

RESEARCH
CONSUMER DURABLES

Fan industry – Dynamics set to change post BEE ratings change

SUMMARY
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- New energy labelling norms effective Jan'23 downgrade the most efficient conventional fans from a 5-star rating to just 1 star
- Shift to energy-efficient BLDC fans could boost annual demand by up to 0.3x
- HAVL and CROMPTON are our top picks as proxy plays on the electric fan business

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Daily macro indicators

Indicator	20-Dec	21-Dec	Chg (%)
US 10Y yield (%)	3.68	3.66	(2bps)
India 10Y yield (%)	7.30	7.29	(1bps)
USD/INR	82.76	82.82	(0.1)
Brent Crude (US\$/bbl)	80.0	82.2	2.8
Dow	32,850	33,376	1.6
Hang Seng	19,095	19,160	0.3
Sensex	61,702	61,067	(1.0)
India FII (US\$ mn)	19-Dec	20-Dec	Chg (\$ mn)
FII-D	(71.5)	(0.9)	70.6
FII-E	(16.6)	147.1	163.8

Source: Bank of Baroda Economics Research



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22 December 2022

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Mandatory star ratings for electric fans: India's Bureau of Energy Efficiency (BEE) has mandated a star-rating (labelling) programme for electric fans, effective 1 Jan 2023. This move is intended to improve the energy efficiency of household appliances, given that electric fans consume 25–30% of household energy. The brushless direct current (BLDC) electric motor fans could provide the next phase of energy savings, similar to the transition to LEDs over conventional lighting. These fans are ~50% more efficient than conventional induction motor fans and suffer less wear & tear. Our analysis suggests that switching to BLDC fans can raise annual demand by up to 0.3x (Fig 2).

Energy-saving fans form just 3% of the industry: Electric fans have high market penetration at 90%, but the share of energy-efficient products constitutes a mere 3% of fan industry volumes vs. ~50% for most other appliances (Fig 3). We expect growing awareness about quality and energy efficiency coupled with the new regulations to spur product upgrades by consumers, accelerating growth in the segment.

Ample market opportunity for BLDC fans: Data from the Council for Energy, Environment and Water suggests that the total addressable market for energy-efficient fans is ~476mn units worth Rs 1.4tn. This includes (i) the entire existing stock of ceiling fans (potential replacement purchases) at 410mn units, and (ii) unfulfilled demand (potential first-time purchases) at 66mn units. The total annual market for electric fans is estimated at 65mn units or Rs 96bn, wherein star-labelled ceiling fans comprise just 9% of annual sales. In particular, the share of energy-efficient BLDC ceiling fans (falling under premium category) is even smaller, with 1mn units being sold annually.

HAVL, CROMPTON to benefit: Fans remain an appealing proposition for consumer durable companies due to their high ROE profile. We expect the upcoming regulatory norms to hasten the shift toward the premium BLDC fan segment, resulting in market consolidation. Another major driver for the replacement market is the shift in consumer preference from utilitarian to aspirational products (aesthetic, design and brand awareness). **HAVL** (BUY, TP Rs 1,500) with its higher premium segment contribution and **CROMPTON** (Rs 500, BUY) with its market leadership are our preferred plays on expected growth in the electric fan business.

Recommendation snapshot

Ticker	Price	Target	Rating
AMBER IN	1,929	2,100	HOLD
BLSTR IN	1,205	1,350	HOLD
CROMPTON IN	353	500	BUY
DIXON IN	3,877	5,200	BUY
HAVL IN	1,138	1,500	BUY
ORIENTEL IN	268	280	HOLD
POLYCAB IN	2,617	3,300	BUY
SYRMA IN	268	390	BUY
VGRD IN	268	250	HOLD
VOLT IN	807	950	HOLD

Price & Target in Rupees | Price as of 22 Dec 2022



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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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