

Q2 was weak on the margin front with input cost pressures visible. The one bright spot has been the inventory build-up for the festive season in the ECD business, as evident in the increased capital use. We expect some price action in H2 to offset rising costs. Festive season expected to be good - should get reflected in Q3 earnings. We believe in Havells structural story and maintain Buy with a TP of ₹ 680 valuing stock at 40x FY20E.

Q2 weak on the margin front on input cost pressure

Havells revenue at ₹21,910mn at 23% YoY growth, was ahead of our estimate by 11%. It was driven by switchgear, cable and ECD segment growth which benefited from the base effect of GST last year. EBITDA came below estimates and margins were down 250bps as cost pressures due to commodity in the cable and switchgear segment and currency in Lloyds business. There was also an increase in A&P spend by 50bps as pre-festive advertising began in Q2. This has led to a flattish PAT at ₹ 1.78bn.

Festive season demand remains strong; Expect price action in H2

Management in its call indicated the response to the current festive season has been so far good and is expected to be better than last year. They also indicated that margin pressures were on account of a time lag in passing on input costs to the consumer and they expect to take price increases in H2 to offset rising input prices. For example, in cables, the company had a lower margin at 14% due to copper prices and company expected the price increases to bring back margins to 15-17% levels.

Own manufacturing to ease cost pressures on Lloyds

The company expects its AC manufacturing facility at Neemrana to get operational in Q4. While initially it will just assemble ACs, it expects a peak localisation of 65-70% by FY21. This is positive for the AC business as it will reduce dependence on imports for the company.

Structural story still strong. We maintain Buy

Expect muted earnings multiples for Havells till re-rating is back on strong growth and margins. We have tweaked our FY19 Sales/EBITDA/PAT by 3%/-5%/-5% to account for lower margins in Q2. Having said that, a strong top line growth gives us comfort on the demand side. Structural growth story of Havells is still strong. Maintain Buy with a TP of ₹ 680, at 40x FY20E.

Q2FY19 Result (₹ Mn)

Particulars	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)
Revenue	21,910	17,774	23.3	25,964	(15.6)
Total Expense	19,285	15,205	26.8	22,841	(15.6)
EBITDA	2,625	2,569	2.2	3,123	(15.9)
Depreciation	391	349	12.2	350	11.7
EBIT	2,234	2,220	0.6	2,772	(19.4)
Other Income	343	287	19.6	292	17.5
Interest	37	67	(45.5)	26	43.5
EBT	2,540	2,440	0.6	3,039	(16.4)
Tax	754	730	3.3	935	(19.3)
RPAT	1,786	1,710	4.4	2,104	(15.1)
APAT	1,786	1,710	4.4	2,104	(15.1)
			(bps)		(bps)
Gross Margin (%)	38.3	42.3	(402)	37.6	73
EBITDA Margin (%)	12.0	14.5	(247)	12.0	(5)
NPM (%)	8.2	9.6	(147)	8.1	5
Tax Rate (%)	29.7	29.9	(22)	30.8	(107)
EBIT Margin (%)	10.2	12.5	(230)	10.7	(48)

CMP	₹ 587
Target / Upside	₹ 680 / 16%
BSE Sensex	34,780
NSE Nifty	10,453

Scrip Details

Equity / FV	₹ 625mn / ₹ 1
Market Cap	₹ 366.8bn
	US\$ 5bn
52-week High/Low	₹ 729/₹ 450
Avg. Volume (no)	1,754,220
NSE Symbol	HAVELLS
Bloomberg Code	HAVL IN

Shareholding Pattern Sep'18(%)

Promoters	59.5
MF/Banks/FIs	4.9
FIIIs	26.0
Public / Others	9.7

Valuation (x)

	FY18A	FY19E	FY20E
P/E	51.5	44.6	34.4
EV/EBITDA	33.8	29.0	22.2
ROE (%)	20.3	20.6	23.0
RoACE (%)	26.5	26.2	29.8

Estimates (₹ mn)

	FY18A	FY19E	FY20E
Revenue	81,464	99,609	118,384
EBITDA	10,436	12,252	15,863
PAT	7,128	8,230	10,676
EPS (₹)	11.4	13.2	17.1

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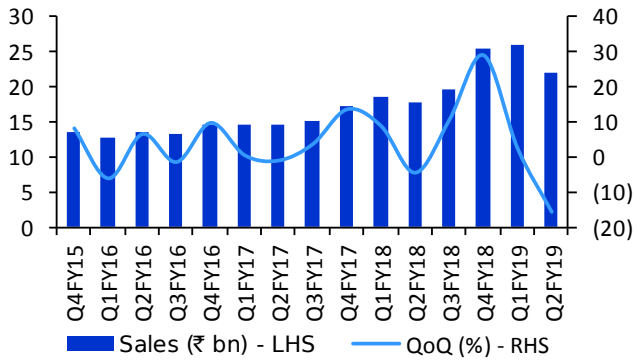
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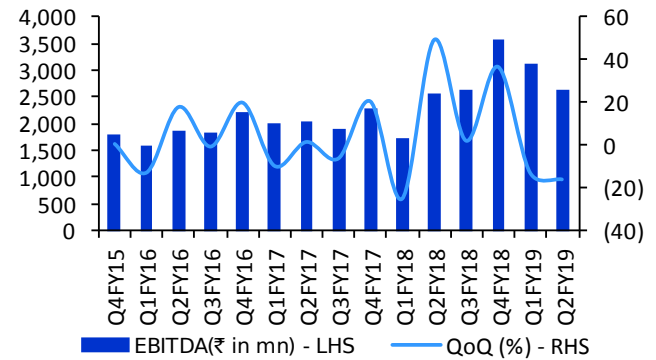
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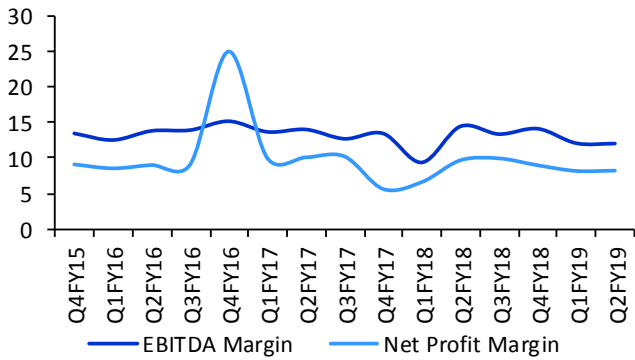
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Exhibit 1: Sales and QoQ growth (%)


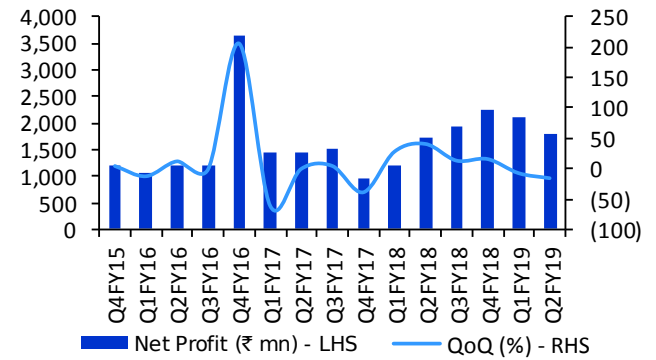
Source: DART, Company

Exhibit 2: EBITDA and Growth (%)


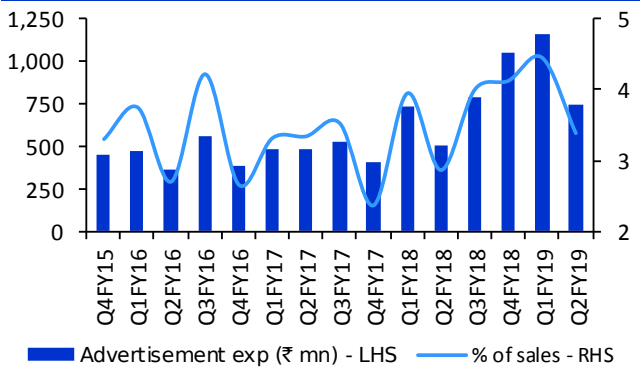
Source: DART, Company

Exhibit 3: Trend in EBITDA Margin (%)


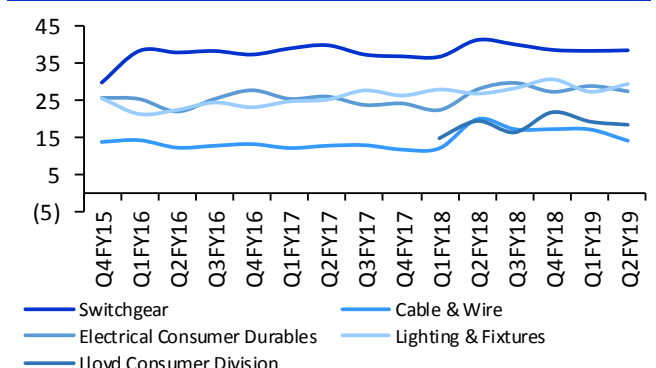
Source: DART, Company

Exhibit 4: Net profit and QoQ growth (%)


Source: DART, Company

Exhibit 5: Advertisement exp % to sales


Source: DART, Company

Exhibit 6: Segment EBIT Margin (%) trend


Source: DART, Company

Profit and Loss Account

(₹ Mn)	FY17A	FY18A	FY19E	FY20E
Revenue	61,558	81,464	99,609	118,384
Total Expense	53,376	71,028	87,357	102,520
COGS	36,532	49,698	61,260	71,977
Employees Cost	5,090	6,595	8,168	9,234
Other expenses	11,754	14,735	17,930	21,309
EBIDTA	8,182	10,436	12,252	15,863
Depreciation	1,205	1,405	1,785	1,959
EBIT	6,977	9,031	10,467	13,904
Interest	133	248	189	260
Other Income	1,382	1,179	996	1,184
Exc. / E.O. items	(1,068)	187	0	0
EBT	7,157	10,149	11,274	14,828
Tax	2,288	3,021	3,044	4,152
RPAT	4,821	7,128	8,230	10,676
Minority Interest	48	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	4,821	7,128	8,230	10,676

Balance Sheet

(₹ Mn)	FY17A	FY18A	FY19E	FY20E
Sources of Funds				
Equity Capital	625	625	625	625
Minority Interest	48	0	0	0
Reserves & Surplus	32,239	36,780	42,010	49,562
Net Worth	32,864	37,405	42,635	50,187
Total Debt	2,083	1,154	1,992	2,368
Net Deferred Tax Liability	1,169	2,117	2,070	2,070
Total Capital Employed	36,206	40,753	46,698	54,625

Applications of Funds

Net Block	13,002	28,186	31,875	31,916
CWIP	119	241	241	241
Investments	1,617	0	0	0
Current Assets, Loans & Advances	37,036	37,762	40,095	48,662
Inventories	9,453	16,330	19,968	23,731
Receivables	2,307	3,278	4,912	5,838
Cash and Bank Balances	19,840	15,730	13,404	17,281
Loans and Advances	776	1,389	951	951
Other Current Assets	4,659	1,036	860	860
Less: Current Liabilities & Provisions	15,567	25,436	25,513	26,194
Payables	6,335	16,400	16,374	16,217
Other Current Liabilities	9,232	9,036	9,139	9,977
<i>sub total</i>				
Net Current Assets	21,469	12,326	14,582	22,468
Total Assets	36,206	40,753	46,698	54,625

E – Estimates

Important Ratios

Particulars	FY17A	FY18A	FY19E	FY20E
(A) Margins (%)				
Gross Profit Margin	40.7	39.0	38.5	39.2
EBIDTA Margin	13.3	12.8	12.3	13.4
EBIT Margin	11.3	11.1	10.5	11.7
Tax rate	32.0	29.8	27.0	28.0
Net Profit Margin	7.8	8.7	8.3	9.0
(B) As Percentage of Net Sales (%)				
COGS	59.3	61.0	61.5	60.8
Employee	8.3	8.1	8.2	7.8
Other	19.1	18.1	18.0	18.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.0	0.0	0.0
Interest Coverage	52.3	36.4	55.3	53.4
Inventory days	56	73	73	73
Debtors days	14	15	18	18
Average Cost of Debt	9.1	15.3	12.0	11.9
Payable days	38	73	60	50
Working Capital days	127	55	53	69
FA T/O	4.7	2.9	3.1	3.7
(D) Measures of Investment				
AEPS (₹)	7.7	11.4	13.2	17.1
CEPS (₹)	9.6	13.7	16.0	20.2
DPS (₹)	3.7	4.2	4.8	5.0
Dividend Payout (%)	47.9	36.9	36.4	29.3
BVPS (₹)	52.6	59.8	68.2	80.3
RoANW (%)	15.3	20.3	20.6	23.0
RoACE (%)	24.5	26.5	26.2	29.8
RoAIC (%)	43.8	43.6	35.9	39.4
(E) Valuation Ratios				
CMP (₹)	587	587	587	587
P/E	76.1	51.5	44.6	34.4
Mcap (₹ Mn)	366,813	366,813	366,813	366,813
MCap/ Sales	11.2	9.8	8.6	7.3
EV	349,055	352,237	355,401	351,899
EV/Sales	5.7	4.3	3.6	3.0
EV/EBITDA	42.7	33.8	29.0	22.2
P/BV	11.2	9.8	8.6	7.3
Dividend Yield (%)	0.6	0.7	0.8	0.9
(F) Growth Rate (%)				
Revenue	(19.1)	32.3	22.3	18.8
EBITDA	7.9	27.6	17.4	29.5
EBIT	11.9	29.4	15.9	32.8
PBT	(52.9)	41.8	11.1	31.5
APAT	(62.9)	47.8	15.5	29.7
EPS	(62.9)	47.8	15.5	29.7

Cash Flow

(₹ Mn)	FY17A	FY18A	FY19E	FY20E
CFO	6,121	14,795	5,499	8,887
CFI	(1,609)	(15,094)	(5,474)	(2,000)
CFF	(1,198)	(3,811)	(2,350)	(3,009)
FCFF	4,242	(1,916)	25	6,887
Opening Cash	16,526	19,840	15,730	13,404
Closing Cash	19,840	15,730	13,404	17,281

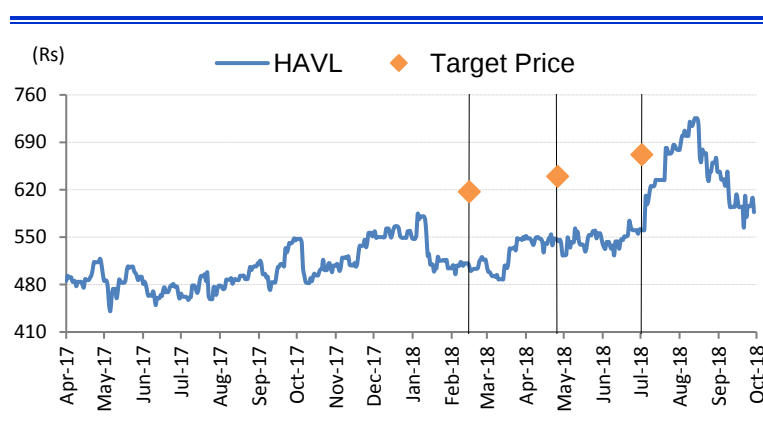
E – Estimates

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	507
May-18	Buy	640	545
Jul-18	Buy	672	560

*Price as on recommendation date

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