

CONSUMER DURABLES

12 September 2022

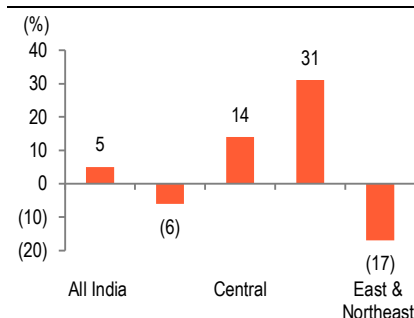
Festive cheer likely to revitalise demand

- Expect a strong festive season for consumer durables over Aug-Oct (typically 35-40% of annual sales)
- Consumption data looks positive as indicated by auto sales, UPI and credit card spends, though poor monsoon spread a concern
- We continue to prefer leaders in respective categories – HAVL, CROMPTON and POLYCAB

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Festive season demand likely to be upbeat: Our industry interactions coupled with positive newsflow point to robust festive season demand. Festivities in India began at the end of August with Ganesh Chaturthi and Onam, and will extend into late October when Diwali kicks in. Anecdotally, this celebratory period accounts for 35-40% of annual sales for the consumer durables sector, barring air conditioners. While volumes are expected to reach pre-Covid levels, most of the growth is likely to come from higher pricing as the industry has hiked prices by 15-20% YoY across categories. So, even just 5% volume growth could translate to 20% YoY revenue growth. Per media reports, most companies have registered a sales uptick during Onam and Ganesh Chaturthi.

Region-wise deviation of rainfall from LPA



Source: Bank of Baroda Economics Research | Data as of 8 Sep

Some positive consumption data....: RBI data on spending shows a rise in consumption. We note a jump in UPI (unified payments interface) spending from Rs 9.8tn to Rs 10.7tn over April to August. Similarly, credit card spends have risen from Rs 300bn to Rs 324bn over this period. This can be interpreted in two ways – as an actual surge in consumption, or as a shift in spending from other modes to credit cards/UPI. Another positive data point is passenger vehicle sales in August which crossed 0.3mn units for the fifth month this calendar year. Lastly, at the broader macro level, private final consumption expenditure (PFCE) totalled Rs 39.7tn in Q1FY23, similar to Q4FY22 in absolute terms, but 190bps higher at 61.1% of GDP.

...and some not so positive data: While India's southwest monsoon has been 5% above the long period average (LPA) as of 8 September, *Kharif* (summer) crop sowing is marginally lower than last year in terms of acreage. Deficient rains in parts of the Gangetic belt have impacted cultivation of rice and pulses. This can have an impact on rural consumption in H2FY23. The eastern and northeastern regions also lag with a 17% rainfall deficit vis-à-vis the LPA. However, this will have a limited impact on demand given the lower contribution of these regions to GDP.

Prefer sector leaders: We continue to prefer leaders in respective categories – HAVL, CROMPTON and POLYCAB. We do not anticipate much action in the AC space over the next two quarters and maintain a neutral stance on AC players.



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Note: Recommendation structure changed with effect from 21 June 2021

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