

**Below estimate Q4; investments to yield results from FY20; maintain Buy**  
The Q4FY19 results were lower than our estimates, as lower volume across segments resulted in lower EBITDA and PAT. Lloyds's volumes were flat in FY19. The investments of the last couple of years, related to manufacturing, brand, and people, should start yielding results from FY20 onwards. We like Havells for its superior brand and distribution franchise, and continue to maintain Buy.

### Below estimates Q4FY19 due to volume miss

Havells reported a revenue of ₹27.5bn, a rise of 9% YoY, driven by growth across segments, except Lloyds. However, the EBIT margin fell in all segments, except cables, as volumes were marginally lower in Q4FY19 yoy which resulted in higher fixed costs spread across segments. This decreased EBITDA margin by 238bps at the overall level. The EBITDA declined 12% YoY to ₹3,229mn, and PAT was ₹2,068mn, down 8.4% YoY, in the quarter. The company, however, maintained RoCE at 30% for FY19, similar to FY18, with working capital under control.

### Investments in manufacturing, brand, and people to pay off from FY20

Lloyds has made investments over the past few years in manufacturing, brand, and people, and we expect it to start benefiting from these from FY20 onwards. Lloyds's AC unit has begun operations, and while that is currently just assembly, it should start making 60-65% of the unit value in-house in the next season. Similarly, Lloyds? has invested 7% of its sales in A&P over FY18-19. Havells has also invested in people (28% YoY growth in staff costs), with most of the key hires done. We expect these initiatives to support operating leverage, from FY20 onwards.

### Marginally trim FY20E estimates; maintain Buy with a TP of ₹ 830

Given the miss in Q4FY19 results, we trim our FY20E estimates by 3% in EBITDA and PAT. We have also marginally increased our FY21E sales/EBITDA/ PAT estimates by 1%/2%/1%, as we expect the benefits of the investments to reflect in the performance. We value Havells at PER of 40x FY21E, which gives a target price to ₹ 830. Maintain Buy.

### Q4FY19 Result (₹ Mn)

Particulars	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Revenue	27,519	25,350	8.6	25,183	9.3
Total Expense	24,290	21,772	11.6	22,239	9.2
EBITDA	3,229	3,578	(9.8)	2,945	9.6
Depreciation	391	347	12.5	353	10.6
EBIT	2,838	3,231	(12.2)	2,592	9.5
Other Income	310	257	20.2	331	(6.4)
Interest	61	84	(26.6)	36	72.5
EBT	3,086	3,314	(12.2)	2,887	6.9
Tax	1,018	1,055	(3.6)	931	9.3
RPAT	2,068	2,259	(8.4)	1,956	5.8
APAT	2,068	2,259	(8.4)	1,956	5.8
			(bps)		(bps)
Gross Margin (%)	37.1	38.0	(85)	37.5	(35)
EBITDA Margin (%)	11.7	14.1	(238)	11.7	4
NPM (%)	7.5	8.9	(139)	7.8	(25)
Tax Rate (%)	33.0	31.8	113	32.2	73
EBIT Margin (%)	10.3	12.7	(243)	10.3	2

CMP	₹ 731
Target / Upside	₹ 830 / 14%
BSE Sensex	39,507
NSE Nifty	11,861

### Script Details

Equity / FV	₹ 625mn / ₹ 1
Market Cap	₹ 457bn
	US\$ 7bn
52-week High/Low	₹ 783/₹ 520
Avg. Volume (no)	1,284,320
NSE Symbol	HAVELLS
Bloomberg Code	HAVL IN

### Shareholding Pattern Mar'19(%)

Promoters	59.6
MF/Banks/FIs	4.4
FII	26.6
Public / Others	9.5

### Valuation (x)

	FY19E	FY20E	FY21E
P/E	57.7	42.1	35.2
EV/EBITDA	37.3	27.6	23.1
ROE (%)	19.8	23.4	23.7
RoACE (%)	18.7	21.8	22.3

### Estimates (₹ mn)

	FY19E	FY20E	FY21E
Revenue	100,576	121,831	147,612
EBITDA	11,922	16,082	19,190
PAT	7,915	10,848	12,988
EPS (₹)	12.7	17.4	20.8

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**Exhibit 1: Segment Performance**

Segmental (₹ Mn)	Q4FY19	Q4FY18	YoY(%)	Q3FY19	QoQ(%)	FY19	FY18	YoY (%)
<b>Revenue</b>								
Switchgears	4,368	3,946	10.7	4,162	4.9	16,802	14,245	18.0
Cable	8,979	7,689	16.8	8,203	9.5	32,346	26,834	20.5
Lighting & Fixtures	3,800	3,227	17.7	3,695	2.8	12,934	11,687	10.7
Electrical Consumer Durables	5,049	4,646	8.7	5,552	(9.1)	19,939	15,696	27.0
Lloyd Consumer/ other	5,324	5,841	(8.9)	3,571	49.1	18,555	14,141	31.2
<b>Total</b>	<b>27,519</b>	<b>25,349</b>	<b>8.6</b>	<b>25,183</b>	<b>9.3</b>	<b>100,576</b>	<b>82,603</b>	<b>21.8</b>
<b>EBIT</b>								
Switchgears	1,656	1,523	8.8	1,631	1.6	6,464	5,572	16.0
Cables	1,575	1,318	19.5	1,294	21.7	5,217	4,380	19.1
Lighting & Fixtures	1,047	998	4.9	1,089	(3.8)	3,694	3,356	10.0
Electrical Consumer Durables	1,320	1,262	4.7	1,412	(6.5)	5,349	4,201	27.3
Lloyd Consumer / other	798	1,283	(37.8)	531	50.2	3,176	2,683	18.4
<b>Total</b>	<b>6,396</b>	<b>6,383</b>	<b>0.2</b>	<b>5,956</b>	<b>7.4</b>	<b>23,899</b>	<b>20,193</b>	<b>18.4</b>
<b>EBIT Margin (%)</b>								
Switchgears	37.9	38.6	(66.6)	39	(126.1)	38	39	(64.6)
Cable	17.5	17.1	39.9	16	176.9	16	16	(19.5)
Lighting & Fixtures	27.6	30.9	(336.8)	29	(191.1)	29	29	(16.1)
Electrical Consumer Durables	26.2	27.2	(100.1)	25	72.1	27	27	6.0
Lloyd Consumer	15.0	22.0	(698.0)	14.9	10.9	17	19	(186.0)

Source: DART, Company

**Exhibit 2: Variance from Our Estimates**

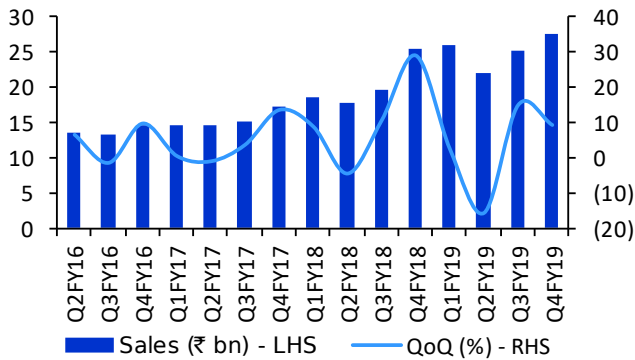
(₹ Mn)	Q4FY19	Q4FY19E	Var (%)
Sales	27,519	29779	(7.6)
EBITDA	3,229	3722	(13.3)
EBITDA margins	11.7	12.5	(76.67)
PAT	2,068	2471	(16.3)
Pat margins	7.5	8.30	(78.2)
EPS	3.3	3.95	(16.3)

Source: DART, Company

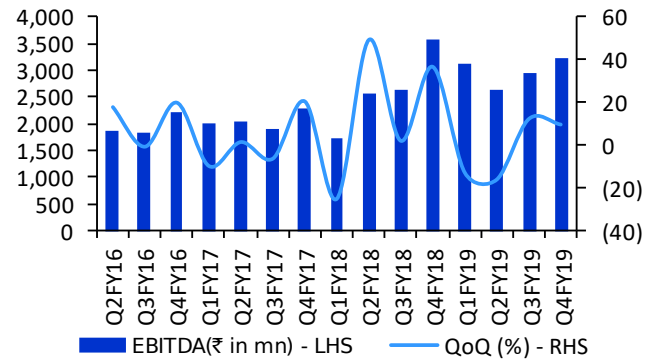
**Exhibit 3: Change in Our Estimates**

(₹ Mn)	FY20			FY21		
	Earlier	New	Var %	Earlier	New	Var %
Sales	123,610	121,831	(1.4)	149,827	147,612	(1.5)
EBITDA	16,564	16,082	(2.9)	18,728	19,190	2.5
PAT	11,210	10,848	(3.2)	12,877	12,988	0.9

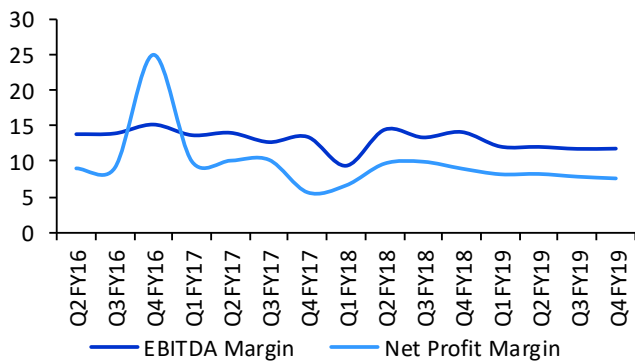
Source: DART, Company

**Exhibit 4: Sales and QoQ growth (%)**


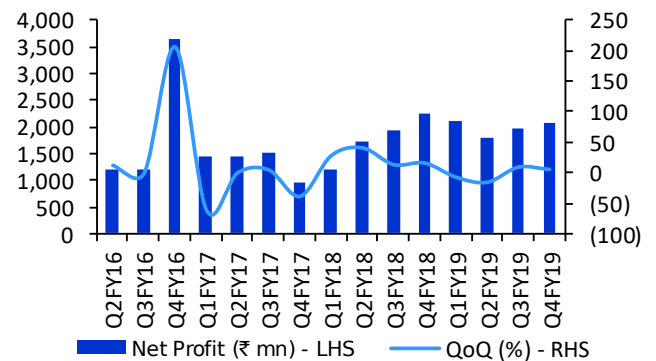
Source: DART, Company

**Exhibit 5: EBITDA and Growth (%)**


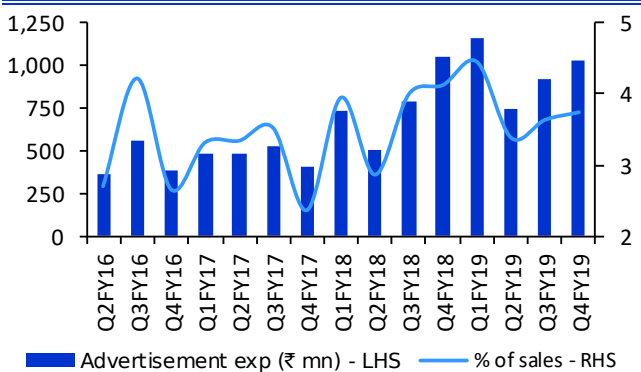
Source: DART, Company

**Exhibit 6: Trend in EBITDA Margin (%)**


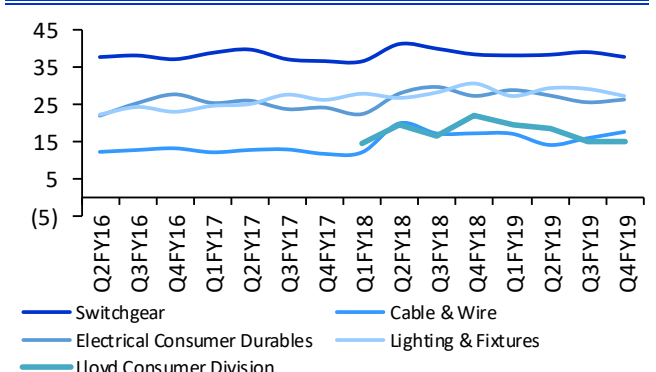
Source: DART, Company

**Exhibit 7: Net profit and QoQ growth (%)**


Source: DART, Company

**Exhibit 8: Advertisement exp % to sales**


Source: DART, Company

**Exhibit 9: Segment EBIT Margin (%) trend**


Source: DART, Company

**Profit and Loss Account**

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
<b>Revenue</b>	<b>82,603</b>	<b>100,576</b>	<b>121,831</b>	<b>147,612</b>
<b>Total Expense</b>	<b>72,110</b>	<b>88,654</b>	<b>105,749</b>	<b>128,422</b>
COGS	49,808	62,786	74,073	90,043
Employees Cost	6,497	8,324	9,746	11,514
Other expenses	15,805	17,545	21,930	26,865
<b>EBIDTA</b>	<b>10,493</b>	<b>11,922</b>	<b>16,082</b>	<b>19,190</b>
Depreciation	1,395	1,486	1,899	2,099
<b>EBIT</b>	<b>9,098</b>	<b>10,436</b>	<b>14,183</b>	<b>17,091</b>
Interest	240	159	45	38
Other Income	1,170	1,276	1,584	1,771
Exc. / E.O. items	119	0	0	0
<b>EBT</b>	<b>10,147</b>	<b>11,553</b>	<b>15,722</b>	<b>18,824</b>
Tax	3,021	3,637	4,874	5,835
RPAT	7,126	7,915	10,848	12,988
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>7,126</b>	<b>7,915</b>	<b>10,848</b>	<b>12,988</b>

**Balance Sheet**

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
<b>Sources of Funds</b>				
Equity Capital	625	625	625	625
Minority Interest	0	0	0	0
Reserves & Surplus	36,766	41,800	49,679	58,756
<b>Net Worth</b>	<b>37,392</b>	<b>42,425</b>	<b>50,304</b>	<b>59,381</b>
Total Debt	810	405	405	405
Net Deferred Tax Liability	2,070	3,217	3,217	3,217
<b>Total Capital Employed</b>	<b>40,271</b>	<b>46,047</b>	<b>53,926</b>	<b>63,003</b>

**Applications of Funds**

Net Block	27,314	29,008	34,109	36,011
CWIP	241	2,327	2,327	2,327
Investments	417	583	731	738
<b>Current Assets, Loans &amp; Advances</b>	<b>36,905</b>	<b>39,874</b>	<b>47,061</b>	<b>56,891</b>
Inventories	16,217	19,170	23,699	29,118
Receivables	3,254	4,048	6,008	8,088
Cash and Bank Balances	15,262	12,848	13,153	14,807
Loans and Advances	0	0	0	0
Other Current Assets	2,173	3,807	4,201	4,878
<b>Less: Current Liabilities &amp; Provisions</b>	<b>25,143</b>	<b>25,744</b>	<b>29,779</b>	<b>32,440</b>
Payables	16,340	15,594	18,358	18,648
Other Current Liabilities	8,803	10,150	11,421	13,793
Net Current Assets	11,762	14,130	17,282	24,451
<b>Total Assets</b>	<b>40,271</b>	<b>46,047</b>	<b>53,926</b>	<b>63,003</b>

E – Estimates

**Important Ratios**

Particulars	FY18A	FY19E	FY20E	FY21E
<b>(A) Margins (%)</b>				
Gross Profit Margin	39.7	37.6	39.2	39.0
EBIDTA Margin	12.7	11.9	13.2	13.0
EBIT Margin	11.0	10.4	11.6	11.6
Tax rate	29.8	31.5	31.0	31.0
Net Profit Margin	8.6	7.9	8.9	8.8
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	60.3	62.4	60.8	61.0
Employee	7.9	8.3	8.0	7.8
Other	19.1	17.4	18.0	18.2
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	38.0	65.6	318.4	444.2
Inventory days	72	70	71	72
Debtors days	14	15	18	20
Average Cost of Debt	16.6	26.2	11.0	9.5
Payable days	72	57	55	46
Working Capital days	52	51	52	60
FA T/O	3.0	3.5	3.6	4.1
<b>(D) Measures of Investment</b>				
AEPS (₹)	11.4	12.7	17.4	20.8
CEPS (₹)	13.6	15.0	20.4	24.1
DPS (₹)	4.0	4.5	5.0	5.5
Dividend Payout (%)	35.1	35.5	28.8	26.5
BVPS (₹)	59.8	67.9	80.5	95.0
RoANW (%)	20.3	19.8	23.4	23.7
RoACE (%)	19.0	18.7	21.8	22.3
RoAIC (%)	43.1	35.9	38.3	38.4
<b>(E) Valuation Ratios</b>				
CMP (₹)	731	731	731	731
P/E	64.1	57.7	42.1	35.2
Mcap (₹ Mn)	456,844	456,844	456,844	456,844
MCap/ Sales	5.5	4.5	3.7	3.1
EV	442,392	444,400	444,095	442,442
EV/Sales	5.4	4.4	3.6	3.0
EV/EBITDA	42.2	37.3	27.6	23.1
P/BV	12.2	10.8	9.1	7.7
Dividend Yield (%)	0.5	0.6	0.7	0.8
<b>(F) Growth Rate (%)</b>				
Revenue	34.2	21.8	21.1	21.2
EBITDA	28.2	13.6	34.9	19.3
EBIT	30.4	14.7	35.9	20.5
PBT	41.8	13.9	36.1	19.7
APAT	47.8	11.1	37.1	19.7
EPS	47.8	11.1	37.1	19.7
<b>Cash Flow</b>				
(₹ Mn)	FY18A	FY19E	FY20E	FY21E
CFO	15,565	5,779	10,531	9,610
CFI	(15,167)	(5,027)	(6,148)	(3,007)
CFF	(4,012)	(3,375)	(3,600)	(3,949)
FCFF	(801)	918	4,531	6,610
Opening Cash	18,953	15,339	12,715	13,498
Closing Cash	15,339	12,848	13,154	14,807

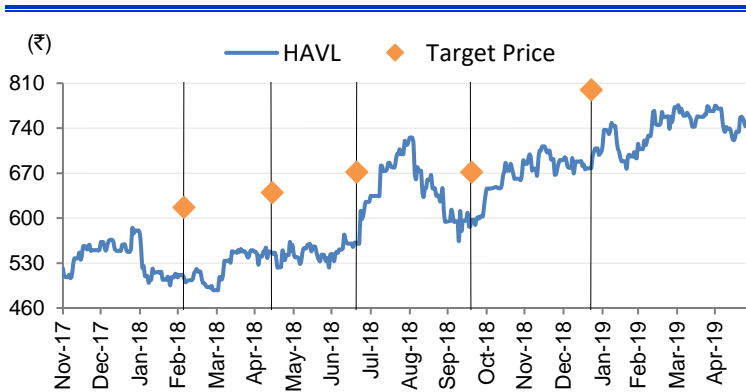
E – Estimates

### DART RATING MATRIX

Total Return Expectation (12 Months)

<b>Buy</b>	<b>&gt; 20%</b>
<b>Accumulate</b>	<b>10 to 20%</b>
<b>Reduce</b>	<b>0 to 10%</b>
<b>Sell</b>	<b>&lt; 0%</b>

### Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)
Mar-18	Buy	617	507
May-18	Buy	640	545
Jul-18	Buy	672	560
Oct-18	Buy	672	597
Jan-19	Buy	800	678

\*Price as on recommendation date

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