

Profit falters as Lloyd loss widens & cable margin dips

Havells India's (HAVL) topline of Rs42.3bn (Q1FY20-23 CAGR at 16%) was 14%/8% above our/consensus estimates. However, its margin profile continues to slide downwards. Gross margin declined 670bps YoY and 30bps QoQ to 29%, partly due to unfavorable sales mix (Lloyd formed 25.6% of total sales vs. 19%/21.7% YoY/QoQ). EBITDA stood at Rs3.6bn (Q1FY20-23 CAGR at 9%), leading to operating margin of 8.5%, much below our/consensus estimate of 12% each due to larger than expected loss in Lloyd and weaker margin in cables. PAT stood at Rs2.4bn (Q1FY20-23 CAGR at 11.4%, PBT CAGR at 7%), 20%/23% below our/consensus estimates. The demand outlook is stable in consumer and residential segments but deferment is visible in industrial and infra segment. The benefits of the recent decline in commodity prices is likely to accrue in a couple of quarters. Factoring in the higher than expected loss in Lloyd, we cut our earnings estimates for FY23E/24E by 9%/6%, as priority remains market share expansion over profitability. With an unchanged P/E of 50x FY24E earnings, we revise target price to Rs1,220 (Rs1,305 earlier). However, the rating stands downgraded to REDUCE (from ADD) due to stretched valuations.

Electricals – Revenue growth healthy; Cables margin dip due to inventory loss

Switchgears (Rs5.2bn), lighting (Rs3.7bn), cables (Rs11.9bn) and ECD (Rs8.4bn) posted Q1FY20-23 CAGR in 14-15% range with high single digit volume CAGR. EBIT margin of switchgear (26.2%, up 30bps QOQ) and lighting (16.5%, up 110bps QoQ) expanded sequentially. ECD margin at 13.1% was down 420bps QoQ, due to higher ad-spend. Cable EBIT margin was much lower at 7.3% (down 430bps QoQ) due to sharp decline in copper & aluminum prices, which HAVL passed on to the trade channel while holding high cost inventory. In cables, channel inventory is low due to de-stocking while margin is likely to normalize in Q3. In fans, demand moderated in June and could revive once prices reduce. Volume growth was healthy in lighting (due to industrial and professional demand) and switchgears (led by property/construction upcycle).

Lloyd – EBIT loss rising despite higher scale

Lloyd sales remained strong for second quarter in a row at Rs10.8bn, up 13% QoQ and a CAGR of 18.5% over Q1FY20-23. Lloyd's EBIT loss expanded to Rs559mn (fourth consecutive quarterly loss) with a negative EBIT margin of 5.2% as it did not pass on the entire cost increase to the market. Lloyd still has high cost inventory, which will be cleared out over the next two quarters. Lloyd's core priority is to gain market share by focusing on brand, manufacturing, technology and distribution. In H1CY22, Lloyd regained market share and is likely to be amongst top three players. Lloyd will explore exports opportunities through own brand as well as white label. In washing machines, Lloyd now has complete portfolio while in refrigerator, a much larger range will be ready by end-FY23.

Key concall takeaways: (1) FY23E capex outlay is Rs7bn-Rs8bn, mainly for new AC plant. (2) Rural region forms 5% of total consumer sales. (3) Ad-spend target at 2.5-3% of annual sales.

Downgrade to REDUCE with a revised target price of Rs1,220

We expect HAVL to post 12%/13% revenue/EPS CAGR over FY22-24E. We downgrade the rating to REDUCE, as valuations are stretched while losses in Lloyd will suppress earnings.

Financial and valuation summary

YE Mar (Rs mn)	1QFY23A	1QFY22A	YoY (%)	4QFY22A	QoQ (%)	FY22A	FY23E	FY24E
Revenues	42,301	25,982	62.8	44,171	(4.2)	1,38,885	1,55,885	1,75,109
EBITDA	3,614	3,531	2.3	5,205	(30.6)	17,576	18,126	21,908
EBITDA margin (%)	8.5	13.6	(510bps)	11.8	(330bps)	12.7	11.6	12.5
Adj. Net profit	2,424	2,343	3.5	3,530	(31.3)	11,947	12,386	15,305
Adj. EPS (Rs)	3.9	3.7	3.5	5.8	(31.3)	19.1	19.8	24.4
EPS growth (%)						14.9	3.6	23.6
PE (x)						65.9	63.6	51.5
EV/EBITDA (x)						43.5	42.1	34.5
PBV (x)						13.1	11.8	10.5
RoE (%)						21.4	19.6	21.6
RoCE (%)						20.5	19.2	21.7

Source: Company, Centrum Broking

Please see Disclaimer for analyst certifications and all other important disclosures.

Result Update

India I Consumer Electricals

21 July, 2022

REDUCE

Price: Rs1,257

Target Price: Rs1,220

Forecast return: -3%

Institutional Research

Market Data

Bloomberg:	HAVL IN
52 week H/L:	1,504/1,037
Market cap:	Rs787.5bn
Shares Outstanding:	626.5mn
Free float:	40.6%
Avg. daily vol. 3mth:	9,60,122
Source: Bloomberg	

Changes in the report

Rating:	REDUCE; Downgrade from ADD
Target price:	Rs1,220; down 6.5%
EPS:	FY23E: Rs19.8; down 9.3% FY24E: Rs24.4; down 6.3%
Source: Centrum Broking	

Shareholding pattern

	Jun-22	Mar-22	Dec-21	Sep-21
Promoter	59.5	59.5	59.5	59.5
FIIIs	23.1	24.4	26.5	26.8
DIIIs	8.8	8.1	6.2	6.0
Public/other	8.6	8.0	7.9	7.7
Source: BSE				

Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q1FY23	Actual Q1FY23	Variance (%)
Revenue	37,281	42,301	13.5
EBITDA	4,433	3,614	(18.5)
EBITDA margin (%)	11.9	8.5	(340bps)
Net Profit	3,021	2,424	(19.8)
EPS	4.8	3.9	(19.8)
Source: Bloomberg, Centrum Broking			



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Consumer Electricals

Thesis Snapshot

Estimate revision

YE Mar (Rs mn)	FY23E New	FY23E Old	% chg	FY24E New	FY24E Old	% chg
Revenue	1,55,885	1,57,086	(0.8)	1,75,109	1,77,126	(1.1)
EBITDA	18,126	19,519	(7.1)	21,908	23,013	(4.8)
EBITDA margin (%)	11.6	12.4 (80bps)		12.5	13.0 (80bps)	
Adj. PAT	12,386	13,653	(9.3)	15,305	16,332	(6.3)
Diluted EPS (Rs)	19.8	21.8	(9.3)	24.4	26.1	(6.3)

Source: Centrum Broking

Havells India versus NIFTY 50

	1m	6m	1 year
HAVL IN	13.7	1.2	13.9
NIFTY 50	7.7	(5.7)	4.9

Source: Bloomberg, NSE

Key assumptions

Y/E Mar	FY23E	FY24E
Switchgears revenue growth (%)	18.0	12.0
Switchgears EBIT margin (%)	27.0	27.5
Cables revenue growth (%)	(2.0)	10.0
Cables EBIT margin (%)	10.1	11.5
Lighting revenue growth (%)	16.0	11.0
Lighting EBIT margin (%)	18.0	19.0
ECD revenue growth (%)	15.0	14.0
ECD EBIT margin (%)	15.2	15.5
Lloyd revenue growth (%)	30.0	15.0
Lloyd EBIT margin (%)	(4.0)	(2.0)

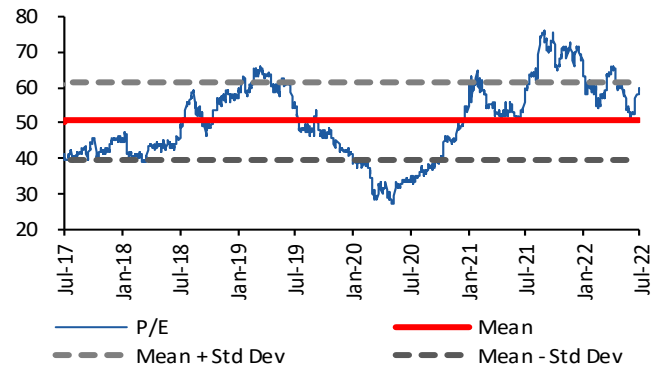
Source: Centrum Broking

Valuations

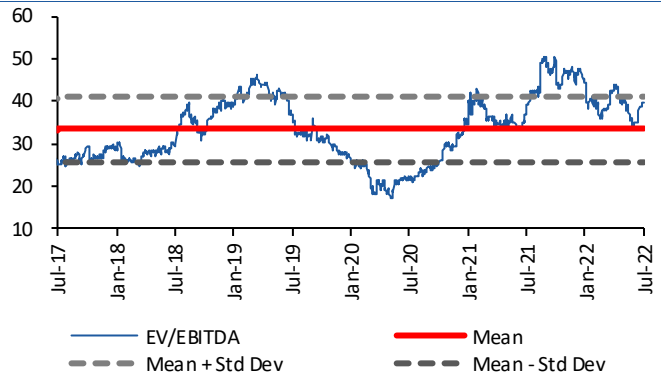
We value HAVL at 50x FY24E EPS and arrive at the target price of Rs1,220

Valuations	Rs/share
FY24 EPS	24.4
PE (x)	50
Target price per share	1,220

P/E mean and standard deviation



EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

Peer comparison

Company	Mkt Cap (Rs mn)	CAGR (FY22-24E)			P/E (x)			ROE (%)			ROCE (%)		
		Sales	EBITDA	EPS	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
BJE	1,31,733	16.7	54.6	63.7	85.8	45.9	32.0	9.1	15.2	19.2	10.5	16.2	20.0
CROMPTON	2,41,703	23.3	21.4	14.1	42.2	40.0	32.4	26.4	22.9	24.1	17.0	15.8	19.0
HAVL	7,87,259	12.3	11.6	13.2	65.9	63.6	51.5	21.4	19.6	21.6	20.5	19.2	21.7
ORIENTEL	62,175	13.4	21.9	25.0	49.1	39.5	31.4	25.4	26.5	27.8	27.6	26.9	26.3
POLYCAB	3,34,519	5.8	15.7	17.7	39.9	33.5	28.9	16.2	16.9	17.3	16.4	17.2	17.6
VGRD	96,521	13.3	20.4	19.6	42.6	36.0	29.8	17.4	17.9	18.8	17.7	18.2	19.3

Source: Company, Centrum Broking

Quarterly performance trend

Exhibit 1: Quarterly Financial Snapshot

Y/E March (Rs mn)	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	YoY (%)	QoQ (%)
Revenue	24,518	31,659	33,312	25,982	32,210	36,523	44,171	42,301	62.8	(4.2)
Direct Costs	14,655	19,592	20,841	16,713	21,175	24,730	31,223	30,039	79.7	(3.8)
Gross Profit	9,862	12,067	12,471	9,269	11,035	11,793	12,948	12,263	32.3	(5.3)
Staff Cost	2,145	2,358	2,585	2,325	2,494	2,574	2,753	3,021	29.9	9.7
Advertisement expenses	194	514	558	452	326	1,003	688	1,134	151.0	64.7
Other Expenses	3,317	4,114	4,271	2,962	3,779	3,812	4,301	4,494	51.7	4.5
Total Expenditure	20,311	26,578	28,255	22,451	27,774	32,119	38,965	38,688	72.3	(0.7)
EBITDA	4,207	5,081	5,057	3,531	4,436	4,403	5,205	3,614	2.3	(30.6)
Depreciation	591	644	650	616	623	662	707	721	17.0	1.9
EBIT	3,616	4,437	4,407	2,915	3,813	3,742	4,498	2,893	(0.8)	(35.7)
Interest	173	152	235	110	111	123	191	98	(10.9)	(48.8)
Other Income	792	392	372	342	333	488	442	470	37.4	6.4
PBT	4,236	4,677	4,544	3,148	4,035	4,107	4,749	3,266	3.7	(31.2)
Tax	987	1,186	1,521	805	1,019	1,047	1,220	841	4.5	(31.0)
PAT	3,249	3,491	3,023	2,343	3,016	3,059	3,530	2,424	3.5	(31.3)
EPS (Rs/share)	5.2	5.6	4.8	3.7	4.8	4.9	5.8	3.9	3.5	(33.2)
As a % of revenue										
Direct Costs	59.8	61.9	62.6	64.3	65.7	67.7	70.7	71.0		
Gross Margin	40.2	38.1	37.4	35.7	34.3	32.3	29.3	29.0		
Staff Cost	8.7	7.4	7.8	8.9	7.7	7.0	6.2	7.1		
Advertisement expenses	0.8	1.6	1.7	1.7	1.0	2.7	1.6	2.7		
Other expenses	13.5	13.0	12.8	11.4	11.7	10.4	9.7	10.6		
EBITDA Margin	17.2	16.0	15.2	13.6	13.8	12.1	11.8	8.5		
PAT Margin	13.3	11.0	9.1	9.0	9.4	8.4	8.0	5.7		
Tax rate	23.3	25.4	33.5	25.6	25.3	25.5	25.7	25.8		

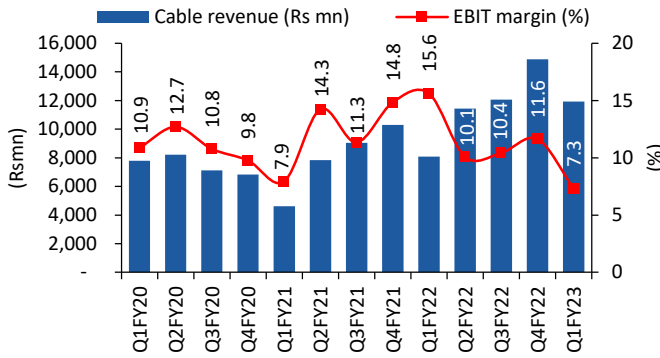
Source: Company Data, Centrum Broking

Exhibit 2: Quarterly Segmental Snapshot

Y/E March	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	YoY (%)	QoQ (%)
Revenue (Rs mn)										
Switchgears	3,703	4,371	4,633	3,734	4,426	4,960	4,744	5,167	38.4	8.9
Cables	7,847	9,052	10,292	8,072	11,440	12,058	14,881	11,929	47.8	(19.8)
Lighting & Fixtures	2,646	3,533	3,287	2,099	3,536	4,080	3,994	3,711	76.8	(7.1)
Electrical Consumer Durables	5,799	7,831	7,124	5,760	7,284	8,926	8,698	8,381	45.5	(3.6)
Lloyd Consumer	2,804	5,116	5,906	4,944	3,413	4,657	9,592	10,837	119.2	13.0
Others	1,719	1,757	2,070	1,373	2,112	1,841	2,261	2,276	65.8	0.7
Total	24,518	31,659	33,312	25,982	32,210	36,523	44,171	42,301	62.8	(4.2)
Revenue mix (%)										
Switchgears	15.1	13.8	13.9	14.4	13.7	13.6	10.7	12.2		
Cables	32.0	28.6	30.9	31.1	35.5	33.0	33.7	28.2		
Lighting & Fixtures	10.8	11.2	9.9	8.1	11.0	11.2	9.0	8.8		
Electrical Consumer Durables	23.7	24.7	21.4	22.2	22.6	24.4	19.7	19.8		
Lloyd Consumer	11.4	16.2	17.7	19.0	10.6	12.8	21.7	25.6		
Others	7.0	5.5	6.2	5.3	6.6	5.0	5.1	5.4		
EBIT (Rs mn)										
Switchgears	1,150	1,372	1,234	1,020	1,203	1,454	1,231	1,353	32.6	10.0
Cables	1,118	1,026	1,528	1,262	1,153	1,256	1,732	875	(30.7)	(49.5)
Lighting & Fixtures	521	811	680	317	773	869	617	611	92.6	(1.0)
Electrical Consumer Durables	1,172	1,405	1,090	673	1,264	1,138	1,501	1,098	63.1	(26.8)
Lloyd Consumer	51	309	318	103	(183)	(418)	(213)	(559)	NA	NA
Others	141	70	145	54	202	46	265	122	126.4	(54.1)
Total	4,152	4,994	4,994	3,429	4,412	4,344	5,133	3,500	2.1	(31.8)
EBIT margin (%)										
Switchgears	31.0	31.4	26.6	27.3	27.2	29.3	25.9	26.2		
Cables	14.3	11.3	14.8	15.6	10.1	10.4	11.6	7.3		
Lighting & Fixtures	19.7	23.0	20.7	15.1	21.9	21.3	15.4	16.5		
Electrical Consumer Durables	20.2	17.9	15.3	11.7	17.3	12.7	17.3	13.1		
Lloyd Consumer	1.8	6.0	5.4	2.1	(5.4)	(9.0)	(2.2)	(5.2)		
Others	8.2	4.0	7.0	3.9	9.6	2.5	11.7	5.4		
Total	16.9	15.8	15.0	13.2	13.7	11.9	11.6	8.3		

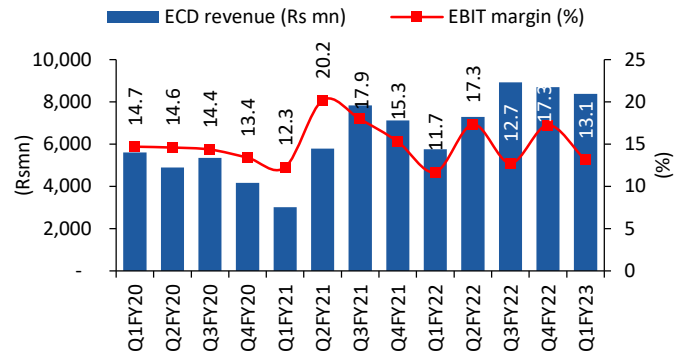
Source: Company Data, Centrum Broking

Exhibit 3: Cables revenue and EBIT margin trend



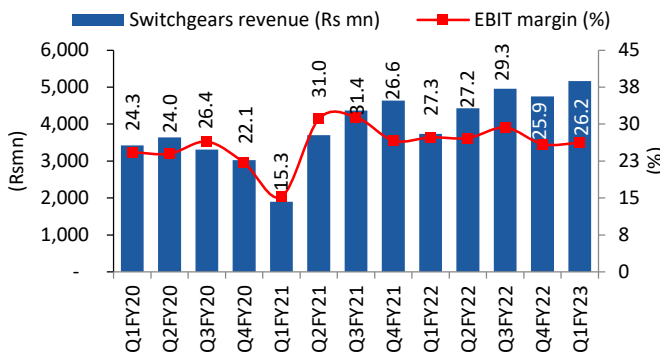
Source: Company Data, Centrum Broking

Exhibit 4: ECD revenue and margin trend



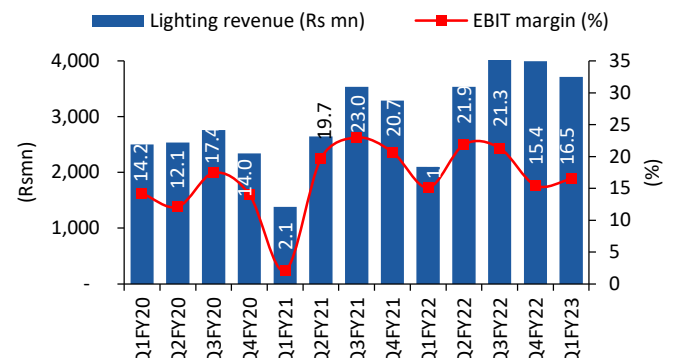
Source: Company Data, Centrum Broking

Exhibit 5: Switchgears revenue and EBIT margin trend



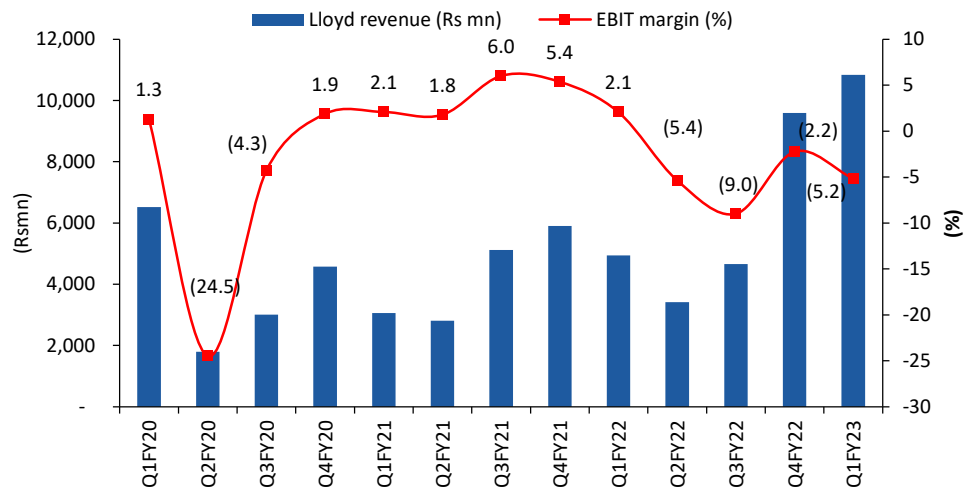
Source: Company Data, Centrum Broking

Exhibit 6: Lighting revenue and EBIT margin trend



Source: Company Data, Centrum Broking

Exhibit 7: Lloyd revenue and EBIT margin trend



Source: Company Data, Centrum Broking

P&L					
YE Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Revenues	94,292	1,04,279	1,38,885	1,55,885	1,75,109
Operating Expense	58,351	64,749	93,841	1,04,911	1,16,097
Employee cost	8,996	8,853	10,147	11,847	12,958
Others	16,671	15,024	17,322	21,002	24,145
EBITDA	10,274	15,653	17,576	18,126	21,908
Depreciation & Amortisation	2,179	2,489	2,608	2,990	3,221
EBIT	8,095	13,164	14,968	15,136	18,688
Interest expenses	197	726	534	374	299
Other income	1,120	1,878	1,604	1,790	2,065
PBT	9,017	14,316	16,038	16,552	20,454
Taxes	1,687	3,919	4,091	4,166	5,148
Effective tax rate (%)	18.7	27.4	25.5	25.2	25.2
PAT	7,330	10,396	11,947	12,386	15,305
Minority/Associates	0	0	0	0	0
Recurring PAT	7,330	10,396	11,947	12,386	15,305
Extraordinary items	0	0	0	0	0
Reported PAT	7,330	10,396	11,947	12,386	15,305
Ratios					
YE Mar	FY20A	FY21A	FY22A	FY23E	FY24E
Growth (%)					
Revenue	(6.3)	10.6	33.2	12.2	12.3
EBITDA	(13.2)	52.4	12.3	3.1	20.9
Adj. EPS	(6.9)	41.8	14.9	3.6	23.6
Margins (%)					
Gross	38.1	37.9	32.4	32.7	33.7
EBITDA	10.9	15.0	12.7	11.6	12.5
EBIT	8.6	12.6	10.8	9.7	10.7
Adjusted PAT	7.8	10.0	8.6	7.9	8.7
Returns (%)					
ROE	17.3	22.0	21.4	19.6	21.6
ROCE	17.5	21.9	20.5	19.2	21.7
ROIC	21.4	27.6	31.2	31.2	35.9
Turnover (days)					
Gross block turnover ratio (x)	3.8	3.9	4.6	4.1	4.1
Debtors	13	14	17	19	19
Inventory	119	127	109	108	106
Creditors	93	85	77	87	86
Net working capital	45	81	74	65	69
Solvency (x)					
Net debt-equity	(0.3)	(0.2)	(0.4)	(0.4)	(0.4)
Interest coverage ratio	52.1	21.5	32.9	48.5	73.2
Net debt/EBITDA	(1.1)	(0.7)	(1.2)	(1.3)	(1.4)
Per share (Rs)					
Adjusted EPS	11.7	16.6	19.1	19.8	24.4
BVPS	68.8	82.5	95.6	106.4	119.8
CEPS	15.2	20.6	23.2	24.5	29.6
DPS	4.0	6.5	7.5	9.0	11.0
Dividend payout (%)	34.1	39.1	39.3	45.5	45.0
Valuation (x)					
P/E	107.3	75.7	65.9	63.6	51.5
P/BV	18.3	15.2	13.1	11.8	10.5
EV/EBITDA	75.5	49.5	43.5	42.1	34.5
Dividend yield (%)	0.3	0.5	0.6	0.7	0.9

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Equity share capital	626	626	626	627	627
Reserves & surplus	42,422	51,019	59,260	66,008	74,421
Shareholders fund	43,048	51,645	59,886	66,634	75,048
Minority Interest	0	0	0	0	0
Total debt	0	4,922	3,955	1,226	0
Non Current Liabilities	0	0	0	0	0
Def tax liab. (net)	2,865	3,391	3,506	3,506	3,506
Total liabilities	45,913	59,958	67,348	71,366	78,554
Gross block	25,099	26,527	30,190	37,757	42,757
Less: acc. Depreciation	(6,104)	(7,920)	(9,976)	(12,966)	(16,187)
Net block	18,994	18,607	20,213	24,791	26,571
Capital WIP	828	863	568	500	500
Net fixed assets	34,356	33,802	34,907	39,417	41,197
Non Current Assets	0	0	0	0	0
Investments	16	3,079	4,277	4,277	4,277
Inventories	18,719	26,199	29,681	32,479	34,988
Sundry debtors	2,489	5,636	7,675	8,542	9,595
Cash & Cash Equivalents	11,069	16,247	25,358	25,221	31,319
Loans & advances	3,124	2,573	2,492	3,118	3,502
Other current assets	706	665	661	943	1,058
Trade payables	14,141	15,968	23,794	26,156	28,627
Other current liab.	7,969	9,117	9,986	12,159	14,009
Provisions	2,456	3,160	3,923	4,316	4,747
Net current assets	11,542	23,076	28,164	27,671	33,080
Total assets	45,913	59,958	67,348	71,366	78,554

Cashflow					
YE Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Profit Before Tax	9,017	14,316	16,038	16,552	20,454
Depreciation & Amortisation	2,179	2,489	2,608	2,990	3,221
Net Interest	197	726	534	374	299
Net Change – WC	783	(6,549)	4,025	354	690
Direct taxes	(1,989)	(3,394)	(3,976)	(4,166)	(5,148)
Net cash from operations	10,187	7,589	19,230	16,104	19,515
Capital expenditure	(5,345)	(2,136)	(3,920)	(7,500)	(5,000)
Acquisitions, net	0	0	0	0	0
Investments	0	(3,063)	(1,198)	0	0
Others	0	0	0	0	0
Net cash from investing	(5,344)	(5,199)	(5,118)	(7,500)	(5,000)
FCF	4,843	2,390	14,112	8,604	14,515
Issue of share capital	0	0	0	0	0
Increase/(decrease) in debt	(405)	4,922	(967)	(2,730)	(1,226)
Dividend paid	(3,018)	(4,069)	(4,697)	(5,639)	(6,892)
Interest paid	(197)	(726)	(534)	(374)	(299)
Others	(3,031)	2,662	1,196	0	0
Net cash from financing	(6,651)	2,789	(5,001)	(8,742)	(8,416)
Net change in Cash	(1,808)	5,178	9,111	(138)	6,099

Source: Company, Centrum Broking

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Havells India Ltd



Source: Bloomberg

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