

July 30, 2012

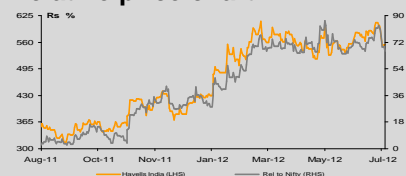
Rating	Previous Reco
Buy	Buy
CMP	Target Price
Rs555	Rs600
EPS Chg FY13E/FY14E (%)	-4.7/-1.9
Target Price change (%)	15
Nifty	5,200
Sensex	17,144

Price Performance

(%)	1M	3M	6M	12M
Absolute	-5	0	25	53
Rel. to Nifty	-3	1	23	62

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	616/ 313
Market Cap (Rs bn/USD mn)	69/ 1,249
Daily Avg Volume (No of sh)	302,822
Daily Avg Turnover (US\$m)	3.1

Shareholding Pattern (%)

	Jun12	Mar12	Dec11
Promoters	61.6	61.6	61.6
FII/NRI	20.0	19.8	19.1
Institutions	0.9	1.1	1.2
Private Corp	1.1	1.2	1.2
Public	16.4	16.3	16.9

Source: Bloomberg

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- Standalone results above est. - revenues grew 26% yoy to Rs 10.3bn led by ECD and Lighting; EBIDTA margins rose 90bps to 12.4% & APAT at Rs 801mn, up 24% yoy
- Sylvania surprises negative reporting 5.4% EBIDTA margin (lower than guided 7.5-8%) and subsequently net loss of €1.4mn led by one time refinancing cost of €4.2mn
- Management confident on domestic business guidance (15-20% revenue growth and 12-12.5% EBIDTA margin), but trims Sylvania EBIDTA margin guidance to 7-7.5% (50bps decline)
- Owing to Sylvania's poor show, we have lowered our earnings estimate by 4.7%/1.9% for FY13 & FY14E respectively. We retain Buy with TP of Rs600/Share

Standalone results above estimates on all counts

(1) Revenue growth stood at 26% yoy to Rs10.3 bn led by healthy growth in all segments with electrical consumer durables (ECD) and lighting segment leading the pack. (2) EBIDTA stood at Rs1.3bn, up 37% yoy (3) EBIDTA margins rose 90bps yoy to 12.4% despite gross margins decline of 60bps yoy to 36.8% (4) APAT for Q1 FY13 stood at Rs 801mn, up 24% yoy.

Sylvania surprises negatively, posts net loss for 1st time in last 6 quarters

Sylvania reported weak quarter with revenue growth of mere 1% to €108mn. Weak demand outlook in Europe, currency volatility (Euro vs Dollar) and lower traction in Brazil & Columbia led to flat revenue growth. The surprise was however at EBIDTA level with Sylvania posting margin of 5.4% in Q1FY13 vs 7.5-8% average posted in last 5 quarters. At the net level, Sylvania posted net loss of €1.4mn vs net profit of €2.4mn in Q1FY12.

Sylvania deviates from guidance on EBIDTA margins (5.4% in Q1FY13 vs guidance of 7.5-8%); one-offs impact bottomline

- Europe posted 4% yoy revenue decline to €61.1mn, while EBIDTA margins fell 190bps yoy to 4.2%. Lower off-take in Europe region and higher procurement cost from China due to weak Euro impacted margins.
- LATAM posted 10% yoy revenue growth to €39.8mn, but EBIDTA margins fell 260bps yoy to 7.7% led by weak market conditions in LATAM.
- Subsequently, Sylvania EBIDTA margins fell short of management guidance (7.5-8%) by over 200bps to 5.4% in Q1FY13.
- Sylvania posted negative PAT of €1.4mn led by forex loss of €1.7mn and one time refinancing cost of €4.2mn.

Management revises Sylvania EBIDTA margin guidance to 7-7.5% (-50bps)

- Management remains confident on the domestic business and has maintained its revenue guidance at 15-20% and EBIDTA margin at 12-12.5%
- On Sylvania, although, management remains focused on improving profitability, it has lowered its EBIDTA margin guidance by 50bps to 7-7.5% range vs 7.5-8% earlier.

Financial Snapshot (Consolidated)

(Rsmn)

YE-	Net	EBITDA		EPS	EPS	RoE		EV/	
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA P/BV
FY11A	56,126	5,570	9.9	3,067	24.6	340.8	58.2	22.6	13.8 10.6
FY12A	65,182	6,785	10.4	3,699	29.6	20.6	46.0	18.7	11.1 7.2
FY13E	74,053	7,442	10.0	4,143	33.2	12.0	37.1	16.7	9.7 5.4
FY14E	82,678	8,667	10.5	5,080	40.7	22.6	34.4	13.6	7.9 4.1

Exhibit 1: Quarterly Performance - Standalone

Y/E, Mar (Rs. mn)	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q1FY13	YoY (%)	QoQ (%)
Operating Income	8,235	8,518	8,982	10,485	10,353	25.7	-1.3
Expenditure	7,281	7,358	7,703	9,231	9,047	24.2	-2.0
Consumption of RM	5,149	5,151	5,615	6,767	6,527	26.8	-3.6
as % of sales	62.5	60.5	62.5	64.5	63.0	50	-150
Employee Cost	337	358	364	358	432	28.0	20.8
as % of sales	4.1	4.2	4.1	3.4	4.2	10	80
Other expenditure	1,796	1,848	1,723	2,106	2,088	16.3	-0.9
as % of sales	21.8	21.7	19.2	20.1	20.2	-160	10
EBITDA	954	1,161	1,279	1,254	1,307	36.9	4.2
Depreciation	86	91	104	166	118	37.2	-28.8
EBIT	868	1,070	1,176	1,088	1,188	36.9	9.3
Other Income	20	-130	-134	217	-82	-504.4	-137.8
Interest	94	71	75	197	102	8.7	-48.2
PBT	795	868	967	1,108	1,004	26.4	-9.4
Total Tax	147	166	179	193	204	38.8	5.5
PAT	648	702	789	915	801	23.6	-12.5
Minority Interest	0	0	0	0	0	-	-
Adjusted PAT	648	702	789	915	801		
Extraordinary Items	0	0	0	0	0	NA	NA
Reported PAT	648	702	789	915	801	23.6	-12.5
Adjusted EPS	5.2	5.6	6.3	7.3	6.4	23.6	-12.5

Margins (%)						(bps)	(bps)
EBIDTA	11.6	13.6	14.2	12.0	12.6	100	70
EBIT	10.5	12.6	13.1	10.4	11.5	90	110
EBT	9.6	10.2	10.8	10.6	9.7	10	-90
PAT	7.9	8.2	8.8	8.7	7.7	-10	-100
Effective Tax rate	18.5	19.1	18.5	17.4	20.3	180	290

Source: Company, Emkay Research

Domestic business remains upbeat, all segments post strong revenue growth led by rising distribution and new products

All the segments continued to grow at a healthy pace with Electrical Consumer Durables (ECD) and lighting & fixtures (L&F) segment leading the pack

- ECD posted 57% yoy revenue growth to Rs 2.1bn led by increasing contribution from domestic appliances (Rs 260mn) and strong growth in fans (42% yoy).
- L&F revenues grew 24% yoy to Rs 1.5bn driven by contribution from new products.
- C&W revenue grew 21% yoy to Rs4.3 bn driven by strong traction in wires business (35% yoy growth). However, flat revenues in cables division (impacted by lower underground cable sales) stemmed further growth in C&W segment.
- Switchgear segment reported revenue growth of 15% yoy to Rs2.4bn.

Maintaining a tight leash on capital employed

Despite posting domestic revenue growth of 26% yoy, Havells has maintained a tight leash on its capital employed. The capital employed has increased by just 5% on a sequential basis from Rs 16.1bn at end of March'12 to Rs 16.9bn at end of June'12. This implies the inherent strength in the domestic business and its ability to self fund its growth. In addition, Havells continues to manage its standalone working capital prudently by maintaining a negative working capital at 3 days.

Exhibit 2: Segmental Performance

Y/E, Mar (Rs. mn)	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q1FY13	YoY (%)	QoQ (%)
Segment Revenues							
Switchgears	2,108	2,218	2,261	2,376	2,415	14.6	1.7
Cables & Wires	3,564	3,692	3,907	4,767	4,313	21.0	-9.5
Lighting & Fixtures	1,210	1,374	1,448	1,511	1,498	23.8	-0.9
Electrical Consumer Durables	1,342	1,220	1,346	1,813	2,102	56.6	15.9
Others	0	0	0	0	0	-	-
Total	8,224	8,504	8,962	10,467	10,328	25.6	-1.3
Segment Results							
Switchgears	773	839	894	802	879	13.7	9.6
Cables & Wires	284	342	385	307	425	49.6	38.6
Lighting & Fixtures	249	336	379	357	345	38.6	-3.5
Electrical Consumer Durables	408	338	390	497	532	30.3	7.1
Others	0	0	0	0	0	-16.8	-7.6
Total	1,714	1,855	2,048	1,963	2,181	27.2	11.1
Add- Unall Income / (Exp)	862	915	1,006	658	1,075	-	-
Less- Interest Exp	94	71	75	197	102	8.7	-48.2
PBT	759	869	968	1,108	1,005	32.4	-9.4
Segment Capital Employed							
Switchgears	3,915	4,201	3,439	3,933	3,755	-4.1	-4.5
Cables & Wires	1,682	1,506	1,564	1,881	2,516	49.6	33.8
Lighting & Fixtures	2,317	2,593	2,621	2,780	2,628	13.4	-5.4
Electrical Consumer Durables	1,246	1,343	1,304	1,438	1,015	-18.5	-29.4
Others	5,459	7,962	7,184	6,051	6,970	27.7	15.2
Total	14,620	17,605	16,111	16,083	16,884	15.5	5.0
Contribution Margins (%)							
						(bps)	(bps)
Switchgears	36.7%	37.8%	39.5%	33.8%	36.4%	0	0
Cables & Wires	8.0%	9.3%	9.9%	6.4%	9.8%	0	0
Lighting & Fixtures	20.6%	24.5%	26.2%	23.6%	23.0%	0	0
Electrical Consumer Durables	30.4%	27.7%	28.9%	27.4%	25.3%	-10	0
Others	-	-	-	-	-	-	-
Average	20.8%	21.8%	22.9%	18.8%	21.1%	0	0

Source: Company, Emkay Research

We have lowered our earnings estimates by 4.7%/1.9% for FY13E and FY14E respectively due to Sylvania's weak show

Owing to sustainable performance of domestic operations, we remain upbeat on this vertical and have not made any revision in our standalone financials (17% revenue CAGR FY12-FY14E and 12.6% EBITDA margins in FY14E). However, Sylvania's poor performance in this quarter has led us to revise our EBITDA margin estimates for Sylvania by 50bps to 7.5% for FY13E. Subsequently, we have revised our FY13E earnings by -4.9% to Rs 33.2/Share and by -1.9% to Rs 40.7/share for FY14E.

Exhibit 3: Revision in Earnings Estimates

Y/E, Mar (Rs. mn)	FY2013E			FY2014E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	74,443	74,053	(0.5)	83,070	82,678	(0.5)
EBITDA	7,633	7,442	(2.5)	8,699	8,667	(0.4)
EBITDA Margin (%)	10.3	10.0	-20 bps	10.5	10.5	0 bps
APAT	4,347	4,143	(4.7)	5,180	5,080	(1.9)
EPS	34.8	33.2	(4.7)	41.5	40.7	(1.9)

Source: Company, Emkay Research

Domestic business maintains its sheen, but Sylvania disappoints; a minor road block, but story remains intact, maintain BUY

Havells domestic business surpassed our and street expectations by posting healthy growth on all counts. However, Sylvania disappointed on EBIDTA margins and posted negative PAT for the quarter. The management remained fairly confident of achieving its domestic business guidance of 15-20% revenue growth and 12-12.5% EBIDTA margin. However, owing to the weak business environment in Europe coupled with higher operational costs due to volatile currency has led management to revise its EBIDTA margin guidance for Sylvania by 50bps to 7-7.5% range. Despite this poor performance in Sylvania, we believe the overall focus of the company i.e. 'stable and all-round growth in domestic operations and improving profitability in Sylvania' remains intact. We maintain positive bias on Havells with 'BUY' rating and price target of Rs 600, thereby implying a target multiple of 8.6x FY14E EV/EBIDTA. Currently, Havells is trading at 7.9x FY14E EV/EBIDTA.

Key Financials (Consolidated)

Income Statement

Y/E Mar (Rsmn)	FY11A	FY12A	FY13E	FY14E
Net Sales	56,126	65,182	74,053	82,678
Growth (%)	3.3	16.1	13.6	11.6
Expenditure	50,556	58,397	66,612	74,011
Raw Materials	31,925	36,272	41,863	47,148
Employee Cost	6,405	7,904	7,857	8,372
Other Exp	72	174	0	0
EBITDA	5,570	6,785	7,442	8,667
Growth (%)	72.9	21.8	9.7	16.5
EBITDA margin (%)	9.9	10.4	10.0	10.5
Depreciation	804	949	1,042	1,093
EBIT	4,766	5,837	6,400	7,574
EBIT margin (%)	8.5	9.0	8.6	9.2
Other Income	237	202	219	253
Interest expenses	902	1,281	1,222	1,054
PBT	4,101	4,757	5,397	6,773
Tax	1,031	1,058	1,254	1,693
Effective tax rate (%)	25.1	22.2	23.2	25.0
Adjusted PAT	3,070	3,699	4,143	5,080
Growth (%)	341.0	20.5	12.0	22.6
Net Margin (%)	5.5	5.7	5.6	6.1
(Profit)/loss from JVs/Ass/MI	-4	0	0	0
Adj. PAT After JVs/Ass/MI	3,067	3,699	4,143	5,080
E/O items	-31	0	0	0
Reported PAT	3,036	3,699	4,143	5,080
PAT after MI	3,067	3,699	4,143	5,080
Growth (%)	340.8	20.6	12.0	22.6

Cash Flow

Y/E Mar (Rsmn)	FY11A	FY12A	FY13E	FY14E
PBT (Ex-Other income)	3,864	4,556	5,178	6,520
Depreciation	804	949	1,042	1,093
Interest Provided	902	1,281	1,222	1,054
Other Non-Cash items	509	1,212	0	0
Chg in working cap	-11	-559	479	-72
Tax paid	-1,031	-1,058	-1,254	-1,693
Operating Cashflow	2,530	4,617	5,664	6,101
Capital expenditure	-1,941	-1,961	-1,350	-1,350
Free Cash Flow	589	2,656	4,314	4,751
Other income	237	202	219	253
Investments	0	0	0	0
Investing Cashflow	-1,762	-1,053	-1,350	-1,350
Equity Capital Raised	95	0	0	0
Loans Taken / (Repaid)	-1,095	-884	-250	-981
Interest Paid	-902	-1,281	-1,222	-1,054
Dividend paid (incl tax)	-207	-363	-914	-1,101
Income from investments	0	0	0	0
Others	1,453	-40	1,222	1,054
Financing Cashflow	-654	-2,568	-1,163	-2,082
Net chg in cash	114	996	3,150	2,669
Opening cash position	1,481	1,779	2,336	5,487
Closing cash position	1,779	2,336	5,487	8,156

Balance Sheet

Y/E Mar (Rsmn)	FY11A	FY12A	FY13E	FY14E
Equity share capital	624	624	624	624
Reserves & surplus	5,914	8,932	12,161	16,141
Net worth	6,537	9,556	12,785	16,765
Minority Interest	6	1	1	1
Secured Loans	8,329	7,343	7,093	6,112
Unsecured Loans	1,240	1,342	1,342	1,342
Loan Funds	9,569	8,685	8,435	7,454
Net deferred tax liability	559	556	556	556
Total Liabilities	16,671	18,798	21,778	24,776
Gross Block	31,808	31,201	32,551	33,901
Less: Depreciation	18,499	17,293	18,335	19,428
Net block	13,309	13,908	14,216	14,474
Capital work in progress	249	663	663	663
Investment	0	0	0	0
Current Assets	22,077	27,183	32,026	37,050
Inventories	10,860	13,678	14,673	16,172
Sundry debtors	7,724	8,909	9,293	9,856
Cash & bank balance	1,779	2,336	5,487	8,156
Loans & advances	120	117	158	186
Other current assets	1,595	2,144	2,416	2,680
Current lia & Prov	18,965	22,956	25,128	27,410
Current liabilities	15,061	17,860	20,579	22,642
Provisions	3,904	5,096	4,549	4,768
Net current assets	3,113	4,227	6,899	9,640
Misc. exp	0	0	0	0
Total Assets	16,671	18,798	21,778	24,776

Key Ratios

Y/E Mar	FY11A	FY12A	FY13E	FY14E
Profitability (%)				
EBITDA Margin	9.9	10.4	10.0	10.5
Net Margin	5.5	5.7	5.6	6.1
ROCE	31.5	34.0	32.6	33.6
ROE	58.2	46.0	37.1	34.4
RoIC	34.1	38.3	40.7	48.0
Per Share Data (Rs)				
EPS	24.6	29.6	33.2	40.7
CEPS	31.0	37.2	41.6	49.5
BVPS	52.4	76.6	102.5	134.4
DPS	2.5	6.5	7.3	8.8
Valuations (x)				
PER	22.6	18.7	16.7	13.6
P/CEPS	17.9	14.9	13.4	11.2
P/BV	10.6	7.2	5.4	4.1
EV / Sales	1.4	1.2	1.0	0.8
EV / EBITDA	13.8	11.1	9.7	7.9
Dividend Yield (%)	0.5	1.2	1.3	1.6
Gearing Ratio (x)				
Net Debt/ Equity	1.2	0.7	0.2	0.0
Net Debt/EBITDA	1.4	0.9	0.4	-0.1
Working Cap Cycle (days)	8.7	10.6	7.0	6.6

Recommendation History: Havells India – HAVL IN

Date	Reports	Reco	CMP	Target
31/05/2012	Havells India Q4FY12 Result Update	Buy	548	600
31/01/2012	Havells India Q3FY12 Result Update	Buy	480	520
08/12/2011	Havells India Company Update	Buy	437	460
01/11/2011	Havells India Q2FY12 Result Update	Buy	381	460

Recent Research Reports

Date	Reports	Reco	CMP	Target
25/07/2012	Jubilant FoodWork Q1FY13 Result Update	Sell	1,189	1,000
25/07/2012	Hindustan Unilever Q1FY13 Result Update	Hold	476	415
23/07/2012	Colgate - Palmolive Q1FY13 Result Update	Hold	1,171	1,200
23/07/2012	Asian Paints Q1FY13 Result Update	Sell	3,619	3,340

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