

September 27, 2023

Management Meet Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		BUY	
Target Price	1,538		1,460	
Sales (Rs. m)	1,93,849	2,22,409	2,00,142	2,31,164
% Chng.	(3.1)	(3.8)		
EBITDA (Rs. m)	20,102	24,718	20,625	26,402
% Chng.	(2.5)	(6.4)		
EPS (Rs.)	22.2	28.0	22.9	30.0
% Chng.	(2.9)	(6.9)		

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	1,69,107	1,93,849	2,22,409	2,51,204
EBITDA (Rs. m)	15,991	20,102	24,718	30,776
Margin (%)	9.5	10.4	11.1	12.3
PAT (Rs. m)	10,717	13,935	17,522	22,218
EPS (Rs.)	17.1	22.2	28.0	35.5
Gr. (%)	(10.5)	30.0	25.7	26.8
DPS (Rs.)	4.5	7.5	9.5	11.0
Yield (%)	0.3	0.5	0.7	0.8
RoE (%)	17.0	19.4	20.9	22.6
RoCE (%)	22.7	26.5	28.5	30.7
EV/Sales (x)	5.1	4.4	3.8	3.3
EV/EBITDA (x)	53.7	42.4	34.0	26.8
PE (x)	82.1	63.1	50.2	39.6
P/BV (x)	13.3	11.4	9.8	8.3

Key Data

HVEL.BO | HAVL IN

52-W High / Low	Rs.1,466 / Rs.1,025
Sensex / Nifty	65,945 / 19,665
Market Cap	Rs.880bn/ \$ 10,569m
Shares Outstanding	627m
3M Avg. Daily Value	Rs.1395.37m

Shareholding Pattern (%)

Promoter's	59.43
Foreign	23.21
Domestic Institution	9.79
Public & Others	7.57
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	7.3	18.8	8.6
Relative	5.6	3.7	(5.9)

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Healthy growth in Cable & Lloyd to continue

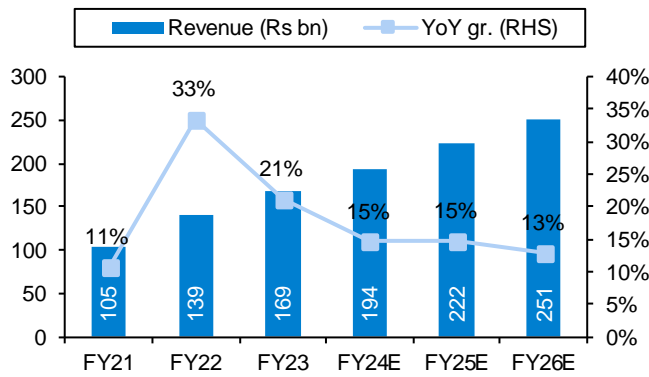
We introduce FY26 estimates and downgrade the stock to 'Accumulate' from Buy with revised DCF based TP of Rs1,538, implied PE of 49x at Sep'25E earning (Rs1,460 earlier). We met management of Havells India (HAVL IN) to gauge their festive demand, impact of dry monsoon on seasonal products in some parts of India, competitive scenario and inventory level in channels. HAVL expects healthy double digit growth in Cables, Switchgears and Lloyd businesses in forthcoming years. But immediate growth driver will be its B2B portfolio. The company's ongoing efforts are directed towards achieving EBITDA margin of 13%-15% (ex-Lloyd), while actively working to reduce losses in the Lloyd segment over the next few quarters, though it will take time to reach desired levels, in our view. We expect Revenue/EBITDA/PAT CAGR of 14.1%/24.4%/27.5% over FY23-26E. Downgrade to 'Accumulate'.

Key takeaways:

- ECD business - expect sequential improvement:** Demand within ECD segment (primarily catering to B2C) continues to face challenges due to sluggish consumer demand, inflationary pressures and offseason for fans, which account for 65% of ECD revenue. However, there has been recent improvement in secondary sales of seasonal products, driven by dry monsoon season, resulting in channel inventory levels returning to normal. The company refrained from implementing price hikes during the quarter due to increase in competitive intensity, particularly in premium/BLDC portfolio (representing over 15% of fan revenue). HAVL expects improvement in appliance business (~20% of ECD revenue) in the upcoming festive season and has proactively increased inventory levels to meet this expected demand. ECD segment is expected to show sequential improvement in growth as well as margins in Q2FY24.
- Wire & Cable business - expect 17.3% CAGR over FY23-26E:** HAVL continues to see healthy traction in its W&C segment with stability in RM prices, particularly within the wire segment. Capacity constraint in cable business has been addressed through greenfield expansion for LT cable in Karnataka, which will be operational by Mar-24 (having potential to generate Rs 5bn). W&C segment is expected to report revenue CAGR of 16.9% over FY23-26E. Furthermore, as RM prices trend downwards there is expectation of margin improvements.
- Lloyd business – healthy growth to continue:** Being weak season for RAC (~70% of Lloyd revenue), the company is not expecting major improvement in volume in Q2FY24. However, due to dry monsoon in some parts of India, improvement in secondary sales has normalized the channel inventory. Competitive intensity at high level, resulted in no price hike for Lloyd. With the start of Sri City facility, company has received benefit of logistics cost reduction (>2% cost), better inventory management and market share improvement in South India with product availability & better promotional offers. The company is majorly focused on volume & brand creation for near term in Lloyd and long term focus is to minimize losses.

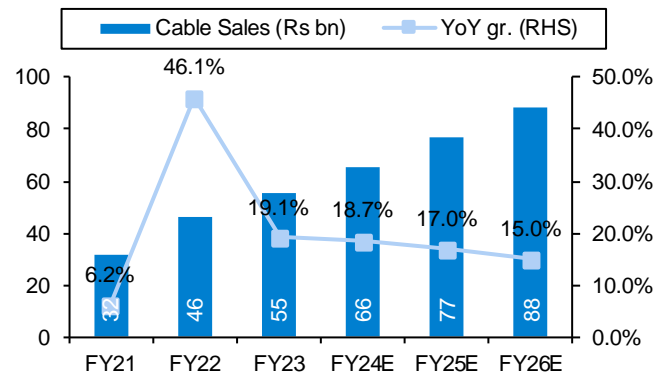
- HAVL expanded its RAC capacity from around 1mn units at Ghiloth plant to 2.12mn units with addition of 1.12mn units at Sri City plant.
- HAVL is looking for export opportunity of AC to neighboring countries & USA/UK to utilize Sri City facility near the port; export has better margin v/s domestic market.
- HAVL has total capacity of 0.68mn units of washing machines, which is mix of semi-automatic and top load automatic washing machine units.
- The company is setting-up a new facility to manufacture Refrigerators in Ghiloth, planned capacity of 1mn units which will be operational by Q1FY26. This manufacturing will reap the benefits of backward integration and economies of scale in coming years.
- **Lighting segment - B2C continues to be soft:** Lighting segment was impacted with deflationary trend in LED segment in Q1FY24, which has seen sign of upward trend with focus on premium products. HAVL's B2B lighting portfolio (~35% revenue) continues to see strong traction.
- **Capex is expected to be ~Rs 6bn in FY24.** This includes 1) Rs 3bn for greenfield facility of LT cable in Karnataka, 2) Rs 1.5bn for expansion of Lloyd's washing machine manufacturing and 3) a portion designated for refrigerator production facilities in Ghiloth.

Exhibit 1: Estimated revenue CAGR of 16.7% over FY23-26E



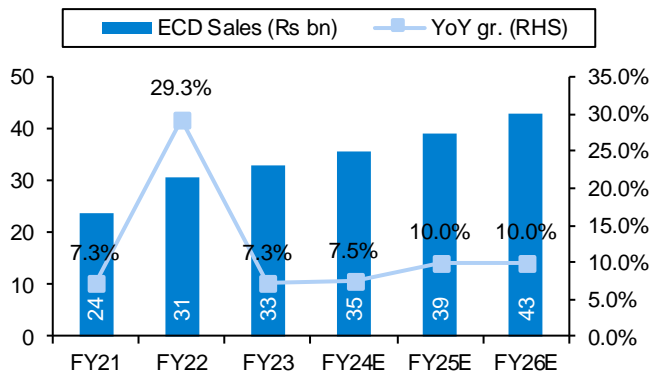
Source: Company, PL

Exhibit 2: Cables revenue CAGR of ~17% CAGR FY23-26E



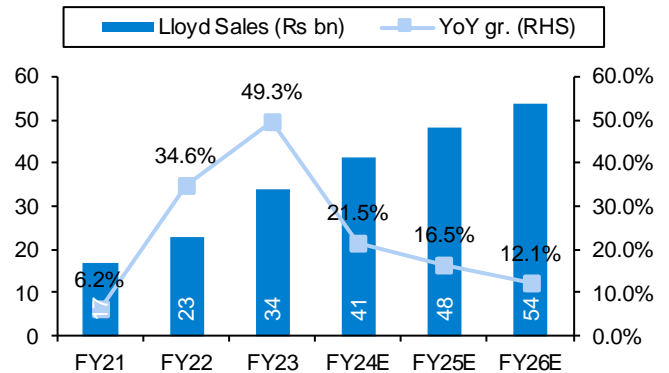
Source: Company, PL

Exhibit 3: ECD business expected 9.2% CAGR FY23-26E

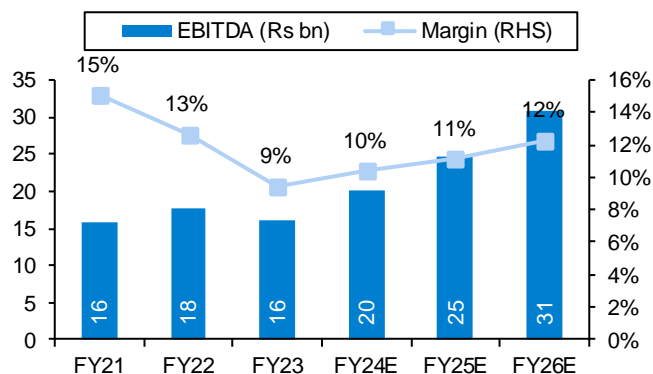


Source: Company, PL

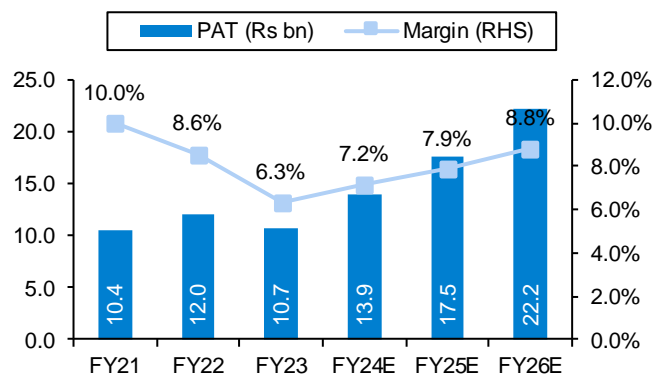
Exhibit 4: Llyod to sustain double digit growth, 16.6% CAGR



Source: Company, PL

Exhibit 5: EBITDA margin to improve 280bps over FY23-26E


Source: Company, PL

Exhibit 6: Estimated PAT CAGR of 27.5% over FY23-26E


Source: Company, PL

Exhibit 7: Durables companies' valuation

Company Names	M Cap (Rs bn)	CMP (Rs)	Rating	Target Price (Rs)	PER (x)			Target PER (x) FY25E	RoCE (%)			Sales CAGR (%) FY23-FY25E	EPS CAGR (%) FY23-FY25E	Return Expectation
					FY23	FY24E	FY25E		FY23	FY24E	FY25E			
KEI Industries	226.3	2,509	BUY	2,908	47.5	36.5	30.6	33.0	26.0	28.7	28.0	18.0	24.6	15.9
RR Kabel	134.6	1,193	BUY	1,407	60.1	43.4	29.7	35.0	16.0	21.5	25.7	23.1	42.3	17.9
Voltas	285.2	862	HOLD	831	75.3	47.0	36.4	35.1	11.8	15.6	17.2	14.2	43.8	-3.6
Polycab India	769.6	5,139	Accumulate	4,760	60.6	46.6	40.6	37.6	22.7	26.5	28.5	19.3	22.2	-7.4
Havells India	877.2	1,404	Accumulate	1,538	82.1	63.1	50.2	48.7	22.7	26.5	28.5	14.7	27.9	9.6
Crompton	189.4	296	BUY	369	40.6	37.0	28.3	35.3	18.5	21.2	26.5	12.0	19.8	24.5
Bajaj Electricals	126.3	1,097	Accumulate	1,337	55.0	43.6	30.8	37.5	19.2	20.6	24.7	8.9	21.4	21.9

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	1,69,107	1,93,849	2,22,409	2,51,204
YoY gr. (%)	21.3	14.6	14.7	12.9
Cost of Goods Sold	1,17,055	1,31,023	1,49,072	1,66,268
Gross Profit	52,053	62,826	73,337	84,936
Margin (%)	30.8	32.4	33.0	33.8
Employee Cost	12,683	14,345	16,458	18,589
Other Expenses	11,600	12,969	15,146	17,107
EBITDA	15,991	20,102	24,718	30,776
YoY gr. (%)	(9.2)	25.7	23.0	24.5
Margin (%)	9.5	10.4	11.1	12.3
Depreciation and Amortization	2,962	3,133	3,429	3,734
EBIT	13,030	16,969	21,289	27,043
Margin (%)	7.7	8.8	9.6	10.8
Net Interest	336	319	339	389
Other Income	1,777	2,043	2,554	3,149
Profit Before Tax	14,471	18,693	23,504	29,803
Margin (%)	8.6	9.6	10.6	11.9
Total Tax	3,753	4,757	5,982	7,585
Effective tax rate (%)	25.9	25.5	25.5	25.5
Profit after tax	10,717	13,935	17,522	22,218
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	10,717	13,935	17,522	22,218
YoY gr. (%)	(10.4)	30.0	25.7	26.8
Margin (%)	6.3	7.2	7.9	8.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	10,717	13,935	17,522	22,218
YoY gr. (%)	(10.4)	30.0	25.7	26.8
Margin (%)	6.3	7.2	7.9	8.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	10,717	13,935	17,522	22,218
Equity Shares O/s (m)	627	627	627	627
EPS (Rs)	17.1	22.2	28.0	35.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	46,923	52,657	55,457	58,357
Tangibles	34,514	40,149	42,849	45,649
Intangibles	12,409	12,509	12,609	12,709
Acc: Dep / Amortization	13,821	16,954	20,383	24,117
Tangibles	12,236	15,095	18,247	21,703
Intangibles	1,585	1,859	2,136	2,414
Net fixed assets	33,102	35,703	35,074	34,240
Tangibles	22,279	25,054	24,601	23,946
Intangibles	10,823	10,649	10,473	10,294
Capital Work In Progress	1,664	1,000	1,000	1,000
Goodwill	3,105	3,105	3,105	3,105
Non-Current Investments	1,691	1,680	1,797	1,923
Net Deferred tax assets	(3,615)	(3,568)	(3,510)	(3,435)
Other Non-Current Assets	1,351	1,556	1,705	1,857
Current Assets				
Investments	1,809	6,309	6,309	6,309
Inventories	37,086	39,832	45,701	51,617
Trade receivables	9,739	9,560	10,359	10,323
Cash & Bank Balance	18,702	20,553	32,397	48,590
Other Current Assets	1,785	1,938	2,224	2,512
Total Assets	1,11,574	1,22,795	1,41,443	1,63,466
Equity				
Equity Share Capital	627	627	627	627
Other Equity	65,628	76,746	89,570	1,05,836
Total Networkth	66,255	77,373	90,196	1,06,463
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	1,367	872	1,001	1,130
Other non current liabilities	113	130	149	168
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	26,432	25,128	28,589	31,887
Other current liabilities	11,923	13,770	15,757	17,850
Total Equity & Liabilities	1,11,574	1,22,795	1,41,443	1,63,466

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	14,471	18,693	23,504	29,803
Add. Depreciation	2,962	3,133	3,429	3,734
Add. Interest	336	319	339	389
Less Financial Other Income	1,777	2,043	2,554	3,149
Add. Other	(503)	(717)	118	94
Op. profit before WC changes	17,265	21,428	27,390	34,020
Net Changes-WC	(8,967)	(2,233)	(1,727)	(1,002)
Direct tax	(3,753)	(4,757)	(5,982)	(7,585)
Net cash from Op. activities	4,545	14,438	19,682	25,433
Capital expenditures	(6,022)	(5,070)	(2,800)	(2,900)
Interest / Dividend Income	-	-	-	-
Others	5,924	(4,380)	(10,000)	(13,000)
Net Cash from Inv. activities	(99)	(9,450)	(12,800)	(15,900)
Issue of share cap. / premium	0	-	-	-
Debt changes	(2,726)	-	-	-
Dividend paid	(2,817)	(2,817)	(4,699)	(5,952)
Interest paid	(336)	(319)	(339)	(389)
Others	-	-	-	-
Net cash from Fin. activities	(5,879)	(3,136)	(5,038)	(6,341)
Net change in cash	(1,432)	1,852	1,844	3,193
Free Cash Flow	(768)	9,766	16,424	22,050

Source: Company Data, PL Research

Key Financial Metrics

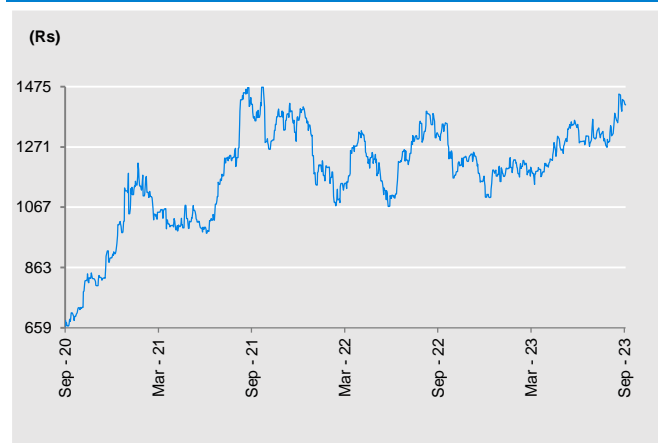
Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	17.1	22.2	28.0	35.5
CEPS	21.8	27.2	33.4	41.4
BVPS	105.8	123.5	144.0	169.9
FCF	(1.2)	15.6	26.2	35.2
DPS	4.5	7.5	9.5	11.0
Return Ratio(%)				
RoCE	22.7	26.5	28.5	30.7
ROIC	21.6	28.1	35.2	46.4
RoE	17.0	19.4	20.9	22.6
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.3)	(0.4)	(0.5)
Net Working Capital (Days)	44	46	45	44
Valuation(x)				
PER	82.1	63.1	50.2	39.6
P/B	13.3	11.4	9.8	8.3
P/CEPS	64.3	51.5	42.0	33.9
EV/EBITDA	53.7	42.4	34.0	26.8
EV/Sales	5.1	4.4	3.8	3.3
Dividend Yield (%)	0.3	0.5	0.7	0.8

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Net Revenue	25,982	41,276	48,592	48,338
YoY gr. (%)	(19.8)	12.6	10.0	14.3
Raw Material Expenses	16,713	27,656	33,803	33,659
Gross Profit	9,269	13,620	14,789	14,679
Margin (%)	35.7	33.0	30.4	30.4
EBITDA	3,531	4,238	5,272	4,020
YoY gr. (%)	(20.6)	(3.7)	3.2	11.2
Margin (%)	13.6	10.3	10.8	8.3
Depreciation / Depletion	616	746	774	763
EBIT	2,915	3,492	4,497	3,257
Margin (%)	11.2	8.5	9.3	6.7
Net Interest	110	73	98	85
Other Income	342	394	467	648
Profit before Tax	3,148	3,814	4,867	3,821
Margin (%)	12.1	9.2	10.0	7.9
Total Tax	805	979	1,287	950
Effective tax rate (%)	25.6	25.7	26.4	24.9
Profit after Tax	2,343	2,835	3,580	2,871
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	2,343	2,835	3,580	2,871
YoY gr. (%)	(22.5)	(7.3)	4.3	18.4
Margin (%)	9.0	6.9	7.4	5.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,343	2,835	3,580	2,871
YoY gr. (%)	(22.5)	(7.3)	4.3	18.4
Margin (%)	9.0	6.9	7.4	5.9
Other Comprehensive Income	-	(3)	-	(17)
Total Comprehensive Income	2,343	2,832	3,580	2,854
Avg. Shares O/s (m)	626	626	626	626
EPS (Rs)	3.7	4.5	5.7	4.6

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	21-Jul-23	BUY	1,460	1,348
2	06-Jul-23	BUY	1,460	1,287
3	04-May-23	BUY	1,447	1,245
4	11-Apr-23	BUY	1,448	1,166
5	19-Jan-23	BUY	1,447	1,205
6	06-Jan-23	BUY	1,442	1,195

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Astral Ltd.	Hold	1,955	1,974
2	Bajaj Electricals	Accumulate	1,337	1,220
3	Century Plyboard (I)	BUY	800	629
4	Cera Sanitaryware	Hold	8,224	7,917
5	Crompton Greaves Consumer Electricals	BUY	369	309
6	Finolex Industries	Accumulate	197	184
7	Greenpanel Industries	BUY	459	341
8	Havells India	BUY	1,460	1,348
9	Kajaria Ceramics	Hold	1,363	1,393
10	KEI Industries	BUY	2,908	2,480
11	Polycab India	Accumulate	4,760	4,309
12	R R Kabel	BUY	1,407	1,035
13	Supreme Industries	Hold	3,377	3,382
14	Voltas	Hold	831	829

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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