Company report

Overweight

Target price (INR)		**333.00**
Share price (INR)		**266.25**
Forecast dividend yield (%)		**1.1**
Potential return (%)		**26.2**

Note: Potential return equals the percentage difference between the current share price and the target price, plus the forecast dividend yield

Mar	2014a	2015e	2016e
HSBC EPS	7.15	8.02	10.40
HSBC PE	37.2	33.2	25.6

Performance	1M	3M	12M
Absolute (%)	-0.6	-0.2	71.5
Relative^ (%)	-3.3	-6.3	30.0

Note: (V) = volatile (please see disclosure appendix)

19 January 2015

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Havells India Limited (HAVL IN)

Initiate at OW: Lighting up the way

- **HAVL's high market share and premium pricing ability are sustainable as it continues to expand its distribution network**
- **Evolving business mix should help HAVL's valuation converge with consumer durables peers, which trade at a large premium**
- **Initiate at Overweight with a SOTP-based target price of INR333; we forecast a 21% EPS CAGR in FY14-17e**

Strong brand allows better pricing, while distribution strength supports growth. Havells India (HAVL), a leading consumer electric goods company in India, has managed to capture the top 3 market share position in most of its business segments. This has been achieved through a strategy of consistently expanding its distribution network. Robust distribution and a strong brand building exercise have enabled HAVL to achieve premium pricing, reflected in above-peer group margins.

Key beneficiary of coming demand recovery; we forecast a 21% EPS CAGR in FY14-17e. We expect HAVL to be a key beneficiary of growing consumer electric goods demand on the back of improving domestic macro growth and the resultant consumer discretionary spending (one of our key investment themes for the industrials sector). Although its international business has struggled to grow, we do not expect it to be a drag on overall profitability. We forecast HAVL to report a healthy 21% EPS CAGR in FY14-17e.

Stock correction offers better risk-reward. The stock has corrected 20% from its December 2014 high and has underperformed the HSBC Capital Goods Index by 21% on expectations of modest (high single-digit) H2 FY15 growth. However, our demand recovery outlook for FY15-17e leads us to see the recent correction as a good investment opportunity.

Initiate at OW with a TP of INR333; HAVL has potential to re-rate. Our SOTP-based target price of INR333 values HAVL's domestic business at a 28.3x FY17e PE and Sylvania at a 6.1x FY17e EV/EBITDA. Our target price implies HAVL would trade at a 26.5x PE on FY17e EPS, while it is trading at a 25.6x PE on FY16e EPS. We argue that HAVL's valuation has re-rating potential as it evolves into a consumer durables company. We expect demand revival, driven by improving macro growth and rising discretionary spend, to be a key stock catalyst.

Havells: Valuation snapshot (consolidated)

(INRbn)	Sales	EBITDA	HSBC EPS	HSBC PAT y-o-y	PAT (HSBC vs. cons.)	PE (x)	EV/EBITDA (x)	ROE
FY14a	81.9	7.4	7.2*	15%	NM	37.2*	22.6	28.7%
FY15e	88.2	8.6	8.0	12%	-9.4%	33.2	19.0	27.7%
FY16e	95.0	10.5	10.4	30%	-5.9%	25.6	15.2	30.3%
FY17e	107.1	12.3	12.6	21%	-1.4%	21.2	12.6	30.5%

Source: Bloomberg, Company data, HSBC estimates. Priced as of 15 January 2015. *Adjusted for the 1:5 share split

Index^	BOMBAY SE IDX
Index level	28,076
RIC	HVEL.BO
Bloomberg	HAVL IN

Source: HSBC

Enterprise value (INRm)	164,079
Free float (%)	38
Market cap (USDm)	2,678
Market cap (INRm)	166,270

Source: HSBC

HSBC

Financials & valuation

Financial statements

Year to	03/2014a	03/2015e	03/2016e	03/2017e
Profit & loss summary (INRm)				
Revenue	81,858	88,168	94,977	107,149
EBITDA	7,425	8,624	10,498	12,254
Depreciation & amortisation	-1,155	-1,363	-1,412	-1,480
Operating profit/EBIT	6,270	7,261	9,086	10,773
Net interest	-329	-81	185	415
PBT	5,941	7,179	9,270	11,189
HSBC PBT	5,941	7,179	9,270	11,189
Taxation	-1,478	-2,171	-2,775	-3,346
Net profit	4,463	5,008	6,495	7,843
HSBC net profit	4,463	5,008	6,495	7,843
Cash flow summary (INRm)				
Cash flow from operations	8,392	7,461	8,072	9,840
Capex	-1,756	-1,390	-1,463	-1,496
Cash flow from investment	-3,972	-1,390	-1,463	-1,496
Dividends	-1,826	-2,192	-2,557	-3,288
Change in net debt	-3,362	-3,878	-4,052	-5,056
FCF equity	5,582	6,070	6,609	8,344
Balance sheet summary (INRm)				
Intangible fixed assets	4,728	4,596	4,456	4,386
Tangible fixed assets	11,720	11,879	12,070	12,156
Current assets	36,873	40,171	45,313	51,949
Cash & others	8,819	12,184	15,297	19,214
Total assets	53,324	56,649	61,843	68,495
Operating liabilities	25,690	26,713	28,907	32,143
Gross debt	10,506	9,992	9,054	7,915
Net debt	1,687	-2,191	-6,243	-11,299
Shareholders' funds	16,660	19,476	23,414	27,969
Invested capital	18,811	17,749	17,635	17,135

Ratio, growth and per share analysis

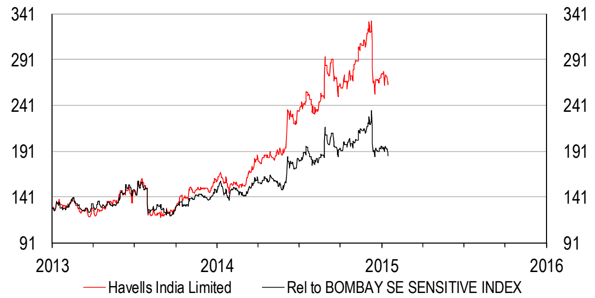
Year to	03/2014a	03/2015e	03/2016e	03/2017e
Y-o-y % change				
Revenue	12.9	7.7	7.7	12.8
EBITDA	10.1	16.1	21.7	16.7
Operating profit	11.0	15.8	25.1	18.6
PBT	-10.5	20.8	29.1	20.7
HSBC EPS	15.3	12.1	29.7	20.8
Ratios (%)				
Revenue/IC (x)	4.2	4.8	5.4	6.2
ROIC	24.3	27.7	36.0	43.4
ROE	28.7	27.7	30.3	30.5
ROA	10.3	9.9	11.7	12.6
EBITDA margin	9.1	9.8	11.1	11.4
Operating profit margin	7.7	8.2	9.6	10.1
EBITDA/net interest (x)	22.6	106.1	-	-
Net debt/equity	10.1	-11.3	-26.7	-40.4
Net debt/EBITDA (x)	0.2	-0.3	-0.6	-0.9
CF from operations/net debt	497.5	-	-	-
Per share data (INR)				
EPS reported (fully diluted)	7.15	8.02	10.40	12.56
HSBC EPS (fully diluted)	7.15	8.02	10.40	12.56
DPS	3.00	3.00	3.50	4.50
Book value	26.69	31.19	37.49	44.79

Valuation data

Year to	03/2014a	03/2015e	03/2016e	03/2017e
EV/sales	2.1	1.9	1.7	1.4
EV/EBITDA	22.6	19.0	15.2	12.6
EV/IC	8.9	9.2	9.1	9.0
PE*	37.2	33.2	25.6	21.2
P/Book value	10.0	8.5	7.1	5.9
FCF yield (%)	3.4	3.7	4.0	5.0
Dividend yield (%)	1.1	1.1	1.3	1.7

Note: * = Based on HSBC EPS (fully diluted)

Price relative



Source: HSBC

Note: price at close of 15 Jan 2015

Constantly evolving

- HAVL should benefit from an upswing in demand for low-value electrical goods, led by a revival in macro growth
- Its competitive advantage on pricing is sustainable as it continues to expand its distribution network and focuses on brand building
- We forecast a 21% EPS CAGR in FY14-17e

HAVL's product portfolio is now the widest in its peer group

Unlike its peers, which operate across a few segments each, HAVL operates across the whole range of business segments, which it has gradually built up over the past decades. It targets multiple price points for similar products, giving it access to a large number of retailers and distributors. For example, it targets the high end of the market with its flagship "Havells" brand, while it targets the price-sensitive market with its "Standard" brand. It has recently also started selling products under a mass market brand called "Reo". In the international market its flagship brand is "Sylvania", and it also has two other brands "Concord" and "Luminance". The company's strong distribution network allows it to gradually build a model of cross selling its various products by incentivising retailers and distributors.

Havells: Domestic peers mapping and business positioning

	Cables				Switchgears					Lighting			Electrical Durables		
	High Volt	Aluminium	Copper	Residential	High Volt	Med Volt	Low Volt	Switches	Motors	CFL	LED	Luminaires	Fans	Water Heaters	Home Appliances
HAVL		Y	Y	Y			Y	Y	Y	Y	Y	Y	Y	Y	Y
Crompton					Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Bajaj Elect										Y	Y	Y	Y	Y	Y
Phillips India								Y		Y	Y	Y			Y
Osram										Y	Y	Y			
Surya										Y	Y	Y			Y
Roshni															
Legrand							Y	Y							
Schneider						Y	Y	Y							
V-Guard		Y	Y	Y									Y	Y	Y
Finolex	Y	Y	Y	Y				Y		Y					
KEI	Y	Y	Y	Y											

Source: Company data, HSBC estimates

Havells: Product offerings across India and international markets

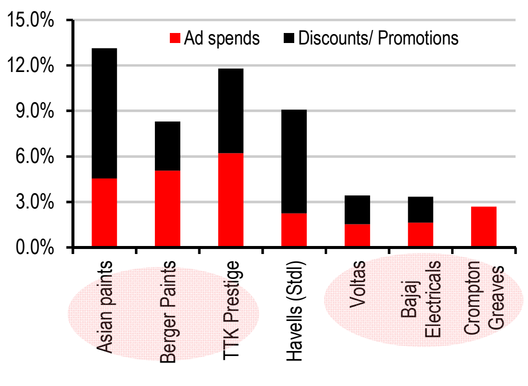
India	International
Havells --Cables, Switchgears, Lighting, Electric Consumer Durables **Crabtree** --Switches **Standard** --Cables, Switchgears, Electric Consumer Durables **Reo** --Switches	**Sylvania** --Full lighting range **Concord** --Fixtures **Luminance** --Fixtures

Source: Company data, HSBC estimates

Premium positioning achieved by spending on brand building

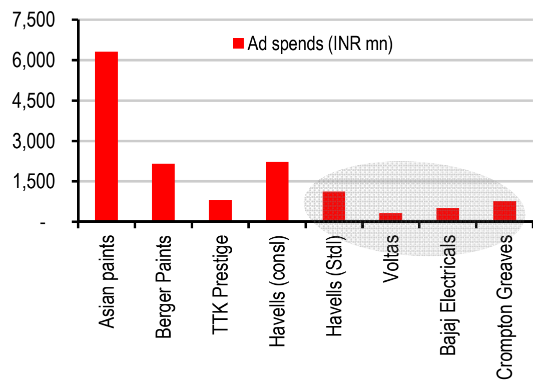
HAVL has carefully focused on promoting itself as a premium brand both within its up-market and mid-market business segments, backed by good product quality. The premium brand image has been achieved by meaningfully higher advertising spend and brand building expenses relative to its peers. HAVL's advertising spend is more comparable to that of FMCG/home appliances companies, and significantly higher than for peers with high electrical goods content.

Peer comparison for ad spend/rebate spend as a percentage of sales (FY14a)



Source: Company data, HSBC

Peer comparison of absolute ad spend



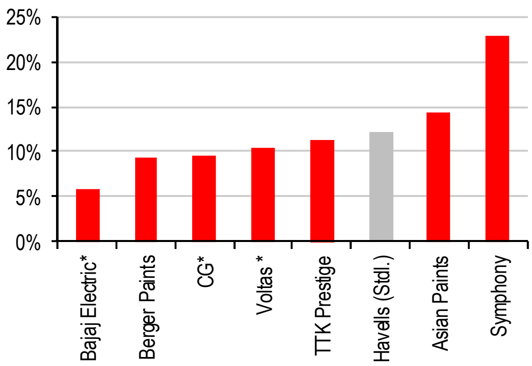
Source: Company data, HSBC

Strong brand reflected in better margins

HAVL aims to become a premium company in every business segment it enters by investing in product branding along with good product and service quality. Creating a strong brand has allowed it to gain pricing power, removing the need to resort to undercutting peers on prices. Pricing discipline, in our view, is also needed in segments like switchgears, where it competes with multinationals that focus on quality.

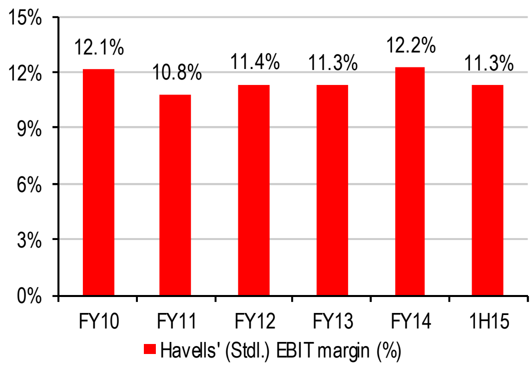
The company is now applying this strategy to its foray into electrical consumer appliances, where it has steadily grown to become an up-market product company in the fans segment (c75% of its electrical consumer appliances sales). Within the LED segment the company focuses on fixtures to earn better margins rather than focusing on LED light sources alone. It has also tried to create a premium brand image in the cables segment (c40% of standalone revenues), although with limited success (largely in the residential segment) due to the large industrials segment share. HAVL's pricing power is well reflected in higher EBIT margins than its electrical goods peers.

Havells: EBIT margin vs. domestic peers (FY14a)



*EBIT margin is for the consumer business only. Source: Company data, HSBC estimates

Havells: EBIT margin trend

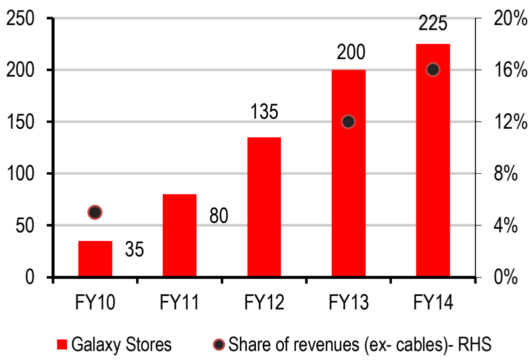


Source: Company data

Distribution network – key to sustainable high growth

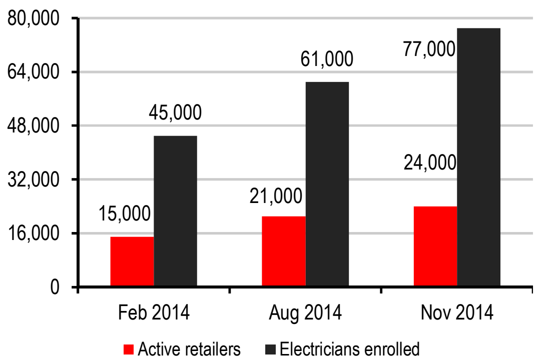
HAVL has combined its aggressive brand building strategy with an equally strong distribution network. The company manages all its sales through dealers. Even large institutional orders are routed through dealers rather than being fulfilled directly by the company. Maintaining a single delivery channel has allowed HAVL to avoid the usual friction between dealers and a company's direct sales channels. Even the flagship stores named "Galaxy" are operated as franchises. These standalone stores have been the key driver of the company's growth during the past 3-4 years, and now contribute 16% to domestic non-cables business. HAVL plans to increase the number of Galaxy stores from 225 to 400 by FY17e. With the company now moving into smaller cities and towns with multiple brands (Havells, Standard and Reo), it has started a new loyalty programme to help expand its network and connect with dealers and electricians, who influence end customers.

Havells: Galaxy stores expansion trend



Source: Company data

Havells: Retailer and electrician enrolment drive progress



Source: Company data

Now a top 3 company in most domestic segments and improving

Over the past eight years HAVL has almost doubled its market share in all of its business segments (see table below). It is now a market leader in the domestic miniature circuit breakers (MCB) business, and ranks second in the switches segment. It has the third largest share in domestic cables and the second largest share in industrial cables.

HSBC

Havells: Market share trend

	Current market size (USDm)	Market share FY14a	FY06a
Switchgears			
--Domestic MCB	274	29%	15%
--Switches	258	20%	6%
Cables			
--Domestic	1,161	14%	6%
--Industrial	1,613	11%	6%
Electric Consumer Durables			
--Fans	758	15%	
--Domestic appliances	806		
Lighting			
--CFL	387	11%	
--Luminaires	484	14%	

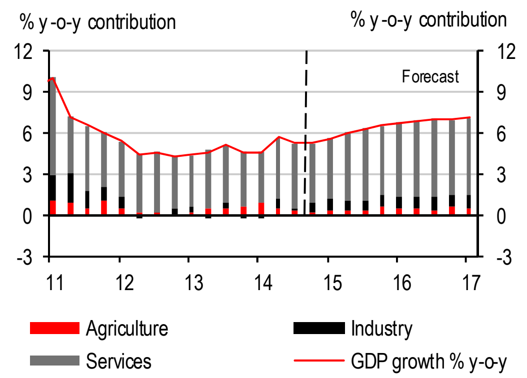
Source: Company data, HSBC

Demand recovery is around the corner; early signs are evident

As macro growth picks up, demand for low-value electric goods should ramp up sharply. Demand for these goods is partly dependant on new construction starts and partly on a business revival resulting in salary growth and, in turn, producing an acceleration in discretionary spending. Industry data points on these key drivers seem to have bottomed out and seem to be ready for an upswing. HSBC's India economist expects India's GDP growth to recover from 5.3% in Q2 FY15e to 6.8% by Q4 FY16e. This is well reflected in the corporate sector's confidence through new job postings, which have been growing (see Job Speak Index below). Residential space absorption across India's top 8 cities, which had been on a downslide since 2013, has plateaued over the past four months and is showing signs of bottoming out. India consumer durables IIP growth is now at its lowest for eight years and also primed for a recovery. Early signs of business confidence are now visible across the production of dependant electric goods for the construction industry like cables and switchgears. The recovery is also evident in consumer discretionary spending on products such as fans and home appliances (see next page). As income levels rise and discretionary spends increase, we expect demand for products like LED lighting fixtures and electric home appliances to gather momentum. We believe this combination of pent-up demand over the past two years and improved business sentiment after the general election is sustainable over the next 2-3 years.

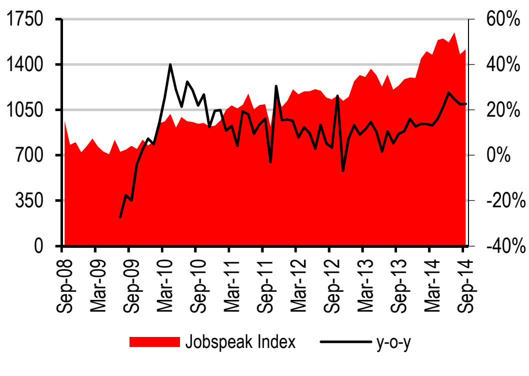
We believe HAVL, with a strong and expanding distribution network, is well placed to benefit from this growth opportunity. It already has presence in 100 towns that have a population greater than 0.5m. To take advantage of this upcoming opportunity it is expanding its business through its dealer network in 770 out of the 1,200 towns with a population of 0.05-0.5m people as well.

India GDP growth trend



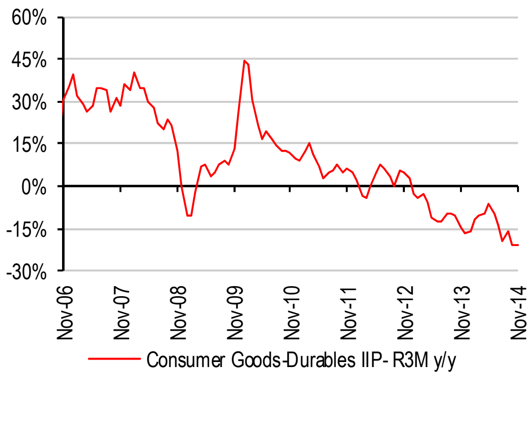
Source: CEIC, HSBC estimates

Job Speak Index (new job postings across 8 industries)



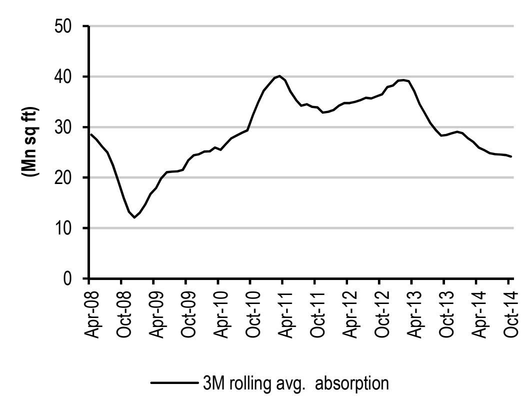
Source: Infoedge

India monthly Consumer Durables IIP trend



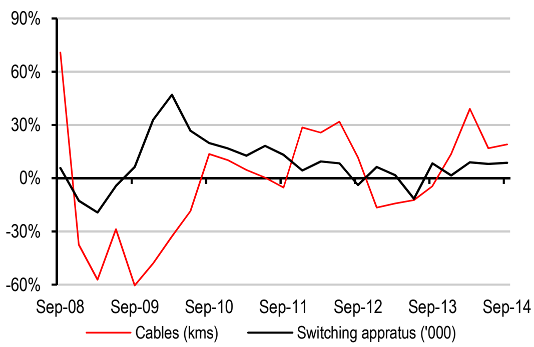
Source: MOSPI

India Top 8 cities residential segment absorption trend



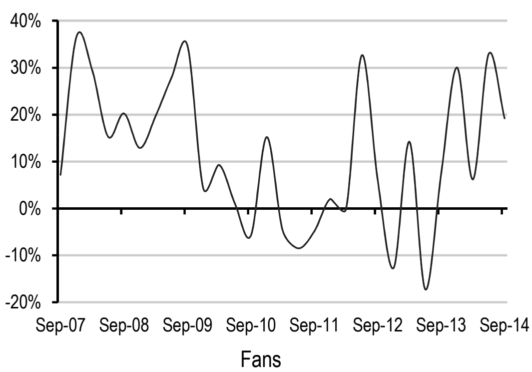
Source: PE Analytics

Cables and switchgears production trend



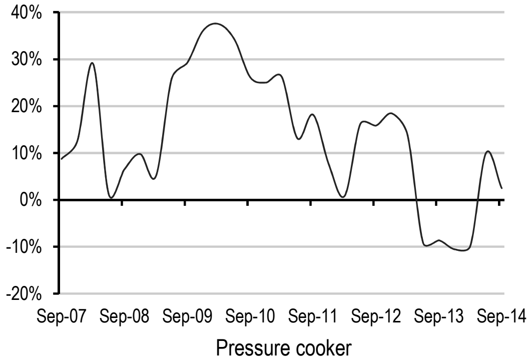
Source: CMIE

Electric Consumer Discretionary (fans) production trend



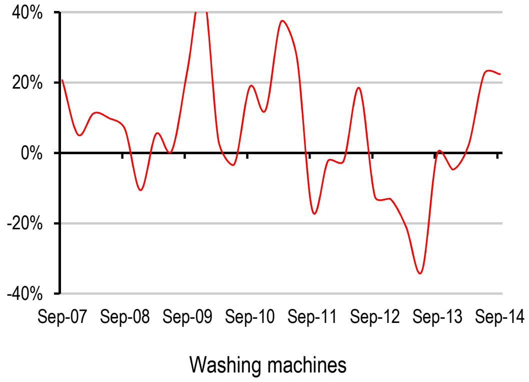
Source: CMIE

Home appliance (pressure cooker) production trend



Source: CMIE

Electric Consumer Discretionary (washing machines) production trend

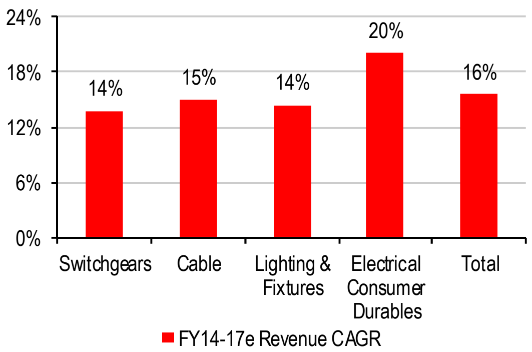


Source: CMIE

We forecast a healthy domestic business growth outlook

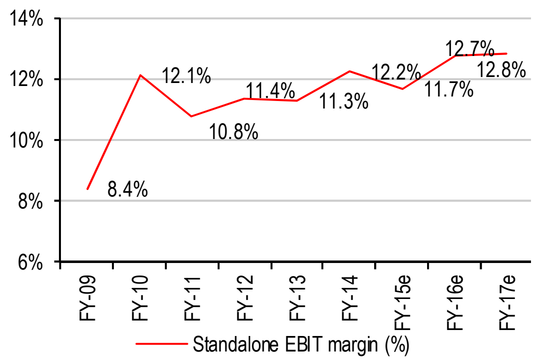
HAVL's reports revenues for four business segments. The cables division contributes (41%) followed by switchgears (26%), electrical consumer durables (18%) and lighting and fixtures (15%) to total revenues. We expect HAVL to report a healthy 16% revenue CAGR in FY14-17e. We expect the electrical consumer durables segment to report the highest growth within the company's product portfolio. We also expect the cables business to report strong growth, primarily on the back of a sharp pick-up in FY15e. We believe H1 FY14 growth of 19% y-o-y was largely driven by pent-up demand as business sentiment improved after the general election. However, we expect this early demand to cool off in H2 FY15e to 9% y-o-y. Even so, we are confident about a strong recovery once again from FY16e as macro growth picks up pace. We expect the EBIT margin to report a modest improvement of 60bp to 12.8% by FY17e, driven by modest gains across all business segments.

Standalone segment-wise revenue growth outlook



Source: Company data, HSBC estimates

Standalone EBIT margin trend

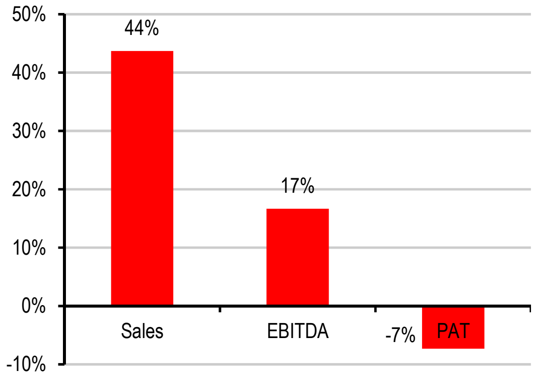


Source: Company data, HSBC estimates

Sylvania acquisition did not work, though no longer a drag on EPS

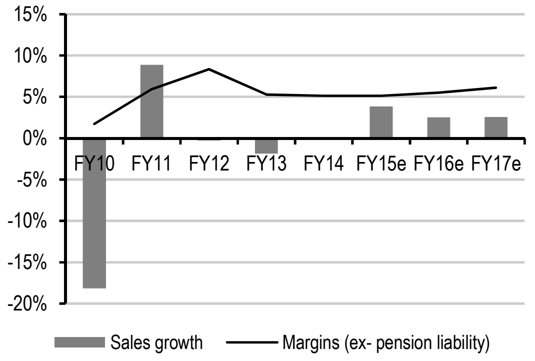
HAVL bought Sylvania in 2007 for an enterprise value of EUR227m. Sylvania's large size (1.5x HAVL revenues) and global foot print (primarily in Europe and the US), and HAVL's lack of experience of managing a global business made it difficult for the company to benefit from the acquisition. While HAVL did have some success by restructuring the Sylvania business and management team, it was at best considered patchy. Since FY08 Sylvania has reported net cumulative losses of INR1.7bn. In FY14 Sylvania contributed 44% to consolidated sales, 17% to EBITDA (including pension liabilities), reported a loss in FY14 and had net debt of EUR58m. We forecast Sylvania to report a 3% revenue CAGR (in EUR) in FY14-17e, and the EBITDA margin to expand by 140bp to 5.0% by FY17e (H1 FY15 EBITDA margin of 4.2%).

Sylvania contribution to HAVL's consolidated financials



Source: Company data

Sylvania growth trend and outlook

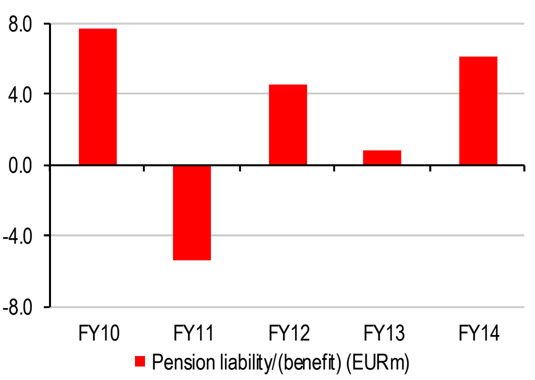


Source: Company data, HSBC estimates

Pension liability

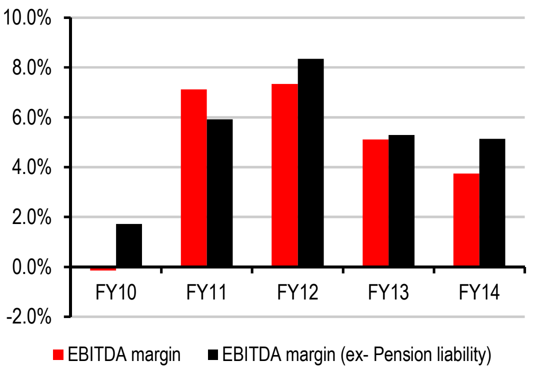
Sylvania carries an unfunded pension liability of EUR45m, which has increased by EUR13.7m in the last five years. With this pension liability (volatile over the years) getting expensed from the income statement, management's efforts to cut costs have suffered a set-back. To counter this earnings volatility, management has decided to make equal quarterly provisions of EUR0.9m and adjust the difference (excess/shortfall) in the last quarter of the year.

Sylvania pension liability/(benefit) trend (FY10-14a)



Source: Company data

Sylvania EBITDA margin trend



Source: Company data

One more round of restructuring likely

Sylvania has shown an improvement in top-line growth during the first half of FY15 (+3% y-o-y). The EBITDA margin expanded 80bp to 4.2%. We anticipate HAVL undertaking one more round of business restructuring to lower operational costs, which could make the business more cost competitive. On the other hand falling yields will likely continue to exert pressure on the company's pension liability expense.

Sylvania quarterly financials trend

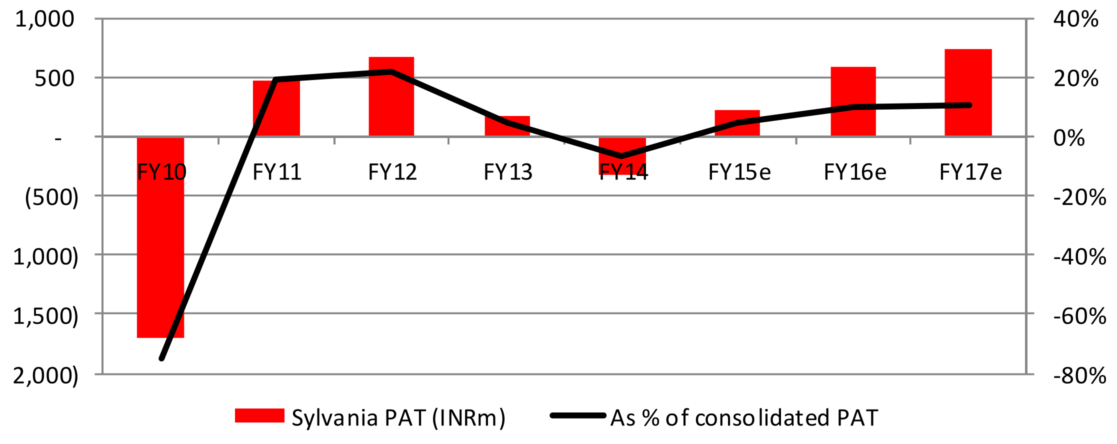
	1QFY14a	2QFY14a	3QFY14a	4QFY14a	FY14a	1QFY15a	2QFY15a
Revenues							
Europe share	57%	56%	59%	61%	58%	60%	58%
Americas share	37%	38%	34%	33%	35%	33%	36%
Others share	6%	6%	7%	6%	6%	7%	6%
Total (INRm)	**7,888**	**8,790**	**9,427**	**9,646**	**35,751**	**8,786**	**9,038**
Revenue growth							
Europe	-1.0%	-0.2%	-0.6%	1.4%	0.0%	6.3%	8.9%
Americas	-1.3%	-6.9%	4.2%	3.6%	-0.5%	-8.9%	2.0%
Others	-1.4%	4.6%	19.4%	-7.0%	4.0%	2.9%	-5.9%
Total	**-1.1%**	**-2.6%**	**2.2%**	**1.6%**	**0.0%**	**0.5%**	**5.3%**
EBITDA margin							
Europe	3.0%	1.7%	8.2%	2.3%	3.8%	3.3%	2.6%
Americas	4.6%	6.2%	4.8%	3.4%	4.7%	5.9%	6.6%
Others	8.7%	-5.9%	2.5%	-16.7%	-2.1%	5.6%	3.1%
Total	**3.9%**	**2.9%**	**6.6%**	**1.6%**	**3.7%**	**4.3%**	**4.1%**

Source: Company data, Bloomberg estimates, HSBC

However, we don't expect Sylvania to be a drag on profitability

We expect Sylvania's business to pick up momentum as the European market recovery accelerates. We forecast Sylvania's sales to grow at a 3% CAGR in FY14-16e. The EBITDA margin in H1 FY15 has already shown signs of recovery to 4.2%, and we expect it to recover further to 5.0% by FY17e. This should help Sylvania report an earnings recovery in FY14-17e, during which period Sylvania should increase its share in consolidated profits from -7% in FY14 to 10% by FY17e.

Sylvania earnings growth trend



Source: Company data, HSBC estimates

A divestment though could act as a positive stock catalyst

One of the key reasons for HAVL's success in the Indian market has been its ability to expand its business organically by growing its dealership network, while focussing on brand management. By management's own admission, Sylvania was a far larger acquisition than management's cEUR60-70m targets. Sylvania also does not offer any strategic advantage to HAVL in terms of sourcing or pricing (the two companies' products are sold under separate brands). Therefore, an improvement in European markets, which we believe would support a business recovery for Sylvania, could provide a good opportunity to sell the company. By the end of FY14 HAVL had invested EUR151m in Sylvania.

We forecast a 21% consolidated earnings CAGR in FY14-17e

The anticipation of the domestic business picking up and the international business (Sylvania) reporting modest improvements drives our 9% consolidated revenue growth outlook in FY14-17e. However, we expect EBITDA to grow at the much faster rate of an 18% CAGR during the same period as both the domestic business and Sylvania achieve healthy margin growth. (Sylvania's margin expansion is largely due to the pension liability charge being lower than history.) We forecast a strong 21% earnings CAGR in FY14-17e as it gets a boost from lower interest expenses, which turns the company net cash positive during this period. Our forecasts are 9% and 6% below consensus for FY15e and FY16e, respectively, while they are largely in line in FY17e. Our near-term below-consensus forecasts probably reflect that consensus is still expecting a strong H2 FY15e.

Havells: Earnings model

INRm	FY10a	FY11a	FY12a	FY13a	FY14a	FY15e	FY16e	FY17e
Sales	6,732	7,344	8,962	10,781	12,192	13,230	15,214	17,953
--Switchgears	9,843	12,318	15,930	16,925	19,264	22,750	25,480	29,302
--Cables	3,493	4,447	5,544	6,652	7,207	7,831	9,006	10,807
--Lighting & Fixtures	3,342	4,692	5,721	7,893	8,534	9,836	11,804	14,755
--Electrical Consumer Durables	305	16	-	-	-	-	-	-
--Others	-	-	-	-	-	-	-	-
Total Standalone sales	**23,714**	**28,817**	**36,156**	**42,250**	**47,197**	**53,647**	**61,504**	**72,816**
Sylvania	**27,768**	**27,077**	**29,547**	**30,835**	**35,751**	**35,695**	**34,738**	**35,759**
Eliminations	144	233	(521)	(606)	(1,090)	(1,174)	(1,265)	(1,427)
Consolidated sales	**51,626**	**56,126**	**65,182**	**72,479**	**81,858**	**88,168**	**94,977**	**107,149**
Sales growth								
Standalone	7.9%	21.5%	25.5%	16.9%	11.7%	13.7%	14.6%	18.4%
Sylvania	-15.3%	-2.5%	9.1%	4.4%	15.9%	-0.2%	-2.7%	2.9%
Consolidated	**-5.7%**	**8.7%**	**16.1%**	**11.2%**	**12.9%**	**7.7%**	**7.7%**	**12.8%**
EBITDA margin								
Standalone	13.1%	11.8%	12.6%	12.7%	13.6%	13.3%	14.3%	14.2%
Sylvania	-0.2%	7.2%	7.3%	4.6%	3.6%	4.3%	4.7%	5.0%
Consolidated	**6.2%**	**9.9%**	**10.1%**	**9.3%**	**9.1%**	**9.8%**	**11.1%**	**11.4%**
PAT								
Standalone	2,282	2,421	3,054	3,714	4,787	4,766	5,885	7,075
Sylvania	(1,706)	435	671	2,118	(327)	224	593	735
Consolidated	**696**	**3,039**	**3,699**	**5,814**	**4,463**	**5,008**	**6,495**	**7,843**
PAT growth								
Standalone	57%	6%	26%	22%	29%	0%	23%	20%
Sylvania	-44%	NM	54%	216%	NM	NM	164%	24%
Consolidated	**NM**	**337%**	**22%**	**57%**	**-23%**	**12%**	**30%**	**21%**

Source: Company data, HSBC estimates

HSBC

Havells: Earnings estimates summary

INRm	FY14a	Forecasts FY15e	FY16e	FY17e	Difference y-o-y FY15e	FY16e	FY17e	HSBC vs. Consensus FY15e	FY16e	FY17e
Revenue	81,858	88,168	94,977	107,149	7.7%	7.7%	12.8%	-2.6%	-6.3%	-5.1%
EBITDA	7,425	8,624	10,498	12,254	16.1%	21.7%	16.7%	-5.4%	-5.0%	-2.9%
EBITDA margin	9.1%	9.8%	11.1%	11.4%	70	130	30	-30	20	20
HSBC PAT	4,463	5,008	6,495	7,843	12.2%	29.7%	20.8%	-9.4%	-5.9%	-1.4%
HSBC PAT margin	5.5%	5.7%	6.8%	7.3%	20	110	50	-40	0	30
HSBC EPS*	7.15	8.02	10.40	12.56	12.1%	29.7%	20.8%	-8.9%	-5.9%	-1.6%

Source: Bloomberg, Company data, HSBC estimates. *Adjusted for share split

Free cash flow (FCF) is already set to recover

HAVL's share price rose meaningfully in FY11-13, while the broader market remained weak (HAVL shares outperformed BSE Sensex by c80% in FY11-13). We believe one of the key reasons for this outperformance was due to the improvement in free cash generation as the Sylvania business turned around and capex flattened. The sharp improvement in FY14 was likely driven by a fall in working capital needs. With investments in domestic market distribution largely over, we expect HAVL's overall capex to flatten over the next three years. However, this should be largely offset by an increase in the effective tax rate as some of its production plants lose their tax holiday status. Therefore, we expect a more gradual improvement in FCF as it grows at a 3% CAGR in FY14-17e.

Havells: Consolidated cash flow statement trend (INRm)

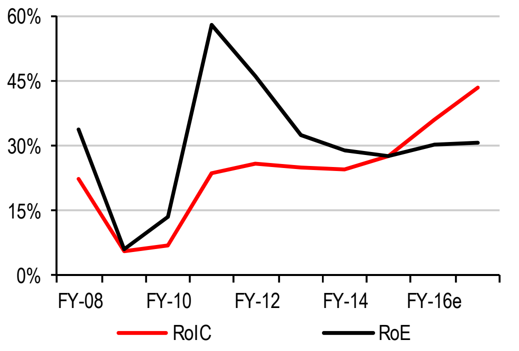
Cash flow analysis	FY10a	FY11a	FY12a	FY13a	FY14a	FY15e	FY16e	FY17e
Cash from operations	3,087	2,530	4,519	6,377	8,681	7,542	7,887	9,425
Less: Capex	(1,536)	(1,886)	(1,716)	(1,750)	(1,764)	(1,390)	(1,463)	(1,496)
FCF	**1,551**	**644**	**2,803**	**4,627**	**6,918**	**6,151**	**6,424**	**7,928**
Less: Interest payment	(872)	(902)	(1,184)	(1,155)	(524)	(596)	(642)	(561)
Less: Debt repayment	(1,994)	454	(924)	(423)	(748)	(514)	(938)	(1,139)
FCFE	**(1,314)**	**196**	**695**	**3,049**	**5,646**	**5,042**	**4,844**	**6,228**

Source: Company data, HSBC estimates

Return ratios are also on an uptrend

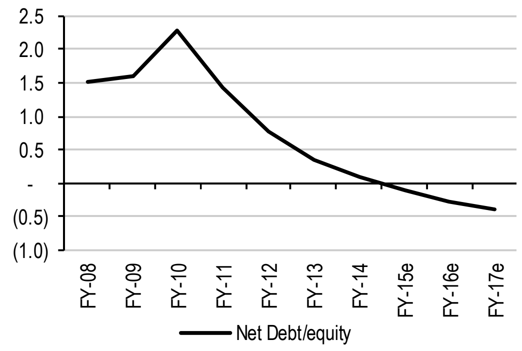
HAVL's ROIC fell sharply from 22.1% in FY08 to mere 5.6% in FY09 (Sylvania reported losses). However, a domestic business recovery in the last business cycle from FY10 and Sylvania's restructuring pulled up ROIC to 24% in FY11, and it remained at c24% until FY14. However, with the earnings growth forecast to pick up pace, we expect ROIC to ramp up sharply to 43% by FY17e. On the other hand we anticipate ROE improvements to remain modest with a c200bp increase to 31% by FY17e from 29% in FY14. The lower ROE gains, in our view, can be attributed to the fall in leverage as we forecast HAVL to turn a net cash company from FY15e.

Havells: Consolidated ROIC and ROE trend



Source: Company data, HSBC estimates

Havells: Consolidated net debt/equity (x) trend

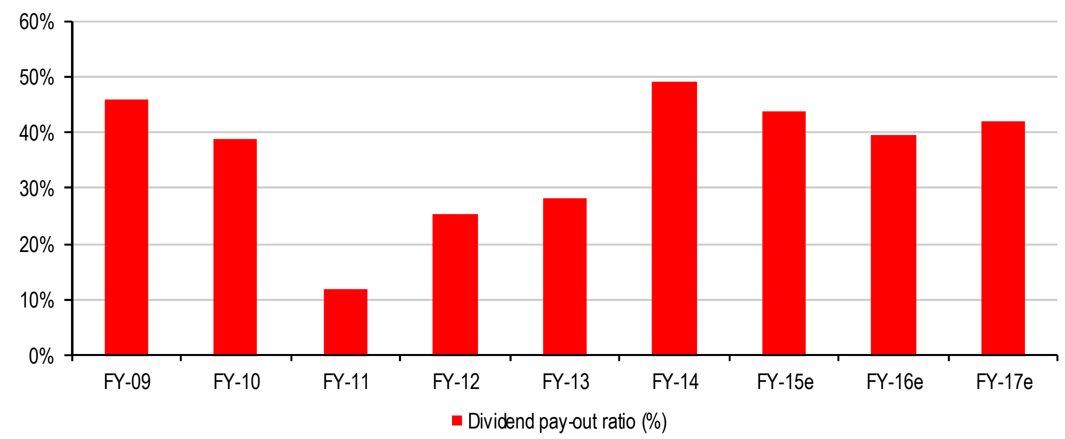


Source: Company data, HSBC estimates

High dividend pay-out is sustainable as capex flattens out

HAVL has consistently increased its dividend pay-out over the past three years, reaching 49% in FY14 from a mere 12% in FY11. This has coincided with a fall in net debt equity from 2.3x in FY10 to 0.1x in FY14 as acquisition debt for Sylvania was paid off. We expect the company to report a net cash position in FY15e, which is also indicated by management guidance that the 40-50% pay-out will be sustained.

Havells: Dividend pay-out (%) (FY09-17e)



Source: Company data, HSBC estimates

Valuation and risks

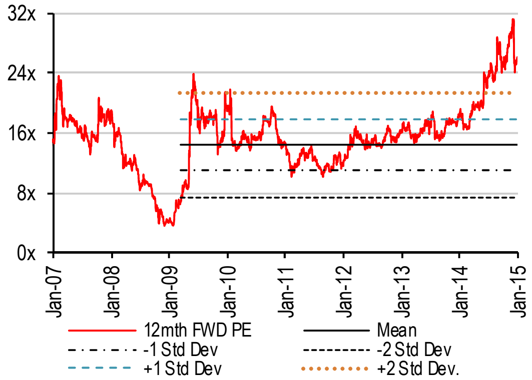
- HAVL stock has fallen 20% and underperformed the HSBC Capital Goods Index by 21% from its December 2014 high
- Its valuation has the potential to re-rate as its business mix evolves towards becoming a consumer durables company
- Initiate with an Overweight rating and a target price of INR333

Recent 20% stock price correction has moderated valuations

HAVL stock has corrected 20% from its December 2014 high as consensus expectations for H2 FY15e growth have been lowered to high single digits from the mid-teens. The relatively slow growth outlook for H2 FY15e (c9% y-o-y) is, in our view, merely a reflection of near-term demand slowing down after the sudden burst of pent-up, demand-led growth. However, we remain positive on our FY15-17e outlook of a sustainable pick-up in business growth.

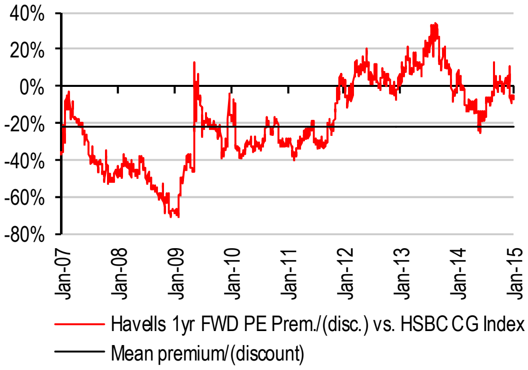
HAVL's current one-year forward PE of 25.6x is higher than the peak multiple in the last cycle (2008-13) of 23.8x. During the current cycle we anticipate earnings to grow at a 21% CAGR (FY14-17e), while ROE averages 29%. The higher PE in the current cycle is justified, in our view, given that its business mix is changing in favour of consumer electric goods, which benefits from HAVL's established brand.

Havells: PE (x) trend



Source: Bloomberg, HSBC estimates

Havells: Valuation premium/discount to the sector



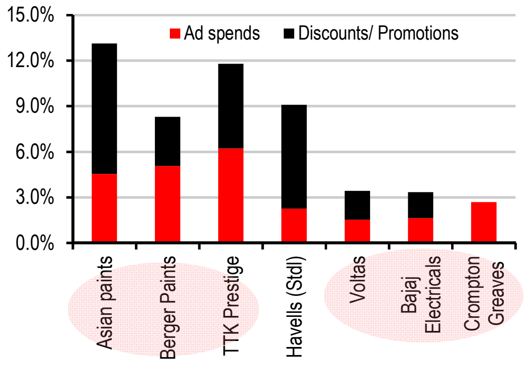
Source: Bloomberg, HSBC estimates

Business is evolving into an electric consumer durables company

Valuation has the potential to re-rate as peers trade at a premium

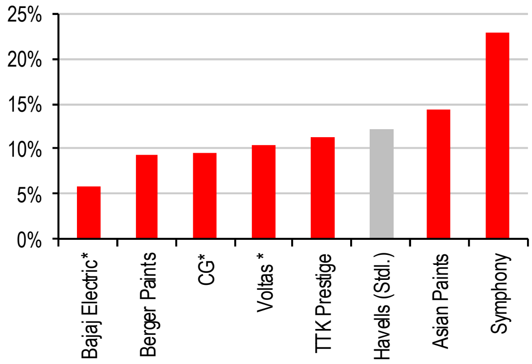
Switchgears, cables and lighting products have traditionally been HAVL's key business segments. While the cables business has a c50% industrial use share, the switchgears and lighting products have a largely commercial and retail customer base. The company has also gradually increased the share of electric appliances within its portfolio. These now form 18% of domestic revenues as against mere 11% in FY07, and we expect their share to increase to 20% by FY17e. We argue that within its peers group, HAVL now has the largest share of consumer revenues. Its margin and return ratios are also much more in sync with Indian electric consumer durables and home improvement products companies. Therefore, we argue that HAVL's valuation has the potential to move towards consumer electric durables company in the future.

Havells: Advertising spend vs. domestic peers



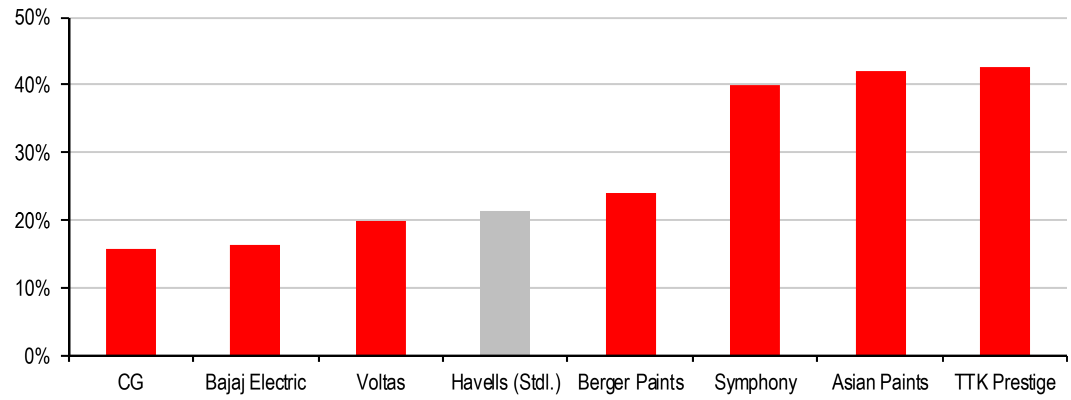
Source: Company data, HSBC estimates

Havells: EBIT margin vs. domestic peers



*EBIT margin is for the consumer business only. Source: Company data, HSBC estimates

Havells: ROE vs. domestic peers (average ROE FY10-14)



Source: Bloomberg, Company data, HSBC

Havells: Peer group comparison

	Bloomberg Ticker	Share Price* (LC)	Mkt Cap (USDbn)	HSBC Rating	FY14-17e EPS CAGR	PE (x) FY15e	PE (x) FY16e	PE (x) FY17e	EV/EBITDA (x) FY15e	EV/EBITDA (x) FY16e	EV/EBITDA (x) FY17e	ROE (%) FY15e	ROE (%) FY16e	ROE (%) FY17e
Havells	HAVL IN	266	2.7	OW	21%	33.2	25.6	21.2	19.0	15.2	12.6	27.7%	30.3%	30.5%
CRG	CRG IN	189	1.9	OW(V)	53%	36.8	19.2	13.5	17.3	11.2	8.1	8.3%	14.1%	17.2%
Voltas	VOLT IN	253	1.4	OW(V)	30%	26.6	21.4	16.7	18.7	14.1	10.5	15.3%	16.5%	18.1%
Asian Paints	APNT IN	839	13.0	OW	27%	52.1	38.2	32.2	32.2	23.8	20.1	34.9%	39.3%	38.3%
Bajaj Electric	BJE IN	237	0.4	Not Rated	NM	41.6	16.0	12.3	14.7	8.4	6.9	8.7%	17.8%	20.6%
TTK Prestige	TTK IN	3,731	0.7	Not Rated	23%	35.1	26.6	20.8	23.2	18.1	14.4	20.3%	22.2%	24.4%
Symphony	SYML IN	1,947	1.1	Not Rated	28%	50.6	38.8	30.4	39.1	29.6	24.1	43.0%	45.2%	45.5%
Berger Paints	BRGR IN	221	2.5	Not Rated	26%	49.8	38.2	30.9	29.1	23.2	19.1	25.3%	28.0%	27.9%
Sector Avg (ex-Havells)						**41.8**	**28.3**	**22.4**	**24.9**	**18.4**	**14.7**	**22.3%**	**26.2%**	**27.4%**
Sylvania global peers														
	Ticker	**(LC)**	**(USDbn)**	**Rating**	**EPS CAGR**	**FY14e**	**FY15e**	**FY16e**	**FY14e**	**FY15e**	**FY16e**	**FY14e**	**FY15e**	**FY16e**
Philips	PHIA NA	23.7	25.7	N	7%	41.8	16.7	14.5	11.4	7.7	6.9	4.8%	12.3%	14.1%
Osram Licht	OSR GR	37.3	4.5	OW	13%	15.0	14.5	12.2	6.7	8.2	5.2	11.5%	11.4%	13.0%

Source: Bloomberg, Thomson Reuters Datastream, HSBC estimates (for covered companies). *Priced as on close of 15 January 2015. Ratings: OW – Overweight, N – Neutral; V – Volatile

Initiate with an Overweight rating and a target price of INR333

We value HAVL using a sum-of-the-parts (SOTP) business model, given the diverse earnings growth, and return ratio prospects of its domestic and its international business (Sylvania). We map its domestic valuation to a diversified domestic peer set to reflect its growing consumer electric goods share. Our Sylvania valuation is mapped at a 20% discount to its international peers. Our target price of INR333, implies the stock will trade at a 26.5x PE on FY17e EPS, while it is currently trading at a 25.6x PE on FY16e EPS.

Havells: Valuation table

	Target valuation	Method	Value per share	Base Year	Comment
Standalone	28.3x	PE (x)	INR321	FY17e	At par with peer group (Voltas, CRG, Bajaj Electric, TTK, Symphony, Asian Paints, Berger Paints)
Sylvania	6.1x	EV/EBITDA (x)	INR13	FY17e	At a 20% discount to peer group (Phillips, Osram)
Target valuation			**INR333**		**Implied FY17e PE of 26.5x**

Source: Company data, HSBC estimates

We also value HAVL using a Discounted Cash Flow (DCF) model, although we use it as a reference tool to provide a cross-check for our comparative PE (x) valuation method. Our DCF model factors explicit forecasts until FY20e with the overall forecast period stretched out to FY25e. We arrive at a cost of equity of 12.9% (risk-free rate of 8%, market risk premium of 5% and stock beta of 0.98) and a weighted average cost of capital (WACC) of 12.3% factoring in a cost of debt at 10% and net debt-to-equity of 10%. Using a terminal growth rate of 7.0%, our DCF model yields a fair value of INR315 per share.

Under our research model, for stocks without a volatility indicator, the Neutral band is 5ppts above and below the hurdle rate for India stocks of 11%. Our target price implies a potential return of 26.2% (including a forecast dividend yield of 1.1%), above the Neutral band; therefore, we initiate coverage with an Overweight rating. Potential return equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated.

Key risks

Industry-specific risks

Domestic macro recovery is slower than expected

Our current forecasts expect GDP growth to rebound to 5.5% in FY15e and to pick up further to 6.5% in FY16e and 7.1% in FY17e. Urban centres (HAVL's dominant business market) could witness faster growth during the early revival stage as discretionary spending picks up. However, a smaller-than-expected pick-up in macro growth and the resultant lower discretionary spending could hamper demand growth for HAVL products.

Weak recovery in the European markets

Europe contributes c60% to HAVL's Sylvania business. The European business has fallen at a rate of a 5% CAGR since FY09. Anticipating that management's restructuring efforts will start to show results and accepting HSBC's Europe economist's outlook of a GDP growth revival (1.3% CAGR in CY14-16e), we have expect the European business to grow at a 6% CAGR in FY14-17e. A slower-than-expected macro recovery in Europe could hurt Sylvania's business turnaround.

Company-specific risks

Pricing pressure in new products

HAVL's fast-growing lighting and fixtures business has witnessed a sharp drop in LED prices globally that has made the industry competitive. The company has managed to ward off the early business threat by focussing on fixtures that offer better margins in the segment. However, the lack of entry barriers could increase competition, supplemented by pressure on pricing. HAVL's strategy of focusing on earning a premium through branding has worked well so far. However, any loss in pricing power due to changes in industry dynamics will hurt the company's margins.

Weak demand uptake in early-stage business segments and new products

HAVL's electrical consumer durables business is still at a nascent stage. Despite contributing only 18% to standalone revenues, the share of growth has been higher at c23%. The company has achieved this high growth with the consistent launch of new products, while still maintaining its premium appeal. Any slowdown or offtake of such new products launches could hurt HAVL's business growth.

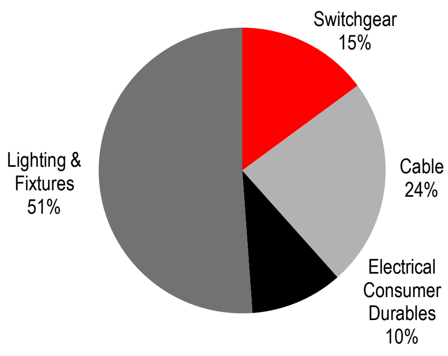
Company description

Brief profile

HAVL is one of India's leading electrical goods company with a strong focus on the home improvement segment. It enjoys meaningful market share across multiple electrical goods segments such as cables and wires, industrial and domestic switchgears, CFL and LED lamps for domestic, commercial and industrial applications, motors and pumps, along with home appliances, fans, electric water heaters, power capacitors and modular switches. In 2007, HAVL acquired the global lighting products company Sylvania, putting it among the top five lighting products companies in the market.

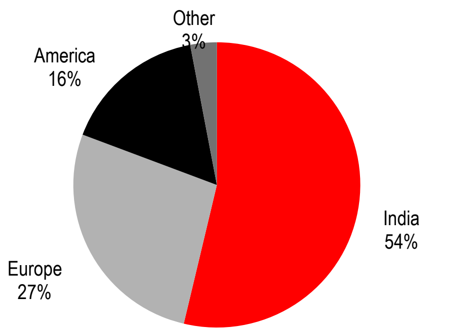
The company currently operates under four key segments: 1) Switchgear, 2) Cables, 3) Electrical Consumer Durables, and 4) Lighting and Fixtures. The domestic market accounts for 54% of the company's revenues, while Europe contributes 27% and the rest of Asia contributes 16%.

Havells: Consolidated FY14a revenue by segments



Source: Company data, HSBC

Havells: Consolidated FY14a revenue by geography



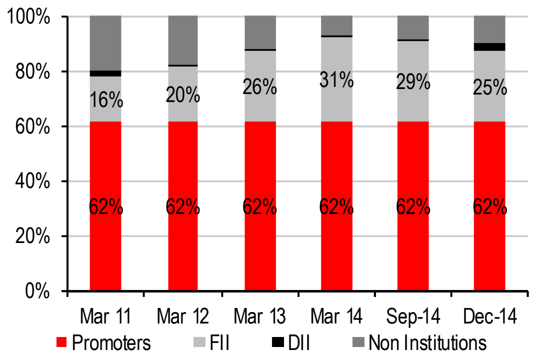
Source: Company data, HSBC

Management profile

Anil Rai Gupta is the Chairman and Managing Director of HAVL. He took over as the Chairman after the founder and Chairman Mr. Qimat Rai Gupta passed away in November 2014. Mr. Gupta is an economics graduate from Sri Ram College of Commerce (Delhi University, India) and holds a Masters in Business Administration from Wake Forest University (North Carolina, US). Mr. Gupta also has been one of the prime contributors to the company's transformation from a pure industrial product company into a consumer electrical products company, as well as spearheading the Sylvania acquisition in 2007.

Shareholding pattern

Havells: Shareholding pattern trend



Source: Company data

HSBC

Financial statements

Consolidated Statement of Profit and Loss (March year-end)

(INRm)	FY10a	FY11a	FY12a	FY13a	FY14a	FY15e	FY16e	FY17e
Revenue from operations (net)	**51,626**	**56,126**	**65,182**	**72,479**	**81,858**	**88,168**	**94,977**	**107,149**
Growth (y-o-y)	-6%	9%	16%	11%	13%	8%	8%	13%
Less: Cost of materials	29,154	31,925	36,272	41,628	46,398	48,494	50,047	55,652
Materials costs as a % of sales	56.5%	56.9%	55.6%	57.4%	56.7%	55.0%	52.7%	51.9%
Gross Profit	22,471	24,201	28,910	30,851	35,461	39,674	44,930	51,497
Gross Profit margin (%)	43.5%	43.1%	44.4%	42.6%	43.3%	45.0%	47.3%	48.1%
Employee benefits expense	7,645	6,405	7,904	9,056	10,869	12,560	14,514	16,773
Employee benefits expense as a % of Sales	14.8%	11.4%	12.1%	12.5%	13.3%	14.2%	15.3%	15.7%
Other expenses	11,605	12,226	14,432	15,051	17,167	18,490	19,918	22,471
Other expenses as a % of sales	22.5%	21.8%	22.1%	20.8%	21.0%	21.0%	21.0%	21.0%
EBITDA	**3,222**	**5,570**	**6,573**	**6,744**	**7,425**	**8,624**	**10,498**	**12,254**
EBITDA margin (%)	6.2%	9.9%	10.1%	9.3%	9.1%	9.8%	11.1%	11.4%
Growth (y-o-y)	12%	73%	18%	3%	10%	16%	22%	17%
D&A expense	837	804	949	1,097	1,155	1,363	1,412	1,480
D&A as a % of Net Sales	1.6%	1.4%	1.5%	1.5%	1.4%	1.5%	1.5%	1.4%
EBIT	2,385	4,766	5,625	5,647	6,270	7,261	9,086	10,773
EBIT margin (%)	4.6%	8.5%	8.6%	7.8%	7.7%	8.2%	9.6%	10.1%
Other income	222	237	414	279	413	514	827	977
Other income as a % of Sales	0.4%	0.4%	0.6%	0.4%	0.5%	0.6%	0.9%	0.9%
Finance costs	979	902	1,281	1,232	741	596	642	561
Finance costs as a % of Sales	1.9%	1.6%	2.0%	1.7%	0.9%	0.7%	0.7%	0.5%
HSBC PBT	**1,628**	**4,101**	**4,757**	**4,694**	**5,941**	**7,179**	**9,270**	**11,189**
HSBC PBT margin (%)	3.2%	7.3%	7.3%	6.5%	7.3%	8.1%	9.8%	10.4%
Growth (y-o-y)	100%	152%	16%	-1%	27%	21%	29%	21%
Exceptional gains/(losses)	-	(31)	-	1,944	-	-	-	-
Reported PBT	1,628	4,070	4,757	6,638	5,941	7,179	9,270	11,189
Underlying Total Tax expense	932	1,040	1,058	824	1,478	2,171	2,775	3,346
Underlying Total Tax rate (%)	57%	25%	22%	18%	25%	30%	30%	30%
Adj: Taxes on Exceptional Gaines	-	(9)	-	-	-	-	-	-
Reported Total Tax expense	932	1,031	1,058	824	1,478	2,171	2,775	3,346
Reported Total Tax rate (%)	57%	25%	22%	12%	25%	30%	30%	30%
Recurring PAT (Before Minority Interest)	696	3,061	3,699	3,870	4,463	5,008	6,495	7,843
Less: Share of profit/(losses) transfer to minority	0	4	-	-	-	-	-	-
HSBC PAT	**696**	**3,058**	**3,699**	**3,870**	**4,463**	**5,008**	**6,495**	**7,843**
HSBC PAT margin (%)	1.3%	5.4%	5.7%	5.3%	5.5%	5.7%	6.8%	7.3%
Growth (%)	81%	340%	21%	5%	15%	12%	30%	21%
Reported PAT	**696**	**3,036**	**3,699**	**5,814**	**4,463**	**5,008**	**6,495**	**7,843**
Reported PAT margin (%)	1.3%	5.4%	5.7%	8.0%	5.5%	5.7%	6.8%	7.3%
Growth (%)	NM	336%	22%	57%	-23%	12%	30%	21%

Source: Company data, HSBC estimates

Consolidated Balance Sheet (March year-end)

(INRm)	FY10a	FY11a	FY12a	FY13a	FY14a	FY15e	FY16e	FY17e
1. Shareholders' funds	**4,002**	**6,537**	**9,556**	**14,420**	**16,660**	**19,476**	**23,414**	**27,969**
Share capital	312	624	624	624	624	624	624	624
Reserves and surplus	3,690	5,914	8,932	13,797	16,036	18,852	22,790	27,346
2. Minority Interest	2	6	1	1	1	1	1	1
3. Gross Debt	10,664	11,065	9,795	9,785	10,506	9,992	9,054	7,915
4. Deferred tax liabilities/ (asset) (net)	434	559	556	480	466	466	466	466
5. Capital Employed (1+2+3+4)	**15,102**	**18,166**	**19,908**	**24,686**	**27,634**	**29,936**	**32,936**	**36,352**
6. Cash and bank balances	1,480	1,779	2,336	4,736	8,819	12,184	15,297	19,214
Total Invested Capital (5-6)	**13,622**	**16,388**	**17,572**	**19,951**	**18,815**	**17,752**	**17,639**	**17,138**
7. Net Fixed Assets (a+b+c) or (d+e)	**9,209.7**	**10,204.0**	**10,946.2**	**11,555.3**	**12,068.2**	**12,095.3**	**12,146.6**	**12,162.9**
a. Net Tangible assets	8,608	9,629	9,863	10,925	11,277	11,436	11,627	11,713
Gross Tangible assets	26,050	27,412	26,453	28,626	30,680	32,070	33,533	35,030
Less: Accumulated depreciation	17,442	17,783	16,590	17,701	19,403	20,634	21,906	23,317
b. Intangible assets	266	326	421	381	347	215	76	6
Gross Intangible assets	913	938	1,124	1,183	1,396	1,396	1,396	1,396
Less: Accumulated amortisation	647	613	703	802	1,048	1,180	1,320	1,390
c. Capital work-in-progress	336	249	663	249	444	444	444	444
d. Total Gross Assets	27,299	28,600	28,239	30,058	32,519	33,910	35,373	36,869
e. Total accumulated D&A	18,089	18,396	17,293	18,503	20,451	21,815	23,226	24,706
8. Goodwill on consolidation	3,212	3,354	3,625	3,694	4,380	4,380	4,380	4,380
9. Investments	-	-	-	-	-	-	-	-
10. Other non-current assets	-	3.2	3.4	9.0	3.5	3.5	3.5	3.5
11. Working Capital	**1,521**	**6,730**	**8,010**	**9,930**	**9,690**	**9,165**	**9,610**	**10,182**
Inventories	8,246	10,860	13,678	13,184	14,934	15,287	16,647	18,515
Trade receivables	6,982	7,721	8,905	8,623	10,005	9,591	10,065	10,649
Other current assets	103	120	117	126	197	215	246	291
Total Loans & advances	1,745	1,595	2,144	2,653	2,916	2,894	3,058	3,280
Trade payables	-	(8,178)	(10,699)	(9,329)	(11,972)	(12,269)	(13,234)	(14,533)
Other current liabilities	(15,555)	(5,387)	(6,134)	(5,326)	(6,392)	(6,553)	(7,173)	(8,021)
12. Total Provisions	(321)	(3,904)	(5,013)	(5,238)	(7,326)	(7,891)	(8,501)	(9,590)
Total Invested Capital (7+8+9+10+11+12)	**13,622**	**16,388**	**17,572**	**19,951**	**18,815**	**17,752**	**17,639**	**17,138**

Source: Company data, HSBC estimates

HSBC

Consolidated Cash Flow Statement (March year-end)

(INRm)	FY10a	FY11a	FY12a	FY13a	FY14a	FY15e	FY16e	FY17e
A. CASH FLOW FROM OPERATIN G ACTIVITIES								
Profit before tax	1,628	4,070	4,757	6,638	5,941	7,179	9,270	11,189
Add: D&A Expenses	837	804	949	1,097	1,155	1,363	1,412	1,480
Less: Interest Income	(16)	(8)	(17)	(15)	(268)	(514)	(827)	(977)
Add: Interest expenses	871	902	1,184	1,133	572	596	642	561
Other Non-cash adjustments	(1,943)	(386)	(23)	143	897	-	-	-
Operating Profit before working capital changes	1,377	5,383	6,850	8,995	8,298	8,624	10,498	12,254
Net Working capital outflow/ (inflow) (including provisions)	**2,369**	**(1,998)**	**(1,234)**	**(1,392)**	**1,719**	**1,089**	**165**	**517**
Cash generated from/(used) in operations	3,746	3,385	5,617	7,603	10,017	9,713	10,662	12,771
Direct taxes paid (net of refunds)	(659)	(850)	(1,097)	(1,225)	(1,336)	(2,171)	(2,775)	(3,346)
Extraordinary items (net of tax)	-	(5)	-	-	-	-	-	-
Net Cash flow from/(used) in Operating Activities (A)	**3,087**	**2,530**	**4,519**	**6,377**	**8,681**	**7,542**	**7,887**	**9,425**
B. CASH FLOW FROM INVESTING ACTIVITIES								
Purchase of fixed assets	(1,536)	(1,886)	(1,716)	(1,750)	(1,764)	(1,390)	(1,463)	(1,496)
Capital advances (net of capital creditors)	-	-	-	(33)	8	-	-	-
Non-operating investment (made)/ withdrawn	-	(186)	441	26	(2,247)	-	-	-
Investment in shares of subsidiary companies and JV's	-	-	-	-	-	-	-	-
Proceeds from sale of fixed assets	192	302	206	310	31	-	-	-
Addition of Goodwill due to exchange variation	367	-	-	-	-	-	-	-
Interest income received	16	8	17	13	210	514	827	977
Net Cash flow from/(used) in Investing Activities (B)	**(961)**	**(1,762)**	**(1,053)**	**(1,433)**	**(3,762)**	**(876)**	**(636)**	**(520)**
C. CASH FLOW FROM FINANCING ACTIVITIES								
Proceed from share capital Issued	-	-	-	-	0	-	-	-
Proceeds/ (repayment) from borrowings	(1,994)	454	(924)	(423)	(748)	(514)	(938)	(1,139)
Interest Paid	(872)	(902)	(1,184)	(1,155)	(524)	(596)	(642)	(561)
Dividend Paid Including taxes	(265)	(207)	(363)	(943)	(1,826)	(2,192)	(2,557)	(3,288)
Net Cash flow from/(used) in Financing Activities ('C)	**(3,130)**	**(654)**	**(2,470)**	**(2,521)**	**(3,097)**	**(3,302)**	**(4,137)**	**(4,988)**
Net increase (+) / decrease (-) in cash A+B+C)	**(1,005)**	**114**	**996**	**2,423**	**1,822**	**3,364**	**3,113**	**3,917**
Cash and Cash Equivalents at the beginning of the year	2,415	1,192	1,306	2,305	4,724	6,553	9,917	13,030
Effect of exchange differences on cash and cash equivalents held in foreign currency	-	-	3	(4)	7	-	-	-
Cash and cash equivalents at the end of the year	1,410	1,306	2,305	4,724	6,553	9,917	13,030	16,947
Other bank balance	70	473	32	12	2,267	2,267	2,267	2,267
Balance sheet cash and cash Equivalent	**1,480**	**1,779**	**2,336**	**4,736**	**8,819**	**12,184**	**15,297**	**19,214**

Source: Company data, HSBC estimates

Consolidated – Key data(March year-end)

	FY10a	FY11a	FY12a	FY13a	FY14a	FY15e	FY16e	FY17e
Per Share (adjusted for share splits)								
HSBC Diluted EPS (INR)	1.32	1.11	4.90	5.93	6.20	7.15	8.02	10.40
Dividend Per Share (INR)	0.25	0.38	0.50	1.30	1.50	3.00	3.00	3.50
Book Value/share (INR)	10.21	6.65	10.48	15.32	23.11	26.69	31.19	37.49
Balance sheet ratios (%)								
EBITDA/ net interest (x)	3.3	6.2	5.1	5.5	10.0	14.5	16.4	21.8
Gross Debt/ Equity	266%	169%	102%	68%	63%	51%	39%	28%
Net Debt/ Equity	229%	142%	78%	35%	10%	-11%	-27%	-40%
Net Debt/ EBITDA (x)	2.9	1.7	1.1	0.7	0.2	-0.3	-0.6	-0.9
Cash as % of Gross Capital Employed	10%	10%	12%	19%	32%	41%	46%	53%
Working capital to sales ratio (%)	2.9%	12.0%	12.3%	13.7%	11.8%	10.4%	10.1%	9.5%
Return ratios (%)								
ROIC (%)	6.9%	23.7%	25.8%	24.8%	24.3%	27.7%	36.0%	43.4%
ROCE (%)	6.1%	21.4%	23.0%	20.9%	18.0%	17.6%	20.2%	21.8%
ROE (%)	13.7%	58.0%	46.0%	32.3%	28.7%	27.7%	30.3%	30.5%

Source: Company data, HSBC estimates

Notes

Disclosure appendix

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Company	Ticker	Recent price	Price Date	Disclosure
HAVELLS INDIA LIMITED	HVEL.BO	266.25	15-Jan-2015	2, 6, 7

Source: HSBC

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