

20 June 2024

Havells India Ltd – BUY

CMP : Rs. 1,820
Target Price : Rs. 2,200
Upside : 21%+
Stop Loss : Rs. 1,602 (Closing basis)

Investment Thesis

- Havells India Limited (HIL) has a strong presence in the cables, domestic electrical appliances and equipment market with a diversified product portfolio in switchgear, electrical consumer durables and lighting & fixture segments. It has an established market position with premium positioning of its products, considerable market share across all its key products and a strong brand recall.
- Besides 'Havells', HIL's other major brands include Crabtree, Standard, Reo, and Lloyd, which it acquired a few years back to strengthen its presence in the consumer durables business segment.
- HIL currently has ~20 product verticals across 6 brands, produced across 15 manufacturing units, and distributed through its vast dealer network of ~17,000 dealers. Apart from its operations in India, it has a presence in Africa, Middle East, Europe, Asia and The Americas.
- The Cables segment has the highest share in the Revenue Mix of 32.8%, followed by Lloyd Consumer at 20%, Electrical Consumer Durables at 19.5%, Switchgears at 12.6%, Lightning & Fixtures at 9.5% and others (Motors, Solar, Pump, Water Purifiers, Personal Grooming Products) at 5.6% as of FY23.
- Lloyd was one of the top three companies in the business in FY24, led by regaining market share in the AC sector. At the same time, the brand-new, greenfield Lloyd AC plant in Sri City, Andhra Pradesh, was put into service. This increases the ability to manufacture one million more ACs annually. With Ghiloth included, the overall capacity now stands at 2 million ACs annually.
- The government is working to improve power availability by steadily raising rural and semi-urban electrification rates and maintaining a steady supply of electricity in metropolitan areas. This has translated into better demand for electrical and consumer durable products in new and existing markets.
- HIL's strong business profile supported by its large distribution footprint, higher rural reach and diverse products will enable it to grow its TOI by around 10-13% during FY24 while earning PBILDT (profit before interest, depreciation & tax) margin in the range of 11-12% and maintaining its healthy ROCE at above 21%.

Financials

- Havells recorded revenue for FY24 at Rs. 18,590 Cr, higher by 9.9% YoY, with EBITDA up by 18.4% and PAT up by 18.6%. The growth was driven by healthy growth in lightning segment and persistent summer demand.

Particulars	FY21	FY22	FY23	FY24	FY25E
Revenue (Rs in Crs)	10,457	13,938	16,911	18,590	21,007
EBITDA (Rs in Crs)	1,776	1,934	1,799	2,130	2,407
Adj. PAT (Rs in Crs)	1,044	1,196	1,072	1,271	1,436
Adj. EPS (Rs.)	16.68	19.10	17.11	20.27	22.91
PE Multiple (x)	92.6x	80.9x	90.3x	90.8x	80.3x
RoE (%)	20%	20%	16%	17%	17%

Stock Data

Market Cap (Rs. Crs)	1,14,195
Market Cap (\$ Mn)	13,669
Shares O/S (in Mn)	627
Avg. Volume (3 month)	13,84,590
52-Week Range (Rs.)	1,987 / 1,233

Shareholding Pattern

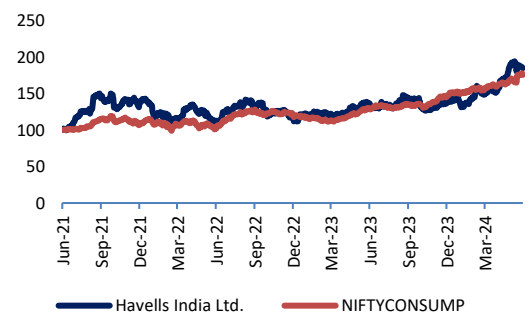
Promoters	59.43 %
FII's	24.83 %
Institutions	9.77 %
Government	0.11 %
Others (incl. body corporate)	5.85 %

Key Ratios

Div Yield	0.49%
TTM PE	91.1x
ROE	17.2%
TTM EPS (Rs.)	20.3/-

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	(0.4%)	32.3%	35.8%
NIFTYCONSUMP	4.6%	19.6%	35.5%



- Lloyd's revenue grew 12.2% YoY in FY24 despite a high base of FY23 (49.3% YoY growth in FY23).
- The switchgear, cables, and ECD segments saw moderate increase, ranging from 2-6% YoY. Cables and Lloyd had robust YoY increase in the 12-14% range. With YoY increases in dealers, retail locations, and electricians of 5.9%, 11.3%, and 19.2%, respectively, it has further reinforced its distribution network.
- Havells produced a robust free cash flow of Rs. 1,340 Cr while making significant capital expenditure commitments.

Key Business Highlights

- Havells India Limited (HIL) is a leading Fast Moving Electrical Goods (FMEG) Company and a major power distribution equipment manufacturer with a strong global presence.
- It enjoys enviable market dominance across a wide spectrum of products, including Industrial & Domestic Circuit Protection Devices, Cables & Wires, Motors, Fans, Modular Switches, Home Appliances, Air Conditioners, Electric Water Heaters, Power Capacitors, Luminaires for Domestic, Commercial and Industrial Applications.
- The company owns and operates 5 brands i.e. Havells, Crabtree, Lloyd, Standard and REO functioning in different product segments.
- In FY24, Havells commissioned its Sri City factory, with a capacity of around 1mn per year. The cable industry's capacity issues prevented it from expanding as much in FY24. In FY25, Havells plans to establish a plant in Tumkur, Karnataka, to expand its capacity for manufacturing cables. Furthermore, Havells is setting up shop in Neemrana, Rajasthan, to service demand driven by EMS. From FY14 to FY24, its gross block increased at a CAGR of 16.6%, demonstrating large manufacturing investments.
- The number of stores in the network increased to 247,000 in FY24 from about 100,000 in FY16 (12% CAGR). Over the years, Havells has concentrated on expanding its network of electricians, which has grown from 150,000 in FY16 to 298,000 in FY24. The revenue per dealer increased from Rs. 82 Cr in FY16 to Rs. 103 Cr in FY24, despite the CAGR being less than inflation.
- A wide range of industry sectors, including switchgear, lighting, fans, ECD, and Lloyd, are launching new products. The new items are high-end, innovative products with unique features. R&D makes up about 1.1% of overall revenue. Of all sales generated by new product development, 42% come from R&D.

Valuation

We estimate robust demand for FY25 due to positive traction in real estate and a strong summer season. Private and Government Capex is further expected to accelerate, thus, driving growth in Havells.

We are ascribing a **BUY** rating for Havells India with a **Target Price of Rs. 2,200** translating into an **upside of 21%**.

Risk & Concern

- Seasonality impact.
- Competitive intensity.
- Prolonged losses in Lloyd.

Graphs & Charts

Figure 1: Net Sales Trend (Rs. In Cr)

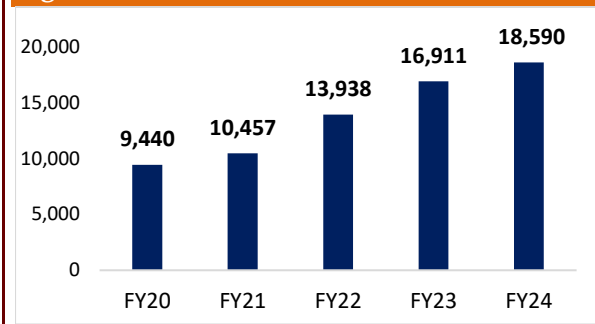


Figure 2: EBITDA & EBITDA Margin Trend

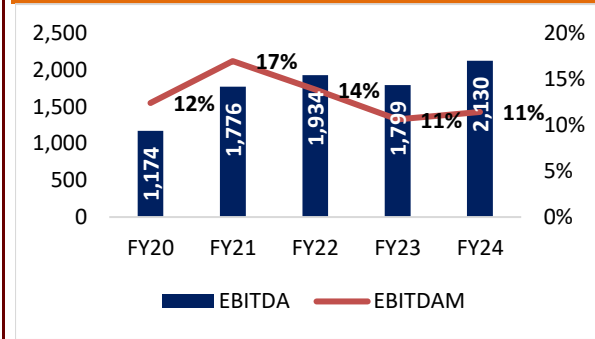


Figure 3: ROE & ROCE Trend

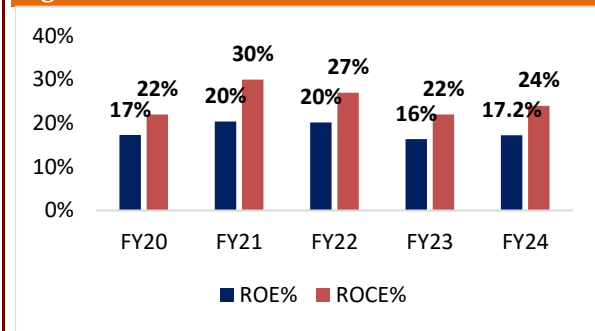
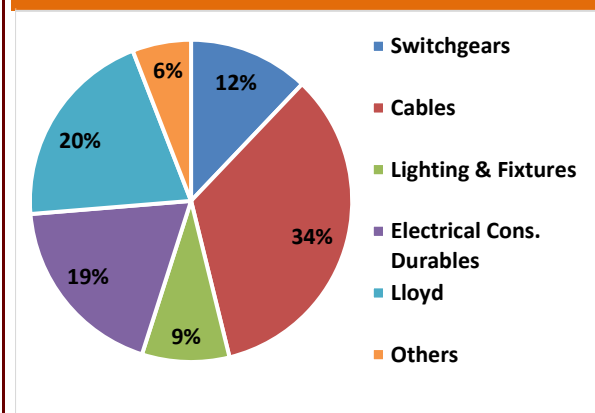


Figure 4: Revenue Split Product Segment Wise



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