

MANAGEMENT VISIT NOTE

Havells India Ltd.

Domestic on track, Sylvania remains subdued

HOLD

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Nifty: 5,880; Sensex: 19,317

CMP	Rs607
Target Price	Rs554
Potential Upside/Downside	(9)%

Key Stock Data

Sector	Capital Goods
Bloomberg / Reuters	HAVL IN / HVEL.BO
Shares o/s (mn)	125
Market cap. (Rs mn)	75,875
Market cap. (US\$ mn)	1,392
3-m daily average vol.	32,139

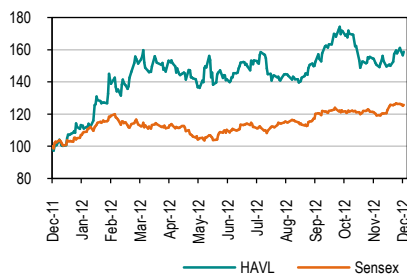
Price Performance

52-week high/low	Rs672/365		
	-1m	-3m	-12m
Absolute (%)	5	1	59
Rel to Sensex (%)	(0)	(3)	33

Shareholding Pattern (%)

Promoters	61.6
FII/IRIs/OCBs/GDR	30.8
MFs/Banks/FIs	1.1
Non Promoter Corporate	1.1
Public & Others	5.4

Relative to Sensex



Source: Capitaline

We attended the analyst meet/dealer meet/plant visit organized by the management of Havells India. Following are the key takeaways:

Havells India:

- The company is seeing increased traction in the appliance business and prior two months have been good in the festive season.
- The past two months average sales in appliance segment were Rs300 mn/month.
- Induction cooktop sales were high in the current quarter (and as per dealers the company faced a stock-out for this product during the season due to high demand).
- The company targets to do ~Rs5bn turnover from the appliance business over the next 3 years. Management says it is on target to achieve ~Rs2bn revenue from sale of appliance & water heaters in FY13.
- In the appliance business the company has tried to distinguish its product by launching better designs than what is available in the market
- The company plans to grow its product portfolio over the next few 3-5 years. One possible product addition indicated was Invertors.
- The company has entered the mass market piano switches under the brand REO over the past two months. As per dealers, the existing market for such switches is ~Rs10 bn with Anchor being a major player here with a market share of ~40%. The company hopes to garner a significant market share here over the next few years.
- Reo has seen a good response. It had sales of ~Rs50 mn/month since its launch at the beginning of this quarter.
- The management has capped the maximum royalty outgo at Rs400 mn (earlier 1% of revenue) for Havells India.
- Havells management has reiterated that it shall continue to grow at 15-20% going ahead in India business. Any addition of products shall result in higher growth.
- The company is trying to improve the operating margins in the Industrial cable by taking price hikes. The demand of industrial cables though has remained subdued.
- It is adding ~70-80 dealers every month as guided earlier. Most of the dealer addition is being done in Tier A, B and C towns.
- Havells management highlighted its focus on having a fast and reliable after sales service was distinguishing them from competition. Going ahead, it will increase focus here which would enable them to have better market share.
- The company is looking at giving at least 25% pay-out going ahead too.

Sylvania:

- As per the management Sylvania is going to see double digit OPM over the medium term. The company was however seemed unwilling to give a target time frame for achieving this.
- The management is looking at 7-8% revenue growth in Sylvania over the medium term
- Sylvania margins should increase to ~6% in current quarter.

Table: Financial snapshot

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	25.3	15.6	56.9	27.3
FY12	65,182	6,573	10.1	3,699	29.6	20.5	13.1	46.0	26.6
FY13E	72,385	7,176	9.9	3,948	31.6	19.2	11.8	36.0	25.9
FY14E	77,596	8,274	10.7	4,886	39.2	15.5	9.9	34.7	27.8

Source: Company; IDBI Capital Research

- The co has taken some price hike (3-4%) in Sylvania during this quarter which should enable margin expansion.
- The management was unwilling to commit that no more recourse to Havells India would be done for Sylvania debt going ahead.
- The company is looking at product expansion and acquisition for growth in Europe.
- Sylvania has seen some traction in demand and OPM over the past few months.
- The management is hopeful of seeing increased traction in Sylvania as lot of focus is being done. The management targets to get a similar ROI from this business as is the case in Havells India over the medium term.
- The company is looking at channel financing in Sylvania too, but as there are some regulatory approvals required in respective geographies it will take time to be implemented.

Dealers Interaction:

- The dealers present from NCR and Delhi region highlighted the fact that there was a pull for Havells brand which enabled easy sale of the products. As per them strong brand building, high quality and good after sale service resulted in the company gaining market share.
- The dealers highlighted that the company had transparent policies; dealer friendly policies, paid commission/incentives on time, gave easy access to the top management & thus it is a preferred supplier for them.
- The channel partners also highlighted that Havells India had taken various steps for after sales service which made them popular. (first company to start toll-free number for service request, has a call centre which works from 7AM-10PM, has service centers in 350 cities/towns and covers ~90% of the areas from where service requests originate).

Outlook and valuation

We like the business of Havells India and believe it has a strong franchise and a broad portfolio which shall hold it in good stead. However, the current valuations factor all the positives and there is little potential for upsides. We thus maintain **HOLD** on the stock with a target price of Rs554.

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY11	FY12	FY13E	FY14E
Net sales	56,126	65,182	72,385	77,596
Growth (%)	3.3	16.1	11.1	7.2
Operating expenses	(50,556)	(58,609)	(65,209)	(69,322)
EBITDA	5,571	6,573	7,176	8,274
Growth (%)	72.9	18.0	9.2	15.3
Depreciation	(804)	(949)	(1,098)	(1,145)
EBIT	4,766	5,625	6,078	7,129
Interest paid	(902)	(1,281)	(1,316)	(1,265)
Other income	237	414	300	400
Pre-tax profit	4,102	4,757	5,062	6,264
Tax	(1,103)	(1,058)	(1,114)	(1,378)
Effective tax rate (%)	26.9	22.2	22.0	22.0
Net profit	2,998	3,699	3,948	4,886
Adjusted net profit	2,998	3,699	3,948	4,886
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
Investments	-	-	-	-
Other non-curr assets	-	-	-	-
Current assets	22,077	27,183	30,798	34,762
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
Total assets	35,635	41,754	45,471	49,577
Shareholders' funds	6,543	9,557	12,358	15,824
Share capital	624	624	624	624
Reserves & surplus	5,914	8,932	11,733	15,199
Total Debt	12,715	12,431	11,500	10,500
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
Curr Liab & prov	15,819	19,210	21,057	22,696
Current liabilities	11,915	17,133	18,581	19,820
Provisions	3,904	2,076	2,476	2,876
Total liabilities	29,092	32,197	33,113	33,752
Total equity & liabilities	35,635	41,754	45,471	49,577
Book Value (Rs)	52	77	99	127

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	-	-	-	-
Cash flow from operations (a)	128	1,336	3,309	5,545
Capital expenditure	(1,546)	193	(1,200)	(1,286)
Chg in investments	-	-	-	-
Other investing activities	-	-	-	-
Cash flow from investing (b)	(1,546)	193	(1,200)	(1,286)
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	-	-
Cash flow from financing (c)	1,717	(971)	(2,078)	(2,420)
Net chg in cash (a+b+c)	299	558	30	1,839

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
Turnover & Leverage ratios (x)				
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
Working Capital & Liquidity ratios				
Inventory days	71	77	81	81
Receivable days	50	50	50	50
Payable days	48	43	42	42

Valuation

Year-end: March	FY11	FY12	FY13E	FY14E
PER (x)	25.3	20.5	19.2	15.5
Price / Book value (x)	11.6	7.9	6.1	4.8
PCE (x)	19.9	16.3	15.0	12.6
EV / Net sales (x)	1.5	1.3	1.2	1.1
EV / EBITDA (x)	15.6	13.1	11.8	9.9
Dividend Yield (%)	0.4	1.1	1.3	1.6



Notes

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Key to Ratings**Stocks:**

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto $\pm 5\%$; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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