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Hem Securities Limited
Hem Finlease Private Limited

CMP-638

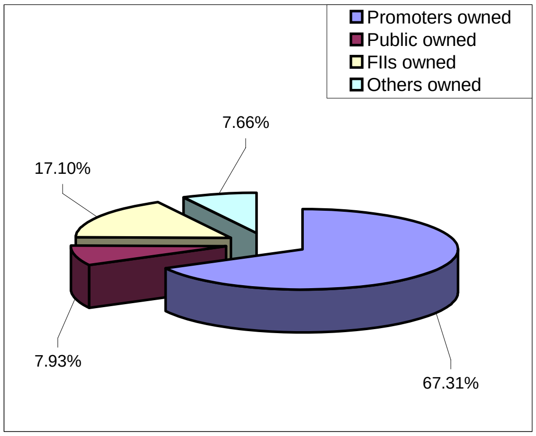
Havells India Ltd.

03 December 2007

Price target-834

Stock statistics		03 December 2007
Market Cap (Rs Mn)	:	33,545.25
52-Week high/low (Rs)	:	750/265
Face value	:	5
BSE Code	:	517354
NSE Code	:	HAVELLS
Industry	:	Electric Equip.
Shares outstanding	:	5,37,58,406
Avg. daily vol. (30 days)	:	1.63

Shareholding Pattern (as on 30 Sep'07)



Key Statistics (as on 03 December 2007)

CMP	:	638
BV	:	61.35
PE	:	28.74
PB	:	10.40
Beta	:	1.05
Turnover (Rs Mn)	:	8.79
Net worth (Rs Mn)	:	2,622.90

Havells India Limited which was incorporated in 1983 is engaged in manufacturing a wide range of low voltage electrical equipment catering to the needs of domestic and industrial market. The products manufactured and marketed by the company are building & industrial circuit protection, wiring, power & control cables, energy meters like static & electromechanical meters, lighting solutions, CFL, ceiling/TPW/ventilating fans, modular plate switches, bath fitting & accessories.

Havell`s India has presence in UK, Iraq, Malaysia, Bangladesh, Sri Lanka, Middle East, Far East and Latin American countries. HAVELL has forged an alliance with the Dubai-based Bahri & Mazroei Trading Company for marketing electrical products in West Asia. It has set up a factory in Haridwar, Uttaranchal for manufacturing fans. The company has set up a R&D center in Noida. It has also acquired a Greek company. Crabtree India has also been merged with Havell`s India.

INDUSTRY OUTLOOK

The impressive growth of the industrial sector, propelled by robust growth in manufacturing has continued unabated during the current year so far. Year-on-year industrial growth of 10.6 per cent in the first nine months of 2006-07 was the highest recorded since 1995-96. In seven of the eight months of the year 2006-07, the year-on-year growth of the manufacturing sector was in double-digits. India has recently emerged as an important manufacturing hub for a number of industrial products and is poised for major expansion in some manufacturing segments as revealed in the recent trends.

Therefore, the robust growth of manufacturing sector is set to fuel the growth of the companies in this sector. However, the growth is further consolidated by constructive developments in the power sector, the construction and real estate and outsourcing in manufacturing.

INVESTMENT RATIONALE

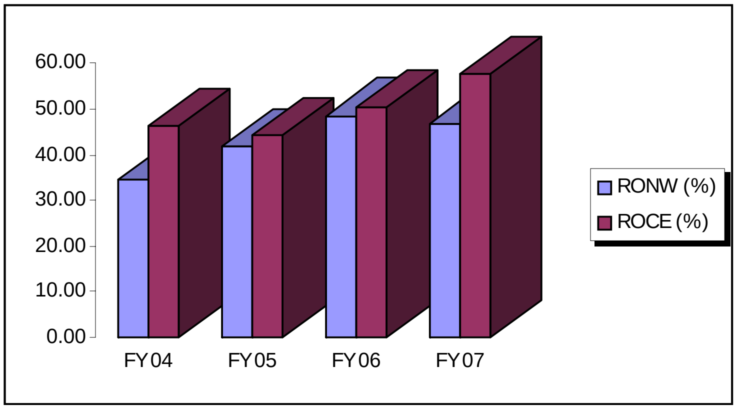
- ✓ **The company has forayed into health care space by acquiring 70 per cent stake in the 140 – bed super specialty hospital, Centre Hospital and Research Centre (Faridabad). The company has already made investment of Rs 200 million for the acquisition and will make an equal investment in expanding the existing facilities. This action would diversify the company business model and would provide synergies in the future.**
- ✓ **The company is having strong product portfolio to meet the need of domestic and international customer and is planning to add some more products to its portfolio. This product portfolio is supported by strong distribution network channel. The company is having the largest and strongest trade network in the electrical industry in India which provides competitive advantage to the company over its competitors and thereby leveraging its growth momentum.**
- ✓ **The company is regularly investing for setting up new plants and enhancing its capacities. The company has lined up huge capex for setting up plants for new products and acquisition. Therefore, the company is growing very strongly both on organic and inorganic front.**

FINANCIAL STATEMENT ANALYSIS

Rs. mn

Particulars	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08
Revenues	3742.40	3909.00	4403.16	4741.00	4981.00
Growth (%)	-	4.45	12.64	7.67	5.06
Total Expenditure	**3390.50**	**3542.40**	**4013.18**	**4329.00**	**4531.00**
Operating Profit	351.90	366.60	389.98	412.00	450.00
Growth (%)	-	4.18	6.38	5.65	9.22
OPM	9.40	9.38	8.86	8.69	9.03
Other Income	4.50	10.40	25.55	24.00	24.00
EBIDT	356.40	377.00	415.53	436.00	474.00
Interest	38.90	44.20	47.06	36.00	50.00
Depreciation	22.40	23.80	30.09	30.00	30.00
PBT	295.10	309.00	338.38	370.00	394.00
Tax	52.00	51.00	43.96	54.00	36.00
Adjusted PAT	**243.10**	**258.00**	**294.42**	**316.00**	**358.00**
Growth (%)	-	6.13	14.12	7.33	13.29
Adjusted NPM	6.50	6.60	6.69	6.67	7.19
Reported PAT	**243.10**	**258.00**	**294.42**	**316.00**	**358.00**
EPS	**4.50**	**4.80**	**5.10**	**5.90**	**6.70**
Equity Capital	268.80	268.80	288.79	269.00	269.00

The company has posted good results for the quarter ended Q2FY08. The net sales for the company rose to Rs 4,981 million for the quarter ended Q2FY08 with the growth rate of 33% in comparison to the net sales of Rs 3,742 million for the Q2FY07. The company reported the operating profit of Rs 450 million for the Q2FY08 versus the operating profit of Rs 352 million for the Q2FY07 with the growth rate of 28%. The operating profit margin stood at 9.03% for the Q2FY08 as against the operating profit margin of 9.40% for the Q2FY07 dipping marginally. The EBITDA for the company rose to Rs 474 million for the Q2FY08 versus the EBITDA of Rs 356 million for theQ2FY07 with the growth rate of 33%. The company reported the EBITDA margin of 9.52% for the Q2FY08 equivalent to the EBITDA margin in corresponding quarter of previous year. The net profit for the company stood at Rs 358 million for the Q2FY08 versus the net profit of Rs 243 million for the Q2FY07 posting the growth rate of 47%. The net profit margin stood at 7.19% as against the net profit margin of 6.50% in the corresponding quarter of the previous year.



The company has very efficiently and effectively managed its resources and generated huge returns for its capital providers. The Return on Net Worth stood at 34.50%, 41.90%, 48.50% and 46.80% for the financial year ended FY04, FY05, FY06 and FY07 respectively whereas Return on Capital Employed stood at 46.20%, 44.10%, 50.40% and 57.60% for the above year ended respectively. The company with its cost effective techniques and strong R&D has gained competitive advantage and thereby capitalized on it. The company is expected to generate huge returns in the future on the account of rising demand for its products and growth in the sector.

VALUATION

The company with the strong position in electrical durables and its emphasis on building the brand image has paves the new way for growth. The company with strong order book and big clientele is expected to emerge as fastest growing company in the whole sector.

The stock at a current market price of Rs 638 is trading 28.74 times to its earnings and 10.40 times to its book value. The stock is expected to outperform the broad indices in medium to long – term.

Therefore, we are putting 'BUY' recommendation on the stock with the price target of Rs 834 which is approximately 31% up from the current market price of Rs 638.

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