

Havells India Ltd.

20th October 2023

Expecting a demand recovery with margin expansion

In Q2 FY24, Havells India Ltd. (HAVL) recorded a weak revenue growth on account of weak consumer demand. The Company clocked a 6% revenue growth on a YoY basis, driven by good performance in Lloyd Consumer, switchgears and the other segments. In Q2 FY24, margin improvement was seen across the board both on a QoQ and a YoY basis. Despite this, the EBITDA margin continues to remain significantly below the long-term average of 12-13%. The Company expects the demand environment in H2 FY24 to be better than in H1 FY24, along with margin improvement. This will be driven by the upcoming festive season and a better summer season for fans. Adhering to the aforementioned factors, we maintain a BUY rating on HAVL with a target price of Rs. 1,552 based on revised estimates.

Consumer demand softness impacting growth

In Q2 FY24, HAVL recorded a 6% topline growth on a YoY basis on account of weak consumer demand. Weak performance in the ECD and lighting segments was the key reason for HAVL's lacklustre performance during the quarter. The ECD and the lighting segment were impacted by weak consumer demand and price erosion in consumer lighting. The Company expects the demand outlook to improve in H2 FY24 as the festive season is approaching. Additionally, HAVL is also expecting good business in fans as the BEE transition is now behind, and the distribution channel is operating on a normalized inventory.

Expectation of better focus on exports

Despite achieving significant success in the domestic market, HAVL has not yet made material strides to drive its export business. However, the focus on the export business seems to be improving in the last few quarters. The Company is taking the necessary steps pertaining to getting the product and the market for exports right. Currently, HAVL is waiting for some certifications. Going forward, we believe the export business will be a crucial driver of revenue growth.

Recovery in margin

In Q2 FY24, the key positive was a recovery in margins across the board. Though the EBITDA margin of 8.9% in H1 FY24 is substantially lower than the average EBITDA of 12-13%, this is a positive development compared to the 8.3% and 7.8% EBITDA margin in Q1 FY24 and Q2 FY23, respectively. Also, the management is prioritizing taking the EBITDA margins back to pre-COVID levels gradually as the scale in Lloyd and consumer demand improves.

View & Valuation

We believe that the demand in H2 FY24 will revive and will also result in minor EBITDA margin improvement at least. Apart from this, multiple initiatives taken by the Company should help business momentum to sustain in FY25 as well. Owing to the above factors, we have revised our estimates and maintain a BUY rating on Havells India Ltd. with a target price of Rs. 1,552 (54x FY25E EPS).

BUY

CMP Rs. 1,293

TARGET Rs. 1,552 (20.1%)

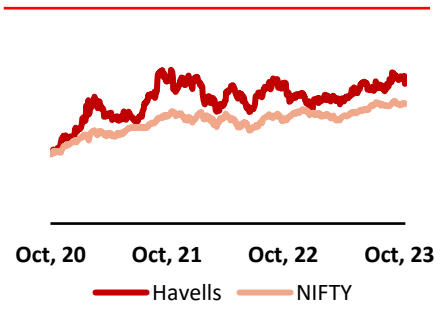
Company Data

Bloomberg Code	HAVL IN
MCAP (Rs. Mn)	8,10,102
O/S Shares (Mn)	627
52w High/Low	1,466 / 1,092
Face Value (in Rs.)	1
Liquidity (3M) (Rs. Mn)	1,143

Shareholding Pattern %

	Sep 23	Jun 23	Mar 23
Promoters	59.43	59.43	59.45
FIIIs	24.19	23.79	23.11
DIIIs	9.48	9.78	10.37
Non-Institutional	6.90	6.99	7.07

Havells vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs. Bn)	FY23	FY24E	FY25E
Revenue	169.1	194.8	223.1
EBITDA	16.2	19.9	26.1
Net Profit	10.7	13.4	18.0
Total Assets	114.9	126.6	139.3
ROCE (%)	17%	20%	23%
ROE (%)	17%	19%	23%

Source: Company, Keynote Capitals Ltd.

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Q2 FY24 Result Update

Result Highlights (Rs. Mn)

Particulars	Q2 FY24	Q2 FY23	Change % (Y-o-Y)	Q1 FY24	Change % (Q-o-Q)	H1 FY24	H1 FY23	Change % (Y-o-Y)	FY23
Revenue	39,003	36,795	6%	48,338	-19%	87,341	79,240	10%	1,69,107
COGS	26,019	25,439	2%	33,659	-23%	59,678	55,596	7%	1,17,055
Gross Profit	12,984	11,356	14%	14,679	-12%	27,663	23,644	17%	52,053
Gross Profit %	33.3%	30.9%	243 bps	30.4%	292 bps	31.7%	29.8%	183 bps	30.8%
Employee Cost	3,783	3,085	23%	3,570	6%	7,353	6,122	20%	12,683
A&SP	846	867	-2%	1,343	-37%	2,189	2,001	9%	4,374
Other Operating Expense	4,621	4,536	2%	5,746	-20%	10,368	9,037	15%	19,004
EBITDA	3,734	2,869	30%	4,020	-7%	7,753	6,484	20%	15,991
EBITDA %	9.6%	7.8%	178 bps	8.3%	126 bps	8.9%	8.2%	69 bps	9.5%
Depreciation	812	721	13%	763	6%	1,575	1,442	9%	2,962
EBIT	2,922	2,148	36%	3,257	-10%	6,179	5,042	23%	13,030
EBIT %	7.5%	5.8%	165 bps	6.7%	75 bps	7.1%	6.4%	71 bps	7.7%
Finance Cost	93	68	37%	85	10%	178	166	7%	336
Other Income	525	438	20%	648	-19%	1,173	914	28%	1,777
PBT	3,353	2,517	33%	3,821	-12%	7,174	5,790	24%	14,471
Tax	862	647	33%	950	-9%	1,812	1,488	22%	3,753
Profit for the period	2,491	1,870	33%	2,871	-13%	5,362	4,302	25%	10,717
EPS	3.97	2.98	-	4.58	-	8.56	6.87	-	17.11

Segment Highlights (Rs. Mn)

Particulars	Q2 FY24	Q2 FY23	Change % (Y-o-Y)	Q1 FY24	Change % (Q-o-Q)	H1 FY24	H1 FY23	Change % (Y-o-Y)	FY23
Revenue									
Switchgears	5,336	4,879	9%	5,409	-1%	10,745	10,048	7%	21,202
Cables	14,702	13,594	8%	14,852	-1%	29,553	25,523	16%	55,326
Lighting & Fixtures	3,999	4,018	0%	3,710	8%	7,710	7,754	-1%	16,145
Electrical Consumer Durables	7,331	7,735	-5%	8,775	-16%	16,106	16,130	0%	32,982
Lloyd Consumer Durables	4,974	4,198	18%	13,109	-62%	18,083	15,136	19%	33,949
Others	2,662	2,372	12%	2,483	7%	5,145	4,648	11%	9,503
Operating Profit									
Switchgears	1,409	1,220	15%	1,499	-6%	2,908	2,574	13%	5,566
Cables	1,707	859	99%	1,691	1%	3,397	1,734	96%	5,247
Lighting & Fixtures	570	576	-1%	532	7%	1,102	1,190	-7%	2,480
Electrical Consumer Durables	848	900	-6%	957	-11%	1,805	2,001	-10%	4,190
Lloyd Consumer Durables	-745	-840	-	-616	-	-1,361	-1,403	-	-2,233
Others	40	41	-2%	88	-54%	128	163	-22%	350
Operating Profit Margin %									
Switchgears	26%	25%	140 bps	28%	-131 bps	27%	26%	145 bps	26%
Cables	12%	6%	529 bps	11%	23 bps	11%	7%	470 bps	9%
Lighting & Fixtures	14%	14%	-7 bps	14%	-9 bps	14%	15%	-104 bps	15%
Electrical Consumer Durables	12%	12%	-7 bps	11%	67 bps	11%	12%	-119 bps	13%
Lloyd Consumer Durables	-15%	-20%	-	-5%	-	-8%	-9%	-	-7%
Others	2%	2%	-21 bps	4%	-202 bps	2%	3%	-102 bps	4%

Source: Company, Keynote Capitals Ltd.

Q2 FY24 Conference Call Takeaways

General Highlights

- Overall demand is anticipated to be better in H2 FY24 as the festival season is approaching. HAVL expects a better performance from domestic appliances, lighting and ECD segments.
- The Company has not experienced a loss of market share in any business segment.
- HAVL is aiming to drive its EBITDA margins back to pre-COVID levels. This will be a function of an improved business environment coupled with better utilization of idle capacity, especially in the Lloyd segment.
- The planned CAPEX for FY24 is Rs. 6 Bn. Additionally, the Company aims to spend 2.5-3.0% of its revenue behind A&SP each year.

C&W segment

- In Q2 FY24, the C&W segment saw a 10% volume growth. The demand for underground cables saw a strong surge, but the Company couldn't reap the full benefits of the same as it was constrained by capacity.
- Currently, the capacity expansion for the underground is in progress. This expansion will augment HAVL's cable manufacturing capacity by an additional 25%.

Lloyd Consumer

- The focus for Lloyd continues to be on improving scale, expanding market share and brand building. HAVL is looking at Lloyd as a long-term play with an extremely large business opportunity.
- Out of the total sales generated by Lloyd, 50% was generated from AC, and the other 50% was generated from other Lloyd products.
- Currently, the AC manufacturing facility is substantially underutilized, with the "Sri City" plant being commissioned. A better utilization of the existing capacity will result in improved margins in the Lloyd segment going forward. HAVL can double its AC turnover using the current capacity itself.

Electronic Consumer Durables

- The demand for fans has been weak for the last 6-9 months, owing to the BEE transition. The Company expects demand to revive going forward. HAVL's focus on premium fans remains intact.
- Price hikes taken by the industry during the year remain a key reason for the softness in demand. However, the offtake should improve as the channel is not operating on very high inventory.
- The Company is not participating in channel discounting to improve demand artificially. This is because HAVL doesn't believe discounting to be a sustainable long-term practice.

Lighting

- In Q2 FY24, the volume growth in the lighting segment was intact. The key reason for a weak performance is the price erosion in consumer lighting. The good news is that the deflation seems to have bottomed out.
- High competitive intensity in the industry has never been and is currently not an issue for the Company.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	1,39,385	1,69,107	1,94,778	2,23,144	2,54,269
Growth %		21%	15%	15%	14%
Raw Material Expenses	91,145	1,13,311	1,30,501	1,47,275	1,65,275
Employee Expenses	10,207	12,683	14,219	16,289	18,562
Other Expenses	20,294	26,908	30,191	33,472	38,140
EBITDA	17,739	16,206	19,867	26,108	32,292
Growth %		-9%	23%	31%	24%
Margin%	13%	10%	10%	12%	13%
Depreciation	2,609	2,962	3,183	3,292	3,251
EBIT	15,130	13,244	16,684	22,816	29,042
Growth %		-12%	26%	37%	27%
Margin%	11%	8%	9%	10%	11%
Interest Paid	669	551	302	302	302
Other Income & exceptional	1,604	1,777	1,500	1,500	1,500
PBT	16,066	14,471	17,882	24,014	30,240
Tax	4,101	3,753	4,471	6,003	7,560
PAT	11,965	10,717	13,412	18,010	22,680
Others (Minorities, Associates)	0	0	0	0	0
Net Profit	11,965	10,717	13,412	18,010	22,680
Growth %		-10%	25%	34%	26%
Shares (Mn)	626.3	626.5	626.5	626.5	626.5
EPS	19.10	17.11	21.41	28.75	36.20

Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Cash, Cash equivalents & Bank	25,480	18,702	19,654	25,096	32,954
Current Investments	1,534	1,809	1,809	1,809	1,809
Debtors	7,663	9,739	11,687	13,389	15,256
Inventory	29,681	37,086	43,065	48,601	53,714
Short Term Loans & Advances	4,003	3,942	3,942	3,942	3,942
Other Current Assets	1,167	2,622	2,622	2,622	2,622
Total Current Assets	69,527	73,900	82,780	95,458	1,10,298
Net Block & CWIP	34,911	37,946	40,707	40,763	41,326
Long Term Investments	2,727	200	200	200	200
Other Non-current Assets	1,536	2,872	2,872	2,872	2,872
Total Assets	1,08,701	1,14,918	1,26,559	1,39,293	1,54,696
Creditors	23,800	26,432	30,026	32,854	35,782
Provision	6,629	6,416	6,416	6,416	6,416
Short Term Borrowings	0	0	0	0	0
Other Current Liabilities	9,370	8,852	8,852	8,852	8,852
Total Current Liabilities	39,800	41,699	45,293	48,121	51,049
Long Term Debt	2,726	0	0	0	0
Deferred Tax Liabilities	3,506	3,615	3,615	3,615	3,615
Other Long Term Liabilities	2,640	3,349	3,349	3,349	3,349
Total Non Current Liabilities	8,872	6,965	6,965	6,965	6,965
Paid-up Capital	626	627	627	627	627
Reserves & Surplus	59,403	65,628	73,675	83,581	96,057
Shareholders' Equity	60,209	66,255	74,301	84,207	96,683
Non Controlling Interest	0	0	0	0	0
Total Equity & Liabilities	1,08,701	1,14,918	1,26,559	1,39,293	1,54,696

Cash Flow Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	16,066	14,471	17,882	24,014	30,240
Adjustments	2,126	2,062	1,985	2,094	2,053
Change in Working Capital	3,237	-6,964	-4,333	-4,409	-4,054
Total Tax Paid	-4,149	-3,919	-4,471	-6,003	-7,560
Cash flow from operating Activities	17,280	5,649	11,064	15,695	20,679
Net Capital Expenditure	-2,583	-5,878	-6,050	-3,347	-3,814
Change in investments	-5,996	5,027	0	0	0
Other investing activities	993	1,201	1,500	1,500	1,500
Cash flow from investing activities	-7,586	350	-4,550	-1,847	-2,314
Equity raised / (repaid)	312	267	0	0	0
Debt raised / (repaid)	-973	-3,937	0	0	0
Dividend (incl. tax)	-4,073	-4,703	-5,365	-8,105	-10,206
Other financing activities	-739	-696	-302	-302	-302
Cash flow from financing activities	-5,473	-9,069	-5,667	-8,407	-10,508
Net Change in cash	4,221	-3,070	847	5,442	7,857

Valuation Ratios

Particulars	FY22	FY23E	FY24E	FY25E	FY26E
Per Share Data					
EPS	19	17	21	29	36
Growth %		-10%	25%	34%	26%
Book Value Per Share	96	106	119	134	154
Return Ratios					
Return on Assets (%)	12%	10%	11%	14%	15%
Return on Equity (%)	21%	17%	19%	23%	25%
Return on Capital Employed (%)	21%	17%	20%	23%	25%
Turnover Ratios					
Asset Turnover (x)	1.4	1.5	1.6	1.7	1.7
Sales / Gross Block (x)	3.2	3.5	3.7	3.9	4.1
Working Capital / Sales (x)	20%	18%	18%	19%	21%
Receivable Days	17	19	20	21	21
Inventory Days	112	108	112	114	113
Payable Days	77	76	75	75	74
Working Capital Days	53	50	57	59	60
Liquidity Ratios					
Current Ratio (x)	1.7	1.8	1.8	2.0	2.2
Interest Coverage Ratio (x)	25.0	27.3	60.2	80.5	101.1
Total Debt to Equity	0.1	0.0	0.0	0.0	0.0
Net Debt to Equity	-0.4	-0.3	-0.3	-0.3	-0.3
Valuation					
PE (x)	60.3	67.4	63.6	47.3	37.6
Earnings Yield (%)	2%	1%	2%	2%	3%
Price to Sales (x)	5.2	4.3	4.4	3.8	3.4
Price to Book (x)	12.0	11.2	11.5	10.1	8.8
EV/EBITDA (x)	39.5	44.8	41.8	31.8	25.7
EV/Sales (x)	5.0	4.3	4.3	3.7	3.3

Source: Company, Keynote Capitals Ltd. estimates

KEYNOTE Rating History

Date	Rating	Market Price at recommendation	Upside/Downside
5 th July 2023	BUY	1,287	20.7%
21 st July 2023	BUY	1,306	14.9%
20 th October 2023	BUY	1,293	20.1%

Source: Company, Keynote Capitals Ltd.

Rating Methodology

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd/Rating & Fair value under Review/Keynote Capitals Ltd has suspended coverage

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SEBI Regn. Nos.: BSE / NSE (CASH / F&O / CD): INZ000241530; DP: CDSL- IN-DP-238-2016; Research Analyst: INH000007997

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