

Havells India

BSE Code	: 517354
Time Duration	: 18 months
CMP	: ₹602 (as on 26 October, 2018)
Target Price	: ₹745



Swiftest Performers
Among Heavy Weights

The Large Rhino for the month of October is Havells, an established brand in cables which went on to become a leading brand in lighting & switchgear segments and then established itself as a premium fan manufacturer. Havells has come a long way, growing both organically and inorganically. Its recent acquisition of Llyod was aimed at taking the high growth consumer durables portfolio to an elevated level, which includes air conditioners, water filters, water heaters, etc.

Currently, the company primarily operates in four segments, namely, cables, switchgears, electrical consumer durables and lighting & fixtures, which contribute 39%, 21%, 23% and 17%, respectively, to the company's revenue. Of these, switchgear segment is the highest contributor to the margins (32%), while cables stand at 25%.

We see that the company is numero uno player in swtichgears – MCB, commanding ~27-28% share, leading to better pricing power and penetration. In domestic cables and fans, it commands 16% market share each and stands at number 3 position in the industry. The company has entered water heater segment in FY12 and was quick to gain market share of 15% and climb to the number 2 position.

The company has grown its sales and profit at a CAGR of 16.2% and 14.2%, respectively, over the last three years. It had dividend yield of 0.67%. We see that Havells journey towards growth has started due to its diversified portfolio of products and has substantial market share in the areas it operates. For Lloyds, the company is yet to improve its brand perception from a distributor brand to a mass premium brand with competitive pricing and features. This will start showing from FY20 onwards.

Key growth drivers –

Right product mix and presence in potential growth industries to drive growth : The company broadly caters to two industries, namely, electricals and home appliances. The electrical industry has a size of ~Rs.45,000cr and is expected to grow at ~12% CAGR over 2018-23. The home appliances industry, where the company is currently investing, is expected to grow at CAGR of 15% over the same period from the current size of Rs.70,000cr.

We see that Havells can grow at higher-than-industry growth rate in the sub-segments of fans, professional lighting and cables.

Favourable demographic factors : We see that the company is likely to benefit the most from the 'Smart Cities' project and increasing urbanisation. It is expected that urbanisation will touch 40% in 2030 from 31% currently. This, coupled with higher electrification in the rural areas, can augment the demand for electrical appliances. Also, there is increasing brand consciousness in rural areas.

Strategic targeting of end markets : The company, with its strong product mix, is targeting categories of products where organised penetration is low to medium, giving ample scope to establish its presence and with superior products and servicing grab higher market share.

Expanding its distribution breadth : Considering the growth opportunities the rural and semi-urban areas throw up, Havells is looking to expand its presence in towns with population of more than 25,000 to 2000 from the current 1100. This will also mean increasing retailer and electrician count, which is expected to proportionately double during the same period.

Localisation of AC manufacturing : The company is looking to localise the manufacturing of AC up to 70% under the Lloyds brand and this can augment the margins, especially during times of depreciating currency and higher commodity prices. This will entail capex of ~Rs. 350 crore for AC plant at Neemrana and is expected to be operational by Q4FY19.

Capex plan : The company expects capex to be Rs.500cr., out of which Rs.325cr will be spent on the Lloyds plant, and post this, the company expects capex to be in the range of Rs 200-250cr.

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Q2FY19 Financial Performance

Cables – In Q2FY19, the volume growth in cables have been 20%, which is encouraging, considering that Havells has 35% revenue mix from this segment. However, due to higher commodity prices and lag between the pass through to the customer, the margins were in the range of 14% vs the historical range of 15-17%.

Switchgear – The company saw slight uptick in the quarter due to higher demand from government electrification, lower base effect and completion of residential projects. It derives 70% of its revenue from residential segment and the rest from commercial.

Electronics Consumer Durables (ECD) – ECD business too saw an uptick in Q2FY19. As fans comprise the larger part of the portfolio, the volume growth was good and also of the water heaters. It has launched new category – water purifier and personal grooming, which though minuscule, received good response from the customers.

Lighting – This segment saw volume growth ex-EESL of 30%, while the industry continue to see lower pricing trend, which led to overall growth of 18%. The management is positive about maintaining margins and eyes it as a potential growth area. The company is focusing on new lighting technologies like RGB lighting, monument lighting and façade lighting on B2B side (called professional lighting, which contributes 40% to segment sales) and on the consumer side, it is enhancing its distribution channels. It has margins of 27-30% in this segment.

Llyod a muted quarter – Havells, with the acquisition of Lloyds, based its home consumer-driven growth on it. Llyods had a muted quarter due to lower demand on account of seasonally lower heat wave. This was coupled by forex and higher channel inventory. The company expects forex to smoothen with company's in-house AC manufacturing facility coming to fore by Q4FY19. Though the entire AC manufacturing will not be in-house, 60-70% is expected to be through in-house facility.

Valuation and outlook

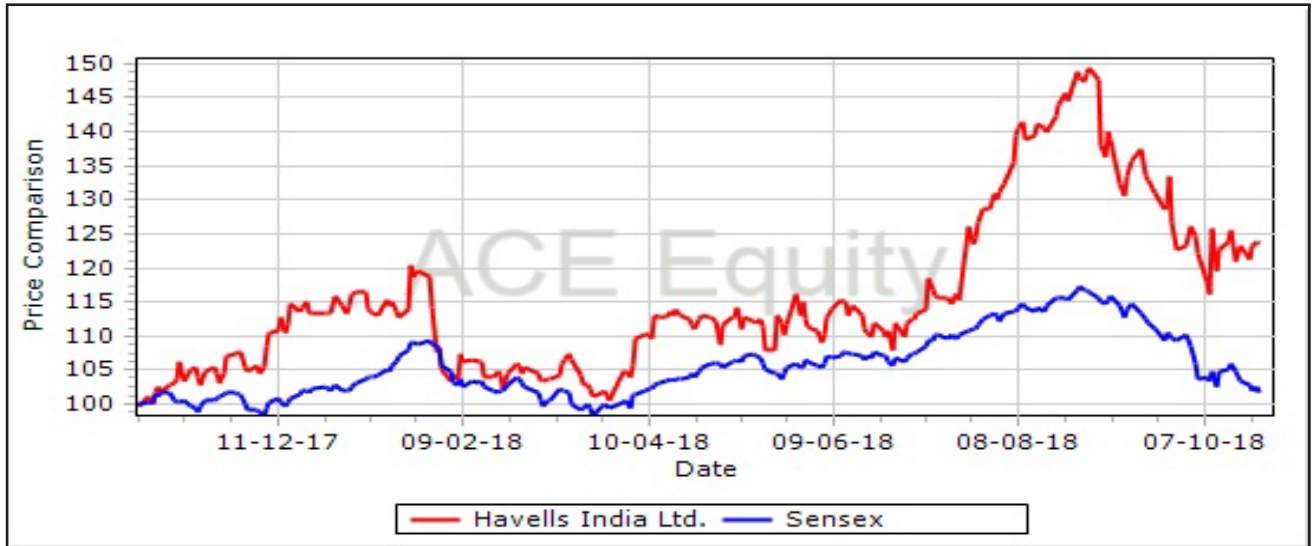
The company is trading at P/E of 46.85x, which is on the higher side as compared to its peers. However, the stock has corrected more than 15% over the last month from its peak. We urge investors to stagger their investment into six instalments and invest the same in the stock over the next six months. We expect markets to be volatile for the next six months and also commodity prices to pressurise earnings in the next couple of quarters. With manufacturing of AC facility and improvement in demand, we expect growth to kick-in by early FY20 on the bottomline too. We see the stock to reach the target price of Rs.745 over the next 18 months.

Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201803	201703	201603	201503	201403
Net Sales	8138.57	6135.26	5378.32	5238.69	4719.69
Total Income	8255.56	6269.54	5447.67	5290.90	4763.75
Total Expenditure	7089.28	5311.12	4623.39	4539.57	4078.09
PBIDT	1166.28	958.42	824.28	751.33	685.66
PAT	712.52	539.04	712.03	464.94	478.69
Dividend %	400.00	350.00	600.00	300.00	300.00
Adj. EPS(Rs)	11.40	8.63	11.40	7.45	7.67

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201809	201806	Q on Q Var%	201709	Y on Y Var%
Net Sales	2190.99	2596.34	-15.61	1777.36	23.27
Total Expenditure	1928.48	2284.09	-15.57	1520.45	26.84
PBIDT (Excl OI)	262.51	312.25	-15.93	256.91	2.18
PAT	178.62	210.40	-15.10	171.02	4.44
PBIDTM% (Excl OI)	11.98	12.03	-0.42	14.45	-17.09
PBIDTM%	13.55	13.15	3.04	16.07	-15.68
PATM%	8.15	8.10	0.62	9.62	-15.28
Adj. EPS(Rs)	2.86	3.36	-14.88	2.74	4.38



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