

October 17, 2024

RESULT REPORT Q2 FY25 | Sector: Consumer Durables

# Havells India Ltd

**Strong B2C performance drives growth, margins set to improve; upgrade to Neutral**

## Result Synopsis

Havells strong revenue growth has been driven by better performance of B2C segment which grew by 17% yoy, demand outlook remains positive with festive season expected to fare better than previous year. B2B and B2G demand is expected to make come back as capex cycle continues to remain healthy and government orders are expected to pickup pace as elections are done with and normal business resumes. Gross margins have expanded on yoy basis, while EBITDA margin contraction is largely on account of higher A&P spends and advancement of A&P spends to Q2. Lloyds continues to fare better in both topline growth and improving profitability which has been positive. Management expects margins to return to its normalized levels as employee expenses will get normalized as revenue starts to trickle in medium term. We believe margins should improve from the current levels given the contribution margins are strong and operating leverage will result in margin improvement as revenue growth remains healthy.

We are factoring FY24-27E Revenue/EBITDA/PAT CAGR of 16%/23%/24%. Our EPS estimates for FY25 are marginally revised downwards while FY26 EPS remains unchanged. We have introduced FY27 estimates with revenue growth of 15% and EBITDA growth of 18%. Expect continued B2C consumer demand on back of real estate uptick and positive sentiments, while continued industrial and infrastructure led demand will result in strong B2B growth as well. Considering improved demand environment and strong potential of margin improvement we upgrade the stock to Neutral with PT of Rs 1,942 valuing the company at 50x FY27 EPS.

## Result Highlights

- Revenue beats estimates-** Havells delivered better than expected revenue growth on back of strong performance of B2C business, which grew by 17% yoy.
- Margins -**Gross margins has seen improvement of ~45bps on yoy basis on better product mix. EBITDA margin at 8.4% has contracted on yoy and sequential basis on back of higher employee expenses and advancement of A&P spends.
- Price revisions -** The company has increased prices across the product category. Price increase has resulted in gross margin improvement. Further stabilization in commodity prices will result in normalized margins for wires and cables.
- Lloyd -** Lloyd has registered 19% yoy growth with growth in non-AC segment being better as compared to RAC. Contribution margin for non-AC products are lower as compared to AC as some non-AC products still continues to be bought. Contribution margin for non-AC products will improve once in-house production starts.

## Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	45,330	44,699	43,480	1.4	4.3	Higher employee expense and advancement of A&P spends impacted margins.
EBITDA	3,800	4,485	4,630	-15.3	-17.9	
EBITDA Margin (%)	8.4	10.0	10.6	-160 bps	-220 bps	
Adjusted PAT	2,726	3,177	3,150	-14.2	-13.5	

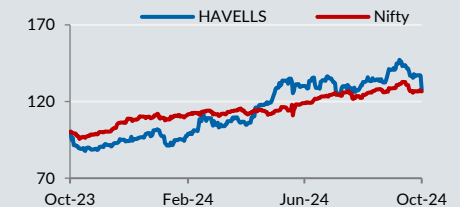
Source: Company, YES Sec

Reco	: NEUTRAL
CMP	: Rs 1,806
Target Price	: Rs 1,942
Potential Return	: +7.6%

## Stock data (as on Oct 17, 2024)

Nifty	24750
52 Week h/l (Rs)	2106 / 1233
Market cap (Rs/USD mn)	1212944 / 14437
Outstanding Shares (mn)	627
6m Avg t/o (Rs mn):	1,996
Div yield (%):	0.5
Bloomberg code:	HAVL IN
NSE code:	HAVELLS

## Stock performance



	1M	3M	1Y
Absolute return	-10.0%	-3.7%	30.5%

## Shareholding pattern (As of Mar'24 end)

Promoter	59.4%
FII+DII	35.0%
Others	5.6%

## Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	REDUCE
Target Price	1,942	1,792

## Δ in earnings estimates

	FY26e	FY27e
EPS (New)	32.5	38.8
EPS (Old)	32.6	NA
% change	-0.3%	NA%

## Financial Summary

(Rs mn)	FY25E	FY26E	FY27E
Revenue	218,431	251,027	287,147
YoY Growth	17.8%	14.9%	14.4%
EBITDA	22,935	29,119	34,458
YoY Growth	24.3%	27.0%	18.3%
PAT	15,829	20,348	24,346
YoY Growth	24.3%	28.5%	19.6%
ROE	19.9	22.4	23.2
EPS	25.3	32.5	38.8
P/E	71.5	55.6	46.5
BV	134.6	155.1	179.6
EV/EBITDA	49.0	38.2	31.9

## AAKASH FADIA

Analyst

aakash.fadia@ysil.in



## Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs mn)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	y/y %	q/q %	1HFY25	1HFY24	y/y %
Sales	38,912	44,006	54,343	57,981	45,330	16.5	(21.8)	103,311	87,250	18.4
EBITDA	3,720	4,398	6,368	5,762	3,800	2.2	(34.0)	9,562	7,750	23.4
EBITDA Margin %	9.6	10.0	11.7	9.9	8.4			9.3	8.9	4.2
Depreciation	812	877	934	920	946	16.6	2.8	1,866	1,575	18.5
EBIT	2908	3522	5434	4842	2854	(1.9)	(41.1)	7,696	6,175	24.6
EBIT Margin %	7.5	8.0	10.0	8.4	6.3			7.4	7.1	5.3
Interest charges	93	102	177	86	101	8.0	17.9	186	178	4.7
Other Income	523.9	559.4	757.1	770.3	927.6	77.1	20.4	1,698	1,172	44.8
PBT	3339	3979	6014	5527	3681	10.3	(33.4)	9,208	7,170	28.4
Tax	863	1029	1526	1415	955	10.7	(32.5)	2,370	1,813	30.7
Effective Tax Rate (%)	25.7	26.3	25.4	25.6	25.9	0.9	1.3	26	25.3	1.8
PAT	2491	2878	4489	4112	2726	9.4	(33.7)	6,838	5,362	27.5
PAT Margin %	6.4	6.5	8.3	7.1	6.0			6.6	6.1	7.7
EPS (Rs)	4.0	4.6	7.2	6.6	4.4	9.4	(33.7)	11	9	27.5

Source: Company, YES Sec

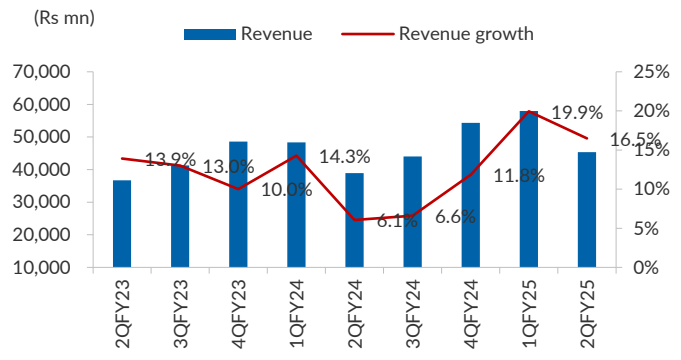
## Exhibit 3: Segmental Performance

Rs mn	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	y/y %	q/q %	1HFY25	1HFY24	y/y %
Switchgears	5,324	5,206	6,513	5,759	5,513	3.5	(4.3)	11,271	10,732	5.0
Cable and Wires	14,702	15,727	17,896	15,212	18,052	22.8	18.7	33,264	29,553	12.6
Lighting and Fixtures	3,965	4,299	4,334	3,856	3,909	(1.4)	1.4	7,765	7,675	1.2
Electrical Consumer Durables	7,331	9,613	9,104	10,549	8,564	16.8	(18.8)	19,113	16,106	18.7
Lloyds	4,930	6,467	13,401	19,241	5,874	19.2	(69.5)	25,116	18,039	39.2
Others	2,662	2,695	3,096	3,365	3,418	28.4	1.6	6,783	5,145	31.8
Total Sales	38,912	44,006	54,343	57,981	45,330	16.5	(21.8)	103,311	87,250	18.4
PBIT										
Switchgears	1407	1256	1836	1419	1150	(18.3)	(19.0)	2,569	2,905	(11.6)
PBIT %	26.4	24.1	28.2	24.6	20.9			2.5	3.3	
Cable and Wires	1707	1633	2154	1711	1548	(9.3)	(9.5)	3,259	3,397	(4.1)
PBIT %	11.6	10.4	12.0	11.2	8.6			3.2	3.9	
Lighting and Fixtures	569	612	787	630	505	(11.3)	(19.8)	1,135	1,102	3.1
PBIT %	14.4	14.2	18.2	16.3	12.9			1.1	1.3	
Electrical Consumer Durables	848	1073	1025	1147	643	(24.2)	(44.0)	1,790	1,805	(0.8)
PBIT %	11.6	11.2	11.3	10.9	7.5			1.7	2.1	
Lloyds	-733	-652	372	674	-224	(69.5)	(133.2)	450	-1,349	(133.4)
PBIT %	-14.9	-10.1	2.8	3.5	-3.8			0.4	-1.5	
Others	40	44	89	110	66	63.3	(40.5)	176	128	
PBIT %	1.5	1.6	2.9	3.3	1.9			0.2	0.1	
Total PBIT	3,838	3,965	6,262	5,691	3,688	(3.9)	(35.2)	9,379	7,988	17.4
Finance Costs	93	102	177	86	101	8.0	17.9	186	178	4.5
Unallocable expense	915	516	828	849	834	(8.9)	(1.8)	1,683	1,808	(6.9)
as % of sales	2.4	1.2	1.5	1.5	1.8			1.6	1.3	
Exceptional Items	0	0	0	0	0			0	0	
PBT	3354	3907	6014	5527	3681	9.8	(33.4)	9,208	7,174	28.3

Source: Company, YES Sec

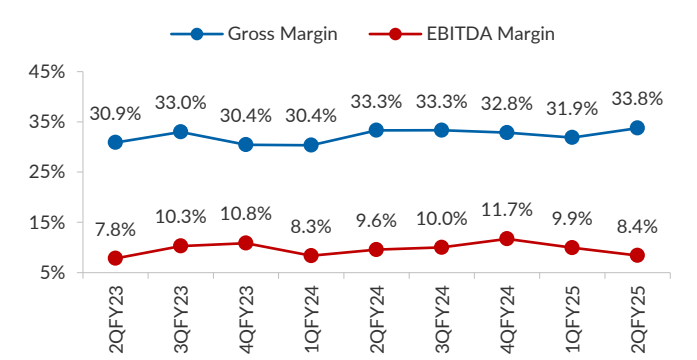
## CHARTS

**Exhibit 4: Strong performance of B2C categories have resulted in double-digit revenue growth**



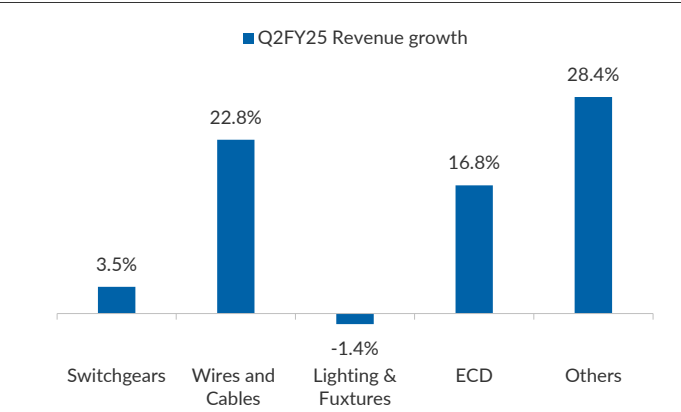
Source: Company, YES Sec

**Exhibit 5: Higher employee expense and brand investments results in lower EBITDA margin**



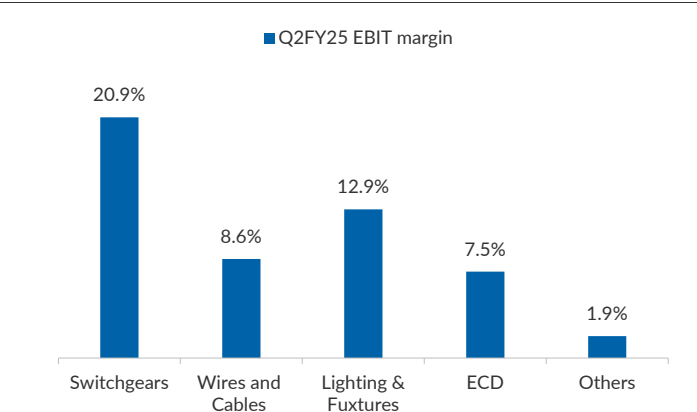
Source: Company, YES Sec

**Exhibit 6: B2C product categories have seen higher growth**



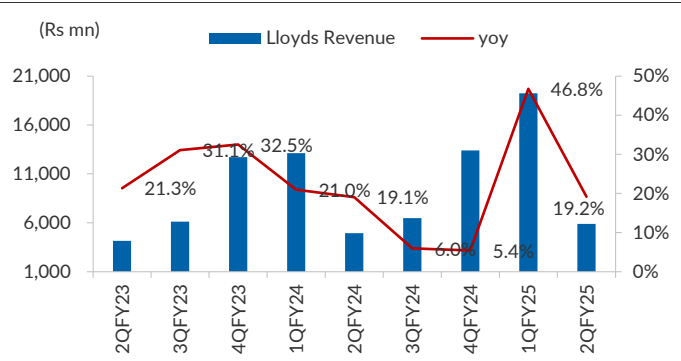
Source: Company, YES Sec

**Exhibit 7: Margins have been lower despite strong growth**



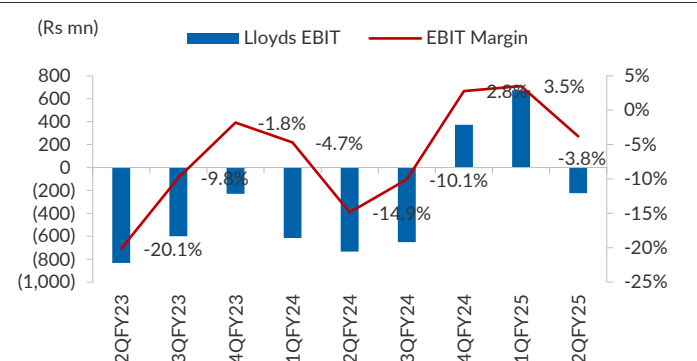
Source: Company, YES Sec

**Exhibit 8: Non -AC products revenue growth has been higher as compared to RAC**



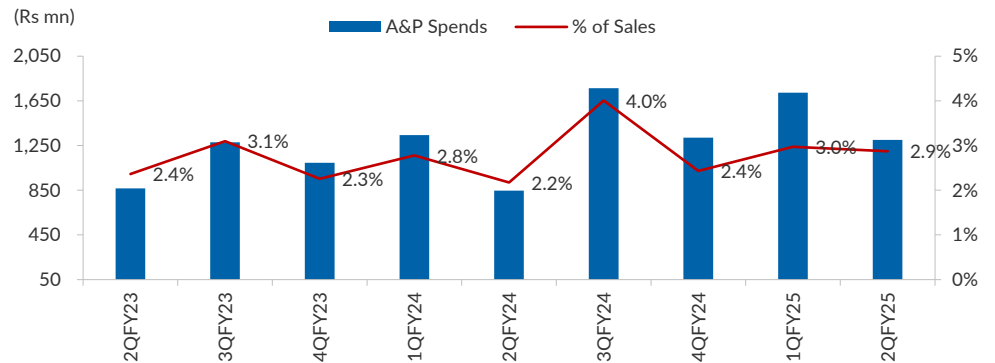
Source: Company, YES Sec

**Exhibit 9: Costs reduction has resulted in curtailing Lloyd losses**



Source: Company, YES Sec

**Exhibit 10: A&P continues to be on the higher side**



Source: Company, YES Sec

**Exhibit 11: Revenue and Margin Assumption**

Rs mn	FY23	FY24	FY25E	FY26E	FY27E
Switchgear	21196	22450	25099	27609	30369
% yoy growth	19%	6%	12%	10%	10%
Cables and wires	55326	63176	73347	86549	103859
% yoy growth	19%	14%	16%	18%	20%
Lighting and Fixtures	16015	16268	17081	18789	20668
% yoy growth	17%	2%	5%	10%	10%
Electrical consumer durables	32958	34818	40737	46847	52469
% yoy growth	7%	6%	17%	15%	12%
Lloyd's consumer	33686	37852	49208	56589	63380
% yoy growth	49%	12%	30%	15%	12%
Others	9503	10936	12959	14644	16401
% yoy growth	25%	15%	19%	13%	12%
<b>Total Revenue</b>	<b>168684</b>	<b>185499</b>	<b>218431</b>	<b>251027</b>	<b>287147</b>
% yoy growth	21%	10%	18%	15%	14%

Rs mn	FY22	FY23	FY24E	FY25E	FY26E
Switchgear	5564	5960	6149	6902	7896
% margin	26%	27%	25%	25%	26%
Cables and wires	5247	7161	7921	9953	12152
% margin	9%	11%	11%	12%	12%
Lighting and Fixtures	2469	2474	2562	2818	3100
% margin	15%	15%	15%	15%	15%
Electrical consumer durables	4189	3872	4440	5387	6296
% margin	13%	11%	11%	12%	12%
Lloyd's consumer	-2,209	-1,644	1,230	1,981	3,169
% margin	-7%	-4%	3%	4%	5%
Others	350	246	467	732	1,148
% margin	4%	2%	4%	5%	7%
<b>Total PBIT</b>	<b>15609</b>	<b>18068</b>	<b>22770</b>	<b>27774</b>	<b>33761</b>
% margin	9%	10%	10%	11%	12%

## KEY CON-CALL HIGHLIGHTS

- **Management commentary** – Delivered satisfactory growth, while volatility in commodity prices impacted margins. Margins should normalize as raw material prices stabilize. Commissioned new cables facility, which will start contributing from Q4 onwards. The company has committed additional capex of Rs4.5bn for cables plant as demand for power cables remains healthy. **The company expects HAVL to return to normalize margin levels soon.**
- **Festive demand** – Quarter has started on the positive note and management expects current festive season to be better than previous year.
- **Switchgears and Switches** – The company expects low double digit revenue growth to be sustainable basis. B2C Switches has seen strong double digit growth, while industrial switchgear has seen decline.
- **ECD** – ECD is now seeing good growth in Fans, appliances and water heater. ECD growth has been uniform across the product categories.
- **Employee expense** – Employee costs will be higher in the near term on commissioning of plant, however employee expenses will normalize as revenue from cables plant starts to contributing.
- **Lloyd** – Growth in non-AC segment has been better as compared to RAC. Q2 is the seasonally weak for RAC, LED television and Refrigerator has been doing better as compared to washing machine. Contribution margin for non-AC products are lower as compared to AC as some non-AC products still continues to be bought. Contribution margin for non-AC products will improve once in-house production starts.
- **Kitchen Appliances**- Company believes kitchen appliances space will be exciting in coming time. The company is looking to invent and be ahead of competition in kitchen space
- **Wires and cables** – Growth in wires and cables has been driven by wires. The company had experienced lower growth in Q1 for wires. Volatility in raw material had impacted margins. Increased capacity will lead to decent growth in medium term. Margins are expected to be normalized in Q3 as prices have been passed on in wires and cables
- **Exports** – The company has started small exports in the middle-east, products are still under development. FY26 will be better for exports.
- **Price hikes** – Ex of wires and cables prices have been increased across all the categories, while pricing in wires and cables depends on copper prices.
- **B2B vs B2C**- B2B segment has delivered growth of 9%, while B2C saw strong growth of 17%.
- **A&P spends**- A&P spends would be in the range of 2.5-3% on the annualized basis.
- **Lighting price erosion** – Expect LED prices to bottom out in Q3 or Q4 of the FY25, expect FY26 to be better for lighting.
- **Capex** – Capex for next two years is Rs19bn off which Rs10bn will happen in FY25.

## FINANCIALS

### Exhibit 12: Balance Sheet

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Equity capital	627	627	627	627	627
Reserves	65,518	73,758	83,742	96,577	111,934
Net worth	66,145	74,385	84,369	97,204	112,561
Debt	0	0	0	0	0
Deferred tax liab (net)	3,615	3,575	3,575	3,575	3,575
Other non current liabilities	3,349	3,453	4,015	4,604	5,257
Total liabilities	73,109	81,413	91,960	105,384	121,393
Fixed Asset	37,870	42,865	46,153	46,135	45,810
Investments	2,013	412	412	412	412
Other Non-current Assets	2,840	2,262	2,602	2,938	3,310
Net Working Capital	25,818	33,441	36,462	37,891	39,473
Inventories	37,085	34,085	46,678	53,644	61,363
Sundry debtors	9,713	11,572	11,370	13,067	14,947
Loans and Advances	0	0	0	0	0
Sundry creditors	26,425	26,907	34,111	39,202	44,842
Other current liabilities	9,148	13,102	15,276	17,429	19,814
Cash & equivalents	4,569	2,434	6,331	18,008	32,388
Total Assets	73,109	81,413	91,960	105,384	121,393

Source: Company, YES Sec

### Exhibit 13: Income statement

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	168,684	185,499	218,431	251,027	287,147
Operating profit	16,030	18,453	22,935	29,119	34,458
Depreciation	2,961	3,385	3,917	4,223	4,530
Interest expense	336	457	411	370	333
Other income	1,770	2,487	2,650	2,800	3,100
Profit before tax	14,503	17,098	21,257	27,326	32,695
Taxes	3,753	4,366	5,428	6,978	8,349
Minorities and other	-	-	-	-	-
Adj. profit	10,750	12,732	15,829	20,348	24,346
Exceptional items	-	-	-	-	-
Net profit	10,750	12,732	15,829	20,348	24,346

Source: Company, YES Sec

## Exhibit 14: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Profit before tax	14,839	17,555	21,668	27,696	33,028
Depreciation	2,961	3,385	3,917	4,223	4,530
Tax paid	(3,753)	(4,366)	(5,428)	(6,978)	(8,349)
Working capital Δ	(4,455)	(5,814)	(3,022)	(1,428)	(1,583)
Other operating items					
Operating cashflow	9,592	10,760	17,136	23,513	27,626
Capital expenditure	(5,924)	(8,380)	(7,205)	(4,205)	(4,205)
Free cash flow	3,668	2,380	9,931	19,308	23,421
Equity raised	208	209	-	-	-
Investments	2,539	(207)	-	-	-
Debt financing/disposal	(3,955)	-	-	-	-
Interest paid	(336)	(457)	(411)	(370)	(333)
Dividends paid	(4,699)	(4,701)	(5,844)	(7,513)	(8,989)
Net Δ in cash	(3,068)	(2,135)	3,897	11,678	14,379

Source: Company, YES Sec

## Exhibit 15: Du-pont analysis

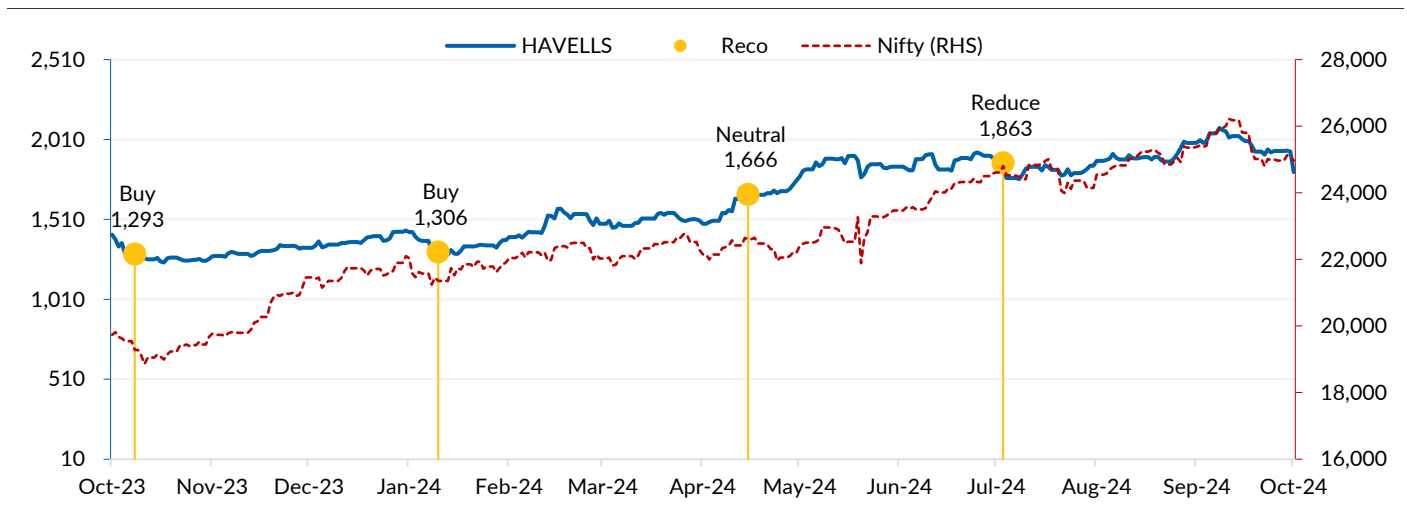
Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Tax burden (x)	0.74	0.74	0.74	0.74	0.74
Interest burden (x)	0.98	0.97	0.98	0.99	0.99
EBIT margin (x)	0.09	0.09	0.10	0.11	0.12
Asset turnover (x)	1.56	1.57	1.63	1.62	1.61
Financial leverage (x)	1.72	1.68	1.69	1.71	1.70
RoE (%)	17.1	18.1	19.9	22.4	23.2

## Exhibit 16: Ratio analysis

Y/e 31 Mar	FY23	FY24	FY25E	FY26E	FY27E
<b>Growth matrix (%)</b>					
Revenue growth	21.5	10.0	17.8	14.9	14.4
Op profit growth	(8.8)	15.1	24.3	27.0	18.3
EBIT growth	(10.5)	18.3	23.4	27.8	19.3
Net profit growth	(10.0)	18.4	24.3	28.5	19.6
<b>Profitability ratios (%)</b>					
OPM	9.5	9.9	10.5	11.6	12.0
EBIT margin	8.8	9.5	9.9	11.0	11.5
Net profit margin	6.4	6.9	7.2	8.1	8.5
RoCE	22.8	25.0	27.3	30.5	31.5
RoNW	17.1	18.1	19.9	22.4	23.2

Y/e 31 Mar	FY23	FY24	FY25E	FY26E	FY27E
RoA	9.9	10.8	11.8	13.1	13.7
<b>Per share ratios</b>					
EPS	17.2	20.3	25.3	32.5	38.8
Dividend per share	7.5	7.5	9.3	12.0	14.3
Cash EPS	21.9	25.7	31.5	39.2	46.1
Book value per share	105.6	118.7	134.6	155.1	179.6
<b>Valuation ratios</b>					
P/E	105.2	88.8	71.5	55.6	46.5
P/CEPS	82.5	70.2	57.3	46.0	39.2
P/B	17.1	15.2	13.4	11.6	10.0
EV/EBIDTA	70.3	61.2	49.0	38.2	31.9
<b>Payout (%)</b>					
Dividend payout	43.7	36.9	36.9	36.9	36.9
Tax payout	25.9	25.5	25.5	25.5	25.5
<b>Liquidity ratios</b>					
Debtor days	21.0	22.8	19.0	19.0	19.0
Inventory days	80.2	67.1	78.0	78.0	78.0
Creditor days	57.2	52.9	57.0	57.0	57.0

## Recommendation Tracker





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