



## Economy News

- ▶ Declaring that the economic slowdown had "bottomed out" and inflation was "moderating", the government has predicted growth rebounding in the second half and made a pitch to the Reserve Bank of India (RBI), which reviews its monetary policy on Tuesday, for "supportive" steps to keep up the spirits. (ET)
- ▶ State-run oil marketing companies are likely to reduce imports of liquefied petroleum gas (LPG) after its consumption slumped 3% in November because of a recently-introduced cap on subsidised cooking gas cylinders, officials and industry executives said. The fall in consumption is contrary to industry expectations that projected a growth of 10.63%. (ET)
- ▶ The government has approved the first tranche of Rs 120 Bn fund infusion in state-owned banks, a move aimed at enhancing their capital base, a senior official said. (BS)
- ▶ The Reserve Bank of India (RBI) allowed real estate developers and housing finance companies to raise up to \$1 billion through external commercial borrowings (ECBs) in the current fiscal to promote low-cost housing projects. (BS)
- ▶ Leading bourse the National Stock Exchange (NSE) said trading members are required to compulsorily implement a risk-reduction mode when 90% of their capital is utilised towards margins, following market regulator Sebi's directive. The move would be applicable for capital market and future & options segment. It would be effective from December 24, 2012, NSE said in a statement. (BS)

## Corporate News

- ▶ **Axis Bank**, the country's third-largest private bank, is looking to sell as many as 45.8 Mn new shares to boost its capital before the Basel-III norms kick in, which at current prices may help it fetch more than Rs 60 Bn. (ET)
- ▶ **McNally Bharat Engineering** said it has bagged a contract worth Rs 7.3 Bn from ACC Ltd for construction and installation of a cement plant. (ET)
- ▶ India has offered Qatar a 5.2% stake that Asian Development Bank (ADB) held in **Petronet LNG Ltd**, the nation's largest liquefied natural gas importer. (ET)
- ▶ The 32-km Phase-II of the Mumbai Metro project, bagged by **Reliance Infrastructure (R-Infra)**, faces termination in the absence of substantial progress. (BS)
- ▶ **Kingfisher Airlines (KFA)** promoter Vijay Mallya will pump in Rs 4250 Mn into the grounded airline as the first step to kick-start its operations, albeit in a limited way. (BS)
- ▶ Gulf carrier Etihad Airways, seeking to widen operations in India and other Asian markets, is in the final stages of talks to buy part of either **Jet Airways** or grounded rival Kingfisher Airlines, a government official said. (BS)
- ▶ **Reliance Power (R-Power)** said three of its promoters will offload 5.42% stake in the firm, a move that would help the Anil Ambani group company to comply with the minimum public shareholding norms. The shares will be sold through Offer for Sale (OFS) on December 19, R-Power said in a regulatory filing. (BS)
- ▶ US-based ConocoPhillips is in talks with state-run **Oil and Natural Gas Corporation (ONGC)** to pick stake in more than one of its ultra-deep-water blocks. (BS)

### Equity

	17 Dec 12	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
SENSEX Index	19,244	(0.4)	5.1	4.0
NIFTY Index	5,858	(0.4)	5.1	4.6
BANKEX Index	14,273	0.1	9.6	12.7
BSET Index	5,522	(1.2)	(2.6)	(7.6)
BSETCG INDEX	10,901	(0.4)	2.5	3.7
BSEOIL INDEX	8,401	(0.5)	4.1	(4.4)
CNXMcap Index	8,383	0.3	6.7	12.3
BSESMCAP INDEX	7,387	0.5	3.9	10.3
<b>World Indices</b>				
Dow Jones	13,235	0.8	5.1	(2.4)
Nasdaq	3,011	1.3	5.5	(5.3)
FTSE	5,912	(0.2)	5.5	0.7
NIKKEI	9,829	0.9	9.9	8.7
HANGSENG	22,514	(0.4)	6.5	9.4

### Value traded (Rs cr)

	17 Dec 12	% Chg - Day
Cash BSE	2,430	2.2
Cash NSE	11,071	(2.8)
Derivatives	89,900	(31.2)

### Net inflows (Rs cr)

	14 Dec 12	% Chg	MTD	YTD
FII	626	(52.5)	12,244	117,264
Mutual Fund	(20)	(93.9)	(1,874)	(19,439)

### FII open interest (Rs cr)

	14 Dec 12	% Chg
FII Index Futures	12,082	(0.6)
FII Index Options	46,594	0.2
FII Stock Futures	33,799	1.3
FII Stock Options	2,056	0.7

### Advances / Declines (BSE)

	17 Dec 12	A	B	T	Total	% total
Advances	124	1,153	249	1,526	51	
Declines	74	1,062	207	1,343	45	
Unchanged	3	109	25	137	5	

### Commodity

	17 Dec 12	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	87.5	0.4	1.0	(8.1)
Gold (US\$/OZ)	1,696.4	0.0	(1.0)	(3.8)
Silver (US\$/OZ)	32.2	(0.2)	(0.1)	(6.2)

### Debt / forex market

	17 Dec 12	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.2	8.2	8.3	8.3
Re/US\$	54.8	54.5	55.1	54.0

### Sensex



**ANALYST MEET UPDATE**

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**HAVELLS INDIA LTD (HIL)**

**PRICE: Rs.616**  
**TARGET PRICE: Rs.570**

**RECOMMENDATION: REDUCE**  
**FY14E P/E: 17.0x**

- ❑ **We attended the Analyst Meet and plant visit organized by Havells India. Our interaction with the company's management and channel check highlights that the domestic demand for consumer appliances has been resilient in the domestic premium product segment. However growth prospects at Sylvania continues to remain bleak.**
- ❑ **We believe that the company would likely experience margin pressure in Sylvania over FY13-1HFY14. Domestic demand likely to drive growth in free cash flow over 2HYFY13.**
- ❑ **We tweak estimates to factor in higher growth in motor/switchgear business. However, we deduce that company's stock is richly valued at current levels. In view of the potential downside to our target price, we maintain our 'Reduce' rating on company stock with a revised DCF based price target of Rs 570 (Rs 545 earlier).**

**Summary table**

(Rs mn)	FY12	FY13E	FY14E
Sales	65,579	69,816	78,874
Growth (%)	10.2	13.2	13.2
EBITDA	6,971	7,666	8,320
EBITDA margin (%)	10.6	11.0	10.5
PBT	4,761	5,455	5,885
Net profit	3,703	4,201	4,532
EPS (Rs)	29.7	33.7	36.3
Growth (%)	22.0	13.4	7.9
CEPS (Rs)	37.3	41.8	46.2
BV (Rs/share)	76.6	110.2	146.5
DPS (Rs)	2.5	6.5	6.5
ROE (%)	46.0	36.0	28.3
ROCE (%)	22.4	21.7	20.3
Net cash (debt)	(6,349)	(6,292)	(3,730)
NW Capital (Days)	26.2	42.2	42.6
EV/Sales (x)	1.3	1.2	1.1
EV/EBITDA (x)	12.4	11.2	10.4
P/E (x)	20.8	18.3	17.0
P/Cash Earnings (x)	16.6	14.8	13.3
P/BV (x)	8.1	5.6	4.2

Source: Company, Kotak Securities - Private Client Research

We interacted with the management and premium dealers of HIL to get a perspective on the overall business environment unfolding in domestic markets. We also visited company's switches/MCB and luminaries' plant. Following are the key highlights of our interaction.

**Domestic demand for consumer appliances and switchgear / MCB continues to remain strong**

Domestic demand for premium brands like Havells, Philips and Crompton has been resilient and is expected to remain strong in 2HFY13-FY14. Competition in premium brand category has been lower as compare to the budget category. Demand for lighting and fixtures division has been observing traction and is expected to further increase in 2HFY13. We believe that the increasing disposable income within Indian households and evolving lifestyle patterns of consumers is leading to a peculiar shift in the preference for branded products and this has been driving the growth of the organized sector.

We believe that the domestic consumer demand (35% of HIL's standalone business) for brown goods and products like CFL has got least affected by the economic slowdown. Company has successfully launched complete range of kitchen appliances last year. It has also launched Geysers which has been observing reasonable demand. Company sold 45000 units of geysers in FY12 and aims to sell 100000 units in FY13. However challenges continue to persist in the cable division. Company has been reporting slowdown in the underground cable division demand is proportional to the Capex outlook in the economy.

In switches, company has established itself as a prominent player in the premium category through its 'CRABTREE' brand. It has recently launched a new range of switched under 'REO' brand in the mid-range category with conventional fitting but modular appearance. It has received strong feedback and acceptance in the market and expects to capture significant market share going ahead. We highlight that it has successfully scaled up its turnover from RIO from Rs 50 mn in first three months to Rs 100 mn currently.

Domestic switchgear and MCB market continues to remain strong. Company has commendably established itself as one of the leading players in domestic switchgear market in last few years. Company has not focusing on the industrial segment currently which is primarily dominated by MNC players like Schneider, Siemens, ABB etc. However, management claims that the current state of the art Switchgear facility at Baddi is equipped to support operations in this segment as well. We highlight that currently domestic switchgear segment is relatively less volatile and competitive than the industrial switchgear space.

Revenue growth in switchgears exports has been negatively impacted due to decline in sales in the UK region. Currently exports contribute to nearly 25% of total switchgear sales as compared with nearly 40-45% earlier. Company has been trying to ramp up switchgears sales in the international market and expects to maintain margins at the levels of over 20%.

### **Robust distribution network and strong brand franchise to remain key differentiator for the company**

We believe that efficient distribution network is the major entry barrier in the industry as virtually over 90% sales in consumer is driven by the channel partners. We are encouraged by company's strong brand franchise and constantly strengthening distribution network. Currently it has over 5000 dealers across India and has been adding nearly 700-800 dealers per annum.

Management has stated that aggressive advertising campaigns and deep rooted dealer presence has enabled company's penetration in tier iii cities and rural areas as well. Company has strong presence in north India and plans to deploy adequate resources to capture market share in western India that constitutes to be a major market for consumer appliances. Company strategizes to focus primarily on branding/distribution and production would be a supportive function to distribution and branding rather than vice-versa.

Key dealers believe that top management accessibility/relationship, various dealers' welfare/reward programs and competitive monetary paybacks are the key parameters that differentiates Havells from its key competitors.

Management expects to replicate same distribution model in Europe. Havells (including Sylvania) is present in nearly 50 countries across Europe and Asia. Moreover it expects to witness enormous potential in the emerging markets like Africa where housing and real estate market is picking up.

With an aim to establish itself as a prominent player in these markets, company is planning to strengthen Sylvania's dealer franchise in these regions. It would be offering its diverse range of products within the parent brand Havells and the acquired brand Sylvania to the overseas customers.

### **Sylvania observing sluggish demand in European region; challenging business environment and lack of key strategic initiatives pose threat to future cash flow generation**

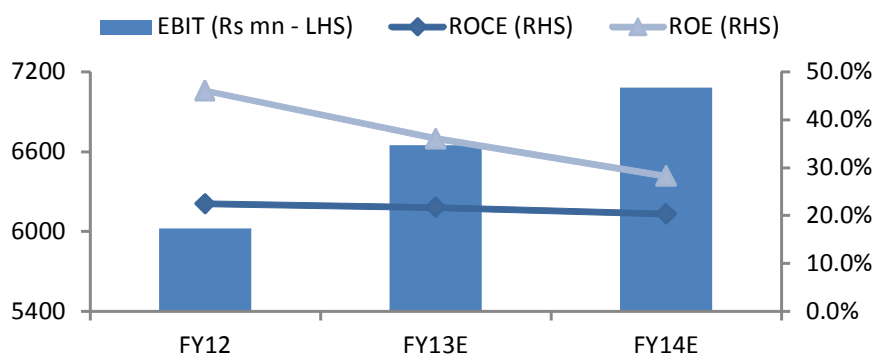
We believe that Sylvania turnaround is likely to be difficult and it would continue to pose muted traction in medium term. It has posted 5% YoY de-growth in revenue at EUR 110 mn in Q2FY13 mainly due slower than anticipated recovery in European region. It has also been reporting continuous margin pressure on account of muted sales growth and higher fixed cost base.

While management has already reduced its margin guidance for Sylvania earlier to 5-5.5%, further slowdown in European region is likely to pose significant threat to company's operations.

We believe margins would likely remain under pressure due to weakening of demand leading to negative operating leverage.

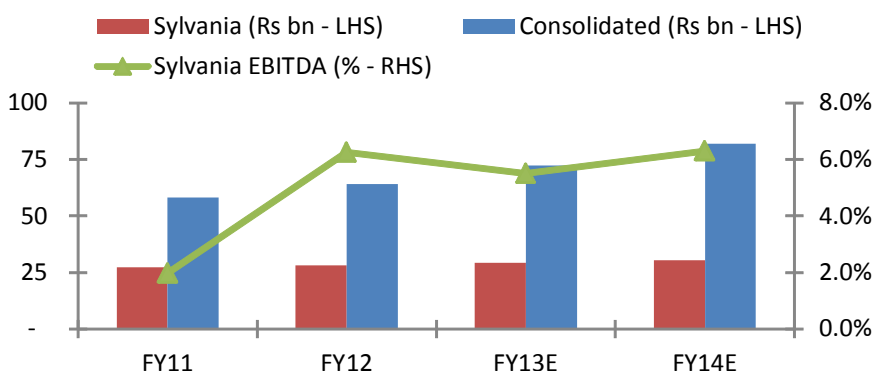
### **Revenues to grow on back of robust domestic demand; availability of unutilized capacity across verticals to result in lower capex going ahead**

We project consolidated revenues to grow at 9.5% CAGR between FY12-FY14E from Rs65 bn in FY12 to Rs. 78 bn in FY14E. Within the revenue streams, we expect domestic sales to grow at 20% CAGR in the same period driven by all the segments-switchgears, wires & cables and consumer appliances. We expect exports demand to remain sluggish in 2HFY13E.

**RoE Trend**

Source: Company, Kotak Securities - Private Client Research

We believe that the domestic business is likely to benefit from softening in key raw materials prices. However we opine the company would observe margin moderation in Sylvania. In our projected financials we build 10.5% consolidated EBITDA margins in FY14E.

**Revenue (Rs bn)**

Source: Company, Kotak Securities - Private Client Research

We highlight that the company has unutilized capacity across product lines implying no major capex going ahead. It currently utilizes 70% Capacity in switches/MCB, 30% in fixtures, 60% in CFL, 30% in luminaries and 38% in motors. Management has guided for the capex of nearly Rs 1.2 bn for FY13-14 including Rs 800 mn of maintenance capex.

**Valuation and Recommendation**

At current price of Rs.616, stock is trading at 17x P/E and 10.4x EV/EBITDA on FY14E earnings.

**We maintain REDUCE rating on Havells India with a revised price target of Rs.570**

We tweak estimates to factor in higher growth in motor/switchgear business. However, we deduce that company's stock is richly valued at current levels. In view of the potential downside to our target price, we maintain our '**REDUCE**' rating on company stock with a revised DCF based price target of Rs 570 (Rs 545 earlier).

## Bulk deals

## Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
17-Dec	Aishwarya Tele	Vanita Jain	B	110,000	12.9
17-Dec	Aishwarya Tele	Dimple Jain	B	110,000	12.9
17-Dec	Aishwarya Tele	Anita Jain	B	110,253	12.9
17-Dec	Aishwarya Tele	Kuvadiah Snehal	S	339,865	12.9
17-Dec	Arumuga	Sparrow Asia Diversified Opp	S	5,500	95.1
17-Dec	Arumuga	Dhiren Shevantilal Shah	B	5,500	95.1
17-Dec	Ashutosh Paper	Manish Patodia Huf	S	50,000	49.6
17-Dec	Associated Fin	Advance India Shares & Securities	B	145,000	39.0
17-Dec	Associated Fin	Anuj Garg	S	145,000	39.0
17-Dec	Compucom Sft	Deepak Raj Sharma	S	547,631	25.0
17-Dec	Compucom Sft	Rakesh Jhunjhunwala	B	500,000	25.0
17-Dec	Geodesic	Financial Karvy Financial Services Ltd	S	850,000	28.4
17-Dec	Gini Silk-\$	Saryu Pandey Huf	S	50,000	40.1
17-Dec	Gini Silk-\$	Shrimat Pandey	S	75,000	40.1
17-Dec	Gini Silk-\$	Garnet International Ltd	B	126,000	40.1
17-Dec	Libord Sec	Anurag Gupta Huf	B	30,000	10.0
17-Dec	Ocl Iron	Taib Bank E C	S	700,000	29.0
17-Dec	Ocl Iron	Credo India Thematic Fund Ltd	B	700,000	29.0
17-Dec	Pasupati Fin	Orion Stocks Ltd	B	103,354	17.8
17-Dec	Pasupati Fin	Sanjay J Sarvaiya Huf	S	67,587	17.8
17-Dec	Silver Oak Com	Archana Amol Malsane	S	15,000	10.2
17-Dec	Silver Oak Com	Milind Rukmangad Kocharekar	B	15,000	10.2
17-Dec	Smilax	Sai Nithisha Parvathaneni	S	90,000	20.7
17-Dec	Smilax	Parvathaneni Venkata Siva G Rao	B	80,000	20.5
17-Dec	Suryanagri Fin	Kavita Kankani	S	27,000	13.9
17-Dec	Suryanagri Fin	Truthful Vintrade Pvt Ltd	B	18,000	13.7
17-Dec	Suryanagri Fin	Regal Dealmark Pvt Ltd	B	18,000	13.7
17-Dec	Suryanagri Fin	Atithi Dealers Pvt Ltd	S	25,000	13.7
17-Dec	Suryanagri Fin	Sikha Vimimay Pvt Ltd	S	30,000	13.8
17-Dec	Suryanagri Fin	Tribute Trading And Finance Ltd	S	21,400	13.7
17-Dec	Taksheel Sol	Park Habitats Pvt Ltd	S	244,607	9.9
17-Dec	Taneja Aero-\$	Taib Bank E C	S	999,897	25.9
17-Dec	Taneja Aero-\$	Credo India Thematic Fund Ltd	B	999,897	25.9
17-Dec	Timbor Home	Bennett Coleman & Co Ltd	S	250,000	37.5
17-Dec	Timbor Home	Charu Sharad Rathi	B	74,180	40.5
17-Dec	Tutis Tech-\$	Free India Assurance Services Ltd	S	130,000	10.7
17-Dec	Tutis Tech-\$	Cosmos Prime Projects Ltd	B	130,000	10.7
17-Dec	Vaishnavi	Chippala Sailu	B	98,958	9.1
17-Dec	Vakrangee Soft	Abhirati Trading Private Ltd	S	3,500,000	60.0
17-Dec	Vjil Consulting	Anitha Vikram Dasa	B	61,010	12.6
17-Dec	Vjil Consulting	Tushar Bhupatlal Sarda	S	62,582	12.6
17-Dec	Women Netwks	Rajesh Pagaria	S	65,000	4.5
17-Dec	Women Netwks	Rajesh Kumar Bajaj	B	24,750	4.5
17-Dec	Yash Trading	Bcb Finance Ltd	B	6,210	179.0

Source: BSE

## Gainers &amp; Losers

## Nifty Gainers &amp; Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
<b>Gainers</b>				
ICICI Bank	1,144	0.7	2.9	1.69
Hindustan Unilever	523	1.2	2.0	1.52
SBI	2,344	1.0	2.0	1.9
<b>Losers</b>				
HDFC	837	(1.8)	(7.5)	3.0
HDFC Bank	677	(1.8)	(7.0)	3.1
TCS	1,206	(3.0)	(6.0)	2.2

Source: Bloomberg

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