

October 20, 2023

RESULT REPORT Q2 FY24 | Sector: Consumer Durables

Havells India Ltd

2H to see improved performance; reiterate BUY

Result Synopsis

Havells has delivered lower than expected revenue growth with two of its key segments (ECD and Lighting) registering revenue de-growth on back of poor consumer demand and cables growth has been lower as there has been capacity constraint. Gross margins have seen expansion on back of stable commodity prices. Management expects core Havells margin to return to its normalized levels in next few quarters. As far as Lloyds is concerned losses expanded in current quarter as there has been under absorption of the capacity as the new facility at Sri-city has commissioned and current quarter has been lean season for RAC. Losses will reduce as RAC offtake from the new plant starts ahead of festive season. Management is confident of demand revival in 2H and Havells is expected to register better growth in 2HFY24.

We are factoring FY23-25E revenue/EBITDA/PAT CAGR of 14%/28%/31%. We have marginally lowered our margin estimates as company intends to pass on the benefits of the lower commodity prices and increased efficiency by way of lower product prices. We maintain our BUY rating with target price to Rs 1,620 valuing the stock at 55x on FY25 EPS. We foresee growth returning in 2H as festive season has started on a positive note which can be corroborated from the strong sales growth by the e-commerce players during their annual sale and there could be some transfer of funds by way of schemes ahead of general elections which can perk up the rural demand which has been lagging in past few quarters.

Result Highlights

- Revenue beats estimates**- Havells delivered lower than expected revenue growth as consumer demand has been lower and its key categories of ECD and lighting has seen de-growth.
- Margins** -Gross margins has seen improvement of ~242bps on yoy basis as commodity prices have stabilized. EBITDA margin at 9.6% has seen expansion of ~173bps as employee cost have seen increase of 23%.
- Price revisions** - Company has not taken any price revision and company is not indulging to give excessive dealer discount. Downward price revision is only taken where company can realize lower cost and is passing on by way of lower product prices.
- Lloyd** - Lloyd continues to grow at the healthy pace. 50% of the revenue of Lloyd is contributed by RAC and 50% by the other products. Under absorption of the Sri-city plant has resulted in higher losses for Lloyd.

Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	38,912	44,164	40,960	-11.9	-5.0	Revenue miss was on account of de-growth in key categories of ECD and Lighting.
EBITDA	3,720	4,040	4,240	-7.9	-12.3	
EBITDA Margin (%)	9.6	9.1	10.3	41 bps	-70 bps	
Adjusted PAT	2,481	2,745	2,940	-9.3	-15.6	

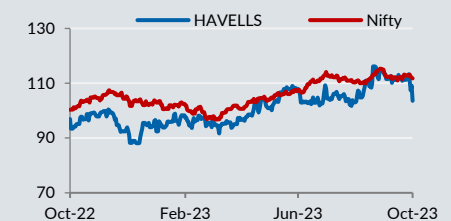
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 1,293
Target Price	: Rs 1,620
Potential Return	: +25.3%

Stock data (as on October 20, 2023)

Nifty	19,543
52 Week h/l (Rs)	1466 / 1025
Market cap (Rs/USD mn)	853969 / 10272
Outstanding Shares (mn)	627
6m Avg t/o (Rs mn):	1,005
Div yield (%):	0.6
Bloomberg code:	HAVL IN
NSE code:	HAVELLS

Stock performance



	1M	3M	1Y
Absolute return	-8.5%	-4.1%	6.9%

Shareholding pattern (As of Jun'23 end)

Promoter	59.4%
FII+DII	33.6%
Others	7.0%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1,620	1,641

Δ in earnings estimates

	FY24e	FY25e
EPS (New)	21.6	29.4
EPS (Old)	23.2	29.8
% change	-6.9%	-1.3%

Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Revenue	169,107	194,147	219,825
YoY Growth	21.3%	14.8%	13.2%
EBITDA	15,991	19,803	26,379
YoY Growth	-1.6%	23.8%	33.2%
PAT	10,717	13,524	18,450
YoY Growth	-10.4%	26.2%	36.4%
ROE	17.0	19.3	23.3
EPS	17.1	21.6	29.4
P/E	75.6	59.9	43.9
BV	105.8	117.9	134.4
EV/EBITDA	50.4	40.3	29.9

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Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	y/y %	q/q %	1HFY24	1HFY23	y/y %
Sales	36,689	41,276	48,592	48,338	38,912	6.1	(19.5)	87,250.4	78,991	10.5
EBITDA	2871	4236	5272	4030	3720	29.6	(7.7)	7,750.0	6,485	19.5
EBITDA Margin %	7.8	10.3	10.8	8.3	9.6			8.9	8.2	8.2
Depreciation	721	746	774	763	812	12.6	6.4	1,574.7	1,441	9.2
EBIT	2150	3490	4497	3267	2908	35.3	(11.0)	6,175.3	5,043	22.4
EBIT Margin %	5.9	8.5	9.3	6.8	7.5			7.1	6.4	10.9
Interest charges	68	73	98	85	93	36.6	10.2	178.0	166	7.3
Other Income	433.3	396.4	467.1	648.4	523.9	20.9	(19.2)	1,172.3	903	29.8
PBT	2515	3814	4867	3831	3339	32.7	(12.9)	7,169.6	5,780	24.0
Tax	646	979	1287	950	863	33.5	(9.2)	1,812.5	1,487	21.9
Effective Tax Rate (%)	25.7	25.7	26.4	24.9	25.7	0.1	3.5	25.3	25.7	(1.8)
PAT	1869	2835	3580	2871	2491	33.3	(13.2)	5,361.7	4,293	24.9
PAT Margin %	5.1	6.9	7.4	5.9	6.4			6.1	5.4	13.1
EPS (Rs)	3.0	4.5	5.7	4.6	4.0	33.3	(13.2)	8.6	7	24.9

Source: Company, YES Sec

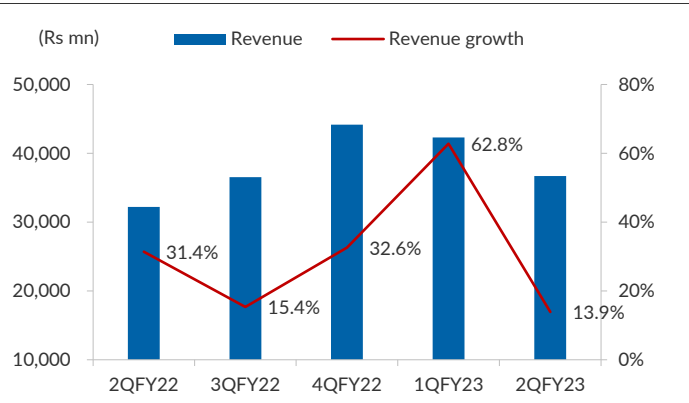
Exhibit 3: Segmental Performance

Rs mn	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	y/y %	q/q %	1HFY24	1HFY23	y/y %
Switchgears	4,878	5,143	6,010	5,409	5,324	9.1	(1.6)	10,732	10,045	6.8
Cable and Wires	13,594	14,121	15,682	14,852	14,702	8.1	(1.0)	29,553	25,523	15.8
Lighting and Fixtures	3,970	4,232	4,160	3,710	3,965	(0.1)	6.9	7,675	7,681	(0.1)
Electrical Consumer Durables	7,735	9,357	7,495	8,775	7,331	(5.2)	(16.5)	16,106	16,116	(0.1)
Lloyds	4,141	6,103	12,710	13,109	4,930	19.1	(62.4)	18,039	14,978	20.4
Others	2,372	2,319	2,536	2,483	2,662	12.2	7.2	5,145	4,648	10.7
Total Sales	36,689	41,276	48,592	48,338	38,912	6.1	(19.5)	87,250	78,991	10.5
PBIT										
Switchgears	1220	1271	1721	1499	1407	15.3	(6.1)	2,905	2,573	12.9
PBIT %	25.0	24.7	28.6	27.7	26.4			3.3	3.3	
Cable and Wires	859	1628	1885	1691	1707	98.7	0.9	3,397	1,734	95.9
PBIT %	6.3	11.5	12.0	11.4	11.6			3.9	2.2	
Lighting and Fixtures	570	536	755	532	569	(0.2)	7.0	1,102	1,181	(6.7)
PBIT %	14.4	12.7	18.1	14.3	14.4			1.3	1.5	
Electrical Consumer Durables	901	1228	962	957	848	(5.8)	(11.3)	1,805	1,999	(9.7)
PBIT %	11.6	13.1	12.8	10.9	11.6			2.1	2.5	
Lloyds	-833	-600	-229	-616	-733	(12.0)	19.1	-1,349	-1,392	(3.1)
PBIT %	-20.1	-9.8	-1.8	-4.7	-14.9			-1.5	-1.8	
Others	41	72	115	88	40	(1.7)	(54.2)	128	163	
PBIT %	1.7	3.1	4.5	3.5	1.5			0.1	0.2	
Total PBIT	2,758	4,134	5,209	4,150	3,838	39.1	(7.5)	7,988	6,258	27.6
Finance Costs	68	73	98	85	93	37.2	9.8	178	166	7.7
Unallocable expense	175	643	711	894	915	422.7	2.4	1,808	312	479.7
as % of sales	0.5	1.6	1.5	1.8	2.4			1.3	0.0	0.5
Exceptional Items	0	0	0	0	0					
PBT	2515	3814	4867	3820	3354	33.3	(12.2)	7,174	5,781	24.1

Source: Company, YES Sec

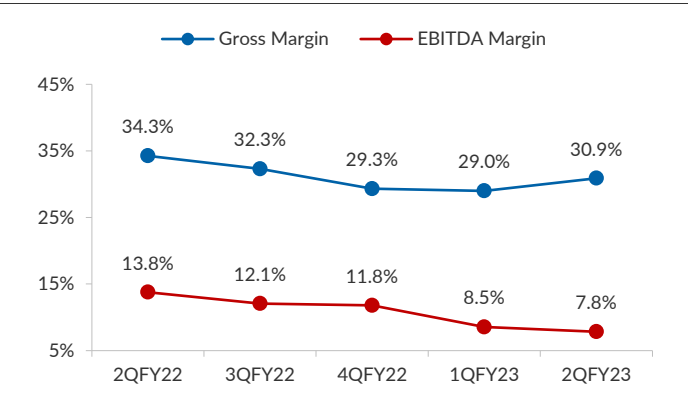
CHARTS

Exhibit 4: Revenue growth missed estimates on de-growth in ECD and lighting segment



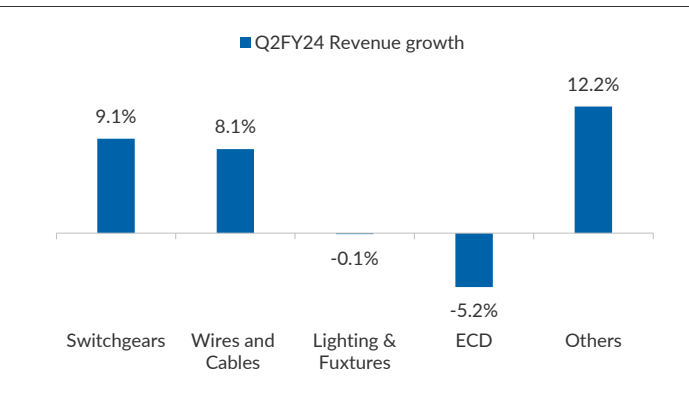
Source: Company, YES Sec

Exhibit 5: Gross margins have improved on stable commodity prices



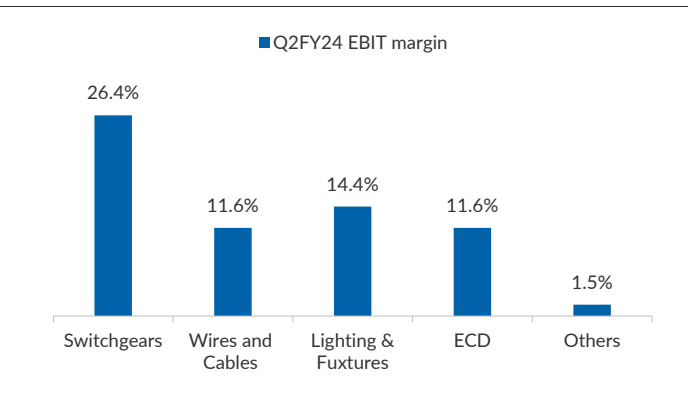
Source: Company, YES Sec

Exhibit 6: Revenue growth have been muted across segment



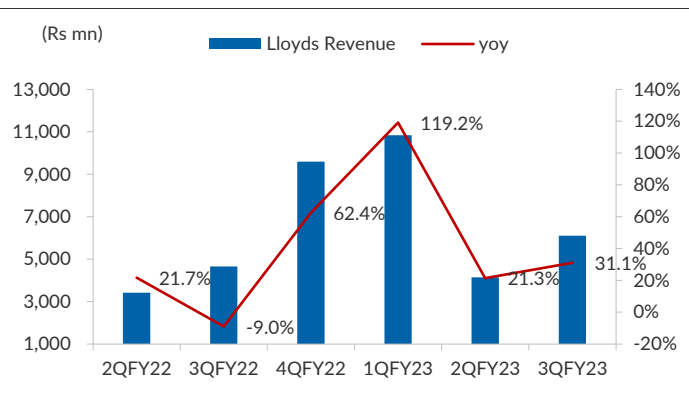
Source: Company, YES Sec

Exhibit 7: Margins have remain steady across segments



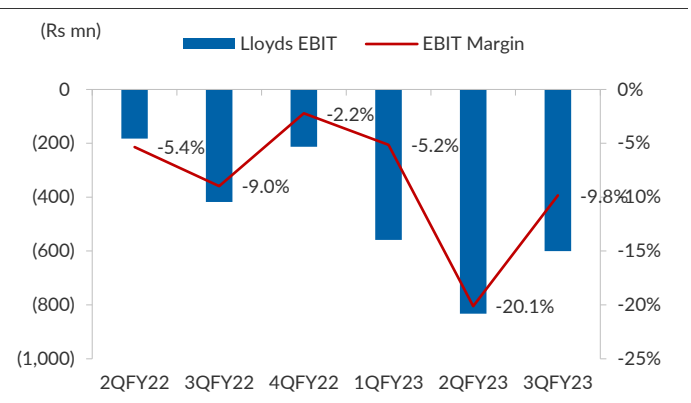
Source: Company, YES Sec

Exhibit 8: Lloyds continues to deliver strong double digit growth



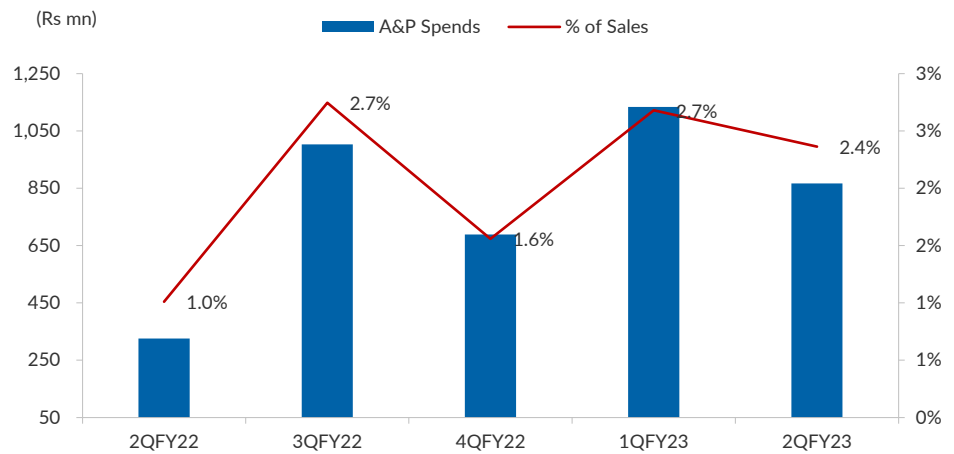
Source: Company, YES Sec

Exhibit 9: Losses have increased on back of absorption of cost owing to increased capacity of new RAC plant



Source: Company, YES Sec

Exhibit 10: A&P spends is returning to normalcy



Source: Company, YES Sec

Exhibit 11: Revenue and Margin Assumption

Rs mn	FY21	FY22	FY23E	FY24E	FY25E
Switchgear	14609	17960	21202	23322	25188
% yoy growth	9%	23%	18%	10%	8%
Cables and wires	31802	46451	55326	65008	72809
% yoy growth	6%	46%	19%	18%	12%
Lighting and Fixtures	10846	13916	16145	17679	19801
% yoy growth	7%	28%	16%	10%	12%
Electrical consumer durables	23770	30739	32982	36280	42392
% yoy growth	19%	29%	7%	10%	17%
Lloyd's consumer	16888	22732	33949	40739	46850
% yoy growth	6%	35%	49%	20%	15%
Others	6365	7587	9503	11118	12786
% yoy growth	31%	19%	25%	17%	15%
Total Revenue	104279	139385	169107	194147	219825
% yoy growth	11%	34%	21%	15%	13%

Rs mn	FY21	FY22	FY23E	FY24E	FY25E
Switchgear	4047	4935	5566	6274	6801
% margin	28%	27%	26%	27%	27%
Cables and wires	4038	5405	5247	7801	8956
% margin	13%	12%	9%	12%	12%
Lighting and Fixtures	2041	2622	2480	2652	3109
% margin	19%	19%	15%	15%	16%
Electrical consumer durables	4037	4576	4190	4354	5723
% margin	17%	15%	13%	12%	14%
Lloyd's consumer	741	-735	-2,233	-1,833	1,171
% margin	4%	-3%	-7%	-5%	3%
Others	310	569	350	445	767
% margin	5%	7%	4%	4%	6%
Total PBIT	15213	17373	15600	19692	26526
% margin	15%	12%	9%	10%	12%

KEY CON-CALL HIGHLIGHTS

- **Current demand Scenario:** Q2 saw softness in consumer demand. B2B demand continues to remain buoyant with led by infrastructure, housing and industrial capex. Lloyds continues its growth momentum, while lighting segment saw volume growth price deflation has resulted in revenue de-growth.
- **Wires and cables** – Capacity constraints and higher demand for underground cables where Havells presence is limited has resulted in lower growth in wires and Cables. Volume growth in wires and cables have been ~10%
- **Lloyd** – Lloyds has seen contribution margin improvement. Company's second facility at Sri-city is now commissioned and has seen under absorption cost which has resulted in losses expanding. Losses are expected to come down once the supply from the new facility starts ahead of next AC season. Lloyd RAC revenue contribution was 50%, while other products contributed 50%.
- **Fans** – Fans demand has been weak for past next 3 quarters, company expects fans demand to start pickup from Q3 onwards.
- **Festive products** – company is focusing on products like small appliances, Washing machine, refrigerator and lighting products. These product category should be doing well in upcoming festive season.
- **Demand trend** – Company is confident of demand improving in 2H and is confident of growth in 2H.
- **Wires** – Channel inventory in wires is at normalized level. Sale of wires is expected to improve on back of consumer demand improving.
- **RAC and Exports** – RAC is the strong opportunity in both own brand as well as exports. Exports will take sometime as there are certain certification required which takes times
- **Discounting** – Havells is unlikely to participate in dealer discounts as it will not work in longer time.
- **Margin ex Lloyds-** Margins ex of Lloyds is expected to be at 13-14% levels which has been the case pre-covid years
- **Lighting** – Company expects price deflation in lighting is at the bottom levels and expect volume growth translate into value growth.
- **Premium Fans** – Some players have been aggressive pricing their premium fans while taking them to the online channel.
- **Capex** – Company expects capex for around Rs6bn for FY24.
- **ECD** – ECD comprises of Fans and Appliances, there was impact of change in rating for Fans in Q1 while Q2 is the lean quarter for Fans. Company expects Q3 and Q4 to be back on the growth trajectory. Appliances will see bump up in festive season
- **Operating leverage** – Operating leverage will kick as company is investing for long term
- **A&P Spends** – Company will on an average will spend 2.5%-3% of the sales.
- **Geographical growth** – Growth has been faster in the western areas where company sales have been weak than other geographies.

FINANCIALS

Exhibit 12: Balance Sheet

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity capital	626	626	627	627	627
Reserves	51,019	59,278	65,628	73,218	83,571
Net worth	51,645	59,904	66,255	73,844	84,198
Debt	4,922	3,955	0	0	0
Deferred tax liab (net)	3,391	3,506	3,615	3,615	3,615
Other non current liabilities	1,658	2,640	3,349	3,849	4,354
Total liabilities	61,616	70,006	73,219	81,308	92,167
Fixed Asset	33,802	34,907	37,871	40,607	40,580
Investments	3,079	4,277	2,009	2,009	2,009
Other Non-current Assets	1,512	1,529	2,842	3,220	3,607
Net Working Capital	19,956	21,638	25,846	24,424	25,825
Inventories	26,199	29,681	37,086	41,489	46,976
Sundry debtors	5,603	7,648	9,739	9,042	10,238
Loans and Advances	0	0	0	0	0
Sundry creditors	15,968	23,794	26,432	30,319	34,329
Other current liabilities	8,043	8,737	9,174	10,485	11,829
Cash & equivalents	3,266	7,655	4,652	11,048	20,146
Total Assets	61,616	70,006	73,219	81,308	92,167

Source: Company, YES Sec

Exhibit 13: Income statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	104,279	139,385	169,107	194,147	219,825
Operating profit	15,653	17,604	15,991	19,803	26,379
Depreciation	2,489	2,609	2,962	3,356	3,620
Interest expense	726	534	336	387	348
Other income	1,878	1,604	1,777	2,200	2,500
Profit before tax	14,316	16,066	14,471	18,261	24,911
Taxes	3,919	4,101	3,753	4,736	6,461
Minorities and other	-	-	-	-	-
Adj. profit	10,396	11,965	10,717	13,524	18,450
Exceptional items	-	-	-	-	-
Net profit	10,396	11,965	10,717	13,524	18,450

Source: Company, YES Sec

Exhibit 14: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Profit before tax	15,042	16,600	14,807	18,647	25,259
Depreciation	2,489	2,609	2,962	3,356	3,620
Tax paid	(3,919)	(4,101)	(3,753)	(4,736)	(6,461)
Working capital Δ	(13,580)	(152)	(4,483)	1,422	(1,401)
Other operating items					
Operating cashflow	31	14,955	9,532	18,688	21,017
Capital expenditure	(1,935)	(3,713)	(5,926)	(6,092)	(3,592)
Free cash flow	(1,904)	11,242	3,606	12,596	17,425
Equity raised	2,269	992	336	-	-
Investments	-	(2,727)	2,543	-	-
Debt financing/disposal	4,517	(967)	(3,955)	-	-
Interest paid	(726)	(534)	(336)	(387)	(348)
Dividends paid	(4,069)	(4,697)	(4,703)	(5,935)	(8,096)
Net Δ in cash	845	4,389	(3,003)	6,396	9,098

Source: Company, YES Sec

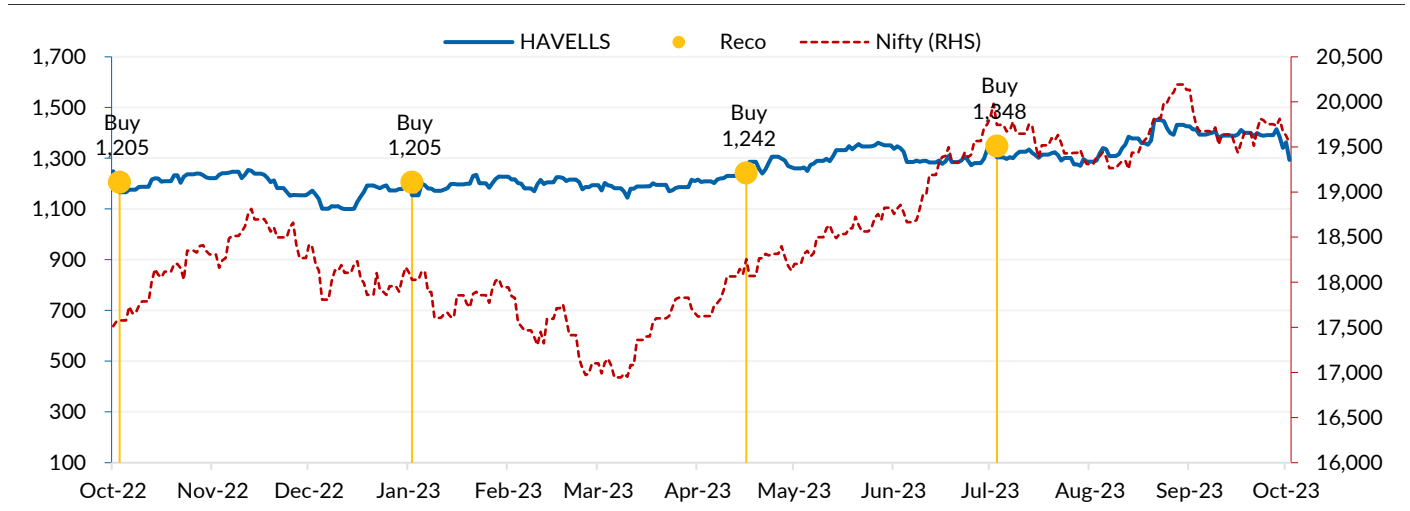
Exhibit 15: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Tax burden (x)	0.73	0.74	0.74	0.74	0.74
Interest burden (x)	0.95	0.97	0.98	0.98	0.99
EBIT margin (x)	0.14	0.12	0.09	0.10	0.11
Asset turnover (x)	1.31	1.44	1.56	1.64	1.65
Financial leverage (x)	1.68	1.73	1.72	1.69	1.69
RoE (%)	22.0	21.5	17.0	19.3	23.3

Exhibit 16: Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23E	FY24E	FY25E
Growth matrix (%)					
Revenue growth	10.6	33.7	21.3	14.8	13.2
Op profit growth	52.4	12.5	(9.2)	23.8	33.2
EBIT growth	63.2	10.4	(10.8)	25.9	35.5
Net profit growth	41.8	15.1	(10.4)	26.2	36.4
Profitability ratios (%)					
OPM	15.0	12.6	9.5	10.2	12.0
EBIT margin	14.4	11.9	8.8	9.6	11.5
Net profit margin	10.0	8.6	6.3	7.0	8.4
RoCE	30.1	27.6	22.8	26.6	32.0
RoNW	22.0	21.5	17.0	19.3	23.3
RoA	13.1	12.4	9.9	11.4	13.8
Per share ratios					
EPS	16.6	19.1	17.1	21.6	29.4
Dividend per share	6.5	7.5	7.5	9.5	12.9
Cash EPS	20.6	23.3	21.8	26.9	35.2
Book value per share	82.5	95.6	105.8	117.9	134.4
Valuation ratios					
P/E	77.9	67.7	75.6	59.9	43.9
P/CEPS	62.8	55.6	59.2	48.0	36.7
P/B	15.7	13.5	12.2	11.0	9.6
EV/EBIDTA	51.8	45.8	50.4	40.3	29.9
Payout (%)					
Dividend payout	39.1	39.3	43.9	43.9	43.9
Tax payout	27.4	25.5	25.9	25.9	25.9
Liquidity ratios					
Debtor days	19.6	20.0	21.0	17.0	17.0
Inventory days	91.7	77.7	80.0	78.0	78.0
Creditor days	55.9	62.3	57.1	57.0	57.0

Recommendation Tracker



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