

Institutional Equity Research

# Havells India

Capital Goods | India

Initiating Coverage | June 11, 2018

CMP* (Rs)	559
Upside/ (Downside) (%)	16
Bloomberg Ticker	HAVL IN
Market Cap. (Rs bn)	349
Free Float (%)	40
Shares O/S (mn)	625

**BUY** 

Target Price: Rs650

## Getting Deeper into Homes...

Havells India – founded in 1983 – is one of the largest electrical equipment companies in India. It owns some of the most prestigious Indian brands like Havells, Lloyd, Crabtree, Standard Electric and Promptech, while ~90% of revenue comes from in-house production. We believe incremental scalability post Lloyd acquisition and launch of premium products would help Havells to report improved performance in the long-term, while likely up-tick in discretionary spend over the medium-term. **We initiate coverage on Havells with a BUY rating and Target Price of Rs650 (Valuing at 38x FY20 earnings).**

### Vast Product Basket – Strategic Focus on Household Segment

Over the years, Havells has shifted its focus to household segment (B2C) from industrial switchgear and Cables & Wire segment (B2B). Its consumer-facing offerings are spread across domestic switchgear, lighting, fans and other household electrical and appliances. Though Havells is ranked amongst Top-5 organised and large players, we envisage enough headroom for meaningful expansion in market share by taking away share from the unorganised players.

### Portfolio Expansion & Niche Strategy to Drive Growth

Over the last two decades, Havells continued to focus on new consumer-centric products and acquisition to drive growth. It has significantly strengthened its management team by adding 43 employees of leadership grade. With a view to creating technological platform to support sales/capital efficiencies and improve employee capabilities, it has focused on platforms like IOT and home automation.

### Lloyd Acquisition – New Growth Avenue

Foraying into fast growing consumer durable segment, Havells acquired consumer durable business of Lloyd Electric – the third largest player in room AC segment – for Rs16bn. Lloyd – which enjoys ~12% market share and ranked amongst Top-5 players in room AC market – derives ~75% of sales from ACs, while the rest comes from TVs and washing machines. With this acquisition, Havells enter into big-ticket consumer durable business.

### Outlook & Valuation

Looking ahead, we expect Havells’ revenue and PAT to clock 15% and 24% CAGR, respectively through FY18-20E led by new products, up-tick in industrial activity and acquisition of Lloyd’s CD business. With strong cash flow from core business and healthy balance sheet in place, we believe incremental scalability post Lloyd acquisition and launch of premium products would help Havells to report improved performance in the long-term, while likely up-tick in discretionary spend over the medium-term. **We initiate coverage on Havells with a BUY rating and Target Price of Rs650.**

Key Financials (Rs mn)	FY17	FY18	FY19E	FY20E
Sales	65,861	82,603	92,833	108,337
EBITDA	8,340	10,493	12,152	14,700
Net Profit	5,967	7,006	8,665	10,691
EPS (Rs)	9.5	11.2	13.9	17.1
DPS (Rs)	8.7	7.5	6.9	8.6
P/E (x)	58.5	49.9	40.3	32.7
P/B (x)	10.7	9.3	8.4	7.4
EV/EBITDA (x)	39.3	31.8	27.1	22.1
ROE (%)	16.5	19.1	20.8	22.7
Dividend Yield (%)	1.5	1.3	1.2	1.5

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	0.9	10.0	9.6
Relative to Nifty	0.4	4.9	(2.0)

Shareholding Pattern (%)	Mar'18	Dec'17
Promoter	59.6	61.6
Public	40.4	38.4

### 1 Year Stock Price Performance



Note: \* CMP as on June 11, 2018

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## Investment Rationale

### Vast Product Basket – Strategic Focus on Household Segment

Over the years, Havells has shifted its focus to household segment (B2C) from industrial switchgear and cables & wire segment (B2B). Its consumer-facing offerings are spread across domestic switchgear, lighting, fans and other household electrical and appliances, while with the acquisition of Lloyd, the Company has forayed into \$15bn consumer durable segment.

Exhibit 1: Products profile

	Market Size (Rs bn)	Market Share (%)	Revenue FY17 (Rs bn)	Ranking	Penetration	Peers
<b>Switchgear</b>			<b>15</b>			
MCB	20	27-28		1	High	Legrand, Schneider
Switches	22	14-15		3	Medium	Panasonic, Legrand
<b>Cables &amp; Wires</b>			<b>24</b>			
Domestic	80	16		3	Low	Finolex, Polycab
Industrials	120	10		3	Low	Polycab, KEI
<b>Lighting &amp; Fixtures</b>	<b>65</b>	<b>10-14</b>	<b>10</b>	<b>2-4</b>	<b>Medium</b>	<b>Philips, Crompton, Bajaj, Wipro</b>
<b>Electric Consumer Durable</b>			<b>14</b>			
Fans	70	15		3	High	Crompton, Orient, Usha
Water heaters	15	9		4-5	Low	Racold, AO Smith
Other appliances	50	2-3			Low	Bajaj, Philips

Source: Company, Industry, RSec Research

### I. Switchgear Segment

India's household switchgear market is relatively consolidated with a few large players. Havells is the market leader in domestic switchgear market with >50% market share. Though the Company is ranked amongst Top-5 organised and large players, we envisage enough headroom for meaningful expansion in market share by taking away share from the unorganised players.

Exhibit 2: FY11 Revenue Mix: largely B2B

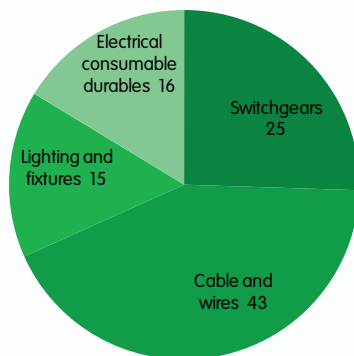
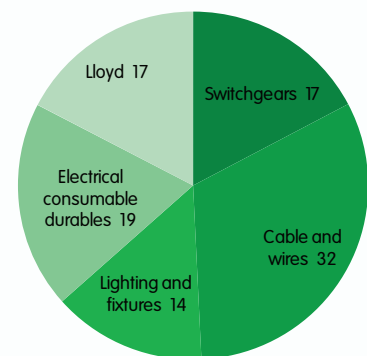


Exhibit 3: FY18 Revenue Mix: Shift to B2C from B2B



Source: Company, RSec Research

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Exhibit 4: Operating Margin Trend (FY11-18)

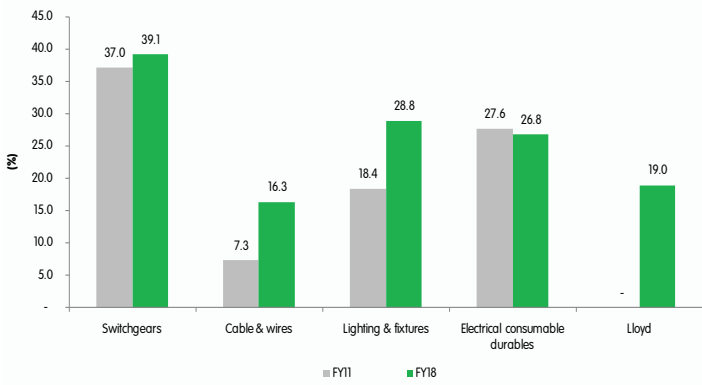
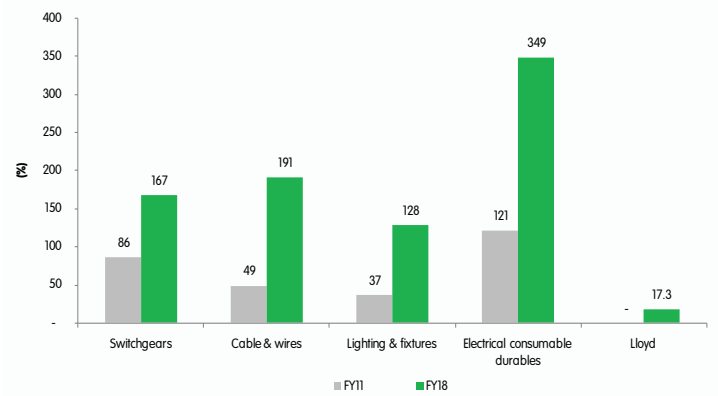


Exhibit 5: Significant Improvement in RoCE



Source: Company, RSec Research

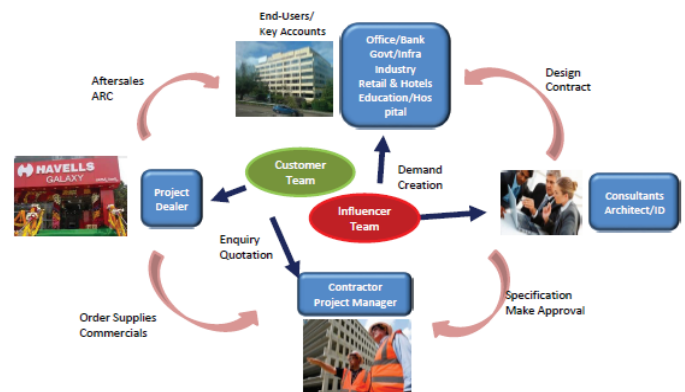
Over the last couple of years, Havells has strengthened its switchgear range with the launch of several new concepts including unified base and independent door in distribution board category, wide range of distribution board and new category of "Reo Armour" primarily targeted towards rural markets. Notably, Havells continues to remain strong in this segment with ~25% share in Reo switchgear segment and ~14% share in Reo switch segment. Expecting this new affordable segment to drive the growth, the Company looks forward to clock Rs3bn revenue (Rs2bn from "Reo switchgear" and Rs1bn from "Reo switch").

Exhibit 6: Strategy in MCB & Electric Wire Industry

MCB & EWA Segment	Cables	Flexible Cables
Expanding to Non Residential	Enhancing share of B2B sales	Focus on west India through distribution model.
Expand market share from 10% to 30% in 3 year	Increase share of export revenue from 2% to 10% of total sales	Target south market with specific regional policies
Enter new price segments	Enhance market share in western region from 12% to 20% of total sales	Increase direct connect in towns with population above 50K
Focus on new product categories, applications – 10% of portfolio in next 2-3 years	Entry into EHV cable market	Continue focus on Project, B2B & telecom tower business
Strengthen West and South regions with specific policies	Continued thrust on network expansion	Increase capacity of Multi Core/Higher Sizes & Flat Cable.

Source: Company, RSec Research

Exhibit 7: B2B Sales: Commercial & Industry



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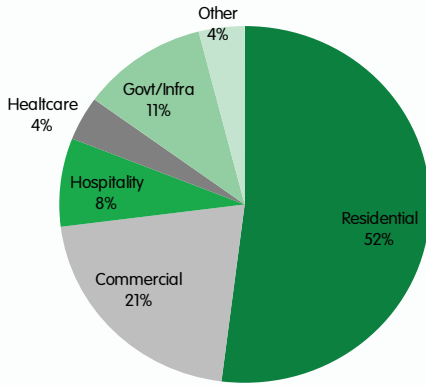
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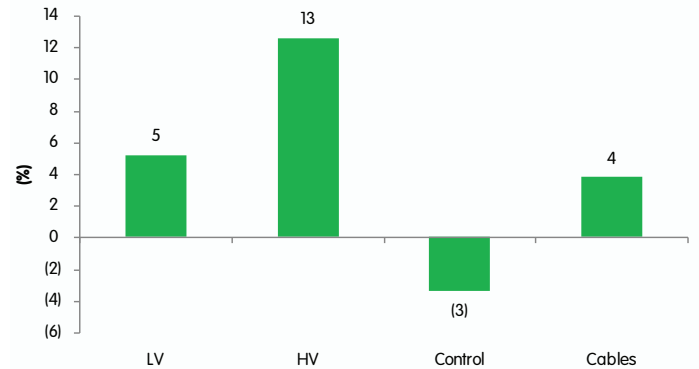
Target Price: Rs650

Exhibit 8: Client-mix in Electrical Wire Accessories (EWA) Segment



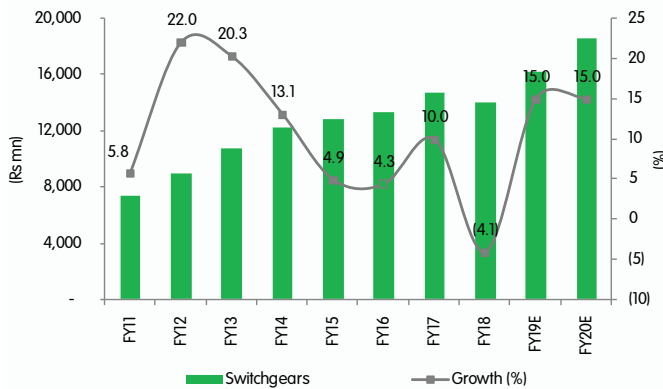
Source: Company, RSec Research

Exhibit 9: Industry Growth in FY17



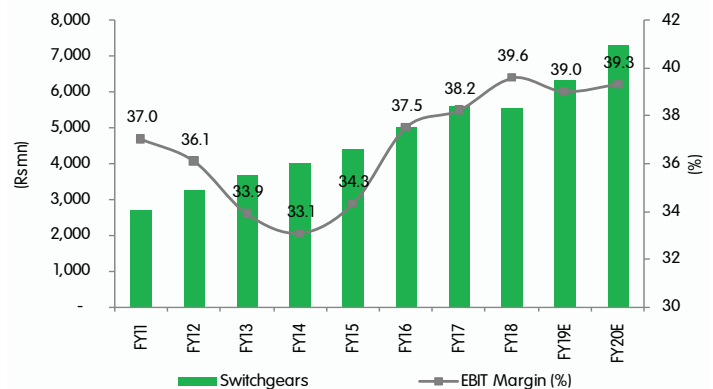
Havells continues to be the market leader in household switchgear market with >50% market share, while in MCB and switch segments it enjoys ~28% and 15% market share, respectively. Switchgear segment – the cash cow for Havells – also offers the highest margin and RoCE. The key competitors are especially the MNCs i.e. Legrand and Schneider who rather more active in industrial segment compared to household segment. Again, most competitors do not typically offer full range of household electrical needs.

Exhibit 10: Switchgear – 9% Revenue CAGR over FY11-18



Source: Company, RSec Research

Exhibit 11: Switchgear – Sharp margin expansion in last 4 years



## II. Cables & Wires Segment

Havells entered in Cables & Wires segment in 1996 by acquiring a sick manufacturing plant at Alwar, Rajasthan, followed by acquisition of Standard Electricals in late 1990s. Notably, though this segment contributes the largest chunk to Havells' revenue, it offers the lowest margin. This business also gets a reasonable contribution from industrial segment largely SMEs, which witnessed a sharp slump led by slowdown in investment cycle over the last couple of years. However, growth in domestic wires business extended support to the segment albeit partially. We believe that entry into EHV cable market along with continued focus on improving B2B revenue, network expansion, enhancing market share in western region to 20% augurs well for Havells.

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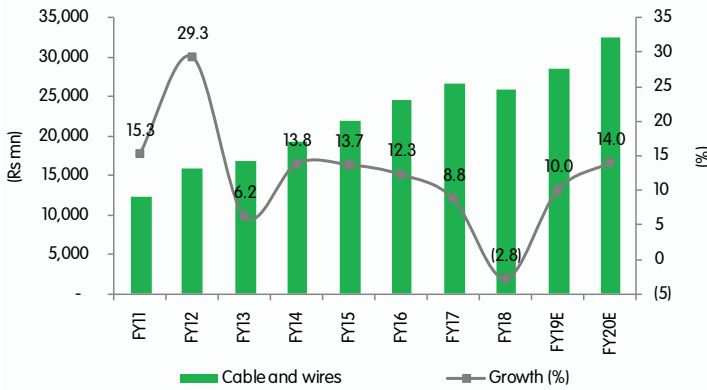
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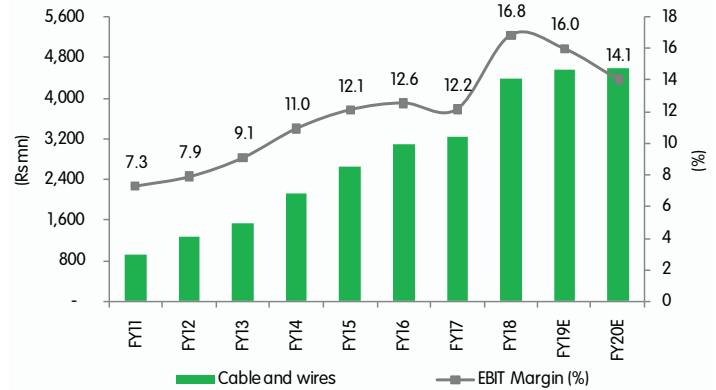
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**Exhibit 12: Cable & Wire Segment –10% Revenue CAGR over FY11-18**



Source: Company, RSec Research

**Exhibit 13: Cable & Wire Segment – Margin Expansion Continues**

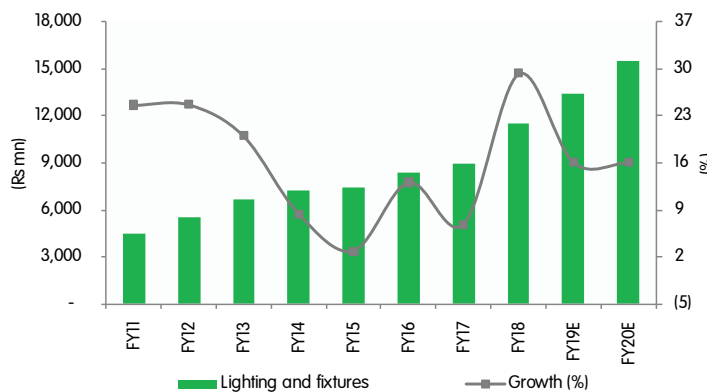


We expect this segment to clock 12% CAGR over FY18-20, as the household demand for cables and wires continues remain robust while the industrial demand for cables and wires is expected to witness meaningful growth with the visible signs of pick-up in industrial activities. Backed by steady uptick in capex in core manufacturing sectors, augmentation of power T&D infrastructure, Smart City projects, Metros, thrust on renewable energy, faster infrastructural development (highways, railways, ports, mines), we believe the demand for cable and wires will witness exponential growth.

### III. Lighting & Fixtures Segment

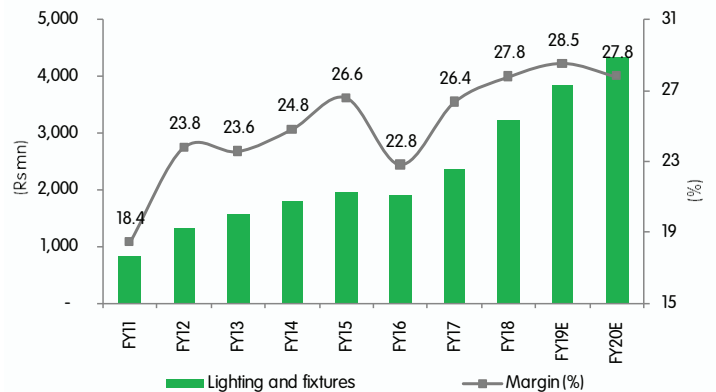
Market size of India’s lighting industry – which consumes 20% of the total power consumption – is pegged at Rs176bn, which we expect lighting & fixtures segment of Havells to clock 16% CAGR in revenue over FY18-20. In past couple of years, India’s lighting segment has witnessed a shift to LED lights from CFLs. Thus, Havells currently focuses on LED lights, which contributes >80% of lighting sales. On the backdrop of government’s thrust on local manufacturing of LED lights, Frost & Sullivan expects the LED lighting market to grow to Rs350bn from Rs53bn by FY22 (46% CAGR). Being the only Indian manufacturer of fixtures, Havells is the market leader in this high-margin segment and ranked amongst Top-5 players in lighting sector.

**Exhibit 14: Lighting & Fixtures – 14% Revenue CAGR over FY11-18**



Source: Company, RSec Research

**Exhibit 15: Margin on Track after Dip in FY16**



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## Exhibit 16: Key Trends in LED Lighting in India

Key growth drivers	Key barriers	Emerging trends
Awareness among domestic consumer	Entry of new entrants & unorganized players leading to glitches in LED functionality impacts customer confidence	IOT compliant lighting solutions in smart cities
Investment in Infrastructure development like road , Metro and commercial spaces	High dependence on import for LED lighting, Contributing to ~ 60 % of Volumes	Rapid conversion of CFLi & GLS to LED lamps in domestic Lighting Markets
Government is supporting adoption of LED lighting through various Policies & Regulations		Specifiers management & ESCOs will influence decision making

Source: Company, RSec Research

## IV. Electrical Consumable Durables (ECD) Segment

The ECD segment is the fastest-growing segment for Havells in terms of revenue with margin of 26-27%. The segment clocked ~20% CAGR during FY11-18 led by introduction of new products and rising market share in premium fan segment. Looking ahead, we expect the segment to clock 16% CAGR through FY18-20%.

Havells currently enjoys 16% market share in electric fans segment, which it intends to increase to 20% in next 3 years. Its range of super premium fans includes "Octet" with 8 blades, "Futuro" (Wi-Fi-controlled and Bluetooth-enabled) and "Efficiencia" (energy-efficient BLDC fans). Notably, the Company is the largest player in premium fans segment with 25% share, while other players i.e. Crompton, Orient and Bajaj continued its focus on mass categories.

### Exhibit 17: Leading player in Fan and Water heater

Product	Market Size (Rs bn)	Market Share (%)	Positioning	Existence Years	Competitors
Fans	70	16	Top 3	13	Crompton, Usha, Bajaj
Water heaters	15	14	Top 3	5	Racold, V-Guard, AO, Bajaj
Small Appliances	50	4-5		5	Bajaj, Philips
Pumps	35	3-4		2	Crompton, CRI, Kirloskar

Source: Company, Industry, RSec Research

### Exhibit 18: Market Share is likely to rise in next 3 years

Electronic Consumer Durable			
Product	Market share target (%)	Time Frame	Market Size (Rs bn)
Electric Fans	20	3 Years	70
Water Heater	20	3 Years	15
Small Domestic Appliance	10	3 Years	50

Havells sells a wide range of water heater i.e. storage water heaters, instant water heaters, instant gas water heaters and solar water heaters. Looking ahead, it aims to become Top-2 player in this segment and gain 20% market share with increased focus of southern and western markets.

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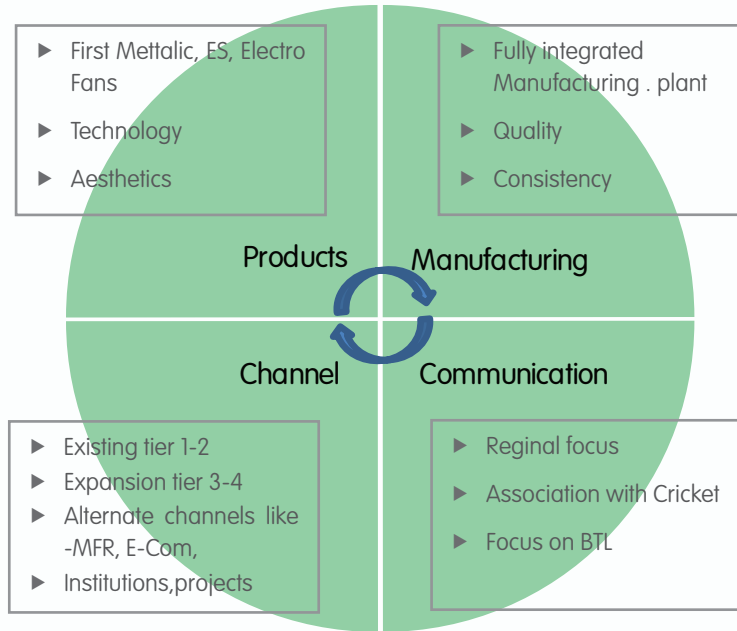
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Exhibit 19: Growth Strategy of Fans: 4 Pillars of Growth



Source: Company, RSec Research

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## Portfolio Expansion & Niche Strategy to Drive Growth

Over the last two decades, Havells continued to focus on new products and acquisition to drive growth. On the backdrop of rising disposable income, Havells continues to focus on consumer-centric products. It has significantly strengthened its management team by adding 43 employees of leadership grade. With a view to creating technological platform to support sales/capital efficiencies and improve employee capabilities, it has focused on platforms like IOT and home automation.

Exhibit 20: Key Acquisitions & JVs

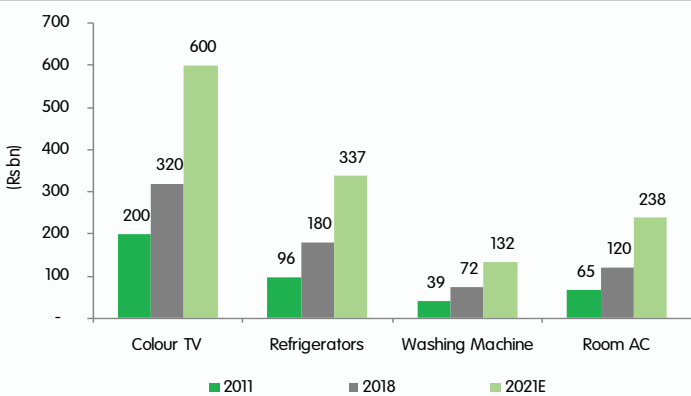
Year	Product	Acquisition/ JV	Company
1983	Energy meters	Acquisition	Towers and Transformers
1987	MCB	JV	Christian Geyer, Germany
1997	Cables & wires	Acquisition	Surya Cables
1997	Customized packaged solutions	Acquisition	Electric Control & Switchboards
1998	High-end meters	JV	DZG, Germany
2000	Electronic meters	Acquisition	Duke Arnics Electronics
2000	Switchgear, lighting	Acquisition	Standard Electricals
2001	MCCB	Acquisition	Crabtree India
2007	Lighting	Acquisition	Sylvania, Germany
2008	Motors	JV	Lafert, Spain
2016	Streetlights	Acquisition	Promptec Renewable Energy Solutions
2017	Consumer durable	Acquisition	Lloyd

Exhibit 21: Launches of New Products



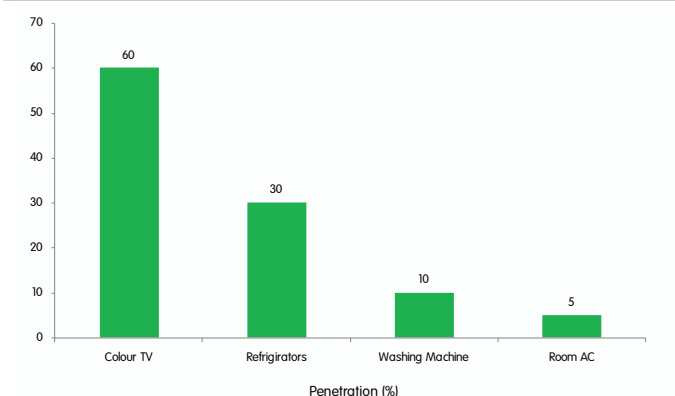
Source: Company, RSec Research

Exhibit 22: Industry Size



Source: Company, Industry, RSec Research

Exhibit 23: Product Penetration





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**Exhibit 24: Key Milestone**

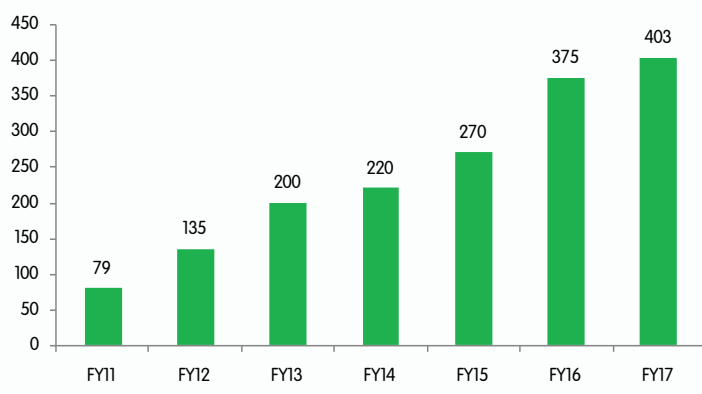
Year	Expansion	Remark
1996	Forayed in Cables and Wire business	1st expansion Beyond Switchgear Acquired a sick manufacturing unit in Alwar Constitute 40% of Havells buisness
2000	Acquisition of Standard Electricals	Was amongst top 5 switchgear brands with strong South footprints
2003	Consumer centric product extension	Launched 'consumer facing' fans and lighting Focus on brand and its affinity with channel/customers
2004	Baddi Plant Commissioned	Shift to large scale and efficient production European quality; Chinese costs 12 plants; 93% in-house production
2005	No 'Economy Segment' fans	A bold decision to provide a superior quality experience to consumers Premiumization trend initiated
2007	Acquisition of Sylvania	An audacious acquisition with a 50-country footprint 2008 global recession led to significant losses Stabilized operations in 2011, profitable since then
2012	Introduction of Water Heaters	
2013	Introduction of Domestic Appliances	
2013	Introduction of Pumps	
2015	Sylvania divestment	Decision driven by changing industry dynamics A time bound divestment with receipt of ~Rs 1200 crores
2016	Introduction of Air cooler	
2017	Introduction of Water Purification	
2017	Lloyd Acquisition	A foray into high potential Large Consumer durables Aligned with 'Deeper into Homes'

Source: Company, RSec Research

Havells continues to maintain strong focus on expanding distribution network, which consists of 7,500 direct dealer, 1 lakh retailers and >2 lakh electricians. Notably, the Company intends to deepen its penetration in Tier-II/III cities/towns and expand footprints in western and southern India.

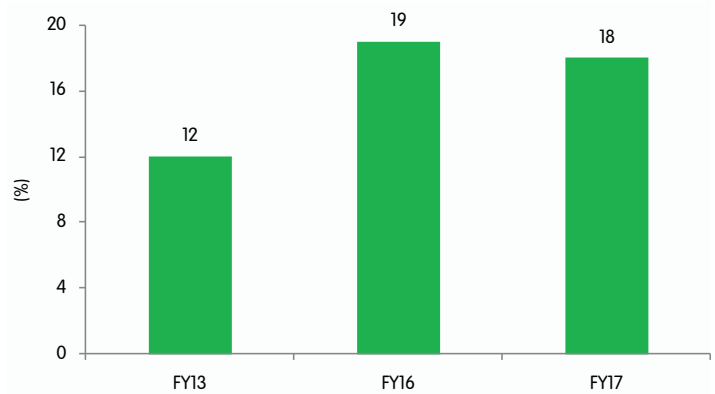
Havells launched "Galaxy Stores" in 2011 to offer an exclusive one-stop shop for entire portfolio of household electrical products. Though these stores operate on franchisee model, Havells take care of design, standardisation and after-sales customer care. Havells has expanded the Galaxy Stores to 400 currently from 79 in FY11. The company expects to add another 200 galaxy stores in next 3 years.

**Exhibit 25: Havells has 400+ Galaxy Store**



Source: Company, RSec Research

**Exhibit 26: Galaxy Contributes 18% of Non-Industrial Revenue**



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## Lloyd Acquisition – New Growth Avenue

Foraying into fast growing \$15bn consumer durable segment, Havells acquired the consumer durable business of Lloyd Electric & Engineering – the third largest player in room AC segment – for an enterprise value of Rs16bn. Lloyd had a network of >10,000 direct/ indirect dealers spread across 34 sales branches, 485 authorised service centres and 31 company-owned service centres. Lloyd – which enjoys ~12% market share and ranked amongst Top-5 players in room AC market – derives ~75% of sales from ACs, while the rest comes from TVs and washing machines. With this acquisition, Havells has entered into big-ticket consumer durable business.

**Exhibit 27: Foray into Consumer Durable Segment Lloyds Acquisition**



Source: Company, RSec Research

Clocking 28% CAGR, Lloyd’s consumer durable business stood at Rs14bn in FY18 from Rs4.1bn in FY13. It had >10,000 touch points and >900 service points spread across India. Looking ahead, Havells aims to healthy revenue growth few years by introducing new products, expanding existing AC product portfolio, washing machines and LED TVs and increasing dealer network and targeting large format stores.

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## Strong Financials

Havells India's PAT surged by 38% YoY in 4QFY18, aided by higher margin across segments. Revenue grew by 38% YoY to Rs25.4 bn mainly driven by Lloyd (ex-Lloyd: +7% YoY), 35% growth in Lighting & Fixtures and 17% growth in ECD segment. EBITDA margin rose by 160bps YoY to 14.1%, with healthy margin in ECD (+440bps to 30.9% on higher utilisation) and Cables & Wires (+560bps YoY to 17.1% on higher realisation) segments.

For FY18, Havells reported 25% growth in revenue at Rs82.6 bn, and 17% growth in PAT at Rs7 bn, while stabilising the margin at 12.7%.

Lloyd Revenue up 11% YoY to Rs18.7bn in FY18: Lloyd's revenue grew by 11% YoY to Rs18.7bn in FY18, whilst it remained flat at Rs5.8bn in 4QFY18 owing to pre-buying in the previous quarter ahead of revised efficiency norms. The Management is looking for low double-digit growth in revenue in FY19E led by delayed summer and rains in North India. It expects to sustain the current margin of 8% in FY18, which is expected to expand thereafter. Lloyd intends to adopt omni-channel strategy similar to Havells with increasing presence in modern retail formats.

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## 4QFY18 Segmental Performance

Switchgears: Switchgear sales grew by just 5% YoY in 4QFY18 (flat in FY18) impacted by low demand in new construction and real estate projects. The growth was led by new orders from Hyundai Electric and B2B sales. Contribution margin rose by just 20bps YoY to 38.6% on the back of low-margin exports.

Exhibit 28: Switchgear – Revenue up 5% YoY

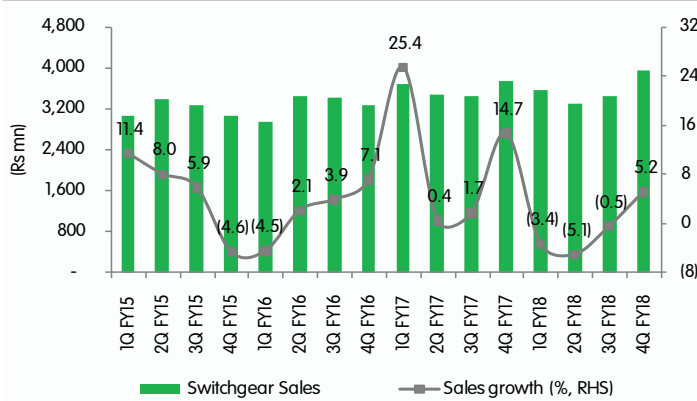
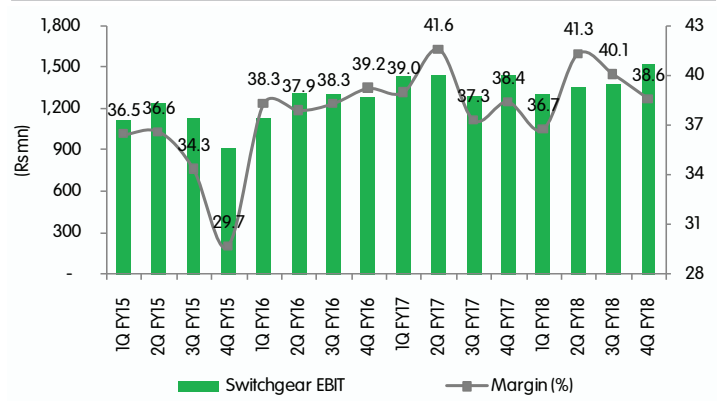


Exhibit 29: Switchgear – Margin up 20bps YoY



Source: Company, RSec Research

Looking ahead, we expect switchgear segment to clock 11% CAGR over FY18-20 on the back of new products launches, leveraging tie-up and strengthening western and southern operations

**Cables:** Revenue improved 13% YoY led by 6% YoY and 7% YoY growth in volume and value in 4QFY18, respectively owing to sharp improvement in underground cables and household wires. Revenue grew by 9% in FY18 purely driven by pricing, as volume remained flat. Margin improved by 420bps YoY to 17.1%.

Exhibit 30: Cables & Wires – Revenue up 13% YoY

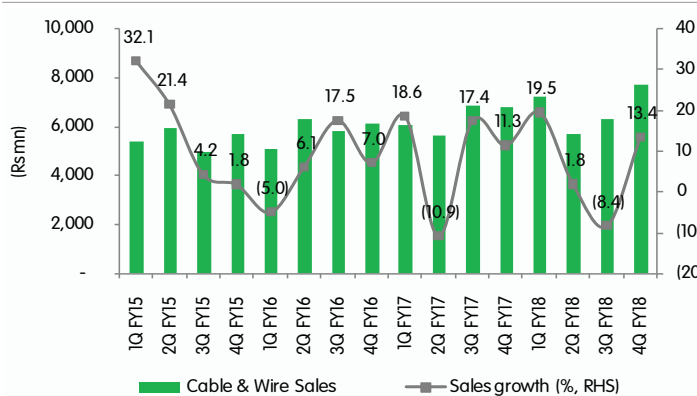
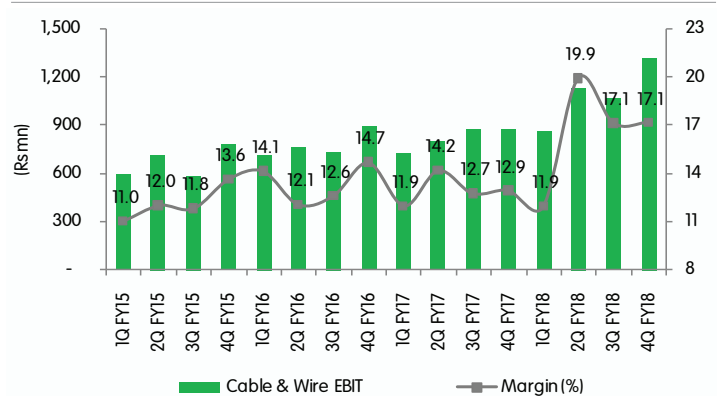


Exhibit 31: Cables & Wires – Strong YoY Margin Expansion



Source: Company, RSec Research

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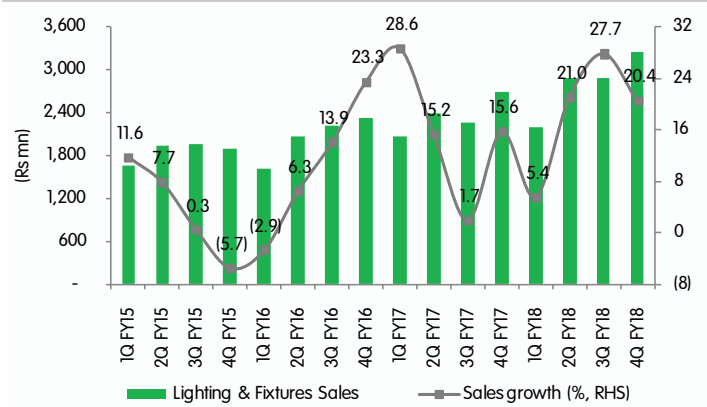
**BUY** 

Target Price: Rs650

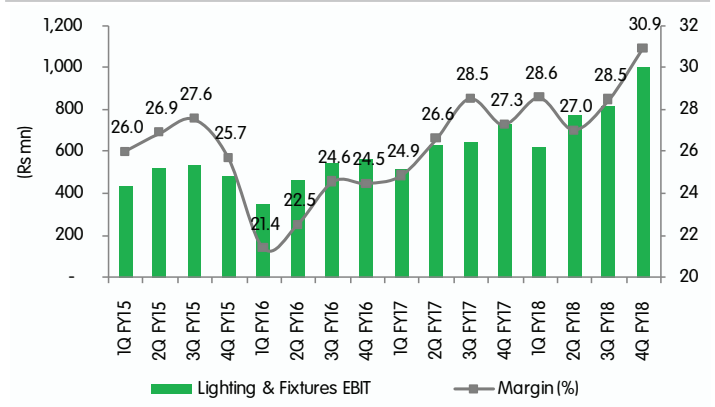
Looking ahead, we expect this segment to clock 12% CAGR over FY18-20 on the back of robust household and industrial demand.

**Lighting:** Lighting revenue grew by 20% YoY led by strong replacement demand for technology upgrade to LEDs and wide distribution reach. The Management is looking at ~30% margin in FY19E, from 30.9% in 4QFY18 led by adjustments of warranty provisioning.

**Exhibit 32: Lighting – Revenue up 20% YoY**



**Exhibit 33: Lighting – Margin at All-time High**

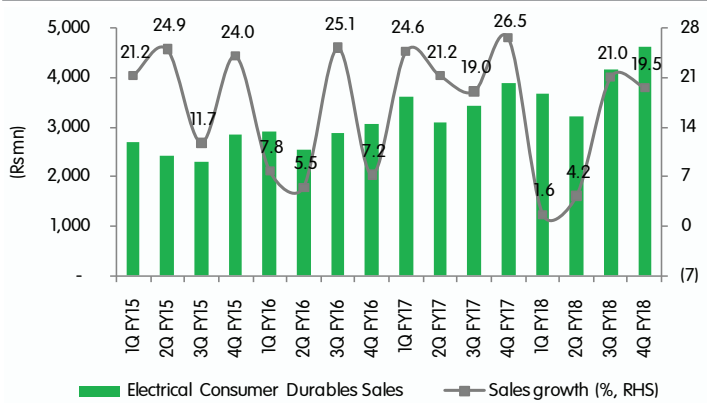


Source: Company, RSec Research

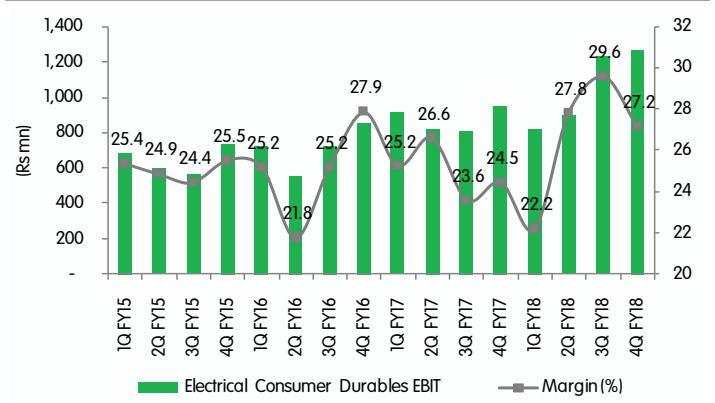
Looking ahead, we expect lighting segment to clock 13% CAGR over FY18-20 led by introduction of innovative products, and governments thrust on local manufacturing which will help Havells to expand its products portfolio.

**ECD:** ECD revenue grew by a robust 20% YoY in 4QFY18 on the back of improved market share in fans and water heaters segment led by new launches and increased deeper penetration. Notably, fans revenue grew by 18% in FY18, while industry growth remained flat. Water heater revenue grew by 10% YoY, while the industry witnessed a decline. Small home appliances also gained traction albeit on low base. Havells launched new products i.e. water purifiers in FY18, which witnessed encouraging initial response. Margins improved by 270bps YoY to 27.2% in 4QFY18.

**Exhibit 34: ECD – Revenue up 20% YoY**



**Exhibit 35: ECD – Margin Declines on QoQ Basis**



Source: Company, RSec Research

The segment clocked ~20% CAGR during FY11-18 led by introduction of new products and rising market share in premium fan segment. Looking ahead, we expect the segment to clock 16% CAGR through FY18-20%.

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# Havells India

Initiating Coverage | India

CMP* (Rs)	559
Upside/ (Downside) (%)	16
Bloomberg Ticker	HAVL IN

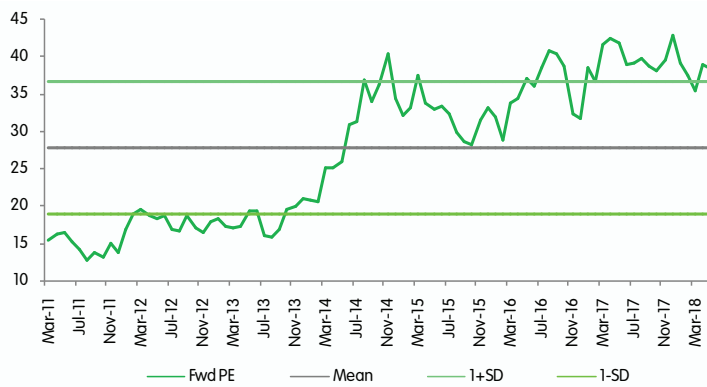
**BUY** 

Target Price: Rs650

## Outlook & Valuation

Looking ahead, we expect Havells' revenue and PAT to clock 15% and 24% CAGR, respectively through FY18-20E led by new products, up-tick in industrial activity and acquisition of Lloyd's CD business. With strong cash flow from core business and healthy balance sheet in place, we believe incremental scalability post Lloyd acquisition and launch of premium products would help Havells to report improved performance in the long-term, while likely up-tick in discretionary spend over the medium-term. **We initiate coverage on Havells with a BUY rating and Target Price of Rs650.**

Exhibit 36: Trading at 1+SD



Source: Company, RSec Research

Exhibit 37: Continues PE Expansion

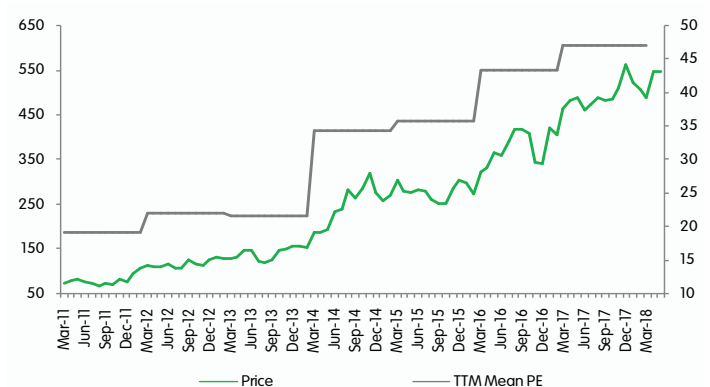


Exhibit 38: Revenue CAGR of 18% during FY10-18

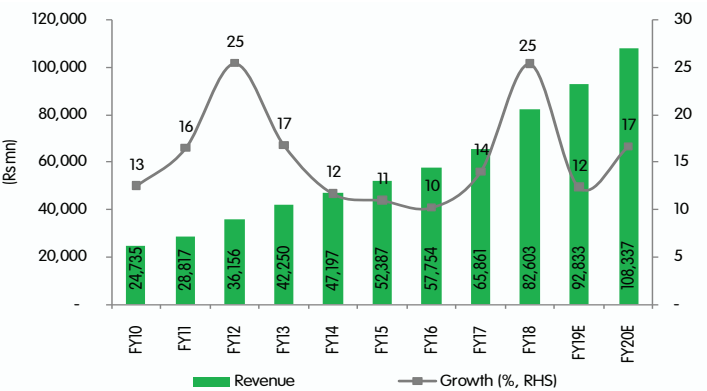


Exhibit 39: EBITDA CAGR of 17% during FY10-18

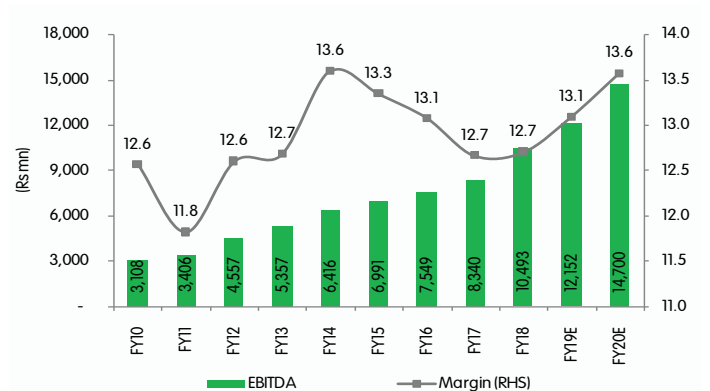


Exhibit 40: PAT CAGR of 15% during FY10-18

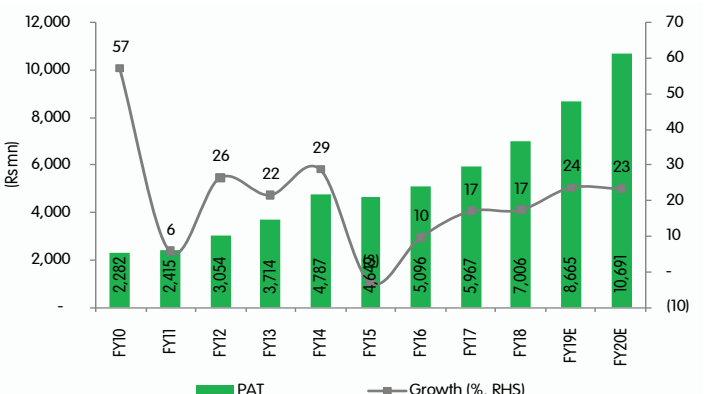
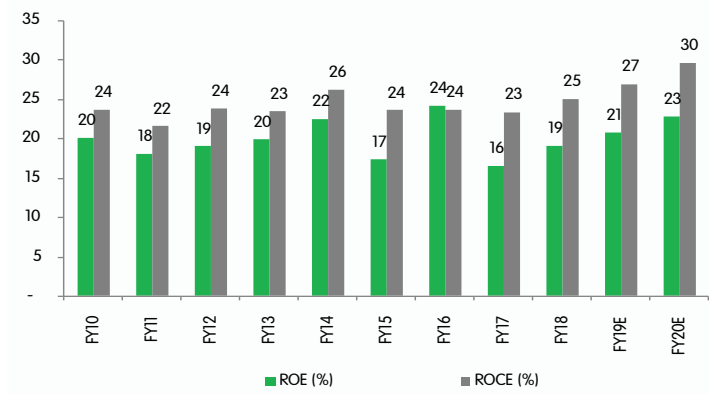


Exhibit 41: ROE & ROCE



Source: Company, RSec Research

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**BUY** 

Target Price: Rs650

## Key Risks

- ▶ Lower consumption demand and lower discretionary spending.
- ▶ Substantial rise in commodity prices and inability to pass on the same.
- ▶ Delayed synergistic benefits of Lloyd integration.

## Company Overview

Havells India – founded in 1983 – is one of the largest electrical equipment companies in India. Its range of products and services includes industrial and household circuit protection switchgear, industrial/domestic cables and wires, motors, fans, power capacitors, LED lamps, lighting for domestic/commercial/industrial applications, modular switches, wiring accessories, home and kitchen appliances and energy meters i.e. static and electromechanical meters. It has 12 manufacturing plants across 7 locations in India and 23 branches/representative offices with >6,000 professionals in >50 countries. It has a network of 7,500 direct dealers and 1 lakh retailers and owns 398 exclusive stores under the brand Galaxy across India. Havells owns some of the most prestigious Indian brands like Havells, Lloyd, Crabtree, Standard Electric and Promptech, while ~90% of revenue comes from in-house production.

### Exhibit 42: Top Management

Members	Designation
Anil Rai Gupta	CMD
Surjit Kumar Gupta	Non Executive
Ameet Kumar Gupta	Executive Whole-time Director
Rajesh Kumar Gupta	Group CFO
Avinash Prakash Gandhi	Independent Director
Sunil Behari Mathur	Independent Director
Vijay Kumar Chopra	Independent Director
Surendar Kumar Tuteja	Independent Director
Dr Adarsh Kishore	Independent Director
Pratima Ram	Independent Director
TV Mohandas Pai	Non Executive, Non-Independent
Puneet Bhatia	Non Executive, Non-Independent

Source: Company, RSec Research

### Exhibit 43: Shareholding

	Holding (%)
QRG Enterprises	30.4
QRG Investments	11.0
Nalanda India Equity Fund	5.3
Gupta Vinod	5.0
Gupta Anil	4.9
Gupta Surjit	4.6
Government Pension Fund - Global	2.8
Gupta Qimat Rai	2.2
Norges Bank	2.1
Capital Research Global Investor	1.4
Vanguard Group Inc	1.3
Blackrock Fund Advisors	1.2
Capital World Investors	1.2
Tiaa Cref Int Eq Fund	1.1
Sbi Funds Management	1.0
Mirae Asset Global Inv India	1.0
Dsp Blackrock Investment Manager	0.9
Gupta Shalini	0.6

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**Profit & Loss Statement**

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E
<b>Net Sales</b>	<b>65,861</b>	<b>82,603</b>	<b>92,833</b>	<b>108,337</b>
Total operating income	65,861	82,603	92,833	108,337
Growth (%)	14.0	25.4	12.4	16.7
Total Expenditure	57,521	72,110	80,680	93,638
Cost of Materials	36,485	49,808	56,758	65,761
Employee costs	5,008	6,497	7,241	8,125
Others	16,028	15,805	16,681	19,751
<b>EBITDA</b>	<b>8,340</b>	<b>10,493</b>	<b>12,152</b>	<b>14,700</b>
Growth (%)	10.5	25.8	15.8	21.0
EBITDA Margin (%)	12.7	12.7	13.1	13.6
Depreciation	1,196	1,395	1,492	1,596
<b>EBIT</b>	<b>7,144</b>	<b>9,098</b>	<b>10,661</b>	<b>13,104</b>
EBIT Margin (%)	10.8	11.0	11.5	12.1
Growth (%)	9.9	27.4	17.2	22.9
Interest	122	240	162	162
Other Income	1,243	1,170	1,537	1,907
Exceptional items	(578)	119	-	-
<b>PBT</b>	<b>8,265</b>	<b>10,028</b>	<b>12,035</b>	<b>14,848</b>
Growth (%)	17.0	21.3	20.0	23.4
Tax	2,298	3,022	3,370	4,158
Effective Tax rate (%)	27.8	30.1	28.0	28.0
<b>Adjusted PAT</b>	<b>5,967</b>	<b>7,006</b>	<b>8,665</b>	<b>10,691</b>
Fully Diluted EPS (Rs)	9.5	11.2	13.9	17.1
Growth (%)	17.1	17.4	23.7	23.4
<b>Reported PAT</b>	<b>6,546</b>	<b>6,887</b>	<b>8,665</b>	<b>10,691</b>



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**BUY** 

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## Balance Sheet

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E
Share capital	625	625	625	625
Reserves	32,115	36,766	41,099	46,444
Net worth	32,740	37,391	41,724	47,069
Total borrowings	1,981	1,080	1,080	1,080
Long term liability & Provision	107	471	471	471
Deferred tax	1,138	2,070	2,070	2,070
<b>Total liabilities</b>	<b>35,965</b>	<b>41,012</b>	<b>45,345</b>	<b>50,690</b>
Gross block	16,862	27,885	29,837	31,926
Less: Acc. depreciation	2,108	3,503	4,995	6,591
Net block	14,754	24,382	24,842	25,334
CWIP	119	241	216	195
Goodwill	-	3,105	3,105	3,105
Investments	4,450	955	955	955
Current assets	31,749	36,740	42,169	49,744
Inventories	9,284	16,217	16,532	17,809
Debtors	2,285	3,254	3,815	4,452
Cash	19,375	15,261	19,533	24,812
Loans and advances	60	80	254	297
Other Current Assets	744	1,929	2,035	2,375
Current liabilities	14,005	22,870	24,162	26,713
Provisions	1,102	1,541	1,780	1,929
<b>Net current assets</b>	<b>16,642</b>	<b>12,330</b>	<b>16,227</b>	<b>21,101</b>
<b>Total Assets</b>	<b>35,965</b>	<b>41,012</b>	<b>45,345</b>	<b>50,690</b>

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# Havells India

Initiating Coverage | India

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**BUY** 

Target Price: Rs650

## Cash Flow Statement

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E
<b>PBT</b>	<b>8,265</b>	<b>10,028</b>	<b>12,035</b>	<b>14,848</b>
Add: Depreciation	1,196	1,395	1,492	1,596
Add: Interest	122	240	162	162
Less: taxes paid	(2,298)	(3,022)	(3,370)	(4,158)
Add: other adjustments	2,869	3,628	-	-
Less: working capital changes	2,385	198	375	404
<b>Total operating cash flows</b>	<b>12,540</b>	<b>12,467</b>	<b>10,694</b>	<b>12,853</b>

## Cash flow from investing activity

Capital expenditure	(3,446)	(11,145)	(1,928)	(2,067)
Change in investments	177	3,495	-	-
Change in Goodwill	-	(3,105)	-	-
<b>Total investing cash flow</b>	<b>(3,269)</b>	<b>(10,754)</b>	<b>(1,928)</b>	<b>(2,067)</b>

## Cash flow from financing activity

Change in borrowings	1,981	(901)	-	-
Dividend	(5,407)	(4,687)	(4,333)	(5,345)
Interest payment	(122)	(240)	(162)	(162)
<b>Total financing cash flow</b>	<b>(3,548)</b>	<b>(5,827)</b>	<b>(4,495)</b>	<b>(5,507)</b>

<b>Net change in cash</b>	<b>5,723</b>	<b>(4,114)</b>	<b>4,272</b>	<b>5,279</b>
<b>Opening cash &amp; CE</b>	<b>13,652</b>	<b>19,375</b>	<b>15,261</b>	<b>19,533</b>
<b>Closing cash &amp; CE</b>	<b>19,375</b>	<b>15,261</b>	<b>19,533</b>	<b>24,812</b>

## Key Ratios

Y/E Mar	FY17	FY18	FY19E	FY20E
<b>Valuation Ratio (x)</b>				
P/E	58.5	49.9	40.3	32.7
P/CEPS	48.7	41.5	34.3	28.4
P/BV	10.7	9.3	8.4	7.4
Dividend yield (%)	1.5	1.3	1.2	1.5
EV/Sales	5.0	4.0	3.6	3.0
EV/EBITDA	39.3	31.8	27.1	22.1
<b>Per Share Data (Rs)</b>				
EPS	9.5	11.2	13.9	17.1
Cash EPS	11.5	13.5	16.3	19.7
DPS	8.7	7.5	6.9	8.6
Book Value	52.5	59.9	66.9	75.4
<b>Returns (%)</b>				
RoCE	23.3	25.0	26.9	29.6
RoE	16.5	19.1	20.8	22.7
<b>Turnover ratios (x)</b>				
Asset Turnover (Gross Block)	3.9	3.0	3.1	3.4
Inventory / Sales (days)	51	72	65	60
Receivables (days)	13	14	15	15
Payables (days)	78	101	95	90
Cash conversion cycle (days)	(13)	(15)	(15)	(15)

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### Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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