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CONSUMER DURABLES | Q2FY23 Preview | 06 October 2022

Flat quarter ahead

- **Expect modest 12% YoY topline growth and flattish net profit for our consumer durables coverage**
- **Scope for early signs of sequential margin improvement amidst commodity cost deflation**
- **Maintain pecking order with preference for leaders – HAVL, POLYCAB and CROMPTON**

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Q2 to reflect initial commodity cooling effect: Q2FY23 is likely to reflect partial benefits of the cooldown in commodity prices, with the full effects flowing through from Q3 onwards. Demand for white goods has been mixed with strong traction for mid-to-premium products but pressure on entry-level goods. Thus, we expect realisations to be marginally better led by premiumisation trends. Margins are likely to improve QoQ amidst falling cost inflation and prudent cost management.

Flat growth projected: We model for modest 12% YoY topline growth for our coverage universe with PAT inching up a mere 1%. Traction in electrical consumer durables (ECD) is likely to persist during Q2 driven by festive demand. In a cyclically weak quarter for air conditioning manufacturers, we expect a moderate performance YoY from AC players. The cables & wires segment, that had ended FY22 on a strong note, could see flat topline growth in the wake of easing commodity inflation.

Festive season demand key to watch: We expect buoyant festive demand off a low Covid-hit base. Initial market feedback affirms this view and we await corroborating management commentary on this front and on premiumisation trends. Concurrently, collections by e-commerce giants in the initial phase of the festive season (1.3x of the first four days of the previous year as per industry data) indicate upbeat demand trends. Comments on rural demand pickup will also be keenly tracked in order to gauge the outlook for entry-level products.

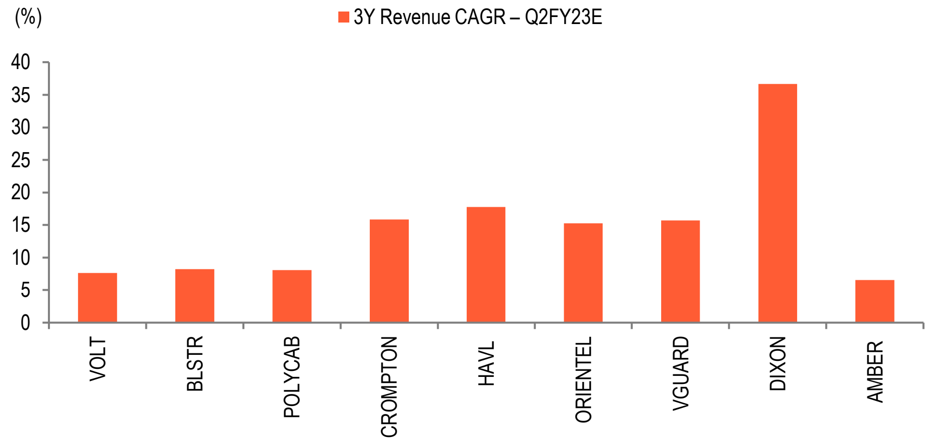
Bet on sector leaders: In an improving demand environment, established players with a diverse product range are better placed. Additionally, we believe the larger players have an edge in terms of pricing power and cost control. Our pecking order thus remains as follows – HAVL (BUY, TP Rs 1,500), POLYCAB (BUY, TP Rs 3,000) and CROMPTON (BUY, TP Rs 500).

Recommendation snapshot

Ticker	Price	Target	Rating
AMBER IN	2,369	2,300	HOLD
BLSTR IN	1,128	1,100	HOLD
CROMPTON IN	400	500	BUY
DIXON IN	4,433	4,500	BUY
HAVL IN	1,353	1,500	BUY
ORIENTEL IN	275	310	HOLD
POLYCAB IN	2,643	3,000	BUY
VGRD IN	245	250	HOLD
VOLT IN	922	1,100	HOLD

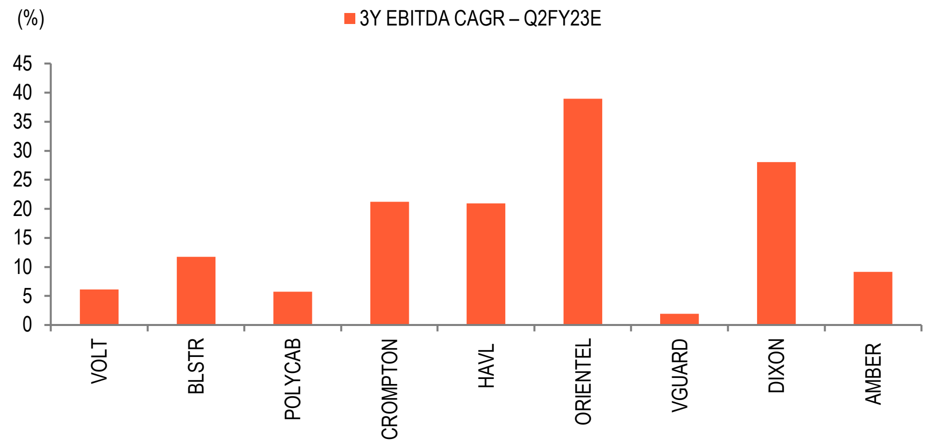
Price & Target in Rupees | Price as of 6 Oct 2022

Fig 1 – ECD companies set to witness stronger 3Y revenue CAGR compared to white goods



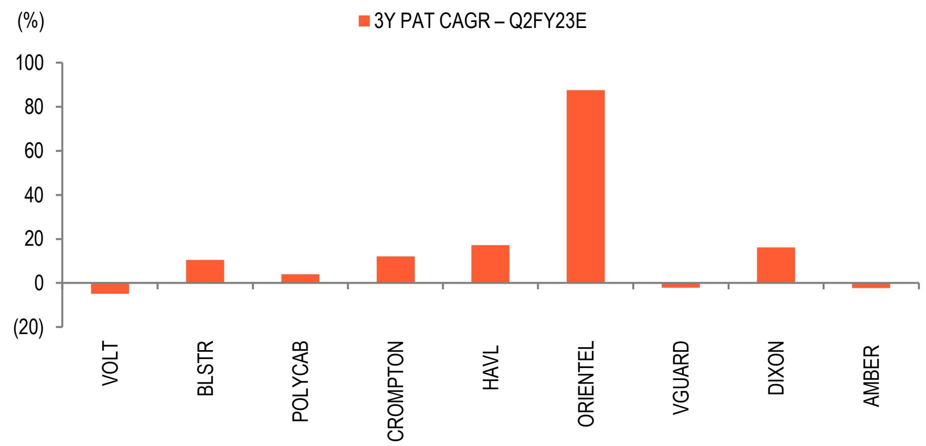
Source: Company, BOBCAPS Research

Fig 2 – Partial benefits of raw material cost deflation; premiumisation trend to boost margins for ECD players



Source: Company, BOBCAPS Research

Fig 3 – Room AC players (except BLSTR) expected to post PAT declines



Source: Company, BOBCAPS Research

Fig 4 – BOBCAPS Consumer Durables universe: Q2FY23 preview

Companies (Rs mn)	Q2FY23E Revenue	YoY (%)	EBITDA	YoY (%)	EBITDA margin (%)	YoY (bps)	Adj. PAT	YoY (%)	EPS (Rs)	Comments
VOLT	17,723	4.9	1,263	(2.2)	7.1	(52)	923	(11.5)	3.6	Amidst a seasonally weak quarter for the UCP segment, we expect softer growth in Q2 (UCP: 10% 3Y CAGR). Management's efforts to gain market share are likely to constrain EBITDA margin. However, we except the EMP segment to post swift recovery, which should support margin improvement QoQ (EMP had a loss in Q1FY23).
BLSTR	15,830	27.7	1,003	41.8	6.3	63	515	63.2	5.4	BLSTR is estimated to deliver a relatively better performance in UCP (3Y CAGR: 12%) vs. VOLT (3Y CAGR: 10%). The company's focus on calibrated market share gains is likely to aid better margins than peers in the UCP segment. Traction in the EMP segment is poised to continue with better order inflows.
POLYCAB	28,299	(9.6)	3,210	6.0	11.3	166	2152	8.7	14.3	We anticipate softer realisations amidst the late cooling off in raw material prices. Relatively subdued demand following inventory optimisation by dealers/distributors could see the Q2FY23 topline contract. In contrast, margins are likely to improve in the wake of cost cutting and lower other expenses.
CROMPTON	16,720	20.7	2,302	7.5	13.8	(169)	1,558	(1.9)	2.5	We expect sustained market share in the fans division along with a continued thrust on premiumisation. CROMPTON was the only player from our coverage universe that maintained its gross margin profile in the rising cost environment, and we believe this trend will continue in Q2.
HAVL	36,479	12.7	4,160	(6.5)	11.4	(234)	2,893	(4.3)	4.6	Lloyd is likely to gain market share though profitability would be under pressure. The FMEG segment should continue witnessing momentum led by festive demand. Margins are projected to improve QoQ as raw material prices soften.
ORIENTEL	6,659	12.0	587	(5.2)	8.8	(160)	325	(6.6)	1.5	We forecast a modest performance with a flat 3Y topline CAGR in the ECD division and 8% in the core lighting and switchgear division. The fans segment is likely to underperform on account of restructuring that should conclude during the quarter.
VGUARD	9,655	6.4	835	(12.0)	8.6	(181)	545	(8.2)	1.3	The lean season for cooling products could cast a shadow on stabiliser growth. Momentum in the FMEG segment is likely to continue, but we expect margins to remain under pressure.
DIXON	35,798	27.7	1,323	20.3	3.7	(23)	675	7.8	11.3	We expect DIXON to post its highest-ever quarterly sales led by growth in the mobiles segment owing to a large Motorola order. Capacity ramp-up is likely to boost the topline despite a higher base. Margins are forecast to improve QoQ led by improved realisations.
AMBER	7,536	28.3	477	39.0	6.3	49	113	43.9	3.4	The lean period for cooling products is likely to weigh on AMBER's topline, but margins are anticipated to improve ~50bps YoY following cost pass-through.
Aggregate	**174,698**	**12.2**	**15,159**	**3.6**	**8.7**	**(72)**	**9,699**	**1.1**		

Source: Company, BOBCAPS Research | UCP: Unitary Cooling Products, EMP: Electro- Mechanical Projects, FMEG: Fast Moving Electric Goods

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

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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