Havells India (HAVIND)

CMP: ₹ 1286 | Target: ₹ 1545 (20%) | Target Period: 12 months | BUY

October 21, 2021

Result Update

Higher input costs weigh on margin…

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

Q2FY22 Results: Better-than-expected performance on all product verticals

- Reported revenue growth of 31% YoY, 24% QoQ to ₹ 3221 crore. Havells reported volume growth (excluding cable & wire) of 12% YoY
- EBITDA margin declined 340 bps YoY to 13.8%, mainly due to a sharp decline in gross margin. Delay in passing on of higher raw material prices in the industrial product category led to a decline in gross margin
- PAT fell ~7% YoY led by lower EBITDA margin and other income during Q2FY22

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 introduce FY24 estimate and rollover our valuation on FY24E and value stock at ₹ 1570/share i.e.53x P/E FY24E 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 ~21%, 20%, respectively, in FY21-24E

Alternate Stock Idea: Besides Havells, we also like CGCEL in the same space.

- Increasing rural penetration and improved product mix would help drive revenue and profitability for the company
- BUY with a target price of ₹ 540

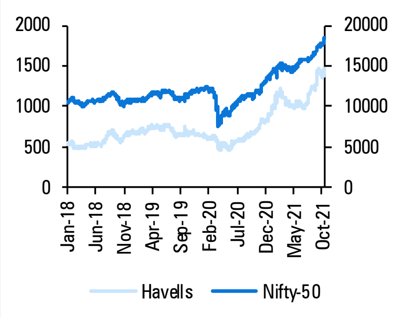
Particulars

Particular	Amount
Market Capitalization (₹ Cr)	80,233.5
Total Debt (FY21) (₹ Cr)	393.7
Cash and Inv (FY21) (₹ Cr)	1,931.0
EV (₹ Cr)	78,696.1
52 week H/L	1504 / 700
Equity capital (₹ Cr)	62.6
Face value (₹)	1.0

Shareholding pattern

(in %)	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	59.5	59.5	59.5	59.5	59.5
FII	22.2	24.4	24.9	24.0	26.8
DII	10.1	8.6	8.1	8.3	6.2
Others	8.2	7.5	7.5	8.2	7.5

Price Chart



Recent Event & Key risks

- Price hikes on the cards to mitigate inflationary pressure
- **Key Risk:** (i) Slow demand for industrial products, (ii) Downward pressure on EBITDA margin

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Key Financial Summary

₹ Crore	FY19	FY20	FY21	5Year CAGR (FY16-21)	FY22E	FY23E	FY24E	3Year CAGR (FY21-23E)
Net Sales	10067.8	9429.2	10427.9	14.2	13768.7	16180.6	18675.2	21.4
EBITDA	1183.9	1027.4	1565.2	15.7	1880.6	2256.7	2642.2	19.1
EBITDA Margin (%)	11.8	10.9	15.0		13.7	13.9	14.1	
PAT	787.4	733.0	1039.6	7.9	1283.1	1542.0	1805.7	20.2
EPS (₹)	12.6	11.7	16.7		20.6	24.7	28.9	
P/E (x)	101.9	109.5	77.2		62.5	52.0	44.4	
Price/Book Value (x)	19.1	18.6	15.5		14.3	13.3	11.9	
Mcap/Sales	8.0	8.5	7.7		5.8	5.0	4.3	
RoE (%)	18.8	17.0	20.1		22.9	25.5	26.8	
RoCE (%)	25.4	19.6	24.9		27.5	30.9	32.9	

Source: Company, ICICI Direct Research

ICICI Securities – Retail Equity Research

Key takeaways of Q2FY22 results & conference call highlight

Q2FY22 Results: Strong performance of industrial products

- Havells reported revenue growth of 31% YoY (~12% volume growth excluding cable & wire business). The topline growth was driven by multiple factors such as favourable base of industrial products, price increases, dealer addition (focus on expansion in rural markets) and new launches
- Delay in passing on of higher input prices in the cable and Lloyd business dragged overall gross margin by ~600 bps YoY. That resulted in ~340 bps YoY fall in EBITDA margin for Havells in Q2
- PAT declined ~7% YoY, mainly due to higher base (includes ₹ 43 crore of additional income from sale of asset) and lower EBITDA margin

Q2FY22 Earnings Conference Call highlights

- **Demand outlook:** Strong festive demand from both urban and rural markets. Despite a higher base, demand is likely to be strong in H2FY22, mainly due to strong festive demand and revival in the real estate industry
- **Margin:** Further price hikes on the cards if raw material prices do not cool off. Focus to increase profitability of Lloyd through better product mix and increased operating leverage
- **Lloyd:** Inventory is at a normal level for Lloyd. The company aims to further increase market share in the RAC segment. Havells has applied for PLI in the RAC segment only
- **Capex:** Planned ₹ 350 crore of capex for FY22E

Exhibit 1: Peer comparison

Company	Mcap	Revenue				EBITDA margin				PAT				RoCE				RoE				PE			
	₹ cr	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Havells	80,234	10428	13769	16181	18675	15	14	14	14	1040	1283	1542	1806	25	27	31	33	20	23	26	27	77	63	52	44
Crompton Greaves	29,021	4804	5463	6567	7485	15	14	15	15	617	584	749	858	34	37	42	42	32	29	33	33	47	50	39	34
Bajaj Electrical	13,311	4585	5476	6245	6982	7	8	9	9	189	263	389	449	15	19	25	24	11	16	20	19	70	51	34	30
Polycab	33,149	8927	10941	12775	14943	13	12	13	13	886	883	1158	1362	22	21	24	24	18	16	19	19	37	38	29	24
Symphony	7,401	900	1097	1380	1660	15	17	20	20	107	145	225	275	15	21	29	31	15	20	27	28	69	51	33	27
V guard	10,836	2721	3237	3882	4456	11	10	11	11	202	226	301	352	24	24	28	29	17	19	22	23	54	48	36	31
Voltas	39,423	7556	8786	9958	10409	8	9	11	11	529	727	952	1132	15	20	23	21	11	15	17	17	75	54	41	35

Source: BSE, ICICI Direct Research

Havells India has transformed from being an industrial product driven business to one of the best players in the FMEG space with a market share ranging between 6% and 20%. The consumer business of Havells has recorded strong sales CAGR of 22% in FY11-21 led by new product launches and dealer additions. It further aims to increase its town penetration and launch premium products under the Lloyd brand. Further, a revival in the real estate sector will help drive incremental demand of consumer products like fans, lightings, air conditioners, etc, where Havells is a major player. We introduce FY24 estimates and build in revenue, earnings CAGR of 21%, 20%, respectively, in FY21-24E. The company also has a robust balance sheet with RoE and RoCE of 20% & 25%, respectively, (five year's average) with net cash balance of ₹ 1800 crore by the end of H2FY22. We roll over our valuation on FY24E and value the stock at ₹ 1545/share i.e. 53x P/E FY24E EPS. We maintain our BUY rating on the stock.

Exhibit 2: Variance Analysis

	Q2FY22	Q2FY22E	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	Comments
Revenue	3221.0	2800.1	2451.8	31.4	2598.2	24.0	Favourable base of industrial products, price hikes and new launches resulted in strong revenue growth
Other Income	33.3	35.4	79.2	-58.0	34.2	-2.7	
Raw Material Exp	1654.7	1372.1	1089.9	51.8	1360.9	21.6	Gross margin dipped 600 bps YoY, mainly due to delay in passing of higher input prices
Employee Exp	249.4	240.8	214.5	16.3	232.5	7.3	
Purchase of Traded goods	462.9	378.0	375.6	23.2	310.4	49.1	
Other expenses	410.5	414.4	351.1	16.9	341.3	20.2	Various cost optimisation measures helped in saving in other expenses by ~180 bps YoY
EBITDA	443.6	394.8	420.7	5.5	353.1	25.6	
EBITDA Margin (%)	13.8	14.1	17.2	-339 bps	13.6	18 bps	Decline in EBITDA margin was largely due to lower gross
Depreciation	62.3	65.8	59.1	5.5	61.6	1.2	
Interest	11.1	10.7	17.3	-35.7	11.0	1.5	
PBT	403.5	353.7	423.6	-4.7	314.8	28.2	
Total Tax	101.9	89.1	98.7	3.3	80.5	26.6	
PAT	301.6	264.6	324.9	-7.2	234.3	28.7	PAT decline was attributable to lower EBITDA margin in Q2
Key Metrics							
Cable	1,144.0	899.2	784.7	45.8	807.2	41.7	Favourable base and price hike drove segment sales
Switchgear	442.6	415.2	370.4	19.5	373.4	18.5	Pick-up in real estate industry drove demand for switchgears
ECD	1,069.7	1,000.6	860.3	24.3	1,070.4	-0.1	Omni channel strategy inclduing online sales and rural pentration drove overall ECD and Lloyd segment sales. ECD segment revenue increased 26% YoY while Lloyd revenue increased 22% YoY
Lighting & Fixtures	353.6	296.1	264.6	33.6	209.9	68.4	New launches, dealer additions helped drive segment sales
Others*	211.2	189.0	171.8	22.9	137.3	53.8	Largely growing on a low base

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

Exhibit 3: Change in estimates

(₹ Crore)	FY22E			FY23E			FY24E	Comments
	Old	New	% Chg	Old	New	% Chg	Introduc	
Revenue	12800.5	13768.7	7.6	15049.4	16180.6	7.5	18675.2	We introduce FY24E estimates with revenue growth of 15% over FY23E. We build in revenue CAGR of 21% in FY21-24E
EBITDA	1731.9	1880.6	8.6	2229.7	2256.7	1.2	2642.2	
EBITDA Margin (%)	13.5	13.7	16bps	14.8	13.9	-85bps	14.1	Havells' EBITDA margin to remain at elevated level considering new launches and improved operating leverage
PAT	1170.7	1283.1	9.6	1515.7	1542.0	1.7	1805.7	
EPS (₹)	18.8	20.6	9.4	24.3	24.7	1.7	28.9	

Source: Company, ICICI Direct Research

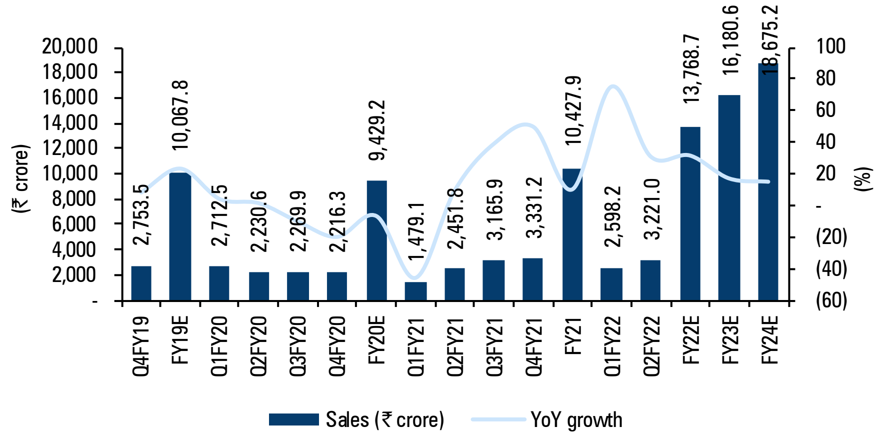
Exhibit 4: Assumption

	Current				Introduced	Earlier		Comments
	FY20	FY21	FY22E	FY23E	FY24E	FY22E	FY23E	
Cable Growth (%)	-7.4	6.2	35.7	13.9	13.0	13.3	17.1	We believe price hikes and improved government/private spending would help drive segment at CAGR of 20% in FY21-24E
Switchgear Growth (%)	-15.1	9.1	29.7	13.6	12.7	13.4	15.7	With favourable base and recovery in housing segment, switchgear segment is likely to grow at CAGR of 18% in FY21-24E
ECD Growth (%)	-9.0	13.1	33.5	23.5	18.8	15.7	24.6	Rural expansion and launch of premium products in the Lloyd (refrergerators, washing machines) would help drive performance of ECD (including Lloyd) segment at 25% in FY21-24E. Segment wise, we model ECD and Lloyd segment revenue CAGR of 24% and 27%, respectively, for FY21-24E
Lighting & Fixtures (%)	-22.2	6.9	25.0	14.9	15.3	27.6	14.6	Lighting segment growth to be largely driven by LED fixtures

Source: Company, ICICI Direct Research

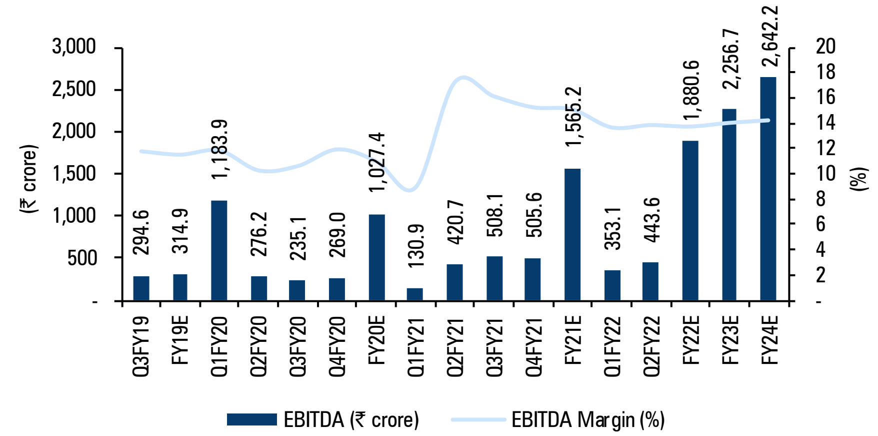
Financial story in charts….

Exhibit 5: Strong recovery post second wave to help drive overall sales



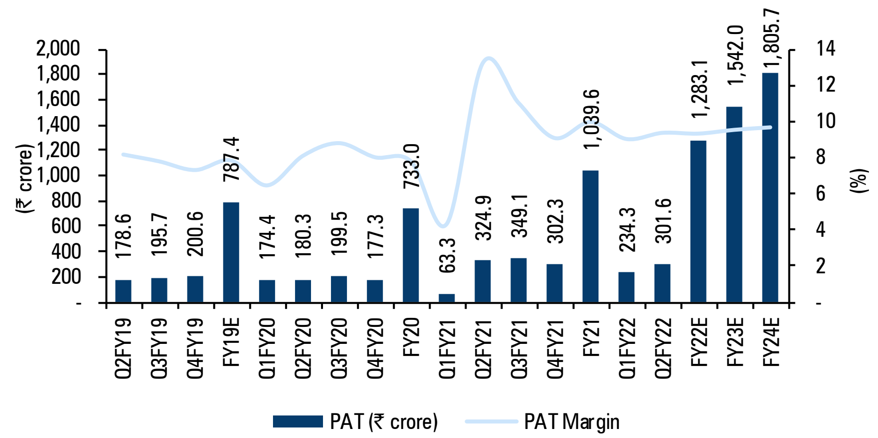
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA margin movement



Source: Company, ICICI Direct Research

Exhibit 7: Recovery in sales, EBITDA to drive PAT



Source: Company, ICICI Direct Research

Financial summary

Exhibit 8: Profit and loss statement ₹ crore

Year End March	FY21	FY22E	FY23E	FY24E
Total Operating Income	10427.9	13768.7	16180.6	18675.2
Growth (%)		32.0	17.5	15.4
Raw Material Expenses	5390.5	7090.9	8252.1	9561.7
Employee Expenses	885.3	1006.2	1172.9	1294.7
Marketing Expenses	132.6	209.8	388.3	485.6
Other expenses	1369.9	1655.3	1958.9	2334.8
Operating Expenditure	8862.7	11888.1	13923.9	16033.0
EBITDA	1565.2	1880.6	2256.7	2642.2
Growth (%)		20.2	20.0	17.1
Other Income	187.8	141.6	129.9	129.9
Interest	72.6	41.2	32.2	21.9
Depreciation	248.9	268.5	292.9	336.2
Less: Exceptional Items	0.0	0.0	0.0	0.0
PBT	1431.5	1712.6	2061.5	2414.1
Total Tax	391.9	429.5	519.5	608.3
PAT	1039.6	1283.1	1542.0	1805.7

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement ₹ crore

(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit after Tax	1039.6	1283.1	1542.0	1805.7
Depreciation	248.9	268.5	292.9	336.2
CF before working cap changes	1361.1	1592.8	1867.1	2163.8
Net Increase in Current Assets	-1024.0	-348.7	-649.5	-671.7
Net Increase in Current Liabilities	433.3	-449.9	407.6	421.6
CF from operating activities	770.3	794.1	1625.3	1913.6
(Purchase)/Sale of Liquid Investn	-306.3	306.3	0.0	0.0
Others	123.6	-806.3	-500.0	-500.0
(Purchase)/Sale of Fixed Assets	-182.7	-500.0	-500.0	-500.0
CF from Investing Activities	-393.6	-208.7	-515.0	-515.0
Proceeds frm Equity Shares	0.0	0.0	0.0	0.0
Inc / (Dec) in Loan Funds	393.7	-100.0	-50.0	-50.0
Others	-252.8	-879.2	-1145.9	-1135.5
CF from Financing Activities	140.8	-979.2	-1195.9	-1185.5
Net Cash flow	517.6	-393.8	-85.6	213.1
Opening Cash	1107.1	1624.7	1230.9	1145.3
Closing Cash	1624.7	1230.9	1145.3	1358.4

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet ₹ crore

(Year-end March)	FY21	FY22E	FY23E	FY24E
Equity Capital	62.6	62.6	62.6	62.6
Reserve and Surplus	5101.9	5546.9	5975.3	6667.3
Total Shareholders funds	5164.4	5609.5	6037.8	6729.9
Total Debt	393.7	293.7	243.7	193.7
Deferred Tax Liability	339.1	339.1	339.1	339.1
Total Liabilities	6043.3	6388.3	6766.7	7408.7
Assets				
Total Gross Block	4355.5	4805.5	5255.5	5705.5
Less Acc. Depreciation	1322.3	1590.8	1883.6	2219.8
Net Block	3033.2	3214.8	3371.9	3485.7
Capital WIP	86.3	136.3	186.3	236.3
Total Fixed Assets	3119.5	3351.0	3558.1	3722.0
Investment	491.21	67.29	81.78	73.67
Inventory	2619.9	2716.0	3191.8	3683.9
Debtors	563.6	679.0	797.9	921.0
Other Current Assets	175.3	312.6	367.3	423.9
Cash	1624.7	1230.9	1145.3	1358.4
Total Current Assets	4983.6	4938.5	5502.4	6387.2
Total Current Liabilities	2776.9	2327.0	2734.6	3156.2
Net Current Assets	2206.7	2611.5	2767.7	3231.0
Total Assets	6043.3	6388.3	6766.7	7408.7

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios ₹ crore

(Year-end March)	FY21	FY22E	FY23E	FY24E
Per Share Data				
Reported EPS	16.7	20.6	24.7	28.9
Cash EPS	20.7	24.9	29.4	34.3
BV per share	82.8	89.9	96.8	107.9
DPS	3.5	11.9	17.9	17.9
Operating Ratios (%)				
EBITDA Margin (%)	15.0	13.7	13.9	14.1
PAT Margin (%)	10.0	9.3	9.5	9.7
Asset Turnover	1.7	2.2	2.4	2.5
Debtors Turnover	19.7	18.0	18.0	18.0
Creditor Turnover	55.9	30.0	30.0	30.0
Return Ratios (%)				
RoE	20.1	22.9	25.5	26.8
RoCE	24.9	27.5	30.9	32.9
RoIC	28.9	28.4	31.3	33.7
Valuation Ratios				
EV / EBITDA	50.3	42.2	35.2	29.9
P/E	77.2	62.5	52.0	44.4
EV / Net Sales	7.5	5.8	4.9	4.2
EV / Net Sales	7.5	5.8	4.9	4.2
Market Cap / Sales	7.7	5.8	5.0	4.3
Price to Book Value	15.5	14.3	13.3	11.9
Solvency Ratios				
Debt / Equity	0.1	0.1	0.0	0.0
Current Ratio	1.8	2.8	2.8	2.8
Quick Ratio	0.4	0.7	0.7	0.7

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct Consumer Discretionary universe

Sector / Company	CMP (₹)	TP(₹)	Rating	M Cap (₹ Cr)	EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)				RoE (%)			
					FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Asian Paints (ASIPAI)	3,002	3,665	Buy	2,87,892	33.4	39.5	50.4	59.1	89.8	76.0	59.5	50.8	58.4	50.5	40.2	34.3	29.6	32.6	36.8	38.2	25.0	27.6	30.7	31.4
Berger Paints (BERPAI)	750	860	Hold	72,840	7.4	9.5	11.9	14.7	101.2	79.4	63.1	50.9	61.1	50.7	41.4	33.7	24.9	29.0	33.9	36.0	21.3	24.7	27.6	29.2
Kansai Nerolac (KANNER)	558	750	Buy	30,072	9.9	13.0	16.1	18.7	56.6	43.1	34.7	29.8	36.1	28.8	23.2	19.9	17.2	21.5	23.4	24.2	13.2	16.6	18.0	18.4
Pidilite Industries (PIDIND)	2,305	2,390	Hold	1,17,048	22.2	25.3	30.7	36.8	103.9	91.0	75.0	62.7	69.4	60.6	51.1	43.1	23.8	23.0	26.9	30.8	20.2	19.5	22.5	25.7
Bajaj Electricals (BAJELE)	1,162	1,250	Buy	13,311	16.5	23.0	34.0	39.2	70.4	50.6	34.2	29.6	44.7	32.4	23.1	20.6	15.1	19.3	25.2	24.2	10.7	16.3	19.9	19.1
Crompton Greaves(CROGR	463	540	Buy	29,021	9.8	9.3	12.0	13.7	47.1	49.7	38.7	33.8	38.8	37.2	29.5	25.6	34.4	36.6	42.1	42.1	31.9	29.0	33.2	32.8
Havells India (HAVIND)	1,286	1,545	Buy	80,234	16.7	20.6	24.7	28.9	77.2	62.5	52.0	44.4	50.5	42.2	35.2	29.9	24.9	27.5	30.9	32.9	20.1	22.9	25.5	26.8
Polycab India (POLI)	2,223	2,100	Hold	33,149	59.4	59.2	77.7	91.3	37.4	37.5	28.6	24.3	27.6	25.4	19.6	16.6	21.9	21.1	24.2	24.2	18.5	16.5	18.5	18.5
Symphony (SYMLIM)	1,058	1,050	Hold	7,401	15.3	20.8	32.1	39.3	69.2	50.9	32.9	27.0	52.0	39.9	25.7	20.9	15.2	21.1	29.1	30.7	14.9	19.9	27.0	28.0
V-Guard Ind (VGUARD)	253	310	Buy	10,836	4.7	5.3	7.0	8.2	53.7	47.9	35.9	30.8	33.9	32.9	25.7	21.8	23.9	24.2	28.4	29.0	16.7	18.5	22.0	22.5
Voltas Ltd (VOLTAS)	1,192	1,170	Buy	39,423	16.0	22.0	28.8	34.2	74.6	54.2	41.4	34.8	60.8	48.3	36.0	33.4	15.0	20.2	22.8	21.1	10.6	14.9	17.0	17.4
Amber Enterprises (AMBEI	3,324	3,365	Buy	11,200	24.7	43.2	87.7	109.7	134.5	76.9	37.9	30.3	50.6	37.2	21.5	17.4	7.7	11.0	18.3	19.7	5.2	8.8	15.2	16.0
Dixon Technologies (DIXTE	5,267	5,050	Buy	30,838	27.3	52.3	97.4	152.5	193.1	100.7	54.1	34.5	107.6	65.4	37.3	24.0	23.5	34.6	47.4	50.6	21.7	33.9	41.7	41.4
Supreme Indus (SUPIND)	2,328	2,458	Buy	29,572	77.0	64.0	76.2	72.3	30.2	36.3	30.6	32.2	22.4	25.5	20.9	21.8	33.1	25.1	25.9	20.9	30.9	23.4	23.6	19.6
Astral Polytecnik (ASTPOL	2,167	2,160	Hold	43,531	20.3	24.6	31.8	40.6	106.6	88.0	68.1	53.4	66.9	56.7	44.3	34.9	27.5	29.2	32.5	34.0	21.5	22.8	24.9	26.0
EPL (ESSPRO)	217	279	Hold	6,842	7.7	9.4	11.6	13.3	28.0	23.0	18.8	16.4	11.6	10.4	8.6	7.6	16.2	17.7	20.8	21.5	14.8	16.6	18.9	19.7
Time Techno (TIMTEC)	72	100	Buy	1,628	4.8	8.3	10.7	11.5	15.1	8.6	6.7	6.3	5.7	4.6	3.8	3.5	8.7	12.2	13.9	13.9	5.7	9.5	11.3	11.1
Moldtek Packaging (MOLP	688	675	Buy	1,908	17.3	22.5	30.6	38.0	39.8	30.6	22.5	18.1	21.3	16.7	13.0	10.7	21.4	24.8	29.1	30.1	20.7	21.9	24.1	23.9

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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