BUY (Maintained)

CMP: **INR 1,806** Target Price: **INR 2,120 (INR 2,160)** ▲ 17%

ICICI Securities Limited is the author and distributor of this report

18 October 2024

India | Equity Research | Company Update

Havells

White Goods

Strong B2C growth; Rural off-take and margin revival likely in H2FY25

Havells reported strong performance in B2C segment with 20% revenue growth YoY. Broad-based growth across segments led to strong revenues but higher operational costs weighed on margins. Takeaways: (1) Higher consumer demand led to strong double digit revenue growth in key segments of ECD, cables and Lloyd. Weakness in industrial switchgear business impacted overall segmental growth (+3.3% YoY). (2) Higher ad spends (due to the festive season) and staff cost weighed on EBITDA margin. With normalisation in these costs, EBITDA margin may recover in H2FY25E. (3) Lloyd's segmental growth (+18.5% YoY) was driven by non-RAC businesses. (4) Capex intensity may continue as the company aims to spend INR 19bn over the next two years. We cut FY25/26E earnings by 5.6%/3.1% to factor in Q2FY25 result. At our DCF-based revised TP of INR 2,120, the stock trades at 68x FY26E EPS and 56x FY27E EPS. We remain positive on Havells led by its diversified business model, established brands and sub-segmentation strategy. Maintain **BUY.**

Q2FY25 result review

Havells reported revenue, EBITDA and PAT growth of 16.4%, 0.5% and 7.7%, respectively, YoY. Gross margin expanded 46bps YoY led by lower input prices, in our view. However, EBITDA margin contracted 131bps YoY as benefit of lower commodity cost was completely offset by higher ad spend and other expenses. Carryover of high-priced inventory of Cables & wires and lower margins in Switchgear impacted overall margins. Ad spend as a % of net sales at 2.9% (2.9% in H1FY25 vs 2.5% in H1FY24) was 60bps higher than its four-year average. Other income grew 77%/20.1% YoY/QoQ led by claim receivable of INR 170.5mn.

Segment-wise performance

Cables and wires segment posted strong revenue growth of 22.8% YoY. The company registered 15% YoY volume growth in cables and wires segment. Switchgear revenue remained flat (+3.3% YoY). While switches and domestic businesses led the growth, the lag in industrial switchgear segment impacted overall segmental growth. High base of Q2FY24 impacted the revenue growth of industrial switchgear segment. Lloyd registered strong 18.5% YoY revenue growth, with non-RAC segment posting relatively higher revenue/volume growth than core RAC segment. However, it incurred losses at EBIT level of INR 243mn (loss of INR 753mn in Q2FY24). ECD (electrical consumer durables) segment maintained its strong growth traction of past two quarters in Q2FY25 with 16.5% YoY revenue growth. Most sub-segments reported strong growth led by demand pick up ahead of festive season. Lighting revenue marginally declined 1.2% YoY.

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	1,85,900	2,14,348	2,47,264	2,85,366
EBITDA	18,426	22,066	27,309	32,373
EBITDA Margin (%)	9.9	10.3	11.0	11.3
Net Profit	12,708	15,684	19,610	23,453
EPS (INR)	20.3	25.0	31.3	37.4
EPS % Chg YoY	18.4	23.4	25.0	19.6
P/E (x)	89.0	72.1	57.7	48.2
EV/EBITDA (x)	59.8	49.6	39.8	33.3
RoCE (%)	15.1	16.5	18.2	19.0
RoE (%)	18.1	19.8	21.7	22.5

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Market Data

Market Cap (INR)	1,132bn
Market Cap (USD)	13,466mn
Bloomberg Code	HAVL IN
Reuters Code	HVEL.BO
52-week Range (INR)	2,106 /1,233
Free Float (%)	40.0
ADTV-3M (mn) (USD)	21.7

Price Performance (%)	3m	6m	12m
Absolute	(3.7)	21.8	30.5
Relative to Sensex	(4.1)	10.8	8.5

Earnings Revisions (%)	FY25E	FY26E
Revenue	0.2	0.4
EBITDA	(5.3)	(2.7)
EPS	(5.6)	(3.1)

Previous Reports

19-07-2024: Q1FY25 results review

11-06-2024: Company Update

Capex intensity is likely to continue

Havells plans to invest INR 19bn until FY26. The company had average capital outlay of INR 4.5bn over the past five years, indicating 2x capex spend over the next two years. It has spent INR 3.2bn of INR 10bn proposed for FY25. We reckon strong capex investments may drive growth for the company over FY25-27E.

Lloyd - non-RAC segments are gaining significance

Lloyd's double digit revenue growth (+18.5% YoY) was largely driven by non-RAC segment in Q2FY25. LED panels, refrigerators and washing machines posted relatively better growth than RAC segment. While RAC segment continues to be the major revenue driver for Lloyd segment, the contribution from other segments is inching up. The segment reported losses at EBIT level following profits in past two quarters. However, the company expects the margins to improve structurally led by (1) cost-saving initiatives and (2) operating leverage.

Maintain BUY

We model Havells to report revenue/PAT CAGR of 15.4%/22.7% over FY24–27E and RoCE moving up to 19% in FY27E, from 15.1% in FY24. We remain positive on Havells led by its established competitive advantages and growth opportunity in white goods and durables. Maintain **BUY** with DCF-based revised TP of INR 2,120 (earlier: INR 2,160; implied P/E of 68x FY26E EPS).

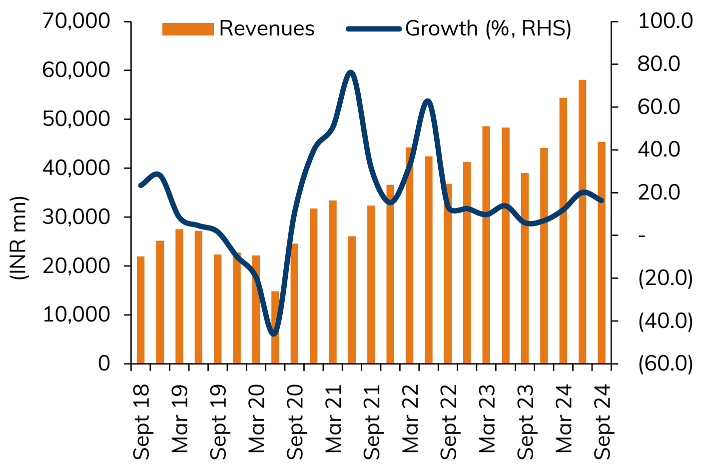
ICICI Securities

Exhibit 1: Q2FY25 result performance

Y/e March (INR mn)	Q2FY25	Q2FY24	YoY % chg.	Q1FY25	QoQ % chg.	H1FY25	H1FY24	YoY % chg.
Revenue	**45,393**	**39,003**	**16.4**	**58,062**	**(21.8)**	**1,03,455**	**87,341**	**18.4**
Expenditure								
Raw materials	30,075	26,019	15.6	39,565	(24.0)	69,640	59,678	16.7
% of revenue	66.3	66.7		68.1		67.3	68.3	
Employee cost	4,646	3,783	22.8	4,617	0.6	9,263	7,453	24.3
% of revenue	10.2	9.7		8.0		9.0	8.5	
Other expenditure	6,922	5,467	26.6	8,158	(15.2)	15,080	12,457	21.1
% of revenue	15.2	14.0		14.1		14.6	14.3	
Total expenditure	41,642	35,270	18.1	52,340	(20.4)	93,982	79,588	18.1
EBITDA	**3,751**	**3,734**	**0.5**	**5,722**	**(34.5)**	**9,473**	**7,753**	**22.2**
EBITDA margin	8.3	9.6		9.9		9.2	8.9	
Other income	929	525	77.0	773	20.1	1,702	1,173	45.1
PBDIT	**4,680**	**4,258**	**9.9**	**6,496**	**(28.0)**	**11,175**	**8,926**	**25.2**
Depreciation	946	812	16.6	920	2.8	1,866	1,575	18.5
PBIT	**3,733**	**3,447**	**8.3**	**5,576**	**(33.0)**	**9,309**	**7,352**	**26.6**
Interest	101	93	8.0	86	17.9	186	178	4.7
PBT	**3,633**	**3,353**	**8.3**	**5,490**	**(33.8)**	**9,123**	**7,174**	**27.2**
Prov. for tax	955	862	10.7	1,415	(32.5)	2,370	1,812	30.8
% of PBT	26.3	25.7		25.8		26.0	25.3	
PAT	**2,678**	**2,491**	**7.5**	**4,075**	**(34.3)**	**6,753**	**5,362**	**26.0**
MI/Share of profit from associates	(5)	-	-	(4)	-	(9)	-	-
Adjusted PAT	**2,683**	**2,491**	**7.7**	**4,079**	**(34.2)**	**6,762**	**5,362**	**26.1**
Extra ordinary items	(10)	(9)	-	(14)	-	(24)	(26)	-
Reported PAT	**2,673**	**2,482**	**7.7**	**4,065**	**(34.2)**	**6,738**	**5,336**	**26.3**

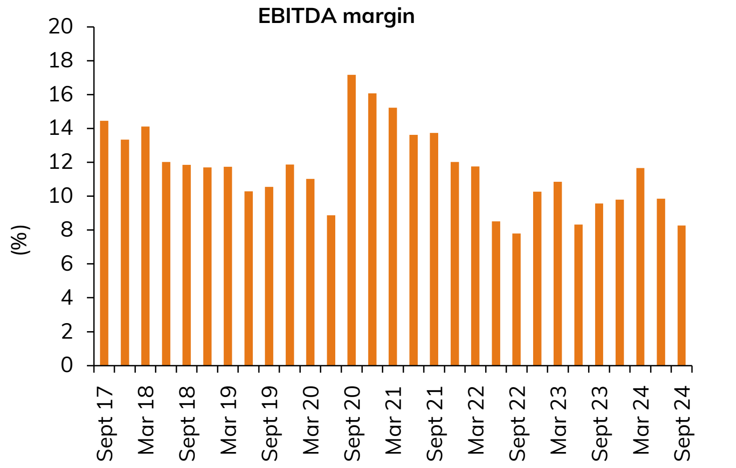
Source: Company data, I-Sec research

Exhibit 2: Revenue and revenue growth trend



Source: Company data, I-Sec research

Exhibit 3: EBITDA margin trend



Source: Company data, I-Sec research

Exhibit 4: Segment-wise performance

Particulars	Q2FY25	Q2FY24	YoY % chg.	Q1FY25	QoQ % chg.	H1FY25	H1FY24	YoY % chg.
Revenues (INR mn)								
Switchgears	5,513	5,336	3.3%	5,768	-4.4%	11,281	10,745	5.0%
Cables	18,052	14,702	22.8%	15,212	18.7%	33,264	29,553	12.6%
Lighting & Fixtures	3,951	3,999	-1.2%	3,876	1.9%	7,826	7,710	1.5%
Electrical consumer durables	8,564	7,331	16.8%	10,554	-18.9%	19,118	16,106	18.7%
Lloyd Consumer	5,896	4,974	18.5%	19,287	-69.4%	25,183	18,083	39.3%
Others/Inter segment	3,418	2,662	28.4%	3,365	1.6%	6,783	5,145	31.8%
Total	**45,393**	**39,003**	**16.4%**	**58,062**	**-21.8%**	**1,03,455**	**87,341**	**18.4%**
EBIT (INR mn)								
Switchgears	1,150	1,397	-17.7%	1,422	-19.1%	2,572	2,883	-10.8%
Cables	1,548	1,698	-8.8%	1,711	-9.5%	3,259	3,382	-3.6%
Lighting & Fixtures	501	563	-10.9%	630	-20.4%	1,131	1,087	4.0%
Electrical consumer durables	643	838	-23.2%	1,147	-43.9%	1,790	1,784	0.3%
Lloyd Consumer	(243)	(753)	-	636	-	393	(1,376)	-
Inter segment	66	35	85.6%	110	-40.5%	176	118	48.5%
Total	**3,664**	**3,777**	**-3.0%**	**5,655**	**-35.2%**	**9,319**	**7,879**	**18.3%**
EBIT margin (%)								
Switchgears	20.9	26.2		24.6		22.8	26.8	
Cables	8.6	11.6		11.2		9.8	11.4	
Lighting & Fixtures	12.7	14.1		16.2		14.4	14.1	
Electrical consumer durables	7.5	11.4		10.9		9.4	11.1	
Lloyd Consumer	(4.1)	(15.1)		3.3		1.6	(7.6)	
Inter segment	1.9	1.3		3.3		2.6	2.3	
Total	**8.1**	**9.7**		**9.7**		**9.0**	**9.0**	

Source: Company data, I-Sec research

Q2FY25 result and conference call highlights

Switchgear: Residential switches and switchgear have reported relatively better growth in switchgear segment. However, the weakness in industrial switchgear has impacted the overall segmental growth.

Lloyd: As it was a non-season quarter for RAC, it has lagged the growth against non-RAC segments (LED panels, refrigerators and washing machine). The company believes Lloyd's segmental margin may improve in FY26-27 led by (1) cost-efficiency initiatives undertaken and (2) operating leverage. Lloyd is witnessing higher acceptance as a brand which is beneficial for the company.

Cable and wire segment: Wires led the growth during the quarter. Wires had low growth in Q1FY25. However, restocking done by trade channels has aided growth in Q2FY25. The volatility in commodity prices and carryover of high-priced inventory from Q1FY25 impacted margins in Q2FY25. Havells indicated for margins to normalise in H2FY25.

B2B/B2C segmental growth: Havells reported 9%/20% YoY growth in B2B/B2C segment, respectively. The revenue growth was fairly distributed across regions. While urban demand has maintained momentum, rural demand has started picking up.

A&P spend: Havells indicates ~2.5% of net sales will be utilised for ad spends. While it has increased in recent quarter, the company aims to maintain ad-spend to sales ~2.5% over longer term.

Tumkur capacity addition: Tumkur cables plant was operating at 85%-90% utilisation prior to the 25% capacity addition done in Q2FY25. There is proposed INR 4.5bn investment for further expansion.

Lighting: The price erosion may bottom out in H2FY25. There may be price growth in FY26. Consumer/professional luminaries contribution stands at 60%:40% to luminaries' segment.

Growth rate of switchgear segment: As switchgear industry in India has largely consolidated, it is expected to register high single digit/low double digit revenue growth YoY. Construction activity saw muted growth in past couple of years which has partly led to relatively lower growth in switchgear segment. Construction activity is now witnessing traction. Havells may register in line revenue growth to industry run-rate.

Capex guidance: Havells aims to spend INR 19bn over FY25-26. In FY25, it aims to spend INR 10bn, of which it has incurred capex of INR 3.2bn till date.

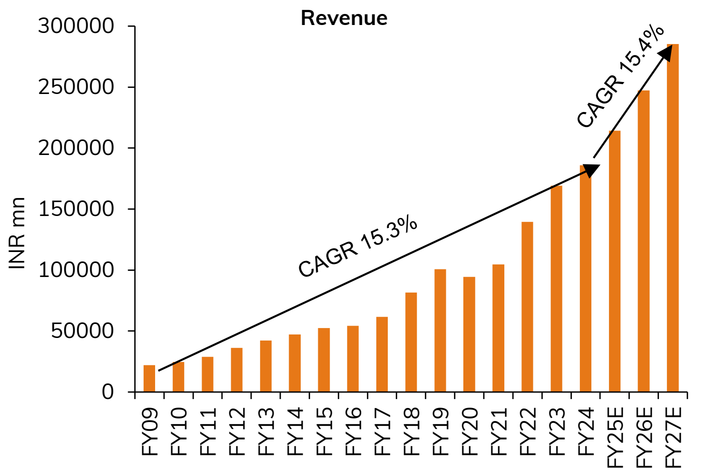
B2B demand: Industrial demand was high in previous year, however, it slowed down in Q2FY25. As government spending is rising again, industrial demand may recover in near term.

Volume growth: Havells registered 15% YoY volume growth in wires and cables segment. Non-RAC segment reported higher volume growth YoY than overall Lloyd volume growth. Havells registered volume growth of 15% YoY in lighting segment.

ECD segment: ECD segment may see strong growth as all sub-segments are witnessing demand tailwinds (festive season led demand). Strong growth in fans, water heaters, kitchen appliances may continue to boost segmental growth.

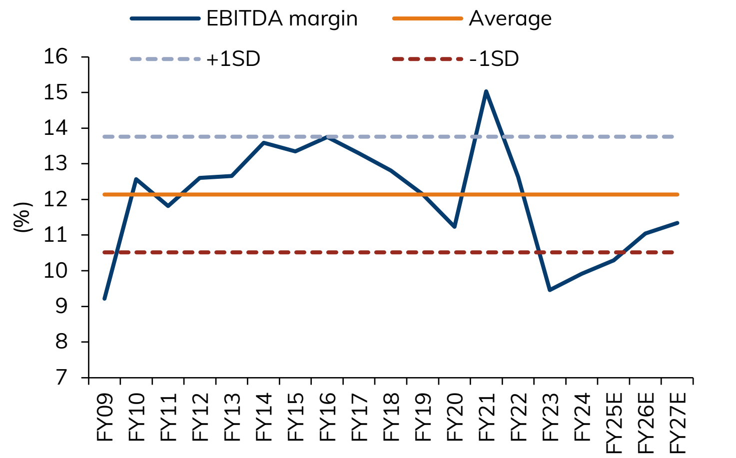
Key highlights – annual

Exhibit 5: Revenue growth trend



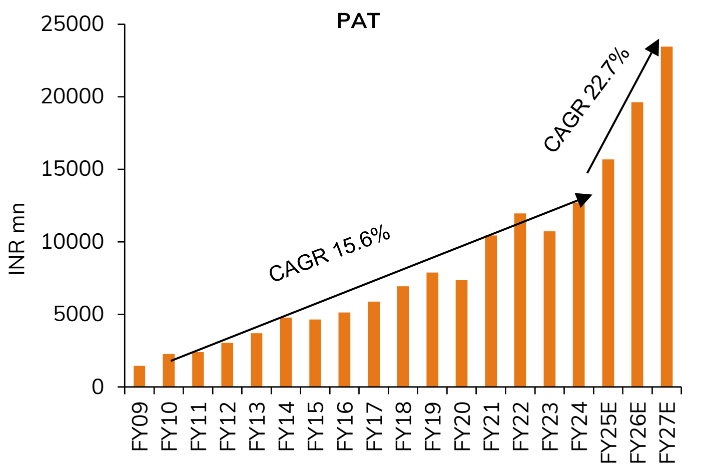
Source: Company data, I-Sec research

Exhibit 6: EBITDA margin trend



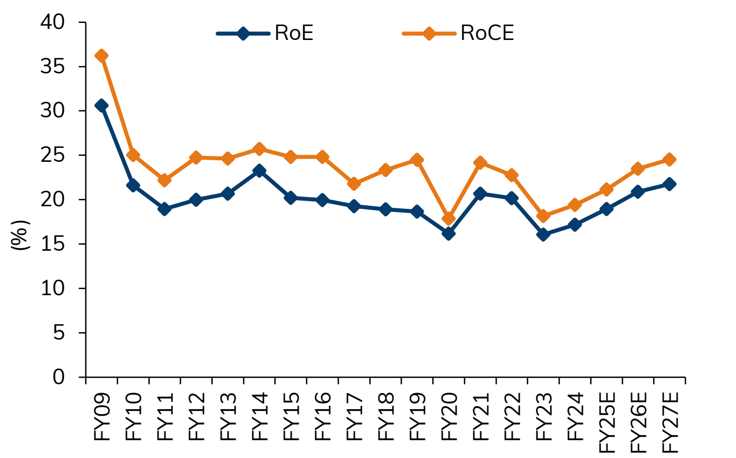
Source: Company data, I-Sec research

Exhibit 7: PAT growth trend



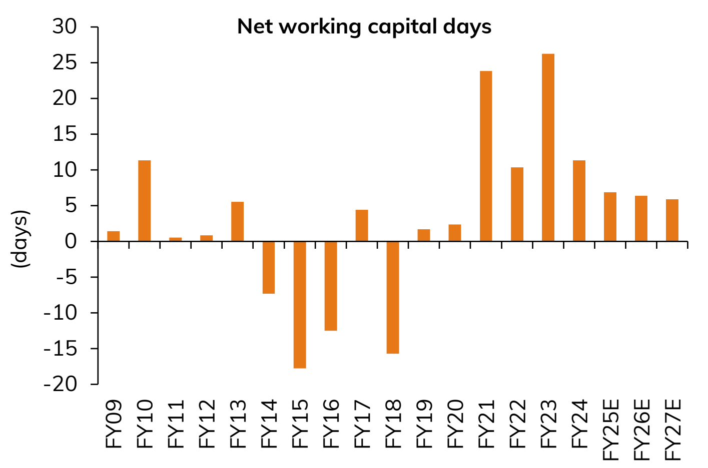
Source: Company data, I-Sec research

Exhibit 8: Return ratios trend



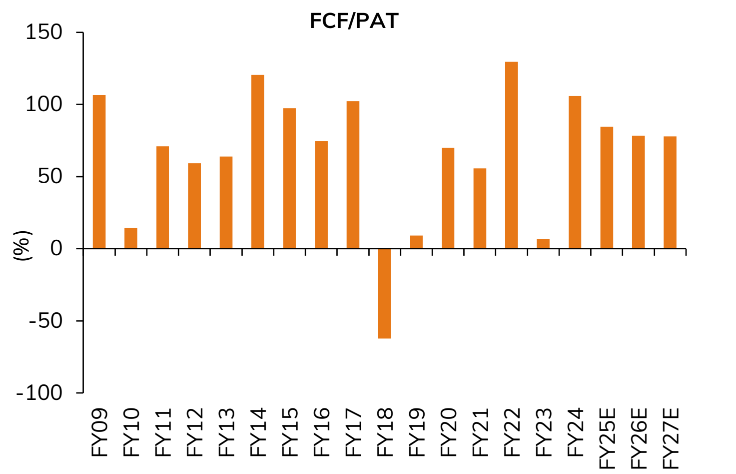
Source: Company data, I-Sec research

Exhibit 9: Net working capital days



Source: Company data, I-Sec research

Exhibit 10: FCF/PAT



Source: Company data, I-Sec research

Valuation

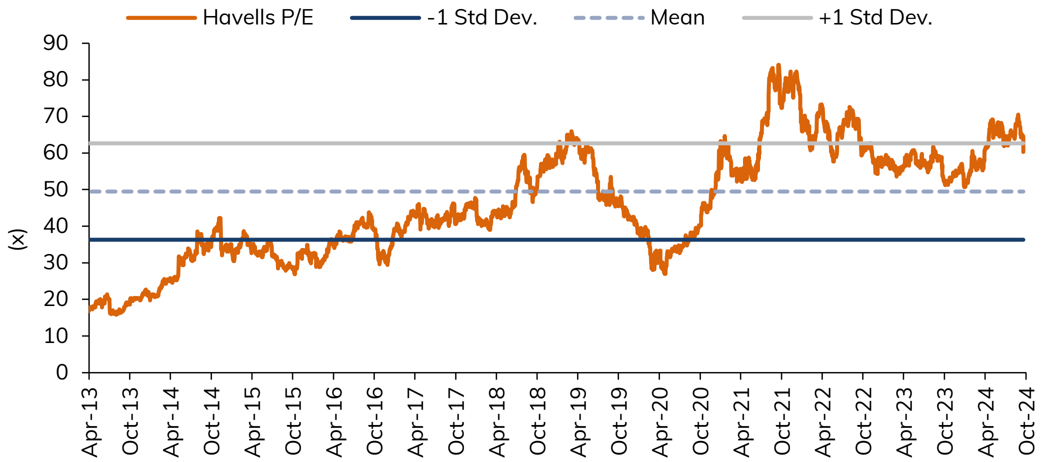
We model Havells to report revenue and PAT CAGRs of 15.4% and 22.7% over FY24–27E and RoCE to move to 19% in FY27E, from 15.1% in FY24. At our DCF-based revised TP of INR 2,120 (earlier: INR2,160), implied P/E works out to 68x FY26E EPS. Maintain **BUY**.

Exhibit 11: DCF-based valuation

Particulars	
Cost of Equity (%)	11.5%
Terminal growth rate (%)	5.0%
Discounted interim cash flows (INR mn)	4,06,508
Discounted terminal value (INR mn)	9,22,149
Total equity value (INR mn)	13,28,657
Value per share (INR)	**2,120**

Source: Company data, I-Sec research

Exhibit 12: Mean P/E and standard deviations



Source: Company data, I-Sec research

Risks

Inflation in input prices and competitive pressures

Sharp rise in input prices and/or increase in competitive pressures may result in a downside to our estimates.

Prolonged losses at Lloyd

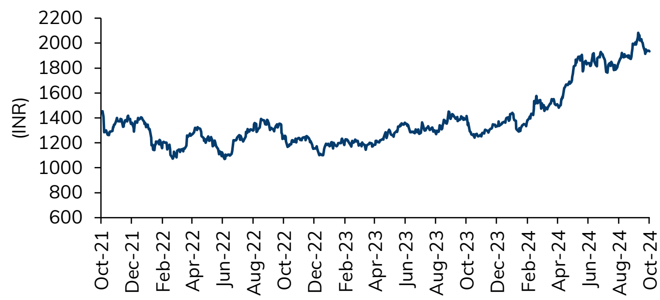
Consistent losses at Lloyd may result in lower overall profitability.

Exhibit 13: Shareholding pattern

%	Mar'24	Jun'24	Sep'24
Promoters	59.4	59.0	59.4
Institutional investors	34.7	34.0	33.9
MFs and others	3.6	3.0	3.9
FIs/Banks	0.0	0.0	0.3
Insurance	4.6	4.0	4.9
FIIs	26.5	27.0	24.8
Others	5.9	7.0	6.7

Source: Bloomberg

Exhibit 14: Price chart



Source: Bloomberg

Financial Summary

Exhibit 15: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	**1,85,900**	**2,14,348**	**2,47,264**	**2,85,366**
Operating Expenses	1,67,474	1,92,282	2,19,956	2,52,994
EBITDA	**18,426**	**22,066**	**27,309**	**32,373**
EBITDA Margin (%)	9.9	10.3	11.0	11.3
Depreciation & Amortization	3,385	3,850	4,483	5,084
EBIT	15,041	18,216	22,826	27,289
Interest expenditure	457	276	276	276
Other Non-operating Income	2,490	3,028	3,668	4,342
Recurring PBT	**17,074**	**20,967**	**26,217**	**31,355**
Profit / (Loss) from Associates	**-**	**-**	**-**	**-**
Less: Taxes	4,366	5,284	6,607	7,901
PAT	12,708	15,684	19,610	23,453
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	(50)	-	-	-
Net Income (Reported)	**12,657**	**15,684**	**19,610**	**23,453**
Net Income (Adjusted)	**12,708**	**15,684**	**19,610**	**23,453**

Source Company data, I-Sec research

Exhibit 16: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	78,996	81,803	86,238	93,583
of which cash & cash eqv.	30,382	27,381	23,816	21,916
Total Current Liabilities & Provisions	42,831	50,372	58,107	67,061
Net Current Assets	**36,165**	**31,432**	**28,131**	**26,522**
Investments	2,465	12,465	24,465	36,465
Net Fixed Assets	36,774	43,911	47,928	52,844
ROU Assets	-	-	-	-
Capital Work-in-Progress	2,987	-	-	-
Total Intangible Assets	3,105	3,105	3,105	3,105
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	**81,496**	**90,913**	**1,03,629**	**1,18,936**
Liabilities				
Borrowings	**3,453**	**3,453**	**3,453**	**3,453**
Deferred Tax Liability	**3,575**	**3,575**	**3,575**	**3,575**
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	627	627	627	627
Reserves & Surplus	73,841	83,257	95,974	1,11,280
Total Net Worth	**74,468**	**83,884**	**96,601**	**1,11,907**
Minority Interest	-	-	-	-
Total Liabilities	**81,496**	**90,913**	**1,03,629**	**1,18,936**

Source Company data, I-Sec research

Exhibit 17: Quarterly trend

(INR mn, year ending March)

	Dec-22	Mar-24	Jun-24	Sep-24
Net Sales	44,139	54,420	58,062	45,393
% growth (YOY)	6.9	12.0	20.1	16.4
EBITDA	4,327	6,324	5,722	3,751
Margin %	9.8	11.7	9.9	8.3
Other Income	559	758	773	929
Extraordinaries	(11)	(14)	(14)	(10)
Adjusted Net Profit	2,879	4,467	4,079	2,683

Source Company data, I-Sec research

Exhibit 18: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	**21,049**	**21,267**	**23,829**	**28,247**
Working Capital Changes	4,272	1,733	(265)	(291)
Capital Commitments	(7,861)	(8,000)	(8,500)	(10,000)
Free Cashflow	**13,189**	**13,267**	**15,329**	**18,247**
Other investing cashflow	**(10,133)**	**(10,000)**	**(12,000)**	**(12,000)**
Cashflow from Investing Activities	(17,994)	(18,000)	(20,500)	(22,000)
Issue of Share Capital	213	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	(513)	-	-	-
Dividend paid	(4,701)	(6,267)	(6,894)	(8,147)
Others	-	-	-	-
Cash flow from Financing Activities	(5,001)	(6,267)	(6,894)	(8,147)
Chg. in Cash & Bank balance	**(1,945)**	**(3,000)**	**(3,565)**	**(1,900)**
Closing cash & balance	2,706	27,381	23,816	21,916

Source Company data, I-Sec research

Exhibit 19: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	20.3	25.0	31.3	37.4
Adjusted EPS (Diluted)	20.3	25.0	31.3	37.4
Cash EPS	25.7	31.2	38.4	45.5
Dividend per share (DPS)	7.5	10.0	11.0	13.0
Book Value per share (BV)	118.8	133.9	154.1	178.6
Dividend Payout (%)	37.0	40.0	35.2	34.7
Growth (%)				
Net Sales	9.9	15.3	15.4	15.4
EBITDA	15.2	19.8	23.8	18.5
EPS (INR)	18.4	23.4	25.0	19.6
Valuation Ratios (x)				
P/E	89.0	72.1	57.7	48.2
P/CEPS	70.3	57.9	47.0	39.7
P/BV	15.2	13.5	11.7	10.1
EV / EBITDA	59.8	49.6	39.8	33.3
P / Sales	6.1	5.3	4.6	4.0
Dividend Yield (%)	0.4	0.6	0.6	0.7
Operating Ratios				
Gross Profit Margins (%)	32.4	32.4	33.1	33.4
EBITDA Margins (%)	9.9	10.3	11.0	11.3
Effective Tax Rate (%)	25.6	25.2	25.2	25.2
Net Profit Margins (%)	6.8	7.3	7.9	8.2
NWC / Total Assets (%)	44.4	34.6	27.1	22.3
Net Debt / Equity (x)	(0.4)	(0.4)	(0.5)	(0.5)
Net Debt / EBITDA (x)	(1.6)	(1.6)	(1.6)	(1.7)
Profitability Ratios				
RoCE (%)	15.1	16.5	18.2	19.0
RoE (%)	18.1	19.8	21.7	22.5
RoIC (%)	15.1	16.5	18.2	19.0
Fixed Asset Turnover (x)	3.7	3.6	3.6	3.6
Inventory Turnover Days	70	70	70	70
Receivables Days	24	23	23	23
Payables Days	82	86	86	86

Source Company data, I-Sec research

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