

## Strong brand recall enabling healthy topline growth

Owing to renewed customer interest in cooking appliances (as people preferred home cooked food) Hawkins reported healthy topline growth of 20% YoY to ₹ 231 crore in Q3FY21. The company successfully launched a new range of pressure cookers and products like Tri-Ply stainless steel cookware. Further, Hawkins has enhanced its presence in online segment coupled with improved distribution and dealer reach. Gross margins for Q3FY21 declined 210 bps YoY to 56.8% owing to a change in channel mix and steady increase in raw material prices. We believe Hawkins has perked up its marketing spends during the quarter, which has led to other expenses increasing materially by 21% YoY to ₹ 70 crore. Employee expenses increased 16% YoY to ₹ 28.6 crore. Hence, EBITDA margins fell 216 bps YoY to 14.1%, with absolute EBITDA up 4% YoY to ₹ 32.6 crore. Due to higher cash & bank balance, other income was at ₹ 2.6 crore vs. ₹ 0.9 crore in Q3FY20. Ensuing PAT grew 8% YoY to ₹ 24.2 crore. Hawkins through its brand patronage (second largest player in pressure cooker segment) and healthy b/s is well placed to further consolidate its market positioning.

## Expect Hawkins to exit FY21 with positive growth momentum

The cooker & cookware industry saw a robust uptick in demand led by accentuated preference for home cooked food owing to the pandemic. Revenue trajectory for Hawkins also accelerated with the company nearly covering up its lost sales of Q1FY21 (30% YoY de-growth) by 9MFY21. Revenue for 9MFY21 is now marginally down 0.5% YoY to ₹ 525.1 crore. We believe higher discounting during initial quarters and change in channel mix may have led to gross margin contraction of 395 bps YoY to 52.0%. However, tight leash on operating expenses (down 6% YoY) resulted in EBITDA margin contraction of 194 bps YoY to 15.0% in 9MFY21. Ensuing PAT was at ₹ 56.7 crore for 9MFY21. It continues to maintain balance sheet strength through optimisation of working capital. Hawkins generated robust operating cash flow of ₹ 118 crore in H1FY21. The company had also declared interim dividend of ₹ 80/ share (which it had deferred in FY20).

## Valuation & Outlook

Before the pandemic struck, Hawkins was on a healthy growth trajectory with sales increasing 18%, 13% in FY19, 9MFY20, respectively. With improved demand scenario for cooking appliances, we expect momentum to sustain going forward and exit FY21E with positive revenue growth rate of 6% YoY and build in revenue CAGR of 12% in FY21-23E. Given fixed cost nature of the business (operating leverage) and ability to pass on increase in raw material prices, we expect earnings to grow at 16% CAGR in FY21-23E. We continue to remain structurally positive on Hawkins owing to its robust b/s and good promoter pedigree. Over the years, the company has maintained b/s prudence with controlled working capital cycle (20% of sales), non-leverage balance sheet and generating healthy RoCE of 55%+. The company has consistently maintained healthy dividend payouts with average ratio of ~75%. We reiterate our **BUY** rating on the stock with a revised target price of ₹ 6800 (33x FY23E EPS of ₹ 206, previous TP: ₹ 4900).



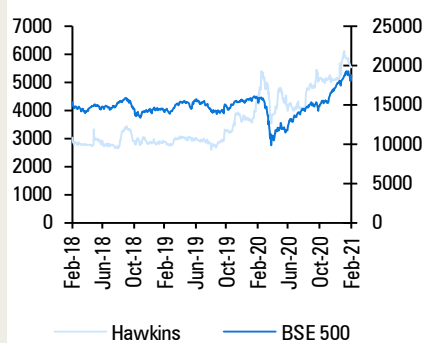
### Particulars

Particular	Amount
Market Capitalization (₹ crore)	3,068.2
Total Debt (FY20) (₹ crore)	28.1
Cash (FY20) (₹ crore)	48.5
EV (₹ crore)	3,047.8
52 week H/L (₹)	6200/3111
Equity capital (₹ crore)	5.3
Face value (₹)	10.0

### Key Risks

- Any significant raw material cost inflation can impact the margins negatively
- Lower than estimated revenue growth

### Price Chart



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**Exhibit 1: Financial Performance**

<b>(Year-end March)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
Revenues (₹ crore)	652.8	673.9	714.3	807.2	896.0
Growth	18.1	3.2	6.0	13.0	11.0
EBITDA (₹ crore)	86.2	103.9	109.9	130.0	148.4
EBITDA (%)	13.2	15.4	15.4	16.1	16.6
Net Profit (₹ crore)	54.2	72.5	81.4	95.2	109.0
<b>Balance Sheet</b>					
Equity (₹ crore)	5.3	5.3	5.3	5.3	5.3
Net worth (₹ crore)	118.6	139.7	179.1	221.2	258.3
Total Debt (₹ crore)	28.3	28.1	15.0	15.0	15.0
<b>Ratios</b>					
RoNW (%)	45.7	51.9	45.5	43.0	42.2
RoCE (%)	55.9	59.2	54.1	52.9	52.4
Earnings per share (₹)	102.5	137.2	154.0	180.0	206.2
Debt/Equity (x)	0.2	0.2	0.1	0.1	0.1
Dividend per share (₹)*	80.0	-	180.0	135.0	154.6
Dividend Payout (%)	78.0	-	116.9	75.0	75.0
P/E (x)	56.6	42.3	37.7	32.2	28.1
Mcap/Sales (x)	4.7	4.6	4.3	3.8	3.4

Source: Company, ICICI Direct Research. Company did not declare dividend in FY20 owing to uncertainties, however declared interim dividend in Q1FY21 and we expect company to declare final dividend as well for FY21E.

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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