

Estimate change

TP change

Rating change



Bloomberg	HAVL IN
Equity Shares (m)	625
M.Cap.(INRb)/(USD\$b)	320 / 4
52-Week Range (INR)	807 / 458
1, 6, 12 Rel. Per (%)	-9/-4/-16
12M Avg Val (INR M)	1092

Financials & Valuations (INR b)

Y/E Mar	2020E	2021E	2022E
Sales	94.3	81.0	105.0
EBITDA	10.3	8.1	12.2
PAT	7.3	4.8	8.0
EBITDA (%)	10.9	9.9	11.6
EPS (INR)	11.7	7.7	12.8
EPS Gr. (%)	(6.9)	(34.3)	66.9
BV/Sh. (INR)	68.8	73.7	81.9
Ratios			
Net D/E	(0.3)	(0.3)	(0.4)
RoE (%)	17.0	10.4	15.7
RoCE (%)	16.3	10.1	15.1
Payout (%)	87.5	36.0	36.0
Valuations			
P/E (x)	43.6	66.4	39.8
P/BV (x)	7.4	6.9	6.2
EV/EBITDA (x)	30.1	37.9	24.7
Div Yield (%)	1.7	0.5	0.8
FCF Yield (%)	1.5	1.2	1.8

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	59.5	59.5	59.6
DII	8.5	6.1	4.5
FII	23.1	25.9	27.3
Others	8.9	8.5	8.7

FII Includes depository receipts

CMP: INR511

TP: INR515 (+1%)

Neutral

Cost rationalization efforts may bear fruit beyond COVID as well

Business levers on full display in time of crisis

- Lost sales on account of COVID-19 were higher than expected at INR8b (or 25% of 4QFY20), resulting in 13%/16% miss in revenue/adj. PAT. Yet, our confidence in Havells (HAVL) business model stands firm due to its cost rationalization efforts (employee cost/ad-spends) and superior working capital management – two vital business levers unique to HAVL v/s peers.
- Moving lockdown timelines and the likely impact on demand revival and industrial-related business leads us to cut our FY21/FY22E EPS by 30%/13% as we build in some conservatism. Our FY20-22E revenue/EBITDA/adj. PAT CAGR stands at 6%/9%/5%. We maintain **Neutral** with lower TP of INR515 (earlier: INR590) as we await a better entry point in the stock.

Core portfolio revenue declines 21%; ad-spends trimmed by 68%

- Overall, 4QFY20 revenues declined 20% YoY to INR22.1b (13% below est.). Revenue miss was largely due to higher-than-expected impact of the lockdown as management attributed the sales loss of INR8b (25% of 4QFY20 revenue) to the COVID-19 pandemic. Excluding the COVID-19 crisis, revenue growth would have been up 9%, implying reversal of the declining revenue growth trend over the past 3-4 quarters.
- Negative operating leverage was partly negated by lower employee cost (-10% YoY) and cut in ad-spends by 68% to INR325m (or 1.5% of 4QFY20 sales v/s 3.7% in 4QFY19). Thus, EBITDA margin came in at 11.1%, better than our expectation of 10.8%.
- FY20 revenue/EBITDA/adj. PAT growth stood at -6%/-13%/-7%. Excluding the COVID-19 crisis, revenue would have increased 2%.
- **Segmental highlights: (a)** HAVL's core portfolio revenue declined 21% YoY in 4QFY20 – cables and wires (-24% YoY), switchgear (-14% YoY), lighting (-30% YoY) and ECD (-14% YoY). **(b)** Lloyd declined 14% YoY.
- Working capital management was quite strong, resulting in OCF rising 61% to INR8.2b in FY20.

Key highlights from management commentary

- Management has highlighted that growth momentum was strong in double-digit for Jan-Feb'20 as initially there were concerns on the supply-side issues due to the COVID-19 pandemic breaking out first in China.
- Channel inventory is higher for seasonal products like ACs and fans, but is normal for other electrical products. Post relaxation of the lockdown across Green/Orange zones over the last few days, some pent-up demand has been witnessed, thanks to the company's focus on rural/semi-urban markets. However, it is too late to make up for sales in the seasonal categories now.
- Management has been pleasantly surprised by the response of dealers in this time of crisis. Dealers have not complained about their annual margins at all and there has been clearance of collections as well lately.

- As an organization, HAVL remains flexible. Management has maintained that it is difficult to provide guidance on capex and ad-spends at present, as it would depend on normalization of sales. While excess costs would be curtailed, the R&D expenses and product development related work continues uninterrupted.

Valuation and view

- We have cut our FY21E/F22E earnings by 30%/13% as we have factored in (a) the likely lost sales in 1QFY21 as well as the weak primary sales in the UCP segment for FY21 until inventory normalizes, and (b) the weak industrial activity related sales in cables and wires and the switchgear segment. We forecast FY20-22E revenue/EBITDA/PAT growth of at 6%/9%/5% (to be on conservative side) as FY21 is expected to be a washout year. Note our adj. PAT growth is lower than EBITDA growth as tax rates should normalize to 25.2% from 18.7% in FY20. We maintain **Neutral** rating with lower TP of INR515 (earlier: INR590) as we await a better entry point in the stock.

Quarterly Performance

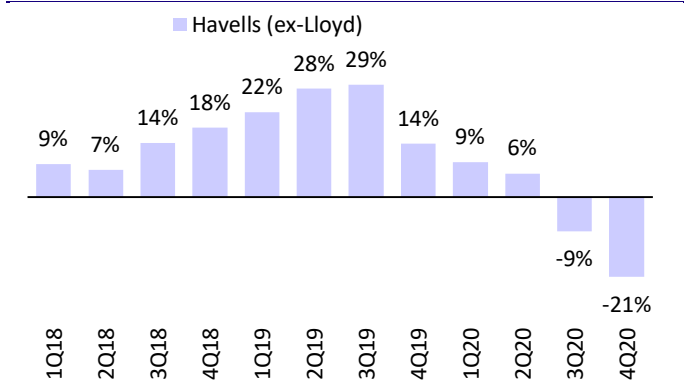
Y/E March	FY19				FY20				(INR Million)			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	FY19	FY20	MOSL	Var.
Sales	25,963	21,910	25,269	27,535	27,120	22,312	22,699	22,161	1,00,677	94,292	25,547	-13.3%
Change (%)	39.5	23.3	28.5	8.6	4.5	1.8	-10.2	-19.5	23.7	-6.3	-7.2	
Adj EBITDA	3,123	2,625	2,942	3,149	2,757	2,375	2,690	2,453	11,838	10,274	2,762	-11.2%
Change (%)	81.1	2.2	12.2	-12.0	-11.7	-9.5	-8.6	-22.1	12.8	-13.2	-14.5	
Adj EBITDA margin (%)	12.0	12.0	11.6	11.4	10.2	10.6	11.8	11.1	11.8	10.9	10.8	
Depreciation	350	391	360	392	469	533	553	625	1,494	2,179	582	
Interest	26	37	38	61	47	51	53	46	161	197	49	
Other Income	292	343	332	311	397	289	239	195	1,278	1,120	291	
Extra-ordinary Items	-	-	-	-	-	-	-	-	-	-	-	
PBT	3,039	2,540	2,876	3,006	2,637	2,079	2,324	1,977	11,461	9,017	2,422	-18.4%
Tax	935	754	899	1,000	898	255	329	205	3,588	1,687	302	
Effective Tax Rate (%)	30.8	29.7	31.3	33.3	34.1	12.3	14.2	10.4	31.3	18.7	12.5	
Reported PAT	2,104	1,786	1,977	2,006	1,739	1,824	1,995	1,772	7,873	7,330	2,120	-16.4%
Change (%)	73.3	4.4	1.7	-11.1	-17.3	2.1	0.9	-11.7	10.5	-6.9	2.5	
Adj PAT	2,104	1,786	1,977	2,006	1,739	1,824	1,995	1,772	7,873	7,330	2,120	-16.4%
Change (%)	73.3	4.4	14.0	-14.6	-17.3	2.1	0.9	-11.7	12.4	-6.9	2.5	

Segmental Performance

(INR M)

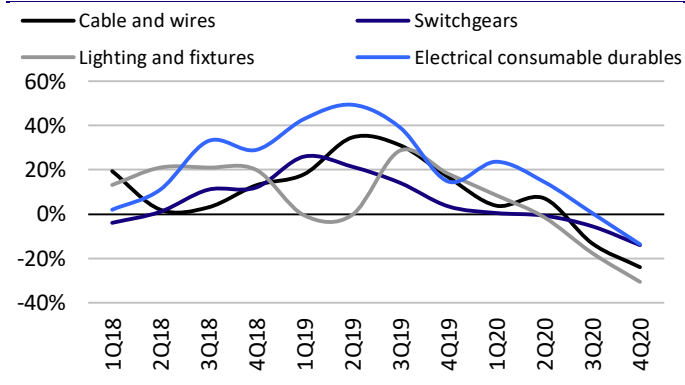
Y/E March	FY19				FY20			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Sales								
Switchgear	3,758	4,006	3,929	4,085	3,775	3,977	3,713	3,511
Cables & Wires	7,499	7,665	8,203	8,979	7,785	8,213	7,121	6,823
Consumer Durable	5,042	4,805	5,785	5,331	6,235	5,506	5,814	4,603
Lighting & Fixtures	2,583	2,856	3,695	3,816	2,804	2,817	3,046	2,646
Lloyd Electric	7,081	2,579	3,572	5,324	6,520	1,800	3,004	4,579
% YoY								
Switchgear	10.9	21.4	14.1	4	0.5	(0.7)	(5.5)	(14)
Cables & Wires	17.9	34.6	31.1	17	3.8	7.2	(13.2)	(24)
Consumer Durable	40.7	49.4	39.1	15	23.7	14.6	0.5	(14)
Lighting & Fixtures	(0.6)	(0.4)	28.7	18	8.6	(1.4)	(17.6)	(31)
Lloyd Electric	-	(4.4)	21.9	(9)	(7.9)	(30.2)	(15.9)	(14)
Profit Contribution								
Switchgear	1,493	1,591	1,631	1,605	1,489	1,589	1,479	1,209
Cables & Wires	1,279	1,070	1,294	1,575	1,288	1,510	1,248	841
Consumer Durable	1,423	1,287	1,412	1,372	1,729	1,383	1,496	1,133
Lighting & Fixtures	711	847	1,089	982	809	772	893	758
Lloyd Electric	1,370	476	531	798	1,049	(42)	236	444
Contribution Margin (%)								
Switchgear	39.7	39.7	41.5	39.3	39.5	39.9	39.8	34.4
Cables & Wires	17.0	14.0	15.8	17.5	16.5	18.4	17.5	12.3
Consumer Durable	28.2	26.8	24.4	25.7	27.7	25.1	25.7	24.6
Lighting & Fixtures	27.5	29.6	29.5	25.7	28.9	27.4	29.3	28.7
Lloyd Electric	19.4	18.5	14.9	15.0	16.1	(2.3)	7.8	9.7

Exhibit 1: Havells' (ex-Lloyd) revenue declined for the second consecutive quarter...



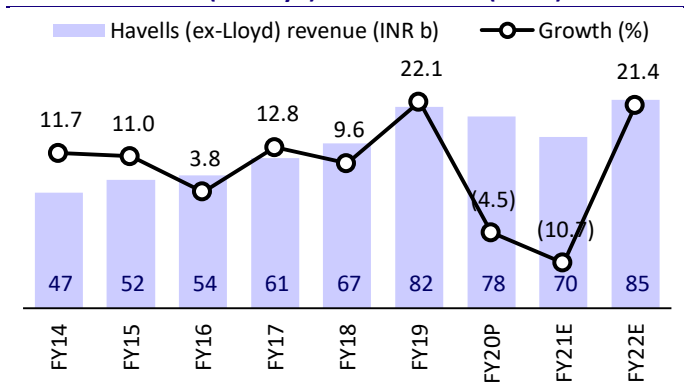
Source: MOFSL, Company

Exhibit 2: ...led by decline across product categories



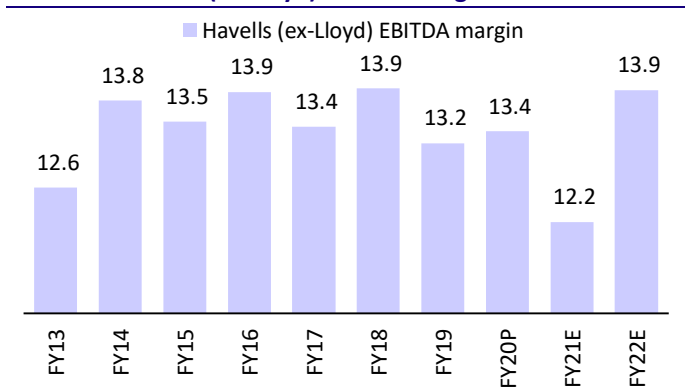
Source: MOFSL, Company

Exhibit 3: Havells (ex-Lloyd) revenue trend (INR b)



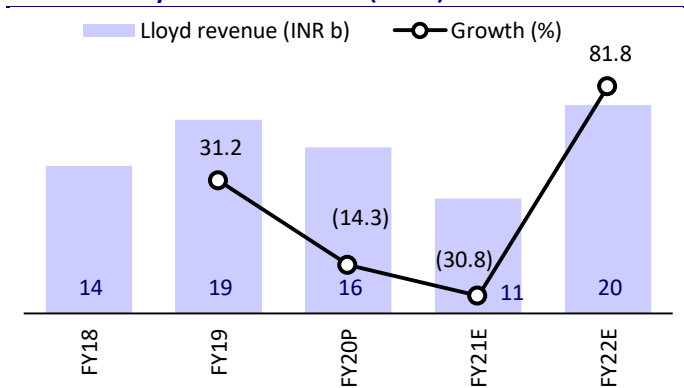
Source: MOFSL, Company

Exhibit 4: Havells (ex-Lloyd) EBITDA margin trend



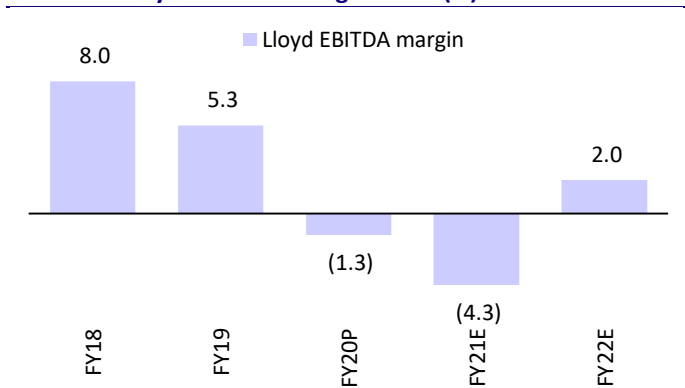
Source: MOFSL, Company

Exhibit 5: Lloyd's revenue trend (INR b)



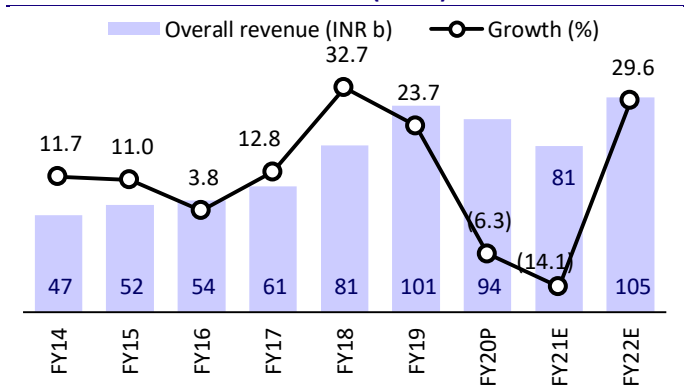
Source: MOFSL, Company

Exhibit 6: Lloyd's EBITDA margin trend (%)



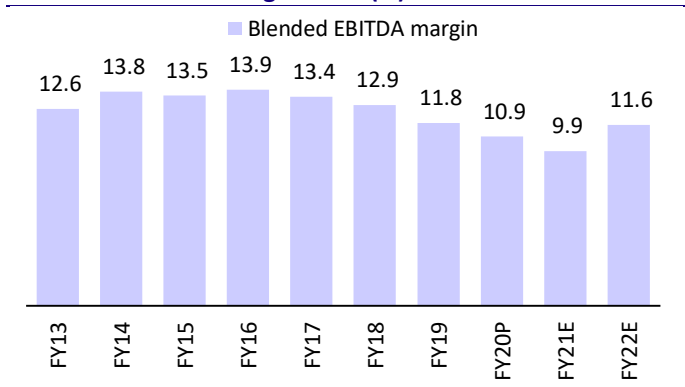
Source: MOFSL, Company

Exhibit 7: Overall revenue trend (INR b)



Source: MOFSL, Company

Exhibit 8: Blended margin trend (%)



Source: MOFSL, Company



4QFY20 conference call highlights

- Markets are moving in a slow pace as customers and dealers are cautious.
- Urban areas are struggling while rural and semi-urban areas are relatively better.
- Year-end dealer scheme was paid by 31st Mar'20.
- 4QFY20 started on a strong note with consumer business growing in double-digit during the first two months. However, later part of Mar'20 had disproportionate impact on overall sales. The company lost 25% sales due to the lockdown toward end-Mar'20.
- Excluding the COVID-19 crisis, 4QFY20 could have seen growth of 9% YoY.

Lockdown lifting impact

- While urban areas are slowly opening up, demand is coming from rural and semi-urban areas as well. So, there could be a scenario where there is some movement of inventory at dealer end in Apr'20. This would be limited to fans, lighting, ACs, etc.
- Small product category like personal grooming has also seen some pick-up.
- The first 7-8 days of Mar'20 were slightly better than expectation.

Channel support

- During the last 45 days, there have been some collections as against earlier expectation of nil collections.
- HAVL has not seen any issues where dealers have required long line of credit from the company.
- The company does not think there is requirement of heavy discounting presently.

Cost rationalization

- Cost structure rationalization was an ongoing activity even prior to COVID-19.
- Management is looking at new ways on conducting business.
- There have been no pay cuts as yet.

Revenue miss

- Lloyd witnessed lost sales of INR2.5b.
- All put together, HAVL lost INR8b of sales in 4QFY20.

Other comments

- Even though end-Mar'20 sales were nil, inventory may be higher for seasonal products only and not for other products.
- Management believes initial recovery should happen for consumer categories rather than industrial categories.
- Seasonal product sales have been lost and it is too late to recoup the same. There will be some pent-up demand in Jun'20.
- Even if sales happen, initially the channel would look to liquidate first. So, initial few months of demand would be pull-based rather than push-based.
- Dealers have not complained about their annual margins at all.
- On switchgears, there was a mix impact on higher export sales. But, bigger impact was on account of negative operating leverage.

- **Capex** – Management may revisit it depending on the trends and build-up of sales. Most of the capex done over the last two years was for the future. Thus, capex intensity was expected to be lower compared to the last two years.
- Higher depreciation was on account of commencement of the AC plant. Quarterly run-rate should continue going forward.
- There has been no cut in R&D expenses yet.
- While ad-spends were lower this quarter, it is expected to normalize when the situation improves.
- Lloyd is making inroads in multi-brand retail. Modern retail forms 30-32% of the industry. Lloyd is close to this number.
- Industrial sales make up 20-22% of HAVL's revenue, the rest is consumer business.

Earnings change and Valuation

- **Change in estimates:** We have cut our FY21E/F22E earnings by 30%/13% as we have factored in (a) the likely lost sales in 1QFY21 as well as the weak primary sales in the UCP segment for FY21 until inventory normalizes, and (b) the weak industrial activity related sales in cables and wires and the switchgear segment.
- We forecast FY20-22E revenue/EBITDA/PAT growth of at 6%/9%/5% (to be on conservative side) as FY21 is expected to be a washout year. Note our adj. PAT growth is lower than EBITDA growth as tax rates should normalize to 25.2% from 18.7% in FY20. We maintain **Neutral** rating with lower TP of INR515 (earlier: INR590) as we await a better entry point in the stock.

Exhibit 9: We cut our FY21/FY22E EPS by 30%/13%

Earnings Change (INR m)	Old			New			Change		
	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	97,668	97,587	1,17,121	94,292	81,000	1,05,000	-3%	-17%	-10%
EBITDA	10,532	10,516	13,682	10,274	8,059	12,222	-2%	-23%	-11%
EBITDA margin	10.8%	10.8%	11.7%	10.9%	9.9%	11.6%	0.1%	-0.8%	0.0%
Adj. PAT	7,676	6,861	9,223	7,330	4,817	8,039	-5%	-30%	-13%

Source: MOFSL, Company

Financials and valuations

Income Statement						(INR M)
Y/E March	2017	2018	2019	2020	2021E	2022E
Net Sales	61,353	81,386	1,00,677	94,292	81,000	1,05,000
Change (%)	14.1	32.7	23.7	-6.3	-14.1	29.6
EBITDA	8,241	10,493	11,838	10,274	8,059	12,222
% of Net Sales	13.4	12.9	11.8	10.9	9.9	11.6
Depreciation	1,196	1,395	1,494	2,179	2,529	2,618
Interest	122	240	161	197	200	200
Other Income	1,343	1,170	1,278	1,120	1,107	1,339
PBT	8,266	10,028	11,461	9,017	6,437	10,743
Tax	2,298	3,022	3,588	1,687	1,620	2,704
Rate (%)	27.8	30.1	31.3	18.7	25.2	25.2
Extra-ordinary Inc.(net)	-578	119	0	0	0	0
Reported PAT	5,390	7,125	7,873	7,330	4,817	8,039
Change (%)	-24.3	32.2	10.5	-6.9	-34.3	66.9
Adjusted PAT	5,969	7,006	7,873	7,330	4,817	8,039
Change (%)	17.1	17.4	12.4	-6.9	-34.3	66.9

Balance Sheet						(INR M)
Y/E March	2017	2018	2019	2020	2021E	2022E
Share Capital	625	625	626	626	626	626
Reserves	32,111	36,766	41,297	42,422	45,505	50,650
Net Worth	32,736	37,392	41,922	43,048	46,131	51,276
Loans	2,010	1,080	405	0	0	0
Deferred Tax Liability	1,138	2,070	3,168	2,865	2,865	2,865
Capital Employed	35,883	40,541	45,495	45,913	48,996	54,141
Gross Fixed Assets	17,502	34,113	34,011	40,646	43,646	46,646
Less: Depreciation	5,404	6,799	4,973	7,152	9,680	12,299
Net Fixed Assets	12,098	27,314	29,038	33,494	33,965	34,347
Capital WIP	119	241	2,327	861	861	861
Investments	5,471	955	17	16	16	16
Curr. Assets	31,911	36,905	39,875	36,107	35,602	45,992
Inventory	9,284	16,217	19,190	18,719	16,080	20,845
Debtors	2,285	3,254	4,242	2,489	2,138	2,771
Cash & Bank Balance	19,375	15,262	12,877	11,069	14,094	18,111
Loans & Advances	223	0	0	0	0	0
Other Current Assets	744	2,173	3,566	3,830	3,290	4,265
Current Liab. & Prov.	13,717	24,873	25,762	24,565	21,449	27,076
Creditors	6,296	16,340	15,601	14,141	12,147	15,747
Other Liabilities	5,655	6,754	7,804	7,969	6,845	8,874
Provisions	1,766	1,780	2,358	2,456	2,456	2,456
Net Current Assets	18,195	12,032	14,113	11,542	14,153	18,916
Application of Funds	35,883	40,541	45,495	45,913	48,996	54,141

Financials and valuations

Ratios

Y/E March	2017	2018	2019	2020	2021E	2022E
Basic (INR)	8.6	11.4	12.6	11.7	7.7	12.8
Adjusted EPS	9.6	11.2	12.6	11.7	7.7	12.8
Growth (%)	17.0	17.3	12.3	-6.9	-34.3	66.9
Cash EPS	11.5	13.4	15.0	15.2	11.7	17.0
Book Value	52.4	59.8	67.0	68.8	73.7	81.9
DPS	0.0	3.5	4.0	8.5	2.3	3.9
Payout (incl. Div. Tax.)	0.0	37.6	38.3	87.5	36.0	36.0
Valuation (x)						
P/Sales	5.2	3.9	3.2	3.4	3.9	3.0
P/E	53.5	45.6	40.6	43.6	66.4	39.8
Cash P/E	44.6	38.0	34.1	33.6	43.6	30.0
EV/EBITDA	36.7	29.1	26.0	30.1	37.9	24.7
EV/Sales	4.9	3.8	3.1	3.3	3.8	2.9
Price/Book Value	9.8	8.5	7.6	7.4	6.9	6.2
Dividend Yield (%)	0.0	0.7	0.8	1.7	0.5	0.8
Profitability Ratios (%)						
RoE	18.2	18.7	18.8	17.0	10.4	15.7
RoCE	16.9	17.7	17.5	16.3	10.1	15.1
RoIC	46.1	26.1	21.8	18.9	11.9	20.0
Turnover Ratios						
Debtors (Days)	14	15	15	10	10	10
Inventory (Days)	55	73	70	72	72	72
Creditors. (Days)	37	73	57	55	55	55
Asset Turnover (x)	1.7	2.0	2.2	2.1	1.7	1.9
Leverage Ratio						
Debt/Equity (x)	-0.5	-0.4	-0.3	-0.3	-0.3	-0.4

Cash Flow Statement

(INR Million)

Y/E March	2017	2018	2019	2020	2021E	2022E
PBT before EO Items	7,688	10,028	11,468	9,216	6,437	10,743
Add : Depreciation	1,196	1,395	1,494	2,179	2,529	2,618
Interest	-1,221	-249	-728	-535	-907	-1,139
Less : Direct Taxes Paid	2,298	2,450	2,469	2,398	1,620	2,704
(Inc)/Dec in WC	-1,215	-2,556	4,639	215	-413	745
CF from Operations	6,581	11,281	5,126	8,248	6,852	8,773
(Inc)/Dec in FA	-4,336	-15,888	-4,996	-3,592	-3,000	-3,000
Free Cash Flow	2,245	-4,607	130	4,655	3,852	5,773
(Pur)/Sale of Investments	499	836	710	625	1,107	1,339
CF from Investments	-3,838	-15,051	-4,287	-2,968	-1,893	-1,661
(Inc)/Dec in Net Worth	640	147	136	313	0	0
(Inc)/Dec in Debt	2,010	-901	-209	-937	0	0
Less : Interest Paid	122	197	135	52	200	200
Dividend Paid	0	2,632	3,016	6,413	1,734	2,894
CF from Fin. Activity	2,528	-3,583	-3,224	-7,088	-1,934	-3,094
Inc/Dec of Cash	5,271	-7,354	-2,385	-1,808	3,024	4,018
Add: Beginning Balance	13,652	19,375	15,262	12,877	11,069	14,094
Closing Balance	19,375	15,262	12,877	11,069	14,094	18,111

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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