seen year-on-year improvement and even sequential improvement although the input costs have gone up, so if you could explain what is behind the reason for the margins going up, is it because of price action or is it because of mixed improvement, if you can throw some light, it will be great Sir?

**Anil Rai Gupta:** I think in switchgear our margins have remained in this band, depending upon certain quarter, depending upon the demand, but this quarter what we saw as compared to last year same quarter was that the demand for the switchgear had been better because last year if you remember all the projects the contracting and everything was stopped. This year because that continued, we could get good traction in switchgear which helped to maintain the margins also and we were able to compensate some sales on the exports also and it helped. On the cables and wires, I believe this quarter there was a little bit of better pricing because generally speaking when the commodities



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are rising there you get some advantage of some stocks which are lying at the lower cost, and we pass it on to the market. That is the reason for the expansion in margin. Over the next one or two quarters things should come back to normalized levels which we have been getting in cables and wires in the past, but the switchgears margins have generally remained in this band between 38% to 40%.

**Ravi Swaminathan:** Got it Sir, with respect to ad spends basically this quarter is around 1.7% of sales, whereas the normal run rate used to be 3% to 3.5% of sales. Last year obviously first quarter was not that much high in terms of ad spend, so do you see this 1.7% of sales normalizing over the next few quarters in terms of ad spends, if so, will it go back to the old levels?

**Anil Rai Gupta:** It will be increasing because this year also when we started before the lockdown certain advertising decisions were taken which were slowed down as the lockdowns happened. We will now continue to review the markets, how they open, because certain markets still are not fully opened, so we will continue to review that and going forward, yes this will increase, may be at the same levels fully in the next one or two quarters because that will take some time to recover fully to the normalized level. In the last one or two years the media is also changing, the digital spends are increasing, so we just have to review in the next few quarters what is the normalized levels of advertisement.

**Ravi Swaminathan:** Got it, and any further price increases that might be on cards across all the products, which are switchgears, fans, lightings, that might be taken over the next six months?

**Anil Rai Gupta:** I think pretty much because the commodities have stabilized now in the last one or two months, most of the actions have been taken, some of them may be with a lag effect in this quarter, otherwise the actions have already been taken.

**Ravi Swaminathan:** Got it, and my last question is with respect to cash flows. Cash flows this quarter had been negative. Can you give an idea as to why it was negative this quarter?

**Anil Rai Gupta:** As you can imagine in the Q1 the production levels were down and the purchases were down, and we have always maintained during the first lockdown as well as in this lockdown that we never delayed the payments to the vendors, so the trade payables actually contracted in this particular quarter, once the production levels come back to normalized levels plus the inventories were also at a higher level because the summer season build up for air-conditioners and fans, was not able to achieve the full sales which will again normalize in one or two quarters.

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

**Ankur Sharma:** Good morning, thanks for your time, couple of questions. One is just on the overall demand recovery and clearly we see a very strong bounce back in the last quarter, so just wanted your



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thought, how do you feel the recovery compared to the first wave, is it broad based, is it more B2C, because last time I remember B2B was very late to recover, so just wanted your thought, and more importantly do you think this will also sustain because last time also we saw Q2, Q3, Q4 rapid recovery happening, so would you expect a similar trend?

**Anil Rai Gupta:**

This year the sales build up has been different than last year on many accounts, you know, last year when things opened because the markets had been completely closed. There was a pent-up demand more so from the consumer side, but there was contraction in demand for the industrial and infrastructure projects, because of that and because the projects were slow the A category cities took more time to come back, and B and C were compensating that down trend plus the rural markets. This year if you see the markets have opened up in a very staggered manner, in the mid of June things started opening and still there were intermittent lockdowns, even now there are certain markets where lockdown in southern markets are still there, so that has been slow. The second thing is that there is no pent-up demand because the markets would generally open at least for a few hours in a day or a few days in a week, they were opened, so there is no pent-up demand especially on the consumer side. I would say there is a secular growth in A class city, B cities, rural areas, the kind of jump which happened in the rural areas is not seen, but it is also compensated by the fact that A category cities have not come down drastically, and fourth very importantly the projects and industrial segment has done well in the last quarter, and it should continue. Last year it came down and it took a long time to recover. I think there are many factors which are very different than last year, but overall if you see in the last few weeks, we are seeing growth over last year.

**Ankur Sharma:**

Okay and Sir just going back to your opening remarks where you said something of market share gained from the unorganized and you know that is something which we have seen over the last three to four quarters, so our assumption would be that that continues right in terms of large getting larger and the smaller players actually losing share?

**Anil Rai Gupta:**

Last year post the lockdown again because of the supply chain disruption there was a sudden shift in market share from the unorganized sector to the organized sector which actually sustained during the year and I would not just attribute the market share gains only from the unorganized sector to the organized sector, it also happened because of many initiatives and the actions taken by the company, not only in the last one year, but in the last couple of years additional of channels whether it is e-commerce, modern format, rural areas, addition of product categories, enhancement of distribution reach, many actions were taken which actually helped us gain market share in the industry overall per se, not just from the unorganized to the organized.

**Ankur Sharma:**

Right, and just one last question if I may on Lloyd, again this year we have seen lockdowns in the peak summer season, so if you could talk about the inventory situation, both with the company as also in the channels, may be at the industry level and also for Lloyd and by when do you think the situation normalizes? That is all from my side.



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- Anil Rai Gupta:** I would say that the inventory levels are high because at the end of March the inventory was built up for the season and that did not happen this season. April and May are the biggest months for air-conditioners, that sale was washed out, so the inventory levels continue to remain high at the end of the quarter, but at least in the trade the inventory levels are not high because that is also the time when the trade starts destocking the products, so their secondaries have been better than what the primaries have been for the company, so I would say that for the company the inventory levels are high which will get normalized within a quarter or two.
- Moderator:** Thank you. The next question is from the line of Rahul Agarwal from Incred Capital. Please go ahead.
- Rahul Agarwal:** Good morning, thanks for the opportunity. Couple of questions Sir, one is on the demand outlook, could we discuss that more elaborately, the five key segments you have, let us say switchgear, lighting, cables, Lloyd and ECD, would you want to highlight like which one is doing better than the other and how do you see that for the full year?
- Anil Rai Gupta:** Very general question, I would say it is very difficult to answer, I think I am giving you the market trends which actually will give you the demand outlook and I would not say it is very different within the segments.
- Rahul Agarwal:** Okay got it. The second question was on the ECD margins, we did 11.7% for the quarter on the EBIT level, you have highlighted that adverse operating leverage actually hit, assuming that price hikes have already been taking, would we see it going back to 14% to 15% for the full year?
- Anil Rai Gupta:** Difficult to say for for the full year, but in the coming quarters yes, it will go up. It will take some time because this segment has been impacted by the quantity price increases and to continue to remain competitive and gain market share, we will take calibrated decision on the price hikes, definitely because of the operating leverage and not the entire price hike has been passed on, the margins have remained low, which will come back.
- Rahul Agarwal:** Got it, lastly on the capex, last quarter we discussed about 500 Crores for the year and about 1000 Crores plan for the next two years, any change in this plan?
- Anil Rai Gupta:** Not now, we will continue to evaluate as the markets are opening and looking at the demand scenario.
- Rahul Agarwal:** Okay, thank you so much, all the best.
- Moderator:** Thank you. The next question is from the line of Charanjit Singh from DSP Mutual Fund. Please go ahead.
- Charanjit Singh:** Good morning, congratulations on a good set of numbers. My first question is on the success on the real estate market because that is one of the key end markets for most of our product

categories, so can you highlight for the next two to three years perspective, how do you perceive this market, are we seeing kind of bottimng out and then picked up in terms of this market?

**Rajiv Goel:** Charanjit your voice was not very clear, but I assume you are talking about the real estate. You also track the real estate; we do see certain traction in real estate. I think initially it was largely on the handing over of the either semi made or almost finished apartments, but lately we are seeing some traction even on the new launches being announced. We need to see this market, this market has been into sort of cold storage for quite some time, but we believe, and we have also seen the leading real estate players being very bullish on the new launches and the demands being high over the last decade as well, and we also need to be watchful of that. Right now, things look improving on the real estate front, which definitely augers well for company like Havells because a lot of our products go into homes.

**Charanjit Singh:** Okay, on cables and wires front if you can get into the volume growth and the value growth, in terms of the price hikes, what is quantum of price hikes which you have taken and any further price hikes which you are expecting in cables and wires?

**Rajiv Goel:** Around 30% to 35% has been because of the price increases you see into the cable and wire growth, and in addition volume growth as well, but as you know the commodity hikes have been severe particularly in this segment, so I think around 35% of this could be attributed towards the price hikes and others will be around 10%.

**Charanjit Singh:** Sir, can you repeat that?

**Rajiv Goel:** I think you talked about the cable and wire segment, correct? In the cable and wire segment around 35% of the growth could be attributed to the price increase.

**Charanjit Singh:** Okay, just lastly on the switchgears part, we have also touched upon the exports as a segment which should have picked up, so on the exports opportunity if you can highlight how, you see that going forward, not only in switchgear but in any other categories also? That was the last question from my side.

**Rajiv Goel:** Switchgear continues to be the leading product category for exports because if you see the market is fairly concentrated and Havells is among the top 10 manufacturers in the world now in switchgears, so I think larger opportunity lies in switchgear and the next big opportunity we foresee for us is the air-conditioners, but it is early days for air-conditioners, but we are very, very sort of bullish on the export opportunity purely because of China plus one as well and we are seeing good traction happening, this will become meaningful in a couple of years, but as of now on the switchgear side we are having good accounts opening and this is that much we can discuss about that.

**Charanjit Singh:** Okay Sir, that is all from my side, thanks for taking my questions.



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- Moderator:** Thank you. The next question is from the line of Sonali Salgaonkar from Jefferies India. Please go ahead.
- Sonali Salgaonkar:** Sir good morning and thank you for the opportunity, congratulations on a great set of numbers. Sir my first question is again an extension of the earlier question in terms of price hikes. Could you quantify approximately what are the price hikes that we have taken say YTD across the product segments?
- Rajiv Goel:** That will be difficult. The only thing we can say is that on the ex-cable and wire our price increases have been in the range of around 10% to 15%, and most of the price increases have been taken looking at, we just mentioned, the calibrated approach, the market competitive scenario, and how much has been the commodity increase. So, this is a mix of everything, may be all the commodity costs may not have been passed down, but these are the decisions which are taken into account, several factors impacting the market and the demand scenario.
- Sonali Salgaonkar:** 15% ex cables and wires, what would be the approximate quantum taken in Q1?
- Rajiv Goel:** I think that will be difficult to talk about, but I think you asked what has happened in the last Q1 since the commodity cycle began that is what we have given. All we can say is most of the price increase is effective because we see some stabilization in commodity cost as well, so as of now they are not much anticipated price increases in the offering.
- Sonali Salgaonkar:** I understand Sir, my second question is regarding your alternate channels, e-commerce and rural, could you help us understand or give an update on the development of sales into both these channels?
- Rajiv Goel:** So, e-commerce continues to do very well, part of that could be also that our presence has been initiated in the past, but as of now we can claim the strength of the brand which has been sort of demonstrated in the offline channel for the last so many years, I think it is pretty much evident in the online channel as well. One of the leading platforms, we already rank number one in terms of fans, so I think we are extremely sort of satisfied and we are very sort of bullish on how this channel will pan out for us because we are doing everything keeping harmonization between various channels, which is what we discussed earlier as well. Even rural is tracking well and we are introducing more and more products into the rural channels. So, both these channels I think continue to do pretty well with a strong promise of how they will pan out in the near future.
- Sonali Salgaonkar:** Understand Sir, and how much sales from both these channels would have grown in Q1 because last year we saw phenomenal growth, of course the base was very lower, but right now with the base catch what is the kind of steady state growth that we could envisage from these channels?
- Anil Rai Gupta:** You know these are bases are very low, so the percentage will be sort of meaningless to discuss, but all I can say is they will become meaningful in terms of the share of the sales in the next year



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or two. All I can say as of now is they are tracking well, sometimes even exceeding our own expectations.

**Sonali Salgaonkar:** Understand Sir, and my last question would be on the distribution. Currently, what could be our distribution pan India and how much of that would be rural versus urban?

**Anil Rai Gupta:** We have about 14,500 distributors across India in all product categories and we have retailer base of about 185,000 retailers across the country. This includes the rural channel, where we have close to about 25,000 outlets registered in the rural channels.

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

**Siddhartha Bera:** Thanks for the opportunity. My first question again is on the ECD and Lloyd segment, if you can just talk about a few product introductions here which could help us in the growth in these segments and on the margins as well on the Lloyd, how do you think we should look at maybe next year in terms of improvement from here?

**Anil Rai Gupta:** On the ECD side there are continuous product introductions which are happening despite the fact that the fans was a truncated quarter. There were very good new models which were launched on the air purification side as well as on the aesthetic side. Technological and aesthetics new production innovations have happened. Even in air-conditions, even in Lloyd, there has been huge revamp of the washing machine range. Refrigerator range continues to enhance. So, there has been a continuous innovation process in both these product categories. Going forward, I believe the new product innovations will help increase the sales. As far as Lloyd margins are concerned, last couple of years have been a bit of a dampener because the sales in the seasonal time were affected. I think from next year we should see good traction of margins in Lloyd as well.

**Siddhartha Bera:** To be specific, in Lloyd we have introduced this entire range of washing machines and refrigerators, by when can we see meaningful pickup in some of these segments and I think on the margin side should we expect close to double digit margins which we would aim for Lloyd in the next one or two years?

**Anil Rai Gupta:** You asked this question about meaningful contribution, it will take at least two or three years for them to start making a meaningful contribution. Lloyd will continue to be our growth engine, so the focus there would be to gain market share, gain entry into each segment. Yes, of course, because of the volumes the margins will improve. It is difficult to say how much margin it will be, but it will improve from the present range.

**Siddhartha Bera:** Okay Sir, understood, thanks, I will come back in the queue.

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





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**Naval:** Thank you for the opportunity and congratulation on good set of numbers. Sir my question is on revenue distribution, the way you elaborated on tier-2 and tier-3 towns, and how urban is picking up. Any sense you can provide on how geographical mix was in the last quarter, not the exact numbers but if at all qualitative trend of which geography would have outpaced the growth number and how trends are happening in the current month as well because you also stated the way there are localized lockdowns in south, so that are impacting overall recovery?

**Anil Rai Gupta:** Yes, there has been a variation in the extent of pickup in sales. The south and east have been weak in the first quarter and north has been much stronger, west has been fine, but south and east are quite slow. Even East, the biggest market for us West Bengal took a long time to open. East has started improving in the second quarter, but south is still a bit weak at the present time.

**Naval:** And anything specific on Lloyd because of the strong heat wave in north, so how traction would have been over the last 20 to 30 days, or this would have accelerated channel inventory liquidation far more exceeding your expectations, was that also the trend in Lloyd?

**Anil Rai Gupta:** In the north you are right, the channel inventory reduction was beyond our expectations because the lockdown opened much later this year as compared to last year. So, the north saw good pick up in sales for air-conditioners because of the heat wave, but now because of the monsoon coming things have started normalizing back again. The first quarter saw the benefit, the losses that have happened in east and south were compensated.

**Naval:** Thank you and all the best Sir.

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

**Aditya Bhartia:** Sir, if you could just share some insights on how three months of the quarter had panned out, May I guess would have been very weak, but how strong was exactly the growth that we saw in June?

**Anil Rai Gupta:** This is quite general, till the 15th of April things were quite normal and then suddenly the lockdowns happened, the second wave of COVID started around 15th of April and continued till the middle of May when things started opening up on a very cautious manner. I think June was the month where things were much better as compared to April and May.

**Aditya Bhartia:** This year we have seen a reduction in the number of employees, I mean in FY21 was the second consecutive year where we saw reduction in total number of employees. Which are the areas or verticals wherein we are seeing employee reduction and why exactly is it panning out?

**Rajiv Goel:** There is no reduction, I do not know where you are getting this impression from. It if is driven from the value because there are a lot of variables which are also included in the value, so I think this impression is not sort of correctly placed. There is no reduction in the number of people. In fact, we have added several people.



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- Aditya Bhartia:** I was just taking the data from the annual report, wherein at least the manpower number that you have mentioned that appears to be going down which is why the question.
- Rajiv Goel:** When compared to last year, the numbers are the same. May be you can take it offline with Manish, but I must correct it because you are asking it on this call, let me tell you very clearly there has been no reduction in the number of people in any discipline because we are fairly sanguine about the growth which is now going to happen in this country and I think we are very well positioned to take advantage of that.
- Aditya Bhartia:** Understood Sir, thank you so much.
- Moderator:** Thank you. The next question is from the line of Balaji from Aarohi. Please go ahead.
- Balaji:** Thank you for the opportunity, congratulations on the great set of numbers. My question is relating to contributions in ECD, when we are comparing it with FY20 last to last year pre-pandemic we see that there is a drop by 700 basis points. Is that because of delayed price action or any other reason, because of commodity price increase or is there a mix change because you said that fans have seen a stressed quarter?
- Anil Rai Gupta:** I think what you are comparing is the fan season quarter, which is Q1 of FY20, that obviously is the quarter where the fan sales were the highest and hence it helped pump up the contribution. So, I would say that it is not really a good comparison and yes, of course because the commodity prices have increased, some corrective pricing actions have been taken, there is always a delay. I think going forward in the next two or three quarters you will have to see how the situation comes up. It is not a great comparison to do a full quarter and that too the highest season quarter with this truncated quarter.
- Balaji:** As a followup to that I am just doing a comparison because the revenues are comparable, FY20 revenues were around 562 Crores and this year ECD revenues are 576 Crores, was there truncation in fans?
- Anil Rai Gupta:** There is growth in many categories, for example water heaters, appliances. Fans obviously, you know, where the manufacturing is high and the season is highest in April and May, which was lost. Again, I am saying it is not a great comparison to do a full quarter comparison with this truncated quarter.
- Balaji:** Understood Sir, another question again on Lloyd's contribution. You did mention that the contributions will be going up two to three quarters down the line, in the longer run with newer product mix coming in, the refrigerator and washing machine, any sort of expectation on what it can go up to?
- Anil Rai Gupta:** We do not want to give a number, but yes there will be improvement.



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- Balaji:** Okay, thank you Sir.
- Moderator:** Thank you. The next question is from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.
- Nitin Arora:** Thank you for taking my question and I am sorry; I joined the call a little late and I am sorry if you had to repeat discussion with me. Sir, this is the second quarter where the cash flow is negative. I just wanted your guidance how one should look at it, and if you can throw some light on how the secondary sales in the channel has been?
- Rajiv Goel:** I think the cash flows in this quarter is largely attributed as we mentioned to two products, particularly ACs and fans, we were keeping high inventories which could not get liquidated as anticipated, particularly for Lloyd the peak season got impacted by COVID. Secondly, may be because of technical, but since it was a truncated quarter, the purchases were low, but we kept paying the regular creditors payments, so what happens is that creditors goes down. I think we feel things will just recover over a few quarters; I do not think that should be a cause of much worry. The secondary sales continue to track well, and we have said this earlier also, since demonetization we have seen the channel inventory continues to be tracking pretty much the secondary sales, because there has been repeated, whether it was demonetization then GST then COVID. I think there is a bit of a sort of semblance in the dealer channel where they want to keep the inventory which is not too high compared to what they see in the secondary trend. The secondary sales are resilient, and we believe they should improve, as we stated as COVID recedes, and hopefully there is much more reopening of the market.
- Nitin Arora:** If we look at inventories excluding cable and wires, the inventories are at optimal level, not too high, not too low. Is that the right way to look at it?
- Anil Rai Gupta:** Our inventories are high for the seasonal products like ACs and fans, not cables and wires.
- Nitin Arora:** No, my question is if I exclude the cables and wires, the rest of the inventory in the channel is at the optimal level, is that the way to look at it?
- Rajiv Goel:** Yes, that is right.
- Nitin Arora:** Okay, and any comments or thoughts towards the market share gain from the unorganized sector, is it still happening, or you think unorganized now is stable or back, because that was a good share of gain you witnessed last year and I think will it continue, just some comments on that, thank you Sir.
- Rajiv Goel:** As you said you joined late, we did mention this in the beginning, but for the sake of repetition, I think we have mentioned that we are having overall gains for Havells. These are the culmination of efforts over the years. These are not sort of one quarter or one year. There are efforts into new channels, feeding sort of new product categories, looking at a new customer category. So, I think



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these are what has helped to gain the market share, which we believe is overall. There could be something attributed to organized, something attributed to the unorganized as well. However, the pie of organized seems to be growing because there is a continuous shift from unorganized to organized. One cannot track it on a quarter-to-quarter basis, but we believe the trend which started because of COVID continues to remain. This is only way we can as of now explain the same.

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

**Bhavin Vithlani:** Thank you for the opportunity and congratulations for good set of numbers. Sir, I have two questions. First is if you could guide us on what is the expected capital expenditure for the current year and if you could also highlight what it could be for the next couple of years, and the categories in which we are investing towards capital expenditure? Second is we are expecting new energy ratings for fans as well as air-conditioners from early 2022, your comment on how is Havells positioned towards that and when this also aid in terms of market share gains due to Havells superior investment in research and innovation?

**Rajiv Goel:** On the capex side we did mention we had earlier guided 500 Crores for the year and 1000 Crores in two years. As we said, we will continue to evaluate it. There could be some shift because during first quarter due to COVID there has been some deduction, the practice could not be opened for all these kids of construction activities and all, but as of now we are not changing the guidance on the same. I think we will continue to evaluate that. For your second question on the BEE and all, in fact we were already ready, the government obviously delayed the notification for right reasons, but we were already in terms of ours and fans, and AC and refrigeration is also there. As and when the government notifies, we are well prepared with a new range fully compliant with the new BEE norms. We do not face much issues on that, and you are aware our R&D efforts are sort of future focused. We have a large team as well. We continue to evaluate how the new BEE norms will affect, not only the company, but also the customer orientation towards that. To answer your specific question, the answer is we are already ready with the range complaint with the new BEE norms.

**Bhavin Vithlani:** Just a followup on this, do you expect these to be delayed further as they were last year?

**Anil Rai Gupta:** As of now there is no indication like that. We do not feel there will be any meaningful shift if any by the government on the same now.

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

**Moderator:** Thank you. The next question is from the line of Achal Lohade from JM Financial Services. Please go ahead.



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- Achal Lohade:** Good morning, thank you for the opportunity. Congratulations for the great set of numbers. My question is if we are looking at normalization in commodities and growth picking up, how do we look at the margins, you know, what we have delivered, do we think that this is kind of a sustainable number, I know there is an element of seasonality here, but from an annual number perspective is it fair to say that these margins are sustainable?
- Anil Rai Gupta:** I believe so, we do not say entire annual, but on an annualized basis yes, the margins should start coming back in most of the product categories. Cables and wires are on the higher side and ECD on the lower side, I think we should be coming back to normalized level soon.
- Achal Lohade:** Understood, and my second question is, is there any thought on the inorganic opportunity side, are we looking at any opportunities or given the kind of product profile we already have we may not be keen on new opportunities?
- Rajiv Goel:** First, we have a strong organic traction in our product categories. You are aware after the acquisition of Lloyd and the kind of runway we have in terms of product categories it is sizeable, so we have mentioned before also we do not feel the need of inorganic acquisition to support our growth. We see a strong traction organically. However again, there are opportunities which fit into our portfolio at a right pricing, which again is a very difficult thing in India. I think that is something we will always remain open to but let me just clarify once again that this is not something which we need to fulfil our ambition of becoming sort of a much larger player in the industry. We will remain open, that's fine but we feel very satisfied with the kind of opportunities we see organically in the entire portfolio we have at Havells.
- Achal Lohade:** Understood, thank you so much, I will come back in the queue.
- Moderator:** Thank you. The next question is from the line of Mayank Bhandari from Nirmal Bang. Please go ahead.
- Mayank Bhandari:** Thanks for the opportunity. Sir my first question is on Lloyd. We have grown about 60% Y-o-Y, any idea how much the industry growth had been?
- Rajiv Goel:** I think we have not much idea, we believe we have pretty much maintained and grown our market share in this, but the last year base was very different maybe for others as well. So, it is difficult to look at one quarter and then decide how others have done. Let us wait for the whole year performance and then the picture would be much better.
- Mayank Bhandari:** How has been the growth in July month, given there is extended summer in northern part of the country, any comment on that?
- Rajiv Goel:** I think July is difficult to comment, but we would like to stick to Q1 performance only.



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**Mayank Bhandari:** Okay, and Sir in the Q1 you have highlighted that the contribution from industrials has increased. How much would have been the contribution from the industrial side of the business?

**Anil Rai Gupta:** Overall, on the Havells side we see that almost 27% of the business is from industrials and infra.

**Mayank Bhandari:** Okay, and lastly Sir, we have seen a dip in our other expense. Other expense as a percentage of sales is low when we look at the last eight or nine quarters. Is that the savings which we have realized in the pandemic year is now kind of resulting in better margin for us?

**Anil Rai Gupta:** I think in some sense this could not be comparable with last three quarters because as we said the quarter has been sort of truncated, in a lot of areas there have been local lockdowns as well, so maybe I think let us view them over the next two quarters and then we can see the trend. I do not think these are sort of real comparison we can draw on this quarter, which has been fairly sort of lopsided in some way or the other.

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

**Aniruddha Joshi:** Thanks for the opportunity. Sir one question on the distribution, we have around 1,55,000 retail outlets. Can you indicate what would be the universe or how much is the scope to expand the penetration further? Also, in rural areas we have just 25,000 outlets, so how much can be the penetration expansion scope in that? We have started the initiative Rural Vistar, again what are the initiatives that we are doing in that? Second question is obviously in commodity linked categories like cables and wires, we have taken steep price hike of almost 30% to 35%, but let us say if the input prices decline will the company be again reducing the selling prices or it will stick to the current selling prices, how it will be playing in that scenario? That is, it from my side.

**Anil Rai Gupta:** I will take your second question first. Normally in cables and wires, the prices in the market follow the raw material trend, whether there is increase or reduction, within a short period of time it is passed on to the consumer. That has always been the case and yes you are right if it comes down that will also be passed on to the consumer. On your first question, the base is still very large. Electrification is going into smaller towns, there is a huge scope to expand retail network. In the rural segment, right now we have identified 3000 towns where the population is below 50,000, where in a short period of time we will be covering that, but to cover the entire retail network that will also take time, you know, adding more and more new product categories within the rural segment. I would say that within the rural areas also we would be still at a very low base now at the present moment because it is just a two or three-year-old journey for us.

**Aniruddha Joshi:** Okay, just last question from my side, in case of Lloyd what are the three key important things that we would be working on to expand the market share, I guess we already have a large product portfolio in place now, I guess distribution wise also we would have already been reaching out to the distribution of most of the outlets that the market leader would be reaching, and in terms of



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pricing we would be relatively more competitive compared to the pricing of the MNC products or even the market leading products. What are the three important things that you see will lead to better market share gains for Lloyd?

**Anil Rai Gupta:** According to you we have already exhausted all our options in the expansion of Lloyd.

**Aniruddha Joshi:** No, that is not what I meant.

**Anil Rai Gupta:** It is always a journey, whether it is Havells or Lloyd. Maybe five years ago if you would have asked me, I would have said the same thing, product innovation, branding, distribution reach. That is a continuous process in Havells 10 years ago as well as now. Lloyd, I think gives us far more opportunity to keep investing on branding, product innovation as well as distribution enhancement. That will continue as a process. I think whether it is FMCG companies or our kind of companies those are the three or four main key points that need to be looked at, at all point of time.

**Aniruddha Joshi:** Okay, many, many thanks Sir.

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

**Renu Baid:** Good morning Sir and congratulations for the good results in Q1. Sir, I have three questions. First, if we look on the demand side last year second half we had a good pent-up demand in addition to the base market, so when we look at the current year given that you have mentioned that you are not seeing any pent-up further, how do we target volume growth for the year in this scenario without pent-up, any change in business mix strategy that should be there in place to ensure that we deliver growth or volume growth could be a challenge?

**Anil Rai Gupta:** Renu, I feel that I have always maintained even last year that the pent-up demand could never have been for the entire year. The pent-up demand is always for a short period of time when markets open and there have been delayed purchases because of the lockdown the pent-up actually played out. The rest of the year was not really a pent-up demand, but increased demand from the consumers because of change in, I would say, consumer behavior. I would argue that this year though there is no pent-up demand but the growth in the sector, which is let us say without COVID, that growth would continue and that is where the growth will come, the volume growth will come. We are quite confident that the growth will continue despite the pent-up demand not being there.

**Renu Baid:** Sure, and broadly given the fact that the commodities have also started to taper off and we have taken adequate price increase, do you believe gross margin headwinds are broadly behind now and how should we look at Lloyd specifically because volumes moderate post seasons, what would be the strategy there to improve the margins both in balancing ASP as well as relative pricing in the market?



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- Anil Rai Gupta:** Yes, the volatility has abated and that is helpful, but there will always be pressure on the margin. There is pressure on the margins because the commodities are at an all-time high and hence, we are always balancing between the ASP in the market as well as market shares and the margins. We have always been a growth and margin-oriented organization. We always have maintained balance between our growth and market share as well as margins, and I think that trait will continue in the coming times also. We will have one look on the market share and the other look on the margins. We believe that the margins will improve from here, but it will be under pressure. It will be under pressure in the sense that it will require far more effort to achieve the requisite margins.
- Renu Baid:** Sure, the last thing on especially Lloyd expansion in the south, one of the largest players has called off their south expansion plans. Do you think that the proposition of having another facility in the south makes sense given that PLI also is not focusing on finished products but components here?
- Anil Rai Gupta:** We are evaluating right now, I think if the PLI would have been on the finished products, maybe that could have fastened our entry into setting up a manufacturing facility in south, but now we will be taking it as and when the requirement of the market share and volumes in Lloyd require it. So, it will not be a decision based on PLI, but it will be based on the fact that how fast we can grow into those markets.
- Renu Baid:** Got it, thank you and all the best Sir.
- Moderator:** Thank you. The next question is from the line of Ashish Jain from Macquarie. Please go ahead.
- Ashish Jain:** Good morning. Sir my question pertains to cash flows. In fiscal 21 the operating cash flows were much lower than our profits because of working capital increase and all, and we have seen the same trend in Q1 also. Do you think by end of this year it will normalize and we will go back to a scenario where our operating cash flows are much better than our profits and all?
- Rajiv Goel:** Yes, I think you rightly mentioned that the last year and the trend continued, because I think the disruption continued in Q1 as well. We are confident that the things will improve over the next three quarters. Structurally we continue to be a net operating cash flow company. Nothing has changed structurally in the business. Quarter to quarter things can vary, but I think if you see the trend wise, we continue to be the same company we were earlier, and I think we are only improving upon the same. So, I think you will see this pretty much reflecting in the numbers in the next few quarters.
- Ashish Jain:** Right, my second question was on margins. One of the comments which you have made in the press release was that operating margins were impacted in a couple of segments because of lower sales and all, what is the trajectory we are seeing for those specific segments like lighting and





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consumer durables, have margins kind of normalized now based upon the commodity and the demand momentum that we are seeing today?

**Rajiv Goel** The under-absorption of overhead was one part of the reasons why they were lower, as we said there are sort of competitive pressure as well. There are strategies about balancing the market share gains vis-a-vis pricing. So, part of that under-absorption I think will get stabilized once we have the full quarter, hopefully there are no lockdowns to interrupt in the future. Part of the strategy will be compensated through the higher growth. These are things which are fairly variable, I think that needs to be seen only when the quarter plays out, but yes, I think that part where the under-absorption is there, hopefully now with the full quarter that will get addressed.

**Moderator:** Thank you. The next question is from the line of Rahul Sony from SMIFS Ltd. Please go ahead.

**Rahul Sony:** Thanks for taking my questions. Sir, my question is on the refrigerator and the washing machines, the new products you have launched under the Lloyd brand. What kind of investment you have done regarding these products and what is your current capacity, and going forward will you be manufacturing this in-house, or you will also outsource the manufacturing?

**Rajiv Goel:** As of now we are using the ODM approach, where the designs are proprietary, they are developed in-house through our consumer research. Whether we do in-house that is something which will be evaluated as we grow in the volumes, but yes, if you look at the way we work is that we always prefer to do in-house manufacturing, but I think that question is some time away. Part of washing machine production we have already brought in-house, that we have done. Still a large of refrigerator and washing machines which we continue to outsource, but as I said that is something we will keep evaluating and at the appropriate time we will keep bringing them in-house.

**Rahul Sony:** Okay, and what is your current capacity Sir?

**Anil Rai GuptaRajiv Goel:** Since we are not doing that much in-house, I think that has not much meaning, because we are doing an ODM approach, so these are not in-house capacities. It is the capacity of the vendor who works dedicated on our behalf.

**Moderator:** Thank you. The last question is from the line of Chintan Sheth from Sameeksha Capital. Please go ahead.

**Chintan Sheth:** Thank you for the opportunity. Sir I have only one question, if you can provide estimated revenue loss for the quarter because of the second wave, what was we budgeted when we started the quarter and that would be helpful?

**Rajiv Goel:** That's difficult to estimate because at this time the lockdown has been sort of bits and pieces, let us move forward on this, I think there is no point in looking at the past now.



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- Chintan Sheth:** I was just trying to understand because it was a very sudden lockdown came up in the middle of the quarter, we will have very less time to **rationalize** our cost as well. We are trying to gauge, if we would have ended up the revenue the way we have anticipated at the start of the quarter, how things would have panned out, not the number, any revenue shortfall in terms of percentage wise will also help?
- Anil Rai Gupta:** Look, revenue is lower than what we anticipated, but I think it will be pure conjecture if we try to put a number on that. Expenses, unlike last time would not have been that much, except for variable ones. As I said, we will rather stay away from this and let us focus on Q2, Q3, Q4, and way forward.
- Chintan Sheth:** Thanks, and very all the best.
- Moderator:** Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing comments.
- Anil Rai Gupta:** Thank you very much for joining the call and look forward to a great year in the coming times. Stay safe and stay healthy, thank you.
- Moderator:** Thank you. On behalf of Batlivala and Karani Securities India Private Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.