



# Havells India

Sector: Consumer Durable

## Q4FY17 Result Update

CMP: ₹ 515

*“Strong Sales growth; Margins stable”*

Recommendation: BUY

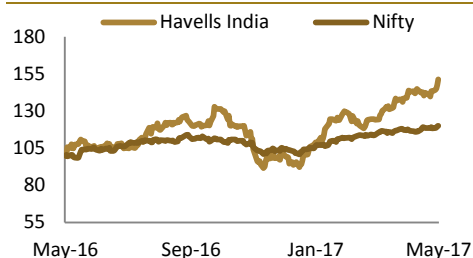
### Market statistics

Current stock price (₹)	515
Shares O/S (cr.)	62.5
Mcap (₹ cr)	32,177
52W H/L (₹)	526
6m avg. volume	1,546,006
Bloomberg	HAVL IN

### Shareholding pattern

Promoters	61.61
Domestic Institution	2.65
Foreign Institution	26.53
Non-institution	9.21
of which more than 1%	
Nalanda India Equity Fund Ltd	5.29
Government Pensions Fund Global	2.67

### Havells vs Nifty



### Capital efficiency & valuations

Particulars	FY17P	FY18E	FY19E
ROE (%)	19.9	26.2	26.9
ROCE (%)	16.1	21.0	21.6
Core ROE (%)	46.3	28.9	32.9
Core ROCE	32.6	20.6	23.6
P/B (x)	9.8	8.6	7.3
P/E (x)	61.1	40.8	33.9
EPS (₹)	8.4	12.6	15.2

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Havells, based on IND AS, has reported strong 17.2% net sales growth to ₹17.1bn as compared to our expectation of 12.9% growth. Consumer Durables & Cables & wires & Switchgears showed strong growth of 28%, 12.5% & 15.9% while Lighting & fixtures segment showed weak growth of -2.0% YoY. Cables Segment is recovering from price deflation overhang reflected with 12% growth led by 11% volume growth. Excluding CFL, domestic biz grew by 23% while exports to Sylvania declined by 19% in Q4FY17.

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.

Higher RM prices resulted into 207bps contraction in Gross Margins. Employee, Advertisement and other expenses grew by 30.8%, 4.3% & 11.5% YoY, respectively. Hence, EBITDA Margin reduced by 177bps YoY to 13.4% YoY. EBITDA grew by 3.5% YoY. Contribution margin for Lighting & fixtures & Cables expanded by 388bps while Consumer Durable, Cables & Switch Gears segments margin contracted by 359bps, 176bps & 81bps YoY. Overall Contribution margin contracted by marginal 104bps to 23.4% YoY.

Higher interest cost (+53.7%), exceptional loss of Rs768mn & higher ETR (+39.7% YoY) has impacted the bottom-line by 73% decline to Rs9.7bn in Q4FY17. APAT de-grew by 33% to 1.4bn.

**Strong Growth across all segments barring Lighting segments:** **Consumer Durable** continues to display robust growth of 28% growth through strong growth across water heaters & fans. Havells has become among top three players in water heaters. **Cables & Wires** segment picked up and showed strong growth of 12.5% led by 11% volume growth coupled with price hike. Copper prices have increased by 12-13% since Q3FY17. **Lighting & Fixtures** posted weak growth of -2.0% YoY, management stated LED (75% of lighting segment) prices have bottomed out and going ahead, this segment would show healthy growth. **Switchgear segment** which was facing pressure from last 7-8qtrs showed strong growth of 16% largely led by EWA while industrial & RIO switches showed high single digit. We expect Lloyd ECD to show strong growth in coming qtrs led by strong category (AC) leadership and distribution.

**Contribution Margin blip by 104bps to 24.3%:** To combat the demand disruption caused by demonetization, company offered trade schemes to dealers. However, company has withdrawn those trade schemes in Q4FY17 but postponement of price increase to compensate the cost increase; impacted the margins. ECD segment got impacted majorly and declined by 359bps to 24.5%. Lighting segment showed 388bps increase in margins. Overall EBITDA margins contracted by 177bps to 13.4% in Q4FY17.

**Key events:** Management stated that they have completely exited international operations including transfer of 20% stake to Feilo, divest 100% stake in Thailand to Feilo and orderly terminate Brazil operations. Havells also completed acquisition of Consumer durable business of Lloyd Electric.

**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 28%, 30% & 35% CAGR in Sales, EBITDA & PAT in the last 17 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. Acquisition of Lloyd is also strategic fit for Havells & would be EPS accretive in coming years. We expect Havells' standalone Sales, EBITDA and PAT to show 32%, 30% and 40% CAGR in FY17-19E.

**Valuation:** The stock trades at a P/E of 40.8x & 33.9x 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.

**Exhibit 1: Quarter Performance**

Particulars (₹ mn)	4Q FY16	3Q FY17	4Q FY17	YoY Chg (%)
<b>Total Income</b>	<b>14,597</b>	<b>15,060</b>	<b>17,102</b>	<b>17.2%</b>
Total RM	8,588	9,141	10,415	21.3%
Gross Profit	6,009	5,919	6,687	11.3%
Gross Margin (%)	41.2%	39.3%	39.1%	-207bps
Employee Cost	1,004	1,238	1,312	30.6%
% of sales	6.9%	8.2%	7.7%	79bps
ASP	388	531	404	4.3%
% of sales	2.7%	3.5%	2.4%	-29bps
Other Expenditure	2,400	2,243	2,676	11.5%
% of sales	16.4%	14.9%	15.6%	-80bps
<b>EBITDA</b>	<b>2,218</b>	<b>1,907</b>	<b>2,296</b>	<b>3.5%</b>
EBITDA Margin (%)	15.2%	12.7%	13.4%	-177bps
Depreciation	274	301	308	12.3%
Other Income	298	264	419	40.8%
EBIT	2,241	1,870	2,408	7.4%
EBIT Margin (%)	15.4%	12.4%	14.1%	-128bps
Interest	46	15	71	53.7%
PBT	2,195	1,877	2,337	6.4%
Total Tax	562	537	622	10.8%
Effective tax rate (%)	25.6%	26.0%	39.7%	1,407bps
Reported PAT	3,649	1,512	974	-73.3%
<b>Adjusted PAT</b>	<b>2,142</b>	<b>1,388</b>	<b>1,437</b>	<b>-32.9%</b>



**Exhibit 2: Quarterly Segmental**

Particulars (₹ mn)	3Q FY16	2Q FY17	4QFY17	YoY Chg (%)
<b>Gross Revenue (₹ mn)</b>				
Lighting & Fixtures	2,295	2,121	2,249	-2.0%
Consumer Durables	3,037	3,296	3,888	28.0%
Switch Gears	3,237	3,309	3,753	15.9%
Cables and Wires	6,028	6,092	6,780	12.5%
Others	-	242	431	na
<b>Total</b>	<b>14,597</b>	<b>15,060</b>	<b>17,101</b>	<b>17.2%</b>
<b>Contribution (₹ mn)</b>				
Lighting & Fixtures	559	641	635	13.6%
Consumer Durables	852	809	951	11.6%
Switch Gears	1,269	1,291	1,441	13.6%
Cables and Wires	884	869	875	-1.0%
Others	-	55	96	na
Total	3,564	3,665	3,998	12.2%
<b>Total</b>	<b>2,240</b>	<b>1,893</b>	<b>2,408</b>	<b>7.5%</b>
<b>Revenue Mix (%)</b>				
Lighting & Fixtures	15.7%	14.1%	13.2%	-257bps
Consumer Durables	20.8%	21.9%	22.7%	193bps
Switch Gears	22.2%	22.0%	21.9%	-23bps
Cables and Wires	41.3%	40.5%	39.6%	-165bps
Others	0.0%	1.6%	2.5%	252bps
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	
<b>Contribution Margin (%)</b>				
Lighting & Fixtures	24.4%	30.2%	28.2%	388bps
Consumer Durables	28.1%	24.6%	24.5%	-359bps
Switch Gears	39.2%	39.0%	38.4%	-81bps
Cables and Wires	14.7%	14.3%	12.9%	-176bps
Others	-	22.7%	22.3%	na
<b>Total</b>	<b>24.4%</b>	<b>24.3%</b>	<b>23.4%</b>	<b>-104bps</b>
<b>Contribution Mix (%)</b>				
Lighting & Fixtures	15.7%	17.5%	15.9%	20bps
Consumer Durables	23.9%	22.1%	23.8%	-12bps
Switch Gears	35.6%	35.2%	36.0%	44bps
Cables and Wires	24.8%	23.7%	21.9%	-292bps
Others	0.0%	1.5%	2.4%	240bps
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	
<b>ROCE (%)</b>				
Lighting & Fixtures	102.2%	123.9%	149.9%	4,766bps
Consumer Durables	145.5%	115.3%	178.5%	3,309bps
Switch Gears	131.2%	130.7%	155.2%	2,401bps
Cables and Wires	92.5%	62.3%	70.8%	-2,170bps
<b>Total</b>	<b>53.9%</b>	<b>46.9%</b>	<b>49.8%</b>	<b>-409bps</b>



## Financials - Standalone

## P&amp;L Statement

Y/E Mar (₹ mn)	FY15	FY16	FY17P	FY18E	FY19E
<b>Net Revenues</b>	<b>52,387</b>	<b>53,783</b>	<b>61,353</b>	<b>92,246</b>	<b>107,128</b>
% Growth	11.0	2.7	14.1	50.4	16.1
Raw Material	31,784	31,735	36,487	52,580	61,063
Staff	3,127	3,708	5,004	5,754	6,618
SG&A	7,477	7,608	8,028	12,914	14,998
Other Expenses	2,908	3,184	3,592	9,196	10,525
Total Expenditures	45,296	46,234	53,111	80,445	93,204
<b>EBITDA</b>	<b>7,091</b>	<b>7,549</b>	<b>8,242</b>	<b>11,801</b>	<b>13,925</b>
% Growth	10.5	6.5	9.2	43.2	18.0
<b>EBITDA Margins (%)</b>	<b>13.5</b>	<b>14.0</b>	<b>13.4</b>	<b>12.8</b>	<b>13.0</b>
Other Income	522	693	1,342	1,245	1,489
Interest	176	127	339	591	591
Depreciation	875	1,049	1,468	1,611	1,754
<b>PBT Before Exceptional</b>	<b>6,562</b>	<b>7,066</b>	<b>7,777</b>	<b>10,844</b>	<b>13,069</b>
Provision for tax	1,813	1,970	2,298	3,085	3,718
<b>Reported PAT</b>	<b>4,749</b>	<b>7,084</b>	<b>4,873</b>	<b>7,893</b>	<b>9,493</b>
% Growth	(0.8)	49.2	(31.2)	62.0	20.3
<b>Adjusted Net Profit</b>	<b>4,749</b>	<b>5,499</b>	<b>5,267</b>	<b>7,893</b>	<b>9,493</b>
% Growth	(1.7)	15.8	(4.2)	49.9	20.3

## Balance Sheet

₹mn (Y/E Mar)	FY15	FY16	FY17P	FY18E	FY19E
Equity Share Capital	624	625	625	625	625
Reserves & surplus	23,134	28,912	32,111	36,995	43,329
<b>Shareholders' funds</b>	<b>23,757</b>	<b>29,537</b>	<b>32,736</b>	<b>37,620</b>	<b>43,954</b>
Total Debt	835	29	2,010	2,010	2,010
Others	495	921	1,245	1,260	1,285
<b>Capital Employed</b>	<b>25,087</b>	<b>30,487</b>	<b>34,010</b>	<b>38,909</b>	<b>45,268</b>
Net fixed assets	10,069	15,181	14,778	15,167	15,414
Cash	5,224	13,652	19,375	3,672	8,246
Net Current Assets (Ex-cash)	(2,547)	(284)	(1,236)	3,049	4,388
Others	12,339	1,937	2,801	3,001	3,201
<b>Total Assets</b>	<b>25,084</b>	<b>30,486</b>	<b>35,718</b>	<b>24,889</b>	<b>31,248</b>

**Cash Flow**

₹ mn (Y/E Mar)	FY15	FY16	FY17P	FY18E	FY19E
<b>PBT before EO items</b>	7,066	7,118	7,777	10,844	13,069
Add : Depreciation	965	1,351	1,743	1,611	1,754
Interest	127	126	339	591	591
Less : Direct taxes paid	1,970	1,988	2,298	3,085	3,718
(Inc)/Decr in WC	269	351	(259)	4,270	1,314
Extraordinary	(2,060)	2,024	551	134	142
<b>CF from Op after extra</b>	<b>3,860</b>	<b>8,280</b>	<b>8,370</b>	<b>5,825</b>	<b>10,523</b>
(Incr)/Decr in FA	1,778	6,035	1,065	18,000	2,000
(Pur)/Sale of Investments	1,292	(8,487)	121	200	200
Others	(127)	(126)	(339)	(591)	(591)
<b>CF from Invest.</b>	<b>(3,197)</b>	<b>2,326</b>	<b>(1,525)</b>	<b>(18,791)</b>	<b>(2,791)</b>
Inc/(Dec) in equity	1,343	2,437	981	(767)	(621)
Inc/(Dec) in debt	(1,121)	(806)	1,981	-	-
Inc/(Dec) in Minority Interest	-	-	-	-	-
Less :					
Dividend paid	1,921	3,811	3,811	2,241	2,538
<b>CF from fin. activity</b>	<b>(1,698)</b>	<b>(2,180)</b>	<b>(849)</b>	<b>(3,008)</b>	<b>(3,159)</b>
<b>Incr/Decr of Cash</b>	<b>(1,035)</b>	<b>8,426</b>	<b>5,995</b>	<b>(15,975)</b>	<b>4,573</b>
Add: Opening Balance	6,261	5,226	13,652	19,647	3,672
<b>Closing Balance</b>	<b>5,226</b>	<b>13,652</b>	<b>19,647</b>	<b>3,672</b>	<b>8,246</b>

**Key Ratios**

Y/E Mar	FY15	FY16	FY17P	FY18E	FY19E
Raw Material Cost/Sales (%)	60.7	59.0	59.5	57.0	57.0
Manpower Cost/Sales (%)	6.0	6.9	8.2	6.2	6.2
A&P Cost/Sales (%)	3.0	3.3	3.1	3.6	3.3
Revenue Growth (%)	11.0	2.7	14.1	50.4	16.1
EBITDA Margins (%)	13.5	14.0	13.4	12.8	13.0
Net Income Margins (%)	9.1	10.2	8.6	8.6	8.9
ROCE (%)	24.8	21.3	19.9	26.2	26.9
ROE (%)	20.0	18.6	16.1	21.0	21.6

**Valuation Parameters**

Y/E Mar	FY15	FY16	FY17P	FY18E	FY19E
EPS (₹)	7.6	8.8	8.4	12.6	15.2
P/E (x)	35.6	37.5	61.1	40.8	33.9
BV (₹)	38.0	47.2	52.4	60.2	70.3
P/BV (x)	7.1	7.0	9.8	8.6	7.3
EV/EBITDA (x)	23.3	25.6	38.2	27.3	23.1
Fixed assets turnover ratio (x)	5.2	3.5	4.2	6.1	7.0
Net Debt/Equity (x)	-0.2	-0.5	-0.5	0.0	-0.1
EV/Sales (x)	3.2	3.6	5.1	3.5	3.0



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