

## RESULTS

## REVIEW

## Havells India Ltd.

Domestic impacted by cables, Sylvania continues to disappoint **HOLD**

## Analyst

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Nifty: 5,598; Sensex: 18,431

CMP	Rs569
Target Price	Rs554
Potential Upside/Downside	(3)%

## Key Stock Data

Sector	Capital Goods
Bloomberg / Reuters	HAVL IN / HVEL.BO
Shares o/s (mn)	125
Market cap. (Rs mn)	71,125
Market cap. (US\$ mn)	1,318
3-m daily average vol.	31,717

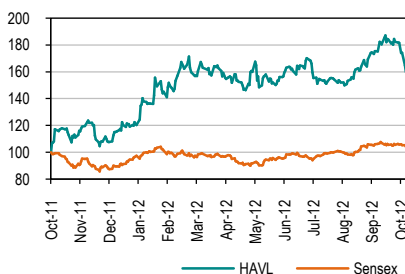
## Price Performance

52-week high/low	Rs672/352		
	-1m	-3m	-12m
Absolute (%)	(9)	3	60
Rel to Sensex (%)	(7)	(5)	56

## Shareholding Pattern (%)

Promoters	61.6
FII/IRIs/OCBs/GDR	30.8
MFs/Banks/FIs	1.0
Non Promoter Corporate	1.2
Public & Others	5.4

## Relative to Sensex



Source: Capitaline

## Summary

Havells India's standalone revenue increased ~13% YoY, significantly lower than estimate due to de-growth in industrial cable segment. EBITDA margin declined ~120 bps YoY to 12.4%, marginally lower than estimate. APAT de-grew by ~8% YoY, significantly lower than estimate due to lower revenues and OPM decline. Sylvania, reported revenue decline of ~5% YoY in Euro terms whereas OPM declined by ~440 bps YoY to 3.3%. Management has maintained its India guidance but yet again cut its OPM estimates for Sylvania to ~6% (earlier 7%-7.5%). Maintain HOLD with a price target of Rs554.

## Result Highlights

- Muted revenue growth due to subdued performance of industrial cables**

Havells India (standalone) revenue increased ~13% YoY. Electrical consumer durable grew ~33% YoY (fans up~21% YoY, domestic appliances up ~100% YoY to Rs360 mn), Lighting & Fixtures grew 14% YoY, switchgears 15% YoY and cables 6% YoY. The growth in cables business was lower as the industrial cable segment de-grew by 16% YoY due to lower demand. However, domestic cable grew at 42% YoY.

- Domestic OPM declined by ~120bps YoY to ~12.4%, marginally lower than estimate**

Domestic OPM declined by ~120bps YoY to ~12.4%. The decrease in OPM is due to 1) lower OPM in switchgear business as the company took one-time write off of ~Rs 33 mn on account of custom duty 2) lower margins in appliances segment as entire rupee depreciation could not be passed 3) some additional dealer incentive schemes launched earlier.

- Sylvania OPM shrank by ~440 bps YoY to ~3.3%**

Sylvania's revenue declined by ~5% YoY to EUR 110mn. Sylvania's OPM stood at 3.3% (down by ~440bps/210 bps YoY/QoQ). OPM in Europe shrank by ~610 bps/340 bps YoY/QoQ to ~0.8% and in Americas by ~260 bpsYoY to ~7.7%. The decline in margins in Europe is due to lower sales and also due to lower realizations owing to fall in raw material prices, leading to postponement of off take by dealers. Sylvania reported APAT de-growth of ~140% YoY. During the quarter, Sylvania received one-time gain of Euro 26.5 mn from settlement of dispute with Osram Sylvania.

- APAT de-growth of ~8% YoY, lower than expected**

Havells India standalone APAT de-grew by ~8% YoY and was lower than expected due to lower revenue growth and decline in OPM.

- India's guidance maintained but Sylvania outlook yet again cut**

Havells management has maintained revenue guidance of 15-20% growth in Indian operations and OPM of 12-13%. However, for Sylvania it has reduced its OPM guidance to 6% (earlier 7-7.5%) for FY13. This is the second consecutive cut in OPM guidance by the management in FY13.

- Cutting PAT estimates for FY13/14 by 15%/7%**

Due to disappointing performance of Sylvania on OPM and management commentary on future guidance, our OPM estimates stand revised downwards to 6%/7% (from 7%/7.7%) in FY13/14. Even to meet its guidance of 6% for FY13, in H2FY13 the management has to achieve OPM of ~7.6% (in 1HFY13 OPM was ~4.3%), which would be challenging. We are cutting our PAT estimates for FY13/14 by 15%/7%.

- Outlook and Valuation**

Havells results were below estimates. We continue to remain positive on the future prospects of the company in India but believe that Sylvania would remain a drag in near term. Maintain **HOLD** and DCF-based target price of Rs 554 (after adjusting for one time cash settlement from Osram Sylvania).

## Table: Financial snapshot

(Rs mn)

Year	Revenue	EBITDA	EBITDA (%)	Adj. PAT	EPS (Rs)	P/E (x)	EV/EBITDA (x)	RoE (%)	RoCE (%)
FY11	56,126	5,571	9.9	2,998	24.0	23.7	14.7	56.9	27.3
FY12	65,182	6,573	10.1	3,699	29.6	19.2	12.3	46.0	26.6
FY13E	72,385	7,176	9.9	3,948	31.6	18.0	11.2	36.0	25.9
FY14E	77,596	8,274	10.7	4,886	39.2	14.5	9.3	34.7	27.8

Source: Company; IDBI Capital Research

Table: Quarterly snapshot (Standalone)

(Rs mn)

Year-end: March	Q2FY12	Q2FY13	YoY (%)	H1FY12	H1FY13	YoY (%)
<b>Net Sales/income from ops.</b>	<b>8,441.8</b>	<b>9,581.2</b>	<b>13</b>	<b>16,727.6</b>	<b>19,852.4</b>	
Other Operating income	62.1	61.0	(2)	25.9	117.8	
<b>Total Income</b>	<b>8,503.9</b>	<b>9,642.2</b>	<b>13</b>	<b>16,753.5</b>	<b>19,970.2</b>	<b>19</b>
Inc/Dec in Stock trade	(237.4)	5,362.9		(1,064.2)	10,981.3	
Consumption of raw materials	4,744.2	(515.3)		9,370.1	(520.9)	
Total raw material consumed	4,506.8	4,847.6	8	8,305.9	10,460.4	26
(% of revenues)	53.0	50.3		49.6	52.4	
Purchase of Goods traded	873.1	1,040.4	19	1,770.9	1,954.4	10
(% of revenues)	10.3	10.8		10.6	9.8	
Staff costs	358.0	433.2	21	695.2	864.9	24
(% of revenues)	4.2	4.5		4.1	4.3	
other expenditure	1,612.5	2,129.4	32	3,876.7	4,217.5	9
(% of revenues)	19.0	22.1		23.1	21.1	
<b>EBITDA</b>	<b>1,153.5</b>	<b>1,191.6</b>	<b>3</b>	<b>2,104.8</b>	<b>2,473.0</b>	<b>17</b>
<i>EBITDA margins (%)</i>	13.6	12.4		12.6	12.4	
Interest	78.7	99.4	26	155.2	201.4	30
Depreciation	91.1	158.5	74	177.2	276.6	56
Other income	15.9	19.5	23	3.2	47.0	1,369
PBT	999.6	953.2	(5)	1,775.6	2,042.0	15
Tax	165.8	184.7	11	312.7	388.2	24
<i>Tax rate (%)</i>	16.6	19.4		17.6	19.0	
<b>Adj PAT</b>	<b>833.8</b>	<b>768.5</b>	<b>(8)</b>	<b>1,462.9</b>	<b>1,653.8</b>	<b>13</b>
Forex loss/(gain)	131.4	(101.2)	(177)	112.6	(16.70)	(115)
Extra-ordinaries						
<b>Reported PAT</b>	<b>702.4</b>	<b>869.7</b>	<b>24</b>	<b>1,350.3</b>	<b>1,670.5</b>	<b>24</b>

Source: Company; IDBI Capital Research

Table: Sylvania Results

(Euro mn)

Year-end: March	Q2FY12	Q2FY13	YoY (%)	H1FY12	H1FY13	YoY (%)
<b>Net Revenues</b>	<b>115.5</b>	<b>109.6</b>	<b>(5)</b>	<b>222.2</b>	<b>217.5</b>	<b>(2)</b>
<b>EBIDTA</b>	<b>8.9</b>	<b>3.6</b>	<b>(60)</b>	<b>16.7</b>	<b>9.4</b>	<b>(44)</b>
<i>% of sales</i>	7.7	3.3		7.5	4.3	
Depreciation	1.9	1.9	0	3.8	3.7	(3)
Interest	3.1	3.0	(3)	6.0	9.3	55
Other income	1.5	-	(100)	1.6	3.5	119
<b>PBT</b>	<b>5.4</b>	<b>(1.3)</b>	<b>(124)</b>	<b>8.5</b>	<b>(0.1)</b>	<b>(101)</b>
Tax	1.1	0.4	(64)	2.0	1.3	(35)
<i>Effective tax rate (%)</i>	20	(31)		24	(1,300)	
<b>APAT</b>	<b>4.3</b>	<b>(1.7)</b>	<b>(140)</b>	<b>6.5</b>	<b>(1.4)</b>	<b>(122)</b>
Forex (loss)/gain	(2.6)	0.2	(108)	(2.4)	(1.5)	
Extraordinary items		24.3			24.3	
<b>RPAT</b>	<b>1.7</b>	<b>22.8</b>	<b>1,241</b>	<b>4.1</b>	<b>21.4</b>	<b>422</b>

Source: Company; IDBI Capital Research

**Table: Segment revenues (Standalone)** (Rs mn)

Year-end: March	Q2FY12	Q2FY13	YoY (%)	H1FY12	H1FY13	YoY (%)
<b>Net Segment revenue (Incl. other inc.)</b>						
a. Switchgears	2,218	2,551	15	4,325	4,966	15
b. Cables & wires	3,692	3,907	6	7,256	8,220	13
c. Lighting & Fixtures	1,374	1,561	14	2,584	3,059	18
d. Electrical Consumer Durables	1,220	1,623	33	2,562	3,725	45
e. Others						
<b>Total</b>	<b>8,504</b>	<b>9,642</b>	<b>13</b>	<b>16,728</b>	<b>19,970</b>	<b>19</b>
<b>Segmental PBIT</b>						
a. Switchgears	804	847	5	1,577	1,726	9
b. Cables & wires	314	423	35	598	847	42
c. Lighting & Fixtures	318	351	10	603	696	15
d. Electrical Consumer Durables	327	367	12	736	899	22
e. Others	-					
<b>Total</b>	<b>1,764</b>	<b>1,988</b>	<b>13</b>	<b>3,514</b>	<b>4,169</b>	<b>19</b>
Less Interest	79	99	26	173	201	17
Other unallocable Expenses	817	834	2	1,679	1,909	14
<b>PBT</b>	<b>868</b>	<b>1,054</b>	<b>21</b>	<b>1,663</b>	<b>2,059</b>	<b>24</b>
<i>PBT margins (%)</i>	<i>10.2</i>	<i>10.9</i>		<i>9.9</i>	<i>10.3</i>	
<b>Segmental EBIT (%)</b>						
a. Switchgears	36	33		36	35	
b. Cables & wires	9	11		8	10	
c. Lighting & Fixtures	23	22		23	23	
d. Electrical Consumer Durables	27	23		29	24	

Source: Company; IDBI Capital Research

**Table: Change in Estimates** (Rs mn)

Particulars	Earlier		New	
	FY13E	FY14E	FY13E	FY14E
Revenue	72,385	77,596	72,385	77,596
EBIDTA	7,718	8,274	7,176	8,274
PAT	4,675	5,239	3,948	4,886

Source: Company; IDBI Capital Research

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY11	FY12	FY13E	FY14E
<b>Net sales</b>	<b>56,126</b>	<b>65,182</b>	<b>72,385</b>	<b>77,596</b>
Growth (%)	3.3	16.1	11.1	7.2
Operating expenses	(50,556)	(58,609)	(65,209)	(69,322)
<b>EBITDA</b>	<b>5,571</b>	<b>6,573</b>	<b>7,176</b>	<b>8,274</b>
Growth (%)	72.9	18.0	9.2	15.3
Depreciation	(804)	(949)	(1,098)	(1,145)
<b>EBIT</b>	<b>4,766</b>	<b>5,625</b>	<b>6,078</b>	<b>7,129</b>
Interest paid	(902)	(1,281)	(1,316)	(1,265)
Other income	237	414	300	400
<b>Pre-tax profit</b>	<b>4,102</b>	<b>4,757</b>	<b>5,062</b>	<b>6,264</b>
Tax	(1,103)	(1,058)	(1,114)	(1,378)
Effective tax rate (%)	26.9	22.2	22.0	22.0
<b>Adj Net profit</b>	<b>2,998</b>	<b>3,699</b>	<b>3,948</b>	<b>4,886</b>
Growth (%)	330.6	23.4	6.7	23.8
Shares o/s (mn nos)	125	125	125	125

### Balance Sheet

(Rs mn)

Year-end: March	FY11	FY12	FY13E	FY14E
Net fixed assets	13,558	14,571	14,673	14,814
Other non-current assets	-	-	-	-
<b>Current assets</b>	<b>22,077</b>	<b>27,183</b>	<b>30,798</b>	<b>34,762</b>
Inventories	10,860	13,678	16,002	17,154
Sundry Debtors	7,721	8,905	9,916	10,630
Cash and Bank	1,779	2,336	2,367	4,206
Loans and advances	1,718	2,264	2,514	2,773
<b>Total assets</b>	<b>35,635</b>	<b>41,754</b>	<b>45,471</b>	<b>49,577</b>
<b>Shareholders' funds</b>	<b>6,543</b>	<b>9,557</b>	<b>12,358</b>	<b>15,824</b>
Share capital	624	624	624	624
Reserves & surplus	5,914	8,932	11,733	15,199
<b>Total Debt</b>	<b>12,715</b>	<b>12,431</b>	<b>11,500</b>	<b>10,500</b>
Secured loans	5,815	4,386	4,000	3,500
Unsecured loans	6,899	8,045	7,500	7,000
Other liabilities	559	556	556	556
<b>Curr Liab &amp; prov</b>	<b>15,819</b>	<b>19,210</b>	<b>21,057</b>	<b>22,696</b>
Current liabilities	11,915	17,133	18,581	19,820
Provisions	3,904	2,076	2,476	2,876
<b>Total liabilities</b>	<b>29,092</b>	<b>32,197</b>	<b>33,113</b>	<b>33,752</b>
<b>Total equity &amp; liabilities</b>	<b>35,635</b>	<b>41,754</b>	<b>45,471</b>	<b>49,577</b>
<b>Book Value (Rs)</b>	<b>52</b>	<b>77</b>	<b>99</b>	<b>127</b>

Source: Company; IDBI Capital Research

### Cash Flow Statement

(Rs mn)

Year-end: March	FY11	FY12	FY13E	FY14E
Pre-tax profit	4,102	4,757	5,062	6,264
Depreciation	409	(1,206)	1,098	1,145
Tax paid	(1,103)	(1,058)	(1,114)	(1,378)
Chg in working capital	-	-	-	-
Other operating activities	-	-	-	-
<b>Cash flow from operations (a)</b>	<b>128</b>	<b>1,336</b>	<b>3,309</b>	<b>5,545</b>
Capital expenditure	(1,546)	193	(1,200)	(1,286)
Chg in investments	-	-	-	-
Other investing activities	-	-	-	-
<b>Cash flow from investing (b)</b>	<b>(1,546)</b>	<b>193</b>	<b>(1,200)</b>	<b>(1,286)</b>
Equity raised/(repaid)	312	-	-	-
Debt raised/(repaid)	2,051	(283)	(931)	(1,000)
Dividend (incl. tax)	(363)	(943)	(1,147)	(1,420)
Chg in minorities	4	(5)	-	-
Other financing activities	(288)	260	-	-
<b>Cash flow from financing (c)</b>	<b>1,717</b>	<b>(971)</b>	<b>(2,078)</b>	<b>(2,420)</b>
<b>Net chg in cash (a+b+c)</b>	<b>299</b>	<b>558</b>	<b>30</b>	<b>1,839</b>

### Financial Ratios

Year-end: March	FY11	FY12	FY13E	FY14E
Adj EPS (Rs)	24.0	29.6	31.6	39.2
Adj EPS growth (%)	330.6	23.4	6.7	23.8
EBITDA margin (%)	9.9	10.1	9.9	10.7
Pre-tax margin (%)	7.3	7.3	7.0	8.1
ROE (%)	56.9	46.0	36.0	34.7
ROCE (%)	27.3	26.6	25.9	27.8
<b>Turnover &amp; Leverage ratios (x)</b>				
Asset turnover (x)	1.7	1.7	1.7	1.6
Leverage factor (x)	6.3	4.8	4.0	3.4
Net margin (%)	5.3	5.7	5.5	6.3
Net Debt/Equity (x)	1.7	1.1	0.7	0.4
<b>Working Capital &amp; Liquidity ratios</b>				
Inventory days	71	77	81	81
Receivable days	50	50	50	50
Payable days	48	43	42	42

### Valuations

Year-end: March	FY11	FY12	FY13E	FY14E
PER (x)	23.7	19.2	18.0	14.5
Price / Book value (x)	10.9	7.4	5.7	4.5
PCE (x)	18.7	15.3	14.1	11.8
EV / Net sales (x)	1.5	1.2	1.1	1.0
EV / EBITDA (x)	14.7	12.3	11.2	9.3
Dividend Yield (%)	0.4	1.1	1.4	1.7



# Notes

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