

Brief Overview

CMP(INR) <small>(19th Mar'20)</small>	3821.8
Target (INR)	5388.0
Upside(%)	41%
Recommendation	Strong Buy

BSE Code	508486
Reuters Ticker	HWKN.BO
Bloomberg Ticker	HAWK IN

Stock Scan

Market cap (INR Cr.)	2,025.6
Outstanding Shares (Cr.)	0.53
Face Value (INR)	10.0
Dividend Yield(%)	2.09
TTM P/E (x)	26.39
Industry P/E (x)	35.30
Debt/Equity	0.26
Beta vs. Sensex	0.79
52 Week High/ Low (INR)	5539 / 2606
Avg. Daily Vol. (NSE)/1 yr.	3,630

Shareholding Pattern (%)

	Dec 2019	Sep 2019	Jun 2019
Promoters	56.03	56.03	56.03
Institutions	16.09	15.44	15.30
Non-institutions	27.88	28.53	28.67

Investment Rationale

Huge untapped opportunity in the rural market:

Penetration of the pressure cooker in the urban market is very high due to easy availability of LPG connections and that's why domestic pressure cooker industry registered low single digit growth in last few years. But with the introduction of the 'Pradhan Mantri Ujjwala Yojana' (PMUY) scheme (FY19), things started to change in rural areas with increase in number of LPG connections and this trend has perked up the demand for pressure cooker in the rural market. That's why Hawkins managed to deliver 18% growth in the topline in FY19 whereas it registered only 6% CAGR in the topline between FY13-18.

Despite serious government push, till now only three states have completely become kerosene-free and the LPG penetration in the rural area is at a nascent stage and it offers huge opportunity for companies like Hawkins to deliver strong revenue growth going forward.

(Rationale Continued...)

Company Overview

Hawkins Cookers Limited was started in 1959 by Mr. H.D. Vasudeva, in technical collaboration with L.G. Hawkins of England. Co. is engaged in the manufacture, trading and sale of kitchenware. **Currently, Co. is catering to various countries in each of the six continents of the world with two corporate offices, three factories, 800 employees and a wide array of product offerings.** The plants are located at Thane (Maharashtra), Jaunpur (Uttar Pradesh), and Hoshiarpur (Punjab). Till now Co. has sold over 72 million pressure cookers and cookware worldwide.

Now, it approximately offers 70 pressure cooker models in over 10 various types. The Co. markets their entire product range under its own brand names i.e. Hawkins & Futura. Co. sells anodized and non-stick cookware under 'Futura' brand. Apart from pressure cooker the Co. also manufactures idli stands, non-stick frying pans, cookware and spice blends.

Financial Performance at a glance (Standalone)

Particulars (INR Cr.)	FY18	FY19	FY20E	FY21E	FY22E
Net Sales	552.6	652.8	730.8	803.9	900.4
Growth(%)	-4.5%	18.1%	11.9%	10.0%	12.0%
EBITDA (Ex OI)	70.5	86.2	123.5	136.7	155.8
EBITDA Margin (%)	12.8	13.2	16.9	17.0	17.3
Net Profit	48.7	54.2	90.3	101.0	114.0
Net Profit Margin (%)	8.8	8.3	12.4	12.6	12.7
EPS	92.06	102.53	170.69	191.04	215.52
BVPS	207.69	224.32	292.58	369.15	385.84
P / E (x)	41.52	37.27	22.39	20.01	17.73
P / BV (x)	18.40	17.04	13.06	10.35	9.91
ROE (%)	45.0	47.5	66.0	57.7	57.1
ROCE (%)	31.8	32.3	43.1	41.7	45.6
EV / EBITDA (x)	23.9	22.3	15.1	13.5	11.9

Source: Company data, SMIFS Research

Investment Rationale

Stellar Quarterly Performance:

Standalone operating revenue for Q3FY20 reported at INR193.3 crore, up 10.6% YoY basis and Gross margin jumped by 315 bps YoY to 58.94% owing to soft commodity prices. Absolute EBITDA increased by 58.8% YoY to INR31.5 crore and EBITDA margin improved by 493 bps YoY to 16.27% on the back of the optimization in employee benefit expenses and other expenses. PAT for the quarter jumped by 80.5% YoY to INR22.5 crore and PAT margin improved by 450 bps YoY to 11.6% owing to lower effective tax rate.

The effective tax rate for 9MFY20 was at ~26%. We expect Hawkins to sustain its profitable growth with stringent working capital policy and non-leveraged balance sheet.

Robust balance sheet:

Co. managed to bring down its debt-equity ratio from 0.52 (FY16) to 0.26 (FY19). Co. runs a tight ship on collections with a record of collecting 99.9% of the dues without fail and it has helped the Co. to manage its working capital requirements efficiently. Prudent working capital management has resulted in attractive return ratios.

With lean balance sheet, balanced credit policy and diversified customer base Co. is perfectly poised to take up opportunity going forward.

Soft commodity prices:

In the Co.'s cost structure Aluminum plays key role and its margins are highly sensitive to the price of it. In last one year the price of aluminum has dropped ~16% and this has played a crucial role along with improved operational efficiency in delivering significant improvement in EBITDA margin.

Coronavirus outbreak, continuing US-China trade dispute and subdued global demand are expected to keep prices low in near term which is likely to be highly beneficial for the Co. in maintaining elevated level of EBITDA margin.

(Rationale Continued...)

Valuation & Outlook

We strongly believe that the Co. is likely to experience significant growth in the topline in the medium term owing to Government's decision to reduce the usage of Kerosene (introduction of PMUY scheme), low penetration of pressure cooker in the rural area, new product launches and steady gain in market share (through offering products of high standard). Apart from that controlled operating expenses and soft aluminum prices are likely to help the Co. in expanding its operating margins. Apart from that Co. has consistently maintained a healthy dividend payout ratio and it is likely to continue considering the benefit the Co. is likely to have post corporate tax rate amendment (taking into account minimal CapEx requirement).

Considering lean balance sheet, low debt-equity ratio, good promoter pedigree, healthy dividend payouts, prudent working capital management and high dividends we are assigning a PE of 25x to FY22E EPS of INR215.52 to arrive at a Target Price of INR5388.

Investment Risk

- Poor acceptance of the upcoming products.
- Unexpected slowdown in the rural economy.
- Sudden rise aluminum prices.
- Slower than expected economic recovery from the threat posed by Coronavirus outbreak.

Investment Rationale

Reduction in corporate tax rate:

Government of India's decision to bring down the corporate tax rate to ~25% will be highly beneficial for the Co. as it has always had an effective tax above 30%.

This will help the Co. to invest more in product innovation, expanding its technical capabilities and setting up new capacities if required without opting for huge debt.

Zero reliance on China:

Pressure cooker industry is highly fragmented in nature where there are many local players who dominate the market. Most of these local players depend heavily on China to get their products. On the other hand, Hawkins always sells product with highest quality and this prevents the Co. from picking up doubtful merchandise from China and putting its name on it. So, the products sold by the Co. is manufactured by the Co itself and goes through a rigorous product testing procedure before hitting the market.

Due to the outbreak of Coronavirus, the production activity in China has taken a serious hit and import activity has come a halt. Above all there is no clarity on when the threat from Coronavirus will start to cool down. Till then importing from China will be difficult and this will dent the business of the local players in a big way. This will offer a huge opportunity for an established player like Hawkins to increase their penetration and outreach.

Peer Comparison

	Mkt Cap (INR Cr.)**	TTM EPS	TTM P/E (X)	P/B (X)	ROE(%)*	ROCE(%)*	EV/TTM EBITDA	Debt/Equity
TTK Prestige	6,399.4	159.5	28.8	5.0	17.7%	26.9%	20.1	-
Butterfly Gandhimathi	176.3	7.1	13.8	0.9	5.2%	9.6%	5.6	0.8
Hawkins Cookers	2,025.6	144.8	26.4	15.4	47.5%	60.7%	17.6	0.3

Source: Company data, SMIFS Research

Q3FY20 Result Analysis (Standalone)								
Particulars (in INR Crore)	Quarter Ended					Nine Months Ended		
	Q3 FY20	Q3 FY19	YoY %	Q2 FY20	QoQ %	Dec-19	Dec-18	YoY %
Net sales	193.3	174.7	10.6%	192.6	0.4%	527.9	468.1	12.8%
Other operating income	-	-	-	-	-	-	-	-
Total operating income	193.3	174.7	10.6%	192.6	0.4%	527.9	468.1	12.8%
Cost of materials consumed	63.3	66.1	-4.3%	60.5	4.5%	175.5	181.5	-3.3%
Purchase of stock-in-trade	22.1	20.6	7.4%	21.3	3.8%	61.6	52.8	16.5%
(Increase)/decrease in inventories	(6.1)	(9.5)	-35.9%	6.6	-191.7%	(4.7)	(28.0)	-83.4%
Gross Profit	113.9	97.5	16.9%	104.1	9.4%	295.6	261.8	12.9%
<i>Gross Profit margin (%)</i>	<i>58.94</i>	<i>55.79</i>	<i>315 bps</i>	<i>54.06</i>	<i>488 bps</i>	<i>55.99</i>	<i>55.93</i>	<i>6 bps</i>
Employee benefit expense	24.6	23.3	5.6%	24.9	-1.3%	71.2	67.4	5.6%
Other expenses	57.9	54.4	6.4%	43.4	33.3%	135.0	130.2	3.7%
Total Expenses	161.8	154.9	4.5%	156.8	3.2%	438.6	403.9	8.6%
EBITDA (Ex OI)	31.5	19.8	58.8%	35.8	-12.1%	89.3	64.2	39.1%
<i>EBITDA margin (%)</i>	<i>16.27</i>	<i>11.34</i>	<i>493 bps</i>	<i>18.58</i>	<i>-230 bps</i>	<i>16.92</i>	<i>13.71</i>	<i>321 bps</i>
Other income	0.9	1.0	-7.0%	0.7	27.4%	2.4	3.5	-30.7%
Depreciation & amortization	1.2	1.0	16.7%	1.1	6.2%	3.4	3.0	14.5%
EBIT	31.2	19.8	57.6%	35.4	-11.8%	88.4	64.7	36.5%
<i>EBIT Margin (%)</i>	<i>16.14</i>	<i>11.33</i>	<i>481 bps</i>	<i>18.37</i>	<i>-223 bps</i>	<i>16.74</i>	<i>13.83</i>	<i>291 bps</i>
Interest cost	0.9	0.9	-1.1%	1.2	-22.4%	3.0	2.8	6.0%
Profit before tax	30.3	18.9	60.4%	34.2	-11.5%	85.4	61.9	37.9%
PBT margin (%)	15.7	10.8	487 bps	17.8	-210 bps	16.2	13.2	295 bps
Tax	7.8	6.4	21.6%	7.3	7.9%	22.3	21.2	5.1%
Profit after tax	22.5	12.5	80.5%	27.0	-16.7%	63.1	40.8	54.9%
PAT margin (%)	11.6	7.1	450 bps	14.0	-238 bps	12.0	8.7	325 bps
EPS	42.5	23.6	80.5%	51.0	-16.6%	119.4	77.1	54.9%
EPS (Diluted)	42.5	23.6	80.5%	51.0	-16.6%	119.4	77.1	54.9%

Source: Company data, SMIFS Research

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For queries related to compliance of the report, please contact: -

Sudipto Datta, Compliance Officer

Stewart & Mackertich Wealth Management Ltd.

Vaibhav, 4 Lee Road, Kolkata 700020, West Bengal, India.

Contact No.: +91 33 4011 5414 /91 33 6634 5414

Email Id.: compliance@smifs.com / sudipto@smifs.com

Website: www.smifs.com