

Retail Equity Research (South India Focus)

Havells India Ltd

Electrical Equipment

BSE CODE : 517354 NSE CODE: HAVELLS
BLOOMBERG CODE: HAVL:IN SENSEX : 39,832

REDUCE

12M Investment Period Rating as per Large Cap
CMP Rs 669 TARGET Rs 625 RETURN -7 %
(Closing: 29-10-19)

KEY CHANGES:

TARGET ↓

RATING ↔

EARNINGS ↓

Weak performance continues...H2FY20E to be better

Havells India Ltd (HAVL) is a leading player in electrical consumer goods in India. Its key verticals include switchgears, cables & wires, lighting fixtures and consumer appliances.

- Revenue grew by modest 2% YoY, which was below expectation.
- EBITDA margins declined by 150bps on account of weak product mix, margin erosion in Lloyd business and higher cost. But supported by tax cut PAT growth was flat YoY.
- Demand situation continues to be weak on account of tight liquidity scenario and slowdown in real estate business.
- The slowdown is likely to persist in the near term, but H2FY20E would be better on account of festive season and low base.
- However, a revival in construction sector would be the key for any change in HAVL's fortunes.
- We lower our earning estimates by 3% & 5% for FY20E & FY21E to factor in the near term impact on earnings. We expect PAT to grow by 14% CAGR over FY19-21E.
- HAVL is trading at average 1 year forward P/E of 46x, which is 18% premium to its 5 year historical average of 39x. Given the near term impact on margin and premium valuation, we value HAVL at 38x on FY21E and reiterate to Reduce with a target price of Rs625.

Revenue growth muted...

HAVL Q2FY20 revenue grew by modest 2% YoY, led by consumer durables segment & Cable which grew by 20% & 7% YoY. Lighting & fixtures and Switch gears de-grew by 2% & 6% YoY. Weak construction sector demand on account of tighter liquidity situation in the sector and slowdown in industrial segment impacted these segments. Revenue from Lloyd business declined by 30% YoY on account of weak demand in Air conditioner and decline in LED TV sales on account of higher competition. While management reiterated their strategy of penetration into existing product categories through retail expansion and re-positioning of Lloyd brand. However, we believe that near term demand headwinds is likely to persist as construction sector continue to face slowdown, while HAVL 48% of business being largely related construction activities. We lower our revenue estimates 3.4% & 6.6% and we factor revenue to grow by 10% CAGR over FY19- FY21E.

EBITDA margin declines...

HAVL's Q2FY20 EBITDA declined by 11% YoY and margins declined by 150bps YoY to 10.5%. This was largely on account of lower revenue growth, higher cost and weak product mix. Margin compression was seen in Lighting & fixtures, which saw dip in 200bps and ECD witnessed 220bps decline in margin. But on account of reduction in corporate tax, the reported PAT was flat YoY. We lower our EBITDA margins estimates by 60bps for FY20E & FY21E. Consequently, our EPS estimates stand reduced by 3% & 5% for FY20E & FY21E.

Valuations

HAVL is trading at average 1 year forward P/E of 46x, which is 18% premium to its 5 year historical average. Given the near term demand headwinds and premium valuation, we value HAVL at 38x on FY21E and reiterate to Reduce with a target price of Rs625.

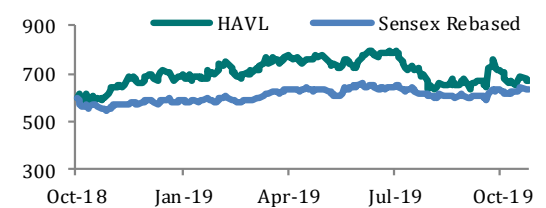
Company Data

Market Cap (cr)	Rs.41,819
Enterprise Value (cr)	Rs.41,203
Outstanding Shares (cr)	62.5
Free Float	40.5%
Dividend Yield	0.7%
52 week high	Rs.807
52 week low	Rs.600
6m average volume (cr)	0.2
Beta	1.1
Face value	Rs.1

Shareholding (%)	Q4FY19	Q1FY20	Q2FY20
Promoters	59.6	59.5	59.5
FII's	27.3	27.0	26.3
MFs/Institutions	4.3	4.6	5.8
Public	5.6	6.0	6.3
Others	3.2	2.9	2.1
Total	100.0	100.0	100.0
Promoter pledge	0.0	0.0	0.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	-4.1%	-12.6%	11.4%
Absolute Sensex	3.0%	-0.1%	14.7%
Relative Return*	-7.1%	-12.5%	-3.2%

*over or under performance to benchmark index



Standalone (cr)	FY19A	FY20E	FY21E
Sales	10,058	10,793	12,202
Growth (%)	23.6	7.3	13.1
EBITDA	1,192	1,209	1,428
EBITDA Margin(%)	11.9	11.2	11.7
PAT Adj.	792	831	1,029
Growth (%)	13.0	5.0	23.8
Adjusted EPS	12.7	13.3	16.5
Growth (%)	13.0	5.0	23.8
P/E	52.8	50.3	40.6
P/B	15.1	12.6	10.3
EV/EBITDA	34.6	34.4	28.7
ROE (%)	19.8	18.4	20.0
D/E	0.0	0.0	0.0

Anil R
Research Analyst

Quarterly Financials

Profit & Loss

	Q2FY20	Q2FY19	YoY Growth %	H1FY20	H1FY19	YoY Growth %
Sales	2,230	2,191	<i>1.8</i>	4,942	4,787	<i>3.2</i>
EBITDA	234	263	<i>(11.0)</i>	510	575	<i>(11.3)</i>
EBITDA margins	10.5	12.0	<i>(150bps)</i>	10.3	12.0	<i>(170bps)</i>
Depreciation	53	39	<i>35.7</i>	100	74	<i>34.8</i>
EBIT	181	223	<i>(19.0)</i>	410	510	<i>(18.2)</i>
Interest	5	4	<i>40.4</i>	10	6	<i>58.8</i>
Other Income	29	34	<i>(14.8)</i>	69	64	<i>8.5</i>
Exceptional Items						
PBT	205	254	<i>(19.3)</i>	469	558	<i>(16.0)</i>
Tax	24	75	<i>(68.6)</i>	114	169	<i>(32.8)</i>
Share of profit from Associate						
Minority Interest						
Reported PAT	181	179	<i>1.5</i>	355	389	<i>(8.6)</i>
Adjustments				-		
Adjusted PAT	181	179	<i>1.5</i>	355	389	<i>(8.6)</i>
No. of Shares	62.5	62.5		62.5	62.5	
EPS (Rs)	2.9	2.8	<i>1.5</i>	5.7	6.2	<i>(8.6)</i>

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	11,178	13,058	10,793	12,202	<i>(3.4)</i>	<i>(6.6)</i>
EBITDA	1,319	1,606	1,209	1,428	<i>(8.3)</i>	<i>(11.1)</i>
Margins (%)	11.8	12.3	11.2	11.7	<i>(60bps)</i>	<i>(60bps)</i>
Adj. PAT	854	1,090	831	1,029	<i>(2.6)</i>	<i>(5.5)</i>
EPS	13.7	17.4	13.3	16.5	<i>(2.6)</i>	<i>(5.5)</i>

Standalone Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Sales	6,135	8,139	10,058	10,793	12,202
% change	14.1	32.7	23.6	7.3	13.1
EBITDA	824	1,049	1,192	1,209	1,428
% change	9.2	27.3	13.6	1.4	18.1
Depreciation	120	140	149	207	237
EBIT	705	910	1,044	1,002	1,190
Interest	12	24	16	21	23
Other Income	134	117	128	128	205
PBT	827	1,003	1,155	1,109	1,372
% change	17.0	21.3	15.2	(4.0)	23.8
Tax	230	302	364	277	343
Tax Rate (%)	28.0	30.0	31.0	25.0	25.0
Reported PAT	536	714	792	831	1,029
Adj.*	(58)	12	-	-	-
Adj. PAT	597	701	792	831	1,029
% change	16.3	17.3	13.0	5.0	23.8
No. of shares (cr)	62.5	62.5	62.5	62.5	62.5
Adj EPS (Rs)	9.6	11.2	12.7	13.3	16.5
% change	17.1	17.3	12.9	5.0	23.8
DPS (Rs)	4.2	4.2	4.8	4.8	4.8
CEPS (Rs)	11.5	13.4	15.0	16.6	20.3

CASH FLOW

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Net inc. + Depn.	539	713	792	831	1029
Non-cash adj.	107	138	204	156	124
Changes in W.C	132	257	(475)	(926)	(218)
C.F. Operation	778	1,108	513	62	935
Capital exp.	(237)	(1,589)	(501)	(322)	(198)
Change in inv.	(66)	510	599	20	-
Other invest.CF	76	77	80	128	205
C.F - Investment	(227)	(1,002)	178	(175)	7
Issue of equity	93	147	180	-	-
Issue/repay debt	153	(90)	-	58	-
Dividends paid	(226)	(263)	(302)	(302)	(302)
Other finance.CF	(9)	(20)	(13)	(21)	(23)
C.F - Finance	(72)	(358)	(310)	(264)	(324)
Chg. in cash	478	(252)	380	(378)	618
Closing cash	555	301	678	300	919

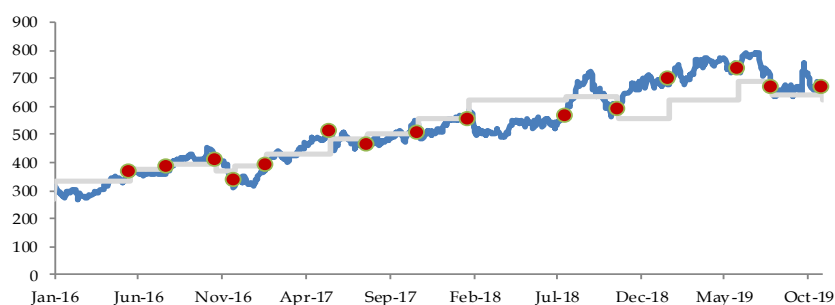
BALANCE SHEET

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	555	301	678	300	919
Accounts Receivable	229	325	422	438	485
Inventories	928	1,622	1,917	2,033	2,284
Other Cur. Assets	1,565	1,426	953	1,996	2,256
Investments	405	112	76	56	56
Gross Fixed Assets	1,463	1,562	1,865	2,223	2,523
Net Fixed Assets	1,248	1,248	1,431	1,581	1,643
CWIP	12	24	232	200	100
Intangible Assets	18	1,483	1,471	1,468	1,465
Def. Tax (Net)	(114)	(207)	(322)	(377)	(446)
Other Assets	-	-	-	-	-
Total Assets	4,846	6,334	6,857	7,694	8,762
Current Liabilities	1,184	2,286	2,318	2,550	2,865
Provisions	186	178	235	251	277
Debt Funds	5	104	62	120	120
Other Liabilities	198	27	-	-	-
Equity Capital	62.5	62.5	62.5	62.5	62.5
Reserves & Surplus	3,211	3,677	4,180	4,710	5,437
Shareholder's Fund	3,274	3,739	4,243	4,772	5,500
Total Liabilities	4,846	6,334	6,857	7,694	8,762
BVPS	52	60	68	76	88

RATIOS

Y.E March	FY17A	FY18A	FY19A	FYE20E	FY21E
Profitab & Return					
EBITDA margin (%)	13.4	12.9	11.9	11.2	11.7
EBIT margin (%)	11.5	11.2	10.4	9.3	9.8
Net profit mgn.(%)	9.7	8.6	7.9	7.7	8.4
ROE (%)	19.2	20.0	19.8	18.4	20.0
ROCE (%)	14.3	15.6	15.2	14.8	16.0
W.C & Liquidity					
Receivables (days)	11.5	12.4	13.6	14.5	13.8
Inventory (days)	85.7	93.4	102.9	106.9	104.0
Payables (days)	103.2	127.2	134.6	131.7	130.4
Current ratio (x)	2.4	1.5	1.6	1.7	1.9
Quick ratio (x)	0.7	0.2	0.3	0.3	0.5
Turnover & Leverage					
Gross asset T.O (x)	4.5	5.5	5.9	5.3	5.1
Total asset T.O (x)	5.2	6.7	7.5	7.2	7.6
Int. covge. ratio (x)	58.0	38.0	65.6	48.0	52.3
Adj. debt/equity (x)	0.1	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	6.8	5.1	4.1	3.9	3.4
EV/EBITDA (x)	50.4	39.6	34.6	34.4	28.7
P/E (x)	70.0	59.7	52.8	50.3	40.6
P/BV (x)	12.8	18.5	15.1	12.6	10.3

Recommendation summary



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
31-Jan-15	Accumulate	291
14-May-15	Accumulate	311
28-July-15	Reduce	254
17-November-15	Hold	267
31-December-15	Accumulate	333
17-May-16	Hold	373
25-July-16	Hold	393
20-October-16	Reduce	367
24-November-16	Buy	388
19-January-17	Buy	433
17-May-17	Reduce	485
21-July-17	Hold	500
25-October-17	Accumulate	555
23-January-18	Accumulate	624
23-July-18	Accumulate	633
22-October-18	Reduce	557
23-January-19	Reduce	622
30-May-19	Reduce	687
29-July-19	Reduce	642
29-October-19	Reduce	625

Investment Criteria

Large Cap Stocks;		Mid Cap and Small Cap;			
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell. The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL. Neutral- The analyst has no investment opinion on the stock under review

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