

BUY

TP: INR 675.00

▲ 15.1%

Havells India

HAVL IN

Europe ops a drag but upgrade to BUY on valuations

HAVL's Q2FY13 results missed expectations on lower offtake in the Cable segment – Standalone sales/PAT came in at Rs 9.6bn/Rs 802mn (up 13%/1% YoY). Q2FY13 standalone EBITDA margin slipped 130bps YoY to 12.4% on higher ad spends. Sylvania's performance was impacted by its European operations, where slacking demand impacted volumes/margins. But we believe at the current price, risk-reward is favourable as domestic margin is expected to surprise positively in H2FY13, while European operations' metrics are likely to improve in H2 – upgrade to BUY.

- ➔ **Lower offtake in underground cables impacts revenues:** The Cables segment (44% of business) witnessed a muted growth of 6% YoY vs. 29% in FY12 on lower offtake in underground cables, which in turn were impacted by weaker demand. Growth in Consumer durables (16% of business) remained strong at 33% YoY, while the Switchgears/Lighting segments grew 15%/14%.
- ➔ **Higher ad spending dents operating margins:** Ad spending in Q2FY13 rose Rs 0.2b YoY or Rs.0.348b, which impacted EBITDA margin (it slipped 130bps YoY to 12.4%). The management has budgeted an ad spending of Rs 1.3b for FY13 (of which spending in H1 was Rs 784mn), and indicated a lower ad spending in H2, implying higher expected margins in H2.
- ➔ **European operations impacted by weaker demand and lower volumes:** Impacted by weaker demand, Q2FY13 sales in Europe declined 13% YoY (Sales in Americas up 9% YoY). EBITDA margin in Europe slipped 570bps YoY to 0.8%.
- ➔ **Upgrade to BUY:** In our view, domestic margins are expected to surprise positively in H2FY13 on lower ad spending, while European operation metrics are expected to improve in H2. We believe, risks and rewards are favourably placed at current valuations (P/E of 14x FY14E). Hence, we upgrade to BUY but maintain our estimates and TP at Rs 675.

Financial Highlights

Y/E 31 Mar	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue (INR mln)	56,187	65,579	73,188	82,484	92,659
EBITDA (INR mln)	5,631	7,182	7,355	8,643	9,988
Adjusted net profit (INR mln)	3,060	3,866	4,251	5,210	6,187
Adjusted EPS (INR)	24.3	31.0	34.1	41.8	49.6
Adjusted EPS growth (%)	336.2	22.0	14.9	22.6	18.8
DPS (INR)	2.5	6.5	6.5	6.5	6.5
ROIC (%)	25.1	30.6	27.9	31.1	35.2
Adjusted ROAE (%)	57.6	46.0	37.9	34.8	31.3
Adjusted P/E (x)	15.3	19.3	17.2	14.0	11.8
EV/EBITDA (x)	9.6	10.8	10.6	8.6	7.0
P/BV (x)	7.1	7.5	5.7	4.3	3.3

Source: Company, Bloomberg, RCML Research

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PRICE CLOSE (29 Oct 12)

INR 586.45

MARKET CAP

INR 73,174 mln

USD 1,354 mln

SHARES O/S

124.8 mln

FREE FLOAT

38.0%

3M AVG DAILY VOLUME./VALUE

0.2 mln/ USD 2.7 mln

52 WK HIGH

INR 667.35

52 WK LOW

INR 355.45

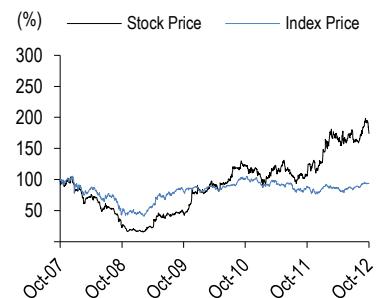




Fig 1 - Actuals vs. estimated

Rs mn	Actual	Estimated	Variance
Net Sales	9,642	10,733	-10.2%
EBTIDA	1,192	1,415	-15.8%
EBTIDA margin	12.4%	13.2%	-80 bps
Adj. PAT	802	979	-18.1%

Source: Company, RCML Research

Fig 2 - Quarterly estimates – Standalone

Rs mn	Q2FY13	Q2FY12	YoY	Q1FY13	QoQ	H1FY13	H1FY12	YoY
Net Sales	9,642	8,518	13.2%	10,353	-6.9%	19,995	16,545	20.9%
Direct costs	5,888	5,151	14.3%	6,527	-9.8%	12,415	9,979	24.4%
Employees Cost	433	358	21.0%	432	0.3%	865	690	25.3%
Other expenditure	2,129	1,848	15.2%	2,088	2.0%	4,218	3,831	10.1%
EBTIDA	1,192	1,161	2.7%	1,307	-8.8%	2,498	2,045	22.2%
Depreciation	159	91	74.0%	118	34.2%	277	174	58.6%
EBIT	1,033	1,070	-3.4%	1,188	-13.1%	2,222	1,870	18.8%
Interest	99	71	39.2%	102	-2.5%	201	155	29.8%
Other income	20	2		2		22	3	606.5%
Exceptional items gains/(loss)	101	(131)		(85)		17	(131)	
PBT	1,054	868	21.4%	1,004	5.0%	2,059	1,587	29.7%
Income Tax	185	166	11.3%	204	-9.2%	388	309	25.5%
PAT	870	702	23.8%	801	8.6%	1,671	1,277	30.8%
Extraordinary items	68	(88)		(57)		11	(88)	
Adj. PAT	802	790	1.4%	857	-6.5%	1,659	1,365	21.5%

As a % of sales

RM cost	61.1	60.5		63.0		62.1	60.3	
Employee	4.5	4.2		4.2		4.3	4.2	
Other expenses	22.1	21.7		20.2		21.1	23.2	
EBTIDA margin	12.4	13.6		12.6		12.5	12.4	
PAT margin	9.0	8.2		7.7		8.3	8.3	

Source: Company, RCML Research



Fig 3 - Segmental performance

Rs mn	Q2FY13	Q2FY12	Q1FY13
Switchgear	2,551	2,218	2,415
Cable	3,907	3,692	4,313
Lighting & Fixtures	1,561	1,374	1,498
Electrical Consumer Durables	1,623	1,220	2,102
Growth YoY %			
Switchgear	15%	27%	28%
Cable	6%	30%	21%
Lighting & Fixtures	14%	31%	24%
Electrical Consumer Durables	33%	26%	57%
EBIT			
Switchgear	847	839	879
Cable & Wire	423	342	425
Lighting & Fixtures	351	336	345
Electrical Consumer Durables	367	338	532
EBIT Margins (%)			
Switchgear	33%	38%	36%
Cable & Wire	11%	9%	10%
Lighting & Fixtures	23%	24%	23%
Electrical Consumer Durables	23%	28%	25%
Capital Employed			
Switchgear	4,114	4,201	3,755
Cable & Wire	2,351	1,506	2,516
Lighting & Fixtures	2,975	2,593	2,628
Electrical Consumer Durables	1,393	1,343	1,015
Others	6,920	7,962	6,970
Total	17,754	17,605	16,884

Source: Company, RCML Research

Fig 4 - Sylvania performance

	Q2FY13	Q2FY12	YoY	Q1FY13	QoQ
Revenue, Mn €					
Europe	59.9	69	-13.2%	61.1	-2.0%
Americas	43.2	39.7	8.8%	39.8	8.5%
EBITDA, Mn €					
Europe	0.5	4.5	-88.9%	2.6	-80.8%
Americas	3.3	4.1	-19.5%	2.9	13.8%
EBITDA margin %					
Europe	0.8%	6.5%		4.3%	
Americas	7.6%	10.3%		7.3%	

Source: Company, RCML Research

The Cables segment witnessed a muted growth on lower offtake in underground cables, which in turn were impacted by weaker demand

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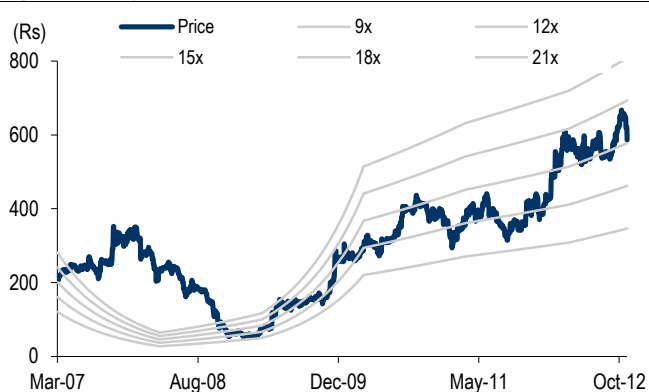
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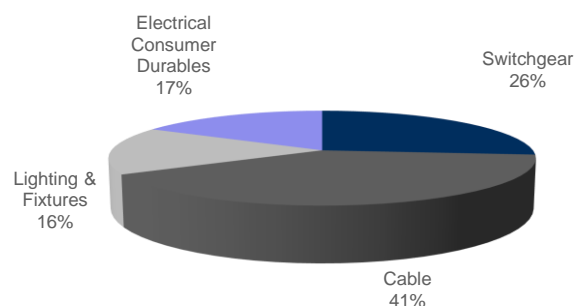
**Results Review****INDIA
INDUSTRIALS****Fig 5 - Consolidated performance**

Rs mn	Q2FY13	Q2FY12	YoY	Q1FY13	QoQ
Net Revenue	16,990	15,850	7.2%	17,778	-4%
EBITDA, adj for one off gain	1,454	1,705	-14.7%	1,738	-16%
Less: Depreciation	287	214	34.1%	246	17%
Less: Interest	335	277	20.9%	575	-42%
Less : Foreign Exchange Fluctuation (net)	115	301		203	
Add: Other income	15	135	-88.9%	264	-94%
Profit Before Tax	962	1,047	-8.1%	979	-2%
Less: Tax expenses	216	240	-10.0%	266	-19%
Net Profit after tax	746	808	-7.6%	713	5%
EBITDA margin	8.6%	10.8%		9.8%	

Source: Company, RCML Research

Fig 6 - One-year forward P/E band chart

Source: Bloomberg, RCML Research

Fig 7 - Segmental sales, Q2FY13 standalone

Source: Company, RCML Research



Per Share Data

Y/E 31 Mar (INR)	FY11A	FY12A	FY13E	FY14E	FY15E
Reported EPS	24.1	29.6	34.1	41.8	49.6
Adjusted EPS	24.3	31.0	34.1	41.8	49.6
DPS	2.5	6.5	6.5	6.5	6.5
BVPS	52.4	76.6	103.0	137.2	179.2

Valuation Ratios

Y/E 31 Mar (x)	FY11A	FY12A	FY13E	FY14E	FY15E
EV/Sales	1.0	1.2	1.1	0.9	0.8
EV/EBITDA	9.6	10.8	10.6	8.6	7.0
Adjusted P/E	15.3	19.3	17.2	14.0	11.8
P/BV	7.1	7.5	5.7	4.3	3.3

Financial Ratios

Y/E 31 Mar	FY11A	FY12A	FY13E	FY14E	FY15E
Profitability & Return Ratios (%)					
EBITDA margin	10.0	11.0	10.0	10.5	10.8
EBIT margin	8.6	9.5	8.8	9.3	9.7
Adjusted profit margin	5.4	5.6	5.8	6.3	6.7
Adjusted ROAE	57.6	46.0	37.9	34.8	31.3
ROCE	23.4	28.2	23.4	22.4	21.8
YoY Growth (%)					
Revenue	8.4	16.7	11.6	12.7	12.3
EBITDA	64.3	27.5	2.4	17.5	15.6
Adjusted EPS	336.2	22.0	14.9	22.6	18.8
Invested capital	10.3	10.6	11.2	3.5	3.4
Working Capital & Liquidity Ratios					
Receivables (days)	48	46	46	43	41
Inventory (days)	109	123	127	124	122
Payables (days)	110	102	102	99	97
Current ratio (x)	1.2	1.2	1.4	1.6	1.7
Quick ratio (x)	0.6	0.6	0.7	0.9	1.0
Turnover & Leverage Ratios (x)					
Gross asset turnover	2.0	2.3	2.6	2.8	3.0
Total asset turnover	1.7	1.7	1.6	1.6	1.6
Net interest coverage ratio	5.4	4.9	5.6	6.5	7.2
Adjusted debt/equity	1.5	0.9	0.8	0.7	0.5

DuPont Analysis

Y/E 31 Mar (%)	FY11A	FY12A	FY13E	FY14E	FY15E
Tax burden (Net income/PBT)	74.6	77.8	76.4	76.4	76.4
Interest burden (PBT/EBIT)	84.2	76.3	86.8	89.0	90.4
EBIT margin (EBIT/Revenue)	8.6	9.5	8.8	9.3	9.7
Asset turnover (Revenue/Avg TA)	168.7	169.5	163.6	161.2	158.0
Leverage (Avg TA/Avg equities)	632.7	480.9	399.1	341.4	297.1
Adjusted ROAE	57.6	46.0	37.9	34.8	31.3



Income Statement

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
Total revenue	56,187	65,579	73,188	82,484	92,659
EBITDA	5,631	7,182	7,355	8,643	9,988
EBIT	4,827	6,234	6,406	7,661	8,960
Net interest income/(expenses)	(902)	(1,281)	(1,154)	(1,186)	(1,247)
Other income/(expenses)	8	17	310	343	389
Exceptional items	133	(212)	0	0	0
EBT	4,066	4,757	5,563	6,819	8,103
Income taxes	(1,031)	(1,058)	(1,312)	(1,609)	(1,916)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	(4)	0	0	0	0
Reported net profit	3,031	3,699	4,251	5,210	6,187
Adjustments	29	167	0	0	0
Adjusted net profit	3,060	3,866	4,251	5,210	6,187

Balance Sheet

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
Accounts payables	14,924	17,705	19,015	21,035	23,092
Other current liabilities	0	0	0	0	0
Provisions	3,904	5,096	4,326	4,387	4,449
Debt funds	9,569	8,685	10,784	11,396	12,015
Other liabilities	701	712	712	712	712
Equity capital	624	624	624	624	624
Reserves & surplus	5,914	8,932	12,234	16,495	21,733
Shareholders' fund	6,537	9,556	12,858	17,119	22,357
Total liabilities and equities	35,636	41,754	47,694	54,648	62,624
Cash and cash eq.	1,779	2,336	5,873	10,095	15,302
Accounts receivables	7,721	8,905	9,444	10,130	10,835
Inventories	10,860	13,678	15,385	17,253	19,161
Other current assets	1,325	1,799	1,944	2,067	2,192
Investments	0	0	0	0	0
Net fixed assets	9,955	10,284	10,177	10,227	10,254
CWIP	249	663	828	833	838
Intangible assets	3,354	3,625	3,578	3,578	3,578
Deferred tax assets, net	0	0	0	0	0
Other assets	393	465	465	465	465
Total assets	35,635	41,754	47,694	54,648	62,624

Cash Flow Statement

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
Net income + Depreciation	3,835	4,648	5,199	6,192	7,215
Interest expenses	902	1,281	1,154	1,186	1,247
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(3,461)	(1,695)	(1,083)	(656)	(680)
Other operating cash flows	(902)	(1,114)	(1,154)	(1,186)	(1,247)
Cash flow from operations	375	3,120	4,116	5,535	6,535
Capital expenditures	(1,719)	361	(1,521)	(1,038)	(1,060)
Change in investments	0	0	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(1,719)	361	(1,521)	(1,038)	(1,060)
Equities issued	323	0	0	0	0
Debt raised/repaid	(1,095)	(884)	2,098	613	619
Interest expenses	0	0	0	0	0
Dividends paid	(365)	(949)	(949)	(949)	(949)
Other financing cash flows	2,779	(1,090)	(208)	61	62
Cash flow from financing	1,642	(2,923)	942	(276)	(268)
Changes in cash and cash eq	298	558	3,536	4,222	5,207
Closing cash and cash eq	1,779	2,336	5,873	10,095	15,302

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