

Havells India Limited

December 31, 2019

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 sub-committees of the board, presence of prudent risk management policies and an internal audit function with coverage split between internal employees as well as external auditors. 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 59.52% stake as on September 30, 2019. Institutional shareholders hold 32.11% 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 14 members, with 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 constituted an 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 with regulatory norms and their functioning appears satisfactory.

Presence of prudent risk management policies and elaborate internal audit function

Apart from setting up an internal audit function staffed by employees, 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 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 FY19, only 8 complaints were received from the shareholders and all of which were resolved promptly and no complaints were outstanding as on March 31, 2019.

Effective financial management

The company's reliance on debt has been negligible and its operating income and Profit after Tax (PAT) have consistently increased over the 3 years with CAGR of 23% in operating income and 18% in PAT on standalone basis. The cash and bank

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

balance, on standalone level, stood at Rs.792 crore as on Sep 30, 2019, as against negligible debt of Rs.68 crore as on Sep 30, 2019, reflecting the company's strong solvency and liquidity position. Further the company's board has articulated an investment policy which permits investment of such surpluses only in the fixed deposits of scheduled commercial banks.

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. HIL follows a zero tolerance policy in respect of all such regulatory compliances and the same is articulated through an internal communication so as to make all employees aware of such a policy as well as the potential downside of any non-adherence. 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, ahead of the mandated date, with many of the amendments notified in SEBI (LODR) Regulations, 2015, based on recommendations of Kotak Committee on Corporate Governance and the remaining amendments are expected 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 59.52% stake in the company as on September 30, 2019.

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, lighting and fixtures, electrical consumer durables and Lloyd Consumer. Apart from the flagship brand "Havells", HIL owns brands like Crabtree, Standard, Reo, Promptec, Lloyd etc. The company's manufacturing plants are located at Haridwar, Baddi, Giloth, Sahibabad, Faridabad, Alwar, Neemrana and Guwahati.

Brief Financials (Standalone) (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	8,248.24	10168.22
PBILDT	1,136.42	1306.42
PAT	712.52	791.52
Overall gearing (times)	0.11	0.09
Interest coverage (times)	47.41	82.11

A: Audited

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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