

May 31, 2012

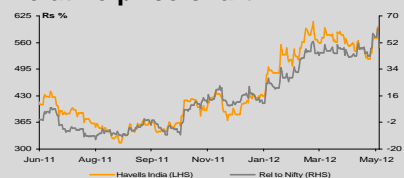
Rating	Previous Reco
Buy	Buy
CMP	Target Price
Rs548	Rs600
EPS Chg FY13E (%)	-3.5%
Target Price change (%)	NA
Nifty	4,990
Sensex	16,439

Price Performance

(%)	1M	3M	6M	12M
Absolute	7	8	41	48
Rel. to Nifty	11	17	37	65

Source: Bloomberg

Relative price chart



Source: Bloomberg

Stock Details

Sector	Engineering & Capital Goods
Bloomberg	HAVL IB
Equity Capital (Rs mn)	624
Face Value(Rs)	5
No of shares o/s (mn)	125
52 Week H/L	616/ 313
Market Cap (Rs bn/USD mn)	73/ 1,314
Daily Avg Volume (No of sh)	325,128
Daily Avg Turnover (US\$m)	3.3

Shareholding Pattern (%)

	Mar12	Dec11	Sep11
Promoters	61.6	61.6	61.6
FII/NRI	19.8	19.1	16.8
Institutions	1.1	1.2	1.9
Private Corp	1.2	1.2	1.7
Public	16.3	16.9	18.1

Source: Bloomberg

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- Results in line, but misses EBIDTA margins - revenues grew 24% yoy to Rs 10.5bn led by C&W and Lighting; EBIDTA margins rose 30bps to 12% & APAT at Rs 915mn, up 33% yoy
- C&W and L&F segment drive revenue growth in the quarter, but product mix change (lower contribution from Switchgear) and warranty cost impacts our EBIDTA margins estimates
- Sylvania revenues flattish at € 112mn impacted by de-growth in Europe and LATAM, while EBIDTA margin stays at 8.5%. Maintain focus on higher profitability led by operational gains
- Minor deviation this quarter. Standalone growth to remain intact led by distribution network, while Sylvania to continue gain profitability. Maintain Buy with TP of Rs600/Share

Results in line with expectations, but misses on quality

(1) Revenue growth stood at 24.2% yoy to Rs10.5 bn led by growth in cables & wires and lighting segment. (2) EBIDTA stood at Rs1.3bn, up 27% yoy (3) EBIDTA margins rose 30bps yoy to 12%, but it was below our estimates of 13% largely due to product mix change (reflected in gross margins) and inclusion of warranty cost (4) APAT for Q4 FY12 stood at Rs 915mn, up 33% yoy.

Healthy revenue growth led by Cables & Wires and Lighting segment

All the segments continued to grow at a healthy pace with Cables & Wires (C&W) and lighting & fixtures (L&F) segment leading the pack

- C&W grew by 32% yoy to Rs4.8 bn driven by strong traction in domestic cables division. For FY12, C&W posted 29% yoy growth to Rs 12.3bn led by 12% volume growth in cables and 19% volume growth in wires. We expect the C&W segment to grow at 17% driven by healthy volumes in domestic cables.
- L&F segment rose 20% yoy to Rs 1.5bn led by contribution from new products and better export revenues. For FY12, L&F segment grew 24.7% yoy to Rs 4.4bn. Rising penetration of CFL and LED based lighting coupled with enhanced capacities would drive +20% growth in this segment.
- ECD posted 18% yoy to Rs 1.8bn, driven by healthy growth in domestic appliances, which stood at Rs 251mn for Q4FY12, but fans saw subdued growth of 5%. For FY12, ECD grew 22% yoy to Rs 4.7bn led by higher contribution of domestic appliances, which rose to Rs 850mn in FY12 vs Rs 220mn in FY11, while fans grew by 9%. Higher contribution of domestic appliances, improving traction in fans segment and deeper penetration to Tier II/III cities would drive +20% growth in ECD segment.
- Switchgear (SwG) segment grew by 19% yoy to Rs2.4bn, but its contribution to revenues declined 110bps yoy and 250bps qoq to 22.7%. For FY12, SwG segment rose 22% yoy to Rs 7.3bn led by inclusion of standard electric. Launch of new products and variants along with higher domestic sales would trigger 10-15% growth in this segment.

Financial Snapshot (Consolidated)

(Rsmn)

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/EBITDA	P/BV
Mar										
FY11A	56,187	5,631	10.0	3,067	24.6	340.8	58.2	23.9	14.4	11.2
FY12A	65,579	7,182	11.0	3,699	29.6	20.6	46.3	19.8	11.0	7.8
FY13E	74,443	7,633	10.3	4,347	34.8	17.5	39.0	16.9	10.0	5.7
FY14E	83,070	8,699	10.5	5,180	41.5	19.2	34.8	14.2	8.4	4.3

Exhibit 1: Quarterly Summary - Standalone

Y/E, Mar (Rs. mn)	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	Gr (%)
Operating Income	8,441	8,027	8,518	8,982	10,485	24.2	16.7	36,220	28,886	25.4
Expenditure	7,454	7,142	7,358	7,703	9,231	23.8	19.8	31,565	25,411	24.2
Consumption of RM	5,750	4,828	5,151	5,615	6,767	17.7	20.5	22,911	18,942	21.0
as % of sales	68.1	60.1	60.5	62.5	64.5			63.3	65.6	
Employee Cost	316	332	358	364	358	13.0	-1.9	1,417	1,103	28.4
as % of sales	3.7	4.1	4.2	4.1	3.4			3.9	3.8	
Other expenditure	1,388	1,982	1,848	1,723	2,106	51.8	22.3	7,237	5,366	34.9
as % of sales	16.4	24.7	21.7	19.2	20.1			20.0	18.6	
EBITDA	987	884	1,161	1,279	1,254	27.0	-2.0	4,655	3,475	33.9
Depreciation	78	83	91	104	166	112.4	60.3	447	293	52.2
EBIT	909	801	1,070	1,176	1,088	19.7	-7.5	4,208	3,182	32.3
Other Income	12	1	-130	-134	217	1650.8	-262.4	-26	108	-124.1
Interest	64	84	71	75	197	208.9	163.8	444	191	132.3
PBT	858	718	868	967	1,108	29.2	14.5	3,738	3,098	20.7
Total Tax	167	143	166	179	193	15.3	8.0	684	682	0.2
Adjusted PAT	690	575	702	789	915	32.6	16.0	3,054	2,416	26.4
Extraordinary Items	0	0	0	0	0	NA	NA	0	-5	-100.0
Reported PAT	690	575	702	789	915	32.6	16.0	3,054	2,421	26.2
Adjusted EPS	5.5	4.6	5.6	6.3	7.3	32.6	16.0	24.5	19.4	26.4

Margins (%)						(bps)	(bps)				(bps)
EBIDTA	11.7	11.0	13.6	14.2	12.0	30	-230	12.9	12.0	80	
EBIT	10.8	10.0	12.6	13.1	10.4	-40	-270	11.6	11.0	60	
EBT	10.2	9.0	10.2	10.8	10.6	40	-20	10.3	10.7	-40	
PAT	8.2	7.2	8.2	8.8	8.7	50	-10	8.4	8.4	10	
Effective Tax rate	19.5	20.0	19.1	18.5	17.4	-210	-110	18.3	22.0	-370	

Source: Company, Emkay Research

Exhibit 2: Segmental Performance

Y/E, Mar (Rs. mn)	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	Gr (%)
Segment Revenues										
Switchgears	2,000	1,883	2,218	2,261	2,376	18.8	5.1	8,962	7,344	22.0
Cables & Wires	3,608	3,564	3,692	3,907	4,767	32.1	22.0	15,930	12,318	29.3
Lighting & Fixtures	1,258	1,210	1,374	1,448	1,511	20.1	4.3	5,544	4,447	24.7
Electrical Consumer Durables	1,542	1,342	1,220	1,346	1,813	17.6	34.8	5,721	4,692	21.9
Others	0	0	0	0	0			0	16	(100.0)
Total	8,408	8,000	8,504	8,962	10,467	24.5	16.8	36,156	28,817	25.5
Segment Results										
Switchgears	698	724	839	894	823	17.9	-7.9	3,363	3,363	-
Cables & Wires	163	310	342	385	424	160.5	10.2	1,461	1,461	-
Lighting & Fixtures	226	302	336	379	376	66.3	-0.9	1,393	1,393	-
Electrical Consumer Durables	413	418	338	390	505	22.5	29.7	1,650	1,650	-
Others	0	0	0	0	0	4.2	-3.7	0	0	(18.0)
Total	1,500	1,754	1,855	2,048	2,129	41.9	3.9	7,868	7,868	(0.0)
Add- Unall Income / (Exp)	579	951	915	1,006	824	-	-	3,686	2,451	50.4
Less- Interest Exp	64	84	71	75	197	208.9	163.8	444	191	132.3
PBT	858	719	869	968	1,108	29.2	14.5	3,738	5,226	(28.5)
Segment Capital Employed										
Switchgears	3,179	3,278	4,201	3,439	3,933	23.8	14.4	3,933	3,179	23.8
Cables & Wires	1,846	1,682	1,506	1,564	1,881	1.9	20.3	1,881	1,846	1.9
Lighting & Fixtures	2,238	2,317	2,593	2,621	2,780	24.2	6.1	2,780	2,238	24.2
Electrical Consumer Durables	1,067	1,246	1,343	1,304	1,438	34.8	10.3	1,438	1,067	34.8
Others	5,080	7,319	7,962	7,184	6,051	19.1	-15.8	6,051	5,080	19.1
Total	13,408	15,843	17,605	16,111	16,083	20.0	-0.2	16,083	13,408	20.0
Contribution Margins (%)						(bps)	(bps)	(bps)		
Switchgears	34.9%	38.4%	37.8%	39.5%	34.7%	0	0	37.5%	45.8%	-10
Cables & Wires	4.5%	8.7%	9.3%	9.9%	8.9%	0	0	9.2%	11.9%	0
Lighting & Fixtures	18.0%	24.9%	24.5%	26.2%	24.9%	10	0	25.1%	31.3%	-10
Electrical Consumer Durables	26.8%	31.1%	27.7%	28.9%	27.9%	0	0	28.8%	35.2%	-10
Others									2.2%	
Average	17.8%	21.9%	21.8%	22.9%	20.3%	0	0	21.8%	27.3%	-10

Source: Company, Emkay Research

EBIDTA margins below our estimates by 100bps due to product mix change and warranty cost; expect margins to remain stable at 12.5%

EBIDTA margins for Q4FY12 rose 30ps to 12%, but was below our estimates by 100bps. This was largely due to product mix change in favour of low margin C&W segment vs high margin SwG segment, which was reflected via gross margin reduction. Moreover, this quarter saw an inclusion of higher provision for warranty and after sale service of Rs 260mn, which also impacted EBIDTA margins. We maintain our EBIDTA margins estimates at 12.5% in FY13E, in line with management estimates, which would be driven from reduced outsourcing in Lighting & fixtures, post commissioning of new L&W plant.

LATAM & Europe impacts Sylvania revenue, while EBIDTA margins stay at 8.5%

Sylvania reported marginal decline in revenues of 1.2% yoy to €112mn due to muted performance in LATAM (especially Brazil – led by currency depreciation) and Europe region. EBIDTA for the quarter grew 4.4% yoy to €9.5mn, while margins improved 50bps yoy to 8.5%. We believe Sylvania's focus would be profit growth, while it continues to be cautious on revenue growth owing to the ongoing sluggish environment in LATAM and Europe. The management has maintained its 'flat growth' outlook for Europe and 5-7% revenue growth in LATAM, while it expects EBIDTA margins to 8-8.5% for FY13E.

Sylvania business becoming self sustainable along with cash flow generation

Havells investment phase in Sylvania seems to be completed. Post restructuring in FY11, Sylvania has turned profitable led by better operational performance with APAT of € 10.2mn in FY12, a growth of 46% yoy. Although, revenue growth has been muted due to difficult market conditions in Europe and LATAM, it continues to strive for higher profitability. We believe Sylvania has turned into a self sustainable business led by higher profitability coupled with reduction in debt, which in turn, would result in healthy cash flow generation.

Debt restructured via refinancing; to result in interest savings of €3-4mn

Sylvania has restructured its existing outstanding loans via refinancing upto €77.5mn from various MNC banks at a cost of euribor plus margins (350 bps, and is on reducing basis reaching upto 250 bps). The repayment period is May 2016 for this loan starting December 2012. Apart from this, it has also raised €40mn debt in Havells Holding Limited, Isle of Man, a wholly owned subsidiary for providing equity participation and shareholders loan to Sylvania, which is repayable in one year ie upto April 2013 at a cost of euribor plus margins (190 bps). All this is expected to result in interest savings to the tune of €3-4mn.

Management guides for 15-20% revenue growth; to be led by distribution growth and market share gains

The management remains confident of achieving 15-20% revenue growth in FY13 with all segments expected to grow at a healthy pace. We believe this growth would be driven by rising distribution network, especially in Tier II & Tier III cities along with market share gains, especially from the unorganized market.

Marginal revision in FY13E Earnings by -3.5% to Rs 34.8/Share; Introduce FY14E estimates

We are fairly confident on revenue growth of standalone business which would be largely distribution led coupled with market share gains. We have marginally revised our FY13E earnings by -3.5% to Rs 34.8/Share. We have introduced FY14E estimates at Rs 41.5/share.

Exhibit 3: Revision in Estimates

Y/E, Mar (Rs. mn)	FY13E			FY14E	
	Earlier	Revised	% Change	Original	% Change
Revenues	73292	74443	1.6%	83070	11.6%
EBITDA	8005	7633	-4.6%	8699	14.0%
EBITDA Margin (%)	10.9	10.3	-70.0	10.5	20.0
APAT	4505	4347	-3.5%	5180	19.2%
EPS	36.1	34.8	-3.5%	41.5	19.2%

Source: Company, Emkay Research

Maintain positive bias, Rollover valuations to FY14E EBIDTA

Havells reported an inline quarter, albeit minor deviation in EBIDTA margins. Rising distribution coupled with higher contribution from new products has led to healthy growth in domestic business. Although Sylvania posted revenue decline in Europe & Latin America, it continues to deliver strong profit growth led by richer product mix, improvement in price realizations and cost rationalization. The management seems confident of achieving 15-20% domestic revenue growth in FY13-FY14, while it expects Sylvania to continue its improvement in operational performance. We continue to maintain our positive bias on the stock and rollover our valuations to FY14E. We maintain 'BUY' rating with revised price target of Rs 600, thereby implying a target multiple of 8.6x FY14E EV/EBIDTA. Currently, Havells is trading at 7.8x FY14E EV/EBIDTA.

Key Financials (Consolidated)

Income Statement

Y/E Mar (Rsmn)	FY11A	FY12A	FY13E	FY14E
Net Sales	56,126	65,182	74,443	83,070
<i>Growth (%)</i>	3.3	16.1	14.2	11.6
Expenditure	50,556	58,397	66,810	74,371
Raw Materials	31,925	36,272	42,049	47,334
Employee Cost	6,405	7,904	7,933	8,448
Other Exp	0	0	0	0
EBITDA	5,631	7,182	7,633	8,699
<i>Growth (%)</i>	74.8	27.5	6.3	14.0
EBITDA margin (%)	10.0	11.0	10.3	10.5
Depreciation	804	949	1,041	1,091
EBIT	4,827	6,234	6,593	7,608
EBIT margin (%)	8.6	9.5	8.9	9.2
Other Income	176	-195	337	371
Interest expenses	902	1,281	1,220	1,052
PBT	4,101	4,757	5,710	6,927
Tax	1,031	1,058	1,364	1,747
<i>Effective tax rate (%)</i>	25.1	22.2	23.9	25.2
Adjusted PAT	3,071	3,699	4,347	5,180
<i>Growth (%)</i>	341.0	20.5	17.5	19.2
Net Margin (%)	5.5	5.6	5.8	6.2
(Profit)/loss from JVs/Ass/MI	-4	0	0	0
Adj. PAT After JVs/Ass/MI	3,067	3,699	4,347	5,180
E/O items	-31	0	0	0
Reported PAT	3,036	3,699	4,347	5,180
PAT after MI	3,067	3,699	4,347	5,180
<i>Growth (%)</i>	340.8	20.6	17.5	19.2

Cash Flow

Y/E Mar (Rsmn)	FY11A	FY12A	FY13E	FY14E
PBT (Ex-Other income)	3,925	4,953	5,373	6,555
Depreciation	804	949	1,041	1,091
Interest Provided	902	1,281	1,220	1,052
Other Non-Cash items	569	-7	0	0
Chg in working cap	-11	74	-403	-704
Tax paid	-1,031	-1,058	-1,364	-1,747
Operating Cashflow	2,575	4,717	4,984	5,568
Capital expenditure	-1,941	-1,961	-1,350	-1,350
Free Cash Flow	635	2,756	3,634	4,218
Other income	176	-195	337	371
Investments	0	-3	3	0
Investing Cashflow	-1,719	-1,965	-1,347	-1,350
Equity Capital Raised	95	0	0	0
Loans Taken / (Repaid)	-1,095	-884	-271	-978
Interest Paid	-902	-1,281	-1,220	-1,052
Dividend paid (incl tax)	-207	-811	-914	-1,101
Income from investments	0	0	0	0
Others	1,536	1,281	1,220	1,052
Financing Cashflow	-572	-1,695	-1,185	-2,079
Net chg in cash	285	1,057	2,453	2,139
Opening cash position	1,481	1,779	2,837	5,290
Closing cash position	1,779	2,837	5,290	7,428

Balance Sheet

Y/E Mar (Rsmn)	FY11A	FY12A	FY13E	FY14E
Equity share capital	624	624	624	624
Reserves & surplus	5,914	8,802	12,235	16,314
Net worth	6,537	9,426	12,858	16,938
Minority Interest	6	1	1	1
Secured Loans	8,329	7,445	7,174	6,196
Unsecured Loans	1,240	1,240	1,240	1,240
Loan Funds	9,569	8,685	8,414	7,436
Net deferred tax liability	559	556	556	556
Total Liabilities	16,671	18,668	21,829	24,930
Gross Block	31,808	33,769	35,119	36,469
Less: Depreciation	18,499	19,447	20,488	21,579
Net block	13,309	14,322	14,631	14,890
Capital work in progress	249	249	249	249
Investment	0	3	0	0
Current Assets	22,077	27,680	32,433	37,645
Inventories	10,860	13,678	15,177	17,396
Sundry debtors	7,724	8,905	9,383	9,945
Cash & bank balance	1,779	2,837	5,290	7,428
Loans & advances	120	117	157	185
Other current assets	1,595	2,144	2,427	2,691
Current lia & Prov	18,965	23,586	25,483	27,853
Current liabilities	15,061	17,860	20,579	22,697
Provisions	3,904	5,726	4,904	5,156
Net current assets	3,113	4,094	6,950	9,792
Misc. exp	0	0	0	0
Total Assets	16,671	18,669	21,831	24,931

Key Ratios

Y/E Mar	FY11A	FY12A	FY13E	FY14E
Profitability (%)				
EBITDA Margin	10.0	11.0	10.3	10.5
Net Margin	5.5	5.6	5.8	6.2
ROCE	31.5	34.2	34.2	34.1
ROE	58.2	46.3	39.0	34.8
RoIC	34.6	41.3	41.4	45.4
Per Share Data (Rs)				
EPS	24.6	29.6	34.8	41.5
CEPS	31.0	37.2	43.2	50.3
BVPS	52.4	75.5	103.0	135.7
DPS	2.5	6.5	7.3	8.8
Valuations (x)				
PER	23.9	19.8	16.9	14.2
P/CEPS	18.9	15.8	13.6	11.7
P/BV	11.2	7.8	5.7	4.3
EV / Sales	1.4	1.2	1.0	0.9
EV / EBITDA	14.4	11.0	10.0	8.4
Dividend Yield (%)	0.4	1.1	1.2	1.5
Gearing Ratio (x)				
Net Debt/ Equity	1.2	0.6	0.2	0.0
Net Debt/EBITDA	1.4	0.8	0.4	0.0
Working Cap Cycle (days)	8.7	7.0	8.1	10.4

Recommendation History: Havells India – HAVL IN

Date	Reports	Reco	CMP	Target
31/01/2012	Havells India Q3FY12 Result Update	Buy	480	520
08/12/2011	Havells India Company Update	Buy	437	460
01/11/2011	Havells India Q2FY12 Result Update	Buy	381	460
02/08/2011	Havells India Q1FY12 Result Update	Buy	360	450

Recent Research Reports

Date	Reports	Reco	CMP	Target
28/05/2012	Voltas Q4FY12 Result Update	Accumulate	107	121
23/05/2012	BHEL Q4FY12 Result Update	Hold	209	185
21/05/2012	Blue Star Q4FY12 Result Update	Hold	167	185
17/05/2012	Cummins India Q4FY12 Result Update	Accumulate	430	460

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