Havells India Limited

October 08, 2024

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

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities and debt instruments of Havells India Limited (HIL) continue to derive strength from its long track record of operations, strong distribution network, 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 lighting segment which should drive its growth in medium term besides growth in HIL's core business segments. Ratings also factor in HIL's sizable scale of operations with consistent growth in total operating income (TOI), healthy profitability margins, strong growth prospects, and the company's healthy financial risk profile marked by strong capital structure and healthy debt coverage indicators, which is also supported by its strong liquidity position. Ratings also take note of the recent joint venture (JV) agreements signed by the company in a bid to increase its presence gradually in the export market. Consequently, CARE Ratings has changed its analytical approach to Consolidated owing to entities being in similar line of business together with strong operational and financial linkages between parent and subsidiaries going forward, as these entities will be strategic as they shall aid in enhancing HIL's revenue base in exports' geographies in the medium term.

However, ratings take note of the highly competitive intensity prevailing in the industry segments in which HIL operates, the company's exposure to sharp fluctuation in raw material prices and moderation in margin considering reduction in contribution margin from cables, lighting and 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 and cash equivalents falling below ₹500 crore on a sustained basis, alongside significantly deteriorating debt coverage indicators.
- Sizeable capex or acquisition funded with debt resulting in overall gearing beyond 0.5x on a sustained basis.

Analytical approach: Consolidated; factoring in operational and management linkages between the parent and subsidiaries being in the same line of business. The list of entities getting consolidated in given in Annexure-6.

Reason for Change in approach from Standalone to consolidated - CARE Ratings has changed its analytical approach to Consolidated owing to entities being in similar line of business together with strong operational and financial linkages between parent and subsidiaries going forward as these entities will be strategic as they shall aid in enhancing HIL's revenue base in exports' geographies in the medium term.

Outlook: Stable

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

Detailed description of key rating drivers:

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

Key strengths

Presence in diversified business segments aided by reputed brand name, established market position and strong distribution network

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 and fixture segments. Cables is the largest contributor to revenue with a share of 34% to the total income in FY24, followed by Lloyd brand with 20%, electric consumer durables segment, comprising fans and appliances with 19%, switchgears with 12%, and lighting and fixtures with 9% of revenue in FY24.

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 Havells 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 16 locations, whereby around 90% of its sales are derived from in-house manufacturing.

HIL had presence in about 3,000 towns in India in FY24 and its market position is strengthened by its large distribution network of about 18,000 direct dealers and reach of about 2.47 lakh retailers to support its sales. Strong focus on innovation and premiumisation and ability to regularly come up with fresh product variants and devise new product categories will continue to benefit the business.

Healthy scale of operations and sustained profitability

The company's TOI witnessed a y-o-y growth of 10% in FY24 compared to FY23. TOI increased to ₹18,624 crore in FY24 from ₹16,942 crore in FY23 majorly led by cables and Lloyd business segment, which grew by 14% and 12%, respectively, in FY24. While B2B segments did well on the back of the government's continued emphasis on infrastructure development, the consumer demand remained tepid with persistent inflation.

The company's operating margin improved from 9.75% in FY23 to 10.38% in FY24. This profit expansion has been achieved due to higher investments in brand and talent building. To promote brands of HIL, the company spent ₹527 crore in FY24 (PY: ₹437 crore) upon advertisement and sales promotion spend that is approximately 2.8% of revenue. The company recorded profit after tax (PAT) and gross cash accruals (GCA) of ₹1,271 crore and ₹1,605 crore, respectively, in FY24.

The healthy growth in revenue has been sustained in Q1FY25 with a y-o-y growth of 20% in total income to ₹5,884 crore led by strong summer demand. The operating margin is further moving up and recorded at 11.04% in Q1FY25 (PY: 9.57%) largely attributable to positive profitability posted by Lloyd as opposed to losses in last three fiscals and improved profitability in lighting and fixtures on the back of strong volume growth.

Strong financial risk profile

HIL's capital structure has been comfortable with low reliance on external debt and a strong tangible net worth (TNW) base of ₹6,065 crore as on March 31, 2024. HIL's total debt stands at ₹303 crore as on March 31, 2024, comprising only lease liability. The company's overall gearing ratio strong at 0.05x as on March 31, 2024 (PY: 0.04x). The company has free cash and liquidity available of ₹3,688 crore as on June 30, 2024, which depicts strong liquidity position of the company. CARE Ratings observes, the gearing will continue to be comfortable in the absence of debt-funded capex on the back of strong liquidity position. Any higher-than-expected increase in the debt levels due to expansion plans leading to deterioration in its leverage and coverage indicators shall remain a key monitorable.

Key weakness

Raw material price volatility 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 are largely based on variable-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 sharp fluctuations, 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.

Competition in the consumer durables sector in India has intensified in the last few years, with players such as KEI Industries Ltd (rated 'CARE AA+; Stable/ CARE A1+'), Polycab India Ltd in cables segment, and Crompton Greaves Consumer Electricals Ltd in electrical consumer durables segment establishing a strong consumer connect and brand recall. HIL faces competition from players in the organised and unorganised segments, though the price differential enjoyed by the unorganised sector has reduced post implementation of the Goods and Services Tax.

Liquidity: Strong

Strong liquidity is reflected by a healthy cash and liquid investments of ₹3,688 crore as on June 30, 2024. HIL is expected to generate around ₹2000 crore of gross cash accruals annually in next two fiscals ending FY26 against which the company does not have repayment obligations. With a gearing of 0.05x as of March 31, 2024, the issuer has sufficient gearing headroom, to raise additional debt for its capex. Its unutilised bank lines are more than adequate to meet its incremental working capital needs over the next one year.

Environment, social, and governance (ESG) risks

CARE Ratings believes that HIL's ESG profile supports its already strong credit risk profile. The sector has a moderate environmental and social impact, primarily driven by its raw material sourcing strategies, waste-intensive processes, and direct impact on the well-being of its customers. Key highlights are mentioned below-

Environment: HIL aspires to achieve zero waste to landfill by responsible end-of-life disposal of the products. The 5Rs approach (reduce, reuse, recycle, recover, and residual management) is adopted to enable this goal. The company ensures that manufacturing and usage of the products yield low carbon footprints and carbon intensity. The company has also attained zero waste to landfill certification in FY24.

Social: The company empowers employees through effective learning & development, leadership and succession planning, employee engagement, fair treatment and diversity and inclusion, among other favourable initiatives, and policies.

Governance: The company has seven board of independent directors including one woman. HIL's stakeholders form the core of their value creation. There is effective shareholder participation in key corporate governance decisions such as nomination or election of board members. The governance structure is characterised by effectiveness in board functioning and enhancing shareholder wealth, presence of investor grievance redressal mechanism, and extensive disclosures.

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer discretionary	Consumer durables	Consumer durables	Consumer electronics

Incorporated in August 1983, HIL is one of the leading players in consumer electrical products sector in India. HIL operates in four broad business segments, switchgears, cables, electrical consumer durables, and lighting & fixtures. Apart from the flagship brand Havells, HIL owns brands including Havells Crabtree, Standard, Reo, and Lloyd. The company's manufacturing plants are at Haridwar, Baddi, Ghiloth, Sahibabad, Faridabad, Alwar, Neemrana, Sri City, and Tumkur.

Brief Consolidated Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	16,942.29	18,624.02	5,883.54
PBILDT	1,652.28	1,932.79	649.57
PAT	1,071.73	1,270.76	407.51
Overall gearing (times)	0.04	0.05	NA
Interest coverage (times)	32.47	24.77	75.97

A: Audited UA: Unaudited NA: Not Available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash credit		-	-	-	500.00	CARE AAA; Stable
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 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 2024-2025	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
1	Fund-based - LT-Cash credit	LT	500.00	CARE AAA; Stable	-	1)CARE AAA; Stable (09-Oct-23)	1)CARE AAA; Stable (20-Sep-22)	1)CARE AAA; Stable (02-Jul-21)
2	Non-fund-based - ST-BG/LC	ST	797.50	CARE A1+	-	1)CARE A1+ (09-Oct-23)	1)CARE A1+ (20-Sep-22)	1)CARE A1+ (02-Jul-21)
3	Commercial paper-Commercial paper (Standalone)	ST	500.00	CARE A1+	-	1)CARE A1+ (09-Oct-23)	1)CARE A1+ (20-Sep-22)	1)CARE A1+ (02-Jul-21)
4	Fund-based - LT-Term loan	LT	-	-	-	1)Withdrawn (09-Oct-23)	1)CARE AAA; Stable (20-Sep-22)	1)CARE AAA; Stable (02-Jul-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of 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	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Havells Holdings Limited (Isle of Man)	Full	These entities are strategically important for HIL's business and have operational linkages with HIL.
2	Havells Guangzhou International Limited (China)	Full	

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