

July 18, 2024

RESULT REPORT Q1 FY25 | Sector: Consumer Durables

Havells India Ltd

Positivity priced in, valuation remains stretched; downgrade to Reduce

Result Synopsis

Havells strong revenue growth has been driven by strong summer season and continued industrial and infrastructure led B2B segment, demand outlook remains positive with some uptick in consumer trends. Summer dependent categories like Lloyd and ECD has registered growth of 47% and 20% respectively, led by strong performance of RAC, Fans and Air-coolers which has grown higher albeit on low base. Gross margins have expanded on yoy basis, while flowthrough of higher gross margin has resulted in EBITDA margin improvement. However, on sequential basis margins are lower. Lloyds for the second quarter in a row has registered positive EBIT. EBIT margins stood at 3.5% expanding 73bps on sequential basis. Management is committed to drive volume growth as well as improving profitability for Lloyd. Management is cautiously optimistic of improvement in consumer demand going forward.

We are factoring FY24-26E Revenue/EBITDA/PAT CAGR of 17%/26%/27%. Our EPS estimates are marginally revised upwards resulting from higher revenue growth on back of strong summer season. Expected improvement in B2C consumer demand on back of real estate uptick and continued industrial and infrastructure led demand has already factored in the stock price. We continue to value the company at 55x on FY26 EPS and arrive at PT of Rs1,792. We however downgrade the rating to REDUCE as recent rally in the stock price has priced in all the positives and we would wait for better entry point as recent commodity price surge could pose margin challenges going forward.

Result Highlights

- Revenue beats estimates-** Havells delivered better than expected revenue growth on back of strong summer demand.
- Margins -**Gross margins has seen improvement of ~151bps on yoy basis as commodity prices have stabilized. EBITDA margin at 9.9% has expanded on yoy basis, while it has contracted sequential basis on increased brand investments.
- Price revisions -** The company has increased prices across the product category. Price increase has been sufficient to cover the increase in commodity prices. Further price increase will not be required if commodity prices remains at current level
- Lloyd -** Lloyds has seen strong revenue growth for quarter with revenue growing 47% yoy. Lloyd for the second quarter in the row has registered positive EBIT with EBIT margins at 3.5% with contribution margin seeing further improvement from Q4 levels. Lloyd progressing on its journey of growth and profitability.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	57,981	54,060	57,540	7.3	0.8	
EBITDA	5,762	6,379	6,220	-9.7	-7.4	Higher brand investments has resulted in lower margins.
EBITDA Margin (%)	9.9	11.8	10.8	-190 bps	-90 bps	
Adjusted PAT	4,112	4,462	4,370	-7.9	-5.9	

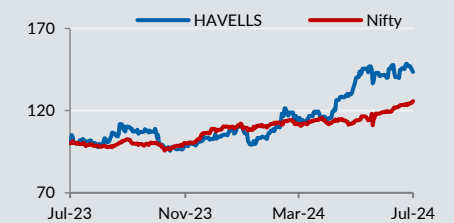
Source: Company, YES Sec

Reco	: REDUCE
CMP	: Rs 1,863
Target Price	: Rs 1,792
Potential Return	: -3.8%

Stock data (as on Jul 18, 2024)

Nifty	24801
52 Week h/l (Rs)	1985 / 1233
Market cap (Rs/USD mn)	1175724 / 14064
Outstanding Shares (mn)	627
6m Avg t/o (Rs mn):	1,728
Div yield (%):	0.5
Bloomberg code:	HAVL IN
NSE code:	HAVELLS

Stock performance



	1M	3M	1Y
Absolute return	1.9%	24.7%	39.6%

Shareholding pattern (As of Mar'24 end)

Promoter	59.4%
FII+DII	34.7%
Others	5.9%

Δ in stance

(1-Yr)	New	Old
Rating	REDUCE	NEUTRAL
Target Price	1,792	1,775

Δ in earnings estimates

	FY25e	FY26e
EPS (New)	26.6	32.6
EPS (Old)	25.9	32.3
% change	2.7%	1.2%

Financial Summary

(Rs mn)	FY24	FY25E	FY26E
Revenue	185,499	219,388	252,075
YoY Growth	10.0%	18.3%	14.9%
EBIDTA	18,453	24,133	29,493
YoY Growth	14.7%	30.8%	22.2%
PAT	12,732	16,683	20,423
YoY Growth	18.4%	31.0%	22.4%
ROE	18.1	20.9	22.4
EPS	20.3	26.6	32.6
P/E	91.7	70.0	57.2
BV	118.7	135.5	156.0
EV/EBITDA	63.1	48.1	39.1

AAKASH FADIA

Analyst

aakash.fadia@ysil.in



Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs mn)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	y/y %	q/q %	FY24	FY23	y/y %
Sales	48,338	38,912	44,006	54,343	57,981	19.9	6.7	185,600	168,859	9.9
EBITDA	4,030	3,720	4,398	6,368	5,762	43.0	(9.5)	18,517	15,992	15.8
EBITDA Margin %	8.3	9.6	10.0	11.7	9.9			10.0	9.5	5.3
Depreciation	763	812	877	934	920	20.6	(1.5)	3,385	2,961	14.3
EBIT	3267	2908	3522	5434	4842	48.2	(10.9)	15,132	13,031	16.1
EBIT Margin %	6.8	7.5	8.0	10.0	8.4			8.2	7.7	5.6
Interest charges	85	93	102	177	86	0.9	(51.7)	457	336	36.0
Other Income	648.4	523.9	559.4	757.1	770.3	18.8	1.7	2,488.8	1,767	40.9
PBT	3831	3339	3979	6014	5527	44.3	(8.1)	17,163.2	14,461	18.7
Tax	950	863	1029	1526	1415	49.0	(7.3)	4,367	3,753	16.4
Effective Tax Rate (%)	24.9	25.7	26.3	25.4	25.6	3.0	0.9	25	25.9	(1.9)
PAT	2871	2491	2878	4489	4112	43.2	(8.4)	12,729	10,709	18.9
PAT Margin %	5.9	6.4	6.5	8.3	7.1			6.9	6.3	8.1
EPS (Rs)	4.6	4.0	4.6	7.2	6.6	43.2	(8.4)	20.3	17.1	18.9

Source: Company, YES Sec

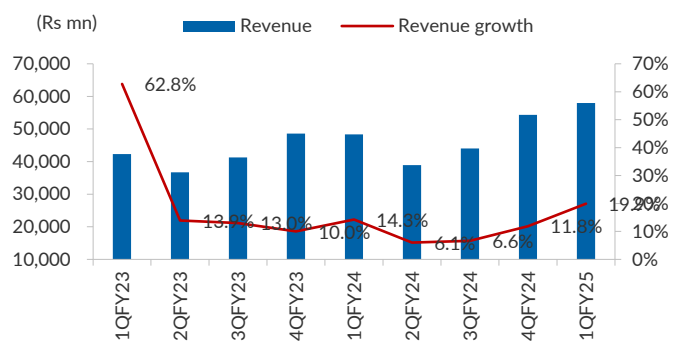
Exhibit 3: Segmental Performance

Rs mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	y/y %	q/q %	FY24	FY23	y/y %
Switchgears	5,409	5,324	5,206	6,513	5,759	6.5	(11.6)	22,451	21,199	5.9
Cable and Wires	14,852	14,702	15,727	17,896	15,212	2.4	(15.0)	63,176	55,326	14.2
Lighting and Fixtures	3,710	3,965	4,299	4,334	3,856	3.9	(11.0)	16,308	16,072	1.5
Electrical Consumer Durables	8,775	7,331	9,613	9,104	10,549	20.2	15.9	34,822	32,968	5.6
Lloyds	13,109	4,930	6,467	13,401	19,241	46.8	43.6	37,907	33,791	12.2
Others	2,483	2,662	2,695	3,096	3,365	35.5	8.7	10,936	9,503	15.1
Total Sales	48,338	38,912	44,006	54,343	57,981	19.9	6.7	185,600	168,859	9.9
PBIT										
Switchgears	1499	1407	1256	1836	1419	(5.3)	(22.7)	5,997	5,565	7.8
PBIT %	27.7	26.4	24.1	28.2	24.6			3.2	3.3	
Cable and Wires	1691	1707	1633	2154	1711	1.2	(20.6)	7,184	5,247	36.9
PBIT %	11.4	11.6	10.4	12.0	11.2			3.9	3.1	
Lighting and Fixtures	532	569	612	787	630	18.4	(19.9)	2,500	2,471	1.2
PBIT %	14.3	14.4	14.2	18.2	16.3			1.3	1.5	
Electrical Consumer Durables	957	848	1073	1025	1147	19.9	11.9	3,904	4,189	(6.8)
PBIT %	10.9	11.6	11.2	11.3	10.9			2.1	2.5	
Lloyds	-616	-733	-652	372	674	(209.5)	81.4	-1,629	-2,221	(26.7)
PBIT %	-4.7	-14.9	-10.1	2.8	3.5			-0.9	-1.3	
Others	88	40	44	89	110	25.7	24.0	260	350	
PBIT %	3.5	1.5	1.6	2.9	3.3			0.1	0.2	
Total PBIT	4,150	3,838	3,965	6,262	5,691	37.1	(9.1)	18,215	15,600	16.8
Finance Costs	85	93	102	177	86	0.6	(51.7)	457	336	36.1
Unallocable expense	894	915	516	828	849	(4.9)	2.6	3,152	1,666	89.2
as % of sales	1.8	2.4	1.2	1.5	1.5			1.3	0.5	
Exceptional Items	0	0	0	0	0			0	0	
PBT	3820	3354	3907	6014	5527	44.7	(8.1)	17,095	14,462	18.2

Source: Company, YES Sec

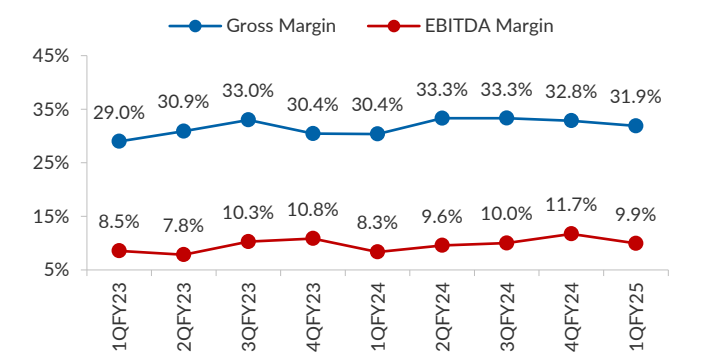
CHARTS

Exhibit 4: Strong demand for summer products has resulted in higher-than-expected revenue growth



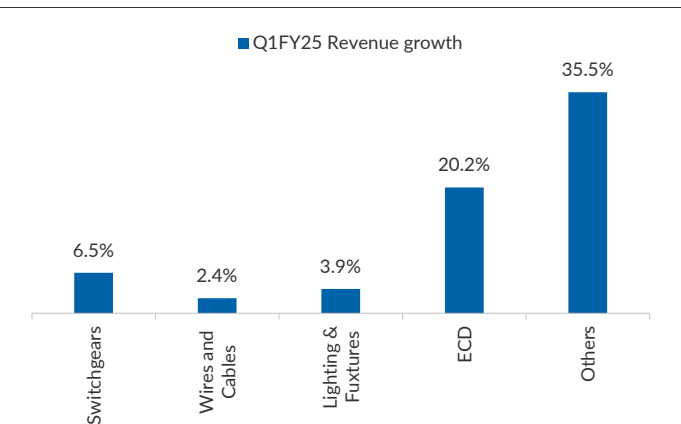
Source: Company, YES Sec

Exhibit 5: Higher brand investments results in lower EBITDA margin



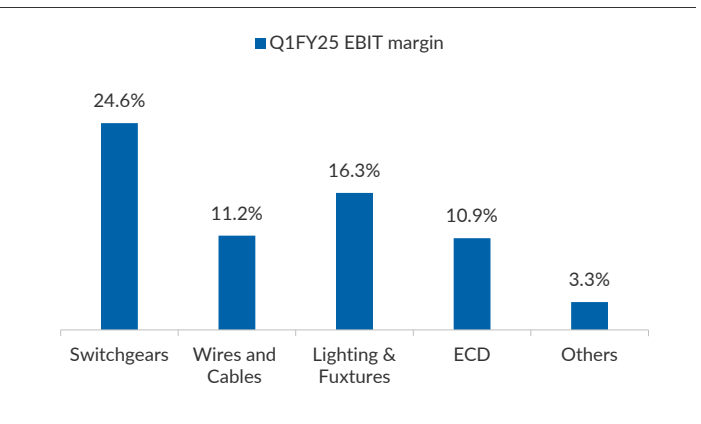
Source: Company, YES Sec

Exhibit 6: Summer products have seen strong growth



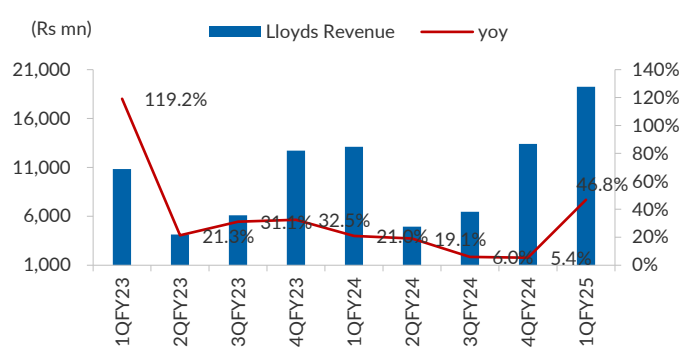
Source: Company, YES Sec

Exhibit 7: Margins have been lower despite strong growth



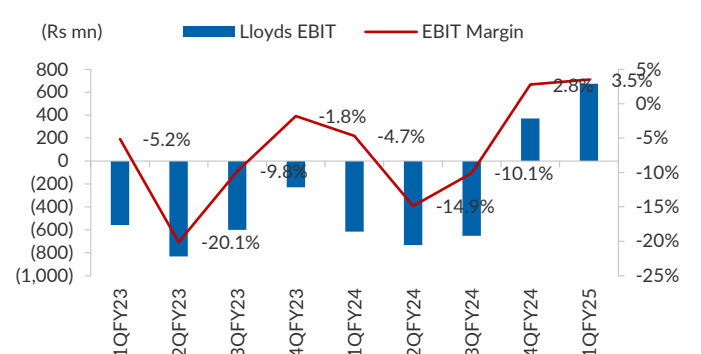
Source: Company, YES Sec

Exhibit 8: Lloyds revenue growth is driven by strong demand for RAC



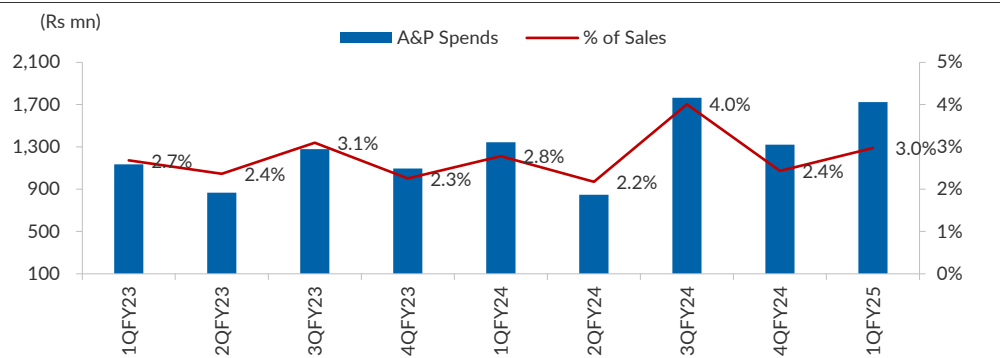
Source: Company, YES Sec

Exhibit 9: Lloyds has seen positive EBIT for second quarter in a row



Source: Company, YES Sec

Exhibit 10: Company has stepped up brand investments



Source: Company, YES Sec

Exhibit 11: Revenue and Margin Assumption

Rs mn	FY22	FY23	FY24E	FY25E	FY26E
Switchgear	17864	21196	22450	25615	28176
% yoy growth	22%	19%	6%	14%	10%
Cables and wires	46451	55326	63176	73347	86549
% yoy growth	46%	19%	14%	16%	18%
Lighting and Fixtures	13709	16015	16268	17521	19273
% yoy growth	26%	17%	2%	8%	10%
Electrical consumer durables	30669	32958	34818	42303	48649
% yoy growth	29%	7%	6%	22%	15%
Lloyd's consumer	22606	33686	37852	47315	54413
% yoy growth	34%	49%	12%	25%	15%
Others	7587	9503	10936	13287	15015
% yoy growth	19%	25%	15%	22%	13%
Total Revenue	138885	168684	185499	219388	252075
% yoy growth	33%	21%	10%	18%	15%

Rs mn	FY22	FY23	FY24E	FY25E	FY26E
Switchgear	4908	5564	5960	6481	7213
% margin	27%	26%	27%	25%	26%
Cables and wires	5403	5247	7161	8435	10126
% margin	12%	9%	11%	12%	12%
Lighting and Fixtures	2576	2469	2474	2803	3084
% margin	19%	15%	15%	16%	16%
Electrical consumer durables	4576	4189	3872	4738	5595
% margin	15%	13%	11%	11%	12%
Lloyd's consumer	-711	-2,209	-1,644	852	1,904
% margin	-3%	-7%	-4%	2%	4%
Others	567	350	246	465	676
% margin	7%	4%	2%	4%	5%
Total PBIT	17318	15609	18068	23773	28598
% margin	12%	9%	10%	11%	11%

KEY CON-CALL HIGHLIGHTS

- **Management commentary** – Summer products like RAC, Air-coolers and Fans have done well led by strong summer, leveraging of in-house manufacturing, omni channel presence and strong brand pull. Wires and cables registered robust performance, despite wires being impacted by channel de-stocking. **The company believes consumer demand turnaround is round the corner**
- **ECD** – Contribution margins in ECD has improved on back of premiumization and cost reduction activity. EBIT margins are lower on higher A&P spends
- **Switchgears and Switches** – Increased competitive intensity has been there since few years. Despite strong competition margins have remained healthy and margins in switchgears will remain in the range. Contribution margins should be maintained in the range of 38-41%.
- **Lloyd** – Lloyds is the journey and investments will be continue to be made as there is strong long term potential. Premiumization and manufacturing efficiency has resulted in improved margins. Operating leverage has also played out in margin improvement. The company expect increased price realization and cost efficiency to accrue on sustainable basis from hereon. **The company expects continued improvement in Volume as well as profitability**
- **Demand**- In Q1 summer has helped, low base has also resulted in high growth. Demand drivers are looking better, whether sustainable or not is difficult to call out at the moment.
- **Wires and cables** – June saw heavy inventory de-stocking on back of commodity price fluctuation, July is returning back to normalcy in terms of inventory stocking.
- **Capacity expansion** – Cables capacity expansion will start to contribute from current quarters especially in underground power cables. Approvals are expected shortly. The company will also look at export opportunity. The company's aspiration is to derive 10% of revenue from exports.
- **Price hikes** – Price increases have been done in Q1 in most categories. The price increase is sufficient to cover current RM prices.
- **Switches re-branding** – The company has decided re-brand Crabtree switches as Havells Crabtree as both are into similar price segment which will be better in terms of marketing.
- **Non AC category**- Non AC category has also done well, the company will focus on washing machine and refrigerator going forward
- **Inventory** – Inventory days at 63 days and company believes that it can be improved as in-house manufacturing increases.
- **Capex** – The company is maintaining capex guidance at Rs8bn. Capex is expected to remain at elevated levels in FY26 and FY27 as well off which 40% will be for Cables.
- **A&P expenses** – A&P expenses for Lloyds is in range of 4-4.5% and for Havells it is in range of 2.5%.
- **Exports** – Exports revenue traction for Lloyd is still 12months away. Currently approvals are being granted and most of the approvals should be in place in next 12 months
- **Channel inventory** – There is hardly any inventory remaining with the channel partners as there has been stockout during the summer season
- **Non AC margins in Lloyd** – **Non AC margins for other product in Lloyd is better than that of AC**

FINANCIALS

Exhibit 12: Balance Sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Equity capital	626	627	627	627	627
Reserves	59,260	65,518	73,758	84,281	97,163
Net worth	59,886	66,145	74,385	84,908	97,790
Debt	3,955	0	0	0	0
Deferred tax liab (net)	3,506	3,615	3,575	3,575	3,575
Other non current liabilities	2,640	3,349	3,453	4,032	4,623
Total liabilities	69,988	73,109	81,413	92,515	105,988
Fixed Asset	34,907	37,870	42,865	46,153	48,908
Investments	4,277	2,013	412	412	412
Other Non-current Assets	1,529	2,840	2,262	2,611	2,949
Net Working Capital	21,638	25,818	33,441	36,504	37,936
Inventories	29,681	37,085	34,085	46,883	53,868
Sundry debtors	7,648	9,713	11,572	11,420	13,122
Loans and Advances	0	0	0	0	0
Sundry creditors	23,794	26,425	26,907	34,261	39,365
Other current liabilities	8,737	9,148	13,102	15,340	17,498
Cash & equivalents	7,637	4,569	2,434	6,834	15,784
Total Assets	69,988	73,109	81,413	92,515	105,988

Source: Company, YES Sec

Exhibit 13: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	138,885	168,684	185,499	219,388	252,075
Operating profit	17,576	16,030	18,453	24,133	29,493
Depreciation	2,608	2,961	3,385	3,917	4,451
Interest expense	534	336	457	462	416
Other income	1,604	1,770	2,487	2,650	2,800
Profit before tax	16,038	14,503	17,098	22,404	27,427
Taxes	4,091	3,753	4,366	5,721	7,004
Minorities and other	-	-	-	-	-
Adj. profit	11,947	10,750	12,732	16,683	20,423
Exceptional items	-	-	-	-	-
Net profit	11,947	10,750	12,732	16,683	20,423

Source: Company, YES Sec

Exhibit 14: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Profit before tax	16,572	14,839	17,555	22,866	27,842
Depreciation	2,608	2,961	3,385	3,917	4,451
Tax paid	(4,091)	(3,753)	(4,366)	(5,721)	(7,004)
Working capital Δ	(152)	(4,455)	(5,814)	(3,063)	(1,432)
Other operating items					
Operating cashflow	14,937	9,592	10,760	17,998	23,857
Capital expenditure	(3,713)	(5,924)	(8,380)	(7,205)	(7,205)
Free cash flow	11,224	3,668	2,380	10,793	16,652
Equity raised	386	208	209	-	-
Investments	(2,727)	2,539	(207)	-	-
Debt financing/disposal	(967)	(3,955)	-	-	-
Interest paid	(534)	(336)	(457)	(462)	(416)
Dividends paid	(4,091)	(4,699)	(4,701)	(6,160)	(7,541)
Net Δ in cash	4,371	(3,068)	(2,135)	4,401	8,949

Source: Company, YES Sec

Exhibit 15: Du-pont analysis

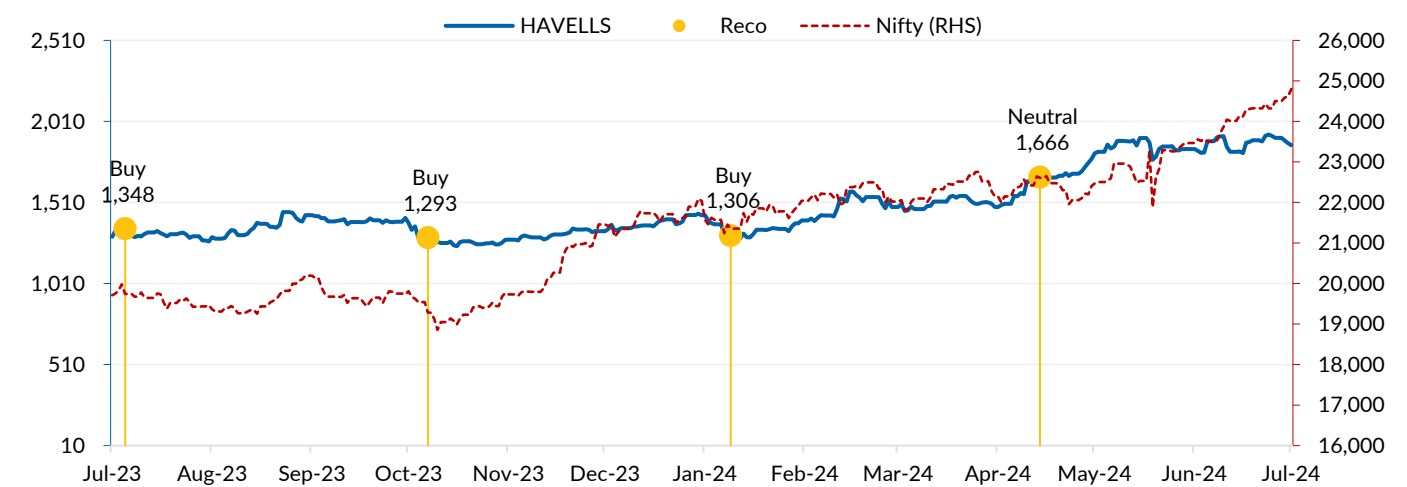
Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Tax burden (x)	0.74	0.74	0.74	0.74	0.74
Interest burden (x)	0.97	0.98	0.97	0.98	0.99
EBIT margin (x)	0.12	0.09	0.09	0.10	0.11
Asset turnover (x)	1.44	1.56	1.57	1.63	1.62
Financial leverage (x)	1.73	1.72	1.68	1.69	1.71
RoE (%)	21.4	17.1	18.1	20.9	22.4

Exhibit 16: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
Growth matrix (%)					
Revenue growth	33.2	21.5	10.0	18.3	14.9
Op profit growth	12.3	(8.8)	15.1	30.8	22.2
EBIT growth	10.2	(10.5)	18.3	30.3	21.8
Net profit growth	14.9	(10.0)	18.4	31.0	22.4
Profitability ratios (%)					
OPM	12.7	9.5	9.9	11.0	11.7
EBIT margin	11.9	8.8	9.5	10.4	11.0
Net profit margin	8.6	6.4	6.9	7.6	8.1
RoCE	27.5	22.8	25.0	28.7	30.5
RoNW	21.4	17.1	18.1	20.9	22.4

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
RoA	12.4	9.9	10.8	12.4	13.1
Per share ratios					
EPS	19.1	17.2	20.3	26.6	32.6
Dividend per share	6.5	7.5	7.5	9.8	12.0
Cash EPS	23.2	21.9	25.7	32.9	39.7
Book value per share	95.6	105.6	118.7	135.5	156.0
Valuation ratios					
P/E	97.7	108.6	91.7	70.0	57.2
P/CEPS	80.2	85.1	72.4	56.7	46.9
P/B	19.5	17.6	15.7	13.8	11.9
EV/EBIDTA	66.2	72.5	63.1	48.1	39.1
Payout (%)					
Dividend payout	34.2	43.7	36.9	36.9	36.9
Tax payout	25.5	25.9	25.5	25.5	25.5
Liquidity ratios					
Debtor days	20.1	21.0	22.8	19.0	19.0
Inventory days	78.0	80.2	67.1	78.0	78.0
Creditor days	62.5	57.2	52.9	57.0	57.0

Recommendation Tracker



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YES Securities (India) Limited

Registered Address: 2nd Floor, North Side, YES BANK House,
Off Western Express Highway, Santacruz East,
Mumbai - 400 055, Maharashtra, India.

Correspondence Address: 7th Floor, Urmi Estate Tower A, Ganpatrao
Kadam Marg, Opp. Peninsula Business Park, Lower Parel (West),
Mumbai - 400 013, Maharashtra, India.

✉ research@ysil.in | Website: www.yesinvest.in

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RESEARCH ANALYST: INH000002376 | INVESTMENT ADVISER:
INA000007331 | Sponsor and Investment Manager to YSL Alternates
Alpha Plus Fund (CAT III AIF) SEBI Registration No.: IN/AIF3/20-21/0818 |
AMFI ARN Code - 94338.

Details of Compliance Officer: Name: Aditya Goenka,
Email id: compliance@ysil.in, **Contact No:** 022- 65078127 (Extn: 718127)

Grievances Redressal Cell: customer.service@ysil.in/igc@ysil.in

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