FIRST LIGHT

13 June 2022

RESEARCH

BOB Economics Research | Monthly Chartbook

Central banks on war footing

BOB Economics Research | IIP

Industrial output climbs to 8-month high

Havells India | Target: Rs 1,500 | +33% | BUY

Annual report analysis: Product innovation focus paying off

SUMMARY

India Economics: Monthly Chartbook

With inflation remaining elevated across countries (US, EU, UK), global central banks are increasingly adopting a hawkish stance. US Fed has already begun its rate hike cycle and expected to continue doing so for the next few months. ECB too has announced end of its asset purchase program from 1 Jul 2022 and signalled a 25bps rate hike in Jul'22. RBI also hiked repo rate by another 50bps to 4.9%. Impact of elevated inflation, high interest rates, Covid-19 curbs in China and war in Ukraine, will be visible on growth. Most external agencies (IMF, World Bank, OECD) have lowered their growth forecasts for CY22. Domestically, so far economic activity seems on solid footing with high frequency indicators (rail freight, air passenger traffic, GST collections, and diesel consumption) showing pickup in growth in Apr-May'22 period. Hike in MSP and normal monsoon will also boost rural demand going forward.

Click here for the full report.

India Economics: IIP

India's industrial output expanded at a much faster pace to 7.1% in Apr'22 (2.2% in Mar'22) on the back of base effect. Broad based improvement was seen across sectors, with mining and manufacturing output edging upwards. Electricity output clocked double digit growth. Output of primary, intermediate, capital and consumer goods edged upwards. With economic recovery in full-swing, cyclical headwinds continue to pose downside risk to this recovery.

Click here for the full report.

Daily macro indicators

Indicator	08-Jun	09-Jun	Chg (%)
US 10Y yield (%)	3.02	3.04	2bps
India 10Y yield (%)	7.49	7.50	0bps
USD/INR	77.74	77.77	0.0
Brent Crude (US$/bbl)	123.6	123.1	(0.4)
Dow	32,911	32,273	(1.9)
Hang Seng	22,015	21,869	(0.7)
Sensex	54,892	55,320	0.8
India FII (US$ mn)	**07-Jun**	**08-Jun**	**Chg ($ mn)**
FII-D	(9.1)	13.7	22.8
FII-E	(288.5)	(309.8)	(21.3)

Source: Bank of Baroda Economics Research

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Havells India

- Management optimistic about margin recovery on the back of strong underlying demand across segments
- Aggressive strategy to gain market share spurrssed 13% revenue CAGR for Lloyd over FY18-FY22 but compressed margins
- Balance sheet remains strong; HAVL to benefit from leadership position, diverse product categories and new launches – retain BUY, TP Rs 1,500

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Central banks on war footing

With inflation remaining elevated across countries (US, EU, UK), global central banks are increasingly adopting a hawkish stance. US Fed has already begun its rate hike cycle and expected to continue doing so for the next few months. ECB too has announced end of its asset purchase program from 1 Jul 2022 and signalled a 25bps rate hike in Jul'22. RBI also hiked repo rate by another 50bps to 4.9%. Impact of elevated inflation, high interest rates, Covid-19 curbs in China and war in Ukraine, will be visible on growth. Most external agencies (IMF, World Bank, OECD) have lowered their growth forecasts for CY22. Domestically, so far economic activity seems on solid footing with high frequency indicators (rail freight, air passenger traffic, GST collections, and diesel consumption) showing pickup in growth in Apr-May'22 period. Hike in MSP and normal monsoon will also boost rural demand going forward.

Sustainable recovery: The economy is on the recovery pathway led by pickup in economic activity and supported by stronger demand as has been reflected in high frequency indicators and contact-intensive sectors. Electricity demand has clocked double digit growth and digital transactions are also on the rise. However, growth in passenger vehicles and electronic imports have moderated further, keeping the enthusiasm in check. On the agri front, normal south-west monsoon bodes well for kharif production. Food grain production is expected to rise to a record 314.51mn tonne for AY'22 (3rd AE). Global food prices have moderated after reaching an all-time high in Mar'22.

Centre's finances in good health: Centre's fiscal deficit (% of GDP) for FY22 came in lower at 6.7% versus RE of 6.9%. While this was largely on account of higher than estimated nominal GDP growth, buoyant revenue stream also helped keep deficit level in check, despite slippage in disinvestment receipts and higher than estimated expenditure growth. Even at the start of FY23, revenue collections remain robust with gross tax collections 37% higher than last year, supported largely by direct (66%) tax collections, followed by indirect (10%) tax collections. Expenditure growth is also off to a solid start with significant front-loading in capex spending.

Rate hikes in full swing: Between May and Jun'22, RBI cumulatively raised policy repo rate by 90bps (50+40bps). This is apart from the introduction of SDF (earlier reverse repo at 3.35%) as the floor of the policy corridor introduced in Apr'22 meeting. Further stance has been changed to 'withdrawal of accommodation'. Clearly, the policy gear has shifted towards price stability after headline CPI breached RBI's upper tolerance band for 4-consecutive months. In the current policy, CPI forecast for FY23 has been revised upwards by 100bps to 6.7%, with the trajectory expected to remain above 6% for the next 3 quarters of FY23. Between May and Jun'22, India's 10Y yield rose by 36bps. We now expect 10Y yield to trade between 7.75-8% against our earlier forecast of 7.5-7.75% in FY23.

INR falls to a record-low: INR depreciated to a fresh record-low of 77.73/$ on 19 May 2022 amidst a broad based dollar strength. Expectations of aggressive policy tightening by Fed as well as risks to global growth have increased the safe-haven demand for dollar which is weighing on INR. Apart from this, higher domestic inflation, FPI outflows, risks to domestic growth outlook and a widening trade deficit are also contributing to the downward bias in INR. INR is likely to trade in the narrow range of 77.5-78.5/$ in the short-term.

Note: The source for all exhibits is 'CEIC and Bank of Baroda' unless otherwise specified

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IIP

10 June 2022

Industrial output climbs to 8-month high

India's industrial output expanded at a much faster pace to 7.1% in Apr'22 (2.2% in Mar'22) on the back of base effect. Broad based improvement was seen across sectors, with mining and manufacturing output edging upwards. Electricity output clocked double digit growth. Output of primary, intermediate, capital and consumer goods edged upwards. With economic recovery in full-swing, cyclical headwinds continue to pose downside risk to this recovery.

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IIP growth inch up: Industrial output rose to 8-month high of 7.1% in Apr'22 from 2.2% in Mar'22 led by improvement across all the sectors and base effect. Last year, during this period the second wave of Covid-19 was prevalent and state-wide restrictions were imposed, pushing the industrial growth on a downhill. Mining sector edged upwards to 6-month high of 7.8% in Apr'22 (3.9% in Mar'22). Manufacturing output also crept up to 8-month high to 6.3% with over 18 sectors registering an improvement. Electricity output (11.8% in Apr'22 from 6.1% in Mar'22) continued to track upwards momentum on the back of the pickup in economic activity, reflecting stronger demand. Notably, over a 2-year horizon, IIP index is 150.2% above the pre-pandemic level in Apr'22 compared with a growth of 27% in Mar'22. Mining and electricity output too edged upwards to 47.2% (10.2% in Mar'22) and 54.9% (30% in Mar'22) in Feb'22. Furthermore, Manufacturing output also turned out to be above the pandemic level (214.7% in Mar'22).

Manufacturing sector in recovery mode: Within the 23 broad sectors covered, 18 sectors under manufacturing reported improvement in Output in Apr'22. Amongst these, output of wearing apparels, furniture, electrical equipment, food products, computer and electrical equipment, as well as tobacco products gained the most. On the other hand, following sectors namely non-metals (8% from 9.8% in Mar'22), basic metals (6.8% from 7.3% in Mar'22) and other manufacturing products dropped the most in Apr'22.

Infra a weak link Within use-based classification, broad based improvement was seen across all the sectors. Primary goods output has expanded to 10-month high of 10.1% in Mar'22 from 4.5% in Apr'22. Capital and intermediate goods output have also registered an improvement of 14.7% (2% in Mar'22) and 7.6% (1.8% in Mar'22). Output of Infra goods moderated by 3.8% against 6.7% in Mar'22. Moreover, Consumer durable goods rose to 8-month high of 8.5% in Apr'22 compared with a decline of (-) 2.6% in Mar'22. Output of Consumer non-durable also registered an improvement at 4.9% in Apr'22.

Recovery may face challenge: The economy appears to be on solid footing on the back of the pickup in economic activity and reflected by high frequency indicators including Manufacturing PMI, electricity demand and GST collections. However, the recovery is laden with challenges on the back of accelerating inflation print, impact of the ongoing Russia-Ukraine conflict on energy prices and concerns over global economic slowdown.

COMPANY UPDATE

BUY

TP: Rs 1,500 | ⮝ 33%

HAVELLS INDIA | Consumer Durables | 10 June 2022

Annual report analysis: Product innovation focus paying off

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Key takeaways from our analysis of HAVL's FY22 annual report:

Healthy growth; margin headwinds to abate: HAVL's FY22 annual report focuses on initiatives aimed at increasing distribution reach (particularly in rural areas) as well as R&D. Revenue share of new products stood at 17% in the last 21 months. All business segments experienced healthy growth during the year but margins weakened in a competitive environment. Management is optimistic of margin recovery given strong underlying demand. The balance sheet is strong with net cash at ~Rs 30bn.

Lloyd grew but at the expense of margins: Lloyd's sales logged a CAGR of 13% over FY18-FY22. Operating margin remained muted as management pursued an aggressive growth strategy to gain market share. This strategy has paid off, in that the AC industry now recognises Lloyd as a competitor. The company is also focusing on refrigerators and washing machines by leveraging its extensive distribution reach and brand familiarity. Though headwinds will persist in the medium term, we believe Lloyd will return to profitability as benefits start accruing from its upcoming manufacturing plant in Sri City (Andhra Pradesh) and from the PLI scheme.

Highest rural distribution reach in FMEG: HAVL's Rural Vistaar programme (started four years ago) has seen its footprint expand to 3k rural towns covering 40k retail outlets, giving it the largest rural reach among FMEG companies. Additionally, as part of this initiative, the company intends to open a large number of 'Utsav' stores, which correspond to 'Havells Galaxies' (brand stores) in the urban market.

Capex plan in place; net cash up: Management has guided for capex of Rs 7bn-8bn in FY23 – Rs 1bn-1.5bn for raising wires & cables capacity and regular maintenance, and Rs 3.5bn for the new AC plant in Sri City. Net cash rose by Rs 10bn to Rs 30bn as of Mar'22 with D/E at 0.07x. FY22 ROCE/ROE was at 25%/21.4%.

Maintain BUY, TP Rs 1,500: We continue to value HAVL at 53x FY24E EPS, a 10% premium to its 5Y average, for an unchanged TP of Rs 1,500. Retain BUY. Key downside risks to growth include higher commodity prices and a weaker economy.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	HAVL IN/Rs 1,132
Market cap	US$ 9.1bn
Free float	41%
3M ADV	US$ 15.8mn
52wk high/low	Rs 1,504/Rs 958
Promoter/FPI/DII	59%/24%/8%

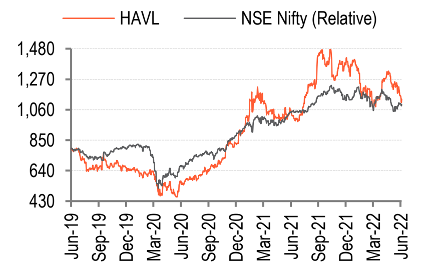
Source: NSE | Price as of 9 Jun 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	1,39,385	1,58,815	1,82,106
EBITDA (Rs mn)	17,604	22,324	25,753
Adj. net profit (Rs mn)	11,965	15,080	17,473
Adj. EPS (Rs)	19.1	24.1	27.9
Consensus EPS (Rs)	19.1	23.2	26.9
Adj. ROAE (%)	21.4	23.1	22.8
Adj. P/E (x)	59.2	47.0	40.6
EV/EBITDA (x)	39.7	31.1	26.8
Adj. EPS growth (%)	22.0	26.0	15.9

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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