February 21, 2017

Havells India Limited

Instrument*	Rated Amount (in crore)	Rating Action
Fund-based bank facilities (working capital)	200.00	[ICRA]AA+ (Stable); outstanding
Fund-based bank facilities	22.40	[ICRA]AA+ (Stable); outstanding
Non-fund based bank facilities	384.65	[ICRA]A1+; outstanding
Total	**607.05**	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has a long-term rating of [ICRA]AA+ (pronounced ICRA double A plus) outstanding for the Rs. 222.4-crore[1] fund-based bank facilities and a short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) outstanding for the Rs. 384.65-crore non-fund based bank facilities of Havells India Limited (HIL)[2]. The outlook on the long-term rating is Stable.

Detailed Rationale

ICRA has taken a note of the announcement by HIL for acquisition of consumer durables business of Lloyd Electric & Engineering Limited (LEEL) at an enterprise value of ~Rs. 1,600 crore. The exact quantum and terms of debt to be availed by HIL for the proposed acquisition is yet to be finalised. Nevertheless in ICRA's opinion, the same is not likely to have a material impact on HIL's credit profile given the surplus liquidity available on its balance-sheet from Sylvania stake-sale, which is proposed to be used to part fund the transaction. Operationally, besides strengthening its product profile in the fast-growing consumer-durable segment by way of foray into high-end branded white goods, the acquisition is expected to shore up HIL's distribution reach by providing it with access to Lloyd's complementary and established distribution network having stronger positioning in Tier-2 and Tier-3 cities. While the extent of operational synergies in the two businesses and the resultant business returns over the medium term remains to be seen, ICRA derives comfort from HIL's demonstrated track record of successful acquisitions in the past.

ICRA has also taken a note of HIL's healthy financial performance during 9MFY2017, with the company reporting a ~13% growth in revenues over the corresponding period last year. Although some pressure was anticipated on the company's sales during Q3FY2017 owing to a slowdown in consumer spending because of demonetisation, the company maintained its sales growth rate during the quarter. This was primarily supported by higher incentives offered to dealers by the company to counter the impact of demonetisation, which in turn resulted in some moderation in contribution margins during Q3FY2017.

Detailed rationale for HIL's rating (dated 30th December 2016) is available at the following URL:
http://www.icra.in/Files/Reports/Rationale/Havells%20India%20%20-R-30122016.pdf

[1] 100 lakh = 1 crore = 10 million

[2] For complete rating scale and definitions, please refer to ICRA's Website www.icra.in or other ICRA Rating Publications

Key rating drivers
Credit Strengths

- Strong financial profile, characterised by healthy profitability and return indicators, modest gearing, strong liquidity and debt-coverage indicators, effective working capital management policies and demonstrated ability to generate free cash flows
- Diversified product portfolio with a core focus on the fast-growing electrical consumer goods sector, which renders protection against adverse movements in any particular segment; product and market diversification likely to be strengthened further following successful business integration with LEEL
- Established marketing and distribution network supported by strong brand portfolio that sustains sales growth across segments and facilitates premium pricing vis-à-vis competition
- Healthy growth prospects for the domestic operations in the long term, supported by new product launches, and changing market preference in favour of branded products across product categories
- Experienced promoter group, with more than four decades of established track record in the electronics and electrical industry, and a professional management team

Credit Weaknesses

- Complementary nature of product offerings and flexibility to outsource production reduce entry barriers and result in intense competition across segments from several large and reputed players in the organised segment as well as a large and fragmented unorganised segment
- Vulnerability to a slowdown in consumer spending and real-estate/ construction sectors which are key demand drivers for the company's products

Detailed description of key rating drivers highlighted above:

HIL enjoys a robust financial profile characterised by strong profitability and return indicators, low gearing, strong debt-coverage indicators, effective working capital management policies and demonstrated ability to generate free cash flows. HIL's divestment of a 80% stake in Sylvania during FY2016 had further strengthened its credit profile, liquidity position and capital structure by resulting in an inflow of ~Rs. 934 crore (at the standalone level). HIL's proposed acquisition of consumer durable business of LEEL will enable the company to deploy its surplus cash and bank balances while providing it access to LEEL's high-end branded white-goods and its complementary and established distribution network with stronger presence in Tier-2 and Tier-3 cities. Considering the surplus liquidity available in the system, leveraging of balance sheet for part funding of the acquisition is not expected to adversely impact the company's credit profile.

HIL's domestic operations continue to grow at a healthy pace, mitigating concerns pertaining to anticipated adverse impact of demonetisation on consumer spending and demand for the company's products. Besides steps taken to incentivise dealers, growth continues to be supported by its diversified product portfolio offered through a widespread distribution network and complemented by a strong recall of its brands. This is further supported by HIL's experienced promoters and professional management who have fostered relationships with dealers over the years, thereby facilitating creation of a strong distribution network. The domestic business, however, continues to remain vulnerable to adverse trend in consumer spending and real-estate/construction sectors that continue to be key demand drivers for the company's products. Besides, the complementary nature of product offerings and flexibility to outsource production reduce the entry barriers and result in intense competition across the segments from several large and reputed players in the organised segment as well as large and fragmented unorganised segment.

ICRA notes that HIL's financial profile is expected to remain strong. This is particularly supported by use of effective working capital management policies which has enabled the company to effectively scale up operations while generating free cash flows, which have not only been adequate to meet the capital expenditure requirements but also to fund debt prepayments. ICRA, however, notes that the company's ability to generate free cash flows is mainly driven by its access to channel-financing facilities on limited recourse basis. Continued access to such facilities will thus be a critical determinant of the company's credit profile, going forward.

Analytical approach: While the company continues to have exposure in some loss-making international markets which are to be divested in a phased manner subject to turn-around of operations, the improvement in performance at the operating level in these entities over the last two quarters provide comfort. Nevertheless, the consummation of the balance stake sale pertaining to these entities is likely to have limited credit implications for HIL, given their scale of their operations. Accordingly, ICRA has considered the standalone credit profile of HIL.

Links to applicable Criteria
Corporate Credit Rating –A Note on Methodology
http://www.icra.in/Files/Articles/2009-October-Rating-Corp-Rating-Methodology.pdf

About the Company:
Incorporated in 1983 by Late Sh. Qimat Rai Gupta, HIL is one of the leading players in the electrical consumer goods industry in India. Mr. Gupta acquired the brand Havells from an Indian entrepreneur in 1971. While till the late 1990s, the company's focus was primarily on the industrial goods sector, over the past one and a half decades it gradually shifted its focus towards the fast-growing electrical consumer goods sector by launching various products to cater to the requirements of its target market.

HIL's operations broadly span across four major segments namely cables, switchgears, lighting and electrical consumer goods. Over the years, the company has established a strong brand portfolio and distribution network for its products. HIL is a listed company in which 61.6% stake is held by the promoters. Institutional investors' stake in the company stood at ~28.8% as on December 31, 2016.

HIL reported a standalone operating income (OI) of Rs. 5,446 crore and profit after tax (PAT) of Rs. 715.3 crore in FY2016 compared to an OI of Rs. 5,243 crore and PAT of Rs. 464.9 crore in FY2015. In 9MFY2017, the company reported net revenue of Rs. 4,425 crore and a PAT of Rs. 444.3 crore compared to a turnover of Rs. 3,919 crore and PAT of Rs. 346.2 crore in the corresponding period of the previous year.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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Rating History for last three years:
Table: Rating History

S. No	Name of Instrument	Current Rating (2017)			Chronology of Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crores)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				February 2017	**December 2016**	**October 2015**	**--**
1	Cash Credit	Long Term	200.00	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	--
2	Term Loans	Long Term	22.40	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	--
3	Non-fund-based bank facilities	Short Term	384.65	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	--

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

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Annexure-1
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Cash Credit	-	-	-	200.00	[ICRA]AA+ (Stable)
Term Loans (ECB)	April 2014	LIBOR+ 195 bps	March 2017	22.40	[ICRA]AA+ (Stable)
Non-fund based bank facilities	-		-	384.65	[ICRA]A1+

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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