

HAVELLS INDIA LIMITED

.....presence across the value chain

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Havells reported revenue growth of 6% led by weak sentiment, delayed festival season, pricing revisions led by technology change and price deflation in LED impacting performance across ECD segment (-5.2% YoY) and flat lighting business (-0.5% YoY). Cables and Wires segment and Switchgear segment posted revenue growth of 9.4% and 8.1%, respectively YoY led by higher B2B demand. Lloyd posted strong revenue growth of 18.5% YoY but continued to incur losses. EBITDA and PAT saw growth of 29.6% and 32.4% respectively, YoY. Correction in commodity prices and change in revenue mix led to gross margin expansion of 240bps YoY. EBITDA margin expanded 170bps YoY. Management highlighted that B2B demand has remained strong and is likely to drive revenue growth of Cables & Wires and Switchgear in H2FY24 while recovery across white goods and durables revenues will be seen in H2FY24 as some green shoots visible ahead. Lloyd continues to witness losses as highlighted earlier in our report as the management continues to focus on RAC market share gains and ramp-up in other categories. We remain structurally positive on the stock and believe that its premiumisation strategy, products portfolio across segments, pick up in residential demand, commodity price stability and B2B portfolio sustaining steady demand led by infrastructure/construction. We maintain BUY with a TP of ₹1,545.

Result snapshot Q2FY24

Havells reported revenue growth of 6% led by weak sentiment, delayed festival season, pricing revisions led by technology change and price deflation in LED impacting performance across ECD segment (-5.2% YoY) and flat lighting business (-0.5% YoY). Cables and Wires segment and switchgear segment posted revenue growth of 9.4% and 8.1%, respectively YoY led by higher B2B demand. Cable business reported ~10% volume growth in Q2FY24. Lloyd posted strong revenue growth of 18.5% YoY but continued to incur losses. EBITDA grew 30.2% YoY to ₹3.7bn with EBITDA margins expanded by 180bps YoY to 9.6%. In terms of segmental EBIT margin, Cables margin came in at 11.6% (+530bps YoY), Lighting at 14.3% (flat YoY), ECD at 11.6% (flat YoY) and Switchgear at 26.4% (+140bps YoY). Lloyd continues to see losses at ₹745mn vs loss of ₹840mn in Q2FY23. PBT grew by 33.2% YoY to ₹3.4bn. Adj. PAT grew 33.2% YoY to ₹2.5bn (PLe ₹2.6bn). Net working capital days came at 39 (Vs 39 in Q2FY23).

Key Financials	FY22	FY23	FY24E	FY25E	FY26E
Total Sales (₹ mn)	138,885	168,684	190,344	218,315	251,517
EBITDA Margins (%)	12.7	9.5	10.6	11.5	11.6
PAT Margins (%)	8.6	6.4	7.4	8.1	8.2
EPS (₹)	19.1	17.2	22.3	28.3	32.8
P/E (x)	67.8	75.4	57.9	45.7	39.5
P/BV (x)	13.5	12.2	10.9	9.6	8.5
EV/EBITDA (x)	44.9	49.4	38.7	30.8	26.2
RoE (%)	19.9	16.3	18.9	21.1	21.5
RoCE (%)	21.8	17.9	21.0	23.8	24.6
Dividend Yield (%)	0.5	0.6	0.8	1.0	1.1

Rating	BUY
Current Market Price (₹)	1,293
12 M Price Target (₹)	1,545
Potential upside (%)	19

Stock Data

Sector :	Consumer Electricals
FV (₹) :	1
Total Market Cap (₹ bn) :	810
Free Float Market Cap (₹ bn) :	324
52-Week High / Low (₹)	1,466 / 1,025
BSE Code / NSE Symbol	517354 / HAVELLS
Bloomberg :	HAVL: IN

Shareholding Pattern

(%)	Sep-23	Jun-23	Mar-23	Dec-22
Promoter	59.43	59.43	59.45	59.45
MFs	3.47	3.47	3.91	3.98
FPIs	24.19	23.79	23.11	22.60
Insurance	4.63	5.00	5.05	5.16
Others	8.28	8.31	8.48	8.81

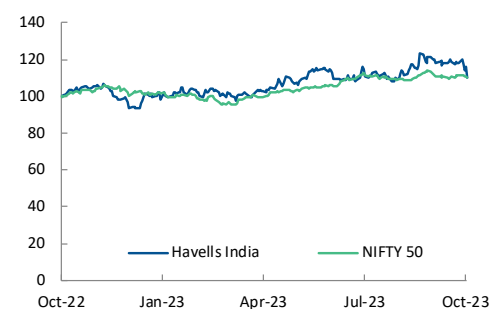
Source: BSE

Price Performance

(%)	1M	3M	6M	12M
Havells	-8.5%	-4.1%	7.2%	9.9%
Nifty 50	-1.8%	-2.2%	10.9%	10.2%

* To date / current date : October 20, 2023

Havells vs Nifty 50



Outlook

Havells remains focused on ensuring its presence across the value chain through a) increased presence in e-commerce, b) deeper penetration into India through the Rural Vistaar programme and Utsav stores, c) increased participation in B2B projects, and d) expanded footprint in international markets. Despite expectation of softness in near-term demand owing to unseasonal rains and weak summer intensity, we like Havells' long-term growth strategy through continuous portfolio and distribution expansion and brand-building initiatives. Among peers, HAVL enjoys the highest margins in many product categories and generates healthy FCF despite high capex (unlike most peers, the company has opted for in-house production). We remain structurally positive on the stock and believe that its premiumisation strategy, products portfolio across segments, pick up in residential demand, commodity price stability and B2B portfolio sustaining steady demand led by infrastructure/construction. We maintain BUY with a TP of ₹1,545 maintaining its premium valuation.

Concall Highlights

- Weak performance in Cables & ECD business due to softness in domestic wire demand and muted consumer sentiment & shift in festival demand.
- Volume growth for W&C business was ~10% in Q2FY24, Cable (40% rev.) continues to face capacity constraint while growth is better than domestic wire segment.
- ECD segment expected to do better in H2FY24 with festive demand.
- Lloyd has sequentially gained market share in RAC segment and RAC grew highest in Q2FY24 vs other products.
- In Lloyd, there was 50% contribution from RAC in Q2FY24.
- Deflationary trend in LED lighting business has bottom-out as per management and expected to grow with volume in coming quarter, lighting volume grew by double digit in Q2FY24.
- Manufacturing overheads remained unabsorbed which led to margin contraction in H1FY24.
- Capex would remain around ₹6bn in FY24, majorly in W&C capacity enhancement – 25% cable capacity increase & some enhancement in wire capacity as well.
- Mgmt. expects better H2FY24 in terms of rev. growth and margin comparing H1FY24 on account of positive outlook for the upcoming festival season, pick-up in residential demand, inflation coming down, commodity price stability.

Quarterly Results Snapshot

(₹ mn)	Q2FY24	Q2FY23	Q1FY24	YoY (%)	QoQ (%)
Revenue	39,003	36,795	48,338	6.0	(19.3)
Expenditure					
Raw materials	26,019	25,439	33,659	2.3	(22.7)
% of revenue	66.7	69.1	69.6		
Employee cost	3,783	3,085	3,570	22.6	6.0
% of revenue	9.7	8.4	7.4		
Other expenditure	5,483	5,403	7,079	1.5	(22.5)
% of revenue	14.1	14.7	14.6		
Total expenditure	35,285	33,926	44,308	4.0	(20.4)
EBITDA	3,718	2,869	4,030	29.6	(7.7)
EBITDA margin	9.5	7.8	8.3		
Other income	525	438	648	19.9	(19.1)
PBDIT	4,243	3,306	4,679	28.3	(9.3)
Depreciation	812	721	763	12.6	6.4
PBIT	3,431	2,585	3,916	32.7	(12.4)
Interest	93	68	85	36.6	10.2
PBT	3,338	2,517	3,831	32.6	(12.9)
Prov. for tax	862	647	950	33.3	(9.2)
% of PBT	25.8	25.7	24.8		
Adjusted PAT	2,476	1,870	2,881	32.4	(14.1)
Extra ordinary items	6	(12)	(27)	-	-
Reported PAT	2,482	1,858	2,854	33.6	(13.1)

Source: Company, LKP Research

Segmental Performance

(₹ mn)	Q2FY24	Q2FY23	Q1FY24	YoY (%)	QoQ (%)
Revenues					
Switchgears	5,336	4,879	5,409	9.4%	-1.3%
Cables	14,702	13,594	14,852	8.1%	-1.0%
Lighting & Fixtures	3,999	4,018	3,710	-0.5%	7.8%
Electrical consumer durables	7,331	7,735	8,775	-5.2%	-16.5%
Lloyd Consumer	4,974	4,198	13,109	18.5%	-62.1%
Others/Inter segment	2,662	2,372	2,483	12.2%	7.2%
Total	39,003	36,795	48,338	6.0%	-19.3%

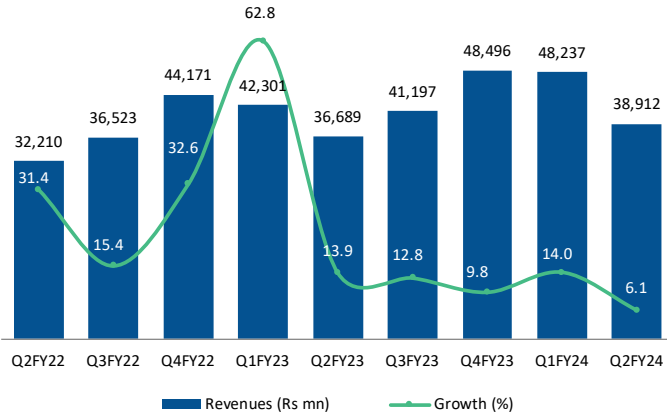
(₹ mn)	Q2FY24	Q2FY23	Q1FY24	YoY (%)	QoQ (%)
EBIT					
Switchgears	1,409	1,220	1,499	15.5%	-6.0%
Cables	1,707	859	1,691	98.7%	0.9%
Lighting & Fixtures	570	576	532	-1.0%	7.1%
Electrical consumer durables	848	900	957	-5.8%	-11.3%
Lloyd Consumer	(745)	(840)	(616)	-11.3%	21.1%
Inter segment	40	41	88	-1.7%	-54.2%
Total	3,828	2,756	4,150	38.9%	-7.8%

(%)	Q2FY24	Q2FY23	Q1FY24	YoY (%)	QoQ (%)
EBIT margin					
Switchgears	26.4	25.0	27.7	-	-
Cables	11.6	6.3	11.4	-	-
Lighting & Fixtures	14.3	14.3	14.3	-	-
Electrical consumer durables	11.6	11.6	10.9	-	-
Lloyd Consumer	(15.0)	(20.0)	(4.7)	-	-
Inter segment	1.5	1.7	3.5	-	-
Total	9.8	7.5	8.6	-	-

Source: Company, LKP Research

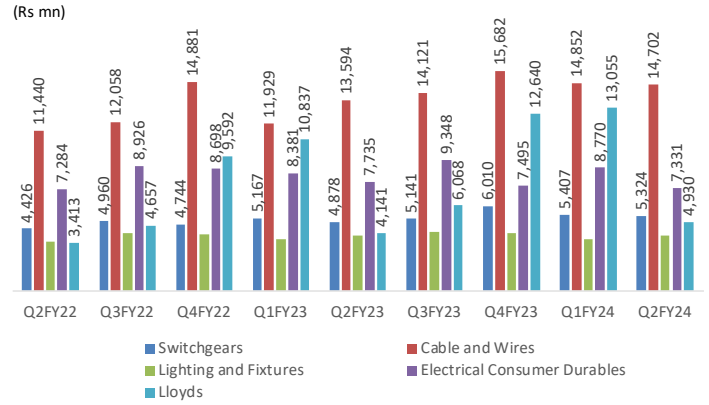
Financials in charts

Revenue Trend

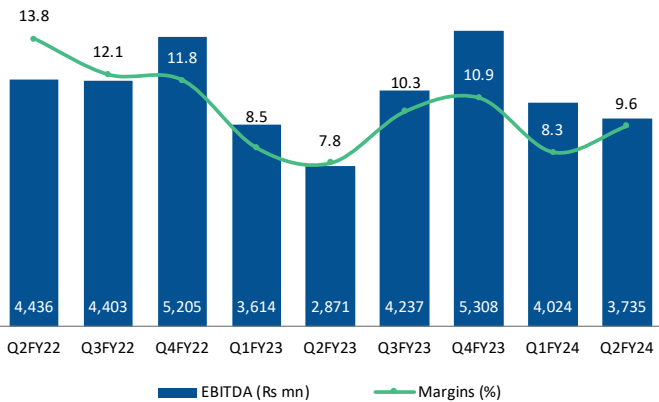


Source: Company, LKP Research

Segment Revenues

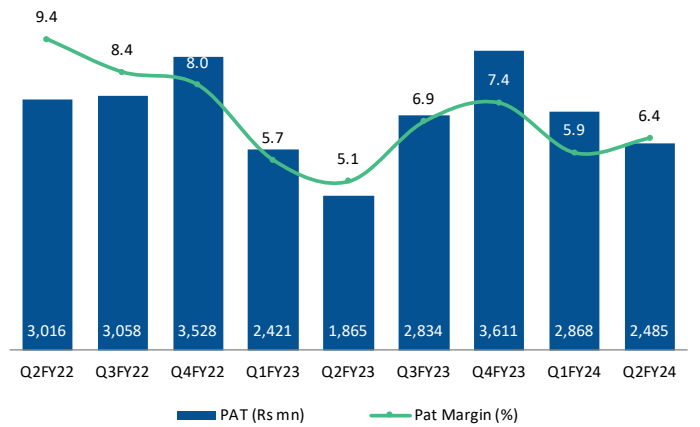


EBITDA & EBITDA Margin trend



Source: Company, LKP Research

Adjusted Profit & Profit Margin trend



Profit and Loss Statement

(₹ mn)	FY22	FY23	FY24E	FY25E	FY26E
Total Income	138,885	168,684	190,344	218,315	251,517
Raw material Cost	93,841	116,713	128,201	145,731	168,649
Employee Cost	10,147	12,617	15,989	18,338	21,127
Other expenses	17,322	23,325	25,928	29,089	32,636
Total operating Expenses	121,309	152,654	170,119	193,158	222,412
EBITDA	17,576	16,030	20,225	25,156	29,105
<i>EBITDA Margins(%)</i>	<i>13</i>	<i>10</i>	<i>11</i>	<i>12</i>	<i>12</i>
Depreciation & Amortisation	2,608	2,961	3,276	3,461	3,693
EBIT	14,968	13,069	16,949	21,696	25,412
Interest	534	336	100	90	90
Other Income	1,604	1,770	1,850	2,100	2,100
Recurring PBT	16,038	14,503	18,699	23,706	27,422
Add: Extraordinaries	-	-	-	-	-
PBT	16,038	14,503	18,699	23,706	27,422
Less: Taxes	4,091	3,753	4,707	5,967	6,902
Net Income (Reported)	11,947	10,750	13,993	17,739	20,520
Adjusted Net Income	11,947	10,750	13,993	17,739	20,520

Balance Sheet

(₹ mn)	FY22	FY23	FY24E	FY25E	FY26E
Assets					
Total Current Assets	65,860	71,444	86,288	104,456	125,265
of which cash & cash eqv.	25,358	18,619	26,406	35,816	46,230
Total Current Liabilities & Provisions	37,704	41,672	49,463	57,282	65,945
Net Current Assets	28,156	29,772	36,826	47,174	59,320
Investments	4,285	2,119	2,119	2,119	2,119
Net Fixed Assets	31,235	33,131	33,953	33,590	32,994
Capital Work-in-Progress	568	1,634	1,634	1,634	1,634
Goodwill	3,105	3,105	3,105	3,105	3,105
Total Assets	67,348	69,760	77,636	87,621	99,171
Liabilities					
Borrowings	3,955	-	-	-	-
Deferred Tax Liability	3,506	3,615	3,615	3,615	3,615
Minority Interest	-	-	-	-	-
Equity Share Capital	626	627	627	627	627
Face Value per share (₹)	1.0	1.0	1.0	1.0	1.0
Reserves & Surplus	59,260	65,518	73,395	83,379	94,930
Net Worth	59,886	66,145	74,021	84,006	95,556
Total Liabilities	67,348	69,760	77,636	87,621	99,171

Cash Flow

(Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
PBT	10,784	14,434	12,732	16,849	21,606	25,322
Depreciation	2,489	2,608	2,961	3,276	3,461	3,693
Chng in working capital	(5,618)	4,140	(8,246)	733	(938)	(1,732)
Tax paid	(3,919)	(4,091)	(3,753)	(4,707)	(5,967)	(6,902)
Cash flow from operations (a)	6,579	17,444	5,647	16,284	18,294	20,521
Capital expenditure	(1,935)	(3,713)	(5,924)	(4,098)	(3,098)	(3,098)
Free cash flow	4,644	13,731	(276)	12,187	15,197	17,424
Chng in investments	-	-	-	-	-	-
Other investing activities	(2,823)	(2,679)	4,149	1,817	2,058	2,050
Cash flow from investing (b)	(7,629)	(7,592)	391	(2,280)	(1,040)	(1,048)
Inc/dec in borrowings	4,505	(973)	(4,380)	-	-	-
Dividend paid (incl. tax)	(1,878)	(4,071)	(4,703)	(6,116)	(7,754)	(8,970)
Interest paid	(828)	(739)	(253)	(100)	(90)	(90)
Other financing activities	98	312	267	-	-	-
Cash flow from financing (c)	1,898	(5,472)	(9,069)	(6,216)	(7,844)	(9,060)
Net chng in cash (a+b+c)	3,266	7,637	4,569	12,356	21,766	32,180
Closing cash & cash equivalents	3,266	7,637	4,569	12,356	21,766	32,180

Key Ratios

	FY22	FY23	FY24E	FY25E	FY26E
Per Share Data (in ₹)					
AEPS	19.1	17.2	22.3	28.3	32.8
CEPS	23.2	21.9	27.6	33.8	38.6
BVPS	95.6	105.6	118.2	134.1	152.5
DPS	6.5	7.5	9.8	12.4	14.3
Growth Ratios (%)					
Total Revenues	33.2	21.5	12.8	14.7	15.2
EBITDA	25.5	(8.8)	26.2	24.4	15.7
PAT	36.6	(10.0)	30.2	26.8	15.7
AEPS	36.6	(10.0)	30.2	26.8	15.7
CEPS	29.5	(5.8)	25.9	22.8	14.2
Valuation Ratios					
P/E	67.8	75.4	57.9	45.7	39.5
P/BV	13.5	12.2	10.9	9.6	8.5
EV / EBITDA	44.9	49.4	38.7	30.8	26.2
EV / Sales	5.7	4.7	4.1	3.5	3.0
Operating Ratio					
Raw Material/Sales (%)	56.0	55.2	49.6	49.0	49.3
Other exp/Sales (%)	12.5	13.8	13.6	13.3	13.0
Effective Tax Rate (%)	25.5	25.9	25.2	25.2	25.2
NWC / Total Assets (%)	4.2	16.0	13.4	13.0	13.2
Inventory Turnover (days)	78.0	80.2	80.0	80.0	80.0
Receivables (days)	20.1	21.0	22.0	22.0	22.0
Payables (days)	62.5	57.2	61.0	62.0	62.0
D/E Ratio (x)	0.1	0.0	0.0	0.0	0.0
Return/Profitability Ratio (%)					
RoCE	21.8	17.9	21.0	23.8	24.6
RoNW	19.9	16.3	18.9	21.1	21.5
Dividend Payout Ratio	34.1	43.7	43.7	43.7	43.7
Dividend Yield	0.5	0.6	0.8	1.0	1.1
PAT Margins	8.6	6.4	7.4	8.1	8.2
EBITDA Margins	12.7	9.5	10.6	11.5	11.6

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