

January 31, 2012

Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs 480	Rs 520
EPS change FY12E/13E (%)	6.7/7.0
Target Price change (%)	16
Nifty	5,199
Sensex	17,194

### Price Performance

(%)	1M	3M	6M	12M
Absolute	25	35	33	39
Rel. to Nifty	11	38	40	47

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	Engineering & Capital Goods
Bloomberg	HAVL@IN
Equity Capital (Rs mn)	624
Face Value(Rs)	5
No of shares o/s (mn)	125
52 Week H/L	484/290
Market Cap (Rs bn/USD mn)	60/1,214
Daily Avg Volume (No of sh)	382153
Daily Avg Turnover (US\$m)	3.2

### Shareholding Pattern (%)

	Dec-11	Sep-11	Jun-11
Promoters	61.6	61.6	61.6
FII/NRI	30.0	27.7	27.1
Institutions	1.2	1.9	2.7
Private Corp	1.2	1.7	1.5
Public	6.1	7.2	7.2

Source: Capitaline

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- Standalone results beats estimates - revenues grew 26% yoy to Rs9 bn led by Lighting & ECD segment; EBIDTA margins jumps 130bps to 14% & APAT at Rs789 mn, up 21% yoy
- Sylvania declines 4% yoy, but strong profit growth continues. Normalised EBIDTA margin at 8.6% vs 5.1% in Q3FY11
- Revised EBIDTA margins assumptions upwards by 40bps and 50bps in FY12E and FY13E, thereby revise earnings by 6.7% (Rs29.2/Share) and 7% (Rs36.1/Share) for FY12E and FY13E
- Rising dealer network and new product launches continues to drive domestic growth; Sylvania continues to surprise positively on margins. Maintain Buy with TP of Rs520/Share

### Yet another stellar quarter, APAT growth of 21% yoy in standalone operations

Havells reported yet another strong quarterly performance beating expectations on all counts. Including Standard Electric (1) standalone revenue growth stood at 26% yoy to Rs9 bn (2) EBIDTA stood at Rs1.3 bn, up 38% yoy (3) EBIDTA margins expanded 130 bps yoy to 14% led by higher margins in lighting and switchgear division (4) APAT for Q3 FY12 stood at Rs789 mn, up 21% yoy.

### Lighting and consumer durables drive revenue growth

All segments posted robust growth, showing no signs of moderation, with Consumer Durables (ECD) and Lighting leading the way.

- ECD posted healthy growth of 35% yoy to Rs1.3 bn led by launch of kitchen appliances. Fans segment reported strong growth of 16% yoy despite slowdown in the industry. Domestic appliances posted revenues of Rs360 mn in Q3FY12 vs Rs150 mn in Q3FY11. The management has targeted Rs1 bn revenues from domestic appliances and Rs0.7-0.8 bn from Water heaters in FY13E.
- Higher contribution from new products in lighting & fixtures led to 28% yoy growth to Rs1.4 bn in lighting segment.
- Cables & Wires grew by 29% yoy to Rs3.9 bn. A large part of this growth was led by price growth, while volume contribution was low.
- Switchgear segment grew by 15% yoy to Rs2.3 bn mainly due to inclusion of Standard electric. Even, excluding standard electric revenues grew by strong 30% yoy. Havells is looking at venturing into new export destinations to expand its Switchgear business.

### EBIDTA margins surprised positively with 130 bps yoy increase; Contribution margin in all segments expanded

EBIDTA margins for the quarter expanded 130bps to 14% mainly due to reduction in raw material cost as % of sales by 310 bps yoy. Havells also benefited from the merger of Standard Electric business. At the segment level, 150 bps expansion in contribution margins, largely led by lighting (310 bps) and switchgear (170 bps). This rise was attributed to by higher realization and better cost management.

### Consolidated Financial Snapshot

Rs Mn

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/EBITDA	P/BV
Mar										
FY10	54,315	3,388	6.2	696	5.6	76.4	17.4	86.1	11.4	15.0
FY11	59,064	5,661	9.6	3,067	24.6	340.8	46.9	19.5	11.9	9.2
FY12E	66,355	6,928	10.4	3,649	29.2	19.0	37.3	16.4	9.8	6.1
FY13E	73,292	8,005	10.9	4,505	36.1	23.5	32.6	13.3	8.0	4.3

**Euro revenue decline in Sylvania by 4% yoy...**

This quarter saw Sylvania posting decline of 4.2% yoy to €114mn. Revenues in Europe and Latin Americas both declined 4-4.5% yoy. LATAM was largely affected to slower off-take in Brazil due to demand moderation and sharp fluctuation of currency. Excluding, Brazil revenues, LATAM grew 5% yoy. Europe revenues declined owing to business restructuring and product mix change with constant focus on higher margin products. The management continues to maintain its 'flat growth' outlook for Europe, while it expects LATAM business to improve in ensuing quarters.

**...but EBIDTA margins continue to surprise positively despite adjustments**

Sylvania continued to post healthy growth in EBIDTA with growth of 30% yoy to €7.8mn in Q3FY12. This quarter saw an adjustment of pension liabilities and other yearly costs, excluding which, the EBIDTA grew 85% yoy to €11.1mn in Q3FY12. Normalised EBIDTA margin stood at 8.6% vs 5.1% in Q3FY11. Mix change from CFL and incandescent lighting products to higher margin LED lighting products coupled with lower raw material cost attributed to higher EBIDTA margins. The management has guided for 8.5-9% EBIDTA margins over FY12-FY13.

**Standalone Quarterly Results**

YE-Mar (Rs mn)	Q3FY11*	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Net Sales	6907	8408	8000	8504	8962	29.7%	5.4%	25689	20408	25.9%
Other Op Income	14	44	27	14	20	48.1%	40.8%	46	38	20.8%
Expenditure	6051	7463	7142	7358	7708	27.4%	4.8%	22357	17981	24.3%
Material Cost	4356	5499	4828	5151	5374	23.4%	4.3%	15451	12695	21.7%
% of Sales	63.1%	65.4%	60.4%	60.6%	60.0%	-310 bps	-60 bps	60.1%	62.2%	-210 bps
Employee Expenses	274	293	332	358	364	32.8%	1.8%	1060	787	34.7%
% of Sales	4.0%	3.5%	4.2%	4.2%	4.1%	10 bps	-10 bps	4.1%	3.9%	30 bps
Other Expenses	1421	1671	1982	1848	1970	38.6%	6.6%	5847	4499	30.0%
% of Sales	20.6%	19.9%	24.8%	21.7%	22.0%	140 bps	20 bps	22.8%	22.0%	70 bps
EBITDA	856	946	857	1146	1254	46.4%	9.3%	3332	2428	37.3%
Depreciation	75	78	83	91	104	37.6%	13.6%	281	215	30.4%
EBIT	781	868	774	1055	1150	47.2%	9.0%	3052	2212	37.9%
Other Income	45	1	1	-130	-134	-395.8%	3.1%	-243	112	-317.7%
Interest	52	55	84	71	69	32.3%	-3.6%	224	121	85.4%
PBT	788	858	718	868	968	22.8%	11.4%	2631	2241	17.4%
Tax	177	167	143	166	179	1.1%	7.7%	491	516	-4.7%
Adjusted PAT	611	690	575	702	789	29.1%	12.3%	2139	1726	24.0%
Extra-Ordinary Items	0	0	0	0	0	-	-	0	5	-
Reported PAT	611	690	575	702	789	29.1%	12.3%	2139	1730	23.6%
Reported EPS	4.9	5.5	4.6	5.6	6.3	29.1%	12.3%	17	14	19.4%

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	12.4	11.2	10.7	13.5	14.0	160	50	13.0	11.9	110
EBIT	11.3	10.3	9.7	12.4	12.8	150	40	11.9	10.8	100
EBT	11.4	10.2	9.0	10.2	10.8	-60	60	10.2	11.0	-70
PAT	8.8	8.2	7.2	8.3	8.8	0	50	8.3	8.5	-10
Effective Tax rate	22.4	19.5	20.0	19.1	18.5	-400	-60	18.7	23.0	-430

\* - excludes Standard Electric financials

### Earnings revised upwards form FY12E by 6.7% to Rs 29.2/Share and for FY13E by 7% to Rs 36.1/Share

We have revised our consolidated EBIDTA margins upwards for FY12E from 10% to 10.4% and for FY13E from 10.4% to 10.9% owing to revision in standalone EBIDTA margins as well as an improved show in Sylvania profitability for 9MFY12. Thus, our earnings estimates are revised upwards for FY12E by 6.7% to Rs 29.2/Share and for FY13E by 7% to Rs 36.1/Share.

#### Revision in estimates

Y/E, Mar (Rs. mn)	FY12E			FY13E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	66581	66355	-0.3%	73346	73292	-0.1%
EBITDA	6663	6928	4.0%	7637	8005	4.8%
EBITDA Mgn (%)	10.0	10.4	40.0	10.4	10.9	50.0
APAT	3419	3649	6.7%	4209	4505	7.0%
EPS	27.4	29.2	6.7%	33.7	36.1	7.0%

### Domestic business well on track; profitability in Sylvania continues to improve, Maintain BUY

Havells beats Emkay and Consensus expectation on all counts. Expanding distribution coupled with new product introduction in few segments has led to strong growth in domestic business. Although Sylvania posted revenue decline in Europe & Latin America, it continues to deliver strong profit growth led by richer product mix, improvement in price realizations and cost rationalization. The management seems confident of achieving 15-20% domestic revenue growth in FY12-FY13, while it expects Sylvania to continue its improvement in operational performance. We maintain 'BUY' rating with price target of Rs 520, thereby implying a target multiple of 8.6x FY13E EV/EBIDTA. Currently, Havells is trading at 8x FY13E EV/EBIDTA.

Segment Revenues	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Switchgears	1739.4	1999.7	1883.4	2217.7	2260.6	30.0%	1.9%	6586	5344	23.2%
Cables & Wires	3035.8	3608.0	3564.4	3691.8	3907.1	28.7%	5.8%	11163	8710	28.2%
Lighting & Fixtures	1133.2	1258.2	1209.8	1374.4	1448.4	27.8%	5.4%	4034	3189	26.5%
ECD	998.6	1542.3	1341.9	1220.0	1345.6	34.7%	10.3%	3908	3149	24.1%
Others	0.0	0.0	0.0	0.0	0.0	-	-	0	16	-100.0%
<b>Total</b>	<b>6907.0</b>	<b>8408.2</b>	<b>7999.5</b>	<b>8503.9</b>	<b>8961.7</b>	<b>29.7%</b>	<b>5.4%</b>	<b>25690.3</b>	<b>20408.3</b>	<b>25.9%</b>
<b>Segment PBIT</b>										
Switchgears	651.1	698.4	723.8	839.2	894.0	37.3%	6.5%	2539	2021	25.7%
Cables & Wires	267.1	162.9	310.1	341.8	385.1	44.2%	12.7%	1037	738	40.6%
Lighting & Fixtures	239.1	226.0	301.8	336.4	379.3	58.6%	12.8%	1018	594	71.2%
ECD	277.3	412.6	417.8	337.7	389.5	40.5%	15.3%	1145	882	29.8%
Others	0.0	0.0	0.0	0.0	0.0	-	-	0	6	-100.0%
<b>Total</b>	<b>1434.6</b>	<b>1499.9</b>	<b>1753.5</b>	<b>1855.1</b>	<b>2047.9</b>	<b>42.8%</b>	<b>10.4%</b>	<b>5738.9</b>	<b>4240.5</b>	<b>35.3%</b>
<b>PBIT Margins</b>										
Switchgears	37.4	34.9	38.4	37.8	39.5	210	170	38.6	37.8	70
Cables & Wires	8.8	4.5	8.7	9.3	9.9	110	60	9.3	8.5	80
Lighting & Fixtures	21.1	18.0	24.9	24.5	26.2	510	170	25.2	18.6	660
ECD	27.8	26.8	31.1	27.7	28.9	120	130	29.3	28.0	130
Others	-	-	0.0	0.0	-	-	-	-	-	-
<b>Total</b>	<b>20.8</b>	<b>17.8</b>	<b>21.9</b>	<b>21.8</b>	<b>22.9</b>	<b>210</b>	<b>100</b>	<b>22.3</b>	<b>20.8</b>	<b>160</b>
<b>Capital Employed</b>										
Switchgears	3133.4	3178.5	3278.3	4201.3	3439.1	9.8%	-18.1%	3439.1	3133.4	9.8%
Cables & Wires	2,050.8	1,845.7	1,682.3	1,505.8	1,563.5	-23.8%	3.8%	1563.5	2050.8	-23.8%
Lighting & Fixtures	1,826.3	2,237.5	2,317.2	2,592.9	2,620.6	43.5%	1.1%	2620.6	1826.3	43.5%
ECD	1,011.9	1,066.9	1,245.9	1,343.0	1,303.5	28.8%	-2.9%	1303.5	1011.9	28.8%
Others	7,147.5	6,951.9	7,318.9	7,961.8	9,397.7	31.5%	18.0%	9397.7	7147.5	31.5%
<b>Total</b>	<b>15169.9</b>	<b>15280.5</b>	<b>15842.6</b>	<b>17604.8</b>	<b>18324.4</b>	<b>20.8%</b>	<b>4.1%</b>	<b>18324.4</b>	<b>15169.9</b>	<b>20.8%</b>

## Consolidated Financials

## Income Statement

Y/E, Mar (Rs. m)	FY10	FY11E	FY12E	FY13E
<b>Net Sales</b>	<b>54,315</b>	<b>59,064</b>	<b>66,355</b>	<b>73,292</b>
Growth (%)	-0.8	8.7	12.3	10.5
<b>Expenses</b>	<b>50,927</b>	<b>53,403</b>	<b>59,427</b>	<b>65,286</b>
Growth (%)	-1.6	4.9	11.3	9.9
Raw Materials	29,154	32,556	35,935	40,019
% Of Sales	53.7	55.1	54.2	54.6
Employee Cost	7,602	6,319	6,999	7,374
% Of Sales	14.0	10.7	10.5	10.1
Manufacturing Exps	3,250	3,197	3,642	4,077
% Of Sales	6.0	5.4	5.5	5.6
Admin Expenses	2,821	2,908	3,365	3,596
% Of Sales	5.2	4.9	5.1	4.9
Selling & Distribn Exp	8,100	8,424	9,485	10,221
% Of Sales	14.9	14.3	14.3	13.9
<b>Ebidta</b>	<b>3,388</b>	<b>5,661</b>	<b>6,928</b>	<b>8,005</b>
Growth (%)	11.6	67.1	22.4	15.5
Ebidta Margin%	6.2	9.6	10.4	10.9
Other Income	222	237	23	267
Interest	979	902	1,316	1,339
Depreciation	837	804	894	954
PBT	1,628	4,102	4,741	5,979
Tax	932	1,031	1,089	1,471
<b>PAT (Before EO Item)</b>	<b>696</b>	<b>3,071</b>	<b>3,652</b>	<b>4,508</b>
Growth (%)	76.3	341.0	18.9	23.4
Net Margin%	1.3	5.2	5.5	6.2
Minority Interest	0.4	3.6	3.6	3.6
<b>PAT (Bef EOI &amp; after MI)</b>	<b>696</b>	<b>3,067</b>	<b>3,649</b>	<b>4,505</b>
E/O Item	0	-31	0	0
<b>Reported PAT</b>	<b>696</b>	<b>3,036</b>	<b>3,649</b>	<b>4,505</b>

## Cash Flow

Y/E, Mar (Rs. m)	FY10	FY11E	FY12E	FY13E
Pre-Tax Profit	1,628	4,066	4,741	5,979
Depreciation	837	804	894	954
Non Cash	-1,087	569	-4	-4
Chg in Working Cap	2,369	-2,013	-566	-1,126
Tax Paid	-659	-851	-1,089	-1,471
<b>Operating Cash Flow</b>	<b>3,087</b>	<b>2,575</b>	<b>3,976</b>	<b>4,332</b>
Capex	-1,077	-1,790	-1,957	-1,850
<b>Free Cash Flow</b>	<b>2,010</b>	<b>786</b>	<b>2,019</b>	<b>2,482</b>
Investments	116	71	-350	0
Change in Equity Capital	0	0	0	0
Loans	-2,866	-365	-423	-135
Dividend	-265	-207	-393	-482
Others	0	0	0	0
<b>Net Change in Cash</b>	<b>-1,005</b>	<b>285</b>	<b>854</b>	<b>1,864</b>
Opening Cash Position	2,415	1,472	1,780	2,633
<b>Closing Cash Position</b>	<b>1,472</b>	<b>1,780</b>	<b>2,633</b>	<b>4,498</b>

## Balance Sheet

Y/E, Mar (Rs. m)	FY10	FY11E	FY12E	FY13E
Equity Share Capital	312	624	624	624
Reserves	3,690	5,914	9,169	13,192
<b>Networth</b>	<b>4,002</b>	<b>6,537</b>	<b>9,793</b>	<b>13,816</b>
Secured Loans	9,963	9,933	9,510	9,375
Unsecured Loans	700	1,240	1,240	1,240
<b>Loan Funds</b>	<b>10,664</b>	<b>11,173</b>	<b>10,750</b>	<b>10,615</b>
Deferred Tax	434	559	559	559
Minority Interest	2	6	6	6
<b>Capital Employed</b>	<b>15,102</b>	<b>18,275</b>	<b>21,108</b>	<b>24,995</b>
Gross Block	26,963	28,454	30,411	32,261
Less: Depreciation	18,089	18,499	19,393	20,346
<b>Net Block</b>	<b>8,874</b>	<b>9,955</b>	<b>11,018</b>	<b>11,914</b>
Capital WIP	336	249	249	249
Goodwill	3,212	3,354	3,354	3,354
Investments	0	0	350	350
Current Assets	18,556	22,077	25,616	30,223
Inventories	8,246	10,860	12,499	14,432
Debtors	6,982	7,724	8,474	9,064
Cash & Bank	1,481	1,779	2,633	4,498
Loans & Advances	1,847	1,715	2,009	2,229
Current Lia. & Prov	15,876	17,361	19,479	21,095
<b>Net Current Assets</b>	<b>2,680</b>	<b>4,717</b>	<b>6,137</b>	<b>9,128</b>
Deferred Tax	0	0	0	0
Mis. Expenditure	0	0	0	0
<b>Capital Deployed</b>	<b>15,102</b>	<b>18,275</b>	<b>21,108</b>	<b>24,995</b>

## Key Ratios

Y/E, Mar	FY10	FY11E	FY12E	FY13E
<b>Profitability %</b>				
Ebidta Mgn	6.2	9.6	10.4	10.9
PAT Mgn	1.3	5.2	5.5	6.2
ROCE	17.3	27.4	28.7	29.3
ROE	17.4	46.9	37.3	32.6
<b>Per Share Data</b>				
EPS	5.6	24.6	29.2	36.1
CEPS	18.0	30.0	34.8	41.9
BVPS	32.1	52.4	78.5	110.7
DVPS	4.2	2.5	3.1	3.9
<b>Valuations (X)</b>				
PER	86.1	19.5	16.4	13.3
CPER	26.6	16.0	13.8	11.5
P/BV	15.0	9.2	6.1	4.3
Ev/Sales	0.7	1.2	1.0	0.9
Ev/Ebidta	11.4	11.9	9.8	8.0
Dividend Yield (%)	0.9	0.5	0.7	0.8
<b>Turnover X Days</b>				
Debtor TO Days	48.9	45.4	44.5	43.7
Inventory TO Days	58.0	65.3	71.7	75.3
<b>Gearing Ratio</b>				
Net Debt/Equity	2.3	1.4	0.8	0.4
Total Debt/Equity	2.7	1.7	1.1	0.8
Working Capital Cycle (days)	29	23	30	38

**Recommendation History: Havells India – HAVL IN**

Date	Reports	Reco	CMP	Target
08/12/2011	<a href="#">Havells India Company Update</a>	Buy	437	460
01/11/2011	<a href="#">Havells India Q2FY12 Result Update</a>	Buy	381	460
02/08/2011	<a href="#">Havells India Q1FY12 Result Update</a>	Buy	360	450
27/05/2011	<a href="#">Havells India Q4FY11 Result Update</a>	Buy	399	470

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
27/01/2012	<a href="#">BHEL Q3FY12 Result Update</a>	Hold	274	275
25/01/2012	<a href="#">Greaves Cotton Q3FY12 Result Update</a>	Buy	83	90
23/01/2012	<a href="#">Larsen and Toubro Q3FY12 Result Update</a>	Accumulate	1,278	1,603
03/01/2012	<a href="#">TRF Event Update</a>	Hold	209	282

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