

**BUY**

TP: Rs 1,500 | ▲ 21%

**HAVELLS INDIA**

Consumer Durables

03 May 2023

**Moderate quarter; in-line performance**

- Q4 revenue up 10% YoY to Rs 48.6bn anchored by strong switchgear sales and consistent performance in cables & wires
- Aggressive Lloyd strategy aided higher sales of Rs 12.7bn at the cost of margins (operational loss at Rs 229mn)
- We cut FY24/FY25 EPS by 8%/4% to bake in lower margins; TP intact at Rs 1,500 on rollover to FY25E – maintain BUY

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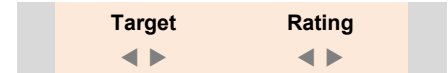
**B2B aids topline growth:** HAVL’s Q4FY23 revenue grew 10% YoY to Rs 48.6bn, a marginal beat led by robust switchgear revenue, while EBITDA margin at 10.8% and net profit at Rs 3.6bn were in line with our expectations. B2C demand remained subdued on weak consumer sentiments, but the impact was offset by the B2B segment which saw improved construction and infrastructure-led demand. EBITDA margin contracted 90bps YoY (+50bps QoQ) due to higher staff and A&P expenses.

**Lloyd remains in the limelight:** HAVL’s management persisted in its aggressive growth strategy for the Lloyd business, reflecting in higher sales of Rs 12.7bn (4Y CAGR of 24%) and continued losses at the operational level (Rs 229mn, flat YoY but with sequential improvement over the past three quarters). The strong balance sheet (cash position of Rs 15bn+) allows management to sustain this high-growth strategy over the medium term as it looks to maintain its pole market share position.

**ECD falters while switchgears shine:** HAVL’s ECD portfolio declined 14% YoY to Rs 7.5bn on poor consumer sentiments. The contribution to sales reduced to 15% in Q4 vs. the earlier 2Y average of ~22%. Fans which contribute ~60% to ECD were affected by higher channel stocking on account of uncertainty over the new energy rating transition. In contrast, the switchgear segment delivered strong revenue growth of 27% YoY with a relatively better operating margin of 28.6%.

**Maintain BUY:** HAVL is a comprehensive play with a strong presence across all consumer durable categories. This coupled with a sound balance sheet enables it to concentrate on a select area, as seen in the Lloyd business. Management remains positive on strong recovery in its core product portfolio in coming quarters. We like HAVL’s core portfolio for its prominent brand, wide network and inherent growth triggers, leading us to reiterate our BUY rating. To bake in the FY23 margin underperformance, we prune our FY24/FY25 EPS estimates by 8%/4%. Upon rolling valuations over to Mar’25E, our TP remains unchanged at Rs 1,500, based on a 50x P/E multiple, which is in-line to its 3Y average.

**Key changes**



Ticker/Price	HAVL IN/Rs 1,241
Market cap	US\$ 9.5bn
Free float	41%
3M ADV	US\$ 8.9mn
52wk high/low	Rs 1,406/Rs 1,025
Promoter/FPI/DII	60%/23%/10%

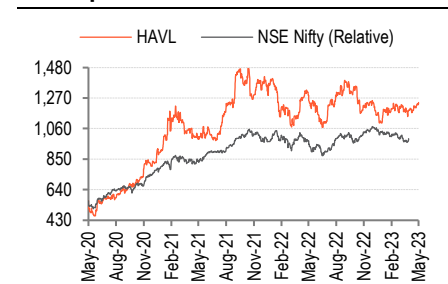
Source: NSE | Price as of 3 May 2023

**Key financials**

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	169,107	190,821	217,228
EBITDA (Rs mn)	15,991	21,604	26,938
Adj. net profit (Rs mn)	10,717	15,061	18,487
Adj. EPS (Rs)	17.1	24.0	29.5
Consensus EPS (Rs)	17.3	24.5	29.8
Adj. ROAE (%)	17.0	21.2	22.4
Adj. P/E (x)	72.6	51.6	42.1
EV/EBITDA (x)	48.6	36.0	28.9
Adj. EPS growth (%)	(10.4)	40.5	22.7

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

**Stock performance**



Source: NSE



**Fig 1 – Quarterly performance**

Particulars (Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
Revenue	48,592	44,263	9.8	41,276	17.7	169,107	139,385	21.3
EBITDA	5,271	5,199	1.4	4,236	24.4	15,991	17,604	(9.2)
EBITDA Margin (%)	10.8	11.7	(90bps)	10.3	60bps	9.5	12.6	(320bps)
Depreciation	774	707	-	746	-	2,962	2,609	-
Interest	98	191	-	73	-	336	534	-
Other Income	467	441	-	396	-	1,777	1,604	-
PBT	4,867	4,743	2.6	3,814	27.6	14,470	16,066	(9.9)
Tax	1,287	1,218	-	979	-	3,753	4,101	-
Adjusted PAT	3,580	3,525	1.6	2,835	26.3	10,717	11,965	(10.4)
Exceptional item	-	-	-	0	-	-	-	-
Reported PAT	3,580	3,525	1.6	2,835	26.3	10,717	11,965	(10.4)
Adj. PAT Margin (%)	7.4	8.0	(60bps)	6.9	50bps	6.3	8.6	(220bps)
EPS (Rs)	5.7	5.6	1.6	4.5	26.3	17.1	19.1	(-10.4)

Source: Company, BOBCAPS Research

**Fig 2 – Actual vs. Estimates**

Particulars (Rs mn)	Actual	Estimates	Variance (%)
Revenue	48,592	45,610	6.5
EBITDA	5,271	4,884	7.9
EBITDA Margin (%)	10.8	10.7	10bps
Adj. PAT	3,580	3,486	2.7

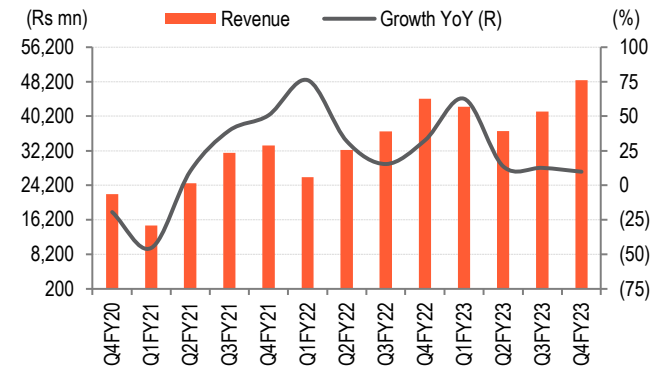
Source: Company, BOBCAPS Research

**Fig 3 – Segment-wise performance**

Particulars (Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
<b>Revenue</b>									
ECD	7,124	5,763	7,294	8,955	8,727	8,396	7,735	9,357	7,495
Lighting	3,367	2,144	3,591	4,129	4,052	3,737	4,018	4,232	4,160
Switchgears	4,633	3,773	4,482	4,960	4,745	5,169	4,879	5,143	6,010
Cables & wires	10,292	8,072	11,440	12,058	14,881	11,929	13,594	14,121	15,682
Lloyd Consumer	5,906	4,975	3,463	4,698	9,596	10,938	4,198	6,103	12,710
<b>EBIT</b>									
ECD	1,090	676	1,257	1,128	1,515	1,100	900	1,228	962
EBIT margin (%)	15.3	11.7	17.2	12.6	17.4	13.1	11.6	13.1	12.8
Lighting	698	331	784	874	633	614	576	536	755
EBIT margin (%)	20.7	15.5	21.8	21.2	15.6	16.4	14.3	12.7	18.1
Switchgears	1,234	1,031	1,218	1,448	1,239	1,354	1,220	1,271	1,721
EBIT margin (%)	26.6	27.3	27.2	29.2	26.1	26.2	25.0	24.7	28.6
Cables & wires	1,528	1,262	1,153	1,256	1,734	875	859	1,628	1,885
EBIT margin (%)	14.8	15.6	10.1	10.4	11.7	7.3	6.3	11.5	12.0
Lloyd Consumer	318	97	(188)	(429)	(215)	(563)	(840)	(600)	(229)
EBIT margin (%)	5.4	2.0	(5.4)	(9.1)	(2.2)	(5.1)	(20.0)	(9.8)	(1.8)

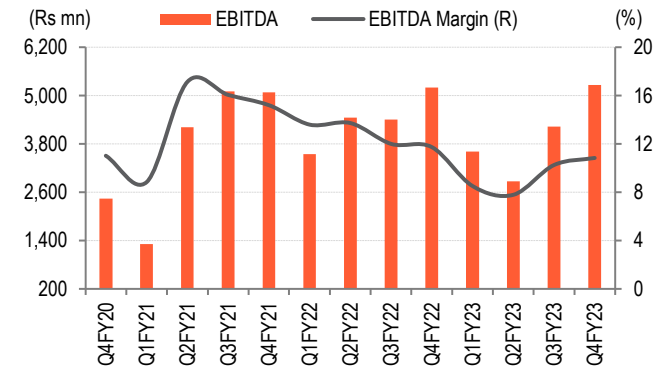
Source: Company, BOBCAPS Research

**Fig 4 – Revenue growth**



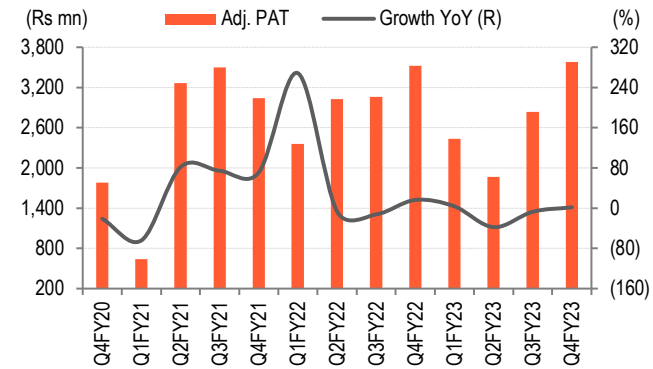
Source: Company, BOBCAPS Research

**Fig 5 – EBITDA growth**



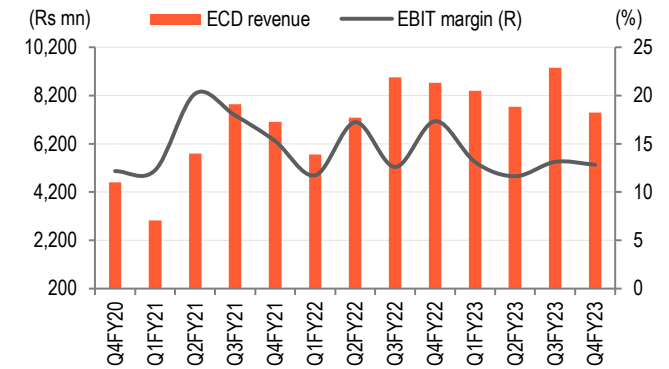
Source: Company, BOBCAPS Research

**Fig 6 – Profitability growth**



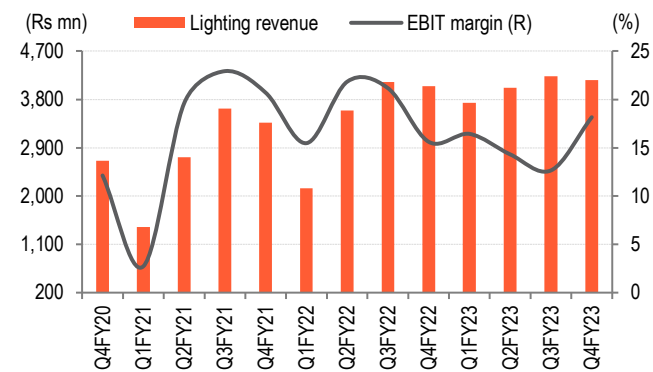
Source: Company, BOBCAPS Research

**Fig 7 – ECD business growth**



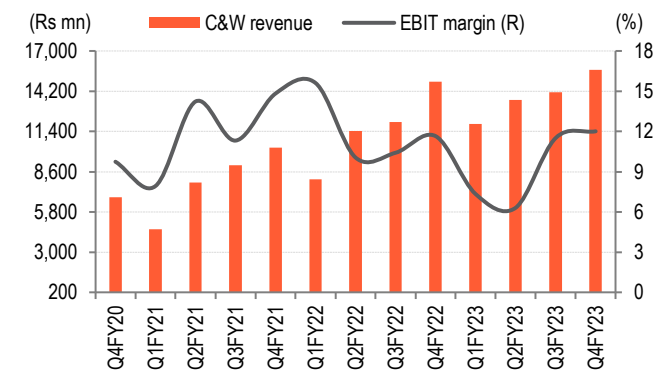
Source: Company, BOBCAPS Research

**Fig 8 – Lighting business growth**



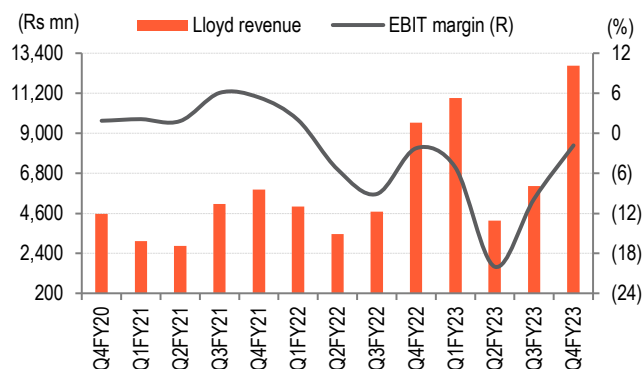
Source: Company, BOBCAPS Research

**Fig 9 – Cables & Wires business growth**



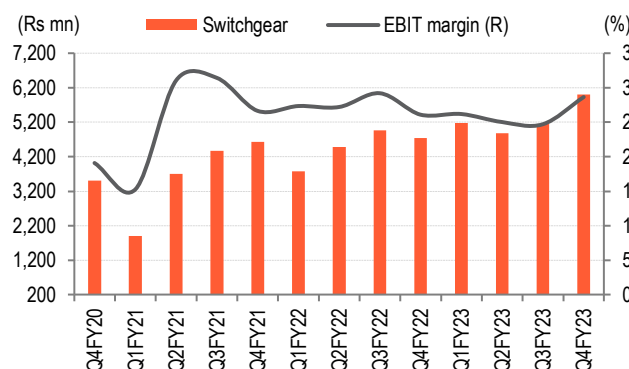
Source: Company, BOBCAPS Research

**Fig 10 – Lloyd business growth**



Source: Company, BOBCAPS Research

**Fig 11 – Switchgear business growth**



Source: Company, BOBCAPS Research

### Earnings call takeaways

- Lloyd:** Lloyd posted decent numbers with sequentially lower operational losses in Q4FY23, but management refrained from guidance on when the business will turn EBIT positive. Channel and firm inventories were high during the quarter due to the upcoming summer season and unfavourable weather changes toward the end of March. Lloyd has reached the top 3 spot in the air conditioner market, per industry data, and is content to hold this position rather than chase the #1 spot. HAVL expects the segment to grow with the recent commencement of its AC manufacturing unit in Sri City.

The AC industry has not been lucrative this season and, akin to peers, management’s outlook is cautious. HAVL does expect margins to normalise and believes Lloyd will benefit from the same. Channel inventory has already normalised. This apart, management does not believe outsourcing is sustainable due to quality issues and is striving to effectively use its manufacturing capacities.

- ECD:** The electrical consumer durables (ECD) segment posted weak numbers with a 14% YoY decline in sales during Q4 due to sluggish consumer demand and fan stocking on the back of new Bureau of Energy Efficiency (BEE) norms. H2FY23 was slow and prices shot up, due to which channel partners waited for new inventory buildup.
- Wires and Cables (W&C):** Industry-wide, this segment has done well in Q4, and management hopes to gain traction led by new construction in real estate. Channel inventory in cables was lower due to frequent commodity price fluctuations, and value growth stood at 6% YoY for the quarter.
- Lighting:** A favourable product mix in lighting led to better margins, though a fall in LED prices impacted revenue despite mid-teen volume growth for the quarter.
- Capex:** HAVL expects to incur capex of Rs 6bn in FY24 through cash and internal accruals. Two new facilities are scheduled to commence in the next two years.

## Valuation methodology

HAVL is a comprehensive play with a strong presence across all consumer durable categories. This coupled with a sound balance sheet enables it to concentrate on a select area, as seen in the Lloyd business. Management remains positive on strong recovery in its core product portfolio in coming quarters. We like HAVL's core portfolio for its prominent brand, wide network and inherent growth triggers, leading us to reiterate our BUY rating.

To bake in the FY23 margin underperformance, we prune our FY24/FY25 EPS estimates by 8%/4%. Upon rolling valuations over to Mar'25E, our TP remains unchanged at Rs 1,500, based on a 50x P/E multiple – in-line to 3Y average.

**Fig 12 – Revised estimates**

Particulars (Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	190,821	217,228	178,918	206,336	6.7	5.3
EBITDA	21,604	26,938	23,817	28,227	(9.3)	(4.6)
PAT	15,061	18,487	16,403	19,172	(8.2)	(3.6)
EPS (Rs)	24.0	29.5	26.2	30.6	(8.2)	(3.6)
EBITDA Margin (%)	11.3	12.4	13.3	13.7	(200bps)	(130bps)

Source: Company, BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- aggressive capital allocation at Lloyd, and
- subdued growth in the core product portfolio.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	0.8	1,844	2,100	HOLD
Blue Star	BLSTR IN	1.7	1,438	1,450	BUY
Crompton Greaves	CROMPTON IN	2.0	257	440	BUY
Dixon Technologies	DIXON IN	2.1	2,908	4,100	BUY
Havells India	HAVL IN	9.5	1,241	1,500	BUY
KEI Industries	KEII IN	2.0	1,836	2,130	BUY
Orient Electric	ORIENTEL IN	0.6	222	290	HOLD
Polycab India	POLYCAB IN	6.0	3,292	3,300	BUY
Syrma SGS	SYRMA IN	0.6	294	400	BUY
V-Guard Industries	VGRD IN	1.3	246	260	HOLD
Voltas	VOLT IN	3.3	810	900	HOLD

Source: BOBCAPS Research, NSE | Price as of 3 May 2023

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
<b>Total revenue</b>	<b>104,573</b>	<b>139,385</b>	<b>169,107</b>	<b>190,821</b>	<b>217,228</b>
EBITDA	15,718	17,604	15,991	21,604	26,938
Depreciation	2,489	2,609	2,962	2,899	3,737
EBIT	13,229	14,995	13,030	18,705	23,201
Net interest inc./(exp.)	(727)	(534)	(336)	(436)	(445)
Other inc./(exp.)	1,874	1,604	1,777	1,866	1,959
Exceptional items	0	0	0	0	0
EBT	14,376	16,066	14,471	20,135	24,715
Income taxes	3,932	4,101	3,753	5,074	6,228
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>10,443</b>	<b>11,965</b>	<b>10,717</b>	<b>15,061</b>	<b>18,487</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>10,443</b>	<b>11,965</b>	<b>10,717</b>	<b>15,061</b>	<b>18,487</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Accounts payables	15,971	23,800	26,432	31,368	35,709
Other current liabilities	10,525	10,881	11,562	13,046	14,852
Provisions	0	0	0	0	0
Debt funds	4,922	3,955	2,231	2,908	2,965
Other liabilities	5,341	6,567	5,095	5,750	6,545
Equity capital	626	626	627	627	627
Reserves & surplus	51,137	59,403	65,628	75,364	88,525
Shareholders' fund	51,763	60,029	66,255	75,990	89,152
<b>Total liab. and equities</b>	<b>88,523</b>	<b>105,232</b>	<b>111,574</b>	<b>129,062</b>	<b>149,222</b>
Cash and cash eq.	19,591	27,014	18,702	31,188	41,496
Accounts receivables	5,637	7,663	9,739	10,740	12,369
Inventories	26,199	29,681	37,086	41,241	47,293
Other current assets	1,778	1,708	5,135	1,279	1,456
Investments	0	0	0	0	0
Net fixed assets	32,904	34,336	36,236	39,337	40,600
CWIP	899	572	1,634	1,844	2,099
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	1,515	4,258	3,042	3,433	3,908
<b>Total assets</b>	<b>88,523</b>	<b>105,232</b>	<b>111,574</b>	<b>129,062</b>	<b>149,222</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
<b>Cash flow from operations</b>	<b>6,603</b>	<b>17,278</b>	<b>5,649</b>	<b>23,080</b>	<b>20,512</b>
Capital expenditures	(1,536)	(2,528)	(5,855)	(6,000)	(5,000)
Change in investments	0	0	5,004	0	0
Other investing cash flows	(6,096)	(5,067)	1,201	54	65
<b>Cash flow from investing</b>	<b>(7,632)</b>	<b>(7,595)</b>	<b>350</b>	<b>(5,946)</b>	<b>(4,935)</b>
Equities issued/Others	98	312	267	0	0
Debt raised/repaid	14,883	0	(4,563)	677	57
Interest expenses	0	0	0	0	0
Dividends paid	(13,083)	(5,783)	(4,773)	(5,325)	(5,325)
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>1,898</b>	<b>(5,472)</b>	<b>(9,069)</b>	<b>(4,648)</b>	<b>(5,269)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>869</b>	<b>4,212</b>	<b>(3,070)</b>	<b>12,486</b>	<b>10,309</b>
<b>Closing cash &amp; cash eq.</b>	<b>19,591</b>	<b>27,014</b>	<b>18,702</b>	<b>31,188</b>	<b>41,496</b>

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
Reported EPS	16.7	19.1	17.1	24.0	29.5
Adjusted EPS	16.7	19.1	17.1	24.0	29.5
Dividend per share	6.5	7.5	7.5	8.5	8.5
Book value per share	82.6	95.8	105.8	121.3	142.3

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	7.4	5.6	4.6	4.1	3.6
EV/EBITDA	49.5	44.2	48.6	36.0	28.9
Adjusted P/E	74.5	65.0	72.6	51.6	42.1
P/BV	15.0	13.0	11.7	10.2	8.7

### DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	FY24E	FY25E
Tax burden (Net profit/PBT)	72.6	74.5	74.1	74.8	74.8
Interest burden (PBT/EBIT)	108.7	107.1	111.1	107.6	106.5
EBIT margin (EBIT/Revenue)	12.7	10.8	7.7	9.8	10.7
Asset turnover (Rev./Avg TA)	3.2	4.1	4.7	4.9	5.4
Leverage (Avg TA/Avg Equity)	0.7	0.6	0.6	0.6	0.5
Adjusted ROAE	22.0	21.4	17.0	21.2	22.4

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
<b>YoY growth (%)</b>					
Revenue	10.8	33.3	21.3	12.8	13.8
EBITDA	52.8	12.0	(9.2)	35.1	24.7
Adjusted EPS	42.0	14.6	(10.4)	40.5	22.7
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	15.0	12.6	9.5	11.3	12.4
EBIT margin	12.7	10.8	7.7	9.8	10.7
Adjusted profit margin	10.0	8.6	6.3	7.9	8.5
Adjusted ROAE	22.0	21.4	17.0	21.2	22.4
ROCE	22.0	20.5	16.6	20.9	22.0
<b>Working capital days (days)</b>					
Receivables	20	20	21	21	21
Inventory	91	78	80	79	79
Payables	56	62	57	60	60
<b>Ratios (x)</b>					
Gross asset turnover	2.5	3.2	3.5	3.6	3.7
Current ratio	1.9	1.8	1.8	1.9	2.0
Net interest coverage ratio	18.2	28.1	38.8	42.9	52.2
Adjusted debt/equity	0.1	0.1	0.0	0.0	0.0

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

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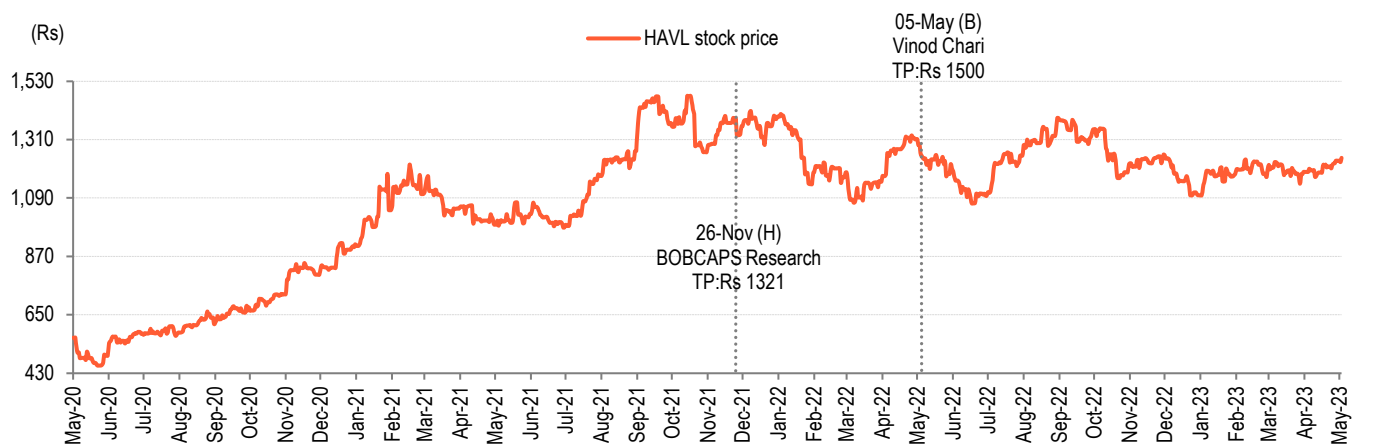
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**BUY** – Expected return >+15%  
**HOLD** – Expected return from -6% to +15%  
**SELL** – Expected return <-6%

**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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