"Havells India Limited
Q3 FY2022 Earnings Conference Call"

January 21, 2022

ANALYST: **MS. BHOOMIKA NAIR - DAM CAPITAL ADVISORS**

MANAGEMENT: **MR. ANIL RAI GUPTA – CHAIRMAN AND MANAGING DIRECTOR – HAVELLS INDIA LIMITED**
MR. RAJESH GUPTA – WHOLE TIME DIRECTOR (FINANCE) AND GROUP CHIEF FINANCIAL OFFICER – HAVELLS INDIA LIMITED
MR. RAJIV GOEL – EXECUTIVE DIRECTOR - HAVELLS INDIA LIMITED
MR. AMEET KUMAR GUPTA - WHOLE-TIME DIRECTOR - HAVELLS INDIA LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Q3 FY2022 Earnings Conference Call of Havells hosted by DAM Capital Advisors. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Bhoomika Nair from DAM Capital Advisors. Thank you, and over to you, Madam!

Bhoomika Nair: Thanks Steven. Good morning everyone and welcome to the 3Q FY2022 earnings call of Havells India. We have the management today being represented by Mr. Anil Rai Gupta, Chairman and Managing Director; Mr. Rajesh Gupta, Whole-Time Director (Finance) and Group CFO; Mr. Ameet Kumar Gupta, Whole-Time Director; and Mr. Rajiv Goel, Executive Director. I will now hand over the call to Mr. Anil Rai Gupta for his initial remarks, post which we will open up the floor for Q&A. Over to you, Sir!

Anil Rai Gupta: Thank you Bhoomika. Good morning, everyone. We hope everyone is staying safe. You would have reviewed the results by now. Revenue for the quarter grew in mid teens while volumes were flat owing to a strong base and moderation in demand in later part of the quarter. Festive demand was encouraging, ceasing the opportunity we increase the spend on brand promotions which we expect to continue.

Overall, contribution margins were sequentially maintained, high commodity cost continued to impact the margin in consumer durables. Last few weeks have seen the return of COVID-led anxiety in the demand markets but it seems that unlike last year the recovery could be swift. We remain positive on demand resilience. We may now proceed to Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Rahul Agarwal from InCred Capital. Please go ahead.

Rahul Agarwal: Thank you and good morning. My first question was essentially because this COVID wave 3 mid December and early January the price hikes we have take that in third quarter again would have been difficult. Could you explain what are your thoughts, has the price hikes actually already happened in January or we are still lined up for February and what could be the range to cover the margins up here?

Anil Rai Gupta: The price hikes generally were not timed along with the December, January, our expected season was anyway February, March, April so there are price hikes which are already announced in the market and hopefully that should start taking effect from February and March when the season starts kicking in and this will be gradual increase because of the fact that ultimately it has to be absorbed not only by the trade but also by the consumers so it will be gradual increase over the next two or three months; however, I must say here that the raw materials are continuing to show some volatility even in this quarter starting from the second half of December so it is difficult to exactly say how much will be the requirement for the price increases but there will be a gradual price increase in the coming months.

Rahul Agarwal: My last question was on Lloyds, so congratulations for the washing machine unit you have start commissioning in third quarter, how is that ramping up. Commentary in the press release mentioned that there is very high competition in the large appliances could you help with some colour in terms of demand supply and how that is leading? Thank you so much. All the best.

Anil Rai Gupta: Thank you. Well, I think one quarter it is difficult to say but if you see Lloyd's performance in the last couple of years, CAGR has been impressive, last year there was a high base in the third quarter because of the import ban on air conditioners from China and so the trade had picked up extra stocks during the third quarter. We do believe that this year the demand scenario should remain strong because the season should start coming in now. Last couple of years have been very tough for summer products like air conditioners, fans and all. So last two or three quarters are not seasons for us, so the real demand scenario would be known in the coming months and we do believe that not only COVID scare not being there as well as the pent up demand over the last couple of years there should be strong demand in the coming season.

Rahul Agarwal: Perfect Sir. Thank you so much and all the best for the rest of the year. Stay safe.

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**.** My first question is regarding the price hikes again. Sir you mentioned that there will be gradual price hikes over the next two to three months, any quantification on an average how much of that has been announced so far and what is the sustainable margin profile for the business that you foresee post the current fiscal year?

Anil Rai Gupta: The extent of price increase is between 5% to 10% in consumer durables both fans and air conditioners and it could be possible that there could be further price hikes when the season starts kicking in but post this fiscal year, we do believe it all depends lot on how the raw material pan out in the coming quarter; in fact in the third quarter we did see some cooling off in the raw material prices but the fourth quarter has started off again with some volatility so it is difficult to say what kind of contribution margins would be there in these product categories but we do believe that it will be now moving north from here so it should be coming back to normalized levels if not in the one or two quarters but definitely it should be coming back to normalized levels in the next fiscal.

Sonali Salgaonkar: Right. Sir and by normalized levels you mean 14% to 15% for the overall business, is that correct?

Anil Rai Gupta: I was specifically talking about consumer durables and air conditioners so I am not talking about company as a whole. As you have seen that we have been able to come up to the contribution levels in switchgears, cables and wires, lighting and fixtures, some of the past cost increases have been passed on and some of them even have been taking care by the increased production and efficiencies. So in these three businesses we have taken care of the margins, so where the margins were weaker that is where I am saying that things will come back to normalized levels in the next two to three quarters.

Sonali Salgaonkar: My second question is any update on the PLI scheme and also lastly what is the current inventory position in the channels right now especially for our summer products?

Anil Rai Gupta: As far as PLI is concerned we are participating in the air conditioners, PLI for certain component and as far as the inventory is concerned till about end of December I would say these were normalized inventories both for summer products because people were a bit skeptical because of the third wave kicking in. I would say inventories are at a lower level in the trade in January but I think that should start coming back to normal levels from the month of February.

Sonali Salgaonkar: Sir any indication of the possible upside from the PLI that is my last question? Thank you.

Anil Rai Gupta: As the PLI has come for certain components and not for the finished products so it is a very small component and it is not I would say extremely meaningful.

Sonali Salgaonkar: Got it Sir. Thank you.

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

Siddhartha Bera: Thanks for the opportunity. Sir coming back to the Lloyd business we have done a lot of automation and backward integration in our plants and from here how do you expect margins to be on a sustainable basis can we look for at least mid to high single digit margins we have talked about in the past at the EBIT level or how to think abouton sustainable basis?

Anil Rai Gupta: As I have already mentioned the raw material prices is the main issue here and it is not just the cost of production here because cost of production was achieved with the plant coming in so I would say a lot depends upon the demand cycle, demand scenario from here and we believe that the demand should remain strong in the coming summer season and hence the cost increases we should be in a position to a pass on so we should be coming back to double digit contribution margins in air conditioners hopefully in the coming season.

Siddhartha Bera: From the washing machine plant which we have just inaugurated can you broadly indicate what share of revenue to look at, the quantum of revenues we are targeting for the washing machine segment for the next couple of years?

Anil Rai Gupta: The whole idea of washing machines and entry into refrigerators is to make Lloyd a complete brand for consumer durables so its still I would say it is a two to four year journey and it will take its own time. Air conditioners continue to remain the mainstay and the only reason for getting into manufacturing for washing machines is also to again just like air conditioners have a complete control on innovation as well as in cost. So I think the whole idea would be to get a meaningful market share in the next two to three years and hence become a complete portfolio of products in the consumer durable category.

Siddhartha Bera: Sir lastly on the financals, if I look at the other expenses it is down on a Y-O-Y basis about 7% so it seems that a large part of it has been offset by a higher ad spend so current levels of expenditure is sort of sustainable or how to understand this part of the cost, will this normalize also from this level?

Anil Rai Gupta: So you are saying that the other expenses are lower than the last year?

Siddhartha Bera: Yes.

Anil Rai Gupta: I think these are normalized levels I would say going on from here and advertising spends are also coming back to normalized levels as the percentage of sales

Siddhartha Bera: Because other expenses if you look at percentage it was about 14% to 15% two to three years back, it came down to 13% last year and now it is at 10% of sales so with this wondering, we should take this as a sustainable number of 10% or it can revert back to normal level?

Anil Rai Gupta: I think we will have to look at the sequential other expenses and they are same as last quarter. You were talking about two or three years ago expenses there is benefit of volumes also going up so 14% to 15% is a high level of number I think we should be looking at normalized levels from here.

Siddhartha Bera: I got it. 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: Good morning. Thanks for the opportunity. Sir my first question is if you look at Q3, Q4 last year and you are talking about 10% to 15% price hike across product categories, right now when we are looking at the topline growth across categories be it switchgear, lightning and fixtures, ECD, to the tune of 13% to 15% So if you can touch upon the volume growth because I think volume growth has not been there in this quarter. How the volume growth can pan out going forward across these different categories and my second question is on the room AC side. Now room AC we have seen already two seasons getting impacted and Q4 now we will see in January, February restocking happening so how is the channel looking forward to restocking and any major impact you are seeing because of the Omicron on the room ac business? These are the two questions.

Anil Rai Gupta: I think your first question yes in the third quarter if you see the volume growth is flat but we have to see it over two years CAGR and if you were to ask me what is going to be the volume growth from here it is very difficult to say right so we have to see how the demand we are expecting the demand to continue to remain strong and hopefully we should be looking at volume growth and value growth from here so putting down a number to a volume growth is very difficult to give those kind of numbers and as far as room air conditioners are concerned as I have already mentioned last two years have been bad summers for the air conditioner business so the trade as well as the companies are looking at a strong summer going forward hopefully the third wave scare should also be gone by then. So we are looking forward to a strong summer in the coming months.

Charanjit Singh: That is all from my side. I will get back in the queue.

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

Renu Baid: Good morning Sir. Sir my first question is if you can give some more insight on the demand pattern you did mention that there was softness and moderation in demand during the second half of last quarter so more insights in terms of where did this pocket of weakness and moderation come through largely, was it rural urban centric or more concentrated in certain pockets of the market?

Anil Rai Gupta: No. I think the weakness was overall and I would say it was mainly related to the fact that there was uncertainties in the demand in the coming months because of the third wave coming in so the trade suddenly started slowing down the purchases, treasuries and the movements of the customers in the marketplace was also going down a bit so there was uncertainty overall which continued even in the first half of January. I think now the trade is also realizing hopefully this third wave is not going to be a long-term thing and hence things should come back. This is what we are expecting should come back in the end of January or early February.

Renu Baid: Alright Sir. At least there is no concern of slowing demand especially from the smaller towns and the so-called semi-urban or rural kind of markets so we do not have a large direct rural exposure but from those segments of the market. No structural demand concerns are hitless?

Anil Rai Gupta: I would say structurally I do not see any major difference in fact I would argue that the project segments continue to remain strong. There was no stoppage of construction so we are actually seeing that there is no slowdown in the project demand and as far as semi-urban or rural areas are concerned that is also going through the trade and hence there was uncertainty in the overall pickup for stocking for these product categories so hopefully that should again as I said should come back to normal levels in February or March.

Renu Baid: Secondly, can you help us understand what is the quantum of costs underrecoveries or the gaps that we are seeing on the ECD and the Lloyd portfolio especially the RAC portfolio and you have indicated some likely price increases in February and March so what are the quantum of pricing actions we are expecting in the fourth quarter second half if you can give some insights here?

Anil Rai Gupta: I think we may have to at least increase 5% to 10% depending upon each product SKU but I would estimate 5% to 10% increase from here.

Renu Baid: Lastly, on the Lloyd portfolio, there have been significant competitive pressures as in the market leaders and newer MNC entrants. Some of the Korean brands have been back with lot more price aggression so how do we see pricing power or our ability to take on the price increase and pass it on in the market as the summer kicks in and especially in the backdrop that AC spends which were relatively weak in the last or soft in the last two years are now coming back to normalized levels. So especially on the Lloyd portfolio how do you look at the EBIT margins panning out in the next 6 to 12 months while contribution you have said positive but then there are lot of other expenses in the company will incur so where are we looking in terms of operating profitability overall to normalize for Lloyd?

Anil Rai Gupta: You mentioned about competitive industry I think the industry overall was going through a hyper competitive scenario mainly because of last two seasons not going well for the industry so there are manufacturing pressures for every company and hence the cost increases or the price increases which should have happened in this industry was not happening and hence there was a feeling of hypercompetitiveness. I believe in the coming times because the investments into brands, channels will continue to happen from the overall industry there should be an expectation of price increases and whether it is any other brands. So people the fact is that it is brand and distribution oriented industry. It is not really if I reduce my product price by say 2% I start gaining huge market share, not really like a commoditized product so there is a long-term play in pricing. Unfortunately because of the lower demand in the last couple of years the cost increases were not passed on, which we are expecting should get passed on and Lloyd because of the low base we are definitely expecting good growth so there we do not see a major impact of high expenditure eating out the complete profits from contribution so I think we should be in a comfortable position as price increase start happening and volume growth kicks in.

Renu Baid: Thanks Sir and all the best.

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 three questions; one we have seen in case of consumer companies, Lever, Colgate, etc., that there is difference in trade margin offered to, let us say general trade versus modern trade versus e-commerce and there is now after a lot of years we have seen a lot of agitation from the trade also so how do we see that happening possibility in consumer durable industry also and Havell's being the major player how are we prepared to tackle this issue that is question number one. Question number two is obviously Havells is large brand and Lloyd you call out the number separately but what is the revenue contribution of Crabtree and standard brands at this stage and how it has moved over the past two to three years because I guess probably in Lloyd discussion somehow these two brands have taken relatively back seat and it might be just my wrong observation that is second question and third in case of Lloyd what will be our share of voice versus the share of market and how it has helped over the past two years, three years, to gain the market share? That is it from my side.

Anil Rai Gupta: Thank you. As far as the first question goes, Havells traditionally has been a strong player in the traditional general trade and our relationships being extremely strong. We continue to deepen not only the relationships but our penetration into the general trade because we believe that this will continue to remain a very large part of Havells sale, but in the last four or five years there has been a renewed focus by the company on newer channels or alternative channels which are coming up whether it is modern trade, e-commerce and our belief is that we need to go where the customer is going so some of the customer is moving towards modern trade and e-commerce as well so we should be present there. As we have maintained our policies or our relationships with the trade have been extremely strong so we believe in a scenario where we do not let any channel take advantage of the other channel or over power the other channel, there have to be a completely, I would say great relationship amongst each channel so the consumer is not short changed by going to one particular channel as going to other so we have been maintaining that and hence we do not believe in passing on higher margins to certain kinds of channels only because of the fact that they can probably give bigger volumes in one go. So our belief is that we want distributed sales but also we want to be present wherever the channel is so we do not believe in price competitiveness amongst the channel.

Aniruddha Joshi: Our trade margins are more or less same across all three channels is that understanding correct?

Anil Rai Gupta: That is true. Certain channels have higher costs of operations that the company takes care of but for the company it may not necessarily mean lower margins because there is a distribution cost also to channels there is distributor sales so for the company it is not really a higher or lower margin business so we are quite comfortable in selling to alternate channel as well. Crabtree and Standard cater to certain kinds of customers as we have always maintained Crabtree take care of the architectural segment as well as Standard is very focused on certain parts of India as well as contracting segment. So these are sizeable brands and have good growth trajectory over the past few years. Standard in fact is now becoming almost like multiproduct brand within the portfolio and we are looking at a 1000 Crores number in the next one or two years in Standard. We are already doing close to about 600 Crores or 700 Crores business in Standard as well as Crabtree in the architectural segment continues to remain very strong contributing almost 250 Crores to 300 Crores sales. As far as share of voice is concerned we maintained that Lloyd will continue to invest in brand building over the next two or three years and it has helped us in the past as we moved from a certain category of brand to a different category of brand and this expense will continue in the future as well.

Aniruddha Joshi: Sir how much is the SOV Vs SOM, any percentage or any number that you can share in case of Lloyds?

Anil Rai Gupta: Not on this call.

Aniruddha Joshi: 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. My first question is with respect to the lighting business we have seen last couple of quarters have been extremely good in terms of the momentum what

I wanted to understand is in terms of the growth is it driven by the price action and also in terms of the professional or industrial luminaires.

Anil Rai Gupta: So lighting has actually seen less price action as compared to the others because the components going into lighting is not necessarily witnessing a high level of inflation in fact what we have seen is the deflation which is coming in the LED chips that has actually slowed down so no major inflation in lighting business and whatever growth that we have seen is structural growth which is coming through distribution reach enhancement and product additions and also I mentioned earlier that industrial and infrastructure segment has also started kicking in better volumes so the professional lighting business has also seen reach and growth in the last one year so all these contributed towards decent growth in lighting business.

Achal Lohade: Understood. Any update on the PLI for lighting and whenever it comes do you see a substantial revenue contribution from export?

Anil Rai Gupta: No. Again both for air conditioners and lighting PLI is going into components rather than finished products so we are not applying for lighting PLI.

Achal Lohade: Got it. Just one more question Sir. In terms of the product categories or within product categories subsegment is anything missing given the diverse portfolio we already have so any thoughts on the same Sir?

Anil Rai Gupta: Well there are growth opportunities in each product category of Havells, I can give you many examples maybe that is a different discussion let us even taken a business of lightings there is so much of scope to get into hazard lighting, medium lighting, stadium lighting so there is scope of growth opportunities in every business that we are in so I would never be able to say that we are a complete product portfolio company. We have comprehensive product range as against many other brands and our focus has always been to focus on every business rather than just treating it as a brand addition or product addiction but within each product category there are extremely good organic growth opportunities

Achal Lohade: Got it and just last question if may with respect to capex if you can talk about FY2022 and FY2023 what is the capex number one could work with and in which area will it go?

Anil Rai Gupta: We are looking at about Rs.250 Crores to Rs.275 Crores capex in FY2022 and capex plans for FY2023 are still under development.

Achal Lohade: Got it and wish you all the best Sir.

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

Naval: Thank you for the opportunity. I have question on Lloyds what we can understand from the channel basically Lloyds has seen market share gains on YTD basis this year so can you please highlight on the touch points what was that number when you ended FY2021 and what we are right now and any plans for the future in terms of number if you can give that as well?

Rajiv Goel: Actually one of the things, I think the key feature of air condition market in general and then I will come to Lloyds is the last two years we would appreciate has been fairly tough on this industry because for some reason the COVID has decided to strike at the sort of heat of moment or the peak of the season for the air conditioning so I think lot of things have gone slightly haywire and we are hoping that even this wave 3.0 sorts of peak out in January itself so that at least in three years now we have a proper season, summer season for air conditioning and I think the real sort of the metal of every brand would really come out in this season. Having said that there have been certain fluctuations on the Lloyds side, but if you recall we were around 8-9% when we acquired the brand has been sort of going around that for the last few years, but as we speak during this year and starting from early this year we are now around 10% in terms of the market share. The market share I think we are holding also started marginally improving and the reason for that is that our distribution reach has significantly improved. If you recall when we acquired this was purely distribution oriented business, we had limited distributor in every state but now we have not only deepened in every state we have also engaged whether it is ecommerce, whether it is modern format retail or whether it is regional retail so I think the entire infrastructure has been put in place so there have been sort of early signs of success there but as I said I think there should be something which should really prove how the things are going goes and hopefully we will not have further disruption in the AC industry.

Naval: Can you state any number in terms of such points on the offline space?

Rajiv Goel: That is not important and that we will not talk on the call.

Naval: Lastly what is the current contribution from ecom for Lloyds?

Anil Rai Gupta: Lloyd's ecommerce we started with this journey actually very recently. I think one of the analysts before you also asked about the challenges between the online and offline and when we realized that we are still needs to be settled, we decided that Lloyds should only be launched when we are also be able to bring the parity as with the other Havells' product and we are very encouraged about the reception we have got on both the E Com platforms of air conditioners so currently again I would say wait for the season but this has been around

6% to 7% in our online as of now, but again I would claim that this year should give you the right number but otherwise the numbers have been very sort of up and down because of how the seasons are playing out.

Naval: Thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Nitin Shakdher from Green Capital Single Family Office. Please go ahead.

Nitin Shakdher: Good morning to the management. My question pertains to advertising expenses versus last quarter, I think there is a significant bump up on advertising expenses from Rs.51 Crores to Rs.100 Crores? Now is this because of the four new launches, which was slated for this quarter that is one and the second part to this question is what is the share of advertising expenses which goes to the Lloyds consumer business? Thank you.

Rajiv Goel: This has nothing to do with the launches. As we have also mentioned in our commentary this was planned advertisement and we have to come back to the normalized levels. Because of the COVID the advertising expenses also had to be evaluated in terms of the efficacy and because of the holidays the festive season I think there has been general increase and if you go two years back that was the numbers used to do so this is pretty much normalized way. It is nothing which shows the one off or any launches for that and the Lloyd whatever we spend on the Lloyd is duly allocated, so Lloyds will be around almost 5% to 6% of the sales will go into advertisement.

Nitin Shakdher: Thank you.

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

Shrinidhi Karlekar: Thanks for the opportunity. Sir just one question from my end again on pricing. Sir it appears like the company is quite cautious in taking price increases in the consumer facing businesses? I just want to know Sir is it the strategic choice that the company is opting in this high commodity inflation period or is it also a reflection that the competitive intensity in the category that company operates has significantly increased in recent times?

Rajiv Goel: I think it has got to do with remaining competitive so it is neither this nor that. It is the businesses synergy is an art. It is not a science. So as we remain completely sort of on the ground we assess the situation on the ground and sometime when the unprecedented cost increases happen, there could be a lag affect so don't I think that should be attributed to the change in the overall strategy of the management or how the company value system has changed. I think one has to be sensitive to what is going on. I think it is a culmination of multiple factors. I will not just reduce it to one factor if the competition increases. I have never seen in my life that competition has been there less in this country. You are fully aware of the same. The competition will always be there. I think the philosophy of the management has not changed but in unprecedented times you have to take decisions which could be gradual. I do not think it should be limited from the TBDT on the management and the management has become very defensive. We do not think like that and at the right time and at the appropriate juncture whatever appropriate action needs to be taken will be taken.

Shrinidhi Karlekar: That is really helpful Sir and second related like we have seen the prices of product goes up like 20% to 25% so I am just wondering going into next couple of years would your margin that you strive at the contribution level would remain what it was before this inflationary period or there could be understanding that because the product prices have gone up maybe we should have some bit of a lower contribution margin so just wondering pricing decisions, it is fair to say that you will continue to strive the same contribution margin that you used to strive before this inflationary period?

Rajiv Goel: Yes I think that will not change and that is what I was trying to explain. Sometimes the quarterly outlook could blur the long-term outlook of the business so let me just confirm the long term outlook of the business has not changed at all. That will remain the same. Limited play out in few quarters that could be the only difference and sometimes because of seasonality in products. When you look at Dec quarter, when you look at fans, when you look at air conditioner and you look at others sort of products the demand picks up may be that the appropriate time we believe there will be better receptivity in the environment, whether it trade or consumer so one has to integrate these data points these sort of wisdom gained over the years and then one has to take a decision.

Shrinidhi Karlekar: Fair enough Sir. Thank you for answering my questions and all the very best.

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

Latika Chopra: Thank you so much for the opportunity. Most of the questions are answered but two things that I wanted to check with you.Firstly again picking up on Lloyd a little bit more? Clearly you know the industry landscape has been fairly dynamic, probably more aggressive from lot of players and you did overhaul your strategy here a few years ago which kind of benefitted you and now of course pandemic is clouding the overall performance for you, but do you think that there are more structural interventions from your side which are needed whether it is from product perspective or whether it is from consumer engagement perceptive, a faster distribution scale up, would you want the salience of tier three and tier four cities where the penetration opportunities will be significantly higher? How are you thinking about that and also versus two to three years ago when you were overhauling this whole strategy for Lloyd do you think that the sustainable margins trajectory or the medium term for this business is relatively lower or probably more volatile?

Rajiv Goel: Starting with the structural interventions as you rightly mentioned Latika that starting the day we acquired Lloyd and I think we have been largely successful in achieving. Actually that process is over, certainly not. I think that definitely will continue whether in distribution I just talked about it before you asked this question. How we have become an omnichannel. How we have sort of built the distribution system into not only tier one and tier two town, and now it is getting into tier three so that will be ongoing. That work will continue and as I said we be started our own factory. We have the largest factory now at a single place in India, but unfortunately this pandemic you mentioned has stopped everything. Sometime it also questions the effort one has done but I think those efforts are persistent. The efforts will continue. This process will only accelerate. I think we remain very confidant what Lloyd can achieve and yes I think the industry is competitive. Their intentisty is higher than other products categories Havells is operating. I think that doesn't take away the long term sort of attractiveness of this segment and how the homegrown Indian players can play out fully in that so I think that story remains pretty much intact and these kind of competition will continue to sort of grow and go down, but overall we believe the sanity is prevailing and as I think Anil also mentioned in the beginning. I think the competitive scenario which is also changing and I think once we are also getting more and more stronger I think it is something we can play out and use it to our advantage going forward. In term of margin profile yes there could be certain variations. I think one product cannot be compared to the others. Between Havells also there are different products categories with different margin profiles but I think it is a fairly attractive proposition in terms of what overall size this business can achieve and I think some players in the industry have shown there is an opportunity to make the double digit margins and we believe that that is something we should also target and they are pretty much in the realm of achievement. So structurally otherwise we see good growth as well as the margin opportunities in this industry and from Lloyd as well.

Latika Chopra: But you know you said double digit margins are possible but considering you are getting into new categories as well so are we looking at a 7% to 8% kind of band and may be even four to five years down the line or this double digit is a serious long term kind of a thing that you are very okay with that and it is okay if you know your focus is on topline and it is diversifying your portfolio, but just wanted to hear from you what is more prioritized? How does it fit in your scheme of things?

Rajiv Goel: The growth will be definitely the priority and while we talk about the other product categories which we could, somebody does spoil sport. Now that could happen because sometimes the investments get expensed and that is it, but I was talking if you look at the big bulk, which is the air conditioner there is opportunity to be double digit there may be with other category the branding margin could be in the range of 7% and 8%. I think that is something we should be fine with, but yes the large opportunity is I think growing larger and larger in this sort of ecosystem.

Latika Chopra: Thank you and my second question was on the ECD business? If you could give some color in the business mix for ECD segment in terms of key product salience and also is there a way to read how share of the premium versus the mid and mass products is changing in this mix and how do you anticipate this trend to behave considering you are expending this portfolio more in smaller towns and rural and is it correct to assume that the margins profile might not get affected that much compared to where it was at pre-COVID levels despite the company expanding into newer geographies?

Anil Rai Gupta: I would say that as far as the ECD is concerned, the whole idea is to have a good mix. Havells is known for premium products and I would say the right way to look at it is that we are even taking our premium products into the semi-urban and the rural areas as well so whether it is water heaters or fans so I do not see that the margin profile would change a whole lot with our strategy expansion into deeper penetration. What I would say that the major attribute towards reduction in the margins has been the raw material inflation and as and when things come back to normalized levels either on the raw material side or in the pricing side things should come back to better levels from here and hopefully coming back to the pre-COVID levels also so neither there is an expectation that going deeper into rural areas would reduce our contribution levels or the fact that because of this past couple of years the premium percentage is actually going down. I would say that it is stable or going up only.

Latika Chopra: Thank you so much Mr Gupta.

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

Pulkit Patni: Sir most of my questions have been answered but since I have got the opportunity let me just ask one? If we look at say the slightly medium term outlook say two to three years and if you were split our business into one which is related to say new home build and capex like cables, wires and switchgears vs the other which is related to more discretionary spend would you have a rough sense of which of two business in your internal estimates would grow faster?

Anil Rai Gupta: I would say that in the last one year what we have seen that the construction industry has started doing well and this is after a very long period of slow growth in real estate. The other thing is that even the capex cycle or the infrastructure demand has started picking up extremely well so going forward in the next two or three years at least what we felt that the discretionary spend products could outgrow the growth as compared to the more structural products. I would say we might be witnessing similar growth. Now it could be possible that we have different base in different product categories. For example, our fans category might be at a smaller base or small penetration as compared to our matured products like switchgears and cables and wires so that could affect the growth profile, but not necessarily because the demand scenario. I think demand should remain strong in the infrastructure side as well as the real estate side.

Pulkit Patni: Sure thank you 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 again pertains to Lloyds and you spoke a lot about what the target could be in the next 12 to 24 months but I just wanted to touch upon two things. One is from distribution spread point of view where are we currently versus what our end game is in terms of the distribution penetration and similarly on the product launches and all especially on the AC side what do we see in terms of the product pipeline and all that we could launch? Are there like any obvious gaps, which we think is kind of impacting our market share gains outlook and all?

Anil Rai Gupta: I think as far as Lloyd is concerned the distribution is very different from what it was a few years ago. We are far more deeply penetrated. We are present in the A category chain, A category outlets which are the modern format chain and last one year or so we are aggressive in the online space as well. So I think from a distribution point of view Lloyd is a far more available brand as compared to what it was two or three years ago; however, just like in any mature product category of Havells this is an ongoing journey whether it is in the FMCG or FMEG this is an ongoing journey and distribution will continue to be enhanced over the next few years. As far as product portfolio is concerned in air conditioners Lloyd is a complete portfolio of product categories. There will be innovations which will continue to happen but I do not see that Lloyd is in a position where we cannot compare ourselves to any other major brand in terms of product offering. Yes the new product category in washing machines and refrigerators will continue to enhance our product range. To be a complete play in those categories so that will happen over the next one or two years but in air conditioners Lloyds is a complete play.

Ashish Jain: Just one followup on that when do you think Lloyds can do a double digit contribution margin on overall portfolio basis. I am not looking for exact timeframe and all but given the scale we are seeing in washing machine, the cost that we have currently based on that if you want to give a sense when Lloyds can see more sustainable number?

Anil Rai Gupta: I think Rajiv has already mentioned that for us the major focus will be market share expansion, product deepening and we will continue to invest towards brand building and distribution penetration in Lloyd, so whether it is a double digit margin there or a high single digit margin I think that is not something our focus is where we believe that Lloyd is a part of a very large industry. In fact I would argue that it is larger than the electrical industry and hence there is a huge opportunity for a brand like Lloyd to grow there, to grow market shares in this category so I think for the next two or three years our focus will be on market share expansion and we are decently profitable business and I am not committing myself to a double digit or a higher single digit margin here. We will continue to invest as Rajiv has mentioned in brand building, in product offering.

Moderator: The next question is from the line of Rahul Gajare from Haitong Securities. Please go ahead.

Rahul Gajare: I have two questions. Could you highlight the volume growth in the cables business, in cables and wires that is first question and the second question is on the switchgear segment. Historically this segment used to have about 35% plus margins with housing demand now picking up do you see the company reaching the earlier levels or is that the margin that you will apply? These are the two questions.

Anil Rai Gupta: As far as cables and wires are concerned the volume growth is flattish as compared to last year and in switchgears we definitely see growth coming in. Now I cannot say whether it is 35% or 38% but we have been achieving very high margins in this business. As construction industry and real estate demand continues to go up there will be project demand which will come in which will may be put some pressure on the margin front, but then overall I do not see that making a meaningful difference because we are participating well in the real estate segment as well, so the margin is a bit different than the complete retail side but overall I do not think that will make a meaningful difference.

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

Kunal Sheth: Thank you for the opportunity. My first question is pertaining to Lloyds. As far as our washing machines are concerned which were recently launched? What is the market position that we are targeting there. Are we targeting it at par with the market leaders in terms of pricing or we will be at a discount?

Anil Rai Gupta: It is always a journey in every product category and brand and Lloyd I would say is in the journey of becoming a complete portfolio and rather than discussing too much about the pricing a lot depends upon the complete portfolio and how strong are you in distribution. How strong are you as a complete I would say as the range of the product category. Finally, the trade as to accept your products and the consumer has to accept your products so it is journey and it will take two or three years for us to get established in washing machine and refrigerator.

Kunal Sheth: My second question is pertaining to pricing, so while currently we are in an inflationary environment, I just wanted to get you view historically once the raw materials start to cool off do we get to retain some of the benefits or most of the benefits has to be passed on to the market? What is your experience?

Anil Rai Gupta: First of all we have to see whether we are able to pass on the entire costs also or not. Again depends upon product category to category. In products like cables and wires or in customer segments like projects a lot of times mostly you have to pass on, both on the increased side as well on the decreased side but yes possibly there could be sometime of some retention of the margins when things cool off but over a long period of time these things even out. So I would say if there was meaningful reduction when you say cooling off yes that will also have to be passed on to the consumer.

Moderator: Thank you. The next question is from the line of Amit Mahawar from Edelweiss. Please go ahead.

Amit Mahawar: Hello Anil Ji and hope everybody at Havells is safe and healthy first of all. Sir I just have one quick question. Last maybe around two years if you see broadly in the COVID phase, it seems our electrical business has significantly ramped up and we have become far more stronger on categories like switches, branded wires. Roughly can you indicate what kind of market share gains would have accrued to us in the past two years as we consolidate our position in these segments, you can also give us some quarterly remark here Sir of what we did here on these two segments?

Rajiv Goel: I think we have strengthened our share but it would be difficult to address it in the pandemic sometimes it is difficult to articulate what has gone. I think let the stabilization come and then I think it will be a meaningful discussion but clearly I think we have been benefited both by unorganised to organised transition, benefited how Havells has responded in the crisis, whether it is dealer or, how Havells supply chain has been very resilient in these times. So these things have contributed to a better performance by Havells and I think the things are only going to look better in our view because of the property upcycle which has started after almost a decade, we believe that momentum is maintained and a few things have happened because of Omicron and all others, last part of Q3 has not been sort of that great, but I think sales will come back and the company which are sort of committed to the long term development of the business, I think that will gain and that is why we believe watching sort of attribute to maybe two products I think that is something we need to be evident across the product categories so maybe I think in a few quarters, we could have a more meaningful discussion in that but clearly I think we believe we have a good change of outperforming.

Amit Mahawar: One last quick question parting question. In terms of next five years of capital allocation strategy for Havells can I say that it will broadly go in all the divisions in equal proportions specifically I am talking about electrical segment versus the ECD and Lloyds or we have some specific attribution in terms of capital allocation and capex that we do for the next five years? Thank you.

Rajiv Goel: Capital allocation will be very prudent. It will depend upon various stage of product category but I think every product category will get its due share and that will also depend on the demand scenario and category what kind of maturity is there, so there cannot be a single answer to this but yes I think our capital allocation will be benefited to our stakeholders whether it is shareholders or customers or even our own manufacturing, like prudence what we have executed in the past will also be maintained in the future. Thanks.

Amit Mahawar: Thanks Rajiv.

Moderator: Thank you. Ladies and gentlemen due to time constraint we take that as the last question. I now hand the conference over to Bhoomika Nair for closing comments. Over to you Madam!

Bhoomika Nair: Thank you Steven. I would like to thank management of Havells India to give us this opportunity to host you and I would like to thank all the participants to join us. I would now like to invite Mr. Gupta for his closing comments. Over to you Sir!

Anil Rai Gupta: Thank you very much Bhoomika for organising this and thank you for spending the time. Thank you everyone. Stay safe.

Moderator: Thank you. Ladies and gentlemen, on behalf of DAM Capital Advisors that concludes this conference. Thank you all for joining us. You may now disconnect your lines.