

**Subdued revenue growth, higher ad spends impact operational performance**

Q3FY24 Result Update | Sector: Consumer Electrical | January 24, 2024

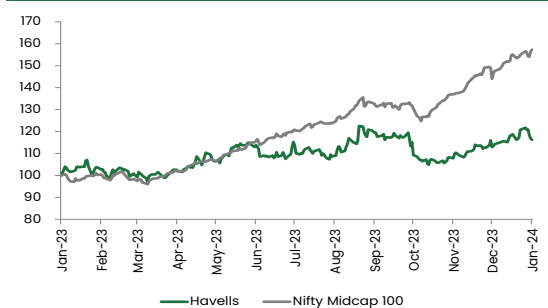
**BUY**

<b>CMP (Rs)</b>	<b>1,298</b>
<b>Target Price (Rs)</b>	<b>1,551</b>
<b>Potential Upside</b>	<b>19.5%</b>
<b>Sensex</b>	70,691
<b>Nifty</b>	21,353

Key Stock data	
<b>BSE Code</b>	517354
<b>NSE Code</b>	HAVELLS
<b>Bloomberg</b>	HAVL:IN
<b>Shares o/s, Cr (FV 1)</b>	62.7
<b>Market Cap (Rs Cr)</b>	81,352
<b>3M Avg Volume</b>	684,398
<b>52 week H/L</b>	1,472/1,132

**Shareholding Pattern**

(%)	Jun-23	Sep-23	Dec-23
<b>Promoter</b>	59.4	59.4	59.4
<b>FII</b>	23.8	24.2	24.0
<b>DII</b>	9.8	9.5	10.1
<b>Others</b>	7.0	6.9	6.5

**1 year relative price performance**

**1 year P/E Forward (x)**

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**Subdued performance:** Havells India posted subdued performance for the quarter as revenue grew by 6.9% YoY/13.2% QoQ to Rs 4,414 Cr mainly led by Cables & Wires segment as a result of strong demand from infrastructure and housing development. Its other segment; Switchgears, ECD (Electronic Consumer Durables) and Llyod reported low to mid-single digit growth as compared to last year, indicating lower than anticipated demand across the durables category. Consequently, PAT grew by 1.5% YoY/15.6% QoQ to Rs 288 Cr with a margin of 6.5%.

**Mixed trend in margin:** Gross profit came in at Rs 1,469 Cr, up by 7.9% YoY/13.2% QoQ while margin was sustained at 33.3% which expanded by 29bps YoY. EBITDA was reported at Rs 3.9% YoY/18.3% QoQ to Rs 440 Cr while margin declined by 30bps YoY to 10%. Raw materials in proportion to sales largely remained in a similar range, however, ad spends were higher by 38% YoY/108.4% QoQ amid festive period which suppressed margin expansion impacting profitability further.

**Cables & Wires continue to drive the growth:** Revenue from C&W segment came in at Rs 1,573 Cr, up by 11.4% YoY/7% QoQ largely driven by healthy volume in the wires category. The segment profit was flat against last year while it declined by 4.3% sequentially to Rs 163 Cr, impacting from product mix. It is under process of expanding its underground cables capacity by 25% which will be operational by FY25, shall result in double digit volume growth in the cables category.

**Llyod continues to post losses:** Despite the festive period, Llyod revenue grew by 7.5% YoY to Rs 656 Cr indicating high competition amid low consumer demand. Its contribution margin improved by 370bps YoY to 7.4%, however, EBIT loss extended further to Rs 65 Cr as compared to Rs 60 Cr in the same period last year due to ad spends on the segment. As the company looks to expand its capacity, enter into new geographies and aims to gain market share, it will continue to focus on brand building activities and channel penetration which will drive the topline growth while the profitability of the segment could remain impacted in the coming quarters.

**Outlook & Valuations:** Havells has wide presence in consumer durables space like Switchgears, Cables, Lighting, ECD, TV and ACs. The commencement of expanded capacity of Cables and Llyod business shall transcribe into volume growth across these segments. Governments focus on improving infrastructure, sustained momentum in real estate activities as well as penetration in the international markets shall drive volume and revenue growth for the company. Financially, we anticipate its revenue/EBITDA/PAT to grow at a CAGR of 14.8%/20.8%/23.6% over FY23-26E. Factoring this, we maintain our **Buy** with a target price of **Rs. 1,551**, valuing the company at a PE of 48x on FY26E EPS.

**Financial Summary – consolidated**

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
Net revenue	16,911	19,490	22,049	25,576
EBITDA	1,615	1,828	2,310	2,845
EBITDAM (%)	9.6	9.4	10.5	11.1
PAT	1,072	1,242	1,618	2,025
PATM (%)	6.3	6.4	7.3	7.9
EPS (Rs)	17.1	19.8	25.8	32.3
PE (x)	75.9	65.5	50.3	40.2
RoE (%)	17.0	17.8	20.6	22.6

Source : RBL Research

**Concall & other key highlights:** 1) B2B segment contributed 25% of revenue growing faster than B2C as it saw muted growth. 2) Strong volume growth in lighting business, however, value erosion kept the revenue growth subdued. 3) Management anticipates a healthy contribution from Llyod business in Q4FY24 as it is a seasonally strong quarter. 4) Fans market share above 20% for the quarter. 5) Company intends to penetrate the international markets mainly UAE and USA with gradual premiumization across products. 6) Capacity expansion of refrigerator business still under consideration.

Decent revenue growth mainly driven by cables & wires segments

Higher ad spends suppressed margin growth

**P&L Account Quarterly – consolidated**

Particulars, Rs cr	Q3FY24	Q3FY23	Y-o-Y (%)	Q2FY24	Q-o-Q (%)
<b>Net sales</b>	<b>4,414</b>	<b>4,128</b>	<b>6.9</b>	<b>3,900</b>	<b>13.2</b>
Material costs	2,945	2,766	6.5	2,602	13.2
<b>Gross Profit</b>	<b>1,469</b>	<b>1,362</b>	<b>7.9</b>	<b>1,298</b>	<b>13.2</b>
<b>Gross Margin (%)</b>	<b>33.3</b>	<b>33.0</b>	<b>29 bps</b>	<b>33.3</b>	<b>0 bps</b>
Employee cost	378	328	15.1	378	(0.1)
Other overheads	651	610	6.8	548	18.8
<b>EBITDA</b>	<b>440</b>	<b>424</b>	<b>3.9</b>	<b>372</b>	<b>18.3</b>
<b>EBITDA Margin (%)</b>	<b>10.0</b>	<b>10.3</b>	<b>-30 bps</b>	<b>9.5</b>	<b>43 bps</b>
Depreciation	95	75	27.2	80	19.1
Other income	56	40	41.0	52	6.5
EBIT	401	389	3.2	345	16.3
EBIT Margin (%)	9.1	9.4	-33 bps	8.8	25 bps
Interest	10	7	40.1	9	9.3
<b>PBT</b>	<b>391</b>	<b>381</b>	<b>2.4</b>	<b>335</b>	<b>16.5</b>
Tax	103	98	5.1	86	19.2
<b>Effective tax rate (%)</b>	<b>26.3</b>	<b>25.7</b>	<b>65 bps</b>	<b>25.7</b>	<b>60 bps</b>
<b>Reported PAT</b>	<b>288</b>	<b>284</b>	<b>1.5</b>	<b>249</b>	<b>15.6</b>
<b>PAT margin (%)</b>	<b>6.5</b>	<b>6.9</b>	<b>-35 bps</b>	<b>6.4</b>	<b>14 bps</b>

Source : RBL Research

**Cost analysis**

As a % of net sales	Q3FY24	Q3FY23	Y-o-Y	Q2FY24	Q-o-Q
Material costs	66.7	67.0	-29 bps	66.7	0 bps
Employee cost	8.6	8.0	61 bps	9.7	-114 bps
Other overheads	14.8	14.8	-2 bps	14.1	70 bps
<b>Total costs</b>	<b>90.0</b>	<b>89.7</b>	<b>30 bps</b>	<b>90.5</b>	<b>-43 bps</b>

Source : RBL Research

Strong sequential growth in Llyod and ECD business

Llyod continued to post losses

**Segmental Performance**

Particulars, Rs cr	Q3FY24	Q3FY23	Y-o-Y (%)	Q2FY24	Q-o-Q (%)
Switchgears	521	514	1.2	534	-2.4
Cables	1,573	1,412	11.4	1,470	7.0
Lighting & Fixtures	434	423	2.4	400	8.4
ECD	962	936	2.8	733	31.2
Llyod	656	610	7.5	497	31.9
Others	269	232	16.2	266	1.2

Source : RBL Research

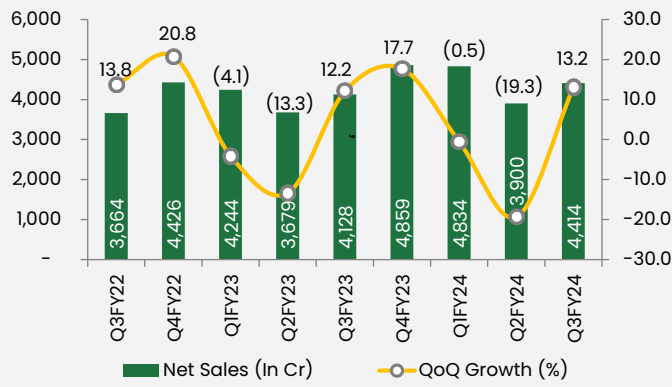
**Segmental EBIT**

Particulars, Rs cr	Q3FY24	Q3FY23	Y-o-Y (%)	Q2FY24	Q-o-Q (%)
Switchgears	126	127	-1.1	141	-10.8
Cables	163	163	0.3	171	-4.3
Lighting & Fixtures	61	53	15.1	57	7.7
ECD	107	123	-12.6	85	26.5
Llyod	(65)	(60)	-	(75)	
Others	4	7	-39.5	4	8.7

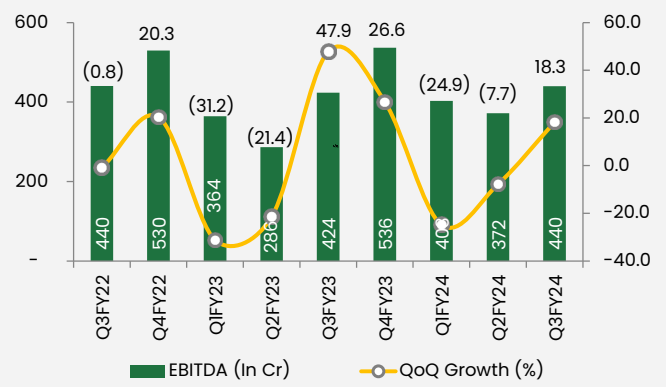
Source : RBL Research

Story in charts

Decent revenue growth led by cables & wires segment

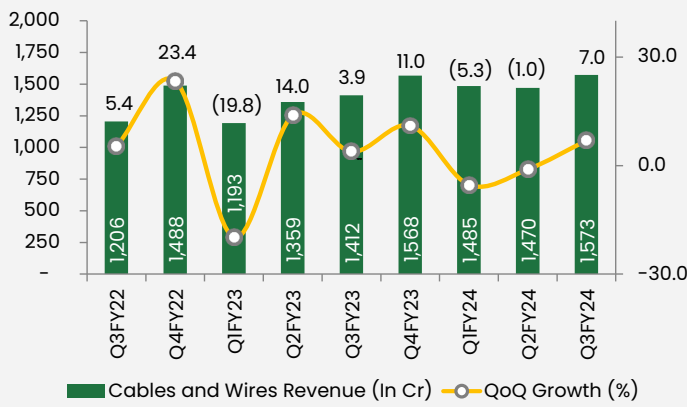


Higher ad spends suppress YoY growth

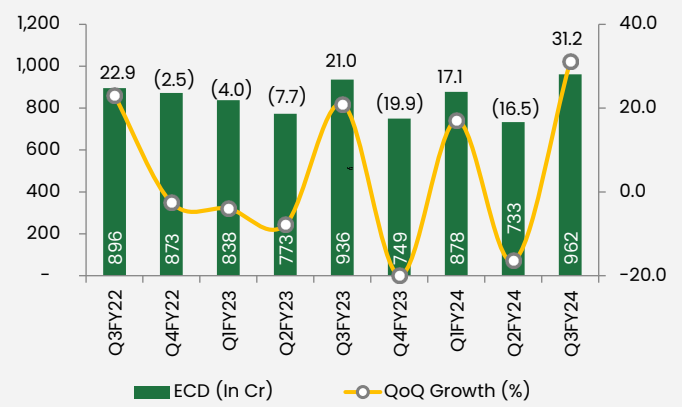


Source : RBL Research

Infrastructure and housing development driving segmental growth

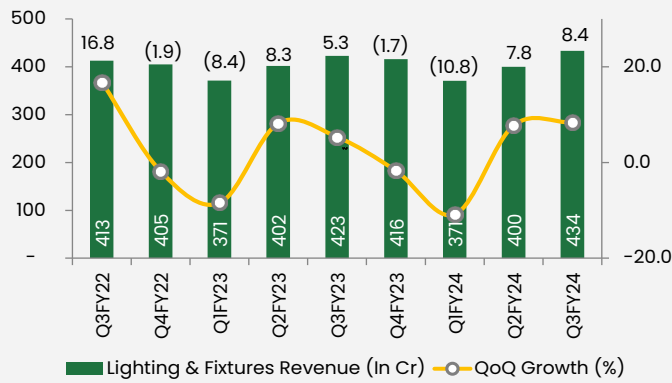


Stable revenues albeit low consumer demand

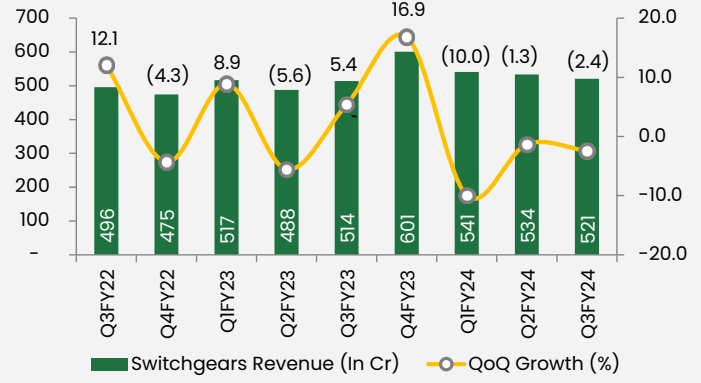


Source : RBL Research

Gradually pickup in demand sequentially

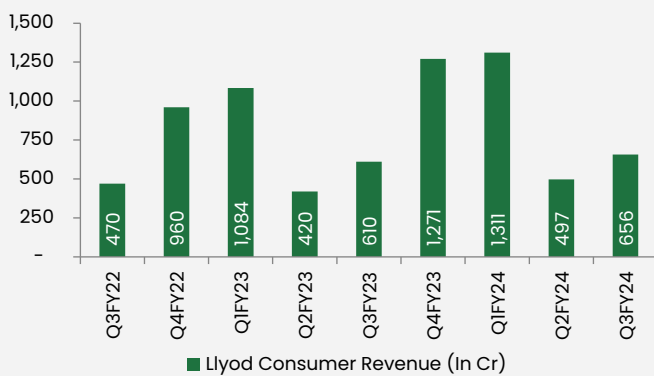


Continues to remain under pressure due to low demand

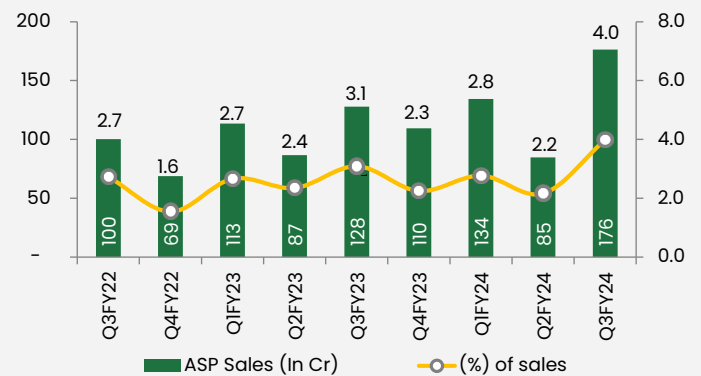


Source : RBL Research

High competition leads to marginal YoY growth



Significant rise in ASP



Source : RBL Research

**P&L Account – consolidated**

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
<b>Net sales</b>	<b>16,911</b>	<b>19,490</b>	<b>22,049</b>	<b>25,576</b>
Expenditure				
Total Raw material cost	11,705	13,283	14,946	17,270
Employee cost	1,268	1,605	1,678	1,907
Other expenses	2,322	2,775	3,114	3,554
Total expenditure	15,296	17,663	19,738	22,732
<b>EBITDA</b>	<b>1,615</b>	<b>1,828</b>	<b>2,310</b>	<b>2,845</b>
<b>EBITDAM (%)</b>	<b>9.6</b>	<b>9.4</b>	<b>10.5</b>	<b>11.1</b>
Other income	178	199	249	292
Depreciation	312	343	378	415
<b>PBIT</b>	<b>1,481</b>	<b>1,683</b>	<b>2,181</b>	<b>2,722</b>
Interest expenses	34	27	24	22
<b>PBT</b>	<b>1,447</b>	<b>1,656</b>	<b>2,157</b>	<b>2,700</b>
Tax	375	414	539	675
<b>Reported profit</b>	<b>1,072</b>	<b>1,242</b>	<b>1,618</b>	<b>2,025</b>
<b>PATM (%)</b>	<b>6.3</b>	<b>6.4</b>	<b>7.3</b>	<b>7.9</b>

Source : RBL Research

**Balance Sheet – consolidated**

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
Share Capital	62.7	62.7	62.7	62.7
Reserves & Surplus	6,552	7,262	8,284	9,495
<b>Total Shareholder's Fund</b>	<b>6,614</b>	<b>7,324</b>	<b>8,347</b>	<b>9,557</b>
<b>Non-Current Liabilities</b>				
Other long term liabilities	198	193	253	291
Deferred tax liabilities	362	364	345	415
Long term provision	137	102	124	153
<b>Current Liabilities</b>				
Trade payables	2,643	2,947	3,114	3,664
Short term provisions	275	348	358	288
Other current liabilities	915	1,350	1,158	1,083
<b>Total Liabilities</b>	<b>11,143</b>	<b>12,630</b>	<b>13,699</b>	<b>15,451</b>
Fixed Assets	2,392	2,752	2,962	3,555
Current work in process	166	213	186	213
Intangible assets	1,393	1,423	1,367	1,356
Non current investment	20	24	27	31
Other non-current assets	79	63	54	72
<b>Current Assets</b>				
Current investments	181	213	282	382
Inventories	3,709	4,702	5,118	5,795
Trade receivables	976	1,046	1,130	1,338
Cash & Cash equivalents	1,899	1,957	2,294	2,379
Other current assets	329	238	279	330
<b>Total Assets</b>	<b>11,143</b>	<b>12,630</b>	<b>13,699</b>	<b>15,451</b>

Source : RBL Research

**Cashflow – consolidated**

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
Reported PBT	1,447	1,656	2,157	2,700
Depreciation	312	343	378	415
Tax paid	(375)	(414)	(539)	(675)
Working capital Change	(813)	(191)	(626)	(633)
<b>Operating Cash Flow (a)</b>	<b>570</b>	<b>1,394</b>	<b>1,370</b>	<b>1,808</b>
Capex	(716)	(779)	(506)	(1,024)
<b>Free Cash Flow</b>	<b>(145)</b>	<b>615</b>	<b>864</b>	<b>784</b>
Investments	217	12	6	(22)
<b>Investing Cash Flow (b)</b>	<b>(499)</b>	<b>(767)</b>	<b>(500)</b>	<b>(1,046)</b>
Debt Issuance/ (Repaid)	(396)	-	-	-
Dividend Paid	(282)	(533)	(595)	(814)
Others	(82)	(37)	63	137
<b>Financing Cash Flow (c)</b>	<b>(760)</b>	<b>(570)</b>	<b>(532)</b>	<b>(678)</b>
<b>Net Cash Flow (a + b + c)</b>	<b>(688)</b>	<b>58</b>	<b>338</b>	<b>84</b>
Closing Cash	1,899	1,957	2,294	2,379

Source : RBL Research

**Key ratios – consolidated**

Particulars	FY23	FY24E	FY25E	FY26E
<b>Per Share Ratios (Rs)</b>				
Dividend per share	4.5	8.5	9.5	13.0
EPS	17.1	19.8	25.8	32.3
CEPS	22.1	25.3	31.9	38.9
Book value per share	105.6	116.9	133.2	152.5
<b>Profitability Ratios (%)</b>				
EBITDA Margin	9.6	9.4	10.5	11.1
PBT Margin	8.6	8.5	9.8	10.6
Net Profit Margin	6.3	6.4	7.3	7.9
RoCE	21.6	23.0	26.6	29.2
RoE	17.0	17.8	20.6	22.6
Dividend Payout	26.3	42.9	36.8	40.2
<b>Efficiency</b>				
Fixed Asset Turnover (x)	7.2	7.1	7.2	7.4
Debtors Velocity (Days)	21.1	19.6	18.7	19.1
Inventory (Days)	80.0	88.1	84.7	82.7
Interest Cover Ratio (x)	44.0	62.6	90.1	124.9
Current ratio (x)	1.0	1.0	1.3	1.2
<b>Valuation Ratios (x)</b>				
P/E	75.9	65.5	50.3	40.2
P/B	12.3	11.1	9.7	8.5
EV/EBITDA	49.2	43.4	34.2	27.8

Source : RBL Research

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S. No.	Statement	Answer	
		Yes	No
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? <b>[If answer is yes, nature of Interest is given below this table]</b>		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
	I / we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		No
	I/we have received any compensation from the subject company in the past twelve months?		No
	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation for products or services other than brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation or other benefits from the subject company or third party in connection with the research report?		No
	I/we have served as an officer, director or employee of the subject company?		No
	I/we have been engaged in market making activity for the subject company?		No

[Please note that only in case of multiple RAs, if in the event answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) below, are given separately]

**Nature of Interest ( if answer to F (a) above is Yes :**

.....

**Name(s) with Signature(s) of RA(s).**

[Please note that only in case of multiple RAs and if the answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) above , are given below]

SS.No.	Name(s) of RA.	Signatures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.

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