

Q1 was a good quarter with inline margins and PAT. Core Havells at 19%, helped by the base of a pre-GST quarter last year. Expected revival of real estate in H2'19 will push core segments. We increase our FY19/20 earnings marginally by 2%/1% leading to an increase in target price to ₹ 672. Structural growth story should continue, and we maintain our positive view on the company.

Q1 was a good quarter with inline margins and PAT

Margins were in line with our expectations at 12% though sales were 12% higher than expected in Q1. This is despite a blended A&P spend of 4.5%, the highest in the past 10 quarters. PAT was in line with our estimates on account of higher than expected tax rate in the quarter. Lloyds performance was good with revenues of ₹ 7.1bn in Q1, with a 14% yoy growth in an industry which saw a weak Q1.

Brand build and cost rationalizations continues

Havells continues to invest in the Lloyds brand with an A&P spend of 7% for Lloyds in Q1 (like FY18 levels) as compared to 3.5% for the core Havells business, with an overall A&P spend of 4.5% for the combined entity. Other SGA in Lloyds has seen a fall of 90bps at 3.7% as cost benefits of integrating channels plays out. While Lloyds made 19% EBIT margins in a seasonally peak quarter, the reinvestment in brand through higher A&P spend is visible

Improvement in real estate should fire the core business

While the core Havells business grew at 19% in Q1, the growth was led by the lighting and the durables business which grew at 25%/33%, while switchgears and cables were also good at 19%/18% -of course all this on a lower base due to pre-GST quarter last year. Improvement in real estate will aid growth in the core business of the company.

Structural growth story should continue, we maintain our positive view

We increase our FY19/20 earnings marginally by 2%/1% leading to an increase in target price to ₹ 672. Structural growth story should continue, and we maintain our positive view on the company.

Q1FY19 Result (₹ Mn)

Particulars	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
Operating Income	25,964	18,605	39.5	25,350	2.4
Total Raw Material Cost	16,209	11,965	35.5	15,728	3.1
Staff Expenditure	1,970	1,619	21.7	1,637	20.3
Advertisement & Sales	1,156	735	57.4	1,046	10.5
Other Expenses	3,506	2,562	36.8	3,361	4.3
EBITDA	3,123	1,724	81.1	3,578	(12.7)
Other Income	292	348	(16.0)	257	13.5
Depreciation	350	336	4.3	347	0.9
Interest	26	34	(25.0)	84	(69.5)
Tax	935	489	91.2	1,055	11.4
Net Profit	2,104	1,214	73.4	2,258	(10.4)
			bps		bps
Raw Material Cost	62.4	64.3	(118)	62.0	39
Staff Cost	7.6	8.7	(111)	6.5	113
Advertisement & Sales	4.5	3.9	50	4.1	33
Other Expenses	13.5	13.8	(27)	13.3	25
EBITDA (%)	12.0	9.3	276	14.1	(209)
NPM (%)	8.1	6.5	158	8.9	(116)

CMP	₹ 560
Target / Upside	₹ 672/20%
BSE Sensex	36,496
NSE Nifty	11,010

Scrip Details

Equity / FV	₹ 625mn/₹1/-
Market Cap	₹ 354bn
	USD 5.1bn
52-week High/Low	₹ 593/452
Avg. Volume (no)	1,153,373
NSE Symbol	HAVELLS
Bloomberg Code	HAVL IN

Shareholding Pattern Jun'18 (%)

Promoters	59.6
MF/Banks/FIs	5.4
FIIIs	24.8
Public / Others	10.2

Valuation (x)

	FY18	FY19E	FY20E
P/E	51.8	40.3	31.8
EV/EBITDA	32.1	26.2	20.4
ROE	19.2	21.4	23.3
ROCE	26.5	27.3	30.2

Estimates (₹ mn)

	FY18	FY19E	FY20E
Net Sales	81,464	96,883	115,086
EBITDA	10,436	12,885	16,342
PAT	7,125	8,676	11,002
EPS (₹)	11.3	13.9	17.6

Sr. Analyst: Vinod Chari

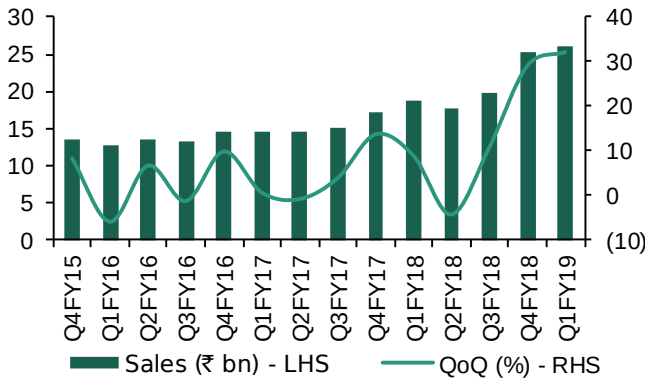
Tel: +9122 4096 9776

E-mail: vinodc@dolatcapital.com

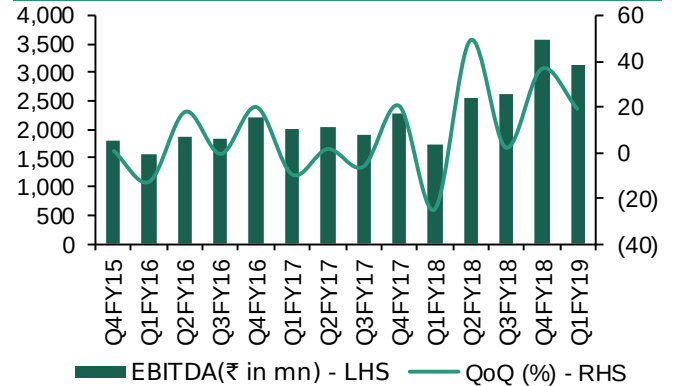
Associate: Monali Jain, CA

Tel: +9122 4096 9722

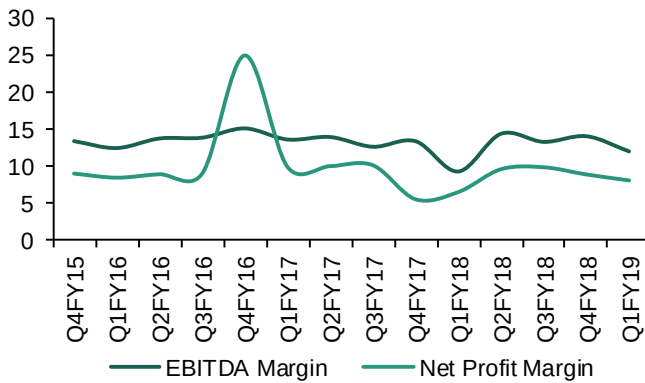
E-mail: monali@dolatcapital.com

Exhibit 1: Sales and QoQ growth


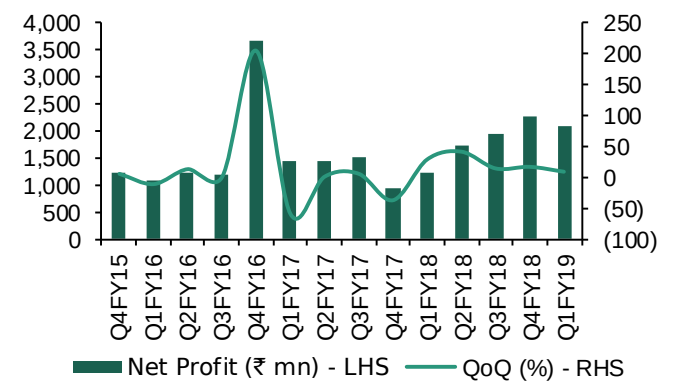
Source: Company, DART

Exhibit 2: EBITDA and QoQ growth (%)


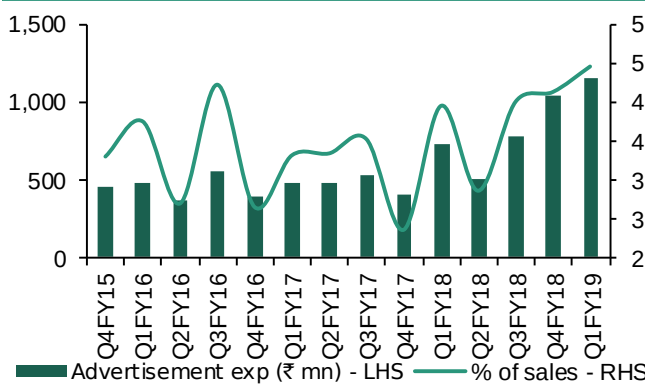
Source: Company, DART

Exhibit 3: Trend in Margin (%)


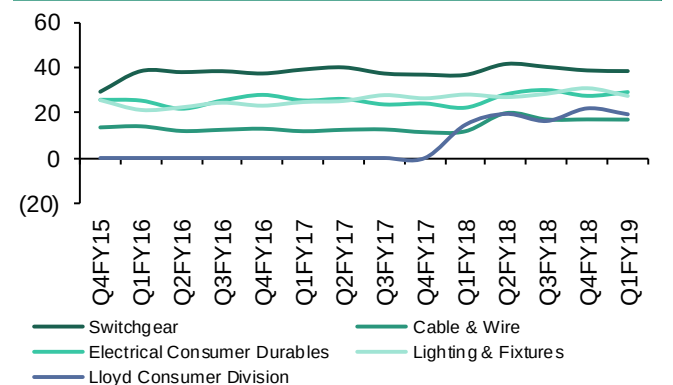
Source: Company, DART

Exhibit 4: Net profit and QoQ growth


Source: Company, DART

Exhibit 5: Spend on advertisement (% of sales)


Source: Company, DART

Exhibit 6: Segment EBIT Margin (%) trend


Source: Company, DART

Income Statement (₹ mn)

Particulars	Mar17	Mar18	Mar19E	Mar20E
Net Sales	61,558	81,464	96,883	115,086
Total Expenditure	53,376	71,028	83,998	98,744
Cost of materials consumed	36,532	49,698	58,614	68,821
Employee Benefits Exp	5,090	6,595	7,944	9,207
Other Expenses	11,754	14,735	17,439	20,715
Other Income	1,382	1,179	969	1,151
EBIDTA (Excl. OI)	8,182	10,436	12,885	16,342
EBIDTA (Incl. OI)	9,564	11,615	13,854	17,493
Interest	133	248	184	253
Depreciation	1,205	1,405	1,785	1,959
Profit Before Tax	8,225	10,149	11,885	15,281
Tax	2,288	3,021	3,209	4,279
Net Profit	4,822	7,125	8,676	11,002

Balance Sheet (₹ mn)

Particulars	Mar17	Mar18	Mar19E	Mar20E
Sources of Funds				
Equity Capital	625	625	625	625
Other Reserves	32,143	37,057	42,734	50,612
Net Worth	32,736	37,392	43,029	51,157
Secured Loans	-	810	-	-
Unsecured Loans	2,083	344	1,938	2,302
Loan Funds	2,083	1,154	1,938	2,302
Deferred Tax Liability	1,169	2,117	2,070	2,070
Total Capital Employed	36,110	41,030	47,367	55,608
Applications of Funds				
Gross Block	15,175	31,425	36,828	38,828
Less: Accu. Depreciation	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
Current Assets, Loans & Advances				
Inventories	9,453	16,330	19,421	23,070
Sundry Debtors	2,307	3,278	4,778	5,675
Cash and Bank Balance	19,744	16,007	14,082	18,368
Loans and Advances	776	1,389	951	951
<i>sub total</i>	32,726	36,771	52,747	60,977
Less: Current Liabilities & Provisions				
Current Liabilities	14,363	23,644	24,395	25,027
Provisions	1,204	1,792	446	446
<i>sub total</i>	15,567	25,436	24,841	25,473
Net Current Assets	21,373	12,603	15,251	23,452
Total Assets	36,110	41,030	47,367	55,608

E – Estimates

Cash Flow (₹ mn)

Particulars	Mar17	Mar18	Mar19E	Mar20E
Profit before tax	6,973	9,026	11,094	14,376
Depreciation & w.o.	1,205	1,405	1,785	1,959
Net Interest Exp	1,382	1,179	969	1,151
Direct taxes paid	(2,288)	(3,469)	(3,209)	(4,279)
Change in Working Capital	(465)	5,032	(4,573)	(3,915)
(A) CF from Opt. Activities	6,025	15,168	5,949	9,299
Capex	(1,879)	(16,711)	(5,474)	(2,000)
Free Cash Flow	2,333	(512)	13,624	7,756
(B) CF from Invst. Activities	(1,609)	(15,094)	(5,474)	(2,000)
Inc./(Dec.) in Debt	1,244	(930)	784	364
Interest exp. net	(133)	(248)	(184)	(253)
Dividend Paid (Incl. Tax)	(2,309)	(2,633)	(3,000)	(3,125)
(C) CF from Financing	(1,198)	(3,811)	(2,400)	(3,014)
Net Change in Cash	3,219	(3,737)	(1,925)	4,286
Opening Cash balances	16,526	19,744	16,007	14,082
Closing Cash balances	19,744	16,007	14,082	18,368

Important Ratios

Particulars	Mar17	Mar18	Mar19E	Mar20E
(A) Measures of Performance (%)				
EBIDTA Margin (excl. O.I.)	13.3	12.8	13.3	14.2
Interest / Sales	0.2	0.3	0.2	0.2
Tax/PBT	32.0	30.9	27.0	28.0
Net Profit Margin	7.8	8.3	9.0	9.6
(B) As Percentage of Net Sales				
Raw Material	59.3	61.0	60.5	59.8
Employee Expenses	8.3	8.1	8.2	8.0
Other Expenses	19.1	18.1	18.0	18.0
(C) Measures of Financial Status				
Debt / Equity (x)	0.1	0.0	0.0	0.0
Interest Coverage (x)	71.7	46.8	75.3	69.1
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 Turnover Ratio (x)	6.5	5.0	5.0	5.0
Fixed Assets Turnover (x)	4.1	2.6	2.6	3.0
W.C. Turnover (x)	2.9	6.5	6.4	4.9
Non-Cash WC (₹ Mn)	1,629	(3,404)	1,169	5,084
(D) Measures of Investment				
EPS (₹) (excl EO)	6.0	10.5	13.9	17.6
CEPS (₹)	9.6	13.1	16.7	20.7
DPS (₹)	3.7	4.2	4.8	5.0
Dividend Payout (%)	47.9	39.0	34.6	28.4
Profit Ploughback (%)	52.1	61.0	65.4	71.6
Book Value (₹)	52.4	60.3	69.4	82.0
RoANW (%)	15.3	19.2	21.4	23.3
RoACE (%)	24.5	26.5	27.3	30.2
RoAIC (%)	52.5	49.3	41.4	44.1
(E) Valuation Ratios				
CMP (₹)	560	560	560	560
P/E (x)	72.6	51.8	40.3	31.8
Market Cap. (₹ Mn.)	349,944	350,056	350,056	350,056
MCap/ Sales (x)	5.7	4.3	3.6	3.0
EV (₹ Mn.)	332,283	335,203	337,912	333,990
EV/Sales (x)	5.4	4.1	3.5	2.9
EV/EBDITA (x)	40.6	32.1	26.2	20.4
P/BV (x)	10.7	9.3	8.1	6.8
Dividend Yield (%)	0.7	0.8	0.9	0.9

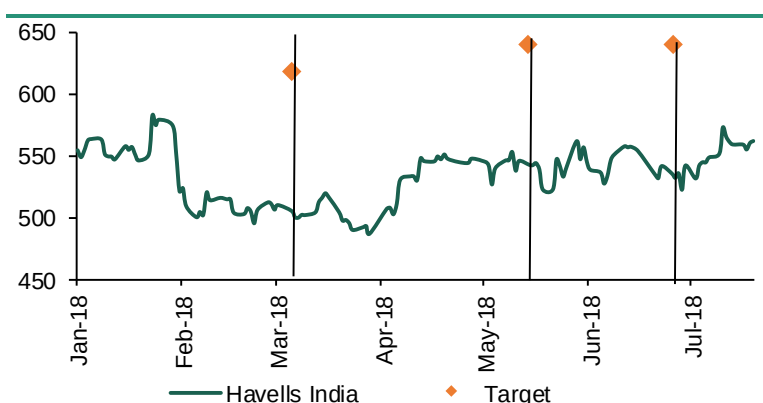
E – Estimates

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
Jun-18	Buy	640	533

* As on Recommendation Date

DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745

CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kartik Sadagopan	VP - Equity Sales	kartiks@dolatcapital.com	+9122 4096 9762
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Derivatives Strategist	Designation	E-mail	
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705
Equity Trading	Designation	E-mail	
P. Sridhar	VP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	AVP - Equity Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Derivatives Trading	Designation	E-mail	
Shirish Thakkar	AVP - Derivatives	shirisht@dolatcapital.com	+9122 4096 9702
Hardik Mehta	Sales Trader	hardikm@dolatcapital.com	+9122 4096 9748

Dolat Capital Market Private Limited.

20, Rajabhadur Mansion, 1st Floor, Ambalal Doshi Marg, Fort, Mumbai - 400 001

Analyst(s) Certification

The research analyst(s), with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)

II. Disclaimer:

This research report has been prepared by Dolat Capital Market Private Limited. to provide information about the company(ies) and sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company(ies) solely for the purpose of information of the select recipient of this report. This report and/or any part thereof, may not be duplicated in any form and/or reproduced or redistributed without the prior written consent of Dolat Capital Market Private Limited. This report has been prepared independent of the companies covered herein. Dolat Capital Market Private Limited. and its affiliated companies are part of a multi-service, integrated investment banking, brokerage and financing group. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have provided or may provide services in respect of managing offerings of securities, corporate finance, investment banking, mergers & acquisitions, financing or any other advisory services to the company(ies) covered herein. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have received or may receive compensation from the company(ies) mentioned in this report for rendering any of the above services. Research analysts and sales persons of Dolat Capital Market Private Limited. may provide important inputs to its affiliated company(ies) associated with it. While reasonable care has been taken in the preparation of this report, it does not purport to be a complete description of the securities, markets or developments referred to herein, and Dolat Capital Market Private Limited. does not warrant its accuracy or completeness. Dolat Capital Market Private Limited. may not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This report is provided for information only and is not an investment advice and must not alone be taken as the basis for an investment decision. The investment discussed or views expressed herein may not be suitable for all investors. The user assumes the entire risk of any use made of this information. The information contained herein may be changed without notice and Dolat Capital Market Private Limited. reserves the right to make modifications and alterations to this statement as they may deem fit from time to time. Dolat Capital Market Private Limited. and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. This report is neither an offer nor solicitation of an offer to buy and/or sell any securities mentioned herein and/or not an official confirmation of any transaction. This report is not directed or intended for distribution to, or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Dolat Capital Market Private Limited. and/or its affiliated company(ies) to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to a certain category of investors. Persons in whose possession this report may come, are required to inform themselves of and to observe such restrictions.

For U.S. Entity/ persons only: This research report is a product of Dolat Capital Market Private Limited., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Dolat Capital Market Private Limited. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person or entity.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Dolat Capital Market Private Limited. has entered into an agreement with a U.S. registered broker-dealer Ltd Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer/Entity as informed by Dolat Capital Market Private Limited. from time to time.

Dolat Capital Market Private Limited.

Corporate Identity Number: U65990DD1993PTC009797

Member: BSE Limited and National Stock Exchange of India Limited.

SEBI Registration No: BSE - INB010710052 & INF010710052, NSE - INB230710031& INF230710031, Research: INH000000685

Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatcapital.com
