

HAVELLS INDIA LTD

MIDCAPS

Sylvania lights up this quarter

Havells' consolidated performance was ahead of our estimates. While domestic revenue grew largely in line at 18% to Rs 10.6 bn, PAT surpassed our expectation – up 20% YoY at Rs 947 mn (our est. of Rs 833 mn) – largely due to higher than expected EBITDA margin (13% vs. our est. of 12.5%). Sylvania revenue continued to be subdued (Europe declined 8% YoY, Americas increased 3% YoY) but margin recovered to 6.4% in the quarter (3.3% in Q2FY13).

With launch of new products and continuous network expansion, India business is on track to grow at 15-20% with stable margin and core RoCE of over 40%. Sustained improvement in Sylvania and success in new markets are key upside triggers. We roll forward our TP to FY15E EPS. Our revised SOTP-based TP stands at Rs 766. Upgrade to **BUY** given 18% upside from CMP.

Key highlights

- In India, consumer durables saw a 51% rise in revenue led by 30% growth in fans. While switchgears and lighting grew ~20% each, cables growth at 5% YoY continued to be sluggish (mainly due to industrial cables - 11% YoY decline).
- Havells remains upbeat on newly launched products. Management indicated Rio switches (low-end piano switches), targeted at C class towns and rural India, can do revenue of Rs 1.5 bn (addition to switches revenue; Rs 2 bn in FY12) in FY14. This would also enable distribution of existing portfolio to these areas.
- For Sylvania's LatAM+USA (33% of Q3 revenue) operations, Brazil continued to play spoil spot due to inventory issues. However, management is confident of recovery going forward. Management expects Sylvania revenue to grow in low single digits with margin sustaining at 6.5-7.0%.

FINANCIAL SUMMARY (Consolidated)

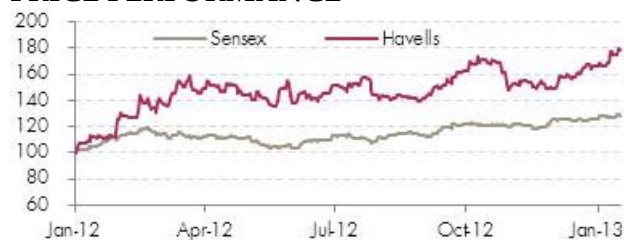
Y/E March	FY12	FY13E	FY14E	FY15E
Sales (Rs mn)	65,182	73,301	80,117	89,694
Adj PAT (Rs mn)	3,700	3,831	4,900	5,938
Con. EPS* (Rs.)	-	33.7	41.1	49.4
EPS (Rs.)	29.6	30.7	39.3	47.6
Change YOY (%)	20.5	3.5	27.9	21.2
P/E (x)	-	21.6	16.9	13.9
RoE (%)	46.0	34.8	34.1	31.8
RoCE (%)	29.7	31.1	34.2	32.5
EV/EBITDA (x)	1.1	12.2	10.1	8.9
DPS	3.2	7.7	9.0	9.4

Source: *Consensus broker estimates, Company, AXIS Capital estimates

KEY DRIVERS

	FY12	FY13E	FY14E	FY15E
India rev. growth	25.5%	19.0%	17.7%	16.0%
Sylvania rev. growth	-0.4%	1.0%	3.0%	3.0%
Sylvania margin	8.3%	6.0%	7.0%	7.0%

PRICE PERFORMANCE



BUY

Target Price: Rs 766

CMP	: Rs 647
Potential Upside	: 18%
Relative to Sector	: NA

MARKET DATA

No. of Shares	: 125mn
Free Float	: 38%
Market Cap	: Rs81bn
52-week High / Low	: Rs699 / Rs425
Avg. Daily vol. (6mth)	: 293,028 shares
Bloomberg Code	: HAVL IB Equity
Promoters Holding	: 62%
FII / DII	: 20% / 1%
BSE Code	: 517354
NSE Code	: HAVELLS

Exhibit 1: Results update (Consolidated)

(Rs. mn)	Quarter ended					12 months ended		
	Dec-12	Dec-11	% Chg	Sep-12	% Chg	FY13E	FY12	% Chg
Net Sales	18,143	16,596	9.3	16,992	6.8	73,301	65,182	12.5
EBITDA	1,794	1,755	2.2	1,528	17.4	7,193	6,638	8.4
Other income	43	62	(30.6)	15	186.7	155	350	(55.6)
PBIDT	1,837	1,817	1.1	1,543	19.1	7,349	6,987	5.2
Depreciation	252	231	9.1	287	(12.2)	979	949	3.2
Interest	216	251	(13.9)	335	(35.5)	1,339	1,281	4.5
PBT	1,369	1,335	2.5	921	48.7	5,031	4,758	5.7
Tax	190	255	(25.5)	216	(12.0)	1,200	1,058	13.4
Adjusted PAT	1,179	1,080	9.2	705	67.3	3,831	3,700	3.5
Extra ordinary income/ (exp.)	-	(194)	-	1,718	-	-	-	-
Reported PAT	1,179	886	33.1	2,423	(51.3)	3,831	3,700	3.5
No. of shares (mn)	125	125	-	125	-	125	125	0.0
EBITDA margin (%)	9.9	10.6	-	9.0	-	9.8	10.2	(3.6)
PBIDT margin (%)	10.1	10.9	-	9.1	-	10.0	10.7	(6.5)
Adj. EPS - annualized (Rs.)	37.8	34.6	9.2	22.6	67.3	30.7	29.6	3.5

Source: Company, Axis Capital

Exhibit 2: SOTP valuations

	FY15E
HAVELLS STANDALONE	
FY14E EPS (Rs)	39
P/E Multiple	18
Value Per Share (Rs)	694
SYLVANIA	
FY14E EPS (Rs)	9
P/E Multiple	8
Value Per Share (Rs)	72
Total Value (Rs)	766

Source: Axis Capital

FINANCIAL SUMMARY (Consolidated)
Profit & Loss (Rsmn)

Y/E March	FY12	FY13E	FY14E	FY15E
Net sales	65,182	73,301	80,117	89,694
Other operating income	64	218	219	220
Total operating income	65,246	73,519	80,336	89,914
Cost of goods sold	(40,358)	(48,223)	(52,513)	(58,186)
Gross profit	24,889	25,296	27,824	31,728
Gross margin (%)	38.2	34.5	34.7	35.4
Total operating expenses	(18,251)	(18,103)	(19,431)	(22,475)
EBITDA	6,638	7,193	8,393	9,252
EBITDA margin (%)	10.2	9.8	10.5	10.3
Depreciation	(949)	(979)	(1,022)	(1,105)
EBIT	5,689	6,214	7,371	8,147
Net interest	(1,281)	(1,339)	(1,225)	(1,006)
Other income	350	155	204	497
Profit before tax	4,758	5,031	6,350	7,638
Total taxation	(1,058)	(1,200)	(1,450)	(1,700)
Tax rate (%)	22.2	23.9	22.8	22.3
Profit after tax	3,700	3,831	4,900	5,938
Minorities	-	-	-	-
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	3,700	3,831	4,900	5,938
Adj. PAT margin (%)	5.7	5.2	6.1	6.6
Net non-recurring items	-	-	-	-
Reported net profit	3,700	3,831	4,900	5,938

Balance Sheet (Rsmn)

Y/E March	FY12	FY13E	FY14E	FY15E
Paid-up capital	624	624	624	624
Reserves & surplus	8,932	11,827	15,666	20,426
Net worth	9,557	12,452	16,291	21,050
Borrowing	9,900	6,957	6,261	5,358
Other non-current liabilities	556	556	556	556
Total liabilities	41,754	43,541	48,388	54,638
Gross fixed assets	33,356	34,623	35,876	37,634
Less: Depreciation	(19,447)	(20,426)	(21,449)	(22,554)
Net fixed assets	13,908	14,197	14,428	15,080
Add: Capital WIP	663	250	250	251
Total fixed assets	14,571	14,447	14,678	15,331
Total Investment	-	-	-	-
Inventory	13,678	14,660	16,023	17,939
Debtors	8,905	10,101	11,068	12,406
Cash & bank	2,336	1,767	3,815	5,823
Loans & advances	2,261	2,566	2,804	3,139
Current liabilities	21,741	23,576	25,280	27,674
Net current assets	5,442	5,518	8,431	11,633
Other non-current assets	-	-	-	-
Total assets	41,754	43,541	48,388	54,638

Cash flow (Rsmn)

Y/E March	FY12	FY13E	FY14E	FY15E
Profit before tax	4,758	5,031	6,350	7,638
Depreciation & Amortisation	(949)	(979)	(1,022)	(1,105)
Chg in working capital	(164)	(649)	(864)	(1,195)
Cash flow from operations	5,762	5,500	6,283	6,854
Capital expenditure	(1,277)	(1,268)	(1,253)	(1,758)
Cash flow from investing	(1,839)	(852)	(1,253)	(1,757)
Equity raised/ (repaid)	-	-	-	-
Debt raised/ (repaid)	(1,273)	(2,943)	(696)	(903)
Dividend paid	(811)	(936)	(1,061)	(1,179)
Cash flow from financing	(3,365)	(5,218)	(2,982)	(3,088)
Net chg in cash	558	(569)	2,048	2,009

Key ratios

Y/E March	FY12	FY13E	FY14E	FY15E
OPERATIONAL				
FDEPS (Rs)	29.6	30.7	39.3	47.6
CEPS (Rs)	37.3	38.5	47.5	56.4
DPS (Rs)	3.2	7.7	9.0	9.4
Dividend payout ratio (%)	10.7	25.2	22.8	19.8
GROWTH				
Net sales (%)	16.1	12.5	9.3	12.0
EBITDA (%)	15.1	8.4	16.7	10.2
Adj net profit (%)	20.5	3.5	27.9	21.2
FDEPS (%)	20.5	3.5	27.9	21.2
PERFORMANCE				
RoE (%)	46.0	34.8	34.1	31.8
RoCE (%)	29.7	31.1	34.2	32.5
EFFICIENCY				
Asset turnover (x)	3.9	4.2	4.4	4.6
Sales/ total assets (x)	1.7	1.7	1.7	1.7
Working capital/ sales (x)	-	-	0.1	0.1
Receivable days	49.9	50.3	50.4	50.5
Inventory days	85.2	80.7	81.3	81.2
Payable days	102.7	100.8	101.6	101.5
FINANCIAL STABILITY				
Total debt/ equity (x)	1.2	0.6	0.4	0.3
Net debt/ equity (x)	0.9	0.5	0.2	-
Current ratio (x)	1.3	1.2	1.3	1.4
Interest cover (x)	4.4	4.6	6.0	8.1
VALUATION				
PE (x)	-	21.6	16.9	13.9
EV/ EBITDA (x)	1.1	12.2	10.1	8.9
EV/ Net sales (x)	0.1	1.2	1.1	0.9
PB (x)	-	6.6	5.1	3.9
Dividend yield (%)	-	1.2	1.4	1.4
Free cash flow yield (%)	-	5.1	6.1	6.2

Axis Securities Limited *

Regd Office: Axis House, C2, Wadia International Centre, P.B Marg, Worli, Mumbai 400 025, India.
Corporate Office: 201-A Laxmi Towers, Bandra-Kurla Complex, Bandra (E), Mumbai - 400 051 ☎ (+91-22) 6680 3600

Axis Securities Limited Branch Details

Mumbai 201-A Laxmi Towers, Bandra-Kurla Complex, Bandra (E), Mumbai - 400 051 ☎ (+91-22) 6680 3600	Bangalore Unit No.10/3, Ground Floor, Empire Infantry, 29 Infantry Road, Bangalore – 560 001 ☎ (+91-80) 4033 3200 - 212
Baroda GF 9 Silverline, Sayajiganj, – 390 005 ☎ (+91-265) 302 6945	Chennai 11 Vijay Delux Apts., 7/4 First CIT Colony, Mylapore, Chennai– 600 004 ☎ (+91-44) 3918 4228 / 3989 3626
Delhi Unit No. 815 & 816, Ambadeep Building, Kasturba Gandhi Marg, New Delhi - 110001 ☎ (+91-11) 9818263885	Hyderabad 217 B Maheshwari Chambers Somajiguda, – 500 082 ☎ (+91-40) 3065 8501
Indore 320 City Centre, 570, M.G. Road, Indore (M.P.) - 452 001 ☎ (+91-0731) 3916601	Kolkata Om Towers, 4th Floor, 401, 32 Chowringhee Road Kolkata – 700 071 ☎ (+91-33) 4005 6201
Pune (Shivajinagar) 1248 A , Goodluck Chowk Gymkhana, Shivajinagar, Pune – 411 004 ☎ (+91-20) 3054 7125	Rajkot Toral Building, Office no 308, 3 rd Floor, Near Galaxy Hotel, – 360001 ☎ (+91-281) 3200170

Website: www.axissecurities.in • **Email:** directresearch@enam.com

This document has been prepared by AXIS Securities Ltd * – Privileged Client Group. Affiliates of AXIS Securities Ltd * focused on Institutional Equities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating and target price of the Affiliates research report.

The views expressed / recommendations made in this report are based on Technical Analysis techniques and could be at variance with the company's / group's views based on fundamental research.

The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent.

This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgement by any recipient.

Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Certain transactions - including those involving futures, options and other derivatives as well as non investment grade securities - involve substantial risk and are not suitable for all investors.

AXIS Securities Ltd * has not independently verified all the information given in this document. Accordingly, no representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document.

The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval.

AXIS Securities Ltd *, its affiliates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document.

This report has been prepared on the basis of information that is already available in publicly accessible media or developed through analysis of AXIS Securities Ltd *. The views expressed are those of the analyst and the Company may or may not subscribe to all the views expressed therein.

This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. Neither this document nor any copy of it may be taken or transmitted into the United State (to U.S. Persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject AXIS Securities Ltd * to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information.

Copyright in this document vests exclusively with AXIS Securities Ltd *.

* The name of the company has changed to Axis Securities Limited in the records of Registrar of Companies, Mumbai. Awaiting approval for change of name from Exchanges and SEBI.

Disclaimer of Axis Capital Limited:

The document has been prepared by Axis Securities Limited (formerly Enam Securities Direct Private Limited) (the company). Axis Capital Limited (hereinafter referred to as "ACL") has been permitted by the company to use the same and circulate it to its clients. This document is not, and should not be construed, as an offer to sell or solicitation to buy any securities in any jurisdiction. This document may not be reproduced, distributed or published, in whole or in part, without prior permission from the Company. ACL does not guarantee that the document is complete or accurate and it should not be relied on as such. Investors should make his/her own research, analysis and investigation as he/she deems fit and reliable to come at an independent evaluation of an investment (including the merits, demerits and risks involved), and should further take opinion of their own consultants, advisors to determine the advantages and risks of investment. ACL, its affiliates, group companies, directors, employees, agents or representatives shall not be held responsible, liable for any kind of consequential damages whether direct, indirect, special or consequential including but not limited to losses, lost revenue, lost profits, notional losses that may arise from or in connection with the use of the information in the document.

Registered office address:

Axis House, 8th Floor, Wadia International Center, Pandurang Budhkar Marg, Worli, Mumbai 400 025.

SEBI Registration no : NSE (CM)-INB 231387235, (FO)-INF 231387235, (CDS)-INE 231387235, BSE(CM)-INB 011387330, (FO)-INF011387330, ARN No. 51485

Main/Dealing office:

Solaris,"C" Bldg., 6th floor, Opp. L&T Gate No. 6, Saki Vihar Road, Powai, Mumbai-400072, Tel No.-18001030808,

Compliance Officer Details:

Name: Anand Shaha, E-Mail ID: compliance.officer@axisdirect.in, Tel No: 022-40754152.