ICRA

Havells India Limited

Instrument	Amount (Rs. Crore)	Rating Action (December 2016)
Fund-based bank facilities (working capital)	200.00	[ICRA]AA+ (Stable)/ Re-affirmed
Fund-based bank facilities	22.4 (reduced from Rs. 66.00 crore)	[ICRA]AA+ (Stable)/ Re-affirmed
Non-fund-based bank facilities	384.65	[ICRA]A1+ / Re-affirmed
Proposed bank facilities	Nil (reduced from Rs. 14.00 crore)	-
Total	**607.05 (reduced from Rs. 664.65 crore)**	

^ *ECB of USD 3.3 million outstanding as on September 2016. Exchange rate assumed as USD 1 = INR 67*

ICRA has re-affirmed the long-term rating of [ICRA]AA+ (pronounced ICRA double A plus) for Rs. 222.4 crore[1] fund-based bank facilities (reduced from Rs. 266 crore earlier) and short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) for Rs. 384.65 crore non-fund based bank facilities of Havells India Limited (HIL)[2]. The outlook on the long-term rating continues to be Stable.

The ratings reaffirmation takes into account HIL's robust financial profile reflected in its strong profitability and return indicators, low gearing, strong debt-coverage indicators, effective working capital management policies and demonstrated ability to generate free cash flows. While reaffirming the ratings, ICRA has also taken into consideration the divestment of 80% stake in Sylvania by HIL which has further strengthened its credit profile. While on one hand, it has reduced anticipated pressure on HIL to support the cash flows of subsidiaries to meet their debt repayment obligations and sizeable potential retirement benefit obligations; on the other hand, it has resulted in an inflow of ~Rs. 934 crore (at the standalone level), thereby strengthening the company's liquidity position and capital structure. As of now, there is limited clarity regarding use of these funds with respect to future planned acquisitions. Although going forward the company's credit profile would be contingent on the scale, funding and nature of the organic/inorganic expansion, comfort is derived from the management's conservative approach of leveraging, HIL's strong cash accrual generation capacity and limited funding requirements.

Operationally, though the divestment has resulted in reduced scale of operations for the company, its growth and profitability indicators are expected to strengthen because of the exit from lesser-profitable markets which had witnessed stagnant sales over the past few years. 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 while reaffirming the ratings.

In contrast to international operations, HIL's domestic operations have grown at a healthy pace as reflected in a Compound Average Growth Rate (CAGR) of ~14% in revenues between FY2007 and FY2016, 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 the key demand drivers for the company's products. This together with pressure on commodity prices affecting the company's largest segment (cables and wires) resulted in a muted growth of 4% in revenues during FY2016. Though the operating performance improved in H1FY2017 showing a Y-o-Y growth in revenues at ~13%, the impact of demonetisation on consumer spending and hence the overall growth in H2FY2017 remains to be seen. Nevertheless, this is a short-term phenomenon with sales expected to recover post the transition phase.

[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

Besides, the complementary nature of product offerings and flexibility to outsource production reduces the entry barriers and results in intense competition across the segments from several large and reputed players in the organised segment as well as large and fragmented unorganised segment. Moreover, though the lighting industry (lighting segment contributes to ~15% to HIL's revenues) is witnessing a robust growth in LEDs, it is also facing disruptive changes with pressure on realisations of LEDs and contraction in the traditional lighting, which are expected to create pressure on margins in the 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 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.

In ICRA's view, the company's ability to achieve growth across segments and geographies while strengthening its market share, maintaining healthy profitability margins and its ability to continually access working-capital facilities at favourable terms will be the key rating sensitivities going forward. Though the impact of an expected industry shift towards the organised sector subsequent to the implementation of the proposed GST regime remains to be seen in the long run; changing market preference in favour of branded products across categories indicates favourable prospects for the organised segment. Further given the sizeable surplus liquidity available in the system, scale, funding and nature of the acquisition undertaken by the company, will remain key rating sensitivities.

Company Profile

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 ~29.6% as on September 30, 2016.

Recent Results

HIL reported standalone operating income (OI) of Rs. 5,446 crore and profit after tax (PAT) of Rs. 715.3 crore in FY16 as compared to an OI of Rs. 5,243 crore and PAT of Rs. 464.9 crore in FY15. In H1'FY17, the company reported net revenue of Rs 2,919 crore and PAT of Rs. 287.8 crore as compared to a turnover of Rs. 2,588 crore and PAT of Rs. 224.5 crore in the corresponding period of the previous year.

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