

Retail Equity Research (South India Focus)

Havells India Ltd

Electrical Equipment

BSE CODE : 517354 NSE CODE: HAVELLS
BLOOMBERG CODE: HAVL:IN SENSEX : 40,967

Hold

12M Investment Period Rating as per Large Cap

CMP Rs 617 TARGET Rs 666 RETURN 8 % ↑
(Closing: 28-01-20)

KEY CHANGES:

TARGET ↑

RATING ↑

EARNINGS ↓

Weakness priced-in...

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.

- We upgrade HAVL to Hold as we believe that near term demand headwinds as well as earnings downgrades have already been factored in stock price.
- Q3 Revenue declined by 10% YoY on account of weak macros, tight liquidity situations, slowdown in infrastructure spending and muted consumer sentiments impacted overall demand scenario.
- EBITDA margin was stable at 11.8% due to cost rationalisation. PAT grew by modest 2.4% YoY supported by tax cut.
- We lower our EPS estimates by 9.2% & 8.6% for FY20E & FY21E, as we factor the impact of Q3 on our estimates.
- Over FY20E-22E, we expect PAT to grow by 21% CAGR .
- We roll forward to FY22E and value HAVL at multiple at 38x with a target price of Rs.666.

Revenue growth declines...

HAVL Q3FY20 revenue declined by 10% YoY, as revenue growth from Switch gears, cables and Lighting & fixtures segment declined by 11%, 13% & 18% YoY respectively. This was largely on account of weak macros, tight liquidity situations and slowdown in infrastructure spending. Switch-gear segment was largely impacted by decline in Industrial switchgear owing to sluggish infrastructure and Government driven procurement. In the cable segment, power cables was weighed down by industrial and infrastructure slowdown and fall in commodity prices. While HAVL's consumer durables segment revenue grew by modest 5% YoY, on account of general weakness in the consumer sentiments and channel destocking. Revenue from Lloyd business declined by 16% YoY decline in LED TV sales on account of higher competition. We expect that the demand headwinds to persist in the near term as construction sector continues to face slowdown as HAVL 48% of business being largely related construction activities. We lower our revenue estimates 11% & 14% and we factor revenue to grow by 13% CAGR over FY20E- FY22E.

EBITDA margin stable...

HAVL's Q3FY20 gross margin improved by 190bps YoY, led by margin expansion in switch gears and cables segment. EBITDA margin improved by 10bps YoY to 11.8%. Supported by reduction in corporate tax, the reported PAT grew by modest 2.4% YoY to Rs200cr. Given demand headwinds and volatility in raw materials, we lower our EBITDA margin estimates by 60bps for FY20E & FY21E. Consequently, our EPS estimates stand reduced by 9.2% & 8.6% for FY20E & FY21E.

Valuations

We expect the current demand headwinds to continue in the near term considering the subdued construction sector and general weakness consumer segment. However, we believe that near term concerns has already factored in the stock price. Considering this we maintain our valuation at 38x as we roll forward to FY22E. We upgrade HAVL to Hold with a target price of Rs.666.

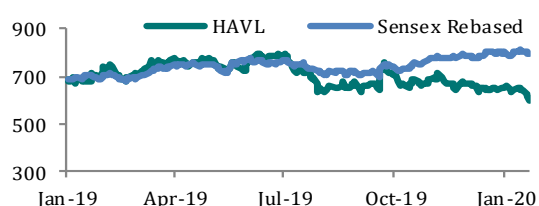
Company Data

Market Cap (cr)	Rs.38,560
Enterprise Value (cr)	Rs.38,301
Outstanding Shares (cr)	62.5
Free Float	40.5%
Dividend Yield	0.7%
52 week high	Rs.807
52 week low	Rs.588
6m average volume (cr)	0.2
Beta	1.1
Face value	Rs.1

Shareholding (%)	Q1FY20	Q2FY20	Q3FY20
Promoters	59.5	59.5	59.5
FII's	27.0	26.3	25.9
MFs/Institutions	4.6	5.8	5.9
Public	6.0	6.3	6.5
Others	2.9	2.1	2.2
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	-8.4%	-12.8%	-12.6%
Absolute Sensex	5.9%	9.1%	14.5%
Relative Return*	-14.3%	-22.0%	-27.1%

*over or under performance to benchmark index



Standalone (cr)	FY20E	FY21E	FY22E
Sales	9,985	11,268	12,669
Growth (%)	(0.7)	12.9	12.4
EBITDA	1,114	1,318	1,520
EBITDA Margin(%)	11.2	11.7	12.0
PAT Adj.	755	941	1,097
Growth (%)	(4.7)	24.7	16.5
Adjusted EPS	12.1	15.0	17.5
Growth (%)	(4.7)	24.7	16.5
P/E	51.1	41.0	35.2
P/B	11.9	9.9	8.2
EV/EBITDA	34.4	28.9	24.8
ROE (%)	16.9	18.8	19.1
D/E	0.0	0.0	0.0

Anil R
Research Analyst

Quarterly Financials

Profit & Loss

	Q3FY20	Q3FY19	YoY Growth %	9MFY20	9MFY19	YoY Growth %
Sales	2,270	2,518	(9.9)	7,212	7,306	(1.3)
EBITDA	267	295	(9.2)	777	869	(10.6)
EBITDA margin	11.8	11.7	+10bps	10.8	11.9	(110bps)
Depreciation	55	35	56.3	155	110	41.7
EBIT	212	259	(18.2)	622	760	(18.2)
Interest	5	4	47.8	15	10	54.8
Other Income	24	33	(27.4)	93	97	(3.8)
Exceptional Items						
PBT	231	289	(20.0)	700	847	(17.4)
Tax	31	93	(67.2)	144	262	(45.0)
Share of profit from Associate						
Minority Interest						
Reported PAT	200	196	2.4	556	585	(5.0)
Adjustments				-		
Adjusted PAT	200	195	2.4	556	585	(5.0)
No. of Shares	62.5	62.5		62.5	62.5	
EPS (Rs)	3.2	3.1	2.4	8.9	9.4	(5.0)

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	10,793	12,202	9,985	11,268	(7.5)	(7.7)
EBITDA	1,209	1,428	1,114	1,318	(7.9)	(7.7)
Margin (%)	11.2	11.7	11.2	11.7	-	-
Adj. PAT	831	1,029	755	941	(9.2)	(8.6)
EPS	13.3	16.5	12.1	15.0	(9.2)	(8.6)

Standalone Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY18A	FY19A	FY20E	FY21E	FY22E
Sales	8,139	10,058	9985	11,268	12,669
% change	32.7	23.6	(0.7)	12.9	12.4
EBITDA	1,049	1,192	1,114	1,318	1,520
% change	27.3	13.6	(6.5)	18.3	15.3
Depreciation	140	149	210	245	271
EBIT	910	1,044	904	1,073	1,249
Interest	24	16	21	16	16
Other Income	117	128	123	198	230
PBT	1,003	1,155	1,006	1,255	1,462
% change	21.3	15.2	(12.9)	24.7	16.5
Tax	302	364	252	314	366
Tax Rate (%)	30.0	31.0	25.0	25.0	25.0
Reported PAT	714	792	755	941	1,097
Adj.*	12	-	-	-	-
Adj. PAT	701	792	755	941	1,097
% change	17.3	13.0	(4.7)	24.7	16.5
No. of shares (cr)	62.5	62.5	62.5	62.5	62.5
Adj EPS (Rs)	11.2	12.7	12.1	15.0	17.5
% change	17.3	12.9	(4.7)	24.7	16.5
DPS (Rs)	4.2	4.8	4.8	4.8	4.8
CEPS (Rs)	13.4	15.0	15.4	19.0	21.9

CASH FLOW

Y.E March (Rs Cr)	FY18A	FY19A	FY20E	FY21E	FY22E
Net inc. + Depn.	713	792	755	941	1097
Non-cash adj.	138	204	159	126	131
Changes in W.C	257	(475)	(758)	(549)	(471)
C.F. Operation	1,108	513	155	518	757
Capital exp.	(1,589)	(501)	(332)	(198)	(248)
Change in inv.	510	599	20	-	-
Other invest.CF	77	80	123	198	230
C.F - Investment	(1,002)	178	(189)	1	(18)
Issue of equity	147	180	-	-	-
Issue/repay debt	(90)	-	20	-	-
Dividends paid	(263)	(302)	(302)	(302)	(302)
Other finance.CF	(20)	(13)	(21)	(16)	(26)
C.F - Finance	(358)	(310)	(302)	(318)	(318)
Chg. in cash	(252)	380	(337)	201	421
Closing cash	301	678	341	542	963

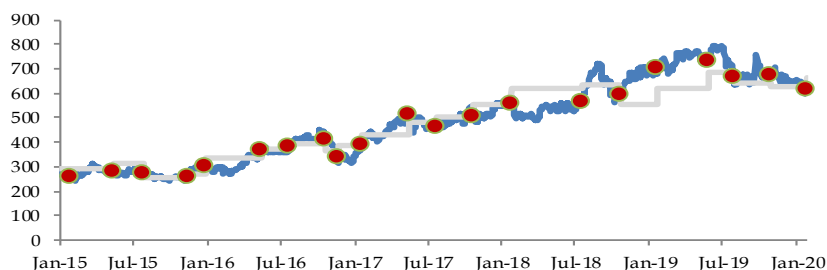
BALANCE SHEET

Y.E March (Rs Cr)	FY18A	FY19A	FY20E	FY21E	FY22E
Cash	301	678	341	542	963
Accounts Receivable	325	422	383	448	503
Inventories	1,622	1,917	1,787	2,109	2,360
Other Cur. Assets	1,426	953	1,874	2,238	2,517
Investments	112	76	56	56	56
Gross Fixed Assets	1,562	1,865	2,233	2,533	2,783
Net Fixed Assets	1,248	1,431	1,588	1,642	1,621
CWIP	24	232	200	100	100
Intangible Assets	1,483	1,471	1,468	1,465	1,463
Def. Tax (Net)	(207)	(322)	(372)	(435)	(508)
Other Assets	-	-	-	-	-
Total Assets	6,334	6,857	7,324	8,165	9,074
Current Liabilities	2,286	2,318	2,314	2,492	2,574
Provisions	178	235	233	256	288
Debt Funds	104	62	82	82	82
Other Liabilities	27	-	-	-	-
Equity Capital	62.5	62.5	62.5	62.5	62.5
Reserves & Surplus	3,677	4,180	4,633	5,272	6,068
Shareholder's Fund	3,739	4,243	4,695	5,335	6,130
Total Liabilities	6,334	6,857	7,324	8,165	9,074
BVPS	60	68	75	85	98

RATIOS

Y.E March	FY18A	FY19A	FY20E	FYE21E	FY22E
Profitab & Return					
EBITDA margin (%)	12.9	11.9	11.2	11.7	12.0
EBIT margin (%)	11.2	10.4	9.1	9.5	9.9
Net profit mgn.(%)	8.6	7.9	7.6	8.4	8.7
ROE (%)	20.0	19.8	16.9	18.8	19.1
ROCE (%)	15.6	15.2	13.7	15.0	15.3
W.C & Liquidity					
Receivables (days)	12.4	13.6	14.7	13.5	13.7
Inventory (days)	93.4	102.9	108.8	101.2	104.2
Payables (days)	127.2	134.6	136.1	125.4	118.1
Current ratio (x)	1.5	1.6	1.7	1.9	2.2
Quick ratio (x)	0.2	0.3	0.3	0.4	0.6
Turnover & Leverage					
Gross asset T.O (x)	5.5	5.9	4.9	4.7	4.8
Total asset T.O (x)	6.7	7.5	6.6	7.2	7.8
Int. covge. ratio (x)	38.0	65.6	43.4	65.6	76.4
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	4.7	3.8	3.8	3.4	3.0
EV/EBITDA (x)	36.5	31.8	34.4	28.9	24.8
P/E (x)	55.0	48.7	51.1	41.1	35.2
P/BV (x)	17.1	13.9	11.9	9.9	8.2

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
29-January-20	Hold	666

Investment Criteria

Large Cap Stocks;

Buy	-	Upside is above 10%.
Hold	-	Upside is between 0% - 10%.
Reduce	-	Downside is more than 0%.
Neutral	-	Not Applicable

Mid Cap and Small Cap;

Buy	-	Upside is above 15%.
Accumulate	-	Upside is between 10% - 15%.
Hold	-	Upside is between 0% - 10%.
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

General Disclosures and Disclaimers

CERTIFICATION

I, Anil R, author of this Report, hereby certify that all the views expressed in this research report reflect our personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of GeojitFinancial Services Limited, hereinafter referred to as Geojit.

COMPANY OVERVIEW

Geojit Financial Services Limited (hereinafter Geojit), a publically listed company, is engaged in services of retail broking, depository services, portfolio management and marketing investment products including mutual funds, insurance and properties. Geojit is a SEBI registered Research Entity and as such prepares and shares research data and reports periodically with clients, investors, stake holders and general public in compliance with Securities and Exchange Board of India Act, 1992, Securities And Exchange Board Of India (Research Analysts) Regulations, 2014 and/or any other applicable directives, instructions or guidelines issued by the Regulators from time to time.

DISTRIBUTION OF REPORTS

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Geojit will not treat the recipients of this report as clients by virtue of their receiving this report.

GENERAL REPRESENTATION

The research reports do not constitute an offer or solicitation for the purchase or sale of any financial instruments, inducements, promise, guarantee, warranty, or as an official confirmation of any transaction or contractual obligations of any kind. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. We have also reviewed the research report for any untrue statements of material facts or any false or misleading information. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

RISK DISCLOSURE

Geojit and/or its Affiliates and its officers, directors and employees including the analyst/authors shall not be in any way be responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Investors may lose his/her entire investment under certain market conditions so before acting on any advice or recommendation in these material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. This report does not take into account the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved). The price, volume and income of the investments referred to in this report may fluctuate and investors may realize losses that may exceed their original capital.

FUNDAMENTAL DISCLAIMER

We have prepared this report based on information believed to be reliable. The recommendations herein 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. The stocks always carry the risk of being upgraded to buy or downgraded to a hold, reduce or sell. The opinions expressed are subject to change but we have no obligation to tell our clients when our opinions or recommendations change. This report is non-inclusive and does not consider all the information that the recipients may consider material to investments. This report is issued by Geojit without any liability/undertaking/commitment on the part of itself or anyof

/undertaking/commitment on the part of itself or any of its entities. We may have issued or may issue on the companies covered herein, reports, recommendations or information which is contrary to those contained in this report.

The projections and forecasts described in this report should be evaluated keeping in mind the fact that these are based on estimates and assumptions and will vary from actual results over a period of time. The actual performance of the companies represented in the report may vary from those projected. These are not scientifically proven to guarantee certain intended results and hence, are not published as a warranty and do not carry any evidentiary value whatsoever. These are not to be relied on in or as contractual, legal or tax advice. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

JURISDICTION

The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. The countries in which the companies mentioned in this report are organized may have restrictions on investments, voting rights or dealings in securities by nationals of other countries. Distributing/taking/sending/dispatching/transmitting this document in certain foreign jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe any such restrictions. Failure to comply with this restriction may constitute a violation of any foreign jurisdiction laws. Foreign currencies denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. Investors in securities such as ADRs, the value of which are influenced by foreign currencies effectively assume currency risk.

REGULATORY DISCLOSURES:

Geojit's Associates consists of privately held companies such as Geojit Technologies Private Limited (GTPL- Software Solutions provider), Geojit Credits Private Limited (GCPL- NBFC Services provider), Geojit Investment Services Limited (GISL- Corporate Agent for Insurance products), Geojit Financial Management Services Private Limited (GFMSL) & Geojit Financial Distribution Private Limited (GFDPL), (Distributors of Insurance and MF Units). In the context of the SEBI Regulations on Research Analysts (2014), Geojit affirms that we are a SEBI registered Research Entity and in the course of our business as a stock market intermediary, we issue research reports /research analysis etc that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities.

In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

1. Disclosures regarding Ownership*:

Geojit confirms that:

It/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein.

It/its associates have no actual beneficial ownership greater than 1% in relation to the subject company (ies) covered herein.

Further, the Analyst confirms that:

he, his associates and his relatives have no financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company.

he, his associates and his relatives have no actual/beneficial ownership greater than 1% in the subject company covered

2. Disclosures regarding Compensation:

During the past 12 months, Geojit or its Associates:

(a) Have not received any compensation from the subject company; (b) Have not managed or co-managed public offering of securities for the subject company (c) Have not * received any compensation for investment banking or merchant banking or brokerage services from the subject company. (d) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company (e) Have not received any compensation or other benefits from the subject company or third party in connection with the research report (f) The subject company is / was not a client during twelve months preceding the date of distribution of the research report.

3. Disclosure by Geojit regarding the compensation paid to its Research Analyst:

Geojit hereby confirms that no part of the compensation paid to the persons employed by it as Research Analysts is based on any specific brokerage services or transactions pertaining to trading in securities of companies contained in the Research Reports.

4. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that the I Anil R, Research Analyst(s) of Geojit have not served as an officer, director or employee of the subject company

5. Disclosure regarding Market Making activity:

Neither Geojit/its Analysts have engaged in market making activities for the subject company.

Please ensure that you have read the "Risk Disclosure Documents for Capital Market and Derivatives Segments" as prescribed by the Securities and Exchange Board of India before investing.

Geojit Financial Services Ltd. (formerly known as Geojit BNP Paribas Financial Services Ltd.), Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Website: www.geojit.com. For investor queries: customercare@geojit.com, For grievances: grievances@geojit.com, For compliance officer: compliance@geojit.com.

Corporate Identity Number: L67120KL1994PLC008403, SEBI Stock Broker Registration No INZ000104737, Research Entity SEBI Reg No: INH200000345, Investment Adviser SEBI Reg No: INA200002817, Portfolio Manager: INP000003203, Depository Participant: IN-DP-325-2017, ARN Regn.Nos:0098, IRDA Corporate Agent (Composite) No.: CA0226