The shine returns

Qimat Rai Gupta: thirst for more

With Sylvania back in the black, Havells is on the road to growth

In the mid-1950s, when a man in his early 20s got a job as a school teacher at Maler Kota (Punjab), everyone in the family had reason to celebrate. Yet, the boy in question, Qimat Rai Gupta, now the patriarch of the ₹8,000 crore sprawling Havells India Ltd (HIL), had other ideas. Teaching was not where he belonged, for it would have meant spending the rest of the life reading, lecturing and explaining the success stories of others. Gupta wanted to chart a success story of his own – "one that leaves a lasting impression on the nation's budding entrepreneurs," says the 76-year-old former school teacher turned entrepreneur.

Today, Havells is a case study across business schools of what zeal and perseverance can achieve, how carefully crafted alliances can help business and what needs to be done to seamlessly synchronise and align operations, when you gobble up a company (in this case, Sylvania), 1.5 times bigger. "When you wish to achieve something, you must have a burning desire towards achieving it, says Gupta, founder-MD of the Delhi-based $1.3 billion, fast-moving electrical goods (FMEG) company and a major power distribution equipment manufacturer, with a strong global footprint. "A hunger to grow is the only way to overcome all obstacles." Havells owns prestigious global brands like Crabtree, Sylvania, Concord, Luminance and Standard.

For starters, the Havells group originated as a tiny trading outfit in Central Delhi's Bhagirath Place – a wholesale market for electrical goods. Thus started the journey of Qimat Gupta from the dusty lanes of Delhi's electrical hub, with only ₹10,000 in his pocket, in 1959. In the early 1970s, the enterprising Gupta bought out the Havells brand from one Haveli Ram Gandhi, thereby moving up the value chain from trader to manufacturer. Over the years, the company managed to create a niche for itself across four key verticals – switchgears, lighting fixtures, consumer durables and cables & wires. Through the 1990s, Havells expanded its distribution reach, and went in for foreign collaborations and product additions through a string of acquisitions: Towers & Transformers (1983), Electric Control & Switchboards (1997) and Duke Arnics Electronics (2000). The strategy saw Havells emerge as a ₹1,000 crore company by 2006.

Looking to grow in size and for market penetration, HIL has grown through several domestic acquisitions, but the last deal it did was an overseas one. While it lost out to Siemens in 2005 in the race for UK-based Electrium, HIL got the opportunity to acquire Sylvania. It took over the loss-making Sylvania, a European company, for $300 million (close to ₹1,350 crore) in August 2007. That an Indian company took over a €480 million (about ₹2,700 crore) Dutch lighting major from a group of private equity investors was big news. This $300 million buyout (a value that was one and

a half times the size of Havells) made everyone in the M&A business, including equity analysts, term it as a 'great buy', with several reasons to back this bold statement. Spurred by these investment rationale, in October 2007, even private equity investor Warburg Pincus invested in HIL, taking a 11.2 per cent stake for $110 million. Now, through market purchases, Warburg's stake has gone up to 14.5 per cent.

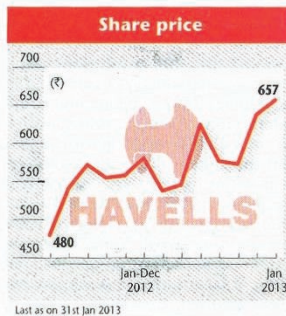
Not a cake-walk

"This acquisition had good synergies; we were getting into the lucrative European and Latin American markets, as well as new segments," says Anil Gupta, Qimat Gupta's son and joint MD, HIL. The Guptas did not realise they were actually biting off more than they could chew. They felt it would be a cake-walk.

"Getting Sylvania out of the woods was easier said than done. We lacked the experience of an overseas takeover. We never realised the integration pangs would hurt," admits Gupta Senior, quick to realise the mistakes he made. Few Indian businessmen would candidly admit to serious problems, as Gupta has.

"Initially, we did not disturb the Sylvania operations which, we believed, were in professional hands. We had a CEO, based in New York, looking after a company with operations in Europe and Latin America. This was the biggest blunder, from day one. Besides, each strategic business unit (SBU) virtually operated in silos," points out Qimat Gupta, who did not disturb this structure for 18 months. HIL stayed in purely as a financial investor and continued to take Sylvania's losses on the Indian parent's balance sheet.

Anil: aiming for profitable growth



Last as on 31st Jan 2013

Turning Sylvania around was a gigantic task. Its restructuring remained a drag on HIL. Although, on a stand-alone basis, HIL made profits, Sylvania's losses ate into the cash flows. And the parent company was under severe pressure. By the end of 2008, Sylvania had notched up accumulated losses of €47 million.

Before anything more could happen, the Guptas were quick to take the right decisions. The US-based CEO was sacked and the silos dismantled. "Many heads rolled as we started integrating. Our Indian managers moved onto the centre stage at Sylvania. Thankfully, this coincided with the recession. We posted a 20-member Indian team there and got into the thick of things. The restructuring has been complete," says Anil, then a new face of an old organisation, who joined the family business in 1992, after a degree in economics from Delhi University's Shriram College of Commerce, followed by an MBA from Wake Forest University in North Carolina, US.

As per a plan agreed upon with the bankers, the Guptas embarked on a two-phased restructuring strategy named Project Phoenix (January-September 2009) and Project Parakram (September 2009 to December 2010). Under Phoenix, three plants were shut down. The second phase focussed on reducing fixed costs and trimming the workforce at senior levels. "While there was some degree of overlap, in the first phase, the focus was more on consolidating the supply chain and scaling down operations, while changes in product mix and better price management dominated

the latter part of the turnaround strategy," discloses Anil. "More importantly, at the end of the exercise the workforce strength was down by 1,500. We also renegotiated with the company's lenders to push the debt payback from 2009 to 2011," he adds.

To drive down costs, Sylvania has started sourcing a bulk of its products from low-cost markets in Asia. As a part of the outsourcing strategy, Havells entered into a joint venture with a Chinese company to make lighting products for Sylvania. As analysts point out, going forward, this will not only lower the cost of sourcing for Sylvania, but also help it cater to the demand in the Chinese market. Besides outsourcing, the Guptas have also made the organisational structure leaner, by cutting layers of decision-making. The regional structure was done away with and now a dedicated team at Havells' corporate headquarters in Noida is overseeing the strategic business units.

The phased restructuring paid off, as Havells managed to turn Sylvania around in 2010-11, with a profit after tax of €2.5 million. It has since stayed profitable, well into the current fiscal. "It took one-and-a-half years to turn Sylvania around and, in 2011-12, Sylvania earned a net profit of ₹67 crore, due to an increase in margins, on the back of price hikes and a better product mix," says Rajesh Gupta, director, finance (not related to Qimat and Anil).

"There is no slowdown in our domestic operations and most of our consumer product categories are growing by 25 per cent. The consumer division contributes 75 per cent to our stand-alone revenue. We have witnessed a slowdown in the industrial sector, which has tapered overall growth down to 20 per cent. We have a healthy cash flow," adds Rajesh.

HIL's stand-alone revenue grew from ₹293 crore in 2002-03 to ₹3,830 crore in 2011-12, while the net profit grew from ₹9 crore to ₹305 crore (*see table*), as it staged a turnaround. In fact, HIL's turnaround has been more visible in the last three quarters. In the recent quarter ended December 2012, on a stand-alone basis, net revenue went up by 18 per cent to ₹1,058 crore, as compared to ₹896 crore in the corresponding quarter last year. Growth in revenue has come from new product launches in the switchgear and electrical consumer goods segments.

Financials

(₹ crore)	2012	2011	2010	2009	2008
Net sales	3,779	3,013	2,471	2,203	2,054
Total income	3,785	3,017	2,474	2,209	2,059
Total expenditure	3,302	2,668	2,151	1,998	1,863
EBITDA	482	349	323	210	196
PAT	305	242	228	145	144
EPS* (₹)	24.48	19.4	37.92	24.14	24.78

*Annualised

During the period under review, its EBIDTA (operating profit) grew by 11 per cent to ₹40 crore, as against ₹126 crore. At the net level, the profit has grown by 20 per cent to ₹95 crore (₹79 crore). The consolidated performance has also been better. While net income grew by 9 per cent to ₹1,814 crore (₹1,659 crore), the PAT has grown at a faster clip of 33 per cent to ₹118 crore (₹89 crore).

Growth momentum

Now, looking at the last nine months' stand-alone performance, net income has grown by 19 per cent to ₹3,055 crore (₹2,569 crore), while PAT grew by 22 per cent at ₹262 crore (₹214 crore). This is despite the fact that advertisement and sales promotion expenses during the nine months were higher (3.8 per cent: ₹78.4 crore), as compared to the corresponding period last year (3.2 per cent: ₹55.9 crore).

"The growth momentum has continued in the current quarter too and this has been in line with our targets. It is also reflective of several initiatives undertaken in the last nine months that include enhancing our footprint in the domestic market and expanding our product portfolio. During the quarter, we inaugurated India's first large-scale lighting plant. With the new product launches in consumer goods receiving a good response, we are confident of maintaining the growth momentum in the year ahead," explains Rajesh. The company's improved performance has seen a more than ninefold rise in its market cap to ₹8,198 crore from ₹868 crore in 2008-09. The share is currently changing hands at ₹657.

In the recently concluded quarter (December 2012), segment-wise, there has been all-round growth. The performance of switchgear sales showed a growth of 19 per cent to ₹270 crore. But electronic, electrical consumer durables grew 47 per cent, with revenues of ₹576 crore – the company's fan business registered a strong growth of 30 per cent and the lighting and fixtures business grew by 20 per cent to ₹483 crore. The domestic cable segment showed a growth of 27 per cent.

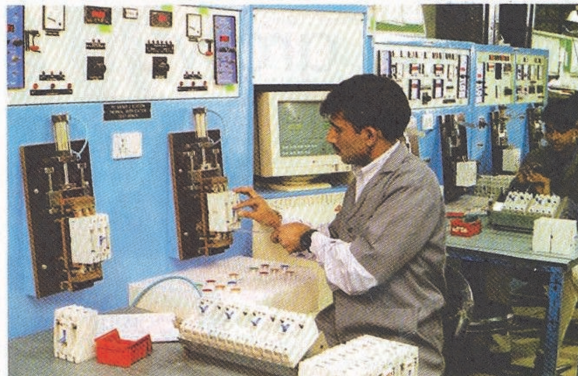
Other highlights during the quarter included inaugurating India's first large-scale lighting fixture plant at Neemrana, Rajasthan. It launched a new range of high-end switches under its premium brand Crabtree called 'Murano' and a new range of premium domestic appliances. HIL also expanded Havells Galaxy chain by opening 12 more stores across India, taking the total galaxy figure to 189 outlets.

"While the domestic business seems to be on the right track, with Havells increasing its market penetrations, profitability of its international operations remains the primary concern. We continue to believe that the pain in Europe is unlikely to subside soon," states Rahul Gajare of Edelweiss.

Meanwhile, towards the end of October 2012, HIL unveiled the plant at Neemrana which is based on the technology from Sylvania and comparable to the best plants of Sylvania in France. This was set up with an initial investment of about ₹100 crore and forms part of the company's strategy to strengthen its position in the fast-growing and rapidly emerging lighting fixtures market. The plant will make over 60 designs and about 300 SKUs, currently employing about 250 people. "The number of

designs and SKUs will get enhanced and refreshed from time to time," says Surjit Gupta, director, HIL. "The plant will cater to both consumer and industrial lighting applications, and help effectively control production efficiency and quality, increase customer responsiveness and shorten delivery response time," he adds.

"Until now, the Indian customer was heavily dependent on Chinese imports as the sector was restricted for small-scale industries that resulted in having limited choices and quality options," admits Surjit. "This plant will establish the company's dominance as a leading lighting company that can specifically work with customers to help them upgrade their lighting across segments and applications."



Havells: 'switch'ing its strategy

"Today, design in the lighting industry plays a critical role. Sylvania, a leading lighting company globally and also a part of Havells India, will provide its technological and designing assistance to offer international quality products and a wide array of designs to choose from. This facility will not only give us a dominant presence in the lighting segment across the globe but significantly increase efficiency, supporting our aim for profitable growth," says Anil, looking at extracting the best out of HIL's acquisition. Sylvania is now helping the company create better visibility and achieve new milestones in the promising lighting segment. In 2008-09, the company consolidated its entire compact fluorescent lamp (CFL) manufacturing units into a single plant, based at Neemrana and also installed India's largest integrated motor manufacturing capacities at its plant there.

Post-acquisition and integration of Sylvania, Havells has become the fourth largest electrical company in the world – after Philips, Osram and GE. In 2011-12, Havells formed a joint venture, with Shanghai Yaming Lighting Co, a lighting company listed on China's Shanghai Stock Exchange. "The 50:50 JV, named Jiangsu Havells Sylvania Lighting Co, leverages upon technology and manufacturing strengths, providing energy- and cost-efficient products for global Sylvania and local China markets," says Surjit.

Adding to revenue

With Sylvania's operations streamlined, Qimat and his team now have the confidence to go for more inorganic expansion and add to the revenue stream. "We are open to small strategic buyouts in key markets to push Sylvania's reach," says Anil. But with markets in Europe still buffeted by a slowdown, Havells' management needs to generate a larger chunk of Sylvania's revenues from emerging markets across the globe. Havells' global arm currently generates 39 per cent of its revenue from emerging markets and the target is to raise it to 50 per cent in the next 2-3 years. "The idea is to have presence in 50 nations from 40 now." Havells is also leveraging Sylvania's network to start selling its products and launch brand 'Havells'. Thus, while Sylvania has a strong presence in the area of lighting systems and fixtures, Havells is pushing its range of switchgears.

But that's just one side of the story. Havells is equally, if not more, excited about the opportunities that the domestic market has to offer. The Guptas believe it has the capacity to grow at a CAGR of 15-20 per cent in the next 3-4 years in the domestic market, as they aim to enter the lower end of the market by offering quality products at affordable prices.

As a part of its strategy, the company has soft launched the 'REO' range of switches with a starting price of ₹15. With the Havells brand a household name, the company believes that products like REO can help it capture a larger share of the market and become its winning formula. "Havells has been introducing products across segments – like REO in smalltowns – to deepen market penetration and gain market share. Also, limited outsourcing helps impart quality and premium pricing," states Bhoomika Nair of IDFC.

With new products, including a foray into home appliances, Havells is geared for the next phase of growth. There is clearly a thirst for more; with an aim to hit the ₹10,000 crore turnover mark. The next phase will also come from rural and semi-urban areas, where Havells doesn't exactly have a robust presence because its products are perceived to be expensive. With the company now breaking into the market with cheaper priced products, it is expected to pay rich dividends.

There are some entrepreneurs, who taste some success but lose their way. Then there are some who are satiated with moderate success. Qimat, though, is one of those rare entrepreneurs, who, even in his mid-70s, remains insatiable in his quest for growth and revenues.

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