

Estimate change



TP change



Rating change



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Bloomberg	HAVL IN
Equity Shares (m)	625
M.Cap.(INRb)/(USDb)	372.6 / 5.1
52-Week Range (INR)	765 / 447
1, 6, 12 Rel. Per (%)	-6/4/-15
12M Avg Val (INR M)	1169

#### Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	94.3	85.0	107.0
EBITDA	10.3	9.3	12.8
PAT	7.3	5.5	8.3
EBITDA (%)	10.9	10.9	12.0
EPS (INR)	11.7	8.8	13.3
EPS Gr. (%)	(6.9)	(25.0)	51.5
BV/Sh. (INR)	68.8	74.4	82.9

#### Ratios

Net D/E	(0.2)	(0.2)	(0.3)
RoE (%)	17.0	11.8	16.1
RoCE (%)	16.2	11.8	15.4
Payout (%)	87.5	36.0	36.0

#### Valuations

P/E (x)	50.8	67.7	44.7
P/BV (x)	8.7	8.0	7.2
EV/EBITDA (x)	35.2	39.1	27.7
Div Yield (%)	1.4	0.4	0.7
FCF Yield (%)	1.2	0.4	2.2

#### Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	59.5	59.5	59.5
DII	9.9	8.5	4.8
FII	22.0	23.1	27.0
Others	8.7	8.9	8.7

FII Includes depository receipts

**CMP: INR595**
**TP: INR560 (-6%)**
**Neutral**
**Strong show, but cost-cutting measures unlikely to sustain**
**June exit run-rate in positive territory; outlook remains hazy**

- While revenue decline of 45% YoY was in line with our expectations, aggressive cost rationalization measures led to a strong beat in earnings. Ad spends stood at INR60m (0.4% of sales) in 1QFY21 v/s INR1.4b (5% of sales) in 1QFY20. Employee costs were also lower by 27% YoY on account of certain voluntary actions, which should normalize from 2QFY21. As demand recovers, we expect the large part of these cost elements to scale back.
- Havells' core portfolio witnessed 4% YoY growth in June, while Lloyd was up 8% YoY. **Overall, demand for B2C products grew by 12% YoY in Jun'20, a key positive.** However, the outlook remains hazy due to the local lockdowns; hence, the management appears cautious on extrapolating the June run-rate to the coming quarters. The results of peers suggest that with a demand level of 80–85% v/s last year in July, **Havells is likely witnessing market share gains across key categories.**
- Factoring cost savings in 1QFY21, we increase our FY21/FY22 EPS estimates by 14%/4%. Our FY20–22E revenue/EBITDA/adj. PAT CAGR stands at 7%/12%/7%. The deterioration in working capital was disappointing, but this should normalize in the coming quarters. Maintain **Neutral**, with TP of INR560 (earlier: INR515) as we await a better entry point.

#### Lloyd revenue surprises; ad spend cuts drive earnings surprise

- Revenue declined 45% to INR14.8b and was in line with our expectation. EBITDA declined 53% to INR1.3b and was 82% above our expectation. The EBITDA margin came in at 8.8% v/s our expectation of 5%. Adj. PAT came in at INR633m, a strong beat v/s our expectation of INR219m.
- Segmental highlights: (a)** HAVL's core portfolio revenue declined 43% YoY in 1QFY21 and was 5% below our expectation – Cables and Wires (-41% YoY), Switchgears (-44% YoY), Lighting (-45% YoY), ECD (-46% YoY), and Others (-36% YoY). **(b)** Lloyd's revenues declined 53% YoY to INR3b (v/s our expectation of INR2b).
- The working capital requirement was higher at the end of 1QFY21 due to a reduction in creditors' days as the level of production was low and the company made payments for previous supplies. With factories fully operational and supplies inching back to pre-COVID-19 levels, management expects the working capital situation to normalize going ahead.

#### Key highlights from management commentary

- ~70% of Havells' sales are toward the B2C channel, which has shown better traction. Overall, demand for B2C products grew by 12% YoY in Jun'20.
- Channel inventory is now lower than before as channels have become cautious and are working with optimum inventory. The **intensity of recovery has been slower in the second half of July due to intermittent lockdowns.**
- Commercial Papers (CPs) are being raised at lower rate and are very short term. CPs would substitute the short-term loans on the balance sheet.

**Valuation and view**

Factoring cost savings in 1QFY21, we increase our FY21/FY22 EPS estimates by 14%/4%. Our FY20–22E revenue/EBITDA/adj. PAT CAGR stands at 7%/12%/7%. The deterioration in working capital was disappointing, but this should normalize in the coming quarters. Maintain **Neutral**, with TP of INR560 (42x Mar'22E EPS, 10% discount to past 5 year 1-yr forward average trading multiple and in-line with past 7 year average).

**Quarterly Performance**

(INR m)

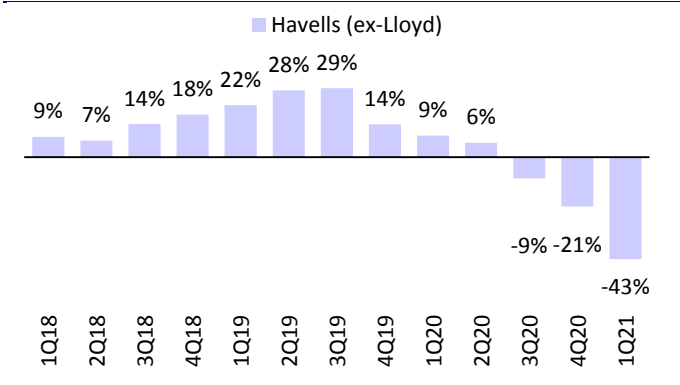
Y/E March	FY20				FY21E				FY20	FY21E	MOSL	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		1QE		
<b>Sales</b>	<b>27,127</b>	<b>22,305</b>	<b>22,699</b>	<b>22,161</b>	<b>14,791</b>	<b>20,800</b>	<b>23,900</b>	<b>25,509</b>	<b>94,292</b>	<b>85,000</b>	<b>14,300</b>	<b>3.4%</b>
Change (%)	4.5	1.8	-10.2	-19.5	-45.5	-6.7	5.3	15.1	-6.3	-9.9	-47.3	
<b>Adj EBITDA</b>	<b>2,781</b>	<b>2,350</b>	<b>2,690</b>	<b>2,453</b>	<b>1,309</b>	<b>2,364</b>	<b>2,780</b>	<b>2,811</b>	<b>10,274</b>	<b>9,264</b>	<b>717</b>	<b>82.5%</b>
Change (%)	-10.9	-10.5	-8.6	-22.1	-52.9	0.6	3.4	14.6	-13.2	-9.8	-74.0	
Adj EBITDA margin (%)	10.3	10.5	11.8	11.1	8.8	11.4	11.6	11.0	10.9	10.9	5.0	
Depreciation	470	532	553	625	604	625	625	665	2,179	2,519	625	
Interest	47	51	53	46	167	150	100	83	197	500	50	
Other Income	395	290	239	195	322	250	250	285	1,120	1,107	250	
Extra-ordinary Items	-	-	-	-	-	-	-	-	-	-	-	
<b>PBT</b>	<b>2,659</b>	<b>2,058</b>	<b>2,324</b>	<b>1,977</b>	<b>860</b>	<b>1,839</b>	<b>2,305</b>	<b>2,348</b>	<b>9,017</b>	<b>7,352</b>	<b>292</b>	<b>194.3%</b>
Tax	898	255	329	205	226	463	580	581	1,687	1,850	73	
Effective Tax Rate (%)	33.8	12.4	14.2	10.4	26.3	25.2	25.2	24.8	18.7	25.2	25.2	
<b>Reported PAT</b>	<b>1,761</b>	<b>1,803</b>	<b>1,995</b>	<b>1,772</b>	<b>633</b>	<b>1,376</b>	<b>1,725</b>	<b>1,767</b>	<b>7,330</b>	<b>5,501</b>	<b>219</b>	<b>189.9%</b>
Change (%)	-16.3	0.9	0.9	-11.7	-64.0	-23.7	-13.5	-0.3	-6.9	-25.0	-87.4	
<b>Adj PAT</b>	<b>1,761</b>	<b>1,803</b>	<b>1,995</b>	<b>1,772</b>	<b>633</b>	<b>1,376</b>	<b>1,725</b>	<b>1,767</b>	<b>7,330</b>	<b>5,501</b>	<b>219</b>	<b>189.9%</b>
Change (%)	-16.3	0.9	0.9	-11.7	-64.0	-23.7	-13.5	-0.3	-6.9	-25.0	-87.4	

**Segmental Performance**

(INR m)

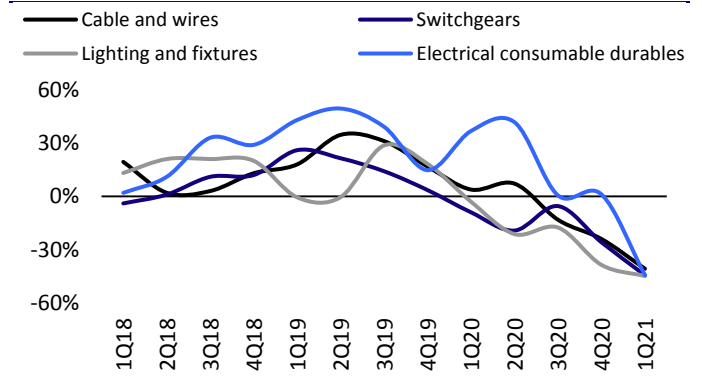
Y/E March	FY20				FY21E			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
<b>Sales</b>								
Switchgear	3,419	NA	NA	3,027	1,902	2,800	3,200	3,098
Cables & Wires	7,785	NA	NA	6,823	4,611	7,500	7,500	7,389
Consumer Durable	5,616	NA	NA	4,177	3,017	5,500	6,500	4,983
Lighting & Fixtures	2,504	NA	NA	2,343	1,380	2,500	3,000	2,620
Lloyd Electric	6,520	NA	NA	4,579	3,062	1,500	2,700	5,738
<b>% YoY</b>								
Switchgear	(9.0)			(25.9)	(44.4)			
Cables & Wires	3.8			(24.0)	(40.8)			
Consumer Durable	11.4			(21.7)	(46.3)			
Lighting & Fixtures	(3.1)			(38.6)	(44.9)			
Lloyd Electric	(7.9)			(14.0)	(53.0)			
<b>Profit Contribution</b>								
Switchgear	830	NA	NA	670	291	644	800	740
Cables & Wires	845	NA	NA	666	366	675	863	797
Consumer Durable	823	NA	NA	560	370	798	943	730
Lighting & Fixtures	357	NA	NA	329	29	250	405	361
Lloyd Electric	82	NA	NA	85	64	(150)	(270)	356
<b>Contribution Margin (%)</b>								
Switchgear	24.3			22.1	15.3	23.0	25.0	23.9
Cables & Wires	10.9			9.8	7.9	9.0	11.5	10.8
Consumer Durable	14.7			13.4	12.3	14.5	14.5	14.6
Lighting & Fixtures	14.2			14.0	2.1	10.0	13.5	13.8
Lloyd Electric	1.3			1.9	2.1	(10.0)	(10.0)	6.2

**Exhibit 1: Havells' (ex-Lloyd) revenue declines for 3<sup>rd</sup> consecutive quarter...**



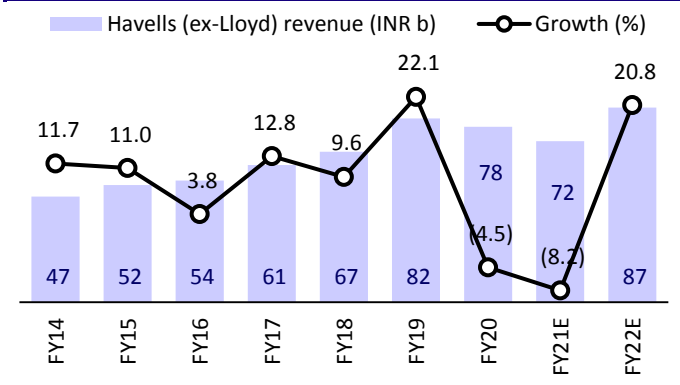
Source: MOFSL, Company

**Exhibit 2: ...led by decline across product categories**



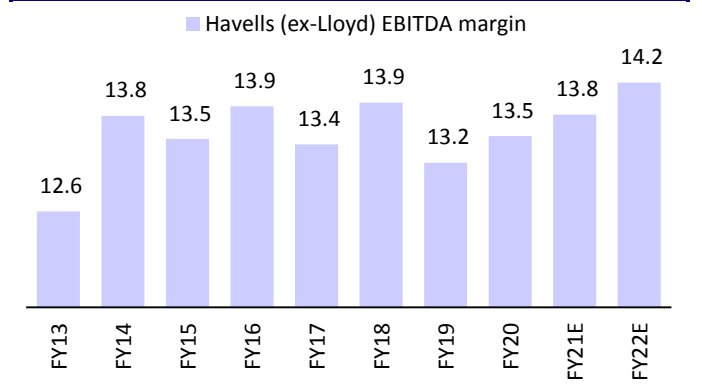
Source: MOFSL, Company

**Exhibit 3: Havells' (ex-Lloyd) revenue trend (INR b)**



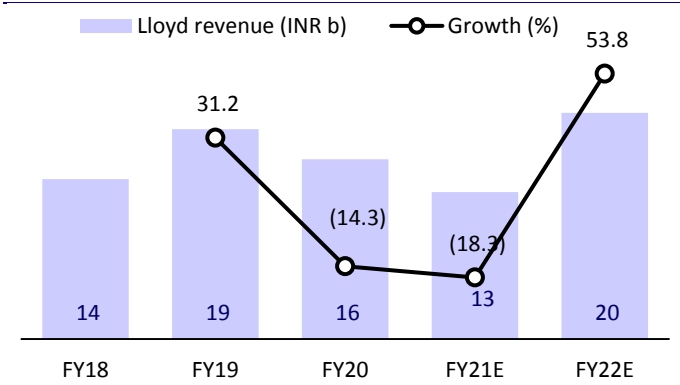
Source: MOFSL, Company

**Exhibit 4: Havells' (ex-Lloyd) EBITDA margin trend**



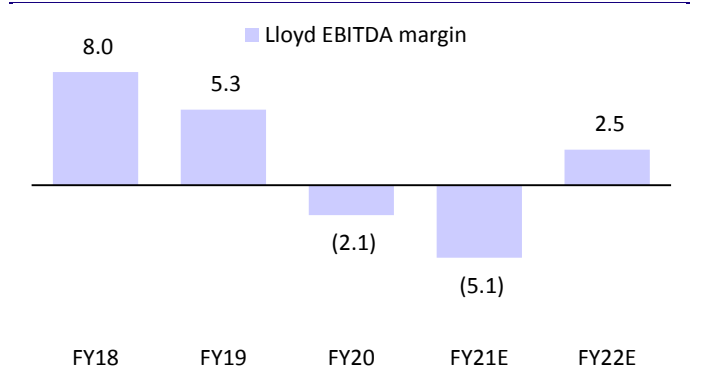
Source: MOFSL, Company

**Exhibit 5: Lloyd's revenue trend (INR b)**



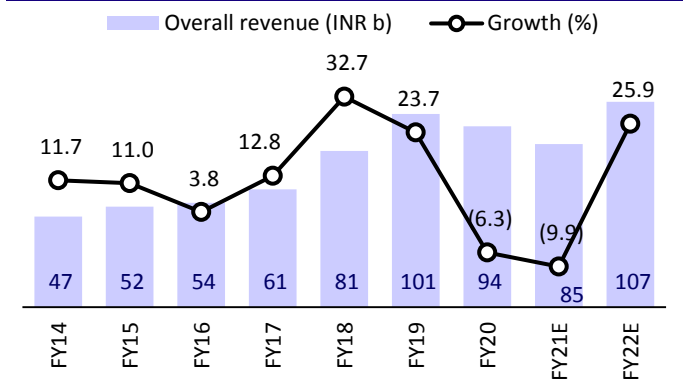
Source: MOFSL, Company

**Exhibit 6: Lloyd's EBITDA margin trend (%)**



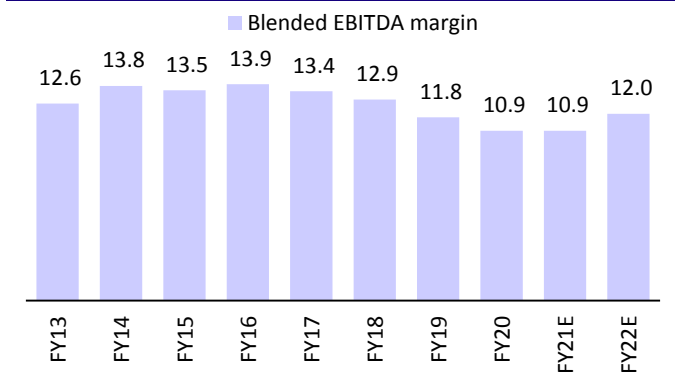
Source: MOFSL, Company

Exhibit 7: Overall revenue trend (INR b)



Source: MOFSL, Company

Exhibit 8: Blended margin trend (%)



Source: MOFSL, Company



## 1QFY21 conference call highlights

### Demand outlook

- In Havells' core portfolio, May reported 60% sales against last year (LY), **whereas June surpassed LY sales by 4%**.
- Lloyd achieved ~80% revenues against LY in May'20, **whereas growth in June was 8% over LY**.
- Switchgears saw 70% of sales from the consumer/residential channel and the remaining 30% from the industrial channel.
- 70% of Havells' product portfolio is B2C and the rest is B2B + B2G. B2C has shown better traction.
- **The B2C portfolio grew by 12% YoY in Jun'20.**
- The stock level in trade currently is lower than pre-COVID-19 levels. Pent-up demand could have been a factor in June.
- Market share gains are likely to have accrued from the unorganized sector on the back of pent-up demand in June'20.
- Management is unsure of whether June'20 demand levels are sustainable, with the possibility of extended lockdown in local areas. Havells would monitor sales on a monthly basis before settling down on a particular trend.
- The western region is taking more time to bounce back, with cities such as Mumbai, Pune, and Nagpur lagging behind in terms of demand recovery. In the eastern region, recovery in Kolkata is slower than in other states. In the northern region, recovery in Delhi is slow v/s other states.

### Lloyd

- Incremental capex would be limited to INR400–600m.
- Post localization, Lloyd has witnessed market share gains in the CY.

### Other takeaways

- If all supplies from China are stopped as of date, the risk to revenues for the current year would be limited to 5% of sales.
- The reason for raising Commercial Papers (CPs) worth INR5b: Havells had taken loans in 1QFY21 to maintain liquidity due to the fear of COVID-19-led disruption. The company is raising its short-term CPs to replace this high-cost debt. This is a very short duration loan and would be repaid in due course of time.

- **Cost levers: a)** Many cost items would come back once revenue stabilizes. However, a part of cost reductions could sustain, such as travel expenses and marketing expenses based on new media avenues. **b)** Employee costs stood lower in 1QFY21 due to certain voluntary actions. These costs are expected to increase from hereon, but would still be lower on a YoY basis on account of employee rationalization in FY20.
- The online channel is likely to see strong growth. The company expects to maintain the offline channel's similar market share for the online market.
- Havells would invest more in channel expansion in the rural areas.
- The management has not witnessed any trend of downtrading thus far.

### Earnings change and valuation

- **Change in estimates:** Factoring cost savings in 1QFY21, we increase our FY21/FY22 EPS estimates by 14%/4%.
- Our FY20–22E revenue/EBITDA/adj. PAT CAGR stands at 7%/12%/7%. Deterioration in working capital was disappointing, but this should normalize in the coming quarters. Maintain **Neutral**, with TP of INR560 (42x Mar'22E EPS, 10% discount to past 5 year 1-yr forward average trading multiple and in-line with past 7 year average).

#### Exhibit 9: We increase our FY21/FY22E EPS by 14%/4%

Earnings Change (INR m)	Old		New		Change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	81,000	1,05,000	85,000	1,07,000	5%	2%
EBITDA	8,059	12,222	9,264	12,824	15%	5%
EBITDA margin	9.9%	11.6%	10.9%	12.0%	0.9%	0.3%
Adj. PAT	4,824	8,050	5,501	8,333	14%	4%

Source: MOFSL, Company

## Financials and valuations

Income Statement						(INR m)
Y/E March	2018	2019	2020	2021E	2022E	2023E
<b>Net Sales</b>	<b>81,386</b>	<b>1,00,677</b>	<b>94,292</b>	<b>85,000</b>	<b>1,07,000</b>	<b>1,19,355</b>
Change (%)	32.7	23.7	-6.3	-9.9	25.9	11.5
<b>EBITDA</b>	<b>10,493</b>	<b>11,838</b>	<b>10,274</b>	<b>9,264</b>	<b>12,824</b>	<b>14,443</b>
% of Net Sales	12.9	11.8	10.9	10.9	12.0	12.1
Depreciation	1,395	1,494	2,179	2,519	2,699	2,879
Interest	240	161	197	500	200	200
Other Income	1,170	1,278	1,120	1,107	1,211	1,557
<b>PBT</b>	<b>10,028</b>	<b>11,461</b>	<b>9,017</b>	<b>7,352</b>	<b>11,136</b>	<b>12,921</b>
Tax	3,022	3,588	1,687	1,850	2,803	3,252
Rate (%)	30.1	31.3	18.7	25.2	25.2	25.2
Extra-ordinary Inc.(net)	119	0	0	0	0	0
<b>Reported PAT</b>	<b>7,125</b>	<b>7,873</b>	<b>7,330</b>	<b>5,501</b>	<b>8,333</b>	<b>9,669</b>
Change (%)	32.2	10.5	-6.9	-25.0	51.5	16.0
<b>Adjusted PAT</b>	<b>7,006</b>	<b>7,873</b>	<b>7,330</b>	<b>5,501</b>	<b>8,333</b>	<b>9,669</b>
Change (%)	17.4	12.4	-6.9	-25.0	51.5	16.0

Balance Sheet						(INR M)
Y/E March	2018	2019	2020	2021E	2022E	2023E
Share Capital	625	626	626	626	626	626
Reserves	36,766	41,297	42,422	45,943	51,276	57,464
<b>Net Worth</b>	<b>37,392</b>	<b>41,922</b>	<b>43,048</b>	<b>46,569</b>	<b>51,902</b>	<b>58,090</b>
Loans	1,080	945	405	405	405	405
Deferred Tax Liability	2,070	3,168	2,865	2,865	2,865	2,865
<b>Capital Employed</b>	<b>40,541</b>	<b>46,035</b>	<b>46,318</b>	<b>49,839</b>	<b>55,172</b>	<b>61,360</b>
Gross Fixed Assets	34,113	34,027	40,479	43,479	46,479	49,479
Less: Depreciation	6,799	4,989	6,985	9,504	12,202	15,081
<b>Net Fixed Assets</b>	<b>27,314</b>	<b>29,038</b>	<b>33,494</b>	<b>33,975</b>	<b>34,277</b>	<b>34,398</b>
Capital WIP	241	2,327	861	861	861	861
Investments	955	17	16	16	16	16
<b>Curr. Assets</b>	<b>36,905</b>	<b>39,875</b>	<b>36,107</b>	<b>33,575</b>	<b>45,715</b>	<b>54,465</b>
Inventory	16,217	19,190	18,719	16,874	21,242	23,694
Debtors	3,254	4,242	2,489	2,244	2,824	3,150
Cash & Bank Balance	15,262	12,877	11,069	11,005	17,303	22,772
Loans & Advances	0	0	0	0	0	0
Other Current Assets	2,173	3,566	3,830	3,453	4,346	4,848
<b>Current Liab. &amp; Prov.</b>	<b>24,873</b>	<b>25,222</b>	<b>24,160</b>	<b>18,589</b>	<b>25,697</b>	<b>28,380</b>
Creditors	16,340	15,601	14,141	9,315	14,658	16,350
Other Liabilities	6,754	7,264	7,564	6,818	8,583	9,574
Provisions	1,780	2,358	2,456	2,456	2,456	2,456
<b>Net Current Assets</b>	<b>12,032</b>	<b>14,653</b>	<b>11,947</b>	<b>14,986</b>	<b>20,018</b>	<b>26,085</b>
<b>Application of Funds</b>	<b>40,541</b>	<b>46,035</b>	<b>46,318</b>	<b>49,839</b>	<b>55,172</b>	<b>61,360</b>

## Financials and valuations

### Ratios

Y/E March	2018	2019	2020	2021E	2022E	2023E
<b>Basic (INR)</b>	<b>11.4</b>	<b>12.6</b>	<b>11.7</b>	<b>8.8</b>	<b>13.3</b>	<b>15.5</b>
<b>Adjusted EPS</b>	<b>11.2</b>	<b>12.6</b>	<b>11.7</b>	<b>8.8</b>	<b>13.3</b>	<b>15.5</b>
Growth (%)	17.3	12.3	-6.9	-25.0	51.5	16.0
Cash EPS	13.4	15.0	15.2	12.8	17.6	20.1
Book Value	59.8	67.0	68.8	74.4	82.9	92.8
DPS	3.5	4.0	8.5	2.6	4.0	4.6
Payout (incl. Div. Tax.)	37.6	38.3	87.5	36.0	36.0	36.0
<b>Valuation (x)</b>						
P/Sales	4.6	3.7	4.0	4.4	3.5	3.1
P/E	53.1	47.3	50.8	67.7	44.7	38.5
Cash P/E	44.3	39.7	39.2	46.4	33.8	29.7
EV/EBITDA	34.1	30.4	35.2	39.1	27.7	24.2
EV/Sales	4.4	3.6	3.8	4.3	3.3	2.9
Price/Book Value	10.0	8.9	8.7	8.0	7.2	6.4
Dividend Yield (%)	0.6	0.7	1.4	0.4	0.7	0.8
<b>Profitability Ratios (%)</b>						
RoE	18.7	18.8	17.0	11.8	16.1	16.6
RoCE	17.7	17.3	16.2	11.8	15.4	16.0
RoIC	26.1	21.4	18.7	13.0	20.0	22.4
<b>Turnover Ratios</b>						
Debtors (Days)	15	15	10	10	10	10
Inventory (Days)	73	70	72	72	72	72
Creditors (Days)	73	57	55	40	50	50
Asset Turnover (x)	2.0	2.2	2.0	1.7	1.9	1.9
<b>Leverage Ratio</b>						
Net Debt/Equity (x)	-0.4	-0.3	-0.2	-0.2	-0.3	-0.4

### Cash Flow Statement

Y/E March	2018	2019	2020	2021E	2022E	2023E
<b>PBT before EO Items</b>	<b>10,028</b>	<b>11,468</b>	<b>9,216</b>	<b>7,352</b>	<b>11,136</b>	<b>12,921</b>
Add : Depreciation	1,395	1,494	2,179	2,519	2,699	2,879
Interest	-249	-728	-535	-607	-1,011	-1,357
Less : Direct Taxes Paid	2,450	2,469	2,398	1,850	2,803	3,252
(Inc)/Dec in WC	-2,556	4,639	215	3,104	-1,266	597
<b>CF from Operations</b>	<b>11,281</b>	<b>5,126</b>	<b>8,248</b>	<b>4,309</b>	<b>11,287</b>	<b>10,593</b>
(Inc)/Dec in FA	-15,888	-4,996	-3,592	-3,000	-3,000	-3,000
<b>Free Cash Flow</b>	<b>-4,607</b>	<b>130</b>	<b>4,655</b>	<b>1,309</b>	<b>8,287</b>	<b>7,593</b>
(Pur)/Sale of Investments	4,511	710	625	1,107	1,211	1,557
<b>CF from Investments</b>	<b>-11,377</b>	<b>-4,287</b>	<b>-2,968</b>	<b>-1,893</b>	<b>-1,789</b>	<b>-1,443</b>
(Inc)/Dec in Net Worth	147	135	313	0	0	0
(Inc)/Dec in Debt	-901	-209	-937	0	0	0
Less : Interest Paid	197	134	52	500	200	200
Dividend Paid	2,632	3,016	6,413	1,980	3,000	3,481
<b>CF from Fin. Activity</b>	<b>-3,583</b>	<b>-3,224</b>	<b>-7,088</b>	<b>-2,480</b>	<b>-3,200</b>	<b>-3,681</b>
<b>Inc/Dec of Cash</b>	<b>-3,679</b>	<b>-2,385</b>	<b>-1,808</b>	<b>-64</b>	<b>6,297</b>	<b>5,470</b>
Add: Beginning Balance	19,375	15,262	12,877	11,069	11,005	17,303
<b>Closing Balance</b>	<b>15,262</b>	<b>12,877</b>	<b>11,069</b>	<b>11,005</b>	<b>17,303</b>	<b>22,772</b>

(INR m)

NOTES



Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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