

BUY

TP: Rs 1,500 | ▲ 24%

HAVELLS INDIA

| Consumer Durables

| 19 January 2023

Modest performance amid a challenging environment

- Middling Q3 revenue growth of 13% YoY owing to soft B2C demand; growth led purely by volumes as no price hikes undertaken on QoQ
- Margin recovery delayed to FY24 amid weak consumer sentiments and rebound in commodity prices
- FY23/FY24 EPS cut 21%/10% and target P/E lowered to 50x (vs. 53x); on rollover, our TP remains at Rs 1,500

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Poor B2C demand weighs on performance: In line with our expectations, HAVL reported modest topline growth of 12.6% YoY to Rs 41.3bn amidst weak consumer sentiments. EBITDA margin moderated by 180bps YoY (+250bps QoQ) to 10.3% due to losses at Lloyd and high-cost inventory in the system. While B2B witnessed robust demand, the B2C segment which is a major revenue contributor was weak due to inflationary trends.

Margin recovery delayed to FY24: The rebound in commodity prices late in the quarter is likely to disrupt the margin recovery anticipated for H2FY23. Additionally, Lloyd is unlikely to show improvement on this front. However, the electronic consumer durables (ECD) and wires segments reported improved margins QoQ in Q3. In another positive, the high-cost inventory has also been exhausted (ex-Lloyd).

Fans transition – a long-term positive: BEE transition norms in the fans segment have led to destocking of higher end fans whereas cheaper products are witnessing restocking. The transition is expected to increase the market opportunity for energy-efficient fans (premium and BLDC variants), proving beneficial for premium players such as HAVL over the long term. As per management, Q4FY23 is expected to be a normal quarter for the fans verticals despite its attempts to hike prices by 3-4%.

Estimates lowered; maintain BUY: Tepid consumer demand led to a moderate performance in Q3FY23. While Lloyd continues to suffer operational losses, margins in other segments are showing signs of improvement which is encouraging amidst a challenging business environment. In light of the uneven demand trends and delayed margin recovery, we cut our FY23/FY24 EPS estimates by 21%/10% and value the stock at a 50x P/E multiple vs. 53x earlier. Upon rolling valuations over to Dec'24E, our TP remains at Rs 1,500 – retain BUY.

Key changes

Target	Rating
◀▶	◀▶

Ticker/Price	HAVL IN/Rs 1,205
Market cap	US\$ 9.3bn
Free float	41%
3M ADV	US\$ 11.8mn
52wk high/low	Rs 1,406/Rs 1,025
Promoter/FPI/DII	60%/23%/11%

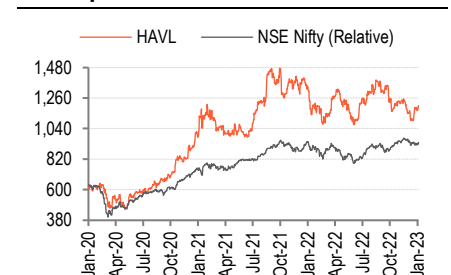
Source: NSE | Price as of 19 Jan 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	139,385	161,198	181,787
EBITDA (Rs mn)	17,604	15,435	21,636
Adj. net profit (Rs mn)	11,965	10,433	14,781
Adj. EPS (Rs)	19.1	16.7	23.6
Consensus EPS (Rs)	19.1	23.1	27.7
Adj. ROAE (%)	21.4	16.6	21.0
Adj. P/E (x)	63.1	72.4	51.1
EV/EBITDA (x)	42.9	48.9	34.9
Adj. EPS growth (%)	14.6	(12.8)	41.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

Particulars (Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
Revenue	41,276	36,642	12.6	36,794	12.2
EBITDA	4,236	4,402	(3.8)	2,868	47.7
EBITDA Margin (%)	10.3	12.0	(180bps)	7.8	250bps
Depreciation	746	662	-	721	-
Interest	73	123	-	68	-
Other Income	396	488	-	438	-
PBT	3,814	4,105	(7.1)	2,516	51.6
Tax	979	1,047	-	647	-
Adjusted PAT	2,835	3,058	(7.3)	1,870	51.6
Exceptional item	-	-	-	0	-
Reported PAT	2,835	3,058	(7.3)	1,870	51.6
Adj. PAT Margin (%)	6.9	8.3	(150bps)	5.1	180bps
EPS (Rs)	4.5	4.9	(7.3)	3.0	51.6

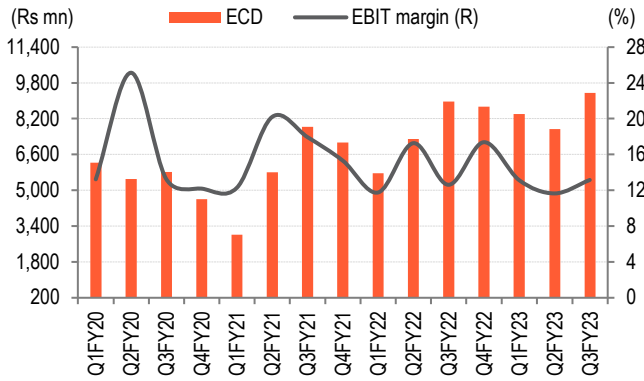
Source: Company, BOBCAPS Research

Fig 2 – Segment review

Particulars (Rs mn)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Revenue									
ECD	7,831	7,124	5,763	7,294	8,955	8,727	8,396	7,735	9,357
Lighting	3,626	3,367	2,144	3,591	4,129	4,052	3,737	4,018	4,232
Switch Gears	4,371	4,633	3,773	4,482	4,960	4,745	5,169	4,879	5,143
Cables & Wires	9,052	10,292	8,072	11,440	12,058	14,881	11,929	13,594	14,121
Llyod Consumer	5,116	5,906	4,975	3,463	4,698	9,596	10,938	4,198	6,103
EBIT									
ECD	1,405	1,090	676	1,257	1,128	1,515	1,100	900	1,228
EBIT margin (%)	17.9	15.3	11.7	17.2	12.6	17.4	13.1	11.6	13.1
Lighting	831	698	331	784	874	633	614	576	536
EBIT margin (%)	22.9	20.7	15.5	21.8	21.2	15.6	16.4	14.3	12.7
Switchgear	1,372	1,234	1,031	1,218	1,448	1,239	1,354	1,220	1,271
EBIT margin (%)	31.4	26.6	27.3	27.2	29.2	26.1	26.2	25.0	24.7
Cables & wires	1,026	1,528	1,262	1,153	1,256	1,734	875	859	1,628
EBIT margin (%)	11.3	14.8	15.6	10.1	10.4	11.7	7.3	6.3	11.5
Lloyd Consumer	309	318	97	(188)	(429)	(215)	(563)	(840)	(600)
EBIT margin (%)	6.0	5.4	2.0	(5.4)	(9.1)	(2.2)	(5.1)	(20.0)	(9.8)

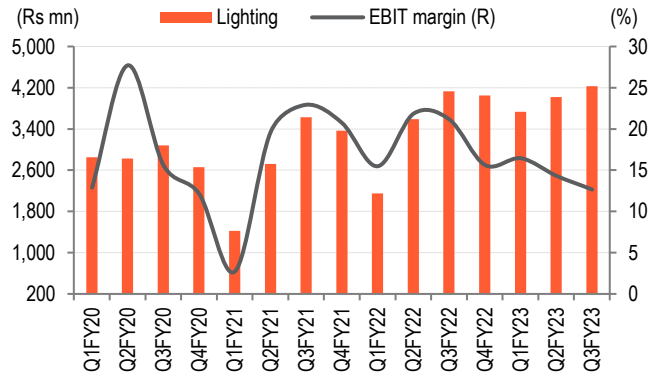
Source: Company, BOBCAPS Research

Fig 3 – ECD growth trend



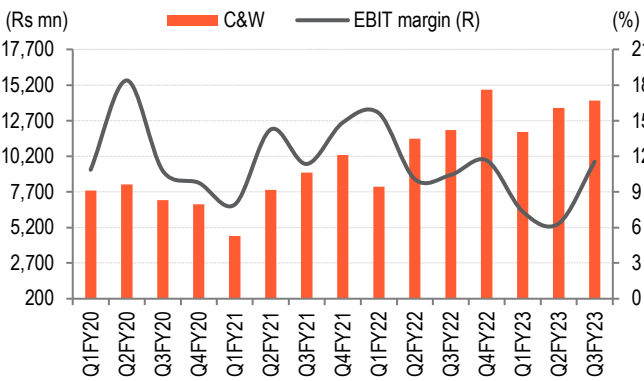
Source: Company, BOBCAPS Research

Fig 4 – Lighting growth trend



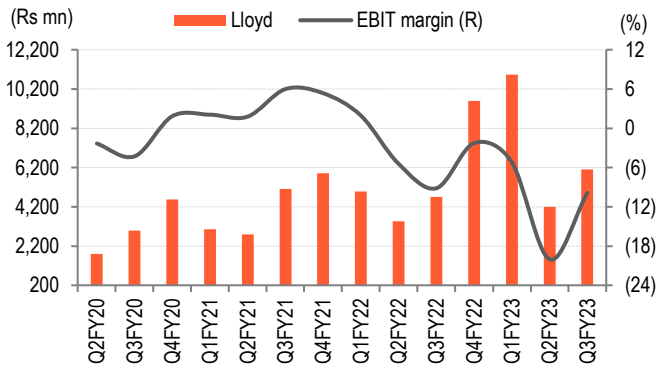
Source: Company, BOBCAPS Research

Fig 5 – C&W growth trend



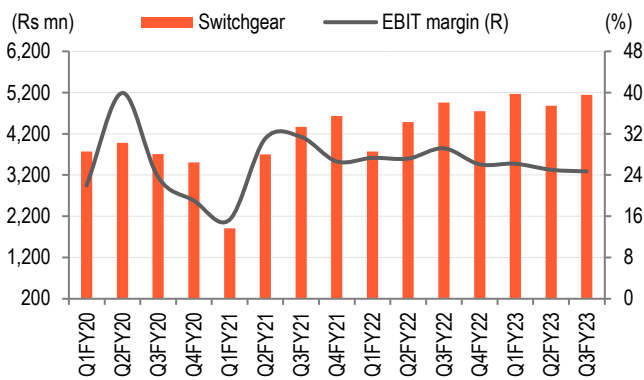
Source: Company, BOBCAPS Research

Fig 6 – Lloyd growth trend



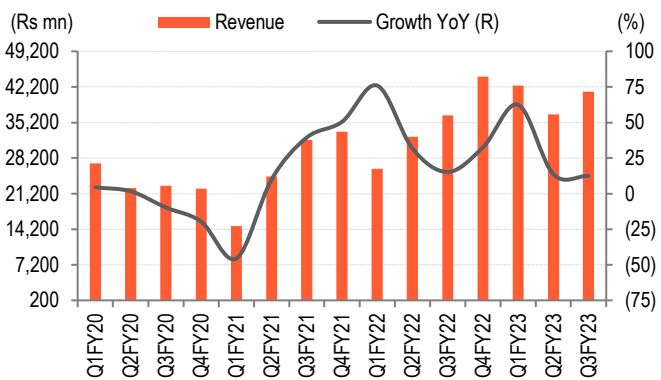
Source: Company, BOBCAPS Research

Fig 7 – Switchgear growth trend



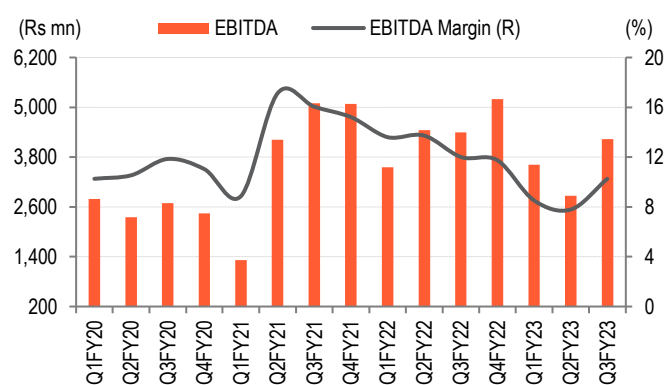
Source: Company, BOBCAPS Research

Fig 8 – Revenue growth trend



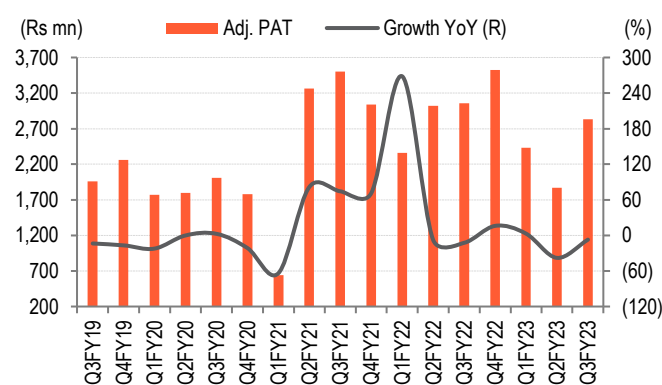
Source: Company, BOBCAPS Research

Fig 9 – EBITDA growth trend



Source: Company, BOBCAPS Research

Fig 10 – Adj. PAT growth trend



Source: Company, BOBCAPS Research

Earnings call highlights

- B2C demand:** Inflationary trends over the last 1-1.5 years are slowing down consumer demand. Contrary to industry expectations, commodity prices are yet to stabilise, rendering demand trends in the B2C segment unpredictable. However, the B2B vertical has performed well in Q3FY23 led by robust demand (HAVL’s B2C:B2C mix at 75:25 ex-Lloyd).
- Margins:** Management expects margin recovery to be gradual and ruled out any positive surprises for Q4FY23. Improvement is likely only from FY24. The rebound in commodity prices toward the end of Q3 has dampened hopes of margin recovery and better pricing power.
- Price hikes:** No pricing action was undertaken in Q3FY23, but the company is aiming for hikes of 3-4% in Q4. These will not be margin-accretive in nature as costs are also increasing.
- Inventory management:** HAVL’s high-cost inventory has been funneled out but that held by Lloyd will be exhausted only in Q4FY23. Inventory in other verticals (fans, lighting, wires) is at normal levels and not a concern, per management.
- Fans:** HAVL is not focused on the economy category in fans; thus, pre-buying in December ahead of the new energy-efficiency norms did not benefit the company. The lower segment is witnessing restocking while higher rated fans are seeing destocking. Distribution channels are carrying normal inventory levels.
- Star rating change in fans:** The new BEE (Bureau of Energy Efficiency) rating norms are likely to spur industry consolidation in favour of organised players, but the near-term outlook is uncertain. More clarity will emerge once consumer trends are identified. Over the long term, we expect top players to be the biggest beneficiaries. HAVL anticipates a normalised Q4FY23 for fans, wherein price increases should be offset by benefits from its flexible supply chain.
- Supply chain:** Going forward, management expects the supply chain for fans to become more domestic-oriented, implying reduced dependency on imports. The company sees scope for in-house manufacturing and for ‘made in India’ over

'assembled in India'. Structural changes are taking place on this front, but the transition is still some time away.

- **Lighting:** Contribution margins were normal at 28-30% in Q3. The professional lighting business delivered a better performance, whereas the consumer segment remained weak (60% of overall lighting business). Management believes the lighting space is likely to exhibit good traction in the medium term.
- **Switchgears:** Construction demand is witnessing a blip, but management remains optimistic in its longer-term outlook citing an uptick in the property cycle.
- **Wires:** Commodity inflation has led to mild volatility in the wires business, which affected secondary demand. Competitive intensity is expected to remain high, though the company remains well entrenched in the sector. In recent years, the unorganised to organised shift has turned beneficial for industry leaders like HAVL.
- **ECD:** ECD margins had been declining due to inflationary trends but are now showing signs of recovery, though HAVL believes the next 1-2 quarters could be challenging due to volatile raw material trends. The company considers 13-15% to be a normal range. The high range of 16-17% in Q2FY21-Q4FY22 was due to Covid-led cuts on advertising spend.
- **Lloyd:** Lloyd maintained its growth momentum in Q3 with better sales; however, margin recovery was weak. Management expects improvement from Q4FY23 onwards. HAVL's capital deployment toward Lloyd is peaking and management does not foresee further investments.
- **Advertising spends & employee costs:** A&P spends have normalised to 3-3.5% of sales. Employee cost has increased and is likely to remain at these levels going forward given a thrust on people development.

Valuation methodology

Tepid consumer demand led to a moderate performance from HAVL in Q3FY23. While Lloyd continues to suffer operational losses, margins in other segments are showing signs of improvement which is encouraging amidst a challenging business environment. In light of the uneven demand trends and delayed margin recovery, we cut our FY23/FY24 EPS estimates by 21%/10% and value the stock at a 50x P/E multiple vs. 53x earlier. Additionally, the higher employee cost and increasing other expenses led to estimate cut. Upon rolling valuations over to Dec'24E, our TP remains at Rs 1,500 – retain BUY.

Fig 11 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Sales	161,198	181,787	209,657	158,658	178,918	206,336	1.6	1.6	1.6
EBITDA	15,435	21,636	28,890	19,292	23,817	28,227	(20.0)	(9.2)	2.3
PAT	10,433	14,781	19,678	13,277	16,403	19,172	(21.4)	(9.9)	2.6
EPS (Rs)	16.7	23.6	31.4	21.2	26.2	30.6	(21.4)	(9.9)	2.6
EBITDA Margin (%)	9.6	11.9	13.8	12.2	13.3	13.7	(260bps)	(140bps)	10bps

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- extended losses at Lloyd, and
- commodity price inflation.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	0.8	1,870	2,100	HOLD
Blue Star	BLSTR IN	1.5	1,240	1,350	HOLD
Crompton Greaves	CROMPTON IN	2.5	325	500	BUY
Dixon Technologies	DIXON IN	2.6	3,545	5,200	BUY
Havells India	HAVL IN	9.3	1,205	1,500	BUY
KEI Industries	KEII IN	1.7	1,540	1,900	BUY
Orient Electric	ORIENTEL IN	0.7	265	280	HOLD
Polycab India	POLYCAB IN	5.2	2,829	3,300	BUY
Syrma SGS	SYRMA IN	0.6	269	390	BUY
V-Guard Industries	VGRD IN	1.3	254	250	HOLD
Voltas	VOLT IN	3.2	790	950	HOLD

Source: BOBCAPS Research, NSE | Price as of 19 Jan 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Total revenue	104,573	139,385	161,198	181,787	209,657
EBITDA	15,718	17,604	15,435	21,636	28,890
Depreciation	2,489	2,609	2,919	3,113	3,876
EBIT	13,229	14,995	12,516	18,523	25,014
Net interest inc./(exp.)	(727)	(534)	(333)	(616)	(652)
Other inc./(exp.)	1,874	1,604	1,765	1,853	1,946
Exceptional items	0	0	0	0	0
EBT	14,376	16,066	13,948	19,760	26,307
Income taxes	3,932	4,101	3,515	4,980	6,629
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	10,443	11,965	10,433	14,781	19,678
Adjustments	0	0	0	0	0
Adjusted net profit	10,443	11,965	10,433	14,781	19,678

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Accounts payables	15,971	23,800	26,498	29,883	34,464
Other current liabilities	10,525	10,881	12,584	14,191	16,366
Provisions	0	0	0	0	0
Debt funds	4,922	3,955	3,922	4,104	4,350
Other liabilities	5,341	6,567	7,595	8,565	9,878
Equity capital	626	626	626	626	626
Reserves & surplus	51,137	59,403	65,137	74,592	88,945
Shareholders' fund	51,763	60,029	65,763	75,219	89,571
Total liab. and equities	88,523	105,232	116,362	131,961	154,629
Cash and cash eq.	19,591	27,014	26,659	33,905	46,660
Accounts receivables	5,637	7,663	8,776	9,945	11,442
Inventories	26,199	29,681	34,448	38,779	44,764
Other current assets	1,778	1,708	1,976	2,228	2,569
Investments	0	0	0	0	0
Net fixed assets	32,904	34,336	38,918	40,804	41,928
CWIP	899	572	662	746	861
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	1,515	4,258	4,925	5,554	6,405
Total assets	88,523	105,232	116,362	131,961	154,629

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash flow from operations	6,603	17,278	11,605	17,133	22,488
Capital expenditures	(1,536)	(2,528)	(7,500)	(5,000)	(5,000)
Change in investments	0	0	0	0	0
Other investing cash flows	(6,096)	(5,067)	272	257	347
Cash flow from investing	(7,632)	(7,595)	(7,228)	(4,743)	(4,653)
Equities issued/Others	98	312	0	0	0
Debt raised/repaid	14,883	0	(33)	182	246
Interest expenses	0	0	0	0	0
Dividends paid	(13,083)	(5,783)	(4,699)	(5,325)	(5,325)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	1,898	(5,472)	(4,732)	(5,144)	(5,079)
Chg in cash & cash eq.	869	4,212	(355)	7,246	12,756
Closing cash & cash eq.	19,591	27,014	26,659	33,905	46,660

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
Reported EPS	16.7	19.1	16.7	23.6	31.4
Adjusted EPS	16.7	19.1	16.7	23.6	31.4
Dividend per share	6.5	7.5	7.5	8.5	8.5
Book value per share	82.6	95.8	105.0	120.1	143.0

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
EV/Sales	7.2	5.4	4.7	4.2	3.6
EV/EBITDA	48.0	42.9	48.9	34.9	26.1
Adjusted P/E	72.3	63.1	72.4	51.1	38.4
P/BV	14.6	12.6	11.5	10.0	8.4

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Tax burden (Net profit/PBT)	72.6	74.5	74.8	74.8	74.8
Interest burden (PBT/EBIT)	108.7	107.1	111.4	106.7	105.2
EBIT margin (EBIT/Revenue)	12.7	10.8	7.8	10.2	11.9
Asset turnover (Rev./Avg TA)	3.2	4.1	4.1	4.5	5.0
Leverage (Avg TA/Avg Equity)	0.7	0.6	0.6	0.6	0.5
Adjusted ROAE	22.0	21.4	16.6	21.0	23.9

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
YoY growth (%)					
Revenue	10.8	33.3	15.7	12.8	15.3
EBITDA	52.8	12.0	(12.3)	40.2	33.5
Adjusted EPS	42.0	14.6	(12.8)	41.7	33.1
Profitability & Return ratios (%)					
EBITDA margin	15.0	12.6	9.6	11.9	13.8
EBIT margin	12.7	10.8	7.8	10.2	11.9
Adjusted profit margin	10.0	8.6	6.5	8.1	9.4
Adjusted ROAE	22.0	21.4	16.6	21.0	23.9
ROCE	22.0	20.5	16.0	20.5	23.3
Working capital days (days)					
Receivables	20	20	20	20	20
Inventory	91	78	78	78	78
Payables	56	62	60	60	60
Ratios (x)					
Gross asset turnover	2.5	3.2	3.3	3.3	3.5
Current ratio	1.9	1.8	1.8	1.9	2.0
Net interest coverage ratio	18.2	28.1	37.5	30.1	38.3
Adjusted debt/equity	0.1	0.1	0.1	0.1	0.0

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

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BUY – Expected return >+15%

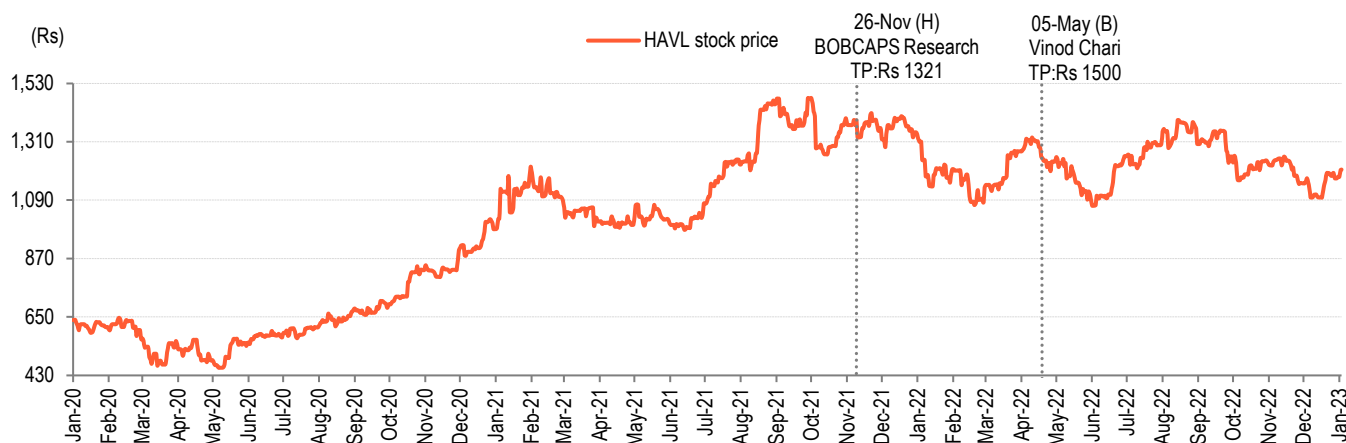
HOLD – Expected return from -6% to +15%

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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