

BUY

TP: Rs 1,500 | ▲ 20%

HAVELLS INDIA

| Consumer Durables

| 05 May 2022

Plenty of positives – BUY

- Strong Q4 topline aided by Lloyd and the wires & cables business, though RM inflation remained a drag on margins
- Intense summer to spur cooling product sales and pickup in real estate and infrastructure projects to buoy other segments
- Robust macros, solid brand and distribution, and healthy balance sheet are key positives – assume coverage with BUY and TP of Rs 1,500

Vinod Chari | Someel Shah
Tanay Rasal
researchreport@bobcaps.in

Strong topline but RM cost continues to dent margins: HAVL’s Q4FY22 revenue increased 33% YoY to Rs 44bn driven by growth across segments, especially cables and Lloyd’s consumer business which were up 45% and 63% YoY respectively. Gross margin contracted 820bps YoY to 29.3% as the company was unable to pass on higher raw material prices. EBIT margin declined 310bps YoY to 10.1% primarily due to a lower gross margin which was partially offset by higher operating leverage. Net income stood at Rs 3.5bn, up 16% YoY.

Sharp uptick in construction and housing bodes well: Following unlocking of the economy, demand for housing has surged given lower interest rates coupled with stagnating property prices. This has led to a faster-than-expected pickup in new construction. HAVL will be a key beneficiary, being the market leader in cables, switches and switchgears, all categories closely linked to construction activity. Additionally, being the market leader, the company is in a better position to pass on the higher raw material costs as compared to peers in these segments.

Lloyd continues to improve but profits awaited: The room AC (RAC) market is highly competitive with 20+ players, but Lloyd has done well in terms of its positioning. Raw material inflation has led to a ~20% rise in AC prices over the last two years but this increase is not flowing into margins as the company has been limiting price hikes in order to gain market share. HAVL’s segment margin ex-Lloyd has remained in the mid-to-high teens, whereas Lloyd has reported a negative margin for three consecutive quarters despite strong topline growth. However, as market share rises and commodity prices cool off, we expect Lloyd to turn profitable in FY23.

BUY – TP Rs 1,500: HAVL’s will continue to benefit from its diversified product categories and market leadership. We expect a robust macro climate, solid brand and distribution, and healthy balance sheet will underpin growth. Margin improvement is the only box to be checked, which we believe will occur once commodity prices stabilise. Since the pandemic, the stock has eroded and is currently trading at 44.9x FY24E P/E. We value HAVL at 53x FY24E EPS, a 10% premium to its 5Y average, for a TP of Rs 1,500 and assume coverage with BUY.

Key changes

	Target	Rating
	▲	▲

Ticker/Price	HAVL IN/Rs 1,253
Market cap	US\$ 10.3bn
Free float	41%
3M ADV	US\$ 16.5mn
52wk high/low	Rs 1,504/Rs 958
Promoter/FPI/DII	59%/24%/8%

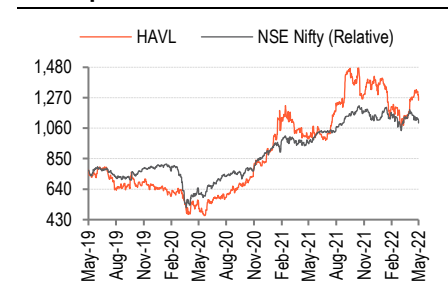
Source: NSE | Price as of 4 May 2022

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)	19.2	23.2	26.9
Adj. ROAE (%)	21.4	23.1	22.8
Adj. P/E (x)	65.6	52.0	44.9
EV/EBITDA (x)	44.0	34.5	29.8
Adj. EPS growth (%)	22.0	26.0	15.9

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

Stock performance



Source: NSE



Fig 1 – Quarterly and annual performance

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
Revenue (post indirect taxes)	44,263	33,392	32.6	36,642	20.8	1,39,385	1,04,573	33.3
Cost of Revenue	(31,301)	(20,882)	49.9	(24,826)	26.1	(94,220)	(64,897)	45.2
Gross Profit	12,961	12,510	3.6	11,816	9.7	45,165	39,676	13.8
Gross Margin (%)	29.3	37.5	(818bps)	32.2	(297bps)	32.4	37.9	(554bps)
Employee Benefits Expense	(2,769)	(2,598)	6.6	(2,588)	7.0	(10,207)	(8,906)	14.6
Other Expense	(4,993)	(4,830)	3.4	(4,826)	3.5	(17,354)	(15,052)	15.3
Other Income	0	0	-	0	-	0	0	-
EBITDA	5,199	5,082	2.3	4,402	18.1	17,604	15,718	12.0
EBITDA margin (%)	11.7	15.2	(347bps)	12.0	(27bps)	12.6	15.0	(240bps)
Depreciation & Amortization	(707)	(650)	8.8	(662)	6.9	(2,609)	(2,489)	4.8
EBIT	4,492	4,432	1.4	3,740	20.1	14,995	13,229	13.4
EBIT margin (%)	10.1	13.3	(312bps)	10.2	(6bps)	10.8	12.7	(189bps)
Interest Income	0	0	-	0	-	0	0	-
Interest Expense	(191)	(235)	(19.0)	(123)	54.9	(534)	(727)	(26.5)
Dividend	0	0	-	0	-	0	0	-
Other Financial Items	441	367	20.3	488	(9.7)	1,604	1,874	(14.4)
Forex	0	0	-	0	-	0	0	-
Total Financials	251	132	90.6	365	(31.4)	1,070	1,147	(6.7)
Income after financial items	4,743	4,563	3.9	4,106	15.5	16,066	14,376	11.8
Margin (%)	10.7	13.7	(295bps)	11.2	(49bps)	11.5	13.7	(222bps)
Associate Income	0	0	-	0	-	0	0	-
Pretax income	4,743	4,563	3.9	4,106	15.5	16,066	14,376	11.8
Total Non-Recurring	0	0	-	0	-	0	0	-
Reported Pretax	4,743	4,563	3.9	4,106	15.5	16,066	14,376	11.8
Taxation	0	0	-	0	-	0	0	-
Total	(1,218)	(1,525)	(20.2)	(1,047)	16.3	(4,101)	(3,932)	4.3
% of pretax income before Associates	26	33	(23.2)	26	0.0	102	108	0.0
Net income before minorities	3,525	3,038	16.0	3,058	15.3	11,965	10,443	14.6
Minorities	0	0	-	0	-	0	0	-
Net income after minorities	3,525	3,038	16.0	3,058	15.3	11,965	10,443	14.6
Tax on non-core	0	0	-	0	-	0	0	-
Core net income	3,525	3,038	16.0	3,058	15.3	11,965	10,443	14.6
Net margin (%)	8.0	9.1	(114bps)	8.3	(38bps)	8.6	10.0	(140bps)

Source: Company, BOBCAPS Research

Fig 2 – Segment performance

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
Revenue								
Switchgears	4,745	4,633	2.4	4,960	(4.3)	17,960	14,609	22.9
Cable	14,881	10,292	44.6	12,058	23.4	46,451	31,802	46.1
Lighting and Fixtures	4,052	3,367	20.3	4,129	(1.9)	13,907	11,140	24.8
Electrical Consumer Durables	8,727	7,124	22.5	8,955	(2.5)	30,739	23,770	29.3
Lloyd Consumer	9,596	5,906	62.5	4,698	104.2	22,732	16,888	34.6
Others	2,261	2,070	9.2	1,841	22.8	7,587	6,365	19.2
Segment Profit								
Switchgears	1,239	1,234	0.4	1,448	(14.5)	4,935	4,047	22.0
Cable	1,734	1,528	13.5	1,256	38.1	5,405	4,038	33.9
Lighting and Fixtures	633	698	(9.3)	874	(27.6)	2,622	2,102	24.8
Electrical Consumer Durables	1,515	1,090	39.0	1,128	34.3	4,576	4,037	13.4
Lloyd Consumer	(215)	318	(167.6)	(429)	(49.8)	(735)	741	(199.1)
Others	269	145	86.0	44	510.9	569	310	83.7
Segment Margin (%)								
Switchgears	26.1	26.6	(53bps)	29.2	(309bps)	27.5	27.7	(22bps)
Cable	11.7	14.8	(319bps)	10.4	124bps	11.6	12.7	(106bps)
Lighting and Fixtures	15.6	20.7	(511bps)	21.2	(556bps)	18.9	18.9	(1bps)
Electrical Consumer Durables	17.4	15.3	206bps	12.6	476bps	14.9	17.0	(210bps)
Lloyd Consumer	(2.2)	5.4	(762bps)	(9.1)	688bps	(3.2)	4.4	(762bps)
Others	11.9	7.0	491bps	2.4	950bps	7.5	4.9	263bps

Source: Company, BOBCAPS Research

Valuation methodology

HAVL's will continue to benefit from its diversified product categories and market leadership. We expect a robust macro climate, solid brand and distribution, and healthy balance sheet to underpin growth. Margin improvement is the only box that needs to be checked, which we believe will occur once commodity prices stabilise.

Since the pandemic, HAVL has seen a rerating and is currently trading at 44.9x FY24E EPS. We assume coverage of the stock with a BUY rating and a TP of Rs 1,500, set at an FY24E P/E multiple of 53x, a 10% premium to its five-year average given the company's diverse product categories and strong distribution reach.

Fig 3 – Estimates vs. Consensus

(Rs mn)	BOBCAPS		Bloomberg		Variance (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	158.8	182.1	151.1	171.8	5.1	6.0
EBITDA	22.3	25.8	20.5	24.1	9.0	6.9
EBIT	19.1	22.3	18.2	21.2	5.2	5.3
Pretax Income	20.1	23.2	19.3	23.1	3.9	0.6
Net Income	15.1	17.5	14.4	17.3	4.4	1.3
EPS (Rs)	24.1	27.9	23.1	27.6	4.1	1.0

Source: Bloomberg, BOBCAPS Research

Key risks

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	1.6	3,692	3,471	HOLD
Blue Star	BLSTR IN	1.4	1,127	1,371	BUY
Crompton Greaves	CROMPTON IN	3.0	370	621	BUY
Dixon Technologies	DIXON IN	2.9	3,810	5,431	HOLD
Havells India	HAVL IN	10.3	1,253	1,500	BUY
Orient Electric	ORIENTEL IN	0.9	323	381	HOLD
Polycab India	POLYCAB IN	4.7	2,428	2,401	HOLD
V-Guard Industries	VGRD IN	1.2	207	321	BUY
Voltas	VOLT IN	5.0	1,145	1,271	HOLD
Whirlpool India	WHIRL IN	2.7	1,627	2,901	BUY

Source: BOBCAPS Research, NSE | Price as of 4 May 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	8.2	7.4	5.6	4.8	4.2
EV/EBITDA	77.4	49.5	44.0	34.5	29.8
Adjusted P/E	108.7	80.0	65.6	52.0	44.9
P/BV	18.2	15.2	13.1	11.1	9.5

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%

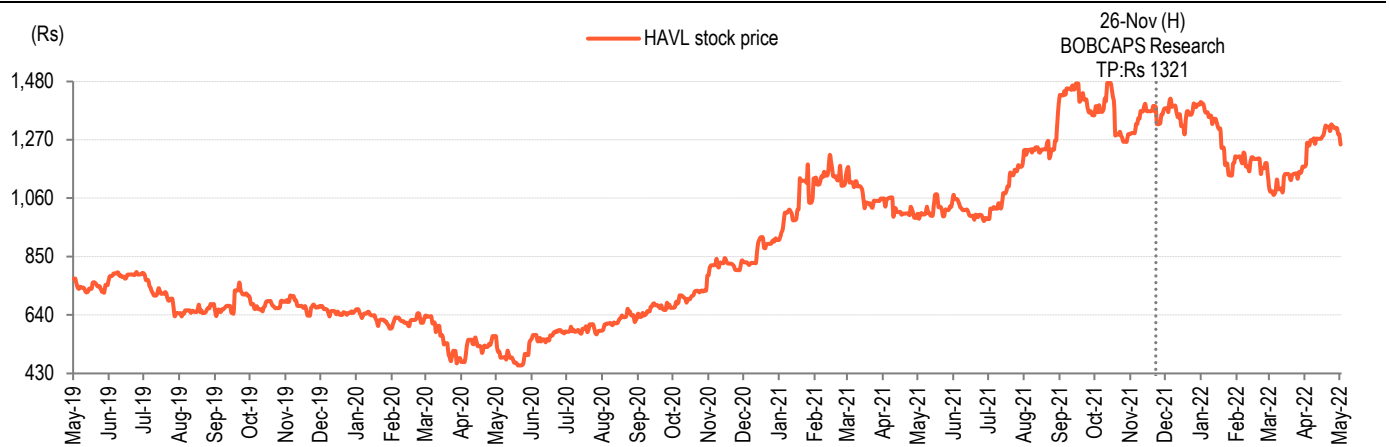
HOLD – Expected return from -6% to +15%

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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