

BSE SENSEX
36,554

S&P CNX
10,806



HAVELLS

Stock Info

Bloomberg	HAVL IN
Equity Shares (m)	625
M.Cap.(INRb)/(USDb)	418.9 / 5.7
52-Week Range (INR)	765 / 447
1, 6, 12 Rel. Per (%)	11/0/-5
12M Avg Val (INR M)	1196

Financials Snapshot (INR b)

Y/E Mar	2020	2021E	2022E
Sales	94.3	88.0	111.0
EBITDA	10.3	10.3	13.5
PAT	7.3	6.3	8.8
EBITDA (%)	10.9	11.7	12.1
EPS (INR)	11.7	10.0	14.1
EPS Gr. (%)	(6.9)	(14.3)	40.8
BV/Sh. (INR)	68.8	75.2	84.3

Ratios

Net D/E	(0.2)	(0.2)	(0.3)
RoE (%)	17.0	13.3	16.8
RoCE (%)	16.2	13.2	16.1
Payout (%)	87.5	36.0	36.0

Valuations

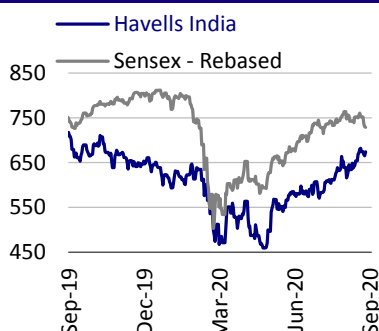
P/E (x)	57.1	66.7	47.4
P/BV (x)	9.7	8.9	7.9
EV/EBITDA (x)	39.7	39.6	29.8
Div Yield (%)	1.3	0.4	0.6
FCF Yield (%)	1.1	0.4	2.1

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	59.5	59.5	59.5
DII	9.9	8.5	4.8
FII	22.0	23.1	27.0
Others	8.7	8.9	8.7

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR669

TP: INR635 (-5%)

Neutral

Foray into Refrigerator segment

Timely launch going into festive season; watch out for competitive intensity

- Havells enters Refrigerator market under 'Lloyd' brand:** Havells announced its entry into the Refrigerator product category with the launch of 25 new models of Direct Cool, Frost Free, and Side by Side refrigerators. The product launch spans capacities ranging from 190–587 liters. The newly launched refrigerators would come with a one-year comprehensive warranty, along with a 10-year compressor warranty. With this, Havells now has access to the ~INR250b Refrigerator market. Moreover, the launch plugs an important gap in Lloyd's product portfolio of Air Conditioners, Washing Machines, and TVs. The category has a penetration level of ~33% in India. Going ahead, the company aims to launch 25 additional refrigerator models and a new range of dishwashers by Diwali 2020.
- Launch of refrigerators at attractive price point:** The product range has an introductory price range of INR10–85k. Assuming INR10k as the price of the base model (190-liter Direct Cool refrigerator) implies a 12–13% discount on a like-to-like basis v/s products offered by key brands such as LG, Samsung, and Whirlpool.
- Launch via existing Lloyd channel:** The new products launched would be available across pan-India Lloyd brand stores, offline dealers, and Lloyd online e-stores. The company would leverage its existing strength of 10,000 dealers and retailers across the country.
- Top 3 brands occupy ~80% market share:** The Top 3 players in the Refrigerator category – LG, Samsung, and Whirlpool – occupy ~80% market share. Videocon's exit has resulted in market share gains for the Top 3 players, with Whirlpool being the biggest beneficiary owing to an attractive pricing point). However, there is room for brands to gain entry given the structural double-digit growth opportunity in the segment. Thus, we have witnessed the entry of Voltas and Havells (Lloyd brand) in the segment as a natural extension from ACs to the wider White Goods space. Competitive intensity may increase given that both Voltas and Lloyd are likely to target market share gains through attractive pricing points.
- COVID results in demand for premium products:** The work-from-home model has resulted in greater demand for higher capacity refrigerators. Additionally, with the festive season around the corner, its entry into the category appears timely. With Voltas already making a foray into the segment, any further delay could have meant a tougher journey in a highly consolidated segment.
- Valuation and view:** Our channel check suggests sound recovery in the B2C business, with scope for primary growth higher than secondary growth going into the festive seasons (owing to channel refilling). We raise our FY21E/FY22E estimate by 14%/6%. We maintain a Neutral rating, with TP of INR635 (45x Mar'22E), as we await a better entry point on the stock.

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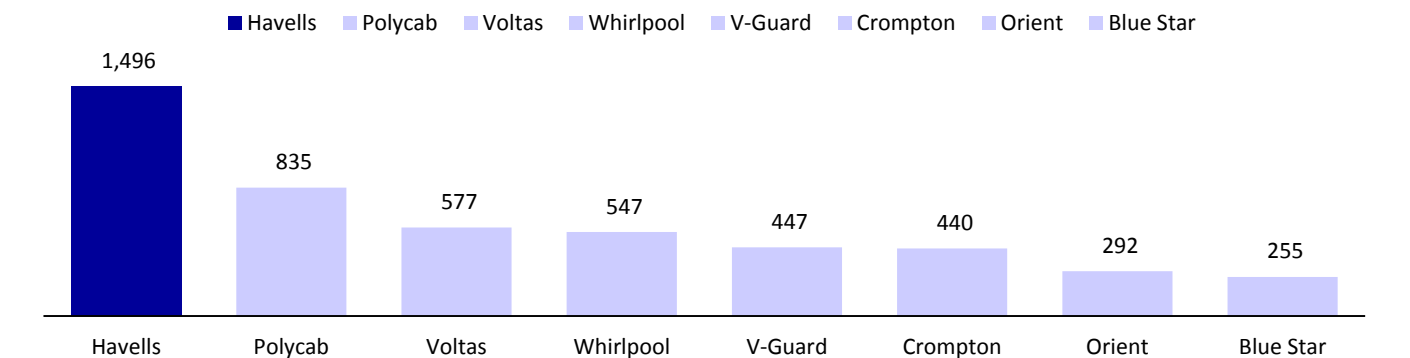
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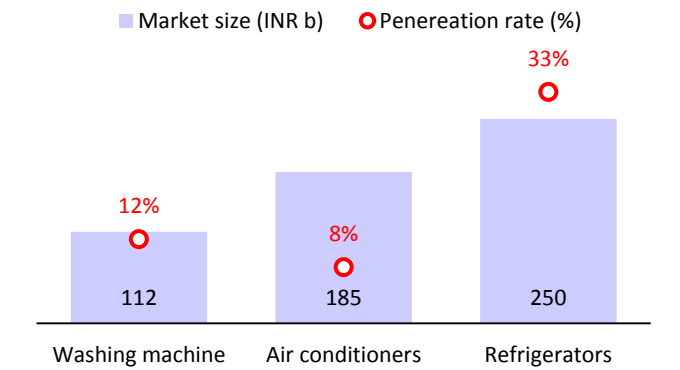
Story in charts

Exhibit 1: Addressable market size across companies



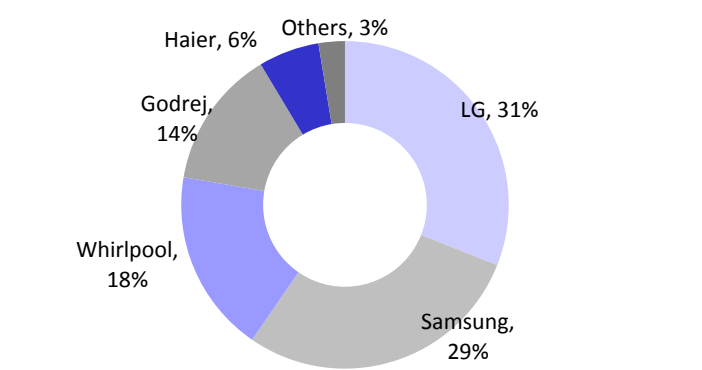
Source: MOFSL, Company

Exhibit 2: Market size and penetration of key consumer durable categories (FY20)



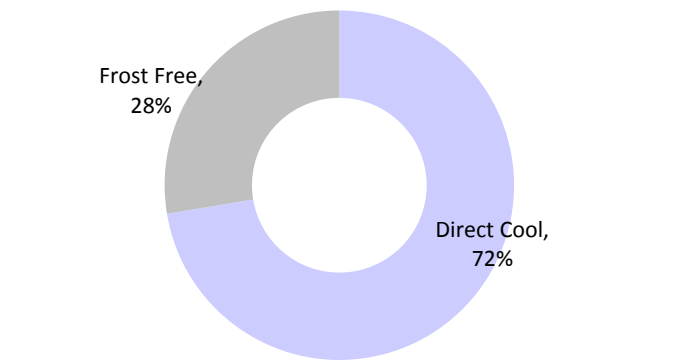
Source: MOFSL, Company

Exhibit 3: Market share by volume within Refrigerators (FY19)



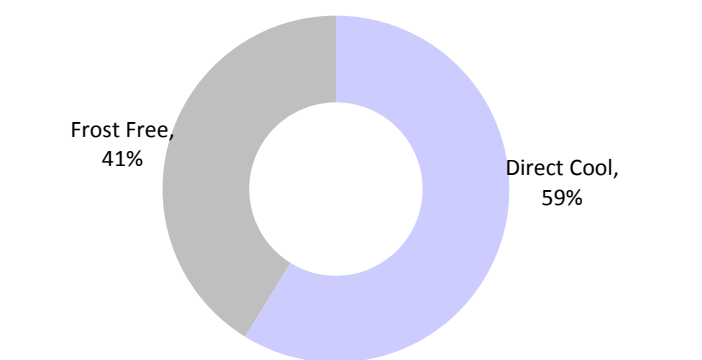
Source: MOFSL, Company

Exhibit 4: Volume-wise split within Refrigerators (FY19)



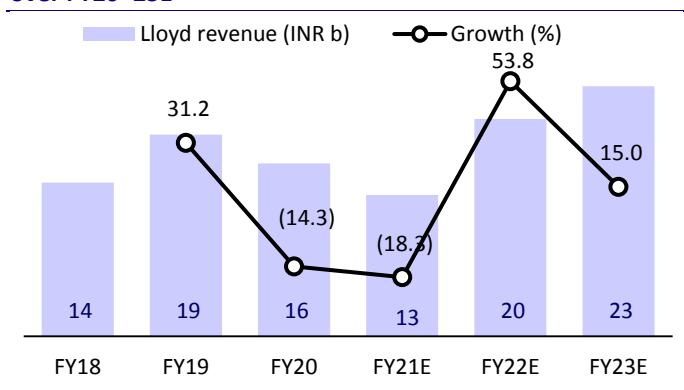
Source: MOFSL, Company

Exhibit 5: Value-wise split within Refrigerators (FY19)



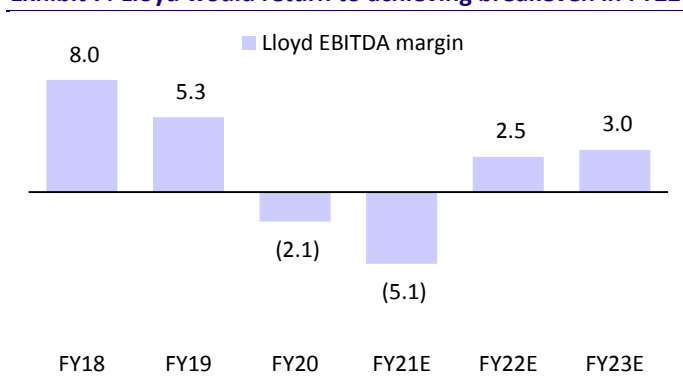
Source: MOFSL, Company

Exhibit 6: Lloyd’s revenue would grow at a CAGR of 13.1% over FY20–23E



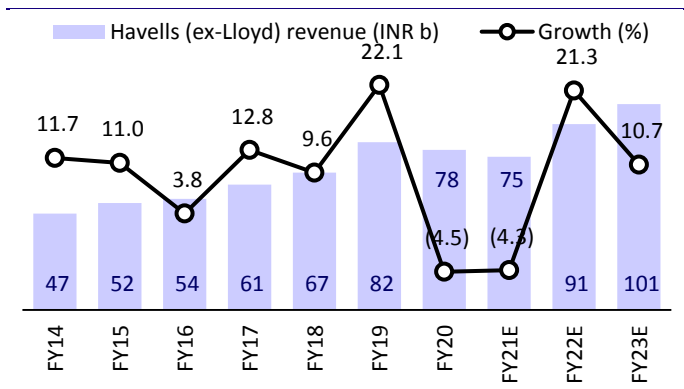
Source: MOFSL, Company

Exhibit 7: Lloyd would return to achieving breakeven in FY22



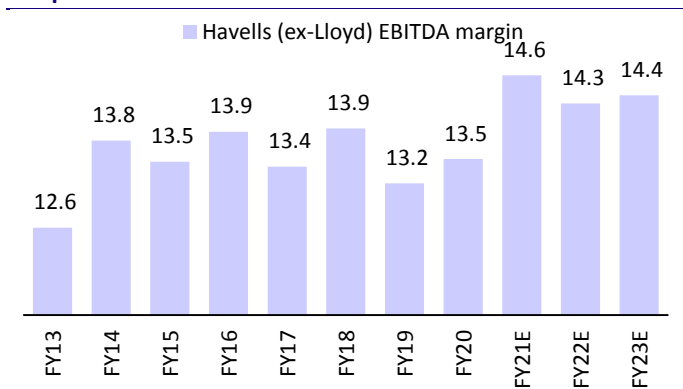
Source: MOFSL, Company

Exhibit 8: We expect Havells’ revenue (ex-Lloyd) to grow at an 8.7% CAGR over FY20–23E



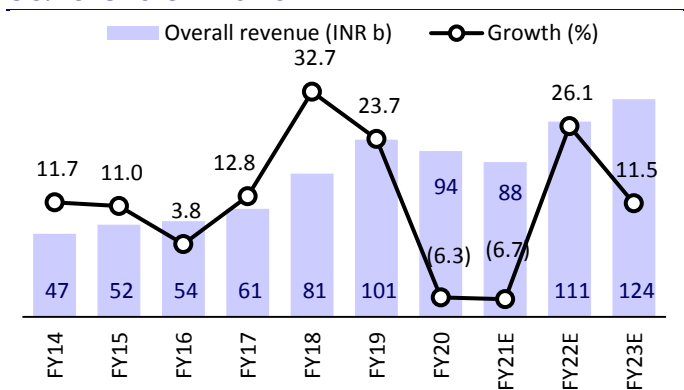
Source: MOFSL, Company

Exhibit 9: Havells’ EBITDA margin (ex-Lloyd) would expand 90bp over FY20–23E



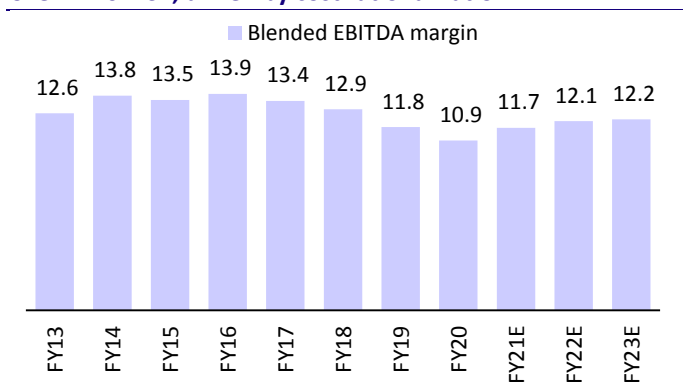
Source: MOFSL, Company

Exhibit 10: Overall revenues are expected to grow at an 8.5% CAGR over FY20–23E

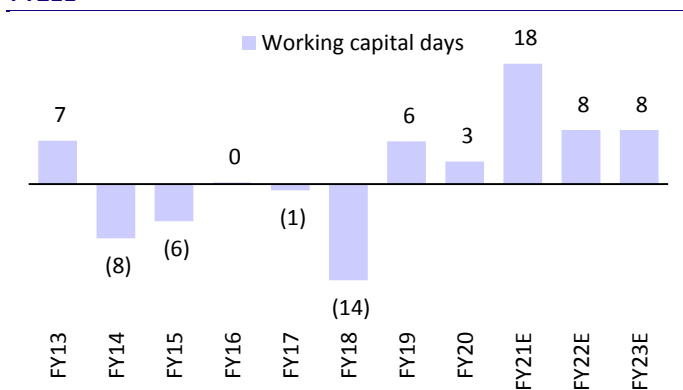


Source: MOFSL, Company

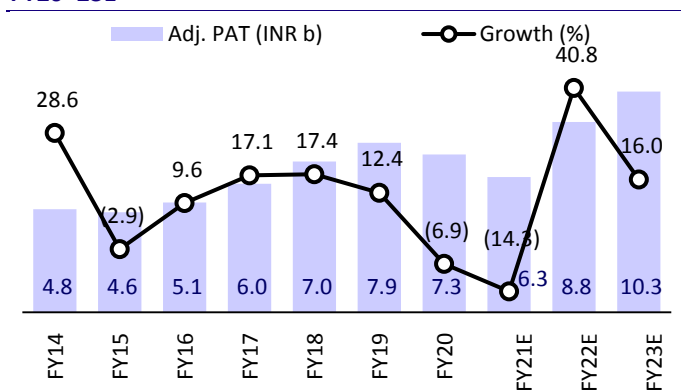
Exhibit 11: Blended EBITDA margin would expand 130bp over FY20–23E, driven by cost rationalization



Source: MOFSL, Company

Exhibit 12: Working capital days expected to moderate post FY21E

Source: MOFSL, Company

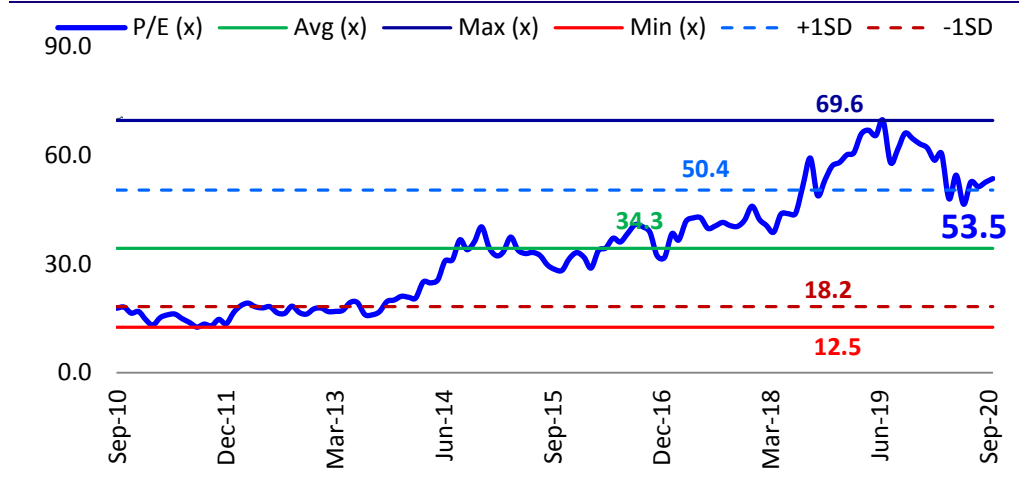
Exhibit 13: Adj. PAT would grow at a CAGR of 11.8% over FY20–23E

Source: MOFSL, Company

Valuation and view:

- Largest player in Consumer Electricals, with a well-diversified product portfolio:** Havells is among the largest players in the Consumer Electricals and Durables market, with a vast product portfolio spanning categories such as Cables and Wires, Lighting and Fixtures, Switchgears, Electrical Consumer Durables, and Lloyd (ACs, LED TVs, and Washing Machines). From being a prominent Cables and Wires player, the company has diversified into other products. The share of Cables and Wires in the total revenue reduced to 32% in FY20 from 46% in FY10, and the share toward profitability was even lower.
- Superior distribution network:** Havells has a vast distribution network, with over 150,000 retailers and 9,500 direct dealers across the country. Additionally, it has ~250,000 electricians available for support. The brand has penetrated around 1,150 towns with population of more than 25,000.
- Entry into Consumer Durables with Lloyd acquisition:** The acquisition of Lloyd in FY18 paved the way for the company to enter the lucrative Consumer Durables market in India. Currently, Lloyd's product portfolio consists of ACs, LED TVs, and Washing Machines, with the latest addition being Refrigerators.
- Higher local manufacturing presents scope for prudent cost control:** Currently, over 90% of Havells' products are manufactured in-house, providing the company adequate levers for cost control. The Neemrana facility for AC manufacturing is fully operational, which has drastically reduced its dependence on imports.
- Maintain Neutral:** Our channel check suggests sound recovery in the B2C business, with scope for primary growth higher than secondary growth going into the festive seasons (owing to channel refilling). We raise our FY21E/FY22E estimate by 14%/6%. We forecast FY20–23E revenue/EBITDA/PAT growth of 9%/14%/12%. Note that our adj. PAT growth is lower than EBITDA growth as tax rates should normalize to 25.2% from 18.7% in FY20. We maintain a Neutral rating, with TP of INR635 (45x Mar'22E), as we await a better entry point on the stock.

Exhibit 14: Havells is trading higher than its long-term average P/E



Source: MOFSL, Company

Financials and valuation

Income Statement						(INR m)
Y/E March	2018	2019	2020	2021E	2022E	2023E
Net Sales	81,386	1,00,677	94,292	88,000	1,11,000	1,23,780
Change (%)	32.7	23.7	-6.3	-6.7	26.1	11.5
EBITDA	10,493	11,838	10,274	10,304	13,471	15,163
% of Net Sales	12.9	11.8	10.9	11.7	12.1	12.2
Depreciation	1,395	1,494	2,179	2,519	2,699	2,879
Interest	240	161	197	500	200	200
Other Income	1,170	1,278	1,120	1,107	1,240	1,614
PBT	10,028	11,461	9,017	8,392	11,813	13,698
Tax	3,022	3,588	1,687	2,112	2,973	3,448
Rate (%)	30.1	31.3	18.7	25.2	25.2	25.2
Extra-ordinary Inc.(net)	119	0	0	0	0	0
Reported PAT	7,125	7,873	7,330	6,280	8,840	10,250
Change (%)	32.2	10.5	-6.9	-14.3	40.8	16.0
Adjusted PAT	7,006	7,873	7,330	6,280	8,840	10,250
Change (%)	17.4	12.4	-6.9	-14.3	40.8	16.0

Balance Sheet						(INR m)
Y/E March	2018	2019	2020	2021E	2022E	2023E
Share Capital	625	626	626	626	626	626
Reserves	36,766	41,297	42,422	46,441	52,099	58,659
Net Worth	37,392	41,922	43,048	47,067	52,724	59,285
Loans	1,080	945	405	405	405	405
Deferred Tax Liability	2,070	3,168	2,865	2,865	2,865	2,865
Capital Employed	40,541	46,035	46,318	50,337	55,995	62,555
Gross Fixed Assets	34,113	34,027	40,479	43,479	46,479	49,479
Less: Depreciation	6,799	4,989	6,985	9,504	12,202	15,081
Net Fixed Assets	27,314	29,038	33,494	33,975	34,277	34,398
Capital WIP	241	2,327	861	861	861	861
Investments	955	17	16	16	16	16
Curr. Assets	36,905	39,875	36,107	34,643	47,406	56,620
Inventory	16,217	19,190	18,719	17,470	22,036	24,573
Debtors	3,254	4,242	2,489	2,323	2,930	3,267
Cash & Bank Balance	15,262	12,877	11,069	11,276	17,931	23,753
Loans & Advances	0	0	0	0	0	0
Other Current Assets	2,173	3,566	3,830	3,574	4,509	5,028
Current Liab. & Prov.	24,873	25,222	24,160	19,159	26,565	29,341
Creditors	16,340	15,601	14,141	9,644	15,205	16,956
Other Liabilities	6,754	7,264	7,564	7,059	8,904	9,929
Provisions	1,780	2,358	2,456	2,456	2,456	2,456
Net Current Assets	12,032	14,653	11,947	15,484	20,840	27,279
Application of Funds	40,541	46,035	46,318	50,337	55,995	62,555

Financials and valuation

Ratios

Y/E March	2018	2019	2020	2021E	2022E	2023E
Basic (INR)	11.4	12.6	11.7	10.0	14.1	16.4
Adjusted EPS	11.2	12.6	11.7	10.0	14.1	16.4
Growth (%)	17.3	12.3	-6.9	-14.3	40.8	16.0
Cash EPS	13.4	15.0	15.2	14.1	18.4	21.0
Book Value	59.8	67.0	68.8	75.2	84.3	94.7
DPS	3.5	4.0	8.5	3.0	4.2	4.9
Payout (incl. Div. Tax.)	37.6	38.3	87.5	36.0	36.0	36.0
Valuation (x)						
P/Sales	5.1	4.2	4.4	4.8	3.8	3.4
P/E	59.7	53.2	57.1	66.7	47.4	40.8
Cash P/E	49.8	44.7	44.0	47.6	36.3	31.9
EV/EBITDA	38.5	34.3	39.7	39.6	29.8	26.1
EV/Sales	5.0	4.0	4.3	4.6	3.6	3.2
Price/Book Value	11.2	10.0	9.7	8.9	7.9	7.1
Dividend Yield (%)	0.5	0.6	1.3	0.4	0.6	0.7
Profitability Ratios (%)						
RoE	18.7	18.8	17.0	13.3	16.8	17.3
RoCE	17.7	17.3	16.2	13.2	16.1	16.6
RoIC	26.1	21.4	18.7	14.9	21.2	23.7
Turnover Ratios						
Debtors (Days)	15	15	10	10	10	10
Inventory (Days)	73	70	72	72	72	72
Creditors (Days)	73	57	55	40	50	50
Asset Turnover (x)	2.0	2.2	2.0	1.7	2.0	2.0
Leverage Ratio						
Net Debt/Equity (x)	-0.4	-0.3	-0.2	-0.2	-0.3	-0.4

Cash Flow Statement

(INR m)

Y/E March	2018	2019	2020	2021E	2022E	2023E
PBT before EO Items	10,028	11,468	9,216	8,392	11,813	13,698
Add : Depreciation	1,395	1,494	2,179	2,519	2,699	2,879
Interest	-249	-728	-535	-607	-1,040	-1,414
Less : Direct Taxes Paid	2,450	2,469	2,398	2,112	2,973	3,448
(Inc)/Dec in WC	-2,556	4,639	215	3,331	-1,299	618
CF from Operations	11,281	5,126	8,248	4,861	11,797	11,097
(Inc)/Dec in FA	-15,888	-4,996	-3,592	-3,000	-3,000	-3,000
Free Cash Flow	-4,607	130	4,655	1,861	8,797	8,097
(Pur)/Sale of Investments	4,511	710	625	1,107	1,240	1,614
CF from Investments	-11,377	-4,287	-2,968	-1,893	-1,760	-1,386
(Inc)/Dec in Net Worth	147	135	313	0	0	0
(Inc)/Dec in Debt	-901	-209	-937	0	0	0
Less : Interest Paid	197	134	52	500	200	200
Dividend Paid	2,632	3,016	6,413	2,261	3,182	3,690
CF from Fin. Activity	-3,583	-3,224	-7,088	-2,761	-3,382	-3,890
Inc/Dec of Cash	-3,679	-2,385	-1,808	207	6,655	5,821
Add: Beginning Balance	19,375	15,262	12,877	11,069	11,276	17,931
Closing Balance	15,262	12,877	11,069	11,276	17,931	23,753

NOTES

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

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