EXPANSION MODE

Havells looks at East Asia after European restructuring success

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MUMBAI

Noida-based maker of electrical appliances, **Havells India Ltd**, is looking to enter new markets in Asia such as Indonesia, Malaysia and China, encouraged by the turnaround of its European lighting brand Sylvania, a senior executive said.

Havells acquired Sylvania Europe Ltd, a company twice its size, in 2007 to enter Europe, but the global slowdown hit the firm hard.

"Sales dropped by 20% because construction went down and the cost structures were huge," Anil Gupta, joint managing director at Havells, said in an interview on Monday.

In 2009, Sylvania made a loss of €31 million (₹185.69 crore today) as sales fell to €400 million from €480 million the previous year. Havells took over the firm's management and began a cost-reduction programme.

The company reduced Sylvania's workforce from 3,800 people to 2,300 today, "and closed down three of the nine factories there, saving €40 million annually without losing business or going out of any markets," said Gupta, whose father Qimat Rai Gupta founded Havells.

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New areas: *Anil Gupta (left) with father Qimat Rai Gupta. The former expects Sylvania, which it acquired in 2007, to break even this year.*

Gupta now expects Sylvania to break even at an operating level this year. "Next year, we expect an Ebitda (earnings before interest, tax, depreciation and amortization) margin of 7-8% compared to 4-4.5% now (for Sylvania)," Gupta said.

In comparison, Havells' Ebitda margin in India in the April-June quarter was 11.1%, driven by a 39% year-on-year growth in its electrical lighting business.

Havells has already opened offices in Malaysia, Indonesia and China. In China, it will look to acquire a local company "because organically, it's a long process and acquisitions help in a large market," said Gupta. "We expect €20-30 million from these markets in two years," he added.

In India, Havells will launch Sylvania by April, investing €20 million over the next year. "India can be a €100 million market in five years (for Sylvania's products)," Gupta said.

Bhargav Buddhadev, an analyst at UK-based investment bank **Execution Noble Ltd**, said Havells will find expanding into new markets difficult until it repays its loans in Sylvania. "I am negative on the stock because they have to repay loans until 2015 using all the cash they generate, and with a net debt of more than €150 million on a sales volumes growth of 10-12%, banks will not allow much expansion," he said.

In a research note earlier in August, Buddhadev predicted Ebitda of €24 million, €32 million and €37 million in 2011, 2012 and 2013, respectively, for Sylvania.

"This implies that whatever cash Sylvania generates in 2011-2015 will have to go to repaying the banker... Sylvania will have to resort to refinancing its loan liability again in 2013 as the current improving trend in Ebitda margin is unlikely to generate sufficient cash flows to meet its bullet repayment liability of €143 million in 2013," he wrote.

Gupta said debt would not be a problem. "We have paid back €84 million out of €200 million. Out of the remaining €116 million, we will pay €12 million next year and €52 million each in 2012 and 2013. The rest of loans are working capital loans, which will be repaid by 2012-13," he said.

Analysts say Havells will also have to pay attention to the India market, where competition is increasing.

"In CFL (compact fluorescent lamp) bulbs, for example, volumes are growing by 40%, but a well known brand like Philips is thrice the size of its nearest competitor. Similarly, in fans, **Crompton Greaves Ltd** is the market leader with 28% share," said Jai Sharda, an analyst at **Angel Broking Ltd**.

Havells' stock has risen 1.5 times since November. Its shares touched a new high of ₹831.00 each on Wednesday on the Bombay Stock Exchange, before ending lower at ₹791.60, down nearly 3%. The benchmark Sensex rose 1.15% to end at 18,257.12 points.