

# Havells India Ltd.

Sensex	40,261
Nifty	11,814

## Key Stock Data

CMP	₹783.55
Market Cap	₹490.51bn
52W High/Low	827.7/447.2
Shares o/s (mn)	626
Bloomberg	HAVL:IN
NSE Code	HAVELLS
BSE Code	517354

## Shareholding Pattern (%) Sep'20

Promoter	59.5
DII	10.1
FII	22.2
Public & Others	8.2

(₹ mn)

Particulars	FY19	FY20	1HFY21
Revenues	100,677	94,292	39,309
EBITDA	11,838	10,274	5,515
EBITDA Margin (%)	11.8	10.9	14.0
Net Profit	7,873	7,330	3,881
EPS (₹)	12.6	11.7	5.7
DPS (₹)	4.5	4	
RoE (%)	19.9	17.3	
RoCE (%)	24.1	17.7	
P/E (x)	62.2	67.0	
EV/EBITDA (x)	37.2	42.9	
P/BV (x)	10.8	10.5	

Source: Company Filing, Way2wealth Research

## Key Result Highlights

- **ECD Segment registered strong growth of 18% YoY driven by consumer and residential product categories** – Revenue grew 10% YoY to ₹24.5bn in Q2FY21. The performance was driven by consumer and residential product categories (75% of total sales) with 15% YoY growth led by demand recovery. Consumer lighting grew by 15% YoY while domestic wires grew by 19%-20% YoY. Fans industry registered single digit growth, but the company grew faster than competition. The growth was aided by rural demand as well as e-commerce sales. Within the consumer and residential portfolio, rural forms 4% of total sales and has grown by 140% YoY. Similarly, e-commerce sales grew by 100% YoY and form 4-4.5% of B2C sales and likely to rise further. While industrial and infrastructure portfolio (25% of total sales) declined YoY, it is showing signs of revival. Industrial switchgears and professional luminaries revenue fell by 14% YoY. Among business segments, Lloyd grew by 56% YoY to ₹2.8bn (11% of total sales) while ECD grew 18% YoY to ₹5.8bn (24% of total sales). Growth was modest in lighting at 4% YoY to ₹2.6bn (11% of total sales) and switchgears at 2% YoY to ₹3.7bn (15% of total sales). Cable segment sales fell 5% YoY to ₹7.8bn (32% of total sales). The company is implementing an O2O model (online to offline) to integrate both channels and currently has 1,100 distributors on its platform. Higher rural sales (up 140% YoY), increased distribution reach to tier II/III towns, efficient supply chain and market share gains from both smaller organized and unorganized players were the main contributing factors for better-than-anticipated recovery.
- **Strong EBITDA margins led by aggressive cost cuts** – While gross margin rose 90bps YoY to 40.2%, EBITDA margin jumped by 670bps YoY to 17.2%, led by lower discretionary costs. Contribution margins for lighting/switchgears rose 760bps/700bps YoY to 19.7%/31%. ECD margin rose 560bps YoY to 20.2%. Cable segment margin was up 160bps YoY at 14.3%. the company was able to post strong EBITDA margin of 17.2%. Q2FY21 margins were at an all-time high which may normalize going forward as RM costs increase and other spends such as employee expenses and ad-spends normalize. Higher-than expected cost rationalization and other income (up 171% YoY) led to healthy EBIT margin of 14.7% (up 660 bps YoY). Other income included one-time gain of ~₹430mn on account of sale of unutilized land and building.
- **Consumer and residential portfolio** – 75% of the total revenues came from B2C. ECD segment is leading the revival of the B2C business. 70% of switchgears business and 50% of cables and wires business is B2C. No down-trading is being observed for electricals and appliances business as per the management. Sharper decline witnessed in cables as compared to switchgear. Fans grew faster than rest ECD category. In the Infrastructure and industrials portfolio ~25% of the revenues come from this B2B business. It is at 85-86% of last year levels.
- **Lloyd's growth supported by washing machines & refrigerators** – Lloyd revenue grew by 56% YoY to ₹2.8bn. Growth was led by ACs and supported by washing machines and recently launched refrigerators. Contribution margin in Q2FY21 stood at 1.8%, down 30bps QoQ. The company believes that it has changed the trade perception of brand Lloyd after setting up its in-house AC manufacturing plant. In erstwhile Lloyd, 95% of the sales were accounted by distributors, which has now reduced to 65%. The remaining 35% comes from modern retail now. The management stated that it is not playing the pricing game in Lloyd and is not offering higher incentives to general trade or e-commerce
- **Capex** – ₹800mn already spent in 1HFY21 and target capex of ₹3.3bn for FY21. In FY22, the company will expand capacity in existing facilities with spends around ₹2.5-3bn, but might review if new product categories gets introduced.

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- **Working capital** – The dealers have become more cautious and disciplined. Inventory maintained is lower than normal levels as dealers focused on working capital management. Trade payables days reduced from 46 (in Q2FY20) to 42 due to timely payments to vendors.
- **Distribution channel** – Havells has more than 10,000 traditional distributors and retailers. The company also sells to dedicated online merchants like Cludtail and is trying to work on online-to-offline model of commerce (O2O) with order placements and orders being done online and last mile delivery by distributors. It managed to onboard 1100 distributors. But sales build-up will take time.

## View

Q2FY21 performance of electrical goods companies have seen some common trends: swift revenue recovery in B2C segments driven by share gains, modern trade plus e-commerce, possibly some pent-up demand, high margins low discounts, low commodity prices, low ad spends and cost rationalizations. However, the current valuations at 67x FY20 earnings it is pricey. **Hence, post the 17% rally in the past two months we recommend to Accumulate on Dips for the stock with fair value of ₹725-750.**

### Financial Performance

(₹mn)								
Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	1HFY21	1HFY20	YoY (%)
<b>Revenues</b>	<b>24,518</b>	<b>22,306</b>	<b>9.9</b>	<b>14,791</b>	<b>65.8</b>	<b>39,309</b>	<b>49,432</b>	<b>(20.5)</b>
Raw material costs	14,655	13,532	8.3	9,661	51.7	24,316	30,488	(20.2)
Staff costs	2,145	2,396	(10.5)	1,765	21.5	3,910	4,812	(18.7)
Advertisement spend	194	742	(73.9)	61	218.0	255	2,112	(87.9)
Other expenses	3,317	3,285	1.0	1,996	66.2	5,313	6,890	(22.9)
<b>EBITDA</b>	<b>4,207</b>	<b>2,351</b>	<b>78.9</b>	<b>1,308</b>	<b>221.6</b>	<b>5,515</b>	<b>5,130</b>	<b>7.5</b>
EBITDA Margin (%)	17.2	10.5		8.8		14.0	10.4	
Depreciation	591	532	11.1	604	(2.2)	1,195	1,002	19.3
Interest costs	173	51	239.2	167	3.6	340	99	243.4
Other income	792	290	173.1	322	146.0	1,114	686	62.4
PBT	4,235	2,058	105.8	859	393.0	5,094	4,715	8.0
Tax	987	255	287.1	226	336.7	1,213	1,153	5.2
<b>Net Profit</b>	<b>3,248</b>	<b>1,803</b>	<b>80.1</b>	<b>633</b>	<b>413.1</b>	<b>3,881</b>	<b>3,562</b>	<b>9.0</b>
EPS (₹)	5.2	2.9		1.0		5.7	6.2	

Source: Company Filing, Way2wealth Research

### Segmental Performance

(₹ mn)									
Revenue	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY(%)	QoQ(%)
Switchgear	4,085	3,419	3,638	3,713	3,027	1,902	3,703	1.8	94.7
Cables & Wires	8,979	7,785	8,213	7,121	6,823	4,611	7,847	(4.5)	70.2
Lighting & Fixtures	3,312	2,504	2,536	2,919	2,343	1,380	2,646	4.3	91.7
Electrical Consumer Durable (ECD)	5,331	5,616	4,902	5,814	4,177	3,017	5,799	18.3	92.2
Lloyd Electric	5,324	6,520	1,800	3,004	4,579	3,062	2,804	55.8	(8.4)
Other	504	1,282	1,217	127	1,213	820	1,719	41.2	109.6
<b>Total</b>	<b>27,535</b>	<b>27,126</b>	<b>22,306</b>	<b>22,698</b>	<b>22,162</b>	<b>14,792</b>	<b>24,518</b>	<b>9.9</b>	<b>65.8</b>

Revenue Mix (%)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Switchgear	14.8	12.6	16.3	16.4	13.7	12.9	15.1
Cables & Wires	32.6	28.7	36.8	31.4	30.8	31.2	32.0
Lighting & Fixtures	12.0	9.2	11.4	12.9	10.6	9.3	10.8
Electrical Consumer Durable (ECD)	19.4	20.7	22.0	25.6	18.8	20.4	23.7
Lloyd Electric	19.3	24.0	8.1	13.2	20.7	20.7	11.4
Other	1.8	4.7	5.5	0.6	5.5	5.5	7.0

Segment-wise contribution	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY(%)	QoQ(%)
Switchgear	1,605	830	875	1,479	670	291	1,150	31.4	295.2
Cables & Wires	1,575	845	1,043	1,248	666	366	1,118	7.2	205.5
Lighting & Fixtures	982	357	308	894	329	29	521	69.2	1,696.6
Electrical Consumer Durable (ECD)	1,372	823	717	1,426	560	370	1,172	63.5	216.8
Lloyd Electric	798	82	(440)	236	85	64	51	(111.6)	(20.3)
Other	-	(54)	(109)	70	(13)	(46)	141	(229.4)	(406.5)
<b>Total</b>	<b>6,332</b>	<b>2,883</b>	<b>2,394</b>	<b>5,353</b>	<b>2,297</b>	<b>1,074</b>	<b>4,153</b>	<b>73.5</b>	<b>286.7</b>

Segment-wise EBIT margin (%)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Switchgear	39.3	24.3	24.1	39.8	22.1	15.3	31.1
Cables & Wires	17.5	10.9	12.7	17.5	9.8	7.9	14.2
Lighting & Fixtures	29.6	14.3	12.1	30.6	14.0	2.1	19.7
Electrical Consumer Durable (ECD)	25.7	14.7	14.6	24.5	13.4	12.3	20.2
Lloyd Electric	15.0	1.3	(24.4)	7.9	1.9	2.1	1.8
Other	-	(4.2)	(9.0)	55.1	(1.1)	(5.6)	8.2

Source: Company Filing, Way2wealth Research

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Name of the Security	Havells India Ltd.
Name of the analyst	Jayakanth Kasthuri
Analysts' ownership of any stock related to the information contained Financial Interest Analyst : Analyst's Relative : Yes / No Analyst's Associate/Firm : Yes/No	NIL  No Yes No
Conflict of Interest	No
Receipt of Compensation	No
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