

HOLD
 TP: Rs 1,900 | ▲ 2%

HAVELLS INDIA

| Consumer Durables

| 18 July 2024

Capacity expansion fuels growth

- Robust 20% topline growth with a 160bps EBITDA margin expansion in Q1, despite ongoing raw material price volatility
- Strong performance across segments fuelled by severe summer; Lloyd maintains positive EBIT
- We maintain FY25E EPS but raise FY26E by 2.3%, and value HAVL at 53x FY26E P/E. Raise TP with rollover to Rs 1,900 (vs Rs 1,780); HOLD

Arshia Khosla

research@bobcaps.in

Strong quarterly growth: HAVL delivered a robust performance this quarter, achieving a topline of Rs 58bn, reflecting 20% YoY growth. The EBITDA margin expanded to 9.9% for Q1 – a 160bps improvement YoY. This impressive growth was driven by strong demand for summer products, while industrial and infrastructure sectors significantly boosted B2B revenues.

Strong growth across segments driven by heat and seasonal demand: HAVL reported strong growth across all its segments, with both ECD and Lloyd thriving due to the intense heat wave sweeping the country. ECD saw a 20% YoY increase, while Lloyd surged by 33% YoY, maintaining positive EBIT for the second consecutive quarter. The lighting segment demonstrated robust volume growth, although price deflation tempered some of these gains. Overall, the switchgear segment grew by 7%, with domestic switchgear achieving 12% YoY growth. However, some export orders have been postponed to the next quarter.

FY25 kicks off with strong summer demand and new facility boost: FY25 has kicked off with strong momentum, driven by robust demand for its summer products. Management expects early signs of recovery in the real estate sector to enhance HAVL's earnings. It expects the new wires and cables facility to boost the company's revenues further.

Strong balance sheet: HAVL holds a strong balance sheet with a strong cash balance of Rs 36bn, and working capital cycle of 27 days. HAVL has guided for a capex of Rs 8bn for FY25 and it will be about Rs 8bn-11bn for a couple of years.

Valuation outlook: HAVL remains a leading industry player, with visible profitability in Lloyd and an uptick in consumer demand due to the severe summer across regions. Based on the Q1 performance, we maintain our FY25 EPS estimate and increase our FY26 estimate by 2.3%. We value the stock at a 53x FY26E P/E, consistent with its three-year average, resulting in a revised TP of Rs 1,900 (from Rs 1,780), incorporating FY26E and FY27E earnings. Despite HAVL's strong fundamentals, we maintain a HOLD rating as there is limited upside.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	HAVL IN/Rs 1,863
Market cap	US\$ 14.2bn
Free float	41%
3M ADV	US\$ 32.7mn
52wk high/low	Rs 1,985/Rs 1,233
Promoter/FPI/DII	60%/23%/10%

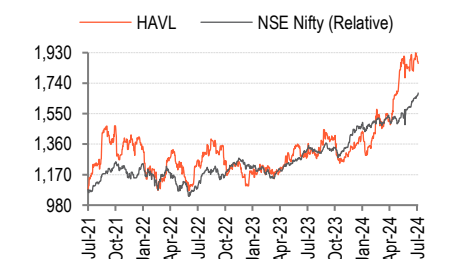
Source: NSE | Price as of 18 Jul 2024

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)	91.8	67.8	54.1
EV/EBITDA (x)	63.3	49.3	39.1
Adj. EPS growth (%)	18.6	35.5	25.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

Particulars (Rs mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Revenue	58,062	48,338	20.1	54,420	6.7
EBITDA	5,722	4,020	42.4	6,346	(9.8)
EBITDA Margin (%)	9.9	8.3	160bps	11.7	(180bps)
Depreciation	920	763		934	
Interest	86	85		177	
Other Income	773	648		758	
PBT	5,490	3,821	43.7	5,993	(8.4)
Tax	1,415	950		1,526	
Adjusted PAT	4,075	2,871	42.0	4,467	(8.8)
Exceptional item					
Reported PAT	4,075	2,871	42.0	4,467	(8.8)
Adj. PAT Margin (%)	7.0	5.9	110bps	8.2	(120bps)
EPS (Rs)	6.5	4.6	42.0	7.1	(8.8)

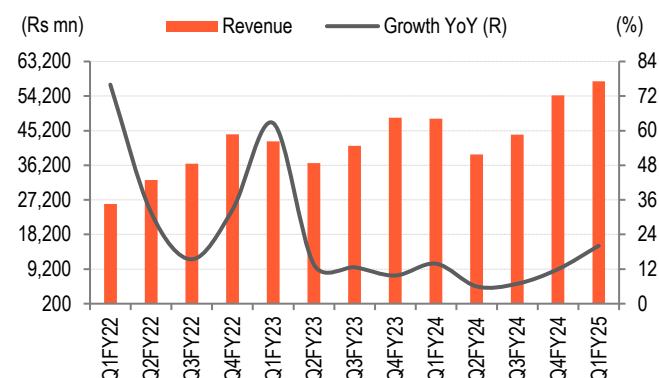
Source: Company, BOBCAPS Research

Fig 2 – Segmental performance

(Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Revenue													
ECD	5,763	7,294	8,955	8,727	8,396	7,735	9,357	7,495	8,775	7,331	9,615	9,104	10,554
Lighting	2,144	3,591	4,129	4,052	3,737	4,018	4,232	4,160	3,710	3,999	4,335	4,353	3,876
Switch Gears	3,773	4,482	4,960	4,745	5,169	4,879	5,143	6,010	5,409	5,336	5,206	6,513	5,768
Cables & Wires	8,072	11,440	12,058	14,881	11,929	13,594	14,121	15,682	14,852	14,702	15,727	17,896	15,212
Llyod Consumer	4,975	3,463	4,698	9,596	10,938	4,198	6,103	12,710	13,109	4,974	6,561	13,459	19,287
EBIT													
ECD	676	1,257	1,128	1,515	1,100	900	1,228	962	957	848	1,073	1,025	1,147
EBIT margin (%)	11.7	17.2	12.6	17.4	13.1	11.6	13.1	12.8	10.9	11.6	11.2	11.3	10.9
Lighting	331	784	874	633	614	576	536	755	532	570	614	785	630
EBIT margin (%)	15.5	21.8	21.2	15.6	16.4	14.3	12.7	18.1	14.3	14.3	14.2	18.0	16.2
Switch gear	1,031	1,218	1,448	1,239	1,354	1,220	1,271	1,721	1,499	1,409	1,256	1,836	1,422
EBIT margin (%)	27.3	27.2	29.2	26.1	26.2	25.0	24.7	28.6	27.7	26.4	24.1	28.2	24.6
Cables & wires	1,262	1,153	1,256	1,734	875	859	1,628	1,885	1,691	1,707	1,633	2,154	1,711
EBIT margin (%)	15.6	10.1	10.4	11.7	7.3	6.3	11.5	12.0	11.4	11.6	10.4	12.0	11.2
Lloyd consumer	97	(188)	(429)	(215)	(563)	(840)	(600)	(229)	(616)	(745)	(646)	360	636
EBIT margin (%)	2.0	(5.4)	(9.1)	(2.2)	(5.1)	(20.0)	(9.8)	(1.8)	(4.7)	(15.0)	(9.8)	2.7	3.3

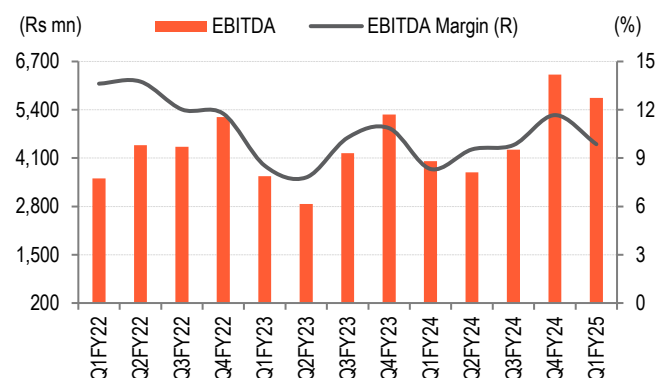
Source: Company, BOBCAPS Research

Fig 3 – Revenue trend



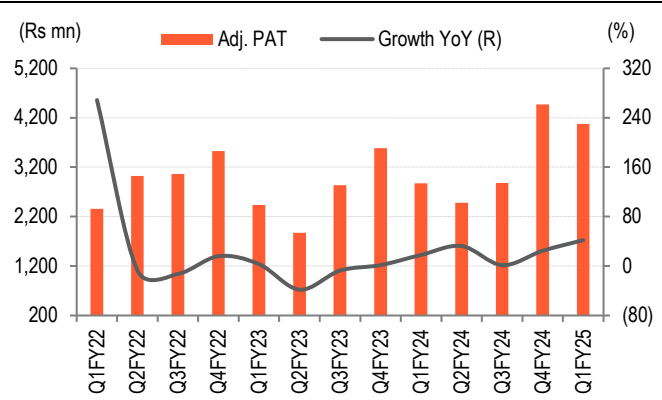
Source: Company, BOBCAPS Research

Fig 4 – EBITDA trend



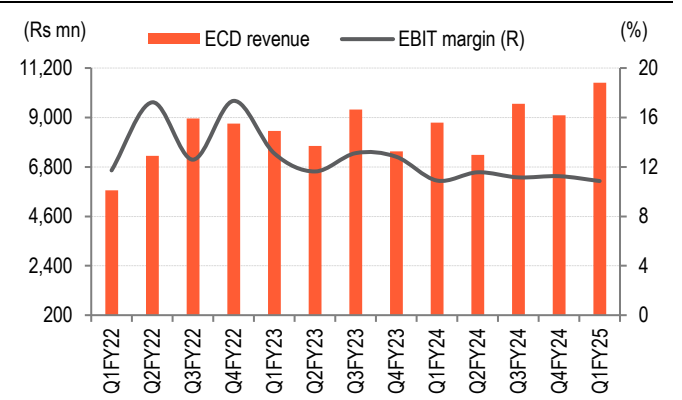
Source: Company, BOBCAPS Research

Fig 5 – Profit trend



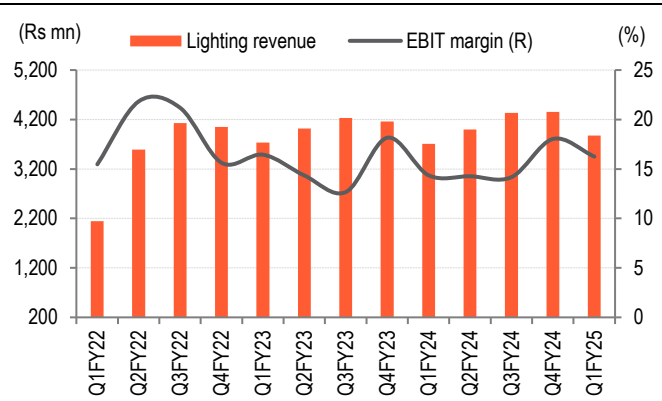
Source: Company, BOBCAPS Research

Fig 6 – ECD business growth



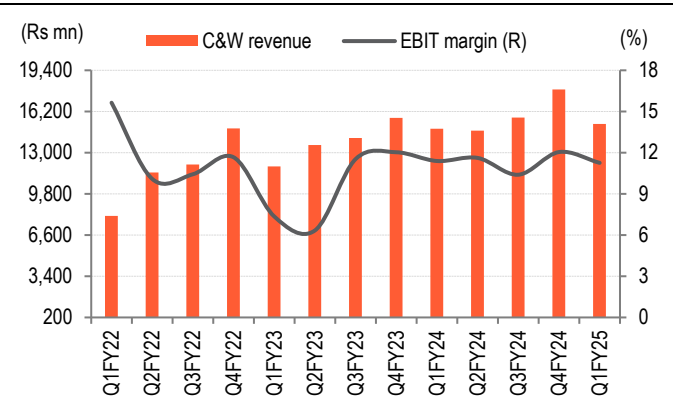
Source: Company, BOBCAPS Research

Fig 7 – Lighting’s business growth



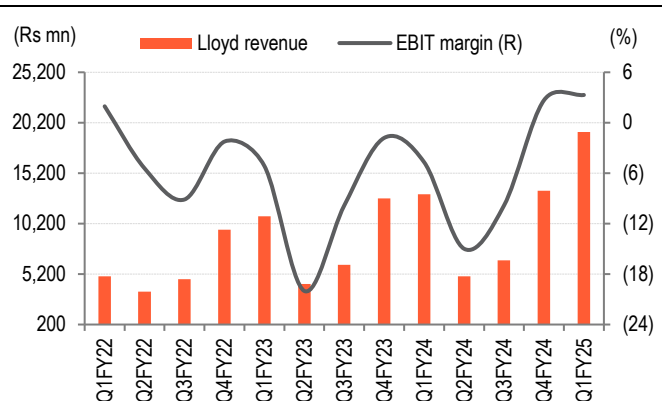
Source: Company, BOBCAPS Research

Fig 8 – Cables & Wires business growth



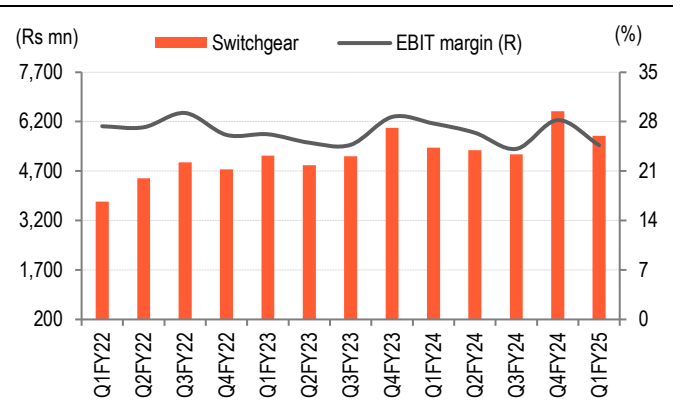
Source: Company, BOBCAPS Research

Fig 9 – Lloyd’s business growth



Source: Company, BOBCAPS Research

Fig 10 – Switchgear’s business growth



Source: Company, BOBCAPS Research

Earnings call highlights

- **Quarter gone by:** Growth in cooling products was driven by a favourable summer, with categories such as air conditioners, fans, and air coolers performing strongly. HAVL capitalised on this opportunity by leveraging its manufacturing capacity, brand strength, and omnichannel presence. The influx of first-time air conditioner buyers indicates that this trend could represent a significant turning point for the underpenetrated AC industry. The industrial and infrastructure sectors continue to perform strongly, despite some impact from elections. Cables experienced double-digit growth, although biased revenue was affected by channel destocking and a sharp decline in commodity prices in Jun'24. Cost efficiency initiatives led to improved profitability.
- **International markets:** HAVL aspires to achieve 10% of its sales from international markets. The company's primary focus is to expand into key territories, including the USA, South Asian Association for Regional Cooperation (SAARC) countries, the Middle East, Australia, Europe and other developed regions. This strategic push into diverse and economically-advanced markets is designed to drive growth and establish a stronger global presence.
- **Working capital:** HAVL's working capital cycle improved to 27 days in Q1FY25, from 37 in Q1FY24.
- **Capex guidance:** Management has guided for a capex of Rs 8bn for FY25 and it will be in the same range of Rs 8bn-11bn for a couple of years. Specifically, 35-40% of the total capex budget will be allocated to the expansion of the company's cable segment.

Electrical Consumer Durables

- **Segment performance:** The segment experienced a significant revenue increase of 20.3% YoY, driven by the scorching heat across the country. Despite this substantial growth, the EBIT margin remained relatively stable YoY at 10.9%.
- **Fans:** Fans outpaced the growth of other electrical consumer durables (ECD) products for HAVL, primarily due to the intense summer heat experienced across the country. This accelerated growth, which, while significant, occurred from a smaller base compared to previous year
- **Price hikes:** In Q1FY25, price increases were implemented across most product categories. These adjustments had a partial impact on Q1 results, with the remainder expected to be fully realised in Q2.

Wires and Cables

- **Segment performance:** In Q1, the Wires and Cables segment reported flat topline growth and a 20bps contraction in EBIT margin compared to the previous year. The growth in cables was primarily driven by strong demand from the infrastructure and real estate sectors, while the increase in wires was supported by a pickup in both residential and commercial markets. Despite the overall stable revenue performance, the slight decline in EBIT margin reflects challenges in maintaining profitability amid evolving market conditions post elections and input cost pressures.

Lloyd

- **Segment performance:** Revenue increased by 47%, largely driven by the extreme summer in the country. This marks the second consecutive quarter in which Lloyd reported positive EBIT margins. Management is confident of maintaining these positive margins through the rest of the year
- **Margin:** In the previous quarter, Lloyd returned to profitability after ten quarters of losses, and has maintained this positive EBIT performance into Q1FY25. This continued success is attributed to management's cost-savings initiatives, premiumisation efforts, and an improved channel mix
- **Channel inventory:** According to management, there is a low level of channel inventory for air conditioners.

Lighting

- **Segment performance:** The lighting segment experienced 4.4% YoY revenue growth, driven by robust volume increases. However, price deflation offset some of these volume gains. Despite this, the EBIT margin remained relatively stable at 16.2%. The segment's performance reflects strong underlying demand, though pricing pressures have impacted overall revenue growth

Switches and Switchgears

- **Switchgears:** Domestic switchgear growth was 12% YoY, but some export orders have been deferred to the next quarter. Despite intense competition, the contribution margin for switchgears remains steady, ranging between 38% and 41%.
- **Switches Solutions:** Previously, HAVL marketed switches under two separate brands: Crabtree and Havells, in addition to Rio and Standard. The company identified an overlap in customer segments between Havells and Crabtree. Consequently, HAVL decided to merge the two brands. As a result, all switching solutions are now branded under Havells, while preserving the legacy of Crabtree switches.

Valuation methodology

HAVL remains a leading industry player, with visible profitability in Lloyd and an uptick in consumer demand due to the severe summer across India. Based on the Q1 performance, we maintain our FY25 EPS estimate and slightly increase our FY26 EPS estimate by 2.3%. We value the stock at 53x FY26E P/E, consistent with its three-year average, resulting in a revised TP of Rs 1,900 (from Rs 1,780), incorporating FY26E and FY27E earnings. Despite HAVL's strong fundamentals, we maintain a HOLD rating as there is limited upside.

Fig 11 – Revised estimates

Particulars (Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	211,581	245,916	285,928	211,581	240,871	NA	0.0	2.1	NA
EBITDA	23,647	29,858	35,722	23,647	28,854	NA	0.0	3.5	NA
PAT	17,217	21,580	25,644	17,217	21,093	NA	0.0	2.3	NA
EPS (Rs)	27.5	34.4	40.9	27.5	33.7	NA	0.0	2.3	NA
EBITDA Margin (%)	11.2	12.1	12.5	11.2	12.0	NA	0bps	20bps	NA

Source: Company, BOBCAPS Research

Key risks

Key upside and downside risks to our estimates are:

- better-than-anticipated growth in Lloyd,
- steep rise in raw material prices.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	169,107	185,900	211,581	245,916	285,928
EBITDA	15,991	18,426	23,647	29,858	35,722
Depreciation	2,962	3,385	3,128	3,712	4,347
EBIT	13,030	15,041	20,519	26,146	31,375
Net interest inc./(exp.)	(336)	(457)	(479)	(495)	(515)
Other inc./(exp.)	1,777	2,490	2,614	2,745	2,882
Exceptional items	0	0	0	0	0
EBT	14,471	17,074	22,655	28,395	33,742
Income taxes	3,753	4,366	5,437	6,815	8,098
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	10,717	12,708	17,217	21,580	25,644
Adjustments	0	0	0	0	0
Adjusted net profit	10,717	12,708	17,217	21,580	25,644

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	26,432	26,919	34,780	40,425	47,002
Other current liabilities	11,562	15,305	14,465	16,813	19,548
Provisions	0	0	0	0	0
Debt funds	2,231	3,032	3,191	3,303	3,434
Other liabilities	5,095	4,604	5,240	6,090	7,081
Equity capital	627	627	627	627	627
Reserves & surplus	65,628	73,841	85,733	101,988	122,307
Shareholders' fund	66,255	74,468	86,360	102,615	122,934
Total liab. and equities	111,574	124,327	144,037	169,246	199,999
Cash and cash eq.	18,702	30,382	34,433	43,487	53,915
Accounts receivables	9,739	11,650	12,722	15,099	17,374
Inventories	37,086	34,086	42,598	47,301	56,281
Other current assets	5,135	2,879	1,419	1,649	1,917
Investments	0	0	0	0	0
Net fixed assets	36,236	26,063	30,935	36,223	40,876
CWIP	1,634	2,969	3,379	3,928	4,567
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	3,042	16,299	18,551	21,561	25,069
Total assets	111,574	124,327	144,037	169,246	199,999

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	5,649	19,529	19,243	25,975	27,779
Capital expenditures	(5,855)	(7,591)	(8,000)	(9,000)	(9,000)
Change in investments	5,004	(10,371)	0	0	0
Other investing cash flows	1,201	1,823	(2,026)	(2,708)	(3,156)
Cash flow from investing	350	(16,139)	(10,026)	(11,708)	(12,156)
Equities issued/Others	267	0	0	0	0
Debt raised/repaid	(4,563)	(848)	159	112	131
Interest expenses	0	0	0	0	0
Dividends paid	(4,773)	(4,488)	(5,325)	(5,325)	(5,325)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(9,069)	(5,335)	(5,166)	(5,213)	(5,195)
Chg in cash & cash eq.	(3,070)	(1,945)	4,052	9,053	10,428
Closing cash & cash eq.	18,702	30,382	34,433	43,487	53,915

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	17.1	20.3	27.5	34.4	40.9
Adjusted EPS	17.1	20.3	27.5	34.4	40.9
Dividend per share	7.5	8.5	8.5	8.5	8.5
Book value per share	105.8	118.9	137.8	163.8	196.2

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	6.9	6.3	5.5	4.7	4.1
EV/EBITDA	73.0	63.3	49.3	39.1	32.7
Adjusted P/E	108.9	91.8	67.8	54.1	45.5
P/BV	17.6	15.7	13.5	11.4	9.5

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	74.1	74.4	76.0	76.0	76.0
Interest burden (PBT/EBIT)	111.1	113.5	110.4	108.6	107.5
EBIT margin (EBIT/Revenue)	7.7	8.1	9.7	10.6	11.0
Asset turnover (Rev./Avg TA)	4.7	7.1	6.8	6.8	7.0
Leverage (Avg TA/Avg Equity)	0.6	0.4	0.4	0.4	0.4
Adjusted ROAE	17.0	18.1	21.4	22.8	22.7

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	21.3	9.9	13.8	16.2	16.3
EBITDA	(9.2)	15.2	28.3	26.3	19.6
Adjusted EPS	(10.4)	18.6	35.5	25.3	18.8
Profitability & Return ratios (%)					
EBITDA margin	9.5	9.9	11.2	12.1	12.5
EBIT margin	7.7	8.1	9.7	10.6	11.0
Adjusted profit margin	6.3	6.8	8.1	8.8	9.0
Adjusted ROAE	17.0	18.1	21.4	22.8	22.7
ROCE	17.0	20.5	21.0	22.5	22.4
Working capital days (days)					
Receivables	21	23	22	22	22
Inventory	80	67	73	70	72
Payables	57	53	60	60	60
Ratios (x)					
Gross asset turnover	3.5	3.9	4.4	4.4	4.4
Current ratio	1.8	1.8	1.8	1.9	1.9
Net interest coverage ratio	38.8	32.9	42.9	52.8	60.9
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

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

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 Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**
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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

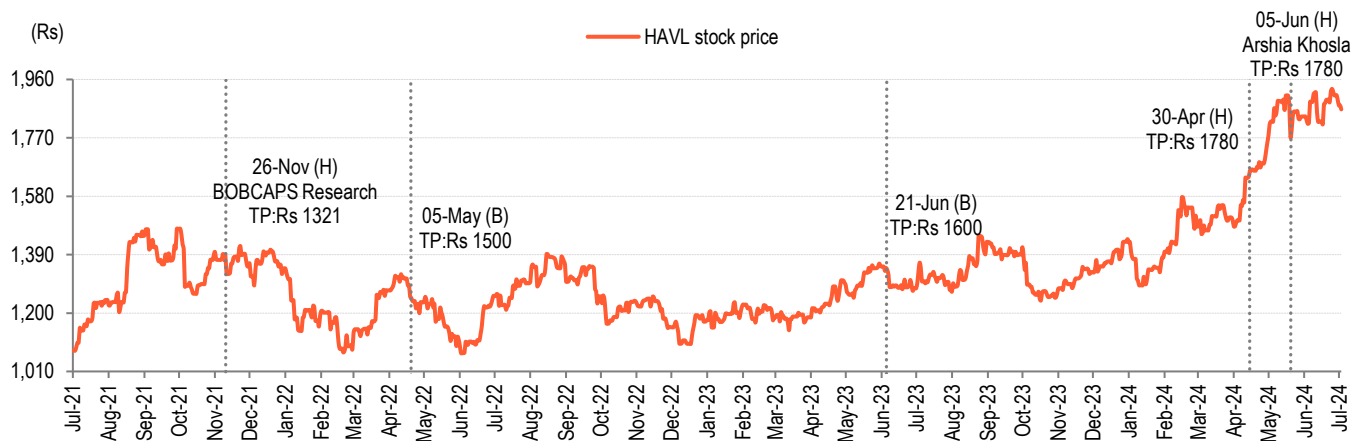
HOLD – Expected return from -6% to +15%

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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