

Havells India

Estimate change	↔
TP change	↔
Rating change	↔

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Bloomberg	HAVL IN
Equity Shares (m)	625
M.Cap.(INRb)/(USDb)	844.8 / 10.3
52-Week Range (INR)	1408 / 1092
1, 6, 12 Rel. Per (%)	-6/6/-11
12M Avg Val (INR M)	1000
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	13.6	18.0
EBITA Margin (%)	9.5	10.6	12.1
Cons. Adj. EPS (INR)	17.2	21.7	28.7
EPS Gr. (%)	(10.1)	26.3	32.4
BV/Sh. (INR)	105.6	119.7	138.3

Ratios

Net D:E	(0.3)	(0.3)	(0.4)
RoE (%)	16.3	18.1	20.7
RoCE (%)	15.8	17.6	20.2
Payout (%)	43.8	35.0	35.0

Valuations

P/E (x)	78.6	62.2	47.0
P/BV (x)	12.8	11.3	9.7
EV/EBITDA (x)	51.5	41.0	31.2
Div Yield (%)	0.6	0.6	0.7
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: INR1,348 TP: INR1,580 (+17%) BUY

ECD & Lighting a drag; Cables segment continues to perform better

Better infrastructure and construction activities support Cables & Wires

- Havells (HAVL)'s 1QFY24 revenue grew 14% YoY, with a strong traction seen in the Cables & Wires segment, though consumer demand remained muted. EBITDA was up 11% YoY to INR4b; but was 8% below estimates as the ECD and Lighting segments reported lower margins. Cables and Wires surprised as revenue/EBIT was 11%/10% above estimates during the quarter.
- Management indicated muted consumer demand in Apr-May'23; though some recovery was visible in Jun'23. Urban demand was better than rural due to an uptick in construction cycle. Consumer demand as well as rural demand is expected to improve in 2HFY24.
- We recently [reinitiated coverage](#) on HAVL with a BUY rating. We estimate an EBITDA/EPS CAGR of 27%/29% over FY23-25 supported by margin recovery in the core business. We have a TP of INR1,580 on the stock.

Lower margins in ECD & Lighting result in a miss on estimates

- HAVL's consolidated revenue was up 14% YoY to INR48b and was 3% above our estimates. EBITDA grew 11% YoY to INR4b, 8% below our estimate as margins in the ECD & Lighting segments were below our estimates. EBITDA margin came in at 8.3% vs. our estimate of 9.3%. Adj. PAT grew 18% YoY to INR2.9b (in line with our estimate), led by higher-than-estimated other income. Ad spend was at 2.8% of revenue vs. 2.7%/2.3% in 1Q/4QFY23.
- Segmental highlights: a) Havells (ex-Lloyd): revenue up 12% YoY to INR35b. Cables and Wires: revenue up 25% YoY to INR15b and EBIT margin expanded 4pp to 11.4%. Switchgear: revenue up 5% YoY to INR5.4b and EBIT margin expanded 1.5pp to 27.7%. Lighting: revenue declined 1% YoY to INR3.7b and EBIT margin declined 2pp to 14.3%. ECD: revenue rose 4.5% YoY to INR8.8b but EBIT margin declined 2pp to 10.9%. (b) Lloyd's revenue grew 20% YoY to INR13b. The company reported an EBIT loss of INR616m in 1QFY24 vs. INR563m (estimated EBIT loss of INR391m).

Key highlights from the management commentary

- Volume growth (YoY) in key segments: Cable and Wires (+30%), Lighting (6-8%), Lloyd/switchgear segments were same as value growth i.e. 20%/5%.
- HAVL is looking to expand its international business and exploring opportunities in white labeling for international brands as was the case for Switchgear earlier. It has already started exporting small quantities, but this may take two years to develop. This will also provide operating leverage.
- Industrial and construction demand remains strong, which will drive growth in underground Cables & Wires segment. Further, domestic construction industry remains strong and should support the growth in Cables & Wires and Switchgear segments for the next 12-18 months.

Valuation and view

- We recently [reinitiated 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).
- 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).

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Quarterly performance

(INR m)

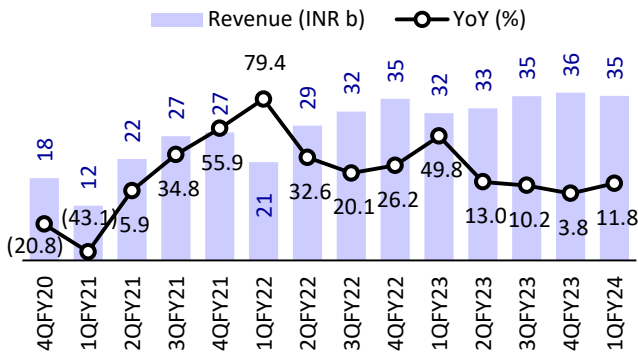
Y/E March	FY23				FY24				FY23	FY24E	MOFSL 1QE	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Sales	42,445	36,689	41,197	48,592	48,338	41,191	46,808	53,449	1,68,923	1,89,786	46,941	3.0%
Change (%)	63.4	13.9	12.8	10.0	13.9	12.3	13.6	10.0	21.6	12.4	11.0	
Adj EBITDA	3,615	2,871	4,237	5,271	4,020	4,462	5,239	6,312	15,995	20,032	4,385	-8.3%
Change (%)	2.4	-35.3	-3.8	1.3	11.2	55.4	23.6	19.7	-9.0	25.2	21.3	
Adj EBITDA margin (%)	8.5	7.8	10.3	10.8	8.3	10.8	11.2	11.8	9.5	10.6	9.3	-103
Depreciation	721	721	746	774	763	771	786	973	2,961	3,292	789	
Interest	98	68	73	98	85	58	78	104	336	325	78	
Other Income	476	433	399	467	648	457	427	367	1,775	1,899	492	
Extra-ordinary items	-	-	-	-	-	-	-	-	-	-	-	
PBT	3,273	2,515	3,818	4,867	3,821	4,090	4,802	5,601	14,473	18,314	4,009	-4.7%
Tax	841	646	978	1,287	950	1,017	1,194	1,579	3,752	4,739	1,038	
Effective Tax Rate (%)	25.7	25.7	25.6	26.4	24.9	24.9	24.9	28.2	25.9	25.9	25.9	
Reported PAT	2,432	1,869	2,839	3,580	2,871	3,073	3,608	4,022	10,720	13,574	2,971	-3.4%
Change (%)	3.8	(38.0)	(7.2)	1.4	18.1	64.5	27.1	12.3	(10.3)	26.6	22.5	
Adj PAT	2,432	1,869	2,839	3,580	2,871	3,073	3,608	4,022	10,720	13,574	2,971	-3.4%
Change (%)	3.8	(38.0)	(7.2)	1.4	18.1	64.5	27.1	12.3	(10.3)	26.6	22.5	

Segmental performance

(INR m)

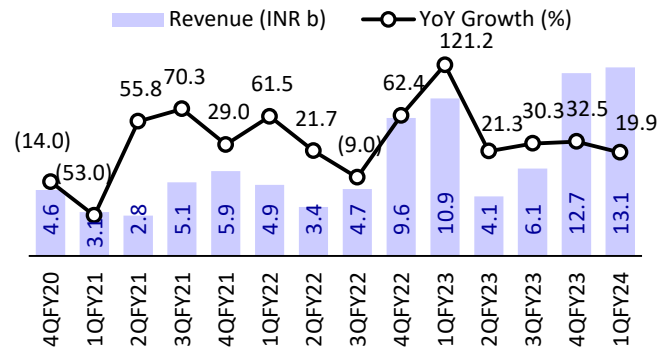
Y/E March	FY23				FY24			
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE
Sales								
Switchgear	5,169	4,878	5,141	6,010	5,409	5,300	5,459	7,147
Cables & Wires	11,929	13,594	14,121	15,682	14,852	16,634	17,466	11,907
Consumer Durable	8,396	7,735	9,348	7,495	8,775	8,161	9,385	9,273
Lighting & Fixtures	3,737	3,970	4,201	4,160	3,710	4,007	4,248	5,491
Lloyd	10,938	4,141	6,068	12,710	13,109	4,588	7,800	16,609
% YoY								
Switchgear	38.4	10.2	3.7	26.7	4.6	8.7	6.2	18.9
Cables & Wires	47.8	18.8	17.1	5.4	24.5	22.4	23.7	(24.1)
Consumer Durable	45.8	6.2	4.7	(13.8)	4.5	5.5	0.4	23.7
Lighting & Fixtures	78.0	12.3	3.0	4.1	(0.7)	0.9	1.1	32.0
Lloyd	121.2	21.3	30.3	32.5	19.9	10.8	28.6	30.7
Profit Contribution								
Switchgear	1,354	1,220	1,270	1,721	1,499	1,325	1,392	1,846
Cables & Wires	875	859	1,628	1,885	1,691	1,663	1,834	1,507
Consumer Durable	1,100	901	1,228	962	957	979	1,220	1,649
Lighting & Fixtures	614	570	534	755	532	641	701	1,006
Lloyd	(563)	(833)	(596)	(229)	(616)	(688)	(460)	501
Contribution Margin (%)								
Switchgear	26.2	25.0	24.7	28.6	27.7	25.0	25.5	25.8
Cables & Wires	7.3	6.3	11.5	12.0	11.4	10.0	10.5	12.7
Consumer Durable	13.1	11.6	13.1	12.8	10.9	12.0	13.0	17.8
Lighting & Fixtures	16.4	14.4	12.7	18.1	14.3	16.0	16.5	18.3
Lloyd	(5.1)	(20.1)	(9.8)	(1.8)	(4.7)	(15.0)	(5.9)	3.0

Exhibit 1: HAVL's (ex-Lloyd) revenue was up 12% YoY



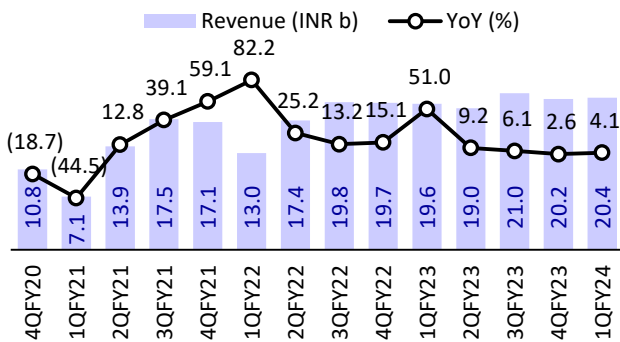
Source: MOFSL, Company

Exhibit 2: Lloyd's revenue grew ~20% YoY



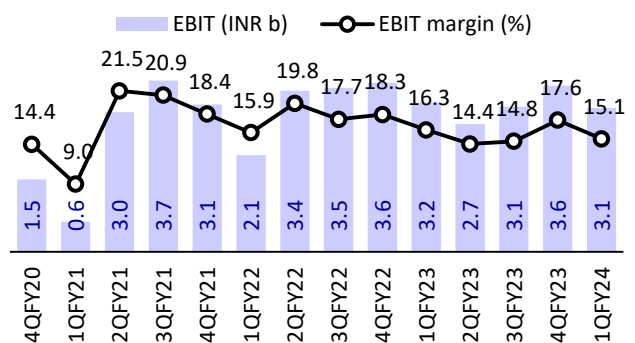
Source: MOFSL, Company

Exhibit 3: HAVL's (ex-Cable and Wires) sales up 4% YoY...



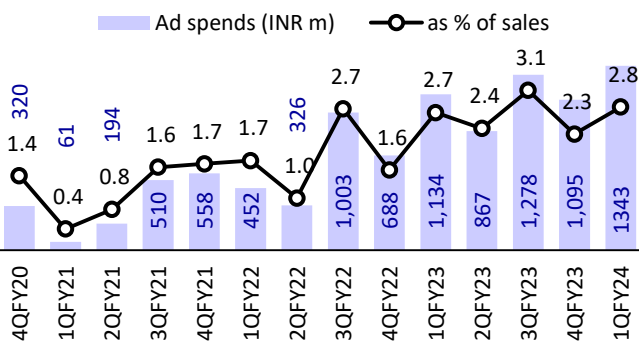
Source: MOFSL, Company

Exhibit 4: HAVL's (ex- Cables and Wires) EBIT margin trend



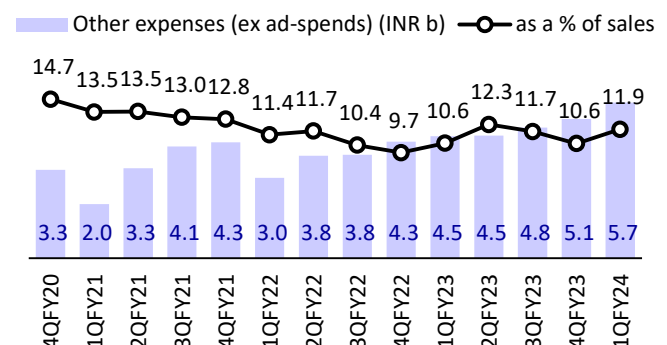
Source: MOFSL, Company

Exhibit 5: Trend in ad spends as a % of sales



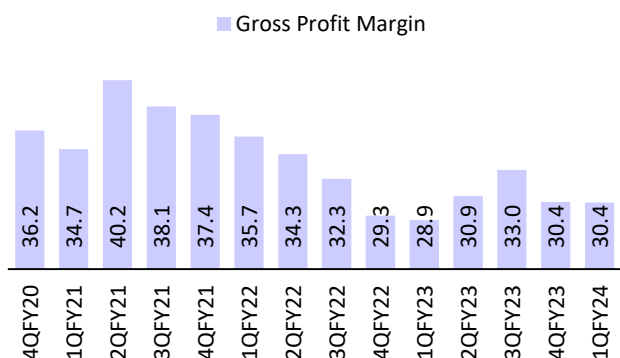
Source: MOFSL, Company

Exhibit 6: Other expenses (ex-ad spends) as a % of sales



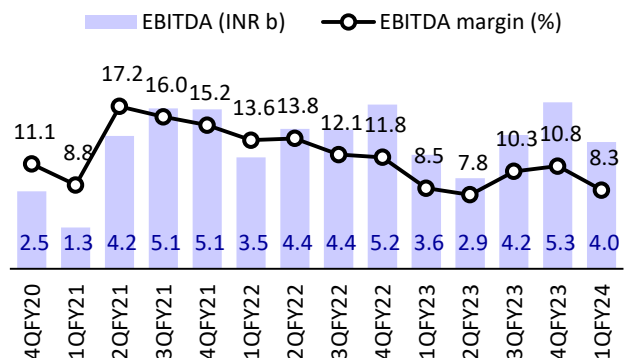
Source: MOFSL, Company

Exhibit 7: Gross margin up 1.4pp YoY (flat QoQ) in 1QFY24



Source: MOFSL, Company

Exhibit 8: EBITDA margin was down 20bp YoY to 8.3%



Source: MOFSL, Company



Conference call highlights

Demand

- Consumer demand remains muted due to unseasonal weather and affected B2C demand adversely. Healthy growth was seen in professional lighting; but consumer lighting remained impacted. Traction in Lloyds remained strong.
- Currently, it is seeing traction in the Urban side (tier I to III cities) more supported by pickup in construction activity as well as increased infrastructure spends. Rural demand is yet to pick-up. Management is hopeful that the rural sector should also start seeing better demand in 2HFY24.
- Fan segment has undergone a tough period in the last one year as rating changes by BEE created uncertainties amongst trade channels. HAVL is making investments in distribution enhancement, R&D and developing new products. Recovery in the fans segment is expected in 2HFY24.

Lloyd

- Lloyd has gained market share in in the air conditioners (ACs) and remains among the top three players in the industry. Market share in other product categories is very low though it is increasing at a decent pace.
- Over the past five years, the company has invested in branding, distribution, manufacturing and R&D that helped improve its brand positioning. Lloyd will be competing against the best brands in the industry over the next few years in terms of consumer perception as well as product pricing.
- Lloyd's opportunity size is around INR1t and HAVL wants to be a meaningful player not only in ACs, but in all other categories, though, it may take a longer period. The focus continues to be on market share gain for Lloyds. There should be margin improvement as RM cost is coming down.

Margin

- Commodity prices have relatively softened but the impact has not been fully reflected in the margins. On QoQ basis, there was price reduction in cables and wires and LED lighting.
- The endeavour remains to achieve EBITDA margin of 13-15% (ex-Lloyd).
- In Fans, margin could have been better in 1Q if there were no unseasonal rains as this led to some under-absorption of manufacturing overhead. Margins should improve in 2HFY24.
- In lighting segment, the contribution margin was not affected much and drop in EBIT margin was mainly due to lesser growth in the consumer lighting. Demand should improve going forward leading to margin improvement. Contribution margin is being maintained at 30-31%.

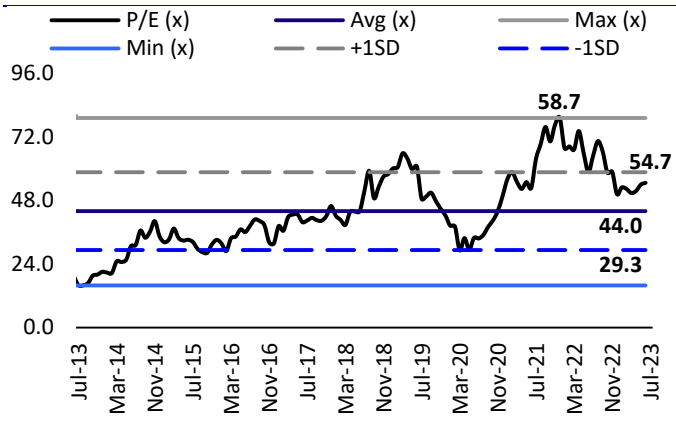
Capex and other highlights

- HAVL has planned INR6b capex for FY24. The capex intensity will be higher towards Havells as the new capacity for cables and wires is coming up in Karnataka (likely to be on stream by end-FY24). Underground cables segment is operating at a very high utilization rate as demand momentum is strong for last six months.
- The company established AC plant in the South and now will commission a plant for Cables & Wires. Market share is strong in the South region, but freight

component is higher as products are bulky. The company is trying to balance on other parameters including freight while deciding the location.

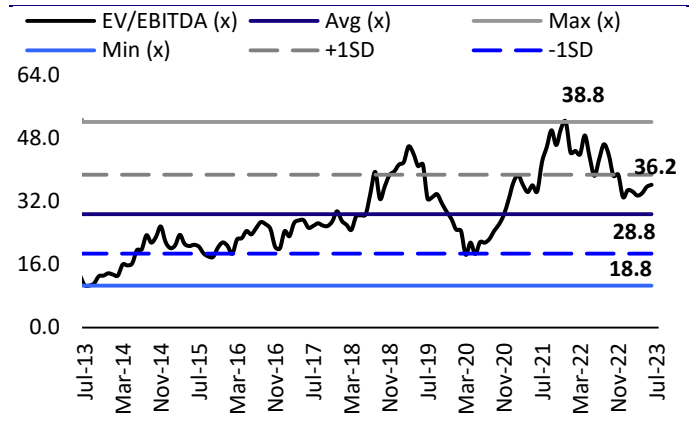
- Market share in premium segment remains high in the fans category and most of the business comes from this category. The endeavor is to provide better quality fans even in the base category. BLDC fans contribute 15% of total fans' volumes.
- Other income includes non-recurring part of income of sale of property of INR100m. While other SG&A expense is slightly higher due to increase in rental expenses. The company required additional warehousing space due to inventory build-up in the AC segment which led to higher rental expense. Also, normalcy in the travelling expenses led to higher other expenses.
- Channel inventory is not high for fans as there was some recovery in demand in Jun-23 when secondary sales increased and primary sales were limited.

Exhibit 9: 1-year forward P/E chart



Source: MOFSL, Company

Exhibit 10: 1-year forward EV/EBITDA chart



Source: MOFSL, Company

Financials and valuations

Income Statement							(INR m)	
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	1,899	2,158	
PBT	11,461	9,017	13,888	16,038	14,503	18,314	24,250	
Tax	3,588	1,687	3,590	4,091	3,753	4,739	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	13,574	17,974	
Change (%)	10.5	-6.9	41.8	14.9	-10.0	26.3	32.4	
Adjusted PAT	7,873	7,330	10,298	11,948	10,750	13,574	17,974	
Change (%)	12.4	-6.9	40.5	16.0	-10.0	26.3	32.4	
Balance Sheet (Consolidated)							(INR m)	
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	74,342	86,025	
Net Worth	41,922	43,048	51,645	59,886	66,145	74,968	86,652	
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	78,583	90,267	
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	82,367	98,295	
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	23,977	33,323	
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	35,997	46,309	
Application of Funds	46,035	46,318	59,958	67,348	69,760	78,583	90,267	

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	21.7	28.7
Growth (%)	12.3	-6.9	40.4	16.0	-10.1	26.3	32.4
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	119.7	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	8.4	8.9	8.1	6.1	5.0	4.5	3.9
P/E (standalone)	107.1	115.1	82.0	70.7	78.6	62.2	47.0
Cash P/E	90.0	88.7	66.0	58.0	61.6	50.1	39.1
EV/EBITDA	70.2	81.1	53.2	46.8	51.5	41.0	31.2
EV/Sales	8.3	8.8	8.0	5.9	4.9	4.3	3.8
Price/Book Value	20.1	19.6	16.3	14.1	12.8	11.3	9.7
Dividend Yield (%)	0.3	0.6	0.2	0.5	0.6	0.6	0.7
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	17.6	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 (INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
PBT before EO Items	11,468	9,216	14,104	16,272	14,473	18,314	24,250
Add : Depreciation	1,494	2,179	2,489	2,608	2,961	3,292	3,629
Interest	(728)	(535)	(315)	(717)	(898)	(1,574)	(1,858)
Less : Direct Taxes Paid	2,469	2,398	2,714	4,138	3,919	4,739	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	14,536	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)	8,536	13,779
(Pur)/Sale of Investments	710	625	(2,169)	(5,102)	6,206	1,899	2,158
CF from Investments	(4,287)	(2,968)	(3,396)	(7,592)	391	(4,101)	(2,842)
(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	4,751	6,291
CF from Fin. Activity	(3,224)	(7,088)	1,994	(5,473)	(9,069)	(5,076)	(6,591)
Inc/Dec of Cash	(2,385)	(1,808)	5,178	4,380	(3,031)	5,359	9,346
Add: Beginning Balance	15,262	12,877	11,069	16,247	20,628	17,597	22,955
Closing Balance	12,877	11,069	16,247	20,628	17,597	22,955	32,301

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NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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