HAVELL'S INDIA LTD.

The light spreads...

Flash Note: SLI Sylvania acquisition

Acquisition Details	
Company acquired	SLI Sylvania (Germany)
Enterprise value	Euro 227 mn (Rs 13.3 bn)
Total debt raised	Euro 200 mn (Rs 11.7 bn)
Covertible debt	Euro 50 mn (Rs 2.9 bn)
Conversion Period	18 months (Q2/Q3FY09)
Equity post dilution	Rs 302 mn (12% dilution at Rs 447)

Background: Havell's India Ltd is India's leading electrical goods manufacturers with presence across product categories like wires & cables, switchgear & CFLs. It is expanding its portfolio to include motors & capacitors. The company's expansion plans over the years has successfully enabled it to capitalise on the growing demand for electrical products arising from upsurge in activity in commercial & residential segments of the construction sector.

Investment Highlights:

- Havell's India Ltd (HIL) acquired Germany-based *SLI Sylvania* (*SLI*)for an enterprise value of Euro 227 mn.
- *SLI Sylvania* was originally a *General Telephone & Electronics* (US) group company. In 1993, *GTE* sold the North American operations to *OSRAM* division of *Siemens.* Upon restructuring of the Siemens group, *SLI*'s ownership has been with financial investors.
- Upon the acquisition, HIL will get access to *Sylvania*'s brands, which include *Sylvania, Concord:marlin, Lumiance, SLI Lighting, Zenith and Linolite*.
- The acquisition will be routed through a 100% SPV i.e *Havell's Netherlands BV* at an enterprise value of Euro 227 mn. SLI currently has 10 manufacturing units and post acquisition, HIL plans to leverage SLI's distribution network in Europe to propel the growth of its switchgears business.
- *SLI* has a strong presence in the Latin American and European regions. While EU is growing at a slow pace, LatAm has been witnessing a sharp growth in demand i.e. in excess of ~10-15%. However, exposure to these markets is only to the extent of 20%. This is expected to grow over the next few years as HIL plans to increasingly tap the LatAm markets.

FINANCIAL SUMMARY				
Particulars (Rs mn)	FY06	FY07E	FY08E	FY08E Cons
Net Sales	10,037	15,467	18,680	47,629
YoY Gr (%)	*72.5*	*54.1*	*20.8*	*207.9*
Op profit	1,039	1,506	1,836	3,863
Op. Marg. (%)	*10.4*	*9.7*	*9.8*	*8.1*
Net profit	632	1,017	1,368	1,989
Equity Capital	134	269	269	302
Diluted EPS (Rs)	10.5	16.9	25.5	32.9
PE (x)	37.5	23.3	17.3	13.7
EV/Sales (x)	2.2	1.5	1.2	0.7

ACQUISITION DETAILS	SLI Sylvania Euro mn	SLI Sylvania Rs mn
EV paid	**227**	**13,316**
Represented by		
SLI Equity value paid	105	6,159
SLI's Debt (working cap & other)	87	5,103
Current cash outflow	**192**	**11,263**
Other liabilities (pension)	35	2,053
Total Liability	**227**	**13,316**
Funding pattern		
Non-recourse debt on Sylvania	40	2,346
Non-recourse debt on HIL subsidiary	80	4,693
Recourse, con. bridge loan on HIL sub.	50	2,933
Recourse debt on HIL subsidiary	30	1,760
Total debt	**200**	**11,732**
Estimated conversion in FY08 @ CMP of Rs 447(no of shares)		6.6
Existing HIL equity in no of shares (FV Rs 5)		53.8
Estimated % dilution		**12.2**
Diluted Equity (Rs mn)		**301.8**

Funding pattern

- HIL is raising Euro 227 mn, to fund the acquisition through its subsidiary *Havell's Netherlands*. Of this, pension liability is ~Euro 35 mn, would be paid when it arises. Thus, against an immediate liability of Euro 192 mn (227-35), HIL proposes to raise Euro 200 mn. The debt raised will be a mix of non-recourse (Euro 120 mn) and recourse type.
- Of the recourse debt of Euro 80 mn, Euro 50 mn will be converted to equity, as otherwise it would weigh on HIL's balance sheet and drag its performance.
- Around Euro 60 mn of the total debt raised would be for replacing high cost debt / working capital. The average interest rate on the debt would be ~Euro Libor+175 bps, leading to an effective interest cost of ~5.8-6%.
- The conversion of Euro 50 mn debt is expected to lead to a dilution of ~10-12% in HIL's current equity from Rs 269 mn to Rs 302 mn.

Mar 26, 2007	Sensex : 13285	Nifty: 3861	CMP: Rs 450	Recomm : BUY

Analyst - Sameer Ranade

Leveraging Sylvania's network

The key to make the acquisition a success rests in HIL effectively leveraging *SLI's* network to improve Sylvania's performance as well as route its current switchgear products for the European markets.

Currently, bulk of *SLI's* revenues accrue from independent wholesalers, with balance being routed through large wholesalers. However, it will take time for synergy benefits to accrue to the consolidated entity.

Financial impact

The European and LatAm regions are low margins markets due to the high cost structure in manufacturing. Thus, SLI's operating margins of ~6.9%, would adversely impact consolidated margins by ~204 bps to 8.4%.

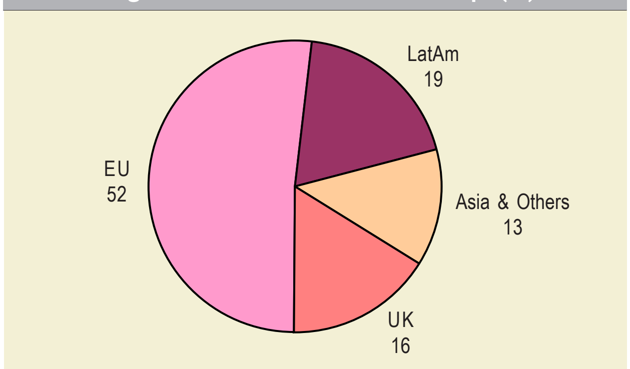
Further, *SLI's* existing debt is high cost working capital debt. Any additional debt being raised for the acquisition, would obviously lead to an increase in interest charges.

Despite the higher leverage, the acquisition will be earnings accretive due to the asset already being restructured and sweated to a higher degree.

Thus, on a consolidated basis, we expect HIL's net sales to be Rs 47.6 bn for FY08, as against net sales of Rs 15.4 bn on a standalone basis. Accordingly, OP should grow by 95% in FY08 on a consolidated basis to Rs 1.9 bn.

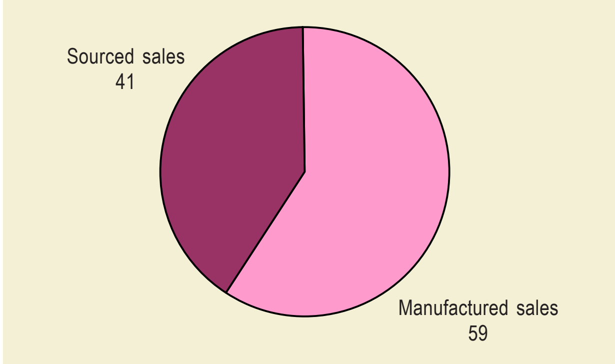
The lower margins and higher interest charges would impact profitability in the near term. However, this will improve over the next couple of years as operations are ramped up, synergies get reflected in performance and operational cash flows replace debt raised for the acquisition.

Region wise revenue break up (%)



Source: Company

Mode wise revenue break up (%)



Source: Company

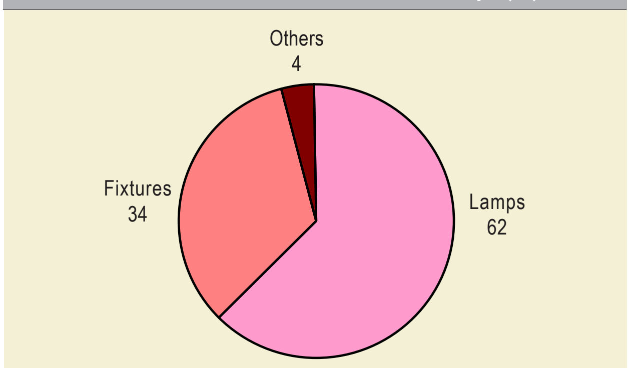
Valuations

HIL's acquisition at an EV/Sales of 0.5x and EV/EBIDT of 7.3x is at a discount compared to domestic valuations ranging from 1.2-1.5x EV/Sales and 6-9x EV/EBIDT. While richer valuations domestically reflect higher growth rates, valuations for the acquisition appear to be at a discount given the high growth rates in LatAm and its increasing share in revenues.

HIL trades at a P/E of 13.7x FY08E consolidated EPS of Rs 32.9. The stock trades at an EV/Sales of 0.7x and EV/EBIDT of 9x FY08 estimates. While the appreciation in stock price adequately captures the immediate benefit of consolidation, valuations should improve as benefits of synergies set in over the next 18-24 months.

A ramp up in international revenues should help HIL sustain high growth levels without undue strain on its balance sheet. We revise upwards our recommendation to 'BUY' with a price target of Rs 530 over a one year investment perspective as large scale benefits start flowing.

Product wise revenue break up (%)



Source: Company

Year Ended March (Figures in Rs Mn)

Income Statement	2005	2006	2007E	2008E Con
Revenues	**5,820**	**10,037**	**15,467**	**47,629**
Total Expenditure	**5,215**	**8,998**	**13,960**	**43,766**
Operating Profit	**604**	**1,039**	**1,506**	**3,863**
Interest & dividend income	34	35	40	60
EBIDT	**638**	**1,075**	**1,546**	**3,923**
(-) Interest	165	226	180	749
(-) Depreciation	41	64	95	599
PBT & extraordinary items	**432**	**785**	**1,271**	**2,575**
(-) Tax provision	127	153	254	587
Net Profits	**305**	**632**	**1,017**	**1,989**
Fully diluted Eq. sh. O/s (mn no)	11.6	27	54	60
Book Value (Rs)	74.7	65	48	122
Diluted EPS (Rs)	**6.6**	**11.8**	**18.9**	**32.9**

Cash Flow Statement	2005	2006	2007E	2008E Con
PBT & Extra-ord. items	**432**	**785**	**1,271**	**2,575**
Depreciation	41	65	95	599
Interest & dividend inc.	(34)	(5)	(40)	(60)
Interest paid	165	179	180	749
Tax paid	(96)	(115)	(244)	(575)
(Inc/Dec in working capital	(552)	512	(642)	(4,251)
Cash from operations	**(44)**	**1,422**	**620**	**(963)**
Net capital expenditure	(500)	(638)	(950)	(4,194)
Goodwill	-	-	-	(3,490)
Interest recd	34	12	40	60
Cash from investing activities	**(466)**	**(626)**	**(910)**	**(4,134)**
Issue of eq. shares	-	-	-	33
Share premium	-	-	-	2,900
Change in debt	724	(591)	710	9,477
Dividend paid	(37)	(29)	(174)	(195)
Interest paid	165	179	180	749
Cash from financing activities	**853**	**(441)**	**716**	**12,964**
Inc/Dec. in cash	**16**	**2**	**67**	**2,880**

Balance Sheet	2005	2006	2007E	2008E Con
Equity Share Capital	58	134	269	302
Reserves & Surplus	808	1,626	2,335	7,082
Net worth	**866**	**1,760**	**2,604**	**7,384**
Total Debt	1,742	1,098	1,808	11,286
Deferred Tax liability	74	95	105	117
Capital Employed	**2,682**	**2,954**	**4,517**	**18,787**
Fixed Assets	923	1,532	2,387	5,982
Net current assets	1,728	1,390	2,098	9,283
Investments	32	32	32	32
Total Assets	**2,683**	**2,954**	**4,517**	**15,297**

Key Ratios	2005	2006	2007E	2008E Con
EBIDT %	10.4	10.4	9.7	8.1
ROACE (%)	28.0	36.6	41.4	29.7
ROANW (%)	41.8	48.1	46.6	39.8
Sales/Total Assets (x)	2.5	3.8	3.7	2.6
Debt:Equity (x)	0.5	0.5	0.6	0.9
Current Ratio (x)	2.3	1.6	1.7	1.9
Debtors (days)	88.5	41.4	30.8	39.7
Inventory (days)	73.2	76.3	71.4	65.0
Net working capital (days)	93.5	44.9	44.7	67.7
EV/Sales (x)	1.0	2.3	1.5	0.7
EV/EBIDT (x)	10.7	23.4	16.7	9.0
P/E (x)	68.4	38.3	23.8	13.7
P/BV (x)	6.0	6.9	9.3	3.7

Team

Equity Desk

R. Baskar Babu	- *Head - Equity Broking*	baskarb@pinc.co.in	91-22-66186400
Sachin Kasera	- *Co-Head - Domestic Equities*	sachink@pinc.co.in	91-22-66186384

Research

Sameer Ranade	- *Capital Goods / Utilities*	sameerr@pinc.co.in	91-22-66186381
Nirjhar Handa	- *FMCG / Pharma / Paints*	nirjharh@pinc.co.in	91-22-66186400
Sujit Jain	- *Real Estate / Construction*	sujitj@pinc.co.in	91-22-66186379
Amol Rao	- *Hospitality / Pipes / Packaging*	amolr@pinc.co.in	91-22-66186378
Nirav Shah	- *Sugar / Textiles*	niravs@pinc.co.in	91-22-66186383
Nakul Dharmawat	- *Cement / Building Products*	nakuld@pinc.co.in	91-22-66186382
Kalpesh Makwana	- *Specialty Chemicals / Ind. Pharma*	kalpeshm@pinc.co.in	91-22-66186377
Rishabh Bagaria	- *Auto / Auto Ancilliary*	rishabhb@pinc.co.in	91-22-66186391
Ruchir Desai	- *Technology*	ruchird@pinc.co.in	91-22-66186372
Syed Sagheer	- *Logistics / Light Engineering*	syeds@pinc.co.in	91-22-66186390
Chandana Jha	- *Banking / Financial Services*	chandanaj@pinc.co.in	91-22-66186398
Rahhul Aggarwal	- *Metals-Large Cap*	rahhula@pinc.co.in	91-22-66186388
Dipti Solanki	- *Media*	diptis@pinc.co.in	91-22-66186392
Faisal Memon	- *Associate - Metals-Small & Mid Caps*	faisalm@pinc.co.in	91-22-66186389
Ashish Dangi	- *Associate - Lifestyle / Retails Products*	ashishd@pinc.co.in	91-22-66186481
Ashwani Agarwalla	- *Associate - Agro Products / Fertilizers*	ashwania@pinc.co.in	91-22-66186482
Abhishek Gangwani	- *Associate - Electronics / Hardware*	abhishekg@pinc.co.in	91-22-66186385

Institutional Sales:

Jaykrishna Gandhi	jaykrishnag@pinc.co.in	91-22-66186327
Rajesh Khanna	rajeshk@pinc.co.in	91-22-66186328

Dealing

Bhavik Broker / Chetan Trivedi	equity@pinc.co.in	91-22-66186306
Manoj Parmar / Raju Bhavsar	equity@pinc.co.in	91-22-66186323

Derivative Desk

Sailav Kaji	- *Strategy*	sailavk@pinc.co.in	91-22-66186341
Anand Kuchelan	- *Analyst*	anandk@pinc.co.in	91-22-66186349
Nilesh G. Inamdar	- *Dealer*	nileshi@pinc.co.in	91-22-66186347

PMS Desk

Vivek Agrawal	viveka@pinc.co.in	91-22-66186373
Hormasd Sumariwalla	hormasds@pinc.co.in	91-22-66186389

Directors

Gaurang Gandhi		gaurangg@pinc.co.in	91-22-66186400
Girish Bakre		girishb@pinc.co.in	91-22-66186400
Hemang Gandhi		hemangg@pinc.co.in	91-22-66186400
Ketan Gandhi		ketang@pinc.co.in	91-22-66186400
Rakesh Bhatia	- *Head Compliance*	rakeshb@pinc.co.in	91-22-66186400

Infinity.com
Financial Securities Ltd

Small World, Infinite Opportunities

Member : Bombay Stock Exchange &
National Stock Exchange of India Ltd.

Sebi Reg No: INB 010989331. Clearing No : 211

1216, Maker Chambers V, Nariman Point,
Mumbai - 400 021

Tel.: 91-22-66186633/6400 Fax : 91-22-22049195