



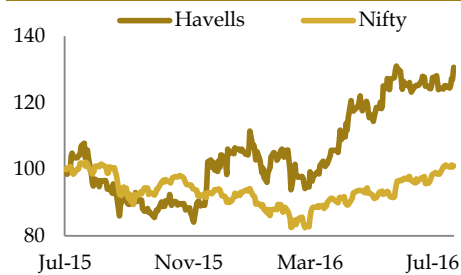
Market statistics

Current stock price (₹)	376
Shares O/S (cr.)	62.5
Mcap (₹ cr)	23,488
52W H/L (₹)	379/233
6m avg. volume	1,825,181
Bloomberg	HAVL IN

Shareholding pattern

Promoters	61.61
Domestic Institution	3.08
Foreign Institution	27.07
Non-institution	8.24
of which more than 1%	
Nalanda India Equity Fund Ltd	5.29
Government Pensions Fund Global	2.94

Havells vs Nifty



Capital efficiency & valuations

Particulars	FY16	FY17E	FY18E
ROE (%)	23.6	25.3	26.2
ROCE (%)	19.4	21.8	22.4
Core ROE (%)	45.9	38.3	40.1
Core ROCE	35.7	28.6	29.6
P/B (x)	7.8	7.8	6.9
P/E (x)	40.1	35.7	30.7
EPS (₹)	8.2	10.5	12.2
EV/OCF (x)	36.7	51.2	29.9

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Havells, based on IND AS, has reported strong 17.1% net sales growth to ₹14.5bn as compared to our expectation of 13%. Lighting, Consumer Durable, Switch Gears and Cable & Wire segments registered growth of 22.1%, 21.1%, 20.2% & 4.9%, respectively. Most of the segmental growth was driven by volume. Favorable base and gradual improvement in demand resulted into stellar growth performance.

Gross Margin expanded by 146bps YoY and stood at 42.3%. Employee, Advertisement and other expenses grew by 42.3%, 2.4% & 15% YoY, respectively. Hence, EBITDA Margin improved by 72bps YoY to 13.7%. EBITDA grew by strong 23.7% YoY. Contribution margin for Lighting, Consumer Durable, Switch Gears and Cable & Wire segments expanded by 478bps, 81bps, 234bps & -61bps YoY. Lower interest cost (-46.2%) and higher other income (80.9% YoY) has resulted into robust 33.9% growth in APAT to ₹1.4bn as compared to our expectation of 20.3% YoY to ₹1.31bn.

Volume spur across segments; Base benefit to continue in Q2FY17 too

Lighting & Fixtures registered robust growth of 22.1% on account of low base of Q1FY16 and higher contribution from LED sales. Strong growth in LED lamps offset by decline in CFL and fixtures grew by 32%. **Switchgear segment** grew by 20.2% driven by favorable base and 34% growth in export business. **Cables & Wires** segment continue to get impacted by price deflation and showed slow growth of 4.9%YoY. Volume growth was strong at 20%. **Consumer Durable** displayed 21.1% growth through strong growth across sub divisions. Strong response of new product launches was encouraging. Management maintains healthy sales growth guidance for FY17 backed by low base benefit in H1FY17 and hope of overall demand pick up in H2FY17.

Margin Expansion across all segments barring Cables & Wire Segment

Lighting & Fixtures contribution margin has increased by stellar 478bps to 26.2%. Stellar growth, higher LED mix & sharp margin contraction in Q1FY16 were the key reasons. **Switchgear** margin improved by 234bps to 40.7% led by cost rationalization, operating leverage advantage and product mix improvement. **Cables & Wires** contribution margin was down by 61bps to 13.5% due to time lag in passing on the increase in commodity prices. **Consumer Durables** margin improved by 81bps to 26%. Overall EBITDA margins were at healthy level of 13.7%. Management expects EBITDA margin would remain at the elevated level and apart from saving on royalty expenses there are several cost & operational efficiencies which would play critical role.

Balance Sheet Improves: Management has successfully further reduced the term loan and total net debt stood at ₹ -13.3bn in Q1FY17 vs. ₹ -6.6bn in Q1FY16. RoCE & RoE each has improved by ~300bps and were at 25.8% & 18.8%, respectively. Net working capital days have slightly improved to 17days in Q1FY17 vs. 14 days in Q1FY16.

Outlook & Valuation: Havells has shown robust profitable growth in the domestic market since the last several years. Company's high focus on product quality, branding, market share gain & distribution has resulted into robust 33%, 35% & 43% CAGR in Sales, EBITDA & PAT in the last 14 years, respectively. We see several structural positives in Havells' domestic business that gives us confidence that the company can achieve superior growth in the coming years too.

Sylvania was largely a less performing asset and was shadowing full advantage of Havells' domestic business. The deal has lightened the core assets for Havells and hence improved the asset ratios. We expect Havells' standalone Sales, EBITDA and PAT to show 14%, 18% and 22% CAGR in FY16-18E.

Valuation: The stock trades at a P/E of 35.7x & 30.7x of FY17 & FY18 estimated EPS. We believe Havells justifies its high valuation supported by large size, premium positioning, robust long term profitable performance, market leadership and superior execution capabilities. **We maintain our BUY rating.**



Conference Call Highlight

- As per the management, Q1FY17 performance was encouraging but has also benefited by favorable base of Q1FY16. Last year in the first half, the demand environment was very weak and company had taken few initiatives that also impacted sales of last year. Management expects growth momentum to continue in Q2FY17 too backed by low base of last year, improvement in demand and benefits of key initiatives. However, H2FY17 growth would depend on improvement in domestic economy activities.
- Royalty saving would improve ~70bps in EBITDA Margin. Besides, management expects several tailwinds for margin improvement and ~14%-14.5% EBITDA Margin is achievable in FY17.
- Havells has consistently strengthening weaker areas and that has added in market share for the company.
- Switch Gears that saw a growth of 20.2%, its domestic growth was at 17% while exports grew 34%. Switch Gears last year performance was very bad and that was also a reason for extra-ordinary growth in Q1FY17.
- As per the management, marketing spend would increase in the coming quarters.
- Havells plans a capex of ₹2.5-3bn and out of which ₹0.55bn has already invested.
- The company is focusing on several product innovations and hence R&D expense would continue to be high in the coming years.



Key Highlight of Q1FY17 Performance

Exhibit 1: Quarter Performance

Particulars (₹ mn)	1Q FY16	1Q FY17	YoY Chg (%)
Net Sales	12,433	14,554	17.1%
Other Operating Income	90	114	26.4%
Total Income	12,523	14,668	17.1%
Total RM	7,412	8,467	14.2%
Gross Profit	5,111	6,201	21.3%
Gross Margin (%)	40.8%	42.3%	146bps
Employee Cost	866	1,239	43.1%
% of sales	6.9%	8.4%	154bps
ASP	475	486	2.4%
% of sales	3.8%	3.3%	-48bps
Other Expenditure	2,150	2,472	15.0%
% of sales	17.2%	16.9%	-32bps
EBITDA	1,621	2,004	23.7%
EBITDA Margin (%)	12.9%	13.7%	72bps
Depreciation	248	280	13.0%
Other Income	170	307	80.9%
EBIT	1,543	2,031	31.7%
EBIT Margin (%)	12.3%	13.8%	153bps
Interest	30	16	-46.2%
PBT	1,489	2,022	35.8%
Total Tax	421	567	34.7%
Effective tax rate (%)	28.2%	28.0%	-22bps
Reported PAT	1,060	1,446	36.5%
Adjusted PAT	1,076	1,441	33.9%



Exhibit 2: Quarterly Segmental

Particulars (₹ mn)	1Q FY16	1Q FY17	YoY Chg (%)
Net Revenue (₹ mn)			
Lighting & Fixtures	1,607	1,962	22.1%
Consumer Durables	2,903	3,514	21.1%
Switch Gears	2,936	3,529	20.2%
Cables and Wires	5,079	5,330	4.9%
Others	-	334	na
Total	12,523	14,668	17.1%
Contribution (₹ mn)			
Lighting & Fixtures	344	513	49.4%
Consumer Durables	731	913	24.9%
Switch Gears	1,125	1,435	27.6%
Cables and Wires	717	719	0.4%
Others	-	79	na
Total	2,916	3,659	25.5%
Other un-allocable item	1,397	1,620	16.0%
Total	1,519	2,039	34.2%
Revenue Mix (%)			
Lighting & Fixtures	12.8%	13.4%	55bps
Consumer Durables	23.2%	24.0%	78bps
Switch Gears	23.4%	24.1%	62bps
Cables and Wires	40.6%	36.3%	-422bps
Others	0.0%	2.3%	228bps
Total	100.0%	100.0%	
Contribution Margin (%)			
Lighting & Fixtures	21.4%	26.2%	478bps
Consumer Durables	25.2%	26.0%	81bps
Switch Gears	38.3%	40.7%	234bps
Cables and Wires	14.1%	13.5%	-61bps
Others		23.7%	na
Total	23.3%	24.9%	167bps
Contribution Mix (%)			
Lighting & Fixtures	11.8%	14.0%	225bps
Consumer Durables	25.1%	24.9%	-11bps
Switch Gears	38.6%	39.2%	63bps
Cables and Wires	24.6%	19.7%	-492bps
Others	0.0%	2.2%	216bps
Total	100.0%	100.0%	
ROCE (%)			
Lighting & Fixtures	57.7%	55.0%	-266bps
Consumer Durables	131.8%	135.0%	316bps
Switch Gears	138.0%	100.0%	-3,800bps
Cables and Wires	68.4%	65.0%	-342bps
Others	0.0%	1.9%	193bps
Total	44.7%	47.5%	278bps



Financials - Standalone

P&L Statement

Y/E Mar (₹ mn)	FY14	FY15	FY16	FY17E	FY18E
Net Revenues	47,197	52,387	54,369	62,218	70,609
% Growth	11.7	11.0	3.8	14.4	13.5
Raw Material	29,017	31,784	31,735	35,775	40,247
Staff	2,317	3,127	3,763	4,327	4,976
SG&A	6,854	7,477	7,982	8,711	9,885
Other Expenses	2,593	3,006	3,411	4,435	5,148
Total Expenditures	40,781	45,394	46,890	53,248	60,256
EBITDA	6,416	6,993	7,479	8,970	10,353
% Growth	20.0	9.0	7.0	19.9	15.4
EBITDA Margins (%)	13.6	13.3	13.8	14.4	14.7
Other Income	441	522	687	1,381	1,610
Interest	269	176	126	82	72
Depreciation	636	875	922	1,043	1,106
PBT Before Exceptional	5,951	6,464	7,118	9,226	10,785
Provision for tax	1,164	1,813	1,988	2,614	3,072
Reported PAT	4,787	4,651	7,154	6,532	7,627
% Growth	28.9	(2.8)	53.8	(8.7)	16.8
Adjusted Net Profit	4,833	4,651	5,138	6,562	7,634
% Growth	29.0	(3.8)	10.5	27.7	16.3

Balance Sheet

₹ mn (Y/E Mar)	FY14	FY15	FY16	FY17E	FY18E
Equity Share Capital	624	624	624	624	624
Reserves & surplus	20,675	23,134	25,907	29,520	33,497
Shareholders' funds	21,299	23,757	26,531	30,144	34,121
Total Debt	1,955	835	442	392	342
Others	943	495	857	857	857
Capital Employed	24,197	25,087	27,830	31,392	35,320
Net fixed assets	9,341	10,069	10,820	11,886	11,780
Cash	6,262	5,224	13,542	10,678	12,242
Net Current Assets (Ex-cash)	(946)	(2,547)	(1,870)	1,490	1,959
Others	9,540	12,339	5,339	7,339	9,339
Total Assets	24,197	25,084	27,830	31,392	35,320



Cash Flow

₹ mn (Y/E Mar)	FY14	FY15	FY16	FY17E	FY18E
Pre-tax profit	5,951	6,463	9,142	9,233	10,785
Depreciation	636	875	922	1,043	1,106
Total Tax Paid	(1,118)	(1,505)	(1,446)	(2,614)	(3,072)
Chg in working capital	1,075	399	(911)	(3,041)	(887)
Other operating activities	(20)	(227)	(2,464)	(92)	(86)
Cash flow from oper (a)	6,525	6,005	5,243	4,529	7,845
Capital Expenditure	(901)	(1,675)	(1,703)	(2,242)	(1,000)
Chg in investments	-	(3,476)	2,412	(2,000)	(2,000)
Other investing activities	(2,030)	(3,170)	(6,547)	-	-
Cash flow from inv.(b)	(3,833)	(6,089)	(756)	(4,242)	(3,000)
Free cash flow	5,624	4,330	3,540	2,288	6,845
Equity raised/(repaid)	0	99	41	(30)	(7)
Debt raised/(repaid)	753	(1,154)	(434)	(369)	368
Interest paid	(83)	(171)	(62)	-	-
Dividend (incl. Tax)	(1,560)	(1,460)	(4,511)	(2,496)	(3,120)
Other financing activities	(265)	-	-	(424)	(530)
Cash flow from fin. (c)	(1,155)	(2,686)	(4,965)	(3,319)	(3,289)
Net chg in cash (a+b+c)	1,538	(2,770)	(478)	(3,031)	1,557

Key Ratios

Y/E Mar	FY14	FY15	FY16	FY17E	FY18E
Raw Material Cost/Sales (%)	56.7	56.4	56.8	57.5	57.0
Manpower Cost/Sales (%)	13.3	13.9	11.1	7.0	7.0
A&P Cost/Sales (%)	2.4	3.0	3.0	3.0	3.0
Revenue Growth (%)	11.7	11.0	3.8	14.4	13.5
EBITDA Margins (%)	13.6	13.3	13.8	14.4	14.7
Net Income Margins (%)	10.2	8.9	9.4	10.5	10.8
ROCE (%)	23.9	24.4	23.6	25.3	26.2
ROE (%)	22.7	19.6	19.4	21.8	22.4

Valuation Parameters

Y/E Mar	FY14	FY15	FY16	FY17E	FY18E
EPS (₹.)	7.7	7.4	8.2	10.5	12.2
P/E (x)	24.0	36.2	40.1	35.7	30.7
BV (₹)	34.1	38.0	42.5	48.3	54.7
P/BV (x)	5.5	7.1	7.8	7.8	6.9
EV/EBITDA (x)	18.4	23.6	25.7	25.9	22.7
Fixed assets turnover ratio (x)	5.1	5.2	5.0	5.2	6.0
Net Debt/Equity (x)	-0.2	-0.2	-0.5	-0.3	-0.3
EV/Sales (x)	2.5	3.1	3.5	3.7	3.3



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