

RESEARCH**BOB ECONOMICS RESEARCH | CONSUMER GOODS STUDY**

The consumer goods industry in Q1-FY25

HAVELLS INDIA | TARGET: Rs 1,900 | +1% | HOLD

Strategic capacity expansion to propel growth

SUMMARY**INDIA ECONOMICS: CONSUMER GOODS STUDY**

Production and price data gave an indicative picture of how consumption demand is faring. Broadly demand for white goods outperformed the previous quarter of last year. Heatwave conditions and warmer summer also contributed towards the same. But demand is not only concentrated in items such as AC and refrigerator, even production of TV, mobile phone also ramped up. The FMCG production data may look mixed at first sight; however item wise production data reflects change in consumer preferences, especially dietary preference and inclination towards travel, grooming products etc. This signals lifestyle changes and growing aspirations.

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HAVELLS INDIA

- Wires & cables accounted for 34% of HAVL's FY24 revenue, with capacity expansion to increase from 3.29mn km to 4.58mn km by 2026
- The Tumakuru facility started production in Sep'24. Additional capacity to expand by 33%; Alwar to increase capacity by 25% by Mar'26
- Maintain HOLD rating due to high valuations; TP of Rs 1,900 valued at 53x FY26E P/E

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CONSUMER GOODS STUDY

04 September 2024

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Dipanwita Mazumdar
Economist

Durable goods outshining:

The GDP data showed some comfort in terms of private final consumption expenditure (PFCE) picking up by 12.4% in Q1FY25, that too at an elevated base of 8.1% in Q1FY24. Even in real terms, PFCE has grown by 7.4%, outpacing GDP growth. So, prima facie demand is gaining ground. We tried to gauge the same using the production and price data to see whether different pieces of the puzzle fit in or not. The disaggregated production (IIP) and price (CPI) data showed that demand for durable goods is on a strong footing. This is further supported by moderation in prices.

- Among major segments, sales of AC and refrigerators posted a strong double-digit number. This quarter also coincided with worsening heatwave conditions and a warmer summer. AC sales picked up by 37.8% in Q1FY25 compared to -17.5% in the same period of the previous year.
- Other white goods such as TV, mobile phone sales, have also picked up, which generally do not show the seasonal trend in Q1. A softer inflation rate for these items has also contributed to an increasing demand for these items. Inflation moderated for all these durable goods items except AC. Notably, production numbers also got a boost from a favourable low base.
- A continued momentum in discretionary spending of consumers coupled with favorable price effect speaks of consumption demand holding firmly.

Table 1: Consumer durables holding up well

Durable	Production-IIP		Price-CPI	
	Q1FY24	Q1FY25	Q1FY24	Q1FY25
Refrigerators	(6.2)	12.1	3.6	1.1
Washing machines	2.4	4.5	6.6	4.3
Air conditioners	(17.5)	37.8	1.4	1.9
TVs	0.9	8.3	(0.5)	(0.7)
Mobiles/telephones	(18.2)	7.4	4.4	1.2

Source: CEIC, Bank of Baroda Research, Note: some items of CPI are used interchangeably



HOLD

TP: Rs 1,900 | ▲ 1%

HAVELLS INDIA

Consumer Durables

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Major revenue contributor: The Wires and Cables segment is HAVL's largest revenue contributor, with FY24 revenue reaching Rs 63.2bn, constituting 34% of the company's total revenue. In Q1FY25, this segment's revenue was Rs 15.2bn, making up 26% of the topline. HAVL has been operating at peak capacity in its cables segment for several quarters and is rapidly expanding its capacity. Since 2022, the company has announced a total capital expenditure of Rs 11.25bn for cables, increasing capacity from 3.29mn km currently to 4.58mn km by Sep'26, representing a 39% increase in volume.

Expansion in Tumakuru, Karnataka: To address capacity constraints, HAVL announced the establishment of a new cable manufacturing facility in Tumakuru, Karnataka, on 30 Aug 2022. Commercial production at this facility began on 3 Sep 2024. The company plans to expand its capacity at this site from 348,000km p.a. to 462,600km p.a., representing a 33% increase. This expansion, involving additional investments of Rs 4.5bn, will be funded through internal accruals. The higher investment per km is due to the focus on producing larger-sized cables. HAVL expects production from this expanded capacity to start in Sep'26.

Capacity expansion plans for Alwar, Rajasthan: The current capacity at the Alwar plant stands at 3.29mn km and will be expanded to 4.12mn km. This translates to capacity addition of 830k km, an addition of 25% in volume terms at the Alwar plant. This phased capacity expansion is likely to conclude by Mar'26, and its capital outlay of Rs 3.75bn will be funded by internal accruals.

Maintain HOLD: While acknowledging HAVL's strengths, such as its strong brand, extensive distribution network and growth potential, we remain cautious on the stock due to its high valuations. Consequently, we maintain a HOLD rating with a TP of Rs 1,900, reflecting a target multiple of 53x FY26E P/E.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	HAVL IN/Rs 1,885
Market cap	US\$ 14.1bn
Free float	41%
3M ADV	US\$ 26.9mn
52wk high/low	Rs 1,985/Rs 1,233
Promoter/FPI/DII	60%/23%/10%

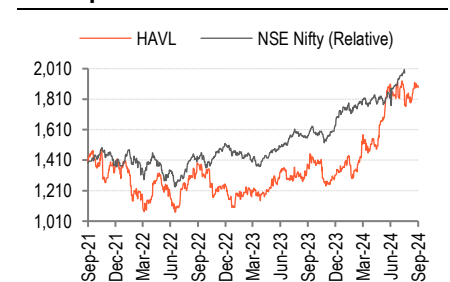
Source: NSE | Price as of 2 Sep 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	185,900	211,581	245,916
EBITDA (Rs mn)	18,426	23,647	29,858
Adj. net profit (Rs mn)	12,708	17,217	21,580
Adj. EPS (Rs)	20.3	27.5	34.4
Consensus EPS (Rs)	20.3	27.3	33.2
Adj. ROAE (%)	18.1	21.4	22.8
Adj. P/E (x)	93.0	68.6	54.7
EV/EBITDA (x)	64.1	50.0	39.6
Adj. EPS growth (%)	18.6	35.5	25.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



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