

## Retail Equity Research (South India Focus)

# Havells India Ltd

## Electrical Equipment

 BSE CODE : 517354      NSE CODE: HAVELLS  
 BLOOMBERG CODE: HAVL:IN      SENSEX : 31,605

## Accumulate

12M Investment Period

Rating as per Large Cap

**CMP Rs470 TARGET Rs.528 RETURN 12 %** ↑  
 (Closing: 27-05-20)

**KEY CHANGES:**
**TARGET** ↓

**RATING** ↓

**EARNINGS** ↓

### Weakness priced-in...

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.

- We downgrade HAVL to Accumulate from Buy on account earnings downgrade. However, we believe that current headwinds have been priced-in. We expect a gradual revival in demand starting from H2FY21E, as situation normalises.
- Q4 Revenue declined by 19% YoY due to lockdown leading to lost of Rs.800cr.
- EBITDA margin declined by 70bps YoY, on account fall in RM prices and lower than expected sales. PAT declined by 14% YoY.
- Going ahead, Q1FY21E is likely to be worst quarter on account of extension of lockdown.
- We lower our EPS estimates by 45% & 19% for FY21E & FY22E, as we factor the impact of Q4 & Q1FY21E on our estimates.
- HAVL's long strategy of expansion of product portfolio, strong brand recall and distribution strength will drive growth. We value HAVL at P/E of 37x on FY22E with a target price of Rs.528.

### Revenue growth impacted by lockdown...

HAVL Q4FY20 revenue declined by 19.5% YoY, on account of weak demand scenario due to Covid-19. Revenue growth from Switch gears, cables, Lighting & fixtures and Electric appliances segment declined by 14%, 24% & 30% and 14% YoY, respectively. As per management sales lost for the quarter was Rs800cr. For past one year, HAVL's growth trajectory was impacted by general weakness in domestic macros, tight liquidity situations and slowdown in infrastructure spending. Switchgear segment was largely impacted by sluggish infrastructure and Government driven procurement. In the cable segment, power cables segment was weighed down by industrial and infrastructure slowdown and fall in commodity prices. Revenue from Lloyd business was declined by 14% YoY despite peak season for the company. Further, Q1FY21E likely to be We expect the current demand headwinds to persist for some more time and we may see revival in H2FY21E. Considering this, we lower our revenue estimates 26% & 17% for FY21 & FY22E.

### Margin declines...

HAVL's Q4FY20 EBITDA margin declined by 70bps YoY, to 11.1% on account margin contraction across segments. Segment wise decline in EBIT margins across Switch gear 490bps, Cables 520bps and consumer appliance 120bps YoY. While Lloyd EBIT margins decline 530bps YoY. Lower than expected sales, lack of absorption of cost and volatility in RM prices, impacted Q4 margins. Going ahead, we expect Q1FY21 earnings will have significant impact due to complete shut down. Considering this we lower our EBITDA margin estimates by 170bps for FY21E. Consequently, given downgrade in topline and EBITDA margin estimates, our EPS estimates stand reduced by 45% & 19% for FY21E & FY22E.

### Valuations

We expect the near term earnings to be significantly impacted due to complete lock down during Q1FY21E. Further, headwind faced by construction sector and general weakness consumer segment is likely to impact growth trajectory of HAVL. However, we believe that near term concerns has already factored in the stock price. We value HAVL at 37x on FY22E, given likelihood of underperformance in the near term we downgrade Accumulate with a target price of Rs.528.

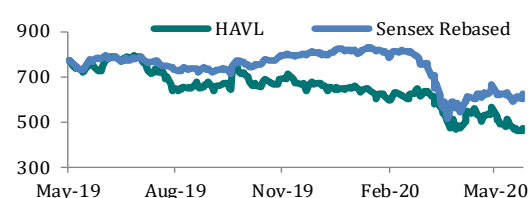
### Company Data

Market Cap (cr)	Rs.29,425
Enterprise Value (cr)	Rs.29,296
Outstanding Shares (cr)	62.5
Free Float	40.5%
Dividend Yield	1.8%
52 week high	Rs.807
52 week low	Rs.447
6m average volume (cr)	0.2
Beta	1.1
Face value	Rs.1

Shareholding (%)	Q2FY20	Q3FY20	Q4FY20
Promoters	59.5	59.5	59.5
FII's	26.3	25.9	23.0
MFs/Institutions	5.8	5.9	8.3
Public	6.3	6.5	6.6
Others	2.1	2.2	2.4
Total	100.0	100.0	100.0
Promoter pledge	0.0	0.0	0.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	-26.4%	-29.5%	-35.2%
Absolute Sensex	-20.5%	-22.5%	-20.5%
Relative Return*	-5.9%	-7.0%	-14.7%

\*over or under performance to benchmark index



Standalone (cr)	FY20E	FY21E	FY22E
Sales	9,429	8,311	10,490
Growth (%)	(6.2)	(11.9)	26.2
EBITDA	1,027	831	1,311
EBITDA Margin(%)	10.9	10.0	12.5
PAT Adj.	733	521	893
Growth (%)	(7.4)	(29.0)	71.4
Adjusted EPS	11.7	8.3	14.3
Growth (%)	(7.4)	(29.0)	71.4
P/E	40.1	56.5	33.0
P/B	10.3	9.4	7.9
EV/EBITDA	28.5	35.3	22.4
ROE (%)	17.2	11.8	18.5
D/E	0.0	0.0	0.0

 Anil R  
 Research Analyst

## Quarterly Financials

### Profit & Loss

	Q4FY20	Q4FY19	YoY Growth %	Q3FY20	YoY Growth %
<b>Sales</b>	<b>2,216</b>	<b>2,752</b>	<i>(19.5)</i>	<b>2,270</b>	<i>(2.4)</i>
<b>EBITDA</b>	<b>245</b>	<b>323</b>	<i>(24.0)</i>	<b>267</b>	<i>(8.2)</i>
EBITDA margin	<b>11.1</b>	<b>11.7</b>	<i>(60bps)</i>	<b>11.8</b>	<i>(70bps)</i>
Depreciation	63	39	<i>60.0</i>	55	<i>13.2</i>
<b>EBIT</b>	<b>183</b>	<b>284</b>	<i>(35.6)</i>	<b>212</b>	<i>(13.8)</i>
Interest	5	6	<i>(25.1)</i>	5	<i>(12.5)</i>
Other Income	20	31	<i>(37.0)</i>	24	<i>(18.6)</i>
Exceptional Items	-	-	-	-	-
<b>PBT</b>	<b>198</b>	<b>309</b>	<i>(36.0)</i>	<b>231</b>	<i>(14.4)</i>
Tax	21	102	<i>(80.0)</i>	31	<i>(32.7)</i>
Share of profit from Associate	-	-	-	-	-
Minority Interest	-	-	-	-	-
<b>Reported PAT</b>	<b>177</b>	<b>207</b>	<i>(14.3)</i>	<b>200</b>	<i>(11.6)</i>
Adjustments	-	-	-	-	-
<b>Adjusted PAT</b>	<b>177</b>	<b>207</b>	<i>(14.3)</i>	<b>200</b>	<i>(11.6)</i>
No. of Shares	<b>62.5</b>	<b>62.5</b>	-	<b>62.5</b>	-
<b>EPS (Rs)</b>	<b>2.8</b>	<b>3.3</b>	<i>(14.3)</i>	<b>3.2</b>	<i>(11.6)</i>

### Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY2E	FY21E	FY22E
Revenue	11,268	12,669	8,311	10,490	(26.2)	(17.2)
EBITDA	1,318	1,520	831	1,311	(37.0)	(13.8)
Margin (%)	11.7	12.0	10.0	12.5	<i>(170bps)</i>	<i>+50bps</i>
Adj. PAT	941	1,097	521	893	(44.7)	(18.6)
EPS	15.0	17.5	8.3	14.3	(44.7)	(18.6)

## Standalone Financials

### PROFIT & LOSS

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Sales</b>	<b>8,139</b>	<b>10,058</b>	<b>9,429</b>	<b>8,311</b>	<b>10,490</b>
% change	32.7	23.6	(6.2)	(11.9)	26.2
<b>EBITDA</b>	<b>1,049</b>	<b>1,192</b>	<b>1,027</b>	<b>831</b>	<b>1,311</b>
% change	27.3	13.6	(13.8)	(19.1)	57.8
Depreciation	140	149	218	246	272
EBIT	910	1,044	809	585	1,039
Interest	24	16	20	8	6
Other Income	117	128	112	117	157
<b>PBT</b>	<b>1,003</b>	<b>1,155</b>	<b>902</b>	<b>694</b>	<b>1,190</b>
% change	21.3	15.2	(21.9)	(23.0)	71.4
Tax	302	364	169	174	298
Tax Rate (%)	30.0	31.0	19.0	25.0	25.0
<b>Reported PAT</b>	<b>714</b>	<b>792</b>	<b>733</b>	<b>521</b>	<b>893</b>
Adj.*	12	-	-	-	-
<b>Adj. PAT</b>	<b>701</b>	<b>792</b>	<b>733</b>	<b>521</b>	<b>893</b>
% change	17.3	13.0	(7.4)	(29.0)	71.4
No. of shares (cr)	62.5	62.5	62.5	62.5	62.5
<b>Adj EPS (Rs)</b>	<b>11.2</b>	<b>12.7</b>	<b>11.7</b>	<b>8.3</b>	<b>14.3</b>
% change	17.3	12.9	(7.4)	(29.0)	71.4
DPS (Rs)	4.2	4.8	4.8	4.8	4.8
CEPS (Rs)	13.4	15.0	15.2	12.3	18.6

### CASH FLOW

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	713	792	733	521	893
Non-cash adj.	138	204	113	172	181
Changes in W.C	257	(475)	(21)	(370)	(687)
<b>C.F. Operation</b>	<b>1,108</b>	<b>513</b>	<b>825</b>	<b>322</b>	<b>386</b>
Capital exp.	(1,589)	(501)	(359)	(177)	(243)
Change in inv.	510	599	(251)	-	-
Other invest.CF	77	80	62	117	157
<b>C.F - Investment</b>	<b>(1,002)</b>	<b>178</b>	<b>(548)</b>	<b>(59)</b>	<b>(85)</b>
Issue of equity	147	180	240	-	-
Issue/repay debt	(90)	-	-	(30)	(30)
Dividends paid	(263)	(302)	(641)	(302)	(302)
Other finance.CF	(20)	(13)	(5)	(8)	(6)
<b>C.F - Finance</b>	<b>(358)</b>	<b>(310)</b>	<b>(716)</b>	<b>(339)</b>	<b>(338)</b>
Chg. in cash	(252)	380	(439)	(77)	(37)
Closing cash	301	678	242	165	128

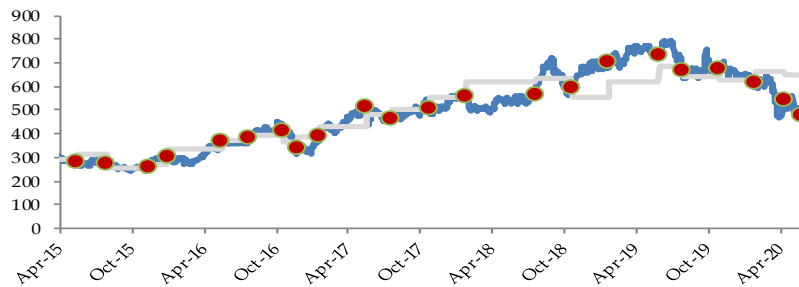
### BALANCE SHEET

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	301	678	242	165	128
Accounts Receivable	325	422	249	330	417
Inventories	1,622	1,917	1,872	1,555	1,973
Other Cur. Assets	1,426	953	1,248	1,537	2,084
Investments	112	76	2	2	2
Gross Fixed Assets	1,562	1,865	2,552	2,802	3,052
Net Fixed Assets	1,248	1,431	1,899	1,903	1,881
CWIP	24	232	83	80	75
Intangible Assets	1,483	1,471	1,453	1,383	1,380
Def. Tax (Net)	(207)	(322)	(287)	(321)	(381)
Other Assets	-	-	-	-	-
<b>Total Assets</b>	<b>6,334</b>	<b>6,857</b>	<b>6,761</b>	<b>6,634</b>	<b>7,558</b>
Current Liabilities	2,286	2,318	2,098	1,838	2,152
Provisions	178	235	246	189	239
Debt Funds	104	62	113	83	53
Other Liabilities	27	-	-	-	-
Equity Capital	62.5	62.5	62.5	62.5	62.5
Reserves & Surplus	3,677	4,180	4,242	4,461	55,052
Shareholder's Fund	3,739	4,243	4,305	4,524	5,115
<b>Total Liabilities</b>	<b>6,334</b>	<b>6,857</b>	<b>6,761</b>	<b>6,634</b>	<b>7,558</b>
BVPS	<b>60</b>	<b>68</b>	<b>69</b>	<b>72</b>	<b>82</b>

### RATIOS

Y.E March	FY18A	FY19A	FY20A	FYE21E	FY22E
<b>Profitab &amp; Return</b>					
EBITDA margin (%)	12.9	11.9	10.9	10.0	12.5
EBIT margin (%)	11.2	10.4	8.6	7.0	9.9
Net profit mgn.(%)	8.6	7.9	7.8	6.3	8.5
ROE (%)	20.0	19.8	17.2	11.8	18.5
ROCE (%)	15.6	15.2	13.5	9.4	14.7
<b>W.C &amp; Liquidity</b>					
Receivables (days)	12.4	13.6	13.0	12.7	13.0
Inventory (days)	93.4	102.9	118.5	121.2	98.4
Payables (days)	127.2	134.6	138.1	139.1	111.3
Current ratio (x)	1.5	1.6	1.5	1.8	1.9
Quick ratio (x)	0.2	0.3	0.2	0.3	0.3
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	5.5	5.9	4.3	3.1	3.6
Total asset T.O (x)	6.7	7.5	5.7	4.4	5.5
Int. covge. ratio (x)	38.0	65.6	41.0	74.6	169.9
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
<b>Valuation</b>					
EV/Sales (x)	3.6	2.9	3.1	3.5	2.8
EV/EBITDA (x)	27.8	24.2	28.5	35.3	22.4
P/E (x)	42.0	37.2	40.1	56.5	33.0
P/BV (x)	13.0	10.6	10.3	9.4	7.9

## Recommendation summary



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
30-May-19	Reduce	687
29-July-19	Reduce	642
29-October-19	Reduce	625
29-January-20	Hold	666
15-April-20	Buy	649
28-May-20	Accumulate	528

## Investment 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

## General Disclosures and Disclaimers

### CERTIFICATION

I, Anil R, author of this Report, hereby certify that all the views expressed in this research report reflect our personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

### COMPANY OVERVIEW

Geojit Financial Services Limited (hereinafter Geojit), a publically listed company, is engaged in services of retail broking, depository services, portfolio management and marketing investment products including mutual funds, insurance and properties. Geojit is a SEBI registered Research Entity and as such prepares and shares research data and reports periodically with clients, investors, stake holders and general public in compliance with Securities and Exchange Board of India Act, 1992, Securities And Exchange Board Of India (Research Analysts) Regulations, 2014 and/or any other applicable directives, instructions or guidelines issued by the Regulators from time to time.

### DISTRIBUTION OF REPORTS

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Geojit will not treat the recipients of this report as clients by virtue of their receiving this report.

### GENERAL REPRESENTATION

The research reports do not constitute an offer or solicitation for the purchase or sale of any financial instruments, inducements, promise, guarantee, warranty, or as an official confirmation of any transaction or contractual obligations of any kind. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. We have also reviewed the research report for any untrue statements of material facts or any false or misleading information. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

### RISK DISCLOSURE

Geojit and/or its Affiliates and its officers, directors and employees including the analyst/authors shall not be in any way be responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Investors may lose his/her entire investment under certain market conditions so before acting on any advice or recommendation in these material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. This report does not take into account the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved). The price, volume and income of the investments referred to in this report may fluctuate and investors may realize losses that may exceed their original capital.

### FUNDAMENTAL DISCLAIMER

We have prepared this report based on information believed to be reliable. The recommendations herein 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. The stocks always carry the risk of being upgraded to buy or downgraded to a hold, reduce or sell. The opinions expressed are subject to change but we have no obligation to tell our clients when our opinions or recommendations change. This report is non-inclusive and does not consider all the information that the recipients may consider material to investments. This report is issued by Geojit without any liability/undertaking/commitment on the part of itself or anyof

/undertaking/commitment on the part of itself or any of its entities. We may have issued or may issue on the companies covered herein, reports, recommendations or information which is contrary to those contained in this report.

The projections and forecasts described in this report should be evaluated keeping in mind the fact that these are based on estimates and assumptions and will vary from actual results over a period of time. The actual performance of the companies represented in the report may vary from those projected. These are not scientifically proven to guarantee certain intended results and hence, are not published as a warranty and do not carry any evidentiary value whatsoever. These are not to be relied on in or as contractual, legal or tax advice. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

#### JURISDICTION

The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. The countries in which the companies mentioned in this report are organized may have restrictions on investments, voting rights or dealings in securities by nationals of other countries. Distributing/taking/sending/dispatching/transmitting this document in certain foreign jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe any such restrictions. Failure to comply with this restriction may constitute a violation of any foreign jurisdiction laws. Foreign currencies denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. Investors in securities such as ADRs, the value of which are influenced by foreign currencies effectively assume currency risk.

#### REGULATORY DISCLOSURES:

Geojit's Associates consists of privately held companies such as Geojit Technologies Private Limited (GTPL- Software Solutions provider), Geojit Credits Private Limited (GCPL- NBFC Services provider), Geojit Investment Services Limited (GISL- Corporate Agent for Insurance products), Geojit Financial Management Services Private Limited (GFMSL) & Geojit Financial Distribution Private Limited (GFDPL), (Distributors of Insurance and MF Units). In the context of the SEBI Regulations on Research Analysts (2014), Geojit affirms that we are a SEBI registered Research Entity and in the course of our business as a stock market intermediary, we issue research reports /research analysis etc that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities.

In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

##### 1. Disclosures regarding Ownership\*:

*Geojit confirms that:*

It/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein.

It/its associates have no actual beneficial ownership greater than 1% in relation to the subject company (ies) covered herein.

*Further, the Analyst confirms that:*

he, his associates and his relatives have no financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company.

he, his associates and his relatives have no actual/beneficial ownership greater than 1% in the subject company covered

##### 2. Disclosures regarding Compensation:

During the past 12 months, Geojit or its Associates:

(a) Have not received any compensation from the subject company; (b) Have not managed or co-managed public offering of securities for the subject company (c) Have not \* received any compensation for investment banking or merchant banking or brokerage services from the subject company. (d) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company (e) Have not received any compensation or other benefits from the subject company or third party in connection with the research report (f) The subject company is / was not a client during twelve months preceding the date of distribution of the research report.

##### 3. Disclosure by Geojit regarding the compensation paid to its Research Analyst:

Geojit hereby confirms that no part of the compensation paid to the persons employed by it as Research Analysts is based on any specific brokerage services or transactions pertaining to trading in securities of companies contained in the Research Reports.

##### 4. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that the I Anil R, Research Analyst(s) of Geojit have not served as an officer, director or employee of the subject company

##### 5. Disclosure regarding Market Making activity:

Neither Geojit/its Analysts have engaged in market making activities for the subject company.

Please ensure that you have read the "Risk Disclosure Documents for Capital Market and Derivatives Segments" as prescribed by the Securities and Exchange Board of India before investing.

Geojit Financial Services Ltd. (formerly known as Geojit BNP Paribas Financial Services Ltd.), Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Website: [www.geojit.com](http://www.geojit.com). For investor queries: [customercare@geojit.com](mailto:customercare@geojit.com), For grievances: [grievances@geojit.com](mailto:grievances@geojit.com), For compliance officer: [compliance@geojit.com](mailto:compliance@geojit.com).

Corporate Identity Number: L67120KL1994PLC008403, SEBI Stock Broker Registration No INZ000104737, Research Entity SEBI Reg No: INH200000345, Investment Adviser SEBI Reg No: INA200002817, Portfolio Manager: INP000003203, Depository Participant: IN-DP-325-2017, ARN Regn.Nos:0098, IRDA Corporate Agent (Composite) No.: CA0226