Havells India

24 October 2019

2QFY20 Result Update

Reuters: HVEL.BO; Bloomberg: HAVL IN

Weak revenue; Low operating margin; Lloyd disappoints

Havells India (HIL) reported only 2% YoY revenue growth at Rs22.3bn in 2QFY20, 4%/6% below our/consensus estimates. The demand was affected by continued slowdown in real estate, industrial and infrastructure sectors. Revenue of the Electrical Consumer Durables (ECD) segment was up 15% YoY at Rs5.5bn while Cables revenue was up 7% YoY at Rs8.2bn. Lighting revenue remained flat YoY at Rs2.8bn while Switchgears revenue fell by 1% YoY to Rs4bn. Lloyd sales declined by 30% YoY to Rs1.8bn as it suffered from loss of sales in LED TV due to pricing pressure amid high competitive intensity. Gross margin was up 80bps YoY to 39.1%. EBITDA margin contracted by 150bps YoY to 10.5%, below our/consensus estimate of 11.4%/11.9%. EBITDA fell by 11% YoY to Rs2.3bn. However, PAT remained flat YoY at Rs1.8bn, aided by lower tax rate at 11.6%. PAT was in line with our estimate but 10% below consensus. We cut our earnings estimates by 13%/11%/7% for FY20E/FY21E/FY22E, respectively. We maintain Accumulate rating on HIL with a revised target price of Rs700 (from Rs770 earlier) based on 40x September 2021E earnings.

Modest revenue growth: ECD revenue grew by 15% YoY to Rs5.5bn (25% of total sales), led by market share gains in small domestic appliances, water heater and personal grooming. 1HFY20 sales were up 19% YoY at Rs11.7bn. Cables segment registered a growth of 7% YoY to Rs8.2bn (37% of total sales) while sales in 1HFY20 were up 6% YoY at Rs16bn. Switchgear sales fell by 1% YoY to Rs4bn (18% of total sales) due to subdued construction activity, while 1HFY20 sales were flat at Rs7.8bn. Lighting sales were flat YoY at Rs2.8bn (13% of total sales) due to slowdown in the infrastructure sector which affected growth in professional luminaries. 1HFY20 sales grew by 3% YoY to Rs5.6bn.

Contribution margin declines: Total contribution margin declined by 70bps YoY to 23.4% in 2QFY20, mainly on account of Lloyd. Cables' contribution margin was up 440bps YoY at 18.4% aided by lower commodity prices (sustainable margin will be in 15%-17% range). Switchgears margin grew by 20bps YoY to 39.9%. Margin was lower in ECD (down 170bps YoY at 25.1%) and Lighting (down 200bps YoY at 27.6%). HIL aims to improve margin through pricing, cost control and operating leverage benefits. It expects 2HFY20 to be better than 1HFY20 for sales growth and margins.

Lloyd update: Lloyd revenue fell by 30% YoY to Rs1.8bn (8% of total sales) because of loss of sales in LED TV due to pricing pressure amid high competitive intensity. Sales for 1HFY20 declined 14% YoY to Rs8.3bn. LED TV saw 25% price erosion in 2QFY20, affected by predatory pricing of Chinese peers and will remain disrupted in the near future. Lloyd's market share in AC declined in 1HFY20 while the AC sales in 2QFY20 were flat as it was an off-season. With commissioning of the new AC manufacturing plant, Lloyd aims to recover its market share and improve sales as it will have better control over cost and inventory. Lloyd also plans to scale up its portfolio of washing machines by enhancing its presence across the distribution network of modern retail stores. It also plans to launch refrigerator in 1QFY21 (which will be outsourced) to establish Lloyd as a complete consumer durable player. Distribution realignment (dealer churning) is in final stages. Lloyd's contribution margin in 2QFY20 was negative 2.3%, affected by price erosion in LED panels and Rs100mn worth of unabsorbed expenses towards the recently commissioned AC plant.

Working capital and capex: Net working capital rose to 38 days in 2QFY20 versus 29 days YoY. HIL has planned for a capex of Rs3bn for FY21E which will be majorly towards the Fans segment.

Outlook and valuation: Over FY19-FY22E, we expect HIL to post 11% revenue CAGR and 14.5% earnings CAGR, aided by 40bps EBITDA margin expansion and lower tax rate. Healthy long term growth prospects, high free cash flows and superior brand positioning will support the premium valuation of HIL.

ACCUMULATE

Sector: Consumer Electricals

CMP: Rs670

Target Price: Rs700

Upside: 5%

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Key Data

Current Shares O/S (mn)	625.8
Mkt Cap (Rsbn/US$bn)	416.4/6.0
52 Wk H / L (Rs)	807/550
Daily Vol. (3M NSE Avg.)	1,481,003

Price Performance (%)

	1 M	6 M	1 Yr
Havells India	(15.4)	(5.1)	6.4
Nifty Index	(5.1)	5.0	(0.8)

Source: Bloomberg

Y/E March (Rsmn)	2QFY19	1QFY20	2QFY20	YoY (%)	QoQ (%)	1HFY19	1HFY20	YoY (%)
Net revenues	**21,910**	**27,120**	**22,303**	***1.8***	***(17.8)***	**47,873**	**49,423**	***3.2***
Raw material costs	13,519	16,989	13,580	*0.5*	*(20.1)*	29,727	30,569	*2.8*
Staff costs	2,034	2,413	2,395	*17.8*	*(0.8)*	4,003	4,808	*20.1*
Advertisement spend	741	1,370	742	*0.1*	*(45.8)*	1,898	2,112	*11.3*
Other expenses	2,991	3,592	3,246	*8.5*	*(9.6)*	6,498	6,838	*5.2*
Total expenditure	19,285	24,363	19,963	*3.5*	*(18.1)*	42,126	44,326	*5.2*
EBITDA	2,625	2,757	2,341	*(10.8)*	*(15.1)*	5,748	5,097	*(11.3)*
EBITDA margin (%)	***12.0***	***10.2***	***10.5***	-	-	***12.0***	***10.3***	-
Depreciation	391	469	531	*35.7*	*13.2*	742	1,000	*34.8*
Interest costs	37	47	51	*40.4*	*8.9*	62	99	*58.8*
Other income	343	397	292	*(14.8)*	*(26.4)*	635	689	*8.5*
PBT	2,540	2,637	2,051	*(19.3)*	*(22.2)*	5,579	4,688	*(16.0)*
Tax	754	898	237	*(68.6)*	*(73.6)*	1,689	1,135	*(32.8)*
PAT	**1,786**	**1,739**	**1,814**	***1.5***	***4.3***	**3,890**	**3,553**	***(8.7)***
PAT margin (%)	*8.2*	*6.4*	*8.1*	-	-	*8.1*	*7.2*	-
EPS (Rs)	**2.9**	**2.8**	**2.9**	***1.5***	***4.3***	**6.2**	**5.7**	***(8.7)***

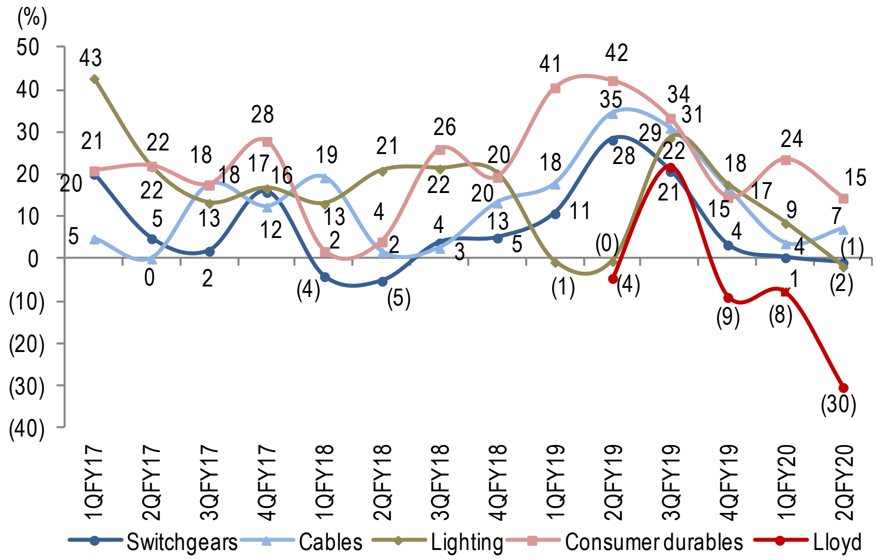
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Financial summary

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Revenues	81,386	100,576	106,606	121,335	136,011
EBITDA	10,493	11,922	11,549	14,228	16,681
Adjusted net profit	7,006	7,915	8,014	10,062	11,886
Adjusted EPS (Rs)	11.2	12.7	12.8	16.1	19.0
Adjusted EPS growth (%)	*17.4*	*13.0*	*1.2*	*25.6*	*18.1*
EBITDA margin (%)	*12.9*	*11.9*	*10.8*	*11.7*	*12.3*
P/E (x)	59.8	52.9	52.3	41.6	35.2
P/BV (x)	11.2	9.9	9.0	8.1	7.3
EV/EBITDA (x)	38.5	34.1	35.2	28.4	24.0
Dividend yield (%)	*0.6*	*0.7*	*0.8*	*1.0*	*1.2*
RoCE (%)	*23.9*	*24.2*	*20.0*	*23.0*	*24.9*
RoE (%)	*20.0*	*19.8*	*18.1*	*20.6*	*21.9*

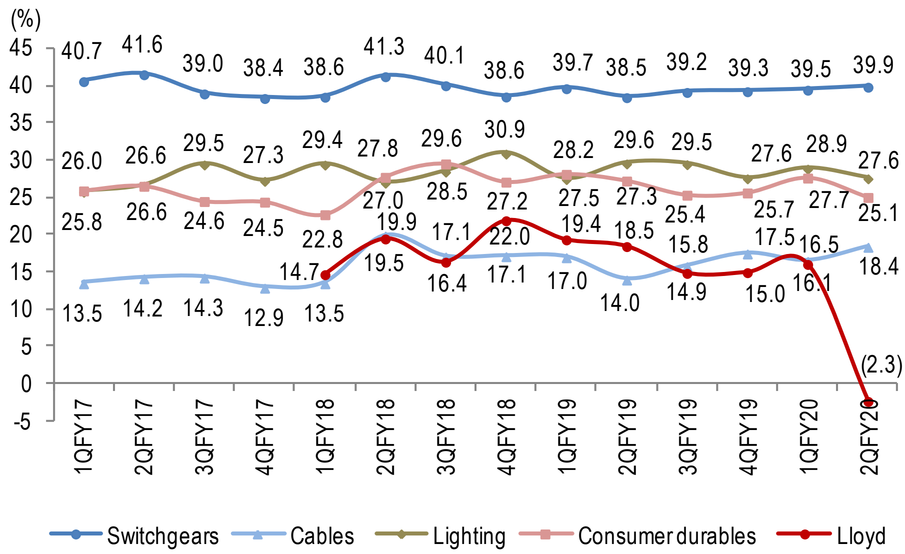
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Segment-wise revenue growth trend (YoY)



Note: Lighting segment includes EESL sales. Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Segment-wise contribution margin trend



Note: Lighting segment includes EESL sales. Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Segment-wise analysis

Y/E March (Rsmn)	2QFY19	1QFY20	2QFY20	*YoY (%)*	*QoQ (%)*	1HFY19	1HFY20	*YoY (%)*
Revenues								
Switchgear	4,006	3,775	3,977	*(0.7)*	*5.4*	7,763	7,752	*(0.1)*
Cable	7,665	7,785	8,213	*7.2*	*5.5*	15,164	15,998	*5.5*
Lighting & fixture	2,856	2,804	2,808	*(1.7)*	*0.1*	5,439	5,612	*3.2*
Electrical consumer durable	4,805	6,235	5,506	*14.6*	*(11.7)*	9,847	11,741	*19.2*
Lloyd	2,579	6,520	1,800	*(30.2)*	*(72.4)*	9,660	8,320	*(13.9)*
Total	**21,910**	**27,120**	**22,303**	***1.8***	***(17.8)***	**47,873**	**49,423**	***3.2***
Revenue mix (%)								
Switchgear	*18.3*	*13.9*	*17.8*	-	-	*16.2*	*15.7*	-
Cable	*35.0*	*28.7*	*36.8*	-	-	*31.7*	*32.4*	-
Lighting & fixture	*13.0*	*10.3*	*12.6*	-	-	*11.4*	*11.4*	-
Electrical consumer durable	*21.9*	*23.0*	*24.7*	-	-	*20.6*	*23.8*	-
Lloyd	*11.8*	*24.0*	*8.1*	-	-	*20.2*	*16.8*	-
Contribution								
Switchgear	1,591	1,489	1,589	*(0.1)*	*6.7*	3,084	3,078	*(0.2)*
Cable	1,070	1,288	1,510	*41.1*	*17.3*	2,349	2,798	*19.1*
Lighting & fixture	847	809	775	*(8.4)*	*(4.2)*	1,558	1,585	*1.7*
Electrical consumer durable	1,287	1,729	1,383	*7.5*	*(20.0)*	2,710	3,113	*14.9*
Lloyd	476	1,049	(42)	*NA*	*NA*	1,847	1,008	*(45.4)*
Total	**5,271**	**6,365**	**5,216**	***(1.0)***	***(18.1)***	**11,547**	**11,581**	***0.3***
Contribution margin (%)								
Switchgear	*39.7*	*39.5*	*39.9*	-	-	*39.7*	*39.7*	-
Cable	*14.0*	*16.5*	*18.4*	-	-	*15.5*	*17.5*	-
Lighting & fixture	*29.6*	*28.9*	*27.6*	-	-	*28.6*	*28.2*	-
Electrical consumer durable	*26.8*	*27.7*	*25.1*	-	-	*27.5*	*26.5*	-
Lloyd	*18.5*	*16.1*	*(2.3)*	-	-	*19.1*	*12.1*	-
Total	***24.1***	***23.5***	***23.4***	-	-	***24.1***	***23.4***	-

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Actual performance versus our estimates, Bloomberg consensus estimates

2QFY20 (Rsmn)	Actual	Our estimate	*Deviation (%)*	Bloomberg cons. est.	*Deviation (%)*
Revenues	22,303	23,194	*(3.8)*	23,778	*(6.2)*
EBITDA	2,341	2,653	*(11.8)*	2,819	*(17.0)*
PAT	1,814	1,852	*(2.1)*	2,003	*(9.5)*

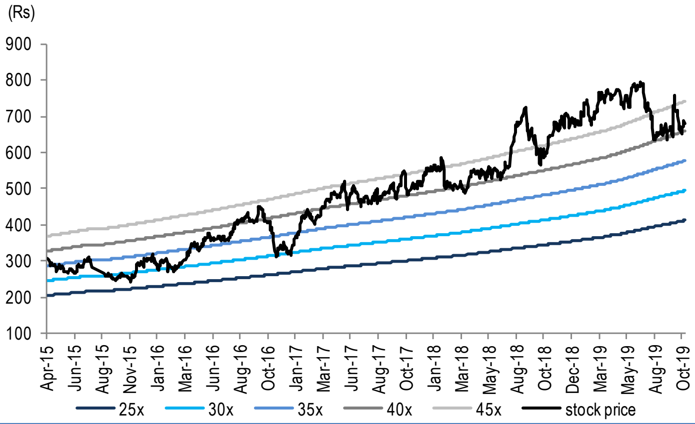
Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

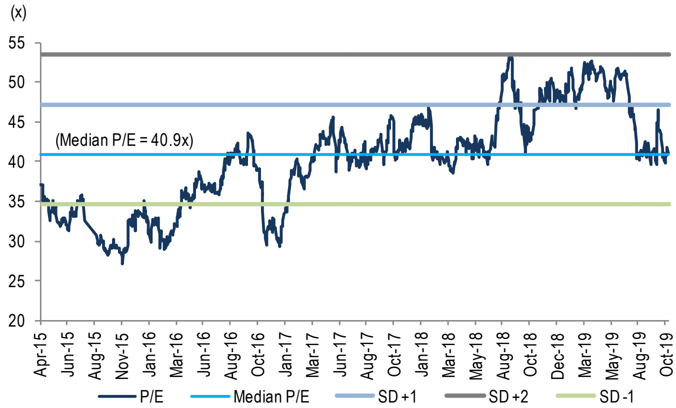
Exhibit 6: Change in our estimates

(Rsmn)	Old			New			*Deviation (%)*		
Y/E March	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	*FY20E*	*FY21E*	*FY22E*
Revenues	110,445	125,645	140,850	106,606	121,335	136,011	*(3.5)*	*(3.4)*	*(3.4)*
EBITDA	12,724	15,592	17,631	11,549	14,228	16,681	*(9.2)*	*(8.8)*	*(5.4)*
PAT	9,170	11,365	12,775	8,014	10,062	11,886	*(12.6)*	*(11.5)*	*(7.0)*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: P/E charts





Source: Nirmal Bang Institutional Equities Research

Financials

Exhibit 8: Income statement

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Revenues	81,386	100,576	106,606	121,335	136,011
*% growth **	*32.7*	*23.6*	*6.0*	*13.8*	*12.1*
Raw material costs	49,808	62,786	66,202	75,227	84,191
Staff costs	6,497	8,324	9,595	10,677	11,697
Other overheads	14,588	17,545	19,261	21,202	23,442
Total expenditure	70,893	88,654	95,058	107,107	119,330
EBITDA	10,493	11,922	11,549	14,228	16,681
% growth	*27.3*	*13.6*	*(3.1)*	*23.2*	*17.2*
EBITDA margin (%)	*12.9*	*11.9*	*10.8*	*11.7*	*12.3*
Other income	1,170	1,276	1,435	1,705	1,805
Interest costs	240	159	190	182	154
Depreciation	1,395	1,486	1,964	2,154	2,270
Profit before tax	10,028	11,553	10,830	13,597	16,062
Tax	3,022	3,637	2,816	3,535	4,176
Exceptional items	119	-	-	-	-
Reported net profit	7,125	7,915	8,014	10,062	11,886
Adjusted net profit	7,006	7,915	8,014	10,062	11,886
Adjusted PAT margin (%)	*8.6*	*7.9*	*7.5*	*8.3*	*8.7*
Adjusted EPS (Rs)	11.2	12.7	12.8	16.1	19.0
% growth	*17.4*	*13.0*	*1.2*	*25.6*	*18.1*

** Note: YoY growth in FY18 and FY19 is not comparable due to acquisition of Lloyd on 8 May 2017 (effective for 50 days in 1QFY18).*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Cash flow

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
EBIT	9,098	10,436	9,585	12,074	14,411
(Inc)/dec. in working capital	3,316	(4,770)	(404)	(352)	(514)
Cash flow from operations	**12,414**	**5,666**	**9,181**	**11,722**	**13,897**
Other income	1,170	1,276	1,435	1,705	1,805
Depreciation	1,395	1,486	1,964	2,154	2,270
Tax paid (-)	(2,090)	(2,490)	(2,816)	(3,535)	(4,176)
Net cash from operations	**12,889**	**5,937**	**9,764**	**12,045**	**13,796**
Capital expenditure (-)	(2,079)	(5,394)	(5,500)	(4,000)	(4,000)
Net cash after capex	**10,810**	**544**	**4,264**	**8,045**	**9,796**
Interest paid (-)	(240)	(159)	(190)	(182)	(154)
Dividends paid (-)	(3,015)	(3,393)	(4,145)	(4,898)	(6,029)
Inc./(dec.) in short-term borrowing	(1,981)	-	-	-	-
Inc./(dec.) in long-term borrowing	810	(405)	(50)	(50)	(50)
Inc./(dec.) in total borrowings	(1,171)	(405)	(50)	(50)	(50)
(Inc.)/dec. in investments	3,474	(166)	-	-	-
Cash from financial activities	**(951)**	**(4,123)**	**(4,385)**	**(5,130)**	**(6,233)**
Intangibles / extraordinary items	(13,968)	1,162	-	-	-
Opening cash balance	19,375	15,266	12,848	12,727	15,642
Closing cash balance	15,266	12,848	12,727	15,642	19,205
Change in cash balance	(4,110)	(2,418)	(122)	2,916	3,563

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Balance sheet

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Share capital	625	625	625	625	625
Reserves	36,766	41,800	45,669	50,833	56,689
Net worth	37,392	42,425	46,294	51,458	57,315
Total loans	810	405	355	305	255
Deferred tax liability (net)	2,070	3,217	3,217	3,217	3,217
Liabilities	**40,271**	**46,047**	**49,866**	**54,979**	**60,786**
Gross block	15,622	18,654	25,976	29,976	33,976
Depreciation	3,143	4,348	6,312	8,466	10,736
Net block	12,479	14,306	19,664	21,510	23,239
Capital work-in-progress	241	2,322	500	500	500
Intangible assets	15,536	14,886	14,886	14,886	14,886
Long-term Investments	417	583	583	583	583
Inventories	16,217	19,170	20,496	23,083	25,603
Debtors	3,254	4,224	4,527	4,986	5,590
Cash	15,266	12,848	12,727	15,642	19,205
Other current assets	2,005	3,452	3,731	4,247	4,760
Total current assets	36,742	39,695	41,481	47,959	55,159
Creditors	16,340	15,594	16,324	18,137	19,837
Other current liabilities	8,803	10,150	10,923	12,321	13,743
Total current liabilities	25,143	25,744	27,247	30,458	33,580
Net current assets	11,599	13,951	14,233	17,501	21,578
Total assets	**40,271**	**46,047**	**49,866**	**54,979**	**60,786**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Key ratios

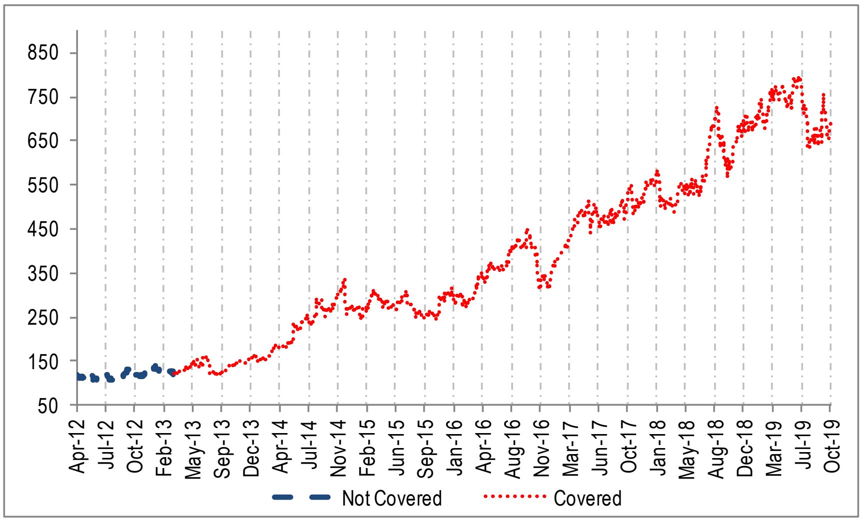
Y/E March	FY18	FY19	FY20E	FY21E	FY22E
Per share (Rs)					
Adjusted EPS	11.2	12.7	12.8	16.1	19.0
Book value	59.8	67.9	74.1	82.3	91.7
Valuation (x)					
P/E	59.8	52.9	52.3	41.6	35.2
P/BV	11.2	9.9	9.0	8.1	7.3
EV/EBITDA	38.5	34.1	35.2	28.4	24.0
EV/sales	5.0	4.0	3.8	3.3	2.9
Return ratios (%)					
RoCE	23.9	24.2	20.0	23.0	24.9
RoE	20.0	19.8	18.1	20.6	21.9
RoIC	48.9	36.5	27.7	32.1	36.1
Profitability ratios (%)					
EBITDA margin	12.9	11.9	10.8	11.7	12.3
EBIT margin	11.2	10.4	9.0	10.0	10.6
PAT margin	8.6	7.9	7.5	8.3	8.7
Turnover ratios					
Total asset turnover ratio (x)	2.0	2.2	2.1	2.2	2.2
Fixed asset turnover ratio (x)	5.2	5.4	4.1	4.0	4.0
Debtor days	15	15	16	15	15
Inventory days	119	111	113	112	111
Creditor days	120	91	90	88	86

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price	Target price (Rs)
25 July 2016	Accumulate	376	380
20 September 2016	Accumulate	412	432
13 October 2016	Accumulate	441	432
19 October 2016	Accumulate	410	432
10 January 2017	Accumulate	368	432
18 January 2017	Accumulate	380	425
14 February 2017	Accumulate	427	470
21 February 2017	Accumulate	413	433
7 April 2017	Accumulate	471	433
12 May 2017	Accumulate	514	510
6 July 2017	Accumulate	474	510
20 July 2017	Accumulate	468	510
9 October 2017	Accumulate	507	510
24 October 2017	Accumulate	541	552
14 December 2018	Accumulate	533	552
9 January 2018	Accumulate	552	552
23 January 2018	Accumulate	552	595
6 April 2018	Accumulate	546	595
14 May 2018	Accumulate	547	585
10 July 2018	Accumulate	573	585
23 July 2018	Accumulate	560	585
9 October 2018	Accumulate	564	585
19 October 2018	Accumulate	586	640
9 January 2019	Accumulate	682	640
23 January 2019	Accumulate	711	690
9 April 2019	Accumulate	762	740
30 May 2019	Accumulate	730	725
09 July 2019	Accumulate	739	725
29 July 2019	Accumulate	666	690
23 September 2019	Accumulate	732	770
7 October 2019	Accumulate	663	770
24 October 2019	Accumulate	670	700

Rating track graph



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