

Estimate change 

TP change 

Rating change 

CMP: INR1,306

TP: INR1,510 (+16%)

BUY

Healthy growth in cables and Lloyd; ECD and lighting subdued

Strong B2B demand; normalcy expected in B2C segment

	HAVL IN
Bloomberg	
Equity Shares (m)	625
M.Cap.(INRb)/(USDb)	818.2 / 9.8
52-Week Range (INR)	1472 / 1128
1, 6, 12 Rel. Per (%)	-4/-8/-9
12M Avg Val (INR M)	1037
Free float (%)	40.6

Financials & Valuations (INR b)

Y/E MARCH	FY24E	FY25E	FY26E
Sales	186.0	209.6	238.0
EBITDA	17.4	22.2	27.2
Adj. PAT	11.9	15.4	18.9
EBITA Margin (%)	9.3	10.6	11.4
Cons. Adj. EPS (INR)	19.0	24.7	30.1
EPS Gr. (%)	10.6	29.9	22.2
BV/Sh. (INR)	117.9	133.9	153.5

Ratios

Net D:E	(0.3)	(0.4)	(0.4)
RoE (%)	16.1	18.4	19.6
RoCE (%)	15.7	17.9	19.2
Payout (%)	35.0	35.0	35.0

Valuations

P/E (x)	68.7	52.9	43.3
P/BV (x)	11.1	9.7	8.5
EV/EBITDA (x)	45.5	35.4	28.5
Div Yield (%)	0.5	0.7	0.8
FCF Yield (%)	1.1	1.2	1.8

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	59.4	59.4	59.5
DII	10.1	9.5	10.4
FII	24.0	24.2	22.7
Others	6.5	7.0	7.4

FII Includes depository receipts

- HAVL reported a miss of 3%/6% on EBITDA/PAT on our 3QFY24 estimates, primarily due to higher-than-estimated AD spends (4% of revenues vs. 3.1%/2.2% in 3QFY23/2QFY24). An adverse product mix in the Cables and Wires segment led to a QoQ decline in margin.
- The management expects a positive impact on the summer season, aided by low base. It foresees the realization of deferred purchases, due to the inflationary environment over the past year in the B2C category going forward. It does not anticipate any price increases in both AC and fan product categories. Instead, the focus is on leveraging cost-saving initiatives and capitalizing on improved economies of scale in 1HCY24 to boost margin.
- We cut our EPS estimates by 8%/6%/4% for FY24/FY25/FY26 as we factor in lower margins in the ECD/Lighting segments due to pricing pressure. We remain structurally positive on HAVL, given its diversified product portfolio, premiumization strategy, and continued focus on brand building. We value HAVL at 50x FY26E EPS to arrive at our TP of INR1,510.

Higher ad spending results in lower-than-estimated margins

- Consolidated revenue/EBITDA/PAT stood at INR44.1b/INR4.3b/INR2.9b (up 7%/2%/1% YoY and in line/down 3%/6% vs. our estimates). Gross margin was up 30bp YoY (flat QoQ) to 33.3%. OPM declined 50bp YoY to 9.8%.
- Ad spends stood at 4% of the revenue vs. 3.1%/2.2% in 3QFY23/2QFY24. Depreciation/interest costs rose 18%/40% YoY, whereas 'Other income' grew 40% YoY. The board has approved an interim dividend of INR3/share (~23% payout).
- Segmental highlights: (a) Havells (ex-Lloyd): revenue up 7% YoY to INR37.6b. **C&W**: revenue up 11% YoY to INR15.7b and EBIT margin contracted 1.1pp to 10.4%. **Switchgear**: revenue up 1% YoY to INR5.2b and EBIT margin declined 60bp to 24%. **Lighting**: revenue was up 3% YoY to INR4b and EBIT margin improved 1.5pp to 14%. **ECD**: revenue was up 3% YoY to INR9.6b and EBIT margin declined 2pp to 11%. (b) **Lloyd's** revenue grew 8% YoY to INR6.6b. The company reported a loss of INR646m at the EBIT level in 3Q vs. a loss of INR596m YoY (estimated EBIT loss of INR577m).
- In 9MFY24, revenue increased 9% YoY, led by 17%/14%/5% growth in revenue of Lloyd/C&W/Switchgear segments. EBITDA increased 12.7% YoY to INR12.1b with OPM improvement of 30bp YoY to 9.2%. Adj. Profit was up 15% YoY to INR8.2b.

Key highlights from the management commentary

- Sustained infrastructure growth led to demand growth in the B2B segment. There is good traction in the residential segment, especially on the premium side in urban areas. It foresees the realization of deferred purchases in the B2C category going forward.
- It participated in several projects in professional lighting, which led to a strong volume growth. However, price deflation remained a significant drag, impacting the value growth.

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- It gained market share in Lloyd in 9MFY24 and delivered strong CAGR of ~30% in the last two years. Further, the company positioned itself as a mass premium brand in the Middle East region owing to increased competition from China.

Valuation and view

- We estimate HAVL's revenue/EBITDA/PAT CAGR of 12%/19%/21% over FY23-26. We expect EBITDA margin to improve gradually to 11.4% in FY26 vs. 9.5% in FY23, led by benefits from commodity cost stabilization and lower losses for Lloyds.
- HAVL has been generating positive free cash flows most of the years despite higher capex (due to focus on in-house manufacturing). We expect cumulative OCF to be at INR50b over FY24-26 and cumulative capex at INR16.5b over this period. RoE and RoCE are likely to be at 20% and 19% in FY26 vs. an average level of 18% and 17%, respectively, over FY15-23.
- Our target price of INR1,510 is based on 50x FY26E EPS. We reiterate our BUY rating on the stock.

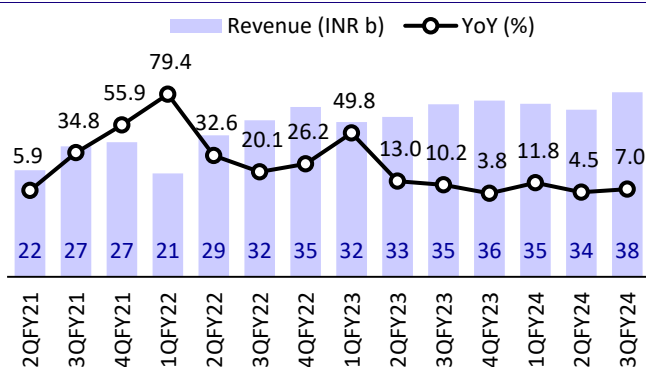
Quarterly performance

Y/E March	FY23				FY24				FY23	FY24E	MOFSL	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		3QE		
Sales	42,445	36,689	41,197	48,592	48,338	39,003	44,139	54,526	1,68,923	1,86,006	44,203	-0.1%
Change (%)	63.4	13.9	12.8	10.0	13.9	6.3	7.1	12.2	21.6	10.1	7.3	
Adj EBITDA	3,615	2,871	4,237	5,271	4,020	3,734	4,327	5,311	15,995	17,391	4,468	-3.2%
Change (%)	2.4	-35.3	-3.8	1.3	11.2	30.1	2.1	0.7	-9.0	8.7	5.4	
Adj EBITDA margin (%)	8.5	7.8	10.3	10.8	8.3	9.6	9.8	9.7	9.5	9.3	10.1	-30
Depreciation	721	721	746	774	763	812	877	856	2,961	3,308	828	5.9%
Interest	98	68	73	98	85	93	102	90	336	370	95	7.4%
Other Income	476	433	399	467	648	525	559	595	1,775	2,327	575	-2.8%
Extra-ordinary items	-	-	-	-	-	-	-	-	-	-	-	
PBT	3,273	2,515	3,818	4,867	3,821	3,353	3,907	4,960	14,473	16,041	4,120	-5.2%
Tax	841	646	978	1,287	950	862	1,028	1,311	3,752	4,151	1,060	
Effective Tax Rate (%)	25.7	25.7	25.6	26.4	24.9	25.7	26.3	26.4	25.9	25.9	25.7	
Reported PAT	2,432	1,869	2,839	3,580	2,871	2,491	2,879	3,649	10,720	11,890	3,060	-5.9%
Change (%)	3.8	(38.0)	(7.2)	1.4	18.1	33.3	1.4	1.9	(10.3)	10.9	7.8	
Adj PAT	2,432	1,869	2,839	3,580	2,871	2,491	2,879	3,649	10,720	11,890	3,060	-5.9%
Change (%)	3.8	(38.0)	(7.2)	1.4	18.1	33.3	1.4	1.9	(10.3)	10.9	7.8	

Segmental Performance (INR m)

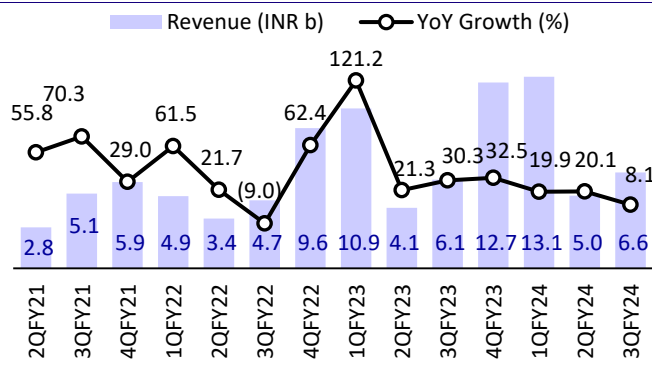
Y/E March	FY23				FY24				FY23	FY24E	FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Sales												
Switchgear	5,169	4,878	5,141	6,010	5,409	5,336	5,206	6,306	21,199	22,256	5,549	-6.2%
Cables & Wires	11,929	13,594	14,121	15,682	14,852	14,702	15,727	16,962	55,326	62,242	15,143	3.9%
ECD	8,396	7,735	9,348	7,495	8,775	7,331	9,615	8,226	32,972	33,947	9,530	0.9%
Lighting & Fixtures	3,737	3,970	4,201	4,160	3,710	3,999	4,335	4,451	16,067	16,496	4,319	0.4%
Lloyd	10,938	4,141	6,068	12,710	13,109	4,974	6,561	15,778	33,857	40,423	7,212	-9.0%
Profit Contribution												
Switchgear	1,354	1,220	1,270	1,721	1,499	1,409	1,256	1,734	5,565	5,898	1,471	-14.6%
Cables & Wires	875	859	1,628	1,885	1,691	1,707	1,633	1,941	5,247	6,971	1,787	-8.6%
ECD	1,100	901	1,228	962	957	848	1,073	1,128	4,191	4,006	1,239	-13.4%
Lighting & Fixtures	614	570	534	755	532	570	614	659	2,473	2,375	626	-1.9%
Lloyd	(563)	(833)	(596)	(229)	(616)	(745)	(646)	(136)	(2,222)	(2,142)	(577)	n/m
Contribution Margin (%)												
Switchgear	26.2	25.0	24.7	28.6	27.7	26.4	24.1	27.5	26.2	26.5	26.5	(237)
Cables & Wires	7.3	6.3	11.5	12.0	11.4	11.6	10.4	11.4	9.5	11.2	11.8	(142)
ECD	13.1	11.6	13.1	12.8	10.9	11.6	11.2	13.7	12.7	11.8	13.0	(184)
Lighting & Fixtures	16.4	14.4	12.7	18.1	14.3	14.3	14.2	14.8	15.4	14.4	14.5	(33)
Lloyd	(5.1)	(20.1)	(9.8)	(1.8)	(4.7)	(15.0)	(9.8)	(0.9)	(6.6)	(5.3)	(8.0)	(184)

Exhibit 1: HAVL's (ex-Lloyd) revenue up 7% YoY



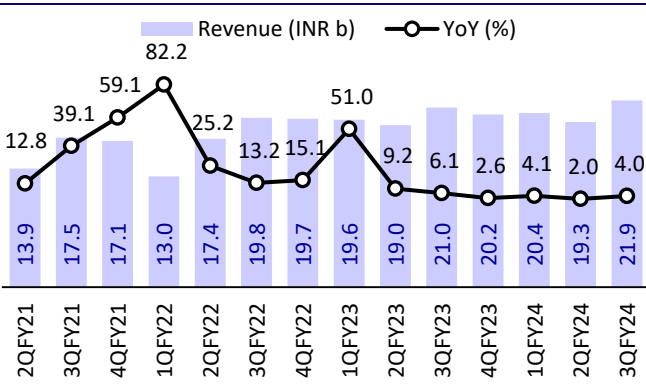
Source: MOFSL, Company

Exhibit 2: Lloyd's revenue grew ~8% YoY



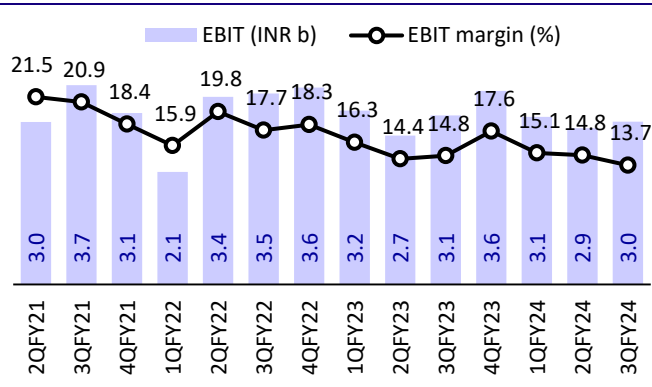
Source: MOFSL, Company

Exhibit 3: HAVL's (ex-Cable and Wires) sales up 4% YoY



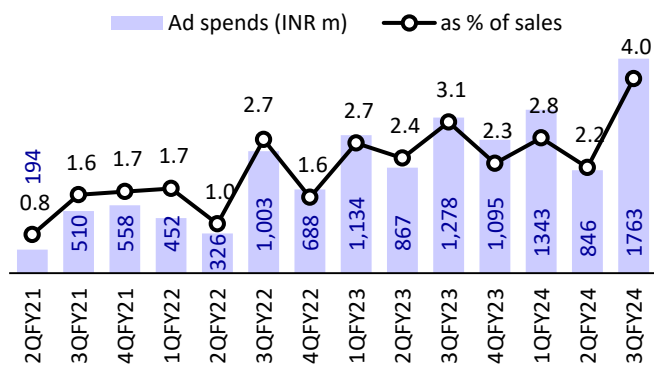
Source: MOFSL, Company

Exhibit 4: HAVL's (ex- Cables and Wires) EBIT margin trend



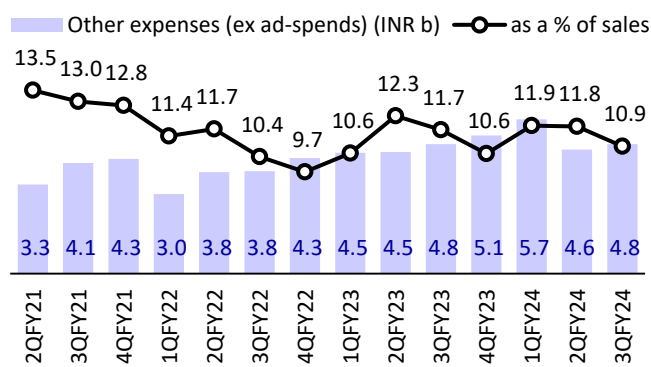
Source: MOFSL, Company

Exhibit 5: Ad spends increased in 3QFY24



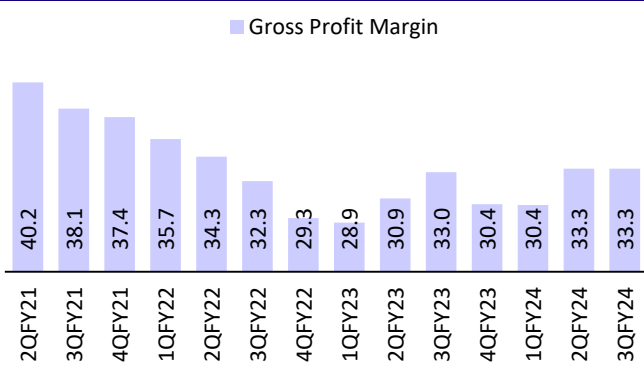
Source: MOFSL, Company

Exhibit 6: Other expenses (ex-ad spends) as a % of sales



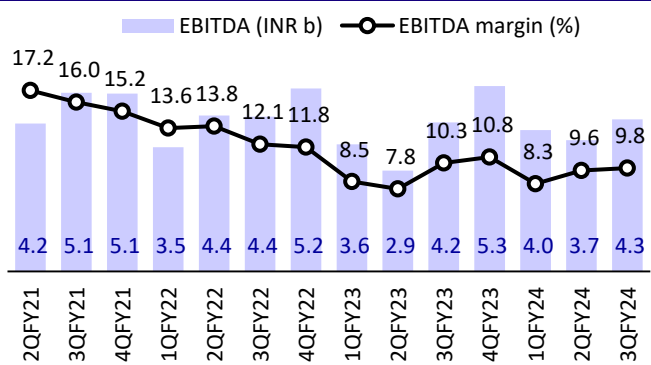
Source: MOFSL, Company

Exhibit 7: Gross margin up 30bp YoY/flat QoQ in 3QFY24



Source: MOFSL, Company

Exhibit 8: EBITDA margin down 50bp YoY to 9.8%



Source: MOFSL, Company



Conference call highlights

Demand and key segment performance

- Sustained demand from infrastructure led to growth in the B2B segment. It is witnessing higher spending from the government sector and there is a notable improvement in private capex as well. However, B2C as well as residential areas have been witnessing a demand slowdown in the last one or two years. It believes that was more because of an inflationary impact (higher raw materials prices), which has now started declining. In the residential segment, especially on the premium side (more in the urban area), the company is seeing good traction. The management foresees the realization of deferred purchases in the B2C category going forward.
- Small domestic appliances category benefited with festive demand. But, higher base for Fans led to a muted growth in the ECD segment. It expects normalcy in demand and a positive impact on the summer season, aided by the low base.
- **Lighting:** The company participated in several projects in professional lighting, which led to a strong volume growth. However, price deflation remained a significant drag, adversely impacting value growth.
- **Cable and wire** – Margins in wires has been better than the cables. In 3Q, the cable growth has been slightly higher than that of the wire, which led to a margin drop QoQ. The company faces capacity constraints in the underground cables, and hence, it is increasing underground cables capacity by ~25%.

Further, in domestic wires, it is setting up a facility to cater to the demand in the southern markets.

- **Switchgear-** The company has successfully maintained its market share in the switchgear segment. Both the project and the retail segments experienced growth during the quarter and registered an increase in market share. However, the Telecom OEM segment registered a decline in sales and the exports experienced some slowdown due to demand weakness in a few strong markets, particularly in the Middle East and Africa. Further, the company does not have any capacity constraints in Switchgear.
- It does not anticipate any further price increases in both AC and fan products categories.

Lloyd

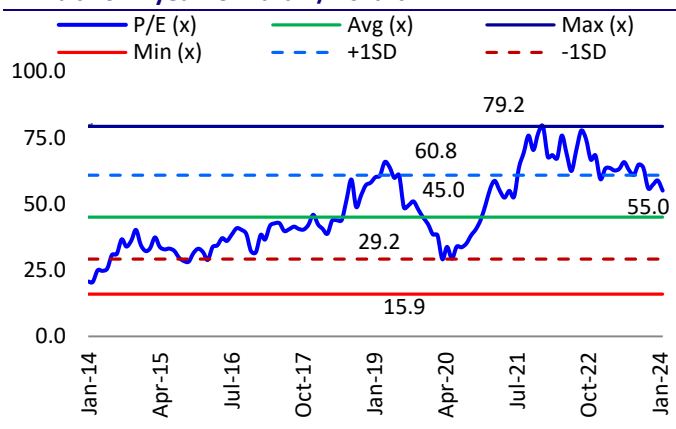
- Lloyd has gained market share in 9MFY24 and delivered a strong CAGR of ~30% in the last two years. Further, the company positioned itself as a mass premium brand in the Middle East region owing to increased competition from China.
- Inventory levels in the trade channel are not elevated, reflecting subdued enthusiasm due to weak demand in the last season. Despite this, channel stockings are currently within normal levels compared to historical levels. It is expecting a strong performance in 1HCY24, for both AC and fan products.
- Improvement in margins on QoQ is a combination of cost-saving initiatives and lower commodity cost. RAC story is long term and the current losses might continue into the next year as well.

Exhibit 9: Revisions to our estimates

(INR b)	Revised			Old			Change		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	186.0	209.6	238.0	189.7	213.7	242.8	-2%	-2%	-2%
EBITDA	17.4	22.2	27.2	18.7	23.6	28.2	-7%	-6%	-3%
PAT	11.9	15.4	18.9	189.7	213.7	242.8	-8%	-6%	-4%
EPS (INR)	19.0	24.7	30.1	20.5	26.2	31.3	-8%	-6%	-4%

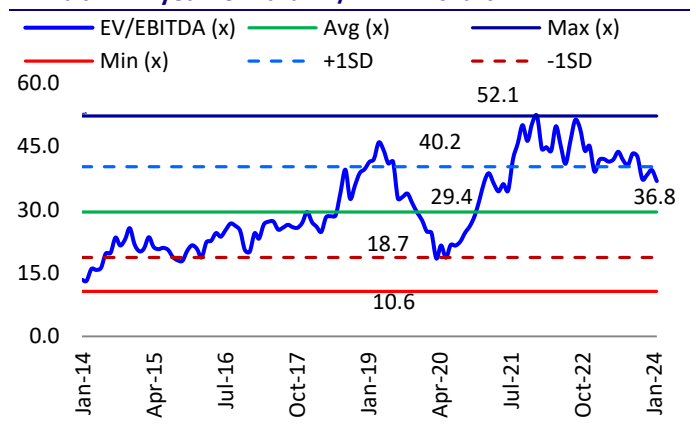
Source: Company, MOFSL estimate

Exhibit 10: 1-year forward P/E chart



Source: MOFSL, Company

Exhibit 11: 1-year forward EV/EBITDA chart



Source: MOFSL, Company

Financials and valuations (Consolidated)

Income Statement							(INR m)
Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	94,292	1,04,279	1,38,885	1,68,684	1,86,006	2,09,564	2,38,002
Change (%)	-6.3	10.6	33.2	21.5	10.3	12.7	13.6
Raw Materials	58,351	64,749	93,840	1,16,713	1,26,205	1,38,522	1,54,225
Gross margin (%)	38.1	37.9	32.4	30.8	32.2	33.9	35.2
Staff Cost	8,996	8,853	10,147	12,617	14,509	17,411	20,893
Other Expenses	16,671	15,024	17,322	23,325	27,901	31,435	35,700
EBITDA	10,274	15,653	17,576	16,030	17,391	22,197	27,183
% of Net Sales	10.9	15.0	12.7	9.5	9.3	10.6	11.4
Depreciation	2,179	2,489	2,608	2,961	3,308	3,659	3,965
Interest	197	726	534	336	370	340	325
Other Income	1,120	1,450	1,604	1,770	2,327	2,646	2,577
PBT	9,017	13,888	16,038	14,503	16,041	20,844	25,470
Tax	1,687	3,590	4,091	3,753	4,151	5,394	6,591
Rate (%)	18.7	25.8	25.5	25.9	25.9	25.9	25.9
Extra-ordinary Inc.(net)	0	98	0	0	0	0	0
Reported PAT	7,330	10,396	11,948	10,750	11,890	15,450	18,879
Change (%)	-6.9	41.8	14.9	-10.0	10.6	29.9	22.2
Adjusted PAT	7,330	10,298	11,948	10,750	11,890	15,450	18,879
Change (%)	-6.9	40.5	16.0	-10.0	10.6	29.9	22.2

Balance Sheet							(INR m)
Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Share Capital	626	626	626	627	627	627	627
Reserves	42,422	51,019	59,260	65,518	73,247	83,289	95,560
Net Worth	43,048	51,645	59,886	66,145	73,873	83,915	96,187
Loans	405	4,922	3,955	0	0	0	0
Deferred Tax Liability	2,865	3,391	3,506	3,615	3,615	3,615	3,615
Capital Employed	46,318	59,958	67,348	69,760	77,488	87,530	99,802
Gross Fixed Assets	40,479	41,965	46,005	50,837	57,337	62,337	67,337
Less: Depreciation	6,985	9,062	11,670	14,631	17,939	21,598	25,563
Net Fixed Assets	33,494	32,903	34,335	36,206	39,398	40,739	41,774
Capital WIP	861	899	572	1,664	1,664	1,664	1,664
Investments	16	3,079	4,261	2,009	2,009	2,009	2,009
Curr. Assets	36,107	51,321	65,884	71,554	78,835	92,641	1,10,039
Inventory	18,719	26,199	29,681	37,085	38,730	43,635	48,252
Debtors	2,489	5,636	7,675	9,729	8,154	9,186	10,433
Cash & Bank Balance	11,069	16,247	25,358	18,619	25,202	32,215	42,717
Other Current Assets	3,830	3,238	3,169	6,121	6,749	7,604	8,636
Current Liab. & Prov.	24,160	28,245	37,704	41,672	44,418	49,522	55,684
Creditors	14,141	15,968	23,794	26,425	28,028	31,578	35,863
Other Liabilities	7,564	9,117	10,615	11,130	12,273	13,828	15,704
Provisions	2,456	3,160	3,295	4,116	4,116	4,116	4,116
Net Current Assets	11,947	23,076	28,180	29,881	34,417	43,119	54,355
Application of Funds	46,318	59,958	67,348	69,760	77,488	87,530	99,802

Financials and valuations (Consolidated)

Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)							
Adjusted EPS	11.7	16.5	19.1	17.2	19.0	24.7	30.1
Growth (%)	-6.9	40.4	16.0	-10.1	10.6	29.9	22.2
Cash EPS	15.2	20.4	23.2	21.9	24.3	30.5	36.5
Book Value	68.8	82.5	95.6	105.6	117.9	133.9	153.5
DPS	8.5	2.5	6.5	7.5	6.6	8.6	10.5
Payout (incl. Div. Tax.)	87.5	18.2	34.1	43.8	35.0	35.0	35.0
Valuation (x)							
P/Sales	8.7	7.8	5.9	4.8	4.4	3.9	3.4
P/E (standalone)	111.3	79.3	68.4	76.0	68.7	52.9	43.3
Cash P/E	85.8	63.9	56.1	59.6	53.8	42.8	35.8
EV/EBITDA	78.4	51.4	45.3	49.8	45.5	35.4	28.5
EV/Sales	8.5	7.7	5.7	4.7	4.3	3.7	3.3
Price/Book Value	19.0	15.8	13.6	12.4	11.1	9.7	8.5
Dividend Yield (%)	0.7	0.2	0.5	0.6	0.5	0.7	0.8
Profitability Ratios (%)							
RoE	17.0	19.9	20.0	16.3	16.1	18.4	19.6
RoCE	16.2	18.1	18.3	15.8	15.7	17.9	19.2
RoIC	18.7	24.0	29.6	19.7	20.8	25.8	31.2
Turnover Ratios							
Debtors (Days)	10	20	20	21	16	16	16
Inventory (Days)	72	92	78	80	76	76	74
Creditors. (Days)	55	56	63	57	55	55	55
Asset Turnover (x)	2.0	1.7	2.1	2.4	2.4	2.4	2.4
Leverage Ratio							
Net Debt/Equity (x)	-0.2	-0.2	-0.4	-0.3	-0.3	-0.4	-0.4

Cash Flow Statement (INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
PBT before EO Items	9,216	14,104	16,272	14,473	16,041	20,844	25,470
Add : Depreciation	2,179	2,489	2,608	2,961	3,308	3,659	3,965
Interest	(535)	(315)	(717)	(898)	(1,957)	(2,306)	(2,252)
Less : Direct Taxes Paid	2,398	2,714	4,138	3,919	4,151	5,394	6,591
(Inc)/Dec in WC	215	6,985	(3,420)	6,969	(2,048)	1,688	734
CF from Operations	8,248	6,579	17,446	5,647	15,287	15,114	19,858
(Inc)/Dec in FA	(3,592)	(1,227)	(2,490)	(5,815)	(6,500)	(5,000)	(5,000)
Free Cash Flow	4,655	5,353	14,956	(167)	8,787	10,114	14,858
(Pur)/Sale of Investments	625	(2,169)	(5,102)	6,206	2,327	2,646	2,577
CF from Investments	(2,968)	(3,396)	(7,592)	391	(4,173)	(2,354)	(2,423)
(Inc)/Dec in Net Worth / Others	313	195	(183)	(360)	-	-	-
(Inc)/Dec in Debt	(937)	4,136	(973)	(3,937)	-	-	-
Less : Interest Paid	52	459	245	70	370	340	325
Dividend Paid	6,413	1,878	4,073	4,703	4,161	5,407	6,608
CF from Fin. Activity	(7,088)	1,994	(5,473)	(9,069)	(4,531)	(5,747)	(6,933)
Inc/Dec of Cash	(1,808)	5,178	4,380	(3,031)	6,583	7,013	10,502
Add: Beginning Balance	12,877	11,069	16,247	20,628	18,619	25,202	32,215
Closing Balance	11,069	16,247	20,628	17,597	25,202	32,215	42,717

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NOTES

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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