

Retail Equity Research (South India Focus)

Havells India Ltd

Electrical Equipment

BSE CODE : 517354 NSE CODE: HAVELLS
BLOOMBERG CODE: HAVL:IN SENSEX : 37,935

Reduce

12M Investment Period Rating as per Large Cap

CMP Rs595 TARGET Rs.530 RETURN -11 % ↓
(Closing: 27-07-20)

KEY CHANGES:

TARGET ↓

RATING ↓

EARNINGS ↓

Weakness to persist...

Havells India Ltd (HAVL) is a leading player in electrical consumer goods in India. Its key verticals include switchgears, cables & wires, lighting fixtures and consumer appliances.

- We downgrade HAVL to Reduce as we believe that near term earnings are likely to be more volatile, while valuation seem to be unsustainable unless until there is a sharp recovery, which is unlikely in the near term.
- Q1 Revenue & PAT declined by 45% & 64% YoY due to lockdown.
- EBITDA margin declined by 130bps YoY to 8.8%, on account of sub-optimal sales.
- Given frequent/continuing lockdowns, demand revival is expected to be protracted.
- We lower our EPS estimates by 7% for FY21E, as we factor the impact of Q1FY21E on our estimates.
- Though HAVL's long term strategy of expansion of product portfolio, strong brand recall and distribution strength will drive growth.
- However, near term earnings volatility and premium valuation is a concern. We value HAVL at P/E of 37x on FY22E with a target price of Rs.530.

Revenue growth impacted by lockdown...

HAVL Q1FY21 revenue declined by 45% YoY, on account of weak demand scenario due to Covid-19. Decline in revenue was broad based across segments, with Switch gears, cables, Lighting & fixtures and Electric appliances segment declined by 44%, 41% & 45% and 46% YoY, respectively. Though there was marginal pick-up in B2C business. However, B2B continue to be subdued. The weakness in HAVL's growth trajectory was accentuated by Covid-19, which was already impacted by general weakness in domestic macros, tight liquidity situations and slowdown in infrastructure spending. Switchgear segment was largely impacted by sluggish infrastructure and Government driven procurement. In the cable segment, power cables segment was weighed down by industrial and infrastructure slowdown and fall in commodity prices. Revenue from Lloyd business was declined by 53% YoY. We expect the current demand headwinds to persist for some more time and we may see gradual revival from H2FY21E. We expect revenue to grow by 6% over FY20-22E.

Cost rationalisation cushion margins...

HAVL's Q1FY21 EBITDA margin declined by 130bps YoY, to 8.8% on account of margin contraction across segments. Segment wise decline in EBIT margins across Switch gear 900bps, Cables 290bps, Lighting 1200bps and consumer appliance 240bps YoY. While Lloyd EBIT margins were flat YoY. Lower than expected sales impacted the operating leverage, however cost rationalisation helped in arresting sharp fall. PAT fell 64% YoY to Rs.63cr. Going ahead, we expect EBITDA margins to be under pressure. We lower our EPS estimates by 7% for FY21E to factor in the impact of Q1. We expect PAT to grow by 10% over FY20-22E.

Valuations

We expect near term earnings to be volatile due to frequent disruptions and overall weakness in discretionary spending. Further, headwind faced by construction sector and general weakness consumer segment is likely to impact growth trajectory of HAVL. We value HAVL at 37x on FY22E, given likelihood of underperformance in the near term we downgrade to Reduce with a target price of Rs.530.

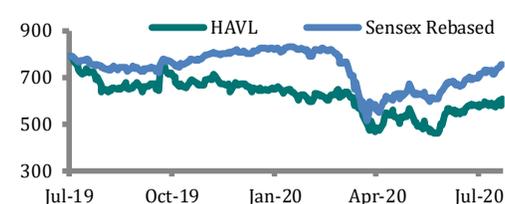
Company Data

Market Cap (cr)	Rs.37,228
Enterprise Value (cr)	Rs.37,099
Outstanding Shares (cr)	62.5
Free Float	40.5%
Dividend Yield	0.7%
52 week high	Rs.765
52 week low	Rs.447
6m average volume (cr)	0.2
Beta	1.1
Face value	Rs.1

Shareholding (%)	Q3FY20	Q4FY20	Q1FY21
Promoters	59.5	59.5	59.5
FII's	25.9	23.0	22.0
MFs/Institutions	5.9	8.3	9.6
Public	6.5	6.6	6.7
Others	2.2	2.4	2.2
Total	100.0	100.0	100.0
Promoter pledge	0.0	0.0	0.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	11.5%	-3.4%	-14.8%
Absolute Sensex	18.1%	-7.9%	0.1%
Relative Return*	-6.6%	4.6%	-14.9%

*over or under performance to benchmark index



Standalone (cr)	FY20A	FY21E	FY22E
Sales	9,429	7995	10508
Growth (%)	(6.2)	(15.2)	31.4
EBITDA	1,027	799	1,324
EBITDA Margin(%)	10.9	10.0	12.6
PAT Adj.	733	485	895
Growth (%)	(7.4)	(33.8)	84.5
Adjusted EPS	11.7	7.8	14.3
Growth (%)	(7.4)	(33.8)	84.5
P/E	50.8	76.7	41.6
P/B	13.0	12.2	10.2
EV/EBITDA	36.1	46.4	27.7
ROE (%)	17.3	11.0	18.7
D/E	0.0	0.0	0.0

Anil R
Research Analyst

Quarterly Financials

Profit & Loss

	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	YoY Growth %
Sales	1,479	2,712	<i>(45.5)</i>	2,216	<i>(33.3)</i>
EBITDA	131	276	<i>(52.5)</i>	245	<i>(47.0)</i>
EBITDA margin	8.8	10.2	<i>(130bps)</i>	11.1	<i>(220bps)</i>
Depreciation	60	47	29.0	63	(3.4)
EBIT	70	229	<i>(69.2)</i>	183	<i>(61.5)</i>
Interest	17	5	254.2	5	263.5
Other Income	32	40	(19.0)	20	(65.0)
Exceptional Items	-	-	-	-	-
PBT	86	264	<i>(67.4)</i>	198	<i>(56.5)</i>
Tax	23	90	(75.0)	21	(10.2)
Share of profit from Associate	-	-	-	-	-
Minority Interest	-	-	-	-	-
Reported PAT	63	174	<i>(64.0)</i>	177	<i>(64.3)</i>
Adjustments	-	-	-	-	-
Adjusted PAT	63	174	<i>(64.0)</i>	177	<i>(64.3)</i>
No. of Shares	62.5	62.5	-	62.5	-
EPS (Rs)	1.0	2.8	<i>(64.0)</i>	2.8	<i>(64.3)</i>

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY2E	FY21E	FY22E
Revenue	8,311	10,490	7,995	10,508	(3.8)	(0.2)
EBITDA	831	1,311	799	1,324	(3.8)	(1.0)
Margin (%)	10.0	12.5			-	+10bps
Adj. PAT	521	893	485	895	(7.3)	-
EPS	8.3	14.3	7.8	14.3	(7.3)	-

Standalone Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Sales	8,139	10,058	9,429	7,995	10,508
% change	32.7	23.6	(6.2)	(15.2)	31.4
EBITDA	1,049	1,192	1,027	799	1,324
% change	27.3	13.6	(13.8)	(22.2)	65.6
Depreciation	140	149	218	256	65.6
EBIT	910	1,044	809	544	1041
Interest	24	16	20	28	15
Other Income	117	128	112	131	167
PBT	1,003	1,155	902	647	1,194
% change	21.3	15.2	(21.9)	(28.2)	84.5
Tax	302	364	169	162	298
Tax Rate (%)	30.0	31.0	19.0	25.0	25.0
Reported PAT	714	792	733	485	895
Adj.*	12	-	-	-	-
Adj. PAT	701	792	733	485	895
% change	17.3	13.0	(7.4)	(33.8)	84.5
No. of shares (cr)	62.5	62.5	62.5	62.5	62.5
Adj EPS (Rs)	11.2	12.7	11.7	7.8	14.3
% change	17.3	12.9	(7.4)	(33.8)	84.5
DPS (Rs)	4.2	4.8	4.8	4.8	4.8
CEPS (Rs)	13.4	15.0	15.2	11.8	18.8

CASH FLOW

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	713	792	733	485	895
Non-cash adj.	138	204	113	185	190
Changes in W.C	257	(475)	(21)	(231)	(301)
C.F. Operation	1,108	513	825	439	784
Capital exp.	(1,589)	(501)	(359)	(245)	(243)
Change in inv.	510	599	(251)	(5)	(5)
Other invest.CF	77	80	62	131	167
C.F - Investment	(1,002)	178	(548)	(119)	(80)
Issue of equity	147	180	24	-	-
Issue/repay debt	(90)	-	(94)	50	50
Dividends paid	(263)	(302)	(641)	(302)	(302)
Other finance.CF	(20)	(13)	(5)	(28)	(15)
C.F - Finance	(358)	(310)	(716)	(279)	(267)
Chg. in cash	(252)	380	(439)	41	437
Closing cash	301	678	242	283	720

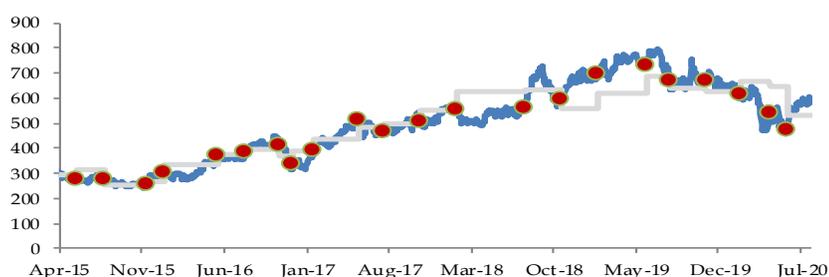
BALANCE SHEET

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	301	678	242	283	720
Accounts Receivable	325	422	249	241	317
Inventories	1,622	1,917	1,872	1,631	2,120
Other Cur. Assets	1,426	953	1,228	1,369	1,799
Investments	112	76	21	26	31
Gross Fixed Assets	1,562	1,865	2,510	2,760	3,010
Net Fixed Assets	1,248	1,431	1,899	1,894	1,861
CWIP	24	232	83	80	75
Intangible Assets	1,483	1,471	1,453	1,451	1,449
Def. Tax (Net)	(207)	(322)	(287)	(319)	(379)
Other Assets	-	-	-	-	-
Total Assets	6,334	6,857	6,761	6,656	7,994
Current Liabilities	2,286	2,318	2,098	1,797	2,425
Provisions	178	235	246	208	273
Debt Funds	104	62	113	163	213
Other Liabilities	27	-	-	-	-
Equity Capital	62.5	62.5	62.5	62.5	62.5
Reserves & Surplus	3,677	4,180	4,242	4,426	5,019
Shareholder's Fund	3,739	4,243	4,305	4,488	5,082
Total Liabilities	6,334	6,857	6,761	6,656	7,994
BVPS	60	68	69	72	81

RATIOS

Y.E March	FY18A	FY19A	FY20A	FYE21E	FY22E
Profitab & Return					
EBITDA margin (%)	12.9	11.9	10.9	10.0	12.6
EBIT margin (%)	11.2	10.4	8.6	6.8	9.9
Net profit mgn.(%)	8.6	7.9	7.8	6.1	8.5
ROE (%)	20.0	19.8	17.3	11.0	18.7
ROCE (%)	15.6	15.2	13.5	9.0	14.6
W.C & Liquidity					
Receivables (days)	12.4	13.6	13.0	11.2	9.7
Inventory (days)	93.4	102.9	118.6	126.7	104.4
Payables (days)	127.2	134.6	138.2	140.9	117.5
Current ratio (x)	1.5	1.6	1.5	1.8	1.8
Quick ratio (x)	0.2	0.3	0.2	0.3	0.3
Turnover & Leverage					
Gross asset T.O (x)	5.5	5.9	4.3	3.0	3.6
Total asset T.O (x)	6.7	7.5	5.7	4.2	5.6
Int. covge. ratio (x)	38.0	65.6	41.0	19.7	69.3
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	4.5	3.6	3.9	4.6	3.5
EV/EBITDA (x)	35.3	30.9	36.1	46.4	27.7
P/E (x)	53.1	47.3	50.8	76.7	41.6
P/BV (x)	16.5	13.7	13.0	12.2	10.2

Recommendation summary



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
31-Jan-15	Accumulate	291
14-May-15	Accumulate	311
28-July-15	Reduce	254
17-November-15	Hold	267
31-December-15	Accumulate	333
17-May-16	Hold	373
25-July-16	Hold	393
20-October-16	Reduce	367
24-November-16	Buy	388
19-January-17	Buy	433
17-May-17	Reduce	485
21-July-17	Hold	500
25-October-17	Accumulate	555
23-January-18	Accumulate	624
23-July-18	Accumulate	633
22-October-18	Reduce	557
23-January-19	Reduce	622
30-May-19	Reduce	687
29-July-19	Reduce	642
29-October-19	Reduce	625
29-January-20	Hold	666
15-April-20	Buy	649
28-May-20	Accumulate	528
28-July-20	Reduce	530

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated	-	-	-

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated : The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Neutral- The analyst has no investment opinion on the stock under review

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