

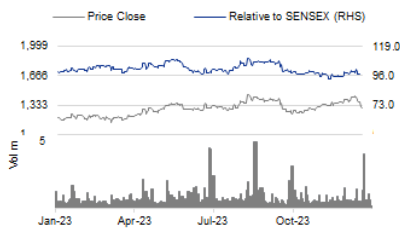
India

**ADD** (no change)

Consensus ratings*: Buy 27 Hold 13 Sell 4	
Current price:	Rs1,306
Target price:	Rs1,513
Previous target:	Rs1,526
Up/downside:	15.8%
InCred Research / Consensus:	3.3%
Reuters:	HVEL.NS
Bloomberg:	HAVL IN
Market cap:	US\$9,842m
	Rs818,197m
Average daily turnover:	US\$12.7m
	Rs1055.7m
Current shares o/s:	626.7m
Free float:	40.6%
*Source: Bloomberg	

**Key changes in this note**

- Revenue cut by 3-4% for FY24F-26F.
- EBITDA cut by 7-9% for FY24F-26F.
- PAT cut by 9-10% for FY24F-26F.



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	(3.4)	1.6	9.4
Relative (%)	(3.4)	(8.4)	(7.3)

<b>Major shareholders</b>	% held
Promoters	59.4
Nalanda India Equity Fund	5.3
Life Insurance Corporation	3.9

**Research Analyst(s)**



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# Havells India

## Misses estimates again; outlook is improving

- Havells India's 3Q earnings missed estimates for the last three quarters. Soft B2C demand and higher ad spending led to lower sales/margin growth yoy.
- Sales of switchgear, lighting & durables sales grew by a mere 1-3% yoy. Cable/wire & Lloyd's sales grew relatively higher. Lower base to aid 4Q growth.
- We expect an EPS CAGR of 24% (FY19-FY24F: 10%) over FY24F-26F. B2C biz recovery, new capacity and higher margins are key catalysts. Retain ADD.

### Lower topline growth and higher ad spends led to 3Q miss

Havells India reported 3QFY24 revenue/EBITDA/PAT of Rs44bn/Rs4.3bn/Rs2.9bn, +7%/2%/2% yoy, respectively. EBITDA/PAT missed our/Bloomberg consensus estimates by 6-10%. Weak residential and consumer demand and the highest-ever ad spends in a quarter led to lower topline growth and operating margin decline yoy. Gross margin was stable at 33% while the EBITDA margin declined to 9.8%, down 50bp yoy. Ad spending stood at Rs1.8bn, +40% yoy and 2x qoq, spent across product segments including Lloyd. Switchgear (lower telecom OEM demand), lighting products (LED price erosion) and durables (high base quarter for fans due to channel-filling yoy) sales growth was a mere 1-3% yoy. Cable and wire sales grew 11% yoy (largely volume driven) while Lloyd grew 7% yoy (9M: +16% yoy). Contribution margin (sales minus variable costs) held up well for all the segments except cables (mix impact, down 140bp yoy to 14.5%) while the EBIT margin fell yoy for all the segments, except lighting (low base yoy), due to higher ad spending during the festive season. Lloyd's EBIT loss stood at Rs650m, +8% yoy. Net working capital cycle stood at 14 days of TTM sales while net cash stood at Rs29bn (Dec 2023).

### 4Q looks good but growth beyond is contingent on B2C recovery

Given the healthy sales of premium/luxury apartments in urban markets, the demand for electrical/durable products should ramp up over the next 12 months, in our view. In the short term, we expect 4QFY24F revenue/EBITDA/PAT growth at +14%/16%/17% yoy, respectively, driven by a low base and seasonality, but the medium-term growth is contingent on B2C demand recovery. On the back of new capacity addition (cable, wire, lighting, Lloyd) and margin recovery (switchgear, ECD, Lloyd), we expect revenue/EBITDA CAGR of 16%/24%, respectively, over FY24F-26F vs. 13%/9% over FY19-24F.

### Change in our earnings estimates, valuation and risks

We incorporate 9MFY24 actuals and alter segment sales/margins. We cut revenue estimates by 3-4%, & EBITDA/PAT by 7-9%/9-10% over FY24F-26F. However, owing to a low base, we expect the EPS CAGR at 24% over FY24F-26F (vs.10% over FY19-24F). Signs of B2C demand recovery, new capacities & higher margins are key catalysts going ahead. Retain ADD rating with a lower target price of Rs1,513 (Rs1,526 earlier) based on a higher exit P/E of 60x (5-year mean P/E+10% premium), given strong recovery prospects. Downside risk: Delay in B2C demand recovery, new competition, and Lloyd's losses.

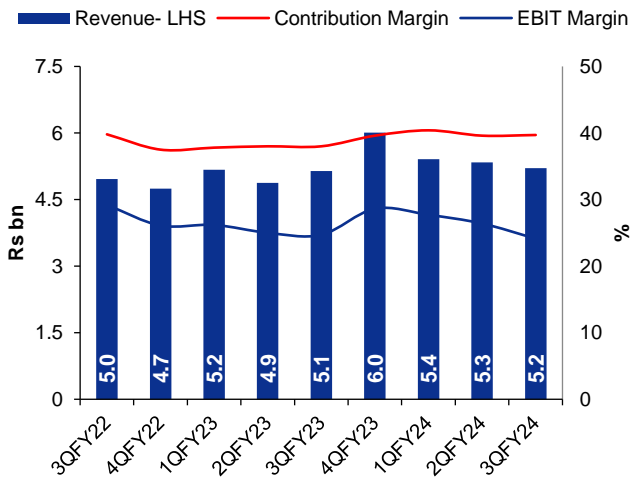
Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	139,385	169,107	186,719	217,820	249,920
Operating EBITDA (Rsm)	17,604	15,991	18,298	23,307	28,241
Net Profit (Rsm)	11,965	10,717	12,545	15,800	19,378
Core EPS (Rs)	19.1	17.1	20.0	25.2	30.9
Core EPS Growth	17.8%	(10.5%)	17.0%	25.9%	22.6%
FD Core P/E (x)	68.31	76.31	65.21	51.78	42.22
DPS (Rs)	7.5	7.5	8.0	10.0	12.0
Dividend Yield	0.57%	0.57%	0.61%	0.77%	0.92%
EV/EBITDA (x)	45.12	49.86	43.15	33.63	27.38
P/FCFE (x)	97.58	0.00	151.96	317.64	94.51
Net Gearing	(38.4%)	(31.0%)	(38.6%)	(41.2%)	(47.3%)
P/BV (x)	13.62	12.34	11.09	9.82	8.60
ROE	21.4%	17.0%	17.9%	20.1%	21.7%
% Change In Core EPS Estimates			(8.73%)	(9.15%)	(10.17%)
InCred Research/Consensus EPS (x)					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

## 3QFY24 earnings-call highlights

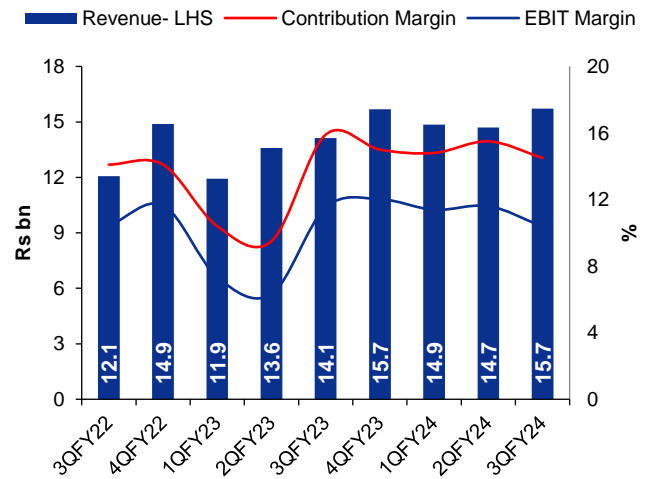
- **Demand trend:** Consumer demand remained soft during the quarter. However, the growth was primarily driven by the industry and government's sustained thrust on infrastructure projects. Green shoots were visible towards the beginning of Jan 2024, and management expects residential and consumer demand to pick up in the coming quarters (upcoming summer season).
- **Segment-wise sales:** Switchgear sales had a high revenue base in the same quarter last year because of the orders from telecom original equipment manufacturers or OEMs. The order inflow from the telecom sector was weak while residential switchgear sales grew yoy in 3QFY24. In the lighting segment, professional lighting business continued to do well while LED price deflation led to weak consumer lighting revenue growth yoy. The price decline has stabilized over the past three months, as per management. Cable business did better than wires owing to sustained demand from industrial and infrastructure projects. C&W sales grew at 11% yoy in 3QFY24 vs. 17% in the case of Polycab and 14% yoy for KEI Industries, its closest peers. Management expects the C&W demand to remain robust over the next 12-18 months.
- **Launch of Lloyd in the Middle East:** Lloyd has partnered with TeknoDome, a distribution conglomerate headquartered in Dubai, for the desired sales channel coverage and reach in the Middle East region. Lloyd's focus in the Middle East encompasses a range of technologically advanced and energy-efficient products. The launch portfolio includes a premium range of ACs (fixed speed, inverter and Hot & Cold), front-load and semi-automatic washing machines, frost-free and side-by-side refrigerators, and the LED TV range. Lloyd, in collaboration with TeknoDome, has outlined an aggressive distribution plan focusing on availability in independent retail, selective organized retail and the e-commerce channel in a phased manner. The brand has tied up with Bollywood stars Ms. Tamannaah Bhatia and Mr. Mohanlal as brand ambassadors in the UAE. Starting Jan 2024, the company plans to roll out an extensive awareness campaign for the Lloyd brand targeting aspirational consumers via the digital medium, social media, influencer marketing, visibility drive-in stores, and public relations activity.
- **Subsidiary in USA:** Havells India has incorporated a subsidiary in the USA for sales and marketing of HVAC products of Lloyd. The company intends to utilize some of the new air-conditioning capacity for the export market, which would also enable a faster ramp-up of the South India plant and quicker EBITDA breakeven.
- **Balance insurance claim:** The remaining insurance claim of Rs158m towards the property, plant and equipment related to the fire at the company's Neemrana lighting products plant is likely to be received in due course.
- **Capex:** The greenfield C&W factory at Sricity in Andhra Pradesh would add about 25% to the existing capacity of underground cables. The plant is expected to start trial production in Mar 2024F. The refrigerator plant is still at the discussion stage and is not yet finalized. The consolidated capex stood at Rs5.2bn in 9MFY24.
- **Cash flow:** The net working capital cycle stood at 14 days of TTM sales vs. 22 days qoq at the end of Dec 2023. OCF/FCF stood at Rs14.3bn/Rs9.2bn, respectively, in 9MFY24. Net cash (including equivalents) stood at Rs29bn at the end of Dec 2023 (vs. Rs25bn qoq).
- **Dividend:** The company's board declared an interim dividend of Rs3/share.

Figure 1: Switchgear division



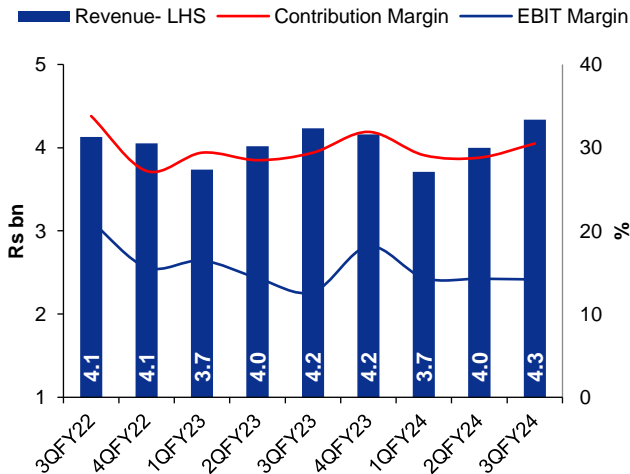
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Cable and wire division



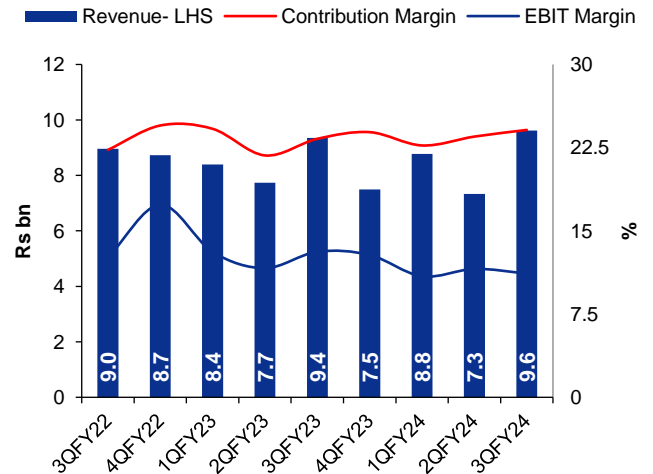
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Lighting and fixtures division



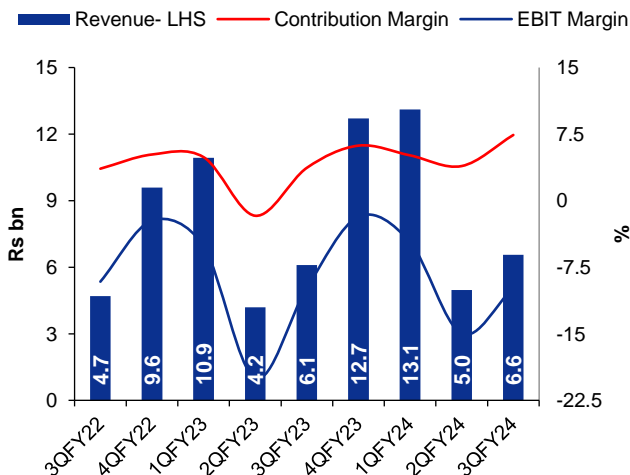
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Electrical consumer durables division



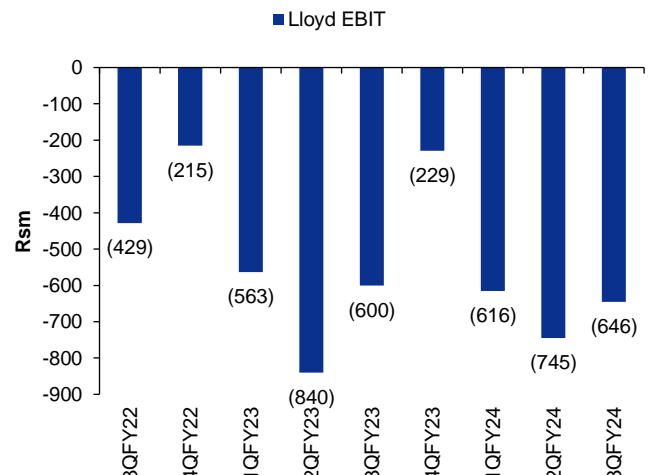
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Lloyd's business



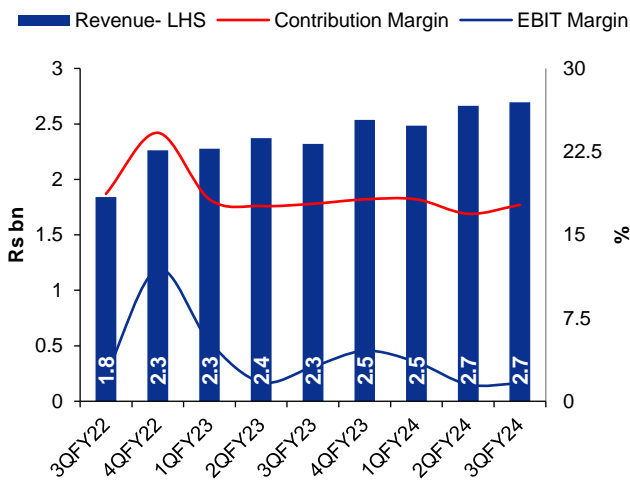
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Lloyd's business- EBIT



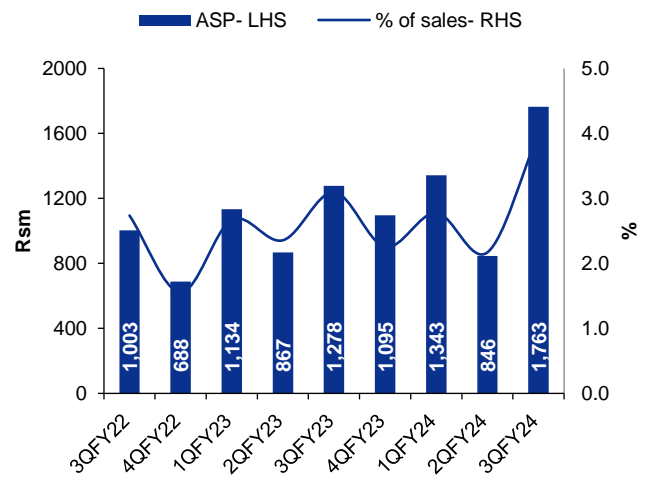
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: 'Others' division



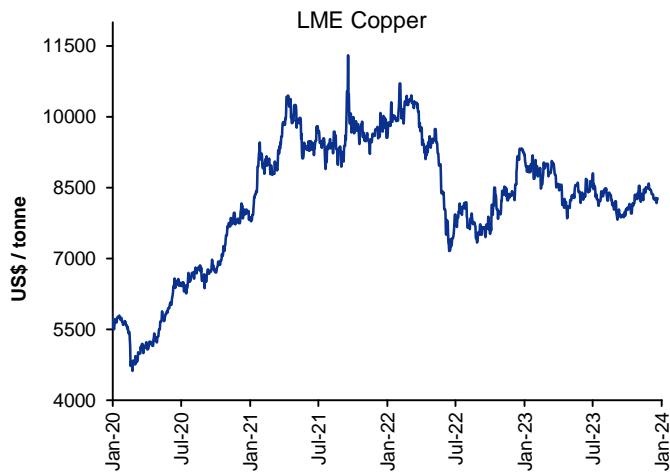
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Advertising and sales promotion expenses



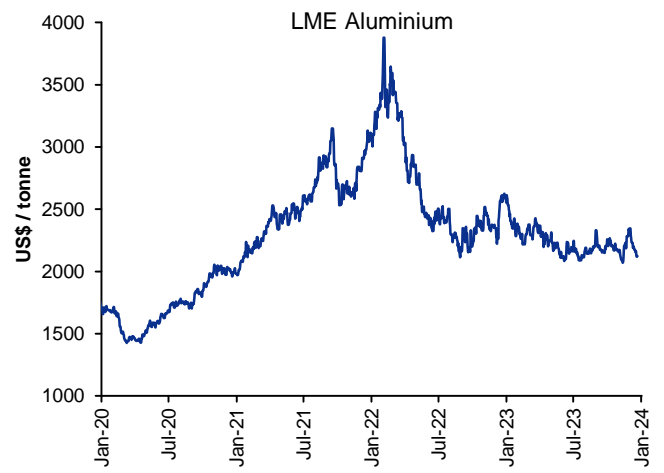
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Copper price trend



SOURCE: INCRED RESEARCH, BLOOMBERG

Figure 10: Aluminium price trend



SOURCE: INCRED RESEARCH, BLOOMBERG

Figure 11: 3QFY24 results snapshot

Y/E Mar (Rs m)	3QFY24	3QFY23	yoy (%)	2QFY24	qoq (%)	9MFY24	9MFY23	yoy (%)
Revenue	44,139	41,276	6.9	39,003	13.2	1,31,480	1,20,515	9.1
EBITDA	4,327	4,236	2.1	3,734	15.9	12,080	10,720	12.7
EBITDA margin (%)	9.8	10.3	-46 bp	9.6	23 bp	9.2	8.9	29 bp
Adj. PAT	2,879	2,835	1.5	2,491	15.6	8,241	7,137	15.5
Diluted EPS (Rs)	4.6	4.5		4.0		13.2	11.4	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 12: 3QFY24 segmental results snapshot

Y/E Mar (Rs m)	3QFY24	3QFY23	yoy (%)	2QFY24	qoq (%)	9MFY24	9MFY23	yoy (%)
<b>Revenue</b>								
Switchgear	5,206	5,143	1.2	5,336	(2.4)	15,950	15,192	5.0
Cable and wire	15,727	14,121	11.4	14,702	7.0	45,280	39,645	14.2
Lighting products	4,335	4,232	2.4	3,999	8.4	12,045	11,986	0.5
ECD	9,615	9,357	2.8	7,331	31.2	25,721	25,488	0.9
Lloyd	6,561	6,103	7.5	4,974	31.9	24,644	21,239	16.0
Others	2,695	2,319	16.2	2,662	1.2	7,840	6,967	12.5
<b>Total</b>	<b>44,139</b>	<b>41,276</b>	<b>6.9</b>	<b>39,003</b>	<b>13.2</b>	<b>1,31,480</b>	<b>1,20,515</b>	<b>9.1</b>
<b>EBIT</b>								
Switchgear	1,256	1,271	(1.1)	1,409	(10.8)	4,164	3,844	8.3
Cable and wire	1,633	1,628	0.3	1,707	(4.3)	5,030	3,362	49.6
Lighting products	614	536	14.7	570	7.7	1,716	1,725	(0.5)
ECD	1,073	1,228	(12.6)	848	26.5	2,878	3,229	(10.9)
Lloyd	-646	-600	7.5	-745	(13.4)	-2,007	-2,003	0.2
Others	44	72	(39.5)	40	8.7	171	235	(27.1)
<b>Total</b>	<b>3,974</b>	<b>4,134</b>	<b>(3.9)</b>	<b>3,828</b>	<b>3.8</b>	<b>11,953</b>	<b>10,391</b>	<b>15.0</b>
<b>EBIT Margin (%)</b>								
Switchgear	24.1	24.7	-58 bp	26.4	-228 bp	26.1	25.3	80 bp
Cable and wire	10.4	11.5	-114 bp	11.6	-123 bp	11.1	8.5	263 bp
Lighting products	14.2	12.7	151 bp	14.3	-9 bp	14.2	14.4	-14 bp
ECD	11.2	13.1	-197 bp	11.6	-41 bp	11.2	12.7	-148 bp
Lloyd	-9.8	-9.8	0 bp	-15.0	515 bp	-8.1	-9.4	129 bp
Others	1.6	3.1	-149 bp	1.5	11 bp	2.2	3.4	-119 bp
<b>Total</b>	<b>9.0</b>	<b>10.0</b>	<b>-101 bp</b>	<b>9.8</b>	<b>-81 bp</b>	<b>9.1</b>	<b>8.6</b>	<b>47 bp</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 13: Actuals vs. our estimates

Rs m	3QFY24	3QFY24F	Var (%)
Revenue	44,139	45,333	(2.6)
EBITDA	4,327	4,647	(6.9)
EBITDA margin (%)	9.8	10.3	-45 bp
<b>Adj. PAT</b>	<b>2,879</b>	<b>3,187</b>	<b>(9.7)</b>

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 14: Actuals vs. Bloomberg consensus estimates

Rs m	3QFY24	3QFY24C	Var (%)
Revenue	44,139	45,380	(2.7)
EBITDA	4,327	4,593	(5.8)
EBITDA margin (%)	9.8	10.1	-32 bp
<b>Adj. PAT</b>	<b>2,879</b>	<b>3,218</b>	<b>(10.5)</b>

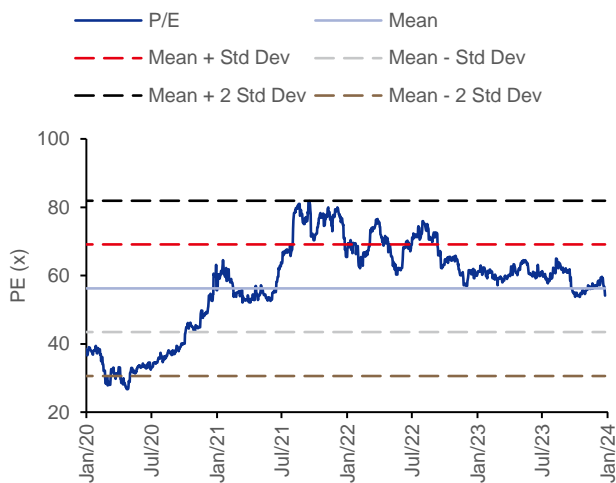
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 15: Our revised earnings estimates

	New estimates			Old estimates			Change (%)		
	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Revenue	1,86,719	2,17,820	2,49,920	1,92,656	2,25,261	2,59,671	-3.1	-3.3	-3.8
EBITDA	18,298	23,307	28,241	19,651	25,229	30,901	-6.9	-7.6	-8.6
<b>Adjusted consol. PAT</b>	<b>12,545</b>	<b>15,800</b>	<b>19,378</b>	<b>13,745</b>	<b>17,391</b>	<b>21,572</b>	<b>-8.7</b>	<b>-9.1</b>	<b>-10.2</b>
EPS	20.0	25.2	30.9	21.9	27.8	34.4	-8.7	-9.1	-10.2
<b>EBITDA margin (%)</b>	<b>9.8</b>	<b>10.7</b>	<b>11.3</b>	<b>10.2</b>	<b>11.2</b>	<b>11.9</b>	<b>-40 bp</b>	<b>-50 bp</b>	<b>-60 bp</b>

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 16: P/E standard deviation (five-year mean)



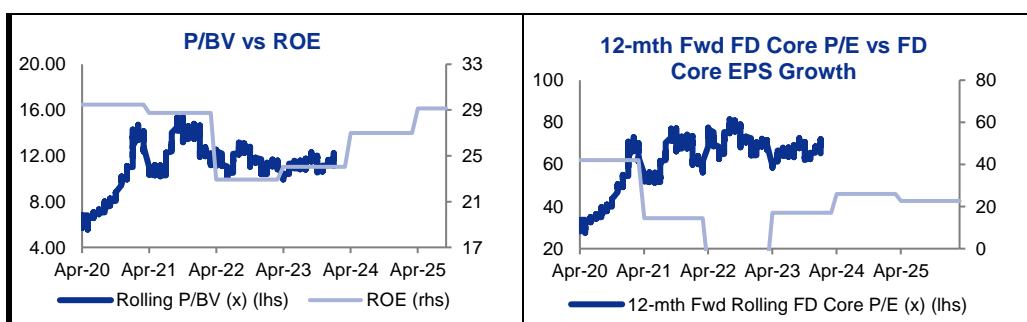
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

Figure 17: P/E band



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>186,719</b>	<b>217,820</b>	<b>249,920</b>
<b>Gross Profit</b>	<b>45,165</b>	<b>52,053</b>	<b>59,190</b>	<b>69,920</b>	<b>81,099</b>
<b>Operating EBITDA</b>	<b>17,604</b>	<b>15,991</b>	<b>18,298</b>	<b>23,307</b>	<b>28,241</b>
Depreciation And Amortisation	(2,609)	(2,962)	(3,359)	(3,909)	(4,497)
<b>Operating EBIT</b>	<b>14,995</b>	<b>13,030</b>	<b>14,940</b>	<b>19,397</b>	<b>23,744</b>
Financial Income/(Expense)	510	896	1,191	1,315	1,759
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>16,840</b>	<b>21,208</b>	<b>26,011</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>16,066</b>	<b>14,471</b>	<b>16,840</b>	<b>21,208</b>	<b>26,011</b>
Taxation	(4,101)	(3,753)	(4,294)	(5,408)	(6,633)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>11,965</b>	<b>10,717</b>	<b>12,545</b>	<b>15,800</b>	<b>19,378</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>12,545</b>	<b>15,800</b>	<b>19,378</b>
Recurring Net Profit	11,965	10,717	12,545	15,800	19,378
<b>Fully Diluted Recurring Net Profit</b>	<b>11,965</b>	<b>10,717</b>	<b>12,545</b>	<b>15,800</b>	<b>19,378</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>18,298</b>	<b>23,307</b>	<b>28,241</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	3,236	(6,964)	3,380	(1,444)	(1,491)
(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)	(1,191)	(1,315)	(1,759)
Tax Paid	(4,149)	(3,919)	(4,294)	(5,408)	(6,633)
<b>Cashflow From Operations</b>	<b>17,278</b>	<b>5,350</b>	<b>17,616</b>	<b>16,965</b>	<b>20,633</b>
Capex	(2,546)	(5,878)	(6,325)	(6,116)	(4,159)
Disposals Of FAs/subsidiaries	56	23			
Acq. Of Subsidiaries/Investments	(6,052)		(7,500)	(10,000)	(10,000)
Other Investing Cashflow	956	5,004	1,591	1,727	2,183
<b>Cash Flow From Investing</b>	<b>(7,586)</b>	<b>(4,113)</b>	<b>(12,234)</b>	<b>(14,389)</b>	<b>(11,976)</b>
Debt Raised/(repaid)	(1,319)				
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)	(400)	(412)	(424)
<b>Cash Flow From Financing</b>	<b>(5,472)</b>	<b>(9,069)</b>	<b>(5,412)</b>	<b>(6,677)</b>	<b>(7,942)</b>
Total Cash Generated	4,221		(29)	(4,101)	715
<b>Free Cashflow To Equity</b>	<b>8,374</b>		<b>5,383</b>	<b>2,576</b>	<b>8,658</b>
<b>Free Cashflow To Firm</b>	<b>9,223</b>		<b>4,983</b>	<b>2,164</b>	<b>8,233</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	28,458	34,341	45,049
Total Debtors	7,663	9,739	9,208	10,742	12,325
Inventories	29,681	37,086	38,367	44,758	51,353
Total Other Current Assets	1,701	3,221	3,556	4,149	4,760
<b>Total Current Assets</b>	<b>66,058</b>	<b>70,556</b>	<b>79,589</b>	<b>93,989</b>	<b>113,487</b>
Fixed Assets	31,231	33,102	36,972	35,929	38,841
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	3,708	6,958	3,708
<b>Total Non-current Assets</b>	<b>39,174</b>	<b>41,019</b>	<b>43,985</b>	<b>46,192</b>	<b>45,854</b>
Short-term Debt	1,230				
Current Portion of Long-Term Debt					
Total Creditors	23,800	26,433	28,136	32,822	37,659
Other Current Liabilities	10,881	11,562	14,324	16,709	19,172
<b>Total Current Liabilities</b>	<b>35,911</b>	<b>37,994</b>	<b>42,459</b>	<b>49,532</b>	<b>56,831</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>49,786</b>	<b>56,858</b>	<b>64,158</b>
Shareholders Equity	60,029	66,255	73,788	83,323	95,183
Minority Interests					
<b>Total Equity</b>	<b>60,029</b>	<b>66,255</b>	<b>73,788</b>	<b>83,323</b>	<b>95,183</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%	10.4%	16.7%	14.7%
Operating EBITDA Growth	12.0%	(9.2%)	14.4%	27.4%	21.2%
Operating EBITDA Margin	12.6%	9.5%	9.8%	10.7%	11.3%
Net Cash Per Share (Rs)	36.84	32.74	45.42	54.80	71.88
BVPS (Rs)	95.89	105.77	117.76	132.96	151.88
Gross Interest Cover	28.08	38.76	37.35	47.08	55.95
Effective Tax Rate	25.5%	25.9%	25.5%	25.5%	25.5%
Net Dividend Payout Ratio	29.2%	32.5%	29.8%	29.5%	28.9%
Accounts Receivables Days	17.41	18.78	18.52	16.71	16.84
Inventory Days	108.24	104.10	107.98	102.57	103.90
Accounts Payables Days	77.04	78.32	78.09	75.22	76.19
ROIC (%)	36.2%	31.9%	28.3%	37.0%	42.3%
ROCE (%)	25.3%	20.8%	22.5%	25.7%	27.9%
Return On Average Assets	16.1%	12.5%	13.3%	15.1%	16.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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