

Havells India Limited
(July 20, 2018)

Moderator: Ladies and gentlemen, welcome to Q1 FY'19 Conference Call of Havells India Limited hosted by Batlivala & Karani Securities India Private Limited. We will start the call with all participant lines in a listen-only mode. There will be an opportunity to ask questions after the management comments conclude. Please note that this call is recorded. If you need assistance during the conference, please signal an operator by pressing '*' and '0' on your phone. I would now like to hand the conference over to Mr. Charanjit Singh. Thank you and over to you, sir.

Charanjit Singh: Thanks, Yashashi. Good Evening, everyone. We would like to welcome you all to the Q1 FY '19 earnings call of Havells India. The management today is represented by Mr. Anil Rai Gupta -- Chairman and Managing Director; Mr. Rajesh Kumar Gupta -- Director of Finance and Group CFO; Mr. Rajiv Goel -- Executive Director. I would like to hand over the call to Mr. Anil Gupta for his initial remarks, post which, we will open up the floor for Q&A. Over to you, sir.

Anil R Gupta: Good Evening, everyone. Thank you very much for joining the call. FY2019 has started on a very encouraging note; there is secular growth across all parts of verticals in the first quarter. It has been partially supported by lower revenues and GST disrupted quarter of the last financial year, still the growth is well disbursed and seem sustainable. Switchgear business has also grown after several quarters, led by exports as well as domestic markets. ECD continues to do well, though it was most affected in the last year in the first quarter and also aided by Lighting and Fixtures. Lloyd has completed a first one full year since its acquisition. We are greatly satisfied with its progress and positively disposed on its underlying potential in the long run.

To summarize, we are quite optimistic on sustaining growth ahead in both revenues and profitability for the rest of the year. We can now proceed to Q&A.

Moderator: Certainly, sir. Ladies and gentlemen, we will now begin the question-and-answer session. We have a question from Navin Trivedi from HDFC Securities. Please go ahead.

Navin Trivedi: Sir, if you can just give us some idea about the breakup of the ECD business in terms of how new products are spanning out and if you can share about how Fan market and your growth in the same segment?

Anil R Gupta: Generally, we do not really give separate numbers but as we can understand that a large part of the business is Fans and Fans has shown a very decent growth in this quarter as well. Not that we have not grown well in the last year, it is just that GST disruption had been the maximum in the consumer durable category in the last year and hence we can say that this growth is partly aided by low growth in last year. But overall I would say that Fans growth has been decent, our focus on leadership position in the Premium Fans category has really led to this growth; first quarter I would say that the market has done decently well but I think I definitely feel we have gained market share both in the premium category and we continue to do well in the Appliances category, we mentioned last year that we have put a lot of corrective steps in the Domestic Appliances business and that is now showing decent growth in this. So overall Consumer Durables, all product categories including Fans is showing good growth.

Navin Trivedi: Sir, is it possible to share our market share in the Fan segment?

Anil R Gupta: I think overall, we are definitely around 15%. In terms of Premium Fans, we are definitely above 40%.

Navin Trivedi: Is it fair to say the Premium segment contributes around 18, 20% of the Fan market?

Anil R Gupta: Around quarter of the market.

Navin Trivedi: If I can ask a question on the Lloyd business, considering the erratic summer you reported 14% growth during the quarter. So how this thing has pan out well for you considering the season was expected to be very weak for the season, so if you can just give some highlight on that part?

Anil R Gupta: First of all, there is a product mix of all the products, air-conditioners, LEDs and washing machines; however, as you can understand that it is largely led by airconditioners. There has been a lot of efforts put in, in the last year on Lloyd, also on the brand building the channel expansion, getting into newer channels, alternate channels. So a lot of it is also due to that and also the changes in the energy ratings has also helped pick up the ASPs of the product as well as consumer also going towards higher end products size inverter-based model. So, in effect, the change in the brand perception in the premiumization of the business is definitely helping. However, I really would not say that we still are small player in the segment, there is a lot of scope to grow and we definitely should give Lloyd a breathing space for showing long-term potential. So I think major focus is on putting investments in Lloyd in the coming years.

Navin Trivedi: If you can share your volume growth in our RAC AC during the quarter?

Anil R Gupta: That I think we will have to look and get back to you.

Moderator: Thank you. We have a question from Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora: Just two questions; not asking you on YoY where you still have base in your favor and next quarter also base in your favor, Q3 where you start catching up with Rs.180, 190 crores profit. My first question is related to Lloyd. As you mentioned we are still a small player in the market. When we saw Videocon leaving out the space which used to sell almost 12-14 lakh units, is it not a chance for you to go ahead, acquire that market rather than increasing your price higher than Daikon and Voltas and still fighting for now because everyone captured those units. So just want your thought on that?

Anil R Gupta: I think there are certain discrepancies in the fact that you are stating in terms of numbers that the competition is doing as well as our market share or our pricing. I think the best is maybe we can take it offline and you may want to spend some time on the overall strategy, there is some discrepancies which I do not think I want to spend time on this call.

Nitin Arora: Okay, sorry, it was a GSK data; it was not mine, so they must be having a discrepancy there. My second question is relating to your base business sequentially. When you look at QoQ, you still sort of 3% decline barring Lloyd. I just want to understand especially from the ECD segment and Lighting because you said in Q4 there was some one-off, in Lighting grew very fast and sequentially I think it should be normalized correct me if I am wrong. Which are the categories you are looking in this year which will let us say Rs.50 crores category or less than Rs.100 category which can eventually become Rs.150 or Rs.180 crores category, just need your thought on that, that is it? When we add your Lighting, Switchgear, Cable and your ECD, QoQ segment wise it is a 3% decline when I add these four.

Anil R Gupta: There is always seasonality and this year in fact the decline is lesser than in the past few years. First, Q4 is actually highest sales because of the year closing and a lot of government projects coming into play at that point of time and seasonality for some products. So I think there are various initiatives by the company, there are many new product categories which are for example we have launched Personal Grooming a year ago, we have launched Water Purifiers just very recently, Solar is a

product category which is new, Reo is a segment which is now established with the distribution base all across the country, now we are pushing more products categories to that and getting into rural and semi-urban segment. So I think there is huge opportunities for organic growth in any product category. So I would not say next few quarters but generally speaking there are many-many opportunities for growth.

Nitin Arora: Any top two-three category where you are looking at, let us say Water Heater?

Anil R Gupta: Water Heater we are already in the top three.

Nitin Arora: Absolutely. That was an example. Apart from Water Heater any particular category where you think you can grow much faster than?

Anil R Gupta: Domestic Pumps, Water Purifier, Solar, Air Coolers. There are so many product categories which have a potential to definitely grow at a much faster pace than the overall growth.

Moderator: Thank you. We will take the next question from the line of Mr. Inderjeet Singh from Macquarie. Please go ahead.

Inderjeet Singh: My first question is regarding the Switchgear growth. Would you want to kind of comment as to what was the driving factor beyond that, is there early signs of real estate starting to already kind of get better for that market?

Anil R Gupta: So I would say the Switchgear is a mix of growth factors. I think generally speaking I would not say there is a huge revival in the real estate but stabilization of the distribution segment, the GST was a very great move by the government to bring clarity amongst the entire trade network, but it has taken some time for the trade also to get used to new regime. I think that has stabilized and that has given good parameters, good opportunities for growth in the trade segment. I think as a company we have always maintained that we are extremely strong in the retail segment and which was affected over last few quarters after GST. So it is coming back, it is definitely helping us. Lower base of last year has helped us. Exports growth has also helped us. Certain product categories like Switchgear and even Motors, the change in the efficiency rating and Industry Switchgear doing well. So it is a mix of things and combined together. I still would take some more time to say that the real estate sector is coming back. This is definitely the largest part of our Consumer Switchgear. We will be happier if this kind of growth continues few quarters, then we can say that things are coming back.

Inderjeet Singh: My second question is regarding Lloyd. How do you characterize kind of progress till now -- would you think how far are we from a stage where we can start say even normalizing the capital deployed in that in terms of working capital and those kinds of things and where are we in terms of eventually putting up a plant for the air-conditioning business in that?

Anil R Gupta: First of all, I would say journey till now is more than satisfying. It had no surprises, things have even turned out to be better than what we thought, things are turning out to be better in terms of deal of implementation of certain initiatives that we are doing. So till now it has been absolutely satisfying. Look, the nature of the business is that is where there will continue to be seasonality, as long as sizeable part of the business will be air-conditioner where there will be seasonality in this business and we are looking at smoothening of the working capital in that sense, working capital is very efficiently deployed in this business. When the factory comes up? Yes, it can help in reducing the inventories to a certain extent, but the seasonality of the business will not change the whole lot.

Moderator: Thank you. We have a question from Venugopal from Bernstein. Please go ahead.

Venugopal: Sir, you mentioned on the Lloyd business the impact of FX, rupee and stuff. Just wanted to understand two things where rupee depreciation was so bad in the last two, three months rather YTD. Is there any residual risk do you see from here in terms of potential future impacts this year because you would be sort of buying internationally whatever the exposure that is one? On the creditor side, because you have a fairly long creditor days with some of the Chinese suppliers as you said. What kind of FX exposure are there which are potentially going to hit you when you actually do the cash settlements and how does that accounting work, so that is my first question?

Rajiv Goel: Venu, both the questions though you said is one question has basically answered these restatements of liabilities at the end of June quarter. We have already taken the full exposure of all the creditors which have remained unpaid as on 30th June. So to that extent it is still not crystallized, it will get crystallized when its actual payment is due. But as on June 30th, whatever the day of the dollar, we have taken the hit which is reflected in our financial accounts. You could argue this could be something for the year, depending on the FOREX movement.

Venugopal: So it is already reflecting in your P&L? My second question is Lighting business. Because Lighting was the business you were seeing ongoing fairly well, really sharp growth in the last couple of quarters YoY perspective. Now here when I look at that sequential decline... the reason I am saying sequential decline because you made a commentary saying that we are actively sort of not looking at EESL now, it is sort of trying to move out of that maybe of pricing pressure or whatever. So does that really in anyway impact how you look at growth for the segment this year, that is the second question?

Anil R Gupta: Two parts to your question again; one is the sequential part and the other is the EESL part. I think we have always maintained even in the past that we were asked this question why we are not very aggressive about EESL. We always maintain that we will be looking at businesses, we normally do not do a lot of government business, it is only the businesses where the technology is understood and there is not a huge number of players like fly-by-night kind of operators and it becomes more like a commodity. So we have taken businesses in the past which has requirements on these and that is why our focus on the EESL business can be choppy, we have always maintained that, and so we have looked at decent margin business in the EESL. So it is not that we want to get away out of EESL, EESL will continue to remain as a great potential business. Again, wherever technology will be asked for rather than commodity, so there we will participate and continue to do the business. But we have to look at Lighting business as a separate other than EESL. So the Lighting business...

Venugopal: Is there a way to quantify the last year's EESL number sitting in the Lighting business?

Anil R Gupta: Whatever is the others category, that is all EESL business. I think we will get back with that number. As far as the second question goes on a sequential part, normally in professional, it is one part of the business which is almost 40, 45% of this Lighting business, there we see a spike in the fourth quarter and that is because the government projects coming in during that time, closure of many CAPEX projects, government projects and hence any shortfall that you see over the fourth quarter and the first quarter can be termed as seasonality. So it really cannot be seen sequentially we have degrown. I think overall Lighting continues to be extremely exciting opportunity for growth for us and also it will be sort of guiding factor for us for growth in the semi-urban and rural sector where we will take Lighting distribution in these areas and then followed by other product category. So I think overall with the LEDification, with the government impetus on LEDs, definitely this will continue to offer great opportunities for growth.

Moderator: Thank you. We have a question from Mr. Balwinder Singh from Canara HSBC Insurance. Please go ahead.

Balwinder Singh: If you can talk a bit about a sharp margin improvement in consumer durables segment and also one other segment that we have seen this quarter and also on the raw material side what outlook can you share?

Anil R Gupta: I think margins over QoQ might not be a right reflection or comparison because as I said Consumer Durables is what impacted the most in the first quarter last year. With the lower volumes, the margin also got affected and hence I would say if you say sequential margins for ECD, we have been continuously improving. As far as raw material goes, there is a business of Cables & Wires which get directly impacted than any increase or decrease in the commodity prices normally get passed on to the consumer. If there is a time like that there is a sharp increase or decrease, then there could be hit or a gain, otherwise generally speaking it gets passed on. There is an inflationary pressure of the commodities on the businesses and hence a lot of focus on rightly pricing the product in the market but also a lot of focus on the efficiencies within the factory. Overall, I think the fact is that we have been able to maintain margins despite an inflationary push on the commodity prices, it is also reflecting on the overall efficiency of the company and that we will continue to maintain that.

Balwinder Singh: Specifically, on the Cables segment, we have seen margins improved on 13.5% last year to almost 17% in this Q1?

Anil R Gupta: You have to see it sequentially; sequentially there has been a constant improvement in this segment, so I think overall 15, 17, 18% should be the trend.

Moderator: Thank you. We have a question from Mr. Saumil Mehta from BNP Paribas Insurance Funds. Please go ahead.

Saumil Mehta: I just wanted to check on one thing; the warranty provision numbers for this year has gone up significantly. For which part of that business is it and over the medium term basis do we see any concerns of this warranty provision numbers rising?

Rajiv Goel: Actually, warranty provision overall is largely because of consolidation of Lloyd. I think you would notice that last year Lloyd was there only for 1.5-months, not for the full three months. So that is why suddenly the number looks much higher compared to the past. I could say it is not comparable with the past year, but if you look at on an overall basis and if you normalize the same, there is a significant change in the warranty provision.

Saumil Mehta: So that number has a percentage of total consol sales should not be moving up significantly from current level, is that a fair assumption?

Rajiv Goel: That is right, Let us say from next quarter you would not see this anomaly.

Saumil Mehta: Sorry for the repetition, just wanted to check, what kind of inventory levels do you have right now and with the rising copper prices and some of the commodity prices, do you see working capital as an issue in coming quarters?

Rajiv Goel: Again, our inventory levels are pretty much under control and we do not see that increase in commodity would lead to any increase in the inventories. So this commodity has been oscillating in the past but I think it has been pretty much within the limits we have set for ourselves.

Moderator: Thank you. We will take the next question from the line of Shrinidhi Karlekar from HSBC. Please go ahead.

Shrinidhi Karlekar: Sir, just two questions from my side. Would it be possible to break the 18% like-for-like growth in Cables & Wires segment in volume and price and would it be possible to give some guidance on the volume growth of this part of the business?

Anil R Gupta: Cables & Wires 8% growth in volume and overall 18% growth but also there is a reverse base effect in this business segment as compared to other business segment. Last year because GST rate was coming down, hence there was offtake of extra stocks by the distributors as against other businesses, this was actually the other way round. There is a base effect in this business as well but on the reverse side.

Shrinidhi Karlekar: I do not want numbers, but how do you see outlook for this part of the business on volume growth?

Anil R Gupta: I think we are still looking at good potential to grow in the coming quarters.

Shrinidhi Karlekar: You touched upon adverse effect impact for a sequential decline in Lloyd segment margin. Would it be possible to quantify the absolute impact that it has on this quarter?

Anil R Gupta: There you need to take comparison over the last year similar quarter wherein there was a seasonal impact, so not much product mix has changed over the last year, hence similar pattern would continue to remain in the coming quarters.

Shrinidhi Karlekar: Anil sir, what I was asking is really maybe I am not getting what you are trying to say. But one of the reasons for the sequential decline in Lloyd business was because of FX impact, right. So I just want how many crores of the FX impact did really happen during this quarter?

Rajesh K Gupta: Actually that we have already said one of the impacts is around Rs.8.5 crores which is already captured in the financials of Lloyd. Apart from that it could be another couple of percentage points on the sales for this quarter, but this could happen that in any case prices could get reflected in the future quarters, so it did not get recovered. But yes, you could argue it could be a couple of percentage points on that.

Moderator: Thank you. We will take the next question from the line of Lakshminarasimhan from Tata Capital. Please go ahead.

Lakshminarasimhan: I just want to know what do you see to be the reason for the fall in revenue YoY in Lighting and Fixtures and how do you see the growth going forward and how do you look to arrest this?

Anil R Gupta: YoY, we have already mentioned that there is overall growth of about 25% if you take out the EESL effect which was shown as others. So EESL if you take out last year was Rs.54 crores business, this year is only Rs.1 crores business. If you take that effect out, it is almost 25% growth.

Lakshminarasimhan: My follow up question to this is do you then see your margins also improving in this segment considerably going forward, the EESL...?

Anil R Gupta: I already mentioned that EESL also no commodity orders, there also we take products which are not very low margin and based on a higher technology.

Moderator: Thank you. We will take the next question from the line of Pulkit Patni from Goldman Sachs. Please go ahead.

Pulkit Patni: Just sir, one book-keeping question; on personnel expense, clearly, there is a pretty significant jump in the quarter from a range about Rs.160 to 165 crores which we were doing every quarter, we have moved to almost Rs.200 crores in this particular quarter. What is the run rate that we should expect from here on or does this quarter include some one-off in the personnel expenses?

Rajesh K Gupta: Last year only 1.5-months was for Lloyd, this time it has been there, increment effect as well as Lloyd full quarter impact has come in this quarter.

Pulkit Patni: No sir, if I just read through the numbers, every quarter it has been in the Rs.160-165 crores range. So is it that this quarter had the increment and then after that it continued, does it fall back to Rs.165 crores?

Rajesh K Gupta: No, increment normally we get factored in the first quarter, so that we should assume this number going forward for the year.

Moderator: Thank you. We will take the next question from the line of Bhargav from Ambit Capital. Please go ahead.

Bhargav: Sir, is it possible to share the cash conversion cycle of Lloyd as well because I think in the presentation only the standalone bit is highlighted, or does it include Lloyd as well?

Anil R Gupta: It includes Lloyd as well, it is combined.

Bhargav: So sir, is it fair to say that despite Lloyd being a sizeable part of revenue, overall cash conversion cycle is just about 18-days?

Anil R Gupta: Yes, that is right.

Bhargav: So sir, can we assume this as a trend going forward meaning that including Lloyd we can still manage with less than 20-days of cash conversion cycle?

Rajiv Goel: We will try to live up to your expectations, Bhargav.

Bhargav: Secondly, if you can just share in terms of how many exclusive showrooms we will have for Lloyd now? Secondly, if there is any addition on the MBO side for Lloyd?

Anil R Gupta: Lloyd is about 55 right now and we are continuously expanding, and multi-brand outlets are opening by the day, multi-brand outlets, regional retailers as well as modern format. As I have shared in the past that Lloyd was not present in multi-brand outlets, the large format stores as well. So that is a continuous endeavor.

Moderator: Thank you. We will take the next question from the line of Nikit Shah from Motilal Oswal. Please go ahead.

Nikit Shah: Just wanted to know what is the comparable number for Lloyd in the last year first quarter because I think we did not consolidate completely in the last year first quarter?

Rajesh K Gupta: So on a like-to-like basis, it would be 14% YoY growth.

Nikit Shah: Obviously, AC is a larger category, safe to assume that AC would have seen a similar growth?

Rajiv Goel: Let us say heavy lifting by ACs only.

Moderator: Thank you. We will take the next question from the line of Vinod Bansal from Franklin Templeton. Please go ahead.

Vinod Bansal: Just one thing on the Cables business, I believe this bit discussed earlier as well. The margins continue to be very strong despite the fact that commodities have gone up in the last couple of months, this business used to be 12-13% margins at the segment level till about FY'17 and we saw benefit in FY'18 because of lower commodity. Yet, your margins have remained surprisingly strong. Could you share what is happening in this business because I suppose this was the most commoditized of all and where do you see the margins going ahead in next over two years?

Anil R Gupta: Actually this business is definitely more commoditized than other commodities but however I would not say that it is a commodity business, it is still a very brand-oriented and distribution-oriented business but as compared to let us say Switchgear or a Fan or Lighting, there is lesser value addition as compared to the product. We sell by brands. So constant investment in brand and distribution, definitely helped us improve the margins and on the raw material side this is more of a commoditized product, hence the margins can vary a little bit but we will continue to strive to maintain these kinds of margins.

Vinod Bansal: The last year we mentioned that there was a one-time low cost inventory benefit that uplifted the margins and the guidance of 15%-odd should be a sustainable number. We too say that 17% is more doable now and 15% is like a lower number to look at?

Anil R Gupta: I think let us look at a range between 15%-17%. As I said, the raw material is very commoditized and hence very difficult to predict the exact margins. Yes in the second quarter of last year we did get an offtake for the lower commodity and the advantage of inventory that we have.

Vinod Bansal: If you can give us some broad sense without quoting numbers, would this kind of higher margin scenario would be there for your peers as well in the industry?

Anil R Gupta: That I am not sure of, I cannot say at this moment.

Vinod Bansal: Can you also comment on the Cables business, give us the volume breakup between your Retail and Industrial business, you said 8% total volume growth, the breakup of that into the two segments?

Anil R Gupta: Almost 50-50

Moderator: Thank you. We will take the next question from the line of Mr. Ashish Jain from Morgan Stanley. Please go ahead.

Ashish Jain: Firstly, can you share the EESL number for Q4 FY'18 which is there in Lighting because last quarter you reported Lighting including EESL?

Rajiv Goel: Around Rs.30 crores.

Ashish Jain: Secondly, if I look at your commentary on Cables & Wires, the last couple of quarters we have been saying that volumes are flattish and the revenue growth was more driven by price hikes and all versus this time we are talking of 8% volume growth. So should we think this is more sustainable and can accelerate further or there is something less to this?

Anil R Gupta: It is start of the year, let us see how it develops over the next few quarters.

Ashish Jain: The reason I am asking for the last couple of quarters we have been talking of flattish volume growth and from that if there is 8-10%, so you would not draw any trend or demand improvement kind of a trajectory?

Anil R Gupta: It is too early to say. As I was saying earlier, the GST disruption which happened, it took some time for the trade to come back to normal levels. Though we were expecting within a couple of months it will happen it took some more time. I think things are now almost back to normal, so that maybe an impact as well.

Moderator: Thank you. We will take the next question from the line of Abhineet Anand from SBI CAP Securities. Please go ahead.

Abhineet Anand: First thing is on our CAPEX plan for the RAC capacity. Where are we on that sir in terms of what is the expectation of FY'19 CAPEX?

Anil R Gupta: We are looking at almost Rs.300 crores kind of expansion plan on this and I think by the fourth quarter of this financial year it should be up and running.

Abhineet Anand: What volume or the capacity in terms of RAC are we looking out for this Rs.300 crores CAPEX that we are doing?

Rajesh K Gupta: 600,000 pieces.

Abhineet Anand: Secondly, Havells ex of Lloyd for the current year F'19, what is your expectation in terms of sales growth for the year?

Anil R Gupta: We are not guiding any forward.

Abhineet Anand: What will be the mix of Wires & Cables business?

Anil R Gupta: 50-50.

Moderator: Thank you. We will take the next question from the line of Harshit Kapadia from Elara Capital. Please go ahead.

Harshit Kapadia: Just a few questions; can you give out how much is your inverter sales compared to your overall sales in the AC division for Lloyd at present?

Anil R Gupta: Month-on-month basis improving now to 30%.

Harshit Kapadia: But this number is much lower than the industry. So can we think that...?

Anil R Gupta: Industry is also maybe 35, 40. So I think it is improving for us also every month, but I think 30 is a good place to be in. It improved from 8% to 30%.

Harshit Kapadia: In a year's time? Sir, you have tied up with Hyundai for Industrial Switchgears. So, when is that growing to start and reflect in your Switchgear business?

Anil R Gupta: It has already started, so we are already supplying some Switchgear to Hyundai. On the other side on the other industrial products also, by end of the year we should be having the products also for that.

Harshit Kapadia: So how much of the export revenue you said one of the reasons why Switchgear was higher because of the exports?

Rajesh K Gupta: Exact numbers we would not like to share.

Moderator: Thank you. We will take the next question from the line of Aditya Bhartia from Investec. Please go ahead.

Aditya Bhartia: Sir, my question is on Lloyd business. This year we had unfavorable weather. Despite that you have delivered around 14% like-for-like revenue growth. Is it that we have gained market share in this business? A related question is despite revenues in Q1 being higher than what we had recorded in Q4, margins are somewhat lower. So, is there any seasonality in margins involved?

Anil R Gupta: As far as margin is concerned, as Rajiv has already explained, there were unprecedented foreign exchange movements which has impacted the margins. Otherwise, things have been quite stable from pricing and cost point of view. Overall market, yes, region-to-region, it has varied. So some of the regions like northern region have internal things and hence the growth was lower. We need to look at more competition numbers as well as more market data to actually see how much market share has been gained or lost. But I think it is not a very prudent way to look at just a quarter. I think over a period of one year if we look at this kind of market share for those.

Aditya Bhartia: On margins, even if we exclude FOREX cost impact of Rs.8.5 crores, we still had around 9.3%, 9.4% margin in Lloyd business this quarter which is lower than what we had recorded in fourth quarter which was extremely impressive at over 12%. So that is why I was asking that...?

Rajiv Goel: We are not talking about Rs.8.5 crores, what has happened is as the FOREX cost keeps going up since April, it gets captured in the new pricing for the product you are having. So it gets repriced which means that price increase for the same value now you are incurring the higher cost, which is that product is embedded into that which was not the impact in the Q4, that is what we are saying, not Rs.8.5 crores and even if you see the ad, we have invested significantly higher in Q1 and Q4. You are looking at EBITDA number which is submission of lot many variables than just the price, price actually has not changed, price maybe slightly improved only but there are headwinds in terms of the FOREX cost capturing as well as much higher ad spend which is 7% in Q1.

Aditya Bhartia: Coming to the Switchgear segment, just wanted to understand, have we started seeing contribution happening from B2B foray both in Switchgear as well as if you can comment anything on other segments as well on the B2B initiative?

Anil R Gupta: I think there are two aspects to B2B; one is the building projects and the other is the enterprise business which is more focused. So it is not just Switchgear we get into these projects category, it is a lot of other product category like Lighting and Cables and we have definitely gained a lot by bringing all these products into these enterprise business kind of solution and where we are targeting now newer customers like Reliance and Hyundai and Tata projects. So there is a lot of focus on Enterprise business. I think overall it gets captured in all product category, it is not just Switchgear. So we are definitely seeing traction from there. But as we see more investments coming in both in CAPEX as well as in real estate, this thing will definitely improve in the coming years.

Moderator: Thank you. We will take the next question from the line of Pranav Tendulkar from Rare Enterprises. Please go ahead.

Pranav Tendulkar: One is can you highlight the demand drivers in Cables & Wires business? Second is what is the outstanding raw material inventory in Cables & Wires business? Third is can we take now the capital employed in the Lloyd business as a normalized one adjusted obviously for seasonality? If you can explain me how our fixed asset investments in the Lloyd business you are looking into that, so is it an ROC incremental decision or is there IRR that you are looking on that, what is the logic behind that excess investments in the Lloyd business?

Rajesh K Gupta: On your first question into demand drivers, as we said 50:50 Cables & Wires and we also explained that out of this 18%, 9% is the volume growth. So on the Cables said, it is largely led by infrastructure. So we see a lot of investments happening both by the government and also by the private sector as well. That is the growth on the Cables side. Wires is a branded product for us, more distribution-oriented. So this is the general growth we see in the market after the GST disruption and the fact that the rate has also come down from 28% to 18%. As far as outstanding inventory, the inventories are normalized, there is no significant inventory on Cables & Wires, yes, there may be volatility in commodity, like last year Q2 we had certain upside on that, there might be some downside but it is not something significant, I think it is a fairly well as explained earlier within the tolerance limits we have set up for ourselves. On the capital employed, yes, I think it is a normalized capital employed in Lloyd, it is as per what is for the Havells as well, so we follow the same prudential norms for Lloyd in capital employed adjusting for seasonality which you have already mentioned in your question as well. Finally, on fixed asset, it is not ROC, it is more strategic, you cannot be a long-term sustainable player just by outsourcing from other whether domestically or globally. I think that is the first thing which comes to our mind. You might be aware in Havells 93% of what we sell is we manufacture ourselves, industry maybe less than 50%, but that is not a guiding factor and our ROC continues to be superior in the top quartile in the industry. So ROC will follow, that is not the first thing, yes, this is something which will get delivered, but the first thing is how we strategically position ourselves into the industry and the consumer mind.

Moderator: Thank you. We will take the next question from the line of Mr. Nikit Shah from Motilal Oswal. Please go ahead.

Nikit Shah: How much is the spread between pricing of a fixed speed AC of a similar tonnage versus Inverter AC?

Rajiv Goel: If you want, we can take it offline, but normally we do not want to discuss this on the public call.

Nikit Shah: Just wanted to know how much would be imports now as a percentage of our raw material cost on a consolidated company wide basis?

Anil R Gupta: We will have to check that number because Lloyd coming into place which has become a sizeable partner.

Moderator: Thank you. We will take the next question from the line of Ashish Shah from Goldman Sachs. Please go ahead.

Ashish Shah: On the AC business sir, as I understand the primary sales would be around 14% considering most of the Lloyd contribution would come from AC, but if you can help us understand if the secondary sales are also in the same range or have we seen any variation over there?

Anil R Gupta: I do not think there will be much of variation in the secondary sales because there is not any pressure on the trade to stop the product. The more and more over the last nine months or so I think the pressure has eased over the trade.

Moderator: Thank you. We will take the next question from the line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade: Just wanted to check on the Lloyd's part. As you said earlier it was more exclusive stores, now we are also penetrating into multi-brand stores. Would you be able to give quantification would that be a bigger driver for the growth in the current quarter on YoY basis?

Anil R Gupta: I would not say that exclusive stores would have bigger push, exclusive stores were small, multi-brand outlets were also small. I think Lloyd was more distribution-oriented but now we are expanding channel into other alternate forms as well, so which are these large multi-brand outlets, regional retailers as well as modern format retailers.

Achal Lohade: How much would that have contributed in first quarter sir? I am just trying to understand the mix and is ...

Rajiv Goel: Achal, the mix has not changed significantly for Q1. So, you could safely take this is on a comparable like-to-like basis growth and new channels are not contributing significantly in Q1 growth.

Moderator: Thank you. We will take the next question from the line of Mr. Abhishek Roy from Stewart & Mackertich. Please go ahead.

Abhishek Roy: Sir, I just want to know how many AC sales were done in Q1?

Rajesh K Gupta: Quantity we do not provide. I think we already shared the financial numbers with you.

Abhishek Roy: Sir, do you think that these Cables & Wires segment is sustainable going forward that type of margin?

Anil R Gupta: We have already mentioned there is a range that we are looking at and we will continue to strive to maintain the margins.

Moderator: Thank you. I now hand over the call to Charanjit Singh.

Charanjit Singh: We would like to thank everyone on the call and thanks for the management for taking the time out and giving us the opportunity to host the call. If you would have any closing comments?

Anil R Gupta: No, thank you very much and thank you, everybody for joining the call late in the evening.

Moderator: Ladies and gentlemen, this concludes your conference call for today. We thank you for your participation and for using iJunction Conference Service. You may please disconnect your lines now. Thank you and have a great evening.