

Retail Equity Research
Havells India Ltd.
Electrical Equipment

SELL

BSE CODE : 517354 NSE CODE: HAVELLS
BLOOMBERG CODE: HAVL:IN SENSEX : 81,333

12 Months Investment Period Rating as per Large Cap
CMP Rs.1,838 TARGET Rs.1,644 RETURN -11% ↓
(Closing: 26-07-2024)

KEY CHANGES:

TARGET ↓

RATING ↓

EARNINGS ↓

Strong performance...premium valuation

Havells India Ltd. (HAVL) is a leading player in electrical consumer goods in India. Its key verticals include switchgears, cables & wires, lighting fixtures, and consumer appliances.

- Revenue grew by 20% YoY and net profit was up 43% YoY, led by strong summer related sales.
- EBITDA grew by 43% YoY, and margins expanded by 160bps to 9.9% but missed our estimates 60bps, as full benefits of price hikes will be visible only in upcoming quarters.
- HAVL's core portfolio underperformed as cables growth was modest due to destocking given sharp decline in copper prices. We anticipate recovery in H2FY25 given healthy demand in real estate & construction sector.
- We anticipate better consumer sentiment in FY25 amid softening inflation and healthy demand from construction sector. We expect 28% CAGR growth in earnings over FY24-FY26E
- We value HAVL at a P/E of 52x on FY26E given premium valuation and we downgrade to Sell from Hold rating, with a revised TP of Rs.1,644.

Summer products drive growth...

In Q1FY25, revenue grew by 20% YoY, propelled by summer-related products, fans (ECD) and air conditioners (Lloyd). However, the wires and cables segment, accounting for 34% of FY24 sales, saw a modest 2% YoY growth due to destocking following a sharp decline in copper prices during the quarter. The switchgear segment was impacted by postponement of export shipments to the next quarter. The lighting segment experienced a modest 5% YoY growth. Overall, healthy demand from the infrastructure and real estate sectors is expected to drive growth in HAVL's core portfolio going ahead. We anticipate destocking in the wires segment is expected to normalize by Q2FY25, and capacity expansion in cables will drive further growth in this segment. Additionally, improved consumer sentiment in FY25, amid softening inflation, is likely to sustain the growth momentum in the ECD and Lloyd businesses. We anticipate a revenue growth of 15% CAGR over FY24-26E.

EBITDA growth healthy...

In Q1FY25, EBITDA surged by 43%, with a 160bps YoY margin expansion to 10%, though this fell short of our estimates by 60 basis points due to a 28% YoY increase in ad spends and delayed price hikes. Net profit increased by 43% YoY, aided by 19% YoY, rise in other income. Future margin expansion will be driven by normalization of growth in the core portfolio and pricing actions initiated in Q1FY25. However, high brand-building investments may cap near-term margin improvements. We project a robust 28% CAGR growth in net profit over FY24-26E.

Key con-call highlights...

- ◆ FY25 CAPEX guidance amounts to Rs.1,200cr.
- ◆ Signed JVs with focus on exports- target products include Kitchen appliances, Lighting & fixtures, and ACs.

Valuations

We maintain a positive long term outlook on HAVL given its brand recall, strong product portfolio, and robust channel networks, we expect 28% CAGR growth in earnings over FY24-FY26E. However, given premium valuation, we value HAVL at a P/E of 52x in FY26E, and downgrade to Sell from Hold with a target price of Rs.1,644.

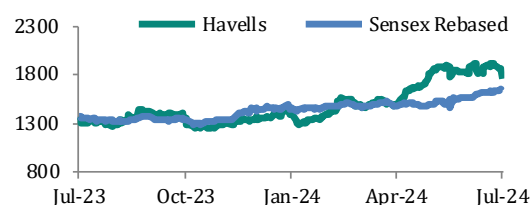
Company Data

Market Cap (cr)	Rs.1,14,946
Enterprise Value (cr)	Rs.1,14,817
Outstanding Shares (cr)	62.7
Free Float	40.6%
Dividend Yield	0.49%
52 week high	Rs.1,987
52 week low	Rs.1,233
6m average volume (cr)	0.1
Beta	0.94
Face value	Rs.1

Shareholding (%)	Q3FY24	Q4FY24	Q1FY25
Promoters	59.4	59.4	59.4
FII's	24.0	24.8	24.7
MFs/Institutions	10.1	9.9	9.6
Public	5.4	5.8	6.2
Others	0.9	0.1	0.1
Total	100.0	100.0	100.0
Promoter pledge	Nil	Nil	Nil

Price Performance	3 Month	6 Month	1 Year
Absolute Return	14.1%	34.7%	29.7%
Absolute Sensex	9.4%	14.5%	20.1%
Relative Return*	4.7%	20.2%	9.5%

*over or under performance to benchmark index



Standalone (cr)	FY24A	FY25E	FY26E
Sales	18,550	21,697	24,569
Growth (%)	10.0	17.0	13.2
EBITDA	1,845	2,322	2,752
EBITDA Margin(%)	9.9	10.7	11.2
PAT Adj.	1,273	1,671	1,982
Growth (%)	18.4	31.2	18.6
Adjusted EPS	20.3	26.7	31.6
Growth (%)	18.4	31.2	18.6
P/E	90.5	69.0	58.1
P/B	18.9	15.8	13.1
EV/EBITDA	62.2	49.5	41.6
ROE (%)	18.1	20.8	21.1
D/E	0.0	0.0	0.0

ANIL R
Research Analyst

Quarterly Financials

Profit & Loss

Rs.cr	Q1FY25	Q1FY24	YoY Growth (%)	Q4FY24	QoQ Growth (%)
Sales	5,798	4,824	20.2	5,434	6.7
EBITDA	576	402	43.2	637	-9.5
EBITDA margin	9.9	8.3	1.6	11.7	-1.8
Depreciation	92	76	20.6	93	-1.5
EBIT	484	326	48.5	543	-10.9
Interest	9	8	0.9	18	-51.7
Other Income	77	65	19.1	76	1.7
Exceptional Items	-	-	-	-	-
PBT	553	382	44.6	601	-8.1
Tax	141	95	49.0	153	-7.3
Share of profit from Associate	-	-	-	-	-
Minority Interest	-	-	-	-	-
Reported PAT	411	287	43.1	449	-8.4
Adjustments	-	-	-	-	-
Adjusted PAT	411	287	43.1	449	-8.4
No. of Shares	62.5	62.5	-	62.5	-
EPS (Rs)	6.6	4.6	43.0	7.2	-8.4

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY24E	FY25E
Revenue	21,433	24,346	21,697	24,569	1.2	0.9
EBITDA	2,390	2,873	2,322	2,752	-2.9	-4.2
Margin (%)	11.2	11.8	10.7	11.2	-0.5	-0.6
Adj. PAT	1,683	2,065	1,671	1,982	-0.7	-4.0
EPS	26.8	32.9	26.7	31.6	-0.5	-3.9

Standalone Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Sales	13,889	16,868	18,550	21,697	24,569
% change	33.2	21.5	10.0	17.0	13.2
EBITDA	1,758	1,603	1,845	2,322	2,752
% change	12.3	(8.8)	15.1	25.8	18.5
Depreciation	261	296	338	375	431
EBIT	1,497	1,307	1,507	1,946	2,321
Interest	53	34	46	35	30
Other Income	160	177	249	316	351
PBT	1,604	1,450	1,704	2,228	2,642
% change	12.0	(9.6)	17.5	30.7	18.6
Tax	409	375	437	557	661
Tax Rate (%)	25.5%	25.9%	25.6%	25.0%	25.0%
Reported PAT	1,195	1,075	1,273	1,671	1,982
Adj.*	0	0	0	0	0
Adj. PAT	1,195	1,075	1,273	1,671	1,982
% change	14.9	(10.1)	18.4	31.2	18.6
No. of shares (cr)	62.6	62.7	62.7	62.7	62.7
Adj EPS (Rs)	19.1	17.2	20.3	26.7	31.6
% change	14.9	(10.1)	18.4	31.2	18.6
DPS (Rs)	6.5	7.5	7.5	7.5	7.5
CEPS (Rs)	23.2	21.9	25.7	32.6	38.5

BALANCE SHEET

Y.E March (Rs Cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash	764	457	243	210	584
Accounts Receivable	768	973	1,157	1,337	1,515
Inventories	2,968	3,708	3,409	4,176	4,700
Other Cur. Assets	2,514	2,198	3,283	3,899	4,820
Investments	2	20	41	41	41
Gross Fixed Assets	3,019	3,451	4,117	4,817	5,317
Net Fixed Assets	2,021	2,228	2,606	2,931	3,000
CWIP	57	163	297	120	120
Intangible Assets	1,413	1,396	1,383	1,383	1,383
Def. Tax (Net)	(351)	(362)	(358)	(371)	(387)
Other Assets	0	0	-	-	-
Total Assets	10,155	10,782	12,062	13,727	15,777
Current Liabilities	3,317	3,439	3,841	4,176	4,700
Provisions	329	412	365	505	539
Debt Funds	282	11	15	15	15
Other Liabilities	17	83	99	89	69
Equity Capital	63	63	63	63	63
Reserves & Surplus	5,926	6,552	7,376	8,577	10,088
Shareholder's Fund	5,989	6,614	7,438	8,639	10,151
Total Liabilities	10,155	10,782	12,062	13,727	15,777
BVPS	95.9	105.9	119.1	138.4	162.6

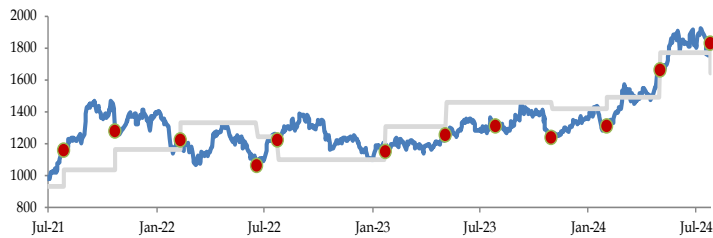
CASH FLOW

Y.E March (Rs Cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Net inc. + Depn.	1,195	1,075	1,273	1,671	1,982
Non-cash adj.	208	187	255	107	125
Changes in W.C	342	(697)	431	(1,090)	(1,064)
C.F. Operation	1,744	565	1,959	688	1,043
Capital exp.	(253)	(586)	(762)	(523)	(500)
Change in inv.	(605)	504	(1,058)	-	-
Other invest.CF	95	120	182	316	351
C.F - Investment	(759)	39	(1,635)	(207)	(149)
Issue of equity	31	27	21	-	-
Issue/repay debt	(147)	(456)	(77)	(10)	(20)
Dividends paid	(407)	(470)	(470)	(470)	(470)
Other finance.CF	(24)	(7)	(8)	(35)	(30)
C.F - Finance	(547)	(907)	(534)	(515)	(520)
Chg. in cash	438	(303)	(209)	(33)	374
Closing cash	764	457	243	210	584

RATIOS

Y.E March	FY22A	FY23A	FY24A	FY25E	FY26E
Profitab & Return					
EBITDA margin (%)	12.7	9.5	9.9	10.7	11.2
EBIT margin (%)	10.8	7.7	8.1	9.0	9.4
Net profit mgn.(%)	8.6	6.4	6.9	7.7	8.1
ROE (%)	21.4	17.1	18.1	20.8	21.1
ROCE (%)	15.8	12.8	13.7	15.8	16.0
W.C & Liquidity					
Receivables (days)	17	19	21	21	21
Inventory (days)	109	104	104	95	99
Payables (days)	112	106	106	101	99
Current ratio (x)	1.9	1.9	1.9	2.1	2.2
Quick ratio (x)	0.4	0.4	0.3	0.4	0.4
Turnover & Leverage					
Gross asset T.O (x)	4.9	5.2	4.9	4.9	4.8
Total asset T.O (x)	7.2	7.9	7.7	7.8	8.3
Int. covge. ratio (x)	28.0	38.9	33.0	55.9	77.2
Adj. debt/equity (x)	0.1	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	8.1	6.8	6.2	5.3	4.7
EV/EBITDA (x)	64.1	71.5	62.2	49.5	41.6
P/E (x)	96.3	107.1	90.5	69.0	58.1
P/BV (x)	25.1	22.0	18.9	15.8	13.1

Recommendation Summary (Last 3 years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
22-January-21	Reduce	974
25-May-21	Reduce	937
28-July-21	Reduce	1,042
22-October-21	Reduce	1,165
10-February-22	Hold	1,336
20-June-22	Buy	1,245
25-July-22	Sell	1,104
23-January-23	Buy	1,311
05-May-23	Buy	1,462
28-July-23	Buy	1,470
01-November-23	Buy	1,424
05-February-24	Buy	1,496
02-May-24	Hold	1,779
29-July-24	Sell	1,644

Investment Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note; **Reduce:** Reduce your exposure to the stock due to limited upside; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Not rated/Neutral- The analyst has no investment opinion on the stock under review.

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