Havells India

Q3FY17 Result Update

"Positive surprise; Maintain Buy"

Sector: Consumer Durable

CMP: ₹ 376

Recommendation: BUY

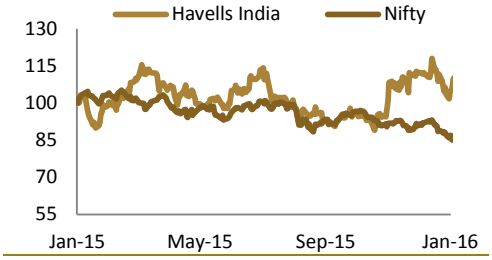
Market statistics

Current stock price (₹)	376
Shares O/S (cr.)	62.5
Mcap (₹ cr)	23,498
52W H/L (₹)	460/259
6m avg. volume	1,620,797
Bloomberg	HAVL IN

Shareholding pattern

Promoters	61.61
Domestic Institution	2.32
Foreign Institution	26.19
Non-institution	8.80
of which more than 1%	
Nalanda India Equity Fund Ltd	*5.29*
Government Pensions Fund Global	*2.89*

Havells vs Nifty



Capital efficiency & valuations

Particulars	FY17E	FY18E	FY19E
ROE (%)	23.1	23.6	23.2
ROCE (%)	20.9	21.6	21.0
Core ROE (%)	35.7	37.3	37.8
Core ROCE	28.3	29.5	29.5
P/B (x)	7.0	6.7	5.8
P/E (x)	33.6	31.0	27.5
EPS (₹)	10.2	12.1	13.7
EV/OCF (x)	41.6	30.2	27.1

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Havells, based on IND AS, has reported healthy 13.2% net sales growth to ₹ 15.bn as compared to our expectation of 4% decline. Consumer Durables & Cables & wires showed strong growth of 19% & 17% while Switchgears & Lighting & fixtures segment showed weak growth of 2.0% & 1.7% YoY. Cables Segment witnessed robust demand which resulted into 21% & 17% volume growth in Industrial & Domestic cables. Lighting & fixtures segment excluding CFL grew by 22% YoY. This performance resembles that demonetization impact on Havells was limited. Management stated that market share gain from unorganized sector, pro-active engagement with dealers, trade schemes has resulted into strong delivery of growth.

Gross Margin contracted by 233bps YoY and stood at 39.3%. Employee, Advertisement and other expenses grew by 28.9%, -5.5% & 2.8% YoY, respectively. Hence, EBITDA Margin reduced by 112bps YoY to 12.7% YoY. EBITDA grew by 4.0% YoY. Contribution margin for Lighting & fixtures & Cables expanded by 421bps & 14bps while Consumer Durable & Switch Gears segments margin contracted by 143bps & 116bps YoY. Overall Contribution margin contracted by marginal 49bps to 24.3% YoY on account of trade schemes offered to dealers in the event of Demonetization.

Lower interest cost (-22%), higher other income (+97% YoY) & ₹ 189mn gain from rest of Sylvania sale (20%) has resulted into strong 27.0% growth in PAT to Rs1.51bn in Q3FY17. APAT grew by 15.0% to ₹ 1.35bn.

Cables Wires & ECD outshines while Lighting & Switchgears laggards: **Consumer Durable** continues to display robust growth of 17.8% growth through strong growth across water heaters, fans & appliances divisions. **Cables & Wires** segment picked up and showed strong growth of 17.7% led by 21% & 7% volume growth in industrial & domestic cables coupled with price hike. Copper prices have increased by 12-13% during Q3FY17. **Lighting & Fixtures** posted weak growth of 1.7% YoY while excluding CFL showed growth of 22%. **Switchgear segment** showed slow growth of 2.0% YoY. Company aims to launch products to focus on low cost housing segment (Rs 15-20 lacs) to garner growth in switchgears.

Contribution Margin blip by 49bps to 24.3% due to trade schemes: To combat the demand disruption caused by demonetization, company offered trade schemes to dealers. Hence, margins were under pressure and resulted into 49bps decline. Consumer Durable & Switchgears witnessed 143bps & 116bps contraction in contribution margins. Lighting segment displayed 421bps jump to 30.2% led by low provisions created for CFL returns & no trade schemes in luminaries. Cables segment showed 14bps increase in margin because industrial cables (50% of cables segment) has lower exposure to dealers & domestic cables had existing inventory at lower cost. Overall EBITDA margins contracted by 112bps to 12.7% in Q3FY17. We expect margins to restore back in coming quarters on back of withdrawal of schemes & demand improvement.

Balance Sheet Improves: Management has successfully further reduced the term loan and total net debt stood at ₹ -14.1bn in Q3FY17 vs. ₹ -5.2bn in Q3FY16. RoE has improved by ~70bps while ROCE reduced by 50bps and stood at 16.6% & 23.9%, respectively.

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 29%, 31% & 37% CAGR in Sales, EBITDA & PAT in the last 16 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. GST implementation would further boost Havells growth on account of markets share gain from unorganized players.

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. Sylvania's rest 20% business was sold off to Fierro in Q3 FY17.We expect Havells' standalone Sales, EBITDA and PAT to show 13%, 13% and 19% CAGR in FY16-19E.

Valuation: The stock trades at a P/E of 31.0x & 27.5x of FY18 & FY19 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.**

Key Highlight of Q2FY17 Performance

Exhibit 1: Quarter Performance

Particulars (₹ mn)	3Q FY16	2Q FY17	3Q FY17	YoY Chg (%)
Net Sales	**14,218**	**15,477**	**16,097**	**13.2%**
Other Operating Income	98	116	124	26.4%
Total Income	**13,304**	**14,522**	**15,060**	**13.2%**
Total RM	7,765	8,461	9,141	17.7%
Gross Profit	5,539	6,061	5,919	6.9%
Gross Margin (%)	41.6%	41.7%	39.3%	-233bps
Employee Cost	961	1,216	1,238	28.9%
% of sales	7.2%	8.4%	8.2%	100bps
ASP	561	485	531	-5.5%
% of sales	4.2%	3.3%	3.5%	-70bps
Other Expenditure	2,183	2,327	2,243	2.8%
% of sales	16.4%	16.0%	14.9%	-151bps
EBITDA	**1,835**	**2,034**	**1,907**	**4.0%**
EBITDA Margin (%)	13.8%	14.0%	12.7%	-112bps
Depreciation	266	308	301	13.2%
Other Income	134	253	264	97.3%
EBIT	1,702	1,979	1,870	9.9%
EBIT Margin (%)	12.8%	13.6%	12.4%	-38bps
Interest	20	19	15	-21.9%
PBT	1,699	2,030	1,877	10.5%
Total Tax	500	572	537	7.4%
Effective tax rate (%)	29.4%	28.2%	26.0%	-344bps
Reported PAT	1,190	1,431	1,512	27.0%
Adjusted PAT	**1,179**	**1,381**	**1,355**	**15.0%**

Exhibit 2: Quarterly Segmental

Particulars (₹ mn)	3Q FY16	2Q FY17	3Q FY17	YoY Chg (%)
Gross Revenue (₹ mn)				
Lighting & Fixtures	2,085	2,118	2,121	1.7%
Consumer Durables	2,799	3,085	3,296	17.8%
Switch Gears	3,243	3,474	3,309	2.0%
Cables and Wires	5,178	5,592	6,092	17.7%
Others	-	253	242	na
Total	**13,305**	**14,522**	**15,060**	13.2%
Contribution (₹ mn)				
Lighting & Fixtures	543	567	641	18.2%
Consumer Durables	727	821	809	11.3%
Switch Gears	1,302	1,445	1,291	-0.9%
Cables and Wires	732	793	869	18.8%
Others	-	64	55	na
Total	3,304	3,689	3,665	10.9%
Total	**1,719**	**2,049**	**1,893**	10.1%
Revenue Mix (%)				
Lighting & Fixtures	15.7%	14.6%	14.1%	-159bps
Consumer Durables	21.0%	21.2%	21.9%	85bps
Switch Gears	24.4%	23.9%	22.0%	-240bps
Cables and Wires	38.9%	38.5%	40.5%	153bps
Others	0.0%	1.7%	1.6%	161bps
Total	**100.0%**	**100.0%**	**100.0%**	
Contribution Margin (%)				
Lighting & Fixtures	26.0%	26.8%	30.2%	421bps
Consumer Durables	26.0%	26.6%	24.6%	-143bps
Switch Gears	40.2%	41.6%	39.0%	-116bps
Cables and Wires	14.1%	14.2%	14.3%	14bps
Others		25.3%	22.7%	na
Total	**24.8%**	**25.4%**	**24.3%**	-49bps
Contribution Mix (%)				
Lighting & Fixtures	16.4%	15.4%	17.5%	107bps
Consumer Durables	22.0%	22.2%	22.1%	7bps
Switch Gears	39.4%	39.2%	35.2%	-421bps
Cables and Wires	22.1%	21.5%	23.7%	157bps
Others	0.0%	1.7%	1.5%	150bps
Total	**100.0%**	**100.0%**	**100.0%**	
ROCE (%)				
Lighting & Fixtures	112.2%	89.4%	123.9%	1,173bps
Consumer Durables	141.5%	99.2%	115.3%	-2,613bps
Switch Gears	129.4%	134.8%	130.7%	131bps
Cables and Wires	66.2%	54.8%	62.3%	-388bps
Total	**47.3%**	**49.5%**	**46.9%**	-37bps

Financials - Standalone

P&L Statement

Y/E Mar (₹ mn)	FY15	FY16	FY17E	FY18E	FY19E
Net Revenues	**52,387**	**54,369**	**60,914**	**69,255**	**79,039**
% Growth	11.0	3.8	12.0	13.7	14.1
Raw Material	31,784	31,735	35,026	39,475	45,052
Staff	3,127	3,763	4,327	4,976	5,723
SG&A	7,477	7,982	8,528	9,696	11,066
Other Expenses	3,006	3,411	4,688	5,416	6,319
Total Expenditures	45,394	46,890	52,568	59,563	68,160
EBITDA	**6,993**	**7,479**	**8,346**	**9,691**	**10,879**
% Growth	9.0	7.0	11.6	16.1	12.3
EBITDA Margins (%)	**13.3**	**13.8**	**13.7**	**14.0**	**13.8**
Other Income	522	687	1,271	1,630	1,831
Interest	176	126	82	72	63
Depreciation	875	922	1,043	1,106	1,168
PBT Before Exceptional	**6,464**	**7,118**	**8,491**	**10,143**	**11,480**
Provision for tax	1,813	1,988	2,400	2,914	3,293
Reported PAT	**4,651**	**7,127**	**6,442**	**7,641**	**8,606**
% Growth	(2.8)	53.2	(9.6)	18.6	12.6
Adjusted Net Profit	**4,651**	**5,076**	**6,354**	**7,578**	**8,543**
% Growth	(3.8)	9.1	25.2	19.3	12.7

Balance Sheet

₹ mn (Y/E Mar)	FY15	FY16	FY17E	FY18E	FY19E
Equity Share Capital	624	624	624	624	624
Reserves & surplus	23,134	25,881	29,768	34,489	40,029
Shareholders' funds	**23,757**	**26,504**	**30,391**	**35,113**	**40,653**
Total Debt	835	442	392	342	292
Others	495	857	867	882	907
Capital Employed	**25,087**	**27,803**	**31,650**	**36,336**	**41,852**
Net fixed assets	10,069	10,820	11,886	11,780	11,612
Cash	5,224	13,515	11,188	13,343	16,144
Net Current Assets (Ex-cash)	(2,547)	(1,870)	1,237	1,874	2,756
Others	12,339	5,339	7,339	9,339	11,339
Total Assets	**25,084**	**27,803**	**31,650**	**36,336**	**41,852**

Cash Flow

₹ mn (Y/E Mar)	FY15	FY16	FY17E	FY18E	FY19E
Pre-tax profit	6,463	9,142	8,612	10,231	11,568
Depreciation	875	922	1,043	1,106	1,168
Total Tax Paid	(1,505)	(1,446)	(2,400)	(2,914)	(3,293)
Chg in working capital	399	(911)	(2,579)	(846)	(991)
Other operating activities	(227)	(2,464)	393	223	214
Cash flow from oper (a)	**6,005**	**5,243**	**5,070**	**7,801**	**8,666**
Capital Expenditure	(1,675)	(1,703)	(2,242)	(1,000)	(1,000)
Chg in investments	(3,476)	2,412	(2,000)	(2,000)	(2,000)
Other investing activities	(3,170)	(6,547)	-	-	-
Cash flow from inv.(b)	**(6,089)**	**(756)**	**(4,242)**	**(3,000)**	**(3,000)**
Free cash flow	**4,330**	**3,540**	**2,828**	**6,801**	**7,666**
Equity raised/(repaid)	99	41	-	-	-
Debt raised/(repaid)	(1,154)	(434)	(568)	174	84
Interest paid	(171)	(62)	-	-	-
Dividend (incl. Tax)	(1,460)	(4,511)	(2,555)	(2,920)	(3,066)
Other financing activities	-	-	-	-	-
Cash flow from fin. (c)	**(2,686)**	**(4,965)**	**(3,123)**	**(2,746)**	**(2,982)**
Net chg in cash (a+b+c)	**(2,770)**	**(478)**	**(2,294)**	**2,055**	**2,683**

Key Ratios

Y/E Mar	FY15	FY16	FY17E	FY18E	FY19E
Raw Material Cost/Sales (%)	60.7	58.4	57.5	57.0	57.0
Manpower Cost/Sales (%)	6.0	6.9	7.1	7.2	7.2
A&P Cost/Sales (%)	3.0	3.0	3.0	3.0	3.0
Revenue Growth (%)	11.0	3.8	12.0	13.7	14.1
EBITDA Margins (%)	13.3	13.8	13.7	14.0	13.8
Net Income Margins (%)	8.9	9.3	10.4	10.9	10.8
ROCE (%)	24.4	23.6	23.1	23.6	23.2
ROE (%)	19.6	19.2	20.9	21.6	21.0

Valuation Parameters

Y/E Mar	FY15	FY16	FY17E	FY18E	FY19E
EPS (₹.)	7.4	8.1	10.2	12.1	13.7
P/E (x)	36.2	40.6	33.6	31.0	27.5
BV (₹)	38.0	42.5	48.7	56.3	65.2
P/BV (x)	7.1	7.8	7.0	6.7	5.8
EV/EBITDA (x)	23.6	25.7	25.3	24.3	21.6
Fixed assets turnover ratio (x)	5.2	5.0	5.1	5.9	6.8
Net Debt/Equity (x)	-0.2	-0.5	-0.4	-0.4	-0.4
EV/Sales (x)	3.1	3.5	3.5	3.4	3.0

Institutional Equity Team

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