

### Havells India - Buy

#### Investment overview

- Havells is the largest Indian manufacturer of consumer electrical and the fourth largest electrical lightings brand in the world.
- It is India's leading fast moving electrical consumer goods player, with a strong brand recall among consumers.
- Havells will invest Rs 50 crore in a new home appliance plant at Neemrana in Rajasthan which will be operational from February next year.
- The company is looking at a growth of 10-11% in the current fiscal and is budgeting for aggressive growth targets in its domestic business.

#### Business Overview

Havells India Limited is a leading Fast Moving Electrical Goods (FMEG) Company with a strong global footprint. In course of time the company has transformed itself from a single product switchgear manufacturer to a full product FMEG Company, presently into four broader segments of Switchgears, Cable & Wires, Lighting & Fixtures and Electrical Consumer Durables. The company enjoys enviable market dominance across a wide spectrum of products, including Industrial & Domestic Circuit Protection Devices, Cables & Wires, Motors, Fans, Modular Switches, Home Appliances, Electric Water Heaters, Power Capacitors, CFL Lamps, Luminaires for Domestic, Commercial and industrial Applications.

Havells owns some of the most prestigious global brands like Havells, Crabtree, Sylvania, Concord, Luminance and Standard. It has 14 state-of-the-art manufacturing plants in India spread over eight locations and 7 world class manufacturing plants located in Europe, Latin America, Africa & China are manufacturing globally acclaimed products, synonymous with excellence and precision in the electrical industry.

The company has formed strategic alliances and partnerships with many leading players operating in the end-to-end solutions in the power distribution equipment industry.

Havells offers same quality products for both Indian and international markets. Havells products & processes have acquired a number of International quality certifications, like BASEC, CSA, KEMA, CB, CE, ASTA, CPA, SEMKO, SIRIUM (Malaysia), SPRING (Singapore), TSE (Turkey), SNI (Indonesia) and EDD (Bahrain) - thus complying with stringent quality norms at even the most testing markets, worldwide.

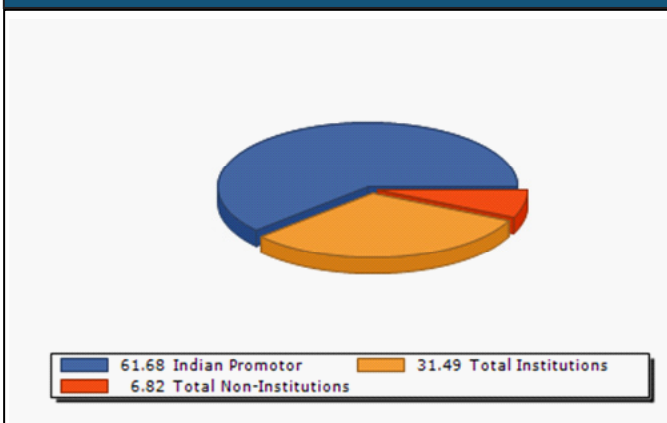
#### Financial Health

Havells India has reported 44.55% rise in its net profit after tax at Rs 125.72 crore for the quarter ended September 30, 2013 as compared to Rs 86.97 crore for the same quarter in the previous year. Total income of the company increased by 22.31% at Rs 1181.76 crore for quarter under review as compared to Rs 966.17 crore for the quarter ended September 30, 2012.

Segment wise, revenue of Switchgears division grew by

Stock Data		31/10/2013
Current Mkt Price (Rs)		738.90
52 Week High		817.00
52 Week Low		556.80
Mkt Cap (Rs. in Cr)		9280.42
Return in last one Month (%)		13.52

#### Share Holding



#### Performance in last one year



#### Y-o-Y Performance (Consolidated)

(Rs. in Cr.)			
Particulars	Mar 2013	Mar 2012	Change(%)
Net Sales	7247.89	6518.20	11.19
Other Income	33.37	41.35	-19.30
Total Expenditure	6579.00	5860.87	12.25
Operating Profit	702.26	698.68	0.51
Interest	123.22	128.10	-3.81
Profits After Tax	581.43	369.92	57.18
Reserve & Surplus	1379.65	893.22	54.46
Reported EPS(Rs)	46.60	29.69	56.96
Core EBITDA Margin (%)	8.36	9.27	-9.76

22.89% to Rs 313.52 crore compared to Rs 255.12 crore in same quarter last year, Cables division revenue were up by 24.83% to Rs 487.38 crore from Rs 390.45 crore, Lighting & Fixtures increased by 15.17% to Rs 179.79 crore from Rs 156.11 crore, while the revenue of Electrical Consumer Durables division were up by 19.04% to Rs 193.26 crore from Rs 162.34 crore.

### Industry Scenario

The electronics and electrical equipment manufacturing industry is part of the engineering manufacturing sector. The electronics and electrical equipment industry is extremely fast moving and competitive. Research and development of new products and then getting them quickly into the markets is key to the success of many manufacturers.

In contrast to matured markets in developed countries, the Indian markets are still in a growth stage. The domestic electrical equipment manufacturing industry suffers a cost disadvantage of about 14% vis-a-vis imports due to sales tax / VAT, entry tax / octroi; higher financing cost; lack of quality infrastructure; dependence on foreign sources for critical raw material and components, etc.

Buoyed by rising income levels, resulting from the sustained GDP growth witnessed over the last decade, as well as changing lifestyles and aspirations shaped by the higher exposure to media, print and television, consumption demand has remained fairly robust. The higher spending power has also seen consumers shifting to branded products. And, within the branded category, there is a discernible move towards affordable premium products category.

There has been rapid growth in the Indian economy and there has been many fold increase in brand conscious middle class who can afford air conditioners, washing machines, refrigerators and high end colour televisions etc. Rising numbers of households in this income bracket has supported growth in demand for electrical appliances and house wares. Market demand for electrical appliances and household goods is forecast to average 10.5% a year in 2011-15.

### Investment Rationale

- Havells India beat market expectations with its second quarter numbers, while its standalone profit after tax rose by a whopping 44.5 percent, its consolidated net profit stood at Rs 112 crore as against Rs 242 crore in a year ago period as there was an exceptional income of Rs 167 crore in July-September quarter of 2012. All the business segments of the company performed well, though the European subsidiary Sylvania posted a net loss of euro 1.6 million during the quarter as against profit of euro 24.3 million in a year ago period due to currency fluctuations. Good response from customers to company's new products along with lower advertisement costs resulted in higher contribution at operating level.
- Havells India has forayed into kitchen appliances segment with the launch of the ProLife (air frier) and the Premio (innovative mixer grinder). Pro Life, the air

### Q-o-Q Performance (Standalone)

(Rs. in Cr.)			
Particulars	Sep 2013	Sep 2012	Change(%)
Net Sales	1173.95	964.22	21.75
Expenditure	1004.97	845.06	18.92
Other Income	8.34	12.07	-30.90
EBITDA	177.32	131.23	35.12
Interest	6.05	9.94	-39.13
Net Profit	125.72	86.97	44.56
EBITDA Margin (%)	15.10	13.61	10.98
NPM (%)	10.71	9.02	18.73
EPS	10.07	6.97	44.51

### Profit & Loss (Consolidated)

(Rs. in Cr.)			
Particulars	Mar 2013	Mar 2012	Change(%)
Net Sales	7247.89	6518.20	11.19
Total Income	7281.26	6559.55	11.00
Total Expenditure	6579.00	5860.87	12.25
Operating Profit	702.26	698.68	0.51
Profits After Tax	581.43	369.92	57.18

### Balance Sheet (Consolidated)

(Rs. in Cr.)			
Particulars	Mar 2013	Mar 2012	Change(%)
Share Capital	62.39	62.39	0.00
Reserve & Surplus	1379.65	893.22	54.46
Total Liabilities	4457.92	4175.39	6.77
Investments	0.00	0.00	0.00
Current Liabilities	307.73	269.12	14.35
Net Current Assets	993.73	288.93	243.93
Total Assests	4457.92	4175.39	6.77

### Key Ratios (Consolidated)

Particulars	Mar 2013	Mar 2012
Reported EPS (Rs)	46.60	29.69
Core EBITDA Margin (%)	8.36	9.27
EBIT Margin (%)	9.84	8.51
ROA (%)	13.47	9.56
ROE (%)	48.50	45.97
ROCE (%)	35.72	32.17
Price/Book (x)	5.60	7.47
Net Sales Growth (%)	11.19	16.13
EBIT Growth (%)	30.34	21.45
PAT Growth (%)	57.18	21.71
Total Debt/Mcap (%)	0.12	0.14

## Peer group comparison (Rs. crore) (Standalone)

\*latest based on last traded price

Company	Year End	Net Sales	PBDIT	PAT	PATM%	EPS	P/E*
Havells India	201303	4224.99	533.12	371.39	8.8	29.8	21.85
Bajaj Electricals	201303	3387.57	110.76	51.21	1.5	5.1	41.28
Philips Electronics	201203	5548.80	275.80	133.80	2.4	23.3	6.81
PG Electroplast	201303	302.64	4.99	-5.00	-1.7	-3.0	0.0

frier, uses the Rapid Air Technology or hot air to facilitate cooking or deep frying without using oil. Premio, the Mixer Grinder on the other hand comes with a lot of user friendly features - Dupont-Hytrel suction feet (for better grip), a unique LED power switch, improved blade designs, closed handles (as demanded by potential users) and to top it all it is an almost soundless device. Currently the company is outsourcing its entire range of domestic appliances but going further the company is setting up its first home appliances manufacturing unit at Neemrana in Rajasthan at an estimated cost of Rs 50 crore, the facility, having an annual production capacity of 400,000 water heaters (geyser), which is expected to be operational in February 2014. The company is also mulling using a part of its fan manufacturing facility at Haridwar for manufacturing domestic appliances in future. The home appliances segment contributed Rs 200 crore to the topline last fiscal and the company expects the business to contribute around Rs 350 crore this fiscal and Rs 500 crore by the end FY-15.

- Havells India's expansion of Baddi plant that manufactures switches and switchgears completed by July-end. The Baddi plant was manufacturing up to five lakh Reo switches annually, which carry a 10-year guarantee and is mainly targeted to the Tier II & III cities and rural markets. The company has invested Rs 100 crore on the expansion that doubled its capacities to 10 lakh SKUs per day. The company that has forayed into conventional switches category with Reo brand, expects the brand to be a growth driver in rural India. Reo is an innovative and technology oriented product offering premium quality at most economical prices. The product also provides unmatched safety features and adheres to the stringent quality standards of Havells. The demand for switches in entry level segment is fast growing and there is huge potential in this segment. Currently, Havells India is present in 518 out of the 667 cities of India with over 1 lakh population. Launch of REO has enabled it to enter towns under 50,000 population and importantly mark its entry into rural markets. REO is likely to become a growth driver going forward for the company.

- The company has successfully widened its product range in the Miniature Circuit Breakers (MCB), used in households, to emerge as the dominant player in the industry, enjoying close to 28% market share. Further with a view to create a distinct identity in the cluttered competitive industry, the company is now repositioning its distribution channels with a view to providing consumers a unique shopping experience. It has further plans of launching more Havells Galaxy showrooms, the one-stop-shop which houses all Havells product to meet the various electrical goods needs of consumers. These Galaxies, which showcase all Havells products - from ceiling fans to switches, switchgears, cables and lighting needs of consumers, are drawing a good response from the consumers across homes, industries and commercial establishments. Havells Galaxy has been a pioneering concept of exclusive stores in the entire electrical industry. Currently there are 200 'Havells Galaxy' across India contributing close to Rs 450 crore to overall revenues of the company.
- At the CMP of Rs 738.90, Havells India is trading at a consolidated TTM P/E of 15.96x and EV/EBITDA of 13.94(x) respectively, we recommend a 'BUY' in the scrip with a price target of Rs 790. The stocks of Havells India has once again started showing some upmove, the company has been weathering out the slowdown in economy on the back of good product mix and better contribution margins. Going forward the company is looking at a growth of 10-11 per cent in the current fiscal 2013-14. Havells is budgeting for aggressive growth targets in its domestic business for switches lighting fixtures, fans, consumer durables and wires. Its total debt in the books of London based Havells Sylvania, has come down to close to 80 million Euro and the loan had been rescheduled this year. On the domestic front the expansion of its product range has also helped it in broadening the customer base on a pan-India basis. The electrical consumer durables segment is gradually getting good acceptance and the company is now expanding into new products. It's implied valuation multiple moves up given greater growth visibility.

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