

## Consumer facing business runs show...

Havells' consumer facing business (~75% of sales) saw solid growth of 15% YoY in Q2FY21 post easing of lockdown restrictions but performance of industrial/institutions segments (~25% of sales) faced challenges due to slow business recovery. Key highlights of conference call were: 1) Performance of consumer facing business likely to be strong supported by festive demand, low channel inventory, 2) institution business growth to be driven by improved government, private capex, 3) supply chain disruptions led market share gains for Havells, 4) Lloyds business may improve. It aims to regain lost market share, 5) backward integration to help improve margin of Lloyd business, 6) ₹ 330 crore of capex for FY21E, 7) EBITDA margin expected to normalise, going forward, with restoration of advertisement, some other costs. We believe streamlining of Lloyd distribution network, control over supply chain (start of new plants reduced dependency), improved product positioning and launch of new product category (refrigerators) will drive sales of consumer facing business. We revise our revenue, earning estimates upward for FY21, FY23E, introduce FY23 estimates. We model revenue, earning CAGR of 13%, 20%, respectively, in FY20-23E led by strong demand of consumer facing business.

### Strong festive demand, market share gains drive topline

Havells ECD, Lloyd business posted strong revenue growth of 18%, 56%, respectively, supported by strong festive demand, market share gains. The switchgear, lighting business saw revenue growth of 2%, 4%, respectively, led by improved demand from housing segments. Further, the cable business also saw recovery albeit a slow pace (down ~4% YoY) led by improved government capex. According to the management, frequent regional disruption and shutdowns may delay the demand recovery. Online sales contributes ~4% in sales. We build in ~14% revenue CAGR for Havells led by 14%, 17% revenue CAGR in ECD, Lloyd business, respectively.

### Significant cost savings drives margin

Gross margins increased ~90 bps YoY mainly due to change in mix. Also, sharp fall in advertisement expenditure (0.8% in Q2FY21 vs. 3.3% in Q2FY20) and 11% YoY decline in employee cost drove EBITDA margin up ~660 bps YoY to ~17%. We expect EBITDA margin to normalise, going forward, with restoration of advertisement and other expenditure with improvement in sales, going forward.

### Valuation & Outlook

Strong performance of consumer facing business is likely to continue amid good festive demand, market share gains. We revise our FY21E, FY22E earnings estimate upward by 76%, 14%, respectively, and introduce FY23E estimates with revenue, earning CAGR of 13%, 20%, respectively, for FY20-23E. We roll over our valuation on FY23E, value the company at 41x FY23E earnings. We upgrade from HOLD to **BUY** rating with revised TP of ₹ 835.



#### Particulars

Particular	Amount
Market Capitalization (₹Cr)	45,482.3
Total Debt (FY 20) (₹Cr)	0.0
Cash and Inv (FY 20) (₹Cr)	1,106.9
EV (₹Cr)	44,375.4
52 week H/L	740 / 447
Equity capital (₹Cr)	62.6
Face value (₹)	1.0

#### Key Highlights

- Strong sales growth led by consumer facing business. Consumer facing business (75% of sales) grew by 15% YoY
- Gross margin expansion, saving in other operating costs resulting sharp expansion in EBITDA margin by 662 bps YoY at 17%
- Consumer business continue to grow supported by market share gains in Lloyd
- Revise rating from HOLD to BUY with revised target price of ₹ 835

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#### Key Financial Summary

₹ Crore	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	10067.8	9429.0	9625.2	11912.9	13600.9	13.0
EBITDA	1183.9	1027.2	1357.3	1558.7	1887.9	22.5
EBITDA Margin (%)	11.8	10.9	14.1	13.1	13.9	
PAT	787.4	732.8	882.7	1021.7	1256.8	19.7
EPS (₹)	12.6	11.7	14.1	16.4	20.1	
P/E (x)	57.8	62.1	51.5	44.5	36.2	
Price/Book Value (x)	10.8	10.6	9.6	9.0	8.8	
Mcap/Sales	4.5	4.8	4.7	3.8	3.3	
RoE (%)	18.8	17.0	18.5	20.3	24.3	
RoCE (%)	25.4	19.6	21.5	24.4	28.9	

Exhibit 1: Variance Analysis

	Q2FY21	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
Revenue	2451.8	2236.2	2230.6	9.9	1479.1	65.8	Stong sales recovery led by consumer busiess
Other Income	79.2	24.6	29.0	172.8	32.2	146.0	Sale of land and building in Noida results one time gain of ₹ 43 crore
Raw Material Exp	1089.9	1125.8	1065.8	2.3	788.1	38.3	Change in mix helped in gross margin gain
Employee Exp	214.5	238.8	239.6	-10.5	176.5	21.5	
Purchase of Traded goods	375.6	250.2	287.5	30.7	178.0	111.1	
Other expenses	351.1	432.1	402.7	-12.8	205.7	70.7	Advertisement expenses and other costs declined ~76% YoY, 15% YoY, respectively
EBITDA	420.7	223.6	235.1	79.0	130.9	221.5	
EBITDA Margin (%)	17.2	10.0	10.5	662 bps	8.8	831 bps	Better gross margin and saving in other costs drive EBITDA margin up during Q2FY21
Depreciation	59.1	63.5	53.2	11.1	60.4	-2.2	
Interest	17.3	16.8	5.1	236.0	16.7	3.3	Interest cost due to short-term debt raised to fund working capital need
PBT	423.6	171.7	205.8	105.8	86.0	392.8	
Total Tax	98.7	43.1	25.5	287.2	22.6	336.3	
PAT	324.9	126.5	180.3	80.2	63.3	412.9	Sales recovery, higher other income along with sharp expansion in margin drove bottomline
Key Metrics							
Cable	784.7	744.7	821.3	-4.5	461.0	70.2	Sharp recovery in demand led by improved government expenditure
Switchgear	370.4	363.7	363.8	1.8	190.0	94.9	Improved housing sales helped sharp demand recovery in switchgear segment
ECD	860.3	793.0	670.2	28.4	608.1	41.5	Pent up demand and market share gains help drive demand for ECD and Lloyd segment. ECD segment revenue increased 18% YoY, while Lloyd revenue increased 56% YoY
Lighting & Fixtures	264.6	292.7	253.6	4.3	382.0	-30.7	Institutional sales recovery was slow but retail lighting segment grew 4-5%

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			FY23E	Comments
	Old	New	% Chg	Old	New	% Chg	Introduced	
Revenue	8889.5	9625.2	8.3	10985.3	11912.9	8.4	13600.9	We tweak our estimate upwards considering a strong performance in Q2FY21. We also introduce FY23E estimates revenue growth of 14% YoY in FY23E
EBITDA	878.2	1357.3	54.6	1380.7	1558.7	12.9	1887.9	
EBITDA Margin (%)	9.9	14.1	420bps	12.6	13.1	48bps	13.9	We believe margin level will normalise, going forward, with restoration of advertismnt, travelling and other expenses
PAT	500.4	882.7	76.4	898.8	1021.7	13.7	1256.8	
EPS (₹)	8.0	14.1	76.9	14.4	16.4	13.7	20.1	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current			FY23E	Earlier		Comments
	FY20E	FY21E	FY22E	Introduced	FY21E	FY22E	
Cable Growth (%)	-7.4	-4.1	19.7	11.0	-11.0	21.0	We model revenue CAGR of 8% in FY20-23E with gradual recovery in the demand of wire & cable segment led by improved government and private
Switchgear Growth (%)	-5.1	-5.1	17.6	10.6	-11.3	18.2	With recovery in the housing segment the switchgear segment is likely to grow at CAGR of 7% in FY20-23E
ECD Growth (%)	-3.7	-1.1	31.1	18.7	-8.6	29.5	Lower penetration, new launches coupled with rising aspiration level of middle class would help drive performance of ECD segment by 15% in FY21-23E. We model ECD and Lloyd segment revenue CAGR of 14% and 17%,
Lighting & Fixtures (%)	-13.2	-5.0	23.6	12.0	-3.7	21.6	Lighting segment growth to be largely driven by LED fixtures

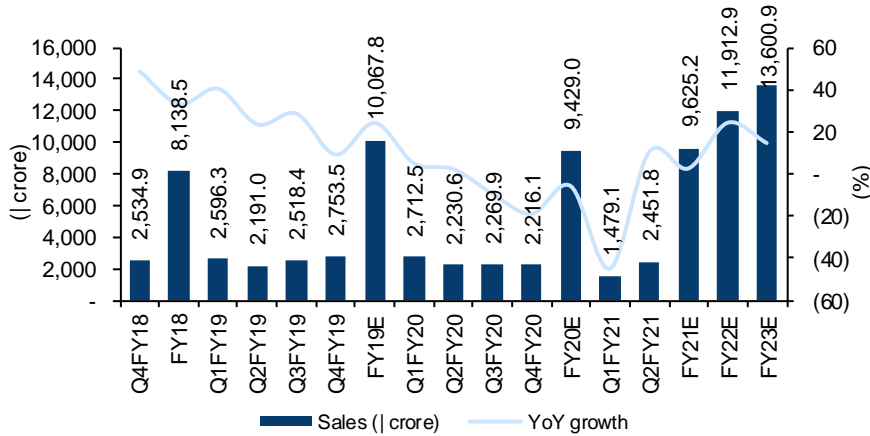
Source: Company, ICICI Direct Research

## Conference call highlights

- All factories are operating at full capacity post opening up of the economy. The consumer facing business witnessed strong demand while industrial business was on recovery mode
- The festive demand (largely pent up demand) and low channel inventory would result in a strong H2FY21. Improvement in housing sector along with higher government expenditure is expected to drive performance of industrial product categories
- The company has started focusing on rural markets (with population below ~50000) as these regions are less affected by Covid-19. Contribution from these regions increased to 4% now compared to 1.5-2% of company's overall sale in Q1FY21
- Ecommerce sales contributes ~4-5% of sales
- The distribution of Lloyd business is streamlined now. Currently, modern trade and online channels contribute ~35% of Lloyd sales vs. almost nil sales three years back. The dependency on traditional trade has reduced to 65% now
- The initial response of newly launched refrigerators is encouraging
- The company reported strong growth in its premium fan segments. Overall industry growth was in single digits during Q2FY21
- Total ~75% of its sales produced domestically. Dependency on China reduced significantly to 10-11% of revenue
- Market share gains in almost all product categories due to its strong supply chain management, gaining market share from unorganised categories
- The company would outsource manufacturing of other products in the Lloyd brand barring AC. The capital expenditure for FY21 would be ~₹ 330 crore. Also, ₹ 220-250 crore is for FY22E
- The net working capital cycle increased to 37 days in Q2FY21 from 44 days in Q2FY20, due to improved collections and reduced inventory days
- As on September 2020, cash flow from operations increased to ₹ 322 crore from ₹ 87 crore in the same period last year. Net cash was at ₹ 1416 crore as on H1FY21 compared to ₹ 725 crore in the same period last year

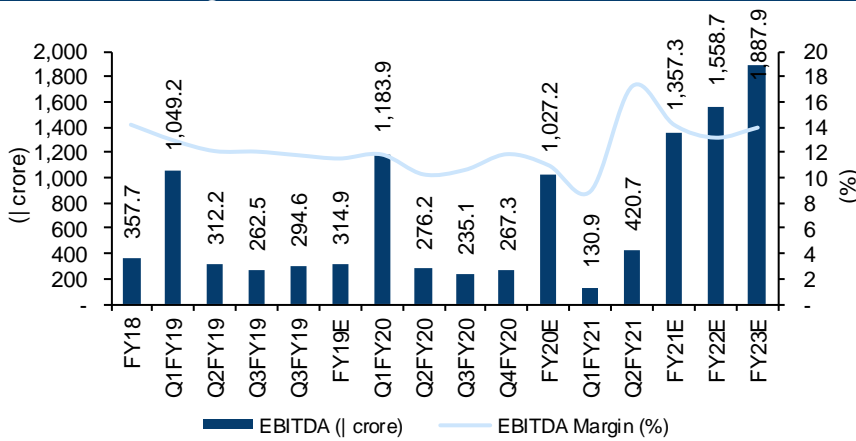
## Financial story in charts

Exhibit 4: Recovery in consumer business to help drive overall sales



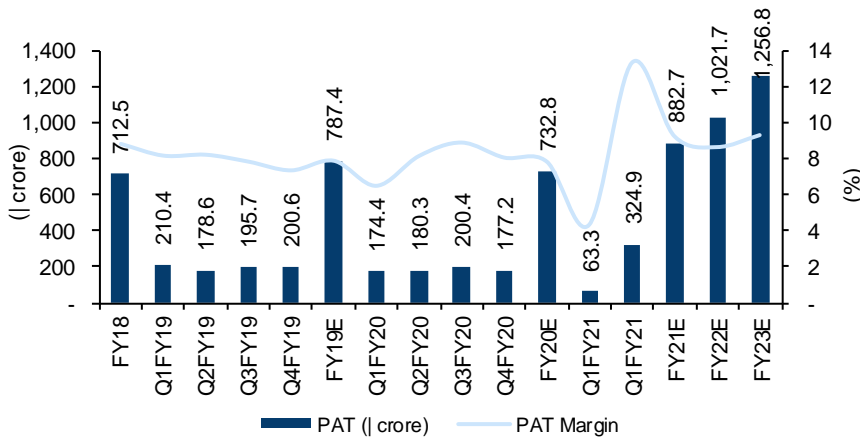
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA margin movement



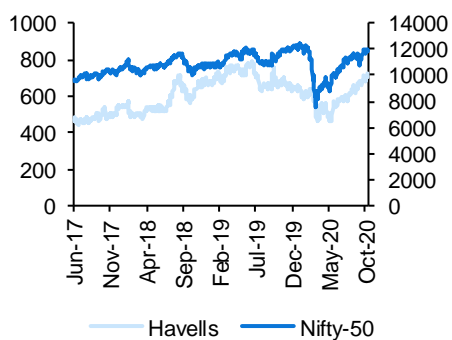
Source: Company, ICICI Direct Research

Exhibit 6: Recovery in sales, EBITDA to drive PAT



Source: Company, ICICI Direct Research

**Exhibit 7: Price chart**



Source: Capitaline, Company, ICICI Direct Research

**Exhibit 8: Shareholding Pattern**

(in %)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoter	59.5	59.5	59.5	59.5	59.5
FII	26.3	25.9	23.0	21.9	22.2
DII	6.0	6.0	8.5	9.9	10.1
Others	8.2	8.6	8.9	8.7	8.2

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 9: Profit and loss statement					₹ crore
(Year-end March)	FY 20	FY 21E	FY 22E	FY 23E	
Total Operating Income	9429.0	9625.2	11912.9	13600.9	
Growth (%)		2.1	23.8	14.2	
Raw Material Expense	4389.6	4523.8	5837.3	6664.5	
Employee Expenses	899.6	879.7	1131.7	1314.9	
Marketing Expenses	320.9	219.0	441.5	441.8	
Other expenses	1346.2	1315.5	1609.1	1768.1	
Operating Expenditure	8401.8	8267.8	10354.2	11713.0	
EBITDA	1027.2	1357.3	1558.7	1887.9	
Growth (%)		32.1	14.8	21.1	
Other Income	112.0	156.0	141.6	129.9	
Interest	19.7	85.8	73.0	52.0	
Depreciation	217.9	240.6	262.1	285.6	
Less: Exceptional Item	0.0	0.0	0.0	0.0	
PBT	901.5	1186.9	1365.2	1680.2	
Total Tax	168.7	304.2	343.5	423.4	
PAT	732.8	882.7	1021.7	1256.8	

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement					₹ crore
(Year-end March)	FY 20	FY 21E	FY 22E	FY 23E	
Profit after Tax	732.8	882.7	1021.7	1256.8	
Depreciation	217.9	240.6	262.1	285.6	
CF before working cap chan	970.5	1209.2	1356.7	1594.4	
Net Increase in Current Ass	197.2	-336.1	-536.9	-454.6	
Net Increase in Current Liabi	-211.3	-716.9	386.6	285.3	
CF from operating activities	956.3	156.1	1206.4	1425.1	
(Purchase)/Sale of Liquid Inv	0.0	0.0	0.0	0.0	
Others	-507.7	-330.0	-300.0	-300.0	
(Purchase)/Sale of Fixed As	-507.7	-330.0	-300.0	-300.0	
CF from Investing Activities	-456.6	-380.0	-315.0	-315.0	
Proceeds frm Equity Shares	0.0	0.0	0.0	0.0	
Inc / (Dec) in Loan Funds	-40.5	758.0	-300.0	-50.0	
Others	-640.0	-514.4	-815.4	-1165.6	
CF from Financing Activities	-680.5	243.6	-1115.4	-1215.6	
Net Cash flow	-180.8	19.7	-224.0	-105.5	
Opening Cash	1287.8	1106.9	1126.7	902.7	
Closing Cash	1106.9	1126.7	902.7	797.2	

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet					₹ crore
(Year-end March)	FY 20	FY 21E	FY 22E	FY 23E	
Equity Capital	62.6	62.6	62.6	62.6	
Reserve and Surplus	4242.2	4696.4	4975.6	5118.8	
Total Shareholders fu	4304.8	4759.0	5038.2	5181.3	
Total Debt	0.0	758.0	458.0	408.0	
Deferred Tax Liability	286.5	286.5	286.5	286.5	
Total Liabilities	4704.2	5916.4	5895.6	5988.8	
Assets					
Total Gross Block	4176.4	4491.4	4741.4	4991.4	
Less Acc. Depreciati	1073.4	1314.1	1576.1	1861.8	
Net Block	3103.0	3177.3	3165.2	3129.6	
Capital WIP	82.7	97.7	147.7	197.7	
Total Fixed Assets	3185.7	3275.0	3312.9	3327.3	
Investment	491.21	67.29	81.78	73.67	
Inventory	1871.9	1977.8	2349.9	2682.9	
Debtors	248.9	474.7	587.5	670.7	
Other Current Assets	214.1	218.5	270.4	308.8	
Cash	1106.9	1126.7	902.7	797.2	
Total Current Assets	3441.7	3797.6	4110.6	4459.6	
Total Current Liabilitie:	2343.6	1626.7	2013.3	2298.6	
Net Current Assets	1098.1	2170.9	2097.2	2161.0	
Total Assets	4704.2	5916.4	5895.6	5988.8	

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios					₹ crore
(Year-end March)	FY 20	FY 21E	FY 22E	FY 23E	
Per Share Data					
Reported EPS	11.7	14.1	16.4	20.1	
Cash EPS	15.2	18.0	20.6	24.7	
BV per share	69.0	76.3	80.8	83.0	
DPS	4.8	6.0	11.9	17.9	
Operating Ratios (%)					
EBITDA Margin (%)	10.9	14.1	13.1	13.9	
PAT Margin (%)	7.8	9.2	8.6	9.2	
Asset Turnover	2.0	1.6	2.0	2.3	
Debtors Turnover	9.6	18.0	18.0	18.0	
Creditor Turnover	54.7	30.0	30.0	30.0	
Return Ratios (%)					
RoE	17.0	18.5	20.3	24.3	
RoCE	19.6	21.5	24.4	28.9	
RoIC	21.0	22.1	24.2	28.4	
Valuation Ratios					
EV / EBITDA	42.5	32.7	28.4	23.5	
P/E	61.0	50.7	43.8	35.6	
EV / Net Sales	4.6	4.6	3.7	3.3	
EV / Net Sales	4.6	4.6	3.7	3.3	
Market Cap / Sales	4.7	4.6	3.8	3.3	
Price to Book Value	10.4	9.4	8.9	8.6	
Solvency Ratios					
Debt / Equity	0.0	0.2	0.1	0.1	
Current Ratio	1.4	2.9	2.8	2.8	
Quick Ratio	0.3	0.7	0.7	0.7	

Source: Company, ICICI Direct Research

Exhibit 13: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap (₹Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Asian Paints (ASIPAI)	2,211	2,440	Buy	2,12,035	29.0	28.9	35.9	76.3	76.6	61.6	47.9	45.8	37.4	27.4	24.2	27.3	30.5	28.1	31.7
Astral Polytechnik (ASTP)	1,124	1,120	Hold	16,934	16.6	15.0	23.3	67.8	75.2	48.3	36.1	39.3	27.8	20.5	17.0	23.1	16.6	13.1	17.9
Amber Enterprises (AM2)	1,180	2,600	Buy	6,855	52.2	19.0	70.6	41.8	115.0	30.9	22.8	33.1	15.2	14.3	6.3	16.2	14.5	4.2	13.7
Bajaj Electricals (BAJEL)	488	495	Buy	5,548	0.0	4.1	14.8	NM	119.2	33.1	26.1	26.3	15.0	8.4	6.7	13.4	4.5	4.2	10.2
Berger Paints (BERPAI)	623	580	Hold	60,506	6.8	6.1	9.7	92.2	101.7	64.0	51.7	55.0	37.8	26.6	22.0	31.3	24.7	19.7	27.1
EPL(ESSPRO)	248	270	Buy	7,824	6.7	7.0	9.5	37.0	35.3	26.2	13.6	12.4	10.5	15.6	16.5	19.4	14.3	13.9	16.3
Havells India (HAVIND)	729	835	Buy	45,482	11.7	14.1	16.4	62.1	51.5	44.5	42.5	32.7	28.4	19.6	21.5	24.4	17.0	18.5	20.3
Kansai Nerolac (KANNE)	514	510	Buy	27,700	9.9	7.9	11.8	51.7	64.8	43.5	30.3	35.3	24.2	17.6	14.7	19.9	14.1	11.3	15.3
Pidilite Industries (PIDINI)	1,570	1,595	Buy	79,725	22.1	17.8	28.0	71.1	88.0	56.1	43.5	53.3	35.1	31.0	23.4	34.0	26.1	19.2	27.7
Polycab India (POLI)	920	1,040	Buy	13,697	51.4	58.1	62.9	17.9	15.8	14.6	11.4	11.2	9.5	26.5	21.4	23.2	20.0	18.2	18.0
Supreme Indus (SUPINC)	1,447	1,695	Buy	18,381	36.8	44.9	47.8	39.3	32.2	30.3	22.5	20.1	19.4	22.5	23.3	22.5	20.7	22.3	21.2
Symphony (SYMLIM)	845	960	Buy	5,911	26.0	20.5	32.0	32.5	41.1	26.4	26.7	33.9	21.0	28.8	23.5	37.0	29.0	23.0	35.1
Time Techno (TIMTEC)	38	47	Hold	859	7.5	3.4	9.4	5.1	11.2	4.1	3.3	4.5	3.0	12.5	7.4	13.5	9.3	4.3	11.0
V-Guard Ind (VGUARD)	170	210	Buy	7,281	4.3	3.7	5.3	39.3	46.1	32.0	28.2	31.0	22.9	24.8	20.1	25.2	18.6	15.1	19.4
Voltas Ltd (VOLTAS)	705	725	Buy	23,317	15.8	10.7	22.7	44.7	65.9	31.0	29.4	51.3	23.6	19.5	11.5	20.4	13.0	8.0	15.6

Source: Company, ICICI Direct Research

## RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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