

India

**ADD** (no change)

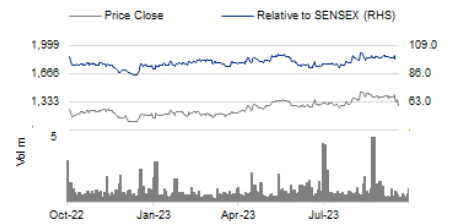
Consensus ratings\*: Buy 27 Hold 13 Sell 4

Current price:	Rs1,293
Target price:	Rs1,526 ▲
Previous target:	Rs1,488
Up/downside:	18.0%
InCred Research / Consensus:	5.4%
Reuters:	HVEL.NS
Bloomberg:	HAVL IN
Market cap:	US\$9,748m Rs810,259m
Average daily turnover:	US\$14.2m Rs1183.6m
Current shares o/s:	626.7m
Free float:	40.6%

\*Source: Bloomberg

**Key changes in this note**

- FY24F revenue/EBITDA/PAT cut by 1.4%/7.3%/3.2%, respectively.
- FY25F revenue/EBITDA/PAT raised by 1.6%/1.1%/2.6%, respectively.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(8.5)	(4.1)	6.9
Relative (%)	(7.7)	(2.2)	(3.1)

Major shareholders	% held
Promoters	59.4
Nalanda India Equity Fund	5.3
Life Insurance Corporation	3.9

**Analyst(s)**



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# Havells India

## B2C demand revival likely in 2HFY24F

- Weak C&W/ECD sales growth and higher employee costs led to EBITDA/PAT miss of 10-15% vs. Incred and Bloomberg consensus estimates in 2QFY24.
- Owing to robust real estate offtake, the festive season should help revive B2C demand in 2HFY24F, especially for small/large appliances & lighting products.
- We expect revenue/EPS CAGR of 15%/26% over FY23-26F. Raise TP to Rs1,526 based on a P/E of 55x (5-year mean) FY25F EPS. Retain ADD rating.

### Weak C&W & ECD sales and higher staff costs led to weak 2QFY24

FMEG demand remained weak qoq in 2QFY24. Havells and its FMEG peers so far have reported a weak 2Q due to volatile weather, muted consumer sentiment and a shift of the festive season to 3Q from 2Q vs. last fiscal. Revenue/EBITDA/PAT stood at Rs39bn/Rs3.7bn/Rs2.5bn, +6%/30%/33% yoy, respectively, on a weak base and were lower by 5-15% vs. Incred/Bloomberg consensus estimates. 1HFY24 staff costs stood at Rs7.3bn, +20% yoy, and have been consistently rising due to people investments. Consolidated gross/EBITDA margins are moving back to pre-Covid levels and stood at 33.3%/9.6%, +240bp/180bp yoy. Within the segments, switchgear, cable & wire and ECD sales disappointed, missing our estimates by 5-10%. Cable sales growth has been lower vs. peers due to capacity constraints. The lighting products' sales volume grew in double digits but due to a sharp cut in LED prices, 2Q sales were flat yoy. Lloyd posted a revenue of Rs5bn, +18.5% yoy, and suffered an EBIT loss of Rs745m (14% above our estimate).

### B2C demand revival, new capacity & margin expansion going ahead

The start of the festive season from mid-Sep 2023 (Onam/Ganesh Chaturthi) has been encouraging, and Havells expects B2C demand to bounce back, coupled with lower inflation, in 2HFY24F. Lighting products, small domestic appliances, washing machines and refrigerators especially saw meaningful demand pick-up during the festive season. Real estate offtake in metro and T-1 cities has been consistently good over the past one year and most consumer brands expect higher customer spending in 2HFY24F. The capex guidance was retained at Rs6bn (South India cable plant to start production by Mar 2024F). We expect Havells (ex-Lloyd) to expand its margins further over 2HFY24F-FY26F. We expect a revenue/EBITDA CAGR of 15%/25%, respectively, over FY23-26F led by new capacities for C&W, room ACs and washing machines. We expect consol. EBITDA margin at 12%, +250bp over FY23-26F, in FY26F.

### Change in estimates, valuation and risks

We account for 1HFY24 actuals and marginally alter FY25F estimates & also introduce FY26F estimates. We cut EBITDA/PAT by 7%/3% and raise them by 1%/3% for FY24F & FY25F, respectively. We expect an EPS CAGR of 26% and cumulative FCF of Rs43bn over FY23-26F. Retain ADD rating on the stock and raise our target price to Rs1,526 (from Rs1,488 earlier), retaining exit P/E at 55x FY25F EPS, its 5-year mean P/E. Downside risks: Capex delay, capital allocation and intense competition.

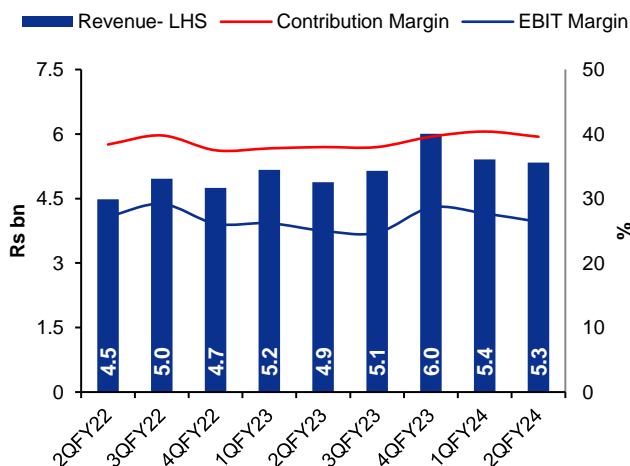
Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	139,385	169,107	192,656	225,261	259,671
Operating EBITDA (Rsm)	17,604	15,991	19,651	25,229	30,901
Net Profit (Rsm)	11,965	10,717	13,745	17,391	21,572
Core EPS (Rs)	19.1	17.1	21.9	27.8	34.4
Core EPS Growth	17.8%	(10.5%)	28.2%	26.5%	24.0%
FD Core P/E (x)	67.65	75.57	58.94	46.59	37.56
DPS (Rs)	7.5	4.5	8.0	10.0	12.0
Dividend Yield	0.58%	0.35%	0.62%	0.77%	0.93%
EV/EBITDA (x)	44.67	49.36	39.73	30.65	24.62
P/FCFE (x)	96.63	0.00	92.14	193.09	76.85
Net Gearing	(38.4%)	(31.0%)	(39.3%)	(42.9%)	(49.5%)
P/BV (x)	13.48	12.22	10.80	9.41	8.09
ROE	21.4%	17.0%	19.5%	21.6%	23.2%
% Change In Core EPS Estimates			(3.18%)	2.54%	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## 2QFY24 earnings-call highlights

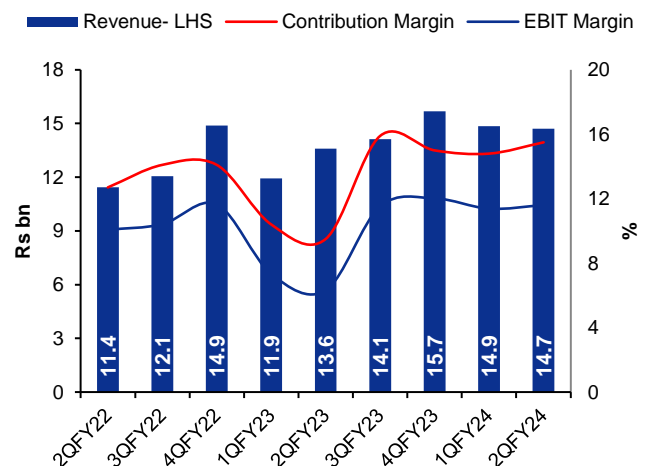
- Demand trend:** Consumer demand remained soft during the quarter. However, the growth was primarily driven by the housing segment and the government's sustained thrust on infrastructure projects. Green shoots were visible towards the end of 2Q, and management expects residential demand and construction activity to pick up in the coming quarters.
- Cable and wire (C&W) business:** Revenue growth was below expectation while C&W sales volume growth was at 10% yoy in 2Q. Cable business grew faster than wire but due to capacity constraints in underground cable manufacturing, sales growth lagged its peers (Polycab: +30% yoy).
- Lloyd:** Margins have been improving for the segment, despite non-seasonal quarter for air-conditioners. The new plant at Sri City, Andhra Pradesh in South India for air-conditioners has been completed and the under-absorption of factory overheads led to widening of EBIT losses qoq. Management expects demand pick-up in 2HFY24F, given the start of pre-orders for the 2024F summer season. Room ACs accounted for 50% of Lloyd's sales while the remaining 50% was accounted for by refrigerators, washing machines and other products in 2QFY24.
- Receipt of insurance claim:** The company received a sum of Rs587m against insurance claim for inventory loss due to the fire incident at Neemrana plant in Jul 2022. The remaining claim of Rs158m towards the property, plant and equipment is likely to be received in due course.
- Capex:** Management retained its capex guidance of Rs6bn, which includes the greenfield C&W factory at Sricity in Andhra Pradesh. The plant is expected to start trial production by Mar 2024F. Management indicated cable capacity increase by 25% at the Sricity plant.
- Cash conversion:** Net working capital cycle improved to 22 days of TTM sales vs, 26 days at end of Mar 2023. OCF/FCF stood at Rs8bn/Rs5bn, respectively, in 1HFY24. Net cash (including equivalents) stood at Rs25bn at the end of Sep 2023 (vs. Rs22bn at the end of Jun 2023).

Figure 1: Switchgear division



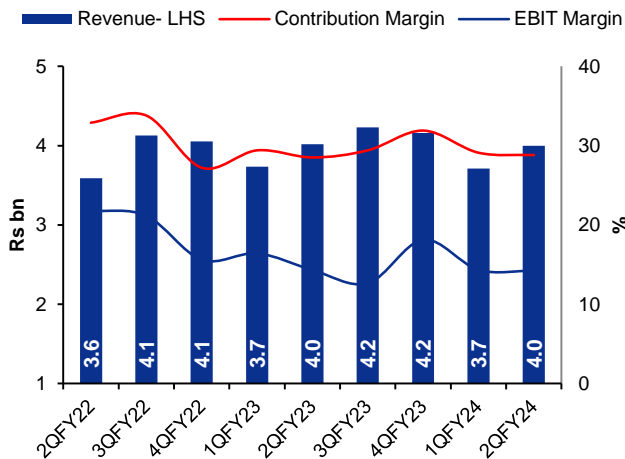
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Cable and wire division



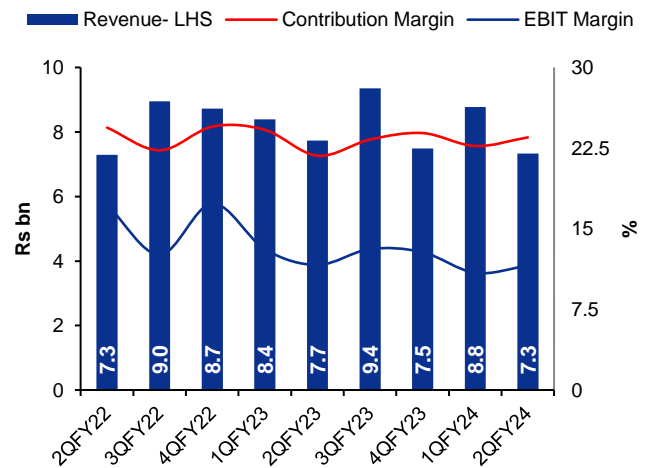
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Lighting and fixtures division



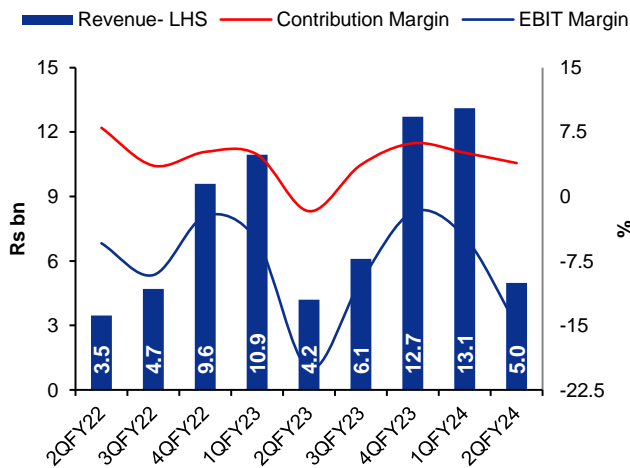
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Electrical consumer durables division



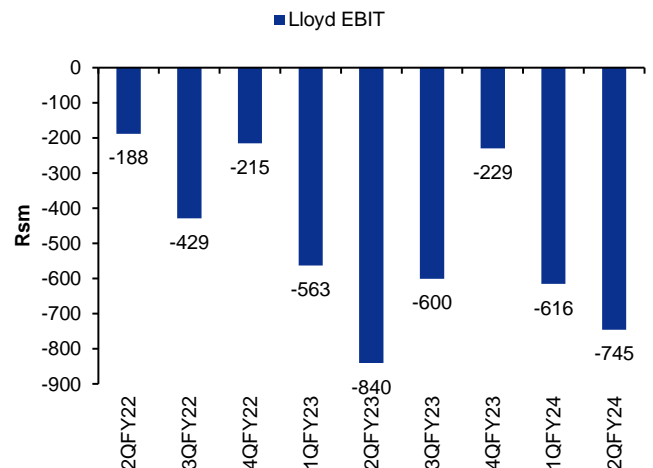
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Lloyd's business



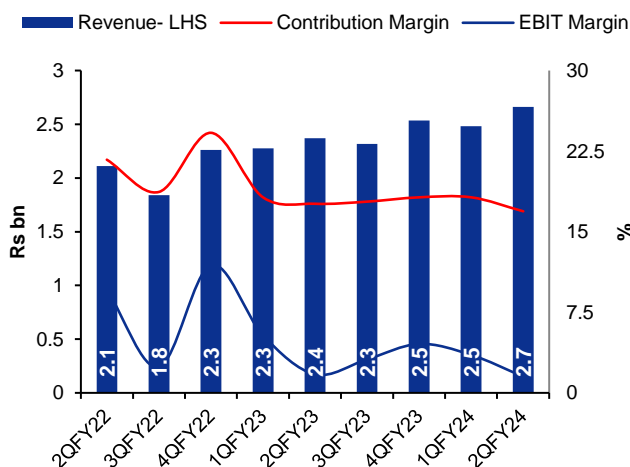
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Lloyd's business-EBIT



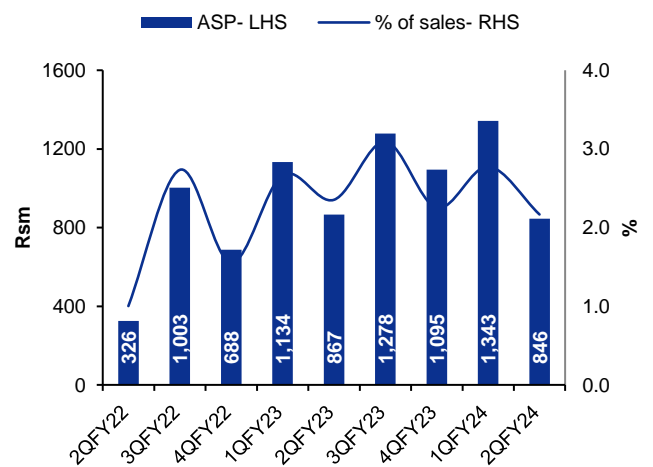
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: 'Others' division



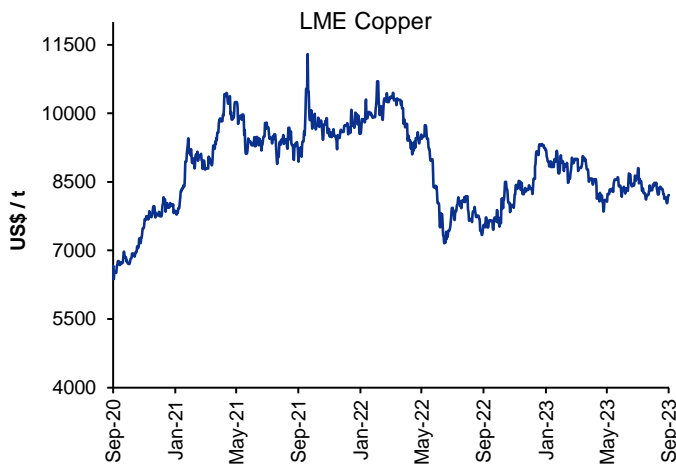
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Advertising and sales promotion expenses



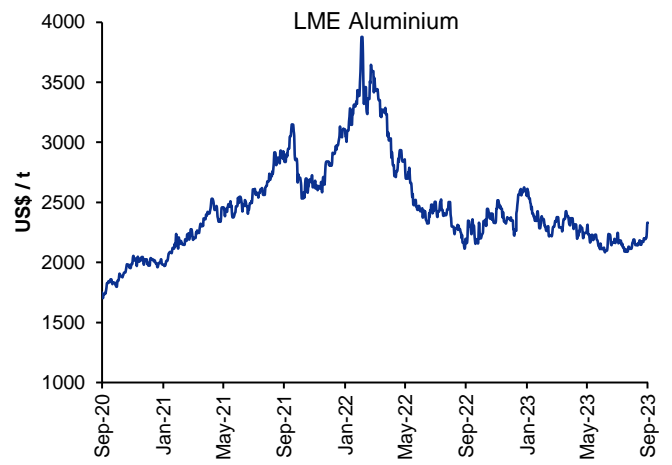
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Copper price trend



SOURCE: INCRED RESEARCH, BLOOMBERG

Figure 10: Aluminium price trend



SOURCE: INCRED RESEARCH, BLOOMBERG

Figure 11: 2QFY24 results snapshot

	New estimates			Old estimates			Change (%)		
	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Revenues	1,92,656	2,25,261	2,59,671	1,95,368	2,21,715	NA	-1.4	1.6	NA
EBITDA	19,651	25,229	30,901	21,197	24,943	NA	-7.3	1.1	NA
<b>Adjusted consol. PAT</b>	<b>13,745</b>	<b>17,391</b>	<b>21,572</b>	<b>14,195</b>	<b>16,955</b>	NA	<b>-3.2</b>	<b>2.6</b>	NA
EPS	21.9	27.8	34.4	22.9	27.5	NA	-4.3	0.8	NA
EBITDA margin (%)	10.2	11.2	11.9	10.9	11.3	NA	-65 bp	-5 bp	NA

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 12: 2QFY24 segmental results snapshot

YE Mar (Rs m)	2QFY24	2QFY23	yoy (%)	1QFY24	qoq (%)	H1FY24	H1FY23	yoy (%)
<b>Revenue</b>								
Switchgear	5,336	4,879	9.4	5,409	(1.3)	10,745	10,048	6.9
Cable and Wire	14,702	13,594	8.1	14,852	(1.0)	29,553	25,523	15.8
Lighting	3,999	4,018	(0.5)	3,710	7.8	7,710	7,754	(0.6)
ECD	7,331	7,735	(5.2)	8,775	(16.5)	16,106	16,130	(0.2)
Lloyd	4,974	4,198	18.5	13,109	(62.1)	18,083	15,136	19.5
Others	2,662	2,372	12.2	2,483	7.2	5,145	4,648	10.7
<b>Total</b>	<b>39,003</b>	<b>36,795</b>	<b>6.0</b>	<b>48,338</b>	<b>(19.3)</b>	<b>87,341</b>	<b>79,240</b>	<b>10.2</b>
<b>EBIT</b>								
Switchgear	1,409	1,220	15.5	1,499	(6.0)	2,908	2,574	13.0
Cable and Wire	1,707	859	98.7	1,691	0.9	3,397	1,734	95.9
Lighting	570	576	(1.0)	532	7.1	1,102	1,190	(7.3)
ECD	848	900	(5.8)	957	(11.3)	1,805	2,001	(9.8)
Lloyd	-745	-840	(11.3)	-616	21.1	-1,361	-1,403	(3.0)
Others	40	41	(1.7)	88	(54.2)	128	163	(21.5)
<b>Total</b>	<b>3,828</b>	<b>2,756</b>	<b>38.9</b>	<b>4,150</b>	<b>(7.8)</b>	<b>7,979</b>	<b>6,258</b>	<b>27.5</b>
<b>EBIT Margin (%)</b>								
Switchgear	26.4	25.0	140 bp	27.7	-131 bp	27.1	25.6	145 bp
Cable and Wire	11.6	6.3	529 bp	11.4	23 bp	11.5	6.8	470 bp
Lighting	14.3	14.3	-7 bp	14.3	-9 bp	14.3	15.3	-104 bp
ECD	11.6	11.6	-7 bp	10.9	67 bp	11.2	12.4	-119 bp
Lloyd	-15.0	-20.0	502 bp	-4.7	-1,029 bp	-7.5	-9.3	174 bp
Others	1.5	1.7	-21 bp	3.5	-202 bp	2.5	3.5	-102 bp
<b>Total</b>	<b>9.8</b>	<b>7.5</b>	<b>233 bp</b>	<b>8.6</b>	<b>123 bp</b>	<b>9.1</b>	<b>7.9</b>	<b>124 bp</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 13: Actuals vs. our estimates

Rs m	2QFY24	2QFY24F	Var (%)
Revenue	39,003	41,204	(5.3)
EBITDA	3,734	4,162	(10.3)
EBITDA margin (%)	9.6	10.1	-53 bp
<b>Adj. PAT</b>	<b>2,491</b>	<b>2,878</b>	<b>(13.4)</b>

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 14: Actuals vs. Bloomberg consensus estimates

Rs m	2QFY24	2QFY24C	Var (%)
Revenue	39,003	40,957	(4.8)
EBITDA	3,734	4,237	(11.9)
EBITDA margin (%)	9.6	10.3	-77 bp
<b>Adj. PAT</b>	<b>2,491</b>	<b>2,936</b>	<b>(15.1)</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 15: Our revised earnings estimates

	New estimates			Old estimates			Change (%)		
	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Revenue	1,92,656	2,25,261	2,59,671	1,95,368	2,21,715	NA	-1.4	1.6	NA
EBITDA	19,651	25,229	30,901	21,197	24,943	NA	-7.3	1.1	NA
<b>Adjusted consol. PAT</b>	<b>13,745</b>	<b>17,391</b>	<b>21,572</b>	<b>14,195</b>	<b>16,955</b>	NA	<b>-3.2</b>	<b>2.6</b>	NA
EPS	21.9	27.8	34.4	22.9	27.5	NA	-4.3	0.8	NA
<b>EBITDA margin (%)</b>	<b>10.2</b>	<b>11.2</b>	<b>11.9</b>	<b>10.9</b>	<b>11.3</b>	NA	<b>-65 bp</b>	<b>-5 bp</b>	NA

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 16: P/E SD chart (five-year mean P/E)



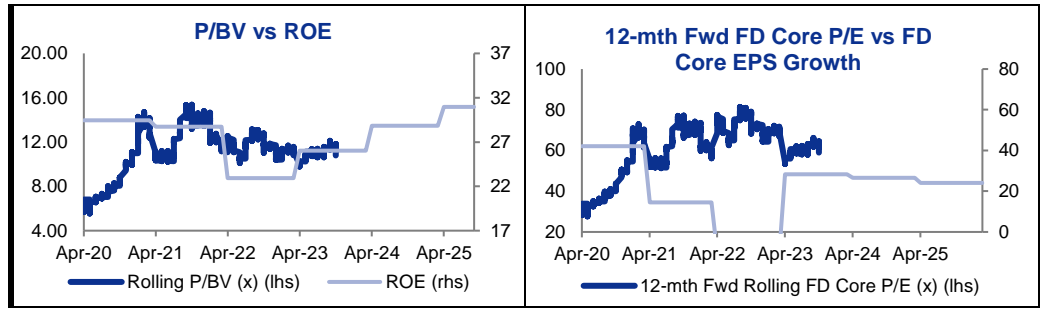
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

Figure 17: P/E band chart



SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>Total Net Revenues</b>	<b>139,385</b>	<b>169,107</b>	<b>192,656</b>	<b>225,261</b>	<b>259,671</b>
<b>Gross Profit</b>	<b>45,165</b>	<b>52,053</b>	<b>61,361</b>	<b>73,998</b>	<b>86,600</b>
<b>Operating EBITDA</b>	<b>17,604</b>	<b>15,991</b>	<b>19,651</b>	<b>25,229</b>	<b>30,901</b>
Depreciation And Amortisation	(2,609)	(2,962)	(3,246)	(3,765)	(4,353)
<b>Operating EBIT</b>	<b>14,995</b>	<b>13,030</b>	<b>16,405</b>	<b>21,464</b>	<b>26,548</b>
Financial Income/(Expense)	510	896	1,259	1,285	1,778
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	560	545	708	496	508
<b>Profit Before Tax (pre-EI)</b>	<b>16,066</b>	<b>14,471</b>	<b>18,372</b>	<b>23,245</b>	<b>28,834</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>16,066</b>	<b>14,471</b>	<b>18,372</b>	<b>23,245</b>	<b>28,834</b>
Taxation	(4,101)	(3,753)	(4,627)	(5,854)	(7,262)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>11,965</b>	<b>10,717</b>	<b>13,745</b>	<b>17,391</b>	<b>21,572</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>11,965</b>	<b>10,717</b>	<b>13,745</b>	<b>17,391</b>	<b>21,572</b>
Recurring Net Profit	11,965	10,717	13,745	17,391	21,572
<b>Fully Diluted Recurring Net Profit</b>	<b>11,965</b>	<b>10,717</b>	<b>13,745</b>	<b>17,391</b>	<b>21,572</b>

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>EBITDA</b>	<b>17,604</b>	<b>15,991</b>	<b>19,651</b>	<b>25,229</b>	<b>30,901</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	3,236	(6,964)	3,104	(1,514)	(1,598)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	1,162	1,139	1,423	1,826	2,275
Net Interest (Paid)/Received	(575)	(898)	(1,259)	(1,285)	(1,778)
Tax Paid	(4,149)	(3,919)	(4,627)	(5,854)	(7,262)
<b>Cashflow From Operations</b>	<b>17,278</b>	<b>5,350</b>	<b>18,292</b>	<b>18,401</b>	<b>22,538</b>
Capex	(2,546)	(5,878)	(6,125)	(5,866)	(4,159)
Disposals Of FAs/subsidiaries	56	23			
Acq. Of Subsidiaries/investments	(6,052)		(5,000)	(10,000)	(10,000)
Other Investing Cashflow	956	5,004	1,624	1,661	2,165
<b>Cash Flow From Investing</b>	<b>(7,586)</b>	<b>(4,113)</b>	<b>(9,501)</b>	<b>(14,205)</b>	<b>(11,994)</b>
Debt Raised/(repaid)	(1,319)	(4,113)			
Proceeds From Issue Of Shares	312				
Shares Repurchased					
Dividends Paid	(4,071)	(4,703)	(5,012)	(6,265)	(7,518)
Preferred Dividends					
Other Financing Cashflow	(394)	(253)	(365)	(376)	(387)
<b>Cash Flow From Financing</b>	<b>(5,472)</b>	<b>(9,069)</b>	<b>(5,377)</b>	<b>(6,641)</b>	<b>(7,905)</b>
Total Cash Generated	4,221	3,414	3,414	(2,445)	2,639
<b>Free Cashflow To Equity</b>	<b>8,374</b>	<b>8,791</b>	<b>8,791</b>	<b>4,196</b>	<b>10,544</b>
<b>Free Cashflow To Firm</b>	<b>9,223</b>	<b>8,426</b>	<b>8,426</b>	<b>3,820</b>	<b>10,157</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Total Cash And Equivalents	27,014	20,510	29,469	36,980	49,630
Total Debtors	7,663	9,739	9,501	11,109	12,806
Inventories	29,681	37,086	39,587	46,287	53,357
Total Other Current Assets	1,701	3,221	3,669	4,290	4,946
<b>Total Current Assets</b>	<b>66,058</b>	<b>70,556</b>	<b>82,226</b>	<b>98,665</b>	<b>120,738</b>
Fixed Assets	31,231	33,102	36,135	35,736	38,792
Total Investments	2,727	200	200	200	200
Intangible Assets	3,105	3,105	3,105	3,105	3,105
Total Other Non-Current Assets	2,111	4,612	4,458	6,958	3,708
<b>Total Non-current Assets</b>	<b>39,174</b>	<b>41,019</b>	<b>43,898</b>	<b>45,999</b>	<b>45,805</b>
Short-term Debt	1,230				
Current Portion of Long-Term Debt					
Total Creditors	23,800	26,433	29,030	33,943	39,128
Other Current Liabilities	10,881	11,562	14,779	17,280	19,920
<b>Total Current Liabilities</b>	<b>35,911</b>	<b>37,994</b>	<b>43,809</b>	<b>51,224</b>	<b>59,048</b>
Total Long-term Debt	2,726				
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	3,061	3,711	3,711	3,711	3,711
<b>Total Non-current Liabilities</b>	<b>5,786</b>	<b>3,711</b>	<b>3,711</b>	<b>3,711</b>	<b>3,711</b>
Total Provisions	3,506	3,615	3,615	3,615	3,615
<b>Total Liabilities</b>	<b>45,203</b>	<b>45,321</b>	<b>51,136</b>	<b>58,550</b>	<b>66,375</b>
Shareholders Equity	60,029	66,255	74,988	86,114	100,168
Minority Interests					
<b>Total Equity</b>	<b>60,029</b>	<b>66,255</b>	<b>74,988</b>	<b>86,114</b>	<b>100,168</b>

<b>Key Ratios</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Revenue Growth	33.3%	21.3%	13.9%	16.9%	15.3%
Operating EBITDA Growth	12.0%	(9.2%)	22.9%	28.4%	22.5%
Operating EBITDA Margin	12.6%	9.5%	10.2%	11.2%	11.9%
Net Cash Per Share (Rs)	36.84	32.74	47.03	59.01	79.20
BVPS (Rs)	95.89	105.77	119.68	137.41	159.84
Gross Interest Cover	28.08	38.76	44.95	57.09	68.56
Effective Tax Rate	25.5%	25.9%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio	29.2%	19.5%	27.3%	27.0%	26.1%
Accounts Receivables Days	17.41	18.78	18.23	16.70	16.81
Inventory Days	108.24	104.10	106.57	103.61	105.07
Accounts Payables Days	77.04	78.32	77.09	75.98	77.05
ROIC (%)	36.2%	31.9%	31.0%	40.8%	47.2%
ROCE (%)	25.3%	20.8%	24.3%	27.5%	29.7%
Return On Average Assets	16.1%	12.5%	14.4%	16.2%	17.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS



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