

Havells India Ltd (HIL)

Sector: Consumer Discretionary /Mid-Cap | Earnings Update – 4QFY19

OUTPERFORMER

26 June 2019

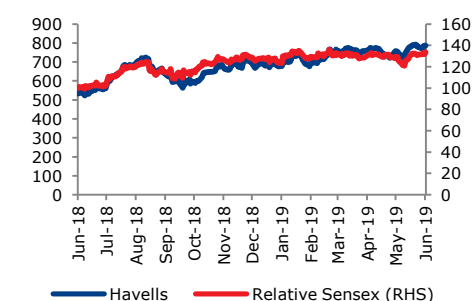
Background: HIL is one of India's largest & fastest growing electrical and power distribution equipment manufacturers with products ranging from industrial & domestic circuit protection switchgear, cables & wires, motors, fans, power capacitors, CFL lamps, luminaries for domestic, commercial & industrial applications, modular switches, water heaters and domestic appliances covering the entire gamut of household electrical needs along with industry lights and cables. Havells owns some of the prestigious global brands like Crabtree, Reo & Standard Electrical. HIL now operates a network of 90+ branches and representative offices in over 50 countries with a network of 20,000 distributors.

Sensex	39,592
Nifty	11,848
Price	INR 788
Target Price (12 M)	INR 853
Recommendation	OUTPERFORMER
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52 Week High/Low	INR 797/520
Bloomberg / Reuters	HAVL IN /HVEL.BO
Equity (shares in mn)	625.47
Mkt. Cap in bn	INR 492.7/\$ 7.1
Avg. Daily Vol. ('000)	1,382
Avg. Daily Vol. (mn)	INR 1,088.6/\$ 15.7

Shareholding	Mar 18	Dec 18	Mar 19
Promoters (%)	59.58	59.55	59.55
FII (%)	24.93	26.54	27.28
DII (%)	5.05	4.71	4.30
Others (%)	10.44	9.20	8.87
Pledge (% of promoter holding)	0.00	0.00	0.00

Y/E March	2019	2020E	2021E
Revenue	100.6	116.9	135.1
EBITDA	11.9	14.9	17.8
Adj PAT	7.9	10.0	12.1
Adj EPS	12.7	16.1	19.4
% growth	12.3	27.1	20.5
PE	61.0	49.0	40.7
P/ BV	11.4	10.3	9.0
EV/EBITDA	37.2	32.3	26.9
EV/Sales	4.6	4.1	3.6
Div Yield (%)	0.6	0.7	0.9
ROE (%)	19.8	22.0	23.3

Performance %	1M	3M	12M
Havells	3.8	4.0	47.7
Sensex	0.6	2.1	10.6



Weak quarter; Top line & margins impacted by demand slowdown

- HIL's standalone revenue grew by a meager 8.6%YoY to INR 27.5bn. This slowdown was largely due to extended winters and impending general elections.
- Revenue from Lighting & Fixtures (L&F) business grew by 7%YoY in 4QFY19 to INR 3.29bn, impacted due to lower project orders owing to general slowdown in infrastructure segment. L&F EBIT margin plunged by 500bps YoY to 26.9% due to change in product mix. Project lighting business (EESL & B2G) grew by 216% YoY to INR 504mn; and margin spiked to 31.9% from 10.7% in 4QFY18.
- Switch gear segment grew only by 11% YoY to INR 4.37bn in 4QFY19 due to slowdown in demand. Switchgear EBIT Margin contracted by 70bps YoY to 37.9%.
- Cables & Wires segment grew 17% YoY to INR 8.98bn. Cables & Wires EBIT margin improved by 40bps YoY to 17.5%.
- Electrical Consumer Durables segment grew by 9% YoY to INR 5.04bn; fans and Lyolds AC sales were impacted by the delayed onset of summer and EBIT margin fell by 100bps YoY to 26.1%. Lloyds business de-grew 9% YoY to INR 5.32bn and EBIT margin fell by 700bps YoY to 15% due to higher custom duties and rupee depreciation. The company could only partially pass on the increase in input costs in Llyod's business to its customers, due to delayed summer and high competitive intensity. Going forward, the management has guided the margins from this segment to be ~10%.
- Standalone Gross margin contracted by 85bps YoY to 37.1%; EBITDA at INR 3.23bn, down 9.7% YoY; EBITDA margins contracted by 238bps YoY to 14.1%; Employee cost was up 158bps YoY, ad spend were down 40bps YoY and other expenses (-38bps YoY). Adj.PAT fell by 8.4%YoY to INR 2.07bn and A.PAT margin contracted by 139bps YoY to 7.5%.
- Management has guided for a Capex of INR 6bn for FY20E to expand existing product capacity. Its new air conditioner plant is likely to commence in 2HFY20, with benefits flowing from FY21E onwards. The company also plans to enter refrigerator segment by end of FY20E, under the new product category.

Valuation: At CMP the stock trades at 49X & 41X FY20E & FY21E respectively. We are valuing the company 44XFY21E EPS to arrive at a target price of INR 853 (earlier: INR 757) and **OUTPERFORMER** rating on the stock. **Risks:** Higher built-up in dealer inventory, competition from both foreign and domestic players and speedy market share gain from unorganized players.

Results Summary 4QFY19

Y/E March (INR mn)	4QFY19	4QFY18	YoY Growth	3QFY19	QoQ Growth
Revenue	27,519	25,349	8.6%	25,184	9.3%
EBITDA	3,229	3,577	-9.7%	2,946	9.6%
Depreciation	391	347	12.5%	353	10.6%
Other Income	310	257	20.2%	331	-6.4%
PBT	3,086	3,313	-6.9%	2,888	6.9%
Tax	1,018	1,055	-3.6%	931	9.3%
PAT	2,068	2,258	-8.4%	1,957	5.7%
Adjusted PAT	2,068	2,258	-8.4%	1,957	5.7%
Total Comprehensive Income	2,039	2,318		1,951	
EBITDA Margin	11.7	14.1		11.7	
Tax Incidence	33.0	31.9		32.2	
PAT Margin	7.5	8.9		7.8	

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