ANIL GUPTA/HAVELLS INDIA

In next 2 years we hope to see significant expansion in profit

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INTERVIEW

Electrical goods maker Havells India is looking at double-digit growth in 2016-17 in the lighting segment through better cost efficiencies and pricing, said Anil Gupta, chairman and managing director. He said that while the lighting business has stabilised after witnessing "transitional issues" in the first half of the previous financial year, the cables and wires segment has gained market share. The company plans to retain its 20% stake in Sylvania for at least a couple of years, Gupta added. Edited excerpts from an interview:

You clearly surprised the street by reporting highest ever margins of 14.9%. But are these sustainable? You had earlier guided for a 14% Ebitda (earnings before interest, taxes, depreciation and amortization) margin. Would you revise it upward?

I think 14-14.5% is sustainable because we definitely see that we will be looking at some good growth opportunities in the current year. The raw material situation continues to remain the same and there is a slight increase there.

There is a lot of focus on cost efficiencies in business, so we should not be seeing any valuation in the margins in the current year. Of course, this particular quarter was helped a bit by the inflow of funds due to the divestment but going forward we will continue to see sustained margins around 14-14.5%.

One of the factors that aided the growth was the lighting business which saw 23 percent growth this time. What led to this growth and also what kind of run rate can we expect going forward?

Lighting business saw a lot of transitional issues in the first half of the year because a lot of transition was happening from conventional lighting to light-emitting diode (LED) lighting but once that is stabilised, now we are looking at good growth. There were low base in the previous quarter also, so that has also helped but definitely we are looking at good growth even in the current year; this 23% might be an aberration but we are looking at a high double digit growth in lighting segment.

Cables and wire business is your mainstay but that was a slight dampener, 7% growth, in fact we have seen only moderate growth in this business for quite a few quarters now. Should we expect any acceleration or does it continue to be mediocre?

Cables and wire business cannot be looked as only a value growth because we have to see the volume growth and how it is behaving in terms of market share.

However, we clearly believe that we have gained market share. If we take away the factor of the lower commodity prices, the volume growth has been between 14% and 20% between domestic wires and cables. So volume growth is still very high and value growth is muted because of lower commodity prices.

So Sylvania woes are now behind but what about the remaining 20 percent of that business? Are you looking to sell that as well and also what is the strategy with regards to the other loss making international units?

As we mentioned the loss-making business is a transition phase between the acquisition and the final transfer of fund raise and these were also on the path of profitability.

So in this particular quarter all the countries are profitable, in fact that is the reason the consolidated results are showing positive profits. So none of the countries now left with us are loss making at least at the present moment and 20% stake would continue to remain for the next couple of years.

What about the surplus cash on your books? Even after paying out dividend, the company is sitting on a sizeable cash balance. Will you plan any acquisitions or are you looking at bringing in some major capex?

We are looking at an enhanced capex this year looking at the next three or four years of growth. We are setting up two more plant for enhanced capacity. One in the south and other in east of India and apart from that still that does not mean that around ₹250-260 crore capex but we are also retaining this cash as a war chest for looking at possible acquisitions in the future.

Kuni Takahashi/Bloomberg

Confident stand: *Anil Gupta.*

Are you in talks with anyone and when is the earliest we can hear about this?

Nothing to report of at this moment but we are definitely looking at existing space only in the four businesses segment which could contribute in terms of brand, product or technology. This is the time to focus and we will continue to scout for such opportunities.

So good growth for FY16 but what kind of Ebitda growth, topline growth in '17?

It's still early days to say that but overall because of the expansion of brand, product or network reach—this was one year where our growth was muted but we continue to invest in brand and dealer expansion. I think we will be ripping in the benefits of those investments, so we should be looking at double digit growth in the coming year and because of the focus on cost efficiencies, pricing, we should be able to see decent growth in profits as well.

Will you be able to grow your profits at the pace of 20 percent as we saw in this quarter or do you expect the growth to taper off a bit?

I am not saying that we are looking at 20% more or less. I think this would not be the right time to give a proper guidance on the sales growth at this year. We should report after quarter one.

Let me come back to the margin expansion. You said that there will be significant margin expansion in FY17. Could you quantify that? What are the average margins you are hoping to enjoy in FY17?

Ebitda margins this year were around 14.2-14.5% compared to 12.5% which is roughly around 200 basis point increase. So, our topline this year should at least grow by 10-15 percent and we are looking at at least 100 basis point increase in the Ebitda margins. So, with the depreciation, interest, everything coming down now, in the next one or two years, all our focus is basically on the bottomline expansion. Ebitda margins have been healthy for the company, 14% to 16% depending on quarter to quarter. But it is really the bottomline that one needs to focus on now. And that going forward in the next two years should see a significant expansion.

You have yarn margins that are more or less stable. They have gone up mildly. Can it go higher from here and what us exactly the yarn price trend. Also, tell us, crude prices have been increasing, so what kind of an impact can it have in your margins?

Crude prices, basically dictates the polyester fibre prices for us. Last one year, polyester prices were more or less stable. They have come down in fact from around levels of ₹90-95 to around ₹75-80. But going forward, in a rising market when crude prices increase, you have seen this in 2012-2013, etc. when the margins are going up, when the crude price is actually going up, the yarn prices, we are able to always pass to the customer. And same is the case with cotton yarn. So, for us, in the yarn business, it is a fair mix of cotton yarn, cotton melange yarn, polyester viscose yarn, 100 percent polyester yarn, all of that. So, within the mix of all of these, one thing always balances out the other. For yarn going forward, for margins this year were around 11-12%, it should definitely cross the level of 13% with all the focus on value added yarn.