

## Havells India Ltd- Event Update

Consumer Durables

January 05, 2012

**Rating: Accumulate; CMP: ₹ 410; Target: ₹ 477; Upside: 16%; Horizon: 12 months**

**Previous Rating** Accumulate  
**Target Price Change** unch  
**EPS Change FY12E/FY13E** unch

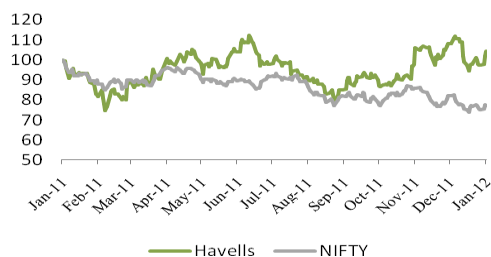
**Bloomberg Code** HAVL IN  
**Market Cap (₹mn)** 51160  
**Face Value (₹)** 5  
**Book Value (₹)** 52.4  
**EPS (₹)** 24.4  
**Dividend Yield** 0.6%  
**52 week H/L (₹)** 451.3/290.1  
**Avg Quarterly Vol (mn)** 50545  
**Listed At** BSE/NSE  
**Equity capital (₹ mn)** 623.9

### Share Holding Pattern (30 Sep 2011)

Promoter	61.6
FII	16.8
DII	1.9
Others	19.7
Total	100.0

### Price Performance %

	1M	3M	6M	12M
Absolute	(4)	20	6	4
Rel to Nifty	2	0	22	27



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Havells India Ltd, has entered into a joint venture with China's Shanghai Yaming Lighting Co to set up a manufacturing unit in China with an investment of Rs 527 crore (\$100 million) in the next three years. The JV which would be named Jiangsu Havells Sylvania Lighting Co is expected to come up in Jiangsu province and make products such as HID lamps, LEDs, CFLs and lighting fixtures. It would also provide products for Global Sylvania, which Havells acquired in 2007, and local China markets. The prime focus of the JV would be on launching energy-efficient and 'green' lighting solutions.

According to Mr. Anil Gupta, Joint MD, company is already sourcing from the Chinese market in addition to undertaking research and development (R&D) activities. Havells already owns the technology for certain products and it wanted to transfer this to a manufacturing company in China which would be owned partly by it.

The facility which would be funded through internal accruals is expected to start production by April 2012 and be fully functional by November. The initial investment would be ₹ 263 crore (\$50 million) and the partners expect to double the investment to \$100 million in 3-4 years. The plan is to export the products to Europe and Latin America, where products are being sold under the Sylvania brand, apart from making for the Chinese market. The company expects the JV to clock revenue of ₹158 crore (\$30 mn) in the first year and ₹ 527 (\$100 mn) in the next three years. Sylvania currently outsources almost 60% of operations from low cost destinations and this JV with a manufacturing facility located in China would certainly help in increasing this outsourcing percentage thereby bringing in cost efficiencies and enhancing margins.

Shanghai Yaming Lighting Co is a China-based incandescent lamp maker. The company was the first producer of lamps in China. Over the years, the company has grown multifold by manufacturing all kind of lamps like GLS/FTL/HID etc. The holding company of Shanghai Yaming Lighting Co viz. Feilo Acoustics Co has a market capitalization of circa \$750 million.

We believe this JV would benefit Havells in the longer term contributing to the top line as well as improving the margins due to low cost operations. We have not factored in the revenues and the margin benefits arising from this JV in our estimates at the moment. We would like to incorporate these benefits into our valuation model once the production actually starts and offers good revenue visibility. Hence we keep our estimates for FY12E and FY13E unchanged at Rs.29/share and 35.7/share respectively.

**Valuation: We maintain our Accumulate rating and Target price of ₹477 (potential upside of 16%) based on DCF methodology** (assuming WACC of 12.9%, terminal growth rate of 2.5% and current D/E ratio) implying a 4.7x terminal EV/EBITDA multiple. We expect Havells to post 32.7% ROE and 28.1% ROCE in FY13E which is very attractive.

Key Financials	FY10	FY11	FY12E	FY13E
Revenue (₹ mn)	51761	56299	65134	73292
EBITDA (₹ mn)	3114	5491	6770	7661
EBITDA%	6.0%	9.8%	10.4%	10.5%
Adj. PAT (₹ mn)	696	3048	3623	4457
Adj. PAT %	1.3%	5.4%	5.6%	6.1%
Adj. EPS(₹)	11.2	24.4	29.0	35.7
P/E(x)	36.7	16.8	14.1	11.5
EV/EBITDA(x)	14.5	11.0	8.8	7.2
ROE (%)	17.4%	46.6%	37.3%	32.7%

## Financials

Estimated Income Statement				₹ mn
Particulars	FY10	FY11	FY12E	FY13E
<b>Revenue</b>	<b>51761</b>	<b>56299</b>	<b>65134</b>	<b>73292</b>
% Growth	-5.6%	8.8%	15.7%	12.5%
Expenditure	48647	50808	58363	65631
<b>EBITDA</b>	<b>3114</b>	<b>5491</b>	<b>6770</b>	<b>7661</b>
% Growth	11.9%	76.3%	23.3%	13.2%
Depreciation	838	804	921	945
<b>EBIT</b>	<b>2299</b>	<b>4687</b>	<b>5850</b>	<b>6716</b>
Interest	871	820	1063	976
Other Income	222	248	136	169
PBT	1627	4079	4753	5910
% Growth	99.9%	150.7%	16.5%	24.4%
Tax Paid	931	1031	1130	1453
<b>PAT</b>	<b>696</b>	<b>3048</b>	<b>3623</b>	<b>4457</b>
% Growth	80.8%	337.9%	18.9%	23.0%

Estimated Balance Sheet				₹ mn
Particulars	FY10	FY11	FY12E	FY13E
Share Capital	312	624	624	624
Reserves	3690	5914	9101	13024
Net Worth	4002	6537	9725	13648
Total Debt	10664	11173	10733	10280
<b>Capital Employed</b>	<b>14668</b>	<b>17716</b>	<b>20459</b>	<b>23928</b>
Goodwill	3212	3354	3354	3354
Gross Block	26963	28454	29954	30954
Dep	18089	18499	19419	20364
<b>Net Fixed Assets</b>	<b>8874</b>	<b>9955</b>	<b>10534</b>	<b>10590</b>
Capital WIP	336	249	249	249
Investments	0	0	0	0
<b>Current Assets</b>	<b>18556</b>	<b>22077</b>	<b>25957</b>	<b>31682</b>
Inventory	8246	10860	12484	13844
Sundry Debtors	6982	7724	8865	9365
Cash & Bank	1480	1779	2628	6157
Loan & Advances	1848	1715	1980	2316
<b>Current Liab &amp; Prov</b>	<b>15876</b>	<b>17361</b>	<b>19127</b>	<b>21461</b>
Current Liabilities	15555	16722	18455	20766
Provisions	321	639	672	695
<b>Total Assets</b>	<b>14668</b>	<b>17716</b>	<b>20459</b>	<b>23928</b>

Estimated Cash Flow Statement				₹ mn
Particulars	FY10	FY11	FY12E	FY13E
<b>PBT</b>	<b>1628</b>	<b>4066</b>	<b>4753</b>	<b>5910</b>
<b>Adjustments for:</b>				
Dep	837	804	921	945
Interest	856	812	1063	976
<b>Op. Profit before WC Changes</b>	<b>1377</b>	<b>5439</b>	<b>6736</b>	<b>7830</b>
<b>Adjustments for:</b>				
Inc/Dec In Inventory	-139	-2751	-1624	-1360
Inc/Dec In Receivables	1152	-564	-1141	-500
inc/Dec in Creditors	131	1923	1733	2312
<b>Cash Generated From Ops.</b>	<b>3746</b>	<b>3426</b>	<b>5438</b>	<b>7946</b>
Tax	-659	-851	-1130	-1453
<b>CF from Op. Activities (A)</b>	<b>3087</b>	<b>2575</b>	<b>4308</b>	<b>6493</b>
<b>CF from Investing</b>				
Purchase of fixed assets	-1536	-1887	-1500	-1000
Miscellaneous expenditure	429	-142	0	0
<b>Net CF From Inv. Activities (B)</b>	<b>-899</b>	<b>-1719</b>	<b>-1500</b>	<b>-1000</b>
<b>CF from Financing Activities</b>				
Long term borrowings	-176	540	-440	-453
Dividend paid	-39	-51	-435	-535
Interest paid	-872	-819	-1063	-976
<b>Net CF From Fin. Activities (C)</b>	<b>-3130</b>	<b>-572</b>	<b>-1938</b>	<b>-1963</b>
Inc./Dec. in Cash (A + B + C)	-943	285	871	3530
Opening Cash	2415	1472	1757	2628
<b>Closing Cash</b>	<b>1472</b>	<b>1757</b>	<b>2628</b>	<b>6157</b>

Key Ratios				
Particulars	FY10	FY11	FY12E	FY13E
<b>Profitability ratios</b>				
EBITDA%	6.0%	9.8%	10.4%	10.5%
EBIT%	4.4%	8.3%	9.0%	9.2%
PAT %	1.3%	5.4%	5.6%	6.1%
<b>Valuation ratios</b>				
EPS (₹)	11.2	24.4	29.0	35.7
BV (₹)	64.2	52.4	77.9	109.4
EV (₹ mn)	45246	62364	61075	57092
Dividend(₹ mn)	231.2	311.9	434.7	534.8
DPS(₹)	3.7	2.5	3.5	4.3
P/E (x)	36.7	16.8	14.1	11.5
P/BV (x)	6.4	7.8	5.3	3.7
EV/EBITDA(x)	14.5	11.0	8.8	7.2
Dividend Yield	0.9%	0.6%	0.8%	1.0%
<b>Return Ratios</b>				
Adj. ROE%	17.4%	46.6%	37.3%	32.7%
ROCE%	15.7%	26.5%	28.6%	28.1%
<b>Solvency ratios</b>				
Debt/ Equity (x)	2.7	1.7	1.1	0.8
Interest Coverage Ratio	2.6	5.7	5.5	6.9
<b>Turnover ratios</b>				
Asset turnover (x)	3.5	3.2	3.2	3.1
Inventory Turnover(days)	57.5	69.7	69.0	68.0
Debtors (No of days)	48.7	49.5	49.0	46.0
Creditor (No of days)	108.5	107.3	102.0	102.0
<b>DU Pont Analysis</b>				
EBIT%	4.4%	8.3%	9.0%	9.2%
Tax Burden %	43%	75%	76%	75%
Interest Burden %	71%	87%	81%	88%
Asset Turnover(x)	3.5	3.2	3.2	3.1
Financial leverage(x)	3.7	2.7	2.1	1.8
ROE (%)	17.3%	46.5%	37.3%	32.7%

Stock Ratings	
<b>BUY</b>	The stock's total return is expected to exceed 15% over the next 12 months
<b>ACCUMULATE</b>	The stock's total return is expected to be within 10-15% over the next 12 months
<b>HOLD</b>	The stock's total return is expected to be within 0-10% over the next 12 months
<b>SELL</b>	The stock's total return is expected to give negative returns over the next 12 months
<b>NOT RATED</b>	The Analyst has no recommendation on the stock under review

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