

Havells India Ltd

BUY

CMP Rs1,030

Target Rs1,237

Upside 20.1%

Outperformance to continue; upgrade to BUY

Result Highlights

- ✓ **Quarter summary** – Havells delivered better than expected revenue growth of 50% yoy, with ECD being the best performer. All other segments have grown in-line with revenue growth except Lloyd which grew 29% yoy. EBITDA margin saw 411bps improvement to 15.2% on cost controls and stable gross margins.
- ✓ **Growth across segments** – Broad based growth was seen across segments with Switchgears/Cable & Wires/Lighting & Fixture/ECD/Lloyds/Others registering growth of 53%/50%/40%/70%/29%/70%.
- ✓ **Commodity inflation impact** – Gross margins expanded 127bps to 37.4% as low-cost inventory and timely pricing action has enabled company to offset increased commodity inflation. HAVL is the only company in the electrical/durables space to report gross margin expansion among the companies that have reported so far.
- ✓ **Working capital** – Working capital cycle has seen increase to 55 days vs 27 as on Mar'20. This increase is mainly on back of increase in inventory and receivable days. Higher inventory of summer products has led to increase in inventory, while quality of receivables continues to remain comfortable.

Valuation and view – Havells has delivered three consecutive quarters of outperformance on both revenue and profitability. Growth has been broad based with B2C segments continuing growth momentum and B2B segment returning to growth. Company has been able to manage commodity cost inflation with its superior product-mix and pricing actions. Lockdown/restrictions across various parts of the country on the back of second wave could challenge growth momentum in the near term; however, with its strong distribution footprint and product offerings, it is expected to continue its outperformance as soon as the situation normalizes.

We expect FY21-23E revenue growth of 13% CAGR (core Havells+12% and Lloyd +17%). Enhanced distribution, new product launches, sustained market share gains and better margin performance will enable it to outperform its peers. We estimate FY21-23E EBITDA and PAT CAGR of 13% and 18% respectively (8% increase in our EPS estimates) and continue with our positive stance on the stock. We view the current dip as a good buying opportunity and upgrade our rating from Add to BUY with TP of Rs1,237 valuing it at 55x FY23 EPS.

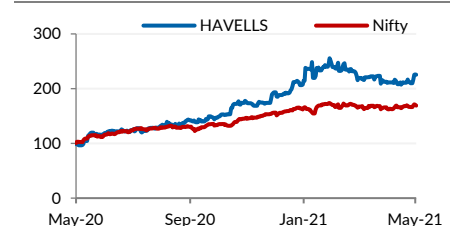
Exhibit 1: Result table

(Rs mn)	Q4FY21	Q4FY20	% yoy	Q3FY21	% qoq
Total sales	33,312	22,161	50.3%	31,659	5.2%
EBITDA	5,057	2,453	106.1%	5,081	-0.5%
EBITDAM (%)	15.2%	11.1%		16.0%	
Depreciation	650	625	4.0%	644	0.9%
Interest	235	46	410.9%	152	55.1%
Other income	372	195	90.5%	392	-5.0%
PBT	4,544	1,828	148.5%	4,677	-2.9%
Tax	1,521	205	641.2%	1,186	28.3%
Adjusted PAT	3,023	1,977	52.9%	3,491	-13.4%
Reported PAT	3,023	1,977	52.9%	3,491	-13.4%
PATM (%)	9.1%	8.9%		11.0%	
EPS (Rs)	4.8	3.2		5.6	

Stock data (as on May 20, 2021)

Nifty:	14,906
52 Week h/l (Rs)	1232/447
Market cap (Rs/USD mn)	671,305/9183
Outstanding Shares	626
6m Avg t/o (Rs mn):	2522
Div yield (%):	0.3
Bloomberg code:	HAVL IN
NSE code:	HAVELLS

Stock performance



	1M	3M	1Y
Absolute return	6.7%	-5.9%	128.9%

Shareholding pattern (As of Mar'21 end)

Promoter	59.5%
FII+DII	32.8%
Others	7.5%

Financial Summary

(Rs mn)	FY21	FY22e	FY23e
Net Revenue	104,279	118,945	133,300
YoY Growth	10.6%	14.1%	12.1%
EBIDTA	15,653	17,141	19,567
Margins (%)	15.0	14.4	14.7
PAT	10,396	12,069	14,083
YoY Growth	41.8%	16.1%	16.7%
ROE	22.0	21.8	22.3
ROCE	30.4	28.3	29.3
EPS	16.6	19.3	22.5
P/E	62.6	53.9	46.2
EV/EBITDA	41.6	37.2	32.3

Change in earnings estimates

	FY21	FY22e	FY23e
EPS (New)	16.6	19.3	22.5
EPS (Old)	16.6	17.8	20.8
% Change	NA	8.4	8.2

Change in Rating and TP

	Rating	TP
New	BUY	1,237
Old	ADD	1,141

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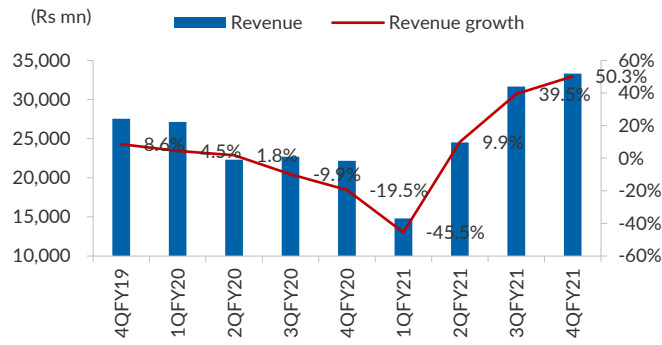
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CONCALL HIGHLIGHTS

- ✓ **Current scenario:** April saw continued growth momentum for first 10-15 days after strong March. Summer products like Fans and Air-conditioner saw good traction, however, post 15th of April fears of second wave led to lockdown across various part of the country led to moderation of demand but things are better than the previous year.
- ✓ **Price hikes and demand impact** – Pricing actions led to protection of gross margins, expect gross margin to normalize in 2HFY22. Cost increase has varied across different product categories in wires and Cables have been 40-45%, Fans 10% and Switchgear 10%. Demand recovery this time is expected to start from tier 1 and 2 cities followed by rural.
- ✓ **Advertisement spends** – Advertisement spends have come back to normalized level in absolute terms. Expect similar trend to continue to in FY22 as well as company has now focusing more on digital medium for better effectiveness
- ✓ **Lloyd business update** – Revamped distribution has helped Lloyd registered growth with significant market share gains in challenging year of FY21. Market share gains. Lloyd have regained market share that it has lost in FY19-20. It has launched new range washing machines which will be manufactured in-house in next 2-3 months. Refrigerator range is now available with dealers. Focus will be more on Washing machine and refrigerator which will be growth areas.
- ✓ **Industrial and infra segment** – Industrial and infra segment has seen recovery with private and government capex coming back. Professional luminaries have seen growth in Q4.
- ✓ **Key sector trends** – Structural demand tailwinds in both real estate and consumer segment, market share gains from unorganized sector continued, Make in India push given own manufacturing capabilities also helping.
- ✓ **Receivables and Inventory** – There has been no major changes in receivables accounting or quality of receivables. Inventory is higher on back of high RAC inventory. Extended summer is likely to see liquidation of Ac inventory.
- ✓ **Capex and Capacity expansion plans** – Company is looking for capex in range of Rs10bn in next 2 years with capacity expansion across all product segment.
- ✓ **Distribution:** Company has more than 10,000 direct billing points catering to 1.25-1.3 lakh touch points. HAVL is covering 80% of towns and villages (about 3000-4000 towns) with more than population of 50,000. It has 20% of the outlets in the rural areas with sales in the range of 4-5%. Rural has grown more than 100% in sales for FY21 on low base.
- ✓ **Market share gains** - Market share gains from unorganized players continue to happen there has been structural shift toward large brands. Lloyd has regained lost market share in RAC.
- ✓ **ECD business** – ECD business still has huge growth potential with innovation, distribution and rural being the growth levers.
- ✓ **PLI scheme benefits** – Looking to manufacture some components under PLI scheme.
- ✓ **Lloyd refrigerator and washing machine portfolio** – Have launched complete and new range of washing machines and refrigerator which are now available with most of the dealers.
- ✓ **New distribution channels** – New distribution channel of O2O has grown well but it is too early to say the actual benefit.

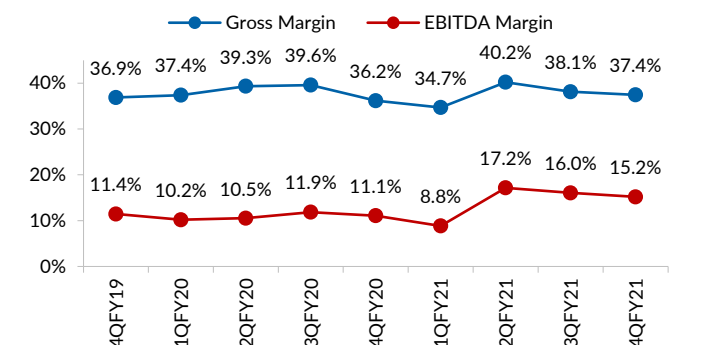
CHARTS

Exhibit 2: Broad based growth across segments has led to strong revenue growth



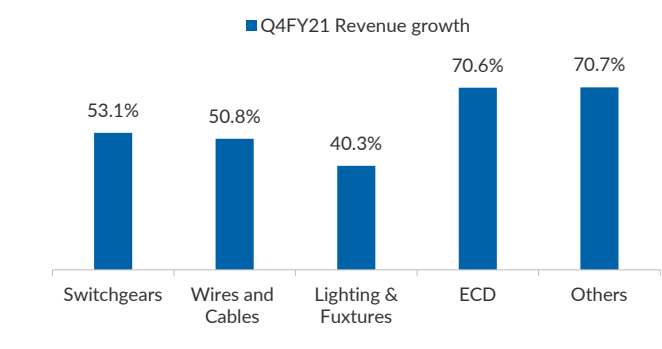
Source: Company, YES Sec - Research

Exhibit 3: Company has been able to manage commodity cost inflation better than peers



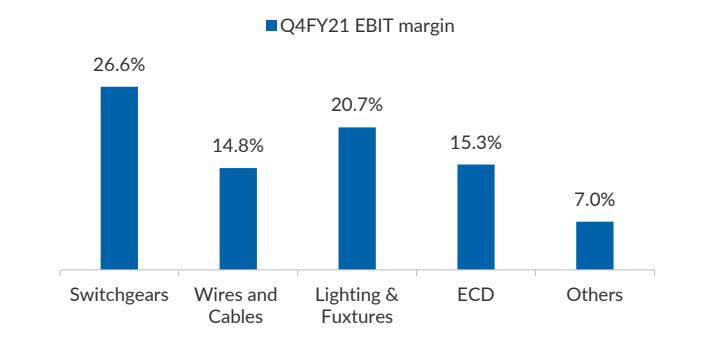
Source: Company, YES Sec - Research

Exhibit 4: Growth has been strong across segments



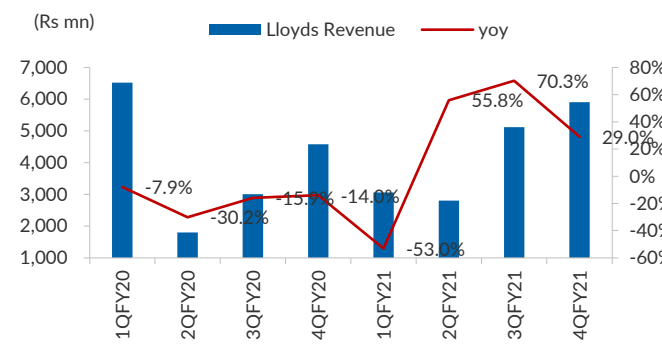
Source: Company, YES Sec - Research

Exhibit 5: EBIT margins continues to remain healthy



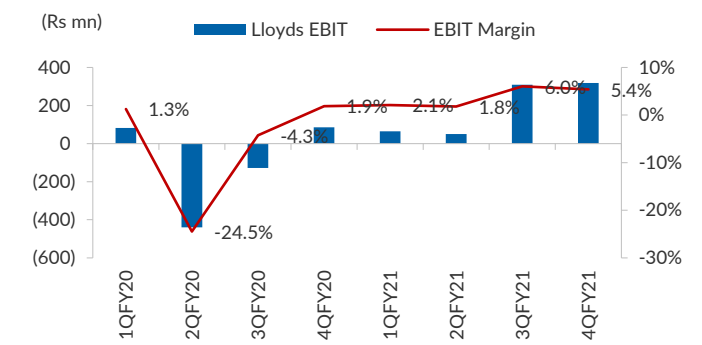
Source: Company, YES Sec - Research

Exhibit 6: Growth has been driven by new product launches and enhanced distribution



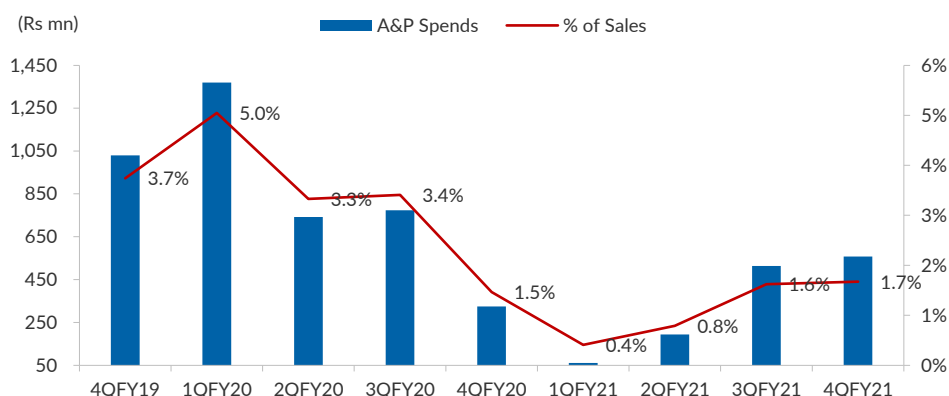
Source: Company, YES Sec - Research

Exhibit 7: Better efficiencies and increased localization has led to margin improvement



Source: Company, YES Sec - Research

Exhibit 8: A&P spends continues to be on lower side



Source: Company, YES Sec - Research

Exhibit 9: Revenue and Margin Assumptions

Rs mn	FY19	FY20	FY21E	FY22E	FY23E
Switchgear	15,777	13,394	14,609	16,070	17,355
% yoy growth	11%	-15%	9%	10%	8%
Cables and wires	32,346	29,942	31,802	36,572	40,961
% yoy growth	21%	-7%	6%	15%	12%
Lighting and Fixtures	13,035	10,143	10,846	11,931	13,362
% yoy growth	12%	-22%	7%	10%	12%
Electrical consumer durables	20,964	20,054	23,770	26,788	29,899
% yoy growth	34%	-4%	19%	13%	12%
Lloyd's consumer	18,556	15,903	16,888	20,265	23,305
% yoy growth	31%	-14%	6%	20%	15%
Others		4,857	6,365	7,320	8,418
% yoy growth			31%	15%	15%
Total Revenue	100,677	94,292	104,279	118,945	133,300
% yoy growth	24%	-6%	11%	14%	12%

Rs mn	FY19	FY20	FY21E	FY22E	FY23E
Switchgear	6,287	3,249	4,047	4,371	4,738
% margin	40%	24%	28%	27%	27%
Cables and wires	5,217	3,321	4,038	4,498	5,038
% margin	16%	11%	13%	12%	12%
Lighting and Fixtures	3,668	1,457	2,041	2,088	2,338
% margin	28%	14%	19%	18%	18%
Electrical consumer durables	5,526	2,870	4,037	4,420	4,933
% margin	26%	14%	17%	17%	17%
Lloyd's consumer	3,176	(401)	741	1,419	2,214
% margin	17%	-3%	4%	7%	10%
Others		-250	310	403	589
% margin		-5%	5%	6%	7%
Total PBIT	23,874	10,246	15,213	17,198	19,851
% margin	24%	11%	15%	14%	15%

Source: Company, YES Sec - Research

FINANCIALS

Exhibit 10: Balance sheet

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity capital	626	626	626	626	626
Reserves	41,297	42,422	51,019	58,364	66,935
Net worth	41,922	43,048	51,645	58,990	67,561
Debt	945	405	3,937	2,437	1,437
Deferred tax liab (net)	3,168	2,865	3,391	3,391	3,391
Other non current liabilities	539	1,485	1,658	1,892	2,120
Total liabilities	46,574	47,803	60,630	66,709	74,508
Fixed Asset	31,365	34,356	33,799	35,061	37,822
Investments	17	16	3,079	3,079	3,079
Other Non-current Assets	1,676	1,571	1,512	1,692	1,868
Net Working Capital	6,708	9,439	18,971	11,342	11,233
Inventories	19,190	18,719	26,199	23,137	25,930
Sundry debtors	4,066	2,409	5,603	4,562	5,113
Loans and Advances	0	0	0	0	0
Sundry creditors	15,601	14,141	15,968	18,214	20,412
Other current liabilities	7,051	6,435	9,029	10,194	11,335
Cash & equivalents	6,809	2,421	3,269	15,535	20,507
Total Assets	46,574	47,803	60,630	66,709	74,508

Exhibit 11: Income statement

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Revenue	100,677	94,292	104,279	118,945	133,300
Operating profit	11,838	10,274	15,653	17,141	19,567
Depreciation	1,494	2,179	2,489	2,823	3,324
Interest expense	161	197	726	450	265
Other income	1,278	1,120	1,878	2,260	2,842
Profit before tax	11,461	9,017	14,316	16,128	18,820
Taxes	3,588	1,687	3,919	4,059	4,737
Minorities and other	-	-	-	-	-
Adj. profit	7,873	7,330	10,396	12,069	14,083
Exceptional items	-	-	-	-	-
Net profit	7,873	7,330	10,396	12,069	14,083

Exhibit 12: Cash flow statement

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Profit before tax	11,622	9,214	15,042	16,578	19,085
Depreciation	1,494	2,179	2,489	2,823	3,324
Tax paid	(3,588)	(1,687)	(3,919)	(4,059)	(4,737)
Working capital Δ	2,205	(2,731)	(12,595)	7,629	109
Other operating items					
Operating cashflow	11,734	6,975	1,017	22,971	17,781
Capital expenditure	(5,304)	(5,170)	(1,932)	(4,085)	(6,085)
Free cash flow	6,429	1,805	(916)	18,886	11,696
Equity raised	45	209	-	-	-
Investments	938	0	2,269	-	-
Debt financing/disposal	(135)	(540)	3,532	(1,500)	(1,000)
Interest paid	(161)	(197)	(726)	(450)	(265)
Dividends paid	(3,388)	(6,413)	(4,069)	(4,723)	(5,512)
Net Δ in cash	3,797	(4,388)	848	12,267	4,971

Exhibit 13: Du-pont analysis

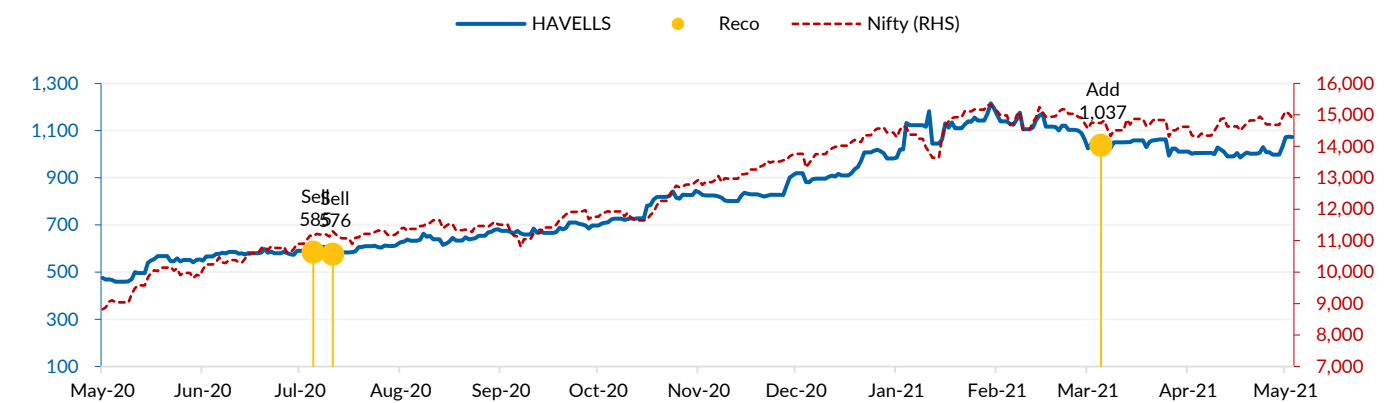
Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Tax burden (x)	0.69	0.81	0.73	0.75	0.75
Interest burden (x)	0.99	0.98	0.95	0.97	0.99
EBIT margin (x)	0.12	0.10	0.14	0.14	0.14
Asset turnover (x)	1.47	1.33	1.31	1.28	1.28
Financial leverage (x)	1.72	1.67	1.68	1.68	1.64
RoE (%)	19.9	17.3	22.0	21.8	22.3

Exhibit 14: Ratio analysis

Y/e 31 Mar	FY19	FY20	FY21	FY22E	FY23E
Growth matrix (%)					
Revenue growth	24	(6)	10.6	14.1	12.1
Op profit growth	13	(13)	52.4	9.5	14.1
EBIT growth	13	(21)	63.2	10.2	15.1
Net profit growth	12	(7)	41.8	16.1	16.7
Profitability ratios (%)					
OPM	11.8	10.9	15.0	14.4	14.7
EBIT margin	11.5	9.8	14.4	13.9	14.3
Net profit margin	7.8	7.8	10.0	10.1	10.6
RoCE	28.6	21.3	30.4	28.3	29.3
RoNW	19.9	17.3	22.0	21.8	22.3
RoA	11.5	10.3	13.1	13.0	13.6
Per share ratios					
EPS	12.6	11.7	16.6	19.3	22.5
Dividend per share	4.5	8.5	6.5	7.5	8.8
Cash EPS	15.0	15.2	20.6	23.8	27.8
Book value per share	67.0	68.8	82.5	94.2	107.9
Valuation ratios					
P/E	82.6	88.8	62.6	53.9	46.2
P/CEPS	69.4	68.4	50.5	43.7	37.4
P/B	15.5	15.1	12.6	11.0	9.6
EV/EBIDTA	54.5	63.2	41.6	37.2	32.3
Payout (%)					

Y/e 31 Mar	FY19	FY20	FY21	FY22E	FY23E
Dividend payout	43	87	39.1	39.1	39.1
Tax payout	31	19	27.4	25.2	25.2
Liquidity ratios					
Debtor days	15	9	19.6	14.0	14.0
Inventory days	70	72	91.7	71.0	71.0
Creditor days	56.6	54.7	55.9	55.9	55.9

Recommendation tracker



Source: Company, YES Sec – Research

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