

# India Electricals

## Sector review

### Pan-India dealer survey: Demand weak, but market shares intact

We met/ spoke to around 100 dealers across the country. For almost two thirds of them, sales has either remained flat or fallen in the last three months. Most felt that competition has intensified, with companies looking beyond their geographical strongholds and expanding product offerings. However, very few appear to be succeeding. A case in point is Polycab (largest wires company), which despite its established distribution network, appears to be seeing only a tepid response to its new product launches. Consequently, companies such as Havells, Finolex Cables and Schneider have sustained their pricing premium. We initiate on Finolex Cables with a BUY stance and maintain our BUY recs on Havells and V-Guard.

- **Revenue recovery appears 6 months away.** Most dealers are seeing muted growth in volumes, with lower commodity costs impacting realisations as well. According to our checks, the cables and wires category is seeing the sharpest slowdown and Western India market is the worst affected. We think revenue momentum for Electrical companies is likely to remain weak for next six months.
- **Competition intensifying but has not resulted in pricing pressure.** While competition has intensified, most companies are finding it difficult to establish their distribution network (new entrants in fans, switchgears), while some are unable to gain customer acceptance (Polycab, Finolex in lighting). As we highlight on pages 8-9, established companies have not resorted to price cuts.
- **LED a disruptive force.** Unlike other product categories, Chinese/ unorganised players dominate the LED lighting market. Lack of customer preference and the quick transition towards the LED market has allowed new/ smaller players (Syska, Eveready) to challenge the dominant players of the CFL lamp market.
- **Havells: Best managed; most dealer friendly.** Dealers attributed Havells' success to a strong brand perception, superior product quality and continuous product innovations. Its SAP based distribution management systems are widely seen as amongst the best and most reliable in the industry. Its channel financing schemes allows dealers to pay the company on time, while Havells also supports them through non-cash incentives and sponsoring shop name boards.
- **Polycab most aggressive; Finolex conservative.** Polycab prices its products lower (mid-single digit EBIT margins), and offers lenient payment terms (80+ debtor days cf. 15-30 days for Havells, Finolex). Conversely, Finolex Cables typically does not extend any credit period. It has also stayed away from EPC projects (other high voltage/ optic fibre cable suppliers undertook large projects).
- **V-Guard, now a known brand pan-India.** 95% of our survey respondents had heard of V-Guard. Its products were visible to us in Delhi and Mumbai markets.
- **An attractive space.** We see electrical companies as interesting plays on the likely construction cycle pick-up, as their competitive strengths should help them protect margins and market shares. We today initiate on Finolex Cables with a BUY stance and retain our BUY recs on Havells and V-Guard.

Company	Rec	Target
Finolex Cables	Buy	INR340
Havells India	Buy	INR330
V-Guard Industries	Buy	INR1270

### Our new initiation: Finolex Cables - 'Fully charged and ready to go'

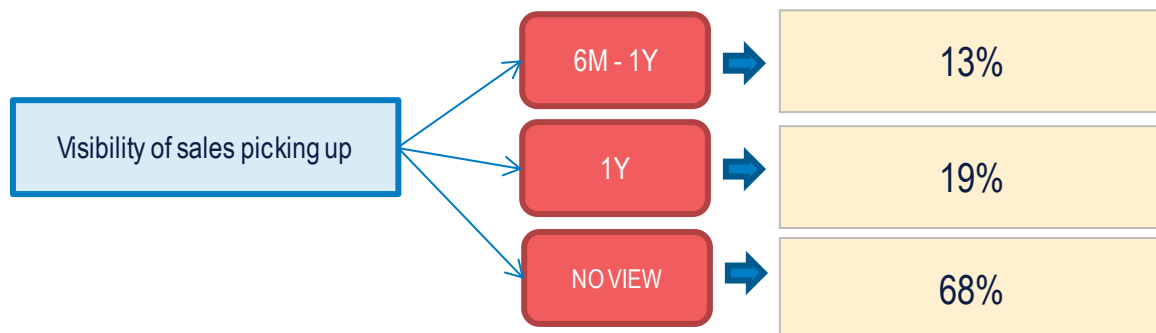
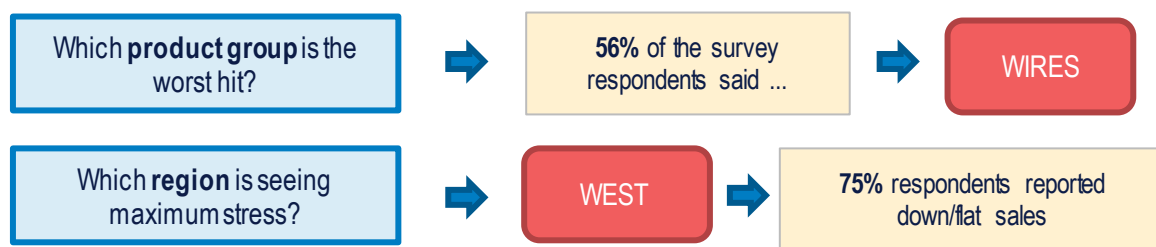
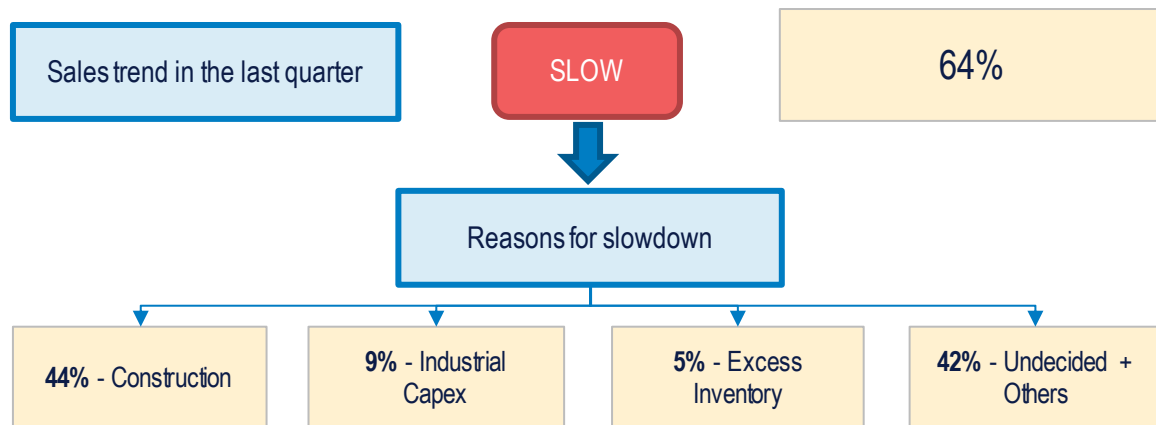
19 July 2015		Investec
Finolex Cables (FNXC.NS)		BUY
India   Industrials		Price: INR261.40
Fully charged and ready to go; initiate with a BUY		Target: INR340.00
Having expanded at 11% CAGR during FY07-15, we expect India's wire/ cable market growth to get an impetus from the likely revival in construction cycle over the next three years. Finolex Cables' strong competitive advantages (brand, distribution, scale, backward integration, widest wire range) should make it an obvious beneficiary. We expect it to sustain its industry-leading margins and keep working capital under check, helping it deliver 14% EPS CAGR and Rs4.2bn FCFI over FY15-18E. We find its sharp valuation discount to other industrial electrical stocks unattractive. Initiate with a BUY stance.		Forecast Total Return: 30.0%
■ Wires: A large and growing segment. With >50% of demand linked to the construction sector, India's wires market should benefit from a likely revival in the capex cycle. Other demand drivers, Infrastructure and Power, Autos and Irrigation pumps, are also likely to see improvement. Increasing broadband penetration should also result in a sharp expansion in optic fibre cables ...		Market Cap: INR40bn
		EV: INR33bn
		Average daily volume: 40k

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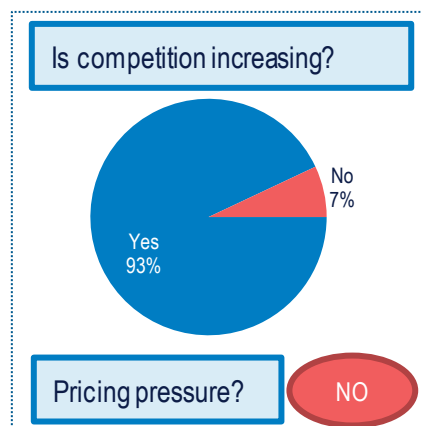
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## Dealer survey: Key Takeaways



Which brands have the highest recall?				
	Wires	Switchgear	Lighting	Fans
<b>East</b>	Havells	Havells	Havells	Havells
<b>West</b>	Polycab	Legrand/Anchor /Havells	Phillips	Crompton/Orient
<b>South</b>	Finolex/V-Guard/Havells	Legrand/V-Guard	Phillips/Havells	CG
<b>North</b>	Havells/Finolex	Havells	Havells	Havells



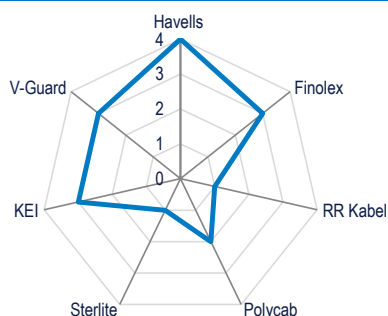
Source: Investec Securities research

## Dealer survey: Company takeaways

<b>Havells</b>	<ul style="list-style-type: none"> <li>- One of the best managed and most dealer-friendly companies.</li> <li>- Success is attributable to launch of innovative products, strong brand perception.</li> <li>- Most reliable distribution management systems in the industry.</li> <li>- Dealers are satisfied with Havells channel financing schemes.</li> <li>- Making a big push into the home automation segment</li> <li>- Highest 'Top of the mind' recall value in the industry especially for switchgears</li> <li>- Havells' Standard brand appears to be gaining popularity in Southern India</li> </ul>
<b>Polycab</b>	<ul style="list-style-type: none"> <li>- The wires market leader; aggressively prices products.</li> <li>- Offers relatively more lenient payment terms to its distribution channel.</li> <li>- Ability to meet bulk orders (without prior notice) finds favour with dealers</li> <li>- Tepid response to its new product launches despite the same pricing strategy</li> </ul>
<b>Finolex</b>	<ul style="list-style-type: none"> <li>- Increasing penetration in Northern markets using new facility at Roorkee as its hub.</li> <li>- Rated amongst the most popular 'wire' brands (along with Havells) in North India.</li> <li>- Prefers channel financing versus credit period to dealers.</li> <li>- Premium pricing in the wires category</li> </ul>
<b>V-Guard</b>	<ul style="list-style-type: none"> <li>- 95% respondents had heard of V-Guard, with several also stocking its products.</li> <li>- Products now visible in the Mumbai and Delhi markets as well.</li> <li>- The company is successfully building upon the goodwill garnered through stabilizers</li> </ul>

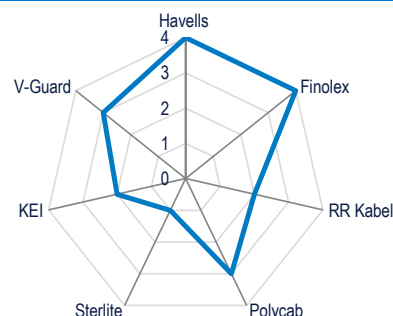
Source: Investec Securities research

Figure 1: Rating electrical players on EBITDA margins



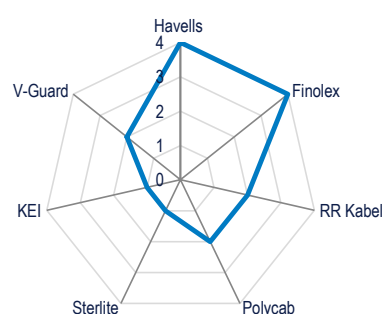
Source: Company data, Investec Securities research

Figure 2: Rating electrical players on Balance sheet strength



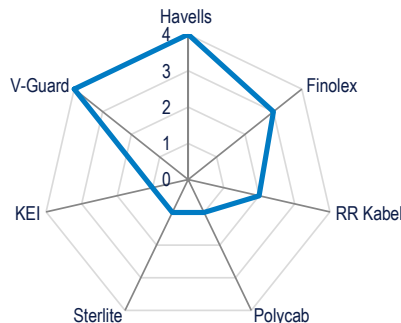
Source: Company data, Investec Securities research

Figure 3: Rating electrical players on debtor days



Source: Company data, Investec Securities research

Figure 4: Rating electrical players on RoAE



Source: Company data, Investec Securities research

## Revenue recovery appears six months away

Most survey respondents saw muted growth in volumes...

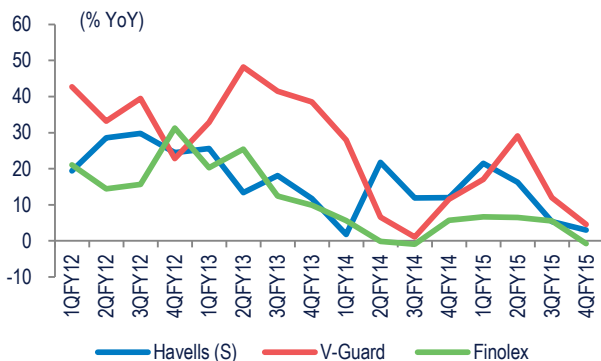
...realisations are also impacted due to lower commodity costs

Most distributors/ dealers are seeing muted growth in volumes, with lower commodity costs (most noticeably, copper) also impacting realisations. Weak sales are driven by a continued construction slowdown, weak rural spending and an aggressive push of products to the distribution network by certain large electrical companies during H1 FY15 (post elections, on the hope of a quick revival in construction cycle). According to our checks, the cables and wires category is seeing the sharpest slowdown. Dealers however, mentioned that the trend of organised players winning market share continues. Innovative companies should further benefit from customers upgrading to better technology products (LED, switch automation, energy efficient products etc.).

## Revenue growth moderated in last two quarters

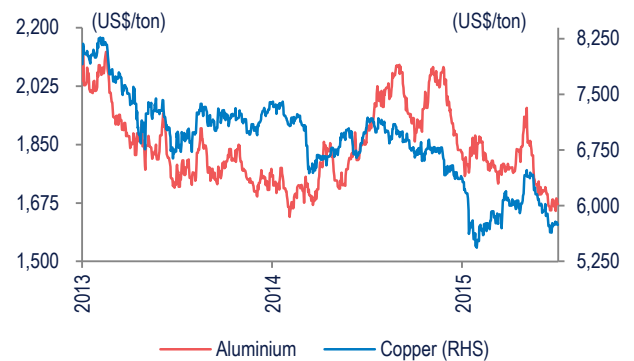
Revenue growth of Havells and V-Guard slowed sharply in H2 FY15 following a strong H1, while Finolex Cables exhibited weak revenue growth throughout FY15. Lower commodity costs brought down realisations (especially in wires and cables category), further compounding the impact of weak volumes.

Figure 5: Revenue growth has muted over the quarters



Source: Company data

Figure 6: Lower commodity costs to result in lower realisations

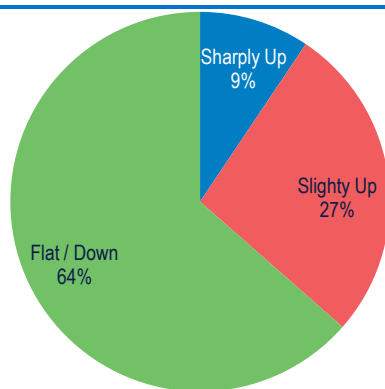


Source: Bloomberg

## Dealers are not seeing any meaningful pick-up as yet

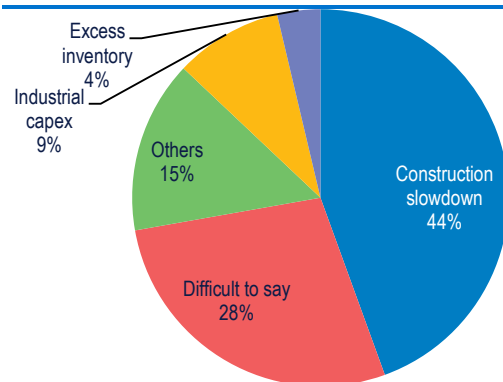
The trend of weak revenue growth appears to have continued in Q1 FY16. Almost two-thirds of the dealers we spoke to indicated that sales have either remained flattish or fallen on a YoY basis.

Figure 7: SURVEY: 64% of respondents' sales down/flat in last 3m...



Source: Investec Securities research

Figure 8: SURVEY: ... 44% attribute it to construction slowdown



Source: Investec Securities research

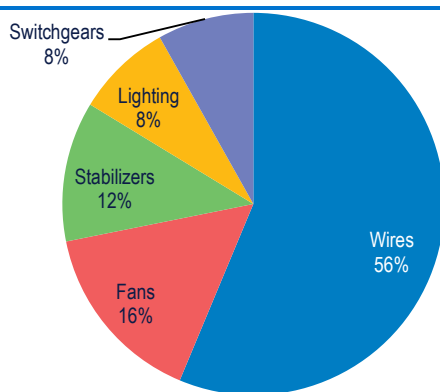
*Construction slowdown seen as main reason for weak sales*

Most dealers spoke about the construction slowdown being the main reason for weak volume growth. Rural spending has also slowed down. Some dealers also indicated that certain Electrical companies had pushed inventory aggressively in the retail channel (backed by some attractive volume-led incentives) in H1 FY15 likely on the hope of a quick revival in construction cycle post elections, leaving dealers with excess inventory in H2, thereby slowing revenue growth for companies.

*Wires and cables market worst affected*

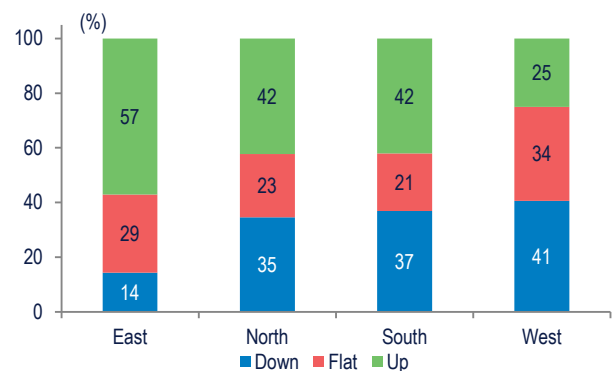
Over half of the dealers we interviewed saw the sharpest slowdown in the cables and wires category. Within the lighting segment, the CFL lamps market has not grown (declining in most cities), though the same was more-than-offset by the rapid expansion of LED lamps. Our conversations also indicate that the Western market has seen the sharpest slowdown, with only a fourth of the respondents seeing an increase in their sales in the last three months.

**Figure 9: SURVEY: Cables & wires segment taking the worst hit**



Source: Investec Securities research

**Figure 10: SURVEY: Outlook for sales – by geography**

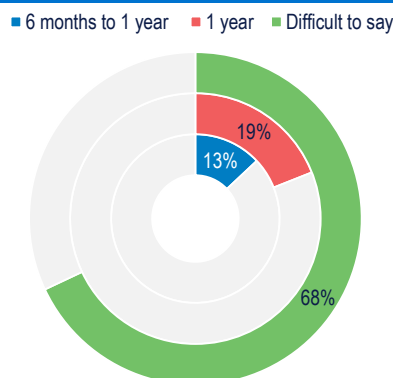


Source: Investec Securities research

## We expect an improvement from H2 FY16 onwards

A number of dealers found it difficult to predict when demand would pick-up. However, amongst those who responded, most did not see an immediate revival in demand, and estimated it could take 6-12 months time. In any case, Electrical products are not used in the early part of construction activities (Figure 12: Electrical products used in the construction cycle), and therefore its suppliers are unlikely to be immediate beneficiaries of a likely pick-up in construction cycle. We consequently believe that revenue growth for Electrical companies is unlikely to pick-up meaningfully before H2 FY16.

**Figure 11: SURVEY: Extremely low visibility of sales picking up**



Source: Investec Securities Research

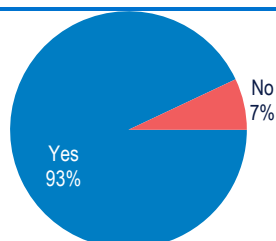
**Figure 12: Electrical products used in the construction cycle**

Product Category	Stage in construction cycle
Electric wires and cables	Mid cycle
Switchgears	Mid cycle to late cycle
Switches	Late cycle + replacement demand
Fans	Late cycle + replacement demand
Lighting lamps and fixtures	Late cycle + replacement demand

Source: Investec Securities Research

## Competition intensifying but has not resulted in pricing pressure

Figure 13: SURVEY- Is competition increasing?



Source: Investec Securities Research

Dealers indicated that competition has intensified across most product categories and regions. Companies are expanding beyond their geographic strongholds as well as increasing product offerings to challenge the incumbents. However, only a few companies are able to make a mark. Most find it difficult to establish their distribution network and make their products visible to customers, while others have not managed to gain acceptance among customer. Consequently, established companies have not resorted to cutting prices to tackle competition. Rather, their focus continues to be on creating strong brand and differentiating their product offerings through improved designs and features. We think this should bode well for Havells (BUY, TP Rs330), Finolex Cables (BUY, TP Rs343) and V-Guard (BUY, TP Rs1,270).

## Competition intensified across product categories...

Havells has shown the path by successfully entering new product categories to leverage its brand strength and distribution network in the last 15 years. Many companies are now adopting the same strategy. The most noticeable is Polycab, which from being only a wires and cables company (India's largest player) has now launched LED lighting, switchgears, switches, fans and electric water heaters. Finolex Cables has also entered the lighting market and intends to soon launch switchgears as well.

Table 1: Companies are expanding their product offerings

Company	Key products	New products launched / to be launched
Polycab	Wires and cables	LED lighting, fans, switches, switchgears, electric water heater
Panasonic Anchor	Switches and switchgears	Wires and cables, fans, LED lighting
Finolex Cables	Wires and cables	CFL and LED lighting, switchgears
V-Guard	Stabilizers, wires and cables, fans, electric water heaters, digital UPS	Induction cookware, switchgears, mixer grinder
Surya	Lighting	Fans
Legrand	Switchgears	Fans
Schneider	Switchgears, switches	Fans, LED lighting
Crompton Greaves	Fans, lighting, pumps, appliances	Stabilizers
Luminous	Digital UPS	Stabilizers
Orient	Fans, lighting, appliances	Undertook rebranding exercise in 2014: now selling three product categories under the same brand; focussing beyond the "strong" Fans category
RR Kabel	Wires and cables	Now targeting the housing wire category more aggressively: plans to increase its proportion in revenues from c.25% today to 560% in 3-4 years

Source: Companies, media articles, Investec Securities Research

Figure 14: Polycab venturing into LED bulbs...



Source: Investec Securities research

Figure 15: ... and fans



Source: Company release

Figure 16: A retailer displays Finolex LEDs



Source: Investec Securities research



Moreover, some erstwhile smaller/ unknown players are becoming increasingly visible in Electrical retail shops. For example, Syska has advertised aggressively in the LED lighting space and is fast capturing market share. Similarly, GM/ Gold Medal has become extremely popular in the Modular Switches category, especially in Western India since its designer/ coloured switches are offered at a discount to Havells/ Schneider/ Anchor etc.

Figure 17: Syska LED: Aggressive marketing



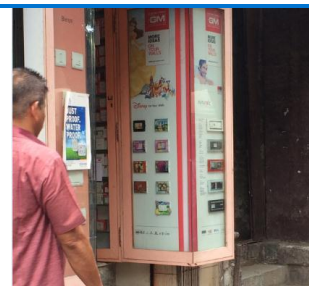
Source: Syska LED

Figure 18: In Western India GM switches...



Source: Investec Securities research

Figure 19: ... are increasingly visible



Source: Investec Securities research

## ...and geographies

Most Electrical companies have strong regional presence, rather than strength on a pan-India basis. However, companies are trying to change this. For instance, V-Guard is trying to expand its presence in non-South India markets (now around a third of revenues cf. <10% in FY09) by growing its distribution network and expanding aggressively. Similarly, Finolex Cables (historically strong mainly in Southern and Western regions) has now established its largest manufacturing facility in Roorkee (Uttarakhand), which is allowing it to expand at a sharper pace in the Northern markets. Polycab, which dominates the wires market in Western India, is now attempting to penetrate Southern and Northern markets.

Table 2: Companies are expanding their geographic presence

Company	Comment
Polycab	<ul style="list-style-type: none"> <li>Manufacturing facility in Gujarat; dominant in Western India</li> <li>Is now targeting Southern and Northern India as well, where it is pricing its wires at significant discount (8%+) to Finolex and Havells.</li> </ul>
Finolex Cables	<ul style="list-style-type: none"> <li>Finolex derives c.40% of its revenues from Southern India, and c.30% from North</li> <li>After the commissioning of Roorkee facility, proportion of revenues derived from North and East have risen to 30% from c.20% 3-4 years back.</li> </ul>
V-Guard	<ul style="list-style-type: none"> <li>Non-South India revenues have grown at 52% CAGR in the last five years. They now contribute a third to the company's sales, versus &lt;10% in FY09.</li> <li>Wires, stabilizers, digital UPS and pumps contribute the bulk of non-South India revenues</li> <li>V-Guard has crossed Rs1bn revenues in Uttar Pradesh; Eastern India (Kolkata, Guwahati, Orissa) a key market.</li> </ul>
Havells	<ul style="list-style-type: none"> <li>Very strong in the Northern part of the country; weak in West.</li> <li>Havells is trying to expand its presence in South; its "Standard" brand is popular here.</li> </ul>

Source: Investec Securities Research

## But few examples of success

Our conversations with dealers indicate that with the exception of V-Guard and Finolex Cables, most Electrical companies are finding it difficult to penetrate new product categories/ geographies:

*Most new entrants in fans category are finding it difficult to set up their distribution channel*

- **Little success for new entrants in Fans category.** The Fans category has seen several new entrants (Surya, Polycab, Luminous, Schneider) in the last few years. However, our conversations with dealers indicate that none of these have been able to cause any meaningful impact in the market, and incumbents have held on to their market shares (Havells and CG in the premium segment and Usha, Bajaj, Khaitan and Orient in the economy

segment). One of the key reasons has been under-developed distribution network for the new entrants.

*customer acceptability of Polycab's products in new categories appears to be uninspiring*

■ **Polycab's pricing sharply lower, but customer response tepid.** Our channel checks indicated that Polycab has aggressively pushed its new products in its distribution network, pricing them at a sharp discount to other organised players (discussed in more detail later). Consequently, unlike most other new entrants, Polycab's products are visible to customers and are pushed hard by dealers. Despite this, customer acceptability of Polycab's products in new categories appears to be uninspiring. Dealers indicated that this is partly on account of Polycab not enjoying a "consumer" brand image, unlike Havells and CG. As a result, while the company continues to enjoy a lion's share in the wires market, especially in Western India, it is still finding it difficult to successfully penetrate other categories. For instance, Polycab earned <Rs1bn revenues from its new product categories in FY14 (only a modest market share, given that the aggregate market size of switchgears, fans and lighting exceeds Rs200bn).

*V-Guard and Finolex have enjoyed some success in their geographic expansion efforts*

■ **V-Guard, Finolex have enjoyed some success.** V-Guard and Finolex Cables appear to be exceptions, with their geographic expansion efforts bearing fruit. As discussed earlier, V-Guard has been able to expand in non-South India markets, while Finolex Cables has also made inroads in the Northern India market. Their strong brand franchise and superior product quality have helped in this regard. However, Finolex Cables' foray in the lighting market hasn't panned out as hoped with the company undertaking a c.Rs75m impairment on its CFL facility in Q4 FY15.

*Incumbents are not cutting prices*

## Encouragingly, no sharp price cuts

Given that most new entrants have not managed to significantly disrupt incumbents' market shares, we have not yet seen any meaningful signs of pricing pressure, which bodes well for the operating margins of Electrical companies. Dealers highlighted that companies such as Havells, Finolex Cable and Schneider continue to compete not on prices, but on brand strengths, product qualities and distribution capabilities. Consequently, these companies continue to charge significant premium over their organised peers.

*Havells, Finolex continue to charge 7-10% higher prices compared to Polycab...*

■ **Havells and Finolex charge premium pricing in wires.** Whilst wires and cables may be the most commoditised category in the Electricals market with a large number of suppliers, Havells and Finolex continue to charge 7-10% higher prices compared to Polycab and 35-50% higher vis-à-vis unorganised players (poor quality of copper and PVC, tax evasion). Interestingly enough, while Polycab's listed prices are lower to Havells, they are at a premium to Finolex. However, discounts offered on Polycab's wires are much higher, making its selling price to customers the lowest amongst the three.

*... and 35-50% higher vis-à-vis unorganised players*



**Table 3: Listed prices of Wires: Polycab's listed price lower to Havells and at premium to Finolex...**

Price/100m Area	Single core			2 Core			3 Core			4 Core		
	Finolex	Havells	Polycab	Finolex	Havells	Polycab	Finolex	Havells	Polycab	Finolex	Havells	Polycab
0.5	521	670	640	1,770	2,465	2,020	2,283	3,170	2,720	2,882	4,010	3,500
0.75	770	926	900	2,355	3,140	2,690	3,063	4,305	3,660	3,968	5,450	4,550
1.0	990	1,240	1,180	2,858	3,870	3,210	3,793	5,460	4,420	4,851	6,995	5,770
1.5	1,419	1,825	1,710	3,685	5,270	4,340	5,087	7,165	6,090	6,702	9,260	8,080
2.5	2,285	2,930	2,820	5,936	8,360	6,920	8,106	11,545	9,730	10,586	14,890	12,900
4.0	3,609	4,330	4,420	9,047	13,085	10,300	12,782	17,850	14,600	16,455	23,060	19,100
6.0	5,412	6,510	6,400	-	19,655	15,400	18,798	27,350	22,100	24,575	34,890	2,880
10.0	9,160	13,075	11,100	-	32,460	26,100	31,407	44,545	37,700	41,330	58,100	49,100
16.0	14,587	20,655	17,900	-	54,145	41,700	49,813	69,640	60,100	62,680	89,075	79,100
25.0	22,624	31,480	28,300	-	76,595	79,000	75,633	108,210	107,400	99,319	146,915	141,200
35.0	31,684	43,390	39,100	-	104,690	107,800	105,358	150,280	148,700	137,894	202,140	195,300

Source: Companies, Investec Securities Research. Note: Prices as per its catalogues dated 15<sup>th</sup> May 2015 for Finolex Cables, 18<sup>th</sup> June 2015 for Havells and 1<sup>st</sup> May 2015 for Polycab

**Table 4: ...but discounts on Polycab are much higher: Consequently, Havells' and Finolex's prices at 7-10% premium to Polycab**

Price/ 90m Sq mm	Listed price (Rs)			Discounted Price (Rs)			Discount %			Price vs Polycab (% diff)	
	Finolex	Havells	Polycab	Finolex	Havells	Polycab	Finolex	Havells	Polycab	Finolex	Havells
1.0	990	1,240	1,180	680	710	620	31	43	47	10	15
1.5	1,419	1,825	1,710	1,000	1,030	925	30	44	46	8	11
2.5	2,285	2,930	2,820	1,600	1,640	1,500	30	44	47	7	9
4.0	3,609	4,330	4,420	2,370	2,430	2,200	34	44	50	8	10

Source: Companies, Investec Securities Research. Discounted prices as on 2<sup>nd</sup> July in Central India region.

*Havells and Schneider have not reduced their pricing in Switchgears category*

- **Havells', Schneider's pricing stays at a sharp premium in MCBs.** Our channel checks indicate that Havells has a very strong brand recall in the domestic MCB market throughout the country, with several customers specifically demanding Havells' Miniature Circuit Breakers (MCBs). The company consequently charges a significant pricing premium over its competitors, together with Schneider. Our recent checks indicate the listed price of Havells' 6 amperes single pole MCB is Rs195, which is higher than most of its competitors (Anchor: Rs150, V-Guard: Rs173, Legrand: Rs188, Schneider: Rs203, etc.). Despite some new companies trying to make inroads in this product category, Havells and Schneider have not reduced their pricing premium in the last few months.

*Chinese and unorganised Indian players dominate the LED lighting market*

## LED: A disruptive force

Dealers spoke about competition being intense in the LED space. We learnt that LED manufacturers/ suppliers can be classified into three broad buckets: Chinese, Indian unorganised and Indian organised. Price differential between these categories is significant. Unlike most other product categories, Chinese and unorganised Indian players still dominate the product category. This specially holds true for lamps, though organised players have started gaining market share in the fixtures market. Amongst the organised players, Phillips appears to be the most preferred brand. Lack of strong customer preference and the quick transition to LED market has allowed newer / smaller players to challenge the dominant players of the CFL/ incandescent lamp market (CG, Havells, Bajaj, Wipro etc). Our conversations with dealers indicate that Syska and Eveready are particularly becoming successful.

## A crowded space

There are more than 10 organised Indian players in the LED market. Then there are a host of unorganised Indian players. However, it is the Chinese LED offerings that are the cheapest by a wide margin, and consequently the market is flooded with them. This especially holds true for lamps and basic residential fixtures, though organised players have better market shares in fixtures used in commercial/ retail properties.

Figure 20: A Syska LED bulb is similar...



Source: Company

Table 5: Prices of select players in LED lamps (Rs)

Company	3W	5W	7W	Positioning
Philips	200	250	340	The most dominant Indian organised market player
Syska	160	210	275	Indian domestic; new entrant challenging incumbents
Bajaj	160	180	200	Dominant player in CFL/ incandescent lamp market
Saini	70	90	120	India unorganised; Guarantee offered
Bison	45	65	85	Chinese offering; no guarantee offered

Source: Investec Securities research;

Philips offers 2.5W and 4W bulbs instead of 3W and 5W respectively and still commands the highest pricing

Figure 21: to the one from Eveready



Source: Company

## No major competitive edge for anyone

Lighting has always been a category more price sensitive compared to switchgears and fans. This has been true in the past even for CFLs/ incandescent lamps, where most customers remained indifferent amongst the companies. In case of LEDs as well, the key question to ask customers is which category they would prefer: branded Indian LED lamps, the unbranded ones or the Chinese imports. Our Channel checks suggest most customers do not have a strong preference/ loyalty to any particular company, though Philips enjoys an upper hand.

## The hope: Government to curb imports

Several electrical retailers indicated that the Chinese products will continue to dominate the LED lighting market, unless the government discourages their import and incentivises domestic production. We note that the government has initiated some steps which can dilute the price attractiveness of Chinese LED lamps. For instance, the government recently reduced the excise duty from 12% to 6% on all inputs used in manufacturing LED drivers and metal-core printed circuit boards (MCPCB) for LED lights and Fixtures and LED Lamps. Moreover, in May 2015, the government has also made the BIS certificate mandatory for LED lights and few electronic goods, for custom clearance for goods imported from China or other countries. Indian manufacturers can apply for grant of BIS license under the simplified scheme by furnishing test reports of samples tested by the approved laboratories followed by a field visit by BIS staff to the applicant's factory.

## Havells: Best managed, most dealer friendly

Our channel checks indicate Havells to be one of the best managed and most dealer-friendly companies. Dealers and distributors suggested that Havells has gained market share vis-à-vis other companies not only because its products are of superior quality with a strong brand perception, but also because it has continuously brought product innovations and launched new product models. Its SAP based distribution management systems are amongst the best and most reliable in the industry, through which retailers can see the inventory levels for various product SKUs at warehouses. Its channel financing schemes allows dealers to pay the company on time, while Havells also supports them through non-cash incentives and sponsoring shop name boards.

## At the forefront of product innovation and quality

Havells remains ahead of the curve in terms of product quality and introduction of innovative energy efficient products. This has given it premium pricing power and allowed it maintain margins despite intensifying competition. Havells has recently launched products like Lumeno with the claim of being India's brightest LED, the first "made in India" MCB and ES40 fan (a ~50% more energy efficient fan). Moreover, our channel checks indicate that Havells launches at least 4-5 new models of fans every year, amongst the highest in the industry. The company also introduced ultra-premium range of switchgears ("XPRO" range) in the last year or so, which appears to be getting a strong response from customers.

Figure 22: Lumeno – by Havells



Source: Company

Figure 23: ES – 40: Energy saving fans...



Source: Company

Figure 24: ... cut energy costs by ~50%

ES - 40				
Sweep (mm)	Power Input (Watts)	Speed (RPM)	Air Delivery (CMM)	Service Value (CMM/W)
1200	40	350	210	5.25
Parameters				
		ES-40	Ordinary Fans	
Rated Wattage		40W*	75W	
Energy Consumption @ 16 hrs./day		640 Wh	1200 Wh	
Total unit of Electricity/Month		19 units	36 units	
Cost of Electricity/Month @ Rs. 5/- unit**		Rs. 95.00	Rs. 180.00	

Source: Company

Figure 25: Havells' energy efficient geysers



Source: Company

Our channel checks indicate that Havells is attempting to making a big push into the home automation segment through the development of products that include features such as occupancy, day-light harvesting sensor, Centralized Control & Monitoring System (CCMS) based luminaires, and Digital addressable lighting Interface. It also recently launched new Crabtree switches with additional features like capacitive touch (like that of mobile or I-Pad). Further, development of blue tooth enabled devices (switches, fans, home appliances) is also in the pipeline.

We recall that management's strategy of introducing new and innovative products has helped Havells succeed even in those product categories that were already saturated. For instance, despite the presence of several organised players (like Crompton, Bajaj, Usha, Khaitan) in the fans segment, Havells managed to become the second largest player in the last 12 years (Havells entered the product category in 2003), with a 15% market share. It was amongst the first companies in mid-2000s to launch energy efficient fans. The company also came up with innovative designs (metallic finish, antique designs, colourful fans for kids' room, etc).

## Strong customer pull, especially in Switchgears and Northern/Eastern regions

*Havells enjoys strong brand recall in the Switchgears category*

Our interactions with dealers suggest that 'top of the mind' recall value for Havells is amongst the highest in the industry. This is especially true in the switchgears segment, where customers explicitly demand the company's products, perceiving them to be the safest. Conversely, the lighting segment remains a highly price competitive business, with little brand differentiation.

*Very strong in the Northern and Eastern India markets*

In the Northern and Eastern India markets, a combination of dealer push and customer pull has allowed Havells to expand its market share aggressively in the last few years. Similarly, in the Southern India market, the company's Standard brand appears to be gaining popularity. However, the Western market appears to be weakest for Havells. For instance, while Havells' fans, switches and switchgears were visible to us when we visited Lohar Chawl market (Mumbai's largest Electricals market) recently, there were very few dealers stocking Havells' lighting products as well as wires.

Havells' domination across certain product categories and regions was clearly evident when we asked our survey participants (dealers and distributors) to rate the most popular company across product categories.

**Table 6: SURVEY: Most popular companies across product categories and geographies**

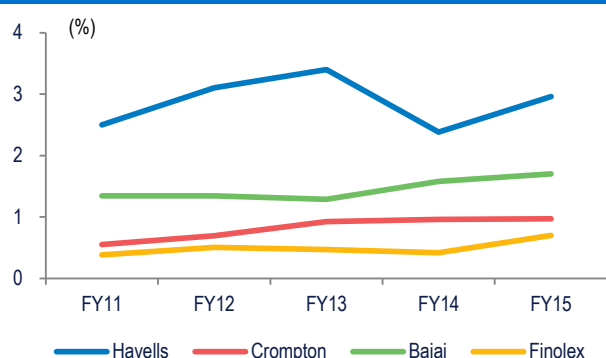
	Wires	Switchgear	Lighting	Fans
<b>East</b>	<b>Havells</b>	<b>Havells</b>	<b>Havells</b>	<b>Havells</b>
<b>West</b>	Polycab	Legrand/ Anchor/ <b>Havells</b>	Philips	Crompton/ Orient
<b>South</b>	Finolex/ V-Guard/ <b>Havells</b>	Legrand/ V-Guard	Philips/ <b>Havells</b>	CG
<b>North</b>	<b>Havells</b> / Finolex	<b>Havells</b>	<b>Havells</b>	<b>Havells</b>

Source: Investec Securities Research

*Targeted advertising has helped*

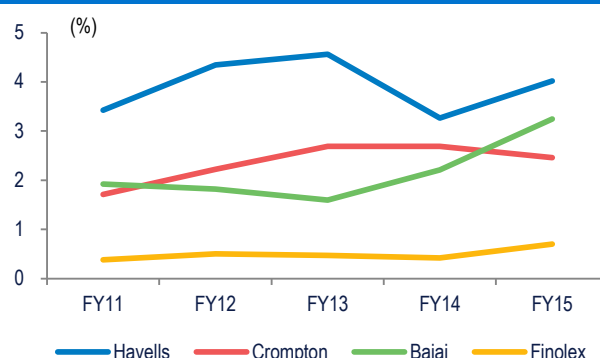
We think that besides superior quality, targeted advertising has also helped Havells to generate customer pull. The company spent 3% of revenues on sales promotion in FY15 - in line with its own average spend in the last few years, but significantly higher than its competition. Havells has consequently managed to position its products as safe (with catch lines such as "wires that don't catch fire" and "shock laga") and energy efficient ("bijli ko bachao" translates as "save electricity").

**Figure 26: Ad spend as a % of total revenue**



Source: Company data, Investec Securities Research

**Figure 27: Ad spend as a % of consumer segment revenue**



Source: Company data, Investec Securities Research

*Havells' SAP enabled distribution systems are widely seen as the best in the industry*

## Superior inventory management systems

Dealers mentioned that Havells' distribution management systems are amongst the best in the industry. They noted that through the company's SAP enabled systems, they can get real time status of inventory of various product SKUs across the company's warehouses/ distributors. The company has also recently launched a mobile app "Havells mKconnect", which offers information on inventory levels, dealer scheme details, order booking etc.

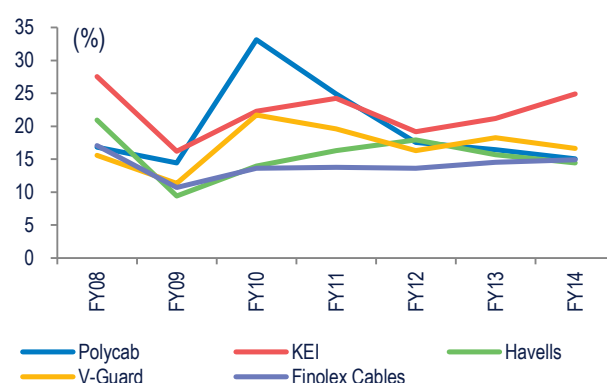
Our conversations suggested that Havells is generally able to meet bulk orders placed by its distribution channel, even if the same were not communicated to the company earlier. Some other incumbents in the industry find it difficult to do this. Encouragingly, Havells manages to achieve this despite keeping its inventory levels under control.

Figure 28: Havells' m-Kconnect for dealers



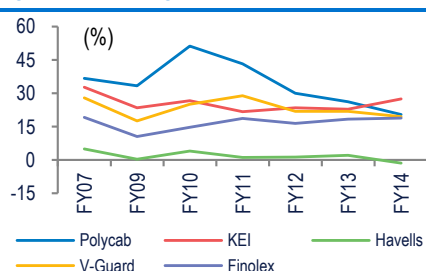
Source: Company

Figure 29: Inventory as a % of revenues



Source: Company data, Investec Securities Research

Figure 30: Working capital as a % of sales



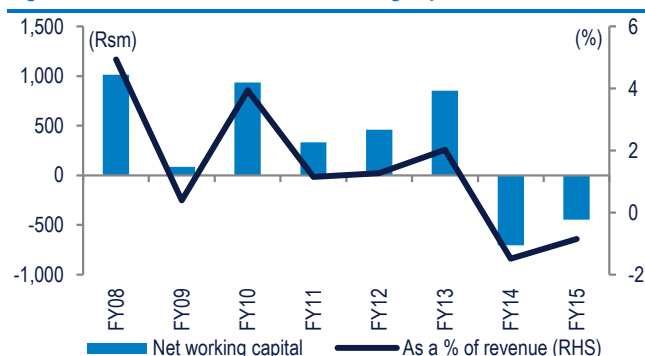
Source: Company data, Investec Securities Research

## Most dealer-friendly

Dealers mentioned that Havells is the most dealer-friendly company. Its channel financing schemes help dealers in managing their liquidity better, while Havells also incentivises them through attractive non-cash incentives.

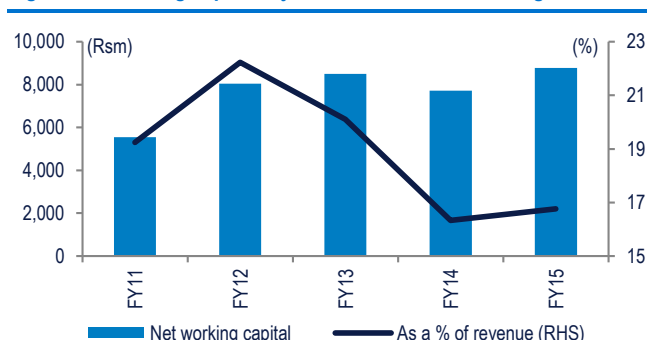
- Channel financing.** Havells collaborates with 5-6 banks, through which it is able to offer channel financing to its dealers and distributors. This ensures that the company is able to maintain control over its working capital, while its distribution channel also benefits from low interest rates of 11-13%. The company, in turn, guarantees banks to the extent of 5-10% of loans advanced.

Figure 31: Havells standalone net working capital



Source: Company data

Figure 32: Working capital adjusted for channel financing



Source: Company data



- **Non-cash incentives.** Over the past few years, Havells' management has introduced several schemes to incentivise its distribution network. It realised that dealers pass-on a significant proportion of volume-based cash discounts (which its competitors also offer) to customers in the form of lower prices. Therefore, in addition to such discounts, Havells' introduced "*Shahanshah scheme*", where dealers can accumulate points on the basis of their sales volume and subsequently convert them into free flight tickets, tours and packages. The company also offered free medical insurance packages for dealers and their families. In addition, management organises interactions with the company's dealers and arranges visits to the company's factories.
- **Other support.** Some dealers were appreciative of other small initiatives taken by Havells. For example, the company bears the expenses related to billboards for retail shops. In turn, Havells is able to ensure higher shelf space for its products with electricians.

Figure 33: Billboard sponsored by Havells

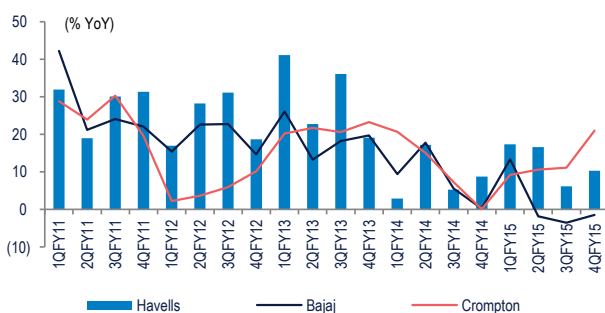


Source: Investec Securities research

## One of the best performers in the Electricals sector

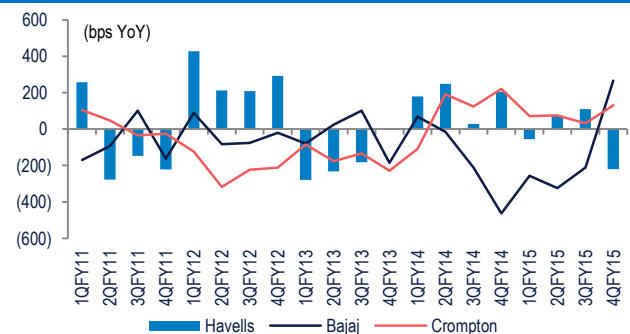
All these features have helped Havells take market share from not only the unorganised sector, but from established players as well. Moreover, while most competitors have seen margin erosion in the last few years, Havells has managed to expand them.

Figure 34: Havells' revenue growth compared with Crompton, Bajaj



Source: Company data, Investec Securities Research

Figure 35: Havells' EBIT margins compared with Crompton, Bajaj



Source: Company data, Investec Securities Research



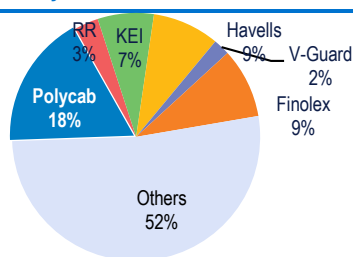
**Table 7: Comparing Havells Revenue and EBIT with peers**

Company name	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY08-14 CAGR	FY10-14 CAGR
<b>Revenues (Rsm)</b>									
Havells	20,556	21,984	23,714	28,817	36,156	42,250	47,197	14.9	18.8
Crompton	11,178	13,219	16,120	20,212	21,336	25,927	30,753	18.4	17.5
Bajaj	10,105	12,417	14,903	19,082	22,653	26,981	28,781	19.1	17.9
Finolex Cables	13,838	13,415	16,187	20,358	20,641	22,707	23,590	9.3	9.9
Polycab	21,362	22,398	25,139	32,666	37,615	37,051	38,423	10.3	11.8
KEI	8,790	10,017	9,246	11,691	16,941	16,923	16,186	10.7	15.0
Phillips	31,453	32,664	37,158	-	55,618	53,317	58,370	10.9	12.0
Surya Roshni	12,871	14,897	17,962	22,173	25,553	29,607	30,346	15.4	14.0
Anchor	9,124	9,437	9,143	11,313	13,845	14,627	17,054	11.0	16.9
<b>EBIT (Rsm)</b>									
Havells	1,772	1,847	2,875	3,112	4,144	4,752	5,780	21.8	19.1
Crompton	1,208	1,463	2,299	2,928	2,629	2,781	3,375	18.7	10.1
Bajaj	933	1,081	1,571	1,837	2,106	2,328	1,963	13.2	5.7
Finolex Cables	1,194	610	1,575	1,393	1,436	1,879	2,046	9.4	6.8
Polycab	2,734	1,719	2,437	2,040	1,656	2,304	2,276	(3)	(1.6)
KEI	1,017	505	617	771	1,322	1,524	1,333	4.6	21.3
Phillips	2,162	1,901	1,472	-	1,950	1,958	3,263	7.1	22.0
Surya Roshni	656	744	1,025	1,307	1,494	1,817	1,816	18.5	15.4
Anchor	294	752	1,356	1,576	1,836	2,340	1,020	23.0	-6.9
<b>EBIT margin (%)</b>									
Havells	8.6	8.4	12.1	10.8	11.5	11.2	12.2		
Crompton	10.8	11.1	14.3	14.5	12.3	10.7	11.0		
Bajaj	9.2	8.7	10.5	9.6	9.3	8.6	6.8		
Finolex Cables	12.8	7.7	9.7	6.2	4.4	6.2	5.9		
Polycab	11.1	6.9			4.6	6.4			
KEI	11.6	5.0	6.7	6.6	7.8	9.0	8.2		
Phillips	6.9	5.8	4.0		3.5	3.7	5.6		
Surya Roshni	5.1	5.0	5.7	5.9	5.8	6.1	6.0		
Anchor	3.2	8.0	14.8	13.9	13.3	16.0	6.0		

Source: Company data, Investec Securities Research

## Polycab: The most aggressive “challenger”

Figure 36: Polycab's market share



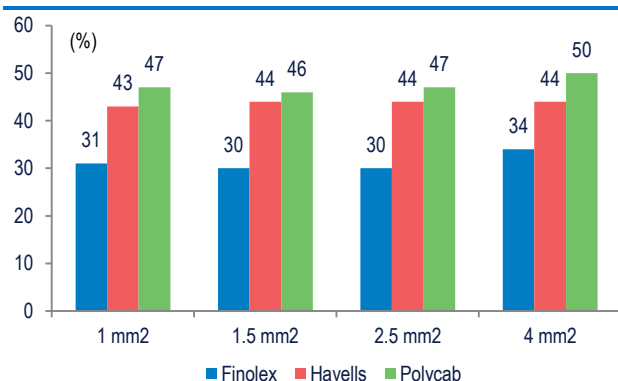
Source: Company data, Investec Securities Research

Polycab is the market leader in the electrical wires and cables segment, with a very strong base in Western India markets. The company prices its products lower than its competitors, also reflected in its mid-single digit EBITDA margins. Our interactions with dealers also suggested that Polycab offers relatively more lenient payment terms to its distribution channel and also maintains higher inventory levels to meet large unexpected bulk orders. This has resulted in its working capital cycles being much longer than the industry average. With Polycab now having entered several new categories, the concern is if it can cause price disruption and/or market share loss for incumbents. However, our interactions indicate that so far Polycab has received tepid response to its new product launches and has not been able to dent market shares of established players in a meaningful way.

## Lower pricing, margins

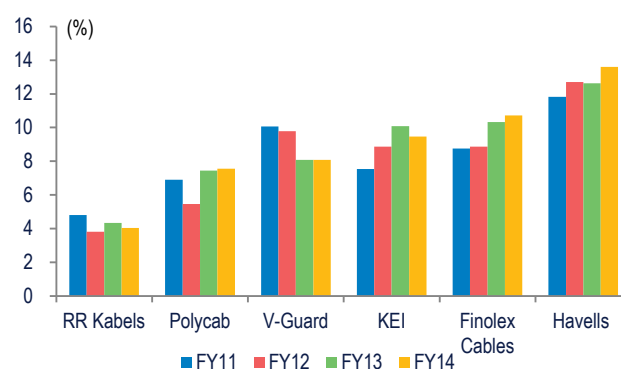
Polycab adopts aggressive pricing strategies, with its products priced nearly 8-10% below other organised players like Havells and Finolex due to higher discounts. Consequently, the company's margins are lower than most other established players. The company also undertakes EPC contracts in power T&D segment (unlike Finolex Cables), where margins are lower (according to our conversations with industry participants).

Figure 37: % of discount to list price in various wire categories



Source: Investec Securities Research

Figure 38: EBITDA margin for major Electrical companies



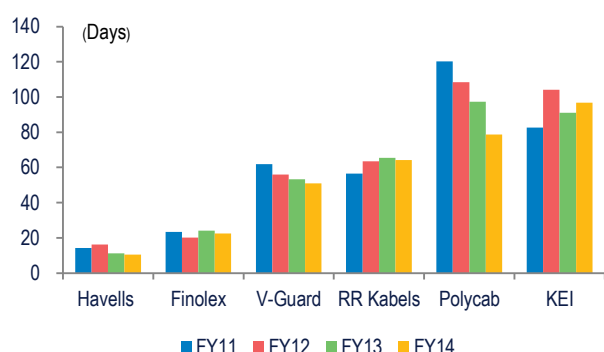
Source: Company data, Investec Securities Research

*Polycab offers lenient payment terms to its distribution channel partners*

## Amongst the longest cash collection cycles

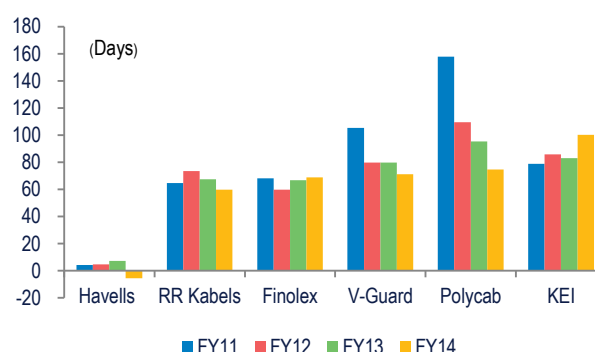
Polycab relies heavily on the ‘dealer-push’ strategy. It also offers the most lenient payment terms to its distribution channel partners. Consequently, it has one of the longest cash conversion cycles amongst the established players. We think such a strategy can backfire in the environment of falling commodity prices (especially copper), as prices of wires are revised periodically (15-20 days typically).

Figure 39: Debtor days for major wire players



Source: Company data, Investec Securities Research

Figure 40: Working capital days for major wire players



Source: Company data, Investec Securities Research

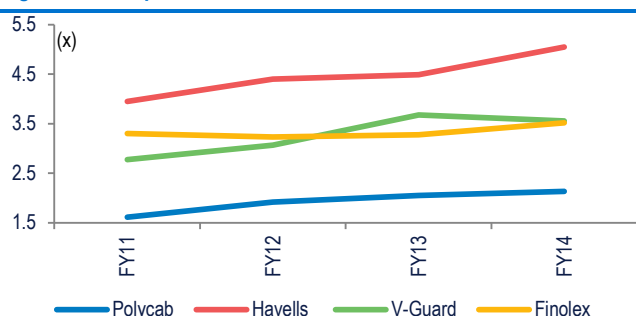
*Polycab is spending heavily to set-up new manufacturing facilities*

## Capex-heavy approach; consequently low RoEs

Unlike Havells, which typically uses outsourced sourcing and/ or makeshift manufacturing at existing facilities while entering new product categories (for example, kitchen appliances are completely outsourced, electric water heaters were outsourced until last year), Polycab is spending heavily to set-up new manufacturing facilities. According to *The Business Line* ([click here](#)), the company invested Rs2.5bn in FY15, and is planning to invest another Rs1.5bn in FY16. It is establishing a fan-manufacturing unit at Roorkee in Uttarakhand, switch and switchgear units in Maharashtra at Bhiwandi and Nasik and LED light unit in Bhiwandi.

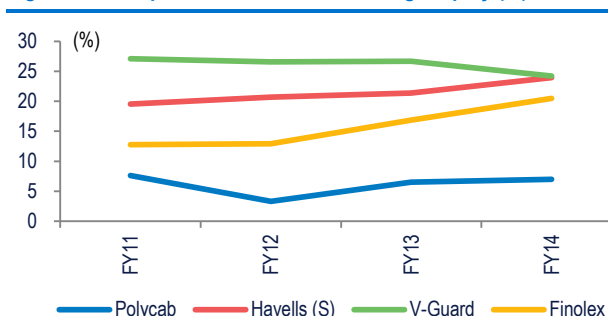
We note that Polycab's asset turnover ratios are already much weaker compared to Havells, Finolex and V-Guard, thanks partly to its higher working capital. This, coupled with its lower operating margins has implies its return ratios are also significantly weaker.

Figure 41: Comparison of asset turnover ratio



Source: Company data, Investec Securities Research. We have considered net fixed assets and net working capital while computing asset turnover ratio (i.e. we have not considered cash and cash equivalents and investments)

Figure 42: Comparison of Return on Average Equity (%)



Source: Company data, Investec Securities Research

## Limited success in new product launches so far

As discussed earlier, Polycab has launched a number of related products like lighting, fans, switchgears and electric water heaters. In this context, its success can potentially bring down pricing and/or disrupt market shares of incumbents. However, our survey indicates a relatively uninspiring response to Polycab's launches (<Rs1bn revenues in FY14) and that product portfolio and network expansions have not yet begun yielding desired results.

## Finolex Cables: Conservative approach

Finolex Cables is the second largest player in the Rs340bn wires and cables market. It adopts a relatively more conservative approach as compared to other cable players, evident from its significantly lower debtor levels and staying away from EPC projects (even as other high voltage/optic fibre cable operators undertook large projects in last few years to boost revenue growth). While Finolex has been amongst the most prominent players in the wires category in West and South markets for last several years, it is now increasing its penetration in the Northern markets, helped partly by commissioning of new facility at Roorkee. Encouragingly, dealers in the Northern India market rated it amongst the most popular wires brands, along with Havells.

While the company has managed its wires business well in the last few years (industry leading margins, expanded geographical presence, increasing breadth of offerings in the wires segment), it missed out on leveraging its brand and distribution network to expand into other related product categories, something that Havells did. The company is now aiming to make amends, though we think underinvestment in brand building is likely to mean that customer acceptance in new product categories (switchgears and lighting) could take time.

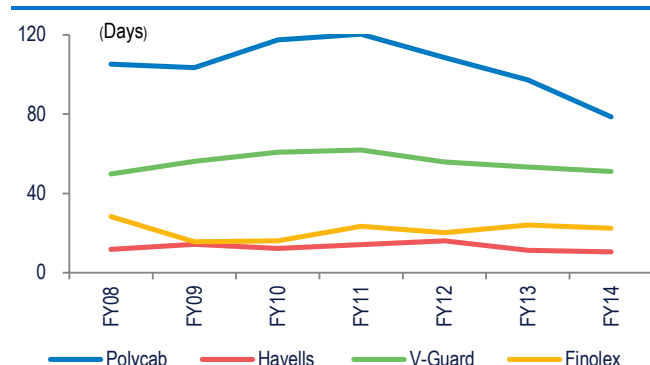
## Strong control over working capital

*Finolex does not extend any credit period to its distributors...*

*...rather uses channel financing facilities to help them make payments*

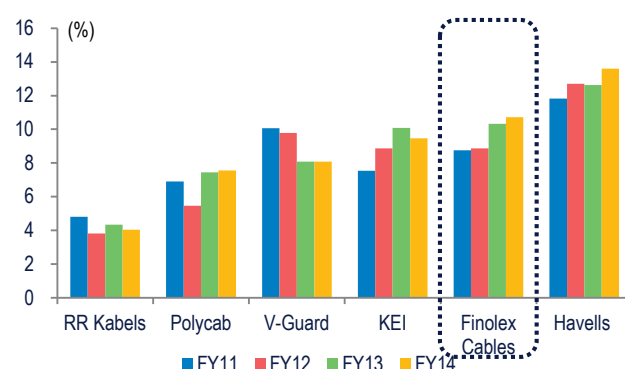
Finolex Cables has kept a strong control over its receivables and inventory. Our conversations with dealers indicate that the company does not extend any credit period to its distributors. Rather, it offers them channel financing to help them pay instantaneously, on which banks do not have any recourse on the company. This is contrary to Havells and V-Guard, which guarantee 5-10% and 10-20% of receivables to banks respectively. Impressively, despite not extending credit to its customers, Finolex is able to deliver industry-leading margins, thanks to its scale advantages and backward integration benefits. This is explained in detail in our Finolex Cables Initiation note titled “Fully charged and ready to go; Initiate with a Buy”

Figure 43: Debtor days for major wire players



Source: Company data, Investec Securities Research

Figure 44: Finolex's EBITDA margins are best among pure wire cos.



Source: Company data, Investec Securities Research

## No EPC projects

*Finolex Cables does not undertake EPC projects*

Unlike most Electric cable players (Polycab, KEI, RR Kabel etc) and optic fibre cable players (Sterlite Technologies, Aksh etc), Finolex Cables does not undertake EPC projects, which can potentially boost the company's revenues at the cost of margins/ return profile. We note that Polycab recently won a Rs4.5bn order for laying power cables and setting up of substations in Bihar. Similarly, most optic fibre network cable suppliers undertake EPC orders, and some have recently won some

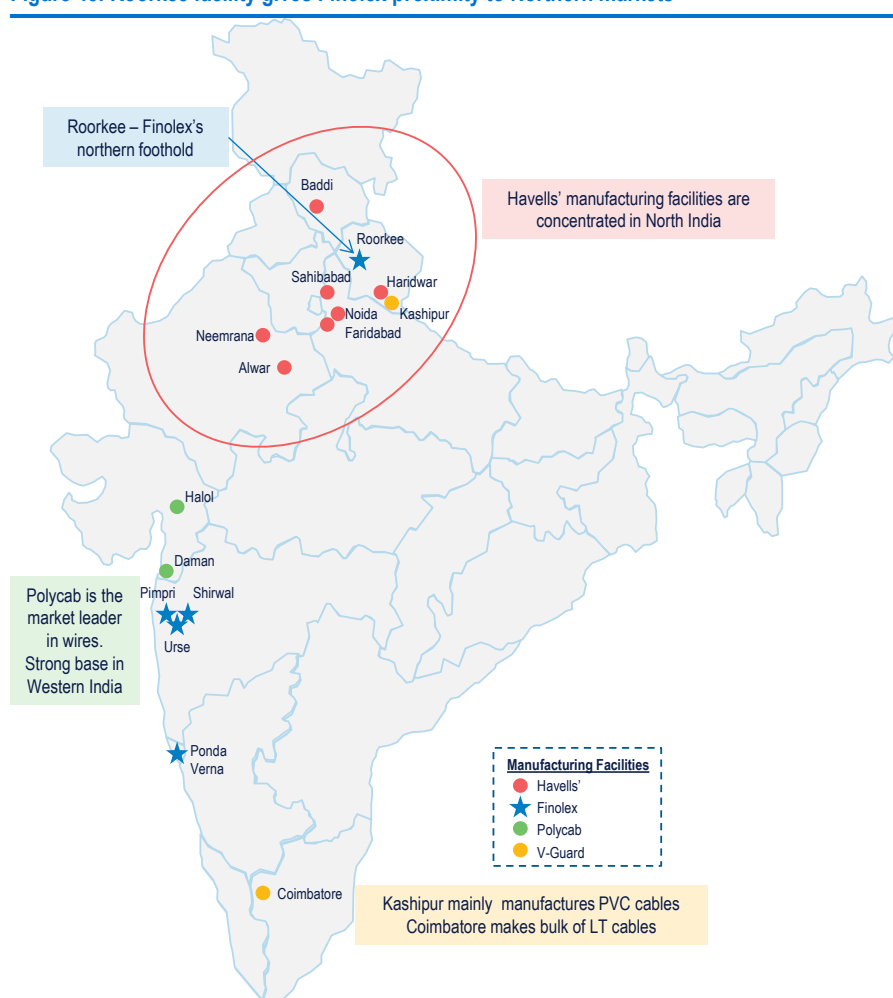
EPC contracts under National Optic Fibre Network (NOFN) programme and government's initiative to lay optic fibre network for defence forces.

*Finolex Cables' revenues are increasing in the Northern markets sharply*

## Expanding in erstwhile weaker geographies

Our conversations with management suggest that Finolex derived only c.20% of its revenues from Northern and Eastern markets until 4 years back. The proportion has risen to c.30% now, with its revenues increasing in the Northern markets sharply. We think this can be partly attributable to the commissioning of Roorkee manufacturing facility, which has reduced its logistic costs to service the Northern market. We note that Finolex's manufacturing facilities are now well spread out geographically.

**Figure 45: Roorkee facility gives Finolex proximity to Northern markets**



Source: Company data, Investec Securities Research

As discussed earlier ( Table 6: SURVEY: Most popular companies across product categories and geographies), dealers highlighted Finolex as one of the most popular and fastest growing wire companies in the Northern India markets, along with Havells.

## V-Guard: Now a known brand pan-India

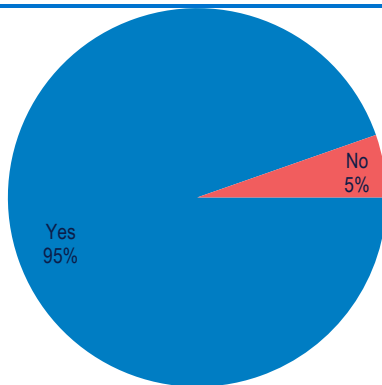
*95% of our survey respondents had heard of V-Guard*

In our May 2015 initiation note on V-Guard “*Entering the big league*”, one of the key arguments of our Buy thesis was the company’s expansion into non-south markets. Our interactions with dealers suggest improved awareness about V-Guard’s products. 95% of our survey respondents had heard of V-Guard, with several of them also stocking the company’s products.

*Products are visible in Delhi and Mumbai markets*

Even in the Mumbai market, which is not a very strong market for V-Guard, we saw the company’s pumps and electric water heaters available with a few retailers. In the Delhi market, we also saw V-Guard’s stabilizers, digital UPS and wires available. Dealers indicated that the company is successfully building upon the goodwill created through its success in stabilizers market (where it commands 65% market share).

Figure 46: SURVEY: 95% Non south dealers are aware of V-Guard



Source: Investec Securities Research

Figure 47: V-Guard dealer in Mumbai



Source: Investec Securities Research



*Electrical companies well positioned  
to sustain their margins and protect  
market shares*

## BUYs on Finolex, Havells and V-Guard

We think that just like most other Industrial stocks, a pick-up in construction cycle will be the main driver for the revenue growth of electrical companies. However, these companies appear to be better positioned to sustain their margins and protect market shares, thanks to their compelling competitive advantages (brand strength, distribution network, product quality etc).

We cuts our EPS estimates for Havells and V-Guard as we slightly lower our revenue expectations. Our margin estimates remain broadly unchanged, as the survey has reinforced our belief that Havells should be able to sustain its pricing power, while V-Guard's margins should benefit from continued penetration into non-South markets.

**Figure 48: Summary of changes in estimates**

(Rsm)	Old estimates			New estimates			% change		
	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E
<b>Havells</b>									
Revenue	90,513	101,205	-	87,647	97,971	110,244	(3.2)	(3.2)	-
EBITDA	9,917	11,598	-	9,566	11,326	12,749	(3.5)	(2.3)	-
PAT	5,887	7,161	-	5,788	7,092	8,206	(1.7)	(1.0)	-
<b>V-Guard</b>									
Revenue	20,261	23,846	-	19,982	23,366	27,450	(1.4)	(2.0)	-
EBITDA	1,700	2,126	-	1,683	2,062	2,489	(1.0)	(3.0)	-
PAT	1,032	1,354	-	995	1,298	1,653	(3.6)	(4.1)	-

Source: Investec Securities estimates

*Retain BUYs on Havells and V-Guard...*

*...and initiate on Finolex Cable with a BUY*

We retain our BUY recommendations on Havells and V-Guard. We also initiate on Finolex Cables with a BUY stance, as we find the company to be amongst the best managed in the wires market. The company should continue to benefit from a) a strong brand, especially in Southern and Western India; b) geographically well-diversified manufacturing presence and distribution network, which is also helping it expand in Northern India; c) the widest wires range (margins are also higher for certain specialised wire categories); and d) significant scale and backward integration advantages. All this, coupled with the conservative approach adopted by the management, has helped the company achieve industry-leading margins even while maintaining strict control over its working capital.

Please refer to our initiation note on Finolex Cables titled *"Fully charged and ready to go; Initiate with a Buy"*

We would like to acknowledge the contribution from Vishal Panjwani in helping the authors create this report. Please note though, the views continue to remain those of the listed authors.

**Table 8: Valuation methodology and key risks**

<b>Valuations</b>	
<b>Finolex Cables:</b>	20x FY17E earnings per share (EPS) excluding dividends from Finolex Industries and a 20% discount to the market value of the stake in Finolex Industries
<b>Havells:</b>	30x FY17E standalone EPS and 20x FY17E Sylvania EPS
<b>V-Guard:</b>	28x FY17E standalone EPS
<b>Key Risks</b>	
<b>Finolex Cables</b>	<ol style="list-style-type: none"> <li><b>Industrial activity:</b> If industrial activity remains subdued for a significant period, demand for wires will be negatively impacted.</li> <li><b>Construction momentum:</b> Given that Finolex has ventured in more consumer centric areas like switchgears for example, momentum failing to pick up poses a risk. However, the risk is minor given that these are relatively new segments for the company.</li> <li><b>Metal prices:</b> Metal prices plunging further bring down realisations and pose a risk to margins and bottom line.</li> <li><b>Impact due to intensifying competition:</b> Though competition has intensified, especially in the domestic switchgear, switches and fans segments, this has not yet manifested into pricing pressures. Going forward if prices come under pressure, we could see a downside to our estimates.</li> <li><b>Lukewarm response to new products:</b> Finolex has ventured into fresh segments and a weak reception to the same from customers would be a setback.</li> </ol>
<b>Havells</b>	<ol style="list-style-type: none"> <li><b>Consumer sentiment:</b> Persistent weakness in consumer spending can impact our growth assumptions.</li> <li><b>Construction momentum:</b> Havells growth is linked to the construction capex. If it continues to remain weak it could offer downside risks.</li> <li><b>Metal prices:</b> Further fall in copper prices could impact margins in the wires and cables business in the near term.</li> <li><b>Impact of intensifying competition.</b> Intensifying competition can impact growth depending on the Havells ability to retain market share.</li> <li><b>Sylvania performance.</b> Should economic conditions in Europe continue to remain sluggish revenue margins and could come below our expectations. This poses a downside risk to our consolidated earnings estimates and fair value.</li> </ol>
<b>V-Guard</b>	<ol style="list-style-type: none"> <li><b>Construction momentum.</b> Should construction activity slow down significantly in India, demand for some of V-Guard's products (like wires, water heaters etc) will be negatively impacted.</li> <li><b>Strong monsoon:</b> Strong monsoon could impact demand for pumps and UPS and also has an indirect linkage to stabilizer demand.</li> <li><b>Power availability:</b> If electricity availability improves in Southern India, demand for digital UPS is likely to remain weak.</li> <li><b>Consumer spending:</b> Stabilizer demand is contingent on sale of white good products. If consumer spending on durables (especially room AC, refrigerator and LCD TV) remains weak, stabilizer sales could get impacted.</li> <li><b>Metal prices.</b> Further fall in copper prices could impact margins in the wires and cables business in the near term.</li> <li><b>Impact of intensifying competition.</b> Intensifying competition can impact growth depending on the Havells ability to retain market share.</li> </ol>

Source: Investec Securities research

Figure 49: Valuation matrix for electrical sector

Company	Ticker	Price (Local cy)	M-cap (US\$m)	EV (US\$m)	PIE (x)				EV/EBITDA (x)				PIB (x)				RoE (%)			
					FY14	FY15	FY16E	FY17E	FY14	FY15	FY16E	FY17E	FY14	FY15	FY16E	FY17E	FY14	FY15	FY16E	FY17E
Indian Electrical/ Electronic companies																				
Havells	HAVL IN	307	3,020	2,962	42.9	49.7	33.1	27.0	24.8	24.6	19.3	16.0	11.5	10.5	8.9	7.5	28.7	22.1	29.2	30.2
V-Guard	VGRD IN	942	445	455	40.1	39.8	28.4	21.7	23.8	21.7	16.9	13.5	8.8	7.5	6.1	5.0	24.2	20.3	23.8	25.2
Finolex Cables	FNXC IN	261	630	573	19.2	20.1	18.8	15.9	15.4	13.7	11.9	10.1	3.6	3.2	2.8	2.4	20.5	16.8	15.7	16.3
Volta	VOLT IN	314	1,638	1,543	45.6	32.5	30.0	23.1	31.3	22.2	18.9	14.2	5.8	5.0	4.5	3.9	13.3	16.5	15.8	18.0
Crompton Greaves	CRG IN	198	1,953	2,249	41.4	49.7	29.2	19.5	17.1	19.1	15.2	11.4	2.7	2.7	2.9	2.6	6.8	5.6	10.0	13.4
Bajaj Electricals	BJEIN	280	444	505			24.2	16.4	41.1	39.3	11.0	8.3	4.1	3.4	3.6	3.3	(0.7)	(2.0)	15.0	20.0
Symphony	SYML IN	1,890	1,042	1,031	18.3	33.0	46.7	35.5	12.3	27.1			5.0	12.7	19.9	15.8	29.2	42.8	42.5	44.4
Whirlpool	WHIRL IN	810	1,619	1,535	23.8	44.3	39.6	29.8	11.8	25.9			4.0	10.2	9.1	7.5	18.1	25.4	23.1	25.2
Mean					33.1	38.5	31.3	23.6	22.2	24.2	15.5	12.2	5.7	6.9	7.2	6.0	17.5	18.4	21.9	24.1
Median					40.1	39.8	29.6	22.4	20.4	23.4	16.0	12.5	4.5	6.2	5.3	4.4	19.3	18.5	19.4	22.6
Indian EPC/ capital goods																				
Havells	HAVL IN	307	3,020	2,962	42.9	49.7	33.1	27.0	24.8	24.6	19.3	16.0	11.5	10.5	8.9	7.5	28.7	22.1	29.2	30.2
V-Guard	VGRD IN	942	445	455	40.1	39.8	28.4	21.7	23.8	21.7	16.9	13.5	8.8	7.5	6.1	5.0	24.2	20.3	23.8	25.2
L&T (consol)	LT IN	1,871	27,433	40,511	37.9	39.3	31.2	23.3	21.9	22.3	18.9	16.3	4.6	4.3	3.9	3.5	12.8	11.3	13.1	15.7
BHEL	BHEL IN	285	11,007	9,710	20.2	52.9	32.4	22.3	15.9	38.8	22.0	13.9	2.1	2.1	2.0	1.9	10.9	4.0	6.3	8.8
Siemens	SIEM IN	1,493	8,377	8,199	87.7	48.8	89.7	67.9	102.0	58.4	52.3	39.8	4.2	6.7	10.5	9.5	4.9	14.4	11.7	14.0
ABB India	ABB IN	1,413	4,717	4,761	81.9	119.3	90.3	61.3	36.7	53.2	42.1	32.1	5.5	9.7	9.8	8.7	6.8	8.3	10.8	14.2
Cummins	KKC IN	968	4,229	4,148	27.5	30.9	33.7	28.0	25.8	36.6	31.1	25.0	6.4	8.4	8.4	7.5	24.2	28.8	24.9	26.7
Reliance Infra	RELI IN	425	1,759	5,006	6.0	6.3	7.6	7.7	12.6	12.0	21.6	14.2	0.4	0.4	0.5	0.5	7.4	6.7	6.0	5.9
Thermax	TMX IN	1,066	2,001	1,920	51.6	56.4	39.0	31.1	25.1	26.6	21.2	18.1	6.2	5.8	5.3	4.7	12.6	10.7	14.2	15.9
Crompton Greaves	CRG IN	198	1,953	2,249	41.4	49.7	29.2	19.5	17.1	19.1	15.2	11.4	2.7	2.7	2.9	2.6	6.8	5.6	10.0	13.4
Volta	VOLT IN	314	1,638	1,543	45.6	32.5	30.0	23.1	31.3	22.2	18.9	14.2	5.8	5.0	4.5	3.9	13.3	16.5	15.8	18.0
BGR	BGRL IN	131	149	363	10.3	28.3	16.6	12.5	7.7	7.9			0.7	0.6	0.7	0.7	7.4	2.3	4.1	5.4
Mean (ex-ABB)					37.1	39.2	33.4	25.4	27.4	25.9	23.2	17.9	4.8	4.8	4.7	4.2	14.1	13.1	14.5	16.2
Median					40.1	39.8	31.2	23.1	23.8	22.3	20.2	15.4	4.6	5.0	4.5	3.9	12.6	11.3	13.1	15.3
India consumer																				
ITC	ITC IN	322	40,643	38,665	31.5	26.9	24.2	21.3	21.2	18.0	16.5	14.3	10.3	8.2	7.5	6.7	35.3	32.8	30.9	31.4
HUL	HUVR IN	924	31,512	30,673	33.1	43.3	43.2	37.3	27.6	35.6	31.4	27.0	37.0	47.0	44.6	38.1	123.5	115.6	103.1	102.1
Dabur	DABUR IN	292	8,079	8,171	34.3	43.7	39.4	33.3	27.5	36.0	31.5	26.5	11.8	13.9	12.4	10.3	38.2	35.5	31.6	30.9
Godrej	GCPL IN	1,238	6,643	6,938	38.2	39.1	37.0	30.8	26.3	27.7	25.6	21.4	7.7	8.2	8.1	6.8	21.4	22.4	21.9	22.2
Marico	MRCO IN	440	4,472	4,474	27.8	43.5	39.8	33.3	18.3	28.6	26.2	21.8	9.9	13.7	12.7	10.3	29.0	36.0	31.9	31.0
Emami	HMN IN	1,167	4,174	4,044	24.5	47.0	45.8	37.3	21.5	40.7	35.9	29.0	10.6	18.5	16.3	12.9	47.1	44.9	35.5	34.6
Mean					31.6	40.6	38.3	32.2	23.7	31.1	27.9	23.3	14.5	18.3	16.9	14.2	49.1	47.9	42.5	42.0
Median					32.3	43.4	39.6	33.3	23.9	32.1	28.8	24.2	10.5	13.8	12.6	10.3	36.8	35.7	31.7	31.2
India building products																				
Havells	HAVL IN	307	3,020	2,962	42.9	49.7	33.1	27.0	24.8	24.6	19.3	16.0	11.5	10.5	8.9	7.5 ##	28.7	22.1	29.2	30.2
V-Guard	VGRD IN	942	445	455	40.1	39.8	28.4	21.7	23.8	21.7	16.9	13.5	8.8	7.5	6.1	5.0 ##	24.2	20.3	23.8	25.2
Finolex Cables	FNXC IN	261	630	573	19.2	20.1	18.8	15.9	15.4	13.7	11.9	10.1	3.6	3.2	2.8	2.4	20.5	16.8	15.7	16.3
Asian Paints (Paint)	APNT IN	825	12,476	12,360	43.0	55.6	43.0	36.0	26.6	36.3	27.3	22.8	13.0	16.4	14.0	11.7	32.8	31.8	32.5	32.4
Berger (Paint)	BRGR IN	214	2,339	2,388	31.9	54.7	41.4	32.3	19.7	29.3	23.2	18.8	7.1	11.5	10.0	8.4	24.1	22.3	24.0	25.9
Alkzo Nobel (Paint)	AKZO IN	1,313	992	927	27.9	35.2	27.2	22.6	19.4				4.9	7.1	6.0	5.4	15.4	21.1	22.2	24.0
Kansai Nerolac (Paint)	KNPL IN	262	2,221	2,195	30.3	42.5	34.4	32.9	18.0	26.4	25.4	20.4	4.4	7.3	7.7	6.6	15.3	18.1	22.3	20.1
ACC (Cement)	ACC IN	1,484	4,390	4,133	19.0	22.6	24.9	18.7	12.9	18.8	14.8	10.9	2.7	3.2	3.2	3.0	14.4	14.5	12.9	15.9
Ambuja (Cement)	ACEM IN	251	6,127	5,399	22.1	23.8	29.1	22.6	15.6	16.5	16.6	12.6	3.0	3.6	3.7	3.4	14.0	15.3	12.6	14.9
UltraTech (Cement)	UTCEN IN	3,217	13,908	15,016	27.2	37.6	30.4	21.8	16.2	20.7	16.9	12.5	3.5	4.1	4.1	3.5	13.6	11.6	13.5	16.1
Shree (Cement)	SRCM IN	11,640	6,390	6,442	16.2	32.1	80.0	39.8	10.7	18.4	28.2	18.8	4.7	6.1	7.6	6.4	33.6	20.7	9.5	16.1
HSIL (Sanitaryware)	HSI IN	353	367	455	25.5	34.7	18.9	13.9	8.3	12.9			0.8	2.4	1.9	1.7	3.3	7.3	9.9	12.1
Cera (Sanitaryware)	CRS IN	2,020	414	413	21.7	46.6	31.2	24.1	11.9	26.5			5.0	9.2	6.2	5.1	25.7	23.5	19.8	21.1
Kajaria (Tiles)	KJC IN	787	986	1,029	20.9	35.3	28.5	22.7	10.2	19.5	14.7	11.9	5.0	8.6	6.9	5.5	27.9	27.7	24.1	24.2
Somany (Tiles)	SOMC IN	409	250	270	19.8	33.4	26.6	20.0	8.4	16.8			2.9	6.0	4.9	3.8	15.4	19.3	18.5	19.2
Greenply (Plywood)	MTLM IN	961	365	403	7.7	18.1	17.3	14.0	5.6	12.4			1.6	4.6	4.0	3.3	22.5	23.4	23.2	23.9
Mean					26.0	36.4	32.1	24.1	15.5	20.9	19.6	15.3	5.2	7.0	6.1	5.2	20.7	19.7	19.6	21.1
Median					23.8	35.3	28.8	22.6	15.5	19.5	16.9	13.5	4.6	6.6	6.1	5.0	21.5	20.5	21.0	20.6
Global Electrical companies																				
Philips	PHIA NA	24	25,193	28,802	20.8	57.5	18.5	14.5	7.7	10.6	9.2	7.4	2.2	2.0	2.0	1.9	10.4	2.0	10.7	13.1
Hubbell	HUBB US	107	6,134	6,080	19.9	19.5	19.8	17.1	11.0	10.5	10.3	9.2	3.4	3.2	3.1	2.9	18.2	16.9	15.9	17.1
Osram	OSR GY	47	5,284	4,685	133.5	16.4	19.9	16.1	6.0	4.1	7.1	6.0	1.7	1.3	2.0	1.9	1.4	8.3	10.1	11.8
Acuity Brands	AYI US	194	8,442	8,243	29.0	30.6	36.0	28.7	12.6	15.2	18.4	14.2	3.7	4.6			13.7	16.2		
Zumtobel	ZAG AV	29	1,388	1,555		87.3	20.6	14.1	8.1	10.4	9.4	7.4	2.0	3.3	3.5	3.0	(1.5)	3.8	16.9	21.0
Mean					50.8	42.3	23.0	18.1	9.1	10.2	10.9	8.9	2.6	2.9	2.7	2.4	8.5	9.4	13.4	15.8
Median					24.9	30.6	19.9	16.1	8.1	10.5	9.4	7.4	2.2	3.2	2.6	2.4	10.4	8.3	13.3	15.1

Source: Investec Securities estimates for BHEL, Finolex Cables, Havells, Larsen & Toubro, Thermax, V-Guard, Voltas; Factset for others

Figure 50: Havells: Summary of consolidated income statement

(Rsm)	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
<b>Revenues</b>	<b>50,029</b>	<b>54,775</b>	<b>51,626</b>	<b>56,126</b>	<b>65,182</b>	<b>72,479</b>	<b>81,858</b>	<b>85,694</b>	<b>87,647</b>	<b>97,971</b>	<b>110,244</b>
Havells	20,556	21,984	23,714	28,817	36,156	42,250	47,197	52,387	57,708	66,497	77,143
Sylvania	29,466	32,791	27,768	27,077	29,547	30,835	35,751	34,311	30,943	32,477	34,105
Standard	-	-	897	968	-	-	-	-	-	-	-
Elimination	8	0	(753)	(735)	(521)	(606)	(1,090)	(1,004)	(1,004)	(1,004)	(1,004)
<b>Revenue growth (% YoY)</b>	<b>223.3</b>	<b>9.5</b>	<b>(5.7)</b>	<b>8.7</b>	<b>16.1</b>	<b>11.2</b>	<b>12.9</b>	<b>4.7</b>	<b>2.3</b>	<b>11.8</b>	<b>12.5</b>
Operating cost	(46,563)	(51,889)	(47,886)	(50,881)	(58,100)	(65,562)	(73,571)	(76,926)	(78,080)	(86,645)	(97,495)
<b>Core EBITDA</b>	<b>3,466</b>	<b>2,886</b>	<b>3,740</b>	<b>5,245</b>	<b>7,082</b>	<b>6,917</b>	<b>8,287</b>	<b>8,768</b>	<b>9,566</b>	<b>11,326</b>	<b>12,749</b>
Havells	1,902	2,026	3,108	3,406	4,591	5,331	6,416	6,991	7,779	9,311	10,636
Sylvania	1,598	750	452	1,620	2,462	1,476	1,795	1,631	1,641	1,869	1,967
Standard	-	-	148	210	-	-	-	-	-	-	-
Elimination	(34)	110	32	10	30	110	76	146	146	146	146
<b>Core EBITDA margin (%)</b>	<b>6.9</b>	<b>5.3</b>	<b>7.2</b>	<b>9.3</b>	<b>10.9</b>	<b>9.5</b>	<b>10.1</b>	<b>10.2</b>	<b>10.9</b>	<b>11.6</b>	<b>11.6</b>
Havells	9.3	9.2	13.1	11.8	12.7	12.6	13.6	13.3	13.5	14.0	13.8
Sylvania	5.4	2.3	1.6	6.0	8.3	4.8	5.0	4.8	5.3	5.8	5.8
Standard	-	-	16.5	21.7	-	-	-	-	-	-	-
Pension expense/ income	-	-	(518)	325	(297)	(56)	(496)	(1,115)	-	-	-
<b>EBITDA</b>	<b>3,466</b>	<b>2,886</b>	<b>3,222</b>	<b>5,570</b>	<b>6,785</b>	<b>6,861</b>	<b>7,791</b>	<b>7,653</b>	<b>9,566</b>	<b>11,326</b>	<b>12,749</b>
Havells	1,902	2,026	3,108	3,406	4,591	5,331	6,416	6,991	7,779	9,311	10,636
Sylvania	1,598	750	(66)	1,945	2,165	1,420	1,299	516	1,641	1,869	1,967
Standard	-	-	148	210	-	-	-	-	-	-	-
Elimination	(34)	110	32	10	30	110	76	146	146	146	146
% of sales	6.9	5.3	6.2	9.9	10.4	9.5	9.5	8.9	10.9	11.6	11.6
Depreciation	(694)	(905)	(837)	(804)	(949)	(1,097)	(1,155)	(1,387)	(1,514)	(1,627)	(1,746)
<b>EBIT</b>	<b>2,772</b>	<b>1,981</b>	<b>2,385</b>	<b>4,766</b>	<b>5,837</b>	<b>5,764</b>	<b>6,636</b>	<b>6,266</b>	<b>8,053</b>	<b>9,699</b>	<b>11,003</b>
% of sales	5.5	3.6	4.6	8.5	9.0	8.0	8.1	7.3	9.2	9.9	10.0
Interest expenses	(1,036)	(1,253)	(979)	(902)	(1,281)	(1,232)	(741)	(640)	(433)	(429)	(424)
Other income	101	81	70	69	414	334	412	505	521	718	973
<b>Core PBT</b>	<b>1,837</b>	<b>809</b>	<b>1,476</b>	<b>3,933</b>	<b>4,969</b>	<b>4,866</b>	<b>6,307</b>	<b>6,131</b>	<b>8,141</b>	<b>9,989</b>	<b>11,551</b>
% to net sales	3.7	1.5	2.9	7.0	7.6	6.7	7.7	7.2	9.3	10.2	10.5
Exceptionals, write-offs	-	(1,986)	-	(31)	-	1,944	-	-	-	-	-
Forex movements	150	5	152	169	(212)	(172)	(366)	(442)	-	-	-
<b>PBT</b>	<b>1,986</b>	<b>(1,172)</b>	<b>1,628</b>	<b>4,070</b>	<b>4,757</b>	<b>6,638</b>	<b>5,941</b>	<b>5,689</b>	<b>8,141</b>	<b>9,989</b>	<b>11,551</b>
% to netsales	4.0	(2.1)	3.2	7.3	7.3	9.2	7.3	6.6	9.3	10.2	10.5
Tax	(377)	(429)	(932)	(1,031)	(1,058)	(824)	(1,478)	(1,836)	(2,353)	(2,897)	(3,345)
Eff tax rate (%)	19.0	(36.6)	57.2	25.3	22.2	12.4	24.9	32.3	28.9	29.0	29.0
<b>PAT</b>	<b>1,610</b>	<b>(1,601)</b>	<b>696</b>	<b>3,039</b>	<b>3,699</b>	<b>5,814</b>	<b>4,463</b>	<b>3,853</b>	<b>5,788</b>	<b>7,092</b>	<b>8,206</b>
Havells	1,436	1,451	2,282	2,416	3,054	3,714	4,787	4,646	5,173	6,343	7,403
Sylvania	177	(3,053)	(1,706)	440	671	2,117	(327)	(890)	510	644	698
Standard	-	-	146	192	-	-	-	-	-	-	-
Elimination	(3)	0	(26)	(8)	(26)	(17)	2	94	105	105	105
% to net sales	3.2	(2.9)	1.3	5.4	5.7	8.0	5.5	4.5	6.6	7.2	7.4
<b>Adj PAT</b>	<b>1,610</b>	<b>385</b>	<b>1,214</b>	<b>2,745</b>	<b>3,996</b>	<b>3,926</b>	<b>4,959</b>	<b>4,968</b>	<b>5,788</b>	<b>7,092</b>	<b>8,206</b>
% to net sales	3.2	0.7	2.4	4.9	6.1	5.4	6.1	5.8	6.6	7.2	7.4
<b>Adj EPS</b>	<b>4.3</b>	<b>0.6</b>	<b>1.9</b>	<b>4.4</b>	<b>6.4</b>	<b>6.3</b>	<b>7.9</b>	<b>8.0</b>	<b>9.3</b>	<b>11.4</b>	<b>13.2</b>

Source: Investec Securities estimates

Figure 51: Havells: Summary of consolidated balance sheet and cash flow statement (Rsm)

Balance Sheet	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
Net worth	6,902	6,146	4,002	6,537	9,556	14,420	16,660	18,182	21,459	25,472	30,085
Equity capital	290	301	312	624	624	624	624	624	624	624	624
Reserves	6,613	5,845	3,690	5,914	8,932	13,797	16,036	17,557	20,835	24,848	29,461
Minority interest	-	2	2	6	1	1	1	1	1	1	1
Debt	12,962	12,278	10,664	11,173	10,271	9,815	10,506	4,191	4,262	4,262	4,262
Deferred tax liab	(76)	(97)	434	559	556	480	466	(138)	(138)	(138)	(138)
<b>Total</b>	<b>19,789</b>	<b>18,328</b>	<b>15,102</b>	<b>18,275</b>	<b>20,384</b>	<b>24,717</b>	<b>27,634</b>	<b>22,236</b>	<b>25,583</b>	<b>29,597</b>	<b>34,210</b>
Capitalised assets	7,318	8,534	8,874	9,955	10,284	11,306	11,623	11,829	11,930	11,978	11,970
Goodwill	3,346	3,579	3,212	3,354	3,625	3,694	4,380	3,581	3,581	3,581	3,581
CWP	1,005	308	336	249	663	249	444	383	383	383	383
Cash	2,461	2,473	1,480	1,779	2,336	4,736	8,819	7,775	11,052	15,178	19,989
NCA	5,659	3,434	1,200	2,938	3,476	4,731	2,368	(1,332)	(1,362)	(1,523)	(1,713)
<b>Total</b>	<b>19,789</b>	<b>18,328</b>	<b>15,102</b>	<b>18,275</b>	<b>20,384</b>	<b>24,717</b>	<b>27,634</b>	<b>22,236</b>	<b>25,583</b>	<b>29,597</b>	<b>34,210</b>
Cash Flow	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
Cash from Operations		3,211	2,135	2,792	5,023	6,512	7,726	10,169	7,091	8,279	9,542
Cash from Investments		(1,513)	(1,529)	(1,540)	(1,704)	(1,776)	(940)	(1,838)	(1,322)	(1,338)	(1,350)
Cash from financing		(1,167)	(2,209)	(434)	(2,261)	(2,477)	(960)	(8,939)	(2,492)	(2,815)	(3,380)
Change of cash		531	(1,603)	817	1,058	2,259	5,825	(608)	3,277	4,126	4,812
<b>FCFF</b>		<b>1,675</b>	<b>599</b>	<b>1,246</b>	<b>3,306</b>	<b>4,623</b>	<b>6,573</b>	<b>8,076</b>	<b>5,476</b>	<b>6,604</b>	<b>7,805</b>
<b>FCFE</b>		<b>(721)</b>	<b>(1,434)</b>	<b>1,082</b>	<b>1,408</b>	<b>3,089</b>	<b>6,708</b>	<b>1,328</b>	<b>5,239</b>	<b>6,300</b>	<b>7,503</b>

Source: Investec Securities estimates

Figure 52: Havells: Summary of standalone income statement

(Rsm)	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
<b>Revenues</b>	<b>20,556</b>	<b>21,984</b>	<b>23,714</b>	<b>28,817</b>	<b>36,156</b>	<b>42,250</b>	<b>47,197</b>	<b>52,387</b>	<b>57,708</b>	<b>66,497</b>	<b>77,143</b>
Switchgears	5,682	6,234	6,941	7,344	8,962	10,781	12,192	12,790	13,941	15,614	17,956
Cables	10,643	11,066	10,686	12,318	15,930	16,925	19,264	21,904	23,437	27,656	32,634
Lighting and fixtures	2,894	2,805	3,569	4,447	5,544	6,652	7,207	7,410	8,150	9,373	10,779
Elec consumer durables	2,400	2,769	3,372	4,692	5,721	7,893	8,534	10,283	12,179	13,854	15,773
Others	845	541	339	16	-	-	-	-	-	-	-
% YoY	32.9	6.9	7.9	21.5	25.5	16.9	11.7	11.0	10.2	15.2	16.0
Cost of materials	(13,115)	(14,087)	(14,778)	(18,942)	(22,911)	(26,497)	(29,017)	(31,784)	(35,157)	(40,678)	(47,383)
<b>Gross profit</b>	<b>7,441</b>	<b>7,896</b>	<b>8,937</b>	<b>9,875</b>	<b>13,245</b>	<b>15,753</b>	<b>18,180</b>	<b>20,603</b>	<b>22,551</b>	<b>25,820</b>	<b>29,760</b>
% of sales	36.2	35.9	37.7	34.3	36.6	37.3	38.5	39.3	39.1	38.8	38.6
Staff	(749)	(881)	(797)	(1,103)	(1,417)	(1,753)	(2,475)	(3,127)	(3,445)	(3,970)	(4,605)
Advertising and promotion	(535)	(501)	(854)	(720)	(1,122)	(1,435)	(1,124)	(1,550)	(1,731)	(1,995)	(2,314)
Trade mark fee and royalty	(176)	(186)	(227)	(298)	(385)	(429)	(411)	(403)	(400)	-	-
Job work charges	(539)	(481)	(677)	(730)	(919)	(1,106)	(1,173)	(1,398)	(1,540)	(1,775)	(2,059)
Others	(3,540)	(3,821)	(3,273)	(3,618)	(4,812)	(5,698)	(6,582)	(7,133)	(7,656)	(8,770)	(10,146)
<b>EBITDA</b>	<b>1,902</b>	<b>2,026</b>	<b>3,108</b>	<b>3,406</b>	<b>4,591</b>	<b>5,331</b>	<b>6,416</b>	<b>6,991</b>	<b>7,779</b>	<b>9,311</b>	<b>10,636</b>
% of sales	9.3	9.2	13.1	11.8	12.7	12.6	13.6	13.3	13.5	14.0	13.8
Depreciation	(131)	(179)	(233)	(293)	(447)	(579)	(636)	(875)	(976)	(1,063)	(1,153)
<b>EBIT</b>	<b>1,772</b>	<b>1,847</b>	<b>2,875</b>	<b>3,112</b>	<b>4,144</b>	<b>4,752</b>	<b>5,780</b>	<b>6,116</b>	<b>6,803</b>	<b>8,248</b>	<b>9,483</b>
% of sales	8.6	8.4	12.1	10.8	11.5	11.2	12.2	11.7	11.8	12.4	12.3
Interest expenses	(254)	(250)	(117)	(191)	(444)	(286)	(269)	(176)	(104)	(100)	(96)
Interest income	8	9	9	5	8	20	277	369	404	569	790
Other income	68	62	40	70	64	76	80	73	82	93	104
<b>Core PBT</b>	<b>1,593</b>	<b>1,667</b>	<b>2,806</b>	<b>2,995</b>	<b>3,772</b>	<b>4,563</b>	<b>5,867</b>	<b>6,383</b>	<b>7,185</b>	<b>8,810</b>	<b>10,282</b>
% to net sales	7.8	7.6	11.8	10.4	10.4	10.8	12.4	12.2	12.5	13.2	13.3
Exceptionals, write-offs	-	1	-	5	-	-	-	-	-	-	-
Forex movements	70	5	97	103	(34)	9	84	80	-	-	-
<b>PBT</b>	<b>1,663</b>	<b>1,673</b>	<b>2,903</b>	<b>3,103</b>	<b>3,738</b>	<b>4,572</b>	<b>5,951</b>	<b>6,463</b>	<b>7,185</b>	<b>8,810</b>	<b>10,282</b>
% to net sales	8.1	7.6	12.2	10.8	10.3	10.8	12.6	12.3	12.5	13.2	13.3
Tax	(227)	(220)	(622)	(682)	(684)	(858)	(1,164)	(1,817)	(2,012)	(2,467)	(2,879)
Eff tax rate (%)	13.7	13.2	21.4	22.0	18.3	18.8	19.6	28.1	28.0	28.0	28.0
<b>PAT</b>	<b>1,436</b>	<b>1,452</b>	<b>2,282</b>	<b>2,421</b>	<b>3,054</b>	<b>3,714</b>	<b>4,787</b>	<b>4,646</b>	<b>5,173</b>	<b>6,343</b>	<b>7,403</b>
% to net sales	7.0	6.6	9.6	8.4	8.4	8.8	10.1	8.9	9.0	9.5	9.6
<b>Adj PAT</b>	<b>1,436</b>	<b>1,451</b>	<b>2,282</b>	<b>2,416</b>	<b>3,054</b>	<b>3,714</b>	<b>4,787</b>	<b>4,646</b>	<b>5,173</b>	<b>6,343</b>	<b>7,403</b>
% to net sales	7.0	6.6	9.6	8.4	8.4	8.8	10.1	8.9	9.0	9.5	9.6
<b>EPS</b>	<b>2.3</b>	<b>2.3</b>	<b>3.7</b>	<b>3.9</b>	<b>4.9</b>	<b>6.0</b>	<b>7.7</b>	<b>7.4</b>	<b>8.3</b>	<b>10.2</b>	<b>11.9</b>
% YoY	40.6	1.1	57.1	6.1	26.2	21.6	28.9	(3.0)	11.4	22.7	16.7
<b>Cash EPS</b>	<b>2.5</b>	<b>2.6</b>	<b>4.0</b>	<b>4.3</b>	<b>5.6</b>	<b>6.9</b>	<b>8.7</b>	<b>8.8</b>	<b>9.9</b>	<b>11.9</b>	<b>13.7</b>
% YoY	40.0	4.1	54.1	7.9	29.0	22.6	26.3	1.8	11.4	20.5	15.5

Source: Investec Securities estimates



Figure 53: Havells: Summary of standalone balance sheet and cash flow statement (Rsm)

Balance Sheet	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
Net worth	6,670	9,343	11,352	13,408	16,083	18,702	21,299	23,759	26,421	29,685	33,495
Equity capital	290	301	312	624	624	624	624	624	624	624	624
Reserves	6,380	9,043	11,040	12,784	15,459	18,078	20,675	23,134	25,796	29,061	32,870
Debt	358	703	1,158	1,336	1,286	1,088	1,955	835	835	835	835
Deferred tax liab	136	147	438	536	556	619	517	434	434	434	434
<b>Total</b>	<b>7,164</b>	<b>10,193</b>	<b>12,948</b>	<b>15,281</b>	<b>17,925</b>	<b>20,409</b>	<b>23,771</b>	<b>25,027</b>	<b>27,689</b>	<b>30,953</b>	<b>34,763</b>
Capitalised assets	3,019	4,497	5,715	7,086	7,776	9,037	9,062	9,852	10,076	10,273	10,443
CWIP	834	158	297	217	578	134	328	280	280	280	280
Investments	1,648	3,879	5,317	7,155	7,751	7,919	8,825	10,118	10,408	10,408	10,408
Cash	649	1,574	682	492	1,362	2,465	6,262	5,223	7,206	10,315	14,007
NCA	1,014	85	936	331	459	854	(706)	(446)	(281)	(324)	(376)
Others	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>7,164</b>	<b>10,193</b>	<b>12,948</b>	<b>15,281</b>	<b>17,925</b>	<b>20,409</b>	<b>23,771</b>	<b>25,026</b>	<b>27,688</b>	<b>30,953</b>	<b>34,763</b>
Cash Flow	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
Cash from Operations	1,297	2,781	1,873	3,521	3,782	4,053	6,771	4,992	5,512	6,543	7,594
Cash from Investments	(3,180)	(3,212)	(2,951)	(3,471)	(2,136)	(1,576)	(2,531)	(2,592)	(1,200)	(850)	(754)
Cash from financing	2,200	1,355	187	(241)	(776)	(1,373)	(444)	(3,438)	(2,330)	(2,583)	(3,148)
Change of cash	317	924	(891)	(191)	870	1,104	3,796	(1,038)	1,982	3,110	3,692
<b>FCFF</b>	<b>(1,858)</b>	<b>(405)</b>	<b>(1,068)</b>	<b>121</b>	<b>1,719</b>	<b>2,522</b>	<b>5,062</b>	<b>2,079</b>	<b>4,021</b>	<b>5,283</b>	<b>6,271</b>
<b>FCFE</b>	<b>(2,280)</b>	<b>(277)</b>	<b>(705)</b>	<b>150</b>	<b>1,305</b>	<b>2,092</b>	<b>5,712</b>	<b>832</b>	<b>3,946</b>	<b>5,211</b>	<b>6,202</b>

Source: Investec Securities estimates

Figure 54: V-Guard: Summary Income Statement (Rsm)

Income Statement	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
<b>Revenues</b>	<b>3,168</b>	<b>4,541</b>	<b>7,266</b>	<b>9,646</b>	<b>13,602</b>	<b>15,176</b>	<b>17,459</b>	<b>19,982</b>	<b>23,366</b>	<b>27,450</b>
Electronics	1,142	1,483	2,156	3,071	4,594	4,504	5,489	6,223	7,086	8,092
Electricals	1,851	2,845	4,864	6,316	8,684	10,280	11,461	13,136	15,521	18,433
Others	175	213	213	259	325	393	510	622	759	926
% YoY	13.9	43.3	60.0	32.8	41.0	11.6	15.0	14.4	16.9	17.5
Cost of materials	(2,125)	(2,978)	(5,077)	(7,019)	(10,128)	(11,217)	(12,901)	(14,637)	(17,174)	(20,176)
<b>Gross profit</b>	<b>1,043</b>	<b>1,563</b>	<b>2,190</b>	<b>2,627</b>	<b>3,474</b>	<b>3,959</b>	<b>4,558</b>	<b>5,345</b>	<b>6,192</b>	<b>7,274</b>
% of sales	32.9	34.4	30.1	27.2	25.5	26.1	26.1	26.8	26.5	26.5
Staff	(191)	(268)	(375)	(518)	(701)	(848)	(1,097)	(1,199)	(1,344)	(1,510)
Advertising and promotion	(162)	(231)	(277)	(408)	(617)	(633)	(716)	(826)	(966)	(1,135)
Sales incentives, cash dis	(148)	(254)	(306)	(54)	(92)	(120)	(147)	(170)	(199)	(233)
Others	(228)	(305)	(501)	(703)	(964)	(1,131)	(1,268)	(1,467)	(1,622)	(1,907)
<b>EBITDA</b>	<b>314</b>	<b>504</b>	<b>731</b>	<b>944</b>	<b>1,100</b>	<b>1,225</b>	<b>1,330</b>	<b>1,683</b>	<b>2,062</b>	<b>2,489</b>
% of sales	9.9	11.1	10.1	9.8	8.1	8.1	7.6	8.4	8.8	9.1
Depreciation	(40)	(71)	(79)	(97)	(114)	(120)	(154)	(171)	(196)	(221)
<b>EBIT</b>	<b>274</b>	<b>432</b>	<b>652</b>	<b>847</b>	<b>986</b>	<b>1,105</b>	<b>1,176</b>	<b>1,512</b>	<b>1,866</b>	<b>2,267</b>
% of sales	8.6	9.5	9.0	8.8	7.3	7.3	6.7	7.6	8.0	8.3
Interest expenses	(47)	(51)	(113)	(170)	(200)	(211)	(206)	(149)	(149)	(149)
Interest income	6	2	5	9	20	19	18	33	110	212
Other income	31	12	12	15	17	29	27	31	35	41
<b>Core PBT</b>	<b>263</b>	<b>395</b>	<b>555</b>	<b>701</b>	<b>823</b>	<b>943</b>	<b>1,014</b>	<b>1,427</b>	<b>1,862</b>	<b>2,371</b>
% to net sales	8.3	8.7	7.6	7.3	6.0	6.2	5.8	7.1	8.0	8.6
Exceptionals, write-offs	-	-	35	(5)	-	-	-	-	-	-
Forex movements	-	-	(2)	(3)	(1)	-	-	-	-	-
<b>PBT</b>	<b>263</b>	<b>395</b>	<b>589</b>	<b>692</b>	<b>822</b>	<b>943</b>	<b>1,014</b>	<b>1,427</b>	<b>1,862</b>	<b>2,371</b>
% to net sales	8.3	8.7	8.1	7.2	6.0	6.2	5.8	7.1	8.0	8.6
Tax	(89)	(140)	(165)	(184)	(193)	(241)	(307)	(432)	(564)	(718)
Eff tax rate (%)	34.0	35.5	28.0	26.6	23.4	25.6	30.3	30.3	30.3	30.3
<b>PAT</b>	<b>173</b>	<b>255</b>	<b>424</b>	<b>508</b>	<b>629</b>	<b>701</b>	<b>707</b>	<b>995</b>	<b>1,298</b>	<b>1,653</b>
% to net sales	5.5	5.6	5.8	5.3	4.6	4.6	4.1	5.0	5.6	6.0
<b>EPS</b>	<b>5.8</b>	<b>8.5</b>	<b>14.2</b>	<b>17.0</b>	<b>21.1</b>	<b>23.5</b>	<b>23.6</b>	<b>33.2</b>	<b>43.3</b>	<b>55.1</b>
% YoY	(60.2)	46.8	66.6	19.7	23.8	11.5	0.6	40.4	30.5	27.3
<b>Cash EPS</b>	<b>7.2</b>	<b>10.9</b>	<b>16.9</b>	<b>20.3</b>	<b>24.9</b>	<b>27.5</b>	<b>28.8</b>	<b>38.9</b>	<b>49.9</b>	<b>62.5</b>
% YoY	(55.1)	52.5	54.4	20.1	22.9	10.6	4.6	35.0	28.2	25.4

Source: Investec Securities estimates

Figure 55: V-Guard: Summary Balance Sheet and Cash flow statement

Balance Sheet	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
Networth	1,265	1,415	1,720	2,106	2,613	3,184	3,777	4,592	5,692	7,146
Equity capital	298	298	298	298	298	298	300	300	300	300
Reserves	966	1,116	1,421	1,808	2,315	2,886	3,478	4,292	5,392	6,846
Debt	263	805	1,376	1,091	1,651	1,084	678	678	678	678
Deferred tax liab	44	57	61	43	79	95	92	92	92	92
<b>Total</b>	<b>1,571</b>	<b>2,277</b>	<b>3,157</b>	<b>3,240</b>	<b>4,343</b>	<b>4,363</b>	<b>4,547</b>	<b>5,362</b>	<b>6,462</b>	<b>7,916</b>
Capitalised assets	713	1,123	1,138	1,230	1,382	1,662	1,624	1,803	1,957	2,085
CWIP	258	29	14	111	88	35	12	12	12	12
Investments	-	-	-	-	-	-	-	-	-	-
Cash	155	120	71	34	150	28	22	420	1,052	1,777
NCA	446	1,005	1,933	1,866	2,724	2,639	2,890	3,127	3,441	4,042
Others	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>1,571</b>	<b>2,277</b>	<b>3,157</b>	<b>3,240</b>	<b>4,343</b>	<b>4,363</b>	<b>4,547</b>	<b>5,362</b>	<b>6,462</b>	<b>7,916</b>
Cash Flow	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
Cash from Operations	245	(174)	(347)	825	60	1,114	806	1,026	1,201	1,210
Cash from Investments	(292)	(264)	(54)	(286)	(230)	(336)	(74)	(317)	(240)	(138)
Cash from financing	(334)	404	353	(576)	285	(900)	(738)	(311)	(329)	(348)
Change of cash	(381)	(35)	(48)	(37)	116	(122)	(6)	398	632	724
<b>FCFF</b>	<b>(168)</b>	<b>(423)</b>	<b>(416)</b>	<b>565</b>	<b>(180)</b>	<b>775</b>	<b>702</b>	<b>676</b>	<b>851</b>	<b>860</b>
<b>FCFE</b>	<b>(312)</b>	<b>68</b>	<b>41</b>	<b>111</b>	<b>227</b>	<b>(3)</b>	<b>85</b>	<b>527</b>	<b>702</b>	<b>711</b>

Source: Investec Securities estimates

**Figure 56: Finolex Cables: Summary Income statement, Balance Sheet and Cash flow statement**

(Rsm)	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
<b>Revenues</b>	<b>13,838</b>	<b>13,415</b>	<b>16,187</b>	<b>20,358</b>	<b>20,641</b>	<b>22,707</b>	<b>23,590</b>	<b>24,491</b>	<b>26,486</b>	<b>30,866</b>	<b>35,971</b>
Electrical cables	8,287	7,848	9,824	13,477	17,115	19,852	20,160	20,927	22,078	25,389	29,706
Communication cables	2,739	2,532	2,590	1,925	1,482	1,819	2,073	2,276	2,640	3,036	3,491
Copper rod	2,520	2,688	3,413	4,650	1,875	743	1,057	887	887	887	887
Captive consumption	5,709	4,438	6,371	8,709	7,454	6,249	5,828	4,998	-	-	-
Others	292	348	360	306	170	293	300	402	882	1,554	1,887
% YoY	34.0	(3.1)	20.7	25.8	1.4	10.0	3.9	3.8	8.1	16.5	16.5
Cost of materials	(10,399)	(10,370)	(11,809)	(15,749)	(15,920)	(16,893)	(17,656)	(18,232)	(19,608)	(22,967)	(26,791)
<b>Gross profit</b>	<b>3,438</b>	<b>3,045</b>	<b>4,378</b>	<b>4,608</b>	<b>4,720</b>	<b>5,814</b>	<b>5,934</b>	<b>6,259</b>	<b>6,879</b>	<b>7,899</b>	<b>9,179</b>
% of sales	24.8	22.7	27.0	22.6	22.9	25.6	25.2	25.6	26.0	25.6	25.5
Staff	(497)	(533)	(592)	(647)	(695)	(846)	(848)	(940)	(1,034)	(1,158)	(1,296)
Advertising and promotion	(69)	(42)	(57)	(77)	(104)	(107)	(99)	(164)	(212)	(278)	(360)
Others	(1,414)	(1,472)	(1,782)	(2,103)	(2,091)	(2,516)	(2,457)	(2,438)	(2,637)	(3,073)	(3,581)
<b>EBITDA</b>	<b>1,459</b>	<b>998</b>	<b>1,947</b>	<b>1,781</b>	<b>1,831</b>	<b>2,345</b>	<b>2,531</b>	<b>2,717</b>	<b>2,997</b>	<b>3,392</b>	<b>3,943</b>
% of sales	10.5	7.4	12.0	8.7	8.9	10.3	10.7	11.1	11.3	11.0	11.0
Depreciation	(265)	(388)	(372)	(388)	(395)	(466)	(484)	(563)	(588)	(625)	(668)
<b>EBIT</b>	<b>1,194</b>	<b>610</b>	<b>1,575</b>	<b>1,393</b>	<b>1,436</b>	<b>1,879</b>	<b>2,046</b>	<b>2,154</b>	<b>2,408</b>	<b>2,766</b>	<b>3,275</b>
% of sales	8.6	4.5	9.7	6.8	7.0	8.3	8.7	8.8	9.1	9.0	9.1
Interest expenses	(204)	(324)	(187)	(191)	(178)	(134)	(145)	(129)	(152)	(139)	(133)
Interest income	52	40	21	23	89	27	101	51	183	291	337
Other income	174	164	101	215	154	140	264	349	395	437	485
<b>Core PBT</b>	<b>1,216</b>	<b>491</b>	<b>1,510</b>	<b>1,439</b>	<b>1,500</b>	<b>1,912</b>	<b>2,266</b>	<b>2,424</b>	<b>2,834</b>	<b>3,355</b>	<b>3,963</b>
Exceptionals, write-offs, deriva	(13)	(791)	(618)	(329)	(286)	(190)	222	208	-	-	-
Forex movements	-	-	-	(38)	(122)	(14)	(49)	-	-	-	-
<b>PBT</b>	<b>1,203</b>	<b>(301)</b>	<b>892</b>	<b>1,072</b>	<b>1,092</b>	<b>1,708</b>	<b>2,440</b>	<b>2,631</b>	<b>2,834</b>	<b>3,355</b>	<b>3,963</b>
Tax	(314)	(54)	(315)	(204)	(111)	(255)	(363)	(645)	(708)	(839)	(991)
Eff tax rate (%)	26.1	(18.0)	35.4	19.0	10.1	15.0	14.9	24.5	25.0	25.0	25.0
<b>PAT</b>	<b>889</b>	<b>(355)</b>	<b>576</b>	<b>868</b>	<b>981</b>	<b>1,453</b>	<b>2,077</b>	<b>1,987</b>	<b>2,125</b>	<b>2,516</b>	<b>2,973</b>
% to net sales	6.4	(2.6)	3.6	4.3	4.8	6.4	8.8	8.1	8.0	8.2	8.3
<b>EPS</b>	<b>5.8</b>	<b>(2.3)</b>	<b>3.8</b>	<b>5.7</b>	<b>6.4</b>	<b>9.5</b>	<b>13.6</b>	<b>13.0</b>	<b>13.9</b>	<b>16.5</b>	<b>19.4</b>
% YoY	28.9	(139.9)	(262.4)	50.6	13.0	48.1	43.0	(4.3)	7.0	18.4	18.1
<b>Cash EPS</b>	<b>7.5</b>	<b>0.2</b>	<b>6.2</b>	<b>8.2</b>	<b>9.0</b>	<b>12.5</b>	<b>16.7</b>	<b>16.7</b>	<b>17.7</b>	<b>20.5</b>	<b>23.8</b>
<b>Balance Sheet</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16E</b>	<b>FY17E</b>	<b>FY18E</b>
Networth	6,415	5,962	6,431	7,175	8,004	9,243	11,034	12,648	14,420	16,518	18,996
Equity capital	306	306	306	306	306	306	306	306	306	306	306
Reserves	6,109	5,656	6,125	6,869	7,698	8,937	10,728	12,342	14,114	16,212	18,690
Debt	2,876	2,959	2,751	2,601	1,716	1,806	1,470	1,267	1,267	1,267	1,267
Deferred tax liab	175	221	319	310	326	345	295	301	301	301	301
<b>Total</b>	<b>9,466</b>	<b>9,142</b>	<b>9,501</b>	<b>10,086</b>	<b>10,047</b>	<b>11,394</b>	<b>12,799</b>	<b>14,216</b>	<b>15,988</b>	<b>18,086</b>	<b>20,564</b>
Capitalised assets	2,055	4,156	4,188	4,033	4,292	4,121	4,958	4,638	4,650	4,824	4,957
CWIP	1,729	401	288	188	120	357	107	67	67	67	67
Investments	1,677	1,857	1,975	2,090	2,189	2,174	2,261	2,257	2,327	2,397	2,467
Cash	1,706	1,565	1,199	574	673	1,465	2,419	4,069	5,500	6,783	8,395
NCA	2,300	1,163	1,851	3,200	2,772	3,277	3,054	3,185	3,445	4,015	4,679
Others	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>9,466</b>	<b>9,142</b>	<b>9,501</b>	<b>10,086</b>	<b>10,047</b>	<b>11,394</b>	<b>12,800</b>	<b>14,216</b>	<b>15,988</b>	<b>18,086</b>	<b>20,564</b>
<b>Cash Flow</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16E</b>	<b>FY17E</b>	<b>FY18E</b>
Cash from Operations	1,050	2,161	1,122	328	2,135	1,549	2,263	2,112	2,223	2,218	2,548
Cash from Investments	(879)	(1,999)	(987)	(488)	(832)	(484)	(540)	201	(287)	(376)	(309)
Cash from financing	(262)	(302)	(501)	(465)	(1,205)	(273)	(768)	(663)	(506)	(558)	(627)
Change of cash	(91)	(140)	(366)	(625)	99	792	954	1,650	1,431	1,283	1,612
<b>FCFF</b>	<b>53</b>	<b>732</b>	<b>712</b>	<b>(207)</b>	<b>1,647</b>	<b>1,037</b>	<b>1,106</b>	<b>1,666</b>	<b>1,553</b>	<b>1,348</b>	<b>1,678</b>
<b>FCFE</b>	<b>59</b>	<b>466</b>	<b>318</b>	<b>(548)</b>	<b>585</b>	<b>978</b>	<b>624</b>	<b>1,335</b>	<b>1,401</b>	<b>1,208</b>	<b>1,545</b>

Source: Company data; Investec Securities estimates

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	Expected total return		All stocks		Corporate stocks	
	12m performance	Count	% of total	Count	% of total	
Buy	greater than 10%	170	55%	84	49%	
Hold	0% to 10%	108	35%	17	16%	
Sell	less than 0%	33	11%	0	0%	

Source: Investec Securities estimates

#### Stock ratings for Indian stocks

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	12m performance	Count	% of total	Count	% of total	
Buy	greater than 15%	18	56%	0	0%	
Hold	5% to 15%	10	31%	0	0%	
Sell	less than 5%	4	13%	0	0%	

Source: Investec Securities estimates

#### Stock ratings for African\* stocks

	Expected total return		All stocks		Corporate stocks	
	12m performance	Count	% of total	Count	% of total	
Buy	greater than 15%	28	43%	6	21%	
Hold	5% to 15%	20	31%	3	15%	
Sell	less than 5%	17	26%	3	18%	

Source: Investec Securities estimates

\*For African countries excluding South Africa, ratings are based on the 12m implied US dollar expected total return (ETR). This is derived from the expected local currency (LCY) ETR by making assumptions on the 12month forward exchange rates for the respective currencies. For South African stocks, ratings are based on the ETR in rand terms.

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









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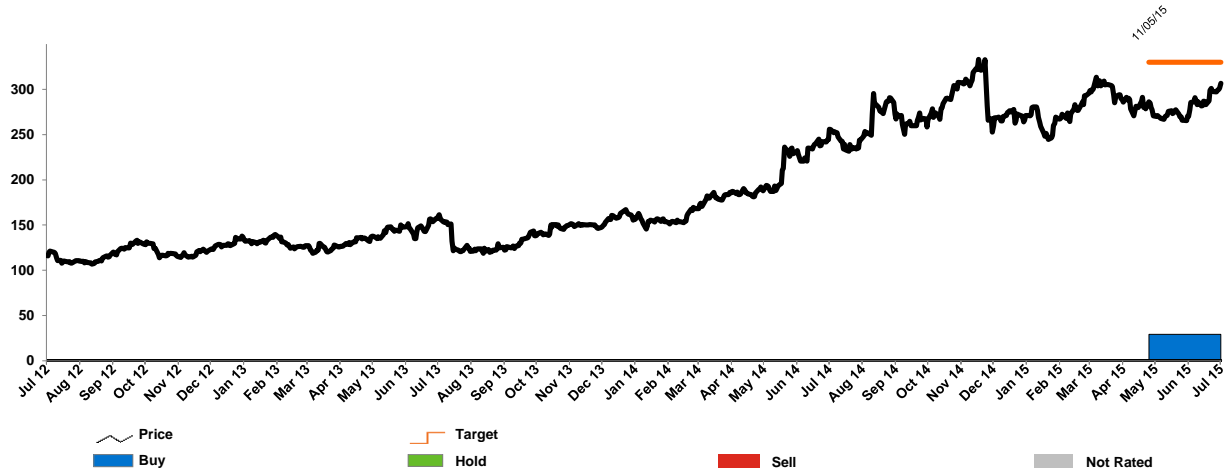
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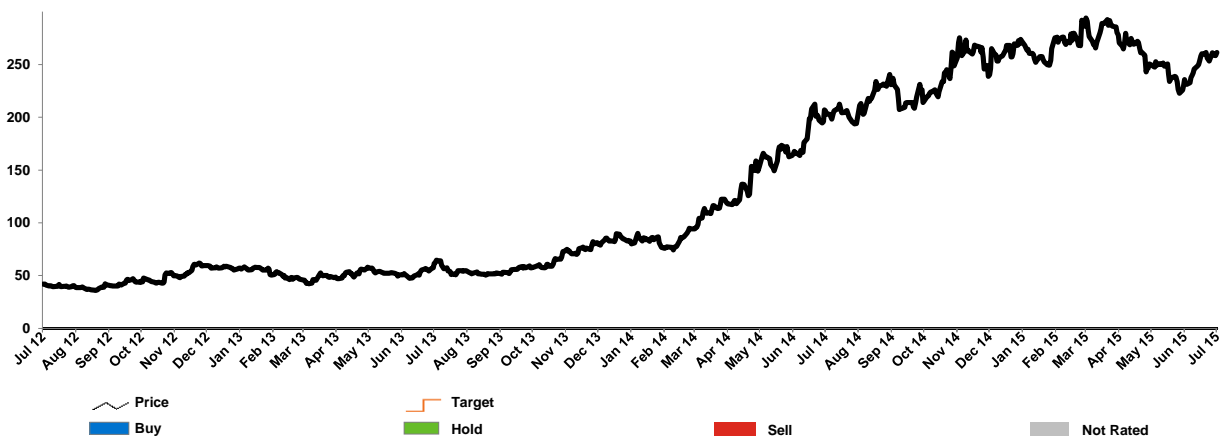
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Havells India (HVEL.NS) – Rating Plotter as at 19 Jul 2015



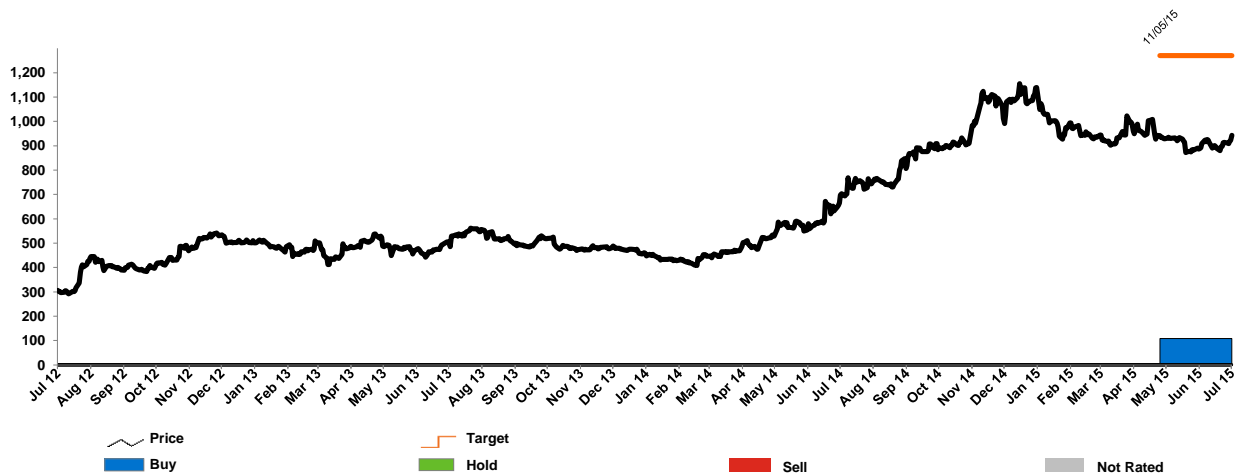
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