FairWealth Equity Research

Havells India Ltd- Initiating Coverage

Consumer Durables December 05, 2011

Rating: Accumulate; CMP: ₹ 424; Target: ₹ 477; Upside: 13%; Horizon: 12 months

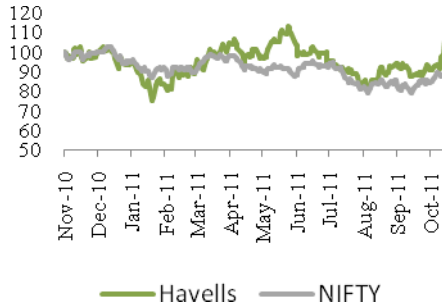
Bloomberg Code	HAVL IN
Market Cap (₹mn)	52969
Face Value (₹)	5
Book Value (₹)	52.4
EPS (₹)	24.4
Dividend Yield	0.7%
52 week H/L (₹)	451.3/290.1
Avg Quarterly. Vol (mn)	15632
Listed At	BSE/NSE
Equity capital (₹ mn)	623.9

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	8	(14)	0	(2)
Rel to Nifty	13	(17)	13	18



Hitesh Parekh
Research Analyst
hitesh.parekh@fairwealth.in
022 39244988

Havells India ltd, a billion dollar organization has emerged as one of the fastest growing leading player in the Indian Electrical and Consumer Durables Sector. After the Sylvania acquisition, company has been able to strongly place its footprint in the European and Latin American (LATAM) markets. Successful Sylvania restructuring, steady domestic growth and launch of consumer appliances will drive Havells growth in the next few years. We expect Havells to deliver a consolidated revenue and EPS CAGR of 14% and 21% over FY11-FY13E respectively.

Domestic Business on a steady growth path

We believe Havells well diversified product base, rising consumer demand, strong distribution network and pan India presence will lead to a steady growth in its domestic business at 18.5% CAGR over FY11-13E. This growth will largely be led by its Lighting & Electrical Consumer Durables segment with 20% and 22.5% revenue CAGR over FY11-13E.We expect standalone EBIIDTA margin to grow to 12.4%, leading to earnings CAGR of 19% over next two years. Switchgear segment being the highest margin segment would be the key contributor to the bottom line growth.

Sylvania restructuring showing signs of profitability

After incurring substantial losses in FY09-10, Havells European subsidiary, Sylvania has seen a sharp jump in its profitability due to the restructuring initiatives taken by way of reducing manpower costs, shifting to low cost locations, renegotiation of debt covenants etc. This coupled with strong growth in the LATAM, Asian markets and steady growth in European market will lead to revenue CAGR of 4.2% over FY11-13E. We expect EBIDTA margins to improve to 7.4% in FY12E and 7.6% in FY13E from 5.8% in FY11. We expect PAT to grow at 161% CAGR to 10.9 € mn in FY13E.

Acceleration in consolidated earnings together with an improvement in return ratios

We expect Havells to report 21% CAGR in consolidated earnings with PAT of ₹4.5bn due to robust growth in Sylvania profitability. Consolidated EBIDTA margins should expand to 10.5% in FY13E from 9.8% in FY11.Post restructuring Havells seems geared to slowly improve its return ratios.

Key Risks: a) Increase in raw material prices b) Forex risk c) Euro zone crisis worsening d) Domestic competition

Valuation: We Initiate Coverage on Havells India Ltd with Accumulate rating and Target price of ₹477 (potential upside of 12.5%) 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/EBIDTA 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)	38.0	17.4	14.6	11.9
EV/EBITDA(x)	14.5	11.4	9.0	7.5
ROE (%)	17.4%	46.6%	37.3%	32.7%

Havells India – Globally well diversified

Havells India ltd, a billion dollar plus organization promoted by Mr. Qimat Rai Gupta is one of the largest & India's fastest growing electrical and power distribution equipment manufacturer with products ranging from Industrial & Domestic Circuit Protection Switchgear, Cables & Wires, Motors, Fans, Power Capacitors, CFL Lamps, Luminaires for Domestic, Commercial & Industrial applications, Modular Switches, Water Heaters and Domestic Appliances. Havells owns some of the prestigious global brands like Crabtree, Sylvania, Concord, Luminance, Linolite & Standard. It has 12 state-of-the-art manufacturing units in India located at Haridwar, Baddi, Noida, Faridabad, Alwar, Neemrana, and 6 state-of-the-art manufacturing plants located across Europe, Latin America & Africa. Havells through its "Havells Galaxy" a one stop shop for all electrical and lighting needs reaches out directly to the consumers. Havells has more than 100 such Galaxies across the country.

Consolidated Revenues: ₹56bn, EBIDTA- ₹5.5bn, PAT- ₹3bn

Domestic Sales: ₹29.8bn, EBIDTA ₹3.5bn, PAT-₹ 2.6bn

- Switchgears: ₹8.3bn, 28% of Sales, Contribution Margin-35.1%
- Cables & Wires: ₹12.3bn, 41% of Sales, Contribution Margin-31%
- Lighting: ₹4.4bn, 15% of Sales, Contribution Margin-18.4%
- Electrical CD: ₹4.7bn, 22% of Sales, Contribution Margin-27.6%

Sylvania Sales: ₹27.1bn, EBIDTA ₹1.9bn, PAT-₹ 0.4bn

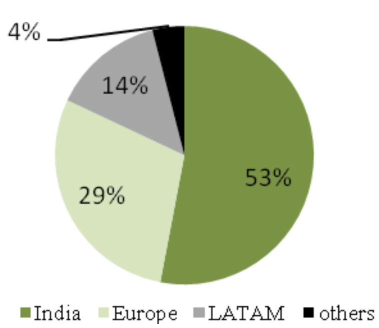
- LATAM: 32.3% of sales, 53% of EBIDTA
- EUROPE: 67.7% of sales, 47% of EBIDTA

Lighting & Fixtures would contribute significantly to consolidated revenues with Sylvania turnaround

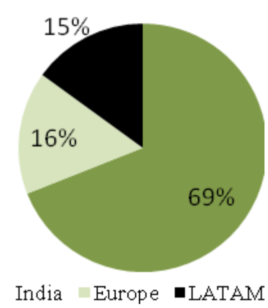
LATAM markets will be the future growth drivers for Sylvania

Source: Company, Fairwealth Securities

Geographical Revenue Distribution



Operating Profit Geographical Distribution

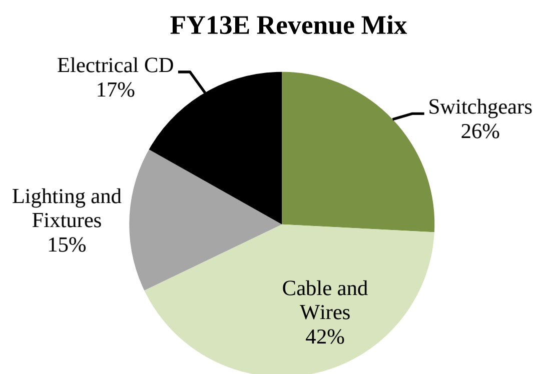


Investment Rationale

Havells Domestic Business- Diversified growth oriented portfolio

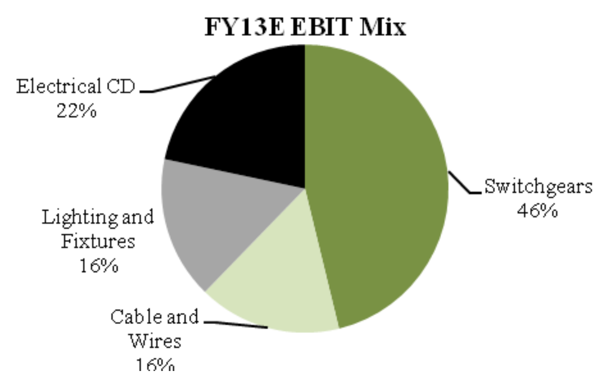
Havells with its strong brand image, diversified product portfolio and wide distribution network of 4,300 dealers/ wholesalers and 40,000 retailers across India is very strongly poised to reap the benefits of India Consumption story, demographics, increasing energy need coupled with rising demand for energy efficient products. We expect Havells revenue mix to be stable over FY11-13E with Cables & wires being the largest contributor with 42% of revenues in FY13E. Switchgear segment is expected to continue as the most profitable segment contributing 46% of the total domestic EBIT in FY13E.

Stable Revenue Mix over FY11-13E



Source: Company, Fairwealth Securities

Switchgear to continue as the most profitable segment

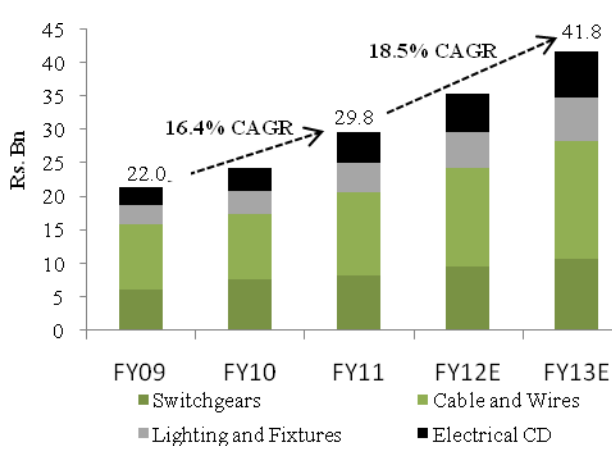


Source: Company, Fairwealth Securities

Domestic Business to maintain steady growth

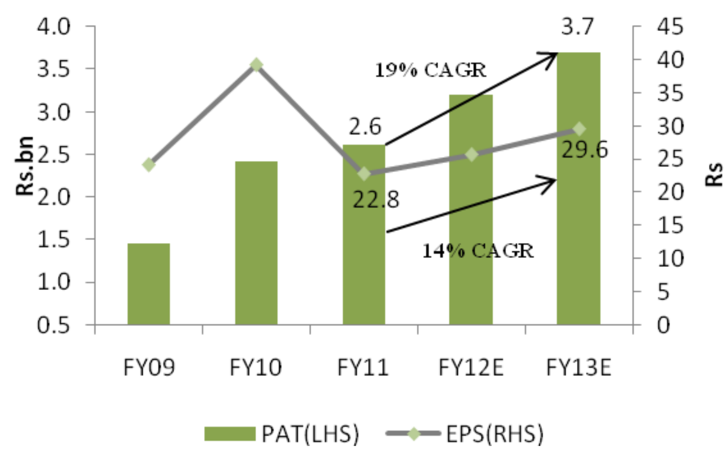
Havells products command a dominant market share ranging from #1-4 across different product categories. With such customer centric business model, Havells domestic business is expected to grow at 18.5% revenue CAGR and 19% PAT CAGR over FY11-13E. We expect EBIDTA margins to improve to 12.4% in FY13E from 12% in FY11.

Revenue CAGR of 18.5% over FY11-13E



Source: Company, Fairwealth Securities

Standalone PAT/EPS to Grow at 19%/14% CAGR over FY11-13E



Source: Company, Fairwealth Securities

Havells Domestic Business Matrix

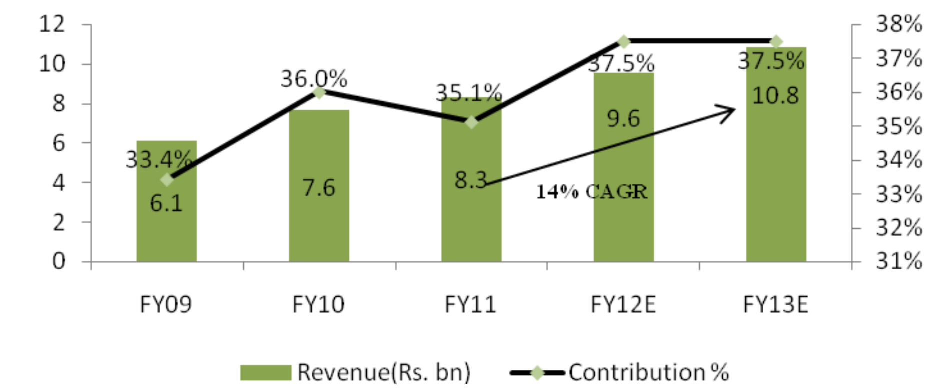
Segment	Switchgear	Cables &Wires	Lighting	ECD
Products	**Domestic**- MCBs, RCCBs , RCBOs, ACCL, Switches **Industrial** -MCCB, Air Circuit breakers, Chamber System, etc	Power & Control Cables, Flame Retardant	LED, CFLs, HID & Specialty lamps, luminaries etc.	Fans, Water Heater & Domestic Appliances
Market Size	**Domestic** - 14bn **Industrial** - 12bn	160bn	**CFL**-15bn, **Luminaries**-25bn	**Fans** - 35bn **Water heaters** - 8bn **Small Appliances**-20bn
Market Share (%)	**Domestic** - 28% **Industrial** - 15%	9%	**CFL** - 11%, **Luminaries** - 11%	**Fans** - 14% **Water heaters**- New **Small Appliances**- New
Market Position	**Domestic** - 1st **Industrial** - 5th	2nd	**CFL**- 3rd **Luminaries**- 4th	**Fans** - 3rd **Water heaters** - New **Small Appliance** - New
Present scenario	Market leader, most profitable segment	Highest contributor to revenues, least profitable segment	Energy Efficient Lamps, Improving margins	Dominant share in fans, Launched Water Heaters in Sep 10, Small Appliances in Aug 11
Peers	**Domestic** -Leagrand, Schneider **Industrial** - L&T, Schneider, Siemens, ABB	**Cable**-Polycab, KEI **Wire**-Finolex, Polycab	**CFL** - Philips, Surya, Osram **Luminaries** -Philips, Bajaj, Crompton, Wipro	**Fans**- Crompton, Usha, Orient **Water Heaters**-Recold, Bajaj
Revenue Mix (%) (FY11)	28%	41%	15%	16%
Revenue Mix (%) (FY13E)	26%	42%	15%	17%
EBIT%(FY11)	49%	15%	14%	22%
EBIT%(FY13E)	46%	16%	16%	22%
Expected Revenue Growth(FY11-13E)	14%	19%	20%	22%

Dominant market share in both Domestic (28%) and Industrial Switchgear (15%) segments.

Switchgear Segment: To persist as the most profitable segment

Havells commands a dominant market share in both Domestic (28%) and Industrial Switchgear (15%) segments. Company is India's largest manufacturer and exporter of MCBs. Demand for switchgears segment is expected to remain robust due to increasing demand from the construction sector and need for electricity. Havells markets modular switches under the brand "Crabtree" and it mainly caters to high end customers. Havells has a 15% market share in this segment. Havells mainly competes with Leagrand and Schneider in domestic switchgears while L&T, Schneider, Siemens and ABB are its major competitors in the Industrial Switchgears segment. We expect Havells Switchgears segment revenue to increase at 14% CAGR to ₹10.8bn over FY11-13E. This segment is expected to enjoy healthy margins and continue as the most profitable segment due to limited competition and high-end positioning.

Switchgear Revenue to grow at 14% CAGR over FY11-13E



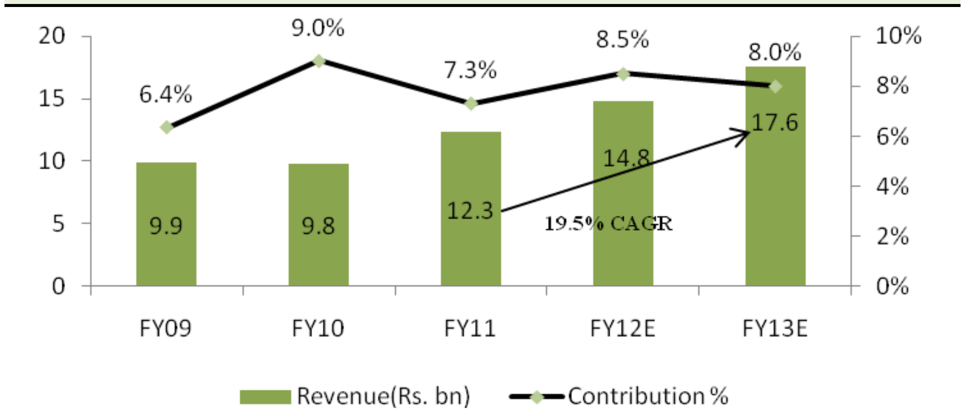
Source: Company, Fairwealth Securities

2nd largest player in the cables & wires segment and enjoys 9% share

Cables & Wires: Largest contributor to domestic revenues

Havells is the second largest player in the cables & wires segment and enjoys 9% share. Havells faces competition from Polycab, Finolex and KEI in this segment. Copper and aluminium are the key raw materials in this segment and hence have a large impact on the margins of cables & wires. Moreover this being a low barrier segment faces a lot of competition from the unorganized market putting pressure on the margins unlike the switchgear segment. We expect segments revenue to grow at 19.5% CAGR during FY11-13E and margins improving to 8% from current 7.3% levels.

Cables & Wires Revenue to grow at 19.5% CAGR over FY11-13E



Source: Company, Fairwealth Securities

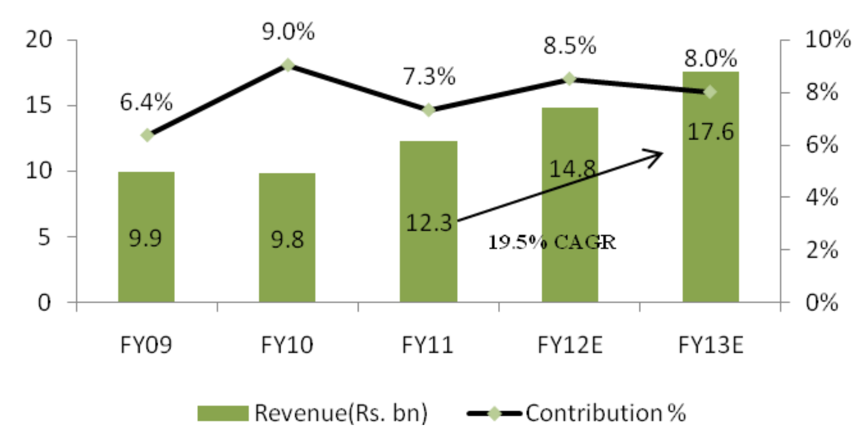
Lighting contributes 15% to Havells domestic business, EBIT margins of 18.4% in FY11.

Luminaries segment market share has increased to 11% currently form mere 3% in 2006.

Lighting: CFL growth to lead revenue CAGR of 20% & margin expansion of 350 bps over FY11-13E

Lighting segment contributes 15% to Havells domestic business and earned EBIT margins of 18.4% in FY11. Havells ranks 3rd in the CFL category with 11% market share behind Philips and Surya. The luminaries segment market share has increased to 11% currently form mere 3% in 2006. Albeit Company's market share has increased by only 1% in the CFL category from 2006 due to the product guarantees issued by the company across country. However Havells has corrected this strategy and with better cost control, pricing control in CFLs and margin improvement in fixtures we expect segments EBIT margins to expand 22% in FY13E from 18.5% in FY11. We expect Havells to have a sustained growth in this segment with revenues increasing at 20% CAGR over FY11-13E.

Lighting: Revenue CAGR of 20% & Margin expansion of 350bps over FY11-13E



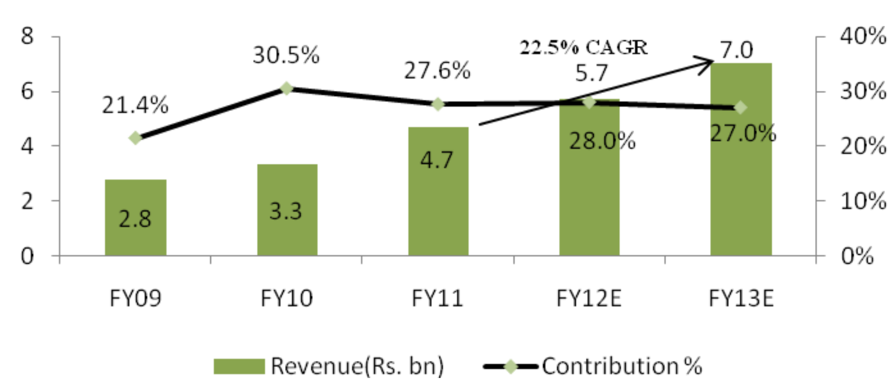
Source: Company, Fairwealth Securities

New product launches and dominance in the fans (14% market share) to aid the revenue growth

Consumer Durables: Balanced growth with new product launches

Consumer durables has been one of the fastest growing segments over the past few years. Company has expanded its product portfolio which included only fans till FY10 last fiscal with launch of water heaters in Aug 10 and continues to broaden its gamut of products with the successful launch of small appliances in Sep 11. Havells has 14% market share in fans and is 3rd largest selling domestic brand behind Crompton and Usha. We expect new product launches and Havells dominance in the fans to lead to 22.5% revenue CAGR over FY11-13E.

Consumer Durables Revenue to grow at a CAGR of 22.5% over FY11-13E



Source: Company, Fairwealth Securities

Sylvania restructuring leading to enhanced profitability

LATAM markets to be the key revenue drivers with 10% CAGR over the next two years.

After incurring substantial losses in FY09-10, Havells European subsidiary, Sylvania has seen a sharp jump in its profitability due to the restructuring initiatives taken by way of reducing manpower costs, shifting to low cost locations, renegotiation of debt covenants etc. We believe Sylvania turnaround would significantly change the profit mix of the consolidated business and lead to a strong profitable path ahead. We expect the European market to have a subdued growth of 1.2% CAGR over FY11-13E due to the present economic conditions prevailing in the Euro zone. However we believe LATAM markets to be the key revenue drivers with 10% CAGR over the next two years. We expect Sylvania revenues to grow at 4.2% CAGR and PAT at 161.5% CAGR over FY11-13E.

Reaping the benefits of successful restructuring

Sylvania acquisition helped Havells to establish distribution franchise and brand strength in Europe to enter other emerging markets in Asia and Latin America

In April 2007, Havells acquired majority stake in Sylvania from a private equity player at € 227 mn valuing Sylvania at an EV of 7.5x EBITDA. The rationale behind the acquisition was to leverage Sylvania's established distribution franchise and brand strength in Europe to enter other emerging markets in Asia and Latin America. It also gave substantial product design capabilities and technology to Havells. The acquisition was entirely financed through debt of € 200 mn of which €80 mn was with recourse to Havells. There were also pension liabilities of € 27mn on Sylvania's books.

2008 financial crisis derailed Sylvania's profits (FY09 loss of € 47mn)

Following the acquisition of Sylvania, the 2008 financial crisis derailed Sylvania's profits (FY09 loss of € 47mn), resulting in adverse investor sentiment and alteration in the debt covenant for Sylvania with Havells having to defer the debt repayment to 2011-12. To get Sylvania back on track, Havells adopted a restructuring exercise aimed at cost savings. Their strategy has paid off with Havells set to realize cost benefits to the tune of € 25mn over CY10-CY11 (part of the cost benefits have been realized in CY10). This exercise was conducted in two phases:

Phase-I (Phoenix): This entailed cutting down on fixed costs within the company, mainly relating to manpower and factory expenses (8 warehouses, 3 plants and 1,300 staff). This resulted in manpower reduction and closure of plants in Europe and Latin America at a total one-time cost of € 12 mn, with annual savings of €17 mn. This was implemented between January 2009 and September 2009.

To regain profitability, Havells adopted a restructuring exercise aimed at cost savings, which helped to realize cost benefits to the tune of € 25mn over CY10-CY11

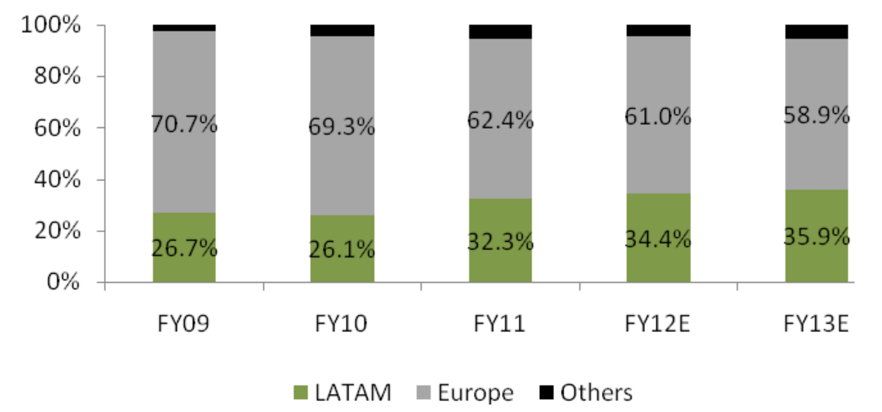
Phase-II (Prakram): This phase was implemented over September 2009 – December 2010, during which 400 people were laid-off. The process of catering to Sylvania's production requirements from China. The estimated cost of this exercise was € 20 mn and it helped to achieve annual savings of € 22 mn.

The effect of restructuring exercise was evident in Q2FY11 when Sylvania turned PAT positive. These cost saving exercises would certainly result in higher EBIDTA margins in FY12 and FY13.

LATAM to lead Revenue Growth, Europe stabilizing

We believe the current euro zone crisis has lead to a subdued growth and going ahead we expect revenues from euro zone to remain relatively flat. However we believe a robust growth in the LATAM markets will help in offsetting this muted growth in euro zone. We expect Europe revenues to grow at 1.2% CAGR, whereas LATAM region to grow at 10% CAGR over FY11-13E.

Sylvania: LATAM revenue share to grow steadily

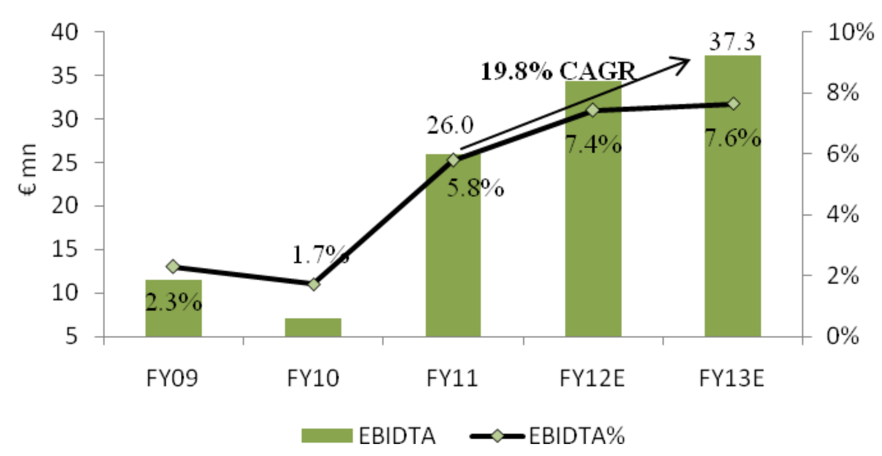


Source: Company, Fairwealth Securities

EBIDTA to grow at 19.8% CAGR, Margins to improve to 7.6% in FY13E

Sylvania's two phase successful restructuring program has lead to improvement in the company's profitability on the operating front. We expect EBIDTA to increase at 19.8% CAGR over FY11-13E in absolute terms coupled with an expansion in margins of 180bps to 7.6% from 5.8% in FY11.

Sylvania: EBIDTA to grow at 19.8% CAGR, Margins to improve to 7.6% in FY13E

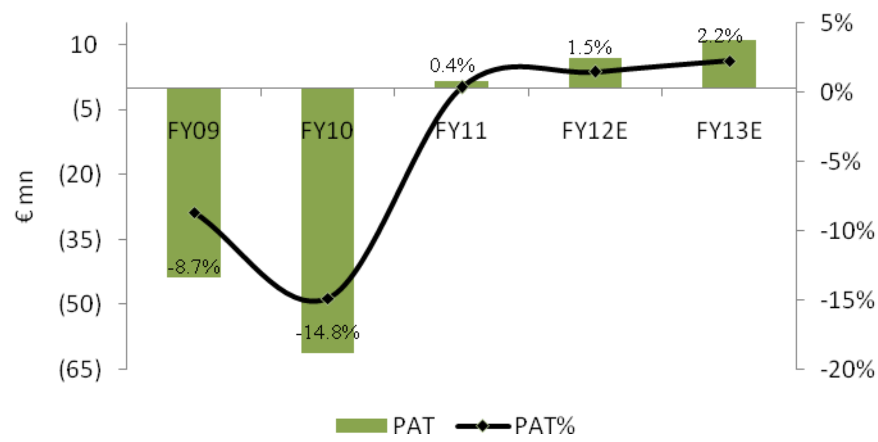


Source: Company, Fairwealth Securities

Cost optimization leading to earnings growth and profitability

Sylvania is expected to show a robust growth in its profitability. Company has already registered profit of 4.1€ mn in H1FY12 as against full year profit of 1.6 € mn in FY11 and 61.3 € mn loss in FY10. We expect Sylvania to post profit of 10.9 € mn in FY13E growing at CAGR of 162% over FY11-13E.We expect Sylvanias PAT margin to expand by 180bps to 2.2% in FY13E from 0.4% in FY11.

Sylvania: PAT to grow at a CAGR of 162% over FY11-13E

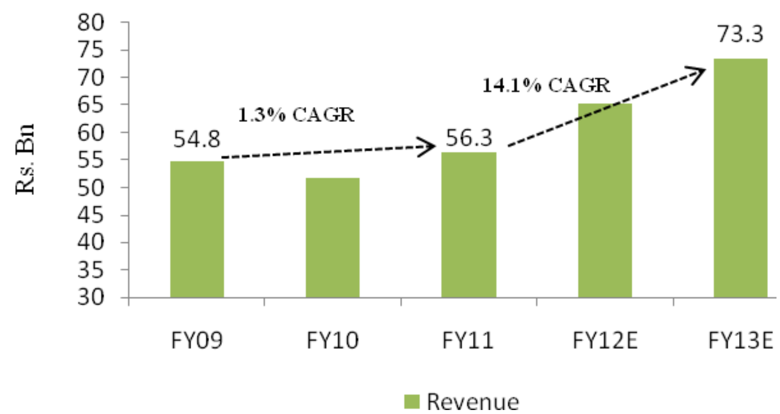


Source: Company, Fairwealth Securities

Consolidated Revenues to grow at 14.1% CAGR

Consolidated revenues of Havells have seen a very subdued growth of mere 1.3% over FY09-11 due to slowdown in Europe which resulted in a muted growth in Sylvania. Going forward, we expect the LATAM markets to be the key revenue drivers for Sylvania growing at 10% CAGR. On the domestic front Electrical CD would lead the revenue growth with 22.5% CAGR followed by Lighting & Fixtures, Cables & Wires and Switchgears growing at 20.5%, 19.5%, and 14% CAGR respectively over FY11-13E. Consequently, we expect consolidated revenues to grow at 14.1% CAGR over FY11-13E.

Consolidated Revenues to grow at 14.1% CAGR

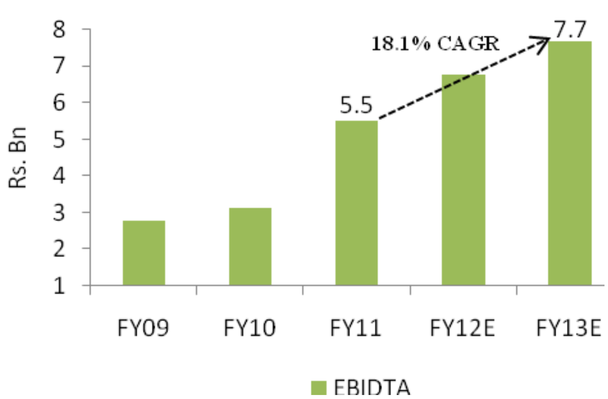


Source: Company, Fairwealth Securities

EBIDTA to grow at 18.1% CAGR, Margins to expand to 10.5% over FY11-13E

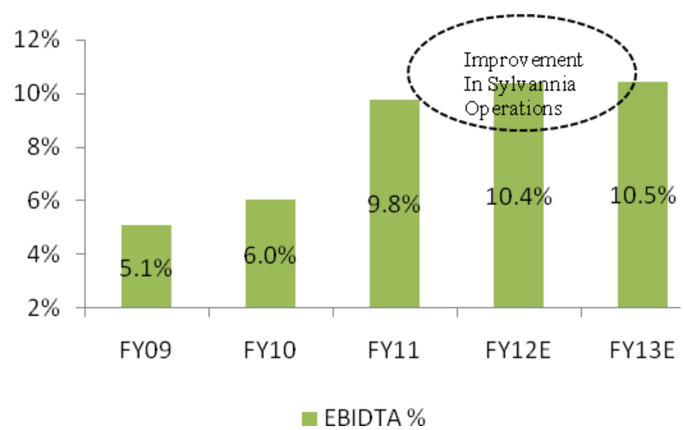
Havells is expected to show robust growth at the operating levels mainly due to improvement in Sylvania operations. Consequently, consolidated EBIDTA is expected to grow at 18.1% CAGR to ₹7.7bn in FY13E from ₹ 5.5 bn in FY11. We expect consolidated EBIDTA margins to expand to 10.5% in FY13E due to robust improvement in Sylvania and steady margins on the domestic front over FY11-13E.

EBIDTA to grow at 18.1% CAGR to ₹ 7.7 bn in FY13E



Source: Company, Fairwealth Securities

EBIDTA margins to expand to 10.5% in FY13E

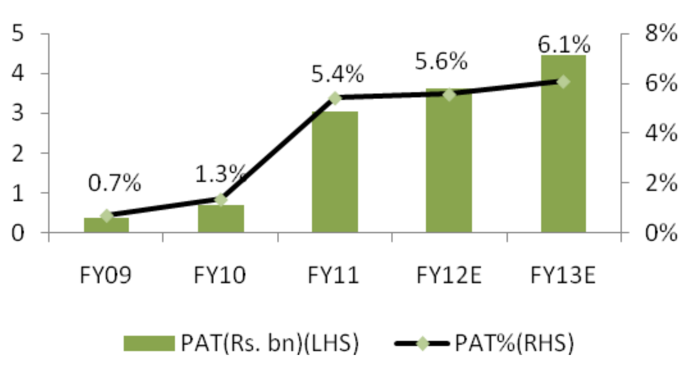


Source: Company, Fairwealth Securities

Consolidated PAT to register 21% CAGR over FY11-13E

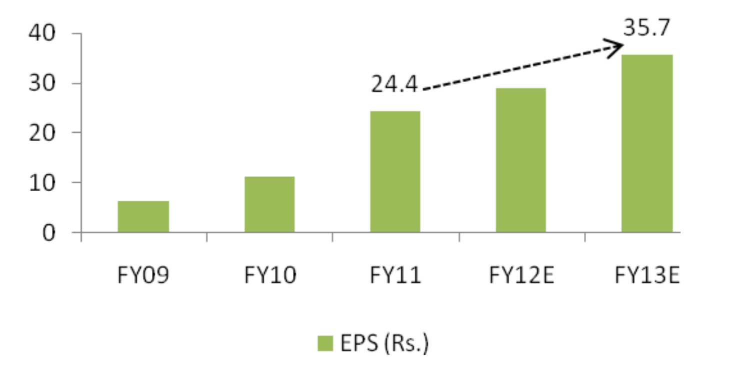
Havells has been able to turn its fortunes post FY09 due to the successful implementation of its restructuring activities. We expect the Sylvania turnaround to contribute significantly to the consolidated business at the net level. Additionally, we expect the domestic business to report PAT of ₹3.7 bn growing at 19% CAGR over FY11-13E which would further supplement the growth on the consolidated levels. We expect consolidated PAT to grow at 21% CAGR to ₹ 4.5 bn over FY11-13E. PAT margins are also expected to improve to 6.1% in FY13E from 5.4% in FY11.

Consolidated PAT to grow at 21% CAGR to ₹ 4.5bn in FY13E



Source: Company, Fairwealth Securities

Consolidated EPS to rise to ₹35.7 in FY13E

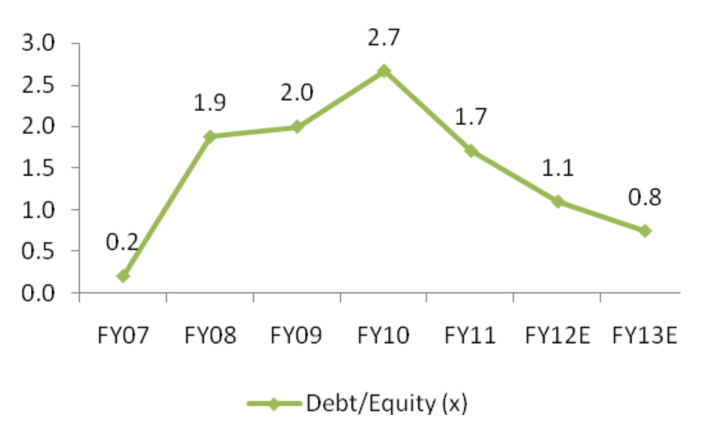


Source: Company, Fairwealth Securities

Return Ratios to improve with Sylvania turnaround and decline in leverage

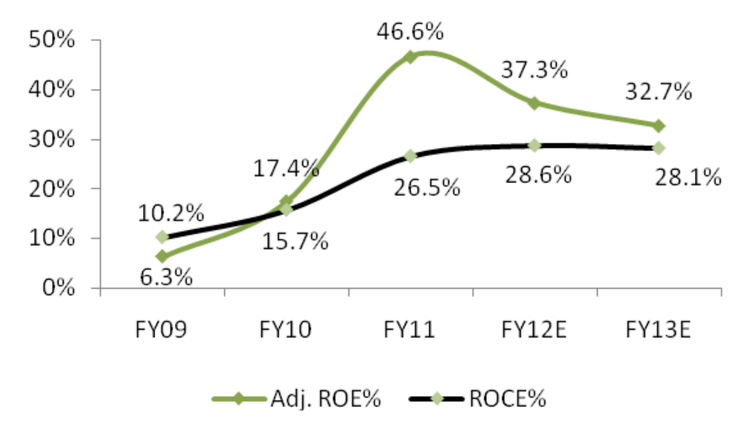
Havells return ratios dropped significantly post Sylvania acquisition with ROE falling to 6.3% and ROCE to 10.2% in FY09 primarily due to high levels of debt. With Sylvania restructuring successfully implemented we expect an improvement in free cash flows which would aid in the debt repayment. Consequently we expect Havells D/E ratio to fall to 0.8x by FY13E. We expect higher return ratios – ROE of 32.7% and ROCE of 28.1% in FY13E.

Leverage to decline considerably by FY13E



Source: Company, Fairwealth Securities

ROE of 32.7% and ROCE of 28.1% in FY13E



Source: Company, Fairwealth Securities

Valuation & Recommendation

We Initiate Coverage on Havells India Ltd with Accumulate rating and Target price of ₹477 (potential upside of 12.5%) 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/EBIDTA multiple. We expect Havells to post 32.7% ROE and 28.1% ROCE in FY13E which is very attractive.

DCF Analysis & Assumptions

₹mn	FY09	FY10	FY11	FY12E	FY13E	FY14E	FY15E	FY16E
Sales	**54775**	**51625**	**56126**	**65134**	**73292**	**82820**	**92759**	**102034**
Growth	9.2%	-5.8%	8.7%	16%	13%	13%	12%	10%
EBIDTA	**2783**	**3114**	**5491**	**6770**	**7661**	**8657**	**9696**	**10762**
Growth	-22.5%	11.9%	76.3%	23.3%	13.2%	13%	12%	11%
EBIDTA%	5.1%	6.0%	9.8%	10.4%	10.5%	10.5%	10.5%	10.5%
DEP	**905**	**838**	**804**	**921**	**945**	**1227**	**1343**	**1442**
Dep (as a % of Sales)	1.7%	1.6%	1.4%	1.4%	1.3%	1.5%	1.4%	1.4%
Tax	52.7%	57.2%	25.3%	23.8%	24.6%	24.6%	24.6%	24.6%
FCI	**1443**	**1344**	**1584**	**1500**	**1000**	**1943**	**2122**	**2270**
FCI (as a % of Sales)	2.6%	2.6%	2.8%	2.3%	1.4%	2.3%	2.3%	2.2%
WCI	**-2168**	**-2369**	**2013**	**1298**	**-116**	**828**	**928**	**1020**
WCI (as a % of Sales)	-4.0%	-4.6%	3.6%	2.0%	-0.2%	1.0%	1.0%	1.0%
FCFF	**2518**	**2837**	**709**	**2581**	**5126**	**4059**	**4592**	**5180**

WACC	12.9%	Risk free rate	8%
Terminal Growth	2.50%	Beta	0.9
PV	16681	Risk Premium	12%
Terminal value	50973	Cost of equity	19%
Total Value	67654	Cost of debt	10%
Net Debt	8106	Current D/E	52.5%
No of Shares	124.78		
Target Price	477		

Source: Company, Fairwealth Securities

Havells: SOTP Valuation

Havells India Business	
Parent EPS(FY13E)	29.6
P/E multiple	14.0
Parent Value	**414**
Sylvania	
EBIDTA (₹ mn) (FY13E)	2454
EV/EBIDTA	6
EV(₹ mn)	14721
Sylvania Net Debt(₹ mn)	8349
Equity Value(₹ mn)	6372
Per Share	**51**
Total Value/share	**465**

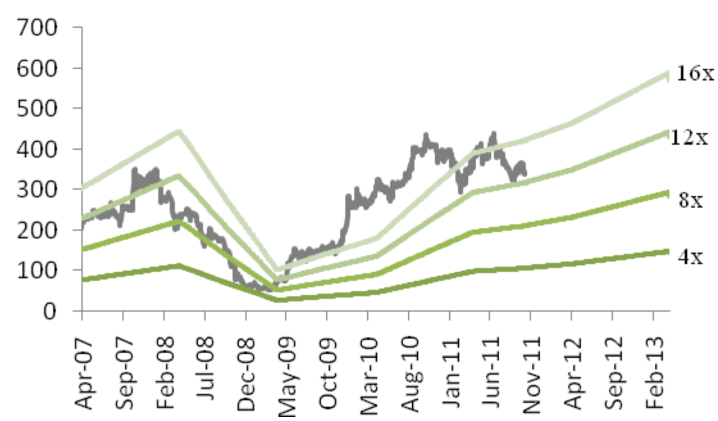
SOTP Valuation:

Our SOTP methodology values Havells at ₹465 (14x FY13E Standalone earnings and 6x Sylvania's EBITDA).

Our estimated price of ₹465 which is based on a sum-of-the-parts approach values the India business at ₹414 and Sylvania at ₹51. The parent business is valued at 14x FY13E P/E, at a slight discount to its historical average of 15x to reflect risks of demand slowdown. The 14x P/E is supported by a 14% EPS CAGR over FY11-13E and ~23% average ROE. P/E is generally used to value branded consumer and capital goods companies, segments in which Havells operates. We value Sylvania on 6x FY13E (good visibility over next two years) EV/EBITDA. Due to higher depreciation costs, high debt and interest cost we prefer to use EV/EBITDA. We conservatively use 6x, derived from a comparative analysis and taking the European risks into consideration. Our SOTP price of ₹465 implies a 8.1x FY13E EV/EBIDTA and 13x FY13E P/E.

1 year Forward EV/EBIDTA band

1 year Forward P/E band



Key Risks:

Increase in raw material prices: Copper & Aluminium are the main raw materials especially for the cables & wires segment. Any fluctuation in the prices of these inputs can adversely impact the margins of Havells.

Forex risk: Appreciation of the other currencies vs. the euro will impact the earnings estimates for Sylvania. Further any appreciation of the Latin American currencies will also have a negative impact as a large part (34%) of earnings is estimated to come from this area.

Euro zone crisis worsening: Europe contributes a large part of Sylvania operations, hence the current euro zone crisis if it worsens further might lead to degrowth in the European market.

Domestic competition: Havells domestic business faces stiff competition from organized as well as unorganized players in the consumer durables and the cables business. Additionally the launch of new products in the small appliances segment might impact the margins in the near term due to price war initiation.

Financials

Estimated Income Statement ₹ mn

Particulars	FY10	FY11	FY12E	FY13E
Revenue	**51761**	**56299**	**65134**	**73292**
% Growth	-5.6%	8.8%	15.7%	12.5%
Expenditure	48647	50808	58363	65631
EBITDA	**3114**	**5491**	**6770**	**7661**
% Growth	11.9%	76.3%	23.3%	13.2%
Depreciation	838	804	921	945
EBIT	**2299**	**4687**	**5850**	**6716**
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
PAT	**696**	**3048**	**3623**	**4457**
% 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
Capital Employed	**14668**	**17716**	**20459**	**23928**
Goodwill	3212	3354	3354	3354
Gross Block	26963	28454	29954	30954
Dep	18089	18499	19419	20364
Net Fixed Assets	**8874**	**9955**	**10534**	**10590**
Capital WIP	336	249	249	249
Investments	0	0	0	0
Current Assets	**18556**	**22077**	**25957**	**31682**
Inventory	8246	10860	12484	13844
Sundry Debtors	6982	7724	8865	9365
Cash & Bank	1480	1779	2628	6157
Loan & Advances	1848	1715	1980	2316
Current Liab & Prov	**15876**	**17361**	**19127**	**21461**
Current Liabilities	15555	16722	18455	20766
Provisions	321	639	672	695
Total Assets	**14668**	**17716**	**20459**	**23928**

Estimated Cash Flow Statement ₹ mn

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

Key Ratios

Particulars	FY10	FY11	FY12E	FY13E
Profitability ratios				
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%
Valuation ratios				
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)	38.0	17.4	14.6	11.9
P/BV (x)	6.6	8.1	5.4	3.9
EV/EBITDA(x)	14.5	11.4	9.0	7.5
Dividend Yield	0.9%	0.6%	0.8%	1.0%
Return Ratios				
Adj. ROE%	17.4%	46.6%	37.3%	32.7%
ROCE%	15.7%	26.5%	28.6%	28.1%
Solvency ratios				
Debt/ Equity (x)	2.7	1.7	1.1	0.8
Interest Coverage Ratio	2.6	5.7	5.5	6.9
Turnover ratios				
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
DU Pont Analysis				
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	
BUY	The stock's total return is expected to exceed 15% over the next 12 months
ACCUMULATE	The stock's total return is expected to be within 10-15% over the next 12 months
HOLD	The stock's total return is expected to be within 0-10% over the next 12 months
SELL	The stock's total return is expected to give negative returns over the next 12 months
NOT RATED	The Analyst has no recommendation on the stock under review

RESEARCH			
Name	**Designation**	**Email ID**	**Contact Number**
Sharmila Joshi	Head-Equity	sharmila.joshi@fairwealth.in	09320159211
Prakash Pandey	VP- Research & PMS	prakash.pandey@fairwealth.in	09313337742/098670081721
Preeti Gupta	Sr. Research Analyst - Fundamental	preeti.gupta@fairwealth.in	09867081737
Hitesh Parekh	Research Analyst - Fundamental	hitesh.parekh@fairwealth.in	022 39244988/9920616329
Hemen Kapadia	Technical Strategist	hemen.kapadia@fairwealth.in	09821276177
Pervez Danish	Sr. Technical Analyst	pervez.danish@fairwealth.in	09312873108
Rinku Saraf	Derivatives Analyst	derivatives@fairwealth.in	022 30720073
INSTITUTIONAL DESK			
Name	**Designation**	**Email ID**	**Contact Number**
Lokeshh N. Gowda	Senior Manager - Sales	lokeshh.g@fairwealtth.in	022 30720073
Rajan Bhatia	Institutional Dealer	rajan.bhatia@fairwealth.in	022 30720057

FAIRWEALTH SECURITIES LTD.
H.O.: Plot No. 651-652, Udyog Vihar, Phase-5, Gurgaon 122001 (Haryana)
Phone: 0124-3024400, Fax: 0124-3024474
Website: www.Fairwealth.in . Email: info@fairwealth.in

FAIRWEALTH INSTITUTIONAL DESK
Unit No,12,2ndFloor, Sonawala, Apollo Building, Mumbai Samachar Marg, Opp BSE, Fort
Mumbai- Maharashtra - 400001,
Ph: 022-30720056-68, Fax: 022 30722787

***Delhi:** UG-3, Somdutt Chambers II, Bhikaji Cama Place, New Delhi-110066 , Ph : 011-46091118 ● **Chennai:** Rahab Tower, First Floor, New No: 522, Old No: 706, P H Road, Aminjikarai, Chennai-600029. Ph-044-42698796, 42698834, 32218508 ● **Kolkatta:** No.1&2, 3rd Floor, Tobacco Jouse, Old Court House Street, Kolkatta, WB-700001. Ph- 033-40119500-02-03 ● **Bangalore :** Shop No – 54, 1st floor, 12th Main Road, 27Th Cross Road, 04th Block Jayanagar, Banglore, Karnataka – 560011, Ph-080-41172604/605 ● **Hyderabad :** Shop No.8, Ground Floor, Meridian Plaza, besides Lal Bunglow , Green Lands, Road Ameerpet, Hyderabad – 500016, Ph-040-40037218. ● **Ahmedabad:** 108, H.J.House, Opp IGP Petrol Pump, near Rambagh Police Station, Mani Nagar, Ahmedabad, Gujarat-380009. Ph - 079-40304461, 62636465.*