MOTILAL OSWAL

20 July 2018

1QFY19 Results Update | Sector: Capital Goods

Havells India

BSE SENSEX	S&P CNX
34,496	11,010

Bloomberg	HAVL IN
Equity Shares (m)	625
M.Cap.(INRb)/(USDb)	350 / 5.1
52-Week Range (INR)	593 / 452
1, 6, 12 Rel. Per (%)	0/0/6
12M Avg Val (INR M)	768
Free float (%)	40.5

Financials & Valuations (INR b)

Y/E Mar	2018	2019E	2020E
Net Sales	81.4	98.2	111.5
EBITDA	10.5	12.7	15.6
Adj PAT	7.0	8.6	10.6
Adj EPS (INR)	11.2	13.8	16.9
EPS Gr. (%)	17.4	23.4	22.1
BV/Sh(INR)	59.9	67.8	77.7
RoE (%)	18.7	20.4	21.8
RoCE (%)	18.8	20.1	22.0
P/E (x)	49.9	40.4	33.1
P/BV (x)	9.3	8.2	7.2

Estimate change ⟷

TP change ⟷

Rating change ⟷

CMP: INR560 TP: INR645 (+15%) Buy

Operating performance in line with expectations

- **In-line operating performance:** Revenue grew 40% YoY (43% on an LTL basis) to INR26b, ahead of our estimate of INR24.5b. Gross margin expanded 190bp to 37.6%. EBITDA, adjusted for a forex loss of INR85m, stood at INR3.2b (+84% YoY), in line with our estimate. Adspend increased to INR1.16b (4.5% of sales v/s 4% in 1QFY18), while employee costs rose 22% YoY to INR1.9b. Adj. PAT of INR2.2b (+78% YoY) was marginally above our estimate of INR2.1b.
- **Robust growth in core business (ex-Lloyd):** Core business revenue grew 22% YoY (on an LTL basis) to INR18.9b, led by strong growth across segments (Switchgears +26% YoY; Cables +18% YoY; Consumer Durables +43% YoY; and Lighting (ex EESL) +25% YoY). EBIDTA margin (excl. Lloyd) improved 350bp YoY to 13.5%, driven by margin improvement in the cables and consumer durables segments.
- **Strong sales growth at Lloyd:** Lloyd Electric recorded revenue of INR7.1b (+14% on LTL basis) and adjusted EBIDTA margin of 9.3%. Adspend stood at INR500m (7.1% of sales). Sales growth was helped by ASP increase on account of energy rating change, pass-through of higher raw material prices, and a higher share of inverters (30% of total).
- **Key concall highlights:** (a) HAVL witnessed strong growth across categories in 1QFY19, aided by a weak base. (b) Fans market share stood at 15%, with 40%+ share in premium fans. (c) 18% growth in the cables segment is driven by 8% volumes growth. (d) New categories that are growing well include REO, personal grooming, water heaters, pumps and air coolers. (e) Margins in the cables & wires segment are seen in the band of 15-17%.
- **Valuation view**: We believe HAVL has built a strong business franchise, given its (a) successful development of brand, distribution and product portfolio, (b) demonstrated track record of accelerating growth via new launches, (c) healthy dividend payout and (d) robust return ratios. Maintain **Buy** and TP of INR645, with exit multiple of 38x Mar'20E EPS (10% premium to five-year average).

Quarterly Perf(Standalone) (INR M)

Y/E March	FY18 1Q	FY18 2Q	FY18 3Q	FY18 4Q	FY19 1Q	FY19 2QE	FY19 3QE	FY19 4QE	FY18	FY19	MOSL 1QE	Var.
Sales	**18,605**	**17,774**	**19,658**	**25,349**	**25,963**	**21,100**	**22,950**	**28,188**	**81,386**	**98,202**	**24,470**	6.1%
Change (%)	26.8	22.4	30.5	48.2	39.5	18.7	16.7	11.2	32.7	20.7	31.5	
Adj EBITDA	**1,743**	**2,569**	**2,622**	**3,577**	**3,208**	**2,781**	**3,179**	**3,622**	**10,493**	**12,789**	**3,185**	0.7%
Change (%)	-13.0	26.3	37.5	55.8	84.0	8.2	21.2	1.3	27.3	21.9	84.7	
Adj EBITDA margin (%)	9.4	14.5	13.3	14.1	12.4	13.2	13.9	12.8	12.9	13.0	13.0	
Depreciation	336	349	363	347	350	360	370	372	1,395	1,452	360	
Interest	34	67	55	84	26	30	25	20	240	100	60	
Other Income	348	287	278	257	292	260	270	278	1,170	1,100	270	
Extra-ordinary Items	-	-	210	(91)	-	-	-	-	119.1	0.0	0.0	
PBT	**1,703**	**2,440**	**2,482**	**3,404**	**3,039**	**2,651**	**3,054**	**3,509**	**10,028**	**12,252**	**3,035**	0.1%
Tax	489	730	748	1,055	935	750	900	1,107	3,022	3,692	930	
Effective Tax Rate (%)	28.7	29.9	30.1	31.0	30.8	28.3	29.5	31.6	30.1	30.1	30.6	
Reported PAT	**1,214**	**1,710**	**1,944**	**2,258**	**2,104**	**1,901**	**2,154**	**2,401**	**7,125**	**8,560**	**2,105**	-0.1%
Change (%)	-16.6	17.3	68.9	138.4	73.3	11.1	10.8	6.4	32.2	20.1	73.4	
Adj PAT	**1,227**	**1,710**	**1,944**	**2,258**	**2,189**	**1,901**	**2,154**	**2,401**	**7,006**	**8,645**	**2,105**	4.0%
Change (%)	-15.7	17.3	45.0	31.7	78.4	11.1	10.8	6.4	17.4	23.4	73.4	

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1QFY19 operational performance in line with expectations

- Revenue grew 40% YoY (43% on an LTL basis) to INR26b, ahead of our estimate of INR24.5b. Gross margin expanded 190bp to 37.6%. EBITDA, adjusted for a forex loss of INR85m, stood at INR3.2b (+84% YoY), in line with our estimate. Adspend increased to INR1.16b (4.5% of sales v/s 4% in 1QFY18), while employee costs rose 22% YoY to INR1.9b. Adj. PAT of INR2.2b (+78% YoY) was marginally above our estimate of INR2.1b.

Segmental performance: Robust performance across segment

- Switchgears (adj. for excise) witnessed growth of 26% YoY to INR4b, driven by (a) exports, (b) orders from Hyundai for switchgear, (c) B2B segment and (d) demand revival from the domestic market. Contribution margin was stable at 38.3% (flat YoY).
- Electrical consumer durables segment registered strong growth of 43% YoY (adj. for excise) to INR4.8b, led by an improved performance in the fans and appliances segments. Contribution margin improved to 28.7% (+650bp YoY). We note that margins in 1QFY18 were hit by weak volumes on account of GST.
- Lighting division sales grew strongly by 25% YoY (excluding EESL) to INR2.6b, led by a strong pick-up in demand across the consumer and professional businesses. Lighting contribution margin dipped 260bp YoY to 27.6%.
- Cable & wires revenue grew by 18% YoY (adj. for excise) to INR7.5b, supported by volume growth of 8% and value growth of 10%. Contribution margin expanded to 17% (+350bp YoY).
- Lloyd Electric recorded revenue of INR7.1b (+14% on LTL basis) and adjusted EBIDTA margin of 9.3%. Adspend stood at INR500m (7.1% of sales). Sales growth was helped by ASP increase on account of energy rating change, pass-through of higher raw material prices, and a higher share of inverters (30% of total v/s 8% in CY17).

Exhibit 1: Segmental growth adjusted for excise on YoY basis

	Q118	Q119	Gr. YoY (% change)
Switchgears	3,389	4,041	26
Cables	6,363	7,499	18
Lighting and Fixtures	2,721	2,573	-5**
Electrical consumer durables	3,583	4,759	43
Sub total	15,933	18,882	22
Lloyd	2,672	7,081	14***
Total	18,605	25,963	43

Source: MOSL, Company, **25% growth ex of EESL, ***LTL basis

Exhibit 2: Segmental analysis

Y/E March	FY18				FY19
	1Q	2Q	3Q	4Q	1Q
Sales					
Switchgear	3,557	3,299	3,443	3,946	4,041
Cables & Wires	7,196	5,693	6,256	7,689	7,499
Consumer Durable	3,676	3,216	4,158	4,646	4,759
Lighting & Fixtures	2,721	2,868	2,871	3,227	2,583
Lloyd Electric	2,672	2,698	2,930	5,841	7,081
% YoY					
Switchgear	(3)	(5)	(0)	1	14
Cables & Wires	19	2	(8)	1	4
Consumer Durable	2	4	21	17	29
Lighting & Fixtures	32	21	15	14	(5)
Profit Contribution					
Switchgear	1,307	1,363	1,380	1,523	1,549
Cables & Wires	859	1,133	1,070	1,318	1,279
Consumer Durable	816	894	1,230	1,262	1,367
Lighting & Fixtures	766	775	818	998	711
Lloyd Electric	394	527	480	1,283	1,370
Contribution Margin (%)					
Switchgear	37	41	40	39	38
Cables & Wires	12	20	17	17	17
Consumer Durable	22	28	30	27	29
Lighting & Fixtures	28	27	28	31	28
Lloyd Electric	15	20	16	22	19

Source: MOSL, Company

Concall highlights

Switchgear segment +26% YoY on adj. basis

- Not seeing a huge revival in real estate.
- Targeting new enterprise customers in B2B segment.

Cables & Wires segment +18% YoY on adj. basis

- 8% volume growth and 10% price growth seen in 1QFY19.
- Will be in a 15-17% margin band.
- 50% of growth from residential and balance from industrial cables.

Consumer durables +43% YoY on adj. basis, growth across segments

- Aided by a low base; has 15% share in fans, 40%+ in premium fans (premium is 25% of the industry).
- New product launches are also helping growth in fans.

Lighting +25% YoY (ex EESL) on adjusted basis

- Defocussing at government business (EESL), which is more commoditized.
- Overall lighting continues to do well and will be driven by semi urban and rural areas on village electrification and switch to LED.

Lloyd Electric +14% YoY

- **Growth in 1QFY19 driven by change in energy ratings and switch to inverters, which has increased ASP.**
- **Invested in brand building and got into new channels like MBO and LFR.**
- INR3b of capex being done on AC and 0.6m of volumes being targeted.
- Inverters are 30% of overall company's sales in 1QFY19.

Valuation view: Maintain Buy with target price of INR645

We believe HAVL has built a strong business franchise, given its (a) successful development of brand, distribution and product portfolio, (b) demonstrated track record of accelerating growth via new launches, (c) healthy dividend payout and (d) robust return ratios. Maintain **Buy** and TP of INR645, with exit multiple of 38x Mar'20E EPS (10% premium to five-year average).

Operating metrics

INR M	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Havells Standalone									
Revenues									
Switchgear	10,781	12,192	12,790	13,346	14,677	14,245	16,096	17,706	19,477
Cables and wire	16,925	19,264	21,904	24,595	26,756	26,834	30,859	35,488	40,811
Electrical Consumer Durables	7,893	8,534	10,283	11,436	14,199	15,696	18,835	21,660	24,909
Lighting and Fixtures	6,652	7,207	7,410	8,377	10,228	11,687	12,856	14,141	15,555
Others	-	-	-	-	-	-	-	-	-
Lloyd Electric						14,141	19,556	22,489	25,862
Total	**42,250**	**47,197**	**52,387**	**57,754**	**65,860**	**82,603**	**98,202**	**111,484**	**126,614**
Revenue Growth (% YoY)									
Switchgear	20.3	13.1	4.9	4.3	10.0	-2.9	13.0	10.0	10.0
Cables and wire	6.2	13.8	13.7	12.3	8.8	0.3	15.0	15.0	15.0
Electrical Consumer Durables	38.0	8.1	20.5	11.2	24.2	10.5	20.0	15.0	15.0
Lighting and Fixtures	20.0	8.3	2.8	13.1	22.1	14.3	10.0	10.0	10.0
Lloyd Electric						-	10.0	15.0	15.0
Total	**16.9**	**11.7**	**11.0**	**10.2**	**14.0**	**25.4**	**18.9**	**13.5**	**13.6**
EBIT Margin (%)									
Switchgear	33.9	36.5	36.5	37.5	38.2	39.1	40.1	40.1	40.1
Cables and wire	9.1	11.0	12.1	12.6	12.2	16.3	16.0	16.0	16.0
Consumer Durables	25.1	27.0	25.1	25.0	24.6	26.8	27.0	27.0	27.0
Lighting and Fixtures	23.6	24.8	26.6	22.8	25.9	28.7	27.7	27.7	27.7
Lloyd Electric						19.0	20.0	21.0	21.0
Standalone EBIT (%)	**11.5**	**13.1**	**12.5**	**13.4**	**13.7**	**12.6**	**12.6**	**13.6**	**14.1**
Consolidated EPS (INR/sh)									
Standalone	6.0	8.2	7.7	8.2	9.6	11.2	13.8	16.9	19.9
Sylvania	0.9	0.5	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Total	**6.9**	**8.7**	**8.3**	**8.2**	**9.6**	**11.2**	**13.8**	**16.9**	**19.9**

Financials and valuations

Income Statement (Consolidated) (INR Million)

Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E
Net Sales	**72,478**	**81,858**	**85,694**	**53,783**	**61,353**	**81,386**	**98,202**	**111,484**
Change (%)	11.2	12.9	4.7	-37.2	14.1	32.7	20.7	13.5
Raw Materials	41,628	46,398	48,292	31,735	36,485	49,808	60,099	67,670
Staff Cost	9,054	10,869	11,875	3,708	5,004	6,497	7,797	8,187
Other Expenses	15,051	17,167	18,316	10,791	11,623	14,588	17,602	19,983
EBITDA	**6,745**	**7,425**	**7,211**	**7,549**	**8,241**	**10,493**	**12,704**	**15,644**
% of Net Sales	9.3	9.1	8.4	14.0	13.4	12.9	12.9	14.0
Depreciation	1,097	1,155	1,387	1,049	1,196	1,395	1,452	1,631
Amortization								
Interest	1,232	741	640	127	122	240	100	100
Other Income	279	413	504	694	1,343	1,170	1,100	1,200
PBT	**4,695**	**5,941**	**5,689**	**7,066**	**8,266**	**10,028**	**12,252**	**15,114**
Tax	824	1,478	1,836	1,970	2,298	3,022	3,692	4,554
Rate (%)	17.5	24.9	32.3	27.9	27.8	30.1	30.1	30.1
Extra-ordinary Inc.(net)	1,944	0	0	2,024	(578)	0	0	0
Reported PAT	**5,816**	**4,463**	**3,853**	**7,120**	**5,390**	**7,006**	**8,560**	**10,559**
Change (%)	57.2	-23.3	-13.7	84.8	-24.3	30.0	22.2	23.4
Adjusted PAT	**4,290**	**5,410**	**5,159**	**5,096**	**5,969**	**7,006**	**8,645**	**10,559**
Change (%)	0.9	26.1	-4.6	-1.2	17.1	17.4	23.4	22.1

Balance Sheet (Consolidated) (INR Million)

Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E
Share Capital	624	624	622	625	625	625	625	625
Reserves	13,797	16,036	17,557	28,912	32,111	36,766	41,721	47,876
Net Worth	**14,420**	**16,660**	**18,180**	**29,537**	**32,736**	**37,392**	**42,346**	**48,501**
Loans	9,785	10,506	4,191	444	1,981	1,080	1,000	500
Deffered Tax Liability	480	517	434	863	1,138	2,070	2,070	2,070
Minority Interest	1	1	1	0	0	0	0	0
Capital Employed	**25,102**	**27,687**	**22,808**	**30,844**	**35,854**	**40,541**	**45,415**	**51,070**
Gross Fixed Assets	30,054	32,075	30,298	13,080	15,012	15,622	20,622	21,622
Less: Depreciation	18,503	20,451	18,469	1,200	2,355	3,143	4,595	6,226
Net Fixed Assets	**11,551**	**11,624**	**11,829**	**11,881**	**12,658**	**12,479**	**16,027**	**15,396**
Capital WIP	249	444	383	205	119	241	0	0
Goodwill	3,694	4,380	3,581	0	0	14,835	14,835	14,835
Curr. Assets	**29,468**	**36,929**	**32,519**	**24,077**	**32,797**	**36,742**	**42,612**	**52,401**
Inventory	13,184	14,934	13,663	7,844	9,284	16,217	19,567	22,214
Debtors	8,623	10,005	6,232	1,576	2,285	3,254	3,926	4,457
Cash & Bank Balance	4,736	8,819	7,775	13,652	19,375	15,262	17,009	23,515
Loans & Advances	2,052	2,114	1,723	0	0	0	0	0
Other Current Assets	874	1,057	3,127	1,005	1,853	2,010	2,110	2,215
Current Liab. & Prov.	**19,860**	**25,690**	**25,504**	**10,047**	**13,746**	**24,873**	**29,014**	**32,517**
Creditors	9,026	9,988	8,338	4,363	6,296	16,340	19,716	22,383
Other Liabilities	8,761	12,684	13,645	4,062	5,685	6,754	7,429	8,172
Provisions	2,073	3,018	3,521	1,621	1,766	1,780	1,869	1,962
Net Current Assets	**9,608**	**11,239**	**7,015**	**14,031**	**19,051**	**11,869**	**13,599**	**19,885**
Application of Funds	**25,102**	**27,687**	**22,808**	**30,843**	**35,854**	**40,378**	**45,415**	**51,070**

Financials and valuations

Ratios								
Y/E March	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019E**	**2020E**
Basic (INR)	9.3	7.2	6.2	11.4	8.6	11.2	13.7	16.9
Adjusted EPS	**6.9**	**8.7**	**8.3**	**8.2**	**9.6**	**11.2**	**13.8**	**16.9**
Growth (%)	0.9	26.1	-4.7	-1.2	17.1	17.4	23.4	22.1
Cash EPS	8.6	10.5	10.5	9.8	11.5	13.5	16.2	19.5
Book Value	23.1	26.7	29.1	47.3	52.4	59.9	67.8	77.7
DPS	1.5	3.0	2.9	4.0	3.5	4.0	4.9	6.0
Payout (incl. Div. Tax.)	28.3	49.1	57.6	88.5	42.8	41.7	42.1	41.7
Valuation (x)								
P/Sales	**4.8**	**4.3**	**4.1**	**6.5**	**5.7**	**4.3**	**1.8**	**1.6**
P/E (standalone)		64.5	67.7	68.5	58.5	49.9	40.4	33.1
P/E (consolidated)		64.5	67.7	68.5	58.5	49.9	40.4	33.1
Cash P/E		53.2	53.4	56.8	48.8	41.6	34.6	28.7
EV/EBITDA		12.4	21.6	43.9	39.8	31.9	26.2	20.8
EV/Sales		1.1	1.8	6.2	5.3	4.1	3.4	2.9
Price/Book Value		21.0	19.2	11.8	10.7	9.3	8.2	7.2
Dividend Yield (%)		0.5	0.5	0.7	0.6	0.7	0.9	1.1
Profitability Ratios (%)								
RoE	29.7	32.5	28.4	17.3	18.2	18.7	20.4	21.8
RoCE	21.9	19.2	17.0	19.3	18.2	18.8	20.1	22.0
RoIC	28.3	33.2	38.8	52.1	56.6	37.4	41.0	52.7
Turnover Ratios								
Debtors (Days)	43	45	27	11	14	15	15	15
Inventory (Days)	66	67	58	53	55	73	73	73
Creditors. (Days)	45	45	36	30	37	73	73	73
Asset Turnover (x)	2.9	3.0	3.8	1.7	1.7	2.0	2.2	2.2
Leverage Ratio								
Debt/Equity (x)	0.7	0.6	0.2	0.0	0.1	0.0	0.0	0.0

Cash Flow Statement								(INR Million)
Y/E March	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019E**	**2020E**
PBT before EO Items	**4,695**	**5,941**	**5,689**	**7,066**	**8,266**	**10,028**	**12,252**	**15,114**
Add : Depreciation	1,097	1,155	1,387	1,045	1,196	1,395	1,452	1,631
Interest	1,644	741	639	127	122	240	100	100
Less : Direct Taxes Paid	824	1,891	1,836	1,970	2,298	3,022	3,692	4,554
(Inc)/Dec in WC	-1,868	2,453	3,180	-1,138	865	2,906	17	220
CF from Operations	**4,744**	**8,399**	**9,058**	**5,131**	**8,151**	**11,547**	**10,129**	**12,510**
EO Income	1,944	0	0	2,024	-578	0	0	0
CF from Oper. incl. EO Items	**6,688**	**8,399**	**9,058**	**7,155**	**7,573**	**11,666**	**10,129**	**12,510**
(Inc)/Dec in FA	-1,950	-1,424	-1,531	-922	-2,049	-1,338	-4,760	-1,000
Free Cash Flow	**4,738**	**6,975**	**7,528**	**6,233**	**5,524**	**10,328**	**5,369**	**11,510**
(Pur)/Sale of Investments	0	0	0	-4,727	701	3,071	0	0
CF from Investments	**-2,020**	**-2,109**	**-732**	**-2,069**	**-1,348**	**-13,102**	**-4,760**	**-1,000**
(Inc)/Dec in Net Worth	67	3	-198	9,177	640	1,384	0	0
(Inc)/Dec in Debt	-10	722	-6,315	-3,747	1,537	-901	-80	-500
Less : Interest Paid	1,232	741	640	127	122	240	100	100
Dividend Paid	1,095	2,190	2,219	4,511	2,557	2,922	3,606	4,404
CF from Fin. Activity	**-2,270**	**-2,206**	**-9,372**	**791**	**-502**	**-2,678**	**-3,786**	**-5,004**
Inc/Dec of Cash	**2,399**	**4,084**	**-1,045**	**5,878**	**5,723**	**-4,113**	**1,584**	**6,506**
Add: Beginning Balance	2,336	4,736	8,819	7,775	13,652	19,375	15,262	17,009
Closing Balance	**4,735**	**8,820**	**7,774**	**13,652**	**19,375**	**15,262**	**16,845**	**23,515**

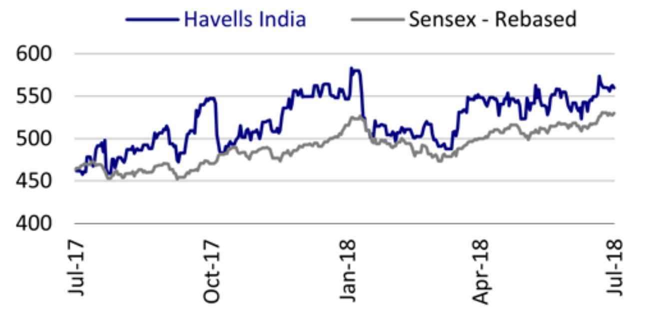
E: MOSL Estimates

Corporate profile

Company description

Havells India is one of the largest electrical companies in India, and also has a presence in Europe / LatAm in lighting business through Sylvania. It owns some of the prestigious global brands like Crabtree, Sylvania, Concord, Luminance, Linolite, & SLI Lighting.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Jun-18	Mar-18	Jun-17
Promoter	59.6	59.6	61.6
DII	5.4	5.2	3.2
FII	24.8	24.9	26.3
Others	10.2	10.3	8.9

Note: FII Includes depository receipts Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Nalanda India Equity Fund Limited	5.3
Government Pension Fund Global	2.1
Smallcap World Fund, Inc	1.2
New World Fund Inc	1.2
Mirae Asset Emerging Bluechip Fund	1.0

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Anil Rai Gupta	Chairman & Managing Director
Puneet Bhatia	Director
Surjit Gupta	Director
T V Mohandas Pai	Director
Rajesh Gupta	Director (Finance)

Source: Capitaline

Exhibit 5: Directors

Name	Name
Adarsh Kishore	Vijay Kumar Chopra
Pratima Ram	Ameet Kumar Gupta
S K Tuteja	Jalaj Ashwin Dani

*Independent

Exhibit 6: Auditors

Name	Type
MZ & Associates	Secretarial Audit
S R Batliboi & Co LLP	Statutory
Sanjay Gupta & Associates	Cost Auditor
V R Bansal & Associates	Statutory

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY18	11.2	10.6	5.7
FY19	13.8	13.7	0.4
FY20	16.9	16.5	2.3

Source: Bloomberg

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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