

Havells India | BUY

Strong growth with improved demand outlook ahead

In Q1FY25, Havells posted revenue of INR 57.2bn up 20% YoY (In-line JMFe), 5 years CAGR of +16% mainly driven by strong growth in Lloyd and ECD of c.47%/20% YoY respectively. EBITDA at INR 5.7bn up 43% YoY (below JMFe) and 5 year CAGR +16%. OPM at 9.9% vs 8.3% YoY and 11.7% QoQ, lower margins mainly because of increase in A&P to 3% (as % of sales) vs 2.4% YoY and decline in switchgears and W&C margins. PAT stood at INR 4.1bn up 43% YoY.

- **Improved traction in ECD:** Revenue in ECD grew 20% YoY (5 year CAGR +13%) mainly driven by strong growth in Fans and improved traction in the small domestic appliances on the back of favourable season, premiumization and new launches. All the above resulted in improvement in contribution margins from 22.6% to 24.1% YoY.
- **Wires impacted while strong growth in Cables:** Revenue in W&C segment was up 2% YoY to INR 15.2bn. Wires growth was lower mainly due to channel destocking led by sharp decline in commodity prices in June-24; however, management expects stocking to normalize from July. In Cables; Havells witnessed strong growth from power cables and with new capacity expansion, it expects strong opportunity from export (US) and domestic. It has started receiving various approvals for export from the US market and expects all the approvals in next 9-12 months.
- **Lloyd started showing strong performance:** Lloyd grew c.47% YoY (5yr CAGR +24%) to INR 19.2bn mainly driven by strong volume growth and price realisation on the back of strong summer. Operating leverage + Premiumization + cost optimisation resulted in improvement of contribution margin to 13.2% vs 5.1% YoY and EBIT margin to +3.5% vs -4.7% YoY. Havells continue to invest in Lloyd and will explore opportunities in Ref and Washers along with export of RAC's. Overall A&P in Lloyd was c.4% vs 2% Havells S.A.

Outlook and valuation: In the short term (Ex. Lloyd) – Consumer demand and growth momentum is expected to pick-up mainly led by - strong season, pick-up in real estate and capex cycle. Also, consumer sentiments started improving for kitchen and domestic appliances. **Medium/long term (Ex. Lloyd)** – core volumes should rise on: (1) Pickup in construction activity, (2) demand improvement from tier 2/3 cities, and (3) market share gains from unorganised players. We see revenue CAGR of 15% over FY24-FY27e (ex. Lloyd). **For Lloyd, short/medium term** we expect Lloyd growth to beat industry growth and will see market share gains mainly because of improved distribution network + own manufacturing (supply chain) + improved product offerings. **Medium/long term**, we expect: (1) completion of appliances portfolio, (2) benefits from own domestic manufacturing and (3) opening of export opportunity and PLI – to result in a growth of 28%/15%/15% in FY25/FY26/FY27 in Lloyd. We now value Havells at P/E of 53x on Sept,26 EPS (earlier 55x on Mar,26 EPS) based on its strong brand, distribution, in-house manufacturing, opening up export opportunity, market share gain, strong balance sheet and improved ratios. **Our TP is INR 2,070 (earlier 1,930) and Maintain BUY.**



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	2,070
Upside/(Downside)	11.1%
Previous Price Target	1,930
Change	7.3%

Key Data – HAVL IN

Current Market Price	INR1,863
Market cap (bn)	INR1,167.7/US\$14.0
Free Float	36%
Shares in issue (mn)	626.7
Diluted share (mn)	626.7
3-mon avg daily val (mn)	INR2,693.5/US\$32.2
52-week range	1,987/1,233
Sensex/Nifty	81,343/24,801
INR/US\$	83.7

Price Performance

%	1M	6M	12M
Absolute	1.9	33.0	39.6
Relative*	-3.1	17.2	15.1

* To the BSE Sensex

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Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Financial Summary					(INR mn)
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	1,68,684	1,85,499	2,18,802	2,51,840	2,86,582
Sales Growth (%)	21.5	10.0	18.0	15.1	13.8
EBITDA	16,030	18,453	24,865	30,594	36,259
EBITDA Margin (%)	9.5	9.9	11.4	12.1	12.7
Adjusted Net Profit	10,750	12,732	17,735	22,252	26,615
Diluted EPS (INR)	17.2	20.3	28.3	35.5	42.5
Diluted EPS Growth (%)	-10.0	18.4	39.3	25.5	19.6
ROIC (%)	24.7	25.2	33.2	37.0	42.1
ROE (%)	17.1	18.1	22.5	24.7	25.2
P/E (x)	108.6	91.7	65.8	52.5	43.9
P/B (x)	17.7	15.7	14.0	12.1	10.2
EV/EBITDA (x)	71.7	61.7	45.7	36.9	30.7
Dividend Yield (%)	0.6	0.8	0.8	0.8	0.8

Source: Company data, JM Financial. Note: Valuations as of 18/Jul/2024

Concall takeaways continued

- Due to increasing commodity prices, it has taken price hikes across products in Q1 of some benefit is to come in Q2.
- Export is currently c.3% of overall sales and Havells aspires to be c.10%.
- In ECD, Havells continue to improve its geographical reach in Fans and SDA.
- In Lloyd, 85% of the sales were from RAC. It has built some decent channel for its Refrigerators and Washing Machines but journey is still long. Expect Lloyd to be the growth driver for Havells in long run.
- It will invest capex of INR 11bn (cash outlay of INR 8-9bn) in FY25 out of which c.40% will be for Cables. This will overcome Havells capacity constraints in cables and help leverage both domestic and export opportunity.
- In Switchgears it will continue to maintain contribution margins of 38-41%. In Q1, Domestic growth in Switchgears at 12% YoY, however certain export orders shifted to next quarter.
- Strong volume growth in lighting, while price deflation continues to erode volume gains. Also, emerging categories in 'others' segment continues to improve scale.

Exhibit 1. Quarterly Performance

Havells (INR mn)	Q1FY25	Q1FY24	YoY growth (%)	Q4FY24	QoQ growth %	vs. expectations %
Sales	57,981	48,237	20	54,343	7	(3)
EBITDA	5,762	4,024	43.2	6,368	(9.5)	(14.8)
EBITDA margin (%)	9.9	8.3	160bps	11.7	-178bps	
Interest	86	85	0.9	177	(51.7)	
Depreciation	920	763	20.6	934	(1.5)	
Other income	770	647	19.1	757	1.7	
PBT	5,527	3,823	44.6	6,014	(8.1)	
Tax	1,415	950	49.0	1,526	(7.3)	
Tax rate (%)	25.6	24.8	77bps	25.4	23bps	
PAT	4,112	2,874	43.1	4,489	(8.4)	(14.3)

Source: JM Financial, Company

Exhibit 2. Contribution Margin

Contribution Margin (%)	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Switchgears	37.8%	38.0%	38.0%	39.6%	40.3%	39.6%	39.7%	41.1%	38.7%
Cables	10.4%	9.5%	15.9%	15.0%	14.8%	15.5%	14.5%	15.2%	14.6%
Lighting & Fixtures	29.4%	28.5%	29.4%	31.8%	29.0%	28.8%	30.4%	31.9%	31.9%
Electrical Cons. Durables	24.2%	21.8%	23.3%	23.8%	22.6%	23.5%	24.0%	23.7%	24.1%
Others	18.2%	17.6%	17.8%	18.1%	18.2%	16.9%	17.7%	18.5%	17.1%
Sub Total	21.4%	19.6%	22.8%	23.1%	22.4%	22.7%	22.5%	23.2%	22.7%
Lloyd	4.9%	-1.7%	3.7%	6.2%	5.1%	3.9%	7.4%	12.5%	13.2%
Total	17.2%	17.2%	20.0%	18.7%	17.7%	20.3%	20.3%	20.6%	19.6%

Source: JM Financial, Company

Exhibit 3. Segmental Quarterly Performance

Net Revenues (INR Mn)	Q1FY25	Q1FY24	YoY	Q4FY24	QoQ
Switchgears	5,759	5,407	6.5%	6,513	-12%
Cables	15,212	14,852	2.4%	17,896	-15%
Lighting & Fixtures	3,856	3,670	5.1%	4,334	-11%
Electrical Cons. Durables	10,549	8,770	20.3%	9,104	16%
Others	3,365	2,483	35.5%	3,096	9%
Sub Total	38,740	35,182	10%	40,942	-5%
Lloyd	19,241	13,055	47%	13,401	44%
Total	57,981	48,237	20%	54,343	7%
Segmental EBIT (INR mn)	Q1FY25	Q1FY24	YoY	Q4FY24	QoQ
Switchgears	1,419	1,499	-5%	1,836	-23%
Cables	1,711	1,691	1%	2,154	-21%
Lighting & Fixtures	630	529	19%	787	-20%
Electrical Cons. Durables	1,147	957	20%	1,025	12%
Others	110	88	26%	89	24%
Sub Total	5,017	4,762	5%	5,890	-15%
Lloyd	674	(608)	NA	372	81%
Total	5,691	4,155	37%	6,262	-9%
Segmental Margins (%)	Q1FY25	Q1FY24	YoY	Q4FY24	QoQ
Switchgears	24.6%	27.7%	(307)	28.2%	(355)
Cables	11.2%	11.4%	(14)	12.0%	(79)
Lighting & Fixtures	16.3%	14.4%	193	18.2%	(181)
Electrical Cons. Durables	10.9%	10.9%	(4)	11.3%	(39)
Others	3.3%	3.5%	(25)	2.9%	40
Sub Total	13.0%	13.5%	(58)	14.4%	(144)
Lloyd	3.5%	-4.7%	816	2.8%	73
Total	9.8%	8.6%	120	11.5%	(171)

Source: JM Financial, Company

Exhibit 4. Change in Estimates

Particulars (INR Mn)	Revised Estimates		Old Estimates		Change in Estimates	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	2,18,802	2,51,840	2,15,347	2,47,617	1.6%	1.7%
EBITDA	24,865	30,594	25,383	30,451	-2.0%	0.5%
Margin (%)	11.4%	12.1%	11.8%	12.3%		
PAT	17,735	22,252	18,054	21,967	-1.8%	1.3%
EPS	28	36	29	35	-1.7%	1.2%

Source: JM Financial, Company

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Net Sales	1,68,684	1,85,499	2,18,802	2,51,840	2,86,582	
Sales Growth	21.5%	10.0%	18.0%	15.1%	13.8%	
Other Operating Income	0	0	0	0	0	
Total Revenue	1,68,684	1,85,499	2,18,802	2,51,840	2,86,582	
Cost of Goods Sold/Op. Exp	1,16,713	1,25,365	1,46,560	1,67,846	1,89,954	
Personnel Cost	12,750	15,411	17,876	20,200	22,826	
Other Expenses	23,191	26,270	29,501	33,200	37,542	
EBITDA	16,030	18,453	24,865	30,594	36,259	
EBITDA Margin	9.5%	9.9%	11.4%	12.1%	12.7%	
EBITDA Growth	-8.8%	15.1%	34.7%	23.0%	18.5%	
Depn. & Amort.	2,961	3,385	3,715	3,858	3,992	
EBIT	13,069	15,068	21,150	26,736	32,267	
Other Income	1,770	2,487	2,900	3,300	3,500	
Finance Cost	336	457	350	300	200	
PBT before Excep. & Forex	14,503	17,098	23,700	29,736	35,567	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	14,503	17,098	23,700	29,736	35,567	
Taxes	3,753	4,366	5,965	7,485	8,952	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	10,750	12,732	17,735	22,252	26,615	
Adjusted Net Profit	10,750	12,732	17,735	22,252	26,615	
Net Margin	6.4%	6.9%	8.1%	8.8%	9.3%	
Diluted Share Cap. (mn)	626.7	626.7	626.7	626.7	626.7	
Diluted EPS (INR)	17.2	20.3	28.3	35.5	42.5	
Diluted EPS Growth	-10.0%	18.4%	39.3%	25.5%	19.6%	
Total Dividend + Tax	7,520	8,774	8,774	8,774	8,774	
Dividend Per Share (INR)	12.0	14.0	14.0	14.0	14.0	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Profit before Tax	14,503	17,098	23,700	29,736	35,567	
Depn. & Amort.	2,961	3,385	3,715	3,858	3,992	
Net Interest Exp. / Inc. (-)	-898	-1,280	-2,550	-3,000	-3,300	
Inc (-) / Dec in WCap.	-6,969	4,308	-3,777	-1,077	-1,122	
Others	-30	0	0	0	0	
Taxes Paid	-3,919	-3,919	-5,965	-7,485	-8,952	
Operating Cash Flow	5,647	19,592	15,123	22,033	26,185	
Capex	-5,878	-7,590	-7,813	-7,700	-4,500	
Free Cash Flow	-230	12,001	7,310	14,333	21,685	
Inc (-) / Dec in Investments	0	0	0	0	0	
Others	6,269	-8,755	2,900	3,300	3,500	
Investing Cash Flow	391	-16,346	-4,913	-4,400	-1,000	
Inc / Dec (-) in Capital	267	213	0	0	0	
Dividend + Tax thereon	0	0	0	0	0	
Inc / Dec (-) in Loans	-3,937	-772	0	0	0	
Others	-5,399	-4,777	-9,138	-9,088	-8,988	
Financing Cash Flow	-9,069	-5,336	-9,138	-9,088	-8,988	
Inc / Dec (-) in Cash	-3,031	-2,090	1,072	8,545	16,197	
Opening Cash Balance	21,650	32,244	30,168	31,254	39,813	
Closing Cash Balance	18,619	30,154	31,240	39,799	56,010	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Shareholders' Fund	66,145	74,385	83,346	96,823	1,14,664	
Share Capital	627	627	627	627	627	
Reserves & Surplus	65,518	73,758	82,719	96,197	1,14,038	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	0	0	0	0	0	
Def. Tax Liab. / Assets (-)	3,615	3,575	3,575	3,575	3,575	
Total - Equity & Liab.	69,760	77,960	86,921	1,00,399	1,18,240	
Net Fixed Assets	37,870	42,865	46,963	50,805	51,313	
Gross Fixed Assets	50,497	57,524	65,524	73,524	78,524	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	14,261	17,646	21,361	25,219	29,211	
Capital WIP	1,634	2,987	2,800	2,500	2,000	
Investments	2,119	517	517	517	517	
Current Assets	71,444	80,900	91,579	1,08,042	1,32,644	
Inventories	37,085	34,085	43,097	49,166	55,627	
Sundry Debtors	9,729	11,575	12,156	13,991	15,921	
Cash & Bank Balances	18,619	30,154	31,240	39,799	56,010	
Loans & Advances	522	391	391	391	391	
Other Current Assets	5,489	4,695	4,695	4,695	4,695	
Current Liab. & Prov.	41,672	46,322	52,138	58,965	66,235	
Current Liabilities	37,556	42,668	48,484	55,312	62,581	
Provisions & Others	4,116	3,654	3,654	3,654	3,654	
Net Current Assets	29,772	34,578	39,440	49,076	66,409	
Total - Assets	69,760	77,960	86,921	1,00,399	1,18,240	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Net Margin	6.4%	6.9%	8.1%	8.8%	9.3%	
Asset Turnover (x)	2.5	2.5	2.7	2.7	2.6	
Leverage Factor (x)	1.1	1.1	1.0	1.0	1.0	
RoE	17.1%	18.1%	22.5%	24.7%	25.2%	

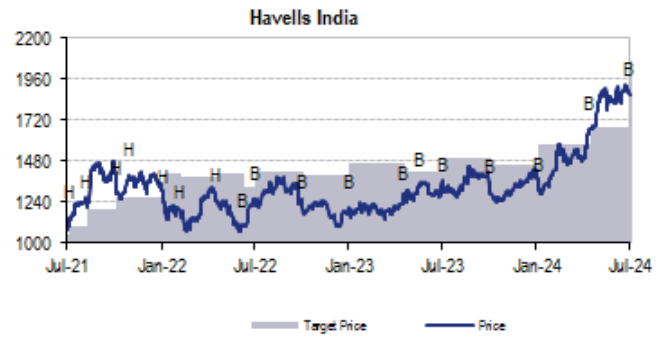
Key Ratios						
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
BV/Share (INR)	105.5	118.7	133.0	154.5	183.0	
ROIC	24.7%	25.2%	33.2%	37.0%	42.1%	
ROE	17.1%	18.1%	22.5%	24.7%	25.2%	
Net Debt/Equity (x)	-0.3	-0.4	-0.4	-0.4	-0.5	
P/E (x)	108.6	91.7	65.8	52.5	43.9	
P/B (x)	17.7	15.7	14.0	12.1	10.2	
EV/EBITDA (x)	71.7	61.7	45.7	36.9	30.7	
EV/Sales (x)	6.8	6.1	5.2	4.5	3.9	
Debtor days	21	23	20	20	20	
Inventory days	80	67	72	71	71	
Creditor days	90	93	91	91	91	

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
21-Jan-21	Hold	1,070	
21-May-21	Hold	1,050	-1.9
22-Jul-21	Hold	1,100	4.8
25-Aug-21	Hold	1,200	9.1
21-Oct-21	Hold	1,270	5.8
16-Nov-21	Hold	1,270	0.0
21-Jan-22	Hold	1,410	11.0
24-Feb-22	Hold	1,390	-1.4
5-May-22	Hold	1,410	1.4
27-Jun-22	Buy	1,330	-5.7
21-Jul-22	Buy	1,420	6.7
20-Oct-22	Buy	1,400	-1.4
19-Jan-23	Buy	1,470	5.0
4-May-23	Buy	1,420	-3.4
6-Jun-23	Buy	1,420	0.0
21-Jul-23	Buy	1,500	5.6
22-Oct-23	Buy	1,460	-2.7
24-Jan-24	Buy	1,580	8.2
2-May-24	Buy	1,680	6.3
18-Jul-24	Buy	2,070	23.2

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

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Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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* REITs refers to Real Estate Investment Trusts.

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