

BUY
TP: Rs 1,600 | ▲ 19%

HAVELLS INDIA

Consumer Durables

20 July 2023

Margins falter

- Q1 a miss due to soft EBIT margins in ECD (-220bps YoY to 10.9%) and lighting (-210bps to 14.3%)
- Aggressive growth strategy aided sales of Rs 13.1bn at Lloyd but came at the cost of margins with a Rs 616mn operational loss
- Despite an 8%/6% cut in FY24/FY25 EPS to bake in lower margins, our TP remains at Rs 1,600 on rollover; retain BUY

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Muted quarter: HAVL posted topline growth of 14% YoY to Rs 48bn as the cables & wires business grew 24% to Rs 14.8bn (4Y CAGR 15%), ECD grew 5% to Rs 8.8bn (4Y CAGR 10%), lighting was flattish at Rs 3.7bn (4Y CAGR 2%), and switchgears grew 5% to Rs 5.4bn (4Y CAGR 8%). Lloyd posted 20% growth to Rs 13.1bn (4Y CAGR 24%).

Margins a miss: The cables segment saw improved profitability with EBIT margin up 410bps YoY, while ECD (-220bps) and lighting (-210bps) saw declines. Whereas lighting was impacted by price corrections, the fans (ECD) business slowed due to erratic weather. Lloyd too remained in the red with an EBIT loss of Rs 616mn as industrywide profitability suffered on account on unseasonal rains. Management is, however, bullish on the consumer environment and also expects lighting margins to increase by 100-200bps in the medium term.

Aggressive Lloyd strategy continues: HAVL continued with its strategy of prioritising market share gains over margins at Lloyd, as reflected in the subsidiary's 20% YoY topline growth and accompanying EBIT loss of Rs 616mn. Management pegs Lloyd as among the top 3 players in the room AC industry and expects its growth strategy to also spur sales of washing machines and refrigerators. Per management, contract manufacturing with a focus on exports and a slight pricing premium to competition sets a glide path for margin improvement in the medium term.

Maintain BUY: We remain positive on HAVL's medium-term performance given its strong presence in the consumer durables sector and improving industry sentiment. Baking in the slower Q1 performance than anticipated, we adjust our FY24/FY25 EPS estimates downwards by 8%/6%. Upon rolling valuations forward to Jun'25E, our TP remains unchanged at Rs 1,600, based on an unchanged 53x P/E multiple which is in line with the stock's 3Y average. BUY.

Key changes

Target	Rating
◀▶	◀▶

Ticker/Price	HAVL IN/Rs 1,348
Market cap	US\$ 10.3bn
Free float	41%
3M ADV	US\$ 14.8mn
52wk high/low	Rs 1,408/Rs 1,025
Promoter/FPI/DII	60%/23%/10%

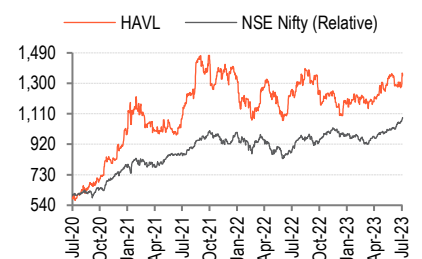
Source: NSE | Price as of 20 Jul 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	1,69,107	1,90,821	2,17,228
EBITDA (Rs mn)	15,991	20,077	25,417
Adj. net profit (Rs mn)	10,717	13,919	17,349
Adj. EPS (Rs)	17.1	22.2	27.7
Consensus EPS (Rs)	17.1	24.5	29.8
Adj. ROAE (%)	17.0	19.7	21.5
Adj. P/E (x)	78.8	60.7	48.7
EV/EBITDA (x)	52.8	42.1	33.2
Adj. EPS growth (%)	(10.4)	29.9	24.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

Particulars (Rs mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Revenue	48,338	42,445	13.9	48,592	(0.5)
EBITDA	4,020	3,615	11.2	5,271	(23.7)
EBITDA Margin (%)	8.3	8.5	(20bps)	10.8	(250bps)
Depreciation	763	721	-	774	-
Interest	85	98	-	98	-
Other Income	648	476	-	467	-
PBT	3,821	3,273	16.7	4,867	(21.5)
Tax	950	841	-	1,287	-
Adjusted PAT	2,871	2,432	18.1	3,580	(19.8)
Exceptional item	-	-	-	0	-
Reported PAT	2,871	2,432	18.1	3,580	(19.8)
Adj. PAT Margin (%)	5.9	5.7	20bps	7.4	(140bps)
EPS (Rs)	4.6	3.9	18.1	5.7	(19.8)

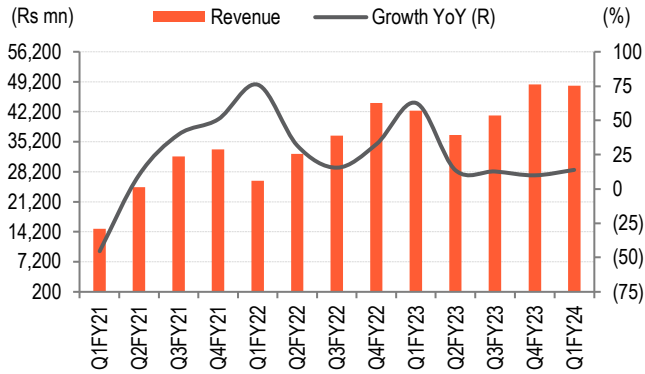
Source: Company, BOBCAPS Research

Fig 2 – Segment-wise performance

Particulars (Rs mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Revenue													
ECD	3,017	5,799	7,831	7,124	5,763	7,294	8,955	8,727	8,396	7,735	9,357	7,495	8,775
Lighting	1,423	2,723	3,626	3,367	2,144	3,591	4,129	4,052	3,737	4,018	4,232	4,160	3,710
Switchgears	1,902	3,703	4,371	4,633	3,773	4,482	4,960	4,745	5,169	4,879	5,143	6,010	5,409
Cables & Wires	4,611	7,847	9,052	10,292	8,072	11,440	12,058	14,881	11,929	13,594	14,121	15,682	14,852
Lloyd Consumer	3,062	2,804	5,116	5,906	4,975	3,463	4,698	9,596	10,938	4,198	6,103	12,710	13,109
EBIT													
ECD	370	1,172	1,405	1,090	676	1,257	1,128	1,515	1,100	900	1,228	962	957
EBIT margin (%)	12.3	20.2	17.9	15.3	11.7	17.2	12.6	17.4	13.1	11.6	13.1	12.8	10.9
Lighting	38	534	831	698	331	784	874	633	614	576	536	755	532
EBIT margin (%)	2.7	19.6	22.9	20.7	15.5	21.8	21.2	15.6	16.4	14.3	12.7	18.1	14.3
Switchgears	291	1,150	1,372	1,234	1,031	1,218	1,448	1,239	1,354	1,220	1,271	1,721	1,499
EBIT margin (%)	15.3	31.0	31.4	26.6	27.3	27.2	29.2	26.1	26.2	25.0	24.7	28.6	27.7
Cables & Wires	366	1,118	1,026	1,528	1,262	1,153	1,256	1,734	875	859	1,628	1,885	1,691
EBIT margin (%)	7.9	14.3	11.3	14.8	15.6	10.1	10.4	11.7	7.3	6.3	11.5	12.0	11.4
Lloyd Consumer	64	51	309	318	97	(188)	(429)	(215)	(563)	(840)	(600)	(229)	(616)
EBIT margin (%)	2.1	1.8	6.0	5.4	2.0	(5.4)	(9.1)	(2.2)	(5.1)	(20.0)	(9.8)	(1.8)	(4.7)

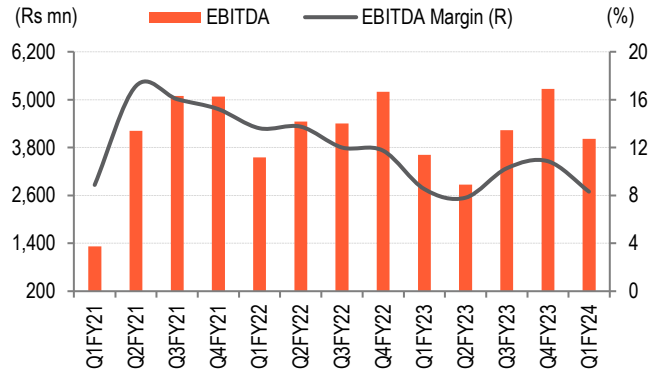
Source: Company, BOBCAPS Research

Fig 3 – Revenue trend



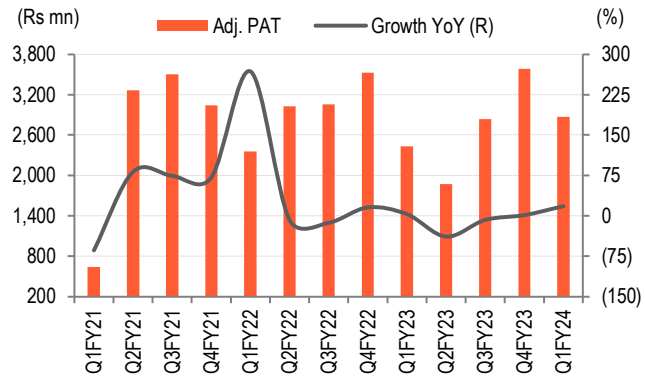
Source: Company, BOBCAPS Research

Fig 4 – EBITDA trend



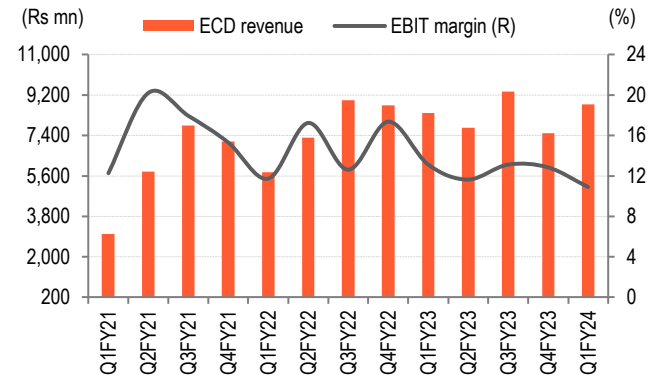
Source: Company, BOBCAPS Research

Fig 5 – Profit trend



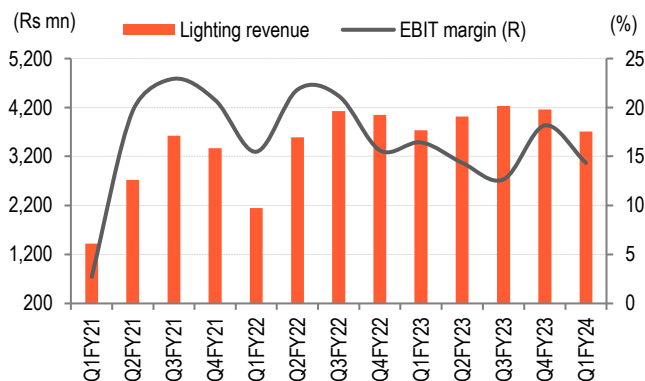
Source: Company, BOBCAPS Research

Fig 6 – ECD business growth



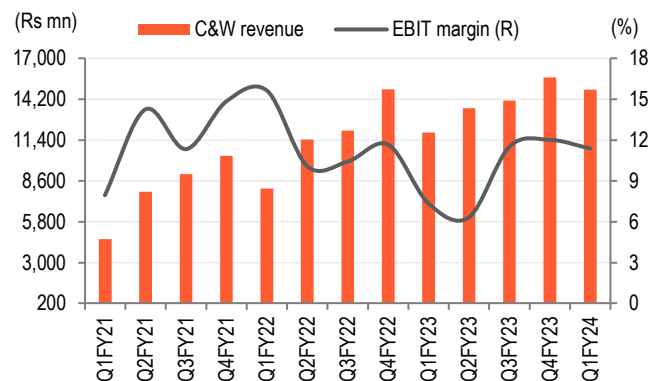
Source: Company, BOBCAPS Research

Fig 7 – Lighting business growth



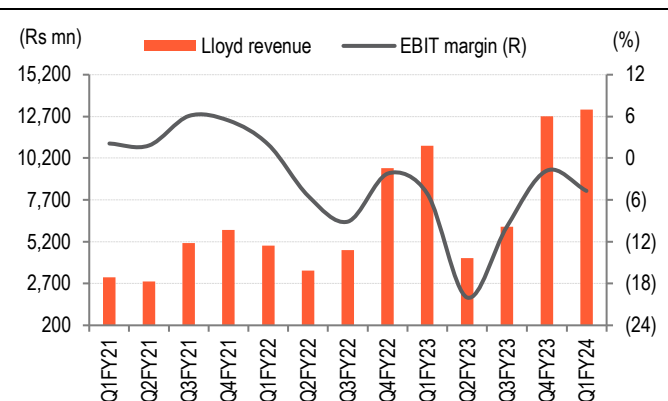
Source: Company, BOBCAPS Research

Fig 8 – Cables & wires (C&W) business growth



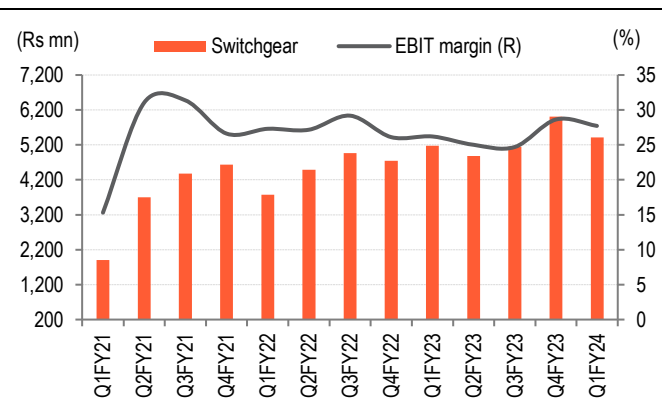
Source: Company, BOBCAPS Research

Fig 9 – Lloyd business growth



Source: Company, BOBCAPS Research

Fig 10 – Switchgear business growth



Source: Company, BOBCAPS Research

Earnings call highlights

- Demand:** Q1FY24 witnessed subdued consumer demand which impacted HAVL’s B2C business, but management indicated that it has seen green shoots of late. The company expects demand to bounce back in the second half of FY24 and foresees good growth for the electrical consumer durables (ECD) segment in H2.
- Volumes:** Volume growth was in excess of 30% YoY for cables & wires and 6-8% for lighting. Value and volume growth were at par for the Lloyd (20%) and switchgear (4.6%) businesses.
- Margins:** HAVL’s Q1 EBITDA margin was slightly lower at 8.3% (vs. 8.5% last year), largely because the impact of commodity easing was not fully reflected during the quarter. This implies an increased margin trajectory in the coming quarters, in addition to the seasonal lift to profitability as the financial year progresses. Management expects a 13-15% EBITDA margin for the standalone business (ex-Lloyd) in the medium term vs. ~11% clocked in Q1FY24.
- Cables and wires:** The segment had an unfavourable base effect this quarter and declined 5.3% QoQ. The underground cables plant is at high utilisation and, hence, new capacity is being set up at Tumkur (Karnataka).
- Fans:** Sales of fans were adversely impacted as unseasonal rains disrupted summer demand. HAVL expects the fans business to grow well in coming quarters. Margins softened YoY this quarter due to under-absorption of overheads.
- Lighting:** The lighting segment posted a slight YoY revenue decline, largely due to industrywide price corrections partially offset by healthy growth in professional lighting. Management expects a 30-31% contribution margin in the lighting segment in the medium term, which implies a 100-200bps increase from current levels of 29.1%.
- Other income and expenses:** Q1 saw a sharp rise in other income (+36% YoY) and expenses (+26% YoY), largely due to sale of property for Rs 100mn and charges toward increased warehousing space (unseasonal quarter for air conditioners) respectively. Some expenses such as travel have also normalised from this quarter which explains the uptick in expenses.

- **Working capital:** Working capital days stood at 36 days (vs. 44 in Q4FY23). The company has decreased inventory in line with seasonality, which is in contrast to the deliberate inventory building by rival Polycab at the end of Q1FY24. Net cash stood at Rs 27.8bn for the quarter. Overall, the contribution of domestic switchgears and wires is higher in HAVL's consolidated revenue, and these businesses also entail more intensive working capital.
- **Capex:** HAVL plans to incur Rs 6bn in capex for FY24. Of this, the capex run-rate at Lloyd is expected to remain steady, whereas the outlay for other businesses will be incurred as required. That said, for FY24, the mix of capex is expected to be tilted toward the standalone business on account of the new facility coming up in Karnataka.

Lloyd

- **Topline:** Lloyd grew 20% YoY in Q1, gaining market share and retaining its top 3 position in the room AC category. It has the highest manufacturing capacity in this segment and expects margins to increase in H2FY24.
- **Pricing:** Lloyd products were at a discount to competitors when the company was first acquired but now stand at a slight premium which management expects to retain.
- **Growth opportunities:** The company sees opportunities in white label manufacturing for refrigerators and ACs. It has already begun exporting a small quantity and will deepen its focus on this opportunity in the next few years. At present, its focus is on India and the branded business.

Valuation methodology

HAVL is a comprehensive play with a presence across the spectrum of the consumer durables segment. Additionally, a strong balance sheet allows it to nurture promising segments (such as Lloyd) during lossmaking phases. Management commentary points to a stronger performance in the core product portfolio in coming quarters, prompting us to remain positive on the company and to reiterate our BUY rating.

Baking in the slower Q1FY24 performance than anticipated, we adjust our FY24/FY25 EPS estimates downwards by 8%/6%. Upon rolling valuations forward to Jun'25E, our TP remains unchanged at Rs 1,600, based on an unchanged 53x P/E multiple which is in line with the stock's three-year average. Maintain BUY.

Fig 11 – Revised estimates

Particulars (Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	1,90,821	2,17,228	1,90,821	2,17,228	0.0	0.0
EBITDA	20,077	25,417	21,604	26,938	(7.1)	(5.6)
PAT	13,919	17,349	15,061	18,487	(7.6)	(6.2)
EPS (Rs)	22.2	27.7	24.0	29.5	(7.6)	(6.2)
EBITDA Margin (%)	10.5	11.7	11.3	12.4	(80bps)	(70bps)

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

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

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	0.9	2,198	2,260	HOLD
Blue Star	BLSTR IN	0.9	791	1,650	BUY
Crompton Greaves	CROMPTON IN	2.3	296	370	BUY
Havells India	HAVL IN	10.3	1,348	1,600	BUY
Orient Electric	ORIENTEL IN	0.6	238	240	HOLD
Polycab India	POLYCAB IN	8.6	4,717	5,000	BUY
V-Guard Industries	VGRD IN	1.5	289	270	HOLD
Voltas	VOLT IN	3.1	777	900	HOLD

Source: BOBCAPS Research, NSE | Price as of 20 Jul 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Total revenue	1,04,573	1,39,385	1,69,107	1,90,821	2,17,228
EBITDA	15,718	17,604	15,991	20,077	25,417
Depreciation	2,489	2,609	2,962	2,899	3,737
EBIT	13,229	14,995	13,030	17,179	21,680
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	18,608	23,194
Income taxes	3,932	4,101	3,753	4,689	5,845
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	13,919	17,349
Adjustments	0	0	0	0	0
Adjusted net profit	10,443	11,965	10,717	13,919	17,349

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	74,222	86,246
Shareholders' fund	51,763	60,029	66,255	74,848	86,872
Total liab. and equities	88,523	1,05,232	1,11,574	1,27,920	1,46,943
Cash and cash eq.	19,591	27,014	18,702	30,046	39,217
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	1,05,232	1,11,574	1,27,920	1,46,943

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash flow from operations	6,603	17,278	5,649	21,938	19,375
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)	11,344	9,171
Closing cash & cash eq.	19,591	27,014	18,702	30,046	39,217

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
Reported EPS	16.7	19.1	17.1	22.2	27.7
Adjusted EPS	16.7	19.1	17.1	22.2	27.7
Dividend per share	6.5	7.5	7.5	8.5	8.5
Book value per share	82.6	95.8	105.8	119.5	138.7

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
EV/Sales	8.1	6.1	5.0	4.4	3.9
EV/EBITDA	53.7	48.0	52.8	42.1	33.2
Adjusted P/E	80.9	70.6	78.8	60.7	48.7
P/BV	16.3	14.1	12.7	11.3	9.7

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	108.3	107.0
EBIT margin (EBIT/Revenue)	12.7	10.8	7.7	9.0	10.0
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	19.7	21.5

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)	25.6	26.6
Adjusted EPS	42.0	14.6	(10.4)	29.9	24.6
Profitability & Return ratios (%)					
EBITDA margin	15.0	12.6	9.5	10.5	11.7
EBIT margin	12.7	10.8	7.7	9.0	10.0
Adjusted profit margin	10.0	8.6	6.3	7.3	8.0
Adjusted ROAE	22.0	21.4	17.0	19.7	21.5
ROCE	19.3	18.5	17.0	22.3	21.1
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	39.4	48.7
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%

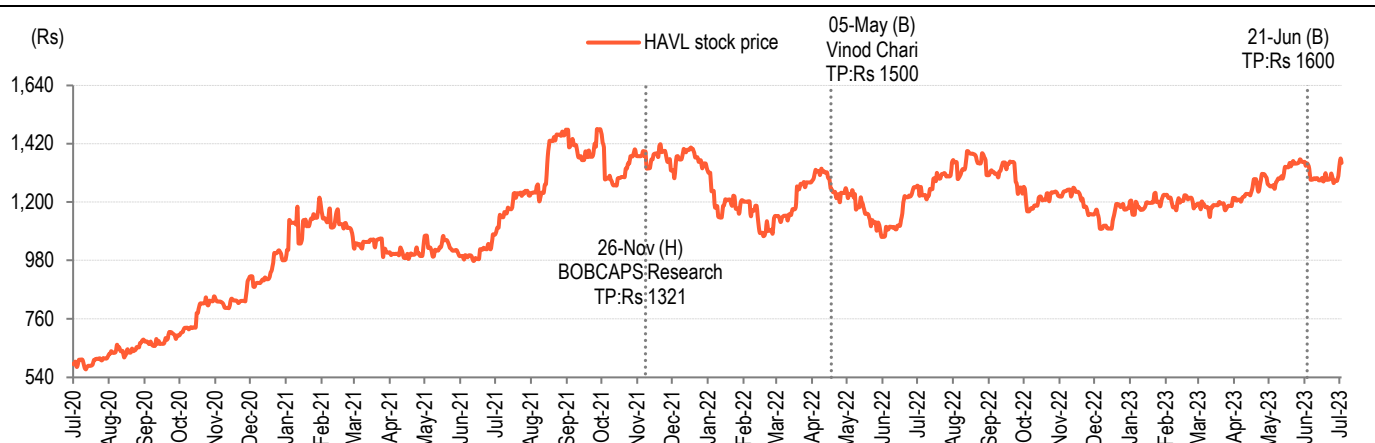
HOLD – Expected return from -6% to +15%

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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