

## Volume revival on track but RM and other cost headwinds persist

- Due to high base, continued RM inflation, we expect modest net income growth in Q3FY22 in the range of -13% to +20%
- Margins unlikely to expand as RM costs remain elevated and advertisement expense is rising again
- Management commentary expected on the impact of surging Covid cases, inventory levels, summer season sales and RM cost outlook

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**Festive season-led volume pickup:** We believe unlocking of the economy coupled with the festive and wedding season augured well for the consumer durables sector. We expect our coverage companies to post YoY net income growth of -13 to 20% in Q3FY22, driven by most product categories, and price increases. DIXON is likely to generate the strongest topline growth on the back of new client acquisitions and strong volumes in the mobile and EMS segments but EPS growth may be modest.

**Margins may not expand despite strong volume leverage:** The ongoing raw material inflation has depressed the margins of consumer durable companies. Since Q2FY21, major inputs such as copper and aluminium have been surging. However, RM price inflation for most categories has ebbed in Q3FY22 (sub 5% QoQ, Fig 2). But this may not be fully reflected in the results as prices hit companies with a lag, a stabilisation or a drop will be a positive. Companies have raised product prices but margins, both at EBITDA and PAT levels, may get hit by cost inflation and rising advertisement, as well as other expenses.

**What to watch for in Q3:** (1) The near-term impact of Omicron, (2) Rising raw material cost and if companies can continue to pass on the price increases, (3) Current inventory levels and production plans, (4) Progress on capex plans which are linked to the PLI scheme.

**Strong long-term sector outlook, near-term view hinges on Covid:** As unlocking progresses, we see a healthy long-term outlook for the consumer durables sector driven by an increasing number of middle-class households in India and the real estate upcycle, among other factors. The near-term outlook for most categories also remains upbeat. For instance, ACs are expected to see large pent-up demand after two washout summer seasons. However, the ongoing rise in cases due to Omicron has reawakened concerns. Any significant lockdowns can further impact demand, especially for AC companies.

### Recommendation snapshot

Ticker	Price	Target	Rating
AMBER IN	3,532	3,471	HOLD
BLSTR IN	1,006	1,371	BUY
CROMPTON IN	445	621	BUY
DIXON IN	5,266	5,431	HOLD
ORIENTEL IN	370	381	HOLD
POLYCAB IN	2,481	2,401	HOLD
VGRD IN	224	321	BUY
VOLT IN	1,275	1,271	HOLD
WHIRL IN	1,846	2,901	BUY

Price & Target in Rupees | Price as of 12 Jan 2022



Fig 1 – Quarterly preview

(Rs mn)	Q3FY22E	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	9MFY22E	9MFY21	YoY (%)	Remarks
<b>AMBER</b>									
Sales	9,559	7,647	25.0	5,875	62.7	22,513	14,321	57.2	AMBER's revenue is expected to grow 25% YoY on the back of strong realisation and volume recovery. EBITDA/adj. PAT should grow by 15.7%/20.3%. However, EBITDA and PAT margins are expected to decline by 61bps and 13bps respectively on the back of RM inflation. Key monitorables are the impact of Omicron on AC demand and RM inflation.
EBITDA	730	630	15.7	343	112.7	1494	791	88.9	
Adj PAT	324	269	20.3	74	336.0	523	61	751.9	
EBITDA margin (%)	7.6	8.2	(61bps)	5.8	179bps	6.6	5.5	111bps	
PAT margin (%)	3.4	3.5	(13bps)	1.3	213bps	2.3	0.4	189bps	
<b>BLSTR</b>									
Sales	13,491	11,239	20.0	12,397	8.8	36,409	26,520	37.3	BLSTR's revenue is forecast to rise 20% YoY on the back of a strong festive season and robust recovery in electromechanical project business. EBITDA/adj. PAT should grow 3.5%/7.0% on the back of strong sale volumes. However, RM inflation is expected to continue to hamper margins. Key monitorables are the impact of Omicron on AC demand, RM inflation and the performance of newly launched mass premium ACs.
EBITDA	844	816	3.5	707	19.4	1,974	1,380	43.0	
Adj PAT	393	367	7.0	314	25.2	833	324	157.3	
EBITDA margin (%)	6.3	7.3	(100bps)	5.7	56bps	5.4	5.2	22bps	
PAT margin (%)	2.9	3.3	(36bps)	2.5	38bps	2.3	1.2	107bps	
<b>CROMPTON</b>									
Sales	15,803	13,482	17.2	13,851	14.1	40,159	32,815	22.4	CROMPTON's revenue is expected to improve 17% YoY on the back of strong sales in the consumer durable segment followed by lighting. EBITDA/PAT are expected to rise 9.6%/9.3% YoY due to recovery in sales volume. However, cost pressures are expected to continue to weaken margins. Key monitorables are the company's plans to launch fans catering to BLDC motors and its plans to gain market share in the air cooler segment.
EBITDA	2,192	2001	9.6	2,141	2.4	5,584	4,925	13.4	
Adj PAT	1652	1,511	9.3	1,588	4.0	4,187	3,676	13.9	
EBITDA margin (%)	13.9	14.8	(97bps)	15.5	(159bps)	13.9	15.0	(110bps)	
PAT margin (%)	10.5	11.2	(76bps)	11.5	(101bps)	10.4	11.2	(77bps)	
<b>DIXON</b>									
Sales	30,878	21,828	41.5	28,038	10.1	77,589	43,385	78.8	We expect DIXON's sales to rise 42% YoY primarily due to strong volumes in mobile & EMS, consumer electronics and security systems. The company is able to pass along the rising RM prices but with a lag, due to which its YoY EBITDA and PAT margins are expected to decline. Strong sales volume will help the company to post YoY EBITDA growth of 18.6%, however higher depreciation cost due to new plant expansions will pressurize bottom-line leading to a YoY PAT growth of 6.7%. Key monitorables are new customer acquisitions and capex plans.
EBITDA	1,192	1005	18.6	1,100	8.4	2,771	2,068	34.0	
Adj PAT	657	616	6.7	626	5.0	1,465	1,156	26.8	
EBITDA margin (%)	3.9	4.6	(74bps)	3.9	(6bps)	3.6	4.8	(119bps)	
PAT margin (%)	2.1	2.8	(69bps)	2.2	(10bps)	1.9	2.7	(77bps)	
<b>HAVL</b>									
Sales	37,307	31,752	17.5	32,380	15.2	95,787	71,181	34.6	Strong sales across segments should aid revenue growth of 17.5% for HAVL. Despite the strong volume leverage and prices increases taken by the company, we expect EBITDA and PAT margins to contract. Key monitorables are inventory levels, demand for its products given the residential boom, new launches and any vendor-side supply challenges.
EBITDA	5,390	5101	5.7	4,450	21.1	13,393	10,636	25.9	
Adj PAT	3654	3,501	4.4	3,024	20.8	9,036	7,405	22.0	
EBITDA margin (%)	14.4	16.1	(162bps)	13.7	71bps	14.0	14.9	(96bps)	
PAT margin (%)	9.8	11.0	(123bps)	9.3	46bps	9.4	10.4	(97bps)	
<b>ORIENTEL</b>									
Sales	6,782	6,183	9.7	5,944	14.1	16,949	12,309	37.7	ORIENTEL's revenue is forecast to rise 9.7% YoY due to strong volume growth in both segments. Increasing operating cost coupled with RM cost inflation is likely to dent margins and lead to a 12.4% drop in adj. PAT. Key monitorables are the company's efforts to expand fans market share, especially in the premium segment, and also integration of its recent acquisition which will help it to enter the premium switches segment.
EBITDA	760	842	(9.7)	619	22.8	1,602	1,227	30.6	
Adj PAT	455	519	(12.4)	348	30.9	853	571	49.4	
EBITDA margin (%)	11.2	13.6	(241bps)	10.4	79bps	9.6	10.0	(52bps)	
PAT margin (%)	6.7	8.4	(169bps)	5.8	86bps	5.2	4.6	40bps	

(Rs mn)	Q3FY22E	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	9MFY22E	9MFY21	YoY (%)	Remarks
<b>POLYCAB</b>									
Sales	31,181	27,988	11.4	31,288	(0.3)	81,275	58,891	38.0	Strong sales volume in the FMEG segment is likely to aid 11.4% YoY growth in POLYCAB's revenue. Despite brisk volumes, RM cost inflation and the return of operating cost such as advertisement is expected to continue to impact margins and pull adj. PAT down 12.8% YoY. Key monitorables are the company's path to improve FMEG profitability to match other durable companies.
EBITDA	3,477	3758	(7.5)	3,028	14.8	7,899	7,457	5.9	
Adj PAT	2,290	2,625	(12.8)	1,979	15.7	5,009	5,909	(15.2)	
EBITDA margin (%)	11.2	13.4	(228bps)	9.7	147bps	9.7	12.7	(294bps)	
PAT margin (%)	7.3	9.4	(203bps)	6.3	102bps	6.2	10.0	(387bps)	
<b>VGRD</b>									
Sales	8,921	8,350	6.8	9,074	(1.7)	23,647	18,660	26.7	We expect revenue growth of 6.8% YoY for VGRD led by strong volumes in the electromechanical and electronics segment. YoY EBITDA and PAT margin contraction is estimated at 59bps and 87bps respectively primarily due to higher operating cost and RM inflation. Demand outlook and market share gains especially in non-South regions are key monitorables
EBITDA	1,181	1,155	2.2	949	24.5	2,585	2,017	28.2	
Adj PAT	755	779	(3.1)	593	27.2	1,603	1,330	20.6	
EBITDA margin (%)	13.2	13.8	(59bps)	10.5	278bps	10.9	10.8	12bps	
PAT margin (%)	8.5	9.3	(87bps)	6.5	192bps	6.8	7.1	(35bps)	
<b>VOLT</b>									
Sales	20,903	19,704	6.1	16,687	25.3	55,256	48,287	14.4	VOLT's sales are forecast to rise 6.1% YoY off a high base, primarily led by strong realisations and volume gains in the UCP and EMP segments. YoY EBITDA and PAT are expected to improve due to volume leverage, which will be partially offset by cost inflation and a return of some operating costs post-Covid. Key monitorables are the company's plans to retain market share in RAC and to grow its EMP segment after divesting the same to its subsidiary.
EBITDA	1,365	1,217	12.2	1,087	25.5	3,624	2,352	54.1	
Adj PAT	1,290	1,279	0.8	1,036	24.5	3,544	2,874	23.3	
EBITDA margin (%)	6.5	6.2	35bps	6.5	1bps	6.6	4.9	169bps	
PAT margin (%)	6.2	6.5	(32bps)	6.2	(4bps)	6.4	6.0	46bps	
<b>WHIRL</b>									
Sales	16,956	14,940	13.5	16,071	5.5	46,433	41,205	12.7	Consolidation of the Elica acquisition should take WHIRL's revenue growth to 13.5% YoY (5% on an organic basis). Despite the cost pressures, we estimate 53bps YoY expansion in EBITDA margin on the back of better margin accretion from Elica. Key monitorables are new launches in the refrigeration and washing machine segments as well as Elica integration.
EBITDA	1,232	1,006	22.5	1,294	(4.8)	3,081	3,284	(6.2)	
Adj PAT	734	714	2.8	886	(17.2)	1,875	2,218	(15.5)	
EBITDA margin (%)	7.3	6.7	53 bps	8.1	(79bps)	6.6	8.0	(134bps)	
PAT margin (%)	4.3	4.8	(45bps)	5.5	(119bps)	4.0	5.4	(134bps)	

Source: Company, BOBCAPS Research

**Fig 2 – Key commodity and currency prices**

Particulars	Units	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
<b>Key Commodities</b>									
<b>Copper LME</b>	<b>(US\$/t)</b>	<b>5,619</b>	<b>5,370</b>	<b>6,531</b>	<b>7,216</b>	<b>8,506</b>	<b>9,687</b>	<b>9,380</b>	<b>9,709</b>
YoY (%)		(9.7)	(12.1)	12.6	22.2	51.4	80.4	43.6	34.5
QoQ (%)		(4.9)	(4.4)	21.6	10.5	17.9	13.9	(3.2)	3.5
<b>Aluminum LME</b>	<b>(US\$/t)</b>	<b>1,687</b>	<b>1,500</b>	<b>1,709</b>	<b>1,924</b>	<b>2,097</b>	<b>2,400</b>	<b>2,651</b>	<b>2,756</b>
YoY (%)		(9.4)	(16.4)	(3.1)	9.5	24.3	60.0	55.2	43.2
QoQ (%)		(4.0)	(11.1)	13.9	12.6	9.0	14.4	10.5	3.9
<b>India CR Coil IS513 1.0mm In warehouse Mumbai</b>	<b>(US\$/t)</b>	<b>584</b>	<b>537</b>	<b>599</b>	<b>744</b>	<b>900</b>	<b>1,022</b>	<b>1,043</b>	<b>990</b>
YoY (%)		(8.4)	(16.8)	1.6	36.8	54.2	90.4	74.0	33.0
QoQ (%)		7.3	(8.1)	11.6	24.2	21.0	13.6	2.0	(5.1)
<b>India HR Coil IS2062 3.0mm In warehouse Mumbai</b>	<b>(US\$/t)</b>	<b>523</b>	<b>490</b>	<b>528</b>	<b>623</b>	<b>763</b>	<b>874</b>	<b>893</b>	<b>901</b>
YoY (%)		(13.4)	(17.8)	(2.3)	28.4	45.8	78.3	69.1	44.6
QoQ (%)		7.9	(6.3)	7.7	17.9	22.5	14.5	2.2	0.8
<b>NNS Plastic ABS Imported Price</b>	<b>(US\$/kg)</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>
YoY (%)		(7.2)	(8.5)	(17.6)	(16.2)	4.6	19.2	26.9	45.5
QoQ (%)		(2.5)	(6.6)	(7.6)	(0.5)	21.8	6.4	(1.6)	14.1
<b>Copper LME</b>	<b>(Rs/t)</b>	<b>4,07,033</b>	<b>4,07,429</b>	<b>4,85,772</b>	<b>5,32,449</b>	<b>6,20,064</b>	<b>7,14,368</b>	<b>6,94,985</b>	<b>7,27,707</b>
YoY (%)		(7.2)	(4.2)	19.0	26.5	52.3	75.3	43.1	36.7
QoQ (%)		(3.3)	0.1	19.2	9.6	16.5	15.2	(2.7)	4.7
<b>Aluminum LME</b>	<b>(Rs/t)</b>	<b>1,22,222</b>	<b>1,13,817</b>	<b>1,27,093</b>	<b>1,41,983</b>	<b>1,52,896</b>	<b>1,77,011</b>	<b>1,96,437</b>	<b>2,06,541</b>
YoY (%)		(6.9)	(8.8)	2.4	13.4	25.1	55.5	54.6	45.5
QoQ (%)		(2.4)	(6.9)	11.7	11.7	7.7	15.8	11.0	5.1
<b>India CR Coil IS513 1.0mm In warehouse Mumbai</b>	<b>(Rs/t)</b>	<b>42,300</b>	<b>40,735</b>	<b>44,574</b>	<b>54,902</b>	<b>65,633</b>	<b>75,400</b>	<b>77,265</b>	<b>74,182</b>
YoY (%)		(5.8)	(9.3)	7.3	41.7	55.2	85.1	73.3	35.1
QoQ (%)		9.1	(3.7)	9.4	23.2	19.5	14.9	2.5	(4.0)
<b>India HR Coil IS2062 3.0mm In warehouse Mumbai</b>	<b>(Rs/t)</b>	<b>37,915</b>	<b>37,206</b>	<b>39,294</b>	<b>45,961</b>	<b>55,641</b>	<b>64,469</b>	<b>66,192</b>	<b>67,515</b>
YoY (%)		(11.0)	(10.4)	3.2	33.0	46.7	73.3	68.5	46.9
QoQ (%)		9.7	(1.9)	5.6	17.0	21.1	15.9	2.7	2.0
<b>NNS Plastic ABS Imported Price</b>	<b>(Rs/kg)</b>	<b>124</b>	<b>121</b>	<b>110</b>	<b>108</b>	<b>130</b>	<b>140</b>	<b>139</b>	<b>160</b>
YoY (%)		(4.6)	(0.2)	(13.0)	(13.2)	5.3	15.9	26.4	47.8
QoQ (%)		(0.8)	(2.2)	(9.4)	(1.3)	20.3	7.6	(1.1)	15.4
<b>USD/INR</b>		<b>72</b>	<b>76</b>	<b>74</b>	<b>74</b>	<b>73</b>	<b>74</b>	<b>74</b>	<b>75</b>
YoY (%)		2.8	9.1	5.7	3.6	0.6	(2.8)	(0.4)	1.6
QoQ (%)		1.7	4.7	(2.0)	(0.8)	(1.2)	1.2	0.5	1.2

Source: Bloomberg, BOBCAPS Research

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**Note:** Recommendation structure changed with effect from 21 June 2021

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