



IMV Equity Report: Havells India

From Research Desk

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<i>Stock</i>	<i>Industry</i>	<i>Recommendation</i>	<i>CMP</i>	<i>Target</i>	<i>Stop loss</i>	<i>Time Horizon</i>
HAVELLS	Electric Equipment	Buy around 510-- 500	520	580++	460	3-5 month

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Havells

Recommendation: Buy

Havells India Limited is the country's leading Fast Moving Electrical Goods (FMEG) manufacturer, producing a wide range of world class industrial and consumer electrical products. The Company works in step with the Make in India initiative and has an extensive production and distribution network across India and the world. Havells manufactures 90% all its products in house.

The Company has an extremely strong global presence. Our domestic manufacturing plants are located across 12 manufacturing locations in India – Delhi NCR, Alwar, Baddi, Faridabad, Haridwar, Neemrana, Sahibabad, and Guwahati.

Results

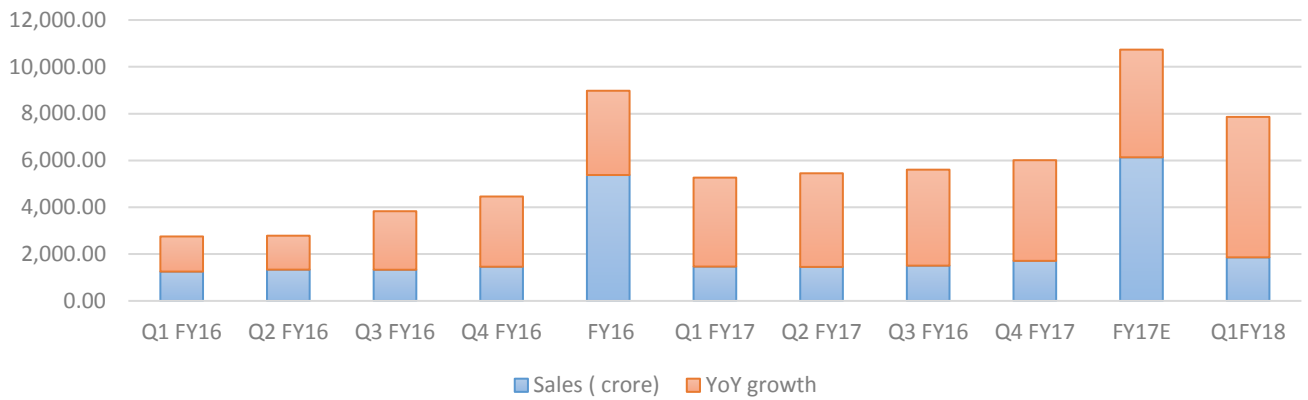
- Havells India (HIL) posted 9% top-line growth in its core electrical portfolio at Rs17.2bn while inclusive of Lloyd's consumer Division sales of Rs2.6bn, overall revenue stood at Rs19.8bn for 1QFY18. The effective date of acquisition of Lloyd's consumer division was 8 May 2017 and hence 1QFY18 consisted of 54 days of Lloyd sales.
- The primary sales in June 2017 were impacted because of de-stocking by trade channel prior to GST roll-out. Cables & wire segment was the key driver of growth with a 19% YoY rise in sales owing to pre-buying before the GST linked price hikes.
- However, the profitability was impacted owing to low operating leverage, unfavourable revenue mix (higher share of cable segment) as well as lower margin profile of Lloyd business.
- Gross margin declined 650bps YoY to 39.6% while EBITDA margin fell 400bps YoY to 8.7%. Consequently, EBITDA fell 14% YoY to Rs1.7bn while PAT declined 17% YoY to Rs1.2bn.
- The management aims to sustain 13.5% EBITDA margin in the core electrical portfolio and 6% for Lloyd (similar to its FY17 margin). The stock level in the trade channel for the entire industry is down by 35%-50% but the re-stocking is yet to begin.

Stock Info	
BSE Code	517354
NSE Code	HAVELLS
CMP	520
Face Value	1.00
Market Cap(Cr.)	31,691.90
Beta	1.28
Book Value	52.42
EPS	8.24
PE Ratio	57.25
52 Week High	525
52 Week Low	303

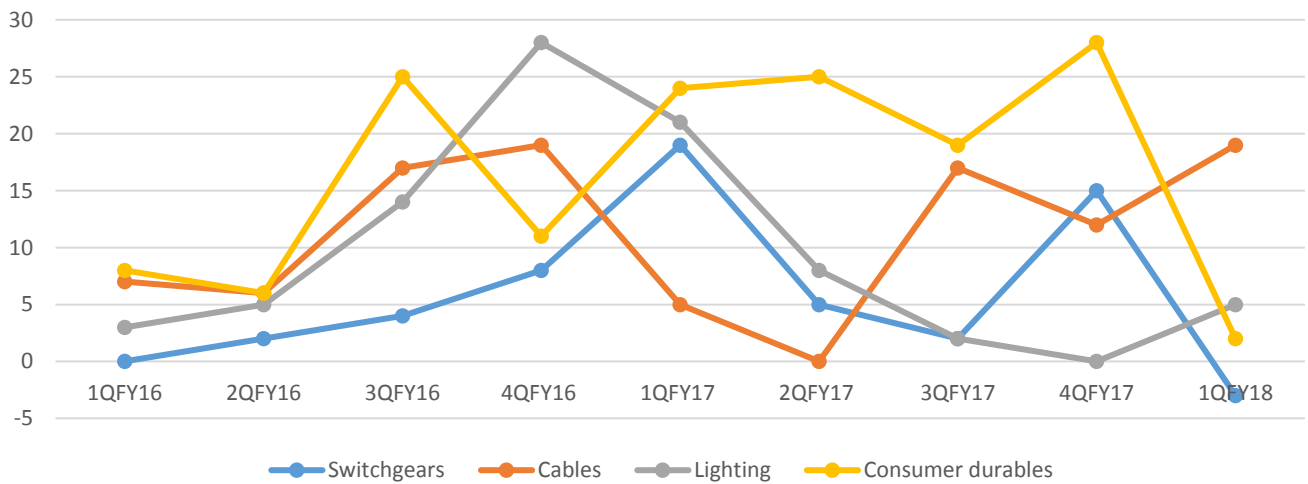
Share Holding Pattern (%)		
Category	No. of shares	Percentage
Foreign Institutions	165,803,640	26.53
General Public	38,026,846	6.09
Financial Institutions	1,298,909	0.21
Others	19,453,402	3.11
NBFC and Mutual Funds	15,272,665	2.44
Promoters	384,957,920	61.61

Peer Comparison				
Name	Cmp	Market Cap	Sales Turnover	Net Profit
Havells India	520.00	31,638.76	6,135.26	539.04
V-Guard Ind	197.30	8,378.43	2,150.62	151.80
CG Power	85.25	5,343.01	4,761.43	124.46
Triveni Turbine	133.45	4,403.48	732.76	116.18
Techno Electric	363.75	4,098.82	1,236.35	145.47

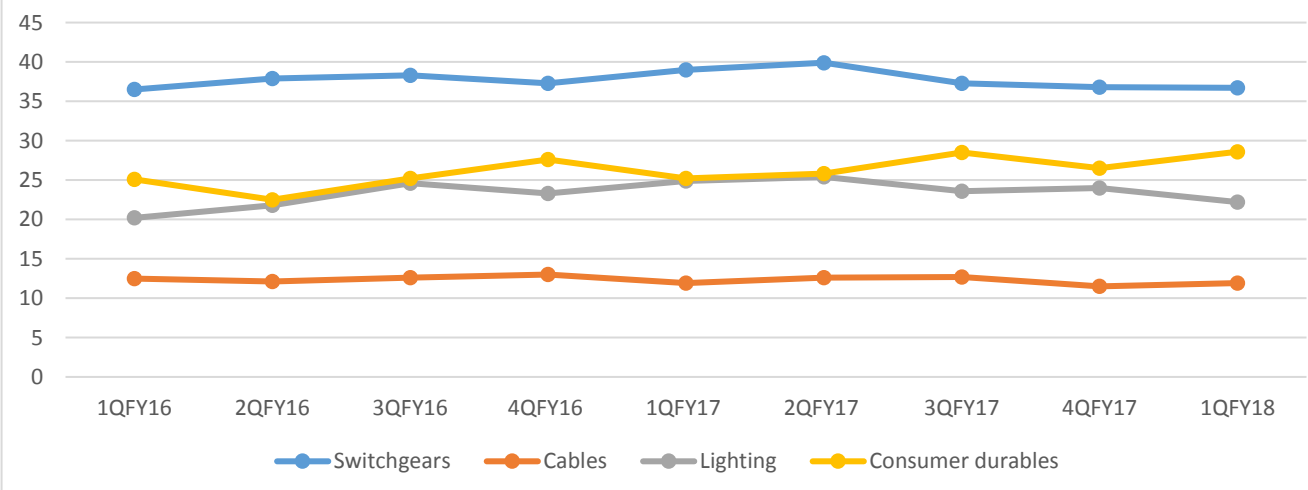
Standalone revenue CAGR of 25%



Segment-wise revenue growth trend (YoY)



Segment-wise contribution margin trend



Investment Rationale

- The transition of Lloyd business from erstwhile promoters to HIL happened smoothly without any hiccups in working capital and trade channel management. HIL expects to scale up Lloyd's business with a focus on gradually increasing margins. HIL might look at in-house manufacturing for Lloyd's products in future.
- The GST-linked price hike for cables & wires category has been undertaken by the entire industry in the month of July 2017. HIL expects a gradual shift in market share from unorganised market to organised market as the unorganised sector is likely to find it difficult to evade tax in the GST regime.
- In 1QFY18, Lloyd reported 20% revenue growth, with majority sales accruing in April owing to peak summer demand for AC. HIL's acquisition of Lloyd was effective from 8 May 2017. The sales of Lloyd up to 7 May 2017 were booked by earlier promoters (which formed 60% of 1QFY18 sales) while HIL booked sales from 8 May to 30 June 2017 (40% of 1QFY18 sales).
- During the de-stocking phase, the trade channel in the entire industry reduced the stock levels across by 35%-50%. The re-stocking is yet to begin.
- Rise in creditor days (from 55 in 1QFY17 to 107 in 1QFY18) is primarily due to higher creditor days of Lloyd's consumer business, since most of its supplies are imported from China. HIL continued with Lloyd's sourcing and trade terms in 1QFY18. HIL is also renegotiating with its own suppliers to extend the credit period for its core electrical products.
- Advertisement spends as a percentage of sales were high at 3.7% in 1QFY18, partly owing to inclusion of consumer finance costs for the Lloyd's consumer business.

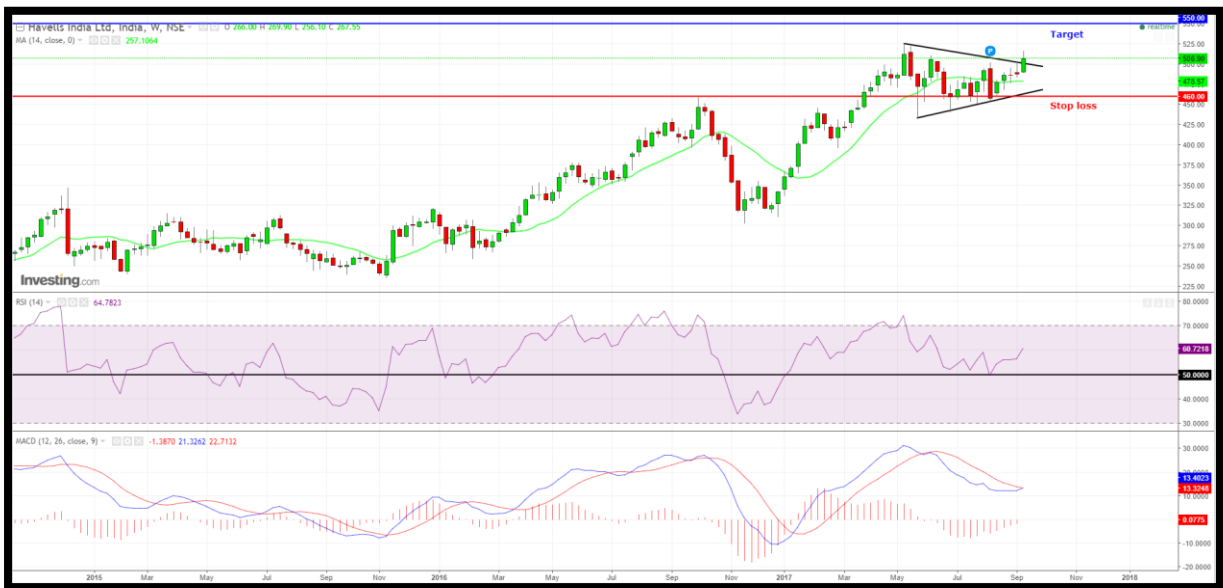
Outlook & valuation

We expect Havells to record revenue, EBITDA CAGR of ~25%, 23%, respectively, in FY16-19E supported by a revival in industrial and consumer products (led by acquisition of Lloyd's CD business). Scalability Through acquisition coupled with launch of premium products into domestic market would negate the impact higher commodity prices.

Further, strong cash flow from Havells' core business coupled with Minimal debt/equity (as large part of acquisition financed through internal accrual) would strongly position the company to negate any short-term hiccups. We maintain our BUY recommendation on the stock with a target price of 580 (valuing the company at 36x FY19E earnings).

Key Financials (Rs mn)	1QFY17	4QFY17	1QFY18	YoY (%)	QoQ (%)
Revenues	15,731	18,315	19,822	26.0	8.2
EBITDA	2,004	2,296	1,724	(14.0)	(24.9)
EBITDA margin (%)	12.7	12.5	8.7	-	-
Depreciation	280	308	336	20.0	9.1
Interest costs	16	71	34	109.9	(52.1)
Other income	314	419	348	10.7	(17.0)
Exceptional items	-	(768)	-	-	-
PBT	2022	1569	1703	(15.8)	8.5
Tax	567	622	489	(13.7)	(21.4)
Other comprehensive income / (loss)	(9)	27	(10)	-	-
PAT	1446	974	1204	(16.8)	23.6
PAT margin (%)	9.2	5.3	6.1	-	-
EPS (Rs)	2.3	1.6	1.9	(16.8)	23.6

Technical Aspect



Havells is making Symmetrical triangle pattern on weekly chart which is having resistance and breakout point above 510 and support of 460.

After a very long time it is has finally given the breakout above the resistance of 510 with increased volumes which improves the reliability and authenticity of the breakout.

Daily 14 period RSI has turned up from near levels and is trading above 50 which indicates it the stock is turning bullish. As per the bullish high low theory of 40-70 levels, the daily RSI is expected to move up to 70- 75 levels from the current reading of 50. This could mean Continuation of upside momentum in the stock price ahead possibly a breakout also this time.

MACD too has given the positive crossover (Buy signal) which indicates that upper side seems certain in it.

14 Period Exponential average is also indicating the positive momentum in the stock as it has comfortably crossed the average.

Traders don't go for aggressive or positional selling at all because trend looks positive and we expect rally to remain continue till 580+++mark in coming weeks. For positional trade, stop loss seeing below 460 on closing basis which in unlikely to breach in near terms.

Recommendation:

Buy Havells around 510--500 for the initial upside target of 580++ mark with stop loss below 460 on closing basis.

Disclaimer

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