



Havells India

BSE SENSEX 18,636	S&P CNX 5,666
Bloomberg Equity Shares (m)	HAVL IN 124.8
52-Week Range (INR)	672/352
1,6,12 Rel. Perf. (%)	-5/-2/57
M.Cap. (INR b)	73.2
M.Cap. (USD b)	1.4

CMP: INR587
Buy

Year End	Net Sales (INR m)	PAT* (INR m)	EPS* (INR)	EPS* Gr. (%)	P/E (X)	P/BV (X)	RoE (%)	RoCE (%)	EV/ Sales	EV/ EBITDA
3/11A	56,126	2,584	20.7	271.6	-	-	46.9	20.6	-	-
3/12A	65,182	4,252	34.1	64.6	17.2	7.7	38.7	23.6	0.9	8.9
3/13E	71,043	3,842	30.8	-9.6	19.1	5.9	38.5	27.3	1.1	9.3
3/14E	77,523	4,712	37.8	22.6	15.5	4.3	27.5	21.1	1.0	9.5

* Consolidated nos, pre exceptionals

- Operating performance a mixed bag:** Havells India (HAVL) reported mixed results for 2QFY13. While its standalone operating performance was ahead of expectations, Sylvania's performance was significantly below expectations. Standalone revenue grew 13% YoY (in line with our estimate), EBITDA grew 18% YoY (11% ahead of our estimate), while adjusted PAT grew 9% YoY to INR804m (in line with our estimate). Consolidated sales grew 7% YoY to INR17b while adjusted consolidated PAT declined 30% YoY to INR676m.
- Sylvania performance disappointing:** During 2QFY13 Sylvania reported adjusted net loss of EUR1.6m, first quarterly loss post the turnaround in FY11, led by 420bp YoY decline in EBITDA margin to 3.3%.
- Standalone EBITDA margin shrinks 44bp YoY:** EBITDA margin declined 44bp YoY to 12.4%, largely due to lower contribution margins in switchgear (down 306bp YoY) / consumer durables (down 423bp YoY) and increased advertisement cost at 3.6% of revenue (v/s 1.7% in 2QFY12). Contribution margins in the cables & wires business increased 230bp YoY to 10.8%, driven by shift in product mix towards wires.
- Management cuts guidance for Sylvania:** The management has again cut its FY13 EBITDA margin guidance for Sylvania to ~6% (v/s initial guidance of 8-9% as at the end of FY12; revised to 7% in 1QFY13). It also lowered its revenue growth guidance for Sylvania from 5% in EUR terms to flat revenue. For the standalone business, it kept its revenue growth guidance unchanged at 18-20% and guided EBITDA margin of 12.5-13.5% (v/s 13-13.5% earlier). We model standalone revenue growth for FY13 at 18% and EBITDA margin at 12.6%. For Sylvania, we model revenue decline of 1.3% and EBITDA margin at 5%.
- Valuation and view:** We have cut our consolidated earnings estimates by 1% / 9% for FY13/14 to factor in reduced margin expectations and macro volatility. Our revised EPS estimates are INR30.8 (up 4%) for FY13 and INR37.8 (up 23%) for FY14. The stock trades at 19x FY13E and 16x FY14E consolidated EPS. We maintain **Buy**.

Quarterly Performance (Standalone)

Y/E March	FY12				FY13		(INR Million)			
	1Q	2Q	3Q	4Q	1Q	2Q	FY12	FY13	MOSL Est. 2Q	Var.
Sales	8,235	8,504	8,982	10,485	10,328	9,642	36,220	42,743	9,796	-2%
Change (%)	19.4	28.2	29.8	24.2	25.4	13.4	25.4	18.0	15.0	
EBITDA	973	1,022	1,144	1,468	1,197	1,293	4,621	5,402	1,162	11%
Change (%)	8.7	37.1	39.6	46.8	44.1	18.0	29.1	16.9	6.1	
Adj EBITDA margin (%)	10.8	12.8	13.5	13.8	12.4	12.4	12.8	12.6	11.9	
Depreciation	86	91	104	166	118	159	447	599	120	32%
Interest	94	79	75	197	102	99	444	365	90	10%
Other Income	2	16	1	3	28	20	8	75	4	388%
PBT	795	868	967	1,108	1,004	1,054	3,738	4,513	956	10%
Tax	146.6	165.7	178.4	192.2	203.5	184.7	682.6	834.9	172.1	
Effective Tax Rate (%)	18.5	19.1	18.4	17.3	20.3	17.5	18.3	18.5	18.0	
Reported PAT	648	702	789	916	800	870	3,060	3,683	784	11%
Change (%)	21.5	21.0	29.1	34.4	23.5	23.8	26.4	20.3	11.6	
Adj PAT	566	741	830	1,022	880	804	3,056	3,678	784	3%
Change (%)	3.6	39.9	44.1	50.0	55.5	8.5	26.5	20.4	5.9	

E: MOSL Estimates

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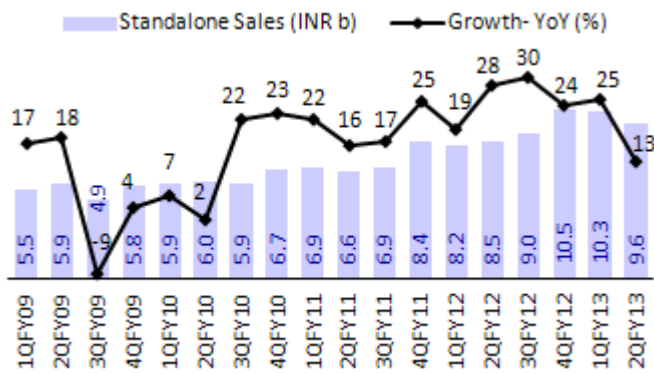
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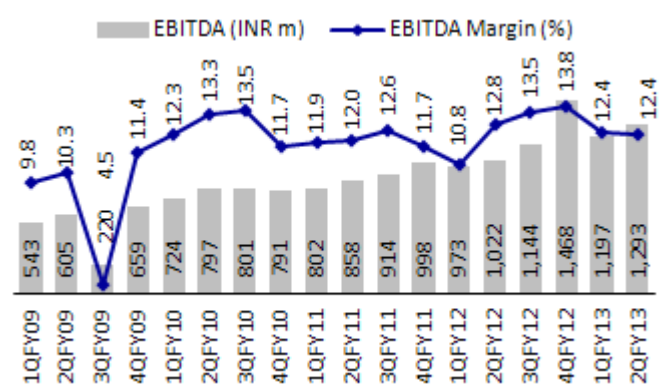
2QFY13 operating performance a mixed bag

- HAVL reported mixed results for 2QFY13. While its standalone operating performance was ahead of expectations, Sylvania's performance was significantly below expectations. Standalone revenue grew 13% YoY (in line with our estimate), EBITDA grew 18% YoY (11% ahead of our estimate), while adjusted PAT grew 9% YoY to INR804m (in line with our estimate).
- Consolidated sales grew 7% YoY to INR17b while adjusted consolidated PAT declined 30% YoY to INR676m, led by 420bp YoY decline in Sylvania's EBITDA margin to 3.3%. This is the lowest EBITDA margin posted by Sylvania since 1QFY11.

Robust growth in standalone sales across business segments



Standalone EBITDA margin remains healthy, given operating leverage



Source: Company, MOSL

Robust revenue growth across segments

- In the standalone business, while all segments posted robust growth, fans (+21% YoY) and wires (+42% YoY) stood out. The impressive growth in fans and wires followed the robust growth in 1QFY13 (+42% YoY in fans and +35% YoY in wires). Even the switchgear business reported robust revenue growth of 15% YoY both in 1Q and 2QFY13.
- We understand that these above industry growth rates are being supported by various measures like: cross-selling under different brands (e.g. Standard for wires / switches, Crabtree for MCBs, Havells for switches, etc), penetrating mass market segments in switches / wires / MCBs, new product launches in kitchen appliances, increasing geographical reach (particularly in East and West India), increased margins to trade, etc.
- We expect HAVL to report revenue growth of 18% in FY13 / 15% in FY14.

Standalone EBITDA margin declined 44bp YoY

In 2QFY13, EBITDA margin declined 44bp YoY to 12.4%, largely due to lower contribution margins in switchgear (down 306bp YoY) / consumer durables (down 423bp YoY) and increased advertisement costs at 3.6% of revenue (v/s 1.7% in 2QFY12). Contribution margins in cables & wires business expanded 230bp YoY to 10.8%, given the product mix change towards wires, and supported aggregate margins. The margin impact in switchgear / consumer durables can partly be recovered with the stabilization of new launches and currency movement (appliances have large import content); the margin increase in cables & wires appears structural. We expect HAVL to report EBITDA margin of 12.6% for FY13 (down 12bp) / 12.3% for FY14 (down 39bp).

Havells Standalone: Segmental Performance (INR m)

Y/E March	FY12				FY13		FY11	FY12	% YoY 2QFY13	% YoY FY12
	1Q	2Q	3Q	4Q	1Q	2Q				
Sales										
Switchgear	2,108	2,218	2,261	2,376	2,415	2,551	7,344	8,962	15	22
Cables & Wires	3,564	3,692	3,907	4,767	4,313	3,907	12,318	15,930	6	29
Consumer Durable	1,342	1,220	1,346	1,813	2,102	1,623	4,692	5,721	33	22
Lighting & Fixtures	1,210	1,374	1,448	1,511	1,498	1,561	4,447	5,544	14	25
Profit Contribution										
Switchgear	773	804	894	823	879	847	2,719	3,363	5	24
Cables & Wires	284	314	385	424	425	423	900	1,461	34	62
Consumer Durable	408	327	390	505	532	367	1,295	1,650	12	27
Lighting & Fixtures	285	318	379	376	345	351	820	1,393	11	70
Contribution Margin (%)										
Switchgear	37	36	40	35	36	33	37	38	-306bp	50bp
Cables & Wires	8	9	10	9	10	11	7	9	230bp	186bp
Consumer Durable	30	27	29	28	25	23	28	29	-423bp	125bp
Lighting & Fixtures	24	23	26	25	23	23	18	25	-63bp	669bp

Source: Company, MOSL

Sylvania reports losses

- The key disappointment in 2QFY13 has been adjusted net loss of EUR1.6m in Sylvania, which reported its first loss post the turnaround in FY11. Revenue declined 5.1% YoY, while adjusted EBITDA margin was just 3.3% (down 420bp YoY).
- Profitability in Europe has been hit by slower sales (down 13% YoY), given the macro volatility, poor operating leverage (as staff costs at ~38% are fixed in nature) and increased costs (currency fluctuations, as sourcing from China is in USD and sales in EUR).
- We expect margins to improve to 5% / 6.3% in 3Q/4QFY13, driven by operating leverage (3Q/4Q sales are usually higher due to festive season; 2Q sales are lower, given the holiday season).

Sylvania Financials (Euro m)

	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	Gr %
Revenues	105.4	111.7	118.8	113.4	106.7	115.5	113.9	112.0	107.9	109.6	(5.1)
EBITDA	5.7	6.6	10.2	13.3	7.8	8.6	7.8	9.5	5.8	3.6	(58.1)
Margin %	5.4	5.9	8.6	11.7	7.3	7.4	6.8	8.5	5.4	3.3	na
Depreciation	2.1	2.1	2.1	2.1	1.9	1.9	1.8	1.9	1.8	1.9	-
Interest	2.9	2.5	2.7	2.3	2.9	3.2	2.7	2.1	6.3	3.0	(6.3)
Other Income/ (loss)	0.1	0.4	(0.9)	1.3	0.3	1.9	0.6	1.3	3.5	-	nm
Forex gain/(loss)	-	0.1	0.1	-	-	-2.6	(0.9)	-	(1.7)	24.5	nm
PBT	0.8	2.5	4.6	10.2	3.3	2.8	3.0	6.8	(0.5)	23.2	nm
Tax	1.0	1.2	0.7	3.9	0.9	1.1	1.1	2.5	0.9	0.4	-
Reported PAT	(0.2)	1.3	3.9	6.3	2.4	1.7	1.9	4.3	(1.4)	22.8	nm
Less exceptional gain/(loss)	-	-	(4.2)	(3.0)	-	1.69	3.9	-	1.8	(24.4)	nm
Adj Net Profit	(0.2)	1.3	(0.3)	3.3	2.4	3.39	5.8	4.3	0.4	(1.6)	nm

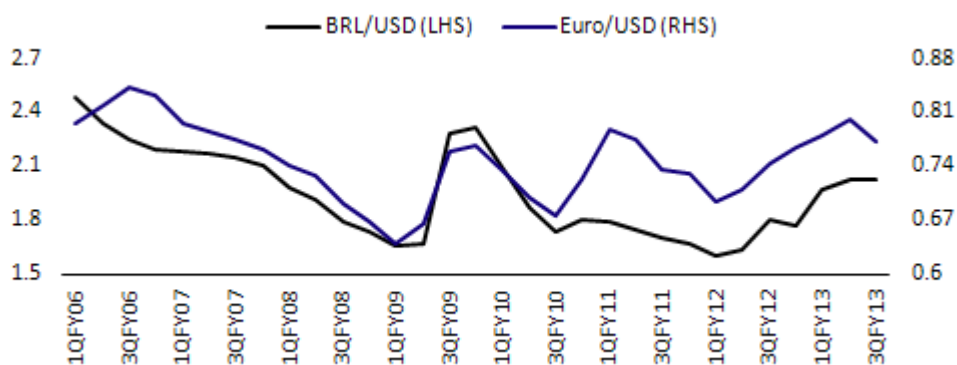
Source: Company, MOSL

Sylvania geographical performance (Euro m)

	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13
Europe										
Sales	65.7	66.5	75.2	73.2	64.0	69.0	71.8	70.3	61.1	59.9
Growth (%)	(7.0)	1.6	0.9	(2.4)	(2.6)	3.8	(4.5)	(4.0)	(4.5)	(13.2)
Operating EBITDA	2.8	1.2	4.5	5.4	3.9	4.5	9.4	6.8	2.6	0.5
Margin (%)	4.3	1.8	6.0	7.4	6.1	6.5	13.1	9.7	4.3	0.8
America										
Sales	33.4	38.7	37.4	35.5	36.1	39.7	35.8	38.2	39.8	43.2
Growth (%)	34.2	49.1	35.9	19.5	8.1	2.6	(4.3)	7.6	10.2	8.8
Operating EBITDA	2.8	4.3	2.6	3.5	3.6	4.1	2.1	2.7	2.9	3.3
Margin (%)	8.4	11.1	7.0	9.9	10.0	10.3	5.9	7.1	7.3	7.6
Others	6.3	6.5	6.2	4.8	6.6	6.8	6.3	3.5	7.0	6.5
Total	105.4	111.7	118.8	113.5	106.7	115.5	113.9	112.0	107.9	109.6

Source: Company, MOSL

USD has significantly appreciated, impacting margins



Source: Company, MOSL

Valuation and view

We have cut our consolidated earnings estimates by 1/9% for FY13/14 to factor in reduced margin expectations and macro volatility. Our revised EPS estimates are INR30.8 (up 4%) for FY13 and INR37.8 (up 23%) for FY14. The stock trades at 19x FY13E and 16x FY14E consolidated EPS. We maintain **Buy**.

Havells India: an investment profile

Company description

Havells India Limited is one of the largest electrical and power distribution equipment manufacturer with products ranging from Industrial & Domestic Circuit Protection Switchgear, Cables & Wires, Motors, Water Heaters, Fans, Power Capacitors, CFL Lamps, Luminaires for Domestic, Commercial & Industrial applications and Modular Switches covering the entire gamut of household, commercial and industrial electrical needs. Havells owns some of the prestigious global brands like Crabtree, Sylvania, Concord, Luminance, Linolite, & SLI Lighting.

Key investment arguments

- **Domestic business:** Strong macro fundamentals, rising income levels and demographic changes will keep demand for consumer electrical robust.
- **Overseas business:** Sylvania showed meaningful improvement in profitability although performance has been below expectations in recent quarters impacted by unfavourable currency movement and sluggish demand. An uptick in demand can provide significant upside to profitability while cost competitiveness and improvement in profitability will drive HAVL's growth in Europe.
- **New products:** HAVL new products in consumer durables are showing encouraging response. The

company expects ~ INR2b sales from new products

Key investment risks

- **Rising domestic competition:** Most of HAVL's markets are prone to price wars, especially cables and CFL, where there is considerable competition.
- **Prolonged slowdown in European region:** HAVL has significant operations in Europe through its subsidiary Sylvania. Any prolonged slowdown in the region will have adverse impact on earnings.
- **Forex risk:** Appreciation of other currencies against the EUR will impact earnings estimates.

Recent developments

- Havells Sylvania has received a onetime settlement fee of USD 38m from Osram Sylvania Inc for re-allocation of rights to sell their products in Americas.
- Havells has launched various new products like coffee maker, mixer Grinder, Induction cooker, rice cooker and energy saving water heaters etc recently. The company has also entered mass switch market through launch of "REO".

Valuation and view

- The stock trades at 19x FY13E and 15x FY14E consolidated EPS. Maintain **Buy**.

Sector view

- We remain **Neutral** on the sector.

Comparative valuations

		Havells India	Crompton	L&T
P/E (x)	FY13E	19.1	13.2	19.0
	FY14E	15.5	9.7	17.5
P/BV (x)	FY13E	5.9	2.0	3.6
	FY14E	4.3	1.7	3.1
EV/Sales (x)	FY13E	1.1	0.6	1.7
	FY14E	1.0	0.5	1.5
EV/EBITDA (x)	FY13E	9.3	7.6	14.7
	FY14E	9.5	5.8	12.6

Shareholding pattern (%)

	Sep-12	Jun-12	Sep-11
Promoter	61.6	61.6	61.6
Domestic Inst	1.1	0.9	1.9
Foreign	30.8	30.8	27.7
Others	6.6	6.7	8.8

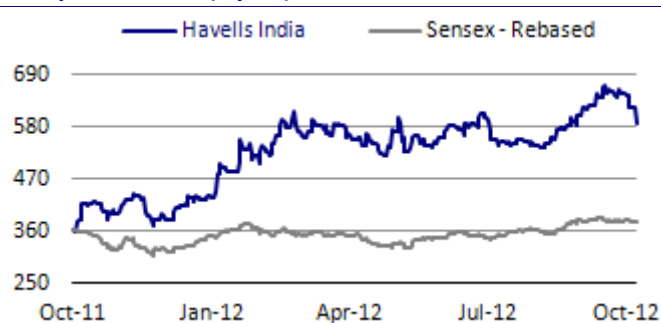
EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY13	42.4	35.8	18.4
FY14	37.8	42.8	-11.6

Target price and recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
587	-	-	-

Stock performance (1 year)



Financials and Valuation

Income Statement (Consolidated)		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
Net Sales	56,126	65,182	71,043	77,523	
Change (%)	8.7	16.1	9.0	9.1	
Raw Materials	31,925	36,272	40,367	44,481	
Staff Cost	6,405	7,904	7,695	7,901	
Other Expenses	12,226	14,432	14,704	17,409	
EBITDA	5,570	6,573	8,276	7,732	
% of Net Sales	9.9	10.1	11.6	10.0	
Depreciation	804	949	1,093	1,134	
Amortization					
Interest	902	1,281	1,241	858	
Other Income	237	414	369	255	
PBT	4,101	4,757	6,311	5,994	
Tax	1,031	1,058	1,017	1,283	
Rate (%)	25.1	22.2	16.1	21.4	
Extra-ordinary Inc.(net)	(31)	0	0	0	
Reported PAT	3,036	3,699	5,294	4,712	
Change (%)	nm	21.9	43.1	-11.0	
Adjusted PAT	2,584	4,252	3,842	4,712	
Change (%)	271.6	64.6	-9.6	22.6	

Balance Sheet (Consolidated)		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
Share Capital	624	624	624	624	
Reserves	5,914	8,932	13,131	16,529	
Net Worth	6,537	9,556	13,755	17,153	
Loans	11,065	9,795	8,863	7,852	
Deffered Tax Liability	559	556	556	556	
Minority Interest	6	6	6	6	
Capital Employed	18,166	19,913	23,180	25,567	
Gross Fixed Assets	28,454	27,577	28,177	28,739	
Less: Depreciation	18,499	17,293	17,931	18,567	
Net Fixed Assets	9,955	10,284	10,246	10,172	
Capital WIP	249	663	722	824	
Goodwill	3,354	3,625	3,562	3,539	
Curr. Assets	22,081	27,187	31,687	35,262	
Inventory	10,860	13,678	14,707	15,875	
Debtors	7,724	8,905	9,239	9,510	
Cash & Bank Balance	1,779	2,336	5,304	7,288	
Loans & Advances	1,206	1,682	1,810	1,943	
Other Current Assets	512	585	627	646	
Current Liab. & Prov.	17,729	21,846	23,037	24,230	
Creditors	6,637	6,953	7,975	8,594	
Other Liabilities	9,898	12,816	12,842	13,176	
Provisions	1,195	2,076	2,220	2,460	
Net Current Assets	4,352	5,341	8,650	11,032	
Misc. Expenses	0	5	0	0	
Application of Funds	18,166	19,913	23,180	25,567	

E: MOSL Estimates

Ratios		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
Basic (INR)	24.3	29.6	42.4	37.8	
Adjusted EPS	20.7	34.1	30.8	37.8	
Growth (%)	271.6	64.6	-9.6	22.6	
Cash EPS	31.0	37.2	51.2	46.8	
Book Value	52.4	76.6	99.2	137.5	
DPS	2.5	6.5	7.5	9.0	
Payout (incl. Div. Tax.)	11.8	25.5	20.7	27.9	
Valuation (x)					
P/E (consolidated)		17.2	19.1	15.5	
Cash P/E		15.7	11.5	12.5	
EV/EBITDA		8.9	9.3	9.5	
EV/Sales		0.9	1.1	1.0	
Price/Book Value		7.7	5.9	4.3	
Dividend Yield (%)		1.1	1.3	1.5	
Profitability Ratios (%)					
RoE	46.9	38.7	38.5	27.5	
RoCE	20.6	23.6	27.3	21.1	
Turnover Ratios					
Debtors (Days)	50	50	47	45	
Inventory (Days)	71	77	76	75	
Creditors. (Days)	43	39	41	40	
Asset Turnover (x)	3.1	3.3	3.1	3.0	
Leverage Ratio					
Debt/Equity (x)	1.7	1.0	0.6	0.5	

Cash Flow Statement		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
PBT before EO Items	4,101	4,757	6,311	5,994	
Add : Depreciation	804	949	1,093	1,134	
Interest	902	1,281	1,241	858	
Less : Direct Taxes Pai	1,031	1,058	1,017	1,283	
(Inc)/Dec in WC	-1,542	-431	-342	-398	
CF from Operations	3,234	5,498	7,286	6,306	
EO Income	-31	0	0	0	
CF from Oper. incl. EO It	3,203	5,498	7,286	6,306	
(Inc)/Dec in FA	-1,799	-1,691	-1,116	-1,161	
(Pur)/Sale of Investme	0	0	0	0	
CF from Investments	-1,941	-1,961	-1,053	-1,139	
(Inc)/Dec in Net Worth	243	193	3	-2	
(Inc)/Dec in Debt	401	-1,270	-932	-1,011	
Less : Interest Paid	902	1,281	1,241	858	
Dividend Paid	363	943	1,095	1,314	
CF from Fin. Activity	-621	-3,301	-3,265	-3,185	
Inc/Dec of Cash	641	236	2,969	1,982	
Add: Beginning Balan	1,481	1,779	2,336	5,304	
Closing Balance	1,779	2,337	5,304	7,288	

N O T E S

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Havells India

- | | |
|---|----|
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| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | No |

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