

**BUY**  
 TP: Rs 1,600 | ▲ 22%

**HAVELLS INDIA**

Consumer Durables

24 January 2024

**Slow quarter but summer could bring cheer; maintain BUY**

- Q3 revenue grew just 7% YoY on subdued demand; high A&P spend hurt margins even as Lloyd’s cash burn continued
- Management anticipates a better Q4 on summer demand for fans and ACs; infrastructure spends to drive cables and switchgears
- We cut FY24-FY26 EPS by 4-8% post results; on rollover, our TP stays at Rs 1,600 – maintain BUY

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**Slow quarter:** HAVL posted soft topline growth of 6.9% YoY to Rs 44bn as consumer demand remained subdued. Gross margin improved by 30bps YoY to 33.3% but increasing promotional expenditure during the festive season caused EBITDA margin to contract 50bps to 9.8%. A&P spend rose to ~4% of sales as against the usual rate of ~3%.

**Cables & wires lead growth:** The cables & wires business grew 11.4% YoY on the back of infrastructure demand and remains HAVL’s best performing segment. However, the company still lags peer POLYCAB, which saw 18% topline growth, as well as KEII, which grew 14% in Q3. HAVL’s lighting segment outperformed peers, growing at 2.4% YoY amid continued price erosion, largely led by professional lighting. The electrical consumer durables (ECD) business was flattish YoY due to a high base quarter that saw fan inventory liquidation due to energy norm changes.

**Losses at Lloyd continue:** Lloyd posted an EBIT loss of Rs 646mn in Q3, with topline growth remaining in single digits for the quarter at 8% YoY. HAVL expects the next couple of quarters to be stronger with the onset of the summer season.

**Management optimistic on Q4:** HAVL indicated a positive demand outlook for the upcoming summer season and expects to earn better margins in Q4FY24 compared to those seen in Q3, as it expects a pickup in demand for fans and air conditioners. Cables, wires and switches are also expected to do well on the back of rising infrastructure spending.

**Maintain BUY:** We remain positive on HAVL’s medium-term performance given its strong presence in the consumer durables sector and improving industry dynamics. Incorporating the slower quarterly performance than anticipated, we lower our FY24/FY25/FY26 EPS estimates by 8%/4%/4%. On rolling valuations forward to Dec’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 1,313
Market cap	US\$ 10.0bn
Free float	41%
3M ADV	US\$ 11.4mn
52wk high/low	Rs 1,472/Rs 1,132
Promoter/FPI/DII	60%/23%/10%

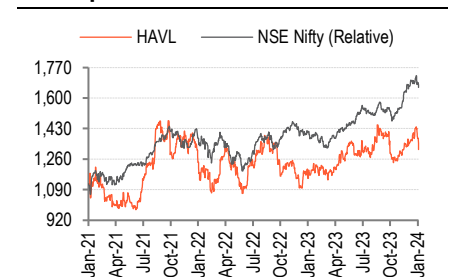
Source: NSE | Price as of 23 Jan 2024

**Key financials**

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	1,69,107	1,83,659	2,09,084
EBITDA (Rs mn)	15,991	17,428	22,768
Adj. net profit (Rs mn)	10,717	12,142	15,809
Adj. EPS (Rs)	17.1	19.4	25.2
Consensus EPS (Rs)	17.1	21.2	27.2
Adj. ROAE (%)	17.0	17.4	20.2
Adj. P/E (x)	76.8	67.8	52.0
EV/EBITDA (x)	51.4	47.2	36.1
Adj. EPS growth (%)	(10.4)	13.3	30.2

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



**Fig 1 – Quarterly performance**

Particulars (Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Revenue	44,139	41,276	6.9	39,003	13.2	1,31,480	1,20,515	9.1
EBITDA	4,327	4,236	2.1	3,718	16.4	12,065	10,719	12.6
EBITDA Margin (%)	9.8	10.3	(50bps)	9.5	30bps	9.2	8.9	30bps
Depreciation	877	746		812		2,451	2,188	
Interest	102	73		93		280	239	
Other Income	559	396		525		1,732	1,310	
PBT	3,907	3,814	2.4	3,338	17.1	11,066	9,603	15.2
Tax	1,028	979		862		2,840	2,467	
Adjusted PAT	2,879	2,835	1.5	2,476	16.3	8,225	7,136	15.3
Exceptional item								
Reported PAT	2,879	2,835	1.5	2,476	16.3	8,225	7,136	15.3
Adj. PAT Margin (%)	6.5	6.9	(30bps)	6.3	20bps	6.3	5.9	30bps
EPS (Rs)	4.6	4.5	1.5	4.0	16.3	13.1	11.4	15.3

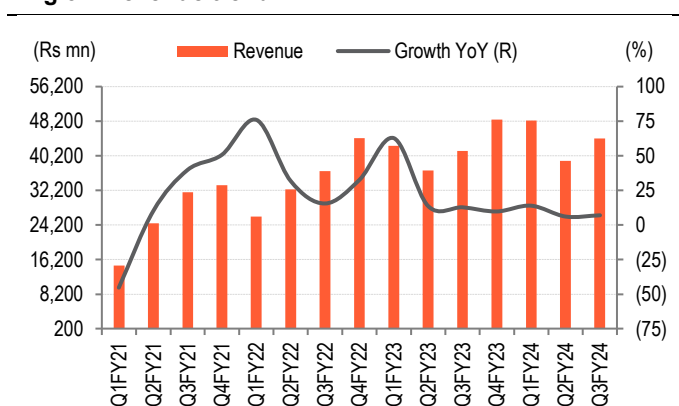
Source: Company, BOBCAPS Research

**Fig 2 – Segmental performance**

Particulars (Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
<b>Revenue</b>											
ECD	5,763	7,294	8,955	8,727	8,396	7,735	9,357	7,495	8,775	7,331	9,615
Lighting	2,144	3,591	4,129	4,052	3,737	4,018	4,232	4,160	3,710	3,999	4,335
Switch Gears	3,773	4,482	4,960	4,745	5,169	4,879	5,143	6,010	5,409	5,336	5,206
Cables & Wires	8,072	11,440	12,058	14,881	11,929	13,594	14,121	15,682	14,852	14,702	15,727
Llyod Consumer	4,975	3,463	4,698	9,596	10,938	4,198	6,103	12,710	13,109	4,974	6,561
<b>EBIT</b>											
ECD	676	1,257	1,128	1,515	1,100	900	1,228	962	957	848	1,073
EBIT margin (%)	11.7	17.2	12.6	17.4	13.1	11.6	13.1	12.8	10.9	11.6	11.2
Lighting	331	784	874	633	614	576	536	755	532	570	614
EBIT margin (%)	15.5	21.8	21.2	15.6	16.4	14.3	12.7	18.1	14.3	14.3	14.2
Switch gear	1,031	1,218	1,448	1,239	1,354	1,220	1,271	1,721	1,499	1,409	1,256
EBIT margin (%)	27.3	27.2	29.2	26.1	26.2	25.0	24.7	28.6	27.7	26.4	24.1
Cables & wires	1,262	1,153	1,256	1,734	875	859	1,628	1,885	1,691	1,707	1,633
EBIT margin (%)	15.6	10.1	10.4	11.7	7.3	6.3	11.5	12.0	11.4	11.6	10.4
Lloyd consumer	97	(188)	(429)	(215)	(563)	(840)	(600)	(229)	(616)	(745)	(646)
EBIT margin (%)	2.0	(5.4)	(9.1)	(2.2)	(5.1)	(20.0)	(9.8)	(1.8)	(4.7)	(15.0)	(9.8)

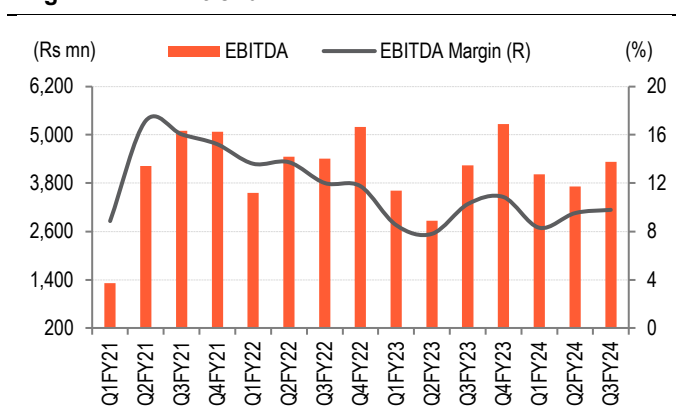
Source: Company, BOBCAPS Research

**Fig 3 – Revenue trend**



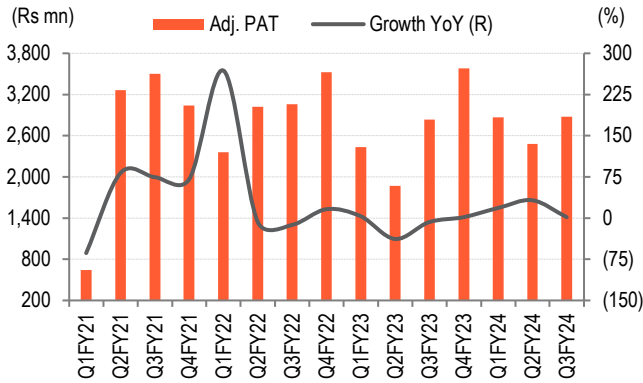
Source: Company, BOBCAPS Research

**Fig 4 – EBITDA trend**



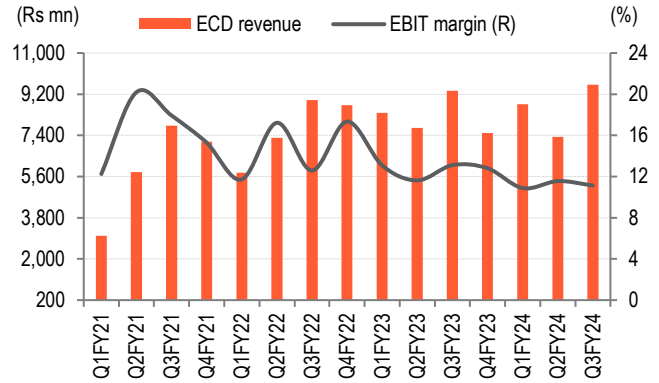
Source: Company, BOBCAPS Research

**Fig 5 – Profit trend**



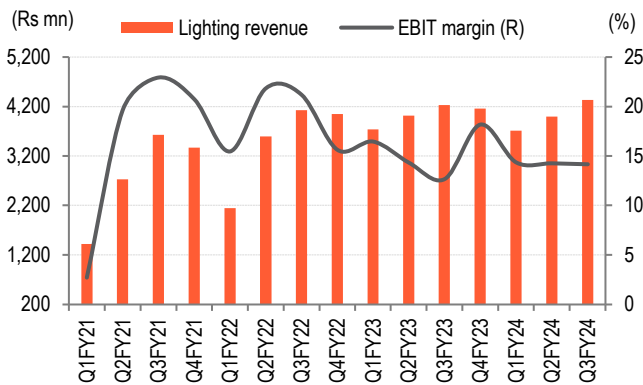
Source: Company, BOBCAPS Research

**Fig 6 – ECD business growth**



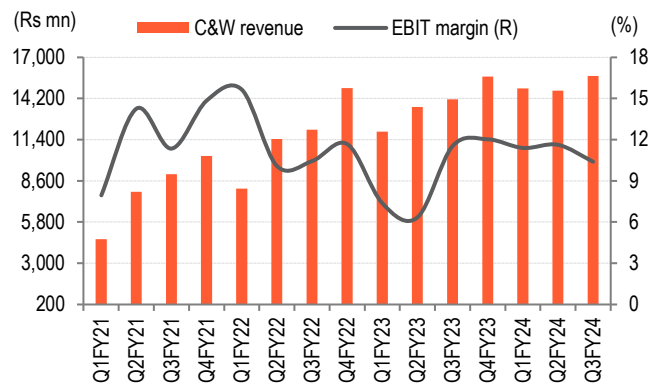
Source: Company, BOBCAPS Research

**Fig 7 – Lighting business growth**



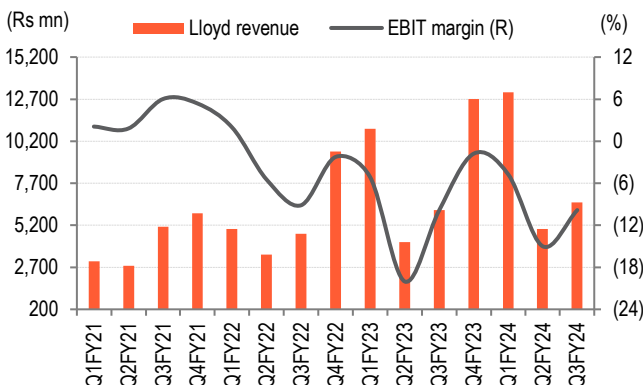
Source: Company, BOBCAPS Research

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



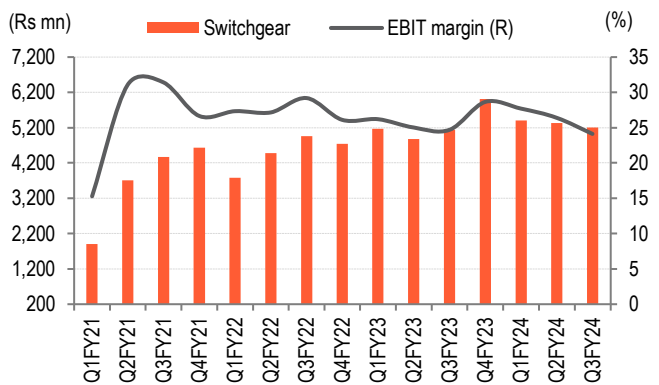
Source: Company, BOBCAPS Research

**Fig 9 – Lloyd business growth**



Source: Company, BOBCAPS Research

**Fig 10 – Switchgear business growth**



Source: Company, BOBCAPS Research

## Earnings call highlights

### Key metrics

- **Capex:** HAVL incurred capex of Rs 5.2bn during 9MFY24 with a focus on the cables, air conditioning (Lloyd) and lighting segments.
- **Working capital:** Working capital improved by 5 days YoY to 37 days in Q3FY24, largely due to better inventory management.
- **Sales contribution:** The B2B channel contributed 25% of HAVL's topline and logged respectable growth, while B2C grew at a slower pace.
- **Profitability:** Gross margin expanded 30bps YoY in Q3 as raw material prices stabilised. With cost initiatives kicking in, management expects the EBITDA margin to improve, following a 50bps YoY contraction for the quarter due to higher advertising expense, which is guided to normalise in Q4.

### Cables & wires

- **Revenue and capacity:** The cables and wires segment grew 11.4% YoY, behind peers for the quarter. This category includes two kinds of cables, namely underground cables and domestic wires. HAVL saw market share gains in the domestic wires category, which contributes to 60% of the segment. In underground cables, HAVL is expanding capacity by 25%, which is due to commence production in FY25. Management expects this expansion to enable double-digit volume growth in the cables and wires business in FY25.
- **Profitability:** Segmental EBIT margin declined 110bps YoY to 10.4% during the quarter, largely due to a change in product mix as the lower-margin cables business grew faster than wires.

### Lighting

- **Revenue:** The lighting segment fared better than peers such as POLYCAB, with revenue growth of 2.4% YoY to Rs 4.3bn fostered by strong infrastructure demand which benefitted the professional lighting category.
- **Volumes:** HAVL posted strong volume growth in both the B2B and B2C categories but witnessed continued price erosion due to falling LED prices.
- **Profitability:** EBIT margin expanded 150bps YoY to 14.2% due to a low base in Q3FY23 which was impacted by a fire in HAVL's lighting manufacturing unit.

### Electrical consumer durables (ECD)

- **Revenue:** ECD performance was modest, but Q3FY23 had a high base in the fans category as the transition to new energy rating norms stimulated channel stocking. This resulted in only 2.8% topline growth YoY for the segment. Besides fans, the company witnessed double-digit growth in all other ECD categories.
- **Fans:** HAVL commands ~20% market share in fans and expects a strong performance in this category in anticipation of a good summer.

### Switchgears

- **Revenue:** Switchgears reported a flattish quarter as the telecom and OEM sectors, where HAVL is a strong player, slowed and exports were also sluggish. The retail and projects businesses fared well with the company gaining market share.

### Lloyd

- **Revenue:** Lloyd reported 7.5% YoY revenue growth as Q3 – an unseasonal quarter for air conditioners (AC), which account for 65-70% of the segment topline. Capacity utilisation stood at 50-60% for the quarter.
- **Demand:** HAVL anticipates strong summer demand. Shelf filling for Q4FY24 has been lower than last year due to muted enthusiasm in trade, but management expects growth to come from consumer demand in the summer season rather than shelf filling.
- **Strategy:** Apart from ACs, Lloyd is focusing on all its product categories comprising refrigerators, washing machines and LED TVs. HAVL intends to expand the Lloyd brand in the international market, focusing on the US and Middle East markets, and has recently incorporated a subsidiary in the US for distribution of heating, ventilation and air conditioning (HVAC) systems. It is also open to white labelling so long as the margin profile is comfortable. Additionally, the manufacturing of refrigerators is under evaluation.

## Valuation methodology

HAVL has a strong presence across the consumer durables sector. Additionally, a strong balance sheet allows it to nurture promising segments (such as Lloyd) through loss-making phases. Management commentary points to a stronger performance in the core product portfolio in coming quarters, leading 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/FY26 EPS estimates by 8%/4%/4%. On rolling valuations forward to Dec'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	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales	1,83,659	2,09,084	2,38,089	1,90,821	2,17,228	2,47,352	(3.8)	(3.7)	(3.7)
EBITDA	17,428	22,768	28,062	19,063	24,291	29,859	(8.6)	(6.3)	(6.0)
PAT	12,142	15,809	19,765	13,160	16,507	20,648	(7.7)	(4.2)	(4.3)
EPS (Rs)	19.4	25.2	31.5	21.0	26.3	33.0	(7.7)	(4.2)	(4.3)
EBITDA Margin (%)	9.5	10.9	11.8	10.0	11.2	12.1	(50bps)	(30bps)	(30bps)

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.

## 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>1,83,659</b>	<b>2,09,084</b>	<b>2,38,089</b>
EBITDA	17,604	15,991	17,428	22,768	28,062
Depreciation	2,609	2,962	3,189	3,710	3,832
EBIT	14,995	13,030	14,239	19,058	24,230
Net interest inc./(exp.)	(534)	(336)	(405)	(442)	(451)
Other inc./(exp.)	1,604	1,777	2,399	2,519	2,645
Exceptional items	0	0	0	0	0
EBT	16,066	14,471	16,233	21,135	26,424
Income taxes	4,101	3,753	4,091	5,326	6,659
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>12,142</b>	<b>15,809</b>	<b>19,765</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>11,965</b>	<b>10,717</b>	<b>12,142</b>	<b>15,809</b>	<b>19,765</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	23,800	26,432	30,190	34,370	39,138
Other current liabilities	10,881	11,562	12,556	14,295	16,278
Provisions	0	0	0	0	0
Debt funds	3,955	2,231	2,893	2,947	3,010
Other liabilities	6,567	5,095	5,534	6,300	7,174
Equity capital	626	627	627	627	627
Reserves & surplus	59,403	65,628	72,445	82,929	97,368
Shareholders' fund	60,029	66,255	73,072	83,555	97,995
<b>Total liab. and equities</b>	<b>1,05,232</b>	<b>1,11,574</b>	<b>1,24,245</b>	<b>1,41,467</b>	<b>1,63,594</b>
Cash and cash eq.	27,014	18,702	28,858	36,521	48,784
Accounts receivables	7,663	9,739	10,337	11,905	13,478
Inventories	29,681	37,086	39,693	45,520	51,646
Other current assets	1,708	5,135	1,231	1,402	1,596
Investments	0	0	0	0	0
Net fixed assets	34,336	36,236	39,048	40,338	41,506
CWIP	572	1,634	1,775	2,021	2,301
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	4,258	3,042	3,304	3,761	4,283
<b>Total assets</b>	<b>1,05,232</b>	<b>1,11,574</b>	<b>1,24,245</b>	<b>1,41,467</b>	<b>1,63,594</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>20,783</b>	<b>17,871</b>	<b>22,454</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	36	63	72
<b>Cash flow from investing</b>	<b>(7,595)</b>	<b>350</b>	<b>(5,964)</b>	<b>(4,937)</b>	<b>(4,928)</b>
Equities issued/Others	312	267	0	0	0
Debt raised/repaid	0	(4,563)	662	54	62
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>(4,663)</b>	<b>(5,271)</b>	<b>(5,263)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>4,212</b>	<b>(3,070)</b>	<b>10,156</b>	<b>7,663</b>	<b>12,263</b>
<b>Closing cash &amp; cash eq.</b>	<b>27,014</b>	<b>18,702</b>	<b>28,858</b>	<b>36,521</b>	<b>48,784</b>

### Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	19.1	17.1	19.4	25.2	31.5
Adjusted EPS	19.1	17.1	19.4	25.2	31.5
Dividend per share	7.5	7.5	8.5	8.5	8.5
Book value per share	95.8	105.8	116.6	133.4	156.4

### Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	5.9	4.9	4.5	3.9	3.5
EV/EBITDA	46.7	51.4	47.2	36.1	29.3
Adjusted P/E	68.8	76.8	67.8	52.0	41.6
P/BV	13.7	12.4	11.3	9.8	8.4

### 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	114.0	110.9	109.1
EBIT margin (EBIT/Revenue)	10.8	7.7	7.8	9.1	10.2
Asset turnover (Rev./Avg TA)	4.1	4.7	4.7	5.2	5.7
Leverage (Avg TA/Avg Equity)	0.6	0.6	0.6	0.5	0.5
Adjusted ROAE	21.4	17.0	17.4	20.2	21.8

### Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
<b>YoY growth (%)</b>					
Revenue	33.3	21.3	8.6	13.8	13.9
EBITDA	12.0	(9.2)	9.0	30.6	23.3
Adjusted EPS	14.6	(10.4)	13.3	30.2	25.0
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	12.6	9.5	9.5	10.9	11.8
EBIT margin	10.8	7.7	7.8	9.1	10.2
Adjusted profit margin	8.6	6.3	6.6	7.6	8.3
Adjusted ROAE	21.4	17.0	17.4	20.2	21.8
ROCE	18.5	17.0	19.8	19.9	21.4
<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	3.4	3.5	3.7
Current ratio	1.8	1.8	1.9	1.9	2.1
Net interest coverage ratio	28.1	38.8	35.2	43.1	53.7
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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**BUY** – Expected return >+15%

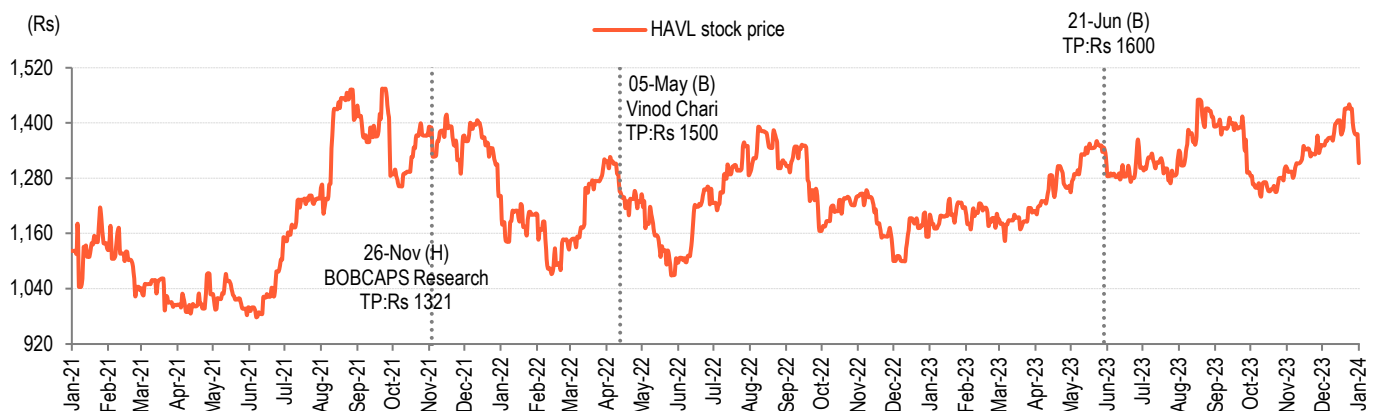
**HOLD** – Expected return from -6% to +15%

**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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