Havells India Limited

November 21, 2018

Ratings

Particulars	Rating[1]	Rating Action
Corporate Governance Rating	**CARE CGR 2+ (CGR Two Plus)**	**Reaffirmed**

Detailed Rationale & Key Rating Drivers

The corporate governance rating assigned to Havells India Limited (HIL) continues to take into account the company's transparent ownership structure, qualified and experienced board of directors, satisfactory functioning of various committees of the board, presence of prudent risk management policies and elaborate internal audit function. Furthermore, the rating also derives comfort from elaborate communications and disclosures to shareholders, effective financial management and the company's compliance with statutory and regulatory requirements.

However, there is scope of improvement in areas such as high dependence on the Chairman and Managing Director, whose position is not split and high promoter shareholding. Furthermore, though the company has put in place succession planning for the functional heads and levels below them, it does not cover the senior most management.

Detailed description of the key rating drivers

Key Rating Strengths

Transparent ownership structure

HIL's shareholding structure is transparent, with major shareholders being clearly identifiable, with the promoters holding 59.55% stake as on September 30, 2018. Institutional shareholders hold 30.96% stake in the company. While the promoter holding is high, the management's track record of shareholder value creation, transparent holding structure and significant minority stake held by institutional investors provides comfort.

Qualified and experienced board of directors

HIL has a broad-based board consisting of 13 members, with more than half (7) of the directors being independent, including the presence of an independent woman director. All the directors on the board are well-qualified and eminent professionals with long experience in business and expertise in their respective fields.

Satisfactory functioning of various committees of the board

HIL has constituted seven board committees to take decisions, review policies and systematize the management processes. The company has Audit Committee, Nomination and Remuneration Committee, Stakeholders' Relationship/Grievance Redressal Committee as per the requirements of SEBI (Listing Obligations and Disclosure Requirement) Regulations, 2015. Furthermore, the company has Corporate Social Responsibility committee, Enterprises Risk Management Committee, Share Allotment and Transfer Committee and Executive Committee. The composition of the board committees is in compliance and their functioning appears satisfactory.

Presence of prudent risk management policies and elaborate internal audit function

Apart from setting up an internal audit function, KPMG has been appointed as internal auditors by HIL. The internal auditors of the company attend the meetings of the audit committee on invitation of the chairman of the committee. The audit committee engages with the internal auditors and regularly reviews significant internal audit findings and takes the necessary follow-up actions.

Elaborate communications and disclosures to shareholders

The company has an appropriate website in place with a separate detailed section for investors, which gives details of its corporate profile, board of directors, financials (annual as well as quarterly), investor presentations, investor conference call transcripts, product range and has sufficient information for shareholders or prospective investors. The company accords due importance to the grievances of shareholders and undertakes necessary follow-up action. During FY18, only 5 complaints were received from the shareholders all of which were resolved in 1-2 days and no complaints were outstanding as on March 31, 2018.

Effective financial management

The company's reliance on debt has been very low and its operating income and Profit after Tax (PAT) have consistently increased over the years with CAGR of 14.30% in operating income and 13.92% in PAT in the last 5 years. The cash and bank balance, on standalone level, stood at Rs.1,175.45 crore as on September 30, 2018, as against low debt of Rs.108 crore as on September 30, 2018, reflecting the company's strong solvency and liquidity position.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Compliance with statutory and regulatory requirements
The company has implemented several practices to comply with the requirements of SEBI (Listing Obligations and Disclosure Requirement) Regulations, 2015. All applicable statutory provisions with respect to SEBI, RBI, Companies Act, tax authorities, labor laws, Factories Act, environmental laws etc. are adhered to as per their schedules and guidelines. Timely compliance is ensured through a web-based tool, besides strict adherence by the risk management and governance department along with the functional team. The company has been focusing on making investments/ strengthening its Information Technology (IT) systems to enable real time monitoring.
Furthermore, the company is already complying with many of the amendments notified in SEBI (LODR) Regulations, 2015, based on recommendations of the Uday Kotak Committee on Corporate Governance and the remaining amendments are proposed to be complied with, as and when they become due.

Key Rating Weaknesses
High dependence on Chairman and Managing Director, whose position is not split
The company has not split the role of Chairman and Managing Director and this position is currently held by Mr Anil Rai Gupta (Promoter), who moved into this position in 2014. However, his role is primarily strategic and functional and SBU heads are responsible for execution of various business activities and plans.

High promoter shareholding
The promoters and the companies floated by them, collectively hold 59.55% stake in the company as on September 30, 2018.

Succession planning
Though the company has put in place succession planning for functional heads and levels below them, it does not cover the senior most management.

Analytical approach: Not Applicable

Applicable Criteria: Not Applicable

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 five broad business segments, viz. switchgears, cables, electrical consumer durables, lighting & fixtures and Lloyd consumer division. Apart from the flagship brand "Havells", HIL owns brands like Crabtree, Standard, Reo, Promptec etc. The company's manufacturing plants are located at Haridwar, Baddi, Noida, Sahibabad, Faridabad, Alwar, Neemrana and Guwahati.
HIL acquired the Lloyd brand and the consumer durable business of LEEL for a total consideration of Rs.1,547 crore in May 2017.

Brief Financials (Standalone) (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	6,247.27	8,248.24
PBILDT	944.29	1,136.42
PAT	539.04	712.52
Overall gearing (times)	0.06	0.11
Interest coverage (times)	77.72	47.41

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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