

Havells India Ltd (HIL)

Sector: Consumer Discretionary /Mid-Cap | Earnings Update – 4QFY18

BUY

14 May 2018

Background: HIL is one of India's largest & fastest growing electrical and power distribution equipment manufacturers with products ranging from industrial & domestic circuit protection switchgear, cables & wires, motors, fans, power capacitors, CFL lamps, luminaries for domestic, commercial & industrial applications, modular switches, water heaters and domestic appliances covering the entire gamut of household electrical needs along with industry lights and cables. Havells owns some of the prestigious global brands like Crabtree, Reo & Standard Electrical. HIL now operates a network of 90+ branches and representative offices in over 50 countries with a network of 20,000 distributors.

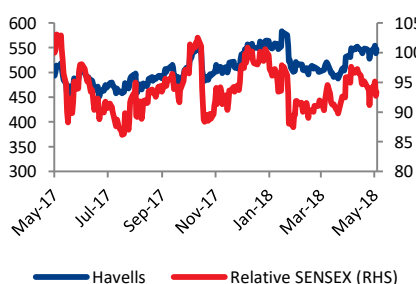
Sensex	35,474
Nifty	10,783
Price	INR 544.5
Target Price	INR 680
Recommendation	BUY
52 Week High/Low	INR 593/434
Bloomberg / Reuters	HAVAL IN /HVEL.BO
Equity (shares in mn)	625.15
Mkt. Cap in bn	INR 341/\$ 5.1
Avg. Daily Vol. ('000)	1,532
Avg. Daily Vol. (mn)	INR 834/\$ 12.4

Shareholding	Mar 17	Dec 17	Mar 18
Promoters (%)	61.61	61.58	59.58
FII (%)	26.53	25.03	24.96
DII (%)	2.65	3.66	5.03
Others (%)	9.21	9.73	10.43
Pledge (% of promoter holding)	0.00	0.00	0.00

Valuation Summary (INR bn)

Y/E March	2018	2019E	2020E
Revenue	81.4	98.1	114.2
EBITDA	10.5	13.3	16.0
Adj PAT	7.1	8.9	10.7
Adj EPS	11.4	14.1	17.0
% growth	32.1	23.7	20.6
PE	47.8	38.6	32.0
P/ BV	9.1	8.1	7.1
EV/EBITDA	31.1	24.6	20.4
EV/Sales	4.0	3.3	2.9
Div Yield (%)	0.6	1.0	1.3
ROE (%)	19.8	22.2	23.5

Performance %	1M	3M	12M
Havells	2.9	6.2	6.4
Sensex	4.7	4.5	17.5



Strong growth across segments

- HIL's standalone revenue (net of GST) grew by 48.2%YoY to INR 25.3bn aided by consolidation of Lloyds consumer durables business and strong growth across core business. In 4QFY18, Lloyds Consumer Durables reported revenue of INR 5.84bn. Revenue (net of GST) excluding Lloyd grew 14% YoY, aided by strong growth across verticals.
- Revenue from Lighting & Fixtures (L&F) business grew by 20%YoY in 4QFY18 to INR 3.23bn, aided by strong growth in LED segment. L&F EBIT margin expanded by 370bps YoY to 30.9%.
- Switch gear segment (adj. excise) grew by 12% YoY to INR 3.95bn in 4QFY18 due to higher share of B2B and industrial segment. Switch gear EBIT Margin grew by 20bps YoY to 38.6%.
- Cables & Wires segment grew 13% YoY to INR 7.69bn, led by 6% YoY volume growth and 7% YoY increase in realisation. Cables & Wires EBIT margin improved by 420bps YoY to 17.1% due to better realization and shift in product mix towards high margin domestic cable business.
- Electrical Consumer Durables (adj. excise) segment grew by 29% YoY to INR 4.65bn; fans (18% YoY), appliances and water heater (10% YoY) have performed well with industry leading growth and EBIT margin improved by 270bps YoY to 27.2% due to premiumisation and product mix.
- Standalone Gross margin fell by 110bps YoY to 38%; EBITDA at INR 3.58bn, up 55.8% YoY; EBITDA margins improved by 69bps YoY to 14.1%; Employee cost was down 121bps YoY, ad spend were higher due to brand investment in Lloyds consumer business (+180bps YoY) and other expenses (-240bps YoY). A.PAT grew by 58.9%YoY to INR 2.32bn, adjusting for the exceptional expense of INR 90.7mn and A.PAT margin improved by 61bps YoY to 9.1%.
- Management has highlighted that the overall demand for AC's in FY19 (till date) has been below expectation due to delay in summer and unseasonal rains in North India; however management is still hopeful of double digit revenue growth in FY19
- Management has guided for a Capex of INR 5bn each for FY19, of which INR 3bn to set-up in house AC manufacturing facility with a capacity of 0.6mn units by the end of FY19.

Valuation: At CMP the stock trades at 38.6X & 32X FY19E & FY20E respectively. We are valuing the company 40X FY20E EPS to arrive at a target price of INR 680 (earlier: INR 665) and maintain a **BUY** rating on the stock. **Risks:** Higher built-up in dealer inventory, competition from both foreign and domestic players and speedy market share gain from unorganized players.

Results Summary 4QFY18

Y/E March (INR mn)	4QFY18	4QFY17	YoY Growth	3QFY18	QoQ Growth
Revenue	25,349	17,102	48.2%	19,658	29.0%
EBITDA	3,577	2,296	55.8%	2,622	36.4%
Depreciation	347	308	12.9%	363	-4.3%
Other Income	257	419	-38.6%	278	-7.3%
PBT	3,313	1,569	111.1%	2,692	23.1%
Tax	1,055	622	69.6%	748	41.1%
PAT	2,258	947	138.4%	1,944	16.2%
Adjusted PAT	2,318	1,459	58.9%	1,804	28.5%
Total Comprehensive Income	2,318	974		1,929	
EBITDA Margin	14.1	13.4		13.3	
Tax Incidence	31.9	39.6		27.8	
PAT Margin	9.1	8.5		9.2	

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