

Havells India Ltd.

Sound Management poised for growth



Nifty	10,705
Sensex	36,093

Strong brand Offerings with distribution reach provide deeper penetration to customers

Havells, a strong brand, with its continuously launching new products to expand product offering and continues to remain focused on the 'Deeper into Homes' strategy. The company is confident of being market leader supported by factors such as urbanization, electrification, young demography, and consumer aspiration for brands. Also, with the help of automation, the company has continued to delight customers, achieve better channel partner relationships, and improve engagement with employees.

Key Stock Data

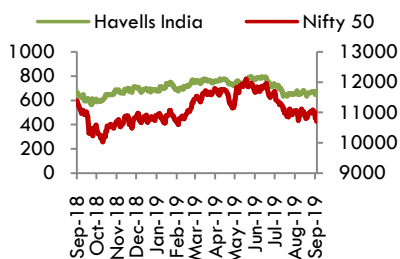
Reuters Code	HVEL.NS
Bloomberg Code	HVEL.BO
CMP	690
Market Cap (₹mn.)	431,802
52W High/Low	807/550
30-dayAvg Volume (mn)	84,307

Presence in 20 product categories with future ready smart offerings

The company has presence in 20 product categories. Recently it had launched smart connected products, such as digital Wi-Fi water heaters "Adonia" and "Droid". It launched "LitM" a smart and connected platform for individual and group lighting control. Launched a high end fully flat switch under its premium Crabtree brand. The company in partnership with Hyundai, plans to launch power circuit protection products that comply with global standards. It has also made a strategic decision to set up an Innovation hub in the Silicon Valley of India – Bengaluru – with focus on select centers of excellence. Since inception, the company has been major proponent of IT being an enabler and strategic advantage to gain market share, connect deeper with customers and increase profitability. Over the last one year, launched several mobile applications and portals to bring our customers and partners closer. The company will keep investing in future ready platforms with capabilities like artificial intelligence, machine learning and natural language to serve as a foundation for these applications.

Shareholding Pattern

Promoters	59.5
FIs & DIs	31.8
Public & Others	8.8

Comparison Chart

Expansion of dealers with focus on innovation and brand through R&D

The company has a strong dealer count of 10,500 and continues to deploy its financial capital to expand distribution reach, strengthen branding and R&D. It had spent ₹790mn in FY19 for R&D (invested ₹400mn in R&D assets in FY19) with more than 40 members in the R&D team which was 23% higher YoY.

Valuation (x)	FY19A	FY20E	FY21E
P/E	54.9	44.2	33.5
EV/EBITDA	35.4	28.7	21.5
RoANW (%)	19.8	20.8	22.1
RoACE(%)	26.9	27.9	29.7

Lloyd's positioned as a mass premium product

Lloyd has been successfully assimilated with Havells' culture and the organization. The brand embarked on a journey 2 years ago and it is on the right course firming up its position in the minds of the consumers and trade partners. It has been positioned a mass premium product on the back of constant investment in its distribution, marketing and people. Favourable demand demographics should drive long-term industry growth for the brand. The company's first room air-conditioner plant at Ghiloth, Neemrana, Rajasthan has started commercial production.

Debt-free company reflecting strong operational efficiency makes it a value buy

Havells continues to be a virtual debt-free company since last 4-5 years which shows its strong operational efficiency with a cash conversion cycle of 27-28 days, enabling it to have an average RoE and RoCE of 25% and 26% respectively since last 5 years. Even though its dividend pay-out remains poor at 40-50%, it makes up for it in the value to its shareholder by value accretion enabled by high asset turnover of 6-7x since last five years enabled by strong dealership network, use of technology and R&D for future smart products leading to strong brand recall along with strong demographic demand make it a long-term value **BUY** with **TP of ₹784 (P/E 38x FY21E, Revenue CAGR of 19% FY19-21E)**.

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Summary Financials(₹mn)	FY18	FY19	FY20E	FY21E
Revenue from Operations	82,690	100,734	118,312	142,591
EBITDA	10,435	11,844	14,552	19,107
EBIT	9,031	10,317	12,881	17,401
Net Profit	6,610	7,855	9,766	12,905
EPS	10.3	12.6	15.6	20.6
EBITDA Margin in %	12.6	11.8	12.3	13.4

BUSINESS CLASSIFICATION

Incorporated in 1983, Havells India Limited (Havells) has a strong domestic presence across 45 cities with nearly 6,500 professionals. It operates in a large part of the FMEG market with a presence in 2,283 towns with a population of over 25,000 people, representing 50% of such towns in India. Havells pioneered the concept of exclusive brand showroom in the electrical industry with 'Havells Galaxy' stores. Today, over five hundred such stores across the country are aiding customers, both domestic and institutional, to choose from a wide variety of products for different uses and applications. It is first fast-moving electrical goods (FMEG) Company to offer doorstep service via our initiative 'Havells Connect' across the country. The company's strong dealer relationships, manufacturing efficiencies and employee engagement provides a wide spectrum of high-quality, mass premium and durable electrical products that address the changing requirements of customers.

Customer-centricity is the core business model of the company enabled by R&D investment, continuous drive for innovations being early adaptors of technology to launch future ready products drives the vision to provide superior electrical and consumer durable products, delivered by skilled people. The operations are within the boundary created by the company's core values which guide and enable to leverage our pillars of growth in delivering value creation.

Havells enjoys an admirable market presence in a wide range of products including Fans, Water heaters, Personal Grooming Products, Home Appliances, Industrial & Domestic Circuit Protection Devices, Cables & Wires, Motors, Modular Switches, Air Conditioners, Washing Machines, TV, Power Capacitors, Luminaires for Domestic, Commercial and Industrial Applications. With 13 state-of-the-art plants, 93% of products are manufactured in-house, the company has a presence across all segments of FMEG with products in Switchgear, Cable, Lighting and Fixtures and Electric Consumer Durables (ECD).

Key Products

Switchgears, Cable and wires, Lighting & Fixtures, Electrical Consumer Durables like fans, water heaters along with Air Conditioners, washing machines and TVs.

1. **SWITCHGEAR** – Switches, Capacitors, Industrial and Domestic Switchgears, Motors, Pumps, Automation and Control
2. **CABLE AND WIRES** – Power Cable and Flexible Cables
3. **LIGHTING AND FIXTURES** – LED, Luminaire, Professional and Consumer Luminaires
4. **ELECTRICAL CONSUMER DURABLES** – Fans, Small Domestic Appliances, Water Heaters, Air Coolers, Personal Grooming products
5. **LLOYD CONSUMER Division** – AC, TV and Washing Machine

With the acquisition of Lloyds consumer division, it has entered the high value consumer white goods segment. It has started operation from its new facility at Ghiloth, Neemrana, Rajasthan with a total estimated cost for the project is ₹3.6bn (ex-land cost, as the company already owns the land), spread over a period of 3 years funded through a mix of internal accruals and borrowings. Acquisition of Lloyds has helped it foray into washing machines, room ACs and refrigerators. Havells eyes penetration in growing Flat panel display (FPD) TV and washing machines markets. Its manufacturing stronghold (93% in-house production), increasing presence in B2B business (B2C for lighting) and focus on new products for mass premium segment bodes well for growth.

Segment Revenue, Revenue Contribution and Margin Contribution for FY19

Segment	Revenue Contribution for FY 19	Revenue Contribution as a % of Net Revenue for FY 19	Margin Contribution as a % of Total Margin Contribution for FY 19
SWITCHGEARS	₹1,680 cr	17 %	27 %
CABLES	₹3,235 cr	32 %	22 %
LIGHTING & FIXTURES	₹1,293 cr	13 %	16 %
ELECTRICAL CONSUMER DURABLES	₹1,994 cr	20 %	22 %

Source: Company

Key Brands

It has strategically adopted a combination of organic and inorganic growth to move up the value chain and ensure sustained value creation. The company now maintains a portfolio of five major brands (Havells, Lloyd, Crabtree, Standard and REO), offering a wide range of products at various price points to cater to varied aspirations and requirements of our customers.



Source: Company

In-house manufacturing enables control over costs and maintain profitability

With 93% of products manufactured in-house with plants in 8 locations, allowing the company to have better control over costs, maintain profitability and offer high quality products to cater to the ever-evolving needs of our discerning customers. It further reduces dependence thus lowering exposure to foreign currency fluctuation risks. The efficient use of the manufacturing capabilities enables us to be agile and innovative with stringent quality standards, thus retaining our leadership position across key product segments. Constant adoption of new technologies, advanced machineries and exploring ways to operate assets more efficiently and sustainably.

1. **Alwar** – Largest integrated single location cable plant in the country
2. **Baddi** – India's No.1 MCB manufacturer
3. **Neemrana** – Houses 3 plants. Motor plant, India's only large-scale lighting fixture plant.
4. **Ghiloth, Neemrana** – Highly automated AC plant (of Lloyd)
5. **Sahibabad** – State-of-the-art low voltage capacitor manufacturing with machinery from Switzerland
6. **Faridabad** – India's first Air Circuit Breaker with "C3" technology using common height, depth and panel door cutout
7. **Haridwar** – Largest integrated fan factory in India
8. **Guwahati** – Enhancing presence in North East with the plant that produces single and multi-pole MCBs.

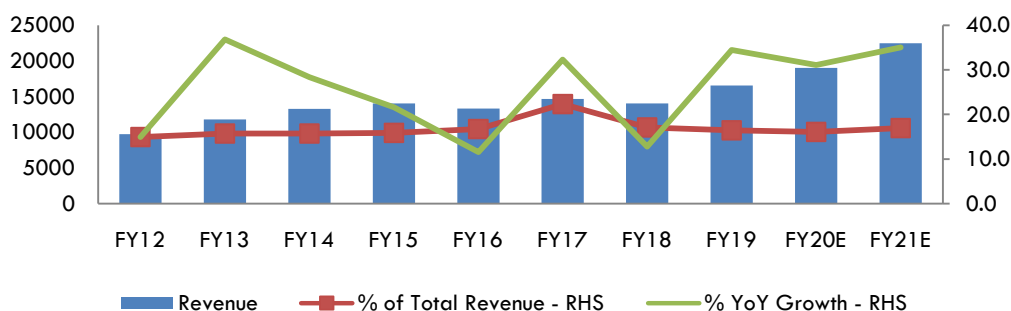
Understanding the importance of raw materials to manufacturing processes and aim to optimize its consumption, the company continues with the strategy of reducing waste and increasing the share of recycled and alternative materials as input in the production process to improve material management for greater resource efficiency. For this, the company has incorporated environmental and social considerations into every phase of the manufacturing processes across all our units.

BUSINESS SEGEMENTS

SWITCHGEARS

The company is directing at a revenue of ₹1,000mn from building circuit protection devices over the next three years with the organised switchgear market in India is estimated to be ₹22bn per annum and the company continues to retain the No 1 position in the category with about 27 % market share. The company launched new range of MCB's and RCCB's during FY19 which are manufactured at the plant in Baddi where the company has enhanced its manufacturing capacities to 6mn poles per month.

In FY19, the market growth was muted with slowdown in residential and commercial space development continued. It saw a sound market growth in both domestic and industrial switchgears ensuing from a strategic planning of focusing on government's rural electrification and low-cost housing program. Contrary to some of its operationally efficient products like Surge Protection Devices, PV Switchgear range, Industrial Plug and socket and modular contactor have received excellent response due to a strong and continuous investment in R&D. We estimate the impetus in affordable housing in coming years; we are likely to see revenue growth of 15-18% in the next two years.

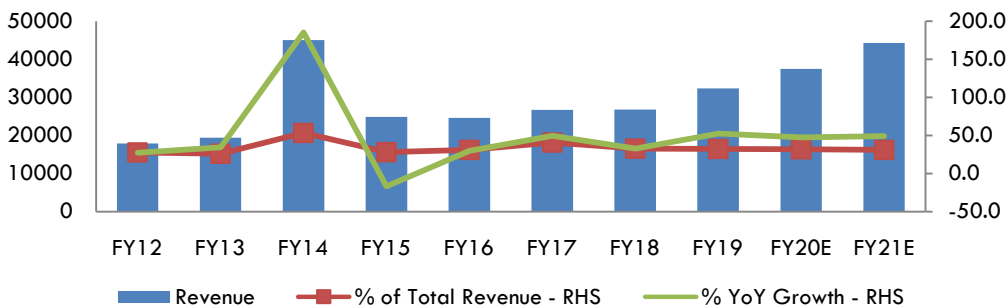


Source: Company, Way2Wealth Research

WIRES & CABLES

As per CIRSIL research study the Indian cable and wire industry which comprises of 40% of the electrical industry has grown at a compound annual growth rate of about 11 per cent by value in the last five years to reach ₹525bn in FY18. It is expected that the industry is expected to grow by a CAGR of approximately 15% and reach an estimated ₹1,033bn by FY23. This segment has been witnessing unprecedented growth for the company owing to the boost provided by the recent policy and regulatory initiatives as well as Government schemes like Ujjwal Discom Assurance Yojana (UDAY), the Deendayal Upadhyay Gram Jyoti Yojana (DDUGJY), the Integrated Power Development Scheme (IPDS) and the Pradhan Mantri Sahaj Bijli Har Ghar Yojana Saubhagya. Further, Indian Railways' Railway Mission 41K has generated the potential for Indian wires and cables industry through electrification of 38,000 km route.

In FY19, this segment grew in terms of sales as well as margins owing to vast investments in power and infrastructure sectors and enactment of GST. The topline grew by 20.5% YoY to ₹32,327.5mn with a margin contribution of 22% in total margins enabled by investment by government in the transmission and distribution segment and renewable energy space. We anticipate the investment to continue in along with private sector investments in urban infrastructure especially in smart cities and metro projects planned along with digitalization as well as in telecommunication infrastructure due to which we are likely to see revenue growth of 16-18% in the next two years.



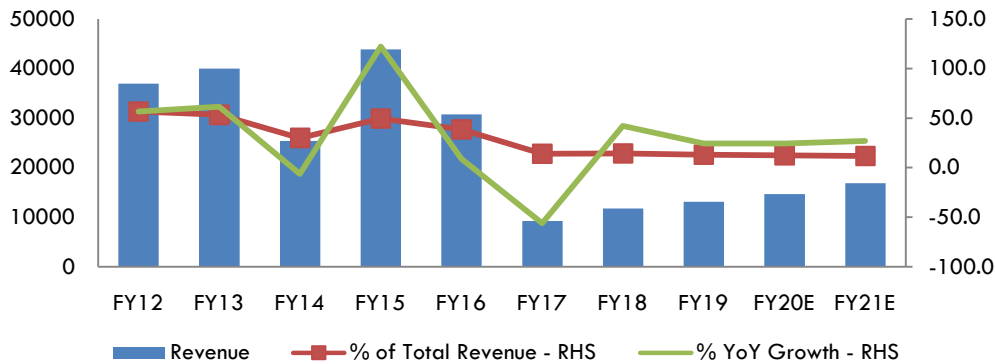
Source: Company, Way2Wealth Research

LIGHTING & FIXTURES

The Indian lighting industry is evolving rapidly due to the shift from conventional bulbs to LEDs, which is being driven by increasing government energy conservation initiatives, rising consumer awareness about energy-efficient products and innovative product offerings in sync with the mega trend of digitisation. This evolution indicates a tectonic shift in technology from electrical to electronics, representing significant growth opportunities for companies offering the electronic hardware/components, products and solutions used in LED lighting. According to the Electric Lamp and Component Manufacturers Association (ELCOMA), the Indian LED market is expected to grow to ₹261 bn by 2020 at a CAGR of 24.66%, which is approximately 80% of the total lighting industry. New Consumer behaviour and applications are swelling the market prospect. The key factors that are expected to boost the market include declining LED prices coupled with favourable government initiatives that provide LED lights at a subsidised cost and promote LED street lighting projects through a special energy services company (ESCO) model created by EESL. Moreover, apart from rising consumer awareness about the cost-effectiveness of LEDs, their enhanced life, energy-efficiency and eco-friendly nature will continue to drive volume sales from the industrial, residential and commercial sectors. LEDs are versatile products and can be used for residential lighting, street lighting, downlights, landscaping, monument lighting, signage, traffic signals, security lights, industrial lighting, office space lighting, automotive lighting and much more. Low energy consumption, low costs, modular designs and ease of use have made LED lighting the first choice in industrial, commercial and domestic applications.

Huge investment in electricity infrastructure and Government's push is aiding in the rapid growth for LED lighting in India is still mostly driven by metro cities due to awareness and socio-economic growth. However, the demand from Tier-II cities is expected to grow too, on account of the potential applications for street lighting and industrial lighting. The demand for LED lighting from rural India is also going to increase significantly, soon, due to the government initiatives for implementing rural LED street lighting projects by retrofitting conventional streetlights with LED lights in gram panchayats under the Street Lighting National Project (SLNP). Further expansion of such initiatives across the country will open up new market areas for the LED lighting industry.

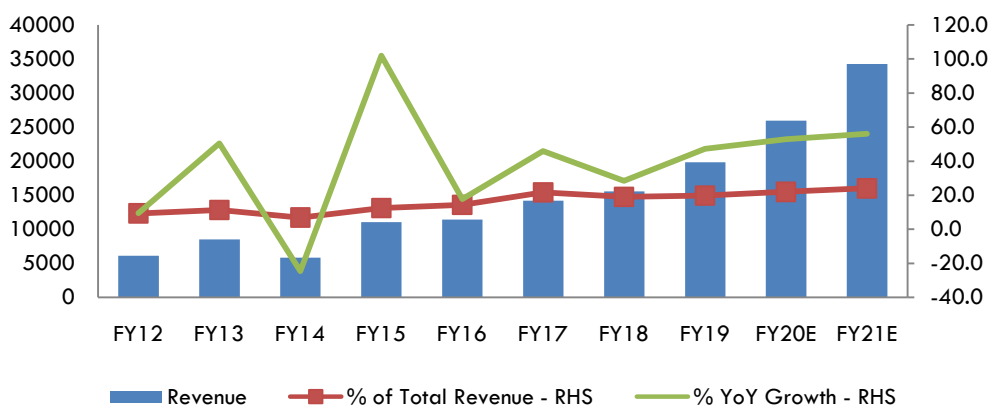
In FY19, the revenue and profit contributed by the segment were ₹12,934mn and ₹3,693.5mn respectively with a 16% margin contribution. Given the high market competition intensity predominantly by player like Bajaj Electricals, Crompton Greaves Consumer and Orient electric we are likely to see stagnant growth for the company at 11-12% with revenue contribution of 12-15% in the next two years.



Source: Company, Way2Wealth Research

ELECTRICAL CONSUMER DURABLES

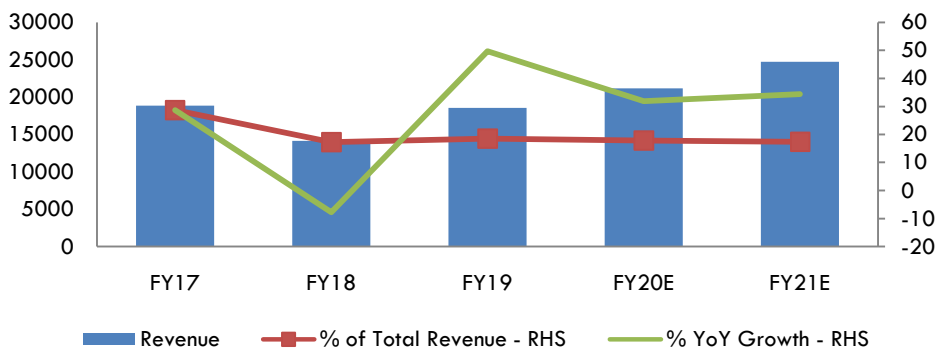
This segment contributed on an average of 14.4% of total revenues in the least seven year with revenue growth of 23%, predominantly from the sales of fans, water heater products. India's electric fans market is projected to surpass \$2bn by 2023 with a CAGR growth of 13.01% YoY. Post GST with prefer from premium products from organised players which have less power consumption, less maintenance and technology driven (IoT) we are likely to see share of premium fans for the industry to rise from current 6-8% levels to more than 15-20% over the next 3-5 years. The water heater market is projected to surpass \$600mn in 2023 led by increasing number of new residential units and other construction activities coupled with rising per capita disposable income. Moreover, improving standard of living, technological advancements, and rising demand for low-cost and efficient water heaters is further expected to propel growth in India electric water heaters market over the next five years. During FY19, the market sentiment was at a high which led to a revenue growth of 27.4% YoY to ₹19,814.8mn enabled by gain in market share in the premium fans the with technologically superior offering "Stealth Air" and "Adonia" – the LED light changing Water Heater which was a runaway success. We estimate even with this current market competition intensity primarily by players like Bajaj Electricals, V-Guard and Crompton Greaves Consumer we are likely to see a revenue growth of 30-32% YoY with the contribution of this segment to the overall revenues to increase to 22-24% in the next two years.



Source: Company, Way2Wealth Research

LLOYD CONSUMER

After expanding its product portfolio to cover washing machines and television sets beyond its flagship air-conditioners since acquiring Lloyds, the company plans to enter the ₹150bn refrigerator market in the next 1-1.5 years. It expects non-AC portfolio to grow to contribute around 50-60% of the turnover from the Lloyd business. The company will be focusing on opening more Lloyd exclusive stores, primarily in the Tier 2-3 locations to increase its market share of 3% of the total white goods market in the country. Currently it has around 80 such outlets which operate on a franchisee model and the company targets to open 30-40 such outlets every year. In order to reduce dependence from third party manufactures It has started operation from its new facility at Ghiloth, Neemrana, Rajasthan (capacity to produce 0.6mn ACs annually and to scale up to 1mn ACs) with a total estimated cost for the project is ₹3.6bn (ex-land cost, as the company already owns the land), spread over a period of 3 years. The company eyes penetration in growing Flat panel display (FPD) TV and washing machines markets. Its manufacturing stronghold (93% in-house production), increasing presence in B2B business (B2C for lighting) and focus on new products for mass premium segment bodes well for growth. Its latest campaign 'Khayal Rakhenge, KhushRakhenge' has been very well appreciated by millions of consumers, where movie stars like Deepika Padukone and Ranveer Singh have endorsed the brand considering their massive fan following and youth appeal is expected to have a positive impact on the brand. In FY19, this segment recorded revenue and profit of ₹18,556mn (+31.2% YoY) and ₹3,175.7mn respectively with a 13% margin and 18% revenue contribution, even though the industry went through disruption during the year owing to tepid summers caused by unseasonal rainfall. It was further negatively impacted by currency headwinds and increase in import duties. Considering the high base of growth in the previous two years we are likely to see revenue growth of 14-16% in the next two years.



Source: Company, Way2Wealth Research

ENBALING FACTORS FOR GROWTH

Factors like Demographics, Electrification, Affordable housing and Premiumisation to enable growth:

- Favourable Demographics** – Increase in Urbanisation (from 32.78% in 2015 to 34.03% in 2018) is positively impacting the demand for electrical products. With emerging middle-class people, improved net disposable income, Nuclearization of families, increase in female participation in the workforce, customers are likely to pay for convenience.
- Improvement in Electrification** – Government's focus on investment towards provision of adequate electricity supply is providing necessary stimulus to generate demand for electrical products. Few of the initiatives like 'Saubhagya scheme' and 'Deendayal Upadhyaya Gram Jyoti Yojana (DDUGJY)' are driving demand for electrical products in semi-urban and rural territories.
- Affordable Housing** – Though overall housing segment remains subdued, rise in affordable housing projects offers potential to generate demand for electrical products.
- Increasing Premiumisation** – The Consumer's preference for aesthetically superior and feature laden products provides Havells a greater opportunity to connect with its customers given its presence and serviceability to cater to these aspirations.
- Under Penetration** – Majority of consumer facing products in India have lower penetration vis-à-vis other emerging countries. It is expected that increase in per capita income and yearning for comfort could lead to exponential rise in penetration in medium to long term time frame.

Expansion of brand shops and progressive positioning in newer channels to enhance outreach

The company has identified three key strategic focus areas – Innovation, Market Reach and Brand Reinforcement which are essentials for value creation. It has defined goals and key priority areas for each capital along with KPIs which are periodically analysed to measure the progress towards sustained value creation. One such strategy is alongside the expansion of brand shops is progressive positioning in newer channels like organized retail (MFR) and E-commerce (online) have also aided the company to create positive foot prints in the cities, semi urban and rural markets (Tier 2-3 towns) to expand outreach.

Servicing customers through dealers and relationship with vendors enables value unlocking

The company has +10,500 dealers-distributors diligently working on building transparent, mutually beneficial relationships. The company has leveraged technology to further enhance our market reach and simultaneously get rich data of real time business by channel partners such as Dealers, Distributors, Retailers and Customers. Appropriate use of data analytics captured through technology helped to build strategies to achieve next level growth in company. Various digital initiatives undertaken for driving business efficiencies include :

1. **Sales Force Automation (SFA)** – Sales Force Automation, an in-house developed mobile application with geo tagging technology. A team of 3,000 sales representatives visit an average of unique 75,000 retailers and 7,000 direct channel partners every month. Retailer registration was also incorporated in SFA app through “Sampark – Retailer Loyalty Program”.
2. **Distribution Management System (DMS)**, is a mini ERP billing solution given to Havells’ distributors to cater retailers registered with Havells. Company has successfully implemented DMS across the distribution network. DMS was also utilized for settlement of secondary schemes bringing transparency and expedient claim settlement.
3. **Dealer Portal** – Dealer portal is a technological conduit between the company and its Direct Channel Partners basis which the dealers get real-time information pertaining to their business transactions with Havells like booking of orders, information related to their billing, sales performance, scheme qualifications, credit note intimation, and real time updates on price list and product catalogue, bringing transparency. Dealer portal has been effective in bringing 80% of company sale from the orders booked in dealer portal.
4. **Retailer App** – Havells had initiated an application specially designed for Havells’ retailers bringing a digital platform, making it a single point of access for various business related the company has engaged with 120,000 registered retailers in Sampark Loyalty Program. It also features instant redemption of loyalty points directly transferred to their bank accounts, get real-time updates on pricelist and brochures, Sampark scheme updates and ledger of balance points in scheme.
5. **Service App for Consumers** – To cater and provide service support to consumers of Havells, keeping in mind to build a one stop solution for them, the company has designed a user-friendly mobile application that serves all the service related queries like product installation, maintenance (AMC), services and repairs.

The company’s Dealer-distributor relationships works on the principle of “Peace of mind to the dealer-distributor” which help deliver their best results

Consistent Revenue –Benefitting them financially through association with the company. Key initiatives include Brand building to ensure consumer pull for our products. Establishing a strong service network for prompt after sales service of products thus increasing customer satisfaction and recall. Innovative schemes to increase dealer profitability

Business expansion – Dealers-distributors who were originally dealing in Havells wires and cables have extended offerings to lighting, consumer durables and other product categories. So, using the same channels at the disposal they can now sell more units and products.

Technology enablement – Dealer management system gives a systematic approach to distributors and establishes better connect with Indirect channel partners. The portal provides a one-stop tool for

all dealer related queries and needs. The dealer-distribution network is an extension of the Havells family and the backbone through which the customers are with its expanding product portfolio and unlock potential for growth.

The company's Implementation of vendor management system by categorizing them into A, B, C and D bands. Thereby, implemented capacity building, systems and incentives that motivated vendors to aspire for higher bands of A and B. The company has also established the Havells Association of Business Innovation and Transformation (HABIT), which identified a cluster of 57 medium and small vendors for capability enhancement. It has also assisted identified vendors in implementing government schemes such as the Lean Manufacturing Competitiveness Scheme to help them improve their manufacturing efficiency and quality. The entire exercise spanning 18 months was so effective that a second phase of capacity enhancement is being planned to be rolled out likely next year.

Pillars of growth for the company

PILLARS OF GROWTH			
Brand Reinforcement	Product Portfolio	Strong Distribution Network	In-House Manufacturing
Havells is identified as a brand that makes a difference in lives of consumer, value chain partners and society at large	Wide product portfolio with 10,740 SKUs with constant push on quality and innovation to cater to consumer preference	Multi-channel presence and existing dealer network utilised for multiple product distribution	Expanding manufacturing capabilities for backward integration to create high quality products using sustainable processes
<ol style="list-style-type: none"> 1. Reinforcing essence of brand "Havells" 2. Focused investment in branding to create a strong connect with consumers 3. Enhancing Brand reach through multiple channels 	<ol style="list-style-type: none"> 1. Wide and diversified product portfolio 2. Investment in R&D for Innovative quality products 3. Digital transformation by leveraging IT infrastructure for improving overall product experience 	<ol style="list-style-type: none"> 1. Strengthening connect with dealer network 2. Tie-up with multi-brand outlets, regional retailers and modern formats 3. Focus on e-commerce platforms 	<ol style="list-style-type: none"> 1. Leveraging technology to optimize resources and increase efficiency 2. Capital expenditure in enhancing manufacturing capacity

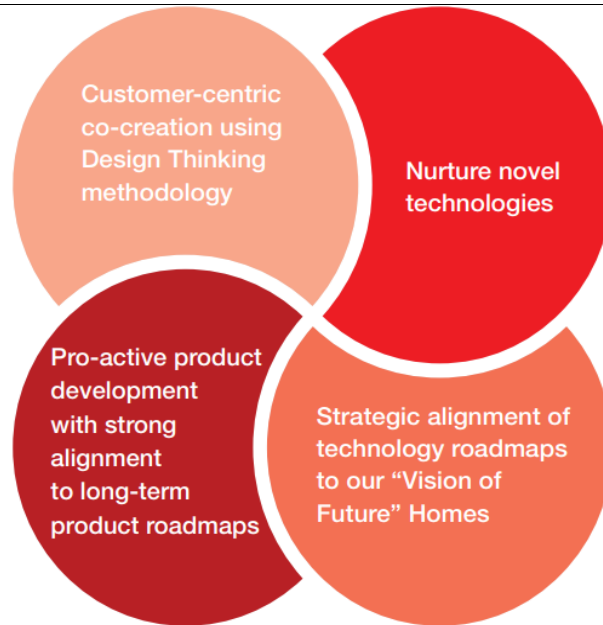
Source: Company

R&D enables timely flow of competitive products and services to the marketplace

The Company's sees its ability to compete successfully depends heavily upon its ability to ensure a continual and timely flow of competitive products, services and technologies to the marketplace. The company continues to deploy its financial capital to expand distribution reach, strengthen branding and R&D. It had spent ₹790mn in FY19 for R&D (invested ₹400mn in R&D assets in FY19) with more than 40 members in the R&D team which was 23% higher YoY.

Its objective is to launch highly innovative products addressing explicit and latent needs of our customers which is enabled by early adoption of relevant technologies. With this broader mission it has been investing in strengthening in-house R&D capabilities. Company's CRI (Centre for Research and Innovation) team focuses on continuous and sustainable product innovations, working across the product lifecycle aspects including design, development, manufacturing and use (in-field) phases. As part of this mission, the company has come up with a dedicated R&D Center at Sector-59, Noida Location. This R&D Center spans over a covered area of 1,00,000 square feet (including 50,000 square feet of world-class lab facilities) and houses great majority of the product development teams. The R&D activities continues to focus on developing intelligent, eco-friendly and energy efficient products, as well as, extending the range of existing products catering to niche premium segment with an objective of having clear product differentiation in our product portfolios which are common across different brands of Havells group (Crabtree / Havells/ Standard / Reo). The company has targeted to increase R&D to a level of ~2% incoming period.

R&D approach of the company



Source: Company

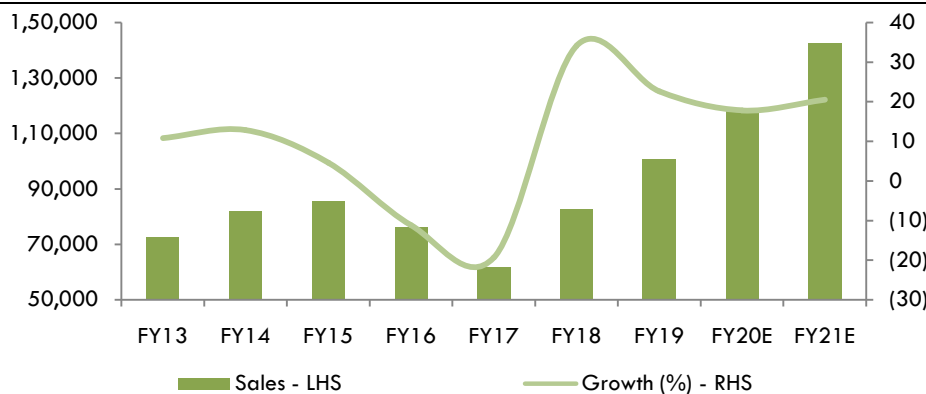
Stable Leadership

An unchanged board composition in the last two years continues to provide stability in its strategy execution, with a high engagement of the board with 95% attendance across board meetings. In FY19, the total management remuneration was at 5% of profits, within the approved ceiling of 10% of net profits.

INVESTMENT RATIONALE

Topline to grow at a CAGR of 19% for FY19-21E

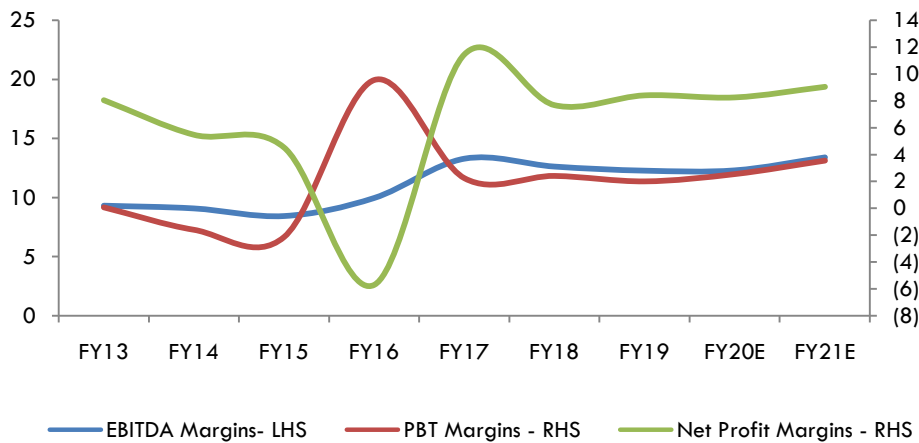
Even with wild fluctuation in commodity price and muted industrial growth witnessed during FY19 the Wires & cables along with the switchgear business segment which comprises of ~49% saw a topline revenue growth of 20% and 18% respectively (with CAGR growth of 9.5% and 7.5% respectively for FY16-19E) enabled by government infrastructure investment and electrification projects which worked in the favour. Also, major value growth took place due to due to expanding channels and expansion on the modern format retail inclusive of E-commerce and Apps. Now with stable government formation, festivities to come and government impetus in urban infrastructure including affordable housing we are likely to witness topline CAGR growth of 19% for FY19-21E. The growth in other business with launch of new products and entry into new product segments (refrigeration from Lloyds) will also aid growth driven by investments in R&D



Source: Company, Way2Wealth Research

Stability in margins even on the back of expansion of distribution network

With moderation in commodity prices which witness during 2HFY19 and 1QFY20 the company is likely to witness stable margins of 12-13% for FY19-21E even on the back of optimum expansion of distribution network enabled by distribution and vendor management system of the company.



Source: Company, Way2Wealth Research

Leveraging Strong Distribution Network through technology

The company has +10,500 dealers-distributors. The company has leveraged technology to further enhance our market reach and simultaneously get rich data of real time business by channel partners such as Dealers, Distributors, Retailers and Customers. Appropriate use of data analytics captured through technology helped to build strategies to achieve next level growth in company. Initiatives like Distribution Management System (DMS), Sales Force Automation, and retailer apps to cater retailers registered with the company enables settlement of secondary schemes bringing transparency and expedient claim settlements. Use of vendor management system and categorizing them into A, B, C and D bands enables capacity building and incentives vendors to aspire for higher bands of A and B. Service App for consumers to cater and provide service support to consumers, keeping in mind to build a one stop solution for them, with all the service related queries like product installation, maintenance (AMC), services and repairs. The above factors mentioned enables to gauge the behaviour dynamics of end users and push and pull products the right products with ease based on requirement.

Government's energy conservation drives provide opportunity forlighting business

Government energy conservation drive to boost the market include declining LED prices coupled with favourable government initiatives that provide LED lights at a subsidised cost and promote LED street lighting projects through a special energy services company (ESCO) model created by EESL. This is likely to drive the incremental growth which had declined ~25% CAGR during Fy16-19E is likely to witness ~14% growth further aided by likely commencement of deferred industrial and commercials project with stable government formation.

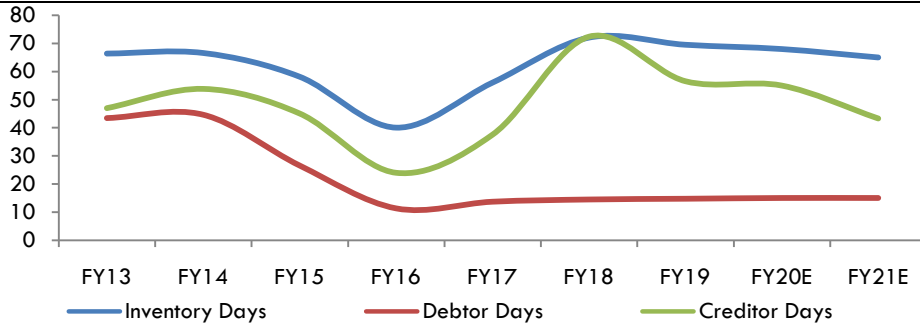
Customer centric approach with demand for premium product to aidconsumer durables

Continuous drive for better customer products with adoption of technology and understanding the customer dynamics for premium products enabled by strong dealer-distribution network is likely to aid the electric consumer durables business which is likely to grow at a CAGR of 31.5% for FY19-21E considering the affordability, infrastructure demand and low penetration.

Well managed inventory and strong cash flow generation aid return ratios

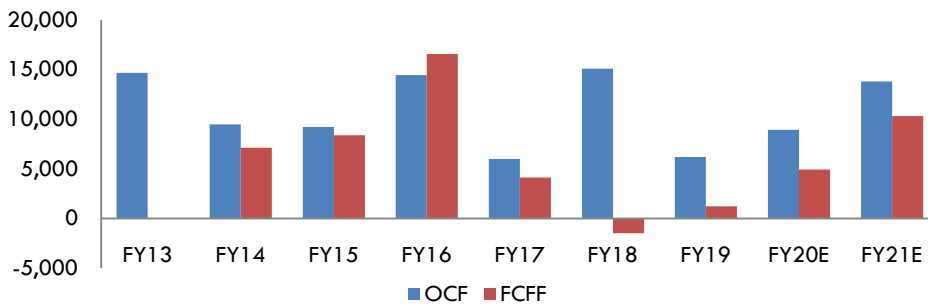
The company is virtual debt free with cash conversion cycle at 27-28 days and net WC days at 50-51 days enables generate strong operating and free cash flow aided by new product launches facilitated by strong dealer-distribution network conclude on continuous good return ratios across years.

Inventory, Debtor & Creditor day trend



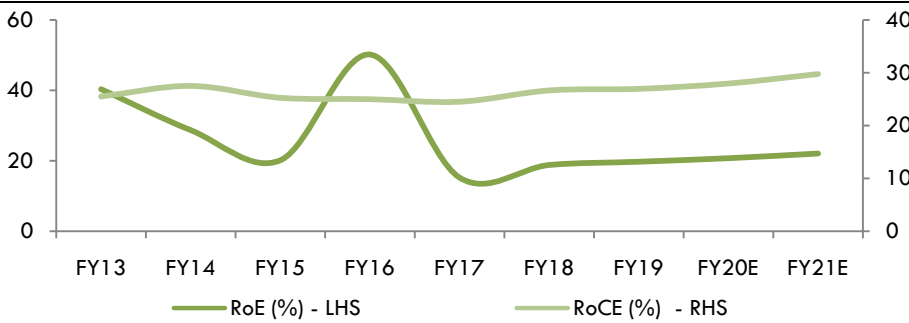
Source: Company, Way2Wealth Research

Cash flow mix



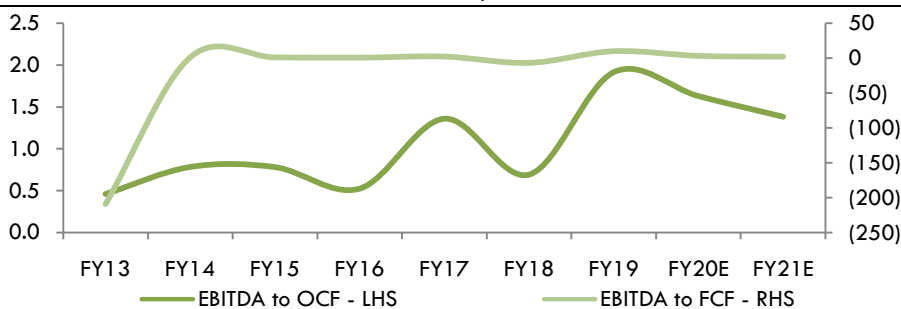
Source: Company, Way2Wealth Research

Return Ratios



Source: Company, Way2Wealth Research

EBITDA to OCF/ FCF Trend



Source: Company, Way2Wealth Research

Key Threats

- (A) **Slower than Expected Pick-up in Housing** – Demand for new housing has been sluggish since couple of years. Continued weak demand for housing could impact demand for electrical goods.
- (B) **Increase in Competition** – In view of growth potential in electrical and durables industries with relatively low entry barriers, recent trend had witnessed new players entering the space which could intensify the competitive landscape.
- (C) **Non-Availability of Regular and Quality Power** – Non-availability of regular and quality electricity supply may impact overall demand for electrical products.
- (D) **Commodities price** – As a substantial portion of revenue of Company is dependent on consumption of commodities like Copper and Aluminium, high volatility in their prices may impact margins in the short term.

FY19 saw revival; 1HFY20 to see suppressed demand but things are expected to improve

FY19 was a revival year despite transitional impact of GST, unseasonal summer rains fluctuation in commodity prices & foreign exchange rates, hike in custom duty the company had a topline growth of 23.6% YoY. With delayed but intense summer in Q1FY20, ACs and Fans had seen pick in demand but liquidity crunch due to NBFC crisis and postponement of purchases are likely to impact for 1HFY20. With government measures like rationalization of GST rates, focus on availability of quality electricity and investment in infrastructure is presumed to drive sustainable long-term growth. Rural housing is expected to play an important role in coming years, over 10mn rural households have been built in last 4 years, the momentum of which is likely to trigger the latent demand. In past few years, a significant improvement in power supplies to rural areas has been witnessed. Apart from this, internet penetration created awareness for good quality products in rural markets. The company with a large range of electrical products backed by R&D investments and manufacturing capabilities is well placed to capture rural markets. Medium to long term outlook remains promising for the company and the industry.

Peer Comparison

(₹ mn)

Financial Comparison	Havells				V-Guard				Crompton Greaves Consumer			
Y/E Mar,	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E
Revenue	82,690	100,734	118,312	142,591	22,853	25,664	29,448	34,596	41,051	44,789	50,622	57,716
Growth(%)	34.3	21.8	17.4	20.5	10.2	12.3	14.9	17.3	5.2	9.1	13.0	14.0
EBITDA	10,435	11,844	14,552	19,107	1,774	2,194	2,801	3,633	5,310	5,858	7,036	7,849
Growth(%)	27.5	13.5	22.9	31.3	(15.0)	23.7	27.7	29.7	9.6	10.3	20.1	11.6
EBITDA Margin (%)	12.6	11.8	12.3	13.4	7.8	8.5	9.5	10.5	12.9	13.1	13.9	13.6
Net Profit	6,610	7,855	9,776	12,905	1,236	1,652	2,073	2,659	3,238	4,025	4,833	5,373
Growth(%)	37.1	18.8	24.5	32.0	(14.3)	33.7	25.5	28.3	14.3	24.3	20.1	11.2
EPS (₹)	10.3	12.6	15.6	20.6	2.9	3.9	4.9	6.2	5.2	6.4	7.7	8.6
Book Value (₹)	60	67	83	104	18	21	24	28	13	18	23	29
EV	416,899	419,047	417,815	411,686	94,599	94,182	94,252	94,264	162,289	159,696	158,992	157,990

Valuation (x)	Havells				V-Guard				Crompton Greaves Consumer			
CMP (₹)	690				222				251			
P/E	65.3	54.9	44.2	33.5	76.6	57.5	45.8	35.7	48.7	39.2	32.6	29.3
P/BV	11.6	10.2	8.3	6.7	12.6	10.6	9.3	7.8	20.0	14.3	10.9	8.6
EV/ EBITDA	40.0	35.4	28.7	21.5	53.3	42.9	33.6	25.9	30.6	27.3	22.6	20.1
EV/Sales	5.0	4.2	3.5	2.9	4.1	3.7	3.2	2.7	4.0	3.6	3.1	2.7

Return Ratio (%)	Havells				V-Guard				Crompton Greaves Consumer			
RoE	18.8	19.8	20.8	22.1	17.8	20.0	21.6	23.8	49.5	42.6	37.9	32.7
RoCE	26.6	26.9	27.9	29.7	24.3	25.9	28.1	30.5	43.5	44.7	47.3	42.5
RoIC	49.7	40.6	38.8	42.6	21.5	24.2	31.1	33.9	48.2	50.5	53.9	50.3

Source: Company, Way2Wealth Research

Financials

(₹ mn)

Income Statement	FY18	FY19	FY20E	FY21E
Total Revenues	82,690	100,734	118,312	142,591
Total Expense	72,255	88,891	103,760	123,484
COGS	49,698	62,825	73,354	87,694
Employee Cost	6,595	8,417	9,702	11,550
Other Expenses	15,961	17,648	20,705	24,241
EBITDA	10,435	11,844	14,552	19,107
Depreciation	1,405	1,526	1,672	1,706
EBIT	9,031	10,317	12,881	17,401
Interest	248	163	132	266
Other Income	1,170	1,287	1,420	1,569
Exc. / E.O. items	(183)	0	0	0
PBT	9,773	11,441	14,169	18,704
Tax	3,038	3,583	4,392	5,798
RPAT	6,610	7,855	9,776	12,905
Adjustments	0	0	0	0
Net Earnings (Loss) After Provision for Losses/write offs/ Tax (PAT)	6,610	7,855	9,776	12,905

(₹ mn)

Balance Sheet	FY18	FY19	FY20E	FY21E
Sources of Funds				
Equity Capital	625	626	626	626
Reserves & Surplus	36,667	41,554	51,331	64,236
Net Worth	37,292	42,180	51,956	64,862
Minority Interest	77	0	0	0
Total Debt	884	405	1,388	2,957
Deferred Tax Liability (Net of Deferred Tax Assets)	2,117	3,203	3,203	3,203
Total Capital Employed	40,369	45,788	56,548	71,022
Applications of Funds				
Net Block	28,050	29,398	32,726	35,020
CWIP	241	2,327	1,327	827
Current Assets, Loans & Advances				
Inventories	16,330	19,190	22,042	25,393
Receivables	3,278	4,066	4,862	5,860
Cash and Bank Balances	15,787	13,160	15,376	23,073
Loans and Advances	284	477	301	301
Other Current Assets	2,137	3,271	1,771	1,771
Total: Current Assets, Loans & Advances	37,816	40,163	44,351	56,398
Current Liabilities & Provisions				
Payables	23,910	23,573	19,333	18,688
Other Current Liabilities	1,826	2,527	2,524	2,536
Total: Current Liabilities & Provisions (-)	25,737	26,100	21,857	21,223
Net Current Assets	12,079	14,063	22,495	34,175
Total Assets	40,369	45,788	56,548	71,022

(₹ mn)

Cash Flow Statement	FY18	FY19	FY20E	FY21E
Net Profit / (Loss) Before Tax	9,026	10,905	12,874	17,394
Depreciation	1,405	1,526	1,672	1,706
Net Interest	1,170	1,287	1,420	1,569
Direct Taxes Paid	(3,469)	(3,583)	(4,392)	(5,798)
Change in Working Capital (Non-Cash)	5,432	(4,611)	(6,216)	(4,983)
Other	1,518	654	3,568	3,924
(A) Net Cash Flow from Operating Activities	15,081	6,178	8,925	13,812
Capex {Inc./ (Dec.) in Fixed Assets n WIP}	(16,574)	(4,961)	(4,000)	(3,500)
Free Cash Flow	(1,493)	1,217	4,925	10,312
Inc./ (Dec.) in Investments	1,617	0	0	0
(B) Cash Flow from Investing Activities	(14,958)	(4,961)	(4,000)	(3,500)
Issue of Equity/ Preference	0	0	0	0
Inc./ (Dec.) in Debt	(1,200)	(479)	983	1,569
Interest exp net	(248)	(163)	(132)	(266)
Dividend Paid (Incl. Tax)	(2,633)	(3,203)	(3,561)	(3,917)
(C) Net Cash Flow from Financing Activities	(4,081)	(3,843)	(2,709)	(2,614)
Net Change in Cash	(3,958)	(2,626)	2,216	7,698
Opening Cash balances	19,745	15,787	13,160	15,376
Closing Cash balances	15,787	13,160	15,376	23,073

Ratios	FY18	FY19	FY20E	FY21E
(A) Margin (%)				
Gross Profit Margin	39.9	37.6	38.0	38.5
EBIDTA Margin	14.0	13.0	13.5	14.5
EBIT Margin	10.9	10.2	10.9	12.2
Tax Rate	31.1	31.3	31.0	31.0
Net Profit Margin	8.0	7.8	8.3	9.1
(B) As Percentage of Net Sales				
COGS	60.1	62.4	62.0	61.5
Employee	8.0	8.4	8.2	8.1
Other	19.3	17.5	17.5	17.0
(C) Measures of Financial Status (x)				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	36.4	63.5	97.7	65.4
Average Cost of Debt	16.7	25.2	14.7	12.2
Debtors days	14	15	15	15
Inventory days	72	70	68	65
Payable days	72	57	55	43
Working Capital days	53	51	69	90
FA T/O	2.9	3.4	3.6	4.1
(D) Measures of Investment				
EPS (₹) (excl EO)	10.3	12.6	15.6	20.6
CEPS (₹)	10.6	12.6	15.6	20.6
DPS (₹)	12.8	15.0	18.3	23.3
Dividend Payout (%)	4.2	5.1	5.7	5.5
Profit Ploughback (%)	39.8	40.8	36.4	26.7
Book Value (₹)	60.2	59.2	63.6	73.3
RoANW(%)	59.7	67.4	83.0	103.6
RoACE (%)	18.8	19.8	20.8	22.1
RoAIC (%) (Excl Cash & Invest.)	26.6	26.9	27.9	29.7
(E) Valuation Ratios				
CMP (₹)	690	690	690	690
P/E (x)	65.3	54.9	44.2	33.5
Market Cap. (₹ Mn.)	431,802	431,802	431,802	431,802
MCap/ Sales (x)	5.2	4.3	3.6	3.0
EV (₹ Mn.)	416,899	419,047	417,815	411,686
EV/Sales (x)	5.0	4.2	3.5	2.9
EV/EBDITA (x)	40.0	35.4	28.7	21.5
P/BV (x)	11.6	10.2	8.3	6.7
FCF/ Yield (%)	(0.9)	(0.1)	1.0	2.4
Dividend/Yield (%)	0.6	0.7	0.8	0.8
EBITDA/OCF	0.7	1.9	1.6	1.4
EBITDA/Free cash flow	(7.0)	9.7	3.0	1.9

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Name of the Security	Havells India Ltd.
Name of the Analyst	Jayakanth Kasthuri
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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