

Rating matrix		
Rating	:	Buy
Target	:	₹ 800
Target Period	:	12 months
Potential Upside	:	12%

What's changed?		
Target	Changed from ₹650 to ₹ 800	
EPS FY19E	Changed from ₹ 13.3 to ₹ 13.4	
EPS FY20E	Changed from ₹ 17.1 to ₹ 17.2	
EPS FY21E	Introduced at ₹ 20.3	
Rating	Unchanged	

Quarterly performance					
	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Revenue	2,518.4	1,965.8	28.1	2,191.0	14.9
EBITDA	294.6	262.2	12.3	262.5	12.2
EBITDA (%)	11.7	13.3	-164bps	12.0	-28bps
PAT	195.7	194.4	0.7	178.6	9.5

Key financials				
₹ Crore	FY18	FY19	FY20E	FY21E
Net Sales	8,139	10,174	12,025	14,047
EBITDA	1,049.2	1,253.5	1,624.4	1,941.4
Net Profit	712.5	835.9	1,072.4	1,265.3
EPS (₹)	11.4	13.4	17.2	20.3

Valuation summary				
	FY18	FY19E	FY20E	FY21E
P/E	63.1	53.1	41.4	35.1
Target P/E	70.9	59.7	46.5	39.5
EV / EBITDA	42.1	35.4	27.2	22.6
P/BV	11.9	11.4	9.4	7.9
RoNW (%)	18.8	21.4	22.7	22.6
RoCE (%)	25.2	29.2	31.1	31.2

Stock data	
Particular	Amount
Market Capitalization (₹ Crore)	36,560.5
Total Debt (FY18) (₹ Crore)	108.0
Cash and Investments (FY18) (₹ Crore)	317.6
EV (₹ Crore)	36,350.9
52 week H/L	729 / 454
Equity capital (₹ Crore)	62.5
Face value (₹)	1.0

Price performance				
	1M	3M	6M	12M
Havells India	6.7	21.0	16.7	29.0
Bajaj Electricals	(5.6)	(4.1)	(17.9)	(9.2)
Symphony	2.3	20.5	(15.1)	(40.7)
V-Guard	(13.1)	16.6	(1.3)	(18.7)

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Havells India (HAVIND)

₹ 712

Delay in price hike weighs on margin...

- Havells' core business and Lloyd recorded strong topline growth of 29% and 22% YoY, respectively, leading to total topline growth of 28% YoY in Q3FY19. Strong festive demand in the appliances category coupled with market share gain in the water heater segment drove the overall ECD performances while government led initiatives into infrastructure and electrification drove the performance of cable and switchgear segment. Under Lloyd, while the AC segment recorded a muted performance (owing to higher inventory at channel), the LED panel recorded strong demand traction
- EBITDA margin of core business and Lloyd declined 200 bps and 120 bps YoY to 13.2% and 1.7%, respectively. As a result, overall EBITDA margin declined 160 bps YoY. Lower EBITDA margin was on mainly due to 1) delay in passing on higher RM prices in the ECD segment and 2) lower Lloyd margin owing to higher input cost and adverse currency movement. The management has guided for necessary price hikes in the coming quarter (to offset higher raw material prices), which help improve EBITDA margin, going forward

Dealer penetration, new launches to drive consumer durable business

Havells has increased its household penetration through ~10% annual growth in touch points and acquisition of Lloyd in the consumer durable category. Lloyd's AC business contributes ~70% to its sales followed by LED TV and washing machines (FY18). We believe Havells' focus on starting RAC manufacturing capacity (~6 lakh units) with a capex of ₹ 300 crore by Q4FY19 would benefit it in maintaining better margins vs. current outsourcing model. Further, Havells' ad expenditure always remained at 3.5% of net sales to build the brand image and awareness in Tier I, Tier II cities. Appliances have lower penetration in India. Hence, an improvement in power availability, increase in disposable income and shift in focus towards branded category products would help grow the consumer durable (including Lloyd) segment at ~26% CAGR in FY18-21E.

Revival in construction activity to drive industrial product demand

HIL's switchgear segment recorded revenue CAGR of ~10% in FY11-18 largely due to new product launch, a gradual shift in branded product categories and sustained demand from rural markets. This has helped Havells increase its market share aggressively from 15% in 2006 to 28% in FY18. The switchgear segment is the most profitable business (~40% contribution margin). We believe a recovery in demand for industrial products led by higher government spending will improve power infrastructure spending leading the switchgear and cable & wire division sales to grow at CAGR of ~17% each, in FY18-21E.

Strong balance sheet, revival in consumer business to drive valuation

With the introduction of FY21E estimates, we expect Havells to record revenue, earning CAGR of ~20%, ~21%, respectively, in FY18-21E supported by a change in product mix, revival in industrial and consumer products. Scalability through acquisition coupled with launch of premium products in domestic market would negate the impact of higher commodity prices. However, key triggers for future growth would be sales growth in the switchgear segments and margin improvement in Lloyd business. The company's strong balance sheet position (RoE, RoCE ~21%, 28%, respectively) coupled with integration of Lloyds business within itself (working capital & margin efficient) would be key reasons for growth. We roll over valuation on FY21E and maintain **BUY** rating on the stock with a revised target price of ₹ 800/share.

Variance analysis

	Q3FY19	Q3FY19E	Q3FY18	YoY (%)	Q2FY19	QoQ (%)	Comments
Revenue	2518.4	2316.9	1965.8	28.1	2191.0	14.9	Net sales witnessed growth of ~23% on the back of strong performance of all business verticals. Festive demand coupled with launch of new product categories helped drive growth
Other Income	33.1	29.6	27.8	19.1	34.3	-3.7	
Raw Material Exp	940.9	1042.6	563.0	67.1	982.5	-4.2	Higher commodity prices, rupee depreciation and lag effect on passing on increased cost had impacted gross margin negatively during Q3FY19
Employee Exp	210.8	208.5	162.5	29.7	203.4	3.7	
Purchase of Traded goods	634.2	393.9	623.3	1.7	369.4	71.7	
Other expenses	438.0	382.3	354.7	23.5	373.3	17.3	
EBITDA	294.6	289.6	262.2	12.3	262.5	12.2	
EBITDA Margin (%)	11.7	12.5	13.3	-164 bps	12.0	-28 bps	
Depreciation	35.3	37.9	36.3	-2.7	39.1	-9.8	
Interest	3.6	3.2	5.5	-35.2	3.7	-2.7	
PBT	288.8	278.1	269.2	7.3	254.0	13.7	
Total Tax	93.1	82.6	74.8	24.5	75.4	23.4	
PAT	195.7	195.5	194.4	0.7	178.6	9.5	Despite strong growth in sales and other income, PAT growth remained muted mainly due to lower EBITDA margin

Key Metrics

Cable	820.3	744.8	625.6	31.1	766.5	7.0	Government led initiative in electrification and infrastructure development drove the growth of cable & wire segment. The growth was largely driven by price hike in the segment
Switchgear	416.2	411.4	344.3	20.9	423.1	-1.6	Lower base coupled with demand from various government projects helped drive segment revenue growth
ECD	912.4	851.2	708.8	28.7	715.8	27.5	ECD (excluding Lloyd) grew strongly by ~34% led by new launches (such as water purifier) and gains in market share in the water heater segment. Lloyd sales also increased 22% YoY led by low base and festive demand of LED TVs but AC demand remain muted
Lighting & Fixtures	369.5	309.4	287.1	28.7	285.6	29.4	Strong growth in the lighting business was largely driven by order execution of EESL & B2G projects wherein revenue increased from ₹ ~17 crore to ₹ 51 crore during Q3FY19. Revenue from lighting business (excluding EESL) increased 18% YoY largely led by volume growth`

Source: Company, ICICI Direct Research

Change in estimates

(₹ Crore)	FY19E			FY20E			Introduced	Comments
	Old	New	% Change	Old	New	% Change	FY21E	
Revenue	9989.6	10174.2	1.8	11815.4	12025.1	1.8	14,047.3	We introduce FY21E estimates and model revenue CAGR of 20% in FY18-21E. We believe uninterrupted power supply to every household by 2019 would drive demand for domestic appliances category mainly from rural regions. This coupled with increase in dealer penetration of Lloyd business would aid topline growth
EBITDA	1239.9	1253.5	1.1	1600.4	1624.4	1.5	1,941.4	
EBITDA Margin %	12.4	12.3	-8bps	13.5	13.5	1bps	13.8	Price hike to offset higher raw material prices coupled with focus on in-house manufacturing would provide better operating leverage to the company. We model a gradual pick-up in EBITDA margin from FY20E onwards supported by core business and improvement in the margin of Lloyd business
PAT	831.8	835.9	0.5	1069.2	1072.4	0.3	1,265.3	
EPS (₹)	13.3	13.4	0.5	17.1	17.2	0.3	20.3	

Source: Company, ICICI Direct Research

Assumptions

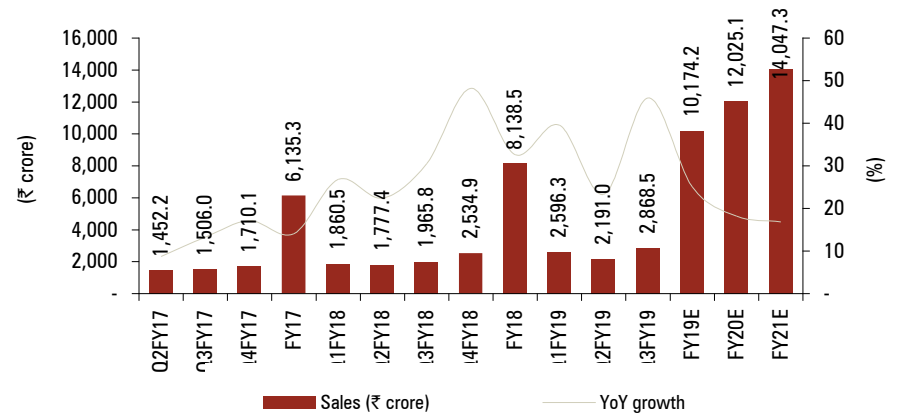
	Current FY18	Current FY19E	FY20E	Introduced FY21E	Earlier FY19E	FY20E	Comments
Cable Growth (%)	9.3	25.7	13.0	12.5	14.2	13.1	Higher government expenditure in infrastructure growth would be a key growth driver for cable segment, going forward
Switchgear Growth (%)	0.1	21.6	15.0	15.2	16.4	15.2	The segment was adversely impacted by continued sluggishness in new constructions. However, expectation of better demand from real estate and export segment would be key drivers for segment performance, going forward
ECD Growth (%)	115.8	34.8	23.3	20.8	34.8	17.8	Lower penetration coupled with rising aspiration level of middle class would help drive performance of ECD segment. We believe the government's flagship programme of uninterrupted power supply of every household by 2019 under the Saubhagya scheme would be a key driver of growth of appliances business from rural India
Lighting & Fixtures (%)	19.1	2.6	19.9	16.4	12.4	20.1	Complete exit from conventional lighting segment and increasing proportion of LED fixtures would help the company to garner higher revenue, going forward

Source: Company, ICICI Direct Research

Key takeaways from conference call

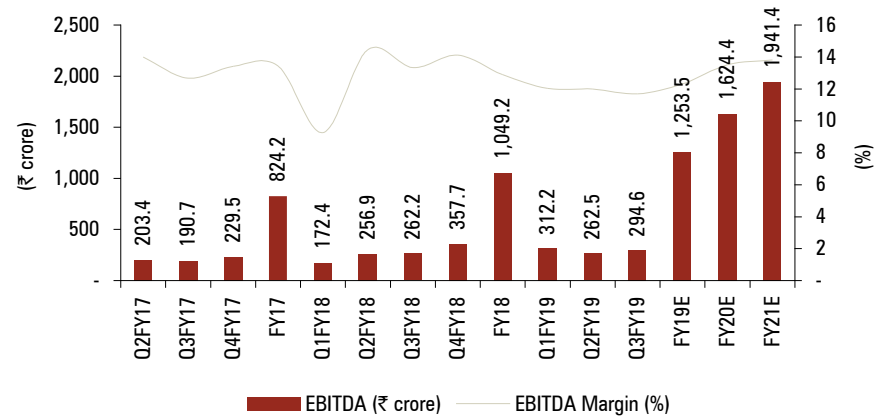
- Sales growth during the quarter was largely led by volume growth (~23-24%) while the rest came from the price hike. The high volume growth can be attributed to healthy festive season demand
- The company has recorded a strong performance in the ECD segment led by festive demand in the domestic appliances segment and market share gain in water heater segment. Fan category grew ~15-16% YoY in volume terms during Q3FY19
- Strong growth in the Lloyd business was largely led by low base and LED panels demand in the festive season. However, AC business remained muted as inventory build-up at channel is yet to pick up depending on seasonality. The company has outlined a capex of ₹ 300 crore towards setting up of a new air conditioner manufacturing plant in India, which would commence operation by Q1FY20
- Switchgear and cable segment demand is likely to remain robust in the coming quarter owing to continued government spending
- Under the EESL projects, the company has recorded sales of ~₹ 51 crore against ₹ 17 crore recorded in the same period last year. The company's core lighting & fixture segment has recorded strong sales growth (up 18% YoY) during Q3FY19 led by volume growth of 25% YoY due to launch of various new lighting products
- Havells and Lloyd have ~7500 touch points each, which are expected to keep growing by 10% annually
- The advertisement expenses would be ~3.5% of the sales
- The management has guided for a recovery in the margin (in the range of ~14%) in the next few quarter supported by corrective measures (price hike to offset higher raw material cost)

Exhibit 1: Standalone revenue CAGR of ~20% in FY18-21E



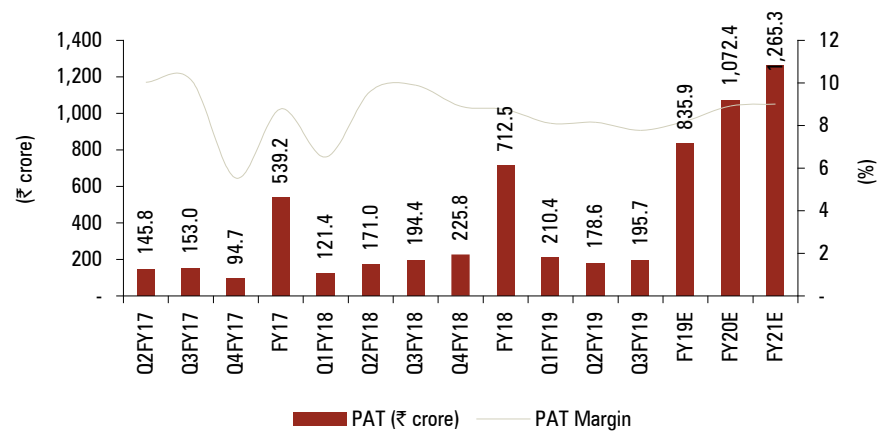
Source: Company, ICICI Direct Research

Exhibit 2: EBITDA margin to inch up owing to price hike and lower discounts



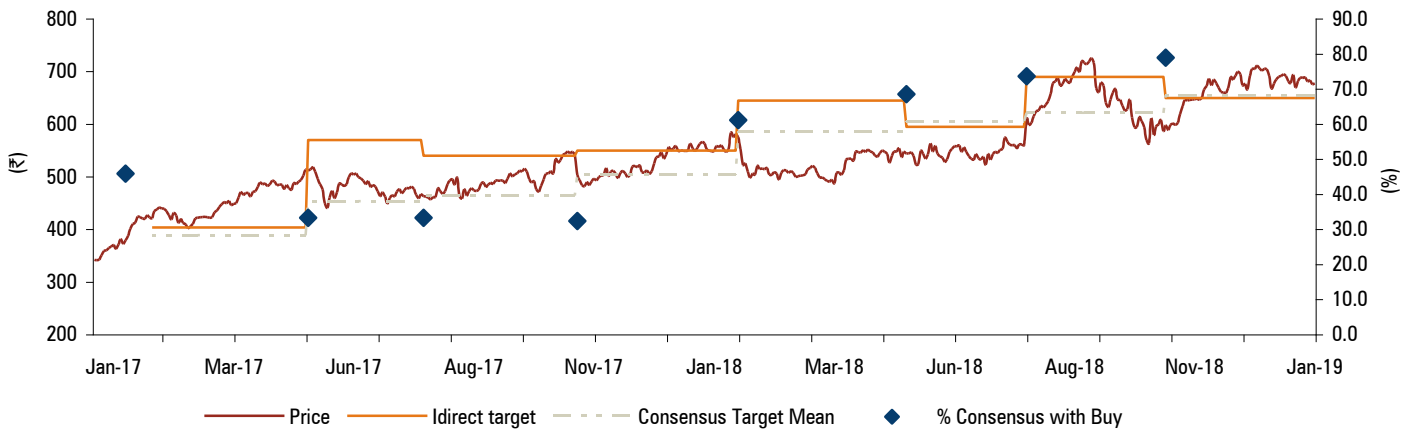
Source: Company, ICICI Direct Research

Exhibit 3: PAT to witness strong growth of ~21% FY18-21E



Source: Company, ICICI Direct Research

Recommendation history vs. consensus



Source: Reuters, ICICI Direct Research

Key events

Date	Event
Mar-09	Wins export order worth US\$200 million from West European countries to supply CFL over five years
Jun-09	Opens new switchgear plant at Baddi in Himachal Pradesh. This boosts overall volume growth by 67% YoY
Sep-10	Announces bonus issue of 1:1
Oct-10	Enters premium range of new generation electric water heater segment
Nov-10	Sylvania reports maiden profit in Q2FY11, for the first time after three years of its acquisition
Dec-10	Announcement on doubling capacity of cable & wire and CFL plant
Jul-11	Announces entry into home and kitchen appliances business
Dec-11	Enters into 50:50 joint venture agreement with Shanghai Yaming Lighting
May-12	Havells Sylvania Europe successfully refinances existing outstanding term loan liability of €77.5 million
Sep-12	Receives one-time fee of US\$38 million against settlement of jurisdictional ownership of Sylvania brand with Osram Sylvania Inc and Osram AG
Oct-12	Unveils country's first large-scale state-of-the-art lighting fixture plant in Neemrana, Rajasthan (Incurred ₹ 100 crore for expansion)
Jan-13	Company enters revised trademark license agreement with promoters
Feb-13	Warburg Pincus offloads 5.6% stake in Havells India for ₹ 455 crore
May-13	Launches new range of non modular (REO) switches
Apr-15	Acquires 51% stake in Promptec Renewable Energy Solutions for about ₹ 33 crore to enter the solar energy and LED street lighting segment
Dec-15	Decides to divest its 100% holding in Havells Malta and Havells Exim (largely Sylvania business) to China-based Shanghai Feilo Acoustics Company
Feb-17	Acquires consumer durable (CD) business of Lloyd Electric & Engineering (LEEL) with an enterprise value of ~₹ 1600 crore

Source: Company, ICICI Direct Research

Top 10 Shareholders

Rank	Name	Last filing date	%O/S	Position (m)	Change (m)
1	QRG Enterprises, Ltd.	30-Sep-18	41.3	258.6	0.0
2	Gupta (Anil Rai)	18-Dec-18	10.2	63.8	45.0
3	Nalanda India Equity Fund Ltd.	30-Sep-18	5.3	33.0	0.0
4	Capital Research Global Investors	30-Sep-18	2.4	14.9	-2.5
5	Gupta (Qimat Rai)	30-Sep-18	2.2	13.6	0.0
6	Norges Bank Investment Management (NBIM)	31-Dec-17	2.1	13.2	-4.8
7	Capital World Investors	31-Dec-18	1.6	9.7	2.0
8	The Vanguard Group, Inc.	31-Dec-18	1.4	8.7	0.1
9	Steadview Capital Management HK Limited	30-Sep-18	1.2	7.7	7.7
10	BlackRock Institutional Trust Company, N.A.	31-Dec-18	1.2	7.4	0.0

Source: Reuters, ICICI Direct Research

Shareholding Pattern

(in %)	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Promoter	61.6	59.6	59.6	59.6	59.6
FII	25.0	24.9	24.8	25.8	26.5
DII	3.7	5.0	5.2	4.9	4.4
Others	9.7	10.5	10.5	9.8	9.5

Recent Activity

Buys			Sells		
Investor name	Value(m)	Shares(m)	Investor name	Value(m)	Shares(m)
Gupta (Anil Rai)	447.1	45.0	Gupta (Vinod)	-307.7	-31.0
Steadview Capital Management HK Limited	63.1	7.7	Gupta (Surjeet Kumar)	-284.8	-28.7
Capital World Investors	20.2	2.0	Gupta (Sangeeta)	-139.5	-14.0
Tredje AP Fonden	3.0	0.4	Gupta (Santosh)	-77.4	-7.8
Kotak Mahindra Asset Management Company Ltd.	1.1	0.1	Capital Research Global Investors	-20.8	-2.5

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement					₹ Crore
(Year-end March)	FY18	FY19E	FY20E	FY21E	
Total Operating Income	8138.5	10174.2	12025.1	14047.3	
Growth (%)		25.0	18.2	16.8	
Raw Material Expenses	3586.7	5097.3	6156.9	7445.1	
Employee Expenses	649.7	827.8	833.3	972.4	
Marketing Expenses	307.6	421.3	531.2	627.3	
Other expenses	1151.2	1350.1	1591.0	1857.4	
Total Operating Expenditure	7089.3	8920.7	10400.7	12105.9	
Operating Profit (EBITDA)	1049.2	1253.5	1624.4	1941.4	
Growth (%)		19.5	29.6	19.5	
Other Income	117.0	127.7	152.4	183.7	
Interest	24.0	12.7	13.0	14.2	
Depreciation	139.5	140.4	204.4	259.9	
Less: Exceptional Items	-11.9	0.0	0.0	0.0	
PBT	1014.6	1228.0	1559.4	1851.0	
Total Tax	302.2	392.1	487.0	585.7	
PAT	712.5	835.9	1072.4	1265.3	
Growth (%)		17.3	28.3	18.0	
EPS (₹)	11.4	17.3	17.2	20.3	

Source: Company, ICICI Direct Research

Cash flow statement					₹ Crore
(Year-end March)	FY18	FY19E	FY20E	FY21E	
Profit after Tax	712.5	835.9	1072.4	1265.3	
Depreciation	139.5	140.4	204.4	259.9	
CF before working cap changes	875.9	989.0	1289.8	1539.4	
Net Increase in Current Assets	-670.8	-109.1	-720.3	-772.5	
Net Increase in Current Liabilities	1094.1	205.8	303.1	357.6	
CF from operating activities	1299.3	1085.7	872.5	1124.4	
(Purchase)/Sale of Liquid Investmen	-8.0	-100.0	-50.0	-50.0	
Others	-1352.6	-400.0	-350.0	-350.0	
(Purchase)/Sale of Fixed Assets	-1360.6	-500.0	-400.0	-400.0	
CF from Investing Activities	-1187.6	-650.0	-500.0	-500.0	
Proceeds frm Equity Shares	0.0	0.0	0.0	0.0	
Inc / (Dec) in Loan Funds	-94.6	0.0	0.0	20.0	
Others	-271.0	-683.7	-272.8	-385.4	
CF from Financing Activities	-365.6	-683.7	-272.8	-365.4	
Net Cash flow	-253.9	-248.0	99.7	259.0	
Opening Cash	555.1	301.2	53.1	152.8	
Closing Cash	301.2	53.1	152.8	411.9	

Source: Company, ICICI Direct Research

Balance sheet					₹ Crore
(Year-end March)	FY18	FY19E	FY20E	FY21E	
Equity Capital	62.5	62.5	62.5	62.5	
Reserve and Surplus	3676.7	3841.5	4654.0	5548.1	
Total Shareholders funds	3739.1	3904.0	4716.5	5610.6	
Total Debt	108.0	108.0	108.0	128.0	
Deferred Tax Liability	207.0	207.0	207.0	207.0	
Total Liabilities	4077.3	4242.1	5054.6	5968.7	
Assets					
Total Gross Block	3180.9	3680.9	4080.9	4480.9	
Less Acc. Depreciation	706.2	846.6	1051.0	1310.9	
Net Block	2474.7	2834.3	3029.9	3170.0	
Capital WIP	24.1	24.1	24.1	24.1	
Total Fixed Assets	2498.7	2858.3	3053.9	3194.0	
Investment	491.21	67.29	217.29	317.29	
Inventory	1621.7	2007.0	2306.2	2694.0	
Debtors	325.4	696.9	988.4	1231.5	
Other Current Assets	1359.9	712.2	841.8	983.3	
Cash	301.2	53.1	152.8	411.9	
Total Current Assets	3608.1	3469.2	4289.2	5320.7	
Total Current Liabilities	2464.1	2669.9	2973.0	3330.6	
Net Current Assets	1144.0	799.2	1316.2	1990.2	
Total Assets	4077.3	4242.1	5054.6	5968.7	

Source: Company, ICICI Direct Research

Key ratios				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Per Share Data				
Reported EPS	11.4	13.4	17.2	20.3
Cash EPS	13.7	15.6	20.5	24.4
BV per share	59.9	62.6	75.6	89.9
DPS	4.8	4.2	4.2	6.0
Operating Ratios (%)				
EBITDA Margin (%)	12.9	12.3	13.5	13.8
PAT Margin (%)	8.7	8.2	8.9	9.0
Asset Turnover	2.0	2.4	2.4	2.4
Debtors Turnover	14.6	25.0	30.0	32.0
Creditor Turnover	73.3	60.0	55.0	55.0
Return Ratios (%)				
RoE	18.8	21.4	22.7	22.6
RoCE	25.2	29.2	31.1	31.2
RoIC	22.6	24.7	26.7	28.3
Valuation Ratios				
EV / EBITDA	42.1	35.4	27.2	22.6
P/E	62.4	53.1	41.4	35.1
EV / Net Sales	5.4	4.4	3.7	3.1
EV / Net Sales	5.4	4.4	3.7	3.1
Market Cap / Sales	5.5	4.4	3.7	3.2
Price to Book Value	11.9	11.4	9.4	7.9
Solvency Ratios				
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.8	1.8	2.1	2.1
Quick Ratio	0.9	0.8	0.9	0.9

Source: Company, ICICI Direct Research

ICICI Direct Research coverage universe (Consumer Discretionary)

Sector / Company	CMP		Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)			FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
Asian Paints (ASIPAI)	1,412	1,167	Hold	135,411	21.9	23.4	27.8	64.6	60.4	42.0	41.9	37.0	32.4	31.6	31.6	31.5	24.4	24.0	24.7
Astral Polytechnik (ASTPOL)	1,061	1,125	Hold	12,705	14.7	17.7	26.4	72.3	59.8	40.3	40.8	30.9	23.1	22.9	23.4	26.3	17.2	16.4	19.8
Bajaj Electricals (BAJELE)	471	545	Hold	4,807	8.2	16.0	20.9	57.5	29.5	22.6	20.1	18.0	13.5	18.1	15.0	17.9	13.7	16.2	18.0
Havells India (HAVIND)	675	800	Buy	42,113	11.4	13.4	17.2	59.1	50.4	39.3	42.1	35.4	27.2	25.2	29.2	31.1	18.8	21.4	22.7
Kansai Nerolac (KANNER)	450	390	Hold	24,251	9.6	10.1	11.1	47.0	44.6	40.5	24.5	22.9	18.7	24.5	24.4	26.1	16.5	16.6	16.3
Pidilite Industries (PIDIND)	1,141	1,062	Buy	58,492	18.8	19.6	23.6	60.5	58.2	48.4	36.0	31.3	26.7	33.6	31.0	32.8	27.0	22.6	23.8
Essel Propack (ESSPRO)	116	94	Hold	3,645	5.5	6.1	7.2	20.9	18.9	16.0	7.0	6.5	5.5	18.0	17.6	19.7	15.2	15.4	16.6
Supreme Indus (SUPIND)	1,070	1,075	Hold	13,592	33.9	38.9	43.0	31.5	27.5	24.9	15.9	15.1	12.9	27.9	28.0	29.0	22.7	22.0	22.5
Symphony (SYMLIM)	1,177	830	Hold	8,234	27.5	20.5	27.6	42.8	57.4	42.6	35.9	34.7	24.2	41.3	27.3	35.2	31.5	24.2	30.7
V-Guard Ind (VGUARD)	201	168	Hold	8,556	3.1	3.7	4.8	64.1	54.8	42.0	39.6	33.9	26.0	23.7	26.0	28.4	17.7	19.7	21.6
Voltas Ltd (VOLTAS)	538	560	Hold	17,793	17.5	17.3	21.8	30.8	31.2	24.7	27.2	24.3	19.3	19.8	21.9	23.6	14.8	16.0	17.7
Time Techno (TIMTEC)	104	125	Hold	2,352	8.0	8.0	11.1	13.0	13.1	9.4	6.8	6.7	5.4	14.9	13.7	16.2	12.2	11.2	13.6

Source: Company, ICICI Direct Research

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Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



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