Switching Gears

How Havells is transforming from an electrical goods maker into a consumer durables brand

:: Rajiv Singh

Anil Rai Gupta has few qualms about his pedigree. "I have yet to come out of the shadow of my father," confesses the second-generation entrepreneur, who took over as chairman and managing director of Havells following the death of Qimat Rai Gupta in November 2014.

In under three years, the son has been doing his bit to further the legacy of QRG, as his father was fondly known. Every major business decision, says Gupta, has the ideological stamp of the founder who started the company in the narrow bylanes of Bhagirath Palace, Delhi's electrical market, in 1971. Business, he remembers his father telling him, is done with conviction, not with a calculator.

It was perhaps this conviction that made Gupta shell out ₹1,600 crore to buy the consumer durables business of Lloyd Electric and Engineering in February this year. The larger goal: to transform Havells from an electrical goods maker of wire and switchgears into a consumer durables brand with a presence in televisions, washing machines, refrigerators and air conditioners.

"If there is value in an offer, one should not worry too much about the price," says Gupta, citing another QRG aphorism: don't miss the woods for the trees.

> ***"We never eye the top slot. We just want to be among the top three in every category we enter"***
> **Anil Rai Gupta,** chairman, Havells

In less than 50 days of the Lloyd acquisition, the results began to show. With a 9.1% market share in the April-June quarter, Lloyd toppled Samsung as the third largest air conditioner brand in India. The figures – by market researcher Gfk and obtained from industry sources – are for exclusive and multi-brand outlets. Voltas and LG are in the top two slots with 20.8% and 14.3%, respectively.

Along with announcing itself as a competitor to reckon with, Havells with the Lloyd acquisition has a slice of the ₹10,7700 crore consumer durables market in India, which is likely to become fifth largest in the world by 2025. The projection is based on a study by EY and industry lobby Ficci.

There's enough headroom for growth. An increase in disposable incomes, expansion of organised retail, growing demand in rural markets, increasing urbanisation and a reduction in the replacement cycle from 9-10 years to 4-5 years are good news for consumer durables offtake. Between 2013 and 2019, per capita income is expected to grow at a compound annual rate of 6.6% to reach around $2,200 (₹1.4 lakh)) in 2019, from $1,500. While a burgeoning population of working women will drive the demand for home appliances, the organised retail industry is expected to corner 15-18% of the consumer durables market by 2020, says the EY-Ficci study.

> ***"Havells is not a flash-in-the-pan brand. They have all the ingredients to take on the Samsungs of the world"***
> **TV Mohandas Pai,** non-executive, non-independent director on Havells board

Fanning Out

What might also help Gupta in his aggressive play is that most of the consumer durables segments are highly under-penetrated. Take, for instance, the ₹10,000 crore air conditioner segment, which has just 3-4% penetration. Refrigerators, a ₹ 9,340 crore market that has existed for almost 60 years now, have still to reach two-thirds of the population.

Havells is banking on the extensive reach of Lloyd to fan out across country: an over 10,000-strong dealer network, 38 sales branches, over 600 service centres and a presence across 1,700 towns and cities. "That's why Lloyd fits in with our strategy of going deeper into homes," says Gupta, adding that people view Lloyd as not only an AC brand. While Havells manufactures over 90% of its products in India, the number for Lloyd stands at over 30% (the rest is imported).

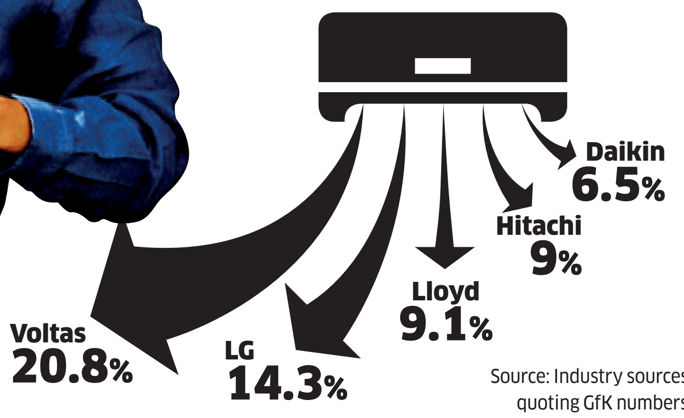
The Lloyd buyout, point out analysts, will enable the company to have a larger share of the consumer's housing budget. From an electrical consumer durables label in a segment dominated by male buyers, Havells will now be perceived as a household brand targeting women, too, with kitchen appliances, refrigerators, TVs

Big Bang Durables Entry

Early this year, Havells bought the consumer durables business of Lloyd Electric for ₹1,600cr

What Lloyd Brings to the Table

A Top-Three Presence in Air Conditioners
(figures are market share for April-June 2017, and for exclusive & multi-brand outlets)



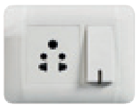
Source: Industry sources quoting GfK numbers

An Extensive Distribution Network

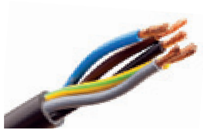
Figures of Lloyd as of FY17	Combined with Lloyd network, Havells now looks formidable
A network of over 10,000 direct/indirect dealers	Over 7,500 direct dealers
38 sales branches & 622 authorised service centres	1 lakh retailers
35 company-owned service centres	Connect with 2.2 lakh electricians
Presence across 1,700 towns and cities	Presence in 4,900 towns and cities

Havells is Top Three (market share) in Most Categories

Switchgears
MARKET SIZE: **₹2,000 crore**
RANK, SHARE: **No. 1, 27-28%**
RIVALS: **Legrand, Schneider**



Premium Modular Switches
MARKET SIZE: **₹2,200 crore**
RANK, SHARE: **No. 3, 14-15%**
RIVALS: **Panasonic (Anchor), Legrand**



Cables (Domestic)
MARKET SIZE: **₹8,000 crore**
RANK, SHARE: **No. 3, 16%**
RIVALS: **Finolex, Polycab**

Cables (Industrial)
MARKET SIZE: **₹12,000 crore**
RANK, SHARE: **No. 3, 10%**
RIVALS: **Polycab, KEI**

Fans
MARKET SIZE: **₹6,900 crore**
RANK, SHARE: **No. 3, 15%; No. 1 in premium segment**
RIVALS: **Crompton, Orient, Usha**

Journey So Far

1958: **Qimat Rai Gupta** forms a company Guptajee & Co, starts trading in Delhi

1971: **Buys Havells brand**

1992: Havells gets listed on BSE and NSE

2000: Buys controlling **stake in Standard Electricals**

2001: **Buys Crabtree brand** for India, Pakistan, Nepal and Bangladesh

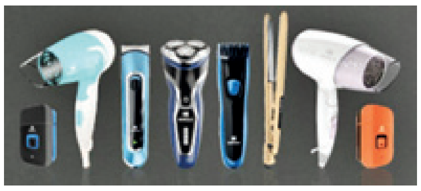
2003: Starts making fans, CFLs and lighting fixtures

2007: **Buys Sylvania**; Warburg Pincus invests $110 million in Havells India

2015: **Divests 80% stake in Sylvania;** buys majority stake in **Promptec Renewable Energy**

2016: Enters home automation & control segment with Crabtree; **forays into solar business**

2017: Enters personal grooming segment; **buys consumer durables business of Lloyd Electric and Engineering**



Some Consumer Durables in Havells' Kitty

Refrigerators
₹9,340 cr

Air conditioners
₹10,000 cr

Washing machines
₹12,200 cr

Televisions
₹51,400 cr

Figures are the market size of respective categories

Source: Motilal Oswal

and ACs, says Ankur V Sharma, vice-president, institutional research, Motilal Oswal Securities.

Though the seeds of transition could be traced to 2011 when Havells forayed into small kitchen appliances, the momentum gathered pace once Gupta took over. He forayed into premium fans in 2014, divested 80% in the lighting business a year later, entered home automation and controls with Crabtree in 2016, and launched personal grooming products early this year.

AC Gambit

Lloyd may have been snapped up in 2017, but the plan to have a presence in ACs was hatched seven years ago. The only difference is that at that time, in 2000, an organic entry was planned. By June of that year, an improbable turnaround of Sylvania was achieved and the company was looking to get into newer segments. Four teams were formed to prepare feasibility blueprints for ACs, kitchen appliances, geysers and water pumps. The most promising among the shortlisted segments was ACs. The market was booming, dealers were excited about the new project, and the AC team, which included a few ex-Voltas officials, identified suppliers from China. "For ACs, we wanted to be in the same premium segment as Daikin," recalls Gupta.

Though a headway was made, the project got shelved. Reason: relatively low margin. In all previous brand extensions such as fans and lighting fixtures, Havells managed to get over 30% of business from its existing dealer network. In the case of ACs, the company was not convinced of tapping into its dealer network. Relying on external dealers meant wafer-thin margins in a segment that is extremely competitive. "It would have been a big risk to go the organic way," recalls Gupta.

Debates on diversification aren't alien to Havells. In the 1990s, during the early years of liberalisation, QRG saw the need to spread wings. "If we delayed, we might miss the bus," he is quoted in the biography *Havells: The Untold Story of Qimat Rai Gupta* penned by his son. Two new businesses were set up: Havells Financial Services and Zeus Advertising. However, within a year, both were shuttered as the Guptas couldn't spare the time needed to nurse the fledgling ventures.

Another business plan, which got aborted at the ideation stage itself, was real estate. In 2006-07, the market was booming and the Guptas thought of launching Havells apartments, loaded with Havells switches, wires and fans. The idea never got implemented.

The next plan was baked a few years later. This time it was power generation. This idea too got nixed because the patriarch didn't see value in entering a segment that he felt was rife with corruption. "It is not easy to resist temptation, especially when others around you are succumbing to it," the founder said in the biography.

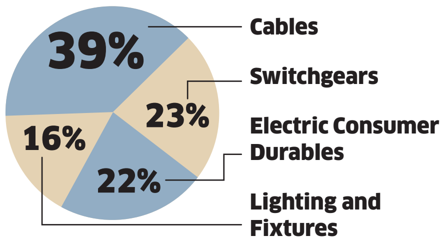
The Lloyd acquisition, though, may signal a change in risk appetite. "Our appetite to pay the right price was more than that of others," is how Gupta puts it.

TV Mohandas Pai, non-executive and non-independent director on Havells board, endorses the move. Havells, he contends, is not a flash-in-the-pan brand. It understands the psyche of the consumers, has been built on solid retail distribution, smart marketing, sleekly designed products and is financially strong.

> ***"If Havells is able to consistently upgrade technology, which requires huge R&D spend, then it can make a successful transition"***
>
> **Ankur V Sharma,**
> vice-president, institutional research, Motilal Oswal Securities

How the Pie Looks

Revenue contribution is skewed towards the core business of wires and switchgears



Source: Motilal Oswal; Havells annual report and investor presentation

The Threats

Slowdown in domestic business; increased competition could put pressure on margins

Slower than expected revenue growth and profitability in Lloyd's consumer business poses risk to estimates and valuations

Slowdown in power T&D could impact the **demand for cables and wires business**

Slowdown in key consumer segments of **construction and industrial capex** could impact domestic business

Havells experience in consumer segment and **competition from multinationals** (LG and Samsung) could make things challenging

Source: Edelweiss Securities; Daiwa Capital Markets

"They have all the ingredients to take on the Samsungs of the world," says Pai, adding that Havells is not a copycat brand and has intrinsic strength to achieve what a bunch of desi consumer durable companies couldn't a couple of decades back.

From a revenue of ₹2,055 crore in 2008, Havells closed the last financial year with ₹6,720 crore, an over three-fold jump in nine years. That still makes it a relative pygmy compared with Samsung India, which had a top line of ₹47,000 crore in the year ended March 2016 – a fair chunk of that, though, would be from mobile phones, a business Havells isn't present in. Market leader in ACs, Voltas, is in a similar league as Havells with 2016-17 sales of a little over ₹6,000 crore. But, then, again Voltas is primarily an AC manufacturer, its other businesses being largely non-consumer-oriented, like textile machinery and mining & construction equipment.

The biggest challenge for Havells, say marketing experts, won't come from the MNCs. It won't even come from domestic rivals. Rather, the growing aspiration to transform into a major consumer durables player is Havells' biggest challenge. "What looks like a strategic fit now might go wrong like Sylvania if proceeded in haste," says Ashita Aggarwal, head of marketing at SP Jain Institute of Management and Research. "It should not spread itself too thin by focusing on too many verticals," she cautions.

Gupta calls the divestment of Sylvania a "strategic withdrawal". "It takes conviction to wind down a business that fetches you ₹300 crore," he says, alluding to how Havells scaled down the profitable meters business in early 2002 and exited from the segment over the next five years. A crash in prices due to the mushrooming of fly-by-night operators, falling margins and rampant corruption led the Guptas to shut down the vertical.

Ask him about his bet on Lloyd, Gupta sounds confident. "We have survived, thrived and flourished," he says, adding that lessons have been learnt. The crisis in Sylvania was to a large extent because Havells didn't take the company under its control and allowed it to work under the guidance of the existing management. "Lloyd won't see a repeat of Sylvania," he asserts, adding that the company is firmly set on its target to evolve into a strong consumer durables maker. "We never eye the top slot. We just want to be among the top three in every category we enter."

Clearly, for Gupta if two is company, the top three is a comforting crowd. ■