



In partnership. With trust.

Havells India

Sector: Consumer Durable

Q4FY16 Result Update

CMP: ₹ 342

"In-line result; Consistent improvement in performance"

Recommendation: BUY

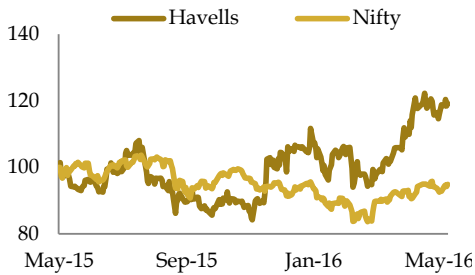
Market statistics

Current stock price (₹)	342
Shares O/S (cr.)	62.5
Mcap (₹ cr)	21,377
52W H/L (₹)	355/233
6m avg. volume	2,038,240
Bloomberg	HAVL IN

Shareholding pattern

Promoters	61.63
Domestic Institution	4.19
Foreign Institution	25.55
Non-institution	8.63
of which more than 1%	
Nalanda India Equity Fund Ltd	5.29
Government Pensions Fund Global	3.15

Havells vs Nifty



Capital efficiency & valuations

Particulars	FY16P	FY17E	FY18E
ROE (%)	23.7	24.2	26.0
ROCE (%)	19.4	21.0	22.4
Core ROE (%)	46.5	40.6	43.4
Core ROCE	36.0	30.4	32.4
P/B (x)	7.8	7.2	6.4
P/E (x)	40.1	34.3	28.5
EPS (₹)	8.2	10.1	12.1
EV/OCF (x)	40.4	30.2	27.7

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Havells India reported moderate standalone sales growth of 9.2% YoY to ₹14.6bn vs. our expectation 11.2% growth to ₹14.9bn. This performance is better as compared to weak performance witnessed during the last 4-5 quarters, barring Q3FY16 which was also similar. Cables & Wires (41% of sales), Electric consumer durables (21% of sales), Switchgears (22% of sales) & Lighting & fixtures (16% of Sales) reported 7.0%, 7.2%, 7.1% & 23.3% growth, respectively.

However, input cost softening has translated into healthy 303bps YoY expansion in Gross Margin, stood at 41.8%. A&P spend was up by 36.3% YoY (up 52bps YoY). Q4FY15 had one off customer claim liability for Switchgears of ₹180mn. Hence, adjusted EBITDA margin was up by 26bps YoY and stood at 14.9% (in-line with our 15% expectation). PBT before exceptional item was ₹2.20bn vs. our expectation of ₹2.18bn. Exceptional income of ₹2bn was on account of Sylvania stake sale.

Other income grew by 134% to ₹291mn (higher than our expectation). APAT (adjusting gain on Sylvania stake sale in Q4FY16 and one-off expense in Q4FY15 for Switchgears) has increased by 22% to ₹1,635mn - Our expectation was ₹1,531mn

Moderate Sales performance

Lighting & Fixtures registered robust growth of 23.3% due to low base of Q4FY15 & strong growth in LED sales which now forms 50% of total Lighting segment. **Switchgear segment** growth of 7% is encouraging is highly encouraging on back of negative growth in last 4 qtrs. **Cables & Wires** segment continue to get impacted by price deflation and showed growth of 7.0%YoY. Volume growth was strong at 17% & 20% in industrial and domestic cables. **Consumer Durable** displayed moderate growth of 7.2% due to low growth in appliances while fans and water displayed healthy growth. Management targets double digit Sales growth for FY17 on back of consumption pick up in H2FY17.

Margin Expansion across all segments barring Lighting & Fixtures Segment

Lighting & Fixtures contribution margin has declined on YoY basis by 124bps to 24.5%. **Switchgear** contribution margin has improved by 378bps to 39.2% led by cost rationalization and improving product mix. **Cables & Wires** contribution margin inched up by 106bps to 14.7% - highest in last 9-10 years led by cost efficiency measures, better price management and benefit of drop in commodity prices. **Consumer Durables** margin improved by 235bps to 27.9% YoY - highest in last 11 qtrs. Overall EBITDA margins are expected to be in 13.5% to 14% range in FY17.

Loss Making Subsidiaries turned profitable: Management has succeeded in transforming loss making geographies of Brazil & Thailand into profitable ones in Q4FY16. Brazil reported Euro +0.6mn v/s Euro -4.8mn while Thailand reported Euro +0.08m vs. Euro -0.8mn at PBT levels.

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%, 17% and 21% CAGR in FY16-18E.

Valuation: The stock trades at a P/E of 34.3x & 28.5x 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

❖ **Management Outlook for FY17:**

- Management mentioned that economy is not seeing big revival but still there is a positive sign of improvement. H2FY17 is expected to do better than first half. Infrastructure activity is also picking up
- Overall Management expects double digit sales growth in FY17.
- Gross Margins and EBITDA margins would be maintained. EBITDA margins targeted to remain in 13.5% to 14% range
- Management expects demand to accelerate going ahead and sees more potential in the domestic market. Company continues to follow strategy of strengthening its brand & distribution in this weak demand scenario via various initiatives. Focus on technology connect at retailer level is aiding better visibility of trade.
- Capex would ~₹2,600mn during FY17. More capacity additions would be in Cables & Wires, Switchgear and Electric Consumer segments.
- Dividend policy would continue to remain in ~40% range.

❖ **Lighting segment growth led by LED**

- CFL continue to see declining trend during the quarter. LED has shown robust growth in Q4FY16. Overall LED proportion in lighting segment has increased to 50%. Management stated that LED segment is largely divided between commoditized segment and technology driven segment i.e. street LED lights. Management mentioned that they are focusing on high margin technology driven segment and said that growth will further accelerate in LED segment.
- Management guided that current levels margins would be maintained.

❖ **Switchgear margins improved due to internal cost restructuring & mix improvement:** Management mentioned that improvement in contribution margins by 378bps to 39.2% largely due to internal cost rationalization techniques & product mix improvement. Management guided that margins would be sustained with possibility of improvement of 1-2% going ahead.

❖ **Cables & Wires posted double digit volume growth; Margin accretion due to cost rationalization & softening of raw material:**

- Cables and Wires witnessed moderate growth of 7.0% despite strong volume growth of 17% in industrial cables & 20% in domestic cables. This segment continues to get impacted by price deflation. Contribution margin inched up by 106bps to 14.7%- led by cost efficiency measures, better price management and benefit of drop in commodity prices.
- Management expects healthy growth in Cables & Wires in coming quarters due to infrastructure activity pick up.

❖ **Moderate growth in ECD in Q4FY16; targets double digit growth in FY17:** Consumer durable segment posted modest growth of 7.2% led by fans and water heaters but appliances segment displayed weak growth. Management targeted double digit growth in ECD in FY17 and continues to remain focus for new product launches and innovations.

❖ **Target to achieve ₹1,000mn in 4 years in Integrated Automation and Control Solutions:** Havells recently entered into Integrated Automation and Control Solutions segment under Switchgear segment. Management mentioned that they already launched high end segment under brand Crabtree and focuses to launch product for middle and low group segment. They are targeting ₹ 1,000mn from this segment in 4 years timeframe.

❖ **Decision on capital allocation from proceeds from divestment is yet to be decided:** Management is yet to give clarity on capital allocation of funds received from stake sale. Focus would remain for looking growth opportunities in Domestic market for the next 1-2 years.

❖ **Galaxy stores increased from 250 to 375 in FY16:** Company had increased Galaxy stores from 250 to 375 in FY16. No stores were closed during the period. Galaxy stores contribute to 15-17% of sales in FY16.

❖ **Targets ₹2,000mn from Promtec in 2-3 year's timeframe:** Management mentioned that Promtec has delivered ₹520mn sales in FY16 compared to ₹300mn last year. PBT margin stood at 7% in FY16. Management has targeted ₹2,000mn revenue in 2-3 years timeframe.

Key Highlight of Q4FY16 Performance

Exhibit 1: Quarterly Performance

Particulars (₹ mn)	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16
Total Income	11,844	13,100	12,769	13,651	12,473	13,493	12,671	13,498	13,445
YoY Growth (%)	13,100	12,769	13,651	12,473	13,493	12,671	13,498	13,445	14,754
Gross Profit	12.0	21.5	16.3	5.3	3.0	(0.8)	(1.1)	7.8	9.3
Gross Margin (%)	5,036	5,003	5,418	4,951	5,230	5,259	5,529	5,680	6,167
Gross Margin Expansion (YoY)	38.4	39.2	39.7	39.7	38.8	41.5	41.0	42.2	41.8
EBITDA	248bps	4bps	83bps	187bps	32bps	233bps	127bps	256bps	303bps
YoY Growth (%)	2,083	1,610	1,804	1,780	1,973	1,606	1,876	1,815	2,196
EBITDA Margin (%)	41.4	14.1	6.7	9.0	(5.3)	(0.2)	4.0	1.9	11.3
Change (bps)	15.9	12.6	13.2	14.3	14.6	12.7	13.9	13.5	14.9
Adjusted PAT	330bps	-81bps	-118bps	48bps	-128bps	7bps	69bps	-77bps	26bps
YoY Growth (%)	1,697	1,065	1,175	1,215	1,337	1,090	1,216	1,196	1,635
PAT Margin (%)	58.1	5.5	(6.2)	4.5	(21.2)	2.4	3.5	(1.6)	22.4

Source: Company, Trust

Exhibit 2: Quarterly Sales Performance(Standalone)

Segments	Sales Growth (%)					Sales Mix (%)				
	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16
Lighting & Fixtures	(5.7)	(1.7)	1.5	8.6	23.3	13.9	12.8	14.6	15.7	15.7
Elec. Consumer Durables	24.0	9.3	5.9	22.8	7.2	21.3	23.2	18.9	21.1	20.8
Switch Gears	(4.6)	(3.4)	(1.3)	0.0	7.1	22.6	23.4	24.8	24.4	22.2
Cables and Wires	1.8	(4.0)	(4.8)	5.6	7.0	42.2	40.5	41.7	38.9	41.3
Total	3.0	(0.8)	(1.1)	7.8	9.3	100.0	100.0	100.0	100.0	100.0

Source: Company, Trust

Exhibit 3: Quarterly Margins Performance(Standalone)

Segments	Contribution Margin (%)					Contribution Mix (%)				
	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16
Lighting & Fixtures	25.7	21.3	23.8	26.0	24.5	15.7	11.8	15.0	16.4	15.7
Elec. Consumer Durables	25.5	24.8	21.7	25.7	27.9	23.8	24.9	17.8	21.8	23.8
Switch Gears	35.4	38.1	39.4	40.1	39.2	35.2	38.5	42.3	39.4	35.6
Cables and Wires	13.6	14.2	13.8	14.3	14.7	25.2	24.9	24.9	22.3	24.8
Total	22.8	23.2	23.1	24.8	24.4	100.0	100.0	100.0	100.0	100.0

Source: Company, Trust

Exhibit 4: Sales Performance(Standalone)

Segments	Sales Growth (%)							Sales Mix (%)						
	FY10	FY11	FY12	FY13	FY14	FY15	FY16P	FY10	FY11	FY12	FY13	FY14	FY15	FY16P
Lighting & Fixtures	30.3	23.0	24.7	20.0	8.3	2.8	8.2	14.8	15.4	15.3	15.7	15.3	14.1	14.7
Elec. Consumer Durables	26.9	33.6	21.9	38.0	8.1	20.5	11.0	14.4	16.3	15.8	18.7	18.1	19.6	21.0
Switch Gears	14.7	5.3	22.0	20.3	13.1	4.9	0.6	28.5	25.5	24.8	25.5	25.8	24.4	23.7
Cables and Wires	1.3	22.7	29.3	6.2	13.8	13.7	0.8	41.0	42.7	44.1	40.1	40.8	41.8	40.6
Total	11.3	17.8	25.5	16.9	11.7	11.0	3.8	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company, Trust



Exhibit 5: Margins Performance (Standalone)

Segments	Contribution Margin (%)							Contribution Mix (%)						
	FY10	FY11	FY12	FY13	FY14	FY15	FY16P	FY10	FY11	FY12	FY13	FY14	FY15	FY16P
Lighting & Fixtures	19.5	18.4	23.8	23.6	24.8	26.6	24.1	13.3	14.3	17.8	17.9	16.8	16.3	16.9
Elec. Consumer Durables	29.0	27.6	28.1	25.1	27.0	25.1	25.2	19.3	22.6	21.7	22.6	21.7	22.2	21.0
Switch Gears	37.4	37.0	36.1	33.9	36.3	36.5	39.2	49.3	47.4	43.6	41.8	41.7	43.0	40.7
Cables and Wires	8.8	7.3	7.9	9.1	11.0	12.1	14.2	16.8	15.7	17.0	17.6	19.8	18.5	21.4
Total	21.6	19.9	20.5	20.7	22.5	22.7	23.9	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Business Assumption - Standalone Business

Segments	Net Sales (₹ mn)					Net Sales Mix (%)				
	FY14	FY15	FY16P	FY17E	FY18E	FY14	FY15	FY16P	FY17E	FY18E
Lighting & Fixtures	7,207	7,410	8,016	9,051	10,346	15.3	14.1	14.7	14.7	14.7
Consumer Durables	8,534	10,283	11,411	12,772	14,404	18.1	19.6	21.0	20.7	20.5
Switch Gears	12,192	12,790	12,861	14,597	16,716	25.8	24.4	23.7	23.7	23.7
Cables and Wires	19,264	21,904	22,081	25,280	28,943	40.8	41.8	40.6	41.0	41.1
Total	47,197	52,387	54,369	61,699	70,408	100.0	100.0	100.0	100.0	100.0

Segments	Contribution (₹mn)					Contribution Mix (%)				
	FY14	FY15	FY16P	FY17E	FY18E	FY14	FY15	FY16P	FY17E	FY18E
Lighting & Fixtures	1,787	1,969	1,930	2,240	2,509	16.8	16.6	14.9	15.2	15.1
Consumer Durables	2,304	2,580	2,872	3,262	3,718	21.7	21.7	22.1	22.2	22.4
Switch Gears	4,432	4,667	5,048	5,658	6,406	41.7	39.3	38.8	38.5	38.5
Cables and Wires	2,110	2,657	3,146	3,542	3,989	19.8	22.4	24.2	24.1	24.0
Total	10,633	11,872	12,995	14,702	16,622	100.0	100.0	100.0	100.0	100.0



Financials - Standalone

P&L Statement

Y/E Mar (₹ mn)	FY14	FY15	FY16P	FY17E	FY18E
Net Revenues	47,197	52,387	54,369	61,699	70,408
% Growth	11.7	11.0	3.8	13.5	14.1
Raw Material	29,017	31,784	31,751	35,477	40,133
Staff	2,317	3,127	3,596	4,135	4,755
SG&A	6,854	7,477	7,760	8,807	10,050
Other Expenses	2,593	3,006	3,768	4,710	5,300
Total Expenditures	40,781	45,394	46,876	53,129	60,238
EBITDA	6,416	6,993	7,493	8,571	10,170
% Growth	20.0	9.0	7.2	14.4	18.7
EBITDA Margins (%)	13.6	13.3	13.8	13.9	14.4
Other Income	441	522	688	1,381	1,610
Interest	269	176	126	72	61
Depreciation	636	875	922	1,047	1,109
PBT Before Exceptional	5,951	6,464	7,133	8,834	10,609
Provision for tax	1,164	1,813	1,988	2,473	2,971
Reported PAT	4,787	4,651	7,155	6,273	7,552
% Growth	28.9	(2.8)	53.8	(12.3)	20.4
Adjusted Net Profit	4,833	4,651	5,138	6,273	7,559
% Growth	29.0	(3.8)	10.5	22.1	20.5

Balance Sheet

₹ mn (Y/E Mar)	FY14	FY15	FY16P	FY17E	FY18E
Equity Share Capital	624	624	624	624	624
Reserves & surplus	20,675	23,134	25,908	29,262	33,165
Shareholders' funds	21,299	23,757	26,532	29,886	33,789
Total Debt	1,955	835	367	317	267
Others	943	495	856	856	856
Capital Employed	24,197	25,087	27,756	31,060	34,912
Net fixed assets	9,341	10,069	10,829	11,782	11,673
Cash	6,262	5,223	13,624	12,543	14,039
Net Current Assets (Ex-cash)	(946)	(2,547)	(2,024)	(593)	(127)
Others	9,540	12,339	5,328	7,328	9,328
Total Assets	24,197	25,084	27,756	31,060	34,912

**Cash Flow**

₹ mn (Y/E Mar)	FY14	FY15	FY16P	FY17E	FY18E
Pre-tax profit	5,951	6,463	9,143	8,834	10,609
Depreciation	636	875	922	1,047	1,109
Total Tax Paid	(1,118)	(1,505)	(1,988)	(2,473)	(2,971)
Chg in working capital	1,075	399	(1,200)	(595)	(884)
Other operating activities	(20)	(227)	(2,016)	(87)	(86)
Cash flow from oper (a)	6,525	6,005	4,861	6,725	7,778
Capital Expenditure	(901)	(1,675)	(1,679)	(2,000)	(1,000)
Chg in investments	-	(3,476)	5,526	(2,000)	(2,000)
Other investing activities	(2,030)	(3,170)	-	-	-
Cash flow from inv.(b)	(3,833)	(6,089)	3,847	(4,000)	(3,000)
Free cash flow	5,624	4,330	3,183	4,725	6,778
Equity raised/(repaid)	0	99	2,017	-	(7)
Debt raised/(repaid)	753	(1,154)	255	(886)	368
Interest paid	(83)	(171)	-	-	-
Dividend (incl. Tax)	(1,560)	(1,460)	(3,743)	(2,496)	(3,120)
Other financing activities	(265)	-	(636)	(424)	(530)
Cash flow from fin. (c)	(1,155)	(2,686)	(2,108)	(3,806)	(3,289)
Net chg in cash (a+b+c)	1,538	(2,770)	6,601	(1,081)	1,489

Key Ratios

Y/E Mar	FY14	FY15	FY16P	FY17E	FY18E
Raw Material Cost/Sales (%)	56.7	56.4	55.2	57.5	57.0
Manpower Cost/Sales (%)	13.3	13.9	14.0	6.7	6.8
A&P Cost/Sales (%)	2.4	3.0	3.0	3.0	3.0
Revenue Growth (%)	11.7	11.0	3.8	13.5	14.1
EBITDA Margins (%)	13.6	13.3	13.8	13.9	14.4
Net Income Margins (%)	10.2	8.9	9.5	10.2	10.7
ROCE (%)	23.9	24.4	23.7	24.2	26.0
ROE (%)	22.7	19.6	19.4	21.0	22.4

Valuation Parameters

Y/E Mar	FY14	FY15	FY16P	FY17E	FY18E
EPS (₹.)	7.7	7.4	8.2	10.1	12.1
P/E (x)	24.0	36.2	40.1	34.3	28.5
BV (₹)	34.1	38.0	42.5	47.9	54.2
P/BV (x)	5.5	7.1	7.8	7.2	6.4
EV/EBITDA (x)	18.4	23.4	26.2	23.7	21.2
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	-0.4	-0.4
EV/Sales (x)	2.5	3.1	3.6	3.3	3.1



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