

BUZZING

STOCK

Havells India Ltd.

CMP – Rs.435

Analyst

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Key Stock Data

Sensex	13286
Nifty	3861
Sector	Electric Equipment
Bloomberg	HAVL.IN
Reuters	HAVEL.BO
No. of shares (m)	54
Market Cap (Rs m)	23,724
Market Cap (US\$ m)	543
52-week H/L	Rs.538/206

Shareholding Pattern (%)

Promoters	69.74
Mutual Funds	6.97
FII's	8.04
Corporate Bodies	4.18
Pubic & Others	11.07

Overview: Starting off as an electrical trading company in 1958, Havell's India (HIL) today is an emerging leader and an end-to-end solution provider in the Power Distribution Equipment industry. It is acknowledged as a quality manufacturer & supplier of the widest range of low voltage electrical equipments. It has eight manufacturing units with a wider dealer network of 43 branch offices and 2,000 authorized dealers spread all over the country. It has a sizable presence in the international markets with exports to 50 countries. It exports to countries like UK, Malaysia, Singapore, Bangladesh, Sri Lanka, Dubai, Africa, Iran and Iraq.

Product Portfolio

HIL is one of the leaders in the low voltage (below 1.1 KV) electrical equipments and consumer electronics appliances in the country. Last year with the merger of the group company Crabtree India the company included the aesthetic bath fitting products in its broad product portfolio. Major brands of the company are Havell's, Standard, Crabtree and TTL, DZG and Duke Arnics.

Year	FY06		9M07	
	% of TO	% Ch	% of TO	% Ch
Revenue Composition/Growth				
Switchgear (Low Voltage)	29%	51%	26%	26%
Cable & Wire	42%	51%	46%	71%
Electrical Consumer Durables	25%	109%	24%	56%
Others	4%	304%	4%	55%
Total Sales (In Rs Mn)	11187	67%	12111	53%

Source: Company

Higher inorganic growth focus

Since inception the company has been successful in maintaining a good growth largely through inorganic means. Last year it merged Crabtree India with itself. Recently its Netherlands subsidiary acquired the lighting business of Frankfurt based SLI Sylvania for \$ 300m (all Cash). Sylvania is one of the largest lighting companies in the world. This acquisition will give HIL, access to 10 manufacturing plants located across Europe, Latin America and Africa, and at the same time to 10,000 distributors/dealers all over the world. Going forward, we expect this acquisition will lead to higher utilization of capacity in the consumer durable segment of the company on the one hand and optimization of the manufacturing set up of Sylvania.

	Havell's	SLI Sylvania
Sales (in \$mn)	365	594
EBITDA	32	41
EBITDA (%)	9%	7%

Source: Company

Increase in Capacity

The company has increased its capacity in all its product categories. It plans to spend Rs.1,150m in capex by the end of FY07 (Till 9 months total spending was Rs.730m). It has planned a capex spending of Rs.700m for FY08. Looking at the comfortable Debt Equity ratio of 0.6 coupled with expected growth in sales and profit in the future the company could comfortably fund its planned capex without further dilution of equity.

Capacity (FY06)

Product	Units	Installed Capacities	Utilization (%)
Cables	Km	470000	61
Electronics Consumer Durables	No	22400000	67
Switchgears	No	33600000	55
Industrial Switchgears	No	1800000	96
EWA	No	6000000	46
Bath Fittings	No	750000	92
Household Fittings	No	840000	61

Source: Company

Dip in Margins will be arrested: Due to significant sales tilt towards the low margin wires and cables and due to stiff competition (sacrifice of margin to increase sales) in the consumer durable segment the EBITDA margin of the has suffered a decline during the 9 month of FY07. However with the current acquisition the company could increase its capacity utilization while optimizing the capacities of Sylvania. Thus with scale the margins in the consumer durable segment will improve. On the other hand we don't see further dip in margins in the cables and wires segments from this level due to reduction of prices of key raw materials. At the same time the high margins from the switchgear segment will be maintained due to increased exposure to the industrial switchgears. Therefore the overall margin will be maintained at around the current level of 9.6%.

Margins

Segments	FY06	9M07
Switchgear	31%	30%
Cable & Wire	13%	14%
Electrical Consumer Durables	13%	14%
Others	3%	-4%
Total PBIT Margins	18%	17%
EBITDA Margin	10.2%	9.4%

Valuation : With the current growth momentum we expect stand-alone net sales of Rs.15.78bn, up 57%, in FY07. The EBITDA margin would witness a decline to 9.5% as against 10.2%. However relatively less provision for depreciation, lower tax incidence and contained interest outgo would drive the net profit by 61% to Rs.1.02.bn. Thus the current stock price is trading 23x to our FY07E EPS of Rs.19

Financial Snapshot

Havells India Ltd.				Rs.m			Ratios (%)			
	Q3 FY07	Q3 FY06	Chg. (%)	FY06	FY05	Chg. (%)		FY06	FY05	Chg.(%)
Financial Year End: March										
Net Sales	3909	2487	57	10037	5825	72	Debt -Equity	1.1	1.9	(42)
Other Income	10	1	1633	36	29	23	PBIDTM	9.7	9.6	1
Total Income	3919	2488	58	10072	5854	72	PBDTM	8	7	8
Total Expenditure	3542	2229	59	9042	5245	72	RoCE	37	28	31
PBIDT	377	259	46	1031	608	70	RoNW	48	42	16
Interest	44	37	21	180	135	33				
PBDT	333	222	50	850	473	80				
Depreciation	24	18	33	65	41	60				
Tax	40	33	19	124	96	29				
Reported Profit After Tax	258	166	55	632	305	107				
Extra -ordinary Items	0	0	0	0	0	0				
Adj. Profit After Extra-ordinary item	258	166	55	632	305	107				
No. of shares (m)	54	23	-	25	12	-				
EPS (annualised.) (Rs.)	19	29	-	25	26	-				
P/E	22.7	15.2	-	17.1	16.5	-				



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