RESULT UPDATE

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HAVELLS INDIA LTD (HIL)

PRICE: RS.542 **RECOMMENDATION: SELL**
TARGET PRICE: RS.442 **FY19E PE: 38X**

HIL reported Q2FY18 revenue in line with our estimate, however higher margins in Lloyd and cable division led to PAT higher than our estimate. Other divisions (comparable business, ex-Lloyd) reported muted YY revenue growth affected by lower primary sales due to GST implementation.

We tweak FY18/FY19 earnings estimate to factor in sluggish sales in key segments due to GST transition. Value HIL stock at 31x FY19 estimated earnings and maintain 'SELL' recommendation with revised price target of Rs 442 (Rs 460 earlier).

Summary table

(Rs mn)	FY17	FY18E	FY19E
Sales	61,352	86,824	97,948
Growth (%)	14.1	41.5	12.8
EBITDA	8,241	10,106	12,645
EBITDA margin (%)	13.4	11.6	12.9
PBT	8265	9616	12185
Net profit	5,968	7,020	8,895
EPS (Rs)	9.6	11.2	14.3
Growth (%)	17.6	17.6	26.7
CEPS (Rs)	11.5	13.4	16.4
BV (Rs/share)	46.9	52.2	59.0
DPS (Rs)	3.5	4.5	5.5
ROE (%)	29.0	28.1	28.8
ROCE (%)	24.8	22.4	24.8
Net cash (debt)	2,728	3,219	6,281
NW Capital (Days)	-54.2	-55.4	-55.6
EV/Sales (x)	5.3	3.7	3.3
EV/EBITDA (x)	39.4	32.1	25.7
P/E (x)	56.7	48.2	38.0
P/Cash Earnings (x)	47.2	40.4	33.0
P/BV (x)	11.6	10.4	9.2

Source: Company, Kotak Securities – Private Client Research

Quarterly performance

Standalone (Rs mn)	Q2FY18	Q2FY172	YoY (%)	Q1FY18	QoQ (%)
Net Income	**17774**	**14522**	**22.4**	**18605**	**(4.5)**
Decrease/ (Increase) in stock	(962)	(650)		610	
Raw Material consumed	11214	9115	23.0	11355	(1.2)
Employee expenses	1617	1216	33.0	1619	(0.1)
Forex fluctuation	0	(70)		0	
Other expenses	2827	2327	21.5	2562	10.3
advertising expenses	509	485	4.9	735	
Total expenditure	15205	12423	22.4	16881	(9.9)
EBITDA	**2569**	**2099**	**22.4**	**1724**	**49.0**
Other income	286.9	253.0	13.4	348.0	(17.6)
Depreciation	348.9	307.8	13.4	335.8	3.9
EBIT	**2507**	**2045**	**22.6**	**1737**	**44.4**
Finance Cost	67	19	253.7	34	97.6
Exceptional items	0.0			0.0	
Adj.PBT	**2440**	**2026**	**20.4**	**1703**	**43.3**
Tax	730	572	27.5	489	49.3
Reported PAT	1710	1453	17.7	1214	40.9
Adjusted PAT	**1692**	**1453**	**16.4**	**1214**	**39.4**
Adj EPS	**2.7**	**2.3**	**17.7**	**1.9**	**40.9**
EBITDA (%)	14.5	14.5		9.3	
PAT (%)	9.5	10.0		6.5	
RM/Sales (x)	57.7	58.3		64.3	
Tax Rate (%)	29.9	28.2		28.7	

Source: Company

Result highlights

Havells reported 22.4% YoY revenue growth at Rs 17.7 Bn in Q2FY18 driven by Lloyds business and cable division. Q2FY18 reported financials of HIL includes Lloyd electric numbers and therefore are not comparable on YoY basis (HIL acquired Lloyd electric in Q1FY18 for an EV of Rs 18 Bn). Adjusted for Lloyd sales, revenue growth remain low (low vis-à-vis HIL's average historical growth of 12-15 % YY) at 6.7% YY (adjusted for excise last year) due to muted performance across segments except cables & wires division. Management highlighted that primary sales continued to remain weak as channel partners are reluctant in re-stoking inventory post GST transition.

Operating margin stood at 14.5% in Q2FY18 driven mainly by cable division. Erstwhile Havells reported EBITDA margin at 13.5% against 14.5% in Q2FY17. Employee expense stood at Rs 1.6 Bn from Rs 1.2 Bn in Q2FY17 and Rs 1.6 Bn in Q1FY18 driven by 1) Lloyd acquisition and 2) inclusion of high cost resources in the strategy team of Havells India. Margin were also driven by 1/ certain one off benefit in the cable division 2/ withdrawal of few dealer incentives introduced in last two quarters.

Consumer division reported mere 1.3% YY revenue growth at Rs 3.2 Bn in the quarter on weak primarily sales (transition impact of GST). Management highlighted that the sales continues to remain weak and expect sluggish Q3 as well. Festive season has also remained sluggish for the company. Consumer durable segment contribution margin expanded to 27.8% against 23.6% in Q2FY17.

Cable and wire division reported 9.6% YoY revenue de-growth at Rs 5.6 Bn in Q2FY18 led by 13-14% YoY volume de-growth in cables and 5% YY de-growth in wires. Cable division contribution margin at 19.9% got enhanced due to favourable commodity price and product mix towards domestic cables (domestic cables constitutes 54% of division sales against 50% in Q2FY17). Lighting division reported 28% YY revenue growth at Rs 2.8 Bn in the quarter, driven by LED lighting. LED lighting grew 38% YY and conventional lighting now constitutes nearly 18% of lighting sales.

Switchgear division reported 8.9 % YY revenue de-growth at Rs 3.3 Bn affected by sluggish growth in housing segment. Inventory re-stocking has not been robust post GST transition. Contribution margins stood at 41.3% in the segment vis-à-vis 39.9% in Q2FY17.

Segment reporting (Standalone)

	Q2FY18	Q2FY172	YoY (%)	Q1FY18	QoQ (%)
Standalone Revenues (Rs mn)					
Switchgear	3299	3624	-9.0	3557	(7.3)
Cable and Wires	5693	6303	-9.7	7196	(20.9)
Lighting and fixtures – India	2868	2233	28.4	2176	31.8
Electrical consumer durables	3216	3175	1.3	3676	(12.5)
Lloyd	2698			2672	
PBIT (Rs mn)					
Switchgear	1363	1445	-5.7	1307	4.3
Cable and Wires	1133	793	43.0	859	31.9
Lighting and fixtures - India	775	567	36.6	766	1.2
Electrical consumer durables	894	821	9.0	816	9.5
Lloyd	527	na		394	
PBIT (%)					
Switchgear	41.3	39.9		36.7	
Cable and Wires	19.9	12.6		11.9	
Lighting and fixtures - India	27.0	25.4		35.2	
Electrical consumer durables	27.8	25.8		22.2	
Lloyd	19.5	na		14.7	

Source: Company

Other Highlights

- Management expects employee expense to peak out at current level. We note that the company has continuously inducted high cost resources in its strategy team to drive future growth.
- Integration of Lloyd into Havells has been smooth. Management expects that Lloyd business/margin should increase from current 6-7% levels to 11-12% going ahead.
- Havells inorganic growth initiatives would be motivated by gaining 1) technology (new products) 2) market share and 3) geographical reach (mainly domestic). In domestic market, company is averse of making a large ticket size acquisition.

- Havells reported increase in payable to 89 days from 48 days in 1HFY17. This is led by higher payable days at Lloyd (75 days) due to higher credit given by Chinese manufacturers.

Valuation and Recommendation

At current price of Rs.542, HIL stock is trading at 38x P/E and 25.7x EV/EBITDA on FY19E earnings.

We maintain SELL on Havells India Ltd with a price target of Rs.442

We tweak FY18/FY19 earnings estimate to factor in sluggish sales in key segments due to GST transition. Value HIL stock at 31x FY19 estimated earnings and maintain **'SELL'** recommendation with revised price target of Rs 442 (Rs 460 earlier).

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BUY	–	We expect the stock to deliver more than 12% returns over the next 9 months
ACCUMULATE	–	We expect the stock to deliver 5% - 12% returns over the next 9 months
REDUCE	–	We expect the stock to deliver 0% - 5% returns over the next 9 months
SELL	–	We expect the stock to deliver negative returns over the next 9 months
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NA	–	Not Available or Not Applicable. The information is not available for display or is not applicable
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