

October 20, 2023

## Q2FY24 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	1,538		1,538	
Sales (Rs.m)	1,93,849	2,22,409	1,93,849	2,22,409
% Chng.	-	-	-	-
EBITDA (Rs.m)	19,714	24,718	20,102	24,718
% Chng.	(1.9)	-	-	-
EPS (Rs.)	21.8	27.8	22.2	28.0
% Chng.	(2.0)	(0.5)	-	-

### 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	19,714	24,718	30,776
Margin (%)	9.5	10.2	11.1	12.3
PAT (Rs. m)	10,717	13,650	17,439	22,222
EPS (Rs.)	17.1	21.8	27.8	35.5
Gr. (%)	(10.5)	27.4	27.8	27.4
DPS (Rs.)	4.5	7.5	9.5	11.0
Yield (%)	0.3	0.6	0.7	0.8
RoE (%)	17.0	19.0	20.9	22.7
RoCE (%)	22.7	26.1	28.5	30.9
EV/Sales (x)	4.9	4.3	3.7	3.2
EV/EBITDA (x)	52.1	42.0	33.0	26.0
PE (x)	79.7	62.5	49.0	38.4
P/BV (x)	12.9	11.1	9.5	8.0

### Key Data

HVEL.BO | HAVL IN

52-W High / Low	Rs.1,466 / Rs.1,025
Sensex / Nifty	65,629 / 19,625
Market Cap	Rs.854bn/ \$ 10,259m
Shares Outstanding	627m
3M Avg. Daily Value	Rs.1310.49m

### 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	(4.4)	12.1	9.1
Relative	(1.6)	1.7	(1.7)

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## Slowdown in B2C business, outlook positive

### Quick Pointers:

- Domestic wire & ECD business impacted with softness in consumer demand.
- Lloyd growth momentum continues (up 18.5% YoY), losses too.

**Havells India's (HAVL IN) reported slowdown in revenue growth mainly with decline in ECD segment (-5.2% YoY), flat lighting business (-0.5% YoY) and lower growth in Cables business (+8.1% YoY) due to muted consumer sentiment, shift in festival demand from Q2 to Q3, YoY price deflation in LED impacting consumer lighting revenues and slowdown in domestic wire business. Operating margin impacted from 1) seasonally weak demand & low value growth, 2) price erosion in lighting segment even after double digit volume growth, 3) unabsorbed higher manufacturing overheads and 4) continued losses in Lloyd. In H2FY24, lighting business is expected to report healthy growth similar to volume as price deflation bottom-out.**

**We believe Lloyd along with ECD, W&C is well placed to grow on account of positive outlook for upcoming festival season, pick-up in residential demand, declining inflation, commodity price stability and B2B portfolio sustaining steady demand led by infrastructure/construction. We downward revise our FY24 earnings by 2.0% mainly with correction in margins as H2FY24 is expected to see revival in demand & margins and maintain FY25/FY26 estimates. Maintain 'Accumulate' rating at a DCF based target price of Rs1,538, which implies 49x Sep'25 EPS.**

**Revenue grew 6.0%, Adj. PAT grew 33.2%:** Revenue grew by 6.0% YoY to Rs39.0bn (PLe ~Rs42bn) due to slowdown in Cables (+8.1% YoY), Lighting (-0.5% YoY) and ECD (-5.2% YoY). There is slowdown in ECD revenue due to muted consumer demand & shift in festival demand from Q2 to Q3 and price erosion in lighting segment has resulted in flat revenue while lighting saw double digit volume growth. Cable business reported ~10% volume growth in Q2FY24. EBITDA grew 30.2% YoY to Rs3.7bn (PLe Rs3.8bn), with EBITDA margins expanded by 180bps YoY to 9.6%. (PLe: 9.1%). In terms of segmental EBIT margin, Cables margin came in at 11.6% (+530bps YoY), Lighting at 14.3% (flat YoY), ECD at 11.6% (flat YoY) and Switchgear at 26.4% (+140bps YoY). Lloyd continues to see losses at Rs745mn vs loss of Rs840mn in Q2FY23. PBT grew by 33.2% YoY to Rs3.4bn. Adj. PAT grew 33.2% YoY to Rs2.5bn (PLe Rs2.6bn). Net working capital days came at 39 (Vs 39 in Q2FY23).

**Concall Takeaways:** 1) Weak performance in Cables & ECD business due to softness in domestic wire demand and muted consumer sentiment & shift in festival demand, 2) Volume growth for W&C business was ~10% in Q2FY24, Cable (40% rev.) continues to face capacity constraint while growth is better than domestic wire segment, 3) ECD segment expected to do better in H2FY24 with festive demand, 4) Lloyd has sequentially gained market share in RAC segment and RAC grew highest in Q2FY24 vs other products, 5) In Lloyd, there was 50% contribution from RAC in Q2FY24, 6) Deflationary trend in LED lighting business has bottom-out as per management and expected to grow with volume in coming quarter, lighting volume grew by double digit in Q2FY24, 7) Manufacturing overheads remained unabsorbed which led to margin contraction in H1FY24, 8) Capex would remain around Rs6bn in FY24, majorly in W&C capacity enhancement – 25% cable capacity increase & some enhancement in wire capacity as well, 9) Mgmt. expects better H2FY24 in terms of rev. growth and margin comparing H1FY24 on account of positive outlook for the upcoming festival season, pick-up in residential demand, inflation coming down, commodity price stability.

**Exhibit 1: Q2FY24 Result Overview (Rs mn)**

Y/e March	Q2FY24	Q2FY23	YoY gr. (%)	Q1FY24	QoQ gr. (%)	1HFY24	1HFY23	YoY gr. (%)
<b>Net Sales</b>	<b>39,003</b>	<b>36,795</b>	<b>6.0</b>	<b>48,338</b>	<b>(19.3)</b>	<b>87,341</b>	<b>79,096</b>	<b>10.4</b>
Gross Profit	12,984	11,356	14.3	14,679	(11.5)	27,663	23,501	17.7
% of N S	33.3	30.9	2.4	30.4		31.7	29.7	2.0
Other Expenses	9,251	8,488	9.0	10,659	(13.2)	19,910	17,160	16.0
% of N S	23.7	23.1	0.7	22.1	166.6%	22.8	21.7	1.1
<b>EBITDA</b>	<b>3,734</b>	<b>2,869</b>	<b>30.2</b>	<b>4,020</b>	<b>(7.1)</b>	<b>7,753</b>	<b>6,341</b>	<b>22.3</b>
Margin (%)	9.6	7.8	1.8	8.3		8.9	8.0	0.9
Depreciation	812	721	12.6	763	6.4	1,575	1,442	9.2
Interest	93	68	36.6	85	10.2	178	166	7.3
Other income	525	438	19.9	648	(19.1)	1,173	914	28.4
<b>PBT</b>	<b>3,353</b>	<b>2,517</b>	<b>33.2</b>	<b>3,821</b>	<b>(12.2)</b>	<b>7,174</b>	<b>5,647</b>	<b>27.0</b>
Tax	862	647	33.3	950	(9.2)	1,812	1,488	21.8
ETR (%)	25.7	25.7	0.0	24.9		25.3	26.4	-1.1
<b>Adj. PAT</b>	<b>2,491</b>	<b>1,870</b>	<b>33.2</b>	<b>2,871</b>	<b>(13.2)</b>	<b>5,362</b>	<b>4,159</b>	<b>28.9</b>

Source: Company, PL

**Exhibit 2: Segmental Breakup (Rs mn)**

Y/e March	Q2FY24	Q2FY23	YoY gr. (%)	Q1FY24	QoQ gr. (%)	1HFY24	1HFY23	YoY gr. (%)
<b>Revenues</b>								
Switchgears	5,336	4,879	9.4	5,409	(1.3)	10,745	10,048	6.9
Cables	14,702	13,594	8.1	14,852	(1.0)	29,553	25,523	15.8
Lighting & Fixtures	3,999	4,018	(0.5)	3,710	(7.8)	7,710	7,754	(0.6)
Electrical Consumer Durables	7,331	7,735	(5.2)	8,775	(16.5)	16,106	16,130	(0.2)
Others	2,662	2,372	12.2	2,483	7.2	5,145	4,648	10.7
Core Revenues	34,029	32,597	4.4	35,229	(3.40)	69,258	64,104	8.0
Lloyd	4,974	4,198	18.5	13,109	(62.1)	18,083	15,136	19.5
<b>Total Revenues</b>	<b>39,003</b>	<b>36,795</b>	<b>6.0</b>	<b>48,338</b>	<b>(19.3)</b>	<b>87,341</b>	<b>79,240</b>	<b>10.2</b>
<b>EBIT</b>								
Switchgears	1,409	1,220	15.5	1,499	(6.0)	2,908	2,574	13.0
EBIT margin (%)	26.4	25.0	1.4	27.7	-1.3	27.1	25.6	1.4
Cables	1,707	859	98.7	1,691	0.9	3,397	1,734	95.9
EBIT margin (%)	11.6	6.3	5.3	11.4	0.2	11.5	6.8	4.7
Lighting & Fixtures	570	576	(1.0)	532	7.1	1,102	1,190	(7.3)
EBIT margin (%)	14.3	14.3	-0.1	14.3	-0.1	14.3	15.3	-1.0
Electrical Consumer Durables	848	900	(5.8)	957	(11.3)	1,805	2,001	(9.8)
EBIT margin (%)	11.6	11.6	-0.1	10.9	0.7	11.2	12.4	-1.2
Others	40	41	(1.7)	88	(54.2)	128	163	(21.5)
EBIT margin (%)	1.5	1.7	-0.2	3.5	-2.0	2.5	3.5	-1.0
Core EBIT	4,574	3,596	27.2	4,766	(4.0)	9,340	7,661	21.9
EBIT margin (%)	13.4	11.0	2.4	13.5	-0.1	13.5	12.0	1.5
Lloyd	(745)	-840	(11.3)	-616	21.1	(1,361)	-1,403	(3.0)
EBIT margin (%)	-15.0	-20.0	5.0	-4.7	-10.3	-7.5	-9.3	1.7
<b>Total EBIT</b>	<b>3,828</b>	<b>2,756</b>	<b>38.9</b>	<b>4,150</b>	<b>(7.8)</b>	<b>7,979</b>	<b>6,258</b>	<b>27.5</b>
EBIT margin (%)	9.8	7.5	2.3	8.6	1.2	9.1	7.9	1.2

Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Net Revenues</b>	<b>1,69,107</b>	<b>1,93,849</b>	<b>2,22,409</b>	<b>2,51,204</b>
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	14,733	16,458	18,589
Other Expenses	11,600	12,969	15,146	17,107
<b>EBITDA</b>	<b>15,991</b>	<b>19,714</b>	<b>24,718</b>	<b>30,776</b>
YoY gr. (%)	(9.2)	23.3	25.4	24.5
Margin (%)	9.5	10.2	11.1	12.3
Depreciation and Amortization	2,962	3,208	3,529	3,807
<b>EBIT</b>	<b>13,030</b>	<b>16,506</b>	<b>21,189</b>	<b>26,970</b>
Margin (%)	7.7	8.5	9.5	10.7
Net Interest	336	361	386	421
Other Income	1,777	2,165	2,589	3,260
<b>Profit Before Tax</b>	<b>14,471</b>	<b>18,310</b>	<b>23,392</b>	<b>29,809</b>
Margin (%)	8.6	9.4	10.5	11.9
Total Tax	3,753	4,660	5,953	7,586
Effective tax rate (%)	25.9	25.5	25.5	25.5
<b>Profit after tax</b>	<b>10,717</b>	<b>13,650</b>	<b>17,439</b>	<b>22,222</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>10,717</b>	<b>13,650</b>	<b>17,439</b>	<b>22,222</b>
YoY gr. (%)	(10.4)	27.4	27.8	27.4
Margin (%)	6.3	7.0	7.8	8.8
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>10,717</b>	<b>13,650</b>	<b>17,439</b>	<b>22,222</b>
YoY gr. (%)	(10.4)	27.4	27.8	27.4
Margin (%)	6.3	7.0	7.8	8.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	10,717	13,650	17,439	22,222
<b>Equity Shares O/s (m)</b>	<b>627</b>	<b>627</b>	<b>627</b>	<b>627</b>
<b>EPS (Rs)</b>	<b>17.1</b>	<b>21.8</b>	<b>27.8</b>	<b>35.5</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>46,923</b>	<b>53,057</b>	<b>56,057</b>	<b>58,957</b>
Tangibles	34,514	40,549	43,449	46,249
Intangibles	12,409	12,509	12,609	12,709
<b>Acc: Dep / Amortization</b>	<b>13,821</b>	<b>17,029</b>	<b>20,558</b>	<b>24,365</b>
Tangibles	12,236	15,141	18,364	21,863
Intangibles	1,585	1,888	2,194	2,502
<b>Net fixed assets</b>	<b>33,102</b>	<b>36,028</b>	<b>35,499</b>	<b>34,592</b>
Tangibles	22,279	25,408	25,084	24,385
Intangibles	10,823	10,620	10,415	10,207
Capital Work In Progress	1,664	1,200	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)	(3,569)	(3,511)	(3,436)
Other Non-Current Assets	1,351	1,576	1,705	1,857
<b>Current Assets</b>				
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	20,278	32,241	48,503
Other Current Assets	1,785	1,938	2,224	2,512
<b>Total Assets</b>	<b>1,11,574</b>	<b>1,23,065</b>	<b>1,41,713</b>	<b>1,63,731</b>
<b>Equity</b>				
Equity Share Capital	627	627	627	627
Other Equity	65,628	76,461	89,202	1,05,472
<b>Total Networkth</b>	<b>66,255</b>	<b>77,088</b>	<b>89,828</b>	<b>1,06,099</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	-	-	-
Provisions	1,367	872	1,001	1,130
Other non current liabilities	113	130	149	168
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	26,432	25,128	28,589	31,887
Other current liabilities	11,923	13,937	15,948	17,976
<b>Total Equity &amp; Liabilities</b>	<b>1,11,574</b>	<b>1,23,065</b>	<b>1,41,713</b>	<b>1,63,731</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	14,471	18,310	23,392	29,809
Add. Depreciation	2,962	3,208	3,529	3,807
Add. Interest	336	361	386	421
Less Financial Other Income	1,777	2,165	2,589	3,260
Add. Other	(503)	(348)	196	152
Op. profit before WC changes	17,265	21,531	27,503	34,188
Net Changes-WC	(8,967)	(2,066)	(1,702)	(1,067)
Direct tax	(3,753)	(4,660)	(5,953)	(7,586)
<b>Net cash from Op. activities</b>	<b>4,545</b>	<b>14,805</b>	<b>19,847</b>	<b>25,534</b>
Capital expenditures	(6,022)	(5,670)	(2,800)	(2,900)
Interest / Dividend Income	-	-	-	-
Others	5,924	(4,380)	(10,000)	(13,000)
<b>Net Cash from Inv. activities</b>	<b>(99)</b>	<b>(10,050)</b>	<b>(12,800)</b>	<b>(15,900)</b>
Issue of share cap. / premium	0	-	-	-
Debt changes	(2,726)	-	-	-
Dividend paid	(2,817)	(2,817)	(4,699)	(5,952)
Interest paid	(336)	(361)	(386)	(421)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(5,879)</b>	<b>(3,178)</b>	<b>(5,085)</b>	<b>(6,373)</b>
<b>Net change in cash</b>	<b>(1,432)</b>	<b>1,577</b>	<b>1,963</b>	<b>3,262</b>
Free Cash Flow	(768)	9,122	16,466	22,062

Source: Company Data, PL Research

**Key Financial Metrics**

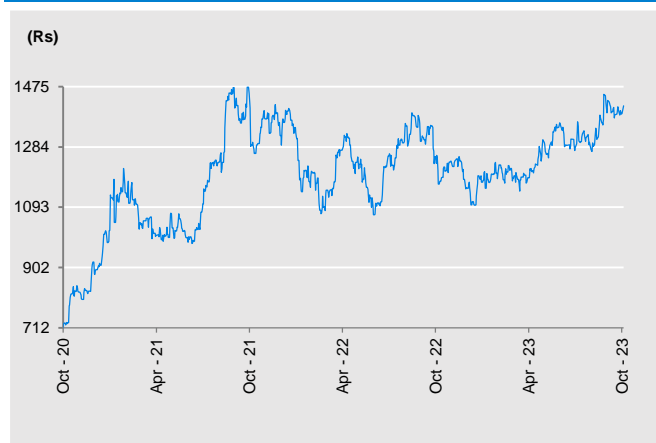
Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Per Share(Rs)</b>				
EPS	17.1	21.8	27.8	35.5
CEPS	21.8	26.9	33.5	41.5
BVPS	105.8	123.0	143.4	169.4
FCF	(1.2)	14.6	26.3	35.2
DPS	4.5	7.5	9.5	11.0
<b>Return Ratio(%)</b>				
RoCE	22.7	26.1	28.5	30.9
ROIC	21.6	27.3	35.2	46.6
RoE	17.0	19.0	20.9	22.7
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.3)	(0.3)	(0.4)	(0.5)
Net Working Capital (Days)	44	46	45	44
<b>Valuation(x)</b>				
PER	79.7	62.5	49.0	38.4
P/B	12.9	11.1	9.5	8.0
P/CEPS	62.4	50.6	40.7	32.8
EV/EBITDA	52.1	42.0	33.0	26.0
EV/Sales	4.9	4.3	3.7	3.2
Dividend Yield (%)	0.3	0.6	0.7	0.8

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24
<b>Net Revenue</b>	<b>41,276</b>	<b>48,592</b>	<b>48,338</b>	<b>39,003</b>
YoY gr. (%)	12.6	10.0	14.3	6.0
Raw Material Expenses	27,656	33,803	33,659	26,019
Gross Profit	13,620	14,789	14,679	12,984
Margin (%)	33.0	30.4	30.4	33.3
<b>EBITDA</b>	<b>4,238</b>	<b>5,272</b>	<b>4,020</b>	<b>3,734</b>
YoY gr. (%)	(3.7)	3.2	11.2	30.2
Margin (%)	10.3	10.8	8.3	9.6
Depreciation / Depletion	746	774	763	812
<b>EBIT</b>	<b>3,492</b>	<b>4,497</b>	<b>3,257</b>	<b>2,922</b>
Margin (%)	8.5	9.3	6.7	7.5
Net Interest	73	98	85	93
Other Income	394	467	648	525
<b>Profit before Tax</b>	<b>3,814</b>	<b>4,867</b>	<b>3,821</b>	<b>3,353</b>
Margin (%)	9.2	10.0	7.9	8.6
Total Tax	979	1,287	950	862
Effective tax rate (%)	25.7	26.4	24.9	25.7
<b>Profit after Tax</b>	<b>2,835</b>	<b>3,580</b>	<b>2,871</b>	<b>2,491</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>2,835</b>	<b>3,580</b>	<b>2,871</b>	<b>2,491</b>
YoY gr. (%)	(7.3)	4.3	18.4	33.2
Margin (%)	6.9	7.4	5.9	6.4
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>2,835</b>	<b>3,580</b>	<b>2,871</b>	<b>2,491</b>
YoY gr. (%)	(7.3)	4.3	18.4	33.2
Margin (%)	6.9	7.4	5.9	6.4
Other Comprehensive Income	(3)	-	(17)	(9)
<b>Total Comprehensive Income</b>	<b>2,832</b>	<b>3,580</b>	<b>2,854</b>	<b>2,482</b>
Avg. Shares O/s (m)	626	626	626	626
<b>EPS (Rs)</b>	<b>4.5</b>	<b>5.7</b>	<b>4.6</b>	<b>4.0</b>

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Oct-23	Accumulate	1,538	1,399
2	27-Sep-23	Accumulate	1,538	1,404
3	21-Jul-23	BUY	1,460	1,348
4	06-Jul-23	BUY	1,460	1,287
5	04-May-23	BUY	1,447	1,245
6	11-Apr-23	BUY	1,448	1,166
7	19-Jan-23	BUY	1,447	1,205
8	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	1,983	1,844
2	Bajaj Electricals	BUY	1,421	1,056
3	Century Plyboard (I)	BUY	855	653
4	Cera Sanitaryware	Accumulate	8,857	8,176
5	Crompton Greaves Consumer Electricals	BUY	401	301
6	Finolex Industries	Accumulate	243	227
7	Greenpanel Industries	BUY	495	374
8	Havells India	Accumulate	1,538	1,399
9	Kajaria Ceramics	Accumulate	1,445	1,319
10	KEI Industries	BUY	2,908	2,726
11	Polycab India	Accumulate	5,943	5,339
12	R R Kabel	BUY	1,624	1,503
13	Supreme Industries	Accumulate	4,225	3,925
14	Voltas	Hold	909	885

**PL's Recommendation Nomenclature (Absolute Performance)**

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

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