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Monsoon and Sowing

Consumer Durables | Q1FY23 Preview

Base effect in play

SUMMARY
India Economics: Monsoon Update

Government of India in Jun'22 had hiked the MSP of Kharif crops with the objective to provide remunerative prices and encourage crop diversification. MSP for crops was hiked in the range of 4%-8%. Against this backdrop, however the sowing of Kharif crops has started on a relatively somber note compared with last year. With the advancement of rainfall and expectations of a normal South-West monsoon as per IMD, sown activity is likely to pick up in the coming weeks.

[Click here for the full report.](#)

Consumer Durables: Q1FY23 Preview

- Q1FY23 to be exceptionally strong given weak Covid-hit base quarter last year, with summer products set to shine in particular
- Expect revenue/EBIDTA/PAT growth of 66%/91%/98% YoY for our coverage universe
- Retain preference for leaders with a proven record on pricing as well as cost control; BUY VOLT, HAVL, POLYCAB

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Daily macro indicators

Indicator	06-Jul	07-Jul	Chg (%)
US 10Y yield (%)	2.93	2.99	7bps
India 10Y yield (%)	7.29	7.35	6bps
USD/INR	79.30	79.18	0.2
Brent Crude (US\$/bbl)	100.7	104.7	3.9
Dow	31,038	31,385	1.1
Hang Seng	21,587	21,644	0.3
Sensex	53,751	54,178	0.8
India FII (US\$ mn)	05-Jul	06-Jul	Chg (\$ mn)
FII-D	30.0	116.6	86.6
FII-E	269.7	(100.3)	(370.0)

Source: Bank of Baroda Economics Research



MONSOON UPDATE

14 June 2022

Monsoon and Sowing

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Jahnvi Prabhakar
Economist

Where does Kharif sowing stand?

For the week ended 8 Jul 2022, overall kharif sown area has fallen by 9.3% compared with last year. Sown area of rice and cereals has declined by 24% and 13.7% respectively. Further, decline in sowing area of oilseeds (20.3%), sugarcane (0.5%) and cotton (0.2%) was noticed. However, sowing of pulses (1%) has registered an improvement.

Table 1: Kharif Sowing

	Area sown in 2022-23 (mn ha)	Area sown in 2021-22 (mn ha)	Growth (YoY %)
Foodgrains	18.4	20.5	(10.4)
Cereals	13.8	15.9	(13.7)
Rice	7.2	9.5	(24.0)
Pulses	4.7	4.6	1.0
Oilseeds	7.8	9.8	(20.3)
Cotton	8.5	8.5	(0.2)
Sugarcane	5.3	5.4	(0.5)
Jute and Mesta	0.7	0.7	(0.7)
Total	40.67	44.82	(9.3)

Source: CEIC, Bank of Baroda | Data as of 8 Jul 2022

Monsoon:

For the period 1 Jun 2022 to 8 Jul 2022, South West Monsoon is 2% above LPA compared with last year.

- North Eastern states such as Assam, and Meghalaya continue to receive excessive rainfall, even as some regions are battling flood type conditions. Meghalaya has registered highest rainfall in over 121 years in the month of Jun'22. Others such as Rajasthan, Telangana, Andhra Pradesh and Tamil Nadu have also received excess rainfall in this period.
- On the other hand, Central and Northern region of India such as Himachal Pradesh, Punjab, Chhattisgarh, Maharashtra, Karnataka and Madhya Pradesh have received normal rainfall.
- Eastern belt of the country such as Bihar, Uttar Pradesh, Odisha and Jharkhand have registered deficient rainfall. Kerala too has been witnessing much less rainfall.



Base effect in play

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Q1 to reflect base effect of a lost quarter: Q1FY23 numbers are likely to look optically high against a washout quarter last year due to Covid-19. The past year has seen an increase in raw material costs due to ongoing commodity inflation, with the industry taking price hikes in the range of 10-18% YoY across product categories. While raw material pressure has not yet abated, we are seeing some sequential pricing relief. However, high inflation poses fresh headwinds which will have a bearing on demand in the next couple of quarters. Management commentary on tackling inflation will thus be keenly watched. Our industry interactions in end-May/June indicated reluctance on the part of companies to hike prices further.

Expect revenue/PAT growth of 66%/98%: We forecast revenue growth of 66% YoY for our coverage universe, with summer products particularly standing out due to the dual effect of the peak season and a very low base. We expect room AC players (VOLT, BLSTR, AMBER) to post a revenue CAGR of 71%. Similarly, the ECD divisions of most companies are likely to do well, with a spotlight on fans. The cables and wires segment, which was the best performer in Q4FY22, is likely to see a sequential dip as lower commodity prices could suppress revenue growth. We expect EBITDA for our coverage stocks to grow at 91% YoY and PAT at 98%,

Management commentary critical: In our view, management commentary on demand, raw material inflation, cost management and expectations of upcoming festive season demand will offer a clearer picture of the recovery than the reported Q1FY23 numbers.

Prefer sector leaders: We maintain our sector stance of sticking with the larger players in each category. Given that pricing power and cost control are vital in the current inflationary environment, we reiterate our preference for leaders with a strong track record in these areas – viz. VOLT (BUY, TP: Rs 1,250), HAVL (BUY, TP: Rs 1,500) and POLYCAB (BUY, Rs 3,000).

Recommendation snapshot

Ticker	Price	Target	Rating
AMBER IN	2,427	3,500	HOLD
BLSTR IN	876	1,200	HOLD
CROMPTON IN	367	500	BUY
DIXON IN	3,706	4,600	BUY
HAVL IN	1,222	1,500	BUY
ORIENTEL IN	277	310	HOLD
POLYCAB IN	2,251	3,000	BUY
VGRD IN	219	250	HOLD
VOLT IN	972	1,250	BUY

Price & Target in Rupees | Price as of 7 Jul 2022



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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