

April 8, 2022

Unfavourable base, high inflation weigh on Q4...

We expect the I-direct consumer discretionary universe likely to report slower revenue growth of ~8% YoY in Q4FY22 mainly due to high base (+41% in Q4FY21) and lower volume offtakes. Volume offtake of coverage companies is likely to decline in the range of 7-12% on account of pre price hikes inventory built by dealers in Q3 and lower demand amid pandemic led restrictions. Sector wise, paint companies are likely to report revenue growth in the range of 7-9% YoY led by price hikes of ~21% taken during 9MFY22. On the fast moving electrical goods (FMEG) front, the coverage companies are likely to see revenue growth in the range of 5-9% driven by price hikes of about 15-17% in 9MFY22. We believe extended winter and pandemic led restrictions have restricted volume offtake of cooling products. Under our coverage, Voltas is likely to be adversely impacted with RAC volume de-growth of ~4% YoY in Q4FY22. Other FMEG companies such as Havells, Bajaj Electricals, Crompton Greaves Consumer are also likely to report volume de-growth of 9-10% mainly due to higher base and low rural demand. On the piping front, we believe low dealer inventory and softening of PVC prices would have helped demand revival in Q4. Under our coverage, Supreme Industries, Astral are likely to report piping segment revenue growth of 11%, 15% YoY, respectively, led by volume growth of 9-11% YoY in Q4FY22. While YoY numbers are likely to be muted, on a two year CAGR basis the companies are likely to grow 23% supported by robust demand despite various supply related challenges.

Sharp rise in RM cost to drag margin

Key raw materials such as titanium dioxide (TiO₂), vinyl acetate monomer (VAM), aluminium, high density polyethylene (HDPE), low density polyethylene (LDPE) witnessed upward movement in the range of 9-60% YoY. We believe limited price hike against the steep rise in raw material prices is likely to weigh on gross margins. As a result, the EBITDA margins of coverage companies are likely to decline 245 bps YoY. However, on a sequential basis the EBITDA margin is likely to remain flat supported by price hikes taken by the companies.

PAT decline seen at 13% for coverage universe

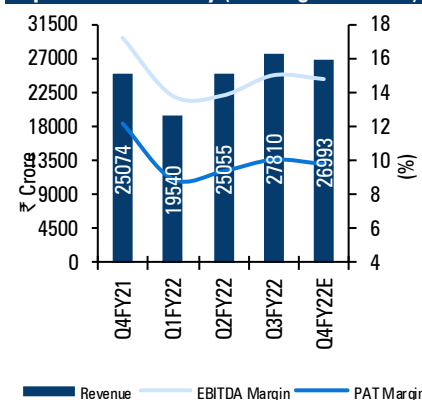
Our coverage universe is likely to report a drop in bottomline by 13% YoY mainly due to lower EBITDA margin and significant higher base of Q4FY21. However, two Year average PAT growth is expected at 35%.

Exhibit 1: Estimates for Q4FY22E: (Consumer Discretionary) (₹ crore)

Company	Revenue			EBITDA			PAT		
	Q4FY22E	YoY	QoQ	Q4FY22E	YoY	QoQ	Q4FY22E	YoY	QoQ
Asian Paints	7,238.5	8.8	-15.1	1,339.1	1.6	-13.2	868.4	-0.2	-15.8
Berger Paints	2,187.0	7.9	-14.3	347.1	3.4	-11.5	211.6	1.4	-16.4
Kansai Nerolac	1,424.0	7.0	-15.9	180.8	-11.1	-13.9	110.0	-13.9	-16.9
Pidilite Industries	2,437.2	9.0	-14.5	462.7	0.4	-15.7	298.3	-3.0	-17.0
Supreme Industries	2,206.8	5.9	13.5	366.5	-28.1	15.3	287.8	-36.1	17.1
Astral Ltd	1,273.3	12.9	15.9	234.6	-7.8	18.7	153.6	-12.8	20.1
Havells	3,584.1	7.6	-1.9	410.2	-18.9	-6.8	266.8	-11.7	-12.8
Crompton Greaves Con	1,592.5	4.6	12.9	202.1	-11.3	0.3	148.3	-40.5	0.0
Bajaj Electricals	1,326.6	5.4	0.5	75.4	3.8	-18.1	43.4	-19.9	-9.8
V-Guard Industries	898.4	5.1	-7.1	84.5	-23.5	-2.7	53.0	-22.6	-1.8
Voltas Ltd	2,824.2	6.5	57.5	297.7	-10.0	91.3	211.2	-11.5	118.8
Total	26,992.7	7.6	-2.9	4,000.8	-7.6	-4.4	2,652.5	-13.1	-5.3

Source: Company, ICICI Direct Research

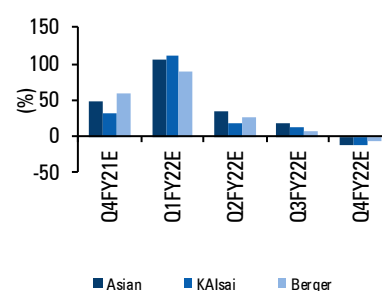
Topline & Profitability (Coverage Universe)



EBITDA margin (%) movement

EBITDA margin	Q4'21	Q1'22	Q2'22	Q3'22	Q4'22
Asian Paints	19.8	16.4	12.7	18.1	18.5
Berger Paints	16.6	13.3	15.9	15.4	15.9
Kansai Nerolac	15.3	14.4	10.8	12.4	12.7
Pidilite Ind	20.6	17.9	20.9	19.3	19.0
Supreme Ind	24.5	16.5	16.1	16.3	16.6
Astral Poly	22.6	18.5	18.3	18.0	18.4
Havells	15.2	13.6	13.8	12.1	11.4
Bajaj Ele	5.8	0.1	7.2	7.0	5.7
CGCEL	15.0	11.9	15.5	14.3	12.7
V-guard	12.9	8.1	10.5	9.0	9.4
Voltas	12.5	7.6	7.6	8.7	10.5

Volume growth movement of paint companies



Research Analysts

Sanjay Manyal
sanjay.manyal@icicisecurities.com

Hitesh Taunk
hitesh.taunk@icicisecurities.com

Exhibit 2: Company Specific Views (Consumer Discretionary)

Company	Remarks
Asian Paints	Asian Paints is likely to report consolidated revenue growth of 9% YoY to ₹ 7239 crore supported by higher realisation (up ~24% YoY) in Q4FY22E. Volume is likely to decline 12% YoY on account of high base and pre price hike inventory build-up at dealer level during Q3FY22. Price hike will help in sequential improvement in EBITDA margin but the same will be down 132 bps YoY at 18.5% due to high raw material prices and low operating leverage. As a result, the company is likely to report PAT of ~ ₹ 868 crore in Q4FY22, flat on a YoY basis
Berger Paints	Consolidated sales of Berger Paints are likely to increase ~8% YoY to ~₹ 2187 crore supported by higher realisation. The company has taken price hikes of ~21% in 9MFY22 which will help drive high realisation. However, the volume is likely to decline by 13% YoY in Q4FY22 owing to high base and inventory build-up by dealers in Q3FY22 on the fear of price hikes. On the margin front, the EBITDA margin is likely to contract by 70 bps YoY to ~16% mainly due to higher base and spike in raw material cost. The company is likely to report a flattish PAT of ₹ 212 crore YoY
Kansai Nerolac	Kansai is likely to report revenue growth of ~7% YoY to ₹ 1424 crore supported by higher realisation (up 16% YoY) in Q4FY22. We believe the volume is likely to decline 8% YoY led by decorative paints (55% of portfolio) largely on account of higher base. However, recovery in automotive demand in Q4FY22 is likely to help QoQ recovery in industrial paints demand. On the margin front, the EBITDA margin is likely to decline 260 bps YoY to 12.7% mainly due to increased raw material cost and low operating leverage. As a result, PAT is likely to decline ~14% YoY to ₹ 110 crore
Pidilite Industries	Pidilite is likely to report consolidated revenue growth of 9% YoY to ~₹ 2437 crore in Q4FY22 supported by 10% revenue growth in consumer & bazaar segment to ₹ 1902 crore supported by price hikes of ~16%. Further, B2B business is likely to grow 3% YoY to ₹ 550 crore largely on a favourable base. However, the higher raw material prices is likely to result in contraction in EBITDA margin by 160 bps YoY to 19%. The key raw material 'VAM' prices were up by 20% YoY basis. The company therefore is likely to report decline in PAT by ~3% YoY to ~₹ 298 crore
Supreme Industries	Supreme's revenue is likely to grow at slower pace of 6% YoY to ~₹ 2207 crore. This is largely due to decline in revenues of packaging and industrial segment by 7% and 10% YoY to ₹ 287 crore and ₹ 263 crore, respectively. However, the piping revenues is likely to increase 11% YoY to ₹ 1490 crore supported by 9% increase in sales volume. We believe piping volume growth would be driven by a favourable base and inventory build up at dealer's level. The company is likely to report a normalised EBITDA margin of 16.6% in Q4FY22 vs. 24.5% in Q4FY21 owing to sharp rise in raw material prices YoY. As a result, PAT may see a decline of 36% YoY to ₹ 288 crore
Astral	Astral's consolidated sales is likely to increase ~13% YoY to ~₹ 1273 crore in Q4FY22 led by piping segment. Piping segment is likely to report revenue growth of ~15% YoY to ₹ 1015 crore led by volume growth of 10%. Adhesive segment revenues are likely to increase 7% YoY to ₹ 258 crore in Q4FY22 supported by dealer additions. We believe EBITDA margin to decline ~415 bps YoY to 18.4% due to higher raw material costs. As a result, PAT is likely to decline by 13% YoY to ~₹ 154 crore
Havells India	Havell's topline is likely to increase ~8% YoY to ₹ 3584 crore supported by ~15-17% price hikes during 9MFY22. The cable and switchgear segment revenues are likely to grow by 11% and 10%, respectively, supported by revival in real estate industry. However, ECD segment (including Lloyd) is likely to see subdued growth of 5% to ₹ 1374 crore mainly due to high base and slow volume offtake during January 20'22 owing to pandemic. The EBITDA margin is likely to decline 373 bps YoY to ~11%, mainly due to higher raw material costs and delay in price hike. As a result, PAT is likely to decline ~12% YoY to ₹ 267 crore in Q4FY22
Crompton Greaves Consumer	CGCEL's Q4FY22 revenue is likely to increase 5% YoY to ₹ 1593 crore supported by price hike of ~15% in 9MFY22. The ECD segment revenue is likely to increase 6% YoY to ₹ 1260 crore while revenues from the lighting segment is likely to remain flat YoY. The EBITDA margin are likely to decline 230 bps YoY to 12.7% due to high raw material costs and low operating leverage. Finally, PAT is likely to decline 41% YoY to ₹ 148 crore owing to lower margins and one-time tax benefits in the base period
Bajaj Electricals	BEL is likely to post consolidated revenue growth of ~5% YoY in Q4FY22 to ~₹ 1327 crore supported by 5% & 8% YoY growth in consumer products and project business revenues to ~ ₹ 1022 crore and ₹ 305 crore, respectively. The gross margin is likely to decline ~260 bps YoY. However, EBITDA margin is likely to remain flat at ~6% YoY due to savings in other expenses. However, PAT is likely to decline 20% YoY to ~₹ 43 crore due to lower other income and high interest outgo

Source: Company, ICICI Direct Research

Exhibit 3: Company Specific Views (Consumer Discretionary)

V-Guard	<p>V-Guard is likely to report sales growth of ~5% YoY to ₹ 898 crore largely driven by price hikes. The electrical segment revenue is likely to increase 11% YoY to ₹ 432 crore led by ~20% price hike in the wire segment. The EBITDA margin is likely to decline 351 bps YoY to 9.4% mainly due to higher raw material cost and low operating leverage. As a result, PAT may see a decline of 23% YoY to ~₹ 53 crore in Q4FY22</p>
Voltas	<p>Voltas' consolidated revenue for Q4FY22 is likely to increase ~7% YoY to ₹ 2824 crore supported by UCP segment. The unitary cooling product (UCP) division revenues is likely to increase ~9% YoY to ₹ 1750 crore supported by ~15% price hike on YTD basis. The EMPS and EPS segment revenues are likely to increase by 2% and 5% YoY to ₹ 949 crore and ₹ 103 crore, respectively, mainly on a high base. Sharp rise in input costs and restoration of key operating costs is likely to result in ~195 bps YoY fall in EBITDA margin to 10.5%. Finally, PAT is likely to decline ~12% YoY to ₹ 211 crore owing to lower EBITDA margin and higher losses from JV/associates</p>

Source: Company, ICICI Direct Research

Exhibit 4: Valuation Matrix

Sector / Company	CMP (₹)	TP(₹)	Rating	M Cap (₹ Cr)	EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)				RoE (%)			
					FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Asian Paints (ASIPAI)	3,184	3,645	Buy	3,05,346	33.4	32.0	41.4	57.9	95.2	99.4	77.0	55.0	62.0	64.0	51.1	37.2	29.6	27.9	32.8	40.4	25.0	23.2	27.6	33.5
Berger Paints (BERPAI)	733	755	Hold	71,189	7.4	8.7	9.6	12.5	98.9	84.4	76.4	58.4	59.7	52.9	48.3	37.8	24.9	27.7	29.1	33.9	21.3	23.1	24.0	27.7
Kansai Nerolac (KANNER)	463	505	Hold	24,952	10.8	9.0	10.6	13.5	42.8	51.6	43.7	34.2	28.1	32.3	27.5	22.0	18.2	15.5	17.1	20.2	14.3	12.0	13.1	15.3
Pidilite Industries (PIDIND)	2,516	2,575	Hold	1,27,762	22.2	23.9	25.9	33.2	113.5	105.3	97.3	75.7	75.8	68.4	64.9	51.5	23.8	22.1	23.5	29.5	20.2	18.6	19.9	25.0
Bajaj Electricals (BAJELE)	1,089	1,100	Hold	12,474	16.5	11.2	24.7	33.0	66.0	97.2	44.1	33.0	41.9	48.0	29.7	23.4	15.1	14.0	21.0	23.3	10.7	9.2	16.5	18.6
Crompton Greaves(CROGR)	378	440	Hold	23,693	9.8	8.7	8.6	10.6	38.4	43.3	43.7	35.5	31.4	31.0	29.3	24.3	34.4	35.2	25.2	29.3	31.9	27.7	23.3	24.9
Havells India (HAVIND)	1,268	1,345	Buy	79,111	16.7	17.8	19.3	26.7	76.1	71.4	65.8	47.5	44.4	41.2	39.2	28.9	24.9	24.2	25.9	34.7	20.1	20.4	21.8	29.2
V-Guard Ind (VGUARD)	224	255	Buy	9,594	4.7	4.6	5.7	7.1	47.5	46.4	37.5	30.3	29.9	28.1	24.4	19.7	23.9	23.1	25.0	27.7	16.7	16.6	19.1	21.2
Voltas Ltd (VOLTAS)	1,317	1,305	Hold	43,558	16.0	16.2	22.1	31.1	82.4	81.5	59.6	42.3	67.2	60.5	49.5	34.8	15.0	17.2	18.7	22.1	10.6	11.4	14.1	17.2
Supreme Indus (SUPIND)	2,092	2,320	Buy	26,574	77.0	73.6	75.0	91.3	27.2	28.4	27.9	22.9	20.1	21.5	21.3	17.1	33.1	26.4	23.4	26.3	30.9	26.0	23.3	25.0
Astral Ltd (ASTPOL)	2,100	2,165	Hold	42,185	20.3	24.9	27.5	33.9	103.3	84.4	76.3	61.9	64.8	54.5	50.3	41.5	27.5	29.6	28.8	30.3	21.5	23.0	22.3	23.3

Source: Company, ICICI Direct Research

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Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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