

## RETAIL EQUITY RESEARCH

## HAVELLS INDIA Ltd

## Electrical Equipment

BSE CODE:517354

NSE CODE: HAVELLS

Bloomberg CODE: HAVL:IN

SENSEX: 36,108

## Reduce

Rating as per Midcap 12 Months investment period

CMP Rs. 695 TARGET Rs. 622 RETURN 10% ↓

23<sup>rd</sup> January, 2019**Margin continues to disappoint...premium valuation**

Havells India Ltd (HAVL) is a leading player in electrical consumer goods in India. Its key verticals include switchgears, cables & wires, lighting fixtures and consumer appliances.

- Revenue grew by robust 28% YoY, led by broad based growth across product categories.
- Excluding Lloyd, HAVL's average revenue growth for last 3 quarters was 27%, led by market share gains, retail penetration and premiumisation.
- However, EBITDA margin declined by 160bps YoY to 11.7% due to increase in cost and INR depreciation, consequently PAT grew by sub-optimum 13% YoY.
- We lower our EBITDA margins estimates by 30bps & 20bps for FY19E & FY20E to factor in impact on margins.
- Despite this, we expect earnings to grow by 24% CAGR over FY18-20E.
- Considering the near term impact on margins and premium valuation, we maintain HAVL to Reduce. We value HAVL at P/E multiple 36x (5year average) on FY20E with a target price of Rs622.

**Revenue growth strong...**

HAVL Q3FY19 revenue grew by 28% YoY, led by broad based growth across segments. Revenue growth was led by Consumer durable which grew by 33% YoY, on back of strong growth from water heaters. Switchgears grew by 21% YoY led by improved industrial segment demand from government electrification projects. Cable & wires grew by 31% YoY but at lower base. Lighting segment grew by 29% YoY. Lloyd business grew by 22% YoY led by higher growth in LED TV sales offsetting muted growth in Air conditioner sales. Going ahead HAVL's strategy of penetration into existing product categories as well as expanding into new products and re-positioning of Lloyd brand will drive its future growth. We factor revenue to grow by 20% CAGR over FY18- FY20E.

**EBITDA margin to improve...**

HAVL's Q3FY19 gross margins declined by 202bps YoY to 37.5% on account of volatility in commodity prices and delay in pass through of higher cost. Margin compression was seen across segments barring Lighting, which saw 100bps margin expansion. Cables & wires witnessed 130bps decline in margin and switchgear by 90bps YoY while Consumer durables segment witnessed 410bps decline in margins. Lloyd's EBITDA fell by 28% YoY and margins by 120bps due to forex impact and rise in custom duty. Consolidated EBITDA margin declined by 160bps to 11.7%. Going ahead management expects pass through of cost albeit with lag effect and stability in commodity prices will lead to improvement in margins. We lower our EBITDA margins estimates by 30bps & 20bps to 12.2% & 13.2% for FY19E & FY20E to factor in near term impact on margins. We factor earnings to grow by 24% CAGR over FY18- FY20E.

**Valuations**

HAVL is trading at average 1 year FWD P/E of 40x which 13% premium to its 5 year historical average. We expect this premium valuation to continue given its strong brand recall, increasing presence in entire consumer electric segment, expanding retail touch points and strong balance sheet position. We expect earnings to grow at healthy 24% CAGR over FY18-20E. However considering the near term impact on margin and premium valuation, we value HAVL at 36x (32x earlier) on FY20E with target price of Rs622 and maintain our Reduce rating.

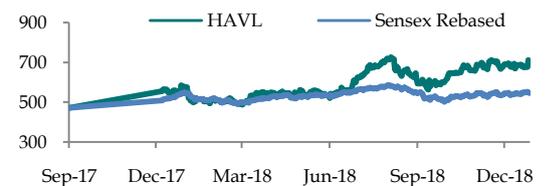
**Company Data**

Market Cap (cr)	Rs. 44,473
Enterprise Value (cr)	Rs. 44,303
Outstanding Shares (cr)	62.5
Free Float	40.4%
Dividend Yield	0.6%
52 week high	Rs. 729
52 week low	Rs. 454
6m average volume (cr)	0.2
Beta	1.0
Face value	Rs. 1

Shareholding (%)	Q1FY19	Q2FY19	Q3FY19
Promoters	59.6	59.6	59.6
FII's	24.8	25.8	26.8
MFs/Institutions	5.2	5.2	4.5
Public	6.1	6.0	6.0
Others	4.3	3.5	3.1
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	16.2%	11.4%	19.2%
Absolute Sensex	7.6%	-2.9%	0.3%
Relative Return*	8.6%	14.4%	18.9%

\*over or under performance to benchmark index



Standalone (Rs. Cr)	FY19E	FY20E	FY21E
Sales	10,151	11,697	13,606
Growth (%)	24.7	15.2	16.3
EBITDA	1,233	1,544	1,823
Margin (%)	12.2	13.2	13.4
PAT Adjusted	844	1,080	1,292
Growth (%)	20.4	28.1	19.6
Adj.EPS	13.5	17.3	20.7
Growth (%)	20.4	28.1	19.6
P/E	51.5	40.2	33.6
P/B	15.2	11.8	9.2
EV/EBITDA	35.1	28.0	23.5
ROE (%)	20.9	22.9	22.9
D/E	0.0	0.0	0.0

Anil R  
Analyst

## Standalone Quarterly Financials

### Profit & Loss Account

(Rs cr)	Q3FY19	Q3FY18	YoY Growth %	9M FY19	9M FY18	YoY Growth %
<b>Sales</b>	<b>2518</b>	<b>1966</b>	28.1	<b>7,306</b>	<b>5,604</b>	30.4
<b>EBITDA</b>	<b>295</b>	<b>262</b>	12.3	<b>869</b>	<b>692</b>	25.7
<b>EBITDA margins</b>	<b>11.7</b>	<b>13.3</b>	(160bps)	<b>11.9</b>	<b>12.3</b>	(40bps)
Depreciation	35	36	(2.7)	<b>110</b>	<b>105</b>	4.5
<b>EBIT</b>	<b>259</b>	<b>226</b>	14.8	<b>760</b>	<b>587</b>	29.5
Interest	4	5	(35.2)	<b>10</b>	<b>16</b>	(37.4)
Other Income	33	28	19.1	<b>97</b>	<b>91</b>	5.9
<b>PBT</b>	<b>289</b>	<b>248</b>	16.4	<b>847</b>	<b>662</b>	27.8
Tax*	93	75	24.8	<b>262</b>	<b>197</b>	33.2
Exceptional items	(1)	21	-	<b>(1.1)</b>	<b>23</b>	-
<b>Reported PAT</b>	<b>193</b>	<b>195</b>	1.1	<b>584</b>	<b>487</b>	19.8
Adjustments	1	(21)	-	<b>1.1</b>	<b>-</b>	-
<b>Adjusted PAT</b>	<b>196</b>	<b>173</b>	12.9	<b>585</b>	<b>466</b>	25.5
No. of shares (cr)	62.5	62.5	-	<b>62.5</b>	<b>62.5</b>	-
<b>EPS (Rs)</b>	<b>2.9</b>	<b>2.7</b>	12.9	<b>9.4</b>	<b>7.5</b>	25.5

### Change in estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Revenue	9,952	11,600	10,151	11,697	2.0	0.8
EBITDA	1,239	1,554	1,233	1,544	(0.5)	(0.7)
Margins (%)	12.5	13.4	12.2	13.2	(30bp)	(20bps)
PAT	844	1089	844	1,080	(0.0)	(0.8)
EPS	13.5	17.4	13.5	17.3	(0.0)	(0.8)

## Standalone Financials

### Profit & Loss Account

Y.E March (Rs cr)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Sales</b>	<b>6,135</b>	<b>8,139</b>	<b>10,151</b>	<b>11,697</b>	<b>13,606</b>
% change	14.1	32.7	24.7	15.2	16.3
<b>EBITDA</b>	<b>824</b>	<b>1,049</b>	<b>1233</b>	<b>1544</b>	<b>1,823</b>
% change	9.2	27.3	17.5	25.2	18.1
Depreciation	120	140	148	176	191
EBIT	705	910	1,085	1,368	1,632
Interest	12	24	14	6	3
Other Income	134	117	134	184	220
<b>PBT</b>	<b>827</b>	<b>1,003</b>	<b>1,207</b>	<b>1,546</b>	<b>1,849</b>
% change	17.0	21.3	20.4	28.1	19.6
Tax	230	302	363	465	556
Tax Rate (%)	28.0	30.0	30.0	30.0	30.0
<b>Reported PAT</b>	<b>536</b>	<b>714</b>	<b>844</b>	<b>1,080</b>	<b>1,292</b>
Adj*	(58)	12	-	-	-
<b>Adj PAT</b>	<b>597</b>	<b>701</b>	<b>844</b>	<b>1,080</b>	<b>1,292</b>
% change	16.3	17.3	20.4	28.1	19.6
No. of shares (mn)	62.5	62.5	62.5	62.5	62.5
<b>Adj EPS (Rs)</b>	<b>9.6</b>	<b>11.2</b>	<b>13.5</b>	<b>17.3</b>	<b>20.7</b>
% change	17.1	17.3	20.4	28.1	19.6
DPS (Rs)	4.2	4.2	4.2	4.2	4.2
CEPS (Rs)	11.5	13.4	15.9	20.1	23.7

### Balance Sheet

Y.E March (Rs cr)	FY17A	FY18A	FY19E	FY20E	FY21E
Cash	555	301	144	235	562
Accounts Receivable	229	325	362	433	533
Inventories	928	1,622	1,918	2,238	2,641
Other Cur. Assets	1,565	1,426	2,155	2,990	3,523
Investments	405	112	112	192	352
Gross Fixed Assets	1,463	1,562	1,802	1,982	2,082
Net Fixed Assets	1,248	1,248	1,340	1,344	1,253
CWIP	12	24	200	80	200
Intangible Assets	18	1,483	1,475	1,472	1,470
Def. Tax (Net)	(114)	(207)	(256)	(320)	(396)
Other Assets	-	-	-	-	-
<b>Total Assets</b>	<b>4,846</b>	<b>6,334</b>	<b>7,448</b>	<b>8,663</b>	<b>10,138</b>
Current Liabilities	1,184	2,286	2,877	3,268	3,697
Provisions	186	178	197	224	261
Debt Funds	5	104	54	34	14
Other Liabilities	198	27	-	-	-
Equity Capital	62.5	62.5	62.5	62.5	62.5
Reserves & Surplus	3,211	3,677	4,257	5,074	6,103
Shareholder's Fund	3,274	3,739	4,320	5,137	6,166
<b>Total Liabilities</b>	<b>4,846</b>	<b>6,334</b>	<b>7,448</b>	<b>8,663</b>	<b>10,138</b>
<b>BVPS (Rs)</b>	<b>52</b>	<b>60</b>	<b>69</b>	<b>82</b>	<b>99</b>

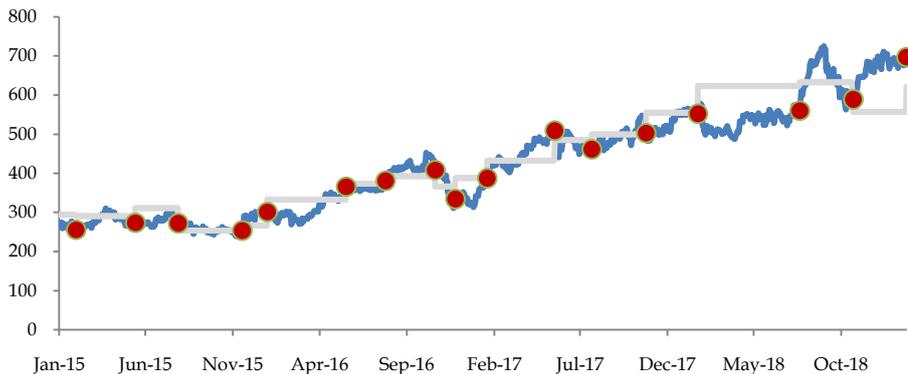
### Cash flow

Y.E March (Rs cr)	FY17A	FY18A	FY19E	FY20E	FY21E
Net inc. + Deprn.	539	713	844	1,080	1,292
Non-cash adj.	107	138	76	62	51
Changes in W.C	132	257	(451)	(808)	(570)
<b>C.F.O</b>	<b>778</b>	<b>1,108</b>	<b>468</b>	<b>334</b>	<b>772</b>
Capital exp.	(237)	(1,589)	(407)	(58)	(218)
Change in inv.	(66)	510	-	(80)	(160)
Other invest.CF	76	77	136	184	220
<b>C.F - investing</b>	<b>(227)</b>	<b>(1,102)</b>	<b>(272)</b>	<b>46</b>	<b>(158)</b>
Issue of equity	93	147	-	-	-
Issue/repay debt	153	(90)	(77)	(20)	(20)
Dividends paid	(226)	(263)	(263)	(263)	(263)
Other finance.CF	(9)	(20)	(14)	(6)	(3)
<b>C.F - Financing</b>	<b>(72)</b>	<b>(358)</b>	<b>(354)</b>	<b>(289)</b>	<b>(287)</b>
Chg. in cash	478	(252)	(158)	91	328
Closing cash	555	301	144	235	562

### Ratios

Y.E March	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Profitab. &amp; Return</b>					
EBITDA margin (%)	13.4	12.9	12.2	13.2	13.4
EBIT margin (%)	11.5	11.2	10.7	11.7	12.0
Net profit mgn.(%)	9.7	8.6	8.3	9.2	9.5
ROE (%)	19.2	20.0	20.9	22.9	22.9
ROCE (%)	14.3	15.6	15.4	16.8	16.9
<b>W.C &amp; Liquidity</b>					
Receivables (days)	11.5	12.4	12.4	12.4	13.0
Inventory (days)	85.7	93.4	101.5	104.9	106.2
Payables (days)	103.2	127.2	148.1	155.1	151.7
Current ratio (x)	2.4	1.5	1.5	1.7	1.8
Quick ratio (x)	0.7	0.2	0.2	0.2	0.3
<b>Turnover &amp; Levq.</b>					
Gross asset T.O (x)	4.5	5.5	6.0	6.2	6.7
Total asset T.O (x)	5.2	6.7	7.8	8.7	10.5
Int. covge. ratio (x)	58.0	38.0	78.1	221.1	482.0
Adj. debt/equity (x)	0.1	0.0	0.0	0.0	0.0
<b>Valuation ratios</b>					
EV/Sales (x)	7.0	5.3	4.3	3.7	3.2
EV/EBITDA (x)	52.3	41.2	35.1	28.0	23.5
P/E (x)	72.7	62.0	51.5	40.2	33.6
P/BV (x)	13.3	19.2	15.2	11.8	9.2

## Recommendation Summary (last 3 years)



Source: Bloomberg, Geojit Research

Dates	Rating	Target
31-Jan-15	Accumulate	291
14-May-15	Accumulate	311
28-July-15	Reduce	254
17-November-15	Hold	267
31-December-15	Accumulate	333
17-May-16	Hold	373
25-July-16	Hold	393
20-October-16	Reduce	367
24-November-16	Buy	388
19-January-17	Buy	433
17-May-17	Reduce	485
21- July -17	Hold	500
25-October-17	Accumulate	555
23-January-18	Accumulate	624
23-July-18	Accumulate	633
22-October-18	Reduce	557
23-January-19	Reduce	622

## Investment Rating Criteria

### Large Cap Stocks;

Buy	-	Upside is above 10%.
Hold	-	Upside is between 0%- 10%.
Reduce	-	Downside is more than 0%.
Neutral	-	Not Applicable

### Mid Cap and Small Cap;

Buy	-	Upside is above 15%.
Accumulate	-	Upside is between 10% - 15%.
Hold	-	Upside is between 0% - 10%.
Reduce/Sell	-	Downside is more than 0%.
Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating.

For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Neutral- The analyst has no investment opinion on the stock under review.

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