

July 22, 2022

## Q1FY23 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	HOLD		ACCUMULATE	
Target Price	1,251		1,369	
Sales (Rs. m)	1,61,246	1,83,654	1,56,825	1,77,545
% Chng.	2.8	3.4		
EBITDA (Rs. m)	18,686	22,925	20,814	25,025
% Chng.	(10.2)	(8.4)		
EPS (Rs.)	19.6	24.5	22.2	27.1
% Chng.	(11.4)	(9.9)		

### Key Financials - Standalone

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	1,04,279	1,38,885	1,61,246	1,83,654
EBITDA (Rs. m)	15,653	17,580	18,686	22,925
Margin (%)	15.0	12.7	11.6	12.5
PAT (Rs. m)	10,298	11,951	12,300	15,307
EPS (Rs.)	16.5	19.1	19.6	24.5
Gr. (%)	40.4	16.1	2.9	24.4
DPS (Rs.)	6.5	7.5	9.0	11.0
Yield (%)	0.5	0.6	0.7	0.9
RoE (%)	21.8	21.4	20.2	22.9
RoCE (%)	29.6	27.8	26.6	30.8
EV/Sales (x)	7.4	5.5	4.8	4.1
EV/EBITDA (x)	49.3	43.5	41.0	33.0
PE (x)	76.4	65.8	64.0	51.4
P/BV (x)	15.2	13.1	12.7	11.0

### Key Data

HVEL.BO | HAVL IN

52-W High / Low	Rs.1,504 / Rs.1,037
Sensex / Nifty	55,682 / 16,605
Market Cap	Rs.788bn/ \$ 9,850m
Shares Outstanding	627m
3M Avg. Daily Value	Rs.1145.1m

### Shareholding Pattern (%)

Promoter's	59.49
Foreign	23.10
Domestic Institution	8.95
Public & Others	8.45
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	13.7	1.2	13.9
Relative	7.2	7.3	6.8

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## Margin headwinds drives earnings cut

### Quick Pointers:

- Normalization of margins expected in Q4.
- Lloyd has reached in top 3 position in terms of market share.

**We have cut our FY23/FY24 earnings estimate by 11.4%/ 9.9% to reflect margin headwinds in the short term and downgrade HAVL to 'HOLD' from Accumulate on DCF based TP of Rs1,251 (earlier Rs1,369 earlier). We expect HAVL to be a key beneficiary from revival of Consumer and Industrial/Infra segments (25% of sales) as 1) it has diverse product portfolio covering 70% of household electric sockets 2) is amongst top 3 players in most product categories (except Lloyd) 3) Lloyd portfolio is slowly gaining traction and 4) focus is on innovation and expansion of distribution reach. We remain optimistic on the company's future growth prospects given 1) resilient demand momentum across segments 2) secular growth across Metro & Tier I/II cities, towns and 3) consumer behavioral changes aiding sustained market share gains from unorganized players. We estimate 13.7% earnings CAGR over FY21-23. Downgrade to 'HOLD'**

**Sales grew by 63%, PAT up by 4%** - Revenue grew by 63% YoY to ~Rs42.3bn (PLe ~Rs44.3bn), led by growth in Lloyd (+119% YoY), Cable (+48% YoY), Lighting (+77% YoY), ECD (+46% YoY) and Switchgear (+38% YoY). EBITDA grew 2% YoY to Rs3.6bn (PLe ~Rs4.8bn), while EBITDA margins contracted by 510bps YoY to 8.5% (PLe 12%). In terms of segmental EBIT margin, Wires and cables margin came at 7.3% (-830bps YoY), Lighting 16.5% (+140bps YoY), ECD 13.1% (+140bps YoY) and Switchgear 26.2% (-110bps YoY). Lloyd continues to see losses at Rs560mn. PBT grew by 4% YoY to Rs3.27bn, which reflects higher other income (Rs370mn vs Rs200mn in Q1FY22). Adj. PAT grew 4% YoY to Rs2.42bn (PLe Rs3.6bn). Cable margins were impacted due to time lag- a sudden and sharp decline in commodity cost was passed on, while holding high cost inventory. Renewed construction cycle is supporting switchgear sales. Net working capital days came at 23 vs 28 in Q4FY22. Net cash position stands at Rs28.9bn v/s Rs25.8bn at the end of Q4FY22.

**Concall Takeaways:** 1) Wires and cables inventory will normalize in next one month, whereas margins to normalize in next couple of quarters. In Q1FY23, volume growth was 40% YoY for Havells with high-single-digit 3 year CAGR. 2) Lloyd margins will normalize by Q4. Price hike has been held up so far. As new rating changes have been implemented, prices are gradually being passed on. No price hike taken in Q1FY23 vs Q4FY22. BEE rating change (Bureau of energy efficiency) for fans starts from 1st Jan 2022. 3) Rural market contributes around 5% in overall consumers' business 4) Capex of Rs7-8bn incurred for the current year. 5) Fans segments outlook is strong with more BLDC penetration. 6) Not much change in consumer behavior due to rising inflation. Under infra, there is element of down trending. Company is positive on demand outlook as commodity prices are corrected. 7) In H1, Lloyd would be in top 3 in terms of market share. It has completely regained market share.

**Exhibit 1: Q1FY23 Result Overview (Rs 42.3bn): Sales grew by 63% YoY; PAT grew by 4% YoY**

Y/e March	Q1FY23	Q1FY22	YoY gr. (%)	Q4FY22	FY22	FY21	YoY gr. (%)
<b>Net Sales</b>	<b>42,301</b>	<b>25,982</b>	<b>62.8</b>	<b>44,171</b>	<b>138,885</b>	<b>104,279</b>	<b>33.2</b>
Operating & Manufacturing Expenses	30,039	16,713	79.7	31,223	93,841	64,749	44.9
<i>% of Net Sales</i>	<i>71.0</i>	<i>64.3</i>	<i>6.7</i>	<i>70.7</i>	<i>67.6</i>	<i>62.1</i>	<i>5.5</i>
<b>Gross Profit</b>	<b>12,263</b>	<b>9,269</b>	<b>32.3</b>	<b>12,948</b>	<b>45,045</b>	<b>39,530</b>	<b>13.9</b>
<i>% of Net Sales</i>	<i>29.0</i>	<i>35.7</i>	<i>-6.7</i>	<i>29.3</i>	<i>32.4</i>	<i>37.9</i>	<i>-5.5</i>
Personnel Cost	3,021	2,325	29.9	2,753	10,147	8,853	14.6
<i>% of Net Sales</i>	<i>7.1</i>	<i>8.9</i>	<i>-1.8</i>	<i>6.2</i>	<i>7.3</i>	<i>8.5</i>	<i>-1.2</i>
Other Expenses	5,628	3,413	64.9	4,989	17,318	15,024	15.3
<i>% of Net Sales</i>	<i>13.3</i>	<i>13.1</i>	<i>0.2</i>	<i>11.3</i>	<i>12.5</i>	<i>14.4</i>	<i>-1.9</i>
Total Expenditure	38,688	22,451	72.3	38,965	121,305	88,627	36.9
<b>EBITDA</b>	<b>3,614</b>	<b>3,531</b>	<b>2.3</b>	<b>5,205</b>	<b>17,580</b>	<b>15,653</b>	<b>12.3</b>
<i>Margin (%)</i>	<i>8.5</i>	<i>13.6</i>	<i>-5.0</i>	<i>11.8</i>	<i>12.7</i>	<i>15.0</i>	<i>-2.4</i>
Other income	470	342	37.4	442	1,604	1,450	10.6
Depreciation	721	616	17.0	707	534	726	(26.5)
<b>EBIT</b>	<b>3,363</b>	<b>3,257</b>	<b>3.3</b>	<b>4,940</b>	<b>18,650</b>	<b>16,376</b>	<b>13.9</b>
Interest	98	110	(10.9)	191	2,608	2,489	4.8
<b>PBT before exceptional item</b>	<b>3,266</b>	<b>3,148</b>	<b>3.7</b>	<b>4,749</b>	<b>16,042</b>	<b>13,888</b>	<b>15.5</b>
Total Taxes	818	805	1.6	1,220	4,091	3,590	14.0
<i>ETR (%)</i>	<i>25.0</i>	<i>25.6</i>	<i>-0.5</i>	<i>25.7</i>	<i>25.5</i>	<i>25.8</i>	<i>-0.3</i>
<b>Adj. PAT</b>	<b>2,448</b>	<b>2,343</b>	<b>4.5</b>	<b>3,530</b>	<b>11,951</b>	<b>10,298</b>	<b>16.1</b>
Exceptional item	0	0	0	0	0	98	-100.0%
<b>PAT</b>	<b>2448</b>	<b>2343</b>	<b>4.5</b>	<b>3530</b>	<b>11,951</b>	<b>10,396</b>	<b>15.0</b>

Source: Company, PL

**Exhibit 2: Segmental Breakup: Core revenue grew by 49.6% Lloyd grew by 119.2% YoY**

Y/e March	Q1FY23	Q1FY22	YoY gr. (%)	Q4FY22	FY22	FY21	YoY gr. (%)
<b>Revenues</b>							
Switchgears	5,167	3,734	38.4	4,744	17,864	14,609	22.3
Cables	11,929	8,072	47.8	14,881	46,451	31,802	46.1
Lighting & Fixtures	3,711	2,099	76.8	3,994	13,709	10,846	26.4
Electrical Consumer Durables	8,381	5,760	45.5	8,698	30,669	23,770	29.0
Others	2,276	1,373	65.8	2,261	7,587	6,365	19.2
<b>Core Revenues</b>	<b>31,464</b>	<b>21,038</b>	<b>49.6</b>	<b>34,579</b>	<b>116,279</b>	<b>87,392</b>	<b>33.1</b>
Lloyd	10,837	4,944	119.2	9,592	22,606	16,888	33.9
	<b>42,301</b>	<b>25,982</b>	<b>62.8</b>	<b>44,171</b>	<b>138,885</b>	<b>104,279</b>	<b>33.2</b>
<b>EBIT</b>							
Switchgears	1,353	1,020	32.6	1,231	4,908	4,047	21.3
<i>EBIT margin (%)</i>	<i>26.2</i>	<i>27.3</i>	<i>-1.1</i>	<i>25.9</i>	<i>27.5</i>	<i>27.7</i>	<i>-0.2</i>
Cables	875	1,262	(30.7)	1,732	5,403	4,038	33.8
<i>EBIT margin (%)</i>	<i>7.3</i>	<i>15.6</i>	<i>-8.3</i>	<i>11.6</i>	<i>11.6</i>	<i>12.7</i>	<i>-1.1</i>
Lighting & Fixtures	611	317	92.6	617	2,576	2,041	26.2
<i>EBIT margin (%)</i>	<i>16.5</i>	<i>15.1</i>	<i>1.4</i>	<i>15.4</i>	<i>18.8</i>	<i>18.8</i>	<i>0.0</i>
Electrical Consumer Durables	1,098	673	63.1	1,501	4,576	4,037	13.3
<i>EBIT margin (%)</i>	<i>13.1</i>	<i>11.7</i>	<i>1.4</i>	<i>17.3</i>	<i>14.9</i>	<i>17.0</i>	<i>-2.1</i>
Others*	122	54	126.4	265	567	310	83.1
<i>EBIT margin (%)</i>	<i>5.4</i>	<i>3.9</i>	<i>1.4</i>	<i>11.7</i>	<i>7.5</i>	<i>4.9</i>	<i>2.6</i>
<b>Core EBIT</b>	<b>4,059</b>	<b>3,326</b>	<b>22.0</b>	<b>5,345</b>	<b>18,029</b>	<b>14,472</b>	<b>24.6</b>
<i>EBIT margin (%)</i>	<i>12.9</i>	<i>15.8</i>	<i>-2.9</i>	<i>15.5</i>	<i>15.5</i>	<i>16.6</i>	<i>-1.1</i>
Lloyd	(559)	103	(644.5)	-213	(711)	741	(195.9)
<i>EBIT margin (%)</i>	<i>-5.2</i>	<i>2.1</i>	<i>-7.2</i>	<i>-2.2</i>	<i>-3.1</i>	<i>4.4</i>	<i>-7.5</i>

Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Net Revenues</b>	<b>1,04,279</b>	<b>1,38,885</b>	<b>1,61,246</b>	<b>1,83,654</b>
YoY gr. (%)	10.6	33.2	16.1	13.9
Cost of Goods Sold	64,749	93,841	1,07,931	1,21,325
Gross Profit	39,530	45,045	53,315	62,329
Margin (%)	37.9	32.4	33.1	33.9
Employee Cost	8,853	10,147	12,577	14,325
Other Expenses	12,620	8,818	11,329	12,682
<b>EBITDA</b>	<b>15,653</b>	<b>17,580</b>	<b>18,686</b>	<b>22,925</b>
YoY gr. (%)	52.4	12.3	6.3	22.7
Margin (%)	15.0	12.7	11.6	12.5
Depreciation and Amortization	2,489	2,608	2,783	3,311
<b>EBIT</b>	<b>13,164</b>	<b>14,972</b>	<b>15,903</b>	<b>19,614</b>
Margin (%)	12.6	10.8	9.9	10.7
Net Interest	726	534	508	546
Other Income	1,450	1,604	1,104	1,465
<b>Profit Before Tax</b>	<b>13,888</b>	<b>16,042</b>	<b>16,499</b>	<b>20,533</b>
Margin (%)	13.3	11.6	10.2	11.2
Total Tax	3,590	4,091	4,199	5,226
Effective tax rate (%)	25.8	25.5	25.5	25.5
<b>Profit after tax</b>	<b>10,298</b>	<b>11,951</b>	<b>12,300</b>	<b>15,307</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>10,298</b>	<b>11,951</b>	<b>12,300</b>	<b>15,307</b>
YoY gr. (%)	40.5	16.1	2.9	24.4
Margin (%)	9.9	8.6	7.6	8.3
Extra Ord. Income / (Exp)	98	-	-	-
<b>Reported PAT</b>	<b>10,396</b>	<b>11,951</b>	<b>12,300</b>	<b>15,307</b>
YoY gr. (%)	41.8	15.0	2.9	24.4
Margin (%)	10.0	8.6	7.6	8.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	10,396	11,951	12,300	15,307
<b>Equity Shares O/s (m)</b>	<b>626</b>	<b>626</b>	<b>626</b>	<b>626</b>
<b>EPS (Rs)</b>	<b>16.5</b>	<b>19.1</b>	<b>19.6</b>	<b>24.5</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>42,131</b>	<b>42,531</b>	<b>52,148</b>	<b>55,644</b>
Tangibles	29,801	30,190	39,707	43,103
Intangibles	12,330	12,341	12,441	12,541
<b>Acc: Dep / Amortization</b>	<b>12,333</b>	<b>11,300</b>	<b>14,084</b>	<b>17,395</b>
Tangibles	11,194	9,976	12,487	15,524
Intangibles	1,139	1,324	1,596	1,871
<b>Net fixed assets</b>	<b>29,798</b>	<b>31,230</b>	<b>38,064</b>	<b>38,249</b>
Tangibles	18,607	20,213	27,220	27,580
Intangibles	11,191	11,017	10,844	10,670
Capital Work In Progress	899	572	1,000	1,000
Goodwill	3,105	3,105	3,105	3,105
Non-Current Investments	216	3,163	464	493
Net Deferred tax assets	(3,391)	(3,506)	(3,465)	(3,414)
Other Non-Current Assets	1,313	1,110	1,440	1,567
<b>Current Assets</b>				
Investments	3,063	1,534	1,534	1,534
Inventories	26,199	29,681	30,924	35,221
Trade receivables	5,603	7,648	6,185	7,044
Cash & Bank Balance	16,247	25,358	21,099	29,078
Other Current Assets	1,092	1,079	1,612	1,837
<b>Total Assets</b>	<b>88,202</b>	<b>1,05,051</b>	<b>1,06,240</b>	<b>1,20,052</b>
<b>Equity</b>				
Equity Share Capital	626	626	626	626
Other Equity	51,019	59,256	61,467	71,141
<b>Total Networkth</b>	<b>51,645</b>	<b>59,882</b>	<b>62,093</b>	<b>71,767</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	3,937	2,727	1,927	1,127
Provisions	584	763	726	826
Other non current liabilities	46	90	56	57
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	1,227	-	-
Trade payables	15,968	23,794	23,656	26,592
Other current liabilities	11,604	11,269	13,299	15,071
<b>Total Equity &amp; Liabilities</b>	<b>88,202</b>	<b>1,05,051</b>	<b>1,06,525</b>	<b>1,20,337</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	13,888	16,042	16,499	20,533
Add. Depreciation	2,489	2,608	2,783	3,311
Add. Interest	726	534	508	546
Less Financial Other Income	1,450	1,604	1,104	1,465
Add. Other	(824)	1,079	(943)	82
Op. profit before WC changes	16,279	20,263	18,848	24,472
Net Changes-WC	(6,985)	3,308	92	(792)
Direct tax	(2,714)	(4,091)	(4,199)	(5,226)
<b>Net cash from Op. activities</b>	<b>6,579</b>	<b>19,480</b>	<b>14,742</b>	<b>18,455</b>
Capital expenditures	(1,536)	(3,714)	(10,045)	(3,496)
Interest / Dividend Income	894	-	-	-
Others	(6,987)	(5,938)	7,726	-
<b>Net Cash from Invt. activities</b>	<b>(7,629)</b>	<b>(9,652)</b>	<b>(2,319)</b>	<b>(3,496)</b>
Issue of share cap. / premium	98	-	-	-
Debt changes	4,233	(1,210)	(800)	(800)
Dividend paid	(1,878)	(5,949)	(8,138)	(5,634)
Interest paid	(559)	(534)	(508)	(546)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>1,894</b>	<b>(7,693)</b>	<b>(9,446)</b>	<b>(6,980)</b>
<b>Net change in cash</b>	<b>845</b>	<b>2,136</b>	<b>2,976</b>	<b>7,979</b>
Free Cash Flow	5,044	15,766	4,696	14,958

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
<b>Net Revenue</b>	<b>32,210</b>	<b>36,523</b>	<b>44,171</b>	<b>42,301</b>
YoY gr. (%)	31.4	15.4	32.6	62.8
Raw Material Expenses	21,175	24,730	31,223	30,039
Gross Profit	11,035	11,793	12,948	12,263
Margin (%)	34.3	32.3	29.3	29.0
<b>EBITDA</b>	<b>4,436</b>	<b>4,403</b>	<b>5,205</b>	<b>3,614</b>
YoY gr. (%)	5.5	(13.3)	2.9	2.3
Margin (%)	13.8	12.1	11.8	8.5
Depreciation / Depletion	623	662	707	721
<b>EBIT</b>	<b>3,813</b>	<b>3,742</b>	<b>4,498</b>	<b>2,893</b>
Margin (%)	11.8	10.2	10.2	6.8
Net Interest	111	123	191	98
Other Income	333	488	442	470
<b>Profit before Tax</b>	<b>4,035</b>	<b>4,107</b>	<b>4,749</b>	<b>3,266</b>
Margin (%)	12.5	11.2	10.8	7.7
Total Tax	1,019	1,047	1,220	841
Effective tax rate (%)	25.3	25.5	25.7	25.8
<b>Profit after Tax</b>	<b>3,016</b>	<b>3,059</b>	<b>3,530</b>	<b>2,424</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>3,016</b>	<b>3,059</b>	<b>3,530</b>	<b>2,424</b>
YoY gr. (%)	6.9	(12.4)	5.3	3.5
Margin (%)	9.4	8.4	8.0	5.7
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>3,016</b>	<b>3,059</b>	<b>3,530</b>	<b>2,424</b>
YoY gr. (%)	(7.2)	(12.4)	16.8	3.5
Margin (%)	9.4	8.4	8.0	5.7
Other Comprehensive Income	-	-	88	-
<b>Total Comprehensive Income</b>	<b>3,016</b>	<b>3,059</b>	<b>3,617</b>	<b>2,424</b>
Avg. Shares O/s (m)	626	626	626	626
<b>EPS (Rs)</b>	<b>4.8</b>	<b>4.9</b>	<b>5.6</b>	<b>3.9</b>

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Per Share(Rs)</b>				
EPS	16.5	19.1	19.6	24.5
CEPS	20.4	23.3	24.1	29.7
BVPS	82.5	95.7	99.2	114.6
FCF	8.1	25.2	7.5	23.9
DPS	6.5	7.5	9.0	11.0
<b>Return Ratio(%)</b>				
RoCE	29.6	27.8	26.6	30.8
ROIC	32.5	34.0	28.7	38.6
RoE	21.8	21.4	20.2	22.9
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.3)	(0.4)	(0.3)	(0.4)
Net Working Capital (Days)	55	36	30	31
<b>Valuation(x)</b>				
PER	76.4	65.8	64.0	51.4
P/B	15.2	13.1	12.7	11.0
P/CEPS	61.5	54.0	52.2	42.3
EV/EBITDA	49.3	43.5	41.0	33.0
EV/Sales	7.4	5.5	4.8	4.1
Dividend Yield (%)	0.5	0.6	0.7	0.9

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-Jul-22	Accumulate	1,369	1,133
2	06-May-22	Accumulate	1,369	1,249
3	27-Apr-22	Accumulate	1,378	1,313
4	11-Apr-22	Accumulate	1,378	1,268
5	21-Jan-22	Accumulate	1,381	1,309
6	07-Jan-22	Accumulate	1,400	1,380
7	21-Oct-21	Accumulate	1,400	1,286
8	06-Oct-21	Accumulate	1,414	1,390

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bajaj Electricals	Accumulate	1,091	1,077
2	Crompton Greaves Consumer Electricals	BUY	534	350
3	Havells India	Accumulate	1,369	1,133
4	KEI Industries	Accumulate	1,273	1,198
5	Polycab India	Hold	2,472	2,150
6	Voltas	Hold	1,071	966

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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