

Lockdown situation hurts overall performance...

Despite a strong demand revival in consumer category in the first two months of Q4FY20, the ~20% YoY drag in overall revenue was led by 1) weak demand for industrial products (underground cable, industrial switchgear, professional lightings), 2) lockdown situation in second half of March 2020. On the margin front, gross margin pressure (led by pricing pressure in cable segment) was partly offset by saving in advertisement expenses (down ~69% YoY), restricting a fall in EBITDA margin to ~40 bps YoY at 11.1%. The management also guided at low inventory at dealer's level for non-seasonal products translating to a fast recovery in demand in the orange and green zones (~80% of districts). We believe while demand for industrial products would be impacted by a slowdown in infrastructure activities, consumer facing products would witness a demand revival from H2FY21E with the start of the festive season. The management has also guided for rationalisation of future advertisement expenditure and capacity expansion plans if there is any delay in demand recovery. We maintain our positive stance on the stock considering Havells is a strong retail brand, a debt free balance sheet position supported by a strong promoter pedigree.

Industrial products remain a drag

The cable and lighting segment of the company reported a sharp decline in revenue by 24% and 31%, respectively, in Q4FY20. The company reported strong demand traction in January-February 2020 wherein Lloyd, ECD and switchgear businesses grew 45%, 23% and 15%, respectively. The lockdown situation in March dragged down overall revenue for Q4FY20. According to the management, had the lockdown not happened, the Q4 revenue could have grown 9% YoY (translates to ~₹ 800 crore of revenue loss in last 15 days of March 2020). We expect a gradual recovery in demand from H2FY21E led by consumer facing products as business activities in ~80% of districts have started.

Pricing pressure restricts margin movement

The company witnessed ~70 bps YoY dip in gross margin owing to pricing pressure in the cable segment. However, saving in advertisement expenditure restricted any sharp fall in the EBITDA margin, which was at 11.1% in Q4FY20. We expect near term pressure in margin owing to lower operating leverage. However, the same is expected to improve with a recovery in topline growth from FY22 onwards.

Valuation & Outlook

We cut our revenue, earnings estimates for FY21E due to extended lockdown. We expect Havells, as a strong brand in FMEG category, to benefit from its backward integration (strong supply chain, pan-India distribution) & strong balance sheet position as and when business returns to normal. We maintain **BUY** rating on the stock and target price of ₹ 575.



Particulars

Particular	Amount
Market Capitalization (₹Cr)	30,945.4
Total Debt (FY 20) (₹Cr)	0.0
Cash and Inv (FY 20) (₹Cr)	1,106.9
EV (₹Cr)	29,838.5
52 week H/L	807 / 458
Equity capital (₹Cr)	62.6
Face value (₹)	1.0

Key Highlights

- Lloyd, ECD, switchgear segment grew ~45% 23% and 15%, respectively, in January-February 2020
- Industrial product demand remained muted owing to delay in fresh government projects
- Sharp cut in advertisement expenditure owing to low demand in Q4
- We maintain BUY rating on stock and target price of ₹ 575/share

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Key Financial Summary

₹Crore	FY18	FY19	FY20E	FY21E	FY22E	CAGR FY20E-22E
Net Sales	8138.5	10067.8	9429.0	8477.2	10375.5	4.9
EBITDA	1049.2	1183.9	1027.2	807.8	1279.5	11.6
EBITDA Margin (%)	12.9	11.8	10.9	9.5	12.3	
PAT	712.5	787.4	732.8	488.7	824.6	6.1
EPS (₹)	11.4	12.6	11.7	7.8	13.2	
P/E (x)	43.4	39.3	42.2	63.3	37.5	
Price/Book Value (x)	8.3	7.4	7.2	7.1	6.4	
Mcap/Sales	3.8	3.1	3.3	3.7	3.0	
RoE (%)	18.8	18.8	17.0	11.2	17.1	
RoCE (%)	25.2	25.4	19.6	14.0	21.2	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Revenue	2216.1	2777.9	2753.5	-19.5	2269.9	-2.4	Weakness in industrial segments coupled with lockdown in March impact revenue in Q4FY20
Other Income	19.5	26.9	31.1	-37.2	24.0	-18.7	
Raw Material Exp	1107.4	1311.2	1270.5	-12.8	1120.5	-1.2	Pricing pressure in cable business drags gross margin in Q4
Employee Exp	198.9	244.5	221.7	-10.3	219.4	-9.3	
Purchase of Traded goods	307.2	388.9	467.7	-34.3	256.1	20.0	
Other expenses	357.3	505.6	478.7	-25.4	406.6	-12.1	Advertisement expenses decline ~230 bps YoY
EBITDA	245.3	327.8	314.9	-22.1	267.3	-8.2	
EBITDA Margin (%)	11.1	11.8	11.4	-37 bps	11.8	-71 bps	Decline in gross margin partially arrested by saving in advertisement expenses resulting in a minor drop in EBITDA margin
Depreciation	62.5	54.6	39.2	59.4	55.2	13.2	
Interest	4.6	6.1	6.1	-25.1	5.3	-12.5	
PBT	197.7	294.0	300.6	-34.2	230.9	-14.4	Lower sales and sharp decline in other income result in lower PBT
Total Tax	20.5	76.4	100.0	-79.5	30.5	-32.7	Transition to new corporate rate tax
PAT	177.2	217.6	200.6	-11.7	200.4	-11.6	
Key Metrics							
Cable	682.0	859.0	898.0	-24.1	712.1	-4.2	The power cable business was hurt by industrial & infrastructure slowdown and fall in commodity prices
Switchgear	351.1	413.6	408.3	-14.0	371.3	-5.4	Switchgear segment recorded ~15% YoY growth in January-February 2020 but volume offtake was marred during lockdown. Pre-buying activities on fear of supply related issues drove Lloyd and ECD segments revenue up ~45% and 23% YoY, respectively, in the first two months of Q4. However, lockdown situation hit volume offtake later in March
ECD	918.0	1,098.5	1,065.2	-13.8	881.9	4.1	
Lighting & Fixtures	265.0	406.9	369.5	-28.3	382.0	-30.6	Slowdown in real estate and infrastructure impacted demand for professional lighting categories

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore)	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	10856.8	8477.2	(21.9)	12294.3	10375.5	(15.6)	We cut our revenue estimate for FY21E considering 45 days of sales loss
EBITDA	1257.3	807.8	(35.8)	1556.2	1279.5	(17.8)	
EBITDA Margin (%)	11.6	9.5	-207bps	12.7	12.3	-37bps	Lower margin estimate largely on account of lower operating leverage in the absence of volume during FY21
PAT	853.3	488.7	(42.7)	1070.0	824.6	(22.9)	
EPS (₹)	13.7	7.8	(42.8)	17.1	13.2	(22.7)	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier			Comments
	FY19E	FY20E	FY21E	FY22E	FY21E	FY22E		
Cable Growth (%)	24.4	-7.4	-12.1	19.8	4.8	9.9	With FY21E likely to be impacted by Covid-19 related lockdown, a gradual recovery may start from FY22E onwards backed by increase in government spending	
Switchgear Growth (%)	12.1	-5.1	-12.4	18.4	5.6	9.8	Industrial switchgear segment likely to remain muted owing to slowdown in real estate segment	
ECD Growth (%)	32.9	-3.7	-9.2	26.0	13.7	17.7	Lower penetration, new launches coupled with rising aspiration level of middle class to help drive performance of ECD segment	
Lighting & Fixtures (%)	12.7	-13.2	-4.9	21.9	12.7	11.0	Lighting segment growth to be largely driven by LED fixtures. However, pricing pressure remains in professional luminaries segments	

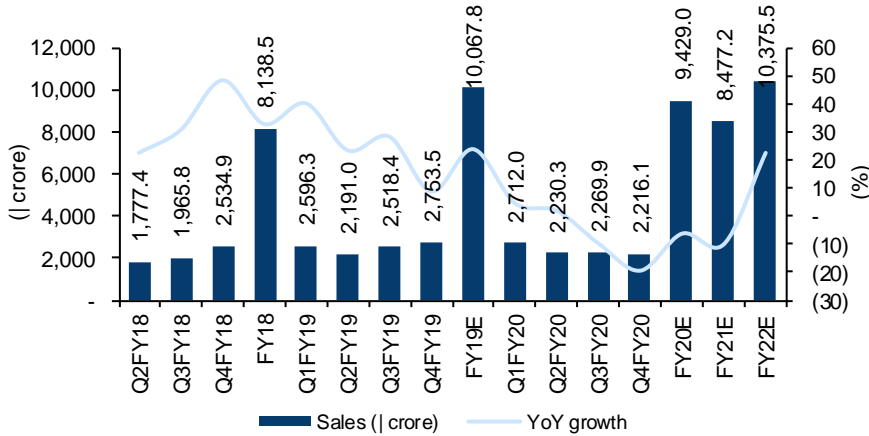
Source: Company, ICICI Direct Research

Conference call highlights

- Q4 commenced on a healthy note with January, February witnessing healthy demand growth across all segments barring cable. In the first two months of Q4, Lloyd, electrical consumer durable (ECD) and switchgear segments recorded healthy growth of 45%, 15% and 23%, respectively. However, lockdown from the last week of March hurt overall volume offtake for Havells and dragged down revenues
- According to the company, ex-Covid-19, Q4 could have grown 9% YoY
- Havells continuously saw sluggishness in demand for industrial products category (largely B2B, 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
- According to the company, barring seasonal products (such as fans and air conditioners), channel partners have normalised inventory level for other products like cable & wire, switchgears and lightings
- The realignment of Lloyd distribution is in progress wherein the company is focusing on distributors who can be associated with the company for longer. Now modern trade contributes ~30-32% in Lloyd sales
- After relaxation from lockdown, rural and semi-urban areas (~60% of total business) witnessed a slight pick-up in demand. However, metro and urban areas are still under stress with limited business activities
- Products like fan, A/Cs, domestic wires and personal grooming products are witnessing traction after relaxation from lockdown in semi-urban areas. According to the management, post lockdown, consumer category products would witness faster recovery in demand than industrial products
- The company has focused on increasing its collection to manage working capital efficiently
- During Q4, the company reduced advertisement and promotional cost looking at lower demand. Havells has further guided that the future capex and advertisement expenditure would largely be in line with sales growth

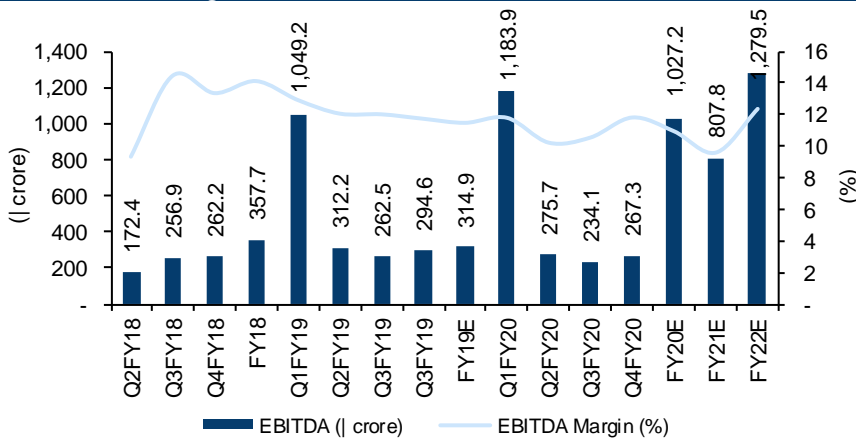
Financial story in charts

Exhibit 4: ECD segment leads revenue growth



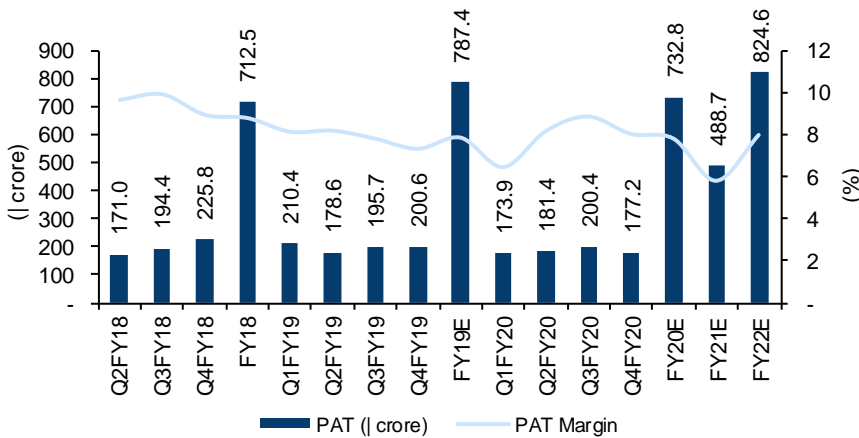
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA margin movement



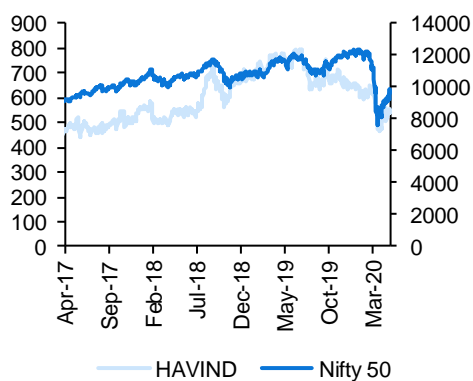
Source: Company, ICICI Direct Research

Exhibit 6: Recovery in sales and EBITDA to drive PAT



Source: Company, ICICI Direct Research

Exhibit 7: Price chart



Source: Capitaline, Company, ICICI Direct Research

Exhibit 8: Shareholding Pattern

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	59.6	59.5	59.5	59.5	59.5
FII	27.3	27.0	26.3	25.9	23.0
DII	3.9	2.6	2.2	2.0	3.2
Others	9.2	11.0	12.0	12.6	14.2

Source: Company, ICICI Direct Research

Financial summary

Exhibit 9: Profit and loss statement				
	₹ crore			
Year End March	FY 19	FY 20E	FY 21E	FY 22E
Total Operating Incom	10067.8	9429.0	8477.2	10375.5
Growth (%)		-6.3	-10.1	22.4
Raw Material Expense	4532.9	4389.6	3984.3	4876.5
Employee Expenses	837.3	899.6	929.2	1037.6
Marketing Expenses	384.3	320.9	233.4	352.8
Other expenses	1375.0	1346.2	1395.3	1515.2
Operating Expenditure	8883.9	8401.8	7669.4	9096.0
EBITDA	1183.9	1027.2	807.8	1279.5
Growth (%)		-13.2	-21.4	58.4
Other Income	127.8	112.0	98.5	116.9
Interest	16.1	19.7	23.4	12.5
Depreciation	149.4	217.9	228.9	280.1
Less: Exceptional Item	0.0	0.0	0.0	0.0
PBT	1146.2	901.5	654.0	1103.7
Total Tax	358.8	168.7	165.3	279.1
PAT	787.4	732.8	488.7	824.6

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY 19	FY 20E	FY 21E	FY 22E
Profit after Tax	787.4	732.8	488.7	824.6
Depreciation	149.4	217.9	228.9	280.1
CF before working cap chan	952.9	970.5	741.0	1117.2
Net Increase in Current Assets	775.0	197.2	168.2	-968.4
Net Increase in Current Liabilities	90.8	-211.3	-93.2	503.9
CF from operating activities	1818.7	956.3	816.1	652.8
(Purchase)/Sale of Liquid Inv	8.0	0.0	0.0	0.0
Others	-554.5	-507.7	-200.0	-400.0
(Purchase)/Sale of Fixed Assets	-546.5	-507.7	-200.0	-400.0
CF from Investing Activities	-414.2	-456.6	-250.0	-415.0
Proceeds from Equity Shares	0.0	0.0	0.0	0.0
Inc / (Dec) in Loan Funds	-67.5	-40.5	60.0	-20.0
Others	-350.4	-640.0	-452.0	-383.7
CF from Financing Activities	-417.9	-680.5	-392.0	-403.7
Net Cash flow	986.6	-180.8	174.1	-166.0
Opening Cash	301.2	1287.8	1106.9	1281.0
Closing Cash	1287.8	1106.9	1281.0	1115.0

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet				
	₹ crore			
(Year-end March)	FY 19	FY 20E	FY 21E	FY 22E
Equity Capital	62.6	62.6	62.6	62.6
Reserve and Surplus	4129.7	4242.2	4302.4	4755.7
Total Shareholders funds	4192.3	4304.8	4365.0	4818.3
Total Debt	40.5	0.0	60.0	40.0
Deferred Tax Liability	316.8	286.5	286.5	286.5
Total Liabilities	4570.8	4704.2	4824.4	5257.7
Assets				
Total Gross Block	3519.2	4176.4	4361.4	4711.4
Less Acc. Depreciation	855.5	1073.4	1302.3	1582.5
Net Block	2663.7	3103.0	3059.1	3128.9
Capital WIP	232.2	82.7	97.7	147.7
Total Fixed Assets	2895.9	3185.7	3156.8	3276.6
Investment	491.21	67.29	81.78	73.67
Inventory	1919.0	1871.9	1625.8	1989.8
Debtors	424.2	248.9	348.4	909.6
Other Current Assets	188.8	214.1	192.4	235.5
Cash	1287.8	1106.9	1281.0	1115.0
Total Current Assets	3819.7	3441.7	3447.6	4250.0
Total Current Liabilities	2555.0	2343.6	2250.5	2754.4
Net Current Assets	1264.8	1098.1	1197.1	1495.6
Total Assets	4570.8	4704.2	4824.4	5257.7

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	₹ crore			
(Year-end March)	FY 19	FY 20E	FY 21E	FY 22E
Per Share Data				
Reported EPS	12.6	11.7	7.8	13.2
Cash EPS	15.0	15.2	11.5	17.7
BV per share	67.2	69.0	70.0	77.2
DPS	4.8	4.8	6.0	6.0
Operating Ratios (%)				
EBITDA Margin (%)	11.8	10.9	9.5	12.3
PAT Margin (%)	7.8	7.8	5.8	7.9
Asset Turnover	2.2	2.0	1.8	2.0
Debtors Turnover	15.4	9.6	15.0	32.0
Creditor Turnover	56.6	54.7	60.0	60.0
Return Ratios (%)				
RoE	18.8	17.0	11.2	17.1
RoCE	25.4	19.6	14.0	21.2
RoIC	29.7	21.0	15.6	22.7
Valuation Ratios				
EV / EBITDA	25.1	29.0	36.8	23.3
P/E	39.3	42.2	63.3	37.5
EV / Net Sales	2.9	3.2	3.5	2.9
EV / Net Sales	2.9	3.2	3.5	2.9
Market Cap / Sales	3.1	3.3	3.7	3.0
Price to Book Value	7.4	7.2	7.1	6.4
Solvency Ratios				
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.4	1.4	1.3	1.6
Quick Ratio	0.3	0.3	0.3	0.6

Source: Company, ICICI Direct Research

Exhibit 13: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap (₹Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY20	FY21	FY22E	FY20	FY21	FY22E	FY20	FY21	FY22E	FY20	FY21	FY22E	FY20	FY21	FY22E
Asian Paints (ASIPAI)	1,531	1,900	Buy	1,46,823	29.9	32.5	38.6	51.2	47.1	39.7	36.3	33.1	27.9	30.7	31.5	33.5	26.6	26.3	27.8
Astral Polytechnik (ASTP)	886	1,075	Buy	13,349	18.2	19.8	25.0	48.7	44.7	35.4	31.3	27.7	23.0	21.5	22.3	23.6	17.9	16.6	17.8
Havells India (HAVIND)	497	575	Buy	31,008	11.7	7.8	13.2	42.3	63.4	37.6	29.0	36.8	23.3	19.6	14.0	21.2	17.0	11.2	17.1
Kansai Nerolac (KANNE)	360	415	Buy	19,401	9.9	7.8	10.4	36.2	46.1	34.6	26.6	31.2	24.1	17.6	14.5	17.9	14.1	11.1	13.7
Pidilite Industries (PIDINI)	1,351	1,485	Buy	69,263	25.0	26.7	31.3	54.0	50.6	43.2	37.9	35.8	30.5	32.7	30.6	30.9	26.6	24.5	24.6
Supreme Indus (SUPIND)	917	1,040	Buy	11,648	38.5	38.8	47.3	23.8	23.6	19.4	13.6	12.4	10.2	22.9	23.1	25.0	21.2	19.5	21.0
Voltas Ltd (VOLTAS)	467	535	Hold	15,445	16.6	17.6	21.4	28.1	26.5	21.8	21.1	21.0	16.9	21.1	19.6	21.7	14.8	14.1	15.9

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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