

July 27, 2020

Q1FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	REDUCE		REDUCE	
Target Price	524		521	
Sales (Rs. m)	1,10,026	1,24,806	1,10,610	1,24,460
% Chng.	(0.5)	0.3		
EBITDA (Rs. m)	13,539	15,607	13,575	15,270
% Chng.	(0.3)	2.2		
EPS (Rs.)	14.5	17.3	14.7	17.0
% Chng.	(1.0)	2.0		

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	94,292	92,752	1,10,026	1,24,806
EBITDA (Rs. m)	10,274	10,415	13,539	15,607
Margin (%)	10.9	11.2	12.3	12.5
PAT (Rs. m)	7,330	6,374	9,100	10,832
EPS (Rs.)	11.7	10.2	14.5	17.3
Gr. (%)	(6.9)	(13.0)	42.8	19.0
DPS (Rs.)	4.5	4.0	5.0	6.5
Yield (%)	0.8	0.7	0.8	1.1
RoE (%)	17.3	13.8	17.4	18.4
RoCE (%)	21.6	18.1	21.5	24.3
EV/Sales (x)	3.8	3.9	3.2	2.8
EV/EBITDA (x)	35.2	34.3	25.9	22.0
PE (x)	50.8	58.4	40.9	34.4
P/BV (x)	8.7	7.5	6.7	6.0

Key Data

HVEL.BO | HAVL IN

52-W High / Low	Rs.766 / Rs.447
Sensex / Nifty	37,935 / 11,132
Market Cap	Rs.373bn/ \$ 4,979m
Shares Outstanding	626m
3M Avg. Daily Value	Rs.2854.69m

Shareholding Pattern (%)

Promoter's	59.50
Foreign	21.95
Domestic Institution	9.64
Public & Others	8.91
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	1.7	(4.3)	(14.8)
Relative	(5.7)	3.8	(14.9)

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B2B portfolio/ Urban focus to delay recovery

Quick Pointers:

- Demand trend uncertain despite sequential improvement since May
- Only 5% of total revenues dependent on China

HAVL's management remains cautious on the sustainability of the demand trends witnessed in May and June given localized lockdowns adversely impacting business operations. HAVL's consumer portfolio has bounced back faster, however, road to recovery in the B2B portfolio (30% of sales), comprising of industrial cables, switchgears, professional luminaire is likely to be long given lower spends on infrastructure/real estate. Given that Havells has poor presence in small towns and rural India which are leading recovery, extrapolating June sales does not seem feasible.

Lloyd's RAC business grew faster than industry in CY20 benefitting from low base and reduced dependence on imports due to its in-house manufacturing. Despite its peak summer season being a wash out, Lloyd reported 80bps increase in margin YoY. However, entry into highly competitive Refrigerator segment needs to be watched out for as it can increase overheads and put pressure on margins. We estimate 13.9% PAT CAGR over FY20-23. Maintain Reduce with a target price of Rs524 (33x Sept-22PS).

Sales de-grew by 45.5%, PBT down by 67.7%: Revenues de-grew by 45.5% to Rs14.8bn with core segment de-growing by 43.1% while Lloyd de-grew by 53%. Gross margins fell by ~280bps YoY to 34.7%. EBITDA de-grew by 52.9% YoY to Rs1.3bn while margins contracted by 140bps YoY to 8.8% due to reduced scale of operations. PBT was down 67.7% to Rs860mn impacted by 3.5x increase in interest expense to Rs167mn. PAT declined by 64% to Rs633mn

Core segment de-grows by 43% YoY: Switchgear revenues/EBIT declined by 44%/65% to Rs1.9bn/Rs291mn while margins contracted by 900bps to 15.3%. Cables Revenues/EBIT de-grew by 41%/57% to Rs4.6bn/Rs366mn while margins fell by 290bps to 7.9%. Lighting Revenues /EBIT de-grew by 45%/92% to Rs1.4bn/Rs29mn, while margins fell by 12.1% to 2.1%. ECD Revenues/EBIT de-grew by 46%/55% to Rs3bn/Rs370mn while margins fell by 240bps to 12.3%. Lloyd Revenue/EBIT declined by 53%/22% YoY to Rs3.1bn/Rs64mn while margins improved by 80bps to 2.1%.

Concall Takeaways: **1)** Although Core Portfolio/Lloyd grew by 4%/8% in June, demand scenario remains hazy and uncertain given localized lockdowns **2)** B2C portfolio (70% of sales) seeing faster recovery vis a vis B2B portfolio. Likely to have gained market share **3)** Trade payable reduced by Rs7bn as made conscious decision to pay vendors on time **4)** Dependence on China only at 5% of total sales **5)** Commercial papers worth Rs5bn will be used to refinance ST debt. Will be repaid by March. **6)** Secondary sales are trending better than primary sales. Channel following better financial discipline. **7)** Since Jan, Lloyd RAC growing faster than industry. Launched Refrigerators in 1Q.

Exhibit 1: Q1FY21 Result Overview (Rs mn): Sales de-grew by 45.5% YoY; PBT declines by 67.7% YoY

Y/e March	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	FY21E	FY20	YoY gr. (%)
Net Sales	14,791	27,127	(45.5)	22,161	92,752	94,292	(1.6)
Operating & Manufacturing Expenses	9,661	16,956	(43.0)	14,146	57,820	58,351	(0.9)
<i>% of Net Sales</i>	<i>65.3</i>	<i>62.5</i>		<i>63.8</i>	<i>62.3</i>	<i>61.9</i>	
Gross Profit	5,131	10,171	(49.6)	8,016	34,932	35,941	(2.8)
<i>% of Net Sales</i>	<i>34.7</i>	<i>37.5</i>		<i>36.2</i>	<i>37.7</i>	<i>38.1</i>	
Personnel Cost	1,765	2,416	(26.9)	1,989	8,348	8,996	(7.2)
<i>% of Net Sales</i>	<i>11.9</i>	<i>8.9</i>		<i>9.0</i>	<i>9.0</i>	<i>9.5</i>	
Other Expenses	2,057	4,975	(58.7)	3,573	16,169	16,671	(3.0)
<i>% of Net Sales</i>	<i>13.9</i>	<i>18.3</i>		<i>16.1</i>	<i>17.4</i>	<i>17.7</i>	
Total Expenditure	13,483	24,346	(44.6)	19,708	82,336	84,018	(2.0)
EBITDA	1,309	2,781	(52.9)	2,453	10,415	10,274	1.4
<i>Margin (%)</i>	<i>8.8</i>	<i>10.3</i>		<i>11.1</i>	<i>11.2</i>	<i>10.9</i>	
Other income	322	395	(18.5)	195	1,180	1,120	5.4
Depreciation	604	470	28.5	625	577	197	192.7
EBIT	1,027	2,706	(62.1)	2,023	11,018	11,196	(1.6)
Interest	167	47	254.2	46	2,443	2,179	12.1
PBT before exceptional item	860	2,659	(67.7)	1,977	8,576	9,017	(4.9)
Total Taxes	226	898	(74.8)	205	2,201	1,687	30.5
<i>ETR (%)</i>	<i>26.3</i>	<i>33.8</i>		<i>10.4</i>	<i>25.7</i>	<i>18.7</i>	
Adj. PAT	633	1,761	(64.0)	1,772	6,374	7,330	(13.0)
PAT	633	1,761	(64.0)	1,772	6,374	7,330	(13.0)

Source: Company, PL

Exhibit 2: Segmental Breakup (Rs mn): Core segment de-grew by 43%; Lloyd margins improve 80bps YoY

Y/e March	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	FY21E	FY20	YoY gr. (%)
Revenues							
Switchgears	1,902	3,419	(44.4)	3,027	13,126	13,394	(2.0)
Cables	4,611	7,785	(40.8)	6,823	28,744	29,942	(4.0)
Lighting & Fixtures	1,380	2,504	(44.9)	2,343	9,940	10,143	(2.0)
Electrical Consumer Durables	3,017	5,616	(46.3)	4,177	20,656	20,054	3.0
Others	820	1,282	(36.1)	1,213	4,614	4,857	(5.0)
Core Revenues	11,729	20,607	(43.1)	17,582	77,080	78,389	(1.7)
Lloyd	3,062	6,520	(53.0)	4,579	15,672	15,903	(1.4)
EBIT							
Switchgears	291	830	(64.9)	670	3,019	3,249	(7.1)
<i>EBIT margin (%)</i>	<i>15.3</i>	<i>24.3</i>		<i>22.1</i>	<i>23.0</i>	<i>24.3</i>	
Cables	366	845	(56.7)	666	3,018	3,321	(9.1)
<i>EBIT margin (%)</i>	<i>7.9</i>	<i>10.9</i>		<i>9.8</i>	<i>10.5</i>	<i>11.1</i>	
Lighting & Fixtures	29	357	(91.9)	329	1,242	1,457	(14.7)
<i>EBIT margin (%)</i>	<i>2.1</i>	<i>14.2</i>		<i>14.0</i>	<i>12.5</i>	<i>14.4</i>	
Electrical Consumer Durables	370	823	(55.0)	560	2,789	2,870	(2.8)
<i>EBIT margin (%)</i>	<i>12.3</i>	<i>14.7</i>		<i>13.4</i>	<i>13.5</i>	<i>14.3</i>	
Others*	(46)	(54)	(14.9)	-13	(231)	-250	(7.8)
<i>EBIT margin (%)</i>	<i>-5.6</i>	<i>-4.2</i>		<i>-1.1</i>	<i>-5.0</i>	<i>-5.1</i>	
Core EBIT	1,010	2,800	(63.9)	2,211	9,837	10,647	(7.6)
<i>EBIT margin (%)</i>	<i>8.6</i>	<i>13.6</i>		<i>12.6</i>	<i>12.8</i>	<i>13.6</i>	
Lloyd	64	82	(21.8)	85	313	-401	NA
<i>EBIT margin (%)</i>	<i>2.1</i>	<i>1.3</i>		<i>1.9</i>	<i>2.0</i>	<i>-2.5</i>	

Source: Company, PL *Pumps, Motors, Personal Grooming, Water Purifiers, Solar

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	94,292	92,752	1,10,026	1,24,806
YoY gr. (%)	(6.3)	(1.6)	18.6	13.4
Cost of Goods Sold	58,351	57,820	67,964	76,969
Gross Profit	35,941	34,932	42,062	47,837
Margin (%)	38.1	37.7	38.2	38.3
Employee Cost	8,996	8,348	8,912	10,109
Other Expenses	8,204	8,470	9,324	10,451
EBITDA	10,274	10,415	13,539	15,607
YoY gr. (%)	(13.2)	1.4	30.0	15.3
Margin (%)	10.9	11.2	12.3	12.5
Depreciation and Amortization	2,179	2,443	2,612	2,803
EBIT	8,095	7,973	10,927	12,804
Margin (%)	8.6	8.6	9.9	10.3
Net Interest	197	577	255	221
Other Income	1,120	1,180	1,571	1,990
Profit Before Tax	9,017	8,576	12,243	14,572
Margin (%)	9.6	9.2	11.1	11.7
Total Tax	1,687	2,201	3,143	3,741
Effective tax rate (%)	18.7	25.7	25.7	25.7
Profit after tax	7,330	6,374	9,100	10,832
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	7,330	6,374	9,100	10,832
YoY gr. (%)	(6.9)	(13.0)	42.8	19.0
Margin (%)	7.8	6.9	8.3	8.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	7,330	6,374	9,100	10,832
YoY gr. (%)	(6.9)	(13.0)	42.8	19.0
Margin (%)	7.8	6.9	8.3	8.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	7,330	6,374	9,100	10,832
Equity Shares O/s (m)	626	626	626	626
EPS (Rs)	11.7	10.2	14.5	17.3

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	40,646	42,570	45,361	47,740
Tangibles	28,373	30,197	32,888	35,167
Intangibles	12,273	12,373	12,473	12,573
Acc: Dep / Amortization	10,256	12,312	14,515	16,872
Tangibles	9,378	11,126	13,019	15,063
Intangibles	878	1,186	1,497	1,810
Net fixed assets	30,390	30,258	30,845	30,868
Tangibles	18,994	19,071	19,869	20,104
Intangibles	11,395	11,187	10,976	10,763
Capital Work In Progress	861	1,500	2,000	2,000
Goodwill	3,105	3,105	3,105	3,105
Non-Current Investments	230	241	252	264
Net Deferred tax assets	(2,865)	(2,908)	(2,969)	(3,042)
Other Non-Current Assets	1,357	1,413	1,496	1,537
Current Assets				
Investments	-	-	-	-
Inventories	18,719	17,788	19,594	22,226
Trade receivables	2,409	3,685	4,220	4,787
Cash & Bank Balance	11,069	24,259	25,006	30,640
Other Current Assets	1,646	1,577	1,650	1,872
Total Assets	70,479	84,501	88,895	98,071
Equity				
Equity Share Capital	626	626	626	626
Other Equity	42,422	48,796	54,767	61,532
Total Networkth	43,048	49,422	55,393	62,158
Non-Current Liabilities				
Long Term borrowings	-	3,580	2,580	1,580
Provisions	356	352	385	399
Other non current liabilities	220	219	219	221
Current Liabilities				
ST Debt / Current of LT Debt	-	5,333	-	-
Trade payables	14,141	12,673	16,386	18,557
Other current liabilities	8,940	9,107	10,059	11,203
Total Equity & Liabilities	70,479	84,501	88,895	98,071

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	9,017	8,576	12,243	14,572
Add. Depreciation	2,179	2,443	2,612	2,803
Add. Interest	197	577	255	221
Less Financial Other Income	1,120	1,180	1,571	1,990
Add. Other	(533)	(32)	(1)	44
Op. profit before WC changes	10,860	11,564	15,108	17,640
Net Changes-WC	(215)	3,224	(3,634)	(201)
Direct tax	(2,398)	(2,201)	(3,143)	(3,741)
Net cash from Op. activities	8,248	12,587	8,332	13,698
Capital expenditures	(3,592)	(2,950)	(3,699)	(2,825)
Interest / Dividend Income	625	-	-	-
Others	(2,509)	-	-	-
Net Cash from Inv. activities	(5,477)	(2,950)	(3,699)	(2,825)
Issue of share cap. / premium	242	-	-	-
Debt changes	(937)	3,580	(1,000)	(1,000)
Dividend paid	(6,413)	-	(3,129)	(4,068)
Interest paid	(52)	(577)	(255)	(221)
Others	-	-	-	-
Net cash from Fin. activities	(7,159)	3,003	(4,384)	(5,289)
Net change in cash	(4,388)	12,640	248	5,584
Free Cash Flow	4,655	9,637	4,632	10,873

Source: Company Data, PL Research

Quarterly Financials (Rs m)

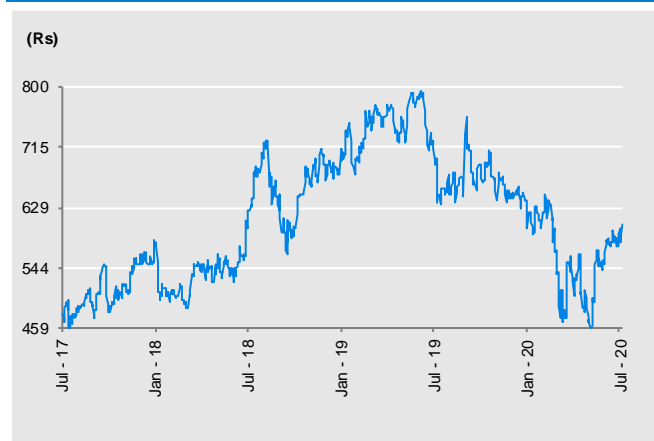
Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Net Revenue	22,303	22,699	22,161	14,791
YoY gr. (%)	1.8	(9.9)	(19.5)	(45.5)
Raw Material Expenses	13,580	13,766	14,146	9,661
Gross Profit	8,723	8,933	8,016	5,131
Margin (%)	39.1	39.4	36.2	34.7
EBITDA	2,341	2,673	2,453	1,309
YoY gr. (%)	(10.8)	(9.2)	(24.0)	(52.5)
Margin (%)	10.5	11.8	11.1	8.8
Depreciation / Depletion	531	552	625	604
EBIT	1,810	2,122	1,828	705
Margin (%)	8.1	9.3	8.2	4.8
Net Interest	51	53	46	167
Other Income	292	240	195	322
Profit before Tax	2,051	2,309	1,977	860
Margin (%)	9.2	10.2	8.9	5.8
Total Tax	237	305	205	226
Effective tax rate (%)	11.6	13.2	10.4	26.3
Profit after Tax	1,814	2,004	1,772	633
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,814	2,004	1,772	633
YoY gr. (%)	1.5	2.4	(14.3)	(63.6)
Margin (%)	8.1	8.8	8.0	4.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,814	2,004	1,772	633
YoY gr. (%)	1.5	2.4	(14.3)	(63.6)
Margin (%)	8.1	8.8	8.0	4.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,814	2,004	1,772	633
Avg. Shares O/s (m)	626	626	626	626
EPS (Rs)	2.9	3.2	2.8	1.0

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	11.7	10.2	14.5	17.3
CEPS	15.2	14.1	18.7	21.8
BVPS	68.8	79.0	88.5	99.3
FCF	7.4	15.4	7.4	17.4
DPS	4.5	4.0	5.0	6.5
Return Ratio(%)				
RoCE	21.6	18.1	21.5	24.3
ROIC	20.8	22.4	24.5	31.5
RoE	17.3	13.8	17.4	18.4
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.3)	(0.4)	(0.5)
Net Working Capital (Days)	27	35	25	25
Valuation(x)				
PER	50.8	58.4	40.9	34.4
P/B	8.7	7.5	6.7	6.0
P/CEPS	39.2	42.2	31.8	27.3
EV/EBITDA	35.2	34.3	25.9	22.0
EV/Sales	3.8	3.9	3.2	2.8
Dividend Yield (%)	0.8	0.7	0.8	1.1

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Jul-20	Reduce	521	598
2	13-May-20	Reduce	485	511
3	13-Apr-20	Reduce	521	551
4	22-Jan-20	Reduce	567	601
5	03-Jan-20	Reduce	571	661
6	24-Oct-19	Reduce	580	670
7	03-Oct-19	Reduce	640	702
8	09-Sep-19	Reduce	566	661

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,829	1,717
2	Avenue Supermarts	Reduce	1,695	2,323
3	Bajaj Electricals	BUY	500	384
4	Britannia Industries	BUY	4,316	3,785
5	Colgate Palmolive	Reduce	1,277	1,392
6	Crompton Greaves Consumer Electricals	BUY	287	241
7	Dabur India	Hold	451	479
8	Emami	Hold	287	233
9	Future Retail	Under Review	-	332
10	GlaxoSmithKline Consumer Healthcare	Hold	9,377	9,247
11	Havells India	Reduce	521	598
12	Hindustan Unilever	Hold	2,304	2,249
13	ITC	BUY	262	200
14	Jubilant FoodWorks	UR	-	1,746
15	Kansai Nerolac Paints	BUY	529	444
16	Marico	Hold	337	352
17	Nestle India	Reduce	14,609	16,912
18	Pidilite Industries	Hold	1,418	1,399
19	Titan Company	Hold	1,025	1,016
20	Voltas	Accumulate	600	575

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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