

Lloyd, industrial segment drag performance...

Havells' performance was marred by industrial products (~30% of total revenue) and Lloyd segment in Q3FY20. Cable and switchgear segments degrew ~13% and ~6%, respectively, mainly on account of sluggish government spending on infrastructure & industrial activities. Lighting business, on the other hand, also reported a sharp fall in revenue by 18% YoY due to price correction and subdued demand of professional luminaires. Consumer facing businesses such as ECD and Lloyd faced low inventory build-up at dealers' level due to liquidity issues. Under Lloyd, while the AC business remained flat YoY, the LED panel business recorded a sharp price correction due to lower demand and intense competition. The management reiterated a further improvement in EBITDA margin (visible on a QoQ basis in Q3FY20) in FY21E with a recovery in demand of Lloyd business coupled with improved government spending.

Management reiterates demand recovery, going forward

The company witnessed sluggishness in demand for industrial products (such as power cable and industrial switchgear category) led by a slowdown in government offtake. In addition to this, a sharp price erosion in the LED panel and lighting business also aided muted topline growth for the company in Q3FY20. However, the management expects a better demand scenario in Q4FY20 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 and launch of refrigerator in Q1FY21 would aid growth, going forward. We introduce FY22E estimates with revenue growth of 12% and FY19-22E revenue CAGR of 9% largely driven by ~13% CAGR in the ECD (including Lloyd) segments.

Margin improves on better product mix

EBITDA margin increased ~130 bps QoQ (flattish YoY against our expectation of 70 bps decline YoY). This improvement was on the back of a better product mix (led by gross margin improvement) and cost rationalisation (on fixed overheads and low advertisement expenditure). 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 limit the overall EBITDA margins expansion.

Valuation & Outlook

While Havells' industrial products and Lloyd business was largely impacted by a slowdown in government capex and lower offtake by dealers, EBITDA margins improved on better product mix and cost rationalisation initiatives. We roll over our valuation on FY22E, valuing the stock at 35x FY22E earnings. We maintain our **HOLD** rating with a revised target price of ₹ 640/share.



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	37,558.8
Total Debt (FY19) (₹ Crore)	40.5
Cash and Inv (FY19) (₹ Crore)	707.7
EV (₹ Crore)	36,891.6
52 week H/L	807 / 588
Equity capital (₹ Crore)	62.5
Face value (₹)	1.0

Key Highlights

- Industrial business and Lloyd business dragged overall Havells' performance in Q3FY20
- Industrial product demand remained muted owing to delay in fresh government projects
- Margin expected to recover in FY21E onwards with improved performance in Lloyd front
- We maintain HOLD rating on the stock with revised target price of ₹ 640/share

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Key Financial Summary

₹ Crore	FY18	FY19	FY20E	FY21E	FY22E	CAGR FY19-22E
Net Sales	8138.5	10057.6	10199.6	11704.3	13130.4	9.3
EBITDA	1049.2	1192.2	1136.8	1449.5	1649.6	11.4
EBITDA Margin (%)	12.9	11.9	11.1	12.4	12.6	
PAT	712.5	791.5	800.3	970.2	1127.6	12.5
EPS (₹)	11.4	12.7	12.8	15.6	18.1	
P/E (x)	52.7	47.5	46.9	38.7	33.3	
Price/Book Value (x)	10.0	8.9	8.7	7.6	6.6	
Mcap/Sales	4.6	3.7	3.7	3.2	2.9	
RoE (%)	18.8	18.7	18.5	19.7	19.8	
RoCE (%)	25.2	25.3	22.3	25.1	25.1	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q3FY20	Q3FY20E	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	Comments
Revenue	2269.9	2674.9	2518.4	-9.9	2230.3	1.8	Industrial product category and Lloyd remained a drag on the topline
Other Income	24.0	38.1	33.1	-27.4	29.2	-17.9	
Raw Material Exp	1120.5	1016.5	940.9	19.1	1069.6	4.8	
Employee Exp	219.4	240.7	210.8	4.1	239.5	-8.4	
Purchase of Traded goods	256.1	642.0	634.2	-59.6	288.4	-11.2	
Other expenses	406.6	481.5	438.0	-7.2	398.8	2.0	
EBITDA	267.3	294.2	294.6	-9.2	234.1	14.2	
EBITDA Margin (%)	11.8	11.0	11.7	8 bps	10.5	128 bps	Despite muted sales, gross margins were up 190 bps YoY owing to better product mix resulting in flattish EBITDA margin
Depreciation	55.2	54.8	35.3	56.3	53.1	3.9	
Interest	5.3	5.1	3.6	47.8	5.1	2.3	
PBT	230.9	272.4	288.8	-20.0	205.1	12.6	Lower sales and sharp decline in other income resulted in lower PBT
Total Tax	30.5	71.4	93.1	-67.2	23.7	28.8	Transition to new corporate rate tax
PAT	200.4	201.0	195.7	2.4	181.4	10.5	
Key Metrics							
Cable	712.1	878.0	820.3	-13.2	821.3	-13.3	While domestic wire segment increased in low single digits, the power cable business was hurt by industrial & infrastructure slowdown and fall in commodity prices
Switchgear	371.3	438.5	392.9	-5.5	397.7	-6.6	Slowdown in real estate and industrials hurt switchgear demand
ECD	881.9	963.4	935.7	-5.8	730.5	20.7	Lloyd sales declined 16% YoY to ₹ 300 crore mainly due to a steep decline in sales of LED panels and muted AC demand. ECD (excluding Lloyd) remained flat YoY owing to liquidity issue at dealer level
Lighting & Fixtures	304.6	395.1	369.5	-17.6	380.0	-19.8	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			FY22E	Comments
	Old	New	% Change	Old	New	% Change	Introduced	
Revenue	10827.4	10199.6	(5.8)	12466.2	11704.3	(6.1)	13130.4	We cut our revenue estimate for FY20E and FY21E by factoring in current quarter performance. We introduce FY22E estimates with topline growth of 12% YoY
EBITDA	1176.8	1136.8	(3.4)	1568.5	1449.5	(7.6)	1649.6	
EBITDA Margin %	10.9	11.1	25bps	12.6	12.4	-22bps	12.6	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 in terms of improvement in EBITDA margin
PAT	828.5	800.3	(3.4)	1123.4	970.2	(13.6)	1127.6	
EPS (₹)	13.3	12.8	(3.6)	18.0	15.6	(13.6)	18.1	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current			Earlier			Comments
	FY19E	FY20E	FY21E	FY22E	FY20E	FY21E	
Cable Growth (%)	24.4	1.2	12.0	10.0	8.6	13.8	We expect industrial product demand revival from FY21E onwards backed by increase in government spending
Switchgear Growth (%)	19.4	-4.0	13.1	9.9	4.4	13.1	Low base coupled with revival in industrial switchgear demand to drive switchgear sales, going forward
ECD Growth (%)	29.4	5.1	18.6	15.0	7.8	16.6	Lower penetration, new launches coupled with rising aspiration level of middle class would help drive performance of ECD segment
Lighting & Fixtures (%)	11.9	-1.9	11.8	11.1	9.1	16.7	Lighting segment growth to be largely driven by LED fixtures. However, pricing pressure remains in profession luminaries segments

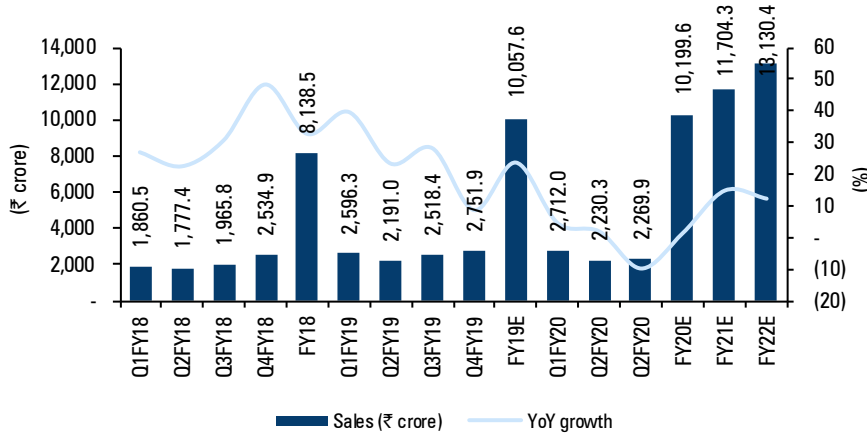
Source: Company, ICICI Direct Research

Conference call highlights

- The company has continuously witnessed a sluggishness in demand for industrial products category (largely B2B and 30% of total revenue) such as industrial switchgear, cable and professional luminaires segments. This was largely on account of lower private capex and funding issues
- Domestic wires (nearly 50% of total cable and wire revenue) grew in low single digits. Power cables were weighed down by industrial and infrastructure slowdown and fall in prices of commodities
- The switchgear category was largely impacted by a decline in industrial switchgear owing to sluggish infrastructure and government driven procurement
- On the lighting segment, while consumer lighting business witnessed a stable performance, the professional lightings and fixture segment witnessed a sharp price erosion
- While the water heater segment in the ECD category reported good demand traction, the other product categories witnessed lower offtake by key dealers owing to liquidity issues. Despite muted ECD performance, the company maintained its market share
- Under the Lloyd brand, the air conditioner segment witnessed flattish sales while LED panels suffered a greater decline in sales due to competition
- The company's Lloyd business is undergoing structural changes such as re-alignment of its distribution networks and supply chain. The benefit would start being visible from Q4FY20 onwards
- The company is likely to launch its refrigerator products in Q1FY21. It will be initially an outsourcing model and will be pushed through the same distribution channel of Lloyds

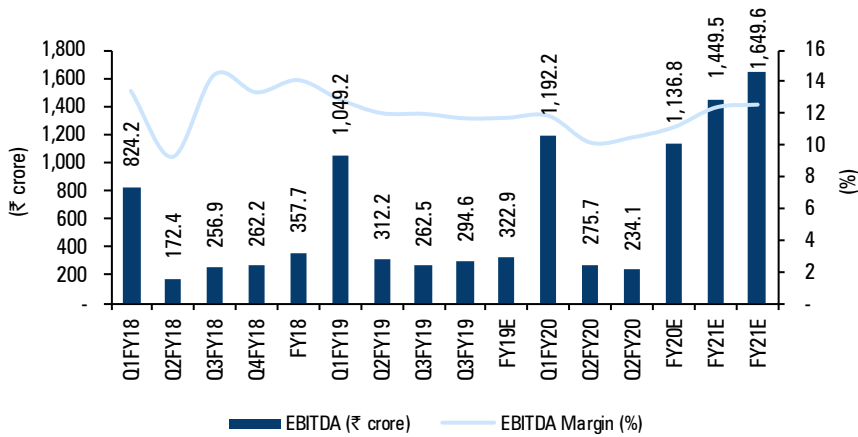
Financial story in charts

Exhibit 4: ECD segment leads revenue growth



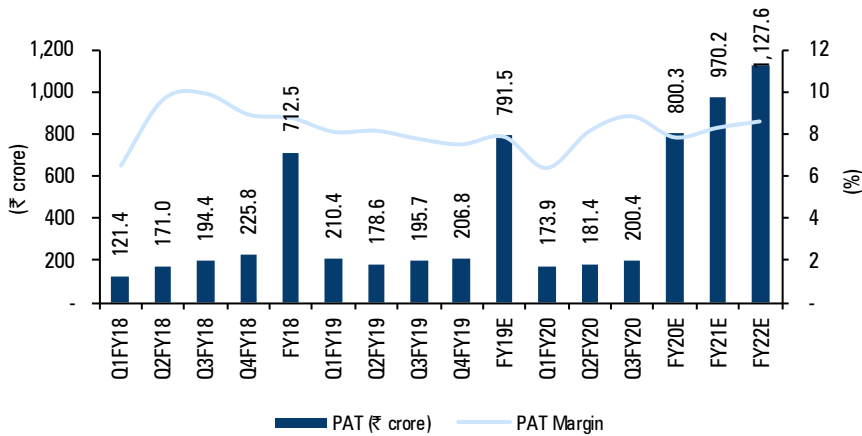
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA margin movement



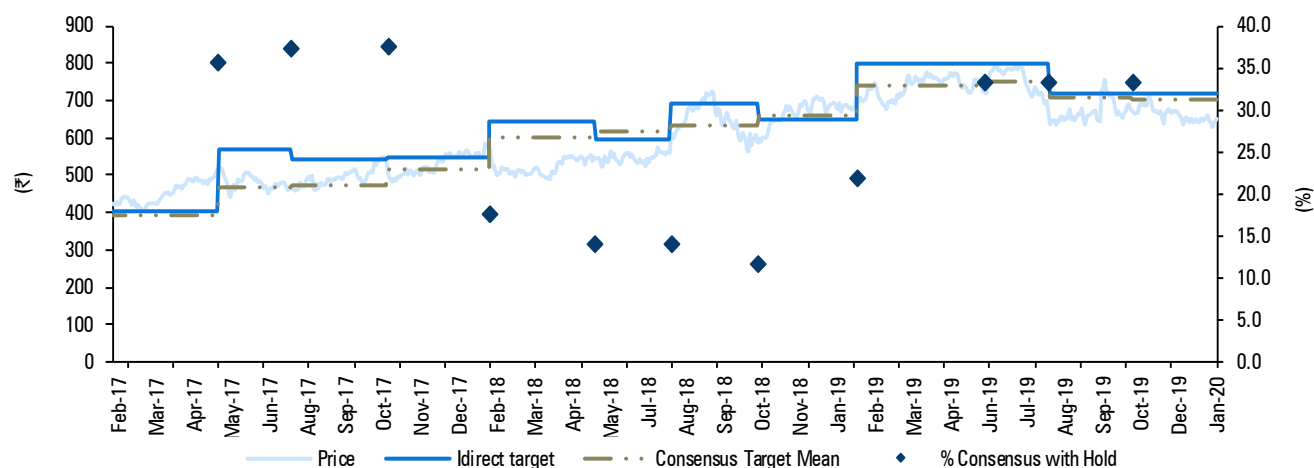
Source: Company, ICICI Direct Research

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	Investor Name	Filing Date	% O/S	Position (%)	Change
1	ANIL RAI GUPTA AS MA	30-Jun-19	12.4	77.43m	0.00m
2	ORG INVESTMENTS	30-Jun-19	11.0	68.74m	0.00m
3	NALANDA INDIA EQUITY	30-Jun-19	5.3	33.04m	0.00m
4	CAPITAL GROUP COMPAN	31-Dec-19	2.7	17.10m	1.23m
5	GOVERNMENT PENSION F	30-Jun-19	2.4	14.81m	0.56m
6	NORGES BANK	31-Dec-18	2.1	13.42m	0.00m
7	LIFE INSURANCE CORP	30-Jun-19	1.8	11.43m	11.43m
8	STEADVIEW CAPITAL MA	30-Jun-19	1.7	10.67m	0.00m
9	BLACKROCK	21-Jan-20	1.7	10.65m	(0.13)m
10	VANGUARD GROUP	31-Dec-19	1.4	8.75m	(0.11)m

Source: Bloomberg ICICI Direct Research

Exhibit 9: Shareholding Pattern

(in %)	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Promoter	59.6	59.6	59.5	59.5	59.5
FII	26.5	27.3	27.0	26.3	25.9
DII	4.4	3.9	2.6	2.2	2.0
Others	9.5	9.2	11.0	12.0	12.6

Source: Company, ICICI Direct Research

Financial summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Total Operating Income	10057.6	10199.6	11704.3	13130.4
Growth (%)		1.4	14.8	12.2
Raw Material Expenses	4513.0	4839.7	5875.5	6959.1
Employee Expenses	832.4	939.2	1029.7	1119.1
Marketing Expenses	384.2	378.1	442.2	568.1
Other expenses	1370.2	1461.2	1703.8	1850.8
Operating Expenditure	8865.4	9062.8	10254.8	11480.7
EBITDA	1192.2	1136.8	1449.5	1649.6
Growth (%)		-4.6	27.5	13.8
Other Income	127.6	128.4	132.6	159.8
Interest	15.9	21.3	26.3	28.2
Depreciation	148.6	214.2	245.8	275.7
Less: Exceptional Items	0.0	0.0	0.0	0.0
PBT	1155.3	1029.8	1310.1	1505.5
Total Tax	363.7	229.5	339.9	377.9
PAT	791.5	800.3	970.2	1127.6

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Equity Capital	62.6	62.6	62.6	62.6
Reserve and Surplus	4180.0	4263.3	4862.3	5618.6
Total Shareholders funds	4242.5	4325.8	4924.8	5681.2
Total Debt	40.5	40.5	60.5	80.5
Deferred Tax Liability	321.7	321.7	321.7	321.7
Total Liabilities	4625.9	4709.3	5328.2	6104.6
Assets				
Total Gross Block	3445.6	3845.6	4245.6	4645.6
Less Acc. Depreciation	854.7	1068.9	1314.7	1590.4
Net Block	2590.9	2776.7	2930.9	3055.1
Capital WIP	232.2	232.2	232.2	232.2
Total Fixed Assets	2823.0	3008.8	3163.0	3287.3
Investment	491.21	67.29	109.29	209.29
Inventory	1917.0	1956.1	2244.7	2518.2
Debtors	422.4	838.3	1026.1	1151.2
Other Current Assets	833.3	714.0	819.3	919.1
Cash	678.0	117.4	153.8	580.7
Total Current Assets	3859.6	3625.7	4243.9	5169.1
Total Current Liabilities	2553.1	2521.6	2775.0	3113.2
Net Current Assets	1306.6	1104.1	1468.8	2055.9
Total Assets	4625.9	4709.3	5328.2	6104.6

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Profit after Tax	791.5	800.3	970.2	1107.9
Depreciation	148.6	214.2	245.8	302.0
CF before working cap changes	956.0	1035.7	1242.2	1438.1
Net Increase in Current Assets	125.3	-326.8	-581.7	-498.4
Net Increase in Current Liabilities	89.0	-31.4	253.4	338.1
CF from operating activities	1170.3	677.5	913.9	1277.9
(Purchase)/Sale of Liquid Investn	-21.7	-50.0	-50.0	-50.0
Others	-451.2	-350.0	-350.0	-350.0
(Purchase)/Sale of Fixed Assets	-472.8	-400.0	-400.0	-400.0
CF from Investing Activities	-421.9	-500.0	-500.0	-465.0
Proceeds frm Equity Shares	0.0	0.0	0.0	0.0
Inc / (Dec) in Loan Funds	-67.5	0.0	20.0	20.0
Others	-304.0	-738.2	-397.5	-399.4
CF from Financing Activities	-371.5	-738.2	-377.5	-379.4
Net Cash flow	376.8	-560.7	36.5	433.4
Opening Cash	301.2	678.0	117.4	153.8
Closing Cash	678.0	117.4	153.8	587.2

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Per Share Data				
Reported EPS	12.7	12.8	15.6	18.1
Cash EPS	15.1	16.3	19.5	22.5
BV per share	68.0	69.3	78.9	91.1
DPS	5.4	4.2	6.0	6.0
Operating Ratios (%)				
EBITDA Margin (%)	11.9	11.1	12.4	12.6
PAT Margin (%)	7.9	7.8	8.3	8.6
Asset Turnover	2.2	2.2	2.2	2.2
Debtors Turnover	15.3	30.0	32.0	32.0
Creditor Turnover	56.6	55.0	55.0	55.0
Return Ratios (%)				
RoE	18.7	18.5	19.7	19.8
RoCE	25.3	22.3	25.1	25.1
RoC	25.7	19.6	23.0	24.3
Valuation Ratios				
EV / EBITDA	30.9	32.9	25.8	22.4
P/E	47.5	46.9	38.7	33.3
EV / Net Sales	3.7	3.7	3.2	2.8
EV / Net Sales	3.7	3.7	3.2	2.8
Market Cap / Sales	3.7	3.7	3.2	2.9
Price to Book Value	8.9	8.7	7.6	6.6
Solvency Ratios				
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.8	2.1	2.1	2.1
Quick Ratio	0.7	0.9	0.9	0.9

Source: Company, ICICI Direct Research

Exhibit 14: 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)	1,778	2,050	Buy	170,510	23.0	32.1	38.5	77.2	55.3	46.2	45.2	38.4	31.8	30.4	32.1	33.6	23.2	28.1	28.2
Astral Polytechnik (ASTPOL)	1,087	1,275	Hold	16,377	13.1	18.1	23.7	83.0	60.1	45.9	44.8	35.4	27.6	20.8	22.2	25.4	15.5	17.8	19.2
Bajaj Electricals (BAJELE)	384	270	Sell	3,919	16.3	3.3	11.0	23.5	118.1	35.0	13.9	19.6	14.1	13.8	9.4	12.6	15.5	3.3	10.5
Havells India (HAVIND)	601	640	Hold	37,496	12.7	12.8	15.6	47.4	46.9	38.6	30.8	32.7	25.6	25.3	22.3	25.1	18.7	18.5	19.7
Kansai Nerolac (KANNER)	511	620	Buy	27,539	8.7	11.9	13.7	58.9	43.0	37.4	38.0	31.3	25.9	20.2	21.6	22.9	13.6	17.4	17.5
Pidilite Industries (PIDIND)	1,428	1,475	Hold	73,211	18.8	19.2	24.1	75.9	74.5	59.3	50.4	40.6	35.7	29.6	33.6	34.5	22.7	26.9	27.3
Essel Propack (ESSPRO)	170	95	Reduce	5,341	6.2	7.1	8.0	27.4	23.8	21.3	7.5	6.8	5.9	16.9	16.6	18.5	13.9	13.9	14.9
Supreme Indus (SUPIND)	1,314	1,420	Buy	16,691	35.3	40.8	45.2	37.2	32.2	29.0	18.3	17.8	14.9	25.0	23.9	26.0	18.7	22.2	21.6
Symphony (SYMLIM)	1,195	1,295	Hold	8,360	13.0	23.0	34.1	91.9	52.0	35.1	39.2	65.9	32.4	41.3	18.7	34.0	31.5	16.2	29.2
V-Guard Ind (VGUARD)	225	230	Hold	9,578	3.9	5.0	5.7	57.7	45.0	39.5	53.2	45.0	33.9	23.7	23.7	29.1	17.7	18.4	22.1
Voltas Ltd (VOLTAS)	695	765	Hold	22,986	15.5	18.7	24.3	44.7	37.2	28.6	33.5	35.3	26.3	19.8	17.3	22.5	14.8	12.7	16.3
Time Techno (TIMTEC)	58	55	Hold	1,312	9.0	8.5	10.2	6.5	6.9	5.7	3.5	3.7	3.2	15.0	13.7	15.4	12.1	10.9	12.0

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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