

Consumer segments leads recovery...

Havells' consumer segments (~70% of sales) saw a notable recovery post easing of restrictions but performance of industrial/institutions segments (~30% of sales) were challenging due to lockdowns. The company posted ~60% recovery in May 2020 while sales in June 2020 increased 4% YoY led by strong demand recovery in consumer business, which grew 12% YoY during the same month. Growth in June was largely attributable to pent up demand, strong supply chain and market share gains in the consumer facing business. The unorganised/regional players have lost market share due to supply constraints coupled with labour related issues. On the cost front, decline in gross margin by partially arrested by saving in advertisement cost and employee cost during the period. As a result, EBITDA margins were at 8.8% better than our estimate of 4% during Q1FY21. The company has availed its credit lines to raise debt of about ₹ 870 crore to fund short term working capital requirements, leading to ₹ 17 crore of interest cost during Q1FY21. Finally, PAT came in at ₹ 63 crore much ahead of our estimate of ₹ 19 crore in Q1. We maintain our positive stance on the stock given its long term strategy to expand through new production addition into consumer space along with increasing rural reach. We raise our FY21, FY22 earnings estimates by ~2%, 9%, respectively.

Havells down 43% YoY, Lloyd's down 53% in Q1

Havells core business i.e. cable, switchgear, ECD, lighting segment saw revenue decline of 41%, 44%, 46%, 45% YoY, respectively, amid pandemic related lockdown. However, Lloyd business saw a sharp drop in sales by 53% YoY mainly due to washout of peak season sales for ACs. According to the management, frequent regional disruption and shutdowns may delay the demand recovery. Havells derives 40% of its sales from Metro and tier1 cities, which are facing intermediary lockdowns due to pandemic.

Significant cost savings help restrict fall in margin

Gross margins fell ~270 bps YoY mainly due to change in mix and delay in passing on higher raw material prices. However, sharp fall in advertisement expenditure (0.4% in Q1FY21 vs. 5% in Q1FY20), 44% and 27% YoY decline in employee cost and other expenditure during Q1FY21, restricted fall in EBITDA margin to 8.8%. The management expects a recovery in sales to lead to improvement in margin, going forward.

Valuation & Outlook

We revise our FY21E, FY22E earnings estimates by 2%, 9%, respectively, factoring in Q1FY21 performance and outlook. However, a delay in recovery due to intermediary lockdowns and negative cashflow from operations due to increase in working capital days weigh on valuation. We revise our rating from BUY to HOLD with a target price of ₹ 630/share.



Particulars

Particular	Amount
Market Capitalization (₹Cr)	35,936.6
Total Debt (FY 20) (₹Cr)	0.0
Cash and Inv (FY 20) (₹Cr)	1,106.9
EV (₹Cr)	34,829.7
52 week H/L	807 / 458
Equity capital (₹Cr)	62.6
Face value (₹)	1.0

Key Highlights

- Business recovery of 60% YoY in May; June sales rose to 4%. Lloyd achieved 80% of revenue in May, and grew 8% in June YoY
- Frequent lockdown by local authorities may delay recovery process
- Sharp cut in advertisement, employee and other costs during Q1FY21
- Increase in NWC days from 26 days in Q1FY20, to 48 days in Q1FY21 due to higher creditor days
- Revise rating from BUY to HOLD

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Key Financial Summary

₹Crore	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	8138.5	10067.8	9429.0	8889.5	10985.3	7.9
EBITDA	1049.2	1183.9	1027.2	878.2	1380.7	15.9
EBITDA Margin (%)	12.9	11.8	10.9	9.9	12.6	
PAT	712.5	787.4	732.8	500.4	898.8	10.7
EPS (₹)	11.4	12.6	11.7	8.0	14.4	
P/E (x)	50.4	45.6	49.0	71.8	40.0	
Price/Book Value (x)	9.6	8.6	8.3	8.2	7.3	
Mcap/Sales	4.4	3.6	3.8	4.0	3.3	
RoE (%)	18.8	18.8	17.0	11.4	18.3	
RoCE (%)	25.2	25.4	19.6	14.3	22.6	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q1FY21	1FY21E	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
Revenue	1479.1	1289.5	2712.5	-45.5	2216.1	-33.3	Lower sales attributable to lockdown
Other Income	32.2	34.6	39.7	-18.9	19.5	65.2	
Raw Material Exp	788.1	631.9	1276.7	-38.3	1107.4	-28.8	Change in mix and delay in passing on raw material prices drags gross margin lower by 270 bps YoY
Employee Exp	176.5	193.4	241.3	-26.8	198.9	-11.3	
Purchase of Traded goo	178.0	154.7	422.2	-57.8	307.2	-42.1	
Other expenses	205.7	257.9	496.2	-58.5	357.3	-42.4	Advertisement expenses declined by ~96% YoY ₹6% in Q1FY 21
EBITDA	130.9	51.6	276.2	-52.6	245.3	-46.7	
EBITDA Margin (%)	8.8	4.0	10.2	-133 bps	11.1	-222 bps	Decline in gross margins was partially arrested by saving in advertisement expenses. However low operating leverage drags EBITDA margin down by 133 bps YoY
Depreciation	60.4	59.8	46.9	28.8	62.5	-3.4	
Interest	16.7	0.9	4.7	254.2	4.6	263.5	Interest cost due to short term debt raised to fund working capital need
PBT	86.0	25.5	264.3	-67.5	197.7	-56.5	Lower sales and sharp decline in other income resulted in lower PBT
Total Tax	22.6	6.4	89.8	-74.8	20.5	10.2	
PAT	63.3	19.1	174.4	-63.7	177.2	-64.3	
Key Metrics							
Cable	461.0	315.9	778.5	-40.8	682.0	-32.4	Lower cable demand on account of account of lockdown in various states and
Switchgear	190.0	157.4	342.0	-44.4	351.1	-45.9	Intermediary lockdowns impacted demand recovery in the switchgear segment
ECD	608.1	676.3	1,214.0	-49.9	918.0	-33.8	ECD business has witnessed smart recovery post relaxation from lockdown in June'20, however Lloyd business remain impacted due to washout of peak season sales amid lockdowns
Lighting & Fixtures	138.0	139.9	250.0	-44.8	382.0	-63.9	Institutional sales severely impacted by lockdown

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹Crore)	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	8477.2	8889.5	4.9	10375.5	10985.3	5.9	Slight change in estimate given better the expected recovery in Q1FY 21
EBITDA	807.8	878.2	8.7	1279.5	1380.7	7.9	
EBITDA Margin (%)	9.5	9.9	38bps	12.3	12.6	24bps	
PAT	488.7	500.4	2.4	824.6	898.8	9.0	
EPS (₹)	7.8	8.0	2.4	13.2	14.4	9.0	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current			Earlier			Comments
	FY19E	FY20E	FY21E	FY22E	FY21E	FY22E	
Cable Growth (%)	24.4	-7.4	-11.0	21.0	-12.1	19.8	While FY 21E likely to be impacted by covid-19 related lockdown, the gradual recovery would start from FY 22E onwards backed by increase in government spending
Switchgear Growth	12.1	-5.1	-11.3	18.2	-12.4	18.4	Industrial switchgear segment likely to remain muted owing to slow down in the real estate segment
ECD Growth (%)	32.9	-3.7	-8.6	29.5	-9.2	26.0	Lower penetration, new launches coupled with rising aspiration level of middle class would help drive performance of ECD segment
Lighting & Fixtures (%)	12.7	-13.2	-3.7	21.6	-4.9	21.9	Lighting segment growth to be largely driven by LED fixtures. However, pricing pressure remains in professional luminaries segments

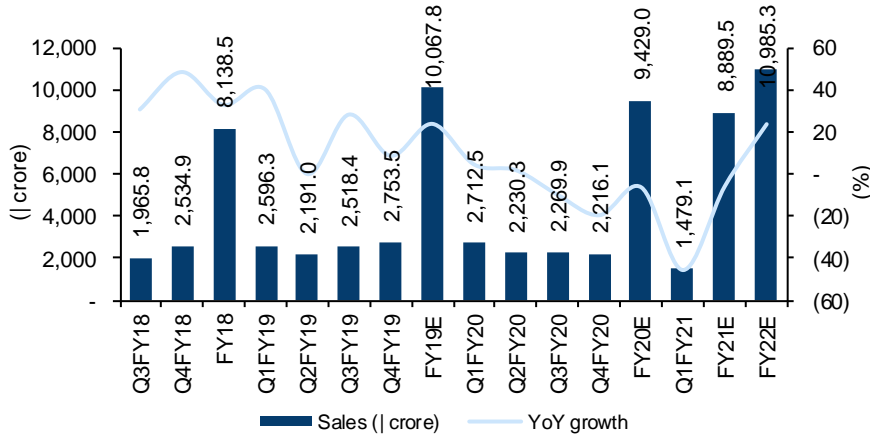
Source: Company, ICICI Direct Research

Conference call highlights

- The company witnessed a strong demand recovery in June 2020 under its consumer product portfolio. All manufacturing units resumed production with government guidelines
- Market share gains in almost all product categories due to its strong supply chain management, gaining market share from unorganised categories
- Lloyd business has reported good business recovery post opening up new plant in Rajasthan. The company has launched a refrigerator under its new product categories
- The company would outsource manufacturing of other products in the Lloyd brand barring AC. The future capital expenditure in the Lloyd would not be more than ₹ 250 crore in the near term
- Also, 5% of topline is linked with Chinese imports
- Online sales are ~3% of overall sales and are growing rapidly
- The dealer inventory has declined significantly due to sharp demand in the secondary sales. Secondary sales were higher than primary sales
- The net working capital cycle increased to 48 days in Q1FY21 from 26 days in Q1FY20, mainly due to sharp decline in the creditor days on account of ontime payment to suppliers. The management believes this will bring normalcy once plant utilisation improves
- The company registered negative cash flow operations due to stretched working capital requirements. Credit line of ₹ 870 crore has been availed during the quarter. The loan will be repaid in the coming two quarters with improvement in plant utilisation
- The company has started focusing on rural markets (with population below ~50000) as these regions are less affected by Covid-19. Currently, these regions contribute 1.5-2% of company's overall sale
- The company did not see any downgrading in consumer product categories. However, according to the company, sales of premium products category has improved as people are preferring quality products due to working from home
- On the regions front, performance of south and eastern regions was strong compared to other regions, which were largely impacted by lockdown

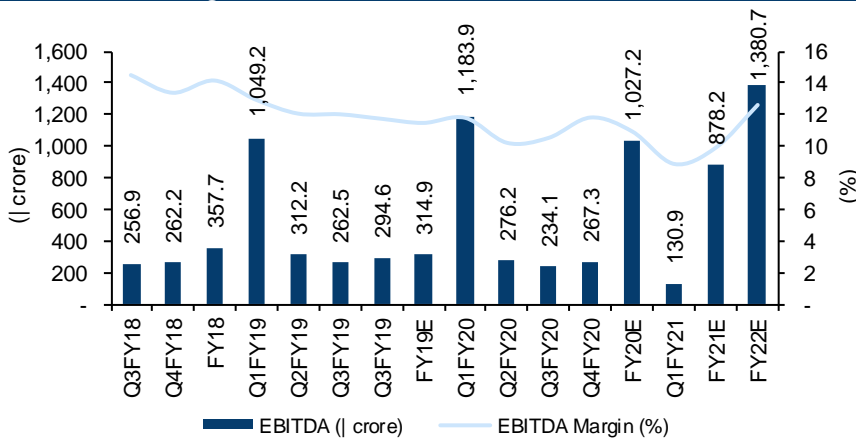
Financial story in charts

Exhibit 4: Recovery in consumer business to help drive overall sales



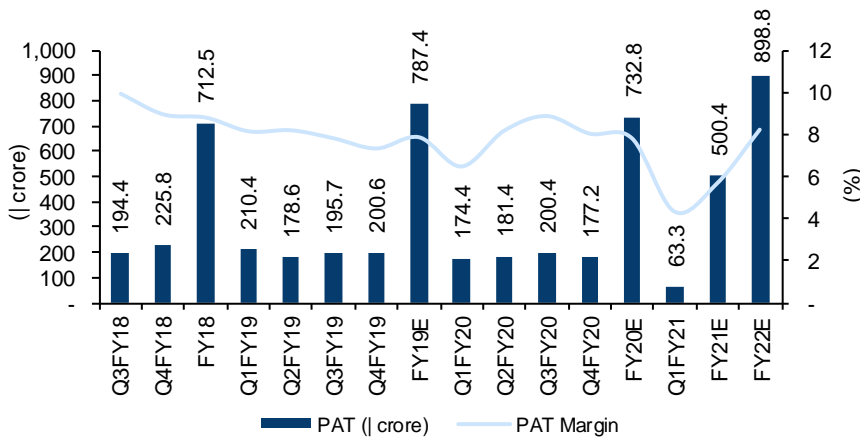
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA margin movement



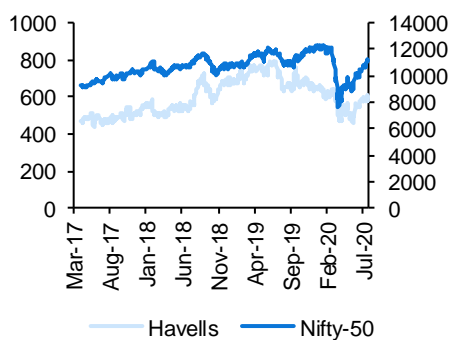
Source: Company, ICICI Direct Research

Exhibit 6: Recovery in sales, EBITDA to drive PAT



Source: Company, ICICI Direct Research

Exhibit 7: Price chart



Source: Capitaline, Company, ICICI Direct Research

Exhibit 8: Shareholding Pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	59.5	59.5	59.5	59.5	59.5
FII	27.0	26.3	25.9	23.0	21.9
DII	2.6	2.2	2.0	3.2	3.0
Others	11.0	12.0	12.6	14.2	15.6

Source: Company, ICICI Direct Research

Financial summary

Exhibit 9: Profit and loss statement				
	₹ crore			
(Year-end March)	FY 19	FY 20	FY 21E	FY 22E
Total Operating Income	10067.8	9429.0	8889.5	10985.3
Growth (%)		-6.3	-5.7	23.6
Raw Material Expenses	4532.9	4389.6	4267.0	5163.1
Employee Expenses	837.3	899.6	923.5	1098.5
Marketing Expenses	384.3	320.9	219.7	427.7
Other expenses	1375.0	1346.2	1366.6	1684.4
Operating Expenditure	8883.9	8401.8	8011.3	9604.6
EBITDA	1183.9	1027.2	878.2	1380.7
Growth (%)		-13.2	-14.5	57.2
Other Income	127.8	112.0	98.5	116.9
Interest	16.1	19.7	68.2	36.2
Depreciation	149.4	217.9	240.0	263.6
Less: Exceptional Item	0.0	0.0	0.0	0.0
PBT	1146.2	901.5	668.6	1197.8
Total Tax	358.8	168.7	168.1	298.9
PAT	787.4	732.8	500.4	898.8

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet				
	₹ crore			
(Year-end March)	FY 19	FY 20	FY 21E	FY 22E
Equity Capital	62.6	62.6	62.6	62.6
Reserve and Surplus	4129.7	4242.2	4314.1	4841.7
Total Shareholders funds	4192.3	4304.8	4376.7	4904.3
Total Debt	40.5	0.0	358.0	158.0
Deferred Tax Liability	316.8	286.5	286.5	286.5
Total Liabilities	4570.8	4704.2	5134.1	5461.7
Assets				
Total Gross Block	3519.2	4176.4	4361.4	4711.4
Less Acc. Depreciation	855.5	1073.4	1313.4	1577.1
Net Block	2663.7	3103.0	3047.9	3134.3
Capital WIP	232.2	82.7	97.7	147.7
Total Fixed Assets	2895.9	3185.7	3145.6	3282.0
Investment	491.21	67.29	81.78	73.67
Inventory	1919.0	1871.9	1826.6	2167.0
Debtors	424.2	248.9	438.4	541.7
Other Current Assets	188.8	214.1	201.8	249.4
Cash	1287.8	1106.9	553.6	946.0
Total Current Assets	3819.7	3441.7	3020.4	3904.1
Total Current Liabilities	2555.0	2343.6	1502.4	2209.8
Net Current Assets	1264.8	1098.1	1518.0	1694.2
Total Assets	4570.8	4704.2	5134.1	5461.7

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY 19	FY 20	FY 21E	FY 22E
Profit after Tax	787.4	732.8	500.4	898.8
Depreciation	149.4	217.9	240.0	263.6
CF before working cap chan	952.9	970.5	808.6	1198.7
Net Increase in Current Assets	775.0	197.2	-132.0	-491.3
Net Increase in Current Liabilities	90.8	-211.3	-841.2	707.4
CF from operating activities	1818.7	956.3	-164.6	1414.8
(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	358.0	-200.0
Others	-350.4	-640.0	-496.7	-407.4
CF from Financing Activities	-417.9	-680.5	-138.7	-607.4
Net Cash flow	986.6	-180.8	-553.3	392.4
Opening Cash	301.2	1287.8	1106.9	553.6
Closing Cash	1287.8	1106.9	553.6	946.0

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	₹ crore			
(Year-end March)	FY 19	FY 20	FY 21E	FY 22E
Per Share Data				
Reported EPS	12.6	11.7	8.0	14.4
Cash EPS	15.0	15.2	11.9	18.6
BV per share	67.2	69.0	70.2	78.6
DPS	4.8	4.8	6.0	6.0
Operating Ratios (%)				
EBITDA Margin (%)	11.8	10.9	9.9	12.6
PAT Margin (%)	7.8	7.8	5.6	8.2
Asset Turnover	2.2	2.0	1.7	2.0
Debtors Turnover	15.4	9.6	18.0	18.0
Creditor Turnover	56.6	54.7	30.0	40.0
Return Ratios (%)				
RoE	18.8	17.0	11.4	18.3
RoCE	25.4	19.6	14.3	22.6
RoIC	29.7	21.0	13.3	23.2
Valuation Ratios				
EV / EBITDA	29.3	33.9	40.7	25.5
P/E	45.6	49.0	71.8	40.0
EV / Net Sales	3.4	3.7	4.0	3.2
EV / Net Sales	3.4	3.7	4.0	3.2
Market Cap / Sales	3.6	3.8	4.0	3.3
Price to Book Value	8.6	8.3	8.2	7.3
Solvency Ratios				
Debt / Equity	0.0	0.0	0.1	0.0
Current Ratio	1.4	1.4	2.9	2.1
Quick Ratio	0.3	0.3	0.7	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	FY22	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22		
Asian Paints (ASIPA)	1,759	1,900	Hold	1,68,688	29.0	21.8	32.6	60.7	80.8	53.9	38.9	45.6	32.9	27.4	19.4	26.9	30.5	22.6	31.0					
Astral Polytechnik (ASTP)	920	900	Hold	13,861	16.6	14.2	20.0	55.5	64.6	45.9	27.8	30.4	23.3	20.5	16.3	20.2	16.6	12.6	15.4					
Amber Enterprises (AM)	1,478	1,565	Hold	4,648	52.2	15.1	54.9	28.3	97.8	26.9	15.7	22.2	12.3	14.3	7.3	15.7	14.5	4.4	13.7					
Bajaj Electricals (BAJEL)	437	495	Buy	4,968	0.0	4.1	14.8	NM	106.7	29.6	26.1	26.3	15.0	8.4	6.7	13.4	4.5	4.2	10.2					
Berger Paints (BERPA)	522	570	Hold	50,697	6.8	6.0	10.0	77.3	87.1	52.1	46.9	51.1	33.7	26.6	21.5	31.9	24.7	19.4	27.7					
Essel Propack (ESSPRC)	199	190	Hold	5,518	6.7	6.0	7.9	29.7	33.2	25.2	10.3	10.0	8.4	15.6	13.9	15.9	14.3	11.5	14.2					
Havells India (HAVIND)	576	630	Hold	35,937	11.7	8.0	14.4	49.0	71.8	40.0	33.9	40.7	25.5	19.6	14.3	22.6	17.0	11.4	18.3					
Kansai Nerolac (KANNE)	436	415	Buy	23,497	9.9	7.8	10.4	43.9	55.8	41.9	26.6	31.2	24.1	17.6	14.5	17.9	14.1	11.1	13.7					
Pidilite Industries (PIDINI)	1,353	1,485	Hold	69,366	21.9	18.3	26.2	61.8	73.8	51.6	44.7	51.5	37.0	31.0	24.4	32.6	26.1	19.8	26.6					
Polycab India (POLI)	804	950	Buy	11,970	51.4	42.2	55.4	15.6	19.0	14.5	10.7	13.4	9.8	26.5	16.8	22.2	20.0	13.9	17.0					
Supreme Indus (SUPIND)	1,221	1,245	Hold	15,510	36.8	28.4	41.5	31.8	41.2	28.2	18.0	20.8	15.6	22.5	17.5	22.3	20.7	15.3	20.1					
Symphony (SYMLIM)	846	1,055	Buy	5,918	26.0	23.7	35.1	32.5	35.7	24.1	28.9	32.1	20.6	28.8	23.9	31.9	29.0	22.7	28.9					
Time Techno (TIMTEC)	39	42	Hold	882	7.5	3.2	9.0	5.2	12.3	4.3	3.1	4.4	2.8	12.5	7.1	13.1	9.3	4.0	10.7					
V-Guard Ind (VGUARD)	164	210	Buy	6,981	4.4	3.5	5.1	37.7	46.4	32.2	29.6	35.6	24.8	24.8	19.1	23.9	18.6	14.5	18.2					
Voltas Ltd (VOLTAS)	580	635	Buy	19,183	15.8	9.5	21.4	36.8	61.1	27.1	25.1	46.0	20.3	19.5	11.2	20.1	13.0	7.2	14.9					

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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