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HAVELLS INDIA LTD.

BSE Code	:	**517354**
Time Duration	:	**18 months**
CMP	:	**₹1020.05 (as on 27 May 2021)**
Target Price	:	**₹1,276**

Large Rhino

Swiftest Performers
Among Heavy Weights

Our Large Rhino pick for the month of May 2021 is Havells India Limited (HIL), one of the leading players in the consumer electrical products sector in India. HIL operates in four broad business segments, viz. switchgear, cables, electrical consumer durables (ECD), and lighting & fixtures. It is engaged in the manufacturing of a wide range of products from air conditioners, water heaters, fans, small domestic appliances, LED televisions, washing machines to switchgear, industrial & domestic circuit protection devices, cables, motors, LED luminaires for domestic & professional needs. The company manufactures more than 90 per cent of its products in-house thereby, strengthening its operations to have better control over costs and maintain profitability. Apart from the flagship brand 'Havells', HIL owns brands like Lloyd, Crabtree, Standard, Reo, Promptec, etc. The company's manufacturing plants are located at Haridwar, Baddi, Noida, Sahibabad, Faridabad, Alwar, Neemrana, and Guwahati.

Positive implications on the industry due to pandemic:

With social distancing becoming the new norm in a world grappling with COVID, the industry has seen accelerated use of artificial intelligence (AI), augmented reality (AR), and virtual reality (VR) in providing experiences like shop streaming thereby, further pushing the e-commerce. Remote working and work from home (WFH) brought about an increase in the demand for home & kitchen gadgets, health, and lifestyle products/equipment. The revenue of the company jumped 11 per cent in FY21 to Rs 10,428 crore, underpinning its performance amidst the pandemic. Such performance in an adverse environment reiterates HIL's superior execution and strong business model.

Moreover, given the huge market that India offers in the fast-moving electrical goods (FMEG) segment, FDI inflow is expected to increase, opening up a lot of opportunities for HIL for strategic partnerships. The company's global benchmarked in-house facilities, R&D labs, and skilled manpower will assist the company in expanding its business globally and turn this situation into an opportunity. Moreover, the disruptions caused by the pandemic have enabled HIL to gain market share at the cost of the unorganised sector. Therefore, despite the wait for short-term recovery, the long-term implications of this situation will prove to be quite positive for the business.

Robust balance sheet:

HIL's balance sheet stays strong, even amid disruption with a net cash position of Rs 1,438 crore as of March 2021. The company has demonstrated resilience in the face of many challenges in the past 10 years (demonetisation, implementation of GST and complete lockdown in Q1FY21), but has recovered strongly post every challenge due to its robust balance sheet condition (virtual debt-free status along with average ROCE & ROE of 25 per cent and 19 per cent, respectively). It has also been able to enter into newer product categories, aided by its strong brand positioning. Going forward, its balance strength and a strong brand will prove beneficial for the company to sail through near-term challenges and high inflationary pressure.

Revamping of Lloyd brand -

Lloyd brand has been delivering strong YoY growth over the past quarters, with the government's order in October 2020 to restricting AC imports auguring well. The company plans to revamp the brand with the expansion of its product portfolio as well as the launches of new categories & variants. This is seen through its recent foray into the refrigerator segment which has an annual market of Rs 25,000 crore. In addition, HIL intends to strengthen its already strong organised distribution network of over 500 plus galaxies, 7,575 dealers, and more than 1,00,000 retail outlets in India. The company has streamlined its dealer network and also, corrected its price positioning, which has led to better demand for the RAC product of the company. Lloyd RAC reaping benefits of in-house manufactur-

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ing, network expansion & improving brand positioning have become a full product portfolio white goods company with its washing machine and refrigerator launch. The strengthening of Lloyd brand and strategy to reduce dependency on a single product (seen by the increased focus on refrigerators & washing machines) is likely to help drive revenue and gain market in the medium to long-term.

In addition to this, there are plans for a capacity expansion with a focus on enhancing in-house production. Lloyd's current AC capacity at Rajasthan stands at 0.9 million units per annum, with existing capacity utilisation at 90 per cent. HIL announced that the company is planning to set up a new facility to manufacture air conditioners at Sri City, Chittoor district (Andhra Pradesh) with an estimated investment of Rs 250 crore and an annual capacity of 0.56 million units. The expected period for the commissioning of the AC facility would be 12-18 months, which is likely to be financed via internal accruals or term loans.

Financials

HIL reported strong revenue growth of 50.59 per cent YoY to Rs 3,339.21 crore, with a recovery witnessed in Q3FY21, sustaining in Q4FY21 as well. Switchgears segment of the company saw 53 per cent YoY growth, while cables saw growth of 51 per cent. Meanwhile, lighting, ECD, and others grew by 40, 71, and 40 per cent respectively. Lloyd sustained its momentum and registered 29 per cent YoY growth despite robust 70 per cent growth in Q3. HIL gained market share, led by supply chain disruptions with high import dependence as well gains from the unorganised sector. Revenue growth was led by improved consumer sentiment (ease-out in lockdown), pre-buying, market share gains, and improved distribution for the company in smaller towns and rural areas. The company reported a PBIDT (Ex OI) of Rs 508.18 crore, up by 107.89 per cent YoY from Rs 244.45 crore in the same quarter in the year-ago period. The corresponding margin grew to 15.22 per cent from 11.02 per cent in the year-ago period. PAT grew to Rs 303.83 crore, growing by 70.95 per cent YoY while the PAT margin expanded by 92 bps to 9.10 per cent.

On an annual basis, the company's revenue grew by 10.77 per cent to Rs 10,457.30 crore in FY21 from Rs 9,440.26 crore in the previous fiscal year. Operating profit and PAT saw impressive growth of 54.03 and 42.02 per cent, respectively. Ad spends stood at 1.3 per cent of sales in FY21 versus 3.4 per cent of sales in FY20.

Outlook and View

At CMP, HIL is trading at a TTM PE of 59.73x, as compared to the industry average of 71.16x. EV/TTM EBITDA stands at 34.86x. The stock price has given good returns of 115.28 per cent and 22.43 per cent CAGR over a period of 1 year and 3 years, respectively. HIL has a 3Y revenue CAGR of 8.6 per cent and a 3Y PAT CAGR of 16.47 per cent. ROCE stood at 28.5 per cent in FY21 vs 23.9 per cent in FY20. Return on net worth (RONW) stood at 22.2 per cent in FY21 vs 17.4 per cent in FY20. The debt on the books of the company (Rs 493 crore) is negligible, considering the net cash position of the company (Rs 1,438 crore). The debt-to-equity ratio stands at 0.09x. Promoters hold a 59.50 per cent holding in the company, a holding that remains unpledged. The pandemic-led disruptions have resulted in the market share gains shifting to organised players such as HIL. If lockdowns continue, the company will continue to accrue market share gains in its core portfolio at the cost of the unorganised sector. The key positives of HIL are its robust balance sheet condition and long-term focus on increasing penetration in rural & semi-urban markets. Considering these factors, we recommend a BUY on the stock with a target of Rs 1,276, representing a 25 per cent potential upside.

Inc/Exp Statement (Consolidated) (in Rs Crore)

Description	202103	202003	201903	201803	201703
Net Sales	10457.30	9440.26	10073.43	8146.41	6155.76
Total Income	10644.66	9553.67	10202.08	8264.31	6305.88
Total Expenditure	8885.52	8380.23	8850.43	7086.61	5337.59
PBIDT	1759.14	1173.44	1351.65	1177.70	968.29
PAT	1044.31	735.35	787.61	660.97	498.88
Dividend %	0	400	450	400	350
Adj. EPS(Rs)	16.68	11.75	12.59	10.6	7.91

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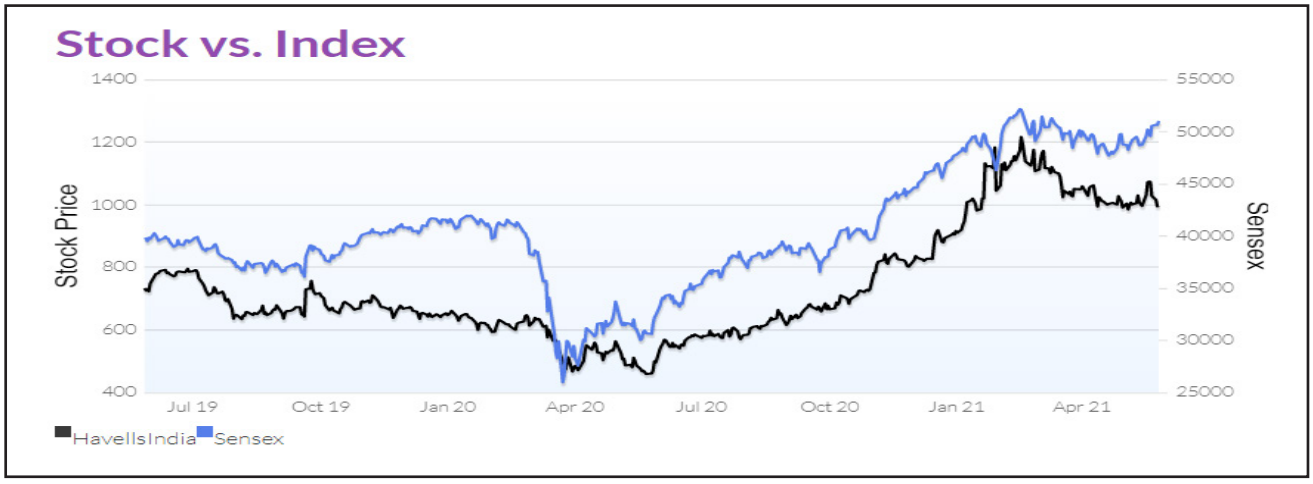
Quarter On Quarter (Consolidated) (in Rs Crore)					
Particulars	202103	202012	Q on Q Var %	202003	Y on Y Var %
Net Sales	3339.21	3175.2	5.17	2217.44	50.59
Total Expenditure	2831.03	2665.14	6.22	1972.99	43.49
PBIDT (Excl OI)	508.18	510.06	-0.37	244.45	107.89
PAT	303.83	350.14	-13.23	177.73	70.95
PBIDTM% (Excl OI)	15.22	16.06	-5.23	11.02	38.11
PBIDTM%	16.32	17.29	-5.61	11.96	36.45
PATM%	9.1	11.03	-17.5	8.02	13.47
Adj. EPS(Rs)	4.85	5.59	-13.24	2.84	70.77



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- **Sell:** The intended audience is being informed that they can consider selling the shares of the said company
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