

Institutional Equity Research

Havells India

Capital Goods | India

1QFY19 Result Update | July 23, 2018

CMP* (Rs)	560.4
Upside/ (Downside) (%)	16.0
Bloomberg Ticker	HAVL IN
Market Cap. (Rs bn)	350
Free Float (%)	40.4
Shares O/S (mn)	625

BUY 

Target Price: Rs650

Above Par Performance; Maintain BUY

Havells has posted a better-than-estimated performance in 1QFY19 led by higher margin in Cable & Wire and Electrical Consumer Durable (ECD) segments. While PAT zoomed by 73% YoY to Rs2.1bn, revenue surged by 31% YoY to Rs26.0bn mainly driven by impressive yoy performance of Lloyd (+165%, like to like growth of 14%), ECD (+29%), Lighting & Fixtures (+19%), Switchgear (+14%), and Cable & Wire (+4%). EBITDA margin expanded by 333bps yoy to 12.0% mainly led by higher margin in ECD segment (+653bps to 28.7%) and Cable & Wire segment (+511bps to 17%). The company has reported sustained revenue growth with robust improvement across product verticals. Last year during 1Q FY18, the performance was sluggish due to GST transition and channel destocking. With the acquisition of Lloyd, Havells has forayed into US\$15bn consumer durable industry, and we continue to remain optimistic on the growth potential on the back of low penetration, rising urbanisation and rising middle class. **We maintain our BUY recommendation on the stock with an unrevised Target Price of Rs650, valuing it at 38x FY20E earnings.**

Lloyd Drives Revenue Growth

Aided by impressive performance of Lloyd (+165%, like to like growth of 14%), ECD (+29%), Lighting & Fixtures (+19%), Switchgear (+14%), and Cable & Wire (+4%), Havells' revenue surged by 31% YoY to Rs26.0bn. The lighting business continued to grow across consumer and B2B segment, while the Company witnessed healthy growth in fans and appliances segment. Notably, Havells has retained its leading position in premium fans segment with the highest price realisation. The company is looking at capex of Rs3 bn for FY19. Lloyd reported ~5% volume growth for room AC in 1Q FY19 while industry is expecting de-growth. The recovery in Lloyd room AC sales was led by pick-up in summer since May and strong mix of inverter AC which stood at 30% in 1Q FY19 vs 8% yoy.

Strong Margin Expansion; PAT Zooms

EBITDA margin expanded by 333bps to 12% mainly led by higher margin in ECD segment (+653bps to 28.7%) and Cable & Wire segment (+511bps to 17%). While the former segment witnessed impressive margin growth owing to higher utilisation, higher realisation aided the latter segment to report similar performance. Its net profit surged by 73% YoY to Rs2.1bn on higher revenue.

Outlook & Valuation

We continue to like the business model of Havells, which is largely distribution-centric. With Lloyds in the portfolio, the Company will continue to go for increasing its share in household spending. It continues to expand both its geographic reach as well as product offerings. We see Havells as one of the pure plays on likely up-tick in discretionary spend over the medium term. **We maintain our BUY recommendation on the stock with an unrevised Target Price of Rs650, valuing it at 38x FY20E earnings.**

Key Financials (Rs mn)	FY17	FY18	FY19E	FY20E
Sales	65,861	82,603	92,833	108,337
EBITDA	8,340	10,493	12,288	14,839
Net profit	5,967	7,006	8,665	10,691
EPS (Rs)	9.5	11.2	13.9	17.1
DPS (Rs)	8.7	7.5	6.9	8.6
P/E (x)	58.7	50.0	40.4	32.8
P/B (x)	10.7	9.4	8.4	7.4
EV/EBITDA (x)	39.4	31.9	27.0	22.0
ROE (%)	16.5	19.1	20.8	22.7
Dividend yield (%)	1.5	1.3	1.2	1.5

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	4.2	1.8	20.4
Relative to Nifty	1.9	-1.9	9.7

Shareholding Pattern (%)	Mar'18	Jun'18
Promoter	59.6	59.6
Public	40.4	40.4

1 Year Stock Price Performance



Note: * CMP as on July 20, 2018

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Risks to view

- ▶ Consumption slowdown.
- ▶ Higher competitive intensity.

Exhibit 1: Quarterly Performance

(Rs mn)	1QFY19	1QFY18	y-y (%)	4QFY18	q-q (%)
Revenue	25,963	19,822	31.0	25,349	2.4
Raw Material	16,209	11,965	35.5	15,728	3.1
% of Sales	53.8	60.4		53.8	
Employee Cost	1,970	1,619	21.7	1,637	20.3
% of Sales	8.0	8.2		8.0	
Other Exp	4,663	4,514	3.3	4,407	5.8
% of Sales	18.0	22.8		17.4	
Total Exp	22,841	18,098	26.2	21,772	4.9
EBITDA	3,123	1,724	81.1	3,577	(12.7)
EBITDA Margin (%)	12.0	8.7		14.1	
Other Income	292	348	(16.0)	257	13.5
Interest	26	34	(25.0)	84	(69.5)
Depreciation	350	336	4.3	347	0.9
Exceptional Items	-	-		(91)	
PBT	3,039	1,703	78.5	3,404	(10.7)
Tax	935	489	91.2	1,055	(11.4)
Tax rate (%)	30.8	28.7		31.0	
Adjusted Net Profit	2,104	1,214	73.3	2,348	(10.4)
Net Margin (%)	8.1	6.1		8.9	
EPS (Rs)	3.4	1.9	73.3	3.8	(10.3)

Source: Company, RSec Research

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Exhibit 2: Segmental revenue

(Rs mn)	1QFY19	1QFY18	y-y (%)	4QFY18	q-q (%)
Sales	25,963	19,822	31.0	25,349	2.4
Switchgear	4,041	3,557	13.6	3,946	2.4
Cable & Wire	7,499	7,196	4.2	7,689	(2.5)
Lighting & Fixtures	2,583	2,176	18.7	3,227	(19.9)
Elect. Cons Durables	4,759	3,676	29.4	4,646	2.4
Lloyd	7,081	2,672	165.0	5,841	21.2
EBIT	3,064	1,737	76.4		
Switchgear	1,548	1,307	18.5	1,523	1.7
Cable & Wire	1,279	859	48.8	1,318	(3.0)
Lighting & Fixtures	711	622	14.4	998	(28.7)
Electrical Consumer Durables	1,367	816	67.5	1,262	8.4
Lloyd	1,370	394	248.1	1,283	6.8
EBIT Margin (%)			bps change		bps change
Switchgear	38.3	36.7	158	38.6	(27)
Cable & Wire	17.0	11.9	511	17.1	(9)
Lighting & Fixtures	27.5	28.6	(104)	30.9	(339)
Electrical Consumer Durables	28.7	22.2	653	27.2	158
Lloyd	19.4	14.7	462		
Sales mix (%)	1QFY19	1QFY18		4Q FY18	
Switchgear	15.6	17.9		15.6	
Cable & Wire	28.9	36.3		30.3	
Lighting & Fixtures	9.9	11.0		12.7	
Electrical Consumer Durables	18.3	18.5		18.3	
Lloyd	27.3	13.5		23.0	

Source: Company, RSec Research

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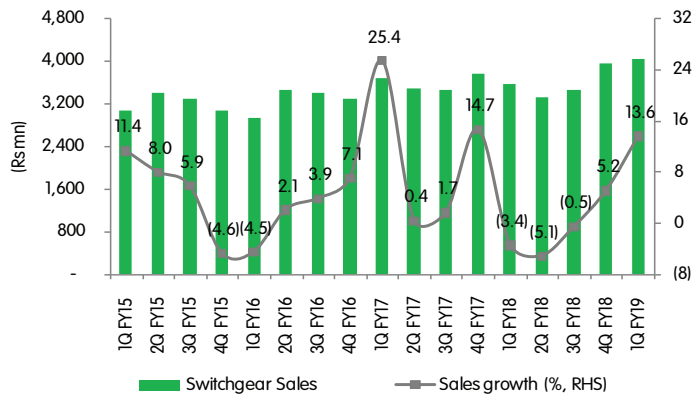
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Exhibit 3: Switchgear revenue grew by 14% yoy



Source: Company, RSec Research

Exhibit 4: Cable & wire reported muted growth of 4%

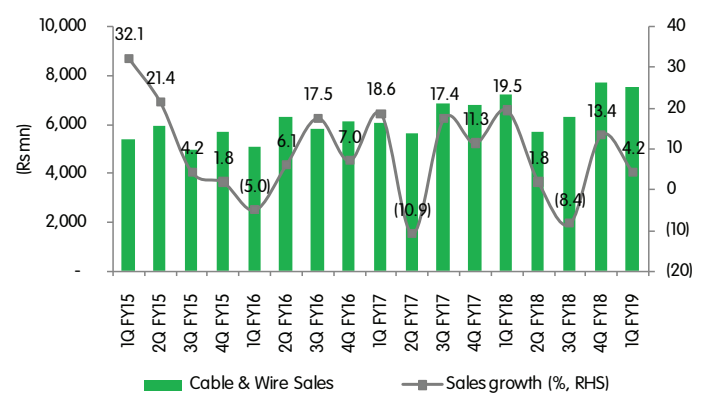
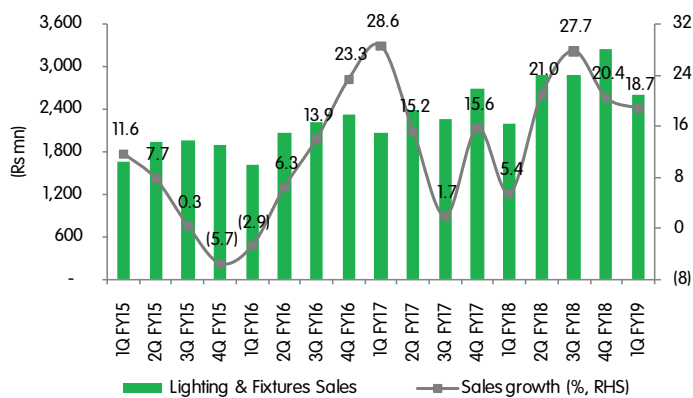


Exhibit 5: Lighting & fixtures revenue grew by 19%



Source: Company, RSec Research

Exhibit 6: ECD reported strong 29% revenue growth

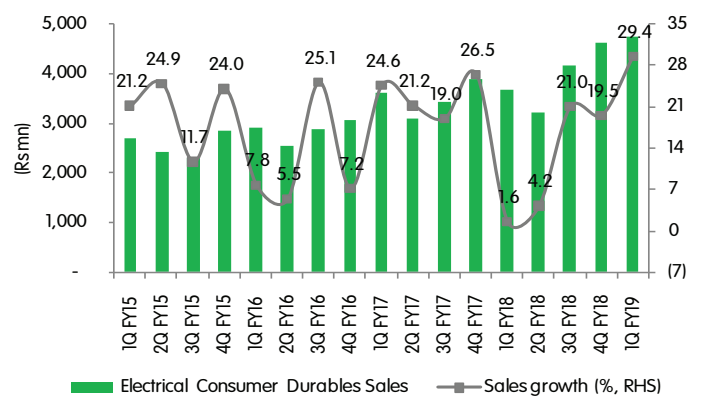
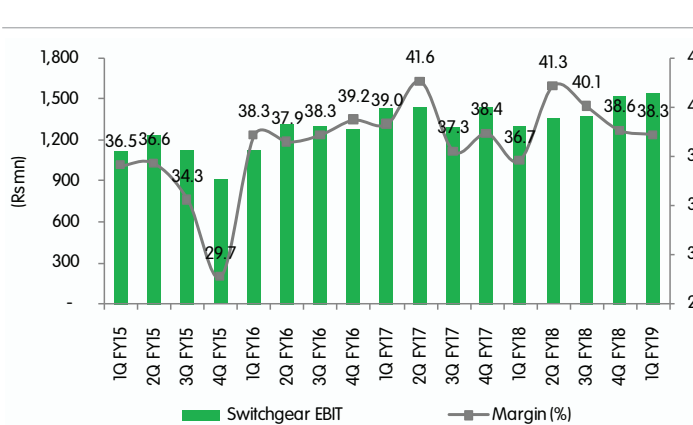
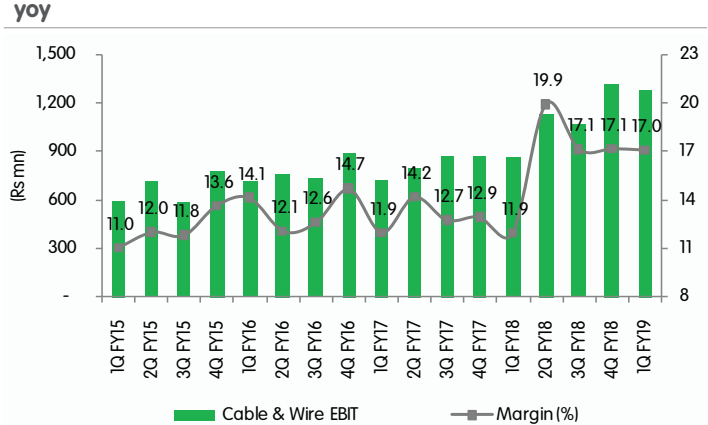


Exhibit 7: Switchgear EBIT margin expanded by 158 bps yoy



Source: Company, RSec Research

Exhibit 8: Cable & wire reported strong 511 bps margin expansion yoy



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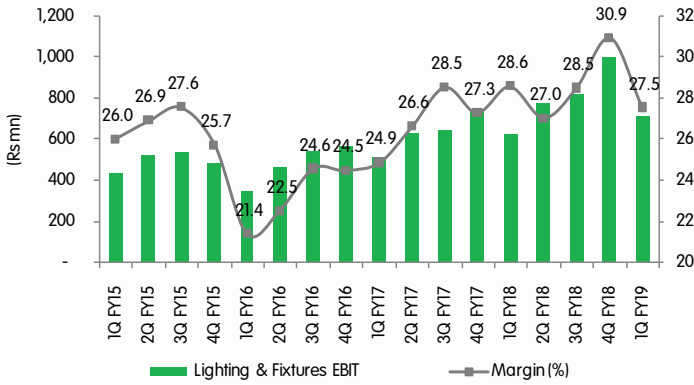
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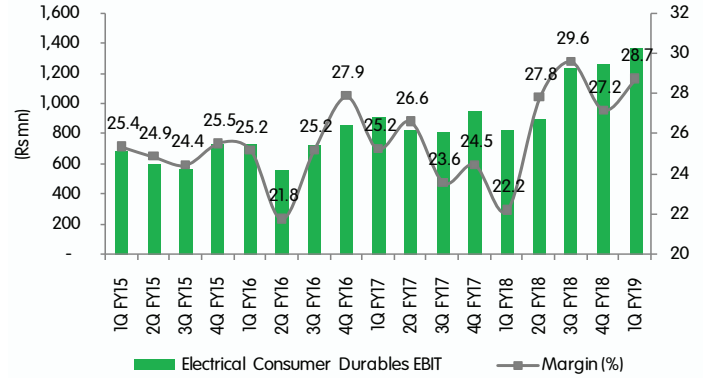
Target Price: Rs650

Exhibit 9: Lighting & fixtures margin has declined by 104 bps yoy



Source: Company, RSec Research

Exhibit 10: Strong performance of ECD segment



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Target Price: Rs650

Profit & Loss Statement

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E
Net Sales	65,861	82,603	92,833	108,337
Total operating income	65,861	82,603	92,833	108,337
Growth (%)	14.0	25.4	12.4	16.7
Total Expenditure	57,521	72,110	80,545	93,498
Cost of Materials	36,485	49,808	56,758	65,761
Employee costs	5,008	6,497	7,241	8,125
Others	16,028	15,805	16,546	19,612
EBITDA	8,340	10,493	12,288	14,839
Growth (%)	10.5	25.8	17.1	20.8
EBITDA Margin (%)	12.7	12.7	13.2	13.7
Depreciation	1,196	1,395	1,548	1,656
EBIT	7,144	9,098	10,740	13,183
EBIT Margin (%)	10.8	11.0	11.6	12.2
Growth (%)	9.9	27.4	18.1	22.7
Interest	122	240	162	162
Other Income	1,243	1,170	1,457	1,827
Exceptional items	(578)	119	-	-
PBT	8,265	10,028	12,035	14,848
Growth (%)	17.0	21.3	20.0	23.4
Tax	2,298	3,022	3,370	4,158
Effective Tax rate (%)	27.8	30.1	28.0	28.0
Adjusted PAT	5,967	7,006	8,665	10,691
Fully Diluted EPS (Rs)	9.5	11.2	13.9	17.1
Growth (%)	17.1	17.4	23.7	23.4
Reported PAT	6,546	6,887	8,665	10,691

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Balance Sheet

Y/E mar (Rs mn)	FY17	FY18	FY19E	FY20E
Share capital	625	625	625	625
Reserves	32,115	36,766	41,099	46,444
Net worth	32,740	37,391	41,724	47,069
Total borrowings	1,981	1,080	1,080	1,080
Long term liability & Provision	107	471	471	471
Minority Interest	-	-	-	-
Deferred tax	1,138	2,070	2,070	2,070
Total liabilities	35,965	41,012	45,345	50,690
Gross block	16,862	27,885	30,953	33,119
Less: Acc. depreciation	2,108	3,503	5,051	6,707
Net block	14,754	24,382	25,902	26,412
CWIP	119	241	216	195
Goodwill	-	3,105	3,105	3,105
Investments	4,450	417	417	417
Current assets	31,749	37,278	41,647	49,204
Inventories	9,284	16,217	16,532	17,809
Debtors	2,285	3,254	3,815	4,452
Cash	19,375	15,799	19,011	24,271
Loans and advances	60	80	254	297
Other Current Assets	744	1,929	2,035	2,375
Current liabilities	14,005	22,870	24,162	26,713
Provisions	1,102	1,541	1,780	1,929
Net current assets	16,642	12,868	15,705	20,561
Total Assets	35,965	41,012	45,345	50,690

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Cash Flow Statement

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E
Cash flow from operating activity				
PBT	8,265	10,028	12,035	14,848
Add: Depreciation	1,196	1,395	1,548	1,656
Add: Interest	122	240	162	162
Less: taxes paid	(2,298)	(3,022)	(3,370)	(4,158)
Add: other adjustments	2,869	3,628	-	-
Less: working capital changes	2,385	198	375	404
Total operating cash flows	12,540	12,467	10,750	12,913
Cash flow from investing activity				
Capital expenditure	(3,446)	(11,145)	(3,043)	(2,145)
Change in investments	177	4,033	-	-
Change in Goodwill	-	(3,105)	-	-
Total investing cash flow	(3,269)	(10,216)	(3,043)	(2,145)
Cash flow from financing activity				
Share issuances	0	-	-	-
Change in borrowings	1,981	(901)	-	-
Dividend	(5,407)	(4,687)	(4,333)	(5,345)
Interest payment	(122)	(240)	(162)	(162)
Total financing cash flow	(3,548)	(5,827)	(4,495)	(5,507)
Net change in cash	5,723	(3,576)	3,212	5,260
Opening cash & CE	13,652	19,375	15,799	19,011
Closing cash & CE	19,375	15,799	19,011	24,271

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Key Ratios

Y/E Mar	FY17	FY18	FY19E	FY20E
Valuation Ratio (x)				
P/E	58.7	50.0	40.4	32.8
P/CEPS	48.8	41.6	34.2	28.3
P/BV	10.7	9.4	8.4	7.4
Dividend yield (%)	1.5	1.3	1.2	1.5
EV/Sales	5.0	4.1	3.6	3.0
EV/EBITDA	39.4	31.9	27.0	22.0
Per Share Data (RS)				
EPS	9.5	11.2	13.9	17.1
Cash EPS	11.5	13.5	16.4	19.8
DPS	8.7	7.5	6.9	8.6
Book Value	52.5	59.9	66.9	75.4
Returns (%)				
RoCE	23.3	25.0	26.9	29.6
RoE	16.5	19.1	20.8	22.7
Turnover ratios (x)				
Asset Turnover (Gross Block)	3.9	3.0	3.0	3.3
Inventory / Sales (days)	51	72	65	60
Receivables (days)	13	14	15	15
Payables (days)	78	101	95	90
Cash conversion cycle (days)	(13)	(15)	(15)	(15)

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Rating History

Date	Reco	CMP	TP
11-June-18	BUY	559	650

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Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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