

25 February 2025

India | Equity Research | Company update

Havells India

White Goods

EBITDA margin in FY25E below Mean- 1 standard deviation in past 15 years; model mean reversion ahead

Havells' EBITDA margin has declined from 12.6% in FY10 to 9.9% in FY24 and we model it to be 9.3% in FY25E. There are structural as well as cyclical/transitory reasons for the margin contractions. While we believe: (1) steep increase in competitive pressures in the ECD segment; and (2) changes in technology and decline in realisation of lighting have impacted margins structurally, we also note cables and wires have reported steady margin expansion over FY10–24 led by strengthening brand equity and focus on B2C products. We model transitory issues such as impact of plant relocation expenses of switchgear and revenue mix impact in ECD to resolve in FY26. We also model improvement in capacity utilisation of its cables and wires plant likely to drive operating leverage.

Focus on market share gains of Lloyd has helped outpace peers in air conditioners; but has also resulted in losses over FY20–24. We model Lloyd to break even on a full-year basis by FY27. However, additional investments (if any) in refrigerators and washing machines to gain market shares may continue to hurt margins. Initiatives in premiumisation as well as stable commodity prices also augur well for margin expansion over FY25–27E. We remain constructive. Maintain **BUY**.

Margins at bottom levels in past 15 years

Havells' FY25E gross margins are likely to be at their bottom levels of 31.4% compared to its FY10–25E average of 36.8%. We also note EBITDA margin at its lowest level at 9.3% in FY25E compared to the FY10–25E average of 12.3%. Adjusting for the Lloyd segment, EBIT margin of rest of business is likely to be 12.1% in FY25E compared to FY10–25E average of 19.3%. We model possibility of mean reversion in margins over FY25–27E.

Chief reasons for margin contraction

While losses of Lloyd have impacted the consolidated margins, we also note that: (1) steady changes in technology and decline in realisations led to margins contracting in lighting; (2) margins of ECD have also receded to 11.1% in FY24, from 28.1% in FY10; (3) there is steady decline in margins of switchgear too. However, we note, there is steady expansion in margins of cables and wires due to improving brand image and focus on B2C segment.

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	1,85,900	2,14,348	2,44,086	2,78,142
EBITDA	18,426	19,922	25,249	30,302
EBITDA Margin (%)	9.9	9.3	10.3	10.9
Net Profit	12,708	14,080	17,974	21,711
EPS (INR)	20.3	22.5	28.7	34.6
EPS % Chg YoY	18.4	10.8	27.7	20.8
P/E (x)	75.0	67.7	53.0	43.9
EV/EBITDA (x)	50.1	46.1	36.1	29.8
RoCE (%)	15.1	14.7	17.0	18.2
RoE (%)	18.1	18.0	20.5	21.7

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Market Data

Market Cap (INR)	954bn
Market Cap (USD)	11,009mn
Bloomberg Code	HAVL IN
Reuters Code	HVEL.BO
52-week Range (INR)	2,106 /1,413
Free Float (%)	40.0
ADTV-3M (mn) (USD)	17.2

Price Performance (%)	3m	6m	12m
Absolute	(8.7)	(19.3)	6.4
Relative to Sensex	(2.8)	(11.1)	4.6

ESG Score	2023	2024	Change
ESG score	72.7	67.1	(5.6)
Environment	53.7	46.7	(7.0)
Social	79.6	78.6	(1.0)
Governance	82.7	78.6	(4.1)

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: SES ESG, I-sec research

Previous Reports

17-01-2025: [Q3FY25 results review](#)

18-10-2024: [Q2FY25 results review](#)

Structural factors vs. transitional factors

While increase in competitive pressures and impact on realisations due to changes in technology are structural reasons to impact margins, we believe there are some cyclical and transitory reasons too. Switchgear margins are likely to recover as there were extraordinary expenses in 9MFY25 such as plant relocation expenses. Cables and wires margins will also likely improve with steady expansion in capacity utilisation at the new plant. With the anniversary effect of change in technology of driver-on-board, there is possibility of stability emerging in Lighting realizations.

Havells has more-than-doubled its distribution reach in FY10–25E. While the expenses and investments are already accounted for, we model benefits to flow through in the next decade.

Lloyd likely to be break even on yearly basis by FY27

Lloyd focussed on market share expansion in the air conditioner industry. Additional investments (than peers) in brand-building efforts and trade spends resulted in losses over FY20–24. We note, Lloyd has started generating positive EBIT in the summer seasons and losses in non-season quarters have steadily declined. We model Lloyd to break even on a full-year basis in FY27. However, any material investments in refrigerators and washing machines may pose threat to our estimates.

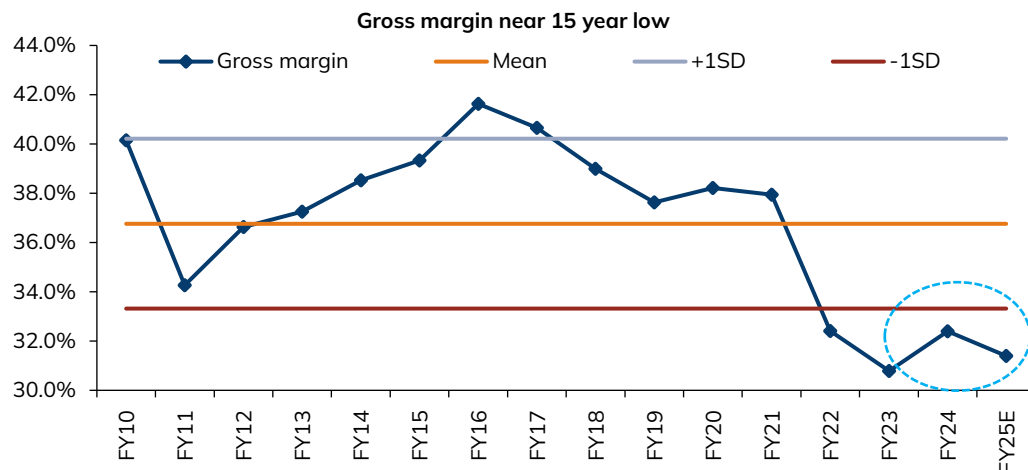
Stable commodity prices to allow stable pricing and superior margins

Steep volatility in commodity pricing led to volatility in pricing strategy as well as margins. We note there is stability in most commodity prices now. It would allow Havells to focus on maintaining margins as well as focus on market share gains. We also model it to focus on driving initiatives in premiumisation. The company's multi-brand strategy also allows it to compete in low-price, regular price and premium products spaces effectively.

Maintain BUY

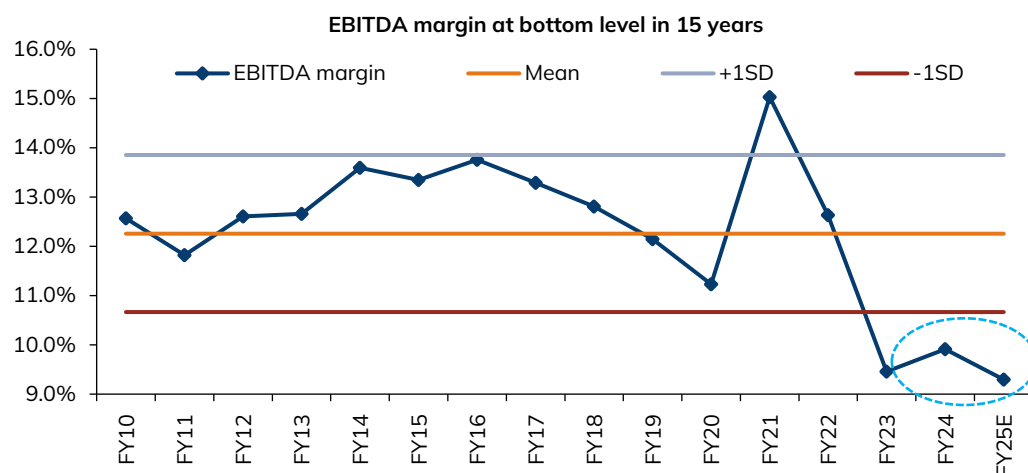
We model Havells to report revenue/PAT CAGRs of 14.4%/19.5% over FY24–27E and RoE moving upwards over FY24–27. We remain positive on Havells led by its established competitive advantages and growth opportunity in white goods and durables. Maintain **BUY** with a DCF-based TP of INR 1,800 (implied P/E of 52x FY27E EPS).

Exhibit 1: Consolidated gross margins



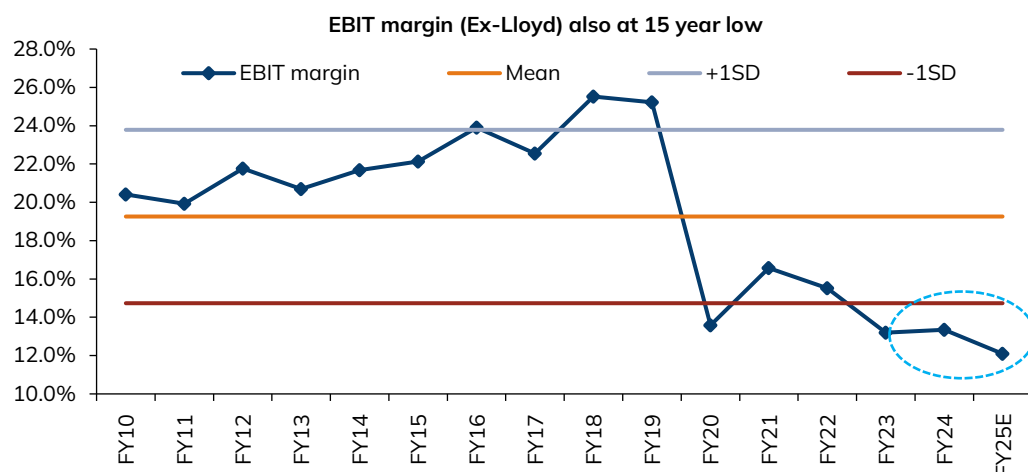
Source: Company data, I-Sec research

Exhibit 2: Consolidated EBITDA margins



Source: Company data, I-Sec research

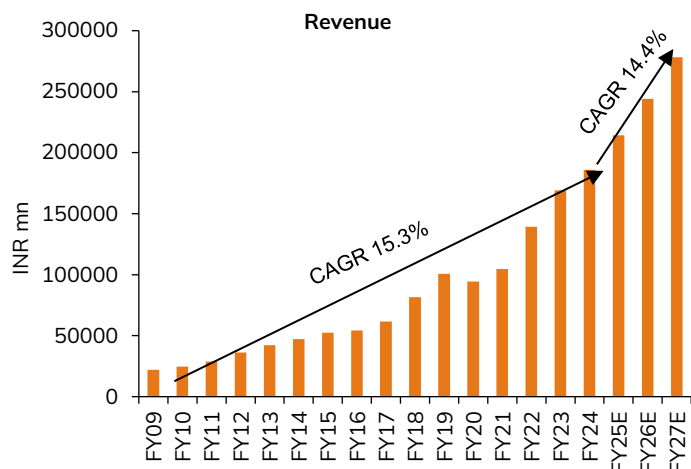
Exhibit 3: EBIT margins (Ex-Lloyd)



Source: Company data, I-Sec research

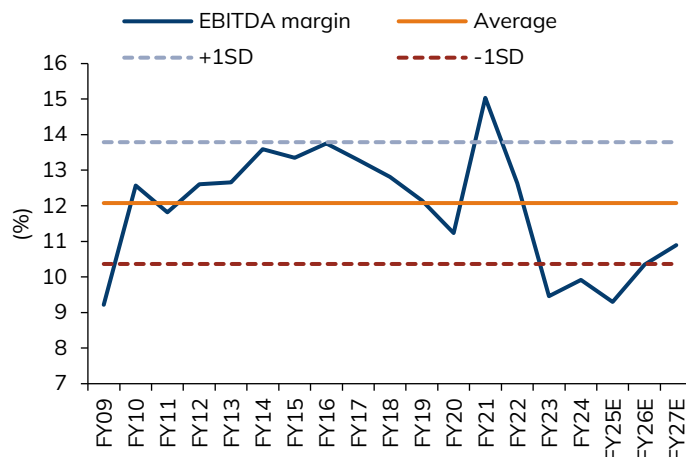
Key highlights – annual

Exhibit 4: Revenue growth trend



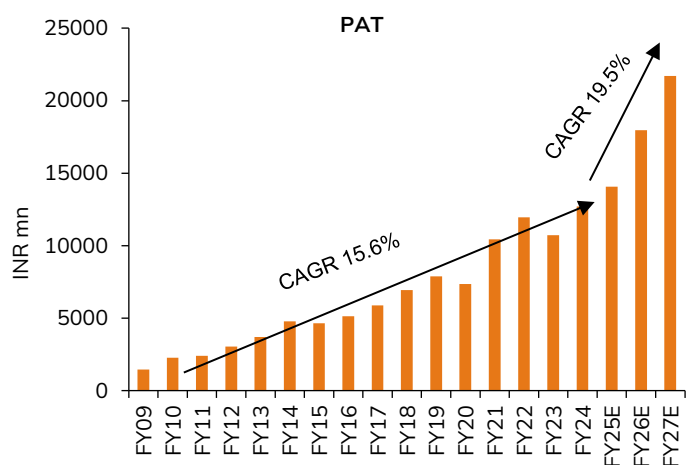
Source: Company data, I-Sec research

Exhibit 5: EBITDA margin trend



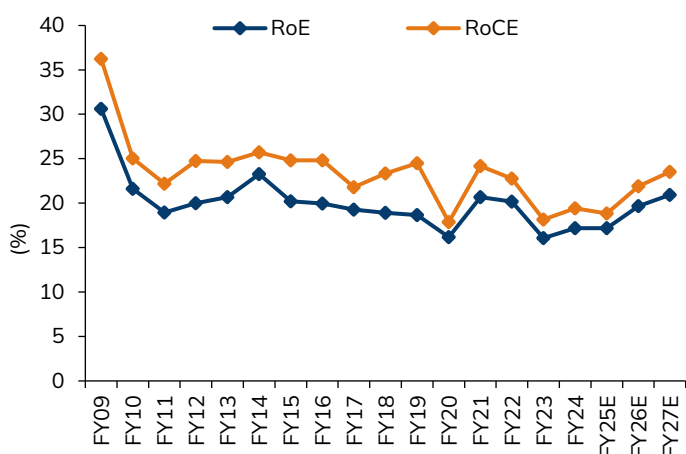
Source: Company data, I-Sec research

Exhibit 6: PAT growth trend



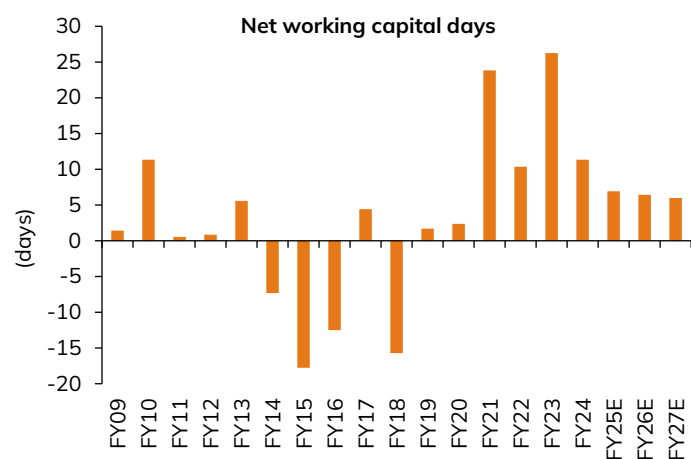
Source: Company data, I-Sec research

Exhibit 7: Return ratios trend



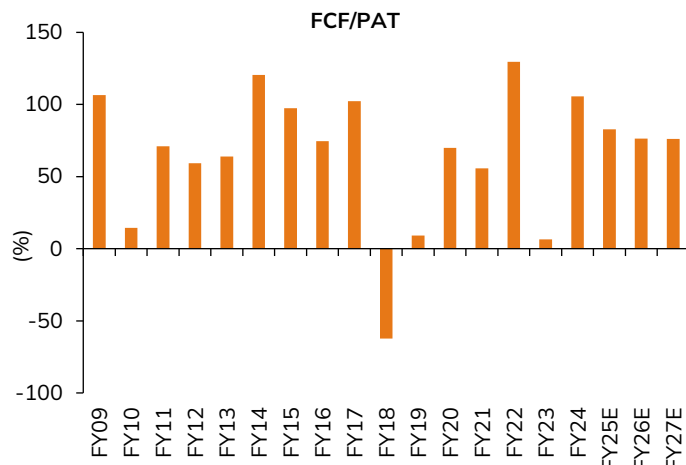
Source: Company data, I-Sec research

Exhibit 8: Net working capital days



Source: Company data, I-Sec research

Exhibit 9: FCF/PAT



Source: Company data, I-Sec research

Valuation

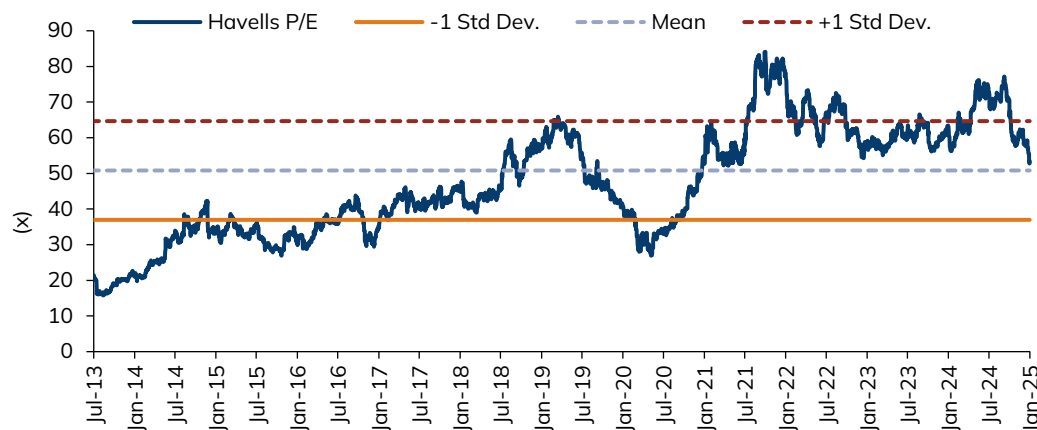
We model Havells to report revenue/PAT CAGRs of 14.4%/19.5% over FY24–27E and RoE to move to upwards over FY24–27. At our DCF-based TP of INR 1,800, implied P/E works out to 52x FY27E EPS. Maintain **BUY**.

Exhibit 10: DCF-based valuation

Particulars	
Cost of Equity (%)	11.5%
Terminal growth rate (%)	5.0%
Discounted interim cash flows (INR mn)	3,49,440
Discounted terminal value (INR mn)	7,78,620
Total equity value (INR mn)	11,28,060
Value per share (INR)	1,800

Source: Company data, I-Sec research

Exhibit 11: Mean P/E and standard deviations



Source: Company data, I-Sec research

Risks

Inflation in input prices and competitive pressures

Sharp rise in input prices and/or increase in competitive pressures may result in a downside to our estimates.

Prolonged losses at Lloyd

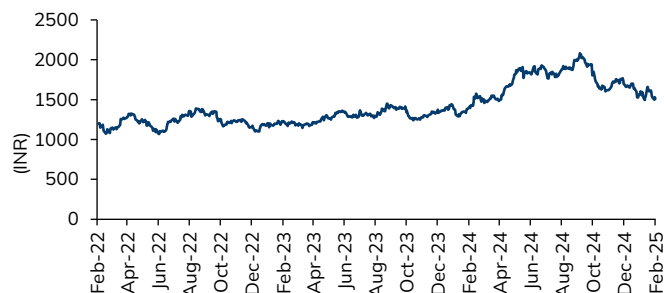
Consistent losses at Lloyd may result in lower overall profitability.

Exhibit 12: Shareholding pattern

%	Jun'24	Sep'24	Dec'24
Promoters	59.4	59.4	59.4
Institutional investors	34.8	34.9	32.9
MFs and others	3.8	3.9	5.0
Fls/Banks	1.4	1.7	0.1
Insurance	4.1	4.3	4.4
FIs	25.5	25.0	23.5
Others	5.8	5.7	7.7

Source: Bloomberg

Exhibit 13: Price chart



Source: Bloomberg

Financial Summary

Exhibit 14: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	1,85,900	2,14,348	2,44,086	2,78,142
Operating Expenses	1,67,474	1,94,426	2,18,837	2,47,840
EBITDA	18,426	19,922	25,249	30,302
EBITDA Margin (%)	9.9	9.3	10.3	10.9
Depreciation & Amortization	3,385	3,850	4,483	5,084
EBIT	15,041	16,072	20,766	25,217
Interest expenditure	457	276	276	276
Other Non-operating Income	2,490	3,028	3,539	4,085
Recurring PBT	17,074	18,824	24,029	29,026
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	4,366	4,744	6,055	7,314
PAT	12,708	14,080	17,974	21,711
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	(50)	-	-	-
Net Income (Reported)	12,657	14,080	17,974	21,711
Net Income (Adjusted)	12,708	14,080	17,974	21,711

Source Company data, I-Sec research

Exhibit 15: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	78,996	80,200	82,252	86,903
of which cash & cash eqv.	30,382	25,778	20,592	16,970
Total Current Liabilities & Provisions	42,831	50,372	57,360	65,363
Net Current Assets	36,165	29,828	24,891	21,540
Investments	2,465	12,465	24,465	36,465
Net Fixed Assets	36,774	43,911	47,928	52,844
ROU Assets	-	-	-	-
Capital Work-in-Progress	2,987	-	-	-
Total Intangible Assets	3,105	3,105	3,105	3,105
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	81,496	89,309	1,00,389	1,13,953
Liabilities				
Borrowings	3,453	3,453	3,453	3,453
Deferred Tax Liability	3,575	3,575	3,575	3,575
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	627	627	627	627
Reserves & Surplus	73,841	81,654	92,734	1,06,298
Total Net Worth	74,468	82,281	93,361	1,06,925
Minority Interest	-	-	-	-
Total Liabilities	81,496	89,309	1,00,389	1,13,953

Source Company data, I-Sec research

Exhibit 16: Quarterly trend

(INR mn, year ending March)

	Mar 24	June 24	Sept 24	Dec 24
Net Sales	54,420	58,062	45,393	48,890
% growth (YOY)	12.0	20.1	16.4	10.8
EBITDA	6,346	5,722	3,751	4,265
Margin %	11.7	9.9	8.3	8.7
Other Income	758	773	929	643
Extraordinaries	(14)	(14)	(10)	1
Adjusted Net Profit	4,467	4,079	2,683	2,780

Source Company data, I-Sec research

Exhibit 17: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	21,049	19,663	22,208	26,525
Working Capital Changes	4,272	1,733	(249)	(270)
Capital Commitments	(7,861)	(8,000)	(8,500)	(10,000)
Free Cashflow	13,189	11,663	13,708	16,525
Other investing cashflow	(10,133)	(10,000)	(12,000)	(12,000)
Cashflow from Investing Activities	(17,994)	(18,000)	(20,500)	(22,000)
Issue of Share Capital	213	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	(513)	-	-	-
Dividend paid	(4,701)	(6,267)	(6,894)	(8,147)
Others	-	-	-	-
Cash flow from Financing Activities	(5,001)	(6,267)	(6,894)	(8,147)
Chg. in Cash & Bank balance	(1,945)	(4,604)	(5,186)	(3,622)
Closing cash & balance	2,706	25,778	20,592	16,970

Source Company data, I-Sec research

Exhibit 18: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	20.3	22.5	28.7	34.6
Adjusted EPS (Diluted)	20.3	22.5	28.7	34.6
Cash EPS	25.7	28.6	35.8	42.8
Dividend per share (DPS)	7.5	10.0	11.0	13.0
Book Value per share (BV)	118.8	131.3	149.0	170.6
Dividend Payout (%)	37.0	44.5	38.4	37.5
Growth (%)				
Net Sales	9.9	15.3	13.9	14.0
EBITDA	15.2	8.1	26.7	20.0
EPS (INR)	18.4	10.8	27.7	20.8
Valuation Ratios (x)				
P/E	75.0	67.7	53.0	43.9
P/CEPS	59.2	53.2	42.4	35.6
P/BV	12.8	11.6	10.2	8.9
EV / EBITDA	50.1	46.1	36.1	29.8
P / Sales	5.1	4.4	3.9	3.4
Dividend Yield (%)	0.5	0.7	0.7	0.9
Operating Ratios				
Gross Profit Margins (%)	32.4	31.4	32.4	33.0
EBITDA Margins (%)	9.9	9.3	10.3	10.9
Effective Tax Rate (%)	25.6	25.2	25.2	25.2
Net Profit Margins (%)	6.8	6.6	7.4	7.8
NWC / Total Assets (%)	44.4	33.4	24.8	18.9
Net Debt / Equity (x)	(0.4)	(0.4)	(0.4)	(0.5)
Net Debt / EBITDA (x)	(1.6)	(1.7)	(1.6)	(1.6)
Profitability Ratios				
RoCE (%)	15.1	14.7	17.0	18.2
RoE (%)	18.1	18.0	20.5	21.7
RoIC (%)	24.5	26.0	31.3	34.7
Fixed Asset Turnover (x)	3.7	3.6	3.5	3.6
Inventory Turnover Days	70	70	70	70
Receivables Days	24	23	23	23
Payables Days	82	86	86	86

Source Company data, I-Sec research

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