

Havells India Limited
Q4 FY21 Earnings Conference Call

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- Moderator:** Ladies and gentlemen, good day and welcome to the Havells India Limited Q4 FY2021 Conference Call hosted by IIFL Securities Limited. 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Renu Baid from IIFL Securities Limited. Thank you and over to you!
- Renu Baid:** Thank you, Stanford. Good morning everyone. On behalf of IIFL Securities, I would like to welcome you all to the Q4 FY2021 Earnings Call of Havells India. Today, we have with us the senior leadership team of Havells, represented by Mr. Anil Rai Gupta, Chairman and Managing Director; Mr. Rajesh Kumar Gupta, Whole-Time Director (Finance) and Group CFO; and Mr. Ameet Kumar Gupta, Whole-Time Director; Mr. Rajiv Goel, Executive Director and the IR team. I would now like to hand over the call to Mr. Anil Rai Gupta for his opening remarks thereafter we can start the Q&A. Thank you and over to you, Sir!
- Anil Rai Gupta:** Thank you very much Renu. Good morning everyone. I wish that you and your family members stay safe and healthy. The COVID second wave continues to be ferocious spreading wider and deeper though ebbing in certain early infected geographies. The overall magnitude, however, remains worrisome inducing elevated fear across the nation. We have been responding to the emerging scenario with sensitivity and caution prioritizing health and safety of all our stakeholders. Q4 sustained momentum of Q3 with growth across categories. Margins were broadly maintained despite rapid rise in commodity cost. We remain focused on business stability, liquidity, and sustainability. We are confident of recovery with progressively peaking of COVID enhanced vaccination and consolidation in favor of organized sector. We may now proceed for Q&A, Renu.
- Moderator:** Thank you. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Ravi Swaminathan from Spark Capital. Please go ahead.
- Ravi Swaminathan:** Sir, congrats on a good set of numbers. My first question is with respect to the current demand environment, how the traction was vis-à-vis in the months of April and May, if you can give an overview it would be great, and my second question is with respect to, we have largely preserved our gross margins, a bit of it has compressed year-on-year, but we have done much better than previous, what kind of price action have we taken across products, you can give that clarity it would be great?
- Anil Rai Gupta:** Thank you, Ravi. On the first question when we started of this quarter in the month of April, we started very well in all product categories despite good March, sometimes it happens that after March, April starts up a bit slow, I think all product categories including fans and air conditioners, we actually saw a very good traction in the first 10 to 15 days, post which the entire fear of the COVID wave started, lock down started happening and after that definitely the demand and pickup is far lower than normalized level, it is not the same

situation as last year because last year it was a complete lock down. There are certain areas in fact most the states have lock down, but certain shops open for a few hours, certain consumers are able to get some essential commodity, so there is some amount of sales trickling in, but I would say not all are at the normalized levels and far below the normalized level, but the good thing is that at least we saw a decent start especially for the seasonal products likes air conditioners and fans. Even in the other product categories like project sales have started happening from the month of April itself, so things started well, but I think now we just have to wait out for this second wave to settle down and once things start it should start coming back. On the pricing actions we saw third and fourth quarter have unabated cost increases in commodity like copper, aluminum, steel, plastics, and engineering plastics everywhere there was sharp increase and usually we have always maintained that we would want to pass on the cost increases or decreases to the consumer at the right appropriate time, so at this time it happens at a very fast pace of increase, it has more become a bit difficult to pass on immediately, but there is certain lag we are able to pass on the entire cost, so I think that already in the fourth quarter some costs had been passed on, it was already underway in the first quarter itself, so when the lock down opened up I think very soon in the second and third quarter we will start seeing margins normalizing to our usual levels.

Ravi

Swaminathan: But, if you can give a sense on the magnitude of price increase that you would have taken across switches, fans, cables, if you can at least mention the products?

Anil Rai Gupta: Yes, it is very good, copper for example, wires I would not have the numbers, but overall if you see from April of last year to now, the cost increase now it had been in the range of anywhere between 40% to 45%, so fan could be close to about 10%, switch gear similar, so it would be very different across categories.

Ravi

Swaminathan: Got it, Sir. I will come back in the queue for more, thanks.

Moderator: Thank you. The next question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra: Congratulations on a strong quarter. My first question was on the B2B recovery, so obviously the Q4 is tough to see on a Y-o-Y basis given how bad last year turned out, but if you could just highlight sequentially what are the kind of trend you are seeing in the B2B segments in switch gears, cable and then do you see strong traction there coming back in projects and housing kind of segments?

Anil Rai Gupta: So, on the consumer end, with the initial side we started seeing traction even in the second and third quarter, but what was sluggish was the industrial and infra segment, which is professional luminaires, underground cables and industrial switchgear where we saw actually a de-growth over second and third quarter in the previous years, but the fourth quarter in the month of January-February, we started seeing growth even in these product categories. Obviously March

was washout last year, so there was a huge growth, but in January-February also for the first time we started seeing turn around in industrial and infra segments also, which we were hoping that it would have continued in the coming quarters because private capex, government infrastructure spending were coming back in the fourth quarter.

Arnab Mitra: Thanks for that and my last question was on the input cost, you mentioned some of the price increases like 10% in fans, switchgear, so just wanted to understand in your experience is there any elasticity of demand in this category because what we see is even basic essential categories, companies are taking double digit kind of price increases, so I would see the industry broadly taking similar price increases across competition and therefore it may not really have any demand impact?

Anil Rai Gupta: Yes, generally speaking as I said it immediately gets passed on and when I say immediately within a quarter or so, it gets passed on to the consumer again, even a reduction, so for example, if copper, steel starts coming down, then you will see a cost reduction or price reduction as well so I would say that demand elasticity is not so high in our product category, in case of cables and wires we have seen an unprecedented price increase in the last year, but the demand continues to be there, it could also be the fact that last year we saw major shift from unorganized to organized sector as well, but generally speaking it is not so elastic.

Arnab Mitra: Thanks, that is it from my side. All the best.

Moderator: Thank you. The next question is from the line of Naval from Emkay Global. Please go ahead.

Naval: Thank you for the opportunity. Sir, just wanted to know as you stated that this time around and as we know that spread of COVID is there in villages, and tier 2, tier 3 towns and last year recovery started from rural, so any learning thoughts, which you can share how wallet share shift, last year we saw a strong growth coming can we see the same this year as well because significant spending has gone into medical expenses as we see for consumers?

Anil Rai Gupta: That is true. In fact what we saw last year was there was a faster recovery in the rural towns and the tier 2, tier 3 towns and which has no signs for tier 1 towns to come back, at this time it actually could be the reverse where tier 1 towns may actually come out of the COVID impact much faster and tier 2, tier 3 towns in the rural areas might take a bit more time for normalizing to happen, so if you look at the rural segment in the electrical industry we saw a 100% growth of Havells last year, but it still constitutes only about 4% to 5% of the overall consumer space for us, so it is still a small number, it has high growth potential, but yes, it could happen with the recovery in tier 1 towns to be faster than the tier 2, tier 3 towns at this time.

Naval: Understood and second question is on share of ad-spends, now that has been curtailed in a big way, so is there a structural change, how you are spending in terms of change of medium, any savings will be bounce back now in FY2022 once the recovery starts or it would be significantly lower than the normalized level going forward also?

- Anil Rai Gupta:** No, I think if you see our third and fourth quarter spends came back to normalized level, so the major reduction happened in the first and second quarter obviously because of the situation at that point of time, so we were hoping to bring back to normalized absolute level because there had been certain shift more towards digital marketing than just the traditional media spend, but it would have come back in a bigger way as compared to last year so I would say the good cost which you have taken out last year probably it was only advertising and promotions, which would have come back.
- Naval:** Understood and lastly if I can take a followup on my first question, on the O2O model what you had started last year, any trend data you can share, how many dealers and distributors are in the network and your sales trend there?
- Anil Rai Gupta:** So, it has increased quite considerably, but it is still very small part of the overall online business, as you can very well understand the supply chains of the online platforms, it actually came back very strongly because initially post lock down it was that localized sales were to be encouraged, but it has definitely given us a very strong robust system of O2O, we have more than 1000 dealers in fact now more than 1200 dealers already catering to Havells, but it is still a very small part, but overall in the last year online sales has gone for industry as well has grown nearly 100% and in that, one of the areas as we have already maintained and our distribution strategy has completely changed from the last year, but still online was not a big part of Lloyd. This year, starting January, we came back in a big way, we actually entered online also in a much bigger way, so that actually did not happen because of the season, otherwise we are now present fully on online for Lloyd has well, so online did a very good growth last year.
- Naval:** Thank you so much and wish you all the best.
- Moderator:** Thank you. The next question is from the line of Latika Chopra from JP Morgan. Please go ahead.
- Latika Chopra:** Thank you for the opportunity. I have two questions, the first one was on Lloyd business, if you could share your thoughts on the competitive landscape in the air conditioner category, how your market shares are tracking, are you witnessing more excessive price behavior by some players and update on the recent launches that you have done there and the second question was on the PLI scheme, which is announced, if you could share some thoughts on your approach in this front, thank you?
- Anil Rai Gupta:** On the ACs in fact if you look at because there were unprecedented cost increases so we cannot say the quarter-on-quarter performance, because in this industry we have seen more tendency by the distribution to actually stock in advance. Actually, third quarter we saw a lot of free stocking happening for certain brands, but if you look at the entire year probably Lloyd is the only company in this category who would have actually grown despite April and May being washed out which was the higher season, so we have actually seen significant market share gains, though we have lost certain market share in 2019-2020 because of the distribution revamp, but we have significantly gained market share in 2020-2021, which actually made us grow in a tough year as I

said ten-and-a-half months of sales and this is definitely a very positive step for Lloyd. A lot of things happened during the year in the AC industry, China import or import of air conditioners was banned, PLI scheme was supposed to be coming in, which has now finally come in and the cost pressures were there throughout so I think generally speaking there was may be a bit of delay in passing on the entire price increase to the market because of the impending season and people were waiting for the season, I think generally once the lock downs open up the entire cost structures would have been passed on to the market because there was a significant cost increase in air conditioners also, but the coming season I think coming times there are positive steps towards the AC industry, as I said now it is clearly depending upon India production, it is not based on cheap imports and secondly the PLI scheme should also help if not entire landscape as you were expecting it was supposed to be coming for finished goods, but even if it was coming for the component it should help improve the competitiveness for components and hence may be some amount of cost reduction in the overall product.

Latika Chopra: Sure, and would want to participate in the PLI scheme?

Anil Rai Gupta: We are still evaluating since we are more of a finished product player and we have a very well integrated manufacturing unit, but in certain components we may participate or we may not participate because we have to still buy components like compressors and products from outside, we have to still see the final scheme, but we will do it only if it make sense for us to put in that kind of capacity, if we find that it is better to actually buy from people who have participated in PLI then we will do that.

Latika Chopra: Sure, thank you so much.

Moderator: Thank you. The next question is from the line of Siddharth Bera from Nomura Securities. Please go ahead.

Siddharth Bera: Thanks for the opportunity. Sir, my first question again is on the Lloyd business, so generally in the fourth quarter we have seen good stocking up happens Q-o-Q across companies at this time, this has been missing in case of Lloyd, so is it that we have decided to have a slightly lower type of inventory or if you can throw some light on that and we have recently launched entire portfolio of refrigerators and washing machines also under Lloyd, so if you can just throw some light on how the ramp up in that will take place over the next one year?

Anil Rai Gupta: So, I think on the first part of the question as I said earlier also that it might not be right for us to just look at a quarter because a lot of time it happens with certain distributors prepone the sales because of impending price increases so maybe you could look at the second half growth or the entire year growth as I said as the Indian industry we could grow the business even despite losing the last year as against many players in the industry so I think it is a positive move. We cannot just look at just March performance, in fact if you see March we had started seeing slow down happening even in Maharashtra and Gujarat so that was something which was affecting, and some sort of sales has started

coming in for delaying the stocking of the products in the fourth quarter, so I do not think this March was also usual March for the AC industry.

Siddharth Bera: Understood. Sir, my second question was on the refrigerator and washing machine portfolio and the ramp up?

Anil Rai Gupta: Yes, so that is still growing very good, the entire new range for washing machine has been launched, we should be starting production in-house very soon in the next 2 or 3 months and refrigerator line up is also available, is now present in the distribution chain, so that is going well, that should get a good decent growth in the coming times for the Lloyd business.

Siddharth Bera: Understood, Sir. Lastly on this unorganized share gains like you mentioned that we have seen a good amount of increase from that part and if the segment is specifically, if see, it has grown very well over the last 2 years at a strong double digit, so just some more thoughts here, I mean, do you expect such strong trend, there are further levers in terms of unorganized or new products, which can drive good double digit growth momentum in the segment going ahead?

Anil Rai Gupta: I think there are various levers not only in just AC business but many businesses, so as you said, product categories, features, innovation, distribution reach, rural enhancement so lot of areas where there could be a possibility of getting good growth in the coming years as well.

Siddharth Bera: Thanks a lot.

Moderator: Thank you. The next question is from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora: Thank you for taking my question. Sir, my first question is that we put a lot of emphasis last year also, the way market shares of all the big brands including us saw the market share increase from the unorganized sector, does that still you believe can continue in the next year, once everything opens up, hopefully things normalizes do you think that can further help you out-perform the industry, I am asking more from a perspective that is it largely done or you still see in some pockets of your segments you see that is happening, that is my first question?

Anil Rai Gupta: I think in every disruption, there was demonetization or GST regime coming in, the first COVID wave, we have always seen that post those, initially there is market share gain shift from unorganized to organized sector and once the supply chain do get settled some amount of unorganized market share, they also start coming back, so definitely we do believe that post this lock down and post this wave also we see some structural shift happening just because of the strength of the distribution, supply chain for the organized business, also because of change in consumer behavior after certain time just like last year we were generally talking about people downgrading, but people were upgrading because they want a better quality and trusted brands in their homes, so I think with every such disruption those consumer behavioral changes also starts happening.

- Nitin Arora:** And the second question is more to do with the cash flow provision today, so if you can highlight what are the reason for receivables going up sharply this time, we have not seen till Q3, what is the reason for it, it is more of any accounting change we have done with respect to bill discounting, it is because of that and even on the higher inventory, which is leading to your optically looking gross margin better that is my last question, thank you?
- Rajiv Goel:** So, on the cash flow front, receivable there is no significant change in that, if you recall last year March was disrupted and there is no significant change either on the policy or the execution of the receivable policy in the company, sometimes what happens is last day we may get discounted or we may receive into the bank that is the only source, there is no significant change in the policy or execution of the debtors policy, for inventory I think you raised the question, I do not know how you are linking it to the gross margin or relate to that but on the enhancement in inventory, yes, I think it has been built up as you are aware on the AC side because of the impending season, however, the season is right now not panning out the way they should be, but we believe that we will have a good summer and gains will accrue to the strong manufacturing company like Lloyd, so we continue to be fairly positive on the trajectory going forward, so we are not really worried on the inventory as of now.
- Nitin Arora:** This is helpful, Sir. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.
- Bhavin Vithlani:** Thank you for the opportunity. Sir, I had a couple of questions, first is on the ad-spends, if you could give us the guidance how should one think about on a sustainable basis, you highlighted that you are looking at an absolute spend so I think if you refer somewhere around 375 Crores that would be useful?
- Anil Rai Gupta:** The questions are not clear, Bhavin, can you please repeat, you are breaking in between.
- Bhavin Vithlani:** So, the question is on the-ad spends, you mentioned we are expecting normalization, but you also highlighted that you are looking an absolute spend, so it will be useful to...
- Anil Rai Gupta:** No, I think it is not the right time, first of all we generally do not give guidance on figures even in revenues or expenses, so if you are trying to elude me to give you a figure of advertising I do not think I will be doing that in this call and secondly it is still very early because right now we are coming out of the second COVID wave and then we will further reevaluate how the next 9 months look like, so that is how we will be evaluating our advertising spend. I just mentioned, generally that last year was definitely abrasion because the first 6 months practically there were no spends on advertising because neither the markets were not fully open nor the media spends were happening, so it is fair practically that the second half we came back to normalized on that levels.
- Bhavin Vithlani:** Sure, the second question on the two year basis if you could give us what is the kind of annualized capex that you are budgeting for and what are the areas that the capex will be incurred for?

- Anil Rai Gupta:** So, we were looking at about 500 Crores of capex this year, again this will be further reviewed because of the lock down situation, but generally speaking for the next couple of years we are looking at overall about 1000 Crores in total capex and primarily it is mainly capacity addition in most of the product category.
- Bhavin Vithlani:** Sure, any specific areas where larger proportion of these capex would be made, because there was a mention about a new AC factory in South India?
- Anil Rai Gupta:** So, this again is under evaluation right now because as we said because of the import ban as well as the PLI schemes, which we still are evaluating and definitely this seasonal disruption, which has happened in this year would also force us to review the entire timing of this capex.
- Bhavin Vithlani:** Sure, the last which is a followup on this, there was a tax benefit of 17% income tax on the new facility, are we also looking at new subsidiary and any view on a 2 to 3 year basis tax rate that you expect because of that benefit?
- Anil Rai Gupta:** No, we are not looking at new manufacturing subsidiary for the new plant because we do believe that all our expansion would happen in the existing businesses that we have.
- Bhavin Vithlani:** Thank you so much. These are my questions.
- Moderator:** Thank you. The next question is from the line of Sonali Salgaonkar from Jefferies. Please go ahead.
- Sonali Salgaonkar:** Thank you for the opportunity and congratulations on a great set of numbers. Sir, my first question is regarding the distribution, where do we stand in terms of a current pan India distribution and also we have been focusing more on expanding in rural, so what proportion of our distribution is accounted by rural currently?
- Anil Rai Gupta:** First of all, overall expansion and outreach of our channel is a continuous process. We now have more than 10000 direct selling points. In our system of more than 125000 to 130000 outlets, which either are catered directly by our distributors or indirectly by our wholesalers, so that is the numbers that we already have in our system, but might be many more, but this is what is tracked and as far as the distribution in the rural areas goes, we already have covered and we talked about rural, unlikely FMCG, we are talking about 10000 to 50000 population, so we covered more than almost 80% of the target, which is about 3000 towns we have already reached about 2300 to 2400 towns, we have a distribution channel under them and that is catering to almost about 30000 outlets, so in terms of sales in rural it is about 4% to 5% of our consumer business.
- Sonali Salgaonkar:** Understand, Sir. The second question is regarding the product mix in Lloyd, with the new variants being launched and the new categories and as they ramp up over the next 3 to 5 years what kind of a product mix shift do you expect in Lloyd?
- Anil Rai Gupta:** Well, I think we continue to believe right now it is almost 70% air conditioners and we will be putting more focus on washing machines and refrigerators,

which will be a growth category, but we also do believe that air conditioners will continue to have a very good opportunity for growth in the coming times more because of again the government push for Indian manufacturing in the segment plus also export opportunities in the coming times, so I believe it is difficult to predict right now numbers, but we will be looking at very fast growth opportunities in all the three major categories of Lloyd.

Sonali Salgaonkar: Understand. Sir, lastly if I may, what has been the growth of our rural sales over the past one year, thank you?

Anil Rai Gupta: It has been more than 100%.

Sonali Salgaonkar: Thank you, Sir.

Moderator: Thank you. The next question is from the line of Rahul Agarwal from Incred Capital. Please go ahead.

Rahul Agarwal: Thank you, good morning. Congratulations to the team to deliver such set of results even in the difficult year. I had two questions, firstly in terms of planning and budgeting right, last year whatever we have done obviously COVID disrupted and fiscal 2021 was a very different year than what was thought about early January 2020, similarly this year January 2021, we would have planned for fiscal 2022, so what I wanted to check was in terms of your 5 large segments in terms of top line and margins could you help us qualitatively understand what you plan for and how do you expect the demand trends to actually come off this in the next 12 months, if you can exclude the COVID impact and just generally in terms of how do you see the market performing in India, the demand-rural and urban, but regionally anything you can add color, positivity would really help across all your 5 segments that is my first question?

Anil Rai Gupta: To your first question, if we take out the COVID impact so that is something which we do that then obviously we were quite positively looking at the FY2022, given the fact that we were coming with very good growth in FY2021- in second, third and fourth quarter and those are of kind of demand scenario that we were expecting and we were focusing towards and as I said April also started off on a good mode so I believe that because last year first quarter was zero base, or low base I do not think we should be looking at growth, but we were definitely looking at continuing the momentum both in terms of increasing our reach, capacity enhancements as well as expectations of sales and this was all across India, all across category, and we say all across even customer segments, as I said even in the fourth quarter the industrial & infrastructure segment also started showing growth, which clearly indicated that the private capex in government infrastructure spending was also starting to come back, so that is why we were quite positive about the entire demand scenario.

Moderator: Thank you. The next question is from the line of Abhisek Banerjee from UBS. Please go ahead.

Abhisek Banerjee: Sir, what kind of cost savings you have done in the cables business, which has helped in the gross margins?

Anil Rai Gupta: Actually, the cables' gross margins are also seemingly a bit more expanded, it is not the usual margins because generally when you pass on a certain cost

increase some benefits you also get over stuffs already lying in the organization and then gets passed on into high price to the trade, so I would say that these may be a bit more expanded than usual, but you are also seeing some contraction in other businesses and I already maintained that going forward in the coming quarter most of the businesses will start seeing normalized margin level once this settles down.

Abhisek Banerjee: Understood, so now we come to the balance sheet, the long-term debt has gone up, now after hearing your cables it sounds that you were preparing for a high level of cables is that what you are mentioning or is there something else we planned?

Anil Rai Gupta: Sorry, what has gone...

Abhisek Banerjee: I was talking about the long-term debt?

Rajiv Goel: Long-term debt, this is the debt for the capex. If you recall last year, we have taken two types of debt just to maintain the liquidity at the time of the pandemic, there were 1000 Crores short-term and a 500 Crores of long-term, we have the capex which is normally for a period of 5 years. The 1000 Crores debt seems spends over the period, you see we had performed pretty well during the year and we have completely repaid before March 31, 2021, that is why you not find that in the balance sheet for March 31, 2021. 500 Crores is a normal debt, this will continue, it is a minor debt in the overall business, on a net debt basis we still have around 1,400 Crores cash on the balance sheet.

Abhisek Banerjee: Understood, and there was a small last question from the inventory front, so if I look at the adjustments which we do make in the stock in the P&L and if I add them up then have a number of close 500 Crores reduction, but on the inventory this has gone up, so have you stocked the raw materials and had impact over there?

Rajiv Goel: No, we do not do any hedging, I think this has been a well established practice at Havells, so we believe margin is the only hedge availability, this has been reflected over the years, as Anil has explained there could be large effect, more things come from employees, commodity cost go up or go down, but we normally pass it all into the market, so no hedging transactions that has happened.

Moderator: Thank you. We take the next question from the line of Ashish Jain from Macquarie. Please go ahead.

Ashish Jain: Sir, good morning. Sir, my first question was on ad spend, so I know you will not give the guidance and all, but historically we had a stance that ad-spends will be between 2% to 3% of revenue and you spoke more about the absolute numbers and also how should we look at that number more structurally not asking for fiscal 2022, but in general will we go back with the 3% revenue kind of a number?

Anil Rai Gupta: Yes, generally it is around 3% of the consumer and residential business so it should be around that.

- Ashish Jain:** Okay and Sir, secondly just on the margins- ex of cables and wires, so cables and wires you said that even normalize, what kind of incremental price hike we need to offset the commodity prices given where they stand today just to understand what is the gap between, we have the pass-through?
- Anil Rai Gupta:** No, I think in cables and wires generally it is faster pass-through compared to other product categories, but most of the cost increases or price increases have been taken in the fourth quarter, some of which in certain categories because the raw materials have moved further in the first quarter as well those will be taken up when the lock downs open up so that is minus, so the major things has happened already in the third and fourth quarter.
- Ashish Jain:** So, that has not reflected in Q4 whatever you may have taken?
- Anil Rai Gupta:** No, it is not fully reflected because there is always a time lag because the cost is not fully reflected, but it will be reflected in the coming quarter.
- Ashish Jain:** Great, Sir. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Rahul from Haitong. Please go ahead.
- Rahul:** I have a question around the manufacturing, could you give us a sense on your manufacturing currently, at what capacities you are manufacturing, is there a particular product category where you start factories or total production in a big way and also along with this if you could also add the industry was facing big amount of supply side constrains last year, how is the situation now that is some of it, thanks?
- Anil Rai Gupta:** I think this would not be the right time to actually look at capacity utilization during the COVID time because this is right now very flexible because in many of the product categories we have built up inventory for the season those productions have come down overall because of the lock down situation, anyway sales has come down, so the capacity utilizations get adjusted, certainly after the lock down opens up, we believe that the capacity utilizations will come back to the normalized levels, which was there in FY2021, so this will not be the right time to talking about capacity utilization and generally speaking last year what we saw in supply chain constrains post lock down it could be possible from the unorganized sector we could see a similar issues, but this was not really a complete lock down as last year, the factories still are generally running, so I do not think there will be huge supply chain constrains in this year, last year there was initially raw material shortages also and all that, this year this may not happen.
- Rahul:** Thank you.
- Moderator:** Thank you. The next question is from the line of Aditya Bhartia from Investec. Please go ahead.
- Aditya Bhartia:** Good morning, Sir. Just wanted to understand how you are thinking about participation in the PLI scheme for lighting and in the lighting side generally how you are seeing the competitive intensity. Some of the smaller players who are entering and there were fall in pricing, are you seeing that existing in the

market, and speaking about the current month or so, but the trends that we have seen in the last 6 months?

Anil Rai Gupta: I think generally since last year or so the competitive intensity has gone to bigger brands and trusted brands rather than these brands which are just importing low quality products from China so there is some amount of shift, which has happened in the lighting industry, as far as the PLI is concerned again just like an AC the PLI has come on components rather on finished products, so our participation will be very limited in this because it could be certain components, but certain components that we manufacture inhouse we may participate so it is still under evaluation.

Aditya Bhartia: Understood, Sir and in wires and cables business given that the market is incrementally moving more towards organized, do you think pricing power will structurally improve in this segment and even pass-through of cost will start happening on much quicker basis?

Anil Rai Gupta: I think generally wire and cable industry, there is a clear distinction between organized and unorganized and organized play at a certain price segment because of the quality of the product and unorganized plays at a very different level so in fact I would argue that cable and wire industry is actually the fastest in passing-through a reduction or an increase in the raw materials to the consumer and it would continue to remain in a similar manner.

Aditya Bhartia: Understood, Sir. Thanks.

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

Charanjit Singh: Sir, good morning. Sir, two questions from my side, one is on Lloyd brand which we acquired. Right now, how do you see that change and in the washing machine the factor coming in the next 2 to 3 months, so what is the kind of growth you are seeing there and any market share expectations in washing machines?

Anil Rai Gupta: So, as far as air conditioners are concerned I think I have maintained in the past as well, so it is a journey, which is happening and the acceptance for Lloyd brand for air conditioners firstly among the trade and then amongst the consumers is increasing day by day and that is a very positive sign and it is a journey, which is continuing, so that will happen in not only our presence in the wider channel, but also acceptance from the consumer side because of the product will continue to improve. Our market shares in washing machine is still at a very lower level i.e. in a low single digit level, so we have huge opportunity to grow there, once we really capitalize in the distribution channel and the brand that we have created for this.

Charanjit Singh: Sir, just on the project business, now B2C could get impacted in the near term due to lockdown extension that do you see that the project related business still continuing and what percentage of our revenue is coming from the project side?

Anil Rai Gupta: So, projects when I say it is within consumer residential also there are projects within industrial infrastructure there are projects. I would say that there is a better sales for project as compared to trade consumer sales, but it is because

of the lock down there are so many areas, which are completely shutdown, the construction is also stopped, certain projects, which are private capex happening, government infrastructures are happening, there it is continuing, but everything is at a much lower level than normal level.

- Moderator:** Thank you. The next question is from the line of Pulkit Patni from Goldman Sachs. Please go ahead.
- Pulkit Patni:** Thanks for taking my question. Sir, the first question is in continuation with somebody else asked may be you did not word it properly, basically your capital employed in cables and wires have doubled compared to last year, now this could be because of two reasons, one is because commodity prices have risen so much, the second could be that we are just keeping more copper as a hedge for our future production, so the question is which of those two are true, is it that we are keeping more volume or is it just the mark to mark impact on the inventory?
- Rajiv Goel:** Probably there is some impact of inventory value because the commodity cost has gone up, but the other third scenario could be and which is when your creditors have down initially we had a lot of [inaudible] working capital the reduction in creditor will also add to the working capital, so this could be the third scenario also while you just pointed out two scenario. So, this is what has happened in this, let me just clarify, we do not do much inventory stocking in anticipation, so that the prices will go up because I think this is a poor strategy and anticipating what the cost of the commodity will be next day. That is not our forte and we do not deal with such things.
- Pulkit Patni:** Sir, very clear. Sir, my second question is this classification of water purifiers in others, any specific reason because water heater and everything is still part of consumer durables why water purifier should be others?
- Rajiv Goel:** This was something which was done four quarters back, not this quarter.
- Pulkit Patni:** No, just to understand reason, I know.
- Rajiv Goel:** Reason was, they were budding businesses, so what we have done we have clubbed all of these, people ask what the investment are in those business, how the business doing, that is why we did before four quarter for more clarity, it is in demand of lots of investors, so they want to know what you are doing in these products and that is why all those businesses were allocated to the other category.
- Anil Rai Gupta:** The other things is, you think this is also bit different than the normal consumer durable business because the channel here goes from the electrical consumer durables to the Lloyd kind of distribution channel also, so it is a different sales team, different distribution channel also the installation is very different, it also depends upon AMC revenues, so it is actually very different than the ECD business, so it would not have been appropriate to put it in the ECD business.
- Pulkit Patni:** Understood, Sir. Very clear. Thank you for that.
- Moderator:** Thank you. The next question is from the line of Bhoomika form DAM Capital. Please go ahead.

- Bhoomika:** Good morning, Sir, and congratulations on good set of numbers. Sir, I just wanted to get the sense about the channel inventory for the AC segment and I remember correctly last year we had much lower inventory and this year there has been probably a slightly higher inventory plus the raw material prices are inching up, so how quickly will we be able to take price hikes to pass on this and my second question is I can squeeze in, you know given this spread of COVID into the smaller town do we see that in the last year when markets opened up there was huge pent up demand and which came back in Q2, Q3 and Q4, will that happen again this year or do you think that will be a challenge now?
- Anil Rai Gupta:** So, as far as the inventory is concerned, yes, there is again the lock downs happened just before the season started building up so usually for season stands we do built up inventory because during the season it becomes difficult for the production capacity to take care of the demand so there is high levels of inventory both in fans as well as air conditioners, which will get even over a next few months it will not happen immediately because definitely the most peak season of April and May we have lost, so it is even out over a period of time and the second question was, yes, you are right, I have already said that at this time the recovery of pent-up demand could be initially more from the tier 1 city and then move on to tier 2, tier 3 towns because as the wave started more in the tier 1 cities this time, so it could be actually be reverse rather than what happened last year.
- Bhoomika:** Right, Sir, if I may just the followup on the inventory on Lloyd perspective. Specifically, this year with the raw material price going up and the competitive intensity, last year we did see improvement in Lloyd margins, does that come into some bit of a challenge into the current year?
- Anil Rai Gupta:** Other than the fact we have lost the season and hence there would be some unabsorbed manufacturing expenses otherwise from a pricing positioning point of view, I do not think we should be, over a longer period of time, we should be in a worry of the margins and we would continue to gain margins when the volume start coming back.
- Moderator:** Thank you. We take the next question from the line of Ashutosh Garud from Ocean Dial AMC. Please go ahead.
- Ashutosh Garud:** Sir, my question, last year once the lock down scenario came in there was a lot of volume growth, which happened through market share gain so since we are into a similar kind of a situation even this year, so do you think that we would be in a position to further improve our market share gain which would eventually get into a volume growth kind of a scenario or since you mentioned that near term pressures are there from a demand perspective, do you think that the demand itself has gone down dramatically in the near term?
- Anil Rai Gupta:** Sorry, your question is not very clear.
- Ashutosh Garud:** In last year we saw a lot of demand coming in from Q2 onwards even though there was a kind of lock down scenario and now that in Q1 we are facing a lock down scenario do you think that the demand has actually gone down significantly as compared to what we saw in Q2, Q3 last year that was my question?

Anil Rai Gupta: No, how can we predict demand in the Q1 when there is a lock down situation, today shops are closed, how do we know that whether the consumer demand has gone down, yes, it is because the consumer have not been lifting from the shops also the shops are closed, when the demand is definitely down just like last year, so we do believe that the demand will come back to normalized level whether it happens in June or July or August it is difficult to say right now, you talked about this question of market share gains, I have also said that in the past we have seen that when the disruption happens and when we come out of a disruption definitely organized brands do gain market share because of strength of supply chain, distribution reach etc. all those things contribute to market share gains and so hopefully yes, we should be seeing market share gains not only from the unorganized sector, but there will be certain shifts within the organized sector there as well, so we should be aiming for that kind of market share gains when the lock downs open up and I will say that the demand will look weak in the coming months, in fact it could be the other way round, but we do not know right now yet how things will pan out and this is something only when the markets opens up. in fact I would argue that the reason I am saying that tier 1 would be a better turnaround this time initially as compared to tier 2, tier 3 because last year there was problem that all construction sites were closing down and they took a lot of time for them to come back and start construction activity, this year you find it has not happened in the same intensity so things are running normal even today, may be at a much lower level so it should not be the same problem in tier 1 cities as compared to as what we saw last year.

Moderator: Thank you. We take the next question from the line of Mayur Patel from IIFL AMC. Please go ahead.

Mayur Patel: Sir, congrats for good set of numbers. Sorry, I have missed out some of your comments on the price hikes, so if you guide us in the extent of price hikes required excluding the wire segment and the other segments can you guide us if you will fully pass on the commodity pressure, how much would be the price?

Anil Rai Gupta: It is between product categories, we have like 25 product categories for industry switchgears may be around anywhere between 12% to 15%, in other products there could be anywhere between 8% to 12%, so it all varies from product to product, but as I said, as and when things starts changing in the raw material side, things starts getting passed on to the consumer- both upwards and downwards, so lot of it happen in the third and fourth quarter and some of it which is happened in April and May will happen just right after lock down also.

Mayur Patel: One more question, in the switchgears and especially in the Lloyd segment there how much capex will be required and what would be our strategy because given the season is behind us would we wait for the next season to come in or you think the strategy will be to pass on?

Anil Rai Gupta: No, in fact most of the price hikes which is supposed to happen has already happened in third and fourth quarter because again in cables and wires and air conditioners where there are margins are lower as compared to electrical consumer durables or switchgears, the price increases or reductions happen

faster than the other product categories, so it has actually happened in the third and fourth quarter already. So, we hope if the raw materials continue to remain at this level, so this will sustain over the coming months, you know we can hope that raw materials do come down to normalized level so that it does get passed on to the consumers also, downwards if possible.

Moderator: Thank you. Ladies and gentlemen, we take the last question from the line of Ashish Poddar from Anand Rathi. Please go ahead.

Ashish Poddar: Thanks. Sir, I have two questions, one is on the AC business, so like you mentioned that there was some pre-buying in Q3 perhaps that also impacted our Q4 performance and after this lock down, retail sales has impacted while inventory in the system has been quite high, so do you think that the current inventory in the channel and to plants especially from your business perspective from primary sales perspective, it will take much longer to replenish those inventory and perhaps we will be looking at the upcoming festive season for beginning the channel in that way, so this is one question and second is on the cable business, we saw large expansion in margin which you eluded that it may not continue, but on the Lloyd business we have seen very strong operating leverage in Q4 when your sales is high, this time also we saw a Q-o-Q expansion in the revenue despite the margins were depressed so any outlook on margins in the Lloyd business, thank you?

Anil Rai Gupta: So, on the question of inventories of air conditioners, yes, the inventory levels are high in the system both on the company level and channel, and if the lock downs open after the season passed away, so it will take definitely longer than other product categories for the inventories to come down to normalized level, so it all depends upon how demand pans out, at what time the lock downs open up, what kind of pent-up demand comes from the air conditioners segment and secondly as far as the air conditioners are concerned again it would be a very early to look at the margins because as have I said sometimes it happens if the cost increase pressures are there and it takes a little bit more time and it happens in AC faster, but it took some time for the cost to get passed on completely so there could be a little bit of margin pressure, but as I said if the cost increases that 5% usually in the industry it would get passed on to the consumer by 5%.

Ashish Poddar: Thank you, Sir.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Ms. Renu Baid for closing comments.

Renu Baid: Thank you everyone and on behalf of IIFL, I would like to thank the management, and then the investors for their time and participation. Sir, would you like to make any closing comments.

Anil Rai Gupta: Thank you very much, Renu. I just hope everyone remains safe and healthy during these times and we come out of this COVID crisis very soon.

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