

Strong recovery across product segments...

Havells continued its growth momentum in Q4FY21 with topline growth of 50% YoY in line with our estimate of 48%. The company witnessed strong revenue growth in all business verticals cables, switchgears, electrical consumer durable (ECD), Lloyd, lightings and others by 51%, 53%, 71%, 29%, 40% and 71%, respectively. The management reiterated market share gains, strong demand traction in rural helped drive sales recovery for Havells India in Q4 and in FY21. The company reported ~11% topline growth in FY21 despite a washout in Q1. The key takeaways from conference call are: 1) strong sales traction in first two weeks of April 2021 before lockdown imposed in many states, 2) May sales hit by lockdown across the country, 3) price hikes of 10% in fans and 45-50% in cable business to offset inflationary pressure, 4) focus on capacity building of Lloyd (future launches in refrigerators and washing machines categories), 5) focus on tapping rural and semi urban markets for the long term. However, considering lockdowns and higher input prices, we revise our FY22E revenue, PAT estimate downward by ~7%, 6%, respectively.

Strong b/s helps navigate challenging scenario

Havells India reported revenue, PAT CAGR of ~13%, ~15%, respectively, in the last 10 years with EBITDA margin expansion of 200 bps YoY to 15%. In the last 10 years, the company has faced various challenges like demonetisation, implementation of GST and complete lockdown in Q1FY21. However, Havells has recovered strongly post every challenges mainly due to its robust balance sheet condition (debt free status and average RoCE, RoE of 25%, 19%, respectively) and its strong brand that helped it to enter newer product categories. We believe the company's strong brand and its balance sheet strength would help it to further sail through near term challenges of lockdowns and high inflationary pressure.

ECD, Lloyd to drive future growth

We model revenue CAGR of 18% in FY21-23E led by 22% and 17% revenue CAGR of ECD and Lloyd business, respectively. We believe Havells' focus on strengthening Lloyd brand and reducing dependency on single products (by increased focus on refrigerators, washing machines) would help drive sales of Lloyd, going forward. Besides, Industrial products such as cable, switchgear would also grow at CAGR of 15% led by increased government and private capex post easing of lockdowns, going forward.

Valuation & Outlook

We believe Havells' robust balance sheet condition (net cash of ₹ 1438 crore) and its future plans to increase penetration in semi urban/rural markets will benefit it in the long term. We build in revenue, PAT CAGR of ~18% and 15%, respectively in FY21-23E. We upgrade our rating from HOLD to BUY with a revised TP of ₹ 1215 (valuing 55x FY23E EPS) (earlier TP ₹ 1255).

Key Financial Summary

₹ Crore	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
Net Sales	10067.8	9429.2	10427.9	12096.7	14408.3	17.5
EBITDA	1183.9	1027.4	1565.2	1550.0	2019.2	13.6
EBITDA Margin (%)	11.8	10.9	15.0	12.8	14.0	
PAT	787.4	733.0	1039.6	1044.9	1375.0	15.0
EPS (₹)	12.6	11.7	16.7	16.7	22.0	
P/E (x)	81.7	87.8	61.9	61.6	46.8	
Price/Book Value (x)	15.3	14.9	12.5	12.0	11.4	
MCap/Sales	6.4	6.8	6.2	5.3	4.5	
RoE (%)	18.8	17.0	20.1	19.5	24.4	
RoCE (%)	25.4	19.6	24.9	24.0	30.0	

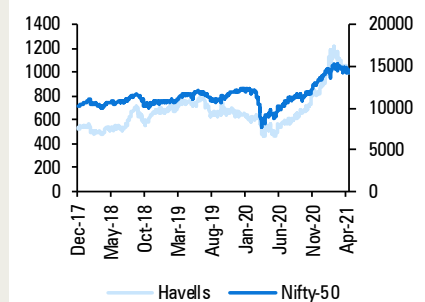
Source: Company, ICICI Direct Research



Particulars

Particular	Amount
Market Capitalization (₹ Cr)	64,324.1
Total Debt (FY21) (₹ Cr)	393.7
Cash and Inv (FY21) (₹ Cr)	1,931.0
EV (₹ Cr)	62,786.7
52 week H/L	1238 / 454
Equity capital (₹ Cr)	62.6
Face value (₹)	1.0

Price Performance



Key risk to our call

- Slow recovery in industrial product categories would weigh on overall sales growth
- Downward pressure in EBITDA margin amid sharp rise in input prices and restoration of advertisements cost

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Exhibit 1: Variance Analysis

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Revenue	3331.2	3287.5	2216.3	50.3	3165.9	5.2	Favourable base and demand revival drives overall sales in Q4
Other Income	37.2	20.3	19.5	90.8	39.2	-5.0	
Raw Material Exp	1504.7	1577.7	1107.4	35.9	1476.7	1.9	Better mix and price hikes (to offset higher input prices) drove gross margin up by 120 bps YoY
Employee Exp	258.5	256.4	198.9	30.0	235.8	9.6	
Purchase of Traded goods	579.5	493.1	307.2	88.6	482.4	20.1	
Other expenses	482.9	532.6	357.3	35.1	462.8	4.3	Various cost optimisation measures resulted in 200 bps YoY saving in other expenses
EBITDA	505.6	427.7	245.5	106.0	508.1	-0.5	
EBITDA Margin (%)	15.2	13.0	11.1	410 bps	16.0	-87 bps	Better gross margin and saving in other costs helped drive EBITDA margin
Depreciation	65.0	68.4	62.5	4.0	64.4	0.9	
Interest	23.5	30.2	4.6	410.9	15.2	54.8	
PBT	454.4	349.3	197.9	129.6	467.7	-2.8	
Total Tax	152.1	87.7	20.5	641.2	118.6	28.3	
PAT	302.3	261.5	177.3	70.4	349.1	-13.4	Sales growth, margin expansion and higher other income drove bottomline
Key Metrics							
Cable	1,029.2	979.5	682.3	50.8	905.2	13.7	Revival in government and private capex drove revenue growth of the segment
Switchgear	463.3	447.8	302.7	53.1	437.1	6.0	Low base coupled with revival in demand from housing drove revenue growth
ECD	1,303.0	1,289.4	875.2	48.9	1,294.6	0.6	Market share gains and increased online sales and rural penetration drove overall ECD and Lloyd segment sales. ECD segment revenue increased 71% YoY while Lloyd revenue increased 29% YoY
Lighting & Fixtures	328.7	395.3	234.7	40.0	353.3	-7.0	Sales growth was largely driven by consumer luminaire categories
Others*	207.0	175.7	121.4	70.5	175.7	17.8	Largely growing on a low base

Source: Company, ICICI Direct Research * Motor, Pump, Solar, Personal Grooming and Water Purifier businesses

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Chg	Old	New	% Chg	
Revenue	12945.1	12096.7	(6.6)	15150.0	14408.3	(4.9)	We tweak our revenue estimate downward considering lockdown in Q1FY22
EBITDA	1700.1	1550.0	(8.8)	2152.7	2019.2	(6.2)	
EBITDA Margin (%)	13.1	12.8	-27bps	14.2	14.0	-19bps	We slightly tweak our margin estimates considering higher input price pressure in the coming period
PAT	1110.5	1044.9	(5.9)	1430.5	1375.0	(3.9)	
EPS (₹)	17.8	16.7	(5.9)	22.9	22.0	(3.9)	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current			Earlier			Comments
	FY20	FY21	FY22E	FY23E	FY22E	FY23E	
Cable Growth (%)	-7.4	6.2	13.3	17.1	19.7	12.9	We believe price hikes and improved government/private spending would help drive demand demand of wire & cable segment, going forward
Switchgear Growth (%)	-15.1	9.1	13.4	15.7	17.5	12.5	With recovery in the housing segment, switchgear segment is likely to grow at CAGR of 15% in FY21-23E Short-term demand hiccups due to lockdown are likely to impact FY22 sales of Lyod. However, we believe demand recovery post opening up of economy along with new launches in refrigerators and washing machines would help drive performance of ECD segment by 21% in FY21-23E. We model ECD and Lloyd segment revenue CAGR of 22% and 17%, respectively
ECD Growth (%)	-9.0	13.1	15.7	24.6	31.1	22.3	
Lighting & Fixtures (%)	-22.2	6.9	27.6	14.6	23.6	17.4	Lighting segment growth to be largely driven by LED fixtures

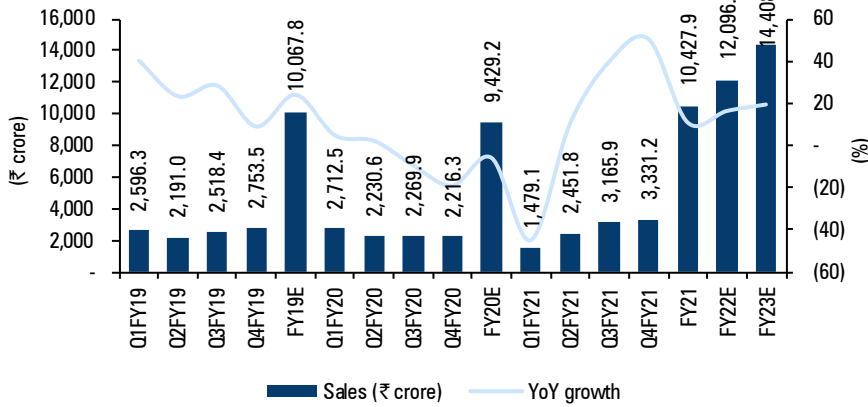
Source: Company, ICICI Direct Research

Conference call highlights

- **Demand outlook:** Near term demand challenges due to ongoing lockdowns situation. However, opening up of economy along with improved government expenditure would help in a faster demand recovery, going forward. **Recovery will be led by urban regions**
- **Total 100% sales growth through e-commerce sales and rural sales**
- **Distribution:** 10,000 dealer network across India with over 130000 touch points. ~20% dealers are rural centric
- **EBITDA margin:** Short-term margin pressure owing to low operating leverage and high input prices. However, gradual price hikes to offset input prices, better product mix and cost optimisation measures will help drive EBITDA margin
- **Advertisement expenses are expected to be ~3% of consumer durable sales. going forward**
- **PLI:** The company is exploring opportunities for PLI benefits in the AC and LED lights categories
- **Capex:** Earmarked a capex of ₹ 1000 crore for the next two years

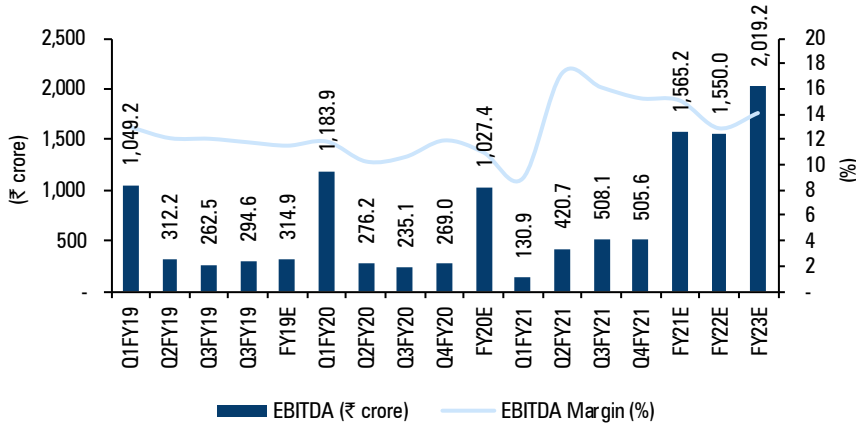
Financial story in charts

Exhibit 4: Strong recovery post second wave to help drive overall sales



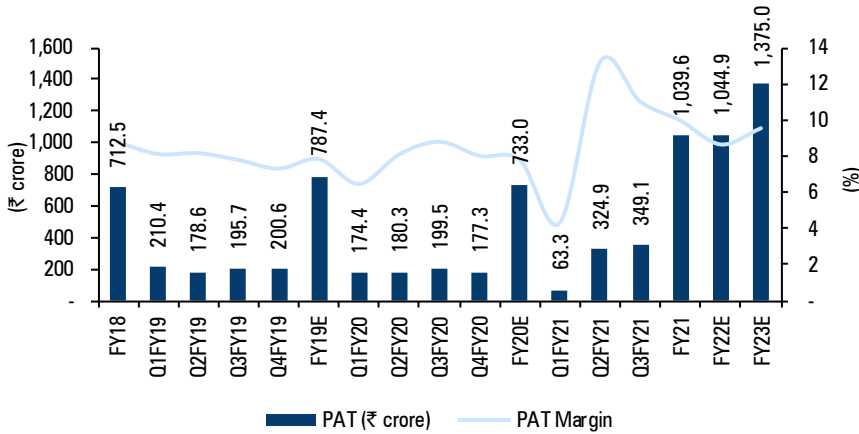
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA margin movement



Source: Company, ICICI Direct Research

Exhibit 6: Recovery in sales, EBITDA to drive PAT



Source: Company, ICICI Direct Research

Financial summary

Exhibit 7: Profit and loss statement				
	₹ crore			
Year End March	FY20	FY21	FY22E	FY23E
Total Operating Income	9429.2	10427.9	12096.7	14408.3
Growth (%)		10.6	16.0	19.1
Raw Material Expenses	4389.6	5390.5	6048.3	7060.1
Employee Expenses	899.6	885.3	1095.5	1235.3
Marketing Expenses	320.9	132.6	241.9	432.2
Other expenses	1346.2	1369.9	1516.2	1788.4
Operating Expenditure	8401.8	8862.7	10546.7	12389.1
EBITDA	1027.4	1565.2	1550.0	2019.2
Growth (%)		52.3	-1.0	30.3
Other Income	112.0	187.8	141.6	129.9
Interest	19.7	72.6	29.2	8.2
Depreciation	217.9	248.9	266.1	302.6
Less: Exceptional Items	0.0	0.0	0.0	0.0
PBT	901.7	1431.5	1396.2	1838.3
Total Tax	168.7	391.9	351.3	463.2
PAT	733.0	1039.6	1044.9	1375.0

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	733.0	1039.6	1044.9	1375.0
Depreciation	217.9	248.9	266.1	302.6
CF before working cap changes	970.7	1361.1	1340.2	1685.8
Net Increase in Current Assets	197.2	-1024.0	101.5	-622.5
Net Increase in Current Liabilities	-211.3	433.3	-732.5	390.7
CF from operating activities	956.5	770.3	709.2	1454.0
(Purchase)/Sale of Liquid Investn	0.0	-306.3	306.3	0.0
Others	-507.7	123.6	-606.3	-300.0
(Purchase)/Sale of Fixed Assets	-507.7	-182.7	-300.0	-300.0
CF from Investing Activities	-456.6	-393.6	-8.7	-315.0
Proceeds frm Equity Shares	0.0	0.0	0.0	0.0
Inc / (Dec) in Loan Funds	-40.5	393.7	-300.0	-50.0
Others	-640.0	-252.8	-867.3	-1121.9
CF from Financing Activities	-680.5	140.8	-1167.3	-1171.9
Net Cash flow	-180.6	517.6	-466.8	-32.9
Opening Cash	1287.8	1107.1	1624.7	1158.0
Closing Cash	1107.1	1624.7	1158.0	1125.1

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Equity Capital	62.6	62.6	62.6	62.6
Reserve and Surplus	4242.4	5101.9	5308.7	5570.0
Total Shareholders funds	4305.0	5164.4	5371.2	5632.6
Total Debt	0.0	393.7	93.7	43.7
Deferred Tax Liability	286.5	339.1	339.1	339.1
Total Liabilities	4704.4	6043.3	5950.1	6161.4
Assets				
Total Gross Block	4176.4	4355.5	4605.5	4855.5
Less Acc. Depreciation	1073.4	1322.3	1588.4	1891.0
Net Block	3103.0	3033.2	3017.1	2964.5
Capital WIP	82.7	86.3	136.3	186.3
Total Fixed Assets	3185.7	3119.5	3153.4	3150.8
Investment	491.21	67.29	81.78	73.67
Inventory	1871.9	2619.9	2386.2	2842.2
Debtors	248.9	563.6	596.5	710.5
Other Current Assets	214.1	175.3	274.6	327.1
Cash	1107.1	1624.7	1158.0	1125.1
Total Current Assets	3441.9	4983.6	4415.3	5004.9
Total Current Liabilities	2343.6	2776.9	2044.4	2435.1
Net Current Assets	1098.3	2206.7	2370.9	2569.8
Total Assets	4704.4	6043.3	5950.1	6161.4

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Per Share Data				
Reported EPS	11.7	16.7	16.7	22.0
Cash EPS	15.2	20.7	21.0	26.9
BV per share	69.0	82.8	86.1	90.3
DPS	4.8	3.5	11.9	17.9
Operating Ratios (%)				
EBITDA Margin (%)	10.9	15.0	12.8	14.0
PAT Margin (%)	7.8	10.0	8.6	9.5
Asset Turnover	2.0	1.7	2.0	2.3
Debtors Turnover	9.6	19.7	18.0	18.0
Creditor Turnover	54.7	55.9	30.0	30.0
Return Ratios (%)				
RoE	17.0	20.1	19.5	24.4
RoCE	19.6	24.9	24.0	30.0
RoIC	21.0	28.9	24.7	30.9
Valuation Ratios				
EV / EBITDA	61.5	40.1	40.8	31.3
P/E	87.8	61.9	61.6	46.8
EV / Net Sales	6.7	6.0	5.2	4.4
EV / Net Sales	6.7	6.0	5.2	4.4
Market Cap / Sales	6.8	6.2	5.3	4.5
Price to Book Value	14.9	12.5	12.0	11.4
Solvency Ratios				
Debt / Equity	0.0	0.1	0.0	0.0
Current Ratio	1.4	1.8	2.8	2.8
Quick Ratio	0.3	0.4	0.7	0.7

Source: Company, ICICI Direct Research

Exhibit 11: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Asian Paints (ASIPAI)	2,774	2,970	Buy	2,66,027	33.4	36.7	45.4	83.0	75.5	61.1	49.6	45.4	36.8	25.0	26.2	28.0	29.6	30.8	33.5
Astral Polytechnic (ASTPOL)	1,787	1,915	Hold	26,923	20.3	21.8	29.3	87.9	82.1	61.1	55.0	51.8	39.6	27.5	27.0	31.4	21.5	20.7	23.9
Amber Enterprises (AMBEN)	2,956	3,015	Buy	9,296	29.8	68.2	97.6	99.1	43.3	30.3	35.9	18.7	14.0	8.4	15.3	18.7	6.5	13.0	15.8
Bajaj Electricals (BAJELE)	1,115	1,075	Buy	12,676	18.9	25.4	35.2	NM	36.3	26.1	31.0	25.0	18.2	17.6	21.4	24.8	13.5	17.3	19.9
Berger Paints (BERPAI)	752	810	Hold	73,034	7.6	9.7	12.4	98.9	77.3	60.8	63.9	52.3	42.5	26.1	30.0	35.1	23.4	26.0	29.0
Crompton Greaves(CROGR)	364	480	Buy	22,823	7.9	9.5	12.0	45.8	38.2	30.2	37.6	31.9	25.8	31.1	34.8	41.1	27.4	28.4	32.1
Dixon Technologies (DIXTEC)	3,954	4,270	Buy	21,200	29.6	62.8	93.9	122.4	57.7	38.6	95.1	70.2	38.1	26.3	40.1	43.9	25.4	37.6	38.6
EPL (ESSPRO)	232	250	Hold	7,320	7.8	8.9	10.8	29.6	26.0	21.5	11.6	10.8	9.2	18.3	19.0	21.3	15.6	15.6	17.0
Havells India (HAVIND)	1,031	1,255	Buy	64,324	16.7	16.7	22.0	61.9	61.6	46.8	40.1	40.8	31.3	24.9	24.0	30.0	20.1	19.5	24.4
Kansai Nerolac (KANNER)	556	655	Buy	29,964	9.9	12.1	14.4	56.4	45.9	38.6	36.6	31.1	26.2	17.2	20.3	21.5	13.2	15.7	16.6
Moldtek Packaging (MOLPL)	464	600	Buy	1,286	16.5	20.8	28.0	28.2	22.3	16.6	15.4	12.6	9.8	20.7	23.6	27.8	19.9	20.9	23.1
Pidilite Industries (PIDIND)	1,888	2,035	Hold	95,873	22.2	26.3	31.8	85.1	71.8	59.4	55.9	47.3	39.9	23.8	23.9	29.9	20.2	20.1	25.2
Polycab India (POLI)	1,599	1,385	Buy	23,806	57.9	67.2	79.7	27.6	23.8	20.1	15.3	11.9	9.8	21.2	24.4	26.2	18.1	19.0	20.1
Supreme Indus (SUPIND)	2,122	2,390	Hold	26,955	77.0	64.9	72.4	27.6	32.7	29.3	20.5	22.2	19.6	32.7	26.2	25.2	30.9	23.6	22.6
Symphony (SYMLIM)	1,059	1,345	Hold	7,408	15.3	28.5	39.5	69.2	37.2	26.8	60.0	33.1	23.8	15.2	28.2	34.9	14.9	26.8	32.5
Time Techno (TIMTEC)	79	75	Buy	1,787	4.4	9.6	-	17.9	8.2		5.7	3.8		8.4	13.7		5.5	11.2	
V-Guard Ind (VGUARD)	221	265	Buy	9,465	4.2	6.1	7.1	52.2	36.4	31.2	34.8	26.2	22.4	23.6	27.9	29.0	16.8	21.1	21.9
Voltas Ltd (VOLTAS)	1,027	1,150	Buy	33,966	16.0	21.2	28.9	64.2	48.6	35.5	50.8	41.8	29.8	15.0	19.5	23.0	10.6	14.4	17.1

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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