

Strong performance amid challenging scenario...

About the stock: Havells India (HIL) is India's leading electrical appliances & equipment manufacturer with a diversified product portfolio consisting of switchgears, cables, electrical consumer durables and lighting & fixtures. Apart from 'Havells', HIL's other major brands include Crabtree, Standard, Reo, and Lloyd.

- At all its business segment, Havells has a strong presence in the organised product category with market share ranging between 6% and 20%
- Robust balance sheet with RoE & RoCE of 20% & 25%, respectively (five year average), with stringent working capital policy

Q1FY22 Results: Better-than-expected operational performance led by industrial product segments

- Reported revenue growth of 76% YoY to ₹ 2598 crore (down ~22% QoQ)
- Higher gross margin and savings in other costs drove EBITDA margin higher by 474 bps YoY to 13.6%
- PAT jumped ~4x YoY to ₹ 234 crore mainly on a favourable base

What should investors do? Strong B2C brand, focus on margin improvement of Lloyd through change in product mix and strong pan-India distribution (~14,270 dealers). The company's share price has grown ~3x in the last five years.

- We continue to remain positive and maintain **BUY** rating

Target Price and Valuation: We value Havells at ₹ 1345 i.e. 55x P/E FY23E EPS

Key triggers for future price performance:

- Total ~1.7 crore new houses under PMAY, urbanisation and rising aspiration level will give a significant boost to demand for home appliances
- Revival in the Lloyd business through new launches and improvement in segment margin
- It aims to increase its town penetration from current 1150 to 2000 and retail touch points from 1.6 lakh to 2.5 lakh over the next five years
- Model revenue, earnings CAGR of 20%, 21%, respectively, in FY21-23E

Alternate Stock Idea: Besides Havells, we also like Bajaj Electricals in same space

- Increasing rural penetration, improved product mix and focus on high margin orders in the project business would help drive revenue and profitability for the company
- BUY with a target price of ₹ 1280



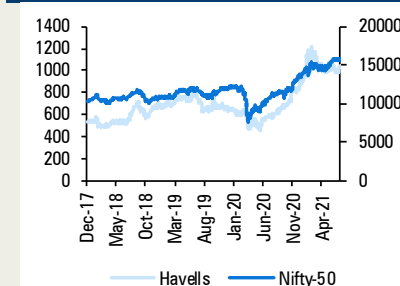
Particulars

Particular	Amount
Market Capitalization (₹ Cr)	71,810.9
Total Debt (FY21) (₹ Cr)	393.7
Cash and Inv (FY21) (₹ Cr)	1,931.0
EV (₹ Cr)	70,273.5
52 week H/L	1238 / 568
Equity capital (₹ Cr)	62.6
Face value (₹)	1.0

Shareholding pattern

(in %)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoter	59.5	59.5	59.5	59.5	59.5
FII	23.0	22.0	22.2	24.4	24.9
DII	8.5	9.9	10.1	8.6	8.1
Others	9.0	8.6	8.2	7.5	7.5

Price Chart



Recent Event & Key risks

- Price hikes in the range of 10%-12% of offset higher input cost
- Key Risk:** (i) Slow demand for industrial products, (ii) Downward pressure in the EBITDA margin

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Key Financial Summary

₹ Crore	FY19	FY20	FY21	5Year CAGR (FY16-21)	FY22E	FY23E	2Year CAGR (FY21-23E)
Net Sales	10067.8	9429.2	10427.9	14.2	12800.5	15049.4	20.1
EBITDA	1183.9	1027.4	1565.2	15.7	1731.9	2229.7	19.4
EBITDA Margin (%)	11.8	10.9	15.0		13.5	14.8	
PAT	787.4	733.0	1039.6	7.9	1170.7	1515.7	20.7
EPS (₹)	12.6	11.7	16.7		18.8	24.3	
P/E (x)	91.2	98.0	69.1		61.3	47.4	
Price/Book Value (x)	17.1	16.7	13.9		13.1	12.2	
Mcap/Sales	7.1	7.6	6.9		5.6	4.8	
RoE (%)	18.8	17.0	20.1		21.3	25.7	
RoCE (%)	25.4	19.6	24.9		25.6	31.1	

Source: Company, ICICI Direct Research

Key takeaways of Q1FY22 results & conference call highlight

Q1FY22 Results: Strong performance of industrial products

- Havells' sales recovery as compared to its pre-Covid 19 level sales (i.e. Q1FY20) was at 96%, led by better-than-expected recovery in the industrial segment. Switchgear & cable segments revenue growth were up 9% and 4%, respectively, compared to segment sales during Q1FY20
- The ECD and Lloyd segment recovery to its pre-Covid-19 level sales were at 102% and 75%, respectively. This was mainly due to lockdown in the peak season of sales
- Price hikes in the cable segment were 35% YoY while overall price hikes (excluding cable and wire) was in the range 10-12%

Q1FY22 Earnings Conference Call highlights

- **Demand outlook:** Market share gains (in Lloyd), penetration in rural India (through rural vistar programme) and launch of new products would help drive future revenue growth for the company
- E-commerce sales are doing better than the company estimated and the management is confident of its contribution, going forward
- **Margin:** Focus to increase EBITDA margin of Lloyd business (FY21 EBITDA margin at 5% vs. 15% company level margin) through better product mix and increased operating leverage
- **Distribution Network:** The company has a pan-India dealer network with a strength of 14,270 and retail touch points of 1.80 lakh (retail touch points in rural India ~25,000)
- **Capex:** ₹ 500 capex for FY22E

Exhibit 1: Variance Analysis

	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Revenue	2598.2	2015.8	1479.1	75.7	3331.2	-22.0	Favourable base and price hikes in the range of 10-12% (excl. cable) drives topline
Other Income	34.2	35.4	32.2	6.1	37.2	-8.1	
Raw Material Exp	1360.9	987.7	788.1	72.7	1504.7	-9.6	Better mix and price hikes (to offset higher input prices) drove gross margin up by ~100 bps YoY
Employee Exp	232.5	262.1	176.5	31.7	258.5	-10.1	
Purchase of Traded goods	310.4	282.2	178.0	74.4	579.5	-46.4	
Other expenses	341.3	230.0	205.7	66.0	482.9	-29.3	Various cost optimisation measures results 200 bps YoY saving in other expenses
EBITDA	353.1	253.8	130.9	169.8	505.6	-30.2	
EBITDA Margin (%)	13.6	12.6	8.8	474 bps	15.2	-159 bps	Better gross margin and savings employee and other costs drives EBITDA margin
Depreciation	61.6	67.3	60.4	2.0	65.0	-5.2	
Interest	11.0	5.3	16.7	-34.5	23.5	-53.4	
PBT	314.8	216.5	86.0	266.2	454.4	-30.7	
Total Tax	80.5	54.6	22.6	255.9	152.1	-47.1	
PAT	234.3	161.9	63.3	269.9	302.3	-22.5	Sales growth, margin expansion drives bottomline
Key Metrics							
Cable	807.2	612.6	461.0	75.1	1,029.2	-21.6	Favourable base and price hike ~35% YoY drives segment sales
Switchgear	373.4	265.0	190.0	96.5	463.3	-19.4	Pick up in real estate industry helped drive demand for switchgears
ECD	1,070.4	826.0	608.1	76.0	1,303.0	-17.8	Market share gains and increased, online sales and rural penetration drove overall ECD and Lloyd segment sales. ECD segment revenue increased by 91% YoY, while Lloyd revenue increased by 62% YoY
Lighting & Fixtures	209.9	166.1	138.0	52.1	328.7	-36.1	Lower base and price hikes drive segment revenue
Others*	137.3	146.1	82.0	67.4	207.0	-33.7	Largely growing on a low base

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Chg	Old	New	% Chg	
Revenue	12096.7	12800.5	5.8	14408.3	15049.4	4.4	We have tweaked our revenue estimate upward considering current quarter performance and positive outlook of Lloyd business.
EBITDA	1550.0	1731.9	11.7	2019.2	2229.7	10.4	
EBITDA Margin (%)	12.8	13.5	73bps	14.0	14.8	82bps	Price hikes and introduction of high margin products under Lloyd will help maintain EBITDA margin at elevated level
PAT	1044.9	1170.7	12.0	1375.0	1515.7	10.2	
EPS (₹)	16.7	18.8	12.4	22.0	24.3	10.4	

Source: Company, ICICI Direct Research

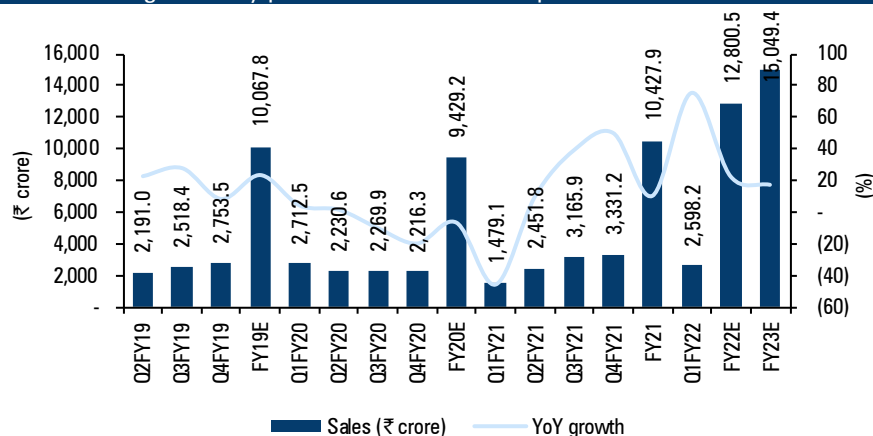
Exhibit 3: Assumption

	Current			Earlier			Comments
	FY20	FY21	FY22E	FY23E	FY22E	FY23E	
Cable Growth (%)	-7.4	6.2	20.8	13.9	13.3	17.1	We believe price hikes and improved government/private spending to help drive demand of wire & cable segment going forward
Switchgear Growth (%)	-15.1	9.1	20.9	13.6	13.4	15.7	Favourable base and recovery in the housing segment, switchgear segment is likely to grow at CAGR of 17% in FY21-23E
ECD Growth (%)	-9.0	13.1	26.8	23.5	15.7	24.6	Demand revival post ease in lockdown restrictions and company's focus to launch premium products in the Lloyd (refrigerators and washing machines) would help drive performance of ECD segment 21% FY21-23E. We model ECD and Lloyd segment revenue CAGR of 25% and 26% respectively
Lighting & Fixtures (%)	-22.2	6.9	18.7	14.8	27.6	14.6	Lighting segment growth to be largely driven by LED fixtures

Source: Company, ICICI Direct Research

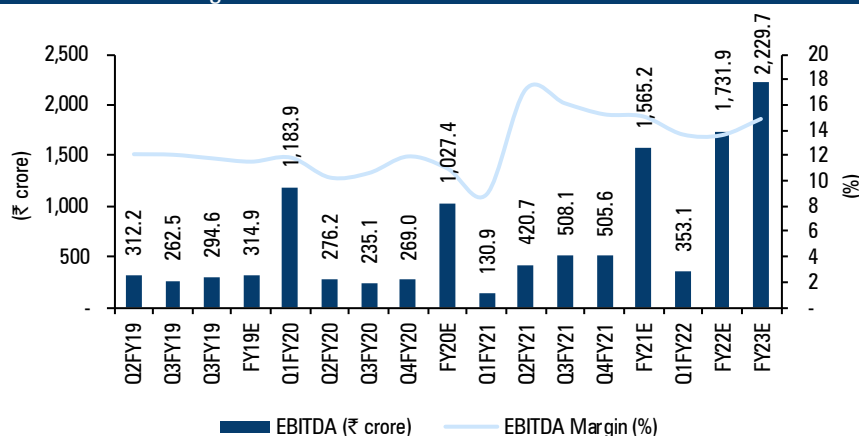
Financial story in charts....

Exhibit 4: Strong recovery post second wave to help drive overall sales



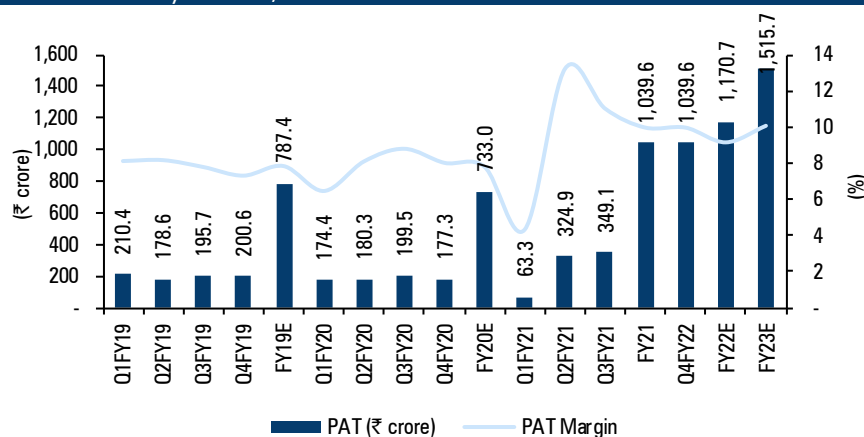
Source: Company, ICICI Direct Research

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	FY21	FY22E	FY23E
Total Operating Income	9429.2	10427.9	12800.5	15049.4
Growth (%)		10.6	22.8	17.6
Raw Material Expenses	4389.6	5390.5	6528.2	7524.7
Employee Expenses	899.6	885.3	1017.0	1155.5
Marketing Expenses	320.9	132.6	249.2	361.2
Other expenses	1346.2	1369.9	1565.9	1821.9
Operating Expenditure	8401.8	8862.7	11068.6	12819.8
EBITDA	1027.4	1565.2	1731.9	2229.7
Growth (%)		52.3	10.6	28.7
Other Income	112.0	187.8	141.6	129.9
Interest	19.7	72.6	40.8	32.2
Depreciation	217.9	248.9	268.8	301.0
Less: Exceptional Items	0.0	0.0	0.0	0.0
PBT	901.7	1431.5	1563.9	2026.3
Total Tax	168.7	391.9	393.2	510.6
PAT	733.0	1039.6	1170.7	1515.7

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement ₹ crore				
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	733.0	1039.6	1170.7	1515.7
Depreciation	217.9	248.9	268.8	301.0
CF before working cap changes	970.7	1361.1	1480.3	1848.9
Net Increase in Current Assets	197.2	-1024.0	-88.0	-605.6
Net Increase in Current Liabilities	-211.3	433.3	-613.6	380.1
CF from operating activities	956.5	770.3	778.7	1623.4
(Purchase)/Sale of Liquid Investn	0.0	-306.3	306.3	0.0
Others	-507.7	123.6	-806.3	-500.0
(Purchase)/Sale of Fixed Assets	-507.7	-182.7	-500.0	-500.0
CF from Investing Activities	-456.6	-393.6	-208.7	-515.0
Proceeds frm Equity Shares	0.0	0.0	0.0	0.0
Inc / (Dec) in Loan Funds	-40.5	393.7	-100.0	-50.0
Others	-640.0	-252.8	-878.8	-1145.9
CF from Financing Activities	-680.5	140.8	-978.8	-1195.9
Net Cash flow	-180.6	517.6	-408.8	-87.5
Opening Cash	1287.8	1107.1	1624.7	1216.0
Closing Cash	1107.1	1624.7	1216.0	1128.5

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet ₹ crore				
(Year-end March)	FY20	FY21	FY22E	FY23E
Equity Capital	62.6	62.6	62.6	62.6
Reserve and Surplus	4242.4	5101.9	5434.6	5836.6
Total Shareholders funds	4305.0	5164.4	5497.1	5899.2
Total Debt	0.0	393.7	293.7	243.7
Deferred Tax Liability	286.5	339.1	339.1	339.1
Total Liabilities	4704.4	6043.3	6276.0	6628.0
Assets				
Total Gross Block	4176.4	4355.5	4805.5	5255.5
Less Acc. Depreciation	1073.4	1322.3	1591.1	1892.1
Net Block	3103.0	3033.2	3214.4	3363.4
Capital WIP	82.7	86.3	136.3	186.3
Total Fixed Assets	3185.7	3119.5	3350.7	3549.7
Investment	491.21	67.29	81.78	73.67
Inventory	1871.9	2619.9	2525.0	2968.7
Debtors	248.9	563.6	631.3	742.2
Other Current Assets	214.1	175.3	290.6	341.6
Cash	1107.1	1624.7	1216.0	1128.5
Total Current Assets	3441.9	4983.6	4662.8	5181.0
Total Current Liabilities	2343.6	2776.9	2163.4	2543.4
Net Current Assets	1098.3	2206.7	2499.5	2637.5
Total Assets	4704.4	6043.3	6276.0	6628.0

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios ₹ crore				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per Share Data				
Reported EPS	11.7	16.7	18.8	24.3
Cash EPS	15.2	20.7	23.1	29.1
BV per share	69.0	82.8	88.1	94.6
DPS	4.8	3.5	11.9	17.9
Operating Ratios (%)				
EBITDA Margin (%)	10.9	15.0	13.5	14.8
PAT Margin (%)	7.8	10.0	9.1	10.1
Asset Turnover	2.0	1.7	2.0	2.3
Debtors Turnover	9.6	19.7	18.0	18.0
Creditor Turnover	54.7	55.9	30.0	30.0
Return Ratios (%)				
RoE	17.0	20.1	21.3	25.7
RoCE	19.6	24.9	25.6	31.1
RoIC	21.0	28.9	26.5	31.8
Valuation Ratios				
EV / EBITDA	68.8	44.9	40.9	31.8
P/E	98.0	69.1	61.3	47.4
EV / Net Sales	7.5	6.7	5.5	4.7
EV / Net Sales	7.5	6.7	5.5	4.7
Market Cap / Sales	7.6	6.9	5.6	4.8
Price to Book Value	16.7	13.9	13.1	12.2
Solvency Ratios				
Debt / Equity	0.0	0.1	0.1	0.0
Current Ratio	1.4	1.8	2.8	2.8
Quick Ratio	0.3	0.4	0.7	0.7

Source: Company, ICICI Direct Research

Exhibit 11: ICICI Direct Consumer Discretionary universe

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)	3,160	3,665	Buy	3,03,044	33.4	39.5	50.4	94.5	80.0	62.7	61.5	53.2	42.4	25.0	27.6	30.7	29.6	32.6	36.8
Astral Polytechnik (ASTPOL)	2,046	1,915	Hold	30,825	20.3	21.8	29.3	100.7	94.0	69.9	55.0	51.8	39.6	27.5	27.0	31.4	21.5	20.7	23.9
Amber Enterprises (AMBEN)	3,015	3,130	Buy	9,481	24.7	45.7	88.2	122.0	65.9	34.2	38.8	27.5	16.5	7.7	11.5	18.3	5.2	9.2	15.2
Bajaj Electricals (BAJELE)	1,066	1,280	Buy	12,119	16.5	23.8	35.7	64.9	45.0	30.0	40.9	29.6	20.7	15.1	20.0	26.1	10.7	16.8	20.6
Berger Paints (BERPAI)	856	835	Hold	83,135	7.4	9.3	12.3	115.5	92.4	69.7	64.7	56.2	43.5	24.9	28.3	34.6	21.3	24.3	28.4
Crompton Greaves(CROGR)	475	480	Buy	29,783	9.8	9.2	11.9	48.3	51.9	40.0	33.1	32.5	25.4	34.4	36.1	42.1	31.9	28.7	33.2
Dixon Technologies (DIXTE)	4,595	4,635	Buy	26,903	27.3	54.8	95.8	168.5	83.9	48.0	81.5	47.2	28.6	23.5	35.8	46.4	21.7	35.0	40.8
EPL (ESSPRO)	250	275	Hold	7,888	7.7	9.2	11.4	32.3	27.1	21.9	13.5	12.2	10.2	16.2	17.6	20.6	14.8	16.3	18.7
Havells India (HAVIND)	1,151	1,345	Buy	71,811	16.7	18.8	24.3	69.1	61.3	47.4	44.9	40.9	31.8	24.9	25.6	31.1	20.1	21.3	25.7
Kansai Nerolac (KANNER)	624	655	Buy	33,629	9.9	12.1	14.4	63.3	51.5	43.4	36.6	31.1	26.2	17.2	20.3	21.5	13.2	15.7	16.6
Moldtek Packaging (MOLP)	522	600	Buy	1,447	16.5	20.8	28.0	31.7	25.1	18.7	15.4	12.6	9.8	20.7	23.6	27.8	19.9	20.9	23.1
Pidilite Industries (PIDIND)	2,315	2,035	Hold	1,17,556	22.2	26.3	31.8	104.4	88.0	72.8	55.9	47.3	39.9	23.8	23.9	29.9	20.2	20.1	25.2
Polycab India (POLI)	1,910	2,025	Buy	28,436	59.4	64.8	79.5	32.1	29.5	24.0	21.1	17.8	14.6	21.9	22.7	24.3	18.5	17.8	18.6
Supreme Indus (SUPIND)	2,098	2,450	Buy	26,650	77.0	64.1	75.9	27.3	32.8	27.6	20.2	23.0	18.8	33.1	25.1	25.9	30.9	23.4	23.5
Symphony (SYMLIM)	1,084	1,345	Hold	7,583	15.3	28.5	39.5	70.9	38.1	27.4	60.0	33.1	23.8	15.2	28.2	34.9	14.9	26.8	32.5
Time Techno (TIMTEC)	83	100	Buy	1,877	4.8	8.5	10.8	17.4	9.7	7.7	6.5	5.2	4.4	8.7	12.1	13.7	5.7	9.7	11.3
V-Guard Ind (VGUARD)	250	320	Buy	10,707	4.7	5.5	7.3	59.0	50.4	38.1	37.3	35.4	27.3	23.9	25.1	29.0	16.7	19.2	22.5
Voltas Ltd (VOLTAS)	1,048	1,150	Buy	34,661	16.0	21.2	28.9	65.5	49.5	36.3	50.8	41.8	29.8	15.0	19.5	23.0	10.6	14.4	17.1

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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