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Demand slowdown, high inflation weigh on Q3...

In Q3FY22, I-direct consumer discretionary universe is likely to report revenue growth of ~10% YoY driven by price hikes in the range of 7-20%. The aggressive price hikes and higher base (due to strong pent up demand in Q3FY21) would restrict volume offtake in rural & semi urban regions. On the fast moving electrical goods (FMEG) front, demand slowdown was witnessed in the air conditioners and small appliances (such as water heater) categories mainly due to untimely rains in the various geographies. Under our coverage universe, Voltas is likely to be adversely impacted with RAC volume de-growth of 20% YoY in Q3FY22. Other FMEG companies such as Bajaj Electricals, Crompton Greaves Consumer are also likely to report volume de-growth of 7-8% mainly due to higher base and delayed offtake of winter products. On the piping front, PVC piping demand was impacted in rural regions primarily due to sharp price hikes. On the paints front, we believe, despite a higher base, paint companies are likely to report volume growth of 7-8% mainly due to pre-buying activity at dealer's front in the fear of price hikes. Our dealer check suggests companies have taken price hikes in the range of 13-15% in November-December 2021 to partially offset higher raw material costs. While the YoY numbers are likely to be muted, sequentially companies are expected to see an improved performance backed by pricing action taken over the last few months.

Lower EBITDA margin amid input cost pressure

The EBITDA margin of the coverage universe is likely to see a decline of 462 bps YoY mainly due to unfavourable base and higher raw material prices. Prices of key raw material such as TiO₂, VAM, PVC have almost doubled from the base period, which has dented gross margins of the companies. While the companies have already initiated price hikes, the actual impact of this hike will be visible from Q4FY22 onwards. Under our coverage universe paint and adhesive companies are likely to witness higher decline in EBITDA margin to the tune of 310-900 bps YoY mainly to unfavourable base and delay in price hikes.

PAT decline seen at 18% for coverage universe

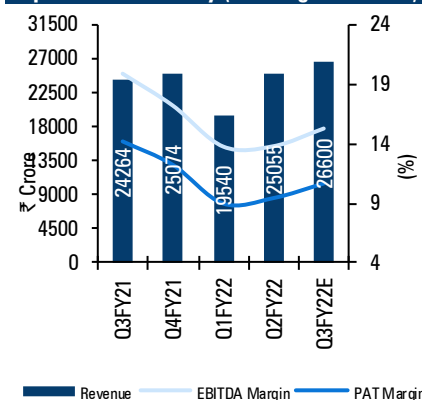
In Q3FY22, CD coverage universe is likely to report a drop in bottomline by 18% YoY mainly due to lower EBITDA margin and significant higher base of Q3FY21. Under the coverage universe, Asian Paints, Voltas and Supreme Industries are expected to report a fall in bottomline of 22-25% YoY.

Exhibit 1: Estimates for Q3FY22E: (Consumer Discretionary) (₹ crore)

Company	Revenue		Change (%)		EBITDA		Change (%)		PAT		Change (%)	
	Q3FY22E	YoY	QoQ	Q3FY22E	YoY	QoQ	Q3FY22E	YoY	QoQ	Q3FY22E	YoY	QoQ
Asian Paints	7,784.2	14.7	9.7	1,338.9	-25.1	48.0	921.0	-27.2	52.2			
Berger Paints	2,425.1	14.5	9.0	400.1	-3.6	13.0	254.4	-7.5	16.1			
Kansai Nerolac	1,636.3	11.1	7.6	244.7	-15.6	48.6	160.7	-20.4	63.1			
Pidilite Industries	2,617.1	13.8	-0.4	550.5	-14.1	0.2	371.5	-16.8	-1.1			
Supreme Industries	1,957.8	6.2	1.5	312.6	-22.2	0.6	234.3	-25.0	2.4			
Astral Ltd	1,045.7	16.5	-9.4	188.2	-2.0	-11.0	119.3	-3.7	-16.7			
Havells	3,459.4	9.3	7.4	493.0	-3.0	11.1	340.4	-2.5	12.9			
Crompton Greaves Con	1,433.8	6.3	3.5	217.9	8.9	1.8	161.8	7.1	1.9			
Bajaj Electricals	1,571.8	4.8	20.7	124.8	-15.4	32.3	87.4	-11.0	39.8			
V-Guard Industries	891.1	6.7	-1.8	98.0	-15.2	3.3	68.8	-12.1	15.9			
Voltas Ltd	1,777.4	-10.9	5.2	112.4	-23.0	-13.0	106.1	-17.5	1.7			
Total	26,599.6	9.6	6.2	4,081.1	-15.8	17.6	2,825.8	-17.6	19.9			

Source: Company, ICICI Direct Research

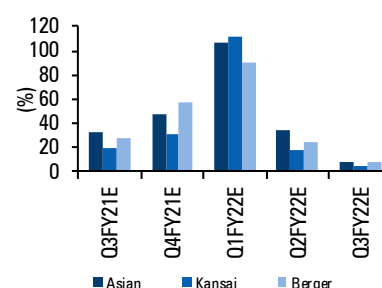
Topline & Profitability (Coverage Universe)



EBITDA margin (%) movement

EBITDA margin	Q3'21	Q4'21	Q1'22	Q2'22	Q3'22
Asian Paints	26.3	19.8	16.4	12.7	17.2
Berger Paints	19.6	16.6	13.3	15.9	16.5
Kansai Nerolac	19.7	15.3	14.4	10.8	15.0
Pidilite Ind	27.9	20.6	17.9	20.9	21.0
Supreme Ind	21.8	24.5	16.5	16.1	16.0
Astral Poly	21.4	22.6	18.5	18.3	18.0
Havells	16.0	15.2	13.6	13.8	14.3
Bajaj Ele	9.8	5.8	0.1	7.2	7.9
CGCEL	14.8	15.0	11.9	15.5	15.2
V-guard	13.8	12.9	8.1	10.5	11.0
Voltas	7.3	12.5	7.6	7.6	6.3
Overall	20.0	17.3	13.8	13.9	15.3

Volume growth movement of paint companies



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Exhibit 2: Company Specific Views (Consumer Discretionary)

Company	Remarks
Asian Paints	Despite a higher base, Asian Paints is likely to report consolidated revenue growth of 15% YoY to ₹ 7784 crore supported by 8% volume growth in Q3FY22E. We believe inventory build-up at dealer level in the fear of price hike and supply disruptions will drive the volume uptick during Q3FY22. Further aggressive price hikes by paint companies in the middle of the quarter will help drive realisation up 6-7%. EBITDA margin is likely to decline 914 bps YoY to 17.2% (+445 bps QoQ) due to higher base and delay in price hikes. As a result, PAT may see a decline of 27% YoY (up 52% QoQ) to ~ ₹ 921 crore
Berger Paints	Consolidated sales of Berger Paints are likely to increase ~14% YoY to ~₹ 2425 crore supported by ~7% YoY volume growth in Q3FY22. We believe, despite a higher base, new product launches & inventory build-up at dealer's end amid fear of price hikes drove volumes in Q3FY22. On the margin front, EBITDA margins are likely to contract 310 bps YoY to 16.5% mainly due to higher base and spike in raw material cost. As a result, PAT is likely to decline 7.5% YoY to ~₹ 254 crore
Kansai Nerolac	Kansai is likely to report revenue growth of ~11% YoY to ₹ 1636 crore supported by decorative segment volume growth of 5% YoY in Q3FY22. We believe the tepid demand of industrial paints (mainly automotive) is likely to delay overall volume recovery for the company. On the margin front, EBITDA margin is likely to decline 472 bps YoY (+412 bps QoQ) to ~15% mainly due to higher base and increased raw material cost. As a result, PAT is likely to decline ~20% YoY (up 63% QoQ) to ₹ 161 crore
Pidilite Industries	Pidilite is likely to report consolidated revenue growth of 14% YoY to ~₹ 2617 crore in Q3FY22 supported by 15% revenue growth in consumer & bazaar segment to ₹ 2128 crore. Further, B2B business is likely to grow 8% YoY to ₹ 514 crore largely on a favourable base. EBITDA margin is likely to see a sharp contraction of 684 bps YoY to 21% mainly due to higher raw material prices. The key raw material 'VAM' prices have almost doubled on a YoY basis. The company, therefore, is likely to report a decline in PAT by ~17% YoY to ~₹ 372 crore
Supreme Industries	Supreme's revenue is likely to grow at slower pace of 6% YoY to ~₹ 1958 crore supported by higher realisations (up 16% YoY). We believe the piping volume offtake has been hit by lower agri demand and slower offtake by dealers in anticipation of softening of raw material prices. The piping segments is likely to grow 10% YoY to ₹ 1250 crore supported by ~20% increase in realisations. EBITDA margin is likely to decline ~580 bps YoY to 16% mainly due to low operating leverage. As a result, PAT may see a decline of 25% YoY to ₹ 234 crore
Astral	Astral's consolidated sales is likely to increase ~17% YoY to ~₹ 1046 crore in Q3FY22 largely driven by price hikes and dealer additions (in the adhesive business). Piping segment is likely to report revenue growth of 14% YoY to ₹ 768 crore led by price hike of 12%. Adhesive segment revenues are likely to increase 20% YoY to ₹ 270 crore in Q3FY22 supported by dealer additions. We believe EBITDA margin will decline ~340 bps YoY to 18% due to higher raw material costs. As a result, PAT is likely to decline 4% YoY to ₹ 119 crore
Havells India	Havells's topline is likely to increase 9% YoY to ₹ 3459 crore supported by price hikes and new product launches under the Lloyd brand. Despite on a higher base, Lloyd business is likely to grow by 12% YoY to ₹ 572 crore supported by new product launches and dealer additions. We believe wire & cable and switchgear segment revenues are likely to grow by 12% and 10% YoY, respectively, supported by a revival in real estate demand. The EBITDA margin is likely to decline 180 bps YoY to 14% mainly due to higher raw material costs and delay in price hike. As a result, Havells is likely to report a marginal bottomline drop of 2.5% YoY to ₹ 340 crore in Q3FY22
Crompton Greaves Consumer	CGCEL's Q3FY22 revenue is likely to increase 6% YoY to ₹ 1434 crore supported by YTD price hike of 12-15%. New launches and upgradation of home appliances amid change in consumer behaviour is likely to drive demand. Better product mix coupled with price hikes to offset raw material cost pressure. However, EBITDA margin is likely to remain flat at 15% on a YoY basis due to low operating leverage. Finally, PAT is likely to increase 7% YoY to ₹ 162 crore supported by savings in interest outgo
Bajaj Electricals	BEL is likely to post consolidated revenue growth of ~5% YoY in Q3FY22 to ₹ 1572 crore supported by its consumer durable segments. Despite higher base, the consumer durable segment is likely to see revenue growth of 8% YoY to ₹ 1241 crore mainly driven by YTD price hike of 15% YoY. However, the project business may see fall in revenue by ~5% to ₹ 331 crore, in line with company's strategy to rationalise its order book. The EBITDA margin is likely to decline 189 bps YoY to 7.9% mainly due to higher base and low operating leverage. Finally, PAT is likely to see a decline of 11% YoY to ~₹ 87 crore on YoY basis

Source: Company, ICICI Direct Research

Exhibit 3: Company Specific Views (Consumer Discretionary)

V-Guard	<p>V-Guard is likely to report sales growth of ~7% YoY to ₹ 891 crore largely driven by price hikes. The consumer durable segment revenue is likely to increase by 12% YoY to ₹ 295 crore largely on account of new launches and a favourable base. Electricals sales are likely to see a price led growth of 7% to ₹ 388 crore. The electronic segment sales are likely to remain flat at ₹ 208 crore. Higher raw material prices and delay in price hikes are likely to weigh on margin as the same is likely to decline by ~284 bps YoY to 11%. As a result, PAT may see a decline of 12% YoY to ~₹ 69 crore in Q3FY22</p>
Voltas	<p>Voltas' consolidated revenue for Q3FY22 is likely to decline 11% YoY to ₹ 1777 crore mainly due to higher base and lower volume offtake of room ACs. Unitary Cooling Product (UCP) division revenues are likely to decline ~10% YoY to ₹ 890 crore mainly due to higher base and ease in demand post Diwali. The EMPS and EPS segment revenues are also likely to decline 13% and 5% YoY, respectively, on a high base. A sharp rise in input costs and restoration of key operating costs is likely to result in 100 bps YoY fall in EBITDA margin to 6.3%. Finally, lower sales and EBITDA margin are likely to drag PAT lower by 18% YoY to ₹ 106 crore</p>

Source: Company, ICICI Direct Research

Exhibit 4: Valuation Matrix

Sector / Company	CMP (₹)	TP(₹)	Rating	M Cap				EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)				RoE (%)			
				(₹ Cr)	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E
Asian Paints (ASIPAI)	3,576	3,425	Buy	3,42,938	33.4	28.3	40.6	52.3	106.9	126.2	88.1	68.4	69.7	81.8	58.9	46.1	29.6	25.0	33.0	38.5	25.0	21.1	27.9	32.1			
Berger Paints (BERPAI)	790	845	Hold	76,725	7.4	7.7	10.1	12.9	106.6	103.0	78.3	61.1	64.4	63.2	49.9	39.7	24.9	25.2	30.9	34.9	21.3	21.0	25.6	28.6			
Kansai Nerolac (KANNER)	597	630	Buy	32,174	10.2	9.0	13.3	15.6	58.2	66.1	45.1	38.2	37.6	42.2	29.8	25.3	17.6	15.7	20.8	22.3	13.7	12.1	16.0	16.9			
Pidilite Industries (PIDIND)	2,723	2,640	Hold	1,38,274	22.2	23.3	29.1	35.2	122.8	116.8	93.5	77.4	82.0	76.7	63.2	52.9	23.8	21.6	26.1	30.5	20.2	18.3	21.9	25.5			
Bajaj Electricals (BAJELE)	1,274	1,280	Buy	14,594	16.5	20.7	32.9	38.3	77.2	61.5	38.7	33.3	48.9	40.8	27.9	24.7	15.1	18.8	24.9	24.1	10.7	14.9	19.7	19.1			
Crompton Greaves(CROGR)	444	525	Buy	27,830	9.8	9.1	11.6	13.1	45.1	48.9	38.3	33.9	37.1	36.4	29.1	25.7	34.4	36.0	41.5	41.5	31.9	28.5	32.7	32.3			
Havells India (HAVIND)	1,368	1,545	Buy	85,350	16.7	20.6	24.7	28.9	82.1	66.5	55.3	47.3	53.7	44.9	37.4	31.9	24.9	27.5	30.9	32.9	20.1	22.9	25.5	26.8			
V-Guard Ind (VGUARD)	219	310	Buy	9,380	4.7	5.0	6.9	7.8	46.5	44.1	31.9	28.2	29.2	29.2	22.7	19.9	23.9	23.2	28.2	28.1	16.7	17.6	21.9	21.8			
Voltas Ltd (VOLTAS)	1,270	1,375	Hold	42,003	16.0	19.8	25.2	33.3	79.4	64.0	50.4	38.2	64.8	56.2	44.7	36.4	15.0	18.5	20.8	21.8	10.6	13.6	15.4	17.5			
Supreme Indus (SUPIND)	2,196	2,740	Buy	27,895	77.0	67.6	80.7	91.1	28.5	32.5	27.2	24.1	21.1	23.6	19.5	17.1	33.1	25.7	27.3	27.6	30.9	24.4	25.1	25.0			
Astral Polytechnik (ASTPOL)	2,436	2,375	Hold	48,935	20.3	23.3	30.6	38.3	119.9	104.6	79.5	63.6	75.3	66.7	51.8	42.2	27.5	28.1	31.9	33.1	21.5	21.8	24.5	25.3			

Source: Company, ICICI Direct Research

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