

Hawkins Cookers Ltd

Bloomberg Code: HAWK IN

India Research - Stock Broking

BUY

Kitchenware Backed by Strong Brand and Balance Sheet

Innovation and Strong Brand - Major growth drivers: Hawkins Cookers Ltd. has recorded top line growth 10.1% CAGR from FY13 to FY15. In FY15, top line grew by 12.6% against 7.6% in FY14. The key growth drivers of Hawkins Cookers is its continuous innovation of new products every year and strong branding through constant advertising of their products. The R&D expenditure for innovation has recorded CAGR of 68.5% from FY13 to FY15. On the other hand, advertising expenses have recorded CAGR of 32% from FY13 to FY15. The above two factors have enabled Hawkins to grow the volume sales by 6.6% in Pressure Cooker and 9.5% in Cookware in FY15. The top line of Hawkins is expected to grow at CAGR of 8.5% from FY15 to FY17E.

Strong Balance Sheet and financial ratios: Since last 3 years, Hawkins Cookers Ltd has earned average RoE of 63.1% and average RoCE of 56.1%. Further, the company has been maintaining high dividend payout ratio, above 70%; the net debt to equity of last 3 years ranges between -0.3x to -0.9x; which indicates that company's strong financial position. The average EPS for last 3 years was Rs.65.8 and it is expected to grow at CAGR of 15.2% between FY15 and FY17E, and reach Rs.80.6 by FY17E.

Reviving Consumer Demand: During FY15, the market has witnessed growth in consumer expenditure which has also reflected in the Hawkins top line which grew by 12.6% in FY15 from 7.6% in FY14. Further, we have observed that the revenue of Hawkins is highly correlated with the Monthly Per Capita Expenditure (MPCE) – 97% & 96% correlation with Rural and Urban MPCE respectively.

Valuation and Outlook

At CMP of Rs.2666, the stock is trading at P/E of 32.7x for FY17E. With the anticipated increase in top line due to strong brand positioning, innovation and new product launches, which were favourably received by the market, with strong balance sheet & financial ratios, we expect that the consumer expenditure will further increase as the economy revives and hence there will be growth in Hawkins Cookers Ltd. top line and bottom line as well. Based on P/E of 38.0x, we initiate the coverage with a “BUY” rating for a Target Price of Rs.3100 representing an upside of 16%.

Key Risks

1) Price Competition. 2) Volatility in Aluminium Prices. 3) Discouraging Global Economic Scenario.

Exhibit 1: Valuation Summary

YE Mar (Rs. Mn)	FY13	FY14	FY15	FY16E	FY17E
Net Sales	4247	4571	5145	5557	6057
EBITDA	507	587	508	583	666
EBITDA Margin (%)	11.9	12.8	9.9	10.5	11.0
Adj. Net Profit	341	383	321	374	431
EPS (Rs.)	64.5	72.4	60.7	70.7	81.6
RoE (%)	64.1	69.2	55.9	60.6	63.0
P/E (x)	50.3	42.1	56.8	37.7	32.7

Source: Company, Karvy Research, *Represents multiples for FY13, FY14 & FY15 are based on historic market price

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Recommendation (Rs.)

CMP (as on Feb 03, 2016)	2666
Target Price	3100
Upside (%)	16

Stock Information

Mkt Cap (Rs.mn/US\$ mn)	14103 / 207
52-wk High/Low (Rs.)	4650 / 2030
3M Avg. daily volume	2618
Beta (x)	0.7
Sensex/Nifty	24223 / 7361
O/S Shares(mn)	5.3
Face Value (Rs.)	10.0

Shareholding Pattern (%)

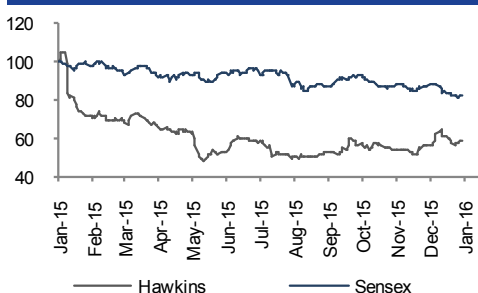
Promoters	56.0
FII	11.0
DII	0.6
Others	32.4

Stock Performance (%)

	1M	3M	6M	12M
Absolute	(1)	13	9	(42)
Relative to Sensex	5	22	25	(32)

Source: Bloomberg

Relative Performance*



Source: Bloomberg; *Index 100

Analyst Contact

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Company Financial Snapshot (Y/E Mar)
Profit & Loss (Rs. Mn)

	FY15	FY16E	FY17E
Net sales	5145	5557	6057
Optg. Exp (Adj for OI)	4637	4973	5390
EBITDA	508	583	666
Depreciation	36	27	23
Interest	37	37	37
Other Income	38	38	38
PBT	473	558	644
Tax	152	184	213
Adj. PAT	321	374	431
Profit & Loss Ratios			
EBITDA margin (%)	9.9	10.5	11.0
Net margin (%)	6.2	6.7	7.1
P/E (x)	56.8	37.7	32.7
EV/EBITDA (x)	35.7	23.9	20.8
Dividend yield (%)	1.3	1.9	2.1

Source: Company, Karvy Research

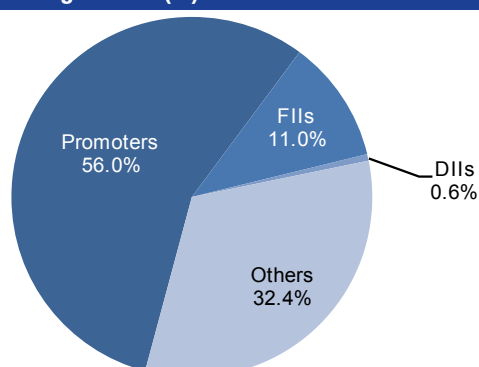
Balance sheet (Rs. Mn)

	FY15	FY16E	FY17E
Total Assets	1824	1957	2115
Net Fixed assets	232	205	182
Current assets	1453	1602	1763
Other assets	139	150	170
Total Liabilities	1824	1947	2099
Networth	589	645	726
Debt	188	188	188
Current Liabilities	1017	1083	1152
Other Liabilities	30	31	33

Balance Sheet Ratios

RoE (%)	55.9	60.6	63.0
RoCE (%)	51.6	51.4	54.0
Net Debt/Equity (x)	(0.3)	(0.3)	(0.3)
Equity/Total Assets (%)	32.3	32.9	34.3
P/BV (x)	31.0	21.9	19.4

Source: Company, Karvy Research

Exhibit 2: Shareholding Pattern (%)


Source: BSE, Karvy Research

Company Background

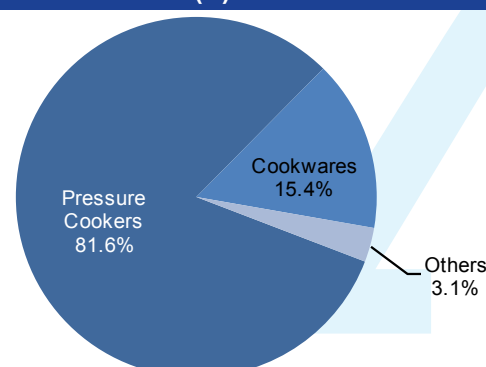
Hawkins Cookers Limited was started in 1959 by an entrepreneur Mr. H.D. Vasudeva, in technical collaboration with L.G. Hawkins of England. In 1984, he stepped down and handed over management to his son Mr. Brahm Vasudeva.

Today, it has two offices, three factories and about 800 persons working. It is the leader in the pressure cooker market in India and has exported its products since 1974 to various countries. Hawkins has sold over 69 Mn pressure cookers and cookware worldwide. All Hawkins pressure cookers are listed by Underwriters Laboratories Inc., USA, and an independent worldwide institution testing products for public safety. The Hawkins company is well known for its quality and continuous product innovation, thorough research and development, careful selection of materials, the best manufacturing practices and the strictest quality control - all go into making pressure cookers which are trusted by the millions of families using them.

Cash Flow (Rs. Mn)

	FY15	FY16E	FY17E
PBT	473	558	644
Depreciation	36	27	23
Interest	37	37	37
Tax	(191)	(184)	(213)
Changes in WC	(39)	(62)	(54)
Others	(32)	19	(14)
CF from Operations	283	395	424
Capex	(33)	(27)	(23)
Others	38	37	37
CF from Investing	5	10	13
Change in Debt	188	0	0
Interest Paid	(50)	(37)	(37)
Dividends & Others	(613)	(318)	(350)
CF from Financing	(476)	(355)	(387)
Change in Cash	(188)	50	50

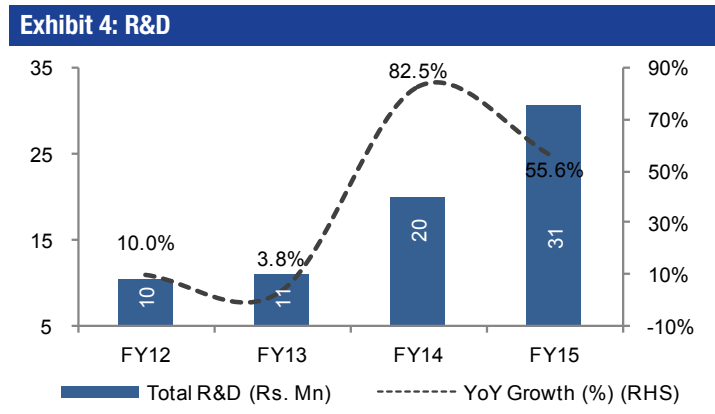
Source: Company, Karvy Research

Exhibit 3: Segment-wise Revenue (%)


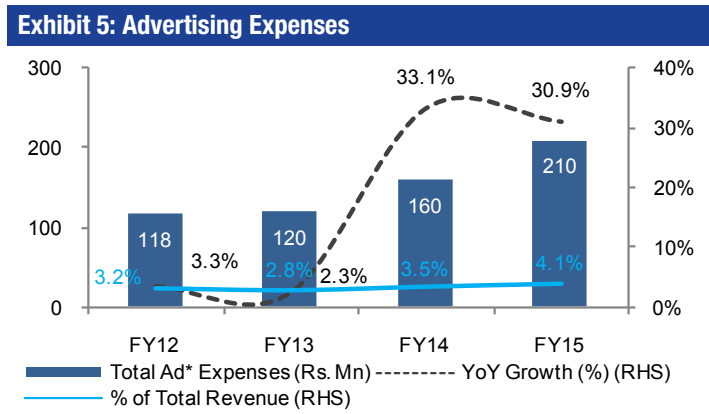
Source: Company, Karvy Research

Innovation and Strong Brand – Major growth drivers:

Hawkins Cookers Ltd. has recorded top line growth of 10.1% CAGR between FY13 to FY15. In FY15, top line grew by 12.6% against 7.6% in FY14. The key growth drivers of Hawkins Cookers is its continuous innovation of new products every year. The R&D expenditure for innovation was Rs.30.8 Mn in FY15 against Rs.19.8 Mn in FY14 which increased by 56% on YoY basis. The R&D expenditure has recorded CAGR of 68.5% from FY13 to FY15. The other key factor to the success is their strong branding through constant advertising of their products. In FY15, the total ad spend was Rs.210 Mn against Rs.160 Mn in FY14 which increased by 30.9% on YoY basis; it has recorded CAGR of 32% from FY13 to FY15. The above two factors have enabled Hawkins to grow the volume sales by 6.6% in Pressure Cooker and 9.5% in Cookware in FY15. With around 53 valid patents and designs registered in the company’s name, Hawkins is relied upon internal generation and innovation. Hawkins has not imported any technology in last three years. The top line of Hawkins is expected to grow at CAGR of 8.5% from FY15 to FY17E.



Source: Company, Karvy Research



Source: Company, Karvy Research, *Advertising

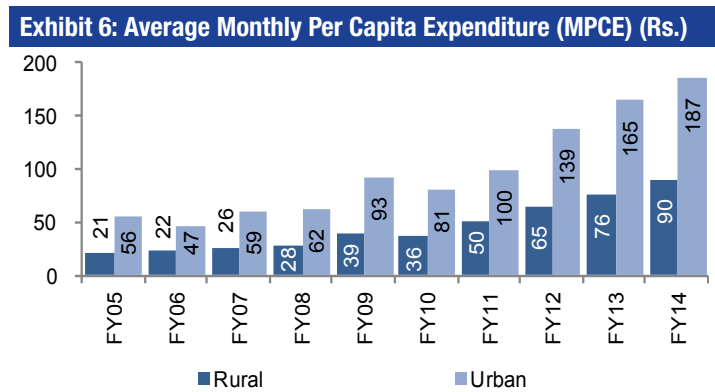
Strong Balance Sheet, financial ratios and Cash Flow:

Hawkins Cookers Ltd. has recorded revenue growth of 12.6% in FY15, 7.6% in FY14 & 15.6% in FY13. Due to high operating expenses, the EBITDA margins were under pressure which is mainly due to high volatility in aluminium prices. Hawkins has enjoyed double digit EBITDA margins since FY11 up till FY14 which range from 14.5% to 12.8%. The EBITDA margin has witnessed substantial dip of around 290bps in FY15 and stood at 9.9%. The PAT margin of Hawkins Cookers was 6.2% in FY15, 8.4% in FY14 & 8.0% in FY13. We expect the margins to improve going forward.

Since last 3 years, Hawkins Cookers Ltd has earned average RoE of 63.1% and average RoCE of 56.1%. Further, the company has been maintaining high dividend payout ratio, above 70%; the net debt to equity of last 3 years ranges between -0.3x to -0.9x; which indicates that company’s strong financial position. The average EPS for last 3 years was Rs.65.8 and it is expected to grow at CAGR of 15.2% between FY15 and FY17E, and reach Rs.80.6 by FY17E.

Since FY11, Hawkins CFO and FCFO stayed positive, this implies that the company is very strong at its operating margins and the company is internally generating cash flows for future capex requirement. We expect CFO and FCFO to remain positive going forward as well.

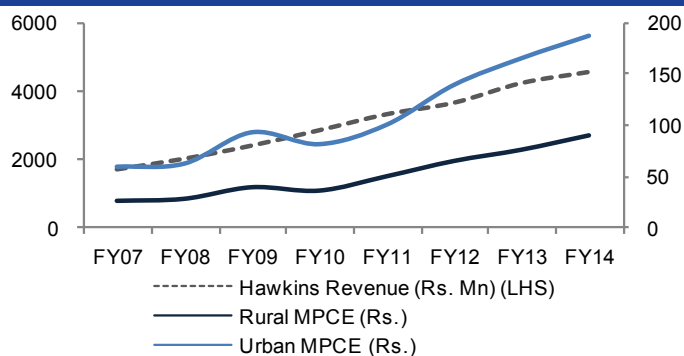
Reviving Consumer Demand:



Source: MoSPI, Karvy Research

Since 2012, there was very low demand for home appliance goods in the Indian market; mainly due to rise in interest rate, food inflation, reduction in disposable income, slow down in GDP and many other factors. But during FY15, the market has witnessed growth in consumer expenditure which has also reflected in the Hawkins top line which grew by 12.6% in FY15 from 7.6% in FY14. According to the Ministry of Statistics and Programme Implementation (MoSPI), the MPCE on durable goods has increased from Rs.21 in FY05 to Rs.90 in FY14 in Rural India and from Rs.56 in FY05 to Rs.187 in FY14 in Urban India.

Exhibit 7: MPCE - Revenue Correlation



Source: MoSPI, Karvy Research

We have also observed that there has been a high correlation between the MPCE and the Hawkins Cookers Ltd. revenue. The observation shows that there is 96% & 94% correlation with Rural MPCE and Urban MPCE respectively to the Hawkins Cookers Ltd. revenue over last 8 years.

Falling Interest Rates:

The recent fall in interest rates will be one of the major drivers for growth in sales of durable goods. The effect of fall in interest rates will be witnessed in near future resulting in low Equated Monthly Instalments (EMIs) and high disposable income which will lead consumers to spend more.

Low Penetration in Rural India:

From the above observation on the MPCE growth in Rural India, it is apparent that there is very low penetration of durable goods as compared to MPCE growth in the Urban India.

Growing middle class:

A young and upwardly mobile lower and middle income groups in large and small Indian cities have grown in numbers in the recent past. According to the National Council of Applied Economic Research (NCAER), the Indian middle class is expected to more than double from the 2015-16 levels to 113.8 Mn households or 547 Mn individuals. Strong aspirations of the Indian middle class will lead to an increase in the demand for premium lifestyle products.

Increasing urbanisation:

Rising urbanisation in India has accelerated the demand for housing units which requires home appliance products.

Rising affordability:

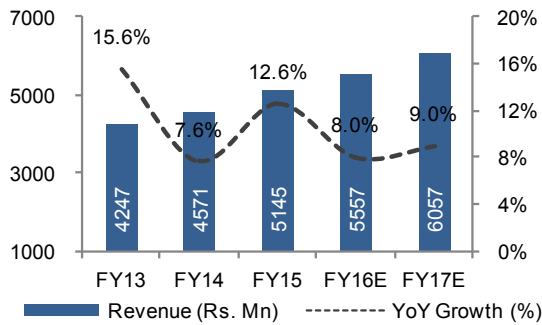
A study carried out by McKinsey has concluded that middle class households will have an aggregate spending power of Rs.14.1 Tn (20% of total Indian consumption). The growing aspirations combined with rising affordability are expected to contribute towards a growing market for consumer durable products.

Exhibit 8: Business Assumptions

Y/E Mar (Rs. Mn)	FY14	FY15	FY16E	FY17E	Comments
Revenue	4571	5145	5557	6057	Hawkins Cookers Ltd. has recorded top line growth of 10.1% CAGR between FY13 to FY15. In FY15, top line grew by 12.6% against 7.6% in FY14. We expect a moderate growth during FY16E and FY17E.
Revenue Growth (%)	7.6	12.6	8.0	9.0	
EBITDA	587	508	583	666	Due to high operating expenses, the EBITDA margins were under pressure which is mainly due high volatility in aluminium prices. The EBITDA margin has witnessed substantial dip of 290bps in FY15 and stood at 9.9%, expecting the margins to improve going forward.
EBITDA Margins (%)	12.8	9.9	10.5	11.0	
PAT (normalized)	383	321	374	431	The PAT margin of Hawkins Cookers was 6.2% in FY15, 8.4% in FY14 & 8.0% in FY13, expecting the margins to improve going forward.
Fully Diluted EPS (Rs.)	72.4	60.7	70.7	81.6	The average EPS for last 3 years was Rs.65.8 and it is expected to grow at CAGR of 15.2% between FY15 and FY17E, and reach Rs.80.6 by FY17E.
Fully Diluted EPS Growth (%)	12.3	(16.1)	16.4	15.4	
Capex (ex. Acquisition) - cash capex	(54)	(33)	(27)	(23)	
Net CFO	333	283	395	424	
Net Debt	0	188	188	188	
Free Cash Flow	279	250	368	400	

Source: Company, Karvy Research

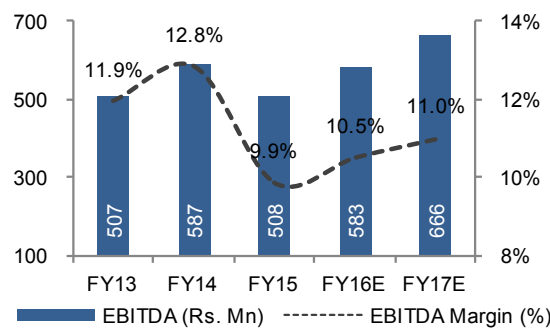
Exhibit 9: Revenue (Rs. Mn), YoY Growth (%)



Source: Company, Karvy Research

Hawkins Cookers Ltd. has recorded top line growth of 10.1% CAGR from FY13 to FY15. In FY15, top line grew by 12.6% against 7.6% in FY14. The key growth drivers of Hawkins Cookers is its continuous innovation of new products every year. These factors have enabled Hawkins to grow the volume sales by 6.6% in Pressure Cooker and 9.5% in Cookware in FY15. The top line of Hawkins is expected to grow at CAGR of 8.5% from FY15 to FY17E.

Exhibit 10: EBITDA (Rs. Mn), EBITDA Margin (%)

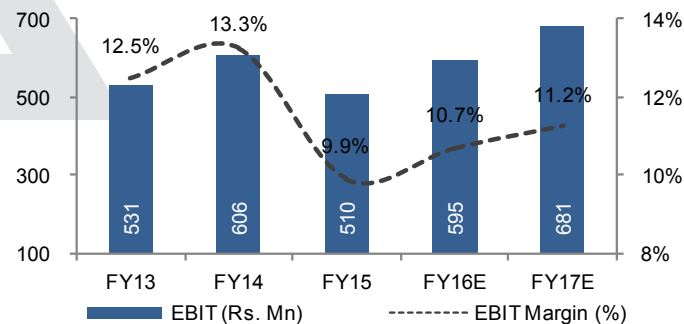


Source: Company, Karvy Research

Due to high operating expenses, the EBITDA margins were under pressure which is mainly due to high volatility in aluminium prices. Hawkins has enjoyed earning double digit EBITDA margins since FY11 up till FY14 which ranged from 14.5% to 12.8%. The EBITDA margin has witnessed substantial dip of around 290 bps in FY15 and stood at 9.9%.

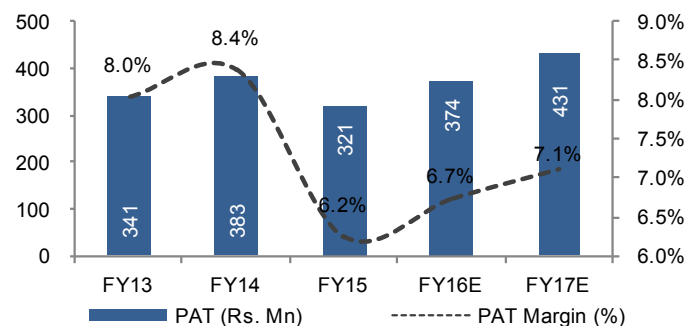
The PAT margin of Hawkins Cookers was 6.2% in FY15, 8.4% in FY14 & 8.0% in FY13. We expect the margins to improve going forward.

Exhibit 11: EBIT (Rs. Mn), EBIT Margin (%)



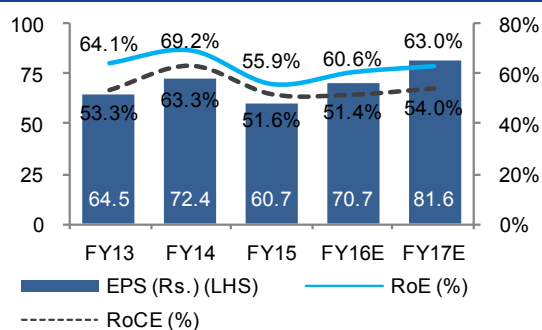
Source: Company, Karvy Research

Exhibit 12: PAT (Rs. Mn), PAT Margin (%)



Source: Company, Karvy Research

Exhibit 13: EPS (Rs.), RoE (%) & RoCE (%)



Source: Company, Karvy Research

Since last 3 years, Hawkins Cookers Ltd has earned average RoE of 63.1% and average RoCE of 56.1%. Further, the company has been maintaining high dividend payout ratio, above 70%. The average EPS for last 3 years was Rs.65.8 and it is expected to grow at CAGR of 15.2% between FY15 and FY17E, and reach Rs.80.6 by FY17E.

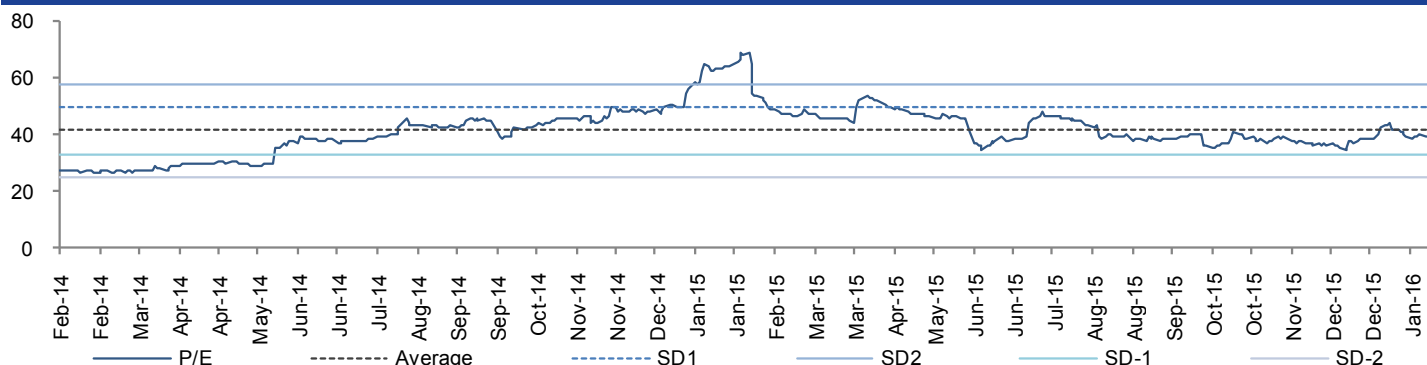
Exhibit 14: Company Snapshot (Ratings)

	Low				High
	1	2	3	4	5
Quality of Earnings				✓	
Domestic Sales				✓	
Exports		✓			
Net Debt/Equity		✓			
Working Capital Requirement			✓		
Quality of Management				✓	
Depth of Management				✓	
Promoter			✓		
Corporate Governance		✓			

Source: Company, Karvy Research

Valuation & Outlook

At CMP of Rs.2666, the stock is trading at P/E of 32.7x for FY17E. With the anticipated increase in top line due to strong brand positioning, innovation and new product launches, which were favourably received by the market, with strong balance sheet & financial ratios, we expect that the consumer expenditure will further increase as the economy revives and hence there will be growth in Hawkins Cookers Ltd. top line and bottom line as well. Based on P/E of 38.0x, we initiate the coverage with a “BUY” rating for a Target Price of Rs.3100 representing an upside of 16%.

Exhibit 15: PE Band


Source: Prowess, Karvy Research

Exhibit 16 (a): Comparative Valuation Summary

	CMP (Rs.)	Mcap (Rs. Mn)	EV/EBITDA (x)				P/E (x)				EPS (Rs.)			
			FY14	FY15	FY16E	FY17E	FY14	FY15	FY16E	FY17E	FY14	FY15	FY16E	FY17E
Hawkins Cookers Ltd	2666	14103	26.6	35.7	23.9	20.8	42.1	56.8	37.7	32.7	72.4	60.7	70.7	81.6
TTK Prestige Ltd	4191	48784	22.1	26.7	27.1	22.1	31.7	43.5	44.6	36.4	96.0	79.3	93.9	115.0

Source: Bloomberg, Karvy Research

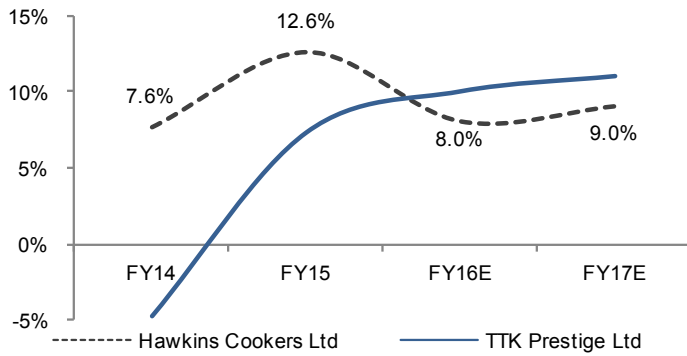
Exhibit 16 (b): Comparative Operational Metrics Summary

	CAGR % (FY15-17E)			RoE (%)				Price Perf (%)			Net Sales (Rs. Mn)			
	Sales	EBITDA	EPS	FY14	FY15	FY16E	FY17E	3m	6m	12m	FY14	FY15	FY16E	FY17E
Hawkins Cookers Ltd	8.5	14.6	15.9	69.2	55.9	60.6	63.0	12.8	8.8	(42.4)	4571	5145	5557	6057
TTK Prestige Ltd	10.5	19.2	20.4	22.8	15.0	16.0	17.4	2.3	5.7	20.7	12938	13883	15271	16951

Source: Bloomberg, Karvy Research

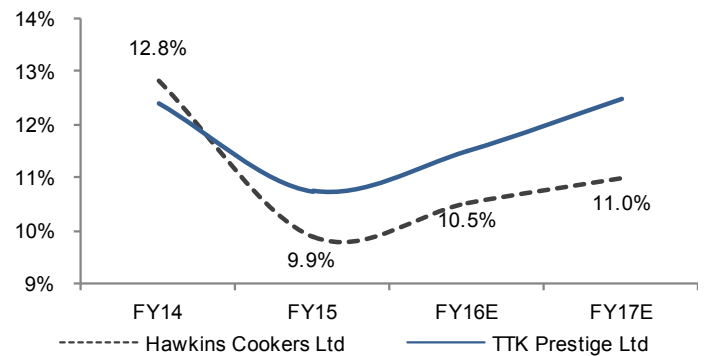
Peer Comparison

Exhibit 17: Revenue Growth (%)



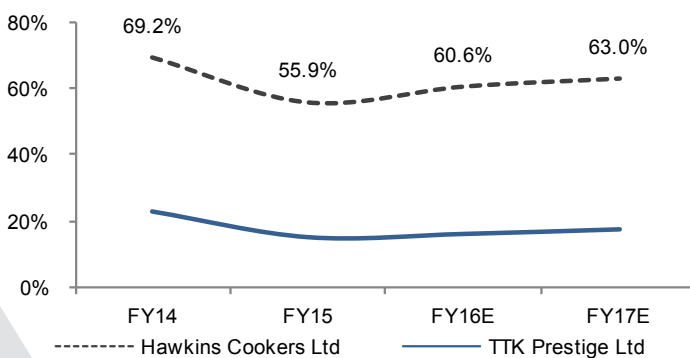
Source: Bloomberg, Karvy Research

Exhibit 18: EBITDA Margin (%)



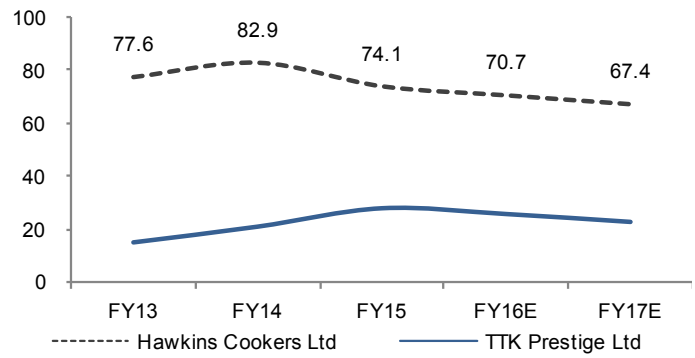
Source: Bloomberg, Karvy Research

Exhibit 19: RoE (%)



Source: Bloomberg, Karvy Research

Exhibit 20: Dividend Payout Ratio



Source: Bloomberg, Karvy Research

Key Risks

- Price Competition.
- Volatility in Aluminium Prices.
- Discouraging Global Economic Scenario.

Financials

Exhibit 21: Income Statement

YE Mar (Rs. Mn)	FY13	FY14	FY15	FY16E	FY17E
Revenues	4247	4571	5145	5557	6057
Growth (%)	15.6	7.6	12.6	8.0	9.0
Operating Expenses	3740	3984	4637	4973	5390
EBITDA	507	587	508	583	666
Growth (%)	10.6	15.7	(13.5)	14.9	14.2
Depreciation & Amortization	24	26	36	27	23
Other Income	48	45	38	38	38
EBIT	531	606	510	595	681
Interest Expenses	30	35	37	37	37
PBT	501	571	473	558	644
Tax	160	188	152	184	213
Adjusted PAT	341	383	321	374	431
Growth (%)	10.2	17.7	(19.0)	21.2	15.4

Source: Company, Karvy Research

Exhibit 22: Balance Sheet

YE Mar (Rs. Mn)	FY13	FY14	FY15	FY16E	FY17E
Cash & Cash Equivalents	512	520	335	366	416
Trade Receivables	412	379	436	533	581
Inventories	475	635	682	703	767
Loans & Advances & Others	84	93	139	150	170
Investments	0.8	0.0	0.0	0.0	0.0
Net Block	210	241	232	205	182
Total Assets	1695	1867	1824	1957	2115
Current Liabilities & Provisions	1006	1272	1017	1083	1152
Debt	110	0	188	188	188
Other Liabilities	31	36	30	31	33
Total Liabilities	1148	1308	1235	1302	1373
Shareholders Equity	53	53	53	53	53
Reserves & Surplus	495	506	536	592	673
Total Networth	548	559	589	645	726
Total Networth & Liabilities	1695	1867	1824	1947	2099

Source: Company, Karvy Research

Exhibit 23: Cash Flow Statement

YE Mar (Rs. Mn)	FY13	FY14	FY15	FY16E	FY17E
PBT	501	571	473	558	644
Depreciation	24	26	36	27	23
Interest	30	35	37	37	37
Tax Paid	(165)	(187)	(191)	(184)	(213)
Inc/dec in Net WC	(115)	(70)	(39)	(62)	(54)
Other Income	(48)	(44)	(37)	(37)	(37)
Other non cash items	2	2	5	56	23
Cash flow from operating activities	230	333	283	395	424
Inc/dec in capital expenditure	(37)	(54)	(33)	(27)	(23)
Inc/dec in investments	2	3	1	0	0
Others	58	45	37	37	37
Cash flow from investing activities	23	(7)	5	10	13
Changes in Debt	(12)	(110)	188	0	0
Dividend paid	(243)	(306)	(368)	(318)	(350)
Interest paid	(25)	(35)	(50)	(37)	(37)
Others	35	128	(245)	0	0
Cash flow from financing activities	(245)	(322)	(476)	(355)	(387)
Net change in cash	8	4	(188)	50	50

Source: Company, Karvy Research

Exhibit 24: Key Ratios

YE Mar	FY13	FY14	FY15	FY16E	FY17E
EBITDA Margin (%)	11.9	12.8	9.9	10.5	11.0
EBIT Margin (%)	12.5	13.3	9.9	10.7	11.2
Net Profit Margin (%)	8.0	8.4	6.2	6.7	7.1
Dividend Payout Ratio (%)	77.6	82.9	74.1	70.7	67.4
Net Debt/Equity (x)	(0.7)	(0.9)	(0.3)	(0.3)	(0.3)
RoE (%)	64.1	69.2	55.9	60.6	63.0
RoCE (%)	53.3	63.3	51.6	51.4	54.0

Source: Company, Karvy Research

Exhibit 25: Valuation Parameters

YE Mar	FY13	FY14	FY15	FY16E	FY17E
EPS (Rs.)	64.5	72.4	60.7	70.7	81.6
DPS (Rs.)	50.0	60.0	45.0	50.0	55.0
BVPS (Rs.)	103.5	105.7	111.4	121.8	137.2
PE (x)	50.3	42.1	56.8	37.7	32.7
P/BV (x)	31.3	28.8	31.0	21.9	19.4
EV/EBITDA (x)	33.0	26.6	35.7	23.9	20.8
EV/Sales (x)	3.9	3.4	3.5	2.5	2.3

Source: Company, Karvy Research; *Represents multiples for FY13, FY14 & FY15 are based on historic market price

Stock Ratings	Absolute Returns
Buy	: > 15%
Hold	: 5-15%
Sell	: <5%

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