

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR1,286

TP: INR1,290

Neutral

Margin normalization to limit earnings growth

Strong demand environment, but price hikes inadequate as of now

- Havells India (HAVL)'s 2QFY22 earnings were 8% below our expectations despite the topline beat of 5%. Key operating parameters confirm our thesis of margin normalization from highs of FY21 even amid a strong demand environment. We expect the trend to continue over the next 2–3 quarters – leading to strong topline growth, but muted EBITDA/earnings growth.
- **Key positives** include a) volume growth (ex-Cables) in the double digits, which is likely to sustain over the next few quarters; b) an uptick in the B2B business, with volume growth reflecting in Cables hereafter; and c) promising trends for the festive season. **Key negatives** include a) inadequate price hikes taken to offset the commodity price inflation; b) ad spends continuing to be low at 1% of sales v/s guidance of 2–3% on a structural basis and 3.5–4.0% pre-COVID; and c) other expenses yet to normalize from the low levels of the last year or so.
- We broadly maintain our FY22–24E earnings estimate. TP remains unchanged at INR1,290. Our FY21–24E revenue / EBITDA / adj. EPS CAGR stands at 18%/14%/16%. Price hikes across categories and commodity price inflation are key monitorables as demand is not a concern. Maintain Neutral.

Commodity price inflation offsets strong topline show, as expected

- **2QFY22 snapshot:** Revenue grew 31% YoY to INR32.2b and was 5% ahead of our estimate. EBITDA grew 6% YoY to INR4.4b and was 6% below our expectation. The EBITDA margin came in at 13.8% v/s 17.2% last year. Ad spends were marginal at 1% of sales. Adj. PAT grew 7% YoY to INR3b and was 8% below our expectation.
- **2QFY22 segmental highlights: (a) Havells (ex-Lloyd)** – Revenue grew 33% YoY, with a strong performance across categories. Revenue from Cables and Wires was up 46% YoY, Switchgears 20% YoY, Lighting 34% YoY, and ECD (incl. others) 25% YoY. **(b) Lloyd** – Revenue was up 22% YoY; however, Lloyd reported PBIT loss of INR183m, suggesting higher competitive intensity, which limited price hikes in ACs.

Key highlights from management commentary

- Volume growth in Cables was muted, while other categories witnessed double-digit volume growth.
- Inventory levels have normalized in the channel now, with the company yet to witness any aggressive channel filling.
- The management has highlighted the need to take further price increases to completely offset the commodity inflation. It aims to do so as the demand momentum picks up going into the festive season. Price hikes in ACs (the Lloyd business) may be seen only next summer, indicating weak margins for the following quarter as well.
- Ad spends would increase from 3QFY22 with the onset of the festive season.

Bloomberg	HAVL IN
Equity Shares (m)	625
M.Cap.(INRb)/(USD\$)	805.2 / 10.8
52-Week Range (INR)	1504 / 700
1, 6, 12 Rel. Per (%)	-12/1/31
12M Avg Val (INR M)	2466

Financials & Valuations (INR b)

Y/E Mar	2021	2022E	2023E
Sales	104.3	133.0	152.5
EBITDA	15.7	18.7	21.0
PAT	10.3	12.8	14.6
EBITDA (%)	15.0	14.0	13.7
EPS (INR)	16.5	20.5	23.3
EPS Gr. (%)	40.4	24.6	13.7
BV/Sh. (INR)	82.5	94.8	108.8

Ratios

Net D/E	(0.2)	(0.3)	(0.3)
RoE (%)	19.9	21.6	21.4
RoCE (%)	18.1	19.5	19.5
Payout (%)	18.2	40.0	40.0

Valuations

P/E (x)	78.1	62.7	55.1
P/BV (x)	15.6	13.6	11.8
EV/EBITDA (x)	50.7	42.1	37.3
Div Yield (%)	0.2	0.6	0.7
FCF Yield (%)	0.7	1.4	1.2

Shareholding pattern (%)

As On	Sep-21	Jun-21	Sep-20
Promoter	59.5	59.5	59.5
DII	6.2	8.3	10.1
FII	26.8	24.1	22.2
Others	7.5	8.2	8.2

FII Includes depository receipts

Valuation and view

- We maintain our FY22–24E earnings estimate and TP of INR1,290. At CMP, the stock trades at FY23E/FY24E PE of 55x/50x. We maintain a Neutral rating on expensive valuations. We prefer Orient and Crompton as preferred plays in the Consumer Electricals space and Whirlpool in the White Goods space. All three offer better earnings growth over FY22–24E at cheaper valuations.

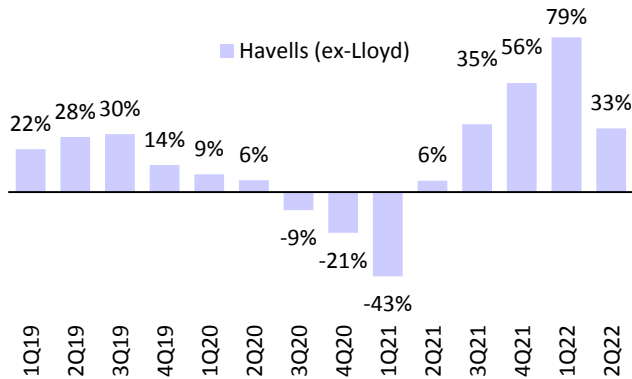
Quarterly Performance

Y/E March	FY21				FY22E				FY21	FY22E	MOFSL	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		2QE		
Sales	14,791	24,518	31,659	33,312	25,982	32,210	35,800	39,008	1,04,279	1,33,000	30,600	5.3%
Change (%)	-45.5	9.9	39.5	50.3	75.7	31.4	13.1	17.1	10.6	27.5	24.8	
Adj EBITDA	1,309	4,207	5,081	5,057	3,531	4,436	5,176	5,537	15,653	18,680	4,741	-6.4%
Change (%)	-52.9	79.0	88.9	106.1	169.8	5.5	1.9	9.5	52.4	19.3	12.7	
Adj EBITDA margin (%)	8.8	17.2	16.0	15.2	13.6	13.8	14.5	14.2	15.0	14.0	15.5	
Depreciation	604	591	644	650	616	623	650	661	2,489	2,550	620	
Interest	167	173	152	235	110	111	100	129	726	450	150	
Other Income	322	364	392	372	342	333	350	438	1,450	1,462	400	
Extra-ordinary items	-	428	-	(330)	-	-	-	-	98	-	-	
PBT	860	3,808	4,677	4,544	3,148	4,035	4,776	5,184	13,888	17,142	4,371	-7.7%
Tax	226	987	1,186	1,191	805	1,019	1,202	1,289	3,590	4,315	1,100	
Effective Tax Rate (%)	26.3	25.9	25.4	26.2	25.6	25.3	25.2	24.9	25.8	25.2	25.2	
Reported PAT	633	3,249	3,491	3,023	2,343	3,016	3,574	3,895	10,396	12,828	3,271	-7.8%
Change (%)	-64.0	80.2	75.0	70.6	269.9	-7.2	2.4	28.9	41.8	23.4	0.7	
Adj PAT	633	2,821	3,491	3,352	2,343	3,016	3,574	3,895	10,298	12,828	3,271	-7.8%
Change (%)	-64.0	56.5	75.0	89.2	269.9	6.9	2.4	16.2	40.5	24.6	15.9	

Segmental performance

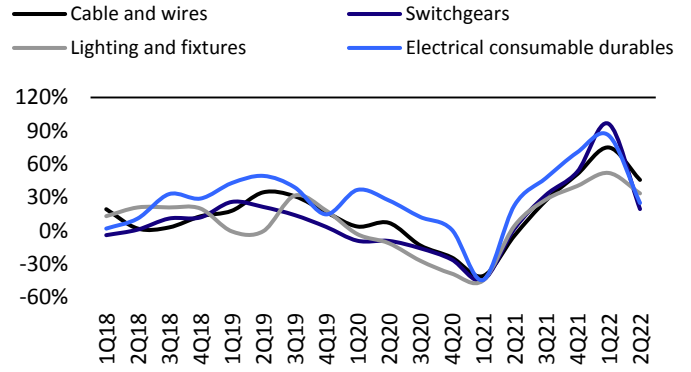
Y/E March	FY20				FY21				FY22	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Sales										
Switchgear	3,419	3,638	3,309	3,027	1,902	3,703	4,371	4,633	3,734	4,426
Cables & Wires	7,785	8,213	7,121	6,823	4,611	7,847	9,052	10,292	8,072	11,440
Consumer Durable	6,898	6,119	6,505	5,389	3,836	7,518	9,587	9,194	7,133	9,396
Lighting & Fixtures	2,504	2,536	2,760	2,343	1,380	2,646	3,533	3,287	2,099	3,536
Lloyd	6,520	1,800	3,004	4,579	3,062	2,804	5,116	5,906	4,944	3,413
% YoY										
Switchgear	(9.0)	(9.2)	(15.8)	(25.9)	(44.4)	1.8	32.1	53.1	96.4	19.5
Cables & Wires	3.8	7.2	(13.2)	(24.0)	(40.8)	(4.5)	27.1	50.8	75.0	45.8
Consumer Durable	36.8	27.3	12.4	1.1	(44.4)	22.9	47.4	70.6	85.9	25.0
Lighting & Fixtures	(3.1)	(11.2)	(27.0)	(38.6)	(44.9)	4.3	28.0	40.3	52.1	33.6
Lloyd	(7.9)	(30.2)	(15.9)	(14.0)	(53.0)	55.8	70.3	29.0	61.5	21.7
Profit Contribution										
Switchgear	830	875	875	670	291	1,150	1,372	1,234	1,020	1,203
Cables & Wires	845	1,043	767	666	366	1,118	1,026	1,528	1,262	1,153
Consumer Durable	769	609	696	546	324	1,313	1,476	1,234	727	1,466
Lighting & Fixtures	357	308	464	329	29	521	811	680	317	773
Lloyd	82	(440)	(128)	85	64	51	309	318	103	(183)
PBIT Margin (%)										
Switchgear	24.3	24.0	26.4	22.1	15.3	31.0	31.4	26.6	27.3	27.2
Cables & Wires	10.9	12.7	10.8	9.8	7.9	14.3	11.3	14.8	15.6	10.1
Consumer Durable	11.1	10.0	10.7	10.1	8.4	17.5	15.4	13.4	10.2	15.6
Lighting & Fixtures	14.2	12.1	16.8	14.0	2.1	19.7	23.0	20.7	15.1	21.9
Lloyd	1.3	(24.5)	(4.3)	1.9	2.1	1.8	6.0	5.4	2.1	(5.4)

Exhibit 1: Havells' (ex-Lloyd) revenue up 33% YoY...



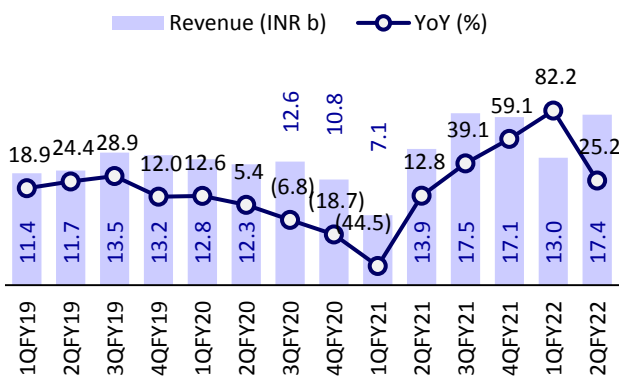
Source: MOFSL, Company

Exhibit 2: ...led by strong growth across categories



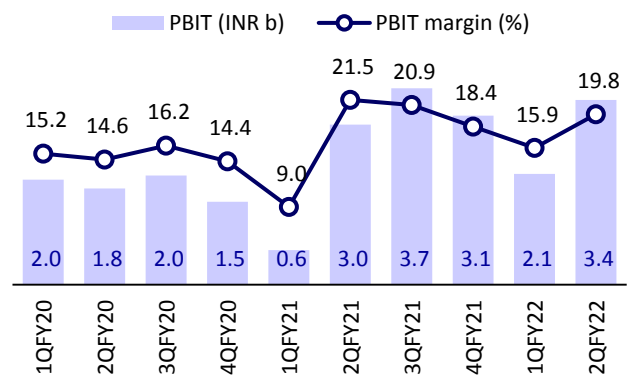
Source: MOFSL, Company

Exhibit 3: Havells' core (ex-Cables and Wires) revenue up ~25% YoY



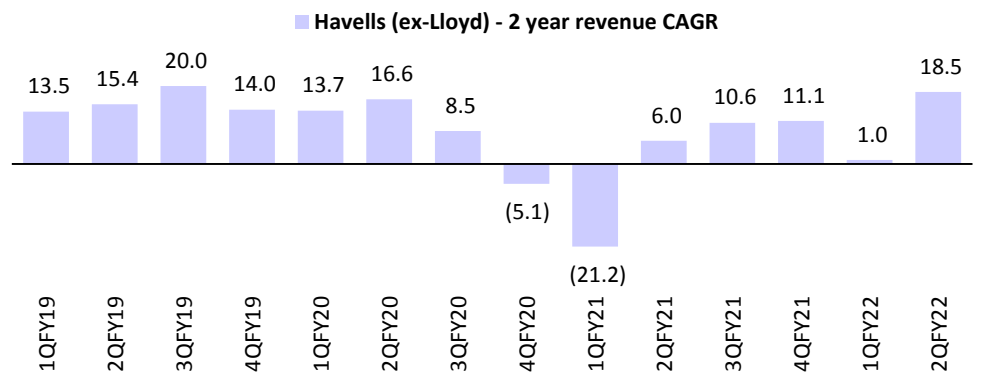
Source: MOFSL, Company

Exhibit 4: Havells' core (ex-Cables and Wires) PBIT margins moderate YoY



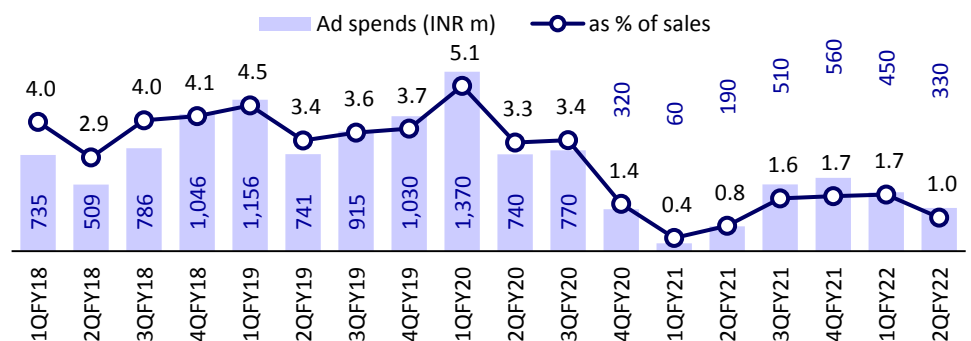
Source: MOFSL, Company

Exhibit 5: Two-year CAGR stands at ~19%, with volume growth (ex-Cables) healthy



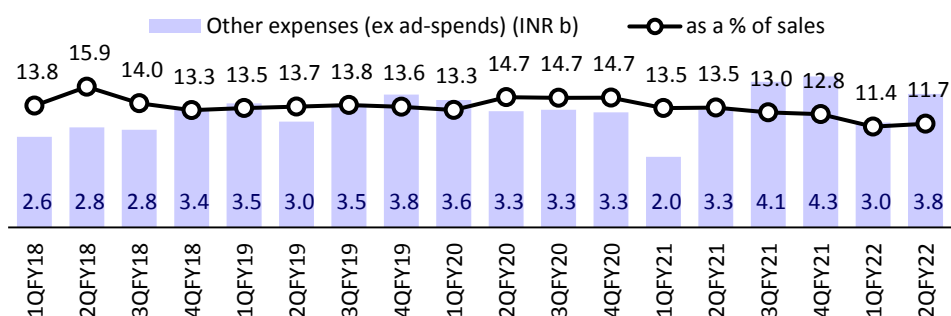
Source: MOFSL, Company

Exhibit 6: Ad spends as % of sales still below historical levels



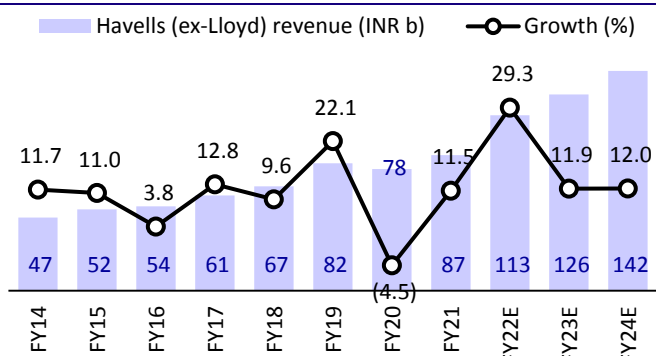
Source: MOFSL, Company

Exhibit 7: Other expenses (ex-ad spends) as % of sales still lower than normal levels



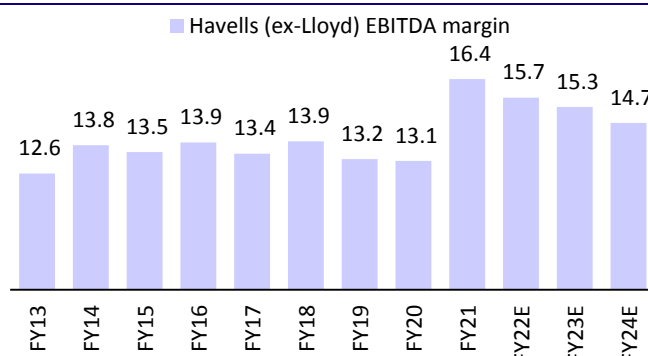
Source: MOFSL, Company

Exhibit 8: Havells’ (ex-Lloyd) revenue trend (INR b) – double-digit growth to continue at portfolio level



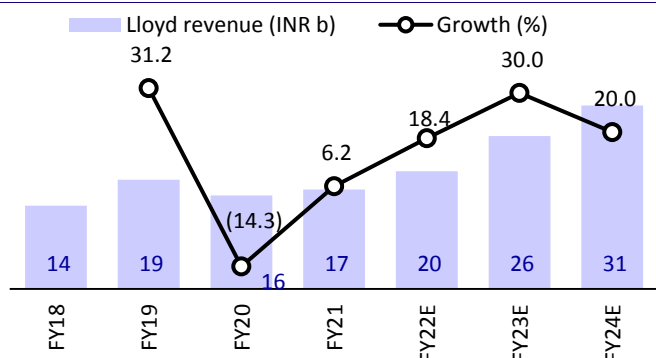
Source: MOFSL, Company

Exhibit 9: Havells’ (ex-Lloyd) EBITDA margin to normalize at 14.7% by FY24E, above 13–14% range pre-COVID



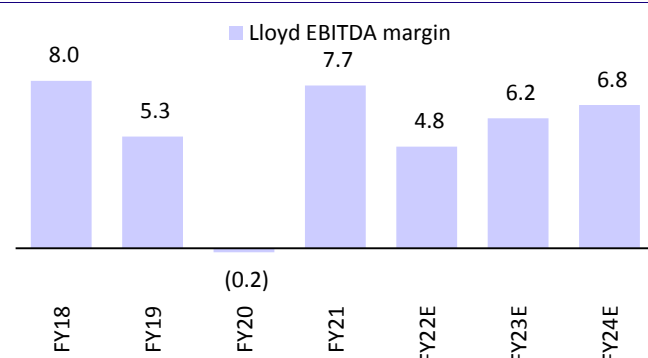
Source: MOFSL, Company

Exhibit 10: Lloyd’s revenue trend (INR b) – AC sales partially lost this season; expect ~23% CAGR over FY21–24E



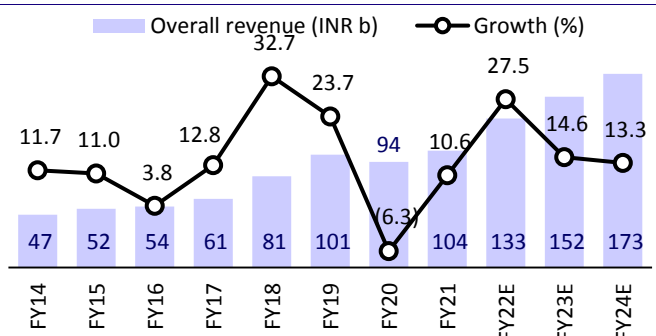
Source: MOFSL, Company

Exhibit 11: Lloyd’s EBITDA margin trend (%) – expect margins to settle at ~7% over medium term



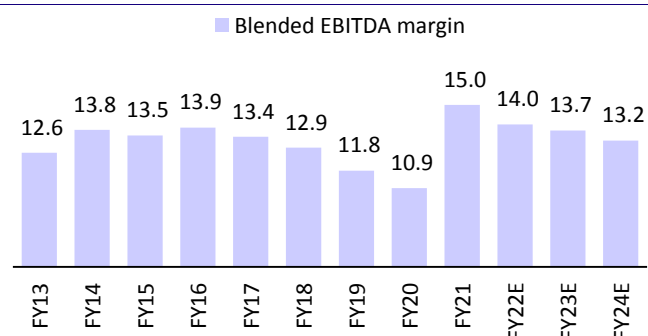
Source: MOFSL, Company

Exhibit 12: Overall revenue trend (INR b) – expect FY21–24E CAGR at ~18%



Source: MOFSL, Company

Exhibit 13: Blended margin trend (%) – EBITDA margin to settle at 13.2% by FY24E (180bps reduction over FY21) as ad spends return



Source: MOFSL, Company



2QFY22 conference call highlights

Demand

- Despite commodity cost inflation, Havells hopes for margin improvement going forward as the demand off-take strengthens.
- Demand this year is seen across segments and regions (v/s rural led demand last year). Havells is seeing good demand from the Real Estate and Industrial sectors post the second lockdown (v/s last year when these sectors were muted).
- The demand off-take continues to be healthy even after price increases, which gives Havells the confidence of better times ahead.
- **Real Estate:** The demand uptick is highly broad-based (v/s last year, when demand was largely via tier 2/3 cities).
- The company is not facing any major supply chain issues. More than 90% of the products are manufactured in-house (5–6% of revenues come from imports).

Margins

- Barring Cables, wherein 80% of the overall growth was price-led, other categories saw 50% price-led growth and 50% volume-led growth. Lighting sales saw higher volume growth (v/s value growth).
- Certain products saw delays in price increases (e.g., ACs). The management usually takes price increases based on the average cost increase in its raw materials basket (ex-Cables).

Cables and Wires

- The entire commodity cost increase was difficult to pass on, **primarily in Wires**. Havells expects margin improvement from these levels as the miss on margins is attributable to the lag effect of the price increases.

Fans

- The company anticipates inventory in the channel to be at normal levels, as the management is yet to see strong volume growth in Fans. Havells expects an inventory build-up from 3Q/4QFY22.
- Havells continues to retain its leadership position in the Premium Fans segment.

Switchgears

- The management expects switchgear sales to be strong, led by healthy demand from the Residential and Industrial markets.

Price hikes

- The company believes in weighing in the competitive intensity before taking a price increase. Despite the demand buoyancy, Havells does look at price elasticity (v/s demand) before taking price increases.

Ad spends

- The management had earlier decided to start investing in brand spending at normalized levels in FY22. Hence, it expects a scale-up in spending in 2HFY22.

Inventory

- Inventory levels are normal in the channel currently, with the company yet to witness any aggressive channel filling.

Lloyd

- Segment sales were impacted by two weak summer seasons due to the lockdown. This led to high inventory in the system, which weighed on peers as

well. Hence, passing on the entire cost increase was difficult in a subdued demand environment.

- Investments towards manufacturing, branding, and distribution would continue to be in focus. The management aims to gain healthy market share across categories (including ACs) over the next two years.
- Lloyds would remain competitive in the market and react based on industry trends.
- The company has applied for the PLI scheme in ACs, with awarding yet to happen. Lloyds has been gaining market share in ACs for the past year now.

Market share gains

- **The management believes that in an inflationary period, consumers tend to shift from unorganized players to organized players by paying a little extra for a better quality branded product.** Hence, Havells believes market share gains would continue over the near term as well. Organized players (v/s unorganized players) also find it easier to manage supply chain disruptions and raw material volatility.

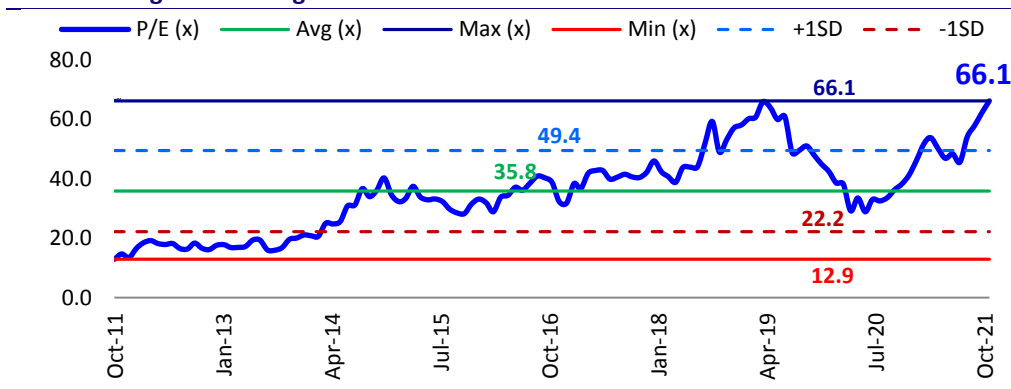
Capex

- The company aims to incur INR3–3.5b capex in FY22E.

Valuation and view

- We maintain our FY22–24E earnings estimate and TP of INR1,290. At CMP, the stock trades at FY23/24E PE of 55x/50x. We **maintain Neutral** on expensive valuations. We prefer Orient and Crompton as preferred plays in the Consumer Electricals space and Whirlpool in the White Goods space. All three offer better earnings growth over FY22–24E at cheaper valuations.

Exhibit 14: Havells trades at 66.1x one-year forward P/E (x), at +1SD and much higher v/s historical long-term average of ~36x



Source: MOFSL, Company

Exhibit 15: Consumer Durables – peer comparison table

Company name	Mkt Cap (INR b)	CMP (INR)	Rating	EPS CAGR FY22-24E	PE (x)			EV/EBITDA (x)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Havells	804	1,285	Neutral	12%	62.7	55.1	49.9	42.1	37.3	33.8
Voltas	394	1,190	Neutral	23%	69.1	53.6	46.0	54.9	42.6	36.7
Whirlpool	279	2,200	Buy	34%	67.6	46.3	37.6	41.6	28.6	23.1
Crompton	276	440	Buy	14%	45.6	38.6	34.9	35.0	29.8	26.8
Blue Star	87	902	Neutral	37%	59.3	38.4	31.7	30.3	23.1	19.3
Orient Electric	69	325	Buy	27%	50.0	37.2	30.8	27.9	21.6	17.8

Source: MOFSL, Company, Bloomberg

Financials and valuations

Income Statement							(INR m)
Y/E March	2018	2019	2020	2021	2022E	2023E	2024E
Net Sales	81,386	1,00,677	94,292	1,04,279	1,33,000	1,52,470	1,72,804
Change (%)	32.7	23.7	(6.3)	10.6	27.5	14.6	13.3
EBITDA	10,493	11,838	10,274	15,653	18,680	20,958	22,889
% of Net Sales	12.9	11.8	10.9	15.0	14.0	13.7	13.2
Depreciation	1,395	1,494	2,179	2,489	2,550	2,811	3,101
Interest	240	161	197	726	450	400	400
Other Income	1,170	1,278	1,120	1,450	1,462	1,748	2,140
PBT	10,028	11,461	9,017	13,888	17,142	19,495	21,528
Tax	3,022	3,588	1,687	3,590	4,315	4,907	5,419
Rate (%)	30.1	31.3	18.7	25.8	25.2	25.2	25.2
Extra-ordinary Inc.(net)	119	-	-	98	-	-	-
Reported PAT	7,125	7,873	7,330	10,396	12,828	14,588	16,109
Change (%)	32.2	10.5	(6.9)	41.8	23.4	13.7	10.4
Adjusted PAT	7,006	7,873	7,330	10,298	12,828	14,588	16,109
Change (%)	17.4	12.4	(6.9)	40.5	24.6	13.7	10.4

Balance Sheet							(INR m)
Y/E March	2018	2019	2020	2021	2022E	2023E	2024E
Share Capital	625	626	626	626	626	626	626
Reserves	36,766	41,297	42,422	51,019	58,715	67,468	77,134
Net Worth	37,392	41,922	43,048	51,645	59,341	68,094	77,760
Loans	1,080	945	405	4,922	4,922	4,922	4,922
Deferred Tax Liability	2,070	3,168	2,865	3,391	3,391	3,391	3,391
Capital Employed	40,541	46,035	46,318	59,958	67,654	76,407	86,073
Gross Fixed Assets	34,113	34,027	40,479	41,965	45,965	50,965	55,965
Less: Depreciation	6,799	4,989	6,985	9,062	11,612	14,422	17,523
Net Fixed Assets	27,314	29,038	33,494	32,903	34,353	36,542	38,441
Capital WIP	241	2,327	861	899	899	899	899
Investments	955	17	16	3,079	3,079	3,079	3,079
Curr. Assets	36,905	39,875	36,107	51,321	63,780	74,925	87,477
Inventory	16,217	19,190	18,719	26,199	29,151	33,418	37,875
Debtors	3,254	4,242	2,489	5,636	7,189	8,241	9,340
Cash & Bank Balance	15,262	12,877	11,069	16,247	23,310	28,531	34,896
Loans & Advances	-	-	-	-	-	-	-
Other Current Assets	2,173	3,566	3,830	3,238	4,130	4,735	5,366
Current Liab. & Prov.	24,873	25,222	24,160	28,245	34,457	39,039	43,824
Creditors	16,340	15,601	14,141	15,968	20,366	23,347	26,461
Other Liabilities	6,754	7,264	7,564	9,117	10,932	12,532	14,203
Provisions	1,780	2,358	2,456	3,160	3,160	3,160	3,160
Net Current Assets	12,032	14,653	11,947	23,076	29,323	35,887	43,653
Application of Funds	40,541	46,035	46,318	59,958	67,654	76,407	86,073

Financials and valuations

Ratios

Y/E March	2018	2019	2020	2021	2022E	2023E	2024E
Basic (INR)							
Adjusted EPS	11.2	12.6	11.7	16.5	20.5	23.3	25.7
Growth (%)	17.3	12.3	(6.9)	40.4	24.6	13.7	10.4
Cash EPS	13.4	15.0	15.2	20.4	24.6	27.8	30.7
Book Value	59.8	67.0	68.8	82.5	94.8	108.8	124.2
DPS	3.5	4.0	8.5	2.5	8.2	9.3	10.3
Payout (incl. Div. Tax.)	37.6	38.3	87.5	18.2	40.0	40.0	40.0
Valuation (x)							
P/Sales	9.9	8.0	8.5	7.7	6.0	5.3	4.7
P/E	114.7	102.1	109.7	78.1	62.7	55.1	49.9
Cash P/E	95.6	85.8	84.6	62.9	52.3	46.2	41.9
EV/EBITDA	75.2	66.9	77.2	50.7	42.1	37.3	33.8
EV/Sales	9.7	7.9	8.4	7.6	5.9	5.1	4.5
Price/Book Value	21.5	19.2	18.7	15.6	13.6	11.8	10.3
Dividend Yield (%)	0.3	0.3	0.7	0.2	0.6	0.7	0.8
Profitability Ratios (%)							
RoE	18.7	18.8	17.0	19.9	21.6	21.4	20.7
RoCE	17.7	17.3	16.2	18.1	19.5	19.5	19.1
RoIC	26.1	21.4	18.7	24.0	29.3	30.3	30.8
Turnover Ratios							
Debtors (Days)	15	15	10	20	20	20	20
Inventory (Days)	73	70	72	92	80	80	80
Creditors (Days)	73	57	55	56	56	56	56
Asset Turnover (x)	2.0	2.2	2.0	1.7	2.0	2.0	2.0
Leverage Ratio							
Net Debt/Equity (x)	(0.4)	(0.3)	(0.2)	(0.2)	(0.3)	(0.3)	(0.4)

Cash Flow Statement

Y/E March	2018	2019	2020	2021	2022E	2023E	2024E
(INR m)							
PBT before EO Items	10,028	11,468	9,216	14,104	17,142	19,495	21,528
Add : Depreciation	1,395	1,494	2,179	2,489	2,550	2,811	3,101
Interest	(249)	(728)	(535)	(315)	(1,012)	(1,348)	(1,740)
Less : Direct Taxes Paid	2,450	2,469	2,398	2,714	4,315	4,907	5,419
(Inc)/Dec in WC	(2,556)	4,639	215	6,985	(816)	1,343	1,402
CF from Operations	11,281	5,126	8,248	6,579	15,182	14,708	16,068
(Inc)/Dec in FA	(15,962)	(4,996)	(3,592)	(1,227)	(4,000)	(5,000)	(5,000)
Free Cash Flow	(4,681)	130	4,655	5,353	11,182	9,708	11,068
(Pur)/Sale of Investments	4,511	710	625	(2,169)	1,462	1,748	2,140
CF from Investments	(11,451)	(4,287)	(2,968)	(3,396)	(2,538)	(3,252)	(2,860)
(Inc)/Dec in Net Worth	147	135	313	195	-	-	-
(Inc)/Dec in Debt	(901)	(209)	(937)	4,136	-	-	-
Less : Interest Paid	197	134	52	459	450	400	400
Dividend Paid	2,632	3,016	6,413	1,878	5,131	5,835	6,444
CF from Fin. Activity	(3,583)	(3,224)	(7,088)	1,994	(5,581)	(6,235)	(6,844)
Inc/Dec of Cash	(3,754)	(2,385)	(1,808)	5,178	7,063	5,221	6,364
Add: Beginning Balance	19,375	15,262	12,877	11,069	16,247	23,310	28,531
Closing Balance	15,262	12,877	11,069	16,247	23,310	28,531	34,896

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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