

**RESEARCH**
**[Sector Report] Consumer Durables**

Ride India's middle class boom

**SUMMARY**
**[Sector Report] Consumer Durables**

- An upper middle class growing 2.8x over 2018-30E and low ownership levels will spur new, upgrade and replacement demand for durables
- Sector offers strong, resilient growth but valuations are elevated. EPS growth, fundamentals, market leadership to drive prices of select stocks
- Initiate with BUY on CROMPTON, BLSTR, VGRD, WHIRL; we have HOLD ratings on AMBER, DIXON, VOLT, HAVL, ORIENTEL, POLYCAB

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**Daily macro indicators**

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.63	(3bps)	0bps	75bps
India 10Y yield (%)	6.37	0bps	2bps	50bps
USD/INR	74.51	(0.2)	0.8	(0.8)
Brent Crude (US\$/bbl)	82.22	0.0	(4.4)	72.0
Dow	35,804	0.0	0.2	19.9
Shanghai	3,584	(0.2)	(0.7)	6.4
Sensex	58,795	0.8	(3.6)	32.8
<b>India FII (US\$ mn)</b>	<b>24-Nov</b>	<b>MTD</b>	<b>CYTD</b>	<b>FYTD</b>
FII-D	(181.4)	140.3	70.0	2,097.2
FII-E	(1,082.4)	945.8	7,204.3	(122.0)

Source: Bloomberg

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**CONSUMER DURABLES**

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**Booming middle class to propel demand:** Per the World Economic Forum, India’s economic growth is likely to aid 2.8x growth in the number of households earning +Rs 550k per year and 3.6x growth in households earning +Rs 2.7mn per year (Fig 17). At these income levels, customers can look beyond basic needs and consider buying durable goods, indicating the potential for strong volume growth this decade.

**Low ownership, upgrades and replacement cycles key drivers:** Ownership at below 25% of Indian households will spur demand for air conditioners, washing machines and personal computers. In addition, rural and urban ownership levels differ widely, particularly for ACs, refrigerators and PCs. Given India’s large size, even high ownership categories such as fans are yet to reach ~50mn households.

Product upgrades will fuel demand for fans, mobile phones (from feature to smart), televisions (to smart TVs/larger screens) and washing machines (from semi to fully automatic). The need for multiple TV sets and fans will also bolster sales. Shorter replacement cycles will boost demand for products such as mobile phones (every two years) and rising temperatures will increase sales of ACs, fans and air coolers.

**Demand highly resilient:** Durables is the most resilient sector in discretionary consumer spends due to low ticket prices, recent work-from-home trends, rising temperatures and a drop in other non-essential spending.

**Prefer CROMPTON, BLSTR, VGRD, WHIRL:** We initiate coverage with BUY on Crompton Greaves (CROMPTON), Blue Star (BLSTR), V-Guard (VGRD) and Whirlpool (WHIRL) given their relatively low valuations and strong EPS growth. In addition, CROMPTON offers sector-best ROE/ROIC, the lowest net working capital and leadership in three major categories. BLSTR is emerging as the #3 room AC player and is a leader in commercial refrigeration. VGRD leads in stabilisers with scope to grow in non-South markets while WHIRL has robust fundamentals and an international parent.

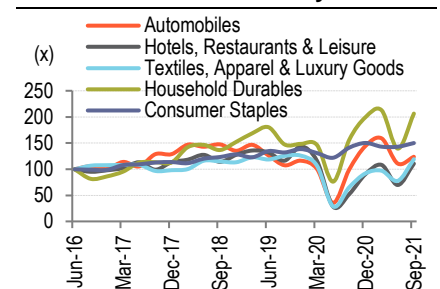
On the other hand, given stretched valuations and limited upsides, we have HOLD ratings on Amber Enterprises (AMBER), Dixon Tech (DIXON), Voltas (VOLT), Havells (HAVL), Orient Electric (ORIENTEL) and Polycab India (POLYCAB).

**Recommendation snapshot**

Ticker	Price	Target	Rating
CROMPTON IN	446	621	BUY
BLSTR IN	1,045	1,371	BUY
VGRD IN	237	321	BUY
WHIRL IN	2,156	2,901	BUY
DIXON IN	5,068	5,431	HOLD
AMBER IN	3,310	3,471	HOLD
VOLT IN	1,185	1,271	HOLD
HAVL IN	1,378	1,321	HOLD
POLYCAB IN	2,368	2,401	HOLD
ORIENTEL IN	367	381	HOLD

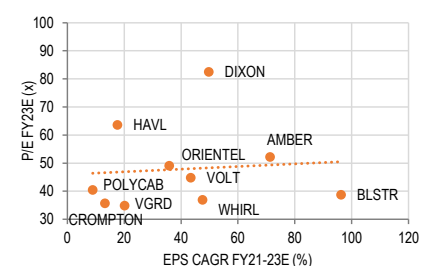
Price & Target in Rupees | Price as of 22 Nov 2021

**Durable revenues relatively resilient**



Source: Bloomberg | Aggregated Revenue of relevant stocks in Top 1000 listed companies indexed (Q1FY16 = 100)

**Variation in multiples & outlook**



Source: BOBCAPS Research



## 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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