

Annual Report 2018- It's all about automation

IN the AR, Havells has discussed at length the impact of automation and software solutions across its entire value chain. It has also outlined some of the future initiatives it has planned to use IoT, Big data etc. We are very enthused about the way the company has utilized and continues to use IT as a major business enabler. From a commercial angle, this has helped Havells in saving significant manpower cost incurred previously to manage the loyalty programmes and reduce retail last mile workforce by 50%.

GST, channel expansion are key positives in FY18

FY18 saw business stabilizing post GST and improved after rates for most of the durables came down to 18% from 28% in November 2017. Havells is seeing a shift of unorganized to organized. Channel expansion is the Havells key strategic initiative involves greater engagement with the retailers, exclusive brand store online platform with continuity of relationships with its distributor and direct dealers.

WC managed well despite Lloyd acquisition

Inventory days significantly increased to 73 days from 56 days last year, due to higher traded good for Lloyd business. This is along expected lines, given the nature of the AC business and its seasonality. However, its hold on distributors helped control receivables, while a corresponding increase in creditors compensated for the higher inventory. Among other key balance sheet items goodwill stood at ₹.3242mn, of which ₹.3104mn accounted for Lloyd acquisition. Investments of ₹.1617mn were used for the Lloyd acquisition, while it has also taken a long-term loan for its Neemrana plant.

Cash declined due to higher working capital

Higher sales post Lloyds helped increase OCF despite a rise in inventory to Rs10bn from ~Rs8bn maintaining the EBITDA to OCF conversion at 8%, similar to FY17 levels. Capital expenditure in FY18 stood at ₹16,711mn (₹1,879mn in FY17), of which ₹15559mn was for its Lloyd consumer business. Free cash flows to firm became negative at ₹1,934mn.

Havells continues to remain our pick. Buy

We continue to like Havells in the consumer electricals space. Structural growth story should continue, and we maintain our Buy rating, Stock trades at 39/31x at FY19E/20E

FINANCIALS (₹ Mn)

Particulars	FY16	FY17	FY18	FY19E	FY20E
Net Sales	76,126	61,558	81,464	96,239	114,319
Growth (%)	(11.17)	(19.1)	32.3	18.1	18.8
EBITDA	7,580	8,182	10,436	12,511	16,005
OPM (%)	10.0	13.3	12.8	13.0	14.0
Net Profit (after MI)	13005	4822	6737	8399	10755
Growth (%)	169.7	(62.9)	39.7	24.7	28.1
EPS (₹)	20.8	7.7	10.8	13.4	17.2
Growth (%)	236.7	(62.9)	39.7	24.7	28.1
PER(x)	25.6	69.1	49.5	39.7	31.0
ROANW (%)	50.1	15.3	19.2	21.0	23.1
ROACE (%)	25.0	24.5	26.6	26.8	30.0

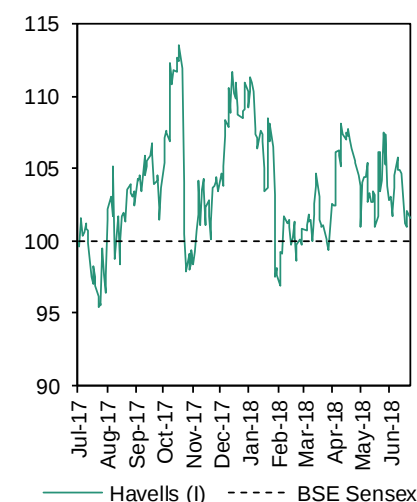
CMP	₹ 533
Target / Upside	₹ 640/21%
BSE Sensex	35,490
NSE Nifty	10,769

Script Details

Equity / FV	₹ 625mn/₹1/-
Market Cap	₹333bn
	USD 4.9bn
52-week High/Low	₹ 592/441
Avg. Volume (no)	1,203,870
NSE Symbol	HAVELLS
Bloomberg Code	HAVL.IN

Shareholding Pattern Mar'18 (%)

Promoters	59.6
MF/Banks/FIs	5.1
FIIIs	24.4
Public / Others	10.9

Havells India Relative to Sensex**Sr. Analyst:** Vinod Chari

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Automating the distribution channel

- They have a distribution management system which will help distributor monitor inventory and receivables real time helping him to manage cash flow better
- They have a dealer app which update on products, promotions, price schemes, claim settlement and resolution of concerns. Already 63% of orders are through the app
- There is also an app for direct communication between retailers and Havells, helping retailers with their history as well let Havells give all incentives and loyalty points directly to them

Automating the consumer

- Using the Internet of Things (IoT) is helping them predict service need, push notifications to service staff and consumers, allocate resources in advance, cutting downtime
- Connecting the customer portal over 450 towns with 2000 technicians for real time address of issues

Automating the operations

- Using big data for BI to help marketing segmentation, inventory management, financial management and sales
- Identify patterns, correlations, market trends, customer preferences to make more predictive analytical models
- Migrated ERP to SAP Hana and complete presence on cloud.
- On a pilot basis, looking at Computer-integrated manufacturing (CIM) to reduce factory downtime and improve productivity
- Serialising products and spares using QR code helps product tracking and whether genuine spare parts are fitted, thereby giving a thrust to future spares sales

For Havells this has resulted in

- Saving significant manpower costs incurred previously to help manage the loyalty programme
- also helped in lower its manpower by 50% for the retail last mile workforce

Management Discussion and Analysis

Havells reported net revenues at Rs.81390mn, grew by 33% YoY ex Lloyd grew by 13%, despite of GST caused disruptions initially in the year, but company could be able to grow the sales and PAT significantly.

Successful operation of Lloyd consumer business

During FY18 company successfully integrated and operated the Lloyd consumer durable business. Air conditioner is a major part of Lloyds business and now company's major focus is on improving it and making its presence in other segments too like TVs and WM. Havells is doing significant investments in this context at Nimarana Rajasthan for its own manufacturing plant of white goods. On the service front Havells introduced chatbots on the Lloyd website to more actively engage with the customers.

Launches of innovative products to enrich portfolio

- The company entered into the residential water purifier business with the launch of premium products in Dec 2017, this is the India's first PH balancing water purifier that can purify new age pollutants across geographies. Company also enhanced its solar power capacity, so it will save the operating cost too.
- Entered into color changing lighting division, digital mixer grinder- Premio-I and a unique cold press juicer.

Segment performance during the year

- Switchgears- the segment affected by slow growth phase in the housing segment. To overcome this company has taken some step like- building a multiband portfolio, technology tie up with Hyundai to increase the product range.
- Cable business impacted due to the rising commodity prices and high GST rates during the year. Company entered into EHV cable market, enhancing its B2B channel and expanding its current portfolio by launching of new products in the segment.
- Lighting and fixture showed strong growth owing to change in consumer preferences from conventional to smart light.
- New launched products like water purifiers, water heaters showed healthy growth.

Developments during the year

- Company has tied up with South Korean major Hyundai Electric & Energy Systems Co. Ltd for technology transfer for Magnetic Contactor for switchgears segment. Under the agreement, Hyundai Electric will provide technological knowhow and grant an exclusive, non-transferable, irrevocable license in India under the transferred MC Technology to Havells. The agreement will enable the Company to manufacture in India for Indian and some overseas markets as well.
- Company entered into EHV segment and B2B sales in cable segment.
- In FY18 the Company completed sale of remaining 20% stake in Feilo Malta Limited to Shanghai Feilo Acoustics Co. Limited. Company also sold Havells Sylvania (Thailand) Limited to Feilo group and has transferred its stake in OZLI do Brasil Iluminação Ltd to a local Brazilian Company OZL International Holding Co.

Financial Analysis

Profit and Loss Statement

Revenue- Havells reported net revenues at ₹.81bn, grew by 32% YoY due to Lloyd consumer business, ex Lloyd growth was 13% for the year. Despite of GST caused disruptions initially in the year, company could able to grow the sales and PAT significantly.

Material cost- There is a significant hike in copper prices during the year, led to increase in cost of material in relation to copper from ₹.9330mn to ₹. 10609mn. Total material cost came at ₹.49bn compared to ₹.36bn in FY17.

EBITDA- EBITDA grew by 28% YoY at ₹.10436mn during the year.

Other income- Other income declined to ₹.1179 in FY18 from 1382, due to divestment by Havells for funding of Lloyd acquisition. The effective interest rate amortization is also included in other income.

Advertisement exp- Ad and sales promotion exp increased to Rs.3076mn from Rs.1907mn, coming to 3.8% of sales for FY18.

Other expenses- Other expenses in total went up at ₹.14735mn in FY18 v/s 11754mn in FY17. Out of which advertisement and promotional exp stood at ₹.3076mn in FY18 v/s 1907mn in FY17.

PBT- PBT came at ₹.9775mn in FY18 v/s 7157mn in FY17, registering a growth of 37% YoY.

Effective tax rate- Effective tax rate for FY18 increased to 30% from 25% in FY17, accounting tax for ₹.3038mn compared to ₹.2288mn. Deferred tax amounted to ₹.1379mn from 265mn in last year.

PAT- PAT during the year stood at ₹.6737mn v/s ₹.4822mn in FY17.

EPS- has been computed on equity capital base of 625mn shares came at ₹.11.2 as compared to ₹.9.5 in previous year.

Balance sheet analysis

Gross Block- Havells invested ₹.16.7bn capex in this year compared to ₹.1.8bn in last year. Major capex has done for Lloyd durable business.

Intangible assets- company reported intangible asset at ₹.15108mn from ₹.456mn. Goodwill for the year stood at ₹.3242mn, of which ₹.3104mn accounted for Lloyd acquisition. The brands and trademarks bought for Lloyds accounted for ₹.10290mn.

Long term investments- Company sold out investment worth ₹.1617mn to generate cash for Lloyd consumer business purchase.

Cash and Cash equivalents- the company witnessed a decrease in cash position to ₹.15616mn from ₹.19745mn owing to higher working capital requirement. Cash per share stood at ₹.25 as on 31st March 2018.

Inventory- inventory increased to ₹.16330mn in FY18 from ₹.9453mn in FY17. In which ₹.7109mn lied in inventory for traded goods which was purchased by the company for Lloyd. Inventory days stood at 73 from 56 in last year.

Creditor- Havells creditors came at ₹.16400mn (₹.6335mn in FY17), due to higher credit purchases for Lloyd, led to much higher creditor days at 120 compared to 63 in last year.

Dividend- Company declared a dividend of ₹.4 per share on the face value of ₹.1 per share. Dividend payout was 37% for the year.

Cash Flow Analysis

Cash flow from Operations- Cash flow from operating activities significantly increased to ₹.14bn from ₹.6bn, led by high positive changes in working capital. WC changes for the year was ₹.5032mn compared to negative changes of ₹.465mn in last year. Company paid taxes of ₹.3469mn v/s ₹.2288mn in FY18.

Cash flow from Investing- The company incurred capex of ₹.16bn this year compared to ₹.1.8bn in last year. Cash generated from sell of investment of ₹.1617mn used for Lloyd acquisition. Free cash flow to operating cash flow got down at -13% from 69%.

Cash flow from financing- Interest exp and dividend payments during the year came at ₹.248mn and ₹.2633mn respectively. Dividend per share was ₹.4 in FY18.

Ratio Analysis

Margins Ratios- EBITDA margin slightly declined at 12.8% from 13.4% in last year, mainly due to higher material cost (increased copper prices). PBT margins came up to 12.0% from 11.6%. Net profit margins stood at 8.3% in FY18 v/s 7.8% in FY17.

Liquidity Ratios- Current ratio for FY18 was 1.5 compared to 2.1 in FY17, whereas quick ratio declined to 0.8 from 1.5.

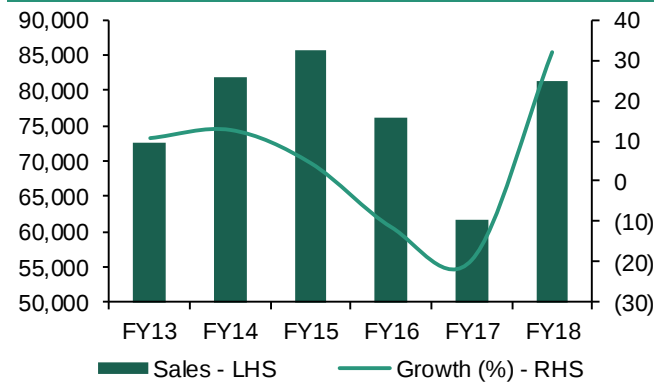
Degree of leverage- The degree of operating leverage for the company stood at 0.90 compared to -0.61. Whereas degree of financial leverage came at 0.31 in comparison to 3.1 in last year. Average cost of debt increased to 15.3% from 9.1%.

Efficiency ratios- Inventory turnover ratio got down to 5 from 6.5, FA Turnover also declined to 2.6 from 4.1 in FY17. Whereas WC Turnover got up to 6.7 in FY18 from 2.9. Net working capital to capital employed decreased to 0.3 compared to 0.6 in the last year.

Return Ratio- RoAE increased to 19.2% in FY18 from 15.3% in FY17. And RoACE improved by 210bps at 26.6% for the year ended.

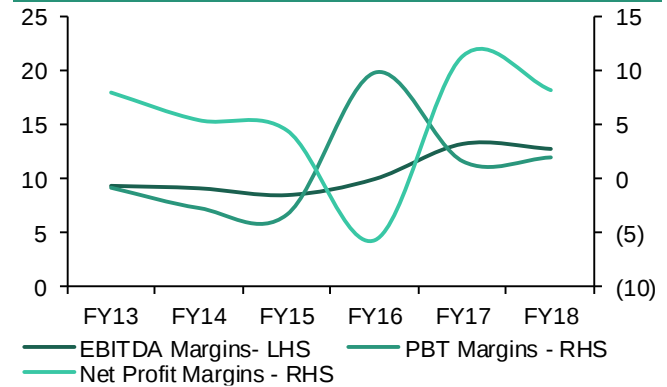
Annual Charts

Exhibit 1: Sales and YoY growth (%)



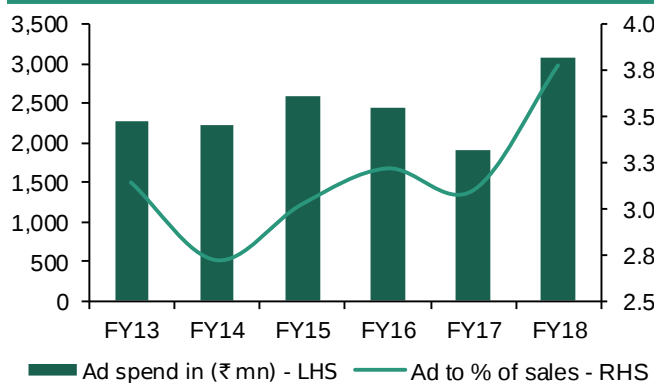
Source: Company, DART

Exhibit 2: Margins (%)



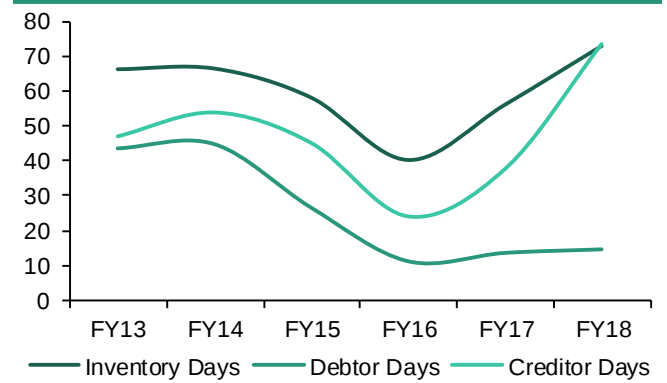
Source: Company, DART

Exhibit 3: Ad spends to sales



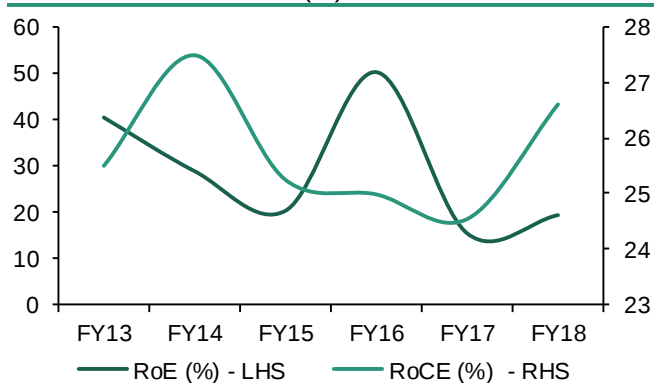
Source: Company, DART

Exhibit 4: Working capital days



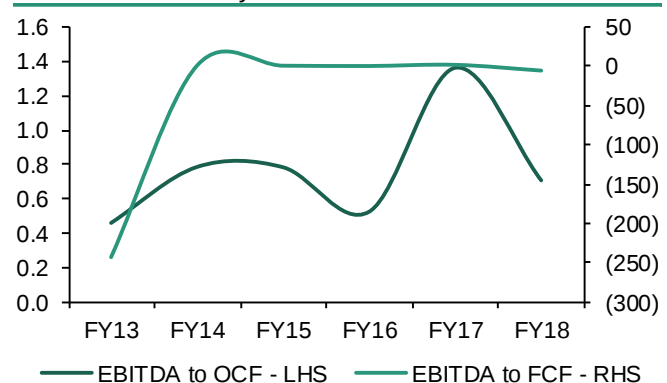
Source: Company, DART

Exhibit 5: Return Ratios (%)



Source: Company, DART

Exhibit 6: Efficiency Ratios



Source: Company, DART

Income Statement (₹ mn)

Particulars	Mar17	Mar18	Mar19E	Mar20E
Net Sales	61,558	81,464	96,239	114,319
Total Income	61,558	81,464	96,239	114,319
Total Expenditure	53,376	71,028	83,728	98,314
Raw Material	36,532	49,698	58,706	68,591
Employee Expenses	5,090	6,595	7,699	9,146
Other Expenses	11,754	14,735	17,323	20,577
Other Income	1,382	1,179	962	1,143
EBIDTA (Excl. OI)	8,182	10,436	12,511	16,005
EBIDTA (Incl. OI)	9,564	11,615	13,473	17,148
Interest	133	248	183	252
Gross Profit	9,430	11,367	13,291	16,896
Depreciation	1,205	1,405	1,785	1,959
PBT & EO Items	8,225	9,962	11,505	14,937
Extra Ordinary Exps/(Inc.)	(1,068)	(187)	0	0
Profit Before Tax	7,157	9,775	11,505	14,937
Tax	2,288	3,038	3,106	4,182
Net Profit	4,869	6,737	8,399	10,755
Minority Interest	(48)	0	0	0
Net Profit	4,822	6,737	8,399	10,755

Balance Sheet (₹ mn)

Particulars	Mar17	Mar18	Mar19E	Mar20E
Sources of Funds				
Equity Capital	625	625	625	625
Other Reserves	32,143	36,666	42,066	49,696
Net Worth	32,767	37,291	42,691	50,321
Minority Interest	91	77	0	0
Secured Loans	0	810	0	0
Unsecured Loans	2,083	344	1,925	2,286
Loan Funds	2,083	1,154	1,925	2,286
Deferred Tax Liability	1,169	2,117	2,070	2,070
Total Capital Employed	36,110	40,639	46,686	54,678
Applications of Funds				
Gross Block	15,175	31,425	36,828	38,828
Less: Accumulated Dep.	2,174	3,239	4,953	6,912
Net Block	13,002	28,186	31,875	31,916
Capital Work in Progress	119	241	241	241
Investments	1,617	0	0	0
Current Assets, Loans & Advances				
Inventories	9,453	16,330	19,292	22,916
Sundry Debtors	2,307	3,278	4,746	5,638
Cash and Bank Balance	19,744	15,616	13,398	17,456
Loans and Advances	776	1,389	951	951
Other Current Assets	4,659	1,036	860	860
sub total	36,939	37,649	39,247	47,821
Less: Current Liabilities & Provisions				
Current Liabilities	14,363	23,644	24,238	24,860
Provisions	1,204	1,792	440	440
sub total	15,567	25,436	24,677	25,300
Net Current Assets	21,373	12,212	14,570	22,521
Total Assets	36,110	40,639	46,686	54,678

E – Estimates

Cash Flow (₹ mn)

Particulars	Mar17	Mar18	Mar19E	Mar20E
Profit before tax	6,973	9,026	10,720	14,039
Depreciation & w.o.	1,205	1,405	1,785	1,959
Net Interest Exp	1,382	1,179	962	1,143
Direct taxes paid	(2,288)	(3,469)	(3,106)	(4,182)
Change in Working Capital	(465)	5,032	(4,575)	(3,893)
Other	(781)	1,604	(118)	7
(A) CF from Opt. Activities	6,025	14,777	5,668	9,072
Capex	(1,879)	(16,711)	(5,474)	(2,000)
Free Cash Flow	4,146	(1,934)	194	7,072
Inc./ (Dec.) in Investments	271	1,617	0	0
(B) CF from Invt. Activities	(1,609)	(15,094)	(5,474)	(2,000)
Inc./ (Dec.) in Debt	1,244	(930)	771	362
Interest exp net	(133)	(248)	(183)	(252)
Dividend Paid (Incl. Tax)	(2,309)	(2,633)	(3,000)	(3,125)
(C) CF from Financing	(1,198)	(3,811)	(2,411)	(3,014)
Net Change in Cash	3,219	(4,128)	(2,218)	4,058
Opening Cash balances	16,526	19,744	15,616	13,398
Closing Cash balances	19,744	15,616	13,398	17,456

Important Ratios

Particulars	Mar17	Mar18	Mar19E	Mar20E
(A) Measures of Performance (%)				
EBIDTA Margin (excl. O.I.)	13.3	12.8	13.0	14.0
EBIDTA Margin (incl. O.I.)	15.5	14.3	14.0	15.0
Interest / Sales	0.2	0.3	0.2	0.2
Gross Profit Margin	15.3	14.0	13.8	14.8
Tax/PBT	32.0	31.1	27.0	28.0
Net Profit Margin	7.8	8.3	8.7	9.4
(B) As Percentage of Net Sales				
Raw Material	59.3	61.0	61.0	60.0
Employee Expenses	8.3	8.1	8.0	8.0
Other Expenses	19.1	18.1	18.0	18.0
(C) Measures of Financial Status				
Interest Coverage (x)	71.7	46.8	73.7	68.2
Average Cost of Debt (%)	9.1	15.3	11.9	11.9
Debtors Period (days)	13.7	14.7	18.0	18.0
Closing stock (days)	56.1	73.2	73.2	73.2
Creditors Days	37.6	73.5	60.0	50.0
Inventory Turn. Ratio (x)	6.5	5.0	5.0	5.0
Cash Conversion cycle	32.2	14.4	31.2	41.2
Fixed Assets Turnover (x)	4.1	2.6	2.6	2.9
WC Turnover (x)	2.9	6.7	6.6	5.1
Non-Cash WC (₹ Mn)	1,629	(3,404)	1,172	5,065
(D) Measures of Investment				
EPS (₹.) (excl EO)	6.0	10.5	13.4	17.2
EPS (₹.)	7.7	10.8	13.4	17.2
CEPS (₹.)	9.6	13.0	16.3	20.3
DPS (₹.)	3.7	4.2	4.8	5.0
Dividend Payout (%)	47.9	39.1	35.7	29.1
Profit Ploughback (%)	52.1	60.9	64.3	70.9
Book Value (₹.)	52.4	59.7	68.3	80.5
RoANW (%)	15.3	19.2	21.0	23.1
RoACE (%)	24.5	26.6	26.8	30.0
RoAIC (%)	52.5	49.3	40.1	43.1
(E) Valuation Ratios				
CMP (₹.)	533	533	533	533
P/E (x)	69.1	49.5	39.7	31.0
Market Cap. (₹. Mn.)	333,072	333,178	333,178	333,178
MCap/ Sales (x)	5.4	4.1	3.5	2.9
EV (₹. Mn.)	315,411	318,716	321,705	318,009
EV/Sales (x)	5.1	3.9	3.3	2.8
EV/EBDITA (x)	38.6	30.5	25.7	19.9
P/BV (x)	10.2	8.9	7.8	6.6
Dividend Yield (%)	0.7	0.8	0.9	0.9

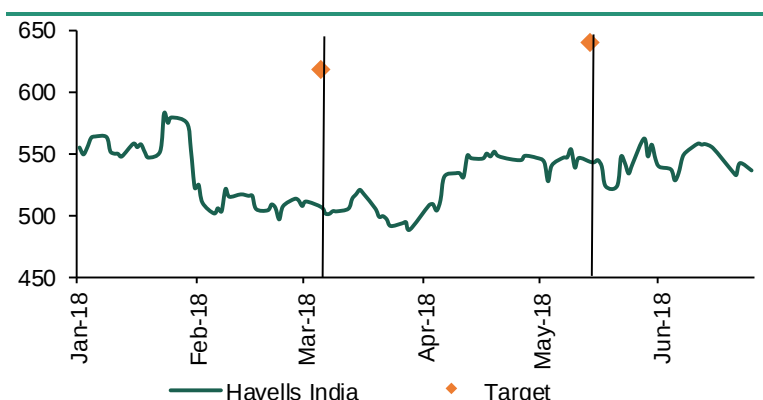
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)*
Mar-18	Buy	617	505
May-18	Buy	640	540

* As on Recommendation Date

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Analyst(s) Certification

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