

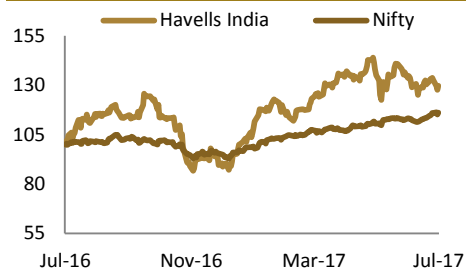
Market statistics

Current stock price (₹)	467
Shares O/S (cr.)	62.5
Mcap (₹ cr)	29,176
52W H/L (₹)	526/303
6m avg. volume	1,415,552
Bloomberg	HAVL IN

Shareholding pattern

Promoters	61.58
Domestic Institution	3.18
Foreign Institution	26.53
Non-institution	8.71
of which more than 1%	
Nalanda India Equity Fund Ltd	5.29
Government Pensions Fund Global	2.83

Havells vs Nifty



Capital efficiency & valuations

Particulars	FY17	FY18E	FY19E
ROE (%)	20.7	23.9	26.3
ROCE (%)	17.6	19.9	21.8
Core ROE (%)	48.1	28.5	35.3
Core ROCE	36.1	21.1	26.2
P/B (x)	9.8	7.8	6.7
P/E (x)	55.8	39.3	30.5
EPS (₹)	9.2	11.9	15.3

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Havells, based on IND AS, has reported strong 26.8% net sales growth to ₹18.6bn in Q1FY18. Cables & wires (35% of sales) showed strong growth of 19.4% while Lighting & consumer durable showed 4.6% & 2.0% growth. Switchgear showed weak performance and de-grew by 4.0%. GST implementation caused de-stocking across all categories barring Cables & Wires. Lloyd revenue stood at Rs 2,670mn accounts only for 50days.

Higher RM prices & postponement of price hike & large contribution of low margin products impacted the gross margin by 658bps to 35.7%. Employee, Advertisement and other expenses grew by 30.6%, 51.1% & 3.7% YoY, respectively. Hence, EBITDA Margin reduced by 439bps YoY to 9.3% YoY. EBITDA declined by 14.0% YoY. Contribution margin for Lighting & fixtures expanded by 413bps while Consumer durables, Switchgears contracted by 319bps & 209bps. Cables & wires contribution margin remain stable at 13.5%. Overall Contribution margin contracted by 200bps to 22.9% YoY.

Higher interest cost (+109.9%) further impacted the bottom-line, hence APAT declined by 17.1% to Rs 1.2bn

De-stocking hampers CD segment; Strong Growth in Cables supports sales growth of 27%: **Consumer Durable** segment got majorly impacted and suffered de-stocking by the trade channel during GST implementation. CD segment has shown average growth of ~22% in last 5 qtrs hence, we expect CD segment to bounce back once trade channel adhere to GST systems. **Lighting & Fixtures** segment showed 4.6% growth led by EESL business owing to quality assurance and timely execution. **Switchgears** business which showed strong rebound in last quarter reported 4.0% decline in revenue. **Cables & Wires (35% of sales)** supported the overall sales growth during the quarter with strong 19% growth. **Lloyd CD business** showed 20% growth during the quarter to the tune of Rs 2,670mn. We expect Lloyd ECD to show strong growth in coming qtrs led by strong category (AC) leadership and distribution.

EBITDA margins contracts to 9.3%:

In the event of GST implementation scenario & de-stocking by trade channel, company had limited option to pass on the rising input costs to consumers. Higher growth of Cables & Wires segment which garners lower margin vs other segments has also put pressure on margins. Hence, Gross Margin contracted sharply by 658bps to 35.7%YoY. Higher A&P & employee expenses of 51% & 31% impacted the EBITDA margin. In A&P spend, expense towards Havells has grown by 14% to the tune of Rs 550mn vs 480mn last year while additional cost of Rs 180mn is towards Lloyd business. There was one-time non-recurring expense of Rs 130mn towards Lloyd transaction. Hence, EBITDA margin contracted by 439bps to 9.3%. Management stated that new pricing policy has been imparted from 1st July and we believe Havells would be able to restore its margins in coming qtrs. Management maintains target of 13.5% EBITDA margins.

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 25%, 28% and 29% CAGR in FY17-19E.

Valuation: The stock trades at a P/E of 39.3x & 30.5x 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.

**Exhibit 1: Quarter Performance**

Particulars (₹ mn)	1Q FY17	4Q FY17	1Q FY18	YoY Chg (%)
Total Income	14,668	17,102	18,605	26.8%
Total RM	8,467	10,415	11,965	41.3%
Gross Profit	6,201	6,687	6,640	7.1%
Gross Margin (%)	42.3%	39.1%	35.7%	-658bps
Employee Cost	1,239	1,312	1,619	30.6%
% of sales	8.4%	7.7%	8.7%	25bps
ASP	486	404	735	51.1%
% of sales	3.3%	2.4%	3.9%	63bps
Other Expenditure	2,472	2,676	2,562	3.7%
% of sales	16.9%	15.6%	13.8%	-308bps
EBITDA	2,004	2,296	1,724	-14.0%
EBITDA Margin (%)	13.7%	13.4%	9.3%	-439bps
Depreciation	280	308	336	20.0%
Other Income	307	419	348	13.4%
EBIT	2,031	2,408	1,737	-14.5%
EBIT Margin (%)	13.8%	14.1%	9.3%	-451bps
Interest	16	71	34	109.9%
PBT	2,022	2,337	1,703	-15.8%
Total Tax	567	622	489	-13.7%
Effective tax rate (%)	28.0%	39.7%	28.7%	69bps
Reported PAT	1,446	974	1,204	-16.8%
Adjusted PAT	1,452	1,437	1,204	-17.1%



Exhibit 2: Quarterly Segmental

Particulars (₹ mn)	1Q FY17	4Q FY17	1Q FY18	YoY Chg (%)
Gross Revenue (₹ mn)				
Lighting & Fixtures	1,962	2,249	2,053	4.6%
Consumer Durables	3,514	3,888	3,583	2.0%
Lloyd Electric CD			2,672	
Switch Gears	3,529	3,753	3,389	-4.0%
Cables and Wires	5,329	6,780	6,363	19.4%
Others	344	431	-	na
Total	14,678	17,101	18,060	23.0%
Contribution (₹ mn)				
Lighting & Fixtures	513	635	622	21.2%
Consumer Durables	913	951	816	-10.6%
Lloyd Electric CD			394	
Switch Gears	1,435	1,441	1,307	-8.9%
Cables and Wires	719	875	859	19.4%
Others	79	96	144	na
Total	3,659	3,998	4,141	13.2%
Total	2,039	2,408	1,737	-14.8%
Revenue Mix (%)				
Lighting & Fixtures	13.4%	13.2%	11.4%	-200bps
Consumer Durables	23.9%	22.7%	19.8%	-410bps
Lloyd Electric CD			14.8%	
Switch Gears	24.0%	21.9%	18.8%	-528bps
Cables and Wires	36.3%	39.6%	35.2%	-107bps
Others	2.3%	2.5%	0.0%	-234bps
Total	100.0%	100.0%	100.0%	
Contribution Margin (%)				
Lighting & Fixtures	26.2%	28.2%	30.3%	413bps
Consumer Durables	26.0%	24.5%	22.8%	-319bps
Lloyd Electric CD			14.7%	
Switch Gears	40.7%	38.4%	38.6%	-209bps
Cables and Wires	13.5%	12.9%	13.5%	0bps
Others		22.3%	0.0%	na
Total	24.9%	23.4%	22.9%	-200bps
Contribution Mix (%)				
Lighting & Fixtures	14.0%	15.9%	15.0%	99bps
Consumer Durables	24.9%	23.8%	19.7%	-523bps
Lloyd Electric CD			9.5%	
Switch Gears	39.2%	36.0%	31.6%	-765bps
Cables and Wires	19.7%	21.9%	20.7%	108bps
Others	2.2%	2.4%	3.5%	131bps
Total	100.0%	100.0%	100.0%	
ROCE (%)				
Lighting & Fixtures	82.4%	149.9%	132.0%	4,966bps
Consumer Durables	155.2%	178.5%	145.0%	-1,028bps
Lloyd Electric CD			12.0%	
Switch Gears	135.6%	155.2%	128.5%	-715bps
Cables and Wires	53.5%	70.8%	96.7%	4,318bps
Total	47.5%	49.8%	48.6%	109bps



Financials - Standalone

P&L Statement

Y/E Mar (₹ mn)	FY15	FY16	FY17	FY18E	FY19E
Net Revenues	52,387	53,783	61,353	82,803	95,620
% Growth	11.0	2.7	14.1	35.0	15.5
Raw Material	31,784	31,735	36,485	48,026	54,982
Staff	3,127	3,708	5,004	7,101	8,816
SG&A	7,477	5,613	5,770	8,012	9,129
Other Expenses	2,908	5,179	5,853	9,069	9,296
Total Expenditures	45,296	46,234	53,111	72,207	82,222
EBITDA	7,091	7,549	8,241	10,596	13,398
% Growth	10.5	6.5	9.2	28.6	26.4
EBITDA Margins (%)	13.5	14.0	13.4	12.8	14.0
Other Income	522	694	1,343	1,245	1,489
Interest	176	127	122	195	194
Depreciation	875	1,049	1,196	1,402	1,540
PBT Before Exceptional	6,562	7,066	8,266	10,243	13,154
Provision for tax	1,813	1,970	2,298	2,930	3,742
Reported PAT	4,749	7,085	5,363	7,428	9,553
% Growth	(0.8)	49.2	(24.3)	38.5	28.6
Adjusted Net Profit	4,749	5,499	5,768	7,428	9,553
% Growth	(1.7)	15.8	4.9	28.8	28.6

Balance Sheet

₹mn (Y/E Mar)	FY15	FY16	FY17	FY18E	FY19E
Equity Share Capital	624	625	625	625	625
Reserves & surplus	26,309	28,912	32,111	36,615	43,097
Shareholders' funds	26,933	29,537	32,736	37,240	43,722
Total Debt	849	473	2,010	1,981	1,981
Others	851	921	1,245	1,260	1,285
Capital Employed	28,633	30,931	34,010	38,500	45,007
Net fixed assets	11,443	12,085	12,776	29,374	29,834
Cash	5,319	13,652	19,375	6,280	11,380
Net Current Assets (Ex-cash)	(355)	161	(3,054)	(2,267)	(1,520)
Others	12,227	5,032	4,912	5,112	5,312
Total Assets	28,633	30,931	34,010	38,499	45,006



Cash Flow

₹ mn (Y/E Mar)	FY15	FY16	FY17	FY18E	FY19E
Pre-tax profit	6,463	9,090	7,688	10,243	13,154
Depreciation	875	1,049	1,196	1,402	1,540
Total Tax Paid	(1,505)	(1,446)	(2,052)	(2,930)	(3,742)
Chg in working capital	399	(960)	1,323	(1,721)	(809)
Other operating activities	(227)	(2,479)	(377)	195	194
Cash flow from oper (a)	6,005	5,254	7,778	7,190	10,336
Capital Expenditure	(1,675)	(1,741)	(2,369)	(18,000)	(2,000)
Chg in investments	(3,476)	(8,459)	(804)	(200)	(200)
Other investing activities	(3,170)	(6,547)	-	-	-
Cash flow from inv.(b)	(6,089)	(782)	(2,275)	(18,200)	(2,200)
Free cash flow	4,330	3,513	5,410	(10,810)	8,336
Equity raised/(repaid)	99	29	93	-	-
Debt raised/(repaid)	(1,154)	(434)	1,533	920	87
Interest paid	(171)	(63)	(93)	-	-
Dividend (incl. Tax)	(1,460)	(4,511)	(2,256)	(2,924)	(3,071)
Other financing activities	-	-	-	-	-
Cash flow from fin. (c)	(2,686)	(4,978)	(724)	(2,005)	(2,983)
Net chg in cash & cash equivalents (a+b+c)	(2,770)	(505)	4,779	(13,015)	5,153

Key Ratios

Y/E Mar	FY15	FY16	FY17	FY18E	FY19E
Raw Material Cost/Sales (%)	60.7	59.0	59.5	58.0	57.5
Manpower Cost/Sales (%)	6.0	6.9	8.2	8.6	9.2
A&P Cost/Sales (%)	3.0	3.3	3.1	3.7	3.3
Revenue Growth (%)	11.0	2.7	14.1	35.0	15.5
EBITDA Margins (%)	13.5	14.0	13.4	12.8	14.0
Net Income Margins (%)	9.1	10.2	9.4	9.0	10.0
ROCE (%)	21.7	21.0	20.7	23.9	26.3
ROE (%)	17.6	18.6	17.6	19.9	21.8

Valuation Parameters

Y/E Mar	FY15	FY16	FY17	FY18E	FY19E
EPS (₹)	7.6	8.8	9.2	11.9	15.3
P/E (x)	35.6	37.5	55.8	39.3	30.5
BV (₹)	43.1	47.2	52.4	59.6	70.0
P/BV (x)	6.3	7.0	9.8	7.8	6.7
EV/EBITDA (x)	23.3	25.6	38.2	27.5	21.8
Fixed assets turnover ratio (x)	4.6	4.5	4.8	6.2	6.9
Net Debt/Equity (x)	-0.2	-0.4	-0.5	-0.1	-0.2
EV/Sales (x)	3.2	3.6	5.1	3.5	3.1



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Recommendation **Expected absolute returns (%) over 12 months**

Buy More than 15%

Hold 15% to -15%

Sell Less than -15%

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