RESULT REVIEW

HOLD

TP: Rs 1,900 | ⮝ 5%

HAVELLS INDIA | Consumer Durables | 18 October 2024

Q2 margins miss; growth on the way

- **Q2 grew ~17% on improvement in consumer demand trends. High A&P spends and high staff cost hurt margins**
- **Lloyd shines with 19% YoY growth in a non-seasonal quarter, but cash burns casts a shadow**
- **We cut our FY25E-FY27E EPS by 5-7% post Q2 results. We roll forward our valuations to Sep'26 but maintain TP at Rs 1,900 and HOLD rating**

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Decent quarter: HAVL achieved commendable topline growth of 17% YoY, reaching Rs 45bn, which is broadly in line with our estimate of Rs 44.6bn. This growth was primarily driven by an improvement in consumer demand trends. Gross margin increased by 40bps YoY to 33.7%. However, rising promotional expenditures during the festive season led to a contraction in EBITDA margin, which decreased by 120bps to 8.3%. Advertising expenses surged by 54% YoY to Rs 1.3bn, accounting for 2.9% of sales – an increase of 70bps compared to the previous year. The shift of the festive season to Q2FY25 contributed to higher advertising spends across all segments. APAT stood at Rs 2.7bn.

Cables and wires lead growth: The cables and wires business experienced robust growth of 23%, driven primarily by strong volume increases in wires, bolstered by spillover effects from Q1FY25 destocking. This segment continues to be HAVL's best-performing division. However, the company trails peers like POLYCAB, which reported topline growth of 30%. In the Electrical Consumer Durables category, revenue grew by 17% YoY to Rs 8.6bn, led by broad-based growth in fans, SDA, and water heaters during the festive season. However, EBIT margin declined by 390bps YoY to 7.5%, primarily due to increased investments in alternative and emerging channels.

Losses at Llyod continue: Lloyd recorded an EBIT loss of Rs 243mn in Q2, despite achieving healthy topline growth of 19% during a non-seasonal quarter. HAVL anticipates that the upcoming quarters will show improved performance with the arrival of the festive season, which it expects to drive sales.

Maintain HOLD: We remain optimistic about HAVL's medium-term performance, given its strong presence in the consumer durables space, the establishment of new manufacturing units, and improving industry dynamics. Incorporating weaker-than-expected margins, we have lowered our EPS estimates by 7% for FY25, by 7% for FY26 and by 5% for FY27. After rolling forward our valuations to Sep'26, our TP remains at Rs 1,900, based on an unchanged P/E ratio of 53x, in line with its five-year average. Maintain HOLD.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	HAVL IN/Rs 1,806
Market cap	US$ 13.5bn
Free float	41%
3M ADV	US$ 22.0mn
52wk high/low	Rs 2,106/Rs 1,233
Promoter/FPI/DII	60%/23%/10%

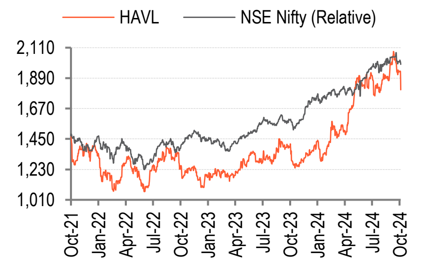
Source: NSE | Price as of 17 Oct 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	185,900	211,581	245,916
EBITDA (Rs mn)	18,426	22,124	28,006
Adj. net profit (Rs mn)	12,708	16,060	20,173
Adj. EPS (Rs)	20.3	25.6	32.2
Consensus EPS (Rs)	20.3	26.0	33.0
Adj. ROAE (%)	18.1	20.1	21.8
Adj. P/E (x)	89.0	70.4	56.1
EV/EBITDA (x)	61.4	51.1	40.4
Adj. EPS growth (%)	18.6	26.4	25.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BOBCAPS
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Fig 1 – Quarterly performance

(Rs mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY (%)	BOBCAPS Est. Q2FY25	Variance (%)
Revenue	45,393	39,003	16.4	58,062	(21.8)	103,455	87,341	18.4	44,581	1.8
EBITDA	3,751	3,718	0.9	5,722	(34.5)	9,473	7,738	22.4	4,439	(15.5)
EBITDA Margin (%)	8.3	9.5	(130bps)	9.9	(160bps)	9.2	8.9	30bps	10.0	(170bps)
Depreciation	946	812		920		1,866	1,575			
Interest	101	93		86		186	178			
Other Income	929	525		773		1,702	1,173			
PBT	3,633	3,338	8.8	5,490	(33.8)	9,123	7,159	27.4		
Tax	955	862		1,415		2,370	1,812			
Adjusted PAT	2,678	2,476	8.2	4,075	(34.3)	6,753	5,346	26.3	3,299	(18.8)
Exceptional item										
Reported PAT	2,678	2,476	8.2	4,075	(34.3)	6,753	5,346	26.3		
Adj. PAT Margin (%)	5.9	6.3	(40bps)	7.0	(110bps)	6.5	6.1	40bps		
EPS (Rs)	4.3	4.0	8.2	6.5	(34.3)	20.3	17.1	18.6		

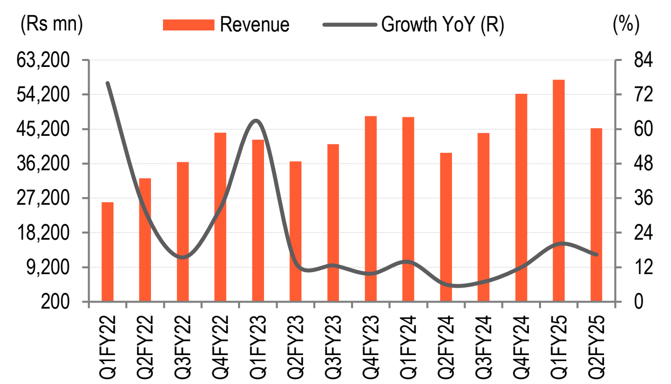
Source: Company, BOBCAPS Research

Fig 2 – Segmental performance

(Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
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	8,564
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	3,951
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	5,513
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	18,052
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	5,896
EBIT														
ECD	676	1,257	1,128	1,515	1,100	900	1,228	962	957	848	1,073	1,025	1,147	643
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	7.5
Lighting	331	784	874	633	614	576	536	755	532	570	614	785	630	501
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	12.7
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	1,150
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	20.9
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	1,548
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	8.6
Lloyd Consumer	97	(188)	(429)	(215)	(563)	(840)	(600)	(229)	(616)	(745)	(646)	360	636	(243)
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	(4.1)

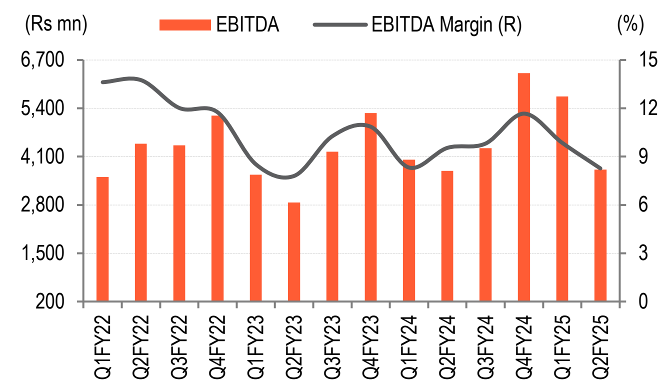
Source: Company, BOBCAPS Research

Fig 3 – Revenue trend



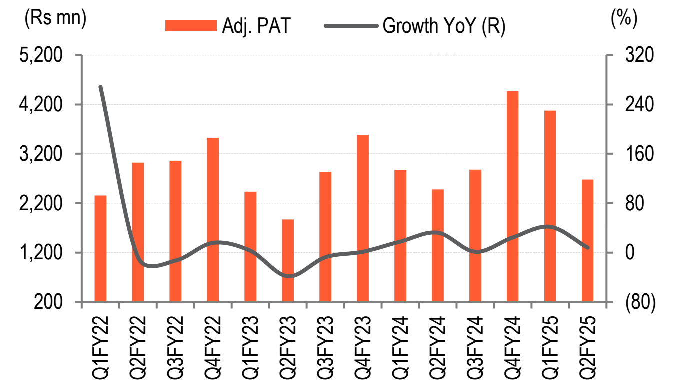
Source: Company, BOBCAPS Research

Fig 4 – EBITDA trend



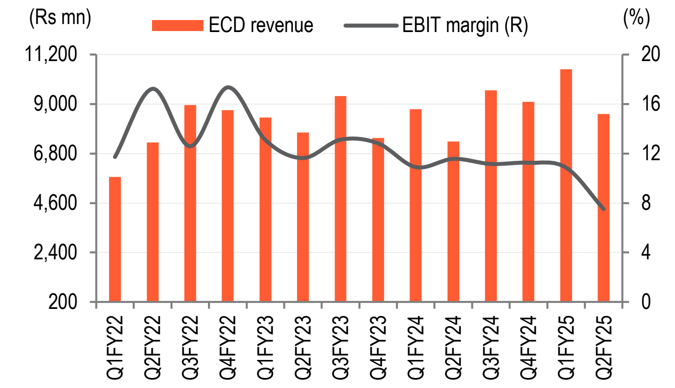
Source: Company, BOBCAPS Research

Fig 5 – Profit trend



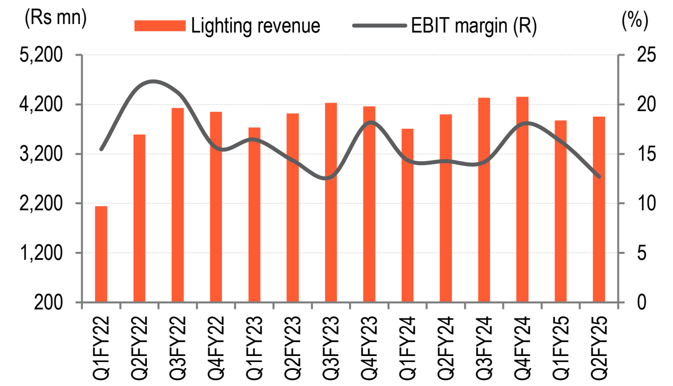
Source: Company, BOBCAPS Research

Fig 6 – ECD business growth



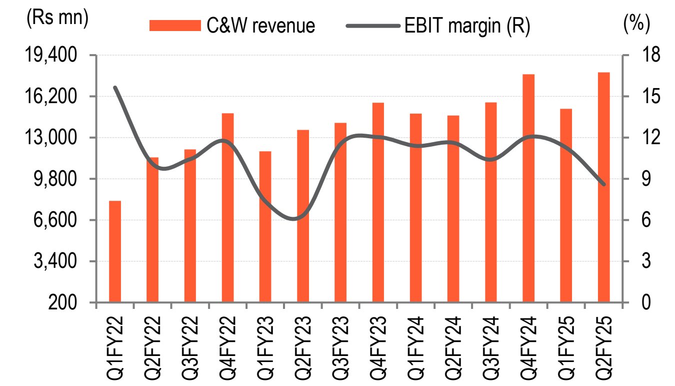
Source: Company, BOBCAPS Research

Fig 7 – Lighting's business growth



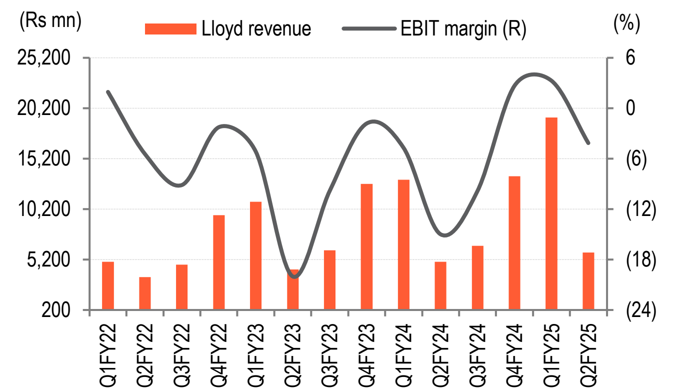
Source: Company, BOBCAPS Research

Fig 8 – Cables & Wires business growth



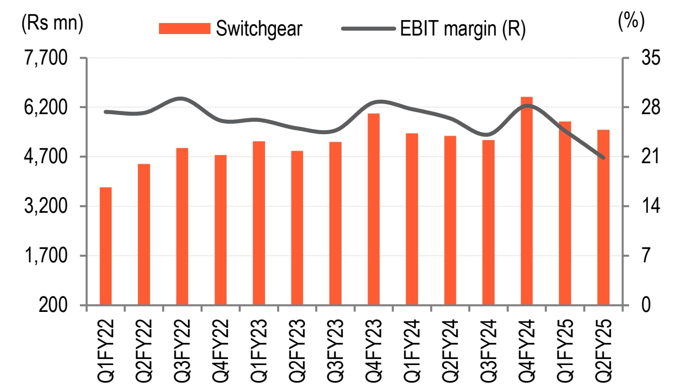
Source: Company, BOBCAPS Research

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:** HAVL posted healthy performances across categories, fueled by strong consumer demand and the festive season boost. Lloyd recorded solid growth, aided by cost-efficiency efforts. However, steep commodity price volatility impacted cable margins as high-cost inventory was absorbed against falling raw material and sales prices from May to Aug'24. Early festive season advertising also moderated margins, though normalisation is expected in the coming quarters. HAVL commissioned a new cables plant in Tumkur, which will ramp up production over the next few months. To meet long-term demand for larger cables, the company has committed an additional Rs 4.5bn for Tumkur's expansion.

- **Demand outlook:** Consumer demand is showing encouraging signs of improvement this festive season, particularly in urban areas, where spending has been robust. Additionally, the rural market, traditionally slower, is beginning to gain traction as consumer sentiment improves. This dual growth in both urban and rural sectors indicates a broad-based recovery in demand.

- **Margins:** Operating margins were significantly impacted by increased expenditures in advertising and manpower investments. However, management anticipates that margins will normalise in the upcoming quarters as these expenses stabilise and operational efficiencies are achieved.

- **Advertising expenditure:** Advertising spend is projected to account for 2.5% to 3% of sales in FY25.

- **Price hikes:** With the exception of cables and wires, most price increases across other product categories have already been implemented.

- **Working capital:** HAVL's working capital cycle improved to 31 days in Q2FY25, from 39 in Q2FY24.

- **Capex guidance:** Management has committed about Rs 19bn in capital expenditure over the next two years. Of this, around Rs 10bn is expected to be invested within the current fiscal year, with Rs 3.5bn already spent to date.

ECD

- **Segment performance:** The Electrical Consumer Durables (ECD) segment posted a robust 17% YoY revenue increase, driven by broad-based performance across key product categories. The surge in demand was fueled by the festive season, with fans, small domestic appliances (SDA), and water heaters showing particularly strong growth. However, despite this significant topline expansion, the EBIT margin remained relatively modest at 7.5%, as increased investments in emerging sales channels tempered profitability. While growth momentum remains strong, these strategic investments have softened margins in the short term.

- **Positive outlook for Electrical Consumer Durables:** The company is seeing encouraging growth across several categories within the Electrical Consumer Durables (ECD) segment, particularly in fans, where market acceptance is improving in key regions. Similarly, strong growth is being observed in appliances, including water heaters and coolers, further strengthening the segment's performance. Management remains optimistic about the ECD segment's future growth and feels confident that existing product categories, especially appliances, will continue to drive solid growth. As a result, there is no immediate need to expand into additional product categories

Cables and Wires

- **Segment performance:** In Q1, the Wires and Cables segment delivered robust 23% YoY topline growth, showcasing strong demand across the category. However, the segment's EBIT margin contracted by 300bps compared to the previous year. Growth was largely driven by strong volume expansion in the cables segment, with wires playing a key role, supported by a spillover effect from Q1 destocking. Despite the impressive revenue performance, margins were compressed due to the absorption of high-cost inventory purchased earlier in the year, against the backdrop of declining raw material prices between May and August 2024. This inventory-related impact put pressure on profitability despite the volume uptick.
- **C&W split:** The split between cables and wires stands at 35% to 40% for cables, with the remainder representing wires.
- In the next two to three years, medium voltage cables are expected to experience a 50-60% capacity expansion. According to management, demand for these cables remains robust.

Lloyd

- **Segment performance:** Revenue increased by 19%, reflecting a healthy performance despite being a non-seasonal quarter. Consumer demand in the second quarter was relatively subdued, particularly in the air conditioner (AC) segment, but the non-AC segment for Lloyd outperformed, with stronger growth in categories like washing machines. This shift towards expanding product categories is yielding positive results, contributing to a more balanced portfolio.
- **Channel inventory:** As per management, channel inventory remained low at the end of the first quarter and continues to be at modest levels. There has been no significant buildup, ensuring inventory levels remain well managed and not elevated.
- **Outlook:** Lloyd is anticipated to experience improved margins over the next one to two years, driven by structural enhancements in cost efficiencies and increasing brand acceptance. The placement of non-AC products with major retailers has also seen significant improvement, which positions these products for better growth moving forward.
- **Margins:** In Lloyd's product lineup, contribution margins for air conditioning (AC) products are higher than for non-AC products. The non-AC segment still relies on many outsourced products, resulting in lower contribution margins. Overall, AC products continue to account for 78% of Lloyd's annual sales.

Lighting

- **Segment performance:** The lighting segment experienced a slight decline of 1.2% YoY, primarily influenced by robust volume increases. However, price deflation mitigated some of these volume gains. Despite these challenges, the EBIT margin remained relatively stable at 12.7%, reflecting effective cost management within the segment.

- **Lighting mix:** The lighting segment's sales mix consists of 60% from consumer luminaires and 40% from professional luminaires. Additionally, the segment has experienced 15% growth in volume, reflecting increased consumer demand and a favourable market environment. Furthermore, per management lighting prices appear to be nearing a bottoming-out point, suggesting that the recent downward pressure on prices may stabilise soon.

Switches and switchgears

- **Switchgears:** HAVL experienced solid growth in the switches and domestic switchgear segments, reflecting strong consumer demand and effective market strategies. However, the growth in industrial switchgear was affected by a higher comparative base from the previous year, which included significant institutional orders. Despite facing intense competition in the market, the contribution margin for switchgears has remained stable at 38%.

Valuation methodology

We remain optimistic about HAVL's medium-term performance, given its strong presence in the consumer durables space, the establishment of new manufacturing units and improving industry dynamics. Incorporating weaker-than-expected margins, we have lowered our EPS estimates by 7% for FY25, 7% for FY26 and 5% for FY27. After rolling forward our valuations to Sep'26, our TP remains at Rs 1,900, based on an unchanged P/E ratio of 53x, in line with its five-year average. Maintain HOLD.

Fig 11 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	211,581	245,916	285,928	211,581	245,916	285,928	0.0	0.0	0.0
EBITDA	22,124	28,006	34,073	23,647	29,858	35,722	(6.4)	(6.2)	(4.6)
PAT	16,060	20,173	24,390	17,217	21,580	25,644	(6.7)	(6.5)	(4.9)
EPS (Rs)	25.6	32.2	38.9	27.5	34.4	40.9	(6.7)	(6.5)	(4.9)
EBITDA Margin (%)	10.5	11.4	11.9	11.2	12.1	12.5	(70bps)	(80bps)	(60bps)

Source: Company, BOBCAPS Research

Key risks

Key upside and downside risks to our estimates are:

- better-than-anticipated growth in Lloyd, and
- steep increases 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	22,124	28,006	34,073
Depreciation	2,962	3,385	3,128	3,712	4,347
EBIT	13,030	15,041	18,997	24,294	29,726
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	21,132	26,543	32,093
Income taxes	3,753	4,366	5,072	6,370	7,702
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	**10,717**	**12,708**	**16,060**	**20,173**	**24,390**
Adjustments	0	0	0	0	0
Adjusted net profit	**10,717**	**12,708**	**16,060**	**20,173**	**24,390**

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	84,576	99,423	118,489
Shareholders' fund	66,255	74,468	85,203	100,050	119,115
Total liab. and equities	**111,574**	**124,327**	**142,880**	**166,681**	**196,181**
Cash and cash eq.	18,702	30,382	33,276	40,922	50,097
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**	**142,880**	**166,681**	**196,181**

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	**5,649**	**19,529**	**18,086**	**24,567**	**26,526**
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)**	**2,895**	**7,645**	**9,175**
Closing cash & cash eq.	**18,702**	**30,382**	**33,276**	**40,922**	**50,097**

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	17.1	20.3	25.6	32.2	38.9
Adjusted EPS	17.1	20.3	25.6	32.2	38.9
Dividend per share	7.5	8.5	8.5	8.5	8.5
Book value per share	105.8	118.9	136.0	159.7	190.1

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	6.7	6.1	5.3	4.6	4.0
EV/EBITDA	70.7	61.4	51.1	40.4	33.2
Adjusted P/E	105.5	89.0	70.4	56.1	46.4
P/BV	17.1	15.2	13.3	11.3	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	111.2	109.3	108.0
EBIT margin (EBIT/Revenue)	7.7	8.1	9.0	9.9	10.4
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	20.1	21.8	22.3

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	20.1	26.6	21.7
Adjusted EPS	(10.4)	18.6	26.4	25.6	20.9
Profitability & Return ratios (%)					
EBITDA margin	9.5	9.9	10.5	11.4	11.9
EBIT margin	7.7	8.1	9.0	9.9	10.4
Adjusted profit margin	6.3	6.8	7.6	8.2	8.5
Adjusted ROAE	17.0	18.1	20.1	21.8	22.3
ROCE	17.0	20.5	19.8	21.4	21.9
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	1.8	1.9
Net interest coverage ratio	38.8	32.9	39.7	49.0	57.7
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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SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**
Brand Name: **BOBCAPS**
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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

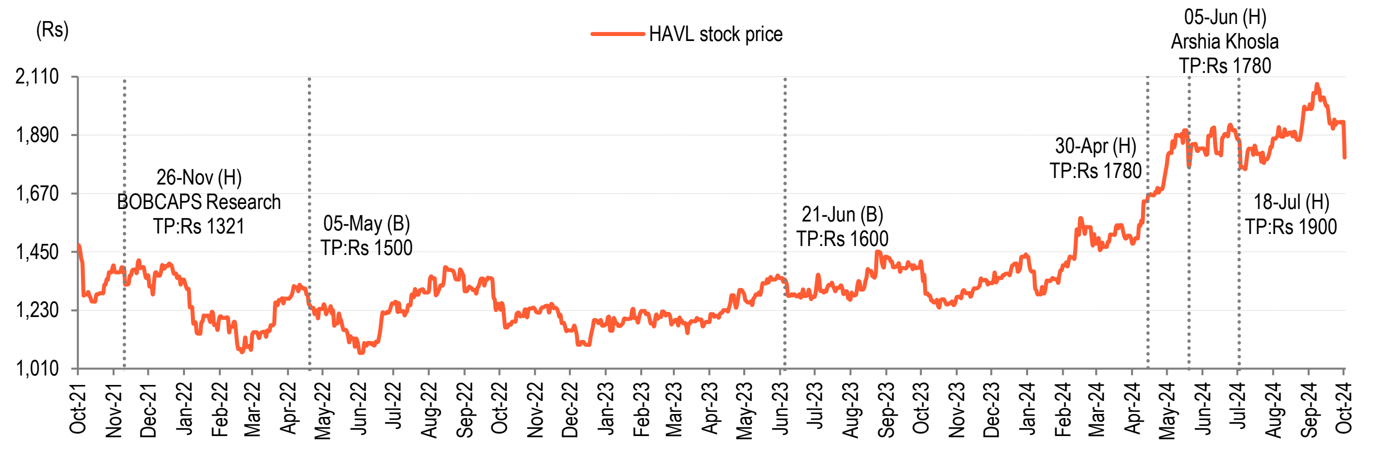
HOLD – Expected return from -6% to +15%

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)



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