

CONSUMER DURABLES

24 August 2022

Crisil webinar takeaways – Secular growth to continue

- Consumer durables sector to post sustained volume growth of 5-14% over five years, per Crisil. ACs to grow fastest at ~14%, TVs slowest at ~5%
- Premiumisation and energy efficiency gaining traction in the wake of Covid with consumers upgrading most of their appliances
- Competition to intensify as India offers a large market with low penetration; consolidation anticipated in small appliances. Maintain positive stance

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We attended a Crisil webinar on trends in consumer durables – key takeaways:

Growth momentum to continue: Crisil expects secular volume growth to continue for the consumer durables sector (next 5Y CAGR: 9-10%), with large appliances (10-12%) outpacing small appliances (7-8%). AC volumes are likely to grow the fastest (12-14%), while the TV segment could be the slowest (5-6%). In smaller appliances, the fans segment is in a transition phase due to the upcoming ratings change.

Premiumisation, energy efficiency gaining traction post Covid: In the last six months, products such as washing machines and ACs have seen rising premiumisation, and this megatrend is expected to continue. Also, consumer preference is shifting towards smart/IoT-based appliances and energy-efficient products. Indian companies rank high in energy efficiency given that current products are 80-100% more efficient as compared to 2014. On the distribution front, more consumers are visiting stores post Covid – consequently, online sales could get capped at current levels even as the omnichannel model remains in play.

M&A likely in small appliances: India is one of the few countries with low penetration levels in consumer durables and hence the sector remains attractive, implying the entry of more players. Also, brands have not invested much to build scale over the past few years and this could lead to consolidation, with large appliance players looking to buy out smaller businesses, akin to the Crompton-Butterfly deal. The kitchen appliances segment is the most attractive considering its high growth rate at 2-2.5x of GDP and the fact that 50% of the market is unorganised, offering scope for formalisation.

Strong PLI benefits: Import content for ACs is currently at 70-75% of total raw material cost. The government's production-linked incentive (PLI) scheme is expected to bring down import dependency to 20-25% in five years. Notably, 80% of compressors are likely to be manufactured locally by 2026.

Our view – 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.

Recommendation snapshot

Ticker	Price	Target	Rating
AMBER IN	2,250	2,300	HOLD
BLSTR IN	1,068	1,100	HOLD
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DIXON IN	4,050	4,500	BUY
HAVL IN	1,292	1,500	BUY
ORIENTEL IN	265	310	HOLD
POLYCAB IN	2,400	3,000	BUY
VGRD IN	232	250	HOLD
VOLT IN	994	1,100	HOLD

Price & Target in Rupees | Price as of 23 Aug 2022



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Note: Recommendation structure changed with effect from 21 June 2021

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