

January 19, 2023

Q3FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	1,447		1,442	
Sales (Rs. m)	1,91,053	2,14,723	1,86,974	2,12,602
% Chng.	2.2	1.0		
EBITDA (Rs. m)	21,716	25,742	21,373	25,705
% Chng.	1.6	0.1		
EPS (Rs.)	25.3	30.7	24.9	30.6
% Chng.	1.9	-		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	1,39,385	1,68,528	1,91,053	2,14,723
EBITDA (Rs. m)	17,604	16,520	21,716	25,742
Margin (%)	12.6	9.8	11.4	12.0
PAT (Rs. m)	11,965	11,156	15,855	19,189
EPS (Rs.)	19.1	17.8	25.3	30.7
Gr. (%)	14.6	(6.8)	42.1	21.0
DPS (Rs.)	4.5	5.0	7.5	9.5
Yield (%)	0.4	0.4	0.6	0.8
RoE (%)	21.4	17.2	20.9	21.4
RoCE (%)	27.5	22.9	28.2	28.9
EV/Sales (x)	5.2	4.3	3.7	3.3
EV/EBITDA (x)	41.6	43.7	32.9	27.3
PE (x)	63.1	67.6	47.6	39.3
P/BV (x)	12.6	10.8	9.2	7.8

Key Data

HVEL.BO | HAVL IN

52-W High / Low	Rs.1,406 / Rs.1,025
Sensex / Nifty	60,858 / 18,108
Market Cap	Rs.755bn/ \$ 9,283m
Shares Outstanding	627m
3M Avg. Daily Value	Rs.972.17m

Shareholding Pattern (%)

Promoter's	59.46
Foreign	22.60
Domestic Institution	10.51
Public & Others	7.43
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	3.7	(4.2)	(7.9)
Relative	5.3	(13.8)	(9.0)

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B2B driving growth, margin expanded

Quick Pointers:

- Surprise in cable volumes and margins; Beat in ECD revenue by 3.5%
- Lloyd growth momentum continues with reduced losses QoQ.

We tweak our FY23/FY24 earnings upwards and maintain 'BUY' rating on Havells India (HAVL IN). Improvement in ECD mostly with fan destocking and expected price hike, robust performance in cable business and expected sequential reduction of losses in Lloyd with reduction in high cost inventory & price hike, will augur well for Havells in coming quarters. We are optimistic on long term growth prospects considering 1) its diverse product portfolio covering 70% of household electric sockets, 2) is amongst top 3 players in most product categories 3) focus is on innovation and continuously driving brand affinity and 4) expanding distribution reach with emphasis on untapped rural market (through rural vistaar project covered 40,000 outlets in FY22 and planned opening of >1000 Utsav stores by FY23). We estimate 16.9% earnings CAGR over FY22-25 and assign a DCF based target price of Rs1,447. Maintain 'BUY'.

Sales grew by 12.6%, while PAT down by 7.3%: Revenue grew by 12.6% YoY to ~Rs41.3bn (PLe ~Rs38.1bn), led by growth in Lloyd (+30% YoY), Cable (+17% YoY), ECD (+4.5% YoY), Switchgear (+3.7% YoY) and Lighting (+2.5% YoY). EBITDA declined 3.7% YoY to Rs4.2bn (PLe ~Rs3.3bn), while EBITDA margins contracted by 170bps YoY to 10.3%, (PLe 8.7%). In terms of segmental EBIT margin, Cables margin came in at 11.5% (+110bps YoY), Lighting at 12.7% (-850bps YoY), ECD at 13.1% (+50bps YoY) and Switchgear at 24.7% (-450bps YoY). Lloyd continues to see losses at Rs600mn. PBT declined by 7.1% YoY to Rs3.8bn, which reflects lower other income (Rs394mn in Q3FY23 vs Rs488mn in Q3FY22). Adj. PAT declined 7.3% YoY to Rs2.84bn (PLe Rs2.24bn). Cable margins benefited from stable raw material prices. Net working capital days came at 42 (Vs 37 in Q3FY22). Net cash position stands at Rs2.2bn at the end of Q3FY23 vs Rs2.6bn at the end of FY22.

Concall Takeaways: 1) Cables and wires reported improvement in margin post liquidation of high-cost inventory and is expected to reach 14-16% with normalization. In Q3FY23, volume growth was 20-22% YoY, 2) Fans segments outlook is strong with de-stocking in channel. BEE rating transition is well managed with expected price hike of 3-4% in Q4FY23. Management expects consolidation in market with regulation change, which will benefit branded players like Havells. ECD segment normalized margin expectation to be 13-15%, 3) Lloyds ACs will see price hikes of 3-5% in Q4FY23, Lloyd has high cost inventory which will phase out in Q4 and we can see sequential improvement in margins, 4) Lighting margins were impacted by new launches and promotional costs, 5) Switchgear business impacted due to slow down in new construction (in Q3FY23); management believe its temporary phenomena because of delay in purchase, 6) Slowdown in demand seen in B2C business due to the inflationary environment, revenue will be driven by B2B as recovery of B2C demand may take longer than a quarter.

Exhibit 1: Q3FY23 Result Overview (Rs mn)

Y/e March	Q3FY23	Q3FY22	YoY gr. (%)	Q2FY23	QoQ gr. (%)	9MFY23	9MFY22	YoY gr. (%)
Net Sales	41,276	36,642	12.6	36,795	12.2	1,20,515	95,122	26.7
Gross Profit	13,620	11,816	15.3	11,356	19.9	37,263	32,203	15.7
<i>% of N S</i>	<i>33.0</i>	<i>32.2</i>	<i>0.7</i>	<i>30.9</i>	<i>213.3%</i>	<i>30.9</i>	<i>33.9</i>	<i>-2.9</i>
Other Expenses	9,381	7,414	26.5	8,488	10.5	26,543	19,799	34.1
<i>% of N S</i>	<i>22.7</i>	<i>20.2</i>	<i>2.5</i>	<i>23.1</i>	<i>-33.8%</i>	<i>22.0</i>	<i>20.8</i>	<i>1.2</i>
EBITDA	4,238	4,402	(3.7)	2,869	47.7	10,720	12,404	(13.6)
<i>Margin (%)</i>	<i>10.3</i>	<i>12.0</i>	<i>-1.7</i>	<i>7.8</i>	<i>247.2%</i>	<i>8.9</i>	<i>13.0</i>	<i>-4.1</i>
Depreciation	746	662	12.7	721	3.4	2,187	1,902	15.0
Interest	73	123	(41.0)	68	6.3	239	344	(30.6)
Other income	394	488	(19.3)	438	(10.0)	1,310	1,163	12.6
PBT	3,814	4,106	(7.1)	2,517	51.5	9,604	11,322	(15.2)
Tax	979	1,047	(6.6)	647	51.3	2,467	2,883	(14.4)
<i>ETR (%)</i>	<i>25.7</i>	<i>25.5</i>	<i>0.2</i>	<i>25.7</i>	<i>-3.6%</i>	<i>25.7</i>	<i>25.5</i>	<i>0.2</i>
Adj. PAT	2,835	3,058	(7.3)	1,870	51.6	7,137	8,439	(15.4)

Source: Company, PL

Exhibit 2: Segmental Breakup (Rs mn)

Y/e March	Q3FY23	Q3FY22	YoY gr. (%)	Q2FY23	QoQ gr. (%)	9MFY23	9MFY22	YoY gr. (%)
Revenues								
Switchgears	5,143	4,960	3.7	4,879	5.42	15,192	13,215	15.0
Cables	14,121	12,058	17.1	13,594	3.88	39,645	31,570	25.6
Lighting & Fixtures	4,232	4,129	2.5	4,018	5.33	11,986	9,863	21.5
Electrical Consumer Durables	9,357	8,955	4.5	7,735	20.98	25,488	22,012	15.8
Others	2,319	1,841	25.9	2,372	-2.24	6,967	5,326	30.8
Core Revenues	35,173	31,944	10.1	32,597	7.90	99,276	81,986	21.1
Lloyd	6,103	4,698	29.9	4,198	45.39	21,239	13,136	61.7
Total Revenues	41,276	36,642	12.6	36,795	12.18	1,20,515	95,122	26.7
EBIT								
Switchgears	1,271	1,448	(12.3)	1,220	4.1	3,844	3,697	4.0
<i>EBIT margin (%)</i>	<i>24.7</i>	<i>29.2</i>	<i>-4.5</i>	<i>25.0</i>	<i>-0.3</i>	<i>25.3</i>	<i>28.0</i>	<i>-2.7</i>
Cables	1,628	1,256	29.6	859	89.5	3,362	3,671	(8.4)
<i>EBIT margin (%)</i>	<i>11.5</i>	<i>10.4</i>	<i>1.1</i>	<i>6.3</i>	<i>5.2</i>	<i>8.5</i>	<i>11.6</i>	<i>-3.1</i>
Lighting & Fixtures	536	874	(38.7)	576	-7.0	1,722	1,989	(13.5)
<i>EBIT margin (%)</i>	<i>12.7</i>	<i>21.2</i>	<i>-8.5</i>	<i>14.3</i>	<i>-1.7</i>	<i>14.4</i>	<i>20.2</i>	<i>-5.8</i>
Electrical Consumer Durables	1,228	1,128	8.9	900	36.4	3,227	3,061	5.4
<i>EBIT margin (%)</i>	<i>13.1</i>	<i>12.6</i>	<i>0.5</i>	<i>11.6</i>	<i>1.5</i>	<i>12.7</i>	<i>13.9</i>	<i>-1.2</i>
Others	72	44	63.9	41	76.7	235	300	(21.8)
<i>EBIT margin (%)</i>	<i>3.1</i>	<i>2.4</i>	<i>0.7</i>	<i>1.7</i>	<i>1.4</i>	<i>3.4</i>	<i>5.6</i>	<i>-2.3</i>
Core EBIT	4,734	4,750	(0.3)	3,596	31.7	12,388	12,718	(2.6)
<i>EBIT margin (%)</i>	<i>13.5</i>	<i>14.9</i>	<i>-1.4</i>	<i>11.0</i>	<i>2.4</i>	<i>12.5</i>	<i>15.5</i>	<i>-3.0</i>
Lloyd	(600)	-429	40.0	-840	-28.5	(1,999)	-520	284.7
<i>EBIT margin (%)</i>	<i>-9.8</i>	<i>-9.1</i>	<i>-0.7</i>	<i>-20.0</i>	<i>10.2</i>	<i>-9.4</i>	<i>-4.0</i>	<i>-5.5</i>
Total EBIT	4,134	4,322	(4.4)	2,756	50.0	10,389	12,198	(14.8)
<i>EBIT margin (%)</i>	<i>10.0</i>	<i>11.8</i>	<i>-1.8</i>	<i>7.5</i>	<i>2.5</i>	<i>8.6</i>	<i>12.8</i>	<i>-4.2</i>

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	1,39,385	1,68,528	1,91,053	2,14,723
YoY gr. (%)	33.3	20.9	13.4	12.4
Cost of Goods Sold	94,220	1,15,621	1,25,479	1,40,222
Gross Profit	45,165	52,907	65,575	74,501
Margin (%)	32.4	31.4	34.3	34.7
Employee Cost	10,207	12,471	14,329	15,889
Other Expenses	8,854	13,008	17,111	18,913
EBITDA	17,604	16,520	21,716	25,742
YoY gr. (%)	12.0	(6.2)	31.4	18.5
Margin (%)	12.6	9.8	11.4	12.0
Depreciation and Amortization	2,609	2,933	3,134	3,297
EBIT	14,995	13,587	18,582	22,445
Margin (%)	10.8	8.1	9.7	10.5
Net Interest	534	315	170	195
Other Income	1,604	1,732	2,855	3,490
Profit Before Tax	16,066	15,004	21,267	25,740
Margin (%)	11.5	8.9	11.1	12.0
Total Tax	4,101	3,849	5,412	6,551
Effective tax rate (%)	25.5	25.7	25.5	25.5
Profit after tax	11,965	11,156	15,855	19,189
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	11,965	11,156	15,855	19,189
YoY gr. (%)	14.6	(6.8)	42.1	21.0
Margin (%)	8.6	6.6	8.3	8.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	11,965	11,156	15,855	19,189
YoY gr. (%)	13.5	(6.8)	42.1	21.0
Margin (%)	8.6	6.6	8.3	8.9
Other Comprehensive Income	62	-	-	-
Total Comprehensive Income	12,027	11,156	15,855	19,189
Equity Shares O/s (m)	626	626	626	626
EPS (Rs)	19.1	17.8	25.3	30.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	42,535	46,270	48,870	50,970
Tangibles	30,194	33,829	36,329	38,329
Intangibles	12,341	12,441	12,541	12,641
Acc: Dep / Amortization	11,304	14,237	17,371	20,667
Tangibles	9,980	12,640	15,500	18,519
Intangibles	1,324	1,596	1,871	2,148
Net fixed assets	31,231	32,033	31,499	30,303
Tangibles	20,215	21,189	20,830	19,810
Intangibles	11,017	10,844	10,670	10,493
Capital Work In Progress	572	1,000	1,000	1,000
Goodwill	3,105	3,105	3,105	3,105
Non-Current Investments	3,166	3,193	3,222	3,253
Net Deferred tax assets	(3,506)	(3,469)	(3,416)	(3,351)
Other Non-Current Assets	1,110	1,471	1,598	1,733
Current Assets				
Investments	1,534	4,034	8,534	8,534
Inventories	29,681	32,321	36,640	44,121
Trade receivables	7,663	6,464	7,328	8,236
Cash & Bank Balance	25,464	28,671	32,531	44,299
Other Current Assets	1,137	1,685	1,911	2,147
Total Assets	1,05,233	1,14,827	1,28,331	1,47,812
Equity				
Equity Share Capital	626	626	626	626
Other Equity	59,403	68,977	81,702	96,196
Total Network	60,029	69,603	82,328	96,822
Non-Current Liabilities				
Long Term borrowings	2,727	27	27	27
Provisions	763	758	860	966
Other non current liabilities	90	58	59	66
Current Liabilities				
ST Debt / Current of LT Debt	1,227	-	-	-
Trade payables	23,800	25,342	24,064	26,892
Other current liabilities	11,306	13,871	15,652	17,523
Total Equity & Liabilities	1,05,233	1,14,827	1,28,331	1,47,812

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	16,066	15,004	21,267	25,740
Add. Depreciation	2,609	2,933	3,134	3,297
Add. Interest	534	315	170	195
Less Financial Other Income	1,604	1,732	2,855	3,490
Add. Other	(1,024)	(530)	126	129
Op. profit before WC changes	18,184	17,723	24,697	29,361
Net Changes-WC	3,243	592	(5,024)	(4,052)
Direct tax	(4,149)	(3,849)	(5,412)	(6,551)
Net cash from Op. activities	17,278	14,466	14,260	18,758
Capital expenditures	(2,528)	(4,163)	(2,600)	(2,100)
Interest / Dividend Income	956	-	-	-
Others	(6,014)	(2,500)	(4,500)	(10,000)
Net Cash from Inv. activities	(7,586)	(6,663)	(7,100)	(12,100)
Issue of share cap. / premium	311	-	-	-
Debt changes	(1,467)	(2,700)	-	-
Dividend paid	(4,071)	(3,397)	(3,130)	(4,695)
Interest paid	(245)	(315)	(170)	(195)
Others	-	-	-	-
Net cash from Fin. activities	(5,472)	(6,412)	(3,300)	(4,890)
Net change in cash	4,221	1,390	3,860	1,768
Free Cash Flow	14,467	10,518	11,365	16,334

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	19.1	17.8	25.3	30.7
CEPS	23.3	22.5	30.3	35.9
BVPS	95.9	111.2	131.5	154.7
FCF	23.1	16.8	18.2	26.1
DPS	4.5	5.0	7.5	9.5
Return Ratio(%)				
RoCE	27.5	22.9	28.2	28.9
ROIC	33.5	29.6	39.7	45.5
RoE	21.4	17.2	20.9	21.4
Balance Sheet				
Net Debt : Equity (x)	(0.4)	(0.5)	(0.5)	(0.5)
Net Working Capital (Days)	35	29	38	43
Valuation(x)				
PER	63.1	67.6	47.6	39.3
P/B	12.6	10.8	9.2	7.8
P/CEPS	51.8	53.6	39.7	33.6
EV/EBITDA	41.6	43.7	32.9	27.3
EV/Sales	5.2	4.3	3.7	3.3
Dividend Yield (%)	0.4	0.4	0.6	0.8

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Revenue	44,171	42,301	25,982	41,276
YoY gr. (%)	32.3	62.1	(19.8)	12.6
Raw Material Expenses	31,301	30,039	16,713	27,656
Gross Profit	12,869	12,263	9,269	13,620
Margin (%)	29.1	29.0	35.7	33.0
EBITDA	5,106	3,614	3,531	4,238
YoY gr. (%)	0.5	1.7	(20.6)	(3.7)
Margin (%)	11.6	8.5	13.6	10.3
Depreciation / Depletion	707	721	616	746
EBIT	4,399	2,893	2,915	3,492
Margin (%)	10.0	6.8	11.2	8.5
Net Interest	191	98	110	73
Other Income	441	470	342	394
Profit before Tax	4,650	3,266	3,148	3,814
Margin (%)	10.5	7.7	12.1	9.2
Total Tax	1,218	841	805	979
Effective tax rate (%)	26.2	25.8	25.6	25.7
Profit after Tax	3,432	2,424	2,343	2,835
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	3,432	2,424	2,343	2,835
YoY gr. (%)	13.0	2.8	(22.5)	(7.3)
Margin (%)	7.8	5.7	9.0	6.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,432	2,424	2,343	2,835
YoY gr. (%)	13.0	2.8	(22.5)	(7.3)
Margin (%)	7.8	5.7	9.0	6.9
Other Comprehensive Income	88	(9)	-	(3)
Total Comprehensive Income	3,520	2,416	2,343	2,832
Avg. Shares O/s (m)	626	627	626	626
EPS (Rs)	5.5	3.9	3.7	4.5

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jan-23	BUY	1,442	1,195
2	22-Jul-22	Hold	1,251	1,257
3	04-Jul-22	Accumulate	1,369	1,133
4	06-May-22	Accumulate	1,369	1,249
5	27-Apr-22	Accumulate	1,378	1,313
6	11-Apr-22	Accumulate	1,378	1,268
7	21-Jan-22	Accumulate	1,381	1,309

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bajaj Electricals	Hold	1,147	1,196
2	Crompton Greaves Consumer Electricals	BUY	435	338
3	Havells India	BUY	1,442	1,195
4	KEI Industries	Hold	1,555	1,503
5	Polycab India	Hold	2,651	2,626
6	Voltas	BUY	1,030	815

PL's Recommendation Nomenclature (Absolute Performance)

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



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