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## Healthy growth led by price hike, favourable base...

In Q1FY22, consumer discretionary (CD) companies are likely to report strong YoY revenue growth of 51% on a lower base and price hikes taken during the quarter. Unlike last year (in Q1FY21), the lockdown restrictions in the current year are not very stringent. It has mostly affected May 2021 sales. Hence, on a YoY basis, the companies are expected to clock better sales. However, the same is around 80-90% of their pre-Covid sales. Paint and fast moving electrical goods (FMEG) companies have taken a price hike in the range of 3-12%. The price hikes of piping companies are even sharper to the tune of ~55%. Pent up demand, continuance of construction activities amid lockdown, inventory build-up at dealers' level, delayed monsoons and price hikes are expected to result in strong revenue growth for CD companies in Q1FY22. Among paint companies, we believe Kansai Nerolac is likely to report strong revenue growth of 73% YoY (slightly better than peers) led by a revival in its automotive paint segment (45% of the topline). On the FMEG front, Crompton Greaves Consumer (CGCEL) is likely to report strong revenue growth of 46% YoY supported by stability in LED products and market share gains in the kitchen/home appliances category. For piping companies, revenue growth on a YoY basis (Supreme 45%, Astral 52%) is expected to be largely driven by price hikes as PVC prices remained high in Q1FY22 (up 100% YoY).

### EBITDA margin to normalise to pre-Covid level

CD companies are likely to report a normalised EBITDA margin of ~17% in Q1FY22 against significantly lower margin of 10.5% in Q1FY21. Prices of key raw materials such as TiO<sub>2</sub>, copper, PVC are up 22%, ~76%, 100% YoY, respectively. However, companies have passed on the higher raw material prices by taking price hikes, which should support EBITDA margins. We believe the EBITDA margin will peak out during the year owing to restoration of key operating costs such as travelling and advertisement costs.

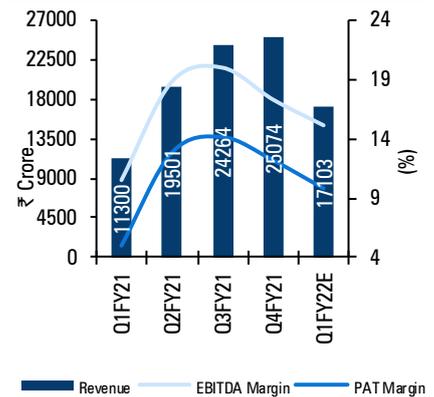
### CD universe to see strong PAT growth on low base

The I-direct CD universe is likely to see ~200% YoY growth at the PAT level largely on a favourable base. However, on a QoQ basis, PAT may see a drop of 45%, tracking a sequential drop in sales and margins.

Company	Revenue		Change (%)		EBITDA		Change (%)		PAT		Change (%)	
	Q1FY22E	YoY	QoQ	Q1FY22E	YoY	QoQ	Q1FY22E	YoY	QoQ	Q1FY22E	YoY	QoQ
Asian Paints	4,611.9	57.8	-30.7	853.2	76.2	-35.3	515.3	134.6	-40.8			
Berger Paints	1,486.0	59.7	-26.7	221.4	140.4	-34.0	123.1	716.0	-41.0			
Kansai Nerolac	1,032.5	72.7	-22.4	156.6	94.6	-23.0	92.7	117.1	-27.5			
Pidilite Industries	1,726.0	96.6	-22.8	332.0	400.3	-27.9	209.7	1,225.3	-31.8			
Supreme Industries	1,527.1	44.9	-26.7	288.8	146.6	-43.3	226.3	458.4	-49.8			
Astral Poly Technik	612.7	51.7	-45.7	113.4	108.8	-55.5	61.9	205.0	-64.8			
Havells	2,015.8	36.3	-39.5	253.8	93.9	-49.8	161.9	155.7	-46.4			
Crompton Greaves Con	1,048.3	45.6	-31.1	152.0	50.2	-33.3	118.5	58.4	-52.4			
Bajaj Electricals	838.9	37.9	-33.3	42.5	LP	-41.5	25.1	LP	-53.7			
V-Guard Industries	530.4	30.0	-38.0	37.1	277.6	-66.4	23.2	538.4	-66.0			
Voltas Ltd	1,673.3	29.0	-36.9	130.2	95.1	-60.6	119.0	45.5	-50.2			
<b>Total</b>	<b>17,102.9</b>	<b>51.4</b>	<b>-31.8</b>	<b>2,581.0</b>	<b>118.5</b>	<b>-40.4</b>	<b>1,676.8</b>	<b>198.9</b>	<b>-45.1</b>			

Source: Company, ICICI Direct Research

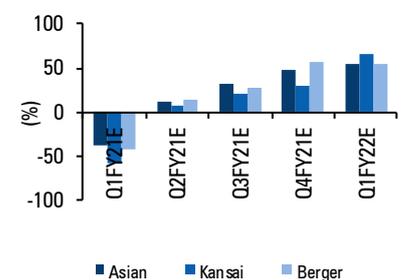
### Topline & Profitability (Coverage Universe)



### EBITDA margin (%) movement

EBITDA margin	Q1'21	Q2'21	Q3'21	Q4'21	Q1'22
Asian Paints	16.6	23.6	26.3	19.8	18.5
Berger Paints	9.9	19.2	19.6	16.6	14.9
Kansai Nerolac	13.5	20.1	19.7	15.3	15.2
Pidilite Ind	7.6	27.3	27.9	20.6	19.2
Supreme Ind	11.1	18.6	21.8	24.5	18.9
Astral Poly	13.4	19.2	21.4	22.6	18.5
Havells	8.8	17.2	16.0	15.2	12.6
Bajaj Ele	-3.6	8.6	9.8	5.8	5.1
CGCEL	14.1	15.8	14.8	15.0	14.5
V-guard	2.4	12.3	13.8	12.9	7.0
Voltas	5.1	6.1	7.3	12.5	7.8
Overall	10.5	18.8	20.0	17.3	15.1

### Volume growth movement of paint companies



### Research Analysts

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**Exhibit 2: Company Specific Views (Consumer Discretionary)**

<b>Company</b>	<b>Remarks</b>
Asian Paints	Asian Paints is likely to see consolidated revenue growth of 58% YoY to ₹ 4612 crore, mainly due to a favourable base. The company has taken a price hike in the range of 3-4% in Q1FY22. While on a YoY basis the company may clock better sales, the same is ~90% of its pre-Covid sales. On the margin front, EBITDA margin are expected to see an improvement of 193 bps YoY to 18.5% on account of better operating leverage. PAT may see growth of 134% YoY at ~ ₹ 515 crore
Astral Poly	Consolidated sales are expected to see growth of ~52% YoY to ~₹ 613 crore in Q1FY22 on a favourable base and dealer additions in the adhesive business. Piping segment is likely to report revenue growth of 51% YoY to ₹ 466 crore led by high realisations. Adhesive segment revenues is expected to increase 55% YoY to ₹ 147 crore in Q1FY22. We believe improved profitability of adhesive business and higher operating leverage would drive overall EBITDA margin up by 506 bps YoY to 18.5%. Strong profitability and lower interest outgo (down 82% YoY) are likely to drive PAT up ~3x YoY at ₹ 62 crore
Berger Paints	Consolidated sales are likely to increase 60% YoY to ~₹ 1486 crore led by ~55% YoY volume growth in Q1FY22. Water proofing and construction chemical business helped drive demand as construction activities continued even during the lockdown. On the margin front, while the company may see a QoQ drop in margin (by 210 bps), the same is expected to be up ~600 bps YoY to ~16% led by improved operating leverage. Finally, PAT may see ~9x jump YoY to ~₹ 134 crore, mainly due to low base effect
Bajaj Electricals (BEL)	BEL is likely to post consolidated revenue growth of ~38% YoY to ~₹ 839 crore in Q1FY22E largely on a lower base and price hike (of ~12%) in the consumer product segment. The consumer products revenue is likely to increase 44% YoY to ₹ 568 crore, while revenues from project business are expected to increase 27% YoY to ₹ 271 crore. The company is likely to clock EBITDA of ₹ 47.5 crore (EBITDA margin 5.1%) in Q1FY22 vs. loss of ~₹ 22 crore at the EBITDA level in Q1FY21. Better gross margin and operating leverage are likely to drive margin during Q1FY22. Finally, BEL may report a net profit of ₹ 25 crore in Q1FY22E vs. a loss of ~₹ 17 crore in the base period
Crompton Greaves Consumer	CGCEL's revenue may see growth of 46% YoY to ₹ 1048 crore on a low base and stability in the lighting revenue. On the segment front, lighting business (~25% of annual revenue) is likely to see revenue growth of ~88% YoY to ~₹ 233 crore while ECD revenue may increase 37% YoY to ₹ 816 crore. Price hikes and better operating leverage are expected to help maintain EBITDA margin at elevated level of ~14%. Finally, PAT may also see a jump of 58% YoY to ₹ 119 crore in Q1FY22 on a favourable base
Havells India	For Havells, revenues are likely to increase ~36% YoY to ~₹ 2016 crore in Q1FY22 contributed by price hikes and a favourable base of Q1FY21. We believe continuance of construction activities during the pandemic has helped drive demand of electrical goods. Further, price hike (in the range of 5-7%) has helped improve gross margins. Higher operating leverage is expected to drive overall EBITDA margin up by 380 bps YoY to ~12.6% in Q1FY22E. Finally, PAT is likely to grow 2.6x YoY to ₹ 162 crore in Q1FY22
Kansai Nerolac	Kansai is likely to report revenue growth of 73% YoY to ₹ 1033 crore led by volume growth of 67% YoY in Q1FY22. While May 2021 sales were impacted due to lockdown, sales were higher in April & Jun 2021, supported by a recovery in automotive and decorative segment coupled with a favourable base. On the margin front, we believe EBITDA margin will be higher by 171 bps YoY to 15.2% led by better operating leverage. PAT is likely to increase 117% YoY ₹ 93 crore
Pidilite Industries	Pidilite is likely to report revenue growth of 97% YoY to ₹ 1726 crore in Q1FY22 supported by a favourable base and consolidation of new business (Araldite). Further, price hikes in the range of 4-6% YoY are expected to help partially offset a steep rise in input prices thereby limiting the fall in gross margin by ~340 bps YoY. However, better operating leverage would help drive EBITDA margin to 19% in Q1FY22 against 7.6% in Q1FY21. The company, therefore, is likely to report PAT of ~₹ 210 crore in Q1FY22 against ₹ 16 crore reported in Q1FY21
Supreme Industries	Supreme is likely to post ~45% YoY growth in revenue to ~₹ 1527 crore led by price hikes. The company has taken a price hike (~55% YoY) to partially offset higher input costs. However, overall volume is likely to register de-growth of 6% YoY due to lockdown. The piping segment is likely to grow 45% to ₹ 1111 crore. Further, EBITDA margin is likely to be higher at 19% vs. 11% YoY led by better operating leverage YoY. PAT may record a 6x jump to ₹ 229 crore YoY at ~₹ 241 crore supported by a favourable base and higher income from associate company Supreme Petrochem

Source: Company, ICICI Direct Research

**Exhibit 3: Company Specific Views (Consumer Discretionary)**

V-Guard	<p>V-Guard is likely to report sales growth of ~30% YoY at ₹ 530 crore, led by 45% YoY growth in the revenue of electronics segment to ₹ 200 crore (stabilisers up 51% YoY, Digital UPS up 40% YoY). The electricals and consumer durable segment may also see growth of 17% and 33% YoY to ₹ 217 crore and ₹ 113 crore, respectively. We believe extended lockdowns in southern states will lead to a complete recovery of lost sales in the current quarter. The EBITDA margin is likely to improve ~460 bps YoY at 7% on improved operating leverage. As a result, PAT is expected to grow from ~₹ 4 crore in Q1FY21 to ~₹ 23 crore in Q1FY22</p>
Voltas	<p>Consolidated revenue is likely to grow ~29% YoY to ₹ 1673 crore in Q1FY22 led by ~44% YoY growth in the UCP segment to ₹ 1020 crore, mainly on a lower base and delayed monsoon in the northern part of the country supporting pent up demand. However, the UCP sales recovery is likely to be 75% of its pre-Covid level sales in Q1FY20 due to lockdown in May 2021. The EBITDA margin is likely to be up 263 bps YoY to 8% in Q1FY22 supported by better operating leverage. As a result, PAT is expected to see growth of 46% YoY to ₹ 119 crore in Q1FY22</p>

Source: Company, ICICI Direct Research

Exhibit 4: Valuation Matrix

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Asian Paints (ASIPAI)	3,028	2,970	Buy	2,90,385	33.4	36.7	45.4	90.6	82.4	66.7	49.6	45.4	36.8	25.0	26.2	28.0	29.6	30.8	33.5
Astral Ltd (ASTPOL)	2,031	1,915	Hold	30,599	20.3	21.8	29.3	99.9	93.3	69.4	55.0	51.8	39.6	27.5	27.0	31.4	21.5	20.7	23.9
Bajaj Electricals (BAJELE)	1,048	1,280	Buy	11,915	16.5	23.8	35.7	64.9	45.0	30.0	40.9	29.6	20.7	15.1	20.0	26.1	10.7	16.8	20.6
Berger Paints (BERPAI)	842	835	Hold	81,775	7.4	9.3	12.3	113.6	90.9	68.5	64.7	56.2	43.5	24.9	28.3	34.6	21.3	24.3	28.4
Crompton Greaves(CROGR)	441	480	Buy	27,651	9.8	9.2	11.9	44.8	48.2	37.2	33.1	32.5	25.4	34.4	36.1	42.1	31.9	28.7	33.2
Havells India (HAVIND)	1,028	1,255	Buy	64,137	16.7	16.7	22.0	61.7	61.4	46.6	40.1	40.8	31.3	24.9	24.0	30.0	20.1	19.5	24.4
Kansai Nerolac (KANNER)	600	655	Buy	32,335	9.9	12.1	14.4	60.9	49.5	41.7	36.6	31.1	26.2	17.2	20.3	21.5	13.2	15.7	16.6
Pidilite Industries (PIDIND)	2,283	2,035	Hold	1,15,931	22.2	26.3	31.8	102.9	86.8	71.8	55.9	47.3	39.9	23.8	23.9	29.9	20.2	20.1	25.2
Supreme Indus (SUPIND)	2,188	2,390	Hold	27,794	77.0	64.9	72.4	28.4	33.7	30.2	20.5	22.2	19.6	32.7	26.2	25.2	30.9	23.6	22.6
V-Guard Ind (VGUARD)	259	320	Buy	11,093	4.7	5.5	7.3	59.0	50.4	38.1	37.3	35.4	27.3	23.9	25.1	29.0	16.7	19.2	22.5
Voltas Ltd (VOLTAS)	1,011	1,150	Buy	33,437	16.0	21.2	28.9	63.2	47.8	35.0	50.8	41.8	29.8	15.0	19.5	23.0	10.6	14.4	17.1

Source: Company, ICICI Direct Research

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Sell: < -15%



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