

Institutional Equities
 India Research

Havells India

QUARTERLY REVIEW

 Bloomberg: HAVL IN
 Reuters: HVEL.BO

BUY

Decent Domestic Growth; One-time Gain in Sylvania; Maintain BUY

Decent growth in Havells Domestic Business: Havells India's stand-alone business top-line grew by 13% YoY to Rs. 9,642mn as top-line of lighting, consumer durables, switch gears and cables grew 14%, 33%, 15% and 6% YoY, respectively. EBITDA, excluding forex gains, of stand-alone business grew by 3% YoY to Rs. 1,192mn. The lower growth in EBITDA is due to one-time realization of higher customs duty over the last five years in this quarter. EBIT of lighting, consumer durables, switch gears and cables grew 4%, 9%, 1% and 24% YoY respectively. Reported and adjusted net income increased by 24% and -8% YoY, respectively. Reported net income was higher due to forex gain in this quarter vs forex loss in the same quarter last year. We believe delayed festival season will help sales growth in consumer durables and lighting in Q3FY13.

Slight de-growth in top-line and margin pressures in Sylvania: Sylvania's top-line de-grew by 5% YoY due to 9% de-growth in Europe revenue. EBITDA margin de-grew by 440 bps YoY to 3.3% in Q2FY13 due to sluggishness in Europe. Sylvania reported negative adjusted net profit of €1.7mn in Q2FY13 from €2.8mn in Q2FY12 due to margin pressures. However the company's reported net income grew by ~13x to €22.8mn due to one-time gain from an agreement with Osram Sylvania. We believe the recent price hikes will help Sylvania register EBITDA margin of 6% in FY13E.

Settlement with Osram Sylvania; resulting in one-time gain of \$38mn: Management has informed that Sylvania has entered an agreement with Osram Sylvania that both parties will be entitled to manufacture and brand products in each other's territories, provided the products are destined for sale in their own territories. In light of the allocation of rights, Havells Sylvania has received a one-time fee of US \$ 38 million.

Outlook & Valuation: We believe that the Company will register 11% CAGR in revenue in next two years. We also believe the adjusted net income will grow by 5% and 38% in FY13E and FY14E, respectively. At CMP of Rs. 568, the stock trades at 18.2x of FY13E and 13.2x of FY14E earnings. We maintain our "BUY" recommendation and revised up our price target to Rs. 646, which has a potential upside of 14%. We revised up our target price due to lower debt levels in Sylvania.

Key Financials

Y/E Mar (Rs. mn)	FY2010	FY2011	FY2012	FY2013E	FY2014E
Net Sales	51,626	56,126	65,182	72,280	80,372
EBIDTA	3,196	5,571	6,785	7,221	8,777
Net Profit	670	3,070	3,699	3,886	5,376
EPS (Rs)	5.4	24.6	29.6	31.1	43.1
PER (x)	105.8	23.1	19.2	18.2	13.2
EV/EBITDA (x)	25.1	14.4	11.4	10.3	8.1

Source: Company and Karvy Institutional Research

Recommendation

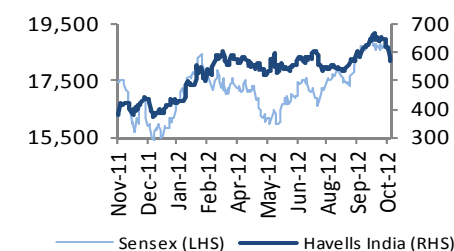
CMP:	Rs568
Target Price:	Rs646
Previous Target Price	Rs626
Upside (%)	14%

Stock Information

Market Cap. (Rs bn / US\$ mn)	71/1,311
52-week High/Low (Rs)	708/352
3m ADV (Rs mn /US\$ mn)	158/2.9
Beta	0.9
Sensex/ Nifty	18,431/5,598
Share outstanding (mn)	125

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(9)	2.4	56.0	47.5
Rel. to Sensex	(7.4)	(4.8)	50.7	23.6

Performance


Source: Bloomberg

Earnings Revision

	FY13E	FY14E
Sales	↓ 0.1	↑ 1.1
EBITDA	↓ 5.3	↑ 1.5
PAT	↓ 11.8	↑ 3.1

Source: Karvy Institutional Research

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Havells India
Exhibit 1: Havells Domestic Quarterly Performance

(Rs mn)	Q2FY12	Q1FY13	Q2FY13	QoQ (%)	YoY (%)
Total Op. Income	8,518	10,353	9,642	(6.9)	13.2
Operating Costs	7,489	9,131	8,349	(8.6)	11.5
EBIDTA	1,029	1,222	1,293	5.8	25.6
EBIDTA Margin (%)	12.1	11.8	13.4	1.6	1.3
Other Income	2	2	20	712.5	1,047.1
Interest	71	102	99	(2.5)	39.2
Depreciation	91	118	159	34.2	74.0
Foreign Exchange (gain)/loss	131	85	(101)		
Profit Before Tax	868	1,004	1,054	5.0	21.4
Tax	166	204	185	(9.2)	11.3
Tax Rate (%)	19.1	20.3	17.5	(2.7)	(1.6)
Rep. PAT	702	801	870	8.6	23.8
Adj. PAT	834	885	769	(13.2)	(7.8)

Source: Company, Karvy Institutional Research

Exhibit 2: Sylvania Quarterly Performance

(€ mn)	Q2FY12	Q1FY13	Q2FY13	QoQ (%)	YoY (%)
Total Op. Income	116	108	110	1.6	(5.1)
EBIDTA	8.9	5.8	3.6	(37.9)	(59.6)
EBIDTA Margin (%)	7.7	5.4	3.3	(2.1)	(4.4)
Other Income	1.5	3.5	-		
Interest	3.1	6.3	3.0	(52.4)	(3.2)
Depreciation	1.9	1.8	1.9	5.6	-
Foreign Exchange (gain)/loss	2.6	1.7	(0.2)		
Profit Before Tax	2.8	(0.5)	23.2	NA	728.6
Tax	1.1	0.9	0.4		
Tax Rate (%)	39.3	NA	1.7		
Rep. PAT	1.7	(1.4)	22.8	NA	1,241.2
Adj. PAT	2.8	(0.2)	(1.7)	NA	(160.7)

Source: Company, Karvy Institutional Research

Exhibit 3: Quarterly Performance (Consolidated)

(Rs mn)	Q2FY12	Q1FY13	Q2FY13	QoQ (%)	YoY (%)
Total Op. Income	15,850	14,959	16,992	13.6	7.2
EBIDTA	1,723	1,461	3,131	114.3	81.7
EBIDTA Margin (%)	10.9	9.8	18.4	8.7	7.6
Other Income	135	18	15		
Interest	295	299	335	12.0	13.6
Depreciation	214	211	287	36.0	34.1
Foreign Exchange (gain)/loss	303	(33)	(115)		
Profit Before Tax	1,047	1,002	2,639	163.4	152.1
Tax	239	206	216	4.9	(9.6)
Tax Rate (%)	22.8	20.6	8.2	(12.4)	(14.6)
Rep. PAT	808	797	2,423	204.0	199.9

Source: Company, Karvy Institutional Research

Exhibit 4: Variance from Our Earlier Estimates

Parameter	Previous Estimates		Revised Estimates		Variance (%)	
	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Revenue	72,337	79,465	72,280	80,372	(0.1)	1.1
EBITDA	7,624	8,646	7,221	8,777	(5.3)	1.5
Net Income	4,404	5,212	3,886	5,376	(11.8)	3.1
EPS	35.3	41.8	31.1	43.1	(11.8)	3.1
ROCE (%)	32.3	34.4	31.7	36.8	(0.6)	2.4
ROE (%)	39.8	35.0	33.5	34.3	(6.3)	(0.7)

Source: Company, Karvy Institutional Research

Exhibit 5: Segment-wise Performance – Havells Domestic

Parameter	Revenue					EBIT				
	Q2FY12	Q1FY13	Q2FY13	QoQ (%)	YoY (%)	Q2FY12	Q1FY13	Q2FY13	QoQ (%)	YoY (%)
Lighting & Fixtures	1,374	1,498	1,561	4.2	13.6	336	345	351	1.9	4.4
Consumer Durables	1,220	2,102	1,623	(22.8)	33.1	338	532	367	(31.0)	8.7
Switch Gears	2,218	2,415	2,551	5.6	15.0	839	879	847	(3.6)	1.0
Cables & Wires	3,692	4,313	3,907	(9.4)	5.8	342	425	423	(0.5)	23.6
Total	8,504	10,328	9,642	(6.6)	13.4	1,855	2,181	1,988	(8.8)	7.2

Source: Company, Karvy Institutional Research

Financials (Consolidated)

Exhibit 6: Profit & loss statement

Y/E Mar (Rs mn)	FY10	FY11	FY12	FY13E	FY14E
Net revenues	51,626	56,126	65,182	72,280	80,372
% Growth	(5.7)	8.7	16.1	10.9	11.2
Raw Material	32,448	38,066	43,084	45,363	49,694
Staff	7,602	6,319	7,806	8,529	9,484
Operating Expenses	8,381	6,171	7,507	11,167	12,417
Operating expenses	48,430	50,556	58,397	65,059	71,595
EBIDTA	3,196	5,571	6,785	7,221	8,777
% Growth	10.7	74.3	21.8	6.4	21.5
EBIDTA margin (%)	6.2	9.9	10.4	10.0	10.9
Other income	222	237	202	252	299
Interest	979	902	1,281	1,418	945
Depreciation	837	804	949	1,048	1,149
Profit Before Tax	1,601	4,102	4,757	5,007	6,982
Provision for tax	932	1,031	1,058	1,122	1,606
Effective tax rate (%)	58.2	25.1	22.2	22.4	23.0
Adjusted Net Profit	670	3,070	3,699	3,886	5,376
% Growth	74.0	358.6	20.5	5.0	38.3
Reported Net Profit	670	3,035	3,699	5,441	5,376

Source: Company, Karvy Institutional Research

Exhibit 7: Balance Sheet

Y/E Mar (Rs. mn)	FY10	FY11	FY12	FY13E	FY14E
Equity capital	312	624	624	624	624
Reserves & surplus	3,690	5,914	8,932	13,003	17,116
Shareholders' funds	4,004	6,543	9,557	13,628	17,741
Short term Loans	2,864	3,754	4,299	4,200	2,500
Long Term Loans	7,799	7,419	4,386	1,800	500
Total Loans	10,664	11,173	8,685	6,000	3,000
Deferred tax liability	434	559	556	556	556
Total Liabilities and Equity	15,102	18,275	18,798	20,184	21,297
Gross block	26,963	28,454	26,476	28,039	29,239
Depreciation	18,089	18,499	16,590	17,638	18,787
Net block	8,874	9,955	9,886	10,401	10,451
Capital WIP	336	249	663	300	300
Goodwill	3,212	3,354	3,625	3,625	3,625
Investments	-	-	-	-	-
LT Loans and Advances	-	-	462	554	665
Inventory	8,246	10,860	13,678	15,251	16,747
Debtors	6,982	7,724	8,909	9,830	10,931
Cash & Bank Balance	1,481	1,780	2,336	2,697	2,889
Current Assets	18,556	22,077	26,721	29,808	33,115
Sundry Creditors	6,147	6,739	6,953	7,795	8,540
Other current liabilities	9,729	10,621	16,003	17,106	18,717
Current Liabilities	15,876	17,361	22,956	24,901	27,257
Net current assets	2,680	4,717	3,765	4,907	5,858
Total Assets	15,102	18,275	18,798	20,184	21,297

Source: Company, Karvy Institutional Research

Exhibit 8: Cash Flow Statement

Y/E Mar (Rs mn)	FY10	FY11	FY12	FY13E	FY14E
EBIT	2,359	4,766	5,837	6,173	7,627
(Inc.)/Dec in working capital	2,235	(1,738)	1,046	(873)	(870)
Cash flow from operations	4,594	3,028	6,882	5,299	6,757
Other income	222	237	202	252	299
Depreciation	837	804	949	1,048	1,149
Interest paid (-)	(979)	(902)	(1,281)	(1,418)	(945)
Tax paid (-)	(971)	(1,031)	(1,058)	(1,122)	(1,606)
Dividends paid (-)	(150)	(312)	(943)	(1,370)	(1,263)
Deferred Tax Liability	531	124	(2)	-	-
Extra-ordinaries	-	(36)	-	1,555	-
Net cash from operations	4,083	1,913	4,748	4,246	4,393
Capital expenditure (-)	2,337	(1,546)	896	(1,200)	(1,200)
Net cash after capex	6,420	367	5,644	3,046	3,193
Inc./(Dec.) in short-term borrowing	(1,518)	890	545	(99)	(1,700)
Inc./(dec.) in long-term borrowing	(97)	(380)	(3,033)	(2,586)	(1,300)
Inc./(dec.) in borrowings	(1,615)	509	(2,488)	(2,685)	(3,000)
(Inc.)/Dec. in investments	-	-	-	-	-
Equity issue/(Buyback)	(13)	99	(5)	-	-
Cash from Financial Activities	(1,627)	608	(2,493)	(2,685)	(3,000)
Opening cash	2,473	1,481	1,780	2,336	2,697
Closing cash	1,481	1,780	2,336	2,697	2,889
Change in cash	(992)	299	556	360	193

Source: Company, Karvy Institutional Research

Exhibit 9: Key Ratios

Y/E Mar	FY10	FY11	FY12	FY13E	FY14E
Raw Material Cost / Sales (%)	62.9	67.8	66.1	62.8	61.8
Manpower Cost / Sales (%)	14.7	11.3	12.0	11.8	11.8
Operating & Other cost / Sales (%)	16.2	11.0	11.5	15.5	15.5
Revenue Growth (%)	(5.7)	8.7	16.1	10.9	11.2
EBIDTA Margins (%)	6.2	9.9	10.4	10.0	10.9
Net Income Margins (%)	1.3	5.5	5.7	5.4	6.7
ROCE (%)	14.1	28.6	31.5	31.7	36.8
ROE (%)	13.2	58.2	46.0	33.5	34.3

Source: Company, Karvy Institutional Research

Exhibit 10: Valuation parameters

Y/E Mar	FY10	FY11	FY12	FY13E	FY14E
EPS (Rs)	5.4	24.6	29.6	31.1	43.1
P/E (x)	105.8	23.1	19.2	18.2	13.2
BV (Rs)	32.1	52.4	76.6	109.2	142.2
P/BV (x)	17.7	10.8	7.4	5.2	4.0
EV/EBIDTA (x)	25.1	14.4	11.4	10.3	8.1
Fixed assets turnover ratio (x)	5.9	6.0	6.6	7.1	7.7
Debt/Equity (x)	2.66	1.71	0.91	0.44	0.17
EV/Sales (x)	1.6	1.4	1.2	1.0	0.9

Source: Company, Karvy Institutional Research

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Stock Ratings		Absolute Returns
Buy	:	> 15%
Hold	:	5-15%
Sell	:	< 5%

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