20 October 2024

Havells, India

Margins expected to recover in H2; maintaining a Buy

Rating: **Buy**
Target Price (12-mth): Rs.2,117
Share Price: Rs.1,843

Improved demand drove Havells' revenue to grow 16% y/y, but margins dragged the Q2 performance. Supported by festival season offtake, we remain optimistic regarding H2 and expect margins to recover. Upbeat consumer sentiments are expected to drive ECD performance with B2B demand improving, driven by government spending. We maintain a Buy with a revised TP of Rs2,117 (54x FY27e EPS).

Weak Q2 operational performance. Consolidated revenue grew 16.4% y/y to Rs45.4bn as the cable and wire division expanded 23% y/y, led by wire growth due to channel refilling. ECD revenue swelled 17% y/y as festival-led demand supported fans, SDA and water heaters. Lloyd's revenue rose 19% y/y in a seasonally lean quarter for RAC. The EBITDA margin contracted 131bps y/y to 8.3%, as higher ad spends curbed margins across segments. Staff cost grew 23% y/y and other expenses, 27%. PAT increased 7.7% y/y to Rs2.7bn, supported by 77% y/y growth in other income.

Capex to drive growth. Post commencement of the Rs3bn greenfield plant (348,000 cable-km) for low-tension cables in Tumakuru, Karnataka, in Q2, an additional Rs4.5bn capex has been planned to enhance capacity for HT cables. Production is expected to commence by Sept'26. The company expects 50-60% capacity expansion in medium-voltage cables in the next two years. The company will continue to add more underground cables for the domestic market. It is expanding in power cables for various segments, as well as for exports.

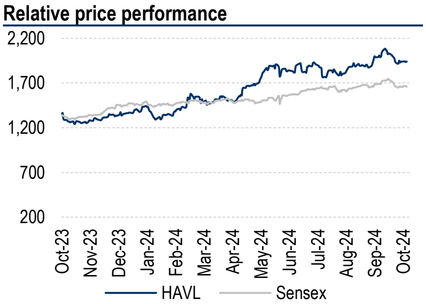
Outlook, Valuation. Factoring in the lower Q2 operating performance, we cut FY25e/26e EBITDA/PAT by 9% each. We model 16%/25% revenue/net profit CAGRs over FY24-27, which would lead to the RoE expanding to 22%, from 18%. We expect a better H2, with cost efficiencies driving growth. Price hikes and steady commodity prices would safeguard margins. We maintain a Buy with a revised TP of Rs2,117 (earlier Rs2,146), 54x FY27e EPS of Rs39.2. At the CMP, the stock trades at 56x/47x FY26e/27e EPS of Rs33/39.

Key data	HAVL IN / HVEL.BO
52-week high/low	Rs2106 / 1233
Sensex/Nifty	81225 / 24854
3-m average volume	$22.4m
Market cap	Rs1160bn / $13792.8m
Shares outstanding	627m

Shareholding pattern (%)	Sep'24	Jun'24	Mar'24
Promoters	59.4	59.4	59.4
- of which, Pledged	-	-	-
Free float	40.6	40.6	40.6
- Foreign institutions	24.8	25.3	24.8
- Domestic institutions	10.2	9.6	9.9
- Public	5.6	5.7	5.9

Estimates revision (%)	FY25e	FY26e
Sales	1	-
EBITDA	-9	-9
EPS	-8	-9

Relative price performance



Source: Bloomberg

Key financials (YE: Mar)	FY23	FY24	FY25e	FY26e	FY27e
Sales (Rs m)	1,69,107	1,85,900	2,16,287	2,51,443	2,93,106
Net profit (Rs m)	10,717	12,708	15,943	20,442	24,537
EPS (Rs)	17.1	20.3	25.5	32.7	39.2
PE (x)	107.7	90.9	72.3	56.4	47.0
EV / EBITDA (x)	70.9	61.0	49.8	38.9	32.2
P / BV (x)	17.4	15.5	13.9	12.2	10.5
RoE (%)	17.0	18.1	19.3	21.6	22.3
RoIC post-tax (%)	13.8	14.3	16.4	18.6	19.2
RoCE post-tax (%)	21.5	23.1	27.3	31.1	34.2
Net debt / equity (x)	(0.3)	(0.4)	(0.4)	(0.4)	(0.4)

Source: Company

Manish Valecha
Research Analyst

Surbhi Lodha
Research Analyst

Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Net revenues	1,69,107	1,85,900	2,16,287	2,51,443	2,93,106
Growth (%)	21.3	9.9	16.3	16.3	16.6
Direct costs	1,17,055	1,25,687	1,45,994	1,69,724	1,97,847
SG&A	36,061	41,787	47,698	52,976	60,936
EBITDA	**15,991**	**18,426**	**22,595**	**28,743**	**34,324**
EBITDA margins (%)	9.5	9.9	10.4	11.4	11.7
- Depreciation	2,962	3,385	3,540	4,114	4,893
Other income	1,777	2,490	2,812	3,269	3,957
Interest expenses	336	457	437	422	408
PBT	14,471	17,074	21,429	27,475	32,979
Effective tax rates (%)	25.9	25.6	25.6	25.6	25.6
+ Associates / (Minorities)	-	-	20	30	30
Net income	10,717	12,708	15,943	20,442	24,537
Adj. income	10,717	12,708	15,963	20,472	24,567
WANS	627	627	627	627	627
FDEPS (Rs)	17.1	20.3	25.5	32.7	39.2
FDEPS growth (%)	(10.5)	18.6	25.6	28.2	20.0
Gross margins (%)	30.8	32.4	32.5	32.5	32.5

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Share capital	627	627	627	627	627
Net worth	66,255	74,468	82,913	94,614	1,10,409
Debt	-	-	-	-	-
Minority interest	-	-	156	186	216
DTL / (Assets)	3,325	3,226	3,226	3,226	3,226
Capital employed	**69,579**	**77,694**	**86,295**	**98,026**	**1,13,851**
Net tangible assets	22,279	26,063	26,522	32,408	36,515
Net intangible assets	10,853	10,730	10,792	10,855	10,916
Goodwill	3,105	3,105	3,105	3,105	3,105
CWIP (tang. & intang.)	1,634	2,969	8,000	6,000	5,000
Investments (strategic)	200	200	200	200	200
Investments (financial)	1,809	-	-	-	-
Current assets (excl. cash)	52,798	50,708	59,655	69,048	80,120
Cash	18,702	30,382	30,347	36,767	47,851
Current liabilities	41,705	46,284	52,127	60,157	69,656
Working capital	11,093	4,424	7,528	8,891	10,465
Capital deployed	**69,579**	**77,694**	**86,295**	**98,026**	**1,13,851**
Contingent liabilities	616	1,169	-	-	-

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
PBT	14,471	17,074	21,429	27,475	32,979
+ Non-cash items	2,962	3,385	3,540	4,114	4,893
Oper. prof. before WC	17,432	20,459	24,970	31,590	37,873
- Incr. / (decr.) in WC	(7,105)	4,273	(3,082)	(1,363)	(1,574)
Others incl. taxes	(4,678)	(5,201)	(7,860)	(9,881)	(11,991)
Operating cash-flow	5,649	19,530	14,027	20,346	24,308
- Capex (tang. + intang.)	(5,855)	(7,623)	(9,094)	(8,062)	(8,062)
Free cash-flow	(206)	11,907	4,933	12,284	16,246
Acquisitions	-	-	-	-	-
- Div.(incl. buyback & taxes)	(4,703)	(4,701)	(7,518)	(8,771)	(8,771)
+ Equity raised	267	213	-	-	-
+ Debt raised	(3,937)	-	-	-	-
- Fin investments	5,004	(10,371)	-	-	-
- Misc. (CFI + CFF)	(626)	(772)	176	60	60
Net cash-flow	(3,070)	(1,944)	(34)	6,420	11,084

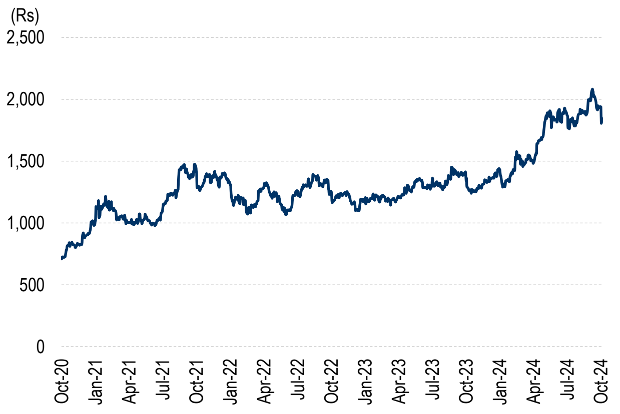
Source: Company

Fig 4 – Ratio analysis

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
P/E (x)	107.7	90.9	72.3	56.4	47.0
EV / EBITDA (x)	70.9	61.0	49.8	38.9	32.2
EV / Sales (x)	6.7	6.0	5.2	4.4	3.8
P/B (x)	17.4	15.5	13.9	12.2	10.5
RoE (%)	17.0	18.1	19.3	21.6	22.3
RoCE (%) - after tax	13.8	14.3	16.4	18.6	19.2
RoIC(%) - after tax	21.5	23.1	27.3	31.1	34.2
DPS (Rs)	7.5	9.0	12.0	14.0	14.0
Dividend yield (%)	0.4	0.5	0.7	0.8	0.8
Dividend payout (%) - incl. DDT	43.8	44.4	47.1	42.8	35.7
Net debt / equity (x)	(0.3)	(0.4)	(0.4)	(0.4)	(0.4)
Receivables (days)	21.0	22.9	20.0	20.0	20.0
Inventory (days)	80.0	66.9	70.0	70.0	70.0
Payables (days)	57.1	52.9	53.0	53.0	53.0
CFO : PAT (%)	52.7	153.7	87.9	99.4	98.9

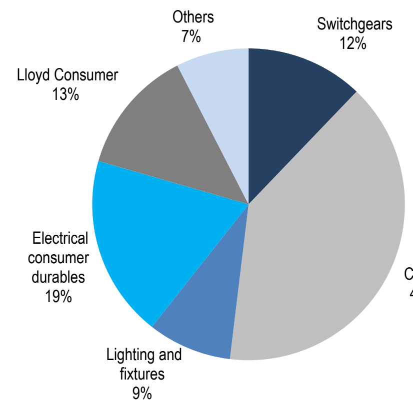
Source: Company

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Revenue mix, Q2 FY25



Source: Company

Fig 7 – Financial performance

(Rs m)	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	% Y/Y	% Q/Q
Income	**36,795**	**41,276**	**48,592**	**48,338**	**39,003**	**44,139**	**54,420**	**58,062**	**45,393**	**16.4**	**(21.8)**
Raw material costs	25,439	27,656	33,803	33,659	26,019	29,447	36,562	39,565	30,075	15.6	(24.0)
Employee costs	3,085	3,282	3,279	3,570	3,783	3,830	4,202	4,617	4,646	22.8	0.6
Other expenses	5,403	6,101	6,239	7,089	5,467	6,535	7,310	8,158	6,922	26.6	(15.2)
EBITDA	**2,869**	**4,236**	**5,271**	**4,020**	**3,734**	**4,327**	**6,346**	**5,723**	**3,751**	**0.5**	**(34.5)**
Depreciation	721	746	774	763	812	877	934	920	946	16.6	2.8
Finance costs	68	73	98	85	93	102	177	86	101	8.0	17.9
Other income	438	396	467	648	525	559	758	773	929	77.0	20.1
Exceptional items	-	-	-	-	-	-	-	-	-		
PBT	**2,517**	**3,814**	**4,867**	**3,821**	**3,353**	**3,907**	**5,993**	**5,490**	**3,633**	**8.3**	**(33.8)**
Tax	647	979	1,287	950	862	1,028	1,526	1,415	955	10.7	(32.5)
PAT	**1,870**	**2,835**	**3,580**	**2,871**	**2,491**	**2,879**	**4,467**	**4,079**	**2,682**	**7.7**	**(34.2)**
EPS (Rs)	3.0	4.5	5.7	4.6	4.0	4.6	7.1	6.5	4.3	7.7	(34.2)
As % of income										**bps y/y**	**bps q/q**
Gross margins	30.9	33.0	30.4	30.4	33.3	33.3	32.8	31.9	33.7	46	189
Employee costs	8.4	8.0	6.7	7.4	9.7	8.7	7.7	8.0	10.2	54	228
Other expenses	12.3	11.7	10.6	11.9	11.8	10.8	11.0	11.1	12.4	52	129
EBITDA margins	7.8	10.3	10.8	8.3	9.6	9.8	11.7	9.9	8.3	(131)	(159)
Depreciation	2.0	1.8	1.6	1.6	2.1	2.0	1.7	1.6	2.1	0	50
Finance costs	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.1	0.2	(2)	7
Other income	1.2	1.0	1.0	1.3	1.3	1.3	1.4	1.3	2.0	70	71
PBT margins	6.8	9.2	10.0	7.9	8.6	8.9	11.0	9.5	8.0	(59)	(145)
Effective tax rates	25.7	25.7	26.4	24.9	25.7	26.3	25.5	25.8	26.3	57	52
PAT margins	5.1	6.9	7.4	5.9	6.4	6.5	8.2	7.0	5.9	(49)	(112)
Segment-wise revenues (Rs m)										**% y/y**	**% q/q**
Switchgear	4,879	5,143	6,010	5,409	5,336	5,206	6,513	5,768	5,513	3.3	(4.4)
Cables	13,594	14,121	15,682	14,852	14,702	15,727	17,896	15,212	18,052	22.8	18.7
Lighting & Fixtures	4,018	4,232	4,160	3,710	3,999	4,335	4,353	3,876	3,951	(1.2)	1.9
Electrical Consumer Durables	7,734	9,357	7,495	8,775	7,331	9,615	9,104	10,554	8,564	16.8	(18.9)
Lloyd Consumer	4,198	6,103	12,710	13,109	4,974	6,561	13,459	19,287	5,896	18.5	(69.4)
Other	2,372	2,319	2,536	2,483	2,662	2,695	3,096	3,365	3,418	28.4	1.6
Less: Inter-segment	-	-	-	-	-	-	-	-	-		
Mix (%)											
Switchgear	13	12	12	11	14	12	12	10	12		
Cable	37	34	32	31	38	36	33	26	40		
Lighting & Fixtures	11	10	9	8	10	10	8	7	9		
Electrical Consumer Durables	21	23	15	18	19	22	17	18	19		
Lloyd Consumer	11	15	26	27	13	15	25	33	13		
Other	6	6	5	5	7	6	6	6	8		
Segment EBIT (%)										**bps y/y**	**bps q/q**
Switchgear	25.0	24.7	28.5	27.7	26.4	23.9	28.2	24.6	20.9	(555)	(379)
Cable	6.3	11.5	12.0	11.4	11.6	10.3	12.0	11.2	8.6	(303)	(267)
Lighting & Fixtures	14.3	12.7	18.0	14.3	14.3	14.0	18.0	16.2	12.7	(157)	(356)
Electrical Consumer Durables	11.6	13.1	12.7	10.9	11.6	11.0	11.3	10.9	7.5	(407)	(336)
Lloyd Consumer	(20.0)	(9.8)	(1.8)	(4.7)	(15.0)	(10.0)	2.7	3.3	(4.1)	NA	(743)
Other	1.7	3.1	4.4	3.5	1.5	1.4	2.9	3.3	1.9	41	(135)

Source: Company

Q2 FY25 Concall Highlights

Volatile commodity prices hurt cable and wire margins

- The cable and wire division grew 23% y/y, led by 15% volume growth. Strong volumes were mainly driven by wires, aided by channel refilling post Q1 destocking. Of the total volumes, underground cables account for 35-40% while the rest are wires.
- Cable margins were hurt by volatile commodity prices owing to absorption of high-cost inventory against falling RM/sale prices from May to Aug.
- The additional capex planned at Tumkur will augur well for the decent growth in both underground cables and residential wires going ahead. The company expects a 50-60% capacity expansion in the medium voltage cables. It also expects the margins to normalise in this segment in Q3 and Q4.

Strong B2C demand; B2B to be better in H2

- The ECD category grew 17% y/y led by the focus on portfolio premiumisation and launches.
- While B2B grew 9%, B2C rose 20%, which was fairly distributed across regions. Rural is now picking up and urban is doing well. Ahead, management is optimistic regarding ECD.
- Festival demand drove strong growth in fans, SDA and water heaters, resulting in the broad-based performance of ECD. However, higher investments in alternate/emerging channels curbed profitability. The company expects growth in the ECD segment to be led by kitchen appliances. Market acceptance has improved across regions for categories like fans, water heaters and coolers.
- Lighting volumes grew a strong 15% y/y but were hurt by the deflationary trend in LED eroding volume gains. Lighting revenue fell 1.2%. However, the EBIT margin was positive at 12.7%. Price erosion in lighting is bottoming out and prices are expected to stabilise soon.

Switchgears

- Switchgears reported only a 3% y/y increase as industrial switchgear growth was dented by the high base (due to large institutional orders last year). However, residential switches and switchgears saw decent growth.
- Ahead, the company expects 38-40% contribution margins to continue for the segment. Polycab, its peer also intends to focus on increasing its share in domestic switches to reduce dependence on seasonal products (eg., fans).

Investments in Lloyd to reap long-term benefits

- Q2 is seasonally weak for RACs. Growth in the non-RAC segment like washing machines, refrigerators and LEDs was better.
- Lloyd's focus is on strengthening its brand through channel expansion, innovative products and investments in manufacturing and customer outreach.
- In Q2, Lloyd reported 19% revenue growth. RACs contributed ~70% to Lloyd's revenue. The non-AC category's growth outstripped RAC growth in Q2 led by products being well placed in major retail stores.

Refrigerators and LED panels saw faster growth, compared to washing machines. Channel inventory was normal at end-Q2.

- Lloyd's EBIT margin was -4.1%. Cost and manufacturing efficiencies would lead to sustained profitability over the long term.
- The company spends on brand-building, ads, R&D and manufacturing. It sees immense growth opportunities as it now enjoys only small market shares in many categories.

Capex to drive growth

- The company commenced its cable facility in Tumakuru, Karnataka, which it plans to scale up ahead. It has committed an additional capex of Rs4.5bn, with plans to increase its current capacity of 348,000 cable-kms to 462,600 cable-kms annually considering the long-term demand for higher size cables, specifically HT cables. The company will continue to add more underground cables in the domestic market. It is expanding power cables for various segments, as well as for exports. Production, through expansion in Tumakuru, is expected to commence by Sep'26.
- Ahead, it believes adding capacities in Tumakuru would augur well for underground cables and residential wires. The company expects 50-60% capacity expansion for medium-voltage cables.
- Capex of Rs19bn is planned for the next two years. Of this, Rs10bn is likely in FY25 with Rs3.5bn already spent in H1.

Outlook and Valuations

Factoring in the lower operating performance in Q2, we cut FY25e/26e EBITDA/PAT by 9% each. We expect a better H2 with normal ad spends and operational efficiencies driving growth; price hikes and steady commodity prices would safeguard margins. We expect margins to recover in H2. We also expect B2B to pick up in H2, with increase in government spendings. The company's spends to strengthen Lloyd and broaden its distribution network would reap long-term benefits.

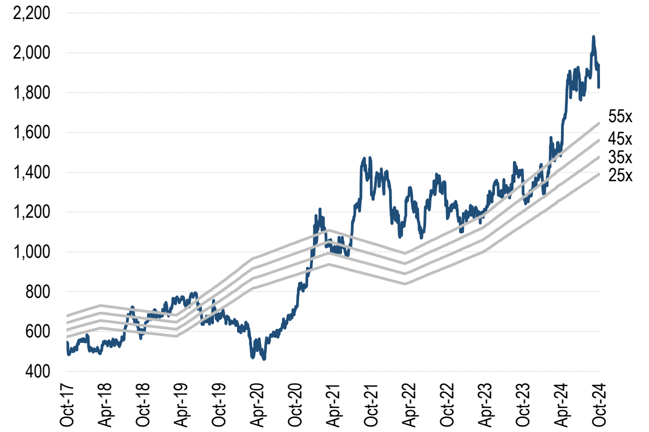
We model 16%/25% revenue/net profit CAGRs over FY24-27, which would result in the RoE expanding to 22% from 18%. We maintain a Buy with a revised TP of Rs2,117 (earlier Rs2,146), 54x FY27e EPS of Rs39.2. At the CMP, the stock trades at 56x/47x FY26e/27e EPS of Rs33/39.

Fig 8 – Estimate changes

	New estimates			Old estimates		Variance (%)	
(Rs m)	FY25e	FY26e	FY27e	FY25e	FY26e	FY25	FY26
Revenue	2,16,287	2,51,443	2,93,106	2,13,965	2,52,642	1	(0)
EBITDA	22,595	28,743	34,324	24,719	31,693	(9)	(9)
EBITDA (%)	10.4	11.4	11.7	11.6	12.5		
PBT	21,429	27,475	32,979	23,359	30,113	(8)	(9)
PAT	15,943	20,442	24,537	17,379	22,404	(8)	(9)
PAT (%)	7.4	8.1	8.4	8.1	9		
EPS	25.5	32.7	39.2	27.7	35.8		

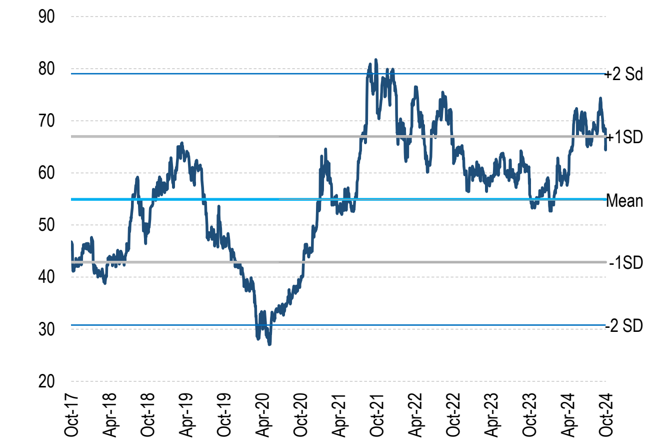
Source: Anand Rathi Research

Fig 9 – P/E band



Source: Company, Anand Rathi Research

Fig 10 – Mean PE is ~55x



Source: Company, Anand Rathi Research

Key risks

- Inability to boost volumes in H2 FY25 in consumer-facing segments, which aid operating leverage, could compel us to lower our estimates.
- Keener competition from larger peers operating on an all-India level could restrict the company's ability to pass on commodity price rises.

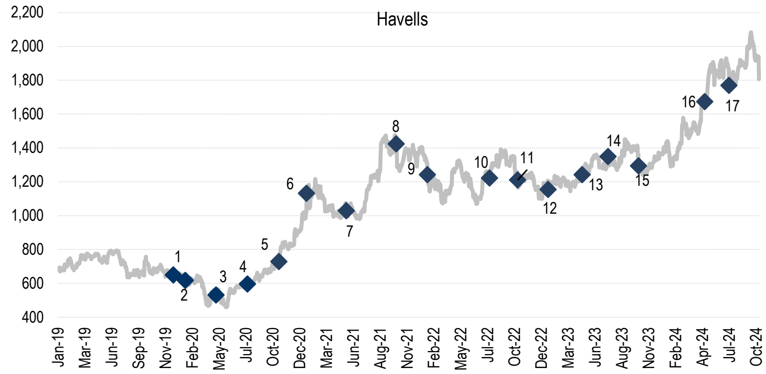
Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

Important Disclosures on subject companies

Rating and Target Price History (as of 18 October 2024)



	Date	Rating	TP (Rs)	Share Price (Rs)
4	27-Jul-20	Hold	658	595
5	29-Oct-20	Hold	797	725
6	21-Jan-21	Hold	1,207	1,131
7	21-May-21	Hold	1,136	1,028
8	22-Oct-21	Hold	1,360	1,285
9	23-Jan-22	Hold	1,362	1,242
10	21-Jul-22	Sell	1,232	1,258
11	20-Oct-22	Sell	1,067	1,216
12	19-Jan-23	Sell	1,072	1,208
13	3-May-23	Sell	1,009	1,241
14	20-Jul-23	Hold	1,369	1,348
15	22-Oct-23	Hold	1,405	1,293
16	2-May-24	Buy	1,911	1,663
17	21-Jul-24	Buy	2,146	1,766

Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps, Mid Caps & Small Caps as described in the Ratings Table below:

Ratings Guide (12 months)

	Buy	Hold	Sell
Large Caps (Top 100 companies)	>15%	0-15%	<0%
Mid Caps (101st-250th company)	>20%	0-20%	<0%
Small Caps (251st company onwards)	>25%	0-25%	<0%

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