

Havells India

 Estimate change 

 TP change 

 Rating change 
CMP: INR1,132
TP: INR1,100 (-3%)
Neutral

Strong beat led by supply-side disruption

Market share gains across categories; ad spends yet to normalize

- Havells (HAVL)'s revenue came in 18% above our estimates, supported by (a) strong pre-buying prior to price hikes across categories, (b) market share gains (at the cost of the unorganized sector), (c) a strong performance from Lloyd – owing to the shift to own manufacturing, which provides the ability to supply to the market v/s outsourcing brands (Voltas is an exception to this as the company had INR10b worth of inventory at Sep'20-end). With costs such as ad spends yet to normalize, adj. PAT grew 75% YoY, 29% ahead of our expectation.
- The B2C and Residential portfolio did exceedingly well with 40% growth, while B2B (Industrial and Infra) saw growth in the mid-teens. Adj. for the low base of last year, **the two-year revenue CAGR is back in the double digits at ~12%**. While retail sales trailed primary sales in 3Q, we expect it to catch up subsequently. Also, with price hikes in place now, we expect revenues to sustain double-digit growth hereafter – although, we may see a marginal dip in volume offtake for around a month or some normalization of supply-side disruption for the unorganized sector.
- With likely improvement in the demand outlook (as economic growth picks up), we increase our earnings assumption by 16–20% over FY21–23E. While the near-term outlook remains strong on the demand front, our FY21–23E EPS CAGR stands at 15% (v/s a revenue CAGR of 17%). This is because FY21 is turning out to be a high-base year v/s the earlier expectation of a fairly low base. We maintain our **Neutral rating**, with TP of INR1,100 (earlier: INR850), based on a higher target PE multiple of 50x v/s 45x earlier.

Beat across parameters; ad spends remain muted

- Revenue grew 40% to INR31.7b, 18% ahead of our expectation. EBITDA grew 89% to INR5.1b and was 26% ahead of our expectation. The EBITDA margin expanded 420bps YoY to 16%. Ad spends stood at 1.6% of sales (v/s 3.4%). Adj. PAT grew 75% YoY to INR3.5b, coming in 29% ahead of our expectation. **Notably, 9MFY21 revenue is now almost flat at INR71b, while adj. PAT is up 25% to ~INR7b.**
- Segmental highlights:** (a) HAVL's core portfolio (ex-Lloyd) was up 35% YoY to INR26.5b. Cables and Wires grew 27% YoY, Switchgear +32%, Consumer Durables +46%, and Lighting +28%. (b) Lloyd demonstrated a robust performance with revenue growth of 70%. Lloyd's PBIT margins turned positive at 6% – a remarkable achievement in a lean season.

Key highlights from management commentary

- Input cost pressure has led to price hikes across categories – Domestic Cables: 15%, Domestic Switchgear: 5–7%, Consumer Durables: 5–12%. The Domestic Wires, Switchgear, and Consumer Durables categories are expected to witness further price hikes.

	HAVL IN
Bloomberg	
Equity Shares (m)	625
M.Cap.(INRb)/(USDb)	708.8 / 8.7
52-Week Range (INR)	1148 / 447
1, 6, 12 Rel. Per (%)	20/65/63
12M Avg Val (INR M)	1584

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	94.3	105.5	128.9
EBITDA	10.3	15.5	17.7
PAT	7.3	10.3	12.3
EBITDA (%)	10.9	14.7	13.7
EPS (INR)	11.7	16.5	19.6
EPS Gr. (%)	(6.9)	40.7	18.8
BV/Sh. (INR)	68.8	80.0	92.5

Ratios

Net D/E	(0.2)	(0.3)	(0.4)
RoE (%)	17.0	20.6	21.2
RoCE (%)	16.2	20.2	20.3
Payout (%)	87.5	36.0	36.0

Valuations

P/E (x)	96.6	68.7	57.8
P/BV (x)	16.5	14.1	12.2
EV/EBITDA (x)	67.9	44.5	38.8
Div Yield (%)	0.8	0.4	0.5
FCF Yield (%)	0.7	1.3	1.1

Shareholding pattern (%)

As On	Dec-20	Sep-20	Dec-19
Promoter	59.5	59.5	59.5
DII	8.6	10.1	6.1
FII	24.4	22.2	25.9
Others	7.6	8.2	8.5

FII Includes depository receipts

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- Across categories, pre-buying is observed before the likely price hikes. Market share gains are also seen from the unorganized sector, which is facing supply chain issues. Historical evidence suggests a large portion of the market share gains may turn out to be sticky.
- While secondary sales have rebounded handsomely following the easing of the lockdown, they are yet to pick up steam to match primary sales figures. Hence, it is difficult to comment on the sustainable growth rate at present.
- In the ECD segment, domestic appliances performed well in the rural markets; Water Heaters grew on a high base of last year, and growth in Fans was aided by pre-buying toward the end of Dec'20.
- Markets share gains have continued to accrue in 3QFY21 as well. Havells is a top 3 player across products and No.1 in heating products.
- Lloyd – The strong performance is attributable to a) the perceived change in industry dynamics, consequent to import prohibitions, b) better availability from own production, c) wider network coverage through regional retailers, and d) select pre-buying. While the management cautioned toward extrapolating Lloyd's performance from a lean season, it believes that structurally Lloyd is emerging as a key growth driver for the company, and in-house manufacturing has given strong impetus to growth. The PLI Scheme in the AC industry (details not out yet) should augur well for the company. Havells is also open to the concept of contract manufacturing to capture the export market – which could prove a game-changer.

Valuation and view

With likely improvement in the demand outlook as economic growth picks up, we increase our earnings assumption by 16–20% over FY21-23E. While the near-term outlook remains strong on the demand front, our FY21–23E EPS CAGR stands at 15% (v/s a revenue CAGR of 17%). This is because FY21 is turning out to be a high-base year v/s the earlier expectation of a fairly low base. We maintain our **Neutral rating**, with TP of INR1,100 (earlier: INR850), based on a higher target PE multiple of 50x v/s 45x earlier.

Quarterly Performance

(INR m)

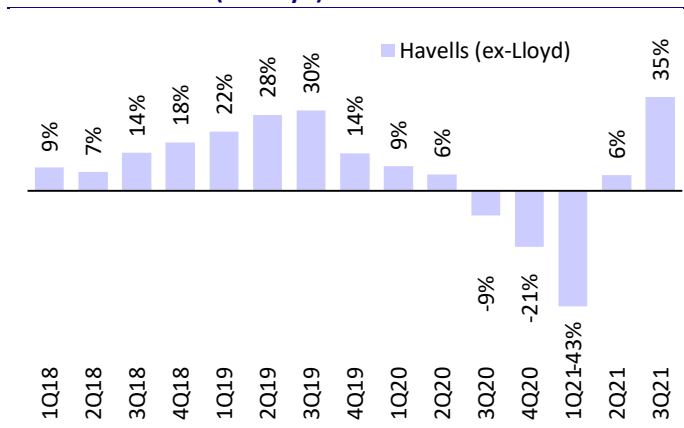
Y/E March	FY20				FY21E				FY20	FY21E	MOSL	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		3QE		
Sales	27,127	22,305	22,699	22,161	14,791	24,518	31,659	34,533	94,292	1,05,500	26,900	17.7%
Change (%)	4.5	1.8	-10.2	-19.5	-45.5	9.9	39.5	55.8	-6.3	11.9	18.5	
Adj EBITDA	2,781	2,350	2,690	2,453	1,309	4,207	5,081	4,943	10,274	15,539	4,022	26.3%
Change (%)	-10.9	-10.5	-8.6	-22.1	-52.9	79.0	88.9	101.5	-13.2	51.2	49.5	
Adj EBITDA margin (%)	10.3	10.5	11.8	11.1	8.8	17.2	16.0	14.3	10.9	14.7	14.9	
Depreciation	470	532	553	625	604	591	644	623	2,179	2,462	600	
Interest	47	51	53	46	167	173	152	109	197	600	150	
Other Income	395	290	239	195	322	364	392	306	1,120	1,384	350	
Extra-ordinary items	-	-	-	-	-	428	-	-	-	428	-	
PBT	2,659	2,058	2,324	1,977	860	3,808	4,677	4,517	9,017	13,861	3,622	29.1%
Tax	898	255	329	205	226	987	1,186	1,150	1,687	3,548	912	
Effective Tax Rate (%)	33.8	12.4	14.2	10.4	26.3	25.9	25.4	25.5	18.7	25.6	25.2	
Reported PAT	1,761	1,803	1,995	1,772	633	3,249	3,491	3,367	7,330	10,740	2,710	28.8%
Change (%)	-16.3	0.9	0.9	-11.7	-64.0	80.2	75.0	90.0	-6.9	46.5	35.9	
Adj PAT	1,761	1,803	1,995	1,772	633	2,821	3,491	3,367	7,330	10,312	2,710	28.8%
Change (%)	-16.3	0.9	0.9	-11.7	-64.0	56.5	75.0	90.0	-6.9	40.7	35.9	

Segmental Performance

(INR m)

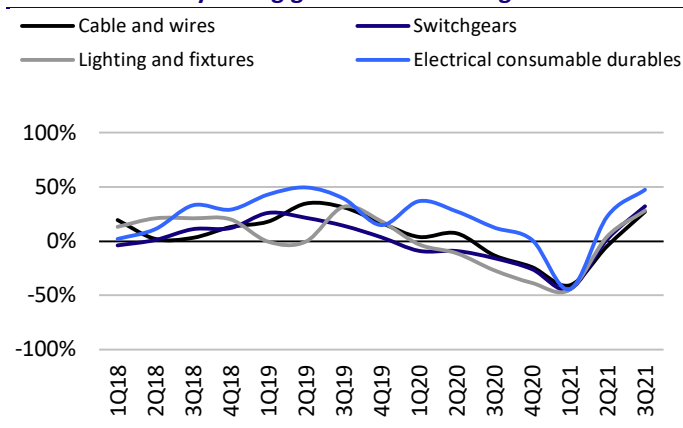
Y/E March	FY20				FY21E			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Sales								
Switchgear	3,419	3,638	3,309	3,027	1,902	3,703	4,371	4,525
Cables & Wires	7,785	8,213	7,121	6,823	4,611	7,847	9,052	10,490
Consumer Durable	6,898	6,119	6,505	5,389	3,836	7,518	9,587	8,559
Lighting & Fixtures	2,504	2,536	2,760	2,343	1,380	2,646	3,533	3,941
Lloyd Electric	6,520	1,800	3,004	4,579	3,062	2,804	5,116	7,018
% YoY								
Switchgear	(9.0)	(9.2)	(15.8)	(25.9)	(44.4)	1.8	32.1	49.5
Cables & Wires	3.8	7.2	(13.2)	(24.0)	(40.8)	(4.5)	27.1	53.8
Consumer Durable	36.8	27.3	12.4	1.1	(44.4)	22.9	47.4	58.8
Lighting & Fixtures	(3.1)	(11.2)	(27.0)	(38.6)	(44.9)	4.3	28.0	68.2
Lloyd Electric	(7.9)	(30.2)	(15.9)	(14.0)	(53.0)	55.8	70.3	53.3
Profit Contribution								
Switchgear	830	875	875	670	291	1,150	1,372	1,247
Cables & Wires	845	1,043	767	666	366	1,118	1,026	1,010
Consumer Durable	769	609	696	546	324	1,313	1,476	1,240
Lighting & Fixtures	357	308	464	329	29	521	811	766
Lloyd Electric	82	(440)	(128)	85	64	51	309	837
Contribution Margin (%)								
Switchgear	24.3	24.0	26.4	22.1	15.3	31.0	31.4	27.6
Cables & Wires	10.9	12.7	10.8	9.8	7.9	14.3	11.3	9.6
Consumer Durable	11.1	10.0	10.7	10.1	8.4	17.5	15.4	14.5
Lighting & Fixtures	14.2	12.1	16.8	14.0	2.1	19.7	23.0	19.4
Lloyd Electric	1.3	(24.5)	(4.3)	1.9	2.1	1.8	6.0	11.9

Exhibit 1: Havells' (ex-Lloyd) revenue increased 35% YoY...



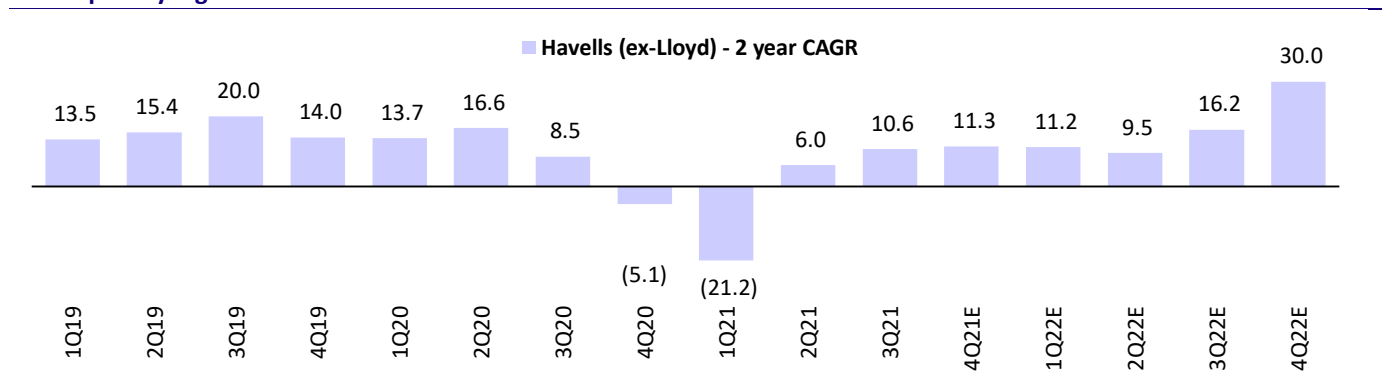
Source: MOFSL, Company

Exhibit 2: ...led by strong growth across categories



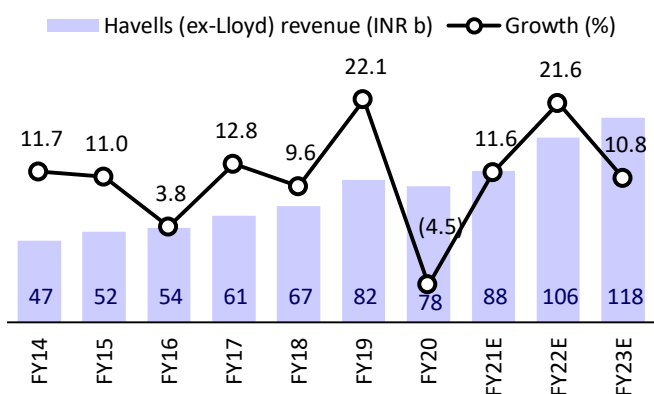
Source: MOFSL, Company

Exhibit 3: Two-year CAGR back in double digits and should sustain growth momentum hereafter; 4QFY22E two-year CAGR looks optically higher due to low base



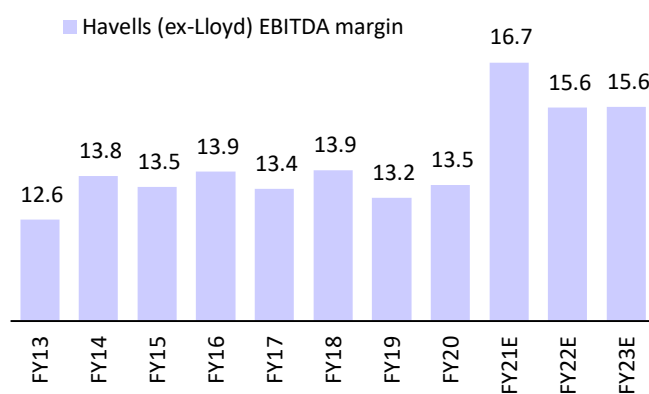
Source: MOSL, Company

Exhibit 4: Havells' (ex-Lloyd) revenue trend (INR b)



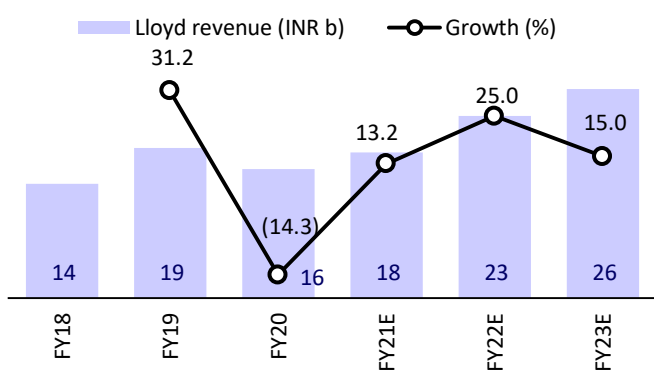
Source: MOFSL, Company

Exhibit 5: Havells' (ex-Lloyd) EBITDA margin trend



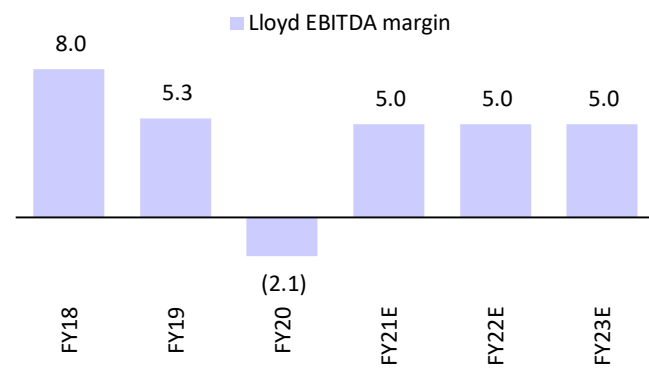
Source: MOFSL, Company

Exhibit 6: Lloyd's revenue trend (INR b)



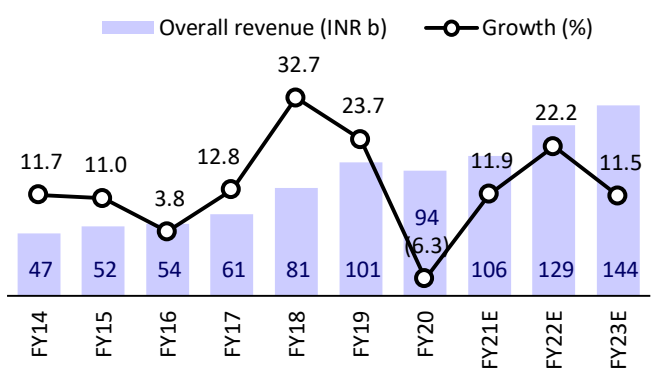
Source: MOFSL, Company

Exhibit 7: Lloyd's EBITDA margin trend (%)



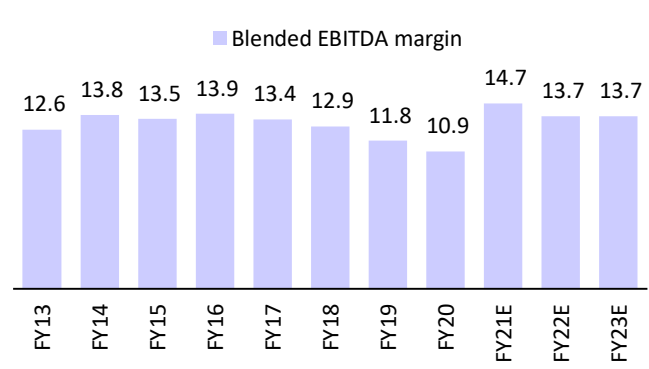
Source: MOFSL, Company

Exhibit 8: Overall revenue trend (INR b)



Source: MOFSL, Company

Exhibit 9: Blended margin trend (%)



Source: MOFSL, Company



3QFY21 conference call highlights

Trends in the sector

- Tepid demand from Real Estate over the years has slowly started to reverse; the market share shift that started in 2QFY21 has continued to date. Make in India is gaining traction owing to the government's higher focus to drive the initiative.

ECD

- Domestic appliances performed extremely well in the rural markets.
- Havells continued to retain the leadership position in Water Heaters and has grown on a high base of last year.

- Fans witnessed healthy growth, with some of the growth attributable to pre-buying at end-Dec'20.
- Water Purifiers – The company is continuing to expand distribution (exceeded INR1b in sales annually).

Lloyd

- Excluding pre-buying in the last week of Dec'20, retail buying has been healthy.
- Post Diwali, dealers have started stocking up on ACs (owing to price increase and the expectation of a good summer).
- The in-house manufacturing of ACs, new launches of refrigerators, and a revamped product portfolio of washing machines have led to a change in Lloyds' brand image.
- With recent changes in policy on the import side, the possibility of PLI in ACs, and the China +1 strategy, a further capacity build-up is likely in ACs (under discussion).

Price increase / Commodity price inflation

- Some products see direct impact from metal prices (cables and wires), while some see indirect impact (appliances).
- Price increase in Domestic Wires has been ~15% in 3QFY21, with a further price hike expected in 4QFY21.
- Domestic Switchgear has seen 5–7% price hike, while price hike in Industrial Motor and Switchgear is ~10% – some part of it was taken after 3QFY21.
- Price increase is not expected to affect demand. The trade channel may hold purchases for some time, but if demand returns strongly, the channel would resort to buying.
- Price hikes in Consumer Durables have been 5–12%. From Oct'20 to date, double-digit price increases have been observed, with some still underway.

Ad spends and margins

- **Ad spends:** In absolute terms, the company has started to grow its ad spends. Owing to higher sales, spends stand lower in percentage terms.
- 14–16% EBITDA should be achievable with healthy sales. The idea is to maintain contribution margins.

Market share gains

- The management thought initial market share gains may have been due to supply chain constraints. However, they have turned stickier owing to a change in consumer preferences post COVID.
- Havells is the Top 3 brand in almost all product categories, while it is No 1 in heating products.

Distribution

- Sales from the rural channel are growing fast (over 100% growth), largely on channel expansion in rural regions.

Earnings change and valuation

- **Change in estimates:** With likely improvement in the demand outlook as economic growth picks up, we increase our earnings assumption by 16–20% over FY21-23E.
- While the near-term outlook remains strong on the demand front, our FY21–23E EPS CAGR stands at 15% (v/s a revenue CAGR of 17%). This is because FY21 is turning out to be a high-base year v/s the earlier expectation of a fairly low base. We maintain our **Neutral rating**, with TP of INR1,100 (earlier: INR850), based on a higher target PE multiple of 50x v/s 45x earlier.

Exhibit 10: Earnings change summary

Earnings Change INR m	Old			New			Change		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	95,500	1,13,000	1,27,870	1,05,500	1,28,900	1,43,776	10%	14%	12%
EBITDA	13,329	14,842	16,912	15,539	17,671	19,662	17%	19%	16%
EBITDA margin	14.0%	13.1%	13.2%	14.7%	13.7%	13.7%	0.8%	0.6%	0.4%
Adj. PAT	8,729	10,168	11,834	10,312	12,251	13,744	18%	20%	16%

Source: MOFSL, Company

Financials and valuations

Income Statement						(INR m)
Y/E March	2018	2019	2020	2021E	2022E	2023E
Net Sales	81,386	1,00,677	94,292	1,05,500	1,28,900	1,43,776
Change (%)	32.7	23.7	-6.3	11.9	22.2	11.5
EBITDA	10,493	11,838	10,274	15,539	17,671	19,662
% of Net Sales	12.9	11.8	10.9	14.7	13.7	13.7
Depreciation	1,395	1,494	2,179	2,462	2,654	2,890
Interest	240	161	197	600	200	200
Other Income	1,170	1,278	1,120	1,384	1,554	1,795
PBT	10,028	11,461	9,017	13,861	16,371	18,366
Tax	3,022	3,588	1,687	3,548	4,121	4,623
Rate (%)	30.1	31.3	18.7	25.6	25.2	25.2
Extra-ordinary Inc.(net)	119	0	0	428	0	0
Reported PAT	7,125	7,873	7,330	10,740	12,251	13,744
Change (%)	32.2	10.5	-6.9	46.5	14.1	12.2
Adjusted PAT	7,006	7,873	7,330	10,312	12,251	13,744
Change (%)	17.4	12.4	-6.9	40.7	18.8	12.2

Balance Sheet						(INR m)
Y/E March	2018	2019	2020	2021E	2022E	2023E
Share Capital	625	626	626	626	626	626
Reserves	36,766	41,297	42,422	49,450	57,291	66,087
Net Worth	37,392	41,922	43,048	50,076	57,916	66,712
Loans	1,080	945	405	405	405	405
Deferred Tax Liability	2,070	3,168	2,865	2,865	2,865	2,865
Capital Employed	40,541	46,035	46,318	53,346	61,187	69,983
Gross Fixed Assets	34,113	34,027	40,479	42,979	46,979	50,979
Less: Depreciation	6,799	4,989	6,985	9,447	12,101	14,990
Net Fixed Assets	27,314	29,038	33,494	33,532	34,878	35,989
Capital WIP	241	2,327	861	861	861	861
Investments	955	17	16	16	16	16
Curr. Assets	36,905	39,875	36,107	45,677	57,557	68,667
Inventory	16,217	19,190	18,719	20,944	26,486	29,543
Debtors	3,254	4,242	2,489	2,785	3,402	3,795
Cash & Bank Balance	15,262	12,877	11,069	17,663	22,433	29,489
Loans & Advances	0	0	0	0	0	0
Other Current Assets	2,173	3,566	3,830	4,285	5,236	5,840
Current Liab. & Prov.	24,873	25,222	24,160	26,740	32,127	35,551
Creditors	16,340	15,601	14,141	15,822	19,331	21,562
Other Liabilities	6,754	7,264	7,564	8,463	10,340	11,533
Provisions	1,780	2,358	2,456	2,456	2,456	2,456
Net Current Assets	12,032	14,653	11,947	18,936	25,431	33,116
Application of Funds	40,541	46,035	46,318	53,346	61,187	69,983

Financials and valuations

Ratios

Y/E March	2018	2019	2020	2021E	2022E	2023E
Basic (INR)						
Adjusted EPS	11.2	12.6	11.7	16.5	19.6	22.0
Growth (%)	17.3	12.3	-6.9	40.7	18.8	12.2
Cash EPS	13.4	15.0	15.2	20.4	23.8	26.6
Book Value	59.8	67.0	68.8	80.0	92.5	106.6
DPS	3.5	4.0	8.5	4.9	5.9	6.6
Payout (incl. Div. Tax.)	37.6	38.3	87.5	36.0	36.0	36.0
Valuation (x)						
P/Sales	8.7	7.0	7.5	6.7	5.5	4.9
P/E	101.0	89.9	96.6	68.7	57.8	51.5
Cash P/E	84.2	75.6	74.5	55.5	47.5	42.6
EV/EBITDA	66.1	58.8	67.9	44.5	38.8	34.5
EV/Sales	8.5	6.9	7.4	6.6	5.3	4.7
Price/Book Value	18.9	16.9	16.5	14.1	12.2	10.6
Dividend Yield (%)	0.3	0.4	0.8	0.4	0.5	0.6
Profitability Ratios (%)						
RoE	18.7	18.8	17.0	20.6	21.2	20.6
RoCE	17.7	17.3	16.2	20.2	20.3	19.9
RoIC	26.1	21.4	18.7	27.3	29.0	31.0
Turnover Ratios						
Debtors (Days)	15	15	10	10	10	10
Inventory (Days)	73	70	72	72	75	75
Creditors (Days)	73	57	55	55	55	55
Asset Turnover (x)	2.0	2.2	2.0	2.0	2.1	2.1
Leverage Ratio						
Net Debt/Equity (x)	-0.4	-0.3	-0.2	-0.3	-0.4	-0.4

Cash Flow Statement

Y/E March	2018	2019	2020	2021E	2022E	2023E
(INR m)						
PBT before EO Items	10,028	11,468	9,216	14,289	16,371	18,366
Add : Depreciation	1,395	1,494	2,179	2,462	2,654	2,890
Interest	-249	-728	-535	-784	-1,354	-1,595
Less : Direct Taxes Paid	2,450	2,469	2,398	3,548	4,121	4,623
(Inc)/Dec in WC	-2,556	4,639	215	396	1,724	629
CF from Operations	11,281	5,126	8,248	12,023	11,826	14,409
(Inc)/Dec in FA	-15,888	-4,996	-3,592	-2,500	-4,000	-4,000
Free Cash Flow	-4,607	130	4,655	9,523	7,826	10,409
(Pur)/Sale of Investments	4,511	710	625	1,384	1,554	1,795
CF from Investments	-11,377	-4,287	-2,968	-1,116	-2,446	-2,205
(Inc)/Dec in Net Worth	147	135	313	0	0	0
(Inc)/Dec in Debt	-901	-209	-937	0	0	0
Less : Interest Paid	197	134	52	600	200	200
Dividend Paid	2,632	3,016	6,413	3,712	4,410	4,948
CF from Fin. Activity	-3,583	-3,224	-7,088	-4,312	-4,610	-5,148
Inc/Dec of Cash	-3,679	-2,385	-1,808	6,594	4,770	7,056
Add: Beginning Balance	19,375	15,262	12,877	11,069	17,663	22,433
Closing Balance	15,262	12,877	11,069	17,663	22,433	29,489

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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