

December 8, 2011

Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs 437	Rs 460
EPS change FY12E/13E (%)	NA
Target Price change (%)	NA
Nifty	5,063
Sensex	16,877

Price Performance

(%)	1M	3M	6M	12M
Absolute	5	24	1	12
Rel. to Nifty	9	24	10	32

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)	54/1,049
Daily Avg Volume (No of sh)	316748
Daily Avg Turnover (US\$m)	2.4

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

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We met Havells to analyze its stellar operational performance in H1FY12 and get an outlook on the business in this testing environment

- **New product launches across business segments and expansion in distribution network to drive 14-15% domestic revenue growth**
- **Europe business fairly stable; LATAM and Asia to continue as revenue growth drivers for Sylvania. Margins to be sustained at 7.3% for FY12E**
- **Strong H1FY12; Continuity of growth momentum in domestic operations and sustainability of Sylvania profitability in H2FY12 as well**
- **Retain Buy with price target of Rs 460, thereby implying target multiple of 8.6x FY13E EV/EBIDTA.**

New product launch and expanding distribution network to drive growth

H1FY12 has seen strong growth for Havells with revenues growing 24% to Rs 16.7bn (including standard electric financials) and APAT growing by 21% to Rs 1.4bn. Higher contribution from new products in Lighting & Fixtures (L&F) and Electrical Consumer Durables (ECD) division alongside consolidation of Standard Electricals and distributor sales against retail sales were the key drivers to growth. In order to sustain this growth momentum, Havells plans to double its network from 4,000 distributors to 8,000 over next 3 years and increase contribution from new products.

Solid performance by all segments; outlook strong despite uncertain business environment

All segments posted healthy growth for H1FY12 amid rising concerns of moderation in growth momentum. Volume growth was strong across segments. Havells enjoys a competitive edge as most of its products are consumer led as against peers, whose product portfolio includes large section of industrial products.

- Switchgear (SwG) segment grew 20% yoy to Rs 4.3bn, with volume growth being 9-10%. Consolidation of standard electric, launch of own switchgear in UK and exclusion of base effect from that one off export client were key drivers. Going forward, we believe industrial switchgear launch would aid revenue growth for this segment.
- Cables & wires (C&W) grew 28% yoy to Rs 7.3bn, of which 10% was volume led growth and a large part being contributed by price increase due to high input cost. Going forward, revenue growth in C&W segment would come from higher capacities and independent and focused approach on Wires and Cables.
- Lighting & Fixtures (L&F) segment rose 26% yoy to Rs 2.6bn, with half this growth being led by volumes mainly due to introduction of new products in fixtures. Continued product launches of fixtures in L&F segment would drive growth.

Financial Snapshot

Rs Mn

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	EPS APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
FY10	54,315	3,388	6.2	696	5.6	76.4	17.4	78.3	10.6	13.6
FY11	59,064	5,661	9.6	3,067	24.6	340.8	46.9	17.8	11.0	8.3
FY12E	66,581	6,663	10.0	3,419	27.4	11.5	35.3	15.9	9.7	5.6
FY13E	73,346	7,637	10.4	4,209	33.7	23.1	31.1	12.9	7.9	4.0

- ECD segment grew 19% yoy to Rs 2.6bn with about 9-10% being volume growth owing to higher contribution from new products like geysers and kitchen appliances (KA). Havells is targeting Rs 600mn from geysers and Rs 800mn from KA in FY12E.

Less impacted by Rupee depreciation; Margin profile to remain stable over FY12E

Despite sharp rise in input costs, Havells managed to expand its Ebidta margins by 80 bps yoy to 12.4% during the quarter led by (1) higher gross margins in standard electric, (2) lower operating expenditure (lower A&P spends) and (3) price increase in few segments. Further, it is not impacted by rupee depreciation, since imported raw materials is limited to ECD segment. Most likely, gross margins and Ebidta margins would be robust in H2FY12 as well.

Sylvania business stable; Impact of Euro zone crisis to be minimal on business

Sylvania's revenues for H1FY12 grew 2.3% to €222mn, with Europe being flat at €133mn, while LATAM grew 5.1% to €76mn and Asia grew 12% to €13mn. The Europe operations, which is perceived to be affected, is infact largely stable - as almost 70% of revenue earned comes from Germany, France and UK, which are least impacted by Euro zone crisis. Only 15% of revenues come from crisis hit countries like Spain, Portugal, Greece, etc, where business has already shrunk by 50%, thereby lending resilience to revenues from the region. We have assumed no growth in revenues from Europe operations for FY12E. LATAM and Asia are growth markets; hence expect these regions to drive 3% revenue growth for Sylvania in FY12E.

Ebidta margins of 7.3% for Sylvania in FY12E sustainable; implied estimates are comfortable

Sylvania's H1FY12 Ebidta margin has risen to 7.4%; 170 bps yoy improvement is led by outsourcing to low cost destinations, head count rationalization and restructuring operations (shutdown of facilities). Sylvania has outsourced 60% of its requirement to low cost destinations and there is scope to increase this outsourcing by another 20%. This would help sustain 7.3% Ebidta margin for FY12E. The implied estimates for H2FY12E are not demanding- factoring revenue growth of 0.9% yoy to €241 mn and Ebidta margin of 7.4%. However, incremental margin expansion in Sylvania has to emerge from value addition and normalized business growth, which would be long-drawn process.

Implied H2FY12E financials of Havells standalone and Sylvania business

Y/E, Mar (in mn)	Havells Standalone (INR)			Sylvania (EUR)		
	H2FY11	H2FY12E	% growth	H2FY11	H2FY12E	% growth
Revenues	15630	19005	21.6	239	241	0.9
EBITDA	1802	2301	27.7	17	18	2.7
EBITDA Margin (%)	11.5	12.1	60 bps	7.3	7.4	10 bps
APAT	1314	1496	13.8	6	5	-21.6
EPS	10.5	12.0	13.8	-	-	-

Domestic growth drivers in place, Sylvania to retain good show; Retain BUY

Until H1FY12, Havells has reported strong performance despite rising concerns on business operations from development in macro environment. Our interaction aptly indicates at continuity of growth momentum in domestic business operations and strengthening of international operations. We believe that robust growth across segments led by expanded distribution network and new product launches would drive domestic business, while continuous focus on improving operational efficiencies would result in sustained profitability for Sylvania. We retain 'BUY' with price target of Rs 460, thereby implying target multiple of 8.6x FY13E EV/EBIDTA. Currently, Havells is trading at 7.9x FY13E EV/EBIDTA.

Annexure 1**Implied H2FY12E Havells Standalone Financials**

Y/E, Mar (Rs. m)	H2FY11	H2FY12E	% growth
Net Sales	15,630	19,005	21.6
Expenses	13,828	16,704	20.8
Raw Materials	9,855	11,685	18.6
% Of Sales	63.1	61.5	-160 bps
Employee Cost	546	726	32.9
% Of Sales	3.5	3.8	30 bps
Other Expenses	3,427	4,293	25.3
% Of Sales	21.9	22.6	60 bps
Ebidta	1,802	2,301	27.7
Ebidta Margin%	11.5	12.1	60 bps
Other Income	104	14	-86.3
Interest	107	146	35.8
Depreciation	153	182	18.6
PBT	1,646	1,988	20.8
Tax	332	492	48.3
PAT (Before EO Item)	1,314	1,496	13.8
Net Margin%	8.4	7.9	-50 bps
E/O Item	0	0	-
Reported PAT	1,314	1,496	13.8

New product launches and aggressive expansion in distributor network to drive revenues

Less impacted by rupee depreciation, since imports limited to ECD division. Higher margins in standard electric and lower A&P spends to lead margin expansion

Implied H2 FY12E Standalone Segment Revenues

Y/E, Mar (Rs. m)	H2FY11	H2FY12E	% growth
Segment revenues			
Switchgear	3843	4724	22.9
Cables & Wires	6710	8478	26.3
Lighting & Fixtures	2449	2919	19.2
Electrical Consumer Durables	2629	2871	9.2
Others	0	13	-
Total Revenues	15630	19005	21.6

Industrial SwG launch to drive growth

Expanded capacities and independent focus on Wires & Cables to support revenue growth

Continuous product launches in fixtures to propel revenues in L&F

Higher contribution from Geysers and Kitchen appliances to drive growth

Implied H2FY12E Sylvania Financials

Y/E, Mar (EUR m)	H2FY11	H2FY12E	% growth
Net Sales	238.8	241.0	0.9
Expenses	221.4	223.1	0.8
% Of Sales	92.7	92.6	-10 bps
Ebidta	17.4	17.9	2.7
Ebidta Margin%	7.3	7.4	10 bps
Other Income	2.8	0.0	-100.0
Interest	5.6	6.0	6.6
Depreciation	4.1	4.7	14.6
Exceptional Items	1.2	0.2	-83.3
PBT	9.3	7.0	-24.7
Tax	3.5	2.5	-29.8
PAT (Before EO Item)	5.8	4.6	-21.6
Net Margin%	2.4	1.9	-50 bps

Europe business stable, less impacted by Euro zone crisis as major revenues come from countries like Germany, France and UK, which are least affected. However, assumed flat growth for Europe.

Further scope of outsourcing to low-cost destinations would enable Sylvania to sustain Ebidta margins at 7.3-7.4%

H2FY11 saw major benefits accruing from restructuring and operational efficiencies

Annexure 2

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%

Financials

Income Statement

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Net Sales	54,315	59,064	66,581	73,346
<i>Growth (%)</i>	-0.8	8.7	12.7	10.2
Expenses	50,927	53,403	59,919	65,709
<i>Growth (%)</i>	-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
<i>Growth (%)</i>	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
<i>Growth (%)</i>	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	FY11	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	FY11	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	FY11	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	78.3	17.8	15.9	12.9
CPER	24.2	14.6	13.2	10.9
P/BV	13.6	8.3	5.6	4.0
Ev/Sales	0.7	1.1	1.0	0.8
Ev/Ebidta	10.6	11.0	9.7	7.9
Dividend Yield (%)	1.0	0.6	0.5	0.6
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

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