

Transcript

Conference Call of Havells India

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Presentation Session

Moderator: Good evening ladies and gentlemen. I am Honeyla, moderator for the conference call. Welcome to Havells India 4QFY17 results conference call hosted by HDFC Securities. At this moment, all participants are in listen-only mode. Later, we will conduct a question and answer session. At that time if you have a question, please press * and 1 on your telephone keypad. Please note this conference is recorded. I now would like to hand over the floor to Mr. Naveen Trivedi from HDFC Securities. Thank you and over to you sir.

Naveen Trivedi: Good afternoon everyone. On behalf of the HDFC Securities, I would like to welcome the management of Havells India to discuss the post 4QFY17 results. We have with us today the senior management of Havells India, represented by Mr. Anil Rai Gupta, Chairman and Managing Director, Mr. Rajesh Gupta, Director – Finance and Group CFO, and Mr. Rajiv Goel – Executive Director. I would now handover the call to Mr. Anil Rai Gupta for his comments. Thank you and over to you sir.

Anil Rai Gupta: Thank you Naveen. Good afternoon everyone. We are satisfied with the quarterly and annual growth in the business. The growth has been broad based and across the segments, although the margins have been impacted by the gradual withdrawal of demonetization schemes and deferred price increases to offset material cost escalation, that has also been completed by the end of the fourth quarter. The complete exit from international business is in line with our focus on domestic markets. We expect to close the transaction in the next few months. We are also happy to announce that we have completed the acquisition of Lloyd's consumer business as a mark of foray into large appliances. The transaction has been largely funded by internal accruals and cash.

For the future we are quite positive on growth ahead with a wider portfolio to serve our esteemed consumers and delve deeper into homes. We can now proceed to Q&A.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have any questions, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again.

Sir, the first question comes from Mr. Manish Agarwal from Bernstein. Please go ahead. The first question comes from Mr. Manish Agarwal from Bernstein. Please go ahead sir.

Manish Agarwal: Hello, good evening sir. Sir, with the Lloyd's consumer business acquisition completed, how are you now looking at the consolidated growth margin, ad spend for FY18? And do you also see potential for any channel synergies, especially for products like air coolers going forward?

Rajiv Goel: So, I think your question is about Lloyd. As you know we had closed the transaction just a couple of days back. So, I think those strategy will be discussed and will unravel in the next few months and quarters. So, I think on this call we will not be able to elaborate much on the strategy. What is definitely evident is that this is a high growth market. I think the entire industry and the listed peers have also performed well in the air conditioning segment. We understand that even Lloyd has been able to maintain the growth momentum. So, the intent will be positively to take that growth forward. And over a period of time, will be synergized with Havells as well. So, as the channels and the other things are concerned, I think this is something which will unfold in the next few quarters.

Manish Agarwal: Okay. Sir, secondly on the Q4 results, could you give us some more color on the ECD segments, especially on the water heaters and fan and also cables, the volume growth in the quarter?

Rajiv Goel: So, we do not give the segmentation within ECD. All we can say is that the growth has been across the BUs within the ECD. And as far as the water heater is concerned, I think there is a very high growth. And we are now among the top three players in the country, in the water heater segment. So, I think all these segments of ECD have registered good double digit growth.

Manish Agarwal: Okay. And cables volume?

Rajiv Goel: Yeah, that is around 11%. Q4, you are asking?

Manish Agarwal: Yeah.

Rajiv Goel: Okay, 11%.

Manish Agarwal: So, the volume was 11%, okay. Thank you sir.

Moderator: Thank you sir. The next question comes from Ms. Renu Baid from IIFL. Please go ahead.

Renu Baid: Hi, good evening sir and congrats for the strong results. Sir, my first question is on the switchgears and the market. If you see the overall, we have seen a reasonable uptake in this business segment come through. If you can elaborate on what has been the growth drivers? Is it other than tier-II, tier-III towns, any uptake in demand? And simultaneously how has been the performance of Reo and Standard brand here?

Rajiv Goel: So, I think, again switchgear, as we have mentioned in our investor memo that it is led by EWA and only MCBs also staged a recovery. You could also contextualize in a way that this has been a muted category for the last few years. So, I think there are some green shoots which are happening in the building segment, which is helping this. So, one quarter, it should not be generalized to say that these are

now the growth numbers going into future as well. However, we definitely feel there is a positivity around this entire segment and that we should be looking at the double digit growth going forward into the switchgear segment. But, we cannot extrapolate Q4 into this segment.

Renu Baid: Okay. And specifically on your comments on strategy for the mass market brands like Reo and Standard, how are you looking at growth in those segments and how is the performance of both of them in the last financial year?

Rajiv Goel: The growth as we said, without exception has been across the segments. So, there is not a segment which has not grown. Reo, you see, it is still in the infancy stages. But, whatever we have launched in Reo, I think it has got a fairly good response. And I think with the Government focus on affordable housing, I think Reo will be one of our beachhead products category into this segment.

Renu Baid: Okay. And sir, overall when we look at the company, this year the margins were a bit impacted because of demonetization schemes and incentives. So, as we step into '18, what is the outlook, would it be fair to assume that a double digit growth should be continued with the possibility of margin expansion coming by?

Rajiv Goel: Our endeavor has always been to maintain the margins. I think the first two quarters if you see, we were pretty much on track on the margin improvement, except for this demonetization, I think which we believe was necessary to respond in the manner we did. I think our endeavor would be definitely to revert back to our earlier margins and improve upon the same.

Renu Baid: Sure Sir, that's it from my side. I will get back with more questions if required. Thank you.

Rajiv Goel: Thank you.

Moderator: Thank you ma'am. The next question comes from Mr. Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra: Hi sir. Thanks for taking my question. Sir, on your margin again, just wanted to get a sense, this year you saw almost 35% growth in the employee cost, which was due to the new hiring that you had done. So, do you see that this cost growth now will kind of mirror top line growth going ahead or is there some further significant investments to be made in this area?

Rajiv Goel: Let me put it this way that the heavy lifting has been done last year. So, we do not expect that similar numbers would be there in terms of the growth. However, the augmentation of the company at various levels we will continue to have. But, larger share of that seems to have been completed in the last year.

Arnab Mitra: Sure sir. Secondly, I wanted to understand on the EESL and the other segment, where you have clocked about 128 crores this year. So, how should we look at this for the next year, because you would already have an order book, if at all, for this segment?

Rajiv Goel: Yeah, so I think we continue to have a healthy book on the EESL. The margin seems to be losing ground there, because the margins are lower there. So, we have been very selective on the EESL segment and that is the reason we always report it separately. We do not want to unnecessarily bloat the lighting segment by combining the two. So, EESL we continue to play in the niche segments, where we can play on the technology and on the complexity side. So, we have a healthy order book on the EESL. But, I would not like to comment upon the numbers now.

Arnab Mitra: Sure. And just lastly on the lighting business, if you could tell us what was the growth excluding exports, because that seems to have declined, the exports to Sylvania. So, what is the growth ex of that?

Rajiv Goel: So, it was around 9%. But, if you look at, if you exclude CFL and the convention technology, then our growth was close to 29%. The way I put it is domestic ex CFL / conventional technology.

Arnab Mitra: Okay, sure sir. Thanks. That is it from my side.

Moderator: Thank you sir. The next question comes from Mr. Adithya from Invest Tech. Please go ahead.

Adithya: Good evening sir. This is Adithya from Invest Tech. Sir, the first question was on the overall real estate market, wherein you had hinted that you are seeing some green shoots. So, is it on account of let's say something like RERA, which possibly might be forcing builders to be completing their projects and therefore demand for electrical products getting boosted?

Rajiv Goel: It is little bit difficult to attribute this to any single reason. As I said, it could also be the base effect and the fact that this segment has been muted for some time now. So, and again I will not like to leave you on extrapolation of the Q4. However, for the year also we have done around 11% in switchgears. So, it gives us the confidence that this momentum can be maintained. Definitely the renewed focus by the Government itself on the entire construction and the housing segment, whether it is affordable or I think the falling interest rates in the housing segment, I think it must definitely give a fillip to the segment. And we do hope the kind of investments we had made, the brand we command in the market, the distribution reach we have, we should be disproportionate beneficiary (audio break).

Adithya: And sir, what we understand is that unorganized players have become much smaller immediately post demonetization and therefore at least in the last quarter we saw a sharp market share gains for most organized companies. How is that trend playing out? Are we seeing unorganized guys making a comeback or what is your expectation post GST?

Rajiv Goel: Unorganized, we believe was under the sort of wraps only for a short period of time after demonetization. I think they are pretty much active in the market. So, we do not believe in any significant gains for the organized, because of the absence or decline of unorganized. Even the GST, I think first of all it needs to be seen what kind of rates Government proposes for various industries and based on that only one could react whether this will be neutral or beneficial. However, one broad comment will be that we should never undermine or underestimate the strength of unorganized,

because they are also entrepreneurs in their own way. So, as a company we will not underestimate them. However, the consumer will be forced to transition towards more branded, service-oriented companies. There we believe that we will be able to capture the larger mind share of the consumer.

Adithya: Sure. And sir, just a last clarification bit. Would we be treating Lloyd as a subsidiary or would it be a part of the parent company only, maybe as a separate segment?

Rajiv Goel: So, this is the, Lloyd will be the division of Havells and we will continue to report it as an independent segment into our results.

Adithya: And any idea about working capital sir, in that business?

Rajiv Goel: As I said we had just acquired it a couple of days back, so I think maybe give us another quarter and then I think we will have more relevant details for discussions.

Adithya: Sure sir. Thanks a lot. This is really helpful.

Moderator: Thank you sir. The next question comes from Mr. Atul Tiwari from Citigroup. Please go ahead.

Atul Tiwari: Sir, what will be the guidance for the base business, excluding Lloyd in terms of the revenue growth for FY18 and the margins?

Rajiv Goel: Atul, you know we do not provide any guidance. All we can say is that what we had achieved this year, we hope that we can maintain a similar trend in the next year as well. I think there seems to be a bit of a tailwind in the economy as well and the kind of action the Government is taking. So, hopefully I think this should all converge and we could have a better year in FY18.

Atul Tiwari: Okay sir. Thank you.

Moderator: Thank you sir. The next question comes from Mr. Bharagav Buddhadev from Ambit. Please go ahead.

Bharagav Buddhadev: Good afternoon sir and congrats for a good set of numbers. Sir, in terms of channel, how is it taking up post April? We are hearing some sort of channel liquidation has started in the run up to the GST implementation. So, what is your take sir over there?

Rajiv Goel: We haven't experienced any such sort of move by the channel. Definitely I think once the rates are prescribed by the Government, I think there will be more awareness to be created and there have been discussions ongoing with the channel. But, we haven't seen any such moves by the channel, where they are..... At the moment there is nothing like that.

Bharagav Buddhadev: Okay. Secondly sir, is Havells looking to supply fans to EESL, is there any plan to do that?

Rajiv Goel: No, we have no such plans.

Bharagav Buddhadev: In your opinion what could be the size of that market sir in FY18?

Anil Rai Gupta: Which market?

Bharagav Buddhadev: The EESL market sir, any sense?

Rajiv Goel: In fans? I think it is very early days. We have got some I think tenders and all. But, frankly we are not focusing on that market. So, I don't think we would be in a best position to estimate the same.

Bharagav Buddhadev: Okay. And lastly sir, do we expect this increase in receivables to now recede in FY18?

Rajiv Goel: These are largely related to EESL and all I think is that the EESL business grows, there will be some temporary increase in that, but these are not attributed to any structural change in the (not clear) or let's say the response from the channels. So, these are largely related to EESL, which will wash out as the business goes up or goes down.

Bharagav Buddhadev: Okay sir. Thank you very much and all the best.

Rajiv Goel: Thank you Buddhadev.

Moderator: Thank you sir. The next question comes from Mr. Charanjeet Singh from B&K Securities. Please go ahead.

Charanjeet Singh: Hello sir.

Rajiv Goel: Hello Charanjeet.

Charanjeet Singh: Sir, my question is related to the standard brand, if you could please help us, like, how large it has become right now and how has been the growth in this particular brand?

Rajiv Goel: That is around 400 crores and I think it is growing well. I will not be able to elaborate on the specific percentages. But, I think it has received a very good response from the channel and the consumers. And I think it has created its own niche in the market and following the brand. So, we are very hopeful that this brand has got a lot of potential from here to move forward.

Charanjeet Singh: Okay sir. And sir, in the lighting space, would you be able to help us understand how was the fixtures and LED lamps and institutional lighting, some color on these usual segments?

Rajiv Goel: I think we have shared that the domestic ex CFL, our growth is around 29%. And I think that is largely lead by the LED lamps and as well as the fixtures. So, I will not be able to comment specifically between them, because that becomes sometimes very difficult. But, one thing you should realize is that the market

eventually will move towards fixtures, because of LED. So, there won't be much lamps business. As of now it will continue to grow, because there are so many bulb holders. But, eventually the business will be LED, which is already in our case is 75% LED and will be luminaries.

Charanjeet Singh: Okay. And sir, if we see EESL program on LED is expected to continue maybe for the next four to five years, that is what is the understanding which we are getting. And the pressure on the pricing is expected to continue, because of the recent pricing also and the tenders have been pretty low. So, how do you see the price in the LED space in the recent past and going forward? Is the turbulence going to continue or you are seeing that in the retail channel stabilizing?

Rajiv Goel: I think if anything, the prices only will be moving up in the EESL. I think it has already bottomed out. We don't see it can go down any further. And I think the disruption which was supposed to be caused by them is already done. So, I think the market or the channel or the consumer is pretty much now settled. If at all, I think it can only benefit the sector. And we don't expect any further wide movements because of the EESL, at least in the lighting industry.

Charanjeet Singh: Okay. And sir, the last question from my side is on the switchgear segment. Is there, if you can give us an understanding on industrial versus the domestic switchgears and how large is now Reo switches for us?

Rajiv Goel: No, I think we are not doing segmentation of Reo right now. The growth is basically led by EWA in industrial and MCBs are in the high single digit growth.

Charanjeet Singh: Okay sir. Fine sir, that is all from my side. Thanks a lot for taking my questions.

Rajiv Goel: Thank you.

Moderator: Thank you sir. Sir, the next question comes from Mr. Achal Lohade from JM Financial. Please go ahead.

Achal Lohade: Thank you for the opportunity. I wanted to know in terms of the lighting business, how large or what was the proportion of the LED revenue for the year and for the quarter? What is the percentage of....?

Rajiv Goel: LED as I said will be around 70%-75% of the overall lighting vertical.

Achal Lohade: That is for the year or for the quarter sir?

Rajiv Goel: Basically you can say for the quarter, but the year also will not be too far now.

Achal Lohade: Okay. And what is the growth expectation we can work with or what are the thoughts on the new products in the ECD segment now?

Rajiv Goel: The new products, in terms of categories, right now we are not looking. But, the idea is to consolidate what we have and to get deeper into every category to provide the range. So, certainly it is an ongoing process into the business. And we believe we should be able to maintain good growth momentum in the ECD segment.

Achal Lohade: Great. Just last question, in terms of the air coolers; I understand this is the first year of full range of air coolers we launched. How has been the off take? Would you be able to give any color that bulk of this growth is driven by the air coolers as well as water heaters?

Rajiv Goel: No, no, the air coolers have just started. So, it is not really moving the needle in that sense. But, I think our initial reaction from the channel and the consumer is fairly sort of encouraging. So, and I think the next year it will definitely provide a good support to the ECD segment. But, this year it is not really contributing too much to the growth.

Achal Lohade: Right. And water heater, what is the, would you be able to give, because you said you are now among the top three. I understand top three players would have around close to 200 crores kind of revenue of water heater. Would that be a fair assumption, 200 crores?

Rajiv Goel: As I said, we are top three and if you believe that number is around, others 200 crores, I think, we will be around in that vicinity.

Achal Lohade: That is great sir. Congratulations and wish you all the best. I am done sir, thank you.

Rajiv Goel: Thank you Achal.

Moderator: Thank you sir. The next question comes from Mr. Manoj Gori from Equirus Securities. Please go ahead.

Manoj Gori: Thank you sir. Sir, I just wanted to understand, like going forward if you look at the margins trajectory, you have ended the EBITDA with somewhere around 12.5%. And even for the quarter, it was close to that. So, going forward, if we say that the price increases have been implemented, which was late and also the promotional schemes due to demonetization have been pulled back, so does it leave ample of room for margin improvement, given the scenario of your raw material prices moving up?

Rajiv Goel: I don't know, EBITDA, our annual EBITDA is 13.4% and quarter also is the same. And our EBITDA last year was 14.1%. So, as I mentioned in my earlier questions is that we definitely expect we should be improving upon these margins. Hopefully the demonetization is behind us and those schemes are getting rationalized. And I think we should be able to improve upon the existing margins and divert back to our original margins and we further improvement.

Manoj Gori: Okay. So, there would be some impact from Lloyd coming in, for the few quarters at least.

Rajiv Goel: So, right now we are only talking standalone Havells. We are not mixing Lloyd into this. So, Lloyd will be a standalone business. So, I am reacting to what the number of the Havells in some sense as it varies.

Manoj Gori: Right sir. That is all from my side. Thank you very much.

Moderator: Thank you sir. Ladies and gentlemen, we request you to kindly use your handsets while asking your questions. Thank you.

Sir, the next question comes from Mr. Pulkit from Goldman Sachs. Please go ahead.

Pulkit: Sir, this is Pulkit from Goldman. Thanks a lot for taking my question. Sir, first question is, if we were to look at this strong growth that you have delivered, would you be able to give a rough idea of how much this would be a function of looking at new geographies and how much would be organic within the geographies that you are already present in?

Rajiv Goel: Pulkit, this will be pretty much across the board. I will not claim that there are any significant geographies that has been added to really contribute significantly to the growth number. So, geographical expansion and all is something which is an ongoing process, like the bread and butter for us. As marketing company, sales company, we keep evaluating new territories. But, this is not something which has an overweight in the growth.

Pulkit: Understood sir. Sir, my second question is, now that we have got Lloyd within our fold, we have had this significant increase even in capacity in terms of employees etc., last year. What would be the gaps per se for the next few years? So, what I am really trying to really understand is that, would the focus be on growing the top line or is margin expansion from here given that Lloyd is a low margin business, what would be the key management focus from here on?

Rajiv Goel: The focus will be both. You see, we can't have growth without margins and we can't have margins without growth. So, I think the way we have managed Havells for so many years, where the ethos of running the business would remain the same. Nothing is sort of going to sort of dilute that vision which Havells has posted for itself. So, it is not either, or. So, it is something which has to be done concurrently.

Pulkit: What I am trying to really ask is that, with the kind of capacity expansion, would it be fair to assume that with growth the margin expansion would be..... I mean, we have got a new business line altogether and at the same time we have built a new, extra sales force also. So, the benefit of that in terms of margin, could that be substantial is what I am trying to understand or (not clear)?

Rajiv Goel: First of all, the people who have been there, we have built up in the past, is for Havells. Frankly the channel is very different for the consumer, large consumer appliances and for home business. So, currently we do not see any significant overlap between the two, where the synergies will be drawn. So, if that is the question, that capacity expansion has been done primarily for Havells, you see, at that time we were not aware that we will be acquiring the Lloyd. So, you can't link that with

the Lloyd acquisition, because that has to be, basically vindicated by the growth in the Havells business itself.

Pulkit: Sure. Okay, I will actually take that offline, because I need to get into some of those details regarding the building up of the sales force that we have done and the 35% increase in the employee cost, how the benefits of that could actually flow through over the next few years.

Rajiv Goel: Okay, that is fine. You can take it offline.

Pulkit: Sure.

Moderator: Thank you sir. Sir, we have a follow up question from Ms. Renu Baid from IIFL. Please go ahead.

Renu Baid: Yeah sir, actually just wanted a couple of inputs. (a) On the CAPEX for FY18, what is the plan and how would be the advancement for all the three facilities at Neemrana, Bangalore and Alwar (not clear)?

Rajiv Goel: It would be from 150 to 200 crores.

Renu Baid: So there would be reduction, meaningful reduction in CAPEX from what we have seen last year.

Rajiv Goel: Last year was abnormal because of the large land we have bought.

Renu Baid: Right, and any details with respect to how would this be spread across the units?

Rajiv Goel: Sorry?

Renu Baid: Any insights with respect to how this 150 to 200 crores would be spread across the different units?

Rajiv Goel: No, I think, that's something Renu; we will draw up and may be in next few months we can discuss that.

Renu Baid: Sure. Just one more question from my end. On the competitive side over the last, I would say 12, 15 months, have you seen the competitive intensity increasing significantly, and the fact that Havells has taken reasonable price hikes announcements from April, does that provide you sufficient cushion to take care around and post GST?

Rajiv Goel: Take care of what, the margins or what?

Renu Baid: Yeah, take care of the margins.

Rajiv Goel: No, margin is an evolution, it is not going to happen in one month or two months, as far as the competitive intensity is concerned, I think, competition has been there all the time. We never see it is going down or going sort of

up, so intensity remains as it would be in any other sort of growth market. So, it is nothing exceptional.

Rajiv Goel: Of course, the price increases has taken care of the existing cost increases, so you know, in a situation what happens, what changes after GST, that we will be looking up at the time when we know of the exact rates, which will come in GST.

Renu Baid: Right. So, as in, you have seen a bit of softness in commodity prices in the last couple of months, so probably to that extent, there would be some cushion available from the price hikes, which have already been introduced in the market.

Rajiv Goel: Not so much. You know, I mean, when you see commodity price reduction that mainly happens in copper, aluminium is same way, steel is same way, so copper even if it comes down, most of it is used in, in any case, in wires, which anyways gets passed on.

Renu Baid: Right. Okay sir, alright. Thank you.

Moderator: Thank you ma'am. The next question comes from Gunjan Prithyani from JP Morgan. Please go ahead.

Gunjan Prithyani: Hi sir thanks for taking my questions. Just a followup on this prices increases. What kind of price increases have we taken and have these been across the segments or just restricted to the cables and wires segment?

Rajiv Goel: So, we can't spell out the quantum, all I can say is that last quarter we had deferred prices increases because of the impact of demonetization. So, I think, that's something that in a calibrated way we have taken, and these are depending upon the commodity cost impact across the board. So, this is something, which is across, and based upon how much is the commodity cost intensity in various segments.

Gunjan Prithyani: Okay. And the demonetization schemes have now completely been pulled out of the market.

Rajiv Goel: Well, largely.

Gunjan Prithyani: Okay. Sir, secondly, just wanted your thoughts on the growth, how should we look at next year, of course, there have been different segmental variations, let's say switchgear has grown very high in this quarter, ECD has been doing very well in last couple of quarters, so last two, three quarters if I look at, you guys have been really delivering strong revenue growth, and so how should we look at it? Have you seen on the ground an improvement across categories and we should see FY18 as better year than FY17?

Rajiv Goel: So, as we mentioned several times on this call that a) one should not separate Q4, b) we do believe that the growth we are experiencing is also led by improvement on the ground. One cannot pinpoint specific instances to the same. However, there is general improvement in the sentiments and situation on the ground,

which is reflecting in our numbers, and we continue to be positive about future growth outlook.

Gunjan Prithyani: Okay. And sir, last question on the working capital, what has led to this huge increase in the creditor days, I mean, what has changed since last year?

Rajiv Goel: Nothing significantly, but only there is a drive to improve the working capital cycle, so there has been a constant discussion with the suppliers and vendors. So, I think, it is a mix of several things, which have converged together to reflect this improvement.

Gunjan Prithyani: Okay, alright. Thank you so much.

Moderator: Thank you ma'am. The next question comes from Karthick S. from Catamaran Capital. Please go ahead.

Karthick S. Good afternoon sir. My first question is regarding the employee expenses and why it has risen significantly? My second question is about distribution and I wanted to know what has been the growth in the number of dealers, and the growth in number of Galaxy stores and increase in the tier 2 distribution?

Rajiv Goel: So, on the employee action, we have been mentioning, there has been lot of senior level employment at several levels in the company, both at Head Office as well as the branches, so idea has been to make company future ready, get more experienced people also from diverse industries who can manage large teams and large businesses. You might be aware; we also created a matrix structure where we are creating this SBUs, where they will be managing the entire growth and the profitability of the business going forward. So there are fairly structural changes happening in the company, for which you need to augment the manpower with the requisite capabilities and the cost has to be paid for the same. So, I think, this is something that we would argue that it is one time investment into the managerial capabilities of the company and this is what is expected in the numbers for this year. On the distribution side, I think, on this we will not be able to get deeper how many Galaxies and all, maybe if you want, you can have an offline discussion with our IR team and they can help you with the same.

Karthick S. And just to clarify that from next quarter, the numbers will reflect the Lloyd acquisition as well.

Rajiv Goel: That's right.

Karthick S. And in the AC segment, does Lloyd have any inverter ACs?

Rajiv Goel: Yes, they have inverter ACs, they have all the ranges, every range they have.

Karthick S. Okay, thank you sir. That's all from my side.

Rajiv Goel: Thank you.

Moderator: Thank you sir. The next question comes from Mr. Abhineet from SBI Caps. Please go ahead.

Abhineet: Hi, this is Abhineet from SBI Caps. So, I just wanted to have an outlook on the cables sector as you see today.

Rajiv Goel: Cables sector, I think, we believe the kind of push infrastructure Government is giving and hopefully with average private CAPEX, I think, this definitely seems to be a good sector to bet on for almost next decade, I would argue. And I think it is reflecting when you look at the volume growth has been fairly decent in this segment.

Abhineet: Sir, what was the volume growth for the full year?

Rajiv Goel: Full year will be, we will just check and come back.

Abhineet: Okay. And the margin fall in this quarter is largely because you didn't take the price hike in last quarter, it was taken post April.

Rajiv Goel: Yeah. And also demonetization schemes gradually they have withdrawn.

Abhineet: And lastly post Lloyd deal that we have concluded, do we still have appetite for acquisition in the current quarter, no sorry, year?

Rajiv Goel: Look, it all depends upon the opportunity. One will never say...we are not mandating ourselves to say that this year we have to do something and this year we will not do anything. So it all depends upon the opportunity which come our way, and currently, obviously our hands are full with growing our own organic business and also, you see, integrating Lloyd and keeping the growth momentum intact for Lloyd as well.

Abhineet: Okay, thanks a lot. That's the questions.

Moderator: Thank you sir. The next question comes from Indherjeet Bhatia from MacQuaries. Please go ahead.

Indherjeet Bhatia: Thanks a lot for the opportunity. My first question is on Lloyd's business. Now, I understand it is early days, but if you look at the next 12, 15 months, and if you are to prioritize between say the growth rates, margins, and the working capital, how would you want to prioritize your focus in the Lloyds business?

Rajiv Goel: As I mentioned the focus is clearly aligned with the ethos of Havells where we have the revenue growth and we also have the superior margins, and also we have, you see, control on working capital. So, I think, all those things will be focused concurrently. There is no traction one over the other.

Indherjeet Bhatia: Okay.

Moderator: Thank you sir. The next question comes from Dhawal Mehta from Emkay Global. Please go ahead.

Dawal Mehta: Good evening sir. Congratulations on a very good set of numbers. My question is regarding A&P spends this year. For FY17 we have seen that A&P spends have declined YOY despite us entering into many new segments or launching many new products. So, can you just give the outlook on the A&P spends?

Rajiv Goel: A&P, if you see, there is not much change from 3.3% to 3.1% for the year, but yes, during the demonetization, you see, we took a pragmatic call to reduce the ATL and also support the channel at that point of time. So, but this is not a reflection of our appetite and our, you see, intent to spend on A&P moving forward.

Dawal Mehta: Okay. So, can we expect to be again in the range of 3.3% to 3.5% where we have envisaged, let's say in FY16?

Rajiv Goel: That's right.

Dawal Mehta: Okay. Sir, my second question is on other expenditure. Sir, other expenditure we have seen a good decline of 90 bps YOY, so apart from loyalty payment, is there any other line item where we have seen gains in this and how sustainable is that?

Rajiv Goel: This is largely driven by royalty only. Probably the royalty change, it is not going to be there next time as well, this will remain (not clear) benefit now.

Dawal Mehta: Okay, okay. So, basically we have not, okay, so basically it is only because of royalty where we have achieved the gain in other expenditure.

Rajiv Goel: Which other expenditure are you talking? I think maybe you can discuss it offline with our IR team, because we don't know which number you are referring to.

Dawal Mehta: Sure, I will do that. And sir, one last book keeping question. Sir, what is our current indirect tax, which we pay, at a company level?

Rajiv Goel: Around 21, 22.

Rajesh Gupta: Which is the full year service duty. But we are in the exemption zone, so around 40% sale comes from exemption zone. The effective rate is about 7.6% excise duty and the average sales tax is about 9.9% yearly.

Dawal Mehta: Okay. So that comes to roughly around 17% to 18% of overall indirect tax. That is at the net level, at the gross level it will be even higher, right?

Rajesh Gupta: Yeah, this is net-net, yeah.

Dawal Mehta: Gross level it will be 12.5% excise plus 9.9%?

Rajiv Goel: See, what we are saying 12.5 in our case is not applicable, because we have 40% of our production in excise-free zone. If you want to take it otherwise, let's say, in couple of years if we come out of there, then only the number could be what you are saying.

Dawal Mehta: Okay. That's helpful sir. Thank you sir and all the very best.

Moderator: Thank you sir. The next question comes from Kashyap Pujara from Axis Capital. Please go ahead.

Kashyap Pujara: Hello. Yeah, congrats for a good set of numbers. Just couple of questions. Firstly related to Lloyd, just want your thoughts on what the provisions on the AC business there, because if I look at the balance sheet there, at least the figures in the past was showing that it was kind of underprovided on the warranty side, so what are the thoughts, I mean, would we be increasing the provisions that we expense there?

Rajiv Goel: So, Kashyap, as I said that, this is just two days old and we are also getting settled down. But I think when we have done the due diligence and all, it didn't show up any surprising numbers, so I think, by next quarter we should be able to discuss this in detail.

Kashyap Pujara: Okay. And second would be, would you be able to share the colour on how the balance sheet would change because of this also in the following quarter or would that be something which you can share at the moment?

Rajiv Goel: No, I think, end of the quarter will be much better.

Kashyap Pujara: Okay, fine. That's all from my side, and all the best sir.

Moderator: Thank you sir. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad. Sir, we have the next question from Harshit from Ellara Capital. Please go ahead.

Harshit: Hello? Sir, what I would like to know is, can you brief on the CAPEX that you had said that you are doing for Bangalore, Neemrana, and Alwar, so which products are going to be expanded there?

Rajiv Goel: No, I think, the Alwar expansion is largely for cables and as far as Bangalore is concerned, that will be something still being sort of discussed. The idea is basically to have this land and be future ready for our, you see, diversify our manufacturing base from currently which is north-centric. So, I think, this is something, which will evolve in some time.

Harshit: And what about Neemrana sir?

Rajiv Goel: Yeah, in (not sure) we have taken this independent large piece of land, and there again we will evaluate what will be the options. You see, after the acquisition of Lloyd, we also have to move into certain manufacturing. So, all these options will be opened and up for discussion in some time to come?

Harshit: And sir what is your current capacity utilization like? Is it possible to give a product-wise sense on, you know, what standard...

Rajiv Goel: I think, this call will be too unwieldy to address this detailed questions, I think you be in touch with our IR team to understand the same.

Harshit: Okay sir. Thank you sir.

Moderator: Thank you. The next question comes from Ankit Soni from Karvy Stock Broking. Please go ahead.

Ankit Soni: Good evening sir. Like, when you said you require a different channel force or sales force for your large consumer durable numbers, so do we see... are we in a way to create a new sales force or a channel force for your Lloyd consumer ACs?

Rajiv Goel: No, this has come along with the business.

Ankit Soni: Okay, this is coming along with the business.

Rajiv Goel: That's why we acquired.

Ankit Soni: Okay, fine sir. That's all from my side.

Moderator: Thank you sir. The next question comes from Shrudi K. R. individual investor. Please go ahead.

Shrudi A. R. You acquired Lloyd brand, not the manufacturing facilities, how are you going to cater to consumer requirements? You are procuring from Lloyd or from what?

Rajiv Goel: Yes, so we will continue to procure from Lloyd as well and as I said, our philosophy, if you are aware, it is our own manufacturing. So, over a period of time we will also set up our own manufacturing set up, but until then the supply chain is pretty much in place and we are not disrupting anything which has been happening till now. So, there will be a smooth supply chain operation.

Shrudi A. R. Okay. That's it from my side. All the best.

Rajiv Goel: Thank you.

Moderator: Thank you sir. Ladies and gentlemen, if you have any question, please press * and 1 on your telephone keypad. I repeat, if you have any question, please press * and 1 on your telephone keypad. Sir, we have a question from Indherjeet Bhatia from MacQuaries. Please go ahead.

Indherjeet Bhatia: Yeah, hi, sorry got disconnected earlier. The second question I had was on the sales force, what I understand that you were investing in the secondary sales force to kind of touch base with retailers directly. Can you just talk about how this program has kind of played out? Is there a specific number you can prescribe to as to how much more touchpoints you have started to talk to and what kind of growth impact it has had on numbers?

Rajiv Goel: So, we will use the same sales force, which is now approaching the retailers, so we are asking them to reduce their time to spend with dealers and work more on the demand generation at the retail level. So, it is not that we have hired any significant army of people into the secondary. I think, this is a job, which has to be done by the sales team only. And the touchpoints are sort of increasing as we speak, but currently we cannot identify how much of that is contributing to what percentage of the sales growth. And I think this is something which is ongoing process, this is not something which is a three months or a six months project. And so this will continue to be worked upon. And the idea is to reach deeper into the distribution chain and connect with the last mile.

Indherjeet Bhatia: Okay. And in terms of...historically we had some kind of a dealer support or a certain guarantee is given, I understand this number is not changed in many years, but are the new dealers or the new retailers, some of them, are they being included in this program or that is kind of just limited to your top dealers?

Rajiv Goel: No, no. This is comprehensive; we don't do anything which is limited to any few dealers. We do not have any differentiation in the company or discrimination. So this is something which is there for all the retailers across the country.

Indherjeet Bhatia: Okay, alright. Thanks a lot.

Moderator: Thank you sir. The next question comes from Harjit Motwani from Bharati Axa Life Insurance. Please go ahead. The question comes from Harjit Motwani from Bharati Axa Life Insurance. Please go ahead.

Harjit Motwani: Thanks a lot. Sir, can you highlight what sort of price increases you took in the cables segment, because I guess there was quite a close to double digit hikes, because the revenue growth is just about 12 odd percent when you said 11% is the volume growth.

Rajiv Goel: No, there is not, I don't think there is double digit price increase and all, most of the price increases in cable, as you are aware, is reflected and guided by the change in the commodity prices. So, I think, we have just passed on whatever the commodity prices that has gone up. That is why, actually, if you see, the gap between the volume and value increases is not very significant.

Harjit Motwani: Was it taken in the middle of the quarter?

Rajiv Goel: That exactly we will not be able to comment, but normally these are driven by the change in the commodity and whenever any notable changes happen, I think, this is then passed on. There is some time lag, but then it has to be passed on to the end customers.

Harjit Motwani: Okay. And our Guwahati facility is it entirely dedicated to switchgears?

Rajiv Goel: Yeah, switchgears.

Harjit Motwani: Okay. And one last question, when you say that you had this demonetization schemes for three or four months, can you quantify how much of the

impact it had on your margins, let's say for the full year even if it is difficult, let's say, to put it some in 3Q or 4Q, but for the full year how much impact it had on your margins?

Rajiv Goel: I think, the gap what we believed could be attributed, so we can't go very specific on this, but you could argue that had demonetization not happened, I think, our margins should have been similar to the last year.

Harjit Motwani: Thanks. That's helpful sir. Thanks.

Moderator: Thank you sir. The next question comes from Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Just a question on this reaching directly to the dealers, sorry, retailers. Generally your business model in the industry has all this while worked on dealer, distributor-driven distribution. Any reason now to reach the retailer how are you looking at the distribution of sales changing over the next four, five years?

Rajiv Goel: No, we are not changing anything and the dealer, distributor, will continue to be important part of our supply chain and reaching to the consumer. All we are doing is to reach out to the retailers, so that we can increase our, let's say, share of their shelves, but they will continue to be serviced by our dealers and distributors only. We are not going to direct or engage with them in terms of billing and other things with the retailer.

Pritesh Chheda: So, it can be like two parallel sales force, one of the dealer distributor and one...

Rajiv Goel: Nothing, nothing. There is nothing. We told you, there is no parallel sales, both are, same sales force has to spend time with the retailer to make them aware about the product range of Havells, what Havells is doing, how they can benefit to be associated with Havells. So this is a job, which they have to do for the demand creation and ultimately help the local dealer and the distributor.

Pritesh Chheda: Okay. My second question is you were referring to some tailwinds in your initial remarks on (not clear) do you think that the growth in the coming couple of years would be far higher than what you would have delivered for the last four years, considering how you see tailwinds, your assessment on the consumer strength, your assessment on the economy strength. Do you believe somewhere that the growth would be far higher than what you have reported in the last four years?

Rajiv Goel: If you look at this year, growth is highest in the last four years. Because there must be something, which has changed on the ground for this growth to reflect and so again I cannot pinpoint to any specific reason for the same. And yes, I think, if the economy continues to perform better, so definitely I think companies like us will stand to gain and hopefully we should only improve upon our growth.

Pritesh Chheda: Okay. Thank you and all the best to you sir. Thank you.

Moderator: Sir, are you done with your question?

Pritesh Chheda: Yes ma'am.

Moderator: Thank you. The next question comes from Deepak Agarwal from Ellara Capital. Please go ahead.

Deepak Agarwal: Hello sir. Can you comment on how do you see the outlook for the fans segment, especially the premium category fans?

Rajiv Goel: We see good growth in that segment. In fact, we believe that this year the economic segment have actually de grown, so I think we are looking to lead the premium segment into fans.

Deepak Agarwal: Can you just give us some colour on the growth rates that you would have seen growing in FY17?

Rajiv Goel: Growth rate we can't, but I can tell you this is a healthy double digit growth in fans.

Deepak Agarwal: Okay. And secondly, in your opening remarks you mentioned that obviously Lloyds fits in your overall strategy of going deeper into homes, so I understand that now we should be in the process of integrating that. But, if you take from a next two, three years perspective, so where do you think a large product gap exists which can fit further into this strategy?

Rajiv Goel: I believe, frankly, with the large appliances itself, Lloyd is pretty much AC brand right now. So large appliances only there are products, which we can work upon. So, I think, the next few years we will be focusing on strengthening the product basket of Lloyd as well, and I think, the way Havells has proliferated its range over the years, a similar strategy would be deployed for Lloyd as well.

Deepak Agarwal: Okay, and all the best sir. That's it from my side. Thank you.

Rajiv Goel: Thank you.

Moderator: Thank you sir. And that will be the last question for the day. I now would like to hand over the floor to Mr. Naveen Trivedi for closing comments. Over to you sir.

Naveen Trivedi: On behalf of HDFC Securities, a big thanks to all of you for participating in this call. We also want to thank the management of Havells India for giving us the opportunity to host the call. Sir, do you have any closing comments sir?

Anil Rai Gupta: No, I think, thank you everybody for joining the call.

Moderator: Thank you sir. Ladies and gentlemen, this concludes your conference call for today. Thank you for your participation and for using Door Sabha's conference call service. You may all disconnect your lines now. Thank you and have a good day everyone.

Note:

- 1.This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.