July 8, 2022

Strong revenue growth on favourable base…

The I-direct consumer discretionary universe is likely to see strong revenue growth of ~42% YoY in Q1FY23E largely on a favourable base of Covid second wave impacted quarter. On a three year CAGR basis, coverage companies are likely to report revenue growth of 10% amid sustained demand and market share gains from regional/unorganised players. On a three-year average, PAT growth is expected at ~10% as margin pressure continues on higher raw material inflation.

Cooling product to witness strong demand recovery in Q1

The key highlights of consumer discretionary universe for Q1FY23E were: 1) After two consecutive years of peak season sales losses, cooling products (air conditioners, air coolers, fans) companies witnessed strong demand traction in April-May 2022. However, demand momentum slowed down in June 2022 impacted by high inflation and lower rural demand, 2) paint companies are likely to witness volume growth in the range of 7-21% YoY on dealer level inventory build-up (amid fear of price hikes) and revival in industrial paints led by automotive industry. We therefore believe, Kansai Nerolac will report strong volume growth of ~21% YoY 3) On the piping front, strong volume growth (in the range of 36-50%) is on a favourable base and revival in agri pipe demand after ease in PVC prices. At the company level, Havells, Voltas are likely to report robust revenue growth of 49%, 58% YoY, respectively, led by strong growth in cooling products. Paint companies are likely to report revenue growth in the range of 27-32% YoY supported by price hikes and recovery in industrial paint demand.

Price hikes to partially offset higher input prices

We believe price of key raw materials such as copper, aluminium and Titanium Dioxide have remained at an elevated level (up by ~2-31% YoY) despite the recent correction. We believe limited price hike (~3-5%) against the steep rise in raw material prices is likely to weigh on gross margins. The pipe players are likely to witness gross margin pressure due to inventory losses amid softening of PVC prices. However, electrical companies such as Bajaj Electricals and Voltas are likely to witness sharp margin recovery over a distorted base of pandemic hit quarter.

PAT growth seen at 46% YoY, three year CAGR at ~10%

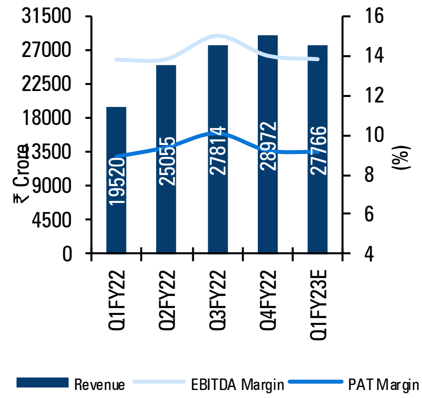
Our coverage universe is likely to report PAT growth of 44%YoY, tracking strong sales growth on low base of Q1FY22. However, three year average PAT growth is expected at ~10%, led by Havells India, Bajaj Electricals and Supreme Industries.

Exhibit 1: Estimates for Q1FY23E: (Consumer Discretionary) (₹ crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY23E	YoY	QoQ	Q1FY23E	YoY	QoQ	Q1FY23E	YoY	QoQ
Asian Paints	7,335.8	31.3	-7.1	1,261.8	38.1	-12.6	830.6	44.6	-5.0
Berger Paints	2,293.3	27.5	4.8	346.3	45.2	0.0	219.3	56.1	-0.5
Kansai Nerolac	1,823.7	40.2	29.1	227.1	21.4	173.8	142.0	19.7	478.8
Pidilite Industries	2,613.7	34.9	4.3	468.4	34.8	16.8	301.7	38.6	18.6
Supreme Industries	1,963.2	46.3	-23.2	284.7	28.2	-27.3	213.4	25.4	-34.1
Astral Ltd	1,166.6	66.6	-16.1	173.8	34.3	-19.8	110.7	47.4	-23.2
Havells	3,877.2	49.2	-12.2	465.3	31.8	-10.6	307.5	31.2	-12.9
Crompton Greaves Con	1,811.1	72.4	17.0	219.1	75.3	-4.2	133.7	41.1	-24.3
Bajaj Electricals	1,215.5	41.9	-8.9	59.9	NM	-5.2	34.8	LP	-10.0
V-Guard Industries	842.2	49.0	-20.4	79.2	73.9	-28.7	52.7	106.4	-41.1
Voltas Ltd	2,823.7	58.2	5.9	259.8	91.3	-0.5	203.9	66.5	11.6
Total	**27,766.0**	**42.2**	**-4.2**	**3,845.2**	**42.5**	**-5.4**	**2,550.3**	**45.9**	**-4.9**

Source: Company, ICICI Direct Research

Topline & Profitability (Coverage Universe)



EBITDA margin (%) movement

EBITDA margin	Q1'22	Q2'22	Q3'22	Q4'22	Q1'23
Asian Paints	16.4	12.7	18.1	18.3	17.2
Berger Paints	13.3	15.9	15.4	15.8	15.1
Kansai Nerolac	14.4	10.8	12.4	5.9	12.5
Pidilite Ind	17.9	20.9	19.3	16.0	17.9
Supreme Ind	16.5	16.1	16.3	15.3	14.5
Astral Poly	18.5	18.3	17.9	15.6	14.9
Havells	13.6	13.8	12.1	11.8	12.0
Bajaj Ele	0.1	7.2	7.0	4.7	4.9
CGCEL	11.9	15.5	14.3	14.8	12.1
V-guard	8.1	10.5	9.0	10.5	9.4
Voltas	7.6	7.6	8.7	9.8	9.2

Volume growth movement of paint companies

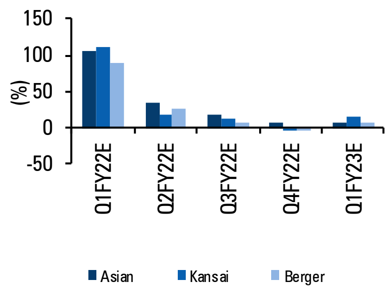


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Exhibit 2: Company Specific Views (Consumer Discretionary)

Company	Remarks
Asian Paints	Asian Paints is likely to report consolidated revenue growth of 31% YoY (three year CAGR of 13%) to ₹ 7336 crore on a favourable base and higher realisation (up ~22% YoY) in Q1FY23E. Market share gains and launches of new products will help drive volume up by 8% for the company in Q1FY23E. We believe price hike (of ~3%) will help to offset higher input costs resulting improvement in gross margin by ~60 bps YoY. This, along with improved operating leverage, will help drive EBITDA margin up by 85 bps YoY to 17.2%. As a result, PAT is likely to increase by 45% YoY to ~ ₹ 831 crore in Q1FY23E
Berger Paints	Consolidated sales of Berger Paints are likely to increase ~28% YoY (three year CAGR 10%) to ~₹ 2293 crore supported by higher realisation (up by 20% YoY). We believe dealer expansion, new product launches and improved demand from automotive segment will drive volume up by 8% in Q1FY23E. On the margin front, the EBITDA margin is likely to increase 90 bps YoY to ~15% supported by price hikes to offset higher raw material prices. PAT is likely to increase 56% YoY to ₹ 219 crore
Kansai Nerolac	Kansai is likely to report revenue growth of ~40% YoY (three year CAGR 8%) to ₹ 1824 crore mainly on a lower base of last year. The revenue growth will be supported by mix of volume growth and higher realisation. We believe the overall volume growth of 21% YoY will be driven by industrial paints segment (up by ~40%) amid recovery in the automotive demand. The decorative paint volume is likely to grow albeit a slow pace of ~6% YoY. On the margin front, we believe there would be sequential recovery in EBITDA margin by 658 bps QoQ to 12.5% (down 190 bps YoY) supported by price hike and higher operating leverage. Further, PAT is likely to increase by ~20% YoY to ₹ 142 crore tracking strong sales growth in Q1
Pidilite Industries	Pidilite is likely to report consolidated revenue growth of ~35% YoY (3 Year CAGR 9%) to ~₹ 2614 crore in Q1FY23 on a favourable base and price hike (16% YoY). The consumer & Bazaar and B2B business segments are likely to grow ~36% and 26% YoY to ₹ 2011 crore and ₹ 606 crore, respectively. On the margin front, gross margin is likely to remain under pressure (down ~400 bps YoY) due to sharp rise in VAM prices (up 19% YoY). However, savings in other expense is likely to offset higher raw material prices, which will result in a flattish EBITDA margin of 18% YoY. However, PAT growth of ~39% YoY to ~₹ 302 crore was supported by higher other income and lower interest outgo
Supreme Industries	Supreme's revenue is likely to grow 46% YoY to ~₹ 1963 crore in Q1FY23E on a favourable base and recovery of sales volume. The piping segment revenue is likely to increase ~50% YoY (three year CAGR 12%) to ₹ 1247 crore led by volume growth. The packaging and industrial segments revenue increased 32% and 34% YoY to ₹ 322 crore and ₹ 267 crore, respectively. We believe EBITDA margin is likely to decline ~80 bps QoQ to 14.5% due to loss of inventory amid softening of PVC prices towards the end of the quarter (down 5% QoQ). PAT is likely to increase ~25% YoY to ₹ 213 crore, tracking strong revenue growth in Q1
Astral	Astral's consolidated sales is likely to increase ~67% YoY (three year CAGR 24%) to ~₹ 1167 crore in Q1FY23E on a favourable base and new product launches. The piping segment is likely to report revenue growth of ~52% YoY (three year CAGR 19%) to ₹ 766 crore. The adhesive segment revenue is likely to increase by 65% YoY (three year CAGR 29%) to ₹ 323 crore in Q1FY23E supported by new product launches and dealer additions. We believe EBITDA margin will decline ~70 bps YoY to ~15% due to inventory loss. PAT is likely to increase 47% YoY to ~₹ 111 crore, tracking strong sales growth in Q1
Havells India	Havell's Q1FY23E topline is likely to grow by ~49% YoY (three year CAGR ~13%) to ₹ 3877 crore on a Covid impacted lower base and price hike of ~5%. Strong summer and market share gains will help drive revenue growth for Lloyd by 117% YoY to ₹ 1021 crore. The wire & cable segment is likely to see ~55% YoY growth to ₹ 1254 crore largely on a favourable base. The EBITDA margin is likely to decline ~160 bps to ~12% due to higher raw material cost. PAT is likely to increase ~30% YoY to ₹ 308 crore mainly on a favourable base
Crompton Greaves Consumer	CGCEL's Q1FY23E revenue is likely to increase ~72% YoY to ₹ 1811 crore supported by consolidation of Butterfly business. The core business (ECD + lighting) is likely to see revenue growth of 48% YoY (three year CAGR 5%) to ₹ 1557 crore led by 42% and ~80% growth in the ECD and LED light segments respectively. The EBITDA margin is likely to remain flat at ~12% YoY considering consolidation of low margin business. Finally, PAT is likely to increase 41% YoY to ₹ 134 crore tracking revenue growth in Q1FY23E

Source: Company, ICICI Direct Research

Bajaj Electricals	BEL is likely to post consolidated revenue growth of ~42% YoY in Q1FY23E to ~₹ 1216 crore supported by ~52% YoY (three year CAGR 7%) growth in the consumer product segment to ~₹ 965 crore. The gross margin is likely to decline ~260 bps YoY. The engineering & project segment revenue is likely to grow albeit a slow pace ~5% YoY to ₹ 250 crore due to company's increased focus on executing high margin orders. The EBITDA margin is likely to improve to ~5% YoY (vs. 0.1% in Q1FY22) supported by turnaround of project business and increased operating leverage. The company is likely to report PAT of ~₹ 35 crore in Q1FY23E over loss in the base period, tracking higher sales and improved EBITDA margin on a YoY basis
V-Guard	V-Guard is likely to report sales growth of ~49% YoY (three year CAGR 6%) to ₹ 842 crore on a favourable base and strong growth in the summer related products. The EBITDA margin is likely to increase 135 bps YoY to 9.4% supported by savings in other costs (through higher operating leverage). As a result, PAT is likely to increase 106% YoY to ~₹ 53 crore
Voltas	Voltas' consolidated revenue for Q1FY23E is likely to increase ~58% YoY to ₹ 2824 crore supported by UCP segment. The unitary cooling product (UCP) division revenues is likely to increase ~114% YoY (three year CAGR 9%) to ₹ 2064 crore supported by favourable base and strong summer demand of RACs in Q1FY23E. Overall EBITDA margin is likely to increase by 159 bps YoY to 9.2% supported by better operating leverage and improved profitability of project business. Finally, PAT is likely to increase ~67% YoY to ₹ 204 crore tracking sales growth and margin expansion

Source: Company, ICICI Direct Research

Exhibit 3: 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
Asian Paints (ASIPAI)	2,861	3,265	Buy	2,74,370	33.4	32.2	43.1	52.3	85.6	88.9	66.5	54.7	55.6	56.5	44.4	36.9	29.6	27.1	33.3	36.8	25.0	23.0	28.4	30.9
Berger Paints (BERPAI)	581	650	Hold	56,433	7.4	8.6	9.9	11.9	78.4	67.7	58.8	49.0	47.3	42.6	37.4	31.6	24.9	23.3	27.9	30.4	21.3	21.2	25.2	27.0
Kansai Nerolac (KANNER)	390	360	Reduce	21,018	9.8	6.9	9.7	12.1	39.6	56.1	40.1	32.3	24.9	32.3	25.0	20.6	17.2	12.1	16.8	19.5	13.2	9.2	12.7	14.6
Pidilite Industries (PIDIND)	2,234	2,000	Hold	1,13,443	22.2	23.8	26.0	32.2	100.7	94.0	86.0	69.4	67.3	61.3	57.2	46.4	23.8	22.2	22.6	25.6	20.2	18.8	19.1	21.4
Bajaj Electricals (BAJELE)	1,112	1,050	Hold	12,771	16.5	10.8	22.0	29.5	67.4	102.7	50.6	37.7	42.9	50.7	37.8	28.7	15.1	13.5	19.1	22.1	10.7	7.8	14.9	17.2
Crompton Greaves(CROGR)	366	390	Hold	22,941	9.8	9.2	8.9	11.0	37.2	39.7	41.2	33.2	30.3	29.9	25.9	21.4	34.4	16.2	17.8	21.0	31.9	24.0	21.5	23.3
Havells India (HAVIND)	1,101	1,300	Buy	68,691	16.7	17.8	19.3	26.7	66.1	62.0	57.2	41.2	43.1	40.9	38.1	28.1	24.9	24.2	25.9	34.7	20.1	20.4	21.8	29.2
V-Guard Ind (VGUARD)	222	255	Hold	9,580	4.7	5.3	5.4	6.6	47.1	41.6	40.8	33.5	29.8	28.2	26.5	21.5	23.9	21.2	23.7	26.2	16.7	16.2	18.0	20.0
Voltas Ltd (VOLTAS)	973	1,120	Hold	32,180	16.0	15.3	21.0	28.9	60.9	63.6	46.4	33.6	49.5	46.2	38.4	27.3	15.0	14.0	18.0	21.0	10.6	9.2	13.8	16.6
Supreme Indus (SUPIND)	1,871	2,320	Buy	23,767	77.0	76.2	78.8	92.7	24.3	24.5	23.8	20.2	17.9	18.7	17.9	14.7	33.1	25.9	25.2	26.7	30.9	25.2	24.3	25.1
Astral Ltd (ASTPOL)	1,703	1,930	Hold	34,210	20.3	24.4	28.8	35.1	83.8	69.8	59.1	48.5	52.4	44.6	38.1	31.7	27.5	26.6	27.3	28.5	21.5	21.0	21.4	22.3

Source: Company, ICICI Direct Research

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