**Havells India (HAVL IN)**

**Rating:** ACCUMULATE | CMP: Rs1,404 | TP: Rs1,538

**Healthy growth in Cable & Lloyd to continue**

We introduce FY26 estimates and downgrade the stock to ‘Accumulate’ from Buy with revised DCF based TP of Rs1,538, implied PE of 49x at Sep’25E earning (Rs1,460 earlier). We met management of Havells India (HAVL IN) to gauge their festive demand, impact of dry monsoon on seasonal products in some parts of India, competitive scenario and inventory level in channels. HAVL expects healthy double digit growth in Cables, Switchgears and Lloyd businesses in forthcoming years. But immediate growth driver will be its B2B portfolio. The company’s ongoing efforts are directed towards achieving EBITDA margin of 13%-15% (ex-Lloyd), while actively working to reduce losses in the Lloyd segment over the next few quarters, though it will take time to reach desired levels, in our view. We expect Revenue/EBITDA/PAT CAGR of 14.1%/24.4%/27.5% over FY23-26E. Downgrade to ‘Accumulate’.

**Key takeaways:**

- **ECD business - expect sequential improvement:** Demand within ECD segment (primarily catering to B2C) continues to face challenges due to sluggish consumer demand, inflationary pressures and offseason for fans, which account for 65% of ECD revenue. However, there has been recent improvement in secondary sales of seasonal products, driven by dry monsoon season, resulting in channel inventory levels returning to normal. The company refrained from implement price hikes during the quarter due to increase in competitive intensity, particularly in premium/BLDC portfolio (representing over 15% of fan revenue). HAVL expects improvement in appliance business (~20% of ECD revenue) in the upcoming festive season and has proactively increased inventory levels to meet this expected demand. ECD segment is expected to show sequential improvement in growth as well as margins in Q2FY24.

- **Wire & Cable business - expect 17.3% CAGR over FY23-26E:** HAVL continues to see healthy traction in its W&C segment with stability in RM prices, particularly within the wire segment. Capacity constraint in cable business has been addressed through greenfield expansion for LT cable in Karnataka, which will be operational by Mar-24 (having potential to generate Rs 5bn). W&C segment is expected to report revenue CAGR of 16.9% over FY23-26E. Furthermore, as RM prices trend downwards there is expectation of margin improvements.

- **Lloyd business – healthy growth to continue:** Being weak season for RAC (~70% of Lloyd revenue), the company is not expecting major improvement in volume in Q2FY24. However, due to dry monsoon in some parts of India, improvement in secondary sales has normalized the channel inventory. Competitive intensity at high level, resulted in no price hike for Lloyd. With the start of Sri City facility, company has received benefit of logistics cost reduction (>2% cost), better inventory management and market share improvement in South India with product availability & better promotional offers. The company is majorly focused on volume & brand creation for near term in Lloyd and long term focus is to minimize losses.
- HAVL expanded its RAC capacity from around 1mn units at Ghiloth plant to 2.12mn units with addition of 1.12mn units at Sri City plant.
- HAVL is looking for export opportunity of AC to neighboring countries & USA/UK to utilize Sri City facility near the port; export has better margin vs domestic market.
- HAVL has total capacity of 0.68mn units of washing machines, which is mix of semi-automatic and top load automatic washing machine units.
- The company is setting-up a new facility to manufacture Refrigerators in Ghiloth, planned capacity of 1mn units which will be operational by Q1FY26. This manufacturing will reap the benefits of backward integration and economies of scale in coming years.
- Lighting segment - B2C continues to be soft: Lighting segment was impacted with deflationary trend in LED segment in Q1FY24, which has seen sign of upward trend with focus on premium products. HAVL’s B2B lighting portfolio (~35% revenue) continues to see strong traction.
- Capex is expected to be ~Rs 6bn in FY24. This includes 1) Rs 3bn for greenfield facility of LT cable in Karnataka, 2) Rs 1.5bn for expansion of Lloyd’s washing machine manufacturing and 3) a portion designated for refrigerator production facilities in Ghiloth.
Exhibit 5: EBITDA margin to improve 280bps over FY23-26E

<table>
<thead>
<tr>
<th>FY21</th>
<th>FY22</th>
<th>FY23</th>
<th>FY24E</th>
<th>FY25E</th>
<th>FY26E</th>
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<tr>
<td>16</td>
<td>18</td>
<td>16</td>
<td>20</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>15%</td>
<td>13%</td>
<td>9%</td>
<td>10%</td>
<td>11%</td>
<td>12%</td>
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EBITDA (Rs bn)  
Margin (RHS)

Exhibit 6: Estimated PAT CAGR of 27.5% over FY23-26E

<table>
<thead>
<tr>
<th>FY21</th>
<th>FY22</th>
<th>FY23</th>
<th>FY24E</th>
<th>FY25E</th>
<th>FY26E</th>
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<tr>
<td>10.4</td>
<td>12.0</td>
<td>10.7</td>
<td>13.9</td>
<td>17.5</td>
<td>22.2</td>
</tr>
<tr>
<td>10.0%</td>
<td>8.6%</td>
<td>6.3%</td>
<td>7.2%</td>
<td>7.9%</td>
<td>8.6%</td>
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PAT (Rs bn)  
Margin (RHS)

Source: Company, PL

Exhibit 7: Durables companies’ valuation

<table>
<thead>
<tr>
<th>Company Names</th>
<th>M Cap (Rs bn)</th>
<th>CMP (Rs)</th>
<th>Rating</th>
<th>Target Price (Rs) FY23</th>
<th>PER (x) FY23</th>
<th>Target Price (Rs) FY24E</th>
<th>PER (x) FY24E</th>
<th>Target Price (Rs) FY25E</th>
<th>PER (x) FY25E</th>
<th>RoCE (%) FY23</th>
<th>RoCE (%) FY24E</th>
<th>EPS CAGR (%) FY23-FY25E</th>
<th>EPS CAGR (%) FY23-FY25E</th>
<th>Return Expectation</th>
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<td>KEI Industries</td>
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<td>RR Kabel</td>
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<td>BUY</td>
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<td>HOLD</td>
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<td>Polycab India</td>
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<td>28.5</td>
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<td>Crompton</td>
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<tr>
<td>Bajaj Electricals</td>
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<td>Accum</td>
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<td>21.9</td>
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Source: Company, PL

September 27, 2023
# Financials

## Income Statement (Rs m)

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<thead>
<tr>
<th></th>
<th>FY23</th>
<th>FY24E</th>
<th>FY25E</th>
<th>FY26E</th>
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</thead>
<tbody>
<tr>
<td><strong>Net Revenues</strong></td>
<td>1,69,107</td>
<td>1,93,849</td>
<td>2,22,409</td>
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<td>YoY gr. (%)</td>
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<td>14.6</td>
<td>14.7</td>
<td>12.9</td>
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<td><strong>Cost of Goods Sold</strong></td>
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<td><strong>Gross Profit</strong></td>
<td>52,053</td>
<td>62,826</td>
<td>73,337</td>
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<td>Margin (%)</td>
<td>30.8</td>
<td>32.4</td>
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<td><strong>Employee Cost</strong></td>
<td>12,683</td>
<td>14,345</td>
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<td><strong>Other Expenses</strong></td>
<td>11,600</td>
<td>12,969</td>
<td>15,146</td>
<td>17,107</td>
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<td><strong>EBITDA</strong></td>
<td>15,991</td>
<td>20,102</td>
<td>24,718</td>
<td>30,776</td>
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<tr>
<td>YoY gr. (%)</td>
<td>(9.2)</td>
<td>25.7</td>
<td>23.0</td>
<td>24.5</td>
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<tr>
<td>Margin (%)</td>
<td>9.5</td>
<td>10.4</td>
<td>11.1</td>
<td>12.3</td>
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<td><strong>Depreciation and Amortization</strong></td>
<td>2,962</td>
<td>3,133</td>
<td>3,429</td>
<td>3,734</td>
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<td><strong>EBIT</strong></td>
<td>13,030</td>
<td>16,969</td>
<td>21,289</td>
<td>27,043</td>
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<tr>
<td>Margin (%)</td>
<td>7.7</td>
<td>8.8</td>
<td>9.6</td>
<td>10.8</td>
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<td><strong>Net Interest</strong></td>
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<td>319</td>
<td>339</td>
<td>389</td>
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<tr>
<td><strong>Other Income</strong></td>
<td>1,777</td>
<td>2,043</td>
<td>2,554</td>
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<tr>
<td><strong>Profit Before Tax</strong></td>
<td>14,471</td>
<td>18,693</td>
<td>23,504</td>
<td>29,803</td>
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<tr>
<td>Margin (%)</td>
<td>8.6</td>
<td>9.6</td>
<td>10.6</td>
<td>11.9</td>
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<tr>
<td><strong>Total Tax</strong></td>
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<td>Effective tax rate (%)</td>
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<td>25.5</td>
<td>25.5</td>
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<tr>
<td><strong>Profit after tax</strong></td>
<td>10,717</td>
<td>13,935</td>
<td>17,522</td>
<td>22,218</td>
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<td>Minority interest</td>
<td>-</td>
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<td>-</td>
<td>-</td>
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<tr>
<td>Share Profit from Associate</td>
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<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td><strong>Adjusted PAT</strong></td>
<td>10,717</td>
<td>13,935</td>
<td>17,522</td>
<td>22,218</td>
</tr>
<tr>
<td>YoY gr. (%)</td>
<td>(10.4)</td>
<td>30.0</td>
<td>25.7</td>
<td>26.8</td>
</tr>
<tr>
<td>Margin (%)</td>
<td>6.3</td>
<td>7.2</td>
<td>7.9</td>
<td>8.8</td>
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<tr>
<td>Extra Ord. Income / (Exp)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td><strong>Reported PAT</strong></td>
<td>10,717</td>
<td>13,935</td>
<td>17,522</td>
<td>22,218</td>
</tr>
<tr>
<td>YoY gr. (%)</td>
<td>(10.4)</td>
<td>30.0</td>
<td>25.7</td>
<td>26.8</td>
</tr>
<tr>
<td>Margin (%)</td>
<td>6.3</td>
<td>7.2</td>
<td>7.9</td>
<td>8.8</td>
</tr>
<tr>
<td><strong>Other Comprehensive Income</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Comprehensive Income</strong></td>
<td>10,717</td>
<td>13,935</td>
<td>17,522</td>
<td>22,218</td>
</tr>
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<td><strong>Equity Shares O/s (m)</strong></td>
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<td>627</td>
<td>627</td>
<td>627</td>
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<td><strong>EPS (Rs)</strong></td>
<td>17.1</td>
<td>22.2</td>
<td>28.0</td>
<td>35.5</td>
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</table>

Source: Company Data, PL Research

## Balance Sheet Abstract (Rs m)

<table>
<thead>
<tr>
<th></th>
<th>FY23</th>
<th>FY24E</th>
<th>FY25E</th>
<th>FY26E</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-Current Assets</strong></td>
<td></td>
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<tr>
<td>Gross Block</td>
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<td>12,609</td>
<td>12,709</td>
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<td>2,414</td>
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<td>34,240</td>
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<td>25,054</td>
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<td>23,946</td>
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<td>10,473</td>
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<td>Capital Work In Progress</td>
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<td>3,105</td>
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<td>(3,568)</td>
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<td><strong>Current Assets</strong></td>
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<td>39,832</td>
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<td>Cash &amp; Bank Balance</td>
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<td>1,41,443</td>
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<tr>
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<td>Equity Share Capital</td>
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<td>Long Term borrowings</td>
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<td>149</td>
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<td><strong>Current Liabilities</strong></td>
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<tr>
<td>ST Debt / Current of LT Debt</td>
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<td>13,770</td>
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<td><strong>Total Equity &amp; Liabilities</strong></td>
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<td>1,22,795</td>
<td>1,41,443</td>
<td>1,63,466</td>
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Source: Company Data, PL Research
<table>
<thead>
<tr>
<th>Year to Date Mar</th>
<th>FY23</th>
<th>FY24E</th>
<th>FY25E</th>
<th>FY26E</th>
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<tbody>
<tr>
<td><strong>Quarterly Financials (Rs m)</strong></td>
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<td><strong>Net Revenue</strong></td>
<td>25,882</td>
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<td><strong>Add. Depreciation</strong></td>
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<td>13,620</td>
<td>14,789</td>
<td>14,679</td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td>3,531</td>
<td>4,238</td>
<td>5,272</td>
<td>4,020</td>
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<tr>
<td><strong>Profit before Tax</strong></td>
<td>3,148</td>
<td>3,614</td>
<td>4,867</td>
<td>3,821</td>
</tr>
<tr>
<td><strong>Net Interest</strong></td>
<td>110</td>
<td>73</td>
<td>98</td>
<td>85</td>
</tr>
<tr>
<td><strong>Other Income</strong></td>
<td>342</td>
<td>394</td>
<td>467</td>
<td>648</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>25,882</td>
<td>41,276</td>
<td>48,592</td>
<td>48,338</td>
</tr>
<tr>
<td><strong>EBIT</strong></td>
<td>2,915</td>
<td>3,492</td>
<td>4,497</td>
<td>3,257</td>
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<tr>
<td><strong>Profit after Tax</strong></td>
<td>2,343</td>
<td>2,835</td>
<td>3,580</td>
<td>2,871</td>
</tr>
<tr>
<td><strong>Minority Interest</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Adjusted PAT</strong></td>
<td>2,343</td>
<td>2,835</td>
<td>3,580</td>
<td>2,871</td>
</tr>
<tr>
<td><strong>Reported PAT</strong></td>
<td>2,343</td>
<td>2,835</td>
<td>3,580</td>
<td>2,871</td>
</tr>
<tr>
<td><strong>Total Comprehensive Income</strong></td>
<td>2,343</td>
<td>2,832</td>
<td>3,580</td>
<td>2,854</td>
</tr>
<tr>
<td><strong>Avg. Shares O/s (m)</strong></td>
<td>626</td>
<td>626</td>
<td>626</td>
<td>626</td>
</tr>
<tr>
<td><strong>EPS (Rs)</strong></td>
<td>3.7</td>
<td>4.5</td>
<td>5.7</td>
<td>4.6</td>
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</tbody>
</table>

Source: Company Data, PL Research

<table>
<thead>
<tr>
<th>Year to Date Mar</th>
<th>FY23</th>
<th>FY24E</th>
<th>FY25E</th>
<th>FY26E</th>
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<tbody>
<tr>
<td><strong>Key Financial Metrics</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>Per Share (Rs)</strong></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td><strong>EPS</strong></td>
<td>17.1</td>
<td>22.2</td>
<td>28.0</td>
<td>35.5</td>
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<tr>
<td><strong>CEPS</strong></td>
<td>21.8</td>
<td>27.2</td>
<td>33.4</td>
<td>41.4</td>
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<tr>
<td><strong>BVPS</strong></td>
<td>105.8</td>
<td>123.5</td>
<td>144.0</td>
<td>169.9</td>
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<tr>
<td><strong>FCF</strong></td>
<td>(1.2)</td>
<td>15.6</td>
<td>26.2</td>
<td>35.2</td>
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<td><strong>DPS</strong></td>
<td>4.5</td>
<td>7.5</td>
<td>9.5</td>
<td>11.0</td>
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<tr>
<td><strong>Return Ratio (%)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>RoCE</strong></td>
<td>22.7</td>
<td>26.5</td>
<td>28.5</td>
<td>30.7</td>
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<tr>
<td><strong>ROIC</strong></td>
<td>21.6</td>
<td>28.1</td>
<td>35.2</td>
<td>46.4</td>
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<tr>
<td><strong>RoE</strong></td>
<td>17.0</td>
<td>19.4</td>
<td>20.9</td>
<td>22.6</td>
</tr>
<tr>
<td><strong>Balance Sheet</strong></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td><strong>Net Debt : Equity (x)</strong></td>
<td>(0.3)</td>
<td>(0.3)</td>
<td>(0.4)</td>
<td>(0.5)</td>
</tr>
<tr>
<td><strong>Net Working Capital (Days)</strong></td>
<td>44</td>
<td>46</td>
<td>45</td>
<td>44</td>
</tr>
<tr>
<td><strong>Valuation (x)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>PER</strong></td>
<td>82.1</td>
<td>63.1</td>
<td>50.2</td>
<td>39.6</td>
</tr>
<tr>
<td><strong>P/B</strong></td>
<td>13.3</td>
<td>11.4</td>
<td>9.8</td>
<td>8.3</td>
</tr>
<tr>
<td><strong>P/CEPS</strong></td>
<td>64.3</td>
<td>51.5</td>
<td>42.0</td>
<td>33.9</td>
</tr>
<tr>
<td><strong>EV/EBITDA</strong></td>
<td>53.7</td>
<td>42.4</td>
<td>34.0</td>
<td>26.8</td>
</tr>
<tr>
<td><strong>EV/Sales</strong></td>
<td>5.1</td>
<td>4.4</td>
<td>3.8</td>
<td>3.3</td>
</tr>
<tr>
<td><strong>Dividend Yield (%)</strong></td>
<td>0.3</td>
<td>0.5</td>
<td>0.7</td>
<td>0.8</td>
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</tbody>
</table>

Source: Company Data, PL Research

September 27, 2023
Havells India

Price Chart

Recommendation History

<table>
<thead>
<tr>
<th>No.</th>
<th>Date</th>
<th>Rating</th>
<th>TP (Rs)</th>
<th>Share Price (Rs)</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>21-Jul-23</td>
<td>BUY</td>
<td>1,460</td>
<td>1,348</td>
</tr>
<tr>
<td>2</td>
<td>06-Jul-23</td>
<td>BUY</td>
<td>1,460</td>
<td>1,287</td>
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<tr>
<td>3</td>
<td>04-May-23</td>
<td>BUY</td>
<td>1,447</td>
<td>1,245</td>
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<tr>
<td>4</td>
<td>11-Apr-23</td>
<td>BUY</td>
<td>1,448</td>
<td>1,166</td>
</tr>
<tr>
<td>5</td>
<td>19-Jan-23</td>
<td>BUY</td>
<td>1,447</td>
<td>1,205</td>
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<tr>
<td>6</td>
<td>06-Jan-23</td>
<td>BUY</td>
<td>1,442</td>
<td>1,195</td>
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Analyst Coverage Universe

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Company Name</th>
<th>Rating</th>
<th>TP (Rs)</th>
<th>Share Price (Rs)</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Astral Ltd.</td>
<td>Hold</td>
<td>1,955</td>
<td>1,974</td>
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<tr>
<td>2</td>
<td>Bajaj Electricals</td>
<td>Accumulate</td>
<td>1,337</td>
<td>1,220</td>
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<tr>
<td>3</td>
<td>Century Plyboard (I)</td>
<td>BUY</td>
<td>800</td>
<td>629</td>
</tr>
<tr>
<td>4</td>
<td>Cera Sanitaryware</td>
<td>Hold</td>
<td>8,224</td>
<td>7,917</td>
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<td>5</td>
<td>Crompton Greaves Consumer Electricals</td>
<td>BUY</td>
<td>369</td>
<td>309</td>
</tr>
<tr>
<td>6</td>
<td>Finoex Industries</td>
<td>Accumulate</td>
<td>197</td>
<td>184</td>
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<tr>
<td>7</td>
<td>Greenpanel Industries</td>
<td>BUY</td>
<td>459</td>
<td>341</td>
</tr>
<tr>
<td>8</td>
<td>Havells India</td>
<td>BUY</td>
<td>1,460</td>
<td>1,348</td>
</tr>
<tr>
<td>9</td>
<td>Kajaria Ceramics</td>
<td>Hold</td>
<td>1,363</td>
<td>1,393</td>
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<td>10</td>
<td>KEI Industries</td>
<td>BUY</td>
<td>2,908</td>
<td>2,480</td>
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<td>11</td>
<td>Polycab India</td>
<td>Accumulate</td>
<td>4,760</td>
<td>4,309</td>
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<td>12</td>
<td>R R Kabel</td>
<td>BUY</td>
<td>1,407</td>
<td>1,035</td>
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<td>13</td>
<td>Supreme Industries</td>
<td>Hold</td>
<td>3,377</td>
<td>3,382</td>
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<td>14</td>
<td>Voltas</td>
<td>Hold</td>
<td>831</td>
<td>829</td>
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</table>

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- **Buy**: > 15%
- **Accumulate**: 5% to 15%
- **Hold**: +5% to -5%
- **Reduce**: -5% to -15%
- **Sell**: < -15%
- **Not Rated (NR)**: No specific call on the stock
- **Under Review (UR)**: Rating likely to change shortly
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