



“Havells India Limited
Q4 FY '23 Earnings Conference Call”
May 03, 2023



InCred!Equities



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MODERATOR: **MR. RAHUL AGARWAL – INCRED EQUITIES**

Moderator: Ladies and gentlemen, good day, and welcome to the Q4 FY '23 Earnings Conference Call of Havells India Limited, hosted by InCred Equities. As a reminder all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions, after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rahul Agarwal. Thank you, and over to you.

Rahul Agarwal: Thank you, Deepa. Good evening to everyone on the call. InCred Equities, welcome you to discuss the Fourth Quarter Fiscal '23 results of Havells India Limited. We thank the management team for giving us this opportunity to host the call. We have with us the senior management team of Havells India represented by Mr. Anil Rai Gupta, Chairman and Managing Director of the company; Mr. Rajesh Kumar Gupta, Director Finance and Group CFO; Mr. Ameet Kumar Gupta, Whole-Time Director; and Mr. Rajiv Goel, Executive Director.

I now hand over the call to Anil ji for his opening remarks, and then we'll get into the Q&A session. Over to you, Anil ji.

Anil Rai Gupta: Thank you very much, Rahul. Good evening, everyone. Thank you for joining the call today. I hope you have reviewed the results published today. It's been a moderate performance given the fact that we had a subdued consumer demand but also buoyed by a good industrial & infrastructure demand. The B2B segment has sustained steady demand led by infrastructure and housing activity has also revived in the second half.

ECD witnessed weak performance given the fan industry stocking scenario in the third quarter. Lloyd maintained its growth trajectory. During the quarter, we commenced production in our new AC plant in Sri City, which doubles our AC manufacturing capacity to 2 million ACs per year. Contribution margins have improved across segments. We are witnessing a delayed summer which might impact the demand for summer products for this season. That's all from my side for my opening remarks. We can now proceed for Q&A.

Moderator: Thank you very much. The first question is from the line of Ravi Swaminathan from Spark, over to you.

Ravi Swaminathan: My first question is with respect to the core business. As you had mentioned, the consumer demand had been weak. And because of that, during the quarter, it had been a mid-single-digit kind of growth. My question to you is, going forward, given the fact that consumer sentiment continues to remain weak, do we expect the core business for the current running year, that is FY '24 to be at the same momentum? Or are we doing something to take the growth back to double-digit kind of growth?

Anil Rai Gupta: So I think a few things. We are definitely doing all the things we would have continued to do, whether it's brand building, distribution reach and all. We are continuing to do our work. Yes,

we saw seen some subdued demand in the second half of the year. But also sort of we are enthused by what we hear and we see from the market is that the real estate sector has started seeing new construction. So, which might be visible from the fact that some sort of uptick has been seen in the wire and cable business and the switchgear business. So that may lead to some increased consumer demand in the coming months. So we are hopeful on both sides. So, consumer demand should do well. And the industrial infrastructure demand continues to do well at least in the last 6 months. So I think going forward, we are not expecting that this low momentum to continue.

Ravi Swaminathan: Sir, what is our ratio of B2C and B2B at our overall level?

Anil Rai Gupta: Approximately, it remains at 75:25 B2C:B2B, but this quarter, particularly it was around 70-30. Generally in the fourth quarter, there is some increased demand for industrial and government projects, so in this quarter, it was around 70-30.

Ravi Swaminathan: Okay. And is there any big difference in the profitability of B2B and B2C?

Anil Rai Gupta: Depending on the product to product, yes, in underground cables and wires, domestic wires is more profitable. In lighting pretty much the profitability is similar, in switchgears also.

Moderator: The next question is from the line of Renu from IIFL. Thank you and go ahead.

Renu: My first question is on Lloyd. If you can share, as an overall this year, we've continued to focus on very high volume-driven growth. And towards the end of the year in 4Q, clearly, at the EBIT level losses have trimmed down. So from a yearly performance, in your view, how has Lloyd done both in terms of volume share in the RAC market and performance in non-RAC products like washing machines and refs? And from a margin outlook perspective, in your view in FY '24, what needs to be done so that the business is back in blue and profitable?

Anil Rai Gupta: So on the volume side, ACs continue to be the mainstay with almost 70% of revenues coming from air conditioners. And that's where we definitely believe that there is a good opportunity for Lloyd to maintain its top three position in the market. And we're continuing to give our focus there. We have a lot of white spaces, including certain markets where Lloyd was either was not present, like the western part of India, Eastern part of India where we are gaining traction on market share. So that continues to remain as a growth strategy for Lloyd.

On the margin front, last year, there were unprecedented increase in raw material prices and the entire cost was not passed on to the market. And over the next few quarters, we do believe that there will be some softening of the raw material prices. The Lloyd market positioning will also be in a position where we will be able to push our premium products as well as product mix has changed. So profitability is definitely something in mind and margin expansion is definitely in mind. And it will continue to happen. It's a journey, and it will continue to happen.

Renu: Sure. And how was the performance of the non-RAC portfolio washing machines and refs, where we had capacity expansion and new models being launched? And aligning with this, what has been the cost under recoveries or investment in the refs portfolio for fiscal '24?

Anil Rai Gupta: So I think overall, both ref, washing machine and LED TVs are growing at a decent pace. I would still say that it's not really at a very fast pace given the fact that the base is low, but it is the acceptance in the trade and is catching up. It is growing decently well. And I think the benefit that we get in washing machines is definitely more because we have our own production. Over a period of time, we will start getting some more advantage in refrigerators also. I think refrigerators is still a longer journey, but washing machine is a faster growth trajectory for us.

Renu: Sure. And lastly, if I can ask one more question. Given that in general demand for consumer products or consumer demand is weak, not much of price actions were taken in this quarter for fans or Lloyd in other categories. So how are we looking at the pricing environment moving ahead in FY '24? And are any price hikes being announced or already planned, which will be transmitted to the market in the coming quarters?

Anil Rai Gupta: I think after some time, we are seeing some stability in pricing. The only place where we've seen some volatility in the fourth quarter was cables and wires. But otherwise generally speaking, in other product categories, there is stability in pricing, and I hope it continues to remain so for the next few quarters.

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

Siddhartha Bera: Sir, first question on the consumer side, you said the demand has been soft. But if we look at the advertisement spend, it is about 2.5% and still lower than what we have seen in the past in the range of 3% to 4%. So do you think this can be one lever to sort of look at to drive more growth in the coming years?

Anil Rai Gupta: So generally speaking, product overall 2.5% is coming. Last couple of years, it was subdued because of COVID and coming out of COVID. We do believe that given the product mix that we'll continue to drive, advertising spend around this level will continue even in the future. So there will be continued investment in brand building over the next few years.

Siddhartha Bera: Got it. And second, sir, on the growth side, so switchgear, we have seen a big improvement on the growth. So is there any pent-up demand which has also come through in the quarter? Or these are the levels which we should expect in terms of the run rates to continue?

Anil Rai Gupta: I think let's not overread the switchgear growth based on one quarter because sometimes it happens, there are certain quarter ending push which happens. Maybe last quarter and this quarter, would have been different price change, self-filling might have been different. But definitely, there is some uptick in the real estate environment in the last 6 months. So that has also helped switchgears sales. On the industrial switchgear side also, there has been increased spending by the government infrastructure project. So both are getting benefited in the fourth quarter. But as I said, let's not build our future projections just based on one quarter growth.

Siddhartha Bera: Got it, sir. Sir, last question on the Lloyd side. So this is a season quarter, and if you see the capital employed that has kept on going up even at the end of this quarter as well. But do you think, I mean, this will continue to inch up as we grow? Or we should expect some normalization at some point in the future?

- Anil Rai Gupta:** I think in case of Lloyd, the kind of growth that we were getting till the third quarter. So we were quite hopeful that we will have a very good summer. For which we had been building inventory for the month of March, April, May, June. And the Sri City plant also started production around March. So basically, it was dependent on one plant. So we have been building inventory. And unfortunately, the end of the quarter of March, we saw some lower demand because of the weather change. And so hence, a high level of inventory in the case of Lloyd at the end of the quarter. In fact, with the Sri City plant coming up, we will see more balancing in inventory in the coming times for ACs.
- Moderator:** The next question is from the line of Sonali Salgaonkar from Jefferies. Please go ahead.
- Sonali Salgaonkar:** Sir, my first question is regarding the capex guidance. We have seen that there has been an increase in capex this year. Sir, possibly any guidance you could share over the coming 2 years?
- Anil Rai Gupta:** In FY24 year, we're looking at about Rs 600 crores with the Tumkur facility also coming up in this year. We're looking at about Rs 600 crores in this coming year.
- Sonali Salgaonkar:** Right. And post that, should we expect some normalization in capex, probably reversal to...
- Anil Rai Gupta:** Yes, we see normalization because 2 new facilities, they'll be coming up in '22, '23 and '23, '24.
- Sonali Salgaonkar:** Understand. Sir, secondly, you did mention that in Q4, there was some pricing volatility in cables and wires. So could you quantify the price hikes that you have taken in cables and wires? And secondly, post the transition to new BEE norms. Have you also hiked prices in the new models of fans and air conditioners?
- Anil Rai Gupta:** So cables and wires, when I say volatility, actually, it happened both ways. So if we see volume growth and value growth is the same. Volume growth is the same as our value growth. But the volatility was to the extent that sometimes the raw materials went up and sometimes it came down. So there was a little bit of uncertainty in terms of the channel in stocking the product. Hence, I say that there was volatility. Overall, the prices have not increased. Yes, there was an increase in the prices of fans because of the rating change from the 1st of January 2023.
- Sonali Salgaonkar:** What could be the quantum of price hike, sir?
- Anil Rai Gupta:** Around 5% to 7% on an overall basis.
- Sonali Salgaonkar:** And is this margin accretive as well?
- Anil Rai Gupta:** Margin neutral, I'd say.
- Sonali Salgaonkar:** Understand. And last question from my side, could you possibly quantify the volume share gains in Lloyd in the past 12 months because we have done exceedingly well on the sales?
- Rajiv Goel:** So I think that we are not looking at. As we said, we believe we are gaining market share, and I think we continue to be in top 3.

- Sonali Salgaonkar:** And would you continue to invest more in brand building in Lloyd?
- Anil Rai Gupta:** Definitely.
- Moderator:** The next question is from the line of Latika Chopra from JPMorgan. Please go ahead.
- Latika Chopra:** I just wanted to delve a little bit into the ECD segment. For the second half of the fiscal year, assuming there was a stocking up done in Q3, the revenues are down 5%. You just mentioned the price increase that you took, which got reflected probably in Q4. How has the performance been of the non-fans portfolio?
- And how should one think about the growth here? A large chunk of this business is B2C as we look into FY '24. Contribution margins seem to have held out better. Now given your outlook on commodity prices, is the scope to improve these further?
- Anil Rai Gupta:** So I think second half definitely has been slow in terms of consumer products are concerned. And one of the concerns that we also saw was that despite the fact that the third quarter was shelf-filling and the fourth quarter was a reduction. And also because the prices went up, so the channel was also waiting for new channel build-up during the month of March.
- So overall, fans suffered because of that. But overall, I would say consumer demand has been weak, and this has actually seen that the rest of the ECD products have also seen a flattish growth in the second half of the year.
- Latika Chopra:** And how are you thinking about margins going forward given your view on raw material pricing?
- Anil Rai Gupta:** I think what we've seen over third and fourth quarter is because there is now stability in raw materials and the prices have settled. We believe that if this situation continues, there will be some normalization of margin levels to the previous level, what we used to have. In the last 1 or 2 years, if you've seen that we have not been passing on the entire cost increase to the market.
- Latika Chopra:** Sure. And if you benchmark your market shares in fans in the last 1 - 1.5 years, how has Havells fared? And any parts of the portfolio you think you want to get more aggressive on market share front, and that could imply that brand investments could rise? Why I'm asking this is that if you want to grow double digits, would you be okay with an aggregate margin profile of 11%-12%, is that the buildup that we should think about at an aggregate company level for you?
- Anil Rai Gupta:** I think the margin levels will drive more from gaining market share, expansion of premium products in the portfolio, brand building, market pricing. So that's not really related with the overall market share increase. So margins go separately. We do believe over the last couple of years, we have gained market share in the fans business. And we'll continue to do. Going forward, there will be more focus, which has always been there. One on the energy saving products as well as on the premium category products. And that's how we maintain the margins for this category.

Latika Chopra: Okay. And my observations more that in a slow demand environment, would there be more competitive activity to at least move market shares to drive top line growth. And hence, I just thought maybe investments would increase going forward. But thank you for your comments.

Moderator: The next question is from the line of Charanjit Singh from DSP Mutual Fund. Please go ahead.

Charanjit Singh: Sir, my first question is on Lloyd. So, while you have put in a lot of effort in terms of now having the manufacturing facility in Sri City and also the distribution in place. So in terms of target market share from here on, what we would look at? And from the industry margin perspective, do you think that there has been a significant reset in industry margin on a downward side, which would now maybe sustain at the levels what we have not seen earlier?

Anil Rai Gupta: I think overall market share, we continue to maintain that we want to be amongst the top 3 players. And we do believe that Lloyd has a good potential to continue to be one of the leaders there. On the margin front, I think what we've seen in the last 3 or 4 years, AC industry has really gone through trouble times because of COVID earlier and then very high raw material prices.

I think going forward, we will see some stabilization in the overall industry, which will definitely help Lloyd also. But overall industry should also be stabilized in terms of margin. Yes, there might have been reduction in margins overall as an industry, but that was also due to very unprecedented times in the last three, four years.

Charanjit Singh: Okay. And sir, if we look at the ex of Lloyd portfolio, we have elections coming up in the subsequent quarters. How is the kind of growth expectation if you have to look at from a B2B perspective and B2C perspective, if you can give some quantitative as well as qualitative comments on the growth outlook going forward?

Anil Rai Gupta: I believe that while generally, there's always an expectation before elections that the industrial and government infrastructure demand should improve but actually, we've been seeing this increase in improvement in last 1 year. So I hope that this will continue to improve. Going forward, I don't think the other part of the portfolio is so much election dependent, but more dependent upon the real estate uptake, what happens in the market, the consumer demand sentiment. Overall, I would say both positive as the real estate is doing well. But on the other hand, the negative is that the interest rates are high, which definitely increases the inflation and also reduces the ability for a consumer to buy. So there has to be a balance, which has to be looked at. I would not relate it too much to the election year.

Moderator: The next question is from the line of Swati Jhunjhunwala from BOB Capital. Please go ahead.

Swati Jhunjhunwala: So first, can you just give me some color on what was volume growth in the Wire and Cable segment?

Anil Rai Gupta: Same as the value growth, around 6% to 7%.

Swati Jhunjhunwala: All right. And so the capex that you are planning to do the Rs 600 crores capex next year, will that be through debt or through internal?

- Anil Rai Gupta:** Internal.
- Swati Jhunjunwala:** Internal. Okay. And are there any price hikes that you're planning to take further during the quarter?
- Anil Rai Gupta:** As I've already said that we do believe that there is some stability in the raw material prices. So we do not anticipate any price hikes.
- Swati Jhunjunwala:** All right. And lastly, so we've heard from other competitors that Lloyd is gaining market in the last, I would say, 6 to 7 months. So could you just give me any sense of what it is right now? And how much do you expect this to go in the season that's about to come?
- Anil Rai Gupta:** You see, I think there are very different market share numbers from different market reports. So we actually go in by the industry numbers. And we do believe that we are amongst the top 3. Over the last 1-1.5 years, we've moved from top fifth position to the top 3 position. So our aim is not to be like number two or number one, then it becomes like a race kind of a thing. We hope to be amongst the top three in the coming times.
- Moderator:** The next question is from the line of Abhijit Akella from Kotak Securities. Please go ahead.
- Abhijit Akella:** I just have a couple of clarifications basically. One is within the ECD segment, if you could just help us understand what proportion would be the fans business. And then also in terms of this channel stocking etc, that impacted demand in both the fans as well as the Cable segments, is that largely done? And do you see the situation normalizing going forward here onwards?
- Anil Rai Gupta:** I think from a channel suffering point of view, things have normalized. Though there is some impact on the weather impact on the fan business, particularly. Otherwise, generally the channel is at normal inventory level.
- Usually, the fans, again season to season or quarter-to-quarter it can vary, but around 60% comes from fan as, while this quarter it was 65% because of the summer season.
- Abhijit Akella:** Understood. And also just to add, your models of the energy efficient fans, have they started to experience a significant pickup now? And are the older models depleted now from the channel?
- Anil Rai Gupta:** Yes, the first quarter after January-February, older models have almost finished, it's all the new ratings now.
- Abhijit Akella:** Got it. And one last thing is on the AC category. In the context of all these new capacities coming up in India under the PLI scheme for various kinds of components. Would you sort of anticipate an increase in competitive intensity in the next year or 2 as or maybe the industry sort of competes to sell out all the additional capacity that has been created. How would you see pricing and margins trending in the market in that backup?
- Anil Rai Gupta:** So I think as you have also said that this is for the component. So I don't see any reason why that should increase the competitive intensity.

- Abhijit Akella:** Would the more backward integrated producers have a competitive advantage, sir, compared to someone who is maybe more dependent on importing from China in terms of these components going forward?
- Anil Rai Gupta:** Not really because most of these component suppliers are also setting up manufacturing facilities in India.
- Moderator:** The next question is from the line of Aakash Javeri from Perpetual Investment Advisors. Please go ahead.
- Aakash Javeri:** My first question is on the BLDC segment that how is the current demand with -- from 1st Jan onwards? And how are you expecting this demand to be going forward?
- Anil Rai Gupta:** I think with the new ratings change, BLDC will definitely see more pickup in the coming times. So many of our categories in fans now are BLDC model based. So it's a larger portfolio. It will take time because of the cost difference, but it will be much faster than if the rating change would not have happened.
- Aakash Javeri:** And in the industry, we heard that there were some quality issues with regards to BLDC. One of our competitors mentioned that. So did we face any quality issues as such? Or will be largely away from that?
- Anil Rai Gupta:** No, we've not faced any quality issues.
- Moderator:** The next question is from the line of Achal Lohade from JM Financial. Please go ahead.
- Achal Lohade:** So in the presentation, you have mentioned that switchgear margin improvement is driven by the product mix. Can you elaborate a little bit more as to what has driven this substantial margin improvement? And how do we see the margins for switchgear business going forward?
- Anil Rai Gupta:** So switchgear business, I would not say because of the product mix is also because of higher sales and operating leverage. But generally speaking, other than the very volatile raw material market conditions in the last 1.5 years, generally, they remain stable between 37% to 40%.
- Achal Lohade:** Understood. And my second question was on the Lloyd business. If you look at the contribution margin improvement Q-o-Q is 250 basis points while the EBIT margin improvement is 810 bps, Obviously, there is an operating leverage, but I just wanted to check, would there be a reduction in the A&P as a percentage of revenue Q-o-Q for Lloyd?
- Anil Rai Gupta:** No, I think Q3 to Q4, the comparison is not a comparison, both in terms of operating leverage, even in A&P because most of the A&P happens in the fourth quarter and the first quarter. It's not really a good comparison to make from this quarter. I think Y-o-Y, we will be a good comparison.
- Achal Lohade:** And would you say that the A&P has increased in the similar fashion, what it is for the aggregate company?

- Rajiv Goel:** Lloyd A&P has increased in Q4 because Q4 and Q1 are the sort of month where most of the A&P spent on Lloyd.
- Achal Lohade:** Would you be able to quantify, Rajiv ji?
- Rajiv Goel:** Actually, that number will not be there. I think we do not give the disaggregated number.
- Achal Lohade:** Got it. And just one more question I had. Is it possible to get some sense about the exports revenues for FY '23 as a whole? And what has been the growth? And how do you see this in terms of switchgear, cables and wires. And any other products exports we can read and talk about?
- Rajiv Goel:** The export sale has been around Rs 550 cr, which is pretty flat on the last year. So hopefully, we'll see better days ahead.
- Achal Lohade:** Got it. And just last question, if I may, with respect to the new AC facility in Sri City. What is the revenue potential from this particular facility?
- Rajiv Goel:** So this facility is for 1 million ACs. And so as we said in the beginning, we develop our capacity from existing 1 million to 2 million ACs.
- Achal Lohade:** Right. In terms of the revenue?
- Rajiv Goel:** Revenue could be between, let's say, Rs 2,700 crores to Rs 3,000 crores.
- Anil Rai Gupta:** It depends on when we are able to achieve full factory utilisation.
- Moderator:** The next question is from the line of Aniruddha Joshi from ICICI Securities. Please go ahead.
- Aniruddha Joshi:** Sir, two questions. Can you indicate the brand-wise revenue growth rates Havells, Standard, REO, which brands have done the higher growth in FY '23? And secondly, can you indicate the growth rates on a region-by-region basis? At least what we understand that North and East is doing relatively weaker. So how is Havells doing in these regions? And lastly, the revenue growth rates in urban versus rural markets? And the last question, what is the final number of retail outlets at the end of FY '23?
- Anil Rai Gupta:** So all these first three questions, I don't know whether you followed Havells in the past, we don't give disaggregated numbers or biggest brands or even sometimes product categories within the SBUs. We will refrain from answering that question.
- In terms of retail outlets, we do believe, given the fact that we are into both rural now and the semi-urban. We do believe that we cater to more than 200,000 retail outlets. But on a regular basis, it is not necessarily 200,000, but our distribution now caters to more than 200,000 retailers.
- Moderator:** The next question is from the line of Abhilash Satale from Quantum AMC. Please go ahead.

Abhilash Satale: Sir, my question is, again, related to Lloyd. I want to know how much is the channel inventory and inventory at the company level? And how do you see demand panning out for this season? And with this capacity, Sri City capacity coming, do we have a target to breakeven Lloyd in this year?

Anil Rai Gupta: So the channel inventory was high and company inventory was also high at the end of March. So because the summer did not kick in as anticipated, it did come in for certain period but then we didn't start in the month of March. And even in the first quarter, the season is not really the way it should be. So we will see how it goes in the next couple of months because the AC season generally is up to June. So we'll see how it goes.

And as far as the breakeven is concerned, I think it's a bit of a journey we've always said. We are right now wanting to utilize our capacity, so both in Ghiloth and Sri City. And over a period of time, with brand building, distribution, premiumization, product mix, we should definitely reach profitability sooner than later, but we'll see how much time it will take.

Abhilash Satale: Okay. So in terms of inventory, can you just quantify like normally compared on a normal level when we entered the season, how much higher inventory was? And as we are into the season, how are you seeing demand panning out?

Anil Rai Gupta: It's difficult to quantify how much inventory is lying in the system. And I've already said in the month of April also, things are not the same as what in April summer should be.

Moderator: The next question is from the line of Alok Deshpande from Nuvama. Please go ahead.

Alok Deshpande: Just one question on Lloyd. Given the market share that Lloyd has gained over the past couple of years coming into the top 3 now, I just wanted to understand what was the key strategy there? And how much would you attribute to pricing? How much would you attribute to penetration of the dealer distribution network? And would that now change going forward given that you're already in the top 3, is there any change of guard there?

Anil Rai Gupta: I think we have always maintained that Lloyd, always had a great opportunity because there were too many white spaces. Lloyd was a very distribution-oriented business. It was not present in many channels like modern format retail, regional retailers. In the last 2 or 3 years with the coming of Havells, that relationships have been used from Havells to Lloyd.

A lot of new channels have been added, new markets have been added, like, for example, Havells have always been strong in the Eastern region. Lloyd was pretty much non-existent in the Eastern regions so new markets have been added. A lot of brand building has happened, product additions have happened. So, these are the reasons of gaining market share. I would not say that we have gained a lot of market share in the existing markets. New products, new markets that were added to the overall market share.

Alok Deshpande: And once these white spaces have now been covered, will the strategy change significantly going forward? Or will this continue?

Anil Rai Gupta: I think we are still at the starting of these relationships with the channel. Consumer brand building is continuing to happen. So I don't see any reason why we should slow down. So this will continue.

Moderator: The next question is from the line of Akshen Thakkar from Fidelity. Please go ahead.

Akshen Thakkar: Congratulations to the team on the good performance given the environment. My question was related to margins. If you take the last 2-3 years sort of view, we've seen a lot of volatility in margins. Admittedly, the management has invested in the business and that is reflected in the market share that you have delivered.

Now if you think about margin, I'm not saying the next quarter or next year, which is certainly over the next 2 to 3 years period. How are we broadly be thinking about margins? Are we thinking about margins going back to where they were 3-4 years back? Are we thinking about average margins over the last 7-8 years is generally how you think about margins will be a great. That was question one.

Anil Rai Gupta: Yes, I think a very good question, I would say. And this is how we would also view given the fact the last 3 or 4 years were sort of up and down both in terms of demand, in terms of raw materials. But going forward, if we continue to see this stability, we would want Havells core business margins to come back to normalized levels, which were there before COVID. We are seeing that trajectory now in the last couple of quarters, but I think it will continue to remain there.

And Lloyd, I've already said that it's a continuing journey. We do believe that at certain volume levels, we should definitely make money but it will take some time as the investment time for Lloyd at this point of time.

Akshen Thakkar: Okay. And so second question, again, slightly on a medium-term basis. How large do you see export as an opportunity from this business? And I want your perspective both on Lloyd's and ex-Lloyd. Do you see that being a material growth driver? Or it's something which any way has been a focus, so does move the needle that much over the next 3-4 years?

Anil Rai Gupta: No, I think in the next 3 or 4 years, we'll see a lot of focus on building exports. Both one, from the core business of Havells, there are opportunities for building cables and wires business, lighting business, switchgear already has been doing well and there's opportunity there.

For Lloyd also with the manufacturing facilities that we have, we definitely see more scope there. This whole China Plus One. Look, in our industry, it's not really a commodity, it takes time to build relationships with the channel. But definitely, we see a huge potential coming in the few years.

Moderator: The next question is from the line of Indrajit Agarwal from CLSA. Please go ahead.

Indrajit Agarwal: I have 2 questions. So if you look at our AC capacity, currently, we have about 2 million units of capacity versus India's current consumption of about 8 million. So we have about 25%

capacity of the consumption. So how should we look at market share gain versus export substantially from the new unit?

Anil Rai Gupta: I believe we take Indian sales at about 10 million. So, we have about 20% capacity. I think the future demand for air conditioners is continuing to grow in India. We do believe that even the small towns and rural areas will see demand increase in the future. So we definitely see a huge potential for growth in the air conditioners. And of course, exports from Sri City will be also a good opportunity.

Indrajit Agarwal: Sure. And in this 2 million unit capacity, how much integration do we have -- backward integration in the BOM currently? And how should we look at it going forward?

Anil Rai Gupta: Except for compressors and motors, we have pretty much integrated everything in-house, including the moulding, sheet metal everything.

Moderator: The next question is from the line of Pulkit Patni from Goldman Sachs. Please go ahead.

Pulkit Patni: So my first question is what Achal had asked, continuing with that. In terms of ad spends, discounts, commissions, etc. There was a time we used to spend about 4.5% to 5% of sales on that. Now as you look at competition, those who are doing cables and wires wants to do electrical consumer durable. So everybody wants to do everything. Do we see a scenario that we may have to increase the spending of 2.5% to 3% just because competition across the board seems to be pretty, pretty aggressive.

Anil Rai Gupta: So 2.5% - 3% is overall Havells. So if you look Havells consumer products, especially the products where there is direct consumer advertising required, there the percentages are higher. So when you see 2.5%, it's a mix of things. And we believe, we are still the biggest spenders in the electrical industry and there is a lot of rub-off effect of one product category to the other. So I don't see any reason that we should be seeing a huge increase in advertising spends. As far as incentives, promotions and all, our concern is not really a part of this spending, it's not captured in this.

Pulkit Patni: Sure. And your second question is we've got more than Rs 2,000 crores of cash with us, no debt. Any portfolio gaps that we could think of filling say, in the next 2 to 3 years, which you feel could drive significant growth from here? Anything you can talk about? Again, nothing immediately, but over the 3- to 4-year period?

Anil Rai Gupta: Yes, that's a continuous process. Organically, one, there's a constant process of adding product categories. And we've seen that in the past. But also the another factor is that these kind of organic expansions don't require a whole lot of capital infusion. So it's a good problem to have, but the fact is that we don't anticipate any major cash infusion into a new product category. But constant improvements and constant addition of product categories continues.

Moderator: The next question is from the line of Rakesh Roy from Omkara Capital. Please go ahead.

Rakesh Roy: Sir, our rural sales is very less compared to other players. So for FY '23, how much is our rural sales? And what is the strategy for next 2-3 years to increase our rural sales?

Anil Rai Gupta: So rural sales, I don't know whom you're comparing with, but FMCG, these are definitely a big portfolio coming rural sales. In the electrical industry, we're seeing the rural penetration is increasing over the last few years. Right now, about 5% to 6% of our consumer product sales come from rural sales. And going forward, the basic strategy is to continue to increase penetration and add product categories.

Rakesh Roy: Okay. All right, sir. Sir, in the ECD business, maybe I mean this. In the ECD business, how much is fan contribution, sir, for full year?

Anil Rai Gupta: It varies between quarter-to-quarter, but varies between 60% to 65%.

Rakesh Roy: Okay, sir. Sir, last question, sir, in cable business, how much is from domestic side? And how much is from the industrial side for full year, sir?

Anil Rai Gupta: Around 60% comes from the domestic side.

Moderator: The next question we have from the line of Rahul Agarwal from InCred Equity. Please go ahead.

Rahul Agarwal: Sir, 3 quick questions. On Lloyd, in your opening remarks, you mentioned West and East is what Havells is working on in terms of improving market share. Just wanted to know, overall regionally around the 4 corners, are we weaker and stronger in some areas? That's one. And obviously, I know that east are stronger for Lloyd. And in terms of peak manufacturing sales from Lloyd, excluding this Sri City expansion, what would be like the peak revenue for Lloyd? If we exclude the outsourcing and the Sri City expansion.

Anil Rai Gupta: So yes, in every category, yes, there are strong areas and weak areas. South and North have been traditionally stronger for Lloyd. East and West have been traditionally weaker and that's where the focus has been. I have not understood your second question fully.

Rahul Agarwal: What I'm asking is, based on our manufacturing capacity of Lloyd, excluding the new 1 million at Sri City, but including the washing machine and the outsourcing obviously is additional over and above that what would be the peak revenue potential? Because I think Rajiv ji mentioned, Rs 3,000 crores may come from Sri City additionally. But excluding that, what is the peak...

Anil Rai Gupta: When you see capacity, Rs 2,500 crores to Rs 3,000 crores can come from Sri City. Same is the capacity for ACs at Ghiloth. As far as outsourcing is concerned, it is more opportunistic. We do not prefer to do any outsourcing for air conditioners, especially where we have manufacturing because of the quality differentials which we have in our plant. So, we prefer not to have any outsourcing. And the washing machines and refrigerators in the ongoing process of increasing sales, they are not constrained by capacity.

Rahul Agarwal: Right, sir. Secondly, on fans, obviously, the channel were overstocked into Jan-Feb but that could be more for 1 and 2 star ratings. Could you share some trends for premium and decorative fans? I understand April is weak, but what's happening in that segment?

Anil Rai Gupta: So for the third quarter, premium fans sales were low and going into the season, we are now coming back to normal levels. So the inventory position of non-rating plans especially in the month of January and February were higher, so people were not really picking up the premium fan. But I think what we expected was if the season comes in, there will be pickup in the channel. However, the season has been a little bit tapered both for March and April. Let's see how it goes in the month May and June.

Rahul Agarwal: Perfect. And sir, lastly, on South India, I can see Havells putting up cable plant there, AC plant has already come up. Is this a conscious decision to strengthen South India presence? And do you see more opportunities there? And related question is Sri City obviously seen too many AC plants come out with very large capacities. I think Daikin has also put up. A lot of other foreign brands are doing it. Margin stability to come back ahead, is that going to be like a 2-3-year phenomenon? Or do you think the next 12 months will answer that question?

Anil Rai Gupta: In terms of expansion, when we were thinking of expanding further capacities and products where we needed to expand, we thought about diversification of region because most of our plants have been in North, so South has been there. It has been a stronger market. It's not necessarily to develop those markets. But as I said, for Lloyd or cables and wires, we've seen a strong market for Havells and that was also one of the reasons to put our facilities there.

In terms of more capacity coming in for air conditioners, that also is a reflection of the future demand scenario, which we do expect. The penetration levels are still extremely low in India. And going forward, we do believe that there will be good growth coming in for air conditioners. So I think that is something which the entire industry is looking into.

Rahul Agarwal: Sure, the question essentially was on the margins for AC industry.

Anil Rai Gupta: It's very difficult to say when the exact demand will come, whether that could mean oversupply or not. It's difficult for me to comment on this margin profiling at this point of time.

Moderator: The next question is from the line of Amit Bhide from Morgan Stanley. Please go ahead.

Amit Bhide: I have 2 questions. First one is on Lloyd. So can you approximately tell us how many units approximately, I know you would not want to give out exact numbers, would Lloyd be selling in AC, refrigerator and washing machine right now? And in AC, how do you see the utilization levels panning out with the Sri City capacity being added?

And as you said in the previous question that it is a crystal ball gazing as to how demand and penetration would shape up. So what are the backup plans on export side? Or how would you look at improving the capacity utilization in case the domestic demand doesn't support?

Anil Rai Gupta: We don't give numbers for air conditioners. We can't even give approximate number. We do say that we are among the top three players in the industry.

On the capacity utilization, it is more dependent on the demand. And obviously, there are efforts going in to build exports also. It takes time. The demand is going to be there.

If the demand is very good, then obviously, we'll have a higher capacity utilization. So you were asking me the question of crystal ball gazing and it's very difficult to say exactly how much will be the sales.

Amit Bhide: Right. Sir, but approximately like most of your sales were coming up from the Ghiloth facility, which was 1 million. So approximately, would it be right to say capacity utilization would be 70%, 80% over there, or 90%?

Anil Rai Gupta: Yes. That's right.

Amit Bhide: Yes. Okay. Great. And other question that I had was on your O2O model that you had launched during the COVID period, that was focused on supporting the demand and supply in that given situation. So how are things panning out on that model? Are we still continuing to focus on it?

Anil Rai Gupta: It is a very very small part of business because post-COVID, most of the business online has come to the marketplaces. Since then, store sales have been very low. If you remember, at that point of time, the idea was to build availability for the consumer is very close proximity. So that really is not a whole lot of requirement as of now. Going forward, how it pans out, we'll continue to be there. We have developed a capability. But in terms of revenues, that's still very low.

Moderator: The next question is from the line of Amit Mahawar from UBS. Please go ahead.

Amit Mahawar: Congratulations on great set of numbers given the current challenges. I just have one question on Cable & Wires and Switchgear segment. If you see last 4-5 years, the way that you've basically grown on the segment has been very steady and I just want to understand if we are allocating any capacity creation in the next 2-3 years and especially in Wires and Switches? And what is the current utilization level in both the segments?

Anil Rai Gupta: In Cable and Wires business, capacity utilization is at a very high level, and that's why new facilities are coming up in Tumkur, which will be operational in the next 12 months. Switchgear, we are constantly adding capacity over the last 2 or 3 years. So we don't see any major capex in switchgears.

Amit Mahawar: Okay. But overall, between the two segments, can I say roughly around Rs 100 crores to Rs 200 crores will go in capacity creation or it's going to be much more than that, sir?

Anil Rai Gupta: So for the Tumkur facility will be higher, about Rs 300 crores, which is part of Rs 600 crores guided for this year.

Amit Mahawar: Okay. And I'm sorry for one more follow-up on this. Within Cables and Wire, is it more towards the branded wire, sir?

Anil Rai Gupta: Both sides because capacity utilization is high on both underground cables and wires.

Moderator: I will now like to hand over the conference over to the management for the closing comments.

Anil Rai Gupta: Well, thank you very much. Thank you for joining the call.



Havells India Limited
May 03, 2023

Moderator:

On behalf of InCred Equities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.