

Institutional Equity Research

Havells India

Capital Goods | India

2QFY22 Result Update | 22 October, 2021

CMP* (Rs)	1,286
Upside/ (Downside) (%)	27
Bloomberg Ticker	HAVL IN
Market Cap. (Rs bn)	805

BUY 

1 Year Target Price: Rs1,631

Strong Revenue Growth; Higher Commodity Prices Impact Earnings

Havells (HAVL) sustained its strong all-round revenue growth in 2QFY22. Revenue grew by 32% YoY and 24% QoQ to Rs32.4bn (higher than our estimate of Rs28bn), led by a healthy growth across segments. Revenue growth was supported by channel strategy, including online, rural and modern trade. The company has seen a healthy growth in projects and B2B segment. EBITDA increased by 6% YoY and 25% QoQ to Rs4.4bn (vs. estimate of Rs4bn), while EBITDA margin declined by 340bps YoY (+10bps QoQ) to 13.7%, impacted by the higher raw material cost (65.8% of sales in 2QFY22, and 59.9% of sales YoY). The margin sustained sequentially, though the cost pressure remains significantly high on a YoY basis due to the higher commodity prices. PAT came in at Rs3bn, down 7% YoY (up 28% QoQ) and was in line with our estimate of Rs3bn, due to the lower margin and cost pressure. **We lower the EBITDA estimates by 6.7%/5.4%/6.9% for FY22E/FY23E/FY24E respectively, mainly to factor the higher commodity prices. Keeping the target multiple unchanged for FY24E at 60x, we maintain our BUY rating, with a revised 1-year target price of Rs1,631 (earlier Rs1,766).**

Healthy Demand to Continue

We believe that demand is likely to remain healthy led by an uptick in projects and B2B segment, which were aided by a revival in Govt and private capex. This resulted in a strong performance of industrial and infra portfolios. HAVL is likely to benefit from the channel expansion, including online, rural and modern trade. The company has done selective price hikes and expects a further hike, based on competition and RM prices. However, the margin is likely to remain low for the next couple of quarters, from the peak of FY21, due to the cost pressure from higher commodity prices.

Outlook & Valuation

We expect HAVL to benefit from the market consolidation, with a strong shift in consumer preference from the unorganized to organized in the near term. The company witnessed a strong recovery in 2HFY21, post a washout in 1HFY21. Notably, FY22 also started on a similar note of FY21 due to the second COVID wave, with muted profitability in 2QFY22 owing to the higher commodity prices. However, we expect HAVL to report a strong uptick over the next three years, led by a recovery in consumer sentiment and Govt's push for infrastructure development. The company is expected to report 18% earnings CAGR over FY21-FY24E, led by an improving revenue visibility coming from operating efficiency. Notably, we have shifted to a 1-year target price, from the earlier 2-year. As we enter 2HFY22, instead of rolling forward the valuation, we maintain it based on FY24E earnings and shift to a 1-year target price of Rs1,631.

Key Financials

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Sales	94,403	1,04,573	1,24,121	1,42,049	1,61,170
EBITDA	10,287	15,718	17,263	20,149	23,348
Net profit	7,356	10,444	11,582	14,458	17,005
EPS (Rs)	11.8	16.7	18.5	23.1	27.2
P/E (x)	109.3	77.0	69.4	55.6	47.3
P/B (x)	18.7	15.5	13.8	12.2	10.7
EV/EBITDA (x)	76.9	50.1	45.3	38.6	33.0
ROE (%)	17.1	20.2	19.9	21.9	22.5
ROCE (%)	19.5	24.9	24.4	26.7	28.1

Source: RSec Research

Recos/View	Old	Revised	Change
Recos	BUY	BUY	↔
Price Target (Rs)	1,766	1,631	↓
↑ Upgrade ↔ Maintain ↓ Downgrade			

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	(8.6)	12.4	81.8
Relative to Nifty	(13.1)	(2.2)	29.5

Shareholding Pattern (%)	Jun-21	Sep-21
Promoter	59.5	59.5
Public	40.5	40.5

Change of Estimates (% change)	FY22E	FY23E	FY24E
Revenue	(0.9)	(2.0)	(3.1)
EBITDA	(6.7)	(5.4)	(6.9)
EBITDA Margin	(87)bps	(50)bps	(58)bps
PAT	(12.6)	(6.1)	(7.7)
EPS	(12.6)	(6.1)	(7.7)

1 Year Stock Price Performance



Note: * CMP as on October 21, 2021

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Quarterly Performance	2QFY22	2QFY21	YoY (%)	1QFY22	QoQ (%)	RSec - Est	Deviation from our est. (%)
YE March (Rs mn)							
Revenue	32,380	24,595	31.7	26,100	24.1	28,006	15.6
Raw Material	21,308	14,697	45.0	16,784	27.0		
Employee Cost	2,510	2,159	16.2	2,340	7.2		
Other Exp	4,113	3,520	16.8	3,422	20.2		
Total Exp	27,931	20,376	37.1	22,547	23.9		
EBITDA	4,450	4,219	5.5	3,553	25.2	3,977	11.9
Other Income	333	795	(58.1)	342	(2.7)		
Interest	111	173	(35.7)	110	1.5		
Depreciation	624	591	5.5	616	1.3		
PBT	4,048	4,251	(4.8)	3,170	27.7		
Tax	1,024	987	3.7	812	26.1		
Tax rate (%)	25.3	23.2		25.6			
Adjusted Net Profit	3,024	3,264	(7.3)	2,358	28.3	2,999	0.8
Reported net profit	3,024	3,264	(7.3)	2,358	28.3		
Net Margin (%)	9.3	13.3		9.0			
EPS (Rs)	4.8	5.2	(7.3)	3.8	28.3		
% of Sales			Change in bps (YoY)		Change in bps (QoQ)		Change in bps (our est.)
Raw Material	65.8	59.8	605	64.3	150		
Employee Cost	7.8	8.8	(103)	9.0	(122)		
Other Exp	12.7	14.3	(161)	13.1	(41)		
EBITDA	13.7	17.2	(341)	13.6	13	14.2	(46)
PAT	9.3	13.3	(393)	9.0	31	10.7	(137)

Source: Company, RSec Research

Healthy Volume Growth Despite Higher Prices

HAVL reported 32% YoY growth in revenue at Rs32.4bn, the split of volume and value growth is 50:50, except for the cable business where ~80% is price hike. Revenue growth was supported by channel strategy, including online, rural and modern trade. The company has seen a healthy growth in projects and B2B segments, led by a revival in Govt and private capex, which resulted in a strong performance of industrial and infra portfolios. Despite a further increase in commodity prices in 2QFY22, the company has maintained EBITDA margin at 13.7%, from 13.6% QoQ. It has taken selective price hikes and is likely to hike, based on market conditions and RM prices. HAVL has maintained healthy cash position, led by a normalcy in the working capital levels. NWC capital days remains at 36 in 2QFY22, flat YoY.

Margin Sustained Sequentially

Margin declined by 340bps YoY due to the higher raw material cost (65.8% of sales in 2QFY22, from 59.9% of sales YoY), while EBITDA increased by 6% YoY to Rs4.4bn (our estimate of Rs4.0bn). Margin was further impacted by under-absorption of overheads due to lower production. EBIT margin of cable & wire segment declined by 420bps YoY, while margin of switchgear and lighting segments declined by 380bps and 300bps YoY, respectively. Lloyd reported an EBIT loss of Rs188mn. PAT came in at Rs3bn, down 7% YoY and in line with our estimate of Rs3.0bn, due to the lower margin and cost pressure. The company has maintained a healthy cash position, led by normalcy in the working capital levels. NWC capital days remain at 36 in 2QFY22, flat YoY.

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Conference Call – Key Takeaways

- ▶ **Demand Outlook:** Despite the higher prices, demand scenario remained intact, with a healthy growth across segments and regions. Barring cables, there was a healthy volume growth in all segments. Real estate upcycle and positive consumer behavior would support the revenue growth in ensuing quarters. The split of volume growth and value growth is 50:50, except for the cable business where majority is Price hike. Last year, the company saw a pent-up demand, while this year, demand is across segments and regions. HAVL is witnessing good demand from residential and infrastructure segments, as the real estate sector has started to pick up. There was a delay in price hikes initially, but the company is looking for selective price hikes to offset the increased commodity pricing. For FY22, HAVL expects an increased demand from residential, industrial and infrastructure segments. The outlook for Lloyd in the medium term remains positive, and the focus for the next few years would be to gain a healthy market share in each category, including air-conditioners.
- ▶ **Business Performance:** Switchgear segment's revenue grew by 21% to Rs4.4bn, reflecting the upcycle in real estate sector, while cable & wire segment grew by 46% YoY to Rs11.4bn, led by a higher realization. Revenue of lighting segment increased by 32% YoY to Rs3.6bn, led by the deeper penetration and new launches. ECD revenue grew by 26% YoY to Rs7.3bn. Lloyd's revenue grew by 24% YoY to Rs3.5bn, led by the change in industry dynamics due to import restrictions and a wider network coverage.
- ▶ **Margins:** Margins of switchgear, cable and ECD divisions were impacted due to under-absorption of fixed expenses led by a lower production volume. The commodity price inflation put the company's margin under pressure in 2QFY22. HAVL expects the margin to return to the normal level, going ahead. It has done selective price hikes in the past, and going ahead it is looking at RM prices and competition to make a price hike. Lloyd reported an EBIT loss of Rs188mn in 2QFY22, mainly due to the competitive pressure and lack of a price hike. Room AC sector has seen 2 consecutive years of lockdown in the peak season. The inventory build-up was higher in 1HFY22.
- ▶ **Ad Spend:** Ad spend, as a percentage of sales, stood at 1% in 2QFY22, against 0.8% YoY and 1.7% QoQ. The management expects it to normalize at 3% of sales in the next few quarters, with a steady recovery in demand.
- ▶ **Other Highlights**
 1. Operating cash flow improved to Rs9.8bn in 1HFY22, from Rs6.6bn in FY21.
 2. NWC capital days remain at 36 in 2QFY22, flat YoY.
 3. The management expects capex of Rs3-3.5bn for FY22.

Key Risks

- ▶ Inability of Lloyd to regain its market share in ACs and continued headwinds in LED TV segment
- ▶ Volatility in Commodity prices
- ▶ Worsening of COVID situation with further wave, if any

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Estimate Change & Revision in Target Price

We lower the revenue estimates by 0.9%/2%/3.1% for FY22E/FY23E/FY24E to factor the slower growth in B2C segment and a impact of the higher commodity prices on volume. We also lower the EBITDA estimates by 6.7%/5.4%/6.9% and PAT estimates by 12.6%/6.1%/7.7% for FY22E/FY23E/FY24E respectively, mainly to factor the higher commodity prices. Lloyd is witnessing a decent revival, led by structural changes and an improvement in consumer sentiment with higher revenue. However, it reported an EBIT loss of Rs188mn due to the lack of price hike and captive pressure. While Lloyd's EBITDA is estimated to clock 14% CAGR through FY21-FY24E, PAT is expected to record 18% CAGR during the period. We expect a strong uptick for HAVL over the next three years, led by an improving operating efficiency, better return ratios and a likely revival in Lloyd's business led by structural changes. **Keeping the target multiple unchanged for FY24E at 60x, we maintain our BUY rating, with a revised 1-year target price of Rs1,631 (earlier Rs1,766).**

Revised vs. Old Estimates

Y/E Mar (Rs mn)	Old			Revised			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY23E
Net Revenues	1,25,233	1,44,961	1,66,387	1,24,121	1,42,049	1,61,170	(0.9)	(2.0)	(3.1)
EBITDA	18,505	21,291	25,069	17,263	20,149	23,348	(6.7)	(5.4)	(6.9)
EBITDA Margin (%)	14.8	14.7	15.1	13.9	14.2	14.5	(87) bps	(50) bps	(58) bps
Net profit	13,258	15,391	18,416	11,582	14,458	17,005	(12.6)	(6.1)	(7.7)
EPS Rs)	21.2	24.6	29.4	18.5	23.1	27.2	(12.6)	(6.1)	(7.7)

Source: RSec Research

ESG Analysis

Analyzing HAVL on 20 key criteria under ESG Matrix, we have assigned an overall score of 64% to the company. Under **"Environmental Head"**, we have assigned 67% score, as it has initiated several measures on energy-saving, water conservation, waste management and plantation front. Under **"Social Head"**, we have assigned 59% score, as HAVL scores high on employee engagement but low on gender diversity front. Under **"Governance Head"**, the company scores 67% with decent performance across criteria.

For detailed report on our ESG analysis of Havells India, please click here ([please refer to page no.82 and 83 for detailed ESG analysis](#)).

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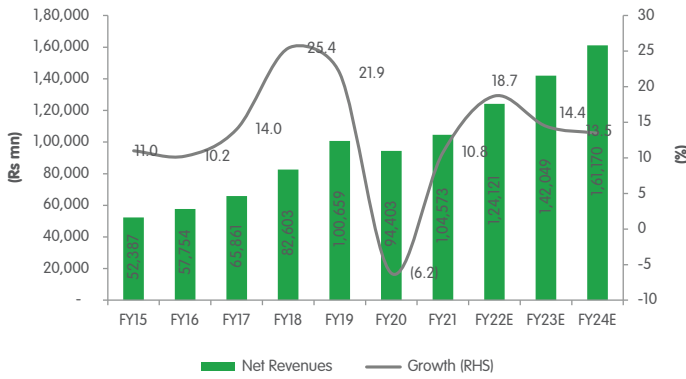
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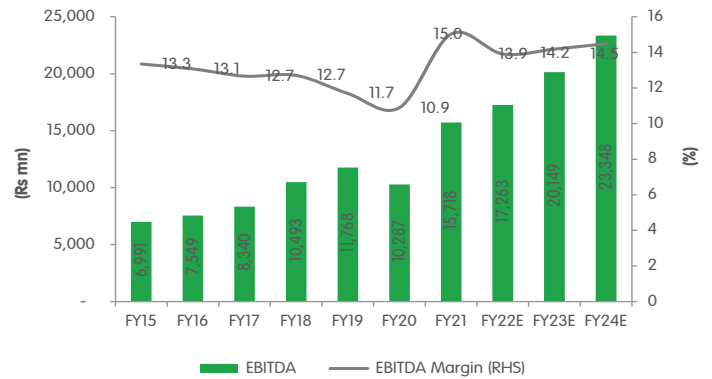
Key Charts

Exhibit 1: Revenue Trend



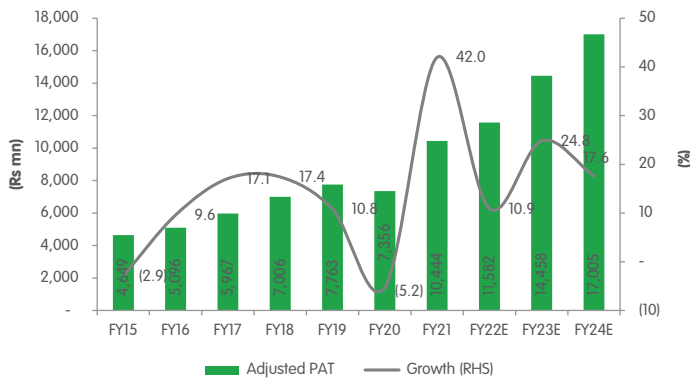
Source: Company, RSec Research

Exhibit 2: EBITDA and EBITDA Margin Trend



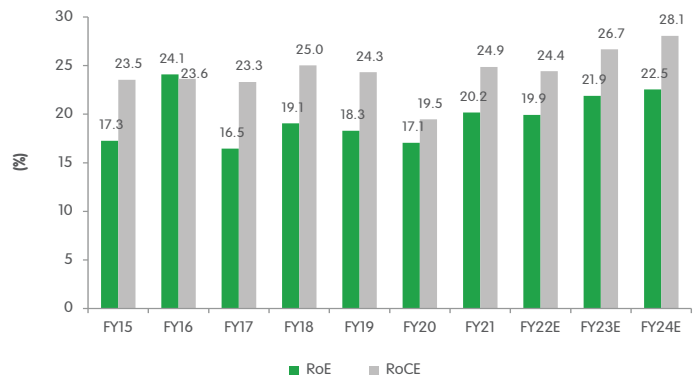
Source: Company, RSec Research

Exhibit 3: PAT Trend



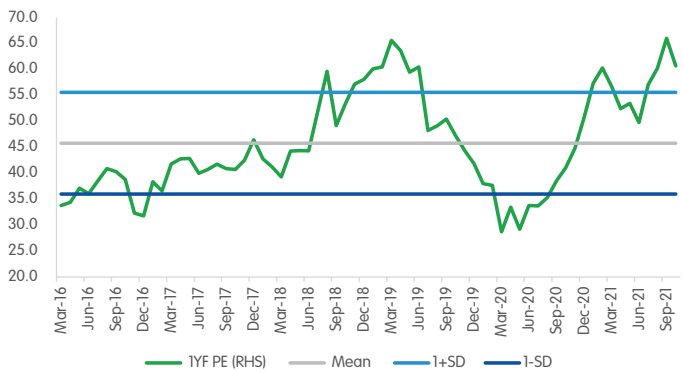
Source: Company, RSec Research

Exhibit 4: Return Ratios



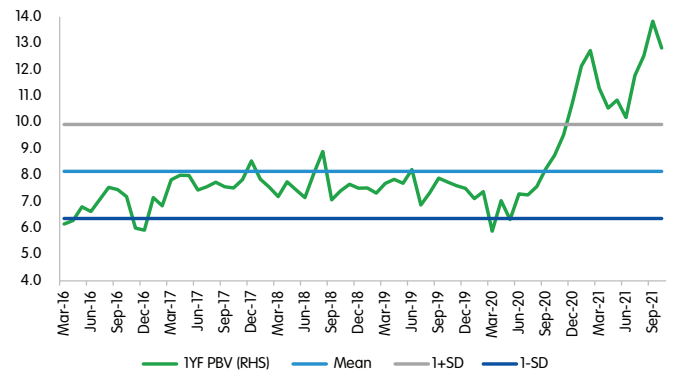
Source: Company, RSec Research

Exhibit 5: 1-Year Forward PE Chart



Source: Company, RSec Research

Exhibit 6: 1-Year Forward PBV Chart



Source: Company, RSec Research

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Profit & Loss Statement

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	94,403	1,04,573	1,24,121	1,42,049	1,61,170
Growth (%)	(6.2)	10.8	18.7	14.4	13.5
Cost of Materials	58,332	64,897	80,759	89,491	1,01,537
Employee costs	9,067	8,906	10,101	12,074	13,699
Others	16,717	15,052	15,998	20,335	22,586
EBITDA	10,287	15,718	17,263	20,149	23,348
Growth (%)	(12.6)	52.8	9.8	16.7	15.9
EBITDA Margin (%)	10.9	15.0	13.9	14.2	14.5
Depreciation	2,180	2,489	2,598	2,925	3,276
EBIT	8,107	13,229	14,664	17,224	20,071
EBIT Margin (%)	8.6	12.7	11.8	12.1	12.5
Growth (%)	(21.1)	63.2	10.9	17.5	16.5
Interest	197	727	627	283	184
Other Income	1,134	1,874	1,470	2,381	2,837
PBT	9,044	14,376	15,507	19,321	22,724
Growth (%)	(20.4)	59.0	7.9	24.6	17.6
Tax	1,688	3,932	3,925	4,863	5,720
Effective Tax rate (%)	18.7	27.4	25.3	25.2	25.2
Adjusted PAT	7,356	10,444	11,582	14,458	17,005
Fully Diluted EPS (Rs)	11.8	16.7	18.5	23.1	27.2
Growth (%)	(5.2)	42.0	10.9	24.8	17.6
Reported PAT	7,356	10,444	11,582	14,458	17,005

Balance Sheet

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Share capital	626	626	626	626	626
Reserves	42,490	51,137	57,507	65,459	74,812
Net worth	43,116	51,763	58,133	66,085	75,438
Total borrowings	-	3,937	3,149	2,834	1,842
Long term liability & Provision	1,485	1,645	1,727	1,814	1,904
Deferred tax	2,865	3,391	3,052	2,747	2,472
Total liabilities	47,466	60,736	66,062	73,480	81,657
Gross block	37,601	39,502	45,032	50,436	56,488
Less: Acc. depreciation	7,177	9,666	12,264	15,189	18,465
Net block	30,425	29,836	32,768	35,247	38,023
CWIP	828	863	776	699	629
Goodwill	3,105	3,105	3,105	3,105	3,105
Investments	1,571	4,565	4,656	4,749	4,844
Current assets	34,806	50,142	55,702	65,096	75,238
Inventories	18,719	26,199	23,804	27,242	30,909
Debtors	2,417	5,637	5,441	6,227	7,065
Cash	11,325	16,528	20,676	25,011	29,758
Loans and advances	294	460	680	778	883
Other Current Assets	2,051	1,318	5,101	5,838	6,623
Current liabilities	21,169	25,198	28,565	32,691	37,091
Provisions	2,100	2,576	2,380	2,724	3,091
Net current assets	11,537	22,368	24,757	29,681	35,056
Total Assets	47,466	60,736	66,062	73,480	81,657

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Cash Flow Statement

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Cash flow from operating activity					
PBT	9,044	14,376	15,507	19,321	22,724
Add: Depreciation	2,180	2,489	2,598	2,925	3,276
Add: Interest	161	680	627	283	184
Less: taxes paid	(2,399)	(2,727)	(3,925)	(4,863)	(5,720)
Add: other adjustments	(505)	(1,211)	(257)	(219)	(184)
Less: working capital changes	(214)	(7,003)	1,759	(589)	(629)
Total operating cash flows	8,267	6,603	16,310	16,858	19,653
Cash flow from investing activity					
Capital expenditure	(3,592)	(1,227)	(5,444)	(5,326)	(5,982)
Change in investments	(2,509)	(7,296)	(91)	(93)	(95)
Change in Goodwill	625	895	-	-	-
Total investing cash flow	(5,477)	(7,629)	(5,535)	(5,419)	(6,077)
Cash flow from financing activity					
Share issuances	242	98	-	-	-
Change in borrowings	(828)	4,233	(787)	(315)	(992)
Dividend	(6,413)	(1,878)	(5,212)	(6,506)	(7,652)
Interest payment	(161)	(556)	(627)	(283)	(184)
Total financing cash flow	(7,159)	1,898	(6,626)	(7,104)	(8,828)
Net change in cash	(4,368)	873	4,148	4,335	4,747
Opening cash & CE	7,045	2,677	16,528	20,676	25,011
Forex Change	-	(3)	-	-	-
Closing cash & CE	11,325	16,528	20,676	25,011	29,758

Key Ratio

Y/E Mar	FY20	FY21	FY22E	FY23E	FY24E
Valuation Ratio (x)					
P/E	109.3	77.0	69.4	55.6	47.3
P/CEPS	84.3	62.2	56.7	46.3	39.7
P/BV	18.7	15.5	13.8	12.2	10.7
Dividend yield (%)	0.3	0.5	0.6	0.8	1.0
EV/Sales	8.4	7.5	6.3	5.5	4.8
EV/EBITDA	76.9	50.1	45.3	38.6	33.0
Per Share Data (Rs)					
EPS	11.8	16.7	18.5	23.1	27.2
Cash EPS	15.2	20.7	22.7	27.8	32.4
DPS	4.0	6.5	8.3	10.4	12.2
Book Value	68.9	82.8	92.9	105.7	120.6
Returns (%)					
RoCE	19.5	24.9	24.4	26.7	28.1
RoE	17.1	20.2	19.9	21.9	22.5
Turnover ratios (x)					
Asset Turnover (Gross Block)	2.5	2.6	2.8	2.8	2.9
Inventory / Sales (days)	72.4	91.4	70.0	70.0	70.0
Receivables (days)	9.3	19.7	16.0	16.0	16.0
Payables (days)	81.8	88.0	84.0	84.0	84.0

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Change in Ratings

We have changed our rating system and included **HOLD** recommendation. We have **BUY, HOLD and SELL** recommendation now.

We have also shifted to **1-Year Target Price** from **2-Year Target Price**.

Rating History

Date	Reco	CMP	TP
05-Oct-21	BUY	1,394	1,766
27-Aug-20	SELL	650	465
22-Jan-20	HOLD	601	624
22-Jan-19	BUY	712	792
30-May-19	HOLD	734	792

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BUY 

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Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	≥10%
HOLD	0% to <10%
SELL	<0%

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