CONSUMER DURABLES

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Channel Checks: Fans facing the heat but ACs in demand

- **Demand for fans falls short of dealer expectations post BEE rating transition; outlook cautious**
- **AC sales improving MoM and expected to rise further this summer, implying scope for price hikes**
- **Channel checks indicate a mixed Q4FY23 for our consumer durables universe; our picks in fans & ACs – HAVL, CROMPTON, BLSTR**

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Mixed outlook: Our interactions with several air conditioner and fan dealers in various regions indicate a mixed outlook, with AC dealers optimistic of summer demand and fan dealers cautious following BEE (Bureau of Energy Efficiency) star rating transition from Jan'23. Q4FY23 is the first quarter following the rating transition which was expected to lend an impetus to demand, but unseasonal rains in March have proved to be a spoiler. In contrast, AC dealers have seen incremental MoM demand and expect to surpass the summer sales posted last year, marked by 10-15% rural market growth and 30-40% growth in urban markets.

Push to clear old fan inventory: Fan dealers confirmed the push to sell old-star-rated inventory, in line with the Q3FY23 earnings commentary across players. At present, big distributors hold 5-6 months of old inventory while small dealers hold 2-3 months of stock. Though channels are focusing on clearing old inventory, enquiries for new-rated fans are also translating into sales.

BLDC fans gaining traction: The BEE rating change has led to increased awareness among consumers about energy efficiency, with rising enquiries for the latest brushless motor (BLDC) fans. Unlisted player Atomberg is currently the market leader in this segment and enjoys the first mover advantage. However, our channel checks indicate that the gap between the leader and peers is likely to narrow quickly as Atomberg's weaknesses in distribution and scale are likely to be exploited by peers.

Scope for price hikes: In line with Q3 earnings commentary, both the fan and AC segments witnessed price hikes during the fourth quarter – at 4-5% and 4-8% (Rs 2,000-2,500) respectively. Our dealer interactions indicate scope for further hikes depending on demand trends this summer.

Prefer sector leaders: We prefer HAVL (BUY, TP Rs 1,500), CROMPTON (BUY, TP Rs 440), and BLSTR (BUY, TP Rs 1,450) in the fans and AC segments.

Recommendation snapshot

Ticker	Price	Target	Rating
AMBER IN	1,825	2,100	HOLD
BLSTR IN	1,379	1,450	BUY
CROMPTON IN	293	440	BUY
DIXON IN	2,861	4,100	BUY
HAVL IN	1,189	1,500	BUY
KEII IN	1,699	1,900	BUY
ORIENTEL IN	270	290	HOLD
POLYCAB IN	2,880	3,300	BUY
SYRMA IN	263	400	BUY
VGRD IN	250	260	HOLD
VOLT IN	818	910	HOLD

Price & Target in Rupees | Price as of 31 Mar 2023

Channel check takeaways

Fans

- As per government guidelines, companies can no longer sell old-labeled fans, but dealers are permitted to liquidate the same over a two-year period and are thus focusing on clearing their old stock.
- At present, big distributors hold 5-6 months of old inventory while small dealers have 2-3 months of stock.
- A bulk of the sales are still for economy fans though premium products are gaining traction. One reason for the premiumisation trend is that younger buyers are prioritising aesthetics over cost.
- Demand has been soft over the past three months versus the same period last year due to unseasonal rains.
- Dealers affirm that fan prices have been hiked 4-5% across brands and product variants since January.
- Customers are fully aware of the rating changes, driving enquiries for new-rated fans and BLDC products.
- Government organisations are placing more orders for BLDC fans than the residential segment. Demand from the industrial segment is healthy as well.
- BLDC fans are energy efficient (28-35W) and the higher purchase cost is fully recovered within just 2-3 years. Sales of premium fans (Rs 6,000+) in this segment are buoyant.
- Atomberg have an early mover advantage in the BLDC segment but is unlikely to maintain its edge for long as it lacks distribution and scale.

Air Conditioners

- Demand pickup in the AC segment was slightly delayed in January on account of the cold weather, but enquiries have shown traction thereafter. Sales have risen MoM and were especially strong in March. The months of April and May are likely to see further improvement as temperatures rise.
- Dealers expect 10-15% YoY sales growth for summer season considering growing demand. This is likely to be marked by 10-15% rural market growth and 30-40% growth in urban markets.
- Corporate sales have been better than the retail segment and are expected to remain upbeat for the entire summer season (March-June).
- AC prices have been hiked 4-8% (Rs 2,000-2,500) in March.
- Lloyd’s diverse range and product superiority is aiding higher sales. Its prices too are almost on par with peers.

Fig 1 – Valuation snapshot

Companies	Rating	Mcap (Rs bn)	CMP (Rs)	Target (Rs)	Upside (%)	Revenue (Rs bn)				EBITDA (Rs bn)			
						FY23E	FY24E	FY25E	CAGR (%) (FY23-25E)	FY23E	FY24E	FY25E	CAGR (%) (FY23-25E)
VOLT	Hold	271	818	910	11	89	108	127	19.9	5.5	9.1	11.5	44.9
BLSTR	Buy	133	1,379	1,450	5	71	82	95	15.5	4.2	5.0	6.7	26.4
CROMPTON	Buy	186	293	440	50	68	78	90	15.1	8.0	10.0	12.0	22.4
HAVL	Buy	744	1,189	1,500	26	161	182	210	14.0	15.4	21.6	28.9	36.8
ORIENTEL	Hold	57	270	290	7	27	31	35	15.3	1.8	2.6	3.1	30.9

Companies	EBITDA Margin (%)			PAT (Rs bn)				EPS (Rs)				P/E (x)		
	FY23E	FY24E	FY25E	FY23	FY24E	FY25E	CAGR (%) (FY23-25E)	FY23	FY24E	FY25E	CAGR (%) (FY23-25E)	FY23	FY24E	FY25E
VOLT	6.2	8.5	9.1	3.7	6.2	7.9	47.0	11.1	18.9	24.0	47.0	73.8	43.4	34.1
BLSTR	5.9	6.1	7.0	2.4	2.8	4.0	28.8	25.1	29.0	41.7	28.8	54.9	47.6	33.1
CROMPTON	11.8	12.8	13.3	5.0	6.9	8.4	29.6	7.9	10.9	13.3	29.6	37.1	26.9	22.1
HAVL	9.6	11.9	13.8	10.4	14.8	19.7	37.3	16.7	23.6	31.4	37.3	71.3	50.4	37.8
ORIENTEL	6.9	8.4	8.8	1.0	1.5	1.8	37.5	4.6	7.0	8.7	37.5	58.9	38.5	31.1

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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