

January 24, 2024

RESULT REPORT Q3 FY24 | Sector: Consumer Durables

Havells India Ltd

Summer products to drive demand revival; reiterate BUY

Result Synopsis

Havells growth has been lower as consumer demand continues to remain subdued offsetting strong growth in B2B categories. All B2C categories have posted muted low single digit growth, while B2B categories like Cables and Professional lighting continues to see strong traction. Gross margins continue to improve on back of stable commodity prices, while higher A&P spends have resulted lower EBITDA margins. Contribution margin for most categories has seen sustained improvement and is inching up towards historical levels, while EBIT margins are expected to improve as growth returns. As far as Lloyd is concerned losses are at elevated levels on increased A&P spends. Losses are expected to reduce as brand investments will stabilize and benefits of investments will result in higher growth. Contribution margins of Lloyd have already seen improvement. Management expects demand revival to be driven summer products as real estate activity remain strong.

We are factoring FY23-26E Revenue/EBITDA/PAT CAGR of 12%/21%/23%. We have marginally lowered our margin estimates as company will not shy away from making brand investments in Lloyds as company believes there is sustainable growth opportunities in the longer term which company wants to take advantage. We reiterate our BUY rating with target price to Rs 1,597 valuing the stock at 50x on FY26 EPS. We foresee gradual improvement in demand from Q4 as its growth drivers like real-estate continues to see demand traction and private capex activity is expected to pick up steam with continued strong government capex.

Result Highlights

- Revenue misses estimates-** Havells delivered lower than expected revenue growth as B2C consumer demand has been continues to remain sluggish offsetting strong growth in B2B categories.
- Margins -**Gross margins has seen improvement of ~33bps on yoy basis as commodity prices have stabilized. EBITDA margin at 10% has seen contraction of ~44bps on higher A&P spends as company continues to invest in brand building activity.
- Price revisions** – Company now has passed on increased price on account of change in BEE ratings in both Fans as well as RAC and now does not envisage further price increase as commodity prices have been benign.
- Lloyd** – Lloyd lower growth in Q3 is attributed to lower channel filling as compared to the previous year. Lower channel filling is on account of company having enough capacities to supply during the peak summer season and now company supply will now follow actual demand.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	44,006	47,830	45,810	-8.0	-3.9	Revenue miss was on account of sluggish B2C consumer demand.
EBITDA	4,398	4,759	4,820	-8.0	-8.8	
EBITDA Margin (%)	10.0	10.0	10.6	0 bps	-60 bps	
Adjusted PAT	2,878	3,227	3,310	-10.8	-13.1	

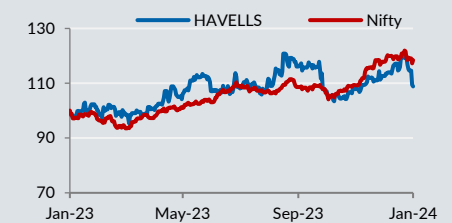
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 1,306
Target Price	: Rs 1,597
Potential Return	: +22.3%

Stock data (as on Jan 24, 2024)

Nifty	21454
52 Week h/l (Rs)	1472 / 1132
Market cap (Rs/USD mn)	822929 / 9903
Outstanding Shares (mn)	627
6m Avg t/o (Rs mn):	1,094
Div yield (%):	0.5
Bloomberg code:	HAVL IN
NSE code:	HAVELLS

Stock performance



	1M	3M	1Y
Absolute return	-3.4%	1.6%	9.4%

Shareholding pattern (As of Sep'23 end)

Promoter	59.4%
FII+DII	33.7%
Others	6.9%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1,597	1,620

Δ in earnings estimates

	FY25e	FY26e
EPS (New)	26.3	31.9
EPS (Old)	29.4	NA
% change	-10.5%	NA%

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Revenue	187,585	213,325	239,295
YoY Growth	11.2%	13.7%	12.2%
EBITDA	18,383	23,679	28,476
YoY Growth	14.7%	28.8%	20.3%
PAT	12,527	16,480	20,011
YoY Growth	16.5%	31.6%	21.4%
ROE	18.0	21.2	22.7
EPS	20.0	26.3	31.9
P/E	65.3	49.6	40.9
BV	116.8	131.6	149.6
EV/EBITDA	43.9	33.8	27.7

AAKASH FADIA

Analyst

aakash.fadia@ysil.in



Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	y/y %	q/q %	9MFY24	9MFY23	y/y %
Sales	41,276	48,592	48,338	38,912	44,006	6.6	13.1	131,257	120,267	9.1
EBITDA	4236	5272	4030	3720	4398	3.8	18.2	12,148	10,721	13.3
EBITDA Margin %	10.3	10.8	8.3	9.6	10.0			9	8.9	3.8
Depreciation	746	774	763	812	877	17.5	8.0	2,451	2,187	12.1
EBIT	3490	4497	3267	2908	3522	0.9	21.1	9,697	8,534	13.6
EBIT Margin %	8.5	9.3	6.8	7.5	8.0			7	7.1	4.1
Interest charges	73	98	85	93	102	40.1	9.3	280	239	17.3
Other Income	396.4	467.1	648.4	523.9	559.4	41.1	6.8	1,732	1,300	33.3
PBT	3814	4867	3831	3339	3979	4.3	19.2	11,149	9,594	16.2
Tax	979	1287	950	863	1029	5.1	19.3	2,841	2,466	15.2
Effective Tax Rate (%)	25.7	26.4	24.9	25.7	26.3	2.6	2.4	25	25.7	(0.9)
PAT	2835	3580	2871	2491	2878	1.5	15.5	8,240	7,128	15.6
PAT Margin %	6.9	7.4	5.9	6.4	6.5			6.3	5.9	5.9
EPS (Rs)	4.5	5.7	4.6	4.0	4.6	1.5	15.5	13.2	11	15.6

Source: Company, YES Sec

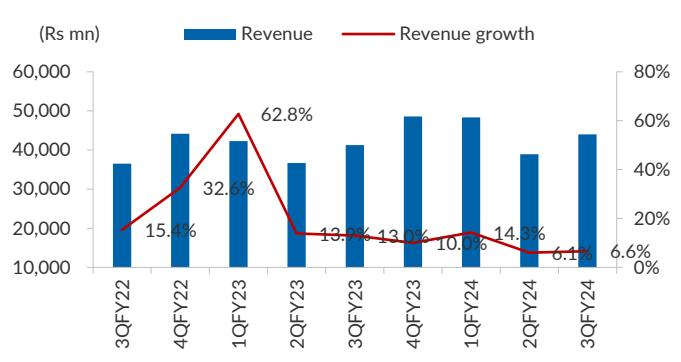
Exhibit 3: Segmental Performance

Rs mn	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	y/y %	q/q %	9MFY24	9MFY23	y/y %
Switchgears	5,143	6,010	5,409	5,324	5,206	1.2	(2.2)	15,938	15,188	4.9
Cable and Wires	14,121	15,682	14,852	14,702	15,727	11.4	7.0	45,280	39,645	14.2
Lighting and Fixtures	4,232	4,160	3,710	3,965	4,299	1.6	8.4	11,975	11,913	0.5
Electrical Consumer Durables	9,357	7,495	8,775	7,331	9,613	2.7	31.1	25,719	25,473	1.0
Lloyds	6,103	12,710	13,109	4,930	6,467	6.0	31.2	24,506	21,081	16.2
Others	2,319	2,536	2,483	2,662	2,695	16.2	1.2	7,840	6,967	12.5
Total Sales	41,276	48,592	48,338	38,912	44,006	6.6	13.1	131,257	120,267	9.1
PBIT										
Switchgears	1271	1721	1499	1407	1256	(1.2)	(10.7)	4,161	3,844	8.2
PBIT %	24.7	28.6	27.7	26.4	24.1			3.2	3.2	
Cable and Wires	1628	1885	1691	1707	1633	0.3	(4.3)	5,030	3,362	49.6
PBIT %	11.5	12.0	11.4	11.6	10.4			3.8	2.8	
Lighting and Fixtures	536	755	532	569	612	14.3	7.5	1,713	1,717	(0.2)
PBIT %	12.7	18.1	14.3	14.4	14.2			1.3	1.4	
Electrical Consumer Durables	1228	962	957	848	1073	(12.6)	26.5	2,878	3,227	(10.8)
PBIT %	13.1	12.8	10.9	11.6	11.2			2.2	2.7	
Lloyds	-600	-229	-616	-733	-652	8.6	(11.1)	-2,000	-1,992	0.4
PBIT %	-9.8	-1.8	-4.7	-14.9	-10.1			-1.5	-1.7	
Others	72	115	88	40	44	(39.5)	8.7	171	235	
PBIT %	3.1	4.5	3.5	1.5	1.6			0.1	0.2	
Total PBIT	4,134	5,209	4,150	3,838	3,965	(4.1)	3.3	11,953	10,392	15.0
Finance Costs	73	98	85	93	102	39.7	9.3	280	239	17.5
Unallocable expense	643	711	894	915	516	(19.8)	(43.6)	2,324	955	143.4
as % of sales	1.6	1.5	1.8	2.4	1.2			1.3	0.3	
Exceptional Items	0	0	0	0	0			0	0	
PBT	3814	4867	3820	3354	3907	2.4	16.5	11,081	9,595	15.5

Source: Company, YES Sec

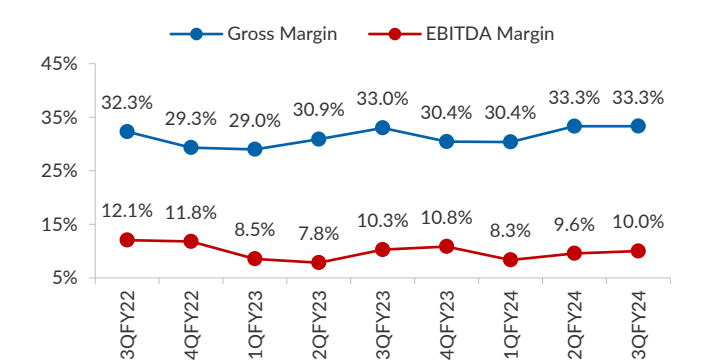
CHARTS

Exhibit 4: Revenue growth missed on sluggish B2C demand



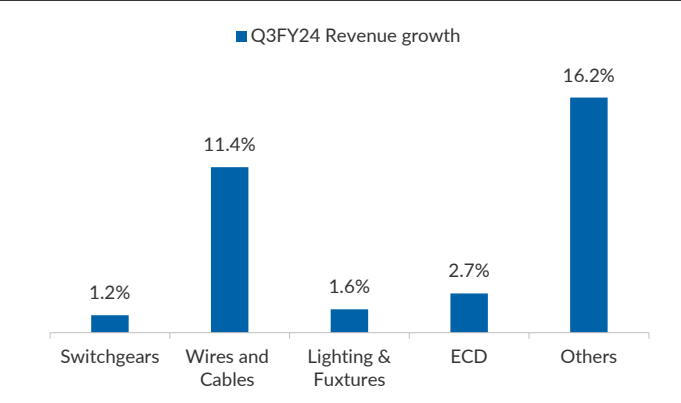
Source: Company, YES Sec

Exhibit 5: Gross margins have improved on stable commodity prices



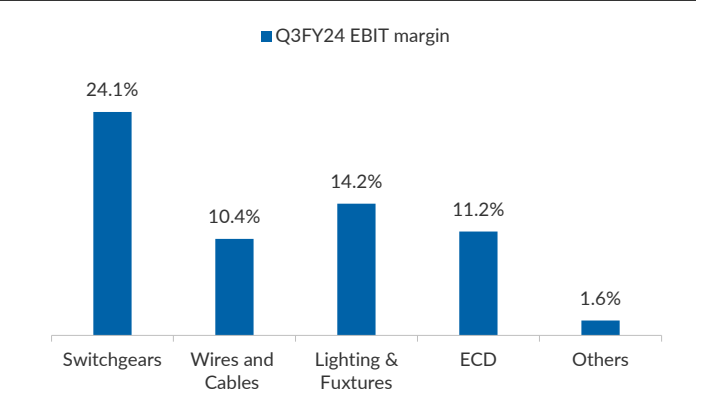
Source: Company, YES Sec

Exhibit 6: Revenue growth have been muted across B2C segment



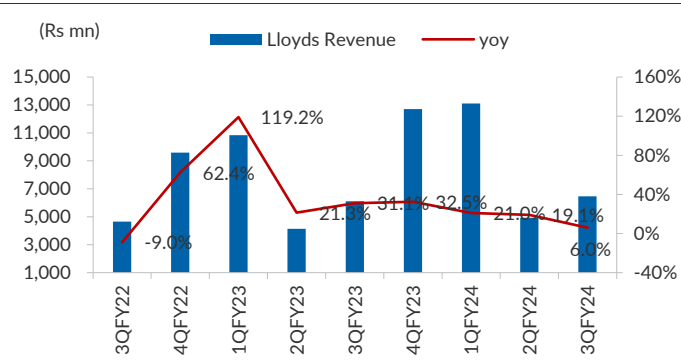
Source: Company, YES Sec

Exhibit 7: Margins have been lower on higher A&P spends



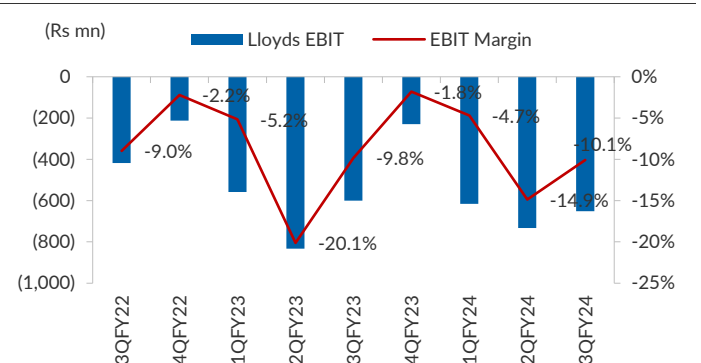
Source: Company, YES Sec

Exhibit 8: Lower revenue growth is attributed to lack of channel filling



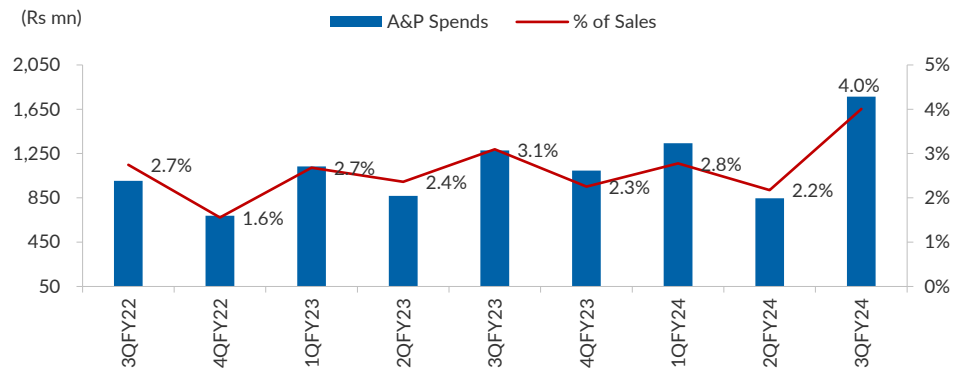
Source: Company, YES Sec

Exhibit 9: Higher brand investments have resulted in losses at elevated levels



Source: Company, YES Sec

Exhibit 10: A&P spends are at elevated levels



Source: Company, YES Sec

Exhibit 11: Revenue and Margin Assumption

Rs mn	FY22	FY23	FY24E	FY25E	FY26E
Switchgear	17864	21196	22256	24927	27420
% yoy growth	22%	19%	5%	12%	10%
Cables and wires	46451	55326	64178	71880	79067
% yoy growth	46%	19%	16%	12%	10%
Lighting and Fixtures	13709	16015	16720	18726	20599
% yoy growth	26%	17%	4%	12%	10%
Electrical consumer durables	30669	32958	34804	40720	46828
% yoy growth	29%	7%	6%	17%	15%
Lloyd's consumer	22606	33686	38671	44472	51142
% yoy growth	34%	49%	15%	15%	15%
Others	7587	9503	10957	12600	14238
% yoy growth	19%	25%	15%	15%	13%
Total Revenue	138885	168684	187585	213325	239295
% yoy growth	33%	21%	11%	14%	12%

Rs mn	FY22	FY23	FY24E	FY25E	FY26E
Switchgear	4908	5564	5809	6606	7403
% margin	27%	26%	26%	27%	27%
Cables and wires	5403	5247	7188	8266	9251
% margin	12%	9%	11%	12%	12%
Lighting and Fixtures	2576	2469	2408	2753	3090
% margin	19%	15%	14%	15%	15%
Electrical consumer durables	4576	4189	3898	4683	5619
% margin	15%	13%	11%	12%	12%
Lloyd's consumer	-711	-2,209	-2,282	222	1,790
% margin	-3%	-7%	-6%	1%	4%
Others	567	350	241	756	925
% margin	7%	4%	2%	6%	7%
Total PBIT	17318	15609	17262	23286	28079
% margin	12%	9%	9%	11%	12%

KEY CON-CALL HIGHLIGHTS

- **Management commentary** – Sustained infrastructure spends has led to better performance of B2B segment. Urban areas is seeing good traction, now with raw material prices abetting B2C demand should now pick-up. Company expects summer products to be driver of demand going forward.
- **Lloyd business update** – 65-70% of the revenue is being contributed by RAC. Q4 will be the quarter to be watched out for given the washout during the previous season. Shelf filling has been lower as compared to previous year. Company with now second plant fully operational will have enough capacity to supply during the peak summer demand. Its focus would now be refilling inventory considering actual demand and not on channel filling.
- **Lighting** – There has been growth in Professional lighting and volume growth in B2C consumer lighting, however price erosion has resulted in muted performance.
- **Wires and cables** – Adverse product mix has resulted in lower margins. The company is increasing its underground cables capacity by 20-25% with capex of Rs3.5bn. Company derives 60-65% of its revenue from domestic wires where company believes demand to be structural for next 5-6 years. Wires have higher margin as compared to cables.
- **Switchgear** – Lower switchgear revenue is on account of market decline in telecom OEM, which has been strong area for the company. The company has seen some slowdown from the middle east region.
- **B2C demand** – The company is seeing mixed demand across the categories. Company expects demand for B2C summer product to improve given the poor season that it encountered last year.
- **Price increases** – Havells and Lloyd has been able to pass on increased prices on account of BEE ratings and does not expect any further price increase in the upcoming summer.
- **Market share** – Market share in RAC is being consolidating towards the top 4 players. Large PAN India players are able to maintain its market share. Market share changes are happening amongst the bottom players.
- **Middle-east market** – The company has large market share in Kerela and Lloyd has launched mass premium products in the middle -east as middle-east market has similar characteristic as compared to Kerala market. The company is not aiming high market share in middle-east at the current juncture.
- **ECD segment** – Contribution margins have improved in ECD segment, the EBIT margins is expected to structurally improve along the journey as the demand environment improves.
- **A&P Spends** – A&P spends have been disproportionately high in Q3 and will be normalize as brand gain prominence.
- **Capacity utilization** – Capacity utilization is now close to 60% across both the plants for RAC.
- **Supply chain** – Supply chain continues to be normal, there are no delays or hindrance either on incoming side or on the outgoing side.
- **Employee cost** – Investments in the talent across the categories has resulted in increased employee cost as company see strong growth potential in coming time. Employee cost will stabilize as growth starts to follow
- **Channel inventory** – Channel inventory is at normalized levels. Dealers are cautious given that last time season dint panned out the way they expected.

FINANCIALS

Exhibit 12: Balance Sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Equity capital	626	627	627	627	627
Reserves	59,260	65,518	72,570	81,846	93,109
Net worth	59,886	66,145	73,196	82,472	93,736
Debt	3,955	0	0	0	0
Deferred tax liab (net)	3,506	3,615	3,615	3,615	3,615
Other non current liabilities	2,640	3,349	3,730	4,238	4,752
Total liabilities	69,988	73,109	80,541	90,326	102,103
Fixed Asset	34,907	37,870	40,626	40,614	40,335
Investments	4,277	2,013	2,013	2,013	2,013
Other Non-current Assets	1,529	2,840	3,126	3,515	3,907
Net Working Capital	21,638	25,818	24,035	25,435	26,847
Inventories	29,681	37,085	40,087	45,587	51,137
Sundry debtors	7,648	9,713	8,737	9,936	11,145
Loans and Advances	0	0	0	0	0
Sundry creditors	23,794	26,425	29,294	33,314	37,369
Other current liabilities	8,737	9,148	10,137	11,484	12,843
Cash & equivalents	7,637	4,569	10,742	18,749	29,001
Total Assets	69,988	73,109	80,541	90,326	102,103

Source: Company, YES Sec

Exhibit 13: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	138,885	168,684	187,585	213,325	239,295
Operating profit	17,576	16,030	18,383	23,679	28,476
Depreciation	2,608	2,961	3,342	3,609	3,877
Interest expense	534	336	373	336	302
Other income	1,604	1,770	2,232	2,500	2,700
Profit before tax	16,038	14,503	16,901	22,234	26,997
Taxes	4,091	3,753	4,374	5,754	6,986
Minorities and other	-	-	-	-	-
Adj. profit	11,947	10,750	12,527	16,480	20,011
Exceptional items	-	-	-	-	-
Net profit	11,947	10,750	12,527	16,480	20,011

Source: Company, YES Sec

Exhibit 14: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	16,572	14,839	17,274	22,570	27,299
Depreciation	2,608	2,961	3,342	3,609	3,877
Tax paid	(4,091)	(3,753)	(4,374)	(5,754)	(6,986)
Working capital Δ	(152)	(4,455)	1,783	(1,400)	(1,412)
Other operating items					
Operating cashflow	14,937	9,592	18,025	19,025	22,777
Capital expenditure	(3,713)	(5,924)	(6,098)	(3,598)	(3,598)
Free cash flow	11,224	3,668	11,927	15,428	19,180
Equity raised	386	208	-	-	-
Investments	(2,727)	2,539	-	-	-
Debt financing/disposal	(967)	(3,955)	-	-	-
Interest paid	(534)	(336)	(373)	(336)	(302)
Dividends paid	(4,091)	(4,699)	(5,476)	(7,204)	(8,747)
Net Δ in cash	4,371	(3,068)	6,173	8,007	10,251

Source: Company, YES Sec

Exhibit 15: Du-pont analysis

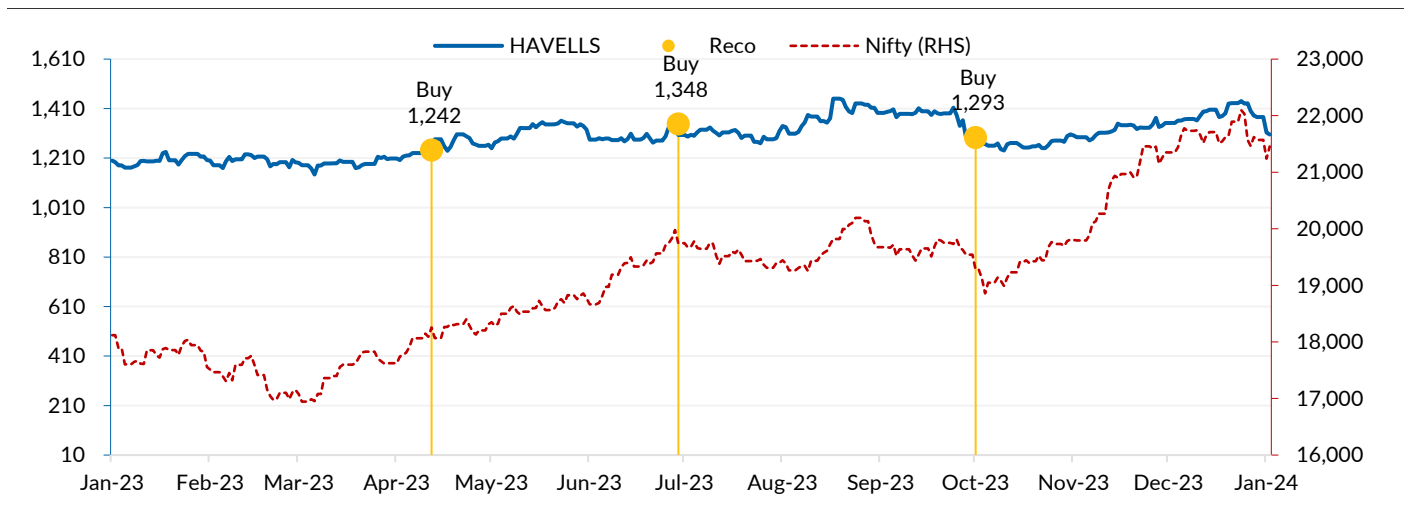
Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Tax burden (x)	0.74	0.74	0.74	0.74	0.74
Interest burden (x)	0.97	0.98	0.98	0.99	0.99
EBIT margin (x)	0.12	0.09	0.09	0.11	0.11
Asset turnover (x)	1.44	1.56	1.60	1.63	1.62
Financial leverage (x)	1.73	1.72	1.68	1.68	1.67
RoE (%)	21.4	17.1	18.0	21.2	22.7

Exhibit 16: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)					
Revenue growth	33.2	21.5	11.2	13.7	12.2
Op profit growth	12.3	(8.8)	14.7	28.8	20.3
EBIT growth	10.2	(10.5)	16.4	30.7	21.0
Net profit growth	14.9	(10.0)	16.5	31.6	21.4
Profitability ratios (%)					
OPM	12.7	9.5	9.8	11.1	11.9
EBIT margin	11.9	8.8	9.2	10.6	11.4
Net profit margin	8.6	6.4	6.7	7.7	8.4
RoCE	27.5	22.8	24.8	29.0	31.0
RoNW	21.4	17.1	18.0	21.2	22.7

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
RoA	12.4	9.9	10.7	12.6	13.6
Per share ratios					
EPS	19.1	17.2	20.0	26.3	31.9
Dividend per share	6.5	7.5	8.7	11.5	14.0
Cash EPS	23.2	21.9	25.3	32.1	38.1
Book value per share	95.6	105.6	116.8	131.6	149.6
Valuation ratios					
P/E	68.5	76.1	65.3	49.6	40.9
P/CEPS	56.2	59.7	51.6	40.7	34.3
P/B	13.7	12.4	11.2	9.9	8.7
EV/EBIDTA	46.3	50.8	43.9	33.8	27.7
Payout (%)					
Dividend payout	34.2	43.7	43.7	43.7	43.7
Tax payout	25.5	25.9	25.9	25.9	25.9
Liquidity ratios					
Debtor days	20.1	21.0	17.0	17.0	17.0
Inventory days	78.0	80.2	78.0	78.0	78.0
Creditor days	62.5	57.2	57.0	57.0	57.0

Recommendation Tracker



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YES Securities (India) Limited

Registered Address: 2nd Floor, North Side, YES BANK House,
Off Western Express Highway, Santacruz East,
Mumbai - 400 055, Maharashtra, India.

Correspondence Address: 7th Floor, Urmi Estate Tower A, Ganpatrao
Kadam Marg, Opp. Peninsula Business Park, Lower Parel (West),
Mumbai - 400 013, Maharashtra, India.

✉ research@ysil.in | Website: www.yesinvest.in

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RESEARCH ANALYST: INH000002376 | INVESTMENT ADVISER:
INA000007331 | Sponsor and Investment Manager to YSL Alternates
Alpha Plus Fund (CAT III AIF) SEBI Registration No.: IN/AIF3/20-21/0818 |
AMFI ARN Code - 94338.

Details of Compliance Officer: Name: Aditya Goenka,
Email id: compliance@ysil.in, **Contact No:** 022- 65078127 (Extn: 718127)

Grievances Redressal Cell: customer.service@ysil.in/igc@ysil.in

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