Havells India Limited

September 20, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	629.49	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Short-term bank facilities	670.00	CARE A1+ (A One Plus)	Reaffirmed
Total bank facilities	**1,299.49 (₹ One thousand two hundred ninety-nine crore and forty-nine lakh only)**		
Commercial paper	500.00	CARE A1+ (A One Plus)	Reaffirmed
Total short-term instruments	**500.00 (₹ Five hundred crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed 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 strengthen its foothold in white goods such as air conditioning and washing machines which shall drive its growth in the 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 and the company's exposure to sharp fluctuation in raw material prices.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade: NA

Negative factors – Factors that could lead to negative rating action/downgrade:

- Significant loss in market share in its key product segments and drop in its return on capital employed (ROCE) below 20% on sustained basis
- Sizeable capex or acquisition funded with debt resulting in overall gearing beyond 0.5x 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.

Detailed description of the key rating drivers

Key rating 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 14 locations, whereby around 90% of its sales are derived from in-house manufacturing. HIL had presence in about 3,000 towns in India during FY22 and its market position is strengthened by its large distribution network of about 14,000 direct dealers and reach of about 2.50 lakh retailers to support its sales.

Growing scale of operations, healthy profitability and return indicators: During FY22, the company's TOI on standalone basis witnessed a y-o-y growth by around 33%. Despite the COVID-19--induced restrictions in Q1FY22, the company showed strong recovery from Q2FY22 onwards, backed by improvement in consumer sentiment, duly supplemented by its strong business profile which is underpinned by its large distribution footprint, higher rural reach and introduction of new product lines. The PBILDT margin moderated to 13.03% during FY22 (PY: 15.38%) due to sharp increase in raw material prices and moderation in performance of its Lloyds Consumer business segment. Furthermore, the TOI of the company witnessed a further growth of 62% on a y-o-y basis as compared to Q1FY22. However, the PBILDT margin moderated to 9.55% during

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

Q1FY23 as compared to 14.71% in Q1FY22 amidst unprecedentedly high raw material prices. CARE Ratings believes that despite commodity price headwinds, HIL's strong business profile will enable it to grow its TOI by around 10-13% during FY23 while earning PBILDT margin in the range of 12-14% and maintaining its healthy ROCE at above 25%.

Strong financial risk profile: The capital structure of the company stood comfortable with an overall gearing of 0.13x as on March 31, 2022 (PY: 0.18x). The company reduced its total debt during FY22 to ₹616.40 crore as on March 31, 2022 (PY: ₹686.97 crore). Furthermore, the debt coverage indicators of the company have also remained comfortable. The interest coverage ratio and total debt to GCA stood at 30.37x and 0.42x respectively (PY: 20.41x and 0.46x respectively). By July 2022, HIL had already repaid its entire outstanding term loan as of March 31, 2022. 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, 2023 as the company does not have any major debt-funded expansion or acquisition plans.

Experienced promoters and management with long track record of operations: HIL was founded by Late Qimat Rai Gupta. Gupta acquired the brand Havells from an Indian entrepreneur in 1971 and incorporated HIL in 1983. After the demise of 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 had 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 strong marked by expected strong accruals of more than ₹1,400 crore during FY23 against negligible debt repayment obligations. Besides accruals, the company had cash and cash equivalents to the tune of ₹2535.84 crore as on March 31, 2022. With a gearing of 0.13 times as on March 31, 2022, HIL has sufficient gearing headroom, to raise additional debt if required in case of any adversities. Its unutilised 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 ₹500 crore in FY23 for the construction of another AC manufacturing unit at Sricity, Andhra Pradesh in Lloyd segment. Furthermore, the company is also envisaging to set up a cable manufacturing plant in Bengaluru with a capex outlay of around ₹300 crore in FY23. These capex plans are planned to be funded through internal accruals.

Key rating 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 recent times (Q1FY23), the company may have to compromise on margin 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 USD 8.5-9 billion in FY22 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.

The demand for consumer electronics and appliances has been improving from Q2FY22 due to ease in COVID-19 restrictions and is backed by pent-up demand. Furthermore, festive season also supported the growth in the third quarter of FY22. Work-from-home culture is expected to continue to aid the growth in demand for goods that enhance personal convenience at home. 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.

Analytical approach: Standalone

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

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, Noida, Sahibabad, Faridabad, Alwar, Neemrana and Guwahati.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	10,451.97	13,930.66	4277.12
PBILDT	1,607.74	1,814.51	408.37
PAT	1,039.64	1,194.73	242.43
Overall gearing (times)	0.18	0.13	NA
Interest coverage (times)	20.41	30.37	41.48

A: Audited; UA: Unaudited; NA: Not available

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

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	NA	-	-	-	145.00	CARE AAA; Stable
Non-fund-based - ST-BG/LC	NA	-	-	-	670.00	CARE A1+
Fund-based - LT-Term Loan*	NA	-	-	Proposed	484.49	CARE AAA; Stable
Commercial Paper-Commercial Paper (Standalone)	-	Proposed	-	7-364 days	500.00	CARE A1+

*The rating on the previously rated term loan has been 'withdrawn' based on no due certificate received from its lenders as it was fully repaid by the company.

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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash credit	LT	145.00	CARE AAA; Stable	-	1)CARE AAA; Stable (02-Jul-21)	1)CARE AAA; Stable (03-Jul-20)	1)CARE AAA; Stable (27-Sep-19)
2	Non-fund-based - ST-BG/LC	ST	670.00	CARE A1+	-	1)CARE A1+ (02-Jul-21)	1)CARE A1+ (03-Jul-20)	1)CARE A1+ (27-Sep-19)
3	Commercial paper-Commercial paper (Standalone)	ST	500.00	CARE A1+	-	1)CARE A1+ (02-Jul-21)	1)CARE A1+ (03-Jul-20)	-
4	Fund-based - LT-Term loan	LT	484.49	CARE AAA; Stable	-	1)CARE AAA; Stable (02-Jul-21)	1)CARE AAA; Stable (03-Jul-20)	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Name of the Instrument	Detailed Explanation
A. Financial covenants	**NA**
I.	
B. Non-financial covenants	**NA**
I.	

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of 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: Bank lender details for this company

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

Note on 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:
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