

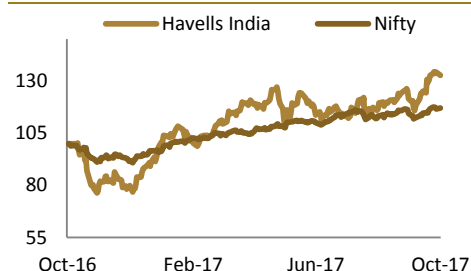
Market statistics

Current stock price (₹)	541
Shares O/S (cr.)	62.5
Mcap (₹ cr)	33,849
52W H/L (‘)	565/303
6m avg. volume	1,304,976
Bloomberg	HAVL IN

Shareholding pattern

Promoters	61.58
Domestic Institution	3.47
Foreign Institution	25.67
Non-institution	9.28
of which more than 1%	
Nalanda India Equity Fund Ltd	5.29
Government Pensions Fund Global	2.79

Havells vs Nifty



Capital efficiency & valuations

Particulars	FY17	FY18E	FY19E
ROE (%)	20.7	22.1	23.6
ROCE (%)	17.6	18.5	20.0
Core ROE (%)	48.1	26.4	31.0
Core ROCE	36.1	19.3	23.1
P/B (x)	9.8	9.2	8.1
P/E (x)	55.8	50.0	40.4
EPS (₹)	9.2	10.8	13.4

Associate

Ritu Chaudhary

+91-22 4224 5183

ritu.chaudhary@trustgroup.in

Havells, based on IND AS, has reported healthy 22.4% net sales growth to ₹18.7bn lower than our expectation of 33%. This performance is led strong growth of 35.5% in Lighting & fixtures (16% of sales). Spillover effect of GST resulted into slower re-stocking in primary channel in June.

Cables & Wires & Switchgears was under pressure and showed 1.8% & -5.0% growth. Consumer Durables segment also showed slow growth of 4.2%YoY. Ex-Lloyd, Sales grew by 4% while it stood at 6.7% adjusted for excise impact on exempted zones Lloyd revenue stood at Rs 2,698mn flat on QoQ basis being lean season.

Inventory gain and price hike in cables & wires segment supported the gross margin expansion by 59bps to 42.3%. Employee and other expenses grew by 33% YoY(+73bps) & 21.5%YoY(-11bps) . A&P spend was soft in Q2FY18, growth of 5%(-48bps). Hence, EBITDA Margin expanded by 45bps YoY to 14.5% YoY. EBITDA grew by 26%YoY to 2,569mn vs our expectation of 19%. Contribution margin for Lighting & fixtures, CD & Cables & wires contribution margin expanded by 23bps, 121bps & 573bps. Overall Contribution margin expanded by 100bps to 26.4% YoY.

APAT grew healthy by 14.1%YoY to ` 1.69bn vs our expectation of `1.68bn

Switchgears & Cables & Wires segment disappoints; Strong Growth in Lighting of 36% supports sales growth of 22%: Consumer Durable segment witnessed slow growth of 4.2% due offseason for fans& water-heaters, weak festive season and delay in expected re-stocking in trade. CD segment has shown average growth of ~22% in last 5 qtrs barring Q1FY18 hence, we expect CD segment to bounce back once trade channel adhere to GST systems. **Lighting & Fixtures** segment showed 36% growth led by EESL business owing to quality assurance and timely execution. CFL (18% of sales) declined by 43% YoY. **Switchgears** growth was impacted to sluggish demand in housing segment. **Cables & Wires (32% of sales)** showed 1.8%YoY due to weak housing demand. Volume declined ~9-10% in cables & wires while price revision was by 12-13% in Q2FY18. **Lloyd CD business** showed 11% YoY growth during the quarter to the tune of Rs 2,698mn. We expect Lloyd ECD to show strong growth in coming qtrs led by strong category (AC) leadership and distribution.

Strong EBITDA growth of 26% coupled with Margin expansion to 14.5%: Gross Margin expanded by 59bps to 42.3% led by inventory gain & price hike taken in cables and wires segment. Low A&P spend of 2.9% of sales translated into EBITDA margin expansion by 45bps to 14.5%. There was additional one-off expense of Rs18mn on account of fixed assets written off, largely pertaining to CFL business. Management aims to maintain A&P spend in the range of 3% to 3.5% incoming qtrs. Management maintains target of 13.5% EBITDA margins.

Concall Highlights: 1) Contribution margin in switchgears restored back to 41.3% due to withdrawal of trade schemes 2)Capex for FY18E and FY19 would in range of Rs 2,000 to 3,000mn 3) Company remain focus in AC(70% of Lloyd sales) segment for future growth 4) CDs segment is expected to bounce back with high single growth 5) Management stated that high GST rates(28%) in electrical products is holding the traders to res-stock while unorganized players might benefit from this. 6) Slowdown in construction segment is expected to continue. 7) Margins are expected to sustainable in CD segment

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 20%, 19% and 20% CAGR in FY17-19E.

Valuation: The stock trades at a P/E of 50x & 40x 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)	2Q FY17	1Q FY18	2Q FY18	YoY Chg (%)
Total Income	14,522	18,605	17,774	22.4%
Total RM	8,461	11,965	10,251	21.2%
Gross Profit	6,061	6,640	7,522	24.1%
Gross Margin (%)	41.7%	35.7%	42.3%	59bps
Employee Cost	1,216	1,619	1,617	33.0%
% of sales	8.4%	8.7%	9.1%	73bps
ASP	485	735	509	4.9%
% of sales	3.3%	3.9%	2.9%	-48bps
Other Expenditure	2,327	2,562	2,828	21.5%
% of sales	16.0%	13.8%	15.9%	-11bps
EBITDA	2,034	1,724	2,569	26.3%
EBITDA Margin (%)	14.0%	9.3%	14.5%	45bps
Depreciation	308	336	349	13.4%
Other Income	253	348	287	13.4%
EBIT	1,979	1,737	2,507	26.7%
EBIT Margin (%)	13.6%	9.3%	14.1%	48bps
Interest	19	34	67	253.7%
PBT	2,030	1,703	2,440	20.2%
Total Tax	572	489	730	27.5%
Effective tax rate (%)	28.2%	28.7%	29.9%	172bps
Reported PAT	1,431	1,204	1,692	18.2%
Adjusted PAT	1,481	1,204	1,692	14.2%



Exhibit 2: Quarterly Segmental

Particulars (₹ mn)	2Q FY17	1Q FY18	2Q FY18	YoY Chg (%)
Gross Revenue (₹ mn)				
Lighting & Fixtures	2,118	2,053	2,869	35.5%
Consumer Durables	3,085	3,583	3,215	4.2%
Lloyd Electric CD			2,698	
Switch Gears	3,474	3,389	3,299	-5.0%
Cables and Wires	5,592	6,363	5,693	1.8%
Others	253	545	-	na
Total	14,522	18,605	17,774	22.4%
Contribution (₹ mn)				
Lighting & Fixtures	567	622	775	36.6%
Consumer Durables	821	816	894	9.0%
Lloyd Electric CD			527	
Switch Gears	1,445	1,307	1,363	-5.6%
Cables and Wires	793	859	1,133	42.9%
Others	64	144	-	na
Total	3,689	4,141	4,692	27.2%
Total	2,049	1,737	2,508	22.4%
Revenue Mix (%)				
Lighting & Fixtures	14.6%	11.0%	16.1%	156bps
Consumer Durables	21.2%	19.3%	18.1%	-316bps
Lloyd Electric CD			15.2%	
Switch Gears	23.9%	18.2%	18.6%	-536bps
Cables and Wires	38.5%	34.2%	32.0%	-648bps
Others	1.7%	2.9%	0.0%	-174bps
Total	100.0%	100.0%	100.0%	
Contribution Margin (%)				
Lighting & Fixtures	26.8%	30.3%	27.0%	23bps
Consumer Durables	26.6%	22.8%	27.8%	121bps
Lloyd Electric CD			19.5%	
Switch Gears	41.6%	38.6%	41.3%	-26bps
Cables and Wires	14.2%	13.5%	19.9%	573bps
Others		26.4%	0.0%	na
Total	25.4%	22.3%	26.4%	100bps
Contribution Mix (%)				
Lighting & Fixtures	15.4%	15.0%	16.5%	114bps
Consumer Durables	22.2%	19.7%	19.1%	-319bps
Lloyd Electric CD			11.2%	
Switch Gears	39.2%	31.6%	29.0%	-1,011bps
Cables and Wires	21.5%	20.7%	24.1%	266bps
Others	1.7%	3.5%	0.0%	-174bps
Total	100.0%	100.0%	100.0%	
ROCE (%)				
Lighting & Fixtures	76.8%	73.6%	88.0%	1,120bps
Consumer Durables	99.2%	145.0%	187.3%	8,807bps
Lloyd Electric CD			14.5%	
Switch Gears	134.8%	128.5%	140.3%	553bps
Cables and Wires	54.8%	96.7%	102.9%	4,803bps
Total	48.8%	50.2%	63.1%	1,436bps



Financials - Standalone

P&L Statement

Y/E Mar (₹ mn)	FY15	FY16	FY17	FY18E	FY19E
Net Revenues	52,387	53,783	61,353	76,727	88,043
% Growth	11.0	2.7	14.1	25.1	14.7
Raw Material	31,784	31,735	36,485	44,509	50,185
Staff	3,127	3,708	5,004	7,101	8,816
SG&A	7,477	5,613	5,770	7,419	9,052
Other Expenses	2,908	5,179	5,853	7,940	8,267
Total Expenditures	45,296	46,234	53,111	66,969	76,320
EBITDA	7,091	7,549	8,241	9,758	11,723
% Growth	10.5	6.5	9.2	18.4	20.1
EBITDA Margins (%)	13.5	14.0	13.4	12.7	13.3
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	9,405	11,478
Provision for tax	1,813	1,970	2,298	2,716	3,269
Reported PAT	4,749	7,085	5,363	6,749	8,351
% Growth	(0.8)	49.2	(24.3)	25.8	23.7
Adjusted Net Profit	4,749	5,499	5,768	6,749	8,351
% Growth	(1.7)	15.8	4.9	17.0	23.7

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	35,936	41,216
Shareholders' funds	26,933	29,537	32,736	36,560	41,841
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	37,820	43,125
Net fixed assets	11,443	12,085	12,776	29,374	29,834
Cash	5,319	13,652	19,375	6,216	10,267
Net Current Assets (Ex-cash)	(355)	161	(3,054)	(2,882)	(2,288)
Others	12,227	5,032	4,912	5,112	5,312
Total Assets	28,633	30,931	34,010	37,820	43,125



Cash Flow

₹ mn (Y/E Mar)	FY15	FY16	FY17	FY18E	FY19E
Pre-tax profit	6,463	9,090	7,688	9,405	11,478
Depreciation	875	1,049	1,196	1,402	1,540
Total Tax Paid	(1,505)	(1,446)	(2,052)	(2,716)	(3,269)
Chg in working capital	399	(960)	1,323	(1,106)	(657)
Other operating activities	(227)	(2,479)	(377)	195	194
Cash flow from oper (a)	6,005	5,254	7,778	7,181	9,286
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	(10,819)	7,286
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	(13,024)	4,103

Key Ratios

Y/E Mar	FY15	FY16	FY17	FY18E	FY19E
Raw Material Cost/Sales (%)	60.7	59.0	59.5	58.0	57.0
Manpower Cost/Sales (%)	6.0	6.9	8.2	9.3	10.0
A&P Cost/Sales (%)	3.0	3.3	3.1	3.4	3.7
Revenue Growth (%)	11.0	2.7	14.1	25.1	14.7
EBITDA Margins (%)	13.5	14.0	13.4	12.7	13.3
Net Income Margins (%)	9.1	10.2	9.4	8.8	9.5
ROCE (%)	21.7	21.0	20.7	22.1	23.6
ROE (%)	17.6	18.6	17.6	18.5	20.0

Valuation Parameters

Y/E Mar	FY15	FY16	FY17	FY18E	FY19E
EPS (₹)	7.6	8.8	9.2	10.8	13.4
P/E (x)	35.6	37.5	55.8	50.0	40.4
BV (₹)	43.1	47.2	52.4	58.5	67.0
P/BV (x)	6.3	7.0	9.8	9.2	8.1
EV/EBITDA (x)	23.3	25.6	38.2	34.6	28.8
Fixed assets turnover ratio (x)	4.6	4.5	4.8	5.7	6.4
Net Debt/Equity (x)	-0.2	-0.4	-0.5	-0.1	-0.2
EV/Sales (x)	3.2	3.6	5.1	4.4	3.8



Institutional Equity Team

Names	Designation	Sectors	Email ID's	Desk-Number
Naren Shah	Head Of Equity		naren.shah@trustgroup.in	+91-22-4084-5074
Sales Trading & Dealing				
Rajesh Ashar	Sales Trader		rajesh.ashar@trustgroup.in	+91-22-4224-5123
Dealing Desk			trustfin@bloomberg.net	+91-22-4084-5089
Sales				
Mayur Joshi	Sales		mayur.joshi@trustgroup.in	+91-22-4424-5028
Research Team				
Binyam Taddese	Analyst	Rates & Credit Research	binyam.taddese@trustgroup.in	+91-22-4224-5037
Naushil Shah	Analyst	Technology, Media & Telecom	naushil.shah@trustgroup.in	+91-22-4224-5125
Tushar Chaudhari	Analyst	Commodities, Auto & Mid-caps	tushar.chaudhari@trustgroup.in	+91-22-4224-5119
Ritu Chaudhary	Associate	FMCG & Consumer Durable	ritu.chaudhary@trustgroup.in	+91-22-4224-5183



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