

Havells India (HAVL IN)

Rating: HOLD | CMP: Rs725 | TP: Rs700

October 29, 2020

Q2FY21 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	HOLD		REDUCE	
Target Price	700		571	
Sales (Rs. m)	1,12,426	1,27,561	1,10,026	1,24,806
% Chng.	2.2	2.2		
EBITDA (Rs. m)	15,090	17,421	13,539	15,607
% Chng.	11.5	11.6		
EPS (Rs.)	16.5	19.4	14.5	17.3
% Chng.	13.8	12.3		

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	94,292	94,731	1,12,426	1,27,561
EBITDA (Rs. m)	10,274	12,878	15,090	17,421
Margin (%)	10.9	13.6	13.4	13.7
PAT (Rs. m)	7,330	8,264	10,352	12,168
EPS (Rs.)	11.7	13.2	16.5	19.4
Gr. (%)	(6.9)	12.7	25.3	17.5
DPS (Rs.)	4.5	4.0	5.5	6.8
Yield (%)	0.6	0.6	0.8	0.9
RoE (%)	17.3	17.4	18.8	19.4
RoCE (%)	21.6	22.7	23.3	25.8
EV/Sales (x)	4.7	4.6	3.8	3.3
EV/EBITDA (x)	43.1	34.0	28.4	24.2
PE (x)	61.9	54.9	43.8	37.3
P/BV (x)	10.5	8.8	7.7	6.8

Key Data

HVEL.BO | HAVL IN

52-W High / Low	Rs.736 / Rs.447
Sensex / Nifty	39,750 / 11,671
Market Cap	Rs.454bn / \$ 6,125m
Shares Outstanding	626m
3M Avg. Daily Value	Rs.2324.34m

Shareholding Pattern (%)

Promoter's	59.50
Foreign	22.22
Domestic Institution	9.86
Public & Others	8.42
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	8.8	33.6	8.5
Relative	3.9	9.9	8.7

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Resilient demand recovery; Upgrade to HOLD

Quick Pointers:

- Consumer & residential segments grew in mid-teens, Industrial up MoM
- Local Manufacturing to aid Lloyd and ECD segments

We increase FY21/FY22/FY23 estimates by 29.6%/ 13.8%/ 12.3% and upgrade the stock from Reduce to Hold given 1) resilient demand recovery in consumer & residential segments 2) strong performance in ECD with market share gains 3) likely gains in Lloyd AC with government's Atma-nirbhar drive

HAVL's consumer & residential segment (75% of sales) is showing strong momentum by growing in mid-teens with market share gains even as B2B segment is also showing signs of a steady recovery. Lloyd AC is benefitting from a low base and reduced dependence on imports due to its in-house manufacturing which would further benefit from Govt's thrust on atma-nirbhar initiative in Room AC. We expect HAVL's to retain some benefits from its cost savings measures and expect margins to expand by 280bps to 13.7% over FY20-23. We estimate 18.4% PAT CAGR over FY20-23. We assign a target price of Rs700 @36x FY23 EPS (earlier 33x FY23 EPS). Upgrade to HOLD. Extent of cost control and Lloyd Refrigerator success are key monitorables.

Sales grew by 9.9%, PBT up by 85%: Revenues grew by 9.9% to Rs24.5bn with core segment growing by 5.9% while Lloyd grew by 55.8%. Gross margins were up by ~90bps YoY to 40.2%. EBITDA grew by 79% YoY to Rs4.2bn while margins expanded by 660bps YoY to 17.2% aided by 74%/ 10.5% decline in A&P & employee costs. Adjusting for other income of Rs428 on sale of land, PBT grew by 85% to Rs3.8bn, while PAT grew by 56.5% to Rs2.8bn

Core segment/Lloyd grows by 5.9%/ 55.8% YoY: Switchgear revenues/EBIT grew by 1.8%/31.4% to Rs3.7bn/Rs1.2bn while margins expanded by 700bps to 31%. Cables Revenues declined by 4.5% to Rs7.8bn while EBIT grew by 7.2% to Rs1.1bn. Margins grew by 160bps to 14.3%. Lighting Revenues /EBIT grew by 4.3%/69.3% to Rs2.6bn/Rs521mn, while margins expanded by 760bps to 19.7%. ECD Revenues/EBIT grew by 18.3%/63.3% to Rs5.8bn/Rs1.2bn while margins expanded by 560bps to 20.2%. Lloyd Revenue grew by 55.8% YoY to Rs2.8bn while reporting a EBIT of Rs51mn vs loss of Rs440mn. Margins at 1.8% vs -24.5%

Concall Takeaways: 1) Consumer and residential segment (75% of revenues) grew in mid-teens. 2) Over last 2 weeks, industrial and infrastructure segment too has slowly started picking up 3) Rural markets (4% of consumer sales) grew by 140% YoY. 4) Channel inventory remains lower than normal. Recovery in demand has been better than anticipated 5) Fans growth fastest in the industry. 6) Domestic wires grew by 19-20%, Consumer lighting grew by 15% 7) Lloyd growth led by RAC. 8) Gained market share across all product categories 9) Ecom is 4-4.5% of sales and should increase with Lloyd focus on online sales 10) Havells has considerably added to management depth in past few years which would benefit the company in steady expansion of product segments and offerings.

Exhibit 1: Q2FY21 Result Overview (Rs mn): Sales grew by 9.9% YoY; PBT grew by 85% YoY

Y/e March	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	H1FY21	H1FY20	YoY gr. (%)
Net Sales	24,518	22,306	9.9	14,791	39,309	49,432	(20.5)
Operating & Manufacturing Expenses	14,655	13,532	8.3	9,661	24,316	30,488	(20.2)
<i>% of Net Sales</i>	<i>59.8</i>	<i>60.7</i>		<i>65.3</i>	<i>61.9</i>	<i>61.7</i>	
Gross Profit	9,862	8,773	12.4	5,131	14,993	18,944	(20.9)
<i>% of Net Sales</i>	<i>40.2</i>	<i>39.3</i>		<i>34.7</i>	<i>38.1</i>	<i>38.3</i>	
Personnel Cost	2,145	2,396	(10.5)	1,765	3,910	4,812	(18.7)
<i>% of Net Sales</i>	<i>8.7</i>	<i>10.7</i>		<i>11.9</i>	<i>9.9</i>	<i>9.7</i>	
Other Expenses	3,511	4,027	(12.8)	2,057	5,567	9,001	(38.2)
<i>% of Net Sales</i>	<i>14.3</i>	<i>18.1</i>		<i>13.9</i>	<i>14.2</i>	<i>18.2</i>	
Total Expenditure	20,311	19,955	1.8	13,483	33,793	44,301	(23.7)
EBITDA	4,207	2,351	79.0	1,309	5,515	5,131	7.5
<i>Margin (%)</i>	<i>17.2</i>	<i>10.5</i>		<i>8.8</i>	<i>14.0</i>	<i>10.4</i>	
Other income	364	290	25.4	322	686	686	0.1
Depreciation	591	532	11.1	604	1,195	1,002	19.3
EBIT	3,980	2,109	88.7	1,027	5,007	4,815	4.0
Interest	173	51	236.0	167	340	99	244.7
PBT before exceptional item	3,808	2,058	85.0	860	4,667	4,717	(1.1)
Total Taxes	987	255	287.2	226	1,213	1,153	5.2
<i>ETR (%)</i>	<i>25.9</i>	<i>12.4</i>		<i>26.3</i>	<i>26.0</i>	<i>24.4</i>	
Adj. PAT	2,821	1,803	56.5	633	3,454	3,564	(3.1)
PAT	3,249	1,803	80.2	633	3,882	3,564	8.9

Source: Company, PL

Exhibit 2: Segmental Breakup (Rs mn): Core segment de-grew by 5.9%; Lloyd grew by 55.8%

Y/e March	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	H1FY21	H2FY20	YoY gr. (%)
Revenues							
Switchgears	3,703	3,638	1.8	1,902	5,604	7,058	(20.6)
Cables	7,847	8,213	(4.5)	4,611	12,458	15,998	(22.1)
Lighting & Fixtures	2,646	2,536	4.3	1,380	4,026	5,040	(20.1)
Electrical Consumer Durables	5,799	4,902	18.3	3,017	8,816	10,518	(16.2)
Others	1,719	1,217	41.3	820	2,539	2,499	1.6
Core Revenues	21,713	20,506	5.9	11,729	33,443	41,113	(18.7)
Lloyd	2,804	1,800	55.8	3,062	5,866	8,320	(29.5)
EBIT							
Switchgears	1,150	875	31.4	291	1,441	1,704	(15.5)
<i>EBIT margin (%)</i>	<i>31.0</i>	<i>24.0</i>		<i>15.3</i>	<i>25.7</i>	<i>24.1</i>	
Cables	1,118	1,043	7.2	366	1,484	1,888	(21.4)
<i>EBIT margin (%)</i>	<i>14.3</i>	<i>12.7</i>		<i>7.9</i>	<i>11.9</i>	<i>11.8</i>	
Lighting & Fixtures	521	308	69.3	29	550	664	(17.2)
<i>EBIT margin (%)</i>	<i>19.7</i>	<i>12.1</i>		<i>2.1</i>	<i>13.7</i>	<i>13.2</i>	
Electrical Consumer Durables	1,172	717	63.3	370	1,542	1,540	0.1
<i>EBIT margin (%)</i>	<i>20.2</i>	<i>14.6</i>		<i>12.3</i>	<i>17.5</i>	<i>14.6</i>	
Others*	141	(109)	NM	(46)	95	(163)	NM
<i>EBIT margin (%)</i>	<i>8.2</i>	<i>(8.9)</i>		<i>(5.6)</i>	<i>3.7</i>	<i>(6.5)</i>	
Core EBIT	4,101	2,834	44.7	1,010	5,111	5,635	(9.3)
<i>EBIT margin (%)</i>	<i>18.9</i>	<i>13.8</i>		<i>8.6</i>	<i>15.3</i>	<i>13.7</i>	
Lloyd	51	(440)	NM	64	115	(358)	NM
<i>EBIT margin (%)</i>	<i>1.8</i>	<i>(24.5)</i>		<i>2.1</i>	<i>2.0</i>	<i>(4.3)</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	94,731	1,12,426	1,27,561
YoY gr. (%)	(6.3)	0.5	18.7	13.5
Cost of Goods Sold	58,351	57,907	69,147	78,347
Gross Profit	35,941	36,824	43,280	49,214
Margin (%)	38.1	38.9	38.5	38.6
Employee Cost	8,996	8,431	9,107	10,332
Other Expenses	8,204	8,363	9,302	10,363
EBITDA	10,274	12,878	15,090	17,421
YoY gr. (%)	(13.2)	25.4	17.2	15.4
Margin (%)	10.9	13.6	13.4	13.7
Depreciation and Amortization	2,179	2,448	2,689	2,881
EBIT	8,095	10,430	12,401	14,540
Margin (%)	8.6	11.0	11.0	11.4
Net Interest	197	621	259	224
Other Income	1,120	1,354	1,842	2,122
Profit Before Tax	9,017	11,163	13,983	16,437
Margin (%)	9.6	11.8	12.4	12.9
Total Tax	1,687	2,899	3,631	4,269
Effective tax rate (%)	18.7	26.0	26.0	26.0
Profit after tax	7,330	8,264	10,352	12,168
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	7,330	8,264	10,352	12,168
YoY gr. (%)	(6.9)	12.7	25.3	17.5
Margin (%)	7.8	8.7	9.2	9.5
Extra Ord. Income / (Exp)	-	428	-	-
Reported PAT	7,330	8,692	10,352	12,168
YoY gr. (%)	(6.9)	18.6	19.1	17.5
Margin (%)	7.8	9.2	9.2	9.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	7,330	8,692	10,352	12,168
Equity Shares O/s (m)	626	626	626	626
EPS (Rs)	11.7	13.2	16.5	19.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	40,646	43,649	46,457	48,843
Tangibles	28,373	31,276	33,984	36,270
Intangibles	12,273	12,373	12,473	12,573
Acc: Dep / Amortization	10,256	12,317	14,594	17,019
Tangibles	9,378	11,131	13,097	15,210
Intangibles	878	1,186	1,497	1,810
Net fixed assets	30,390	31,332	31,863	31,824
Tangibles	18,994	20,145	20,887	21,061
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)	(2,955)	(3,066)	(3,198)
Other Non-Current Assets	1,357	1,428	1,511	1,552
Current Assets				
Investments	-	-	-	-
Inventories	18,719	18,168	20,021	22,716
Trade receivables	2,409	3,763	4,312	4,893
Cash & Bank Balance	11,069	25,393	27,299	34,226
Other Current Assets	1,646	1,610	1,686	1,913
Total Assets	70,479	87,225	92,788	1,03,278
Equity				
Equity Share Capital	626	626	626	626
Other Equity	42,422	51,115	58,025	65,970
Total Network	43,048	51,741	58,651	66,596
Non-Current Liabilities				
Long Term borrowings	-	3,580	2,580	1,580
Provisions	356	360	393	408
Other non current liabilities	220	224	224	226
Current Liabilities				
ST Debt / Current of LT Debt	-	5,447	-	-
Trade payables	14,141	12,692	16,671	18,889
Other current liabilities	8,940	9,302	10,278	11,450
Total Equity & Liabilities	70,479	87,225	92,788	1,03,278

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	9,017	11,163	13,983	16,437
Add. Depreciation	2,179	2,448	2,689	2,881
Add. Interest	197	621	259	224
Less Financial Other Income	1,120	1,354	1,842	2,122
Add. Other	(533)	461	51	103
Op. profit before WC changes	10,860	14,693	16,982	19,646
Net Changes-WC	(215)	(1,751)	(923)	(210)
Direct tax	(2,398)	(2,899)	(3,631)	(4,269)
Net cash from Op. activities	8,248	10,044	12,428	15,167
Capital expenditures	(3,592)	(4,029)	(3,720)	(2,842)
Interest / Dividend Income	625	-	-	-
Others	(2,509)	-	-	-
Net Cash from Inv. activities	(5,477)	(4,029)	(3,720)	(2,842)
Issue of share cap. / premium	242	-	-	-
Debt changes	(937)	3,580	(1,000)	(1,000)
Dividend paid	(6,413)	-	(3,442)	(4,224)
Interest paid	(52)	(621)	(259)	(224)
Others	-	-	-	-
Net cash from Fin. activities	(7,159)	2,959	(4,701)	(5,449)
Net change in cash	(4,388)	8,973	4,006	6,877
Free Cash Flow	4,655	6,015	8,708	12,325

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	11.7	13.2	16.5	19.4
CEPS	15.2	17.1	20.8	24.0
BVPS	68.8	82.7	93.7	106.4
FCF	7.4	9.6	13.9	19.7
DPS	4.5	4.0	5.5	6.8
Return Ratio(%)				
RoCE	21.6	22.7	23.3	25.8
ROIC	20.8	29.1	27.2	35.3
RoE	17.3	17.4	18.8	19.4
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.3)	(0.4)	(0.5)
Net Working Capital (Days)	27	36	25	25
Valuation(x)				
PER	61.9	54.9	43.8	37.3
P/B	10.5	8.8	7.7	6.8
P/CEPS	47.7	42.4	34.8	30.2
EV/EBITDA	43.1	34.0	28.4	24.2
EV/Sales	4.7	4.6	3.8	3.3
Dividend Yield (%)	0.6	0.6	0.8	0.9

Source: Company Data, PL Research

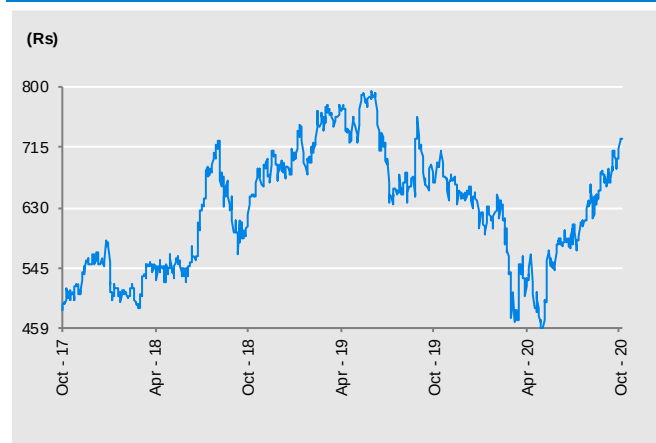
Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	22,699	22,161	14,791	24,518
YoY gr. (%)	(9.9)	(19.5)	(45.5)	9.9
Raw Material Expenses	13,766	14,146	9,661	14,655
Gross Profit	8,933	8,016	5,131	9,862
Margin (%)	39.4	36.2	34.7	40.2
EBITDA	2,673	2,453	1,309	4,207
YoY gr. (%)	(9.2)	(24.0)	(52.5)	79.7
Margin (%)	11.8	11.1	8.8	17.2
Depreciation / Depletion	552	625	604	591
EBIT	2,122	1,828	705	3,616
Margin (%)	9.3	8.2	4.8	14.7
Net Interest	53	46	167	173
Other Income	240	195	322	364
Profit before Tax	2,309	1,977	860	3,808
Margin (%)	10.2	8.9	5.8	15.5
Total Tax	305	205	226	987
Effective tax rate (%)	13.2	10.4	26.3	25.9
Profit after Tax	2,004	1,772	633	2,821
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	2,004	1,772	633	2,821
YoY gr. (%)	2.4	(14.3)	(63.6)	55.5
Margin (%)	8.8	8.0	4.3	11.5
Extra Ord. Income / (Exp)	-	-	-	428
Reported PAT	2,004	1,772	633	3,249
YoY gr. (%)	2.4	(14.3)	(63.6)	79.1
Margin (%)	8.8	8.0	4.3	13.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,004	1,772	633	3,249
Avg. Shares O/s (m)	626	626	626	626
EPS (Rs)	3.2	2.8	1.0	4.5

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-20	Reduce	571	688
2	27-Jul-20	Reduce	524	595
3	07-Jul-20	Reduce	521	598
4	13-May-20	Reduce	485	511
5	13-Apr-20	Reduce	521	551
6	22-Jan-20	Reduce	567	601
7	03-Jan-20	Reduce	571	661

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Hold	2,000	2,100
2	Avenue Supermarts	BUY	2,316	1,988
3	Bajaj Electricals	BUY	564	498
4	Britannia Industries	BUY	4,301	3,553
5	Colgate Palmolive	Hold	1,445	1,427
6	Crompton Greaves Consumer Electricals	BUY	346	305
7	Dabur India	Hold	469	522
8	Emami	Hold	424	353
9	GlaxoSmithKline Consumer Healthcare	Hold	9,377	9,247
10	Havells India	Reduce	571	688
11	Hindustan Unilever	BUY	2,502	2,173
12	ITC	BUY	244	167
13	Jubilant FoodWorks	Hold	2,255	2,330
14	Kansai Nerolac Paints	BUY	550	477
15	Marico	Hold	378	363
16	Nestle India	Hold	15,122	15,865
17	Pidilite Industries	Hold	1,415	1,487
18	Titan Company	Accumulate	1,352	1,217
19	Voltas	Accumulate	702	672

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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