

# Havells India Ltd.

25<sup>th</sup> January 2024

Expecting a better summer with continued margin recovery

In Q3 FY24, Havells India Ltd. (HAVL) recorded weak revenue growth on account of weakness in consumer demand. The Company clocked a 7% revenue growth on a YoY basis, driven by good performance in Cables and Other Domestic Appliances on account of the festive season. In Q3 FY24, overall EBITDA margin improved sequentially but declined on a YoY basis owing to higher ad spending and manpower investments. From Q3 FY24 onwards, the Company has started making significant efforts to develop its export business in addition to its expectation of the demand environment for its key products like AC and fans to be better in Q4 FY24 and Q1 FY25, owing to a strong summer season. A culmination of efforts on multiple fronts will continue to push margins closer to normal levels.

### Consumer demand softness continues to impact growth

In Q3 FY24, HAVL recorded a 7% topline growth on a YoY basis on account of prolonged weakness in consumer demand. Switchgear, Lighting, and ECD segments witnessed weak performance along with an operating margin decline. Switchgear and ECD business de-grew on account of weak demand from the telecom segment and a higher base quarter, respectively. De-growth in lighting was an outcome of continued price erosion despite volume growth.

### Significant efforts to boost exports

In line with sharpening its focus on exports, HAVL established two subsidiaries in the USA with a view to developing export business. In addition to this, the Company is also eyeing the Middle East to build a business for itself. The growth strategy that HAVL has adopted is like its strategy in India. The Company has decided to take the longer route of creating its brand and establishing its distribution in overseas markets as well. In addition to this, HAVL is also open to taking any white labelling business that comes along its way if the same fetches a desired margin.

### Expecting a better summer along with continued EBITDA margin recovery

Product categories like air conditioners and fans dominate HAVL's sales in the Lloyd and the ECD segment, respectively. Both dominant products are seasonal in nature and are expected to witness a strong summer in the upcoming quarters of Q4 FY24 and Q1 FY25. This is expected to be the first summer post COVID where the business may not see any external barriers like it did last year due to the BEE transition affecting fans and unseasonal rains affecting ACs. Improved scale in both businesses will also help the Company to achieve operating leverage benefits driving the overall profitability higher in the upcoming quarters.

### View & Valuation

We believe that HAVL will see strong demand for key seasonal products like AC and fans in the upcoming summer season, along with continued EBITDA margin improvement. Apart from this, multiple initiatives taken by the Company on boosting exports must 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. 1,512 (~54x FY25E EPS).

**BUY**

CMP Rs. 1,291

TARGET Rs. 1,512 (17.1%)

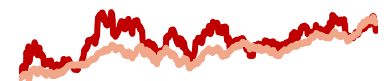
### Company Data

Bloomberg Code	HAVL IN
MCAP (Rs. Mn)	8,09,079
O/S Shares (Mn)	627
52w High/Low	1,472 / 1,128
Face Value (in Rs.)	1
Liquidity (3M) (Rs. Mn)	937

### Shareholding Pattern %

	Dec 23	Sep 23	Jun 23
Promoters	59.43	59.43	59.43
FIIIs	23.96	24.19	23.79
DIIIs	10.11	9.48	9.78
Non-Institutional	6.50	6.90	6.99

### Havells vs Nifty



Jan, 21	Jan, 22	Jan, 23	Jan, 24
<span style="color: red;">—</span> Havells <span style="color: orange;">—</span> NIFTY			

Source: Keynote Capitals Ltd.

### Key Financial Data

(Rs. Bn)	FY23	FY24E	FY25E
Revenue	169.1	190.4	218.0
EBITDA	16.2	18.1	25.1
Net Profit	10.7	12.3	17.5
Total Assets	114.9	125.0	137.6
ROCE (%)	17%	18%	23%
ROE (%)	17%	18%	22%

Source: Company, Keynote Capitals Ltd.

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## Q3 FY24 Result Update

## Result Highlights (Rs. Mn)

Particulars	Q3 FY24	Q3 FY23	Change % (Y-o-Y)	Q2 FY24	Change % (Q-o-Q)	9M FY24	9M FY23	Change % (Y-o-Y)	FY23
Revenue	44,139	41,276	7%	39,003	13%	1,31,480	1,20,515	9%	1,69,107
COGS	29,447	27,656	6%	26,019	13%	89,125	83,252	7%	1,17,055
Gross Profit	14,692	13,620	8%	12,984	13%	42,355	37,263	14%	52,053
<b>Gross Profit %</b>	<b>33.3%</b>	<b>33.0%</b>	<b>29 Bps</b>	<b>33.3%</b>	<b>0 Bps</b>	<b>32.2%</b>	<b>30.9%</b>	<b>129 Bps</b>	<b>30.8%</b>
Employee Cost	3,779	3,282	15%	3,783	0%	11,132	9,404	18%	12,683
A&SP	1,763	1,278	38%	846	108%	3,953	3,279	21%	4,374
Other Operating Expense	4,823	4,822	0%	4,621	4%	15,191	13,860	10%	19,004
EBITDA	4,327	4,237	2%	3,734	16%	12,080	10,720	13%	15,991
<b>EBITDA %</b>	<b>9.8%</b>	<b>10.3%</b>	<b>-46 Bps</b>	<b>9.6%</b>	<b>23 Bps</b>	<b>9.2%</b>	<b>8.9%</b>	<b>29 Bps</b>	<b>9.5%</b>
Depreciation	877	746	18%	812	8%	2,451	2,188	12%	2,962
EBIT	3,450	3,491	-1%	2,922	18%	9,629	8,532	13%	13,030
<b>EBIT %</b>	<b>7.8%</b>	<b>8.5%</b>	<b>-64 Bps</b>	<b>7.5%</b>	<b>33 Bps</b>	<b>7.3%</b>	<b>7.1%</b>	<b>24 Bps</b>	<b>7.7%</b>
Finance Cost	102	73	40%	93	9%	280	239	17%	336
Other Income	559	396	41%	525	6%	1,732	1,310	32%	1,777
PBT	3,907	3,815	2%	3,353	17%	11,081	9,604	15%	14,471
Tax	1,028	979	5%	862	19%	2,840	2,467	15%	3,753
<b>Profit for the period</b>	<b>2,879</b>	<b>2,836</b>	<b>2%</b>	<b>2,491</b>	<b>16%</b>	<b>8,241</b>	<b>7,137</b>	<b>15%</b>	<b>10,717</b>
<b>EPS</b>	<b>4.59</b>	<b>4.53</b>	<b>-</b>	<b>3.97</b>	<b>-</b>	<b>13.15</b>	<b>11.39</b>	<b>-</b>	<b>17.11</b>

## Segment Highlights (Rs. Mn)

Particulars	Q3 FY24	Q3 FY23	Change % (Y-o-Y)	Q2 FY24	Change % (Q-o-Q)	9M FY24	9M FY23	Change % (Y-o-Y)	FY23
<b>Revenue</b>									
Switchgears	5,206	5,143	1%	5,336	-2%	15,950	15,192	5%	21,202
Cables	15,727	14,121	11%	14,702	7%	45,280	39,645	14%	55,326
Lighting & Fixtures	4,335	4,232	2%	3,999	8%	12,045	11,986	0%	16,145
Electrical Consumer Durables	9,615	9,357	3%	7,331	31%	25,721	25,488	1%	32,982
Lloyd Consumer Durables	6,561	6,103	8%	4,974	32%	24,644	21,239	16%	33,949
Others	2,695	2,319	16%	2,662	1%	7,840	6,967	13%	9,503
<b>Operating Profit</b>									
Switchgears	1,256	1,271	-1%	1,409	-11%	4,164	3,844	8%	5,566
Cables	1,633	1,628	0%	1,707	-4%	5,030	3,362	50%	5,247
Lighting & Fixtures	614	536	15%	570	8%	1,716	1,725	-1%	2,480
Electrical Consumer Durables	1,073	1,228	-13%	848	26%	2,878	3,229	-11%	4,190
Lloyd Consumer Durables	-646	-600	-	-745	-	-2,007	-2,003	-	-2,233
Others	44	72	-40%	40	9%	171	235	-27%	350
<b>Operating Profit Margin %</b>									
Switchgears	24%	25%	-58 Bps	26%	-228 Bps	26%	25%	80 Bps	26%
Cables	10%	12%	-114 Bps	12%	-123 Bps	11%	8%	263 Bps	9%
Lighting & Fixtures	14%	13%	151 Bps	14%	-9 Bps	14%	14%	-14 Bps	15%
Electrical Consumer Durables	11%	13%	-197 Bps	12%	-41 Bps	11%	13%	-148 Bps	13%
Lloyd Consumer Durables	-10%	-10%	0 Bps	-15%	515 Bps	-8%	-9%	129 Bps	-7%
Others	2%	3%	-149 Bps	2%	11 Bps	2%	3%	-119 Bps	4%

Source: Company, Keynote Capitals Ltd.

## Q3 FY24 Conference Call Takeaways

### General Highlights

- Overall demand in the B2B business was better than B2C. This was due to subdued consumer sentiment, which is expected to improve due to a reduction in inflationary pressure.
- In Q3 FY24, HAVL established two subsidiaries, “Havells International Inc” and “Havells HVAC LLC” in the USA. In overseas markets also, the Company is looking to establish distribution and build a brand just like it has done in India. Export business is expected to be a crucial growth driver.
- HAVL and Lloyd have been able to pass on the cost increases that took place on account of the energy transition both in AC as well as Fans.
- The Company has a strategy to go for capacity expansion in any product category where the capacity utilization reaches 70-75%. HAVL will continue to follow this strategy.

### C&W segment

- Wires contribute 60-65% to the total C&W segment of HAVL. This is a brand-oriented business where the Company enjoys better margins compared to cables.
- In Q3 FY24, cables contributed more than wires, which led to a margin decline. The Company anticipates this segment to witness strong demand at least for a few years to come.

### Lloyd Consumer

- AC contributes 65-70% to the total Lloyd sales, which are mainly sold in Q4 and Q1 due to the seasonal nature of the product. The Company has gained market share in 9M FY24 and expects Q4 FY24 and Q1 FY25 to be better than last year.
- Shelf filling in Lloyd has been slow compared to last year, as last year there were intermittent rains during the summer season. Current capacity utilization stands at ~60%.
- The AC industry in India is experiencing consolidation, with the top 5 players taking away the maximum market share. Lloyd now qualifies in the top 4 and believes that there is a huge room for growth given the very low penetration of the product in the country.
- Profitability in Lloyd will be a function of raw material procurement efficiency, operating leverage, product mix improvement and many other factors. The Company manufactures all the AC components in-house except compressors and motors.

### Electronic Consumer Durables

- Weak performance of the ECD segment is a result of multiple factors like the BEE transition, price erosion in lighting, lost summer season on account of unseasonal rains, etc. However, currently, HAVL is observing some green shoots, which indicates a good Q4 FY24 and Q1 FY25.

### Switchgears

- In Q3 FY24, growth in the switchgear segment was low on account of very strong demand from the Telecom OEM segment in the base quarter. This was coupled with weak export demand. HAVL has not lost market share.

## Financial Statement Analysis

### Income Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
<b>Net Sales</b>	<b>1,39,385</b>	<b>1,69,107</b>	<b>1,90,355</b>	<b>2,18,034</b>	<b>2,48,412</b>
Growth %		21%	13%	15%	14%
Raw Material Expenses	91,145	1,13,311	1,27,538	1,43,902	1,63,952
Employee Expenses	10,207	12,683	15,228	16,353	18,134
Other Expenses	20,294	26,908	29,505	32,705	37,262
<b>EBITDA</b>	<b>17,739</b>	<b>16,206</b>	<b>18,084</b>	<b>25,074</b>	<b>29,064</b>
Growth %		-9%	12%	39%	16%
Margin%	13%	10%	10%	12%	12%
Depreciation	2,609	2,962	3,179	3,282	3,237
<b>EBIT</b>	<b>15,130</b>	<b>13,244</b>	<b>14,905</b>	<b>21,792</b>	<b>25,827</b>
Growth %		-12%	13%	46%	19%
Margin%	11%	8%	8%	10%	10%
Interest Paid	669	551	357	357	357
Other Income & exceptional	1,604	1,777	1,850	1,850	1,850
<b>PBT</b>	<b>16,066</b>	<b>14,471</b>	<b>16,398</b>	<b>23,285</b>	<b>27,320</b>
Tax	4,101	3,753	4,099	5,821	6,830
<b>PAT</b>	<b>11,965</b>	<b>10,717</b>	<b>12,298</b>	<b>17,464</b>	<b>20,490</b>
<b>Net Profit</b>	<b>11,965</b>	<b>10,717</b>	<b>12,298</b>	<b>17,464</b>	<b>20,490</b>
Growth %		-10%	15%	42%	17%
Shares (Mn)	626.3	626.5	626.5	626.5	626.5
<b>EPS</b>	<b>19.10</b>	<b>17.11</b>	<b>19.63</b>	<b>27.87</b>	<b>32.71</b>

### Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Cash, Cash equivalents & Bank	25,480	18,702	19,496	24,993	31,702
Current Investments	1,534	1,809	1,809	1,809	1,809
Debtors	7,663	9,739	11,421	13,082	14,905
Inventory	29,681	37,086	42,088	47,488	53,284
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	81,378	93,936	1,08,265
Net Block & CWIP	34,911	37,946	40,574	40,563	41,052
Long Term Investments	2,727	200	200	200	200
Other Non-current Assets	1,536	2,872	2,872	2,872	2,872
<b>Total Assets</b>	<b>1,08,701</b>	<b>1,14,918</b>	<b>1,25,024</b>	<b>1,37,570</b>	<b>1,52,389</b>
Creditors	23,800	26,432	29,159	32,100	35,647
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	44,426	47,367	50,915
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	73,007	82,612	93,884
Shareholders' Equity	60,029	66,255	73,634	83,239	94,510
Non Controlling Interest	0	0	0	0	0
<b>Total Equity &amp; Liabilities</b>	<b>1,08,701</b>	<b>1,14,918</b>	<b>1,25,024</b>	<b>1,37,570</b>	<b>1,52,389</b>

### Cash Flow Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	16,066	14,471	16,398	23,285	27,320
Adjustments	2,126	2,062	1,686	1,789	1,744
Change in Working Capital	3,237	-6,964	-3,957	-4,120	-4,072
Total Tax Paid	-4,149	-3,919	-4,099	-5,821	-6,830
<b>Cash flow from operating Activities</b>	<b>17,280</b>	<b>5,649</b>	<b>10,027</b>	<b>15,133</b>	<b>18,162</b>
Net Capital Expenditure	-2,583	-5,878	-5,912	-3,271	-3,726
Change in investments	-5,996	5,027	0	0	0
Other investing activities	993	1,201	1,850	1,850	1,850
<b>Cash flow from investing activities</b>	<b>-7,586</b>	<b>350</b>	<b>-4,062</b>	<b>-1,421</b>	<b>-1,876</b>
Equity raised / (repaid)	312	267	0	0	0
Debt raised / (repaid)	-973	-3,937	0	0	0
Dividend (incl. tax)	-4,073	-4,703	-4,919	-7,859	-9,221
Other financing activities	-739	-696	-357	-357	-357
<b>Cash flow from financing activities</b>	<b>-5,473</b>	<b>-9,069</b>	<b>-5,276</b>	<b>-8,216</b>	<b>-9,578</b>
Net Change in cash	4,221	-3,070	689	5,497	6,708

### Valuation Ratios

Particulars	FY22	FY23E	FY24E	FY25E	FY26E
<b>Per Share Data</b>					
EPS	19	17	20	28	33
Growth %		-10%	15%	42%	17%
Book Value Per Share	96	106	118	133	151
<b>Return Ratios</b>					
Return on Assets (%)	12%	10%	10%	13%	14%
Return on Equity (%)	21%	17%	18%	22%	23%
Return on Capital Employed (%)	21%	17%	18%	23%	23%
<b>Turnover Ratios</b>					
Asset Turnover (x)	1.4	1.5	1.6	1.7	1.7
Sales / Gross Block (x)	3.2	3.5	3.6	3.8	4.1
Working Capital / Sales (x)	20%	18%	18%	19%	21%
Receivable Days	17	19	20	21	21
Inventory Days	112	108	113	114	112
Payable Days	77	76	77	75	73
Working Capital Days	53	50	57	59	60
<b>Liquidity Ratios</b>					
Current Ratio (x)	1.7	1.8	1.8	2.0	2.1
Interest Coverage Ratio (x)	25.0	27.3	46.9	66.2	77.5
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
<b>Valuation</b>					
PE (x)	60.3	67.4	69.3	48.8	41.6
Earnings Yield (%)	2%	1%	1%	2%	2%
Price to Sales (x)	5.2	4.3	4.5	3.9	3.4
Price to Book (x)	12.0	11.2	11.6	10.2	9.0
EV/EBITDA (x)	39.5	44.8	46.0	33.2	28.6
EV/Sales (x)	5.0	4.3	4.4	3.8	3.3

Source: Company, Keynote Capitals Ltd. estimates

## KEYNOTE Rating History

Date	Rating	Market Price at recommendation	Upside/Downside
5 <sup>th</sup> July 2023	BUY	1,287	20.7%
21 <sup>st</sup> July 2023	BUY	1,306	14.9%
20 <sup>th</sup> October 2023	BUY	1,293	20.1%
25 <sup>th</sup> January 2024	BUY	1,291	17.1%

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
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