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## Havells India

**BUY**  
Maintained

Rural distribution initiatives to be key growth driver next decade

**Rs1,167**

Rural markets are just 5-6% of Havells Consumer sales. With improving availability of electricity, India's rural markets offer huge growth tailwinds to Havells. In order to tap the opportunity, the company commenced *Rural Vistaar* project four years ago. It has resulted in expansion of its rural coverage to 3,000 towns (44% CAGR over FY19-FY22) with populations of 10k-50k and availability of its products through 40,000 outlets (49% CAGR over FY20-FY22). It has also commenced the rollout of *Utsav* stores to towns with populations of <10,000. After a pilot of >50 *Utsav* stores in FY22, the company plans to roll out 1,000 such stores in FY23. We believe it is also focusing more on its value-for-money brand *REO* to cater to the rural markets. We believe the benefits of these investments will pave the way for strong growth in next decade and will be DCF-accretive.

We remain structurally positive on Havells due to its competitive advantages and the overall growth opportunity in consumer durables. We model Havells to report revenue and PAT CAGRs of 20.6% and 21.4% respectively over FY22-FY24E. Maintain BUY with a DCF-based target price of Rs1,550 (implied 55x FY24E EPS).

- **Rural Vistaar project:** Rural markets generate 5-6% of its consumer revenues for Havells. Company rolled out its *Rural Vistaar* project four years ago to expand distribution and improve sales in rural areas. This project aims to reach 3,000 towns with populations between 10k-50k.
- **Expansion of distribution in rural markets:** Havells is present in 3,000 towns through 40,000 outlets as of FY22 vs 1,000 towns through 3,000 outlets in FY19 and 18,000 outlets in FY20. We note the increase in rural outlets helped Havells immensely during the covid-impacted years of FY21 and FY22.
- **To steadily introduce Utsav stores:** As Havells has covered 3,000 towns with populations between 10k-50k, it is now planning to expand its distribution network in towns with populations of <10,000. It plans to rollout *Utsav* stores, which will act as the dealer / outlet in these smaller towns. It has rolled out >50 *Utsav* outlets as pilot in FY22 and plans to add another 1,000 outlets in FY23.
- **Focus on REO brand:** While *Crabtree* brand caters to designer and high-end consumers, and *Havells* and *Standard* brands to the mass-premium segment, we believe the company is focusing more on *REO* brand in smaller cities and rural markets. *REO* is aimed at value-for-money consumers.
- **Maintain BUY:** We model Havells to report a PAT CAGR of 21.4% and RoE to be upward of 17%, over FY22-FY24E. We remain positive on the company's business model due to strong moats and growth opportunities. Maintain **BUY** with a DCF-based target price of Rs1,550 (implied P/E 55x FY24E).

Market Cap	Rs731bn/US\$8.8bn	Year to March	FY21	FY22	FY23E	FY24E
Reuters/Bloomberg	HVEL.BO/HAVL IN	Revenue (Rs mn)	1,04,573	1,39,385	1,75,966	2,02,791
Shares Outstanding (mn)	626.5	Adj. Net Profit (Rs mn)	10,443	11,965	11,587	17,619
52-week Range (Rs)	1406/1070	Dil. Rec. EPS (Rs)	16.7	19.1	18.5	28.2
Free Float (%)	40.5	% Chg YoY	42.0	14.6	(3.2)	52.1
FII (%)	23.5	P/E (x)	69.9	61.0	63.0	41.4
Daily Volume (US\$'000)	12,309	CEPS (Rs)	20.7	23.3	23.0	33.0
Absolute Return 3m (%)	(15.7)	EV/EBITDA (x)	45.0	40.2	41.5	28.8
Absolute Return 12m (%)	(15.8)	Dividend Yield (%)	0.3	0.6	0.8	0.9
Sensex Return 3m (%)	3.5	RoCE (%)	24.2	22.7	19.4	26.5
Sensex Return 12m (%)	7.1	RoE (%)	20.7	20.2	17.4	23.5

Please refer to important disclosures at the end of this report

### Company Update

## White Goods & Durables

Target price Rs1,550

### Shareholding pattern

(%)	Mar '22	Jun '22	Sep '22
Promoters	59.5	59.5	59.5
Institutional investors	32.6	32.1	32.1
MFs and others	3.6	4.2	3.7
Banks/Ins. Co.	4.5	4.7	4.9
FII	24.5	23.2	23.5
Others	7.9	8.4	8.4

Source: BSE

### ESG disclosure score

Year	2020	2021	Chg
ESG score	65.1	56.7	(8.4)
Environment	61.2	45.7	(15.5)
Social	42.8	33.2	(9.6)
Governance	91.1	91.1	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

### Research Analyst:

#### Aniruddha Joshi

Aniruddha.joshi@icicisecurities.com  
+91 22 6807 7249

#### Manoj Menon

manoj.menon@icicisecurities.com  
+91 22 6807 7209

#### Karan Bhuvania

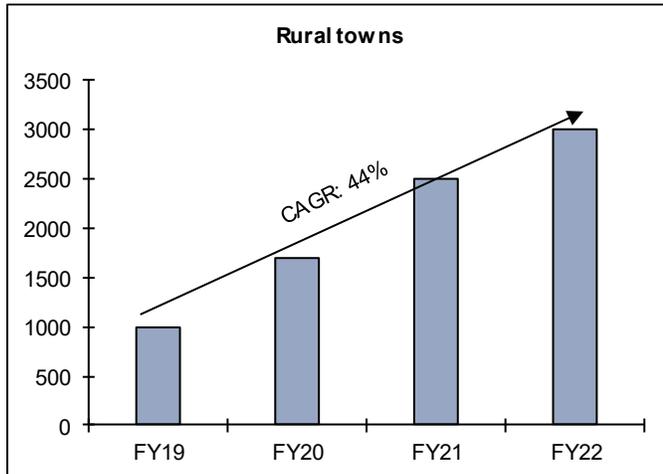
karan.bhuvania@icicisecurities.com  
+91 22 6807 7351

#### Pranjal Garg

pranjal.garg@icicisecurities.com  
+91 22 6807 7650

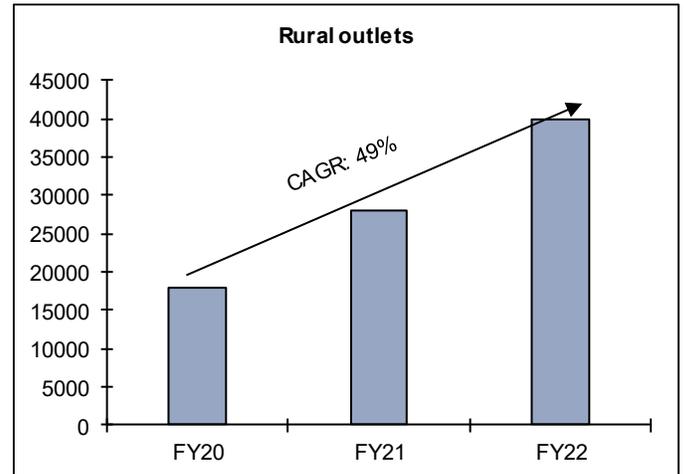
## Analysing rural distribution initiatives

Chart 1: Strong growth in reach to rural towns...



Source: Company data, I-Sec research

Chart 2: ...leading to growth in rural outlets



Source: Company data, I-Sec research

**To steadily introduce *Utsav* stores:** As Havells has covered 3,000 towns with populations between 10k-50k, it is now planning to expand its distribution network in towns with populations of <10,000. It plans to rollout *Utsav* stores, which will act as the dealer / outlet in these smaller towns. It has rolled out >50 *Utsav* outlets as pilot in FY22 and plans to add another 1,000 outlets in FY23.

Chart 3: *Utsav* stores introduced by Havells



Source: Company data, I-Sec research.

**Chart 4: Expansion of Utsav store network in FY23**



Source: Company data, I-Sec research

**Focus on REO brand:** While *Crabtree* brand caters to designer and high-end consumers, and *Havells* and *Standard* brands to the mass-premium segment, we believe the company has focused more on *REO* brand in smaller cities and rural markets. *REO* is aimed at value-for-money consumers.

The company has gradually increased its product offerings. Apart from consumer lighting, switchgear and wires, the company has introduced fans and domestic appliances. The inverter bulbs are also showing healthy traction in rural markets.

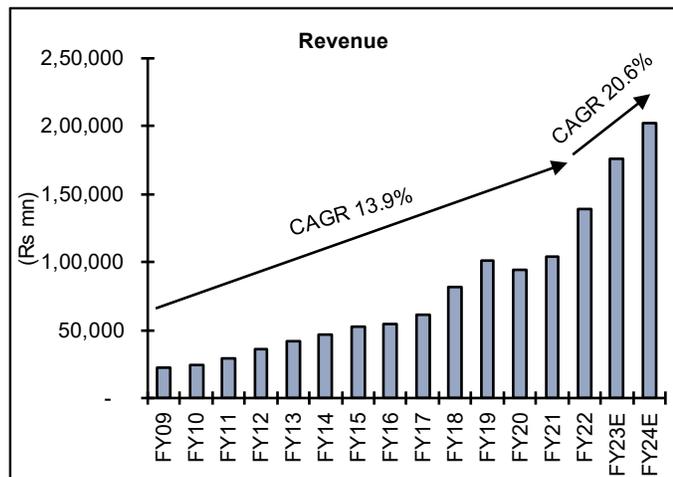
**Chart 5: Focus on REO brand**



Source: Company data, I-Sec research

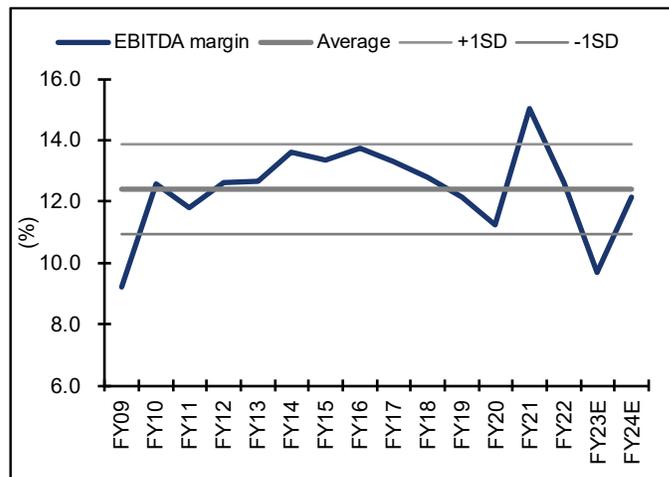
### Key ratios – Annual

**Chart 6: Revenue and revenue growth**



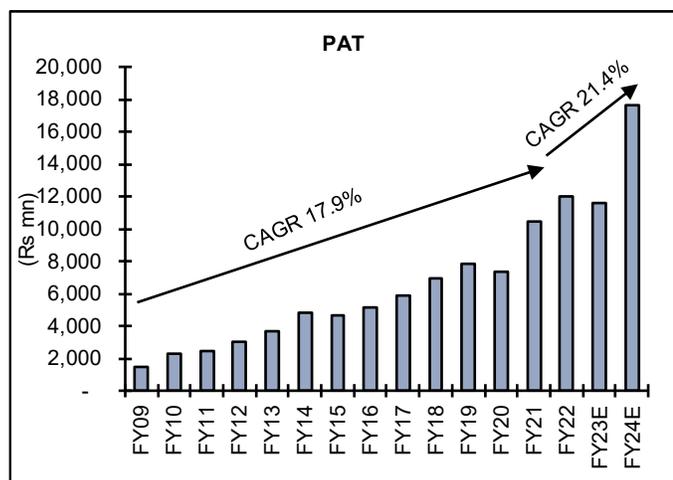
Source: Company data, I-Sec research

**Chart 7: EBITDA margin**



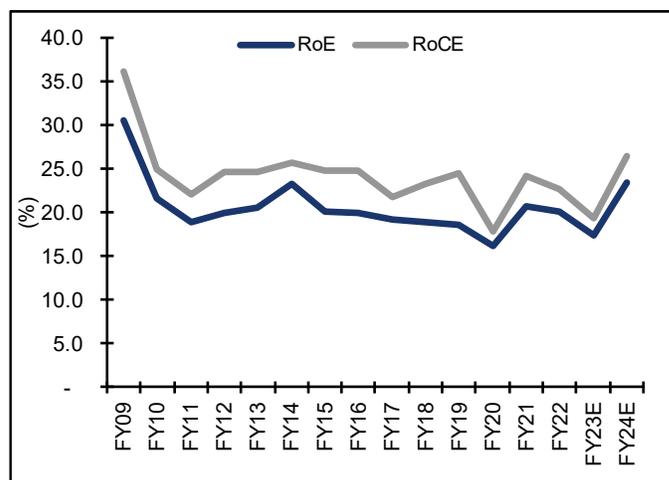
Source: Company data, I-Sec research

**Chart 8: PAT and PAT growth**



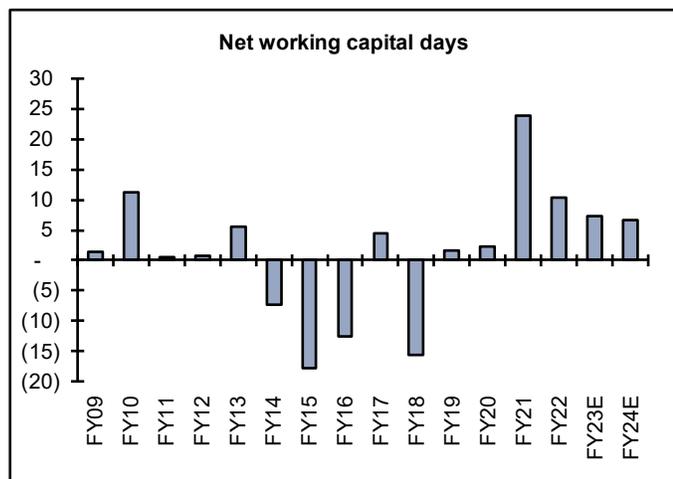
Source: Company data, I-Sec research

**Chart 9: RoE and RoCE**



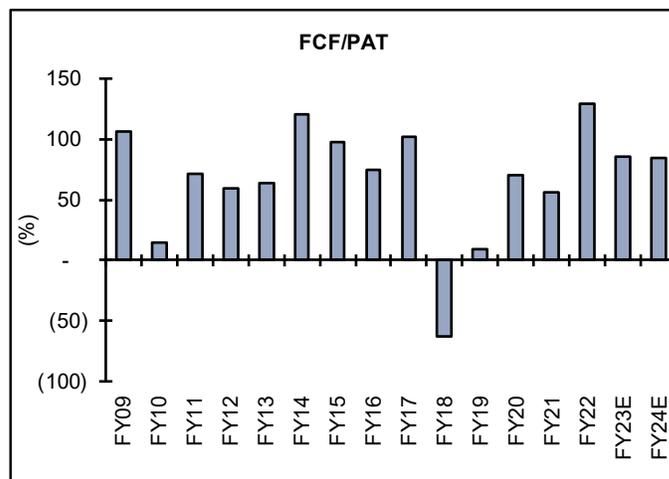
Source: Company data, I-Sec research

**Chart 10: Net working capital days**



Source: Company data, I-Sec research

**Chart 11: FCF/PAT (%)**



Source: Company data, I-Sec research

## Valuation and risks

We model Havells to report revenue and PAT CAGRs of 20.6% and 21.4% over FY22-FY24E and RoCE to move to 26.5% in FY24E from 22.7% in FY22. At our DCF-based target price of Rs1,550, the implied P/E works out to 55x FY24E EPS. Maintain **BUY**.

**Table 1: DCF-based valuation**

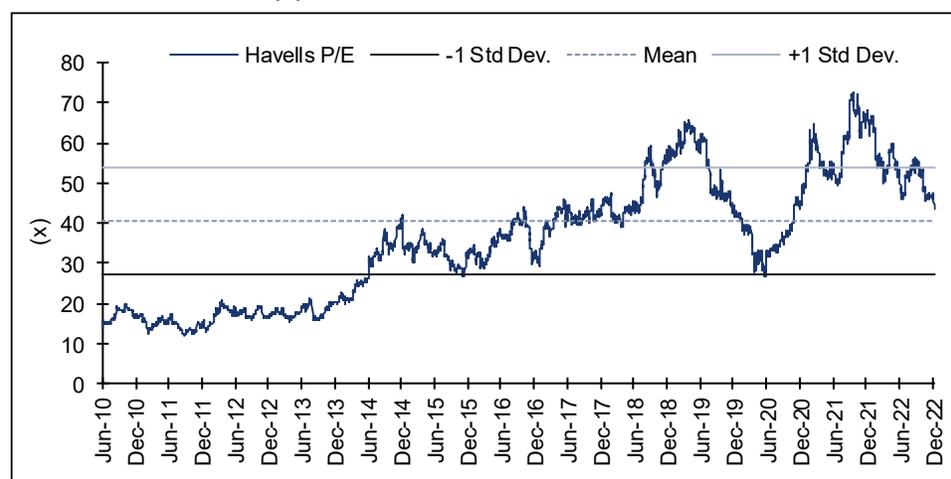
Particulars	Amt (Rs)
Cost of Equity (%)	12.0
Terminal growth rate (%)	4.0
Discounted interim cash flows (Rs mn)	4,03,421
Discounted terminal value (Rs mn)	5,66,569
Total equity value (Rs mn)	9,69,990
<b>Value per share (Rs)</b>	<b>1,550</b>

Source: Company data, I-Sec research

## Mean P/E and standard valuation

The stock has traded at an average P/E of 39x over the past 10 years. Considering the strong earnings growth now and improving return ratios, we expect it to trade at a premium to its historical average.

**Chart 12: Mean P/E (x) and standard deviation**



Source: Company data, I-Sec research

## Risks

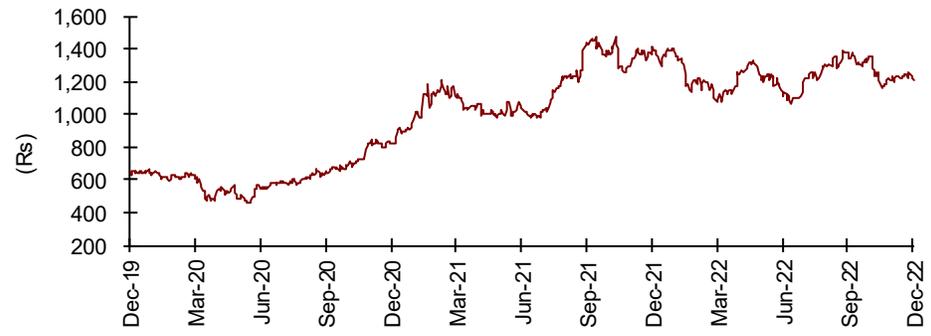
### Sharp increase in input prices and competitive pressures

Major increase in input prices and/or competitive pressures will likely result in downside to our estimates.

### Delays in launch of new plants/products

Any delays in launch of new products and/or plants may result in lower earnings than estimated.

**Price chart**



Source: Bloomberg

## Financial summary

Table 2: Profit &amp; Loss statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
<b>Net Sales</b>	<b>1,04,573</b>	<b>1,39,385</b>	<b>1,75,966</b>	<b>2,02,791</b>
<b>Operating Expenses</b>	<b>86,422</b>	<b>1,19,668</b>	<b>1,55,423</b>	<b>1,74,140</b>
<b>EBITDA</b>	<b>15,718</b>	<b>17,604</b>	<b>17,024</b>	<b>24,595</b>
% margins	15.0	12.6	9.7	12.1
Depreciation & Amortisation	2,489	2,609	2,819	3,049
Gross Interest	727	534	528	268
Other Income	1,874	1,604	1,814	2,276
<b>Recurring PBT</b>	<b>14,376</b>	<b>16,066</b>	<b>15,491</b>	<b>23,555</b>
Less: Taxes	3,932	4,101	3,904	5,936
Less: Minority Interest	-	-	-	-
<b>Net Income (Reported)</b>	<b>10,443</b>	<b>11,965</b>	<b>11,587</b>	<b>17,619</b>
Extraordinaries (Net)	(16)	62	-	-
<b>Recurring Net Income</b>	<b>10,427</b>	<b>12,027</b>	<b>11,587</b>	<b>17,619</b>

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
<b>Assets</b>				
Total Current Assets	50,142	64,531	67,196	62,186
of which cash & cash eqv.	16,528	25,480	19,736	7,752
Total Current Liabilities & Provisions	26,788	35,102	43,992	50,698
<b>Net Current Assets</b>	<b>23,353</b>	<b>29,430</b>	<b>23,204</b>	<b>11,488</b>
Investments	7,682	8,897	18,897	38,897
Net Fixed Assets	29,800	31,231	33,984	36,435
Capital Work-in-Progress	899	572	-	-
<b>Total Assets</b>	<b>61,734</b>	<b>70,131</b>	<b>76,086</b>	<b>86,821</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>6,580</b>	<b>6,596</b>	<b>6,596</b>	<b>6,596</b>
<b>Deferred Tax Liability</b>	<b>3,391</b>	<b>3,506</b>	<b>3,506</b>	<b>3,506</b>
Minority Interest	-	-	-	-
Equity Share Capital	626	626	626	626
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	51,137	59,403	65,358	76,093
Less: Misc. Exp. n.w.o.	-	-	-	-
<b>Net Worth</b>	<b>51,763</b>	<b>60,029</b>	<b>65,984</b>	<b>76,719</b>
<b>Total Liabilities</b>	<b>61,734</b>	<b>70,131</b>	<b>76,086</b>	<b>86,821</b>

Source: Company data, I-Sec research

Table 4: Quarterly trend

(Rs mn, year ending March 31)

	Dec 21	Mar 22	June 22	Sept 22
Net sales	36,642	44,263	42,445	36,795
% growth (YoY)	15.4	32.6	62.6	13.6
EBITDA	4,402	5,199	3,615	2,869
Margin (%)	12.0	11.7	8.5	7.8
Other income	488	441	476	438
Extraordinaries (Net)	(9)	89	(10)	(12)
Adjusted Net profit	3,049	3,614	2,422	1,858

Source: Company data, I-Sec research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
<b>Operating Cashflow</b>	<b>14,039</b>	<b>14,754</b>	<b>14,406</b>	<b>20,668</b>
Working Capital Changes	(7,003)	3,236	482	(268)
Capital Commitments	(1,227)	(2,490)	(5,000)	(5,500)
<b>Free Cashflow</b>	<b>5,809</b>	<b>15,499</b>	<b>9,889</b>	<b>14,900</b>
<b>Cashflow from Investing Activities</b>	<b>(7,296)</b>	<b>(6,051)</b>	<b>(10,000)</b>	<b>(20,000)</b>
Issue of Share Capital	98	312	-	-
Inc (Dec) in Borrowings	4,136	(1,467)	-	-
Dividend paid	(1,878)	(4,071)	(5,632)	(6,884)
<b>Change in Deferred Tax Liability</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Chg. in Cash &amp; Bank balance</b>	<b>869</b>	<b>4,212</b>	<b>(5,744)</b>	<b>(11,984)</b>

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

	FY21	FY22	FY23E	FY24E
<b>Per Share Data (Rs)</b>				
EPS	16.7	19.1	18.5	28.2
Cash EPS	20.7	23.3	23.0	33.0
Dividend per share (DPS)	3.5	7.5	9.0	11.0
Book Value per share (BV)	88.1	101.5	111.0	128.2
<b>Growth (%)</b>				
Net Sales	10.8	33.3	26.2	15.2
EBITDA	48.2	12.0	(3.3)	44.5
PAT	42.0	14.6	(3.2)	52.1
DPS	35.6	12.7	(1.1)	43.5
<b>Valuation Ratios (x)</b>				
P/E	69.9	61.0	63.0	41.4
P/CEPS	56.5	50.1	50.7	35.3
P/BV	13.2	11.5	10.5	9.1
EV / EBITDA	45.0	40.2	41.5	28.8
EV / Sales	6.8	5.1	4.0	3.5

**Operating Ratios**

Raw Material / Sales (%)	62.1	67.6	68.4	64.5
Employee cost / Sales (%)	8.5	7.3	7.5	7.5
SG&A / Sales (%)	2.3	2.5	2.7	2.7
Other Income / PBT (%)	13.0	10.0	11.7	9.7
Effective Tax Rate (%)	27.4	25.5	25.2	25.2
Working Capital (days)	23.8	10.3	7.2	6.7
Inventory Turnover (days)	91.4	77.7	76.7	76.7
Receivables (days)	19.7	20.1	18.3	18.3
Payables (days)	84.5	85.3	84.0	84.0
Net D/E (x)	(0.2)	(0.4)	(0.4)	(0.4)

**Profitability Ratios (%)**

Net Income Margins	10.0	8.6	6.6	8.7
RoACE	24.2	22.7	19.4	26.5
RoAE	20.7	20.2	17.4	23.5
Dividend Payout	21.0	39.2	48.6	39.1
Dividend Yield	0.3	0.6	0.8	0.9
EBITDA Margins	15.0	12.6	9.7	12.1

Source: Company data, I-Sec research

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