

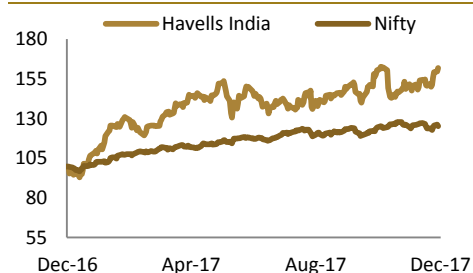
Market statistics

Current stock price (₹)	533
Shares O/S (cr.)	62.5
Mcap (₹ cr)	33,299
52W H/L (‘)	565
6m avg. volume	1,390,457
Bloomberg	HAVL IN

Shareholding pattern

Promoters	61.58
Domestic Institution	3.41
Foreign Institution	25.67
Non-institution	9.34
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	22.2	25.0
ROCE (%)	17.6	18.6	20.9
Core ROE (%)	48.1	27.8	34.5
Core ROCE	36.1	20.5	25.9
P/B (x)	9.8	9.1	7.9
P/E (x)	55.8	48.8	37.5
EPS (₹)	9.2	10.9	14.2

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We recently attended Analyst Meet of Havells India. They showcased their Neemrana plant which manufactures Lighting, Water heaters, motors, pumps & switches. It contributed ~30% of Havells FY17 sales. Other Key highlights of Analyst Meet are 1) Focus on eminence manpower by hiring 43 leadership positions 2) Created 6 SBU's with dedicated CFO and sales team in each SBU 3) Focus on delivering high quality product in each segment targeting mass to premium end of pyramid 4) Capitalizing growth by strengthening and expanding across all distribution channels. 5) Aims to develop and expand Lloyd portfolio with focus on TV and Refrigerator apart from ACs. 6) Focus on product innovation enabled with latest technology trends 7) To invest Rs4500 mn for setting up manufacturing facility in Neemrana for Lloyd's products and targets Rs 15,000mn sales from this investment. 8) Start of art manufacturing facilities with automated functions provide edge over peers. 9) Focus to expand in Southern & Western Region.

Equal focus in developing each segment: In **Switchgear biz**, company plans to expand into non-residential segment with B2B approach and introduce new products categories and aims to form 10% of portfolio of new products in next 2-3 years. Technology partnership with Hyundai would be leveraged to develop new products. In **Electric wiring accessories biz (switches)**; company targets to garner non-residential seg and improve the share of this seg to 30% from current 10% in 3 years. Havells have wide portfolio from entry modular to top premium segment. In **Cables Biz**; company initiated strategies like enhancing B2B sales & exports, market share improvement in western region & entry into EHV cable market. In **Wiring Biz**, company targets to remain among top 3 players, focus on western market through distribution model and southern market via specific regional policies and increasing direct reach. In **Lighting Biz**, company is focused on LED lighting with different product categories like bulbs, tubes, street light, panels & decorative lights. They have direct reach in tier 2 and semi urban towns. In **ECD segment**; company aims to market share in fans, water heaters and small domestic appliances through product innovations & SKU's in mass premium range.

Strengthening Distribution Channel: Havells initiated Omni Channel Strategy through project “Sampark” in which 500 managers visit 60k retailers every month and now have a database of 1 lac retailers. Also developed app to connect with retailers. They have exclusive sales teams for each distribution channel. Company also developed M-konnect app which is a dealer portal. It helps to generate real time biz information, order book, updated price lists, available schemes, medi claim insurance for channel partners and families. 80% of order booking happens through portal. They also exclusive teams to cater & built the channels like branded multibrand shop, ecommerce & projects.

Strategy for Lloyd's growth i) Entry into new categories and increase in product range ii) In-house manufacturing & mix change iii) Investment in brand and consumer experience iv) Aspiration to become billion \$ in medium term. Dominance in room AC category and low penetration is huge opportunity for Lloyd to grow. Aims to improve operating margins by 9-10% in near term

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 22%, 24% and 24% CAGR in FY17-19E.

Valuation: The stock trades at a P/E of 48.8x & 37.5x 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 Highlights

Neemrana Plant Visit:

- 1) It holds 4 unit within it, manufacturing Water heaters, Switches & Switchgear, Lighting & Fixtures & Motors & Pumps.
- 2) Neemrana plant contributed ~30% of Havells FY17 sales.
- 3) Motors division started in 2008 with 2 lac capacity per annum expandable to 2.5lac while pumps have 2.5lac capacity expandable to 3.5lac per annum.
- 4) Water heaters have capacity of 5 lac per annum expandable to 7 lac. They manufacture both metal & plastic body storage ranging from 10ltr to 100ltrs. Plastic water heaters ranges from 10 to 25ltrs while Metal ones are made from 10 to 100ltrs. 80% of market forms of 10 to 25ltrs.
- 5) Havells have plans to start manufacturing of TV, AC & Refrigerator in this plant for which it will require Rs 4,500mn. They will start with AC manufacturing and gradually move to other products. In TV, 35 to 65 inches variants would be produced.
- 6) CFL manufacturing has stopped completely two months back.

Strengthening HR:

- 1) Havells has setup 6 strategic business units in last one and half years, prior to which it was functional organization. This 6 SBU's have dedicated sales teams, dedicated CFO& GM for each biz. Quality & R&D department are integrated with each SBU.
- 2) Hired 43 leadership positions from various companies like Philips, Schneider, Voltas, Samsung, LG, GM etc.
- 3) Aims to develop 100 potential business leaders in coming years to promote innovations, strategic thinking & superior execution capabilities

Enhancing Distribution Channel:

- 1) Dedicated sales teams for each distribution channel.
- 2) **Adopted Omni- Channel Strategy:** 60% of sales happens through Retailers who has no direct connect with the company. Hence they Initiated project Sampark through which 1,500 managers visit 60k retailers every month and now have a database of 1 lac retailers. Also developed app to connect with retailers.
- 3) **Upgrading Direct Channels(Dealer & Distributors):** This channel forms core of Havelles biz hence to strengthen this traditional channel, Havells has undertaken few initiatives like 1) M-konnect app for dealer biz visibility 2) Dealer portal which helps to generate real time biz information, order book, updated price lists, available schemes, mediclaim insurance for channel partners and families. 80% of order booking happens through portal. They strongly follow the strategy of improving profitability and biz of Dealers/distributors would translate strong growth of the company.
- 4) **Focus of Emerging channels:** Exclusive teams to cater & built the channels like branded multibrand shop, ecommerce & projects.
- 5) **Expanding distribution channel:** i) 414 Galaxy stores which contributes to 22% of total sales. ii) Aims to increase towns with >25k population from 1100 to 2283. iii) Focus to increase retailers from 1 to 2 lac in coming yrs.



Segments wise overview:

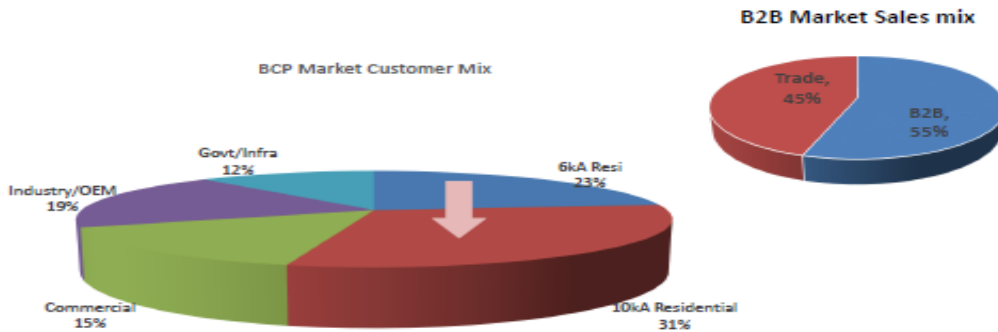
Switchgears:

- 1) **MCB Market Landscape:** i) Mkt Size of ~2800 crs with addressable market of ~2,150 crs ii) Products manufactured are MCB, RCCB & DB iii) Key competitors include Legrand & Schneider.
- 2) **EWA Market Landscape:** i) Mkt Size of ~6000 crs with addressable market of ~5,000 crs ii) Products manufactured are switches, accessories iii) Key competitors include Anchor, Panasonic, Legrand & GM. Company believes addressable market is mid end to premium level switches & EWA. Havells presence is low in non-modular and entry level modular switches.

Product Wise Mkt Share	(%)	Player Wise Mkt share	(%)	Product Type	Mkt Size(Rs crs)	Brands to cater
Non Modular	17	Havells	13	Entry Modular	2,000	Rio
Entry (Modular)	18	Legrand	18	Mass premium	1,800	Havells
Low-Mid	30	GM	8	Upper end	500	Havells& Crabtree
Mid-high	8	Anchor	24	Top premium	400	Crabtree
premium	5	Schneider	4			
accessories	22	Others	33			

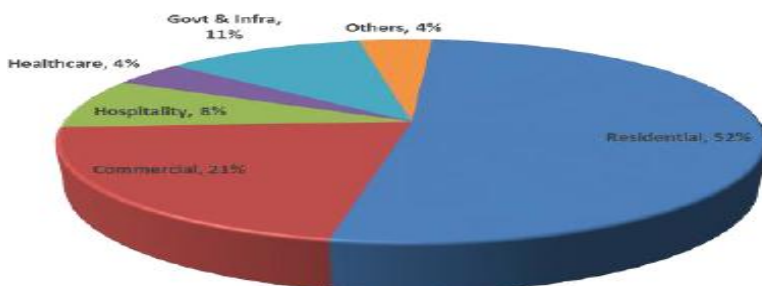
Strategic Plan: i) Taking mkt share from <10% to over 30% in next 3 years in non-residential segment via B2B sales approach. ii) Multi Brand strategy to enter new price segments iii) Focus on new product categories, applications – 10% of portfolio in next 2-3 years with leveraging Hyundai tie-up. iii) Expanding into Southern and Western markets. Present Geographic mix is North- 29%, West -23%, South- 37% & East -11%.

MCB market and channel mix



• Havells predominantly present in trade & residential space

EWA market by customer mix



Notes:

- Our major Mkt is in Residential Segment
- Almost 50% opportunity in non-residential Segment

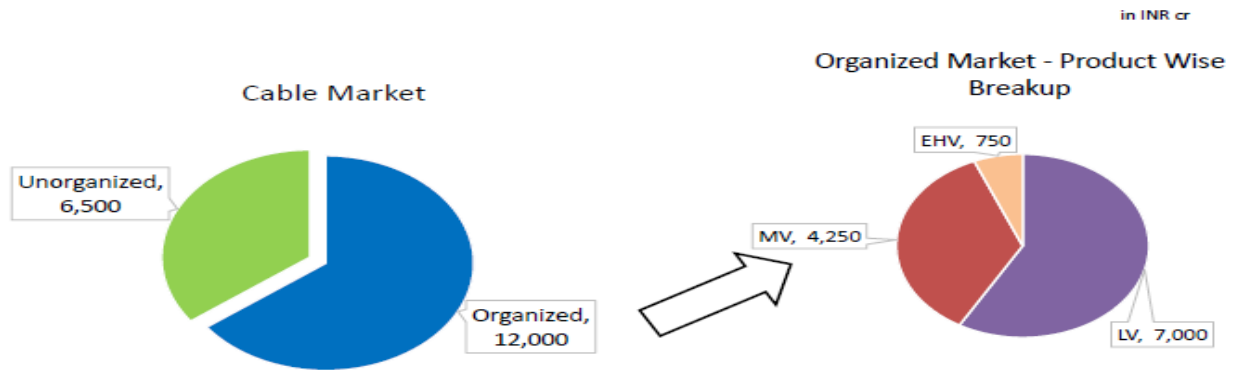
Source: Havells PPT



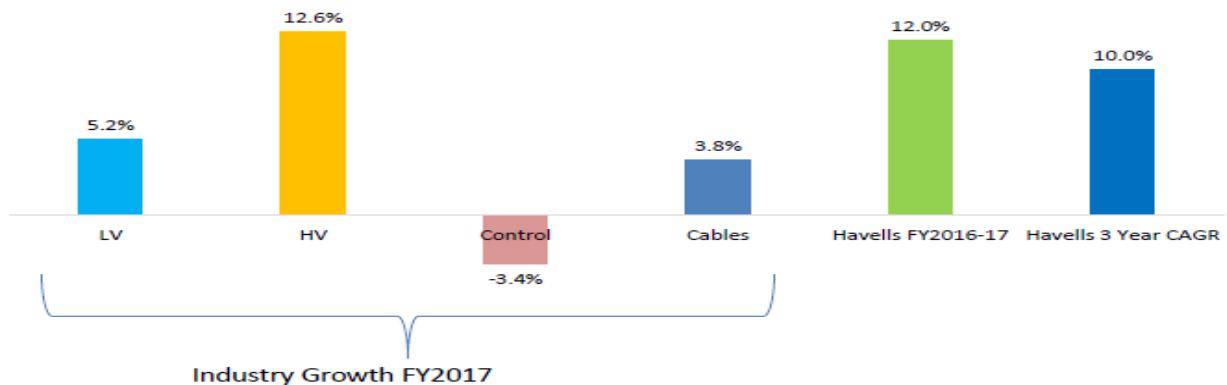
Cables & Wires:

- 1) Cables & Wires forms 40% of total revenue of Havells Size. Cables & Wires both have 50% share in the segment.
- 2) **Strategic Plan on Cables:** i) enhancing share of B2B sales. ii) Increase share of export revenue from 2% to 10% of total sales iii) Enhance market share in western region from 12% to 20% of total sales iv) Entry into EHV cable market
- 3) Mkt Shares of players are Havells, KEI & Polycab is 11%, 14% & 24%.

Cable Market Size & product break up



Industry Update



Source: Havells PPT

Flexible Wires:

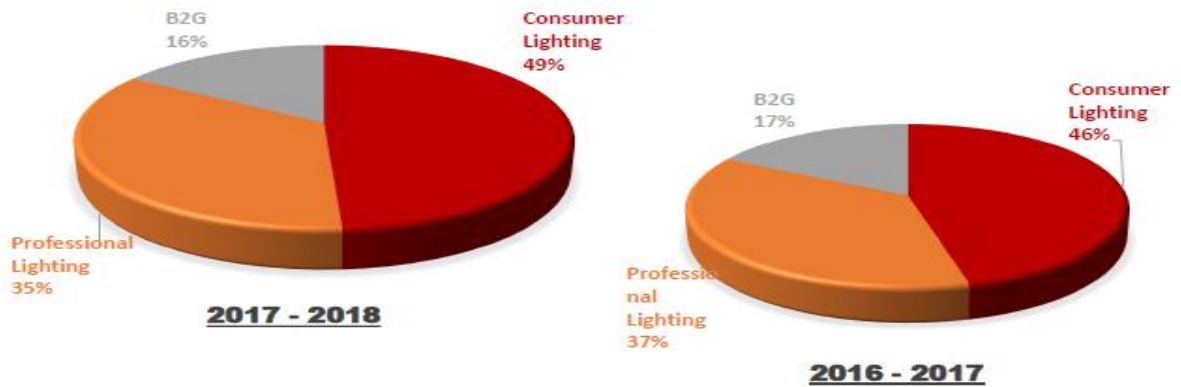
- 1) This segment showed weak growth in Q1& Q2FY18 due to GST implementation disruption however, there demand spurt in Q3FY18 and GST rates has also been rationalized to 18%.
- 2) Growth drivers: i) Govt. initiatives like Affordable Housing, GST, National telecom policy expected to spur growth and revival from low sentiments ii) Tier 2 & Tier 3 cities seeing investment in hospitality/institution sector iii) Untapped segment like OEM/Panel Builders to spur demand
- 3) Organized market for flexible wire is ~ 8000cr, estimated to be 65% of industry. Major players include Finolex, Polycab, Havells, Anchor, RR Kabel. Mkt Shares of players are Polycab-20%, Finolex-21%, haveels-16%, KR cable-10% & Anchor-10%
- 4) Strong Distribution channel with 3500+ direct selling points, direct representation in 700+town(>50K), dedicated sales team of 150+ & exclusive team for Project/Institutional biz.
- 5) **Strategic Plan on Wires:** i) to remain being top 3 players with good margin. ii) Focus on west India through distribution model iii) target south market with specific regional policies iv) Continue focus on Project, B2B & telecom tower business.



Lighting:

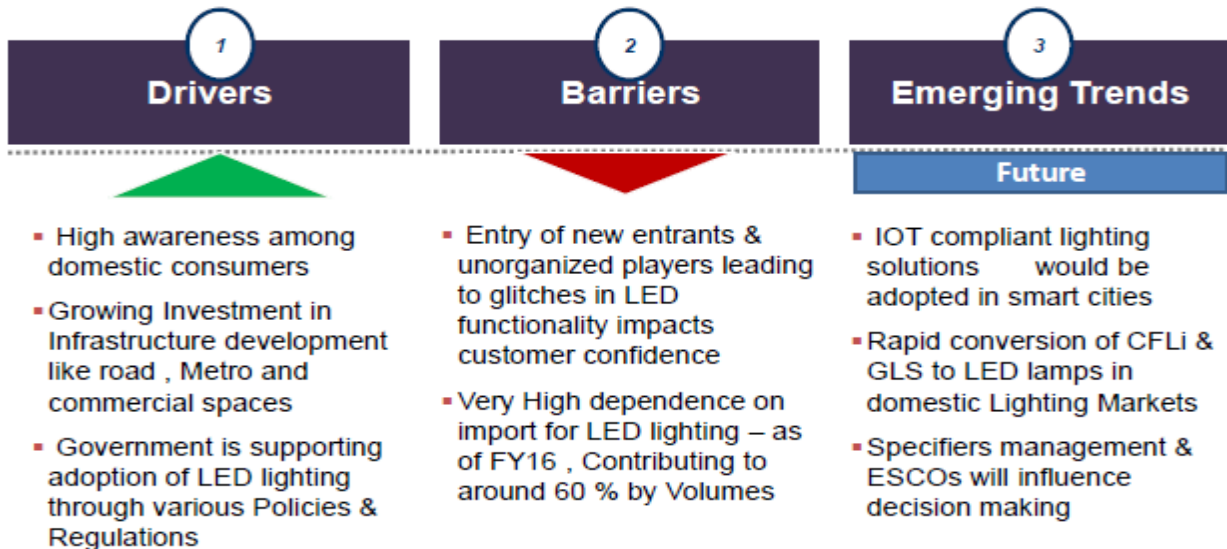
- 1) Lighting sector market size is ~17,600crs while LED market size is ~5,300crs and expected to increase by 35,000crs by 2022. Government is formulating various policies and regulations to push local manufacturing in LED lighting and Solar
- 2) **Consumer Lighting:** It forms 46% of segment. Havells have exhaustive product range in this area and have strong channel with 3000 direct dealers & 540 distributors
- 3) **Professional Lighting:** Havells is gaining foothold in this segment though B2B an B2G.
- 4) **Solar Lighting:** Started last year and manufactures commercial, street light, solar inverters, solar lanterns and residential solar lights.
- 5) **Market Shares of key Players are Philips-34%, Osram-8%, Bajaj-16% & Havells-12%**

Lighting Biz Break up



- Business is equally divided between professional (B2B + B2G) and consumer lighting

Lighting Market Trends





Electric Consumer Durables

ECD segment comprises of Fans, Water heaters, Domestic Appliances, Pumps & air coolers.

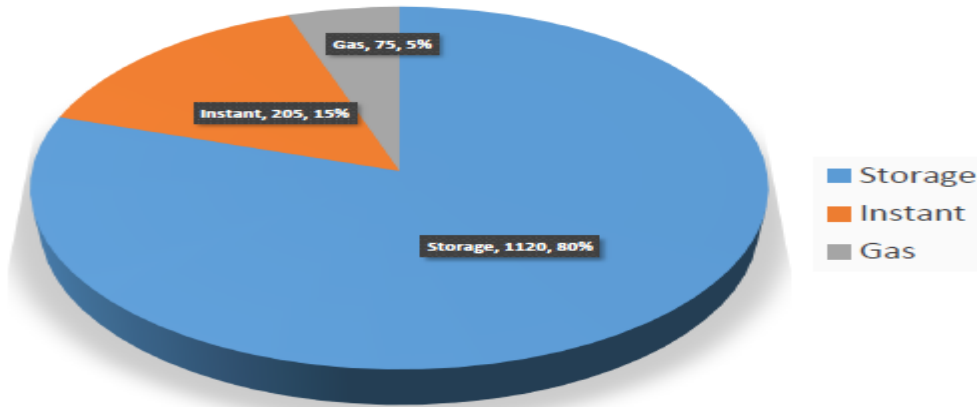
Fans

- 1) Fans segment has mkt size of ~6,900crs while Havells have market share of ~16%. Other player’s market share dominating this category are Crompton greaves-25%, Oreint-16%, Usha-16%, Bajaj-12%.
- 2) Company’s market share is bit restricted to 16% due to non-presence in economy fan segment. Havells largely caters to mass premium segment with focus on quality. However, it aims to increase its market share to 20% in next 3 years.

Water Heaters:

- 1) Water heaters segment has mkt size of ~1,400crs while Havells have market share of ~14%. Other player’s market share dominating this category are Racold-15%, Bajaj-15%, Vguard-14%, AO smith-8% & Venus-9%
- 2) It aims to increase its market share to 20% in next 3 years.

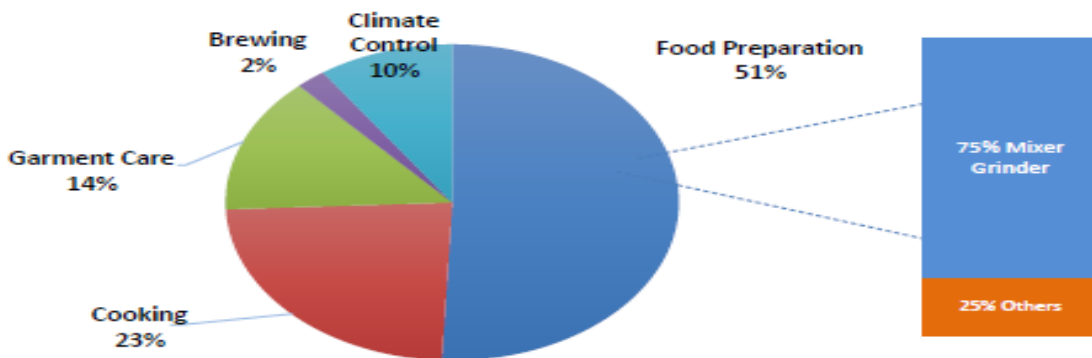
Water heaters Market Size



Small Domestic appliances:

- 1) Havells present share in small domestic segment is around 4-5% and aims to increase by 10% in next 3 years.
- 2) They have launched 42 New SKU’s in last 18 months.

SDA Market Size: 4,700crs



- **Food Preparation** : 2,400 Cr (CAGR 10%)
- **Garment Care** : 650 Cr (CAGR 12%)
- **Cooking** : 1,100 Cr (CAGR 15%)



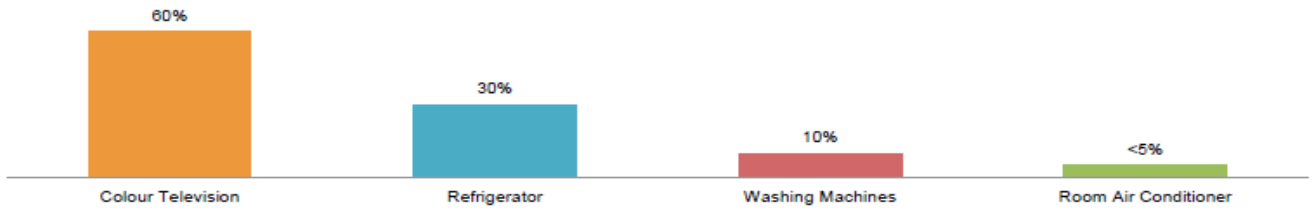


Lloyd Electric Consumer Durables

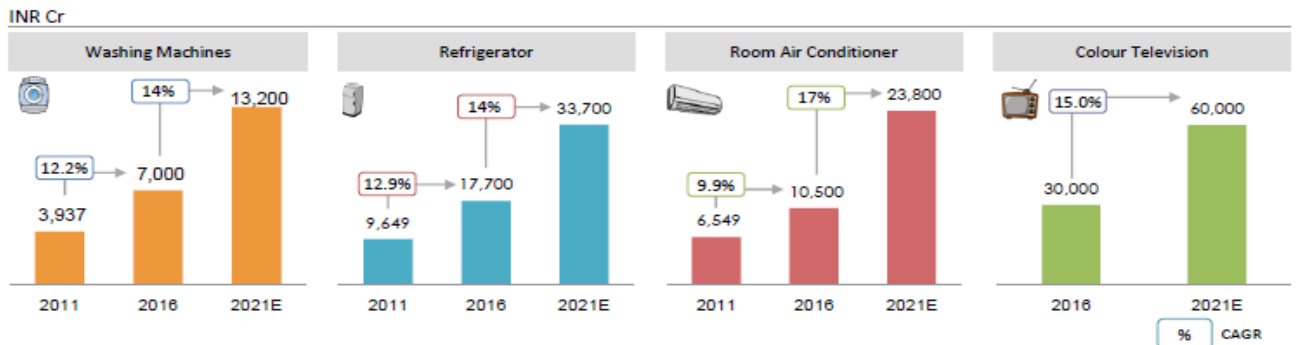
- 1) Lloyd sales in FY17 stood at Rs 2,000crs with revenue mix of AC-50%, TV-25%, Washing Machine-10% & Refrigerator of 15%.
- 2) Strategic Plan i) Entry into new categories and increase in product range ii) In-house manufacturing & mix change iii) Investment in brand and consumer experience iv) Aspiration to become billion \$ in medium term
- 3) Dominance in room AC category and low penetration is huge opportunity for Lloyd to grow.
- 4) Aims to improve operating margins by 9-10% in near term.

CD Industry

• Low Penetration



• Each Product Group Expected To Grow At Double Digit



Source: Industry data

Lloyd strong presence in Consumer Durables industry

<p>FY17 Gross sales of c.INR 2,000 Cr</p>	<p>Gained 13% share in AC segment of India in < 7 years</p>	<p>Among top three AC players in the country</p>
<p>Gained 3% share in LED TV segment of India in < 5 years</p>	<p>Innovative and aggressive in brand building initiatives, created a strong connect</p>	<p>10,000+ Display points pan India</p>
<p>600+ Service centers pan India</p>	<p>6 decades of Brand vintage in B2B – HVAC&R segment</p>	<p>Presence across 450+ cities</p>



Financials - Standalone

P&L Statement

Y/E Mar (₹ mn)	FY15	FY16	FY17	FY18E	FY19E
Net Revenues	52,387	53,783	61,353	78,139	90,946
% Growth	11.0	2.7	14.1	27.4	16.4
Raw Material	31,784	31,735	36,485	45,328	51,839
Staff	3,127	3,708	5,004	7,101	8,816
SG&A	7,477	5,613	5,770	7,499	9,223
Other Expenses	2,908	5,179	5,853	8,253	8,454
Total Expenditures	45,296	46,234	53,111	68,180	78,333
EBITDA	7,091	7,549	8,241	9,958	12,614
% Growth	10.5	6.5	9.2	20.8	26.7
EBITDA Margins (%)	13.5	14.0	13.4	12.7	13.9
Other Income	522	694	1,343	1,245	1,489
Interest	176	127	122	246	297
Depreciation	875	1,049	1,196	1,437	1,575
PBT Before Exceptional	6,562	7,066	8,266	9,520	12,232
Provision for tax	1,813	1,970	2,298	2,749	3,485
Reported PAT	4,749	7,085	5,363	6,831	8,889
% Growth	(0.8)	49.2	(24.3)	27.4	30.1
Adjusted Net Profit	4,749	5,499	5,768	6,831	8,889
% Growth	(1.7)	15.8	4.9	18.4	30.1

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	36,017	41,835
Shareholders' funds	26,933	29,537	32,736	36,642	42,460
Total Debt	849	473	2,010	3,016	3,046
Others	851	921	1,245	1,646	1,696
Capital Employed	28,633	30,931	34,010	38,342	44,239
Net fixed assets	11,443	12,085	12,776	28,808	29,233
Cash	5,319	13,652	19,375	7,699	12,222
Net Current Assets (Ex-cash)	(355)	161	(3,054)	(3,278)	(2,528)
Others	12,227	5,032	4,912	5,112	5,312
Total Assets	28,633	30,931	34,010	38,341	44,239



Cash Flow

₹ mn (Y/E Mar)	FY15	FY16	FY17	FY18E	FY19E
Pre-tax profit	6,463	9,090	7,688	9,520	12,232
Depreciation	875	1,049	1,196	1,437	1,575
Total Tax Paid	(1,505)	(1,446)	(2,052)	(2,749)	(3,485)
Chg in working capital	399	(960)	1,323	(1,442)	(812)
Other operating activities	(227)	(2,479)	(377)	246	297
Cash flow from oper (a)	6,005	5,254	7,778	7,011	9,806
Capital Expenditure	(1,675)	(1,741)	(2,369)	(17,468)	(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)	(17,668)	(2,200)
Free cash flow	4,330	3,513	5,410	(10,457)	7,806
Equity raised/(repaid)	99	29	93	-	-
Debt raised/(repaid)	(1,154)	(434)	1,533	1,764	142
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)	(1,161)	(2,928)
Net chg in cash & cash equivalents (a+b+c)	(2,770)	(505)	4,779	(11,818)	4,678

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	9.1	9.7
A&P Cost/Sales (%)	3.0	3.3	3.1	3.4	3.7
Revenue Growth (%)	11.0	2.7	14.1	27.4	16.4
EBITDA Margins (%)	13.5	14.0	13.4	12.7	13.9
Net Income Margins (%)	9.1	10.2	9.4	8.7	9.8
ROCE (%)	21.7	21.0	20.7	22.2	25.0
ROE (%)	17.6	18.6	17.6	18.6	20.9

Valuation Parameters

Y/E Mar	FY15	FY16	FY17	FY18E	FY19E
EPS (₹)	7.6	8.8	9.2	10.9	14.2
P/E (x)	35.6	37.5	55.8	48.8	37.5
BV (₹)	43.1	47.2	52.4	58.6	67.9
P/BV (x)	6.3	7.0	9.8	9.1	7.9
EV/EBITDA (x)	23.3	25.6	38.2	33.5	26.4
Fixed assets turnover ratio (x)	4.6	4.5	4.8	5.6	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	4.3	3.7



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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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