

July 31, 2013

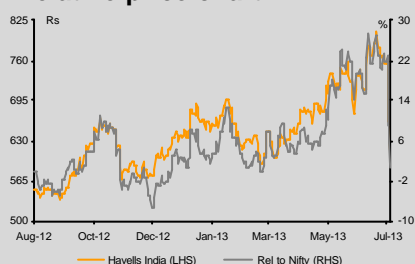
Rating	Previous Reco
Buy	Buy
CMP	Target Price
Rs608	Rs750
EPS Chg FY14E/FY15E (%)	-4/-5
Target Price change (%)	-5
Nifty	5,742
Sensex	19,346

Price Performance

(%)	1M	3M	6M	12M
Absolute	-17	-8	-8	13
Rel. to Nifty	-17	-7	-5	1

Source: Bloomberg

Relative price chart



Source: Bloomberg

Stock Details

Sector	Engineering & Capital Goods
Bloomberg	HAVAL IB
Equity Capital (Rs mn)	624
Face Value(Rs)	5
No of shares o/s (mn)	125
52 Week H/L	817/ 528
Market Cap (Rs bn/USD mn)	76/ 1,258
Daily Avg Volume (No of sh)	503,127
Daily Avg Turnover (US\$m)	6.0

Shareholding Pattern (%)

	Jun'13	Mar'13	Dec'12
Promoters	61.6	61.6	61.6
FII/NRI	30.7	25.8	20.0
Institutions	1.0	1.0	1.2
Private Corp	1.3	1.2	1.2
Public	5.4	10.4	16.1

Source: Bloomberg

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- **Results below estimates, function of topline miss - Revenue +2% yoy to Rs10.5 bn, EBIDTA margin up100bps to 13.4% and APAT +18% yoy to Rs947 mn**
- **Sylvania disappoints; revenue decline 1% yoy to €107mn, EBIDTA margin drop 140bps yoy to 3.9% and Net loss of €0.8mn**
- **Tones down guidance; domestic revenue growth at 9-10%, but hopeful of 12-14% growth in consumer business. Guides for 5.5% EBIDTA margins in Sylvania**
- **Weak quarter; But, faith on Havells and Sylvania brand franchisee intact. Retain Buy with revised target price of Rs750**

Topline miss, but EBIDTA margins expand led by product mix

Standalone results were below estimates, a function of topline miss. Key highlights are: (1) Revenues at Rs 10.5bn, up 2% yoy led by muted growth of 7% yoy in electrical consumer durables (ECD) segment, 1% decline in lighting segment and decline in industrial cables (16% yoy), (2) EBIDTA at Rs 1.4bn, up 10% yoy (3) EBIDTA margins expansion of 100bps yoy to 13.4% driven by product mix and (4) APAT growth at 18% yoy to Rs 947mn, led by lower interest outgo.

Sylvania – Revenue declines, EBIDTA margins dips to 3.9%

Revenues at €107mn, down 1% yoy with Europe and LATAM posting revenue decline of 1% yoy. EBIDTA declined 28% yoy to €4.2mn with EBIDTA margin declining 140bps yoy to 3.9% vs our expectations of 5.5-6%. It was driven by currency volatility in LATAM business. Subsequently, Sylvania reported net loss of €0.8mn.

Tones down revenue guidance; remains focused on consumer business

- Citing weak business environment, Havells has toned down its domestic business revenue guidance to 9-10% from earlier 14-15%. Also tones down consumer business growth guidance from 17-18% to 12-14% but remains focused on this segment. Product mix gains would help them sustain EBIDTA margins at 13-13.5% for FY14E.
- Remains focused on profitability in Sylvania business. Stable revenue owing to ongoing challenges in Europe & LATAM. Pricing actions expected to help revive EBIDTA margins to 5.5% for FY14E.

Disappointing quarter, but core drivers intact; Maintain BUY

Q1FY14 was a disappointing quarter with big miss in domestic business and Sylvania business. Management has toned down its domestic revenue guidance to 9-10% and hopes to achieve 5.5% EBIDTA margins in Sylvania. We fine tuned our forecast in-line with management guidance. There is earnings cut of 4/5% for FY14/15E. But faith on Havells and Sylvania brand franchisee remains intact. Free cash generation also ratifies the same. We maintain BUY rating on Havells with revised target price of Rs 750.

Financial Snapshot (Consolidated)

(Rsmn)

YE-	Net	EBITDA		EPS	EPS	RoE		EV/	
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	P/BV
FY12A	65,182	6,785	10.4	3,699	29.6	20.6	46.0	20.5	12.1
FY13A	72,479	6,861	9.5	3,870	31.0	4.6	32.3	19.6	11.6
FY14E	79,364	7,768	9.8	4,923	39.5	27.2	30.2	15.4	9.7
FY15E	87,355	8,907	10.2	5,721	45.8	16.2	28.1	13.3	7.9

Exhibit 1: Quarterly Performance at a Glance

Y/E, Mar (Rs. mn)	Q113	Q213	Q313	Q413	Q114	YoY (%)	QoQ (%)
Sales	10,328	9,642	10,584	11,696	10,513	1.8	-10.1
Expenditure	9,047	8,451	9,185	10,237	9,102	0.6	-11.1
Consumption of RM	6,527	5,888	6,599	7,483	6,390	-2.1	-14.6
as % of sales	63.2	61.1	62.4	64.0	60.8	-240	-320
Employee Cost	432	433	472	416	539	24.9	29.4
as % of sales	4.2	4.5	4.5	3.6	5.1	90	160
Other expenditure	2,088	2,129	2,114	2,337	2,173	4.1	-7.0
as % of sales	20.2	22.1	20.0	20.0	20.7	50	70
EBITDA	1,281	1,192	1,399	1,460	1,411	10.1	-3.4
Depreciation	118	159	146	156	156	31.9	-0.1
EBIT	1,163	1,033	1,253	1,304	1,255	7.9	-3.7
Other Income	-57	121	-22	63	-45	-21.9	-170.9
Interest	102	99	58	27	56	-44.7	112.0
PBT	1,004	1,054	1,173	1,340	1,154	14.9	-13.9
Total Tax	204	185	227	243	207	1.9	-14.7
PAT	801	870	947	1,097	947	18.2	-13.7
Minority Interest	0	0	0	0	0	-	-
APAT (before Minority)	801	870	947	1,097	947	18.2	-13.7
Minority Interest	0	0	0	0	0	-	-
APAT (after Minority)	801	870	947	1,097	947	18.2	-13.7
Extraordinary Items	0	0	0	0	0	-	-
Reported PAT	801	870	947	1,097	947	18.2	-13.7
Adjusted EPS	6.4	7.0	7.6	8.8	7.6	18.2	-13.7

Margins (%)						(bps)	(bps)
EBIDTA	12.4	12.4	13.2	12.5	13.4	100	90
EBIT	11.3	10.7	11.8	11.1	11.9	70	80
EBT	9.7	10.9	11.1	11.5	11.0	130	-50
PAT	7.8	9.0	8.9	9.4	9.0	130	-40
Effective Tax rate	20.3	17.5	19.3	18.1	18.0	-230	-20

Source: Company, Emkay Research

Growth moderates across segments led by lighting and ECD

Standalone revenues were below estimates led by weak growth in consumer durables & decline in lighting segment despite new products added in these segments. Company reasoned it to high base effect of last quarter and seasonal impact. Ex-cable, consumer business growth was muted at 7% yoy.

- Switchgear (SWG) posted revenue growth of 14% yoy to Rs 2.8bn led by Reo switches. Excluding Reo, SWG posted growth of 7% yoy. Reo, which clocked Rs 170mn revenues in Q1FY14, would be a key driver for this segment and company expects Rs 1bn revenues from Reo, which would drive 14-15% growth in SWG segment.
- Cables & Wires (C&W) posted revenue decline of 6% yoy to Rs 4.0bn led by de-growth in industrial cables by 16% yoy, while domestic wires growth was just 5% impacted by non-availability of copper due to temporary closure by large manufacturer in India. With raw material situation easing, Havells expects domestic cables growth profile to improve. Company expects industrial cables segment to grow at 4-5% for FY14E.
- Lighting & Fixtures (L&F) posted decline of 1% yoy to Rs 1.5bn despite new product additions. Company reasoned it to high base last year in products like CFL, which impacted growth. In addition, professional luminaries were also impacted by weak market trends. Given the weak business environment and lower off-take in professional luminaries, company expects 5-10% growth in lighting segment.
- Electrical Consumer Durables (ECD) segment posted muted growth of 6% yoy to Rs 2.2bn. High base effect in fans last year (40% growth) and shorter summer season impacted growth in ECD segment. Appliances posted growth of just 10% yoy. For FY14E, company expects ECD segment to post 14-15% growth led by revival due to forthcoming festive season.

Standalone EBIDTA margins expands led by product mix

Despite muted revenue growth of 2% yoy, standalone EBIDTA margins expanded 100bps yoy to 13.4% led by better product mix. All segments saw contribution margin expansion in the range of 20-210bps, with the exception of SWG, which declined 30bps owing to marketing expenses of Reo switches. With product mix improving in favour of consumer business, Havells expects EBIDTA margin of 13-13.5% for FY14E.

Cash flow generation in Havells remains strong

Havells standalone operations continue to generate healthy free cash flows despite reduction in trade payables due to lower acceptances. In addition, inventory days have also declined from 59 days to 54 days in June'13. Free cash flows of the company stood at Rs 1.3bn as on June'13.

Revise Consolidated Earnings by 4%/5% for FY14E/FY15E to Rs 39.5 and Rs 45.8/share

Post the muted results in standalone business and lower EBIDTA margins reported in Sylvania, we have cut our revenue estimates for domestic business 4-5% for FY14E/15E to 11/13%, but we have upped our standalone EBIDTA margins by 20-30bps to 13.1/13.3% for FY14/15E. On Sylvania, we have cut out EBIDTA margins by 1% to 5%/5.5% for FY14/15E. Subsequently, we have revised our earnings down by 3.7%/5.4% to Rs 39.5/share and Rs 45.8/share for FY14E/15E.

Exhibit 2: Revision in Earnings Estimates

Y/E, Mar (Rs. mn)	FY2014E			FY2015E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	80,082	79,364	(0.9)	88,402	87,355	(1.2)
EBITDA	8,128	7,768	(4.4)	9,311	8,907	(4.3)
EBITDA Margin (%)	10.1	9.8	-40 bps	10.5	10.2	-30 bps
APAT	5,111	4,923	(3.7)	6,050	5,721	(5.4)
EPS	41.0	39.5	(3.7)	48.5	45.8	(5.4)

Source: Company, Emkay Research

Exhibit 3: Segmental Performance

Y/E, Mar (Rs. mn)	Q113	Q213	Q313	Q413	Q114	YoY (%)	QoQ (%)
Segment Revenues							
Switchgears	2,415	2,551	2,697	3,118	2,760	14.3	-11.5
Cables & Wires	4,313	3,907	4,085	4,620	4,049	-6.1	-12.4
Lighting & Fixtures	1,498	1,561	1,770	1,823	1,482	-1.1	-18.7
Electrical Consumer Durables	2,102	1,623	2,032	2,136	2,225	5.9	4.2
Others	0	0	0	0	0	-	-
Total	10,328	9,642	10,584	11,696	10,516	1.8	-10.1
Segment Results							
Switchgears	879	847	950	977	996	13.3	1.9
Cables & Wires	425	423	414	279	405	-4.6	45.0
Lighting & Fixtures	345	351	423	449	372	7.9	-17.1
Electrical Consumer Durables	532	367	508	571	597	12.2	4.6
Others	0	0	0	0	0	-	-
Total	2,181	1,988	2,295	2,276	2,370	8.7	4.1
Add- Unall Income / (Exp)	1,075	834	1,064	910	1,160	-	-
Less- Interest Exp	102	99	58	27	56	-44.7	112.0
PBT	1,005	1,055	1,174	1,340	1,154	14.9	-13.9
Segment Capital Employed							
Switchgears	3,755	4,114	3,788	3,475	3,553	-5.4	2.3
Cables & Wires	2,516	2,351	3,236	3,530	3,310	31.6	-6.2
Lighting & Fixtures	2,628	2,975	2,629	2,488	2,683	2.1	7.9
Electrical Consumer Durables	1,297	1,393	1,326	1,423	1,454	12.1	2.1
Others	6,688	6,920	7,721	7,786	8,680	29.8	11.5
Total	16,884	17,754	18,700	18,702	19,680	16.6	5.2
Contribution Margins (%)						(bps)	(bps)
Switchgears	36.4	33.2	35.2	31.3	36.1	-30	470
Cables & Wires	9.8	10.8	10.1	6.0	10.0	20	400
Lighting & Fixtures	23.0	22.5	23.9	24.6	25.1	210	50
Electrical Consumer Durables	25.3	22.6	25.0	26.7	26.8	150	10
Others	-	-	-	-	-	-	-

Source: Company, Emkay Research

Key Financials (Consolidated)

Income Statement

Y/E Mar (Rsmn)	FY12A	FY13A	FY14E	FY15E
Net Sales	65,182	72,479	79,364	87,355
Growth (%)	16.1	11.2	9.5	10.1
Expenditure	58,397	65,618	71,596	78,448
Raw Materials	36,272	41,593	44,357	48,784
Employee Cost	7,904	8,503	9,955	10,995
Other Exp	14,220	15,522	17,284	18,670
EBITDA	6,785	6,861	7,768	8,907
Growth (%)	21.8	1.1	13.2	14.7
EBITDA margin (%)	10.4	9.5	9.8	10.2
Depreciation	949	1,097	1,209	1,296
EBIT	5,837	5,764	6,559	7,611
EBIT margin (%)	9.0	8.0	8.3	8.7
Other Income	202	162	285	292
Interest expenses	1,281	1,232	667	641
PBT	4,757	4,694	6,177	7,261
Tax	1,058	824	1,254	1,540
Effective tax rate (%)	22.2	17.5	20.3	21.2
Adjusted PAT	3,699	3,870	4,923	5,721
Growth (%)	20.5	4.6	27.2	16.2
Net Margin (%)	5.7	5.3	6.2	6.5
(Profit)/loss from JVs/Ass/MI	0	0	0	0
Adj. PAT After JVs/Ass/MI	3,699	3,870	4,923	5,721
E/O items	0	1,944	-111	0
Reported PAT	3,699	5,814	4,812	5,721
PAT after MI	3,699	3,870	4,923	5,721
Growth (%)	20.6	4.6	27.2	16.2

Cash Flow

Y/E Mar (Rsmn)	FY12A	FY13A	FY14E	FY15E
PBT (Ex-Other income)	4,556	4,532	5,892	6,970
Depreciation	949	1,097	1,209	1,296
Interest Provided	1,281	1,232	667	641
Other Non-Cash items	1,144	1,255	27	0
Chg in working cap	-559	-1,443	719	201
Tax paid	-1,058	-824	-1,254	-1,540
Operating Cashflow	4,519	6,345	6,739	7,218
Capital expenditure	-1,961	-1,776	-1,350	-1,350
Free Cash Flow	2,558	4,570	5,389	5,868
Other income	202	162	285	292
Investments	0	0	0	0
Investing Cashflow	-1,053	-1,395	-1,350	-1,350
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	-884	-343	-743	-431
Interest Paid	-1,281	-1,232	-667	-641
Dividend paid (incl tax)	-363	-943	-1,096	-1,262
Income from investments	0	0	0	0
Others	57	-3	667	641
Financing Cashflow	-2,470	-2,521	-1,839	-1,693
Net chg in cash	996	2,429	3,550	4,175
Opening cash position	1,779	2,336	4,736	8,286
Closing cash position	2,336	4,736	8,286	12,460

Balance Sheet

Y/E Mar (Rsmn)	FY12A	FY13A	FY14E	FY15E
Equity share capital	624	624	624	624
Reserves & surplus	8,932	13,797	17,512	21,971
Net worth	9,556	14,420	18,136	22,595
Minority Interest	1	1	1	1
Secured Loans	7,343	7,424	6,680	6,249
Unsecured Loans	1,342	918	918	918
Loan Funds	8,685	8,342	7,599	7,168
Net deferred tax liability	556	480	619	619
Total Liabilities	18,798	23,244	26,355	30,382
Gross Block	31,201	33,499	34,849	36,199
Less: Depreciation	17,293	18,503	19,711	21,007
Net block	13,908	14,996	15,138	15,192
Capital work in progress	663	254	254	254
Investment	0	0	0	0
Current Assets	27,183	29,330	35,313	41,293
Inventories	13,678	13,184	14,769	15,650
Sundry debtors	8,909	8,623	9,503	10,183
Cash & bank balance	2,336	4,736	8,286	12,460
Loans & advances	117	126	137	155
Other current assets	2,144	2,662	2,618	2,845
Current lia & Prov	22,956	21,336	24,350	26,356
Current liabilities	17,943	16,543	18,960	20,558
Provisions	5,013	4,793	5,390	5,798
Net current assets	4,227	7,994	10,963	14,937
Misc. exp	0	0	0	0
Total Assets	18,798	23,244	26,355	30,382

Key Ratios

Y/E Mar	FY12A	FY13A	FY14E	FY15E
Profitability (%)				
EBITDA Margin	10.4	9.5	9.8	10.2
Net Margin	5.7	5.3	6.2	6.5
ROCE	34.0	28.2	27.6	27.9
ROE	46.0	32.3	30.2	28.1
RoIC	38.3	33.9	36.4	42.9
Per Share Data (Rs)				
EPS	29.6	31.0	39.5	45.8
CEPS	37.2	39.8	49.1	56.2
BVPS	76.6	115.6	145.3	181.1
DPS	6.5	7.5	8.8	10.1
Valuations (x)				
PER	20.5	19.6	15.4	13.3
P/CEPS	16.3	15.3	12.4	10.8
P/BV	7.9	5.3	4.2	3.4
EV / Sales	1.3	1.1	0.9	0.8
EV / EBITDA	12.1	11.6	9.7	7.9
Dividend Yield (%)	1.1	1.2	1.4	1.7
Gearing Ratio (x)				
Net Debt/ Equity	0.7	0.3	0.0	-0.2
Net Debt/EBITDA	0.9	0.5	-0.1	-0.6
Working Cap Cycle (days)	10.6	16.4	12.3	10.3

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