

Weak Q1 as expected; Key segments will take time to recover. Move rating to Sell.

- Q1 was a weak quarter as expected with revenue decline of 45% at Rs13.8bn, with decline in the range of 40-53% across segments. While EBIDTA was down 53%. Margins were helped by lower costs, especially in ad expenses, which enabled Havells to end at 9% margins.
- Working capital pressure was seen with WC days going up to 48 days and it has availed Rs 8.7bn of credit line in the quarter and net cash has declined to Rs8.4bn vs Rs10bn in March-q. TTM RoEs have declined to 14.8%, down 420bps
- While summer products have lost the season in FY21, Havells also has challenges in its cables, wires and switches, which are longer recovery cycle products incumbent on recovery in infra and real estate. Given the recent run up in the stock, there is still a 10% downside, even when we value it at 40x, and hence we move our rating to Sell.

Weak Q1 as expected. WC needs have gone up.

Sales down 45% yoy at Rs14.8bn in Q1 with decline across segments in the range of 40-53%. EBIDTA was down 53% though EBIDTA margins were down only 140bps. While gross margin were down 270bps and there was negative leverage of staff cost of 310bps, this was fully offset by 95% decline in A&P costs, which gave p swing of 460bps. A&P as % of sales was 0.4%, vs the usual 4-5% range the company has. Havells is a big spender in IPL which has led to this decline. At the EBIT level, there has been huge declines in EBIT margins across segments. Operating net cash flow was negative in the quarter due to WC needs and the company has availed Rs 8.7bn of credit line in the quarter and net cash has declined to Rs8.4bn vs Rs10bn in the March quarter. WC days are at 48 days vs 29days in Q1 last year, with TTM RoEs down to 14.8%, down 420bps yoy.

Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	14,834	27,169	(45.4)	22,174	(33.1)
Total Expense	13,518	24,377	(44.5)	19,730	(31.5)
EBITDA	1,316	2,792	(52.9)	2,445	(46.2)
Depreciation	604	470	28.5	625	(3.4)
EBIT	712	2,322	(69.3)	1,819	(60.9)
Other Income	322	396	(18.8)	208	54.8
Interest	167	47	254.2	46	263.5
EBT	866	2,671	(67.6)	1,981	(56.3)
Tax	227	899	(74.8)	204	11.1
RPAT	640	1,772	(63.9)	1,777	(64.0)
APAT	640	1,772	(63.9)	1,777	(64.0)
			(bps)		(bps)
Gross Margin (%)	34.8	37.7	(289)	36.2	(144)
EBITDA Margin (%)	8.9	10.3	(141)	11.0	(215)
NPM (%)	4.3	6.5	(221)	8.0	(370)
Tax Rate (%)	26.1	33.6	(750)	10.3	1585
EBIT Margin (%)	4.8	8.5	(375)	8.2	(341)

CMP	Rs 595
Target / Downside	Rs 530 / 11%
BSE Sensex	37,920
NSE Nifty	11,132

Script Details

Equity / FV	Rs 626mn / Rs 1
Market Cap	Rs 372bn
	USD 5bn
52-week High/Low	Rs 766/Rs 447
Avg. Volume (no)	2,661,910
NSE Symbol	HAVELLS
Bloomberg Code	HAVL IN

Shareholding Pattern Jun'20(%)

Promoters	59.5
MF/Banks/FIs	9.9
FIIIs	22.0
Public / Others	8.6

Valuation (x)

	FY20A	FY21E	FY22E
P/E	50.6	74.9	44.7
EV/EBITDA	35.1	47.2	30.3
ROE (%)	17.3	11.6	18.5
RoACE (%)	16.5	10.8	17.4

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	94,403	77,742	93,291
EBITDA	10,287	7,774	12,128
PAT	7,356	4,967	8,315
EPS (Rs.)	11.8	7.9	13.3

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Key segments will take time to recover;

Havells has seen a gradual improvement in Q1 post lockdown and even saw a 4% growth in June, despite May being down 40%yoy. However, regional shutdowns in July has again muddled the near-term outlook. As the sector gradually comes back to normalcy, Havells would have lost its peak season for its summer products like ACs and fans. While consumer businesses will recover faster, challenge for the company remains in the wires, cables and switchgear businesses (57% revenues FY20), which will have a longer recovery cycle as they are more dependent on infrastructure and real estate recovery.

Move our rating to Sell.

With Q1 profit number, largely in line with our estimates, we are maintaining our estimates. We value the stock at 40x FY22E to get a target price of Rs530. Despite assigning a premium multiple of 40x, its average trading multiple in a pre-covid growth scenario, there is still a 10% downside, given the recent run up in the stock price. Hence, we would wait for a better entry point and move our rating to Sell

Exhibit 1: Variance from Our Estimates

(Rs Mn)	Actual	DART	Consensus	DART	Consensus	Comments
	Q1FY21	Q1FY21E	Q1FY21E	Var (%)	Var (%)	
Sales	14,834	16,182	13,023	(8.3)	13.9	Sales was down as the quarter was impacted by lockdown
EBITDA	1,316	1,441	643	(8.7)	104.7	Lower sales led to reduction in operating leverage
EBITDA margins	8.9	8.9	4.9	(3.3)	393.5	
PAT	640	677	189	(5.5)	237.9	Lower sales and EBDITA led to lower PAT
Pat margins	4.3	4.2	1.5	12.9	285.9	
EPS	1.0	1.1	0	(5.5)	539.8	

Source: Company, DART

Exhibit 2: Change in Our Estimates

(Rs Mn)	FY21E			FY22E		
	Earlier	New	Var %	Earlier	New	Var %
Sales	77,742	77,742	0.0	93,291	93,291	0.0
EBITDA	7,774	7,774	0.0	12,128	12,128	0.0
EBITDA margin (%)	10.0	10.0	0.0	13.0	13.0	0.0
PAT	4,967	4,967	0.0	8,315	8,315	0.0
EPS	7.9	7.9	0.0	13.3	13.3	0.1

Source: DART, Company

Exhibit 3: Quarterly Performance

Rs mn	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ(%)	YTD FY20	YTD FY21	YoY(%)
Net Revenue	27,169	22,303	22,699	22,174	14,834	(45.4)	(33.1)	27,169	14,834	(45.4)
Cost of materials consumed	11,038	11,155	10,681	10,991	4,881	(55.8)	(55.6)	11,038	4,881	(55.8)
Purchase of Stock in trade	4,253	2,884	2,561	3,152	1,811	(57.4)	(42.6)	4,253	1,811	(57.4)
Changes in Inventories, WIP & SIP	1,647	(459)	523	2	2,985	81.2	142,057	1,647	2,985	81.2
Total RM Cost	16,938	13,580	13,766	14,146	9,676	(42.9)	(31.6)	16,938	9,676	(42.9)
Staff Expenditure	2,443	2,395	2,194	2,004	1,778	(27.2)	(11.3)	2,443	1,778	(27.2)
Advertisement and Sales Promotion	1,370	742	773	325	61	(95.6)	(81.3)	1,370	61	(95.6)
Other Expenses	3,626	3,246	3,293	3,256	2,004	(44.7)	(38.5)	3,626	2,004	(44.7)
EBITDA	2,792	2,341	2,673	2,445	1,316	(52.9)	(46.2)	2,792	1,316	(52.9)
Depreciation	470	531	552	625	604	28.5	(3.4)	470	604	28.5
EBIT	2,322	1,810	2,122	1,819	712	(69.3)	(60.9)	2,322	712	(69.3)
Other Income	396	292	240	208	322	(18.8)	54.8	396	322	(18.8)
Interest	47	51	53	46	167	254.2	263.5	47	167	254.2
PBT	2,671	2,051	2,309	1,981	866	(67.6)	(56.3)	2,671	866	(67.6)
Tax	899	237	305	204	227	(74.8)	11.1	899	227	(74.8)
Net Profit	1,772	1,814	2,004	1,777	640	(63.9)	(64.0)	1,772	640	(63.9)
Reported EPS	2.8	2.9	3.2	2.8	1.0	(63.9)	(64.0)	2.8	1.0	(63.9)
Operating Cost as a % of Sales		bps	bps						bps	
Raw Material Cost	62.3	60.9	60.6	63.8	65.2	288.6	143.9	62.3	65.2	288.6
Staff Cost	9.0	10.7	9.7	9.0	12.0	299.2	294.7	9.0	12.0	299.2
Other Expenses	13.3	14.6	14.5	14.7	13.5	16.0	(117.9)	13.3	13.5	16.0
Margins (%)										
GM	37.7	39.1	39.4	36.2	34.8	(288.6)	(143.9)	37.7	34.8	(288.6)
EBITDA	13.3	14.6	14.5	14.7	13.5	16.0	(117.9)	13.3	13.5	16.0
EBIT	8.5	8.1	9.3	8.2	4.8	(374.7)	(340.6)	8.5	4.8	(374.7)
PBT	9.8	9.2	10.2	8.9	5.8	(399.1)	(309.5)	9.8	5.8	(399.1)
NPM	6.5	8.1	8.8	8.0	4.3	(221.0)	(370.2)	6.5	4.3	(221.0)

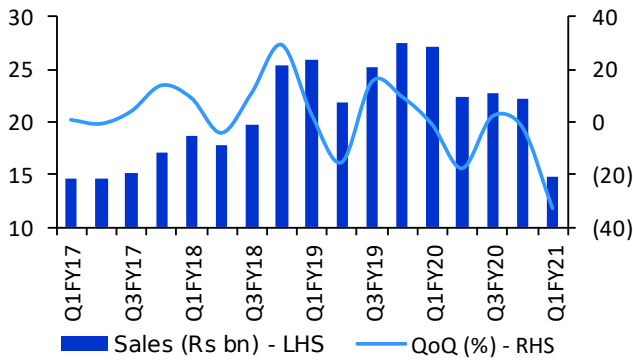
Source: Company, DART

Exhibit 4: Segment Performance

Revenue	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ(%)	YTD FY20	YTD FY21	YoY(%)
Revenue										
Switchgear	3,419	3,977	3,713	3,027	1,902	(44.4)	(37.2)	3,419	1,902	(44.4)
Cable and Wire	7,785	8,213	7,121	6,823	4,611	(40.8)	(32.4)	7,785	4,611	(40.8)
Electirc and Consumer Durables	5,616	5,506	5,814	4,177	3,017	(46.3)	(27.8)	5,616	3,017	(46.3)
Others	1282			1213	820	(36.1)	(32.4)	1,282	820	(36.1)
Lighting and Fixtures	2,546	2,808	3,046	2,356	1,423	(44.1)	(39.6)	2,546	1,423	(44.1)
Llyod Consumer Division	6,520	1,800	3,004	4,579	3,062	(53.0)	(33.1)	6,520	3,062	(53.0)
Total	27,169	22,303	22,699	22,174	14,834	(45.4)	(33.1)	27,169	14,834	(45.4)
EBIT										
Switchgear	830	1,589	1,479	670	291	(64.9)	(56.6)	830	291	(64.9)
Cable and Wire	845	1,510	1,248	666	366	(56.7)	(45.1)	845	366	(56.7)
Electirc and Consumer Durables	823	1,383	1,496	560	370	(55.0)	(33.9)	823	370	(55.0)
Others	(54)			(13)	(46)	(14.9)	246.6	(54)	(46)	(14.9)
Lighting and Fixtures	367	775	894	322	38	(89.5)	(88.1)	367	38	(89.5)
Llyod Consumer Division	82	(42)	236	85	64	(21.8)	(24.9)	82	64	(21.8)
EBIT Margin (%)										
Switchgear	24.3	39.9	39.8	22.1	15.3	(896.5)	(683.4)	24.3	15.3	(896.5)
Cable and Wire	10.9	18.4	17.5	9.8	7.9	(292.6)	(183.2)	10.9	7.9	(292.6)
Electirc and Consumer Durables	14.7	25.1	25.7	13.4	12.3	(238.6)	(113.0)	14.7	12.3	(238.6)
Others	(4.2)			(1.1)	(5.6)	(139.7)	(452.9)	(4.2)	(5.6)	(139.7)
Lighting and Fixtures	14.4	27.6	29.4	13.7	2.7	(1,173.0)	(1,097.1)	14.4	2.7	(1,173.0)
Llyod Consumer Division	1.3	(2.3)	7.8	1.9	2.1	83.6	23.1	1.3	2.1	83.6
Segment Capital employed										
Switchgear	3,313	4,420	3,840	3,223	3,560	7.5	10.5	3,313	3,560	7.5
Cable and Wire	4,155	4,593	4,536	3,874	6,150	48.0	58.8	4,155	6,150	48.0
Electirc and Consumer Durables	3,212	4,352	4,271	3,917	4,120	28.3	5.2	3,212	4,120	28.3
Others	1,282			1,011	1,079	(15.8)	6.7	1,282	1,079	(15.8)
Lighting and Fixtures	3,565	3,265	2,945	2,772	3,086	(13.5)	11.3	3,565	3,086	(13.5)
Llyod Consumer Division	19,679	22,239	21,993	20,208	20,317	3.2	0.5	19,679	20,317	3.2
Unallocated	8,770	3,928	7,205	8,111	5,529	(37.0)	(31.8)	8,770	5,529	(37.0)

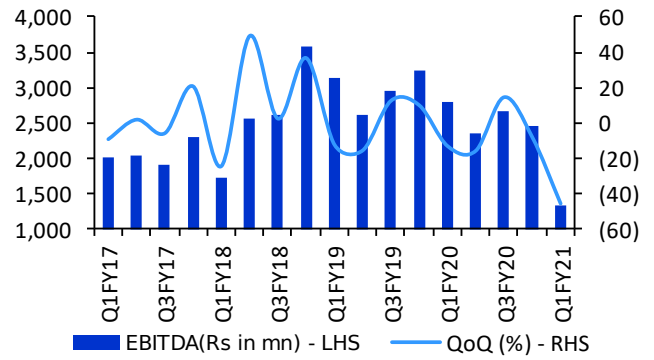
Source: Company, DART

Exhibit 5: Sales and QoQ growth (%)



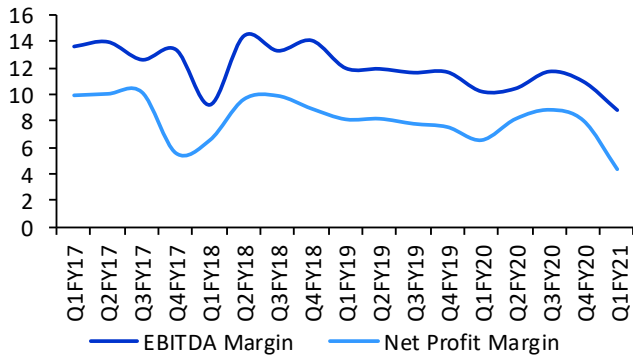
Source: DART, Company

Exhibit 6: EBITDA and Growth (%)



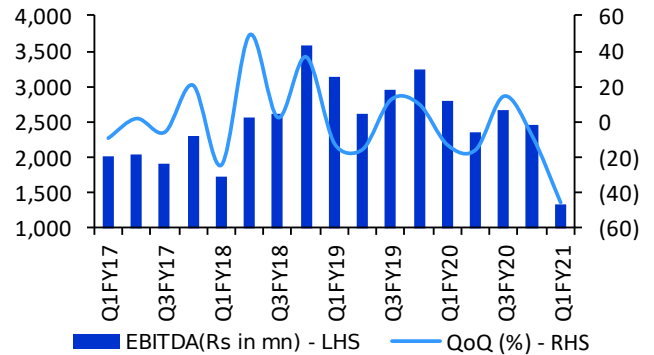
Source: DART, Company

Exhibit 7: Trend in Margin (%)



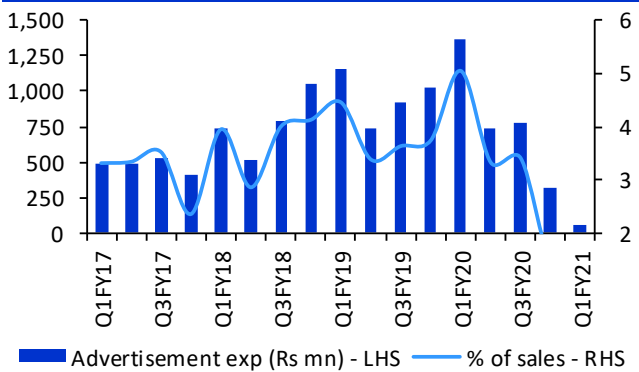
Source: DART, Company

Exhibit 8: Net profit and QoQ growth (%)



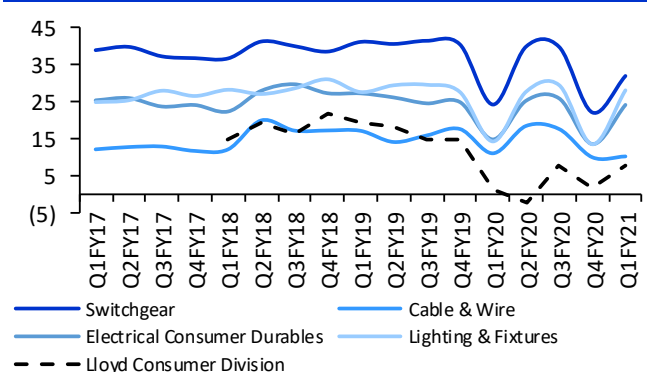
Source: DART, Company

Exhibit 9: Advertisement exp % to sales



Source: DART, Company

Exhibit 10: Segment EBIT Margin (%) trend



Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	100,734	94,403	77,742	93,291
Total Expense	88,891	84,116	69,968	81,163
COGS	62,825	58,332	48,978	56,907
Employees Cost	8,417	9,067	7,774	8,396
Other expenses	17,649	16,717	13,216	15,859
EBIDTA	11,843	10,287	7,774	12,128
Depreciation	1,494	2,180	2,069	2,042
EBIT	10,349	8,107	5,705	10,086
Interest	163	197	0	0
Other Income	1,287	1,134	933	1,026
Exc. / E.O. items	0	0	0	0
EBT	11,473	9,044	6,638	11,112
Tax	3,594	1,688	1,671	2,797
RPAT	7,879	7,356	4,967	8,315
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	7,879	7,356	4,967	8,315

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	626	626	626	626
Minority Interest	0	0	0	0
Reserves & Surplus	41,350	42,490	42,155	46,559
Net Worth	41,976	43,116	42,781	47,185
Total Debt	405	0	0	0
Net Deferred Tax Liability	3,168	2,865	2,865	2,865
Total Capital Employed	45,548	45,981	45,646	50,050

Applications of Funds

Net Block	29,040	33,496	35,427	37,385
CWIP	2,327	861	861	861
Investments	0	0	389	466
Current Assets, Loans & Advances	40,117	36,164	27,197	31,674
Inventories	19,190	18,719	15,335	18,658
Receivables	4,066	2,417	4,260	5,623
Cash and Bank Balances	13,114	11,325	4,743	4,053
Loans and Advances	2,116	2,147	448	448
Other Current Assets	1,632	1,556	2,410	2,892
Less: Current Liabilities & Provisions	25,935	24,754	18,441	20,550
Payables	15,598	14,138	10,160	11,118
Other Current Liabilities	10,337	10,616	8,281	9,432
<i>sub total</i>				
Net Current Assets	14,182	11,410	8,756	11,124
Total Assets	45,548	45,981	45,646	50,050

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	37.6	38.2	37.0	39.0
EBIDTA Margin	11.8	10.9	10.0	13.0
EBIT Margin	10.3	8.6	7.3	10.8
Tax rate	31.3	18.7	25.2	25.2
Net Profit Margin	7.8	7.8	6.4	8.9
(B) As Percentage of Net Sales (%)				
COGS	62.4	61.8	63.0	61.0
Employee	8.4	9.6	10.0	9.0
Other	17.5	17.7	17.0	17.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	63.7	41.1		
Inventory days	70	72	72	73
Debtors days	15	9	20	22
Average Cost of Debt	25.2	97.4		
Payable days	57	55	48	44
Working Capital days	51	44	41	44
FA T/O	3.5	2.8	2.2	2.5
(D) Measures of Investment				
AEPS (Rs)	12.6	11.8	7.9	13.3
CEPS (Rs)	15.0	15.3	11.3	16.6
DPS (Rs)	4.8	8.5	5.5	5.5
Dividend Payout (%)	38.3	72.3	69.2	41.3
BVPS (Rs)	67.2	69.0	68.4	75.5
RoANW (%)	19.9	17.3	11.6	18.5
RoACE (%)	18.7	16.5	10.8	17.4
RoAIC (%)	36.2	24.2	15.1	23.2
(E) Valuation Ratios				
CMP (Rs)	595	595	595	595
P/E	47.2	50.6	74.9	44.7
Mcap (Rs Mn)	372,000	372,000	372,000	372,000
MCap/ Sales	3.7	3.9	4.8	4.0
EV	359,291	360,675	367,257	367,947
EV/Sales	3.6	3.8	4.7	3.9
EV/EBITDA	30.3	35.1	47.2	30.3
P/BV	8.9	8.6	8.7	7.9
Dividend Yield (%)	0.8	1.4	0.9	0.9
(F) Growth Rate (%)				
Revenue	22.0	(6.3)	(17.6)	20.0
EBITDA	1.1	(13.1)	(24.4)	56.0
EBIT	0.3	(21.7)	(29.6)	76.8
PBT	1.0	(21.2)	(26.6)	67.4
APAT	(5.6)	(6.6)	(32.5)	67.4
EPS	(5.6)	(6.6)	(32.5)	67.4
Cash Flow				
(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	5,494	10,610	1,717	7,298
CFI	(4,972)	(5,170)	(4,389)	(4,078)
CFF	(3,656)	(7,015)	(3,911)	(3,911)
FCFF	523	5,440	(2,283)	3,298
Opening Cash	15,616	13,114	11,325	4,743
Closing Cash	13,114	11,325	4,743	4,053

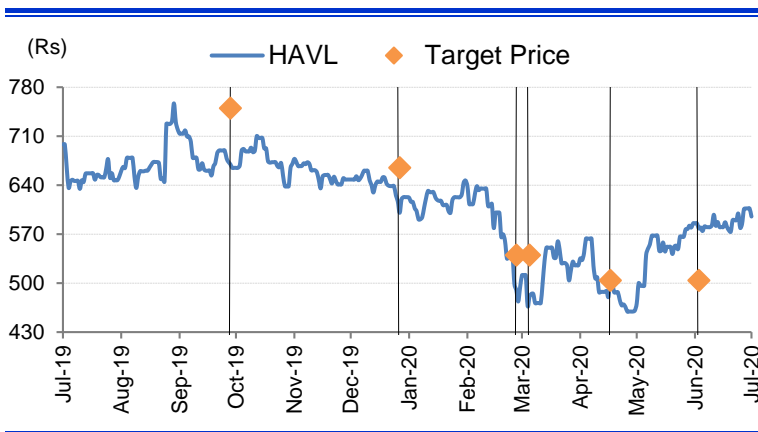
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Oct-19	Buy	750	670
Jan-20	Accumulate	665	601
Mar-20	Reduce	540	490
Mar-20	Accumulate	540	480
May-20	Reduce	504	511
Jun-20	Reduce	504	578

*Price as on recommendation date

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Analyst(s) Certification

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