

# HAVELLS INDIA LIMITED

....earnings set to accelerate

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Havells revenue at Rs 48.2b (+14% YoY) stood marginally above estimate supported by better-than-expected performance in Lloyds (+20% YoY) and cables and wires (+24% YoY), while, switchgears (+5% YoY), ECD (+5% YoY) & Lighting (-1% YoY) performance was marginally lower. Softening commodity prices although not fully reflected resulting in Gross margins of 30.4% (+140bps YoY). Advertising exp stood at Rs1.3b (2.8% vs 2.7% in 1QFY23; 2.3% in 4QFY23). EBITDA at Rs 4.02b (+11% YoY) stood below our estimate impacted by lower than estimated gross margins and higher than expected other expense (14.7% of sales vs exp. of 13.2%). EBITDA margin at 8.3% (-20bps YoY). EBIT margins for the Core Business stood at 13.5% (+60bps YoY) and for Lloyd stood at -4.7% vs -5.2% in 1QFY23. PAT at Rs 2.87b (+18% YoY). Management indicated that its core portfolio (Cables & Wires, Switchgear etc) to continue its growth propelled by strong momentum in construction and infrastructure industry. Fans adversely impacted in CY22 due to transition towards energy efficient fans, even as Lloyd continues to gain market share, establishing itself among top three players. It is expected to continue its growth trajectory as management remain focused.

Lloyd's margins are likely to remain muted over the next couple of years as the management continues to focus on RAC market share gains and ramp-up in other categories. Overall management indicated that demand has been sluggish but its gradually picking up. It expects second half of FY24E to better across segments with better consumer demand including rural. Further, it plans to foray into contract manufacturing of overseas brands and is working towards it to add to the overall revenues. We believe the margin has hit a trough and will continue to improve from here on, given (1) softening commodity inflation; (2) an increase in the premium mix and lowering losses in Lloyd. We maintain BUY with a TP of Rs 1545.

## Result Snapshot Q1FY24:

Havells revenue at Rs 48.2b (+14% YoY) stood marginally above estimate supported by better-than-expected performance in Lloyds (+20% YoY) and cables and wires (+24% YoY), while, switchgears (+5% YoY), ECD (+5% YoY) & Lighting (-1% YoY) performance was marginally lower. Softening commodity prices although not fully reflected resulting in Gross margins of 30.4% (+140bps YoY).

Key Financials	FY21	FY22	FY23	FY24E	FY25E
Total Sales (Rs mn)	104,279	138,885	168,684	193,671	223,980
EBITDA Margins (%)	13.4	12.7	9.5	11.2	12.0
PAT Margins	8.4	8.6	6.4	7.8	8.5
EPS (Rs)	14.0	19.1	17.2	24.0	30.3
P/E (x)	96.5	70.7	78.6	56.2	44.5
P/BV (x)	16.3	14.1	12.8	11.3	9.9
EV/EBITDA (x)	59.5	46.8	51.5	37.8	30.2
RoE(%)	16.9	19.9	16.3	20.1	22.2
RoCE(%)	19.0	21.8	17.9	22.5	25.2
Dividend Yield (%)	0.2	0.5	0.6	0.8	1.0

Rating	BUY
Current Market Price (₹)	1,348
12 M Price Target (₹)	1,545
Potential upside (%)	15

## Stock Data

Sector :	Consumer Electricals
FV (₹) :	1
Total Market Cap (₹ bn) :	844
Free Float Market Cap (₹ bn) :	338
52-Week High / Low (₹)	1,408 / 1,025
BSE Code / NSE Symbol	517354 / HAVELLS
Bloomberg :	HAVL: IN

## Shareholding Pattern

(%)	Jun-23	Mar-23	Dec-22	Sep-22
Promoter	59.43	59.45	59.45	59.45
MFs	3.47	3.91	3.98	3.71
FPIs	23.79	23.11	22.60	23.30
Insurance	5.00	5.05	5.16	4.79
Others	8.31	8.48	8.81	8.75

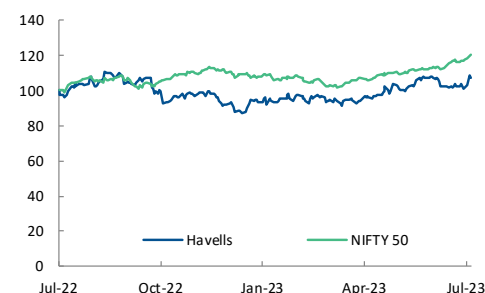
Source: BSE

## Price Performance

(%)	1M	3M	6M	1Yr
Havells	0.1%	11.8%	16.9%	7.2%
Nifty 50	6.2%	13.4%	10.8%	20.3%

\* To date / current date : July 20, 2023

## Havells vs Nifty 50



Advertising exp stood at Rs1.3b (2.8% vs 2.7% in 1QFY23; 2.3% in 4QFY23). EBITDA at Rs 4.02b (+11% YoY) stood below our estimate impacted by lower than estimated gross margins and higher than expected other expense (14.7% of sales vs exp. of 13.2%). EBITDA margin at 8.3% (-20bps YoY). EBIT margins for the Core business stood at 13.5% (+60bps YoY) and for Lloyd stood at -4.7% vs -5.2% in 1QFY23. PAT at Rs2.87b (+18% YoY).

#### Segmental Details:

- **Switchgear** revenue at Rs5.4b (+5% YoY). EBIT margins stood at 27.7% vs 26.2% in 1QFY23
- **Cables and Wires** segment revenue stood at Rs14.9b (+24% YoY). EBIT margins stood at 11.4% vs 7.3% in 1QFY23
- **ECD segment** revenue stood at Rs8.8b (+5% YoY). EBIT margins stood at 10.9% vs 13.1% in 1QFY23
- **Lighting segment** revenue stood at Rs3.7b (-1% YoY). EBIT margins stood at 14.4% vs 16.5% in 1QFY23
- **Lloyd** revenue stood at Rs13.1b (+20% YoY). EBIT margins stood at -4.7% vs -5.2% in 1QFY23.

#### Outlook

Havells remains focused on ensuring its presence across the value chain through a) increased presence in e-commerce, b) deeper penetration into India through the Rural Vistaar programme and Utsav stores, c) increased participation in B2B projects, and d) expanded footprint in international markets.

Despite expectation of softness in near-term demand owing to unseasonal rains and weak summer intensity, we like Havells long-term growth strategy through continuous portfolio and distribution expansion and brand-building initiatives. Among peers, Havells enjoys the highest margins in many product categories and generates healthy FCF despite high capex (unlike most peers, the company has opted for in-house production).

We believe the margin has hit a trough and will continue to improve from here on, given (1) softening commodity inflation; (2) an increase in the premium mix (fans: 30% vs 17% five years back) and lowering losses in Lloyd. We maintain BUY with a TP of Rs 1,545 .

**Profit and Loss Statement**

(₹ mn)	Q1FY24	Q1FY23	Q4FY23	YoY (%)	QoQ (%)
Switchgears	5,407	5,167	6,010	4.7	-10
Cable and Wires	14,852	11,929	15,682	24.5	-5.3
Lighting and Fixtures	3,670	3,711	4,134	-1.1	-11.2
Electrical Consumer Durables	8,770	8,381	7,495	4.6	17
Lloyds	13,055	10,837	12,640	20.5	3.3
Others	2,483	2,276	2,536	9.1	-2.1
<b>Total Sales</b>	<b>48,237</b>	<b>42,301</b>	<b>48,496</b>	<b>14</b>	<b>-0.5</b>
Raw Material	33,579	30,039	33,721	11.8	-0.4
as % of sales	69.6	71	69.5		
Employee Cost	3,552	3,021	3,262	17.6	8.9
as % of sales	7.4	7.1	6.7		
Other operating expenses	7,082	5,628	6,206	25.8	14.1
as % of sales	14.7	13.3	12.8		
<b>Total Expenditure</b>	<b>44,213</b>	<b>38,688</b>	<b>43,188</b>	<b>14.3</b>	<b>2.4</b>
<b>EBITDA</b>	<b>4,024</b>	<b>3,614</b>	<b>5,308</b>	<b>11.3</b>	<b>-24.2</b>
Depreciation	763	721	774	5.8	-1.5
EBIT	3,261	2,893	4,534	12.7	-28.1
Other Income	647	470	468	37.7	38.2
Interest	85	98	98	-13.2	-13.1
Exceptional					
PBT	3,823	3,266	4,904	17.1	-22
Tax	950	841	1,287	12.9	-26.2
PAT	2,868	2,421	3,611	18.4	-20.6
<b>Margins (%)</b>				<b>(bps)</b>	<b>(bps)</b>
Gross Margin	30.4	29	30.5	140	-8
EBIDTA	8.3	8.5	10.9	-20	-260
EBIT	6.8	6.8	9.3	-8	-259
EBT	7.9	7.7	10.1	21	-219
PAT	5.9	5.7	7.4	22	-150
Effective Tax rate	24.8	25.8	26.2	-93	-141

Source: Company, LKP Research

### Concall Highlights

- Management indicated that demand has been sluggish, though gradually its picking up. Demand across Infrastructure/ construction continue to remain strong.
- Rural demand still to come up, however tier-1 and tier-3 seeing demand due to construction activities.
- Expect second half of FY24E to better across segments with better consumer demand including rural.
- Volume growth in C&W is +30%, lighting +6-8%, Llyod +20%.

#### Fans:

- Fans category has undergone tough period since last year; foresee better times ahead as it has been focusing on its investment in distribution and R&D.
- Premium fans form large part of the category and BLDC fans forms 15% of overall fans

#### Cables and wires:

- Strong volume growth of +30% seen
- Domestic demand strong across infra and industrial.
- New facility in Tumkur to come up by year end.

#### Lloyd:

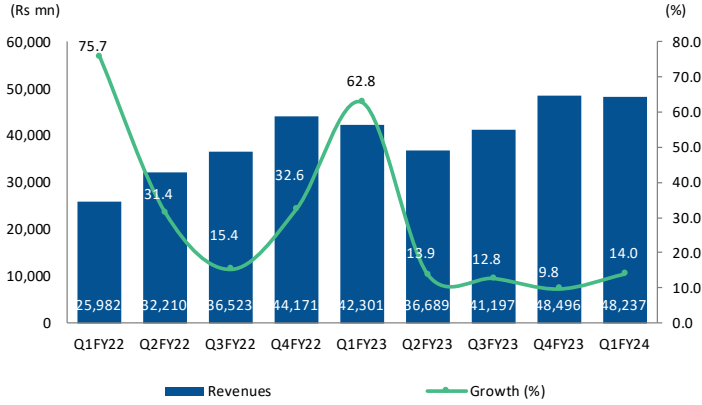
- Growth of 20.5% YoY witnessed, Margins declined
- Demand for cooling products was affected due to unseasonal rains.
- Channel inventory in the system remains at normalised levels
- Market share gains continues, remains in the Top 3 in AC
- Able to achieve better than market growth in AC.
- Management expects the segment to witness growth although margin would still take some time to be in the positive territory
- Remains the focus area and taking steps in the right direction to reap benefits in the longer run.
- Plans to foray into contract manufacturing of overseas brands and working towards it.

#### Lighting:

- Professional lighting demand remained better compared to Consumer lighting demand which remained sluggish.
- Lighting margins impacted owing to low value growth and price erosion

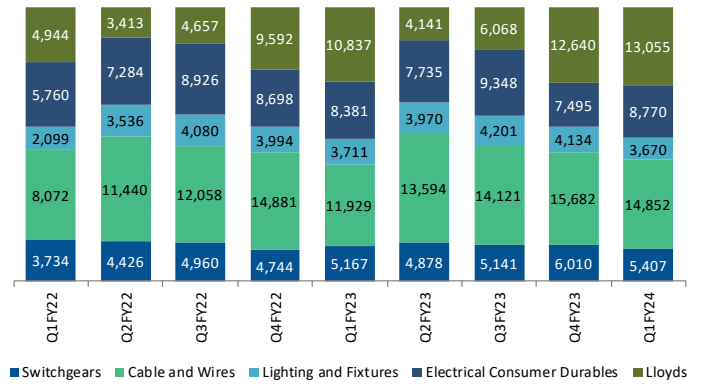
Financials in charts

Revenue Trend

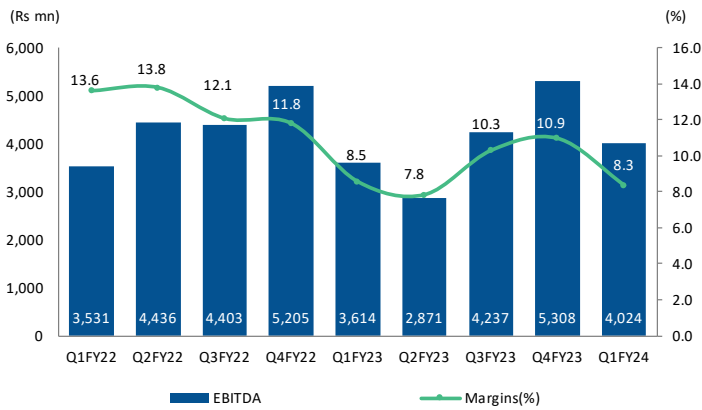


Source: Company, LKP Research

Revenue mix

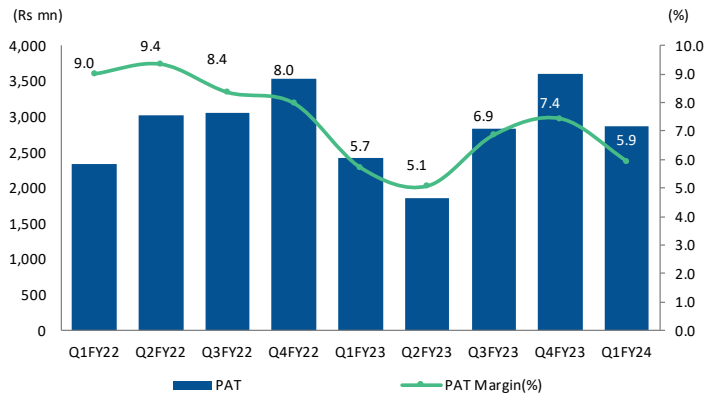


EBITDA & EBITDA Margin trend



Source: Company, LKP Research

Adjusted Profit & Profit Margin trend



**Profit and Loss Statement**

(₹ mn)	FY21	FY22	FY23	FY24E	FY25E
Total Income	104,279	138,885	168,684	193,671	223,980
Raw material Cost	64,749	93,841	116,713	129,862	149,289
Employee Cost	8,853	10,147	12,617	16,268	18,814
Other expenses	16,678	17,322	23,325	25,928	29,089
<b>Total operating Expenses</b>	<b>90,280</b>	<b>121,309</b>	<b>152,654</b>	<b>172,058</b>	<b>197,192</b>
<b>EBITDA</b>	<b>13,999</b>	<b>17,576</b>	<b>16,030</b>	<b>21,613</b>	<b>26,788</b>
<i>EBITDA Margins(%)</i>	<i>13.4</i>	<i>12.7</i>	<i>9.5</i>	<i>11.2</i>	<i>12.0</i>
Depreciation & Amortisation	2,489	2,608	2,961	3,276	3,461
<b>EBIT</b>	<b>11,511</b>	<b>14,968</b>	<b>13,069</b>	<b>18,337</b>	<b>23,327</b>
Interest	726	534	336	100	90
Other Income	1,878	1,604	1,770	1,850	2,100
<b>Recurring PBT</b>	<b>12,663</b>	<b>16,038</b>	<b>14,503</b>	<b>20,087</b>	<b>25,337</b>
Add: Extraordinaries	-	-	-	-	-
PBT	12,663	16,038	14,503	20,087	25,337
Less: Taxes	3,919	4,091	3,753	5,056	6,377
<b>Net Income (Reported)</b>	<b>8,743</b>	<b>11,947</b>	<b>10,750</b>	<b>15,031</b>	<b>18,960</b>
<b>Adjusted Net Income</b>	<b>8,743</b>	<b>11,947</b>	<b>10,750</b>	<b>15,031</b>	<b>18,960</b>

**Balance Sheet**

(₹ mn)	FY 21	FY 22	FY 23	FY 24E	FY 25E
<b>Assets</b>					
Total Current Assets	51,315	65,860	71,444	87,732	107,206
of which cash & cash eqv.	16,247	25,358	18,619	26,808	36,792
Total Current Liabilities & Provisions	28,245	37,704	41,672	50,322	58,760
Net Current Assets	23,070	28,156	29,772	37,411	48,446
Investments	3,085	4,285	2,119	2,119	2,119
Net Fixed Assets	29,798	31,235	33,131	33,953	33,590
Capital Work-in-Progress	899	568	1,634	1,634	1,634
Goodwill	3,105	3,105	3,105	3,105	3,105
<b>Total Assets</b>	<b>59,958</b>	<b>67,348</b>	<b>69,760</b>	<b>78,221</b>	<b>88,893</b>
<b>Liabilities</b>					
Borrowings	4,922	3,955	-	-	-
Deferred Tax Liability	3,391	3,506	3,615	3,615	3,615
Minority Interest	-	-	-	-	-
Equity Share Capital	626	626	627	627	627
Face Value per share (Rs)	1.0	1.0	1.0	1.0	1.0
Reserves & Surplus	51,019	59,260	65,518	73,979	84,651
Net Worth	51,645	59,886	66,145	74,606	85,278
<b>Total Liabilities</b>	<b>59,958</b>	<b>67,348</b>	<b>69,760</b>	<b>78,221</b>	<b>88,893</b>

**Cash Flow**

YE Mar	FY20	FY21	FY22	FY23	FY 24E	FY 25E
PBT	7,897	10,784	14,434	12,732	18,237	23,237
Depreciation	2,179	2,489	2,608	2,961	3,276	3,461
Chng in working capital	616	(5,618)	4,140	(8,246)	550	(1,051)
Tax paid	(1,687)	(3,919)	(4,091)	(3,753)	(5,056)	(6,377)
Cash flow from operations (a)	8,248	6,579	17,444	5,647	17,145	19,406
Capital expenditure	(5,170)	(1,935)	(3,713)	(5,924)	(4,098)	(3,098)
Free cash flow	3,078	4,644	13,731	(276)	13,047	16,308
Chng in investments	-	-	-	-	-	-
Other investing activities	(288)	(2,823)	(2,679)	4,149	1,812	2,054
Cash flow from investing (b)	(5,477)	(7,629)	(7,592)	391	(2,285)	(1,044)
Inc/dec in borrowings	(540)	4,505	(973)	(4,380)	-	-
Dividend paid (incl. tax)	(6,413)	(1,878)	(4,071)	(4,703)	(6,570)	(8,288)
Interest paid	(448)	(828)	(739)	(253)	(100)	(90)
Other financing activities	242	98	312	267	-	-
Cash flow from financing (c)	(7,159)	1,898	(5,472)	(9,069)	(6,670)	(8,378)
Net chng in cash (a+b+c)	2,421	3,266	7,637	4,569	12,758	22,742
Closing cash & cash equivalents	2,421	3,266	7,637	4,569	12,758	22,742



**Key Ratios**

	FY 21	FY22	FY23	FY 24E	FY 25E
<b>Per Share Data (in Rs.)</b>					
AEPS	14.0	19.1	17.2	24.0	30.3
CEPS	17.9	23.2	21.9	29.2	35.8
BVPS	82.5	95.6	105.6	119.1	136.1
DPS	3.0	6.5	7.5	10.5	13.2
<b>Growth Ratios (%)</b>					
Total Revenues	10.6	33.2	21.5	14.8	15.6
EBITDA	36.3	25.5	(8.8)	34.8	23.9
PAT	19.3	36.6	(10.0)	39.8	26.1
AEPS	19.3	36.6	(10.0)	39.8	26.1
CEPS	18.1	29.5	(5.8)	33.5	22.5
<b>Valuation Ratios</b>					
P/E	96.5	70.7	78.6	56.2	44.5
P/BV	16.3	14.1	12.8	11.3	9.9
EV / EBITDA	59.5	46.8	51.5	37.8	30.2
EV / Sales	8.0	5.9	4.9	4.2	3.6
<b>Operating Ratio</b>					
Raw Material/Sales (%)	51.7	56.0	55.2	49.3	48.9
Other exp/Sales (%)	16.0	12.5	13.8	13.4	13.0
Effective Tax Rate (%)	31.0	25.5	25.9	25.2	25.2
NWC / Total Assets (%)	11.4	4.2	16.0	13.6	13.1
Inventory Turnover (days)	91.7	78.0	80.2	80.0	80.0
Receivables (days)	19.6	20.1	21.0	22.0	22.0
Payables (days)	55.9	62.5	57.2	61.0	62.0
D/E Ratio (x)	0.1	0.1	0.0	0.0	0.0
<b>Return/Profitability Ratio (%)</b>					
RoCE	19.0	21.8	17.9	22.5	25.2
RoNW	16.9	19.9	16.3	20.1	22.2
Dividend Payout Ratio	21.5	34.1	43.7	43.7	43.7
Dividend Yield	0.2	0.5	0.6	0.8	1.0
PAT Margins	8.4	8.6	6.4	7.8	8.5
EBITDA Margins	13.4	12.7	9.5	11.2	12.0

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