

CONSUMER DURABLES

Q1FY23 Review

10 August 2022

A bumpy quarter

- Durables players had to negotiate waning demand, RM inflation and SG&A cost normalisation; cooling of RM cost in late-Q1 offered some respite
- Aggressive competition in ACs, for which Q1 is a peak quarter, came as a key negative surprise
- Focus now shifts to festive demand. Our picks are HAVL, CROMPTON, POLYCAB and DIXON

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Demand patchy in Q1: Most consumer durables companies were unanimous in their view that demand had waned progressively over Q1FY23, with an animated April, a middling May and an erratic June. All the commentaries cited June as the worst of both worlds as inflation hobbled demand amid high raw material costs.

RM softening a respite...: Fears of global inflation led to a cooldown in commodity prices, with key inputs down in the range of 15-25% since April. This has reduced the compulsion on companies to raise prices and, to that extent, should support demand.

...but more of an H2 story: Anticipating strong demand in Q1 amidst supply and logistical uncertainties, most companies had increased the carrying inventory of raw materials, as evidenced from their elongated working capital cycles. Hence, much of Q2 will be spent liquidating this high-cost inventory before relief on input costs begins to reflect on margins from Q3FY23 onwards.

Ferocity of competition in ACs surprised us: The competitive intensity in the air conditioning segment during Q1 caught us by surprise. We saw aggressive growth from VOLT and Lloyd, both of which gained market share at the cost of margins, whereas BLSTR was more balanced in its approach. Overall, however, the industry focus is on market share. The next two quarters are off-season and thus the real impact will only become apparent three quarters down the line.

All eyes on festive demand: With softening RM costs obviating the need for further price hikes, companies are looking to festive demand in August and September as a means to liquidate their high-cost inventories across categories, barring ACs.

VOLT downgraded post Q1; other picks intact: Following the Q1 results, we have maintained ratings on our durables coverage, barring VOLT (moved from BUY to HOLD on 4 Aug), as the focus shifts to festive demand for categories other than ACs. Our current picks are HAVL, CROMPTON, POLYCAB and DIXON.

Recommendation snapshot

Ticker	Price	Target	Rating
AMBER IN	2,272	2,300	HOLD
BLSTR IN	1,010	1,100	HOLD
CROMPTON IN	375	500	BUY
DIXON IN	3,798	4,500	BUY
HAVL IN	1,305	1,500	BUY
ORIENTEL IN	261	310	HOLD
POLYCAB IN	2,360	3,000	BUY
VGRD IN	239	250	HOLD
VOLT IN	982	1,100	HOLD

Price & Target in Rupees | Price as of 8 Aug 2022

Consumer durables: Q1 result reviews

Company	Result review link
AMBER IN	Mixed quarter; challenges ahead
BLSTR IN	Commendable margin performance
CROMPTON IN	Temporary margin miss; expect swift recovery
DIXON IN	Strong Q1 topline; remains the best PLI play
HAVL IN	Short-term margin blip, better road ahead
ORIENTEL IN	Headwinds in core portfolio, maintain HOLD
POLYCAB IN	Resilient margins offset moderation in revenue
VGRD IN	Margin blip in Q1
VOLT IN	Competitive edge appears blunted; downgrade to HOLD

Source: BOBCAPS Research



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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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