

CONSUMER DURABLES

Q3FY23 Review

04 January 2023

Expect a tepid quarter

- Q3 to remain lacklustre on muted demand post festive season and little scope for price hikes
- Expect 14% YoY topline growth for our coverage led by higher volumes, but a modest 9% YoY rise in bottomline as RAC players lag
- Maintain preference for category leaders – HAVL, POLYCAB and DIXON

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Tepid quarter: We expect a dull Q3FY23 for our consumer durables universe given lower volume offtake following the festive season. The initial phase of the season was strong but demand lacked vigour in the later phase, per our industry interactions. Premium products saw buoyant sales, but the entry-level segment remains distressed. Taking cognizance of competition, industry players refrained from price hikes and chased market share over margin gains. With uncertainty in China amid a surge in Covid cases, players are operating at high inventory levels (75-90 days vs. the usual 40-45).

Volumes over value: With no price hikes undertaken by the room AC (RAC) industry, topline growth for these players is likely to be volume-led in Q3. The scope for pricing action (post-Jan) has been dimmed by rising competition in the industry. Among electronics manufacturing services (EMS) players, we foresee a resilient topline with the highest YoY growth in our coverage, but the uncertainty rises near term on lower volume pickup from mid-Q3. Electrical players are expected to post a modest 3Y revenue CAGR, though the fans segment is likely to be muted due to the label change. We expect cables & wires players to witness better demand traction led by a capex push.

Margins likely to bottom out: Operating margins for our coverage stocks are likely to lag YoY but should post a sequential pickup led by lower commodity prices. We anticipate gradual sequential recovery in margins from Q4 onwards.

Long-term prospects bright: Most industry players anticipate a better H2FY23 marked by margin expansion and demand revival. This is corroborated by the Consumer Electronics & Appliances Manufacturers Association (CEAMA), which expects the upbeat growth rate of CY22 to continue in CY23 (value growth of ~35% in CY22). The sustained capex drive (by VOLT, BLSTR, AMBER) amidst uncertainty over Chinese supply suggests the ongoing concerns are transient in nature.

Maintain picks: We maintain our top picks of **HAVL** (BUY, TP Rs 1,500) – better placed for energy rating transition in fans with higher premium segment contribution, **POLYCAB** (BUY, TP Rs 3,300) – insulated from recent reversal in commodity price, and **DIXON** (BUY, TP Rs 5,200) – proxy to robust growth prospects in EMS sector.

Recommendation snapshot

Ticker	Price	Target	Rating
AMBER IN	1,873	2,100	HOLD
BLSTR IN	1,205	1,350	HOLD
CROMPTON IN	347	500	BUY
DIXON IN	3,922	5,200	BUY
HAVL IN	1,128	1,500	BUY
KEII IN	1,515	1,900	BUY
ORIENTEL IN	263	280	HOLD
POLYCAB IN	2,591	3,300	BUY
SYRMA IN	278	390	BUY
VGRD IN	262	250	HOLD
VOLT IN	808	950	HOLD

Price & Target in Rupees | Price as of 3 Jan 2023



Q3FY23 preview

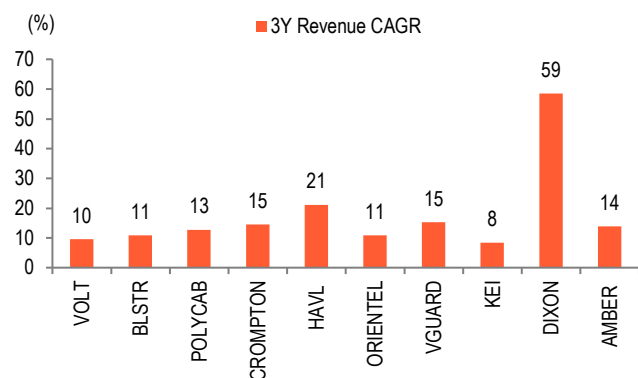
Fig 1 – BOBCAPS Capital Goods Universe: Q3FY23E snapshot

	Revenue					EBITDA					EBITDA margin (%)			PAT (Rs mn)				
	Q3FY23E	Q3FY22	Q2FY23	YoY (%)	3Y CAGR (%)	Q3FY23E	Q3FY22	Q2FY23	YoY (%)	3Y CAGR (%)	Q3FY23E	Q3FY22	Q2FY23	Q3FY23E	Q3FY22	Q2FY23	YoY (%)	3Y CAGR (%)
VOLT	19,640	17,936	17,684	9.5	9.6	1434	1556	1008	(7.9)	13.7	7.3	8.7	5.7	844	966	990	(12.6)	(1.4)
BLSTR	16,850	15,062	15,762	11.9	10.9	1011	906	856	11.6	22.2	6.0	6.0	5.4	567	476	426	19.1	41.8
POLYCAB	35,967	33,720	33,324	6.7	12.8	4226	3617	4276	16.8	7.6	11.8	10.7	12.8	2869	2467	2731	16.3	9.5
CROMPTON	16,089	14,106	16,995	14.1	14.5	2333	2015	1931	15.8	19.5	14.5	14.3	11.4	1486	1483	1258	0.2	(2.6)
HAVL	40,415	36,642	36,794	10.3	21.1	4405	4402	2868	0.1	17.8	10.9	12.0	7.8	3037	3058	1870	(0.7)	14.8
ORIENTEL	6,745	6,784	5,106	(0.6)	10.8	438	665	116	(34.0)	(1.0)	6.5	9.8	2.3	230	381	(3)	(39.7)	6.4
VGUARD	9,680	9,674	9,861	0.1	15.3	929	868	727	7.1	14.8	9.6	9.0	7.4	618	532	437	16.3	12.1
KEI	16,715	15,639	16,081	6.9	8.3	1761	1568	1605	12.3	8.1	10.5	10.0	10.0	1182	1012	1068	16.8	17.6
DIXON	39,638	30,733	38,668	29.0	58.6	1506	1030	1452	46.2	43.0	3.8	3.4	3.8	814	464	772	75.5	45.7
AMBER	11,645	9,743	7,504	19.5	13.9	722	736	367	(1.9)	10.0	6.2	7.6	4.9	244	329	(30)	(26.0)	(0.6)
SYRMA	4,107	-	4,669	-	-	403	-	472	-	-	9.8	-	10.1	233	-	282	-	-
Total	2,17,491	1,90,037	2,02,448	14.4	19.3	19,169	17,364	15,678	10.4	15.3	8.8	9.1	7.7	12,122	11,168	9,801	8.5	11.5

Source: Company, BOBCAPS Research

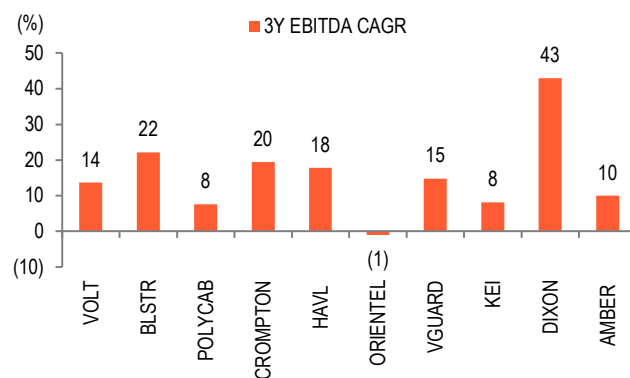
Story in charts

Fig 2 – Moderate 3Y revenue CAGR for most coverage companies



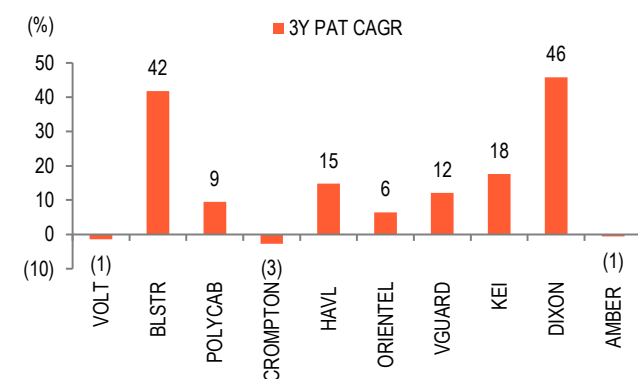
Source: Company, BOBCAPS Research

Fig 3 – Limited operating profit improvement



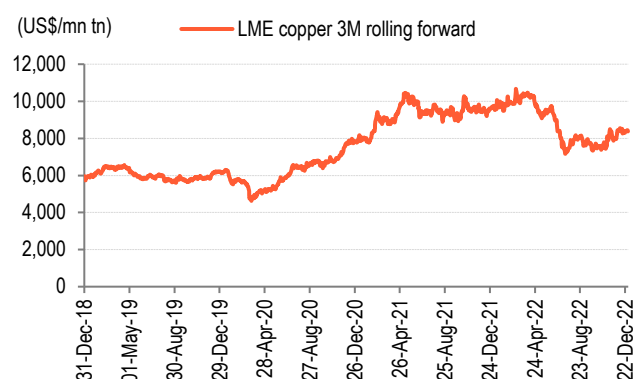
Source: Company, BOBCAPS Research

Fig 4 – RAC players to see continued PAT weakness (ex-BLSTR)



Source: Company, BOBCAPS Research

Fig 5 – Commodity prices reversing post dip in Q2FY23



Source: Company, BOBCAPS Research

Valuation snapshot

Fig 6 – Consumer Durables: Valuation matrix

Company	Rating	Target (Rs)	Upside (%)	Revenue (Rs bn)				EBITDA (Rs bn)			
				FY23E	FY24E	FY25E	CAGR (%)	FY23E	FY24E	FY25E	CAGR (%)
VOLT	Hold	1000	24	89	108	127	17.1	7	9	12	19.3
BLSTR	Hold	1350	12	70	80	93	15.6	4	5	7	24.5
POLYCAB	Buy	3300	27	148	167	184	14.7	17	20	22	21.0
CROMPTON	Buy	500	44	76	87	101	23.1	10	12	15	23.7
HAVL	Buy	1500	33	159	179	206	14.0	19	24	28	17.0
ORIENTEL	Hold	280	6	27	32	36	14.1	2	3	3	14.1
VGRD	Hold	250	-5	40	44	50	12.6	4	5	5	15.2
KEI	Buy	1900	25	69	79	90	16.4	8	10	12	25.5
DIXON	Buy	5200	33	171	221	263	35.0	7	9	11	41.1
AMBER	Hold	2100	12	58	74	87	27.6	4	5	6	31.0
SYRMA	Buy	390	40	17	25	36	42.0	2	3	4	45.4

Company	EBITDA Margin (%)			PAT (Rs bn)				P/E (x)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	CAGR (%)	FY23E	FY24E	FY25E
VOLT	7.4	8.5	9.1	5	6	8	16.9	58	42	33
BLSTR	5.8	6.2	7.2	2	3	4	34.5	49	42	28
POLYCAB	11.6	12.0	12.2	11	13	15	21.7	34	29	26
CROMPTON	13.0	14.1	14.5	7	9	10	20.5	34	25	21
HAVL	12.2	13.3	13.7	13	16	19	17.0	53	43	37
ORIENTEL	7.7	8.8	9.5	1	2	2	14.8	52	37	29
VGRD	10.0	10.4	10.3	3	3	3	13.1	44	38	34
KEI	11.0	12.2	12.9	4	6	7	23.1	32	24	20
DIXON	3.9	4.0	4.0	4	5	6	47.9	65	46	38
AMBER	7.0	7.1	7.1	2	2	3	38.3	36	29	21
SYRMA	10.3	10.7	10.7	1	2	2	43.6	45	29	22

Source: Company, BOBCAPS Research

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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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