

STOCK DATA

Market Cap	Rs27.2bn.
Book Value per share	Rs115
Eq Shares O/S (F.V. Rs.5)	58.5mn.
Median Vol (12 mths)	50,811 (BSE+NSE)
52 Week High/Low	Rs705 /405
Bloomberg Code	HAVL.IN
Reuters Code	HVEL.BO

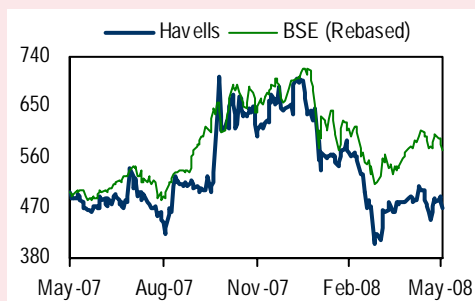
SHAREHOLDING PATTERN (%)

Qtr. Ended	Sep-07	Dec-07	Mar-08
Promoters	67.3	62.5	62.5
MFs/FIs	4.5	4.0	4.2
FIIIs	18.3	24.6	25.2
PCBs	2.0	1.9	1.5
Indian Public	7.9	6.9	6.6

STOCK PERFORMANCE (%)

	1M	3M	12M
Absolute	(3.3)	(16.4)	(4.5)
Relative	(3.9)	(32.2)	(12.6)

STOCK PRICE PERFORMANCE



KEY HIGHLIGHTS

Havells India Ltd's (Havells) consolidated Q4FY08 results were below expectations with Sylvania reporting a contraction in margins and flat net profits QoQ of Rs78mn.

While consolidated net sales rose by 2.6% QoQ to Rs13.7bn, OPM at 5.9% was lower by 150bps. Net profits rose by 5.4% to Rs469mn. The growth was driven by lighting and electrical consumer durables segments.

● **C&W and electrical goods drive revenues**

On standalone basis, revenues of C&W grew by 28% YoY to Rs2.5bn while those of electrical consumer durables and lighting segments rose by 37% and 24% to Rs739mn and 759mn. Consequently, net sales increased by 25% to Rs5.5bn.

● **Standalone OPM stable at 9%**

OPM remained stable at 9% due to 330bps and 853bps expansion in PBIT margins of lighting and electrical consumer durables segments to 9.2% and 25.3%. This was despite a 27bps and 76bps contraction in margins of switchgears and C&W segments to 28.4% and 10.1%.

● **Sylvania's margins contract**

Sylvania margins contracted 221bps QoQ to 3.8% as a result of higher material costs and weak revenue growth of 3% to Rs8.3bn.

● **Debt levels stable**

Havells repaid Euro50mn bridge loan during Q3FY08. However, it availed working capital facilities of Euro17mn and raised bridge debt of Euro27mn in its Isle-of-Man subsidiary. As a result, its total debt levels remained stable at ~Euro195mn.

VALUATIONS AND RECOMMENDATION

The CMP of Rs470 discounts FY10E EPS of Rs52.5 by 8.9x and the stock trades at an EV/EBIDTA of 6.7x FY10 estimates. We believe valuations do not factor in the improvement in Sylvania's performance, which can have a significant leverage benefit in margins.

With commencement of outsourcing to Havells, a significant ramp up in the same should accrue over the next 2-3 years. Thus, we maintain our 'BUY' recommendation with a 12-month price target of Rs650.

KEY FINANCIALS (CONSOLIDATED)

Rs mn	Quarter Ended			Yr Ended (March)				
	Sep-07	Dec-07	Mar-08	2006	2007	2008	2009E	2010E
Net Sales	12,165	13,413	13,758	10,037	15,472	50,023	58,100	68,094
YoY Gr.(%)	-	-	-	72.5	54.2	223.3	16.1	17.2
Op. Profit	750	990	809	1,039	1,458	3,370	4,388	5,516
Op. Marg.(%)	7.4	7.4	5.9	10.4	9.4	6.7	7.6	8.1
Net profit	297	445	469	632	1,022	1,610	2,268	3,179
Eq Capital	269	290	290	134	269	290	303	303

KEY RATIOS

	Yr Ended (March)				
	2006	2007	2008E	2009E	2010E
Dil. EPS (Rs)	10.4	16.9	26.6	37.5	52.5
ROCE (%)	36.6	47.9	25.7	19.1	22.4
RONW (%)	48.1	46.6	34.6	29.3	29.2
P/E (x)	40.0	27.8	17.7	12.5	8.9
EV/Sales (x)	2.6	1.7	0.8	0.7	0.5
EV/EBDIT (x)	27.4	18.9	11.4	9.1	6.7

PERFORMANCE OVERVIEW

Havells India Ltd.'s (Havells) consolidated Q4FY08 results were marginally below expectations mainly due to contraction in margins at Sylvania. Havells' standalone performance was in line with expectations. Consolidated net sales were Rs13.7bn, OPM of 5.9% and net profit of Rs469mn. Standalone net sales rose by 25% YoY to Rs5.5bn, while OPM was stable at 9% and net profits increased by 33% to Rs391mn.

Sylvania's performance impacts profits

Sylvania reported a 3% QoQ increase in net sales to Rs8.2bn while a sharp decline in OPM by 221bps QoQ to 3.8% impacted growth in net profit, which grew by 3.6% QoQ to Rs78mn. Further, performance was also impacted by the high effective tax rates at 46% in the quarter. This should be rationalised during the year. OPM should expand by ~70bps each in FY09 and FY10 to 5.8% and 6.5%.

Weak margins in Sylvania impact performance...

Lighting segment-weathering uncertainty

The standalone lighting segment was subject to unsavoury trade conditions (warranty issues) resulting in a paring of growth. The same is now being resolved and the segment should witness improving offtake over the next 12-15 months. Despite the above, margins in the segment improved by 330bps to 9.2%. A buoyant fixtures market helped the lighting segment to grow by 24% to Rs759mn.

C&W witnessing steady margins

Despite the significant exposure to volatility in copper and aluminium prices, the segment witnessed only a 27bps contraction in margins to 10.1%. The company has effectively passed on the hike in raw material costs to the trade segment with minimal delays.

Debt levels at Euro195mn

Despite the repayment of Euro50mn in Q3FY08, the debt levels remained at ~Euro195mn. The repayment was through its Isle-of-Man subsidiary against which, Havells raised a further bridge debt of Euro27mn. Additionally, it also availed working capital facilities of Euro17mn in Sylvania.

OUTLOOK

We remain bullish on Havells' prospects in light of increasing margins and integration benefits. We have revised our estimates downward to factor in a delay in volume and margin expansion in Sylvania. We expect net sales of Rs58bn in FY09, which should increase 17% in FY10 to Rs68bn. OPM should expand by 81bps to 7.6% in FY09 and by 55bps to 8.1% in FY10. Net profits should be Rs2.2bn in FY09 and Rs3.1bn in FY10. We have not factored in amortisation of goodwill arising from the acquisition as we do not have clarity on the treatment under global accounting norms.

Net profits to grow to Rs2.2bn in FY09 and Rs3.1bn in FY10...

VALUATIONS AND RECOMMENDATIONS

The CMP of Rs470 discounts FY10E EPS of Rs52.5 by 8.9x and the stock trades at an EV/EBIDTA of 6.7x FY10 estimates. We believe valuations do not factor in the improvement in Sylvania's performance, which can have a significant leverage benefit in margins. With commencement of outsourcing to Havells, a significant ramp up in the same should accrue over the next 2-3 years. Thus, we revise maintain our 'BUY' recommendation with a 12-month price target of Rs650.

Maintain our 'BUY' recommendation with 12-month price target of Rs650...

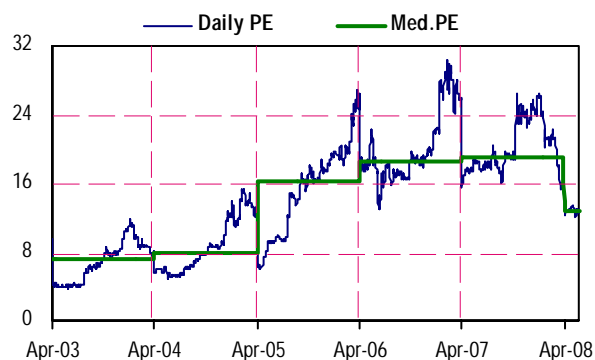
Company description

Havells India Ltd (Havells) is a leading player in the fast growing electrical products segment of cables & wires, switchgears, fans, lighting and lighting fixtures. It acquired Sylvania (Germany) to further expand its presence in the global market and lower dependence on increasingly competitive domestic market.

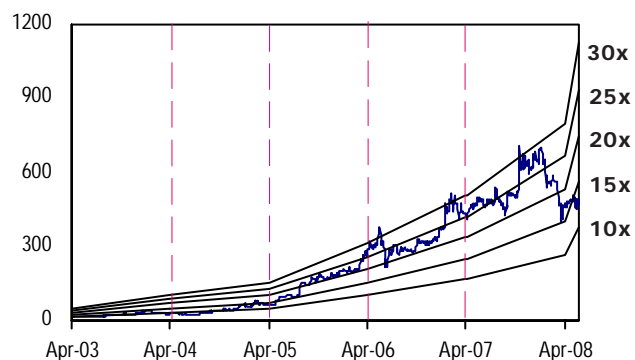
Financial Results for the quarter & year ended 31 March 2008 (Consolidated)

Particulars (Rs Mn)	Quarter Ended			Year Ended				
	31/03/08	31/03/07	Gr %	31/03/08	31/03/08	31/03/08	31/03/07	Gr %
	Standalone			Cons.	Cons.	Standalone		
Net Sales	5,481	4,403	24.5	13,758	50,022	20,549	15,472	32.8
Total Expenditure	4,990	4,014	24.3	12,949	46,653	18,694	14,063	32.9
(Inc.)/dec.in stock-in-trade	289	185		466	(1,872)	(1,293)	(563)	
Materials	2,479	2,291	11.8	4,779	20,277	11,467	8,797	23.6
Purchase of traded goods	777	388	100.2	2,242	8,257	2,476	1,371	80.6
Staff Cost	179	113	58.6	2,253	7,608	722	491	47.1
Other expenditure	1,265	1,037	22.0	3,208	12,383	5,323	3,967	34.2
Operating profit	492	390	26.2	809	3,369	1,854	1,410	31.5
Other Income	75	26	194.7	132	250	145	54	168.1
PBIDT	567	415	36.5	941	3,620	2,000	1,464	36.6
Interest	67	47	42.4	220	939	207	161	27.9
Depreciation	39	30	29.3	177	694	131	97	34.2
PBT	461	338	36.4	544	1,986	1,663	1,205	38.0
Provision for tax	62	42		56	321	209	161	
Provision for deferred tax	8	2		20	56	18	23	
Net Profit	391	294	33.1	469	1,610	1,435	1,021	40.6
Equity Capital (F.V. Rs 5)	290	269		290	290	290	269	
Reserves (excl. rev. res.)	-	-		-	-	-	-	
EPS for the period (Rs)	6.8	5.1		8.1	27.8	24.8	17.6	
Book Value (Rs)	-	-		-	-	-	-	
OPM (%)	9.0	8.8		5.9	6.7	9.0	9.1	
NPM(%)	7.1	6.7		3.4	3.2	7.0	6.6	
Expend. (% of net sales)								
Materials (incl stock adj)	50.5	56.2		38.1	36.8	49.5	53.2	
Pch of traded goods	14.2	8.8		16.3	16.5	12.0	8.9	
Staff Cost	3.3	2.6		16.4	15.2	3.5	3.2	
Other expenditure	23.1	23.6		23.3	24.8	25.9	25.6	

Median PE v/s Daily PE



PE Band



Segmentwise Results for the quarter & year ended 31 March 2008 (Consolidated)

Particulars (Rs Mn)	Quarter Ended			Year Ended				
	31/03/08	31/03/07	Gr %	31/03/08	31/03/08	31/03/08	31/03/07	Gr %
	Standalone			Cons.	Cons.	Standalone		
Segment Revenue								
Cables and wires	2,541	1,979	28.4	2,541	9,241	9,241	6,805	35.8
Switchgears	1,306	1,133	15.3	1,306	5,246	5,426	4,060	33.7
Lighting & fixtures	759	612	24.0	9,092	32,423	2,844	2,312	23.0
Electricals consumer durables	739	539	37.1	739	2,400	2,400	1,687	42.3
Others	211	166	27.5	211	783	783	662	18.2
Total	5,556	4,429	25.5	13,890	50,272	20,694	15,526	33.3
Segment Results								
Cables and wires	256	205	25.1	256	964	964	909	6.1
Switchgears	371	330	12.2	370	1,780	1,781	1,277	39.4
Lighting & fixtures	70	36	93.6	2,338	7,926	374	252	48.5
Electricals consumer durables	187	90	107.0	187	517	517	252	105.2
Others	20	(1)	-	21	66	66	15	331.2
Total PBIT	903	660	36.9	3,171	11,254	3,702	2,705	36.9
Less: Interest	67	47	42.4	220	939	207	161	27.9
less: other unallocable exp	375	274	36.8	2,407	8,329	1,833	1,338	37.0
PBT	461	338	36.2	545	1,986	1,663	1,206	37.9
Capital employed								
Cables and wires	606	968	(37.4)	606	606	606	968	(37.4)
Switchgears	2,845	1,213	134.6	2,845	2,845	2,845	1,213	134.6
Lighting	1,093	201	444.1	13,717	13,717	1,093	201	443.6
Electricals consumer durables	624	392	59.1	624	624	624	392	59.1
Others	1,997	530	276.7	1,997	1,997	1,997	530	276.7
Total	7,164	3,303	116.9	19,789	19,789	7,164	3,304	116.8
ROCE (%)								
Cables and wires	169.2	84.7		169.2	159.2	159.2	93.9	
Switchgears	52.1	108.9		52.1	62.6	62.6	105.3	
Lighting	25.5	71.7		68.2	57.8	34.2	0.0	
Electricals consumer durables	119.8	92.1		119.7	82.9	82.9	64.3	
Others	4.0	(1.0)		4.1	3.3	3.3	2.9	
Total	50.4	79.9		64.1	56.9	51.7	81.9	
PBIT Margins (%)								
Cables and wires	10.1	10.4		10.1	10.4	10.4	13.4	
Switchgears	28.4	29.1		28.4	32.8	32.8	31.5	
Lighting & Fixtures	9.2	5.9		25.7	24.4	13.2	0.0	
Electricals consumer durables	25.3	16.7		25.3	21.5	21.5	14.9	
Others	9.6	(0.8)		9.8	8.4	8.4	2.3	
Total	16.3	14.9		22.8	22.4	17.9	17.4	
Sales-Mix (%)								
Cables and wires	45.7	44.7		18.3	18.4	44.7	43.8	
Switchgears	23.5	25.6		9.4	10.8	26.2	26.1	
Lighting & fixtures	13.7	13.8		65.5	64.5	13.7	14.9	
Electricals consumer durables	13.3	12.2		5.3	4.8	11.6	10.9	
Others	3.8	3.7		1.5	1.6	3.8	4.3	
Total	100.0	100.0		100.0	100.0	100.0	100.0	
PBIT Mix (%)								
Cables and wires	28.4	31.0		8.1	8.6	26.0	33.6	
Switchgears	41.0	50.0		11.7	15.8	48.1	47.2	
Lighting & fixtures	7.7	5.5		73.7	70.4	10.1	9.3	
Electricals consumer durables	20.7	13.7		5.9	4.6	14.0	9.3	
Others	2.2	(0.2)		0.6	0.6	1.8	0.6	

Income Statement	2005	2006	2007	2008	2009E	2010E
Revenues	5,820	10,037	15,472	50,023	58,100	68,094
<i>Growth (%)</i>	<i>60.4</i>	<i>72.5</i>	<i>54.2</i>	<i>223.3</i>	<i>16.1</i>	<i>17.2</i>
Total Expenditure	5,215	8,998	14,014	46,653	53,712	62,578
Operating Profit	604	1,039	1,458	3,370	4,388	5,516
<i>Growth (%)</i>	<i>33.9</i>	<i>35.5</i>	<i>54.2</i>	<i>145.0</i>	<i>65.0</i>	<i>65.0</i>
Interest & dividend income	34	35	54	145	65	65
EBIDT	638	1,075	1,512	3,515	4,453	5,581
(-) Interest	165	226	209	834	768	706
(-) Depreciation	41	64	97	694	642	704
PBT & extraordinary items	432	785	1,205	1,987	3,043	4,171
(-) Tax provision	127	153	184	377	774	992
Net Profits before e/o items	305	632	1,022	1,610	2,268	3,179
Goodwill written off	-	-	-	-	-	-
Net profit after extraordinary items	305	632	1,022	1,610	2,268	3,179
<i>Growth (%)</i>	<i>45.6</i>	<i>107.1</i>	<i>61.6</i>	<i>57.6</i>	<i>40.9</i>	<i>40.1</i>
Fully diluted Eq. sh. O/s (mn no)	60.5	60.5	60.5	60.5	60.5	60.5
Book Value (Rs)	74.7	65.5	43.4	115.3	145.5	214.7
Basic EPS (Rs)	6.6	11.8	19.0	27.8	37.5	52.5
Diluted EPS (Rs)	5.0	10.4	16.9	26.6	37.5	52.5

Balance Sheet	2005	2006	2007	2008E	2009E	2010E
<i>Equity Share Capital</i>	58	134	269	290	303	303
<i>Reserves & Surplus</i>	808	1,626	2,356	6,388	8,504	12,689
Net worth	866	1,760	2,625	6,678	8,807	12,991
Total Debt	1,742	1,098	560	12,331	12,674	9,767
Deferred Tax liability	74	95	133	151	166	181
Capital Employed	2,682	2,954	3,318	19,160	21,647	22,939
Fixed Assets	923	1,532	2,422	7,390	8,649	9,264
Net current assets	1,728	1,390	861	8,548	9,761	10,438
Goodwill	-	-	-	3,188	3,162	3,162
Investments	32	32	35	35	75	75
Total Assets	2,683	2,954	3,318	19,160	21,647	22,939

Cash Flow Statement	2005	2006	2007	2008E	2009E	2010E
PBT & Extraord. items	432	785	1,205	1,987	3,043	4,171
Depreciation	41	65	97	694	642	704
Interest & dividend inc.	(34)	(5)	(54)	(145)	(65)	(65)
Interest paid	165	179	209	834	768	706
Tax paid	(96)	(115)	(146)	(359)	(759)	(977)
(Inc/Dec in working capital	(552)	512	773	(7,510)	(1,376)	(910)
Cash from operations	(44)	1,422	2,085	(4,498)	2,253	3,629
Net capital expenditure	(500)	(638)	(988)	(5,662)	(1,902)	(1,320)
Goodwill	-	-	-	(3,188)	26	-
Net investments	-	-	(3)	-	(40)	-
Interest recd	34	12	54	145	65	65
Cash from investing activities	(466)	(626)	(936)	(8,704)	(1,851)	(1,255)
Issue of eq. shares	-	-	-	21	13	-
Share premium	-	-	-	2,579	179	1,602
Adjustment for reserves of Sylvania SLI	-	-	-	-	-	-
Change in debt	724	(591)	(538)	11,771	342	(2,907)
Dividend paid	(165)	(179)	(209)	(834)	(768)	(706)
Interest paid	(37)	(29)	(153)	(164)	(171)	(171)
Cash from financing activities	523	(799)	(901)	13,373	(404)	(2,182)
Inc/Dec. in cash	16	2	248	171	(2)	193

Key Ratios	2005	2006	2007	2008E	2009E	2010E
EBIDT (%)	10.4	10.4	9.4	6.7	7.6	8.1
ROACE (%)	28.0	36.6	47.9	25.7	19.1	22.4
ROANW (%)	41.8	48.1	46.6	34.6	29.3	29.2
Sales/Total Assets (x)	2.5	3.8	5.1	2.6	2.7	3.0
Debt:Equity (x)	0.5	0.5	1.0	1.0	1.0	1.0
Current Ratio (x)	2.3	1.6	1.3	1.8	1.8	1.8
Debtors (days)	88.5	41.4	6.6	53.8	48.8	39.7
Inventory (days)	73.2	76.3	61.5	59.4	58.6	58.3
Net working capital (days)	93.5	44.9	18.4	61.3	60.3	55.0
EV/Sales (x)	4.5	2.6	1.7	0.8	0.7	0.5
EV/EBIDT (x)	47.1	27.4	18.9	11.4	9.1	6.7
P/E (x)	71.4	40.0	27.8	17.7	12.5	8.9
P/BV (x)	6.3	7.2	10.8	4.1	3.2	2.2

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