August 27, 2018

Rating Matrix

Rating	:	Buy
Target	:	₹ 4000
Target Period	:	12-15 months
Potential Upside	:	18%

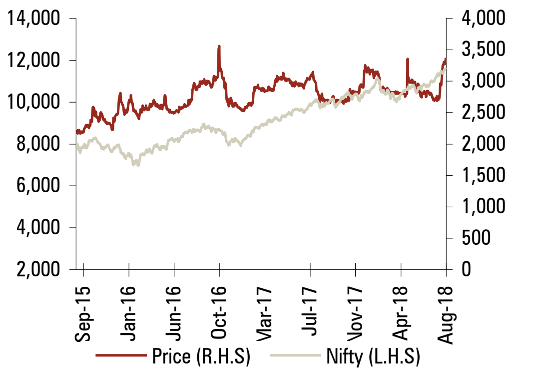
Stock Data

Particular	Amount
Market Capitalization (₹ crore)	1,798.6
Total Debt (FY18) (₹ crore)	18.1
Cash (FY18) (₹ crore)	87.0
EV (₹ crore)	1,729.6
52 week H/L (₹)	3510/2604
Equity capital (₹ crore)	5.3
Face value (₹)	10.0

Shareholding Pattern

Particulars	June 2018 (%)
Promoter Holding	56.0
DII	14.2
FII	0.3
Public	29.5

Price Movement



Research Analyst

Bharat Chhoda
bharat.chhoda@icicisecurities.com

Cheragh Sidhwa
cheragh.sidhwa@icicisecurities.com

Hawkins Cookers (HAWCOO) ₹ 3400

Pressure cooker industry revival to spur revenues

Hawkins reported a robust set of Q1FY19 numbers with revenues growing 50% YoY to ₹ 120.8 crore. Higher raw material expense led to a decline in gross margin by 110 bps YoY to 59.8%. However, with positive operating leverage kicking in, EBITDA margins expanded significantly by 580 bps YoY to 13.9%. Absolute EBITDA grew ~2.6x to ₹ 16.8 crore. Lower other income (down 40% YoY to ₹ 1.3 crore), restricted PAT growth, to a certain extent. Hence, PAT for the quarter came in at ₹ 10.7 crore vs. ₹ 4.6 crore in Q1FY18. A revival in revenue growth post sluggish growth in the last few quarters augurs well for Hawkins. We expect the revenue growth momentum to sustain driven by implementation of Ujjwala Yojana scheme of government, which would provide a growth opportunity for the cooker and cookware segment.

PMUY scheme to provide additional growth impetus…

According to industry estimates, the organised pressure cooker industry in India is pegged at ₹ 1500 crore, with Hawkins having a market share of ~30% (second largest after TTK Prestige). Over the years, the industry has grown at a slower trajectory (low single digits), on account of 90% penetration of LPG connections in the urban market. However, in recent times, the company has witnessed robust traction from rural markets mainly on account of government initiatives such as Pradhan Mantri Ujjwala Yojana (PMUY). With the attainment of its initial target of 5 crore LPG connections, the government has extended its target to 8 crore connections, with a budgetary outlay of ₹ 12800 crore. Since the penetration of pressure cookers in rural areas is at mere ~30%, it provides immense opportunity for companies like Hawkins to further scale up its revenue growth. Going forward, we expect Hawkins to report revenue CAGR of 17% in FY18-20E. On the profitability front, to offset the negative impact of higher aluminium prices, the management has taken a price hike of 4.8% in pressure cooker and 4.2% in cookware from April, 1 2018. Also, given the fixed cost nature of the business, healthy topline growth would result in enhancement of EBITDA margins. Hence, we expect margins to expand 150 bps to 14.3% by FY20E. Subsequently, we expect PAT to grow at a CAGR of 22% in FY18-20E.

Healthy balance sheet, strong revival in revenues; maintain BUY!

Hawkins has a lean balance sheet, with debt/equity comfortably placed at 0.3x. Over the years, the company has maintained healthy dividend payouts with average ratio of 75%+. Hawkins has a capital efficient business model, with minimal capex requirements. The asset light nature of the business has led Hawkins to generate industry best asset turns with robust return ratios (RoCE: 50% as on FY18). Going forward, with a gradual pick-up in consumer sentiments in rural markets, constant focus on innovation and new product launches, we expect revenues and earnings to grow at a CAGR of 17% and 22%, respectively, in FY18-20E. Furthermore, implementation of GST would be a key growth trigger, driving the shift from unorganised to organised players. At the CMP, Hawkins is trading at 30x/25x EPS of ₹ 113 and ₹ 138 for FY19E and FY20E, respectively. Given the robust balance sheet and good promoter pedigree, we have a **BUY** recommendation on the stock with a target price of ₹ 4000 (29x FY20E EPS).

Exhibit 1: Financial Performance

(Year-end March)	FY14	FY15	FY16	FY17	FY18
Revenues (₹ crore)	454.8	514.5	544.4	512.0	552.6
EBITDA (₹ crore)	58.7	50.8	63.9	74.2	70.5
EBITDA (%)	12.9	9.9	11.7	14.5	12.8
Net Profit (₹ crore)	38.3	32.1	40.3	47.4	48.7
Balance Sheet					
Equity (₹ crore)	5.3	5.3	5.3	5.3	5.3
Net worth (₹ crore)	55.9	58.9	99.3	106.7	109.8
Total Debt (₹ crore)	24.5	18.8	31.4	15.1	18.1
Ratios					
RoNW (%)*	68.5	54.5	40.6	44.5	44.3
RoCE (%)*	69.7	60.7	46.3	58.1	52.3
Earnings per share (₹)	72.4	60.7	76.3	89.6	92.0
Debt/Equity (x)	0.4	0.3	0.3	0.1	0.2
P/E (x)	47.0	56.0	44.6	37.9	36.9
Mcap/Sales (x)	4.0	3.5	3.3	3.5	3.3

Source: Company, ICICI Direct Research.

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Pankaj Pandey | **Head – Research** | **pankaj.pandey@icicisecurities.com**

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No. 7, MIDC,
Andheri (East)
Mumbai – 400 093

research@icicidirect.com

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