25th October, 2023

The National Stock Exchange of India Limited Exchange Plaza, 5th Floor Plot No. C/1, G Block Bandra Kurla Complex Bandra (E) **Mumbai- 400 051** **NSE Symbol : HAVELLS**	BSE Limited Phiroze Jeejeebhoy Towers Dalal Street **Mumbai- 400 001** **Scrip Code : 517354**

Sub: Transcript of Earnings Call with respect to Financial Results for the second quarter and half-year ended 30th September, 2023

Dear Sir,

This is with reference to the Company intimation dated 17th October, 2023 filed with the stock exchanges in terms of Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 regarding the conference call to discuss the financial results for the second quarter and half-year ended 30th September, 2023 scheduled for 20th October, 2023.

Further to the audio recording filed with the stock exchanges already, we are enclosing the Transcript of the Earnings Call.

The same has also been uploaded on the website of the Company under Financials in the Investor Relations section.

This is for your information and records.

Thanking you.

Yours faithfully,
for **Havells India Limited**
SANJAY KUMAR GUPTA
Digitally signed by SANJAY KUMAR GUPTA
Date: 2023.10.25 16:05:56 +05'30'

(Sanjay Kumar Gupta)
Company Secretary

Encl: As above

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“Havells India Limited

Q2 FY24 Earnings Conference Call”

October 20, 2023

MANAGEMENT: **MR. ANIL RAI GUPTA – CHAIRMAN AND MANAGING DIRECTOR – HAVELLS INDIA LIMITED**
MR. RAJESH KUMAR GUPTA – WHOLE-TIME DIRECTOR (FINANCE) AND GROUP CFO – HAVELLS INDIA LIMITED
MR. AMEET KUMAR GUPTA – WHOLE-TIME DIRECTOR – HAVELLS INDIA LIMITED
MR. RAJIV GOEL – EXECUTIVE DIRECTOR – HAVELLS INDIA LIMITED.

MODERATOR: **MR. ANIRUDDHA JOSHI - ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to the Havells India Q2 FY '24 Earnings Conference Call hosted by ICICI Securities. 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 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. Aniruddha Joshi from ICICI Securities. Thank you, and over to you, sir.

Aniruddha Joshi: Yes. Thanks, Rio. At ICICI Securities, it is our pleasure to host Q2 FY '24 Earnings Conference Call of Havells India Limited. We have with us senior management represented by Mr. Anil Rai Gupta, Chairman and Managing Director; Mr. Rajesh Kumar Gupta, Whole-Time Director (Finance) and Group CFO; Mr. Ameet Kumar Gupta, Whole-Time Director; and Mr. Rajiv Goel, Executive Director. We congratulate the management for a strong set of numbers in a tough macro environment and remain positive on the company due to its established sub-segmentation strategy and moats like brands and distribution.

Now I hand over the call to the management for initial comments on the quarterly performance, and then we will open the floor for question-and-answer session. Thanks, and over to you, sir.

Anil Rai Gupta: Thank you, Aniruddha. Good morning, everybody, and thank you for attending the call today. Hope you would have reviewed the results by now. The second quarter witnessed softness in the consumer demand. However, infrastructure and housing demand led to a healthy growth in B2B categories like industrial switchgears, professional lighting and power cables. Lloyd continues to maintain its growth momentum.

Lighting business delivered decent volume growth. However, price deflation in LED impacted the revenues. Festival calendar shift has led to a spillover of some consumer demand from Q2 to Q3 in relevant categories. We remain quite positive about the upcoming festive season in the second half. Contribution margins improved across segments year-on-year. Commodity price normalization and product cost-led initiatives will drive further margin improvement. Despite consumer demand headwinds, we continue to invest in our manufacturing, product portfolio and talent pool for a sustainable growth trajectory. We can now move to Q&A, Aniruddha.

Moderator: Thank you very much. The first question is from the line of Natasha Jain from Nirmal Bang. Please go ahead.

Natasha Jain: Sir, my first question is in the Wires and Cables segment. While I understand that last year, we had some high cost inventory and therefore, probably this quarter, the margin has been a catch-up rather, we were expecting slight strong double-digit growth in this segment given the strong infra and real estate development. Sir, can you throw some light there? And also give us a sense on the volume growth on a Y-o-Y basis?

Anil Rai Gupta: So as far as Wires and Cables are concerned, the big offtake has been on the underground cable side, which is a smaller business in this category for us. In underground cable, we are also constrained by capacity till next year i.e. till our new facility comes up. Domestic wire business has done better. And despite the fact that the consumer demand has been weak, it should even do better in the coming times. As far as the volume growth is concerned, is about 10% as compared to 8% YoY value growth.

Natasha Jain: Understood, sir. And my second question is on the Lloyd division. Again, here, while last year was a high cost inventory quarter for Lloyd, too, sir, our losses have actually expanded the most, if I compare it to any other quarter since FY '22 first quarter. And this is given the fact that this was an unseasonal quarter for RAC. So sir, just wanted to understand that is it because we continue to do aggressive marketing and that's why there is a strain on margins? And how do we see this margin moving forward in the midterm?

Anil Rai Gupta: In fact, as far as Lloyd is concerned, we are seeing margin improvements. And this is despite the fact that AC sales (major business for us) are the lowest in this quarter where we have grown actually better than the average growth of Lloyd in this quarter. But also the fact is that we also have the second facility now at Sri City, which doubles the capacity. So there has been under absorption of manufacturing overheads in a low season. But in the coming season, where the stocks start going into the distributor's shelves in the third quarter and the summer season starts in the fourth quarter, this should start improving. So we will see further margin expansion in Lloyd.

Natasha Jain: Understood. And sir, lastly, any light on how the premium fan segment did?

Anil Rai Gupta: Premium Fan segment, Havells has been the leader in that segment and it is doing well. Overall, fans demand has been weak over the last six months, since the energy rating change. But I think going forward, this should improve because there was enough stocks in the market, but I think overall, it would improve. Our focus on premium play continues to be strong.

Moderator: Thank you. The next question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: My first question is in terms of overall consumer demand, especially growth in Lighting and Fans. The flattish growth is because of overall market itself growing slowly, or are you seeing increased competition there also? So if you can throw some light? And next 12 months, do you see a recovery in the overall market to double-digit kind of growth?

Anil Rai Gupta: Yes. It is a combination of things. I don't see increased competitive intensity. It has always been there in lighting, and it will continue to remain, but there will be consolidation towards more branded products in the coming times as well. In fact, the major reason for the lighting growth not happening is also the fact that the volume growth has been double digits, but the value price erosion has been quite aggressive.

Talking about fans. Overall, the demand has been weak over the last six months to nine months. And we believe that with the season coming in, in the next half, we should start seeing a better pickup in the Fans business as well.

Ravi Swaminathan: Got it. And in terms of growth in volumes in the Cables business, you had mentioned that you had grown by around 10%. Wanted to understand how much would the cable portfolio would have grown? How much would your Wires portfolio would have grown in terms of volume? How much dependence is there in terms of the infra-led growth?

And also some of the competitors, larger competitor in the cable and wire space had reported 30% growth during this quarter in terms of volume. Hadn't there been for a capacity constraint, would we have grown at similar pace?

Anil Rai Gupta: Yes. So I think we can say that around 40% of our sales come from underground cables where we have capacity constraints. So yes, of course, if the capacity constraints would not have been there, we would have done better, also depends upon the capacity that we are putting up.

But as far as wires is concerned, we do not have capacity constraints in wires. And there, the growth has been tepid as compared to the industrial cables.

Ravi Swaminathan: Okay. And in switchgear also, how the bifurcation be towards industrial, real estate, commercial real estate, motor, I mean and product-wise also if you can give a bifurcation, it would be great, sir.

Anil Rai Gupta: We actually don't give this kind of bifurcation in terms of products because there are too many product categories. We have switches, we have domestic switchgear, we have industrial switchgear. And it will be difficult for us to give this kind of bifurcation on this call.

Ravi Swaminathan: Okay. Sure sir. But in terms of industrial...

Anil Rai Gupta: Industrial segment, industrial pickup is better, stronger. Both residential and consumer segment demand pickup was slow in the second quarter.

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

Rahul Agarwal: Sir, first question on second half being better just to understand, which are the products, which are festival dependent and is Havells approaching the season differently in terms of anything you've done differently in terms of go-to-market, channel incentives for you to get better growth in the market?

Anil Rai Gupta: I think, overall, the kind of products that are depending upon the festive season are small domestic appliances, washing machines and refrigerators to some extent, but we are not very strong in that segment. The market share is very small. And, of course, lighting. So these three segments are dependent upon the festive season.

I think one of the main things what Havells has been able to achieve in the last couple of years is to be omni present across channels. We have been traditionally a more dealer-distributor-oriented company. But over the last couple of years, we have expanded our presence in modern format retail, regional retailers and online. So I would say that gives us a complete presence.

And of course, new product launches. Not so much on the trade incentives, but consumer offers continue to come at this time so which helps sales growth in these categories.

Rahul Agarwal: Got it, sir. Secondly, on ECD, I think if I look at the first half sales, about INR1,600 crores, it's flat Y-o-Y. I understand the reason. Second half last year was also similar, about INR1,700 crores give and take INR50 crores. Would you expect 10% to 15% Y-o-Y growth in second half?

Anil Rai Gupta: Without giving any numbers, we do expect a positive second half.

Rahul Agarwal: Okay. And lastly, on Lloyd, just wanted to know the full year cash burn. My sense is, given we have EBIT numbers, and I think that also includes depreciation impact. If I remove that, it should be about INR200 crores. If you could just help us on that, please. Thank you.

Anil Rai Gupta: No, you've made an estimate. I would rather leave you to that. So our focus in Lloyd in the next half will continue to be on increasing sales, increasing our reach, market share gains in air conditioners especially, and of course, continue to spend on brand-building efforts, R&D and manufacturing.

So here, we are looking at a very long-term play because we do believe that we are a much smaller player as compared to the competition in terms of the overall consumer durable category. And we do believe this is a huge opportunity for us to be a good player amongst the top 2 or top 3 players in this category.

So we will continue to invest in this. I have said it earlier that with the new manufacturing facilities and the sales growth, our margins will continue to expand in these categories, especially in air conditioners, which is the major category for us. So that should help cover up and overall margins should expand.

Rahul Agarwal: Sir, I understand that. Just if you could help me with first half number, that should also be fine.

Anil Rai Gupta: First half number is already reported.

Rahul Agarwal: I was looking for cash burn, excluding depreciation.

Rajiv Goel: Yes, I think we have given EBIT, Rahul. I think let's stick to that.

Rahul Agarwal: Okay, sir, no problem. Thank you so much, all the best.

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

Siddhartha Bera: Sir, continuing with the Lloyd question on that is that, I mean, the current drop in the margin sequentially, is it only to do with the new plants coming up, or has there been any pricing action or any sort of...

Anil Rai Gupta: No, no, it's a much lower sale as compared to the first quarter, right? So the margins would get lower because of the under absorption of manufacturing overheads.

Rajiv Goel: And if you see Y-o-Y, Siddhartha, that's why there's an improvement there. So I don't think in this you should compare really the Q-o-Q.

Siddhartha Bera: Yes. But sir, if I look at over a year, for the whole year, if I look at the trends in terms of the improvement over the next few years, apart from the capacity ramping up and probably you getting a better scale, any other factors you think will be supporting us in the margin expansion?

Anil Rai Gupta: See, as we have said that Lloyd is a long-term play. Brand building efforts will continue, which will definitely improve our consumer perception over a longer period of time. And as the plants mature, there will be cost rationalizations also. So overall, all these actions put together should help in margin expansion.

Siddhartha Bera: Okay. Sir, the second question is on the consumer portfolio. You have mentioned that we expect the margin improvement led by weaker commodity prices. So given the growth you are seeing in the multiple segments, do you think you may be required to spend higher on incentives or advertising, and the margin recovery can be slower than what we expect? Or do you think that should not be an issue?

Anil Rai Gupta: No, I don't think pricing will play a huge role or trade incentives increase because of lower prices or anything. But our brand building efforts will continue at the same pace. We've maintained even when the growth was lower. So, that should not stop.

Siddhartha Bera: Got it. And sir lastly, on the cable and wires, so in wire we don't have any capacity constraints. So, in terms of the channel inventory levels how is it and should we expect a pickup in the second half or these are been growth trends which we should expect even in the second half?

Anil Rai Gupta: No, that should go with the consumer demand offtake and the residential demand offtake. The channel inventory at the present moment is normalized. It's not low or anything. It's at normalized levels.

Siddhartha Bera: Okay sir. I will come back in the queue.

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

Renu Baid: Yes, hi. Good morning, sir. Sir, my first question is can you elaborate a bit more on the export strategy while in switchgears, we had tie up with foreign OEM for white labeling? What are we planning for the RAC segment and any other category where we are looking to step up exports?

Rajiv Goel: No. I think, Renu, on the international business, we believe they are fairly macro tailwinds as everybody is aware. So, I think we are taking sort of additional steps whether in terms of the market or in terms of products I think we are getting more and more sort of focused on the same. So, I think getting wider and deeper.

So, RAC definitely we believe is a strong opportunity both in our own brand and OEM. But these things, as you are aware will take time because we need also a lot certification for specific markets. So, I think this endeavor has already started I think with the time, I think you will see sort of fructification of the same.

Renu Baid: So, what timeline should we look are we looking at a 3 year to 5 year from today or...

Rajiv Goel: Yes, probably, I think the green shoots should start in the next 12 months to 18 months, but the scaling up will require this much of a time horizon what you mentioned.

Renu Baid: Got it. Secondly, within the Lloyd portfolio, how is the non-RAC portfolio performing? And any inputs you can share on the REF business, how is the scale up versus our internal expectations and what are the challenges that you're facing there?

Anil Rai Gupta: Still slow and second quarter was slow as compared to last year because the festive demand, which comes in the second quarter has been shifted to third quarter. But right now, I would say that air conditioner sales growth was faster as compared to the REF and washing machine's growth.

The build up in refrigerators is it per expectations. Not only sales is a constraint, but also manufacturing is a constraint for us as of now because we are dependent upon outsourcing for this product. So, over a longer period of time, we are taking baby steps in this in terms of building network, but it is a longer duration play.

Renu Baid: Got it. And when you look at the ECD portfolio channel interaction suggests that broad based schemes and discounting are back in the market which had discontinued during the pandemic. So, how do we view the impact of this on the margins given the segment is already facing hypercompetitive intensity and challenges to take price hikes? So what has been the view here and how is the ground consumer offtake with respect to acceptance of price hikes in this segment?

Anil Rai Gupta: Well, one of the reasons for the low growth in the first half for the industry has been the price hikes due to the raw material prices. So hopefully, if the discounting of pricing happens that will be in line with the raw materials coming down. So, I dont see, especially for a company like Havells to be participating in something like what trade discounting or anything of that matter because that's not really a long-term solution for a company like Havells.

Renu Baid: Okay. And lastly, if I can add one thing within the switches, it's a part of the switchgear portfolio, this market had consolidated over the last 5 years, 7 years. Of late, last 12 months, 18 months quite a few domestic brands are trying to step up into the segment. While they might be very small, are you seeing pockets where competitive intensity or price pressures have inched up maybe for the Standard and the REO brands in the economy segment or some low end of the premium market?

Anil Rai Gupta: I think it's a very dynamic market and as you rightly said there are more and more players coming, but there are players weakening also, but it's also a huge market. So yes, there are various consumer segments, there are various positioning that are possible to achieve.

The good thing about Havells is that we operate at different brands at different laddering positions, and we are able to cater to different consumer segments in this. So, I think this is a very, very important piece of business for us. So, we operate from very premium consumers to affordable housing as well. So that way, I think we are well covered.

Renu Baid: And if I can one more on a very broad basis, if we take a 3 year to 4 year view, do you see the core profitability of our portfolio ex of Lloyd? Are those margins improving back closer to mid-teen levels because of premiumization portfolio etc or you think there are constraints towards that?

Anil Rai Gupta: No, I think as an overall ex Lloyd Havells had been operating between 13% to 14%. And we are now back to those levels except a couple of years where they were unusually higher during the COVID period. But otherwise, we are now back to those levels and we'll continue to strive towards making it better. Despite the market competitiveness, we will continue to strive to make it better, but through internal efficiencies and market reach. So yes, that will be a strive over the next 3 years or 4 years.

Renu Baid: Thanks much and all the best to you. Thank you sir.

Moderator: Thank you. The next question is from the line of Praveen Sahay from Prabhudas Lilladher. Please go ahead.

Praveen Sahay: Yes. Thank you for taking my question. So, the first question related to the lighting business. Sir, when do you think this deflationary trend in the LED lighting to reverse?

Anil Rai Gupta: I think it's pretty much bottomed out.

Praveen Sahay: Okay. So, as you had highlighted double-digit of volume growth you had seen in the lighting, so the way forward we can see such kind of volume to replicate in the revenue?

Anil Rai Gupta: Yes, we would expect to see that kind of a growth.

Praveen Sahay: Okay. And the next question is related to the ECD and especially in the fan, premium fan segment. You don't see any price competitiveness in the premium fan segment as a whole?

Anil Rai Gupta: That's a continuous thing. Some of the brands take to newer channels, for example, online in a very aggressive way. But these are, again, I would say, short-term niggles, but that's not something which we are too concerned about.

Praveen Sahay: Okay. So, you believe the second half with the festive too coming in, these reflect in the numbers as well?

Anil Rai Gupta: Hopefully, we are looking at a better consumer offtake in the second half and a better summer season in the later part of the second half.

Praveen Sahay: Great. And the last question, sir, related to the Lloyd and it's a bit long term. Do you see in the next 2 years to 3 years, your mix of portfolio -- product portfolio to change significantly from the current level?

Anil Rai Gupta: I don't think so because whilst we are expanding the product portfolio to be a complete consumer-durable play with washing machines, refrigerators and LEDs. Because of the focus on the air conditioners where we see a huge opportunity for growth in the coming years. We don't see a much big shift in this overall category because again, the market shares are very low in the other product categories.

So, when your market shares are actually strong, it gives you a better opportunity for growth as well. So, if you are talking about the next 2 years to 3 years, I don't see a significant change in the product mix.

Praveen Sahay: Great. Sir, lastly, can you give the capex number for this year and the next year?

Anil Rai Gupta: INR600 crores for this year and we will announce the next year capex at a later date.

Praveen Sahay: Thank you, sir. All the best.

Anil Rai Gupta: Thank you.

Moderator: Thank you. The next question is from the line of Mr. Achal Lohade from JM Financial. Please go ahead.

Achal Lohade: Good morning. Thank you for the opportunity. Sir, my question is pertaining to ECD business, minus 5% Y-o-Y for 2Q, flattish on first half basis. How much of that do you think is attributable to the delay in festivals? Would that be a less than 1% or could that be much more than that?

Rajiv Goel: Actually your voice still breaking, Achal, but I think your question was how much is attributable to festival. It's comprising of fans and appliances. Clearly, fans, you are aware that industry has gone through a shift because of introduction of ratings. And in Q1, that impact was pretty visible.

And Q2, in any case, because of the summer season sort of fading, that impact lingered on. For the festive season has more profound on the small appliances and all, which should recover in Q3 and Q4. So we have to segregate Q1 and Q2. Q2 largely could be because of festival in appliances. But on the fan side, it has been a structural issue, which we believe is now sort of getting pretty washed out. And hopefully, in Q3, Q4, you will see organic traction in that segment.

Achal Lohade: Okay. The second question I had was with respect to pricing. If you could help us understand, if there was any price cuts, or discounting, which played out in the 2Q? And if anything is announced for 3Q?

Rajiv Goel: No, there has not been any price discounting or proposed.

Achal Lohade: So the prices is the realization are stable across categories?

Rajiv Goel: That's right.

Achal Lohade: Including ACs, is that right, sir?

Rajiv Goel: Yes.

Achal Lohade: Yes. And just one more question. Capex, INR600 crores, can you help us understand a little bit, which segment it is growing how much? And what kind of revenue can we see from this capex in terms of asset turn?

Rajiv Goel: I think that actually we have clarified earlier also, maybe you can connect with the IR separately, and we can give you that.

Achal Lohade: No problem. And just last question, if I may, sir. With respect to fixed cost, given the scale we have seen increase, I thought we will have a benefit of the operating leverage kicking in, but we see if we look at the employee cost and other cable expenses side, it continues to rise. I understand you continue to invest. But from a next couple of year perspective, how much operating leverage can we see in terms of the margins? Could it be closer to 100 basis points if the revenue growth is in the double digit?

Rajiv Goel: Look, a quantification may be difficult. But clearly, operating leverage will kick in. We do expect, we are not building organization for 8%, 10% growth. So hopefully, these things will kick in. But look, investment in manpower, infrastructure, IT, these are for fairly long term. So sometimes there's lots to go on the quarters and try to sort of, you see, extrapolate that. So this will definitely kick in, give it some time.

Achal Lohade: Got it. Thank you and wish you all the best.

Moderator: Thank you. The next question is from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.

Bhavin Vithlani: Good morning, gentlemen. See, the first question is a continuation to what the previous participant was asking. So on a 6% revenue growth, we have seen 22% growth in the employee cost in this quarter. So if you could just help us understand your thought process? How much of this is new addition and the kind of growth that you're anticipating? And how much of this was repricing because COVID had actually suppressed some of this and you're bringing it up to speed on the market levels?

Rajiv Goel: So it will be mix of everything, what you said. I don't know COVID is still there. But definitely from the COVID times, things have gone. You are also aware how cost, how inflation is built into everything. And then you see employee cost, it also includes costs related to travel and all, and everybody is aware, you see how things have really spiralled up at least in over last year. So these are all baked in there.

And look, Havells is also simultaneously working on a lot of new initiatives as well, which do not get reflected. You see, if you are a start-up, you can show you're developing something and that gets reflected in your losses / investment. But that's something we keep sort of doing on a regular basis. So we think, we have a lot of investment into our research and development, into digitization, into IT infrastructure.

So these things, it makes sense to put them into the P&L, but one could argue these are really maybe capital investments for a longer period. And these are the conscious choices that management has made. And we all believe that, as I said to the earlier participant, the organization is not built for 6% or 10% growth.

So when the growth, which we are very hopeful as a country and as a company, we both believe in the potential. So we continue to sort of trust in that and continue to invest behind that. As I said, don't pick up a quarter and then sort of start sort of you see ruminating about that.

Bhavin Vithlani: Sure. The second question is, you highlighted capacity constraints in cables, which is 40% of the cables and wires. Are there capacity constraints also in the switchgear portfolio because there also, given the way we are seeing real estate launches and the growth by real estate players, a 9% growth seems subpar to us. So if you could just help us understand a bit more on the switchgear piece? Is there capacity constraint? Are there competitive dynamics, which has resulted in loss in share? It will be helpful to understand...

Rajiv Goel: No, there is no capacity constraint. But when you say the real estate launches, a lot of things are announced, but it takes time for them to come on the ground. And so if you look at the industrial switchgear, the growth has been good, on the residential side, growth has been slightly muted. So we are expecting them going forward to get better. But as far as the capacity is also concerned at least, you see we do not have any constraint. The only constraint as of now, we speak is on the cables side.

Bhavin Vithlani: Okay. When I look at the past five years, you've done a little over INR2,000 crores of capex, and Lloyd has taken the lion's share of almost 55% of that. Is it that maybe the attention has got diverted too much towards Lloyd's that we've kind of neglected the existing business because a good company like yours is supposed to anticipate growth better and plan better and not have capacity constraint as letting go of growth as a reason?

Rajiv Goel: Look, sometimes what happens, you make choices. I don't know how long you have been connected with Havells, but in the past, we have said that, we are gravitating more towards B2C. So, one takes those calls. These cycles will continue to happen. So yes, we could have taken it two years back. But I don't think, it's fair to assume that it's happening at the expense of Lloyd or because of Lloyd. If that would have been the case, it would have made everywhere a capacity constraint. Sometimes, yes, you do get caught offguard on that. But we have been focusing on

B2C, and that has been the trend in Havells. So, these things do happen. You learn from that and you move on. That's how companies operate over a longer period of time.

Bhavin Vithlani: Sure. Just a last question from my side. In the ECD, quarter one being the largest quarter, there were unseasonal rains, and also channel was loaded up with the earlier energy rating inventory. If you could just help us understand. Has that been cleaned up now? And are we now seeing the growth pick up a little bit more forward looking cover?

Rajiv Goel: Consumer demand has been muted. I'm sure you guys follow FMCG. Today Hindustan Unilever results also came. So everybody knows the consumer demand stress is there. Definitely on the channel side, they are destocking because they are also realizing there is not too much demand. The fresh pickup is not there, which is healthy. So maybe it could have taken one quarter. It has now taken two quarters. So definitely, the destocking will help us in the quarters going forward.

Bhavin Vithlani: Great, sir. Thank you so much for taking my questions.

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

Ashish Jain: Sir, my first question is on the Lloyd's business. So I understand the growth focus and that it could be a drag on margins. But even on the contribution margin side, like last year, we were talking about touching closer to 10% margins and all, we are far from that. So any sense on contribution margins, that should we think will improve from here with commodities coming off and all? Or that also will remain in this mid-single-digit kind of range?

Rajiv Goel: The endeavor is definitely towards that. And I think that number was more when the season is there. So let's say, Q4, I think you will see somewhere around that. See that the new facility (Sri City) has also come up and these things take time to fill up. So I think that's something which will continue to grow.

And then on raw material we are seeing the softening. That effect will also be there. So yes, I think our sort of goalpost hasn't moved. It continues to be there. And I think that's something, as you said, we see the gradual improvement towards there and that's something I think we expect to achieve.

Ashish Jain: Right, sir. And sir secondly, apart from cables and wires, can you comment if you have gained or lost market share in switches, lighting, all these, let's say, in the last 12 months or so? Any distinct trend, which is there in terms of market share?

Rajiv Goel: No, no Ashish. We have not witnessed any. If at all, in lighting and all, we would have gained market share. I think to your specific question, no, we have not lost.

Ashish Jain: Okay. In none of the categories, great. Okay, great.

Moderator: Thank you. The next question is from the line of Atul Tiwari from Citigroup.

Atul Tiwari: Yes. Sir, could you give some color on the revenue composition of Lloyd's business? What percentage is from AC and the other key product category?

Rajiv Goel: Yes, so this quarter, Atul, it will be ACs 50% and other 50%.

Atul Tiwari: And which are the key items in other?

Rajiv Goel: So other, we have largely washing machine, refrigerators & LEDs.

Atul Tiwari: And roughly, easily in like 50% or one dominates the other this thing washing machine and refrigerator?

Rajiv Goel: So I think what we will stick to AC 50%, other 50%.

Moderator: Thank you. The next question is from the line of Shubham Aggarwal from Axis Capital

Shubham Aggarwal: Just wanted to -- so this first question is on the ECD segment. Sir, the margins in the ECD segment are sub 12% right now. FY '20, the margins were somewhere close to 14%. I just wanted to check, is 12% to 13% the new normal because of the increase in competition? Or do we think that the margins will inch back up to 14% in Q and now going ahead into H2 also, the margins will improve for the ECD segment?

Rajiv Goel: Yes. So I think if you recall earlier it was asked about the Havells ex-Lloyd margins. And we said, we are now sort of coming back to our earlier numbers. Somebody said you could be mid-teens also. So I think we said that, that's the sort of endeavor for Havells. So I think ECD is an important piece of Havells business. So we believe, I think those margins, which we had done in 2020, I think is something that we are inching towards. And it should be possible because there's been a lot of volatility since then. You see first it was COVID. Then you see post COVID recovery, there was a huge flare up in the commodity costs and things like that. So we believe as the things get much more cleaner going forward in a fresh base. I think we are inching towards our margins. You see Havells as a whole I'm saying ex-Lloyd.

Shubham Aggarwal: Okay. Sir, great. Second question on the lighting segment. First, just wanted to congratulate that you have maintained margins despite the price erosion in this segment the margins have been strong, congrats on that. And the question was sir, what percentage of the lighting portfolio would be professional lighting and if you could give a trend that how was it 2020 and how is it now, let's say, four to five years back and how is it now? That’s my second.

Rajiv Goel: It would 60% will be consumer and 40% professional. But these also get led by trends because the consumer has been slightly muted and on the professional lighting there has been tailwinds. So, in the past it was like 65-35. You see, so I think that has improved in favor of professional luminaires.

Moderator: Thank you. The next question is from the line of Isha from VT Capital.

Isha: Sir, I wanted to understand your strategy on the ad spend. Like for this particular quarter, we have seen a significant decrease. And last year same quarter again we saw the decline compared to Q1. Sir, can you please help me understand what it is the strategy behind this?

Anil Rai Gupta: The strategy is very simple. It goes over a period of time. So one is impact advertising and the other is frequency. Impact advertising happens more during the season time. So we have two major seasons. One is in the first quarter, which is the summer season, and then the festive season. So there, we see a higher gain of advertising spend in the first quarter and the third quarter. And the second quarter and fourth quarter are usually lower. Overall, we maintain that we will be around 2.5% to 3% of revenues in terms of advertising spend.

Isha: Okay. And sir the other question is on the price revision. Sir, just wanted your idea that in further quarters what are our thought processes on the price revision, are we going to see any price cut given commodity price settling so any thought processes?

Anil Rai Gupta: So there are certain adjustments which happen for certain products categories like lighting, if the price erosion is there, we adjust the prices. Cables and wires definitely go along with the commodity prices. But we are quite dynamic in terms of pricing as far as the cost of the product is concerned.

Moderator: Thank you. The next question is from the line of Alok Deshpande from Nuvama.

Alok Deshpande: So first question is on the capacity expansion that's happening on the cables business. Sir, could you give us a sense on what would be the quantum of this capacity expansion compared to what we have currently?

Rajiv Goel: Yes, almost I think 25% there will be cables expansion.

Alok Deshpande: Okay. And currently, cables would be about -- how much would be the cables in the current sales?

Rajiv Goel: Almost 40%.

Alok Deshpande: Okay. So this 40% will get enhanced by 25% is what you say?

Rajiv Goel: Yes. And something will be in domestic wires as well.

Alok Deshpande: Okay. Okay. Understood, sir. And similarly, sir, when you think about the Lloyd's business, I mean, currently, last year, we had INR3,500 crores of that business, let's say probably INR4,000 crores. I mean from a capacity perspective currently the underutilization that's happening in off season, etcetera. What would be the capacity -- I mean, what would be the revenue sort of level this capacity is built for currently, whatever we have? Any ballpark number or whatever...

Rajiv Goel: Yes, I think this should serve us up to maybe almost double of this turnover.

Alok Deshpande: Double of Lloyd's turnover that is?

Rajiv Goel: Yes.

Moderator: Thank you. The next question is from the line of Amit Mahawar from UBS.

Amit Mahawar: This question is to Anilji. Sir, the first question is you've been talking about talent acquisition and you've done a lot of that in the last couple of years as the business expands in multiple SBUs. How relevant is it go Havells to have a professional CEO? And how soon should we see that? That's my first question. Thank you.

Rajiv Goel: Amit, I think that's a very profound question. And I don't think it can get discussed on a quarterly call. And the pace of professionalism is only sort of enhanced. And I think just because a promoter is there, see I don't think one should assume that professional is not there. So I think that journey is something which is only rapidly expanding in Havells. I don't think anybody can claim that Havells is not a professional organization. So to that extent, I'm not sure where your question is coming from.

Amit Mahawar: Okay. No, I was just trying to understand. I think in the past discussions, we've spoken about the ultimate journey of how the talents have been coming to Havells. And so I was just trying to understand if that's the thought in the near to medium term?

Rajiv Goel: Amit, every person in this company is a CEO. That's how this company is run. That's how the empowerment works in this company. CEO is not the only one who is the Chairman. You see every business head in this company, every person in the factory, every person in the functions, every sales person in this company is a CEO. Every person is a ARG here.

Amit Mahawar: Fair point, sir. Then second and last question is, you've seen in kitchen and small appliances, which is a very big market, but a tough one. Organic expansions have been very hard to come by. You've seen some of the peers like Crompton or Bajaj, etcetera, going for inorganic route there. So where are we on that thought in the kitchen portfolio, sir? That's my last question.

Rajiv Goel: Kitchen portfolio is expanding. And I think when we introduce them to the market, I think we will inform them. But I think that portfolio is sort of expanding on a rapidly basis because we believe kitchen is a very important segment of the homes going forward.

Moderator: The next question is from the line of Keyur Pandya from ICICI Prudential Life Insurance. Please go ahead.

Keyur Pandya: Sir, first question is on Lloyd. So as you talked about margin expansion led by higher sales or operating leverage. Just on the margin front, so what are the other levers either the cost optimization or the gross profit side or price increases or the normalization of channel margins? Do you see other than operating leverage, what are the levers for margin expansion? And I mean just to add to that, washing machine and ref as a category are higher margin product than AC?

Anil Rai Gupta: No, so I think I've already answered this question in the past, that the levers are raw material prices abating, higher operating leverage in manufacturing, brand positioning and hence, price improvement in the market. So these are all medium-term plays.

Keyur Pandya: Okay. And just last question. The press release also mentioned about the incorporation of subsidiary in U.S.A.. For any specific product or if you can just throw more light on the purpose of the subsidiary?

Rajiv Goel: Look, these are enabling provisions. Again, somebody asked this question about our international strategy. And we said we are looking at some strong macro tailwinds. I think we need to be prepared for the actions on that. So I think this is enabling resolution and approval we have sought from the Board since we had a Board meeting. And I think as we sort of operationalize it, I think we'll keep you informed.

Moderator: The next question is from the line of Latika Chopra from JP Morgan. Please go ahead.

Latika Chopra: The first question is, you have commented quite a few times that you're hopeful that B2C demand is going to revise in the second half. Are there any reasons or any signs which are alluding you to have this kind of confidence? When you exited the September quarter, did you see any pockets which promised you some sort of recovery or some change in consumer behavior? And more importantly, as a company, what would, in your view, actually drive the consumer to come out and spend on electrical goods? That's the first question.

Anil Rai Gupta: So I would say two things. One, to your question, whether we saw some green shoots in the second half of the second quarter. Yes, we did see something. It's difficult to say. It's difficult to say whether it's permanent or is it temporary. But more importantly, to your second part of the question, what will help the consumer pick up more is definitely the residential demand picking up, residential construction picking up in reality.

And second, and most importantly, with this inflation coming down to normalized levels, I think that will propel the consumer to come out and buy more. So that's why we are a bit more hopeful of the second half because the commodity prices have stabilized over last six months or so.

And in this electrical industry, the kind of growth that we've seen in the first half is also something which has not been normal. And also is related to some of the product categories like fans - not having a great summer, going through its own challenges of the industry. So overall, many reasons for us being positive for the second half.

Latika Chopra: Sure, sir. The second bit was around the fact that you mentioned somewhere during the call that you chose to be more B2C focused, and I completely understand that. But is there now a change in thought that probably you need to have a more balanced exposure towards B2B and B2C and given the kind of capacity addition plans that you have, that is one?

And the second bit, I was actually thinking when you're commenting on competition and pricing in category like air conditioners, we did see the market leader's margins actually coming down meaningfully. Do you see that risk at any point as you find more challenges in your B2C categories in small appliances or ECD? Just any broad thoughts there. Thank you so much.

Anil Rai Gupta: Right. So as far as the industrial / B2B side is concerned, I think where we've seen the constraints is on the cable side. We have grown well on the industrial Switchgear side, though our market share is smaller. Professional Luminaires, we are doing extremely well despite having a quite good position amongst the top three positions in this industry.

So it's not that the focus has completely changed towards B2C, it's always been there. It's as Mr. Rajiv Goel mentioned, that there are certain times you take certain decisions, maybe certain could be delayed decisions as well. So the fact is that we will continue to strive towards being a good balance between B2C and B2B.

On second question, So like you mentioned, the market leader in air conditioner, I think one of the reasons in the past 1 year has also been unprecedented increase in the cost of the product as well. So we do believe with that coming down. And Havells has proven over the last 10-15 years that our margins have been stable, except the last 1 or 2 years of COVID and volatility in commodities. Otherwise, we have been able to maintain our margins. And that, hopefully, we should continue in the future as well.

Moderator: Thank you. The next question is from the line of Natasha Jain from Nirmal Bang. Please go ahead.

Natasha Jain: I just have one follow-up question rather on what one of participant asked. Sir, in the switches and Switchgear, now all these ancillary products seem to not be doing so well compared to how the real estate or the housing market is doing. Sir, specifically to switchgears and switches, do you think this market is still dominated by local or unorganized players because some of our channel checks do suggest that, that these unorganized players have been getting a good growth. So how do you see this, sir?

Anil Rai Gupta: Well, I think if you divide Switchgears into two parts, one is the residential and industrial switchgears. And within residential switchgear, there is residential circuit protection and switches and sockets. So I would say that the unorganized sector is now only in the switches and sockets, not in the residential switchgear and the industrial switchgear.

So that is reflecting the actual offtake of the real estate position in the market. The switches and sockets, definitely, there is a lot of unorganized competition as well. But that also, in the next few years, should start getting consolidated as more and more consumer are getting attracted towards brands. I think that is also a segment which will get more consolidated.

Natasha Jain: Understood. And lastly, sir, how has your growth been in your weaker markets like Eastern and Western India?

Anil Rai Gupta: So I would not say Eastern is a weaker market for us. Our market shares are smaller in western part of India. There, the growth is definitely faster than the other strong markets that we have.

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

Rahul Agarwal: Rajivji, one question was on insurance claim. The INR59 crores received, where was that accounted?

Rajiv Goel: We have created a claim when we filed the claim. So it has been adjusted against basically debtors / receivables.

Rahul Agarwal: Okay. So no -- it's not flowing through the P&L, right? And the same thing will happen from the balance INR16 crores, right?

Rajiv Goel: No, no. It's not going to the P&L. So the provision continues to remain for the balance INR16 crores, INR17 crores whatever it is.

Rahul Agarwal: Perfect, sir. Any thoughts on commercial AC?

Rajiv Goel: Yes, I think everything is in the offing and as they say, watch out for this space.

Moderator: We'll have to take that as the last question. I would now like to hand the conference back to the management team for closing comments.

Rajiv Goel: Thank you, everybody, for joining the call, and we wish you a very happy Diwali to everyone, and look forward to see to a great Q3 and Q4. Thank you.

Moderator: Thank you very much. On behalf of ICICI Securities, that concludes the conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.