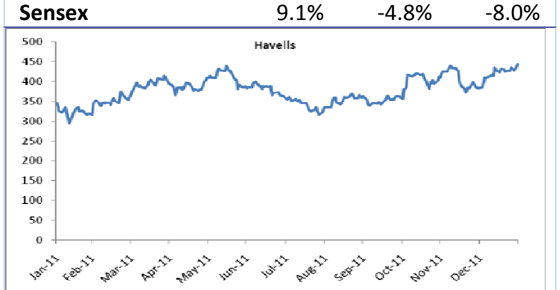
Havells India Ltd.

Recommendation	HOLD
CMP	Rs. 480
Target Price	Rs.539
Sector	Consumer Durable

Stock Details

BSE Code	517354
NSE Code	HAVELLS
Bloomberg Code	HAVL IN
Market Cap (Rs cr)	5764
Free Float (%)	34.7%
52- wk HI/Lo (Rs)	464/290
Avg. volume BSE (Quarterly)	54688
Face Value (Rs)	5.0
Dividend (FY 11)	Rs. 2.5 per share
Shares o/s (Crs)	12.5

Relative Performance	1Mth	3Mth	1Yr
Havells	15.6%	24.5%	28.3%
Sensex	9.1%	-4.8%	-8.0%



Shareholding Pattern	31st Dec 11
Indian Promoters Holding	61.6%
Institutional (Incl. FII)	20.9%
Corporate Bodies	11.7%
Public & others	5.8%

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Havells has reported strong performance in all the business segments in Q3FY12. Standalone revenues was up by 29.7% YoY led by strong growth in all the business segments while PAT rose by 29% YoY. The EBITDA margin was down by 50bps YoY due to Foreign Exchange loss of Rs. 13.51 crores in Q3FY12; excluding that the margin was 14.2% as compared to 13.2% in Q3FY11. Sylvania has reported a decline in revenue by 4% YoY though the margins improved by 460bps to 9.7% mainly led by Europe business registering strong operating margin of 13.1%. With its focus on profitability from Sylvania, strong domestic business and steadily expansion of product portfolio, we remain confident on Havells performance going forward.

- **Domestic Business registered strong growth and margin expansion in all business segments**: Net Sales for Q3FY12 increased by 29.7% on YoY to Rs. 896.17 crs and was up by 5.4% on QoQ. The revenue was up YoY due to the good growth recorded in the cables (28.7% YoY growth), Lighting & Fixtures (27.8% YoY growth), Electrical Consumer & Durables (34.7% YoY Growth) and Switchgears (30% YoY growth). Switchgear EBIT margins grew 210bps to 39.5% (37.4% in Q3FY11). Lighting & Fixtures EBIT margins increased by 510bps to 26.2% (21.1% in Q3FY11) and EBIT margins of Consumer Durables and Cables grew by 110bps to 28.9% and to 9.9% in Q3FY12 respectively.

Sylvania margins beat guidance: Sylvania reported decline in revenue by 4.1% YoY to €113.9mn in Q3FY12 as compared to €118.8mn and 1.4% QoQ revenue growth. Europe reported decline of 4.5% YoY in net revenue to €71.8mn with a significant jump in EBIDTA margin to 13.1% in Q3FY12 as against 6% in Q3FY11. The better price realization and inventory of low cost boosted the margin in Q3FY12. Latin America (LatAm) reported decline in revenue by 4% YoY in US$ terms to $48.2mn in Q3FY12 as against $50.2mn in Q3FY11. Management has attributed sharp currency fluctuation in Brazil as key reason for weak revenue and margin performance for LatAm. The profit margin was 5.9% in Q3FY12 as against 7% in Q3FY11 due to non-recurring inventory provisions of €1.2mn; without which, the EBIDTA margin would have been 9.2%. Sylvania reported EBIDTA margin at 9.7% (adjusted for pension liabilities) in Q3FY12, a jump of 460 bps YoY from 5.1% in Q3FY11, driven by better price realization and cost management.

Valuation & Recommendation

At CMP of Rs. 480, the stock is trading at a PE of 16.4x in FY12E and 13.4x in FY13E. We have recommended Havells at a price of Rs. 382 on 2nd Nov 2011 with a target price of Rs. 482, which got achieved on 31st Jan 2012. **We have revised our target price to Rs. 539 per share (Rs. 482) (15x FY13 P/E) on account of strong performance in the entire business segment in Indian business and Sylvania reporting better operating margins. We feel that the upside from here is limited as the stock has seen a good run up in the recent past and is fairly priced-in. We recommend the investors to partially book the profit.**

Year	Net Sales	Growth %	EBIDTA	EBIDTAM (%)	PAT	PATM (%)	EPS (Rs.)	P/E(x)	P/BV(x)	ROE
FY10	5431.5	-1%	344.3	5.9%	69.5	1.3%	5.6	86.2	15.0	15.8%
FY11	5612.6	3%	572.6	9.8%	303.5	5.4%	24.3	19.7	9.2	30.4%
FY12E	6328.4	13%	670.1	10.1%	366.3	5.8%	29.4	16.4	6.4	31.3%
FY13E	7124.4	13%	780.7	10.5%	448.0	6.3%	35.9	13.4	4.5	32.6%

Increasing Our Earnings Estimates

We have increased our earnings estimates on account of higher EBITDA margins posted by standalone business where all the business segments have shown improvement in operating margins. We have kept earnings estimates of Sylvania unchanged where EBITDA margins will be 7.5% in FY12E and 8% in FY13E. We have increased EPS for FY12E by 4.8% and by 4.1% in FY13E. We expect healthy earnings growth and robust balance sheet trends to continue to drive stock.

Q3FY12: Standalone Result

Particulars	Q3FY12	Q3FY11	YoY%	Q2FY12	QoQ%
Net Sales	896.17	690.7	29.7%	850.39	5.4%
Other Operating Income	2	1.35	48.1%	1.42	40.8%
Total Income	898.17	692.05	29.8%	851.81	5.4%
Increase / Decrease in Stock	-15.97	-13.08	22.1%	-23.74	-32.7%
Consumption of raw material	465.99	374.37	24.5%	451.54	3.2%
Purchase of traded goods	87.38	74.26	17.7%	87.31	0.1%
Employees Cost	36.44	27.44	32.8%	35.80	1.8%
Foreign Exchange (Gain) / Loss	13.51	-4.38	-408.4%	13.14	2.8%
Other Expenditure	196.98	142.07	38.6%	184.84	6.6%
Total Expenditure	784.33	600.68	30.6%	748.89	4.7%
PBIDT	113.84	91.37	24.6%	102.92	10.6%
Interest	6.88	5.2	32.3%	7.14	-3.6%
Other Income	0.14	0.14	0.0%	0.17	-17.6%
PBDT	107.10	86.31	24.1%	95.95	11.6%
Depreciation	10.35	7.52	37.6%	9.11	13.6%
Tax	17.87	17.67	1.1%	16.60	7.7%
Reported Profit After Tax	78.88	61.12	29.1%	70.24	12.3%
Extra-ordinary Items	0.00	0.00		0.00	
Adjusted Profit After Extra-ordinary item	78.88	61.12	29.1%	70.24	12.3%
EPS (Unit Curr.)	6.32	4.90		5.63	
Equity	62.39	62.39		62.39	
Face Value	5	5		5	
PBIDTM(%)	12.7%	13.2%		12.1%	
PBDTM(%)	12.0%	12.5%		11.3%	
PATM(%)	8.8%	8.8%		8.3%	

Segment Analysis

Particulars	Q3FY12	Q3FY11	YoY%	Q2FY12	QoQ%
Net Segment Revenue					
Switchgears	226.06	173.94	30.0%	221.77	1.9%
Cable & Wires	390.71	303.58	28.7%	369.18	5.8%
Lighting & Fixtures	144.84	113.32	27.8%	137.44	5.4%
Electrical Consumer Durables	134.56	99.86	34.7%	122	10.3%
Others	0	0		0	
Total	**896.17**	**690.7**	**29.7%**	**850.39**	**5.4%**
Less: Inter segmental revenue	0	0		0	
Sales Income from Operations	**896.17**	**690.7**	**29.7%**	**850.39**	**5.4%**
Segment Results					
Switchgears	89.4	65.11	37.3%	83.92	6.5%
Cable & Wires	38.51	26.71	44.2%	34.18	12.7%
Lighting & Fixtures	37.93	23.91	58.6%	33.64	12.8%
Electrical Consumer Durables	38.95	27.73	40.5%	33.77	15.3%
Others	0	0		0	
Total	**204.79**	**143.46**	**42.8%**	**185.51**	**10.4%**
Less: Interest	6.88	5.2		7.14	
Less: Other unallocable expenses	101.16	59.47		91.53	
PBT	**96.75**	**78.79**	**22.8%**	**86.84**	**11.4%**
EBIT Margins					
			BPS		BPS
Switchgears	39.5%	37.4%	210	37.8%	170
Cable & Wires	9.9%	8.8%	110	9.3%	-50
Lighting & Fixtures	26.2%	21.1%	510	24.5%	170
Electrical Consumer Durables	28.9%	27.8%	110	27.7%	120
Others	0.0%	0.0%		0.0%	
Total	22.9%	20.8%	210	21.8%	110

Financials

Consolidated Profitability (Rs. In Cr)	FY10	FY11	FY12E	FY13E
Y/E - March				
Revenues - Net	**5431.5**	**5612.6**	**6328.4**	**7124.4**
% change	*-0.8%*	*3.3%*	*12.8%*	*12.6%*
Operating Profit	**322.2**	**548.9**	**640.1**	**750.7**
% change in OP	*11.7%*	*70.4%*	*16.6%*	*17.3%*
EBITDA	**322.2**	**548.9**	**640.1**	**750.7**
Interest	97.9	82.0	80.0	72.5
Other Income	22.17	23.72	30	30
EBDT	**246.4**	**490.6**	**590.1**	**708.1**
Depreciation	83.7	80.4	88.4	94.4
Extraordinary/Exceptional	0.0	10.3	0.0	0.0
PBT	**162.8**	**399.9**	**501.7**	**613.8**
Tax	93.2	103.1	135.5	165.7
PAT	69.6	296.8	366.3	448.0
Share of Profit & loss Transferred to minority	0.0	0.0	0.0	0.0
Adj PAT	**69.6**	**296.8**	**366.3**	**448.0**
Shares o/s (No. in Cr.)*	12.5	12.5	12.5	12.5
EPS	5.6	24.3	29.4	35.9
Adj EPS*	**5.6**	**23.7**	**29.4**	**35.9**
Cash EPS	12.3	30.8	36.4	43.5
DPS (Rs.)	3.7	2.5	2.8	3.0

Standalone Quarterly (Rs. In Cr)	Mar.11	June.11	Sep.11	Dec.11
Net Revenue including OI	**845.26**	**802.65**	**851.81**	**898.17**
EBITDA	**99.00**	**88.41**	**102.92**	**113.84**
Interest	5.52	8.38	7.14	6.88
EBDT	**93.48**	**80.03**	**95.78**	**106.96**
Dep	7.81	8.33	9.11	10.35
Other Inc.	0.10	0.14	0.17	0.14
Extraordinary	0.00	0.00	0.00	0.00
PBT	**85.77**	**71.84**	**86.84**	**96.75**
Tax	16.73	14.34	16.60	17.87
PAT	**69.04**	**57.50**	**70.24**	**78.88**
EPS (Rs.)	5.53	4.61	5.63	6.32

Operational Ratio	FY10	FY11	FY12E	FY13E
EBITDA margin (%)	5.9%	9.8%	10.1%	10.5%
Adj.PAT margin (%)	1.3%	5.3%	5.8%	6.3%
Adj.PAT Growth (%)	80.9%	326.3%	23.4%	22.3%
Price Earnings (x)	86.2	19.7	16.4	13.4
Book Value (Rs.)	32.1	52.4	74.8	107.7
ROCE (%)	15.8%	30.4%	31.3%	32.6%
RONW (%)	13.7%	57.6%	46.1%	39.3%
Debt Equity Ratio	2.7	1.7	1.1	0.7
Price / Book Value (x)	15.0	9.2	6.4	4.5
EV / Sales	1.2	1.2	1.1	0.9
EV / EBIDTA	20.1	12.1	10.1	8.5

Consolidated Financial Health (Rs. In Cr)	FY10	FY11	FY12E	FY13E
Share Capital	31.2	62.4	62.4	62.4
Equity/Warrant	0.0	0.0	0.0	0.0
Reserves & Surplus	369.0	591.4	871.3	1281.9
Net Worth	**400.2**	**653.7**	**933.6**	**1344.3**
Minority Interest	0.2	0.6	0.6	0.6
Total Loans	1066.4	1117.3	1017.3	917.3
Net Deferred Tax Assets	43.4	55.9	55.9	55.9
Total Liabilities	**1510.2**	**1827.5**	**2007.4**	**2318.0**
Net Fixed Assets	**887.4**	**995.5**	**1107.1**	**1212.8**
Investments	**0.0**	**0.0**	**0.0**	**0.0**
CWIP	33.6	24.9	0.0	0.0
Goodwill	321.2	335.4	335.4	335.4
Inventories	824.6	1086.0	1232.9	1388.3
Sundry Debtors	698.2	772.4	884.7	991.6
Cash & Bank	148.0	177.9	226.6	265.0
Loans & Advances	184.8	171.5	205.2	250.9
C A L&A	1855.6	2207.7	2549.4	2895.8
CL & P	1587.6	1736.1	1984.5	2126.0
Working Capital	**268.0**	**471.7**	**564.8**	**769.8**
Misc Exp	**0.0**	**0.0**	**0.0**	**0.0**
Total Assets	**1510.2**	**1827.5**	**2007.4**	**2318.0**

Consolidated Cash Flow (Rs. In Cr)	FY10	FY11	FY12E	FY13E
Operating		`		
Profit Before Tax	162.8	406.6	501.7	613.8
Direct Taxes paid	-69.87	-85.1	-135.5	-165.7
Depreciation	83.7	80.4	88.4	94.4
Change in WC	254.3	-201.3	-44.4	-166.5
Interest Expenses	87.1	82.0	80.0	72.5
Other Non cash items	-226.7	-25.1	0.0	0.0
CF from Opeartion	**291.3**	**257.5**	**490.2**	**448.4**
Investment				
Capex	-142.8	-157.7	-224.9	-200.0
Other Investment	36.7	-14.2	0.0	0.0
Total Investment	**-106.1**	**-171.9**	**-224.9**	**-200.0**
Free Cash Flow	185.2	85.7	265.3	248.4
Financing				
Equity raised/(repaid)	0.0	0.0	0.0	0.0
Inc/Dec in Reserves	0.0	0.0	0.0	0.0
Debt raised/(repaid)	-176.1	45.4	-100.0	-100.0
Dividend (incl. tax) paid	-22.6	-20.7	-34.3	-37.4
Interest Expenses	-87.1	-81.9	-80.0	-72.5
Cash Flow from Financing Activities	-285.8	-57.2	-214.4	-210.0
Net Cash Flow	**-100.6**	**28.5**	**51.0**	**38.4**
Beginning Cash Flow	241.5	147.1	175.6	226.6
Cash as per scheme of arrangement	6.18	0	0	0
Add Fixed Deposits	0.89	2.25	0	0
Cash as reported in Balance Sheet	**148.0**	**177.9**	**226.6**	**265.0**

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