

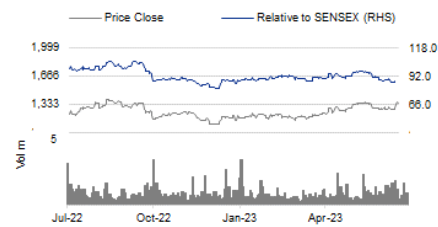
India

**ADD** (no change)

Consensus ratings\*: Buy 30 Hold 12 Sell 6

Current price:	Rs1,348
Target price:	Rs1,488
Previous target:	Rs1,488
Up/downside:	10.4%
InCred Research / Consensus:	7.5%
Reuters:	HVEL.NS
Bloomberg:	HAVL IN
Market cap:	US\$11,631m Rs844,566m
Average daily turnover:	US\$13.7m Rs993.7m
Current shares o/s:	626.5m
Free float:	40.6%

\*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0.1	11.8	10.2
Relative (%)	(5.9)	(1.3)	(9.2)

Major shareholders	% held
Promoters	59.5
Nalanda India Equity Fund	5.3
Life Insurance Corporation	4.7

Analyst(s)



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# Havells India

## Weak 1Q; 2HFY24F holds lot of promise

- Havells posted weak consolidated 1QFY24 results. EBITDA/PAT missed estimates by 10-17%. C&W dominated while other segments underperformed.
- India is seeing extraordinary capex execution by the public and private sectors. B2B demand continues to be robust, with B2C showing early signs of revival.
- We retain our estimates assuming B2C demand recovery in 2HFY24F on the back of consistent real estate offtake. Maintain target price and ADD rating.

### In-line revenue growth but margins disappoint

Havells India's (Havells) 1QFY24 revenue/EBITDA/PAT stood at Rs48.3bn/4bn/2.9bn, +14%/+11%/+18% yoy, respectively. Revenue was in line with estimates while EBITDA/PAT missed our/Bloomberg consensus estimates by 10-17%, respectively. Consol. gross/EBITDA margins stood at 30.4%/8.3%, +142bp yoy and -20bp yoy, respectively. Lower gross margin in ECD and lighting segments and Lloyd hit consol. margin. B2B sales and Lloyd did well while the B2C trend was sluggish in 1Q. The C&W segment dominated the quarter with sales volume/revenue growth of 30%/25% yoy, respectively. The switchgear segment had a higher-than-normal last quarter and hence, revenue/volume growth normalized to 5% each yoy in 1Q. Lighting and fixtures' sales volume grew 6-8% yoy but LED price erosion led to flat revenue at Rs3.7bn yoy. Professional lighting (P-lum) revenue growth was higher vs. consumer luminaires (C-lum). The ECD segment's revenue was sub-par at Rs8.8bn, +5% yoy, due to weak fan sales. Lloyd's revenue/sales volume grew 20% each yoy despite unseasonal rains. Lloyd's EBIT loss stood at Rs616m or -4.7% of sales.

### Domestic capex execution strong; export opportunities improving

Both Havells and Polycab managements, in their respective earnings discussions/calls indicated strong demand from B2B/B2G customers over the past 6-12 months in India. They expect this momentum to sustain and even get better with B2C revival in 2HFY24F. Industrial and infrastructure-related products like industrial switchgear, power and data cables, professional lighting and commercial air-conditioners have outperformed other product sales in 1HCY23. Real estate launches in the Top-8 cities of India were the highest-ever in 1HCY23 and a lead indicator of B2C demand pick-up in CY24F, in our view. As regards exports, Lloyd started manufacturing air-conditioners under white label export contracts for international OEMs at its greenfield Sricity plant. Strong B2B sales, B2C recovery and rising exports, we feel, would aid revenue growth over the next two years.

### Valuation and risks

We feel there is potential to catch up on the 1Q EBITDA/PAT shortfall over Jul-Mar 2024F and we will monitor the progress periodically. Recovery in lighting and ECD segments' margins and operating leverage benefit for Lloyd from meaningful exports are key variables to support our view. We retain our estimates, TP of Rs1,488 and an ADD rating on it. Downside risks: Volatile raw material prices, low capital allocation, and extreme weather.

### Financial Summary

	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	104,573	139,385	169,107	195,368	221,715
Operating EBITDA (Rsm)	15,718	17,604	16,151	21,197	24,943
Net Profit (Rsm)	10,443	11,965	10,717	14,195	16,955
Core EPS (Rs)	16.2	19.1	17.1	22.7	27.1
Core EPS Growth	38.0%	17.8%	(10.5%)	32.4%	19.4%
FD Core P/E (x)	80.77	70.53	78.79	59.50	49.81
DPS (Rs)	6.5	7.5	7.5	10.0	12.0
Dividend Yield	0.48%	0.56%	0.56%	0.74%	0.89%
EV/EBITDA (x)	52.67	46.63	51.01	38.49	32.27
P/FCFE (x)	263.23	100.75	0.00	86.72	44.42
Net Gearing	(30.2%)	(38.4%)	(31.0%)	(38.5%)	(47.4%)
P/BV (x)	16.30	14.06	12.74	11.38	10.10
ROE	21.4%	21.4%	17.0%	20.2%	21.5%

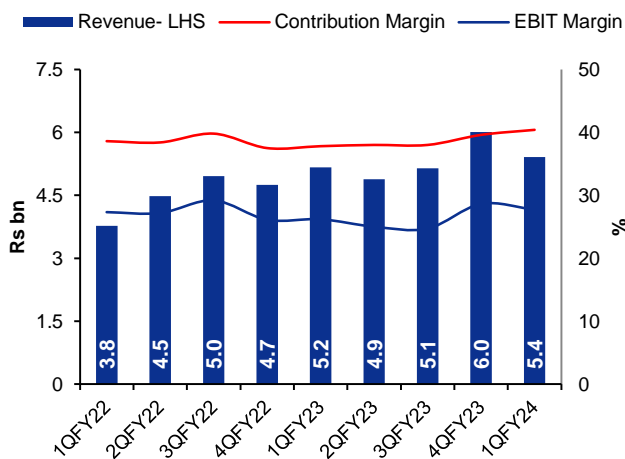
% Change In Core EPS Estimates  
InCred Research/Consensus EPS (x)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## 1QFY24 earnings-call highlights

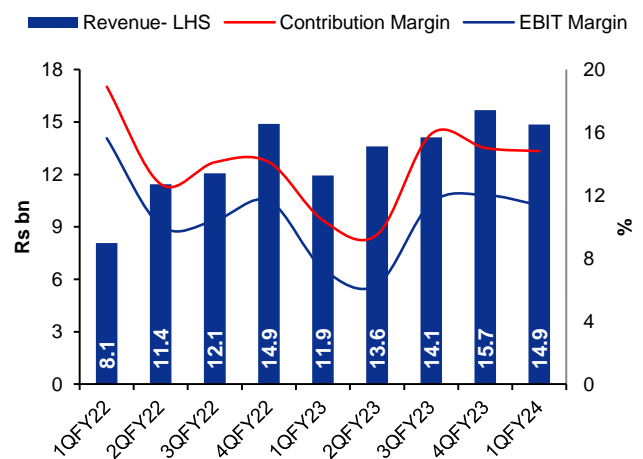
- Demand and revenue mix:** Rural consumer demand remains sluggish. However, infrastructure and construction capex has been healthy in the region. Residential and consumer products accounted for 70% of consolidated sales and the demand trend remained weak in 1Q. Summer product sales were negatively impacted by unseasonal rains.
- Export foray:** Havells has started manufacturing air-conditioners for international original equipment manufacturers or OEMs at its Lloyd plants. This will be 100% export-focused and there is no intention to undertake manufacturing for domestic OEMs.
- Lloyd:** 1Q production fell as the season diminished for AC sales over Apr-Jun 2023, leading to under-absorption of direct costs impacting gross margin qoq. Lloyd's ACs saw higher-than-industry sales growth, gaining more market share in 1Q, as per management. After the acquisition of Lloyd, the brand continued to offer products at discounts to market leaders but over these years, the pricing gap significantly narrowed. Like Havells, management intends to build Lloyd as a mass premium consumer brand. No refrigerator capex has been finalized yet.
- ECD segment:** Fans constitute nearly 65-70% of the ECD segment's sales. Havells remains the market leader in the premium fans category and continues to gain market share. BLDC fans' revenue stood at 15% of total fan sales in 1Q.
- Cable and wire segment:** Revenue growth was nearly equal for cables and wires to the tune of 25% yoy. Havells' management indicated that in case higher C&W manufacturing capacity was available, the company would have managed to do more C&W sales, given the strong demand trend in India currently.
- One-time other income:** The company realized a gain of Rs100m on sale of a spare land parcel, leading to higher-than-normal other income of Rs648m, +36% yoy in 1QFY24.
- Capex:** Management retained its capex guidance of Rs6bn, which includes the greenfield C&W factory at Tumkur. The plant is expected to start trial production by Mar 2024F.
- Cash conversion cycle:** Net working capital improved to 11 days of TTM sales vs. 26 days qoq, largely led by improvement in the inventory days to 69 days of TTM sales and debtor days to 60 days of TTM sales. OCF/FCF stood at Rs7.3bn/Rs5.9bn, respectively, in 1QFY24. Net cash (including equivalents) stood at Rs27.8bn at the end of Jun 2023 (vs. Rs21.6bn at the end of Mar 2023).

Figure 1: Switchgear division



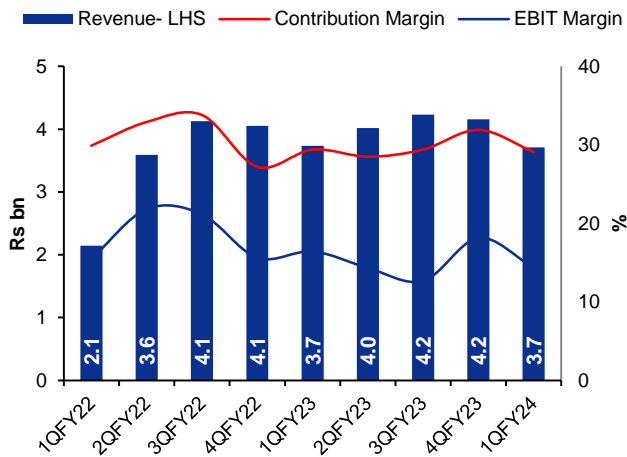
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Cable and wire division



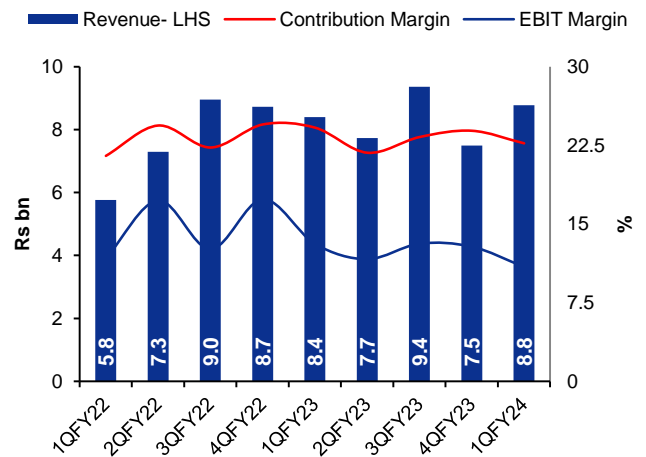
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Lighting and fixtures division



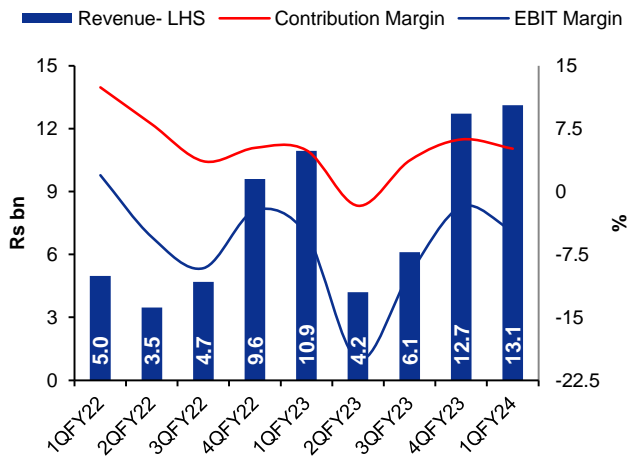
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Electrical consumer durables division



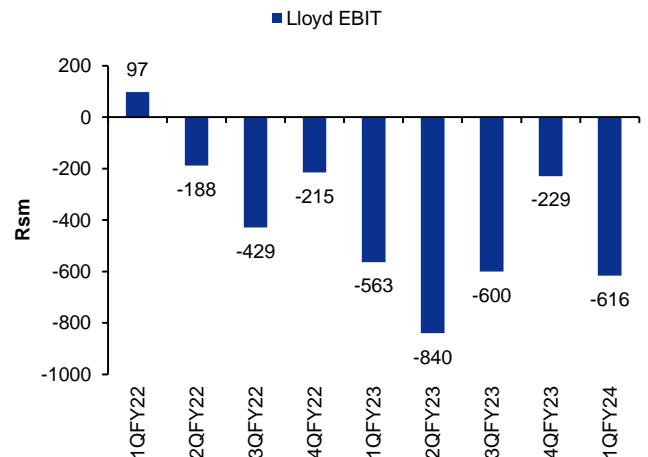
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Lloyd's business



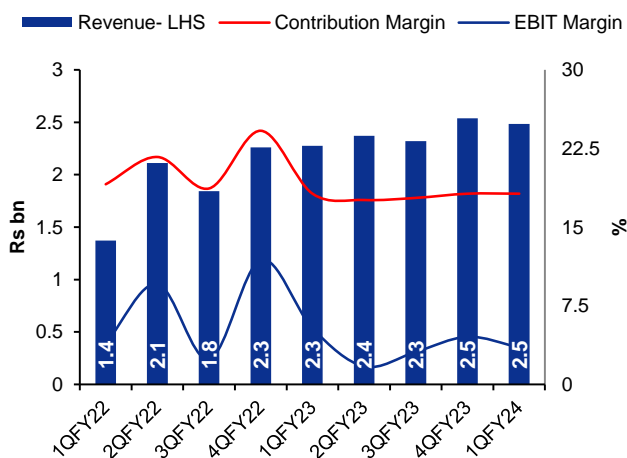
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Lloyd's business- EBIT



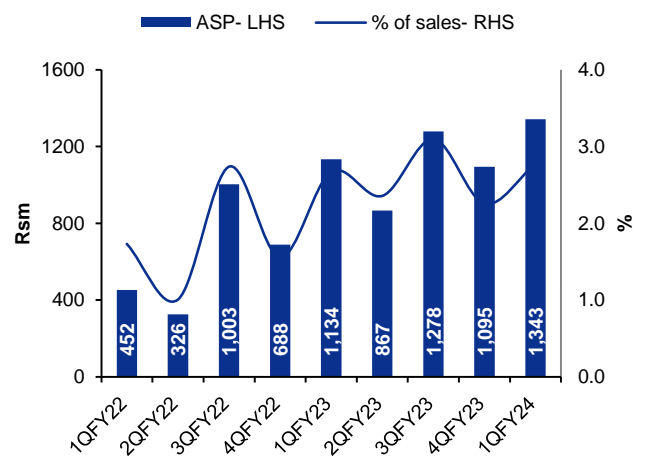
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Others division



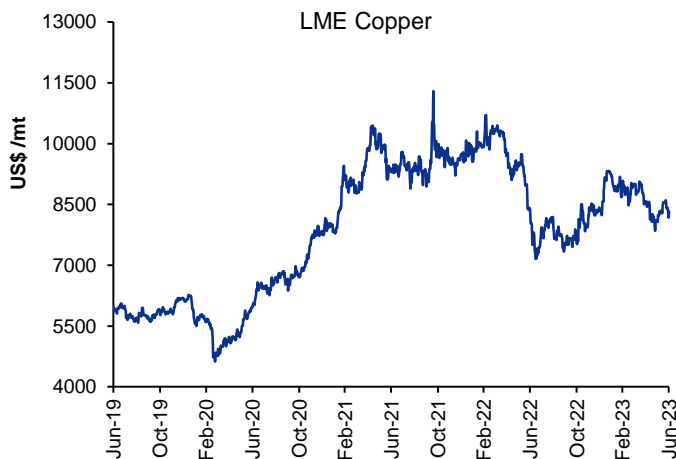
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Advertising and sales promotion expenses



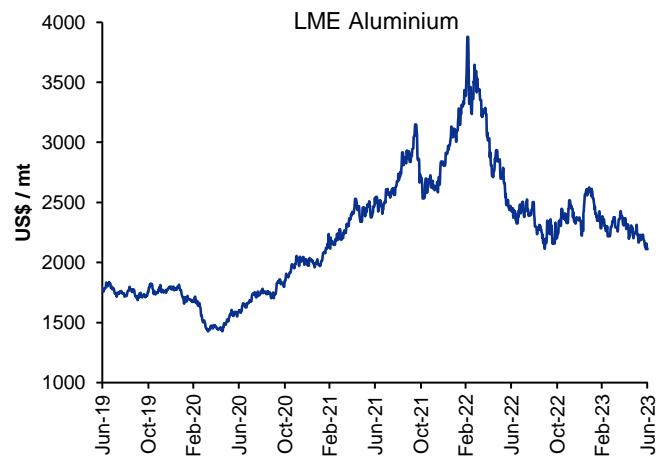
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Copper price trend



SOURCE: INCRED RESEARCH, BLOOMBERG

Figure 10: Aluminium price trend



SOURCE: INCRED RESEARCH, BLOOMBERG

Figure 11: 1QFY24 results snapshot

Y/E Mar (Rs m)	1QFY24	1QFY23	yoy (%)	4QFY23	qoq (%)
Revenue	48,338	42,445	13.9	48,592	(0.5)
EBITDA	4,020	3,615	11.2	5,364	(25.1)
EBITDA margin (%)	8.3	8.5	-20 bp	11.0	-272 bp
Adj. PAT	2,871	2,432	18.1	3,673	(21.8)
Diluted EPS (Rs)	4.6	3.9		5.9	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 12: 1QFY24 segmental results snapshot

YE Mar (Rs m)	1QFY24	1QFY23	yoy (%)	4QFY23	qoq (%)
<b>Revenue</b>					
Switchgear	5,409	5,169	4.6	6,010	(10.0)
Cable and wire	14,852	11,929	24.5	15,682	(5.3)
Lighting	3,710	3,737	(0.7)	4,160	(10.8)
ECD	8,775	8,396	4.5	7,495	17.1
Lloyd	13,109	10,938	19.9	12,710	3.1
Others	2,483	2,276	9.1	2,536	(2.1)
<b>Total</b>	<b>48,338</b>	<b>42,445</b>	<b>13.9</b>	<b>48,592</b>	<b>(0.5)</b>
<b>EBIT</b>					
Switchgear	1,499	1,354	10.7	1,721	(12.9)
Cable and wire	1,691	875	93.2	1,885	(10.3)
Lighting	532	614	(13.3)	755	(29.5)
ECD	957	1,100	(13.0)	962	(0.5)
Lloyd	-616	-563	9.3	-229	168.3
Others	88	122	(28.2)	115	(24.1)
<b>Total</b>	<b>4,150</b>	<b>3,502</b>	<b>18.5</b>	<b>5,209</b>	<b>(20.3)</b>
<b>EBIT Margin (%)</b>					
Switchgear	27.7	26.2	152 bp	28.6	-93 bp
Cables and wire	11.4	7.3	405 bp	12.0	-64 bp
Lighting	14.3	16.4	-209 bp	18.1	-381 bp
ECD	10.9	13.1	-220 bp	12.8	-192 bp
Lloyd	-4.7	-5.1	45 bp	-1.8	-289 bp
Others	3.5	5.4	-183 bp	4.5	-102 bp
<b>Total</b>	<b>8.6</b>	<b>8.3</b>	<b>34 bp</b>	<b>10.7</b>	<b>-213 bp</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 13: Actuals vs. our estimates

Rs m	1QFY24	1QFY24F	Var (%)
Revenue	48,338	46,319	4.4
EBITDA	4,020	4,840	(17.0)
EBITDA margin (%)	8.3	10.5	-213 bps
Adj. PAT	2,871	3,199	(10.3)

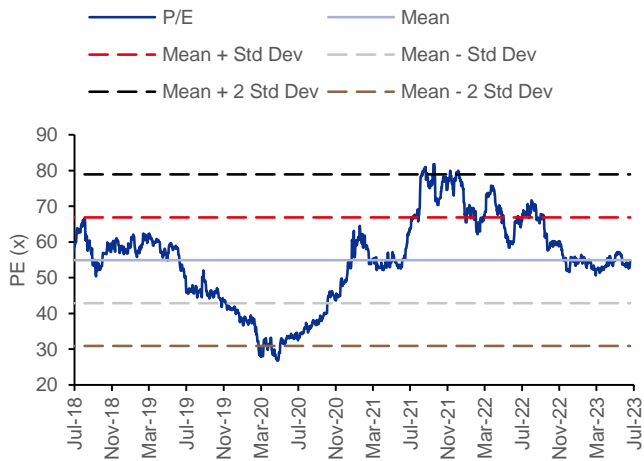
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 14: Actuals vs. Bloomberg consensus

Rs m	1QFY24	1QFY24C	Var (%)
Revenue	48,338	47,084	2.7
EBITDA	4,020	4,766	(15.7)
EBITDA margin (%)	8.3	10.1	-181 bps
Adj. PAT	2,871	3,443	(16.6)

SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 15: P/E standard deviation (five-year mean)



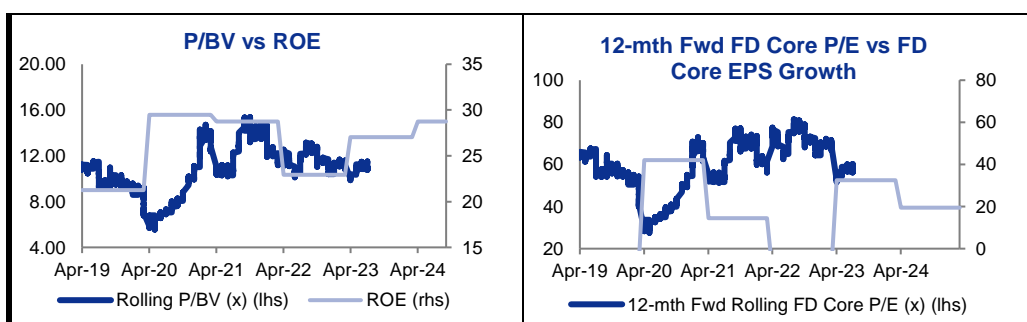
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

Figure 16: P/E band



SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

**BY THE NUMBERS**



**Profit & Loss**

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
<b>Total Net Revenues</b>	<b>104,573</b>	<b>139,385</b>	<b>169,107</b>	<b>195,368</b>	<b>221,715</b>
<b>Gross Profit</b>	<b>39,676</b>	<b>45,165</b>	<b>52,053</b>	<b>63,495</b>	<b>73,166</b>
<b>Operating EBITDA</b>	<b>15,718</b>	<b>17,604</b>	<b>16,151</b>	<b>21,197</b>	<b>24,943</b>
Depreciation And Amortisation	(2,489)	(2,609)	(3,121)	(3,518)	(3,941)
<b>Operating EBIT</b>	<b>13,229</b>	<b>14,995</b>	<b>13,030</b>	<b>17,680</b>	<b>21,002</b>
Financial Income/(Expense)	349	510	865	707	1,061
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	394	560	576	587	599
<b>Profit Before Tax (pre-EI)</b>	<b>13,972</b>	<b>16,066</b>	<b>14,471</b>	<b>18,974</b>	<b>22,662</b>
Exceptional Items	404				
<b>Pre-tax Profit</b>	<b>14,376</b>	<b>16,066</b>	<b>14,471</b>	<b>18,974</b>	<b>22,662</b>
Taxation	(3,932)	(4,101)	(3,753)	(4,779)	(5,707)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>10,443</b>	<b>11,965</b>	<b>10,717</b>	<b>14,195</b>	<b>16,955</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>10,443</b>	<b>11,965</b>	<b>10,717</b>	<b>14,195</b>	<b>16,955</b>
Recurring Net Profit	10,150	11,965	10,717	14,195	16,955
<b>Fully Diluted Recurring Net Profit</b>	<b>10,150</b>	<b>11,965</b>	<b>10,717</b>	<b>14,195</b>	<b>16,955</b>

**Cash Flow**

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
<b>EBITDA</b>	<b>15,718</b>	<b>17,604</b>	<b>16,151</b>	<b>21,197</b>	<b>24,943</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(7,003)	3,236	(6,964)	2,471	530
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	931	1,162	1,139	1,423	1,826
Net Interest (Paid)/Received	(315)	(575)	(898)	(707)	(1,061)
Tax Paid	(2,727)	(4,149)	(3,919)	(4,779)	(5,707)
<b>Cashflow From Operations</b>	<b>6,603</b>	<b>17,278</b>	<b>5,509</b>	<b>19,606</b>	<b>20,530</b>
Capex	(2,499)	(2,546)	(5,878)	(5,850)	(2,879)
Disposals Of FAs/subsidiaries	1,272	56	23		
Acq. Of Subsidiaries/investments	(7,300)	(6,052)		(5,000)	
Other Investing Cashflow	895	956	5,004	982	1,364
<b>Cash Flow From Investing</b>	<b>(7,632)</b>	<b>(7,586)</b>	<b>(4,113)</b>	<b>(9,868)</b>	<b>(1,515)</b>
Debt Raised/(repaid)	4,233	(1,319)			
Proceeds From Issue Of Shares	98	312			
Shares Repurchased					
Dividends Paid	(1,878)	(4,071)	(4,703)	(6,265)	(7,518)
Preferred Dividends					
Other Financing Cashflow	(556)	(394)	(253)	(275)	(303)
<b>Cash Flow From Financing</b>	<b>1,898</b>	<b>(5,472)</b>	<b>(9,069)</b>	<b>(6,540)</b>	<b>(7,821)</b>
Total Cash Generated	869	4,221		3,198	11,194
<b>Free Cashflow To Equity</b>	<b>3,205</b>	<b>8,374</b>	<b>9,738</b>	<b>9,738</b>	<b>19,015</b>
<b>Free Cashflow To Firm</b>	<b>(1,708)</b>	<b>9,223</b>	<b>9,463</b>	<b>9,463</b>	<b>18,712</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Total Cash And Equivalents	19,591	27,014	20,510	28,580	39,608
Total Debtors	5,637	7,663	9,739	10,705	12,149
Inventories	26,199	29,681	37,086	41,750	45,558
Total Other Current Assets	1,778	1,701	3,221	3,721	4,223
<b>Total Current Assets</b>	<b>53,205</b>	<b>66,058</b>	<b>70,556</b>	<b>84,755</b>	<b>101,538</b>
Fixed Assets	29,800	31,231	33,101	33,567	35,505
Total Investments		2,727	200	200	200
Intangible Assets	3,105	3,105	3,105	3,105	3,105
Total Other Non-Current Assets	2,414	2,111	4,612	6,478	3,478
<b>Total Non-current Assets</b>	<b>35,318</b>	<b>39,174</b>	<b>41,018</b>	<b>43,350</b>	<b>42,288</b>
Short-term Debt		1,230			
Current Portion of Long-Term Debt					
Total Creditors	15,971	23,800	26,432	30,536	34,655
Other Current Liabilities	11,511	10,881	11,562	16,058	18,223
<b>Total Current Liabilities</b>	<b>27,482</b>	<b>35,911</b>	<b>37,994</b>	<b>46,594</b>	<b>52,878</b>
Total Long-term Debt	3,937	2,726			
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	1,950	3,061	3,711	3,711	3,711
<b>Total Non-current Liabilities</b>	<b>5,886</b>	<b>5,786</b>	<b>3,711</b>	<b>3,711</b>	<b>3,711</b>
Total Provisions	3,391	3,506	3,615	3,615	3,615
<b>Total Liabilities</b>	<b>36,760</b>	<b>45,203</b>	<b>45,320</b>	<b>53,920</b>	<b>60,204</b>
Shareholders Equity	51,763	60,029	66,255	74,185	83,621
Minority Interests					
<b>Total Equity</b>	<b>51,763</b>	<b>60,029</b>	<b>66,255</b>	<b>74,185</b>	<b>83,621</b>

<b>Key Ratios</b>					
	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Revenue Growth	10.8%	33.3%	21.3%	15.5%	13.5%
Operating EBITDA Growth	52.8%	12.0%	(8.3%)	31.2%	17.7%
Operating EBITDA Margin	15.0%	12.6%	9.6%	10.8%	11.2%
Net Cash Per Share (Rs)	25.02	36.84	32.74	45.62	63.22
BVPS (Rs)	82.72	95.89	105.77	118.41	133.47
Gross Interest Cover	18.20	28.08	38.76	64.29	69.43
Effective Tax Rate	27.4%	25.5%	25.9%	25.2%	25.2%
Net Dividend Payout Ratio	29.1%	29.2%	32.5%	33.0%	33.2%
Accounts Receivables Days	14.06	17.41	18.78	19.10	18.81
Inventory Days	126.32	108.24	104.10	109.10	107.26
Accounts Payables Days	84.68	77.04	78.32	78.84	80.09
ROIC (%)	36.6%	36.2%	31.9%	33.4%	39.8%
ROCE (%)	27.2%	25.3%	20.7%	25.3%	27.1%
Return On Average Assets	17.1%	16.1%	12.6%	15.2%	15.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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