



“Havells Limited Q1 FY2021
Earnings Conference Call”

July 27, 2020



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Moderator: Ladies and gentlemen, good day, and welcome to the Havells India Limited Q1 FY2021 Earnings Conference Call, hosted by B&K Securities India Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during 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. Kunal Sheth from B&K Securities India Private Limited. Thank you, and over to you, Sir!

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

Anil Rai Gupta: Thank you very much. Good afternoon, everyone. Welcome to the earnings conference call for the quarter ended June 2020. Hope you would have reviewed the results by now. We gradually and cautiously resumed activities in the first week of May, and we gained momentum in June. Currently, all our factories are operating at full capacity, adhering strictly to hygiene norms. COVID-19 significantly impacted the performance during the quarter. However, we have seen decent recovery across categories post May 15, 2020.

Consumer portfolio within all segments recovered earlier and better than the industrial portfolio. The recovery could be attributed to robust supply chain, disruption in unorganized sector, market share gain and a spirited working from the local team. COVID-led disruptions continue to affect the demand market, owing to local shutdowns and containment norms. However, there is a positive sentiment amongst the entire organization, and we will continue to build on the momentum gained during the last two months. External environment remains uncertain, and we remain alert and agile to the ground developments. We wish and hope that pandemic intensity slows down and normalcy is restored at the earliest. Thank you. 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 Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra: Thanks for taking my questions. My first question was that your B2B and B2C businesses seem to have done more or less similar in the quarter, I am talking of ECD versus, let us say, Cables and Wires and Switchgears. So, are you seeing similar recovery trends in the month of June, July also in those B2B versus B2C businesses? And if you could throw some light on the recovery on the B2B side?



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Anil Rai Gupta: Well, actually, in all our segments, we have a component of consumer sales or residential sales and professional sales or industrial sales. So the Switchgears, we have almost 70% coming from consumer or residential sales, whereas the rest is coming from industrial sales. Similarly, in Cables and Wires, also, we have 50% sales which come from domestic wires as compared to industrial. So overall, if we divide the overall company's numbers, which we have always maintained this around 70% from the consumer side, there, we have seen better traction and better recovery than on the industrial, professional and the government sectors.

So there is a differentiation between the consumer sentiment and the industrial sales. But it is improving. In the month of June, it was improved over the month of May. So hopefully, that should also come back soon in the coming times.

Arnab Mitra: Okay. And my second and last question is that, do you attribute some part of the June 4% growth to restocking, either directly in your dealers or in the end retailer segment or some sort of a pent-up demand and therefore, would you anticipate that this could actually slip a little bit from these levels as you go ahead?

Anil Rai Gupta: So I would not say that it is completely stocking. In fact, I would argue that the stock levels in the trade are lower as compared to the pre-COVID levels. Because most of the trade network is also focused on collection as well as maintaining a healthy working capital. But there was a mix of many things. Pent-up demand could be one of the factors, could also be the fact that the supply chain for unorganized sector was disrupted during this time. But also market share gained because of our better entrenchment of distribution channel in the Tier 2, Tier 3 towns and the rural areas, so it is a combination of factors. So hopefully, going forward, we should continue to maintain these market share gains or even try to improve that in the coming times.

Arnab Mitra: Okay. Thanks. That is it from my side. All the best.

Moderator: Thank you. The next question is from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora: Hi Sir. Just two questions from my side. We saw the cash flow is negative from the operations this time, which we are seeing is largely coming from the creditors' decline, not much movement seen on the receivables and inventory. If you can throw some light on that? That is my first question. Second is, though till FY2016, Havells generally used to get, I am talking about the listed entity Havells, we used to get the first default guarantee to avail the facility in terms of financing. Then in FY2017, we started discounting receivables on a nonrecourse basis. But now we are seeing, just to show your receivables on a better side, it is the promoter entity, QRG investment now, which is somewhat where the promoter owns 11% stake in Havells is now somewhat giving the bank guarantee. Why not a listed Havells, why it is going to a promoter entity and giving banking facility the guarantee here? It is more to do with optically your receivables should look good? If you can throw some light on that second question as well?



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- Anil Rai Gupta:** Okay. The first question was related to?
- Nitin Arora:** Sir, on the cash flow, we are saying the credit...
- Anil Rai Gupta:** Okay. On the cash flow, we have seen no movement on the receivables side. There is definitely an increase by almost about Rs.350 Crores, which also could get built over a period of time, in fact we took some time to catch up with the demand situation. But I think there is a significant reduction in the trade payables. As a company, we took a conscious decision in the end of March related to the payments, related to the vendors, the dealers, credit notes, the employee payments as well as the statutory payments. So it was part of our strategy as well as, let us say, our decision to pay all the vendors in time. So we took that decision and today, all the vendors have been paid in time as well as there are no overdues. So that has significantly reduced our trade payables from Rs.1400 Crores to Rs. 700 Crores, which will get rebuilt once the production levels come to a certain level and so I think the production levels are increasing and that will increase the trade payables as well. So going forward, you will see that this negative cash flows will again get adjusted. Rajiv, would you like to take up the second point?
- Rajiv Goel:** So on the second question, you see regarding the promoter entity, see, this is the arrangement which the banks have done with them. Havells India is not engaged in the same and around a couple of years back, I think banks have looked at who can sort of support on the receivable side. So I think this is the arrangement with the bank and the QRG Group, Havells is not engaged into the same.
- Nitin Arora:** Sir, but it is a promoter entity and QRG investment does not have any revenue, so if bank is discounting the receivables of your distributor or a dealer, the recourse guarantee is given by Havells. Is that the right way to look at it?
- Rajiv Goel:** QRG is not discounting any receivable, first of all. Second is the QRG, the comfort which the banks have with QRG, Havells is not doing any collection on their behalf or any relationship on this account between QRG and Havells.
- Nitin Arora:** Okay. All right. Thank you.
- Moderator:** Thank you. The next question is from the line of Amnish Aggarwal from Prabhudas Lilladher. Please go ahead.
- Amnish Aggarwal:** Yes. Sir, my question is regarding recovery. If you look at your sales, particularly both on the consumer side as well as Lloyd's, June has been 4% and 8% on the positive side. So how confident are we of sustaining this number and improving that in future? That is my question number one. My question number two is that if you look at Lloyds, where the sales growth has been lagging the industry growth, so how are we currently placed in Lloyds and what are your plans going forward?



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Anil Rai Gupta: I cannot say that we are confident that we can sustain this growth. The future, at least, the next two or three months, we will have to play as things come. We have shown in the last couple of months that we are very agile. Our factory production and supply chain systems are very strong, and we have gained market share. But it all depends upon how the market pans out in the next two or three months, how the situation in various markets regarding the containment zones or the lockdowns continue to remain. So, it is difficult to say at this stage whether we can maintain this growth level. What we can say with confidence is that the company has worked hard in the last two or three months, as well as the investments, which we have made over the last few years, paid off after the lockdown opened. Hopefully, this should continue to pay off and help us gain market share in all the product segments that we are in. So that is something which I can say from our side.

Amnish Aggarwal: Okay. Sir, my second question was on Lloyd's?

Anil Rai Gupta: Yes. On the Lloyd's side, I think things have turned around since the factory started production. So, our dependence on the imports, which were there last year has gone away completely. So, we started this production since January this year. Lloyd has actually grown faster than the market. So, what is your reflection of growing slower than the market could be of the previous time when we were dependent on imports, and there were increase in custom duties, increase in dollar-rupee comparison. But since the starting of this calendar year, things are much more positive on the Lloyd side as well. So, our growth has been better than the market.

Amnish Aggarwal: Yes. Sir, if I can squeeze one more, in terms of our overall portfolio, how much is our dependence on the import of finished products from, say, China or any other country?

Anil Rai Gupta: Well, as we have always maintained that our company is more and more dependent on production in India, we are a Make in India company. We have done enterprise risk management analysis, and if everything stops from China today, the risk to our sales could be in this calendar year, 5% of our sales. But I think our teams are working on alternate sourcing and possibilities of that. But this is a doomsday scenario if everything stops from China. So that is the risk to us.

Amnish Aggarwal: Okay. Thanks a lot Sir.

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

Bhavin Vithlani: So, the first question is on Lloyds. Could you highlight the investments expected over the next one to two years and especially in categories like Refrigerators that we have spoken about in the past? The second question is the structural changes in the underlying business post the COVID, so in the recent media interview you spoke about online, offline, omni-channel, so something on that will be useful. These are my questions.



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Rajiv Goel

So, on Lloyd investment, as you asked, you are aware, we have completed the investment in the air conditioning manufacturing. I think this is something which evolved over a period of time. Now there could be a substantive opportunity, both domestically and export also. But I think this is something we will continue to monitor. As far as other product categories are concerned, we are not setting up the whole manufacturing there, but we are only working on the ODM basis, where there will be exclusive tools designed in-house and manufactured by the third parties. So, there we do not expect any significant Capex, maybe Rs.240 Crores to Rs.260 Crores on the Lloyd side. However, I must caution here that as the things improve, there could be certain opportunities we may evaluate. But as and when it is firmed up, I think it will be shared with the company and the stock exchanges. On the second one, Anil, would you like to pick up the structural changes?

Anil Rai Gupta:

So basically, we realized at the start of the time of the COVID that there will be changes in consumer behaviour. So, we have relooked at our online strategy. As you know, the company has had a quite a good balance between our offline and online strategy and nothing at the cost of the offline channel have we looked at expanding the online channel in the past. So, our continuance in the marketplaces like Amazon and Flipkart and the others will continue to grow. In fact, it will grow faster in the coming times because of let us say, the new focus, as I said, of the consumer behavioural changes. What we also realized is that while the consumer is coming more and more online, they still want a more localized fulfilment of their needs and services. So this was a unique model that we started as a O2O model, the online-to-offline, wherein our existing channel, which is the physical channel, the retail network gets onto our e-store, and they start offering the same products from their local stores to the consumers once the consumer comes on our e-store and places the orders. So already, we have onboarded many of our dealers who have started putting the SKUs available with them. We will be propagating our e-store along with other marketplaces also going forward in the coming times. But this will be a sort of a physical model, where physical deliveries, physical services will be catered to by the local store, but the order placement, payment, everything will happen online.

Bhavin Vithlani:

Thank you so much for taking my questions.

Moderator:

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

Venugopal Garre:

I just wanted to check, we have raised quite a bit of debt, I think, Rs.1800-odd Crore of credit line, and we are still net cash to the extent of about Rs.800-odd Crores. So just wanted to check why are we incrementally raising another Rs.500 Crores through the commercial paper? I do not know whether that has been approved or not. What is the fear because of which is raising so much liquidity? Because ultimately, you will bear the cost of whatever raising, right? So, even if I look at your Capex or your negative operating cash, which you said will become positive, you do not really need this kind of a money. So, what is that is a driver for this? Is it more for the risk

that you see going forward? Or is it an opportunity that you are seeing in the market for which you are building these cash reserves?

Rajiv Goel:

So Venu, this started when the pandemic started. You are aware that we have not been taking loans, okay, and you are aware of the past history also. We have been net cash positive and not taking loans in the balance sheet. When the pandemic hit the country, everybody was scared as to what is going to happen. Maybe today, in the hindsight, one could argue that you should not have raised loans. But you see, everybody was looking to sort of shore up the capital at that time. We have not raised capital, we said that taking some amount of debt will always be sort of prudence. I think it is coming clearly from prudence. As far as the additional raise is concerned, it is largely to replace the source. So yes, we have taken some loans, which were very expensive at that time. We believe now we have an opportunity to raise at a lower cost. So that is why the CP has been taken. It is a very short-term. It is up till the March 2021, which we believe, and we hope fervently that by that time the uncertainty in the market should subside and I think there should be better clarity on what the things are headed. So, I think this is the abundant caution which we are taking, but we are not further expanding the debt level. This debt level will remain the same. Only thing, the CP will substitute the short-term loan, whichever we are carrying in the balance sheet. As situation improves, maybe in a quarter or two, I think eventually the loans must go down. But this is something out of prudence, we believe we should continue at least till March 2021.

Venugopal Garre:

Sure. One small question, I think, has been asked even earlier, in all your segments at this juncture, given that you have seen recovery of the lows of April, based on your discussions with the dealers, retailers and eventually who they sold the product to, where do you think there is more chance of sustainability of demand? I am assuming your ECD portion probably would still be more sustainable than your Switchgears, Cable? Or am I wrong at looking at these businesses that way?

Rajiv Goel:

I think, in general, the consumer portfolio, you are right, is holding well. When you say consumer, you are aware, even Switchgears could be consumer because it goes to smaller towns and smaller houses as well. We are not something in a real estate kind of a supplier to the DLF or these kinds of people. So, which means it just shows wherever our products are well distributed it goes to sort of smaller towns or the consumers or small contractor, there, we have seen a traction, and this is what is reflecting in the numbers as well. Clearly, the slowdown is more pronounced on the industrial side whether it is power cable, or it is professional lighting. On the consumer side, largely, it has been holding well. Yes, within that, ECD would be slightly better. But as of now, all categories, what we classify as consumer by maybe you are perceiving them, Havells has shown good traction during the last two months and we believe this could continue, I must bring that this time also that there is a consolidation, which is happening in the industry in terms of move from unorganized to organized, which is the company which is more stable in terms of sort of supply chain and I think this is where our own factories definitely deliver a great help to us, which is a company which is more responsive to the dealers and things like that. So, I think



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there is a lot at play at this time and that is why we feel that if the situation on the ground remains fine because of this COVID, hopefully, it should subside, I think we believe there are good opportunities for Havells going forward.

Venugopal Garre: Thanks a lot.

Moderator: Thank you. The next question is from the line of Akshay Bhor from Premji Invest. Please go ahead.

Akshay Bhor: I have a couple of questions. First one is on the cost side, we have seen a pretty impressive cost control, especially on the other expense side. I can completely understand the current scenario does not warrant you to spend as much either on advertising or some of the other overheads as well. But are you looking at some of the cost heads from a different lens? And is there a possibility that part of it could be sustainable? Any examples that you could share in terms of cost cuts that could sustain over the next one or two years? And then second is on the employee cost as well, kind of surprising that sequentially as well there is some decline. Again, is this kind of level sustainable from here on?

Anil Rai Gupta: So obviously, this quarter is a very different quarter, and we have looked at from many lenses, not just one or two new lenses, but many new lenses we have put on and just looked at each and every cost structure and I think what we realized is there are certain good costs, bad costs, which have developed over a longer period of time in the organization. So really, this quarter is not comparable in other costs per se because there could have been some rental waivers from some of the landlords, warehouse rental waivers. Definitely reduction in expenses in warehouses and some factories, electricity expenses. So those are the kind of expenses definitely will come back once the production levels and all those things are coming back. But there would be newer ways of working as well. So even for example, let us say, marketing communications, there would be a need to relook at the way the consumption of media will happen in the future. So there will have to be a need to really ramp up the kind of physical spaces we need for offices, so just to give you an example, there are reductions in rents going forward as well for existing offices or even reduction of some space because of the new ways of working for people, travel expenses, for example. So, some of it will definitely come back once markets open up but some of the travel to small towns and all that could partly be replaced by e-visits and e-meetings also. So, there will be certain costs, which will not come back and certain costs will come back. The second question about the employee cost. As you know, by the fourth quarter, we have done some sort of cost rationalization in our employee cost. The first quarter is a bit of an aberration because there were some voluntary surrender of earned leaves by the employees. So that is not really a like-to-like comparison. But going forward, if you compare it to last year, there will be improvement in productivity of the employee cost.

Akshay Bhor: Understood. That is very helpful. Just on the online channel side, what kind of contribution comes from there? What kind of traction you have seen over the last two months? More

importantly, what are your thoughts generally on the online space? And how do you want to kind of nurture that channel over a period of time?

Anil Rai Gupta: Well, last month, we saw doubling of the sales in the online channel, but still represented only about 3% of our sales. It is still a small number. I think I just mentioned in my early part of the conversation as well, but we definitely look at online as a change in consumer behaviour and this will continue to grow in the coming time. So, we definitely feel that we should be looking at similar market shares of what we have in our off-line channel to go forward and have it in each and every product category in the online channel as well. So that is something which will be our focus, maybe a renewed focus post COVID as well. So that is definitely company is doing this as a new behaviour.

Akshay Bhor: Great thanks.

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

Sonali Salgaonkar: Sir, my first question is regarding the demand trends right now. Could you please highlight what kind of demand trends we are witnessing right now, both in terms of primary and secondary sales? Channel inventories, especially in the summer products? And are we seeing any down trending any of the categories?

Anil Rai Gupta: Sure. The demand trends are there, which are shown in the numbers. So, it is difficult to say that we can predict the demand trends going forward. But whatever is reflecting in the numbers, that is the reality of the demand numbers. I do not think that the primary sales are more than the secondary sales. In fact, whatever has happened, the secondary sales have actually been better than even the primary sales because the dealers have reduced their inventory levels to be more disciplined in the financial aspect. So, I would say, post COVID, the number of days inventory in the system probably has come down, maybe even in the month of June, not April and May, but in the month of June and going forward in July, the number of receivable days for our channel also might have reduced as compared to pre-COVID time. So, there is a better financial discipline, and hence, I would say that the secondary demand is a bit better than even the primary demand.

Sonali Salgaonkar: I understand. Sir, and by when should we expect our creditor base to normalize, considering that this quarter was an aberration?

Anil Rai Gupta: I think very soon because all the factories are operating at a full capacity. So, when we operate at full capacity, the purchases from the vendors will also be at full capacity. Hopefully, this trend continues within the next few months, this should come back to normalized levels.

Sonali Salgaonkar: I understand. Sir, my second question is regarding the rural versus urban split, approximately what percentage of our sales and distribution reach is emanating from rural India?



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Anil Rai Gupta: Well, as you know, we started our rural activity just about a couple of years back and when we say rural means extremely small towns. So, it is not really villages, but extremely small towns, population below 50,000 and so that started. It is early days to say, but right now, it is only about 1.5% to 2% of our turnover. But in the month of June, it doubled as compared to pre-COVID times. So again, there could be a pent-up demand as well, and we have to see going forward. But there is a renewed focus for the company on rural side as well. So, we will be putting in more investment in expanding in rural.

You specifically asked the question about down-trading. I do not see that happening in a big way. I mean this is what our belief is always that in electrical products the consumers do not want to really down-trade because ultimately many of the product categories are safety-related as well. So, we do not see much of a down-trade happening.

Sonali Salgaonkar: And in appliances?

Anil Rai Gupta: Appliances, too. We do not see any down-trading happening. In fact, I would argue that because there are more people who are spending time at home more than before, so in fact, they would be up-trading their purchases in appliances.

Sonali Salgaonkar: Understand. Sir, my last question. Sir, you mentioned that you have gained market share in certain segments, so which could these segments be? And lastly, when are we planning to launch the new variants or product categories in Lloyds?

Anil Rai Gupta: So we see market share gains in many product categories, most of the product categories, I would say, because the fact is, as Mr. Rajiv Goel also mentioned that we have seen a disruption in supplies of unorganized sector and so I believe that whether it is switchgear, residential switchgear or domestic wires or consumer appliances or even consumer lighting, we have seen market share gains in every product category. Sorry, what was the next question?

Sonali Salgaonkar: Sir, new launches in Lloyds?

Anil Rai Gupta: Yes. New categories in Lloyds. So, we have already launched our Refrigerator, and this will continue to be launched in various models till Diwali. So basically, we are now a full portfolio company, including LED panels, washing machines and refrigerators.

Sonali Salgaonkar: Sure. Thank you Sir. That is it from my side.

Moderator: Thank you. The next question is from the line of Atul Tiwari from Citigroup. Please go ahead.

Atul Tiwari: Yes Sir. Thanks a lot. I have just two questions. Yes. So sir, for the previous two quarters, you have reclassified the segmental results, the unallocable costs have been now allocated. So could you throw some light on what are the changes there? And why earlier it was not being done and on what basis it has been done now? So obviously, it does not impact your overall profitability,

but it does impact your segmental margin. So, some bit of color on that. That is my first and my second one is on this first loss guarantee being given by the promoter company, how much is the amount of receivable outstanding today covered under this scheme and does it cover all of your dealers or only some of your dealers?

Rajiv Goel: Atul, on the first one, starting this year, we have renewed the entire segments and if you will also observe, there is some other segments, which we have created because we realized there are a lot of products, which do not strictly comply with the definition of particular segment, which was also hindering a very deeper down sort of allocation of expenses, which in fact I think one of the sort of requirements of a lot of investors like you as well, but, otherwise, they do not become too much comparable. So I think this entire sort of review flew up that we need to take out certain products which are not, as I said, strictly compliant with the requirements of a particular segment and then once we do that, it was easy for us to go sort of deeper and almost allocate, I think except 1%, 1.5%, I think I said all the costs now have been allocated to the respective segment. So, this, I would term, is more of a reclassification. There is nothing else which has been done in this.

Atul Tiwari: Okay and sir, on the second one, how much would be the receivable amount outstanding?

Rajiv Goel: Yes, we need to redo when we will review this and get back, but there is no specific data and all which has been covered in this. How much exactly outstanding margin is something that we will get back to you after we look at the accounts.

Atul Tiwari: Okay. Fine.

Moderator: Thank you. The next question is from the line of Venkatesh Balasubramaniam from Tokio Marine Asset Management. Please go ahead.

V Balasubramaniam: Yes. Just a query on the Internet channel. Correct me if I am wrong, but the company does not sell anything directly on the Internet channel. It is your dealers and retailers who are doing the sales, correct?

Anil Rai Gupta: You mean the online e-store of Havells?

V Balasubramaniam: I am basically talking about something like Amazon or Flikart.

Anil Rai Gupta: No. We sell directly to Amazons and Flikarts also.

V Balasubramaniam: But if you do sell directly on Amazon and Flipkart, is it that in a way, competition to your existing dealers? I mean the dealers are okay with that?

Anil Rai Gupta: No. But we have 10,000 dealers and 150,000 retailers. So, each dealer is a competitor to the other dealer as well. So, another channel which comes say, tomorrow, Reliance Digital is also selling



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our products, Croma is selling our products, A dealer is selling our products, B dealer is also selling our products, so Amazon can also sell the products. So, I think your question is relating to whether there is any statutory pricing by the online channel or not? And in our case, that is not the case because we have created a price discipline amongst all the channels, so we want to have an omnipresence, but not by one channel killing the other.

V Balasubramaniam: Okay. So, on that related note, when Havells as a company is directly selling on the online channel, it does not have to share the dealer margins with anyone. So, do you at least reduce prices by that amount or typically, your sale on the online channels will yield you higher margins than that what you sell through the dealers?

Rajiv Goel: See, let me just clarify. Anil, can I just do? On the Amazon, Flipkart, these are bought by the distributors, you see, who are dedicated, like it could be Cloudtail for instance, in the case of Amazon, for that matter. So, if your question is, are we the primary dealer on the site of Amazon, Flipkart? No. So let us say, Cloudtail, you must be aware of Cloudtail, I am sure. So, Cloudtail buy from us, and then they do it on the Amazon, but we are representing on Amazon through Cloudtail or anybody. There are other specific distributors, which also sell on the Amazon. So, in that sense, and as far as the costs are concern, there are costs related to the online also. More importantly, for us, there is no price differentiation, whether Cloudtail buys from anybody else. As far as the consumer price is concerned, the price is consistent between the offline dealer, online dealer. Whether we save on online dealer or not, I do not want to get into it. More importantly, our pricing to both of them is the same. There is no difference. They are just like any other dealer for us.

V Balasubramaniam: Okay. Just on the same thing, why do you need a Cloudtail to sell on Amazon and Flipkart? Why would not you sell it directly?

Rajiv Goel: See because we do not have that infrastructure, that is why Anil mentioned O2O. So, what we are trying to promote is O2O. Ultimately, we want to leverage the strength of our offline dealers on the online. So, O2O model is that if somebody comes and buy on my website, then the execution will be done by the offline dealer, whether it is in Trivandrum or Chennai or, let us say, Chandigarh. So, this is ultimately what we were heading to. But as long as the customer is coming on Amazon and Flipkart, they are just like any other channel because Cloudtail is interested in buying and they do more predictability. We cannot sell so many individual customers. That is not how we are structured. The only way we can service to a retail investor is through a O2O model, which we are now executing.

V Balasubramaniam: Okay. Thank you very much.

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



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- Achal Lohade:** My first question was, if I read the info update, we have said that June has been about 104% of last year June. Just wanted to clarify, are you talking about the entire company or only the B2C part here?
- Anil Rai Gupta:** No. The entire company.
- Rajiv Goel:** The B2C is around 112% in June.
- Achal Lohade:** Understood. Second question I had was with respect to if you could provide any color in terms of how the different geographies are doing in terms of recovery or the impact? And also, in the same context, the contribution from the metro or top 10 cities, how that has behaved?
- Anil Rai Gupta:** So, the contribution from metro cities has come down in May and June. Again, this is all related with the lockdowns and how markets are opening up. As I said, some places two days a week markets are closed, some places weekends are closed. So everywhere, things are different. But definitely, in the initial stages, Tier 2, Tier 3 towns and rural areas have performed better than the larger towns.
- Achal Lohade:** Right and in terms of the geography, in terms of East, West...
- Anil Rai Gupta:** Geographically, it all depends upon how the intensity of pandemic is and again dependent on the lockdowns. Otherwise, there is no distinction between demand pickup. I would say, West is taking the most of the time because Maharashtra is a large part of the West. Maharashtra, Pune, Nagpur that area, that is taking more time to develop. Otherwise, South and East and within East, also, if you see, Kolkata is slow as compared to the rest of the states. Again, within North, if you see Delhi is slow as compared to the other parts of North. So, it all depends upon larger towns have seen lesser pickup of sales.
- Achal Lohade:** Got it. Just a clarification on the loans part. I see that we have had Rs.358 Crores of long-term borrowing in this quarter. So, what I understand is in terms of the trend tables, you chose to pay early and the commercial paper part. But if you could elaborate a little bit about rational for the term loan?
- Rajiv Goel:** Term loan was taken, Achal, at the time of when the pandemic started. And so probably you wanted to log in the long-term loan as well. And I think we have the Capex already, which we have done, and it is in the offering as well. So, it is just tying up the finances. As I said in the hindsight, one could argue whether we needed for this timeframe or not and the larger part of Rs.500-odd Crores is basically short-term end of the cycle, which will be replaced.
- Achal Lohade:** Got it. Thanks so much for answering the questions.
- Moderator:** Thank you. The next question is from the line of Vinod Bansal from Franklin Templeton. Please go ahead.



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Vinod Bansal: A couple of questions, and my apologies on repeating one of those earlier ones. If you could comment on, is there any data on this first 15, 20 days of July, which was still in the June recovery or there has been improvement in condition in early July?

Anil Rai Gupta: Well, I would say July is reflecting some amount of increased lockdowns and so the intensity has slowed down in the second half of July or maybe after the July 10, 2020. So, things are not in the same intensity because many of the markets still are under lockdown. So, it has to be seen. Hopefully, those things will start improving soon.

Vinod Bansal: Right. Also, you spoke about primary and secondary more or less being in line. Do we have any data or our own checks, which could indicate how is the final consumer sales, tertiary sales in the month of June have been vis-à-vis secondary phase.

Anil Rai Gupta: So, we do not have any tertiary sales data except in a couple of products like air conditioners and water purifiers. Air conditioners, generally speaking, tertiary sales have to be better than the primary sales because at the end of June, anyway, dealers do not want to keep high levels of stocks in exiting season. So, the tertiaries, we are regularly in touch with the channel and the channel definitely indicates that they are trying to keep their levels of working capital low in this kind of a time so not to be faced with any financial difficulties. So, I believe they first reduced their inventories and then only started picking up material.

Vinod Bansal: Right and also, you mentioned that, as such, they have reduced inventories on pre-COVID levels. But if you look at from March, when we did not sell much in the month of March, so channel inventory was quite low towards the end of March. Would it be right to say that at least Q-on-Q the inventory might have seen some upward correction, some normalization and high inventory in channels versus March, not necessarily versus June last year?

Anil Rai Gupta: Right. So, you have to see that the lockdown happened on the March 22, 2020. The build up of major inventory happens in the end of March, which then affects the primary sales in the month of April. But my point of the fact that the inventories are lower than the pre-COVID levels, are more reflecting on the Jan-Feb, early March kind of level. So, if the inventory was X today, it might be X minus 10 because, as I said, people wanted more discipline on the financial working capital. March anyway is a surge, which happens in the end of the month, which never happened anyway. But that would have gotten ironed out at least by the end of June.

Vinod Bansal: Right. So yes, so basically, the very low we saw in March in terms of channel inventory might have been corrected by June now? Also finally, you spoke about gaining market share from unorganized sector. I was thinking about it a low, as a fairly popular brand, we call out those mass premium, but the price points are distant from unorganized. You think people have shifted from the lower price unorganized to a little more premium brands, yours or other players in the same category? Because I always thought they were at very different price points, not just a question of a brand versus unbranded? Is it a real gain coming from there?



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- Anil Rai Gupta:** It is less of price and more of supply chain. As you might have seen that the major uptick in demand happened in the Tier 2, Tier 3 towns. Because of supply chain presence there, the unorganized sector does better and it is a general notion that because it is low-priced as well. But even in these areas, we have seen our brand gain momentum. That gives us confidence that it is a reflection of brand not being too price sensitive and the supply chain of unorganized sector getting affected because many of the factories are closed and availability of labour, cash. So that reflected in the uptick in demand in the Tier 2, Tier 3 towns.
- Vinod Bansal:** That is useful. Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Pulkit Patni from Goldman Sachs. Please go ahead.
- Pulkit Patni:** Thanks a lot for taking my question. Sir, you actually mentioned to somebody else's question that rather than down-trading, there is up-trading, and that is something we are also seeing when we do our dealer checks. But the other thing that we are seeing is that there is a lot of hesitation of the dealers to actually place orders given the uncertainty, what we are hearing is that dealers are literally placing exact orders of what they expect they will be able to sell. So, my question to you is, do you anticipate some change in the distribution or some sort of larger credit periods being given by you, I mean, and the entire industry to make sure that the sale momentum starts again? Or do you anticipate that this is just maybe a hiccup right now because of the uncertainty and things should get back to normalcy and no trade terms, etc., are likely to change over the medium-term?
- Anil Rai Gupta:** I doubt that trade terms will change over the near term. In fact, it is better discipline. If dealers are not stocking heavily, they are not paying companies in a longer period of time, so definitely a better discipline and companies who have production facilities, better supply chain availability, they will gain from this. I hope this does not go back. So, I hope the dealers maintain prudent levels of inventory, so they do not lose sales, but they do not also overstock, and they keep paying in time. So, with the credit terms, if anything, should be improved over a period of time, hopefully, and the inventory levels should also be better. So again, this is probably expecting too much, but at least that is what we should hope for.
- Pulkit Patni:** Sure Sir. Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Vishal Biraia from Aviva Insurance. Please go ahead.
- Vishal Biraia:** Hello. Thank you for the opportunity. Two questions. Sir, when we look at the rural and semi-urban market, what is the difference when you compared to the urban markets when it comes to the margins that you offer to the dealers or the working capital terms?



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- Anil Rai Gupta:** No. We offer similar margins, same margins, except the fact that there may be distribution charges, which we have to bear in terms of very far off parts on areas. But otherwise, the pricing and all is common all across the country.
- Vishal Biraia:** Thank you.
- Moderator:** Thank you. The next question is from the line of Shrinidhi Karlekar from HSBC. Please go ahead.
- Shrinidhi Karlekar:** Thanks for taking my question. Sir, you commented that generally organized players are doing better in post-COVID world given supply chain disruptions, so would you also say that the larger and stronger brands are doing much better, particularly given channel is getting destocked and maybe dealers and distributors would like to stock products, which are much more fast moving and having stronger brands and that is getting also reflected in better performance by branded company?
- Anil Rai Gupta:** Yes. I would agree with you.
- Shrinidhi Karlekar:** Okay and Sir, just one more question, if I may. So there seems to be a good traction in the washing machine category. It is a very small category in overall Lloyd portfolio. Are you also seeing the similar traction for you as well?
- Anil Rai Gupta:** As you rightly said, it is a very small portfolio for us. So, our sales and traction are more dependent on our availability of various models. Thankfully, in the last 1.5 years post the acquisition, we have invested heavily in our own. Otherwise, we were totally dependent on China and small manufacturers. Now it is our own products, own design. We do not manufacture ourselves with ODM manufacturing, but now we have a complete line up. So, we may not be in a position to gain a whole lot of the post-COVID increase uptake in the washing machine, but definitely, we are now on the right track to make it a reasonable product in the range of Lloyd.
- Shrinidhi Karlekar:** Thank you for answering my question.
- Moderator:** Thank you. The next question is from the line of Chirag Shah from CLSA. Please go ahead.
- Chirag Shah:** Just on an industry level, can you just, please, comment on the business of Lloyd's? What do you think of channel inventory right now? And when do you think we should have inventory depletion? Also, we had a major disruption in the TVs portfolio earlier. And now I know that this quarter is not a large big quarter for TVs, but how do you see the competitive intensity looking ahead? And also, the Lighting business, do we see the competitive intensity reducing and margins improving over there going ahead?
- Anil Rai Gupta:** So, on your first point on the Lloyd part in terms of channel inventory for the competition, I cannot say much, as I have already said that in our product category, the channel has destocked



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during these last two months, also because of the season going away. So, the AC season, generally, people do not want to keep high levels of inventory at the exit of the season. On the LED front, because our market shares are very small in this field, we have decided that we will continue to be in this field, but also more as a product filler for the entire range of Lloyd and so hopefully, we should be decently growing in this business, but also maintaining its profitability and not be worried about the vagaries of the competitive intensity in this area. So, it is more of an internal strategy right now for us as compared to an external competitive strategy. And thirdly...

Chirag Shah: I agree with you on the LED part, which is what you have highlighted earlier as well. But what I am trying to see is whether the LED portfolio is not hurting the overall profitability of Lloyd's anymore?

Anil Rai Gupta: Not anymore. It was more of...

Rajiv Goel: So LED will be more of - you have known that we will try to play it on the sites. So that will not be the mainframe sort of push from Lloyd. Our large focus will be ACs, washing machine and refrigerators.

Chirag Shah: Thank you.

Moderator: Thank you. The next question is from the line of Bhoomika Nair from IDFC. Please go ahead.

Bhoomika Nair: Good evening Sir. Sir, just wanted to understand and delve a little deeper into this June growth of 4%? While you did mention that LED lightings have done better than Cables and Switchgears, particularly because of the B2B weakness. If you can highlight what percentage of levels are and what is the kind of trajectory in July? And a related question you mentioned was that we would have gained market share because of lack of material availability from unorganized or some other players, so, are these recent market share gains that we are seeing, are they sticky in nature or as their supply chain kind of normalizes that their material availability to the market kind of normalizes, will this revert back to our normalized market share and they would come back into the system? Or do you think that these are more stickier market share gains? If you can throw some light on the quality of the growth and in terms of this market share aspect?

Rajiv Goel: So Bhoomika, you see we have given June, which are the facts we have shared with you. We believe, as I said, it could be a larger shift from unorganized to organized and then it depends upon within organized who has gained. I think it is too early to comment who has gained what. But look, there has been a moderation in the demand. So, one cannot deny that. I think there has been growth for the organized because unorganized supply chain are fairly disruptive. However, we see the large events which happened, whether it was demonetisation or GST and all this. Normally, you see there is a gain for the organized sector. So, I think that is something, frankly, we can comment as of now. As you said, we need to see how things play out in the next few quarters. As far as July is concerned, again, I think it is too early to comment on how things are



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happening. I think Anil alluded earlier during this call that there are a lot of regional shutdowns. You are fully aware, as you track the country everyday basis that the disruptions are still there. So, I think, frankly, this is something we need to watch out as we go. All we can say, I think, we are very well organized in terms of agility, in terms of robustness, in terms of the inquisitiveness in our teams, both at center and the local level. So, whenever there is opportunity, I think we are clearly agile to capture that. I think that is something, frankly, one can say at this point of time. The external environment continues to be fairly hazy and uncertain.

Bhoomika Nair: Thank you very much and wish you all the best.

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

Naval Seth: Okay. So, my question is on Lloyds. As you have stated that there was a market share gain, can you elaborate a bit anything region specific? Because last year, if you look at there was a market share loss in West India specifically because of some distribution disruption what you had seen. But now market share gain, anything to reflect on region specific, something on that part?

Rajiv Goel: I do not think specifically we have talked about the market share gains for Lloyd, which is the organized sector group. Definitely, our growth is superior than last year and we believe our factory inauguration, the fact that so many dealers visited, there is a general sort of affinity for Lloyd in the market. That is what we perceived. I do not think we can really cut it across what geography and all. But in general, I think we are fairly enthused by the response the Lloyd has got in the last two months and continues to do even during the month. So, we hope this will continue to sustain.

Naval Seth: Okay and is it fair to assume that your inventories would be largely similar or lower than last year? Is it fair to assume in Lloyd?

Rajiv Goel: Inventory was slightly lower, but you have to appreciate that the April, which was the biggest month for AC industry, I think we lost that. I think the moderation you will see over the next few quarters because now we will also shift from CBU to our own factory. So, I think we have to wait for the end of the year to see that sort of variation.

Naval Seth: Okay. Thank you and all the best.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to the management for closing comments.

Rajiv Goel: Thank you, everybody, and we just hope everybody stays safe.

Moderator: Thank you. Ladies and gentlemen, on behalf of B&K Securities India Private Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.