

Havells India Ltd.

Nifty 11,627
Sensex 39,250

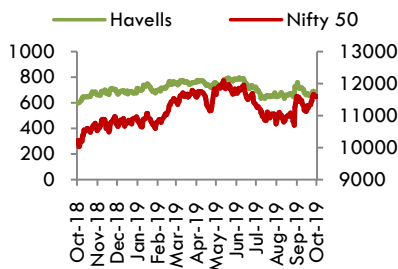
Key Stock Data

CMP	₹670
Target Price	₹750 (+12%)
Market Cap	₹419bn
52W High/ Low	₹807/589
Shares o/s mn	626
NSE Code	HAVELLS
BSE Code	517354
Bloomberg	HAVL IN

Shareholding Pattern (%)

Promoters	59.5
FII & DII	32.2
Public & Others	8.3

Comparison Chart



Year	FY19	FY20E	FY21E
Revenue	100,734	112,518	131,771
Growth %	21.8	11.7	17.1
EBITDA	11,844	14,402	17,921
EBITDA Margins %	11.8	12.8	13.6
PAT	7,855	10,395	12,962
EPS (₹)	12.6	16.6	20.7
P/E (x)	53.3	40.3	32.3

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Summary

Havells India Ltd (HAVELLS) reported muted growth of ~2% YoY and declined ~18% QoQ to ₹22,327mn due to sluggishness in demand primarily from Real estate, Industrial and Infra segment. ECD segment grew ~15% YoY with gain in market share. Lloyds and LED performance were the draggers for flat PAT at ₹1,795mn.

Key Result Highlights

- Revenue from operations grew ~2% YoY and declined 17.8% QoQ to ₹22,327mn. The muted growth was due to fall in demand from real estate, Industrials & Infra segment.
- As per the management with festive season coming up in Oct'19 it is witnessing improvement in demand.
- Raw material cost remained flat YoY and declined 20% QoQ to ₹13,577mn
- EBITDA declined 9.4% YoY and 15.7% QoQ to ₹2,354mn with staff expenses saw increase of 17% YoY to ₹2,412 and Advertisement spend expenses remained flat at ₹742mn
- EBITDA margins declined 144bps YoY and increased 27 bps QoQ to 10.5% due to increase in other expenses which grew ~7% YoY to ₹3,241mn
- Net Profit remained flat YoY and grew 1.4% QoQ to ₹1,771mn primarily due to fall in performance in Lloyds and Lighting & Fixtures.
- **Lloyds** revenues declined 30.2% YoY and 72.4% QoQ to ₹1,800mn with AC sales which contribute 50% of business as per the management is likely to remain tepid in Q3FY20. The average selling price was similar to last year even with decline in market share during 1HFY20.
- Also, with the dealer-distribution alignment taking place which as per the management likely to take time to settle.
- Refrigerators to be launched (manufactured using outsourcing model) in Q1FY21 with the existing distributor model.
- The management is looking out for more launches during 2HFY20 in the Lloyds washing machine segment.
- With the influx of Chinese LED brands into the market, the impact was felt for Lloyd's LED and the **Lighting & Fixtures** business which de-grew by 2% YoY and ~1% QoQ at ₹2,831mn leading to fall EBIT margins by 192 bps YoY and 171bps QoQ to 27.7%. In the LED panels the industry witnessed price decline of 25% YoY due the influx.
- Fall in professional luminaires products was also another reason for revenue decline even though the consumer luminaires products continue to grow.
- **Switchgear** topline declined ~1% YoY and grew 5.4% QoQ to ₹3,997mn primarily due to gain in market share in domestic residential segment while there was slowdown in Realty and Industrials space due to liquidity crunch. As per the management it is expanding product categories in the RIO brand
- **Cables & Wires** segment grew 7.2% YoY and 5.5% QoQ to ₹8,213mn with expected EBIT margin to be in the range of 15-17% for FY20.
- **Electrical Consumer Durables (ECD)** revenues grew ~15% YoY and declined ~12% QoQ to ₹5,506mn with major growth coming from the premium fans with all products under small domestic appliance (SDA) witnessing gain in market share resulting in being top 3 in most of the premium segments.
- As per the management with demand being benign the focus will be more on cost control and expansion towards rural areas.
- Likely capex of ₹3000mn for FY20 primarily for fans with most of it being brownfield.

View

With a relative weak 1HFY20 in the switchgear, Lloyds and lighting & fixtures business resulting from slowdown in realty and industrial space we have factored a reduced topline growth of 12-15% for FY20-21 compared to previous estimate of 18-20% for the same. We see the ECD to continue to perform well with improvement in private consumption due to festive season coming up and government initiatives to improve liquidity overall. With the full ramp up of Lloyd business including launch of washing machines from the new plant in FY21 we are likely to see major growth in FY21. The overall growth story for the company remains with CAGR earnings growth of ~29% over FY19-21E. We reduce our Revenue / EBITDA / PAT estimates by 4-6% for FY20-21 with a reduced **TP of ₹750 P/E 36x FY21E** and maintain our **BUY**.

Consolidated Financials

	Q2FY20	Q2FY19	VAR [%]	Q1FY20	VAR [%]
Revenue from Operations					
Raw Material Consumed	11,180	11,642	-4.0	11,069	1.0
Purchase of stock in trade	2,842	3,650	-22.1	4,253	-33.2
Stock Adjustment	-445	-1,791	75.1	1,647	-127
RMC as a %age of sales	60.8	61.7		62.5	
Employee Expenses	2,412	2,060	17.1	2,443	-1.3
EPC as a %age of sales	10.8	9.3		9.0	
Advertisement & Sales Promotion Expenses	742	741	0.1	1,370	-45.8
A&SP as a % of sales	3.3	3.4		5.0	
Other Expenses	3,241	3,309	6.6	3,595	-9.8
Other Expenses as a %age of sales	14.5	13.7		13.2	
EBIDTA	2,354	1,366.6	-9.4	2,792	-15.7
EBITDA Margins %	10.5	9.1		10.3	
Other Income	279	389	-28.3	396	-29.6
Depreciation	534	401	33.1	472	13.1
EBIT	1,821	2,198	-17.2	2,320	-21.5
Interest	51	39	32.5	47	-8.9
PBT	2,048	2,549	-19.6	2,669	-23.3
Tax	252	752	-66.5	898	-71.9
Profit After Tax	1,795	1,797	-0.1	1,771	1.4
EPS	2.9	2.9		2.8	

Segment Performance

	Q2FY20	Q2FY19	VAR [%]	Q1FY20	VAR [%]
REVENUES					
Switchgears	3,977	4,006	(0.7)	3,775	5.4
Cables	8,213	7,665	7.2	7,785	5.5
Lighting & Fixtures	2,831	2,888	(2.0)	2,853	(0.8)
Electrical Consumer Durables	5,506	4,805	14.6	6,235	(11.7)
Lloyd Consumer/ other	1,800	2,579	(30.2)	6,520	(72.4)
Total Segment Revenue	22,327	21,910	1.9	27,169	(17.8)
EBIT					
Switchgears	1,589	1,590	(0.1)	1,489	6.7
Margin %	39.9	38.5		39.5	
Cables	1,510	1,070	41.1	1,288	17.3
Margin %	18.4	14.0		16.5	
Lighting & Fixtures	785	852	(7.9)	840	(6.6)
Margin %	27.7	29.6		29.4	
Electrical Consumer Durables	1,383	1,287	7.5	1,729	(20.0)
Margin %	25.1	27.3		27.7	
Lloyd Consumer/ other	(42)	476	(108.7)	1,049	(104.0)
Margin %	(2.3)	18.5		16.1	

Financials

(₹ mn)

Income Statement	FY18	FY19	FY20E	FY21E
Total Revenues	82,690	100,734	112,518	131,771
Total Expense	72,255	88,891	98,116	113,850
Raw Matl.Cost	49,698	62,825	69,199	80,776
Employee Cost	6,595	8,417	9,226	10,673
Other Expenses	15,961	17,648	19,691	22,401
EBITDA	10,435	11,844	14,402	17,921
Depreciation	1,405	1,526	1,672	1,766
EBIT	9,031	10,317	12,731	16,155
Interest	248	163	189	282
Other Income	1,170	1,287	1,350	1,449
Exc. / E.O. items	(187)	0	0	0
PBT	9,773	11,441	13,892	17,322
Tax	3,038	3,583	3,497	4,360
Net Earnings (Loss) After Provision for Losses/write offs/ Tax (PAT)	6,610	7,855	10,395	12,962

(₹mn)

Balance Sheet	FY18	FY19	FY20E	FY21E
Sources of Funds				
Equity Capital	625	626	626	626
Reserves & Surplus	36,667	41,554	51,950	64,912
Minority Interest	77	0	0	0
Net Worth	37,292	42,180	52,575	65,538
Total Debt	884	405	1,260	2,820
Deferred Tax Liability (Net of Deferred Tax Assets)	2,117	3,203	3,203	3,203
Total Capital Employed	40,369	45,788	57,039	71,561
Applications of Funds				
Net Block	28,050	29,398	32,726	34,960
CWIP	241	2,327	1,327	827
Investments	0	0	0	0
Current Assets, Loans & Advances				
Inventories	16,330	19,190	20,962	23,466
Receivables	3,278	4,066	4,624	5,415
Cash and Bank Balances	15,787	13,160	16,247	24,604
Loans and Advances	284	477	301	301
Other Current Assets	2,137	3,271	1,771	1,771
Total: Current Assets, Loans & Advances	37,816	40,163	43,906	55,558
Current Liabilities & Provisions				
Payables	23,910	23,573	18,396	17,249
Provisions	1,826	2,527	2,524	2,535
Total: Current Liabilities & Provisions (-)	25,737	26,100	20,920	19,784
Net Current Assets	12,079	14,063	22,986	35,774
Total Assets	40,369	45,788	57,039	71,561

(₹mn)

Cash Flow Statement	FY18	FY19	FY20E	FY21E
Net Profit / (Loss) Before Tax	9,026	10,905	12,724	16,148
Depreciation	1,405	1,526	1,672	1,766
Net Interest	1,170	1,287	1,350	1,449
Direct Taxes Paid	(3,469)	(3,583)	(3,497)	(4,360)
Change in Working Capital (Non-Cash)	5,432	(4,611)	(5,835)	(4,431)
Other	1,518	654	3,568	3,924
(A) Net Cash Flow from Operating Activities	15,081	6,178	9,982	14,496
Capex {Inc./ (Dec.) in Fixed Assets n WIP}	(16,574)	(4,961)	(4,000)	(3,500)
Free Cash Flow	(1,493)	1,217	5,982	10,996
Inc./ (Dec.) in Investments	1,617	0	0	0
(B) Cash Flow from Investing Activities	(14,958)	(4,961)	(4,000)	(3,500)
Issue of Equity/ Preference	0	0	0	0
Inc./ (Dec.) in Debt	(1,200)	(479)	855	1,560
Interest exp net	(248)	(163)	(189)	(282)
Dividend Paid (Incl. Tax)	(2,633)	(3,203)	(3,561)	(3,917)
(C) Net Cash Flow from Financing Activities	(4,081)	(3,843)	(2,894)	(2,638)
Net Change in Cash	(3,958)	(2,626)	3,087	8,357
Opening Cash balances	19,745	15,787	13,160	16,247
Closing Cash balances	15,787	13,160	16,247	24,604

Ratios	FY18	FY19	FY20E	FY21E
(A) Margin (%)				
Gross Profit Margin	13.7	12.9	13.8	14.5
EBITDA Margin	12.6	11.8	12.8	13.6
EBIT Margin	10.9	10.2	11.3	12.3
Tax Rate	31.1	31.3	25.2	25.2
Net Profit Margin	8.0	7.8	9.2	9.8
(B) As Percentage of Net Sales				
COGS	60.1	62.4	61.5	61.3
Employee	8.0	8.4	8.2	8.1
Other	19.3	17.5	17.5	17.0
(C) Measures of Financial Status (x)				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	36.4	63.5	67.3	57.3
Average Cost of Debt	16.7%	25.2%	22.7%	13.8%
Debtors days	14	15	15	15
Inventory days	72	70	68	65
Payable days	72	57	55	43
Working Capital days	53	51	75	99
FA T/O	2.9	3.4	3.4	3.8
(D) Measures of Investment				
EPS (₹) (excl EO)	10.3	12.6	16.6	20.7
CEPS (₹)	12.8	15.0	19.3	23.5
DPS (₹)	4.2	5.1	5.7	5.5
Dividend Payout (%)	39.8	40.8	34.3	26.6
Profit Ploughback (%)	60.2	59.2	65.7	73.4
Book Value (₹)	59.7	67.4	84.0	104.7
RoANW (%)	18.8	19.8	21.9	21.9
RoACE (%)	26.6	26.9	27.4	27.4
RoAIC (%) (Excl Cash & Invest.)	49.7	40.6	38.4	40.1
(E) Valuation Ratios				
CMP (₹)	670	670	670	670
P/E (x)	63.4	53.3	40.3	32.3
Market Cap. (₹ Mn.)	419,223	419,223	419,223	419,223
MCap/ Sales (x)	5.1	4.2	3.7	3.2
EV (₹ Mn.)	404,320	406,469	404,236	397,439
EV/Sales (x)	4.9	4.0	3.6	3.0
EV/EBDITA (x)	38.7	34.3	28.1	22.2
P/BV (x)	11.2	9.9	8.0	6.4
FCF/ Yield (%)	(0.9)	(0.1)	1.3	2.6
Dividend/Yield (%)	0.6	0.8	0.8	0.8
EBITDA/OCF	0.7	1.9	1.4	1.2
EBITDA/Free cash flow	(7.0)	9.7	2.4	1.6

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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	No
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
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