

Lloyd business remains a drag...

Havells' performance remained muted during Q2FY20, below our estimate mainly due to ~30% decline in revenue of the Lloyd business. Under Lloyd, while the AC business remain flat YoY, the LED panel business recorded a sharp price correction of up to 25% in Q2FY20 due to lower demand and intense competition. The management has reiterated that low spending in infrastructure and industrial activities has hurt demand for industrial products categories (like industrial cable & switchgear segments). A sharp decline in profitability of Lloyd business (in addition to higher fixed associated with new facility operating at low utilisation) has impacted overall EBITDA margin of the company. Though the management guided for a recovery in EBITDA margin from H2FY20E onwards, we believe it would be below its five year average margin of ~13%. We cut our revenue, earning estimate by 6% and 7%, respectively, for FY20E and believe a possible recovery would start from FY21E onwards.

Demand weakness continues for Lloyd and industrial products

Havells witnessed sluggishness in demand of industrial products categories led by a slowdown in private capex and real estate sector. In addition to this, a sharp price erosion in the LED panel and lighting business also aided muted topline growth for the company in Q2FY20. However, the management expects a better demand scenario in H2FY20 over H1FY20 led by a revival in consumer sentiments with a recovery in demand of Lloyd's air conditioner business. Also, dealer addition in rural India coupled with stabilisation of new air conditioner plants would aid growth, going forward. We revise our revenue growth estimates down to 11% (from 15%) in FY19-21E largely driven by ~17% CAGR in the ECD (ex Lloyd) segments.

Lower profitability of Lloyd weighs on overall margins

As expected, EBITDA margins declined ~150 bps YoY at 10.5% mainly due to a sharp decline in the profitability of the Lloyd business. Price erosion in the LED panel business coupled with higher fixed cost associated with underutilised AC plants impacted overall EBITDA margins in Q2FY20. We believe the EBITDA margin would start recovering from FY21E onwards with increase in AC plant utilisation and recovery in demand of industrial products. We believe pressure to take a price hike on rising competition in the Lloyd business would keep overall EBITDA margins under check.

Valuation & Outlook

While Havells' industrial product business was impacted by a slowdown in capex, the consumer facing business witnessed pressure on the pricing front, resulting in lower EBITDA margin. We maintain our target price and **HOLD** rating on the stock considering Havell's strong balance sheet.



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	41,801.3
Total Debt (FY19) (₹ Crore)	40.5
Cash and Inv (FY19) (₹ Crore)	707.7
EV (₹ Crore)	41,134.1
52 week H/L	807 / 588
Equity capital (₹ Crore)	62.5
Face value (₹)	1.0

Key Highlights

- Lloyd business dragged overall Havells' performance in Q2FY20
- Industrial product demand remained muted owing to delay in fresh government projects
- Margin expected to recover in FY21 albeit at a slower pace than FY19 level
- We maintain HOLD rating on the stock with revised target price of ₹ 720/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	10827.4	12466.2	11.3
EBITDA	824.2	1049.2	1192.2	1176.8	1568.5	14.7
EBITDA Margin (%)	13.4	12.9	11.9	10.9	12.6	
PAT	539.2	712.5	791.5	828.5	1123.4	19.1
EPS (₹)	8.6	11.4	12.7	13.3	18.0	
P/E (x)	77.1	58.3	52.5	50.2	37.0	
Price/Book Value (x)	12.7	11.1	9.8	9.5	8.1	
Mcap/Sales	6.8	5.1	4.1	3.8	3.3	
RoE (%)	17.7	18.8	18.7	19.0	22.0	
RoCE (%)	23.4	25.2	25.3	23.7	27.5	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q2FY20	Q2FY20E	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	Comments
Revenue	2230.3	2371.6	2191.0	1.8	2712.0	-17.8	Muted performance of Lloyd and industrial product category hurt topline growth
Other Income	29.2	38.1	34.3	-14.8	39.7	-26.4	
Raw Material Exp	1069.6	1090.9	982.5	8.9	1276.7	-16.2	
Employee Exp	239.5	218.2	203.4	17.8	241.3	-0.8	
Purchase of Traded goods	288.4	403.2	369.4	-21.9	422.2	-31.7	
Other expenses	398.8	391.3	373.3	6.8	496.2	-19.6	
EBITDA	234.1	268.0	262.5	-10.8	275.7	-15.1	
EBITDA Margin (%)	10.5	11.3	12.0	-149 bps	10.2	33 bps	Sharp decline in profitability of Lloyd business dragged overall EBITDA margin of the company
Depreciation	53.1	47.1	39.1	35.7	46.9	13.2	
Interest	5.1	4.7	3.7	40.4	4.7	8.9	
PBT	205.1	254.2	254.0	-19.3	263.8	-22.3	Lower EBITDA margin and other income resulted in lower PBT
Total Tax	23.7	63.6	75.4	-68.6	89.8	-73.6	Transition to new corporate rate tax
PAT	181.4	190.7	178.6	1.5	173.9	4.3	
Key Metrics							
Cable	821.3	820.1	766.5	7.2	778.5	5.5	Delay in fresh government projects since elections had impacted demand for industrial cable business
Switchgear	397.7	453.7	400.6	-0.7	377.5	5.4	Slowdown in real estate and industrials hurt switchgear demand
ECD	730.5	787.6	738.3	-1.1	1,275.5	-42.7	ECD (excluding Lloyd) grew ~15% YoY at ~₹ 551 crore led by market share gains in SDA, water heater and personal grooming. while Lloyd sales declined 30% YoY at ₹ 180 crore mainly due to a steep decline in sales of LED panels and muted AC demand
Lighting & Fixtures	280.5	380.0	285.6	-1.8	380.0	-26.2	Lower demand of professional luminaires coupled with absence of price hike had impacted lighting segment

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20E			FY21E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	11480.3	10827.4	(5.7)	13234.0	12466.2	(5.8)	We cut our revenue estimate for FY20E and FY21E by factoring in current quarter performance
EBITDA	1376.0	1176.8	(14.5)	1739.6	1568.5	(9.8)	
EBITDA Margin %	12.0	10.9	-113bps	13.1	12.6	-52bps	High competition in LED and AC business has hurt overall profitability of the company. We believe higher utilisation of new plants (of Lloyd) would result in reduction in fixed cost, which would benefit the company from FY21E onwards
PAT	887.0	828.5	(6.6)	1110.0	1123.4	1.2	
EPS (₹)	14.2	13.3	(6.6)	17.8	18.0	1.2	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current			Earlier			Comments
	FY18	FY19E	FY20E	FY21E	FY20E	FY21E	
Cable Growth (%)	9.3	24.4	8.6	13.8	12.7	13.8	Slowdown in industrial and infrastructure spending would keep demand under check
Switchgear Growth (%)	0.1	19.4	4.4	13.1	10.7	13.0	Absence of fresh demand from real estate sector hurt switchgear demand
ECD Growth (%)	115.8	29.4	7.8	16.6	16.9	17.0	Lower penetration, new launches coupled with rising aspiration level of middle class would help drive performance of ECD segment
Lighting & Fixtures (%)	19.1	11.9	9.1	16.7	14.2	16.7	Lighting segment growth to largely be driven by LED fixtures. However, pricing pressure remains in the profession luminaries segments

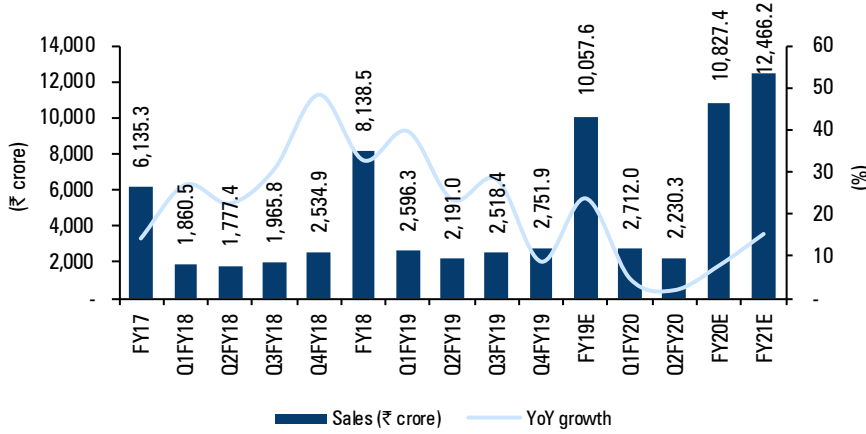
Source: Company, ICICI Direct Research

Conference call highlights

- The company has continuously witnessed sluggishness in demand for industrial products category such as industrial switchgear & cable segments. This was largely on account of lower private capex and funding issues due to the NBFC crisis
- Under the Lloyd brand, the air conditioner segment witnessed flattish sales while LED panels suffered a greater decline in sales (price erosion of up to 25%) due to competition from new Chinese products. However, the company wishes to continue its LED panel business
- The company's Lloyd business is undergoing structural changes such as re-alignment of its distribution networks. Havells hopes to complete the exercise by the end of Q4FY20
- The company's ECD business witnessed a strong performance by gaining market share gain in the water heater, personal grooming products and domestic appliances business
- Havells maintains its vision to increase Lloyd's non AC product contribution to 50% in the next five years
- The company is likely to launch its refrigerator products in Q1FY21. It will be initially an outsourcing model and will be pushed through same distribution channel of Lloyds
- The company has 25% market share in the premium fan segment. It has guided for ₹ 300 crore capex for FY21E largely towards increasing the fan manufacturing capacity (brownfield)

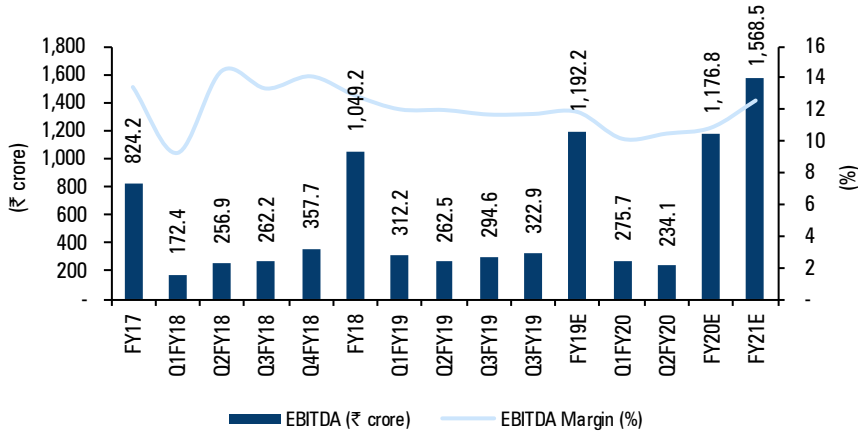
Financial story in charts

Exhibit 4: ECD segment leads revenue growth



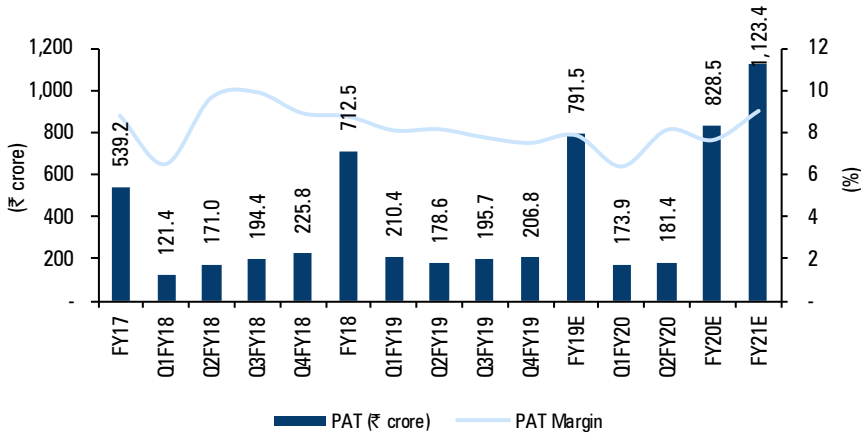
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA margin movement



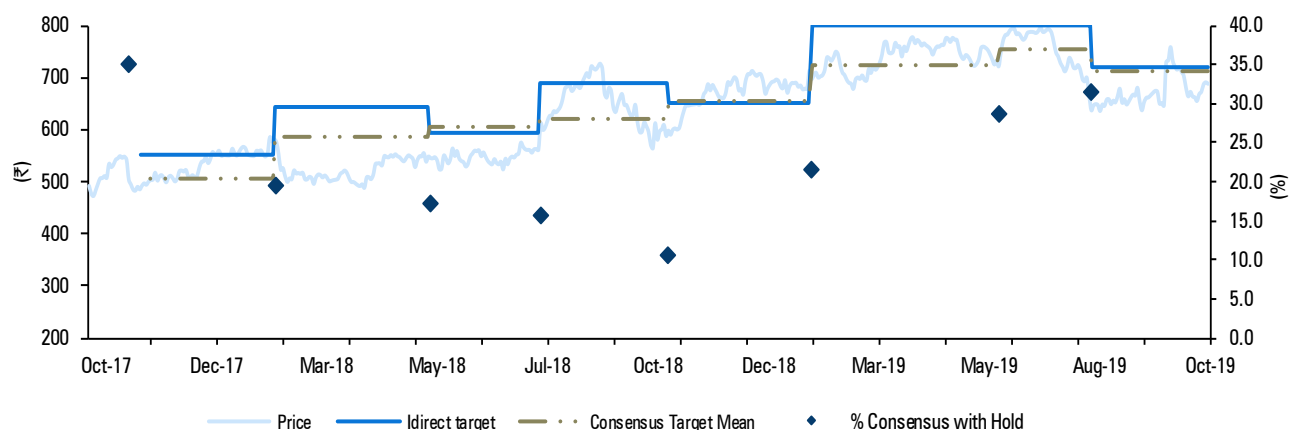
Source: Company, ICICI Direct Research

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	Latest Filing Date	% O/S	Position (m)	Change (m)
1	QRG Enterprises, Ltd.	30-Sep-19	41.3	258.6	0.0
2	Gupta (Anil Rai)	30-Sep-19	12.4	77.4	0.0
3	Gupta (Surjeet Kumar)	30-Sep-19	5.8	36.4	0.0
4	Nalanda India Equity Fund Ltd.	30-Sep-19	5.3	33.0	0.0
5	Life Insurance Corporation of India	30-Sep-19	2.9	18.2	6.8
6	Capital Research Global Investors	30-Sep-19	2.5	15.8	0.0
7	Norges Bank Investment Management (NBIM)	30-Jun-19	2.4	14.8	0.6
8	Steadview Capital Management HK Limited	30-Sep-19	1.7	10.7	0.0
9	The Vanguard Group, Inc.	30-Sep-19	1.4	8.8	0.0
10	BlackRock Institutional Trust Company, N.A.	30-Sep-19	1.1	6.8	0.0

Source: Reuters, ICICI Direct Research

Exhibit 9: Recent Activity

Buys				Sells			
Investor name	Value(m)	Shares(m)		Investor name	Value(m)	Shares(m)	
Life Insurance Corporation of India	69.0	6.8		Gupta (Smt Vinod)	-154.9	-13.6	
Norges Bank Investment Management (NBIM)	6.4	0.6		Fidelity Management & Research (Hong Kong) Limited	-6.5	-0.7	
T. Rowe Price Associates, Inc.	5.0	0.5		Ivy Investment Management Company	-6.9	-0.6	
Kotak Mahindra Asset Management Company Ltd.	3.0	0.3		Tredje AP Fonden	-4.8	-0.4	
Florida State Board of Administration	3.1	0.3		Tata Asset Management Limited	-4.1	-0.4	

Source: Reuters, ICICI Direct Research

Exhibit 10: Shareholding Pattern

(in %)	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
Promoter	59.6	59.6	59.6	59.5	59.5
FII	25.8	26.5	27.3	27.0	26.3
DII	4.9	4.4	3.9	4.6	3.2
Others	9.7	9.5	9.2	8.9	11.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement				
	₹ crore			
Year End March	FY18	FY19	FY20E	FY21E
Total Operating Income	8138.5	10057.6	10827.4	12466.2
Growth (%)		23.6	7.7	15.1
Raw Material Expenses	3586.7	4513.0	4836.0	6731.7
Employee Expenses	649.7	832.4	978.7	789.4
Marketing Expenses	307.6	384.2	400.4	480.7
Other expenses	1151.2	1370.2	1566.6	1683.0
Operating Expenditure	7089.3	8865.4	9650.6	10897.7
EBITDA	1049.2	1192.2	1176.8	1568.5
Growth (%)		13.6	-1.3	33.3
Other Income	117.0	127.6	152.4	183.7
Interest	24.0	15.9	18.1	12.4
Depreciation	139.5	148.6	205.7	236.9
Less: Exceptional Items	-11.9	0.0	0.0	0.0
PBT	1014.6	1155.3	1105.4	1502.8
Total Tax	302.2	363.7	276.8	379.4
PAT	712.5	791.5	828.5	1123.4

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Profit after Tax	712.5	791.5	828.5	1123.4
Depreciation	139.5	148.6	205.7	236.9
CF before working cap changes	875.9	956.0	1052.3	1372.7
Net Increase in Current Assets	-670.8	125.3	-542.7	-632.0
Net Increase in Current Liabilities	1094.1	89.0	123.8	278.8
CF from operating activities	1299.3	1170.3	633.4	1019.5
(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	-735.0	-383.7
CF from Financing Activities	-365.6	-371.5	-735.0	-363.7
Net Cash flow	-253.9	376.8	-601.6	155.9
Opening Cash	555.1	301.2	678.0	76.4
Closing Cash	301.2	678.0	76.4	232.3

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Equity Capital	62.5	62.6	62.6	62.6
Reserve and Surplus	3676.7	4180.0	4291.6	5043.7
Total Shareholders funds	3739.1	4242.5	4354.1	5106.3
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	4737.5	5509.7
Assets				
Total Gross Block	3180.9	3445.6	3845.6	4245.6
Less Acc. Depreciation	706.2	854.7	1060.5	1297.3
Net Block	2474.7	2590.9	2785.1	2948.3
Capital WIP	24.1	232.2	232.2	232.2
Total Fixed Assets	2498.7	2823.0	3017.3	3180.4
Investment	491.21	67.29	109.29	209.29
Inventory	1621.7	1917.0	2076.5	2390.8
Debtors	325.4	422.4	889.9	1092.9
Other Current Assets	1359.9	833.3	757.9	872.6
Cash	301.2	678.0	76.4	232.3
Total Current Assets	3608.1	3859.6	3800.7	4588.6
Total Current Liabilities	2464.1	2553.1	2676.9	2955.7
Net Current Assets	1144.0	1306.6	1123.9	1632.9
Total Assets	4077.3	4625.9	4737.5	5509.7

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Per Share Data				
Reported EPS	11.4	12.7	13.3	18.0
Cash EPS	13.7	15.1	16.6	21.8
BV per share	59.9	68.0	69.8	81.8
DPS	4.8	5.4	4.2	6.0
Operating Ratios (%)				
EBITDA Margin (%)	12.9	11.9	10.9	12.6
PAT Margin (%)	8.7	7.9	7.7	9.0
Asset Turnover	2.0	2.2	2.3	2.3
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	19.0	22.0
RoCE	25.2	25.3	23.7	27.5
RoIC	22.6	25.7	20.1	24.7
Valuation Ratios				
EV / EBITDA	39.4	34.3	35.2	26.3
P/E	58.3	52.5	50.2	37.0
EV / Net Sales	5.1	4.1	3.8	3.3
EV / Net Sales	5.1	4.1	3.8	3.3
Market Cap / Sales	5.1	4.1	3.8	3.3
Price to Book Value	11.1	9.8	9.5	8.1
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		FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Asian Paints (ASIPAI)	1,790	2,050	Buy	171,661	23.0	32.1	38.5	77.7	55.7	46.5	44.7	38.0	31.4	30.4	32.1	33.6	23.2	28.1	28.2
Astral Polytechnik (ASTPOL)	1,132	1,275	Hold	13,556	16.5	17.2	24.3	68.7	65.9	46.6	36.7	29.3	22.3	20.7	22.3	26.0	15.4	17.0	19.7
Bajaj Electricals (BAJELE)	386	320	Reduce	3,939	16.3	14.2	17.7	23.7	27.2	21.8	15.2	14.2	11.8	13.8	13.4	15.2	15.5	13.1	14.5
Havells India (HAVIND)	670	720	Hold	41,801	12.7	13.3	18.0	52.8	50.5	37.2	34.3	35.2	26.3	25.3	23.7	27.5	18.7	19.0	22.0
Kansai Nerolac (KANNER)	526	620	Buy	28,347	8.7	10.1	12.6	60.7	52.1	41.9	35.0	33.2	26.6	20.2	19.9	21.8	13.6	15.1	16.6
Pidilite Industries (PIDIND)	1,356	1,625	Buy	69,519	18.8	19.2	22.4	72.1	70.7	60.5	50.4	39.5	33.7	29.6	33.6	34.5	22.7	26.9	27.3
Essel Propack (ESSPRO)	110	95	Reduce	3,456	6.2	7.1	8.0	17.8	15.4	13.8	7.5	6.8	5.9	16.9	16.6	18.5	13.9	13.9	14.9
Supreme Indus (SUPIND)	1,210	1,420	Buy	15,370	35.3	43.3	52.0	34.3	27.9	23.3	19.9	17.1	14.3	25.0	27.2	28.4	18.7	23.2	23.7
Symphony (SYMLIM)	1,221	1,295	Hold	8,542	13.0	23.0	34.1	93.9	53.2	35.8	39.2	65.9	32.4	41.3	18.7	34.0	31.5	16.2	29.2
V-Guard Ind (VGUARD)	243	230	Hold	10,344	3.9	5.0	5.7	62.3	48.6	42.7	53.2	45.0	33.9	23.7	23.7	29.1	17.7	18.4	22.1
Voltas Ltd (VOLTAS)	707	700	Hold	23,383	15.5	27.2	23.8	45.5	26.0	29.7	28.1	29.4	14.9	19.8	17.3	27.4	14.8	12.7	21.0
Time Techno (TIMTEC)	59	70	Hold	1,334	9.0	9.3	10.9	6.6	6.3	5.4	4.5	4.2	4.0	14.9	15.0	14.3	12.2	12.1	11.5

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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