

BUY

TP: Rs 1,500 | ▲ 11%

HAVELLS INDIA

| Consumer Durables

| 08 June 2023

Annual report analysis: Continuity of strategy

- **Market share growth in Lloyd, rural markets and manufacturing remain strategic focus areas**
- **Balance sheet robust with Rs 22bn in cash; static ROIC of 17% (vs. 5Y average of 18%) reflects aggressive strategy in Lloyd**
- **We have a BUY rating with a TP of Rs 1,500 given HAVL's prominent brand, wide network and inherent growth triggers**

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Weathered the FY23 slowdown: HAVL has navigated FY23 well despite lower consumer spending in H2, clocking topline growth of 21%. However, commodity price pressures impacted end user markets and could not be fully passed on, resulting in a 320bps EBITDA margin drop to 9.5% and a 10% decline in PAT to Rs 10.7bn for the year.

Aggressive Lloyd strategy: The aggressive strategy at Lloyd where the company is chasing market share gains has been a key culprit behind its margin decline. HAVL pegs Lloyd as one of the top 3 players in the industry and expects its business strategy to also spur sales of washing machines and refrigerators.

Manufacturing focus: Manufacturing is a key strength for HAVL and the company has expanded gross block at an 18% CAGR over the past 10 years. This growth has continued post-acquisition of Lloyd as the company commissioned a new plant at Sri City, taking its total AC capacity to 2mn units per year. Capex for FY23 was ~Rs 6bn.

Thrust on rural markets: The company is expanding its rural reach through the 'Rural Vistaar' initiative with a distributor presence in 3,000 towns (10,000-50,000 population) covering 42,000+ retail points. It is also present in towns with a population of less than 10,000 through 400+ Utsav outlets, targeted to increase to 2,000 by FY24.

Higher R&D investment: The company incurred R&D spend of Rs 1.6bn in FY23, rising at a 23.3% CAGR over FY18-FY23. It has nearly tripled spends from Rs 480mn in FY17 to keep pace with the changing consumer environment.

Robust balance sheet: HAVL has cash & equivalents of Rs 22bn, which comfortably covers the Rs 6bn capex target for FY24. ROIC in FY23 has remained static at 17% (in line with the 5Y average), reflective of its aggressive strategy at Lloyd.

Maintain BUY: We like HAVL's core portfolio for its prominent brand, wide network, and inherent growth triggers, leading us to reiterate our BUY rating. Our TP remains at Rs 1,500, based on an unchanged 50x P/E multiple on FY25E.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	HAVL IN/Rs 1,355
Market cap	US\$ 10.3bn
Free float	41%
3M ADV	US\$ 9.7mn
52wk high/low	Rs 1,406/Rs 1,025
Promoter/FPI/DII	60%/23%/10%

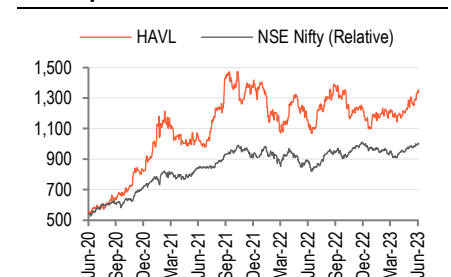
Source: NSE | Price as of 8 Jun 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	169,107	190,821	217,228
EBITDA (Rs mn)	15,991	21,604	26,938
Adj. net profit (Rs mn)	10,717	15,061	18,487
Adj. EPS (Rs)	17.1	24.0	29.5
Consensus EPS (Rs)	17.1	24.5	29.8
Adj. ROAE (%)	17.0	21.2	22.4
Adj. P/E (x)	79.2	56.4	45.9
EV/EBITDA (x)	53.1	39.3	31.5
Adj. EPS growth (%)	(10.4)	40.5	22.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance

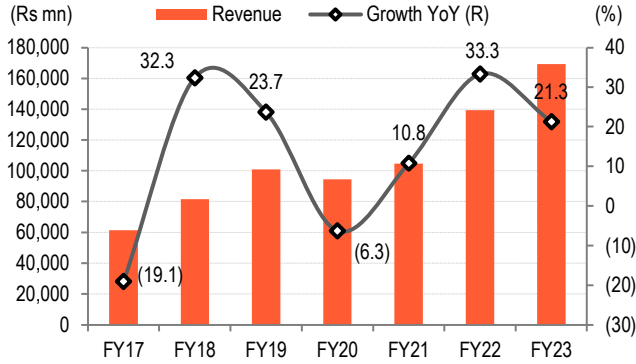


Source: NSE



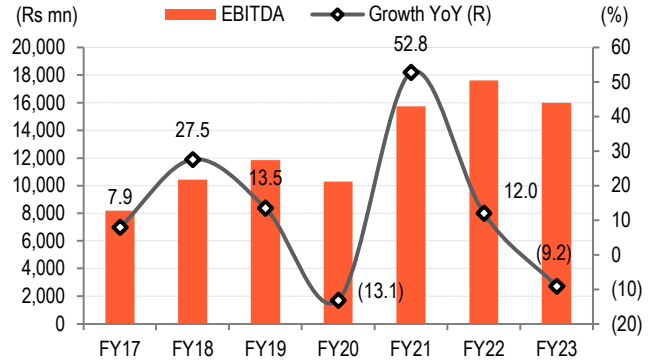
Growth trends

Fig 1 – Revenue growth



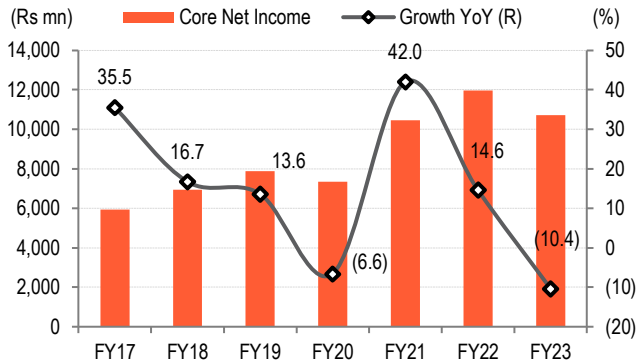
Source: Company, BOBCAPS Research

Fig 2 – EBITDA growth



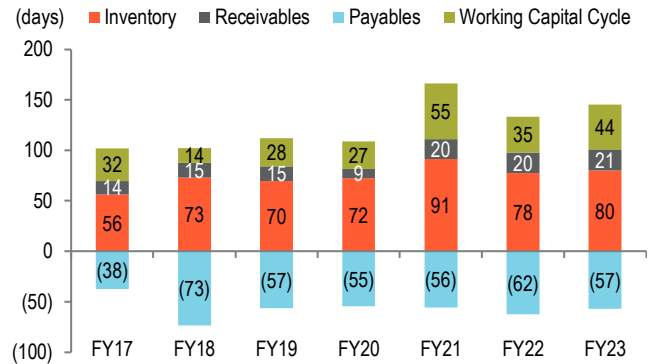
Source: Company, BOBCAPS Research

Fig 3 – Adj. PAT growth



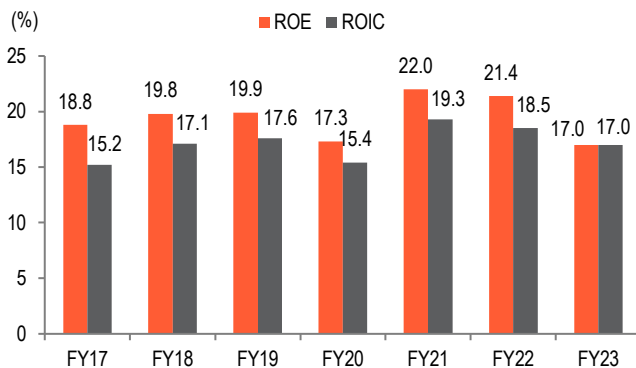
Source: Company, BOBCAPS Research

Fig 4 – Working capital cycle



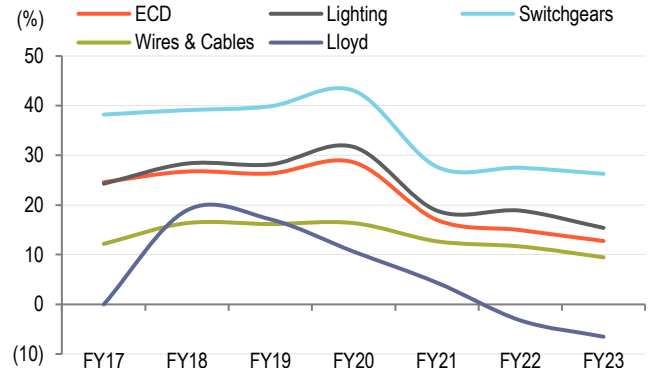
Source: Company, BOBCAPS Research

Fig 5 – Return ratios



Source: Company, BOBCAPS Research

Fig 6 – Segmental EBIT margins



Source: Company, BOBCAPS Research

Annual report takeaways

During FY23, HAVL continued with its strategy of pursuing market share gains in Lloyd, focusing on manufacturing and improving rural distribution. The company's continuous efforts toward cost optimisation, premiumisation, go-to-market improvement, and market share capture make it one of our top picks in the sector.

Fig 7 – Segment offerings

Category	Offerings	Revenue share (%)	
		FY23	FY22
Switchgears	Switches, Domestic Switchgears, Industrial Switchgears, Capacitors, Automation and Control	12.6	12.9
Cables	Power Cable, Flexible Cables	32.8	33.4
Lighting and Fixtures	Professional Luminaires, Consumer Luminaires	9.5	9.9
Electrical Consumer Durables	Fans, Small Domestic Appliances, Water Heaters	19.5	22.1
Lloyd Consumer	Air Conditioners, Refrigerators, Washing Machines, Televisions, Other Domestic Appliances	20.0	16.3
Others	Motors, Solar, Pumps, Water Purifiers, Personal Grooming Products	5.6	5.5

Source: Company, BOBCAPS Research

Fig 8 – Segmental performance

(Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Switchgears	14,677	14,245	15,777	13,394	14,609	17,960	21,202
EBIT Margin (%)	38	39	40	43	28	27	26
Cables	26,756	26,834	32,346	29,942	31,802	46,451	55,326
EBIT Margin (%)	12	16	16	16	13	12	9
Lighting and Fixtures	10,498	11,774	13,092	10,253	11,140	13,916	16,145
EBIT Margin (%)	24	28	28	32	19	19	15
Electrical Consumer Durables	14,199	15,696	20,964	20,054	23,770	30,739	32,982
EBIT Margin (%)	25	27	26	29	17	15	13
Lloyd Consumer	0	14,141	18,556	15,903	16,888	22,732	33,949
EBIT Margin (%)	0	19	17	11	4	(3)	(7)

Source: Company, BOBCAPS Research

Fig 9 – R&D spend

Particulars (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Capital	31	37	113	160	52	63	151
Recurring	456	536	682	856	904	1,040	1,481
Total	487	573	794	1,016	956	1,103	1,632
as a % of revenue	0.8	0.7	0.8	1.1	0.9	0.8	1.0

Source: Company, BOBCAPS Research

Fig 10 – Working capital management

Particulars (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Account receivables	2,307	3,278	4,066	2,417	5,637	7,663	9,739
Receivable days	14	15	15	9	20	20	21
Inventory	9,453	16,330	19,190	18,719	26,199	29,681	37,086
Inventory days	56	73	70	72	91	78	80
Account Payables	6,335	16,400	15,598	14,138	15,971	23,800	26,432
Payable days	38	73	57	55	56	62	57
Cash conversion cycle (days)	32	14	28	27	55	35	44

Source: Company, BOBCAPS Research

Fig 11 – Contingent liabilities

Particulars (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Claims / Suits filed against the Group not acknowledged as debts	57	153	66	65	69	71	68
Disputed tax liabilities in respect of pending litigations before appellate authorities	682	778	781	781	642	749	547
Demand raised by Uttarakhand Power Corporation	10	10	10				
Total	749	941	857	846	710	820	616
Net worth	32,768	37,292	41,976	43,116	51,763	60,029	66,255
Contingent liabilities as a % of Net worth	2.3	2.5	2.0	2.0	1.4	1.4	0.9

Source: Company, BOBCAPS Research

Fig 12 – Auditor's remuneration

Particulars (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Auditor's remunerations	25	14	16	15	14	14	15
as a % of EBITDA	0.3	0.1	0.1	0.2	0.1	0.1	0.1

Source: Company, BOBCAPS Research

Fig 13 – Remuneration of Key Managerial personnel (KMP)

Particulars (Rs mn)	Designation	Gross Salary	Stock option	Commission	Total
Anil Rai Gupta	CMD	78		186	264
Ameet Kumar Gupta	WTD	31		74	105
Rajesh Kumar Gupta	Group CFO	70	0	74	145
Siddhartha Pandit	WTD	11	70		81
Total					595
as a % of Employee expense					4.7

Source: Company, BOBCAPS Research

Manufacturing focus

- Manufacturing has been a longstanding strength for HAVL as it looked to combat competition from high-quality international brands and low-cost imports. As of FY23, the company manufactures 90% of its products in-house.
- The company currently has 15 manufacturing locations across the Indian subcontinent (Fig 14) and 4 research centres in Noida and Bangalore.
- During the year, HAVL set up a greenfield plant in Sri City, Chennai, with a capacity for 1mn units p.a., bringing its total air conditioner capacity to 2mn units p.a. This new unit is expected to increase supply to South Indian markets, thus improving

the company's reach. It will also produce heat exchangers for evaporators and condensers, high-end plastic moulded parts for indoor units and copper tubing, all of which will further reduce dependence on imported parts.

Fig 14 – Manufacturing plants

Unit/Plant	Products
Solan, Baddi, Himachal Pradesh	Electrical wire accessories and switchgears
Haridwar, Uttarakhand	Water purifiers and appliances
Faridabad, Haryana	Switchgears
Sahibabad, Uttar Pradesh	Switchgears and capacitors
Neemrana, Alwar, Rajasthan	Motors and pumps; lighting & fixtures, water heaters and water coolers
Matsya Industrial Area, Alwar, Rajasthan	Industrial and domestic cables
Haridwar, Uttarakhand	Fans
Ghiloth, Alwar, Rajasthan	Air conditioners and washing machines
Sri City, Andhra Pradesh	Air conditioners

Source: Company

Balance sheet and cash flows

- HAVL ended the year with Rs 21.6bn net cash.
- The company has consistently invested in R&D with spends logging a 23.3% CAGR over FY18-FY23.
- Capex stood at Rs 5.7bn during FY23, 123% higher than that in FY22.
- Operating cash flows decreased to Rs 5.6bn in FY23 from Rs 17.3bn in FY22 largely due to a fall in liabilities (~Rs 6.5bn impact). The cash conversion cycle increased from 35 days in FY22 to 44 days in FY23.

Distribution and reach

- HAVL is expanding beyond urban geographies and has a rural distribution presence of 3,000 towns (population 10,000-50,000), covering 42,000+ retail points through the Rural Vistaar initiative. It is also present in towns with populations of less than 10,000 by way of 400+ Utsav exclusive stores, which are targeted to increase to 2,000 by FY24.
- Emerging channels such as e-commerce and modern format retail (MFR) have been a focus for the company along with rural expansion to drive growth.

Raw materials and sourcing

- Commodity prices rose sharply during the year, leading to a higher cost of materials, supply chain disruptions and an adverse impact on working capital cycle.
- The company has reduced its import dependency to less than 20% in FY23. Additionally, it sources 44% of its requirement from suppliers located within a distance of 100km, thereby reducing freight costs and transport risks.

Segmental performance

Switchgears

- The switchgears segment grew 19% during FY23 owing to a pick up in the construction cycle.
- The industry is slowly moving towards smart and connected technologies, driving the transition towards smart homes. HAVL is adding to its portfolio and launched a new range of 'Signia' smart products during the year.
- Apart from the shift to smart switches, the company is also focusing on the affordable segment through its brand *REO*.

Electric consumer durables (ECD)

- The ECD segment includes fans, domestic appliances and water heaters. The fans subsegment witnessed a major transition during the year with new Bureau of Energy Efficiency (BEE) norms kicking in, causing costs to rise for the entire industry. Despite this, the ECD segment reported 7.5% growth, supported by premiumisation and other efforts to drive the topline.

Cables

- The cables segment grew 19% despite sudden and sharp movements in commodity prices, mainly decreasing metal prices and copper price volatility which impacted market sentiments.
- Demand transition from the unorganised to organised sector continues as consumers find it more reliable to buy branded products.
- HAVL is seeing strong demand visibility for industrial cables in various sectors such as renewable energy, data centres, metros, 5G, airports, defence, and digitalisation.

Lighting

- The lighting segment grew 17% in FY23 with healthy growth in both consumer and professional lighting. The latter accelerated due to a pick-up in the industrial and commercial (I&C) sector.
- The demand for premium consumer lighting is on the rise, backed by consumer preference for unique, innovative designs. HAVL offers basic to high-end to luxury lighting solutions.
- HAVL launched new products (Glamtubes, Meditate Air) in addition to filing multiple patents during the year.

Lloyd

- The two years of Covid-19 disrupted air conditioner sales for the industry, but a full season last summer boosted sales for Lloyd. This arm has gained market share during FY23 and grew 49% during the year despite intense competition.
- HAVL believes that it is now well positioned to leverage its performance in ACs to spur growth of other products such as washing machines and refrigerators.

- With the newly commissioned manufacturing facility in Sri City, Andhra Pradesh, Lloyd's manufacturing capacity will double, paving the way for a better reach in South India, increased export opportunities, and better inventory management during peak season.

Others

- This segment includes motors, solar pumps, personal grooming and water purifiers, and grew 25% during the year.

Valuation methodology

HAVL is a comprehensive play in the consumer durables space with a strong presence across categories. This coupled with a sound balance sheet enables it to concentrate on specific business areas, as seen in the case of Lloyd. Management remains positive on strong recovery in its core product portfolio in coming quarters. We like HAVL's core portfolio for its prominent brand, wide network and inherent growth triggers, leading us to reiterate our BUY rating. Our TP remains at Rs 1,500, based on an unchanged 50x P/E multiple on FY25E – in line with the stock's three-year average.

Fig 15 – Key assumptions

Parameter (Rs mn)	FY22	FY23	FY24E	FY25E
Revenue	1,39,385	1,69,107	1,90,821	2,17,228
EBTDA	17,604	15,991	21,604	26,938
EBITDA Margin (%)	12.6	9.5	11.3	12.4
EPS (Rs)	19.1	17.1	24.0	29.5

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- aggressive capital allocation at Lloyd, and
- subdued growth in the core product portfolio.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	0.8	2,072	2,260	HOLD
Blue Star	BLSTR IN	1.7	1,460	1,650	BUY
Crompton Greaves	CROMPTON IN	2.2	281	370	BUY
Dixon Technologies	DIXON IN	2.9	4,067	4,100	BUY
Havells India	HAVL IN	10.3	1,355	1,500	BUY
Orient Electric	ORIENTEL IN	0.6	245	240	HOLD
Polycab India	POLYCAB IN	6.4	3,512	3,900	BUY
Syrma SGS	SYRMA IN	0.8	384	440	BUY
V-Guard Industries	VGRD IN	1.4	259	270	HOLD
Voltas	VOLT IN	3.2	805	900	HOLD

Source: BOBCAPS Research, NSE | Price as of 8 Jun 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Total revenue	104,573	139,385	169,107	190,821	217,228
EBITDA	15,718	17,604	15,991	21,604	26,938
Depreciation	2,489	2,609	2,962	2,899	3,737
EBIT	13,229	14,995	13,030	18,705	23,201
Net interest inc./(exp.)	(727)	(534)	(336)	(436)	(445)
Other inc./(exp.)	1,874	1,604	1,777	1,866	1,959
Exceptional items	0	0	0	0	0
EBT	14,376	16,066	14,471	20,135	24,715
Income taxes	3,932	4,101	3,753	5,074	6,228
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	10,443	11,965	10,717	15,061	18,487
Adjustments	0	0	0	0	0
Adjusted net profit	10,443	11,965	10,717	15,061	18,487

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Accounts payables	15,971	23,800	26,432	31,368	35,709
Other current liabilities	10,525	10,881	11,562	13,046	14,852
Provisions	0	0	0	0	0
Debt funds	4,922	3,955	2,231	2,908	2,965
Other liabilities	5,341	6,567	5,095	5,750	6,545
Equity capital	626	626	627	627	627
Reserves & surplus	51,137	59,403	65,628	75,364	88,525
Shareholders' fund	51,763	60,029	66,255	75,990	89,152
Total liab. and equities	88,523	105,232	111,574	129,062	149,222
Cash and cash eq.	19,591	27,014	18,702	31,188	41,496
Accounts receivables	5,637	7,663	9,739	10,740	12,369
Inventories	26,199	29,681	37,086	41,241	47,293
Other current assets	1,778	1,708	5,135	1,279	1,456
Investments	0	0	0	0	0
Net fixed assets	32,904	34,336	36,236	39,337	40,600
CWIP	899	572	1,634	1,844	2,099
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	1,515	4,258	3,042	3,433	3,908
Total assets	88,523	105,232	111,574	129,062	149,222

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash flow from operations	6,603	17,278	5,649	23,080	20,512
Capital expenditures	(1,536)	(2,528)	(5,855)	(6,000)	(5,000)
Change in investments	0	0	5,004	0	0
Other investing cash flows	(6,096)	(5,067)	1,201	54	65
Cash flow from investing	(7,632)	(7,595)	350	(5,946)	(4,935)
Equities issued/Others	98	312	267	0	0
Debt raised/repaid	14,883	0	(4,563)	677	57
Interest expenses	0	0	0	0	0
Dividends paid	(13,083)	(5,783)	(4,773)	(5,325)	(5,325)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	1,898	(5,472)	(9,069)	(4,648)	(5,269)
Chg in cash & cash eq.	869	4,212	(3,070)	12,486	10,309
Closing cash & cash eq.	19,591	27,014	18,702	31,188	41,496

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
Reported EPS	16.7	19.1	17.1	24.0	29.5
Adjusted EPS	16.7	19.1	17.1	24.0	29.5
Dividend per share	6.5	7.5	7.5	8.5	8.5
Book value per share	82.6	95.8	105.8	121.3	142.3

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
EV/Sales	8.1	6.1	5.0	4.5	3.9
EV/EBITDA	54.0	48.2	53.1	39.3	31.5
Adjusted P/E	81.3	71.0	79.2	56.4	45.9
P/BV	16.4	14.1	12.8	11.2	9.5

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	FY24E	FY25E
Tax burden (Net profit/PBT)	72.6	74.5	74.1	74.8	74.8
Interest burden (PBT/EBIT)	108.7	107.1	111.1	107.6	106.5
EBIT margin (EBIT/Revenue)	12.7	10.8	7.7	9.8	10.7
Asset turnover (Rev./Avg TA)	3.2	4.1	4.7	4.9	5.4
Leverage (Avg TA/Avg Equity)	0.7	0.6	0.6	0.6	0.5
Adjusted ROAE	22.0	21.4	17.0	21.2	22.4

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
YoY growth (%)					
Revenue	10.8	33.3	21.3	12.8	13.8
EBITDA	52.8	12.0	(9.2)	35.1	24.7
Adjusted EPS	42.0	14.6	(10.4)	40.5	22.7
Profitability & Return ratios (%)					
EBITDA margin	15.0	12.6	9.5	11.3	12.4
EBIT margin	12.7	10.8	7.7	9.8	10.7
Adjusted profit margin	10.0	8.6	6.3	7.9	8.5
Adjusted ROAE	22.0	21.4	17.0	21.2	22.4
ROCE	19.3	18.5	17.0	23.9	22.0
Working capital days (days)					
Receivables	20	20	21	21	21
Inventory	91	78	80	79	79
Payables	56	62	57	60	60
Ratios (x)					
Gross asset turnover	2.5	3.2	3.5	3.6	3.7
Current ratio	1.9	1.8	1.8	1.9	2.0
Net interest coverage ratio	18.2	28.1	38.8	42.9	52.2
Adjusted debt/equity	0.1	0.1	0.0	0.0	0.0

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

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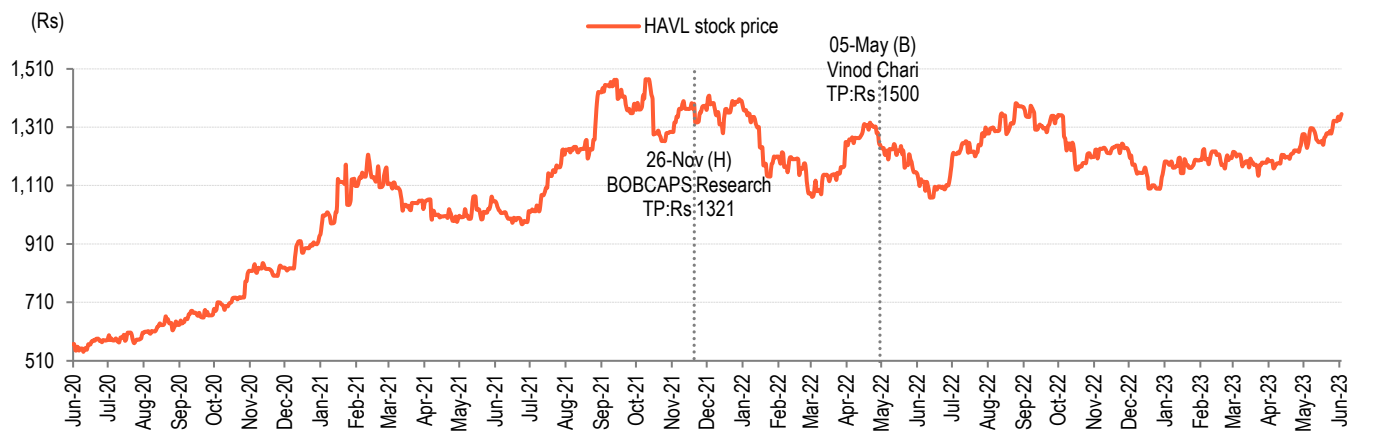
Recommendation scale: Recommendations and Absolute returns (%) over 12 months

- 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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