Havells India Limited

October 09, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	500.00 (Enhanced from 145.00)	CARE AAA; Stable	Reaffirmed
Short-term bank facilities	797.50 (Enhanced from 670.00)	CARE A1+	Reaffirmed
Long-term bank facilities	-	-	Withdrawn
Commercial paper	500.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities and debt instruments of Havells India Limited (HIL) continue to derive strength from its long track record of operations and presence in diversified business segments in consumer electrical products with reputed brand name and strong market position. CARE Ratings Limited (CARE Ratings) believes that HIL shall continue to maintain its dominant position in cables, consumer durables, switchgears and lighting business while the company is expected to further strengthen its foothold in white goods such as air conditioning and washing machines which should drive its growth in medium term besides growth in HIL's traditional business segments. The ratings also factor in HIL's sizable scale of operations with consistent growth in total operating income (TOI), healthy profitability margins, strong return indicators and the company's comfortable financial risk profile marked by low gearing, healthy debt coverage metrics and a strong liquidity position.

The ratings, however, take note of the high competitive intensity prevailing in the various industry segments in which HIL operates, the company's exposure to sharp fluctuation in raw material prices and moderation in margin on account of reduction in contribution margin from cables, lighting & fixtures and Lloyd product divisions.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: NA

Negative factors

- Significant loss in market share in its key product segments and drop in its return on capital employed (ROCE) below 20% on sustained basis.
- Weakening of liquidity position with cash & cash equivalents falling below ₹500 crore on sustained basis, alongside significant deterioration in its debt coverage indicators.
- Sizeable capex or acquisition funded with debt resulting in overall gearing beyond 0.5x on sustained basis.

Analytical approach: Standalone

Outlook: Stable

The stable outlook factors in the consistent growth in turnover and sizable scale of operations, with HIL among the market leaders in multiple segments. Furthermore, the financial risk profile is expected to remain strong amidst healthy cash flow generation from operations, low gearing and absence of any debt-laden expansion plans.

Detailed description of the key rating drivers:

Key strengths

Presence in diversified business segments aided by reputed brand name and established market position

HIL has a strong presence in cables, domestic electrical appliances and equipment market with a diversified product portfolio in switchgears, cables, electrical consumer durables and lighting & fixture segments. It has an established market position with premium positioning of its products, considerable market share across all its key products and a strong brand recall. Besides Havells, HIL's other major brands include Crabtree, Standard, Reo, and Lloyd, which it acquired few years back to strengthen its presence in consumer durables business segment. Furthermore, its manufacturing facilities are fairly diversified with plants across 15 locations, whereby around 90% of its sales are derived from in-house manufacturing. HIL had presence in about 3,000 towns in India during FY23 and its market position is strengthened by its large distribution network of about 17,000 direct dealers and reach of about 2.22 lakh retailers to support its sales.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Growing scale of operations, healthy profitability and return indicators
During FY23, the company's TOI witnessed a y-o-y growth by around 21%. The growth was backed by growth in revenue from all the product segments offered by the company. The operating margin of the company witnessed moderation from 13.03% in FY22 to 9.78% in FY23 on account of reduction in contribution margin from cables, lighting & fixtures and Lloyd product division. The decline in operating margin led to decline in PAT margin as well in FY23.
TOI of the company witnessed a further growth of 14% on a y-o-y basis in Q1FY24 as compared to Q1FY23. The PBILDT margin remained at 8.34% during Q1FY24 as compared to 8.54% in Q1FY23. CARE Ratings believes that despite commodity price headwinds, HIL's strong business profile supported by its large distribution footprint, higher rural reach and diverse products will enable it to grow its TOI by around 10-13% during FY24 while earning PBILDT margin in the range of 9-10% and maintaining its healthy ROCE at above 21%.

Strong financial risk profile
The capital structure of the company stood comfortable with an overall gearing of 0.04x as on March 31, 2023 (PY: 0.13x). The company reduced its total debt during FY23 to ₹223.10 crore as on March 31, 2023 (PY: ₹616.40 crore). Furthermore, the debt coverage indicators of the company have also improved. The interest coverage ratio and total debt to GCA stood at 32.85x and 0.16x respectively in FY23 (PY: 30.37x and 0.42x respectively). HIL doesn't have any outstanding term loan as of March 31, 2023. CARE Ratings believes that on the back of its consistently healthy cash flow generation ability from its operations, and availability of healthy liquidity, HIL shall be able to maintain a comfortable leverage profile with Total Debt/PBILDT well below 0.50x as on March 31, 2024, as the company doesn't have any major debt-funded expansion or acquisition plans.

Experienced promoters and management with long track record of operations
HIL was founded by Late Mr Qimat Rai Gupta. Gupta acquired the brand Havells from an Indian entrepreneur in 1971 and incorporated HIL in 1983. After the demise of Mr Qimat Rai Gupta in November 2014, his son Anil Rai Gupta, is the current Chairman and Managing Director of HIL. Anil Rai Gupta is assisted by a team of qualified professionals, looking after the operations of the company. The promoters have a track record proven over decades of successfully scaling up of businesses across diversified product lines that has established and sustained HIL as a leading cables, electrical equipment, and consumer appliance player.

Liquidity: Strong

HIL's liquidity is continued to be strong, marked by expected strong accruals of more than ₹1,500 crore during FY24 against nil debt repayment obligations. Besides accruals, the company had cash and cash equivalents to the tune of ₹1,974.85 crore as on March 31, 2023. With a gearing of 0.04 times as of March 31, 2023, HIL has sufficient gearing headroom, to raise additional debt if required in case of any adversities. Its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year. The company has planned a capex of ₹600 crore in FY24 for the construction of a cables manufacturing unit at Bengaluru and a washing machine manufacturing unit. These capex plans are planned to be funded through internal accruals.

Key weaknesses

Volatility in raw material prices and competitive nature of industry
The company's business is highly raw material intensive with raw materials forming nearly 80% of the total operating costs. The main raw materials used are copper, stainless-steel strips and rods, G.I. wires, PVC & DOP and aluminium. The orders generally have a mix of both variable as well as fixed-price contracts. The company at any point in time always maintains 2-2.5 months' inventory where pricing is already fixed. Since most of the orders are executed within three months, the company is insulated against adverse raw material movement to some extent. However, in case of any sharp fluctuations, like witnessed in FY23 & Q1FY24, the company may have to compromise on margins for some period till the time it is able to pass on the increase to the customers.

Industry outlook
Indian wire and cable market, which stood at ₹680-730 billion in FY23 is expected to grow by over 10% per annum in the medium term. The demand is expected to be driven by factors such as the growth in renewable power generation, the expansion and revamping of infrastructure, increasing investments in metro railways, enhancement of manufacturing capacities supported by Production-Linked Incentive (PLI) scheme, etc. The growing energy demand in India propelled by sustained economic growth and urbanisation has also bolstered the renewable energy development sector. With this, the need for strengthening of transmission and distribution sector has accentuated to reduce transmission losses. The government's focus on power for all, rural electrification and improving infrastructure has increased the demand for cables and wires. HIL is one the leading brands in wires and cable industry and has the third-highest customer base in the industry. Furthermore, the market share of unorganised sector has registered a declining trend in the past few years.

Fast Moving Electrical Goods (FMEG) is a growing sector in present market scenario in India. With growth in infrastructure in areas of residential, commercial and industrial, the consumption of electrical goods has increased in exponential ratios. This growth has fuelled the rise of FMEG sector in India with global and domestic players intensely involved to grab market shares. Also, rural demand could outgrow the demand from urban markets on the back of rising rural incomes and government initiatives taken in relation to rural electrification. There has also been an increasing trend in demand for façade lighting. Long-term demand prospects for the industry remain favourable supported by growing working population, higher disposable income, easier access to credit and improving standard of living. However, in the short term, commodity price inflation and jump in interest costs for retail households and MSME could lead to some contraction in demand and impact on operating profit margins for the sector.

Environment, social, and governance (ESG) risks

The company achieved 100% target to collect and recycle 5,187 MT e-waste through extended producer responsibility (EPR) Programme. It generated 9,470 MWh total renewable energy and saved 2,139 MWh energy. It has also planted over 18 lakh trees till date which will sequester around 4.3 lacs tonnes of CO2.
The company spent ₹26.89 crore on its corporate social responsibility (CSR) activities in FY23. It is part of various initiatives like mid-day meals programme, trees plantation, distribution of re-usable sanitary napkins, association with Plaksha university etc.
The company has put in practice highest standards of corporate governance. There is effective shareholder participation in key corporate governance decisions such as nomination or election of board members.

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Durables	Consumer Durables	Consumer Electronics

HIL (CIN No. L31900DL1983PLC016304), incorporated in August 1983, is one of the leading players in consumer electrical products sector in India. HIL operates in four broad business segments, viz. switchgears, cables, electrical consumer durables and lighting & fixtures. Apart from the flagship brand Havells, HIL owns brands like Crabtree, Standard, Reo and Lloyd. The company's manufacturing plants are located at Haridwar, Baddi, Ghiloth, Sahibabad, Faridabad, Alwar, Neemrana, Sri City and Guwahati.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	Q1FY24 (UA)
Total operating income	13,930.66	16,899.39	4823.70
PBILDT	1,814.51	1,668.51	402.38
PAT	1,194.73	1,074.95	287.38
Overall gearing (times)	0.13	0.04	NA
Interest coverage (times)	30.37	32.85	47.51

A: Audited UA: Unaudited NA: Not Available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating history for last three years: Please refer Annexure-2
Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit		-	-	-	500.00	CARE AAA; Stable
Fund-based - LT-Term loan		-	-	Proposed	0.00	Withdrawn
Commercial paper-Commercial paper (Standalone)	-	Proposed	-	7-364 days	500.00	CARE A1+
Non-fund-based - ST-BG/LC		-	-	-	797.50	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Cash credit	LT	500.00	CARE AAA; Stable	-	1)CARE AAA; Stable (20-Sep-22)	1)CARE AAA; Stable (02-Jul-21)	1)CARE AAA; Stable (03-Jul-20)
2	Non-fund-based - ST-BG/LC	ST	797.50	CARE A1+	-	1)CARE A1+ (20-Sep-22)	1)CARE A1+ (02-Jul-21)	1)CARE A1+ (03-Jul-20)
3	Commercial paper-Commercial paper (Standalone)	ST	500.00	CARE A1+	-	1)CARE A1+ (20-Sep-22)	1)CARE A1+ (02-Jul-21)	1)CARE A1+ (03-Jul-20)
4	Fund-based - LT-Term loan	LT	-	-	-	1)CARE AAA; Stable (20-Sep-22)	1)CARE AAA; Stable (02-Jul-21)	1)CARE AAA; Stable (03-Jul-20)

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial paper-Commercial paper (Standalone)	Simple
2	Fund-based - LT-Cash credit	Simple
3	Fund-based - LT-Term loan	Simple
4	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender-wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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