

BSE SENSEX  
33,781

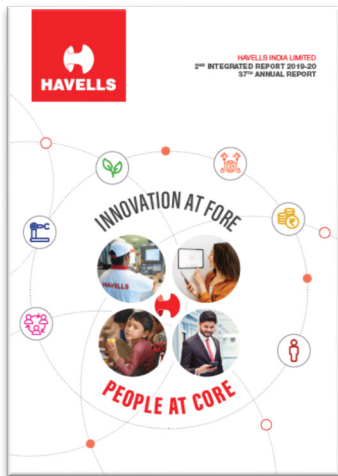
S&P CNX  
9,973

CMP: INR552

TP: INR515 (-7%)

Neutral

Increasing in-house content, adopting IoT; going rural



Motilal Oswal values your support in the Asiamoney Brokers Poll 2020 for India Research, Sales and Trading team. We request your ballot.



Stock Info

Bloomberg	HAVL IN
Equity Shares (m)	625
M.Cap.(INRb)/(USDb)	345.5 / 4.5
52-Week Range (INR)	807 / 447
1, 6, 12 Rel. Per (%)	7/1/-14
12M Avg Val (INR M)	1121

Financials Snapshot (INR b)

Y/E Mar	2020	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	12.9
EPS Gr. (%)	(6.9)	(34.2)	66.9
BV/Sh. (INR)	68.8	73.7	82.0

Ratios

Net D/E	(0.2)	(0.3)	(0.3)
RoE (%)	17.0	10.5	15.7
RoCE (%)	16.2	10.1	15.0
Payout (%)	87.5	36.0	36.0

Valuations

P/E (x)	47.1	71.6	42.9
P/BV (x)	8.0	7.5	6.7
EV/EBITDA (x)	32.6	41.1	26.8
Div Yield (%)	1.5	0.4	0.7
FCF Yield (%)	1.3	1.1	1.6

Havells' FY20 Annual Report suggests the company's holistic focus on growth driven by its in-house manufacturing; the company is using technology to aid the distribution network toward JIT, with a continued focus on customer delight. Here are the key highlights:

- Manufacturing remains core building block:** Compared with peers, Havells has always focused on higher in-house manufacturing content. In its core portfolio, the company manufactures >90% of products in-house v/s 20–50% for peers, making it one of the best 'Make in India' examples. The company is adopting the same philosophy toward the Lloyd business as well. The new AC plant, now operational, is a state-of-the-art facility, featuring the best manufacturing processes that showcase the Industry 4.0 philosophy.
- Strengthening distribution network:** The company is utilizing the latest technology to strengthen its distribution network and moving toward the Just-in-Time (JIT) philosophy. Havells has reduced the time taken to register a new channel partner from 15 days to 15 minutes. Almost 90% of the new channel partner registrations are done through the digital process. Also, Havells currently receives 90% of its orders through the online channel.
- Going rural:** Under the 'Rural – Vistaar' initiative, the company added 1,700 rural distributors, covering 18,000 outlets. Havells now has direct reach in 2,000+ rural towns, with a numerical reach of more than 21,000 outlets. The plan is to reach 3,000+ towns in the next 18 months.
- Product category expansion:** Havells launched 20 new product categories in FY20, with 2,232 new SKUs. New projects completed in FY20 include new category products under various segments such as Water Purifiers; connected products in the Appliances, Switches, and Lighting; low-noise ceiling fans and mixer grinders; and power-saving BLDC fans. The Air Purifiers and Personal Grooming segments also introduced new offerings. New product revenue stood at INR4b, higher than INR3.2b in FY19. The company also plans to enter the Refrigerator category in the coming six to nine months.
- Increasing R&D expenses toward new product development:** R&D expenses have been rising for the last five years now given the company's focus on improving its offerings. R&D expenses increased 28% in FY20 and now form 1.1% of sales v/s 0.8% of sales reported in FY19. The company expects R&D expenses as a percentage of sales to increase to 2% in the near future. The company filed 123 new IPRs (intellectual property rights) in FY20 and currently holds 386 IPRs.

Nilesh Bhaiya – Research Analyst (Nilesh.Bhaiya@MotilalOswal.com); +91 22 6129 1556

Pratik Singh – Research Analyst (Pratik.Singh@MotilalOswal.com); +91 22 6129 1543

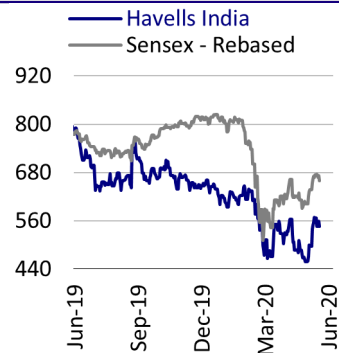
Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

**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

**Stock Performance (1-year)**

- **Segment-wise performance and outlook highlights:** A weakening macroeconomic environment, tightening sectoral liquidity, and slowdown in the infrastructure segment impacted demand for the Cables and Wires, Switchgears, and Lighting segments. The ECD segment was also impacted by weak customer sentiment. While the near-term growth outlook appears hazy due to the COVID-19 impact, management remains optimistic on longer term growth opportunities via **'Make in India'** and focus on government infrastructure-related spending. As remote working and Work-from-Home (WFH) becomes the new normal, **demand for home and kitchen gadgets and health and lifestyle products/equipment is expected to increase.**
- **FY20 performance highlights: (a) P&L highlights:** Revenue declined 6% to INR94.2b, with Havells core portfolio witnessing a decline of 5% and Lloyd business down 14%. EBITDA declined 13% to INR10.3b as EBITDA margin declined 90bp YoY to 10.9% in FY20 (FY19: 11.8%). PBT declined 21%, while adj. PAT de-grew by 7%, owing to lower effective tax rate of 18.7% (FY19: 31.3%). **(b) BS highlights:** Working capital cycle improved to 3 days from 6 days with net cash position of INR10.6b. Net D/E remained comfortable at -0.2x (FY19: -0.3x). **(c) Cash flow highlights:** Cash flow from operations increased 61% to INR8.2b, resulting in strong FCF generation of INR4.7b (FY19: INR130m). **(d) Return ratios:** On account of decline in operating profits (owing to Covid-19 impact at year end), RoE declined to 17% from 18.8% in FY19. RoIC declined to 18.7% from 21.4% in FY19.
- **Lloyd's performance dips as brand is in transition phase...:** Lloyd saw challenges on multiple fronts: **(a)** TVs (25% of FY19 revenues) witnessed sharp price erosion due to fierce competition from Chinese players; **(b)** in ACs, we estimate the company lost market share in 1HFY20 due to the revamp of the distribution network from traditional channels to the Multi-Brand Retail format. Lockdown in the peak season also impacted AC sales toward the year-end. Management estimates Lloyd's FY20 growth (ex-COVID-19 impact) to be at ~2% YoY v/s reported decline of 14%. In terms of margins, negative operating leverage and input cost pressure from import duty hikes and currency fluctuations imply a significant dent in Lloyd's profitability. As per our estimate, Lloyd would have reported loss in FY20, and we expect the brand to be loss-making over FY21–22 as well.
- **...but management expects some structural benefits: (a)** With the new AC factory now operational, the company is moving from 100% import dependency to in-house manufacturing. Management expects this to improve the brand image and instill confidence in the trade. **(b) Portfolio expansion:** Lloyd is expanding its portfolio both vertically and horizontally. For **ACs**, Havells would use its own factory, and for **Washing Machines** and **TVs**, the company would provide tools/molds to its suppliers in India. **The company also plans to enter the Refrigerator category in the coming six to nine months.** **(c)** The company plans to improve **inventory management** so that company and channel inventory are not high and carrying cost is in line with prevailing trends. Lloyd has accordingly shifted its LED sourcing from imports to Indian ODMs/OEMs, which would now offer flexibility in terms of availability and improved cost.
- **Cost rationalization measures to arrest margin pressure:** The company has adopted cost rationalization methods to arrest margin pressure in a weak























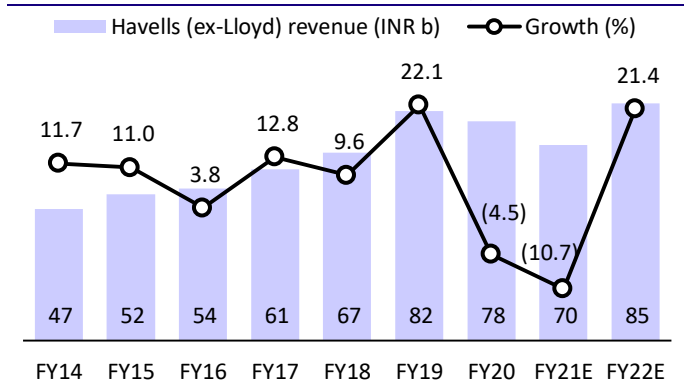


## Financial analysis

### Revenue analysis

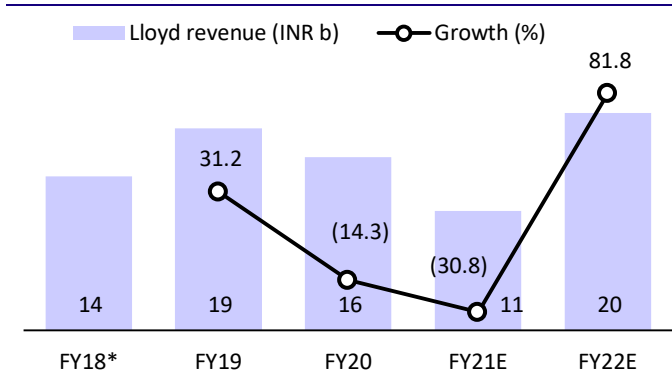
- Weak revenue growth across segments:** Havells' revenue (ex-Lloyd) declined 4.5% YoY in FY20 on decline across Cables and Wires (-7% YoY), Switchgears (-5% YoY), and Lighting and Fixtures (-13% YoY). The ECD segment's revenues grew 6% YoY on strong performances in the Water Heaters and Fans categories. Lloyd's revenue declined 14% YoY on higher decline in the LED TVs segment's sales due to continuous price erosion. Overall, Havells witnessed 6.3% YoY decline in the topline in FY20.

**Exhibit 25: Havells' revenue trend (ex-Lloyd)**



Source: MOFSL, Company

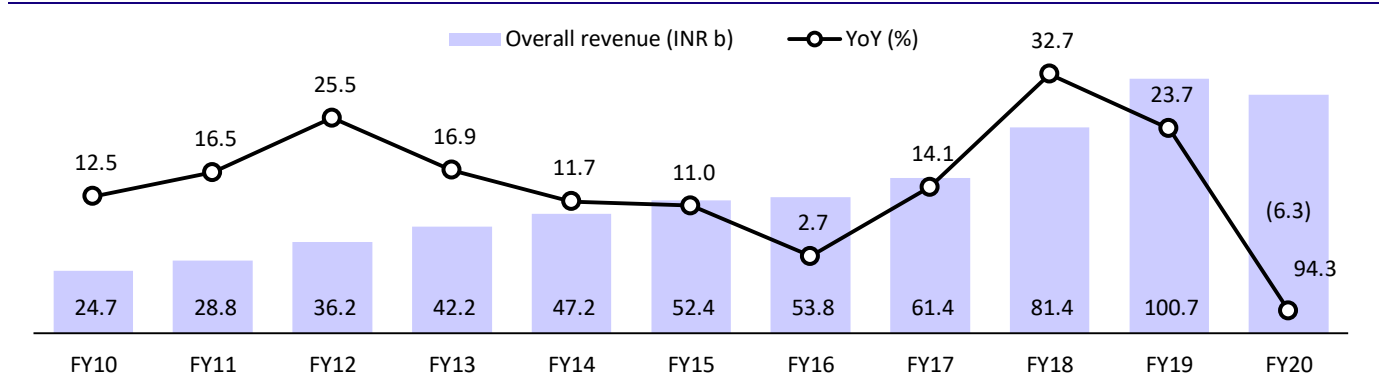
**Exhibit 26: Lloyd's revenue trend**



Source: MOFSL, Company

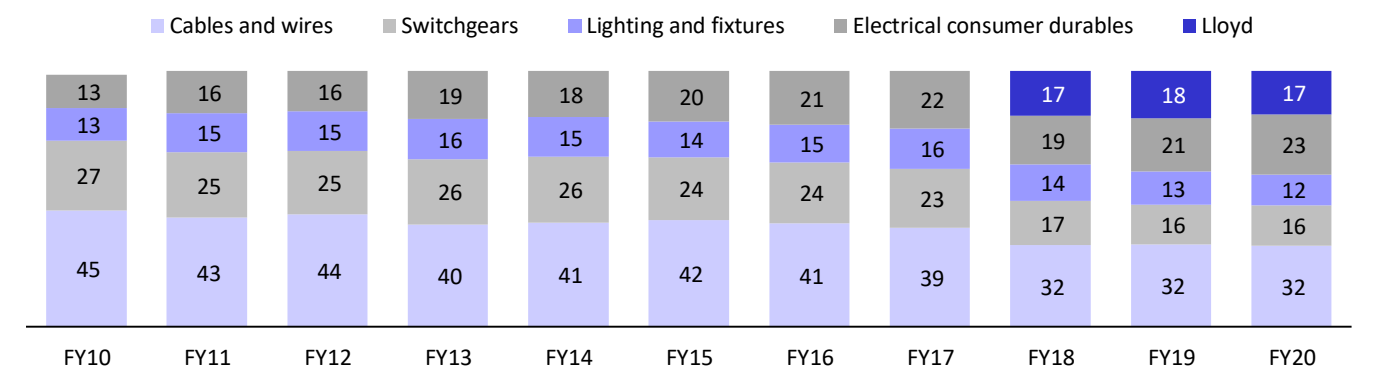
\*Lloyd's acquisition was done in mid of 1QFY18

**Exhibit 27: Overall, Havells' revenue has grown at a 14.3% CAGR over FY10–20**



Source: MOFSL, Company

- Declining share of Cables and Wires business:** Havells' dependence on Cables and Wires revenue has reduced in the last 10 years owing to strong growth in the ECD and Lighting segments, and the diversification with Lloyd's takeover. Cables and Wires constituted 32% of the total sales in FY20, down from 45% in FY10.

**Exhibit 28: Lowering dependence on Cables and Wires, and moving toward consumer-oriented businesses**

Source: MOFSL, Company

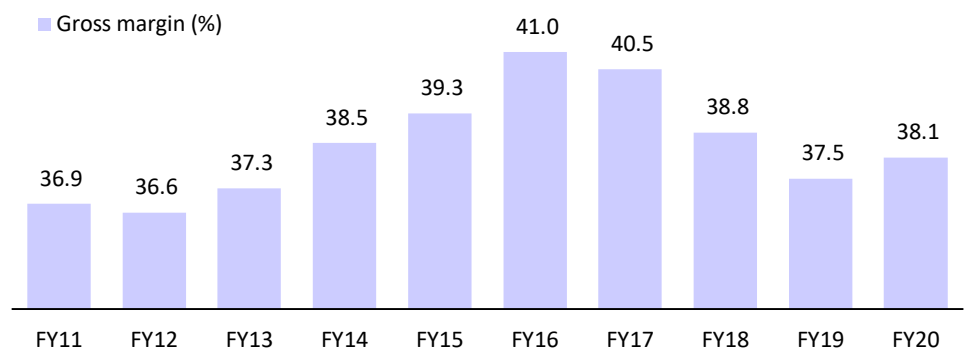
**Exhibit 29: Segmental growth rates across segments**

YoY growth	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Cables and Wires	7.8	4.2	29.3	6.2	13.8	13.7	0.8	7.8	9.3	24.4	(7.4)
Switchgears	14.9	3.9	22.0	20.3	13.1	4.9	0.6	9.4	0.1	12.1	(5.1)
Lighting and Fixtures	20.4	32.7	24.7	20.0	8.3	2.8	8.2	21.1	19.1	12.7	(13.2)
Electrical Consumer Durables	23.0	38.5	21.9	38.0	8.1	20.5	11.0	20.8	13.2	34.4	5.7
Lloyd	-	-	-	-	-	-	-	-	-	31.2	(14.3)

Source: MOFSL, Company

**Gross margin analysis**

- Gross margins have remained stable since FY15 as almost 90% of goods sold are manufactured in-house.
- However, higher import content in Lloyd, coupled with currency depreciation, led to gross margin decline in FY18 and FY19. Imports reduced significantly in FY20.
- With the Ghilot plant for ACs fully operational and a favorable commodity trend, we expect gross margins to gain some support.

**Exhibit 30: Higher in-house manufacturing led to increase in gross margins over FY11–FY17; FY18–19 decline on account of Lloyd acquisition due to higher import content**

Source: MOFSL, Company

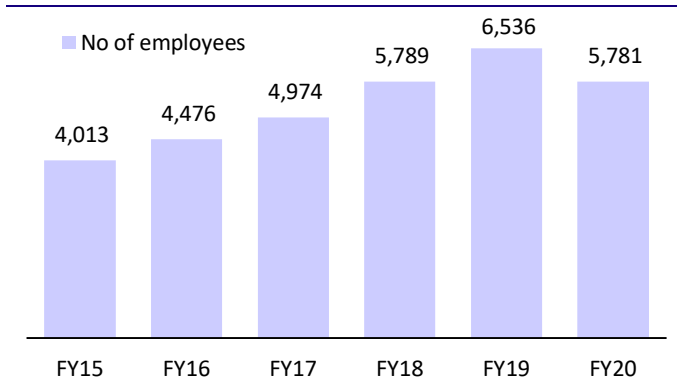
**Exhibit 31: AC imports in FY18 and FY19 affected gross margins, with FY20 seeing a significant decline owing to localization and indigenization**

Purchase of traded goods (INR m)	FY15	FY16	FY17	FY18	FY19	FY20
Switchgears	472	395	584	568	663	632
Lighting and Fixtures	1,236	1,813	2,114	2,758	2,661	2,566
Electrical Consumer Durables	2,284	1,718	2,235	2,037	3,576	4,238
Lloyd Consumer	-	-	-	11,837	13,098	5,287
Cables	-	-	-	-	-	6
<b>Total</b>	<b>3,992</b>	<b>3,927</b>	<b>4,933</b>	<b>17,200</b>	<b>19,997</b>	<b>12,728</b>
<b>as a % of Total RM</b>	<b>12.6</b>	<b>12.4</b>	<b>13.5</b>	<b>34.5</b>	<b>31.8</b>	<b>21.8</b>
<b>as a % of Total Revenue</b>	<b>7.6</b>	<b>7.3</b>	<b>8.0</b>	<b>21.1</b>	<b>19.9</b>	<b>13.5</b>

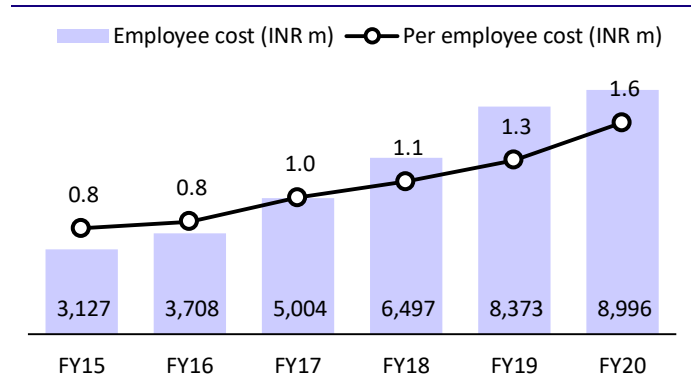
Source: MOFSL, Company

**Employee cost analysis**

- The number of employees declined 12% YoY, with staff cost rising 7.4% YoY in FY20.
- Implied per employee cost has been increasing steadily since FY15, with a 23% YoY increase seen in FY20. However, we expect the benefit of lower employee strength to reflect in the cost structure FY21 onward.

**Exhibit 32: Employee rationalization in FY20 after a steady rise since FY15**

Source: MOFSL, Company

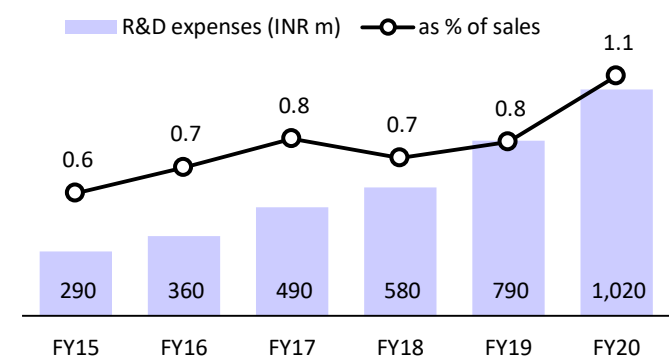
**Exhibit 33: Per employee cost has shown an upward trend over FY15–20**

Source: MOFSL, Company

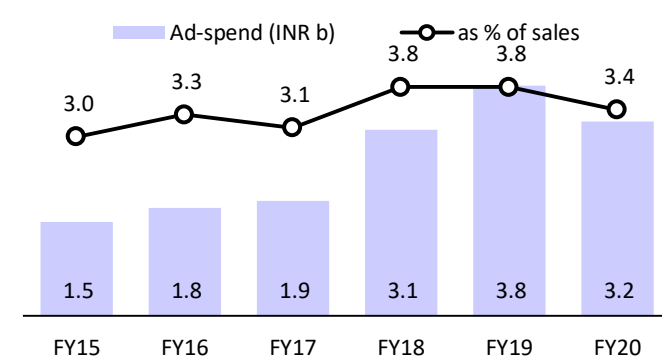
**Analysis of other expenses**

- **R&D expenses:** The level of indigenization has been growing largely due to increased focus on R&D spend and in-house development. In FY20, R&D expenses were up 28% YoY and stood at 1.1% of sales. The management targets R&D spend to rise to 2% of total sales going forward.
- **Ad spend:** Havells has been prudent in ad spend, with ad spend to sales being in the range of 3–4% of sales from FY15–20. On account of lower sales in FY20, the company rationalized its ad spend with a 16% reduction YoY. The rise in ad spend in FY18 and FY19 was attributed to Lloyd's acquisition as the company spent ~7% of Lloyd's sales on ad spend in the Lloyd business.



**Exhibit 34: Trend of R&D expenses**

Source: MOFSL, Company

**Exhibit 35: Ad spend trend**

Source: MOFSL, Company

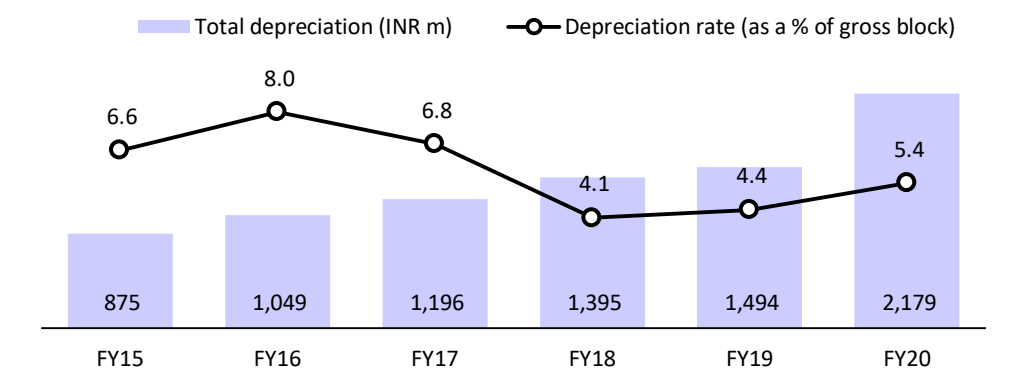
### Depreciation

- The implied depreciation rate stood lower from FY18–20 owing to higher intangible assets (Goodwill) from Lloyd's acquisition in FY18.
- The rise in depreciation in Switchgears / Cables and Wires in FY20 was largely attributed to capacity enhancements across company facilities.

**Exhibit 36: Higher depreciation in FY20 on capacity enhancements and the commencement of Lloyd's new facility**

(INR m)	FY15	FY16	FY17	FY18	FY19	FY20
Switchgears	321	383	399	415	383	511
Cables and Wires	270	316	413	402	431	612
Lighting and Fixtures	163	189	188	173	168	215
ECD	121	162	197	221	308	471
Lloyd	-	-	-	184	204	371
<b>Total</b>	<b>875</b>	<b>1,049</b>	<b>1,196</b>	<b>1,395</b>	<b>1,494</b>	<b>2,179</b>

Source: MOFSL, Company

**Exhibit 37: Implied depreciation rate lower over FY18–20 owing to high intangible assets via goodwill from Lloyd**

Source: MOFSL, Company

### Unallocable expenses on the rise

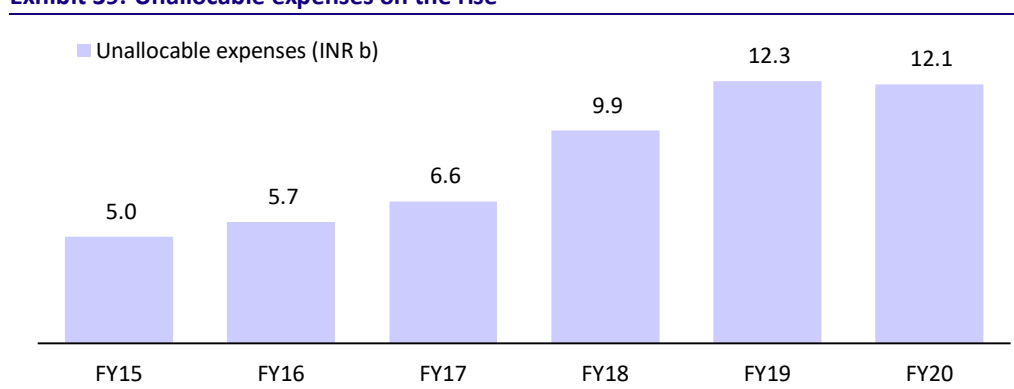
- Cables and Wires margins saw a jump in FY18 owing to favorable commodity prices in 2QFY18, with the company sustaining it in 3Q and 4Q. Margins moderated by 50bps from FY18 highs to 16.3% in FY20.

- Lighting margins were affected in FY16 due to falling CFL prices; however, the company has been able to sustain decent margins from FY17, in spite of price erosion in LED bulbs, owing to a higher share of fixtures.
- Margins in the Switchgears and ECD segments have remained healthy owing to higher in-house manufacturing, leading to tighter cost control.
- The major drop in Lloyd's margin over FY19–20 was attributed to higher imports, INR depreciation, rising custom duty, and market share loss in 1HFY20.
- Notably, unallocable expenses have been on the rise over the years, suggesting higher overheads, which have impacted company-level margins.

**Exhibit 38: Excl. Lloyd, the contribution margin across categories has risen over FY15–20**

(%)	FY15	FY16	FY17	FY18	FY19	FY20
Cables & wires	12.1	14.0	13.7	16.8	16.1	16.3
Switchgears	34.3	38.9	39.9	39.6	39.8	38.5
Lighting & fixtures	26.6	23.8	27.3	29.0	28.1	28.6
ECD	25.1	25.1	25.3	26.9	26.4	25.9
Lloyd	-	-	-	19.0	17.1	10.6

Source: MOFSL, Company

**Exhibit 39: Unallocable expenses on the rise**

Source: MOFSL, Company

### Capex trend

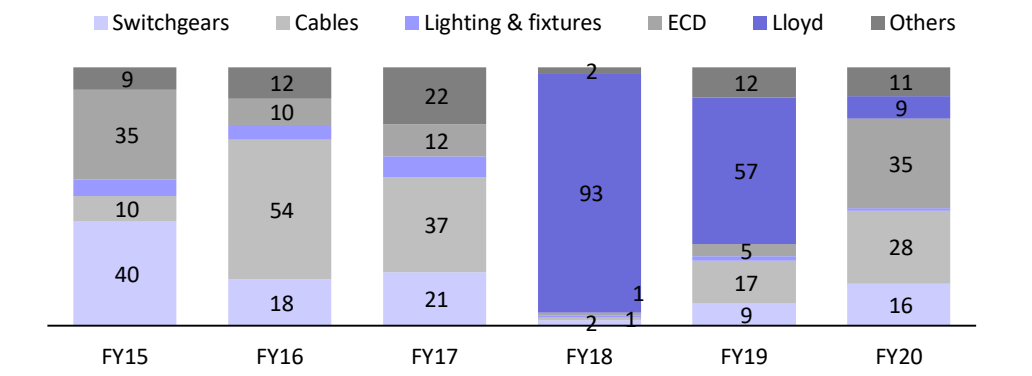
- Capex in FY20 was higher in the ECD segment owing to ongoing enhancements at the water heater and fans facilities. The company would add capacities in the Water Heaters and Fans categories. Lloyd's capex was higher in FY18 and FY19 on account of a new manufacturing facility at Ghilot.

**Exhibit 40: Segmental capex trend**

(INR m)	FY15	FY16	FY17	FY18	FY19	FY20
Switchgears	683	310	401	374	410	608
Cables	167	932	708	158	791	1,047
Lighting & Fixtures	106	102	156	111	82	31
ECD	585	176	238	212	227	1,294
Lloyd	-	-	-	15,559	2,701	321
Others	148	209	427	391	562	412
<b>Total</b>	<b>1,689</b>	<b>1,728</b>	<b>1,929</b>	<b>16,804</b>	<b>4,775</b>	<b>3,713</b>

Source: MOFSL, Company

**Exhibit 41: Share of capex across segments (% of overall capex), with Lloyd’s new facility occupying lion’s share in FY18–19**

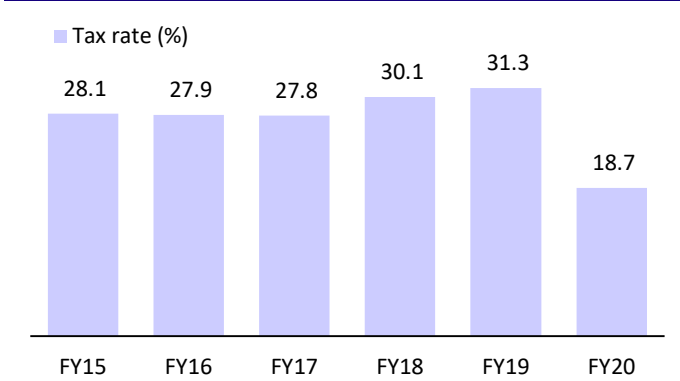


Source: MOFSL, Company

**Lower tax rate in FY20 due to DTL reassessment**

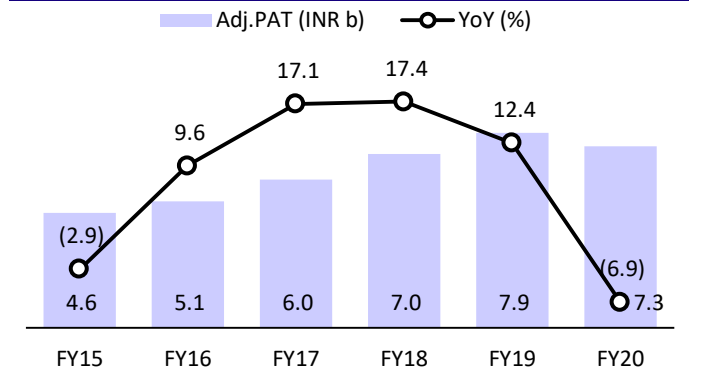
- Havells migrated to a new corporate tax rate of 25.2% in FY20. Subsequently, on account of DTL reassessment, the effective tax rate was lower at 18.7%.
- Adoption of new tax regime on deferred tax liability including reversal of MAT credit entitlement lowered the tax expenses by INR724m.
- Thus, on account of lower taxation, adj. PAT decline stood at 7%.
- Over FY15–20, adj. PAT grew at a 9.5% CAGR, lagging behind revenue growth.

**Exhibit 42: Effective tax rate lower in FY20 on account of new corporate tax rates and DTL re-measurement**



Source: MOFSL, Company

**Exhibit 43: Adj. PAT has grown at a 9.5% CAGR over FY15–20**



Source: MOFSL, Company

**Working capital analysis**

- Havells has controlled its working capital requirement prudently over FY15–20. This is primarily on account of the higher use of a bill discounting and channel financing facility provided to dealers and distributors.
- Receivable buyout stood at 60–75% of the total receivables over FY16–20, thus providing comfort on the debtor side.

**Exhibit 44: Working capital analysis**

	FY15	FY16	FY17	FY18	FY19	FY20
Net working capital days	(5.6)	0.2	(7.0)	(14.5)	6.4	3.4
Net working capital (as a % of sales)	(1.5)	0.1	(1.9)	(4.0)	1.8	0.9
Trade receivables (INR b)	1.3	1.6	2.3	3.3	4.2	2.5
Receivable buyout (INR b)	4.2	4.4	4.5	6.5	6.5	4.0
Channel finance (INR b)	3.7	3.7	4.2	5.9	6.3	6.1
<b>Receivable buyout (as a % trade receivables)</b>		<b>74</b>	<b>66</b>	<b>65</b>	<b>59</b>	<b>58</b>
Trade payables (INR b)	8.3	4.4	6.3	16.3	15.6	14.1
Acceptances (INR b)	-	-	-	2.9	2.8	3.9
<b>Acceptances (as a % of trade payables)</b>				<b>17.7</b>	<b>18.1</b>	<b>27.6</b>

Source: Company, MOFSL

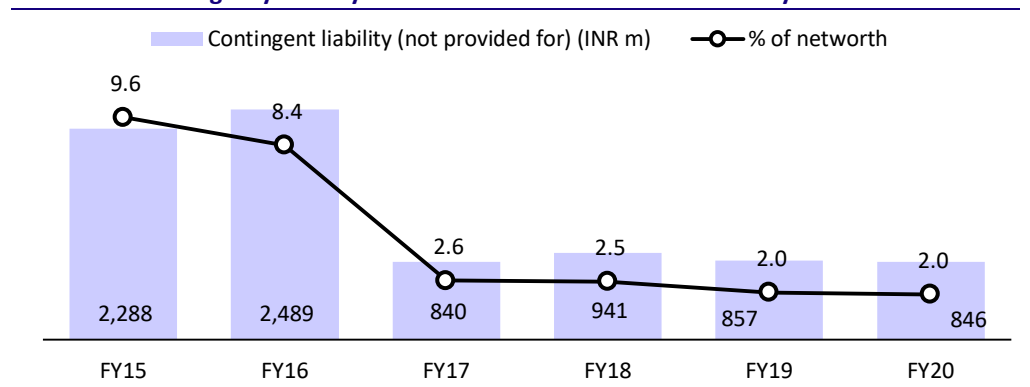
**Contingent liability**

- Contingent liability has remained under control at 2–2.5% of the net worth since the past four years, indicating lower risk to the balance sheet.
- From FY17, under the receivables buyout facility, all rights were assigned to the bank without any recourse on the Havells balance sheet.

**Exhibit 45: Contingent liability trend**

(INR m)	FY15	FY16	FY17	FY18	FY19	FY20
Claims/Suits filed	52	56	57	153	66	65
Liability towards banks against receivable buyout facilities	1,063	1,325	-	-	-	-
Disputed tax liabilities	1,008	1,004	681	778	781	781
Demand raised by Uttarakhand Power Corp.	10	10	10	10	10	-
Bonds to central tax department against purchase of goods without payment of duty	33	5	7	-	-	-
Custom duty payable against export obligation	121	89	86	-	-	-
<b>Total</b>	<b>2,288</b>	<b>2,489</b>	<b>840</b>	<b>941</b>	<b>857</b>	<b>846</b>

Source: MOFSL, Company

**Exhibit 46: Contingency liability is well within limit since the last four years**

Source: MOFSL, Company

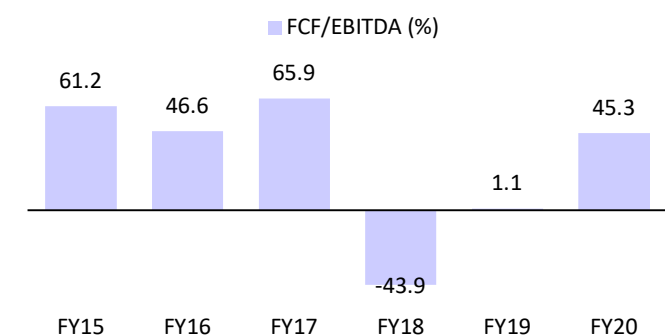
**Cash flow analysis**

- After two years of weak FCF generation, the company witnessed improvement in FCF generation to INR4.7b in FY20, aided by improvement in the working capital cycle and lower capex intensity as the Lloyd plant turned operational.
- Over the past five years, FCF/EBITDA and FCF/PAT have remained healthy, barring aberrations in FY18 and FY19.
- In FY20, FCF/EBITDA stood at 50%, with FCF/PAT conversion at 60%.

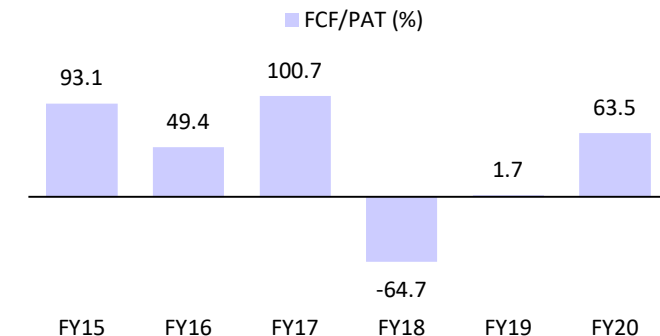
**Exhibit 47: Cash flow statement**

Y/E March (INR m)	2015	2016	2017	2018	2019	2020
PBT before EO Items	6,463	7,066	8,266	10,028	11,468	9,216
Add : Depreciation	875	1,049	1,196	1,395	1,494	2,179
Interest	-229	-451	-948	-249	-728	-535
Less : Direct Taxes Paid	1,505	1,447	2,052	2,450	2,469	2,398
(Inc)/Dec in WC	-399	960	-1,323	-2,556	4,639	215
<b>CF from Operations</b>	<b>6,003</b>	<b>5,258</b>	<b>7,786</b>	<b>11,281</b>	<b>5,126</b>	<b>8,248</b>
(Inc)/Dec in FA	-1,675	-1,741	-2,358	-15,888	-4,996	-3,592
<b>Free Cash Flow</b>	<b>4,328</b>	<b>3,517</b>	<b>5,428</b>	<b>-4,607</b>	<b>130</b>	<b>4,655</b>
(Pur)/Sale of Investments	-937	-1,425	888	4,511	710	625
<b>CF from Investments</b>	<b>-2,612</b>	<b>-3,166</b>	<b>-1,471</b>	<b>-11,377</b>	<b>-4,287</b>	<b>-2,968</b>
(Inc)/Dec in Net Worth / Others	99	29	93	147	135	313
(Inc)/Dec in Debt	-1,154	-434	1,533	-901	-209	-937
Less : Interest Paid	171	63	93	197	134	52
Dividend Paid	1,460	4,511	2,256	2,632	3,016	6,413
<b>CF from Fin. Activity</b>	<b>-2,686</b>	<b>-4,978</b>	<b>-724</b>	<b>-3,583</b>	<b>-3,224</b>	<b>-7,088</b>
<b>Inc/Dec of Cash</b>	<b>705</b>	<b>-2,886</b>	<b>5,591</b>	<b>-3,679</b>	<b>-2,385</b>	<b>-1,808</b>
Add: Beginning Balance	6,261	5,223	13,652	19,375	15,262	12,877
<b>Closing Balance</b>	<b>5,223</b>	<b>13,652</b>	<b>19,375</b>	<b>15,262</b>	<b>12,877</b>	<b>11,069</b>

Source: MOFSL, Company

**Exhibit 48: FCF/EBITDA back at normal levels after aberration in FY18 and FY19 due to Lloyd acquisition/capex**

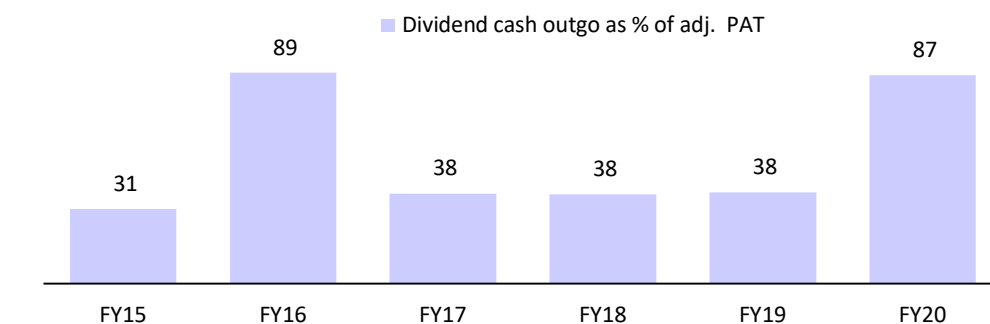
Source: MOFSL, Company

**Exhibit 49: FCF/PAT improved to 64% in FY20**

Source: MOFSL, Company

**Dividend payout trend**

- With strong cash generation over FY15–20, dividend payout has remained healthy. In spite of higher capex in FY18 and FY19, dividend payout increased by 17% and 15%, respectively.
- In FY16, the company paid a special dividend on account of the Sylvania divestment; in FY20, the company paid an interim dividend, along with a final dividend.

**Exhibit 50: Dividend cash outgo has largely been ~38%; FY16 had special dividend while FY20 includes both final dividend of FY19 and interim dividend of FY20**

Source: MOFSL, Company

### Investments trend downward on amalgamation of subsidiaries

- Investments trends over FY15–20 showed higher investments in subsidiaries and JVs during FY15–17. The company liquidated its operations in the Jiangsu-Havells-Sylvania JV in FY17.
- Other subsidiaries such as Havells Global Limited, Standard Electrical Limited, Lloyd Consumer Private Limited, and Promptec Renewable Energy Solutions Private Limited were amalgamated with Havells India Limited in FY20.

**Exhibit 51: Investment trend over FY15–20**

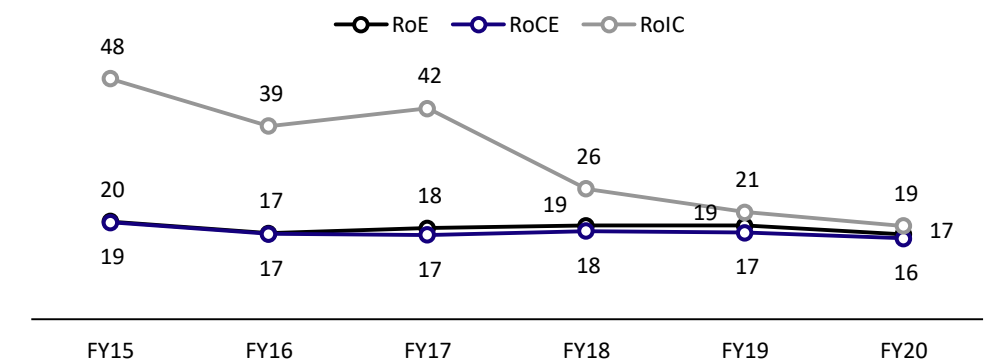
(INR m)	FY15	FY16	FY17	FY18	FY19	FY20
<b>Total Investment</b>	<b>10,118</b>	<b>4,627</b>	<b>4,450</b>	<b>955</b>	<b>17</b>	<b>16</b>
<b>Non-current</b>						
Investment in subsidiary	9,809	2,787	2,247	417	17	16
Investment in JV	309	309	-	-	-	-
Investment property	-	-	559	538	-	-
Investment in bonds	-	1,531	1,617	-	-	-
<b>Current</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Source: MOFSL, Company

### Return ratios

- RoE and RoCE have remained suppressed owing to higher cash balances (INR11b in FY20).
- While RoIC generation was healthy at 40–50% during FY15–17, higher capital employed with the Lloyd acquisition led to decline in RoIC over FY18–20.

**Exhibit 52: Trend of return ratios**



Source: MOFSL, Company

## Financials and valuation

Income statement						(INR m)
Y/E March	2017	2018	2019	2020	2021E	2022E
<b>Net Sales</b>	<b>61,353</b>	<b>81,386</b>	<b>1,00,677</b>	<b>94,292</b>	<b>81,000</b>	<b>1,05,000</b>
Change (%)	14.1	32.7	23.7	-6.3	-14.1	29.6
<b>EBITDA</b>	<b>8,241</b>	<b>10,493</b>	<b>11,838</b>	<b>10,274</b>	<b>8,059</b>	<b>12,222</b>
% of Net Sales	13.4	12.9	11.8	10.9	9.9	11.6
Depreciation	1,196	1,395	1,494	2,179	2,519	2,609
Interest	122	240	161	197	200	200
Other Income	1,343	1,170	1,278	1,120	1,107	1,344
<b>PBT</b>	<b>8,266</b>	<b>10,028</b>	<b>11,461</b>	<b>9,017</b>	<b>6,447</b>	<b>10,757</b>
Tax	2,298	3,022	3,588	1,687	1,623	2,708
Rate (%)	27.8	30.1	31.3	18.7	25.2	25.2
Extra-ordinary Inc.(net)	-578	119	0	0	0	0
<b>Reported PAT</b>	<b>5,390</b>	<b>7,125</b>	<b>7,873</b>	<b>7,330</b>	<b>4,824</b>	<b>8,050</b>
Change (%)	-24.3	32.2	10.5	-6.9	-34.2	66.9
<b>Adjusted PAT</b>	<b>5,969</b>	<b>7,006</b>	<b>7,873</b>	<b>7,330</b>	<b>4,824</b>	<b>8,050</b>
Change (%)	17.1	17.4	12.4	-6.9	-34.2	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	45,510	50,662
<b>Net Worth</b>	<b>32,736</b>	<b>37,392</b>	<b>41,922</b>	<b>43,048</b>	<b>46,136</b>	<b>51,287</b>
Loans	2,010	1,080	945	405	405	405
Deferred Tax Liability	1,138	2,070	3,168	2,865	2,865	2,865
<b>Capital Employed</b>	<b>35,883</b>	<b>40,541</b>	<b>46,035</b>	<b>46,318</b>	<b>49,406</b>	<b>54,558</b>
Gross Fixed Assets	17,502	34,113	34,027	40,479	43,479	46,479
Less: Depreciation	5,404	6,799	4,989	6,985	9,504	12,112
<b>Net Fixed Assets</b>	<b>12,098</b>	<b>27,314</b>	<b>29,038</b>	<b>33,494</b>	<b>33,975</b>	<b>34,367</b>
Capital WIP	119	241	2,327	861	861	861
Investments	4,450	955	17	16	16	16
<b>Curr. Assets</b>	<b>32,933</b>	<b>36,905</b>	<b>39,875</b>	<b>36,107</b>	<b>35,654</b>	<b>45,938</b>
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	14,145	18,058
Other Current Assets	1,988	2,173	3,566	3,830	3,290	4,265
<b>Current Liab. &amp; Prov.</b>	<b>13,717</b>	<b>24,873</b>	<b>25,222</b>	<b>24,160</b>	<b>21,101</b>	<b>26,625</b>
Creditors	6,296	16,340	15,601	14,141	12,147	15,747
Other Liabilities	5,655	6,754	7,264	7,564	6,498	8,423
Provisions	1,766	1,780	2,358	2,456	2,456	2,456
<b>Net Current Assets</b>	<b>19,216</b>	<b>12,032</b>	<b>14,653</b>	<b>11,947</b>	<b>14,553</b>	<b>19,313</b>
<b>Application of Funds</b>	<b>35,883</b>	<b>40,541</b>	<b>46,035</b>	<b>46,318</b>	<b>49,406</b>	<b>54,558</b>

## Financials and valuation

### Ratios

Y/E March	2017	2018	2019	2020	2021E	2022E
<b>Basic (INR)</b>	8.6	11.4	12.6	11.7	7.7	12.9
<b>Adjusted EPS</b>	<b>9.6</b>	<b>11.2</b>	<b>12.6</b>	<b>11.7</b>	<b>7.7</b>	<b>12.9</b>
Growth (%)	17.1	17.3	12.3	-6.9	-34.2	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	82.0
DPS	3.0	3.5	4.0	8.5	2.3	3.9
Payout (incl. Div. Tax.)	37.8	37.6	38.3	87.5	36.0	36.0
<b>Valuation (x)</b>						
P/Sales	5.6	4.2	3.4	3.7	4.3	3.3
P/E	57.8	49.2	43.8	47.1	71.6	42.9
Cash P/E	48.1	41.0	36.8	36.3	47.0	32.4
EV/EBITDA	39.7	31.5	28.1	32.6	41.1	26.8
EV/Sales	5.3	4.1	3.3	3.5	4.1	3.1
Price/Book Value	10.5	9.2	8.2	8.0	7.5	6.7
Dividend Yield (%)	0.5	0.6	0.7	1.5	0.4	0.7
<b>Profitability Ratios (%)</b>						
RoE	18.2	18.7	18.8	17.0	10.5	15.7
RoCE	16.9	17.7	17.3	16.2	10.1	15.0
RoIC	42.2	26.1	21.4	18.7	11.8	19.7
<b>Turnover Ratios</b>						
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	2.0	1.6	1.9
<b>Leverage Ratio</b>						
Net Debt/Equity (x)	-0.5	-0.4	-0.3	-0.2	-0.3	-0.3

### Cash flow statement

Y/E March	2017	2018	2019	2020	2021E	2022E
<b>PBT before EO Items</b>	<b>8,266</b>	<b>10,028</b>	<b>11,468</b>	<b>9,216</b>	<b>6,447</b>	<b>10,757</b>
Add : Depreciation	1,196	1,395	1,494	2,179	2,519	2,609
Interest	-948	-249	-728	-535	-907	-1,144
Less : Direct Taxes Paid	2,052	2,450	2,469	2,398	1,623	2,708
(Inc)/Dec in WC	-1,323	-2,556	4,639	215	-470	848
<b>CF from Operations</b>	<b>7,786</b>	<b>11,281</b>	<b>5,126</b>	<b>8,248</b>	<b>6,906</b>	<b>8,666</b>
(Inc)/Dec in FA	-2,358	-15,888	-4,996	-3,592	-3,000	-3,000
<b>Free Cash Flow</b>	<b>5,428</b>	<b>-4,607</b>	<b>130</b>	<b>4,655</b>	<b>3,906</b>	<b>5,666</b>
(Pur)/Sale of Investments	888	4,511	710	625	1,107	1,344
<b>CF from Investments</b>	<b>-1,471</b>	<b>-11,377</b>	<b>-4,287</b>	<b>-2,968</b>	<b>-1,893</b>	<b>-1,656</b>
(Inc)/Dec in Net Worth	93	147	135	313	0	0
(Inc)/Dec in Debt	1,533	-901	-209	-937	0	0
Less : Interest Paid	93	197	134	52	200	200
Dividend Paid	2,256	2,632	3,016	6,413	1,737	2,898
<b>CF from Fin. Activity</b>	<b>-724</b>	<b>-3,583</b>	<b>-3,224</b>	<b>-7,088</b>	<b>-1,937</b>	<b>-3,098</b>
<b>Inc/Dec of Cash</b>	<b>5,591</b>	<b>-3,679</b>	<b>-2,385</b>	<b>-1,808</b>	<b>3,076</b>	<b>3,912</b>
Add: Beginning Balance	13,652	19,375	15,262	12,877	11,069	14,145
<b>Closing Balance</b>	<b>19,375</b>	<b>15,262</b>	<b>12,877</b>	<b>11,069</b>	<b>14,145</b>	<b>18,058</b>

(INR m)



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.

#### Disclosures

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

Motilal Oswal Financial Services Ltd. (MOFSL) is a SEBI Registered Research Analyst having registration no. INH000000412. MOFSL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Investment Advisory Services, Depository participant services & distribution of various financial products. MOFSL is a subsidiary company of Passionate Investment Management Pvt. Ltd.. (PIMPL). MOFSL is a listed public company, the details in respect of which are available on [www.motilaloswal.com](http://www.motilaloswal.com). MOFSL (erstwhile Motilal Oswal Securities Limited - MOSL) is registered with the Securities & Exchange Board of India (SEBI) and is a registered Trading Member with National Stock Exchange of India Ltd. (NSE) and Bombay Stock Exchange Limited (BSE), Multi Commodity Exchange of India Limited (MCX) and National Commodity & Derivatives Exchange Limited (NCDEX) for its stock broking activities & is Depository participant with Central Depository Services Limited (CDSL) National Securities Depository Limited (NSDL), NERL, COMRIS and CCRL and is member of Association of Mutual Funds of India (AMFI) for distribution of financial products and Insurance Regulatory & Development Authority of India (IRDA) as Corporate Agent for insurance products. Details of associate entities of Motilal Oswal Financial Services Limited are available on the website at <http://onlinereports.motilaloswal.com/Dormant/documents/List%20of%20Associate%20companies.pdf>

MOFSL and its associate company(ies), their directors and Research Analyst and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of MOFSL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report

MOFSL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that MOFSL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. Details of pending Enquiry Proceedings of Motilal Oswal Financial Services Limited are available on the website at <https://galaxy.motilaloswal.com/ResearchAnalyst/PublishViewLitigation.aspx>

A graph of daily closing prices of securities is available at [www.nseindia.com](http://www.nseindia.com), [www.bseindia.com](http://www.bseindia.com). Research Analyst views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of MOFSL or its associates maintains arm's length distance with Research Team as all the activities are segregated from MOFSL research activity and therefore it can have an independent view with regards to Subject Company for which Research Team have expressed their views.

#### Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOFSL & its group companies to registration or licensing requirements within such jurisdictions.

#### For Hong Kong:

This report is distributed in Hong Kong by Motilal Oswal capital Markets (Hong Kong) Private Limited, a licensed corporation (CE AYY-301) licensed and regulated by the Hong Kong Securities and Futures Commission (SFC) pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) "SFO". As per SEBI (Research Analyst Regulations) 2014 Motilal Oswal Securities (SEBI Reg No. INH000000412) has an agreement with Motilal Oswal capital Markets (Hong Kong) Private Limited for distribution of research report in Hong Kong. This report is intended for distribution only to "Professional Investors" as defined in Part I of Schedule 1 to SFO. Any investment or investment activity to which this document relates is only available to professional investor and will be engaged only with professional investors." Nothing here is an offer or solicitation of these securities, products and services in any jurisdiction where their offer or sale is not qualified or exempt from registration. The Indian Analyst(s) who compile this report is/are not located in Hong Kong & are not conducting Research Analysis in Hong Kong.

#### For U.S.

Motilal Oswal Financial Services Limited (MOFSL) is not a registered broker - dealer under the U.S. Securities Exchange Act of 1934, as amended (the "1934 act") and under applicable state laws in the United States. In addition MOFSL is not a registered investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act" and together with the 1934 Act, the "Acts"), and under applicable state laws in the United States. Accordingly, in the absence of specific exemption under the Acts, any brokerage and investment services provided by MOFSL, including the products and services described herein are not available to or intended for U.S. persons. This report is intended for distribution only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the Exchange Act and interpretations thereof by SEC (henceforth referred to as "major institutional investors"). This document must not be acted on or relied on by persons who are not major institutional investors. Any investment or investment activity to which this document relates is only available to major institutional investors and will be engaged in only with major institutional investors. In reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") and interpretations thereof by the U.S. Securities and Exchange Commission ("SEC") in order to conduct business with Institutional Investors based in the U.S., MOFSL has entered into a chaperoning agreement with a U.S. registered broker-dealer, Motilal Oswal Securities International Private Limited. ("MOSIPL"). Any business interaction pursuant to this report will have to be executed within the provisions of this chaperoning agreement.

The Research Analysts contributing to the report may not be registered /qualified as research analyst with FINRA. Such research analyst may not be associated persons of the U.S. registered broker-dealer, MOSIPL, and therefore, may not be subject to NASD rule 2711 and NYSE Rule 472 restrictions on communication with a subject company, public appearances and trading securities held by a research analyst account.

#### For Singapore

In Singapore, this report is being distributed by Motilal Oswal Capital Markets Singapore Pte Ltd ("MOCMSPL") (Co.Reg. NO. 201129401Z) which is a holder of a capital markets services license and an exempt financial adviser in Singapore. As per the approved agreement under Paragraph 9 of Third Schedule of Securities and Futures Act (CAP 289) and Paragraph 11 of First Schedule of Financial Advisors Act (CAP 110) provided to MOCMSPL by Monetary Authority of Singapore. Persons in Singapore should contact MOCMSPL in respect of any matter arising from, or in connection with this report/publication/communication. This report is distributed solely to persons who qualify as "Institutional Investors", of which some of whom may consist of "accredited" institutional investors as defined in section 4A(1) of the Securities and Futures Act, Chapter 289 of Singapore ("the SFA"). Accordingly, if a Singapore person is not or ceases to be such an institutional investor, such Singapore Person must immediately discontinue any use of this Report and inform MOCMSPL.

#### Specific Disclosures

- 1 MOFSL, Research Analyst and/or his relatives does not have financial interest in the subject company, as they do not have equity holdings in the subject company.
- 2 MOFSL, Research Analyst and/or his relatives do not have actual/beneficial ownership of 1% or more securities in the subject company
- 3 MOFSL, Research Analyst and/or his relatives have not received compensation/other benefits from the subject company in the past 12 months
- 4 MOFSL, Research Analyst and/or his relatives do not have material conflict of interest in the subject company at the time of publication of research report
- 5 Research Analyst has not served as director/officer/employee in the subject company
- 6 MOFSL has not acted as a manager or co-manager of public offering of securities of the subject company in past 12 months
- 7 MOFSL has not received compensation for investment banking/ merchant banking/brokerage services from the subject company in the past 12 months
- 8 MOFSL has not received compensation for other than investment banking/merchant banking/brokerage services from the subject company in the past 12 months

9 MOFSL has not received any compensation or other benefits from third party in connection with the research report

10 MOFSL has not engaged in market making activity for the subject company

The associates of MOFSL may have:

- financial interest in the subject company
- actual/beneficial ownership of 1% or more securities in the subject company
- received compensation/other benefits from the subject company in the past 12 months
- other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of MOFSL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report.
- acted as a manager or co-manager of public offering of securities of the subject company in past 12 months
- be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies)
- received compensation from the subject company in the past 12 months for investment banking / merchant banking / brokerage services or from other than said services.

The associates of MOFSL has not received any compensation or other benefits from third party in connection with the research report

Above disclosures include beneficial holdings lying in demat account of MOFSL which are opened for proprietary investments only. While calculating beneficial holdings, It does not consider demat accounts which are opened in name of MOFSL for other purposes (i.e holding client securities, collaterals, error trades etc.). MOFSL also earns DP income from clients which are not considered in above disclosures.

#### Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

#### Terms & Conditions:

This report has been prepared by MOFSL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of MOFSL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. MOFSL will not treat recipients as customers by virtue of their receiving this report.

#### Disclaimer:

The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Certain transactions -including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. No representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. MOFSL, its associates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document. This report has been prepared on the basis of information that is already available in publicly accessible media or developed through analysis of MOFSL. The views expressed are those of the analyst, and the Company may or may not subscribe to all the views expressed therein. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOFSL to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The person accessing this information specifically agrees to exempt MOFSL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold MOFSL or any of its affiliates or employees responsible for any such misuse and further agrees to hold MOFSL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

Registered Office Address: Motilal Oswal Tower, Rahimtullah Sayani Road, Opposite Parel ST Depot, Prabhadevi, Mumbai-400025; Tel No.: 022 71934200/ 022-71934263; Website [www.motilaloswal.com](http://www.motilaloswal.com). CIN no.: L67190MH2005PLC153397. Correspondence Office Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad(West), Mumbai- 400 064. Tel No: 022 7188 1000.

Registration Nos.: Motilal Oswal Financial Services Limited (MOFSL)\*: INZ000158836(BSE/NSE/MCX/NCDEX); CDSL and NSDL: IN-DP-16-2015; Research Analyst: INH000000412. AMFI: ARN - 146822; Investment Adviser: INA000007100; Insurance Corporate Agent: CA0579;PMS:INP000006712. Motilal Oswal Asset Management Company Ltd. (MOAMC): PMS (Registration No.: INP000000670); PMS and Mutual Funds are offered through MOAMC which is group company of MOFSL. Motilal Oswal Wealth Management Ltd. (MOWML): PMS (Registration No.: INP000004409) is offered through MOWML, which is a group company of MOFSL. Motilal Oswal Financial Services Limited is a distributor of Mutual Funds, PMS, Fixed Deposit, Bond, NCDs, Insurance Products and IPOs. Real Estate is offered through Motilal Oswal Real Estate Investment Advisors II Pvt. Ltd. which is a group company of MOFSL. Private Equity is offered through Motilal Oswal Private Equity Investment Advisors Pvt. Ltd which is a group company of MOFSL. Research & Advisory services is backed by proper research. Please read the Risk Disclosure Document prescribed by the Stock Exchanges carefully before investing. There is no assurance or guarantee of the returns. Investment in securities market is subject to market risk, read all the related documents carefully before investing. Details of Compliance Officer: Name: Neeraj Agarwal, Email ID: [na@motilaloswal.com](mailto:na@motilaloswal.com), Contact No.: 022-71881085.

\* MOSL has been amalgamated with Motilal Oswal Financial Services Limited (MOFSL) w.e.f August 21, 2018 pursuant to order dated July 30, 2018 issued by Hon'ble National Company Law Tribunal, Mumbai Bench.