

November 1, 2011

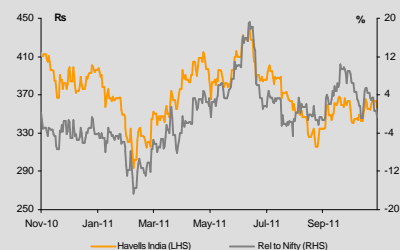
Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs 381	Rs 460
EPS change FY12E/13E (%)	-1/2
Target Price change (%)	21
Nifty	5,258
Sensex	17,481

Price Performance

(%)	1M	3M	6M	12M
Absolute	5	7	(2)	(8)
Rel. to Nifty	(1)	13	4	7

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Engineering & Capital Goods
Bloomberg	HAVL@IN
Equity Capital (Rs mn)	624
Face Value(Rs)	5
No of shares o/s (mn)	125
52 Week H/L	451/290
Market Cap (Rs bn/USD mn)	48/974
Daily Avg Volume (No of sh)	242273
Daily Avg Turnover (US\$m)	1.7

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	61.6	61.6	61.6
FII/NRI	27.7	27.1	27.4
Institutions	1.9	2.7	2.4
Private Corp	1.7	1.5	1.7
Public	7.2	7.2	6.9

Source: Capitaline

Pritesh Chheda, CFA

pritesh.chheda@emkayglobal.com
+91 22 6612 1273

Prashant Kutty

prashant.kutty@emkayglobal.com
+91 22 6612 1341

- **Q2FY12 standalone performance above expectations - revenues grew 28% yoy to Rs 8.5bn; EBIDTA margins 170bps to 13.5% & APAT at Rs 702mn, up 20% yoy**
- **Against expectation of moderation, delivers strong performance with healthy growth in lighting and consumer durables. Improves Ebidta margins despite cost pressure**
- **Strong operating performance in Sylvania- with Europe registering 4% growth being positive surprise. But, forex loss curtails net profit to € 1.7mn for Q2FY12**
- **Stellar quarter, Drivers to domestic business remains intact, Improvement in performance of Sylvania to continue. Maintain Buy with target price of Rs460/Share**

Result beat expectations; Standard Electric merged with standalone operations

Havells reported strong performance on all counts. This quarter includes financials of Standard Electric, which has been merged with Havells w.e.f Q2FY12. Including Standard Electric (1) standalone revenue growth at 28% yoy to Rs 8.5bn (2) EBIDTA stood at Rs 1.1bn, up 48% yoy (3) Ebidta margins increasing by 170bps yoy to 13.5% and (4) APAT for Q2 FY12 stood at Rs 702mn, up 20% yoy. However, adjusting for Standard Electric, revenues grew 25% yoy to Rs8.3 bn and APAT grew 9.5% yoy to Rs636 mn – yet ahead of estimates.

Lighting and consumer durables drive revenue growth

Havells posted robust growth across segments, contrary to our expectations of moderation in growth momentum.

- Lighting segment grew 31% yoy to Rs 1.4bn led by increased sales in CFL coupled with price increases in few variants.
- Healthy growth of 27% yoy to Rs1.2 bn in consumer durables segment was boosted by new product introduction, deeper penetration and increased sales from water heaters. Fans segment posted growth of 11% yoy, with 6% being volume led growth.
- Cables & Wires grew by 30% yoy to Rs3.7 bn. The growth was mainly led by price increase on account of rising cost, while volume growth stood at 10% yoy.
- Switchgear segment grew by 27% yoy to Rs2.2 bn. Even, excluding standard electric revenues grew by strong 13% yoy (despite loss of export client).

Gross margins stable despite rising cost scenario, recorded gains from consolidation and lower operating expenditure

Contrary to our expectations, gross margins expanded by 120 bps yoy – despite the rise in input costs. Approximately, 60 bps gain in gross margins is linked to merger of Standard Electric. Also, Havells derived leverage from operations with 80 bps reduction in operating expenditure - partly linked to lower A&P spends in the quarter. Overall, contribution margins expanded 90bps led by lighting (650 bps), which improved due to prudent cost control and price increase in CFL, while switchgear rose by 90 bps.

Financial Snapshot

Rs Mn

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
Mar										
FY10	54,315	3,388	6.2	696	5.6	76.4	17.4	68.3	9.6	11.9
FY11	59,064	5,661	9.6	3,067	24.6	340.8	46.9	15.5	9.8	7.3
FY12E	66,581	6,663	10.0	3,419	27.4	11.5	35.3	13.9	8.7	4.9
FY13E	73,346	7,637	10.4	4,209	33.7	23.1	31.1	11.3	7.0	3.5

Quarterly Results

YE-Mar (Rs mn)	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Net Sales	6613	7221	8408	8000	8504	28.6	6.3	16728	13501	23.9
Other Op Income	18	57	44	27	14	-20.2	-47.4	26	25	5.7
Expenditure	5837	6365	7463	7142	7358	26.0	3.0	14649	11932	22.8
Material Cost	4085	4356	5499	4828	5151	26.1	6.7	10077	8340	20.8
% of Sales	61.8	60.3	65.4	60.4	60.6	-120 bps	20 bps	60.2	61.8	-150 bps
Employee Expenses	262	253	293	332	358	36.6	7.8	695	513	35.6
% of Sales	4.0	3.5	3.5	4.2	4.2	20 bps	10 bps	4.2	3.8	40 bps
Other Expenses	1490	1757	1671	1982	1848	24.0	-6.8	3877	3080	25.9
% of Sales	22.5	24.3	19.9	24.8	21.7	-80 bps	-300 bps	23.2	22.8	40 bps
EBITDA	776	856	946	857	1146	47.7	33.8	2079	1569	32.5
Depreciation	72	75	78	83	91	26.2	9.4	177	140	26.5
EBIT	704	781	868	774	1055	49.9	36.4	1902	1429	33.1
Other Income	66	1	1	1	-130	-297.7	-9364.3	-109	50	-318.4
Interest	31	52	55	84	71	132.6	-14.8	155	51	204.9
PBT	756	788	858	718	868	14.8	20.9	1663	1453	14.5
Tax	175	177	167	143	166	-5.4	15.8	313	339	-7.7
Adjusted PAT	581	611	690	575	702	20.9	22.2	1350	1114	21.2
Extra-Ordinary Items	5	0	0	0	0	-	-	0	5	-
Reported PAT	586	611	690	575	702	19.9	22.2	1350	1119	20.7
Reported EPS	4.7	4.9	5.5	4.6	5.6	19.9	22.2	11	9	20.7

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	11.7	11.9	11.2	10.7	13.5	170	280	12.4	11.6	80
EBIT	10.6	10.8	10.3	9.7	12.4	180	270	11.4	10.6	80
EBT	11.4	10.9	10.2	9.0	10.2	-120	120	9.9	10.8	-80
PAT	8.8	8.5	8.2	7.2	8.3	-50	110	8.1	8.3	-20
Effective Tax rate	23.2	22.4	19.5	20.0	19.1	-410	-80	18.8	23.3	-450

Segment Revenues	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Switchgears	1747.0	1842.9	1999.7	1883.4	2217.7	26.9	17.7	4325.3	3604.8	20.0
Cables & Wires	2838.9	3101.9	3608.0	3564.4	3691.8	30.0	3.6	7256.2	5674.3	27.9
Lighting & Fixtures	1052.6	1190.3	1258.2	1209.8	1374.4	30.6	13.6	2584.2	2055.3	25.7
ECD	971.5	1086.3	1542.3	1341.9	1220.0	25.6	-9.1	2561.9	2150.6	19.1
Others	3.1	0.0	0.0	0.0	0.0	-100.0	-	0.0	16.3	-100.0
Total	6613.1	7221.4	8408.2	7999.5	8503.9	28.6	6.3	16727.6	13501.3	23.9

Segment PBIT

Switchgears	646.1	651.1	698.4	723.8	839.2	29.9	15.9	1645.4	1369.5	20.1
Cables & Wires	272.2	267.1	162.9	310.1	341.8	25.6	10.2	651.9	470.4	38.6
Lighting & Fixtures	189.1	239.1	226.0	301.8	336.4	77.9	11.5	638.2	355.1	79.7
ECD	271.3	277.3	412.6	417.8	337.7	24.5	-19.2	755.5	604.8	24.9
Others	1.2	0.0	0.0	0.0	0.0	-100.0	-	0.0	6.1	-100.0
Total	1379.9	1434.6	1499.9	1753.5	1855.1	34.4	5.8	3691.0	2805.9	31.5

PBIT Margins

Switchgears	37.0	35.3	34.9	38.4	37.8	90	-60	38.0	38.0	10
Cables & Wires	9.6	8.6	4.5	8.7	9.3	-30	60	9.0	8.3	70
Lighting & Fixtures	18.0	20.1	18.0	24.9	24.5	650	-50	24.7	17.3	740
ECD	27.9	25.5	26.8	31.1	27.7	-20	-350	29.5	28.1	140
Others	38.7	-	0.0	0.0	-	-	-	-	-	-
Total	20.9	19.9	17.8	21.9	21.8	90	-10	22.1	20.8	130

Capital Employed

Switchgears	3142.2	3133.4	3178.5	3278.3	4201.3	33.7	28.2	4201.3	3142.2	33.7
Cables & Wires	2,443.7	1,809.4	1,845.7	1,682.3	1,505.8	-38.4	-10.5	1505.8	2443.7	-38.4
Lighting & Fixtures	1,839.5	1,826.3	2,237.5	2,317.2	2,592.9	41.0	11.9	2592.9	1839.5	41.0
ECD	942.4	1,011.9	1,066.9	1,245.9	1,343.0	42.5	7.8	1343	942.4	42.5
Others	6,228.7	7,147.5	6,951.9	7,318.9	7,961.8	27.8	8.8	7961.8	6228.7	27.8
Total	14596.5	14928.5	15280.5	15842.6	17604.8	20.6	11.1	17604.8	14596.5	20.6

Sylvania EBIDTA margins going strong, but forex loss stems APAT

On the revenue front, Sylvania reported growth of 3% to €115.5mn. Europe surprised positively with 4% revenue growth, but growth in LATAM was tepid at 2.6% due to demand contraction in few countries. However, the management is confident of achieving 10% growth in LATAM for FY12E. Operational metrics remains strong with EBIDTA margin rising 150 bps yoy to 7.4%. However, currency volatility across countries led to forex loss, thereby stemming net profit to €1.7mn for Q2FY12, yet growth of 31% yoy.

Stellar quarter; Drivers to domestic business remains intact, Sylvania improvement to continue, Maintain BUY

The three core arguments for Havells remain intact (1) Sylvania turnaround and improvement in operating metrics (2) Domestic performance driven by lighting and consumer durables, which in turn, driven by new product launches and (3) net cash generation in business alongside improvement in return ratios. Until H1FY12, Havells has reported performance on expected lines with further promise of improvement in Sylvania business. We maintain our 'BUY' rating with price target of Rs 460, thereby implying a target multiple of 8.6x FY13E EV/EBIDTA. Currently, Havells is trading at 7x FY13E EV/EBIDTA.

Earnings Change

Y/E, Mar (Rs. mn)	FY12E			FY13E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	63001	66581	5.7	69887	73346	4.9
EBITDA	6119	6663	8.9	6948	7637	9.9
EBITDA Margin (%)	9.7	10.0	3.0	9.9	10.4	4.7
APAT	3454	3419	-1.0	4129	4209	1.9
EPS	27.7	27.4	-1.0	33.1	33.7	1.9

Financials

Income Statement

Y/E, Mar (Rs. m)	FY10	FY11E	FY12E	FY13E
Net Sales	54,315	59,064	66,581	73,346
Growth (%)	-0.8	8.7	12.7	10.2
Expenses	50,927	53,403	59,919	65,709
Growth (%)	-1.6	4.9	12.2	9.7
Raw Materials	29,154	32,556	36,262	40,227
% Of Sales	53.7	55.1	54.5	54.8
Employee Cost	7,602	6,319	7,076	7,401
% Of Sales	14.0	10.7	10.6	10.1
Manufacturing Exps	3,250	3,197	3,641	4,055
% Of Sales	6.0	5.4	5.5	5.5
Admin Expenses	2,821	2,908	3,404	3,676
% Of Sales	5.2	4.9	5.1	5.0
Selling & Distribn Exp	8,100	8,424	9,536	10,351
% Of Sales	14.9	14.3	14.3	14.1
Ebidta	3,388	5,661	6,663	7,637
Growth (%)	11.6	67.1	17.7	14.6
Ebidta Margin%	6.2	9.6	10.0	10.4
Other Income	222	237	-116	77
Interest	979	902	1,098	1,118
Depreciation	837	804	925	1,021
PBT	1,628	4,102	4,524	5,574
Tax	932	1,031	1,101	1,362
PAT (Before EO Item)	696	3,071	3,422	4,212
Growth (%)	76.3	341.0	11.5	23.1
Net Margin%	1.3	5.2	5.1	5.7
Minority Interest	0.4	3.6	3.6	3.6
PAT (Bef EOI & after MI)	696	3,067	3,419	4,209
E/O Item	0	-31	0	0
Reported PAT	696	3,036	3,419	4,209

Cash Flow

Y/E, Mar (Rs. m)	FY10	FY11E	FY12E	FY13E
Pre-Tax Profit	1,628	4,066	4,524	5,574
Depreciation	837	804	925	1,021
Non Cash	-1,087	569	-4	-4
Chg in Working Cap	2,369	-2,013	-1,487	-859
Tax Paid	-659	-851	-1,101	-1,362
Operating Cash Flow	3,087	2,575	2,857	4,370
Capex	-1,077	-1,790	-2,007	-1,700
Free Cash Flow	2,010	786	850	2,670
Investments	116	71	-350	0
Change in Equity Capital	0	0	0	0
Loans	-2,866	-365	54	-226
Dividend	-265	-207	-281	-343
Others	0	0	0	0
Net Change in Cash	-1,005	285	272	2,101
Opening Cash Position	2,415	1,472	1,780	2,052
Closing Cash Position	1,472	1,780	2,052	4,152

Balance Sheet

Y/E, Mar (Rs. m)	FY10	FY11E	FY12E	FY13E
Equity Share Capital	312	624	624	624
Reserves	3,690	5,914	9,052	12,917
Networth	4,002	6,537	9,676	13,541
Secured Loans	9,963	9,933	9,987	9,760
Unsecured Loans	700	1,240	1,240	1,240
Loan Funds	10,664	11,173	11,227	11,000
Deferred Tax	434	559	559	559
Minority Interest	2	6	6	6
Capital Employed	15,102	18,275	21,467	25,105
Gross Block	26,963	28,454	30,461	32,161
Less: Depreciation	18,089	18,499	19,424	20,445
Net Block	8,874	9,955	11,037	11,716
Capital WIP	336	249	249	249
Goodwill	3,212	3,354	3,354	3,354
Investments	0	0	350	350
Current Assets	18,556	22,077	24,552	28,915
Inventories	8,246	10,860	11,607	13,161
Debtors	6,982	7,724	8,574	9,059
Cash & Bank	1,481	1,779	2,052	4,152
Loans & Advances	1,847	1,715	2,319	2,543
Current Lia. & Prov	15,876	17,361	18,075	19,478
Net Current Assets	2,680	4,717	6,477	9,437
Deferred Tax	0	0	0	0
Mis. Expenditure	0	0	0	0
Capital Deployed	15,102	18,275	21,467	25,105

Key Ratios

Y/E, Mar	FY10	FY11E	FY12E	FY13E
Profitability %				
Ebidta Mgn	6.2	9.6	10.0	10.4
PAT Mgn	1.3	5.2	5.1	5.7
ROCE	17.3	27.4	26.2	26.7
ROE	17.4	46.9	35.3	31.1
Per Share Data				
EPS	5.6	24.6	27.4	33.7
CEPS	18.0	30.0	33.0	39.9
BVPS	32.1	52.4	77.5	108.5
DVPS	4.2	2.5	2.3	2.8
Valuations (X)				
PER	68.3	15.5	13.9	11.3
CPER	21.1	12.7	11.5	9.5
P/BV	11.9	7.3	4.9	3.5
Ev/Sales	0.6	1.0	0.9	0.7
Ev/Ebidta	9.6	9.8	8.7	7.0
Dividend Yield (%)	1.1	0.7	0.6	0.7
Turnover X Days				
Debtor TO Days	48.9	45.4	44.7	43.9
Inventory TO Days	58.0	65.3	68.4	68.8
Gearing Ratio				
Net Debt/Equity	2.3	1.4	0.9	0.5
Total Debt/Equity	2.7	1.7	1.2	0.8
Working Capital Cycle (days)	29	23	31	40

Recommendation History: Havells India – HAVL IN

Date	Reports	Reco	CMP	Target
02/08/2011	Havells India Q1FY12 Result Update	Buy	360	450
27/05/2011	Havells India Q4FY11 Result Update	Buy	399	470
13/05/2011	Havells India Initiating Coverage	Buy	384	470

Recent Research Reports

Date	Reports	Reco	CMP	Target
21/10/2011	Larsen & Toubro Q2FY12 Result Update	Accumulate	1,336	1,603
21/10/2011	Thermax Q2FY12 Result Update	Accumulate	425	495
16/08/2011	McNally Bharat Q1FY12 Result Update	Buy	135	201
16/08/2011	Punj Lloyd Q1FY12 Result Update	Hold	56	76

Emkay Global Financial Services Ltd.

Corporate Add: B – Ruby Mills Tower, 7th Floor, South East Wing, Senapati Bapat Marg, Dadar (W), Mumbai - 400028 India.

Tel.: +912266121212 Web: www.emkayglobal.com

DISCLAIMER: This document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. No person associated with Emkay Global Financial Services Ltd. is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon. Neither Emkay Global Financial Services Ltd., nor any person connected with it, accepts any liability arising from the use of this document. The recipient of this material should rely on their own investigations and take their own professional advice. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender / borrower to such company(ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here. No part of this material may be duplicated in any form and/or redistributed without Emkay Global Financial Services Ltd.'s prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.