

# Havells India Ltd 3QFY15 Earnings Conference Call

hosted by

**Maybank Kim Eng India**

on

**29 January 2015**



## **Havells India Ltd Management**

- Mr Anil Rai Gupta, Chairman and Managing Director
- Mr Rajesh Gupta, Director Finance and Group CFO
- Mr Rajiv Goel, President - Sylvania Global

## **Host**

- Mr Anubhav Gupta, Analyst, Maybank Kim Eng India

**Moderator:** Good morning ladies and gentlemen. Thank you for standing by. This is Fatima the moderator for your conference call today. We welcome you to the conference call of Havells India Limited hosted by Maybank Kim Eng India. At this moment all participants are in the listen only mode. Later, we will conduct a question-answer session and that is there if you have a question please press star and 1. I would now turn the conference over to Mr. Anubhav Gupta representative from MaybankKim India. Over to you sir.

**Mr. Anubhav Gupta:** Thanks Fatima. I would like to thank all the participants for joining this call. I would also thank the management of Havells India Limited which is present with us on this call today. On the management we have with us Mr. Anil Rai Gupta Chairman and Managing Director, Mr. Rajesh Gupta, Director and Group CFO. Mr. Rajiv Goel, President Sylvania. I would now hand over the call to Mr. Anil Rai Gupta for the management discussion on the third quarter earnings performance after which he will take up Q&A session. Over to you Mr. Gupta.

**Mr. Anil Rai Gupta:** Thank you Anubhav. Good morning everybody. We are in the third quarter conference call for Havells today and this is a very interesting time during the development times of India. I believe we could see a lot of optimism in the initial stages in the year because of the change in government after the elections. I think overall the country is quite hopeful of very many positive changes from the government and we are already seeing some reflection of those and the decisions which have been taken in the past few months and the past few days. Everything takes time and I believe this is also what we are seeing in the ground situation in the country as well, but we are like all other businesses quite hopeful of the economic optimism of India. Hence we are putting in all efforts to keep improving our infrastructure and our days in the company so that we can grow very well when the opportunity comes at a very fast rate. In this particular quarter growth has been flat reflecting the ground situation on both consumer and industrial type. The cables business has slowed down after initial burst in the first half. The wires business is also being very stable involving though adversely impacted by the decline in the commodity prices. In lighting also we see a tremendous growth in LED, but it has been offset by a decline in the traditional sources of CFL. In future we expect LED to grow -the CFL decline. All our efforts towards cost efficiencies have shown results in margins which have improved in all product categories, which is also led by a better product mix. Deeper leveraging of our own manufacturing and as I said a focus drive on cost efficiencies. Currently there does not seem to be a significant improvement or visibility on the ground situation though. We expect with government renewed focus on growth and declined inflation demand scenarios should improve in the near future itself. We continue to focus on building brand and deeper distribution network. We are leveraging technology to reach higher numbers in retail outlets, galaxies and towns to enhance the width and depth of distribution. So, both efforts towards brand building and depending of distribution continues to remain, because we definitely feel when the growth comes it will definitely impact our market share. We are confident that our demand scenario improved. Havells is much better positioned to deliver a higher growth. As far as Sylvania is concerned it is stable with focus on improving profitability, cash generation and deleveraging. There has been marginal improvement



in both in Europe and LatAm. We have done right off in Asia. Sylvania should continue to be stable with a positive bias and drive profitability and cash accretion. With this Anubhav, I think we can now open for Q&A.

**Moderator:** Ladies and gentlemen, we will now begin the questions and answers session. If you have a question please press star and 1 on your push button phones. Await turn to ask the question guided by the facilitator. If your question has been answered before your turn and you wish to withdraw a request, you may do so by pressing 1 on your phone. I request you to restrict questions to two per participant. You may come in queue again if you have questions. We have our first question from Mr. Achal Lohade from JM Financial.

**Mr. Achal Lohade:** Hello I am Achal from JM Financial. Thank you for the opportunity. Two questions. One; on the growth guidance. I wanted to know what is the outlook you expect these kind of current sluggish growth will continue for more time or you think FY 2016 could look far better?

**Mr. Anil Rai Gupta:** Well, as I said in my opening statement, the ground situation does not see much change since the third quarter even in the fourth quarter itself. So, we are expecting similar growth in the fourth quarter as well, but as I said we are still very hopeful of the ground situation to improve with a lot of changes which are happening especially in the last few days with the inflation coming down, the interest rates coming down, I think we will have a much better picture by the end of this quarter going into the next year.

**Mr. Achal Lohade:** Right. In terms of the March last time in earnings call it was actually guided about 12.5 to 13%. I wanted to know how are you looking at the margins now?

**Mr. Anil Rai Gupta:** We have stable margins in all product categories. Sometimes it changes because of the product mix. There has been a slight reduction in the advertising sense mainly because of the seasonality. Hence there is a higher margin thing, but we are maintaining our advertising strength as a whole for the entire year and we will continue to eat in those advertising spends in the coming years as well. So, as far as all product divisions go we are expecting stable margins.

**Mr. Achal Lohade:** Understood. Secondly on the capex; I remember on the last quarter we had talked about 100 crores of capex for FY 15 and since we have already spent about 120 crores I wanted to know for FY 15 and second for FY 16 as well sir.

**Mr. Anil Rai Gupta:** In this year there has been one new addition of a new plant of manufacturing water heaters and this was taken some time in this year itself, because of the change of situation because of our imports coming from overseas. This business for water heaters was going at very fast pace and we found that there is far more benefit in having our own manufacturing and hence the company has invested close to about 45 crores in setting up a new plant for manufacturing water heaters with a capacity of 300,000 pieces annually. This has given us a good advantage in the cost



factor and the plant has started operations this month. It should get a real benefit in the next season coming in the next winter. Overall the spend this year will be close to about 140 to 150 crores. Next year again will be more of a maintenance capex so about 100 crores or so.

**Mr. Achal Lohade:** I have more questions, but I will come back in the queue. Thank you.

**Moderator:** Thank you sir. We have our next question from Mr Pulkit Patni from Goldman Sachs.

**Mr. Pulkit Patni:** Thanks a lot for taking my question. The first one is on this Thailand issue. If you could elaborate and why would you call it a one time cost and why could this not be recurring given that this has normal returns and rebates in Thailand.

**Mr. Anil Rai Gupta:** Yes so Thailand what happened, I think we mentioned that there has been a change in the management team both the CEO and CFO we have brought on as fresh. So once they joined during the middle of the year they realized that there had been certain sales issues which had not been booked and the rebates had been underbooked. Now they may have been pertaining to past year as well so that's why we have taken the decision that everything should be taken up this year itself. We have only talked one off for the quarter. We are not saying it is one off for the year. So, since what happened the Q3 of Havells coincides with the financial closure of Sylvania so we have taken a call that as an annual account closure of Sylvania, whatever is here for the year should be now captured in this quarter. So one of our guidances on this is primarily on this quarter not on the CS. These are something if you see in the past it has not happened. You are carrying it for a long time, but we have taken a call along with the new management, it is better to start with a clean slate in 2015.

**Mr. Pulkit Patni:** So we should not expect repeat or something like this?

**Mr. Anil Rai Gupta:** Yes, we fully agree and appreciate that. So whatever came to the fore after discussion with even our auditor we have seen taken that intercom. There maybe few things still left, but I know most of them the magnitude will be something similar to this.

**Mr. Pulkit Patni:** That is useful. Secondly on the cables and wires business particularly, you have given the massive deflation in raw material prices and you do mention in your summary also that you saw the domestic cable grew by 6% in value and by 9% in volume. What did these fair to assume that by going into the next year, you would probably see pretty strong volume growth, but that would not reflect in value growth given that there could be price cuts on some of these products.

**Mr. Anil Rai Gupta:** So, in fact we have seen further deflation in the commodity prices after the quarter ending also. You are absolutely right where we have always maintained that in case of domestic wires we have to pass it on into the market.



Thankfully there is no major issue for the company anymore, because after 2008 we have been in the holding lesser finished goods inventory and also the channels also don't hold a lot of inventory in case of domestic fires. There should not be any issues on anything. In future it is very difficult to predict how commodities would behave from here. At this moment there will be definitely areas where there could be increase in volumes, but not commiserating value regarding that.

**Mr. Pulkit Patni:** Sure sir very useful thank you so much.

Thank you sir; we have a next question from Mr. Pankaj Chopra from Shanti Asset. Mr. Pankaj please go ahead.

**Mr. Pankaj Chopra:** Thank you for the call. I have two questions. One; could you comment on the comparative intensity in the field with find that Qualicabs, Finolex they seem to be in a similar strategy like yours moving from cables into switchgear and other accessories probably. That is my first question.

**Mr. Anil Rai Gupta:** Yes I think over last 10 years or so many companies have found that leveraging their distribution in brands does have their own benefits, but we also maintain that unlike FMCG, FMEG industry is a bit different and it requires a lot of focus and different kind of selling strategies for even different products within the large electrical portfolio. Some are truly retail oriented. Some are wholesale oriented. Some are influencer based. So, there are various seller strategies and hence different focus is required on each product division and that is why we have not seen much success in expansion of product portfolios within the electrical companies in the past and you have done much better in this expansion. However nevertheless we also believe that good companies bringing out similar strategies would expend the market for branded products and hence it might be a better strategy for other branded companies to get into this kind of a business which will benefit not only the expansion of the industry, but also there will be quality orientation for the consumers. So, I think overall in affect it is the better thing for the industry.

**Mr. Pankaj Chopra:** My question was you have not felt the pressure from competition and you don't expect that at least for the new term going ahead?

**Mr. Anil Rai Gupta:** I think this industry has always seen competition. As I would say as I said it is better to see competition from branded players and quality oriented players rather than unorganized players.

**Mr. Pankaj Chopra:** My second question is with regards to distribution. You mentioned in the initial part of your speech saying that you want to deepen our distribution. Could you comment on what your current distribution is and what could it be in matter or two years in terms of what kind of opportunity do you see there?

**Mr. Anil Rai Gupta:** We see a lot of opportunity in distribution. As I said it is a mixed model of distributors, wholesalers and retailers. Today we have direct distribution about 5,000 distributors all across the country. When I say we are deepening the distribution, it means the availability of products at the retail outlets. It is very

difficult to give a number at this stage, because of the availability of the wholesale channel. Unlike pure FMCG companies which are distribution oriented and every retailer is tracked. In this industry it is difficult to give a particular number, because it is done through wholesale and that's what we are trying to change in the future that we are trying to increase the track number of retailers. We will see the benefit of this in the next six months to a year. We will keep informing how we are changing this. At this stage we are saying that we have made certain efforts. We will see the benefits of this coming out in the near future.

**Mr. Pankaj Chopra:** I was just trying to assess, would you be the best in terms of this segment in terms of distribution or are there any one who probably have a deeper penetration than yours?

**Mr. Anil Rai Gupta:** I would not say that we are the best. I would not say that there is anybody better also. There is always a strive towards improving the distribution and reaping of the distribution. Unlike in FMCG as I said where it's very easy to track the number of outlets selling your products, we are trying to use technology to deepen this availability at retail outlets.

**Mr. Pankaj Chopra:** Thank you very much; I'll come back to you.

**Moderator:** Thank you sir. We have our next question from Mr Ashutosh Narkar from HSBC. Mr Ashutosh please go ahead.

**Mr. Ashutosh Narkar:** Two questions; one on the domestic business and the other one on your Sylvania business. On the domestic side if you could elaborate a little more on the LED business and how it could potentially improve 2016-17 and can that be a key driver and what is your expectation on the growth outlook there? Second; what would be the key reason for increase in working capital and is that something that we should be worried about? On the Sylvania side, if you could touch upon the pension liability and how do we intend to tackle that issue because that's probably the one that's giving you the highest amount of volatility in your earnings?

**Mr. Anil Rai Gupta:** As far as LEDs are concerned, we are seeing a significant growth in this segment grown by almost 60% and 27% of our overall lighting has now been converted into LED. I believe we could see a much more faster trend in the coming year as well, because a lot of government push is also happening in this and the cost will also ultimately reduce in the product category. Again, we will see quarter by quarter how this thing improves, but I can only say that not only is there a huge opportunity, but this company is very well positioned with this new plant at Neemrana to take advantage of this change in technology. As far as working capital is concerned I think we've seen a lot of growth in the first half of the year and based on which the inventories were also built up. With this tightening of the growth in the third quarter we've already started tapering down which has already happened in the third quarter. We will see further improvement in this in the fourth quarter as well. The company is quite conscious of retaining its number of days of inventory. As far as pensions are concerned, Rajiv will just give his viewpoint on that.



**Mr. Rajiv Goel:** So, pension I think A; you would have reviewed section 2.5 where we have captured the entire scenario so quickly on the scene where Germany is the one where we don't have corresponding fund against liabilities and here is where in Germany where there has been a significant decline in the bond yields which is directly impacted the cost of the same. However there are two things to be noticed where A; this is the long term liability, it does not change anything which you are on quarterly or annual basis. In fact in Germany we are already paying 1.4 million circa Euro of pension which is captured in our operating profits. So, that in any case we take part of our profitability. As far as these are taken through the regional office, for the Indian GAAP purposes we have taken into the finances. In case the situation improves either on the bond yield; this could again show a change where again this could show a higher number. The options we would have taken then we would have also taken it through the reserve, but then you see it would not have been in accordance with the Indian GAAP. We know there are a few larger companies in India which are going through this reserves route and taking a note into their accounts. However, the provincial accounting policy and consistency of our policy, we have decided to let it go through the P&L itself. So, in future what we may do in Germany which we are not still evaluating. We will also create a fund over a period of time, which can then take care of this pension liability, but again this will be something which will evolve over a period of time. For next eight to nine years we know that the payout is only going to be 1.4 to 1.6 million Euro on an annual basis.

**Mr. Ashutosh Narkar:** So, just like last year we wouldn't have in the first three quarters bullet payment or provisions of roughly around 0.9 to 1 million Euro this year as well?

**Mr. Anil Rai Gupta:** Correct. That is then being out of the conservative estimate we are doing it. Nobody would have expected I think one month because of Greece and other things suddenly Germany will decline so much. So as a conservative policy we will continue to absorb 900 per quarter Euro, but in that if there is a variation in that that has to be reflected then again it should not be beamed as a quarterly impact, it is something which is impact over the years. Because of the accounting policy, we have taken we have taken through the P&L, but yes, we will continue 0.9 K Euro every quarter.

**Mr. Ashutosh Narkar:** Just one last question. Since was the last quarter for Sylvania if you could give us some guidance on how we look about on the three regions and their growth?

**Mr. Rajiv:** We have captured it there, but we will continue to maintain the same that Europe will continue to be stable and that is our endeavor there. As far as America is concerned we do expect there would be growth. In fact in Europe we expect there to be better growth purely because of translation. Europe has declined against dollar. If you see the growth within LatAm, they have actually grown 12% on a constant currency basis so we are confident on America doing better. Asia; we will be able to come back to normal. So, these one-offs will go away and hopefully Asia will continue to be small, but profitable for us.

**Moderator:** Thank you sir. We have a question from Mr. Vikash Mantri from ICICI Securities. Mr. Vikash please go ahead.

**Mr. Vikash Mantri:** Good morning sir. Just wanted to understand the growth between fans and others in the electrical consumer durables both the volume and value side for those two. In case of cable business based on current copper prices what would be the decline in yield if I may to say that we should build in going forward?

**Mr. Anil Rai Gupta:** As far as fans and appliances are concerned, we normally don't give a breakup within the electrical consumer durables...

**Mr. Vikash Mantri:** No sir - the value growth wise. Just the percentage growths which you talk about.

**Mr. Anil Rai Gupta:** Percentage growth within the category it is the same in this quarter and what do you mean by yield?

**Mr. Vikash Mantri:** No, as copper prices what is the cut that you have taken in cables? Price cut.

**Mr. Anil Rai Gupta:** So it is varying. In the last quarter itself there was a time when we had reduced the prices by 3% and going by this quarter we have to review the situation as ongoing basis. Sometimes there is a reduction of 4%; sometimes there is an increase of 2%. So, it changes almost every 10-15 days. It's based on the copper thing. As I said there is a time lag of only 10 to 15 days and we review the situation after every 10-15 days. The inventory levels in the system are not very high that there should be a major benefit or loss accounting in account accordance with that.

**Mr. Vikash Mantri:** Its 12% growth for both fans and others in the consumer durable segments? Similar is what you are saying?

**Mr. Anil Rai Gupta:** I will check it and get back to you.

**Mr. Vikash Mantri:** In the Thailand portion of this Euro 2.9 million hit that we have taken; it was largely for a year right? And as far as I see it's more like 30% of your sales for the year for Thailand.

**Mr. Anil Rai Gupta:** Actually, it will be difficult to segregate, but if you look at the rebates and the sales and the inventory right off, which is pertaining to previous years also. However, we have not segregated the same and get into this challenge of how much belonged to this year- last year. We have simply said it does not definitely belong to the quarter. It belongs to the whole year, but yes, there will be 30 to 40% element which could be belonging to past year as well. The inventory is not built up in four or five months. So there is an element of the past, but what we have done we have not segregated the same for the purpose of prudence and said let's take it more of an annual operating result.



**Mr. Vikash Mantri:** So, while we talked about changing the management, what was the process failure that led to this kind of an impact in case of Thailand and can it happen in any other market for us. What controls have we put in place?

**Mr. Anil Rai Gupta:** I think the controls are there, but sometimes it is really difficult to control people at times. People have gone ahead and given commitments and all, which could have happened at other places also. We have also reviewed the internal controls based on these challenges and having said that we do not believe there are significant issues on the same account in any other including Thailand. You have taken some conservative estimate based on what the new management has been claiming. But on the control side it is more of what people go out in the market and the commit. So, I think is what we are trying to control further. There is learning in these things which we are not doing.

**Mr. Vikash Mantri:** Thank you sir and best of luck.

**Moderator:** Thank you sir. We have our next question from Mr Atul Tiwari from CitiGroup. Mr. Atul please go ahead.

**Mr. Atul Tiwari:** Good morning. My question is on the remaining growth in the current quarter in India. If we look at the first half numbers the growth was very strong 18-19%. Suddenly it decelerated to 5%. We understand that there are a lot of moving items here and there is some commodity price glacier in the segment, but why this kind of sudden deceleration? What is driving it? Is it demand deceleration or competitive intensity? What has caused this sudden deceleration?

**Mr. Anil Rai Gupta:** I would not even attribute it to a whole lot of commodity prices coming down. That has happened more in the month of December and January. That affects mainly one of the product categories. So, one or two like cables and wires. It is not really something which is, basically it is related to the demand on ground situation and this we have not even seen in our company, but there are many other companies that we have been tracking and in the industry that are seeing a similar thing. As I said we are expecting this to be temporary. Things should improve in the near future and we do not see through our internal understanding. We do not see it is because of any increase of competitive pressure. In fact our market shares have not altered in this time.

**Mr. Atul Tiwari:** So, basically the demand from the consumer end has slowed down?

**Mr. Anil Rai Gupta:** That's right. Both consumer and industrial.

**Mr. Atul Tiwari:** Since the quarter got over, in the month of January have you seen any signs of pickup or is it same as what it was in the quarter?

**Mr. Anil Rai Gupta:** We have not seen much change in the all round situation as I have already said and it might take some more time. Hopefully it should be much sooner, but it might take some more time.

**Mr. Atul Tiwari:** Sir, just to dig a little deeper, I mean what signposts are you looking for to conclude that this could pickup over next or one or two quarters? I mean it could continue for next one year also right so what makes you believe that it will pick up in next one or two quarters?

**Mr. Anil Rai Gupta:** So, I think when the sales start improving, that will be the best signpost, but as a company we are more optimistic than this. There have been times in the past also where one or two quarters have gone like this and I think we are definitely hoping the way things are happening, the way the government is also trying to give us a lot of impetus to growth, we should expect this to be much sooner than later.

**Mr. Atul Tiwari:** Sir my last one is on the inflation environment. We have seen Havells doing very well in terms of the revenue growth partially driven by price hike in high inflation environment over past three to four years. Now however going ahead inflation generally in India is likely to be much lower. WPI could be even negative for some time and in that environment what's your thought? Would you guys be taking the same kind of price hike across the product category and if not will lack of price hike have an impact on your revenue growth and profits?

**Mr. Anil Rai Gupta:** I don't see any reason why lack of price hike would impact the growth - it all depends upon the market situation. If the costs are increasing definitely it has to be passed on. That is the strength of the brand that we do not unnecessarily get into price competitive issues that we fight on price. Our brand and distribution is quite strong to take care of that. However, if there is not cost increase, we would rather pass that benefit on to the consumer, rather than making sure demand is there. In fact we would be happy if there is not a very inflationary kind of a scenario wherein lower prices can actually increase the demand. So, I don't see any reason why it should impact the demand of not taking price hike so should impact the demand in any way.

**Mr. Atul Tiwari:** Okay thanks a lot.

**Moderator:** Thank you sir. We have our next question Mr. Manish Agarwal from Barclays. Mr. Manish please go ahead.

**Mr. Manish Agarwal:** Thanks for taking my question. Firstly, are we participating in a DISCOM LED procurement program or any government procurement program? If yes, are these different margin orders?

**Mr. Anil Rai Gupta:** We are evaluating this at the present moment. It's based on our cost structures and we don't know the margins because we don't know the final price at this stage. We are evaluating our capacity issues also, because they require it within a particular period of time. So, we are evaluating at this stage.

**Mr. Manish Agarwal:** So, is there some eligibility criteria that only domestic player can participate?

**Mr. Anil Rai Gupta:** That's right.

**Mr. Manish Agarwal:** Have you highlighted that traditional lighting had declined in the quarter so is it specific to the CFL demand or the other traditional lighting?

**Mr. Anil Rai Gupta:** It is mainly CFL. Within fixtures also the CFL fixtures and tube light fixtures are also reducing and it is being taken over by LED fixtures.

**Mr. Manish Agarwal:** I joined the call a bit late so could you please reiterate your revenue and guidance for the year.

**Mr. Anil Rai Gupta:** We haven't given any guidance for the year. It's just that we have mentioned that this quarter we have grown by 5% in the third quarter and we are seeing that the on ground situation is similar so we will see how things improve in the next quarter and we might be in a better position to comment upon that sometime after the end of the quarter.

**Mr. Manish Agarwal:** That's all from my side, thank you sir.

**Moderator:** Thank you sir. We have our next question from Mr Jasdeep Walia from Kotak.

**Mr. Jasdeep Walia:** Good morning sir. Thanks for taking my question. I believe sir your company has taken very aggressive price cuts in the water heater segment. In the past we haven't seen Havells really cutting prices aggressively to compete in the market so could you just give us a background of why this happened and the rationale behind this?

**Mr. Anil Rai Gupta:** No I think I don't see any price cuts that we have done in the past. There might have been some price rationalization, because as I said we have just started manufacturing in-house rather than importing. So for certain models there might have been some price rationalization, but as a company policy we never believe in price cuts.

**Mr. Jasdeep Walia:** Also could you talk about the health of the sales channels in terms of the working capital situation of your distributors and dealers? Is it comfortable or is it stressed?

**Mr. Anil Rai Gupta:** As a company we believe that as the demand has decelerated in the third quarter we also as a company never do any channel stuffing. So, I would say that the situation and its channels would also remain the same, except for the fact that the demand is not the same as it was in the first and second quarter. As far as Havells is concerned we don't see any channel stuffing at the channel end.

**Mr. Jasdeep Walia:** So inventories in the channel are comfortable?

**Mr. Anil Rai Gupta:** At least for the Havells channel yes.



**Mr. Jasdeep Walia:** That's all from my side, thank you.

**Moderator:** Thank you sir. We have our next question from Ms Gunjan Prithyani from JP Morgan.

**Ms Gunjan Prithyani:** Hi sir, thanks for taking my questions. I have two questions; firstly on your lighting segment, could you give us some sense of the portfolio breakup in terms of how big is this traditional non-LED portfolio which is de-growing and for how long can this be a drag on the entire segment growth?

**Mr. Anil Rai Gupta:** It is a very difficult to say at this stage, because right now as I said 73% is coming from traditional lighting and 27% is LED, but over a period of time this will get converted very fast. Thankfully we are not in the GLS and the FTL businesses and from a light sources point of view we are only in the CFL segment. We expect that the CFL business would continue for many years, though it might not show any growth or might even show some de-growth in the coming years, but there is a large market and not everything will get converted into LED at least in the next few years.

**Ms Gunjan Prithyani:** How much would be fixtures as the proportion of total and either even CFL led fixtures are also seeing that kind of sharp de-growth?

**Mr. Anil Rai Gupta:** That's right. So, right now fixtures are almost about 65% of overall things. As I said traditional fixtures are also seeing that kind of a de-growth, but very quickly taken over by LED fixtures. So, any person who requires LED definitely or any fixture is now going in for LED fixtures, because the price difference is decreasing within that. In fact there is far more similarity in price of a fixture, rather than the lamps also. With time we will see fixtures changing to LED very quickly as compared to other sources.

**Ms Gunjan Prithyani:** Is there any pressure in terms of LED that there may be the volume growth in LED might be much higher, but prices are coming down so probably the value growth in the LED led products is lower?

**Mr. Anil Rai Gupta:** Yes, in fact there will be continued price reduction in LED, but this will be good for the industry, because overall that will mean that the change towards LED would be much faster and there will be I think over a period of time the margins would remain similar as compared to the traditional fixtures. So, it will be dependent on the overall market growth - not because of deceleration in one part and inflation in the other part. Overall market growth will be there, which will be the main reason for the growth of fixtures as well.

**Ms Gunjan Prithyani:** I was just moving to your switchgear segment, because we've seen a growth really moderating in this segment I mean even first half was better than other segments, but switchgears was pretty moderate. So, what is the trend here? Also, if you could give us some sense on the margins here?

**Mr. Anil Rai Gupta:** I think switchgear we have seen that it also depends on the macroeconomic situation. We actually didn't see in cables and wires it was more of pent up demand in the first half wherein a lot of projects were getting closed so there was moderate demand in switchgear, even in this year, even the third quarter we see moderate growth there. This will depend upon the overall demand uptake which will happen with the ground situation improving. So, we expect the switchgear should also improve along with other divisions when growth comes in.

**Ms Gunjan Prithyani:** Margins now should we look, because the margins for switchgears have been very volatile over the last 4-5 quarters so what is the stabilized margin that we should look at in this segment?

**Mr. Anil Rai Gupta:** I think last year there was some one-off things in product liability, but now they are stable around 35-36.

**Ms Gunjan Prithyani:** Just lastly, on your ad spends, how should we look at it? In terms of launching new products or even in consumer durable segment we have been doing aggressive promotions so how should we look at ad spend in terms of sales?

**Mr. Anil Rai Gupta:** We'll continue to maintain the same percentage in ad spends as we have been doing in the past.

**Ms Gunjan Prithyani:** We would it be around 3-3.5% or it will go higher from these levels?

**Mr. Anil Rai Gupta:** No, around 3-3.5% overall sales.

**Ms Gunjan Prithyani:** Okay, thank you so much.

**Moderator:** We have our next question from Mr Renjith Sivaram from B&K Securities.

**Mr Renjith Sivaram:** Good morning sir. Most of my questions have been answered. Just wanted to know in LED you are there only in fixtures right? We are not there in lamps?

**Mr. Anil Rai Gupta:** No, we have a portfolio of lamps as well.

**Mr Renjith Sivaram:** In that what percentage will be fixtures or LED overall portfolio?

**Mr. Anil Rai Gupta:** No, we have a separate portfolio for LED lamps. We have a separate portfolio for fixtures.

**Mr Renjith Sivaram:** So in that overall like lighting you said 27% is coming from LED...

**Mr. Anil Rai Gupta:** I think almost about 30% would be LED lamps.

**Mr Renjith Sivaram:** Just wanted to know how do you look at Sylvania because now Sylvania one year is over so next year what is the growth and margins for Sylvania if you can help us with that?

**Mr. Rajiv Goel:** Sylvania as we mentioned, we continue to guide on a stable basis. If you look at region wise Europe we expect it to remain stable and profitable and in line with what it has delivered this year. America; we do see improvement in revenue as well as in margins and Asia as we said should come back to normal after this one-off fact. So overall you see the focus is more on conserving the profitability and do more cash accretions for working capital management in the business. So, we are not looking for very high growth in the revenues in that business.

**Mr Renjith Sivaram:** So it will be kind of flat growth with around 6.5%?

**Mr. Rajiv Goel:** Yes, I think we have been guiding 5 to 6-6.5%. I think those are the guidelines we would like to maintain. If there are certain accretions to there on a quarterly basis. I think we will sort of discuss with you accordingly.

**Mr Renjith Sivaram:** Anything more in terms of that higher depreciation, tax rate?

**Mr. Rajiv Goel:** No I think tax rate is for seven years. In Italy, you see there was some tax assessment and suddenly I don't want to comment upon their tax regime whatever. This depreciation is purely because of a few plants there are lamps plants in India and more aggressive in Europe. There could be a few challenges with depreciation, because we have to take more impairment on that. I think these are all non-cash items and should not impact the business per se.

**Mr Renjith Sivaram:** As a company as a whole we are seeing good strategically LED will be the driver in the lighting segment so will we see a technology transfer happening in Sylvania in terms of getting more into LED space with more facilities in India, increasing the capacity, is there anything like that in the thought process?

**Mr. Rajiv Goel:** I think you might be aware Neemrana is already supplying a lot of LED products to Sylvania and past one year we already supplied 80-90 crores to Sylvania. I think this is the ongoing process which will continue to happen. There are collaborations on various projects and products, but there is no such thing as technology transfer per se. There is collaboration per se you see being part of the same group there is active collaboration there and I think that should accelerate because of the LED now.

**Mr Renjith Sivaram:** So, any thought process in terms of additional capacities in Neemrana are being given?

**Mr. Rajiv Goel:** Neemrana has enough capacities and yet it is one of the suppliers to Sylvania while China also continues to be competitive. Sylvania will collaborate with Neemrana to bring on more cost effective products.





**Mr Renjith Sivaram:** Okay thank you sir.

**Moderator:** Thank you sir, we have our next question from Mr Jignesh Kamani from Nirmal Bang.

**Mr. Jignesh Kamani:** I just wanted to know have the copper prices declined and which market will it pass on the benefit so we maintain our absolute per kg margins or we try to maintain a percentage margin and absolute amount of the EBITDA or the gross margin will fall down?

**Mr. Anil Rai Gupta:** No we plan to maintain our percentage margins.

**Mr. Jignesh Kamani:** In absolute terms it will fall down as you can see there has been decline in the price.

**Mr. Anil Rai Gupta:** That's right.

**Mr. Jignesh Kamani:** And if you talk about the other products where you can say that commodity is not efficient like stabilizer and other plastic component where the plastic prices are coming down so we are planning to retain or we are planning to pass on to the customer?

**Mr. Anil Rai Gupta:** Generally speaking there is not a history of price reductions in the other product category.

**Mr. Jignesh Kamani:** So you will see some improvement in the gross margins in that category?

**Mr. Anil Rai Gupta:** Let us see how it pans out in the future.

**Mr. Jignesh Kamani:** Last question on the LED. As of now we have witnessed very intensive growth in LED, but if you think about LED lifespan is much better than the CFL so after some time you will expect that the growth in the LED segment will come down because the investment demand will be very low in LED compared to CFL?

**Mr. Anil Rai Gupta:** We are still a long way from that as far as LED lamps are concerned even GLS lamps are there in the market, FTLs are in there. I think it's too early to comment anything upon that. I think with the economy improving with the lifestyles improving the lumen requirement the lumen output requirement in any developed economy keeps increasing and hence not only with population growth, but with the economic growth and the socio-economic growth of the country lighting requirement would continue to increase. Yes, there is a technology shift, but that is not going to hamper the growth in the business also.

**Mr. Jignesh Kamani:** What would be the lifespan of LED versus CFL?



**Mr. Anil Rai Gupta:** It ranges from product to product. In case of fixtures it will differ, but generally speaking whereas CFL can go up to 8,000 hours and LED lamps can go up to 25,000 hours.

**Mr. Jignesh Kamani:** Thanks a lot sir.

**Moderator:** Thank you sir, we have our next question from Mr. Alok from SBI Cap. Mr. Alok please go ahead.

**Mr. Alok:** Thanks for taking my question. This is primarily on account of the lighting and fixtures segment especially on the top line. We were mentioning that the LED actually has grown by 60% this year and accounts for nearly 25% of the lighting and about the LED fixtures account for nearly 65% of the sales in LED. Also the pricing is also somewhat similar to the lighting in LED space only. If the price points are seen converging and margins are also contracting in some sense. In absolute terms does it feel that margins will also be under pressure and you'll not be able to maintain these margins going ahead? Is that the right way to look at it? What has been actually the cause of lower growth in electrical consumer durables phase which has been growing strongly in the first two quarters nearly 20% plus in the first half. I just want to know on the color of that. That's it.

**Mr. Anil Rai Gupta:** As far as your first question goes, I think we are probably one of the first companies who are improving margins in lighting and fixtures and mainly because of in-house manufacturing conversion to LED as well. So, I don't see any reason why we should see conversion contracting margins in the future. In fact we should be looking at improving if not improvement at least maintaining them.

**Mr. Alok:** But you said that due to technological improvement the pricing might actually contract so if pricing also contract.

**Mr. Anil Rai Gupta:** All I mentioned was the cost will come down and hence the pricing will also come down. The pricing of LEDs are definitely coming down and it will continue to happen in the future.

**Mr. Alok:** In absolute terms out there also the absolute value will also come down in some sense?

**Mr. Anil Rai Gupta:** The picture has so many different scenes. It is a very fast and new market. It's very difficult to say. All we can say is in percentage margins we will try and maintain the margins and we have shown improvements even in the last year. There is a continuous improvement going on. I wanted to mention that in the third quarter the on ground situation of demand has slowed down and this is impacting all the product divisions including consumer durables.

**Mr. Alok:** Is there anything specifically out there which has been primarily been impacted in the consumer durable segment. My last question will be on anything the



company is trying to do to actually sell its products or market its products through online retailing?

**Mr. Anil Rai Gupta:** I think we are a very channel oriented company and hence we are evaluating this new channel where we see at this moment not very well regulated in terms of disciplining and we are a discipline oriented company and we seem far more disciplined in the modern trade format and that's where we are putting a lot of focus on, but definitely in ecommerce we are not seeing that kind of a discipline as in mobile. So we are still evaluating we are available on ecommerce. It is still a very very small part of our business.

**Mr. Alok:** Thank you very much.

**Moderator:** We have our next question from Mr. Kashyap Pujara from Axis Capital. Mr. Kashyap please go ahead.

**Mr. Kashyap Pujara:** Hi good morning and thanks for taking my question. My question is related to the previous gentleman's question regarding online presence. Are you seeing a situation where etailing is actually posing as a threat to some extent in terms of your channel or your retailers selling it to the online players and getting into a discount and a channel conflict ensuing because of that? Could you share some light on that?

**Mr. Anil Rai Gupta:** We still believe that this kind of product category especially which is more present on etailing which is consumer durables. That is a brand oriented market and yet there will be a challenge if the same brand is available at different prices at different salaries. So, that is there, we are focusing upon. We don't think if different brands or non-branded products with not the same features and the quality levels are available at cheaper prices that are impacting the demand of branded products in any way. So, that is not the concern, the concern is more on the differential pricing between channels and that is something which we have to be careful about.

**Mr. Kashyap Pujara:** Off late we did see some participants actually point out that dealers are actually or the channel is actually selling branded products and they are registered with the etailers. On the appliances side. So what really happens is that you might not choose to sell it, but you might not have control on a dealer who might choose to sell it and the online player might just discount it resulting into product conflict within your channel. So, you so far are not seeing any of those issues.

**Mr. Anil Rai Gupta:** Not so much in our brand.

**Mr. Kashyap Pujara:** Not so much in your brand. Okay, second my question is more pertinent to pension liability. Therewhile I understand you mentioned even in the information update that the payout is expected to be similar over the next 7-8 years to the tune of 1.5 million Euro, but what I want to understand is as such you have a position which is underfunded in that sense, now what is the situation in terms of the

actual assumptions that you are resting this on, what is the average age of employees and are we seeing a situation where there could be some risk to these assumptions and the company might need to fund some of these liability from our coffers?

**Mr. Anil Rai Gupta:** No, actually the assumptions have been validated by our global auditors E&Y and also these are actually done by very renowned insurance agents so I don't think we have any influence over that. To be fair I think we have been more conservative than we would like them to be. Other thing you should also know that these schemes are old schemes. There is no fresh subscription to these schemes. Now our employees all over the world have fresh enrollment in this. We are carrying the baggage from the past so the thing is it is going down every year, because people are going out of the scheme either because of death or whatever. So the number is only going to go down. Do it at 8 to 9 years hopefully the bondage will not continue to be as negative as they are today so that will improve. We may also consider setting up the fund in those 7-8 years. So, if we sum up all of that then we do not see much issue on the immediate side of completing the course.

**Mr. Kashyap Pujara:** My question was more on the perspective that the company is pretty old, I'm sure you will not be having fresh amount of recruitments that could be happening and you will be having people who will be sitting there. So, as the number of years pass in that sense you don't see a risk basically.

**Mr. Anil Rai Gupta:** No. In actual evaluation when you age that is already considered as part of it that's why the number is so high. You see this number is not for next 4-5-7 years. It is for next 20 years. If you look at the demographic profile just look at what is the age, what is the livability in Germany - not in India. You appreciate how it is counted basically.

**Mr. Kashyap Pujara:** No fair enough.

**Mr. Anil Rai Gupta:** It has been taken care of. What I am saying is not because we are hiring; in any case it is now not open to any new subscription now.

**Mr. Kashyap Pujara:** Fair enough. Last point would be that if you could just give a recap on the kind of principle payments that we have at Sylvania on an annual basis. Just wanted to check whether our rebate can clearly maintain the interest stand of principle payouts?

**Mr. Anil Rai Gupta:** Correct. So lastly we have paid 14 million again from our own resources in Sylvania. Next year number is 14 to 15 million. Maybe middle of next year or later next year we will also start evaluating refinancing of the same, because it is now close to 1.5 net which is a very low number from a European perspective so I don't think we need to further pay down. So, we will look at the refinancing of the same in some time to come.

**Moderator:** We have our next question from Mr. Vibhor Singhal from Phillip Capital. Mr. Vipul please go ahead.

**Mr. Vibhor Singhal:** Good morning sir. Just to elaborate a bit further on the pension liability part so your note mentioned that the annual pension payout in Germany is 1.4 million Euros. So, what would be the total number for Sylvania putting all the other geographies together?

**Mr. Rajiv Goel:** Look, largely these are in UK and Germany so UK it will be around 1.2-1.3 million pounds, but that is paid out of the fund - that is not paid out by us.

**Mr. Vibhor Singhal:** Okay so the 1.4 million Euros is something that we payout from the operational profit that we generate?

**Mr. Rajiv Goel:** Correct. I think you could deem it something like a self insurance, because we have not created a fund. If we had created we would have to. In fact if you just go back, when we acquired this company, this pension liability we had deducted as part of the purchase consideration. The option at that time would have been to fund it so we opted not to fund it.

**Mr. Vibhor Singhal:** So, you also mentioned there was a number that you mentioned that was from 900,000 per quarter cash flow?

**Mr. Rajiv Goel:** No, 900,000 is quarterly we make a provision under Indian GAAP, because we are not supposed to do that. In any case we do it out of the conservatism.

**Mr. Vibhor Singhal:** So probably you will continue doing that and in the last quarter probably what will be the adjustments you will probably do that.

**Mr. Rajiv Goel:** It could be positive it could be negative. It could work.

**Mr. Vibhor Singhal:** Lastly, the digit on the change in pension liabilities that we have taken in this quarter in the nine months is 7.9 million Euros so let us say tomorrow if the bond is reversed, would this lead to corresponding profit as well, I mean the magnitude might be different, but would it be a possible profit also and would that flow through the PL also.

**Mr. Rajiv Goel:** Yes. Leaving India will not shift to as far by then, but if it is not under current Indian GAAP then that will be the treatment - you are right.

**Mr. Vibhor Singhal:** Then the conservative policies will have to book the profit?

**Mr. Rajiv Goel:** Yes, because you have to reflect the change in pension liability. It does not talk about negative opportunity.

**Mr. Vibhor Singhal:** All this mark to market and majority of it is non cash out items right?

**Mr. Rajiv Goel:** Here the only cash is 1.4 million which you have already taken as part of operating profit. We don't even consider it exceptional. Normal operating profit.



**Mr. Vibhor Singhal:** Thanks a lot for explaining that.

**Moderator:** We have our last question from Mr. Ashish Jain from Morgan Stanley. Mr. Ashish Jain please go ahead.

**Mr. Ashish Jain:** Hi. My first question is on margins so in Sylvania given that we are importing quite a bit of the sales from China which is dollar denominated - is that not negative for margins for us when even Euro is weakening versus dollar?

**Mr. Anil Rai Gupta:** Yes I think you are right, but as you said we do pass it on in the market because incidentally in Europe no one is manufacturing these products locally so most of the products are imported from China; it is an industry issue. For instance in Europe we pack our Euro dollar now at 1.1. All over costing is 1.1. So, if it reduces further we will further reduce it to maybe 1 or whatever the number would be. So, there could be lag effect; I will not discount that, but we will be able to protect our margins because we will reflect it into pricing for the market.

**Mr. Ashish Jain:** Secondly on the domestic business side, let's assume macro recovers in say 2-3 months, is there any particular segment where you will be more bullish in terms of growth coming back faster than the others?

**Mr. Anil Rai Gupta:** Actually, we believe this is something which should lift all the boats. So hopefully I think as you say so hopefully the macro environment because all over products in some sense are related to the infra to the capex and also to the consumer. We believe that the sentiments should be improving on all the counts and it should reflect in all the product categories.

**Mr. Ashish Jain:** Thank you so much.

**Moderator:** I would now hand over the call to Mr. Anubhav Gupta. Over to you sir.

**Mr. Anubhav Gupta:** Thank you everyone once again for joining in the call. This concludes our conference for today. We thank you for your participation. You may please disconnect your lines now.