

**BUY**

TP: Rs 1,600 | ▲ 17%

**HAVELLS INDIA**

Consumer Durables

20 October 2023

## Q2 a miss but expect improvement ahead

- Mixed quarter with 5% YoY declines in ECD and flat lighting but 8% growth in cable & wires and 9% in switches
- Aggressive 19% YoY growth at Lloyd came at a Rs 745mn operational loss; HAVL indicated a greater focus on margins ahead
- We cut FY24/FY25 EPS by 5% each post Q2; our TP remains at Rs 1,600 on rollover – retain BUY

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**Q2 disappoints:** HAVL posted muted topline growth of 6% YoY to Rs 39bn in Q2FY24, though EBITDA margin expanded 170bps YoY to 9.5% led by stronger profitability in the cables & wires business. Adj. PAT at Rs 2.5bn grew 32.4% YoY (4Y CAGR of 8.4%). Working capital was stable at 39 days and the balance sheet remained robust with ~Rs 25bn in net cash.

**Cables margin expands but lags peers:** The cables segment saw improved profitability with EBIT margin up 530bps YoY, while electrical consumer durables (ECD) and lighting margins were flat. Lighting was impacted by price corrections and the fans (ECD) business slowed due to erratic weather. Lloyd continued to bleed, posting a Rs 745mn EBIT loss despite 19% YoY revenue growth. Although cables & wires remains its best performing segment with 8% topline and 10% volume growth YoY, the company still lags its peer Polycab which saw 29% topline and 30% volume growth in Q2. On EBIT margin as well, HAVL was at 11.6%, 300bps below Polycab's 14.6%.

**Margins to come into focus at Lloyd:** HAVL continued with its strategy of prioritising market share gains over margins at Lloyd, as reflected in the subsidiary's 19% YoY topline growth and accompanying EBIT loss for Q2. It continues to invest in branding and improving share. However, management indicated that it is now focusing on margins and expects to see improvement going forward.

**Management optimistic on H2:** HAVL indicated a positive demand outlook for the festival season and expects to earn better margins in H2FY24 than the first half as a large part of the season is occurring in Q3 as opposed to Q2 last fiscal.

**Maintain BUY:** We remain positive on HAVL's medium-term performance given its strong presence in the consumer durables sector and improving industry sentiment. Incorporating the slower quarterly performance than anticipated, we lower our FY24/FY25 EPS estimates by ~5% each. On rolling valuations forward to Sep'25E, our TP remains at Rs 1,600, based on an unchanged 53x P/E multiple which is in line with the stock's 3Y average. BUY.

## Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	HAVL IN/Rs 1,363
Market cap	US\$ 10.4bn
Free float	41%
3M ADV	US\$ 13.9mn
52wk high/low	Rs 1,466/Rs 1,025
Promoter/FPI/DII	60%/23%/10%

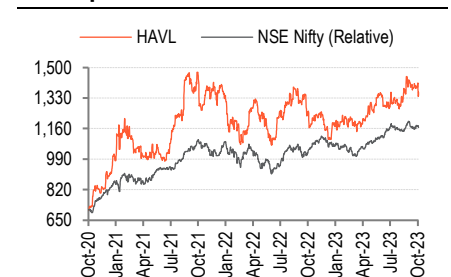
Source: NSE | Price as of 19 Oct 2023

## Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	1,69,107	1,90,821	2,17,228
EBITDA (Rs mn)	15,991	19,063	24,291
Adj. net profit (Rs mn)	10,717	13,160	16,507
Adj. EPS (Rs)	17.1	21.0	26.3
Consensus EPS (Rs)	17.1	22.0	28.0
Adj. ROAE (%)	17.0	18.8	20.7
Adj. P/E (x)	79.7	64.9	51.7
EV/EBITDA (x)	53.4	44.8	35.1
Adj. EPS growth (%)	(10.4)	22.8	25.4

Source: Company, Bloomberg, BOBCAPS Research

## Stock performance



Source: NSE



**Fig 1 – Quarterly performance**

Particulars (Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
Revenue	39,003	36,794	6.0	48,338	(19.3)	87,341	79,239	10.2
EBITDA	3,718	2,868	29.6	4,020	(7.5)	7,738	6,483	19.4
EBITDA Margin (%)	9.5	7.8	170bps	8.3	120bps	8.9	8.2	70bps
Depreciation	812	721		763		1,575	1,442	
Interest	93	68		85		178	166	
Other Income	525	438		648		1,173	914	
PBT	3,338	2,516	32.6	3,821	(12.6)	7,159	5,789	23.7
Tax	862	647		950		1,812	1,488	
Adjusted PAT	2,476	1,870	32.4	2,871	(13.8)	5,346	4,301	24.3
Exceptional item								
Reported PAT	2,476	1,870	32.4	2,871	(13.8)	5,346	4,301	24.3
Adj. PAT Margin (%)	6.3	5.1	130bps	5.9	40bps	6.1	5.4	70bps
EPS (Rs)	4.0	3.0	32.4	4.6	(13.8)	8.5	6.9	24.3

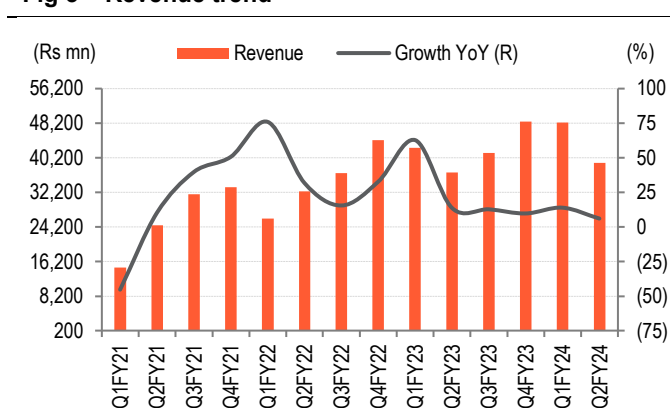
Source: Company, BOBCAPS Research

**Fig 2 – Segmental performance**

Particulars (Rs mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
<b>Revenue</b>														
ECD	3,017	5,799	7,831	7,124	5,763	7,294	8,955	8,727	8,396	7,735	9,357	7,495	8,775	7,331
Lighting	1,423	2,723	3,626	3,367	2,144	3,591	4,129	4,052	3,737	4,018	4,232	4,160	3,710	3,999
Switchgears	1,902	3,703	4,371	4,633	3,773	4,482	4,960	4,745	5,169	4,879	5,143	6,010	5,409	5,336
Cables & Wires	4,611	7,847	9,052	10,292	8,072	11,440	12,058	14,881	11,929	13,594	14,121	15,682	14,852	14,702
Llyod Consumer	3,062	2,804	5,116	5,906	4,975	3,463	4,698	9,596	10,938	4,198	6,103	12,710	13,109	4,974
<b>EBIT</b>														
ECD	370	1,172	1,405	1,090	676	1,257	1,128	1,515	1,100	900	1,228	962	957	848
EBIT margin (%)	12.3	20.2	17.9	15.3	11.7	17.2	12.6	17.4	13.1	11.6	13.1	12.8	10.9	11.6
Lighting	38	534	831	698	331	784	874	633	614	576	536	755	532	570
EBIT margin (%)	2.7	19.6	22.9	20.7	15.5	21.8	21.2	15.6	16.4	14.3	12.7	18.1	14.3	14.3
Switchgears	291	1,150	1,372	1,234	1,031	1,218	1,448	1,239	1,354	1,220	1,271	1,721	1,499	1,409
EBIT margin (%)	15.3	31.0	31.4	26.6	27.3	27.2	29.2	26.1	26.2	25.0	24.7	28.6	27.7	26.4
Cables & wires	366	1,118	1,026	1,528	1,262	1,153	1,256	1,734	875	859	1,628	1,885	1,691	1,707
EBIT margin (%)	7.9	14.3	11.3	14.8	15.6	10.1	10.4	11.7	7.3	6.3	11.5	12.0	11.4	11.6
Lloyd Consumer	64	51	309	318	97	(188)	(429)	(215)	(563)	(840)	(600)	(229)	(616)	(745)
EBIT margin (%)	2.1	1.8	6.0	5.4	2.0	(5.4)	(9.1)	(2.2)	(5.1)	(20.0)	(9.8)	(1.8)	(4.7)	(15.0)

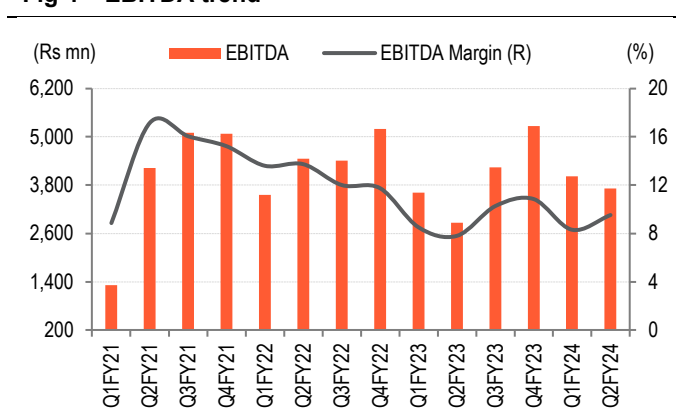
Source: Company, BOBCAPS Research

**Fig 3 – Revenue trend**



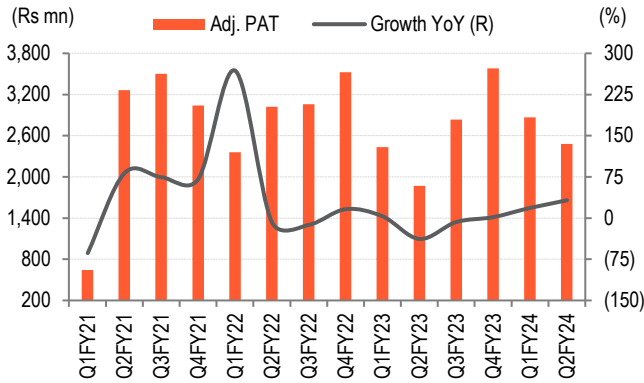
Source: Company, BOBCAPS Research

**Fig 4 – EBITDA trend**



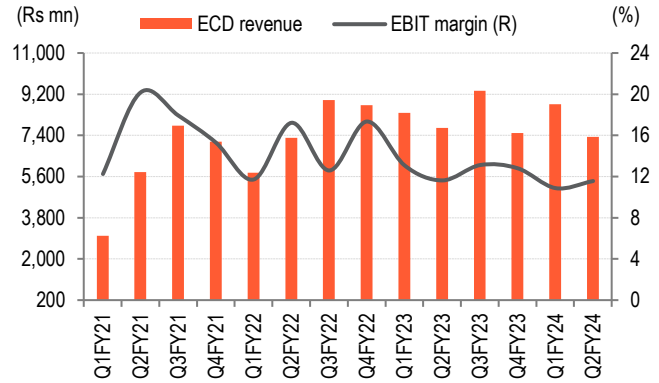
Source: Company, BOBCAPS Research

**Fig 5 – Profit trend**



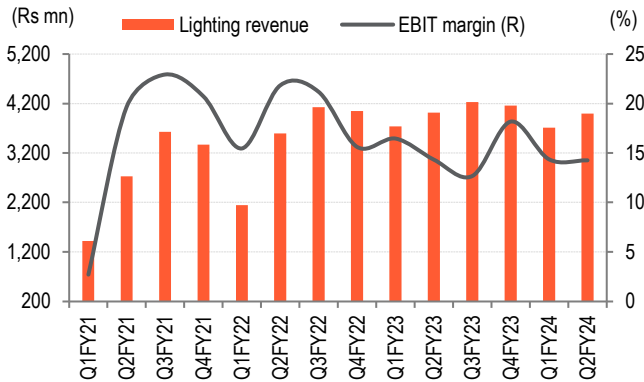
Source: Company, BOBCAPS Research

**Fig 6 – ECD business growth**



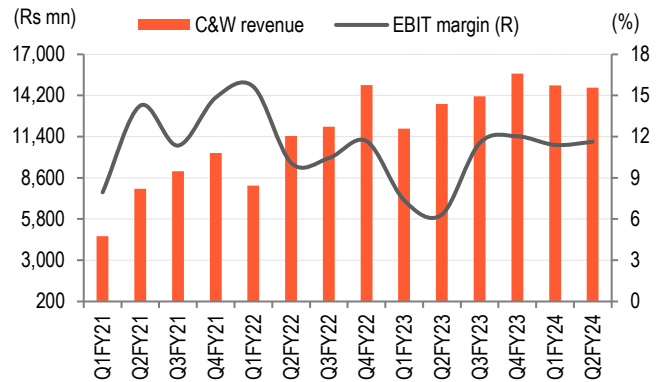
Source: Company, BOBCAPS Research

**Fig 7 – Lighting business growth**



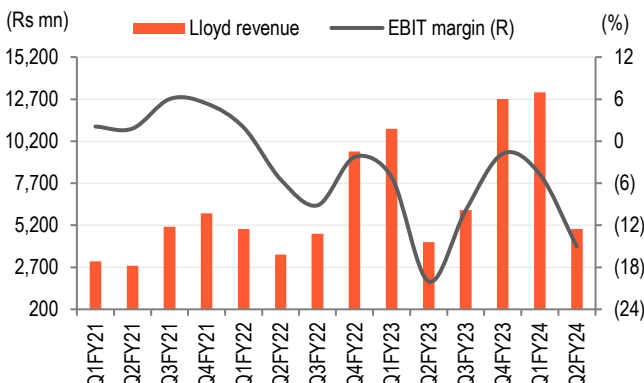
Source: Company, BOBCAPS Research

**Fig 8 – Cables & wires (C&W) business growth**



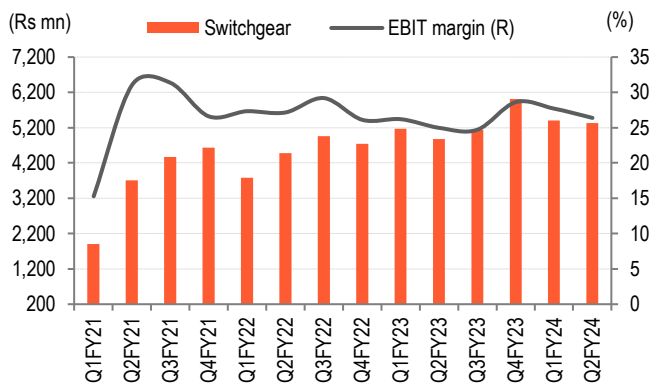
Source: Company, BOBCAPS Research

**Fig 9 – Lloyd business growth**



Source: Company, BOBCAPS Research

**Fig 10 – Switchgear business growth**



Source: Company, BOBCAPS Research

## Earnings highlights

- **Demand:** Q2FY24 witnessed subdued consumer demand which affected HAVL's B2C business, but management indicated that it has seen green shoots in the latter part of the quarter and expects a bounce-back in the second half of FY24. Growth is likely to be driven by the housing segment and government spending on infrastructure projects.
- **Lloyd:** Lloyd saw continued topline growth momentum at 19% YoY in Q2 but posted an EBIT loss of Rs 745mn. Its product mix is guided to remain stable, with air conditioners contributing the bulk of the sales followed by refrigerators and washing machines.
- **Cables & wires:** The cables & wires segment accounted for 40% of HAVL's Q2 revenue and posted volume growth of ~10% YoY, which lags the 30% growth witnessed by Polycab. Power cable growth outpaced growth in non-power cables, aided by infrastructure projects. Management indicated that capacity constraints may have stunted growth for the company in the cables segment.
- **Fans:** Sales of fans were adversely impacted as unseasonal rains disrupted summer demand. HAVL expects the fans business to grow well in the coming quarters, driven by growth in premium models. Changes in energy rating requirements under the Bureau of Energy Efficiency (BEE) norms have affected the industry over the past nine months, but we expect recovery going forward.
- **Lighting:** Year-on-year price deflation in LEDs continues to impact consumer lighting revenues though volume growth was sustained.
- **Working capital:** Working capital was stable at 39 days while the balance sheet remained robust with ~Rs 25bn in net cash.
- **Capex:** Capex for H1FY24 stood at Rs 3bn (vs. Rs 5.9bn in H1FY23), which is mainly attributable to cables, Lloyd and lighting manufacturing capacities.

## Valuation methodology

HAVL is a comprehensive play with a presence across the spectrum of the consumer durables segment. Additionally, a strong balance sheet allows it to nurture promising segments (such as Lloyd) during loss-making phases. Management commentary points to a stronger performance in the core product portfolio in coming quarters, prompting us to remain positive on the company and to reiterate our BUY rating.

Incorporating the slower quarterly performance than anticipated, we lower our FY24/ FY25 EPS estimates by ~5% each. On rolling valuations forward to Sep'25E, our TP remains at Rs 1,600, based on an unchanged 53x P/E multiple which is in line with the stock's three-year average.

**Fig 11 – Revised estimates**

Particulars (Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	1,90,821	2,17,228	1,90,821	2,17,228	0.0	0.0
EBITDA	19,063	24,291	20,077	25,417	(5.1)	(4.4)
PAT	13,160	16,507	13,919	17,349	(5.5)	(4.9)
EPS (Rs)	21.0	26.3	22.2	27.7	(5.5)	(4.9)
EBITDA Margin (%)	10.0	11.2	10.5	11.7	(50bps)	(50bps)

Source: Company, BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- continued cash burn at Lloyd with no indication of breakeven, and
- sustained tepid demand in the ECD business.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	1.2	2,951	2,500	HOLD
Crompton Greaves	CROMPTON IN	2.3	295	360	BUY
Dixon Technologies	DIXON IN	4.0	5,502	4,300	HOLD
Havells India	HAVL IN	10.4	1,363	1,600	BUY
KEI Industries	KEII IN	2.9	2,665	2,300	HOLD
Orient Electric	ORIENTEL IN	0.6	225	250	HOLD
Polycab India	POLYCAB IN	9.6	5,297	6,100	BUY
V-Guard Industries	VGRD IN	1.6	304	290	HOLD
Voltas	VOLT IN	3.4	839	910	HOLD

Source: BOBCAPS Research, NSE | Price as of 19 Oct 2023

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Total revenue</b>	<b>1,39,385</b>	<b>1,69,107</b>	<b>1,90,821</b>	<b>2,17,228</b>	<b>2,47,352</b>
EBITDA	17,604	15,991	19,063	24,291	29,859
Depreciation	2,609	2,962	2,899	3,737	3,857
EBIT	14,995	13,030	16,164	20,554	26,002
Net interest inc./(exp.)	(534)	(336)	(436)	(445)	(454)
Other inc./(exp.)	1,604	1,777	1,866	1,959	2,057
Exceptional items	0	0	0	0	0
EBT	16,066	14,471	17,594	22,068	27,605
Income taxes	4,101	3,753	4,434	5,561	6,956
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>11,965</b>	<b>10,717</b>	<b>13,160</b>	<b>16,507</b>	<b>20,648</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>11,965</b>	<b>10,717</b>	<b>13,160</b>	<b>16,507</b>	<b>20,648</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	23,800	26,432	31,368	35,709	40,661
Other current liabilities	10,881	11,562	13,046	14,852	16,911
Provisions	0	0	0	0	0
Debt funds	3,955	2,231	2,908	2,965	3,029
Other liabilities	6,567	5,095	5,750	6,545	7,453
Equity capital	626	627	627	627	627
Reserves & surplus	59,403	65,628	73,463	84,644	99,968
Shareholders' fund	60,029	66,255	74,089	85,271	1,00,594
<b>Total liab. and equities</b>	<b>1,05,232</b>	<b>1,11,574</b>	<b>1,27,161</b>	<b>1,45,341</b>	<b>1,68,648</b>
Cash and cash eq.	27,014	18,702	29,287	37,616	50,748
Accounts receivables	7,663	9,739	10,740	12,369	14,003
Inventories	29,681	37,086	41,241	47,293	53,655
Other current assets	1,708	5,135	1,279	1,456	1,658
Investments	0	0	0	0	0
Net fixed assets	34,336	36,236	39,337	40,600	41,743
CWIP	572	1,634	1,844	2,099	2,390
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	4,258	3,042	3,433	3,908	4,450
<b>Total assets</b>	<b>1,05,232</b>	<b>1,11,574</b>	<b>1,27,161</b>	<b>1,45,341</b>	<b>1,68,648</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Cash flow from operations</b>	<b>17,278</b>	<b>5,649</b>	<b>21,179</b>	<b>18,532</b>	<b>23,319</b>
Capital expenditures	(2,528)	(5,855)	(6,000)	(5,000)	(5,000)
Change in investments	0	5,004	0	0	0
Other investing cash flows	(5,067)	1,201	54	65	75
<b>Cash flow from investing</b>	<b>(7,595)</b>	<b>350</b>	<b>(5,946)</b>	<b>(4,935)</b>	<b>(4,925)</b>
Equities issued/Others	312	267	0	0	0
Debt raised/repaid	0	(4,563)	677	57	64
Interest expenses	0	0	0	0	0
Dividends paid	(5,783)	(4,773)	(5,325)	(5,325)	(5,325)
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>(5,472)</b>	<b>(9,069)</b>	<b>(4,648)</b>	<b>(5,269)</b>	<b>(5,261)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>4,212</b>	<b>(3,070)</b>	<b>10,585</b>	<b>8,329</b>	<b>13,133</b>
<b>Closing cash &amp; cash eq.</b>	<b>27,014</b>	<b>18,702</b>	<b>29,287</b>	<b>37,616</b>	<b>50,748</b>

### Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	19.1	17.1	21.0	26.3	33.0
Adjusted EPS	19.1	17.1	21.0	26.3	33.0
Dividend per share	7.5	7.5	8.5	8.5	8.5
Book value per share	95.8	105.8	118.3	136.1	160.6

### Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	6.1	5.0	4.5	3.9	3.5
EV/EBITDA	48.5	53.4	44.8	35.1	28.6
Adjusted P/E	71.4	79.7	64.9	51.7	41.3
P/BV	14.2	12.9	11.5	10.0	8.5

### DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	74.5	74.1	74.8	74.8	74.8
Interest burden (PBT/EBIT)	107.1	111.1	108.8	107.4	106.2
EBIT margin (EBIT/Revenue)	10.8	7.7	8.5	9.5	10.5
Asset turnover (Rev./Avg TA)	4.1	4.7	4.9	5.4	5.9
Leverage (Avg TA/Avg Equity)	0.6	0.6	0.6	0.5	0.4
Adjusted ROAE	21.4	17.0	18.8	20.7	22.2

### Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
<b>YoY growth (%)</b>					
Revenue	33.3	21.3	12.8	13.8	13.9
EBITDA	12.0	(9.2)	19.2	27.4	22.9
Adjusted EPS	14.6	(10.4)	22.8	25.4	25.1
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	12.6	9.5	10.0	11.2	12.1
EBIT margin	10.8	7.7	8.5	9.5	10.5
Adjusted profit margin	8.6	6.3	6.9	7.6	8.3
Adjusted ROAE	21.4	17.0	18.8	20.7	22.2
ROCE	18.5	17.0	21.3	20.4	21.9
<b>Working capital days (days)</b>					
Receivables	20	21	21	21	21
Inventory	78	80	79	79	79
Payables	62	57	60	60	60
<b>Ratios (x)</b>					
Gross asset turnover	3.2	3.5	3.6	3.7	3.9
Current ratio	1.8	1.8	1.8	1.9	2.1
Net interest coverage ratio	28.1	38.8	37.1	46.2	57.2
Adjusted debt/equity	0.1	0.0	0.0	0.0	0.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

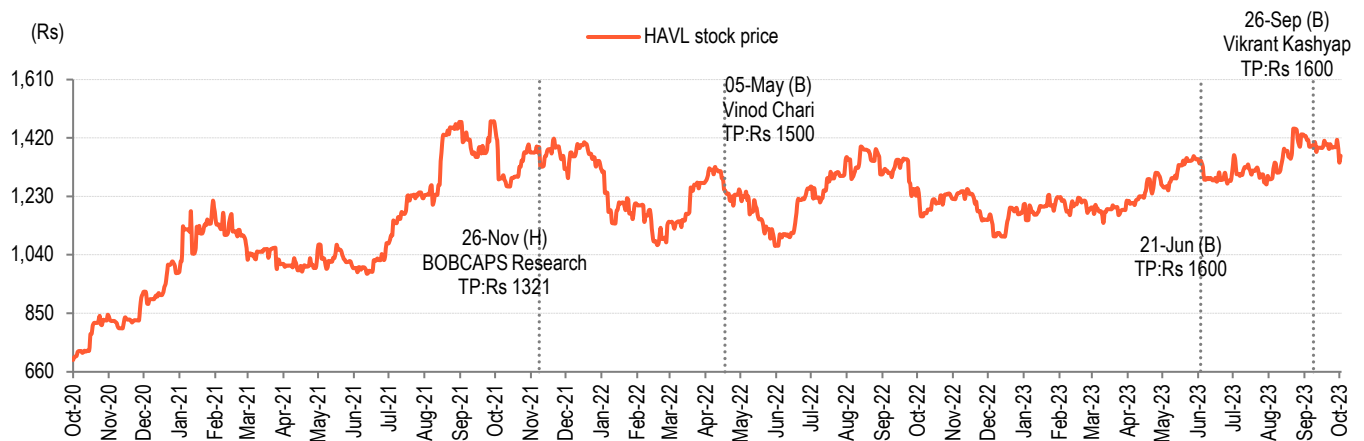
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

### Ratings and Target Price (3-year history): HAVELLS INDIA (HAVL IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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