

COVER FEATURE

38

Defending the rupee

The new RBI governor Raghuram Rajan comes with the best credentials. But will he be able to deliver?



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FOCUS



Real issues

The real estate sector is confronted with multiple challenges

52

CORPORATE REPORTS

KHAITAN

The exponential growth of Khaitans' Mumbai office places it on the national legal scene

56



HELIOS & MATHESON INFOTECH

The Chennai-based HMITL is looking at a new service line – Big Data

62

RACOLD THERMO

Racold Thermo claims to be India's leading company in the water heater market

66



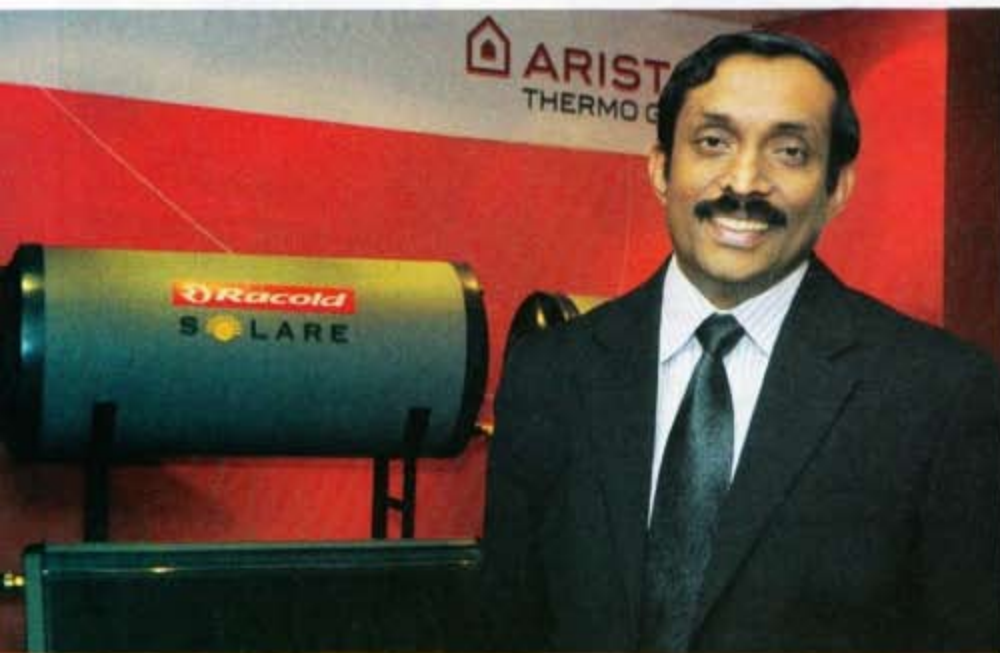
SHREYAS

Shreyas becomes the first feeder service to link all key Indian ports for containerised trade

68



Boiling over



Racold Thermo, a market leader in the water heater industry, is poised to grow exponentially

Most people take a warm bath in the morning for granted, but have you ever wondered who is responsible for this amenity? Racold Thermo, headquartered at Chakan, in Maharashtra near Pune, claims to be India's leading company in the water heater market. In 1997, the company was acquired by the \$1.9 billion Italian multinational conglomerate Ariston Thermo. Globally, Ariston focuses on water and space heating products. At the time of acquisition, the size of the company was ₹15 crore.

"The penetration of water heaters in India is very low," says Mathew Job, 44, managing director, Racold Thermo. Job, who has an undergraduate degree in electrical and electronics engineering, and a postgraduate degree in management from IIM-Calcutta, was appointed to his position in February 2012. "Less than 10 per cent of homes have water heaters," he explains. However, with a growing middle class, the water heater is slowly going from being a luxury to a necessity. Governments of multiple states

have made it mandatory for realtors and developers to provide water heaters. "Our estimate is that penetration has expanded from 6 per cent to 10 per cent in the last five years," he remarks, attributing this increase to the recent boom in construction.

Racold's product portfolio includes three segments: electric, solar, and gas water heaters. "We are probably the only large national player who are present in all three segments," speculates Job, adding that 99 per cent of their sales are domestic. The majority of Racold's revenue comes from the sale of its electric water heaters. "Last year, our business size was ₹300 crore," indicates Job of Racold's turnover. The revenue from electric, solar, and gas water heaters was 75 per cent, 25 per cent, and 5 per cent respectively.

"We don't feel the gas market is going to grow. Bottled gas is not safe," he states, adding that the company does not encourage the use of their products with it. While he allows that there are certain areas of the country where there is a better market for the

products given the presence of piped natural gas (PNG), "the PNG network is not progressing" quickly enough, he says. The removal of its subsidy has led to increasing gas prices over the last few years, compelling consumers to move from purchasing gas water heaters to electric water heaters. Still, some of the company's primary markets for gas water heaters include Gujarat, Maharashtra, Karnataka, Uttar Pradesh, Punjab, and Delhi.

While the gas segment is, at least according to Job, stagnating, he says that the solar segment is growing by almost 10-12 per cent per annum, surpassing even the popular electric segment, whose annual growth rate Job speculates is 7-8 per cent. "A few years ago, solar power wasn't growing," he admits. However, he explicates that the rise in the cost of electricity by 3-4 per cent, coupled with the removal of subsidy on natural gas, has led to the eventual growth of the solar category. The Ministry of New and Renewable Energy (MNRE) has offered a 30 per cent subsidy for a one-kilowatt rooftop solar power system, which has also contributed to the expansion of the category.

Any solar-powered equipment requires significant investment when compared with electrical and/or gas alternatives. However, with the evolution of technology, the use of solar power has become slightly cheaper over the years. In the case of Racold, Job says that the cost of a solar-powered water heater is around ₹25,000; this means that a consumer would get a return on his purchase within two years rather than 4-5 years, as has often been the case for other solar-powered heaters, according to him. "We've been doubling our business every year for the solar segment," he says, adding, "This year we will exceed the ₹125-crore mark".

However, despite of the reduced prices and increased efficiency, solar water heaters still remain a premium segment – the infrastructure required to install a solar water heater is far more complex as compared to an electric or gas water heater. Solar water heaters require panels to be installed on the roofs of buildings, which must then be connected to

the water heaters indoors. "We need to reach the consumer as early as possible," says Job, explaining that the water heater "requires different kind of plumbing" compared to the system required for electric or gas heaters. Most customers of solar water heaters are consumers of considerable means, residents of their own houses, or villas, rather than those who live in apartment buildings.

Given the fact that solar-powered water heaters require specialised plumbing systems, Racold's business model for selling these differs from that of the sales for electric and gas water heaters. Most consumers who want to purchase an electric heater would just go to a retail store; Racold prefers to "keep the product available at arm's length," says Job. The company has 15 warehouses across the country, and its electric water heaters are available in 9,000-10,000 stores, "typically electrical appliance and sanitation stores". Racold also has 175 service franchises that provide installation guidance, and a network of 500 dealers of solar heaters. They function almost as entrepreneurs and are engaged in door-to-door sales. Overall, Racold has two primary segments of business; its retail and dealer network reaches consumers directly, whether they want to purchase electric, gas, or solar water heaters. Its institutional business, where the company provides water heaters to developers and builders who wish to provide water heaters as a built-in amenity at their projects. Seventy-five per cent of sales of electric water heaters are to individual homes, while the remaining are to builders and 60-65 per cent of solar heater sales are to individual homes, while 30-35 per cent are to builders. The two biggest markets for Racold's solar water heaters are Karnataka and Maharashtra.

Biggest growth market

Racold has a 22-acre factory located in Chakan, which has a capacity of five lakh units. The company's staff strength, including workers at the factory, stands at 500. Racold has developed two unique technologies, Super Polymer High Performance (SPHP) and Titec, to combat corrosion



Betting on the solar segment growth

of heaters by hard water, and ensure longer lives for their products.

While Racold manufactures consumer-oriented products, the water heater category is not famous for its marketing campaigns. "Traditionally whatever communication has happened is based on functional elements," says Prashant Dhar, head, marketing, Racold, of the usual marketing strategy employed by water heater or electrical appliance companies. It has been "basically talking about product features". Instead of continuing with this trend, he explains that Racold, which already had a "high trade acceptance" and the respect of consumers, decided to take its brand "to the next level". The company engaged advertising firm BBDO to conduct a lifestyle study that revealed that most Indian consumers consider a morning bath as one their day's key rituals, one that they cannot do without. "If you ask me it was a very basic insight but a very relative insight," he says. In light of this, Racold created their 'reborn every day with hot water' platform; the advertisements included professionals such as a teacher and a cricket umpire, who have fairly mundane jobs that are often overlooked, and described how the power of a hot bath enabled them to keep doing the same thing day after day. "Bathing has a key emotional benefit, and key experiential benefit to the consumer," he opines. Racold also has an Android app available as a free

download, which can help users track their nearest service centres, and an active Facebook page.

"Most of our competitors are multi-category players and are much bigger in terms of overall turnover," states Job. "One of the challenges we're trying to address is how to be a single category player" in an industry that includes competitors that are multi-category, whose turnovers notch at thousands of crores. He identifies some of the company's competitors as other water heater companies such as Venus and A O Smith, as well as multi-segment players such as Crompton Greaves, Bajaj Electricals, and Havells. The solar power category is more fragmented, but Racold's competitors include Tata Power Solar Systems, and Emmvee Solar. V-Guard, a multi-segment electrical appliance company also competes with Racold according to its managing director, Mithun Chittilappilly. "V-Guard is stronger in the south Indian market," he says, adding of Racold that "we do consider them a market leader" in the electric water heater segment. However, given that V-Guard is a multi-segment company, water heaters supply only 8 per cent of their revenue: ₹140 crore out of last year's total turnover of ₹1,300 crore. Chittilappilly believes that the water heater market is definitely growing, and feels that the solar water category, in particular, is growing at 20-25 per cent given its current stage of nascency. He speculates that it could overtake the other segments within the next 5-6 years.

Last year, Racold grew 40 per cent, and Job says the company aims to keep the rate above 30 per cent this year, and reach a turnover of ₹500 crore by 2014. Profits are in the double digits, but the company declined to reveal an exact figure. "For Ariston globally, India is the biggest solar business," Job says, adding that the country is also one of the company's primary six markets. Racold has won the Energy Conservation Award from the Bureau of Energy Efficiency in 2010, 2011, and 2012. The MNRE has also named it the Best Performed Manufacturer of Solar Water Heating systems in 2011-12.