

Higher raw material cost weighs on margin...

About the stock: Havells India (HIL) is India's leading electrical appliances & equipment manufacturer with a diversified product portfolio consisting of switchgears, cables, electrical consumer durables and lighting & fixtures. Apart from 'Havells', HIL's other major brands include Crabtree, Standard, Reo and Lloyd.

- In all its business segments, Havells has a strong presence in the organised product category with market share ranging between 6% and 20%
- Robust balance sheet with RoE & RoCE of 20% & 25%, respectively (five-year average), with stringent working capital policy

Q4FY22 Results: Strong performance on the revenue front. However, high raw material costs dragged overall EBITDA margin.

- Revenue up ~33% YoY to ₹ 4417 crore led by volume growth of 20% YoY
- EBITDA margin declined ~340 bps YoY to 11.8%, mainly due to lower gross margin. Gross margin saw a sharp fall of ~812 bps YoY (~300 bps QoQ) mainly due to higher raw material costs and delay in price hike
- PAT increased ~17% YoY to ~₹ 353 crore tracking lower EBITDA margin

What should investors do? Strong B2C brand, focus on market share gains of Lloyd through improved product mix and dealer addition. The company's share price has grown 2.4x in the last five years.

- We revise our rating from BUY to HOLD

Target Price and Valuation: We value the stock at 53x FY24 EPS with revised target price to ₹ 1375/share

Key triggers for future price performance:

- Total ~1.7 crore new houses under PMAY, urbanisation and rising aspiration level will give a significant boost to demand for home appliances
- Revival in the Lloyd business through new launches and improvement in segment margin
- It aims to increase its town penetration from current 1150 to 2000 and retail touch points from 1.6 lakh to 2.5 lakh over the next five years
- Model revenue, earnings CAGR of ~13%, 16%, respectively, in FY22-24E

Alternate Stock Idea: Besides Havells, we like Supreme Industries in our coverage.

- Supreme is market leader in plastic piping segment with ~14% market share. Robust b/s with average RoE, RoCE of 24%, 27%, respectively
- BUY with a target price of ₹ 2320



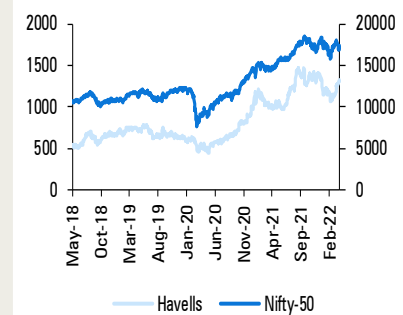
Particulars

Particular	Amount
Market Capitalization (₹ Cr)	77,987.5
Total Debt (FY22) (₹ Cr)	395.5
Cash and Inv (FY22) (₹ Cr)	2,689.3
EV (₹ Cr)	75,693.8
52 week H/L	1504 / 958
Equity capital (₹ Cr)	62.6
Face value (₹)	1.0

Shareholding pattern

(in %)	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	59.5	59.5	59.5	59.5	59.5	59.5
FII	24.4	24.9	24.0	26.8	26.5	24.4
DII	8.6	8.1	8.3	6.2	6.3	8.3
Others	7.5	7.5	8.2	7.5	7.7	7.8

Price Chart



Recent Event & Key risks

- Capex of ₹ 700 crore in FY23E to boost manufacturing of AC
- Key Risk:** (i) Strong demand of consumer products (ii) Downward pressure on EBITDA margin

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Key Financial Summary

₹ Crore	FY19	FY20	FY21	FY22	5Year CAGR (FY17-22E)	FY23E	FY24E	2Year CAGR (FY22-24E)
Net Sales	10067.8	9429.2	10427.9	13888.5	17.8	15725.5	17867.3	13.4
EBITDA	1183.9	1027.4	1565.2	1757.6	16.4	1826.9	2294.1	14.2
EBITDA Margin (%)	11.8	10.9	15.0	12.7		11.6	12.8	
PAT	787.4	733.0	1039.6	1194.7	17.2	1258.7	1604.6	15.9
EPS (₹)	12.6	11.7	16.7	19.1		20.2	25.7	
P/E (x)	99.0	106.4	75.0	65.3		62.0	48.6	
Price/Book Value (x)	18.6	18.1	15.1	13.0		13.3	13.1	
Mcap/Sales	7.7	8.3	7.5	5.6		5.0	4.4	
RoE (%)	18.8	17.0	20.1	19.9		21.5	26.9	
RoCE (%)	25.4	19.6	24.9	23.7		25.5	31.9	

Key takeaways of results & conference call highlight

Q4FY22 Results: Strong revenue growth, delay in price hike drags margin

- Havells' topline growth at 33% YoY to ₹ 4417 crore was a strong beat from our estimate. This was largely driven by ~20% volume growth. Segment wise, revenues of wire & cable, ECD, Lloyd and lighting segment revenues were up ~45%, 22%, 62% and 22%, respectively, to ₹ 1488 crore, ₹ 870 crore, ₹ 959 crore and ₹ 399 crore, respectively. The switchgear segment revenue grew albeit at a slow pace of 2% YoY to ₹ 474 crore. The strong demand was attributable to timely onset of summer and strong demand for B2C products
- Havells' EBITDA margin at 11.8% declined ~340 bps YoY, mainly due to lower gross margin. Gross margin declined ~812 bps YoY due to higher raw material costs
- PAT came in higher by ~17% YoY, tracking strong sales growth

Q4FY22 Earnings Conference Call highlights

- FY22 performance highlight:** Havells reported price led revenue growth of 33% YoY to ₹ 13889 crore. Volume growth for the year was ~11-12%. The gross margin dipped 547 bps YoY due to a delay in price hikes and restoration of key operating costs. As a result, EBITDA margin declined 230 bps YoY to 12.7%. PAT, at ~₹ 1195 crore, was up 15% YoY
- Future demand outlook:** The management expects revenue CAGR of 13-14% for FY22-24E. Long term growth drivers like revival in real estate industry, higher government capex, rising disposable income remain intact
- Margin:** The management expects raw material prices to cool off in the next quarter or two with easing of supply pressure. The company does not see any sharp price hike in the near term
- Lloyd:** Inventory is at a normal level for Lloyd. The company aims to further increase market share in the RAC segment. The management expects Lloyd's margin to be at the company level in the medium to long term with price hike, improved product mix and positive operating leverage
- Capex:** Planned ₹ 700 crore of capex for FY23E of which ₹ 350 crore will be for the Lloyd division. The near AC manufacturing capacity at Sri City is expected to be operational by the end of FY23

Exhibit 1: Peer comparison

Company	Mcap ₹ cr	Revenue				EBITDA margin				PAT				RoCE				RoE				PE			
		FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E				
Havells	77,988	10428	13056	14893	17783	15	13	12	14	1040	1109	1201	1666	25	24	26	35	20	20	22	29	75	70	65	47
Crompton Greaves	23,004	4804	5439	6204	7017	15	14	13	14	617	547	542	667	34	35	25	29	32	28	23	25	37	42	42	34
Bajaj Electrical	12,566	4585	4805	5356	6111	7	5	8	9	189	128	283	378	15	14	21	23	11	9	17	19	67	98	44	33
Polycab	36,504	8792	11069	12406	13990	13	10	10	12	886	820	866	1159	21	18	19	22	18	14	15	17	41	44	42	32
Symphony	8,017	900	1039	1283	1559	15	15	18	20	107	121	183	243	15	16	24	29	15	14	24	27	75	66	44	33
V guard	9,037	2721	3345	3809	4232	11	10	10	11	202	199	243	300	24	23	25	27	17	17	19	21	45	46	37	30
Voltas	38,266	7556	8092	9806	11405	8	9	9	11	529	535	731	1029	15	17	19	22	11	11	14	17	72	72	52	37

Source: BSE, ICICI Direct Research

We believe Havells' 33% revenue growth in Q4FY22 is encouraging given the high base and slowing rural demand amid high inflation. The management has guided for revenue CAGR of 13-14% for FY22-24E supported by strong demand for consumer and industrial products with a revival in the real estate sector and increased government capex. Havells further aims to increase its town penetration and launch premium products under the Lloyd brand (like refrigerators and washing machine). However, on the margin front, we believe the EBITDA margin is likely to remain under pressure due to higher input costs and delay in price hike. We cut our FY24E earnings estimate by 7% and change our rating from BUY to **HOLD**. We believe a revival in profitability of Lloyd will be a key trigger for a re-rating of the stock. We value the stock at 53x P/E FY24E EPS with a revised target price of ₹ 1375/share.

Exhibit 2: Variance Analysis

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Revenue	4417.1	3584.1	3331.2	32.6	3652.3	20.9	Sharp revenue growth led by volume growth of 20% YoY
Other Income	44.2	39.4	37.2	18.7	48.8	-9.5	
Raw Material Exp	3122.3	2439.2	2084.1	49.8	2473.0	26.3	Gross margin dipped ~800 bps YoY, mainly due to higher raw material costs and delay in price hike
Gross Margin (%)	29.3	31.9	37.4	-812 bps	32.3	-298 bps	
Employee Exp	275.3	254.5	258.5	6.5	257.4	7.0	
Other expenses	498.9	480.3	482.9	3.3	481.5	3.6	
EBITDA	520.5	410.2	505.6	2.9	440.3	18.2	
EBITDA Margin (%)	11.8	11.4	15.2	-339 bps	12.1	-27 bps	Sharp fall in gross margin led to decline in EBITDA margin in
Depreciation	70.7	69.7	65.0	8.8	66.2	6.8	
Interest	19.1	21.9	23.5	-18.9	12.3	54.9	
PBT	474.9	358.1	454.4	4.5	410.7	15.7	
Total Tax	122.0	91.3	152.1	-19.8	104.7	16.5	
PAT	353.0	266.8	302.3	16.8	305.9	15.4	Increase in PAT led by strong growth in topline
Key Metrics							
Cable	1,488.1	1,143.9	1,029.2	44.6	1,205.8	23.4	Strong demand from both B2B and B2C segment drives cable segment revenue growth
Switchgear	474.4	511.5	463.3	2.4	496.0	-4.3	Lower demand from B2C segment amid Covid led disruption in January-February 2022
ECD	1,829.0	1,373.7	1,303.0	40.4	1,358.3	34.7	ECD revenues increased 22% YoY to ₹ 870 crore led by 15% volume growth. Lloyd revenue increased 62% YoY to ₹ 959 crore due to pent up demand and rise in temperature
Lighting & Fixtures	399.4	337.8	328.7	21.5	408.0	-2.1	Growth was largely driven by consumer lighting segment
Others*	226.1	217.3	207.0	9.2	184.1	22.8	

Source: Company, ICICI Direct Research, * Motor, Pump, Solar, Personal Grooming and Water Purifier businesses

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Chg	Old	New	% Chg	
Revenue	14926.9	15725.5	5.4	17824.9	17867.3	0.2	We revise our revenue estimates upward for FY23 considering revival in real estate industry and government infra push. In addition to this, expansion of rural distribution will aid revenue growth, going forward
EBITDA	1781.1	1826.9	2.6	2416.8	2294.1	(5.1)	
EBITDA Margin (%)	11.9	11.6	-28bps	13.6	12.8	-76bps	We revise our margin estimate downward considering delay in price hike in the Lloyd division
PAT	1217.7	1258.7	3.4	1680.7	1604.6	(4.5)	
EPS (₹)	19.5	20.2	3.4	26.9	25.7	(4.5)	

Source: Company, ICICI Direct Research

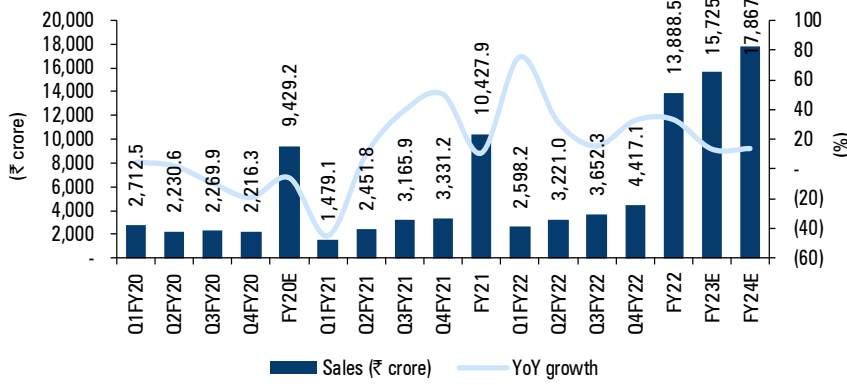
Exhibit 4: Assumption

	Current				Earlier			Comments
	FY20	FY21	FY22	FY23E	FY24 E	FY23E	FY24 E	
Cable Growth (%)	-7.4	6.2	46.1	12.5	13.7	10.9	19.6	We model segment revenue CAGR of 13% in FY22-24E, supported by a revival in government/private capex
Switchgear Growth (%)	-15.1	9.1	22.3	11.3	10.2	10.7	19.5	We believe dealer expansion (in tier III & tier IV cities) and strong demand of real estate will help drive segment at CAGR of 10% in FY22-24E
ECD Growth (%)	-9.0	13.1	31.0	13.8	16.2	18.7	20.9	Rural expansion and launch of premium products in the Lloyd (refrigerators and washing machines) would help drive performance of ECD (including Lloyd) segment at 15% in FY22-24E. Segment wise, we model ECD and Lloyd segment revenue CAGR of 13% and 18%, respectively, for FY21-24E
Lighting & Fixtures (%)	-22.2	6.9	26.4	17.6	9.7	14.2	18.2	We model lighting segment revenue CAGR at 14% in FY22-24E to be largely driven by consumer lightings

Source: Company, ICICI Direct Research

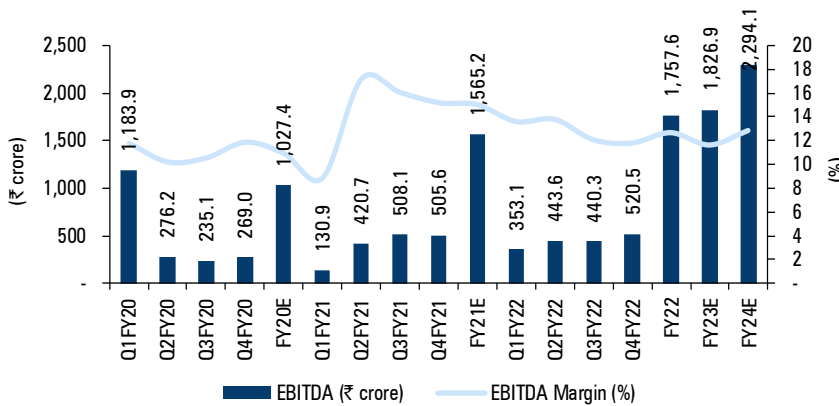
Financial story in charts....

Exhibit 5: Strong consumer demand to help drive sales growth



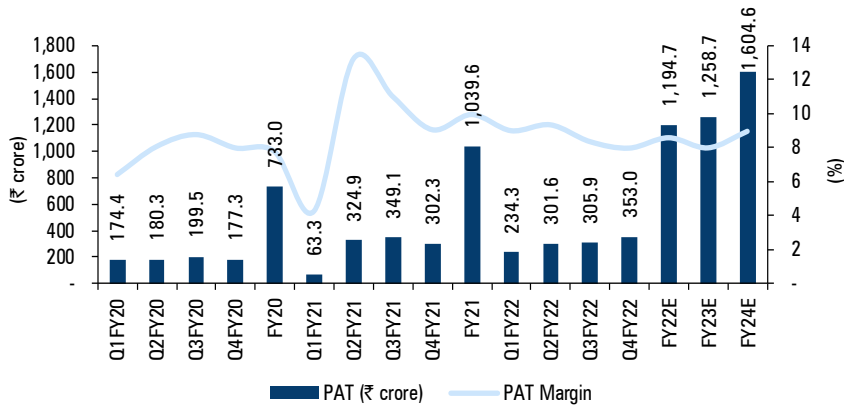
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA margin movement



Source: Company, ICICI Direct Research

Exhibit 7: PAT growth to help drive bottomline



Source: Company, ICICI Direct Research

Financial summary

Exhibit 8: Profit and loss statement				
	₹ crore			
Year End March	FY21	FY22	FY23E	FY24E
Total Operating Income	10427.9	13888.5	15725.5	17867.3
Growth (%)		33.2	13.2	13.6
Raw Material Expenses	5390.5	7552.6	8413.1	9469.7
Employee Expenses	885.3	1014.7	1155.0	1272.6
Marketing Expenses	132.6	246.8	351.6	425.0
Other expenses	1369.9	1485.4	1887.1	2083.3
Operating Expenditure	8862.7	12130.9	13898.6	15573.2
EBITDA	1565.2	1757.6	1826.9	2294.1
Growth (%)		12.3	3.9	25.6
Other Income	187.8	160.4	188.7	201.9
Interest	72.6	53.4	48.2	41.7
Depreciation	248.9	260.8	284.6	309.1
Less: Exceptional Items	0.0	0.0	0.0	0.0
PBT	1431.5	1603.8	1682.8	2145.2
Total Tax	391.9	409.1	424.1	540.6
PAT	1039.6	1194.7	1258.7	1604.6

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	1039.6	1194.7	1258.7	1604.6
Depreciation	248.9	260.8	284.6	309.1
CF before working cap changes	1361.1	1509.0	1591.5	1955.4
Net Increase in Current Assets	-1024.0	-580.6	-729.0	-635.8
Net Increase in Current Liabilities	433.3	746.9	96.6	493.1
CF from operating activities	770.3	1675.3	959.1	1812.7
(Purchase)/Sale of Liquid Investmen	-306.3	152.9	-146.6	0.0
Others	123.6	-474.5	-403.4	-350.0
(Purchase)/Sale of Fixed Assets	-182.7	-321.6	-550.0	-350.0
CF from Investing Activities	-393.6	-342.1	-711.6	-365.0
Proceeds frm Equity Shares	0.0	0.0	0.0	0.0
Inc / (Dec) in Loan Funds	393.7	1.9	-50.0	-50.0
Others	-252.8	-423.9	-1443.7	-1526.6
CF from Financing Activities	140.8	-422.1	-1493.7	-1576.6
Net Cash flow	517.6	911.1	-1246.1	-128.9
Opening Cash	1107.1	1624.7	2535.8	1289.7
Closing Cash	1624.7	2535.8	1289.7	1160.8

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Equity Capital	62.6	62.6	62.6	62.6
Reserve and Surplus	5101.9	5926.0	5789.2	5909.0
Total Shareholders funds	5164.4	5988.6	5851.8	5971.6
Total Debt	393.7	395.5	345.5	295.5
Deferred Tax Liability	339.1	350.6	350.6	350.6
Total Liabilities	6043.3	6981.3	6794.5	6864.2
Assets				
Total Gross Block	4355.5	4706.6	5206.6	5506.6
Less Acc. Depreciation	1322.3	1583.1	1867.8	2176.9
Net Block	3033.2	3123.5	3338.9	3329.8
Capital WIP	86.3	56.8	106.8	156.8
Total Fixed Assets	3119.5	3180.2	3445.6	3486.5
Investment	491.21	67.29	81.78	73.67
Inventory	2619.9	2968.1	3446.7	3916.1
Debtors	563.6	767.5	990.9	1125.9
Other Current Assets	175.3	203.9	230.9	262.3
Cash	1624.7	2535.8	1289.7	1160.8
Total Current Assets	4983.6	6475.3	5958.2	6465.1
Total Current Liabilities	2776.9	3523.9	3620.5	4113.6
Net Current Assets	2206.7	2951.4	2337.7	2351.6
Total Assets	6043.3	6981.3	6794.5	6864.2

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Per Share Data				
Reported EPS	16.7	19.1	20.2	25.7
Cash EPS	20.7	23.3	24.7	30.7
BV per share	82.8	96.0	93.8	95.7
DPS	3.5	8.9	17.9	23.8
Operating Ratios (%)				
EBITDA Margin (%)	15.0	12.7	11.6	12.8
PAT Margin (%)	10.0	8.6	8.0	9.0
Asset Turnover	1.7	2.0	2.3	2.6
Debtors Turnover	19.7	20.2	23.0	23.0
Creditor Turnover	55.9	62.5	55.0	55.0
Return Ratios (%)				
RoE	20.1	19.9	21.5	26.9
RoCE	24.9	23.7	25.5	31.9
RoIC	29.2	32.3	27.5	33.8
Valuation Ratios				
EV / EBITDA	48.8	43.1	42.0	33.5
P/E	75.0	65.3	62.0	48.6
EV / Net Sales	7.3	5.5	4.9	4.3
EV / Net Sales	7.3	5.5	4.9	4.3
Market Cap / Sales	7.5	5.6	5.0	4.4
Price to Book Value	15.1	13.0	13.3	13.1
Solvency Ratios				
Debt / Equity	0.1	0.1	0.1	0.0
Current Ratio	1.8	1.5	1.7	1.7
Quick Ratio	0.4	0.4	0.5	0.5

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct Consumer Discretionary universe

Sector / Company	CMP (₹)	TP(₹)	Rating	M Cap (₹ Cr)	EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)				RoE (%)			
					FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Asian Paints (ASIPAI)	3,076	3,645	Buy	2,94,988	33.4	32.0	41.4	57.9	92.0	96.0	74.4	53.1	59.8	61.8	49.3	35.9	29.6	27.9	32.8	40.4	25.0	23.2	27.6	33.5
Berger Paints (BERPAI)	687	755	Hold	66,721	7.4	8.7	9.6	12.5	92.7	79.1	71.6	54.8	55.9	49.6	45.2	35.4	24.9	27.7	29.1	33.9	21.3	23.1	24.0	27.7
Kansai Nerolac (KANNER)	451	505	Hold	24,305	10.8	9.0	10.6	13.5	41.7	50.3	42.6	33.3	27.4	31.5	26.8	21.4	18.2	15.5	17.1	20.2	14.3	12.0	13.1	15.3
Pidilite Industries (PIDIND)	2,301	2,575	Hold	1,16,845	22.2	23.9	25.9	33.2	103.8	96.3	89.0	69.2	69.3	62.5	59.3	47.1	23.8	22.1	23.5	29.5	20.2	18.6	19.9	25.0
Bajaj Electricals (BAJELE)	1,097	1,100	Hold	12,566	16.5	11.2	24.7	33.0	66.5	97.9	44.4	33.3	42.2	48.4	29.9	23.6	15.1	14.0	21.0	23.3	10.7	9.2	16.5	18.6
Crompton Greaves(CROGR)	367	440	Hold	23,004	9.8	8.7	8.6	10.6	37.3	42.1	42.4	34.5	30.4	30.0	28.4	23.6	34.4	35.2	25.2	29.3	31.9	27.7	23.3	24.9
Havells India (HAVIND)	1,250	1,375	Hold	77,988	16.7	17.8	19.3	26.7	75.0	70.4	64.9	46.8	49.0	46.5	43.3	32.0	24.9	24.2	25.9	34.7	20.1	20.4	21.8	29.2
Polycab India (POLI)	2,448	2,800	Buy	36,504	59.4	55.0	58.1	77.7	41.2	44.5	42.1	31.5	32.0	31.9	27.9	21.2	20.8	18.3	19.2	22.1	17.9	14.5	14.7	17.1
Symphony (SYMLIM)	1,146	1,215	Hold	8,017	15.3	17.3	26.1	34.8	74.9	66.3	43.9	32.9	56.4	48.7	33.8	25.6	15.2	15.9	24.5	29.0	14.9	14.4	23.6	27.4
V-Guard Ind (VGUARD)	211	252	Buy	9,037	4.7	4.6	5.7	7.0	44.8	45.5	37.3	30.1	28.1	27.5	24.2	19.5	23.9	23.1	24.8	27.5	16.7	16.7	18.9	21.1
Voltas Ltd (VOLTAS)	1,157	1,305	Hold	38,266	16.0	16.2	22.1	31.1	72.4	71.6	52.3	37.2	59.0	53.1	43.5	30.5	15.0	17.2	18.7	22.1	10.6	11.4	14.1	17.2
Amber Enterprises (AMBEN)	3,815	4,330	Buy	12,854	24.7	45.7	76.4	104.5	154.3	83.5	49.9	36.5	58.1	41.4	28.1	21.9	7.7	11.1	15.2	18.0	5.2	9.2	13.4	15.6
Dixon Technologies (DIXTEC)	3,949	5,700	Buy	23,437	27.3	35.9	78.5	110.9	144.8	109.9	50.3	35.6	81.8	57.0	31.3	23.1	23.5	27.4	39.9	39.7	21.7	26.4	39.9	38.3
Supreme Indus (SUPIND)	1,981	2,320	Buy	25,164	77.0	76.2	78.8	92.7	25.7	26.0	25.2	21.4	19.0	19.8	19.0	15.6	33.1	25.9	25.2	26.7	30.9	25.2	24.3	25.1
Astral Ltd (ASTPOL)	2,026	2,165	Hold	40,699	20.3	24.9	27.5	33.9	99.7	81.4	73.6	59.7	62.5	52.5	48.5	40.1	27.5	29.6	28.8	30.3	21.5	23.0	22.3	23.3

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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