

21 July 2023

India | Equity Research | Q1FY24 results review

## Havells

White Goods

### Strong B2B sales; EMS is likely to be new growth driver

We note three structural growth drivers from Q1FY24 as (1) the company is in early stages to develop white label business (EMS) via exports, (2) It has entered premium and luxury segment via launch of Havells Studio; we believe the premiumisation path could potentially result in structural margin expansion and (3) B2B sales are likely to remain strong in coming quarters. We also believe the correction in input prices and the likely revival in B2C sales in H2FY24 offer tailwinds to earnings. We remain positive on Havells and model it to report revenue and PAT CAGR of 14.5% and 28.1%, respectively, over FY23-FY25E. We cut FY24 earnings estimates to factor in delayed recovery in consumer demand. Maintain BUY with a revised DCF-based TP of INR 1,600 (implied 48x FY25E; Earlier TP: INR 1,450).

### Q1FY24 result

Havells reported revenue, EBITDA and PAT growth of 13.9%, 11.5% and 18.5% respectively, YoY. The EBITDA margin at 8.3% remained flat YoY. Higher ad-spends (+50bps YoY) offset the benefits of lower input prices. Unseasonal rains in Apr'23 in North India impacted Q1FY24 revenues.

### Segmental performance

The cables and wires segment and Lloyd segment posted revenue growth of 24.5% and 19.9%, respectively YoY. The ECD and lighting segments reported flattish revenue growth rates due to weak consumer sentiment and pricing revisions, respectively. The EBIT margins expanded in cables & switchgear segment while losses at Lloyd continued.

### Strong growth in B2B revenues

The ongoing revival in infrastructure, real estate and capex cycle has resulted in higher demand for cables and wires. It is likely to remain strong in rest of FY24, in our view. While the RoCE of B2B business is lower than B2C business, it is still higher than cost of capital.

### Maintain BUY with revised TP INR 1,600

We remain positive on Havells due to its established competitive advantages and growth opportunity in white goods and durables. We maintain BUY with DCF-based revised TP of INR 1,600 (implied P/E 48x FY25E).

### Financial Summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	1,39,385	1,69,107	1,92,572	2,21,719
EBITDA	17,604	15,991	20,404	25,368
EBITDA Margin (%)	12.6	9.5	10.6	11.4
Net Profit	11,965	10,717	13,979	17,586
EPS (Rs)	19.1	17.1	22.3	28.1
EPS % Chg YoY	14.6	(10.4)	30.4	25.8
P/E (x)	70.5	78.7	60.3	48.0
EV/EBITDA (x)	46.5	51.5	39.8	31.7
RoCE (%)	17.9	14.2	17.3	19.2
RoE (%)	21.4	17.0	19.8	21.7

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#### Market Data

Market Cap (INR)	845bn
Market Cap (USD)	10,306mn
Bloomberg Code	HAVL IN
Reuters Code	HVEL.BO
52-week Range (INR)	1,408 /1,025
Free Float (%)	40.0
ADTV-3M (mn) (USD)	14

Price Performance (%)	3m	6m	12m
Absolute	12.2	17.5	10.9
Relative to Sensex	14.1	12.4	23.5

ESG Disclosure	2021	2022	Change
ESG score	56.7	57.8	1.1
Environment	45.7	49.1	3.4
Social	33.2	33.2	0.0
Governance	91.1	91.1	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY23E	FY24E
Revenue	(1.0)	(1.0)
EBITDA	(5.5)	(0.2)
EPS	(5.3)	(0.1)

#### Previous Reports

04-05-2023: [Q4FY23 results review](#)

20-01-2023: [Q3FY23 results review](#)

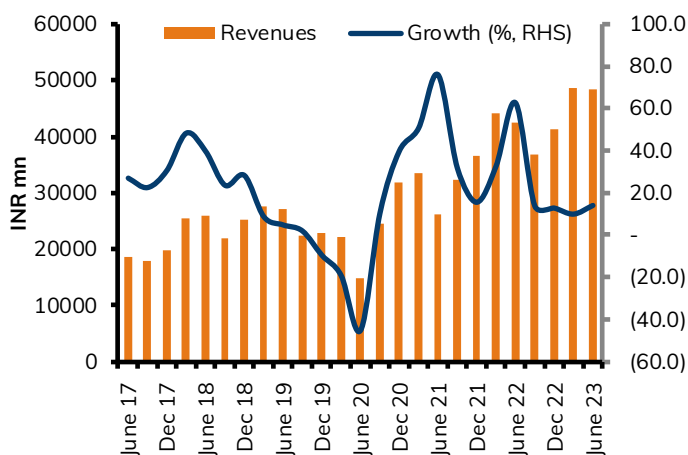
## Key performance highlights

### Exhibit 1: Q1FY24 results performance

Y/e March (INR mn)	Q1FY24	Q1FY23	YoY gr.	Q4FY23	QoQ gr.
<b>Revenue</b>	<b>48,338</b>	<b>42,445</b>	<b>13.9</b>	<b>48,592</b>	<b>(0.5)</b>
<b>Expenditure</b>					
Raw materials	33,659	30,157	11.6	33,803	(0.4)
% of revenue	69.6	71.1		69.6	
Employee cost	3,570	3,037	17.5	3,279	8.9
% of revenue	7.4	7.2		6.7	
Other expenditure	7,079	5,635	25.6	6,146	15.2
% of revenue	14.6	13.3		12.6	
Total expenditure	44,308	38,829	14.1	43,228	2.5
<b>EBITDA</b>	<b>4,030</b>	<b>3,615</b>	<b>11.5</b>	<b>5,364</b>	<b>(24.9)</b>
EBITDA margin	8.3	8.5		11.0	
Other income	648	476	36.2	467	38.8
<b>PBDIT</b>	<b>4,679</b>	<b>4,091</b>	<b>14.4</b>	<b>5,831</b>	<b>(19.8)</b>
Depreciation	763	721	5.9	774	(1.5)
<b>PBIT</b>	<b>3,916</b>	<b>3,371</b>	<b>16.2</b>	<b>5,057</b>	<b>(22.6)</b>
Interest	85	98	(13.2)	98	(13.1)
<b>PBT</b>	<b>3,831</b>	<b>3,273</b>	<b>17.1</b>	<b>4,960</b>	<b>(22.8)</b>
Prov for tax	950	841	12.9	1,287	(26.2)
% of PBT	24.8	25.7		25.9	
<b>Adjusted PAT</b>	<b>2,881</b>	<b>2,432</b>	<b>18.5</b>	<b>3,673</b>	<b>(21.6)</b>
Extra ordinary items	(27)	(10)	168.3	(145)	(81.3)
<b>Reported PAT</b>	<b>2,854</b>	<b>2,422</b>	<b>17.9</b>	<b>3,529</b>	<b>(19.1)</b>

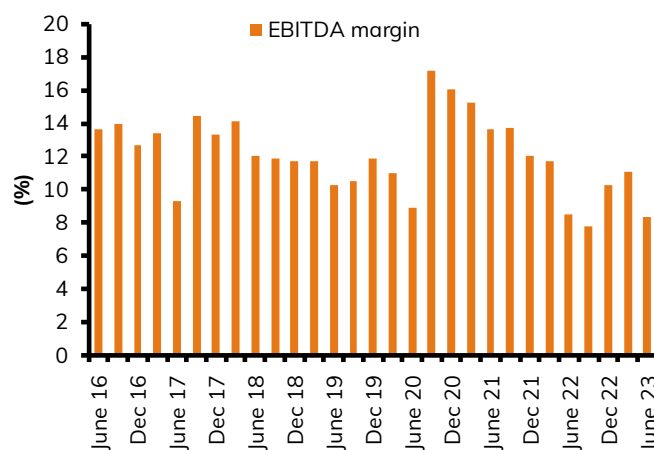
Source: Company data, I-Sec research

### Exhibit 2: Revenue growth trend



Source: Company data, I-Sec research

### Exhibit 3: EBITDA margin trend



Source: Company data, I-Sec research

**Exhibit 4: Segment-wise performance**

Particulars	Q1FY24	Q1FY23	YoY gr.	Q4FY23	QoQ gr.
<b>Revenues (INR mn)</b>					
Switchgears	6,010	4,745	26.7%	5,143	16.9%
Cables	15,682	14,881	5.4%	14,121	11.0%
Lighting & Fixtures	4,160	4,052	2.6%	4,232	-1.7%
Electrical consumer durables	7,495	8,727	-14.1%	9,357	-19.9%
Lloyd Consumer	12,710	9,596	32.5%	6,103	108.3%
Others/Inter segment	2,536	2,261	12.2%	2,319	9.4%
<b>Total</b>	<b>48,592</b>	<b>44,263</b>	<b>9.8%</b>	<b>41,276</b>	<b>17.7%</b>
<b>EBIT ( INR mn)</b>					
Switchgears	1,721	1,240	38.8%	1,271	35.5%
Cables	1,885	1,734	8.7%	1,628	15.8%
Lighting & Fixtures	755	633	19.3%	536	41.0%
Electrical consumer durables	962	1,515	-36.5%	1,228	-21.7%
Lloyd Consumer	(229)	(215)	6.7%	(600)	-61.8%
Inter segment	115	269	-57.1%	72	59.9%
<b>Total</b>	<b>5,209</b>	<b>5,175</b>	<b>0.6%</b>	<b>4,134</b>	<b>26.0%</b>
<b>EBIT margin (%)</b>					
Switchgears	28.6	26.1		24.7	
Cables	12.0	11.7		11.5	
Lighting & Fixtures	18.1	15.6		12.7	
Electrical consumer durables	12.8	17.4		13.1	
Lloyd Consumer	(1.8)	(2.2)		(9.8)	
Inter segment	4.5	11.9		3.1	
<b>Total</b>	<b>10.7</b>	<b>11.7</b>		<b>10.0</b>	

Source: Company data, I-Sec research

## Q1FY24 result and conference call highlights

**Volume growth:** Cables and Wires segment reported 30%+ volume growth during Q1FY24. The lighting segment volumes grew 6-8%. Lloyd & switchgear volumes were up 20% and 5%, respectively.

**Demand trends:** Industrial and infrastructure demand was strong during Q1FY24.

**Input cost update:** The key Raw material prices have corrected YoY. The management suggested that the full benefit will be realised only in Q2FY24 and beyond.

**Fans:** Havells is investing in R&D and distribution network expansion. It is likely to result in steady revenue growth in H2FY24.

**Lloyd:** The management indicated Lloyd has remained in Top-3 players and has gained market share in air conditioners. The segmental margins are likely to improve in H2FY24 due to commodity deflation.

The company aims to expand its international business and have already commenced exports. It plans to use existing capacities for exports.

**Higher Other income and other expenses:** Other income was up due to non-recurring income of INR 100mn. The other expenses were up due to higher warehousing cost.

**Margins:** The company is working with a EBITDA margin range of 13-15% for Havells standalone business and 13-13.5% for consolidated operations.

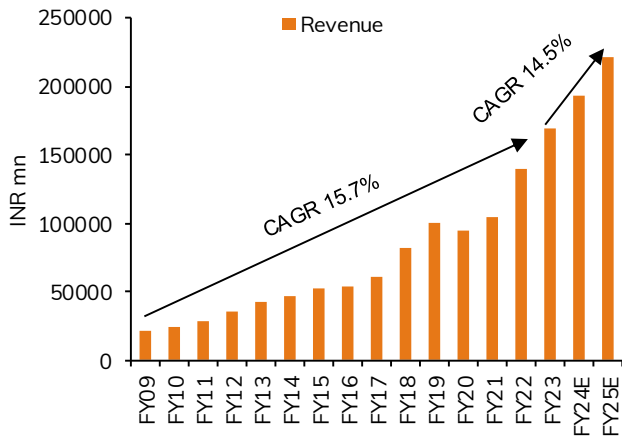
**Lighting:** The price deflation in recent past impacted Lighting segment. H2FY24 is likely to be better due to demand revival. Professional lighting continues to remain strong.

**Capex:** The company is likely to incur capex of INR 6bn in FY24. The underground cable business is operating at high utilization. Hence, the company is adding new facility in Tumkur (Karnataka).

**B2C-B2B segments composition:** The B2C segment contributed 70% to the revenues while B2B contributed rest 30%.

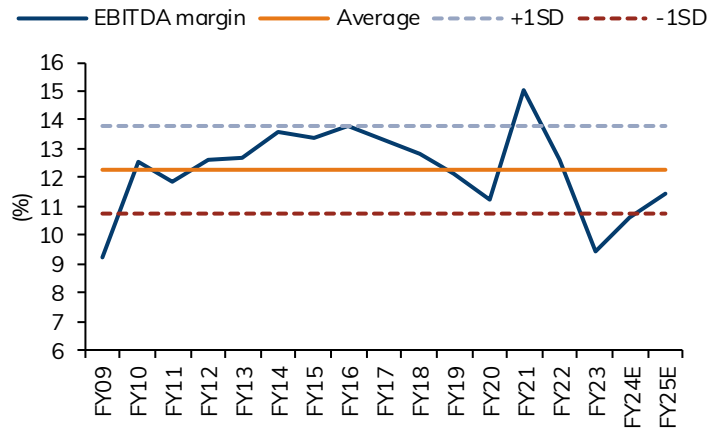
**New brand - Havells-studio:** Havells have made strong investment and undertaken R&D efforts which results in development of some new products. These products will be placed in Havells studio brand. As of now it has introduced air purifiers.

**Exhibit 5: Revenue and growth rates**



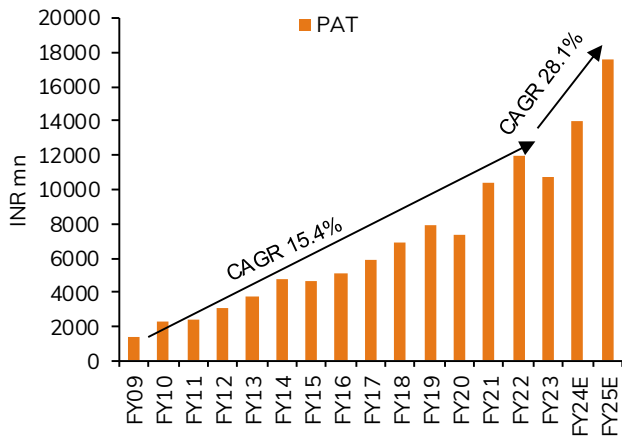
Source: Company data, I-Sec research

**Exhibit 6: EBITDA margin and standard deviations**



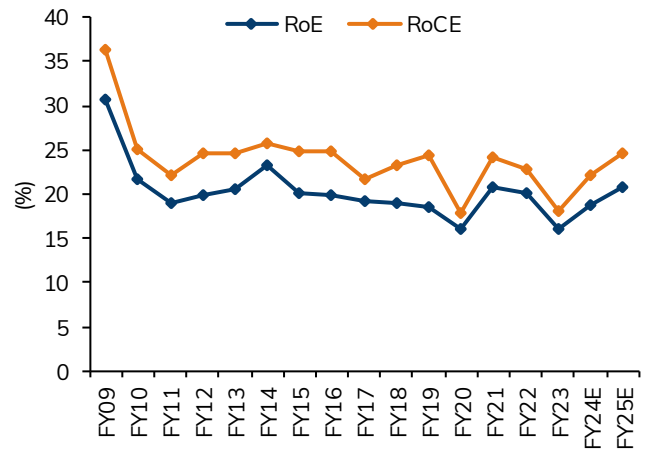
Source: Company data, I-Sec research

**Exhibit 7: PAT and growth rates**



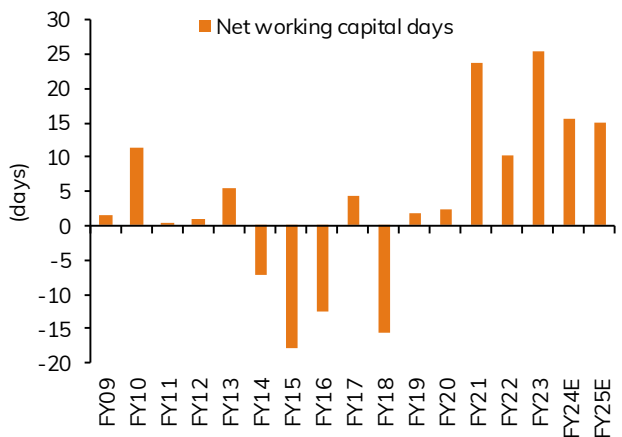
Source: Company data, I-Sec research

**Exhibit 8: Return ratios**



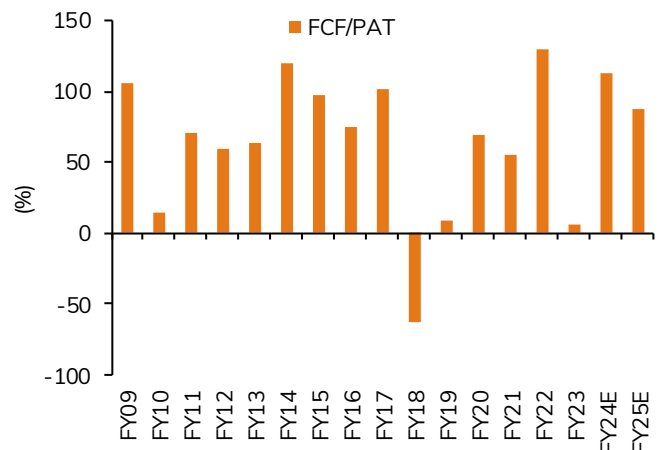
Source: Company data, I-Sec research

**Exhibit 9: Net working capital days**



Source: Company data, I-Sec research

**Exhibit 10: FCF to PAT**



Source: Company data, I-Sec research

### Valuation and risks:

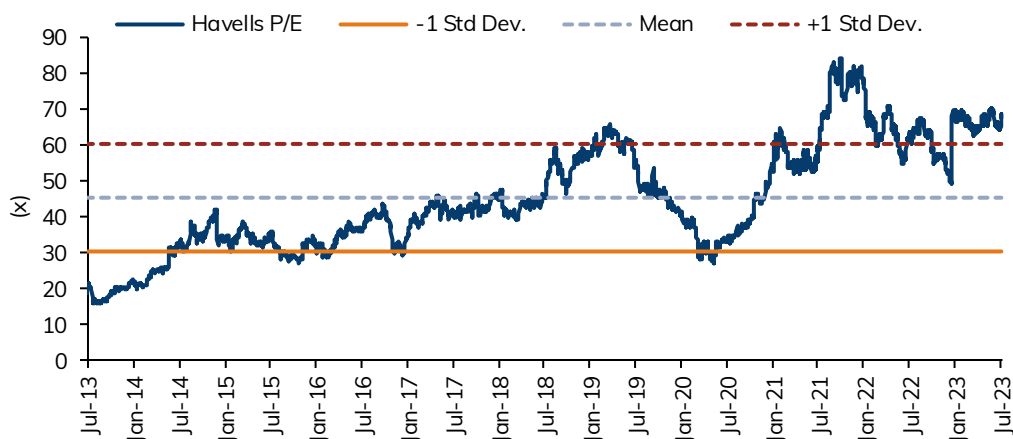
We model Havells to report revenue and PAT CAGRs of 14.5% and 28.1% over FY23-FY25E and RoCE to move to 19.2% in FY25E from 14.2% in FY23. At our DCF-based revised target price of INR 1,600, implied P/E works out to 48x FY25E EPS. Maintain BUY.

#### Exhibit 11: DCF-based valuation

Particulars (INR mn)	Amt (INR)
Cost of Equity	12.0%
Terminal growth rate	4.0%
Discounted interim cash flows	4,04,712
Discounted terminal value	5,96,568
Total equity value	10,01,280
<b>Value per share (INR)</b>	<b>1,600</b>

Source: Company data, I-Sec research

#### Exhibit 12: Mean P/E and standard deviations



Source: I-Sec research, Bloomberg

### Risks:

#### Inflation in input prices and competitive pressures

Sharp rise in input prices and/or increase in competitive pressures may result in downside to our estimates.

#### Prolonged losses of Lloyd

Consistent losses of Lloyd resulting in lower profitability.

#### Exhibit 13: Shareholding pattern

%	Dec'22	Mar'22	Jun'23
Promoters	59.5	59.5	59.4
Institutional investors	33.1	33.5	33.6
MFs and other	4.0	3.9	3.5
Banks & FIs	6.5	6.5	5.0
FIIIs	22.6	23.1	25.1
Others	7.4	7.0	7.0

Source: Bloomberg, I-Sec research

#### Exhibit 14: Price chart



Source: Bloomberg, I-Sec research

## Financial Summary

### Exhibit 15: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Net Sales</b>	<b>1,39,385</b>	<b>1,69,107</b>	<b>1,92,572</b>	<b>2,21,719</b>
Operating Expenses	1,21,781	1,53,116	1,72,168	1,96,351
<b>EBITDA</b>	<b>17,604</b>	<b>15,991</b>	<b>20,404</b>	<b>25,368</b>
EBITDA Margin (%)	12.6	9.5	10.6	11.4
Depreciation & Amortization	2,609	2,962	3,267	3,649
EBIT	14,995	13,030	17,137	21,719
Interest expenditure	534	336	251	251
Other Non-operating Income	1,604	1,777	1,803	2,042
<b>Recurring PBT</b>	<b>16,066</b>	<b>14,471</b>	<b>18,689</b>	<b>23,511</b>
<b>Profit / (Loss) from Associates</b>	-	-	-	-
Less: Taxes	4,101	3,753	4,710	5,925
PAT	11,965	10,717	13,979	17,586
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
<b>Net Income (Reported)</b>	<b>11,965</b>	<b>10,717</b>	<b>13,979</b>	<b>17,586</b>
<b>Net Income (Adjusted)</b>	<b>11,965</b>	<b>10,717</b>	<b>13,979</b>	<b>17,586</b>

Source Company data, I-Sec research

### Exhibit 16: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	64,531	68,853	58,954	63,452
of which cash & cash eqv.	25,480	18,702	4,497	1,171
Total Current Liabilities & Provisions	35,102	38,355	46,217	53,213
<b>Net Current Assets</b>	<b>29,430</b>	<b>30,498</b>	<b>12,737</b>	<b>10,240</b>
Investments	5,793	4,851	29,851	42,851
Net Fixed Assets	31,231	33,102	36,499	37,950
ROU Assets	-	-	-	-
Capital Work-in-Progress	572	1,664	-	-
Total Intangible Assets	3,105	3,105	3,105	3,105
Other assets	-	-	-	-
Deferred Tax assests	-	-	-	-
<b>Total Assets</b>	<b>70,131</b>	<b>73,219</b>	<b>82,192</b>	<b>94,146</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>6,596</b>	<b>3,349</b>	<b>3,349</b>	<b>3,349</b>
<b>Deferred Tax Liability</b>	<b>3,506</b>	<b>3,615</b>	<b>3,615</b>	<b>3,615</b>
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	626	627	627	627
Reserves & Surplus	59,403	65,628	74,601	86,555
<b>Total Net Worth</b>	<b>60,029</b>	<b>66,255</b>	<b>75,227</b>	<b>87,181</b>
Minority Interest	-	-	-	-
<b>Total Liabilities</b>	<b>70,131</b>	<b>73,219</b>	<b>82,192</b>	<b>94,146</b>

Source Company data, I-Sec research

### Exhibit 17: Quarterly trend

(INR mn, year ending March)

	Sep-22	Dec-22	Mar-22	Jun-23
Net Sales	36,975	41,276	48,592	48,338
% growth (YOY)	13.6	12.6	9.8	13.9
EBITDA	2,869	4,236	5,364	4,030
Margin %	7.8	10.3	11.0	8.3
Other Income	438	396	467	648
Extraordinaries	(12)	(3)	(145)	(27)
Adjusted Net Profit	1,858	2,832	3,529	2,854

Source Company data, I-Sec research

### Exhibit 18: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Operating Cashflow</b>	<b>17,990</b>	<b>6,560</b>	<b>20,801</b>	<b>20,406</b>
Working Capital Changes	3,236	(6,964)	3,556	(829)
Capital Commitments	(2,583)	(5,878)	(5,000)	(5,100)
<b>Free Cashflow</b>	<b>15,407</b>	<b>682</b>	<b>15,801</b>	<b>15,306</b>
<b>Other investing cashflow</b>	<b>(5,959)</b>	<b>5,027</b>	<b>(25,000)</b>	<b>(13,000)</b>
Cashflow from Investing Activities	(8,542)	(851)	(30,000)	(18,100)
Issue of Share Capital	312	267	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	(1,467)	(4,380)	-	-
Dividend paid	(4,071)	(4,703)	(5,006)	(5,632)
Others	-	-	-	-
Cash flow from Financing Activities	(5,227)	(8,816)	(5,006)	(5,632)
<b>Chg. in Cash &amp; Bank balance</b>	<b>4,212</b>	<b>(3,107)</b>	<b>(14,205)</b>	<b>(3,326)</b>
Closing cash & balance	7,749	4,652	4,497	1,171

Source Company data, I-Sec research

### Exhibit 19: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Per Share Data (INR)</b>				
Reported EPS	19.1	17.1	22.3	28.1
Adjusted EPS (Diluted)	19.1	17.1	22.3	28.1
Cash EPS	23.3	21.9	27.6	33.9
Dividend per share (DPS)	6.5	7.5	8.0	9.0
Book Value per share (BV)	95.9	105.9	120.2	139.3
Dividend Payout (%)	34.0	43.9	35.8	32.0
<b>Growth (%)</b>				
Net Sales	33.3	21.3	13.9	15.1
EBITDA	12.0	(9.2)	27.6	24.3
EPS (INR)	14.6	(10.4)	30.4	25.8
<b>Valuation Ratios (x)</b>				
P/E	70.5	78.7	60.3	48.0
P/CEPS	57.9	61.7	48.9	39.7
P/BV	14.1	12.7	11.2	9.7
EV / EBITDA	46.5	51.5	39.8	31.7
P / Sales	6.1	5.0	4.4	3.8
Dividend Yield (%)	0.5	0.6	0.6	0.7
<b>Operating Ratios</b>				
Gross Profit Margins (%)	32.4	30.8	34.0	34.8
EBITDA Margins (%)	12.6	9.5	10.6	11.4
Effective Tax Rate (%)	25.5	25.9	25.2	25.2
Net Profit Margins (%)	8.6	6.3	7.3	7.9
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	(0.4)	(0.3)	(0.4)	(0.5)
Net Debt / EBITDA (x)	(1.4)	(1.3)	(1.5)	(1.6)
<b>Profitability Ratios</b>				
RoCE (%)	17.9	14.2	17.3	19.2
RoE (%)	21.4	17.0	19.8	21.7
RoIC (%)	17.9	14.2	17.3	19.2
Fixed Asset Turnover (x)	3.4	3.8	3.8	3.9
Inventory Turnover Days	89	88	82	82
Receivables Days	23	23	21	21
Payables Days	97	84	86	86

Source Company data, I-Sec research

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