



“Havells India Limited
Q2 FY 23 Earnings Conference Call”
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MODERATOR: **MR. ANIRUDDHA JOSHI - ICICI SECURITIES**

Moderator: Ladies and gentlemen. Good day, and welcome to Havells India Limited Q2 FY '23 Earnings Conference call hosted by ICICI Securities. As a reminder all participants' 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Aniruddha Joshi from ICICI Securities. Thank you and over to you, sir.

Aniruddha Joshi: Yes. Thanks, Aman. On behalf of ICICI Securities, we welcome you all to Q2 FY '23 results conference call of Havells India. We have with us entire senior management of Havells represented by Mr. Anil Rai Gupta: Chairman and Managing Director; Mr. Rajesh Kumar Gupta, Whole-Time Director of Finance and Group CFO; Mr. Amit Kumar Gupta, Whole-Time Director; and Mr. Rajiv Goel, Executive Director.

Now I hand over the call to the management for their initial comments, and then we will open the floor for question and answer. Thanks, and over to you, sir.

Anil Rai Gupta: Thank you, Anirudh. Good morning to all of you and wishing you all a very happy Diwali. Hope you have reviewed the results by now. The second quarter saw a decent revenue growth considering the inflationary environment. It's encouraging that majority of the sales growth was led by volume. Margins in quarter two were impacted by a full absorption of high-cost inventories against falling raw materials and sales prices.

The impact was more pronounced in cables and Lloyd, while high-cost cable inventory is now exhausted, Lloyd absorption would continue through Q3. We believe that margins have hit the trough and are expected to improve hereon. Real estate and infra presents a good opportunity. Overall, demand outlook remains positive.

Aniruddha, we can now proceed to question and answer.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on the touchtone telephone. If you wish to remove yourself from the question queue you may press star and two. Participants are requested to use handsets while asking a questions. Ladies and gentlemen, we will wait for a moment while the queue assembles. Our first question is from the line of Aditya Bhartia from Investec.

Aditya Bhartia: Sir my first question is on the inventory level that we are seeing at the end of Q2. As compared to the historical levels, it appears to be still fairly high. If commodity products were to continue declining a little, does it mean that the benefit of raw material cost would not be entirely visible in Q3 either?

Anil Rai Gupta: Well overall, inventory levels are higher because of the buildup of the festival season. So primarily most of the business, the production has happened in the second quarter. So these are not old inventories, except in cases of ACs in Lloyd, which could not be sold completely, because of the lower season in the second quarter, which will be absorbed in the third quarter. And eventually, this is all the fresh inventory going into the third and fourth quarter.

Aditya Bhartiya: Understood, sir. And secondly, sir, how should we really be looking at Lloyd profitability from here on. When you say that high-cost inventory would get liquidated by fourth quarter and normalized margin should start coming back. What are the kind of margins that you continue to be normal? And do you see more on the gross margin or contribution margin that is more and the EBIT margin even after all the operating measures?

Anil Rai Gupta: I think overall Lloyd, a lot focused also on the growth of revenues. So, if you would have seen that we've grown more than 50% in the first half and this momentum will continue to be there. We do see a huge opportunity for revenue growth, market share gains in air conditioners, but also revenue growth because of the addition of new product categories, which are gaining strength in the marketplace. It will have its own journey. So, there's a huge opportunity for revenue growth and that focus will continue to be there going into the next financial year as well.

So there will be an upward trend. As I said, the margins in the second quarter are lower because of very different reasons. But going into the third quarter, practically most of the normalized margins would come back. But fourth quarter, we should expect in a normal level, it should be in the range of about low double digit contribution margins.

However, there will be continued eye on the track how the competition continues to behave. And our first focus will be market share gains and revenue growth in Lloyd. But also at those levels, we do believe that we will be fairly positive on the profitability side also with good advertising inputs.

Moderator: Thank you. Next question is from the line of Sonali Salgaonkar from Jefferies India.

Sonali Salgaonkar: Sir, my first question is again on Lloyd. You did mention that by Q4, you expect low double-digit contribution margins in Lloyd. But sir, could you throw some light on the market share gains that we have had in Lloyd on a year-on-year basis, the boost you to work with the last because we have seen that consistently over the past three quarters. We have had a very good revenue growth, but the margins unfortunately are consistently falling?

Anil Rai Gupta: I think let's -- maybe not even look at the quarter-on-quarter kind of revenue market share gains because it's also difficult in this industry to actually get the exact numbers. But overall, we have seen that we have been able to garner market-leading growth in the last few quarters.

So this does give us the impression, and we also believe that we are amongst now in the top three players in those AC categories. And hopefully, we would like to continue that position and continue to grow faster than the market.

Sonali Salgaonkar: Sir, any price revisions that we have done or any material price revisions, which we have done over the past few quarters, especially for Lloyd or any other category?

Anil Rai Gupta: So Lloyd is undergoing also a transition during the third quarter, because energy efficiency norms will change from 1st of January. So both in case of fans and ACs, there will be a price hike coming in the third quarter and going into the fourth quarter. So -- but that is actually higher cost products being sold at higher prices in the market.

Sonali Salgaonkar: And my second question is, could you throw some light on the initial festive trends that you are looking at, especially if you're seeing anything different in any of the categories?

Anil Rai Gupta: I think when we started getting into the festival season, we saw some slowdown in the pickup, because I think the trade was actually a bit slow to pick up inventory. But in the last couple of weeks, we have seen some good pickup, which is happening, which is also meaning good secondary sales are happening and we see good primary sales are also happening.

So we've seen a good uptick in the last couple of weeks. It's still early days. Let's see how the third quarter pans out, but it's a positive outcome.

Sonali Salgaonkar: And lastly, CapEx guidance, that is it from my side?

Anil Rai Gupta: I'm sorry?

Sonali Salgaonkar: Sir, your CapEx guidance?

Anil Rai Gupta: So as our water heater plant capacity is now fully online. And we hope that the new air conditioning facility would start some production in the fourth quarter as well. So that is on there. And we are also setting up a new facility in Ghiloth. So overall, I think in this financial and next year put together should be anywhere between INR 1,000 crores to INR 1,200 crores. But most of it, which will come in this financial year and some of it will be carried off in the next year as well.

Sonali Salgaonkar: So sir, how much of this INR 1,000 crores to INR 1,200 crores is already done in FY '23?

Anil Rai Gupta: I think INR 165 crores was shown in the numbers which we have spent. It will be INR 700, 800 crores, around INR 700 crores.

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

Charanjit Singh: Sir, I just want to check first thing on the ECD segment, there, our growth has been muted and margins have also taken a significant hit. Sir, can you highlight especially from fans and the appliances segmental perspective. How has been the market scenario? And what's the outlook going forward from growth as well as the margin perspective in the ECD segment?

Anil Rai Gupta: I think specifically, if you look at the ECD segment in fans, we did see some slowdown primarily because there's some destocking happening because trade also wants to clear out their old energy efficiency norm products. So there will be a little bit of slowdown in fans even in the third quarter, but going forward in the fourth quarter, we definitely see market coming back.

Third quarter is generally a high season for water heaters and appliances, which should take care of the growth in for ECD in the third quarter as well. Second and third quarter is anyway lower for fans.

Charanjit Singh: And sir, from a profitability perspective, because if we look at the EBIT margins, last two quarters have been severely impacted. This segment used to see somewhere around 17% kind of EBIT margin in a couple of quarters we have seen. So here, the recovery in the margin, how long it could take sir?

Anil Rai Gupta: So, because of a complete consumer nature of these products, as the raw material prices went up high, all the prices were not passed on to the market. Even there is raw material price is now stabilizing, we will continue to see improvement in the contribution margins and the EBIT margins in this category.

Now if you're comparing it with the highest quarter, I think that's also a little bit of a -- on the other side, there were lower costs associated with that as well, but we will continue to invest in our deeper penetration in the market as well as advertising.

Charanjit Singh: Okay. Sir, just last question from my side on the ad spending. So, like you had earlier also highlighted that some of the costs will start normalizing and ad spending is one number which is normalizing. So, for the full year perspective, what's the kind of ad spending as a percentage of sales we should look at? And what it could be on a sustainable basis going forward in FY '24?

Anil Rai Gupta: Yes. So, ad spends, we actually had continued to normalize ad spends except COVID years. We started off last second half and this year normalized ad spends. And we definitely believe that it will be anywhere between 2.5% to 3% of the non-cable sales. So that will continue to remain.

Moderator: Our next question is from the line of Siddhartha Bera from Nomura.

Siddhartha Bera: Sir, my first question is on the price increase. You said we will be taking in third quarter in the AC and fans category...

Moderator: Yes, not very clear.

- Siddhartha Bera:** Okay. Is it better now or still weaker?
- Moderator:** Please use the handset Siddhartha.
- Siddhartha Bera:** Sure. So I just wanted to check on the price hikes, which you indicated that will take some in AC and fans in the third quarter. Possible to highlight of what will be the quantum for that? And...
- Anil Rai Gupta:** I could not follow your question, please.
- Siddhartha Bera:** So you had stated that we'll be taking some price increase in the third quarter in the AC and fans, because of the higher costs, so possible to quantify how much will it be? And will that be sufficient enough to achieve the double-digit margins along with the contribution margins, along with the lower cost of those things?
- Anil Rai Gupta:** We're still evaluating the entire impact of that, and that will be passed on. Actually, it picks in the fourth quarter, but those raw material inventories will start coming in the third quarter. But yes, that will not impact the margins positively or negatively for both the businesses.
- Siddhartha Bera:** Okay. And the margin, if I look at contribution margin, which have also declined quarter-on-quarter in quarter two. Is there any element of price cuts or discounts also because commodity costs have been largely stable, but our contribution margins have dropped. So, any other factor here to look at?
- Anil Rai Gupta:** No. It's primarily the high-cost inventories, which need to be looked at.
- Siddhartha Bera:** Okay. And sir lastly on the wire and cable side, I think last quarter, we had seen some bit of channel destocking and this quarter, we had reported the strong growth. So, any impact of the channel inventory buildup, which is there, if you can highlight and whether this growth is sustainable or we should look at a more normalized number?
- Anil Rai Gupta:** No, this is a more sustainable growth because there were no any major price fluctuations in the current quarter.
- Moderator:** Thank you. The next question is from the line of Atul Tiwari from Citi.
- Atul Tiwari:** And congratulations on continuing market share gains in wires. So, the question is exactly more on medium term. So obviously, in this industry, there are other players, MNCs are also present, Chinese and Japanese...
- Moderator:** Your voice is not clear. Request you to please use the handset as well.
- Atul Tiwari:** Yes. The question is on Lloyd, so in the AC industry, obviously, the competitive intensity is high and with the certain large players present. So, if these payers decide to respond, are you

okay to continue to operate at negative margins in Lloyd-lloyd for an extended period of time to realign and increase the market share?

Moderator: Atul, your voice is still not clear. May I request you to use the handset for the next question.

Atul Tiwari: Yes. So sir, the question was on the lloyd . So, because obviously, the competitive intensity is quite high in AC industry. And obviously, other players also want to maintain or increase their market share. So, are you okay to operate at negative margins for, say, next few years in case other peers also decide to respond?

Anil Rai Gupta: But Atul you have also seen that the second quarter negative margins, we have enumerated the reasons for that. It's not the competitive intensity that we're talking about. So, I don't understand some of your questions.

Atul Tiwari: So sir basically obviously, second quarter of margins were very low because of one-off reasons. That I understand. But it was like fourth or fifth quarter when the Lloyd has operated at negative EBIT margin. So, it was not like the first quarter it was happening. Hence the question that, is the intent to kind of gain market share despite negative margins over extended period of time?

Anil Rai Gupta: Yes. So, the whole idea holds to actually look at the market share gains and our long-term investment in the brand and distribution investments. Because we needed to change the perception of the brand as well as the changes in distribution channels. So yes, over a medium period of time, that will be the first focus.

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

Pulkit Patni: Again, sir, more medium term, we saw this period of COVID where demand went down. And then we saw last 12 to 18 months where there's an element of pent-up and a lot of things happening. Now from here, if you were to look at the next couple of years of demand, any sense you have given the capacity that you've built in with set of factories. What is the realistic sort of demand that I think as a country, some of your segments could deliver? Just some ballpark thoughts about how you are thinking about demand?

Anil Rai Gupta: I think within the last couple of years, we've seen post-COVID, let's pick at the industrial and project segment. Things have started actually post-COVID very nicely, and this continues to show good growth in there even till now. Because of the high level of focus in the government, now a new CapEx coming up because of the slowdown in CapEx in the COVID cycle. So, things are happening there on that side.

We all know that post-COVID, suddenly the real estate demand started doing well. One of the only negative factors there could be the high interest rate but still, even today, the real estate cycle continues to do well. So I think in the medium term, we are quite hopeful because all our

products, whether it's consumer side or industrial side focus on this, this will be definitely a good run for demand cycle in the coming times.

Also, the fact that, electrification has now reached all the villages, so you'll see more and more Tier 3 towns in rural areas. Their aspirations to buy high-quality products also increasing in the coming time. So, I think going forward in the next two, three years, this should all result in a decent growth outlook.

Pulkit Patni: I will have follow-up to that. I mean given the fact that rural has not been doing that well. And urban, obviously, that pent-up part at some stage will start slowing down. I understand the real estate story. Still, you feel that growth could be decent for us. That's what I'm trying to get to?

Anil Rai Gupta: That's right. You talked about medium term with real-estate. The rural demand had slowed down more because of the inflationary pressures. So, we do believe once that is taken care of, things should come back to normal.

Moderator: Next question is from the line of Rahul Agarwal from InCred Capital.

Rahul Agarwal: Just two questions, sir. Firstly, on the fan side. I understand that the channel is not really comfortable with the changes. I think the understanding is still limited more on the B2C side, but the phenomenon should be different between fans price between INR 1,800 to let's say, INR 2,500 and then something above that, could you elaborate a bit like what is the exact concern there?

Like you obviously mentioned that 3Q should still be volatile and fourth quarter would see a lot of channel restocking with all the new stuff, new ratings. But just if you could elaborate between segments, between fans like what is exactly the concern there?

Anil Rai Gupta: So, what do you mean by the concerns. So, the cost of the product will rise when you make the products with the new BEE models, right? So that will have to be passed on to the market. So, the channel would definitely destock because they can't sell the old products after the 1st of January.

So, they would destock, they will try to clear off their inventory and then start buying the new products. So, this happens in all the segments of the fans business, not just the lower end of the cost market.

Rahul Agarwal: So, my understanding was the production has to stop from 1st January and not the sales side. We can still sell in January, February the old inventory. Is that correct?

Anil Rai Gupta: That's right. So, we can't sell from there on. But channel definitely wants to take view that they also want to clear the inventory, which is the right thing to do actually.

Rahul Agarwal: So, we should see like some prebuy happening in third quarter and then fourth quarter should have more of new product sales. Is that correct?

Anil Rai Gupta: I think we were crossed each other. Second and third quarter is not a high season for fans anyway. So generally, there are high levels of inventory, you're building up the inventory for the coming season. We also want to not manufacture the entire inventory at high cost for the fourth quarter.

So, you also want to push the material in the market, but the channel is also slow in picking up the material. So, it's a combination of many things. So, we do see some sort of slowness in pick up for fans in the third quarter as well.

Rahul Agarwal: And lastly, on lighting, any specific reason for lighting EBIT margins coming off Q-o-Q by 200 bps. I thought this segment was relatively doing better in the past six months?

Anil Rai Gupta: First of all, we had an accident in the factory in the lighting business. And thankfully, it was only half of the factory. We have another factory where the production switch had to happen over the period of time. So, because of two reasons, one, the switching had to happen. And secondly, some amount of outsourcing is also there. So, we do see some sort of pressure on the margins in the lighting business. But hopefully, it should be coming back to normal very soon. I mean the good thing is that we have not lost sales in lighting because of the accident.

Moderator: Our next question is from the line of Shrinidhi from HSBC.

Shrinidhi Karlekar: Two questions from my end. Also, the switchgear business revenue growth appears bit soft, particularly given that you're highlighting that the real estate cycle itself seems to be an up cycle, there seems to be good infrastructure investment. So just wondering what is really happening that the growth is slightly slower than what it will achieve?

Anil Rai Gupta: I don't think there's nothing much to read there. Overall, quarter-on-quarter things can vary a little bit. But overall, if you look at the CAGR, this has probably been a good run for switchgear in the last few years.

Shrinidhi Karlekar: My second question, sir, you're guiding for a low double-digit contribution margin in Lloyd. Just wondering, does that presume a material fall in commodity prices from the current level or significant product price hikes in that industry as well as Lloyd?

Anil Rai Gupta: I think this thing is quite a moving thing right now because we're also going through a transition of the BEE norms. So, a lot will depend upon, how things pan out in the fourth quarter. But yes, it does assume the present raw material prices.

Moderator: Our next question is from the line of Latika Chopra from JPMorgan.

Latika Chopra: I just wanted to understand your comments on demand a little better. It seems that B2B demand is where you're more positive on. On the B2C side, you mentioned demand is a little sluggish, but stable. Just want to you understand this better in the terms of are you commenting this more from a fading of pent-up demand? Or are you seeing incremental impact of inflation affecting consumer spending?

Any color on consumer behavior, particularly on the B2C side that you are witnessing even in terms of product mix, if you could elaborate a little better on this? And if you could also share the volume and price differential for the quarterly growth rates for the key segments?

Anil Rai Gupta: I think to your first question, I see this more as an inflationary pressure on the demand rather than slowing up of the pent-up demand, which happened in the past. As a consumer trend, I would actually say, there is not a whole lot of difference, which was expected that the consumer will start down trading or downgrading towards lower quality and lower spec products.

It's actually not happening. Havells is catering to different segments of the market through various brands. So we actually don't see a major shift happening in the various brands firstly. Mass premium or the premium category continues to do well.

So volume growth, overall, we see there's almost 80% is on the volume growth rather than the value. So 14% overall we've done in the quarter. Almost 12% is coming out of volume growth.

Latika Chopra: Sure. And in a scenario if for the next six months not getting into the medium-term growth potential. But just looking at the next six to 12 months, if you find that consumer spending is constrained, do you think that industry will be willing to pass on pricing benefits to the consumers to drive market shares or to drive growth. I mean that in anyway constrained the ability to deliver margins, which used to be in the 13%, 14% band in the past? Would you be willing to operate at lower operating margins considering market shares and growth is prioritized here?

Anil Rai Gupta: Yes. So first of all, we do not know what will happen and how the competition will behave. We definitely do, the way we balance the businesses we do react to how the competition would behave. But also, we have a very long-term strategy and where we want to position the brand.

So in the past if you've seen in most of the businesses, other than the very fluctuating kind of businesses, where we have seen very high density in Lloyd, cables and wires. Generally, our margins have been quite steady. This is only in the last 1 year there were fluctuations of extremely unprecedented.

So I don't see that reducing prices or increasing prices really changes the market share a whole lot in which you really have to spend a whole lot of investments, both in brand, distribution and all that. So I think we do expect stability in margins. But yes, there is high intensity in the competition. One has to adjust a little bit. That does not really change the profile whole lot.

Latika Chopra: And the last question is on Lloyd. Just wanted to understand what is the absolute level of brand spends you make on Lloyd today and what's the split between air conditioners versus the new segments that you're entering in? And even if the contribution margins move up to double-digit level, could there be disproportionate increase in these spends and hence EBITDA margin expansion might not happen at a similar pace?

Anil Rai Gupta: So first part, almost 25% of the ad spends go towards Lloyd. We don't really differentiate between within Lloyd between, because we treat it as a brand positioning rather than this product to product at this present moment. There will be spikes for non-AC products during the season time and AC products, but we don't really distinguish between within the Lloyd category. Sorry, I missed your second part of the question.

Latika Chopra: So just trying to understand, do we expect a disproportionate increase in these spends as you scale up the new categories that you expand and hence, the operating margin expansion could be a lot more limited versus what you're seeing at the contribution level?

Anil Rai Gupta: I think for Lloyd, we are definitely wanting a bit of a long-term future, where we want to build certain categories. It almost like where Havells was about 10 years back. And we do see a huge opportunity where not only the market is very large, but also the growth is high.

And the discretionary spend with the consumers are increasing and moving towards these products. So there will be a continued investment in the next two to three years on the brand side. And to use your word, yes, there will be a disproportionate investment in the brand building.

Moderator: Next question is from the line of Chinmay Gandre from Reliance Nippon Life Insurance.

Chinmay Gandre: Sir, my question is basically on fans. So are you going to clarify that channel will allow through some of the current rating fans 1st of January '23 also. So normally, historically we see when these kind of things will happen, normally you have seen that the channel kind of stock build because they are also cheaper and basically, they are allowed to sell. So why that phenomenon you don't expect to repeat in fans wherein fans like the challenge kind of destocking let say by the overall increase?

Rajiv Goel: So yes, channel will be allowed to sell, but while AC has seen these BEE changes very sort of regularly. For fans, it has happened after a long time. I think that business behavior has still to be seen. And so I think that the reason we are cautious on how the reaction will be and then that's why we have mentioned both in Q3 and Q1, I think we need to see how the reaction would be from the channel. Largely, the channel is inclined towards having the new category offering. Having said that, there could be some stocking at Q3 and what we are trying to say, please differentiate between fans and ACs. That differentiation will continue to remain.

Chinmay Gandre: Sure. And this thing also happened in [inaudible 0:31:38], but anyways. And secondly, my question is on for price hikes. So post the new rating, so what could be the quantum of price hikes we would be required to take on. I presume they would be quite different for different rating of fans, right?

Rajiv Goel: That's right. That will be there so I think there is still being sort of evaluated, because it will depend upon a lot of variables. So maybe in Q3, we can be in a better position to discuss that.

Chinmay Gandre: But are they going to be quite material to kind of maybe have some impact on demand going into for Q4 and from thereon or the quantum's are not that quite high?

Rajiv Goel: Look, quantum, the percentage quantum will depend upon the base price of the fans clearly at the lower price kind of the impact will be higher than the high price lines.

Moderator: Thank you. The next question is from the line of Ashish Jain from Macquarie.

Ashish Jain: So firstly, you spoke about growth being 80% driven by volumes. Can you give some color on the segment wise breakup of volume and value growth?

Rajiv Goel: Actually, largely, it's consistent across. Like for instance we can say Lloyd, it will be almost 100% is volume growth. And you are aware that there has been normally much price revision during this quarter. And that's what we have articulated is a increasing sign that the volume growth which is coming back. In the last three years, volume growth has been lower because there is a lot of price hikes.

Now this already this quarter, and that is one of the reason why margins could have somewhat been what it has because there has been no commodity cost continues to be headwind, pricing has not been revised because now they are falling off. So mostly, the growth you see across is led by volume, not by price.

Ashish Jain: Sir also can you speak about your market share trend in the fans segment? Because from what we understand, the competitive intensity there has gone up quite materially. So any color on how all market share is shaping up on the fans side?

Anil Rai Gupta: I think market share-wise, a little bit last again, as I said, for the other business also, we have to look at over a longer period of time. We believe that we have gained market share in fans and not only necessarily from the big brands, but also there were a state of new brands, which came up in the last five or seven years, which grew at a certain pace, at a very fast pace for a certain level.

And then eventually, we've seen them slowing down. So I think, again, the big brands with the national brands have tended to do better over the last couple of years, especially post-COVID. So we do see some consolidation of market shares happening in the fans business.

- Ashish Jain:** And sir lastly, just like a few quarters back, at the peak of COVID and then commodity prices. We were also talking about the smaller players being at a relative disadvantage in terms of that ability to manage cost and supply chain. So are they now completely back, you think, in terms of the business side? Or so how is that part of the supplies shaping up in your view?
- Anil Rai Gupta:** Yes, I would say they are pretty much way back to pre-COVID levels.
- Ashish Jain:** And we're not seeing that disrupting our market share on an incremental basis, right?
- Anil Rai Gupta:** No, it depends on business to business. As I said, in fans, we're actually seeing the other way round that we are seeing some consolidation even for the larger period. But overall industry-wise, if we see certain disruption which happened for many players, it's now back to normal.
- Ashish Jain:** Sir, if I may just squeeze in one more question. On your switchgear business, what led to the margin contraction on a sequential basis on a segmental margin. This is anything related to material cost? Or is it just quarterly deviation volatility that is...
- Anil Rai Gupta:** Related to product mix.
- Moderator:** Thank you. The next question is from the line of Manoj Gori from Equirus Securities.
- Manoj Gori:** Sir, I have only one question here. So we are talking about taking some price hikes in Lloyd portfolio during 3Q. What gives you this confidence that the price hikes would be absorbed given that during March to May period where demand was very strong and even the RM prices were witnessing inflationary trend and at that point of time, the price hike...
- Anil Rai Gupta:** Just to cut through, in the product, the price increase will happen in the fourth quarter, when the industry norms were coming.
- Manoj Gori:** So I just wanted to understand, in the period where the demand was very strong. The price hike taken by the industry and my view were very limited. And given that now overall, the consumer sentiments are relatively sluggish and demand is weak and the RM prices have also fallen. So what gives you confidence that this channel would be ready to take that incremental price hikes and it should be absorbed in the market.
- Anil Rai Gupta:** I think that the confidence is because of the continued change in the brand and the positioning of the brand in the channel also. So we do believe we will be able to extract this cost increase at least from the market and the consumer.
- Manoj Gori:** So in this case, one can assume that the industry itself, at the industry level also there would be price hikes that one can expect?

- Anil Rai Gupta:** We can expect that. But as you have mentioned only that we really can't be seeing what the industry will be doing, but we do believe that whatever cost increase is happening, we'll be able to pass on it to market.
- Moderator:** The next question is from the line of Rahul Gajare from Haitong Securities.
- Rahul Gajare:** Sir, I have a couple of questions. First, when I look at the overall EBIT margin for the past maybe two or three years, there have been trending downwards. If I were to exclude Lloyd, even then, the trend has been pretty much similar. So there appears to be more broader weakness in profitability across verticals?
- So in this scenario, besides the price hike, given the BEE norm change, what are the other factors that you are having or looking for in order to add improvement in overall margins? And we are not talking about Lloyd's right now, the other business here? That's the first question.
- Anil Rai Gupta:** I think we don't see it like that because we definitely believe that there are product mix. There are certain products which are growing at a faster pace as compared to maybe the very high-margin products. Within the businesses also, there has been enough focus on getting into more channels and various kind of customers, maybe project customers, maybe rural markets where there are high investments in sales.
- So we are not deeply concerned by the fact that there is any sort of competitive intensity or positioning change which is happening in market. So, but we are trying to cater to a larger set of customers, which would require initial investments going forward. I mean this will continue in the coming years as well.
- Rahul Gajare:** Sir my second question is, given that we've seen slowdown in the channel, have you resorted to lower utilization at your factory to manage the inventory better?
- Anil Rai Gupta:** No. In fact, most of the inventory buildup is happening because of the season, and I don't see that, we are not actually envisioning that the next couple of quarters will be a slowdown. And hence, we are keeping good inventories for the coming season.
- Rahul Gajare:** I have meant more in the first half. So given that there was a slowdown that we've seen, did you refer to lower utilization at your factories?
- Anil Rai Gupta:** Not really because the slowdown happened because of the seasonality. And we were building up whether it's fans or ACs, we were building up for the season, for example, even for water heaters or appliances.
- Rahul Gajare:** So my last question is, again, on the CapEx. And I'm actually a little confused because you did indicate that you're looking at about INR 1,000 crores to INR 1,200 crores of CapEx over the

next, between FY '23 and '24, of which you've already spent closer to INR 700 crores in the first half. But when I look at your balance sheet...

Anil Rai Gupta: INR 700 crores for the entire year.

Rahul Gajare: So how much you would have spent on your, in the first half, because I don't see much movement on your balance sheet on the CapEx side?

Anil Rai Gupta: INR 165 crores in the first half.

Moderator: The next question is from the line of Achal from JM Financial.

Achal Lohade: My question pertains to cables and wires. You mentioned that as a broader comment, 80% is the volume growth, as a percentage of revenue growth. But what I wanted to check if you look at the revenue growth of 18% average copper price is down about 10%. You're talking about 25% or in 20s kind of a volume growth, is that understanding right? And is it possible to get some more color in terms of, if the mix is changing in favor of cables given the B2B strength you're talking about?

Anil Rai Gupta: Sorry, I think, there were some break here. I can't really follow your entire question, could you please repeat it.

Achal Lohade: Sir, my question pertains to cable and wire business. You did indicate the overall volume growth for the company, about 10%. Specifically on cables and wires business, given the fall in the copper price on a Y-o-Y basis, is it fair to say that the volume growth is more than 20% Y-o-Y. Is that a fair assessment? And if yes, also if there is any change in the mix in favor of cables?

Anil Rai Gupta: Yes. So you're absolutely right. So there was a little bit of dip in the prices here, but if you compare it over the second quarter of last year not a whole level difference. But if cables and wires grew by about 18%, so we are actually seeing around volume growth of around 18% in cables and wires.

Achal Lohade: And in terms of the mix, is it in favor of more cables, which is also impacting the margin, which has impacted the margins for second quarter?

Anil Rai Gupta: Yes. So actually, wires in this quarter because of prices coming down, had a little bit of a slowdown. So just a wee bit increase in the cable but not a whole level.

Achal Lohade: Understood. Just one more question, sorry, a bit technical. If we see in the June quarter, there was a drop in the copper price and hence, the margins got impacted. That inventory got written down already on 30th of June. What explains the further margin contraction on a Q-o-Q basis?

- Rajiv Goel:** No. Inventory does not get written down on 30th June because if you know the inventory, how the inventory is valued basically, cost or sales price, which is lower. So the cost continues to be there. But obviously, it has come down from what it was however you're still holding because you've already manufactured. So when you sell then only you book the differential. That's what explains. And that's why we are also clarifying that stock is almost finished in wires and cables. So now we expect the margins to improve because now the new inventory, which we are getting at a lower cost.
- Achal Lohade:** So basically, the margin impact is only when it is actually sold or realized and not really about inventory write-down as of 30th of June or September?
- Anil Rai Gupta:** No. I remember in Q1 commentary also, we had mentioned that there will be a ramification in Q2 as well.
- Achal Lohade:** Yes. And the same again played out in 3Q when the copper prices further dropped. Is that understood...
- Rajiv Goel:** I hope based on the stability in the world so that nobody can argue right now. But technically, if you're asking it, I think that how it works.
- Achal Lohade:** Got it. Sir one more question I had. Is it possible to quantify, I'm not talking about the Lloyd business, but ex of Lloyd, what is the reduction in the cost basket? Is it in teens? Is it early teens, mid-teens...
- Rajiv Goel:** That we can't comment upon.
- Achal Lohade:** Okay. Because the question is coming from the fact that we are seeing some of the appliances, there is already a price cut initiated or rather in the form of incentive schemes, etcetera, in the appliances. So I just thought of checking if that will drive the price reduction even for the categories we are operating in for us.
- Management:** I think, let's wait for Q3 for these questions.
- Moderator:** The next question is from the line of Naveen Trivedi from HDFC Securities.
- Naveen Trivedi:** Sir, my first question is how are you seeing the overall B2B side pick-up considering last two years, we have seen this part of the business was under pressure, so in the context of improving the CapEx cycle and the overall recovery in the B2B side, any comment on the B2B side recovery? And how do we look at the coming quarters?
- Anil Rai Gupta:** Yes. I think generally, we are positive about B2B. Still a small portion about for Havells almost about 25%, but we're seeing recovery, cables has been doing okay, professional luminaires is

growing. The other businesses like industrial switchgear is also at a decent growth level. So it's showing positive signs.

Naveen Trivedi: So are we at in a B2B sort of revenue? Are we at ahead of the pre-COVID level now?

Anil Rai Gupta: Yes, definitely, we're at ahead of pre-COVID levels.

Naveen Trivedi: Secondly, you mentioned about washing machine side, you are seeing a good traction. Are we in a position to share some volume number or market share number?

Anil Rai Gupta: No.

Moderator: The next question is from the line of Amit from Nuvama.

Amit Mahawar: Congratulations first of all on excellent growth set for first half on a three-year basis across categories. I hope everybody especially at the Neemrana facilities safe and healthy. I just have one question on the capital allocation. Generally, it's between cable and wire and electricals segment, we seem to have broadly have a presence across the basket, but in the Lloyd portfolio, we will have to gradually expand our presence pending ramp up our as scaling across whether it's washing machine or other ranges in the white goods basket. So, if my assessment correct, that in the next two years to three years are more than 50%, 60% of the capital allocation that you have to be towards the Lloyds portfolio. If you can give some color on the capital allocation, sir, across segments?

Anil Rai Gupta: Well, there is no doubt that if not 50%, 60%, there will be a higher level of capital allocation towards manufacturing on the Lloyd portfolio. Pretty much, we've completely allocated the air conditioner capacity increase, washing machine, is already on board. The only thing once the buildup happens for the next category, which is refrigerators that we can consider getting into the manufacturing in the next one year to two years. So that's something which we can consider, but we have actually taken the bulk of the heavy lifting has already been done, but it will continue in the coming times as well.

Moderator: The next question is from the line of Swati Jhunjhunwala from VT Capital.

Swati Jhunjhunwala: My first question is your working capital data currently at 42 days, and that is mainly because of the inventory. So, what do you think will be the working capital for the second half of this year?

Anil Rai Gupta: We expect them to come down with the, especially March is one of the lowest for inventory, working capital days. So, third quarter and fourth quarter, it should start coming down.

Swati Jhunjhunwala: And secondly, what is the rural contribution to the total revenue?

- Anil Rai Gupta:** It's only about 5% to 6% of the consumer revenues.
- Swati Jhunjhunwala:** So like do you plan to ramp it up to the rural side? Or are you more focused on the urban areas?
- Anil Rai Gupta:** So as I said, different channels are being focused upon and good investments are being made there. So, in the rural side, that focus will continue. We're reaching quite a decent level of penetration there, but more-and-more products will now start to improve the channel.
- Moderator:** The next question is from the line of Ashish Jain from Macquarie.
- Ashish Jain:** Sir, I just had a follow-up. Earlier on the call, you spoke about a lot of more focus on rural and institutional side of the business. So, is this like necessarily coming at a lower margin for us or you think margins are comparable versus urban or consumer side of the business?
- Anil Rai Gupta:** So rural is not coming at a lower margin. It's not necessary that these are lower priced products, but in the industrial side, quite a sizeable part of that is underground cables, which is definitely at a lower margin anyway. So, it is definitely contributing lower margins overall as well, but the other businesses like switchgear and professional luminaires have high margin businesses.
- Ashish Jain:** Sir for this quarter, can you break down like the 14% growth into how much was the growth for industrial and institutional business? And how much was consumer facing, if possible?
- Anil Rai Gupta:** We have about 25% on industrial side, about 12% on the consumer side and 17.5% on investment.
- Moderator:** Thank you. The next question is from the line of Rahul Agarwal from InCred Capital.
- Rahul Agarwal:** Sir, two questions. First of all, two unusual. Sir, just utilization of cash, if the company is looking at M&A, what could be areas of interest? Like is there any product gap which you want to fill? Or would you look at new categories? And if new categories, what could those be?
- Rajiv Goel:** So I think our focus will largely be as we have also articulated in the past will be homes and consumer. So it could be something on the regional side, it could be something on the electrical side, which goes into the homes. So, I think that will continue to be sort of -- if we have to scout for M&A, I think we will look at that. Having said that, we also believe there's a significant opportunity in our existing product categories as well.
- So while M&A was to use is often to take a phrase, which will be opportunistic. But frankly, we don't need M&A to really look for the growth in this current environment. We believe the medium-term outlook is fairly positive for the country and I think we want to focus on leveraging whatever seeding we have done in the past few years. We're already seeing that they are bearing fruits. I don't want to get into a few quarters here and there, but medium term, things look very-very confident and positive.

- Rahul Agarwal:** Sure, sir. Sir actually I was coming from a capital allocation perspective, I mean I saw that cheaper debt getting repaid and my sense is internal accrual should be enough for funding CapEx over this year, next year. Hence, my part was we obviously have a lot of extra cash and hence, I was thinking maybe we could utilize it to fill up something if there is a gap at all in the existing basket. That was what my intention was.
- Rajiv Goel:** Cash allocation cannot be the reason for M&A. I think, as they are two independent concepts. So, we will see as the time comes, we don't think we have unsustainable cash levels as of now. Usually, we continue to pay 40% payout in terms of the dividend. So I mean, we think right now, I think we will not sort of concern us. If the time comes, I think we'll take a judicial decision at that point of time.
- Rahul Agarwal:** And secondly, for the new AC capacity, my sense is it's almost adding 1 million units next year. Obviously, the market size is not growing to that much, any thoughts on exports here? I mean, is that something which is really looked up to? Or is that an opportunity at all on ACs?
- Rajiv Goel:** Definitely, I think the exports in general, and I think you are all fully aware that how China Plus One is playing out. Obviously in developed market, it takes time to establish the product. Their approval process is far longer than other countries, but yes, I think not only ACs, all other product categories we are looking to substantively grow in export and our efforts are dedicated towards that.
- Coming to this question on AC, yes, I think export will be a big focus. Both from the existing, but actually this could be more conducive from the new factory wise, near the port as well.
- Rahul Agarwal:** So we could see like 2 lakh, 3 lakh units going out of country from the new unit, is that possible like next year itself?
- Rajesh Gupta:** We're just putting another timeline to that, but I think, yes, substantive numbers are possible why just 2 lakhs, 3 lakhs.
- Moderator:** Thank you. The next question is from the line of Pranjal Garg from ICICI Securities.
- Pranjal Garg:** Sir, one of the competitor tied up with Mahindra Logistics for third-party logistics services sometime back. As the freight costs might be likely impacted due to fuel costs and Havells will also be penetrating deeper in the rural market. Will we also likely go forward for any such partnership for using third-party logistics to improve the efficiency?
- Anil Rai Gupta:** No. These efficiency measures could be third-party logistics, would be independent parties. These are the optionality's we keep reviewing as a business process. So, whether we tie up on a national basis or regional basis, these experiments keep happening. So, I don't know that whether Mahindra would be one or who could be, but yes, these are the things which continue to evaluate. These are operational issues.

- Pranjal Garg:** So we don't have such option in our books right now. We can assume that?
- Anil Rai Gupta:** Sorry. What is on our books?
- Pranjal Garg:** Something that is not in our consideration right now for going to the third-party logistics.
- Anil Rai Gupta:** I think these are, 100 things are there in the operational consideration. So definitely, we are not discussing on the call, what is our operational strategy.
- Moderator:** We take the last question from the line of Sujit Jain from ASK.
- Sujit Jain:** Sir just to clarify because in the call, I think you've spoken twice about this. The price hike in ACs will happen from fourth quarter you said, you are asked probably for the second time.
- Anil Rai Gupta:** That's right.
- Sujit Jain:** And cable wire mix moved towards cables in this quarter?
- Anil Rai Gupta:** A little bit, yes, because in wires because there was again saturation prices were coming down. So there was some destocking happening in the wire segment in the second quarter. In fact, if you see the third quarter of last year, there was a high amount of stocking because there was prices were going up. So actually, in this quarter, we have operating on a very high base of wires. So actually, again, especially in case of cables and wires, one should not be really excited or deflated by the quarterly trends.
- Sujit Jain:** And the volume growth will be higher than the sales growth Y-o-Y for C&W, which was at 19% because of the price fall in copper?
- Anil Rai Gupta:** Rightly, because you're comparing over the last year, not just sequential. So Y-o-Y, they will be almost same.
- Sujit Jain:** And one last thing about Lloyd's margins. You said it will improve in Q4. Contribution margin, double digit, which means when I look at quarter when it...
- Anil Rai Gupta:** Don't hold me to double digit because this is a trend which we are seeing, it is upwards, right? So, going forward in the third quarter, we definitely see a major improvement coming in. Fourth quarter, we are expecting normalized margins to start coming and to operating as in the past, but as was discussed, there will be a lot of changes in the AC industry in the fourth quarter. So, we will see at that point of time. Definitely, we would like to pass on the entire cost increase in the fourth quarter.
- Sujit Jain:** I understand that, but then that translates into 4% or 5% kind of EBIT margin.



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Anil Rai Gupta: So that's something which you will have to translate into yourself. I mean, as I've said, we will continue to invest in Lloyd for the next one year or two years for gaining market share as well as creating a position in the market.

Moderator: Thank you. Ladies and gentlemen, that would be our last question for today. I now hand the conference back to Mr. Aniruddha Joshi for closing comments. Thank you, and over to you, sir.

Aniruddha Joshi: Thanks, Aman. On behalf of ICICI Securities, we thank the management of Havells as well as all the participants for being on the call and wish you all a very happy Diwali. Now I hand over the call to the management for the closing comments. Thanks and over to you, Sir.

Anil Rai Gupta: Thank you very much. Wish you all a very-very happy Diwali from Havells. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of ICICI Securities, that concludes this conference. Thank you all for joining us, and you may now disconnect your lines.