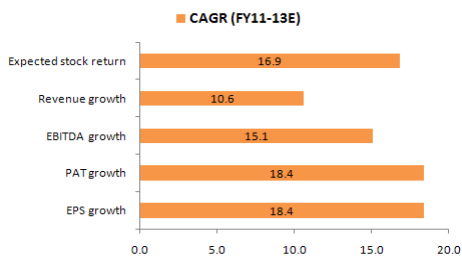


Initiating Coverage

Industry Capital goods

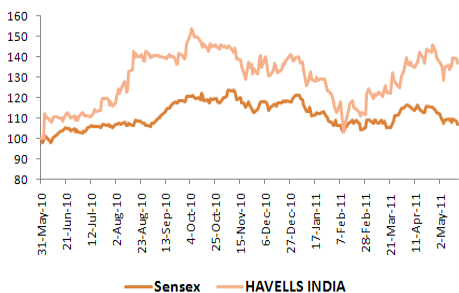


Price	385
Target Price	450
Expected share price return	16.9%
Expected dividend yield	0.6%
Expected total return	17.5%

Market Data

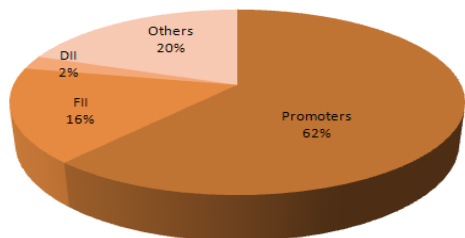
Market Cap.	₹48bn/ US\$ 1.1bn
Share Cap. (mn)	124.8
52 Wk High/Low	451.25 / 290.1
Avg. Vol. (Weekly)	0.6 mn

(Price Performance (RIC: HVEL.BO, BB: HAVL IN))



Shareholding Pattern (As on 31st Mar 2011)

(%)



Financials (₹ Mn)	FY11	FY12E	FY13E
Net Sales	56,126	62,085	68,713
EBITDA	5,489	6,105	7,271
PBT	4,066	4,715	5,876
PAT	3,071	3,532	4,306
EBITDA Margin (%)	9.8	9.8	10.6
PAT Margin (%)	5.5	5.7	6.3
EPS	24.6	28.3	34.5
CEPS	31.1	34.8	41.1
P/E	15.6	13.6	11.2
EV/EBITDA	10.5	9.3	7.6
ROE (%)	58.2	43.5	36.9
ROCE (%)	29.5	28.7	30.7

Havells India (HAVL IN)

July 5, 2011

Sylvania turnaround to boost consolidated profitability!!! Accumulate (CMP: ₹385)

Market Cap ₹ 48bn; USD: 1.1bn

Havell's India, incorporated in 1983, is the flagship company of the QRG (Qimat Rai Gupta) group of companies and is a leading player in domestic and industrial electrical equipment market. Through acquisition of SLI Sylvania, the company got a strong global presence. We believe that with a market leadership in domestic MCBs, ramping up capacities and diversifying into new products and Sylvania effect, the company is well placed to exploit the upcoming opportunities in the domestic market as well as international market.

Market leader for MCBs (Miniature circuit breaker) in India: Havell's India is India's leading manufacturer of Miniature Circuit Breakers (MCBs) upto 63 amperes and allied products. The market size of MCBs in India is nearly ₹ 14 bn and is expected to grow @ 20%. Havell's India having a market share of ~25% commands premium pricing power and super brand status. Havell's India has committed a capex of ₹ 2 bn in FY12 which is attributable to development of research and development, introducing new products and capacity expansion of existing facilities.

Strong Brand and Distribution Network: The Company sells majority of its products through dealer network. The company has 4,300 dealers and >35,000 retailers. During the last three years, the company has invested significantly in advertisements. Apart from strong dealer networks, the company has also started its own stores in the name of 'Galaxy'. Currently, the company has nearly 80 Galaxy stores.

Sylvania poised to take off post successful restructuring:- Post the successful completion of restructuring projects – Phoenix and Parakram, Sylvania has started witnessing strong improvement in the operational performance (11% EBITDA Margin in 4QFY11). We believe with increased outsourcing particularly from India and China coupled with lower fixed costs, Sylvania is expected to report robust financials led by improvement in operational performance.

Outsourcing – a key driver going forward: We believe that going forward; outsourcing will play a key role for Havell's India as the company has already started shifting manufacturing base for Sylvania in India and increase sourcing of lighting products from India. Also through Havell's, Sylvania will get access to Asian markets (particularly India).

Initiating Coverage with an Accumulate rating: With more than four decades of experience in marketing, distribution and manufacturing a wide range of electrical products such as switchgears, cables & wires, CFLs, Luminaires and electric fans, Havells India is well poised to benefit from the growing construction and consumer spending in India. Havells India has already made a strong distribution platform of 4,300 dealers and >35,000 retailers. Through this, the company has the advantage of launching its new products such as Electrical water heater and small appliances such as Iron, Toaster, Mixer and Grinder. Successful restructuring exercise of Sylvania has already started bearing fruits for the company (with Sylvania reporting +11% EBITDA margin in 4QFY11). We initiate coverage on Havells India with an Accumulate rating with a target price of ₹ 450 based on Sum-of-the-parts valuations. At the target price of ₹ 450, the stock is trading at 15.9x FY12E and 13.0x FY13E consolidated earnings.

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TARGET PRICE DERIVATION

With more than four decades of experience in marketing, distribution and manufacturing a wide range of electrical products such as switchgears, cables & wires, CFLs, Luminaires and electric fans, Havells India is well poised to benefit from the growing construction and consumer spending in India. Havells India has already made a strong distribution platform of 4,300 dealers and >35,000 retailers. Through this, the company has the advantage of launching its new products such as Electrical water heater and small appliances such as Iron, Toaster, Mixer and Grinder.

Successful restructuring exercise of Sylvania has already started bearing fruits for the company (with Sylvania reporting +11% EBITDA margin in 4QFY11).

Table 1: Earnings Summary

₹ mn	Revenues			EBITDA			Adjusted PAT		
	FY11	FY12E	FY13E	FY11	FY12E	FY13E	FY11	FY12E	FY13E
Havell's India	28,817	32,487	36,475	3,373	3,898	4,559	2,416	2,812	3,285
Standard Electricals	968	1,036	1,108	210	207	222	197	194	208
SLI Sylvania	27,077	28,563	31,130	1,892	1,999	2,490	456	525	812
Consolidated	56,862	62,085	68,713	5,475	6,105	7,271	3,069	3,531	4,306
Consolidated EPS (₹)		-					24.6	28.3	34.5

Source: Systematix Research

Table 2: Peer comparison (Price based on 1 July 2011)

Companies	Cur	Price (INR/ EUR)	Mkt Cap	EV	FY11-13 Sales CAGR (%)	EV/Sales		FY11-13 EBITDA CAGR (%)	EV/EBITDA		FY11-13 EPS CAGR (%)	P/E (x) FY12	P/E (x) FY13
						FY12	FY13		FY12	FY13			
Indian Peers													
Finolex Cables	INR	47	7,112	9,247	16.6	0.4	0.3	21.5	4.2	3.6	37	5.5	4.3
Crompton Greaves	INR	259	166,274	167,996	12.5	1.4	1.2	12.9	10.8	9.1	14.7	16.2	13.7
Bajaj Electricals	INR	240	23,872	24,957	21.4	0.8	0.6	23.7	7.7	6.3	25.7	12.7	10.2
Indian Average					16.8	0.8	0.7	19.4	7.6	6.3	25.8	11.4	9.4
Global Peers													
Phillips	EUR	18	17,869	17,476	-3.2	0.8	0.7	-2.9	6.1	5.4	-6.3	14	11
Legrand	EUR	29	7,649	8,794	3.2	2.1	2	3.9	8.4	7.8	4.8	14.5	13.2
Schneider	EUR	115	31,357	34,298	4	1.6	1.4	5.4	8.5	7.7	6.4	16	13.5
Zumtobel	EUR	18	787	919	3.3	0.7	0.6	6.2	6.4	5.7	10	11.4	9.4
Global Average excl India					1.8	1.3	1.2	3.2	7.4	6.6	3.7	14	11.8
Havells India	INR	385	48,054	57,238	10.6	0.9	0.8	15.1	9.4	7.9	18.4	13.6	11.2

Source: Bloomberg, Systematix Research

Accumulate with a target price of 450

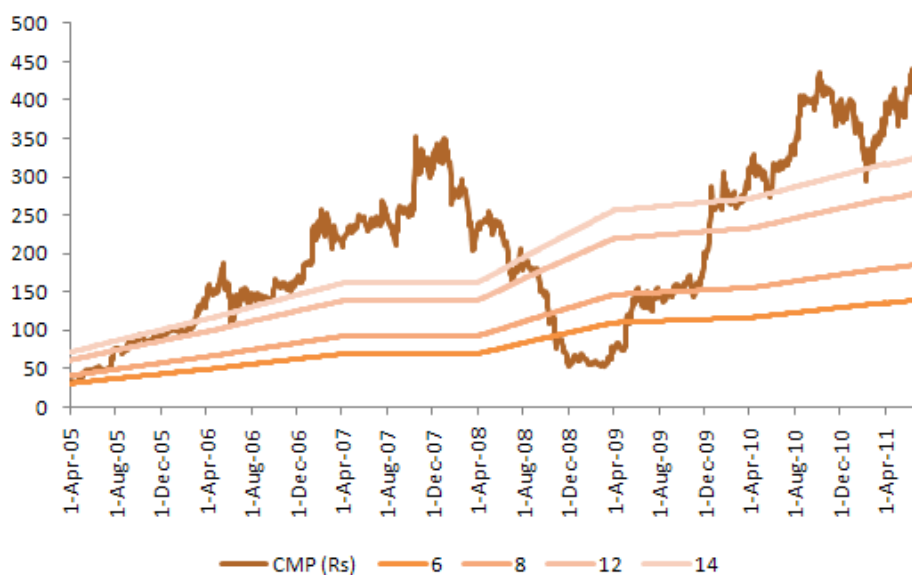
- We have valued the Standalone business of Havells India using PER of 16x July12E.
- We have valued the International business of Havells India (Sylvania) using EV / EBITDA multiple of 7.5x FY12E.
- We initiate coverage on Havells India with Accumulate rating with a target price of ₹ 450 based on sum-of-the-parts Valuation. At the target price of ₹ 450, the stock is trading at 15.9x FY12E and 13.0x FY13E consolidated earnings.

Table 3: Target Price Derivation

Havells India Domestic business	
EPS (July 12E)	25.1
P/E Multiple	16
Domestic business Value per share (₹)	401
Sylvania (International business of Havells India)	
FY12E EBITDA (₹ mn)	1999
EV / EBITDA Multiple	7.5
EV (₹ mn)	14,993
Sylvania Debt as on FY11 (₹ mn)	10,140
Sylvania Cash as on FY11 (₹ mn)	1,209
Net Debt (₹ mn)	8,931
Sylvania Equity Value (₹ mn)	6,062
Sylvania Value Per share (₹)	49
Total Value (₹)	450

Source: Systematix Research

Chart 1: PER Band



Source: Company, Systematix Institutional Research

RISKS TO TARGET PRICE

- Havells India faces the key risk of the sharp rise in the prices of commodities particularly copper and aluminum. Normally, the company has been able to pass on the price increase with a time lag. However, any sharp rise will affect the near term performance of the company.
- Havells India is primarily engaged in the low-voltage business where the competition intensity is higher due to the presence of organized as well as unorganized players.
- On a consolidated basis, Havells India derives ~48% of sales from its International business (Europe and Latin America). Any slowdown in Europe and Latin America will affect the consolidated profitability going forward.
- Havells India domestic business sales come through the strong distribution network who in turn markets the products to individuals pertaining to the real estate and industrial sectors. Any slowdown in these segments will affect the domestic sales of the company going forward.

SCENARIO ANALYSIS

We have done a scenario analysis assuming incremental revenue assumption growth of 10% coupled with incremental improvement of 100 basis points in EBITDA margin in the Bull Case scenario. In the case of Bear Case scenario, we have assumed incremental revenue assumption de-growth of 10% coupled with incremental contraction of 100 basis points in EBITDA margin.

Table 4: Bull Case Scenario

₹ mn	Revenues			EBITDA Margin (%)			Adjusted PAT		
	FY11	FY12E	FY13E	FY11	FY12E	FY13E	FY11	FY12E	FY13E
Havell's India	28,817	35,368	43,247	11.7	13.0	13.5	2,416	3,357	4,283
Standard Electricals	968	1,133	1,325	21.7	21.0	21.0	197	224	263
SLI Sylvania	27,077	31,271	37,208	7.0	8.0	9.0	456	814	1,306
Consolidated	56,862	67,772	81,780	9.6	10.8	11.6	3,069	4,395	5,852
EPS (₹)							24.6	35.2	46.9

Source: Bloomberg, Systematix Institutional Research

Table 5: Bear Case Scenario

₹ mn	Revenues			EBITDA Margin (%)			Adjusted PAT		
	FY11	FY12E	FY13E	FY11	FY12E	FY13E	FY11	FY12E	FY13E
Havell's India	28,817	29,605	30,279	11.7	11.0	11.5	2,416	2,311	2,445
Standard Electricals	968	939	911	21.7	19.0	19.0	197	166	161
SLI Sylvania	27,077	25,855	25,593	7.0	6.0	7.0	456	267	410
Consolidated	56,862	56,399	56,783	9.6	8.8	9.6	3,069	2,744	3,016
EPS (₹)							24.6	22.0	24.2

Source: Bloomberg, Systematix Institutional Research

Table 6: Target Price Derivation

	Bear	Base	Bull
Havells India Domestic business			
EPS (July 12E)	20.1	25.1	30.6
P/E Multiple	13	16	19
Domestic business Value per share (₹)	257	401	588
Sylvania (International business of Havells India)			
FY12E EBITDA (₹ mn)	1551	1999	2502
EV / EBITDA Multiple	6.5	7.5	8.5
EV (₹ mn)	10,082	14,993	21,267
Sylvania Debt as on FY11 (₹ mn)	10,140	10,140	10,140
Sylvania Cash as on FY11 (₹ mn)	1,209	1,209	1,209
Net Debt (₹ mn)	8,931	8,931	8,931
Sylvania Equity Value (₹ mn)	1,151	6,062	12,336
Sylvania Value Per share (₹)	9	49	99
Total Value (₹)	267	450	687

Source: Systematix Institutional Research

COMPANY OVERVIEW

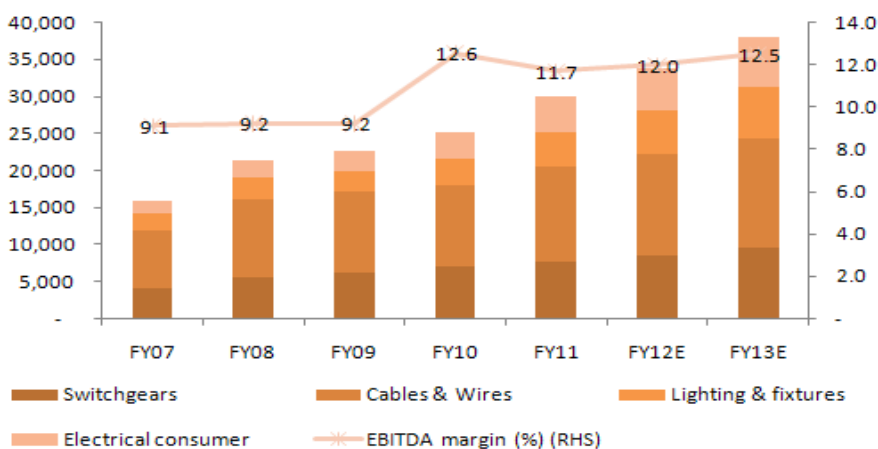
Business background

Havells India, incorporated in 1983, is the flagship company of the QRG (Qimat Rai Gupta) group of companies and is a leading player in domestic and industrial electrical equipment market. The company operates in four business divisions, viz. Switchgear, Cables & wires, Lighting & fixtures and Electrical consumer durables, accounting for 25%, 44%, 15% and 16% of FY11 standalone revenues respectively. During 3QFY07, Havells India, through its wholly owned subsidiary, Havells Netherlands, acquired 100% stake in Frankfurt based SLI Sylvania, a leading global designer and provider of the Lighting systems for lamps and fixtures. Havells acquired Sylvania for a total consideration of Euro 235 mn. SLI Sylvania enjoys a strong brand image with brands such as Sylvania, Concord: marlin, Luminance, Marlin, Claude and Linolite-Sylvania under its belt and has a strong distribution network with over 10,000 dealers across the globe.

Management Background

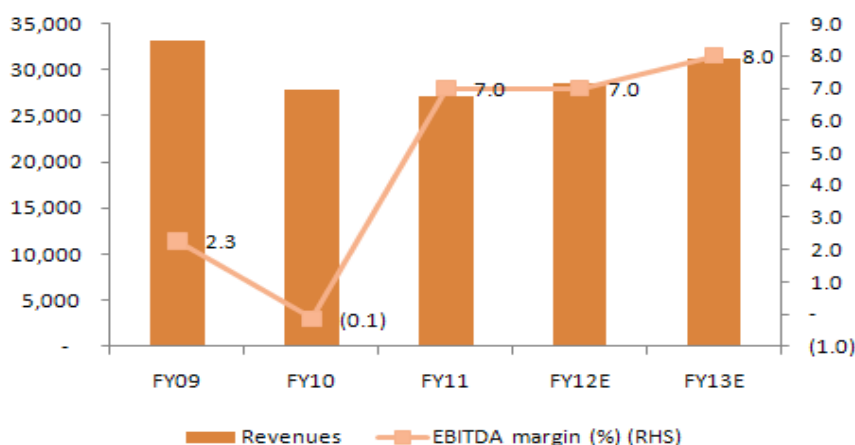
Mr Qimat Rai Gupta is the founder and chairman of Havells India. The company's phenomenal success over the years has been due to the mantra of growth through quality, innovation and market consolidation. Mr Anil Gupta is the Managing Director of the company. Mr Rajesh Gupta is the Director – Finance of the company.

Chart 2: Revenue Mix – Domestic Business



Source: Company, Systematix Institutional Research

Chart 3: Revenue Mix – Sylvania



Source: Company, Systematix Institutional Research

Manufacturing Facilities

Havells India has seven manufacturing facilities and Sylvania has nine manufacturing facilities.

Table 7:

Havells India Standalone		Sylvania	
Location	Products Manufactured	Location	Products Manufactured
Alwar	Cables & Wires	Germany	Lamps
Noida	Capacitor	Belgium	Lamps
Baddi	Miniature Circuit Breakers (MCBs)	U.K.	Concord Fixtures
Haridwar	Fans	France	Warehouse
Neemrana	Motors & CFL	France	Luminance Fixtures
Faridabad	Industrial Switchgear	Mexico	Fixtures
		Columbia	Fluorescent Tubes
		Cost Rica	Fixtures

Source: Systematix Research

Quarterly Performance over the last two years

Table 8: Quarterly performance - Havells India

₹ mn	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11
Net Sales	5,862	5,964	5,913	7,001	7,177	6,966	7,279	8,408
EBITDA	688	781	801	787	802	838	914	946
EBITDA margin (%)	11.7	13.1	13.5	11.2	11.2	12.0	12.6	11.3
PAT	493	542	589	644	533	579	611	690

Source: Systematix Research

Table 9: Quarterly performance - Sylvania

₹ mn	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11
Net Sales	6,981	7,300	7,948	7,002	6,302	7,061	7,636	7,026
EBITDA	48	39	(493)	336	281	334	257	817
EBITDA margin (%)	0.7	0.5	-6.2	4.8	4.5	4.7	3.4	11.6
Adjusted PAT	(343)	(279)	(634)	(455)	13	81	47	394
Eol	(391)	(432)	(1,734)	(380)	(37)	-	(66)	(6)
Reported PAT	(734)	(710)	(2,369)	(835)	(24)	81	(19)	388

Source: Systematix Research

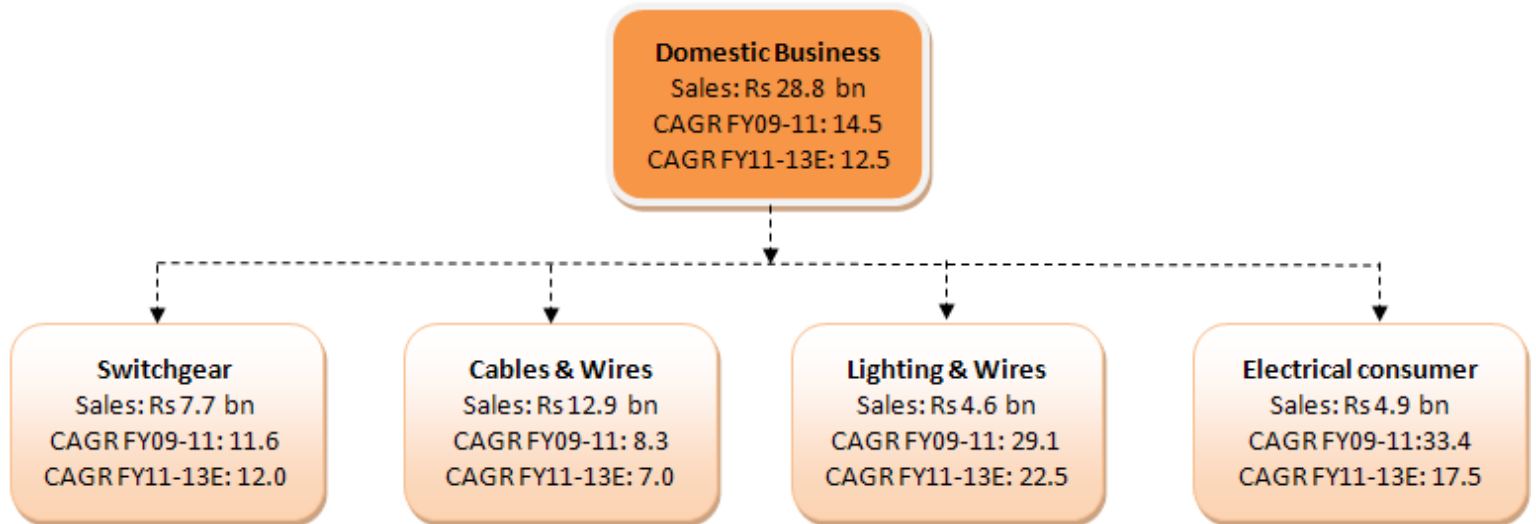
Table 10: Quarterly performance - Consolidated

₹ mn	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11
Net Sales	12,893	13,191	13,998	13,724	13,557	14,014	14,967	15,486
EBITDA	787	849	355	1,185	1,161	1,164	1,156	1,830
EBITDA margin (%)	6.1	6.4	2.5	8.6	8.6	8.3	7.7	11.8
Adjusted PAT	150	289	4	262	547	698	701	1,146
Eol	(391)	(432)	(1,734)	(380)	(37)	7	(66)	(4)
Reported PAT	(241)	(143)	(1,730)	(118)	510	705	635	1,142

Source: Systematix Research

BUSINESS OVERVIEW - DOMESTIC

Chart 4: Havells India – Domestic Business (FY11)



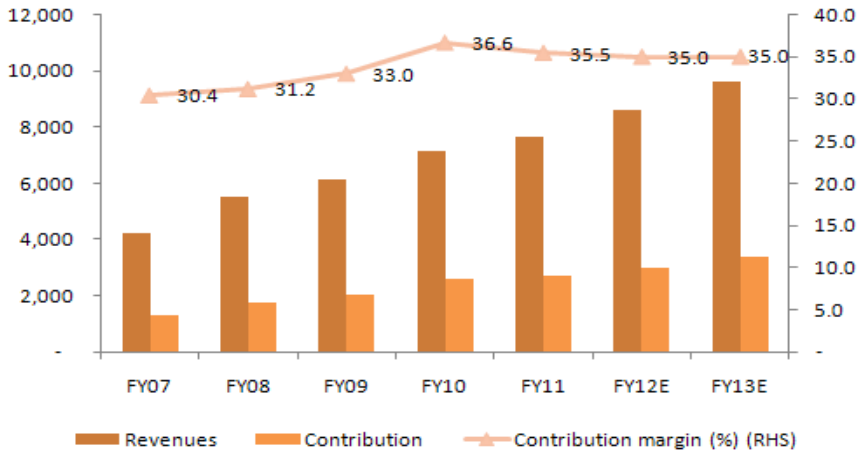
Source: Company, Systematix Institutional Research

Switchgear Segment (26% of FY11 sales)

Under this segment, the company manufactures Miniature Circuit breakers (MCBs) and premium and modular switches (Crabtree brand). Havells is one of the largest manufacturers of MCBs in India with a market share of ~21% and amongst the top ten manufacturers globally. Currently, the company has an installed capacity of 50 mn poles for MCBs. The company manufactures two types of switchgears:-

- Domestic Switchgear:** These are switchgears (MCBs) which are used for residential applications and are generally less than 63 volts. The marketing brand name of this product is Havells, whereas the switch plates brand is sold in the brand name of Crab Tree. Domestic MCBs contribute to 50% of the revenues in the switchgear division (FY11). The market size of MCBs is ~₹ 12 bn. The company has a market share of ~28% in domestic MCBs and it competes with Legrand, Schneider and Indo Asian Fuse gear. Marketing of domestic MCBs is done through its own dealer network.
- Industrial Switchgear:** These are switchgears (MCBs) which are used for industrial applications and are generally above 63 volts and up to 250 volts. The marketing brand name of this product is Havells. Industrial MCBs contribute to 30% of the revenues in the switchgear division (FY11). The market size for Industrial switchgear is ~₹ 30 bn. The company has a market share of ~8% in industrial MCBs and it competes with L&T, Siemens and Schneider. Marketing of Industrial switchgear is done through its own distribution network even for Institutional sales. However, it plans to handle the institutional sales directly in order to service the clients better.
- Premium / Modular Switches:** Under the Switchgear segment, the company also manufactures premium and modular switches in the brand name of Crabtree. Switches contribute to 20% of the revenues in the switchgear division (FY11). The market size for switches is ₹ 12 bn and the company has a market share of 15%. The company is competing with players such as Anchor, Legrand.

Chart 5: Switchgear Segment

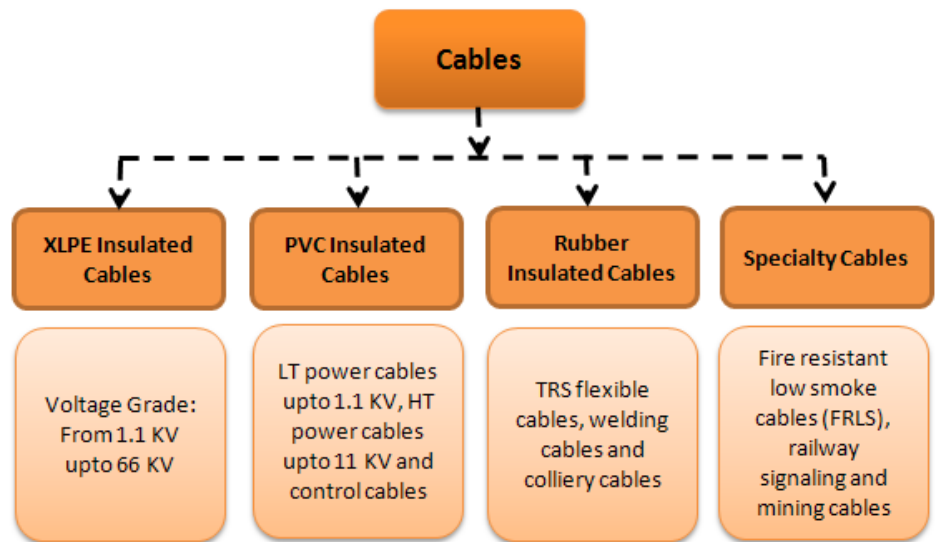


Source: Company, Systematix Institutional Research

Cables & Wires Segment (43% of FY11 sales)

The domestic cable and wires industry grew at a 21% CAGR over the period FY06-FY11 and the market size currently is ~₹ 160 bn. Within the Cables & Wires segment, Cables constitute ~70% and wires constitute ~30%. Cable Industry is represented by a large number of players, including both organized as well as unorganized. There is intense competition in the low voltage electrical cables.

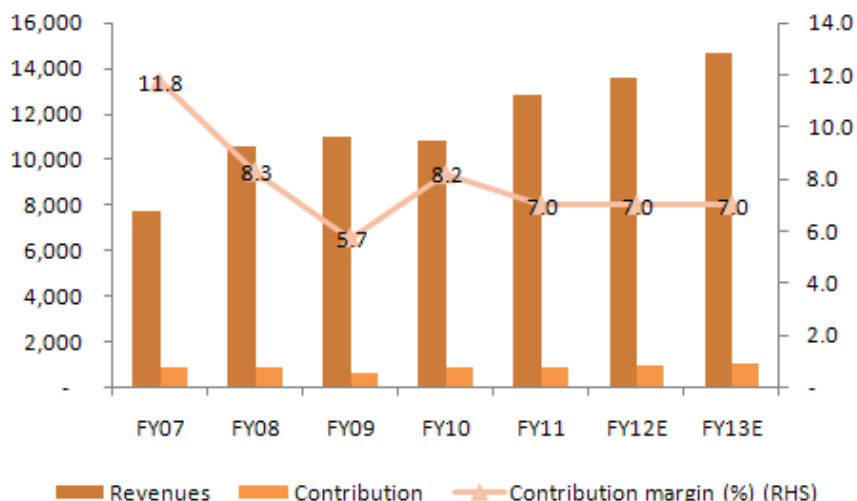
Chart 6: Types of Cables



Source: Company, Systematix Institutional Research

Under this segment, the company offers a wide range of cables and wires ranging from 11kV up to 66 kV. Cables form ~55% and Wires form ~45% of the Cables & Wires sales in FY11. The company is the second market leader in power cables having a market share of ~9%. Polycab is the market leader in Power cables. In the wires segment, the company is the second market leader having a market share of ~9%. Finolex Cables is the market leader in the wires segment. The key driver for the cables & wires segment would be increased activity in the construction and power sector. This segment is primarily characterized as a low margin business and highly competitive. Fluctuations in the prices of commodities particularly copper is passed on the consumers with a time lag of 3-4 months.

Chart 7: Cables & Wires

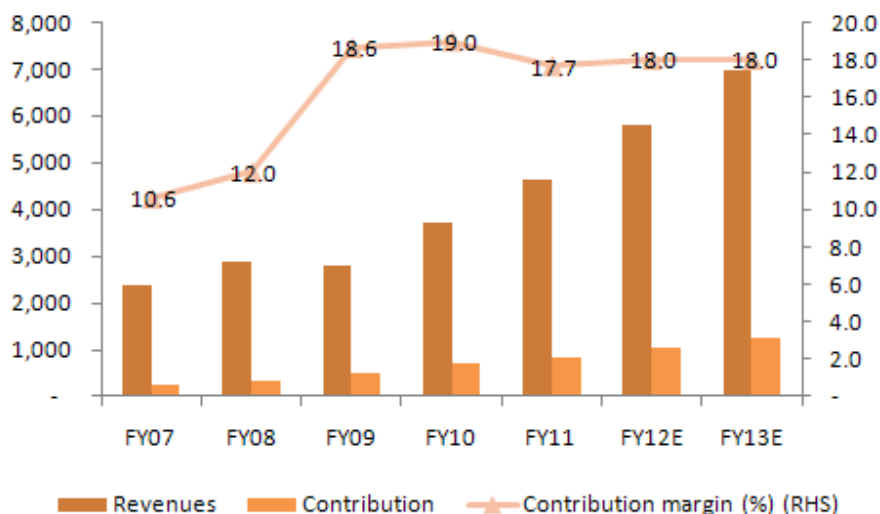


Source: Company, Systematix Institutional Research

Lighting & Fixtures Segment (15% of FY11 sales)

Under this segment, the company manufactures consumer products such as Compact Fluorescent Lamps (CFLs) and Lighting fixtures. CFLs constitute ~40% of the Lighting and Fixtures segment while fixtures constitute ~60% of the Lighting and Fixtures segment. The market size for CFLs is ~₹ 15 bn and the company has a market share of 11%. The major players competing in the CFLs market are Philips, Surya and Osram. The market size for Luminaires is ~₹ 25 bn and the company has a market share of 11%. Currently, the company sources a large part of luminaires from China but they have plans of setting up manufacturing facility in India as well. The major players competing in the Luminaires market are Philips, Bajaj, Crompton and Wipro. Outsourcing to Sylvania will be another growth driver for the company going forward.

Chart 8: Lighting & Fixtures

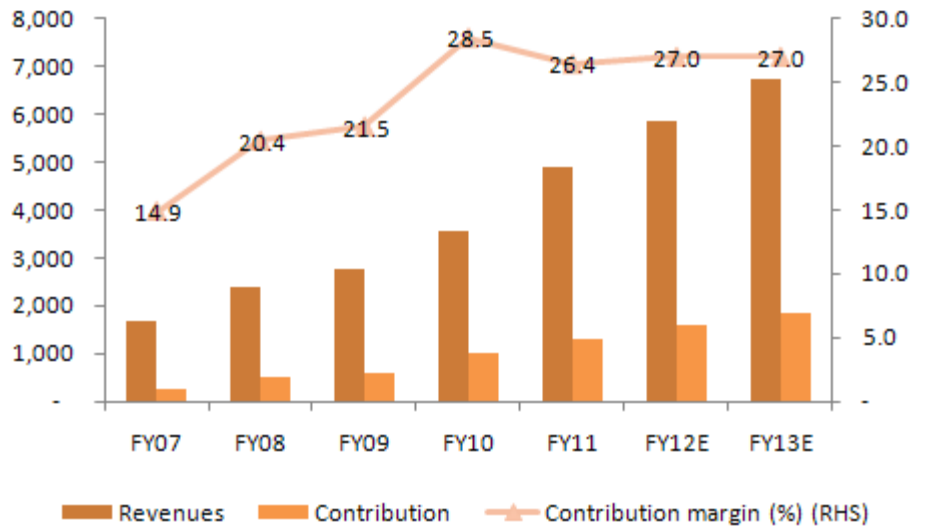


Source: Company, Systematix Institutional Research

Electrical Consumer Durables Segment (16% of FY11 sales)

Under this segment, the company primarily manufactures Fans. During last five years, consumer durable has been the fastest growing segment of the company. The market size of Fans is ~₹ 35 bn and the company has a market share of ~14%. The Company competes with Crompton Greaves, Usha and Orient.

Chart 9: Electrical Consumer Durables



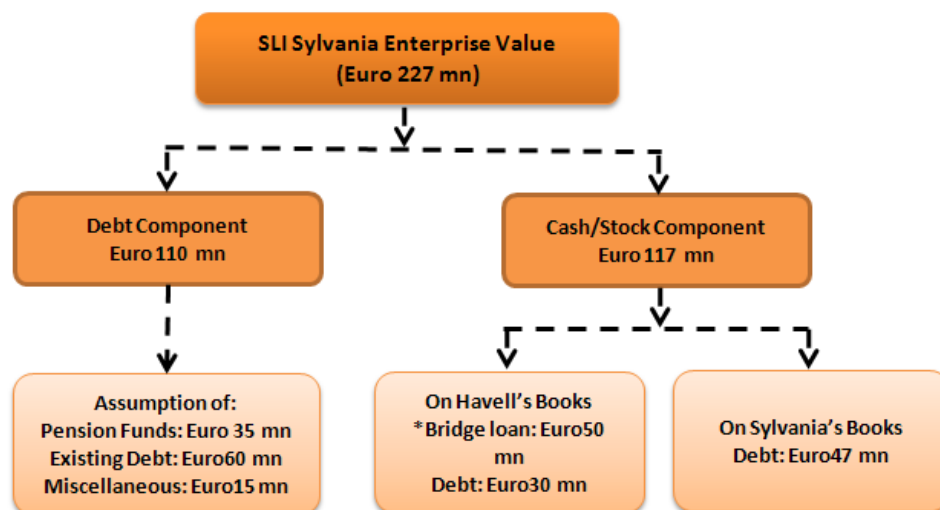
Source: Company, Systematix Institutional Research

BUSINESS OVERVIEW - SYLVANIA

Rationale for acquiring Sylvania

Havells India, through its wholly owned subsidiary, Havells Netherlands, acquired 100% stake in Frankfurt based SLI Sylvania, a leading global designer and provider of the Lighting systems for lamps and fixtures. Havells acquired Sylvania for a total consideration of Euro 235 mn. SLI Sylvania enjoys a strong brand image with brands such as Sylvania, Concord: marlin, Luminance, Marlin, Claude and Linolite-Sylvania under its belt and has a strong distribution network with over 10,000 dealers across the globe.

Chart 10: Snapshot of Enterprise Value



Source: Company, Systematix Institutional Research

Of the total acquisition debt of Euro 200 mn, Euro 80 mn will be recourse debt (on the books of Havells India) and Euro 120 mn will be non-recourse debt (on Sylvania's books). Of the recourse debt of Euro 80 mn, Havells India has already paid Euro 73.4 mn and remaining Euro 6.6 mn is required to be paid. Non-recourse debt of Euro 120 mn consists of a term loan of Euro 80 mn and revolver facility of Euro 40 mn. Sylvania has already paid Euro 4 mn term loan and the remaining Euro 76 mn will be paid in the form of Euro 12 mn in CY11, Euro 12 mn in CY12 and bullet payment of Euro 52 mn in March 2013. Revolver debt of Euro 40 mn is required to be paid in March 2012. Havells India has so far invested Euro 125 mn towards Sylvania acquisition.

What went wrong in Sylvania?

Sylvania reported sales of ₹ 29.5 bn and profitability of ₹ 177 mn in FY08. However, thereafter, the financials deteriorated due to the slump in the European (70% of Sylvania sales) and American (28% of Sylvania sales) markets. Even though, the company managed to do flat sales but the operating margins declined from 5.1% in FY08 to 2.3% in FY09. This is primarily due to high fixed cost base as the company had 8 manufacturing plants and employee strength of 3,800. Flat sales, decline in margins, higher interest cost and higher one time provisions towards MTM loss led to negative profitability in FY09 and FY10.

Turnaround of Sylvania

Realizing the urge to revive its International business, Havells India outlined a restructuring exercise in January 2009. The company initiated two projects – Phoenix and Parakram. Phoenix project kick started in January 2009 and the company has invested Euro 12 mn. This would be primarily funded through Sylvania’s internal accruals (working capital reduction). The primary objective of Phoenix project was to reduce the employee strength from 3,800 to 2,600. In line with this, the company has already reduced its manpower strength to 2,600. In September 2009, the company has started the Parakram project with an investment outlay of Euro 18 mn. The primary objective of Phoenix project was to reduce the employee strength from 2,600 to 2,200.

Both the projects are completed and the impact has already been witnessed in FY11 financials where sales grew by 9%, EBITDA margin improved from (0.6) % to 7% and profitability improved to Euro 7 mn.

Table 11: Detailed financials of Sylvania

Euro mn	FY09	FY10	FY11	FY12E	FY13E
Net Sales	509	413	449	474	517
-Europe	351	293	285	285	299
-Latin America	132	107	152	175	201
-Asia	25	12	12	14	16
Less:- Inter					
RM Cost	248	204	220	232	253
RM as % of sales	48.7	49.5	49.0	49.0	49.0
Staff Cost	118	95	90	95	103
Staff cost as % of sales	23.2	22.9	20.0	20.0	20.0
Other Cost	131	115	108	114	119
Other cost as % of sales	25.8	27.8	24.0	24.0	23.0
Total Cost	497	413	418	441	475
Total cost as % of sales	97.7	100.1	93.0	93.0	92.0
EBITDA	11.5	(0.6)	31.4	33	41
EBITDA margin (%)	2.3	(0.1)	7.0	7.0	8.0
Other Income	0.1	1	1.1	1.2	1.3
Depreciation	11.1	8.8	8.3	8.3	8.3
EBIT	1	(8)	24	26	34
Interest	13.6	12.1	11	11	11
PBT	(13.1)	(21)	13.20	15	23
Tax	3.2	4.9	5.6	6.4	9.9
Tax rate (%)	(24.4)	(23.9)	42.4	42.4	42.4
Adjusted PAT	(16.3)	(25.4)	7.6	9	13
Eol	(31)	(44)	(1)	-	
Reported PAT	(46.9)	(69.0)	7.0	9	13

Source: Systematix Research

SENSITIVITY ANALYSIS ON SYLVANIA'S EARNINGS.

Since Europe constitutes ~70% of the Sylvania sales, we have attempted a sensitivity analysis on the Sylvania's earnings with respect to Europe market conditions. For our sensitivity, we have considered revenue impact from Europe and realization impact.

Table 12: Sensitivity of Euro Slowdown on Sylvania's earnings in FY12

₹ mn	-10%	-5%	0%	5%	10%
Sales	26,846	27,704	28,563	29,421	30,280
EBITDA	587	1,284	1,999	2,584	3,178
PAT	(888)	(190)	525	1,110	1,704
Consolidated EPS	17.0	22.6	28.3	33.0	37.7

Source: Systematix Institutional Research

Table 13: Sensitivity of Euro Slowdown on Sylvania's earnings in FY12

₹ mn	--5%	0%	5%	10%	15%
Sales	29,413	30,271	31,130	31,989	32,847
EBITDA	1,468	2,053	2,490	3,088	3,695
PAT	(211)	374	812	1,410	2,016
Consolidated EPS	26.3	31.0	34.5	39.3	44.1

Source: Systematix Institutional Research

EARNINGS SUMMARY

Table 14: Earnings Outlook

Revenues (₹ mn)	FY10	FY11	FY12E	FY13E	Comments
Havells India	24,735	28,817	32,487	36,475	Domestic business growth led across all the segments
Standard Electricals	897	968	1,036	1,108	Steady growth
Sylvania	27,768	27,077	28,563	31,130	Sales growth flat in European market (63% of sales), 15% and 15% growth in Latin America (34% of sales) and Asia markets (3% of sales) respectively.
Consolidated	53,400	56,862	62,085	68,713	CAGR of 10% over FY11-13E
EBITDA (₹ mn)	FY10	FY11	FY12E	FY13E	Comments
Havells India	3,108	3,373	3,898	4,559	Margins to improve
Standard Electricals	148	210	207	222	Stable Margin outlook
Sylvania	(40)	1,892	1,999	2,490	Margin to improve further
Consolidated	3,216	5,475	6,105	7,271	CAGR of 15% over FY11-13E
EBITDA margin (%)	FY10	FY11	FY12E	FY13E	Comments
Havells India	12.6	11.7	12.0	12.5	-
Standard Electricals	16.5	21.7	20.0	20.0	-
Sylvania	(0.1)	7.0	7.0	8.0	-
Consolidated	6.0	9.6	9.8	10.6	-
PAT (₹ mn)	FY10	FY11	FY12E	FY13E	Comments
Havells India	2,282	2,416	2,812	3,285	Stable growth of 17% over FY11-13E
Standard Electricals	142	197	194	208	Stable growth expected
Sylvania	(1,680)	456	525	812	Started contributing to Consolidated profitability
Consolidated	743	3,069	3,531	4,306	CAGR of 19% over FY11-13E

Source: Systematix Research

PROFIT & LOSS STATEMENT (STANDALONE)

Table 15: Profit & Loss Statement

Year ended 31 Dec (₹ m)	FY08	FY09	FY10	FY11	FY12E	FY13E
Net sales	20,549	21,984	24,735	28,817	32,487	36,475
growth (%)	32.8	7.0	12.5	16.5	12.7	12.3
Operating expenses	(18,694)	(20,015)	(21,627)	(25,444)	(28,588)	(31,915)
Operating profit	1,855	1,969	3,108	3,373	3,898	4,559
Other operating income	-	-	-	-	-	-
EBITDA	1,855	1,969	3,108	3,373	3,898	4,559
growth (%)	31.5	6.2	57.8	8.5	15.6	17.0
Depreciation	(131)	(179)	(233)	(293)	(324)	(362)
Other income	145	76	145	177	200	200
EBIT	1,869	1,866	3,021	3,257	3,775	4,397
Interest paid	(207)	(193)	(117)	(158)	(170)	(185)
Pre-tax profit (before non-recurring items)	1,663	1,673	2,903	3,099	3,605	4,212
Non-recurring items	-	-	-	-	-	-
Tax on non-recurring items	-	-	-	-	-	-
Pre-tax profit (after non-recurring items)	1,663	1,673	2,903	3,099	3,605	4,212
Tax (current + deferred)	(227)	(220)	(622)	(683)	(793)	(927)
Net profit	1,436	1,452	2,282	2,416	2,812	3,285
Adjusted net profit	1,436	1,452	2,282	2,416	2,812	3,285
growth (%)	40.5	1.2	57.1	5.9	16.4	16.8

Source: Company and Systematix Institutional Research

BALANCE SHEET (STANDALONE)

Table 16: Balance Sheet

Year ended 31 Dec (₹ m)	FY08	FY09	FY10	FY11	FY12E	FY13E
Current assets	6,403	5,332	5,613	7,245	8,223	9,993
Investments	1,648	3,879	5,317	7,155	7,155	7,155
Net fixed assets	3,853	4,655	6,012	7,303	8,102	9,230
Other non-current assets	-	-	-	-	-	-
Total assets	11,904	13,866	16,942	21,702	23,480	26,378
Current liabilities	4,741	3,673	4,162	6,421	6,536	6,861
Total Debt	358	703	1,158	1,336	1,486	1,636
Other non-current liabilities	136	147	270	536	-	-
Total liabilities	5,235	4,523	5,590	8,294	8,022	8,497
Share capital	290	301	312	624	624	624
Reserves & surplus	6,380	9,043	11,040	12,785	14,834	17,257
Less: Misc. expenditure	-1	-1	0	0	0	0
Shareholders' funds	6,669	9,343	11,352	13,408	15,457	17,880
Minorities interests	-	-	-	-	-	-
Total equity & liabilities	11,904	13,866	16,942	21,702	23,480	26,378

Source: Company and Systematix Institutional Research

CASH FLOW (STANDALONE)

Table 17: Cash Flow

Year ended 31 Dec (₹ m)	FY08	FY09	FY10	FY11	FY12E	FY13E
Pre-tax profit	1,663	1,673	2,903	3,099	3,605	4,212
Depreciation	113	153	145	293	324	362
Chg in working capital	(559)	1,107	(684)	186	(874)	(1,195)
Total tax paid	(161)	(395)	(503)	(386)	(1,359)	(927)
Other operating activities	-	-	-	-	-	-
Cash flow from operations (a)	1,055	2,539	1,861	3,192	1,695	2,453
Capital expenditure	(1,543)	(955)	(1,502)	(1,584)	(1,123)	(1,490)
Chg in investments	(1,613)	(2,231)	(1,438)	(1,838)	-	-
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	(3,156)	(3,186)	(2,941)	(3,422)	(1,123)	(1,490)
Free cash flow (a+b)	(2,101)	(648)	(1,080)	(230)	572	963
Equity raised/(repaid)	2,600	1,553	(3,989)	312	(0)	0
Chg in minorities	-	-	-	-	-	-
Debt raised/(repaid)	(203)	345	455	178	150	150
Dividend (incl. tax)	(157)	(169)	(264)	(143)	(314)	(313)
Other financing activities	-	-	-	-	-	-
Cash flow from financing (c)	2,241	1,728	(3,797)	347	(164)	(162)
Net chg in cash (a+b+c)	140	1,081	(4,877)	117	408	800

Source: Company and Systematix Institutional Research

KEY RATIOS (STANDALONE)

Table 18: Key Ratios

Year ended 31 Dec (₹ m)	FY08	FY09	FY10	FY11	FY12E	FY13E
Diluted EPS (₹)	23.7	24	37.7	19.4	22.5	26.3
EPS growth (%)	24.6	1.2	57.1	-48.6	16.4	16.8
EBITDA margin (%)	9	9	12.6	11.7	12	12.5
EBIT margin (%)	9.1	8.5	12.2	11.3	11.6	12.1
ROCE (%)	35.7	21.5	26.3	23.2	23.4	24.1
Net debt/Equity (%)	-4.4	-9.3	4.2	6.3	6.4	4.7

Valuations	FY08	FY09	FY10	FY11	FY12E	FY13E
PER (x)	13.5	13.3	8.5	16.5	14.2	12.1
PCE (x)	12.4	11.9	7.7	14.7	12.7	10.9
Price/Book (x)	2.9	2.1	1.7	3	2.6	2.2
Yield (%)	0.7	0.8	1.2	0.8	0.8	0.8
EV/Net sales (x)	0.8	0.7	0.7	0.6	0.6	0.5
EV/EBITDA (x)	9.1	8.3	5.7	5.3	4.7	4

Du Pont Analysis - ROE	FY08	FY09	FY10	FY11	FY12E	FY13E
Net margin (%)	7	6.6	9.2	8.4	8.7	9
Asset turnover (x)	2.3	1.7	1.6	1.5	1.4	1.5
Leverage factor (x)	1.9	1.6	1.5	1.6	1.6	1.5
Return on equity (%)	30.9	18.1	22	19.5	19.5	19.7

Source: Company and Systematix Institutional Research

PROFIT & LOSS STATEMENT (CONSOLIDATED)

Table 19: Profit & Loss Statement

Year ended 31 Dec (₹ m)	FY08	FY09	FY10	FY11	FY12E	FY13E
Net sales	50,029	54,775	51,626	56,126	62,085	68,713
growth (%)		9.5	(5.7)	8.7	10.6	10.7
Operating expenses	(46,563)	(51,889)	(48,512)	(50,638)	(55,980)	(61,442)
Operating profit	3,466	2,886	3,114	5,489	6,105	7,271
Other operating income						
EBITDA	3,466	2,886	3,114	5,489	6,105	7,271
growth (%)		(16.7)	7.9	76.3	11.2	19.1
Depreciation	(694)	(905)	(837)	(804)	(815)	(825)
Other income	250	86	222	237	250	265
EBIT	3,022	2,067	2,499	4,922	5,540	6,711
Interest paid	(1,036)	(1,253)	(871)	(820)	(825)	(835)
Pre-tax profit (before non-recurring items)	1,986	814	1,628	4,102	4,715	5,876
Non-recurring items		(1,986)		(36)		
Tax on non-recurring items						
Pre-tax profit (after non-recurring items)	1,986	(1,172)	1,628	4,066	4,715	5,876
Tax (current + deferred)	(377)	(429)	(932)	(1,031)	(1,184)	(1,570)
Net profit	1,610	(1,601)	696	3,035	3,532	4,306
Adjusted net profit	1,610	385	696	3,071	3,532	4,306
growth (%)		(76.1)	80.9	341.2	15.0	21.9
Net income	1,610	(1,601)	696	3,035	3,532	4,306

Source: Company and Systematix Institutional Research

BALANCE SHEET (CONSOLIDATED)

Table 20: Balance Sheet

Year ended 31 Dec (₹ m)	FY08	FY09	FY10	FY11	FY12E	FY13E
Current assets	23,229	20,408	18,556	22,077	24,068	27,077
Investments	32	0	0	0	0	0
Net fixed assets	11,669	12,421	12,422	13,558	14,393	15,568
Other non-current assets	76	97	0	0	300	300
Total assets	35,005	32,926	30,978	35,636	38,761	42,945
Current liabilities	15,142	14,501	15,876	17,361	18,382	19,622
Total Debt	12,962	12,278	10,664	11,173	10,673	9,673
Other non-current liabilities	0	0	434	559	0	0
Total liabilities	28,104	26,780	26,974	29,092	29,055	29,295
Share capital	290	301	312	624	624	624
Reserves & surplus	6,613	5,847	3,690	5,914	9,083	13,026
Less: Misc. expenditure	-1	-1	0	0	0	0
Shareholders' funds	6,901	6,147	4,002	6,537	9,706	13,650
Minorities interests	0	0	2	6	0	0
Total equity & liabilities	35,005	32,926	30,978	35,635	38,761	42,945

Source: Company and Systematix Institutional Research

CASH FLOW (CONSOLIDATED)

Table 21: Cash Flow

Year ended 31 Dec (₹ m)	FY08	FY09	FY10	FY11	FY12E	FY13E
Pre-tax profit	1,986	(1,172)	1,628	4,066	4,715	5,876
Depreciation	694	905	837	804	815	825
Chg in working capital	(3,498)	2,168	2,543	(1,918)	(1,048)	(1,269)
Total tax paid	(391)	(400)	(699)	(1,031)	(1,184)	(1,570)
Other operating activities	970	698	(1,396)			
Cash flow from operations (a)	(239)	2,199	2,913	1,921	3,299	3,862
Capital expenditure	(7,725)	(1,676)	(1,077)	(1,941)	(1,650)	(2,000)
Chg in investments	32	33				
Other investing activities		18	16			
Cash flow from investing (b)	(7,693)	(1,626)	(1,061)	(1,941)	(1,650)	(2,000)
Free cash flow (a+b)	(7,932)	573	1,852	(20)	1,649	1,862
Equity raised/(repaid)	2,779	1,397		312		
Chg in minorities					(6)	
Debt raised/(repaid)	7,487	(684)	(1,761)	510	(500)	(1,000)
Dividend (incl. tax)	(135)	(145)	(226)	(183)	(363)	(363)
Other financing activities	(939)	(1,084)	(871)			
Cash flow from financing (c)	9,192	(515)	(2,858)	639	(868)	(1,363)
Net chg in cash (a+b+c)	1,260	57	(1,006)	619	781	499

Source: Company and Systematix Institutional Research

KEY RATIOS (CONSOLIDATED)

Table 22: Key Ratios

Year ended 31 Dec (₹ m)	FY08	FY09	FY10	FY11	FY12E	FY13E
EPS (₹)	26.6	6.3	11.5	24.6	28.3	34.5
EPS growth (%)		(76.1)	80.9	114.3	15.0	21.9
EBITDA margin (%)	6.9	5.3	6.0	9.8	9.8	10.6
EBIT margin (%)	6.0	3.8	4.8	8.8	8.9	9.8
ROCE (%)	30.4	10.8	14.9	29.5	28.7	30.7
Net debt/Equity (%)	152.6	159.5	229.4	143.6	92.4	54.7

Valuations	FY08	FY09	FY10	FY11	FY12	FY13
PER (x)	14.5	60.6	33.5	15.6	13.6	11.2
PCE (x)	10.1	18.1	15.2	12.4	11.1	9.4
Price/Book (x)	3.4	3.8	5.8	7.3	4.9	3.5
Yield (%)	0.6	0.6	1.0	0.6	0.6	0.6
EV/Net sales (x)	0.7	0.6	0.6	1.0	0.9	0.8
EV/EBITDA (x)	9.8	11.5	10.4	10.5	9.3	7.6

Du Pont Analysis - ROE	FY08	FY09	FY10	FY11	FY12	FY13
Net margin (%)	3.2	0.7	1.3	5.5	5.7	6.3
Asset turnover (x)	2.9	1.6	1.6	1.7	1.7	1.7
Leverage factor (x)	5.1	5.2	6.3	6.3	4.6	3.5
Return on equity (%)	46.6	5.9	13.7	58.2	43.5	36.9

Source: Company and Systematix Institutional Research

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BUY (B)	The stock's total return is expected to exceed 20% over the next 12 months.
ACCUMULATE (A)	The stock's total return is expected to be within 10-20% over the next 12 months.
HOLD (H)	The stock's total return is expected to be within 0-10% over the next 12 months.
SELL (S)	The stock's is expected to give negative returns over the next 12 months.
NOT RATED (NR)	The analyst has no recommendation on the stock under review.

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ATTRACTIVE (AT)	Fundamentals /Valuations of the sector is expected to be attractive over the next 12-18 months.
NEUTRAL (NL)	Fundamentals /Valuations of the sector are expected to neither improve nor deteriorate over the next 12-18 months.
CAUTIOUS (CS)	Fundamentals /Valuations of the sector is expected to deteriorate over the next 12-18 months.

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