GEOJIT

RETAIL EQUITY RESEARCH

HAVELLS INDIA Ltd

Electrical Equipment

BSE CODE:517354 NSE CODE: HAVELLS
Bloomberg CODE: HAVL:IN SENSEX: 35,798

Accumulate

Rating as per Midcap 12 Months investment period

CMP Rs. 552 TARGET Rs. 624 RETURN 13%

23rd January, 2018

Revenue growth picks-up...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.

- **Revenue grew by 31% YoY led by broad based growth across all product categories excluding Lloyd (seasonal weak quarter).**
- **EBITDA margin improved by 70bps YoY to 13.3% due price hikes & cost rationalisation.**
- **PAT (adjusted for exceptional gain) grew by 29% YoY.**
- **Going forward, with cut in GST rates we expect restocking will pick-up in trade channels. Given its strong presence across entire consumer electric space, we continue to maintain our positive on HAVL.**
- **We factor earnings to grow at robust 20% CAGR over FY17-19E.**
- **We roll our estimates to FY20E and value HAVL at P/E of 38x with a target price of Rs.624 and maintain to Accumulate.**

Revenue growth robust...

HAVL reported a revenue growth of 31% YoY in Q3FY18, led by Consumer durable and Lighting & fixture segment which grew by 35% & 26% YoY respectively largely on account of water heaters, Fans and LED segment witnessing strong growth. Switch gears segment witnessed some revival with a growth of 4% YoY was driven by launch of new switches. The volume from Cables & wires witnessed de-growth, however led by pass through of higher copper prices revenue grew by 3% YoY. Given Q3 being seasonally weak quarter for AC sales, revenue from Lloyd de-grew by 4% YoY. However, some volume growth was seen in Q3FY18 due to impending price increase post change in energy efficiency norms from January 2018. Going ahead with cut GST rates we expect pick-up in restocking by the trade channel. We factor revenue to grow by 20% CAGR over FY17 & FY20E.

EBITDA margin improves

HAVL's EBITDA margin for Q3FY18 improved by 70bps YoY to 13.3% largely led by 30bps YoY improvement in gross margins and better product mix. The cables and wires segment margins improved by 440bps YoY to 17.1% due to better realization in cables and product mix shift towards domestic cables. Consumer durable segment margins expanded by 600bps YoY to 29.6% led by better product mix. The EBITDA grew by 38% YoY and PAT grew 29% YoY despite increase in tax expenses (30% Vs 29% YoY). Given price hikes taken by HAVL's to pass through of commodity prices we believe EBITDA margin is expected to improve going forward. We factor EBITDA margins to be at 12.6% for FY18E & 13.5% for FY19E & FY20E.

Valuations

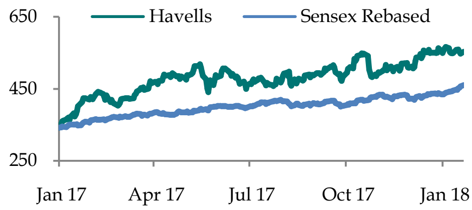
HAVL is trading at a 1 year FWD P/E of 41x which is significant premium. However, we believe that this premium valuation to given its focus on premiumisation, strong brand recall and investment in new product categories. Given lower GST rates going forward, we expect earnings to grow at healthy 20% CAGR over FY17-20E. We roll our estimates to FY20E and value HAVL at P/E of 38x to arrive at a target price of Rs.624 and maintain to Accumulate.

Company Data	
Market Cap (cr)	Rs. 34,501
Enterprise Value (cr)	Rs. 34,149
Outstanding Shares (cr)	62.5
Free Float	38.4%
Dividend Yield	0.6%
52 week high	Rs. 584
52 week low	Rs. 396
6m average volume (cr)	0.2
Beta	0.8
Face value	Rs. 1

Shareholding (%)	Q1FY18	Q2FY18	Q3FY18
Promoters	61.6	61.6	61.6
FII's	26.3	25.7	25.0
MFs/Institutions	3.2	3.4	3.7
Public	6.1	6.1	6.0
Others	2.8	3.2	3.7
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	9.8%	19.8%	34.7%
Absolute Sensex	9.8%	10.5%	32.0%
Relative Return*	0.0%	9.2%	2.7%

*over or under performance to benchmark index



Standalone (Rs. Cr)	FY18E	FY19E	FY20E
Sales	8041	9218	10544
Growth (%)	*31.1*	*14.6*	*14.4*
EBITDA	1013	1244	1423
Margin (%)	*12.6*	*13.5*	*13.5*
PAT Adjusted	690	870	1026
Growth (%)	*15.6*	*26.0*	*18.0*
Adj.EPS	11.0	13.9	16.4
Growth (%)	*15.6*	*26.0*	*18.0*
P/E	50.0	39.7	33.6
P/B	9.3	8.0	6.8
EV/EBITDA	33.8	27.4	23.7
ROE (%)	*19.8*	*21.7*	*21.9*
D/E	0.0	0.0	0.0

Anil R
Analyst

Standalone Quarterly Financials

Profit & Loss Account

(Rs cr)	Q3FY18	Q3FY17	YoY Growth %	Q1FY18	QoQ Growth %
Sales	**1966**	**1506**	*30.5*	**1,777**	*10.6*
EBITDA	**262**	**191**	*37.5*	**257**	*2.1*
EBITDA margins	13.3	12.7	*+70bps*	14.5	*-120bps*
Depreciation	36	30	*20.0*	35	*(3.0)*
EBIT	**226**	**161**	*23.6*	**222**	*59.9*
Interest	5	2	*(150.0)*	7	*(28.6)*
Other Income	28	29	*(3.4)*	29	-
PBT	**248**	**188**	*32.0*	**244**	*1.6*
Tax*	75	54	*39.0*	73	*3.0*
Exceptional items	20	17	-	2	-
Reported PAT	**193**	**151**	*27.6*	**173**	*12.4*
Adjustments	(20)	(17)	-	(2)	-
Adj PAT	**173**	**134**	*29.4*	**171**	*1.4*
No. of shares (cr)	62.5	62.5	-	62.5	-
EPS (Rs)	**2.8**	**2.1**	*29.4*	**2.7**	*1.4*

Change in estimates

	Old estimates		New estimates		Change %	
Year / Rs cr	**FY18E**	**FY19E**	**FY18E**	**FY19E**	**FY18E**	**FY19E**
Revenue	7,979	9,018	8,041	9,218	*0.8*	*1.6*
EBITDA	997	1,225	1,013	1,244	*1.6*	*1.6*
Margins (%)	12.5	13.5	12.6	13.5	*+10bps*	-
PAT	690	867	690	870	-	*0.4*
EPS	11.0	13.9	11.0	13.9	-	*0.4*

Standalone Financials

Profit & Loss Account

Y.E March (Rs cr)	FY16A	FY17A	FY18E	FY19E	FY20E
Sales	**5,378**	**6,135**	**8,041**	**9,218**	**10,544**
% change	*2.7*	*14.1*	*31.1*	*14.6*	*14.4*
EBITDA	**755**	**824**	**1013**	**1,244**	**1,423**
% change	*8.0*	*9.2*	*22.9*	*22.8*	*14.4*
Depreciation	105	120	141	153	162
EBIT	650	705	872	1,091	1,262
Interest	13	12	21	18	6
Other Income	69	134	120	152	189
PBT	**707**	**827**	**972**	**1225**	**1,445**
% change	*9.3*	*17.0*	*17.6*	*26.0*	*18.0*
Tax	197	230	282	355	419
Tax Rate (%)	*28.0*	*28.0*	*29.0*	*29.0*	*29.0*
Reported PAT	**708**	**536**	**690**	**870**	**1,026**
Adj*	202	(58)	-	-	
Adj PAT	**510**	**597**	**690**	**870**	**1,026**
% change	*10.3*	*16.3*	*15.6*	*26.0*	*18.0*
No. of shares (mn)	62.5	62.5	62.5	62.5	62.5
Adj EPS (Rs)	**8.2**	**9.6**	**11.0**	**13.9**	**16.4**
% change	*9.6*	*17.1*	*15.6*	*26.0*	*18.0*
DPS (Rs)	7.2	4.2	4.2	4.2	4.2
CEPS (Rs)	9.8	11.5	13.3	16.4	19.0

Balance Sheet

Y.E March (Rs cr)	FY16A	FY17A	FY18A	FY19E	FY20E
Cash	77	555	357	499	800
Accounts Receivable	158	229	306	349	396
Inventories	784	928	1,306	1,476	1,688
Other Cur. Assets	1,399	1,565	2,100	2,485	2,932
Investments	463	405	455	535	615
Gross Fixed Assets	1,282	1,463	1,572	1,722	1,872
Net Fixed Assets	1,177	1,248	1,216	1,212	1,201
CWIP	20	12	30	50	30
Intangible Assets	11	18	11	9	6
Def. Tax (Net)	(86)	(114)	(143)	(180)	(223)
Other Assets	-	-	-	-	-
Total Assets	**4003**	**4,846**	**5,637**	**6,435**	**7,444**
Current Liabilities	878	1,184	1,581	1,786	2,043
Provisions	168	186	242	278	318
Debt Funds	3	5	114	64	14
Other Liabilities	-	198	-	-	-
Equity Capital	62.5	62.5	62.5	62.5	62.5
Reserves & Surplus	2891	3,211	3,638	4,245	5,007
Shareholder's Fund	2954	3,274	3,700	4,307	5,070
Total Liabilities	**4003**	**4,846**	**5,637**	**6,435**	**7,444**
BVPS (Rs)	**47**	**52**	**59**	**69**	**81**

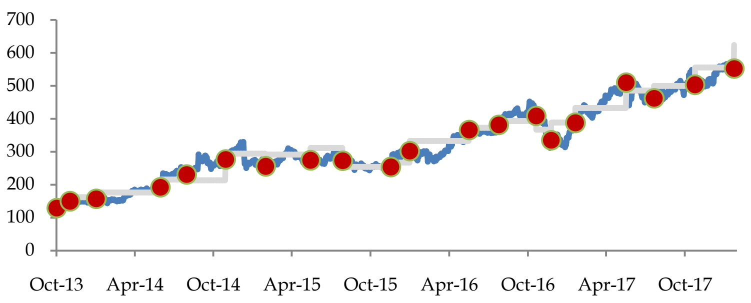
Cash flow

Y.E March (Rs cr)	FY16A	FY17A	FY18A	FY19E	FY20E
Net inc. + Depn.	712	539	690	870	1026
Non-cash adj.	(91)	107	70	56	22
Changes in W.C	(96)	132	(537)	(357)	(410)
C.F.O	**525**	**778**	**224**	**569**	**638**
Capital exp.	(174)	(237)	(120)	(168)	(128)
Change in inv.	59	(66)	(50)	(80)	(80)
Other invest.CF	37	76	120	152	189
C.F - investing	**(78)**	**(227)**	**(49)**	**(96)**	**(18)**
Issue of equity	29	93	-	-	-
Issue/repay debt	(43)	153	(89)	(50)	(50)
Dividends paid	(451)	(226)	(263)	(263)	(263)
Other finance.CF	(6)	(9)	(21)	(18)	(6)
C.F - Financing	**(498)**	**(72)**	**(373)**	**(331)**	**(319)**
Chg. in cash	(51)	478	(198)	142	301
Closing cash	77	555	357	499	800

Ratios

Y.E March	FY16A	FY17A	FY18E	FY19E	FY20E
Profitab. & Return					
EBITDA margin (%)	14.0	13.4	12.6	13.5	13.5
EBIT margin (%)	12.1	11.5	10.8	11.8	12.0
Net profit mgn.(%)	9.5	9.7	8.6	9.4	9.7
ROE (%)	19.1	19.2	19.8	21.7	21.9
ROCE (%)	14.0	14.3	14.0	16.0	16.2
W.C & Liquidity					
Receivables (days)	9.8	11.5	12.1	13.0	12.9
Inventory (days)	84.8	85.7	81.3	89.5	89.0
Payables (days)	99.9	103.2	100.6	108.4	107.8
Current ratio (x)	2.3	2.4	2.2	2.3	2.5
Quick ratio (x)	0.3	0.7	0.4	0.5	0.6
Turnover &Levg.					
Gross asset T.O (x)	4.2	4.5	5.3	5.6	5.9
Total asset T.O (x)	5.0	5.1	6.5	7.6	8.7
Int. covge. ratio (x)	51.1	58.0	42.4	61.7	218.5
Adj. debt/equity (x)	0.0	0.1	0.0	0.0	0.0
Valuation ratios					
EV/Sales (x)	6.4	5.6	4.3	3.7	3.2
EV/EBITDA (x)	45.6	41.4	33.8	27.4	23.7
P/E (x)	67.7	57.8	50.0	39.7	33.6
P/BV (x)	11.7	10.6	9.3	8.0	6.8

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
23-January-18	Accumulate	624

Investment Rating Criteria

Large Cap Stocks;

Buy	-	**Upside is above 10%.**
Hold	-	**Upside is between 0%- 10%.**
Reduce	-	**Downside is more than 0%.**

Mid Cap and Small Cap;

Buy	-	**Upside is above 15%.**
Accumulate	-	**Upside is between 10% - 15%.**
Hold	-	**Upside is between 0% - 10%.**
Reduce/Sell	-	**Downside is more than 0%.**

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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