MOTILAL OSWAL

6 December 2017

Update | Sector: Capital Goods

# Havells India

| BSE SENSEX | S&P CNX |
|---|---|
| 32,802 | 10,118 |

## CMP: INR507 TP: INR590(+16%) Upgrade to Buy

HAVELLS

**Stock Info**

| | |
|---|---|
| Bloomberg | HAVL IN |
| Equity Shares (m) | 625.0 |
| 52-Week Range (INR) | 564/311 |
| 1, 6, 12 Rel. Per (%) | 4/0/24 |
| M.Cap. (INR b) | 316.3 |
| M.Cap. (USD b) | 4.9 |
| Avg Val, INRm | 656 |
| Free float (%) | 38.4 |

**Financials Snapshot (INR b)**

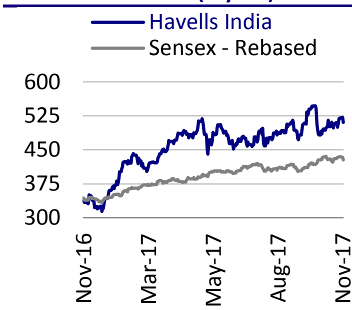
| Y/E Mar | 2018E | 2019E | 2020E |
|---|---|---|---|
| Net Sales | 83.2 | 100.4 | 114.7 |
| EBITDA | 10.7 | 13.6 | 15.8 |
| Adj PAT | 7.2 | 8.9 | 10.5 |
| Adj EPS (INR) | 11.5 | 14.3 | 16.8 |
| EPS Gr. (%) | 20.5 | 23.9 | 17.7 |
| BV/Sh(INR) | 59.0 | 67.2 | 76.8 |
| RoE (%) | 19.5 | 21.2 | 21.9 |
| RoCE (%) | 19.7 | 21.9 | 22.8 |
| Payout (%) | 42.8 | 42.8 | 42.8 |
| **Valuations** | | | |
| P/E (x) | 44.3 | 35.7 | 30.4 |
| P/BV (x) | 8.6 | 7.6 | 6.6 |
| EV/EBITDA (x) | 29.0 | 22.5 | 19.0 |
| Div Yield (%) | 0.8 | 1.0 | 1.2 |

**Shareholding pattern (%)**

| As On | Sep-17 | Jun-17 | Sep-16 |
|---|---|---|---|
| Promoter | 61.6 | 61.6 | 61.6 |
| DII | 3.5 | 3.2 | 2.9 |
| FII | 25.7 | 26.3 | 26.7 |
| Others | 9.3 | 8.9 | 8.8 |

FII Includes depository receipts

**Stock Performance (1-year)**




## Expanding share in the electrical sector in India

### Entry into durables adds another leg of growth

**Continuously entering new categories to drive growth:** Havells India (HAVL) has consistently identified and entered new product categories over the years (see Exhibit 1). Some of the key categories where it has made a successful entry include lighting in 2003, premium fans in 2005, water heaters in 2010, REO Switches in 2012, air coolers in 2014, re-launch of the *Standard* brand in 2016 (target of INR10b by FY20) and EHV cables. The recent acquisition of Lloyd gives HAVL a strong foothold in the fast growing durables segment – the aim is to double revenue in the next three years through new product launches, expansion of existing product portfolio and increased channel penetration (in talks with large format stores to stock Lloyd products).

**GST rate cuts to accelerate market share gains from the unorganized sector:** The government has cut GST rates across electrical categories from 28% to 18% and this should accelerate the shift towards the organized sector, especially in categories like cables/wires, fans, switches and lighting, where the share of the unorganized segment is high. Implementation of the E-waybill from April 2018 would further accelerate this transition. Media reports suggest a cut in rates from 28% to 18% for durables as well – this would have a positive impact on Lloyd's sales in air-conditioners for the upcoming summer season in 2018.

**EESL threat recedes; LED bulb prices stabilizing:** The market has been concerned on the impact of EESL's bulk sourcing on prices of fans, lighting products and durables (air conditioners, washing machines and refrigerators). Our recent meeting with EESL indicates that its focus has now shifted to electric vehicles, smart meters and solar rooftops from fans and lighting (LED bulbs, streetlights). This is positive for electrical companies like HAVL that can leverage their strong channel relationships to drive sales. We believe the change in EESL's stance is driven by (a) installation issues with durables unlike LED lamps, which are 'plug and play', (b) regular servicing requirements of durables, and (c) high cost of raising product awareness with the customer.

**Margins revert to normalized levels post demonetization/GST disruption:** HAVL's EBITDA margin had dipped to 12.7% in 3QFY17, as discounts/schemes were offered to counter the impact of demonetization. EBITDA margin further dipped to 10% in 1QFY18 on GST-related destocking and delays in passing on RM cost hikes to the channel. With all the demonetization-related schemes being rolled back and price hikes taken, EBITDA margin has bounced back to 15.8% in 2QFY18 and should sustain at the historical 13.5-14%. We expect sales growth to accelerate, led by (a) lighting, consumer durables, and Lloyd Electric, and (b) market share gains in cables/wires and switches.

**Upgrade to Buy; retain TP at INR590 (35x Dec'19 EPS):** We expect HAVL to report 21% EPS CAGR over FY17-20, with EBITDA margin expanding 40bp to 13.8%. With the Lloyd acquisition, HAVL has turned itself into a complete electricals and durables behemoth, and is well positioned to tap into the under-penetrated Indian market. Our target price is based on 35x Dec'19 EPS (in line with Crompton Consumer Electricals).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# Continously entering new categories to drive growth

**Entry into durables via Lloyd opens up another large opportunity**

## Successful entry into new categories over the years

HAVL has consistently been able to identify and enter new product categories over the years. Some of the key categories it has successfully entered include lighting in 2003, premium fans in 2005, water heaters in 2010, REO switches in 2012, air coolers in 2014, and the re-launch of the *Standard* brand in 2016.

**Exhibit 1: New product introductions by Havells over the years**

| Description | Year |
|---|---|
| Lighting – GLS | 2003 |
| Fans - premium category | 2005 |
| Motors | 2008 |
| Lighting – CFL | 2009 |
| Electric water heaters | 2010 |
| Kitchen and Home appliances | 2011 |
| REO Switches | 2012 |
| Pumps | 2013 |
| Air Coolers | 2014 |
| Promptec | 2015 |
| STANDARD Relaunch | 2016 |
| REO - Bliss (Modular Switches) | 2016 |
| Solar Power Systems - Home lighting, Pumps, Streetlights | 2016 |
| Crabtree - home automation and control | 2016 |
| REO – Armor (Switchgear) | 2017 |
| Personal Grooming (Shavers, Trimmers, Hair Straighteners) | 2017 |
| Water Purifiers | 2017 |
| Lloyd Electric – Air- conditioners, TV and Washing Machines | 2017 |
| Super premium Fans - Octet(8 blades), Wi-fi controlled and BLDC | 2017 |
| CRABTREE - Switch Plates | 2017 |
| EHV Cables | 2017 |

Source: MOSL, Company

HAVL has done very well in each of these categories. It has taken share from the incumbents and is already among the top five players. We highlight its successes:

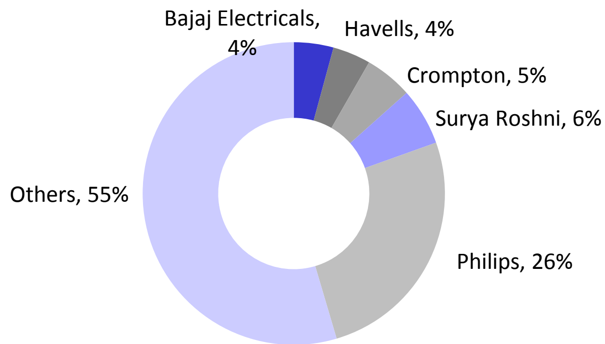
- In water heaters, HAVL has grown in size to one of the top-5 players in the country. Water heater sales were at INR2b in FY17 and HAVL has identified this as a key product category for growth – given the seasonality of sales, it would see primary sales for the upcoming winter season and balance out the weak sales for fans in 2Q/3Q. Havells has already taken a 15% share in the ~INR15b water heater market and has aggressively stepped up advertisement spends to further increase its market share in this segment with the current winter season – its Adonia range of water heaters have a color changing LED which indicates the temperature of the water, are 5 star rated for highest energy efficiency, a digital temperature display.

**Exhibit 2: Adonia color changing water heaters from Havells**


Source: Company, MOSL

- HAVL is the market leader in lighting fixtures and among the top-5 players in the overall lighting market in India. Its focus is on LED lighting, which currently contributes 82% of sales in fixtures (~85% of lighting sales). While fixtures are commonly used in commercial establishments, their usage is also increasing in the residential segment as well – Havells is uniquely positioned as the only Indian manufacturer of fixtures with its plant at Neemrana. It has focused on fixtures vs. selling only the LED lamps as these earn better margins.

**Exhibit 3: Market share in lighting market in India (FY17)**




Source: MOSL, Company

- HAVL is the market leader in premium fans – its strategy to focus on premium fans has enabled it to beat established incumbents like Crompton, Bajaj Electric and Orient Electricals to take ~25% share in premium fans. To further cement its position, Havells has recently launched a range of Super premium Fans which includes: a) Octet (8 blades), b) W-ifi controlled and blue tooth enabled fans (Futuro) and c)BLDC fans (Efficiencia) which are 50% more energy efficient than normal 75W fans.

**Exhibit 4: Havells Octet Fans with 8 blades**

Source: Company, MOSL

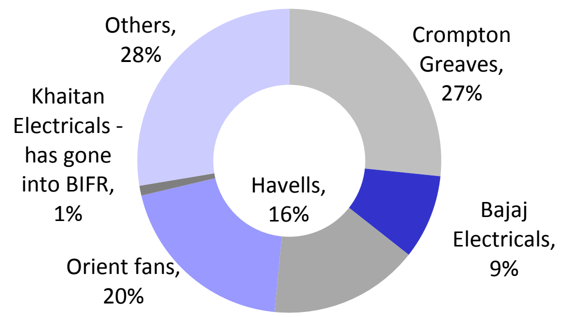
**Exhibit 5: Havells Enticer range of Dust resistant fans**


Source: Company, MOSL

**Exhibit 6: Havells Futuro Fans with blue tooth technology**


Source: Company, MOSL

**Exhibit 7: Fan market share in India (FY17) – Havells is the leader in premium fans**




Source: Company, MOSL

- HAVL launched the REO range of switches (non-modular) and switchgear to cater to the affordable housing segment – it targets annual sales of INR1b from *REO Bliss* and INR2b from *REO Armor* (switchgear). Note that Havells has historically been strong in this segment with a 27-28% share in the switchgear segment and ~14-15% share in the switches segment. The launch of the REO brand is targeted towards the affordable housing segment which is expected to drive the next leg of growth in housing.

**Exhibit 8: REO switches to target the affordable housing segment**


Source: MOSL, Company

- The *Standard* brand has been re-launched, with Alia Bhatt as brand ambassador – the aim is take sales from this brand to INR5b in three years and to INR10b by FY20. The *Standard* brand is strong in South India and will be at similar price points as *Havells*. With this launch, Havells has segmented the market into three: the Standard band which targets the youth with its tagline "Young Energy', Crabtree which targets the premium end of the market with its tagline "What a life" and Havells which is for mass premium segment with its tagline "Making a difference".

**Exhibit 9: Havells has re-launched the STANDARD brand with Alia Bhatt**


Source: Company, MOSL

- HAVL launched personal grooming products in 2017 and aims to be among the top-3 in this category with a target of 25% of the market. The range is based on the four pillars of style, safety, durability and convenience.

**Exhibit 10: Havells personal care range**


Source: Company, MOSL

## Acquisition of Lloyd helps foray into consumer durables segment

The acquisition of Lloyd has helped HAVL to foray into the consumer durables business, which is currently estimated at INR830b and is expected to witness double-digit growth over the next few years, given low penetration levels, increasing urbanization, and an aspirational and expanding middle class. The urban market accounts for 67% of the consumer durables sector.

The acquisition of Lloyd makes HAVL a credible consumer durables company along with a very strong portfolio in electricals. The size of the consumer durables industry (air conditioners, TVs, washing machines, fridges) would be ~INR830b (see table below) versus the current size of the consumer electricals segment at INR681b. The consumer durables market is dominated by the Koreans (LG, Samsung) along with a few Indian names like Voltas and Blue Star.

**Exhibit 11: Consumer durables industry size (INR m)**

| Name of the segment | Value (INR m) |
|---|---|
| Air conditioners | 100,000 |
| Washing machine | 122,000 |
| Fridges | 93,400 |
| Television | 514,000 |
| **Total** | **829,400** |

Source: MOSL, Industry Research

**Exhibit 12: Penetration of product categories in India**

| Product | Penetration |
|---|---|
| Fans | 80% |
| Water heater | 10% |
| Mixer-Grinder | 35% |
| TV | 77% |
| Fridge | 33% |
| Air cooler | 8-10% |
| Washing Machine | 13% |
| Air conditioner | 3-4% |

Source: MOSL, Industry Research

**Exhibit 13: Room air-conditioners to grow a 13% CAGR over FY17-20**

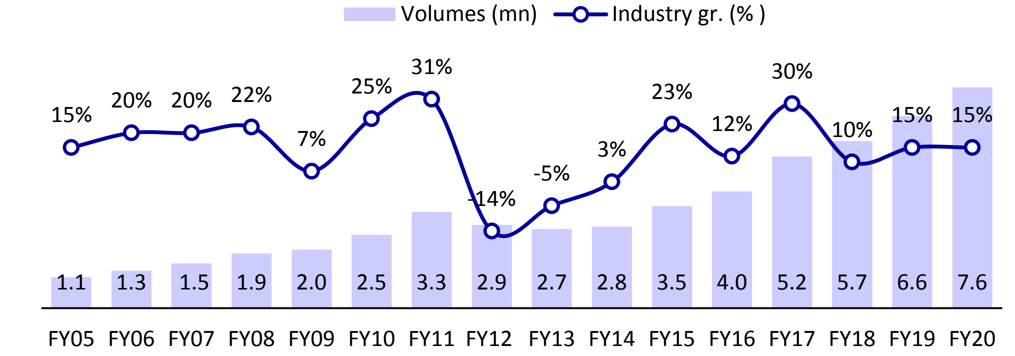
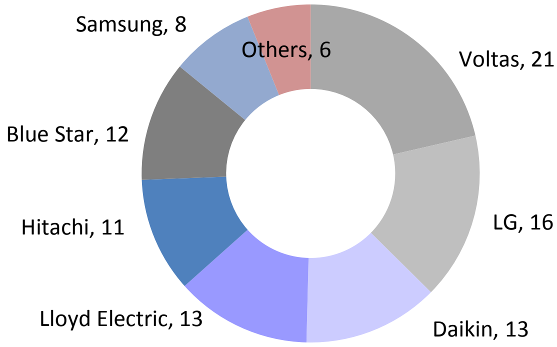



**Exhibit 14: Lloyd amongst the top 5 players in aircon (by volumes)**




Source: MOSL, Industry

## Lloyd acquisition also gives access to a large distribution channel and brand

As at the end of FY17, Lloyd had a network of over 10,000 direct and indirect dealers spread across India, 34 sales branches, 485 authorized service centers, and 31 company-owned service centers. Lloyd currently enjoys ~14% market share in the room AC segment and is among the top 4-5 players in the room AC market; it has seen impressive growth over the last three years to touch 14% market share in FY17. ~75% of sales are from ACs and the balance from TVs and washing machines.

**Exhibit 15: Service centers of key air conditioner players in India**

| Name of the company | Nos (FY16) |
|---|---|
| Voltas | 200 |
| Blue Star | 25 |
| Hitachi home and Life | 41 |
| Daikin | 75 |
| LG | 194 |
| Carrier | 175 |
| Lloyd Electric | 485 |
| Panasonic | 100 |

**Exhibit 16: Dealer touch points of various players in India**

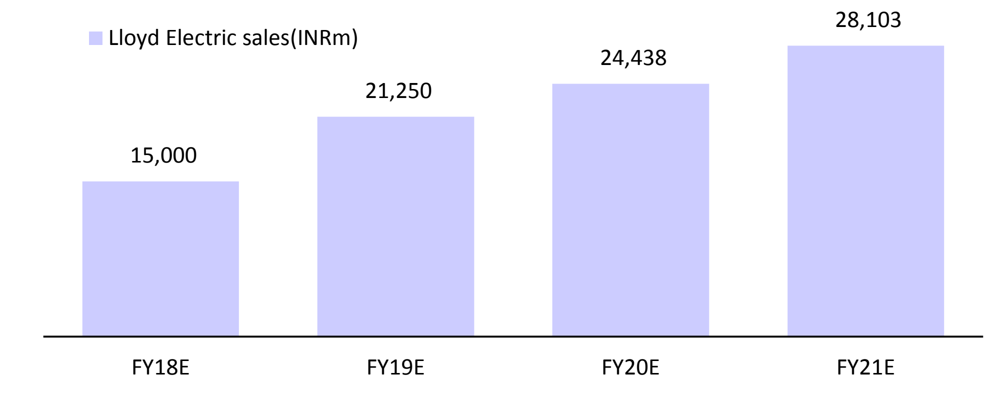
| Company | Touch points |
|---|---|
| Voltas | >14,000 |
| Blue Star | 3800 |
| Daikin | 4000 |
| Videocon | 7000 |
| Hitachi | 4000 |
| Lloyd Electric | >10,000 |
| Symphony | 23,400 |
| Carrier Midea | 3,200 |

Source: MOSL, Company

## Target is to double Lloyd Electric sales in the next three years

HAVL acquired Lloyd Electric in February 2017 for a consideration of INR16b and this acquisition has given it access to the durables segment in the country. Lloyd has a presence in air conditioners (75% of FY17 sales), TVs and washing machines. HAVL aims to double the sales of Lloyd in the next three years by (a) introducing new products (planning to launch refrigerators), (b) expanding the existing product portfolio of ACs, sashing machines and LED TVs, and (c) increasing dealer network and targeting large format stores where Lloyd was not present earlier.

**Exhibit 17: Lloyd Electric sales over the next few years**




Source: MOSL, **FY18 sales excluding April. 2017

**Exhibit 18: Lloyd range of air conditioners –Mr. Amitabh Bachhan is the brand ambassador**


Source: Company, MOSL

# GST rate cuts to accelerate shift to organized sector

**Likely cut in GST rates on durables also on the cards**

## GST rates cuts to accelerate shift to organized sector

The government has recently cut GST rates across electrical categories from 28% to 18% and this should accelerate the shift towards the organized sector, especially in categories like cables/wires, fans, switches and lighting, where the share of the unorganized segment is high. Implementation of E-waybill from April 2018 would further accelerate this transition. Media reports suggest a cut in rates from 28% to 18% for durables as well – this would have a positive impact on Lloyd's sales for the upcoming summer season in 2018.

HAVL would be a key beneficiary of the recent GST rate cuts on electrical products by the government. Incidentally, with GST rates in key categories being hiked to 28% for fans and cables/wires, the share of unorganized trade had resurged. The cut in rates to 18% would help the organized players take back share.

**Exhibit 19: GST rates cut from 28% to 18% for electrical products**

| Description | From | To |
|---|---|---|
| Switches/Circuit breakers | 28% | 18% |
| Fans | 28% | 18% |
| Insulated Cables/Wires | 28% | 18% |
| CFL | 28% | 18% |
| Pumps | 28% | 18% |
| Water Heater | 28% | 18% |

Source: MOSL, PIB website

**Exhibit 20: Share of unorganized sector in electricals sales**

| Description | FY06 | FY10 | FY16 |
|---|---|---|---|
| Fans | 60% | 40% | 25% |
| Lighting | 75% | 60% | 40% |
| Pumps | 55% | 45% | 30% |
| Domestic Switchgear | 60% | 20% | <5% |
| Industrial Switchgear | 40% | 20% | 20-25% |
| Cables and Wires | 55% | 45% | 30% |
| Switches | 75% | 50% | 40% |

Source: MOSL, Industry

The scope for taking share is higher in categories like lighting, pumps, cables/wires and switches, as the share of the unorganized segment is higher in these categories.

## GST rates could be cut for durables too; advantage for Lloyd Electric

Media reports suggest that the GST Council, in its next meeting in January 2018 may cut GST rate on durables from 28% to 18%. This would positively impact air conditioners, washing machines, TVs and refrigerators – these are all key focus segments for Lloyd Electric.

Assuming that the entire rate cut is passed on to end consumers, we would expect a similar increase in end demand, assuming a price elasticity of 1x. Ahead of the upcoming summer season, we believe this could be a big positive in terms of sales of air conditioners, which account for 75-80% of sales for Lloyd Electric

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## EESL threat for the electricals sector recedes

### LED prices stabilizing; limited impact on other durables

The market has been concerned on the impact of EESL's bulk sourcing on prices of fans, lighting products and durables (air conditioners, washing machines). EESL has been successful in drastically reducing the procurement prices for LED lamps from INR400 to INR40 and the street was of the view that a similar intervention in other durables would hurt prices/margins for electricals players.

**Exhibit 21: Earlier targets of distribution by EESL**

| Description | Benefit (INR b) | Units (m) | Annually (m) | % of annual market |
|---|---|---|---|---|
| LED bulbs and 35m Streetlights | 450 | 770 | 257 | 20% |
| Agricultural pumps | 120 | 10 | 3.3 | |
| Fans | 15 | 44 | 14.7 | 29% |
| Air conditioners | | 1.8 | 0.6 | 12% |
| **Total** | **INR585** | **1.8** | **0.6** | **0.12** |

Source: EESL

Our recent meeting with EESL indicates that its focus has now shifted to electric vehicles, smart meters and solar rooftops from fans and lighting (LED bulbs, streetlights). This is positive for electricals companies like HAVL that can leverage their strong channel relationships to drive sales.

### LED lamps – to slowly exit the market, as prices below CFL lamps

EESL procured ~130m LED bulbs in FY17 while the industry did 270m, totaling to 400m lamps. The cheapest price offered in the tender was from Phillips, which quoted INR38/unit. For FY18, EESL has targeted 150m bulbs, of which 60m is already bought; it will buy the balance in the next few months. There are already enough participants in the LED lamp market and prices are also down to ~INR40/unit in bulk tendering. So, EESL will reduce focus in this segment. Moreover, prices in the market/retail level are below INR100 for most brands and there is already enough awareness of the product. So, EESL is happy to step back.

### Durables (fans, ACs, tube lights) – rolled into program for central government buildings

Post the successful implementation of the LED lamp program, EESL was looking at new product categories like fans, air conditioners, tube lights and other durables as the next areas for intervention. These have now been rolled into the 'Building Scheme' and EESL is targeting central and state government buildings only. It has identified 6,000 buildings, where these will be replaced. Within fans, the need is for 2m units, of which EESL has procured half; it will procure another 1m fans shortly. The required 0.1m units of air conditioners have already been procured for these buildings; so, EESL will not be procuring ACs in the near future.

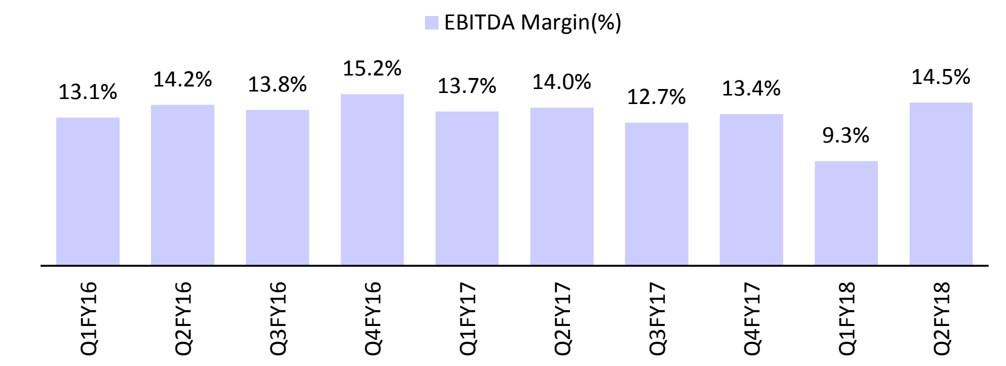
We believe the change in EESL's stance is driven by (a) installation issues with durables unlike LED lamps, which are 'plug and play', (b) regular servicing requirements of durables, and (c) high cost of raising product awareness with the customer.

## Margins revert to historical levels

### Dealer schemes rolled back

HAVL's EBITDA margin had dipped to 12.7% in 3QFY17, as discounts/schemes were offered to counter the impact of demonetization. EBITDA margin further dipped to 10% in 1QFY18 (ex Lloyd Electric) on GST-related destocking and delays in passing on RM cost hikes to the channel. With all the demonetization-related schemes being rolled back and price hikes taken, EBITDA margin has bounced back to 15.8% in 2QFY18 and should sustain at the historical 13.5-14%. We expect sales growth to accelerate, led by (a) lighting, consumer durables, and Lloyd Electric, and (b) market share gains in cables/wires and switches.

**Exhibit 22: EBITDA margin reverts to historical levels in 2QFY18; to sustain at 13.5-14%**




Source: MOSL, Company

In 2QFY18, HAVL was able to pass on the higher RM costs and GST-related tax changes to the end consumer. In wires/cables, it hiked prices to account for higher copper prices and higher GST rate (which went up from 18% to 28%). In wires, prices were hiked by 12-13%, and in cables, by 5-6%. The margin improvement witnessed in the other product categories is primarily on roll back of dealer incentives/schemes. From mid-November, prices of cables/wires have been cut, as the GST rate has been bought down to 18%.

# Mixed signs in the real estate market

**Commercial property bottoming; residential property still downbeat**

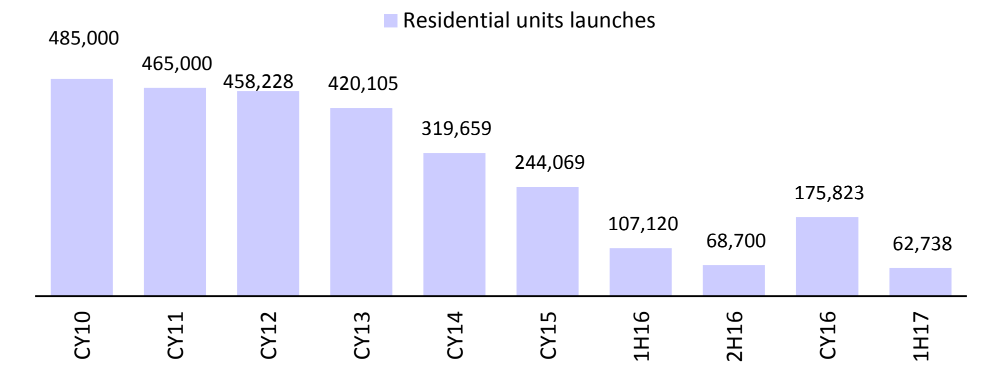
## Commercial housing seeing a bottom; not so much for residential

The commercial and residential real estate markets are seeing divergent trends – while there has been a bottoming out in commercial segment sales and a corresponding fall in vacancy rates, residential sales are still to hit bottom. Demonetization and RERA have delayed the recovery in residential unit sales.

## Residential unit launches and sales continue to decline

After a weak 2HCY16, when demonetization pulled down residential sales and launches by 46% and 23%, respectively, 1HCY17 has ushered in an eventful period. The first two months of 1HCY17 saw consumers and the industry as a whole grappling with the aftermath of demonetization. Thereafter, starting May 2017, RERA was implemented – this led to developers redirecting efforts to RERA compliance from new launches; therefore, the pace of launches slowed down in 1HCY17, with a 41% fall to 62,738 units and a 9% fall sequentially over 2HCY16. Ahmedabad and Delhi were the worst hit, with launches falling by 79% and 73%, respectively. Sales during 1HCY17 declined by 11% to 120,756 units and improved 11% sequentially compared to the demonetization period of 2HCY16.

**Exhibit 23: Residential unit launches weak, as focus shifted to RERA compliance**




Source: Knight Frank** Top 8 cities in India

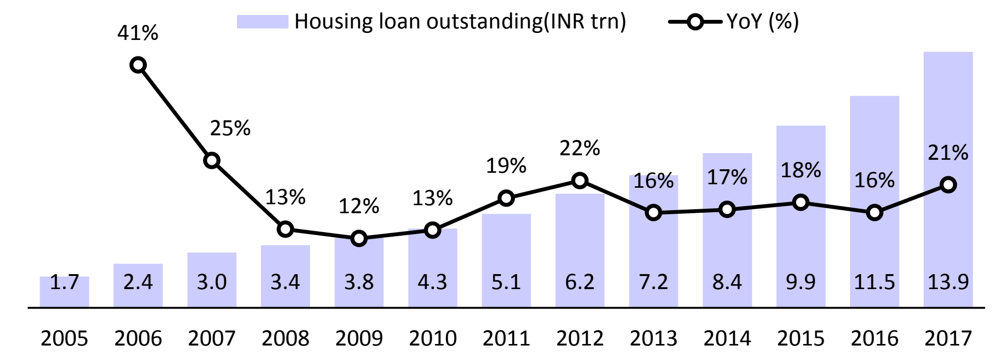
The government's impetus on affordable housing in the residential market has led to a surge in new launches in this segment. In our view, this focus on affordable housing is a structural change and will a sustainable theme. The share of <INR2.5m value homes has risen from 17% in 1HCY16 to 36% in 1HCY17.

**Exhibit 24: Price-wise launch of new residential units**

| Value | 1H16 | 2H16 | 1H17 |
|---|---|---|---|
| <2.5m | 17% | 20% | 36% |
| 2.5-5m | 35% | 39% | 35% |
| 5-7.5m | 22% | 20% | 15% |
| 7.5-10m | 10% | 11% | 6% |
| 10-20m | 10% | 6% | 8% |
| >20m | 5% | 4% | 1% |

Source: Knight Frank, **Top 8 cities in India

Exhibit 25: Housing loans still growing – driven by growth beyond Tier 1 cities



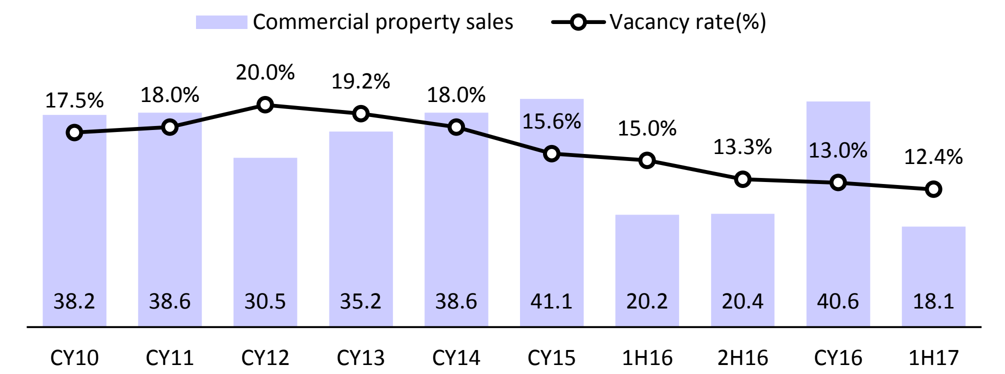

Source: RBI, MOSL

## Commercial realty – vacancy rates at new lows

Office market fundamentals across the country remain strong, with vacancy levels hitting a new low, as supply crunch shows little signs of abating. Consistently falling since 1HCY12, the vacancy rates now stand at 12%. Lack of fresh office space is most visible in the IT/ITES sector dominated markets of Bangalore, Pune and Hyderabad, which have single-digit vacancy rates of 4%, 8% and 9% respectively.

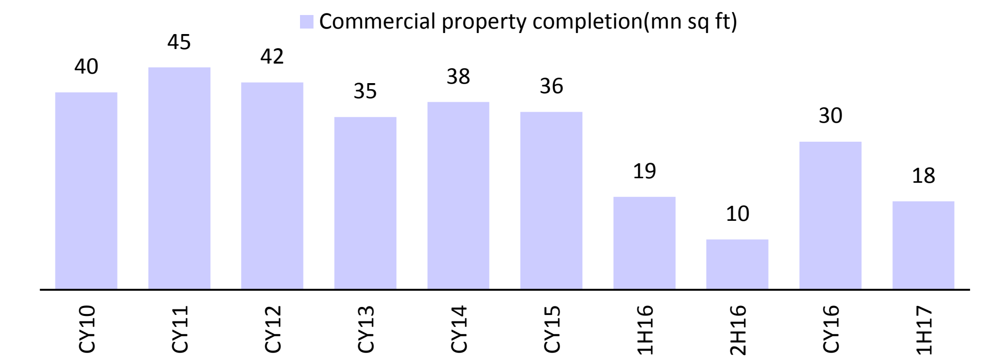
Supply crunch has hurt transactions in the commercial property market, which declined 10% in 1HCY17 compared to 13% growth a year ago. This 10% decline translates into an 18.1msf of office space being absorbed across the top-6 cities in the country in 1HCY17. A similar 5% decline in supply saw 18msf of office space come into the market in 1HCY17.

Exhibit 26: Commercial property sales (mn sf.) bottomed out; vacancy rates falling




Source: Knight Frank** Top 8 cities in India

**Exhibit 27: Commercial property completions – flat YoY**

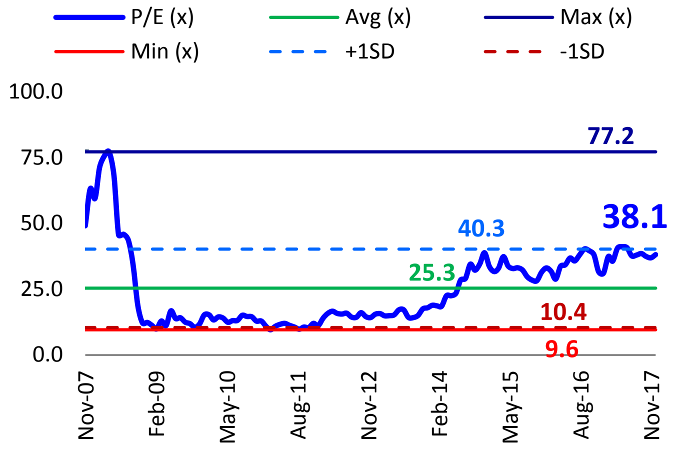



Source: Knight Frank** Top 8 cities in India

## Valuation and view

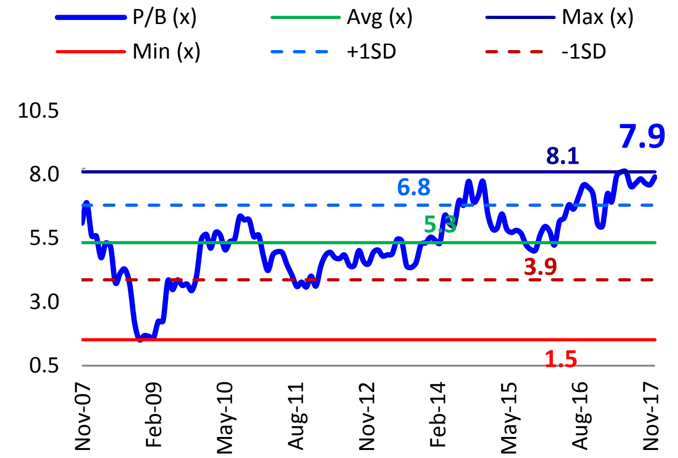
We apply a 35x 1 year forward multiple (in line with Crompton Consumer Electricals) to obtain our target price – our target multiple is supported by a strong 21% earnings CAGR over FY17-20, FY19 ROE/ROCE's at 22% and strong free cash flow generation. Key risks to our rating are a) delay in housing recovery, b) sharp rise in raw material prices, and c) Sharp increase in competitive intensity due to entry of new players in the durables segment.

**Exhibit 28: Havells P/E chart (1 year forward)**




Source: MOSL

**Exhibit 29: Havells P/B chart (1 year forward)**




Source: MOSL

# Financials and Valuations

**Income Statement (Consolidated)** (INR Million)

| Y/E March | 2014 | 2015 | 2016 | 2017 | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|---|---|
| **Net Sales** | **81,858** | **85,694** | **53,783** | **61,353** | **83,240** | **100,407** | **114,677** |
| Change (%) | 12.9 | 4.7 | -37.2 | 14.1 | 35.7 | 20.6 | 14.2 |
| Raw Materials | 46,398 | 48,292 | 31,735 | 36,485 | 52,025 | 62,754 | 71,673 |
| Staff Cost | 10,869 | 11,875 | 3,708 | 5,004 | 6,555 | 7,211 | 7,932 |
| Other Expenses | 17,167 | 18,316 | 10,791 | 11,623 | 13,984 | 16,868 | 19,266 |
| **EBITDA** | **7,425** | **7,211** | **7,549** | **8,241** | **10,675** | **13,573** | **15,806** |
| % of Net Sales | 9.1 | 8.4 | 14.0 | 13.4 | 12.8 | 13.5 | 13.8 |
| Depreciation | 1,155 | 1,387 | 1,049 | 1,196 | 1,314 | 1,398 | 1,481 |
| Interest | 741 | 640 | 127 | 122 | 250 | 250 | 250 |
| Other Income | 413 | 504 | 694 | 1,343 | 850 | 800 | 900 |
| **PBT** | **5,941** | **5,689** | **7,066** | **8,266** | **9,962** | **12,726** | **14,975** |
| Tax | 1,478 | 1,836 | 1,970 | 2,298 | 2,769 | 3,818 | 4,492 |
| Rate (%) | 24.9 | 32.3 | 27.9 | 27.8 | 27.8 | 30.0 | 30.0 |
| Extra-ordinary Inc.(net) | 0 | 0 | 2,024 | (578) | 0 | 0 | 0 |
| **Reported PAT** | **4,463** | **3,853** | **7,120** | **5,390** | **7,192** | **8,908** | **10,482** |
| Change (%) | -23.3 | -13.7 | 84.8 | -24.3 | 33.4 | 23.9 | 17.7 |
| **Adjusted PAT** | **5,410** | **5,159** | **5,096** | **5,969** | **7,192** | **8,908** | **10,482** |
| Change (%) | 26.1 | -4.6 | -1.2 | 17.1 | 20.5 | 23.9 | 17.7 |

**Balance Sheet (Consolidated)** (INR Million)

| Y/E March | 2014 | 2015 | 2016 | 2017E | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|---|---|
| Share Capital | 624 | 622 | 625 | 625 | 625 | 625 | 625 |
| Reserves | 16,036 | 17,557 | 28,912 | 32,111 | 36,222 | 41,314 | 47,306 |
| **Net Worth** | **16,660** | **18,180** | **29,537** | **32,736** | **36,847** | **41,939** | **47,931** |
| Loans | 10,506 | 4,191 | 444 | 1,981 | 1,000 | 1,000 | 500 |
| Deffered Tax Liability | 517 | 434 | 863 | 1,138 | 1,138 | 1,138 | 1,138 |
| Minority Interest | 1 | 1 | 0 | 0 | 0 | 0 | 0 |
| **Capital Employed** | **27,687** | **22,808** | **30,844** | **35,854** | **38,985** | **44,076** | **49,568** |
| | | | | | | | |
| Gross Fixed Assets | 32,075 | 30,298 | 13,080 | 15,012 | 16,012 | 17,012 | 18,012 |
| Less: Depreciation | 20,451 | 18,469 | 1,200 | 2,355 | 3,669 | 5,066 | 6,548 |
| **Net Fixed Assets** | **11,624** | **11,829** | **11,881** | **12,658** | **12,344** | **11,946** | **11,464** |
| Capital WIP | 444 | 383 | 205 | 119 | 0 | 0 | 0 |
| Goodwill | 4,380 | 3,581 | 0 | 0 | 14,970 | 14,970 | 14,970 |
| | | | | | | | |
| **Curr. Assets** | **36,929** | **32,519** | **24,077** | **32,797** | **28,320** | **36,289** | **44,511** |
| Inventory | 14,934 | 13,663 | 7,844 | 9,284 | 13,737 | 16,570 | 18,925 |
| Debtors | 10,005 | 6,232 | 1,576 | 2,285 | 3,100 | 3,740 | 4,271 |
| Cash & Bank Balance | 8,819 | 7,775 | 13,652 | 19,375 | 9,709 | 14,117 | 19,360 |
| Loans & Advances | 2,114 | 1,723 | 0 | 0 | 0 | 0 | 0 |
| Other Current Assets | 1,057 | 3,127 | 1,005 | 1,853 | 1,774 | 1,863 | 1,956 |
| | | | | | | | |
| **Current Liab. & Prov.** | **25,690** | **25,504** | **10,047** | **13,746** | **16,649** | **19,128** | **21,378** |
| Creditors | 9,988 | 8,338 | 4,363 | 6,296 | 8,542 | 10,303 | 11,767 |
| Other Liabilities | 12,684 | 13,645 | 4,062 | 5,685 | 6,253 | 6,878 | 7,566 |
| Provisions | 3,018 | 3,521 | 1,621 | 1,766 | 1,854 | 1,947 | 2,044 |
| **Net Current Assets** | **11,239** | **7,015** | **14,031** | **19,051** | **11,671** | **17,161** | **23,134** |
| **Application of Funds** | **27,687** | **22,808** | **30,843** | **35,854** | **38,985** | **44,076** | **49,568** |

E: MOSL Estimates

# Financials and Valuations

**Ratios**

| Y/E March | 2014 | 2015 | 2016 | 2017E | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|---|---|
| **Basic (INR)** | 7.2 | 6.2 | 11.4 | 8.6 | 11.5 | 14.3 | 16.8 |
| **Adjusted EPS** | **8.7** | **8.3** | **8.2** | **9.6** | **11.5** | **14.3** | **16.8** |
| Growth (%) | 26.1 | -4.7 | -1.2 | 17.1 | 20.5 | 23.9 | 17.7 |
| Cash EPS | 10.5 | 10.5 | 9.8 | 11.5 | 13.6 | 16.5 | 19.2 |
| Book Value | 26.7 | 29.1 | 47.3 | 52.4 | 59.0 | 67.2 | 76.8 |
| DPS | 3.0 | 2.9 | 4.0 | 3.5 | 4.2 | 5.2 | 6.1 |
| Payout (incl. Div. Tax.) | 49.1 | 57.6 | 88.5 | 42.8 | 42.8 | 42.8 | 42.8 |
| **Valuation (x)** | | | | | | | |
| **P/Sales** | | | **5.9** | **5.2** | **3.8** | **1.6** | **1.4** |
| P/E (standalone) | | | 62.5 | 53.4 | 44.3 | 35.7 | 30.4 |
| P/E (consolidated) | | | 62.5 | 53.4 | 44.3 | 35.7 | 30.4 |
| Cash P/E | | | 51.8 | 44.4 | 37.4 | 30.9 | 26.6 |
| EV/EBITDA | | | 39.8 | 36.0 | 29.0 | 22.5 | 19.0 |
| EV/Sales | | | 5.6 | 4.8 | 3.7 | 3.0 | 2.6 |
| Price/Book Value | | | 10.8 | 9.7 | 8.6 | 7.6 | 6.6 |
| Dividend Yield (%) | | | 0.8 | 0.7 | 0.8 | 1.0 | 1.2 |
| **Profitability Ratios (%)** | | | | | | | |
| RoE | 32.5 | 28.4 | 17.3 | 18.2 | 19.5 | 21.2 | 21.9 |
| RoCE | 19.2 | 17.0 | 19.3 | 18.2 | 19.7 | 21.9 | 22.8 |
| RoIC | 33.2 | 38.8 | 52.1 | 56.6 | 32.0 | 40.6 | 47.4 |
| **Turnover Ratios** | | | | | | | |
| Debtors (Days) | 45 | 27 | 11 | 14 | 14 | 14 | 14 |
| Inventory (Days) | 67 | 58 | 53 | 55 | 60 | 60 | 60 |
| Creditors. (Days) | 45 | 36 | 30 | 37 | 37 | 37 | 37 |
| Asset Turnover (x) | 3.0 | 3.8 | 1.7 | 1.7 | 2.1 | 2.3 | 2.3 |
| **Leverage Ratio** | | | | | | | |
| Debt/Equity (x) | 0.6 | 0.2 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 |

**Cash Flow Statement** **(INR Million)**

| Y/E March | 2014 | 2015 | 2016 | 2017E | 2018E | 2019E | 2017E |
|---|---|---|---|---|---|---|---|
| PBT before EO Items | **5,941** | **5,689** | **7,066** | **8,266** | **9,962** | **12,726** | **14,975** |
| Add : Depreciation | 1,155 | 1,387 | 1,045 | 1,196 | 1,314 | 1,398 | 1,481 |
| Interest | 741 | 639 | 127 | 122 | 250 | 250 | 250 |
| Less : Direct Taxes Paid | 1,891 | 1,836 | 1,970 | 2,298 | 2,769 | 3,818 | 4,492 |
| (Inc)/Dec in WC | 2,453 | 3,180 | -1,138 | 865 | -2,449 | -1,081 | -730 |
| **CF from Operations** | **8,399** | **9,058** | **5,131** | **8,151** | **6,307** | **9,474** | **11,484** |
| EO Income | 0 | 0 | 2,024 | -578 | 0 | 0 | 0 |
| **CF from Oper. incl. EO Items** | **8,399** | **9,058** | **7,155** | **7,573** | **6,307** | **9,474** | **11,484** |
| (Inc)/Dec in FA | -1,424 | -1,531 | -922 | -2,049 | -718 | -1,000 | -1,000 |
| **Free Cash Flow** | **6,975** | **7,528** | **6,233** | **5,524** | **5,589** | **8,474** | **10,484** |
| (Pur)/Sale of Investments | 0 | 0 | -4,727 | 701 | 4,026 | 0 | 0 |
| **CF from Investments** | **-2,109** | **-732** | **-2,069** | **-1,348** | **-11,662** | **-1,000** | **-1,000** |
| (Inc)/Dec in Net Worth | 3 | -198 | 9,177 | 640 | 0 | 0 | 0 |
| (Inc)/Dec in Debt | 722 | -6,315 | -3,747 | 1,537 | -981 | 0 | -500 |
| Less : Interest Paid | 741 | 640 | 127 | 122 | 250 | 250 | 250 |
| Dividend Paid | 2,190 | 2,219 | 4,511 | 2,557 | 3,081 | 3,816 | 4,491 |
| **CF from Fin. Activity** | **-2,206** | **-9,372** | **791** | **-502** | **-4,312** | **-4,066** | **-5,241** |
| **Inc/Dec of Cash** | **4,084** | **-1,045** | **5,878** | **5,723** | **-9,667** | **4,408** | **5,243** |
| Add: Beginning Balance | 4,736 | 8,819 | 7,775 | 13,652 | 19,375 | 9,709 | 14,117 |
| **Closing Balance** | **8,820** | **7,774** | **13,652** | **19,375** | **9,708** | **14,117** | **19,360** |

E: MOSL Estimates

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