

RETAIL EQUITY RESEARCH

HAVELLS INDIA Ltd

Electrical Equipment

BSE CODE:517354

NSE CODE: HAVELLS

Bloomberg CODE: HAVL:IN SENSEX: 32,607

Accumulate

Rating as per Midcap 12 Months investment period

CMP Rs. 503 TARGET Rs. 555 RETURN 10% ↑

25th October, 2017

GST overhang continues...margin expands

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.

- Overall revenue grew by 22% YoY, however revenue growth (excluding Lloyd) was modest at 4% YoY due to extension of GST overhang.
- EBITDA margin (excluding Lloyd) improved by 180bps YoY to 15.8% due to inventory gain, price hikes & cost rationalisation.
- PAT grew by 20% YoY, (excluding Lloyd) grew by 9% YoY.
- Going forward, growth is expected normalise as GST impact fades. We maintain our positive view on HAVL given its strong presence across entire consumer electric space.
- We factor earnings to grow at robust 20% CAGR over FY17-19E.
- Given strong earnings outlook, we value HAVL at P/E of 40x on FY19E with a target price of Rs.555 and we upgrade to Accumulate from Hold rating.

Higher GST rates...restocking delayed

HAVL reported a revenue growth of 22% YoY in Q2FY18, led by Lighting & fixture segment which grew by 21% YoY as LED lighting business witnessed strong growth. Cables & wires and consumer durable growth was muted at 2% & 4% YoY. While Switch gears segment de-grew by 5% YoY. In cables & wires, 10-12% price hikes were taken to compensate for higher copper prices. However, volume de-grew by 12-14% due to sharp increase in commodity prices & higher GST rates. Given Q2 being seasonally weak quarter for AC sales, revenue from Lloyd de-grew by 12% YoY. The reported revenue growth (excluding Lloyd) was modest at 9% YoY due to higher GST rates which is impacting the electrical consumer demand. The restocking by trade channel has been delayed due to weak demand. Considering this we lower our revenue growth estimates by 3.9% & 4.2% for FY18E & FY19E.

EBITDA margin improves

HAVL's overall EBITDA margin for Q2FY18 was stable at 14.5% and PAT grew by 20% YoY. However, EBITDA margins (excluding Lloyd) improved by 180bps YoY to 15.8% due to inventory gains, price hikes and lower expenses. While, PAT (excluding Lloyd) grew by modest 9% YoY. Given price hikes taken by HAVL's to pass through of commodity prices we believe EBITDA margins is expected to improve going forward. Considering this we increase our estimates by 50bps each and we factor EBITDA margins to be at 12.5% & 13.5% for FY18E & FY19E.

Valuations

HAVL is trading at a 1 year FWD P/E of 43x which is significant premium and we believe that this premium valuation to continue given its strong brand recall and leadership position in entire consumer electric segment. Given higher GST rates and sharp increase in commodity prices, we expect that the near term demand headwinds likely to be extended in coming quarters also. However, we expect earnings to grow at healthy 20% CAGR over FY17-19E. We value HAVL at P/E of 40x (36x) on FY19E to arrive at a target price of Rs.555 and we upgrade to Accumulate from Hold rating.

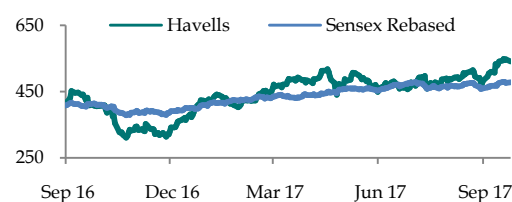
Company Data

Market Cap (cr)	Rs. 31,386
Enterprise Value (cr)	Rs. 31,034
Outstanding Shares (cr)	62.5
Free Float	38.4%
Dividend Yield	0.6%
52 week high	Rs. 564
52 week low	Rs. 304
6m average volume (cr)	0.2
Beta	0.8
Face value	Rs. 1

Shareholding (%)	Q4FY17	Q1FY18	Q2FY18
Promoters	61.6	61.6	61.6
FII's	26.5	26.3	25.7
MFs/Insti	2.7	3.2	3.4
Public	6.1	6.1	6.1
Others	3.1	2.8	3.2
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	9.1%	5.4%	23.4%
Absolute Sensex	0.7%	8.6%	15.7%
Relative Return*	8.4%	-3.2%	7.7%

*over or under performance to benchmark index



Standalone (Rs. Cr)	FY17A	FY18E	FY19E
Sales	6,135	7,979	9,072
Growth (%)	12.8	30.1	13.7
EBITDA	824	997	1225
Margin (%)	13.4	12.5	13.5
PAT Adjusted	597	690	867
Growth (%)	17.1	15.6	25.6
Adj.EPS	9.6	11.0	13.9
Growth (%)	17.1	15.6	25.6
P/E	52.6	45.5	36.2
P/B	9.6	8.5	7.3
EV/EBITDA	37.7	31.4	25.4
ROE (%)	19.2	19.8	21.7
D/E	0.0	0.0	0.0

Anil R
Analyst

Standalone Quarterly Financials

Profit & Loss Account

(Rs cr)	Q2FY18	Q2FY17	YoY Growth %	Q1FY18	QoQ Growth %
Sales	1,777	1,452	22.4	1,861	(4.5)
EBITDA	257	210	22.1	172	49.0
EBITDA margins	14.5	14.5	-	9.3	519bps
Depreciation	35	31	13.4	34	3.9
EBIT	222	180	22.1	139	49.0
Interest	7	2	254.0	3	98.0
Other Income	29	25	13.4	35	(18.0)
PBT	244	203	20.0	170	43.3
Tax*	73	57	28.0	49	49.3
Exceptional items	2	-		-	
Reported PAT	173	146	18.6	121	42.4
Adjustments	(2)	(3)	-	-	-
Adj PAT	171	143	19.5	121	40.9
No. of shares (cr)	62.5	62.5	-	62.5	-
EPS (Rs)	2.7	2.3	19.5	1.9	40.9

Change in estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Revenue	8,307	9,409	7,979	9,018	(3.9)	(3.6)
EBITDA	997	1,223	997	1,225	0.1	0.1
Margins (%)	12.0	13.0	12.5	13.5	50bps	50bps
PAT	693	868	690	867	-	-
EPS	11.1	13.9	11.0	13.9	-	-

Standalone Financials

Profit & Loss Account

Y.E March (Rs cr)	FY15A	FY16A	FY17A	FY18E	FY19E
Sales	5,239	5,437	6,135	7,979	9,072
% change	11.0	3.8	12.8	30.1	13.7
EBITDA	699	748	824	997	1,225
% change	9.0	7.0	10.2	21.0	22.8
Depreciation	88	92	120	140	148
EBIT	612	656	705	858	1,076
Interest	18	13	12	15	18
Other Income	52	69	134	130	162
PBT	646	914	769	972	1,221
% change	8.6	41.5	(15.9)	17.6	25.6
Tax	181	199	230	282	354
Tax Rate (%)	28.0	22.0	30.0	29.0	29.0
Reported PAT	465	715	536	690	867
Adj*	-	202	(58)	-	-
Adj PAT	465	513	597	690	867
% change	(2.9)	10.3	16.3	15.6	25.6
No. of shares (mn)	62.5	62.5	62.5	62.5	62.5
Adj EPS (Rs)	7.4	8.2	9.6	11.0	13.9
% change	(2.9)	10.3	16.3	15.6	25.6
DPS (Rs)	3.6	3.6	4.2	4.2	4.2
CEPS (Rs)	8.8	9.7	11.5	13.3	16.2

Cash flow

Y.E March (Rs cr)	FY15A	FY16A	FY17A	FY18E	FY19E
Net inc. + Depn.	465	712	539	690	867
Non-cash adj.	96	(91)	107	54	41
Changes in W.C	40	(96)	132	(726)	(361)
C.F.O	600	525	778	18	547
Capital exp.	(167)	(174)	(237)	(120)	(168)
Change in inv.	(477)	59	(66)	(50)	(80)
Other invest.CF	36	37	76	130	162
C.F - investing	(609)	(78)	(227)	(40)	(86)
Issue of equity	10	29	93	-	-
Issue/repay debt	(115)	(43)	153	99	(102)
Dividends paid	(146)	(451)	(226)	(263)	(263)
Other finance.CF	(17)	(6)	(9)	(15)	(18)
C.F - Financing	(269)	(498)	(72)	(179)	(382)
Chg. in cash	(277)	(51)	478	(201)	79
Closing cash	127	77	555	354	432

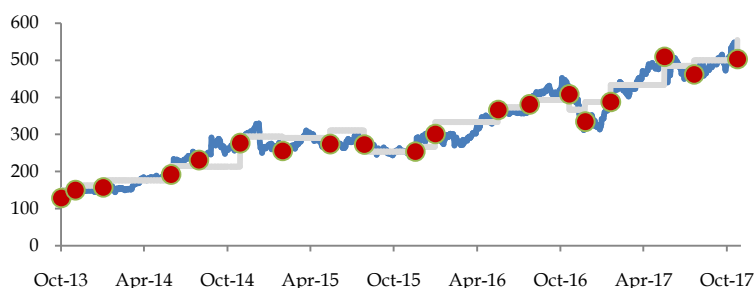
Balance Sheet

Y.E March (Rs cr)	FY15A	FY16A	FY17A	FY18E	FY19E
Cash	124	77	555	354	432
Accounts Receivable	133	158	229	304	343
Inventories	690	784	928	1,302	1,452
Other Cur. Assets	508	1,433	1,565	2,083	2,446
Investments	1,012	460	405	455	535
Gross Fixed Assets	1,306	1,282	1,463	1,572	1,722
Net Fixed Assets	977	1,177	1,248	1,217	1,219
CWIP	22	20	12	30	50
Intangible Assets	86	11	18	11	9
Def. Tax (Net)	(43)	(86)	(114)	(143)	(180)
Other Assets	175	-	-	-	-
Total Assets	3,605	4,003	4,846	5,613	6,306
Current Liabilities	858	878	1,184	1,371	1,529
Provisions	328	168	186	240	273
Debt Funds	43	3	5	6	4
Other Liabilities	-	-	198	198	198
Equity Capital	62.5	62.5	62.5	62.5	62.5
Reserves & Surplus	2,313	2,891	3,211	3,638	4,242
Shareholder's Fund	2,376	2,954	3,274	3,701	4,304
Total Liabilities	3,605	4,003	4,846	5,613	6,306
BVPS (Rs)	38	47	52	59	69

Ratios

Y.E March	FY15A	FY16A	FY17A	FY18E	FY19E
Profitab. & Return					
EBITDA margin (%)	13.3	14.0	13.4	12.5	13.5
EBIT margin (%)	11.7	12.1	11.5	10.7	11.9
Net profit mgn.(%)	8.9	9.5	9.7	8.7	9.6
ROE (%)	20.6	19.1	19.2	19.8	21.7
ROCE (%)	14.4	14.0	14.3	14.0	15.4
W.C & Liquidity					
Receivables (days)	9.4	9.8	11.5	12.2	13.0
Inventory (days)	78.8	84.8	85.7	81.4	90.1
Payables (days)	94.4	99.9	103.2	93.2	94.8
Current ratio (x)	1.2	2.3	2.4	2.5	2.6
Quick ratio (x)	0.3	0.3	0.7	0.5	0.5
Turnover & Levq.					
Gross asset T.O (x)	4.3	4.2	4.5	5.3	5.5
Total asset T.O (x)	5.6	5.0	5.1	6.5	7.4
Int. covge. ratio (x)	34.8	51.1	58.0	56.7	61.3
Adj. debt/equity (x)	0.0	0.0	0.1	0.1	0.0
Valuation ratios					
EV/Sales (x)	6.0	5.8	5.1	3.9	3.4
EV/EBITDA (x)	44.7	41.5	37.7	31.4	25.4
P/E (x)	67.5	61.6	52.6	45.5	36.2
P/BV (x)	13.2	10.7	9.6	8.5	7.3

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
25-October-17	Accumulate	555

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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