

Retail Equity Research (South India Focus)

Havells India Ltd

Electrical Equipment

BSE CODE : 517354

NSE CODE: HAVELLS

BLOOMBERG CODE: HAVL:IN

SENSEX : 50,652

Reduce

12 Months Investment Period

Rating as per Large Cap

CMP Rs. 1,016 TARGET Rs. 937 RETURN -8%

(Closing: 24-05-21)

KEY CHANGES:

TARGET ↓

RATING ↔

EARNINGS ↓

Strong performance...near term concerns pop-out

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.

- Q4FY21 Revenue & PAT grew by 50% & 71% YoY, led by broad based growth across the segments on account strong demand recovery in consumer and B2B business.
- EBITDA margin improved by 410bps YoY to 15.2% led by scale benefits, product mix, price hikes and cost rationalisation.
- We continue to like HAVL as a complete player in electrical & consumer durables products with strong brand recall, distribution strength and leadership position in almost all the products.
- However, given near term risk on demand as well as margins pressure, we downgrade our EPS estimates by 3% & 1.6% for FY22E & FY23E.
- Given limited upside on account of premium valuation, we lower our valuation multiple to P/E of 42x on FY23E and maintain Reduce with a target price of Rs.937

Revenue growth shoots-up...

HAVL Q4FY21 revenue grew by ~50% YoY, led by strong revival in demand across product segments. Revenue from Consumer durable, Switch gears, Cables and lighting fixtures was up by 71%, 53%, 51% & 40% YoY, respectively. Revenue growth was supported by pent-up demand and market share gains from both organised & unorganised players. The demand recovery was more broad based, as both B2B as well B2C business saw strong pick-up. Lloyd revenue grew by 29% YoY, was lower than expected on account of higher inventory in channel. During, April the demand witnessed fall due to Covid second wave, while in May the sales witnessed accelerated dip given lockdown across the states. We may expect demand recovery in Q2FY22 led by fall in Covid cases and recovery in demand. While Q1FY22 is expected to weak. Further, due to sharp jump in commodity prices, we expect price hikes in the near future leading to marginal dip in growth momentum. We expect revenue to grow by 13% over FY22E-23E.

Margins expands...

HAVL's Q4FY21 EBITDA grew by 106% YoY, while margin improved by 410bps YoY to 15.2%. EBIT margins across the expanded, including Switch gear 450bps, Cables 510bps, Lighting 660bps and consumer appliance 190bps YoY. Lloyd EBIT margins improved by 350bps YoY. Improvement in EBITDA margins was largely supported by price hikes, scale benefits and cost rationalisation. Consequently, PAT grew by 71% YoY to Rs.302cr. Going ahead, we expect demand situation to be impacted by lockdown on account of second wave of Covid, while pass through of higher raw material prices will take some more time. However, we expect recovery in demand starting from Q2FY22. We marginally bring down our EBITDA margin estimates by 10bps & 20bps for FY22E & FY23E. We expect PAT to grow by 24% over FY20-23E.

Valuations

Currently, HAVL is trading at 1Year forward P/E of 44x. We are convinced by HAVL's strong brand recall, market share gain and high quality earnings. However, demand headwinds due to lockdown and higher raw material cost is a concern in the near term, while given its premium valuation the risk reward ratio is not favourable. We value HAVL at a P/E of 42x on FY23E, with a target price of Rs.937 and maintain Reduce rating.

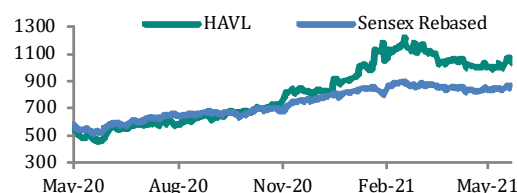
Company Data

Market Cap (cr)	Rs.63,486
Enterprise Value (cr)	Rs.63,699
Outstanding Shares (cr)	62.5
Free Float	40.5%
Dividend Yield	0.39%
52 week high	Rs.1,238
52 week low	Rs.454
6m average volume (cr)	0.2
Beta	1.1
Face value	Rs.1

Shareholding (%)	Q2FY21	Q3FY21	Q4FY21
Promoters	59.5	59.5	59.5
FII's	22.2	24.4	24.9
MFs/Institutions	9.9	8.3	7.9
Public	6.1	5.7	5.7
Others	2.1	2.0	1.8
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	-9.7%	24.6%	120.8%
Absolute Sensex	-0.7%	15.2%	63.4%
Relative Return*	-9.0%	9.4%	57.4%

*over or under performance to benchmark index



Standalone (cr)	FY21A	FY22E	FY23E
Sales	10,428	11,807	13,601
Growth (%)	10.6	13.2	15.2
EBITDA	1,565	1,677	1,986
EBITDA Margin(%)	15.0	14.2	14.6
PAT Adj.	1,040	1,138	1,395
Growth (%)	41.8	9.5	22.6
Adjusted EPS	16.6	18.2	22.3
Growth (%)	41.8	9.5	22.6
P/E	61.1	55.8	45.5
P/B	61.1	55.8	45.5
EV/EBITDA	40.7	38.1	31.9
ROE (%)	22.0	20.2	20.8
D/E	0.1	0.1	0.1

Quarterly Financials

Profit & Loss

	Q4FY21	Q4FY20	YoY Growth %	Q3FY21	QoQ Growth %
Sales	3,331	2,216	<i>50.3</i>	3,166	<i>5.2</i>
EBITDA	506	245	<i>106.1</i>	508	<i>(0.5)</i>
EBITDA margin	15.2	11.1	<i>+410bps</i>	16.0	<i>(90bps)</i>
Depreciation	65	63	<i>4.0</i>	64	<i>0.9</i>
EBIT	441	183	<i>141.0</i>	444	<i>(0.7)</i>
Interest	24	5	<i>411.0</i>	15	<i>55.1</i>
Other Income	37	20	<i>91.0</i>	39	<i>(5.0)</i>
Exceptional Items	-	-	-	-	-
PBT	454	198	<i>130.0</i>	468	<i>(3.0)</i>
Tax	152	21	<i>641.2</i>	119	<i>28.3</i>
Share of profit from Associate	-	-	-	-	-
Minority Interest	-	-	-	-	-
Reported PAT	302	177	<i>71.0</i>	349	<i>(13.4)</i>
Adjustments	-	-	-	-	-
Adjusted PAT	302	177	<i>71.0</i>	349	<i>(13.4)</i>
No. of Shares	62.5	62.5	-	62.5	-
EPS (Rs)	4.8	2.8	<i>71.0</i>	5.6	<i>(13.4)</i>

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	11,653	13,308	11,807	13,601	<i>1.3</i>	<i>2.2</i>
EBITDA	1,666	1,970	1,677	1,986	<i>0.6</i>	<i>0.8</i>
Margin (%)	14.3	14.8	14.2	14.6	<i>(10bps)</i>	<i>(20bps)</i>
Adj. PAT	1,173	1,417	1,138	1,395	<i>(3.0)</i>	<i>(1.6)</i>
EPS	18.8	22.7	18.2	22.3	<i>(3.0)</i>	<i>(1.6)</i>

Standalone Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Sales	10,068	9,429	10,428	11,807	13,601
% change	23.7	-6.3	10.6	13.2	15.2
EBITDA	1,184	1,027	1,565	1,677	1,986
% change	12.8	-13.2	52.4	7.1	18.4
Depreciation	149	218	249	267	292
EBIT	1,034	809	1,316	1,410	1,693
Interest	16	20	73	97	94
Other Income	128	112	188	205	261
PBT	1,146	902	1,432	1,517	1,860
% change	14.3	-21.3	58.8	6.0	22.6
Tax	359	169	392	379	465
Tax Rate (%)	31.3%	18.7%	27.4%	25.0%	25.0%
Reported PAT	787	733	1,040	1,138	1,395
Adj.*	0	0	0	0	0
Adj. PAT	787	733	1,040	1,138	1,395
% change	12.3	-6.9	41.8	9.5	22.6
No. of shares (cr)	62.5	62.6	62.6	62.6	62.6
Adj EPS (Rs)	12.6	11.7	16.6	18.2	22.3
% change	12.3	-6.9	41.8	9.5	22.6
DPS (Rs)	4.8	10.2	3.0	3.0	3.0
CEPS (Rs)	15.0	15.2	20.6	22.4	27.0

CASH FLOW

Y.E March (Rs Cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Net inc. + Depn.	787	733	1,040	1,138	1,395
Non-cash adj.	197	113	317	235	218
Changes in W.C	(464)	(21)	(698)	(1,087)	(744)
C.F. Operation	513	825	658	287	870
Capital exp.	(500)	(359)	(154)	(286)	(248)
Change in inv.	608	(251)	(730)	(40)	(200)
Other invest.CF	80	62	120	205	261
C.F - Investment	188	(548)	(763)	(122)	(187)
Issue of equity	180	24	10	-	-
Issue/repay debt	(7)	(94)	414		(90)
Dividends paid	(302)	(641)	(188)	(188)	(188)
Other finance.CF	(13)	(5)	(46)	(97)	(94)
C.F - Finance	(318)	(716)	190	(285)	(372)
Chg. in cash	383	(439)	85	(120)	312
Closing cash	681	242	327	207	518

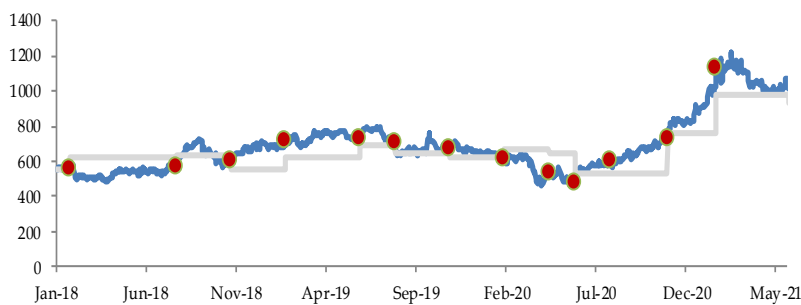
BALANCE SHEET

Y.E March (Rs Cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	681	242	327	207	518
Accounts Receivable	424	249	564	615	671
Inventories	1,919	1,872	2,620	2,812	3,234
Other Cur. Assets	946	1,228	1,574	2,494	2,888
Investments	20	21	356	396	596
Gross Fixed Assets	1,870	2,510	2,720	3,020	3,270
Net Fixed Assets	1,434	1,899	1,861	1,894	1,851
CWIP	232	83	86	75	75
Intangible Assets	1471	1,453	1,433	1,431	1,428
Def. Tax (Net)	(317)	(287)	(339)	(415)	(508)
Other Assets	0	0	0	0	0
Total Assets	6,809	6,761	8,481	9,508	10,754
Current Liabilities	2,319	2,098	2,461	2,511	2,588
Provisions	236	246	316	343	395
Debt Funds	62	113	501	501	411
Other Liabilities	0	0	39	39	39
Equity Capital	63	63	63	63	63
Reserves & Surplus	4,130	4,242	5,102	6,052	7,259
Shareholder's Fund	4,192	4,305	5,164	6,115	7,322
Total Liabilities	6,809	6,761	8,481	9,508	10,754
BVPS	67	69	83	98	117

RATIOS

Y.E March	FY19A	FY20A	FY21A	FYE22E	FY23E
Profitab & Return					
EBITDA margin (%)	11.8	10.9	15.0	14.2	14.6
EBIT margin (%)	10.3	8.6	12.6	11.9	12.4
Net profit mgn.(%)	7.8	7.8	10.0	9.6	10.3
ROE (%)	19.9	17.3	22.0	20.2	20.8
ROCE (%)	15.2	13.5	16.8	16.0	16.5
W.C & Liquidity					
Receivables (days)	13.6	13.0	14.2	18.2	17.2
Inventory (days)	102.8	118.6	126.6	135.2	130.9
Payables (days)	134.5	138.2	128.5	123.8	110.3
Current ratio (x)	1.6	1.5	1.8	2.1	2.5
Quick ratio (x)	0.3	0.2	0.4	0.3	0.5
Turnover & Leverage					
Gross asset T.O (x)	5.9	4.3	4.0	4.1	4.3
Total asset T.O (x)	7.5	5.7	5.5	6.3	7.3
Int. covge. ratio (x)	64.1	41.0	18.1	14.5	18.0
Adj. debt/equity (x)	0.0	0.0	0.1	0.1	0.1
Valuation					
EV/Sales (x)	6.2	6.7	6.1	5.4	4.7
EV/EBITDA (x)	53.1	61.7	40.7	38.1	31.9
P/E (x)	80.6	86.6	61.1	55.8	45.5
P/BV (x)	23.3	22.2	17.0	13.5	10.8

Recommendation summary (Last 3 years)



Dates	Rating	Target
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
02-November-20	Hold	766
22-January-21	Reduce	974
25-May-21	Reduce	937

Source: Bloomberg, Geojit Research.

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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