

Havells India

BSE SENSEX	S&P CNX
39,020	11,583
Bloomberg	HAVL IN
Equity Shares (m)	625
M.Cap.(INRb)/(USDb)	419.2 / 5.9
52-Week Range (INR)	807 / 589
1, 6, 12 Rel. Per (%)	-11/-13/-3
12M Avg Val (INR M)	983
Free float (%)	40.5

Financials & Valuations (INR b)

Y/E Mar	2019	2020E	2021E
Net Sales	100.6	107.8	125.1
EBITDA	11.9	12.1	14.8
PAT	7.9	8.3	10.3
EPS (INR)	12.7	13.3	16.5
Gr. (%)	12.9	5.4	24.0
BV/Sh (INR)	67.8	76.4	86.9
RoE (%)	18.7	17.5	19.0
RoCE (%)	17.2	16.4	17.9
P/E (x)	52.9	50.2	40.5
P/BV (x)	9.9	8.8	7.7

Estimate change

TP change

Rating change



CMP: INR670

TP: INR730 (+9%)

Neutral

All-round disappointment; economic slowdown taking toll

- **A miss on revenue:** Havells (HAVL) disappointed on revenue growth for the third consecutive quarter in 2QFY20. Revenue growth was muted at 1.8% YoY (6% miss). While the gross margin expanded by 80bp YoY, the EBITDA margin shrank 150bp YoY to 10.5% on account of lower absorption of overheads. PBT was down 19% YoY to INR2.1b (22% miss). On account of a lower tax rate of 11.6%, PAT came in at INR1.8b (+1.5% YoY).
- **1H performance:** Revenue grew 3.2% YoY, while EBITDA fell 11.3% YoY to INR5.1b. PAT was down 8.7% YoY, despite the benefits from lower tax rates.
- **Economic slowdown impacts core portfolio:** Ex-Lloyd business, HAVL reported revenue growth of 6% YoY. Management attributed **flat growth in the Switchgears business** to the slowdown in the real estate market. **Cables & Wires** revenue growth was at 7% YoY. **Lighting business** continues witnessing price erosion and revenue was down 2% YoY. **ECD** delivered strong growth of 15% YoY, led by market share gains.
- **Lloyd revenue impacted by sharp fall in LED TV sales:** 2Q is a seasonally weak quarter for Lloyd and has a higher proportion of LED TV sales. Prices of LED TVs declined 25% YoY, and thus, Lloyd revenue was down 30% YoY to INR1.8b. Lloyd reported a loss at contribution level with the PBIT margin at -2.3% v/s 18.5% in 2QFY19. AC sales were flattish YoY. The company is looking to launch refrigerators in 1QFY21.
- **Near-term outlook challenging, but we build recovery from 4QFY20:** Although festive demand has started kicking in recently, the overall demand outlook remains weak, especially in the industrial and real estate related segments like cables and switchgears. Although HAVL's core portfolio growth of 7.6% in 1HFY20 was disappointing, it was off a high base of 23% growth last year. We have built in a recovery in growth trajectory from 4Q as the base will also become favorable thereon. **For the Lloyd business**, although the near term appears challenging, we believe the next summer season could be a real test as (a) current market share loss is also a function of conscious decision by management to let go big dealers and foray into MBOs and (b) with the new plant being operational, the benefits on margins and working capital would be key to watch out for. Overall, we have built in revenue growth of 7%/16% for FY20/21.
- **Focus on margin expansion:** EBITDA margin was impacted by high employee costs and higher ad spends, leading to a 230bp contraction in the blended EBITDA margin. HAVL will focus on cost rationalization and expects an improvement in margins from 4QFY20.
- **Cutting EPS estimates for FY20/21:** We cut our FY20/21 EPS estimates by 12%/10% to factor in lower revenue growth and margin assumption. Our FY19-21 EPS CAGR estimate now stands at 14.3% on the back of the revenue CAGR of 11.5% and the benefits from lower tax rates.
- **Lowering TP; maintaining Neutral stance:** On the back of our EPS cut, our TP is reduced to INR730 with an unchanged target Sep'21E P/E multiple of 40x. Maintain **Neutral** as we await a better entry point in the stock.

Quarterly Perf. (Standalone)

(INR M)

Y/E March	FY19				FY20E				FY19	FY20E	MOSL	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			1QE	(%)
Sales	25,963	21,910	25,184	27,519	27,120	22,303	26,949	31,380	1,00,576	1,07,752	23,803	-6.3%
Change (%)	39.5	23.3	28.1	8.6	4.5	1.8	7.0	14.0	23.6	7.1	8.6	
Adj EBITDA	3,123	2,625	2,946	3,229	2,757	2,341	3,099	3,914	11,922	12,110	2,737	-14.5%
Change (%)	81.1	2.2	12.3	-9.7	-11.7	-10.8	5.2	21.2	13.6	1.6	4.3	
Adj EBITDA margin %	12.0	12.0	11.7	11.7	10.2	10.5	11.5	12.5	11.9	11.2	11.5	
Depreciation	350	391	353	391	469	531	550	559	1,486	2,109	480	
Interest	26	37	36	61	47	51	50	51	159	200	40	
Other Income	292	343	331	310	397	292	325	335	1,276	1,349	400	
PBT	3,039	2,540	2,888	3,086	2,637	2,051	2,824	3,638	11,553	11,150	2,617	-21.7%
Tax	935	754	931	1,018	898	237	711	961	3,637	2,806	582	
Effective Tax Rate (%)	30.8	29.7	32.2	33.0	34.1	11.6	25.2	26.4	31.5	25.2	22.2	
Reported PAT	2,104	1,786	1,957	2,068	1,739	1,814	2,113	2,677	7,915	8,343	2,035	-10.9%
Change (%)	73.3	4.4	0.7	-8.4	-17.3	1.5	8.0	29.4	11.1	5.4	13.9	
Adj PAT	2,104	1,786	1,957	2,068	1,739	1,814	2,113	2,677	7,915	8,343	2,035	-10.9%
Change (%)	73.3	4.4	12.9	-11.9	-17.3	1.5	8.0	29.4	13.0	5.4	13.9	

Exhibit 1: Segmental performance snapshot

Y/E March	FY19				FY20				1QE	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales										
Switchgear	3,758	4,231	4,162	3,626	3,775	3,977	4,162	4,651	4,358	-8.7%
Cables & Wires	7,499	7,665	8,203	8,979	7,785	8,213	9,023	9,912	7,971	3.0%
Consumer Durable	5,042	4,579	5,552	5,790	6,235	5,506	6,663	6,753	5,495	0.2%
Lighting & Fixtures	2,583	2,856	3,695	3,800	2,804	2,808	4,065	4,163	3,142	-10.6%
Lloyd Electric	7,081	2,579	3,572	5,324	6,520	1,800	3,036	5,901	2,836	-36.6%
% YoY										
Switchgear	5.6	28.3	20.9	(8.1)	0.5	(6.0)	0.0	28	3.0	
Cables & Wires	4.2	34.6	31.1	16.8	3.8	7.2	10	10	4.0	
Consumer Durable	37.2	42.4	33.5	24.6	23.7	20.2	20	17	20.0	
Lighting & Fixtures	(5.1)	(0.4)	28.7	17.7	8.6	(1.7)	10	10	10.0	
Lloyd Electric	-	(4.4)	21.9	(8.8)	(7.9)	(30.2)	(15)	11	10.0	
Profit Contribution										
Switchgear	1,493	1,628	1,631	1,535	1,489	1,589	1,582	1,801	1,656	-4.1%
Cables & Wires	1,279	1,070	1,294	1,575	1,288	1,510	1,444	1,697	1,275	18.4%
Consumer Durable	1,423	1,250	1,412	1,442	1,729	1,383	1,766	1,788	1,484	-6.8%
Lighting & Fixtures	711	847	1,089	1,047	809	775	1,179	1,222	911	-14.9%
Lloyd Electric	1,370	476	531	798	1,049	(42)	-	891	454	NA
Contribution Margin (%)										
Switchgear	39.7	38.5	39.2	42.3	39.5	39.9	38.0	38.7	38.0	
Cables & Wires	17.0	14.0	15.8	17.5	16.5	18.4	16.0	17.1	16.0	
Consumer Durable	28.2	27.3	25.4	24.9	27.7	25.1	26.5	26.5	27.0	
Lighting & Fixtures	27.5	29.6	29.5	27.6	28.9	27.6	29.0	29.4	29.0	
Lloyd Electric	19.4	18.5	14.9	15.0	16.1	(2.3)	0.0	15.1	16.0	

Source: MOFSL, Company

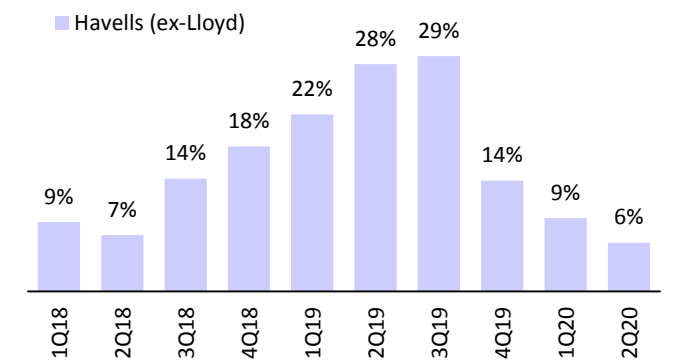
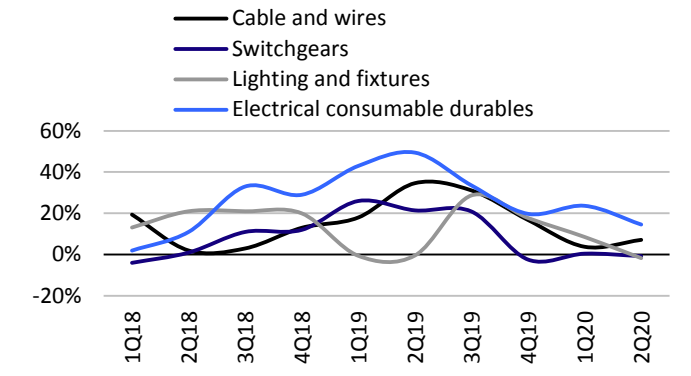
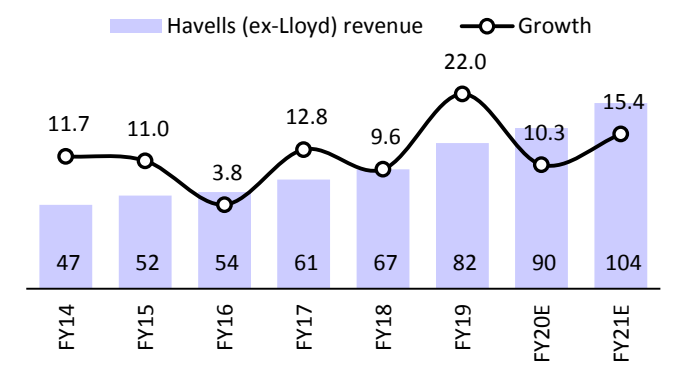
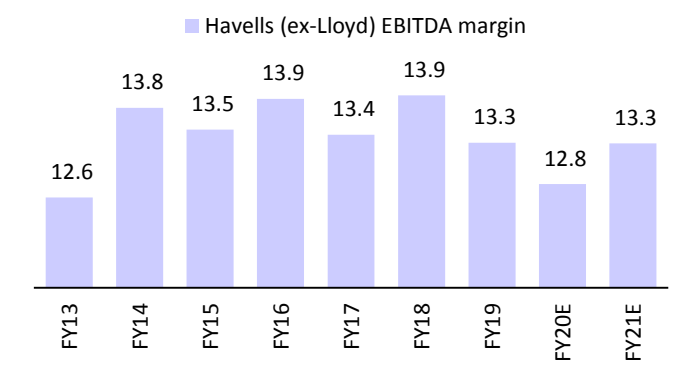
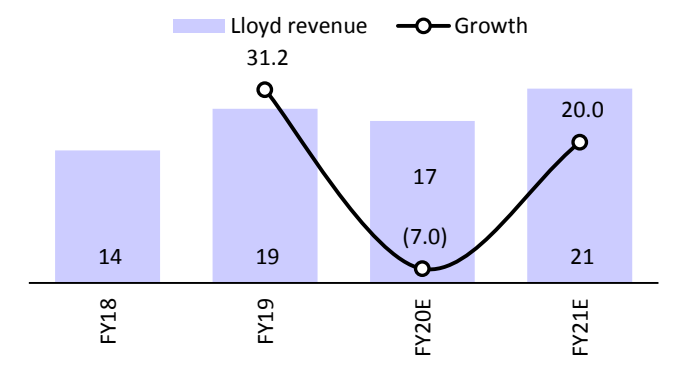
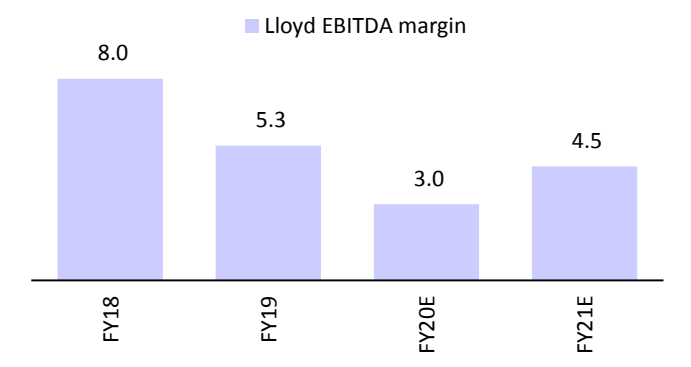
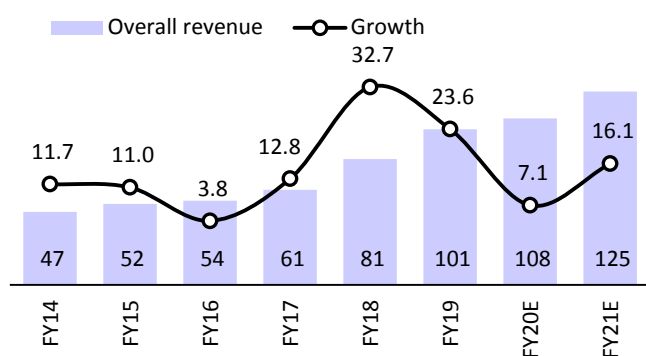
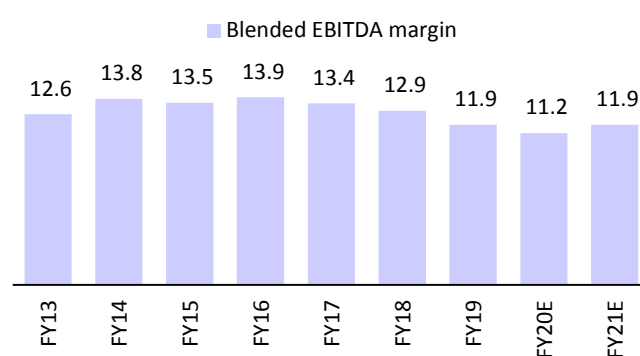
Exhibit 2: Havells' (ex-Lloyd) growth trend has slowed over last three quarters...**Exhibit 3: ...led by weak growth across key segments****Exhibit 4: Havells (ex-Lloyd) revenue trend (INR b)****Exhibit 5: Havells (ex-Lloyd) EBITDA margin trend****Exhibit 6: Lloyd revenue trend (INR b)****Exhibit 7: Lloyd EBITDA margin trend (%)**

Exhibit 8: Overall revenue trend (INR b)



Source: MOFSL, Company

Exhibit 9: Blended margin trend (%)



Source: MOFSL, Company

Havells - 2QFY20 con-call takeaways

Overall demand outlook

- Demand remains sluggish mainly in real estate and industrial segment. This is reflected in muted growth in switchgears and even in cables segment.
- Consumer demand is slow, but Havells has done well in ECD business led by market share gain.
- **Lloyd business:** AC sales flattish YoY for the quarter. Major disruption in LED panel. Price correction in the industry is ~25% YoY. LED may have some overhang in the third quarter. However, mainstay business is ACs and washing machines.

Havells core portfolio

- Slowdown kicked in from last Nov. Cash has dried up for small traders, dealers. De-stocking at dealer end happening due to slowdown in purchases.
- Capex related demand has been muted. Confidence is low due to economic slowdown.
- **Capacity expansion plans:** Will expand fan capacity in FY21.
- **Cables segment** – Didn't see any one-time gain – sometimes there is a time lag between market price pass on/hike and the margins are reflective of the same.
- HAVL has set up distribution channel for expansion in rural areas, Rio brand doing good, expanding product category in rural brands.
- Domestic switchgear business has witnessed mkt. share, Industrial Switchgear business is seeing a bit of slowdown; Hyundai is continuing its development of Industrial SW and growing.
- Kitchen appliances – now meaningful and relevant. Just like fans, do not operate only in low cost but across range.

Lloyd business update

- Seeing challenges in short term.
- Distribution change has happened. Some of the large dealers in key states were replaced by multiple new dealers.
- Distribution change has mostly happened. Have increased presence in MBOs and retail.
- With new plant coming in, believe there will be strong control on working capital and planning.

- Management is confident on strategy on Lloyd over medium to long term.
- Havells won't be disclosing Lloyd EBITDA margin separately.
- There was unabsorbed cost due to new plant at INR100m for 2Q20.
- Not looking to exit LED. Mainstay is AC business though.
- AC launch expected in 1QFY21 v/s 4QFY20 expected earlier. Refrigerator will be in outsourcing to begin with, not much investment required into distribution because it will be same as that of AC.
- Longer term – ACs will be 50% of sales as WM and Refri portfolio expands.

Other takeaways

- Focus will be on reduction of non-essential cost. It should be visible in 4Q.
- Entering top 3 position in various categories through market share gains.
- Tax rate cut update – Will wait and watch how to utilize the benefits.
- FY21 capex = INR3b.

Earnings change and Valuation

- **Cut FY20E/21E EPS estimates by 12%/10%:** We cut our FY20/21 EPS estimates by 12%/10% to factor in lower revenue growth and margin assumption. Our FY19-21 EPS CAGR estimate now stands at 14.3% on the back of revenue CAGR of 11.5% and benefits from lower tax rates.

Exhibit 10: We cut our FY20/21E EPS by 12%/10%

Earnings Change INR m	Old		New		Change	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	1,11,360	1,28,758	1,07,752	1,25,123	-3%	-3%
EBITDA	13,173	15,903	12,110	14,843	-8%	-7%
EBITDA margin	11.8%	12.4%	11.2%	11.9%	-0.6%	-0.5%
Adj. PAT	9,488	11,432	8,343	10,343	-12%	-10%

Source: MOSL, Company

- **Cutting TP; maintaining Neutral stance:** On back of our EPS cut, our TP is reduced to INR730 with an unchanged target Sep'21E P/E multiple of 40x. Maintain **Neutral** as we await a better entry point in the stock.

Financials and valuations

Income Statement						(INR Million)
Y/E March	2017	2018	2019	2020E	2021E	2022E
Net Sales	61,353	81,386	1,00,576	1,07,752	1,25,123	1,42,870
Change (%)	14.1	32.7	23.6	7.1	16.1	14.2
Raw Materials	36,485	49,808	62,786	66,806	77,326	87,865
Staff Cost	5,004	6,497	8,324	9,656	11,057	12,469
Other Expenses	11,623	14,588	17,545	19,180	21,897	25,002
EBITDA	8,241	10,493	11,922	12,110	14,843	17,534
% of Net Sales	13.4	12.9	11.9	11.2	11.9	12.3
Depreciation	1,196	1,395	1,486	2,109	2,321	2,454
Interest	122	240	159	200	200	200
Other Income	1,343	1,170	1,276	1,349	1,500	1,820
PBT	8,266	10,028	11,553	11,150	13,822	16,700
Tax	2,298	3,022	3,637	2,806	3,479	4,203
Rate (%)	27.8	30.1	31.5	25.2	25.2	25.2
Extra-ordinary Inc.(net)	-578	119	0	0	0	0
Reported PAT	5,390	7,125	7,915	8,343	10,343	12,497
Change (%)	-24.3	32.2	11.1	5.4	24.0	20.8
Adjusted PAT	5,969	7,006	7,915	8,343	10,343	12,497
Change (%)	17.1	17.4	13.0	5.4	24.0	20.8

Balance Sheet (Consolidated)						(INR Million)
Y/E March	2017	2018	2019	2020E	2021E	2022E
Share Capital	625	625	626	626	626	626
Reserves	32,111	36,766	41,800	47,140	53,759	61,757
Net Worth	32,736	37,392	42,425	47,765	54,385	62,383
Loans	1,981	1,080	945	945	945	945
Deffered Tax Liability	1,138	2,070	3,217	3,217	3,217	3,217
Capital Employed	35,854	40,541	46,587	51,927	58,546	66,544
Gross Fixed Assets	15,012	34,113	37,293	42,293	45,293	47,293
Less: Depreciation	2,355	6,799	8,285	10,394	12,715	15,168
Net Fixed Assets	12,658	27,314	29,008	31,899	32,578	32,125
Capital WIP	119	241	2,327	2,327	2,327	2,327
Investments	4,026	955	583	583	583	583
Curr. Assets	32,797	36,905	39,874	43,953	53,840	66,324
Inventory	9,284	16,217	19,170	20,538	23,849	27,232
Debtors	2,285	3,254	4,224	4,525	5,255	6,000
Cash & Bank Balance	19,375	15,262	12,848	14,999	20,219	27,934
Loans & Advances	0	0	89	95	110	126
Other Current Assets	1,853	2,173	3,542	3,795	4,407	5,032
Current Liab. & Prov.	13,746	24,873	25,204	26,834	30,781	34,813
Creditors	6,296	16,340	15,594	16,706	19,399	22,151
Other Liabilities	5,685	6,754	7,258	7,776	9,029	10,310
Provisions	1,766	1,780	2,352	2,352	2,352	2,352
Net Current Assets	19,051	12,032	14,670	17,119	23,059	31,511
Application of Funds	35,854	40,541	46,587	51,927	58,546	66,544

Financials and valuations

Ratios

Y/E March	2017	2018	2019	2020E	2021E	2022E
Basic (INR)	8.6	11.4	12.7	13.3	16.5	20.0
Adjusted EPS	9.6	11.2	12.7	13.3	16.5	20.0
Growth (%)	17.1	17.3	12.9	5.4	24.0	20.8
Cash EPS	11.5	13.4	15.0	16.7	20.2	23.9
Book Value	52.4	59.8	67.8	76.4	86.9	99.7
DPS	3.5	4.0	4.0	4.0	5.0	6.0
Payout (incl. Div. Tax.)	42.8	41.7	38.2	36.0	36.0	36.0
Valuation (x)						
P/Sales	6.8	5.1	2.1	1.9	1.7	1.5
P/E (standalone)	70.1	59.8	52.9	50.2	40.5	33.5
Cash P/E	58.4	49.9	44.6	40.1	33.1	28.0
EV/EBITDA	48.7	38.6	34.2	33.4	26.9	22.4
EV/Sales	6.5	5.0	4.0	3.8	3.2	2.7
Price/Book Value	12.8	11.2	9.9	8.8	7.7	6.7
Dividend Yield (%)	0.5	0.6	0.6	0.6	0.7	0.9
Profitability Ratios (%)						
RoE	18.2	18.7	18.7	17.5	19.0	20.0
RoCE	16.9	17.7	17.2	16.4	17.9	19.0
RoIC	40.8	26.1	21.6	20.6	24.8	29.7
Turnover Ratios						
Debtors (Days)	14	15	15	15	15	15
Inventory (Days)	55	73	70	70	70	70
Creditors. (Days)	37	73	57	57	57	57
Asset Turnover (x)	1.7	2.0	2.2	2.1	2.1	2.1
Leverage Ratio						
Debt/Equity (x)	0.1	0.0	0.0	0.0	0.0	0.0

Cash Flow Statement

(INR Million)

Y/E March	2017	2018	2019	2020E	2021E	2022E
PBT before EO Items	8,266	10,028	11,553	11,150	13,822	16,700
Add : Depreciation	1,196	1,395	1,486	2,109	2,321	2,454
Interest	122	240	159	200	200	200
Less : Direct Taxes Paid	2,298	3,022	2,490	2,806	3,479	4,203
(Inc)/Dec in WC	865	2,906	5,051	298	721	736
CF from Operations	8,151	11,547	5,656	10,355	12,143	14,414
EO Income	-578	119	139	0	0	0
CF from Oper. incl. EO Items	7,573	11,666	5,795	10,355	12,143	14,414
(Inc)/Dec in FA	-2,049	-1,338	-5,266	-5,000	-3,000	-2,000
Free Cash Flow	5,524	10,328	528	5,355	9,143	12,414
(Pur)/Sale of Investments	701	3,071	372	0	0	0
CF from Investments	-1,348	-13,102	901	5,355	9,143	12,414
(Inc)/Dec in Net Worth	640	1,384				
(Inc)/Dec in Debt	1,537	-901	-135	0	0	0
Less : Interest Paid	122	240	159	200	200	200
Dividend Paid	2,557	2,922	3,020	3,004	3,724	4,499
CF from Fin. Activity	-502	-2,678	-3,314	-3,204	-3,924	-4,699
Inc/Dec of Cash	5,723	-4,113	-2,413	2,151	5,220	7,715
Add: Beginning Balance	13,652	19,375	15,262	12,849	15,000	20,219
Closing Balance	19,375	15,262	12,849	15,000	20,219	27,934

E: MOSL Estimates

NOTES

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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