

11 June 2024

India | Equity Research | Company Update

Havells

White Goods

FY24 annual report analysis: Strong investments in premiumisation and manufacturing capabilities

We note: (1) Havells reported recovery in EBITDA margin in FY24 from a cyclical low in FY23 due to lower commodity prices and reduction in Lloyd losses. We model the recovery to continue in FY25-26E. (2) It has done strong investments in capex across all segments such as RAC, cables & wires and EMS plant at Neemrana. (3) It has also strengthened its distribution network with 5.9%, 11.3% and 19.2% increase in dealers, retail outlets and electricians, respectively, YoY. (4) It has introduced multiple products with higher focus on lifestyle instead of just product functionality. (5) Investments in Lloyd have started yielding results now with steady expansion in market share as well as reduction in losses. Havells has strong EVA generation with expansion in return ratios. FCF has also remained strong in spite of higher capex due to reduction in working capital days. We remain positive on Havells led by its strong competitive advantages such as large product portfolio, established brands, sub-segmentation strategy and strong distribution network. Maintain **BUY**.

Strong EVA creation in FY24

Havells generated a healthy EVA of INR 5bn in FY24. We believe expansion in return ratios has led to strong EVA creation. Havells generated strong FCF of INR 13.4bn in spite of aggressive investments in capital expenditure. Reduction in net working capital days to 11 in FY24 from 26 in FY23 led to higher OCF generation.

Strong investments in manufacturing

Havells has expanded its investments in manufacturing via commissioning of Sri city RAC plant. It also has construction work for cable plant (Tumkur) and EMS plant (Neemrana). Its gross block expanded at a CAGR of 17% over FY09-24.

Launch of R&D backed innovative products

Havells has stepped up investments in new products across segments in FY24. We believe it is focusing on offering lifestyle-based products vs only utility-based products and may create a niche into the market due to same.

Strong momentum in Lloyd, reduction in losses

We note Lloyd has reported a strong 12.2% YoY revenue growth despite a higher base of FY22 and FY23. Also, the losses at EBIT level have been curtailed YoY. We believe aggressive investments are leading to strong growth. We believe the brand may have cash breakeven by FY26.

Maintain BUY

We model Havells to report revenue and PAT CAGRs of 15.1% and 26.2% over FY24-26E. Maintain **BUY** with DCF-based revised target price of INR 2,160 (earlier TP: INR 1,940, implying 67x FY26E EPS). Key risks: Higher commodity prices and steep competitive pressures.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	1,69,107	1,85,900	2,13,967	2,46,369
EBITDA	15,991	18,426	23,310	28,072
EBITDA Margin (%)	9.5	9.9	10.9	11.4
Net Profit	10,717	12,708	16,602	20,225
EPS (INR)	17.1	20.3	26.5	32.3
EPS % Chg YoY	(10.4)	18.4	30.6	21.8
P/E (x)	108.4	91.6	70.1	57.5
EV/EBITDA (x)	71.4	61.6	48.3	39.8
RoCE (%)	14.1	15.1	17.5	18.6
RoE (%)	17.0	18.1	20.8	22.1

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Market Data

Market Cap (INR)	1,164bn
Market Cap (USD)	13,932mn
Bloomberg Code	HAVL IN
Reuters Code	HVEL.BO
52-week Range (INR)	1,987 / 1,233
Free Float (%)	40.0
ADTV-3M (mn) (USD)	27.0

Price Performance (%)	3m	6m	12m
Absolute	20.3	38.3	38.0
Relative to Sensex	17.1	28.7	15.8

Previous Reports

02-05-2024: [Q4FY24 results review](#)24-01-2024: [Q3FY24 results review](#)

FY24 annual report analysis

EVA creation remains strong

Havells continued to generate strong return ratios with healthy earnings growth (30.6% YoY) in FY24. We believe its EVA creation has remained strong. FCF generation too has remained strong despite higher aggressive capex for Lloyd.

Exhibit 1: Strong EVA generation continued in FY24

Particulars (INR mn)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
RoE (%) [A]	23.9	20.6	20.4	20.2	19.8	19.9	17.3	22.0	21.4	17.0	18.1
Cost of Equity (%) [B]	11.6	11.6	11.6	11.6	11.6	11.6	11.6	11.6	11.6	11.6	11.6
Net worth (INR mn) [C]	21,816	24,192	27,191	33,937	39,408	45,143	45,816	55,154	63,535	69,870	78,043
EVA generated (INR mn) [(A-B) x C]	2,690	2,186	2,402	2,917	3,211	3,728	2,605	5,742	6,227	3,752	5,039
FCF	4,860	3,232	3,528	5,961	(4,310)	556	5,138	5,809	15,499	705	13,427

Source: Company data, I-Sec research

Strong investments in manufacturing

Havells has successfully expanded its product portfolio across business streams over the years and has also gained market share. Its constant capacity addition with enhanced efficiencies has augured well.

In FY24, Havells commissioned its Sri city plant (capacity of ~1mn p.a.). It faced capacity constraints in cable segment which limited its growth in FY24. The company aims to expand cable manufacturing capacity by establishing a plant at Tumkur (Karnataka) in FY25. Additionally, Havells is building a plant for catering EMS-led demand at Neemrana (Rajasthan). Its gross block grew at 16.6% CAGR between FY14-24, underlying strong investments in manufacturing.

Exhibit 2: Steady increase in number of plants



Source: Company data, I-Sec research

Relaunch of Crabtree as Havells Crabtree

Havells has relaunched Crabtree brand as Havells Crabtree. We believe there are three brands with Havells as mother brand such as: (1) Havells Crabtree, (2) Havells and (3) Havells Studio. Relaunch of Crabtree brand has allowed the company to effectively use umbrella advertising.

Exhibit 3: Crabtree brand...



Source: Company data, I-Sec research

Exhibit 4: ...relaunched as Havells Crabtree now

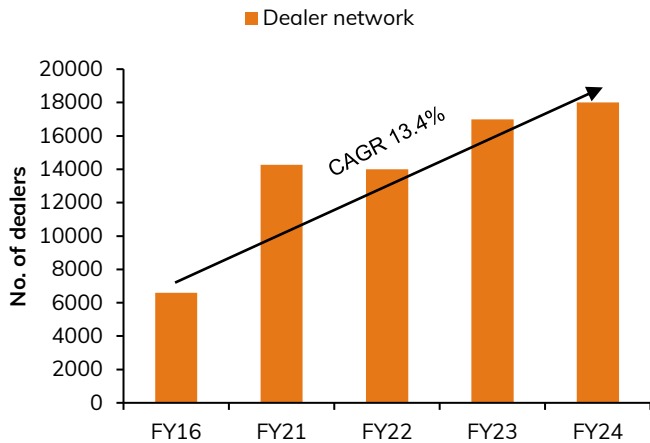


Source: Company data, I-Sec research

Steady distribution network expansion

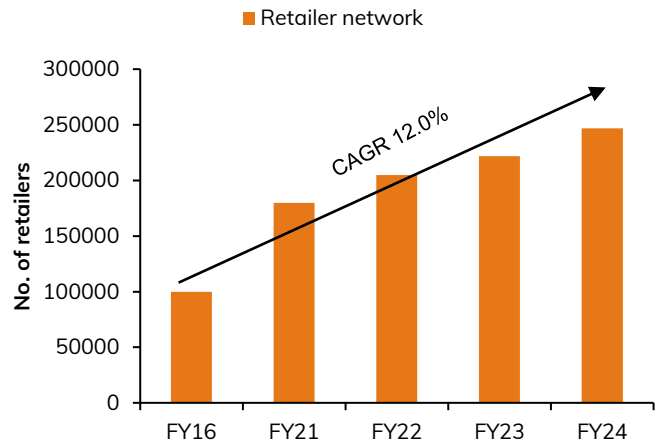
We note Havells' dealer network has expanded at 13.4% CAGR over FY16-FY24. Retailer network has expanded to 247,000 retailers in FY24 from ~100,000 in FY16 (CAGR: 12%). Havells has focused on building its electrician network over the years. Electrician network has expanded from 150,000 electricians in FY16 to 298,000 in FY24. Revenue per dealer has increased from INR 8.2mn in FY16 to INR 10.3mn in FY24 but the CAGR is less than inflation.

Exhibit 5: Strong growth in dealer network...



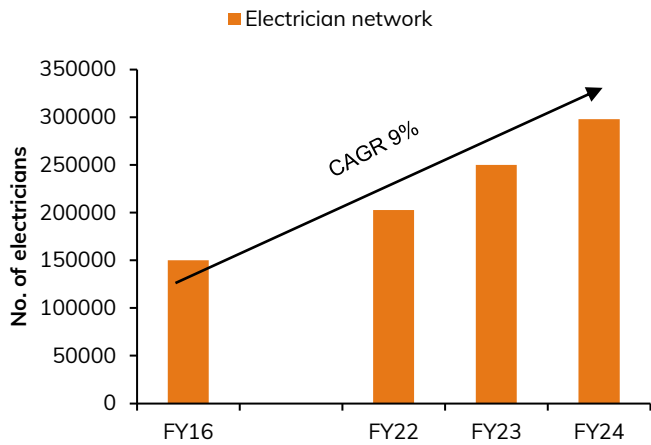
Source: Company data, I-Sec research

Exhibit 6: ...leading to expansion of retailer network



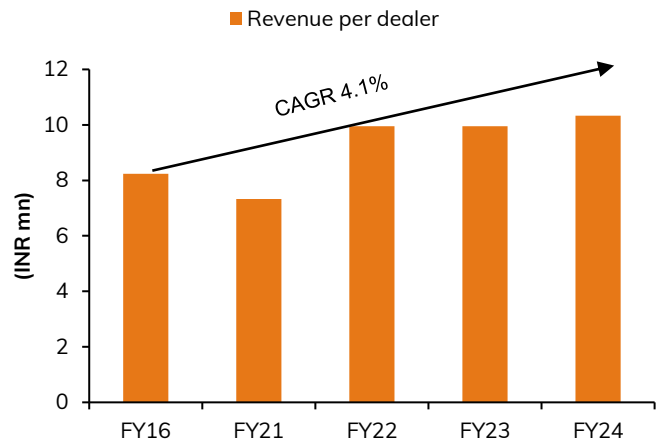
Source: Company data, I-Sec research

Exhibit 7: Growth in electrician (influencer) network



Source: Company data, I-Sec research

Exhibit 8: Growth in revenue per dealer is < inflation

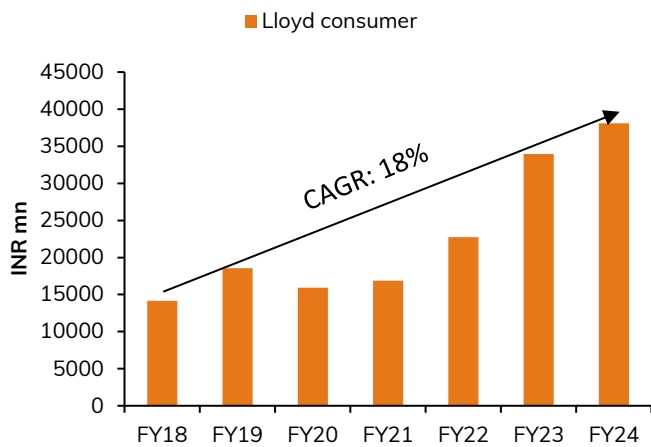


Source: Company data, I-Sec research

Strong growth momentum in Lloyd

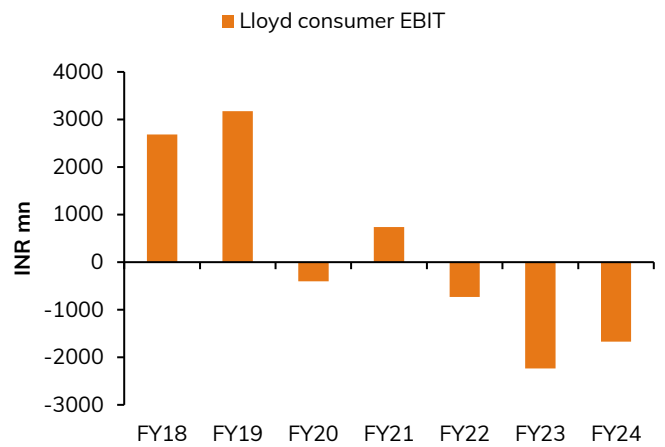
Havells' aggressive investments in Lloyd have led by strong revenue growth resulting in market share gains over FY20-24. Lloyd's revenue grew 12.2% YoY in FY24 despite a high base of FY23 (49.3% YoY growth in FY23). We believe its losses have reduced with improving brand maturity and operating leverage.

Exhibit 9: Strong growth in Lloyd revenue...



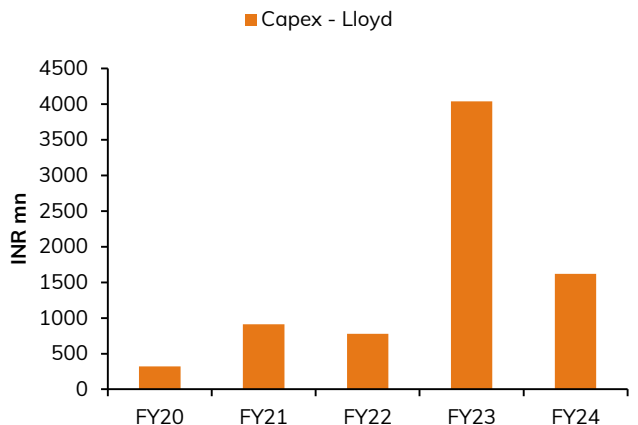
Source: Company data, I-Sec research

Exhibit 10: ...as well as reduction in losses in FY24



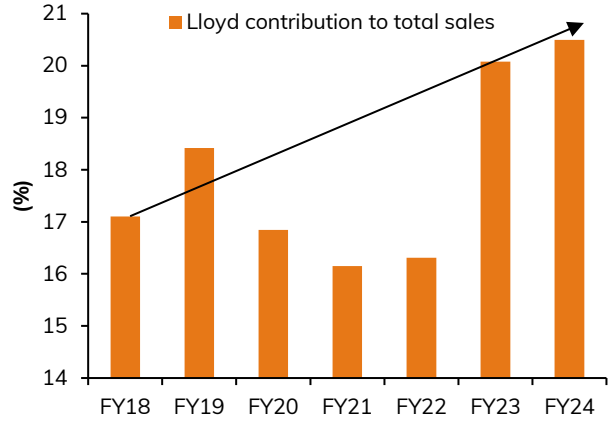
Source: Company data, I-Sec research

Exhibit 11: Strong capital investments in Lloyd...



Source: Company data, I-Sec research

Exhibit 12: ...leading to rising revenue contribution

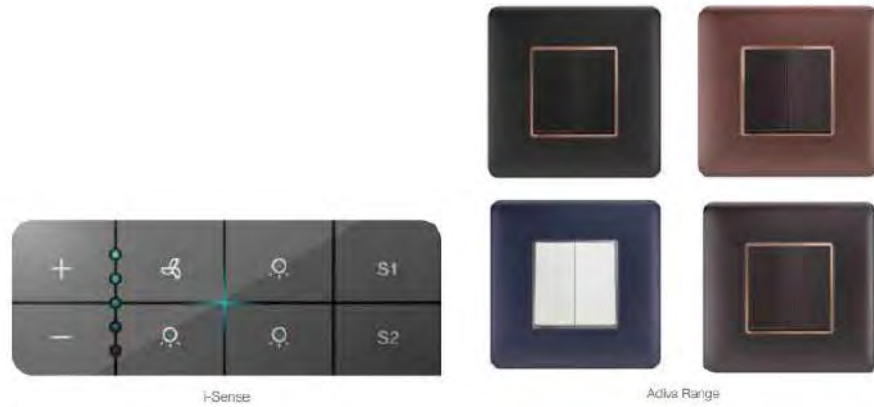


Source: Company data, I-Sec research

New product launches backed by strong R&D spends

The new product launches are spread across business categories like switchgears, lighting, Lloyd, fans, ECD etc. The new products are innovation led premium products with distinguishing features. R&D contributes ~1.1% of total sales. R&D contributes 42% of total new product development sales.

Exhibit 13: Product launches in switchgear segment



Source: Company data, I-Sec research

Exhibit 14: New launches in fans segment



Source: Company data, I-Sec research

Exhibit 15: Product launches in ECD segment

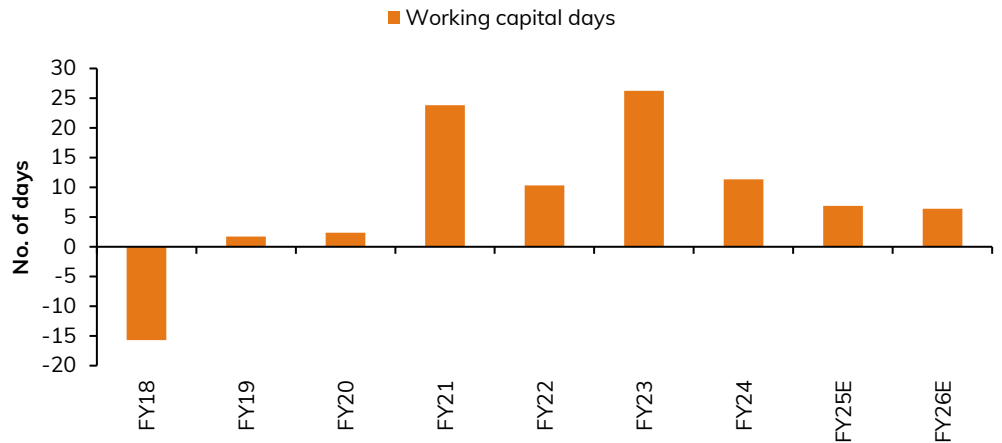


Source: Company data, I-Sec research

Net working capital days to reduce in FY25-26E

Net working capital days stood at 11 days in FY24. We note it has reverted to normalcy from high level of 26 days in FY23. We model net working capital days to reduce further in FY25-26E led by rising normalcy in market.

Exhibit 16: Net working capital days trend

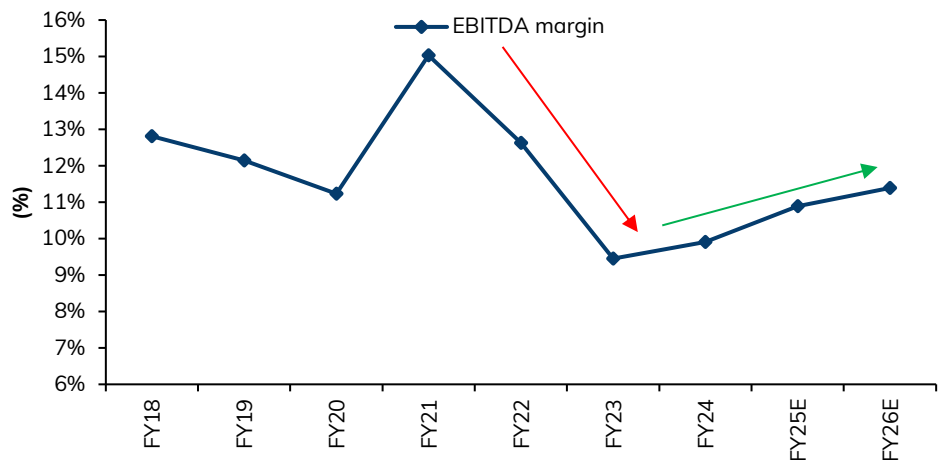


Source: Company data, I-Sec research

EBITDA margin expanded in FY24, likely to continue in FY25-26E

Havells EBITDA margin expanded 46bps YoY in FY24 led by lower input costs and operating efficiencies. Reduction in losses of Lloyd also led to overall margin expansion. It had reported lowest EBITDA margin of 9.5% in FY23 over FY10-23. We believe there was steady revival in margins in FY24 and model it to continue in FY25 and beyond.

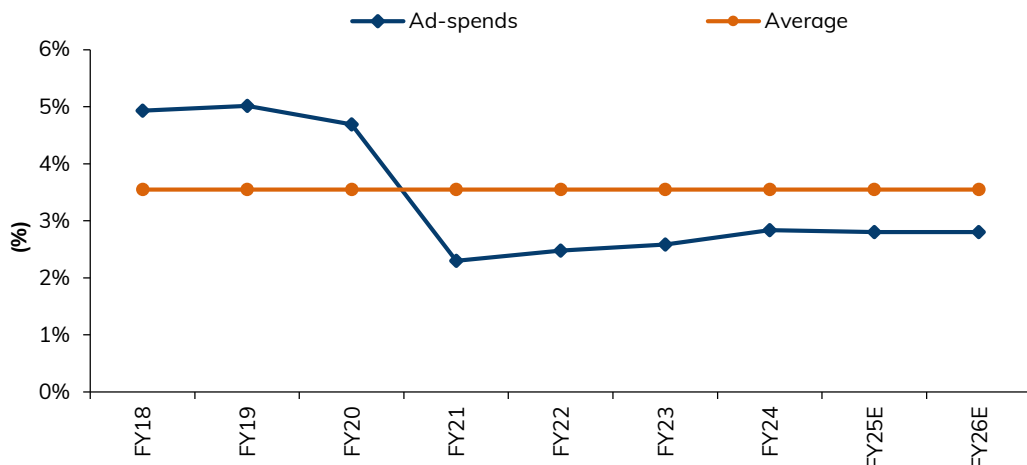
Exhibit 17: EBITDA margin trend



Source: Company data, I-Sec research

Steady increase in ad-spends

Ad-spend as % of net sales contracted during covid in FY21-FY22. While there is a steady increase in ad-spends post covid, we note it is still below 10-year average of 4.7%. We note there was gradual recovery in ad spends in FY23-24. We model it to continue further in FY25-26E.

Exhibit 18: Increase in ad-spend to sales but it is still below long-term average


Source: Company data, I-Sec research

Contingent liabilities to net worth has slightly increased YoY

The contingent liabilities to total net worth have declined over FY20-23. It increased to 1.5% in FY24 against 0.9% in FY23. While there has been YoY increase, we note it to be in an average band of 1.5-1.7%.

Exhibit 19: Contingent liabilities as % of net worth have increased YoY

Details (INR mn)	FY19	FY20	FY21	FY22	FY23	FY24
Claims / Suits filed against the Group not acknowledged as debts	66	65	69	71	68	67
Disputed tax liabilities in respect of pending litigations before appellate authorities	781	781	642	749	547	1,103
Total	847	846	711	820	615	1,169
Net worth	45,143	45,815	55,154	63,535	69,869	78,042
Contingent liabilities as a % of Net worth	1.9	1.8	1.3	1.3	0.9	1.5

Source: Company data, I-Sec research

Segment-wise highlights

- In spite of weak consumer sentiment, all business verticals of Havells posted moderate growth in FY24 YoY. Switchgear, cables and ECD segment posted moderate growth in the range of 2-6% YoY. Cables and Lloyd registered strong growth in the range of 12-14% YoY.
- Profitability for most segments remained under pressure in FY24. Focus on maintaining market share, volume growth (than profitability in our view) exerted pressure on EBIT growth YoY.
- Also, higher advertising and marketing spends as % of net sales weighed on profitability.
- Lighting and ECD EBIT declined YoY while losses at Lloyd continued in FY24. Cables EBIT improved 36.5% YoY on lower base. Switchgear segment reported moderate EBIT growth of 7.1% YoY in FY24.

Switchgear

- Havells focuses on developing innovative and automation-based products. While the company aims to focus on improving its premium segment contribution, it is also launching affordable products to cater mid-market segment. It aims to introduce new products in residential switchgear segment which may drive growth in FY25.

- Demand trend is likely to improve in FY25 given the uptick witnessed in real estate demand, in our view.

Cable

- Cable segment growth was led by higher capex led by development of infrastructure projects. Also, higher investments in renewable energy like solar, wind and hydropower boosted demand for cable.
- Growth in power cables segment was limited due to capacity constraints. Havells aims to expand its power cable capacity via commissioning of greenfield capacity expansion in Tumkur, Karnataka in H1FY25.

Lighting

- Sharp deterioration in product prices in FY24 weighed on revenue growth. However, professional lighting business registered strong growth led by robust demand tailwinds.
- Despite weakness in consumer lighting segment and price-erosion led challenge, Havells continued to launch differentiated products in FY24. It is aligning its product portfolio with evolving lifestyle of consumers, in our view.

Electric consumer durable (ECD)

- Revenue growth was largely impacted by unseasonal rains in summer season.
- Thrust over premiumisation of product range in ECD segment has continued as the company expanded its BLDC and super BLDC product range with premium products.
- Small domestic appliances reported muted FY24 due to weak demand. However, traction in sale of premium products and alternate channel was encouraging.
- Havells focuses on introducing innovative products with advanced technologies in ECD segment, highlighted by launch of multiple launches in induction, iron and food processor category.

Lloyd

- Investments in Lloyd continued to be elevated (INR 1,620mn) in FY24. Higher capex is likely to be utilised on expanding its manufacturing footprint, product portfolio and distribution network.
- Havells focused on expanding its distribution network both in general trade and alternate channels.

Exhibit 20: Segmental revenue and growth rates

Revenue (INR mn)	FY23	FY24	YoY (%)
Switchgears	21,202	22,463	5.9
Cables	55,326	63,176	14.2
Lighting & Fixtures	16,145	16,398	1.6
Electrical consumer durables	32,982	34,825	5.6
Lloyd Consumer	33,949	38,103	12.2
Inter segment	9,503	10,936	15.1
Total	1,69,107	1,85,900	9.9

Source: Company data, I-Sec research

Exhibit 21: Segmental EBIT and growth rates

EBIT (INR mn)	FY23	FY24	YoY (%)
Switchgears	5,566	5,963	7.1
Cables	5,247	7,161	36.5
Lighting & Fixtures	2,480	2,478	(0.1)
Electrical consumer durables	4,190	3,871	(7.6)
Lloyd Consumer	(2,233)	(1,670)	(25.2)
Inter segment	350	246	(29.9)
Total	15,600	18,049	15.7

Source: Company data, I-Sec research

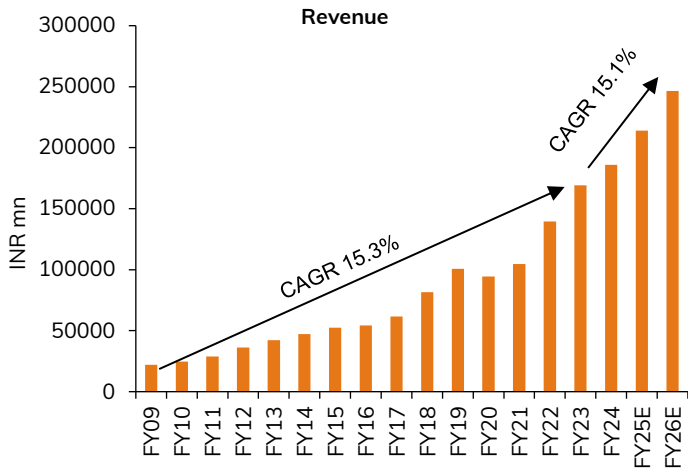
Exhibit 22: Segmental EBIT margin

EBIT margin (%)	FY23	FY24	YoY (bps)
Switchgears	26.3%	26.5%	30
Cables	9.5%	11.3%	185
Lighting & Fixtures	15.4%	15.1%	-25
Electrical consumer durables	12.7%	11.1%	-159
Lloyd Consumer	-6.6%	-4.4%	-
Inter segment	3.7%	2.2%	-144
Total	9.2%	9.7%	48

Source: Company data, I-Sec research

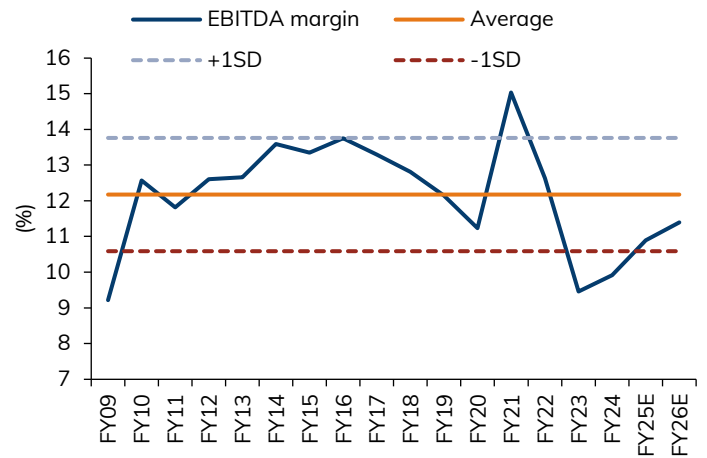
Key highlights – annual

Exhibit 23: Revenue growth trend



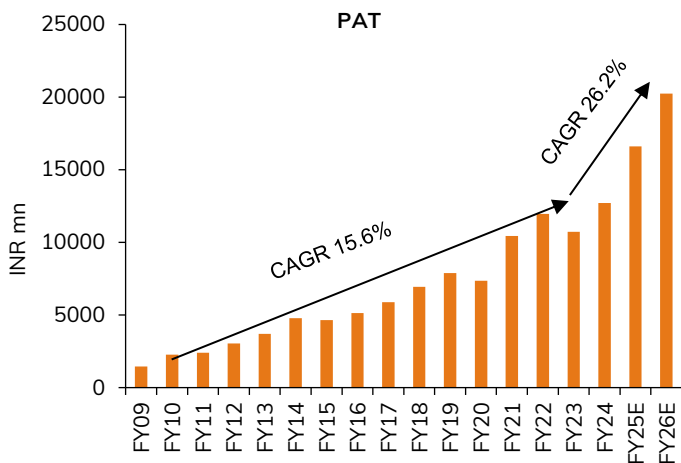
Source: Company data, I-Sec research

Exhibit 24: EBITDA margin trend



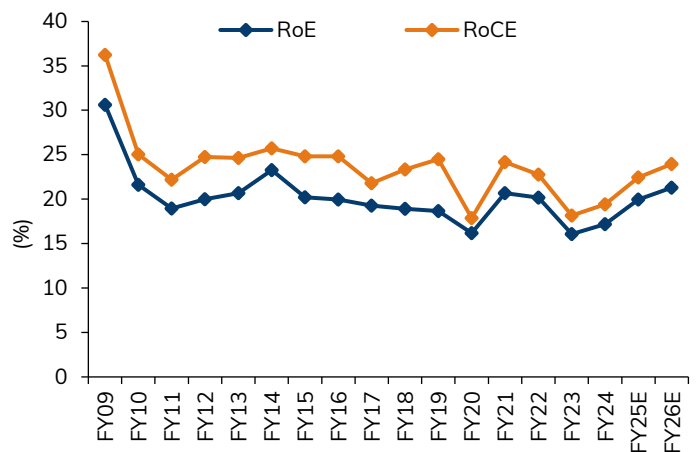
Source: Company data, I-Sec research

Exhibit 25: PAT growth trend



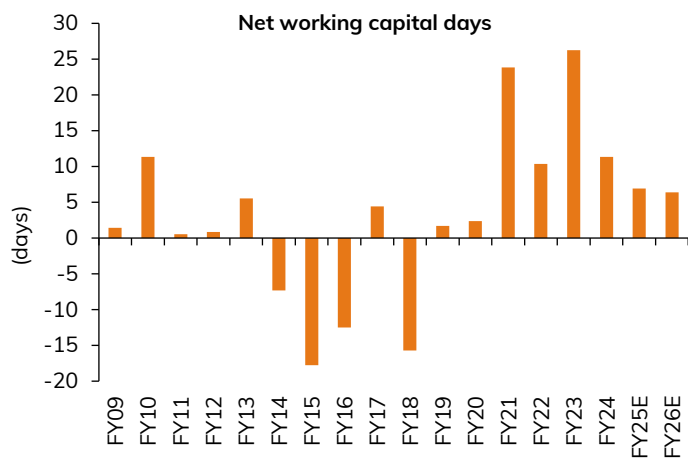
Source: Company data, I-Sec research

Exhibit 26: Return ratios trend



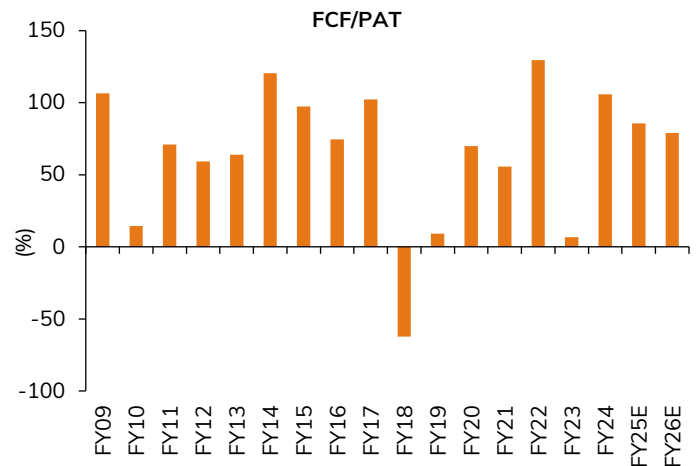
Source: Company data, I-Sec research

Exhibit 27: Net working capital days



Source: Company data, I-Sec research

Exhibit 28: FCF/PAT



Source: Company data, I-Sec research

Valuation

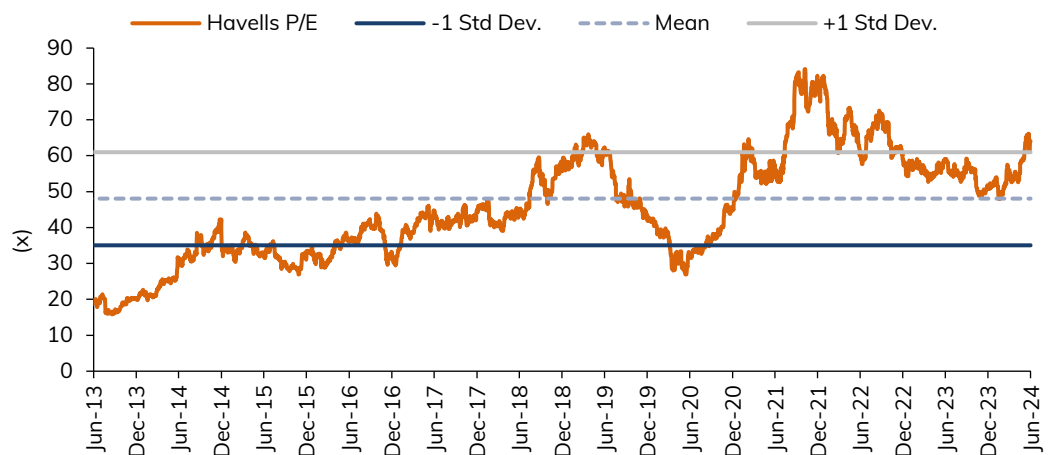
We model Havells to report revenue and PAT CAGRs of 15.1% and 26.2% over FY24-26E and RoCE to move to 18.6% in FY26E from 15.1% in FY24. At our DCF-based revised target price of INR 2,160 (earlier TP: INR 1,940), implied P/E works out to 67x FY26E EPS. Maintain **BUY**.

Exhibit 29: DCF-based valuation

Particulars (INR mn)	
Cost of Equity (%)	11.6%
Terminal growth rate (%)	4.0%
Discounted interim cash flows (INR mn)	4,56,329
Discounted terminal value (INR mn)	8,97,120
Total equity value (INR mn)	13,53,449
Value per share (INR)	2,160

Source: Company data, I-Sec research

Exhibit 30: Mean P/E and standard deviations



Source: Company data, I-Sec research

Risks

Inflation in input prices and competitive pressures

Sharp rise in input prices and/or increase in competitive pressures may result in downside to our estimates.

Prolonged losses at Lloyd

Consistent losses at Lloyd may result in lower overall profitability.

Exhibit 31: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	59.4	59.4	59.4
Institutional investors	33.7	34.1	34.7
MFs and others	3.5	3.8	3.6
FIs/Banks	0.0	0.0	0.0
Insurance	4.6	4.7	4.6
FIIIs	25.6	25.6	26.5
Others	6.9	6.5	5.9

Source: Bloomberg

Exhibit 32: Price chart



Source: Bloomberg

Financial Summary

Exhibit 33: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	1,69,107	1,85,900	2,13,967	2,46,369
Operating Expenses	1,53,116	1,67,474	1,90,656	2,18,297
EBITDA	15,991	18,426	23,310	28,072
EBITDA Margin (%)	9.5	9.9	10.9	11.4
Depreciation & Amortization	2,962	3,385	3,866	4,500
EBIT	13,030	15,041	19,444	23,572
Interest expenditure	336	457	276	276
Other Non-operating Income	1,777	2,490	3,028	3,743
Recurring PBT	14,471	17,074	22,195	27,038
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	3,753	4,366	5,593	6,814
PAT	10,717	12,708	16,602	20,225
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	(77)	(50)	-	-
Net Income (Reported)	10,640	12,657	16,602	20,225
Net Income (Adjusted)	10,717	12,708	16,602	20,225

Source Company data, I-Sec research

Exhibit 34: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	68,853	78,996	82,649	87,595
of which cash & cash eqv.	18,702	30,382	28,318	25,387
Total Current Liabilities & Provisions	37,993	42,831	50,282	57,897
Net Current Assets	30,860	36,165	32,367	29,698
Investments	4,851	2,465	12,465	24,465
Net Fixed Assets	33,102	36,774	43,895	47,895
ROU Assets	-	-	-	-
Capital Work-in-Progress	1,664	2,987	-	-
Total Intangible Assets	3,105	3,105	3,105	3,105
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	73,581	81,496	91,831	1,05,162
Liabilities				
Borrowings	3,711	3,453	3,453	3,453
Deferred Tax Liability	3,615	3,575	3,575	3,575
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	627	627	627	627
Reserves & Surplus	65,628	73,841	84,176	97,507
Total Net Worth	66,255	74,468	84,803	98,134
Minority Interest	-	-	-	-
Total Liabilities	73,581	81,496	91,831	1,05,162

Source Company data, I-Sec research

Exhibit 35: Quarterly trend

(INR mn, year ending March)

	Jun-23	Sept-23	Dec-23	Mar-24
Net Sales	48,338	39,003	44,139	54,420
% growth (YOY)	13.9	6.0	6.9	12.0
EBITDA	4,030	3,718	4,327	6,324
Margin %	8.3	9.5	9.8	11.7
Other Income	648	525	559	758
Extraordinaries	(27)	6	(11)	(14)
Adjusted Net Profit	2,871	2,491	2,879	4,467

Source Company data, I-Sec research

Exhibit 36: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	6,560	21,049	22,204	24,463
Working Capital Changes	(6,964)	4,272	1,735	(262)
Capital Commitments	(5,878)	(7,861)	(8,000)	(8,500)
Free Cashflow	682	13,189	14,204	15,963
Other investing cashflow	5,027	(10,133)	(10,000)	(12,000)
Cashflow from Investing Activities	(851)	(17,994)	(18,000)	(20,500)
Issue of Share Capital	267	213	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	(4,380)	(513)	-	-
Dividend paid	(4,703)	(4,701)	(6,267)	(6,894)
Others	-	-	-	-
Cash flow from Financing Activities	(8,816)	(5,001)	(6,267)	(6,894)
Chg. in Cash & Bank balance	(3,107)	(1,945)	(2,063)	(2,931)
Closing cash & balance	4,652	2,706	28,318	25,387

Source Company data, I-Sec research

Exhibit 37: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	17.1	20.3	26.5	32.3
Adjusted EPS (Diluted)	17.1	20.3	26.5	32.3
Cash EPS	21.9	25.7	32.7	39.5
Dividend per share (DPS)	7.5	7.5	10.0	11.0
Book Value per share (BV)	105.9	118.8	135.3	156.6
Dividend Payout (%)	43.9	37.0	37.7	34.1
Growth (%)				
Net Sales	21.3	9.9	15.1	15.1
EBITDA	(9.2)	15.2	26.5	20.4
EPS (INR)	(10.4)	18.4	30.6	21.8
Valuation Ratios (x)				
P/E	108.4	91.6	70.1	57.5
P/CEPS	84.9	72.3	56.9	47.1
P/BV	17.5	15.6	13.7	11.9
EV / EBITDA	71.4	61.6	48.3	39.8
P / Sales	6.9	6.3	5.4	4.7
Dividend Yield (%)	0.4	0.4	0.5	0.6
Operating Ratios				
Gross Profit Margins (%)	30.8	32.4	33.0	33.5
EBITDA Margins (%)	9.5	9.9	10.9	11.4
Effective Tax Rate (%)	25.9	25.6	25.2	25.2
Net Profit Margins (%)	6.3	6.8	7.8	8.2
NWC / Total Assets (%)	41.9	44.4	35.2	28.2
Net Debt / Equity (x)	(0.3)	(0.4)	(0.4)	(0.5)
Net Debt / EBITDA (x)	(1.2)	(1.6)	(1.6)	(1.7)
Profitability Ratios				
RoCE (%)	14.1	15.1	17.5	18.6
RoE (%)	17.0	18.1	20.8	22.1
RoC (%)	23.6	24.5	31.4	35.5
Fixed Asset Turnover (x)	3.8	3.7	3.6	3.6
Inventory Turnover Days	88	70	70	70
Receivables Days	23	24	23	23
Payables Days	83	82	86	86

Source Company data, I-Sec research

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