

# Havells India

**Rs334**  
**OUTPERFORMER**

## RESULT NOTE

**Mkt Cap: Rs41.6bn; US\$911m**

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**Result:** Q3FY11

**Comment:** Above estimates led by higher than estimated other income; Smart turnaround of Sylvania

### Key consolidated financials

Year to March (Rs mn)	Sales	yoy chg (%)	Adj. Net Profit	Reported PAT	EPS (Rs)	yoy chg (%)	PER (x)
2007	15,472	54.2	1,021	1,021	9.5	(19.5)	35.1
2008	50,029	223.3	1,610	1,610	13.9	46.3	24.0
2009	54,775	9.5	385	(1,601)	3.2	(77.0)	104.3
2010P	53,569	(2.2)	372	(2,384)	3.1	(3.3)	107.9
2011E	58,063	8.4	2,619	2,516	21.0	579.1	15.9
2012E	64,637	11.3	3,370	3,370	27.0	28.7	12.3

## Key Highlights

- Havells consolidated profit after tax was Rs635m (our estimates of Rs616m) against a loss last year.
- Havells's standalone revenues grew by 22% yoy to Rs7.22bn in Q3FY11 (above estimates of Rs7bn).
  - The cables and wire division witnessed a growth of 25% yoy to Rs3.1bn led by increase in realizations to pass on higher input costs
  - Lightings and Fixtures grew by 27% yoy to Rs1.19bn led by strong demand and its effort on creating a strong brand.
  - Electrical consumer division witnessed a strong growth of 55% yoy to Rs1.09bn led by strong demand as also introduction on new products. Havells launched the water storage heater in September 2010 which has witnessed revenues of Rs164mn in the quarter.
  - The switchgear revenues witnessed a growth of 9% yoy to Rs1.8bn despite a strong domestic growth (20% yoy) as the exports revenues slowed during the quarter. The expiry of its contract with an OEM based in UK, resulted in slower exports. Havells is now planning to launch switchgears in international markets on its own rather than OEMs.
- The standalone EBITDA margins fell by 160bps due to high base effect. However, operating margins have been improving on qoq basis as Havells has been hiking realizations of its products on back of the increased raw material prices.

## Segmental trends (standalone)

Rs mn	1QFY10	2QFY10	3QFY10	4QFY10	FY10	1QFY11	2QFY11	3QFY11
<b>Segmental revenues</b>								
Switchgears	1,719	1,749	1,690	1,883	7,041	1,941	1843	1843
Cable & wire	2,428	2,427	2,485	2,770	10,110	2,910	2910	3102
Lighting & fixture	755	904	937	1,076	3,672	1,046	1110	1190
Electrical & cons durables	904	797	702	1,191	3,595	1,259	1036	1086
Others	93	87	94	81	355	13	3	0
<b>Total</b>	<b>5,899</b>	<b>5,964</b>	<b>5,908</b>	<b>7,001</b>	<b>24,772</b>	<b>7,170</b>	<b>6,902</b>	<b>7,221</b>
<b>% yoy growth</b>								
Switchgears	16.8	7.1	23.0	17.4	15.7	13.0	5.4	9.0
Cable & wire	(4.0)	(10.1)	16.4	8.6	2.0	19.8	19.9	24.8
Lighting & fixture	20.5	26.5	23.3	59.7	32.3	38.6	22.8	27.1
Electrical & cons durables	16.8	17.6	41.8	45.2	29.9	39.3	30.0	54.7
Others	(33.5)	(32.1)	(2.5)	(7.4)	(21.4)	(85.5)	(96.3)	(100.0)
<b>Total</b>	<b>6.5</b>	<b>1.9</b>	<b>21.6</b>	<b>22.1</b>	<b>12.6</b>	<b>21.6</b>	<b>15.7</b>	<b>22.2</b>
<b>Contribution</b>								
Switchgears	609	654	640	708	2,611	723	646	651
Cable & wire	294	190	213	191	887	198	272	267
Lighting & fixture	119	192	200	194	705	166	189	239
Electrical & cons durables	217	242	221	339	1,019	334	271	277
Others	7	22	23	17	69	5	1	-
<b>Total EBIT</b>	<b>1,245</b>	<b>1,300</b>	<b>1,297</b>	<b>1,449</b>	<b>5,291</b>	<b>1,426</b>	<b>1,380</b>	<b>1,435</b>
<b>Contribution margins (%)</b>								
Switchgears	35.4	37.4	37.9	37.6	37.1	37.3	35.1	35.3
Cable & wire	12.1	7.8	8.6	6.9	8.8	6.8	9.4	8.6
Lighting & fixture	15.8	21.2	21.4	18.0	19.2	15.9	17.0	20.1
Electrical & cons durables	24.0	30.4	31.4	28.5	28.4	26.5	26.2	25.5
Others	7.1	24.9	24.5	21.3	19.3	36.6	37.5	-
<b>Total</b>	<b>21.1</b>	<b>21.8</b>	<b>22.0</b>	<b>20.7</b>	<b>21.4</b>	<b>19.9</b>	<b>20.0</b>	<b>19.9</b>

- Sylvania registered a 9% yoy growth in euro terms for revenues. However, the adverse movement of the euro against the rupee resulted in a 4% decline of revenues in rupee terms. The growth has been driven by the demand in LATAM and Asia markets.
- Consequently, consolidated revenues grew by 8% yoy to Rs15bn.
- Sylvania reported margins of 3.4% taking into account one off expense of tax payment in Brazil. Net of this expense, operating margins were at 5.3% during the quarter led by benefits of restructuring.
- The strong margin expansion in Sylvania resulted in consolidated margins improving by 430bps to 7.7%.
- Interest expenses increased by 74%yoy to Rs215mn led by higher debt and interest rates. Also, the increase appears sharp on a yoy basis as in 3QFY 10, Sylvania had reversal of interest provision in Brazil of 2.8mn euros.
- During the quarter, Sylvania had Rs66mn as exceptional items for impairment of assets.
- Resultant, consolidated profit was at Rs635m in the quarter, higher than our estimates of Rs616mn.

## □ Reiterate Outperformer

We have upgraded our consolidated earnings estimates for Havells by 20% for FY11E on back of faster than estimated turnaround of Sylvania as also to factor in the merger of Standard Electricals. However, we have maintained our consolidated earnings estimates for FY12E as we have already factored in a strong growth in Sylvania and improvement in profitability. Havells, among India's leading consumer electricals players, offers a wide range of products. A vast distribution reach and aggressive branding have helped Havells rapidly gain market share in the past few years. We expect growth to remain strong as Havells continues to introduce new products in the domestic market. We expect losses at Sylvania (international subsidiary) to be pared drastically with a turnaround in FY12 led by various cost rationalization initiatives as also geographical diversification. This, in turn, is expected to drive healthy growth in Havells' consolidated earnings over FY10-12 (29% earnings growth in FY12E). At 12.3x FY12E earnings, we believe the valuations are attractive. Reiterate our Outperformer rating on the stock with a 12-month price target of Rs432.

### Standalone quarterly results

Rs mn	1QFY10	2QFY10	3QFY10	4QFY10	FY10	1QFY11	2QFY11	3QFY11	FY11E
<b>Net Sales</b>	<b>5,862</b>	<b>5,964</b>	<b>5,908</b>	<b>7,001</b>	<b>24,736</b>	<b>7,170</b>	<b>6,902</b>	<b>7,221</b>	<b>29,230</b>
<b>Total Expenses</b>	<b>5,174</b>	<b>5,183</b>	<b>5,113</b>	<b>6,214</b>	<b>21,683</b>	<b>6,375</b>	<b>6,129</b>	<b>6,365</b>	<b>25,872</b>
<b>EBITDA</b>	<b>688</b>	<b>781</b>	<b>795</b>	<b>787</b>	<b>3,051</b>	<b>795</b>	<b>773</b>	<b>856</b>	<b>3,358</b>
OPM (%)	11.7	13.1	13.5	11.2	12.3	11.1	11.2	11.9	11.5%
Other Income	41	19	6	81	146	8	66	59	190
Interest	16	19	13	16	64	38	13	52	166
Depreciation	54	55	59	65	233	68	72	75	300
<b>PBT</b>	<b>658</b>	<b>725</b>	<b>730</b>	<b>787</b>	<b>2,901</b>	<b>697</b>	<b>754</b>	<b>788</b>	<b>3,082</b>
Current Tax	113	131	124	133	500	139	155	152	555
Deferred Tax	53	52	17	10	130	24	20	24	154
Tax Rate (%)	25.2	25.2	19.3	18.1	21.7	23.5	23.3	22.4	23.0%
<b>PAT</b>	<b>493</b>	<b>542</b>	<b>589</b>	<b>644</b>	<b>2,268</b>	<b>533</b>	<b>579</b>	<b>611</b>	<b>2,373</b>
Extra ordinary items	-	-	-	-	-	-	7	-	7
<b>Reported Profit After Tax</b>	<b>493</b>	<b>542</b>	<b>589</b>	<b>644</b>	<b>2,268</b>	<b>533</b>	<b>586</b>	<b>611</b>	<b>2,380</b>
<b>Growth (yoy, %)</b>									
Net Sales	5.9	1.9	21.6	22.1	12.5	22.3	15.7	22.2	18.2
Total Exp	3.7	(1.7)	10.2	21.6	8.3	23.2	18.2	24.5	19.3
EBITDA	26.7	34.2	262.2	26.0	55.0	15.6	(0.9)	7.6	10.0
Other Income	213.1	(29.1)	637.5	128.4	93.7	(81.3)	254.1	894.9	30.0
Interest	(66.7)	(64.0)	(67.1)	(69.2)	(66.8)	133.7	(32.6)	312.7	158.3
Depreciation	46.5	24.3	27.5	26.4	30.3	26.0	30.8	28.5	29.0
PBT	40.0	42.0	436.1	41.6	73.5	5.8	4.0	7.9	6.2
PAT	20.9	22.3	423.4	32.0	56.3	8.3	6.7	3.7	4.6

## Consolidated quarterly results

Rs mn	1QFY10	2QFY10	3QFY10	4QFY10	FY10	1QFY11	2QFY11	3QFY11	FY11E
<b>Net Sales</b>	<b>12,842</b>	<b>13,000</b>	<b>13,861</b>	<b>13,866</b>	<b>53,569</b>	<b>13,472</b>	<b>14,014</b>	<b>14,967</b>	<b>58,063</b>
<b>Total Expenses</b>	<b>12,106</b>	<b>12,350</b>	<b>13,386</b>	<b>12,934</b>	<b>50,776</b>	<b>12,396</b>	<b>12,851</b>	<b>13,811</b>	<b>53,379</b>
<b>EBITDA</b>	<b>736</b>	<b>650</b>	<b>474</b>	<b>932</b>	<b>2,792</b>	<b>1,076</b>	<b>1,164</b>	<b>1,156</b>	<b>4,684</b>
OPM (%)	5.7	5.0	3.4	6.7	5.2	8.0	8.3	7.7	8.1%
Depreciation	216	210	203	197	825	189	201	203	833
Interest	243	180	124	320	867	206	146	215	801
Exceptional Items	391	432	1,734	199	2756	37	-	66	103
Other Income	58	22	76	57	213	87	130	182	456
<b>PBT</b>	<b>(56)</b>	<b>(150)</b>	<b>(1,512)</b>	<b>274</b>	<b>(1444)</b>	<b>730</b>	<b>946</b>	<b>854</b>	<b>3403</b>
Tax	185	183	100	472	941	221	248	219	887
Tax Rate (%)	(332.1)	(122.0)	(6.6)	172.5	(65.1)	30.2	26.2	25.6	26.1
<b>PAT</b>	<b>(241)</b>	<b>(333)</b>	<b>(1,612)</b>	<b>(198)</b>	<b>(2,384)</b>	<b>510</b>	<b>698</b>	<b>635</b>	<b>2,516</b>
<b>Growth (yoy, %)</b>									
Net Sales	(8.3)	(7.1)	2.8	4.3	(2.2)	4.9	7.8	8.0	8.4
Total Exp	(9.5)	(7.6)	4.3	3.6	(2.5)	2.4	4.1	3.2	5.1
EBITDA	16.8	3.2	(26.9)	15.3	2.8	46.2	79.0	143.7	67.7
Other Income	478.0	10.0	257.1	64.5	147.3	49.7	489.1	140.4	114.3
Interest	(6.5)	(34.5)	(57.6)	24.9	(20.0)	(15.3)	(19.1)	73.6	(7.6)
Exceptional Items	na!	25.9	297.8	(83.5)	38.7	(90.4)	(100.0)	(96.2)	(96.3)
PBT	na	na	na	na	na	na	na	na	na
PAT	na	na	na	na	na	na	na	na	na

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2. Neutral: Within 0-5% to Index (upside or downside)
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