

An all-round performance ...

Havells reported a strong all round performance with topline, PAT growth of 40% and 75% YoY which were better than our growth expectations of 15% and 8% respectively. Improved plant utilisation coupled with control on overhead expenses helped company to report 420 bps increase in EBITDA margin to 16%. The key highlights of the call are as follows 1) Price hikes in the range of 5%-15% into different product categories 2) Pre-buying activities during Dec'20 by trade in the fear of price hikes 3) Focus on capacity building of Lloyd (to cater export opportunities in the AC business) 4) Increased focus on tapping rural and semi urban markets 5) Higher margin level likely to sustain. We believe, ECD and Lloyd business are likely to grow at a CAGR of 22% and 21% respectively for FY20-23E supported by increasing semi urban penetration along with changing consumer lifestyle (work from home). We revised our revenue, earning estimates upward by 11% and 14% respectively for FY23E.

Strong festive demand and market share gains drive topline

Havells ECD and Lloyd businesses continued its growth momentum and recorded a strong revenue growth of 55% and 70% respectively, supported by strong festive demand and market share gains. Further Wire & cable, switchgear and lightings & fixture segments revenues were also up by 27%, 32% and 28% respectively, on demand revival & favourable base. According to management, inventory build-up by trade partners in the fear of price hikes along with market share gains from unorganized/regional players helped company to record a strong performance during Q3FY21. The online sales contribute ~4% in sales. We build in ~17% revenue CAGR for Havells led by 22% and 21% revenue CAGR in the ECD and Lloyd business.

Better operating leverage help drive EBITDA margin

Havells has benefitted from improved plant utilisation of Lloyd (turned into profit from loss on a YoY basis). This along with control over various other operating costs (such as adv. & employee cost down by 220 & 180 bps YoY respectively) help drive EBITDA margin up by 420 bps YoY during Q3FY21. However, delay in passing on price hikes (to offset higher input costs) along with change in product mix resulted in some pressure in gross margins which were lower by 150 bps YoY. According to management, the margin profile likely to remain at 14%-16% supported by improvement in Lloyd business and price hikes in different product categories.

Valuation & Outlook

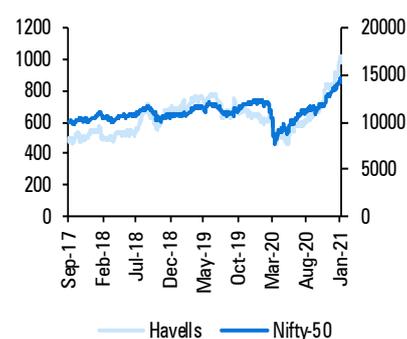
We believe, Havells' plan to tap semi urban markets along with benefits of imports restriction on AC is likely to benefit company in long term. While we stay positive on the stock, we believe at current valuation most of the positives seems to be factored. We revised our rating from Buy to Hold with target price of ₹ 1255 (valuing 55x FY23E EPS)



Particulars

Particular	Amount
Market Capitalization (₹ Cr)	70,625.5
Total Debt (FY20) (₹ Cr)	0.0
Cash and Inv (FY20) (₹ Cr)	1,107.1
EV (₹ Cr)	69,518.4
52 week H/L	1147 / 447
Equity capital (₹ Cr)	62.6
Face value (₹)	1.0

Price chart



Key risk to our call

- Downside Risk:** Downward pressure in EBITDA Margin amid sharp rise in input prices and restoration of advertisements cost
- Upside Risk:** Better than expected growth in the ECD and Lloyd business (I-direct estimate: ECD and Lloyd revenue CAGR of 22% and 21% FY20-23 respectively)

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Key Financial Summary

₹ Crore	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	10067.8	9429.2	10400.4	12945.1	15150.0	17.1
EBITDA	1183.9	1027.4	1534.0	1700.1	2152.7	28.0
EBITDA Margin (%)	11.8	10.9	14.7	13.1	14.2	
PAT	787.4	733.0	1003.5	1110.5	1430.5	25.0
EPS (₹)	12.6	11.7	16.1	17.8	22.9	
P/E (x)	89.7	96.3	70.4	63.6	49.4	
Price/Book Value (x)	16.8	16.4	14.5	13.5	12.7	
Mcap/Sales	7.0	7.5	6.8	5.5	4.7	
RoE (%)	18.8	17.0	20.6	21.2	25.7	
RoCE (%)	25.4	19.6	23.7	25.5	30.8	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Revenue	3165.9	2596.4	2269.9	39.5	2451.8	29.1	Stong sales growth led by consumer busienss
Other Income	39.2	31.2	23.9	63.9	79.2	-50.6	
Raw Material Exp	1476.7	1272.2	1115.7	32.4	1089.9	35.5	Change in mix and delay in price hikes (to offset higher input prices) kept gross margin under check
Employee Exp	235.8	228.5	219.5	7.4	214.5	9.9	
Purchase of Traded goods	482.4	311.6	256.1	88.4	375.6	28.4	
Other expenses	462.8	438.8	409.6	13.0	351.1	31.8	Advertisement expenses declined by ~34% YoY
EBITDA	508.1	345.3	269.0	88.9	420.7	20.8	
EBITDA Margin (%)	16.0	13.3	11.8	420 bps	17.2	-111 bps	Saving in employee and other costs help margin expansion
Depreciation	64.4	59.9	55.3	16.6	59.1	9.0	
Interest	15.2	21.6	5.3	188.6	17.3	-12.1	
PBT	467.7	295.0	232.4	101.3	423.6	10.4	
Total Tax	118.6	79.7	32.9	260.5	98.7	20.2	
PAT	349.1	215.4	199.5	75.0	324.9	7.4	Sales recovery, higher other income along with sharp expansion in margin drives bottomline
Key Metrics							
Cable	905.2	755.3	712.1	27.1	784.7	15.4	Pre-buying activities coupled with pent up demnad help drive sales
Switchgear	437.1	391.1	330.9	32.1	370.4	18.0	Price hike in the range of 5%-10%, improved housing sales helped drive reocvery
ECD	1,294.6	1,007.4	836.4	54.8	860.3	50.5	Market share gains and increased rural pentration help drive demand for ECD and Lloyd segment. ECD segment revenue increased by 46% YoY, while Lloyd revenue increased by 70% YoY
Lighting & Fixtures	353.3	322.3	276.0	28.0	264.6	33.5	Sales growth was largely driven by consumer luminaire categories
Others*	175.7	120.0	114.6	53.3	171.8	2.2	Largely growing on a low base

Source: Company, ICICI Direct Research * Motor, Pump, Solar, Personal Grooming and Water Purifier businesses

Exhibit 2: Change in estimates

₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Chg	Old	New	% Chg	
Revenue	11912.9	12945.1	8.7	13600.9	15150.0	11.4	We have tweaked our estimate upwards considering a strong performance in Q3FY21. We believe, demand recovery in the industrial products segment along with expansion of Lloyd range of products would help drive sales going forward
EBITDA	1558.7	1700.1	9.1	1887.9	2152.7	14.0	
EBITDA Margin (%)	13.1	13.1	5bps	13.9	14.2	33bps	We believe margin level to normalise going forward with restoration of advertismnt, travelling and other expenses
PAT	1021.7	1110.5	8.7	1256.8	1430.5	13.8	
EPS (₹)	16.4	17.8	8.7	20.1	22.9	13.8	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current			Earlier			Comments
	FY20	FY21E	FY22E	FY23E	FY22E	FY23E	
Cable Growth (%)	-7.4	4.5	19.7	12.9	19.7	11.0	We believe price hikes and improved government/private spending to help drive demand demand of wire & cable segment going forward
Switchgear Growth (%)	-15.1	9.2	17.5	12.5	17.6	10.6	With recovery in the housing segment the switchgear segment likely to grow at CAGR of 13% in FY20-23E
ECD Growth (%)	-9.0	12.7	31.1	22.3	31.1	18.7	Lower penetration, new launches coupled with rising aspiration level of middle class would help drive performance of ECD segment 22% FY20-23E. We model ECD and Lloyd segment revenue CAGR of 22% and 21% respectively
Lighting & Fixtures (%)	-22.2	13.5	23.6	17.4	23.6	12.0	Lighting segment growth to be largely driven by LED fixtures

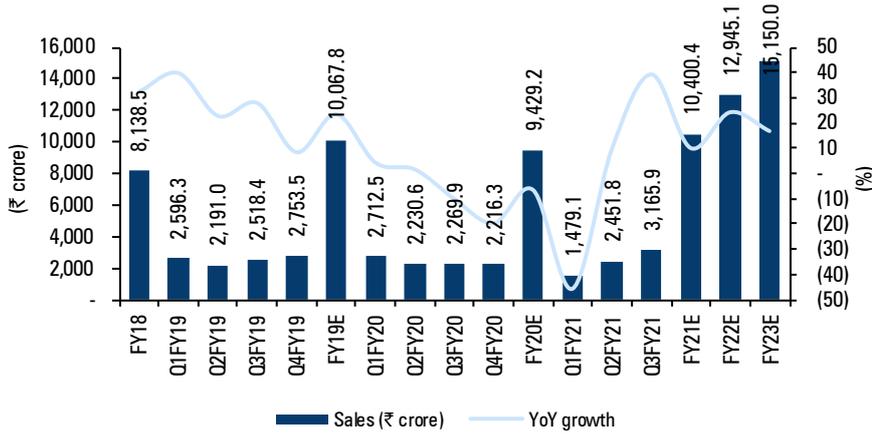
Source: Company, ICICI Direct Research

Conference call highlights

- Strong festive demand, increased penetration in the smaller towns and rural India help drive demand of consumer goods
- The unorganized/regional players have had significant hit due to supply chain disruption (import restrictions from China). This has helped company to gain market share
- Pre-buying activities by dealers during Dec'20 aid in sales growth during Q3FY21.
- Strong recovery in the real estate segment help drive demand of industrial and consumer facing business
- The consumer facing business grew by 40% while industrial facing business grew by 15%-16%.
- The company has taken price hikes in the wire & cable, domestic switchgear business and industrial switchgear business by ~15%, ~5% and 10% respectively. The company has further initiated price hikes in the range of 5%-13% from Jan'20 onwards
- Ecommerce sales contributes ~4%-5% of sales.
- The company aims for EBITDA margin in the range of 14-16% in the medium to long run.
- Company is exploring export opportunities for Lloyd AC under the government's PLI schemes.

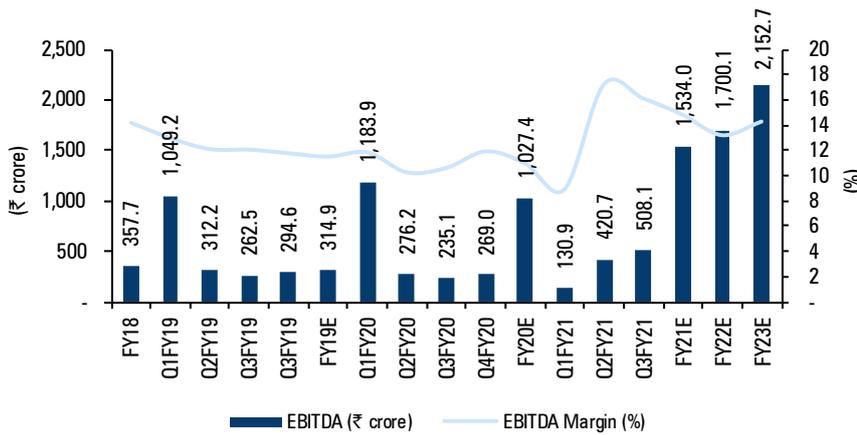
Financial story in charts

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



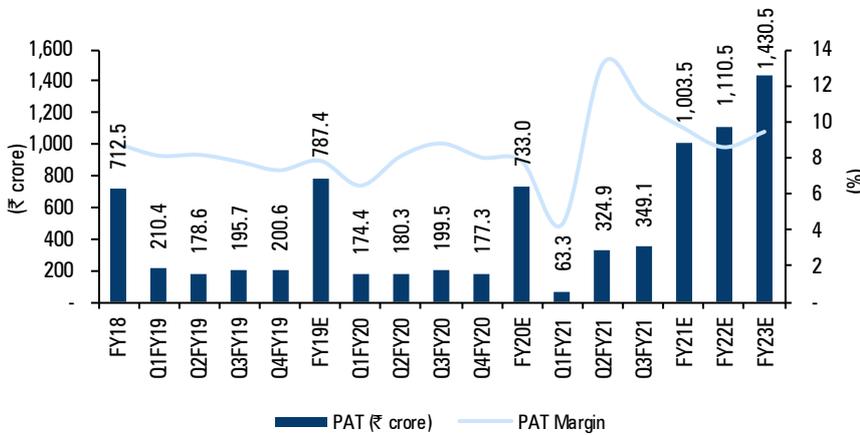
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA margin movement



Source: Company, ICICI Direct Research

Exhibit 6: Recovery in sales, EBITDA to drive PAT



Source: Company, ICICI Direct Research

Financial summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Total Operating Income	9429.2	10400.4	12945.1	15150.0
Growth (%)		10.3	24.5	17.0
Raw Material Expenses	4389.6	4836.2	6343.1	7272.0
Employee Expenses	899.6	904.3	1229.8	1464.8
Marketing Expenses	320.9	189.1	477.3	492.3
Other expenses	1346.2	1405.3	1745.8	2070.8
Operating Expenditure	8401.8	8866.4	11245.1	12997.3
EBITDA	1027.4	1534.0	1700.1	2152.7
Growth (%)		49.3	10.8	26.6
Other Income	112.0	156.0	141.6	129.9
Interest	19.7	85.8	73.0	52.0
Depreciation	217.9	260.0	284.8	318.1
Less: Exceptional Items	0.0	0.0	0.0	0.0
PBT	901.7	1344.1	1483.9	1912.5
Total Tax	168.7	340.7	373.4	481.9
PAT	733.0	1003.5	1110.5	1430.5

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	733.0	1003.5	1110.5	1430.5
Depreciation	217.9	260.0	284.8	318.1
CF before working cap changes	970.7	1349.3	1468.2	1800.6
Net Increase in Current Assets	197.2	-551.3	-599.8	-593.7
Net Increase in Current Liabilities	-211.3	-585.9	430.1	372.6
CF from operating activities	956.5	212.1	1298.5	1579.6
(Purchase)/Sale of Liquid Investrn	0.0	0.0	0.0	0.0
Others	-507.7	-330.0	-300.0	-300.0
(Purchase)/Sale of Fixed Assets	-507.7	-330.0	-300.0	-300.0
CF from Investing Activities	-456.6	-380.0	-315.0	-315.0
Proceeds frm Equity Shares	0.0	0.0	0.0	0.0
Inc / (Dec) in Loan Funds	-40.5	758.0	-300.0	-50.0
Others	-640.0	-514.4	-815.4	-1165.6
CF from Financing Activities	-680.5	243.6	-1115.4	-1215.6
Net Cash flow	-180.6	75.8	-131.9	48.9
Opening Cash	1287.8	1107.1	1182.9	1051.0
Closing Cash	1107.1	1182.9	1051.0	1100.0

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Equity Capital	62.6	62.6	62.6	62.6
Reserve and Surplus	4242.4	4817.4	5185.4	5502.2
Total Shareholders funds	4305.0	4879.9	5248.0	5564.8
Total Debt	0.0	758.0	458.0	408.0
Deferred Tax Liability	286.5	286.5	286.5	286.5
Total Liabilities	4704.4	6037.4	6105.4	6372.2
Assets				
Total Gross Block	4176.4	4491.4	4741.4	4991.4
Less Acc. Depreciation	1073.4	1333.4	1618.2	1936.4
Net Block	3103.0	3157.9	3123.2	3055.0
Capital WIP	82.7	97.7	147.7	197.7
Total Fixed Assets	3185.7	3255.6	3270.9	3252.7
Investment	491.21	67.29	81.78	73.67
Inventory	1871.9	2137.1	2553.6	2988.5
Debtors	248.9	512.9	638.4	747.1
Other Current Assets	214.1	236.1	293.9	343.9
Cash	1107.1	1182.9	1051.0	1100.0
Total Current Assets	3441.9	4069.0	4536.9	5179.5
Total Current Liabilities	2343.6	1757.7	2187.8	2560.4
Net Current Assets	1098.3	2311.2	2349.0	2619.1
Total Assets	4704.4	6037.4	6105.4	6372.2

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per Share Data				
Reported EPS	11.7	16.1	17.8	22.9
Cash EPS	15.2	20.3	22.4	28.0
BV per share	69.0	78.2	84.1	89.2
DPS	4.8	6.0	11.9	17.9
Operating Ratios (%)				
EBITDA Margin (%)	10.9	14.7	13.1	14.2
PAT Margin (%)	7.8	9.6	8.6	9.4
Asset Turnover	2.0	1.7	2.1	2.4
Debtors Turnover	9.6	18.0	18.0	18.0
Creditor Turnover	54.7	30.0	30.0	30.0
Return Ratios (%)				
RoE	17.0	20.6	21.2	25.7
RoCE	19.6	23.7	25.5	30.8
RoIC	21.0	24.7	25.7	31.5
Valuation Ratios				
EV / EBITDA	67.7	45.8	41.2	32.5
P/E	96.3	70.4	63.6	49.4
EV / Net Sales	7.4	6.7	5.4	4.6
EV / Net Sales	7.4	6.7	5.4	4.6
Market Cap / Sales	7.5	6.8	5.5	4.7
Price to Book Value	16.4	14.5	13.5	12.7
Solvency Ratios				
Debt / Equity	0.0	0.2	0.1	0.1
Current Ratio	1.4	2.9	2.8	2.8
Quick Ratio	0.3	0.7	0.7	0.7

Source: Company, ICICI Direct Research

Exhibit 11: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Asian Paints (ASIPAI)	2,716	2,440	Buy	2,60,464	29.0	35.9	41.9	93.7	75.7	64.8	45.8	37.4	31.9	24.2	27.3	27.9	28.1	31.7	33.1
Astral Polytechnik (ASTPOL)	1,697	1,260	Hold	25,567	20.7	25.5	27.8	81.9	66.6	61.1	41.8	35.8	33.1	22.3	24.5	24.1	17.3	19.1	18.6
Amber Enterprises (AMBEN)	2,505	2,830	Buy	7,877	23.7	75.1	90.0	105.6	33.4	27.8	35.8	15.9	13.2	7.2	17.0	17.8	5.3	14.3	14.7
Bajaj Electricals (BAJELE)	765	585	Buy	8,697	11.8	17.1	23.0	NM	44.8	33.2	26.3	20.2	15.9	10.8	14.7	18.6	8.3	13.0	15.4
Berger Paints (BERPAI)	805	675	Hold	78,182	7.8	9.7	11.7	103.5	83.4	68.5	60.3	50.8	43.0	26.9	30.3	34.0	23.8	25.7	27.9
Crompton Greaves(CROGR)	435	440	Buy	27,275	8.3	10.2	11.6	52.2	42.8	37.6	31.6	26.2	23.6	32.2	36.1	38.9	28.4	29.4	30.3
EPL (ESSPRO)	255	280	Hold	8,045	8.0	8.9	11.2	31.7	28.5	22.8	13.0	12.3	10.3	18.7	18.7	21.2	16.0	15.6	17.4
Havells India (HAVIND)	1,132	1,255	Hold	70,625	16.1	17.8	22.9	70.4	63.6	49.4	45.8	41.2	32.5	23.7	25.5	30.8	20.6	21.2	25.7
Kansai Nerolac (KANNER)	669	605	Buy	36,054	10.3	12.0	14.0	65.2	55.6	47.8	36.4	32.1	27.9	18.4	19.6	20.5	14.3	15.1	15.7
Pidilite Industries (PIDIND)	1,775	1,850	Buy	90,135	22.7	27.8	31.9	78.3	63.8	55.7	55.0	45.3	36.1	28.2	30.9	31.6	23.2	24.9	25.3
Polycab India (POLI)	1,281	1,040	Buy	19,071	58.1	62.9	74.4	22.0	20.4	17.2	13.3	11.3	9.2	21.4	23.2	25.1	18.2	18.0	19.2
Supreme Indus (SUPIND)	1,758	1,695	Buy	22,331	44.9	47.8	54.9	39.1	36.8	32.0	22.7	21.9	18.2	23.3	22.5	24.3	22.3	21.2	21.6
Symphony (SYMLIM)	1,041	960	Buy	7,283	17.3	29.1	37.7	60.1	35.8	27.6	43.5	27.8	21.5	22.2	35.7	44.2	21.1	34.3	40.7
Time Techno (TIMTEC)	52	43	Hold	1,176	7.5	4.0	9.1	7.0	13.0	5.7	3.1	4.3	2.8	12.5	8.0	13.2	9.3	5.0	10.7
V-Guard Ind (VGUARD)	236	210	Buy	10,108	3.7	5.3	6.2	64.0	44.4	38.0	34.5	25.4	21.6	20.1	25.3	26.9	15.1	19.5	20.8
Voltas Ltd (VOLTAS)	955	845	Hold	31,585	12.3	22.6	29.8	77.6	42.3	32.1	57.7	31.1	25.2	12.8	20.1	21.9	9.1	15.3	17.5

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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