THE BIG SWITCH

Havells chairman Anil Rai Gupta is following in his father's footsteps, but is also making some footprints of his own by taking the family-run company from just an electrical equipment maker to a consumer durables challenger.

By Arnika Thakur Photograph By Narendra Bisht

Havells chairman and managing director Anil Rai Gupta.

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WHEN INDIAN ELECTRICAL equipment maker Havells bought European lighting goods company Sylvania for $300 million in 2007, the industry was stunned at the audacity of the move. Havells might have been one of the leading electrical goods companies in India, but Sylvania was a mutinational nearly twice its size. Apart from concerns about the difference in size, many also believed the Indian company had forked out too much for the acquisition.

But the Gupta family that owned Havells was convinced. After all, its legendary founder, Qimat Rai Gupta, had always been known for making daring decisions. He started his business in 1958 selling electrical goods in a small shop in a crowded market in Old Delhi; the story goes that some 13 years later, he bought out the Havells switchgear brand from a Delhi businessman, Haveli Ram Gandhi, for Rs 7 lakh. It was a staggering sum at the time, but Qimat Gupta obviously saw the potential.

Over time, he diversified into other products such as fans and geysers. Today, Havells is headed by his son, Anil Rai Gupta, and has a market capitalisation of more than Rs 34,000 crore and is present in more than 40 countries. Its light bulbs, tube-lights, cables, wires, and switchgear are ubiquitous, and it is one of the market leaders in each segment. "My father was a born entrepreneur… Born entrepreneurs are very few. What we have learnt to be is trained entrepreneurs under his tutelage for 20 years," Anil Gupta, chairman and managing director of Havells, tells *Fortune India*.

As it turned out, Havells heard a lot of I-told-you-sos because the Sylvania episode didn't go as well as expected. The European market was hit by the financial crisis soon after the acquisition, and Sylvania felt the blow. Qimat Gupta, who was heading the company at that time, went all guns blazing with a restructuring plan, which worked briefly, but then could not rescue the company. He died in 2014; a year later, Havells sold off an 80% stake in Sylvania to Shanghai Feilo Acoustics for 138.4 million euros. It sold the remaining 20% last year.

The Sylvania sale was Anil Gupta's first major business decision after his father's death and it set the tone for the company's new direction. The Havells scion, who was 45 when he took over, was going to carry forward his father's legacy, but he was also going to chart his own course to keep pace with changing times. Anil Gupta might have been new at the helm of the company then, but he was no novice—he had joined the business more than 20 years ago as the family groomed him for a position traditionally reserved for sons. He followed that trajectory to a T, spent time after school and college in his fathers' office, studied economics at Shri Ram College of Commerce at University of Delhi, and got an MBA from Wake Forest University in North Carolina.

When you meet Anil Gupta, he comes across as an articulate and savvy businessman; but something about his manner reflects his business grooming—of someone who has worked with not just professionals but also with traditional dealers and distributors, a network that he is particularly proud of. It is perhaps because of the years he put in when Havells was growing from just a Rs 19 crore firm by value in February 1994, the year it listed, to Rs 17,195 crore by December 2014, the year he took over.

Once Sylvania was sold, Anil Gupta set his sights on the future. Last year, Havells made its next big acquisition under him. It bought Lloyd's consumer durables business for Rs 1,557 crore, making a foray into the bigger and more lucrative consumer durables market. Anil Gupta is now betting big on the latest acquisition which will make Havells a challenger in this market, pegged by the Indian Brand Equity Foundation at $15.5 billion in 2017. It will help Havells grow from a maker of just electrical goods such as switches and fans to big-ticket items such as air conditioners (ACs), LED televisions, washing machines, and refrigerators. The potential for growth is huge as market penetration of ACs remains low at 5.6%, washing-machines at 15% to 20%, and refrigerators at 15% to 20%. "Lloyd is an aspirational product in the mass premium segment, it is not a luxury. The LGs and the Samsungs of the world, in the mass premium market, that's where we want to be," he says, sitting in his plush office in Noida.

Ameet Kumar Gupta, wholetime director, Havells; Anil Gupta (right).

▲ PHOTOGRAPH BY **SANJAY RAWAT**

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> *chairman and managing director, Havells*

Anil Gupta says the Lloyd acquistion is based more on the cultural fit than synergy; in other words, even though there isn't much synergy between the businesses of Havells and Lloyd, they share a cultural affinity. "Synergy is in understanding the culture, brand, and distribution. Yes, there will be some synergy in finance, in IT, but on the front end there is not a lot of synergy," he says.

Here is one of India's richest businessmen, whose company ranked 200 on the 2017 *Fortune India* 500 list, saying he spent more than Rs 1,500 crore to acquire a company with little or no synergy with his company's existing business. Sounds outrageous, right? So, what is it that Havells saw in Lloyd that compelled it to make the buy? "It was a lot easier than Sylvania; one, they are all Indians, so (it is) one country culture. They also came with a very entrepreneurial culture, and that is good for us because we are very entrepreneurial," he says.

The Lloyd acquisition certainly makes business sense. Over the years, the company has consistently grown by buying brands and nurturing them. Today, Havells owns switchgear brands such as Crabtree and Standard, and Promptec, an LED and solar lighting products manufacturer. And its net revenue grew to Rs 8,260.27 crore (including Lloyd) in the last financial year from Rs 6,585.96 crore in 2016-17. Bhargav Buddhadev, an analyst at brokerage firm Ambit Capital, says the acquisition is a much better business decision for the company than Sylvania. "The consumer durables market in India is a growing market versus a declining to flattish lighting market in Europe where Sylvania is present," he says.

Harshit Kapadia, associate vice president, Indian utilities, renewables and industrials research, Elara Capital, says Havells aspires to be an integral part of the Indian home. And moving into consumer durables allows it to do that. "Everything that is in your kitchen, in your home, they want to be there. In consumer electricals, whatever one can do and whatever one can achieve, they have done that," he says. "But in consumer durables, some of the products have a very low penetration, the price points are much higher and the scope of growth as well as the consumer you can service here is much bigger."

Clearly, it was a carefully considered decision. Havells has only bought the Lloyd brand and distributor network, but plans to manufacture on its own. At the end of FY17, Lloyd had a network of over 10,000 direct and indirect dealers across India. Also, it has a 14% market share in the home AC segment and 75% of its sales come from ACs. Lloyd also sells washing machines and LED televisions. Havells is now setting up an AC plant for Lloyd with an annual capacity of 600,000 units in Neemrana in Rajasthan at a cost of Rs 350 crore.

Lloyd could well be the key for Havells to break into the next level, but it certainly won't be easy. It might have survived the onslaught of domestic competition and cheap Chinese imports in the electrical equipment business but it will now have to compete with international giants such as Samsung, LG, and Sony which have cutting-edge R&D and very deep pockets. "The challenge is that you are in a market where there are at least 20 active competitors, which was never the case with their existing business," says Kapadia.

ONE OF THE OTHER BIG CHALLENGES it is likely to face because of the Lloyd acquisition is the change in distribution. Havells deals largely with electrical and hardware distributors, and prides itself for its dealer network: over the years, it has also built a formidable network of more than 7,500 dealers and distributors. A lot of the senior management knows the distributors by name and the family is known to attend functions at dealers' houses. But white goods typically are sold by larger multi-brand stores. "Havells' strength on the electrical side was that they could interact with the dealers on a personal basis... But in consumer durables, you are dealing with multi-brand outlets, stores like Croma and Kohinoor that are very large. They want profitability and margins," says Ambit's Buddhadev.

Havells realises that and is already trying to mould the new dealer network into what it

Havells lighting products account for 5% of its portfolio.

8,260.3
Rs CRORE
Havells turnover in the financial year 2017-18, including Lloyd

wants. Anil Gupta says they are investing in making dealers not so transaction-oriented but more emotionally connected with the company. "People tell me, 'In Havells, you must be giving very high margins to the dealers, that's why they are so well connected to you'. But actually not. Anyone can come and outbid me. How emotionally they are connected to the company, how they see the future of their business by getting associated with Havells, that's very important," he says.

But things are changing and old economy companies need to move with the times. Anil Gupta realises that. Havells hired Mukul Saxena—credited with setting up a research and technology centre for German conglomerate Siemens in Bengaluru—as executive vice president and chief technology officer in March. Saxena says the company plans to increase its R&D spending to 3% to 4% of revenue from 1%. Already, the company is focussing on adopting the Internet of Things in its products and its first smart IoT-enabled geyser, the Adonia, is in production at its factory in Neemrana.

Ameet Kumar Gupta, whole-time director at Havells and Anil Gupta's cousin, says the company is preparing for a future where everything in a home will be controlled by either phone or voice. "I keep telling my switches guys, 'Your life is short, you have to think of automation, you have to think of IoT, all our products have to be IoT ready'," he says. "Switches have a finite life; that finite life in a country like India can be five years, it can be 20 years, nobody knows.

▲ PHOTOGRAPH BY **SANJAY RAWAT**

But more and more people will be shifting. It is like a tipping point, it can shift very quickly."

While Anil Gupta intends to keep growing organically and through acquisitions, he also realises the company cannot be run in exactly the same manner as his father did. Like many traditional family-run businesses in the country, he too is hiring more and more professionals into top management positions. India has one of the largest number of family-owned businesses, after China and the U.S. The Gupta family, one of India's richest families, owns about 60% of Havells.

ANIL GUPTA SAYS HE IS ALSO focussing on getting younger people on board to keep tabs on changing demand from the new generation of consumers. "These are the people who can give you ideas, the more younger people you have in your design and marketing departments, you get ideas. That's how you stay relevant," he says.

It was the year 2016 that saw a big change in the company's organisational structure. Earlier, Havells was organised by function such as sales, HR, and finance, each with its own CEO. But now it has five strategic business units (SBUs) according to products such as switchgear, cables, fans, lighting, and pumps. Each has a dedicated CEO and CFO. The company has also hired more than 40 executives at levels of general manager and above over the past one-and-a-half years. "The kind of management bandwidth we have added is at a very phenomenal pace... from all kinds of companies, not just electrical companies," says Anil Gupta.

Like any family-run business, succession is a question that surrounds Havells as well. Anil Gupta was just 15 when his father gave him his first work assignment: to book a hotel for a dealer meeting. His children are a bit older than that now, which raises the obvious question of succession. He is clear on that front. "My son or my cousin's son might not be the CEO. Whether my son or my daughter will come into the business, I don't know. If they come, they have to go through the grind," he says. "Family is for the business, the business is not for the family."

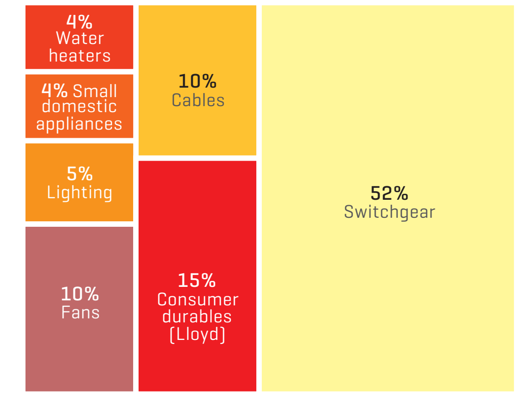
T.V. Mohandas Pai, non-executive non-independent director on the board, agrees: "If too much depends on one person, if too much depends on a family, one day or the other competition is going to overtake you because the family

6,586
Rs CRORE
Havells revenue in 2016-17

LOOKING AT A BRIGHTER FUTURE

Havells is expanding its portfolio to grab a larger share of the consumer durables market.

Slice of the pie



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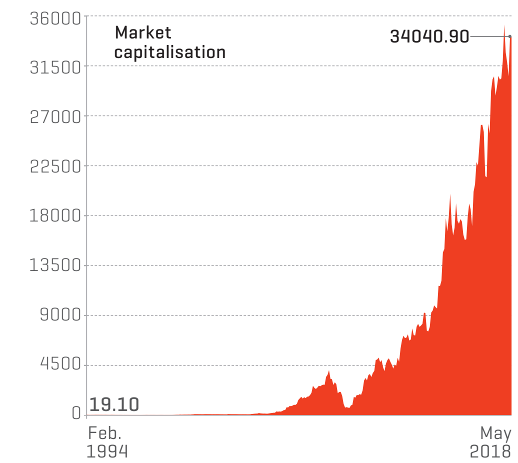

Figures in Rs crore; Source: Prowess

members will not have the talent to run a large corporation."

At the moment, Anil Gupta wants to follow in his father's footsteps but also make some footprints of his own. "We cannot be risk-takers like he was, we will be entrepreneurial but more calculative and will still look at risks," he says. "His intuition was far better, he was intuition-based, we will be more data based. There are a lot of differences." ■

Additional reporting by Ashish Gupta