

Retail Equity Research (South India Focus)

Havells India Ltd

Electrical Equipment

BSE CODE : 517354 NSE CODE: HAVELLS
BLOOMBERG CODE: HAVL:IN SENSEX : 51,360

BUY

12 Months Investment Period Rating as per Large Cap

CMP Rs.1,069 TARGET Rs.1,245 RETURN 16% ↑
(Closing: 17-06-22)

KEY CHANGES:

TARGET ↑

RATING ↑

EARNINGS ↑

Revenue growth to sustain...

Havells India Ltd (HAVL) is a leading player in electrical consumer goods in India. Its key verticals include switchgears, cables & wires, lighting fixtures and consumer appliances.

- HAVL focus is on improving product mix, expanding distribution strength and gaining market share.
- Revenue growth to remain healthy on account of uptick in infrastructure investment and revival in real estate sector and discretionary demand.
- Prices of key raw materials including copper remained elevated for past ~1 year is impacting margins, which is expected to take some more time to normalise.
- However, with gradual price hikes and cost rationalisation, the impact on margins will reduce.
- Given healthy earnings outlook & strong balance sheet, we value HAVL at a P/E of 45x on FY24E. Given healthy correction, we upgrade to BUY with target price of Rs.1,245.

Broad based growth....

FY22 revenue grew by 33% YoY, supported healthy demand and higher realisation. Revenue growth was broad based across product categories; Cables & wires, Switch gears, Lighting & Consumer durables & other products which grew by 46%, 23%, 26%, 29% & 19% YoY, respectively. Lloyd's revenue grew by 34%. Overall revival in construction sector was witnessed and this trend is expected to continue given pick-up in residential demand. In cables, B2B & B2C shown healthy growth. Consumer durable segments continue to witness strong growth; largely led by fans. While, Lloyd continue is impacted by high competition and higher inventory levels. However, in Q4 strong summer led to recovery in demand. Management expect revenue growth to remain healthy on account of strong discretionary demand and recovery in B2B business. We expect revenue to grow by 17% over FY22-24E.

Margins pressure continues...

FY22 EBITDA grew by 12% and margins declined by 240bps to 12.7%. In Q4FY22, gross margins declined by 800bps to 29.3%. Led by cost rationalisation, decline in EBITDA margins was limited to 340bps to 11.8%. PAT grew by 17% YoY supported by higher other income. Going ahead, revenue growth is likely to be stable supported by strong B2B demand & pick-up in construction activities. EBITDA margin is expected to improve gradually, led by price hikes. We lower our EBITDA margin estimates by 80bps & 110bps for FY23E & FY24E, considering the current elevated input cost. We expect PAT to grow by 22% over FY22-24E.

Valuations

Current inflationary environment will remain for short term, post which, the margin will improve. HAVL's revenue growth remained healthy on account of pick-up in construction activities, revival in consumer sentiments and market share gains. Considering its strong product portfolio, improving distribution, market share gains and healthy balance sheet, we expect HAVL to trade at premium valuation. Given healthy of 20% correction in stock price, we value HAVL at a P/E of 45x (historical average) on FY24E and upgrade to BUY with a target price of Rs.1,245.

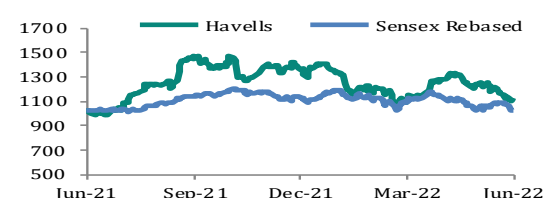
Company Data

Market Cap (cr)	Rs.66,838
Enterprise Value (cr)	Rs.64,600
Outstanding Shares (cr)	62.5
Free Float	40.5%
Dividend Yield	0.70%
52 week high	Rs.1,504
52 week low	Rs.958
6m average volume (cr)	0.2
Beta	1.1
Face value	Rs.1

Shareholding (%)	Q2FY22	Q3FY22	Q4FY22
Promoters	59.5	59.5	59.5
FII's	26.8	26.5	24.4
MFs/Institutions	6.1	6.3	8.4
Public	5.7	5.8	6.0
Others	1.9	1.8	1.8
Total	100.0	100.0	100.0
Promoter pledge	0.0	0.0	0.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	-1.1%	-16.9%	10.1%
Absolute Sensex	-7.3%	-8.8%	0.3%
Relative Return*	6.1%	-8.1%	9.9%

*over or under performance to benchmark index



Standalone (cr)	FY22A	FY23E	FY24E
Sales	13,889	16,316	18,874
Growth (%)	33.2	17.5	15.7
EBITDA	1758	2040	2472
EBITDA Margin(%)	12.7	12.5	13.1
PAT Adj.	1,195	1,441	1,767
Growth (%)	14.9	20.6	22.6
Adjusted EPS	19.1	23.0	28.2
Growth (%)	14.9	20.6	22.6
P/E	57.2	47.3	38.6
P/B	14.6	12.2	9.7
EV/EBITDA	36.8	32.5	26.7
ROE (%)	21.4	22.1	22.9
D/E	0.1	0.0	0.0

Quarterly Financials

Profit & Loss

	Q4FY22	Q4FY21	YoY Growth %	Q3FY22	QoQ Growth %
Sales	4,417	3,331	32.6	3,652	21.0
EBITDA	521	506	3.0	440	18.2
EBITDA margin	11.8	15.2	(340bps)	12.1	(30bps)
Depreciation	71	65	7.0	66	6.8
EBIT	450	441	2.1	374	20.2
Interest	19	24	55.0	12	55.0
Other Income	44	37	(9.5)	49	(9.5)
Exceptional Items	-	-	-	-	-
PBT	475	454	15.7	411	15.7
Tax	122	152	(20.0)	105	16.5
Share of profit from Associate	-	-	-	-	-
Minority Interest	-	-	-	-	-
Reported PAT	353	302	16.8	306	15.4
Adjustments	-	-	-	-	-
Adjusted PAT	353	302	16.8	306	15.4
No. of Shares	62.5	62.5	-	62.5	-
EPS (Rs)	5.6	4.8	16.8	4.9	15.4

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	15,316	17,312	16,316	18,874	6.5	9.0
EBITDA	2,013	2,450	2,040	2,472	1.3	0.9
Margin (%)	13.3	14.2	12.5	13.1	(0.8)	(1.1)
Adj. PAT	1,425	1,741	1,441	1,767	1.1	1.5
EPS	22.8	27.8	23.0	28.2	1.0	1.6

Standalone Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Sales	9,429	10,428	13,889	16,316	18,874
% change	-6.3	10.6	33.2	17.5	15.7
EBITDA	1,027	1,565	1,758	2,040	2,472
% change	-13.2	52.4	12.3	16.0	21.2
Depreciation	218	249	261	284	316
EBIT	809	1,316	1,497	1,756	2,156
Interest	20	73	53	36	35
Other Income	112	188	160	205	239
PBT	902	1,432	1,604	1,925	2,360
% change	-21.3	58.8	12.0	20.1	22.6
Tax	169	392	409	481	590
Tax Rate (%)	18.7%	27.4%	25.5%	25.0%	25.0%
Reported PAT	733	1,040	1,195	1,444	1,770
Adj.*	0	0	0	0	0
Adj. PAT	733	1,040	1,195	1,444	1,770
% change	-6.9	41.8	14.9	20.9	22.6
No. of shares (cr)	62.6	62.6	62.6	62.6	62.6
Adj EPS (Rs)	11.7	16.6	19.1	23.1	28.3
% change	-6.9	41.8	14.9	20.9	22.6
DPS (Rs)	10.2	3.0	6.5	6.5	6.5
CEPS (Rs)	15.2	20.6	23.2	27.6	33.3

CASH FLOW

Y.E March (Rs Cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Net inc. + Depn.	733	1,040	1,195	1,444	1,770
Non-cash adj.	113	317	208	210	231
Changes in W.C	(21)	(698)	342	(221)	(547)
C.F. Operation	825	658	1,744	1,433	1,453
Capital exp.	(359)	(123)	(253)	(926)	(800)
Change in inv.	(251)	(730)	(605)	(145)	(160)
Other invest.CF	62	89	95	205	239
C.F - Investment	(548)	(763)	(759)	(865)	(721)
Issue of equity	24	10	31	-	-
Issue/repay debt	(94)	414	(147)	(50)	(60)
Dividends paid	(641)	(188)	(407)	(407)	(407)
Other finance.CF	(5)	(46)	(24)	(36)	(35)
C.F - Finance	(716)	190	(547)	(493)	(502)
Chg. in cash	(439)	85	438	75	230
Closing cash	242	327	764	839	1,069

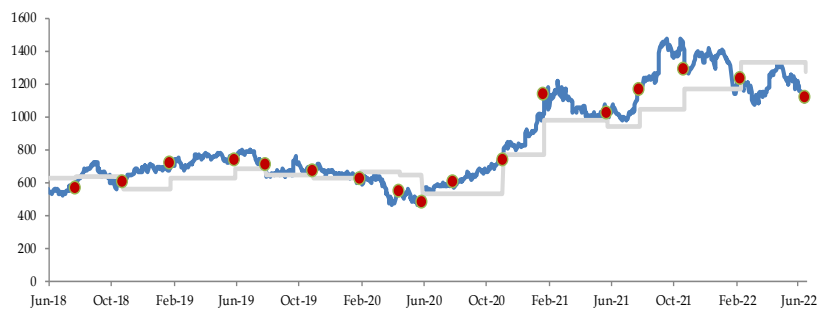
BALANCE SHEET

Y.E March (Rs Cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Cash	242	327	764	839	1069
Accounts Receivable	249	564	768	916	1060
Inventories	1872	2620	2968	3578	4114
Other Cur. Assets	1228	1928	2514	2548	2947
Investments	21	2	2	147	307
Gross Fixed Assets	2510	2653	3019	3819	4619
Net Fixed Assets	1899	1861	2021	2538	3021
CWIP	83	86	57	50	50
Intangible Assets	1453	1433	1413	1545	1545
Def. Tax (Net)	(287)	(339)	(351)	(447)	(565)
Other Assets	0	0	0	0	0
Total Assets	6761	8481	10155	11713	13548
Current Liabilities	2082	2461	3317	3816	4285
Provisions	246	316	329	402	465
Debt Funds	23	400	282	232	172
Other Liabilities	16	10	17	17	17
Equity Capital	63	63	63	63	63
Reserves & Surplus	4242	5102	5926	6963	8326
Shareholder's Fund	4305	5164	5989	7026	8388
Total Liabilities	6761	8481	10155	11713	13548
BVPS	69	83	96	113	134

RATIOS

Y.E March	FY20A	FY21A	FY22A	FY23E	FY24E
Profitab & Return					
EBITDA margin (%)	10.9	15.0	12.7	12.5	13.1
EBIT margin (%)	8.6	12.6	10.8	10.8	11.4
Net profit mgn.(%)	7.8	10.0	8.6	8.9	9.4
ROE (%)	17.3	22.0	21.4	22.2	23.0
ROCE (%)	13.6	17.1	15.8	17.5	18.2
W.C & Liquidity					
Receivables (days)	13.0	14.2	17.5	18.8	19.1
Inventory (days)	118.6	126.6	108.7	109.8	112.2
Payables (days)	137.5	128.1	112.4	119.6	118.2
Current ratio (x)	1.5	2.0	1.9	1.9	1.9
Quick ratio (x)	0.2	0.3	0.4	0.5	0.5
Turnover & Leverage					
Gross asset T.O (x)	4.3	4.0	4.9	4.8	4.5
Total asset T.O (x)	5.7	5.5	7.2	7.2	6.8
Int. covge. ratio (x)	41.0	18.1	28.0	49.4	61.8
Adj. debt/equity (x)	0.0	0.1	0.1	0.0	0.0
Valuation					
EV/Sales (x)	7.0	6.3	4.7	4.1	3.5
EV/EBITDA (x)	64.0	41.9	36.8	32.5	26.7
P/E (x)	91.2	64.3	55.9	46.3	37.8
P/BV (x)	23.4	17.9	14.6	12.2	9.7

Recommendation summary



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
23-January-18	Accumulate	624
23-July-18	Accumulate	633
22-October-18	Reduce	557
23-January-19	Reduce	622
30-May-19	Reduce	687
29-July-19	Reduce	642
29-October-19	Reduce	625
29-January-20	Hold	666
15-April-20	Buy	649
28-May-20	Accumulate	528
28-July-20	Reduce	530
02-November-20	Hold	766
22-January-21	Reduce	974
25-May-21	Reduce	937
28-July-21	Reduce	1,042
22-October-21	Reduce	1,165
10-February-22	Hold	1,336
20-June-22	BUY	1,245

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral	-	-	-

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated/Neutral : The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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