

RESEARCH
Consumer Durables: Q2FY23 Preview

Flat quarter ahead

SUMMARY
Consumer Durables: Q2FY23 Preview

- Expect modest 12% YoY topline growth and flattish net profit for our consumer durables coverage
- Scope for early signs of sequential margin improvement amidst commodity cost deflation
- Maintain pecking order with preference for leaders – HAVL, POLYCAB and CROMPTON

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Daily macro indicators

Indicator	04-Oct	05-Oct	Chg (%)
US 10Y yield (%)	3.63	3.75	12bps
India 10Y yield (%)	7.47	7.36	(10bps)
USD/INR	81.88	81.52	0.4
Brent Crude (US\$/bbl)	91.8	93.4	1.7
Dow	30,316	30,274	(0.1)
Hang Seng	17,223	18,088	5.0
Sensex	56,789	58,065	2.2
India FII (US\$ mn)	29-Sep	30-Sep	Chg (\$ mn)
FII-D	(97.5)	(310.3)	(212.8)
FII-E	(473.2)	(186.7)	286.5

Source: Bank of Baroda Economics Research

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Q2 to reflect initial commodity cooling effect: Q2FY23 is likely to reflect partial benefits of the cooldown in commodity prices, with the full effects flowing through from Q3 onwards. Demand for white goods has been mixed with strong traction for mid-to-premium products but pressure on entry-level goods. Thus, we expect realisations to be marginally better led by premiumisation trends. Margins are likely to improve QoQ amidst falling cost inflation and prudent cost management.

Flat growth projected: We model for modest 12% YoY topline growth for our coverage universe with PAT inching up a mere 1%. Traction in electrical consumer durables (ECD) is likely to persist during Q2 driven by festive demand. In a cyclically weak quarter for air conditioning manufacturers, we expect a moderate performance YoY from AC players. The cables & wires segment, that had ended FY22 on a strong note, could see flat topline growth in the wake of easing commodity inflation.

Festive season demand key to watch: We expect buoyant festive demand off a low Covid-hit base. Initial market feedback affirms this view and we await corroborating management commentary on this front and on premiumisation trends. Concurrently, collections by e-commerce giants in the initial phase of the festive season (1.3x of the first four days of the previous year as per industry data) indicate upbeat demand trends. Comments on rural demand pickup will also be keenly tracked in order to gauge the outlook for entry-level products.

Bet on sector leaders: In an improving demand environment, established players with a diverse product range are better placed. Additionally, we believe the larger players have an edge in terms of pricing power and cost control. Our pecking order thus remains as follows – HAVL (BUY, TP Rs 1,500), POLYCAB (BUY, TP Rs 3,000) and CROMPTON (BUY, TP Rs 500).

Recommendation snapshot

Ticker	Price	Target	Rating
AMBER IN	2,369	2,300	HOLD
BLSTR IN	1,128	1,100	HOLD
CROMPTON IN	400	500	BUY
DIXON IN	4,433	4,500	BUY
HAVL IN	1,353	1,500	BUY
ORIENTEL IN	275	310	HOLD
POLYCAB IN	2,643	3,000	BUY
VGRD IN	245	250	HOLD
VOLT IN	922	1,100	HOLD

Price & Target in Rupees | Price as of 6 Oct 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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