

Consumer business drags performance

Havells' Q4FY19 topline growth at ~9% YoY (I-direct estimate: 15%) was largely impacted by liquidity crunch, extended winters and impending general elections. Lloyd business revenue declined ~9% YoY to ₹ 532 crore while lighting and ECD business growth were subdued at 7% and 9%, respectively. Lower demand coupled with intense competition has restricted the company from passing on inflationary pressure, resulting in a slight contraction in gross margin. Also, higher fixed cost dented EBITDA margin (down ~240 bps) higher than our estimate. Though the management guided for a recovery in EBITDA margin in FY20E, we believe it would be below its five year average margin of ~13%. We cut our revenue, earning estimate to 3%, 9% and 2%, 1.7% for FY20E and FY21E, respectively.

Demand slowdown hurts topline growth

Havells' Lloyd revenue declined 9% YoY (I-direct estimate: -7%) led by lower demand on account of extended winter. Though Havells (ex-Lloyd) revenue increased 14% YoY, it was largely driven by cable & switchgear segment wherein revenue increased 17% & 11% YoY, respectively. ECD, lighting segment grew albeit at a lower pace of 9%, 7% YoY, respectively (against I-direct estimate: 16% each) largely on account of finance related issues due to NBFC crisis. The management believes there will be a demand recovery in FY20E. Hence, we model revenue of 17% in FY19-21E led by 20% revenue CAGR in the overall ECD business including Lloyd (of which 22% CAGR in the Lloyd business).

EBITDA margin remains intact

EBITDA margin declined ~240 bps YoY at 11.7% in Q4FY19, largely hit by lower profitability from Lloyd business. Lloyd EBITDA margin declined 900 bps YoY to 3.4% mainly due to higher custom duty and rupee depreciation. However, Havells (excluding Lloyd) business EBITDA margin declined 90 bps YoY to 13.7% due to a change in the product mix in the lighting and ECD segments. Lloyd margin has remained lower compared to Havells business (at 5.3% vs. Havells' EBITDA margin of 13.4% in FY19). We believe pressure on taking a price hike due to rising competition in the Lloyd business would keep Havells' overall EBITDA margin under check.

Valuation & Outlook

Havells, a strong brand in the ECD segment, faced challenges in the Lloyd business where margin remained subdued due to bad weather and high competition. This would weigh on overall EBITDA margins, going forward, which would likely remain lower compared to its five year historical EBITDA margin. Despite being on a strong footing, we believe that at the current market price the stock discounts all near term positives. We downgrade our rating from BUY to HOLD and maintain our target price at ₹ 800.



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	44,608.9
Total Debt (FY19) (₹ Crore)	40.5
Cash and Inv (FY19) (₹ Crore)	707.7
EV (₹ Crore)	43,941.7
52 week H/L	783 / 520
Equity capital (₹ Crore)	62.5
Face value (₹)	1.0

Key Highlights

- Lower demand coupled with higher input cost impacted Lloyd performance in Q4 and FY19. However, industrial product category recorded decent growth during Q4
- Margin is expected to recover in FY20 albeit at a lower pace than FY19 level
- We revise our rating from BUY to HOLD and maintain target price at ₹ 800/share

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Key Financial Summary

₹ Crore	FY17	FY18	FY19	FY20E	FY21E	CAGR FY19-21E
Net Sales	6135.3	8138.5	10057.6	11694.7	13707.2	16.7
EBITDA	824.2	1049.2	1192.2	1492.8	1883.2	25.7
EBITDA Margin (%)	13.4	12.9	11.9	12.8	13.7	
PAT	539.2	712.5	791.5	978.2	1244.4	25.4
EPS (₹)	8.6	11.4	12.7	15.7	19.9	
P/E (x)	82.7	62.6	56.4	45.6	35.8	
Price/Book Value (x)	13.6	11.9	10.5	9.9	8.3	
Mcap/Sales	7.3	5.5	4.4	3.8	3.3	
RoE (%)	17.7	18.8	18.7	21.7	23.1	
RoCE (%)	23.4	25.2	25.3	30.0	32.0	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY19	Q4FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Comments
Revenue	2751.9	2913.0	2534.9	8.6	2518.4	9.3	Demand slowdown intensified by liquidity crunch, extended winters and impending general elections
Other Income	31.0	30.8	25.7	20.2	33.1	-6.4	
Raw Material Exp	1260.4	1252.6	1000.1	26.0	940.9	34.0	
Employee Exp	221.3	233.0	163.7	35.2	210.8	5.0	
Purchase of Traded goods	470.4	582.6	572.7	-17.9	634.2	-25.8	
Other expenses	476.9	498.9	440.7	8.2	438.0	8.9	
EBITDA	322.9	345.9	357.7	-9.8	294.6	9.6	
EBITDA Margin (%)	11.7	11.9	14.1	-238 bps	11.7	4 bps	Sharp decline in profitability of Lloyd business (EBITDA margin down from 12.4% to 3.4%) dragged overall EBITDA margin of the
Depreciation	39.1	40.2	34.7	12.5	35.3	10.6	
Interest	6.1	3.2	8.4	-26.6	3.6	72.5	
PBT	308.6	333.2	331.3	-6.9	288.8	6.9	
Total Tax	101.8	107.3	105.5	-3.6	93.1	9.3	
PAT	206.8	225.9	225.8	-8.4	195.7	5.7	Lower EBITDA margin translated into PAT decline
Key Metrics							
Cable	897.9	974.7	768.9	16.8	820.3	9.5	Government led initiative in electrification and infrastructure development coupled with price hike drove growth
Switchgear	436.8	484.3	394.6	10.7	416.2	4.9	Switchgears growth mainly led by switches and industrial
ECD	1,037.3	1,079.9	1,048.7	-1.1	912.4	13.7	ECD (excluding Lloyd) grew ~9% YoY while Lloyd sales declined 9% YoY on account of muted AC demand
Lighting & Fixtures	380.0	374.0	322.7	17.7	369.5	2.8	Strong growth in lighting business largely driven by order execution of EESL & B2G projects wherein revenue increased from ₹ ~16 crore to ₹ 50 crore during Q4FY19. Revenue from lighting business (excluding EESL) increased 7% YoY

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20E			FY21E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	12025.1	11694.7	(2.7)	14047.3	13707.2	(2.4)	We model revenue CAGR of 17% in FY19-21E largely driven by ECD segment
EBITDA	1624.4	1492.8	(8.1)	1941.4	1883.2	(3.0)	
EBITDA Margin %	13.5	12.8	-74bps	13.8	13.7	-6bps	High competition in AC business kept price hike under check. We believe there will be a gradual recovery in margin in FY20E-21E from FY19 level
PAT	1072.4	978.2	(8.8)	1265.3	1244.4	(1.7)	
EPS (₹)	17.2	15.7	(8.8)	20.3	19.9	(1.7)	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current			Earlier			Comments
	FY18	FY19E	FY20E	FY21E	FY20E	FY21E	
Cable Growth (%)	9.3	24.4	13.7	13.6	14.2	12.5	Higher government expenditure in infrastructure growth would be a key growth driver for cable segment, going forward
Switchgear Growth (%)	0.1	19.4	14.0	15.1	16.4	15.2	Expectation of better demand from real estate and export segment would be key drivers for segment performance, going forward
ECD Growth (%)	115.8	29.4	18.3	21.3	34.8	20.8	Lower penetration coupled with rising aspiration level of middle class would help drive performance of ECD segment
Lighting & Fixtures (%)	19.1	11.9	19.9	16.4	12.4	16.4	Lighting segment growth to largely be driven by LED fixtures

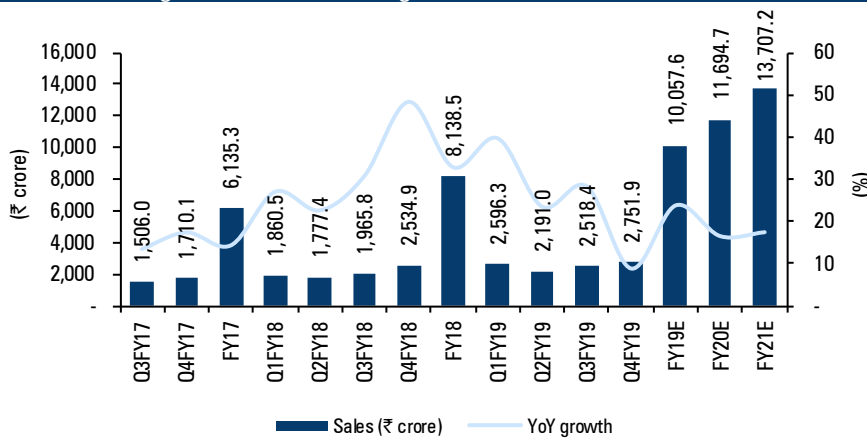
Source: Company, ICICI Direct Research

Conference call highlights

- Havells experienced a demand slowdown intensified by liquidity crunch, extended winters and impending general elections in Q4
- Fans and Lloyd AC sales impacted by delayed onset of summer
- Lloyd distribution through modern trade increased from 7-8% to 20-25% currently
- Lighting and ECD margins were impacted due to product mix
- Channel inventory in AC and fan is substantially lower while the company has witnessed a recovery in demand from April 2019 onwards
- The company is targeting an EBITDA margin of ~10% in the Lloyd business, which is largely dominated by air conditioner (80% of revenue contribution)
- The company has outlined a capex of ₹ 600 crore for FY20E mainly to expand the existing product capacity
- The company's new air conditioner plant is likely to commence operation from H2FY20. The benefit will flow from FY21 onwards
- Under the new product category, the company will enter the refrigerator segment by end of FY20

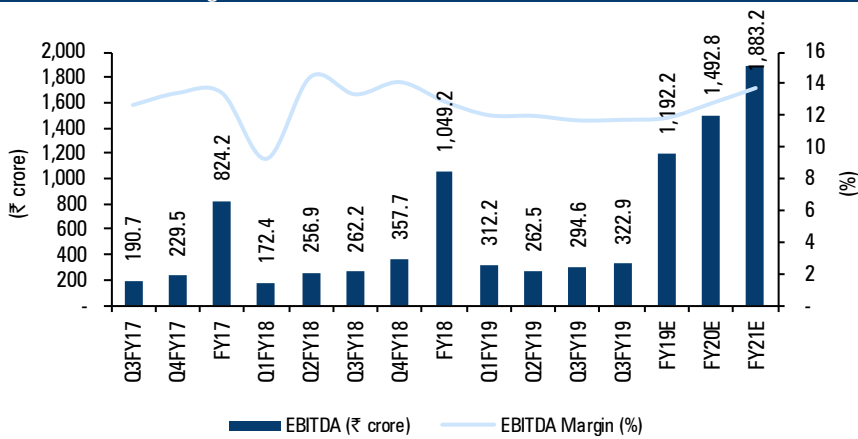
Financial story in charts

Exhibit 4: ECD segment leads revenue growth



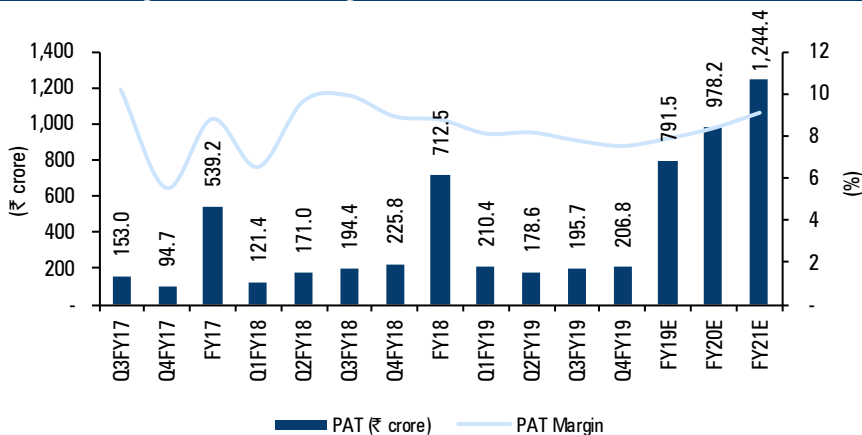
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA margin movement



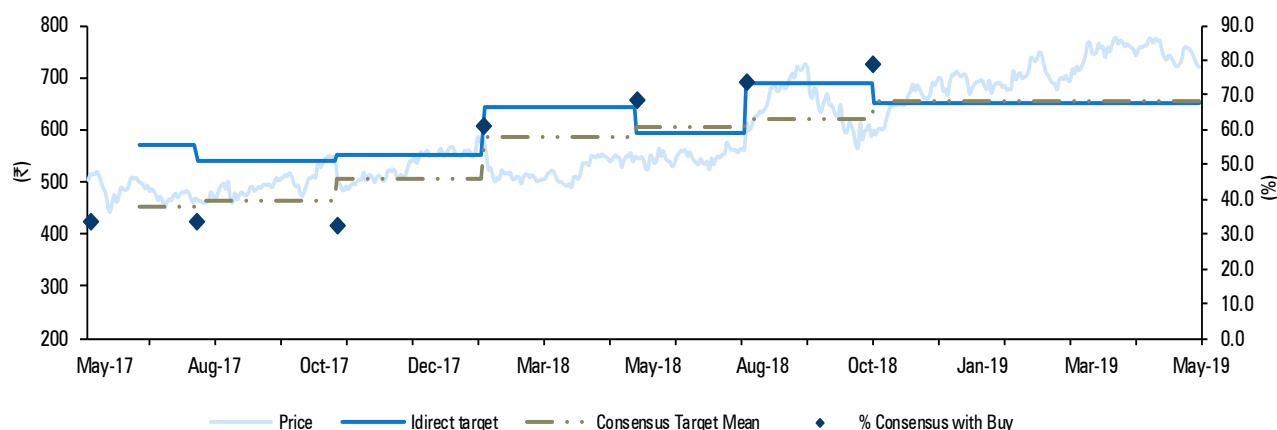
Source: Company, ICICI Direct Research

Exhibit 6: Sales growth leads PAT growth



Source: Company, ICICI Direct Research

Exhibit 7: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Top 10 Shareholders

Rank	Name	Last filing date	% O/S	Position (m)	Change (m)
1	QRG Enterprises, Ltd.	31-03-2019	41.3%	258.60M	0
2	Gupta (Anil Rai)	31-03-2019	10.2%	63.84M	0
3	Gupta (Surjeet Kumar)	31-03-2019	5.8%	36.43M	0
4	Nalanda India Equity Fund Ltd.	31-03-2019	5.3%	33.04M	0
5	Capital Research Global Investors	31-03-2019	3.0%	19.04M	+0.11M
6	Norges Bank Investment Management (NBIM)	31-03-2019	2.3%	14.25M	+0.82M
7	Gupta (Smt Vinod)	31-03-2019	2.2%	13.58M	0
8	Steadview Capital Management HK Limited	31-03-2019	1.7%	10.67M	+1.96M
9	The Vanguard Group, Inc.	30-04-2019	1.4%	8.65M	-0.03M
10	BlackRock Institutional Trust Company, N.A.	30-04-2019	1.2%	7.36M	-0.02M

Source: Reuters, ICICI Direct Research

Exhibit 9: Recent Activity

Buys			Sells		
Investor name	Value(m)	Shares(m)	Investor name	Value(m)	Shares(m)
Steadview Capital Management HK Limited	+21.92M	+1.96M	Gupta (Vinod)	-307.68M	-30.95M
Caisse de Depot et Placement du Quebec	+12.32M	+1.24M	Gupta (Sangeeta)	-139.46M	-14.03M
Norges Bank Investment Management (NBIM)	+9.17M	+0.82M	Gupta (Qimat Rai)	-136.60M	-13.58M
Wellington Management Company, LLP	+4.00M	+0.40M	Gupta (Santosh)	-77.36M	-7.78M
Capital Investment Trust Corporation	+2.28M	+0.23M	Gupta (Shalini)	-38.76M	-3.90M

Source: Reuters, ICICI Direct Research

Exhibit 10: Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	59.6	59.6	59.6	59.6	59.6
FII	24.9	24.8	25.8	26.5	27.3
DII	5.0	5.2	4.9	4.4	3.9
Others	10.5	10.5	9.8	9.5	9.3

Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement				
	₹ crore			
Year End March	FY18	FY19E	FY20E	FY21E
Total Operating Income	8138.5	10057.6	11694.7	13707.2
Growth (%)		23.6	16.3	17.2
Raw Material Expenses	3586.7	4513.0	6081.3	7401.9
Employee Expenses	649.7	832.4	861.0	909.4
Marketing Expenses	307.6	384.2	414.9	487.4
Other expenses	1151.2	1370.2	1547.3	1812.5
Operating Expenditure	7089.3	8865.4	10201.9	11824.1
EBITDA	1049.2	1192.2	1492.8	1883.2
Growth (%)		13.6	25.2	26.1
Other Income	117.0	127.6	152.4	183.7
Interest	24.0	15.9	4.9	6.1
Depreciation	139.5	148.6	178.9	219.3
Less: Exceptional Items	-11.9	0.0	0.0	0.0
PBT	1014.6	1155.3	1461.4	1841.4
Total Tax	302.2	363.7	483.3	597.1
PAT	712.5	791.5	978.2	1244.4

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet				
	₹ crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E
Equity Capital	62.5	62.6	62.6	62.6
Reserve and Surplus	3676.7	4180.0	4441.2	5314.3
Total Shareholders funds	3739.1	4242.5	4503.7	5376.9
Total Debt	108.0	40.5	40.5	60.5
Deferred Tax Liability	207.0	321.7	321.7	321.7
Total Liabilities	4077.3	4625.9	4887.2	5780.3
Assets				
Total Gross Block	3180.9	3445.6	3845.6	4245.6
Less Acc. Depreciation	706.2	854.7	1033.7	1253.0
Net Block	2474.7	2590.9	2811.9	2992.6
Capital WIP	24.1	232.2	232.2	232.2
Total Fixed Assets	2498.7	2823.0	3044.1	3224.8
Investment	491.21	67.29	109.29	209.29
Inventory	1621.7	1917.0	2242.8	2628.8
Debtors	325.4	422.4	961.2	1201.7
Other Current Assets	1359.9	833.3	818.6	959.5
Cash	301.2	678.0	115.3	319.1
Total Current Assets	3608.1	3859.6	4138.0	5109.1
Total Current Liabilities	2464.1	2553.1	2891.3	3249.9
Net Current Assets	1144.0	1306.6	1246.7	1859.2
Total Assets	4077.3	4625.9	4887.2	5780.3

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E
Profit after Tax	712.5	791.5	978.2	1244.4
Depreciation	139.5	148.6	178.9	219.3
CF before working cap changes	875.9	956.0	1162.0	1469.7
Net Increase in Current Assets	-670.8	125.3	-841.1	-767.3
Net Increase in Current Liabilities	1094.1	89.0	338.2	358.7
CF from operating activities	1299.3	1170.3	659.1	1061.0
(Purchase)/Sale of Liquid Investn	-8.0	-21.7	-50.0	-50.0
Others	-1352.6	-451.2	-350.0	-350.0
(Purchase)/Sale of Fixed Assets	-1360.6	-472.8	-400.0	-400.0
CF from Investing Activities	-1187.6	-421.9	-500.0	-500.0
Proceeds frm Equity Shares	0.0	0.0	0.0	0.0
Inc / (Dec) in Loan Funds	-94.6	-67.5	0.0	20.0
Others	-271.0	-304.0	-721.8	-377.3
CF from Financing Activities	-365.6	-371.5	-721.8	-357.3
Net Cash flow	-253.9	376.8	-562.7	203.8
Opening Cash	555.1	301.2	678.0	115.3
Closing Cash	301.2	678.0	115.3	319.1

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
	₹ crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E
Per Share Data				
Reported EPS	11.4	12.7	15.7	19.9
Cash EPS	13.7	15.1	18.5	23.5
BV per share	59.9	68.0	72.2	86.2
DPS	4.8	5.4	4.2	6.0
Operating Ratios (%)				
EBITDA Margin (%)	12.9	11.9	12.8	13.7
PAT Margin (%)	8.7	7.9	8.4	9.1
Asset Turnover	2.0	2.2	2.4	2.4
Debtors Turnover	14.6	15.3	30.0	32.0
Creditor Turnover	73.3	56.6	55.0	55.0
Return Ratios (%)				
RoE	18.8	18.7	21.7	23.1
RoCE	25.2	25.3	30.0	32.0
RoIC	22.6	25.7	26.2	29.3
Valuation Ratios				
EV / EBITDA	43.2	37.6	30.4	24.0
P/E	63.9	57.5	46.6	36.6
EV / Net Sales	5.6	4.5	3.9	3.3
EV / Net Sales	5.6	4.5	3.9	3.3
Market Cap / Sales	5.6	4.5	3.9	3.3
Price to Book Value	12.2	10.7	10.1	8.5
Solvency Ratios				
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.8	1.8	2.1	2.1
Quick Ratio	0.9	0.7	0.9	0.9

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY18E	FY19E	FY20E
Asian Paints (ASIPAI)	1,373	1,600	Buy	131,671	23.1	26.9	31.8	59.5	51.0	43.2	36.0	30.4	25.3	30.0	32.0	32.5	23.2	24.6	24.6
Astral Polytechnik (ASTPOL)	1,266	1,250	Hold	15,160	16.5	20.9	27.9	76.8	60.5	45.4	36.4	29.1	22.8	20.7	22.7	26.0	15.4	16.6	18.3
Bajaj Electricals (BAJELE)	543	525	Hold	5,541	18.9	21.4	26.3	28.8	25.3	20.7	14.8	13.0	11.5	17.2	17.8	19.5	18.5	17.9	18.5
Havells India (HAVIND)	715	800	Hold	44,609	12.7	15.7	19.9	56.4	45.6	35.8	36.9	29.8	23.5	25.3	30.0	32.0	18.7	21.7	23.1
Kansai Nerolac (KANNER)	442	455	Hold	23,820	8.7	9.7	11.3	51.0	45.7	39.1	29.5	25.7	22.0	20.2	21.8	22.9	13.6	14.6	15.4
Pidilite Industries (PIDIND)	1,266	1,335	Buy	64,900	18.5	22.0	26.1	68.4	57.5	48.6	42.2	38.6	32.5	33.6	29.6	31.4	27.0	21.7	22.8
Essel Propack (ESSPRO)	130	136	Hold	4,085	6.2	6.7	7.9	21.0	19.4	16.4	9.3	8.3	7.2	16.9	17.4	19.3	13.9	13.7	15.0
Supreme Indus (SUPIND)	1,070	1,075	Buy	13,592	35.3	39.3	44.8	30.3	27.2	23.9	16.6	14.0	12.4	25.0	28.6	28.6	18.7	21.5	21.5
Symphony (SYMLIM)	1,375	1,110	Hold	9,619	13.0	23.2	31.6	105.7	59.2	43.5	35.9	63.5	35.3	41.3	18.7	30.4	31.5	16.2	27.0
V-Guard Ind (VGUARD)	225	205	Hold	9,578	3.3	4.2	5.1	67.8	53.6	43.7	43.9	41.9	32.8	23.7	24.0	26.0	17.7	18.2	19.8
Voltas Ltd (VOLTAS)	569	605	Hold	18,819	15.5	18.3	21.9	36.6	31.1	26.0	27.5	28.8	22.7	19.8	17.3	19.9	14.8	12.7	15.1
Time Techno (TIMTEC)	98	110	Hold	2,216	9.0	10.6	12.5	10.9	9.2	7.8	6.2	5.7	5.2	14.9	15.0	15.8	12.2	12.1	12.9

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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