

BSE Code: 517354
NSE Code: HAVELLS
Reuters Code: HVEL.NS
Bloomberg Code: HAVL:IN

Incorporated in 1983, Havells India is a leading manufacturer of electrical components and power distribution equipment's with products ranging from industrial and domestic circuit protection switchgears, cables, motors, pumps, fans, power capacitors, CFL lamps and luminaries. The company has 12 manufacturing plants spread across 7 locations in the country.

Investment Rationale

↪ Broad based product portfolio

Havells has a broad-based product portfolio in electricals ranging from lighting, switches and cables, electric water heaters, power capacitors, CFL lamps, luminaires for domestic, commercial and industrial applications. The company has created a strong brand name driven by new product innovations and continuous focus on expanding existing product lines. Further the company's sizable investment in advertisement, 3-4% of revenue (invested Rs.770 crores in advertisement and promotion over the last 5 years), has helped the company in strengthening its brand image.

↪ Strong distribution network

The company has a strong pan-India distribution network with ~7,500 direct dealers and ~1,00,000 retailers in India. Additionally, the company also owns exclusive brand shops - Havells Galaxy that offers a wide variety of products for different applications. It has added 1700 new dealers in FY17 and is focusing on further expanding its presence in rural areas with addition of over 400 dealers in FY17. Given the company's sustained focus on deepening its distribution reach, it will further aid in driving its revenue growth going ahead.

↪ Foray into consumer durable space

In order to mark an entry into the consumer durable space, the company has acquired the consumer durables business of Lloyd in FY17 at an enterprise value of Rs. 1,600 crores. This acquisition paves the way for the company to foray into large appliances like air conditioners, LED TV & Washing machines. Lloyd is amongst the top 3 brands in air-conditioners' category with a market share of ~12%. Further the management highlighted that the company's focus on operational efficiencies at Lloyd driven by its integration benefits like integration of warehouses, supply chains and back-end functions would result in huge synergies driving margin expansion ahead.

↪ Positive macro environment augur well

Growing urbanisation level in India (set to reach 40% by 2030 from 31% currently) coupled with rising income levels and increasing inclination of middle class towards brands will drive incremental demand for consumer products in the long run. Further the implementation of GST bodes well for organized players such as Havells as some of the product categories that it operates in have a significant unorganized market. Havells being a dominant player in some of the categories such as switchgear market particularly MCB (market share of ~28%) and fastest growing domestic brand in the fans and water heaters space is set to gain from this.

Valuations: The company is currently trading at a PE multiple of 45.4x/36.4x for FY18E/19E. The company's robust product portfolio, strong brand recall and higher visibility of revenue growth should continue to support Havell's premium valuations. We expect the company's revenue and PAT to grow at a healthy CAGR of ~21%/~20% over FY17-19E. Hence, we recommend 'BUY' rating on the stock with a target price of Rs. 555 based on a target multiple of 41x FY19E EPS.

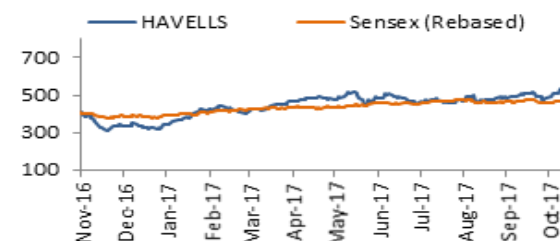
Market Data

Rating	BUY
CMP (Rs.)	494
Target (Rs.)	555
Potential Upside	13%
Duration	Long Term
Face Value (Rs.)	1
52 week H/L (Rs.)	564/304
Adj. all time High (Rs.)	564
Decline from 52WH (%)	11.9
Rise from 52WL (%)	63.5
Beta	1.0
Mkt. Cap (Rs.Cr)	30,839

Fiscal Year Ended

Y/E	FY16	FY17	FY18E	FY19E
Net sales (Rs.Cr)	7,613	6,156	7,787	8,955
Adj. profit (Rs.Cr)	1,300	482	679	846
EPS (Rs.)	7.0	9.4	10.9	13.5
P/E (x)	70.3	52.4	45.4	36.4
P/BV (x)	10.1	9.4	8.3	7.2
ROE (%)	28.8	18.6	19.4	21.2

One year Price Chart



Source: Company, In-house research

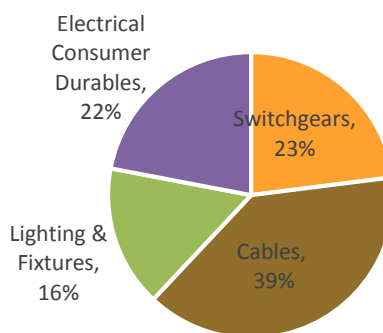
Shareholding Pattern	Sep-17	Jun-17	Chg.
Promoters	61.6	61.6	0.0
FII's	25.7	26.3	(0.6)
MFs/Insti	3.4	3.2	0.2
Public	6.1	6.1	0.0
Others	3.2	2.8	0.4

Havells India Ltd: Business overview

Incorporated in 1983, Havells India is a leading manufacturer of electrical components and power distribution equipment's with products ranging from industrial and domestic circuit protection switchgears, cables, motors, pumps, fans, power capacitors, CFL lamps and luminaries. The company has 12 manufacturing plants spread across 7 locations in the country.

Over the years, Havells has been continuously focusing on new product launches and expanding its existing variants. The company has entered the domestic appliances business in 2011, pumps in 2013, led lights in 2015, Solar business with streetlight, consumer products and rooftop generation solutions in 2016, personal grooming business in 2017, among others. This has not only helped the company in expanding its product portfolio but has also assisted in accelerating revenue growth.

Revenue mix



Source: Company, In-house research

Broad based product portfolio

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Market share

	Product	Indicative Market Size (Rs. in crores)	Indicative Market Share	Indicative Rank	Organized Penetration Level	Peers
Switchgears	MCB	2,000	27-28%	# 1	High	Legrand, Schneider
	Switches*	2,200	14-15%	# 3	Medium	Panasonic (Anchor), Legrand
Cable	Domestic	8,000	16%	# 3	Low	Finolex, Polycab
	Industrial	12,000	10%	# 3	Low	Polycab, KEI
Lighting	Lighting & Fixtures	6,500	10-14%	# 2-4	Medium	Philips, Crompton, Bajaj, Wipro
ECD	Fans	6,900	16%	# 3	High	Crompton, Orient, Usha
	Water Heaters	1,400	15%	# 3	Low	Racold, AO Smith
	Other Appliances	5,200	2-3%	-	Low	Bajaj, Philips

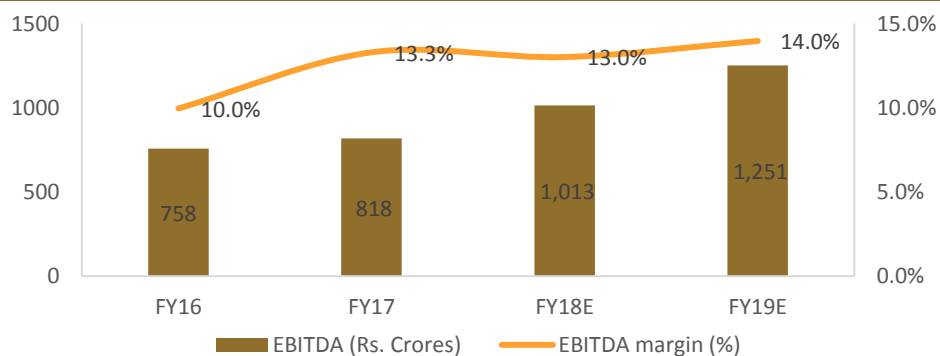
*Premium modular plate switches

Source: Company, In-house research

Foray into consumer durable space

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EBITDA to grow at 24% CAGR over FY17-19E

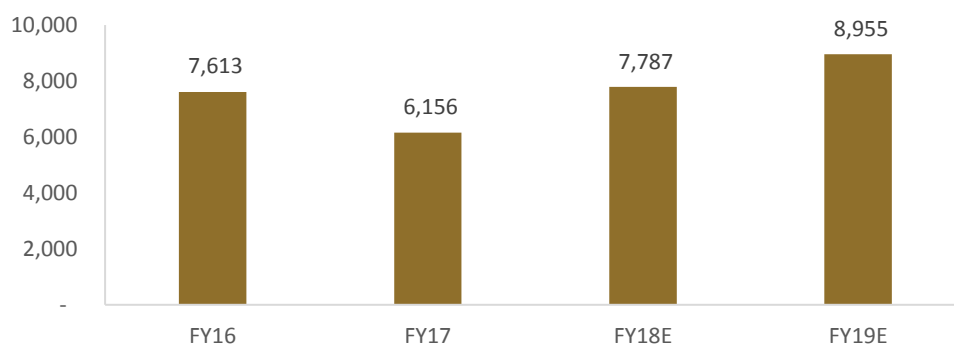


Source: Company, In-house research

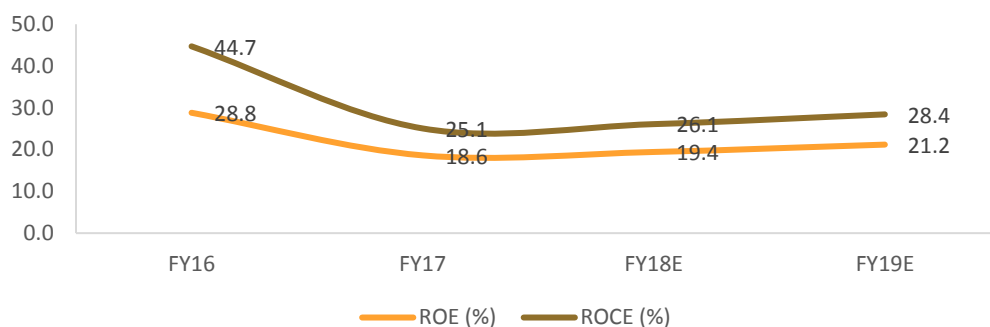
Strong distribution network

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Overall revenue to grow at ~21% CAGR during FY17-19E



Return ratios to stay healthy



Source: Company, In-house research

Key Risks:

- Increasing competition.
- Slowdown in demand
- Slower than expected recovery in revenue & profitability in Lloyd business

Profit & Loss Account (Consolidated)

Y/E (Rs. Cr)	FY16	FY17	FY18E	FY19E
Total operating Income	7,613	6,156	7,787	8,955
Raw Material cost	4,375	3,653	4,621	5,314
Employee cost	896	509	657	737
Other operating expenses	1,584	1,175	1,496	1,652
EBITDA	758	818	1,013	1,251
Depreciation	134	121	137	155
EBIT	624	698	876	1,096
Interest cost	54	13	17	17
Other Income	87	138	90	99
Profit before tax	656	823	949	1,178
Tax	219	229	266	330
Profit after tax	437	594	684	848
Minority Interests	-	-	-	-
P/L from Associates	2	(5)	(5)	(2)
Adjusted PAT	438	589	679	846
E/o income / (Expense)	862	(107)	-	-
Reported PAT	1,300	482	679	846

Balance Sheet (Consolidated)

Y/E (Rs. Cr)	FY16	FY17	FY18E	FY19E
Paid up capital	62	62	62	62
Reserves and Surplus	2,965	3,214	3,631	4,215
Net worth	3,028	3,277	3,693	4,277
Minority interest	15	9	9	9
Total Debt	134	208	208	208
Other non-current liabilities	106	307	308	308
Total Liabilities	3,282	3,801	4,219	4,803
Total fixed assets	1,210	1,286	1,362	1,417
Capital WIP	20	12	10	10
Goodwill	14	14	1,509	1,509
Investments	189	162	162	162
Net Current assets	1,530	1,868	717	1,246
Other non-current assets	319	460	460	460
Total Assets	3,282	3,801	4,219	4,803

Cash Flow Statement (Consolidated)

Y/E (Rs. Cr)	FY16	FY17	FY18E	FY19E
Pretax profit	1,520	723	945	1,176
Depreciation	134	122	137	155
Chg. in Working Capital	(78)	113	(112)	(36)
Others	(845)	89	-	-
Tax paid	(180)	(205)	(266)	(330)
Cash flow from operating activities	551	841	704	965
Capital expenditure	(217)	(243)	(1,705)	(210)
Chg. in investments	215	(48)	-	-
Cash flow from investing activities	(2)	(290)	(1,705)	(210)
Equity raised/(repaid)	0	0	-	-
Debt raised/(repaid)	(173)	119	-	-
Dividend paid	(451)	(220)	(262)	(262)
Other financing activities	-	-	-	-
Cash flow from financing activities	(624)	(101)	(262)	(262)
Net chg in cash	(75)	450	(1,263)	493

Key Ratios (Consolidated)

Y/E	FY16	FY17	FY18E	FY19E
Valuation(x)				
P/E	70.3	52.4	45.4	36.4
EV/EBITDA	38.9	35.5	30.0	23.9
EV/Net Sales	3.9	4.8	3.9	3.4
P/B	10.1	9.4	8.3	7.2
Per share data (Rs.)				
EPS	7.0	9.4	10.9	13.5
DPS	6.0	3.5	3.5	3.5
Margin (%)				
EBITDA	10.0	13.3	13.0	14.0
EBIT	9.3	13.6	12.4	13.3
NPM	5.8	9.6	8.7	9.5
Return Ratios (%)				
RoE	28.8	18.6	19.4	21.2
RoCE	44.7	25.1	26.1	28.4
Turnover Ratios (x)				
Net Sales/GFA	11.2	4.3	4.7	4.8
Sales/Total Assets	3.5	1.3	1.4	1.4

Rating Criteria

Large Cap.	Return	Mid/Small Cap.	Return
Buy	More than equal to 10%	Buy	More than equal to 15%
Hold	Upside or downside is less than 10%	Accumulate*	Upside between 10% & 15%
Reduce	Less than equal to -10%	Hold	Between 0% & 10%
		Reduce/sell	Less than 0%

* To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

* Havells is a large-cap company.

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Contact Us:

Funds India

Uttam Building, Third Floor |
No. 38 & 39 | Whites Road |
Royapettah | Chennai – 600014 |

T: +91 7667 166 166

Email: contact@fundsindia.com

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