

BUY

TP: Rs 1,500 | ▲ 33%

HAVELLS INDIA

Consumer Durables

10 June 2022

Annual report analysis: Product innovation focus paying off

- Management optimistic about margin recovery on the back of strong underlying demand across segments
- Aggressive strategy to gain market share spurred 13% revenue CAGR for Lloyd over FY18-FY22 but compressed margins
- Balance sheet remains strong; HAVL to benefit from leadership position, diverse product categories and new launches – retain BUY, TP Rs 1,500

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Key takeaways from our analysis of HAVL's FY22 annual report:

Healthy growth; margin headwinds to abate: HAVL's FY22 annual report focuses on initiatives aimed at increasing distribution reach (particularly in rural areas) as well as R&D. Revenue share of new products stood at 17% in the last 21 months. All business segments experienced healthy growth during the year but margins weakened in a competitive environment. Management is optimistic of margin recovery given strong underlying demand. The balance sheet is strong with net cash at ~Rs 30bn.

Lloyd grew but at the expense of margins: Lloyd's sales logged a CAGR of 13% over FY18-FY22. Operating margin remained muted as management pursued an aggressive growth strategy to gain market share. This strategy has paid off, in that the AC industry now recognises Lloyd as a competitor. The company is also focusing on refrigerators and washing machines by leveraging its extensive distribution reach and brand familiarity. Though headwinds will persist in the medium term, we believe Lloyd will return to profitability as benefits start accruing from its upcoming manufacturing plant in Sri City (Andhra Pradesh) and from the PLI scheme.

Highest rural distribution reach in FMEG: HAVL's Rural Vistaar programme (started four years ago) has seen its footprint expand to 3k rural towns covering 40k retail outlets, giving it the largest rural reach among FMEG companies. Additionally, as part of this initiative, the company intends to open a large number of 'Utsav' stores, which correspond to 'Havells Galaxies' (brand stores) in the urban market.

Capex plan in place; net cash up: Management has guided for capex of Rs 7bn-8bn in FY23 – Rs 1bn-1.5bn for raising wires & cables capacity and regular maintenance, and Rs 3.5bn for the new AC plant in Sri City. Net cash rose by Rs 10bn to Rs 30bn as of Mar'22 with D/E at 0.07x. FY22 ROCE/ROE was at 25%/21.4%.

Maintain BUY, TP Rs 1,500: We continue to value HAVL at 53x FY24E EPS, a 10% premium to its 5Y average, for an unchanged TP of Rs 1,500. Retain BUY. Key downside risks to growth include higher commodity prices and a weaker economy.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	HAVL IN/Rs 1,132
Market cap	US\$ 9.1bn
Free float	41%
3M ADV	US\$ 15.8mn
52wk high/low	Rs 1,504/Rs 958
Promoter/FPI/DII	59%/24%/8%

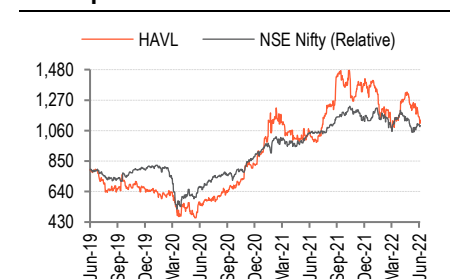
Source: NSE | Price as of 9 Jun 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	1,39,385	1,58,815	1,82,106
EBITDA (Rs mn)	17,604	22,324	25,753
Adj. net profit (Rs mn)	11,965	15,080	17,473
Adj. EPS (Rs)	19.1	24.1	27.9
Consensus EPS (Rs)	19.1	23.2	26.9
Adj. ROAE (%)	21.4	23.1	22.8
Adj. P/E (x)	59.2	47.0	40.6
EV/EBITDA (x)	39.7	31.1	26.8
Adj. EPS growth (%)	22.0	26.0	15.9

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

Stock performance

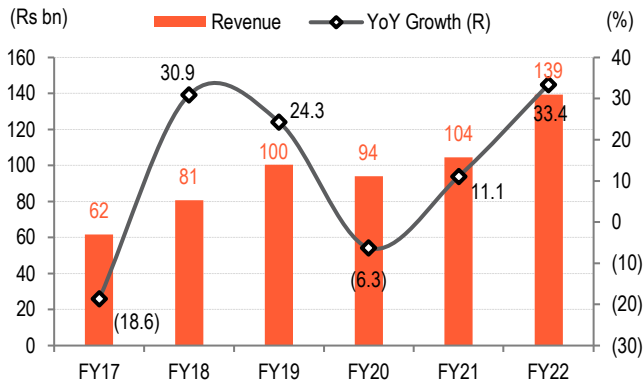


Source: NSE



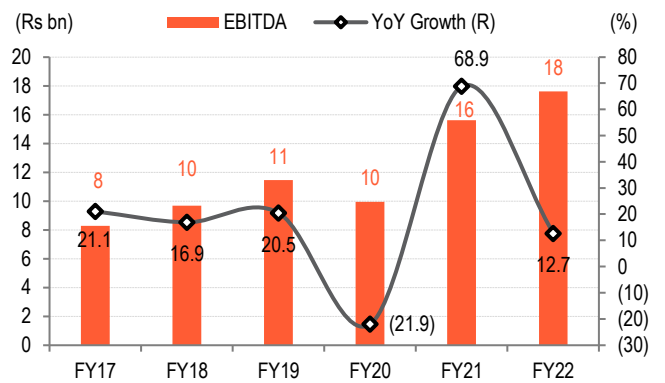
FY22 performance

Fig 1 – Revenue growth rebounds



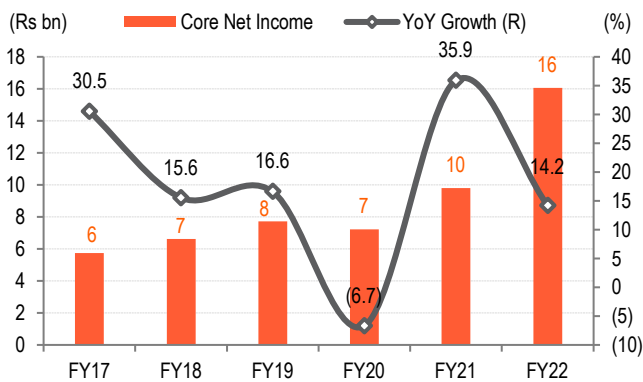
Source: Company, BOBCAPS Research

Fig 2 – EBITDA growth muted due to margin headwinds...



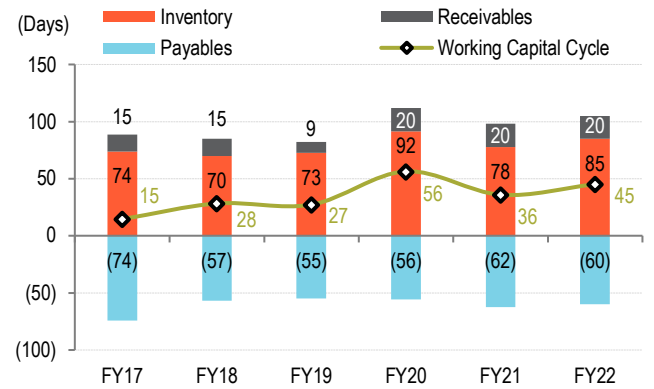
Source: Company, BOBCAPS Research

Fig 3 – ...impacting PAT growth



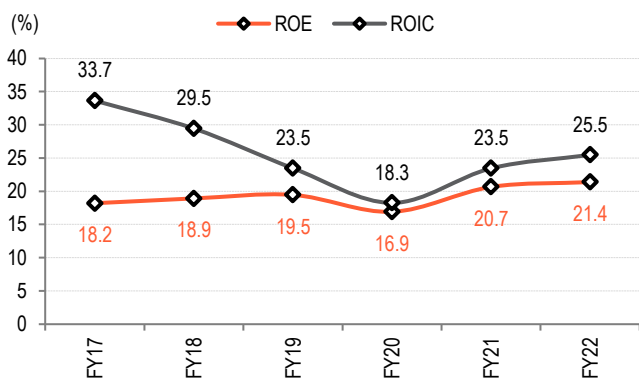
Source: Company, BOBCAPS Research

Fig 4 – Working capital cycle steady



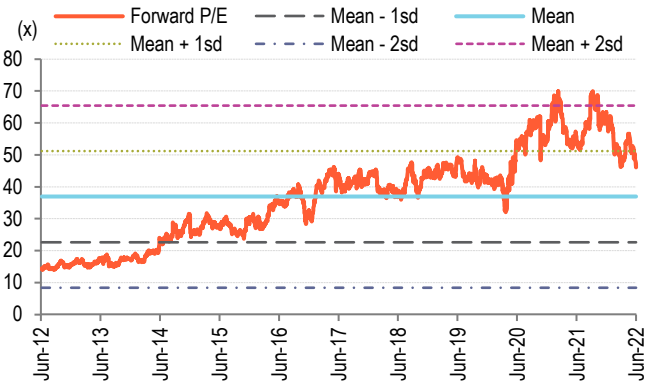
Source: Company, BOBCAPS Research

Fig 5 – ROE/ROIC on an improving path



Source: Company, BOBCAPS Research

Fig 6 – 1Y fwd. P/E



Source: Company, BOBCAPS Research

Annual report takeaways

HAVL has registered a robust revenue CAGR of 21% over FY21-FY22. The company experienced headwinds on the margin front but is hopeful of recovery over the medium term led by strong underlying demand. Management’s channel expansion initiatives are paying off in the form of new customer additions, broadening the demand channel. Though B2C has been outpacing B2B, HAVL saw increased conversion in projects and B2B business over the last year. Management indicated that customer preference is shifting toward (i) high-end superior features and energy efficiency, (ii) smart/connected devices, (iii) aspirational products, (iv) omnichannel spending, and (v) faster technology adoption.

Fig 7 – Segment offerings

Category	Offerings	Revenue share (%)
Switchgears	Switches, Domestic Switchgears, Industrial Switchgears, Capacitors, Automation, Control	13
Cables	Power Cable, Flexible Cables	33
Lighting and Fixtures	Professional Luminaires, Consumer Luminaires	10
Electrical Consumer Durables	Fans, Small Domestic Appliances, Water Heaters	22
Lloyd Consumer	Air Conditioners, Refrigerators, Washing Machines, Televisions, Other Domestic Appliances	16
Others	Motors, Solar, Pumps, Water Purifiers, Personal Grooming Products	6

Source: Company, BOBCAPS Research

Fig 8 – Segment performance

Particulars (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22
Switchgears	14,677	14,245	16,563	14,802	14,545	17,960
EBIT Margin (%)	38.2	39.1	38.0	39.0	27.8	27.5
Cables	26,756	26,834	32,327	29,933	31,789	46,451
EBIT Margin (%)	12.2	16.3	16.1	16.3	12.7	11.6
Lighting and Fixtures	9,215	11,774	13,085	11,421	11,137	13,916
EBIT Margin (%)	27.7	28.4	28.2	28.5	18.9	18.8
Electrical Consumer Durables	14,199	15,696	19,815	22,013	23,753	30,739
EBIT Margin (%)	24.6	26.8	27.9	26.1	17.0	14.9
Lloyd Consumer	-	14,141	18,556	15,903	16,886	22,732
EBIT Margin (%)	-	19.0	17.1	10.6	4.4	(3.2)

Source: Company, BOBCAPS Research

Switchgears

- The switchgear segment grew 22% in FY22 as a result of product launches in both the premium and entry-level segments as well as an expanded market reach. Margins were maintained via price increases and product mix management.
- Management indicated that the industry is witnessing smart technology adoption, and hence its new offerings are focused on smart and connected solutions. A real estate upcycle, increase in capex and export demand are growth drivers for this category.

Electrical consumer durables (ECD)

- Revenue from the ECD business surged 29% in FY22 due to a strong mix of value and volume growth. However, the time lag in passing on higher costs to the market eroded margins. HAVL has established itself as a market leader in the luxury decorative fan segment.
- The company has launched induction-based water heaters that are energy-efficient and offer a superior performance, continuing a tradition of 'industry firsts' in the water heater category.
- In the appliances subsegment, the company concentrated on introducing consumer-centric items that met local demands. A few examples are the introduction of high-power mixer grinders/juicer mixer grinders and wet & dry grinders for the southern market.

Cables

- Despite a high base, revenue in the cables category increased by 46% in FY22 owing largely to higher commodity prices. Cable margins were maintained by the timely transmission of price increases. Revenue growth was supported by a demand shift from unorganised to organised players, channel expansion through a multi-brand approach, revival in the real estate sector and the government's focus on infrastructure, telecommunications and renewable energy.
- The industry is seeing an increase in demand for HRFR (heat resistant flame retardant), FRLSH (flame retardant and low smoke halogen), and HFFR (halogen-free flame retardant) cables as safety awareness grows.

Lighting

- Lighting segment revenue increased by 26% for the year as a result of channel expansion and market share gains.
- Consumer lighting has grown due to increased LED penetration fueled by rural electrification, an increased number of light points per home, and premiumisation; however, professional lighting has been hampered by low capex and infrastructure spends.

Lloyd

- Lloyd reported a 34% rise in FY22 sales but margins contracted due to a fiercely competitive environment that prevented significant price hikes to offset rising costs.
- Lloyd has strengthened its market position by expanding its channel and portfolio. Its foray into refrigerators is doing well, and HAVL plans to focus on range completion and adding channels in FY23.
- The company added new capacities in water heater and air conditioner units, as well as new manufacturing equipment for washing machines.

Other highlights

- New products accounted for ~17% of total revenue over the last 21 months, demonstrating HAVL's commitment to steady innovation through R&D. The company has spent Rs 4.5bn on R&D over the last five years. In FY22, it added 9 new patent applications (for a total of 112) and 233 new design registrations (for a total of 781).
- Cash & cash equivalents stood at as Rs 30bn as of Mar'22, a Rs 10bn YoY increase. In FY22, HAVL also repaid a Rs 974mn loan.
- The company introduced 40 new domestic appliance SKUs in FY22.
- Exports currently account for 3.6% of total turnover with significant contributions from the Middle East, Africa, and SAARC. While switchgears remain a mainstay of the company's exports business, HAVL intends to broaden its product line to include fans, cables and air conditioners going forward

Fig 9 – R&D spend

Particulars (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22
Capital	31	37	113	160	52	63
Recurring	456	536	682	856	904	1,040
Total	487	573	794	1,016	956	1,103
as a % of revenue	0.7	0.7	0.8	1.1	0.9	0.8

Source: Company, BOBCAPS Research

Fig 10 – Working capital management

Particulars (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22
Account receivables	2,307	3,278	4,159	2,437	5,838	7,663
Receivable days	14	15	15	9	20	20
Inventory	9,453	16,330	19,190	18,719	26,199	29,681
Inventory days	56	74	70	73	92	78
Account Payables	6,335	16,400	15,598	14,138	15,971	23,800
Payable days	38	74	57	55	56	62
Cash conversion cycle	32	15	28	27	56	35

Source: Company, BOBCAPS Research

Fig 11 – Contingent liabilities

Particulars (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22
Claims / Suits filed against the Group not acknowledged as debts	57	153	66	65	69	71
Disputed tax liabilities in respect of pending litigations before appellate authorities	682	778	781	781	642	749
Demand raised by Uttarakhand Power Corp	10	10	10	-	-	-
Total	749	941	857	846	710	820
Net worth	32,768	37,292	42,180	43,116	51,763	60,029
CL as a % of NW	2.3	2.5	2.0	2.0	1.4	1.4

Source: Company, BOBCAPS Research

Fig 12 – Auditor’s remuneration

Particulars (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22
Auditor’s remunerations	25	14	16	15	14	14
as a % of EBITDA	0.3	0.1	0.1	0.2	0.1	0.1

Source: Company, BOBCAPS Research

Fig 13 – Remuneration of key management personnel (KMP)

Particulars (Rs mn)	Designation	Gross Salary	Stock option	Commission	Others	Total
Anil Rai Gupta	CMD	63		206	8	276
Ameet Kumar Gupta	WTD	25		82	3	110
Rajesh Kumar Gupta	Group CFO	56	0	82	7	145
Siddhartha Pandit	WTD	10	0	-	1	10
Total		-	-	-	-	542
as a % of Employee expense			--	-	-	5.3

Source: Company, BOBCAPS Research

Valuation methodology

We expect HAVL to continue to benefit from its diversified product categories and market leadership, even as an improving macro climate, solid brand and distribution, and healthy balance sheet underpin growth prospects. Margin improvement is the only box that needs to be checked, which we believe will occur once commodity prices stabilise. We maintain BUY with an unchanged TP of Rs 1,500, based on 53x FY24E EPS, a 10% premium to the stock's five-year average.

Fig 14 – Key assumptions

Parameter (Rs bn)	FY22A	FY23E	FY24E
Revenue	139	159	182
EBITDA	17.6	22.3	25.7
EBITDA Margin (%)	10.8	12.0	12.2
EPS (Rs)	19.1	24.1	27.9

Source: Company, BOBCAPS Research

Key risk

Key downside risks to our estimates are:

- a drop in margins,
- fall in market share, and
- market slowdown.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	1.0	2,326	3,500	HOLD
Blue Star	BLSTR IN	1.2	964	1,200	HOLD
Crompton Greaves	CROMPTON IN	2.8	345	500	BUY
Dixon Technologies	DIXON IN	2.7	3,610	4,600	BUY
Havells India	HAVL IN	9.1	1,132	1,500	BUY
Orient Electric	ORIENTEL IN	0.8	276	350	HOLD
Polycab India	POLYCAB IN	4.4	2,320	3,000	BUY
V-Guard Industries	VGRD IN	1.3	236	250	HOLD
Voltas	VOLT IN	4.3	1,000	1,250	BUY
Whirlpool India	WHIRL IN	2.6	1,578	2,901	BUY

Source: BOBCAPS Research, NSE | Price as of 9 Jun 2022

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Total revenue	94,071	1,04,474	1,39,385	1,58,815	1,82,106
EBITDA	9,955	15,619	17,604	22,324	25,753
Depreciation	(2,180)	(2,489)	(2,609)	(3,194)	(3,485)
EBIT	7,775	13,130	14,995	19,131	22,267
Net interest inc./(exp.)	569	349	813	667	713
Other inc./(exp.)	767	493	258	258	258
Exceptional items	(70)	404	0	0	0
EBT	9,041	14,376	16,066	20,055	23,238
Income taxes	(1,688)	(3,932)	(4,101)	(4,976)	(5,765)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	7,354	10,443	11,965	15,080	17,473
Adjustments	(140)	(639)	0	0	0
Adjusted net profit	7,214	9,804	11,965	15,080	17,473

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Accounts payables	14,138	15,971	23,800	26,107	32,430
Other current liabilities	16,238	18,547	26,333	28,639	34,962
Provisions	356	584	763	763	763
Debt funds	1,216	6,229	6,164	6,164	5,014
Other liabilities	3,452	4,034	4,358	4,358	4,358
Equity capital	626	626	626	626	626
Reserves & surplus	42,490	51,137	59,403	69,787	82,252
Shareholders' fund	43,116	51,763	60,029	70,414	82,878
Total liab. and equities	70,735	88,523	1,05,232	1,17,923	1,35,561
Cash and cash eq.	11,325	16,528	25,480	22,932	34,463
Accounts receivables	2,437	5,838	7,663	8,702	9,480
Inventories	18,719	26,199	29,681	36,984	37,419
Other current assets	2,326	4,639	3,242	3,242	3,242
Investments	0	0	0	0	0
Net fixed assets	18,996	18,608	20,215	0	0
CWIP	0	0	0	0	0
Intangible assets	11,429	11,228	11,022	45,486	50,486
Deferred tax assets, net	165	236	265	265	265
Other assets	5,338	5,246	7,665	310	206
Total assets	70,735	88,523	1,05,232	1,17,923	1,35,561

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Cash flow from operations	8,267	6,603	17,278	12,237	26,070
Capital expenditures	(3,609)	(2,499)	(2,583)	(7,000)	(5,000)
Change in investments	0	0	0	0	0
Other investing cash flows	(1,867)	(5,130)	(5,002)	(3,089)	(3,381)
Cash flow from investing	(5,477)	(7,628)	(7,586)	(10,089)	(8,381)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	0	0	0	0	(1,150)
Interest expenses	(52)	(459)	(245)	0	0
Dividends paid	(6,413)	(1,878)	(4,071)	0	0
Other financing cash flows	5,770	6,571	3,160	(4,695)	(3,858)
Cash flow from financing	(695)	4,235	(1,156)	(4,695)	(5,008)
Chg in cash & cash eq.	(4,368)	873	4,221	(2,547)	11,530
Closing cash & cash eq.	11,325	16,528	20,749	18,202	29,732

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22P	FY23E	FY24E
Reported EPS	11.8	16.7	19.1	24.1	27.9
Adjusted EPS	11.5	15.7	19.1	24.1	27.9
Dividend per share	4.0	6.5	7.6	7.5	8.0
Book value per share	68.9	82.7	95.9	112.5	132.4

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22P	FY23E	FY24E
EV/Sales	7.4	6.7	5.0	4.4	3.8
EV/EBITDA	69.8	44.6	39.7	31.1	26.8
Adjusted P/E	98.2	72.3	59.2	47.0	40.6
P/BV	16.4	13.7	11.8	10.1	8.6

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22P	FY23E	FY24E
Tax burden (Net profit/PBT)	79.2	70.2	74.5	75.2	75.2
Interest burden (PBT/EBIT)	117.2	106.4	107.1	104.8	104.4
EBIT margin (EBIT/Revenue)	8.3	12.6	10.8	12.0	12.2
Asset turnover (Rev./Avg TA)	132.1	131.2	143.9	142.3	143.7
Leverage (Avg TA/Avg Equity)	1.7	1.7	1.7	1.7	1.7
Adjusted ROAE	16.9	20.7	21.4	23.1	22.8

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22P	FY23E	FY24E
YoY growth (%)					
Revenue	(6.3)	11.1	33.4	13.9	14.7
EBITDA	(13.1)	56.9	12.7	26.8	15.4
Adjusted EPS	(6.7)	35.8	22.0	26.0	15.9
Profitability & Return ratios (%)					
EBITDA margin	10.6	15.0	12.6	14.1	14.1
EBIT margin	8.3	12.6	10.8	12.0	12.2
Adjusted profit margin	7.7	9.4	8.6	9.5	9.6
Adjusted ROAE	16.9	20.7	21.4	23.1	22.8
ROCE	16.6	24.3	23.1	25.8	26.0
Working capital days (days)					
Receivables	9	20	20	20	19
Inventory	73	92	92	85	75
Payables	55	56	56	60	65
Ratios (x)					
Gross asset turnover	4.0	3.9	4.9	4.7	4.6
Current ratio	1.5	1.9	1.8	1.9	1.9
Net interest coverage ratio	(13.7)	(37.6)	(18.4)	(28.7)	(31.2)
Adjusted debt/equity	0.0	0.1	0.1	0.1	0.1

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

Disclaimer

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

BUY – Expected return >+15%

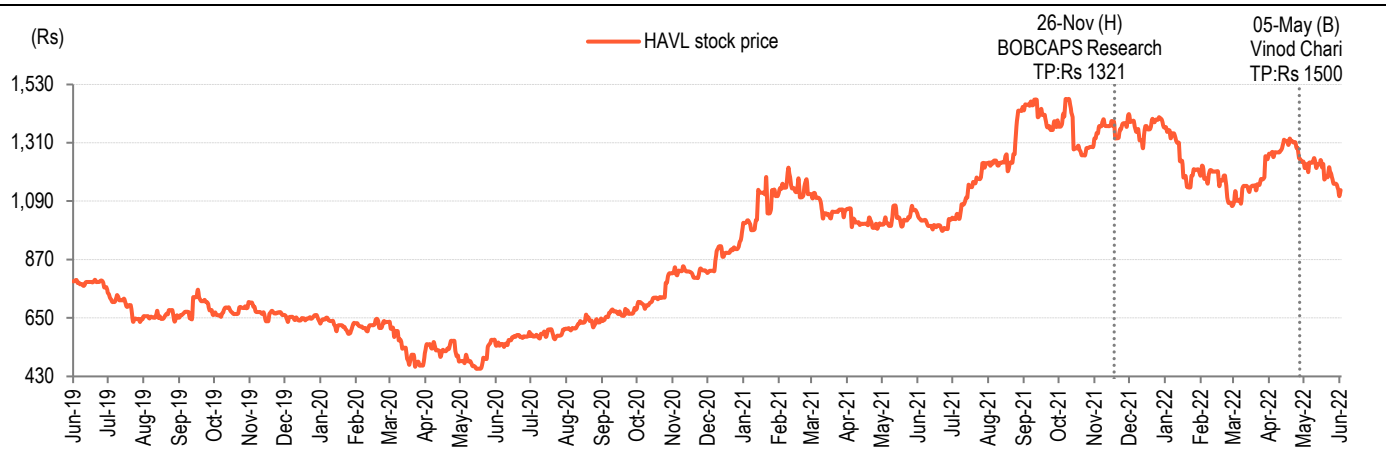
HOLD – Expected return from -6% to +15%

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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