

**HOLD**

TP: Rs 1,780 | ▲ 7%

**HAVELLS INDIA**

| Consumer Durables

| 30 April 2024

**Healthy quarter; high valuations – downgrade to HOLD**

- Healthy 12% topline growth with EBITDA margin expansion of 90bps in Q4; though raw material prices have started inching up
- Healthy performance across segments on the back of early summer; Lloyd turns profitable after 10 quarters
- We raise FY25E/FY26E EPS by 9%/7% on healthy profitability post Q4; TP rises to Rs 1,780 on rollover, downgrade to HOLD on high valuations

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**Strong finish to the year:** HAVL posted a healthy quarter with a topline of Rs 54.4bn, 12% growth YoY, and FY24 revenue at Rs 186bn (+9.9% YoY). EBITDA margin expanded to 11.7% for Q4 and 9.9% for FY24, 90bps and 40bps expansion respectively. Strong growth in Q4 was on the back of strong demand for summer products, with industrial and infrastructure demand contributing to B2B revenues.

**Lloyd turns profitable:** During the quarter, Lloyd grew 5.9% on topline while posting a Rs 360mn EBIT after 10 loss-making quarters. Management expects the segment to continue making profits as capacities are better utilised among other cost-saving initiatives. ECD and Wires and Cables segments performed well on topline as infrastructure-led demand saw pickup, with healthy growth in switchgears. However, Wires and Cables may face capacity constraints as is visible industry-wide. Lighting segment posted decent topline growth amid strong price erosion.

**Management optimistic on FY25:** FY25 has begun on a strong note as summer products are witnessing healthy demand. Early green shoots are visible in the real estate sector, which are expected to boost earnings for HAVL. Additionally, the wires and cables facility is expected to be commissioned in Q1, further augmenting revenues for the company.

**Balance sheet strong:** HAVL ended the year with a strong cash balance of Rs 30bn, with a working capital cycle of 37 days and healthy inventory levels geared up for the summer season. The company had a gross debt of Rs 3bn as of FY24.

**High valuations priced in; downgrade to HOLD:** HAVL continues to be a strong industry leader and profitability is now visible in Lloyd, along with pickup in consumer demand amid the early onset of summer. Baking in the Q4 print, we raise our FY25E/FY26E EPS by 8.9%/6.7%. We continue to value the stock at a 53x P/E, in line with its 3Y average, leading to a revised target price of Rs 1,780 (Rs 1,600 earlier) upon rollover. Though HAVL offers strong fundamentals, we cut our rating to HOLD from BUY as the stock has run up 30% since our last update.

**Key changes**

Target	Rating
▲	▼

Ticker/Price	HAVL IN/Rs 1,664
Market cap	US\$ 12.7bn
Free float	41%
3M ADV	US\$ 21.6mn
52wk high/low	Rs 1,688/Rs 1,212
Promoter/FPI/DII	60%/23%/10%

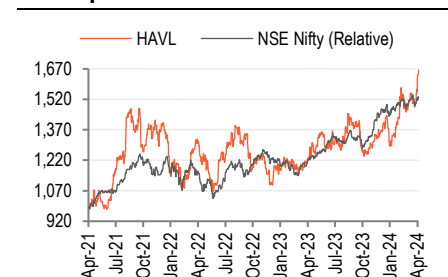
Source: NSE | Price as of 30 Apr 2024

**Key financials**

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	1,85,900	2,11,581	2,40,871
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)	82.0	60.5	49.4
EV/EBITDA (x)	56.6	44.1	36.1
Adj. EPS growth (%)	18.6	35.5	22.5

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

**Stock performance**



Source: NSE



**Fig 1 – Quarterly Performance**

Particulars (Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Revenue	54,420	48,592	12.0	44,139	23.3	1,85,900	1,69,107	9.9
EBITDA	6,346	5,271	20.4	4,327	46.7	18,426	15,991	15.2
EBITDA Margin (%)	11.7	10.8	80bps	9.8	190bps	9.9	9.5	50bps
Depreciation	934	774	-	877	-	3,385	2,962	-
Interest	177	98	-	102	-	457	336	-
Other Income	758	467	-	559	-	2,490	1,777	-
PBT	5,993	4,867	23.1	3,907	53.4	17,074	14,471	18.0
Tax	1,526	1,287	-	1,028	-	4,366	3,753	-
Adjusted PAT	4,467	3,580	24.8	2,879	55.2	12,708	10,717	18.6
Exceptional item	-	-	-	-	-	-	-	-
Reported PAT	4,467	3,580	24.8	2,879	55.2	12,708	10,717	18.6
Adj. PAT Margin (%)	8.2	7.4	80bps	6.5	170bps	6.8	6.3	50bps
EPS (Rs)	7.1	5.7	24.8	4.6	55.2	20.3	17.1	18.6

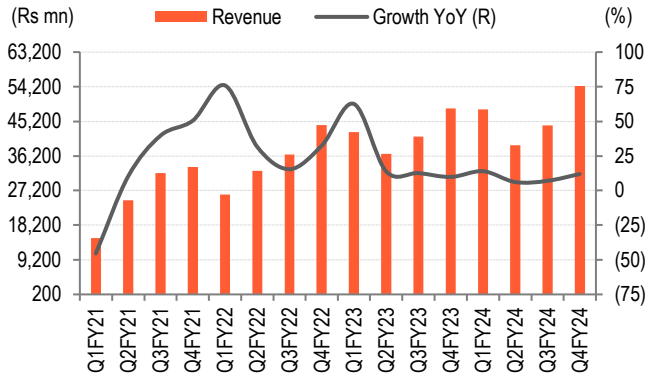
Source: Company, BOBCAPS Research

**Fig 2 – Segmental performance**

Particulars (Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
<b>Revenue</b>												
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
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
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
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
Lloyd 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
<b>EBIT</b>												
ECD	676	1,257	1,128	1,515	1,100	900	1,228	962	957	848	1,073	1,025
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
Lighting	331	784	874	633	614	576	536	755	532	570	614	785
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
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
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
Cables & wires	1,262	1,153	1,256	1,734	875	859	1,628	1,885	1,691	1,707	1,633	2,154
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
Lloyd consumer	97	(188)	(429)	(215)	(563)	(840)	(600)	(229)	(616)	(745)	(646)	360
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

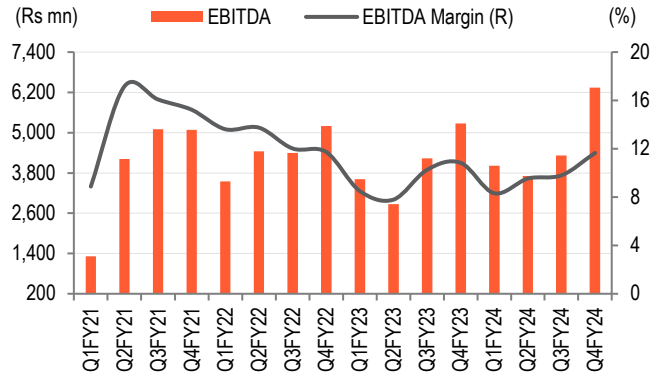
Source: Company, BOBCAPS Research

**Fig 3 – Revenue trend**



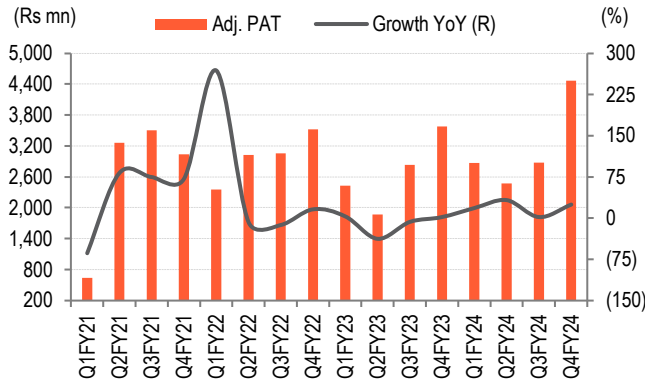
Source: Company, BOBCAPS Research

**Fig 4 – EBITDA trend**



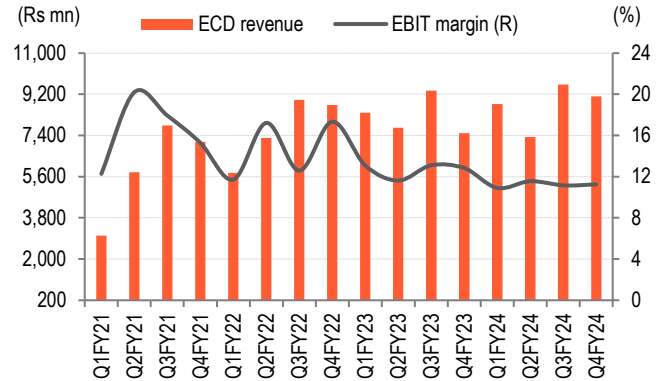
Source: Company, BOBCAPS Research

**Fig 5 – Profit trend**



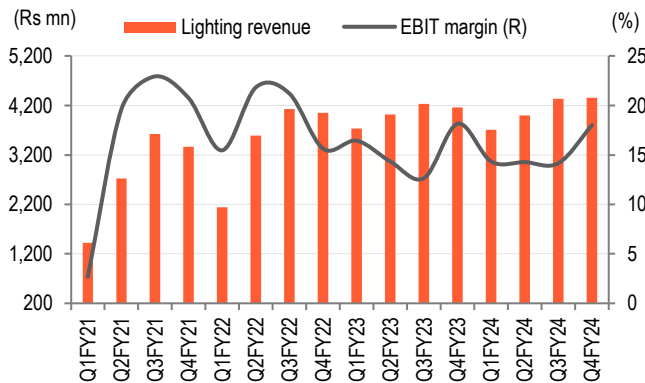
Source: Company, BOBCAPS Research

**Fig 6 – ECD business growth**



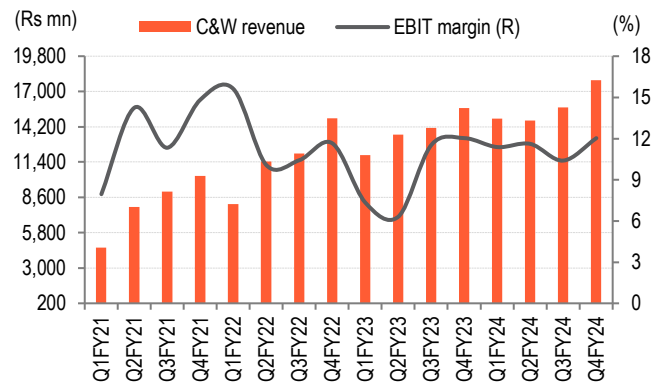
Source: Company, BOBCAPS Research

**Fig 7 – Lighting business growth**



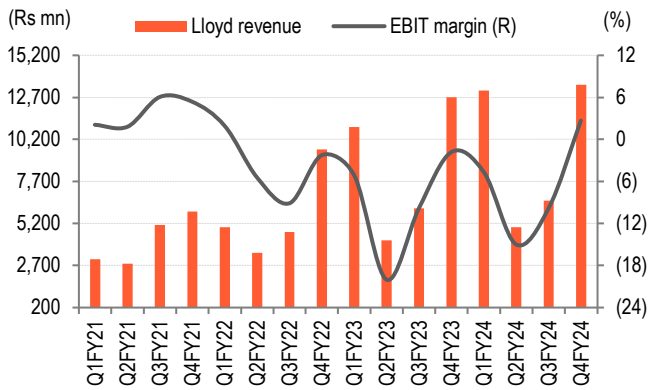
Source: Company, BOBCAPS Research

**Fig 8 – Cables & Wires business growth**



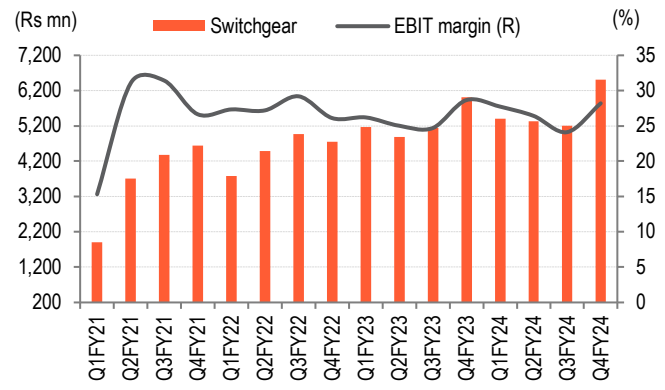
Source: Company, BOBCAPS Research | C&W: Cables & Wires

**Fig 9 – Lloyd business growth**



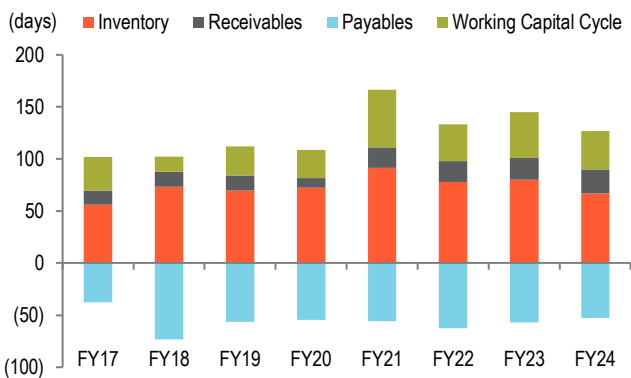
Source: Company, BOBCAPS Research

**Fig 10 – Switchgear business growth**



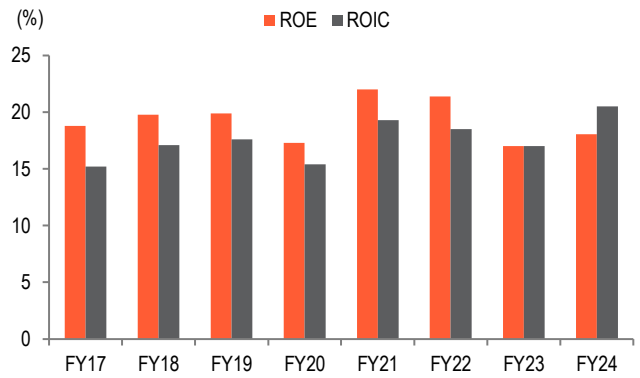
Source: Company, BOBCAPS Research

**Fig 11 – Working capital cycle**



Source: Company, BOBCAPS Research

**Fig 12 – Profit ratios: ROE and ROIC**



Source: Company, BOBCAPS Research

### Earnings call highlights

- **Working capital:** Working capital cycle improved to 37 days in FY24, compared to 44 days in FY23. Additionally, the increase in other income was largely due to a higher cash balance with the company.
- **Capex:** Capex for FY24 stood at Rs 7.9bn towards capacity expansion in cables, lighting and Lloyd segments, along with advances paid on R&D centre at Noida. Management expects to incur a capex of Rs 8bn in FY25.

### Electrical Consumer Durables

- **Segment performance:** The segment grew 21.4% YoY on revenue on the back of the early onset of summer vis-à-vis last year. EBIT margin contracted 150bps to 11.3% in Q4FY24 due to advertising and other expenses, but contribution margins remain stable and in line with internal targets.
- **Fans:** Fans grew faster than the electrical consumer durables (ECD) pack for HAVL, albeit on a lower base. Management expects fans to post strong growth as seen in demand uptick amid the summer season.

- **Price hikes:** No prices were hiked during H2FY24, and HAVL may take pricing action on the back of changes in raw material prices, which have inched up over Mar-Apr of this year.

### Wires and Cables

- **Segment performance:** Wires and Cables posted 14.1% topline growth in Q4 and constant EBIT margin on a YoY basis. Demand was led by infrastructure and real estate sector in cables and residential and commercial pick up in wires.
- **Volume growth:** Volume growth stood at 18% for Q4 and 15% for FY24 for the segment.

### Lloyd

- **Segment performance:** Revenue grew at 5.9%, largely below market growth in the RAC segment, while Lloyd turned profitable during the quarter, closing Q4 with a Rs 360mn EBIT. Management expects a strong season for Lloyd going forward and expects to maintain profitability in the segment.
- **Sales and inventory:** Lloyd has grown at a ~30% CAGR over the last two years, where the South, West and East regions of India showed strong growth. Management does not expect any significant inventory shortage in the summer season going ahead.
- **Margin:** Lloyd has turned profitable after 10 quarters on the back of cost savings initiatives by the management along with premiumisation efforts and better channel mix. HAVL has not taken any price hikes here, but may take pricing action in Q1.
- **Capacity utilisation:** Lloyd has a capacity of 2mn air conditioner units, with FY24 averaging 60-65% capacity utilisation factor (CUF). This number may go up in FY25 as the new facility continue to normalise.

### Switchgears

- **Segment performance:** The segment grew 8.4% YoY despite a high base in Q4FY23. EBIT margin contracted 40bps YoY to 28.2% in Q4FY24, though contribution margins remain stable and in line with internal targets.

### Lighting

- **Segment performance:** The segment grew 4.7% YoY on revenue on the back of healthy volume growth despite the strong price erosion in the lighting industry over the last year. EBIT margin was fairly stable at 18%.

## Valuation methodology

HAVL has a strong presence across the consumer durables sector. Additionally, a strong balance sheet allows it to nurture promising segments (such as Lloyd) through loss-making phases, which have now started showing results.

Baking in the Q4 print, we raise our FY25E/FY26E EPS by 8.9%/6.7%. We continue to value the stock at a 53x P/E, in line with its 3Y average, leading to a revised target price of Rs 1,780 (Rs 1,600 earlier) upon rollover. Though HAVL offers strong fundamentals, we cut our rating to HOLD from BUY as the stock has run up 30% since our last update.

**Fig 13 – Revised estimates**

Particulars (Rs mn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	2,11,581	2,40,871	2,09,084	2,38,089	1.2	1.2
EBITDA	23,647	28,854	22,768	28,062	3.9	2.8
PAT	17,217	21,093	15,809	19,765	8.9	6.7
EPS (Rs)	27.5	33.7	25.2	31.5	8.9	6.7
EBITDA Margin (%)	11.2	12.0	10.9	11.8	30bps	20bps

Source: Company, BOBCAPS Research

## Key risks

Key upside risks to our estimates are:

- higher-than-anticipated demand, and
- faster margin improvement in Lloyd and ECD segments.

Key downside risks to our estimates are:

- inadequate pickup in consumer demand, and
- steep rise in raw material prices.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	1.6	3,847	3,200	SELL
Havells India	HAVL IN	12.7	1,664	1,780	HOLD
Orient Electric	ORIENTEL IN	0.6	218	240	HOLD
Syrma SGS	SYRMA IN	1.0	488	550	HOLD
V-Guard Industries	VGRD IN	1.8	343	310	HOLD

Source: BOBCAPS Research, NSE | Price as of 30 Apr 2024

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
<b>Total revenue</b>	<b>1,39,385</b>	<b>1,69,107</b>	<b>1,85,900</b>	<b>2,11,581</b>	<b>2,40,871</b>
EBITDA	17,604	15,991	18,426	23,647	28,854
Depreciation	2,609	2,962	3,385	3,128	3,352
EBIT	14,995	13,030	15,041	20,519	25,502
Net interest inc./(exp.)	(534)	(336)	(457)	(479)	(493)
Other inc./(exp.)	1,604	1,777	2,490	2,614	2,745
Exceptional items	0	0	0	0	0
EBT	16,066	14,471	17,074	22,655	27,754
Income taxes	4,101	3,753	4,366	5,437	6,661
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>11,965</b>	<b>10,717</b>	<b>12,708</b>	<b>17,217</b>	<b>21,093</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>11,965</b>	<b>10,717</b>	<b>12,708</b>	<b>17,217</b>	<b>21,093</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Accounts payables	23,800	26,432	26,919	34,780	39,595
Other current liabilities	10,881	11,562	15,305	14,465	16,468
Provisions	0	0	0	0	0
Debt funds	3,955	2,231	3,032	3,191	3,287
Other liabilities	6,567	5,095	4,604	5,240	5,966
Equity capital	626	627	627	627	627
Reserves & surplus	59,403	65,628	73,841	85,733	1,01,501
Shareholders' fund	60,029	66,255	74,468	86,360	1,02,127
<b>Total liab. and equities</b>	<b>1,05,232</b>	<b>1,11,574</b>	<b>1,24,327</b>	<b>1,44,037</b>	<b>1,67,443</b>
Cash and cash eq.	27,014	18,702	30,382	37,433	50,160
Accounts receivables	7,663	9,739	11,650	12,722	14,789
Inventories	29,681	37,086	34,086	42,598	46,330
Other current assets	1,708	5,135	2,879	1,419	1,615
Investments	0	0	0	0	0
Net fixed assets	34,336	36,236	26,063	27,935	29,583
CWIP	572	1,634	2,969	3,379	3,847
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	4,258	3,042	16,299	18,551	21,119
<b>Total assets</b>	<b>1,05,232</b>	<b>1,11,574</b>	<b>1,24,327</b>	<b>1,44,037</b>	<b>1,67,443</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
<b>Cash flow from operations</b>	<b>17,278</b>	<b>5,649</b>	<b>19,529</b>	<b>19,243</b>	<b>25,267</b>
Capital expenditures	(2,528)	(5,855)	(7,591)	(5,000)	(5,000)
Change in investments	0	5,004	(10,371)	0	0
Other investing cash flows	(5,067)	1,201	1,823	(2,026)	(2,310)
<b>Cash flow from investing</b>	<b>(7,595)</b>	<b>350</b>	<b>(16,139)</b>	<b>(7,026)</b>	<b>(7,310)</b>
Equities issued/Others	312	267	0	0	0
Debt raised/repaid	0	(4,563)	(848)	159	96
Interest expenses	0	0	0	0	0
Dividends paid	(5,783)	(4,773)	(4,488)	(5,325)	(5,325)
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>(5,472)</b>	<b>(9,069)</b>	<b>(5,335)</b>	<b>(5,166)</b>	<b>(5,230)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>4,212</b>	<b>(3,070)</b>	<b>(1,945)</b>	<b>7,052</b>	<b>12,727</b>
<b>Closing cash &amp; cash eq.</b>	<b>27,014</b>	<b>18,702</b>	<b>30,382</b>	<b>37,433</b>	<b>50,160</b>

### Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24P	FY25E	FY26E
Reported EPS	19.1	17.1	20.3	27.5	33.7
Adjusted EPS	19.1	17.1	20.3	27.5	33.7
Dividend per share	7.5	7.5	8.5	8.5	8.5
Book value per share	95.8	105.8	118.9	137.8	163.0

### Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24P	FY25E	FY26E
EV/Sales	7.5	6.2	5.6	4.9	4.3
EV/EBITDA	59.2	65.2	56.6	44.1	36.1
Adjusted P/E	87.1	97.3	82.0	60.5	49.4
P/BV	17.4	15.7	14.0	12.1	10.2

### DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24P	FY25E	FY26E
Tax burden (Net profit/PBT)	74.5	74.1	74.4	76.0	76.0
Interest burden (PBT/EBIT)	107.1	111.1	113.5	110.4	108.8
EBIT margin (EBIT/Revenue)	10.8	7.7	8.1	9.7	10.6
Asset turnover (Rev./Avg TA)	4.1	4.7	7.1	7.6	8.1
Leverage (Avg TA/Avg Equity)	0.6	0.6	0.4	0.3	0.3
Adjusted ROAE	21.4	17.0	18.1	21.4	22.4

### Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
<b>YoY growth (%)</b>					
Revenue	33.3	21.3	9.9	13.8	13.8
EBITDA	12.0	(9.2)	15.2	28.3	22.0
Adjusted EPS	14.6	(10.4)	18.6	35.5	22.5
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	12.6	9.5	9.9	11.2	12.0
EBIT margin	10.8	7.7	8.1	9.7	10.6
Adjusted profit margin	8.6	6.3	6.8	8.1	8.8
Adjusted ROAE	21.4	17.0	18.1	21.4	22.4
ROCE	18.5	17.0	20.5	21.0	22.0
<b>Working capital days (days)</b>					
Receivables	20	21	23	22	22
Inventory	78	80	67	73	70
Payables	62	57	53	60	60
<b>Ratios (x)</b>					
Gross asset turnover	3.2	3.5	3.9	4.6	4.7
Current ratio	1.8	1.8	1.8	1.9	2.0
Net interest coverage ratio	28.1	38.8	32.9	42.9	51.7
Adjusted debt/equity	0.1	0.0	0.0	0.0	0.0

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

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### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

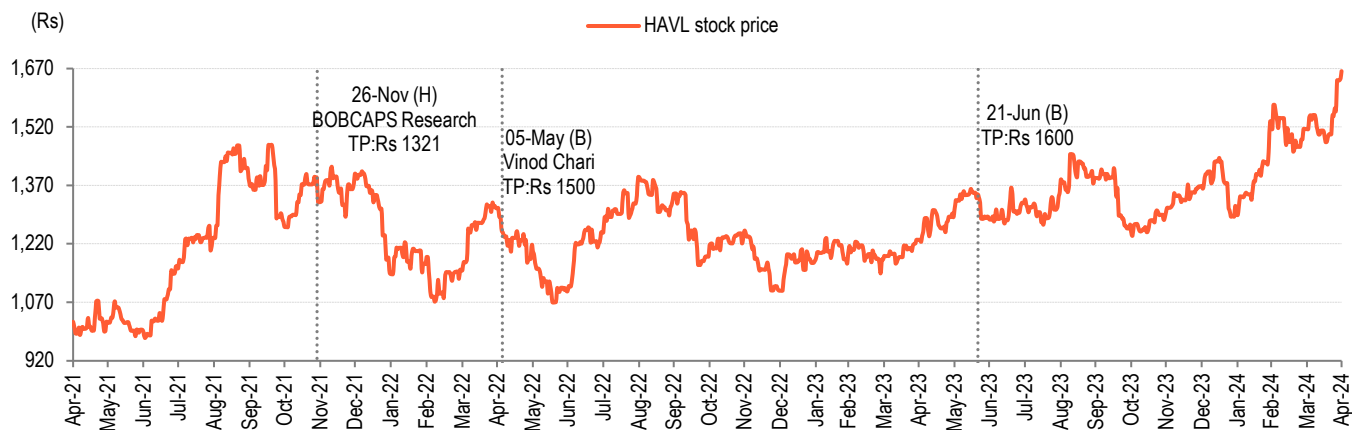
**HOLD** – Expected return from -6% to +15%

**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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