

Strong fundamentals enhance ability to tide over crisis

The nationwide lockdown from mid-March onwards owing to Covid-19 severely impacted operations for Q4FY20. Store closures and decline in primary billing led to revenue contraction of 21.0% YoY to ₹ 146.0 crore. Positive impact of benign raw material prices (gross margins up 759 bps YoY) was offset by negative operating leverage (employee & other expenses up 280 bps and 680 bps YoY, respectively). Hence, EBITDA margins declined 193 bps YoY to 10.0%. Subsequently, PAT for the quarter de-grew 30.5% YoY to ₹ 9.4 crore. Despite a subdued Q4FY20, Hawkins exited FY20 with healthy margin expansion of 221 bps YoY and higher profitability (up 34% YoY). Furthermore, stringent working capital policy (~20% of revenues) translated into healthy operating cash flow generation worth ₹ 66.0 crore (CFO/EBITDA: 64%). With earnings in short-term expected to be negatively impacted (particularly H1FY21E), Hawkins through its strong promoter pedigree and brand patronage (second largest player) is expected to tide over the current situation better than smaller peers.

Healthy performance in FY20 despite weak Q4

Revenue trajectory decelerated in Q4FY20 owing to nationwide lockdown from mid-March onwards. For 9MFY20 (April-December), Hawkins continued to outperform peers with revenue growth of 13% YoY. New product launches and higher marketing spending aided topline growth. However, due to significant fall in revenues in Q4FY20, Hawkins exited FY20 with topline growth of mere 3.2% YoY to ₹ 673.9 crore. Despite subdued topline growth, it saw significant improvement in margin profile with EBITDA margins expanding 220 bps YoY to 15.4% in FY20 (one of the highest margins). Softening of raw material prices (aluminum constitutes ~50% of RM) and tight leash of operating expenses led to EBITDA growth of 20.5% YoY to ₹ 103.9 crore. Subsequently, PAT grew robustly by 34% YoY to ₹ 72.5 crore (partly aided by lower tax rate). With a complete washout of sales in April and first half of May, we anticipate impact of Covid-19 to be more severe in Q1FY20. Post relaxation of restrictions, general retail trade saw encouraging offtake with footfalls gradually improving (mainly owing to pent-up demand). Factoring in the same, we expect revenue to decline 8.0% in FY21E. Given the high fixed cost nature of the business, we expect EBITDA margins to fall 250 bps YoY to 13.0%. Benefits of sustained decline in RM cost (aluminum) will aid profitability to a certain extent in FY21E (build in gross margin expansion of 100 bps). We expect strong demand recovery in FY22E with revenue, EBITDA growth of 21%, 50% YoY, respectively.

Valuation & Outlook

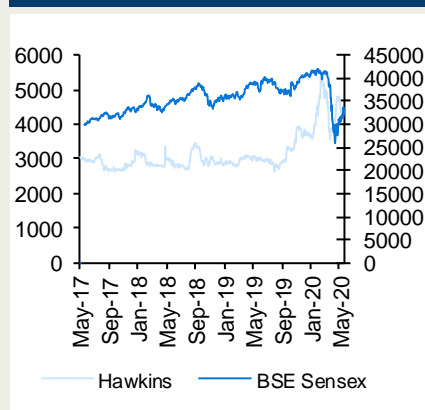
We continue to remain structurally positive on Hawkins owing to its robust balance sheet and good promoter pedigree. Over the years, the company has maintained balance sheet prudence with controlled working capital cycle (20% of sales), non-leverage balance sheet and generating healthy RoCE of 55%+. The company has consistently maintained healthy dividend payouts with average ratio of ~75%. Hawkins has not declared dividend at the moment, as it focuses on maintaining liquidity to tide over uncertainties. We reiterate our **BUY** rating on the stock with a revised target price of ₹ 4900 (30x FY22E EPS of ₹ 163.3).



Particulars

Particular	Amount
Market Capitalization (₹crore)	2,237.7
Total Debt (FY 20) (₹crore)	28.3
Cash (FY 20) (₹crore)	35.9
EV (₹crore)	2,230.1
52 week H/L (₹)	5540/2606
Equity capital (₹crore)	5.3
Face value (₹)	10.0

Price Chart



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Exhibit 1: Financial Performance

(Year-end March)	FY16	FY17	FY18	FY19	FY20
Revenues (₹crore)	544.4	512.0	552.6	652.8	673.9
Growth	5.8	(5.9)	7.9	18.1	3.2
EBITDA (₹crore)	63.9	74.2	70.5	86.2	103.9
EBITDA (%)	11.7	14.5	12.8	13.2	15.4
Net Profit (₹crore)	40.3	47.4	48.7	54.2	72.5
Balance Sheet					
Equity (₹crore)	5.3	5.3	5.3	5.3	5.3
Net worth (₹crore)	61.1	106.7	109.8	118.6	139.7
Total Debt (₹crore)	18.8	32.1	27.3	25.1	28.3
Ratios					
RoNW (%)	66.1	44.5	44.3	45.7	51.9
RoCE (%)	60.7	64.9	52.8	49.6	55.9
Earnings per share (₹)	76.3	89.7	92.1	102.5	137.2
D/E (x)	0.3	0.3	0.2	0.2	0.2
Dividend per share (₹)	60.0	70.0	70.0	80.0	-
Dividend Payout (%)	78.6	78.1	76.0	78.0	-
P/E (x)	55.4	47.2	45.9	41.3	30.8
Mcap/Sales (x)	4.1	4.4	4.0	3.4	3.3

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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