Overseas arm to light up Havells

New Products Will Also Help Co; High Debt Is Only Worry

FOREIGN AFFAIR

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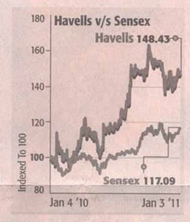
HAVELLS India's stock performance has been muted in the past three months, in line with the weak broader market. But, given the turnaround in its overseas subsidiary and the launch of new products in its consumer durable business, the company's stock may undergo a re-rating.

Havells is India's leading consumer electrical goods company, with consolidated sales of ₹5,527 crore in the past four quarters. Its wholly-owned subsidiary Sylvania, which makes lighting and fixtures, has established brands in European, Latin American and Asian markets. Sylvania represented nearly half of the company's consolidated revenues in the first half of FY11.

mid-cap MANTRA

Sylvania's poor financials hit Havells' consolidated performance in FY10. But, this has changed in the current fiscal. Havells has reduced fixed costs of Sylvania by exiting from unprofitable businesses and outsourcing manufacturing to low-cost locations such as India and China. In the September 2010 quarter, Sylvania reported a profit. In the first half of FY11, its operating margin was 4.6% compared with almost nil in the year-ago period. Analysts expect a further improvement in margins. "Sylvania's margins can improve up to 6% by the end of this fiscal," feels Hardik Shah, an analyst at brokerage firm KR Choksey.



Havells has brands in the switchgear, cables and wirings, consumer durable and lighting products segments. It has invested aggressively in brand promotion unlike its peers. It also has a good distribution network of more than 4,000 dealers in India. These have helped Havells expand its market share across all its product categories.

The company has expanded its consumer durables business in India with new launches such as water heaters and Sylvania's lighting products, which have higher margins. It has added 70% capacity to its wire and cable business over the past two years to take advantage of the growing demand for power cables.

The market for cables has grown 25% in the past five years on a compounded annual basis.

High debt is the only concern. In FY10, Havells paid 35% of its earnings before interest and tax as interest. At present, its debt is nearly twice its equity. To reduce the debt burden, the management is planning to raise funds through equity dilution in the near term, which is expected to be positive for per share earnings.

Havells' scrip trades at a P/E of 21, which is lower than its peak valuation of 28 in 2007 before it acquired Sylvania. A better profitability of the subsidiary, future growth in the Indian business from new product launches and capacity expansions will be the key growth drivers for the company.

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