



Havells India Ltd.

BUY

CMP: Rs.303

Target price: Rs.400

Industry: Electrical Equipment

Stock Info		BSE Group		Shareholding Pattern (As on 30 th Jun, 2008)	
Market Capital	Rs.1751 cr	BSE Code	517354	Promoters	62.5%
Equity Capital	Rs. 28.9 cr	NSE Symbol	HAVELLS	Domestic Institutions	4.5%
Avg Trading Vol.	36132 (Qtly)	Bloomberg	HAVL IN	Foreign Institutions	24.5%
52 WK High/Low	749/285	Reuters	HVEL.BO	Corporate	1.7%
Face Value	Rs. 5	BSE Sensex	14042	Public & Others	6.7%
		NSE Nifty	4245		

We recently had concall with management of Havells India (Havells). In the current scenario of rising interest rates and raw material prices, Havells has focused on pushing sales of high contribution products, changing customer mix, increasing penetration by doubling dealer network thus improving contribution margins in various segments in Q109. Sylvania revenues were flat in Euro terms on y-o-y basis due slowdown of demand in European market. However the Latin America markets which contributes 20% of the Sylvania sales continues to grow at a strong pace. We have introduced FY10 estimates to our projections and we expect consolidated revenues to grow to Rs.6676.3 cr, CAGR of 16.7% FY08-FY10E with PAT growing to Rs.266.9 cr, a CAGR of 35.9% FY08-FY10E. Following are the key takeaways.

Snapshot:

- **Entry into Industrial Motors:** Havells has set up a Greenfield manufacturing facility for industrial motors with capacities ranging from quarter horse power (hp) up to 500 hp at Neemrana, Rajasthan at a capex of Rs.90 cr in FY08 and will further incur capex of Rs.15 cr in FY09. The facility commenced production with marginal contribution to sales in Q109 and full range of products will come on-stream by Sept'08 and Dec'08. The management expects to generate around Rs.40 cr of revenue from this segment in FY09E and around Rs.350 cr in full year of operation.
- **Consolidation of CFL plant at Neemrana:** Havells plans set up a Greenfield CFL manufacturing facility as per European standards at Neemrana with capacity of 20 mn pieces at cost of Rs. 50 cr (including land cost) and will also shift the existing CFL capacity of 30 mn pieces (Faridabad) to this facility. The facility at Shipley, UK having capacity of 17 mn pieces will also be shifted to Neemrana by Mar'09 thus taking the total CFL manufacturing capacity to around 70 mn pieces. This will be the centralized sourcing destination to supply CFLs across the world.
- **Other capex plans:** Havells plans to incur capex of around Rs.170 cr for FY09 and Rs.100 cr in FY10 thereby increasing capacities across product segments. A new MCB manufacturing facility will be set up at Baddi, where some part of the existing facility will be shifted thus taking the total capacity to 48 mn pieces by FY09 and 60 mn by FY10.
- **New product launches:** Havells has started test marketing of its domestic circuit protection products in Columbia and Thailand under Havells and Sylvania brand respectively. The company also plans to introduce Concord Marlin brand of lighting and fixtures in India, currently marketed by Sylvania worldwide, mainly targeting the contractors, architects and developers for modernization of airports in FY10.
- **Doubling of Dealer Network:** Havells has doubled its dealer network across India from 2000 to 4000 dealers and increased penetration into Tier II and Tier III towns and further plans to double it to 8000 dealers by FY09. Advertising and promotion spend is also set to increase to Rs.100 cr in FY09 to augment brand awareness and focus on pushing branded product sales through existing and new dealer networks. We believe that all this will help in maintaining standalone EBIDTA margins at 9.9% in FY09E and 10% in FY10E.
- **Margins in Sylvania to in the range of 6%:** Slowdown in European markets, higher employee costs and in-house manufacturing of products to the extent of 60% led to fall in EBIDTA margins to 5.5% in Q109 from 6.9% in Q108. However by selling high margin products like fixtures, and outsourcing more from low cost countries like India and China, the management expects to maintain EBIDTA margins in the range of 6% plus in the FY09 and take it to that of Havells level by FY11. We expected consolidated EBIDTA margins to be at 7.4% and 8.0% in FY09 and FY10.
- **Concerns:**
 - a) Cost of main inputs such as copper and aluminium, may rise
 - b) Major slowdown in pace of growth in the domestic as well as European markets can affect the demand and revenues thereby.

c) Impact on consolidated margins and earnings due to higher than our anticipated employee costs, interest cost and taxation.

As per the management, the terms and conditions require Warburg Pincus to subscribe to 2600000 warrants @690/share by May'09 irrespective of the market price.

Background:

Promoted by Qimat Rai Gupta and S K Gupta, incorporated as Havell's Pvt Ltd in Aug.'83 and converted into a public limited company in Mar.'92, Havells India (Havells) is one of the fastest growing power distribution equipment companies in India. The Company is involved in manufacturing and supplying of various electrical equipments like Switchgears, Cable & Wire, Lighting & Fixtures, Power Capacitors, Electric Motors and Fans in domestic as well as international markets and has 20000 strong distribution networks across the globe.

The group comprises of 4 companies – HIL (the flagship company), Standard Electricals (involved in low branded), Crabtree India Ltd, and TIL (involved in energy meters).

In FY08, Havells acquired global Lighting business of Frankfurt based Sylvania, having strong presence in the developed markets of Europe and high growth Latin American markets at an enterprise value of € 227.5 mn catapulting Havells into a US\$ 1 bn revenue club.

View and Valuation

Havells India delivered robust standalone results for Q109 and superior margins at EBIDTA level by changing the customer and product mix. However flat sales in Europe and higher employee cost dragged down EBIDTA margins at Sylvania. Going forward following catalyst for improvements in margins and earnings are to be watched for:

1) With full year of operation of CFL facility at Neemrana in FY10, we believe outsourcing to Sylvania from India will increase (currently outsources 40% from low cost countries like India and China) thereby improving EBIDTA margins in Sylvania to 6.8% in FY10E.

2) Management has indicated to sell Sylvania receivables (factoring) and payback part of the outstanding debt of Euro 120 mn taken for Sylvania acquisition. The due diligence is on and the company is looking at attractive interest rate to do the factoring. Any action on this front will help reduce the consolidated debt/equity ratio from 1.9x at present.

At CMP of Rs.303, Havells is trading at 8.3x FY09E and 6.8x FY10E consolidated earnings of Rs.36.4 and Rs.44.5 and EV/EBIDTA of 6.7x and 5.4x respectively. Havells India has traded at a one-year forward PE of <10x upto Feb'06 and thereafter in the range of 10-20x occasionally entering into the territory of 20-25x. Post private placement of equity to Warburg Pincus, the company was trading above 25x PE band. Considering the current market scenario and global liquidity crisis as well as company's current subdued margins, high tax rate and slowdown of Europe business, we apply a conservative target PE multiple of 9x FY10E on consolidated earnings thus arriving at a price target of Rs.400. At this price, Havells trades at EV /EBIDTA of 6.4x. We recommend **BUY** rating on the stock.

PER BAND

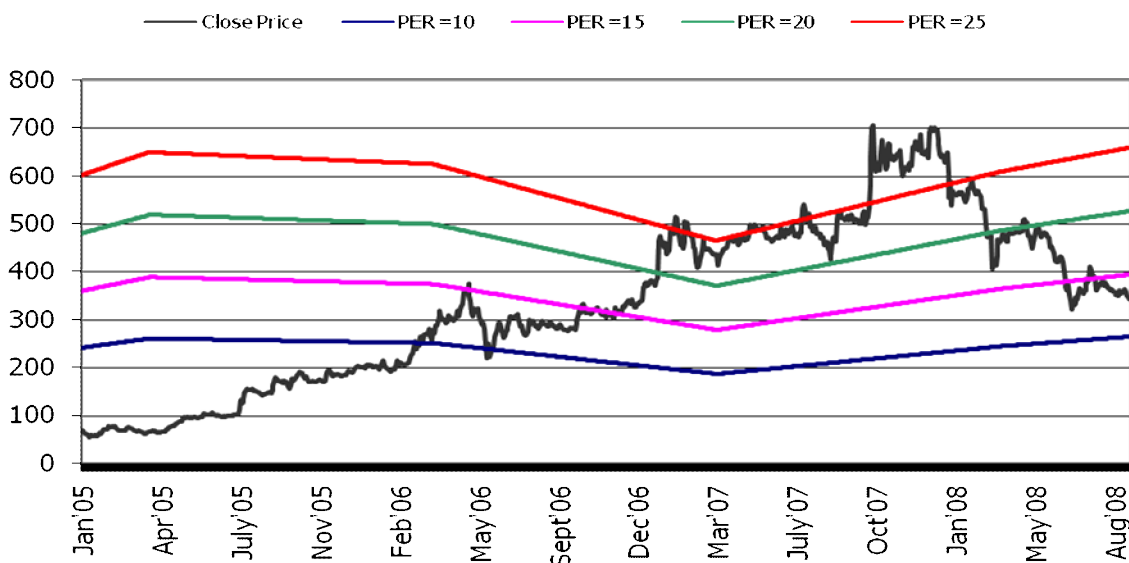


Chart: PER Band

Consolidated Financials - Segmental

(Rs. in crore)	Q109	Q108	Y-o-Y	Q408	Q-o-Q	FY08	FY07	Y-o-Y
REVENUE			growth		growth			
Switchgears	147.1	132.8	10.8	130.6	12.6	542.6	405.9	33.7
Cables & Wires	252.9	200.9	25.9	254.1	-0.5	924.1	680.5	35.8
Electrical Consumer Durables	77.4	66.3	16.7	73.9	4.7	240.0	168.7	42.3
Lighting & Fixtures	918.5	651.5	40.9	909.2	1.0	3242.3	231.3	1301.8
Others	14.6	19.9	-26.6	21.1	-30.8	78.3	66.3	18.1
Total Segment Revenue	1410.6	1071.4		1389.0		5027.2	1552.6	
PROFIT								
P/L Before Interest and Tax	346.0	234.0		317.1		1125.4	270.5	
Switchgears	57.7	44.6		37.0		178.1	127.7	
Cables & Wires	29.3	23.8		25.6		96.4	90.9	
Electrical Consumer Durables	17.3	12.9		18.7		51.7	25.2	
Lighting & Fixtures	239.1	151.2		233.8		792.6	25.2	
Others	2.5	1.5		2.1		6.6	1.5	
Less: Interest	24.1	19.1		22.0		93.9	16.1	
Other unallocable expenses	259.7	164.1		240.7		832.8	133.8	
Net Profit/Loss Before Tax	62.2	50.8		54.5		198.6	120.5	
PBIT Margins:								
Switchgears	39.2	33.6		28.4		32.8	31.5	
Cables & Wires	11.6	11.8		10.1		10.4	13.5	
Electrical Consumer Durables	22.4	19.5		25.3		21.5	14.9	
Lighting & Fixtures	26.0	23.2		25.7		24.4	10.9	
Others	17.3	7.5		9.8		8.4	2.3	

Earnings Review:

Rs in Cr	Revenues		EBIDTA		PAT		EBIDTA Margin (%)		PAT Margin (%)	
	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E
Havells India	2484.2	2985.0	245.3	298.5	174.5	233.5	9.9	10.0	7.0	7.8
SLI Sylvania	3483.8	3691.3	198.6	232.6	16.4	39.8	5.7	6.3	0.5	1.1

Profit and Loss Statement

Y/E March (Rs. in cr)	FY07*	FY08	FY09E	FY10E
Net Sales	1547.2	5002.2	5968.0	6676.3
YoY%	35.1	-	19.3	11.9
Other Inc.	5.4	25.0	10.0	25.0
Total Inc.	1552.6	5027.2	5978.0	6701.3
EBIDTA	140.9	336.9	443.9	531.1
YoY%	30.0	-	31.7	19.6
Dep.	9.7	69.4	99.7	120.3
EBIT	131.2	267.5	344.2	410.8
Interest	20.9	93.9	99.1	92.7
EBT	110.2	173.6	245.1	410.8
PBT	115.7	198.6	255.1	343.1
Tax	18.4	37.7	44.2	73.7
PAT	102.1	160.9	210.9	269.3
YoY%	43.4	-	31.0	27.7
OPM %	9.1	6.7	7.4	8.0
PAT %	6.6	3.2	3.5	4.0

Cash Flow Statement Extract

Y/E March (Rs.in cr)	FY07*	FY08	FY09E	FY10E
NP before tax and EO	120.5	198.6	255.1	343.1
Add: Depreciation	9.7	69.4	99.7	120.3
Interest (net)	14.9	90.7	99.1	92.7
Goodwill w/off	-	-	-	-
(Inc)/ Dec in WC	70.3	-349.8	-235.9	-330.1
Cash Inflow/ (outflow) from Operations	202.0	-23.9	173.7	152.2
(Inc)/ Dec in FA	-99.0	-121.3	-195.6	-125.6
Others	-	-648.0	-	-
Cash Inflow/ (outflow) from Investments	-99.0	-769.3	-195.6	-125.6
Inc/(Dec) in Equity	-	383.4	-	179.4
Inc/(Dec) in Debt	-52.5	586.1	-30.7	(150.9)
Interest Paid	-16.2	-93.9	-99.1	-92.7
Dividend Paid	-6.7	-13.5	-17.6	-17.6
Proceeds from unsecured advances	-	57.8	-	-
Cash Inflow/ (outflow) from Financing	-76.8	919.2	-147.4	-81.9
Net Cash Inflow/ (outflow)	26.1	126.0	-169.3	-55.3
Cash at beginning	0.5	109.8	235.8	66.5
Net Cash carried forward	26.6	235.8	66.5	11.2

Balance Sheet

Y/E March (Rs.in cr)	FY 07*	FY08	FY09E	FY10E
Equity Capital (FV-5)	26.9	28.9	28.9	30.3
Reserves (Excl Reval)	235.5	643.3	837.3	1267.0
Shareholders Equity	262.4	673.0	866.2	1297.3
Warrants	-	18.0	-	-
Total Debt	56.1	1296.2	1265.5	1114.6
Deferred inc tax (Net)	11.8	-7.6	-12.5	-12.5
Total Liabilities	330.3	1979.6	2119.2	2399.3
Gross Block	244.5	2726.2	2978.2	3112.8
Less :Acc.depreciation	31.4	1994.4	2094.1	2214.4
Net Block	212.9	731.8	884.1	898.4
CWIP	29.3	100.5	39.1	25.1
Goodwill	-	334.6	334.6	334.6
Investments	3.2	3.2	3.2	3.2
Current Assets	364.6	2322.9	2531.9	2727.9
Debtors	30.9	822.7	981.0	1006.0
Inventory	239.5	1041.9	1242.6	1371.8
Loans and Advances	53.9	212.4	238.7	300.4
Cash and equivalent	36.5	242.9	66.5	11.2
Other current assets	3.8	2.9	3.0	38.4
Current Liabilities	281.8	1514.2	1675.8	1591.9
Creditors & other liabilities	250.1	1465.2	1614.6	1500.4
Provisions	31.8	49.0	61.1	91.4
Net Current Assets	82.8	808.7	856.1	1136.0
Miscellaneous Exp.	2.10	2.1	2.1	2.0
Total Assets	330.3	1980.9	2119.2	2399.3

Important Ratios

Y/E March	FY07*	FY08	FY09E	FY10E
Performance Ratios				
EBIDTA %	9.1	6.7	7.4	8.0
EBIT%	8.5	5.3	5.8	6.2
Net Profit %	6.6	3.2	3.5	4.0
Debt / Equity	0.2	1.9	1.5	0.9
Dividend %	50%	50%	50%	50%
Turnover Ratios				
Debtors (Days)	7	60	60	55
Inventory (Days)	57	76	76	75
Creditors (Days)	61	91	87	85
Assets Turnover	3.3	1.8	2.0	2.1
Du Pont Analysis				
PAT / Net Sales	6.6	3.2	3.5	4.0
Net Sales / Assets	3.3	1.8	2.0	2.1
Assets / Equity	0.9	3.9	3.4	2.4
ROE	20.4	23.3	24.3	20.8
Valuation Ratios				
Diluted EPS	19.0	29.2	36.4	44.5
Cash EPS	20.8	39.8	53.6	64.4
P/E	16.0	10.4	8.3	6.8
EV/ EBIDTA	12.6	8.3	6.7	5.4
EV/ Sales	1.1	0.6	0.5	0.4
P/BV	6.2	2.5	2.0	1.4
ROCE	41.4	14.8	16.7	18.2
ROIC (NOPAT/ Capital Emp)	37.1	15.1	18.9	19.1
Dividend Yield %	0.6	0.5	0.008	0.008

* Standalone numbers

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Stock Rating Scale

	Absolute Return
BUY	: >25%
ACCUMULATE	: 10-25%
HOLD	: 5-10%
REDUCE	: <5%

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