

Hawkins Cooker Ltd

Hawkins Cookers Ltd (HCL), incorporated in 1959 by Mr. HD Vasudeva, operates in two segments i.e. Pressure Cookers and Cookware. The pressure cookers are marketed under the flagship brand Hawkins, Futura and Miss Mary; cookware is sold under the Futura brand name.

Shift in trend towards organized sector to propel growth: Currently, organized market for cooker and cookware segment is ~60%, while the balance is unorganized. We expect that the organized players will grow faster compared to unorganized players owing to narrowing price gap, strong brand positioning and superior quality of products, which in turn will benefit branded players like HCL.

Historically, HCL has outperformed TTK Prestige: Over the last 6-7 years, HCL has continuously outperformed TTK Prestige (market leader in cookers and cookware segment) in terms of sales growth mainly due to strong brand, higher ad spends, new product launches and wide distribution network. We believe the company would continue to outperform peers and increase its market share in this segment.

Increased penetration of cooking gas to drive growth: Cooking gas (LPG) penetration has increased to 95% currently from 56% in FY2014 mainly due to Pradhan Mantri Ujjwala Yojana (PMUY) scheme. Notably, HCL and TTK Prestige were unable to achieve strong revenue growth in cookers and cookware segment in the past due to lower penetration of cooking gas. However, given the increased penetration of cooking gas, HCL has witnessed strong growth in this segment during the last six quarters, which is evident from its revenue growth numbers.

Falling raw material prices to aid margins: Aluminium is the key raw material for HCL, as it constitutes around ~ 20% of revenue. Aluminium prices have started softening from April 01, 2019, a correction of 7-8%. Moreover, the company had already taken 4-5% price hikes previously (to mitigate the increase in input costs in FY18). Thus, going forward, we expect HCL's margins to improve 80-100bps on the back of declining raw material prices.

Outlook and Valuation: We forecast HCL to report healthy top-line CAGR of ~14% to ₹976cr over FY19-22E on the back of government initiatives, new product launches, strong brand name and wide distribution network. On the bottom-line front (reported PAT), we estimate ~23% CAGR to ₹100cr due to strong revenue and operating margin improvement (on the back of correction in raw material prices). **We initiate coverage on HCL with a Buy recommendation and Target Price of ₹4,353 (23x FY2022E EPS), indicating an upside of ~21% from the current levels.**

Key financials

Y/E March (₹ cr)	FY2018	FY2019	FY2020E	FY2021E	FY2022E
Net Sales	553	653	751	856	976
% chg	7.9	18.1	15.0	14.0	14.0
Net Profit	49	54	76	87	100
% chg	2.7	11.4	40.5	14.6	14.7
OPM (%)	12.8	13.2	14.5	14.6	14.6
EPS (Rs)	92.0	102.5	144.0	164.9	189.3
P/E (x)	39.0	35.0	24.9	21.8	19.0
P/BV (x)	17.3	16.0	12.5	10.2	8.1
RoE (%)	44.3	45.7	50.0	46.7	42.8
RoCE (%)	49.6	55.0	56.9	54.8	51.2
EV/Sales (x)	3.3	2.9	2.5	2.2	1.9
EV/EBITDA (x)	26.1	22.0	17.4	15.1	13.2

Source: Company, Angel Research, Note: CMP as of January 08, 2020

Quick take

BUY

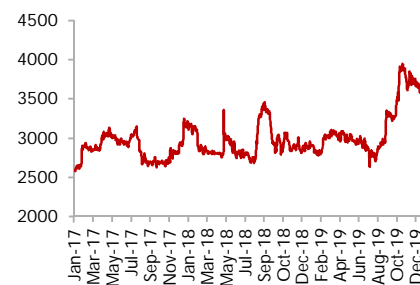
CMP	₹ 3,591
Target Price	₹ 4,353
Investment Period	12 Months

Stock Info	
Sector	Houseware
Market Cap (₹ cr)	1,941
Net Debt (₹ cr)	(7)
Beta	0.5
52 Week High / Low	4051/ 2606
Avg. Daily Volume	1,788
Face Value (₹)	10
BSE Sensex	41,452
Nifty	12,216
Reuters Code	HWKN.BO
Bloomberg Code	HAWK.IN

Shareholding Pattern (%)	
Promoters	56.0
MF / Banks / Indian FIs	15.3
FII / NRIs / OCBs	1.5
Indian Public / Others	27.2

Abs. (%)	3m	1yr	3yr
Sensex	6.9	13.4	52.7
HCL	8.6	8.6	39.0

3 year daily price chart



Source: Company, Angel Research

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Investment rationale

Shift in trend towards the organized sector to propel growth:

Currently, organized market for cooker and cookware segment is ~60%, while the balance is unorganized. Over the years, it has been observed that the share of unorganized players has been reducing gradually post GST implementation. We expect that the organized players will grow faster compared to unorganized players owing to narrowing price gap, strong brand positioning and superior quality of products, which in turn will benefit branded players like HCL.

Historically, HCL has outperformed TTK Prestige:

Over the last 6-7 years, HCL has continuously outperformed TTK Prestige (market leader in cookers and cookware segment) in terms of sales growth mainly due to strong brand, higher ad spends, new product launches and wide distribution network. We believe the company would continue to outperform peers and increase its market share in this segment.

Exhibit 1: Sales performance – Hawkins vs. TTK Prestige

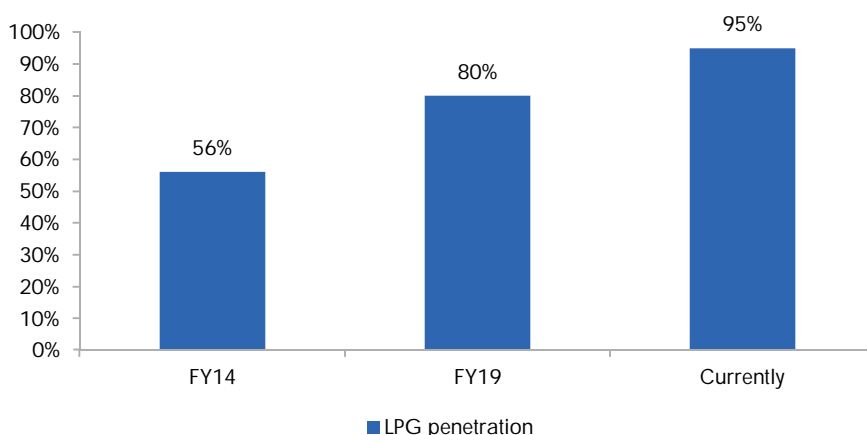
	Hawkins	TTK Prestige	Outperformed
Sales CAGR FY17-19	12.9%	3.9%	9.0%
Sales CAGR FY15-19	6.6%	4.6%	2.0%
Sales CAGR FY13-19	7.7%	3.8%	3.9%

Source: Company, Angel Research

Increased penetration of cooking gas to drive growth:

Cooking gas (LPG) penetration has increased to 95% currently from 56% in FY2014 mainly due to Pradhan Mantri Ujjwala Yojana (PMUY) scheme, which was launched on May 01, 2016. The target of this scheme was to give 5cr connections to women members of poor households by March 2019; the target was later raised to 8cr connections by March 2020.

Exhibit 2: Increase in penetration of cooking gas



Source: Company, Angel Research

Notably, HCL and TTK Prestige were unable to achieve strong revenue growth in cookers and cookware segment in the past due to lower penetration of cooking gas. However, given the increased penetration of cooking gas, HCL

has witnessed strong growth in this segment during the last six quarters, which is evident from its revenue growth numbers.

Exhibit 3: Strong growth momentum in last six quarters

Revenue cr	FY18	FY19	yoy growth (%)	1HFY19	1HFY20	yoy growth (%)
Hawkins cookers	553	653	18.1%	293	335	14.0%

Source: Company, Angel Research

Falling raw material prices to aid margin:

Aluminium is the key raw material for HCL, as it constitutes around ~ 20% of revenue. Aluminium prices have started softening from April 01, 2019, a correction of ~7%. Moreover, the company had already taken 4-5% price hikes previously (to mitigate the increase in input costs in FY18). Thus, going forward, we expect HCL's margins to improve 80-100bps on the back of declining raw material prices.

Exhibit 4: Falling aluminium prices

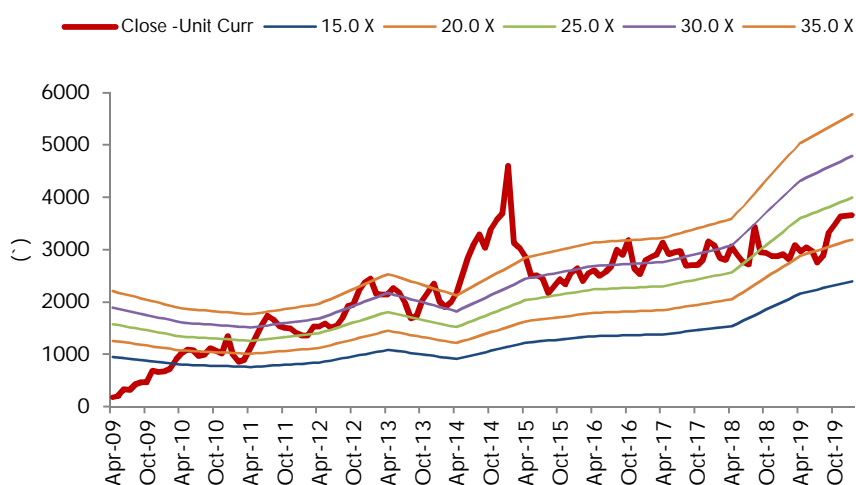


Source: Company, Angel Research

Outlook and Valuation

We forecast HCL to report healthy top-line CAGR of ~14% to `976cr over FY19-22E on the back of government initiatives, new product launches, strong brand name and wide distribution network. On the bottom-line front (reported PAT), we estimate ~23% CAGR to `100cr due to strong revenue and operating margin improvement (on the back of correction in raw material prices). **We initiate coverage on HCL with a Buy recommendation and Target Price of `4,353 (23x FY2022E EPS), indicating an upside of ~21% from the current levels.**

Exhibit 5: One year forward PE chart



Source: Company, Angel Research

Exhibit 6: Peer analysis

	Market Cap (₹)	P/E (x)		EV/Sales (x)		ROE (%)		ROCE (%)	
		FY20	FY21	FY20	FY21	FY20	FY21	FY20	FY21
HCL	1,900	24.9	21.8	2.5	2.2	50.0	46.7	20.2	19.7
TTK Prestige	7,793	33.0	29.6	3.3	2.9	17.4	16.8	56.9	54.8

Source: Company, Angel Research

Risks to our estimates

Volatile aluminium prices: Aluminium accounts for ~20% of net sales of HCL. Volatility in aluminium prices will have a negative impact on the company's performance.

Economic slowdown: Economic slowdown will affect the performance of the company.

Competition: Losing market share due to stiff competition could impact the profitability of company.

Company background

Hawkins Cookers Ltd (HCL) was incorporated in 1959 by Mr. HD Vasudeva. HCL operates in two segments i.e. Pressure Cookers and Cookware. The pressure cookers are marketed under the flagship brand Hawkins and also under Futura and Miss Mary; cookware is sold under the Futura brand name. The company has approximately 75 models of pressure cookers in eleven different varieties. Currently, the domestic market contributes around 94% of the overall sales and rest comes from overseas markets.

Profit & Loss Statement

Y/E March (₹ cr)	FY2018	FY2019	FY2020E	FY2021E	FY2022E
Net Sales	553	653	751	856	976
% chg	7.9	18.1	15.0	14.0	14.0
Total Expenditure	482	567	642	731	833
Raw Material	261	293	334	381	434
Personnel	76	91	105	121	139
Others Expenses	145	182	203	229	261
EBITDA	71	86	109	125	142
% chg	(5.0)	22.2	26.3	14.8	14.0
(% of Net Sales)	12.8	13.2	14.5	14.6	14.6
Depreciation & Amortisation	4	4	5	6	7
EBIT	67	82	104	119	136
% chg	(5.5)	22.9	26.8	14.4	13.7
(% of Net Sales)	12.1	12.6	13.9	13.9	13.9
Interest & other Charges	4	4	4	4	4
Other Income	11	4	3	3	4
(% of PBT)	15.0	5.0	2.9	2.5	3.0
Recurring PBT	74	82	103	118	135
% chg	4.0	11.6	25.0	14.6	14.7
Tax	25	28	27	31	35
(% of PBT)	34.0	34.2	26.0	26.0	26.0
PAT (reported)	49	54	76	87	100
Extraordinary Items	-	-	-	-	-
ADJ. PAT	49	54	76	87	100
% chg	2.7	11.4	40.5	14.6	14.7
(% of Net Sales)	8.8	8.3	10.1	10.2	10.3
Basic EPS (₹)	92.0	102.5	144.0	164.9	189.3
Fully Diluted EPS (₹)	92.0	102.5	144.0	164.9	189.3
% chg	2.7	11.4	40.5	14.6	14.7

Balance Sheet

Y/E March (₹ cr)	FY2018	FY2019	FY2020E	FY2021E	FY2022E
SOURCES OF FUNDS					
Equity Share Capital	5	5	5	5	5
Reserves & Surplus	105	113	147	182	229
Shareholders Funds	110	119	152	187	234
Total Loans	25	31	31	31	31
Deferred Tax Liability	3	2	2	2	2
Total Liabilities	138	152	186	220	267
APPLICATION OF FUNDS					
Gross Block	30	37	47	57	67
Less: Acc. Depreciation	7	11	15	21	28
Net Block	23	27	32	36	39
Capital Work-in-Progress	1	2	2	2	2
Investments	-	-	-	-	-
Current Assets	220	237	280	327	391
Inventories	67	100	119	138	160
Sundry Debtors	47	79	95	110	128
Cash	87	35	37	41	54
Loans & Advances	14	19	23	30	39
Other Assets	4	5	6	8	10
Current liabilities	111	118	132	149	169
Net Current Assets	109	119	148	178	222
Deferred Tax Asset	4	4	4	4	4
Mis. Exp. not written off	-	-	-	-	-
Total Assets	138	152	186	220	267

Cash flow Statement

Y/E March (₹ cr)	FY2018	FY2019	FY2020E	FY2021E	FY2022E
Profit before tax	74	82	103	118	135
Depreciation	4	4	5	6	7
Change in Working Capital	22	(62)	(26)	(26)	(31)
Interest / Dividend (Net)	(2)	0	4	4	4
Direct taxes paid	(22)	(28)	(27)	(31)	(35)
Others	(5)	(2)	0	0	0
Cash Flow from Operations	69	(6)	59	71	80
(Inc.)/ Dec. in Fixed Assets	(1)	(8)	(10)	(10)	(10)
(Inc.)/ Dec. in Investments	(12)	50	0	0	0
Cash Flow from Investing	(13)	42	(10)	(10)	(10)
Issue of Equity	0	0	0	0	0
Inc./(Dec.) in loans	7	6	0	0	0
Dividend Paid (Incl. Tax)	(44)	(45)	(42)	(53)	(53)
Interest / Dividend (Net)	3	(49)	(4)	(4)	(4)
Cash Flow from Financing	(35)	(87)	(47)	(57)	(57)
Inc./(Dec.) in Cash	22	(52)	2	4	13
Opening Cash balances	65	87	35	37	41
Closing Cash balances	87	35	37	41	54

Key Ratios

Y/E March	FY2018	FY2019	FY2020E	FY2021E	FY2022E
Valuation Ratio (x)					
P/E (on FDEPS)	39.0	35.0	24.9	21.8	19.0
P/CEPS	36.3	32.6	23.5	20.4	17.7
P/BV	17.3	16.0	12.5	10.2	8.1
Dividend yield (%)	1.9	1.9	2.2	2.8	2.8
EV/Sales	3.3	2.9	2.5	2.2	1.9
EV/EBITDA	26.1	22.0	17.4	15.1	13.2
EV / Total Assets	13.4	12.5	10.2	8.6	7.0
Per Share Data (Rs)					
EPS (Basic)	92.0	102.5	144.0	164.9	189.3
EPS (fully diluted)	92.0	102.5	144.0	164.9	189.3
Cash EPS	98.9	110.1	152.8	175.9	202.3
DPS	70.0	70.0	80.0	100.0	100.0
Book Value	207.6	224.2	288.2	353.1	442.4
Returns (%)					
ROCE	49.6	55.0	56.9	54.8	51.2
Angel ROIC (Pre-tax)	139.9	72.0	71.5	67.6	64.2
ROE	44.3	45.7	50.0	46.7	42.8
Turnover ratios (x)					
Asset Turnover (Gross Block)	18.3	17.5	15.9	15.0	14.5
Inventory / Sales (days)	44	56	58	59	60
Receivables (days)	31	44	46	47	48
Payables (days)	34	30	30	30	30
Working capital cycle (ex-cash) (days)	41	70	74	76	78

Source: Company, Angel Research

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Disclosure of Interest Statement	Hawkins Cookers
1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

Ratings (Based on expected returns over 12 months investment period):	Buy (> 15%)	Accumulate (5% to 15%) Reduce (-5% to -15%)	Neutral (-5 to 5%) Sell (< -15)
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