

CONSUMER DURABLES

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FY22 Review: Margin gains elusive

- War, inflation, supply chain disruptions and Covid all dented consumer durable margins, but likely to be transient
- Management commentary cautious as companies walk a fine line between raising prices to combat RM inflation and preserving demand
- Pricing power and cost control vital in an inflationary climate; prefer leaders with a demonstrable record – VOLT, HAVL, POLYCAB

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Multiple pressure points on margins: FY22 will be remembered as a year when margin gains proved elusive for consumer durable players as they grappled with the impacts of war, inflation, supply chain hurdles and the pandemic. If the first half of the year was marred by Covid-related stress, the second half saw raw material headwinds. The Russia-Ukraine conflict, supply shortages and logistical issues as well as the shutdown of key business and transportation hubs in China due to the Omicron wave all contributed to higher input costs for companies. Inflation, which has a direct impact on discretionary spending, topped this heady cocktail.

Commoditised businesses did better: Our analysis of subsegments within consumer durables shows that relatively commoditised businesses such as cables and wires have outperformed the brand- and distribution-led segments of appliances and light electricals. For the former, copper is a key input and players were able to pass on the rising prices, as evidenced by strong sales growth for companies such as HAVL and POLYCAB. About 70-80% of the sales growth comes from pricing and the rest from volumes. In contrast, appliances players faced challenges – for example, in the AC space, BLSTR and Lloyd outpaced VOLT but only by sacrificing margins.

Pricing to pose a key challenge in FY23: The biggest challenge ahead for the consumer durables sector is striking the delicate balance of raising prices to combat raw material inflation without upsetting demand. Most managements are cautious on pricing. While some like VOLT and BLSTR have alluded to a small 3-5% range, others like Lloyd may refrain from hikes in order to sustain volume growth.

Prefer leaders in an inflationary scenario: Pricing power and cost management are crucial in a high-inflation environment as these factors will determine cash flow yields. We prefer leaders that have a demonstrable track record, viz. VOLT (BUY, TP Rs 1,250) and HAVL (BUY, TP Rs 1,500) among the durable names. POLYCAB (BUY, TP Rs 3,000) is our pick among cables and wires where pass-through is easier. In the contract manufacturing business, we like DIXON (BUY, Rs 4,600) for its business model.

Recommendation snapshot

Ticker	Price	Target	Rating
AMBER IN	2,633	3,500	HOLD
BLSTR IN	1,024	1,200	HOLD
CROMPTON IN	361	500	BUY
DIXON IN	3,859	4,600	BUY
HAVL IN	1,202	1,500	BUY
ORIENTEL IN	280	350	HOLD
POLYCAB IN	2,442	3,000	BUY
VGRD IN	234	250	HOLD
VOLT IN	1,018	1,250	BUY

Price & Target in Rupees | Price as of 31 May 2022

Consumer durables: Q4 result reviews

Company	Result review link
VOLT IN	Structural story intact
HAVL IN	Plenty of positives – BUY
DIXON IN	A play on PLI
POLYCAB IN	Wired for growth
CROMPTON IN	Prudent cost management aids Q4
BLSTR IN	Gunning for market share
ORIENTEL IN	Premiumisation is key
VGRD IN	Margin pressure continues
AMBER IN	Components business remains in focus

Source: BOBCAPS Research



Fig 1 – 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	338	1,023	1,250	22	78	92	110	19	5.9	8.3	10.9	36	7.5	9.1	9.9
BLSTR	HOLD	98	1,020	1,200	18	60	70	81	16	3.5	4.4	5.0	20	5.7	6.2	6.2
POLYCAB	BUY	366	2,450	3,000	22	122	144	162	15	12.7	16.2	20.1	26	10.4	11.3	12.4
CG	BUY	229	362	500	38	54	75	85	26	7.7	10.2	12.2	26	14.3	13.7	14.3
HAVL	Buy	753	1,203	1,500	25	139	159	182	14	17.6	22.3	25.8	21	12.6	14.1	14.1
ORIENTEL	HOLD	59	279	350	26	24	29	34	17	2.3	3.0	3.5	23	9.4	10.1	10.4
VGUARD	HOLD	101	234	250	7	35	40	43	11	3.3	4.0	4.5	16	9.5	10.2	10.4
DIXON	BUY	228	3,847	4,600	20	107	171	220	44	3.8	6.4	8.4	48	3.6	3.8	3.8
AMBER	HOLD	88	2,620	3,500	34	42	58	74	33	2.7	4.4	5.8	46	6.5	7.5	7.9

Source: Company, BOBCAPS Research

Fig 2 – BOBCAPS Consumer Durables universe: Valuation matrix

Companies	PAT (Rs bn)				EPS (Rs)				RoE (%)			PE (x)		
	FY22	FY23E	FY24E	CAGR (%)	FY22	FY23E	FY24E	CAGR (%)	FY22	FY23E	FY24E	FY22	FY23E	FY24E
VOLT	4.1	6.1	8.2	41	12.4	18.5	24.8	41	7.8	10.6	12.6	82	55	41
BLSTR	1.7	2.5	2.8	29	17.4	26.3	29.0	29	17.6	23.7	23.9	59	39	35
POLYCAB	7.7	10.4	12.7	28	51.7	69.7	85.1	28	15.0	17.5	18.4	47	35	29
CG	5.9	7.3	9.4	26	9.3	11.6	14.8	26	27.0	25.5	25.1	39	31	24
HAVL	12.0	15.1	17.5	21	19.1	24.1	27.9	21	21.4	23.1	22.8	63	50	43
ORIENTEL	1.3	1.5	1.9	23	6.0	7.1	9.0	23	25.4	25.4	26.3	47	39	31
VGUARD	2.3	2.7	3.1	16	5.3	6.3	7.1	16	17.4	17.9	17.5	44	37	33
DIXON	1.9	3.5	4.8	59	32.2	58.8	81.0	59	22	29.8	30.3	119	65	48
AMBER	1.0	1.9	2.9	71	30.1	57.9	87.7	71	5.8	10.4	13.9	87	45	30

Source: Company, BOBCAPS Research

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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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