

# LED by consumer demand

The middle-class with higher disposable income should keep growth ticking

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Investors who want a share of the fast growing consumer electronic space can invest in the stock of Havells India.

Havells has an array of consumer electronic products such as fans, water heaters, CFL/LED lamps, luminaries and domestic appliances in its product portfolio. The company's mixer-grinders, toasters, air fryers, induction stoves and electric rice cookers are well known in the market.

The growing middle-class population of the country with higher disposable incomes should keep growth for consumer electronics at double-digit levels. Havells, with its pan-India distribution reach and strong brand should be able to capitalise on this.

Cables and switchgears, the company's original businesses, still contribute a chunk of its revenue. These should benefit from the expected revival in the economy and investment cycle.

Havells' consolidated revenue and profits have grown at a compounded annual rate of 13 per cent and 13.5 per cent, respectively, in the last three years. This is thanks to new products launch-

es in the consumer segment, aggressive market campaigns, entry into tier II/III cities and the turnaround at its European business, Sylvania, which was acquired in 2007.

At ₹266, the Havells India stock discounts its estimated earnings for 2015-16 by 23 times, closer to the higher end of its valuation band of last two years.

However, with promising growth prospects for the company, there may be further upside in the stock. The stock of V-Guard Industries, a smaller company, is trading at about 24 times its expected 2015-16 earnings.

### Growing demand

Havells' electrical consumer durables segment saw 21 per cent sales growth in the recent June quarter after recording an eight per cent growth in full year 2013-14. This segment contributes 20 per cent to the company's overall revenues with the chunk of it coming from fans.

Havells' foray into tier II/III towns over the last few years will help it grow. The company is now present in 770 small towns across the country through distributors and its own outlets.



**Fanning demand** The company has launched fancy new models

The lighting and fixtures segment (that contribute 13 per cent to revenue) saw 12 per cent growth in the June quarter, stronger than the 8 per cent growth seen in 2013-14.

This was aided by the demand for LED products. While the CFL market has been flat over the last

one year, there has been a growing demand for LED lamps – which are more energy efficient and last longer.

The company's management is of the view that LED products should contribute about 40 per cent of the lighting segment by the end of this fiscal year. Havells enjoys higher profit margin on LED lights than on CFLs.

Cables still account for about 40 per cent of Havells' standalone revenue. The company has about 14 per cent market share in the domestic cables and 9 per cent market share in the industrial cables segments.

In the June quarter, the cables segment saw sales jump 32 per cent over the same period last year (versus 14 per cent in the full year 2013-14). This was buoyed by higher volumes, an indicator of the revival in the housing and industrial segments.

Switchgears (that contribute about 24 per cent to revenue) also saw increased sales following rising demand from residential houses in rural markets. With increasing awareness on safety in rural and semi-urban markets,

demand for branded switchgears should go up.

Havells' consolidated performance in the long term should also be driven by growth at Sylvania.

Though Sylvania has turned profitable at the operating level due to the company's stringent cost-cutting initiatives, volumes continue to be flat as the Eurozone economy is still not completely out of the woods. To push up growth, Havells plans to diversify from Europe and look at the Asian and Latin American markets where demand looks promising.

### Margins to grow

In the June quarter, Havells' profit growth (standalone) was about 13 per cent. Though sales grew a strong 21 per cent and operating margin was at similar levels (12.7 per cent) as last year, increased taxes (due to expiry of tax exemption in some plants) ate into profit growth.

As the company's product mix changes in the next few years with more contribution from consumer goods and LED lights and fixtures, operating margin should improve. In the short-to-medium term, with copper prices depressed due to doubts over Chinese demand recovery, there may not be pressure on margins.



### Why

- Growing consumer electronics business
- Expected revival in housing and power
- European arm to diversify

### Did you know?

Qjmat Rai Gupta, Founder and Chairman of Havells India, bought the 'Havells' brand from Havell Ram Gupta in 1971 for about ₹7 lakh

### Havells India

