

Havells India

14 May 2018

Reuters: HVEL.BO; Bloomberg: HAVL IN

Sustains Healthy Growth And Margins

Havells India (HIL) posted 14% top-line growth in its core electricals portfolio at Rs19.5bn while, inclusive of Lloyd's sales of Rs5.8bn, overall revenues stood at Rs25.3bn in 4QFY18. The top-line was 4% above our estimate and was driven by Lighting (up 20% YoY) and electrical consumer durable (ECD) segment (up 19% YoY). Gross margin was down 110bps YoY to 38% while EBITDA margin was up 70bps YoY to 14.1% owing to operating leverage benefit. Cables, lighting and ECD segment registered healthy improvement in margins. EBITDA grew 56% YoY to Rs3.6bn while PAT jumped 138% YoY to Rs2.2bn (Lloyd was not present in the base quarter) in-line with our estimate and consensus. While HIL is likely to sustain healthy revenue growth momentum, the margin is likely to face headwinds owing to sharp rise in commodity costs over the past few months. We have cut our earnings estimates for FY19/FY20 by 3%/4%, respectively, and retained Accumulate rating on HIL with revised target price of Rs585 (Rs595 earlier) based on 37x FY20E earnings (in line with past three years' median P/E).

Lighting and ECD segments drives revenue growth: HIL's core electricals portfolio grew 14% YoY to Rs19.5bn in 4QFY18. However, adjusted for excise impact on exempted zones, the growth was 18%/13% in 4QFY18/FY18, respectively. Lighting revenue grew 20% YoY to Rs3.2bn aided by rising LED penetration and an increase in the distribution network. ECD revenues grew 19% YoY to Rs4.6bn (29% growth adjusted for excise) driven by healthy growth in fans (~11% YoY), water heaters and addition of new product categories such as water purifiers and male grooming. Cables grew 13% YoY to Rs7.7bn (6% volume growth and 7% value growth) led by good demand for house-wires. Switchgears revenue grew 5% YoY (12% adjusted for excise) to Rs3.9bn.

ECD and cables aids margin: HIL's gross margin was down 110bps YoY to 38% but EBITDA margin was up 70bps YoY to 14.1% in 4QFY18. Cable segment posted 420bps YoY rise in contribution margin to 17.1% driven by better product mix. Lighting segment margin rose 370bps YoY to 30.9%, partly led by provision write-backs. Contribution margin of ECD was up 270bps YoY at 27.2%. Switchgear remains the most profitable segment with contribution margin of 38.6%, up 20bps YoY.

Lloyd business update: The Lloyd business reported revenue of Rs5.8bn in 4QFY18 and 14.1bn in FY18, an adjusted growth of 11% YoY (as Lloyd was acquired on 8 May 2017). Lloyd reported contribution margin of 19% and EBITDA margin of 8% for FY18. The management expects a low double digit growth for Lloyd in FY19E, owing to weak summer sales, and aims to sustain 8% EBITDA margin. HIL will incur Rs3bn capex to set-up a 0.6mn units greenfield AC manufacturing plant, which it aims to get operational by 4QFY19.

Outlook and valuation: We expect HIL to post 12.3% CAGR in electrical product sales over FY18-FY20E while, inclusive of Lloyd, HIL is likely to register 15.6% revenue CAGR. We are factoring in 19.5%/20% contribution margin for Lloyd in FY19E/FY20E, respectively. With higher other income and lower tax rate (FY18 had Rs1.3bn prior period tax), HIL is likely to register 18.6% adjusted earnings CAGR over FY18-FY20E. Healthy earnings growth, high free cash flows as well as superior brand positioning will support the premium valuation of HIL.

ACCUMULATE

Sector: Consumer Electricals

CMP: Rs547

Target Price: Rs585

Upside: 7%

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Key Data

Current Shares O/S (mn)	625.1
Mkt Cap (Rsbn/US\$bn)	342.3/5.1
52 Wk H / L (Rs)	593/434
Daily Vol. (3M NSE Avg.)	1,184,958

Price Performance (%)

	1 M	6 M	1 Yr
Havells India	3.1	9.2	6.7
Nifty Index	3.7	4.7	14.7

Source: Bloomberg

Y/E March (Rsmn)	4QFY17	3QFY18	4QFY18	YoY (%)	QoQ (%)	FY17	FY18	YoY (%)
Net revenues	17,102	19,658	25,349	48.2	29.0	61,353	81,386	32.7
Raw material costs	10,415	11,863	15,728	51.0	32.6	36,485	49,808	36.5
Staff costs	1,312	1,625	1,637	24.8	0.7	5,004	6,497	29.8
Advertisement spend	404	786	1,046	158.9	33.0	1,906	3,076	61.4
Other expenses	2,676	2,761	3,361	25.6	21.7	9,717	11,512	18.5
Total expenditure	14,806	17,036	21,772	47.0	27.8	53,111	70,893	33.5
EBITDA	2,296	2,622	3,577	55.8	36.4	8,241	10,493	27.3
EBITDA margin (%)	13.4	13.3	14.1	-	-	13.4	12.9	-
Depreciation	308	363	347	12.9	(4.3)	1,196	1,395	16.6
Interest costs	71	55	84	17.7	52.3	122	240	97.3
Other income	419	278	257	(38.6)	(7.3)	1,343	1,170	(12.9)
Exceptional items	(768)	210	(91)			(578)	119	002D
PBT	1,569	2,692	3,313	111.1	23.1	7,688	10,147	32.0
Tax	622	748	1,055	69.6	41.1	2,298	3,022	31.5
PAT	947	1,944	2,258	138.4	16.2	5,390	7,125	32.2
PAT margin (%)	5.5	9.9	8.9	-	-	8.8	8.8	-
EPS (Rs)	1.5	3.1	3.6	138.3	16.1	8.6	11.4	32.1

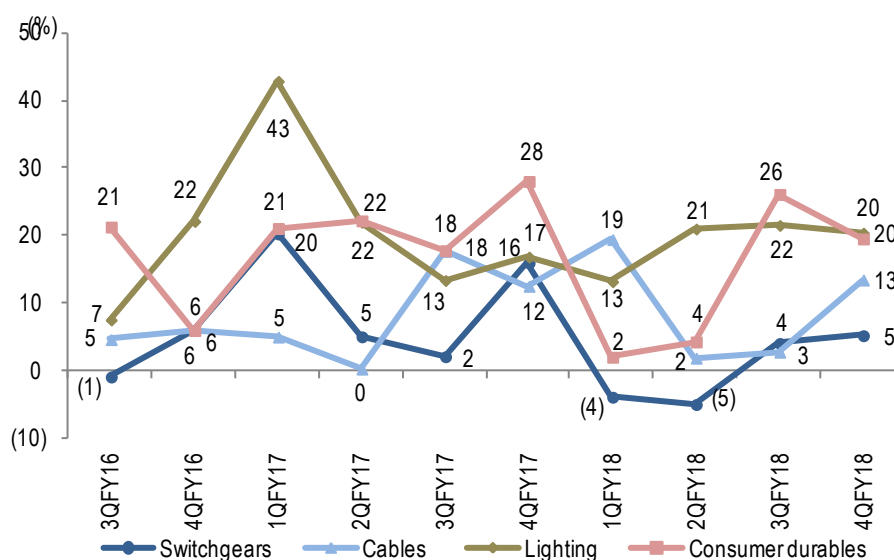
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Financial summary

Y/E March (Rsmn)	FY16	FY17	FY18	FY19E	FY20E
Revenues	53,783	61,353	81,386	95,968	108,800
EBITDA	7,549	8,241	10,493	12,178	14,080
Adjusted net profit	5,096	5,969	7,006	8,511	9,863
Adjusted EPS (Rs)	8.2	9.5	11.2	13.6	15.8
Adjusted EPS growth (%)	9.6	17.1	17.4	21.5	15.9
EBITDA margin (%)	14.0	13.4	12.9	12.7	12.9
P/E (x)	67.1	57.3	48.8	40.2	34.7
P/BV (x)	11.6	10.4	9.1	8.2	7.4
EV/EBITDA (x)	43.5	39.4	31.2	26.9	23.1
Dividend yield (%)	1.1	0.5	0.7	1.0	1.3
RoCE (%)	23.6	21.3	23.8	25.1	26.5
RoE (%)	19.1	19.2	20.0	21.5	22.4

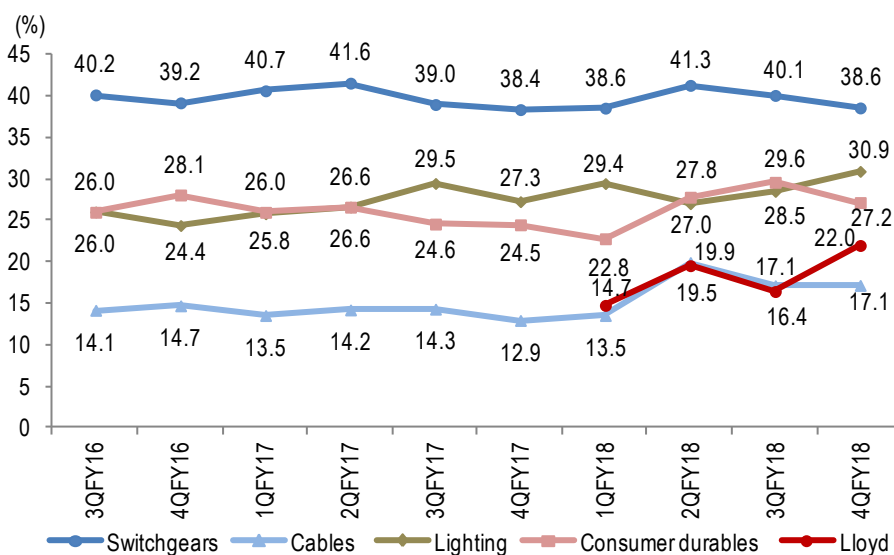
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Segment-wise revenue growth trend (YoY)



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Segment-wise contribution margin trend



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Segment-wise analysis

Y/E March (Rsmn)	4QFY17	3QFY18	4QFY18	YoY (%)	QoQ (%)	FY17	FY18	YoY (%)
Revenues								
Switchgear	3,753	3,443	3,946	5.2	14.6	14,065	14,077	0.1
Cable	6,780	6,256	7,689	13.4	22.9	23,794	26,002	9.3
Lighting & fixture	2,681	2,871	3,227	20.4	12.4	9,710	11,563	19.1
Electrical consumer durable	3,888	4,158	4,646	19.5	11.7	13,784	15,602	13.2
Lloyd	NA	2,930	5,841	NA	99.4	NA	14,141	NA
Total	17,102	19,658	25,349	48.2	29.0	61,353	81,385	32.7
Revenue mix (%)								
Switchgear	21.9	17.5	15.6	-	-	22.9	17.3	-
Cable	39.6	31.8	30.3	-	-	38.8	31.9	-
Lighting & fixture	15.7	14.6	12.7	-	-	15.8	14.2	-
Electrical consumer durable	22.7	21.2	18.3	-	-	22.5	19.2	-
Lloyd	NA	14.9	23.0	-	-	NA	17.4	-
Contribution								
Switchgear	1,441	1,380	1,523	5.7	10.4	5,610	5,572	(0.7)
Cable	875	1,070	1,318	50.6	23.1	3,256	4,380	34.5
Lighting & fixture	731	818	998	36.5	22.0	2,651	3,356	26.6
Electrical consumer durable	951	1,230	1,262	32.6	2.6	3,494	4,202	20.3
Lloyd	NA	480	1,283	NA	167.4	NA	2,683	NA
Total	3,998	4,977	6,383	59.7	28.2	15,011	20,193	34.5
Contribution margin (%)								
Switchgear	38.4	40.1	38.6	-	-	39.9	39.6	-
Cable	12.9	17.1	17.1	-	-	13.7	16.8	-
Lighting & fixture	27.3	28.5	30.9	-	-	27.3	29.0	-
Electrical consumer durable	24.5	29.6	27.2	-	-	25.3	26.9	-
Lloyd	NA	16.4	22.0	-	-	NA	19.0	-
Total	23.4	25.3	25.2	-	-	24.5	24.8	-

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Actual performance versus our estimates, Bloomberg consensus estimates

4QFY18 (Rsmn)	Actual	Our estimate	Deviation (%)	Bloomberg cons. est.	Deviation (%)
Revenues	25,349	24,365	4.0	25,141	0.8
EBITDA	3,577	3,397	5.3	3,326	7.6
PAT	2,258	2,323	(2.8)	2,216	1.9

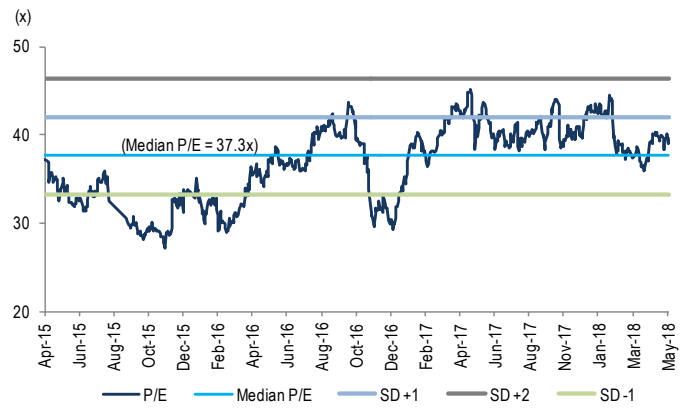
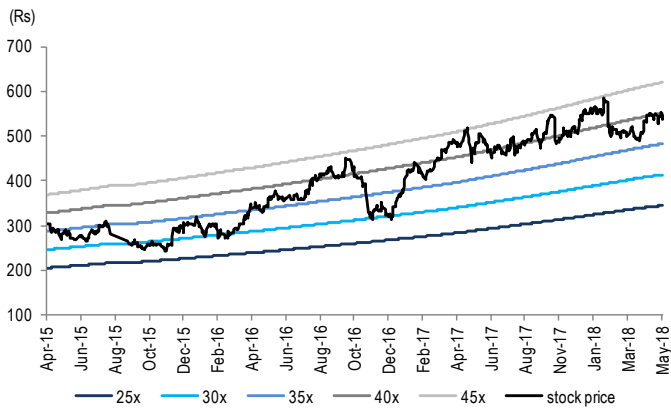
Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 6: Change in our estimates

(Rsmn)	Old		New		Deviation (%)	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Revenues	91,532	105,189	95,968	108,800	4.8	3.4
EBITDA	12,504	14,669	12,178	14,080	(2.6)	(4.0)
PAT	8,753	10,333	8,511	9,863	(2.8)	(4.6)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: P/E charts



Source: Nirmal Bang Institutional Equities Research

Financials

Exhibit 8: Income statement

Y/E March (Rsmn)	FY16	FY17	FY18	FY19E	FY20E
Revenues	53,783	61,353	81,386	95,968	108,800
% growth	2.7	14.1	32.7	17.9	13.4
Raw material costs	31,735	36,485	49,808	59,020	66,586
Staff costs	3,708	5,004	6,497	7,773	8,704
Other overheads	10,791	11,623	14,588	16,996	19,431
Total expenditure	46,234	53,111	70,893	83,790	94,720
EBITDA	7,549	8,241	10,493	12,178	14,080
% growth	6.8	9.2	27.3	16.1	15.6
EBITDA margin (%)	14.0	13.4	12.9	12.7	12.9
Other income	694	1,343	1,170	1,271	1,406
Interest costs	127	122	240	140	98
Depreciation	1,049	1,196	1,395	1,488	1,689
Profit before tax	7,066	8,266	10,028	11,822	13,698
Tax	1,970	2,298	3,022	3,310	3,836
Exceptional items	2,024	(578)	119	-	-
Reported net profit	7,120	5,390	7,125	8,511	9,863
Adjusted net profit	5,096	5,969	7,006	8,511	9,863
Adjusted PAT margin (%)	9.5	9.7	8.6	8.9	9.1
Adjusted EPS (Rs)	8.2	9.5	11.2	13.6	15.8
% growth	9.6	17.1	17.4	21.5	15.9

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Balance sheet

Y/E March (Rsmn)	FY16	FY17	FY18	FY19E	FY20E
Share capital	625	625	625	625	625
Reserves	28,912	32,111	36,766	41,152	45,764
Net worth	29,537	32,736	37,392	41,777	46,389
Short-term loans	-	1,981	270	270	270
Long-term loans	-	-	810	510	260
Total loans	-	1,981	1,080	780	530
Deferred tax liability net	863	1,138	2,070	2,070	2,070
Liabilities	30,399	35,854	40,541	44,627	48,989
Gross block	12,818	14,025	15,982	21,223	23,823
Depreciation	1,045	2,108	3,503	4,991	6,681
Net block	11,773	11,917	12,479	16,231	17,142
Capital work-in-progress	205	119	241	100	100
Intangible assets	109	904	15,536	15,536	15,536
Long-term Investments	4,627	3,891	417	417	417
Inventories	7,844	9,284	16,217	18,595	20,432
Debtors	1,576	2,285	3,254	3,681	4,024
Cash	13,652	19,375	15,266	14,954	17,553
Other current assets	1,104	1,825	2,005	2,879	3,264
Total current assets	24,176	32,770	36,742	40,109	45,273
Creditors	4,363	6,296	16,340	17,787	18,243
Other current liabilities	6,127	7,450	8,533	9,980	11,236
Total current liabilities	10,491	13,746	24,873	27,767	29,479
Net current assets	13,686	19,024	11,869	12,343	15,794
Total assets	30,399	35,854	40,541	44,627	48,989

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Cash flow

Y/E March (Rsmn)	FY16	FY17	FY18	FY19E	FY20E
EBIT	6,500	7,045	9,098	10,690	12,391
(Inc)/dec. in working capital	(839)	385	3,046	(786)	(852)
Cash flow from operations	5,661	7,430	12,144	9,904	11,539
Other income	694	1,343	1,170	1,271	1,406
Depreciation	1,049	1,196	1,395	1,488	1,689
Tax paid (-)	(1,541)	(2,023)	(2,090)	(3,310)	(3,836)
Net cash from operations	5,863	7,946	12,619	9,353	10,798
Capital expenditure (-)	(3,043)	(1,255)	(2,079)	(5,100)	(2,600)
Net cash after capex	2,820	6,692	10,540	4,253	8,198
Interest paid (-)	(127)	(122)	(240)	(140)	(98)
Dividends paid (-)	(4,511)	(2,256)	(3,000)	(4,126)	(5,251)
Inc./(dec.) in short-term borrowing	-	1,981	(1,711)	-	-
Inc./(dec.) in long-term borrowing	(417)	-	810	(300)	(250)
Inc./(dec.) in total borrowings	(417)	1,981	(901)	(300)	(250)
(Inc.)/dec. in investments	5,491	736	3,474	-	-
Cash from financial activities	435	339	(667)	(4,565)	(5,599)
Intangibles / extraordinaries	5,174	(1,308)	(13,983)	-	-
Opening cash balance	5,223	13,652	19,375	15,266	14,954
Closing cash balance	13,652	19,375	15,266	14,954	17,553
Change in cash balance	8,429	5,723	(4,110)	(312)	2,599

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Key ratios

Y/E March	FY16	FY17	FY18	FY19E	FY20E
Per share (Rs)					
Adjusted EPS	8.2	9.5	11.2	13.6	15.8
Book value	47.3	52.4	59.8	66.8	74.2
Valuation (x)					
P/E	67.1	57.3	48.8	40.2	34.7
P/BV	11.6	10.4	9.1	8.2	7.4
EV/EBITDA	43.5	39.4	31.2	26.9	23.1
EV/sales	6.1	5.3	4.0	3.4	3.0
Return ratios (%)					
RoCE	23.6	21.3	23.8	25.1	26.5
RoE	19.1	19.2	20.0	21.5	22.4
RoIC	60.8	57.0	48.6	39.5	41.1
Profitability ratios (%)					
EBITDA margin	14.0	13.4	12.9	12.7	12.9
EBIT margin	12.1	11.5	11.2	11.1	11.4
PAT margin	9.5	9.7	8.6	8.9	9.1
Turnover ratios					
Total asset turnover ratio (x)	1.8	1.7	2.0	2.2	2.2
Fixed asset turnover ratio (x)	4.2	4.4	5.1	4.5	4.6
Debtor days	11	14	15	14	14
Inventory days	90	93	119	115	112
Creditor days	50	63	120	110	100

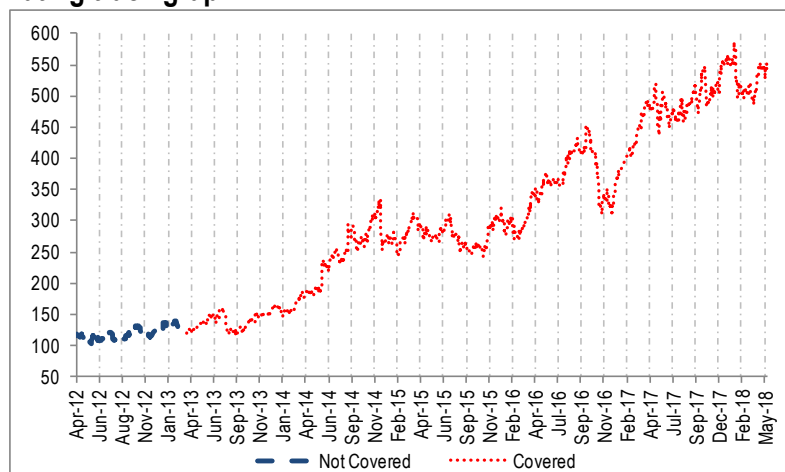
Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price	Target price (Rs)
25 March 2013	Sell	120	101
9 April 2013	Sell	123	101
29 May 2013	Sell	144	101
9 July 2013	Sell	150	121
31 July 2013	Sell	132	115
7 October 2013	Sell	134	115
31 October 2013	Sell	150	127
7 January 2014	Sell	166	127
30 January 2014	Hold	154	167
11 April 2014	UR	183	-
29 May 2014	Buy	188	237
4 July 2014	Buy	239	285
30 July 2014	Buy	242	285
27 October 2014	Buy	273	325
28 January 2015	Buy	268	321
12 May 2015	Accumulate	286	312
10 July 2015	Accumulate	298	312
28 July 2015	Accumulate	283	290
13 October 2015	Accumulate	259	290
10 November 2015	Accumulate	258	277
28 January 2016	Accumulate	300	316
13 May 2016	Accumulate	342	337
12 July 2016	Accumulate	357	337
25 July 2016*	Accumulate	376	380
20 September 2016	Accumulate	412	432
13 October 2016	Accumulate	441	432
19 October 2016	Accumulate	410	432
10 January 2017	Accumulate	368	432
18 January 2017	Accumulate	380	425
14 February 2017	Accumulate	427	470
21 February 2017	Accumulate	413	433
7 April 2017	Accumulate	471	433
12 May 2017	Accumulate	514	510
6 July 2017	Accumulate	474	510
20 July 2017	Accumulate	468	510
9 October 2017	Accumulate	507	510
24 October 2017	Accumulate	541	552
14 December 2018	Accumulate	533	552
9 January 2018	Accumulate	552	552
23 January 2018	Accumulate	552	595
6 April 2018	Accumulate	546	595
14 May 2018	Accumulate	547	585

* Coverage of the stock transferred to Chirag Muchhala

Rating track graph



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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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