

May 12, 2017

## Havells India (HAVIND)

₹ 515

### Strong revenue growth led by ECD segment

- Havells reported sales growth of 17% YoY in Q4FY17 led by the strong performance of cable, switchgear and electrical consumer durable (ECD) by ~13%, ~16% and 28% YoY, respectively, post demonetisation. The company has taken a price hike to the tune of ~2-4% YoY led by a rise in commodity price. The lighting division revenue declined ~2% YoY due to a decline in conventional lighting systems and 19% YoY dip in export to Sylvania. However, excluding CFL, lighting division recorded growth of 23% YoY
- Higher discounts (during demonetisation) coupled with rising raw material prices dragged the EBITDA margin by 177 bps YoY. One time exceptional loss of ~₹ 77 crore due to provision for impairment on investments held in Havells Holdings and JV, dragged PAT to 74% YoY in Q4FY17. Further, Havells has decided to exit its international operations (including JV with Shanghai Yaming) and focus on domestic markets

### To benefit from Seventh Pay Commission, GST

We believe consumer durable companies will be key beneficiaries of the government's key reforms like implementation of GST and pay hike. While the Seventh Pay Commission boosted the disposable income of 1.4 crore government employees, GST will bring down the effective tax rate of the company. Additionally, a reduction of tax arbitrage for the unorganised segment will provide additional benefit to organised players in the long run. Further, the company has created a strong brand in electrical consumer products in India, which was traditionally a low involvement product category. Advertisement expenditure always remained at ~2-3% of net sales to build the brand image and awareness in Tier I, Tier II cities. Appliances have lower penetration in India. Hence, an improvement in power availability, increase in disposable income and shift in focus towards branded category products would help grow the consumer durable segment at CAGR ~58% in FY16-19E.

### Slight recovery in demand in industrial segment to drive growth

HIL's switchgear segment recorded revenue CAGR of ~12% in FY11-16 largely due to new product launch, a gradual shift in branded product categories and sustained demand from rural markets. This has helped Havells increase its market share aggressively from 15% in 2006 to 29% in FY15. The switchgear segment is the most profitable business (~39% contribution margin). We believe a recovery in demand of industrial products led by higher government spending to improve power infrastructure spending would lead switchgear and cable & wire division sales at 12% CAGR each in FY16-19E.

### Strong ECD performance, overseas business exit justify premium valuation

We expect Havells to record revenue, EBITDA CAGR of ~25%, 30%, respectively, in FY16-19E supported by a revival in industrial and consumer products (led by acquisition of Lloyd's CD business). Scalability through acquisition coupled with launch of premium products into domestic market would negate the impact higher commodity prices. Further, we believe exit from the overseas business would help the company focus on the domestic business and improve profitability to the next level. We upgrade the stock to **BUY** recommendation with a revised target price of ₹ 570 (valuing the company at 36x FY19E earnings).

| Rating matrix    |   |           |
|------------------|---|-----------|
| Rating           | : | Buy       |
| Target           | : | ₹ 570     |
| Target Period    | : | 12 months |
| Potential Upside | : | 12%       |

| What's changed? |                               |
|-----------------|-------------------------------|
| Target          | Changed from ₹ 404 to ₹ 570   |
| EPS FY18E       | Changed from ₹ 10.1 to ₹ 12.1 |
| EPS FY19E       | Changed from ₹ 13.6 to ₹ 15.7 |
| Rating          | Changed from Hold to Buy      |

| Quarterly performance |         |         |         |         |         |
|-----------------------|---------|---------|---------|---------|---------|
|                       | Q4FY17  | Q4FY16  | YoY (%) | Q3FY17  | QoQ (%) |
| Revenue               | 1,710.1 | 1,459.7 | 17.2    | 1,506.0 | 13.6    |
| EBITDA                | 229.5   | 221.8   | 3.5     | 190.7   | 20.3    |
| EBITDA (%)            | 13.4    | 15.2    | -177bps | 12.7    | 76bps   |
| PAT                   | 94.7    | 365.7   | -74.1   | 153.0   | -38.1   |

| Key financials |       |       |         |         |
|----------------|-------|-------|---------|---------|
| ₹ Crore        | FY16  | FY17E | FY18E   | FY19E   |
| Net Sales      | 5,378 | 6,135 | 9,067   | 10,455  |
| EBITDA         | 754.9 | 824.2 | 1,122.2 | 1,394.1 |
| Net Profit     | 712.0 | 539.0 | 756.4   | 982.3   |
| EPS (₹)        | 11.4  | 8.6   | 12.1    | 15.7    |

| Valuation summary |      |       |       |       |
|-------------------|------|-------|-------|-------|
|                   | FY16 | FY17E | FY18E | FY19E |
| P/E               | 57.5 | 55.8  | 42.1  | 32.4  |
| Target P/E        | 64.2 | 62.4  | 47.0  | 36.2  |
| EV / EBITDA       | 39.8 | 36.5  | 28.2  | 22.5  |
| P/BV              | 12.0 | 9.7   | 8.9   | 7.3   |
| RoNW (%)          | 21.0 | 17.4  | 21.2  | 22.5  |
| RoCE (%)          | 26.4 | 23.0  | 26.5  | 28.0  |

| Stock data                            |           |
|---------------------------------------|-----------|
| Particular                            | Amount    |
| Market Capitalization (₹ Crore)       | 23,458.6  |
| Total Debt (FY17) (₹ Crore)           | 202.6     |
| Cash and Investments (FY17) (₹ Crore) | 761.8     |
| EV (₹ Crore)                          | 22,899.5  |
| 52 week H/L                           | 526 / 303 |
| Equity capital (₹ Crore)              | 62.4      |
| Face value (₹)                        | 1.0       |

| Price performance |       |      |      |       |
|-------------------|-------|------|------|-------|
|                   | 1M    | 3M   | 6M   | 12M   |
| Havells India     | 6.2   | 14.3 | 32.4 | 44.6  |
| Bajaj Electricals | 1.3   | 30.0 | 52.1 | 51.5  |
| Symphony          | (2.7) | 10.2 | 12.7 | 21.4  |
| V-Guard           | 15.0  | 38.4 | 45.0 | 149.5 |

| Research Analyst |                                   |
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## Variance analysis

|                          | Q4FY17 | Q4FY17E | Q4FY16 | YoY (%)  | Q3FY17 | QoQ (%) | Comments                                                                                                                                                                                                                  |
|--------------------------|--------|---------|--------|----------|--------|---------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Revenue                  | 1710.1 | 1625.0  | 1459.7 | 17.2     | 1506.0 | 13.6    | Topline growth was led by a recovery in demand of cable & wire, switchgear and ECD segments. In addition to this, the company has taken a price hike to the tune of ~2%-4% YoY attributable to rising raw material prices |
| Other Income             | 38.2   | 36.9    | 29.2   | 31.0     | 26.4   | 44.8    | Rise in other income was largely on account of higher interest income                                                                                                                                                     |
| Raw Material Exp         | 932.0  | 828.8   | 766.2  | 21.6     | 806.7  | 15.5    | Gross margin declined ~210 bps YoY owing to discounts provided to dealers during demonetisation                                                                                                                           |
| Employee Exp             | 131.2  | 134.1   | 100.4  | 30.6     | 123.8  | 5.9     | Higher employee cost was mainly due to addition of new employees and salary hike                                                                                                                                          |
| Purchase of Traded goods | 109.5  | 129.2   | 92.6   | 18.3     | 107.4  | 2.0     |                                                                                                                                                                                                                           |
| Other expenses           | 308.0  | 295.8   | 278.8  | 10.5     | 277.3  | 11.0    | Advertisement & promotional expenses declined ~30 bps YoY mainly to partly offset the impact of demonetisation and on higher raw material prices                                                                          |
| EBITDA                   | 229.5  | 237.2   | 221.8  | 3.5      | 190.7  | 20.3    |                                                                                                                                                                                                                           |
| EBITDA Margin (%)        | 13.4   | 14.6    | 15.2   | -177 bps | 12.7   | 76 bps  | Higher raw material prices coupled with higher employee cost resulted in EBITDA margin declining 177 bps YoY                                                                                                              |
| Depreciation             | 30.8   | 36.4    | 27.4   | 12.3     | 30.1   | 2.2     |                                                                                                                                                                                                                           |
| Interest                 | 7.1    | 2.6     | 4.6    | 53.7     | 1.5    | 364.1   |                                                                                                                                                                                                                           |
| PBT                      | 156.9  | 235.1   | 421.9  | -62.8    | 206.7  | -24.1   |                                                                                                                                                                                                                           |
| Total Tax                | 62.2   | 61.1    | 56.2   | 10.8     | 53.7   | 15.8    |                                                                                                                                                                                                                           |
| PAT                      | 94.7   | 174.0   | 365.7  | -74.1    | 153.0  | -38.1   | One time exceptional loss of ~₹ 77 crore due to provision for impairment on investments held in Havells Holdings and JV, dragged PAT to 74% YoY                                                                           |
| <b>Key Metrics</b>       |        |         |        |          |        |         |                                                                                                                                                                                                                           |
| Cable                    | 678.0  | 651.2   | 602.8  | 12.5     | 609.2  | 11.3    | Recovery in the cable segment led by increase in commodity prices, which the company successfully passed on to customers                                                                                                  |
| Switchgear               | 375.3  | 348.4   | 323.7  | 15.9     | 330.9  | 13.4    | Better-than-expected growth in sales of switchgear was led by EWA                                                                                                                                                         |
| ECD                      | 388.8  | 357.9   | 303.7  | 28.0     | 329.6  | 18.0    | Strong growth in consumer durable segment was led by fans and water heater segment                                                                                                                                        |
| Lighting & Fixtures      | 224.9  | 243.2   | 229.5  | -2.0     | 212.1  | 6.0     | Lighting division excluding CFL recorded growth of 23% YoY while 19% YoY dip in export to Sylvania dragged overall sales growth                                                                                           |

Source: Company, ICICIdirect.com Research

## Change in estimates

| (₹ Crore)       | FY18E  |        |          | FY19E   |         |          | Comments                                                                                                                                                                                                                                                                                      |
|-----------------|--------|--------|----------|---------|---------|----------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                 | Old    | New    | % Change | Old     | New     | % Change |                                                                                                                                                                                                                                                                                               |
| Revenue         | 8753.4 | 9067.0 | 3.6      | 10090.9 | 10454.9 | 3.6      | We have tweaked our revenue estimate for FY18E & FY19E and modelled revenue of 25% CAGR in FY16-19E led by ECD segment due to addition of AC business. We believe switchgear, lighting & consumer durable segment will benefit from GST due to a shift from unorganised to organised segments |
| EBITDA          | 996.1  | 1122.2 | 12.7     | 1250.6  | 1394.1  | 11.5     |                                                                                                                                                                                                                                                                                               |
| EBITDA Margin % | 11.4   | 12.4   | 98bps    | 12.4    | 13.3    | 93bps    | We have tweaked EBITDA margin for FY18E-19E as withdrawal of discounts coupled with increase in realisation (due to higher commodity prices) negate the impact of raw material cost and employee cost going forward                                                                           |
| PAT             | 631.6  | 756.4  | 19.8     | 846.6   | 982.3   | 16.0     |                                                                                                                                                                                                                                                                                               |
| EPS (₹)         | 10.1   | 12.1   | 19.7     | 13.6    | 15.7    | 16.0     |                                                                                                                                                                                                                                                                                               |

Source: Company, ICICIdirect.com Research

## Assumptions

|                         | Current |       |       | Earlier |       | Comments                                                                                                                                                                                                                                             |
|-------------------------|---------|-------|-------|---------|-------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                         | FY17E   | FY18E | FY19E | FY18E   | FY19E |                                                                                                                                                                                                                                                      |
| Cable Growth (%)        | 8.8     | 13.4  | 12.3  | 14.7    | 13.2  | Price hike (to offset rising raw material prices) coupled with various government initiatives to improve power infrastructure would help drive sales of the cable & wire segment                                                                     |
| Switchgear Growth (%)   | 10.5    | 12.4  | 13.8  | 14.9    | 15.3  | Sales growth would largely be driven by new range of products (to serve the upcoming demand from low cost housing industry)                                                                                                                          |
| ECD Growth (%)          | 22.4    | 170.0 | 18.2  | 170.2   | 21.1  | Implementation of GST (shift in demand from unorganised to organised category). This coupled with introduction of new categories such as air conditioners and air purifier would help drive sales, going forward                                     |
| Lighting & Fixtures (%) | 6.3     | 10.6  | 14.1  | 14.2    | 16.5  | The lighting division performance remained lacklustre due to a sharp fall in sales of traditional lighting products. However, shift in focus towards LED luminaries and fixtures would help drive the sales of lighting segment in the coming future |

Source: Company, ICICIdirect.com Research

## Company Analysis

### Slight recovery in demand from industrial segment to drive growth

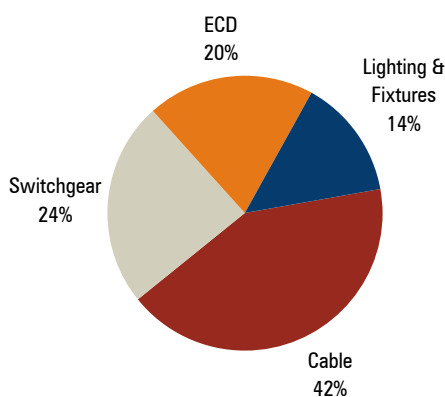
Havells has a leadership position in the domestic switchgear market and increased its market share aggressively from 15% in FY06 to 28% in FY16

Havells India (HIL) is a leading fast moving electrical goods (FMEG) player in the switchgear segment with a presence in three product categories, viz. domestic, modular and LV industrial switchgear. HIL's switchgear segment, largely dominated by the domestic MCB segment, contributes ~24% to standalone revenues. The company recorded revenue CAGR of ~12% in FY11-16 largely due to new product launch, a gradual shift in branded product categories and sustained demand from rural markets. HIL has maintained its leadership position in the domestic switchgear market and had increased its market share aggressively from 15% in 2006 to 28% in FY16. The switchgear segment is the most profitable business (~39% contribution margin). The company's continuous effort to launch premium products (like Euro II switchgears and super premium range of distribution boards) would help Havells to keep the margin of the segment at elevated levels.

During FY16, sales growth of the cable segment remained muted as the company passed on the maximum benefit of lower raw material prices by taking a price cut in the cable and wire segments. Though the wire segment of the company continuously recorded strong volume growth supported by demand remaining intact in tier II, III cities, the price cut hit sales growth. Despite the price cut, the segment registered improvements in margins (14.2% in FY16 vs. 12.1% in FY15) due to focus on cost efficiency measures and the brand strength.

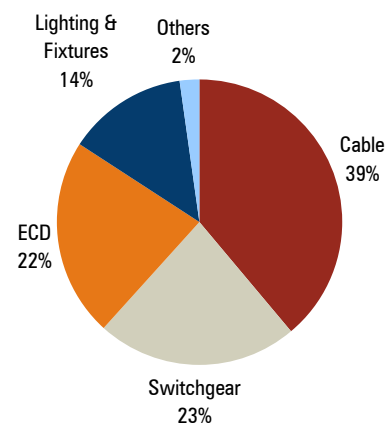
We believe a revival of industrial policies (to boost infrastructure) by the central government, capex in power sectors coupled with the government's flagship programmes like "Housing For All" will be key revenue drivers for HIL's cable & wire and switchgear segments. As a result, the cable & wire and switchgear segment is likely to record sales CAGR of ~12% each in FY16-19E, respectively. On the profitability front, margin in the cable and wire segment is expected to remain stagnant as HIL would take a price hike to offset higher raw material prices.

**Exhibit 1: Standalone revenue contribution during FY15**



Source: Company, ICICIdirect.com Research

**Exhibit 2: Revenue contribution improves in ECD segment in FY17**



Source: Company, ICICIdirect.com Research

### Lighting, consumer durable to get boost from rising disposable incomes

Under discretionary categories, HIL's standalone lighting & fixtures segment recorded revenue CAGR of ~12% in FY11-16 largely supported by the lighting division. The slower sales growth was largely due to presence in the conventional lighting business (like CFL). However, the company has capitalised on the LED lighting technology of Sylvania (before divestment) and launched premium LED lighting products in various countries. Currently, over 51% of revenues from the lighting business come from LED lighting. To strengthen its presence in the higher margin business i.e. street lights and solar solutions, Havells has acquired Bangalore based Promptec Renewable Energy Solutions. Promptec is engaged in marketing & manufacturing LED products including street lighting, office lighting and solar lighting. The company also refrained from bidding for lower margin government orders to maintain the profitability of the business. We believe the lighting & fixture industry will get a boost on the back of growing awareness on using power efficient products (LED) and launch of new products (like colour changing and ambient dual colour products to improve the aesthetics of a home) that would help drive sales and margins of the company, going forward.

Home appliances, relatively a new category for the company, recorded sales CAGR of 19.5% in FY11-16. Under the fan segment, the company is the third largest player in terms of market share (~15%) after Crompton Greaves and Orient Fans. To spread its wings in the appliances division by leveraging its existing strong dealer network across the country, HIL launched various home/kitchen appliance products. The company has also introduced a new range of air coolers and lifestyle-based products like air fryers and air purifier, which have a niche market as of now.

### Seventh Pay Commission, GST to provide fillip to consumer segment

We believe the impact of demonetisation would be limited to the consumer durable segment and demand would normalise with rising liquidity in the system. Further, in the long term consumer companies will be beneficiaries of the government's key reforms like implementation of GST and pay hike. In line with the historical trend, implementation of the Seventh Pay Commission (23.5% pay hike) would directly benefit 1.4 crore government employees resulting in inflow of ₹ 1 lakh crore to the system (flow to state government employee would come with a lag effect). This would provide additional disposable income in the hand of customers to spend more on branded products.

#### Going forward, GST to benefit company in two ways:

- 1) Reduction in effective tax rate to ~18% from ~23% would lead to an improvement in the volume and margin of the company
- 2) Elimination/reduction of tax arbitrage (including tax evasion) currently enjoyed by unorganised players: as products like air cooler, fans, water heater, mixer grinders have a significant presence of unorganised players, GST would accelerate the shift towards the organised sector considering a reduction in tax arbitrage.

Appliances have a lower penetration in India. Hence, an improvement in power availability, increase in disposable income and shift in focus on branded category products would help grow consumer durable and lighting segment at a CAGR of ~58% and ~10%, respectively, in FY16-19E. The strong sales growth in the ECD segment would be largely driven by addition of LEEL's business.

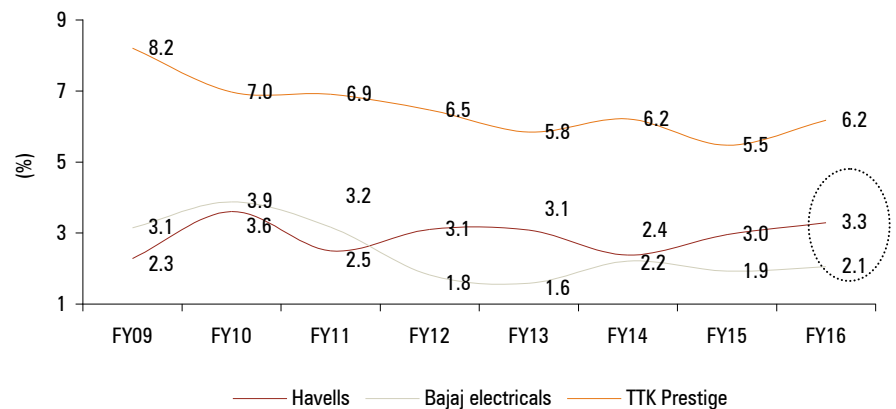
We believe the lighting & fixture industry will get a boost on the back of growing awareness on using power efficient products and infra spending while lower penetration of home appliances will help drive the ECD performance

### Consistent brand building through advertisement expenses

The company has created a strong brand in electrical consumer products in India, which was traditionally a low involvement product category. Under its brand building exercise, HIL incurred notable advertisement expense at a CAGR of 20% over the last six years. The advertisement expenditure has always remained at ~3% of net sales to build the brand image and awareness in Tier I and Tier II cities. The higher advertisement expenditure was mainly on the back of HIL's aggressive ad campaigns during international events including the T-20 World Cup and Indian Premier League. We believe the company has built up strong brand equity, which has helped it to move from a dealer push to a consumer pull business model.

HIL's advertisement expenditure always remained at ~2-3% of net sales to build brand images and awareness in Tier I and Tier II cities

**Exhibit 3: Continuous exercise of brand building through advertisement expenses**



Source: Company, ICICIdirect.com Research

### Synergies in terms of 'scale' but dent margin profile

We believe the acquisition would not only help Havells enter the white goods segment but also get access to LEEL's (Lloyd Electric & Engineering Ltd) 10,000 touch points, ~500 service centres across India (largely tier II, III cities). Further, lower penetration, increasing urbanisation, rising aspiration and middle class population are expected to remain key growth drivers for the consumer durables industry. LEEL's strong presence in the AC segment (13% market share) would enable Havells to achieve scalability in the business with its expertise of product positioning as "consumer pull" rather than dealer push strategy (of LEEL). Though LEEL has a stretched working capital (~45% sales) vs. Havells' lean working capital model, we believe Havells would focus on reducing working capital requirement by achieving scale in the CD business.

Further, Havells' target to increase the margin profile would be challenging as most of LEEL's products are considered mass products. We believe, EBITDA margin would be under pressure for the short term (considering the economic product profile of LEEL while higher advertisement & promotion activity). However, Havells being a strong brand with main focus in domestic market would help in launching premium products in the coming future which will drive the margin upward. Havells, over the last five years, has emerged as a strong electrical goods player with sales CAGR of 11% led by 19% CAGR in the ECD segment. Hence, an improvement in power availability, increase in disposable income and shift in focus towards branded category products would help grow the consumer durable segment at CAGR ~58% in FY16-19E



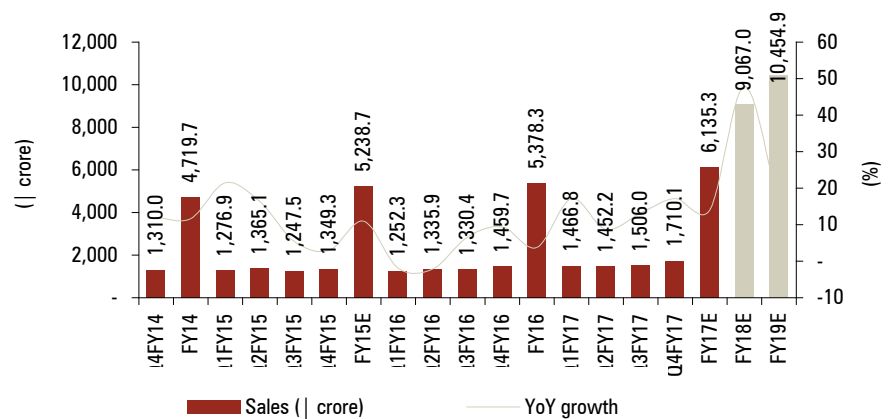
### Strong performance led by consumer durable segment

Havells reported sales growth of 17% YoY during Q4FY17 led by strong performance of cable, switchgear and electrical consumer durable (ECD) by ~13%, ~16% and 28% YoY post demonetisation. The company has taken a price hike to the tune of ~2%-4% YoY led by a rise in commodity price. Lighting division revenue declined ~2% YoY due to a decline in conventional lighting systems and 19% YoY dip in export to Sylvania. However, excluding CFL, lighting division recorded growth of 23% YoY.

HIL recorded standalone revenue CAGR of ~14% in FY11-16 led by the ECD and lighting segments, which recorded revenue CAGR of ~20% and ~13%, respectively, in FY11-16. We have modelled standalone revenue CAGR of 25% in FY16-19E led by the ECD (addition of new business of LEEL) considering implementation of Seventh Pay Commission recommendations, GST and expectation of better monsoon.

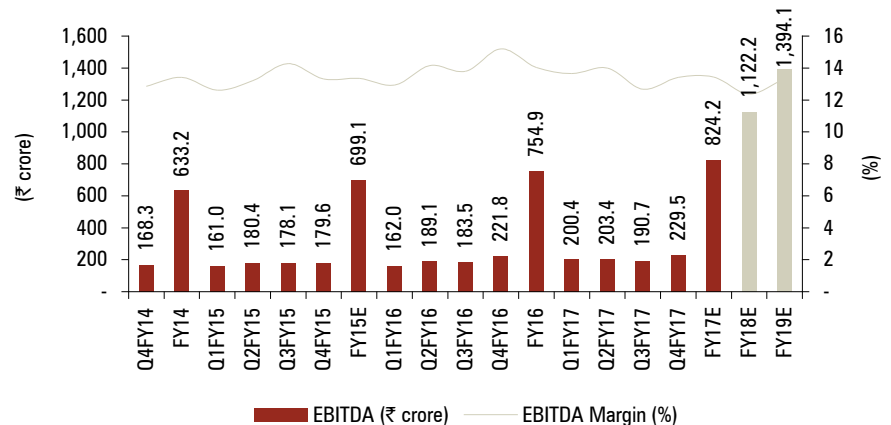
We have modelled standalone revenue CAGR of 25% in FY16-19E led by the ECD (addition of new business of LEEL) considering implementation of Seventh Pay Commission recommendations, GST and expectation of better monsoon

**Exhibit 4: Standalone revenue CAGR of 25% in FY16-19E**



Source: Company, ICICIdirect.com Research

**Exhibit 5: EBITDA margin to inch up owing to price hike and lower discounts**



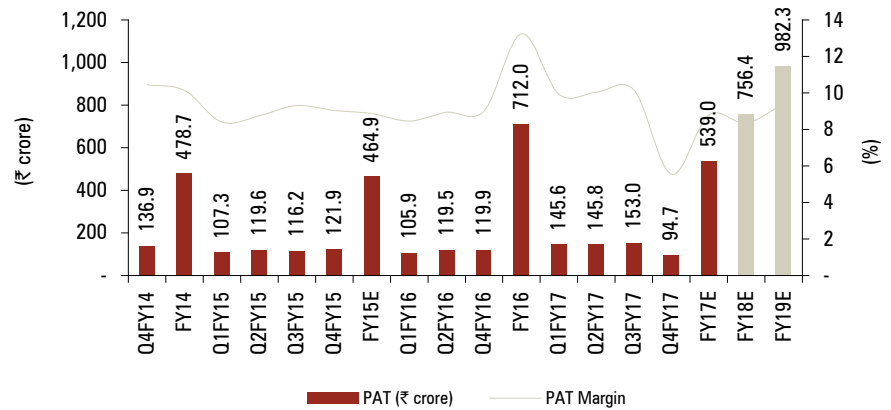
Source: Company, ICICIdirect.com Research

We believe, higher raw material prices and employee cost would be partially offset by price hike, launch of new premium products and higher volume

### Incremental sales growth to drive PAT at CAGR 25% in FY16-19E

Historically, the company has recorded a PAT CAGR of 24% in FY11-16, led by sales CAGR of 13.5% and expansion in EBITDA margin by ~200 bps during the same period. We believe the company will record strong PAT CAGR of 25% in FY16-19E supported by addition of new business in the kitty.

**Exhibit 6: Strong PAT growth supported by addition of new business**



Source: Company, ICICIdirect.com Research

## Annual report key takeaways (FY16)...

1. With the commencement of a new water heater plant in Rajasthan, Havells India now operates with 12 manufacturing units. It manufactures ~90% of its total products
2. The plant, built at an investment of ₹ 100 crore, has a manufacturing capacity of 5,00,000 units per annum and will initially manufacture 3,00,000 units per annum at an investment of ₹ 100 crore
3. During FY16, Havells India ventured into integrated automation & control solutions for homes, offices & hotels under its premium brand "Crabtree" in association with the world's leading automation company HDL Automation. The domestic market size of the automation solution industry is estimated to be ₹ 500 crore, which is growing at 20-25% annually. HIL is planning to capture 10% market share and expects revenue of ₹ 100 crore by 2020
4. Lighting division recorded sales growth of 8% YoY to ₹ 802 crore. Despite a high base, the LED segment recorded 100% growth in revenues and contributes 51% to the total lighting division
5. Havells enlarged its product portfolios in the solar lighting business by leveraging the synergies from its recent acquisition of Promptec Renewables Energy Solutions (PRES)
6. We believe a surge in consumer demand and the government's push to LED and solar lighting solutions will help achieve further growth in the lighting business
7. Havells India has divested its 80% holding for a consideration of ₹148.8 million (~₹ 1070 crore) in February 2016 while the remaining 20% will be divested in three to five years. The decision to divest the entire stake in Sylvania came on the back of the continuously poor financial performance of the company in the European region. With this move, the company is likely to shift its entire focus to the domestic market
8. The company launched the new range of switchgears "Euro II", super premium range of "Distribution Board" and energy efficient fan "ES 40" (fan consumes only 40 watt of electricity while a normal fan consumes between 75 watt and 80 watt of electricity)
9. Advertisement & sales promotion expenses were at 3.3% of standalone sales (vs. 3% in FY15)
10. Havells increased its exclusive one stop Galaxy showrooms count 2.5x to 375 in three years

### Exhibit 7: Related party transaction

|                                    | FY14 | FY15 | FY16  |
|------------------------------------|------|------|-------|
| <b>QRG Enterprises</b>             |      |      |       |
| Rent/Usage Charges Paid            | 19.3 | 19.3 | 19.3  |
| Trade mark fees and Royalty        | 40.6 | 40.0 | 40.0  |
| CSR Contribution                   | 5.5  | 5.5  | 8.1   |
| Rent received                      | 0.0  | 0.0  | 0.0   |
| Dividend paid                      | 47.5 | 38.0 | 113.9 |
| <b>Guptajee &amp; Company</b>      |      |      |       |
| Commission on sales                | 6.9  | 7.6  | 7.5   |
| Reimbursement of Expenses received | 0.7  | 0.7  | 0.6   |
| Dividend paid                      | 4.7  | 3.8  | 11.3  |
| <b>Vivekanand Ashrama</b>          |      |      |       |
| CSR Contribution                   | 0.3  | 0.3  | 0.3   |
| <b>Ajanta Mercantile Limited</b>   |      |      |       |
| Dividend paid                      | 16.2 | 13.8 | 41.2  |
| Managerial remuneration            | 15.7 | 24.8 | 23.7  |

Source: Company, ICICIdirect.com Research



## Outlook and valuation

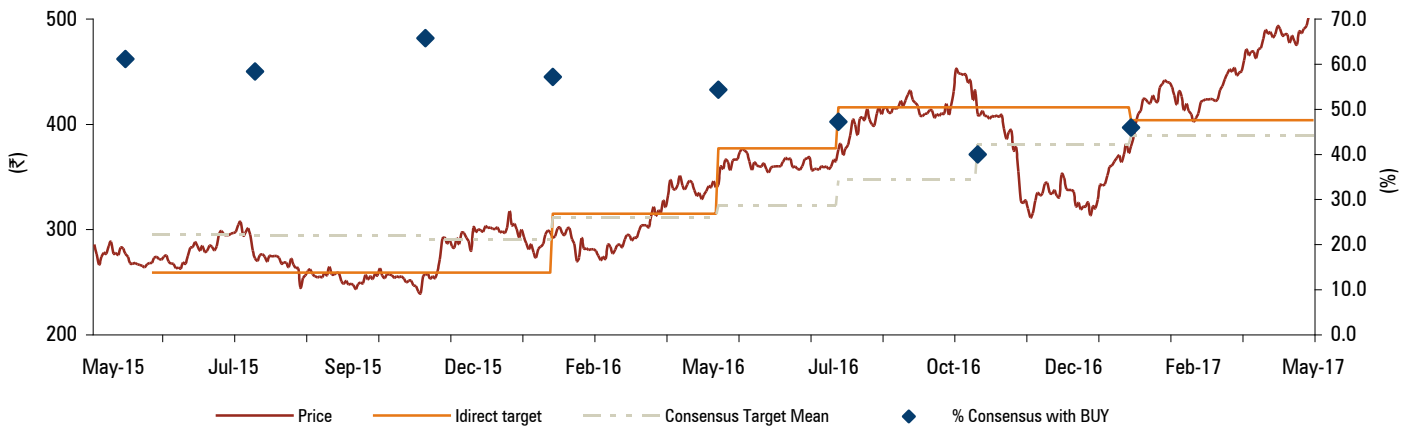
We expect Havells to record revenue, EBITDA CAGR of ~25%, 30%, respectively, in FY16-19E, supported by a revival in industrial and consumer products (led by acquisition of Lloyd's CD business). Scalability through acquisition coupled with launch of premium products into domestic market would negate the impact higher commodity prices. Further, we believe exit from the overseas business would help the company focus on the domestic business and improve the profitability into the next level. We upgrade the stock to **BUY** recommendation with a revised target price of ₹ 570 (value company at 36x FY19E earnings).

**Exhibit 8: Valuation**

|       | Sales<br>(₹ cr) | Growth<br>(%) | EPS<br>(₹) | Growth<br>(%) | PE<br>(x) | EV/EBITDA<br>(x) | RoNW<br>(%) | RoCE<br>(%) |
|-------|-----------------|---------------|------------|---------------|-----------|------------------|-------------|-------------|
| FY16  | 5378.3          |               | 11.4       |               | 44.7      | 39.8             | 21.0        | 26.4        |
| FY17E | 6135.3          | 14.1          | 8.6        | -24.3         | 59.0      | 36.5             | 17.4        | 23.0        |
| FY18E | 9067.0          | 47.8          | 12.1       | 40.3          | 42.1      | 28.2             | 21.2        | 26.5        |
| FY19E | 10454.9         | 15.3          | 15.7       | 29.9          | 32.4      | 22.5             | 22.5        | 28.0        |

Source: Company, ICICIdirect.com Research

## Recommendation history vs. consensus



Source: Bloomberg, Company, ICICIdirect.com Research

## Key events

| Date   | Event                                                                                                                                            |
|--------|--------------------------------------------------------------------------------------------------------------------------------------------------|
| Mar-09 | Wins export order worth US\$200 million from West European countries to supply CFL over five years                                               |
| Jun-09 | Opens new switchgear plant at Baddi in Himachal Pradesh. This boosts overall volume growth by 67% YoY                                            |
| Sep-10 | Announces bonus issue of 1:1                                                                                                                     |
| Oct-10 | Enters premium range of new generation electric water heater segment                                                                             |
| Nov-10 | Sylvania reports maiden profit in Q2FY11, for the first time after three years of its acquisition                                                |
| Dec-10 | Announcement on doubling capacity of cable & wire and CFL plant                                                                                  |
| Jul-11 | Announces entry into home and kitchen appliances business                                                                                        |
| Dec-11 | Enters into 50:50 joint venture agreement with Shanghai Yaming Lighting                                                                          |
| May-12 | Havells Sylvania Europe successfully refinances existing outstanding term loan liability of €77.5 million                                        |
| Sep-12 | Receives one-time fee of US\$38 million against settlement of jurisdictional ownership of Sylvania brand with Osram Sylvania Inc and Osram AG    |
| Oct-12 | Unveils country's first large-scale state-of-the-art lighting fixture plant in Neemrana, Rajasthan (Incurred ₹ 100 crore for expansion)          |
| Jan-13 | Company enters revised trademark license agreement with promoters                                                                                |
| Feb-13 | Warburg Pincus offloads 5.6% stake in Havells India for ₹ 455 crore                                                                              |
| May-13 | Launches new range of non modular (REO) switches                                                                                                 |
| Apr-15 | Acquires 51% stake in Promptec Renewable Energy Solutions for about ₹ 33 crore to enter the solar energy and LED street lighting segment         |
| Dec-15 | Decides to divest its 100% holding in Havells Malta and Havells Exim (largely Sylvania business) to China-based Shanghai Feilo Acoustics Company |

Source: Company, ICICIdirect.com Research

| Top 10 Shareholders |                                          |                    |       |              |            | Shareholding Pattern |        |        |        |        |        |
|---------------------|------------------------------------------|--------------------|-------|--------------|------------|----------------------|--------|--------|--------|--------|--------|
| Rank                | Name                                     | Latest Filing Date | % O/S | Position (m) | Change (m) | (in %)               | Mar-17 | Jun-17 | Sep-17 | Dec-17 | Mar-17 |
| 1                   | QRG Enterprises, Ltd.                    | 31-Mar-17          | 41.4  | 258.6        | 0.0        | Promoter             | 61.6   | 61.6   | 61.6   | 61.6   | 61.6   |
| 2                   | Gupta (Vinod)                            | 31-Mar-17          | 6.3   | 39.5         | -13.3      | FII                  | 25.8   | 27.1   | 26.7   | 26.2   | 26.5   |
| 3                   | Nalanda India Equity Fund Ltd.           | 31-Mar-17          | 5.3   | 33.0         | 0.0        | DII                  | 4.0    | 2.8    | 2.7    | 2.3    | 2.4    |
| 4                   | Gupta (Surjeet Kumar)                    | 31-Mar-17          | 5.2   | 32.7         | 0.0        | Others               | 8.6    | 8.5    | 9.0    | 9.9    | 9.4    |
| 5                   | Gupta (Anil Rai)                         | 31-Mar-17          | 4.9   | 30.7         | 13.3       |                      |        |        |        |        |        |
| 6                   | Capital World Investors                  | 31-Mar-17          | 3.1   | 19.7         | -2.7       |                      |        |        |        |        |        |
| 7                   | Norges Bank Investment Management (NBIM) | 31-Dec-16          | 2.9   | 18.1         | -3.7       |                      |        |        |        |        |        |
| 8                   | Gupta (Qimat Rai)                        | 31-Mar-17          | 2.2   | 13.6         | 0.0        |                      |        |        |        |        |        |
| 9                   | Capital Research Global Investors        | 31-Mar-17          | 1.9   | 11.7         | -0.4       |                      |        |        |        |        |        |
| 10                  | TIAA Global Asset Management             | 31-Mar-17          | 1.2   | 7.3          | -0.3       |                      |        |        |        |        |        |

Source: Reuters, ICICIdirect.com Research

| Recent Activity                             |          |           |                                          |          |           |
|---------------------------------------------|----------|-----------|------------------------------------------|----------|-----------|
| Investor name                               | Value(m) | Shares(m) | Investor name                            | Value(m) | Shares(m) |
| Gupta (Anil Rai)                            | 95.7     | 13.3      | Gupta (Vinod)                            | -95.7    | -13.3     |
| The Vanguard Group, Inc.                    | 0.9      | 0.1       | Norges Bank Investment Management (NBIM) | -18.6    | -3.7      |
| Northern Trust Global Investments           | 0.5      | 0.1       | Capital World Investors                  | -19.5    | -2.7      |
| BlackRock Institutional Trust Company, N.A. | 0.7      | 0.1       | Lyxor Asset Management                   | -6.8     | -1.0      |
| Eurizon Capital S.A.                        | 0.3      | 0.0       | UTI Asset Management Co. Ltd.            | -3.1     | -0.5      |

Source: Reuters, ICICIdirect.com Research

## Financial summary

| Profit and loss statement   |  |  |  |  | ₹ Crore |        |        |         |  |
|-----------------------------|--|--|--|--|---------|--------|--------|---------|--|
| (Year-end March)            |  |  |  |  | FY16    | FY17E  | FY18E  | FY19E   |  |
| Total Operating Income      |  |  |  |  | 5378.3  | 6135.3 | 9067.0 | 10454.9 |  |
| Growth (%)                  |  |  |  |  |         | 14.1   | 47.8   | 15.3    |  |
| Raw Material Expenses       |  |  |  |  | 2875.4  | 3268.7 | 4878.0 | 5624.7  |  |
| Employee Expenses           |  |  |  |  | 370.8   | 500.4  | 869.8  | 979.3   |  |
| Marketing Expenses          |  |  |  |  | 178.8   | 190.6  | 433.6  | 514.6   |  |
| Other expenses              |  |  |  |  | 900.3   | 971.7  | 1256.6 | 1376.6  |  |
| Total Operating Expenditure |  |  |  |  | 4623.4  | 5311.1 | 7944.8 | 9060.8  |  |
| Operating Profit (EBITDA)   |  |  |  |  | 754.9   | 824.2  | 1122.2 | 1394.1  |  |
| Growth (%)                  |  |  |  |  |         | 9.2    | 36.2   | 24.2    |  |
| Other Income                |  |  |  |  | 69.4    | 120.5  | 49.6   | 78.6    |  |
| Interest                    |  |  |  |  | 12.7    | 12.2   | 18.2   | 20.2    |  |
| Depreciation                |  |  |  |  | 104.9   | 119.6  | 131.5  | 148.5   |  |
| Less: Exceptional Items     |  |  |  |  | -202.4  | 44.1   | 0.0    | 0.0     |  |
| PBT                         |  |  |  |  | 909.0   | 768.8  | 1022.1 | 1304.0  |  |
| Total Tax                   |  |  |  |  | 197.0   | 229.8  | 265.6  | 321.7   |  |
| PAT                         |  |  |  |  | 712.0   | 539.0  | 756.4  | 982.3   |  |
| Minority Interest           |  |  |  |  | 0.0     | 0.0    | 0.0    | 0.0     |  |
| PAT before MI               |  |  |  |  | 712.0   | 539.0  | 756.4  | 982.3   |  |
| Growth (%)                  |  |  |  |  | 59.5    | -24.3  | 40.3   | 29.9    |  |
| EPS (₹)                     |  |  |  |  | 11.4    | 8.6    | 12.1   | 15.7    |  |

Source: Company, ICICIdirect.com Research, FY17E As per Ind AS

| Balance sheet                |  |  |  |  | ₹ Crore |         |        |        |  |
|------------------------------|--|--|--|--|---------|---------|--------|--------|--|
| (Year-end March)             |  |  |  |  | FY16    | FY17E   | FY18E  | FY19E  |  |
| Equity Capital               |  |  |  |  | 62.5    | 62.5    | 62.5   | 62.5   |  |
| Reserve and Surplus          |  |  |  |  | 2578.5  | 3211.1  | 3499.4 | 4296.0 |  |
| Total Shareholders funds     |  |  |  |  | 2641.0  | 3273.6  | 3561.8 | 4358.5 |  |
| Total Debt                   |  |  |  |  | 4.1     | 202.6   | 252.6  | 253.6  |  |
| Deferred Tax Liability       |  |  |  |  | 74.9    | 113.8   | 113.8  | 113.8  |  |
| Total Liabilities            |  |  |  |  | 2720.0  | 3589.9  | 3928.2 | 4725.9 |  |
| Assets                       |  |  |  |  |         |         |        |        |  |
| Total Gross Block            |  |  |  |  | 1494.2  | 1832.4  | 2082.4 | 2332.4 |  |
| Less Total Accumulated Depre |  |  |  |  | 447.0   | 566.6   | 698.1  | 846.6  |  |
| Net Block                    |  |  |  |  | 1047.2  | 1265.8  | 1384.3 | 1485.8 |  |
| Capital WIP                  |  |  |  |  | 22.1    | 11.9    | 11.9   | 11.9   |  |
| Total Fixed Assets           |  |  |  |  | 1069.4  | 1277.7  | 1396.2 | 1497.7 |  |
| Goodwill on cons             |  |  |  |  |         |         | 1600.0 | 1600.0 |  |
| Investment                   |  |  |  |  | 460.27  | 1382.57 | 100    | 150    |  |
| Inventory                    |  |  |  |  | 784.4   | 928.4   | 1372.1 | 1718.6 |  |
| Debtors                      |  |  |  |  | 157.6   | 228.5   | 496.8  | 572.9  |  |
| Other Current Assets         |  |  |  |  | 35.9    | 96.7    | 142.8  | 164.7  |  |
| Cash                         |  |  |  |  | 1353.7  | 554.9   | 329.0  | 611.8  |  |
| Total Current Assets         |  |  |  |  | 2388.1  | 1808.5  | 2340.8 | 3068.0 |  |
| Total Current Liabilities    |  |  |  |  | 1271.4  | 1370.0  | 1999.9 | 2131.1 |  |
| Net Current Assets           |  |  |  |  | 1116.7  | 438.5   | 340.8  | 936.9  |  |
| Total Assets                 |  |  |  |  | 2720.0  | 3589.9  | 3928.2 | 4725.9 |  |

Source: Company, ICICIdirect.com Research, FY17E As per Ind AS

| Cash flow statement                 |  |  |  |  | ₹ Crore |         |         |        |  |
|-------------------------------------|--|--|--|--|---------|---------|---------|--------|--|
| (Year-end March)                    |  |  |  |  | FY16    | FY17E   | FY18E   | FY19E  |  |
| Profit after Tax                    |  |  |  |  | 712.0   | 539.0   | 756.4   | 982.3  |  |
| Depreciation                        |  |  |  |  | 104.9   | 119.6   | 131.5   | 148.5  |  |
| CF before working cap changes       |  |  |  |  | 829.7   | 670.8   | 906.1   | 1151.0 |  |
| Net Increase in Current Assets      |  |  |  |  | -149.2  | -219.1  | -758.1  | -444.5 |  |
| Net Increase in Current Liabilities |  |  |  |  | 84.8    | 98.6    | 629.9   | 131.1  |  |
| CF from operating activities        |  |  |  |  | 765.3   | 550.3   | 777.9   | 837.6  |  |
| (Purchase)/Sale of Liquid Investmen |  |  |  |  | 551.5   | -922.3  | 1282.6  | -50.0  |  |
| Others                              |  |  |  |  | -718.4  | 594.4   | -1532.6 | -200.0 |  |
| (Purchase)/Sale of Fixed Assets     |  |  |  |  | -167.0  | -327.9  | -250.0  | -250.0 |  |
| CF from Investing Activities        |  |  |  |  | 564.6   | -1629.0 | -567.4  | -350.0 |  |
| Proceeds from issues of Equity Sha  |  |  |  |  | 0.0     | 0.0     | 0.0     | 0.0    |  |
| Inc / (Dec) in Loan Funds           |  |  |  |  | -39.0   | 198.5   | 50.0    | 1.0    |  |
| Others                              |  |  |  |  | -459.6  | 81.4    | -486.4  | -205.9 |  |
| CF from Financing Activities        |  |  |  |  | -498.6  | 279.9   | -436.4  | -204.9 |  |
| Net Cash flow                       |  |  |  |  | 831.3   | -798.7  | -225.9  | 282.8  |  |
| Opening Cash                        |  |  |  |  | 522.4   | 1353.7  | 554.9   | 329.0  |  |
| Closing Cash                        |  |  |  |  | 1353.7  | 554.9   | 329.0   | 611.8  |  |

Source: Company, ICICIdirect.com Research, FY17E As per Ind AS

| Key ratios           |  |  |  |  | ₹ Crore |       |       |       |  |
|----------------------|--|--|--|--|---------|-------|-------|-------|--|
| (Year-end March)     |  |  |  |  | FY16    | FY17E | FY18E | FY19E |  |
| Per Share Data       |  |  |  |  |         |       |       |       |  |
| Reported EPS         |  |  |  |  | 11.4    | 8.6   | 12.1  | 15.7  |  |
| Cash EPS             |  |  |  |  | 13.1    | 10.6  | 14.2  | 18.1  |  |
| BV per share         |  |  |  |  | 42.3    | 52.5  | 57.1  | 69.9  |  |
| DPS                  |  |  |  |  | 7.2     | 4.2   | 1.8   | 3.0   |  |
| Operating Ratios (%) |  |  |  |  |         |       |       |       |  |
| EBITDA Margin (%)    |  |  |  |  | 14.0    | 13.4  | 12.4  | 13.3  |  |
| PAT Margin (%)       |  |  |  |  | 10.3    | 9.3   | 8.3   | 9.4   |  |
| Asset Turnover       |  |  |  |  | 2.0     | 1.7   | 2.3   | 2.2   |  |
| Debtors Turnover     |  |  |  |  | 10.7    | 13.6  | 20.0  | 20.0  |  |
| Creditor Turnover    |  |  |  |  | 29.6    | 37.5  | 37.0  | 38.0  |  |
| Return Ratios (%)    |  |  |  |  |         |       |       |       |  |
| RoE                  |  |  |  |  | 21.0    | 17.4  | 21.2  | 22.5  |  |
| RoCE                 |  |  |  |  | 26.4    | 23.0  | 26.5  | 28.0  |  |
| RoIC                 |  |  |  |  | 52.0    | 31.2  | 35.5  | 39.1  |  |
| Valuation Ratios     |  |  |  |  |         |       |       |       |  |
| EV / EBITDA          |  |  |  |  | 39.8    | 36.5  | 28.2  | 22.5  |  |
| P/E                  |  |  |  |  | 44.7    | 59.0  | 42.1  | 32.4  |  |
| EV / Net Sales       |  |  |  |  | 5.6     | 4.9   | 3.5   | 3.0   |  |
| EV / Net Sales       |  |  |  |  | 5.6     | 4.9   | 3.5   | 3.0   |  |
| Market Cap / Sales   |  |  |  |  | 5.9     | 5.2   | 3.5   | 3.0   |  |
| Price to Book Value  |  |  |  |  | 12.0    | 9.7   | 8.9   | 7.3   |  |
| Solvency Ratios      |  |  |  |  |         |       |       |       |  |
| Debt / Equity        |  |  |  |  | 0.0     | 0.1   | 0.1   | 0.1   |  |
| Current Ratio        |  |  |  |  | 1.2     | 1.7   | 1.8   | 1.9   |  |
| Quick Ratio          |  |  |  |  | 0.3     | 0.4   | 0.6   | 0.6   |  |

Source: Company, ICICIdirect.com Research, FY17E As per Ind AS

## ICICIdirect.com coverage universe (Consumer Discretionary)

| Sector / Company             | CMP   |       | Rating | M Cap<br>(₹ Cr) | EPS (₹) |       |       | P/E (x) |       |       | EV/EBITDA (x) |       |       | RoCE (%) |       |       | RoE (%) |       |       |
|------------------------------|-------|-------|--------|-----------------|---------|-------|-------|---------|-------|-------|---------------|-------|-------|----------|-------|-------|---------|-------|-------|
|                              | (₹)   | TP(₹) |        |                 | FY17E   | FY18E | FY19E | FY17E   | FY18E | FY19E | FY17E         | FY18E | FY19E | FY17E    | FY18E | FY19E | FY17E   | FY18E | FY19E |
| Asian Paints (ASIPAI)        | 1,134 | 1,090 | Buy    | 108,773         | 18.6    | 24.0  | 27.0  | 59.9    | 47.2  | 42.0  | 36.8          | 32.1  | 28.6  | 37.5     | 41.0  | 39.8  | 27.7    | 33.8  | 32.5  |
| Bajaj Electricals (BAJELE)   | 353   | 280   | Hold   | 3,521           | 10.0    | 13.6  | 16.4  | 35.3    | 25.9  | 21.5  | 15.4          | 13.4  | 11.6  | 24.0     | 25.1  | 25.6  | 12.2    | 14.8  | 15.7  |
| Havells India (HAVIND)       | 510   | 570   | Buy    | 31,819          | 8.6     | 12.1  | 15.7  | 59.0    | 42.1  | 32.4  | 36.5          | 28.2  | 22.5  | 23.0     | 26.5  | 28.0  | 17.4    | 21.2  | 22.5  |
| Kansai Nerolac (KANNER)      | 414   | 445   | Buy    | 22,311          | 9.4     | 10.0  | 11.5  | 44.1    | 41.2  | 36.0  | 29.4          | 27.6  | 23.8  | 26.2     | 26.6  | 27.0  | 18.0    | 18.5  | 18.7  |
| Pidilite Industries (PIDIND) | 751   | 775   | Buy    | 38,499          | 15.5    | 17.6  | 20.0  | 48.6    | 42.7  | 37.5  | 31.7          | 27.7  | 23.5  | 34.8     | 35.4  | 35.2  | 25.7    | 25.9  | 25.8  |
| Essel Propack (ESSPRO)       | 266   | 270   | Hold   | 4,178           | 12.1    | 14.2  | 17.4  | 21.9    | 18.8  | 15.3  | 10.6          | 8.9   | 7.5   | 15.8     | 18.0  | 19.7  | 13.9    | 15.3  | 16.4  |
| Supreme Indus (SUPIND)       | 1,200 | 1,285 | Buy    | 15,243          | 33.7    | 36.6  | 43.7  | 35.6    | 32.8  | 27.5  | 20.2          | 17.9  | 15.2  | 30.0     | 32.6  | 35.1  | 25.3    | 26.5  | 27.7  |
| Symphony (SYMLIM)            | 1,471 | 1,530 | Buy    | 10,291          | 25.2    | 35.7  | 45.0  | 58.4    | 41.2  | 32.7  | 46.1          | 32.2  | 25.3  | 63.8     | 62.8  | 66.2  | 46.7    | 45.9  | 48.4  |
| V-Guard Ind (VGUARD)         | 206   | 151   | Hold   | 8,722           | 3.8     | 4.2   | 5.1   | 54.4    | 49.2  | 40.8  | 39.0          | 35.3  | 29.2  | 34.8     | 30.7  | 30.6  | 26.5    | 23.6  | 23.8  |
| Voltas Ltd (VOLTAS)          | 434   | 400   | Buy    | 14,354          | 14.7    | 16.5  | 19.0  | 29.6    | 26.3  | 22.8  | 25.2          | 22.1  | 18.5  | 23.8     | 23.9  | 24.5  | 18.3    | 18.4  | 18.9  |

Source: Company, ICICIdirect.com Research

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Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

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Sell: -10% or more;



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