

Consumer Durables

Jan-Mar'21 Earnings Preview

April 6, 2021

Exhibit 1: PL Universe

Companies	Rating	CMP (Rs)	TP (Rs)
Bajaj Electricals	BUY	991	1,033
CG Cons. Elec.	BUY	374	447
Havells India	Hold	1,026	1,128
Polycab India	BUY	1,376	1,480
Voltas	Hold	977	1,000

Source: PL

Top Picks

**Crompton Greaves Consumer
Electricals**

Polycab India

To end the year on a high

4Q has seen positive demand environment despite pre-buying in Dec & multiple rounds of price hikes (commodity inflation). We expect consumer durables universe to register healthy growth rates and end the year on a high given 1) positive consumer sentiment, more so in rural India 2) soaring temperatures aiding cooling products portfolio 3) share gains by large organized players and 4) low base in 4Q20 due to complete lockdown impact. We expect Sales/EBITDA/PBT/Adj. PAT growth of 34.3%/ 56.8%/ 58.8%/ 52.6% across our coverage universe. Commodity prices continued to show unprecedented rise with LME spot Copper/ Aluminum prices up by 52%/ 24.8% YoY, which will negatively impact gross margins in 4Q21.

We maintain our positive stance on consumer durables given huge penetration scope and market consolidation, although sideways consolidation can't be ruled out post sharp re-rating of the sector in past 6 months. We rate Crompton Consumer and Polycab as our top picks.

- **With demand momentum sustaining, brands look to close the year on a high:** Barring the first fortnight in Jan (Dec saw some pre-buying in anticipation of price hikes and supply chain disruptions), demand momentum continues to remain robust across product categories. Our channel check suggests, demand for home convenience and everyday use items like kitchen appliances, fans, lighting, dishwashers etc. remains strong despite price hikes further aided by pick up in in real estate/ renovation activities.
- **As temperatures soar, Room AC sales set to sizzle:** With temperatures already trending higher than average and expectations of a hot summer season bode well for cooling products like Room AC & Air Coolers. Our channel checks indicate that despite two rounds of price hike, channel is anticipating a strong summer season given summer intensity.
- **Market share gains for large organized players to sustain:** Small/ unorganized players continue to remain impacted by 1) Supply chain disruptions (especially Chinese imports) 2) weaker balance sheets and now 3) commodity inflation coupled with logistics/ freight challenges. Large organized players continue to make merry of this situation given 1) scale of operations and 2) stronger balance sheets.
- **B2B continues to recover at a slow pace:** Although B2B segments continue to show MoM recovery with visible increase in offtake from government and private sector, it continues to operate below pre-covid levels. Focus remains on collection of receivables.
- **10-25% price hikes given unprecedented commodity inflation:** Prices for key commodities are up 25-50%, much above pre-covid highs. In 4Q, average LME spot Copper prices are up 52%/17% YoY/QoQ, while average spot Aluminum prices are up 24.8%/ 8% YoY/ QoQ. Given the rise in input costs, industry has taken 2/3 rounds of price hikes in 4Q in various product categories like Wires & Cables – 15-25%; Fans: 7-12%; Lighting: 5-9%; Kitchen Appliances: 7-10%. RAC: 5-10%; Refrigerators/Washing Machine: 4-5%.

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- **Margins likely to remain under pressure:** With unprecedented increase in commodity costs & return of overheads (salary increments, A&P spends etc.) margins are likely to remain under pressure in 4Q and near term.

Top picks:

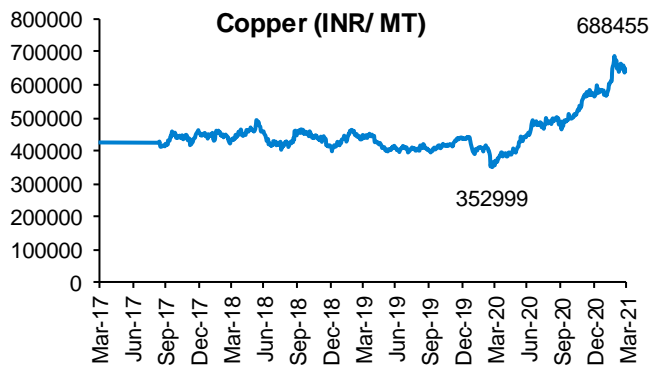
- **Crompton Consumer:** We remain structurally positive on Crompton Consumer and like the company's strategy of investing in strategic initiatives like **1)** product innovation **2)** distribution & GTM initiatives **3)** calibrated plan of entering and scaling up new categories (Geysers, Air Coolers & Mixer-Grinder) and **4)** strong balance sheet (FY23 net cash of Rs20.5/ share, RoE/ RoCE of 29.6%/ 37.2%). We retain BUY with TP of Rs447 (40x FY23 EPS)
- **Polycab:** We believe Polycab is fast emerging as a B2C player and expect the mix to improve from 40% to 50% in next few years given **1)** strong potential in FMEG and retail wires segment **2)** sustained investments in brand building and **3)** steadily increasing distribution network. We estimate Sales/PAT to grow at a CAGR of 16.6%/ 18.7% over FY21-23E. Steady increase in B2C mix will likely rerate the stock in long term. Retain BUY

Exhibit 2: Q4FY21 Result Preview

Company Name		Q4FY21E	Q4FY20	YoY gr. (%)	Q3FY21	QoQ gr. (%)	Remark
Bajaj Electricals	Sales	13,735	12,996	5.7	14,967	(8.2)	We expect sales to grow by 5.7%. Consumer Products to grow by 28.5% while EPC segment to decline by 25.1%. Changing mix, reducing interest burden and cost saving measures will help register a profit of Rs630mn vs no profit/loss LY
	EBITDA	1,096	334	227.6	1,475	(25.7)	
	Margin (%)	8.0	2.6		9.9		
	PBT	854	-11	NA	1,190	(28.2)	
	Adj. PAT	630	0	NA	834	(24.5)	
Crompton Greaves Consumer Electricals	Sales	13,822	10,181	35.8	13,231	4.5	We expect sales to grow by 35.8% with ECD/ Lighting segment growing by 42.1%/ 18.7%. Cost initiative programs and benefits of scale will help reduce impact of commodity inflation, we expect margins to remain flattish YoY, however decline by 110bps QoQ.
	EBITDA	1,887	1,384	36.3	1,952	(3.3)	
	Margin (%)	13.7	13.6		14.8		
	PBT	1,913	1,339	42.9	1,976	(3.2)	
	Adj. PAT	1,427	998	43.0	1,474	(3.2)	
Havells India	Sales	32,000	22,161	44.4	31,659	1.1	We expect core segment sales to grow by 38.8% YoY led by ECD segment. Lloyd shall post a growth of 66% on a low base. Despite commodity inflation, we expect margins to improve by 290bps YoY aided by cost initiative programs and benefits of scale, while reduce by 200bps QoQ
	EBITDA	4,472	2,453	82.3	5,081	(12.0)	
	Margin (%)	14.0	11.1		16.0		
	PBT	4,059	1,977	105.3	4,677	(13.2)	
	Adj. PAT	3,013	1,772	70.0	3,491	(13.7)	
Polycab India	Sales	29,909	21,294	40.5	27,988	6.9	We expect sales to grow by 40.5% YoY with Wires & Cables/ FMEG growing by 30%/ 52.7%. We expect margins to decline by 110bps YoY owing to commodity cost inflation.
	EBITDA	3,902	3,006	29.8	3,758	3.8	
	Margin (%)	13.0	14.1		13.4		
	PBT	3,458	2,889	19.7	3,536	(2.2)	
	Adj. PAT	2,565	2,139	19.9	2,625	(2.3)	
Voltas	Sales	28,083	20,896	34.4	19,946	40.8	We expect sales to grow by 34.4% with UCP/ EMPS sales to grow by 34.2%/ 34.4% We expect margins to expand by 120bps YoY. With increasing scale of operations, we expect JV's share of loss to decline YoY.
	EBITDA	2,909	1,920	51.5	1,459	99.4	
	Margin (%)	10.4	9.2		7.3		
	PBT	3,334	2,382	39.9	1,859	79.3	
	Adj. PAT	2,307	1,607	43.6	1,279	80.4	

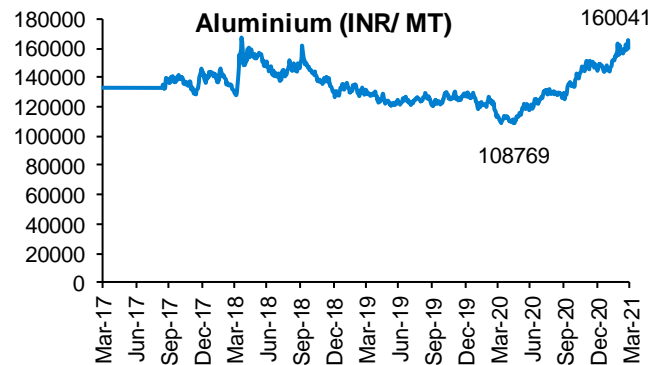
Source: Company, PL

Exhibit 3: Avg Copper spot price up by 52%/17% YoY/QoQ



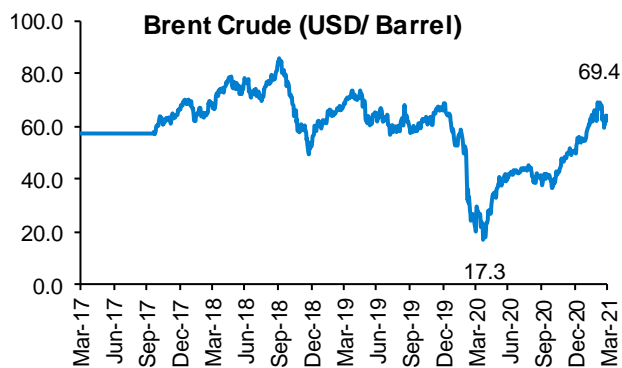
Source: PL

Exhibit 4: Avg Aluminum spot price up 24.8%/8% YoY/QoQ



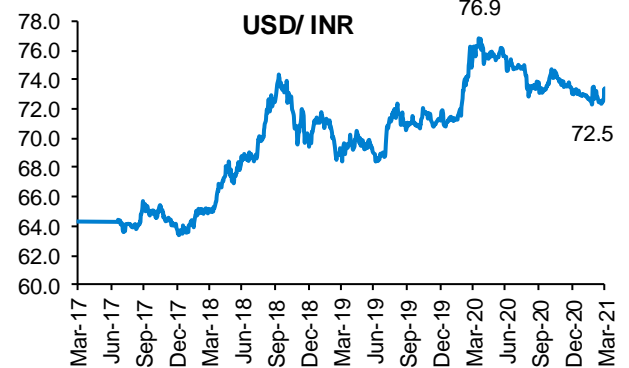
Source: PL

Exhibit 5: Avg Brent crude up by 19.7%/ 36% YoY



Source: PL

Exhibit 6: Avg INR up by 0.7% YoY; down by 1.2% QoQ



Source: PL



Exhibit 7: Valuation Summary

Company Names	Rating	CMP (Rs)	TP (Rs)	Sales (Rs bn)				EBITDA (Rs bn)				PAT (Rs bn)				EPS (Rs)				RoE (%)				PE (x)			
				FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
Bajaj Electricals	BUY	991	1,033	49.8	46.9	55.1	62.0	2.1	3.4	4.4	5.2	-0.0	1.6	2.6	3.4	-0.0	13.9	23.3	29.7	-0.0	10.7	15.7	17.5	NA	71.2	42.6	33.3
Crompton Greaves Consumer Electricals	BUY	374	447	45.1	46.2	54.7	62.2	6.0	6.7	7.9	9.2	4.4	5.0	6.0	7.0	7.0	8.0	9.6	11.2	34.1	30.8	30.3	29.6	53.6	46.8	39.1	33.4
Havells India	Hold	1,026	1,128	94.3	103.0	123.5	140.7	10.3	15.1	17.5	20.3	7.3	10.0	12.2	14.4	11.7	15.9	19.4	23.0	17.3	21.1	21.5	21.7	87.6	64.5	52.8	44.7
Polycab India	BUY	1,376	1,480	88.3	88.8	105.7	120.7	11.4	11.4	13.6	15.9	7.6	7.6	9.1	10.8	51.0	51.3	61.3	72.3	22.7	17.9	18.0	18.2	27.0	26.8	22.4	19.0
Voltas	Hold	977	1,000	76.6	77.1	91.1	102.1	6.9	6.0	9.5	11.2	5.7	5.2	8.0	9.4	17.2	15.7	24.1	28.5	13.5	11.6	16.1	16.7	56.8	62.3	40.5	34.3

Source: Company, PL

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Hold	2,829	2,740
2	Avenue Supermarts	BUY	3,296	2,968
3	Bajaj Electricals	BUY	884	768
4	Britannia Industries	BUY	4,280	3,474
5	Burger King India	BUY	221	145
6	Colgate Palmolive	Hold	1,651	1,564
7	Crompton Greaves Consumer Electricals	BUY	447	412
8	Dabur India	Accumulate	550	515
9	Emami	BUY	568	483
10	GlaxoSmithKline Consumer Healthcare	Hold	9,377	9,247
11	Havells India	Hold	1,126	1,131
12	Hindustan Unilever	BUY	2,502	2,391
13	ITC	BUY	254	226
14	Jubilant FoodWorks	Accumulate	3,261	3,114
15	Kansai Nerolac Paints	BUY	653	579
16	Marico	Accumulate	440	411
17	Nestle India	Accumulate	17,364	16,102
18	Pidilite Industries	Hold	1,739	1,670
19	Polycab India	BUY	1,247	1,278
20	Titan Company	Hold	1,601	1,563
21	Voltas	Hold	1,000	1,058
22	Westlife Development	BUY	618	496

PL's Recommendation Nomenclature

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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