

HAVELLS INDIA LTD.

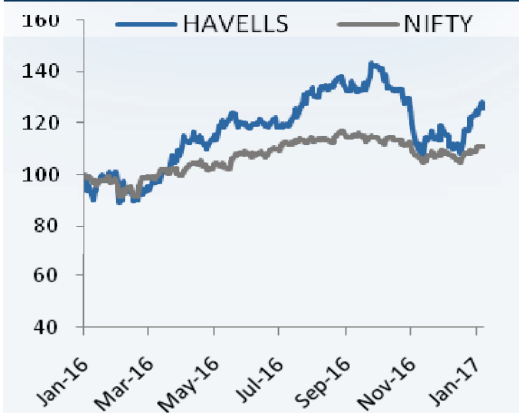
Result Update	
CMP	378
Target Price	395
Previous Target Price	
Upside	4%
Change from Previous	-

Market Data	
BSE Code	517354
NSE Symbol	HAVELLS
52wk Range H/L	460/259
Mkt Capital (Rs Cr)	23,638
Av. Volume	149232
Nifty	8398

Stock Performance			
	1Month	1Year	YTD
Absolute	14.8	-11.8	33.4
Rel.to Nifty	11.2	-10.4	20.5

Share Holding Pattern-%			
	3QFY17	2QFY17	1QFY17
Promoter	61.6	61.6	61.6
Public	38.4	38.4	38.4
Others	0.0	0.0	0.0
Total	100.0	100.0	100.0

Company Vs NIFTY



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Impact of Demonetisation

The recent Demonetization event in Nov 2016 caused severe anxiety and uncertainty in the industry particularly with dealer fraternity. There has been a decline in contribution during the quarter owing to trade schemes introduced during demonetisation for months of Nov & Dec'16. As per the management there was some impact in market place due to demonetisation but it is one time impact and this may not be seen the coming quarter Q4FY17.

Result Summary

Havells India announced 3QFY17 results which registered 13% revenue growth as compared to 3QFY16. EBITDA and PAT grew by 4% and 27% as compared to 2QFY16. During the quarter there is flat growth in Switchgears and Lighting segment. On the other hand we can see there is huge growth in cable segment i.e. 17%. There has been a decline in contribution during the quarter owing to trade schemes introduced during demonetization for months of Nov & Dec'16. The recent Demonetization event in Nov 2016 caused severe anxiety and uncertainty in the industry particularly with dealer fraternity.

Recent management commentaries

→ The impact of demonetisation may not be seen in the fourth quarter. The electrical equipment manufacturer reported increased profit at 27.5 percent year-on-year in the quarter ended 2016.

→ company is seeing a strong demand in cables and wires segment and it is also seeing market share gains in most of the categories.

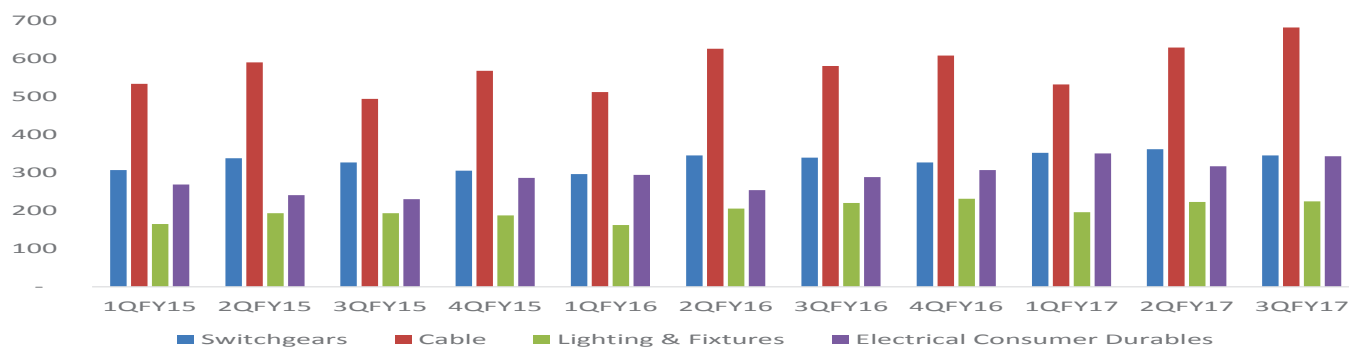
Outlook and Valuation

Despite currency impact, the company has surprised us with unexpected revenue growth as well as robust demand in Industrial cable in terms of volume (21%). Right now we are not seeing any major uptick both in the industrial demand as well as residential demand. Switchgear and lighting segment had flat revenue growth during Q3FY17. On the other hand company is also looking at expansion of its product portfolio and will continue to look at acquisition opportunities. But in the near term, considering demonetization head wind we are little cautious on Havells with 'Neutral' rating and a target price of Rs 395.

	Rs in Cr				
Financials	FY13	FY14	FY15	FY16	FY17E
Sales(Cr)	7248	8181	8569	7714	8558
EBITDA(Cr)	669	738	721	839	1066
Net Profit(Cr)	581	442	385	1209	730
EBIDTA%	9.2%	9.0%	8.4%	10.9%	12.5%
P/E	0.1	0.1	0.0	0.2	0.1

Segmental performance:

Segment Revenue(Cr)	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17
Switchgears	307	339	327	306	297	346	340	327	353	362	346
Cable	535	591	495	569	513	627	582	609	533	630	683
Lighting & Fixtures	165	194	194	188	163	206	221	232	196	223	225
Electrical Consumer Durables	269	241	231	287	295	255	289	307	351	318	344
Total	1,277	1,365	1,247	1,349	1,267	1,434	1,432	1,475	1,433	1,533	1,597

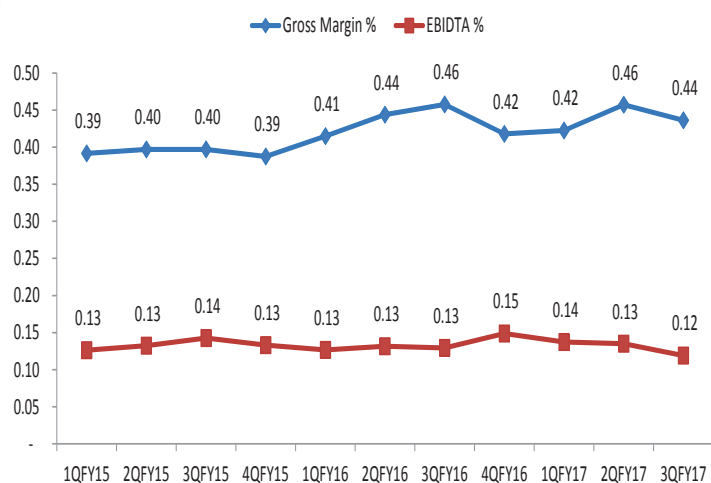


Contribution by Segment :

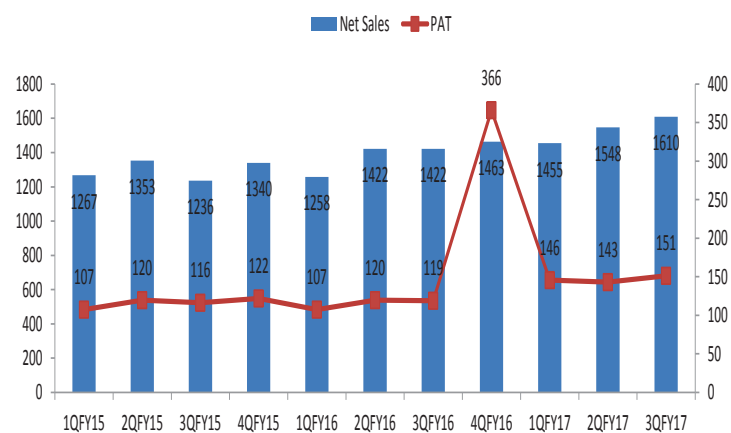
→ Contribution margins are derived after deducting material cost, manufacturing variables, direct selling variables and depreciation from the net revenue.

→ The general decline in contribution margin is due to 'Demonetization' schemes during the quarter. The impact is less profound in industrial cable as it has relatively lower exposure to dealer segment. In domestic cable, margins improved owing to lower cost of existing inventory, however, partially offset by Demonetization schemes. Further, the lighting segment, as it relates to professional luminaries segment, did not attract trade schemes. Lighting vertical also benefited from lower provisioning on CFL returns, since CFL declines as composition of lighting sales.

Trend of Gross margin & EBITDA margin:



Trend of Net Sales & PAT:



Investment Arguments:

- Company sold its subsidiaries which was effecting margin. So going forward company's margin will improve.
- The company is expecting an overall growth rate of 10 per cent from the switch segment and targetting an revenue of Rs 100 crore from entry-level modular switches category in the next two-three years.
- Company expressed positive outlook on Switchgears and Electrical Consumer durables divisions.
- South market was little bit slow now it is picking up and as per the management that weakness is becoming strength.
- Havells is the largest FMCG player in India one of the key reasons is Havells see competition as a challenge
- Havells has forayed into the automation and smart solution business segment and plans to provide customized automation solution for home and commercial space. This segment represents a very attractive proposition as the current market size is small – about Rs 500 crore – and expects Rs 100 crore revenue from it by 2020.
- Havells India forays into entry level modular switches with the launch of “Reo Bliss” Launches the new range and expects an overall growth rate of 10% from switches segment.

Other Highlights:

- Announced to set up two new manufacturing plants in Karnataka and Assam to enhance the production capacity
- Increased stake in Bangalore based company ‘Promptec Renewable Energy Solutions’ from 51% to 69%
- Launched innovative range of products such as Home Automation & Control Solution, Air Purifier and entry level modular switches “Reo Bliss”
- Expanded Havells Galaxy chain by taking the total number of such stores to 380 across the country.
- International businesses are on path on profitability and the company plans to retain its 20 percent stake in Sylvania for at least 3-5 years.
- Current debt is Rs 220 Cr and as per the management company will be debt free in FY19.

Impact of implementation of IND AS on financials:

With effect from 1 April 2016 Havells adopted new accounting standard Ind-AS. The financial results summary for the period ended 30 June 2016 and corresponding period of last year 30 June 2015 are prepared in accordance with Ind-AS on account of which Net sales has been impacted by 1% as cash discount now gets deducted from Sales as against been included in other expenses. Fixed assets have increased by INR1.3b on account of being stated at Fair value. Reserves has increased by INR3.1b on account of fixed assets now being restated on fair value (Rs130 Cr) and also as provision of dividend worth Rs 230 Cr being excluded from reserves.

About the Company:

Havells India Ltd is a leading FMEG company (Fast moving electrical goods) with presence across India. Its product range includes Industrial & Domestic Circuit Protection Switchgear, Cables & Wires, Motors, Fans, Power Capacitors, CFL Lamps, Luminaires for Domestic, Commercial & Industrial applications, Modular Switches, Water Heaters and Domestic Appliances covering the entire gamut of household, commercial and industrial electrical needs. Havells owns prestigious brands like Havells, Crabtree and Standard.

With 40 branch offices and over 4000 professionals Havells has achieved rapid success in the past few years. Its 12 state-of-the-art manufacturing units in India located at Haridwar, Baddi, Noida, Sahibabad, Faridabad, Alwar and Neemrana are manufacturing globally acclaimed products, synonymous with excellence and precision in the electrical industry.

Financials Snap Shot

	INCOME STATEMENT			
	FY14	FY15	FY16	FY17E
Revenue	8181	8569	7714	8558
Other Income	41	50	86	129
Total Revenue	8222	8620	7800	8687
COGS	4640	4829	4383	4713
GPM	1	1	1	1
Other Expenses	1717	1832	1632	1682
EBITDA	738	721	839	1066
EBITDA Margin (%)	9%	8%	11%	12%
Depreciation	116	139	127	171
EBIT	622	582	712	895
Interest	74	64	45	11
PBT	589	569	1439	1014
Tax	148	184	230	284
Tax Rate (%)	25%	32%	16%	28%
Reported PAT	442	385	1209	730
Dividend Paid	183	731	219	219
No. of Shares	12	62	62	62

	RATIOS			
	FY14	FY15	FY16	FY17E
EPS	35	6	19	12
Book Value	133	29	41	49
DPS	15	12	4	4
Payout (incl. Div. Tax.)	41%	190%	18%	30%
Valuation(x)				
P/E	5	49	14	31
Price / Book Value	1	10	7	7
Dividend Yield (%)	7.8%	3.8%	1.3%	1.0%
Profitability Ratios				
RoE	27%	21%	47%	24%
RoCE	26%	28%	28%	29%
Turnover Ratios				
Asset Turnover (x)	2	2	2	2
Debtors (No. of Days)	45	27	12	12
Inventory (No. of Days)	117	103	70	70
Creditors (No. of Days)	53	45	25	22
Net Debt/Equity (x)	0	0	0	0

	BALANCE SHEET			
	FY14	FY15	FY16	FY17E
Share Capital	62	62	62	62
Reserves	1604	1756	2495	3006
Net Worth	1666	1818	2558	3069
Long term Debt	706	226	2	0
Short term Debt	118	70	84	66
Deferred Tax	52	43	75	75
Total Capital Employed	2372	2045	2560	3069
Net Fixed Assets	1207	1221	1100	1210
Capital WIP	44	38	21	21
Debtors	1001	623	259	288
Cash & Bank Balances	882	777	1465	1817
Trade payables	1197	1051	520	516
Total Provisions	733	805	423	447
Net Current Assets	1241	741	1291	1672
Total Assets	5337	4831	4142	4704

	CASH FLOW STATEMENT			
	FY14	FY15	FY16	FY17E
OP/(Loss) before Tax	594	569	1439	1014
Depreciation	116	139	127	171
Direct Taxes Paid	(134)	(192)	(181)	(284)
OP before WC changes	830	739	813	1196
CF from Op. Activity	868	963	531	882
CAPEX	(176)	(174)	(225)	(281)
CF from Inv. Activity	(376)	(486)	28	(281)
Repayment of LTB	(148)	(524)	(354)	0
Interest Paid	(52)	(61)	(39)	(11)
Divd Paid (incl Tax)	(156)	(146)	(451)	(219)
CF from Fin. Activity	(310)	(754)	(622)	(249)
Inc/(Dec) in Cash	182	(278)	(62)	351
Add: Opening Balance	472	655	379	1465
Closing Balance	655	379	160	1817