



“Havells India
Q2 FY2022 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the Q2 FY2022 Earnings Conference Call of Havells India hosted by HDFC Securities. 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 Mr. Naveen Trivedi from HDFC Securities. Thank you, and over to you, Sir!

Naveen Trivedi: Good morning, everyone. On behalf of HDFC Securities, I would like to welcome the management of Havells India Limited to discuss the post Q2 FY2022 results. We have with us today the senior management of Havells India represented by Mr. Anil Rai Gupta, Chairman and Managing Director; Mr. Rajesh Gupta, Whole-Time Director, Finance and Group CFO; Mr. Rajiv Goel, Executive Director and Mr. Ameet Kumar Gupta, Whole-Time Director. I would now hand over the call to the management for their comments. Thank you and over to you, Sir!

Anil Rai Gupta: Thank you Naveen. Good morning everyone. Hope you would have reviewed the Q2 results. The company delivered broad based growth across categories except for cables there has been a healthy volume growth in each segment. Real estate upcycle improved outlook of industrial and infrastructure sector and consumer optimism will support revenue growth in the upcoming quarters.

Despite unprecedented levels of input cost inflation and continuous volatility, we are hopeful to improve margins going forward. We may 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: My first question is with respect to the volume and value growth breakup. I know multiple products are there, but if you give a rough sense on what has been the kind of value growth and volume growth across each of the categories or at least at the company level?

Anil Rai Gupta: I would say that except for cables where almost 80% is price led, I think it is for the rest of the categories we would say that it is almost 50% price led and 50% volume led. So that is how we would commit. Lighting there is more of a volume led kind of a pricing, but overall other than cables we can say it is 50-50.

Ravi Swaminathan: Commodity prices continuing to rally even over the past few days, copper once again has kept going up, other commodities are also rallying, so basically, what is your sense on further price increase? Are we going to take further price increases going forward to offset for commodity price increase?

Anil Rai Gupta: Actually even in the last few months, it had increased and there is always a delay in passing on the price increase especially for example in products like air conditioners where the season was not there, and high levels of inventory in the industry, so yes there will be price increases not only for the past, but as you rightly have pointed out that there is continued volatility in raw materials, but then again, we have to take a view of the averaging because we cannot take an immediate decision and then regret back. So, we generally take some time to get things stabilise and then pass it on in the market. But as things stand, yes there could be possibilities of further price increase.

Ravi Swaminathan: Got it, Sir, and my last question is with respect to the 2H kind of revenue or demand. So, last year, we were sitting on a very high base of on an average 40%, 45% growth. This year second half are we confident to grow over it, match it or probably it may even see some behind?

Anil Rai Gupta: I think there is no doubt that last year was a time of pent up demand especially in what we saw in the Q3, but I think we are quite enthused by that fact that last year was pure pent up demand coming from the consumer and B&C class towns whereas this year the growth or the demand that we are seeing is across segments and across regions and what is healthy is that we are seeing good demand coming from the residential sector as well as industrial and infrastructure. So, this was not the case last year, the real estate was still under stress. I think real estate has started doing well in the last six to eight months, the industrial and infrastructure demand is also picking up, so I think that actually gives us confidence that the next six months for us could also be a decent growth.

Ravi Swaminathan: Will we be able to grow over the last year's pace?

Anil Rai Gupta: That only time will tell, but I think at least what we are seeing that the demand pickup is positive.

Ravi Swaminathan: Got it Sir. Thanks a lot Sir.

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

Venugopal Garre: Thank you for the opportunity. Two questions from me. First is on Lloyd. Can you describe a bit more on the market conditions and what you see as a driver for the hypercompetitive environment that you mentioned? That is my first question.

Anil Rai Gupta: I think Lloyd witnessed two years of lockdowns in the high season months. March, April, May are the biggest months for air conditioners and still 70% of sales of Lloyd comes from air conditioners. So, overall in this system, there was high inventory build up for the season

which even the industry was not expecting that there will be a lockdown again. So, there was high inventory and when we came out of the lockdowns, the inventory put pressure on the fact that companies including Lloyd we wanted to sell the inventory and lower production also because everybody was stacked with inventory, so passing on the entire cost increase became a difficulty and the industry is waiting for the right season to come in to pass on the entire cost increase. So, that is what I meant by the fact that there is lag behind the cost increase and passing around the market.

Venugopal Garre: Second question is more from a perspective of volume growth which basis your commentary up years to be ex cable as you mentioned 50% is volume, 30% is driven by pricing, Sir it looks like probably 10% - 12% is a broader volume growth excluding cables. Correct me if that is wrong, but the perspective I want to highlight is that this sort of a demand growth on the volume side, how do you characterize it compared to what used to be in normal environments? Because to me it appears that in normal growth environments we actually tend to see only this much, right healthy growth of 10% to 12% but this does not sound exceptional growth? So, is it a different way that one should look at the growth environment at this juncture?

Anil Rai Gupta: I think, I would term it as exceptional in the sense because when there is high inflation, you would expect that the demand to be curtailed and maybe there might be a degrowth because of high inflation and people would delay their purchases, so the fact that the demand continues to remain strong is also reflecting the fact that the consumer continues to buy the real estate buyers, contractors continue to buy even at these prices, so actually it augurs very well, when things stabilise, we believe that this growth or better than this should continue.

Venugopal Garre: Thanks a lot.

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

Renu Baid: Thank you for the opportunity. Good morning everyone. Sir, my first question is given that you have highlighted deep inflationary pressures and volumes still being steady, are you seeing any risk with respect to downtrading by consumers especially given these headwinds in the market?

Anil Rai Gupta: Well, we have not seen that much in that, again in electrical products, in fact, I would argue Renu that when there is high inflation times, there is a shift from unorganised sector to organised sector because when people are spending more on electrical installation in the house, because of the raw material increases, they would both want to even go stretch a bit beyond and go for trusted brands and high quality products. So, we have actually seen that there is improvement in the kind of purchasing which happens. However, we are also weary

of the fact that India is a large country with varied customers all across regions as well as channels and today I would say Havells is far more balanced in terms of offering different brands and different feature led products to the consumers, whether it is for affordable housing or for premium customers, so we have a vast array of products and brands across categories.

Renu Baid: This is where I had the second question linked at last year we had a reasonable share gain coming in from shift from unorganised to organised plus smaller players losing share, now in the current environment where everything seems to be now getting back to normal both on supply chain as well as business operations, are we seeing the share gains being sustained and across some of the key categories, are you seeing any signs of consolidation or market share gains further strengthening because of some other brands losing out?

Anil Rai Gupta: Yes, I think, market share gains and consolidation would continue to happen. In fact, in inflationary environment the relative gap between unorganised and organised sector reduces. The other thing is we have also seen, though we have been able to manage it well, there has been supply chain disruptions and for organised sector I is easier to manage as compared to the unorganized sectors so there are supply chain disruptions and volatility in the raw material also is managed better by large and organised players. So, I would say that this shift is happening and hopefully with the larger part of the wallet share I think this shift will continue to happen.

Renu Baid: Sir my second question is on the A&P spending which was anyway relatively muted in the last few quarters for Havells. We have seen quarter further shrinkage in this quarter. So by when are we expecting to finally revert back to normal A&P spend of at least 2% to 2.5% of revenues and do you think that shrinking these spends can have medium term implications on growth and hypercompetitive markets?

Anil Rai Gupta: Yes, I think, the investment for Havells in brands continues to remain and from this year, last year was a COVID year, from this year we had decided that we will start investing back into the brand in a normalized level. The muted spends in the first quarter, second quarter, first half is more because of the timing effect. We definitely see normalized A&P spends coming in because of the festive season plus the demand for some of the products coming in the next six months. So, we will start seeing to coming back to normalized levels soon.

Renu Baid: My last question if I can ask on Lloyd. Where are we in terms of investment in channel distribution for the non-RAC portfolio specifically refrigerator which we launched and washers and now do we have any medium term target which can be shared in terms of market shares or revenue growth for these categories?

Anil Rai Gupta: I think we are well positioned. Again, any new category requires good amount of time to get deeper into distribution but we are moving forward in terms of penetration in the channels and if there is good acceptance both in the new models of washing machines as well as the new category of refrigerator, good acceptance from the trade, obviously the consumer demand has to be generated over a period of time, but we are quite hopeful that in the coming times, these two categories would become a sizable part of Lloyd.

Renu Baid: Thank you. All the best 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 so much for taking my question. Again, dwelling more on the demand side, because you always give street a very fair outlook on the demand, now at one end you are saying that the demand outlook is very good because of the real estate part, at the other end you are saying that there is a lead lag in pricing, which you were not able to take, so margin should normalize going forward. My first question is when the demand was so strong, what stopped you taking the price hike even in this quarter and the other part of this question is that despite market share gains from an unorganised the volume growth was still about 10%-12% which is a normal growth rate which we used to do pre-COVID. So, I just found this statement very contradictory so just thought we will ask you and I have a few more questions after that?

Anil Rai Gupta: Intelligent question I would say. I would say that we are not really in a commodity industry where raw materials or input costs go up and the next day you increase prices. There is a trade in between, there is an expectation of how the competition is behaving and so there is and this is a very different times than normal cost increase of 2% to 5%, there is unprecedented price increases. Copper has grown 100%, steel has gone up 100% in the last one year. So, it is never a time where things settle down. So, in the trade, acceptance of the product, the pricing, everything has to take time, so there is a lag behind there, and again as I said, you cannot compare it to a commodity industry, so brand and distribution industry plays very differently and of course you can say it is almost like a testing of both the trade and the consumer that what is the price elasticity for demand not to start getting impacted. So, that is something which continues to remain and that is the reason for this. The second question I alluded to a bit before as well but despite the fact that there is such high inflation, which has again not been seen in the past few years, or at least my experience the fact that we see volume growth of normalized time is actually got quite a good indication that the demand is firm. So, I would argue that during such inflationary times, the demand would soften, both for the consumer as well as for the industrial and residential real estate developers. But the fact that volume growth is continuing, which actually these segments have seen muted growth or even

degrowth in the last few years, so there has been in such an inflationary trend, if it is increasing, it is very, very good indication for the future.

Nitin Arora: Sir, generally with respect to two things, one is the inventory in the channel how we placed there and generally as a sentiment, as a customer sentiment is it safe to assume that this quarter was more of retail more than the wholesale channel filling was higher and then eventually this quarter, where the company expects the retail finally to start picking up?

Anil Rai Gupta: I would not say that this was a quarter of filling up. I would say that the primary to secondary ratio would be same. It would not be that this was a time of filling up the trade.

Nitin Arora: So, the inventory one can assume is still at a very normalized level?

Anil Rai Gupta: Normalized level, I would say that the inventories are at normalized levels.

Nitin Arora: Sir, my last question on the Lloyd. Lloyd, their comments given by the company in the presentation the high competitive scenario, now this industry has been competitive for the last 10 years, and I think the next 10 years also will be very competitive, but is it more of a quarter phenomenon that sale can issue because we talked about last few years of making our plants, supply chains to be very strong, in-house we will make more margins, but when that 2%-3% market share has come to 4%- 5% the growth is becoming difficult for Lloyd in the AC business. So, I just wanted to understand it is more of a quarter phenomena, because these competitive comments will be there forever so, just your take on that? Thank you.

Anil Rai Gupta: I would say that this is more of last couple of years of industry as a whole because of the lockdowns and the major season going away for air conditioning industry. So, the benefit which should have come because of many decisions by the government whether it is imposition of ban on imports and all that that really did not help us gain any market share or gain big volumes in this, I think we will have to wait for the next season to actually see the real effects for Lloyd as well as for the industry.

Nitin Arora: Thank you Sir.

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

Siddhartha Bera: Thank you for the opportunity. I would first continue with the last question on Lloyd. Basically wanted your thoughts on medium term like, we understand in the past there has been some issues because of lockdowns and all, but in general, what is your medium term target of any market share in the AC segment or anything if you can highlight just for us to

understand where can Lloyd be say in three or four years and what are the steps we have planned to do to achieve that?

Anil Rai Gupta: I would say that our outlook on Lloyd continues to remain extremely strong. We did this acquisition to enter into a high growth industry where Havells was not relatively present. So that continues to remain strong. The investments that we have made in this indicates the fact that we are quite positive over the medium and long-term and steps have been taken of course investments in manufacturing, brand and distribution all three things those investments continue to remain and I would say that our focus in the next few years would be to gain a healthy market share in each product category. I would even say that this would be the main criteria for Lloyd, that in each category including air conditioners, we would like to see our market share grow in the coming times.

Siddhartha Bera: In the margin side, what will be your thought process anyway because in this segment, seems to be the competition remains high and we do have our benefits of in-house plants, but apart from that what really do you think will help us get a price advantage, which can improve margins or it will be entirely by backward integration according to you?

Anil Rai Gupta: I would say it will be due to volume build up and looking at even the export markets so basically we will continue to remain competitive in the market as depending upon the competitiveness in the industry but the real emphasis would be on getting good growth as well as reinvesting back the profits into brand building and distribution penetration.

Siddhartha Bera: Sir, my last question will be on the price hike side, if you can just broadly indicate to us based on the current commodity prices, what will be the price hike required according to you broadly across segments in order to sustain our past margins that would be very helpful?

Anil Rai Gupta: It would be very difficult to tell because the price there is too much volatility in the cost and usually we wait for some time to see the stability in the price and then take the decision. But it will be difficult for me to answer this question on the call.

Siddhartha Bera: Thanks a lot.

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

Charanjit Singh: Thank you for the opportunity. Sir, my question is specifically on Standard and REO brand if you can touch upon how has been their performance and going forward as we have seen more penetration into the rural part of the markets, how do you see these brands more relevant going forward?

- Anil Rai Gupta:** Actually they are quite relevant. In fact for our switchgear category for our wires and cables category because Havells operates for a different customer segment and different channel, Standard continues to remain very strongly focussed on distribution differentiation by having a different channel for more contractor based and regional strength. REO continues to gain from the fact that it is catering to a customer segment which is for affordable housing and so I think the brands differentiation within the overall Havells' portfolio is panning out very well and we see good growth in both these brands.
- Charanjit Singh:** Would you be able to quantify like how large have Standard and REO brands become right now?
- Anil Rai Gupta:** Not able to. We actually look at it as not just as a brand, but within the business category. So, i we usually do not give these figures of how big these brands are because the whole idea is to be able to leverage manufacturing capabilities and design capabilities to cater to different segments.
- Charanjit Singh:** Sir, the other question is on switchgear category. If you look at two year CAGR details, it has shown around 10% growth and going forward as you are talking about real estate so on switchgear segments basically if you can touch upon both residential as well as the industrial side, how that will pan out?
- Anil Rai Gupta:** I believe that going forward this will be strong because as you have seen in the last few years, switchgears sales were impacted both for Havells as well as for the industry. So, I think given the fact that the industrial cycle is also strong as well as residential pickup is also strong, so I think switchgears definitely seems to be benefiting from that in the future.
- Charanjit Singh:** Sir, lastly in terms of B2B, B2G side of the businesses, if you may touch upon bit of because in second half we can see significant pickup in the infrastructure related execution, so how does that lead to this overall growth for us in terms of infrastructure as a segment contributing for us in an overall revenue terms will you be able to quantify? That is my last question.
- Rajiv Goel:** I think we see good traction in both B2B and B2G, industrial, infra, all the segments and also on the property side we see from developers as well. So, I think as we alluded in the switchgear on as well as the lighting side, on the cable side, everywhere I think we see good traction. That is why we remain confident that the growth momentum should continue despite the price headwinds.
- Charanjit Singh:** Thanks Sir. That is all from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Ankur Sharma from HDFC Standard Life Insurance. Please go head.

Ankur Sharma: Good morning. Thanks for your time. Sir, the question on the fans segment, if you could just talk about what will happen in the industry volume growth either in Q2 or the first half and how our market share there has moved in the fan segment?

Anil Rai Gupta: I believe that our focus on market share continues to remain. I would say that here we saw normalization of the inventory levels in the trade and hence not a very high volume growth in terms of fans as we already said about 50% is price led growth. So, I believe because the summer season not being very strong, the trade took time to normalize their inventory levels and now the inventory buildup will start happening from the third quarter and fourth quarter.

Ankur Sharma: What would be our market share and anything on how much you would have gained over the last three six months?

Anil Rai Gupta: I do not think, we have ever given our market shares, but Havells continues to retain leadership position in the premium segment. As you know, Havells does not offer it in the economy segment, which is still about 30%, but our strength and positioning in the premium segment is extremely strong.

Ankur Sharma: Secondly, a very strong growth seen on the lighting side last quarter in Q2 and as you mentioned it is largely volume led. So, is it more of B2B, is it the fixtures picking up now as well. What is really driving? Is that distribution? Just some colour what is driving that very strong growth in lighting for us and do you think it will sustain?

Anil Rai Gupta: As you know the consumer lighting is actually very innovation and distribution oriented businesses, so over the last year, four years, there has seen heavy investments in terms of because as you say Havells is uniquely placed in this industry because we are one of the only manufacturers or sellers who manufacture the entire lighting rather than depends upon imports to the third party manufacturing. So, there has been a heavy focus on innovation. So, there have been very good product additions to the consumer lighting and last two or three years there has been extreme rigorous focus on distribution penetration. So our penetration in the distribution, retail outlets is increasing, our extraction from the retail outlets is increasing because of innovation, our penetration in rural is also helping, lighting go to these areas, innovations in products like inverter bulbs for rural areas and all, so that has helped gain market share in lighting and at a very fast pace. So, I think that is the reason for the volume growth in lighting.

Ankur Sharma: Fair. Just one last one on the switches or switchgear where you highlighted a pickup on the real estate side, so just wanted to understand is this more region specific more say around Bengaluru driven by IT or some pockets in the metros or are you also seeing a very broad

based pick up on the real estate side, even in the Tier 2, Tier 3 kind of markets along with the Tier I market and therefore that confidence that it will sustain there?

Anil Rai Gupta: I would say it is a broad base pickup. In fact, as compared to the last year it is more broad based because last year was more towards Tier 2 or Tier 3 now it is not only in the Tier I cities, but also as you rightly pointed out in the urban areas like IT sector, so generally there is a pickup across the customer segments and the region.

Ankur Sharma: Great. That answers my question. Thank you so much.

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

Sonali Salgaonkar: Thank you for the opportunity. Sir my first question is regarding price hikes. I understand you cannot comment on the quantification of the upcoming price hikes, but could you broadly quantify what has been the YTD price hikes on an average across your portfolio and also how much price hike you took in Q2?

Anil Rai Gupta: It will be difficult for me to give these numbers, because each business behaves very differently. So, again lighting is very, very far removed from switchgears, they have copper, steel, aluminium so I would not want to attempt this answer in this call.

Sonali Salgaonkar: Secondly on the demand, any thoughts on the festive season demand, now that Navratras are behind us and Diwali is in the offing? Also you mentioned that inventory situation is normal, would that be true also for the air conditioners?

Anil Rai Gupta: Sorry for taking your second question. Air conditioners second and third quarter is the lowest season. So, I think you need to pickup air conditioners, you need to see the demand coming from January on this. But as far as festive demand is concerned, usually we have seen that the trade is quite positive at this point of time, and the pickup is strong, so which indicates that the trade is also hopeful as well as the initial signs are positive. So, I do believe that the festive demand will continue to remain strong in the coming years because the early indications are positive.

Sonali Salgaonkar: Got it Sir. Lastly any updates that you would like to share on the PLI scheme and also if any supply chain issues?

Rajiv Goel: We had applied for PLI. I think we are awaiting the sort of regulatory approval for the same. So, I think we will update as we receive the same.

Sonali Salgaonkar: Sir, we have applied for both LED and AC?

- Rajiv Goel:** Only for air conditioners.
- Sonali Salgaonkar:** Sir, the second question is if any supply chain issues?
- Rajiv Goel:** No, we are not facing any significant supply chain. I think, as you know we are one of the few companies who are very well vertically integrated, some challenges are there, but I will not say they are disproportionate.
- Sonali Salgaonkar:** What is our import content currently?
- Rajiv Goel:** That is very low almost 90% we do ourselves.
- Sonali Salgaonkar:** That is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Girish Achhipalia from Morgan Stanley. Please go ahead.
- Girish Achhipalia:** Thank you for the opportunity. My question is on other expenditure. So, if I look at other SG&A and it is difficult to kind of compare it as a percentage of revenues, because you have high inflation right now, so I look at the absolute number and I know there will be some expenditures, which I am talking of outside of the expense which would have been cut back, but when I look at ad spends, they are flat on a two-year basis to 68 Crores even though first half versus first half of 2019. They are down 7%. So, what I want to understand is how sustainable these numbers would be and how should one look at these numbers going forward. Are there some specific savings that you are driving? That is one. Second I just wanted your capex outlook for three years and the third one was around market share for AC, I am sorry if you had already answered this, but in your view, have you maintained market share or lost a little bit of market share? These are the three questions.
- Rajiv Goel:** On the advertisement and sales promotion, we had clarified that there was no...
- Girish Achhipalia:** My question was ex ad spend, if I look at other expenses, so after contribution margin and in between segment EBIT, if I look at other expenditure, what is the impact. That number is flat on a two year CAGR basis on an absolute number and I know as a percentage of sales it is unfair to comment because the inflation two years back was different. So, the current run rate of 268 Crores is that a sustained number and has there been some specific savings that will continue from even in the ensuing quarters?
- Anil Rai Gupta:** As you remember last year we had mentioned that when and COVID happened, we looked at the good cost, the bad cost, there were certain sustained costs takeouts which happened and of course there is an increase over last year wherein the good costs might have come back,

but certain bad costs are out, so yes, what we have seen in the second quarter is sustainable going forward, certain things of course will continue to increase, we will continue to investment on manpower but otherwise generally this is the right SG&A spends for the second quarter. As far as advertising, we have already mentioned that there is no point in looking over last year or last to last year because of the timing, the first quarter had IPL in 2019 and this quarter was a lockdown, so it is very difficult to compare. Going forward we believe that the advertising levels will start coming back to normalised levels. I think there was another question.

- Girish Achhipalia:** Yes we can conclude with AC market share in Q2?
- Anil Rai Gupta:** Again, it cannot be looked at as one quarter but generally in the last one or two years, we started gaining market share.
- Girish Achhipalia:** Anything on the capex outlook for this year and following two years?
- Anil Rai Gupta:** For this year, we estimate around 300 Crores to 350 Crores as a total and next year we shall be coming back with our revised plan by the end of the fourth quarter.
- Girish Achhipalia:** One small clarification and this is the last one. The contribution margin for cables and wires is quite low and I know it is because of the commentary that you made but I want to understand is that is the mix more towards cables and hence it would be slightly more difficult to pass it on or that is not the reason in this specific quarter, for contribution margin to be where it is for cables and wires?
- Anil Rai Gupta:** You are right first of all, cables difficult to pass on because of certain orders already in hand, but actually the mix was more towards, skewed towards wires in this case and that is why we believe it is more of a temporary phenomena that we should start seeing margins improving from here.
- Girish Achhipalia:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Pulkit Patni from Goldman Sachs. Please go ahead.
- Pulkit Patni:** Thank you for taking my question. Just one question; Sir, do you think we could be in an inflation spiral where our channel partners are very well informed of your commodity prices are and that there will be price increases attempted and as a result they could be consuming more than what they would typically do in which case, we could probably see some sort of pre-buying happening which could result in some slowdown in the outer quarters? Do you

think that is something which is possible because I understand all our channel partners are very well aware of how commodity prices are moving? That is the only question I have.

Anil Rai Gupta: Again a very intelligent question, but I think a lot of price increases happened between the second quarter of last year till about first quarter of this year and during the last quarter there have been not I would say there is normalization of inventory level. There will always be some prebuying whenever there is an expectation. For example, the copper went up again and there will be some prebuying happening, rest of those events but then again it takes about 15-20 days to start coming back to normalised level. So, over a longer period of time, I think I would say trade is not only smart to pickup but trade is also very smart to keep their ROCEs intact.

Pulkit Patni: That is it. Thank you.

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

Latika Chopra: Thanks. My only question is on margin outlook. In the beginning of your comments, you had mentioned that you are going to improve margins going forward. I am just wanting to check, is this confidence shared on the gross margin levels and is this driven more by you taking more price hike going forward or are we looking at any other costs even there as well? Thank you.

Anil Rai Gupta: We believe that the kind of raw materials volatility which has remained it is possible that we have not been able to pass on the entire cost in the last few months and there will be certain price increases if the raw materials continues to remain high. But we are definitely hoping and viewing that if there is some sort of settlement there then there could not be any requirement of a price increase which would bring our margins to a little bit better levels than before. Again, we cannot really see quarter-on-quarter because cables and wires is lower because the inventory situation, the buying pattern and all that and I think there also we are hopeful that they should over a period of time come back to normalized levels.

Latika Chopra: Thank you.

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

Achal Lohade: Thank you for the opportunity. It was partly addressed, just wanted to clarify on margins if we look at in the past, our margins range was between 13% and 14%-14.5%, I am talking ex Lloyd at EBIT level while if you see currently last five quarters, we have had between 17% to 19% and the last quarter being at 15%. So, just wanted to check when you say that our

margins would improve from here on, a) what part of the margin expansion is obviously to do with the cost control and given the exceptional situation we are in ? Plus if I were to ask you Sir in a normalised situation, would not some of these costs come back so what is the extent of margin improvement would you see from these current levels?

Anil Rai Gupta: Margin is again I would say that I am a bit surprised by the fact that you want to know what our margin target is. There is no margin target. We always want to grow in terms of revenues and we want to continue to invest in brand building and we have to continuously look at the competitive position. It is not really something like a margin target that we have whether we want to maintain 15%, if that was the case, then probably when it going 17% - 18% we should have curtailed those margins. It never happens like that. It is all dependent upon the revenue growth, the kind of investments that you put in there, the raw materials position at that point of time, but generally there is a range of margin that the company would like to operate in and that range is I would say that because of the unprecedented cost increases, this has been at a lower level and it has been at a higher level during last few quarters, so there has been a range you can imagine and we would try and remain between this range in the coming quarters.

Achal Lohade: Thank you so much.

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

Naval: Thank you for the opportunity. My question is on the Others category if I adjust for 1Q FY2022 the segment has been setting a new base on a YoY basis. So if you can share some insights which category or across the categories which are part of this, Is it firing from all cylinders and secondly what is the margin aspiration also because that is now closer to double-digits, so are we looking for similar to what we have in ECD category?

Rajiv Goel: In the others as you have seen I think most of the categories are doing well particularly the motors have been doing pretty well for us, but I think we have always maintained these Others category takes certain years to start of you see showing up both on the revenue growth as well as on the margins so I believe there is a continuous improvement, which is happening on both counts in these categories and we believe this can only further improve going forward.

Naval: Second question on cables and wires, the way volume growth has been there across the other categories and now as you mentioned clearly there is a strong demand in real estate and construction so will this category also see now equal contribution coming from volumes as volume growth will be stronger?

Rajiv Goel: Well, I think we hope so, but you should be aware there has been an unprecedented growth in the pricing in this business. But we do hope because of the fact that which you also outlined

that there should be pretty decent volume growth in this business as well. So, yes I think the hope is pretty much on the positive side.

Naval: One last on Lloyd's although you have highlighted in detail, how hopeful are you that industry will be able to take a price hike, because one of the players continues to remain very, very aggressive on pricing and market share gains? So how hopeful are you that this season will be normalized for the industry?

Rajiv Goel: I think we will continue to be watchful in the industry. We have mentioned about the hypercompetitiveness so I think we will take it as it comes. So, I do not think we work in absolute, we work in relativity so we will see as it comes.

Naval: Thank you so much. All the best.

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. As you had highlighted there has been an unprecedented increase in the prices across category, so are you actually seeing an impact on the demand or are you also seeing any level of downtrading because of the price inflation?

Rajiv Goel: I think we have addressed this question initially, but I think the consumer demand has generally been very resilient. As somebody asked that the volume growth looks very sort of normalized which used to happen earlier, but I do not think in a decade we have seen such unprecedented sort of increase in the commodity cost, despite that if there is a growth in the business and the demand, I think it augurs extremely well. I mean as a business we feel very enthused and that is the only think we can say. We continue to be very positive on how the businesses should pan out going forward in general for the economy not just for us at Havells.

Bhavin Vithlani: Just a last question from my side. Ex of Lloyds would it be possible to share the channel mix across the general trade, modern trade and E-commerce?

Rajiv Goel: No. We do not share these. Thank you.

Bhavin Vithlani: Thank you.

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

Rahul Agarwal: Good morning. Thank you for the opportunity. Most questions got answered. Just one clarification on capex my sense was we had a higher plan of about 500 Crores each year going

into this year and next year. Obviously you have done lesser 140 Crores in the first half, you guided for 300 Crores, 350 Crores this full year, what would be the revision like? Essentially what are the areas where we have basically revised the capex and related question to that was any update on the AC plant which we announced in February in South India?

Rajiv Goel:

Actually because of this COVID related disruptions in the first quarter as you are aware, the things have been sort of delayed, so there is not much revision except that they got deferred. So, I think it is very normal in this situation. On the AC plant also I think there will be an update. We have applied for PLI as well. I think there will be update as we just mentioned earlier at the end of the fourth quarter, but there has been no significant down revision in terms of our capex plan, because these are the long-term investments, which I think we will continue to do.

Rahul Agarwal:

Secondly, just to clarify obviously the base is quite high going into second half and it is both on topline as well as margins, last year we did about 15.5% but my sense is that is more of a function of lot of discretionary costs that were not actually incurred at that point of time, so going into second half of this year, you obviously take price hikes, the margins can get better on the contribution level and then there is some amount of ad spend which will obviously get incurred, but as Mr. Anil said on TV today morning that we are still looking at 14%-14.5% for the full year, is my understanding correct that we are looking for 14%-14.5% for fiscal 2022?

Anil Rai Gupta:

I must say I do not think I have given guidance on television so I do not know how it was construed, but Rajiv if you can.

Rajiv Goel:

I think on the revenue side, we continue to remain positive. As the other things are concerned, as you say discretionary cost, we mentioned earlier on this call, we have always a good cost and bad cost and I think there is no reason why the good cost should not come back and I think businesses will not be looked at from what happens in Q3 or Q4, these are the investment and cost incurred for the long-term sustainable health of the business. So, I think they will continue to be invested irrespective of what impact, they could have immediately on the short-term margins. So, I think we have already articulated that, but all we can say that we are very positive on the growth and thats something I think what we will definitely target in the revenue.

Rahul Agarwal:

Thank you Sir. Good to see the working capital normalizing and the free cash flow coming back for Havells in first half. Thank you and all the best.

Moderator:

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

Rahul Gajare: My first question is on Lloyds. I remember in the first quarter you had indicated that 27% of Lloyd business came from industrial and infra segment, which is when you had reported contribution margin of about 2%. Along with this, you had also indicated that we were in ramp up for other products like refrigerator and washing machine. So, my question is does this higher share of 27% of B2B business has anything to do with the operating performance that we have seen from Lloyd in this quarter and is it possible you can share the similar number as to how much was infrastructure and industrial contribution for Lloyds business? That is my first question.

Rajiv Goel: Rahul, I do not think we have mentioned about Lloyds. Lloyds does not have this infra segment and all. There is some confusion. This was more for Havells. So I think that is not something for Lloyd standalone. Industrial infra is not very significant part of Lloyd. So, Lloyd is...

Rahul Gajare: I think this essentially was to and more from a B2B business that is where you are indicating that 27%?

Rajiv Goel: This is more for Havells, not for Lloyds.

Rahul Gajare: On my second question on PLI, I remember you all had indicated earlier, you may not apply for PLI, but now that you have applied which are the particular component that you are looking at manufacturing.

Rajiv Goel: That is something we are still applied. We will mention when we get the sort of endorsement from the regulated authority and we have never said that we will not apply because it always that it is under consideration. But yes for finished goods since it is not available, we cannot do that, but there are certain sort of components which you already do internally and we wanted to bring in-house for those we have applied but I think further details we will provide once we get the approval.

Rahul Gajare: Last question is on the container availability. Given the supply chain issues that the industry was facing, is the container availability issue behind or even now we are facing container availability as a significant trouble?

Rajiv Goel: Well, I think it continues to be a challenge, but as we said, we had fairly sort of integrated in-house, for us the incoming container situation is much more sort of lead now than earlier and on the export side, there has been certain challenges, but those were not very meaningful for the business. So we could say that those are not very insurmountable issues for us.

Rahul Gajare: Thanks a lot.

Moderator: Thank you. The next question is from the line of Abhisek Banerjee from UBS. Please go ahead.

Abhisek Banerjee: Thank you for the opportunity. A couple of questions from my side; the first one is with regards to ad spends. Again going back there, just to understand would you be able to share how ad spend effectiveness has changed over the last couple of years? I mean what is happening to the return on ad spends?

Rajiv Goel: What we can claim is that ad spends is shifting more sort of digital, but we continue to be present in all the mediums because it is difficult to say which is getting irrelevant. So, I think, our ad spent is now getting more broad based on the digital channels, on the e-commerce channels, on the TV as well as the print media. Effectiveness I think it continues to be there, but frankly we do not like to track and claim what percentage would be there on it. It is more of an investment for us than just a P&L item.

Abhisek Banerjee: Now coming to the second part of the question is there any discernable change in consumer behavior that you are seeing with regards to consumers being open to new categories because I did some store visits over the last couple of months and I saw a lot of new category in store something like Roomba Robot which cleans rooms and all. So, are you seeing anything of that and is that a countrywide phenomenon or is it just limited to certain pockets of inventory?

Rajiv Goel: Consumer is much more aware than he had been earlier because of his exposure to see to the Internet and what he sees on that global basis. So, again as we continue to respect consumer in terms of his choices and how he wants to upgrade, he wants to feel more comfortable, and wants to pickup things, which will make his life easier and happier. So I think this is something evolution which is happening. It is only improving and that's where Havells is targeting as to how we can come closer to the consumers by putting more and more innovative sort of products for him.

Abhisek Banerjee: Sir, you mentioned a 10% reliance on products, which are not manufactured, which I guess are imported, now that 10% is in terms of value?

Rajiv Goel: Yes. It may be less than 10% as well. It could be something like 6%-7%.

Abhisek Banerjee: That is all from my side. Thank you so much for your time.

Moderator: Thank you. Ladies and gentlemen, due to time constraints that was the last question for today. I now like to hand the conference over to Mr. Naveen Trivedi for closing comments.

Naveen Trivedi: Thank you everyone for participating in this call. We would like to thank the management of Havells India for giving us this opportunity. Anil Ji, do you have any closing comments?



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Rajiv Goel: Thank you everybody. Season's greetings to everybody on this call. Thank you.

Moderator: Thank you. On behalf of HDFC Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.