



Economy News

- ▶ India Inc has approached the Prime Minister's Economic Advisory Council (PMEAC) to improve the perception about India as an investment destination. During the deliberation, the CII President, Mr Adi Godrej, said, "The economy and particularly the industry need a set of immediate measures for revival of growth. The macro economic conditions are worsening at a faster pace than anticipated and we need to stem this at this stage. I am requesting that an 'Economic Revival Package' be announced by the Government and RBI in close coordination." (BL)
- ▶ The textile industry is hopeful of meeting the revised enhanced export target by tapping into new markets. Despite demand slowdown, the Government had fixed textile export target at \$40.5 billion (about Rs 2.2 trn) for this fiscal against \$33 billion (Rs 1.8 trn) achieved last year. The export target includes apparel, handicrafts and carpets. (BL)
- ▶ Bankers agreed that inflationary conditions offered little room for lowering interest rates, but stuck to their demand for a rate cut, saying it was the only tool available to revive the "animal spirits" in the economy in the absence of policy action. In their customary pre-monetary policy meeting with Reserve Bank of India (RBI) Deputy Governor Subir Gokarn, bank chiefs also acknowledged that rate cut was not a panacea for the nation's economic ills. (ET)

Corporate News

- ▶ Within a week of KPMG submitting a forensic report on its corporate governance procedures, **OnMobile's** founder, CEO & managing director Arvind Rao has resigned. (BS)
- ▶ Dashing hopes of an early resolution of the fuel supply logjam between **Coal India (CIL)** and power firms, the state-run company has postponed its board meeting to next week. (BS)
- ▶ The Karnataka State Pollution Control Board (KSPCB) has asked **Graphite India Ltd** to close its Bangalore plant till further orders, citing environmental pollution. (BS)
- ▶ The Gujarat government's sales tax department has attached five bank accounts of **Essar Oil** in Jamnagar district and recovered Rs 40 mn as part of pending sales tax recovery of close to Rs 88 bn. (BS)
- ▶ The minority shareholders led by founder promoters of **Zenotech Labs**, now controlled by the Japanese drug firm Daiichi Sankyo, have moved the Andhra Pradesh High Court challenging the validity of foreign collaboration approval issued by India's Foreign Investment Promotion Board (Fipb). (ET)
- ▶ Global ratings agency Standard & Poor's Ratings Services on Monday downgraded **Tata Power's** outlook to 'negative from stable'. This is due to the private power producer's rising financial risk because of losses for running Mundra Ultra Mega Power Project (UMPP). (BL)
- ▶ **ONGC** has started releasing natural gas to ONGC-Tripura Power Corporation (OTPC) paving the way for generation of power by a 726.6-MW gas-based power project at Palatana in Gomati district. (BL)
- ▶ Hurt by reduced global spending from struggling telecom equipment vendors on R&D, India's third-largest IT exporter, **Wipro Technologies**, is rejigging its billion-dollar telecom vertical to focus more on areas like telecom analytics and mobile broadband, where the end customers are telecom operators. (ET)
- ▶ **Shriram Transport Finance Co. Ltd**, the country's largest truck financier, has decided to prune its plans to raise Rs. 20 bn by selling non-convertible debentures (NCDs) because of uncertainty on interest rates and flat growth in the sales of heavy trucks. (Mint)

Equity

	9 Jul 12	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	17,392	(0.7)	4.0	0.9
NIFTY Index	5,275	(0.8)	4.1	0.6
BANKEX Index	12,173	(0.7)	5.7	3.5
BSET Index	5,651	(0.1)	0.6	(5.5)
BSETCG INDEX	10,025	(1.2)	5.7	0.9
BSEOIL INDEX	8,019	(0.5)	3.1	0.6
CNXMcap Index	7,402	(1.5)	5.2	(3.1)
BSESMCAP INDEX	6,750	(1.1)	6.7	(0.6)
World Indices				
Dow Jones	12,736	(0.3)	1.5	0.2
Nasdaq	2,932	(0.2)	2.6	(2.0)
FTSE	5,627	(0.6)	3.5	0.6
NIKKEI	8,897	(1.4)	5.5	(6.4)
HANGSENG	19,428	(1.9)	5.2	(4.3)

Value traded (Rs cr)

	9 Jul 12	% Chg - Day
Cash BSE	1,721	(16.5)
Cash NSE	8,430	(13.8)
Derivatives	86,848	5.3

Net inflows (Rs cr)

	6 Jul 12	% Chg	MTD	YTD
FII	609	33.4	5,821	47,901
Mutual Fund	(246)	296.1	(734)	(6,793)

FII open interest (Rs cr)

	6 Jul 12	% Chg
FII Index Futures	13,780	(1.1)
FII Index Options	40,191	2.8
FII Stock Futures	25,218	(0.1)
FII Stock Options	1,103	8.2

Advances / Declines (BSE)

	9 Jul 12	A	B	T	Total	% total
Advances	28	819	238	1,085	37	
Declines	171	1,346	245	1,762	60	
Unchanged	3	69	31	103	3	

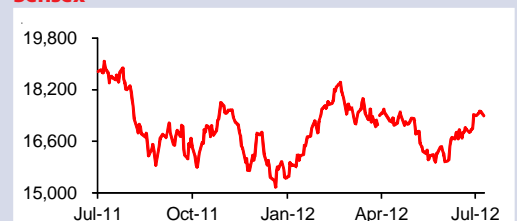
Commodity

	9 Jul 12	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	85.1	(1.0)	1.2	(15.7)
Gold (US\$/OZ)	1,588.3	0.6	(0.2)	(4.3)
Silver (US\$/OZ)	27.4	1.5	(4.2)	(13.9)

Debt / forex market

	9 Jul 12	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.3	8.3	8.4	N/A
Re/US\$	55.9	55.5	55.7	51.1

Sensex



COMPANY UPDATE

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HAVELLS INDIA LTD (HIL)

PRICE: Rs.563
TARGET PRICE: Rs.520

RECOMMENDATION: REDUCE
FY12E P/E: 14.3x

- ❑ Our channel check and interaction with the company's management highlights that demand for consumer appliances has been resilient especially in the premium segment.
- ❑ Pricing pressure and competition has been more intense in the economy segment which is primarily dominated by the unorganized sector. Havells operates in the premium segment and is well poised to grow on back of strong brand franchise and robust distribution network.
- ❑ HIL's management has also recognized improving demand outlook in the LATAM region whereas Europe has been observing sluggish demand. We believe that the company would likely maintain margins in Sylvania in FY13 aided by 1) higher operating leverage 2) continued cost rationalizing across verticals and 3) pick-up in demand in new geographies.
- ❑ We tweak FY13 earnings estimate to factor in favourable domestic demand outlook and elongated summer in Northern India. However, we believe that company's stock is adequately valued at current levels. We highlight that the stock has underperformed the broader market in the last three months. In view of the potential downside to our target price, we maintain our 'Reduce' rating on company stock with a DCF based revised price target of Rs 520 (Rs 500 earlier).

We met with the management of HIL and also did a channel check to get a perspective on the overall business environment unfolding in domestic markets. Below are the key highlights of our interaction.

Demand for consumer appliances continues to remain strong especially in the premium segment; elongated summer season has resulted in clearing of fans / cooler inventory

- We interacted with the consumer appliances dealers in North India and have found that the demand for home appliances (Brown Goods) continues to remain strong despite challenging macro environment and increasing inflation which are believed to have an inverse relationship with the overall demand.
- We believe that the increasing disposable income within Indian households and evolving lifestyle patterns of consumers is leading to a peculiar shift in the preference for branded products and this has been driving the growth of the organized sector.
- Competition has been more intense and pricing pressure is more acute in the budget segment which is mainly dominated by the unorganized sector. Bajaj Electricals has a strong presence in this category.
- Demand for premium brands like Havells, Philips and Crompton has been resilient and is expected to remain strong in FY13. Competition in premium brand category has been lower as compare to the budget category. Bajaj Electricals is present in premium category through its Morphy Richards brand.
- We believe that changing life style pattern in India and shortening of product life cycle due to higher rate of technological obsolescence has been driving the growth of premium brand products. We highlight that consumers in this category are highly brand conscious and often pays 25-30% premium over the budget category products.
- Energy efficiency is one of the emerging value propositions which has emerged over the past few years. With cost of power moving upward, more and more customers are opting for less power consuming solutions.

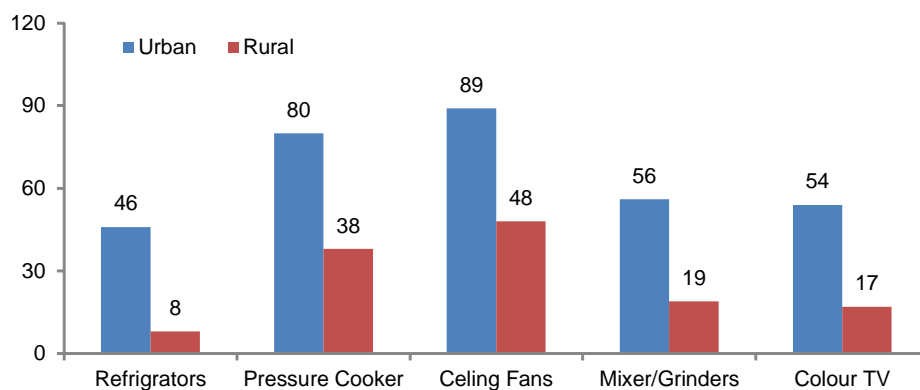
Summary table

(Rs mn)	FY11	FY12E	FY13E
Sales	56,187	65,579	68,405
Growth (%)	5.6	10.2	10.8
EBITDA	5,800	6,971	7,765
EBITDA margin (%)	10.3	10.6	11.4
PBT	4066	4761	6227
Net profit	3,035	3,703	4,608
EPS (Rs)	25.2	30.8	38.3
Growth (%)	336.0	22.0	24.4
CEPS (Rs)	31.9	38.7	45.4
BV (Rs/share)	54.3	85.1	123.4
DPS (Rs)	1.3	1.4	1.4
ROE (%)	57.6	44.1	36.7
ROCE (%)	23.0	23.9	23.8
Net cash (debt)	(9,398)	(7,516)	(4,497)
NW Capital (Days)	18.5	24.7	30.2
EV/Sales (x)	1.3	1.1	1.1
EV/EBITDA (x)	12.9	10.7	9.6
P/E (x)	21.7	17.7	14.3
P/Cash Earnings (x)	17.1	14.1	12.0
P/BV (x)	10.1	6.4	4.4

Source: Company, Kotak Securities - Private Client Research

- Penetration level of organized players like Havells, Bajaj Electricals etc. has been consistently increasing in semi-urban and rural market. The primary reason for this shift is explained by the unprecedented market growth of over 25% in these regions on back of increased income levels of individuals and improved electrification.
- Currently companies have been trying to push volumes by providing various offers and discounts to the customers in the white goods. Demand for brown goods mainly 'Kitchen Appliance' has more or less remained unaffected by the current slowdown.

Consumer Durables Penetration (%) FY12



Source: Company, Kotak Securities - Private Client Research

- Fans and cooler category that comprises of over 10% of Indian consumer durable market has benefited due to elongated summer season in the Northern parts of the country. One of the dominant local air cooler manufacturers in Madhya Pradesh has revealed that the demand for fans/coolers has picked up substantially in the month of June.
- Competition is more intense in Lighting and luminaries' space due to the presence of no. of small-mid-sized players. Lately there has been meaningful increase in competition from Chinese players also, who strategize to sweep market by introducing various energy saving products.
- However demand in lighting & luminaries space continues to remain strong for organized players. Margins continue to remain robust at 25-28% levels in this space. Players like Bajaj and Havells are confident of increasing revenues from this product category over FY13.
- We believe that the distribution network remains an important function for any player (existing or new entrant) to succeed. Companies have been expanding their product offerings through the same distribution network. Havells and Bajaj Electricals have a distribution network of over 5000 dealers across India.

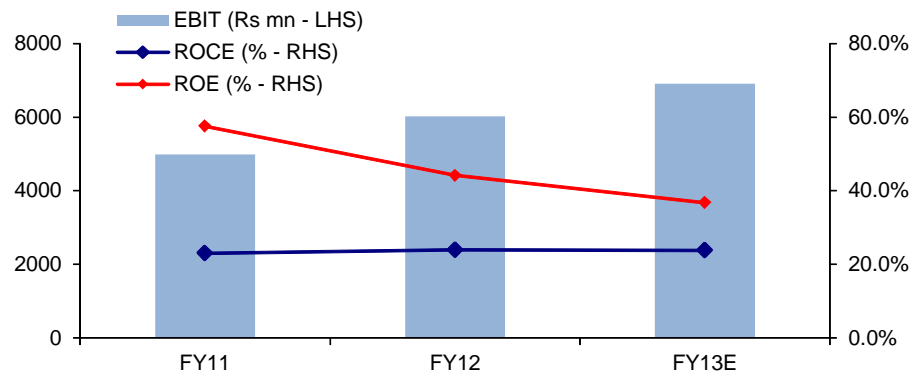
Havells revenues to grow on back of robust domestic demand; Sylvania likely to maintain margins in FY13

- Company has been observing reasonable demand for its products in domestic market. With elongated summer season this year, company has been observing significant pickup in demand for fans and coolers.
- Company has successfully launched complete range of kitchen appliances last year. It has also launched Geysers which has been observing reasonable demand. Company sold 45000 units of geysers in FY12 and aims to sell 100000 units in FY13.
- Domestic MCB market continues to remain strong. We highlight that the revenue growth in the division had been sluggish in the past on account of declining export to the UK region.

- Company has been ramping up switchgears sales in the international market mainly in UK region and expects to maintain margins at the levels of over 20%. It has been observing reasonable traction in the segment currently. Management expects 10-15% growth for the segment in FY13
- Management is confident of maintaining margins in the domestic market going ahead on account of 1) steady cost management across the board 2) increase in contribution from new product launches going ahead.
- Company has been trying to reduce its dependence on sourcing from geographies like China. We have highlighted in our update on Bajaj Electricals (dated: 29th May 2012) that considering the current INR trend and implication of various overheads such as forwarding charges etc, sourcing from India is becoming more viable than importing from countries like China etc in majority of product categories.
- Company continues to enjoy strong brand franchise and has been consistently strengthening its distribution network. It current has over 5000 dealers across India and has been adding nearly 700-800 dealers per annum.
- Company (including Sylvania) is present in nearly 50 countries across Europe and Asia. Moreover it has been witnessing enormous potential in the emerging markets like Africa where housing and real estate market is picking up.
- With an aim to establish itself as a prominent player in these markets, company is planning to strengthen Sylvania's dealer franchise in these regions. It would be offering its diverse range of products within the parent brand Havells and the acquired brand Sylvania to the overseas customers.
- Going ahead, the company expects substantial amount of revenues through exports on account of revival of the European economy giving a boost to the legacy market of Sylvania coupled with new market development in Asia and Africa regions.
- Management has concluded successful restructuring of Sylvania in last fiscal and expects to maintain operating margins in FY13. In FY12, company has repaid the entire recourse debt of EUR 30 mn taken for Sylvania acquisition.

Revenues to grow on back of robust domestic demand; successful restructuring at Sylvania to result in value accretion

- We project consolidated revenues to grow by 11% in FY13E Rs. 65 bn in FY12 to Rs. 68 bn in FY13E. Within the revenue streams, we expect domestic sales to grow at 16% driven by all the segments-switchgears, wires & cables and consumer appliances.
- We expect exports demand to improve slightly in FY13E on account of improvement in demand from European region. We are also positive on the growth outlook in the Latin America, Africa and Asia region.
- We opine that the company would continue to prudently manage its overheads in Havells and Sylvania. Sylvania restructuring is likely to have a positive impact on company's operating margins.
- We also highlight that Sylvania has a higher fixed cost base vis-à-vis Havells domestic business. Therefore any pick-up in demand for company's products is likely to have an increasing effect on the EBITDA margins due to higher operating leverage. In our projected financials we build 9% EBITDA margins for Sylvania in FY13E.
- In our projected financials we build 11.4% EBITDA margins at consolidated level for FY13E.

RoE trend

Source: Company, Kotak Securities - Private Client Research

Valuation and recommendation

We recommend REDUCE on Havells India with a price target of Rs.520

- At current price of Rs.563, stock is trading at 14.3x P/E and 9.6x EV/EBITDA on FY13E earnings.
- We tweak FY13 earnings estimate to factor in favourable domestic demand outlook and elongated summer in Northern India. However, we believe that company's stock is adequately valued at current levels. We highlight that the stock has underperformed the broader market in the last three months. In view of the potential downside to our target price, we maintain our '**REDUCE**' rating on company stock with a DCF based revised price target of Rs 520 (Rs 500 earlier).

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
9-Jul	Aarey Drugs	Leadage Trading Pvt Ltd	S	118,703	27.4
9-Jul	Byke	Pooja M Goel	B	103,000	154.1
9-Jul	Byke	Premlata Jagdish Chander Bansal	S	103,000	154.1
9-Jul	Chambal Brew	Jayant Security & Financeltd	B	39,000	89.9
9-Jul	Chambal Brew	Trishla	S	50,000	95.2
9-Jul	Clarus Finance	Janak Nandini Gupta	S	90,000	33.7
9-Jul	Cressanda Sol	Mohammad Fareed Mohiuddin	S	59,980	8.8
9-Jul	Croitre Inds	Kingfisher Properties Pvt Ltd	B	32,600	76.8
9-Jul	Dazzel Conf	Pravin Mahendra Pagare	B	900,000	2.5
9-Jul	Dazzel Conf	Anki Khurana	S	1,677,780	2.5
9-Jul	Finalysis Cred	Pankaj Jayantilal Dave	B	38,950	68.4
9-Jul	Jaihind Syn	Suresh Jayantilal Shah	B	25,000	16.1
9-Jul	Ken Fin Serv	Yoke Securities Limited	B	45,000	84.1
9-Jul	Ken Fin Serv	S Uttamchand	S	50,000	84.1
9-Jul	Lords Chemicals	Zadko Distributors Pvt. Ltd	B	50,000	32.6
9-Jul	Lords Chemicals	Vertex Suppliers Pvt Ltd	B	53,021	32.6
9-Jul	Lords Chemicals	Ajmera Shares Trading Pvt Ltd	S	72,663	32.6
9-Jul	Marvel Capital	Mahan Trading Pvt Ltd	B	95,882	19.7
9-Jul	Marvel Capital	Sanjay Shivaji Jadhav	S	27,001	19.7
9-Jul	Marvel Capital	Manju Dilip Angre	S	33,500	19.7
9-Jul	Marvel Capital	Bhavna H Kesur	S	37,381	19.7
9-Jul	Mathew Easow	Jaideep Halwasiya	B	330,000	80.0
9-Jul	Mathew Easow	Himanshu Anantray Ajmera	S	330,000	80.0
9-Jul	Nexoft Info	Honavalli Gopalakrishna Jaishree	S	90,000	9.5
9-Jul	Parichay Invest	Vipin Kumar Garg	B	7,500	225.0
9-Jul	Parichay Invest	Virendrakumar Jayantilal Patel	S	18,394	225.0
9-Jul	PFL Infotech	S Uttamchand	B	288,043	21.0
9-Jul	PFL Infotech	Vintel Securities Pvt Ltd	S	80,000	21.0
9-Jul	PFL Infotech	Subhankar Vinimay Limited	S	100,000	21.0
9-Jul	PFL Infotech	Swagatam Tradevin Limited	S	100,000	21.0
9-Jul	PM Telelinnks	Patel Dipal Virendrakumar	B	78,000	160.1
9-Jul	Polypro Fibrils	Jayesh Ravinchandra Shah	B	44,001	13.0
9-Jul	Polypro Fibrils	Geeta Ajay Shah	S	50,000	12.9
9-Jul	Prraneta Inds	Think Bull Pvt Ltd	S	1,000,010	0.9
9-Jul	Raymed Labs	Shailesh Natvarlal Gandhi	B	22,000	25.7
9-Jul	RDB Realty & Inf	Regent Finance Corporation Pvt Ltd	B	79,974	37.0
9-Jul	RDB Realty & Inf	Shasun Finance Ltd	S	81,189	37.0
9-Jul	Riba Textiles	Sanjay Kumar Chadha	B	73,650	24.1
9-Jul	Riba Textiles	Amit Kumar	S	66,650	24.1
9-Jul	Shalibhadra Fin	Dave Rakin Shivprasad	B	26,000	58.6
9-Jul	Shalibhadra Fin	Romesh Anilbhai Shah	S	28,000	58.6
9-Jul	Shreychem	Mithun Kumar	B	45,000	59.3
9-Jul	SPS Intl	Ankur Jain	B	20,000	4.2
9-Jul	SPS Intl	Asha Devi Singhania	S	20,000	4.2
9-Jul	Vaishnavi	Parvathaneni V Siva Gangadhara Rao	B	172,689	5.2
9-Jul	Valuemart Info	Honavalli Gopalakrishna Jaishree	B	315,000	2.7

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
TCS	1,259	0.9	1.9	1.0
DLF	214	1.1	0.3	7.2
Dr Reddy's	1,640	0.4	0.2	0.2
Losers				
HDFC	676	(1.2)	(3.8)	1.4
L&T	1,389	(1.2)	(2.8)	1.2
Tata Steel	438	(2.4)	(2.3)	2.1

Source: Bloomberg

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