

RETAIL EQUITY RESEARCH

HAVELLS INDIA Ltd

Electrical Equipment

BSE CODE:517354

NSE CODE: HAVELLS

Bloomberg CODE: HAVL:IN SENSEX: 31,904

Hold

Rating as per Midcap 12 Months investment period

CMP Rs. 463 TARGET Rs. 500 RETURN 8% ↑

21st July, 2017**GST plays spoil sport...future prospects bright**

Havells India Ltd (HAVL) is a leading player in electrical consumer goods in India. Its key verticals include switchgears, cables & wires, lighting fixtures and consumer appliances.

- Revenue (excluding Lloyd revenue) grew by modest 9% YoY, PAT declined by 16% YoY on lower EBITDA margins due to GST led de-stocking.
- EBITDA margin declined by 360bps YoY to 10% due to delay in price hikes, higher advertisement and other expenses.
- Lloyd consumer business is expected bring sharp scalability to HAVL's consumer business. We have included Lloyd in our earnings estimates.
- Currently HAVL's has presence across entire consumer electric space. Given its strong earnings outlook, premium valuation is expected to continue.
- We value HAVL at P/E of 36x (35x) on FY19E to arrive at a target price of Rs500 and upgrade to Hold from Reduce.

Revenue growth muted...GST impact transitory...

HAVL reported a modest revenue growth of 9% YoY led by Cables & wires and ESL segment which grew by 19% & 63% YoY. Lighting & fixture segment & Electric appliances reported a modest revenue growth of 5% & 2% YoY, whereas switch gear segment revenue de-grew 4% YoY. Revenue growth was impacted by implementation of GST which led to destocking at trade channels. However, volumes from cables were robust due to up-stocking witnessed in channels due to higher GST rates & sharp rise in copper prices. Lloyd consumer business contributed 14% towards the sales mix in Q1FY18 which was 50 days of sales. In the near term demand is expected to be muted due to destocking at trade channels.

EBITDA margin declines...

HAVL's EBITDA margins (excluding Lloyd) declined in Q1FY18 by 360 bps YoY to 10.0%. Due to implementation of GST, significant destocking was witnessed at trade channels which led to adverse sales mix. Whereas, inability to pass on higher cost, higher advertisement spend (up by 14% YoY) and other expenses (up by 31% YoY) added further pressure on EBITDA margins. The advertisement spend (including Lloyd) for the quarter stood at 4% of sales. Due to lower operating margins PAT (excluding Lloyd) declined by 21% YoY. In the near term, EBITDA margin is expected to be lower due to GST and higher advertisement spends. We factor EBITDA margins to be at 12% & 13% for FY18E & FY19E.

Changes in our estimates

We have included Lloyd in our earnings estimates due to which there are significant changes in our revenue, EBITDA, and PAT estimates.

Valuations

HAVL is trading at a 1 year FWD P/E of 40x which significant premium and we believe that this premium valuation to continue given its strong brand recall and leadership position in entire consumer electric segment. We value HAVL at P/E of 36x (35x) on FY19E to arrive at a target price of Rs500 and upgrade to Hold from Reduce.

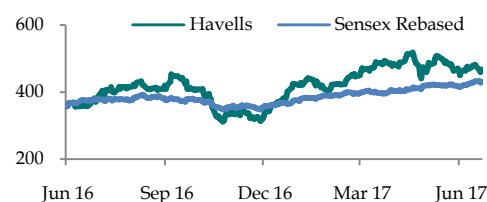
Company Data

Market Cap (cr)	Rs. 28,953
Enterprise Value (cr)	Rs. 28,866
Outstanding Shares (cr)	62.5
Free Float	38.4%
Dividend Yield	0.6%
52 week high	Rs. 525
52 week low	Rs. 304
6m average volume (cr)	0.2
Beta	0.8
Face value	Rs. 1

Shareholding (%)	Q3FY17	Q4FY17	Q1FY18
Promoters	61.6	61.6	61.6
FII's	26.2	26.5	26.3
MFs/Insti	2.7	2.7	3.2
Public	6.3	6.1	6.1
Others	3.2	3.1	2.8
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	20.2%	58.0%	43.7%
Absolute Sensex	7.0%	15.3%	18.2%
Relative Return*	13.2%	42.7%	25.5%

*over or under performance to benchmark index



Standalone (Rs. cr)	FY17	FY18E	FY19E
Sales	6,135	8307	9409
Growth (%)	12.8	35.4	13.3
EBITDA	824	997	1223
Margin (%)	13.4	12.0	13.0
PAT Adj	597	693	868
Growth (%)	17.1	16.1	25.0
Adj.EPS	9.6	11.1	13.9
Growth (%)	17.1	16.1	25.0
P/E	48.5	41.8	33.4
P/B	8.9	7.8	6.7
EV/EBITDA	34.7	29.0	23.3
ROE (%)	19.2	19.9	21.6
D/E	0.0	0.0	0.0

Anil R
Analyst

Standalone Quarterly Financials

Profit & Loss Account

(Rs cr)	Q1FY18	Q1FY17	YoY Growth %	Q4FY17	QoQ Growth %
Sales	1,861	1,467	26.8	1,710	9.0
EBITDA	172	201	(14.3)	230	(25.0)
EBITDA margins	9.3	13.7	-440bps	13.4	420bps
Depreciation	34	28	21.4	31	10.0
EBIT	139	173	(20.0)	199	(30.2)
Interest	3	2	50.0	7	(57.1)
Other Income	35	31	-	42	-
PBT	170	202	(22.0)	234	(27.0)
Tax*	49	57	-	62	-
Exceptional items	-	-		(77)	
Reported PAT	121	146	(16.6)	95	28.2
Adjustments	-	1	-	80	-
Adj PAT	121	145	(16.6)	174	(30.3)
No. of shares (cr)	62.5	62.5	-	62.5	-
EPS (Rs)	1.9	2.3	(16.6)	2.8	(30.3)

Change in estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Revenue	6,985	7,963	8,307	9,409	19.0	18.0
EBITDA	964	1,155	997	1,223	3.4	6.0
Margins (%)	13.8	14.5	12.0	13.0	(180bps)	(150bps)
PAT	670	820	693	868	3.4	6.0
EPS	10.7	13.1	11.1	13.9	3.7	6.0

Standalone Financials

Profit & Loss Account

Y.E March (Rs cr)	FY15A	FY16A	FY17A	FY18E	FY19E
Sales	5,239	5,437	6,135	8,307	9,409
% change	11.0	3.8	12.8	35.4	13.3
EBITDA	699	748	824	997	1,223
% change	9.0	7.0	10.2	20.9	22.7
Depreciation	88	92	120	137	149
EBIT	612	656	705	860	1,072
Interest	18	13	12	16	16
Other Income	52	69	134	133	165
PBT	646	914	769	977	1,221
% change	8.6	41.5	(15.9)	18.1	25.0
Tax	181	199	230	283	354
Tax Rate (%)	28.0	22.0	30.0	29.0	29.0
Reported PAT	465	715	536	693	868
Adj*	-	202	(58)	-	-
Adj PAT	465	513	597	693	868
% change	(2.9)	10.3	16.3	16.1	25.0
No. of shares (mn)	62.5	62.5	62.5	62.5	62.5
Adj EPS (Rs)	7.4	8.2	9.6	11.1	13.9
% change	(2.9)	10.3	16.3	16.1	25.0
DPS (Rs)	3.6	3.6	4.2	4.2	4.2
CEPS (Rs)	8.8	9.7	11.5	13.3	16.3

Balance Sheet

Y.E March (Rs cr)	FY15A	FY16A	FY17A	FY18E	FY19E
Cash	124	77	555	304	646
Accounts Receivable	133	158	229	319	361
Inventories	690	784	928	1,333	1,486
Other Cur. Assets	508	1,433	1,565	2,185	2,475
Investments	1,012	460	405	455	505
Gross Fixed Assets	1,306	1,456	1,683	1,572	1,201
Net Fixed Assets	977	1,051	1,248	1,220	1,199
CWIP	22	20	12	50	50
Intangible Assets	86	11	18	11	9
Def. Tax (Net)	(43)	(75)	(114)	(143)	(180)
Other Assets	175	4	-	-	-
Total Assets	3,605	3,920	4,846	5,734	6,553
Current Liabilities	858	877	1,184	1,577	1,758
Provisions	328	394	186	250	284
Debt Funds	43	4	5	5	5
Other Liabilities	-	-	198	198	198
Equity Capital	62.5	62.5	62.5	62.5	62.5
Reserves & Surplus	2,313	2,582	3,211	3,641	4,245
Shareholder's Fund	2,376	2,624	3,274	3,704	4,308
Total Liabilities	3,605	3,920	4,846	5,734	6,553
BVPS (Rs)	38	42	52	59	69

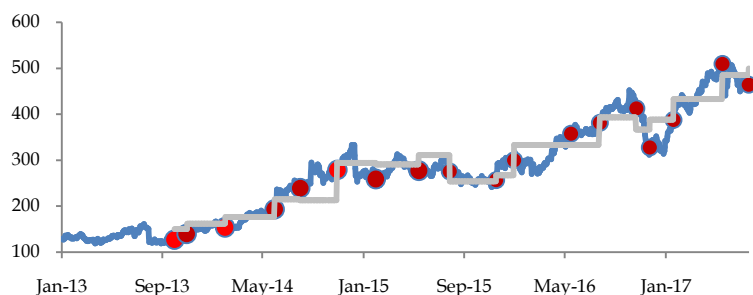
Cash flow

Y.E March (Rs cr)	FY15A	FY16A	FY17A	FY18E	FY19E
Net inc. + Depn.	465	715	539	693	868
Non-cash adj.	96	(100)	107	49	37
Changes in W.C	40	(91)	132	(657)	(271)
C.F.O	600	524	778	86	634
Capital exp.	(167)	(170)	(237)	(140)	(128)
Change in inv.	(477)	58	(66)	(50)	(50)
Other invest.CF	36	37	76	137	165
C.F - investing	(609)	(76)	227	(57)	(13)
Issue of equity	10	41	93	-	-
Issue/repay debt	(115)	(43)	153	(155)	-
Dividends paid	(146)	(451)	(226)	(263)	(263)
Other finance.CF	(17)	(6)	(9)	(16)	(16)
C.F - Financing	(269)	(497)	(72)	(279)	(279)
Chg. in cash	(277)	(48)	478	(251)	342
Closing cash	124	77	555	304	646

Ratios

Y.E March	FY15A	FY16A	FY17A	FY18E	FY19E
Profitab. & Return					
EBITDA margin (%)	13.3	14.0	13.4	12.0	13.0
EBIT margin (%)	11.7	12.1	11.5	10.4	11.4
Net profit mgn.(%)	8.9	9.5	9.7	8.3	9.2
ROE (%)	20.6	19.1	19.2	19.9	21.7
ROCE (%)	14.4	14.0	14.3	14.2	15.6
W.C & Liquidity					
Receivables (days)	9.4	9.8	11.5	12.0	13.2
Inventory (days)	78.8	84.8	85.7	78.9	88.2
Payables (days)	94.4	99.9	103.2	96.3	104.3
Current ratio (x)	1.2	2.3	2.4	2.3	2.4
Quick ratio (x)	0.3	0.3	0.7	0.4	0.6
Turnover & Levlg.					
Gross asset T.O (x)	4.3	4.2	4.5	5.5	5.7
Total asset T.O (x)	5.6	5.0	5.1	6.7	7.8
Int. covge. ratio (x)	34.8	51.1	58.0	53.1	66.3
Adj. debt/equity (x)	0.0	0.0	0.1	0.1	0.0
Valuation ratios					
EV/Sales (x)	5.5	5.4	4.7	3.5	3.0
EV/EBITDA (x)	41.3	38.2	34.7	29.0	23.3
P/E (x)	62.2	56.8	48.5	41.8	33.4
P/BV (x)	12.2	9.8	8.9	7.8	6.7

Recommendation Summary (last 3 years)



Source: Bloomberg, Geojit BNP Paribas Research

Dates	Rating	Target
01-Oct-13	Accumulate	150
01-Nov-13	Hold	162
31-Jan-14	Accumulate	176
31-May-14	Accumulate	215
30-July-14	Reduce	213
29-Oct-14	Accumulate	294
31-Jan-15	Accumulate	291
14-May-15	Accumulate	311
28-July-15	Reduce	254
17-November-15	Hold	267
31-December-15	Accumulate	333
17-May-16	Hold	373
25-July-16	Hold	393
20-October-16	Reduce	367
24-November-16	Buy	388
19-January-17	Buy	433
17-May-17	Reduce	485
21-July-17	Hold	500

Investment Rating Criteria

Large Cap Stocks;

Buy	-	Upside is 10% or more.
Hold	-	Upside or downside is less than 10%.
Reduce	-	Downside is 10% or more.

Mid Cap and Small Cap;

Buy	-	Upside is 15% or more.
Accumulate*	-	Upside between 10% - 15%.
Hold	-	Absolute returns between 0% - 10%.
Reduce/Sell	-	Absolute returns less than 0%.
To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.		

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating.

* For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

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