

RESEARCH

BOB ECONOMICS RESEARCH | MONTHLY ECONOMIC BUFFET

Economic Round-up: May 2024

HAVELLS INDIA | TARGET: Rs 1,780 | -1% | HOLD

Annual report analysis: Product innovation driving growth

Daily macro indicators

Indicator	3-Jun	4-Jun	Chg (%)
US 10Y yield (%)	4.39	4.33	(6bps)
India 10Y yield (%)	6.94	7.04	9bps
USD/INR	83.15	83.53	(0.5)
Brent Crude (US\$/bbl)	78.4	77.5	(1.1)
Dow	38,571	38,711	0.4
Hang Seng	18,403	18,444	0.2
Sensex	76,469	72,079	(5.7)
India FII (US\$ mn)	31-May	3-Jun	Chg (\$ mn)
FII-D	(79.4)	272.6	352.0
FII-E	261.4	824.3	562.9

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: MONTHLY ECONOMIC BUFFET

Markit global manufacturing PMI rose to 22-month high of 50.9 in May'24 from 50.3 in Apr'24. The index stood in the expansionary zone for the 4th consecutive month in a row, and was supported by solid activity in US, China, and UK. Contraction in Eurozone and Japan eased. Overall, output, new orders (including export orders) improved. Both input and output prices also inched up at a faster pace. Recently IMF revised China's GDP forecast for CY24 upward (from 4.6% earlier to 5%), following signs of revival in the economy and announcement of government measures to stimulate growth. However, manufacturing and services sector are again showing signs of slowdown in May'24, thus suggesting uneven recovery.

[Click here](#) for the full report.

HAVELLS INDIA

- Healthy FY24 performance; EBITDA margin expansion of 40bps YoY; Lloyd turns profitable in Q4
- Rural market expansion and in-house manufacturing remain strategic focus areas
- Maintain HOLD on increased in valuations; TP of Rs 1,780 valued at 53x FY26E P/E

[Click here](#) for the full report.

BOBCAPS Research

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MONTHLY ECONOMIC BUFFET

05 June 2024

Economic Round-up: May 2024

Sonal Badhan
Economist

Markit global manufacturing PMI rose to 22-month high of 50.9 in May'24 from 50.3 in Apr'24. The index stood in the expansionary zone for the 4th consecutive month in a row, and was supported by solid activity in US, China, and UK. Contraction in Eurozone and Japan eased. Overall, output, new orders (including export orders) improved. Both input and output prices also inched up at a faster pace. Recently IMF revised China's GDP forecast for CY24 upward (from 4.6% earlier to 5%), following signs of revival in the economy and announcement of government measures to stimulate growth. However, manufacturing and services sector are again showing signs of slowdown in May'24, thus suggesting uneven recovery.

In the US too, in Q2CY24 (till May'24) labour market is beginning to normalise, consumer spending is weakening and confidence surveys show that participants are expecting a recession in the next 12 months. As a result, probability of a rate cut by Fed in Sep'24 has increased. ECB is set cut rates this month. Timing of BoE is yet to be determined, but at least 2 rate cuts are priced in for this year. RBI, in view of solid domestic growth is expected to keep rates on hold till Oct'24. General election results indicate 3rd term for NDA government, resulting into policy continuity at the centre.

Global growth: Slowdown in global growth momentum was visible in Apr/May'24 period. In the US, labour market seems to be normalising (increase in jobless claims, decline in job openings), cracks in consumer spending are appearing and ISM manufacturing PMI is showing contraction in activity. In China, after reporting robust growth in Apr'24, larger manufacturing firms are again noting some distress (official PMI). Retail sales and property sector growth continues to remain lethargic. Impact of stimuli measures announced by the government to revive growth will have to be seen in the coming months. In Eurozone, manufacturing activity continues to contract, but the pace has slowed, hinting at some stabilization. Market survey results show growing optimism that conditions will improve as ECB begins to lower rates.

Global Central Banks: In May'24, US Fed, ECB, and BoE, kept their respective rates on hold. Fed officials have reiterated on multiple occasions that bringing inflation down to targeted range remains a key priority. Further, weakness in labour market is also being closely tracked. As a result, atleast one rate cut is now expected by Fed in Sep'24. In case of BoE, markets are pricing in a rate cut in Aug'24 as inflation is inching closer to 2% mark. ECB is expected to be the 1st major central bank to cut rates in Jun'24 meeting. In contrast, BoJ is expected to hike rates in Jul'24, as inflation is appearing to re-accelerate.



HOLD

TP: Rs 1,780 | ▼ 1%

HAVELLS INDIA

Consumer Durables

05 June 2024

Annual report analysis: Product innovation driving growth

- **Healthy FY24 performance; EBITDA margin expansion of 40bps YoY; Lloyd turns profitable in Q4**
- **Rural market expansion and in-house manufacturing remain strategic focus areas**
- **Maintain HOLD on increased in valuations; TP of Rs 1,780 valued at 53x FY26E P/E**

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Healthy performance amid lacklustre demand: Throughout FY24, HAVL exhibited healthy overall performance with revenue at Rs 186bn (+9.9% YoY). Infrastructure-led segments, buoyed by government's consistent emphasis on infrastructure development, experienced strong growth trajectories. Conversely, B2C segments encountered challenges in a subdued consumer demand landscape.

Expanding access into rural market: With the aim of enhancing product accessibility, the company expanded into emerging channels such as modern format retail, e-commerce, and quick commerce. Additionally, through the Rural Vistaar programme, HAVL made efforts to establish a retail presence in towns with populations of less than 10,000, resulting in the addition of over 250 UTSAV stores this year alone, bringing the total to over 600.

Manufacturing focus: Manufacturing is a key strength for HAVL and its gross block expanded at 15% CAGR over the past 10 years. This growth continued post the acquisition of Lloyd as the company commissioned a new plant at Sri City, taking its total air conditioner capacity to 1mn units per year. Capex for FY24 was ~Rs 7bn.

Higher R&D investment: The company incurred R&D spend of Rs 2.06bn in FY24, rising at 18% CAGR over FY19-FY24. It has nearly tripled spends from Rs 790mn in FY19 to keep pace with the changing consumer environment.

Expansive distribution reach: HAVL's vast network includes around ~0.3mn retailers and electricians each, with 18,000 dealers and 8,718 active vendors. This network boosts product availability across markets. Efforts to onboard new electricians led to a significant monthly increase of 5% in enrolments.

Maintain HOLD: Despite acknowledging HAVL's strengths such as its strong brand, extensive distribution network, and growth potential, we remain cautious as its valuations are high. As a result, we maintain HOLD. Our TP for HAVL remains Rs 1,780, with a target multiple of 53x FY26E P/E.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	HAVL IN/Rs 1,793
Market cap	US\$ 13.7bn
Free float	41%
3M ADV	US\$ 26.4mn
52wk high/low	Rs 1,985/Rs 1,233
Promoter/FPI/DII	60%/23%/10%

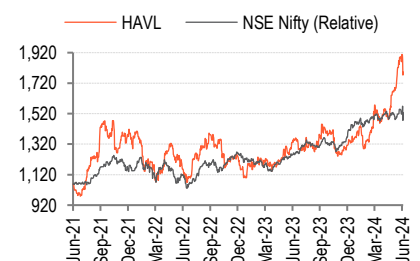
Source: NSE | Price as of 5 Jun 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	185,900	211,581	240,871
EBITDA (Rs mn)	18,426	23,647	28,854
Adj. net profit (Rs mn)	12,708	17,217	21,093
Adj. EPS (Rs)	20.3	27.5	33.7
Consensus EPS (Rs)	20.3	27.3	33.2
Adj. ROAE (%)	18.1	21.4	22.4
Adj. P/E (x)	88.4	65.2	53.2
EV/EBITDA (x)	61.0	47.5	38.9
Adj. EPS growth (%)	18.6	35.5	22.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



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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

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