

Strong growth momentum; Upgrade to Accumulate

- Q3 saw continued growth momentum with strong beat in estimates (Refer Exhibit 1), with strong performance across segments with Lloyd growing by 70.3% YoY. Sales was up 39.7% YoY, EBITDA was up 89.2% YoY and PAT was up 74.4% YoY. NWC days remained relatively flat sequentially at 35 days vs 37 days previous quarter.
- Larger players like Havells have gained market share from the unorganized players, pushed by higher festive demand, better rural reach and stronger supply chain. Lloyd saw a growth across segments mainly in TVs and appliances with higher festive sales and ACs due to import ban, helped by its backward integration capabilities and own manufacturing facilities.
- Given a stronger Q3 and better expectation for FY21 overall, with positive growth across segments and cost savings effectiveness; we believe Havells will continue its growth story in FY22 and FY23 and hence upgrade to an Accumulate and value the stock at 60xSep22E for a TP of Rs1300.

Q3 continues growth momentum

Sales up 39.7% YoY at Rs31.7bn, EBITDA was up 89.2%, PAT was up 74.4% beating our expectations (Exhibit 1). EBITDA margins were up by 421bps YoY at 16.1%, while GM was down 149bps YoY at 38.1%. The company marginally restored ad expenses sequentially but was still lower 33.6% YoY at Rs514mn while staff expenses were back to normal levels, up by 7.4% YoY Rs2.4bn. Lloyd business and Other business that includes pumps, water purifier, solar and personal grooming saw a revenue growth of 70.3% and 53.3% YoY respectively. While EBIT margins for Lloyd improved by ~500bps sequentially, all segments reported high YoY margin growth. NWC days are largely flat YoY and QoQ at 35 days. TTM ROEs and ROCE is at 20.5% and 25.2% respectively.

Q3FY21 Result (Rs Mn)

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Revenue	31,752	22,733	39.7	24,595	29.1
Total Expense	26,651	20,037	33.0	20,376	30.8
EBITDA	5,101	2,696	89.2	4,219	20.9
Depreciation	644	553	16.5	591	9.0
EBIT	4,457	2,143	108.0	3,628	22.8
Other Income	390	247	58.2	795	(50.9)
Interest	152	53	188.6	173	(12.1)
EBT	4,695	2,337	100.9	4,251	10.5
Tax	1,194	330	262.3	987	20.9
RPAT	3,501	2,008	74.4	3,264	7.3
APAT	3,501	2,008	74.4	3,264	7.3
			(bps)		(bps)
Gross Margin (%)	38.1	39.6	(149)	40.2	(210)
EBITDA Margin (%)	16.1	11.9	421	17.2	(109)
NPM (%)	11.0	8.8	220	13.3	(224)
Tax Rate (%)	25.4	14.1	1133	23.2	220
EBIT Margin (%)	14.0	9.4	461	14.8	(72)

CMP	Rs 1,130
Target / Upside	Rs 1,300 / 15%
NIFTY	14,645

Scrip Details

Equity / FV	Rs 626mn / Rs 1
Market Cap	Rs 707bn
	USD 10bn
52-week High/Low	Rs 1,042/ 447
Avg. Volume (no)	2,621,610
Bloom Code	HAVL IN

Price Performance	1M	3M	12M
Absolute (%)	28	59	83
Rel to NIFTY (%)	19	36	63

Shareholding Pattern

	Jun'20	Sep'20	Dec'20
Promoters	59.5	59.5	59.5
MF/Banks/FIs	12.1	10.1	8.6
FIIIs	22.0	22.0	24.4
Public / Others	6.5	8.4	7.5

Valuation (x)

	FY21E	FY22E	FY23E
P/E	72.2	59.0	49.1
EV/EBITDA	49.6	41.2	34.4
ROE (%)	21.6	23.2	23.6
RoACE (%)	21.6	22.4	23.0

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	97,865	117,438	136,315
EBITDA	14,093	16,911	20,038
PAT	9,800	11,981	14,399
EPS (Rs.)	15.7	19.1	23.0

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Lloyd continues to propel growth

Havells saw better Q3 revenues across all segments, with a better rural penetration, lower dependence on imports and reducing covid-19 impact. Lloyd revenues grew by 70.3% YoY mainly due to backward integration and strong festive sale; EBIT margins came in at 6% in Q3. Lloyd saw a growth across segments mainly in TVs and appliances with higher festive sales and ACs due to import ban, helped by its own manufacturing facilities Lloyd has also entered into new markets for refrigerators and dishwashers, which will provide Lloyd a new growth opportunity, while also positioning itself as a more complete durables player.

Upgrade to Accumulate

We had downgraded the stock a couple of quarters back on valuations in a slower recovery scenario post covid, though always positive on the macro story for this company. However, the last two quarters have disproved our theory though its strong growth momentum. We have upgraded our estimates across FY21/22/23 as mentioned in exhibit 2. We continue to value the stock at Sept 22E and upgrade our multiple to 60xSep22E to get a target price of Rs1300. We believe that the company will continue growth momentum in FY22 and FY23 and upgrade to an Accumulate.

Exhibit 1: Actual v/s DART estimates

	Actual	DART	Consensus	DART	Consensus	
(Rs mn)	Q3FY21	Q3FY21E	Q3FY21E	Var (%)	Var (%)	Comments
Sales	31,752	23,828	26,231	33.3	21.0	Sales was strong led by strong growth in Lloyds at 70%
EBITDA	5,101	2,907	3,736	75.5	36.5	Strong EBITDA led by toppling growth and cost savings , especially A&P
EBITDA margins	16.1	12.2	14.2	386.4	182.1	
PAT	3,501	2,177	2,453	60.8	42.7	
Pat margins	11.0	9.1	9.4	189.1	167.6	Better than sales and EBITDA led to a PAT beat
EPS (Rs)	5.6	3.5	3.9	60.8	42.7	

Source: Company, DART

Exhibit 2: Change in estimates

	FY21E			FY22E			FY23E		
(Rs mn)	Earlier	New	Var %	Earlier	New	Var %	Earlier	New	Var %
Sales	83,778	97,865	16.8	100,534	117,438	16.8	116,619	136,315	16.9
EBITDA	10,472	14,093	34.6	13,069	16,911	29.4	15,160	20,038	32.2
EBITDA margin (%)	12.5	14.4	190.0	13.0	14.4	140.0	13.0	14.7	170.0
PAT	6,823	9,800	43.6	8,789	11,981	36.3	10,209	14,399	41.0
EPS (Rs)	10.9	15.7	43.6	14.0	19.1	36.3	16.3	23.0	41.0

Source: Company, DART

Exhibit 3: Quarterly Performance

Particulars	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	YoY (%)	QoQ(%)	YTD FY20	YTD FY21	YoY(%)
Net Revenue	22,733	22,174	14,834	24,595	31,752	39.7	29.1	72,228	71,181	(1)
Cost of materials consumed	10,640	10,991	4,881	12,606	16,328	53.5	29.5	32,758	33,815	3
Purchase of Stock in trade	2,561	3,152	1,811	3,819	4,898	91.2	28.3	9,703	10,527	8
Changes in Inventories, WIP & SIP	523	2	2,985	(1,728)	(1,584)	(402.7)	(8.3)	1,725	(327)	(119)
Total Raw Material Cost	13,725	14,146	9,676	14,697	19,642	43.1	33.6	44,186	44,015	(0)
Staff Expenditure	2,209	2,004	1,778	2,159	2,372	7.4	9.8	7,064	6,308	(11)
Advertisement and Sales Promotion	773	325	61	194	514	(33.6)	165.3	2,885	768	(73)
Other Expenses	3,330	3,256	2,004	3,326	4,125	23.9	24.0	10,251	9,454	(8)
EBITDA	2,696	2,445	1,316	4,219	5,101	89.2	20.9	7,842	10,636	36
Depreciation	553	625	604	591	644	16.5	9.0	1,555	1,839	18
EBIT	2,143	1,819	712	3,628	4,457	108.0	22.8	6,287	8,797	40
Other Income	247	208	322	795	390	58.2	(50.9)	922	1,507	63
Interest	53	46	167	173	152	188.6	(12.1)	151	492	225
PBT	2,337	1,981	866	4,251	4,695	100.9	10.5	7,058	9,812	39
Tax	330	204	227	987	1,194	262.3	20.9	1,484	2,407	62
Net Profit	2,008	1,777	640	3,264	3,501	74.4	7.3	5,575	7,405	33
Reported EPS	3.2	2.8	1.0	5.2	5.6	74.4	7.3	8.9	11.8	32.8
Operating Cost as a % of Sales						bps	bps			bps
Raw Material Cost	60.4	63.8	65.2	59.8	61.9	148.5	210.5	61.2	61.8	65.9
Staff Cost	9.7	9.0	12.0	8.8	7.5	(224.8)	(130.9)	9.8	8.9	(91.8)
Other Expenses	14.6	14.7	13.5	13.5	13.0	(165.9)	(53.4)	14.2	13.3	(91.1)
Margins (%)										
GM	39.6	36.2	34.8	40.2	38.1	(148.5)	(210.5)	38.8	38.2	(65.9)
EBITDA	14.6	14.7	13.5	13.5	13.0	(165.9)	(53.4)	14.2	13.3	(91.1)
EBIT	9.4	8.2	4.8	14.8	14.0	460.8	(71.7)	8.7	12.4	365.4
PBT	10.3	8.9	5.8	17.3	14.8	450.6	(249.6)	9.8	13.8	401.3
NPM	8.8	8.0	4.3	13.3	11.0	219.6	(224.2)	7.7	10.4	268.5

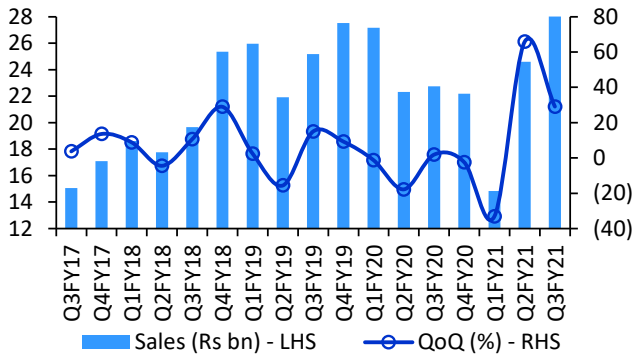
Source: Company, DART

Exhibit 4: Segment Performance

Revenue	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	YoY (%)	QoQ(%)	YTD FY20	YTD FY21	YoY(%)
Switchgear	3,309	3,027	1,902	3,703	4,371	32.1	18.1	10,367	9,976	(4)
Cable and Wire	7,121	6,823	4,611	7,847	9,052	27.1	15.4	23,119	21,510	(7)
Electirc and Consumer Durables	5,359	4,177	3,017	5,799	7,831	46.1	35.0	15,878	16,646	5
Others		1213	820	1719	1757	#DIV/0!	2.2	2,499	4,295	72
Lighting and Fixtures	2,794	2,356	1,423	2,723	3,626	29.8	33.2	7,897	7,772	(2)
Llyod Consumer Division	3,004	4,579	3,062	2,804	5,116	70.3	82.4	11,324	10,982	(3)
Total	21,587	22,174	14,834	24,595	31,752	47.1	29.1	71,083	71,181	0
EBIT										
Switchgear	875	670	291	1,150	1,372	56.9	19.4	2,579	2,813	9
Cable and Wire	767	666	366	1,118	1,026	33.9	(8.2)	2,655	2,510	(5)
Electirc and Consumer Durables	770	560	370	1,172	1,405	82.5	19.9	2,310	2,947	28
Electirc and Consumer Durables		(13)	(46)	141	70	-	(50.2)	(163)	165	(202)
Lighting and Fixtures	481	322	38	534	831	72.9	55.5	1,164	1,404	21
Llyod Consumer Division	(128)	85	64	51	309	(340.8)	511.3	(487)	423	(187)
EBIT Margin (%)										
Switchgear	26.4	22.1	15.3	31.0	31.4	495.4	34.9	24.9	28.2	331.6
Cable and Wire	10.8	9.8	7.9	14.3	11.3	57.1	(291.1)	11.5	11.7	18.6
Electirc and Consumer Durables	14.4	13.4	12.3	20.2	17.9	358.1	(226.0)	14.6	17.7	315.3
Others		(1.1)	(5.6)	8.2	4.0	400.2	(420.4)	(6.5)	3.8	1,036.0
Lighting and Fixtures	17.2	13.7	2.7	19.6	22.9	570.9	329.6	14.7	18.1	331.9
Llyod Consumer Division	(4.3)	1.9	2.1	1.8	6.0	1,030.2	423.4	(4.3)	3.9	815.1
Segment Capital employed										
Switchgear	3,496	3,223	3,560	3,284	3,089	(11.6)	(5.9)	3,496	3,089	(12)
Cable and Wire	4,536	3,874	6,150	5,526	5,765	27.1	4.3	4,536	5,765	27
Electirc and Consumer Durables	3,800	3,917	4,120	3,846	2,863	(24.7)	(25.6)	3,800	2,863	(25)
Others		1,011	1,079	1,018	1,255	-	23.2	0	1,255	-
Lighting and Fixtures	2,887	2,772	3,086	2,884	2,724	(5.7)	(5.6)	2,887	2,724	(6)
Llyod Consumer Division	21,993	20,208	20,317	20,260	20,820	(5.3)	2.8	21,993	20,820	(5)
Unallocated	6,709	8,111	5,529	10,280	14,082	109.9	37.0	6,709	14,082	110

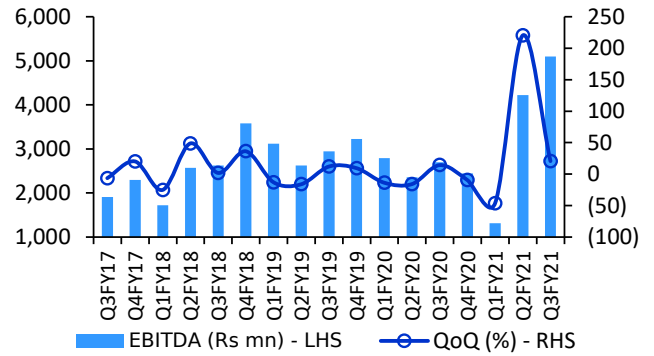
Source: Company, DART

Exhibit 5: Sales and QoQ growth (%)



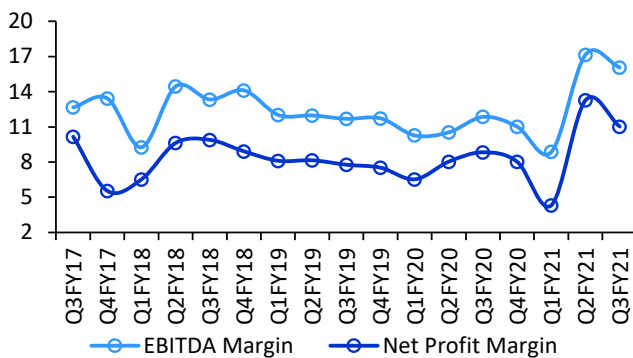
Source: Company

Exhibit 6: EBITDA and Growth (%)



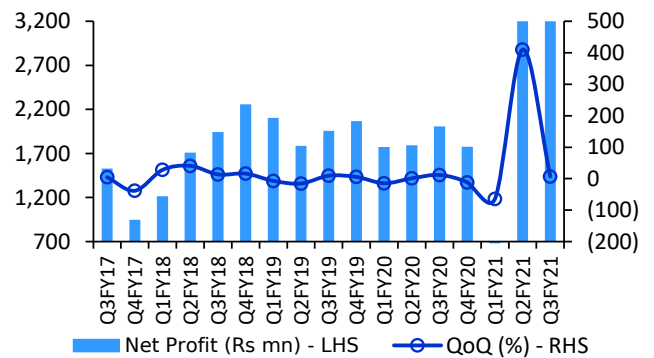
Source: Company

Exhibit 7: Trend in Margin (%)



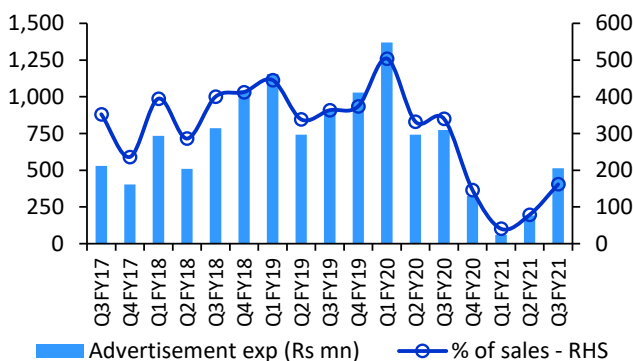
Source: Company

Exhibit 8: Net profit and QoQ growth (%)



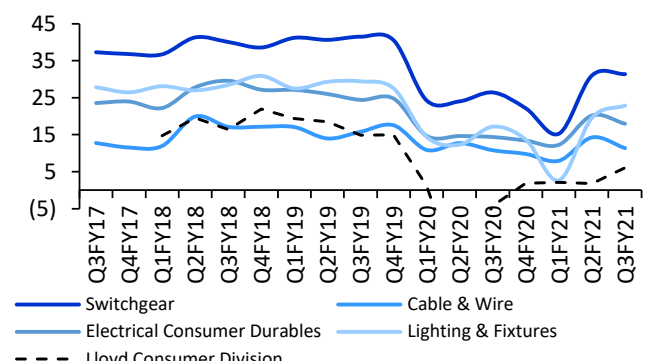
Source: Company

Exhibit 9: Advertisement Exp % to sales



Source: Company

Exhibit 10: Segment EBIT Margin (%) trend



Source: Company

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	94,403	97,865	117,438	136,315
Total Expense	84,116	83,772	100,527	116,276
COGS	58,332	59,698	71,637	83,152
Employees Cost	9,067	9,395	10,100	10,633
Other expenses	16,717	14,680	18,790	22,492
EBIDTA	10,287	14,093	16,911	20,038
Depreciation	2,180	2,317	2,450	2,568
EBIT	8,107	11,775	14,461	17,471
Interest	197	636	211	273
Other Income	1,134	1,957	1,762	2,045
Exc. / E.O. items	0	0	0	0
EBT	9,044	13,097	16,011	19,243
Tax	1,688	3,296	4,030	4,843
RPAT	7,356	9,800	11,981	14,399
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	7,356	9,800	11,981	14,399

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	626	626	626	626
Minority Interest	0	0	0	0
Reserves & Surplus	42,490	46,988	55,058	65,546
Net Worth	43,116	47,614	55,683	66,172
Total Debt	0	0	0	0
Net Deferred Tax Liability	2,865	2,865	2,865	2,865
Total Capital Employed	45,981	50,479	58,549	69,037

Applications of Funds

Net Block	33,496	35,179	36,728	38,160
CWIP	861	861	861	861
Investments	0	489	587	682
Current Assets, Loans & Advances	36,164	36,033	45,510	58,309
Inventories	18,719	19,305	23,488	27,263
Receivables	2,417	5,362	7,078	8,216
Cash and Bank Balances	11,325	7,883	10,855	18,156
Loans and Advances	2,147	448	448	448
Other Current Assets	1,556	3,034	3,641	4,226
Less: Current Liabilities & Provisions	24,754	22,297	25,352	29,189
Payables	14,138	12,164	13,771	15,928
Other Current Liabilities	10,616	10,133	11,581	13,261
<i>sub total</i>				
Net Current Assets	11,410	13,736	20,158	29,120
Total Assets	45,981	50,479	58,549	69,037

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	38.2	39.0	39.0	39.0
EBIDTA Margin	10.9	14.4	14.4	14.7
EBIT Margin	8.6	12.0	12.3	12.8
Tax rate	18.7	25.2	25.2	25.2
Net Profit Margin	7.8	10.0	10.2	10.6
(B) As Percentage of Net Sales (%)				
COGS	61.8	61.0	61.0	61.0
Employee	9.6	9.6	8.6	7.8
Other	17.7	15.0	16.0	16.5
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	41.1	18.5	68.4	64.1
Inventory days	72	72	73	73
Debtors days	9	20	22	22
Average Cost of Debt	97.4			
Payable days	55	45	43	43
Working Capital days	44	51	63	78
FA T/O	2.8	2.8	3.2	3.6
(D) Measures of Investment				
AEPS (Rs)	11.8	15.7	19.1	23.0
CEPS (Rs)	15.2	19.4	23.1	27.1
DPS (Rs)	8.5	5.5	5.5	5.5
Dividend Payout (%)	72.3	35.1	28.7	23.9
BVPS (Rs)	68.9	76.1	89.0	105.7
RoANW (%)	17.3	21.6	23.2	23.6
RoACE (%)	16.5	21.6	22.4	23.0
RoAIC (%)	24.2	30.5	32.0	35.4
(E) Valuation Ratios				
CMP (Rs)	1130	1130	1130	1130
P/E	96.1	72.2	59.0	49.1
Mcap (Rs Mn)	707,154	707,154	707,154	707,154
MCap/ Sales	7.5	7.2	6.0	5.2
EV	695,829	699,271	696,299	688,998
EV/Sales	7.4	7.1	5.9	5.1
EV/EBITDA	67.6	49.6	41.2	34.4
P/BV	16.4	14.9	12.7	10.7
Dividend Yield (%)	0.8	0.5	0.5	0.5
(F) Growth Rate (%)				
Revenue	(6.3)	3.7	20.0	16.1
EBITDA	(13.1)	37.0	20.0	18.5
EBIT	(21.7)	45.3	22.8	20.8
PBT	(21.2)	44.8	22.3	20.2
APAT	(6.6)	33.2	22.3	20.2
EPS	(6.6)	33.2	22.3	20.2
Cash Flow				
(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	10,610	5,594	11,192	15,579
CFI	(5,170)	(4,489)	(4,098)	(4,094)
CFF	(7,015)	(4,547)	(4,122)	(4,184)
FCFF	5,440	1,594	7,192	11,579
Opening Cash	13,114	11,325	7,883	10,855
Closing Cash	11,325	7,883	10,855	18,156

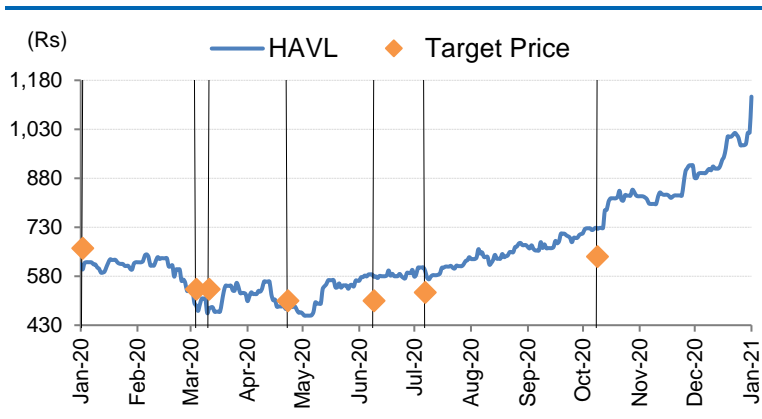
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jan-20	Accumulate	665	601
Mar-20	Reduce	540	490
Mar-20	Reduce	540	480
May-20	Reduce	504	511
Jun-20	Reduce	504	578
Jul-20	Sell	530	595
Oct-20	Sell	640	725

*Price as on recommendation date

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