

Havells India Ltd.

Nifty	18,115
Sensex	60,822

Key Stock Data

CMP	₹1285.9
Target Price	₹1450 (+12.7%)
Market Cap	₹805.4bn
52W High/ Low	1503.7/706.5
Shares o/s mn	626
Bloomberg	HAVL:IN
NSE Code	HAVELLS
BSE Code	517354

Shareholding Pattern (%)

Promoter	59.5
DII	6.0
FII	26.8
Public & Others	7.5

Particulars	FY20	FY21	1HFY22
Revenues	94,292	104,279	58,192
EBITDA	10,274	15,653	7,967
EBITDA Margin(%)	10.9	15.0	13.7
Net Profit	7,330	10,396	5,359
EPS (₹)	11.7	16.6	8.6
DPS (₹)	4.0	6.5	3.0
RoE (%)	17.3	20.5	
RoCE (%)	17.7	27.7	
P/E (x)	109.9	77.5	
EV/EBITDA (x)	86.4	57.0	
P/BV (x)	19.4	16.7	

Source: Company, Way2Wealth

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Summary

Havells India Ltd (HAVELLS) topline grew 31% YoY (+24% QoQ) to ₹32.2bn with demand recovery, low base and pricing actions prominent in cables and wires. Volume & price contributed equally to revenue growth across categories, ex-C&W, to which volumes contributed 20%. Contribution margins improved across categories expect for Cables and wires (-620bps QoQ) due to price volatility and Lloyds (-440bps QoQ) on under-absorption of overheads (revenue -31% QoQ). Despite 140bps QoQ gross margin compression, lower A&P spends (1% of revenue) and operating leverage resulted into 18bps QoQ expansion in EBITDA margins to 13.8%. The channel inventory is currently at normalised level as per the management. The company remains optimistic about demand in the ensuing quarters and is hopeful of a gradual improvement in margins. Demand is broad-based, unlike last year. Price increases will reflect with a lag and aid margins.

Key Result Highlights

- **Strong revenue growth in Q2FY22 with commodity price inflation impacting margins** – Havells Q2FY21 revenue grew 31% YoY and 24% QoQ to ₹32.2bn. Volume & price contributed equally to revenue growth across categories, ex-C&W, to which volumes contributed 20%. Revenues of Lighting & Others segments grew by 22% and 12%, respectively. Revenues of other segments came largely on expected line. Havells (ex-Lloyds) grew 33% YoY to ₹29bn while Lloyds grew 22% YoY its profitability was impacted to higher input prices, also higher capex and negative operating leverage impacted the profitability. EBITDA stood at ₹4.4bn vs. ₹4.2bn in Q2FY21. EBITDA margin stood at 13.8%, down 343bps YoY but +18 bps QoQ. Gross margin contracted by 597bps YoY due to the staggered manner in which price hikes were implemented, but it benefited from inventory gains. Cables and wires segment which has lowest EBIT margin (after Lloyd) reported 45.8% YoY revenue growth leading to revenue mix deterioration. Steep inflation, higher freight costs and delayed/ limited price hikes impacted margins. Other expenses increased 17% YoY. A&P spends stood at 1.0% of sales v/s. 3.3% in Q2FY20 and 1.7% in Q1FY22 and the management expects it to improve in 2HFY22. PAT stood at ₹3.0bn with PAT margin was 9.4% vs. 8.1% in Q2FY20 and 9% in Q1FY22
- **Switchgear** revenue grew 19% YoY to ₹4.4bn, boosted by the real-estate upcycle. EBIT margin stood at 27.2% vs. 31.0% in Q2FY21 and 24.0% in Q2FY20.
- **Cables & Wires** revenue grew 46% YoY to ₹11.4bn, with EBIT of ₹1.1bn. EBIT margin was 10.1% vs. 14.3% in Q2FY21 and 12.7% in Q2FY20.
- **Lighting** revenue grew 34% YoY to ₹3.5bn, supported by new launches and increased penetration. EBIT margins were 21.9%, up 219bps yoy and 677bps QoQ.
- **ECD** which largely comprises fans, water heaters and domestic appliances, the revenue grew 26% YoY to ₹7.3bn with EBIT of ₹1.3bn vs. ₹1.2bn in Q2FY21. EBIT margin stood at 17.3% vs. 20.2% in Q2FY21 and 14.6% in Q2FY20.
- **Lloyds** Q2FY22 revenue was at ₹3.4bn with growth of 22% YoY. The segment saw a net operating loss of ₹183mn, impacted by high competition (restricted adequate price hikes) and lower production. In ACs, two consecutive bad seasons and higher inventory led to a hyper competitive environment and pricing pressure. Outlook remains strong. The management continues to focus on market share gains. There was good acceptance of new washing machine and refrigerators models from the trade channels. Inventory levels across products (ex. ACs) are at a normalised level. Festive season: Trade is positive, expect strong festive demand.
- **The management maintained its positive outlook** – In Q2FY22, Havells saw healthy growth across business verticals as it added new customers and broad based demand channels. Switchgear benefitted from an uptick in real estate while Cables and Wires sales growth was driven by 45% YoY growth in copper prices. It saw an increase conversion in projects and B2B and expects industrial and infra segments to remain

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strong. While commodity prices seem to be easing (Copper: -2% QoQ in Q2FY22), staggered price increases impacted margins.

- **Others** – Q4FY21 and Q1FY22 saw high inventory levels with stocking for seasonal categories and lost summer sales and hence working capital days were at elevated levels. Inventory levels eased to 77 days in Sep'21 (v/s 92 days in Q4FY21/Q1FY22), though still higher than 65 days in Sep'19 and Sep'20. Creditor days, however, normalised to 55 days vs. 42 days in Q1FY22 (truncated quarter). As a result, working capital levels reverted to 36 days leading to 105% YoY growth in Operating cash flow (OCF) to ₹11.1bn. In 1HFY22, Havells incurred ₹1.4bn capex largely towards Washing Machine Greenfield project and expansion of water heater facility. Net cash stood at ₹20.9bn vs. ₹14.1bn in Q2FY21.

View

The company reported strong performance in Q2FY22 but the margins were impacted YoY due to revenue mix deterioration, steep commodity inflation and lag effect of price hikes. The company benefitted from revival in economy and higher infrastructure spending. In the short term, lower channel inventory and festive season should rev up primary billing. The management remains optimistic about demand in the ensuing quarters as more construction activity, healthy demand from tier 2/3 cities gaining market share from unorganised players enable a gradual improvement in margins. For Lloyds, the expectation are of improved distribution network, pricing strategies, completion of appliances portfolio and benefits from own domestic manufacturing and PLI. The company has maintained its outperformance streak with strong revenue delivery across product categories. Demand recovery across product segments is encouraging despite price inflation. The B2B categories, which were impacted more by Covid-led disruptions, have started to see green-shoots, implying continued revenue growth in the coming quarters amid the high base of 2HFY21, although at a lower rate. Volume growth in 2HFY22 in B2C categories would be key to watch out for. EBITDA delivery in 2HFY22 is expected to be moderate as costs are getting normalized and 2HFY21 had benefit of high gross margin and lower opex. Partial pass through of cost inflation may impact margins in the short term. **Considering the long terms gain the shareholders can accrue from the growth prospects, we continue to view it as ACCUMULATE with fair value of ₹1450-1470 trading at P/E 52x FY23E EPS of ₹24.6.**

Financial Performance

(₹ mn)								
Particulars	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	1HFY22	1HFY21	YoY (%)
Revenues	32,210	24,518	31.4	25,982	24.0	58,192	39,309	48.0
Raw material costs	21,175	14,655	44.5	16,713	26.7	37,888	24,316	55.8
Staff costs	2,494	2,145	16.3	2,325	7.3	4,819	3,910	23.3
Advertisement Spend	326	194	67.8	452	(27.9)	777	255	204.8
Other expenses	3,779	3,317	13.9	2,962	27.6	6,741	5,313	26.9
EBITDA	4,436	4,207	5.5	3,531	25.6	7,967	5,515	44.5
EBITDA Margin (%)	13.8	17.2	(343)bps	13.6	18bps	13.7	14.0	(31)bps
Depreciation	623	591	5.5	616	1.2	1,239	1,195	3.7
Interest costs	111	173	(35.8)	110	1.5	221	340	(35.1)
Other income	333	792	(58.0)	342	(2.7)	675	1,114	(39.4)
PBT	4,035	4,235	(4.7)	3,148	28.2	7,182	5,094	41.0
Tax	1,019	987	3.2	805	26.6	1,824	1,213	50.3
Net Profit	3,016	3,248	(7.2)	2,343	28.7	5,359	3,881	38.1
EPS (₹)	4.8	5.2		3.7		8.6	5.7	

Source: Company, Way2Wealth

Segmental Performance

(₹ mn)												
Revenue	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	YoY (%)	QoQ (%)
Switchgear	3,419	3,638	3,309	3,027	1,902	3,703	4,371	4,633	3,734	4,426	19.5	18.5
Cables & Wires	7,785	8,213	7,121	6,823	4,611	7,847	9,052	10,292	8,072	11,440	45.8	41.7
Lighting & Fixtures	2,504	2,536	2,760	2,343	1,380	2,646	3,533	3,297	2,099	3,536	33.6	68.4
Electrical Consumer Durable (ECD)	5,616	4,902	5,359	4,177	3,017	5,799	7,831	7,124	5,760	7,284	25.6	26.5
Lloyd Electric	6,520	1,800	3,004	4,579	3,062	2,804	5,116	5,906	4,944	3,413	21.7	(31.0)
Other	1,282	1,217	1,146	1,213	820	1,719	1,757	2,070	1,373	2,112	22.8	53.8
Total	27,126	22,306	22,698	22,162	14,792	24,518	31,660	33,322	25,982	32,210	31.4	24.0

Source: Company, Way2Wealth

Revenue Mix (%)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	
Switchgear	12.6	16.3	10.5	13.7	12.9	15.1	13.8	13.9	14.4	17.0	
Cables & Wires	28.7	36.8	22.5	30.8	31.2	32	28.6	30.9	31.1	44.0	
Lighting & Fixtures	9.2	11.4	8.7	10.6	9.3	10.8	11.2	9.9	8.1	13.6	
Electrical Consumer Durable (ECD)	20.7	22	16.9	18.8	20.4	23.7	24.7	21.4	22.2	28.0	
Lloyd Electric	24	8.1	9.5	20.7	20.7	11.4	16.2	17.7	19.0	13.1	
Other	4.7	5.5	3.6	5.5	5.5	7.0	5.5	6.2	5.3	8.1	

Source: Company, Way2Wealth Inst Equity

(₹ mn)												
Segment-wise contribution	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	YoY (%)	QoQ (%)
Switchgear	830	875	875	670	291	1,150	1,372	1,234	1,020	1,203	4.6	17.9
Cables & Wires	845	1,043	767	666	366	1,118	1,026	1,528	1,262	1,153	3.1	(8.7)
Lighting & Fixtures	357	308	480.8	329	29	521	811.4	680	317	773	48.4	143.9
Electrical Consumer Durable (ECD)	823	717	770	560	370	1,172	1,405	1,090	673	1,264	7.8	87.7
Lloyd Electric	82	(440)	(128)	85	64	51	309	318	103	(183)	(458.2)	(278.1)
Other	-54	(109)	(91)	(13)	(46)	141	703	145	54	202	43.5	276.2
Total	2,883	2,394	2,673	2,297	1,074	4,153	5,627	4,994	3,429	4,412	6.2	28.7

Source: Company, Way2Wealth

Segment-wise EBIT margin (%)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	
Switchgear	24.3	24.1	39.8	22.1	15.3	31.1	31.4	26.6	27.3	27.2	
Cables & Wires	10.9	12.7	17.5	9.8	7.9	14.2	11.3	14.8	15.6	10.1	
Lighting & Fixtures	14.3	12.1	30.6	14.0	2.1	19.7	23.0	20.6	15.1	21.9	
Electrical Consumer Durable (ECD)	14.7	14.6	24.5	13.4	12.3	20.2	17.9	15.3	11.7	17.3	
Lloyd Electric	1.3	(24.4)	7.9	1.9	2.1	1.8	6.0	5.4	2.1	(5.4)	
Other	(4.2)	(9.0)	55.1	(1.1)	(5.6)	8.2	40.0	7.0	3.9	9.6	

Source: Company, Way2Wealth

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Name of the Security	Havells India Ltd.
Name of the analyst	Jayakanth Kasthuri
Analysts' ownership of any stock related to the information contained	No
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
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