

Retail Equity Research
Havells India Ltd.
Electrical Equipment

BUY

BSE CODE : 517354 NSE CODE: HAVELLS
BLOOMBERG CODE: HAVL:IN SENSEX : 72,086

12 Months Investment Period Rating as per Large Cap
CMP Rs.1,341 TARGET Rs.1,496 RETURN 12% ↑
(Closing: 02-02-2024)

KEY CHANGES: TARGET ↑ RATING ↔ EARNINGS ↓

Q3 let down...but positive outlook prevails

Havells India Ltd. (HAVL) is a leading player in electrical consumer goods in India. Its key verticals include switchgears, cables & wires, lighting fixtures, and consumer appliances.

- Revenue grew by 7% YoY and was marginally below expectations, primarily due to weak consumer sentiments.
- EBITDA was flat, and margins were lower by 50bps YoY at 9.8% on account of higher ad spends and other expenses.
- HAVL's core portfolio has done well, led by healthy demand in real estate and construction, a trend likely to continue. However, the ECD segment saw weak consumer sentiments.
- Despite these challenges, optimism prevails, as seasonal factors and an improved product mix are poised to boost profitability. With inflation easing and input prices stabilizing, an overall improvement in consumer sentiment is anticipated for FY25.
- In spite of a 7% & 11% reduction in our EPS estimates, aligning with decreased EBITDA margin projections and indicative of margins in Q3 falling below anticipated levels, the overall outlook for earnings remains strong.
- We value HAVL at a P/E of 46x as we roll forward to FY26E and maintain BUY rating with a target price of Rs.1,496.

Weak consumer sentiments impacted...Q4 to see revival.

In Q3FY24, revenue grew by 6.8% YoY, missed our estimates by 5.4% due to weak consumer sentiments. B2B volumes remained robust, driven by infra and real estate demand. Despite the festive season, the ECD segment saw modest growth of 3% YoY, attributed to subdued fan demand. The lighting segment faced price erosion but achieved double-digit volume growth. Switchgear growth was flat due to a decline in sales to the telecom OEM segment. Cables reported double-digit growth, though underground cable capacity constraints impacted overall cable growth. Off-season impacts led to modest growth in Lloyd. Management indicated a weakness in consumer sentiments, especially in rural areas. However, green shoots are visible, and we expect a gradual revival going ahead. In the near-term, Q4 is expected to be strong, led by summer-related products. We cut our revenue estimates by 2% for FY24-FY25E and expect revenue to grow by 14% CAGR.

Margins expansion will be gradual...

In Q3 FY24, EBITDA grew only modestly by 2% due to higher ad spends and other expenses. While margins declined by 50bps YoY to 9.8%. Consequently, the reported net profit was flat. Normalizing the EBITDA margin to historical levels (13.3%) may take time due to higher spending at Lloyd. We've adjusted our FY24E EBITDA margin estimates down by 50bps to 9.7% and 80bps for FY25E to 11.2%, on account for the Q3 margin EBITDA margin miss. Nevertheless, we still project a robust 28% CAGR growth in net profit over FY24-26E.

Valuations

Consumer sentiments remain weak in the near term; however, there are green shoots, and we expect a gradual revival in growth going into FY25. The near-term earnings outlook remains robust on account of seasonal factors and a better product mix. Further, input prices have stabilised, which is expected to keep margins stable. However, we don't have meaningful EBITDA margins in the very short term, given that HAVL is in an investment mode. Despite earnings downgrades, the earnings outlook remains robust. We value HAVL at a P/E of 46x as we roll forward to FY26E and maintain a Buy rating, with a target price of Rs. 1,496.

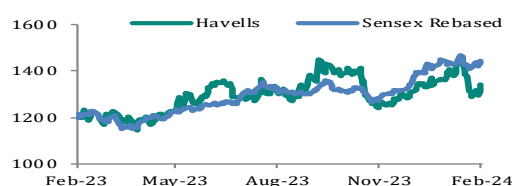
Company Data

Market Cap (cr)	Rs.83,848
Enterprise Value (cr)	Rs.83,485
Outstanding Shares (cr)	62.5
Free Float	40.5%
Dividend Yield	0.56%
52 week high	Rs.1,472
52 week low	Rs.1,128
6m average volume (cr)	0.1
Beta	0.94
Face value	Rs.1

Shareholding (%)	Q1FY24	Q2FY24	Q3FY24
Promoters	59.5	59.4	59.4
FII's	23.8	24.2	24.0
MFs/Institutions	9.8	9.5	10.1
Public	5.4	5.4	5.4
Others	1.5	1.5	0.9
Total	100.0	100.0	100.0
Promoter pledge	Nil	Nil	Nil

Price Performance	3 Month	6 Month	1 Year
Absolute Return	6.2%	2.1%	11.9%
Absolute Sensex	11.0%	9.7%	20.3%
Relative Return*	-4.7%	-7.6%	-8.4%

*over or under performance to benchmark index



Standalone (cr)	FY24E	FY25E	FY26E
Sales	18,649	21,445	24,288
Growth (%)	10.6	15.0	13.3
EBITDA	1,809	2,391	2,866
EBITDA Margin(%)	9.7	11.2	11.8
PAT Adj.	1,248	1,681	2,038
Growth (%)	16.1	34.7	21.2
Adjusted EPS	19.9	26.8	32.5
Growth (%)	16.1	34.7	21.2
P/E	67.3	50.0	41.2
P/B	14.0	11.6	9.5
EV/EBITDA	46.3	34.9	29.0
ROE (%)	17.8	21.0	21.7
D/E	0.0	0.0	0.0

ANIL R
Research Analyst

Quarterly Financials

Profit & Loss

Rs.cr	Q3FY24	Q3FY23	YoY Growth (%)	Q2FY24	QoQ Growth (%)	9MFY24	9MFY23	YoY Growth (%)
Sales	4,401	4,120	6.8	3,891	13.1	13,116	12,019	9.1
EBITDA	432	424	2.0	372	16.2	1207	1072	12.5
EBITDA margin	9.8	10.3	-0.5	9.6	0.3	9.2	8.9	0.3
Depreciation	88	75	17.6	81	8.0	245	219	12.1
EBIT	345	349	-1.3	291	18.5	961	853	12.7
Interest	10	7	40.1	9	9.3	28	24	17.3
Other Income	56	40	40.2	52	6.8	173	130	32.9
Exceptional Items	-	-	-	-	-	-	-	-
PBT	390	382	2.2	334	16.9	1106	960	15.3
Tax	103	98	5.1	86	19.2	284	247	15.2
Share of profit from Associate	-	-	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-	-	-
Reported PAT	287	284	1.2	248	16.1	822	713	15.3
Adjustments	-	-	-	-	-	-	-	-
Adjusted PAT	287	284	1.2	248	16.1	822	713	15.3
No. of Shares	62.5	62.5	-	62.5	-	62.5	62.5	-
EPS (Rs)	4.6	4.5	1.2	4.0	16.1	13.1	11.4	15.3

Change in Estimates

Year / Rs cr	Old estimates		New estimates			Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY26E	FY24E	FY25E
Revenue	19,048	21,906	18,649	21,445	24,288	-2.1	-2.1
EBITDA	1,933	2,618	1,809	2,391	2,866	-6.4	-8.7
Margin (%)	10.2	12.0	9.7	11.2	11.8	-0.5	-0.8
Adj. PAT	1,339	1,859	1,248	1,681	2,038	-6.8	-9.6
EPS	21.4	29.7	19.9	26.8	32.5	-6.9	-9.7

Standalone Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY22A	FY23A	FY24E	FY25E	FY26E
Sales	13,889	16,868	18,649	21,445	24,288
% change	33.2	21.5	10.6	15.0	13.3
EBITDA	1,758	1,603	1,809	2,391	2,866
% change	12.3	(8.8)	12.8	32.2	19.9
Depreciation	261	296	336	382	422
EBIT	1,497	1,307	1,473	2,009	2,443
Interest	53	34	38	39	36
Other Income	160	177	230	272	310
PBT	1,604	1,450	1,664	2,241	2,718
% change	12.0	(9.6)	14.8	34.7	21.2
Tax	409	375	416	560	679
Tax Rate (%)	25.5%	25.9%	25.0%	25.0%	25.0%
Reported PAT	1,195	1,075	1,248	1,681	2,038
Adj.*	0	0	0	0	0
Adj. PAT	1,195	1,075	1,248	1,681	2,038
% change	14.9	(10.1)	16.1	34.7	21.2
No. of shares (cr)	62.6	62.7	62.7	62.7	62.7
Adj EPS (Rs)	19.1	17.2	19.9	26.8	32.5
% change	14.9	(10.1)	16.1	34.7	21.2
DPS (Rs)	6.5	7.5	7.5	7.5	7.5
CEPS (Rs)	23.2	21.9	25.3	32.9	39.3

BALANCE SHEET

Y.E March (Rs Cr)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash	764	457	153	503	767
Accounts Receivable	768	973	1,083	1,246	1,451
Inventories	2,968	3,708	4,019	4,534	5,096
Other Cur. Assets	2,514	2,218	2,922	3,367	3,819
Investments	2	0	80	200	350
Gross Fixed Assets	3,019	3,451	4,051	4,551	5,051
Net Fixed Assets	2,021	2,228	2,492	2,610	2,687
CWIP	57	163	80	80	80
Intangible Assets	1,413	1,396	1,405	1,405	1,405
Def. Tax (Net)	(351)	(362)	(371)	(385)	(401)
Other Assets	0	0	-	-	-
Total Assets	10,155	10,782	11,864	13,559	15,255
Current Liabilities	3,317	3,439	3,704	4,139	4,254
Provisions	329	412	450	499	532
Debt Funds	282	11	11	11	11
Other Liabilities	17	83	83	83	63
Equity Capital	63	63	63	63	63
Reserves & Surplus	5,926	6,552	7,330	8,541	10,108
Shareholder's Fund	5,989	6,614	7,393	8,603	10,171
Total Liabilities	10,155	10,782	11,864	13,559	15,255
BVPS	95.9	105.9	118.4	137.8	162.9

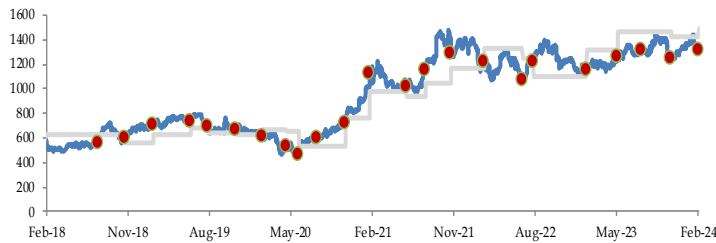
CASH FLOW

Y.E March (Rs Cr)	FY22A	FY23A	FY24E	FY25E	FY26E
Net inc. + Depn.	1,195	1,075	1,248	1,681	2,038
Non-cash adj.	208	187	154	163	165
Changes in W.C	342	(697)	(822)	(636)	(1,073)
C.F. Operation	1,744	565	581	1,208	1,130
Capital exp.	(253)	(586)	(526)	(500)	(500)
Change in inv.	(605)	504	(80)	(120)	(150)
Other invest.CF	95	120	230	272	310
C.F - Investment	(759)	39	(376)	(348)	(340)
Issue of equity	31	27	-	-	-
Issue/repay debt	(147)	(456)	-	-	(20)
Dividends paid	(407)	(470)	(470)	(470)	(470)
Other finance.CF	(24)	(7)	(38)	(39)	(36)
C.F - Finance	(547)	(907)	(509)	(510)	(526)
Chg. in cash	438	(303)	(304)	350	264
Closing cash	764	457	153	503	767

RATIOS

Y.E March	FY22A	FY23A	FY24E	FY25E	FY26E
Profitab & Return					
EBITDA margin (%)	12.7	9.5	9.7	11.2	11.8
EBIT margin (%)	10.8	7.7	7.9	9.4	10.1
Net profit mgn.(%)	8.6	6.4	6.7	7.8	8.4
ROE (%)	21.4	17.1	17.8	21.0	21.7
ROCE (%)	15.8	12.8	13.7	16.1	16.6
W.C & Liquidity					
Receivables (days)	17	19	20	20	20
Inventory (days)	109	104	111	108	109
Payables (days)	112	106	102	99	95
Current ratio (x)	1.9	1.9	2.0	2.1	2.3
Quick ratio (x)	0.4	0.4	0.3	0.4	0.5
Turnover & Leverage					
Gross asset T.O (x)	4.9	5.2	5.0	5.0	5.1
Total asset T.O (x)	7.2	7.9	7.9	8.4	9.2
Int. covge. ratio (x)	28.0	38.9	38.3	51.0	67.8
Adj. debt/equity (x)	0.1	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	5.9	4.9	4.5	3.9	3.4
EV/EBITDA (x)	46.4	52.1	46.3	34.9	29.0
P/E (x)	70.3	78.1	67.3	50.0	41.2
P/BV (x)	18.3	16.0	14.0	11.6	9.5

Recommendation Summary (Last 3 years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
02-November-20	Hold	766
22-January-21	Reduce	974
25-May-21	Reduce	937
28-July-21	Reduce	1,042
22-October-21	Reduce	1,165
10-February-22	Hold	1,336
20-June-22	BUY	1,245
25-July-22	SELL	1,104
23-January-23	BUY	1,311
05-May-23	BUY	1,462
28-July-23	BUY	1,470
01-November-23	BUY	1,424
05-February-24	BUY	1,496

Investment Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note; **Reduce:** Reduce your exposure to the stock due to limited upside; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Not rated/Neutral- The analyst has no investment opinion on the stock under review.

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