

January 21, 2021

Q3FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	HOLD		UNDER REVIEW	
Target Price	1,126		-	
Sales (Rs. m)	122,513	139,540	113,830	129,146
% Chng.	7.6	8.0		
EBITDA (Rs. m)	17,344	20,180	15,390	17,755
% Chng.	12.7	13.7		
EPS (Rs.)	19.3	22.8	16.9	19.8
% Chng.	14.0	14.8		

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	94,292	101,454	122,513	139,540
EBITDA (Rs. m)	10,274	15,080	17,344	20,180
Margin (%)	10.9	14.9	14.2	14.5
PAT (Rs. m)	7,330	9,963	12,051	14,250
EPS (Rs.)	11.7	15.9	19.3	22.8
Gr. (%)	(6.9)	35.9	21.0	18.2
DPS (Rs.)	4.0	6.5	8.0	9.5
Yield (%)	0.4	0.6	0.7	0.8
RoE (%)	17.3	21.1	21.3	21.6
RoCE (%)	21.6	27.0	26.4	28.5
EV/Sales (x)	7.4	6.8	5.6	4.8
EV/EBITDA (x)	67.8	45.9	39.3	33.3
PE (x)	96.6	71.1	58.8	49.7
P/BV (x)	16.4	13.7	11.5	10.0

Key Data

HVEL.BO | HAVL IN

52-W High / Low	Rs.1,148 / Rs.447
Sensex / Nifty	49,625 / 14,590
Market Cap	Rs.708bn / \$ 9,701m
Shares Outstanding	626m
3M Avg. Daily Value	Rs.4500.9m

Shareholding Pattern (%)

Promoter's	59.50
Foreign	24.36
Domestic Institution	8.36
Public & Others	7.78
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	28.2	95.4	83.4
Relative	17.7	49.3	52.7

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B2C Demand momentum remains strong

Quick Pointers:

- Consumer & residential segments grew by 40%

We increase FY21/FY22/FY23 estimates by 16%/ 14%/ 14.8% given 1) sustained demand momentum in B2C portfolio 2) market share gains across categories 3) likely gains from PLI scheme and Atma-nirbhar drive

HAVL's has indicated robust outlook led by 1) improvement in consumer sentiment 2) benefits of increased distribution reach in smaller towns/ rural India and 3) market share gains from unorganized players despite some trade up stocking ahead of price increases. Lloyd remains on track to recovery benefitting from 1) in-house manufacturing in RAC 2) change in industry dynamics post import prohibitions 3) network expansion and 4) one stop offering with launch of refrigerators. We estimate gross margin pressure due to commodity inflation, however lower ad spends, higher value growth and benefits of cost savings and low base will enable strong growth for next 2 quarters. We estimate margins to expand by 360bps to 14.5% over FY20-23 which will enable 24.8% PAT CAGR. We assign a target price of Rs1,126 based on DCF (implied PE of 49.5x FY23 EPS) and assign Hold rating (Under Review Earlier).

Sales grew by 39.5%, PAT up by 75%: Revenues grew by 39.5% to Rs31.7bn with core segment growing by 34.8% while Lloyd grew by 70.3%. Gross margins contracted by ~150bps YoY to 38.1%. EBITDA grew by 88.9% YoY to Rs5.1bn while margins expanded by 420bps YoY to 16%. Higher operating scale aided 160bps/220bps reduction in other expenses/employee cost (as a % of sales), Ad spends as % of sale at 1.6% vs 3.4%. PAT grew by 75% to Rs3.5bn

Core segment/Lloyd grows by 34.8%/ 70.3% YoY: Switchgear Revenues/EBIT grew by 32.1%/56.9% to Rs4.4bn/Rs1.4bn; margins expanded by 500bps to 31.4%. Cables Revenues/EBIT grew by 27.1%/ 33.9% to Rs9.1bn/ Rs1bn; margins expanded by 60bps to 11.3%. Lighting Revenues /EBIT grew by 28%/68.8% to Rs3.5bn/Rs0.8bn; margins expanded by 550bps to 23%. ECD Revenues/EBIT grew by 46.1%/82.5% to Rs7.8bn/Rs1.4bn; margins expanded by 360bps to 17.9%. Lloyd Revenues grew by 70.3% YoY to Rs5.1b while reporting a EBIT of Rs309mn vs loss of Rs128mn. Margins at 6% vs -4.3%.

Concall Takeaways: 1) Consumer and residential segment grew by 40%. 2) Price hikes to the tune of 5-15% initiated across product categories due to rising commodity inflation 3) Rural markets and online contribute 4% of consumer sales. 4) In anticipation of price hikes and supply chain issues, saw some pre-buying in channel during December. Excluding pre-buying, retail demand remains healthy and channel inventory remains disciplined. 5) Continue to gain market share at unorganized sector's expense 6) Margins can trend between 14-16% in coming years depending on scale of operations 7) Lloyd RAC reaping benefits of in-house manufacturing, network expansion & improving brand positioning. Gaining lost market share 8) Ready to tap into export opportunities for RAC and Lighting.

Exhibit 1: Q3FY21 Result Overview (Rs mn): Sales grew by 39.5% YoY; PAT grew by 75% YoY

Y/e March	Q3FY21	Q3FY20	YoY gr. (%)	Q2FY21	9MFY21	9MFY20	YoY gr. (%)
Net Sales	31,659	22,699	39.5	24,518	70,967	72,131	(1.6)
Operating & Manufacturing Expenses	19,592	13,718	42.8	14,655	43,908	44,206	(0.7)
<i>% of Net Sales</i>	<i>61.9</i>	<i>60.4</i>		<i>59.8</i>	<i>61.9</i>	<i>61.3</i>	
Gross Profit	12,067	8,981	34.4	9,862	27,060	27,925	(3.1)
<i>% of Net Sales</i>	<i>38.1</i>	<i>39.6</i>		<i>40.2</i>	<i>38.1</i>	<i>38.7</i>	
Personnel Cost	2,358	2,195	7.4	2,145	6,268	7,007	(10.5)
<i>% of Net Sales</i>	<i>7.4</i>	<i>9.7</i>		<i>8.7</i>	<i>8.8</i>	<i>9.7</i>	
Other Expenses	4,628	4,096	13.0	3,511	10,195	13,098	(22.2)
<i>% of Net Sales</i>	<i>14.6</i>	<i>18.0</i>		<i>14.3</i>	<i>14.4</i>	<i>18.2</i>	
Total Expenditure	26,578	20,009	32.8	20,311	60,371	64,310	(6.1)
EBITDA	5,081	2,690	88.9	4,207	10,596	7,821	35.5
<i>Margin (%)</i>	<i>16.0</i>	<i>11.8</i>		<i>17.2</i>	<i>14.9</i>	<i>10.8</i>	
Other income	392	239	63.9	364	1,078	925	16.6
Depreciation	644	553	16.5	591	1,839	1,554	18.3
EBIT	4,829	2,376	103.2	3,980	9,836	7,192	36.8
Interest	152	53	188.0	173	491	151	225.0
PBT before exceptional item	4,677	2,324	101.3	3,808	9,344	7,040	32.7
Total Taxes	1,186	329	260.5	987	2,398	1,482	61.9
<i>ETR (%)</i>	<i>25.4</i>	<i>14.2</i>		<i>25.9</i>	<i>25.7</i>	<i>21.0</i>	
Adj. PAT	3,491	1,995	75.0	2,821	6,946	5,559	25.0
PAT	3,491	1,995	75.0	3,249	7,374	5,559	32.7

Source: Company, PL

Exhibit 2: Segmental Breakup (Rs mn): Core segment grew by 34.8%; Lloyd grew by 70.3%

Y/e March	Q3FY21	Q3FY20	YoY gr. (%)	Q2FY21	9MFY21	9MFY20	YoY gr. (%)
Revenues							
Switchgears	4,371	3,309	32.1	3,703	9,976	10,367	(3.8)
Cables	9,052	7,121	27.1	7,847	21,510	23,119	(7.0)
Lighting & Fixtures	3,533	2,760	28.0	2,646	7,559	7,800	(3.1)
Electrical Consumer Durables	7,831	5,359	46.1	5,799	16,646	15,878	4.8
Others	1,757	1,146	53.3	1,719	4,295	3,644	17.9
Core Revenues	26,543	19,694	34.8	21,713	59,986	60,807	(1.4)
Lloyd	5,116	3,004	70.3	2,804	10,982	11,324	(3.0)
EBIT							
Switchgears	1,372	875	56.9	1,150	2,813	2,579	9.1
<i>EBIT margin (%)</i>	<i>31.4</i>	<i>26.4</i>		<i>31.0</i>	<i>28.2</i>	<i>24.9</i>	
Cables	1,026	767	33.9	1,118	2,510	2,655	(5.5)
<i>EBIT margin (%)</i>	<i>11.3</i>	<i>10.8</i>		<i>14.3</i>	<i>11.7</i>	<i>11.5</i>	
Lighting & Fixtures	811	481	68.8	521	1,361	1,145	18.9
<i>EBIT margin (%)</i>	<i>23.0</i>	<i>17.4</i>		<i>19.7</i>	<i>18.0</i>	<i>14.7</i>	
Electrical Consumer Durables	1,405	770	82.5	1,172	2,947	2,310	27.6
<i>EBIT margin (%)</i>	<i>17.9</i>	<i>14.4</i>		<i>20.2</i>	<i>17.7</i>	<i>14.6</i>	
Others*	70	-91	NM	141	165	(254)	NM
<i>EBIT margin (%)</i>	<i>4.0</i>	<i>-7.9</i>		<i>8.2</i>	<i>3.8</i>	<i>-7.0</i>	
Core EBIT	4,686	2,802	67.3	4,101	9,796	8,436	16.1
<i>EBIT margin (%)</i>	<i>17.7</i>	<i>14.2</i>		<i>18.9</i>	<i>16.3</i>	<i>13.9</i>	
Lloyd	309	-128	NM	51	423	-487	NM
<i>EBIT margin (%)</i>	<i>6.0</i>	<i>-4.3</i>		<i>1.8</i>	<i>3.9</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	101,454	122,513	139,540
YoY gr. (%)	(6.3)	7.6	20.8	13.9
Cost of Goods Sold	58,351	62,951	76,071	86,214
Gross Profit	35,941	38,503	46,442	53,326
Margin (%)	38.1	38.0	37.9	38.2
Employee Cost	8,996	8,877	9,801	11,163
Other Expenses	8,204	7,799	9,435	10,750
EBITDA	10,274	15,080	17,344	20,180
YoY gr. (%)	(13.2)	46.8	15.0	16.4
Margin (%)	10.9	14.9	14.2	14.5
Depreciation and Amortization	2,179	2,495	2,726	2,928
EBIT	8,095	12,585	14,618	17,251
Margin (%)	8.6	12.4	11.9	12.4
Net Interest	197	645	280	242
Other Income	1,120	1,469	1,882	2,170
Profit Before Tax	9,017	13,409	16,220	19,179
Margin (%)	9.6	13.2	13.2	13.7
Total Tax	1,687	3,446	4,169	4,929
Effective tax rate (%)	18.7	25.7	25.7	25.7
Profit after tax	7,330	9,963	12,051	14,250
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	7,330	9,963	12,051	14,250
YoY gr. (%)	(6.9)	35.9	21.0	18.2
Margin (%)	7.8	9.8	9.8	10.2
Extra Ord. Income / (Exp)	-	428	-	-
Reported PAT	7,330	10,391	12,051	14,250
YoY gr. (%)	(6.9)	41.8	16.0	18.2
Margin (%)	7.8	10.2	9.8	10.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	7,330	10,391	12,051	14,250
Equity Shares O/s (m)	626	626	626	626
EPS (Rs)	11.7	15.9	19.3	22.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	40,646	43,918	46,860	49,292
Tangibles	28,373	31,545	34,387	36,719
Intangibles	12,273	12,373	12,473	12,573
Acc: Dep / Amortization	10,256	12,365	14,663	17,099
Tangibles	9,378	11,179	13,167	15,289
Intangibles	878	1,186	1,497	1,810
Net fixed assets	30,390	31,553	32,197	32,194
Tangibles	18,994	20,366	21,220	21,430
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)	(2,932)	(3,013)	(3,109)
Other Non-Current Assets	1,357	1,477	1,573	1,618
Current Assets				
Investments	-	-	-	-
Inventories	18,719	19,457	21,817	24,850
Trade receivables	2,409	4,030	4,699	5,352
Cash & Bank Balance	11,069	25,481	29,976	38,070
Other Current Assets	1,646	1,725	1,838	2,093
Total Assets	70,479	89,289	98,244	110,387
Equity				
Equity Share Capital	626	626	626	626
Other Equity	42,422	50,942	60,804	70,047
Total Networkth	43,048	51,568	61,430	70,673
Non-Current Liabilities				
Long Term borrowings	-	3,580	2,580	1,580
Provisions	356	386	429	447
Other non current liabilities	220	240	244	247
Current Liabilities				
ST Debt / Current of LT Debt	-	5,834	-	-
Trade payables	14,141	13,797	18,340	20,786
Other current liabilities	8,940	9,962	11,201	12,526
Total Equity & Liabilities	70,479	89,289	98,244	110,387

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	9,017	13,409	16,220	19,179
Add. Depreciation	2,179	2,495	2,726	2,928
Add. Interest	197	645	280	242
Less Financial Other Income	1,120	1,469	1,882	2,170
Add. Other	(533)	502	39	73
Op. profit before WC changes	10,860	17,051	19,265	22,422
Net Changes-WC	(215)	(1,304)	(1,161)	(274)
Direct tax	(2,398)	(3,446)	(4,169)	(4,929)
Net cash from Op. activities	8,248	12,302	13,936	17,220
Capital expenditures	(3,592)	(4,298)	(3,870)	(2,925)
Interest / Dividend Income	625	-	-	-
Others	(2,509)	-	-	-
Net Cash from Inv. activities	(5,477)	(4,298)	(3,870)	(2,925)
Issue of share cap. / premium	242	0	-	-
Debt changes	(937)	3,580	(1,000)	(1,000)
Dividend paid	(6,413)	(1,878)	(2,191)	(5,008)
Interest paid	(52)	(645)	(280)	(242)
Others	-	-	-	-
Net cash from Fin. activities	(7,159)	1,058	(3,471)	(6,250)
Net change in cash	(4,388)	9,061	6,595	8,045
Free Cash Flow	4,655	8,004	10,066	14,295

Source: Company Data, PL Research

Key Financial Metrics

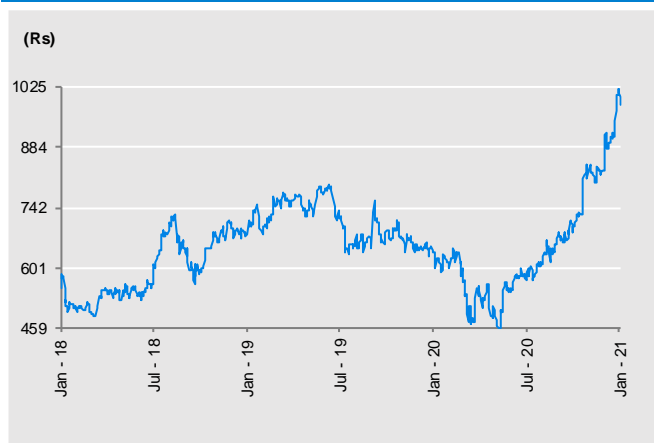
Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	11.7	15.9	19.3	22.8
CEPS	15.2	19.9	23.6	27.4
BVPS	68.8	82.4	98.1	112.9
FCF	7.4	12.8	16.1	22.8
DPS	4.0	6.5	8.0	9.5
Return Ratio(%)				
RoCE	21.6	27.0	26.4	28.5
ROIC	20.8	35.2	33.4	42.6
RoE	17.3	21.1	21.3	21.6
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.3)	(0.4)	(0.5)
Net Working Capital (Days)	27	35	24	25
Valuation(x)				
PER	96.6	71.1	58.8	49.7
P/B	16.4	13.7	11.5	10.0
P/CEPS	74.4	56.8	47.9	41.2
EV/EBITDA	67.8	45.9	39.3	33.3
EV/Sales	7.4	6.8	5.6	4.8
Dividend Yield (%)	0.4	0.6	0.7	0.8

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Net Revenue	22,161	14,791	24,518	31,659
YoY gr. (%)	(19.5)	(45.5)	9.9	39.5
Raw Material Expenses	14,146	9,661	14,655	19,592
Gross Profit	8,016	5,131	9,862	12,067
Margin (%)	36.2	34.7	40.2	38.1
EBITDA	2,453	1,309	4,207	5,081
YoY gr. (%)	(24.0)	(52.9)	79.0	88.9
Margin (%)	11.1	8.8	17.2	16.0
Depreciation / Depletion	625	604	591	644
EBIT	1,828	705	3,616	4,437
Margin (%)	8.2	4.8	14.7	14.0
Net Interest	46	167	173	152
Other Income	195	322	364	392
Profit before Tax	1,977	860	3,808	4,677
Margin (%)	8.9	5.8	15.5	14.8
Total Tax	205	226	987	1,186
Effective tax rate (%)	10.4	26.3	25.9	25.4
Profit after Tax	1,772	633	2,821	3,491
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,772	633	2,821	3,491
YoY gr. (%)	(14.3)	(64.0)	56.5	75.0
Margin (%)	8.0	4.3	11.5	11.0
Extra Ord. Income / (Exp)	-	-	428	-
Reported PAT	1,772	633	3,249	3,491
YoY gr. (%)	(14.3)	(64.0)	80.2	75.0
Margin (%)	8.0	4.3	13.3	11.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,772	633	3,249	3,491
Avg. Shares O/s (m)	626	626	626	626
EPS (Rs)	2.8	1.0	4.5	5.6

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jan-21	UR	-	971
2	29-Oct-20	Hold	700	725
3	06-Oct-20	Reduce	571	688
4	27-Jul-20	Reduce	524	595
5	07-Jul-20	Reduce	521	598
6	13-May-20	Reduce	485	511
7	13-Apr-20	Reduce	521	551
8	22-Jan-20	Reduce	567	601

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	UR	-	2,805
2	Avenue Supermarts	BUY	3,296	2,968
3	Bajaj Electricals	BUY	647	637
4	Britannia Industries	BUY	4,301	3,540
5	Colgate Palmolive	Hold	1,570	1,598
6	Crompton Greaves Consumer Electricals	BUY	400	395
7	Dabur India	Accumulate	539	534
8	Emami	BUY	526	450
9	GlaxoSmithKline Consumer Healthcare	Hold	9,377	9,247
10	Havells India	UR	-	971
11	Hindustan Unilever	BUY	2,502	2,417
12	ITC	BUY	254	205
13	Jubilant FoodWorks	UR	-	2,789
14	Kansai Nerolac Paints	UR	-	613
15	Marico	Hold	410	419
16	Nestle India	Hold	17,640	18,515
17	Pidilite Industries	UR	-	1,795
18	Polycab India	BUY	1,247	1,278
19	Titan Company	UR	-	1,573
20	Voltas	UR	-	882

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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