

Havells India | BUY

Future Ready -FY18 AR Analysis

In its FY18 Annual Report, Havells has strongly focused on the role IT has played across the company (250-member team working on 200+ projects in sales and R&D) to boost not only its strategy to penetrate the home segment deeper but also its engagement with dealers and channel partners. In FY18, it forayed into the white goods segment by acquiring the consumer durables business of Lloyd (reported strong margin performance) and expanded its existing consumer durables basket by launching water purifiers and personal grooming products. Havells continues to generate significant free cash flows (INR 10bn in FY18 vs. INR 5.8bn in FY17, adjusted for the Lloyd acquisition). We continue to remain bullish with a Mar'19 TP of INR 650 (40x FY20E EPS). We maintain BUY.

- **A significant IT boost:** Havells continued to invest in select IT domains including a) Consumer and Products, b) Sales Force Automation, c) Distribution Management System, d) Vendor Management System, e) Planning and Forecast and f) Risk Management and Governance. It further plans to leverage data analytics and offer seamless integration between stakeholders. It launched new technologically advanced products (silent ceiling fans, water purifiers, intelligent lighting, LED mood lighting and dynamic colour changing LED lighting), which would continue to be the focus area for the company.
- **Management optimistic on growth outlook:** It focused on its core strategy of "Deeper into Homes" and forayed into the water purifier segment. Management continues to be optimistic on a) electrical goods, where it believes it sees sufficient growth opportunities, and b) Lloyd consumer appliances (plans to offer more products in televisions and washing machines), sufficiently aided by channel expansion and investment in brands.
- **Electricals business continues robust growth:** Despite GST-related disruptions, Havells' core electricals business reported 10% revenue growth in FY18 (13% on a like-to-like basis), while EBITDA/PBT grew 14%/18%. Contribution margins rose to a record 26% on a favourable product mix. Management hopes to at least maintain the current growth momentum on stronger growth in the consumer durables and lighting businesses.
- **Lloyd's performance strong:** Havells acquired Lloyd in May'17 and reported revenue of c.INR 8.2bn in FY19 (+11% YoY in FY18 on a like-to-like basis) with c.8% EBITDA margins (vs. 6-6.5% guidance), despite a relatively weak summer. Given its thrust on own manufacturing, Havells has committed capex of c.INR 3.5bn towards setting up an AC manufacturing facility in Gehlot by 4QFY19.
- **Significant jump in trade payables aid strong cash flow generation:** Given the seasonality in the Lloyd business (70% of revenue from ACs; Mar-May accounts for 50-55% of annual AC sales typically), Havells reported a significant increase in inventory (+INR 7bn/+18 days YoY), which was more than offset by a rise in trade payables (+INR10bn/+36 days YoY; most products are imported and enjoy higher credit period). As a result, Havells reported strong OCF of INR 11.1bn (INR 7.8bn in FY17). Adjusted for INR 14.8bn towards the Lloyd acquisition), Havells reported FCF of INR 10bn (3% FCF yield).



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	650
Upside/(Downside)	22.0%
Previous Price Target	470
Change	38.3%

Key Data – HAVL IN

Current Market Price	INR533
Market cap (bn)	INR333.3/US\$4.9
Free Float	34%
Shares in issue (mn)	624.6
Diluted share (mn)	625.1
3-mon avg daily val (mn)	INR709.7/US\$10.4
52-week range	593/441
Sensex/Nifty	35,490/10,769
INR/US\$	68.3

Price Performance

%	1M	6M	12M
Absolute	-1.8	-3.1	14.9
Relative*	-3.4	-7.2	0.8

* To the BSE Sensex

Thank you for your ongoing support in the [Asiamoney Annual Brokers Poll](#).

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Bloomberg - JMFR <GO>,
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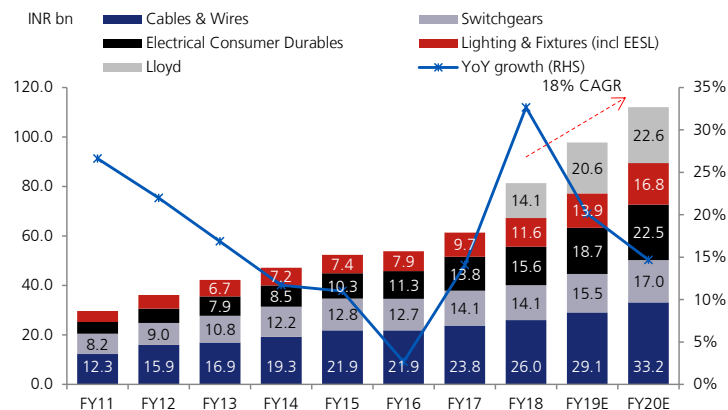
Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Financial Summary	(INR mn)				
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Net Sales	53,783	61,353	81,386	97,750	1,12,094
Sales Growth (%)	2.7	14.1	32.7	20.1	14.7
EBITDA	7,549	8,241	10,493	12,692	15,402
EBITDA Margin (%)	14.0	13.4	12.9	13.0	13.7
Adjusted Net Profit	5,115	5,918	6,845	8,402	10,224
Diluted EPS (INR)	8.2	9.5	11.0	13.4	16.4
Diluted EPS Growth (%)	13.2	15.6	15.6	22.7	21.7
ROIC (%)	45.7	44.7	37.5	32.8	39.3
ROE (%)	19.2	19.0	19.5	21.0	22.2
P/E (x)	65.1	56.3	48.7	39.7	32.6
P/B (x)	11.3	10.2	8.9	7.8	6.8
EV/EBITDA (x)	42.3	38.3	30.4	24.9	20.0
Dividend Yield (%)	1.1	0.6	0.7	0.8	0.9

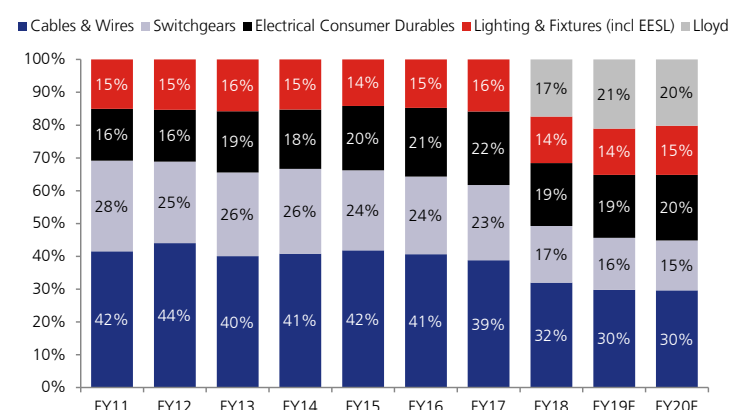
Source: Company data, JM Financial. Note: Valuations as of 26/Jun/2018

- **Maintain BUY (Mar'19 TP of INR 650):** Havells' FY18 annual report reinforces our belief in management's strategy of staying ahead of the curve in terms of continuous portfolio expansion (water purifiers, personal grooming products, air coolers, etc.), distribution expansion (enhanced focus on enterprise/B2B business) and brand-building initiatives. We value Havells at 40x FY20E EPS to arrive at a Mar'19TP of INR 650. We reiterate BUY. There is no change in estimates/target price in this report. A delayed recovery in macros is the key risk to our rating.

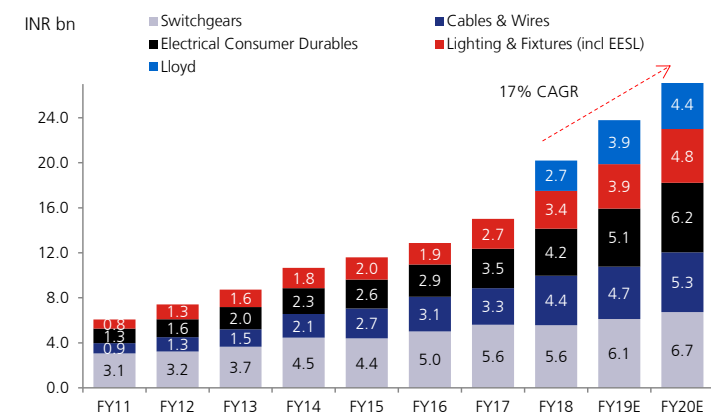
Annual Charts

Exhibit 1. Broad based revenue growth


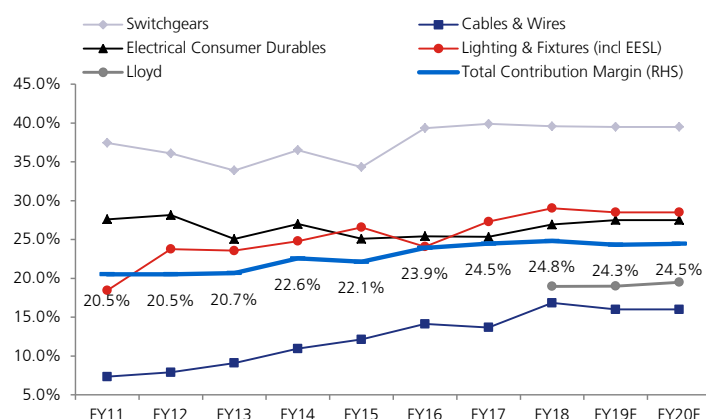
Source: Company, JM Financial

Exhibit 2. Revenue Mix (incl. Lloyd w.e.f. FY18)


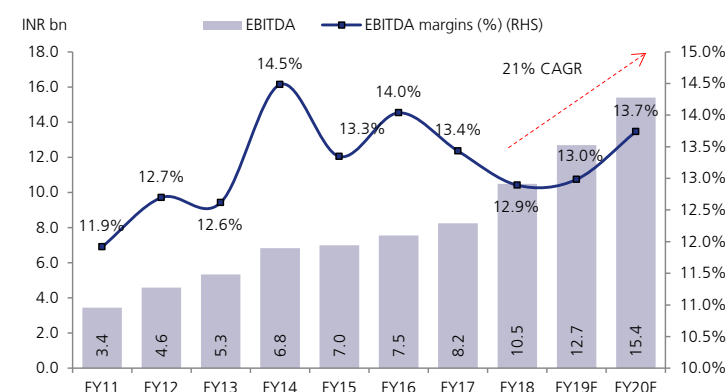
Source: Company, JM Financial

Exhibit 3. Absolute contribution trend


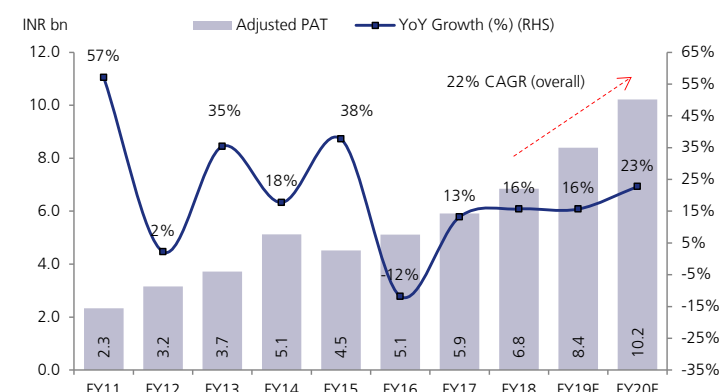
Source: Company, JM Financial

Exhibit 4. Contribution margin trend


Source: Company, JM Financial

Exhibit 5. EBITDA margin trend


Source: Company, JM Financial

Exhibit 6. Adjusted Profit trend


Source: Company, JM Financial

Exhibit 7. Trade payables and Inventories have shot up due seasonality in Lloyd business

INR mn, unless otherwise stated	FY13	FY14	FY15	FY16	FY17	FY18
Net Sales	42,250	47,197	52,387	57,754	65,860	82,603
As per reported book						
Inventories	6,630	6,827	6,897	7,844	9,284	16,217
Sundry Debtors	1,302	1,365	1,325	1,576	2,285	3,254
Other assets and loans &adv	1,131	1,362	1,661	1,104	1,825	2,005
Total current assets (excl cash)	9,063	9,554	9,883	10,524	13,395	21,476
Current Liabilities (Excl debt payable <12m) but incl Short term debt	6,590	7,993	8,173	8,367	11,890	22,710
Trades Payable/Creditors	3,687	4,269	3,687	4,363	6,296	13,445
Acceptances	303	227	258	0	0	2,895
Others	2,600	3,498	4,228	4,004	5,594	6,370
Provisions	489	880	1,023	1,680	2,903	2,093
Total current liabilities and provisions	7,079	8,873	9,196	10,047	14,793	24,803
Net Current Assets	1,984	680	687	478	-1,398	-3,327
Days of sales (reported; based on sales)						
Inventories	57	53	48	50	51	72
Sundry Debtors	11	11	9	10	13	14
Other assets and loans &adv	10	11	12	7	10	9
Total current assets (excl cash)	78	74	69	67	74	95
Current Liabilities (Excl debt payable <12m)	57	62	57	53	66	100
Trades Payable/Creditors (incl acceptances)	32	33	26	28	35	59
Acceptances	3	2	2	0	0	13
Others	22	27	29	25	31	28
Provisions	4	7	7	11	16	9
Total current liabilities and provisions	61	69	64	63	82	110
Net Current Assets	17	5	5	3	-8	-15
Receivable buyout	3,411	3,410	4,188	4,384	4,454	6,490
Channel Financing	3,259	3,565	3,719	3,706	4,241	5,934
Debtors financed	6,670	6,974	7,907	8,090	8,695	12,424
incremental debtor days	58	54	55	51	48	55
Total debtors	7,972	8,339	9,232	9,666	10,980	15,678
Total debtor days	69	64	64	61	61	69
Recourse portion of Havells	667	697	791	1,325	0	0
Days of sales (adjusted for recourse portion; based on sales)						
Inventories	57	53	48	50	51	72
Sundry Debtors	17	16	15	18	13	14
Other assets and loans & adv	10	11	12	7	10	9
Total current assets (excl cash)	84	79	74	75	74	95
Total current liabilities and provisions	61	69	64	63	82	110
Net Current Assets	23	11	10	11	-8	-15

Source: Company, JM Financial

Exhibit 8. Cash Flow Analysis (adjusted for channel financing)

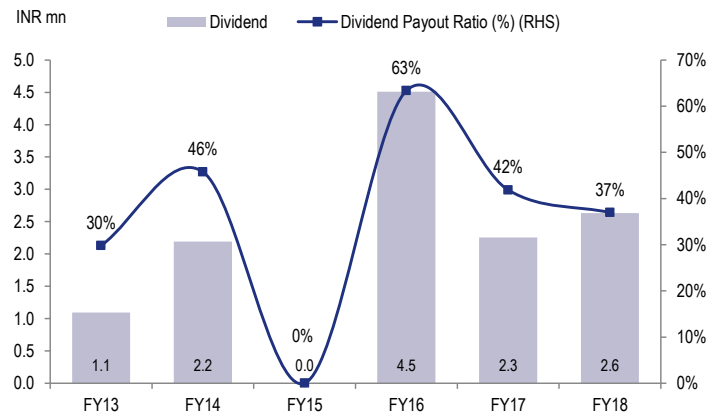
INR mn	FY13	FY14	FY15	FY16	FY17	FY18
Profit Before Taxation	4,572	5,951	6,463	9,090	7,688	10,147
Interest Expenditure	250	135	117	61	91	197
Other adjustments	558	481	531	-1,491	728	614
Income tax paid	-925	-1,118	-1,505	-1,447	-2,052	-2,450
Cash flow before working capital changes (post taxes)	4,455	5,450	5,606	6,214	6,456	8,509
(incr)/Decr in working capital (including debtors adjustments)	-2,206	771	-534	-1,143	717	-1,161
(Increase) in trade receivables	294	-86	49	-289	-775	-1,023
Increase in debtors (discounting/channel financing)	-1,527	-304	-933	-183	-605	-3,729
(Increase) in inventories	-390	-197	-70	-946	-1,441	-6,932
Increase in trade payables	-1,426	433	-552	425	1,948	10,060
Increase in other liabilities and provisions	920	988	1,125	3	1,786	1,150
Decrease in loans and advances	-70	-46	-174	-153	-195	-687
Decrease in other current assets	-7	-16	21	0	0	0
Cash flow from operating activities	2,249	6,221	5,072	5,071	7,173	7,348
Capex	-1,197	-901	-1,675	-1,741	-2,358	-15,888
Investments	-169	-3,156	-4,769	586	-722	5,028
Other adjustments	54	218	356	373	806	843
Cash flow from investment activities	-1,312	-3,839	-6,088	-782	-2,275	-10,017
Incr/(decr) in borrowing	-166	753	-1,154	-434	1,533	-901
Interest paid	-247	-83	-171	-63	-93	-197
Capital raised/dividend paid	-943	-1,825	-1,362	-4,511	-2,256	-2,632
Other adjustments	0	0	1	29	92	147
Cash flow from financing activities	-1,356	-1,155	-2,686	-4,978	-724	-3,583
Net cash flow during the year	-418	1,227	-3,702	-689	4,175	-6,252
Opening cash balance	1,360	2,459	3,997	1,266	768	5,550
Incremental cash from debtors factoring	1,527	304	933	183	605	3,729
Closing cash balance	2,469	3,990	1,228	760	5,548	3,026
Cash flow generation						
Cash flow (before working capital; post interest and taxes)	4,208	5,367	5,435	6,151	6,363	8,311
Working capital Changes	-2,206	771	-534	-1,143	717	-1,161
Cash flow from operating activities (post int)	2,002	6,138	4,901	5,008	7,080	7,151
Capex	-1,197	-901	-1,675	-1,741	-2,358	-15,888
Total free cash flow	805	5,237	3,226	3,267	4,722	-8,737
Utilised						
Dividends/Buyback outflow	-943	-1,825	-1,362	-4,511	-2,256	-2,632
Debt (reduction)/Incr	-166	753	-1,154	-434	1,533	-901
Cash and Bank balance increase	1,202	1,521	-2,762	-468	4,788	-2,521

Source: Company, JM Financial

Exhibit 9. Warranties provisions trend

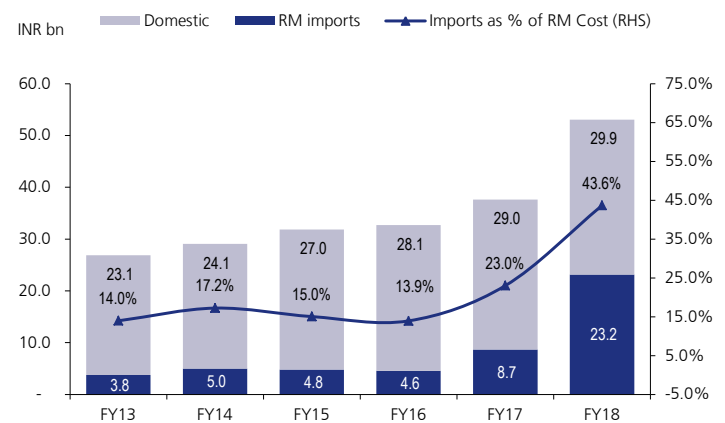
INR mn	FY13	FY14	FY15	FY16	FY17	FY18
Opening	191.2	331.5	414.5	523.9	652.5	812.2
Provision made	328.0	818.2	802.6	951.3	995.6	1,756.3
Utilised	187.3	315.2	693.2	822.7	835.9	1,146.7
Closing	331.9	834.5	523.9	652.5	812.2	1,421.8
Total Revenue	42,250	47,197	52,387	57,754	65,860	82,603
Provision % of revenue	0.78%	1.73%	1.53%	1.65%	1.51%	2.13%

Source: Company, JM Financial

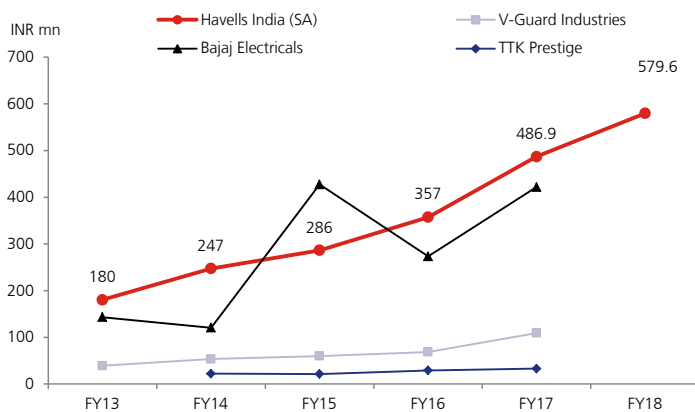
Exhibit 10. Dividend Payout Ratio

Source: Company, JM Financial.

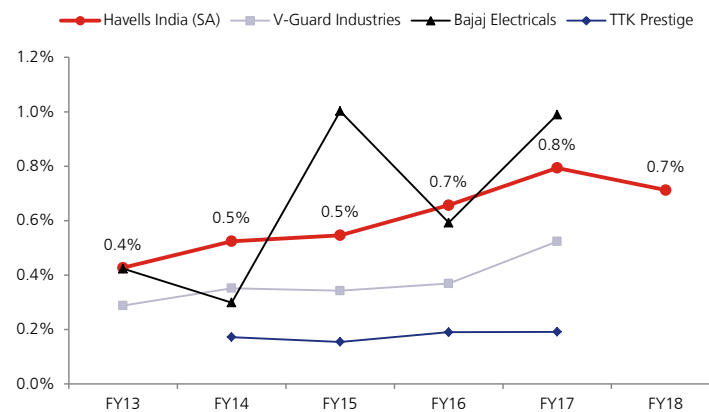
Note: FY15 dividend accounted for in FY16 due to IND-AS

Exhibit 11. Imports increasing in raw materials

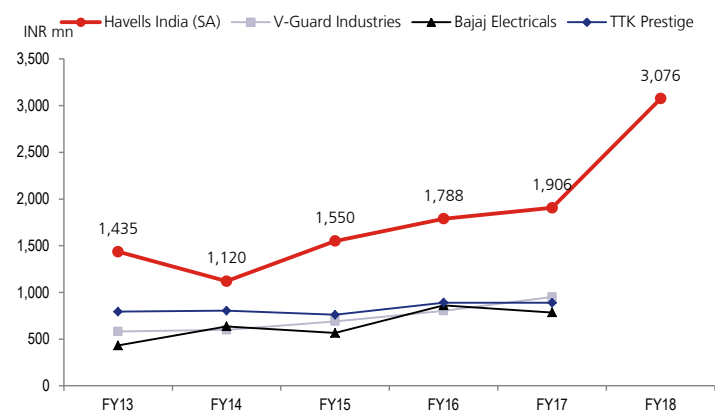
Source: Company, JM Financial

Exhibit 12. Absolute R&D spends

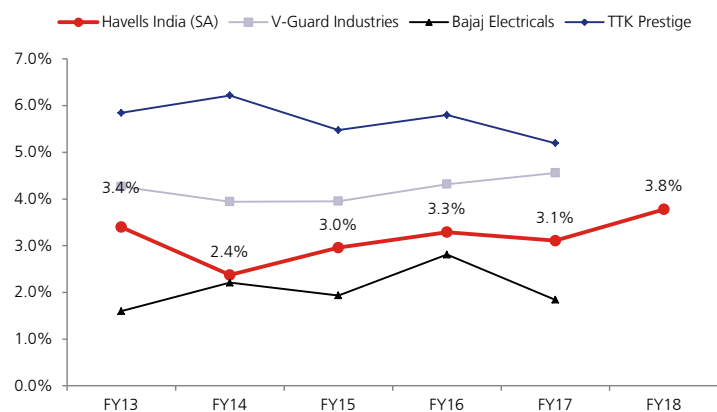
Source: Company, JM Financial. Annual Reports not received for other companies

Exhibit 13. R&D (% of Sales)

Source: Company, JM Financial. Annual Reports not received for other companies

Exhibit 14. Absolute A&P spends went up substantially

Source: Company, JM Financial

Exhibit 15. A&P (% of Sales)

Source: Company, JM Financial

Financial Tables (Standalone)

Income Statement					(INR mn)
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Net Sales	53,783	61,353	81,386	97,750	1,12,094
Sales Growth	2.7%	14.1%	32.7%	20.1%	14.7%
Other Operating Income	0	0	0	0	0
Total Revenue	53,783	61,353	81,386	97,750	1,12,094
Cost of Goods Sold/Op. Exp	31,735	36,485	49,808	60,116	68,714
Personnel Cost	3,708	5,004	6,497	7,472	8,369
Other Expenses	10,791	11,623	14,588	17,470	19,610
EBITDA	7,549	8,241	10,493	12,692	15,402
EBITDA Margin	14.0%	13.4%	12.9%	13.0%	13.7%
EBITDA Growth	8.0%	9.2%	27.3%	21.0%	21.4%
Depn. & Amort.	1,049	1,196	1,395	1,535	1,765
EBIT	6,500	7,045	9,098	11,157	13,637
Other Income	719	1,206	841	1,200	1,300
Finance Cost	127	122	240	180	120
PBT before Excep. & Forex	7,091	8,129	9,699	12,177	14,817
Excep. & Forex Inc./Loss(-)	-25	137	329	0	0
PBT	7,066	8,266	10,028	12,177	14,817
Taxes	1,970	2,298	3,022	3,775	4,593
Extraordinary Inc./Loss(-)	2,024	-578	119	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net Profit	7,120	5,390	7,125	8,402	10,224
Adjusted Net Profit	5,115	5,918	6,845	8,402	10,224
Net Margin	9.5%	9.6%	8.4%	8.6%	9.1%
Diluted Share Cap. (mn)	624.6	624.9	625.1	625.1	625.1
Diluted EPS (INR)	8.2	9.5	11.0	13.4	16.4
Diluted EPS Growth	13.2%	15.6%	15.6%	22.7%	21.7%
Total Dividend + Tax	4,511	2,256	2,633	3,009	3,762
Dividend Per Share (INR)	6.0	3.0	3.5	4.0	5.0

Source: Company, JM Financial

Cash Flow Statement					(INR mn)
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Profit before Tax	9,090	7,688	10,147	12,177	14,817
Depn. & Amort.	1,050	1,196	1,395	1,535	1,765
Net Interest Exp. / Inc. (-)	-450	-889	-249	-1,020	-1,180
Inc (-) / Dec in WCap.	-950	1,323	3,128	1,086	952
Others	-2,034	522	-895	244	296
Taxes Paid	-1,446	-2,062	-2,450	-3,775	-4,593
Operating Cash Flow	5,260	7,778	11,077	10,247	12,057
Capex	-1,770	-2,358	-15,888	-5,000	-1,800
Free Cash Flow	3,490	5,420	-4,811	5,247	10,257
Inc (-) / Dec in Investments	9,050	-732	5,028	0	0
Others	853	816	843	1,200	1,300
Investing Cash Flow	8,133	-2,275	-10,017	-3,800	-500
Inc / Dec (-) in Capital	0	0	0	0	0
Dividend + Tax thereon	-4,510	-2,256	-2,632	-3,009	-3,762
Inc / Dec (-) in Loans	-434	1,625	-753	-270	0
Others	-21	-93	-197	-180	-120
Financing Cash Flow	-4,965	-724	-3,583	-3,459	-3,882
Inc / Dec (-) in Cash	8,428	4,780	-2,524	2,987	7,675
Opening Cash Balance	5,223	13,652	19,375	15,262	18,249
Closing Cash Balance	13,651	18,432	16,852	18,249	25,924

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Shareholders' Fund	29,537	32,736	37,392	42,784	49,246
Share Capital	625	625	625	625	625
Reserves & Surplus	28,912	32,111	36,766	42,159	48,621
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	29	2,010	1,080	810	810
Def. Tax Liab. / Assets (-)	863	1,138	2,070	2,313	2,609
Total - Equity & Liab.	30,428	35,883	40,541	45,907	52,666
Net Fixed Assets	12,086	12,777	28,092	31,557	31,592
Gross Fixed Assets	13,080	15,012	31,602	36,602	38,402
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	1,200	2,355	3,750	5,285	7,050
Capital WIP	205	119	241	241	241
Investments	4,627	3,891	823	823	823
Current Assets	24,177	32,933	36,499	43,402	54,509
Inventories	7,844	9,284	16,217	19,477	22,335
Sundry Debtors	1,576	2,285	3,254	3,908	4,482
Cash & Bank Balances	13,652	19,375	15,262	18,249	25,924
Loans & Advances	1,105	1,988	1,767	1,767	1,767
Other Current Assets	0	0	0	0	0
Current Liab. & Prov.	10,462	13,717	24,873	29,874	34,258
Current Liabilities	4,363	6,296	16,340	19,625	22,505
Provisions & Others	6,098	7,421	8,533	10,249	11,753
Net Current Assets	13,715	19,216	11,626	13,527	20,250
Total - Assets	30,428	35,883	40,541	45,907	52,666

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Net Margin	9.5%	9.6%	8.4%	8.6%	9.1%
Asset Turnover (x)	1.9	1.9	2.1	2.3	2.3
Leverage Factor (x)	1.0	1.1	1.1	1.1	1.1
RoE	19.2%	19.0%	19.5%	21.0%	22.2%

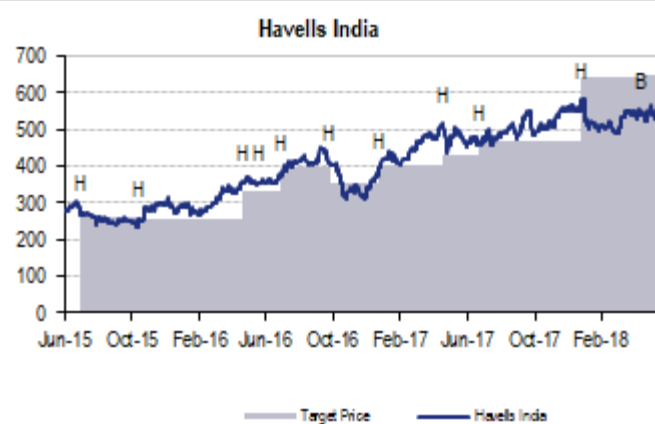
Key Ratios					
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
BV/Share (INR)	47.3	52.4	59.8	68.4	78.8
ROIC	45.7%	44.7%	37.5%	32.8%	39.3%
ROE	19.2%	19.0%	19.5%	21.0%	22.2%
Net Debt/Equity (x)	-0.5	-0.5	-0.4	-0.4	-0.5
P/E (x)	65.1	56.3	48.7	39.7	32.6
P/B (x)	11.3	10.2	8.9	7.8	6.8
EV/EBITDA (x)	42.3	38.3	30.4	24.9	20.0
EV/Sales (x)	5.9	5.1	3.9	3.2	2.7
Debtor days	11	14	15	15	15
Inventory days	53	55	73	73	73
Creditor days	34	43	84	84	85

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	Recommendation	Target Price	% Chg.
28-Jul-15	Hold	259	
10-Nov-15	Hold	255	-1.5
16-May-16	Hold	333	30.6
16-Jun-16	Hold	332	-0.1
25-Jul-16	Hold	396	19.3
20-Oct-16	Hold	352	-11.3
19-Jan-17	Hold	404	14.8
15-May-17	Hold	428	6.0
21-Jul-17	Hold	469	9.6
24-Jan-18	Hold	641	36.8
11-May-18	Buy	650	1.4
27-Jun-18	Buy	650	0.0

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

(formerly known as JM Financial Securities Limited)

Corporate Identity Number: U67100MH2017PLC296081

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