

Havells India Ltd.

Nifty 12,180
Sensex 41,386

Key Stock Data

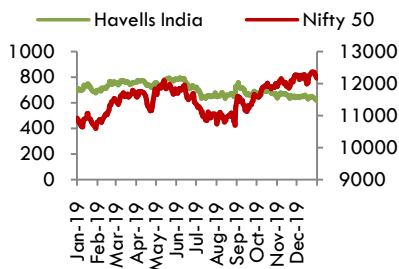
CMP ₹623
Target Price ₹677 (+9%)
Market Cap ₹389bn
52W High/ Low ₹807/589
Shares o/s mn 626

NSE Code HAVELLS
BSE Code 517354
Bloomberg HAVL IN

Shareholding Pattern (%)

Promoters 59.5
FII & DII 32.0
Public & Others 8.5

Comparison Chart



| Year | FY20E | FY21E | FY22E |
|------------------|---------|---------|---------|
| Revenue | 106,174 | 118,767 | 139,058 |
| Growth % | 5.4 | 11.9 | 17.1 |
| EBITDA | 12,210 | 14,965 | 18,773 |
| EBITDA Margins % | 11.5 | 12.6 | 13.5 |
| PAT | 8,705 | 10,663 | 13,667 |
| EPS (₹) | 13.9 | 17.0 | 21.7 |
| P/E (x) | 44.8 | 36.6 | 28.5 |

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Summary

Havells India Ltd (HAVELLS) topline declined ~10% YoY and grew ~2% QoQ to ₹22,733mn due to decline in demand across geographies, sectoral liquidity challenges and slowdown in infra segment impacting industrial cables, professional lighting and industrial switchgear sales. ECD segment grew ~1% YoY and ~6% QoQ with gain in market share. Sequentially Lloyds and ECD performed better resulting in PAT growth of ~3% YoY at ₹2,012mn.

Key Result Highlights

- Revenue from operations declined ~10% YoY and grew 1.8% QoQ to ₹22,733mn. The decline in topline was due to demand slow down resulting from deterioration in economic macros, sectoral liquidity challenges and lack of demand for industrial cables, professional lighting and industrial switchgear with infra activities being depressed.
- As per the management, the slowdown in demand was across geographies for the B2B & B2C segments. The B2B segments which contributes 30% of sales enabled by dealer networks saw major slowdown in the industrial cables, switchgears and luminaires products. Also, the management added that there were delays in payments to the electrical contractors and the environment continues to be challenging. In the B2C segment, the decline in sales was witnessed due to delayed winters resulting in subdued demand for water heaters and low inventory levels by the dealers-distributors for appliances facing liquidity issues.
- EBITDA declined 8.5% YoY and grew 14.5% QoQ to ₹2,696mn with staff expenses saw growth of ~5% YoY and 8.4% QoQ to ₹2,412mn and the advertisement spend expenses declined 15.5% YoY and grew 4.2% QoQ to ₹773mn. As per the management, the decline in staff expenses and Ad spend was part of the cost rationalisation (reworking of structures) measures and will continue to remain until volume improves.
- EBITDA margins grew marginally 16bps YoY and 131 bps QoQ to 11.9% due to decline in other expenses by 5.3% YoY (+1.3% QoQ) to ₹3,282mn and raw material cost which declined 12.6% YoY (grew 1.4% QoQ) to ₹13,773mn.
- Net Profit saw growth of ~3% YoY (+12.1% QoQ) to ₹2,012mn enabled by better performance sequentially in Lloyds and ECD segment.
- Even though **Lloyds** revenues declined ~16% YoY but grew 67% QoQ to ₹3,004mn with AC sales (which contributes 50%) and LED panel saw good growth on corrective steps taken in the supply chain and reduced dependence on Chinese imports. As per the management it is likely to witness better growth in Q4FY20 with refrigerators to be launched in Q1FY21 (manufactured using outsourcing model and distributed with the existing distributor model) and complete range of washing machine products.
- As per the management for Lloyds, the likely capacity utilisation is to be at 70% for the next three quarters with the focus to remove existing inventory.
- The **Lighting & Fixtures** business de-grew by 17.8% YoY and grew ~9% QoQ at ₹3,080mn leading to fall in EBIT margins by 441 bps YoY (+ 218bps QoQ) to 29.9% due lack of demand for professional luminaires products. As per the management the price erosion witnessed in previous quarters has subsided with consumer luminaires likely to witness low single digit growth and pickup in demand from government order in Q4FY20.
- **Switchgear** topline declined ~6% YoY and ~7% QoQ to ₹3,713mn primarily due to slowdown in Realty and Industrials space due to liquidity crunch. As per the management, the consumer circuit protection products are witnessing good demand.
- **Cables & Wires** revenues declined 13.2% YoY and 13.3% QoQ to ₹7,121mn with slowdown in demand for power cables. During the quarter as per the management, this segment witnessed volume degrowth of 20% with value growth of 5%.

- **Electrical Consumer Durables (ECD)** revenues grew marginally ~1% YoY and ~6% QoQ to ₹5,814mn primarily due to low offtake and lack of liquidity leading to lower stock levels at the dealers-distributor end. But the company gained market share during the quarter and is witnessing good growth with no major down trading happening for the economy products.
- As per the management with demand being benign, the focus will be more on cost control along with expansion towards rural areas as it has already appointed 1800 distributors and plans to take it upto 3000 distributors in the next three years.
- Capex guidance for FY20 at ₹5000mn.

View

With current slowdown in the industrial activity including the real estate space resulting in lack of demand for switchgears and cables & wires products and low offtake for ECD products we have factored a reduced topline growth of 5-6% for FY20 compared to our previous estimate of 12-15%. In the near term with depressed macros, the performance is likely to be impacted for the rest of FY20 but better performance for FY21 & FY22 is expected from the ECD and Lloyds products with improvement in private consumption (summer season coming up) and government initiatives to improve overall liquidity is likely to show better demand for industrial products. **For the medium to long term with the government push on infra the company's growth story remains intact and hence we maintain our BUY with a TP of ₹677 P/E 31x FY22E on the back of likely CAGR earnings growth of 20.3% over FY19-22E.**

Consolidated Financials

| | Q3FY20 | Q3FY19 | VAR [%] | Q2FY20 | VAR [%] |
|--|---------------|----------------|--------------|---------------|--------------|
| (₹mn) | | | | | |
| Revenue from Operations | 22,733 | 25,183 | -9.7 | 22,327 | 1.8 |
| Raw Material Consumed | 10,688 | 11,238 | -4.9 | 11,180 | -4.4 |
| Purchase of stock in trade | 2,561 | 6,342 | -59.6 | 2,842 | -9.9 |
| Stock Adjustment | 523 | -1,829 | 128.6 | -445 | 217.5 |
| RMC as a %age of sales | 60.6 | 62.5 | | 60.8 | |
| Employee Expenses | 2,209 | 2,108 | 4.8 | 2,412 | -8.4 |
| EPC as a %age of sales | 9.7 | 8.4 | | 10.8 | |
| Advertisement & Sales Promotion Expenses | 773 | 915 | -15.5 | 742 | 4.2 |
| A&SP as a % of sales | 3.4 | 3.6 | | 3.3 | |
| Other Expenses | 3,282 | 3,465 | 5.3 | 3,241 | 1.3 |
| Other Expenses as a %age of sales | 14.4 | 13.8 | | 14.5 | |
| EBIDTA | 2,696 | 1,366.6 | -9.4 | 2,354 | -15.7 |
| EBITDA Margins % | 11.9 | 11.7 | | 10.5 | |
| Other Income | 251 | 331 | -24.1 | 279 | -10.1 |
| Depreciation | 555 | 401 | 57.0 | 534 | 3.9 |
| EBIT | 2,141 | 2,592 | -17.4 | 1,821 | -21.5 |
| Interest | 53 | 36 | 47.8 | 51 | 2.3 |
| PBT | 2,048 | 2,887 | -19.6 | 2,048 | -23.3 |
| Tax | 326 | 931 | -65.0 | 252 | 29.2 |
| Profit After Tax | 2,012 | 1,956 | 2.9 | 1,795 | 12.1 |
| EPS | 3.2 | 3.1 | | 2.9 | |

Segment Performance

| | Q3FY20 | Q3FY19 | VAR [%] | Q2FY20 | VAR [%] |
|------------------------------|---------------|---------------|------------|---------------|---------------|
| (₹mn) | | | | | |
| REVENUES | | | | | |
| Switchgears | 3,713 | 3,929 | (5.5) | 3,977 | (6.6) |
| Cables | 7,121 | 8,203 | (13.2) | 8,213 | (13.3) |
| Lighting & Fixtures | 3,080 | 3,749 | (17.8) | 2,831 | 8.8 |
| Electrical Consumer Durables | 5,814 | 5,785 | 0.5 | 5,506 | 5.6 |
| Lloyd Consumer/ other | 3,004 | 3,572 | (15.9) | 1,800 | 67.0 |
| Total Segment Revenue | 22,327 | 25,183 | 1.9 | 22,327 | (17.8) |
| EBIT | | | | | |
| Switchgears | 1,479 | 1,599 | (7.5) | 1,589 | (6.9) |
| Margin % | 39.8 | 40.7 | | 39.9 | |
| Cables | 1,248 | 1,294 | (3.6) | 1,510 | (17.4) |
| Margin % | 17.5 | 15.8 | | 18.4 | |
| Lighting & Fixtures | 921 | 1,287 | (28.4) | 785 | 17.4 |
| Margin % | 29.9 | 34.3 | | 27.7 | |
| Electrical Consumer Durables | 1,496 | 1,445 | 3.6 | 1,383 | 8.2 |
| Margin % | 25.7 | 25.0 | | 25.1 | |
| Lloyd Consumer/ other | 236 | 531 | (55.6) | (42) | 666.6 |
| Margin % | 7.8 | 14.9 | | (2.3) | |

Financials

| | (₹ mn) | | | |
|---|----------------|----------------|----------------|----------------|
| Income Statement | FY19 | FY20E | FY21E | FY22E |
| Total Revenues | 100,734 | 106,174 | 118,767 | 139,058 |
| Total Expense | 88,891 | 93,964 | 103,802 | 120,285 |
| Raw Matl. Cost | 62,825 | 65,297 | 72,804 | 84,825 |
| Employee Cost | 8,417 | 10,087 | 10,808 | 12,168 |
| Other Expenses | 17,648 | 18,581 | 20,190 | 23,292 |
| EBITDA | 11,844 | 12,210 | 14,965 | 18,773 |
| Depreciation | 1,526 | 1,672 | 1,766 | 1,843 |
| EBIT | 10,317 | 10,538 | 13,199 | 16,930 |
| Interest | 163 | 180 | 256 | 161 |
| Other Income | 1,287 | 1,274 | 1,306 | 1,495 |
| Exc. / E.O. items | 0 | 0 | 0 | 0 |
| PBT | 11,441 | 11,633 | 14,249 | 18,264 |
| Tax | 3,583 | 2,928 | 3,586 | 4,597 |
| Net Earnings (Loss) After Provision for Losses/write offs/ Tax (PAT) | 7,855 | 8,705 | 10,663 | 13,667 |

| | (₹mn) | | | |
|--|---------------|---------------|---------------|---------------|
| Balance Sheet | FY19 | FY20E | FY21E | FY22E |
| Sources of Funds | | | | |
| Equity Capital | 626 | 626 | 626 | 626 |
| Reserves & Surplus | 41,554 | 50,259 | 60,922 | 74,588 |
| Net Worth | 42,180 | 50,885 | 61,548 | 75,214 |
| Total Debt | 405 | 1,197 | 2,560 | 1,651 |
| Deferred Tax Liability (Net of Deferred Tax Assets) | 3,203 | 3,203 | 3,203 | 3,203 |
| Total Capital Employed | 45,788 | 55,285 | 67,311 | 80,068 |
| Applications of Funds | | | | |
| Net Block | 29,398 | 32,726 | 34,960 | 36,617 |
| CWIP | 2,327 | 1,327 | 827 | 1,327 |
| Current Assets, Loans & Advances | | | | |
| Inventories | 19,190 | 19,780 | 21,150 | 24,764 |
| Receivables | 4,066 | 4,363 | 4,881 | 5,715 |
| Cash and Bank Balances | 13,160 | 14,910 | 21,685 | 28,756 |
| Loans and Advances | 477 | 301 | 301 | 301 |
| Other Current Assets | 3,271 | 1,771 | 1,771 | 1,971 |
| Total: Current Assets, Loans & Advances | 40,163 | 41,126 | 49,788 | 61,507 |
| Current Liabilities & Provisions | | | | |
| Payables | 23,573 | 17,370 | 15,729 | 16,638 |
| Provisions | 2,527 | 2,524 | 2,535 | 2,745 |
| Total: Current Liabilities & Provisions (-) | 26,100 | 19,894 | 18,264 | 19,383 |
| Net Current Assets | 14,063 | 21,232 | 31,524 | 42,124 |
| Total Assets | 45,788 | 55,285 | 67,311 | 80,068 |

(₹mn)

| Cash Flow Statement | FY19 | FY20E | FY21E | FY22E |
|--|----------------|----------------|----------------|----------------|
| Net Profit / (Loss) Before Tax | 10,905 | 10,531 | 13,192 | 16,923 |
| Depreciation | 1,526 | 1,672 | 1,766 | 1,843 |
| Net Interest | 1,287 | 1,274 | 1,306 | 1,495 |
| Direct Taxes Paid | (3,583) | (2,928) | (3,586) | (4,597) |
| Change in Working Capital (Non-Cash) | (4,611) | (5,418) | (3,517) | (3,529) |
| Other | 654 | 3,568 | 3,924 | 4,102 |
| (A) Net Cash Flow from Operating Activities | 6,178 | 8,699 | 13,084 | 16,236 |
| Capex {Inc./ (Dec.) in Fixed Assets n WIP} | (4,961) | (4,000) | (3,500) | (4,000) |
| Free Cash Flow | 1,217 | 4,699 | 9,584 | 12,236 |
| (B) Cash Flow from Investing Activities | (4,961) | (4,000) | (3,500) | (3,500) |
| Issue of Equity/ Preference | 0 | 0 | 0 | 0 |
| Inc./ (Dec.) in Debt | (479) | 792 | 1,364 | (910) |
| Interest exp net | (163) | (180) | (256) | (161) |
| Dividend Paid (Incl. Tax) | (3,203) | (3,561) | (3,917) | (4,095) |
| (C) Net Cash Flow from Financing Activities | (3,843) | (2,948) | (2,809) | (5,165) |
| Net Change in Cash | (2,626) | 1,751 | 6,775 | 7,071 |
| Opening Cash balances | 15,787 | 13,160 | 14,910 | 21,685 |
| Closing Cash balances | 13,160 | 14,910 | 21,685 | 28,756 |

| Ratios | FY19 | FY20E | FY21E | FY22E |
|---|---------|---------|---------|---------|
| (A) Margin (%) | | | | |
| Gross Profit Margin | 12.9 | 38.5 | 38.7 | 39.0 |
| EBITDA Margin | 11.8 | 11.5 | 12.6 | 13.5 |
| EBIT Margin | 10.2 | 9.9 | 11.1 | 12.2 |
| Tax Rate | 31.3 | 25.2 | 25.2 | 25.2 |
| Net Profit Margin | 7.8 | 8.2 | 9.0 | 9.8 |
| (B) As Percentage of Net Sales | | | | |
| COGS | 62.4 | 61.5 | 61.3 | 61.0 |
| Employee | 8.4 | 9.5 | 9.1 | 8.8 |
| Other | 17.5 | 17.5 | 17.0 | 16.8 |
| (C) Measures of Financial Status (x) | | | | |
| Gross Debt / Equity | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest Coverage | 63.5 | 58.7 | 51.6 | 105.2 |
| Average Cost of Debt | 25.2% | 22.4% | 13.6% | 7.6% |
| Debtors days | 15 | 15 | 15 | 15 |
| Inventory days | 70 | 68 | 65 | 65 |
| Payable days | 57 | 55 | 44 | 39 |
| Working Capital days | 51 | 73 | 97 | 111 |
| FA T/O | 3.4 | 3.2 | 3.4 | 3.8 |
| (D) Measures of Investment | | | | |
| EPS (₹) (excl EO) | 12.6 | 13.9 | 17.0 | 21.8 |
| CEPS (₹) | 15.0 | 16.6 | 19.9 | 24.8 |
| DPS (₹) | 5.1 | 5.7 | 5.5 | 5.8 |
| Dividend Payout (%) | 40.8 | 40.9 | 32.3 | 26.3 |
| Profit Ploughback (%) | 59.2 | 59.1 | 67.7 | 73.7 |
| Book Value (₹) | 67.4 | 81.3 | 98.4 | 120.2 |
| RoANW (%) | 19.8 | 18.7 | 19.0 | 20.0 |
| RoACE (%) | 26.9 | 23.4 | 23.7 | 25.0 |
| RoAIC (%) (Excl Cash & Invest.) | 40.6 | 32.4 | 33.7 | 38.0 |
| (E) Valuation Ratios | | | | |
| CMP (₹) | 623 | 623 | 623 | 623 |
| P/E (x) | 49.6 | 44.8 | 36.6 | 28.5 |
| Market Cap. (₹ Mn.) | 389,780 | 389,780 | 389,780 | 389,780 |
| MCap/ Sales (x) | 3.9 | 3.7 | 3.3 | 2.8 |
| EV (₹ Mn.) | 377,025 | 376,066 | 370,655 | 362,674 |
| EV/Sales (x) | 3.7 | 3.5 | 3.1 | 2.6 |
| EV/EBDITA (x) | 31.8 | 30.8 | 24.8 | 19.3 |
| P/BV (x) | 9.2 | 7.7 | 6.3 | 5.2 |
| FCF/ Yield (%) | (0.1) | 1.1 | 2.5 | 2.5 |
| Dividend/Yield (%) | 0.8 | 0.9 | 0.9 | 0.9 |
| EBITDA/OCF | 1.9 | 1.4 | 1.1 | 1.2 |
| EBITDA/Free cash flow | 9.7 | 2.6 | 1.6 | 1.5 |

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Disclosure of Interest Statement in Havells India Ltd. as on January 24, 2020

| | |
|--|--------------------|
| 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 |
| Investment Banking relationship with company covered | NIL |

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