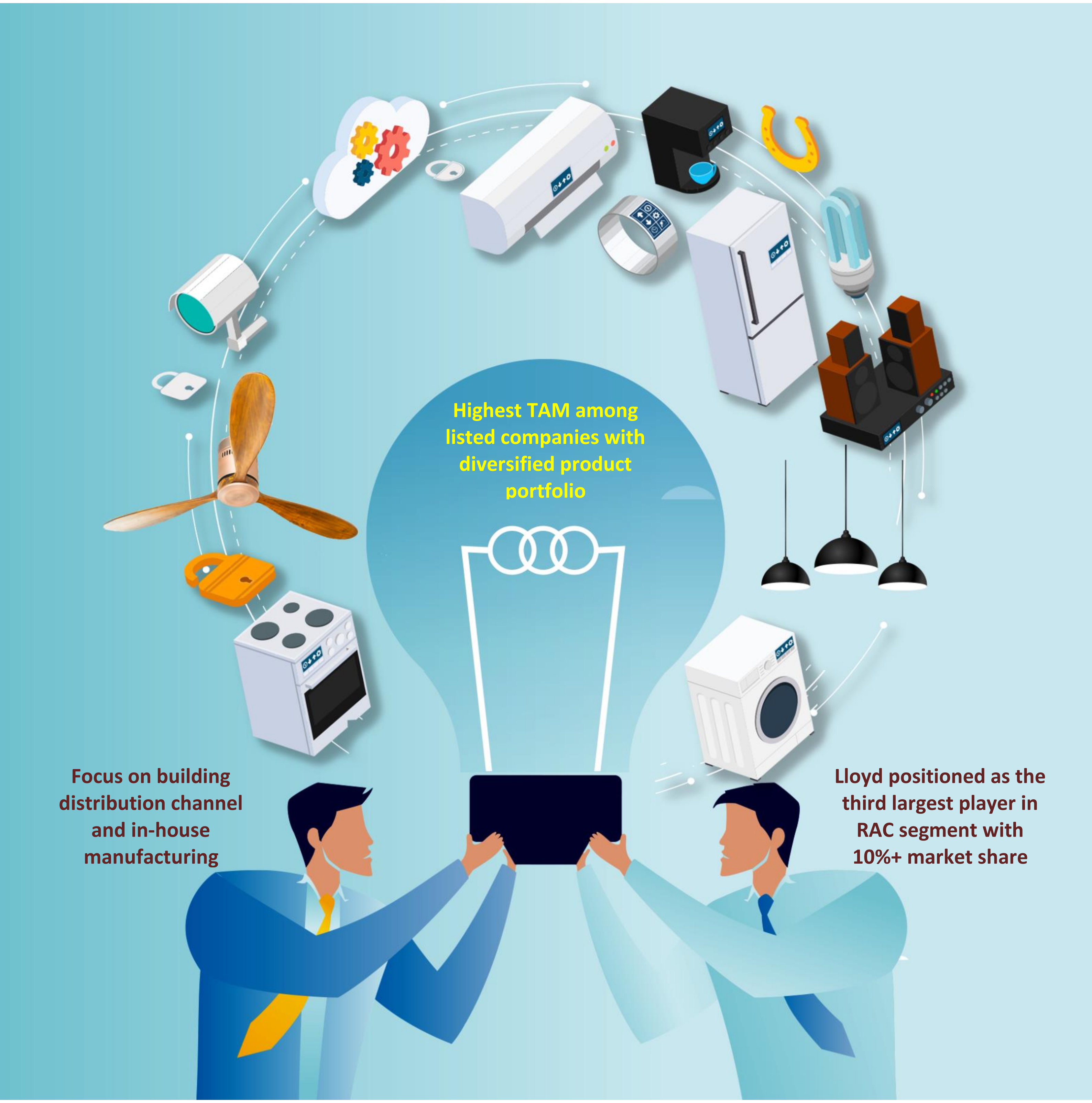
Havells India



Powering growth with a diversified product portfolio

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Havells India

Powering growth with a diversified product portfolio

Havells India (HAVL) has the highest total addressable market (TAM) of INR2.2t among listed companies in the consumer durable space. HAVL's TAM has increased over the years due to its diverse product portfolio, presence in various sectors, and entry into the large home appliances segment through the acquisition of Lloyd.

Havells India

BSE SENSEX	S&P CNX
66,795	19,749

Bloomberg	HAVL IN
Equity Shares (m)	625
M.Cap.(INRb)/(USDb)	835.8 / 10.2
52-Week Range (INR)	1406 / 1092
1, 6, 12 Rel. Per (%)	-6/2/-16
12M Avg Val (INR M)	963
Free float (%)	40.6

Financials & Valuations (INR b)

Y/E MARCH	FY23	FY24E	FY25E
Sales	168.7	189.8	215.0
EBITDA	16.0	20.0	26.0
Adj. PAT	10.7	13.5	18.0
EBITA Margin (%)	9.5	10.6	12.1
Cons. Adj. EPS (INR)	17.2	21.6	28.7
EPS Gr. (%)	(10.1)	26.0	32.7
BV/Sh. (INR)	105.6	119.6	138.3
Ratios			
Net D:E	(0.3)	(0.3)	(0.4)
RoE (%)	16.3	18.1	20.7
RoCE (%)	15.8	17.5	20.2
Payout (%)	43.8	35.0	35.0
Valuations			
P/E (x)	77.8	61.7	46.5
P/BV (x)	12.6	11.2	9.6
EV/EBITDA (x)	51.0	40.5	30.8
Div Yield (%)	0.6	0.6	0.8
FCF Yield (%)	(0.0)	1.0	1.6

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	59.4	59.5	59.5
DII	9.8	10.4	9.1
FII	23.8	23.1	23.1
Others	7.0	7.1	8.4

FII Includes depository receipts

CMP: INR1,334 TP: INR1,580 (+18%) Buy

Powering growth with a diversified product portfolio

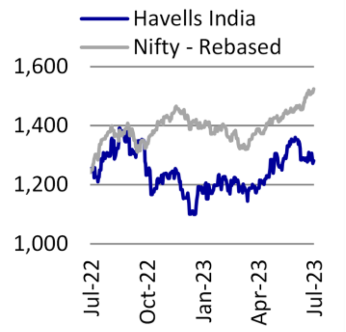
A full-stack consumer durable company seeking to raise market share

- **Highest TAM of INR2.2t…: Havells India (HAVL) has the highest total addressable market (TAM) of INR2.2t among listed companies in the consumer durable space. HAVL's TAM has increased over the years due to its diverse product portfolio, presence in various sectors, and entry into the large home appliances segment through the acquisition of Lloyd.**
- **…will benefit HAVL in its structural growth: The Indian appliances and consumer electronic industry was estimated to be at INR2.4t in FY22. The sector is likely to post a 10% CAGR over the next five years with higher growth estimated for white goods (10-12% for refrigerators/washing machines and 12-15% for air conditioners).**
- **Lloyd gaining market share in RAC segment: Lloyd's market share is estimated at 10%+ in room air conditioners (RAC) vs. ~8% a few years back. It has established itself among the top three players in RAC. Lloyd is in a favorable position to leverage the success of its AC products to drive growth in other offerings, such as washing machines and refrigerators. In FY23, Lloyd contributed 20% to HAVL's revenue. We estimate Lloyd's revenue share to rise to 22.2%/23.5% in FY24/FY25.**
- **Focus on building distribution channel and in-house manufacturing: HAVL is diversifying its distribution channel through various digital and physical platforms. The company has expanded its presence in emerging channels. Further, HAVL's sustained investments toward in-house manufacturing, research & development, and brand building give it a competitive edge over its peers.**
- **Earnings and return ratios to improve; reinitiate with a BUY: We reinitiate coverage on HAVL with a BUY rating and a TP of INR1,580 premised on 55x FY25E EPS (similar to last five-year's average valuation). We expect HAVL to maintain its premium valuations given: a) the 29% earnings CAGR over FY23-25 and b) strong return ratios (RoE/ROCE of 21%/20% and RoIC of 30% in FY25).**
- **Key downside risks: a) rise in commodity prices, b) higher competitive intensity in the sector and c) a demand impact due to economic slowdown.**

HAVL: the highest TAM across companies

- The Indian Appliances and Consumer Electronic Industry was estimated to be at ~INR2.4t in FY22. It is likely to post a ~10% CAGR over the next five years. With INR2.2t, HAVL has the largest TAM among the listed peers.
- HAVL's TAM has reported consistent growth over the years due to an expanded product portfolio (led by continued investments in R&D). Additionally, the acquisition of Lloyd has facilitated HAVL's entry into the lucrative large home appliances segment. Its product portfolio now consists of 20 products across categories vs. 9 and 15 in FY10 and FY17, respectively.
- We expect HAVL to benefit from higher growth expectation for the white goods segment as well as continued growth of its core portfolio (Cables & Wires, Switchgear, Lighting, etc.), propelled by strong momentum of the real estate industry.

Stock performance (one-year)



Lloyd: Focus on market share gains across product categories

- Lloyd has gained market share in RAC over the last few years and is now ranked among the top three players in the industry. The market share of the company is estimated to be at 10%+ in RAC.
- The company, over the years, has strengthened its product portfolio with the introduction of Washing Machines, Refrigerators, and Televisions to become a full-stack consumer durable player.
- HAVL continues to produce in-house and has set up two RAC plants (Neemrana, Rajasthan/Sri City, Andhra Pradesh) over the last few years. It also set up production units for semi-automatic Washing Machines (with a capacity of 0.3m units).

Higher Ad and R&D spends help in brand building

- HAVL has made strategic investments to enhance brand affinity through various channels, including national advertising, regional brand ambassador associations, celebrity engagement, digital campaigns, brand shops, in-shop advertising, and participation in trade shows.
- HAVL's advertising and promotional spending jumped 77% YoY to INR4.4b in FY23, mainly due to the low base effect as the branding spends were muted in FY21/22, due to Covid-19. However, ad spends have clocked a CAGR of 14% over FY15-23 and the company has spent 2.6% of its revenue towards the same in FY23. We estimate ad spends to be 3% of its revenue in FY24/25.
- The company's strong R&D helps it in differentiated product offerings. In FY23, R&D spends increased 48% YoY to INR1.6b, with the company spending 1% of its revenue (vs. 0.8% in FY22) toward the same. In FY23, HAVL applied for 38 new patents and 213 new design registrations, taking the tally to 150 patents and 985 designs. The company held 21 patents as of FY23.

Expect 27% EBITDA CAGR and 29% PAT CAGR over FY23-25

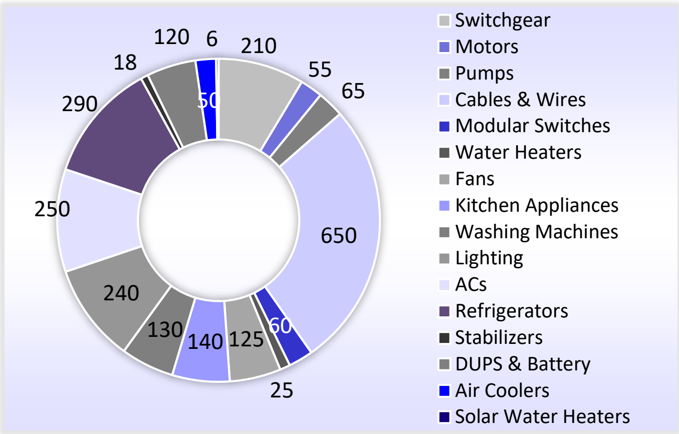
- We expect HAVL to report ~13% revenue CAGR over FY23-25. Revenue CAGR across segments is estimated as follows: Cables and Wires (11%), Switchgears (11%), Lighting and Fixtures (10.5%), Lloyd (22.5%), and other ECDs (9%).
- In FY23, HAVL's gross margin was under significant pressure (the lowest in a decade) due to higher commodity prices as it was not able to pass on the entire cost increase to the consumers. However, we believe profitability should improve, driven by softening commodity inflation, rise in premium product-mix, operating leverage, and rising share of in-house manufacturing.
- We estimate EBITDA/PAT CAGR of 27%/29% over FY23-25 and EBITDA margin to be at 10.6%/12.1% in FY24E/FY25E vs. 9.5% in FY23 (avg. 12.6% over FY18-22).

Earnings and return ratios to improve; reinitiate with BUY

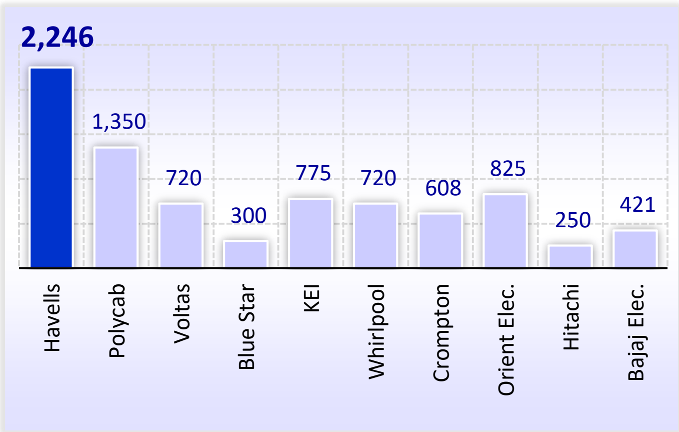
- The company has been generating positive free cash flows in most of the years despite higher capex (due to focus on in-house manufacturing). We expect cumulative OCF to be at INR33b over FY24-25 and cumulative capex at INR11b over this period. RoE and RoCE are likely to be at 21% and 20% in FY25 vs. an average level of 18% and 17% over FY15-23, respectively.
- **We reinitiate coverage on HAVL with a BUY rating and a TP of INR1,580** based on 55x FY25E EPS. This valuation is in line with the average one-year forward P/E ratio observed over the past five years. We believe that HAVL has the potential to maintain premium valuations given: a) the 29% earnings CAGR over FY23-25E and b) strong return ratios (RoE/ROCE of 21%/20% and RoIC of 30% in FY25E).

STORY IN CHARTS

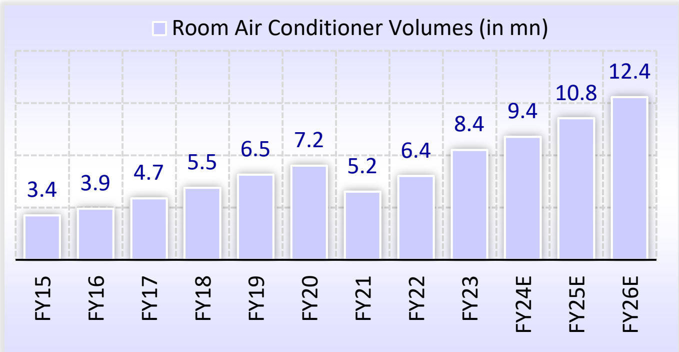
Market size of different categories (INR b)



HAVL has the highest total addressable market (TAM, INR b)

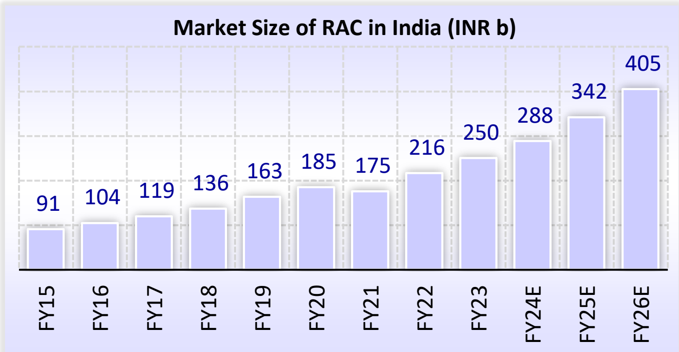


RACs to register volume CAGR of 14% over FY23-26…



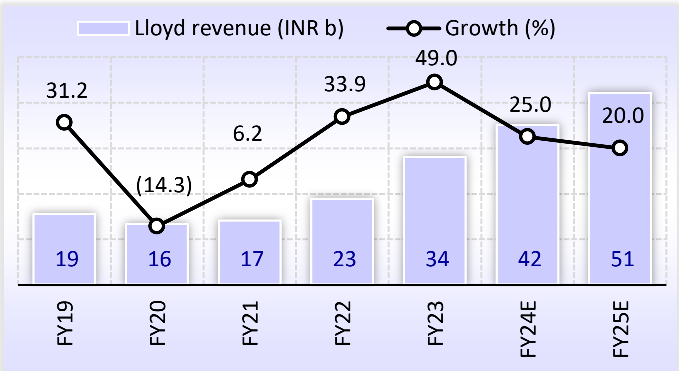
Source: MOFSL, Industry, Company

…leading to 17% CAGR in value terms

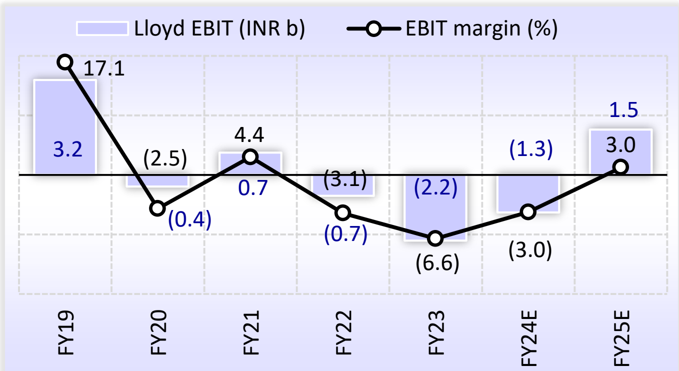


Source: MOFSL, Industry, Company

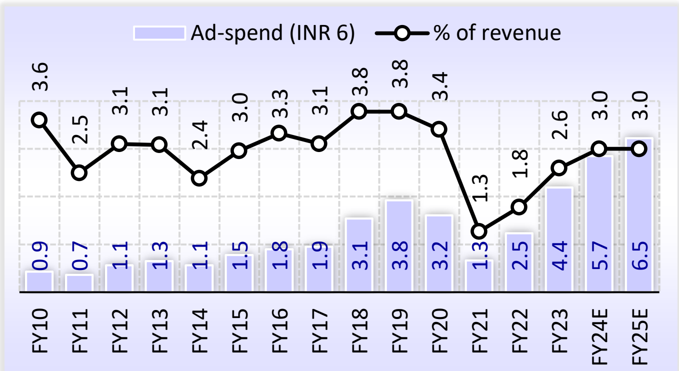
Lloyd revenue growth is likely to remain healthy…



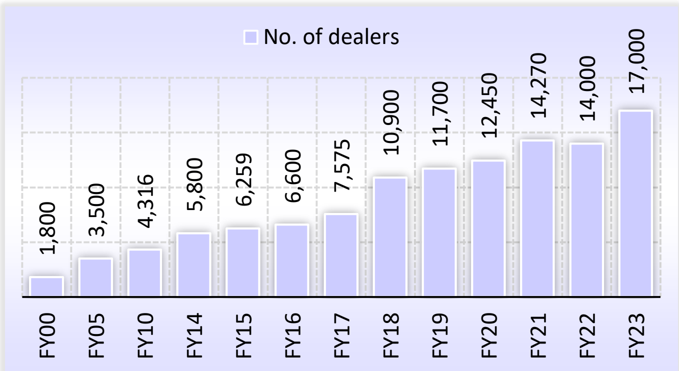
…expect to generate EBIT of INR1.5b by FY25



Cumulative AD spend at 2.8% of revenues over FY10-23



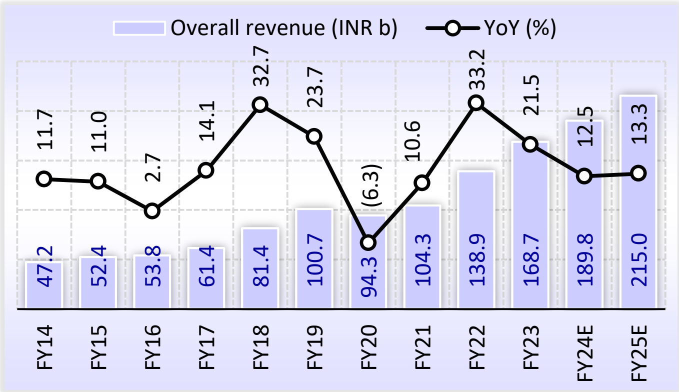
HAVL has a strong dealer network of ~17000



Source: MOFSL, Company

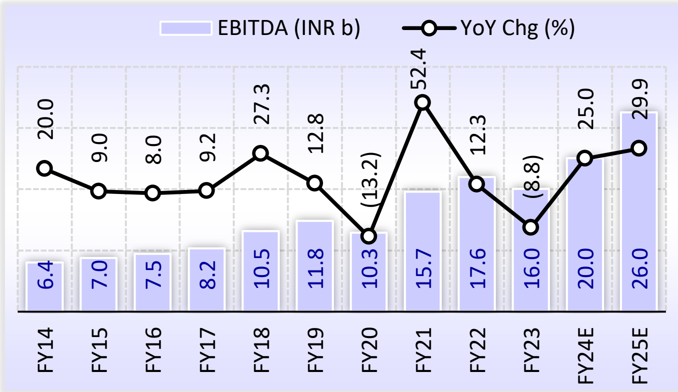
STORY IN CHARTS

Revenue CAGR to be at 13% over FY23-25



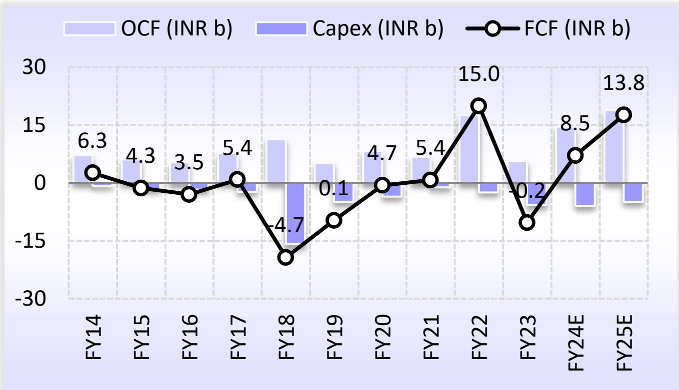
Source: MOFSL, Company

EBITDA should register a 27% CAGR over FY23-25



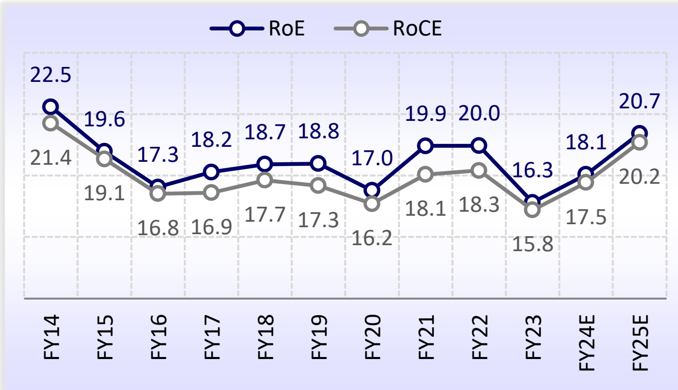
Source: MOFSL, Company

Free cash flows to increase with robust OCF



Source: MOFSL, Company

RoE/RoCE to improve in FY24-25



Source: MOFSL, Company

FINANCIAL CAPITAL

Revenue	EBITDA	PAT	EPS
16,868	**1,603**	**1,075**	**17.16**
Crores	Crores	Crores	Per share

MANUFACTURED CAPITAL

Manufacturing	Warehousing Space	Branch offices	Capex
15	**~42**	**35**	**571**
units	lakh sq ft		Crores

PERFORMANCE

INR m	FY13	FY18	FY23	FY25E	5Y CAGR	10Y CAGR	FY23-25 CAGR
Revenue	42,250	81,386	1,68,684	2,15,008	▲14.0	▲14.8	▲12.9
EBITDA	5,349	10,493	16,030	26,021	▲14.4	▲11.6	▲27.4
EBITDA Margin (%)	12.7	12.9	9.5	12.1			
PAT	3,714	7,006	10,750	17,973	▲13.5	▲11.2	▲29.3
PAT Margin (%)	8.8	8.6	6.4	8.4			

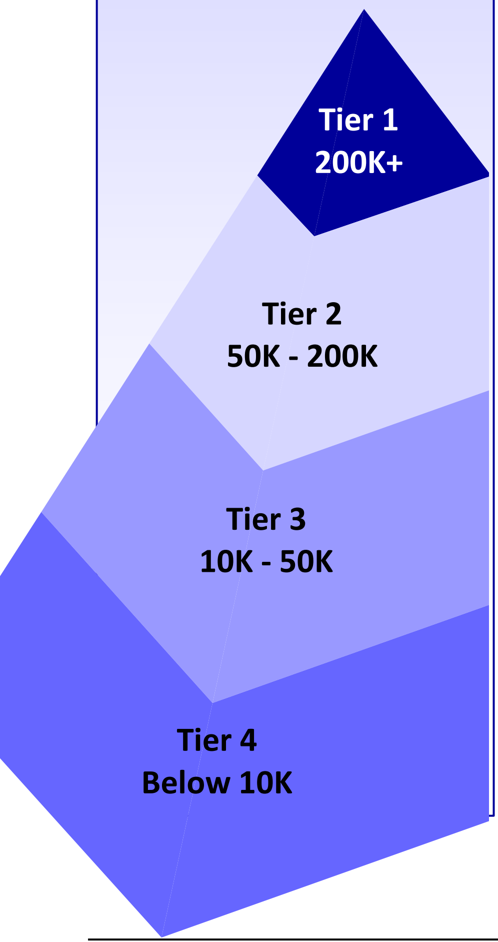
RURAL- UNTAPPED OPPORTUNITY

TIER 1: Improved electricity penetration creating demand

TIER 2: Informed rural customer shifting to trusted brands

TIER 3: Direct presence in 3k towns with population range of 10K-50K

TIER 4: Havells is the most penetrated FMEG brand in Rural markets



AN EVOLVING JOURNEY

1. **1958** – Commenced business with Switchgears and Cables
2. **1971** – Acquired 'Havells' brand
3. **1993** – Got listed on Stock Exchange
4. **2003** – Foray into Electrical Consumer Business with Fans and Lighting
5. **2007** – Acquired global business of 'Sylvania'
6. **2015** – Divestment of 'Sylvania'. Focus on domestic expansion
7. **2017** – Acquisition of 'Lloyd' consumer durable business
8. **2019** – Commissioned Lloyd AC plant in Ghiloth
9. **2023** – First foray into South India with 2 new plants

A INR2.4t industry with consistent growth expected across segments

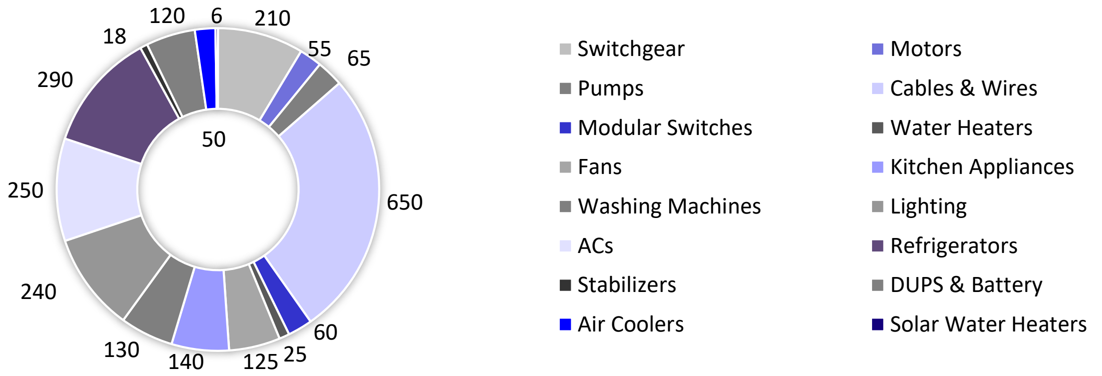
HAVL best placed with the highest TAM across companies

- **Indian Appliances and Consumer Electronics Industry is estimated to be ~INR2.4t at FY22 and offers a huge growth potential, led by an estimated industry CAGR of ~10% over the five years. The structural growth would be driven by a significantly lower penetration of white goods, improvement in disposable income, rising nuclear families, higher aspiration levels, etc.**
- **Havells (HAVL) is a full-stack consumer durable company with an extensive and well-diversified product portfolio. With INR2.2t, HAVL has the largest total addressable market (TAM) among peers. HAVL's TAM over the years has improved by product portfolio expansion (led by continued investment in R&D) and acquisition of Lloyd, which helps its entry into large home appliances segment. Its product portfolio now consists of 20 products across categories vs. 9 and 15 in FY10 and FY17, respectively.**
- **HAVL's sustained investments toward in-house manufacturing, expansion of product portfolio, and marketing strategies provide the company with a competitive advantage and has helped it to improve its market share in the White goods segment (Lloyd's 70% revenues are from Room Air Conditioner), where the company has increased its market share to 10%+ (among the top three companies) vs. ~8% a few years back. We believe that HAVL would benefit from expected sustained growth of the consumer durables industry along with its strategic focus on market share gains.**

The Indian Appliances and Consumer Electronics industry should register a CAGR of ~10% over FY22-27

The Indian appliance and consumer electronics' industry market size stood at INR2.4t as of FY22 and has registered a CAGR of 9-10% over FY16-22. The industry growth has been driven by various factors, including the expansion of young urban consumers, heightened aspiration levels, the increasing prevalence of nuclear families, rising per capita disposable income, limited penetration of white goods in India, and improved access to finance. These factors have played pivotal roles in facilitating the industry's growth.

Exhibit 1: Market size of different segments of consumer durables industry (INR b)



Source: MOFSL, Company, Industry

As per estimates, the industry should register a CAGR of ~10% over the next five years with higher growth estimated for white goods (10-12% CAGR for refrigerators and washing machines, and 12-15% CAGR for air conditioners). The industry is poised to benefit from government policies aimed at promoting domestic manufacturing and providing PLI incentives for components. Additionally, the historical trend of transitioning from unorganized to organized players in the industry would further favor larger players.

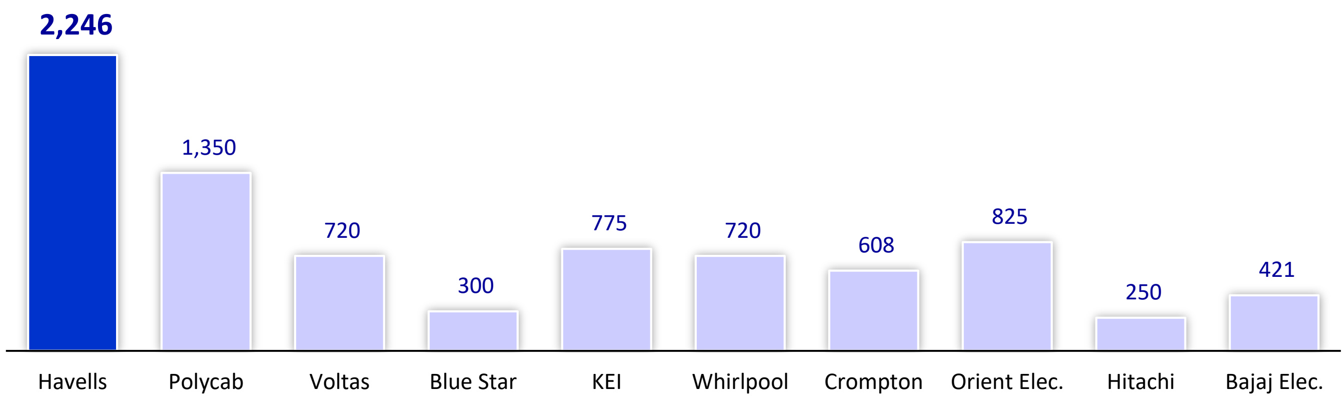
Exhibit 2: Analysis of Indian Appliance and Consumer Electronics industry (ex-Mobile and Television)

Industry	Market Size (INR b)	Growth rate (%)	Organized market share (%)	Major Players
Switchgear	210	7-8	80-85	❖ Havells, Legrand, Schneider, ABB
Motors	55	8-9	60-65	❖ Crompton, Kirloskar, CRI
Pumps	65	8-9	60-65	❖ Crompton, Kirloskar, CRI
Cables & Wires	650	8-9	65-70	❖ Polycab, Finolex, Havells, KEI
Modular Switches	60	8-10	70-75	❖ Anchor, Legrand, Havells
Water Heaters	25	10-11	65-70	❖ Havells, Bajaj, Crompton, Racold
Fans	125	8-10	75-80	❖ Crompton, Usha, Havells, Orient, Bajaj
Kitchen Appliances (Mixers, Grinders, Gas stoves, Water Purifiers, Others)	140	10-12	65-75	❖ Mixer Grinders - Bajaj, Preethi, Prestige Gas Stoves - Stovekraft, Sunflame, Butterfly ❖ Water Purifiers - Eureka Forbes, Kent RO, HUL Pureit ❖ Others - Faber, Bajaj, Havells
Washing Machines	130	10-12	100	❖ LG, Samsung, IFB, Whirlpool
Lighting	240	10-12	65-70	❖ Phillips, Wipro, Crompton
Air Conditioners	250	12-15	100	❖ Voltas, LG, Haier, Havells, Samsung, Daikin
Refrigerators	250	10-12	100	❖ LG, Samsung, Whirlpool, Godrej
Stabilizers	18	7-8	55-60	❖ Microtek, Livguard, Bluebird
DUPS & Battery	120	8-10	65-70	❖ Luminous, Microtek, Exide
Air Coolers	50	15-20	30-35	❖ Symphony, Bajaj, Voltas
Solar Water Heaters	6	6-8	60-65	❖ Sudarshan Saur, Supreme Solar

Source: MOFSL, Company, Industry

HAVL has the highest TAM of INR2.2t, among listed companies in the consumer durables industry. Entry into the whitegoods business through the acquisition of Lloyd Consumer (in May '17) along with Product category expansion (20 products across categories in FY23 vs. 9 and 15 in FY10 and FY17) has helped TAM increase for the company over the years.

Exhibit 3: … Havells' TAM (total addressable market) is the highest among peers (INR b)…



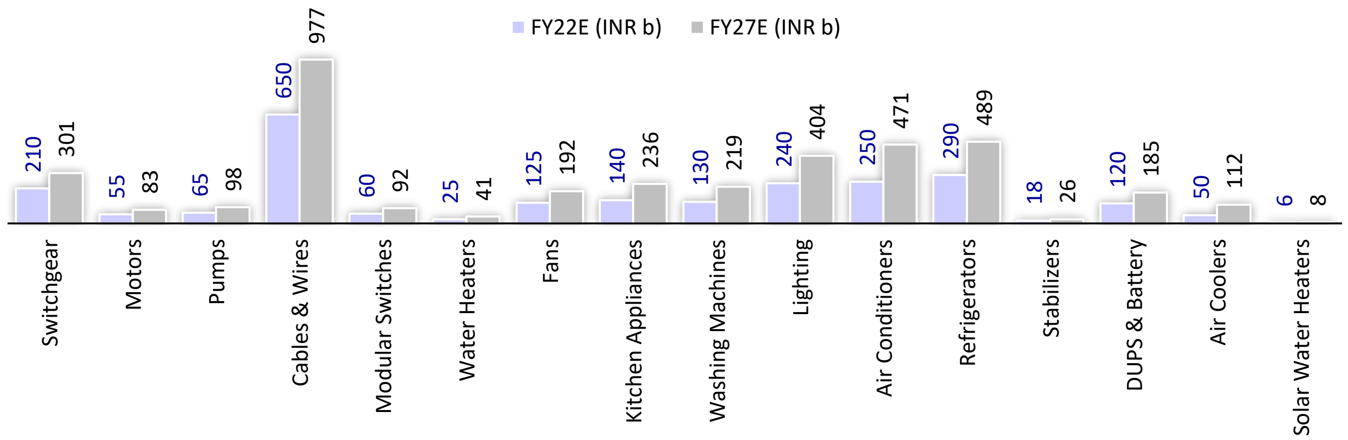
Source: MOFSL, Industry, Company

Exhibit 4: … as "Deeper into Home" is the long-term strategy: 20 product verticals and serving ~70% electric sockets

Source: MOFSL, Company

We expect HAVL to benefit from higher growth expectation for the white goods segment as well as continued growth for its core portfolio (Cables & Wires, Switchgear, Lighting, etc.), led by strong momentum of the real estate industry. Household penetration of consumer durables in India continues to remain significantly lower than that of many other countries. However, rising aspirational levels among consumers, coupled with the availability of easy financing schemes, are expected to provide for robust long-term industry growth.

Exhibit 5: Stronger growth of white goods to help HAVL's growth…



Source: MOFSL, Industry, Company

Promising growth opportunities across key segments

Consumer durables sector is likely to register a CAGR of ~10% till FY27

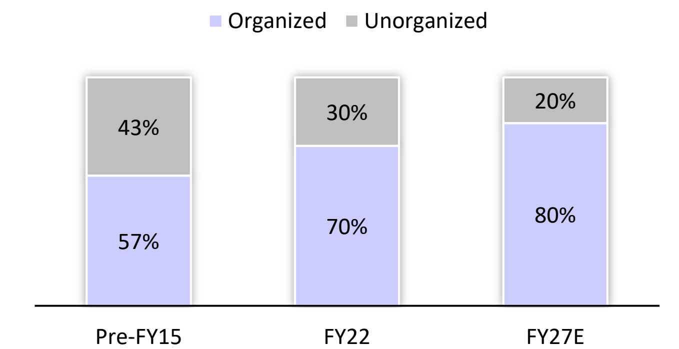
- **The consumer durable industry (consisting ex-Mobiles and Television) was estimated at INR2.4t in FY22 and is expected to register a CAGR of ~10% till FY27 to reach a total value of INR3.9t.**
- **The market size of Wires and Cables (W&C) primarily used for distribution and transmission of electrical power was estimated at INR650b in FY22 and is expected to reach INR1t by FY27.**
- **The market size of fans was estimated at INR125b in FY22 (at a 12% CAGR over FY15-22) and is expected to reach INR185b in FY27 (CAGR of 8%). The share of organized players in this segment increased to 90% in FY22 from 70% in FY15 and is expected to reach 95% in FY27.**
- **The Lighting Industry is estimated to be at INR250b in FY22. It is expected to demonstrate a CAGR of ~11% over FY22-27 to reach a market size of INR505b. The LED market, as of FY22, is 80% of the industry, up from 20% in FY15. Organized players hold ~65% of the market (up from ~45% in FY15).**
- **The total market size of the switch and switchgears industry in India registered a CAGR of 8% to INR270b over FY15-22. The collective market is estimated to clock an ~8% CAGR till FY27 to INR394b.**
- **The Indian room air conditioners (RAC) market registered a CAGR of ~16% over FY15-20; however, volumes in FY21 declined ~21% YoY, due to the Covid-19 pandemic and thereafter, increased 31% YoY in FY23. We expect sales volumes of RACs to register a CAGR of ~14% over FY23-26 to reach 12.4m units.**

Wires and Cables Industry – key beneficiary of infrastructure growth

The Wires and Cables industry is estimated to register a CAGR of ~9% over FY22-27

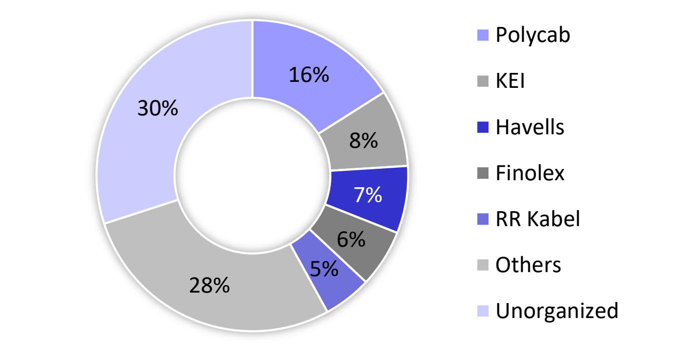
- Infrastructure development, urbanization, smart cities, growth of residential and commercial real estate, rural electrification, and a push toward renewable energy are the primary growth drivers in the W&C segment. The W&C market registered a CAGR of ~10% over FY15-22 to INR650b and it is estimated to register a CAGR of ~9% over FY22-27 to INR1t. Within the W&C segment, housing wires (used in residential and commercial buildings) is the largest subcategory with 32.8% share in FY22.
- The W&C market in India has undergone a substantial shift from being predominantly unorganized to a more organized sector, with the inclusion of regional and national players. The shift was driven by several factors, including heightened consumer awareness regarding safety and quality standards, the implementation of the GST, technological advancements, brand development initiatives and focus on technical and regulatory compliance.

Exhibit 6: Organized players share to continue to rise



Source: MOFSL, Industry, RR Kable DRHP

Exhibit 7: Market share of key players in value terms (FY22)



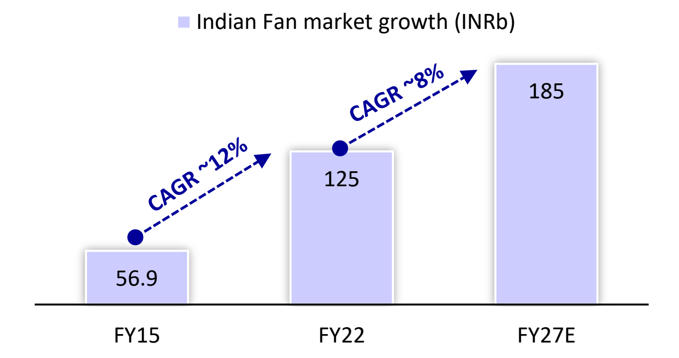
Source: MOFSL, Industry, RR Kable DRHP

Fans Industry – adversely impacted in CY22 by the transition toward energy-efficient fans; but is expected to register a CAGR of ~8% till FY27

As of 1st Jan'23, the Bureau of Energy Efficiency (BEE) has implemented new norms for ceiling fans, requiring them to be star-rated for energy efficiency

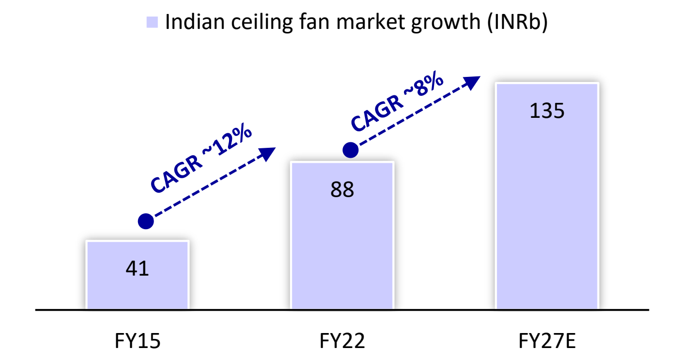
- The fan market in India was estimated at INR125b in FY22, with the dominance of ceiling fans (accounted ~72% by value). It has grown steadily over the years, driven by population growth, urbanization, rising disposable incomes, and improved consumer knowledge of energy-efficient products. The industry faced challenges in CY22 due to the transition toward mandatory Star ratings norms introduced by The Bureau of Energy Efficiency for ceiling fans, effective from 1st Jan '23. The uncertainties surrounding this transition, coupled with significant channel destocking in CY22, had an adverse impact on the performance of manufacturing companies in FY23.
- The fan industry has seen significant growth in the premium segment, with a 20% market share in FY22, up from 5% in FY15. Manufacturing of smart and IoT-enabled ceiling fans, enhanced design and features (decorative, anti-dust, bladeless, etc.) are key drivers of premiumization in the Indian fan market. The premium segment is expected to garner ~28% market share by FY27.

Exhibit 8: Indian Fan market growth (INR b)



Source: MOFSL, Industry, RR Kable DRHP

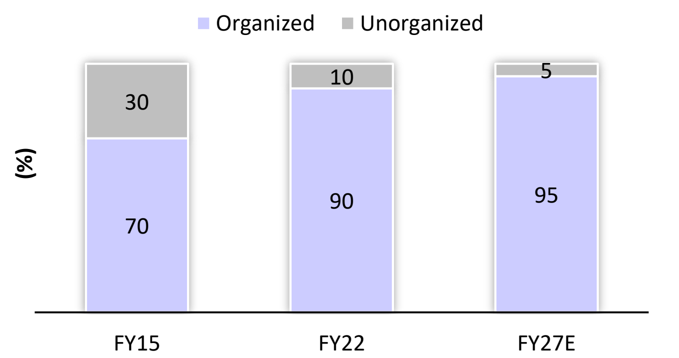
Exhibit 9: Indian ceiling fan market growth (INR b)



Source: MOFSL, Industry, RR Kable DRHP

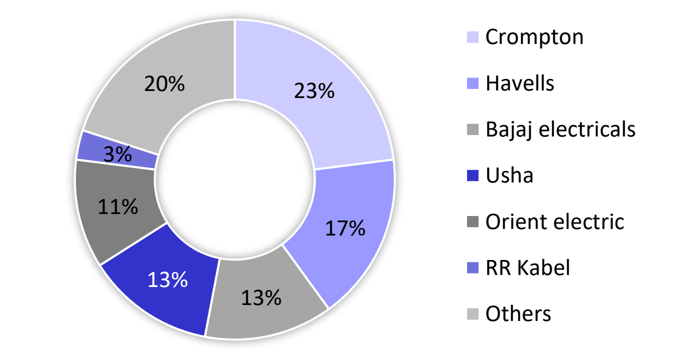
- As of FY22, the Indian ceiling fan market is primarily dominated by organized players, controlling ~90% of the market, out of which, top five players garner ~80% market share. These leading players include Crompton Greaves, Havells, Orient Electric, Bajaj Electricals, and Usha. Branded players are estimated to capture ~95% market share (by value) by FY27.

Exhibit 10: The share of organized players in Indian ceiling fan market (by value)



Source: MOFSL, Industry, RR Kable DRHP

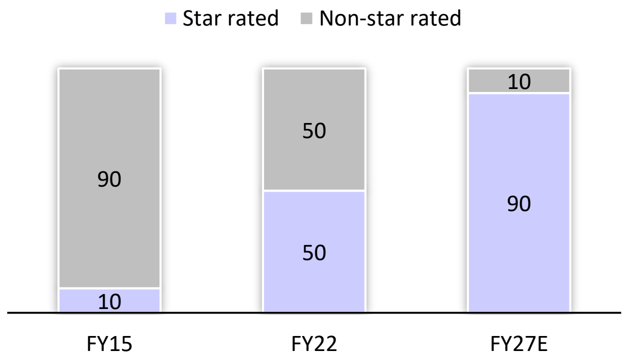
Exhibit 11: The market share of players in domestic fans market in India (by value) in FY22



Source: MOFSL, Industry, RR Kable DRHP

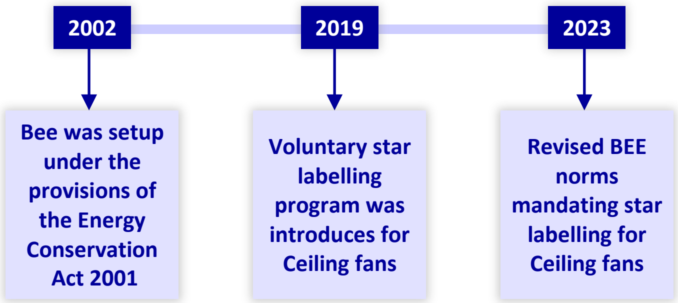
- The demand for energy-efficient fans has been steadily increasing as consumers become more aware of the benefits associated with using energy-efficient appliances. On an average, ceiling fan constitutes 20% of the electricity consumed by an Indian household. Brushless Direct Current (BLDC) technology makes ceiling fans highly energy efficient by reducing the energy consumption to almost one-third of a regular induction motor fan. These fans are rated as 5-star energy-efficient fans. The cost of BLDC fans is typically on a higher side because of the complex technology and electronics involved. Companies such as Crompton Greaves, Orient Electric, and new entrants such as Atom Berg and Halonix Technologies, have increased the manufacturing of BLDC fans over the past few years. Voluntary star labelling for ceiling fans was introduced by BEE in CY19 and star labelling has been mandated in CY23.

Exhibit 12: Share of star-rated ceiling fans in Indian ceiling fan market



Source: MOFSL, Industry, RR Kable DRHP

Exhibit 13: Transition from voluntary star labelling to mandatory star labelling

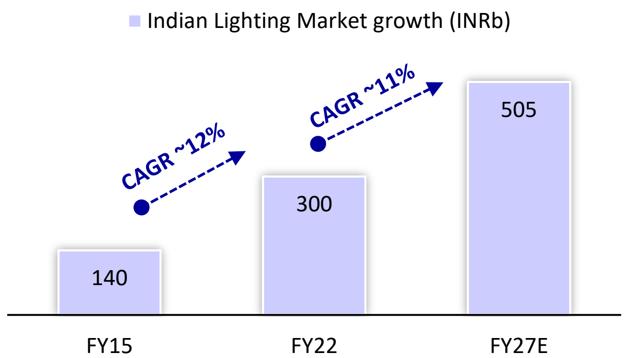


Source: MOFSL, Industry, RR Kable DRHP

Lighting Industry – Estimated to register a ~11% CAGR over FY22-27

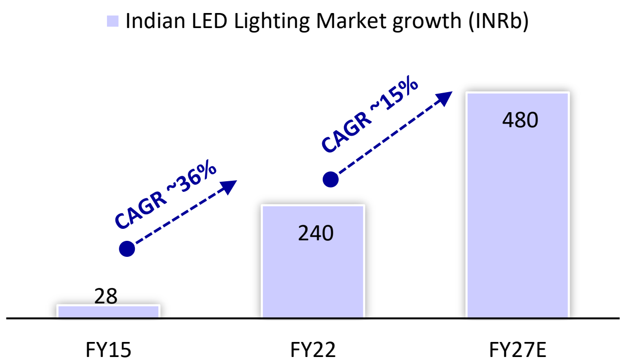
- The Indian lighting market has grown to INR300b in FY22 from INR140b in FY15, clocking a CAGR of 12%. The industry is further expected to grow to INR505b till FY27, registering a CAGR of 11%. The lighting industry is sub-divided into LED and conventional lighting. As of FY22, the LED market is 80% of the industry, up from 20% in FY15. The transition is attributed to the increasing consumer awareness about energy efficiency, longer life span of LEDs, and reliability. LED is expected to completely replace conventional lighting.

Exhibit 14: Indian Lighting market growth (INR b)



Source: MOFSL, Industry, RR Kable DRHP

Exhibit 15: Indian ceiling fan market growth (INR b)

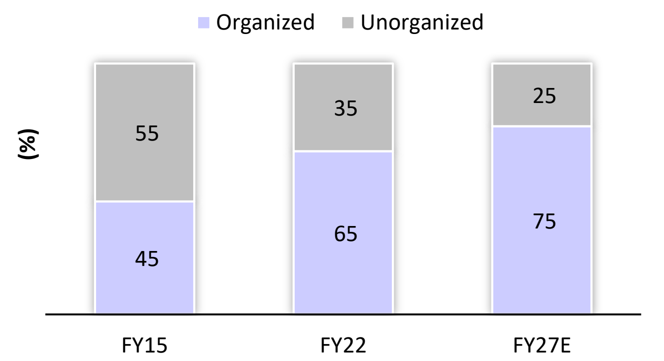


Source: MOFSL, Industry, RR Kable DRHP

Demand for premium lighting is on the rise. Premium lighting share is estimated to rise to 60% by FY27 from 45% in FY22

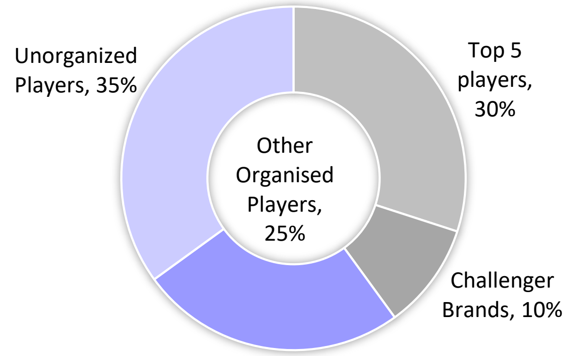
- The lighting industry in India is steadily shifting toward the premium segment, with ~45% market share in FY22 vs. ~35% in FY15. Havells has launched the Glamax smart batten and Aurom smart down lighter, both of which can be controlled via a smartphone to adjust the brightness or change colors effortlessly. The premium category is expected to contribute ~60% to the lighting market by FY27. As of FY22, the Indian lighting market is disproportionately distributed between organized and unorganized players, with organized players occupying ~65% of the market (up from ~45% in FY15). The top-5 players in the Lighting segment are Signify (Phillips), Havells, Crompton Greaves, Surya, and Syska.

Exhibit 16: Share of organized player in Indian lighting market (by value)



Source: MOFSL, Industry, RR Kable DRHP

Exhibit 17: Market share of players in domestic lighting industry in India

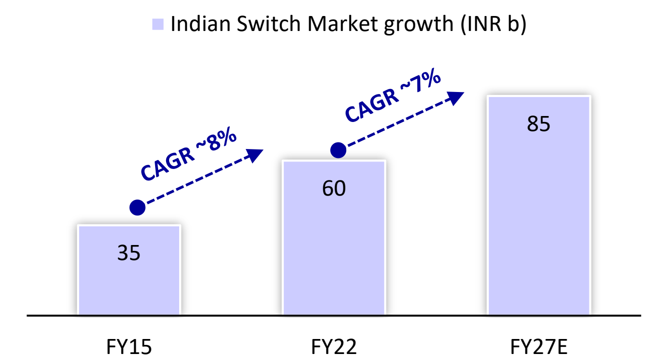


Source: MOFSL, Industry, RR Kable DRHP

Switch and Switchgear Industry – Infrastructure and real-estate sector to help growth

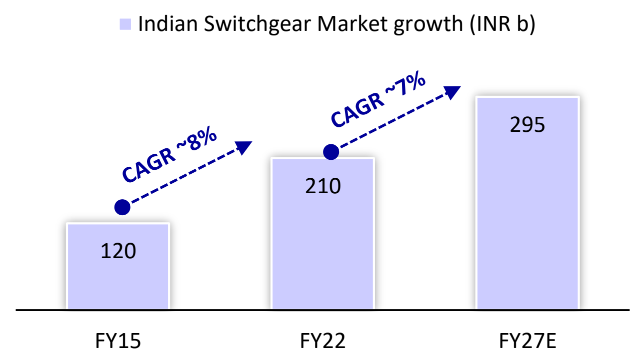
- The total market size of switch and switchgears industry in India registered a CAGR of 8% to INR270b over FY15-22. The collective market is estimated to register a CAGR of ~8% till FY27 to INR394b. The switch industry consists of two key segments – traditional switches consisting 40% of the market and modular switches consisting 60% of the market. The switchgear industry consists of three key segments - low voltage (LV) accounts for 70% of the market, medium voltage (MV) and high voltage (HV) combined accounts for the remaining 30% of the market as of FY22.

Exhibit 18: Indian Switch market growth (INR b)



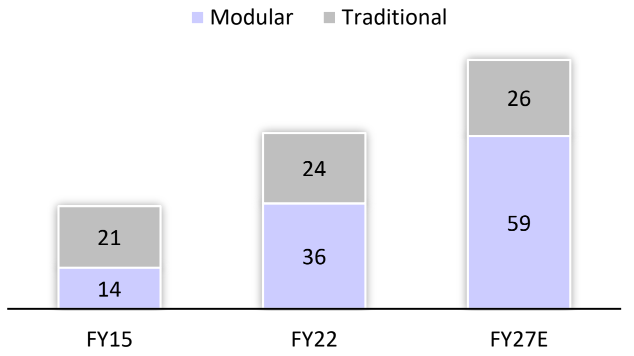
Source: MOFSL, Industry, RR Kable DRHP

Exhibit 19: Indian Switchgear market growth (INR b)



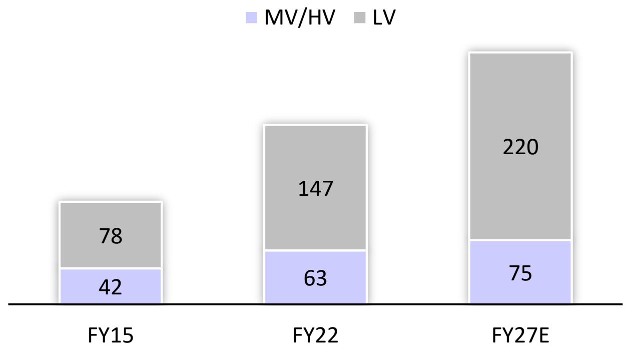
Source: MOFSL, Industry, RR Kable DRHP

Exhibit 20: Traditional and modular switches market growth (INR b)



Source: MOFSL, Industry, RR Kable DRHP

Exhibit 21: Medium/high voltage and low voltage switchgear market growth (INR b)



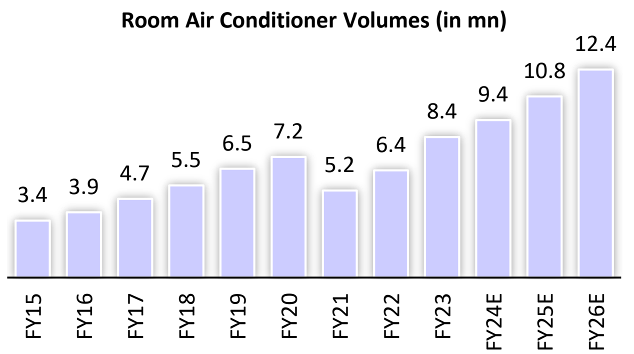
Source: MOFSL, Industry, RR Kable DRHP

Room air conditioner industry – leading toward creation of self-reliance and local manufacturing ecosystem

RAC volume is estimated to register a CAGR of ~14% over FY23-26

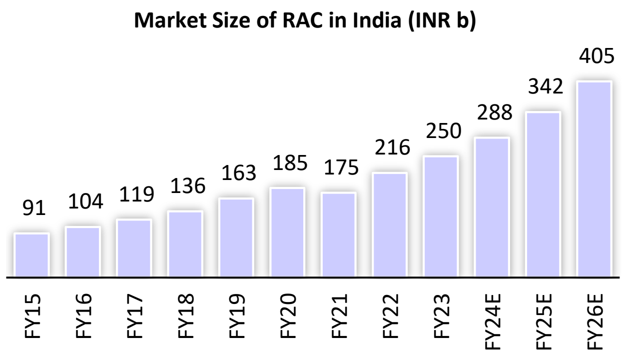
- The Indian room air conditioners (RAC) market registered a CAGR of ~16% over FY15-20; however, volumes in FY21 declined ~21% YoY due to the Covid-19 pandemic. Sales volumes of RAC were estimated to be 8.4m units in FY23, up 31% YoY. In India, room air conditioners (RACs) are estimated to penetrate only about 16-18% of households (as of FY22), which is much lower than ~30% at the global level. Also, in the domestic penetration of other household appliance segments, RACs rank below televisions, refrigerators, and washing machines in order of priority. Low priority for RACs on the purchase list is evident, specifically in rural areas. However, ACs is likely to become more affordable with the government's production-linked incentive schemes (PLIs).
- The government has introduced a PLI Scheme tailored for specifically for AC manufacturers. This scheme aims to provide financial incentives to promote domestic manufacturing and attract large investments in white goods manufacturing value chain. The primary objective of this initiative are to address sectoral challenges, leverage economies of scale, boost exports, foster a robust component ecosystem, and generate employment opportunities. We expect sales volumes of RACs to register a CAGR of ~14% over FY23-26 to reach 12.4m units.

Exhibit 22: RACs to register volume CAGR of 14% over FY23-26…



Source: MOFSL, Industry

Exhibit 23: …leading to 17% CAGR in value terms

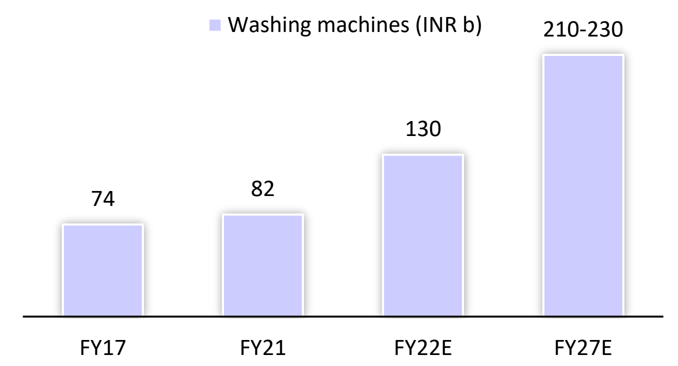


Source: MOFSL, Industry

Washing Machines: Estimated to register a CAGR of 10-12% with higher share of fully automatic machines

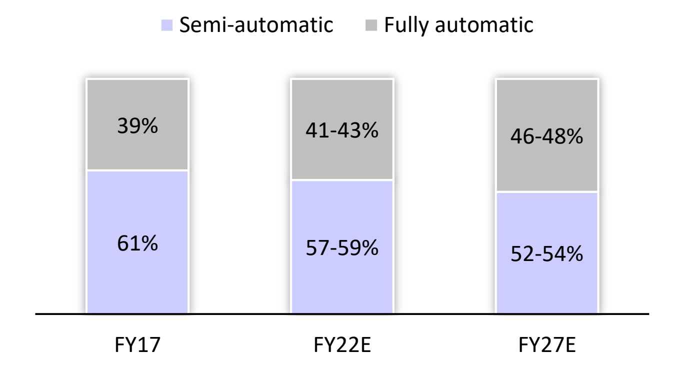
- Demand for washing machines (WMs) has registered a CAGR of 8% over FY17-22, led by an increase in discretionary spending; expanding electrification and rising hygiene awareness. The segment is estimated to register a CAGR of 10-12% over the next few years, driven by rising income levels, urbanization, easy financing options, and replacement demand (average replacement cycle of 8-9 years). The estimated penetration level of WMs in FY22 stood at 20-22% of the total number of households.

Exhibit 24: Market size of WMs to grow over the next few years



Source: MOFSL, Industry, EMIL RHP

Exhibit 25: Fully automatic WMs share should increase

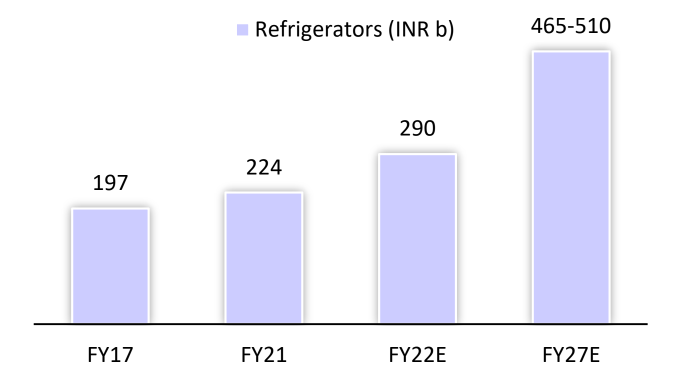


Source: MOFSL, Industry, EMIL RHP

Refrigerators & Televisions: Refrigerators to register a CAGR of 10-12% over FY22-27; TVs at 5-7% CAGR

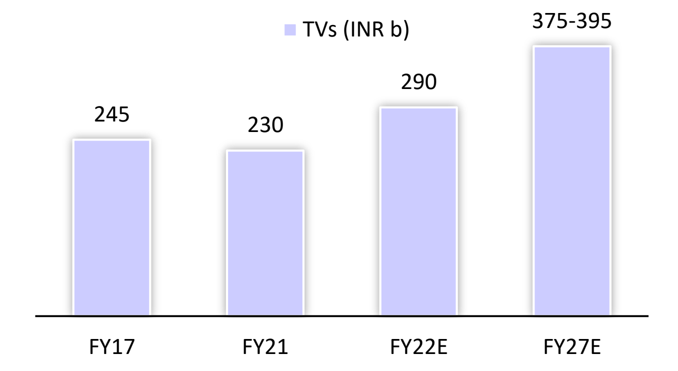
- Market size of refrigerators is estimated to register a CAGR of 8% over FY17-22 and it is expected to continue at 10-12% CAGR over FY22-27E. The penetration level of refrigerator was estimated at 39-41% in India in FY22; better than RACs and WMs; but lower than Televisions. The market size of Televisions (TVs) was estimated at ~INR290b in FY22 and it is estimated to register a CAGR of 5-7% over the next few years. The penetration level of TVs was estimated at 58% of the total number of households in FY22.

Exhibit 26: Refrigerators to register a CAGR of 10-12%



Source: MOFSL, Industry, EMIL RHP

Exhibit 27: TV growth slows down due to increased penetration

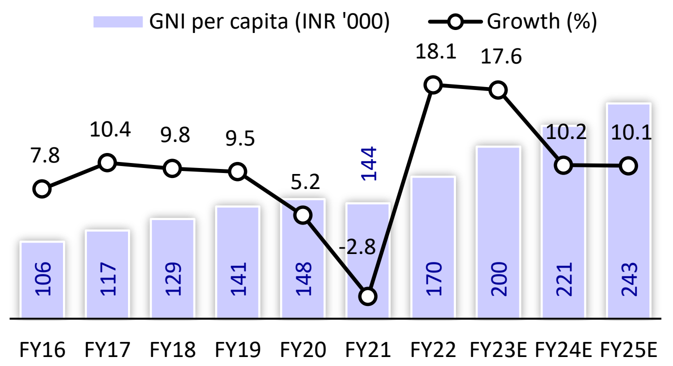


Source: MOFSL, Industry, EMIL RHP

Industry growth drivers: rising income levels and better penetration to drive growth

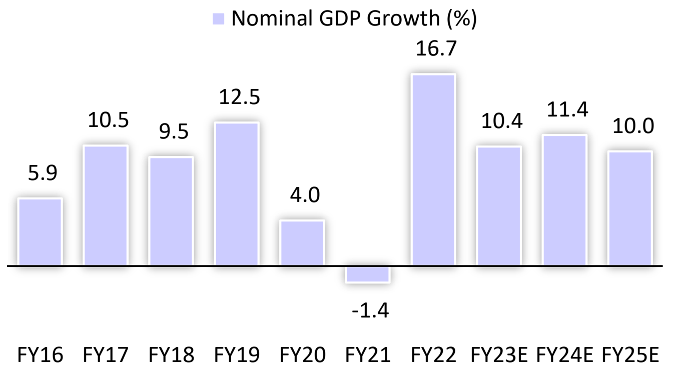
- The penetration of consumer durables in the Indian market has been rising steadily over the years. Economic growth, urbanization, shifting aspirations and lifestyles, technological advancement, government efforts, enhanced distribution and retail infrastructure and better financing options all contribute to increased penetration levels.

Exhibit 28: Rising per capital income…



Source: MOFSL, Industry, RR Kable DRHP

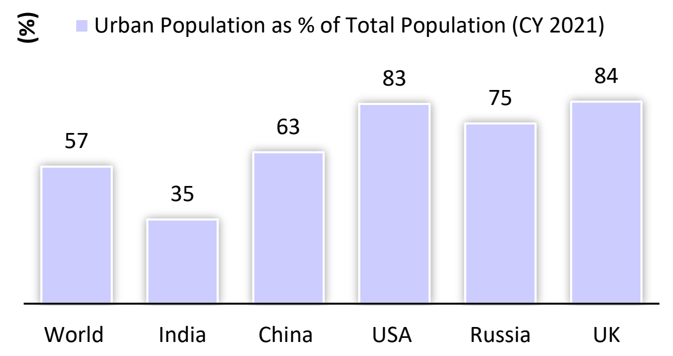
Exhibit 29: …with sustained economic growth



Source: MOFSL, Industry, RR Kable DRHP

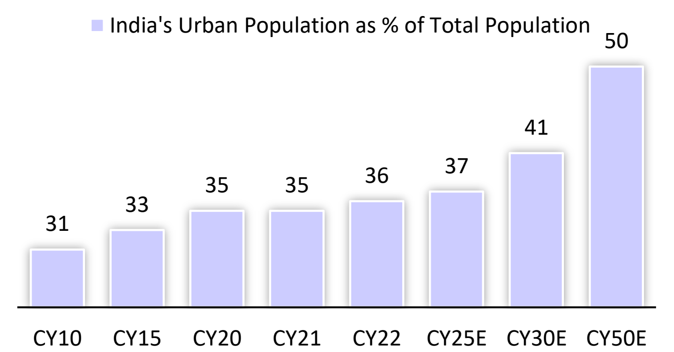
- As people move to cities for better job opportunities, education, and a better standard of living, the urban population has grown. Rising per capita income and urbanization trends are likely to boost penetration in the industry.

Exhibit 30: Urban population in India is below global avg.



Source: MOFSL, Industry, RR Kable DRHP

Exhibit 31: India's urban population % is rising

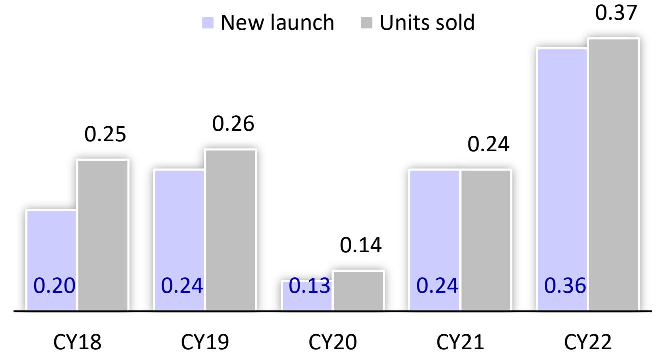


Source: MOFSL, Industry, RR Kable DRHP

Exhibit 32: Housing for all scheme to drive demand for household appliances

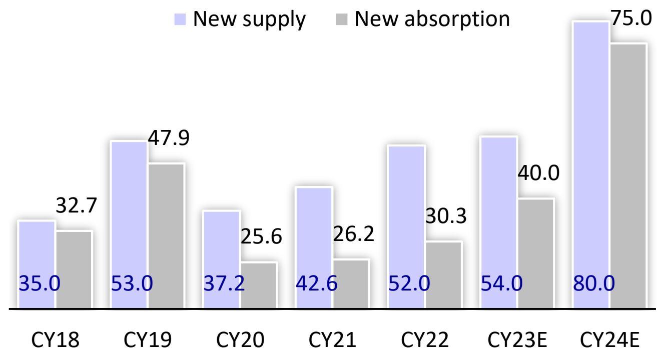
Source: MOFSL, Industry, RR Kable DRHP, Note: House completed as of Apr'23, House left for construction are likely to be completed by CY24

Exhibit 33: Supply of residential houses increased in top seven cities in CY22 (in m)



Source: MOFSL, Industry, RR Kable DRHP

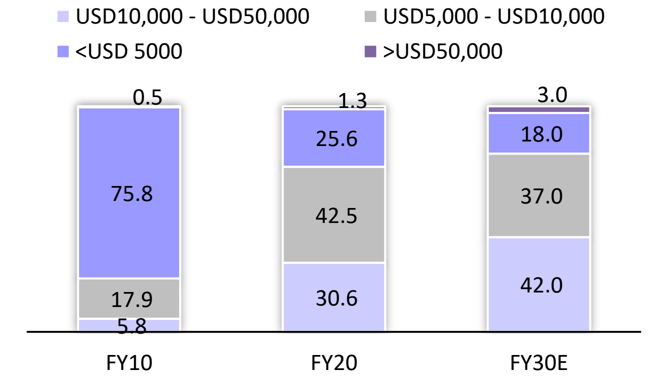
Exhibit 34: Supply and absorption rate increases for office space in India (In m sq. ft.)



Source: MOFSL, Industry, RR Kable DRHP

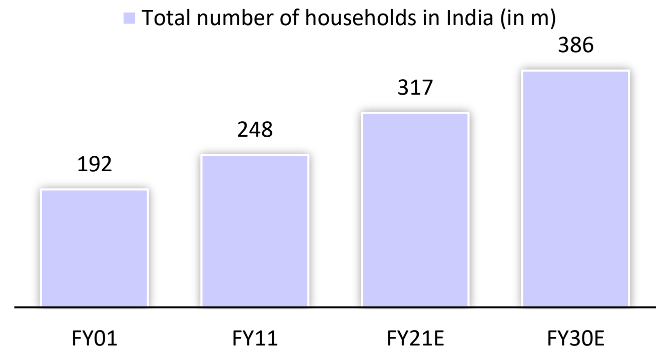
- Census 2021 put India's population at ~1.39b with ~317m households. The growth in the number of households (CAGR of 2.5% over FY11-21) exceeds the population growth (CAGR of 1.5% over FY11-21), which indicates an increase in the trend of nuclear families in India. Growth in the number of nuclear families is leading to an increase in the number of households, thereby creating a strong demand for housing units and discretionary items including consumer electricals in India.

Exhibit 35: Households with annual earnings of USD10,000 to USD50,000 is rising in India



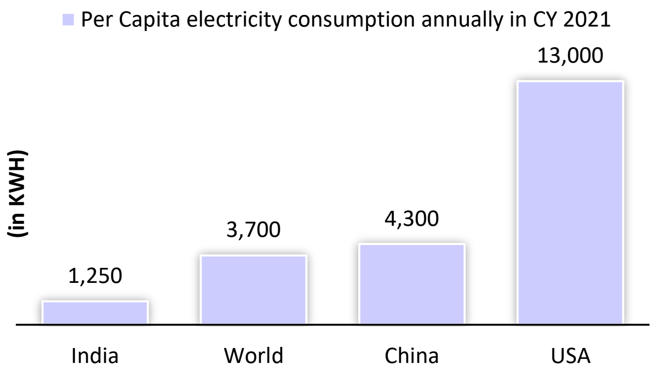
Source: MOFSL, Industry, RR Kable DRHP

Exhibit 36: Households in rising trend; indicates an increase in nuclearization in India



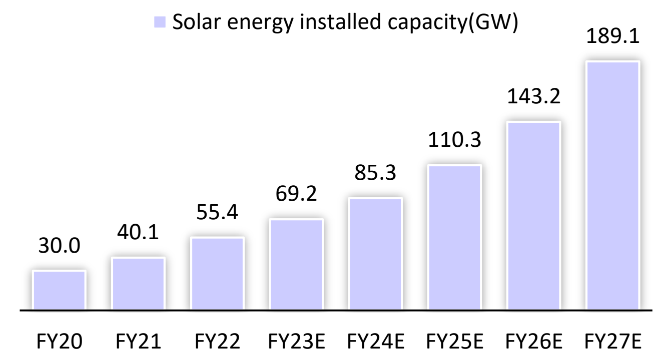
Source: MOFSL, Industry, RR Kable DRHP

Exhibit 37: Increase in per capital electricity consumption should drive demand for W&C in India



Source: MOFSL, Industry, RR Kable DRHP

Exhibit 38: Surge in solar power capacity to drive demand for W&C and connect long-distant grids with each other

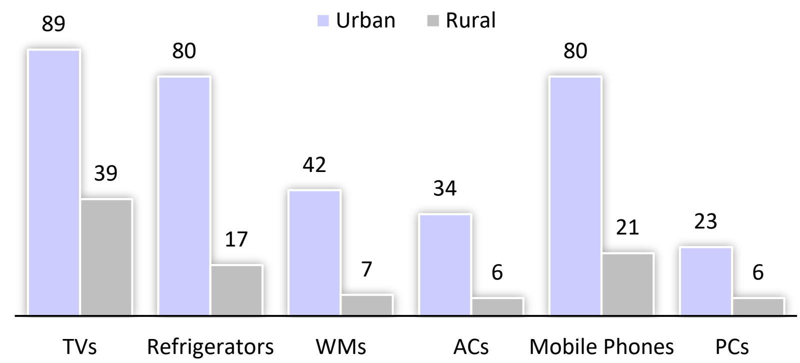


Source: MOFSL, Industry, RR Kable DRHP

India lags global average in consumer durable penetration

- Household penetration of consumer durables in India remains much lower than that of many developed and developing nations. Only 17% households in India own an RAC compared with above 90%+ in China, Japan, and the United States. Though the penetration levels of washing machines at 21% is better than RACs, it is still much lower than the global averages. Even in the case of TVs, the most penetrated product, India's level is around 58% compared with >95% for Brazil and other developing nations.

Exhibit 39: Product-wise household penetration in FY22 (%)



Source: MOFSL, Industry; EMIL RHP

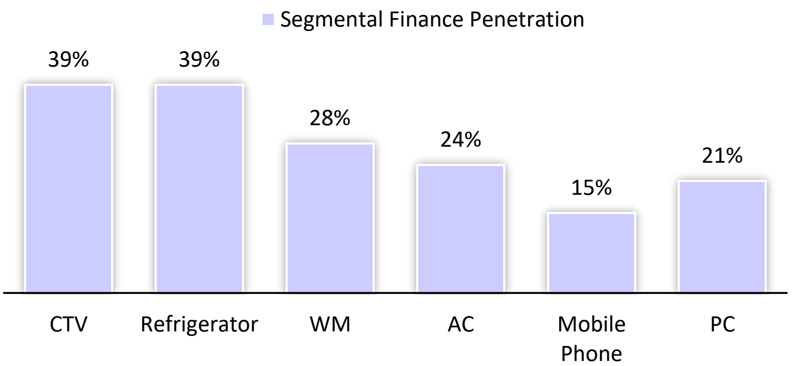
Exhibit 40: Country-wise product penetration (% of House-holds)

	IND	CHN	USA	DEU	JPN	AUS	BRA
Colour TV	58	97	99	97	97	99	96
Refrigerator	40	96	99	99	98	99	98
Mobile Phone	41	97	95	98	97	99	94
WM	21	94	86	96	97	98	67
AC	17	93	92	26	94	80	20
PC	14	60	92	92	80	85	45

Source: MOFSL, Industry; EMIL RHP

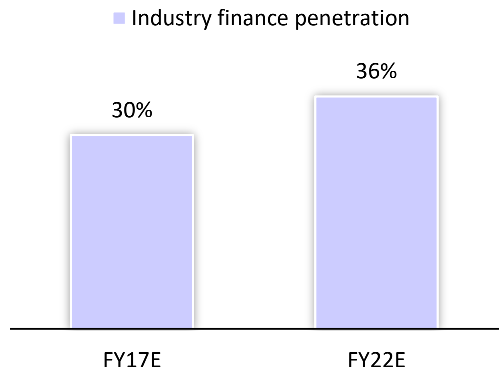
- Consumer durable loans are increasing in popularity. The entry of NBFCs in the consumer durables segment has deepened the penetration of financing options. Finance penetration within the consumer durables industry increased to 33-38% in FY22 from 27-32% in FY17. Within the space, finance penetration is relatively high in the TV and refrigerator segments as compared to RACs and washing machines as these products are more popular with the relatively affluent strata. Paper finance penetration is low in mobile phones and PCs, given the higher interest rates. Most customers opt for credit cards instead of paper finance to buy these devices due to instant cash-back schemes. Going forward as well, finance penetration in the consumer durables segment is expected to deepen further with rising aspirations and finance availability.

Exhibit 41: Segmental Penetration



Source: MOFSL, Industry; EMIL RHP

Exhibit 42: Industry finance penetration



Note: MOFSL, Industry; EMIL RHP

Lloyd: focus on market share gains …

…now among the top three players in RAC

- **Lloyd has gained market share in RACs over the last few years and is now ranked among the top three players in the industry. Market share of the company is estimated to at 10%+ in RACs. The company, over the years, has strengthened its product portfolio with the introduction of Washing Machines, Refrigerators, and Televisions to become a full stack consumer durable player. As of now, ~75% of Lloyd's revenues are from RACs (80% Split and 20% Windows) and the rest is from Washing Machines (mostly semi-automatic), refrigerators, and televisions.**
- **In FY23, Lloyd consumer division revenue increased 49% YoY to INR33.7b (19% CAGR over FY18-23) with a contribution margin of 4.4% vs. 6.9% in FY22. The profitability was adversely impacted due to commodity price pressure and intense competition. Also, continued investments in brand development (~5% of revenues in A&P) and commissioning of new plant in Sri City, Andhra Pradesh led to higher losses at EBIT level.**
- **HAVL continues its strategy of in-house production and has set up two RAC plants (Neemrana, Rajasthan and Sri City, Andhra Pradesh) over the last few years. It also set up production units for semi-automatic Washing Machines (capacity of 0.3m units). The management believes that in-house production would help in the long-run due to better controls on production and improved channel confidence.**

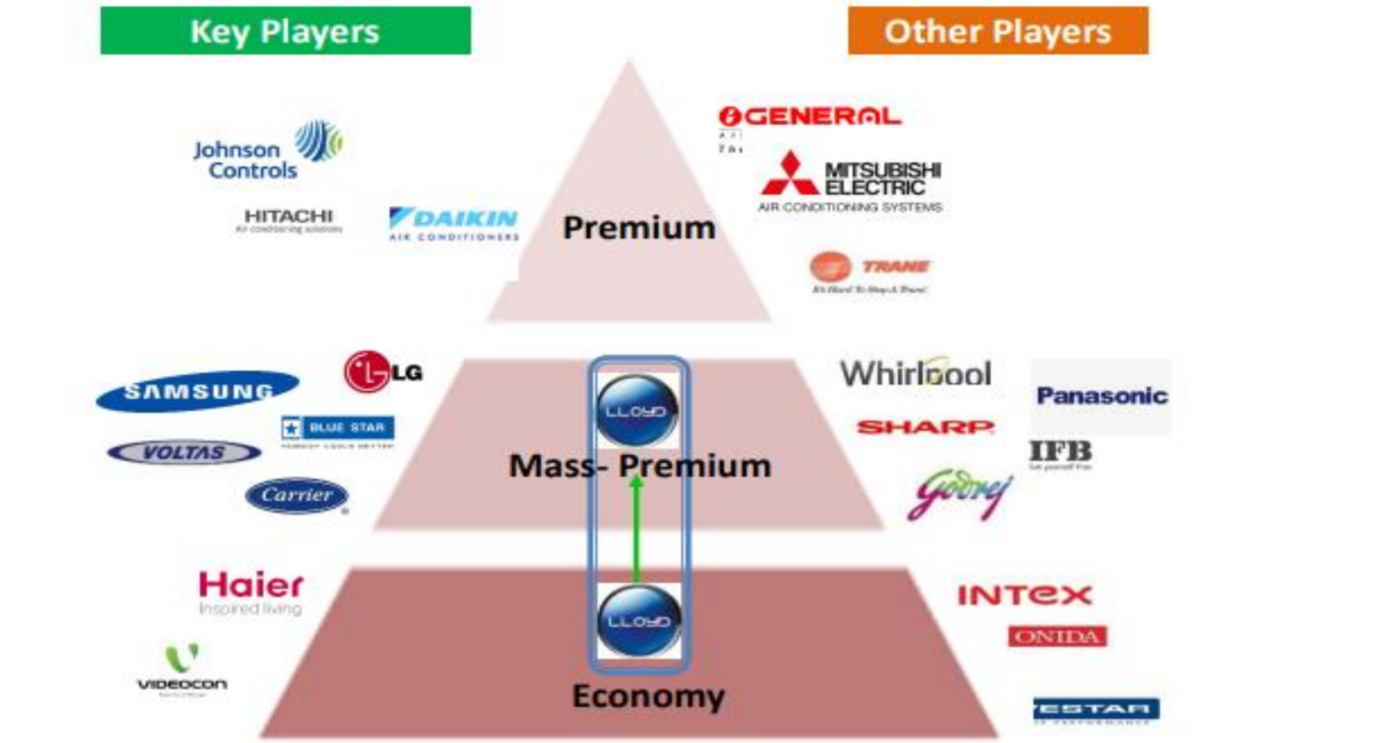
- The acquisition of Lloyd's consumer business in FY18 helped HAVL to make an entry into the fast growing white goods segment and over the years, it has diversified its product portfolio by introducing washing machines and refrigerators. Lloyd's focus has been on strengthening the brand through channel expansion, innovative product offers and investments in manufacturing and customer outreach. It has set up plants for manufacturing of RACs (current capacity: 2m units) and washing machines (current capacity: 0.3m units) in the last few years.

Exhibit 43: A full stacked consumer appliances play

Source: MOFSL, Company

- Lloyd has seen improvements in business since its acquisition by HAVL in 2017 and its revenues registered a CAGR of 19% over FY18-23. However, increased competition by global as well as domestic players has adversely impacted the profitability of the company. The company's performance was also affected by the industry's inability to pass on cost increases in FY22/23 and continued investments in brand development initiatives.
- Investments in brand development initiatives, increased distribution reach, and confidence of trade channels through in-house production have helped Lloyd to position its products from Mass to Mass Premium positioning. The company has 600+ service centers pan-India with presence across 450+ cities.

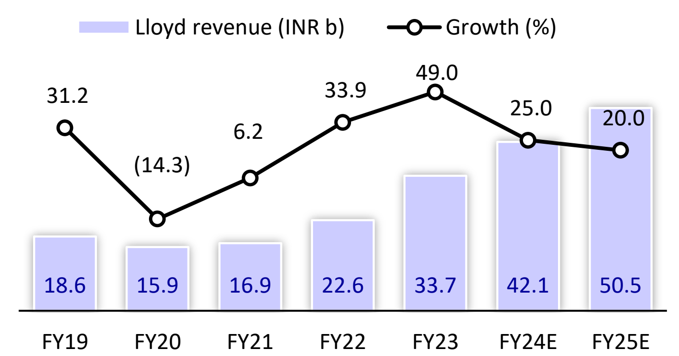
Exhibit 44: Air conditioner market in India: Lloyd improved its positioning to Mass Premium brand



Source: MOFSL, Company

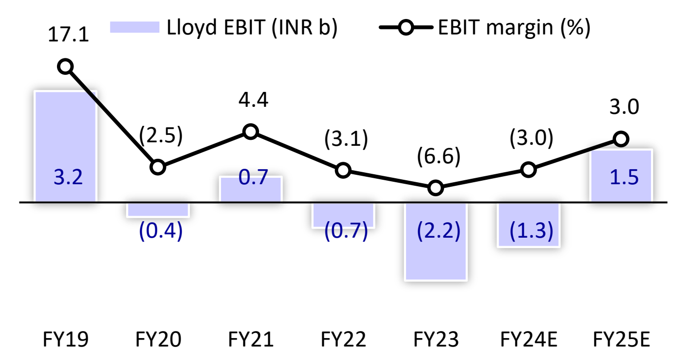
- In FY23, Lloyd's share in the total company's revenue stood at 20%. We estimate Lloyd's revenue share to increase to 22.2%/23.5% in FY24/FY25E. We estimate Lloyd's revenue CAGR of 22.5% over FY23-25E and expect it to become EBIT positive by FY25E.

Exhibit 45: Revenue growth is estimated to remain healthy



Source: MOFSL, Company

Exhibit 46: Expect to generate EBIT of INR1b by FY25

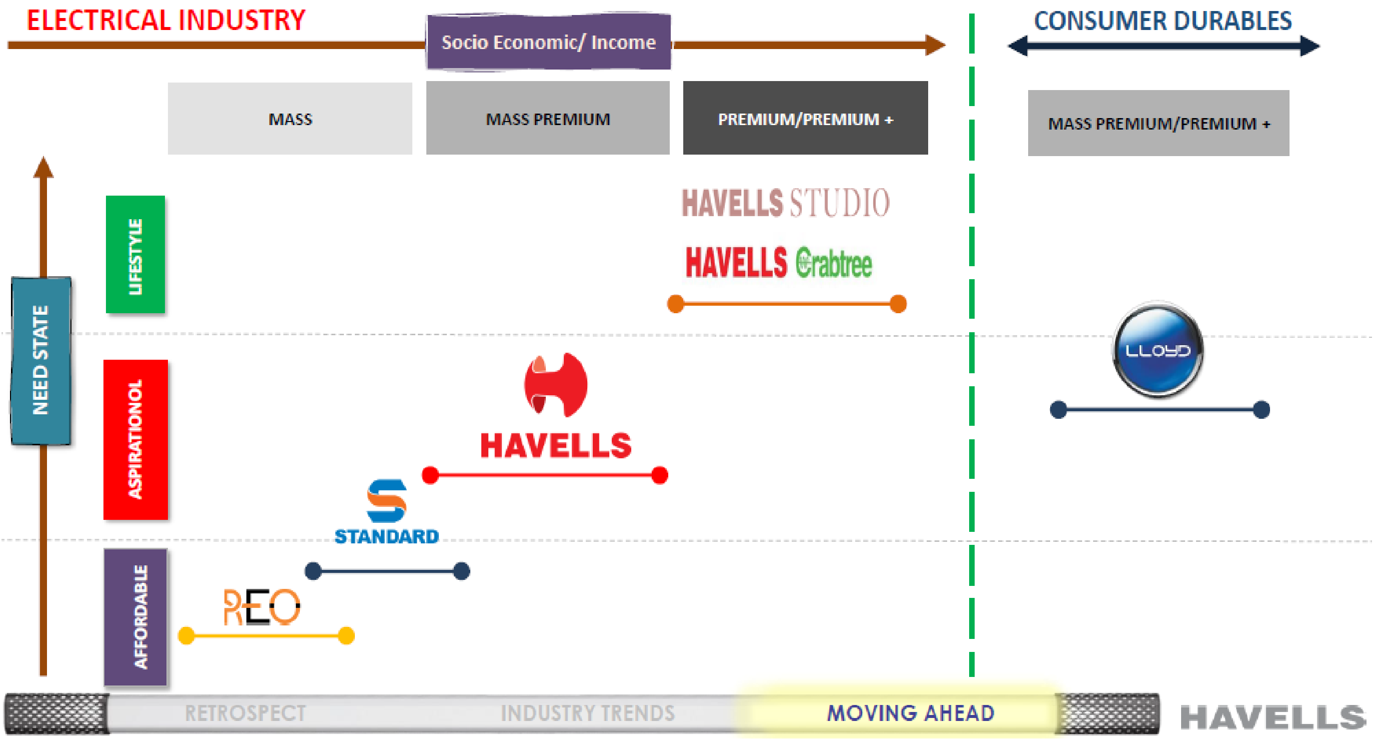


Source: MOFSL, Company

Focus on strengthening distribution channels

- HAVL has continued its growth journey by leveraging a robust product portfolio, a strong brand presence, and an extensive network. The company owns six brands and has a wide product range in FMEG, which covers switchgear, cables, lighting and fixtures, fans, water heaters, motors, solar, pump, water purifiers, air conditioners, televisions, washing machines, and refrigerators. Driven by strong R&D, innovative offerings, the company is among the top three players in most of the key categories in the appliance space.

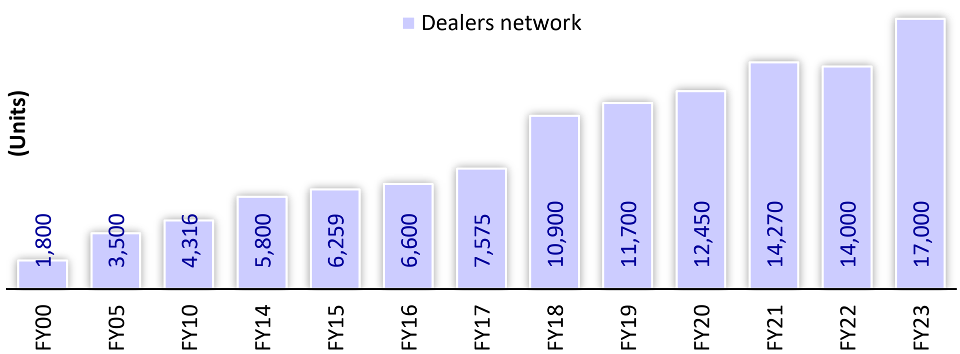
Exhibit 47: Brand positioning across different consumer groups and socio economic/income



Source: MOFSL, Company

- Initially, the focus of the company was on traditional brick and mortar channel (dealers and distributors - this vertical serves thousands of Multi-brand Outlets) in the urban markets. It has continuously increased its dealers' network which now stands at ~17,000 (CAGR of 11% over FY10-23).

Exhibit 48: HAVL has a strong dealer network of ~17000



Source: MOFSL, Company

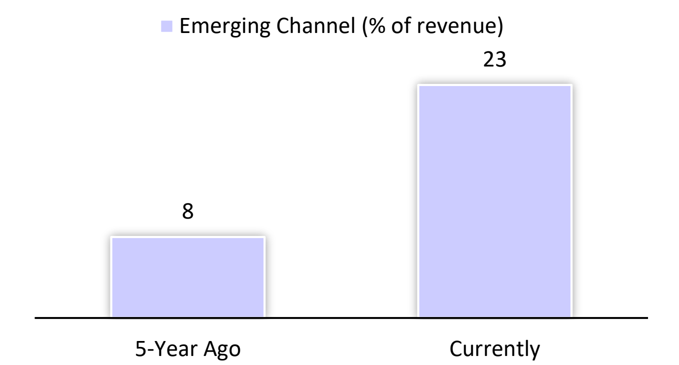
- There has been a shift in consumer's buying preferences and now they approach markets through various digital and physical platforms. Omni-channel approach helps to cater to customers as per their preference. Over the years, the company has multiplied its GTM (Go-to-market) into a multi-channel offering. HAVL was the pioneer of the concept of brand shops in the electrical industry. It has 600+ Havells Galaxies across the country, which offers a wide variety of products for different applications.
- HAVL is among the most penetrated FMEG companies in rural markets, where it has gained market share across categories along with increased distribution penetration under "Rural Vistaar" initiative. It has over 400 exclusive stores "Havells Utsav" for reaching towns with a population of less than 10,000 and intends to increase the store counts to 2,000 in FY24E.

Exhibit 49: Omni-channel approach– broadening route to markets

Source: MOFSL, Company

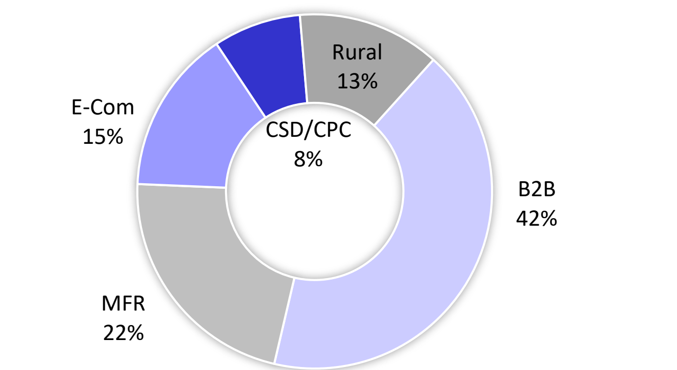
- The company expanded its presence in emerging channels such as E-commerce and Modern Format Retail (MFR) and has strengthened its position as one of the most penetrated FMEG brands in the rural markets.

Exhibit 50: Revenue share of emerging channel increases



Source: MOFSL, Company

Exhibit 51: Emerging channel mix

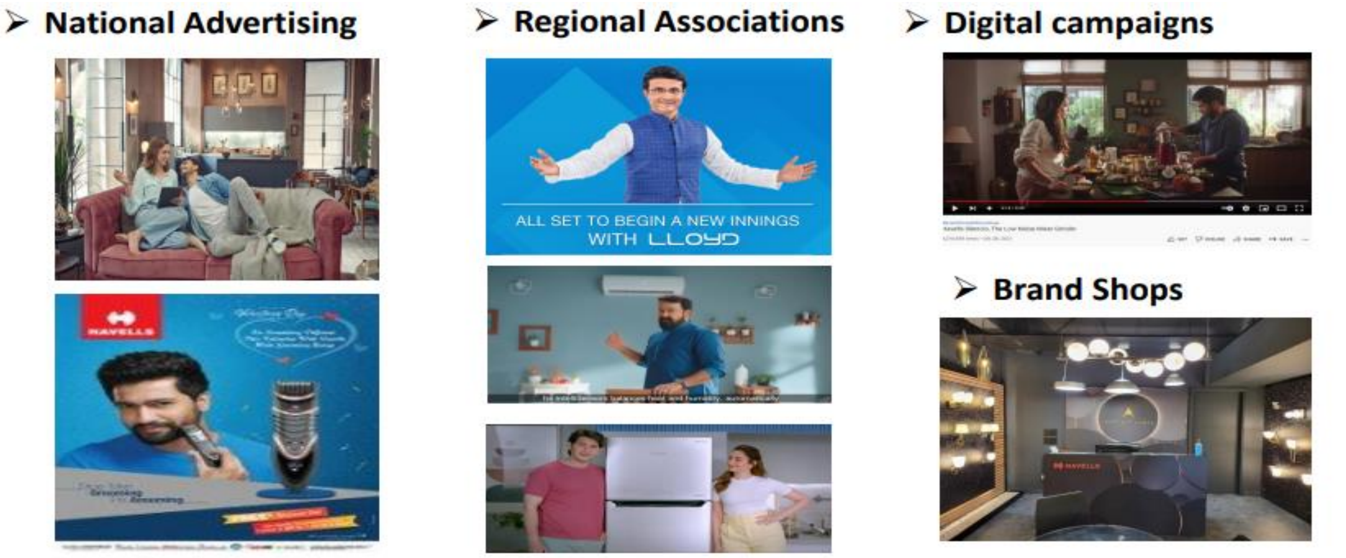


Source: MOFSL, Company

Higher AD and R&D spends help in brand building

- HAVL is focused on enhancing brand affinity, brand equity, and brand image through advertising initiatives. These efforts include national advertising campaigns, regional brand ambassador associations, celebrity engagements, digital marketing campaigns, establishment of brand shops, in-shop advertising, participation in trade shows, and more. By leveraging multiple channels, HAV has been able to reach out and connect with a wider audience. In FY23, prominent advertising campaigns included “Wires that don’t catch fire” and “Hawa Badlegi”.

Exhibit 52: Focus on branding

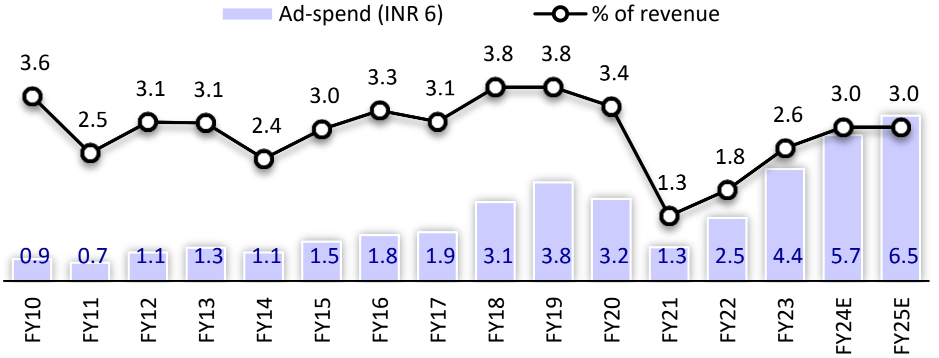


Source: MOFSL, Company

On an average, HAVL spends 2.8% of its revenue on advertising; we estimate it to rise to 3% of revenue in FY24-25

- HAVL’s advertising and promotion spending increased 77% YoY to INR4.4b in FY23, mainly due to the low base effect as the branding spends were muted in FY21/22 due to the Covid-19 pandemic. However, AD spends have registered a CAGR of 14% over FY15-23 and the company spent 2.6% of its revenues toward the same in FY23. On a cumulative basis, the company has spent INR28.6b toward AD spends over FY10-23 (2.8% of its revenues). We estimate AD spends to be at 3% of revenues in FY24/25.

Exhibit 53: Cumulative AD spend at 2.8% of revenues over FY10-23; estimate it to be at 3% in FY24/25

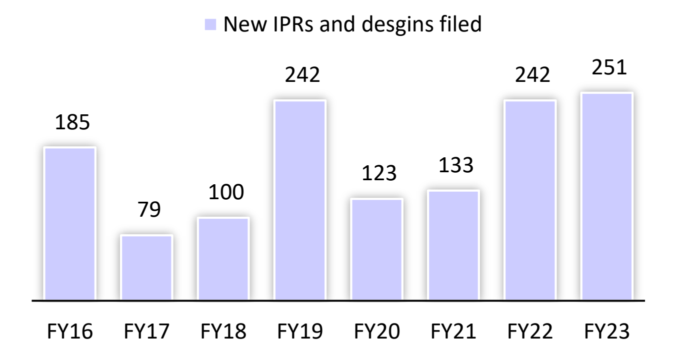


Source: MOFSL, Company

Evolving customer needs has led to higher R&D spends

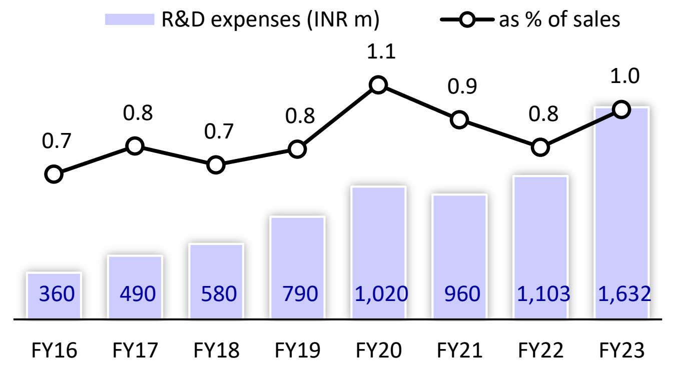
- HAVL has continued its investment in R&D to build a scalable product portfolio and its focus has been on product quality, improvement in operational efficiency, optimal use of assets, high level of automation, and backward integration. The company's strong R&D helps it in differentiated product offerings. In FY23, R&D spends increased 48% YoY to INR1.6b with the company spending 1% of its revenues (vs. 0.8% in FY22) toward the same. In FY23, HAVL applied for 38 new patents and 213 new design registrations, taking the tally to 150 patents and 985 designs filed up to FY23. The company held 21 patents as of FY23. With these R&D efforts, the company has completed 342 new product development (NPD) projects.

Exhibit 54: Trend in new IPRs filings



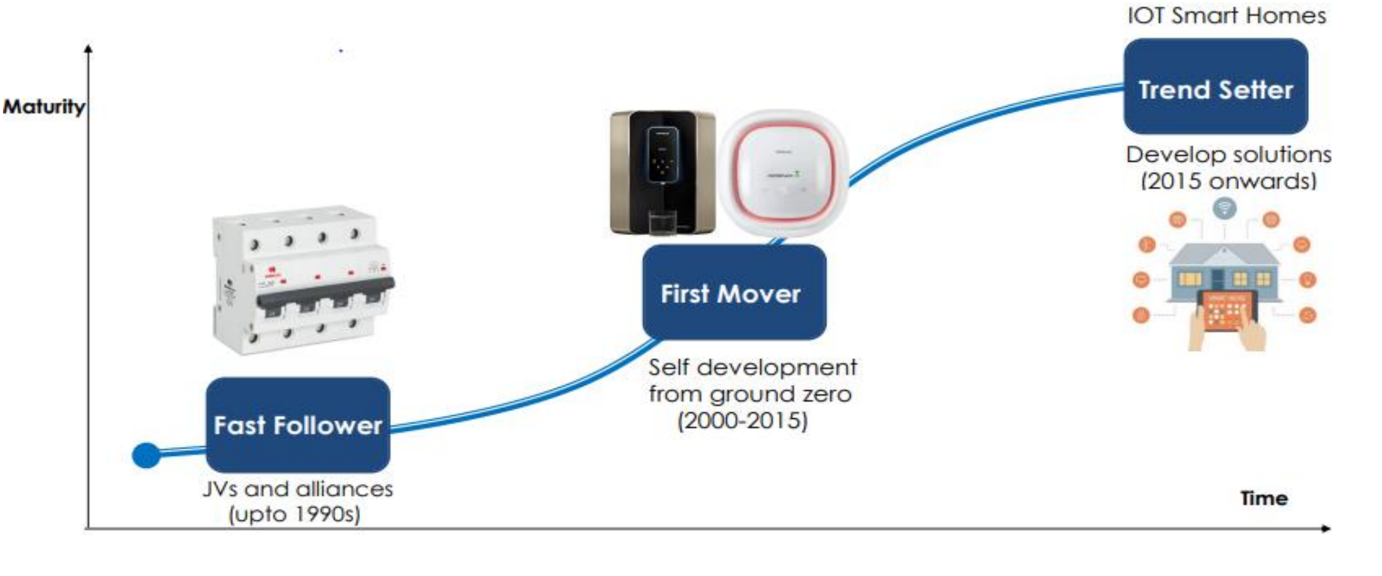
Source: MOFSL, Company

Exhibit 55: Rising trend of R&D expenses



Source: MOFSL, Company

Exhibit 56: R&D helped to get first-mover advantage



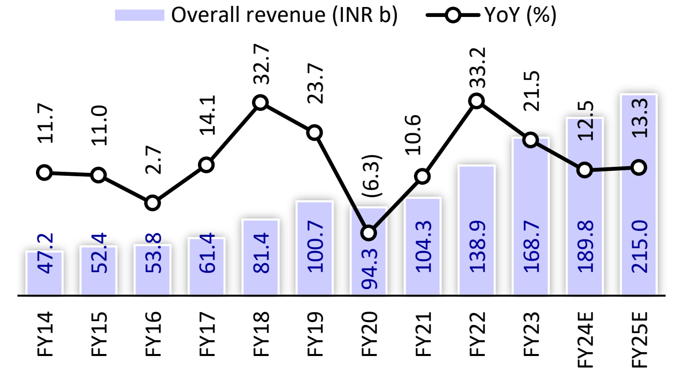
Source: MOFSL, Company

Financial outlook

Revenue CAGR of ~13% expected over FY23-25

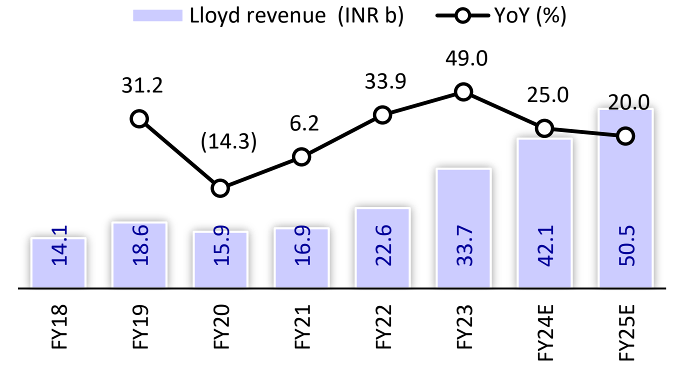
We expect HAVL to report ~13% revenue CAGR over FY23-25. However, excluding Llyod, revenue is expected to register a CAGR of ~10% over FY23-25. Revenue CAGR across segments is estimated as follows: Cables and Wires (11%), Switchgears (11%), Lighting and Fixtures (10.5%), Lloyd (22.5%), and other ECDs (9%).

Exhibit 57: Revenue CAGR to be at 13% over FY23-25



Source: MOFSL, Company

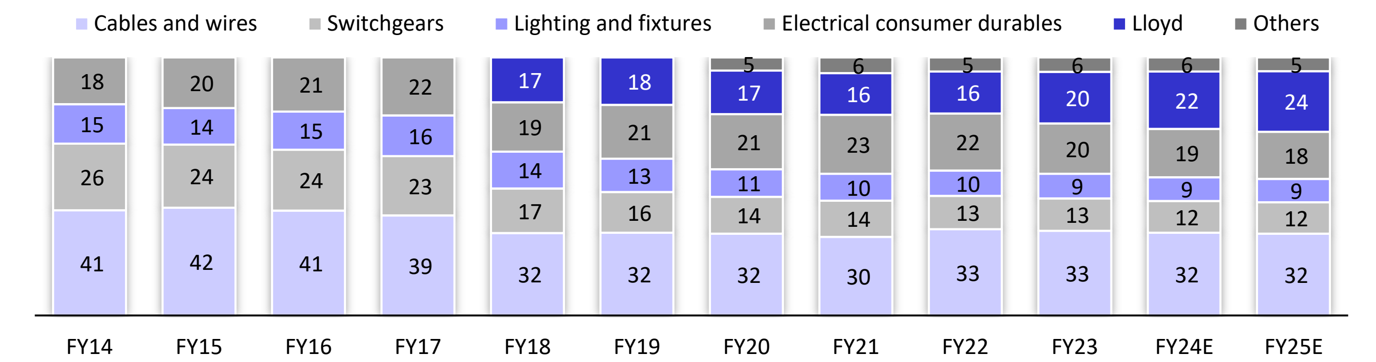
Exhibit 58: Lloyd revenue to register a CAGR of 22.5%



Source: MOFSL, Company

HAVL's dependence on revenue from the Cables & wires and Switchgear business has reduced over the last decade due to strong growth in the ECD and diversification with Lloyd's acquisition. Cables and Wires constituted 33% of total sales in FY23, down from 41% in FY14. Switchgear constituted 13% of total sales in FY23, down from 26% in FY14. We expect Cables & Wires and Switchgear segments' contribution to revenues to be at 32%/12% in FY24/25E.

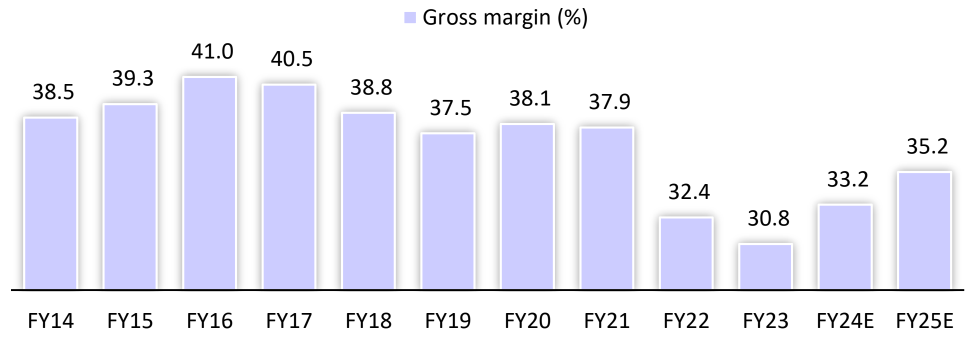
Exhibit 59: While revenue contribution of W&C is expected to reduce, it is expected to increase from Lloyd



Source: MOFSL, Company

In FY23, Gross margin was under significant pressure (lowest in a decade) due to higher commodity prices as the company was not able to pass on the entire cost escalation to the consumers. Going forward, we estimate gross margins to improve, supported by cooling off of commodity prices and higher in-house manufacturing (~90% of the products sold are manufactured in-house). In-house manufacturing offers several benefits, including full control over the supply chain and efficient working capital management.

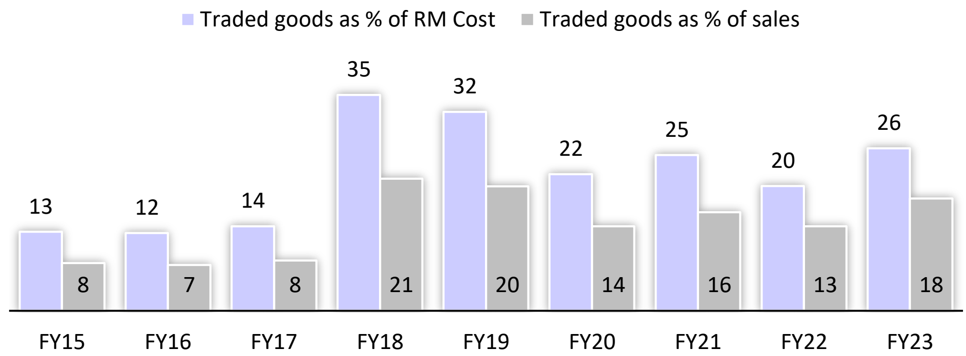
Exhibit 60: Gross margin will increase in FY24-25E; however, it remains below pre-Covid levels



Source: MOFSL, Company

In FY23, traded goods purchase increased primarily in the Lloyd business. However, we believe this should decline going forward, aided by the company's new greenfield AC manufacturing plant, commissioned at Sri City. This is a fully integrated plant and would facilitate the production of ACs every 20 seconds. This will increase the company's AC sale in southern India as well as exports. The company also initiated in-house production of washing machines, beginning with a semi-automatic model.

Exhibit 61: Traded goods share to come down with higher focus on in-house manufacturing

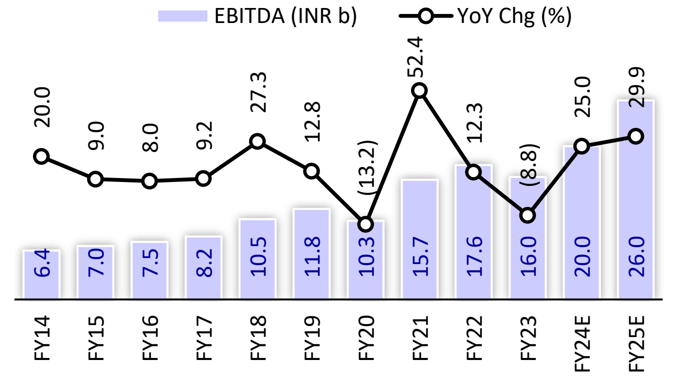


Source: MOFSL, Company

Estimate EBITDA CAGR at 27% over FY23-25E

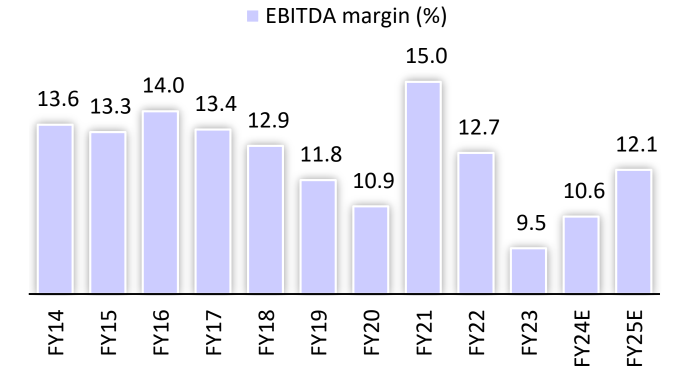
- EBITDA of the company declined 9% YoY in FY23, despite a 21% revenue growth, mainly due to steep commodity pricing pressure and intense competition. In FY23, the company witnessed margin pressure across segments and its EBITDA margin contracted 315bp YoY to 9.5% (the lowest in a decade). We expect an improvement in profitability due to several factors: 1) the softening of commodity inflation; 2) a rise in the proportion of premium products in the product-mix; 3) the growing contribution from in-house manufacturing; and 4) reduced losses in the Lloyd business. Further, rising consumer preference for branded products and higher AD spends should drive market share gain for HAVL.
- We estimate HAVL's to report 27% EBITDA CAGR over FY23-25. We have estimated EBITDA margin to be at 10.6%/12.1% in FY24/FY25E vs. 9.5% in FY23 (average 12.6% over FY18-22).

Exhibit 62: EBITDA to register a CAGR of 27% over FY23-25



Source: MOFSL, Company

Exhibit 63: EBITDA margin to improve in FY24-FY25

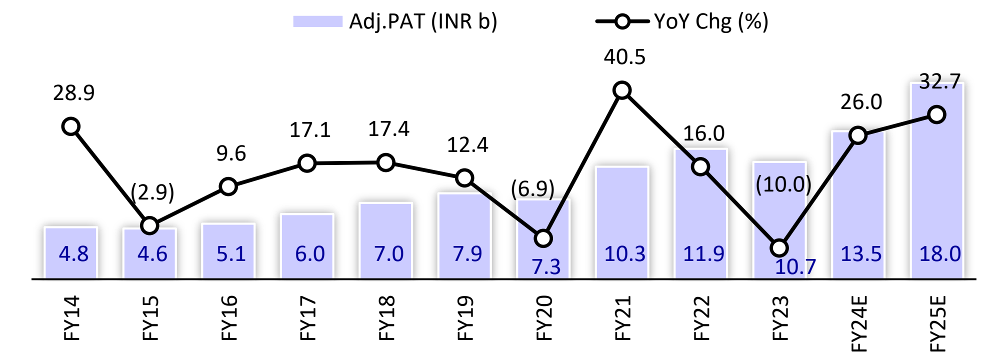


Source: MOFSL, Company

PAT CAGR of 29% over FY23-25E

We expect HAVL to clock a 29% PAT CAGR over FY23-25, led by EBITDA CAGR of 27%. Depreciation is likely to register a CAGR of 11%, due to commissioning of new plants; while other income should register a CAGR of 10% over FY23-25E. We estimate PAT margin to be at 7.1%/8.4% in FY24/25E vs. 6.4% in FY23 (average 8.5% in FY18-22).

Exhibit 64: Profits to grow 26%/33% YoY in FY24/25

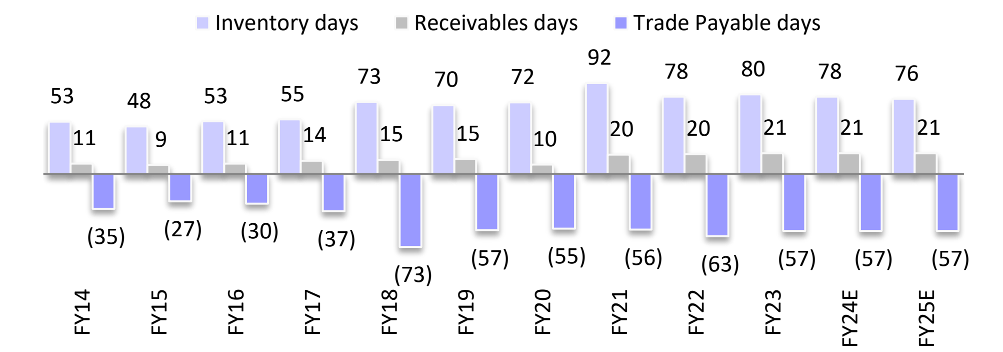


Source: MOFSL, Company

Working capital cycle to remain stable

We expect consolidated working capital to remain between 40 and 42 days over FY24-25E vs. 44days in FY23 (36 days in FY22 and an average of 31 days over FY17-21).

Exhibit 65: Working capital days to remain under control

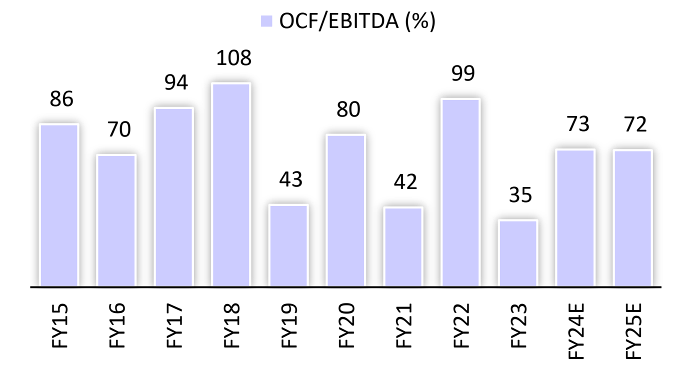


Source: MOFSL, Company

Continues to generate healthy Operating cash and free cash flow

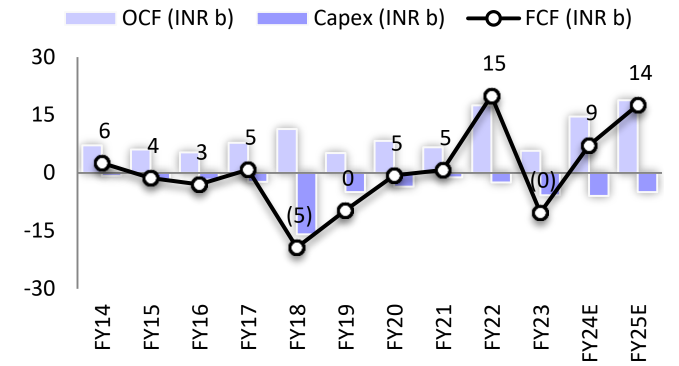
The company invested in building in-house manufacturing capabilities and despite this, it has generated healthy free cash flows over the years. We expect free cash flow generation to accelerate in the coming years, aided by increasing profitability. Its cumulative OCF is expected to be at INR33b over FY24-25E vs. INR23b over FY22-23 (INR15b over FY20-21). Cumulative capex over FY24-25E should be at INR11b vs. INR8.5b over FY22-23.

Exhibit 66: OCF/EBITDA conversion of 72-73% over FY24-25E



Source: MOFSL, Company

Exhibit 67: Free cash flows to increase with robust OCF

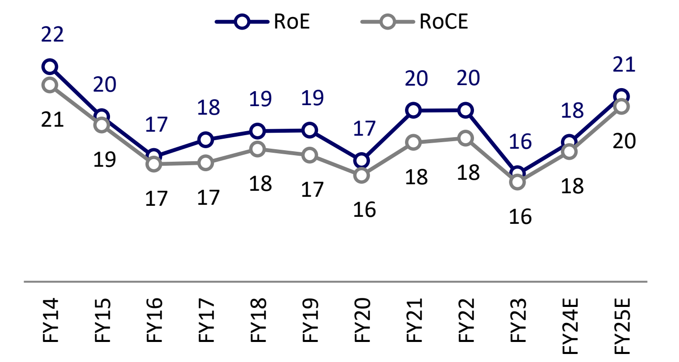


Source: MOFSL, Company

Return ratios to improve

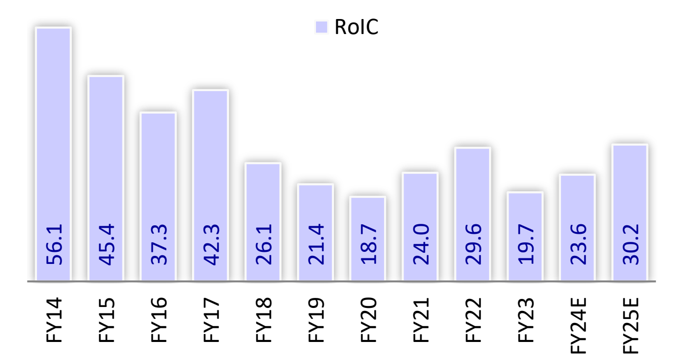
We estimate HAVL's RoE/ROCE to be at 18% (both) in FY24 and 20%/21% in FY25E after declining to 16% (both) in FY23. RoIC will be at 30%/23.6% in FY24E/25E after declining to 19.7% in FY23.

Exhibit 68: RoE/RoCE to improve in FY24-25E



Source: MOFSL, Company

Exhibit 69: RoIC to remain strong



Source: MOFSL, Company

Exhibit 70: Du-pont analysis

Particulars	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
PAT/PBT	0.72	0.72	0.72	0.70	0.69	0.81	0.74	0.74	0.74	0.74	0.74
PBT/EBIT	1.06	1.09	1.17	1.10	1.11	1.11	1.05	1.07	1.11	1.09	1.08
EBIT/Sales	0.12	0.12	0.11	0.11	0.10	0.09	0.13	0.11	0.08	0.09	0.10
Asset turnover	2.09	1.74	1.71	2.01	2.19	2.04	1.74	2.06	2.42	2.42	2.38
Assets/Equity	1.05	1.04	1.10	1.08	1.10	1.08	1.16	1.12	1.05	1.05	1.04
ROE (%)	19.6	17.3	18.2	18.7	18.8	17.0	19.9	20.0	16.3	18.1	20.7

Source: MOFSL, Company

Segmental result and assumptions

Revenue breakup (Products)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Cable and wires	32,346	29,942	31,802	46,451	55,326	60,859	68,162
Growth	24.4	(7.4)	6.2	46.1	19.1	10.0	12.0
Switchgears	15,777	13,394	14,609	17,864	21,196	23,316	26,114
Growth	12.1	(15.1)	9.1	22.3	18.7	10.0	12.0
Lighting and fixtures	13,035	10,143	10,846	13,709	16,015	17,457	19,551
Growth	12.7	(22.2)	6.9	26.4	16.8	9.0	12.0
Electrical consumable durables	20,964	20,054	23,770	30,669	32,958	35,595	39,154
Growth	34.4	(4.3)	18.5	29.0	7.5	8.0	10.0
Lloyd	18,556	15,903	16,888	22,606	33,686	42,107	50,528
Growth	31.2	(14.3)	6.2	33.9	49.0	25.0	20.0
Others		4,857	6,365	7,587	9,503	10,453	11,498
Growth			31.1	19.2	25.2	10.0	10.0
Total	**1,00,677**	**94,292**	**1,04,279**	**1,38,885**	**1,68,684**	**1,89,786**	**2,15,008**
% breakup	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**
Cable and wires	32.1	31.8	30.5	33.4	32.8	32.1	31.7
Switchgears	15.7	14.2	14.0	12.9	12.6	12.3	12.1
Lighting and fixtures	12.9	10.8	10.4	9.9	9.5	9.2	9.1
Electrical consumable durables	20.8	21.3	22.8	22.1	19.5	18.8	18.2
Lloyd	18.4	16.9	16.2	16.3	20.0	22.2	23.5
Others	-	5.2	6.1	5.5	5.6	5.5	5.3
EBIT & EBIT margins (%)	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**
Cable and wires	5,217	3,321	4,038	5,403	5,247	6,694	7,839
EBIT margin	16.1	11.1	12.7	11.6	9.5	11.0	11.5
Switchgears	6,287	3,249	4,047	4,908	5,564	6,062	6,920
EBIT margin	39.8	24.3	27.7	27.5	26.2	26.0	26.5
Lighting and fixtures	3,668	1,457	2,041	2,576	2,469	2,880	3,422
EBIT margin	28.1	14.4	18.8	18.8	15.4	16.5	17.5
Electrical consumable durables	5,526	2,870	4,037	4,576	4,189	4,805	5,482
EBIT margin	26.4	14.3	17.0	14.9	12.7	13.5	14.0
Lloyd	3,176	(401)	741	(711)	(2,209)	(1,263)	1,516
EBIT margin	17.1	(2.5)	4.4	(3.1)	(6.6)	(3.0)	3.0
Others		(250)	310	567	350	385	424
EBIT margin		(5.1)	4.9	7.5	3.7	3.7	3.7
Total	**23,874**	**10,246**	**15,213**	**17,318**	**15,609**	**19,564**	**25,601**
EBIT margin	23.7	10.9	14.6	12.5	9.3	10.3	11.9
Less: Finance cost	161	197	726	534	336	325	300
Less: Other unallocated expenses	12,252	1,032	599	746	770	963	1,053
as % of rev	12.2	1.1	0.6	0.5	0.5	0.5	0.5
PBT	**11,461**	**9,017**	**13,888**	**16,038**	**14,503**	**18,276**	**24,248**

Quarterly results and estimates

Quarterly Performance (Standalone)

	FY23				FY24E				1QFY24E	
Y/E March	**1Q**	**2Q**	**3Q**	**4Q**	**1QE**	**2QE**	**3QE**	**4QE**	**YoY**	**QoQ**
Sales	**42,301**	**36,689**	**41,197**	**48,496**	**46,941**	**39,600**	**45,081**	**58,163**	11.0%	-3.2%
Change (%)	62.8	13.9	12.8	9.8	11.0	7.9	9.4	19.9		
Adj EBITDA	**3,614**	**2,871**	**4,237**	**5,308**	**4,385**	**4,079**	**4,831**	**6,736**	21.3%	-17.4%
Change (%)	2.3	-35.3	-3.8	2.0	21.3	42.1	14.0	26.9		
Adj EBITDA margin (%)	8.5	7.8	10.3	10.9	9.3	10.3	10.7	11.6	80	(160)
Depreciation	721	721	746	774	789	797	813	892		
Interest	98	68	73	98	78	58	78	111		
Other Income	470	433	399	468	492	457	427	487		
Extra-ordinary items	-	-	-	-	-	-	-	-		
PBT	**3,266**	**2,515**	**3,818**	**4,904**	**4,009**	**3,680**	**4,367**	**6,220**	22.8%	-18.2%
Tax	841	646	978	1,287	1,038	953	1,131	1,607		
Effective Tax Rate (%)	25.8	25.7	25.6	26.2	25.9	25.9	25.9	25.8		
Reported PAT	**2,424**	**1,869**	**2,839**	**3,617**	**2,971**	**2,727**	**3,236**	**4,613**	22.5%	-17.9%
Change (%)	3.5	-38.0	-7.2	2.5	22.5	45.9	14.0	27.5		
Adj PAT	**2,424**	**1,869**	**2,839**	**3,617**	**2,971**	**2,727**	**3,236**	**4,613**	22.5%	-17.9%
Change (%)	3.5	-38.0	-7.2	2.5	22.5	45.9	14.0	27.5		

E: MOFSL Estimates

Segmental Performance (INR m)

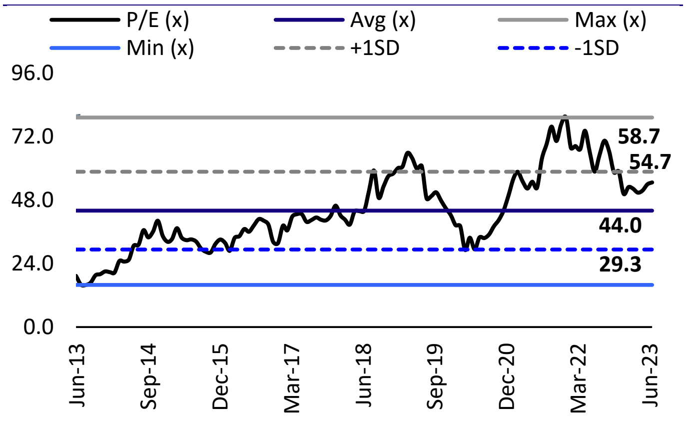
Y/E March	FY23				FY24E				1QFY24E	
Sales	**1Q**	**2Q**	**3Q**	**4Q**	**1QE**	**2QE**	**3QE**	**4QE**	**YoY**	**QoQ**
Switchgear	5,167	4,878	5,141	6,010	5,590	5,478	5,642	6,606	8.2%	-7.0%
Cables & Wires	11,929	13,594	14,121	15,682	13,329	14,929	15,675	16,925	11.7%	-15.0%
ECD	8,381	7,735	9,348	7,495	8,394	7,806	8,977	10,417	0.2%	12.0%
Lighting & Fixtures	3,711	3,970	4,201	4,134	4,009	4,330	4,590	4,527	8.0%	-3.0%
Lloyd	10,837	4,141	6,068	12,640	13,019	4,557	7,746	16,785	20.1%	3.0%
EBIT										
Switchgear	1,353	1,220	1,270	1,721	1,425	1,369	1,439	1,829	5.3%	-17.2%
Cables & Wires	875	859	1,628	1,885	1,533	1,493	1,646	2,023	75.2%	-18.7%
ECD	1,098	901	1,228	962	1,007	937	1,167	1,694	-8.3%	4.7%
Lighting & Fixtures	611	570	534	754	621	693	757	809	1.8%	-17.6%
Lloyd	(559)	(833)	(596)	(221)	(391)	(684)	(457)	268	-30.1%	76.7%
EBIT Margin (%)										
Switchgear	26.2	25.0	24.7	28.6	25.5	25.0	25.5	27.7	(69)	(314)
Cables & Wires	7.3	6.3	11.5	12.0	11.5	10.0	10.5	12.0	417	(52)
ECD	13.1	11.6	13.1	12.8	12.0	12.0	13.0	16.3	(110)	(83)
Lighting & Fixtures	16.5	14.4	12.7	18.2	15.5	16.0	16.5	17.9	(95)	(274)
Lloyd	(5.2)	(20.1)	(9.8)	(1.7)	(3.0)	(15.0)	(5.9)	1.6	216	(125)

Earnings and return ratios to improve; reinitiate with BUY

HAVL should benefit from investment in R&D, in-house manufacturing and strong brand recognition

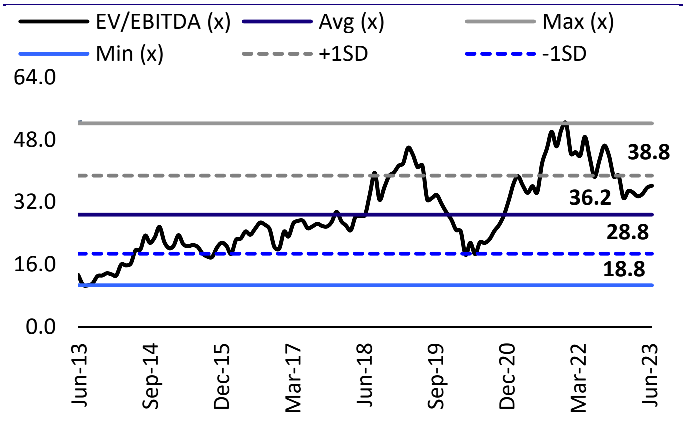
- HAVL, over the years, has established itself as a strong player in various consumer electrical categories, including fans and lighting. This can be attributed to the company's ability to leverage its strengths in the switchgear and cables industries. The company is placed among the Top 3 players in all the electrical segments where it operates. It is trying to replicate its strategy into the Lloyd business and has focused on market share gains, in-house manufacturing, expansion of distribution network, etc.
- The company's earnings were adversely impacted in FY22/23 on 1) higher RM costs, which led to a decline in gross margins to 32.4%/30.8% in FY23/24 vs. 37.9% in FY21; 2) higher competitive intensity in RAC and 3) transition toward new BEE norms putting pressure on the revenues/profitability of the ECD segment (fans contribute 60-65% of the revenues) as there were uncertainties in the trade channels.
- Going forward, we expect EBITDA and EPS to register a CAGR of 27% and 29% over FY23-25 as we expect recovery in the margins of Cables & Wires, Lighting and ECD segments. Summer season of CY23 did not turn out to be good for the RAC segment, and hence, we expect EBIT losses for Lloyd to continue in FY24E. We have projected the EBIT margin of Lloyd to be at 3% in FY25E, taking into account the expected increase in the utilization rate of the Sri City plant. This improvement is expected to contribute to the company's bottom-line performance.
- The company has been generating free cash flows most of the years despite higher capex (due to focus on in-house manufacturing). We expect cumulative OCF to be at INR33b over FY24-25E and expect a cumulative capex of INR11b during this period. RoE and RoCE are expected to be at 20% and 21%, respectively, in FY25E vs. an average level of 18% and 17% over FY15-23.
- We are optimistic about HAVL due to its leadership position and strong brand equity. We believe that ongoing investments in brand building of Lloyd's portfolio will yield long-term benefits. The stock has traded at an average P/E of 55x in the last five years and we expect the company to maintain its premium valuations due to likely improvement in earnings and return ratios. We reinitiate coverage on the company with a BUY rating and a target price of INR1,580, an upside of 18% from its CMP.

Exhibit 71: 1-year forward P/E chart



Source: MOFSL, Company

Exhibit 72: 1-year forward EV/EBITDA chart

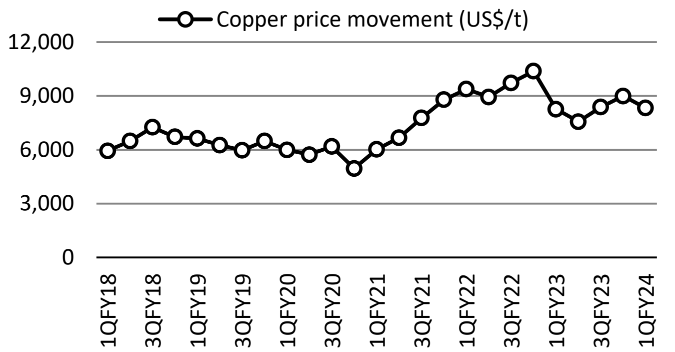


Source: MOFSL, Company

Risks and concerns

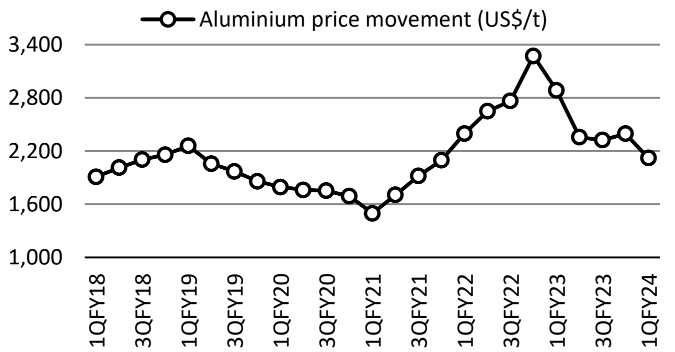
- **Fluctuation in commodity prices**: A sharp increase in commodity prices could lead to an increase in the cost of finished goods and also, can impact the industry's ability to pass on the cost hikes to consumers. Prices of key commodities, Copper, and Aluminum increased significantly in FY21/FY22 and thereafter; it remained volatile in FY23, which in turn, adversely impacted the gross margin of the company.

Exhibit 73: Copper prices remain volatile after a steep rise in FY21/22



Source: MOFSL, Bloomberg

Exhibit 74: Aluminum prices have declined in FY23 after a significant increase in FY21/22



Source: MOFSL, Bloomberg

- **Slower-than-expected pick-up in housing and infrastructure activities**: Demand for new housing has improved in the last two years after remaining subdued over the last several years. Also, the government has placed significant emphasis on infrastructure development. This has helped the growth in cables & wires and switchgear segments. A slowdown in housing and infrastructure activities may adversely impact the performance of the company.
- **Increase in competition**: There seems to be an increased competitive intensity to gain market share, especially in the white goods. This may create pressure on the pricing power of the industry, and in turn, can impact the profitability.
- **Non-availability of regular and quality power**: The demand for electrical products relies heavily on the availability of reliable and high-quality electricity. Any significant shortfall in the supply of electricity can potentially hinder the growth prospects of the industry.

Financials and valuations

Income Statement (Consolidated)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Sales	**1,00,677**	**94,292**	**1,04,279**	**1,38,885**	**1,68,684**	**1,89,786**	**2,15,008**
Change (%)	23.7	-6.3	10.6	33.2	21.5	12.5	13.3
Raw Materials	62,873	58,351	64,749	93,840	1,16,713	1,26,777	1,39,325
Gross margin (%)	37.5	38.1	37.9	32.4	30.8	33.2	35.2
Staff Cost	8,373	8,996	8,853	10,147	12,617	14,509	17,411
Other Expenses	17,593	16,671	15,024	17,322	23,325	28,468	32,251
EBITDA	**11,838**	**10,274**	**15,653**	**17,576**	**16,030**	**20,032**	**26,021**
% of Net Sales	11.8	10.9	15.0	12.7	9.5	10.6	12.1
Depreciation	1,494	2,179	2,489	2,608	2,961	3,292	3,629
Interest	161	197	726	534	336	325	300
Other Income	1,278	1,120	1,450	1,604	1,770	1,862	2,156
PBT	**11,461**	**9,017**	**13,888**	**16,038**	**14,503**	**18,276**	**24,248**
Tax	3,588	1,687	3,590	4,091	3,753	4,730	6,275
Rate (%)	31.3	18.7	25.8	25.5	25.9	25.9	25.9
Extra-ordinary Inc.(net)	0	0	98	0	0	0	0
Reported PAT	**7,873**	**7,330**	**10,396**	**11,948**	**10,750**	**13,547**	**17,973**
Change (%)	10.5	-6.9	41.8	14.9	-10.0	26.0	32.7
Adjusted PAT	**7,873**	**7,330**	**10,298**	**11,948**	**10,750**	**13,547**	**17,973**
Change (%)	12.4	-6.9	40.5	16.0	-10.0	26.0	32.7

Balance Sheet (Consolidated)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Share Capital	626	626	626	626	627	627	627
Reserves	41,297	42,422	51,019	59,260	65,518	74,324	86,006
Net Worth	**41,922**	**43,048**	**51,645**	**59,886**	**66,145**	**74,950**	**86,633**
Loans	945	405	4,922	3,955	0	0	0
Deferred Tax Liability	3,168	2,865	3,391	3,506	3,615	3,615	3,615
Capital Employed	**46,035**	**46,318**	**59,958**	**67,348**	**69,760**	**78,565**	**90,248**
Gross Fixed Assets	34,027	40,479	41,965	46,005	50,837	56,837	61,837
Less: Depreciation	4,989	6,985	9,062	11,670	14,631	17,923	21,552
Net Fixed Assets	**29,038**	**33,494**	**32,903**	**34,335**	**36,206**	**38,913**	**40,285**
Capital WIP	2,327	861	899	572	1,664	1,664	1,664
Investments	17	16	3,079	4,261	2,009	2,009	2,009
Curr. Assets	**39,875**	**36,107**	**51,321**	**65,884**	**71,554**	**82,349**	**98,276**
Inventory	19,190	18,719	26,199	29,681	37,085	40,557	44,769
Debtors	4,242	2,489	5,636	7,675	9,729	10,946	12,401
Cash & Bank Balance	12,877	11,069	16,247	25,358	18,619	23,960	33,305
Loans & Advances	0	0	0	0	0	0	0
Other Current Assets	3,566	3,830	3,238	3,169	6,121	6,887	7,802
Current Liab. & Prov.	**25,222**	**24,160**	**28,245**	**37,704**	**41,672**	**46,370**	**51,986**
Creditors	15,601	14,141	15,968	23,794	26,425	29,731	33,682
Other Liabilities	7,264	7,564	9,117	10,615	11,130	12,523	14,187
Provisions	2,358	2,456	3,160	3,295	4,116	4,116	4,116
Net Current Assets	**14,653**	**11,947**	**23,076**	**28,180**	**29,881**	**35,979**	**46,290**
Application of Funds	**46,035**	**46,318**	**59,958**	**67,348**	**69,760**	**78,565**	**90,248**

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)							
Adjusted EPS	**12.6**	**11.7**	**16.5**	**19.1**	**17.2**	**21.6**	**28.7**
Growth (%)	12.3	-6.9	40.4	16.0	-10.1	26.0	32.7
Cash EPS	15.0	15.2	20.4	23.2	21.9	26.9	34.5
Book Value	67.0	68.8	82.5	95.6	105.6	119.6	138.3
DPS	4.0	8.5	2.5	6.5	7.5	7.6	10.0
Payout (incl. Div. Tax.)	38.3	87.5	18.2	34.1	43.8	35.0	35.0
Valuation (x)							
P/Sales	8.3	8.9	8.0	6.0	5.0	4.4	3.9
P/E (standalone)	106.0	113.9	81.1	69.9	77.8	61.7	46.5
Cash P/E	89.1	87.8	65.3	57.4	61.0	49.6	38.7
EV/EBITDA	69.5	80.2	52.6	46.3	51.0	40.5	30.8
EV/Sales	8.2	8.7	7.9	5.9	4.8	4.3	3.7
Price/Book Value	19.9	19.4	16.2	14.0	12.6	11.2	9.6
Dividend Yield (%)	0.3	0.6	0.2	0.5	0.6	0.6	0.8
Profitability Ratios (%)							
RoE	18.8	17.0	19.9	20.0	16.3	18.1	20.7
RoCE	17.3	16.2	18.1	18.3	15.8	17.5	20.2
RoIC	21.4	18.7	24.0	29.6	19.7	23.6	30.2
Turnover Ratios							
Debtors (Days)	15	10	20	20	21	21	21
Inventory (Days)	70	72	92	78	80	78	76
Creditors. (Days)	57	55	56	63	57	57	57
Asset Turnover (x)	2.2	2.0	1.7	2.1	2.4	2.4	2.4
Leverage Ratio							
Net Debt/Equity (x)	-0.3	-0.2	-0.2	-0.4	-0.3	-0.3	-0.4

Cash Flow Statement

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
PBT before EO Items	**11,468**	**9,216**	**14,104**	**16,272**	**14,473**	**18,276**	**24,248**
Add : Depreciation	1,494	2,179	2,489	2,608	2,961	3,292	3,629
Interest	(728)	(535)	(315)	(717)	(898)	(1,537)	(1,856)
Less : Direct Taxes Paid	2,469	2,398	2,714	4,138	3,919	4,730	6,275
(Inc)/Dec in WC	4,639	215	6,985	(3,420)	6,969	757	966
CF from Operations	**5,126**	**8,248**	**6,579**	**17,446**	**5,647**	**14,545**	**18,779**
(Inc)/Dec in FA	(4,996)	(3,592)	(1,227)	(2,490)	(5,815)	(6,000)	(5,000)
Free Cash Flow	**130**	**4,655**	**5,353**	**14,956**	**(167)**	**8,545**	**13,779**
(Pur)/Sale of Investments	710	625	(2,169)	(5,102)	6,206	1,862	2,156
CF from Investments	**(4,287)**	**(2,968)**	**(3,396)**	**(7,592)**	**391**	**(4,138)**	**(2,844)**
(Inc)/Dec in Net Worth / Others	135	313	195	(183)	(360)	-	-
(Inc)/Dec in Debt	(209)	(937)	4,136	(973)	(3,937)	-	-
Less : Interest Paid	134	52	459	245	70	325	300
Dividend Paid	3,016	6,413	1,878	4,073	4,703	4,741	6,291
CF from Fin. Activity	**(3,224)**	**(7,088)**	**1,994**	**(5,473)**	**(9,069)**	**(5,066)**	**(6,591)**
Inc/Dec of Cash	**(2,385)**	**(1,808)**	**5,178**	**4,380**	**(3,031)**	**5,341**	**9,345**
Add: Beginning Balance	15,262	12,877	11,069	16,247	20,628	17,597	22,937
Closing Balance	**12,877**	**11,069**	**16,247**	**20,628**	**17,597**	**22,937**	**32,282**

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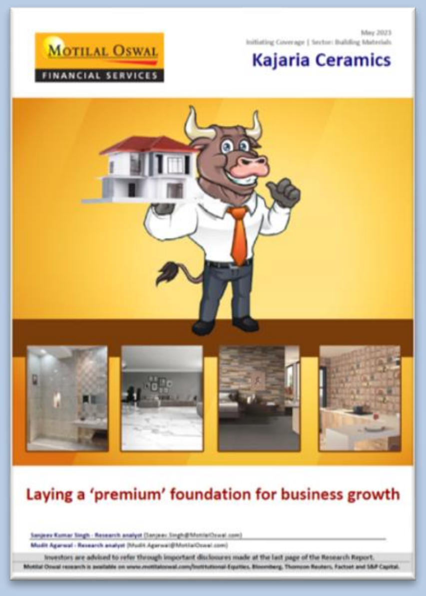

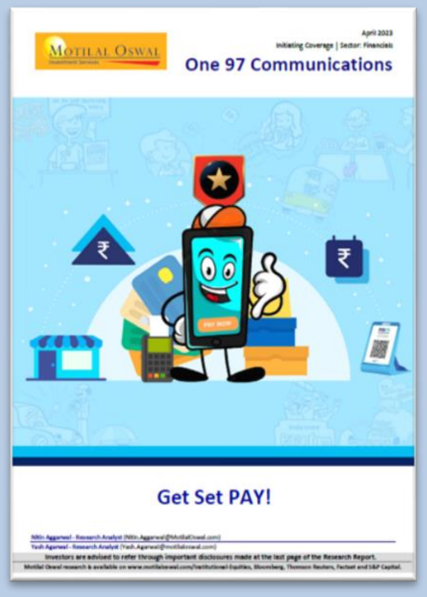

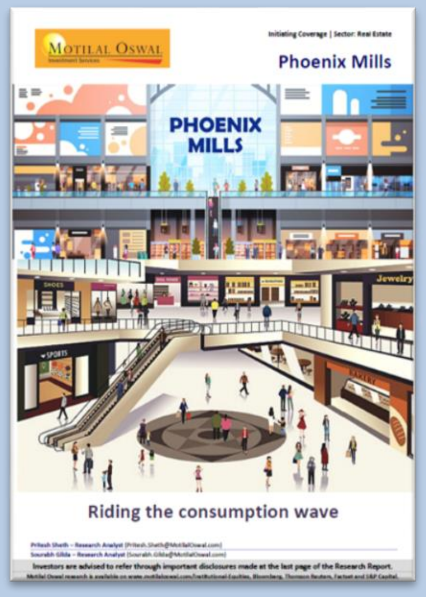

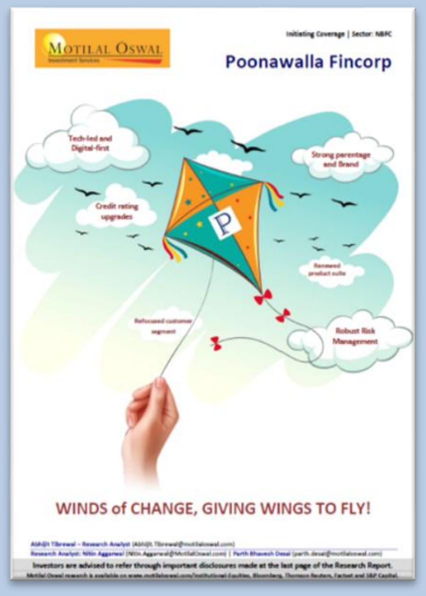

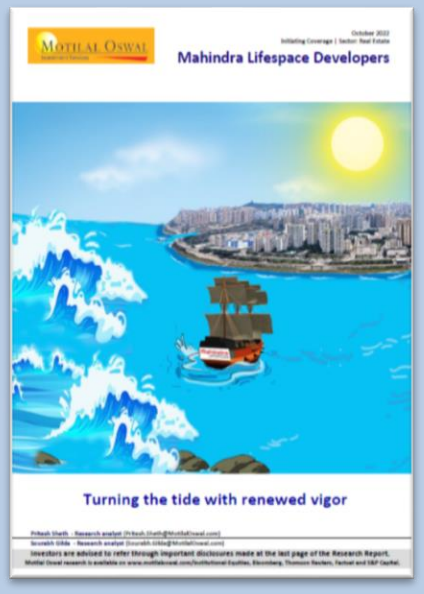

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BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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