

Retail Equity Research
Havells India Ltd
Electrical Equipment

BUY

BSE CODE : 517354 NSE CODE: HAVELLS
BLOOMBERG CODE: HAVL:IN SENSEX : 60,622

12 Months Investment Period Rating as per Large Cap
CMP Rs.1,153 TARGET Rs.1,311 RETURN 14% ↑
(Closing: 20-01-23)

KEY CHANGES:

TARGET ↑

RATING ↑

EARNINGS ↑

Margin pressure to ease gradually....

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.

- Revenue grew by 13% YoY, exceeding our expectation, aided by higher growth in cables & Lloyd.
- Due to higher costs, EBITDA margins fell by 180 bps YoY to 10.3%. But, on a sequential basis, margins improved by 250 bps, indicating gradual improvement going ahead.
- Cost pressure is likely to persist in the very short term due to volatility in RM prices and growing competition.
- We expect strong earnings recovery in FY24 as RM prices begin to normalise and revenue growth is likely to be supported by volume growth.
- We believe that the worst impact on margins is behind us. We value HAVL at a P/E of 43x (14% discount to 5-year avg.) as we roll forward to FY25E and upgrade our rating to BUY from SELL with a target price of Rs.1,311.

FY24 growth outlook healthy....

Q3FY23 revenue grew by 13% YoY, largely led by cables & Lloyd. Revenue from other segments, such as switch gears, Lighting & fixtures and consumer durables, grew by modest 3-5%, largely on account of weak B2C demand on account of high inflation. Furthermore, transition to new Bureau of Energy Efficient (BEE) standards impacted the consumer durables volumes. Higher rating fans observed destocking because the price increase in higher rated fans was not significant, while lower rated fans saw restocking. B2B volume remained healthy on account of infra and real estate demand. In the near term, we expect the overall demand scenario for the sector to remain subdued due to higher inflation. However, we expect HAVL to benefit from a strong presence in Tier-2 towns, rural penetration and gradual normalisation in RM prices. We expect revenue to grow by 16% over FY22-25E.

Margins to improve...

Q3FY23 EBITDA declined by 4% YoY. Margins dropped by 180bps YoY to 10.3% on account of normalisation costs in-line with pre-covid levels. Ad-spends has normalised to pre-covid levels, was at 3.1% of net sales. Consequently, PAT declined by 7% YoY. However, on a sequential basis, EBITDA margins have improved by 250bps, an indication of likely improvement in margins going ahead. However, we marginally decrease our EBITDA margin estimates by 50bps for FY23 to 9.3%, to factor in higher brand spending going ahead. We expect PAT to grow by 17% over FY22-25E.

Valuations

We expect HAVL's improved retail presence, market share gains across segments and normalisation of RM prices, will drive earnings. Though inflation remains elevated, we believe that the worst is over and margins are expected to normalise gradually going ahead. We value HAVL at a P/E of 43x (14% discount to 5-year historical average) as we roll forward to FY25E and upgrade our rating to Buy from Sell with a target price of Rs.1,311.

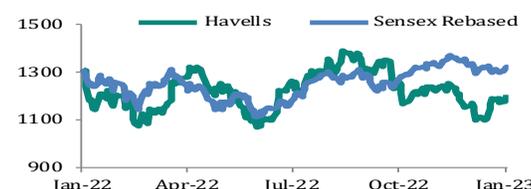
Company Data

Market Cap (cr)	Rs.72,089
Enterprise Value (cr)	Rs.71,943
Outstanding Shares (cr)	62.5
Free Float	40.5%
Dividend Yield	0.62%
52 week high	Rs.1,406
52 week low	Rs.1,038
6m average volume (cr)	0.1
Beta	0.94
Face value	Rs.1

Shareholding (%)	Q1FY23	Q2FY23	Q3FY23
Promoters	59.5	59.5	59.5
FII's	23.1	23.3	22.7
MFs/Institutions	8.9	8.9	10.2
Public	5.9	5.7	5.8
Others	2.3	2.6	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	3.4%	-1.6%	-7.8%
Absolute Sensex	2.6%	8.5%	1.3%
Relative Return*	0.8%	-10.2%	-9.1%

*over or under performance to benchmark index



Standalone (cr)	FY23E	FY24E	FY25E
Sales	16,728	19,232	21,768
Growth (%)	20.4	15.0	13.2
EBITDA	1,559	2,250	2,656
EBITDA Margin(%)	9.3	11.7	12.2
PAT Adj.	1,064	1,609	1,907
Growth (%)	(11.0)	51.2	18.5
Adjusted EPS	17.0	25.7	30.5
Growth (%)	(11.0)	51.2	18.5
P/E	67.8	44.8	37.8
P/B	14.1	11.4	9.2
EV/EBITDA	46.1	32.0	27.0
ROE (%)	16.8	22.2	22.2
D/E	0.0	0.0	0.0

ANIL R
Research Analyst



Quarterly Financials

Profit & Loss

Rs.cr	Q3FY23	Q3FY22	YoY Growth (%)	9MFY23	9MFY22	QoQ Growth (%)
Sales	4,120	3,652	12.8	12,019	9,471	27.0
EBITDA	424	440	(3.8)	1,072	1,237	(13.3)
EBITDA margin	10.3	12.1	(180bps)	8.9	13.1	(410bps)
Depreciation	75	66	12.7	219	190	15.0
EBIT	349	374	(6.7)	853	1,047	(18.5)
Interest	7	12	(40.8)	24	34	(30.5)
Other Income	40	49	(18.2)	130	116	12.0
Exceptional Items	-	-	-	-	-	-
PBT	382	411	(7.0)	960	1,129	(15.0)
Tax	98	105	(6.6)	247	287	(14.1)
Share of profit from Associate	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-
Reported PAT	284	306	(7.2)	713	842	(15.3)
Adjustments	-	-	-	-	-	-
Adjusted PAT	284	306	(7.2)	713	842	(15.3)
No. of Shares	62.5	62.5	-	62.5	62.5	-
EPS (Rs)	4.5	4.9	(7.2)	11.4	13.4	(15.3)

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	16,289	18,733	16,728	19,232	2.7	2.7
EBITDA	1,596	2,210	1,559	2,250	(2.3)	1.8
Margin (%)	9.8	11.8	9.3	11.7	(50bps)	(10bps)
Adj. PAT	1,095	1,577	1,064	1,609	(3.0)	2.0
EPS	17.5	25.2	17.0	25.7	(3.0)	2.0

Standalone Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E
Sales	9,429	10,428	13,889	16,728	19,232	21,768
% change	(6.3)	10.6	33.2	20.4	15.0	13.2
EBITDA	1,027	1,565	1,758	1,559	2,250	2,656
% change	(13.2)	52.4	12.3	(11.3)	44.3	18.0
Depreciation	218	249	261	295	338	384
EBIT	809	1,316	1,497	1,264	1,912	2,271
Interest	20	73	53	32	11	7
Other Income	112	188	160	187	244	278
PBT	902	1,432	1,604	1,418	2,145	2,542
% change	(21.3)	58.8	12.0	(11.6)	51.2	18.5
Tax	169	392	409	355	536	636
Tax Rate (%)	18.7%	27.4%	25.5%	25.0%	25.0%	25.0%
Reported PAT	733	1,040	1,195	1,064	1,609	1,907
Adj.*	0	0	0	0	0	0
Adj. PAT	733	1,040	1,195	1,064	1,609	1,907
% change	(6.9)	41.8	14.9	(11.0)	51.2	18.5
No. of shares (cr)	62.6	62.6	62.6	62.6	62.6	62.6
Adj EPS (Rs)	11.7	16.6	19.1	17.0	25.7	30.5
% change	(6.9)	41.8	14.9	(11.0)	51.2	18.5
DPS (Rs)	10.2	3.0	6.5	6.5	6.5	6.5
CEPS (Rs)	15.2	20.6	23.2	21.7	31.1	36.6

CASH FLOW

Y.E March (Rs Cr)	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E
Net inc. + Depn.	733	1,040	1,195	1,064	1,609	1,907
Non-cash adj.	113	317	208	149	118	129
Changes in W.C	(21)	(698)	342	(444)	(740)	(975)
C.F. Operation	825	658	1,744	769	987	1,060
Capital exp.	(359)	(123)	(253)	(836)	(600)	(600)
Change in inv.	(251)	(730)	(605)	(0)	(60)	(80)
Other invest.CF	62	89	95	187	244	278
C.F - Investment	(548)	(763)	(759)	(649)	(416)	(402)
Issue of equity	24	10	31	-	-	-
Issue/repay debt	(94)	414	(147)	(273)	-	-
Dividends paid	(641)	(188)	(407)	(407)	(407)	(407)
Other finance.CF	(5)	(46)	(24)	(32)	(11)	(7)
C.F - Finance	(716)	190	(547)	(713)	(418)	(415)
Chg. in cash	(439)	85	438	(593)	153	244
Closing cash	242	327	764	171	324	568

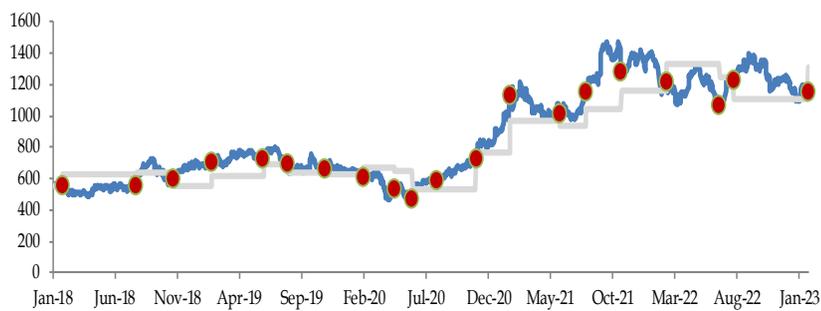
BALANCE SHEET

Y.E March (Rs Cr)	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E
Cash	242	327	764	171	324	568
Accounts Receivable	249	564	768	687	896	1,133
Inventories	1,872	2,620	2,968	3,652	4,090	4,675
Other Cur. Assets	1,228	1,928	2,514	2,612	3,014	3,417
Investments	21	2	2	2	62	142
Gross Fixed Assets	2,510	2,653	3,019	3,729	4,329	4,929
Net Fixed Assets	1,899	1,861	2,021	2,436	2,698	2,913
CWIP	83	86	57	50	50	50
Intangible Assets	1,453	1,433	1,413	1,545	1,545	1,545
Def. Tax (Net)	(287)	(339)	(351)	(359)	(372)	(387)
Other Assets	0	0	0	-	-	-
Total Assets	6,761	8,481	10,155	10,797	12,307	14,057
Current Liabilities	2,082	2,461	3,317	3,494	3,734	3,916
Provisions	246	316	329	412	479	549
Debt Funds	23	400	282	8	8	8
Other Liabilities	16	10	17	17	17	17
Equity Capital	63	63	63	63	63	63
Reserves & Surplus	4,242	5,102	5,926	6,583	7,784	9,284
Shareholder's Fund	4,305	5,164	5,989	6,645	7,847	9,346
Total Liabilities	6,761	8,481	10,155	10,797	12,307	14,057
BVPS	68.9	82.7	95.9	106.4	125.7	149.7

RATIOS

Y.E March	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E
Profitab & Return						
EBITDA margin (%)	10.9	15.0	12.7	9.3	11.7	12.2
EBIT margin (%)	8.6	12.6	10.8	7.6	9.9	10.4
Net profit mgn.(%)	7.8	10.0	8.6	6.4	8.4	8.8
ROE (%)	17.3	22.0	21.4	16.8	22.2	22.2
ROCE (%)	13.6	17.1	15.8	12.8	16.8	16.8
W.C & Liquidity						
Receivables (days)	13.0	14.2	17.5	15.9	15.0	17.0
Inventory (days)	118.6	126.6	108.7	104.2	108.8	109.7
Payables (days)	137.5	128.1	112.4	107.2	101.6	95.7
Current ratio (x)	1.5	2.0	1.9	1.8	2.0	2.2
Quick ratio (x)	0.2	0.3	0.4	0.2	0.3	0.4
Turnover & Leverage						
Gross asset T.O (x)	4.3	4.0	4.9	5.0	4.8	4.7
Total asset T.O (x)	5.7	5.5	7.2	7.5	7.5	7.8
Int. covge. ratio (x)	41.0	18.1	28.0	39.1	178.2	303.5
Adj. debt/equity (x)	0.0	0.1	0.1	0.0	0.0	0.0
Valuation						
EV/Sales (x)	7.5	6.8	5.0	4.3	3.7	3.3
EV/EBITDA (x)	69.1	45.3	39.7	46.1	31.9	26.9
P/E (x)	98.3	69.3	60.3	67.8	44.8	37.8
P/BV (x)	25.2	19.3	15.7	14.1	11.4	9.2

Recommendation Summary (Last 3 years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
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
25-July-22	SELL	1,104
23-January-23	BUY	1,311

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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