

Base effect in play

- Q1FY23 to be exceptionally strong given weak Covid-hit base quarter last year, with summer products set to shine in particular
- Expect revenue/EBIDTA/PAT growth of 66%/91%/98% YoY for our coverage universe
- Retain preference for leaders with a proven record on pricing as well as cost control; BUY VOLT, HAVL, POLYCAB

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Q1 to reflect base effect of a lost quarter: Q1FY23 numbers are likely to look optically high against a washout quarter last year due to Covid-19. The past year has seen an increase in raw material costs due to ongoing commodity inflation, with the industry taking price hikes in the range of 10-18% YoY across product categories. While raw material pressure has not yet abated, we are seeing some sequential pricing relief. However, high inflation poses fresh headwinds which will have a bearing on demand in the next couple of quarters. Management commentary on tackling inflation will thus be keenly watched. Our industry interactions in end-May/June indicated reluctance on the part of companies to hike prices further.

Expect revenue/PAT growth of 66%/98%: We forecast revenue growth of 66% YoY for our coverage universe, with summer products particularly standing out due to the dual effect of the peak season and a very low base. We expect room AC players (VOLT, BLSTR, AMBER) to post a revenue CAGR of 71%. Similarly, the ECD divisions of most companies are likely to do well, with a spotlight on fans. The cables and wires segment, which was the best performer in Q4FY22, is likely to see a sequential dip as lower commodity prices could suppress revenue growth. We expect EBITDA for our coverage stocks to grow at 91% YoY and PAT at 98%,

Management commentary critical: In our view, management commentary on demand, raw material inflation, cost management and expectations of upcoming festive season demand will offer a clearer picture of the recovery than the reported Q1FY23 numbers.

Prefer sector leaders: We maintain our sector stance of sticking with the larger players in each category. Given that pricing power and cost control are vital in the current inflationary environment, we reiterate our preference for leaders with a strong track record in these areas – viz. VOLT (BUY, TP: Rs 1,250), HAVL (BUY, TP: Rs 1,500) and POLYCAB (BUY, Rs 3,000).

Recommendation snapshot

Ticker	Price	Target	Rating
AMBER IN	2,427	3,500	HOLD
BLSTR IN	876	1,200	HOLD
CROMPTON IN	367	500	BUY
DIXON IN	3,706	4,600	BUY
HAVL IN	1,222	1,500	BUY
ORIENTEL IN	277	310	HOLD
POLYCAB IN	2,251	3,000	BUY
VGRD IN	219	250	HOLD
VOLT IN	972	1,250	BUY

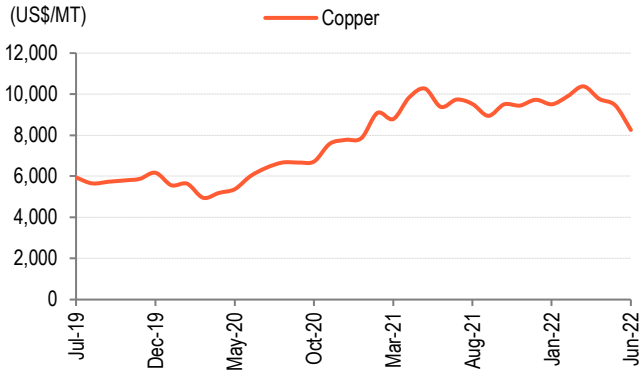
Price & Target in Rupees | Price as of 7 Jul 2022



Key RM prices have begun to soften

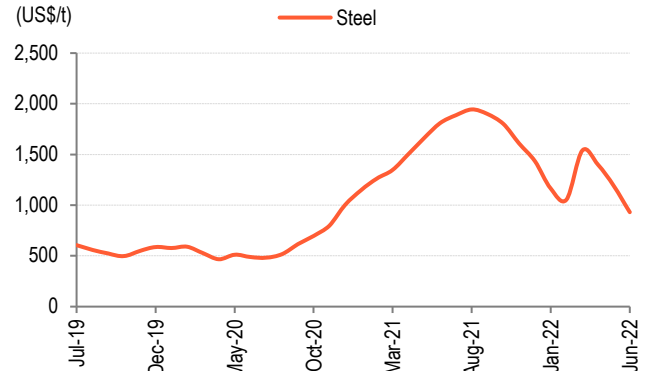
Commodity prices have begun to decline on a sequential basis, falling in the range of 6-28% in the last one month. Key raw materials for the consumer durables industry such as copper, aluminium and steel have all started trending downwards. Plastics is another key material showing signs of cool-down, for which we have used polyethylene as a proxy.

Fig 1 – Copper price



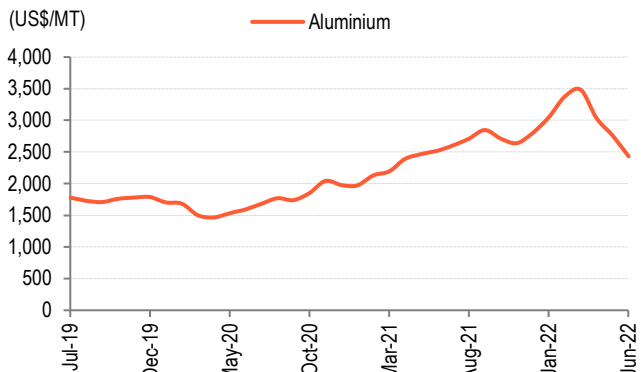
Source: BOBCAPS Research, Bloomberg

Fig 2 – Steel price



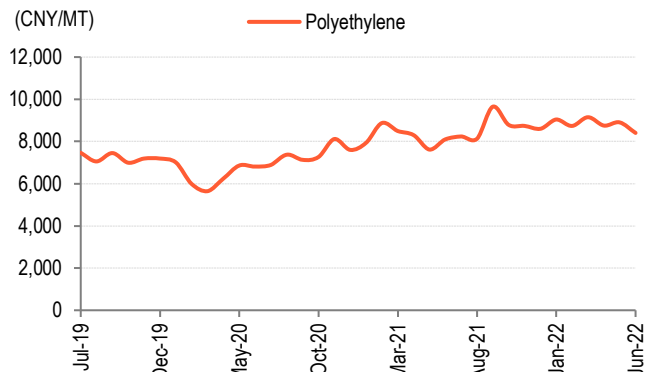
Source: BOBCAPS Research, Bloomberg

Fig 3 – Aluminium price



Source: BOBCAPS Research, Bloomberg

Fig 4 – Polyethylene price



Source: BOBCAPS Research, Bloomberg

Company-wise expectations & Valuation matrix

Fig 5 – BOBCAPS Consumer Durables universe: Q1FY23 preview

Particulars (Rs mn)	Q1FY23		Q1FY23		Q1FY23		Q1FY23		Comments	
	Revenue	YoY (%)	EBITDA	YoY (%)	EBITDA M (%)	YoY (bps)	Adj. PAT	YoY (%)		EPS (Rs)
VOLT	30,032	70	2,514	115	8.4	174.0	2,014	65	6.1	We expect VOLT to regain some of its market share in Q1 that was lost due to regional imbalances and an extended winter in the north. The UCP segment is likely to drive growth on a low base while the EMP segment should maintain momentum.
BLSTR	19,989	90	1,399	231	7.0	298.6	753	493	7.8	Similar to VOLT, we anticipate strong growth driven by unitary cooling products and robust demand in the RAC segment. Further, momentum in the project business is expected to continue.
POLYCAB	31,029	65	3,413	145	11.0	359.0	2,205	198	14.7	We forecast strong growth in the FMEG segment owing primarily to demand deferral from the previous quarter, particularly in fans. Growth in the wires & cables segment is expected to slow mainly due to a softening in copper prices.
CG	16,493	57	2,358	89	14.3	239.7	1,723	82	2.7	This is the first full quarter since BGAL was acquired. We expect BGAL's growth momentum to continue, albeit at the expense of margins. Crompton's core portfolio is likely to grow in ECD and lighting, with good profitability.
HAVL	41,760	60	4,802	35	11.5	-211.4	3,319	41	5.3	We project strong growth in the ECD segment as a result of demand deferral from the previous quarter. Growth is expected to continue at Lloyd but at the expense of margins.
ORIENTEL	6,611	57	648	190	9.8	451.3	362	623	1.7	We expect margins to be similar to Q4 levels as the company has not taken any significant price increases in the last two months. The fans segment is set to drive growth, but sales could be impacted over the next two quarters. The lighting & switchgear segment, on the other hand, is expected to maintain its growth momentum, owing to demand from the residential segment and a shift in the company's strategy.
VGUARD	9,043	60	814	79	9.0	94.6	520	103	1.2	We forecast growth in the stabiliser segment, primarily driven by AC-led demand. Management has shifted its focus to achieving higher-than-market growth in fans, heaters, inverters, and kitchen appliances, which will aid good growth in other segments. VGUARD has raised its prices by 3% in the first quarter.
DIXON	13,097	85	825	96	6.3	34.3	343	207	10.2	We anticipate strong growth due to an increase in the production of new products across all categories. Volume growth is likely to be strong on a low base and given the rising contribution of mobiles.
AMBER	29,877	60	1,150	140	3.9	128.5	639	252	10.6	We project flat sequential growth as the season build-out happened in the last quarter. Margins are set to improve as commodity prices have softened.
	1,97,928	66	17,925	91	9.1	119.7	11,880	98		

Source: Company, BOBCAPS Research

Fig 6 – BOBCAPS Consumer Durables universe: Valuation matrix

Company	Rating	Mcap	CMP	TP	Upside	Revenue (Rs bn)				EBITDA (Rs bn)				EBITDA Margin (%)		
		(Rs bn)	(Rs)	(Rs)	(%)	FY22	FY23E	FY24E	CAGR (%)	FY22	FY23E	FY24E	CAGR (%)	FY22	FY23E	FY24E
VOLT	BUY	322	972	1,250	29	79	92	110	18	6.8	8.3	10.9	27	8.6	9.1	9.9
BLSTR	HOLD	84	876	1,200	37	60	70	81	16	3.5	4.4	5.0	20	5.7	6.2	6.2
POLYCAB	BUY	336	2,251	3,000	33	122	144	162	15	12.7	16.2	20.1	26	10.4	11.3	12.4
CG	BUY	233	367	500	36	54	75	85	26	7.7	10.2	12.2	26	14.3	13.7	14.3
HAVL	Buy	765	1,222	1,500	23	139	159	182	14	17.6	22.3	25.8	21	12.6	14.1	14.1
ORIENTEL	HOLD	59	277	310	12	24	29	34	17	2.3	3.0	3.5	23	9.4	10.1	10.4
VGUARD	HOLD	95	219	250	14	35	40	43	11	3.3	4.0	4.5	16	9.5	10.2	10.4
DIXON	BUY	220	3,706	4,600	24	107	171	220	44	3.8	6.4	8.4	48	3.6	3.8	3.8
AMBER	HOLD	82	2,427	3,500	44	42	58	74	33	2.7	4.4	5.8	46	6.5	7.5	7.9

Source: Company, BOBCAPS Research

Fig 7 – BOBCAPS Consumer Durables universe: Valuation matrix (contd)

Companies	PAT (Rs bn)				EPS (Rs)				RoE (%)			PE (x)		
	FY22	FY23E	FY24E	CAGR (%)	FY22	FY23E	FY24E	CAGR (%)	FY22	FY23E	FY24E	FY22	FY23E	FY24E
VOLT	5.0	6.1	8.2	28	15.2	18.5	24.8	28	9.6	10.6	12.6	64	52	39
BLSTR	1.7	2.5	2.8	29	17.4	26.3	29.0	29	17.6	23.7	23.9	50	33	30
POLYCAB	7.7	10.4	12.7	28	51.7	69.7	85.1	28	15.0	17.5	18.4	44	32	26
CG	5.9	7.3	9.4	26	9.3	11.6	14.8	26	27.0	25.5	25.1	39	32	25
HAVL	12.0	15.1	17.5	21	19.1	24.1	27.9	21	21.4	23.1	22.8	64	51	44
ORIENTEL	1.3	1.5	1.9	23	6.0	7.1	9.0	23	25.4	25.4	26.3	46	39	31
VGUARD	2.3	2.7	3.1	16	5.3	6.3	7.1	16	17.4	17.9	17.5	42	35	31
DIXON	1.9	3.5	4.8	59	32.2	58.8	81.0	59	22	29.8	30.3	115	63	46
AMBER	1.0	1.9	2.9	71	30.1	57.9	87.7	71	5.8	10.4	13.9	81	42	28

Source: Company, BOBCAPS Research

Disclaimer

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

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