



“Havells Limited Q1 FY2018 Results
Conference Call”

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ANALYST: Ms. SNIGDHA SHARMA - RESEARCH ANALYST - AXIS CAPITAL

MANAGEMENT: MR. ANIL RAI GUPTA - CHAIRMAN & MANAGING DIRECTOR - HAVELLS LIMITED
MR. RAJESH GUPTA - DIRECTOR - FINANCE & GROUP CFO - HAVELLS LIMITED
MR. RAJIV GOEL - EXECUTIVE PRESIDENT - HAVELLS LIMITED



*Havells India Limited
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Moderator: Good day, ladies and gentlemen, and a very warm welcome to the Havells Limited Q1 FY2018 Results Conference Call, hosted by Axis Capital Limited. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” and then “0” on your touchtone telephone. I now hand the conference over to Ms. Snigdha Sharma from Axis Capital. Thank you, and over to you Madam!

Snigdha Sharma: Thanks. Good evening, everyone, and thank you so much for standing by. It is a great pleasure to have with us the management of Havells to discuss the Q1 FY2018 earnings. From the management side, we have Mr. Anil Rai Gupta, Chairman and MD, Mr. Rajesh Gupta, Director Finance and Group CFO; and Mr. Rajiv Goel, Executive President. Without taking too much time, I will now hand over the floor to the management. Over to you, Sir!

Anil Rai Gupta: Thank you, Snigdha. Good afternoon, everyone. You would have received the information summary on quarterly financial results. On a broader note, the Indian businesses are in the midst of significant reforms and a reform phase in the last 12 months. It is led by regulatory, financial and administrative changes. Demonetization, RERA and GST would create long-term structural benefits, though may inflict short-term costs. We expect that the economy would gradually respond to such adjustments.

We are confident on potential and opportunity, which will only expand through such reforms. We do continue to invest in long-term initiatives of branding and manpower whilst closely monitoring market pulse for any interim course corrections.

The first quarter has been impacted with significant destocking of the trade channel. The lack of clarity on credit, a general regulatory aversion and uncertainty caused a stern and great action from our dealers and distributors. We refrain from any push inducement that could have been ineffective and counterproductive.

We rather work with our channel partners and organized GST seminars across branches to explain and address their concerns on a range of issues. Lloyd acquisition was successfully consummated on 8th of May. The business is performing in line with initial forecasts. The focus is to strengthen the institutional framework including product, sourcing, manufacturing and marketing function.

In summary, though it is early days to assess recovery from destocking caused by GST, we are confident on swift recovery to monetary. In the end, I would say its short-term pain for long-term gain. We would now respond to your queries.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. We take the first question from the line of Aditya Bhartia from Investec. Please go ahead.

Aditya Bhartiya: Sir, could you please tell us the quantum of nonrecurring expenses in respect of Lloyd acquisition? And whether the 4.8% EBITDA margin that we have mentioned for Lloyd, is computed after considering such expenses or before these?

Rajiv Goel: The expense is to tune of around Rs.12 Crore to Rs.14 Crore, because we do not (not audible) and it was not captured under Lloyd, rather it is captured under Havells' expenses.

Aditya Bhartiya: Okay, understood. And Sir, you have mentioned that it came to be improving Lloyd margins gradually. What are the steps that you would be taking? And whether you have taken any price hikes in the last couple of months? And if so, how has been the response of the trade channel?

Anil Rai Gupta: Yes. I think it is very early to say that we could have instituted any price hikes, and this is including this time, in any case – in the case of Havells we have, let us say waited for any price increase till the time the GST regime comes in effectively. And for Lloyd, in any case it was extremely early to put in any major price improvements. And margin improvement would not only come from price hikes, it would also improve with improved sourcing, with focus on manufacturing, and this is a long-term journey. It cannot be seen quarter-to-quarter. So whilst we have made a margin of 6%, 6.5% last year, we are quite confident that we should be moving in the positive direction from that over a period of time, and we also cannot see quarter-on-quarter because of the seasonality in this business so again very early days for Lloyd. On Lloyd front only, I can say is that last 60 days or 50 days of transition has been very smooth, and we have had no surprises on any matter, whether in terms of working capital or any trade network or anything of that sort and it has been a very smooth transition. So we should be expecting good growth and improvements coming in the future.

Aditya Bhartiya: Sure, Sir. Lastly, just want to understand how do you see GST impacting organized electrical players in the near term? Do you expect that higher taxes can be completely passed on and whether that could result in any market share loss?

Anil Rai Gupta: Sorry, can you repeat the question, please?

Aditya Bhartiya: Sir, just want to understand how exactly GST could impact organized players and whether you think higher taxes can be completely passed on, especially in wires and cables category? And could that result in any market-share loss to unorganized players?

Anil Rai Gupta: Right, so first of all, we believe that GST will be a very positive thing for the organized sector, and it is also for the organized manufacturers, as well as organized traders, so it will definitely move more business from unorganized sector to organized sector. If you ask me the rate of GST is a bit high at the moment, and that is the only concern we have at this stage, but we believe the systems that are coming in because of the GST and network, we believe that the unorganized manufacturers would have limited capability or ability to evade the system. So we believe that it is a great opportunity for the organized sector. Yes, of course, the entire cost has to be passed on

to the consumer because of the higher GST rates, especially in Wires and Cables and it has already been passed on from the July 1, 2017, not only by us, but also by the entire industry. But at the end, it is only going to effect the final consumer who is probably putting it into his own house, otherwise the contractors, the builders, the commercial establishments will all get credit against the GST.

Aditya Bhartia: Thanks a lot.

Moderator: Thank you. We will take the next question from the line of Venugopal Garre from Bernstein. Please go ahead.

Venugopal Garre: Firstly, on the Lloyd business, just wanted to understand, I do know it is fairly early stages, but – and you had a truncated quarter for Lloyd, but how do we look at sales growth? Because you have mentioned something like 20% growth for the Lloyd business, so are you basically factoring in the entire three-month period versus previous year three month? Because when we look at the Lloyd data, it looks like they had reported something like Rs.628 Crore of sales in the durable segment, would that be a right number to look at because then the sales growth looks slower? And similarly for margins, when I look at the EBIT margin not really the segment one, but EBITDA minus depreciation, that is around 3.3%-odd for this period in which Lloyd was there with you. Now of course, there could be some distortion because advertising could be second half of this period of this quarter, etc., so would it be fair to say that there is no margin decline, it would have been flat on a YoY basis? So that is my first question.

Anil Rai Gupta: So as far as the question on Lloyd is concerned, I am not sure which number that you are referring to. But if we do a like-to-like comparison for the entire quarter, it is a 20% growth. Obviously, the first month of April had a higher growth because generally speaking, they were moving at a higher growth in this year. It slowed down due to one, the initial transition from Lloyd to Havells, and also the GST impact in the end of the month and the near end of the month in May and June. So overall, it has got affected, but I would say the margin has not been impacted in any way neither to the positive nor to the negative side.

Rajiv Goel: And Venu, other thing is that you have seen Havells accounting system, you must be aware that the schemes are not part of the sales, which was not the policy at Lloyd. So I think you are not comparing the correct number, when it is Rs.628 Crores of last quarter of Lloyd.

Venugopal Garre: I got it. I understand. Yes.

Rajiv Goel: We have done apple-to-apple comparison on a gross up basis, it is 20% for the quarter, not for Havells alone because we have taken what is the brand has done the growth in the market irrespective of which entity it was housed in the last quarter.

- Venugopal Garre:** Fair enough, understand. So that is the previous year sales number, so have to be adjusted according to that.
- Rajesh Kumar Gupta:** Correct. So we have done that working, and that is why this 20% number stands true.
- Venugopal Garre:** My second question is again related to Lloyd, these trade payables have gone up quite substantially, why is that? Is it related to the Lloyd thing? And if you could share any new product introduction plan for Lloyd, we thought refrigerator is something that is planned? So that is my last question.
- Anil Rai Gupta:** So trade payables because these are largely from import in China, so we have just carried forward what they used to have there. Is there improvement in going forward? And that is something we look at cost-benefit analysis, but I do not know we have just inherited the creditors, which will be providing as part of working capital from Lloyd. And these are primarily the terms they had negotiated from their suppliers in China locally.
- Rajiv Goel:** As far as new products are concerned, we believe that Lloyd has already into a significant portfolio of products, not only just air conditions but televisions and washing machines, and I think even if properly utilized, their channels then definitely there is growth prospects in all these product categories. We could look at more consumer electronic possibilities in the future, but it is again, as I said very early days.
- Venugopal Garre:** Thanks a lot.
- Moderator:** Thank you. We will take the next question from the line of Renu Baid from IIFL. Please go ahead.
- Renu Baid:** Good evening Sir. My first question is on the core business of Havells. If you see one, there was definitely an impact of the sales mix and margins, but we still saw a reasonable decline in the contribution margins, so what is a roadmap? Are we seeing these margins improving steadily in the subsequent quarters? Or do you think 2Q again could be a bumpy quarter because trade would not be fully prepared for the price hike?
- Anil Rai Gupta:** I think, there is a significant sales reduction in the first quarter, which impacted the contribution margins, because certain overhead with the factory would not have been fully absorbed in the first quarter as well. So we do not see any concern on the contribution margins because their pricing and the cost structures are similar to what we had. In fact, to some extent I would say, I would argue that the entire cost increase which should have been passed on in the fourth quarter, could not also be completely passed on in the first quarter because there was a bit of a wait-and-watch policy for the GST impact, any price correction should have happened accordingly on the July 1, 2017, most of which have happened. So we do not expect contribution margins to be negatively impacted or staying at a lower level coming in the second quarter. As and when the

sales comes back to normal, which again might take some time because July is still very early days, but they should be coming back to normal levels.

Renu Baid: And especially within the ECD segment, the drop would be largely because the reasons you mentioned or there could be any category specific issue also?

Anil Rai Gupta: Well it is cross categories and for the same reasons that you mentioned.

Renu Baid: Sir, would it be possible for you to highlight, since it was seasonally probably not as strong as somewhere as it was last year, what was the overall performance for our fans and coolers business?

Anil Rai Gupta: Cooler is still very small. I think the fan business started off very well in the month of April, with a decent growth over the past year. But May and June, we cannot really attribute the growth factors to anything because significant destocking happened, especially in the month of June. Almost I would say to the extent of 30% to 40%. So it is very difficult to give a normalized number for this quarter.

Moderator: Renu, I am sorry to interrupt, but I would request you to come back in queue for any follow-up questions. Thank you. We will take the next question from the line of Arnab Mitra, from Credit Suisse. Please go ahead.

Arnab Mitra: Thank you for taking my question. Just on the destocking in GST, I wondered Sir, if you could help us with what is if any kind of quantification on how much has the channel de-stocked or how much of sales would you have lost because your own direct dealers have stocked down? And are you seeing the restocking cycle playing out immediately? Or do you think that is going to take a bit of time to play out?

Anil Rai Gupta: It is difficult to quantify any number to the destocking but when we talk to the trade, the dealers, the retailers, it seems that it could be the stock levels in the market could have come down anywhere between 30% and 50% depending upon market-to-market to dealer-to-retailer. But it is definitely to that extent, which is a significant impact, even if you take about 45 to 60 days of inventories and their whole channel system, 35% to 50% reduction is a huge number. Coming back to normalcy levels, yes, it should be coming back soon, but the first 20 days of GST, a lot of people are putting in the systems and all that. So it will take some time to restock. Now whether restocking can happen at the same levels or not, trade might also start becoming more efficient in the future. But the normal growth level should come back very soon.

Arnab Mitra: In the Cables & Wires segment, did you see a significant up stocking because the rates are going up? And can this lead to a much lower number in the second quarter onwards?

Anil Rai Gupta: I would not say a significant up stocking but yes; there was some procurement of sales.

Arnab Mitra: Just lastly, have you taken any major – whatever key price hikes you have taken after the acquisition of Lloyd? I just heard you had postponed some of the pricing, so has that already been taken?

Anil Rai Gupta: I mean, any price rationalization that you which will require, considering one the raw material increases in the past one year and also some benefits coming in due to the GST impact to something, so all that has been factored into rationalize our pricing and discount policy for the – from the July 1, 2017. In fact, we were the first company to announce our policy at 9 a.m. on the July 1, 2017 for all our product category and we started billing from the first day itself. We understand the industry has taken much more time in that, but we were all prepared with our new pricing – new pricing policy on the July 1, 2017 itself.

Moderator: Thank you. We will take the next question from the line of Atul Tiwari from Citigroup. Please go ahead.

Atul Tiwari: Sir, again on GST related destocking, so now that obviously, the channel inventory was very low as on the July 1, 2017, have you seen pickup in sales by the way of restocking in first 20-odd days of July 1, 2017?

Anil Rai Gupta: Sorry, there were some break in the voice can you repeat the question?

Atul Tiwari: Sir my question was on destocking and destocking cycle. So as of July 1, 2017, obviously the channel inventory was very low. So one would normally expect the channel restocking to happen immediately after July 1, 2017. So in first 20 days, have you seen restocking and improved year-on-year sales growth?

Anil Rai Gupta: No, no, and that is very clear no because of many reasons. First of all, a lot of dealers and retailers were still coming to terms with the new system. A lot of people did not have computer systems to put in the entire system of purchase and sales. So we believe that the organized traders have now put in the system by the July 8 or 10, 2017, many of the smaller dealers and retailers still have not been able to come up to that level. It will all happen in July, but if you say that they will start happening from the first, it is not and it will take some time. And as I said, will the system get entirely restocked over a period of time? We also do not know about it because there might be overall efficiency which might come into the system but that should not concern us much, because what we are concerned about is day-to-day sales rather than how much stock is this – we are putting in back into the system.

Atul Tiwari: Thanks.

Moderator: Thank you. We will take the next question from the line of Fatema Pacha from ICICI Prudential. Please go ahead.

- Fatema Pacha:** I am not sure if I am looking at it correctly, for the capital employed if I see ex Lloyd, it is also materially up year-on-year. Any particular reason? It was Rs.1470 Crores in Q1, and it is showing more like Rs.2400 Crores now.
- Rajiv Goel:** No, no, no.
- Fatema Pacha:** If I am answering, ex unallocated.
- Rajiv Goel:** No. Ex unallocated, Fatema, what number are you talking? The capital employed?
- Fatema Pacha:** Yes?
- Rajesh Kumar Gupta:** Capital employed has not increased?
- Fatema Pacha:** No.
- Rajesh Kumar Gupta:** No? Where is – where are you taking number from?
- Fatema Pacha:** Fair enough. I will just check and I will get back.
- Rajesh Kumar Gupta:** Then we can take it offline as well.
- Fatema Pacha:** Fair enough. Second question, Sir we have despite destocking we have done a good revenue what I think ex Lloyd, so then how come we got hit on the operating leverage and other things? Because in this kind of environment you do this kind of revenue growth is yet quite commendable because most companies have said that there could be even a decline?
- Rajiv Goel:** Well, I think, basically it is a product mix. And the growth happened more in the Cables and Wires, which brought in the growth, the export business, and the EESL business, all these things contributed to the growth. And Fixture business, ECD business, lighting business, which goes to the trade, that was also the product mix got affected. So we believe that we saw a decline of almost 30% in the trade business in the month of June itself in these businesses. So it has adversely impacted the product mix and hence, the reduction in the contribution margins. As a percentage, not business-by-business, but as an overall percentage, it has reduced.
- Fatema Pacha:** Yes, because actually the EBITDA margin is – if we can adjust for Lloyd's, it looks like 10.5x, so I am just trying to figure out that why such a sharp decline?
- Rajiv Goel:** Which is exactly what I said that we have continued to invest in branding and manpower, and we could have adjusted these things in the first quarter, which began because we believed that the secondary and tertiary sales were not impacted in the first quarter, it was only the primary sales which were impacted. And hence, we tried to keep everything normal.

- Fatema Pacha:** Fair enough. There is no change in strategy on the margin front, because we have seen this now since Q3 that company has continued to beat sales but continued to miss EBITDA margins?
- Anil Rai Gupta:** I think, from Q3 itself, when I said in my opening remarks, that these are the times when we have seen significant shifts and reforms and there was a time when you do not want to implement too many things in the system because demonetization happened, the GST happened, it is all happened in last six months. So – and also the raw material prices, the consumption – the commodity prices have gone up during this period of time. We believe that we are quite confident that the normal contribution level margins should come back.
- Fatema Pacha:** Fair enough. Thanks a lot and that is all.
- Moderator:** Thank you. We will take the next question from the line of Bhargav Buddhadev from Ambit Capital. Please go ahead.
- Bhargav Buddhadev:** Sir, is the organized industry looking to increase the commissions of the channel, given that their cost of operations will go up also, interest on working capital will go up?
- Anil Rai Gupta:** Actually in our industry, there is a landed price concept and it is for the distributors and dealers to meet the margin over and above that, so we give it as discount. So there is no structural change in the system before and after GST.
- Bhargav Buddhadev:** So Sir then, is it fair to say that the margins of the retailers sort of will come under a lot of pressure?
- Rajesh Kumar Gupta:** No, I would argue it might be improving because organized traders and retailers will definitely be able to make better margins, putting the right cost and be putting in better margins. If you see there will be a complete benefit of the GST from our point of view that we will be getting credit for a lot of things, even all traders will be getting complete credit to the consumers, actually the prices might go down, so it is for the traders and retailers now to make the rightful margin while they are selling business. The other aspect is that the organized players will not be forced to compete with the unorganized traders, who maybe selling without invoice, without drills, at lower margins at lower price. So hence, the ability to make the rightful margins, not high-margin, but rightful margin, will be better with the trade as well.
- Bhargav Buddhadev:** So in terms of when we were interacting with a few unorganized players, what we understand is that they have seen record sales in the month of June. So is it fair to say that till the time the organized channel adjusts to GST, they will continue to do business but possibly with a lot of unorganized players?
- Rajesh Kumar Gupta:** Well, I cannot really comment. There is a certain market share that the unorganized players have, and it is very difficult to say whether their market share will improve from the trade to the

consumers. It is the consumer buys the product, which they have to buy, consumer will buy the brand which they have to buy. Now I do not know and there is a certain percentage of consumers who would buy the unorganized brand. So I think, they just try to keep on the sales, knowing that in GST it will be very difficult for them to do sales without them.

Moderator: Thank you. We will take the next question from the line of Gunjan Prithyani from JP Morgan. Please go ahead.

Gunjan Prithyani: Thank you for taking my question. Just sorry to drag this, but on the margin thing, if I am just looking at your other SG&A, which you give out in your information update, now that seems to have gone up by almost Rs.30 Crores versus last quarter also, Q4. So from what we understood that the heavy lifting on the employee cost was largely done and what has led to this particular increase, Q on Q on this other SG&A line item because this is what seems to be depressing the margin for Havells?

Rajiv Goel: Well, actually, if you are in that Rs.13-odd Crore is initiated as a one-off expense.

Gunjan Prithyani: Yes Sir, even if I adjust for that Rs.13 Crores, Sir there is also to Rs.30 Crores increase versus last quarter, so even if I adjust that to Rs.13 Crore to Rs.15 Crore for this one-time hit.

Rajiv Goel: Let me just point to this continued investment in people, which is now peaking out, but the people who have joined us during the year, you see that the cost will be there. Also, their increment is normally get affected in the Q1 almost 13%, 14% is the increment cost of the people. So then these are the investments, which have been kept in mind looking at the long-term potential, both of the business and the economy. And sometime it does show up, you see as a bit on a higher side because the sales are not up to the potential. But I think we firmly believe that in few quarters it will play out, as the growth comes back. But clearly we do see that this is almost a lot of picking down on the people cost and hence a higher pricing.

Gunjan Prithyani: So Sir, just on this, let me rephrase this, early in past you have guided towards 13% to 13.5% as an EBITDA margin for core Havells, ex of Lloyd. Do you think that range is lower now because we have invested on the manpower, and the fixed cost has been rising over the last four to five quarters. So is that, that 12%, 13%, 13.5% as a low, will it be a lower range now for the core Havells operations as well?

Rajiv Goel: No. Clearly not because even if you remember in the last quarter, we had 13.5% with the increased cost over the last year, I think, it is to some extent, it is driven by the sales growth as well. If you see the overall the salary cost, the increase there 1% of the sales. Now if the sales comes back, I think, there is no reason we expect ourselves to be the 13.5%. So no, I think, we are not setting our targets lower than this.

- Moderator:** Thank you. We will take the next question from the line of Dhaval Mehta from Emkay Global. Please go ahead.
- Dhaval Mehta:** Good evening Sir. Thanks for the opportunity. My question is on Lloyd promotional spend, so despite being a lean season for our Lloyd especially after when we acquired post May 8, the promotional spend is quite high, which is 6.8% to sales. So should we expect that this kind of promotional spend will continue? Or it will be in line with that of our erstwhile Havells business?
- Rajesh Kumar Gupta:** No, in general, these costs are slightly higher in Havells because it also includes the consumer finance cost. You see consumer financing these cases it is normally higher. So what has happened, the sales have happened let us say earlier. But the secondary sales normally happen later. So those costs have now come in and the percentage may not be the right barometer because it is coming on lower primary sales. So that is a difference between Havells and Lloyds. Havells does not have very high consumer finance-driven sales, while in Lloyd's case it is higher.
- Dhaval Mehta:** Ideally, in this quarter, optically the 6.8% is looking quieter because of the lower sales, but we should expect as a percentage of sales to be in the range of 3.5% to 4%, similar to that of Havells, right?
- Rajiv Goel:** It would be higher because Havells 3.5% is excluding any consumer finance. And while in Lloyd case, it would be definitely higher, and you should appreciate in Havells case, even cables does not have too much of advertisement. So by Lloyd, it is pure, pure consumer is the sales, so this would be in the range of, let us say, 5.5% – it will not be 7%. That is what it shows now.
- Dhaval Mehta:** That is helpful. So my second question is now since GST has been implemented. Have we done any work on like consolidation of the warehouses, what can be the logistic benefit, which we can get in the longer run? So can you just throw some light on it like in ballpark, how much rates it can be margin applicable to that is why saving on logistic costs or consolidation of warehouses?
- Rajiv Goel:** No, we are not attributing any advantage on the warehousing front. We have made structural changes in the system, but we have not reduced the warehouses considerably. You have to appreciate that we supply very small products to small dealers and retailers and giving them rightful service with the inventory is extremely important for us. So we continue to maintain the number of warehouses that we have but we are clubbing a few, which are very close to each other. So that is the only improvement that we would see. But it will pan out again over the next six months or so, what advantages we can see of reduced inventories, classification inventories come to the cash payments and to the warehouse that are reasoning out, and those are things which will come over in a period of time.

- Moderator:** Dhaval, I am sorry to interrupt but I would request you to come back in queue for any follow-up questions. Thank you. We will take the next question from the line of Charanjit Singh from B&K Securities. Please go ahead.
- Charanjit Singh:** Thanks for the opportunity. Just wanted to understand post the GST, where we would have got the input cost benefit within Fans or Lighting, and is it a quantum, which you can help us, understand and have you passed on some benefit to the customer on the pricing?
- Rajiv Goel:** I think, the whole idea is that whatever benefits we are getting should not be just adding to the contribution margin, they should be passed on to the consumer to remain competitive in the market. And we have rationalized our price structure to reflect that.
- Charanjit Singh:** Okay, and since Havells has been the first one in terms of bringing in the new pricing, so restocking and all would have started much more faster or it would be much ahead of the competition, so you see that in Q3 as the pent-up demand comes back, so the quarter could be pretty strong and going forward, second half what is the kind of growth rates which you could see in the business?
- Rajiv Goel:** I think, I have already said that it is very difficult to say that the second quarter, when will it come back, and then we also do not know how much of restocking will happen. But we have to now depend upon the overall intrinsic growth in the economy, which as I said, started off very well, even in the months of May and June, the secondary sales and tertiary sales were at a decent level. It might take some more time for the consumers to adjust to the new GST system but the same way the traders will take there, but this will be coming back to normal levels very soon.
- Moderator:** Thank you. We will take the next question from the line of Snigdha Sharma from Axis Capital. Please go ahead.
- Snigdha Sharma:** Thanks for taking my question. I think, this was already asked, but I missed it, what was the reason for higher payable days in this quarter, Sir?
- Rajiv Goel:** Yes. So you see on Lloyd side we said we had inherited these creditors which they have got a long dated credit days from China and the local suppliers, so that continues to be you see as part of the inheritance as the business continues to be there. So I think, would it depend we will evaluate should we continue with that, or should we renegotiate the terms with. As of now, you see those facts as of date have been retained in the system. Also, even in Havells, we have been now negotiating with our supplier for a higher credit period, so this is also now reflecting in the overall increase in the creditor base.
- Snigdha Sharma:** Secondly, Sir, we have shown a very good growth in – on EESL. So what is the outlook there?

- Rajesh Kumar Gupta:** We have mentioned there that because of our efficient servicing we have got factories now in Neemrana as well as in Promptec, so which has helped us to provide a very strong servicing to the EESL, which is reflecting in this contract, which we are getting from them. So we believe at least for EESL, we see good growth in the EESL business, which is already reflecting in Q1.
- Snigdha Sharma:** Sir can we lastly, just talk about how do we see progression in margins of Lloyd going forward? I mean, obviously, the endeavor would be to gradually improve from here on, but just can we talk a little bit about what will we be doing to get there and what is, if at all, our target internally if you can share with us over the next two to three years?
- Rajiv Goel:** Snigdha, as Anil mentioned that we are working on institutional strengthening for Lloyd whether it is sourcing, whether it is in product, whether it is in the entire marketing and communication, manufacturing. So I think, there are a lot of things in – this asset has a very long-term [not audible] which company has taken. So I mean, let us wait for a few more quarters, I think, the efforts are being headed in the right direction. I am sure the result will also align with their efforts.
- Snigdha Sharma:** Alright thanks that is all.
- Moderator:** Thank you. We will take the next question from the line of Gaurav Sanghavi from Bajaj Alliance. Please go ahead.
- Gaurav Sanghavi:** Is it possible to highlight price action category-wise because we have some margin impact in this quarter for consumer durable and switchgear segment?
- Rajiv Goel:** What is the question, sorry?
- Gaurav Sanghavi:** My question is, is it possible to highlight price action, I mean, price hike you have taken for various category, because we have seen some margin impact in some of the categories?
- Anil Rai Gupta:** I have already said that we have done price rationalization taking into consideration the costs plus the benefits that will be coming out of the entire supply chain. And that has already been executed on the July 1, 2017, so we expect that the margin should be coming back.
- Gaurav Sanghavi:** Okay. And on category like cables, given the steep hike in the rate, now probably the price difference between the organized and the unorganized player will widen, so what is your sense in terms of mix for the category like cables in terms of shift from unorganized to organized?
- Rajiv Goel:** Is your question that will shift happen now from organized to unorganized?
- Gaurav Sanghavi:** No, my question is what your view is given the price difference has increased in couple of your categories, given steep hike in the rates. So you expect the shift will happen or it probably it will take more time or and how do you see the scenario panning out?

- Anil Rai Gupta:** It is difficult to say at this moment. You see, what we are initially hearing is that the unorganized sector will have difficulty working in the GST environment. So in fact, we do not know at this moment, but yes of course, the rates are high and would it mean that the higher rates would mean more evasion? We do not know. At this moment, whatever we are hearing from the system is that system is highly efficient, so let us see, how things pan out.
- Gaurav Sanghavi:** Okay, Sir on increase in the unallocable expense, if you can just highlight what is the reason for steep hike on the unallocable expense?
- Anil Rai Gupta:** I think, you should refer to IM because what we have given in the press release also the stock exchange, since they asked for the consolidated number, there is also lot of Lloyd numbers embedded in that, so they are not strictly comparable. But if you look at our IM, which you must have seen, information with that whatever there is, that all the details. But all I can say is that they are not strictly comparable; and part of the increase in Havells has been because, as you said, advertisement and continued investment in manpower.
- Moderator:** Thank you. We will take the next question from the line of Chockalingam Narayanan from BNP Mutual Fund. Please go ahead.
- Chockalingam N:** Thanks for the opportunity. Sorry for once again coming back to the payable days question itself. What is the cycle that Lloyd's had as far as creditors are concerned? How should we understand that? Is there seasonality or how different is it?
- Anil Rai Gupta:** So this has been on average 75 days. Yes, so that is what we said, there is something we need to review. Whether we continue with that, will depend upon what kind of cost benefit we have from there and normally in China, the people are ready to extend those kinds of, sort of, credit period. So as a new contract starts getting renewed let us say in next few months, I think, that is when we will take a call. So it does not mean that they will necessarily come down, I think we may continue with that, but it all depends upon our kind of cost benefit analysis close up.
- Chockalingam N:** But Sir, your creditor days are 107, so that is the reason I am not able to understand, because there is a very steep increase of almost Rs.586 Crores on payable?
- Rajiv Goel:** Yes. So 107 actually you are – this is on Lloyd or we are thinking on consolidated one?
- Anil Radhakrishnan:** Yes, I think, the consolidated number. So our historical one used to be 55, 60 days, so versus that of Lloyd's is also 75 days, 107 seems to be?
- Rajiv Goel:** What had happened is they have extrapolated Lloyd on 50 days, which is the lean number, these are the purchases, and know that creditors are still standing, so that is why this number is not reflecting the true essence. So number will be around, let us say, 90-odd days and there the

Havells number also grown, as I said we have been negotiating with our suppliers to extend the credit period, so let us say they be increasing even Havells to the extent of 30, 40 days now.

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

Pulkit Patni: Sir most of my questions have been answered but quickly one question on your personnel expenses. Since you mentioned that you have been investing into manpower. This current quarter run rate of Rs.160-odd Crores, should I assume this would remain at this range? Or we could expect this going up further in the next, say a few quarters?

Rajiv Goel: Look, I think, for this year, it might be reasonable to assume that they have peaked. I am not talking next year, because there will be some increments and all. But this year, probably they are now at the peak.

Pulkit Patni: Thanks a lot.

Moderator: Thank you. We will take the next question from the line of Manoj Gauri from Equirus Securities. Please go ahead.

Manoj Gauri: Thank you for the opportunity. Sir firstly, on the Wires & Cables front, so currently think how do you see the demand environment on that front. So looking at the housing wires or the cables business.

Anil Rai Gupta: That I think, again I would say that looking at the first quarter, we started off April with a skew towards, but the May, June while destocking happened in other businesses in large cables some improvements of activities would have happened. So it is difficult to estimate at this moment, I do not see there will be any difference between Wire & Cable and other growth prospects in other divisions.

Manoj Gauri: Again, what would have been our volume growth if we look at the 19.5% value growth?

Anil Rai Gupta: I think it is about 13% to 14% in cables then about 9% wires.

Manoj Gauri: Okay. And on Lloyd's success, so currently like how many SKUs are we selling in air condition?

Rajiv Goel: How many SKUs we selling in air conditioners?

Manoj Gauri: Yes.

Rajiv Goel: I mean, a lot of SKUs, I do not think of, that is more of a marketing question.

Manoj Gauri: So are we planning to launch any new SKUs for the next season?

- Rajiv Goel:** I think this is a continuous exercise and definitely in any case there are a lot of changes happening in the ratings and all. So this is a continuous exercise, and I think we have one of the widest ranges of air conditioners, and I am sure they will be launching a lot of new engineering for next season as well. So this is like hygiene for these people.
- Manoj Gauri:** Thanks a lot Sir and all the best.
- Moderator:** Thank you. We will take the next question from the line of Shrinidhi Karlekar from HSBC. Please go ahead.
- Shrinidhi Karlekar:** Good evening. Thanks for the opportunity. Sir, there has been a lot of positive development on the residential real estate sector for demand revival, but then there is again a significant inventory of unsold apartments in large gate cities. Sir, in such a context, what I really want to understand is, will revival in housing sales be translating into acceleration of growth for Havells? Or it will come with a lag when unsold stock needs to get sold first? That is my questions Sir.
- Anil Rai Gupta:** I think, overall housing demand is growing for last two to three years and our entire focus has been to get good growth by being more vigilant and aggressive in the marketplace to deeper penetration, extra spends on advertising, taking the brand, expanding product ranges, so we have been growing at a decent level. The only silver lining I would say to this is that if we have been able to grow at a decent level during the lull times then things start coming back, our growth prospects will be much better.
- Shrinidhi Karlekar:** Sir, I just want to understand, those apartments, which are already constructed, or under construction, the products that we do, like cables and switchgear, large part of those sales have already happened? Or it could be happening closer when the sales of the apartment actually happens? So that is really my question.
- Anil Rai Gupta:** Our products are largely when the consumer buys and uses them, we are not very builder products, and we are more of an end-consumer product. If your question is that when the unsold inventory gets sold, I would say there will really get flipped to our business.
- Shrinidhi Karlekar:** So, that is what I wanted to understand. So it should reflect right?
- Anil Rai Gupta:** Yes.
- Shrinidhi Karlekar:** There is and a lot of opportunities coming from the affordable segment in the housing. And if you see really Havells it is like, though we call it a mass premium brand but it is really a premium brand. So do you see that the category expansion in the Reo brand in, say more into lighting and fans segment over the next couple of years?
- Anil Rai Gupta:** No, I think, we do not consider Havells as a premium brand. We call it as a mass premium brand. So we give higher quality products, and we give high quality products in this mass market. And

of course, there will be additional features. It shall mean a higher cost. We do not want to be in the economy segment or the low quality segment. Reo is not an economy segment. Reo is a big brand, which caters to certain markets where Havells is not present, for example, in switches. Havells is into modular switches Reo is into piano switches. So these are the kind of the product categories that Reo would bring in, it would not mean cheaper products are coming out through Reo.

Moderator: Thank you. We will take the next question from the line of Ashish Jain from Morgan Stanley. Please go ahead. Ashish, the line is unmuted please proceed with your questions. As there is no response, we move onto the next question from the line of Praveen Sahay from Edelweiss. Please go ahead.

Praveen Sahay: Thank you for taking my question. Just one question like, you had mentioned in the Lloyd of the sales and promotions that is a 5.5% to 6% of the sales, is it going to continue? And even you are going to do rationalization of the pricing structure post GST, so where you are going to see your margins, even though you had commented that margin will come back, so with these things, will that get impacted or will it really come back?

Anil Rai Gupta: I think, if your question is considerably about Lloyd, Lloyd I have already said that the Lloyd margins have not gone anywhere, so they can come back. This is just a two-month period that you are seeing, it is a very small period, and it is also a seasonality in this business, which margins will range high to low depending upon the seasons. But on an overall average, they had about 6%, 6.5 % margins which will continue and will continue to slightly increase upon that.

Praveen Sahay: No sir, I am asking about the overall numbers because in the Lloyd you have said 5.5% to 6% in sales, your advertising sales will continue. You will also do the rationalization of the pricing structure regarding the input credit benefits passed onto customers. You also said that EESL would give a higher growth in this financial year, so will these things result in a lower margin for an overall company level?

Anil Rai Gupta: No, so we have to look at these separately. As far as Lloyd is concerned, it will move in a separate direction and we will have to move, see how this EBITDA profile moves in the future. As far as the rest of the business is concerned, you will have to look at it separately. If you blend it together, obviously, 13.5% and 6% will blend to a lower margin, but what we are talking about is 13%, 13.5%, we are quite confident that these numbers should come back.

Moderator: Thank you. We will take the next question from the line of Chandra Gopal from JM financial. Please go ahead.

Achal: Good evening Sir. Just wanted to understand the capex plans. I see FY2017, you have invested about Rs.240 Crore, how do you look at the current and next year and in which segment?

- Anil Rai Gupta:** Approximately Rs.200 Crores.
- Achal:** Would you be able to identify which segments, what kind of capacity additions?
- Anil Rai Gupta:** I do not have these details at this moment, but we can take it offline.
- Achal:** Sure. The second question I had, in terms of the number of employees and how do you see the addition? I am not talking about the employee cost but absolute number of employees we look at, what kind of increase would we look at for this year as well as next year?
- Anil Rai Gupta:** I do not know whether we have the numbers at this moment.
- Achal:** Okay, Sure. The last question I had, in terms of our manufacturing at the tax exempted places, how else can the GST regime impact on that, whether we are getting the entire credit or exemption or the refund, etc.?
- Anil Rai Gupta:** If you know this question probably you know the answer, that still clarity has not been given to us.
- Achal:** So we are paying the full GST and we are still waiting on the clarity because the centre is giving 58% share, what happens to the 42%?
- Anil Rai Gupta:** It is also not been notified as yet.
- Achal:** Why I am asking this because if I look at the, the pricing, you will have to charge that, how does that work, in terms of the costing for you?
- Anil Rai Gupta:** We have not started charging it. We are assuming that this will be given.
- Achal:** Okay, understood. But there is no margin impact or we are seeing as such right or we are looking at for the July quarter? September quarter?
- Anil Rai Gupta:** No, if the government decided that this will not be passed on entirely or 58% or 42% but we will definitely have to pass it on but at this moment we are assuming that it will be passed on.
- Moderator:** Thank you. We will take the next question from the line of Harshit Kapadia from Elara Capital. Please go ahead.
- Harshit Kapadia:** Thank you for giving me opportunity to ask question. My question is that Lloyd had been procuring its A/C products with 30% with its own in-house and 70% is from outsourcing. So will Havells, post this acquisition, will be having the similar ratio or we will be moving towards some other product mix because some of the products are not manufactured by Lloyd, and you would want to increase your product coverage as well. So how the mix will change?

- Anil Rai Gupta:** I think, the similar profile and the similar ratio we are beginning to maintain but over a period of time as we have already said, we will be looking at manufacturing efficiency, so we will be doing a complete analysis of how we want to change that in the future. But at initially, it will remain the same.
- Harshit Kapadia:** Okay, and my second question is, if you look at the Lloyd's revenue of around Rs.267 Crores, would you be able to give some colour on how much would be from A/C, LED and your washing machine?
- Anil Rai Gupta:** Almost 80% will be A/C because of season.
- Harshit Kapadia:** And the balance would be LED and washing machine?
- Anil Rai Gupta:** Mainly LED.
- Harshit Kapadia:** Thank you.
- Moderator:** Thank you. We will take the next question from the line of Venugopal Garre from Bernstein. Please go ahead.
- Venugopal Garre:** Just a small follow-up, rather confusion that I wanted to sort of clarify. See essentially when I look at, you mentioned that creditor days for Lloyd, they get fairly extended terms from the Chinese suppliers. Now over the years, and we have interacted, it looked like they had positive working capital days, which means their debtor plus inventory minus creditors was actually in the whatever 40, 50, 60-days range. But if I look at your financials now in 1Q, creditors are so high that it is like you have generated cash out of working capital. Now is this like some interim thing that has happened in the last few months as a funding sort of support, which will go away? And number two, what is the cost of that and where is it sitting and how much is the cost? This is the confusion I had, and number two, is basically, I wanted to understand, I would probably ask this second question later.
- Anil Rai Gupta:** Yes, so Venu, again it is difficult to comment upon how they have you see mentioned, as I said, it is we cannot be getting into their numbers and how they are structured. What we can say Lloyd's debtors are now Havells' debtors from day one so obviously, Havells has been benefited by their own channel financing policies and all, so that is, in our case, really significantly lower because I cannot really comment on specifics of how they run their business. And as far as the creditors are concerned, obviously, those numbers have been there because they have extended the higher credit period. So this is how it is. It maybe because of the inventory, it maybe because of the debtors, but we do not have a breakup of how they run it. What you have seen in our numbers is what we have.

- Moderator:** Thank you. We will take the next question from the line of Vikash Mantri from ICICI Securities. Please go ahead.
- Vikash Mantri:** Just one question from my side. Can you help us; tell us the price increases taken because of GST raw material, now every other thing on July 1, across categories?
- Anil Rai Gupta:** No, no, so it is complete rationalization of the complete sales policy where in discount structures are altered, list prices are altered. So it is very difficult to say that. All we can say is entire cost and benefits have been passed on to the consumer.
- Vikash Mantri:** Can you help us, what is the change in prices to the distributors post July 1, 2017? Because that will take into account both the changes and list price and the discounts?
- Anil Rai Gupta:** We have so many product categories. It is so difficult to say, but some of the product categories that have different input tax paid norms and raw materials costs are varying in different product categories. So let us wait for a certain time and see how this is applicable. As I said, we have made a lot of structural changes in our policy, discounts, MRPs have been reduced, and discount policies have been reduced. I say it is a far more beneficial to both the dealer and the distributors. All we can say is that our focus is on maintaining the margins, for each business group and that we are quite confident we will be able to do that.
- Vikash Mantri:** The point I was trying to come from was that whether the change in prices, and I believe, an increase can lead to an impacting of sales going forward?
- Anil Rai Gupta:** Sales will not be impacted because of prices.
- Vikash Mantri:** Thank you Sir and best of luck.
- Moderator:** Thank you. We will take the next question from the line of Sriram R from India Nivesh Securities. Please go ahead.
- Sriram R:** Just wanted to find out as to what is the tax benefits status that we will get from Srinagar, from the Guwahati and the other categories. And like you mentioned, that while you are not clear about how it will pan out, how are you treating this as of now?
- Anil Rai Gupta:** Yes. As of now, we are assuming that most of it will be getting – the refund mechanism we will be getting. But if things do not work out in that way, then we might have to do certain other adjustments, but we believe that it will be given by the states and the centers.
- Sriram R:** And the Guwahati plant, how – what is the potential that this plant has? And now since that you have got all the exemptions and all from there?
- Anil Rai Gupta:** In terms of what, potential ?

- Sriram R:** In terms of revenues?
- Anil Rai Gupta:** Yes, we have a complete manufacturing facility there. So the expansion of sales in our domestic Switchgear will now come from Guwahati.
- Sriram R:** But just to understand, what is the kind of potential that one would see because if one has to look at, this is a completely tax-exempt area and also excise exempt. So what is the potential of this plant, per se?
- Anil Rai Gupta:** No. So it all depends upon the sales, it has to be driven by the sales then the sales grow then we will be getting that potential, so obviously, as the sales continue to grow, we will continue to expand the possibility there. Today, we can even get Rs.15 Crores to Rs.20 Crores a month of sales from there. Sales should happen first, right? So Baddi plus Guwahati will continue to get full benefit.
- Moderator:** Thank you. We will take the next question from the line of Samit Visaria from CRISIL. Please go ahead.
- Samit Visaria:** I had just have one question regarding the consumer durable business, just to understand the revenues that you have mentioned is Rs.267 Crores, 40% of the overall quarter?
- Anil Rai Gupta:** For Lloyd?
- Samit Visaria:** For Lloyd and the Rs.39 Crores margin that you mentioned is also 40% of that, or no?
- Rajiv Goel:** That we would not be knowing because that number, we can only talk about the sales. We do not know about what margins they have taken in their numbers.
- Samit Visaria:** No. You have contributed EBIT of Rs.39 Crores in your P&L statement.
- Rajiv Goel:** Contribution?
- Samit Visaria:** Contribution, which is giving me 14.7% kind of margin?
- Rajiv Goel:** Margins they were showing in their books and all, we do not know. Sales are easy, that is what we have done and you could argue that April was a disproportionate month so ideally their margin could have been higher also. Our margin could be much lower because you avoid operating leverage and things like that.
- Samit Visaria:** Okay, so this Rs.39 Crores, just to understand clearly, is 100% of the contribution? And Rs.267 Crores is 40% of the sales that they would have taken in the current quarter?
- Rajiv Goel:** No.

- Samit Visaria:** If I do 40% of that and 394, then the margin is 5.9% the fact is.
- Rajiv Goel:** No. All we are saying is that the sale is Rs.267 Crores, so you forget 40% now. You said Rs.267 Crores we have already contribution of Rs.39 Crores. That is it. This is our sale.
- Samit Visaria:** But this Rs.39 Crores is for the full quarter or for the period that you have accounted for?
- Rajiv Goel:** How it can be for the full quarter? If the business was acquired on May 8, 2017, we can only earn the profit after May 8, 2017.
- Samit Visaria:** And this contribution is at 14.7% margin, I mean Rs.39 Crore divided by Rs.267 Crores is 14.7% margin?
- Rajiv Goel:** Yes. That is right.
- Samit Visaria:** My second question is on the view on GST, since it has been properly implemented now. So what is the impact on, say, an outsourcing business, which Lloyd has right now, or the consumer durable business that you acquired versus the manufacturing that you undertake? Has there been a significant difference in doing business under both the heads?
- Rajiv Goel:** No.
- Samit Visaria:** Tax structure remains the same. So there is no impact?
- Rajiv Goel:** That is right.
- Moderator:** Thank you very much. Ladies and gentlemen, due to time constraints, that was the last question. I now hand the conference over to Ms. Snigdha Sharma for closing comments.
- Snigdha Sharma:** Thanks. On behalf of Axis Capital, I would like to thank everyone, and the management of Havells for participating on the call. Thank you.
- Moderator:** Thank you. Ladies and gentlemen on behalf of Axis Capital Limited that concludes this conference call for today. Thank you for joining us. You may now disconnect your lines.