

| THE BT INTERVIEW |

‘We want to be among the **top three players** in every category’

Anil Rai Gupta, Chairman and Managing Director of Havells India, explains his growth strategy for the company and why he is hopeful of a revival

PHOTOS BY YASIR IQBAL



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ince taking charge of Havells India in 2014, Anil Rai Gupta, 52, has not only doubled the

size of the electrical equipment company, but has also expanded its portfolio into newer markets like consumer durables. The Chairman and Managing Director, in an interview with *Business Today's* Arnab Dutta, explains how he is planning to grow Havells by going deeper into the hinterlands, expanding manufacturing into components, and scaling back the overseas business. Edited excerpts:

Q: How has the recovery been since the second wave of Covid-19? Was the impact of the lockdowns any different than in 2020?

A: Overall, the business scenario looks positive now. Since the second wave, business activity has improved and is now in a much better state. After the lockdowns in mid-2021, positive momentum continued even up to Diwali (early-November). Since then, the markets have slowed a bit, but that's temporary; it hasn't impacted business much. Though the euphoria is not at the same level as it was before Diwali, overall the mood is better.

During the second wave, unlike in 2020, there wasn't a complete lockdown. So plants were rolling and so were sales. While we didn't witness pent-up demand after the lockdowns were lifted in mid-2021, sales were better.

Q: After the first wave, you expected a slow recovery in the B2B segment, while the B2C business bounced back. Has the scenario changed?

A: After the lockdowns in 2020, we witnessed a good recovery in the B2C segment. As people were spending more time inside, they refurbished their homes and bought better appliances, which aided demand recovery. The initial pent-up demand held on because demand for residential real estate jumped. But in 2021, we observed a recovery in the B2B segment too. Government spending has improved, [the] capex cycle has come back and

real estate, which is the B2B segment for us, is recording further growth. Since the second wave, the recovery in the B2B segment has been better... We are witnessing better demand in the B2B segment after a very long time. There are three key factors [for this]: First, the real estate market has bounced back, which did not happen probably in the past 10 years. Second, as consumer demand bounced back in 2020, capital expenditure began taking place. And finally, increase in government spending, especially in large-scale infrastructure projects. All these helped in the B2B demand recovery.

Q: How is inflation impacting the business and the overall consumption pattern?

A: I think inflation is too high, which can affect demand in the medium term but generally things are in better shape than earlier. There is tremendous pressure—at least in our industry—due to a steep rise in the prices of key raw materials. Commodities like copper, aluminium, steel and plastics, apart from electronics items, have got dearer. As crude prices surged, the cost of plastics went up; electronics prices shot up due to [a] shortage. Due to huge demand uptick post-Covid-19 and excessive supply of money, prices of key metals went up. That has necessitated price increases.

This kind of inflation leads to [a] slowdown in demand as consumers tend to postpone purchases. However, the market is still growing. It indicates that

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there is a strong recovery—both in the real estate sector and also in the capex cycle. While recovery in the real estate sector is visible, the capex cycle has started to turn around. So, I think, if... let's say in the medium term, raw material prices stabilise and/or come down... then there is a robust demand cycle waiting. I am banking on this revival because in spite of prices

going up significantly, demand is still holding up. This keeps me optimistic.

Q: Given the high levels of inflation all around putting stress on household budgets, are margins under threat?

A: The cost of raw materials is at an all-time high. And yes, you can't expect the consumers to absorb the entire hike in input costs... There is a balance that we have to strike between growth and margins. I think it is a great opportunity for the country to stay on the path of growth. So, safeguarding margins through higher efficiency would be important. By the time [the] pressure eases, margins will improve. But yes, in the short term, margins will be under pressure.

Q: Don't you think that the unprecedented levels of inflation may also impact overall demand and, thus, slow the growth momentum?

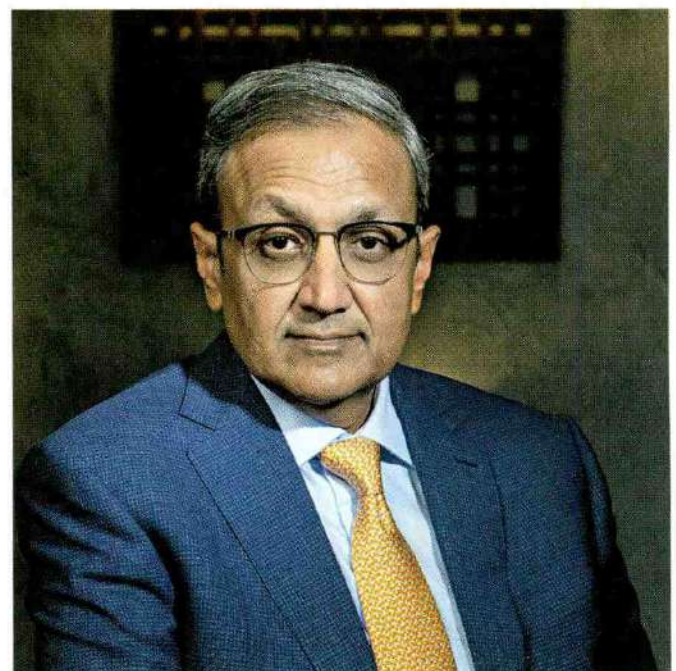
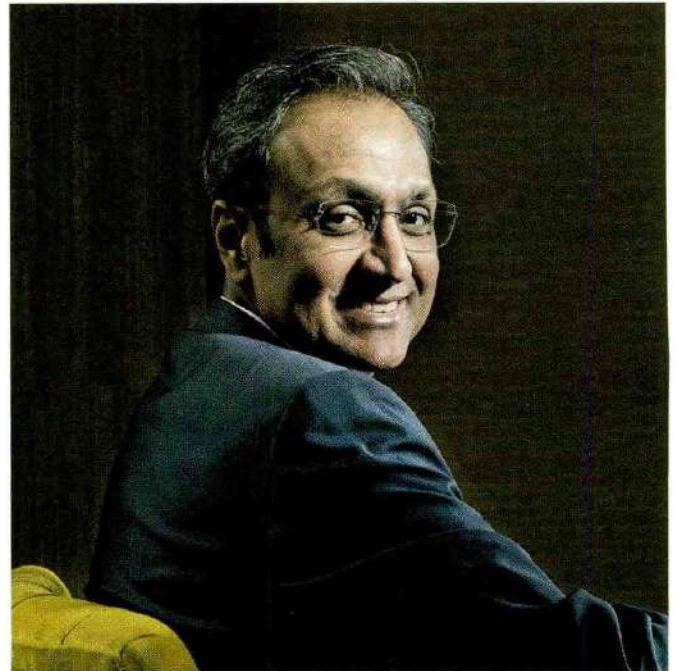
A: Hopefully not, because we have witnessed some signs of cooling off in raw material prices... I hope that trend will continue and this [inflation] is temporary.

Q: While large enterprises and the overall organised sector is growing at a relatively decent pace after the pandemic, many households have been tackling crises like unemployment and lower income levels....

A: Yes, the organised sector is doing well. Income levels for people in the organised sector are getting better and thus helping the demand. Unfortunately, what has been affected the most is the unorganised sector. It will take more time to make a comeback. Further, players in certain industries like entertainment or hospitality—organised or unorganised—continue to be impacted. This is taking a toll on employment and thus, on demand. Hopefully, with the pandemic now slowing, it should recover within the next two years.

Q: What factors could drive the industry in the long run?

A: In the past few years, the digital wave that has taken place, especially in the rural areas, is changing the landscape. There are a few important aspects of this. First, the products are becoming more digitised and connected. We are getting closer to the consumer. This trend will continue for the next 10 years, when more chips and IT components will be incorporated into consumer products. Second, the consumer is also coming closer to the brands due to digital commerce. Some 5-10 years ago, the whole scheme of things—like for the FMCG industry—was dependent on distribution penetration. Today, the horizon—whether through traditional distribution



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channels or e-commerce—has expanded. The key factor is to make sure that the customer is interacting with the brand and you are able to service the customers' needs in a much faster and convenient way. So, technology, availability and omni-presence are going to be the driving forces.

Local manufacturing [too] has gained significant importance. Ten years ago, the industry players would have been happy to visit China, source products in bulk and [sell them under] their brand... Now, [domestic] manufacturing plays a bigger role... The government's constant push for 'Make in India' and 'Aatmanirbhar Bharat' has led to this change. We are seeing more investments going into manufacturing, at least in our industry. And [then there] is innovation. Overall, these are the pillars that are set to drive growth for the next 5-10 years.

Q: How has the business environment changed over the past 5-10 years? Has it become more competitive?

A: It's changing at a much faster pace and companies which are able to transform and are nimble are going to be successful. For example, the way to reach the consumer: five years ago, traditional media like television and print were mainstream. It was very obvious; you could have applied the things that you learnt at B-school. But now things are changing on a daily basis. Almost 35-40 per cent of the media spends are now on digital. Since things are changing rapidly, the business is becoming more tough and complicated. Long term plans, long-term visions... those are becoming passé. Now you are constantly on the move.

Q: What is the long-term impact of the pandemic, apart from accelerating digitisation?

A: Apart from digitisation, the pandemic has changed the consumer in many ways. The consumer is looking for more convenience and localisation. The consumer was always the king, but post-pandemic, their stature has grown further. Now companies need to be directly connected with the consumer. Just look at the television industry. When DTH (direct-to-home) service came, it weeded out the conventional TV ecosystem. Now they are also under stress. OTT ser-

ON INFLATION

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ON INVESTMENT PLANS

Every year, we invest ₹400-500 crore on an average to enhance manufacturing. Additionally, we are investing in R&D. All products we manufacture are developed in-house.

ON FACTORS THAT COULD DRIVE THE INDUSTRY

Technology, availability and omni-presence... [then] local manufacturing and innovation.

ON THE CABLES BUSINESS

If 20 years ago the market was 90 per cent unorganised, it has come down to 40-50 per cent. Consumers want to buy from trusted brands so that they don't have to bother about the quality of the product.

vices are now becoming mainstream, where people can choose what content they want to consume and when. So, consumer behaviour has changed as they are now demanding much more. And I think that is going to drive transformation in the coming days for our industry, the products that you offer and the mode of reaching out. The pandemic has accelerated this process.

Q: What are your investment plans? Will you avail the PLI scheme?

A: Havells has always invested heavily to build manufacturing capability. Today, 95 per cent of what we sell is made locally. When we acquired Lloyd [in 2017], we set up one of the most integrated air conditioner (AC) facilities here... Every year, we invest ₹400-500 crore on an average to enhance manufacturing, which is by far of global standards. Additionally, we are investing in R&D. All the products we manufacture... are developed in-house.

We have applied under the PLI scheme to manufacture AC components. We've invested some ₹400 crore in setting up a facility for ACs. Now we are pushing for further backward integration towards components.

Q: Soon after you took over, Havells sold off its international business. Why was that?

A: When we acquired the Sylvania lighting business, it was a good way of getting into the global markets. But by 2014 we realised that the developed markets in Europe and the Americas, especially after the global financial crisis, were sluggish, while India presented a good growth opportunity. So we decided to divest the business and move out of the developed markets—for two reasons: One, those were very slow-growing markets and two, the entire lighting industry was going through a massive transition—from traditional to LED technology. And we had a very high-cost manufacturing setup there. We had already put in a lot of time and effort but hadn't seen enough growth.

Thus, it was pragmatic to focus on the then growing market, that is India, and look at other adjacencies—where we could reach the consumers who were closer—much faster and in a much better way. That was the change in strategy.

Q: What is the strategy now? How much is the share of the overseas business?

A: When we had Sylvania, about 40 per cent of our business came from the international markets. Now it is about 5 per cent. In the past three years, the focus has changed to recalibrating the efforts in international markets and in expanding our brands into markets like the Middle-East and Africa. Further, expanding the distribution and product range in these markets is in the works. By 2025, we want to grow the share of overseas business to 10 per cent.

Q: Letting go of 40 per cent of your revenues at that time was a bold step...

A: Yeah, sometimes you have to take those big decisions which eventually become the turning point for the company. What happened was that the entire focus shifted.... all the dollars that were needed to be spent on innovation, branding, distribution, R&D, manufacturing, everything was diverted to one geography. Ever since then, we've actually doubled our size, in spite of sacrificing 40 per cent of our business.

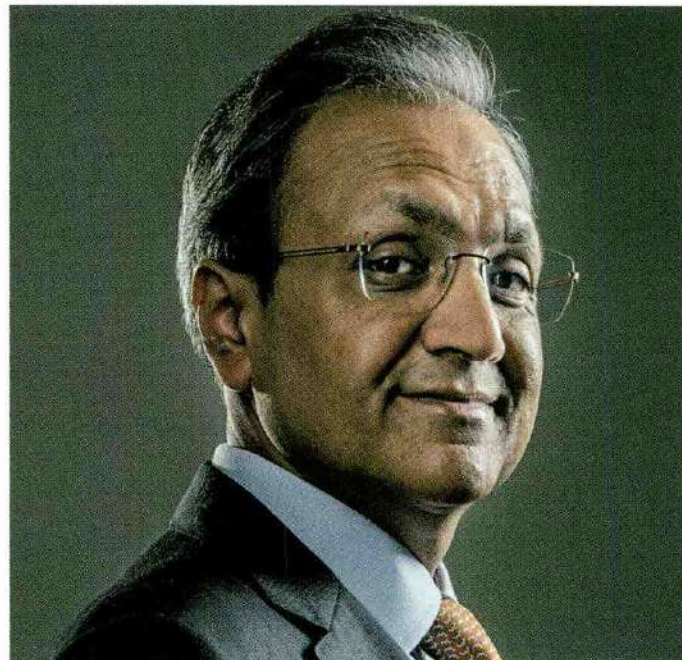
Q: Apart from the divestment and shift in focus towards the domestic market, what was the broad change in strategy you brought in?

A: A lot many things like innovation, market share expansion and premiumisation were in continuation. The plan was to make the company future-ready and invite new talent. Using innovation is a sure-shot bet to acquire new customers. So, we intensified our efforts in R&D and digitisation.

Q: What will be your winning strategy in the highly competitive durables market in India?

A: The penetration level of home appliances in India is very low. With the ongoing electrification of villages, there lies a huge opportunity for growth. Players which have the capability to continue investing in the market will survive. Apart from long-term investments in brand-building and distribution, innovation will be our key differentiator. In the next three years, we will go deeper into the market. The demand for electronics and appliances is to get a boost in the rural market. Our goal is to ensure the presence and availability of our products.

We cater to a large gamut of customers, including B2B. In the past five years, we have made our presence felt in every channel. In FY23, we will cover 2,800 additional towns with population of 10,000-50,000. Then, we will add product categories. Currently, we sell only certain electrical products in the smaller markets and not white goods. At present, primarily the FMCG companies have an organised distribution channel in these markets. But we are building our own channel



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and once that's stable, we will keep adding products. Our aim is to be one of the top three players in every category we are present in.

Q: The cables business is your largest revenue generator. But the market is dominated by unorganised players. How do you stay relevant?

A: Yes, the market is highly unorganised. But informed buyers such as large industrial clients and commercial real estate players only buy from the prominent brands. The awareness levels among retail consumers are growing fast. If 20 years ago the market was 90 per cent unorganised, now that share has come down to 40-50 per cent. Consumers now want to buy from trusted brands so that they don't have to bother about the quality of the product. This is driving the share of the organised segment and will help boost our growth. **BT**