

Growth outlook robust; group strategies well on track

Strong domestic demand to drive growth; guidance upgraded

- The company is confident of maintaining growth momentum in FY13. It expects FY13 standalone sales to grow 18-20% and EBITDA margin to be 13-13.5%.
- Despite slower sales outlook, Sylvania is on track to improve margins in FY13. Repayment of EUR40m of debt due in April 2012 would be met through borrowings.
- We raise our EPS estimates by 3% for FY12 and by 9% for FY13. Maintain Buy, with a revised target price of INR656.

We met Mr Anil Gupta, Joint MD of Havells India. Key takeaways:

No visible slowdown; guidance upgraded

- **Improved outlook for growth and profitability:** The company is confident of maintaining growth momentum across product ranges and does not see any signs of slowdown. The management has upgraded its outlook and now expects FY13 standalone sales to grow by 18-20% (v/s 15-20% earlier) and EBITDA margin to be 13-13.5% (v/s 12.5-13% earlier). Improvement in the macro environment can further improve outlook.
- **Sylvania to post moderate growth; profitability improvement sustainable:** Sylvania is likely to register a growth of 5% in EUR terms in FY13. The management mentioned that like India, other emerging markets are also going through challenging times impacting growth in countries like Brazil in recent quarters. EBITDA margin is likely to improve to 8.5-9%.

Group strategies well on track

- **Focus on brand building and geographical/product expansion:** Havells has adopted a strategy of aggressive brand building and expansion of its product ranges and geographical reach. It has been spending 2.5-3.5% of its annual revenue on advertising, much ahead of peers. Havells is looking at expanding its consumer durables portfolio beyond its highly successful fans range, which it had launched in 2005.
- **Restructuring of Sylvania yielding results:** The company remains committed to profitability improvement in Sylvania. The two successful restructuring programs "Phoenix" and "Prakram" on which it spent INR3.8b over FY09-10 have resulted in turnaround of Sylvania in FY11 and the management is confident of further improvement in EBITDA margin to 8.5-9%.
- **Reduction of financial leverage:** The company is committed to reduce its financial leverage.

Upgrading estimates in light of improved outlook for profit margins

- We believe that Havells will continue to be a key beneficiary of strong demand for consumer electrical goods in India, backed by impressive brand equity and wide distribution network. In light of the improved sales and margin outlook, we raise our EPS estimates by 3% for FY12 and by 9% for FY13.
- **Buy** with a revised target price of INR656 (16x FY13E standalone EPS and 10x FY13E EBITDA for Sylvania).

Stock Info

CMP (INR) - 30-Mar-12	572
Bloomberg	HAVL IN
Equity Shares (m)	124.8
52-Wk Range (INR)	616/313
1,6,12 Rel. Perf. (%)	8/52/67
M.Cap.(INR b)/(USD b)	71.4/1.4

Financial and valuation summary

Year	Net Sales	PAT*	EPS*	EPS*	P/E	P/BV	RoE	RoCE	EV/	EV/
End	(INR m)	(INR m)	(INR)	Gr. (%)	(X)	(X)	(%)	(%)	Sales	EBITDA
3/11A	56,126	2,747	22.0	294.4	26.0	10.9	42.0	18.6	1.4	15.4
3/12E	64,961	3,728	29.9	35.8	19.2	7.4	38.8	21.4	1.2	11.7
3/13E	73,626	4,885	39.1	31.1	14.6	5.8	35.5	22.4	1.1	9.3
3/14E	83,759	5,891	47.2	20.6	12.1	3.8	31.2	22.0	0.9	7.8

* Consolidated nos, pre exceptionals

Havells India



Mr Anil Gupta

Joint MD

Mr Anil Gupta, an MBA from Wake Forest University, USA, joined Havells in 1992, supervising the Marketing and Sales function. He has been instrumental in business development by forming new alliances with foreign collaborators and spearheading acquisitions. With his business acumen, Mr Gupta has transformed the Havells brand to a household name.

Robust demand outlook across business segments; guidance upgraded

- **Robust growth momentum:** The company is confident of maintaining growth momentum and does not see any material downside risk due to the current macro environment.
- **Growth guidance upgraded:** The company now expects FY13 standalone sales to grow by 18-20% (earlier guidance: 15-20%; our assumption: 18%) based on the current economic environment. Any improvement in economic environment can improve the trading environment, as the current guidance is based on nominal 10-15% growth in switchgear sales.
- **Improved outlook across business segments:** In FY13, the company expects 12-15% of growth in the Switchgear segment (significantly higher than company's earlier expectation), 15-20% growth in the Cables division, 20-25% growth in Lighting and Fixtures, and 25-28% growth in Consumer Durables (the fans business would register 15% YoY growth).

Havells standalone: MOSL growth assumptions

	FY09	FY10	FY11	FY12E	FY13E	FY14E
Net Sales						
Switchgear	6,234	6,941	7,710	9,252	10,640	11,278
Growth (%)	10	11.4	11.1	20.0	15.0	6.0
Cables & wires	11,066	10,686	13,615	17,155	20,586	25,733
Growth (%)	4	-3.4	27.4	26.0	20.0	25.0
Lighting & Fixtures	2,805	3,569	4,567	5,709	7,136	8,991
Growth (%)	-3	27.3	28.0	25.0	25.0	26.0
Electrical consumer durables	2,769	3,372	4,724	5,811	7,264	8,716
Growth (%)	15	21.8	40.1	23.0	25.0	20.0
Others	541	339	17	18	20	22
Growth (%)	-35	-37.3	-95.1	10.0	10.0	10.0
Total Sales	23,414	24,907	30,633	37,945	45,646	54,741
Growth (%)	4	6.4	23.0	23.9	20.3	19.9

Our estimates are in line with management expectations

Source: Company/MOSL

No visible signs of slowdown in domestic consumer market

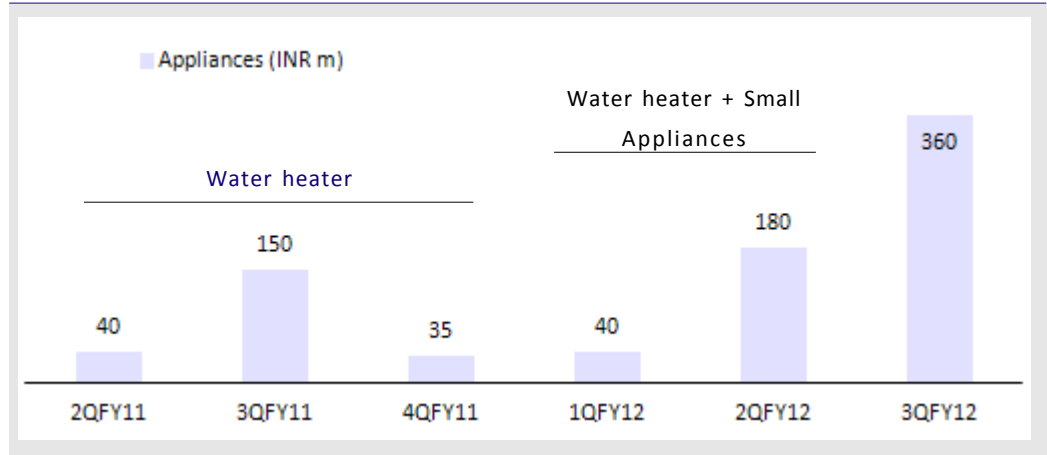
- **No visible signs of slowdown in consumer demand:** Consumer demand remains strong, with no visible signs of slowdown. The company expects 25-28% growth in its Consumer Durables sales in FY13, boosted by sales of new products.
- **New product launches leveraging on brand equity and distribution channel:** Havells is aggressively launching new products in Consumer Appliances. It launched its water heaters in September 2010 and small appliances like juicers, mixers and irons in August 2011. These new products are drawing encouraging response on the back of company's extensive distribution network and brand equity.
- **Aggressive targets for new products:** Havell's total Consumer Durables sales are likely to be INR5.8b in FY12. Of this, small appliances would be INR700m-800m and fans would be INR5b. The company expects small appliances to garner sales of INR1.5b-1.7b in FY13 and INR2.3b-2.5b in FY14, driven by further new launches and growth in sales of existing product lines. Over the next two years beyond FY14, the company is targeting to double its small appliances sales to INR5b, which would constitute over half of Consumer Durables sales v/s current contribution of 14-15%.

Consumer Appliances

Havells has aggressive plans in the consumer appliances space, with many of the following products to be launched.



Quarterly trend of revenue from small appliances (INR m)

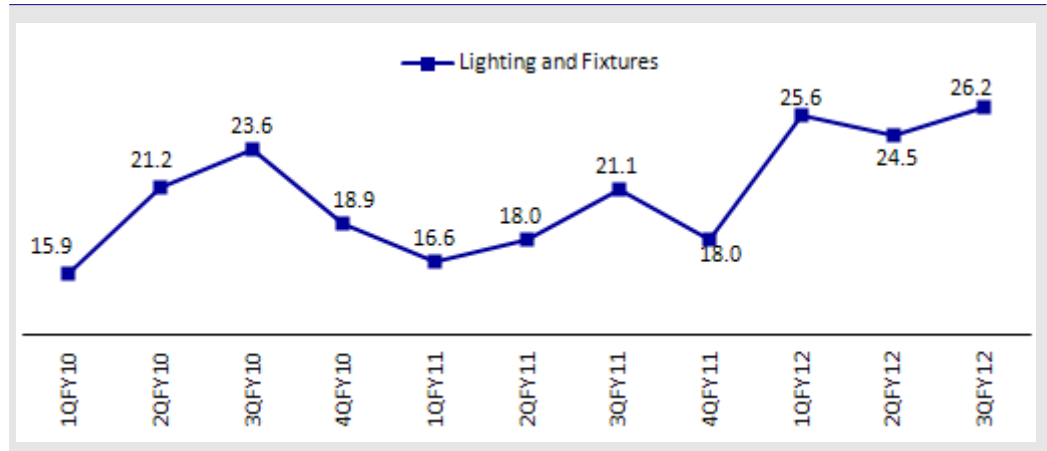


Source: Company/MOSL

Improvement in Lighting business, merger of Standard Electricals improve profitability outlook

- **EBITDA margin guidance upgraded:** The management has increased its standalone EBITDA margin guidance for FY13 and now expects it to be 13-13.5% (v/s our revised estimate of 12.6%), up from 12.5-13% earlier.
- **Merger of Standard Electricals provides upside to margins:** Havells merged Standard Electricals with the standalone entity from 2QFY12. Standard has annual sales of ~INR1b and enjoys 25-28% EBITDA margin. The merger would provide an upside of 50-100bp to overall EBITDA margin.
- **CFL business seeing significant improvement in profitability:** The CFL business constitutes around one-third of Havells' Lighting and Fixtures division. Lately, the business was becoming a drag on the profitability of the division due to unwarranted warranty claims, particularly in East India. The company has increased its focus on processing claims, which has resulted in an improvement in profit margins of the business.

Contribution margins (%): Lighting and Fixtures



Source: Company/MOSL

Profitability improvement in Sylvania sustainable; challenging times in Latin American markets

- We expect Sylvania to register a growth of 5% in EUR terms in FY13. The management mentioned that other emerging markets are also going through challenging times, as a result of which it has had to moderate targets in Latin America. The management reiterated its expectations of profitability in Sylvania, with EBITDA margin of 8.5-9%.
- Sylvania has gross debt of EUR135m (net debt of EUR125m), of which EUR40m of working capital debt is due for bullet repayment in April 2012. Sylvania will repay this debt through borrowings, backed by corporate guarantees, through Havells and other sources. EUR52m of debt is due for repayment in April 2013, which the management expects to refinance by May-June 2012.

Sylvania debt repayment schedule (euro mn)

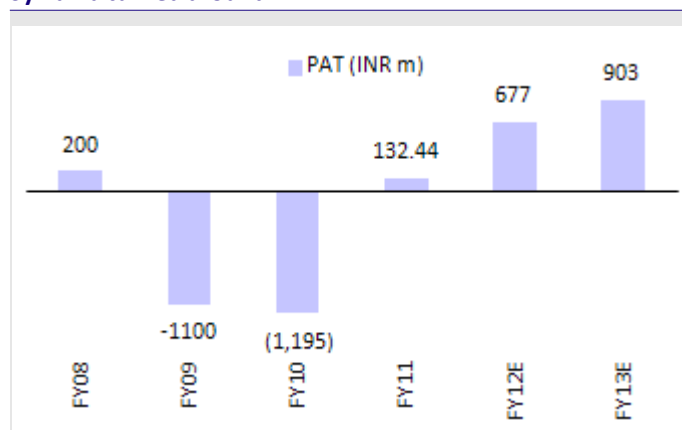
	31-Mar-11	30-Sep-11	31-Dec-11	Re-payment schedule
Term loan	78.4	71.0	64.7	3 tranches of euro 6m each due for payment on Dec-11, June-12 and Dec-12. Balance Euro52mn due for bullet payment in Apr-13
Working capital loan	37.2	36.0	39.2	Due for bullet payment in Apr-12
Other Short term loan	30.0	28.8	30.9	NA
Gross debt	145.6	135.8	134.8	
Less: Cash	18.6	10.5	9.4	
Net Debt	127.0	125.3	125.4	

Does not include recourse loans from Havells India

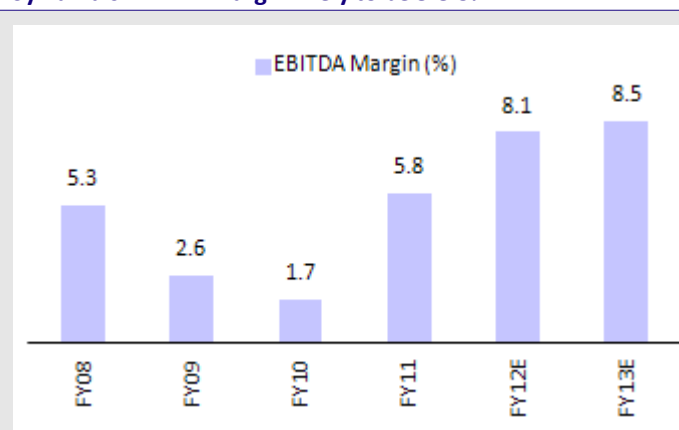
Sylvania Regional Performance (EURO m)

	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12
Europe	70.6	65.5	74.5	75.0	65.7	66.5	75.2	73.2	64.0	69.0	71.8
Growth (%)	(20.2)	(21.0)	(12.8)	(3.5)	(7.0)	1.6	0.9	(2.4)	(2.6)	3.8	(4.5)
America	24.9	26.0	27.5	29.7	33.4	38.7	37.4	35.5	36.1	39.7	35.8
Growth (%)	(21.8)	(23.8)	(13.0)	3.3	34.2	49.1	35.9	19.5	8.1	2.6	(4.3)
Others	2.0	1.2	4.4	5.4	6.3	6.5	6.2	4.8	6.6	6.8	6.3
Total	97.5	92.6	106.5	110.1	105.4	111.7	118.8	113.5	106.7	115.5	113.9

Sylvania turned around in FY11



Sylvania's EBITDA margin likely to be 8-8.5%



Source: Company/MOSL

Upgrading estimates in light of improved outlook of profit margins

We are upgrading our estimates in light of improved margin outlook although our estimates are still conservative as compared to the management guidance. We have increased our consolidated EPS estimates by 3% for FY12 and by 9% for FY13, driven by revised consolidated EBITDA margin estimates of 10.6% (up from 10.3% earlier) for FY12 and 11.3% (up from 10.5% earlier) for FY13. We expect Sylvania sales to grow at 5% per year (in EURO terms) over FY12-13 while EBITDA margin would remain 8-8.5%.

Havells: Change in estimates

INR m	Revised		Old		% Change		INR m	Revised		Old		% Change	
	FY12	FY13	FY12	FY13	FY12	FY13		Consolidated	FY12	FY13	FY12	FY13	FY12
Standalone							Consolidated						
Sales	35,991	43,208	35,772	42,043	0.6	2.8	Sales	64,961	73,626	65,586	74,541	(1.0)	(1.2)
Growth %	24.9	20.1	24.1	17.5			Growth %	15.7	13.3	16.9	13.7		
EBITDA	4,535	5,747	4,328	5,087	4.8	13.0	EBITDA	6,881	8,345	6,743	7,863	2.0	6.1
Margin %	12.6	13.3	12.1	12.1	50bp	120bp	Margin %	10.6	11.3	10.3	10.5	31bp	79bp
PAT	3,049	3,980	2,883	3,453	5.8	15.3	PAT	3,728	4,885	3,605	4,471	3.4	9.3
Growth %	26.2	30.5	19.1	19.8			Growth %	35.7	31.0	31.2	24.0		
EPS (INR)	24.4	31.9	23.1	27.7	5.8	15.3	EPS (INR)	29.9	39.1	28.9	35.8	3.4	9.3
Growth %	26.2	30.5	19.3	19.8			Growth %	35.8	31.1	31.3	24.0		

Maintain Buy with a revised target price of INR656

Havells India has emerged as a leading player in the Indian consumer electrical goods industry and is a play on the booming consumer market in India and restructuring of overseas business. After acquiring Sylvania, the company has strongly set its footprint in the lucrative European and Latin American markets. We believe that improvement in profitability post Sylvania's turnaround in FY11 and entry into new segments in India will drive Havells' growth in the next few years. We maintain **Buy** with a revised target price of INR656 (16x FY13E EPS for standalone business and 10x FY13E EBITDA for Sylvania).

Target price

Standalone	
Target FY13 PE (x)	16
Implied Value (INR m)	63,681
Value/sh (INR)	510
Sylvania	
Target FY13 EV/EBITDA (x)	10
Implied Value (INR m)	18,153
Value/sh (INR)	145
Total Value /sh (INR)	656

Financials and Valuation

Income Statement (Consolidated)					(INR Million)
Y/E March	2010	2011	2012E	2013E	2014E
Net Sales	51,626	56,126	64,961	73,626	83,759
Change (%)	-5.7	8.7	15.7	13.3	13.8
Raw Materials	29,154	32,556	35,790	40,830	46,423
Staff Cost	7,602	6,643	6,980	7,551	8,193
Mfg. Expenses	3,250	3,197	3,932	4,502	5,173
Other Expenses	8,398	8,484	11,378	12,399	14,436
EBITDA	3,221	5,247	6,881	8,345	9,534
% of Net Sales	6.2	9.3	10.6	11.3	11.4
Depreciation	837	804	913	966	855
Interest	979	902	1,093	1,102	1,122
Other Income	222	237	-9	113	83
PBT	1,627	3,778	4,865	6,389	7,640
Tax	932	1,031	1,137	1,504	1,749
Rate (%)	57.3	27.3	23.4	23.5	22.9
Adjusted PAT	695	2,747	3,728	4,885	5,891
Change (%)	80.7	294.9	35.7	31.0	20.6
Extra-ordinary Inc.(net)	(2,935)	293	0	0	0
Reported PAT	-2,240	3,039	3,728	4,885	5,891
Change (%)	nm	nm	22.7	31.0	20.6

Balance Sheet					(INR Million)
Y/E March	2010	2011	2012E	2013E	2014E
Share Capital	312	624	624	624	624
Reserves	3,690	5,914	8,982	13,135	18,221
Net Worth	4,002	6,537	9,606	13,759	18,845
Loans	10,664	11,173	11,123	11,223	11,323
Deffered Tax Liability	266	559	559	559	559
Minority Interest	2	6	6	6	6
Capital Employed	14,934	18,275	21,294	25,547	30,733
Gross Fixed Assets	26,963	28,454	30,315	31,425	32,659
Less: Depreciation	18,089	18,499	19,936	20,902	21,757
Net Fixed Assets	8,874	9,955	10,379	10,523	10,902
Capital WIP	336	249	503	569	646
Goodwill	3,212	3,354	3,397	3,543	3,692
Curr. Assets	18,389	22,077	26,180	31,497	37,996
Inventory	8,246	10,860	13,057	14,660	16,524
Debtors	6,982	7,724	8,622	9,395	10,147
Cash & Bank Balance	1,481	1,779	2,234	4,943	8,572
Loans & Advances	1,578	1,615	2,122	2,334	2,567
Other Current Assets	102	100	145	165	185
Current Liab. & Prov.	15,876	17,361	19,165	20,585	22,502
Creditors	6,147	6,739	9,392	10,024	11,025
Other Liabilities	9,408	9,982	8,602	9,085	9,715
Provisions	321	639	1,171	1,476	1,762
Net Current Assets	2,512	4,717	7,015	10,912	15,493
Application of Funds	14,934	18,275	21,294	25,547	30,733

E: MOSL Estimates

Financials and Valuation

Ratios

Y/E March	2010	2011	2012E	2013E	2014E
Basic (INR)	-17.9	24.3	29.9	39.1	47.2
Adjusted EPS	5.6	22.0	29.9	39.1	47.2
Growth (%)	80.7	294.4	35.8	31.1	20.6
Cash EPS	12.3	28.4	37.2	46.9	54.0
Book Value	32.1	52.4	77.0	99.2	151.0
DPS	1.9	2.5	4.5	5.0	5.5
Payout (incl. Div. Tax.)	38.9	13.2	17.6	14.9	13.6

Valuation (x)

P/E (consolidated)	-	26.0	19.2	14.6	12.1
Cash P/E	-	20.1	15.4	12.2	10.6
EV/EBITDA	-	15.4	11.7	9.3	7.8
EV/Sales	-	1.4	1.2	1.1	0.9
Price/Book Value	-	10.9	7.4	5.8	3.8
Dividend Yield (%)	-	0.4	0.8	0.9	1.0

Profitability Ratios (%)

RoE	17.4	42.0	38.8	35.5	31.2
RoCE	7.5	18.6	21.4	22.4	22.0

Turnover Ratios

Debtors (Days)	49	50	48	47	44
Inventory (Days)	58	71	73	73	72
Creditors. (Days)	43	44	53	50	48
Asset Turnover (x)	3.5	3.1	3.1	2.9	2.7

Leverage Ratio

Debt/Equity (x)	2.7	1.7	1.2	0.8	0.6
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Cash Flow Statement

(INR Million)

Y/E March	2010	2011	2012E	2013E	2014E
PBT before EO Items	1,627	3,778	4,865	6,389	7,640
Add : Depreciation	837	804	913	966	855
Interest	871	820	1,093	1,102	1,122
Less : Direct Taxes Paid	932	1,031	1,137	1,504	1,749
(Inc)/Dec in WC	2,403	-1,907	-1,843	-1,187	-953
CF from Operations	4,806	2,463	3,891	5,766	6,916
EO Income	-2,935	293	0	0	0
CF from Oper. incl. EO Items	1,871	2,756	3,891	5,766	6,916
(Inc)/Dec in FA	-1,205	-1,799	-1,591	-1,176	-1,311
CF from Investments	-838	-1,941	-1,634	-1,322	-1,460
(Inc)/Dec in Net Worth	839	236	-1	-2	-2
(Inc)/Dec in Debt	-1,615	510	-50	100	100
Less : Interest Paid	979	902	1,093	1,102	1,122
Dividend Paid	271	363	657	730	803
CF from Fin. Activity	-2,026	-518	-1,802	-1,734	-1,827
Inc/Dec of Cash	-992	297	456	2,710	3,629
Add: Beginning Balance	2,473	1,481	1,779	2,234	4,943
Closing Balance	1,481	1,779	2,234	4,944	8,572

E: MOSL Estimates

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