

April 11, 2023

#### Exhibit 1: PL Universe

Companies	Rating	CMP (Rs)	TP (Rs)
Bajaj Electricals	Acc	1,053	1,280
CC Cons. Elect.	BUY	298	403
Havells India	BUY	1,166	1,448
KEI Industries	HOLD	1,710	1,811
Polycab India	HOLD	2,982	2,794
Voltas	BUY	823	970

Source: PL

#### Top Picks

##### Havells India

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## Consumer Durables

### Jan-Mar'23 Earnings Preview

#### Muted B2C demand, B2B segment outperform

##### Quick Pointers:

- Slowdown in demand, higher inventory in channel and competitive pricing, impacting RAC segment.
- Strong volume growth and price hike in C&W segment in quarter, KEI/Polycab expected to outperform our coverage over profitability.

**We estimate our consumer durable universe to register Sales/EBITDA growth of 9.8%/2.4% YoY and PAT decline of 0.5% YoY in 4QFY23. Muted demand environment and inability to pass-on increased cost has impacted consumer durable sector in the quarter. Seasonal products like RAC and fan sales impacted due to unseasonal rain, soft demand and higher inventory in channels. Companies offering discount and promotions are focusing on volume and market share. Rural demand has been poor due to an inflationary environment and continues to remain weak. Cable & Wire segment continues with healthy growth, largely from B2B segment and price hike of 3-4% helped further to report strong sales in quarter. We expect KEI Ind & Polycab to outperform and Crompton Consumer & Voltas to underperform in 4QFY23.**

**We prefer companies with robust return profile, controlled working capital, cost leader and continuously expanding opportunity market. We rate Havells India (HAVL) as our top pick.**

- **ECD and lighting segment continues to be weak:** ECD segment impacted because of higher fan inventory in the channel and weak demand environment. Companies pushed old inventory in Q3FY23 and our channel check suggests inventory of old fans at dealers'/retailers' level was above normal level. The channel also suggested that rating norm changes have increased fan prices by 4-12%. However, they were very optimistic over demand on harsh summer expectation (which was not visible so far) and not expecting any resistance, due to increase in prices on account of rating changes. The new BEE ratings enforced from 1st Jan 2023 put pressure on margins of ECD players, due to its cost implications and inability to pass on fully because of weak demand scenario. Lighting segment continues to face challenges in B2C segment, while pickup in B2B/B2G was visible. Weak rural demand is not favorable for Bajaj Electrical in the near term and Crompton is facing challenges due to increase in competitive intensity in its leading business like fan, pump & lightings. However, Havells with its distribution expansion, increase in product portfolio and channel supports is expected to outperform (est. 9% YoY growth vs coverage universe of 5.3% YoY in ECD segment).
- **Cable & Wire – To continue with healthy growth:** The KEI/Polycab will continue to benefit from industrial volume growth and increase in price by 3-4%. KEI/Polycab is expected to outperform our coverage over profitability. However, stretched valuation keeps limited upside potential for the stocks.

- **RAC segment - weak demand sentiment:** There is a slowdown in secondary demand of RAC which resulted in subdued primary demand from the channel partners. Our channel check in Feb-23 suggests healthy pick up in secondary demand and expected price hike in Mar-23, however, our channel interaction in Mar-23 suggests slowdown in Mar-23 demand and higher inventory in channel (35-40days) thereby restricting primary sales. The competitive pricing and slowdown in demand, restricted the price action. On the other hand, companies are offering higher discounts & promotions to liquidate inventory. We believe that an upward revision in price is possible only when demand picks up in the coming summer season. Voltas' profitability is expected to decline by 11.9% in 4QFY23 mainly with margin pressure. However, we believe Voltas to maintain its market share in RAC segment given the measures taken by the company which will be at risk in coming years as players like Lloyd, Daikin, Blue Star are coming up with their manufacturing units in South India.
- In our coverage universe, we have upward revised our target multiple for KEI Ind. to 23x FY25 earnings (earlier 20x FY25 earnings). KEI expected to deliver 20.2% CAGR in earnings over FY23-25 and maintain higher RoCE of 27% over FY23-25. We maintain our HOLD rating on stock.

#### Exhibit 2: Q4FY23 Result Preview

Company Name		Q4FY23E	Q4FY22	YoY gr. (%)	Q3FY23	QoQ gr. (%)	Remark
Bajaj Electricals	Sales	12,985	13,224	(1.8)	14,831	(12.4)	We expect sales to de-grow by 1.8% YoY, mainly due to weak demand & Fan channel stocking in Q3FY23. Consumer Products to de-grow by 0.4% YoY and appliance to grow by 5%. Lighting is expected to be sequentially flat while EPC est. revenue to be Rs1.25bn. We expect margin of 6.2% (+170bps YoY). Profitability growth of 11.9% with reduction in interest cost and one off expenses in Q4FY22. Adj. PAT grow by 3.5% YoY.
	EBITDA	805	592	36.0	1,005	(19.9)	
	Margin (%)	6.2	4.5		6.8		
	PBT	663	667	(0.5)	854	(22.3)	
	Adj. PAT	496	479	3.5	635	(21.8)	
Crompton Greaves Consumer Electricals	Sales	18,129	15,479	17.1	15,162	19.6	We expect sales to grow by 17.1% mainly with consolidation of Butterfly, while ECD/ Lighting segment is expected to grow by 6.5%/de-grow by 10.1%. ECD growth expected from Fan volume growth. Butterfly's revenue is expected to grow by 8.7% YoY & decline by 12.8% QoQ. We expect margins to remain under pressure, due to increase in expenses and butterfly integration. PAT to decline by ~45%.
	EBITDA	1,865	2,382	(21.7)	1,524	22.4	
	Margin (%)	10.3	15.4		10.1		
	PBT	1,484	2,312	(35.8)	1,146	29.5	
	Adj. PAT	1,082	1,976	(45.3)	853	26.9	
Havells India	Sales	48,730	44,171	10.3	41,276	18.1	We expect core segment sales to grow by 11.5% YoY, driven by C&W, ECD and Switchgears business. Lloyd expected to grow at ~5% in Q4FY23 despite higher base, which is a result of aggressive market share gain. We expect margins to remain under pressure due to cost inflation and higher contribution from Lloyd. PAT to decline by 2.3% YoY.
	EBITDA	4,873	5,106	(4.6)	4,238	15.0	
	Margin (%)	10.0	11.6		10.3		
	PBT	4,481	4,650	(3.6)	3,814	17.5	
	Adj. PAT	3,353	3,432	(2.3)	2,835	18.3	
KEI Industries	Sales	20,370	17,917	13.7	17,843	14.2	We expect sales to grow by 13.7% mainly with cables revenue growth of 17.1% YoY (LT cable/HT cable / HW&WW sales to grow by 14.2%/ 18.7%/24.8%) on account of 3-4% price hike coupled with increase in copper prices and strong traction in dealer penetrations. Also, B2B business traction continues in this quarter as well. We expect EBITDA margin to be maintained at 10.5% on account of improvement in dealers' business and price hikes. We expect PAT to grow by 30.8% YoY with higher margins and reduction in interest cost.
	EBITDA	2,140	1,720	24.4	1,822	17.5	
	Margin (%)	10.5	9.6		10.2		
	PBT	2,027	1,559	30.0	1,737	16.6	
	Adj. PAT	1,516	1,160	30.8	1,286	17.9	

Company Name		Q4FY23E	Q4FY22	YoY gr. (%)	Q3FY23	QoQ gr. (%)	Remark
Polycab India	Sales	44,210	39,699	11.4	37,151	19.0	We expect sales to grow by 11.4% YoY with Wires & Cables/ FMEG segment growing by 11.5%/ 6.6%. We expect margins to improve with judicious price revisions plus commodity price changes and cost control. PAT to grow by 23.6% YoY, along with increase in other income and controlled interest expenses.
	EBITDA	5,615	4,759	18.0	5,038	11.4	
	Margin (%)	12.7	12.0		13.6		
	PBT	5,356	4,300	24.6	4,818	11.2	
	Adj. PAT	3,977	3,218	23.6	3,576	11.2	
Voltas	Sales	28,012	26,666	5.0	20,056	39.7	We expect sales to grow by 5.0% YoY with UCP/ EMPS segment sales growing by 6.1%/ 4.1%. We expect margins to contract by 160bps YoY, due to price competition in RAC and weak performance from project business. We expect PAT to de-grow by ~12% YoY. We expect JV to report a loss of Rs287mn.
	EBITDA	2,288	2,610	(12.3)	764	199.6	
	Margin (%)	8.2	9.8		3.8		
	PBT	2,506	2,762	(9.3)	896	179.9	
	Adj. PAT	1,609	1,827	(11.9)	270	495.8	

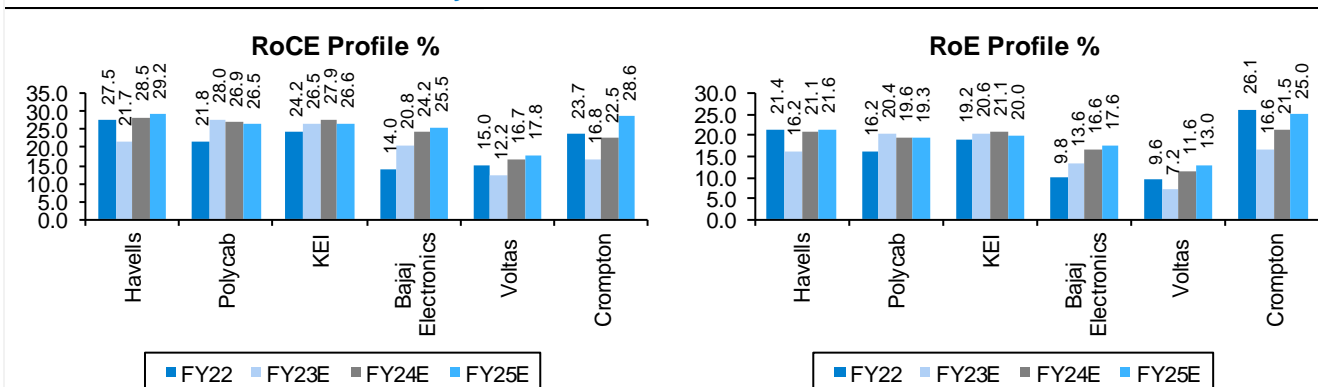
Source: Company, PL

### Exhibit 3: Category wise growth across our coverage – Healthy growth expected Cable & wire and ECD segment

	FY17	FY18	FY19	FY20	FY21	FY22	3 yr CAGR	FY23E	FY24E	FY25E	FY22-25E CAGR
<b>Cables &amp; wires (INR Bn)</b>											
Havells	26.8	26.8	32.3	29.9	31.8	46.5	12.8%	57.1	65.0	74.1	16.9%
Polycab	56.1	62.4	69.3	75.2	75.8	107.0	15.6%	124.9	141.2	158.4	14.0%
KEI Industries	21.8	28.1	35.0	41.2	37.2	53.5	15.2%	66.7	77.0	87.4	17.8%
<b>Cables &amp; Wires margin %</b>											
Havells	12.2	16.3	16.1	16.3	16.3	14.6		16.0	16.0	16.0	
Polycab	7.1	10.3	12.1	12.3	12.0	9.7		11.8	12.0	12.0	
KEI Industries	12.5	10.8	10.7	10.9	11.2	9.3		10.4	10.9	11.4	
<b>FMEG (INR Bn) (ECD &amp; Lighting)</b>											
Polycab	3.38	4.85	6.43	8.36	10.34	12.54	14.5%	13.53	16.41	19.63	16.1%
Bajaj Electricals	23.14	22.28	27.41	30.85	33.04	37.28	6.5%	48.97	55.26	61.16	17.9%
Havells	40.95	42.53	53.31	52.10	55.57	77.19	14.0%	92.06	104.59	118.64	15.4%
Crompton	40.17	41.05	44.79	45.12	48.04	53.94	6.1%	58.05	64.24	70.83	9.5%
<b>FMEG margin %</b>											
Polycab	1.03	1.82	1.16	2.01	5.47	1.56		2.00	3.50	5.50	
Bajaj Electricals	4.28	4.88	6.57	6.75	9.81	7.50		6.35	7.80	8.46	
Havells	25.15	27.60	27.07	27.46	27.08	25.73		27.63	27.63	27.62	
Crompton	14.79	16.61	16.14	16.43	17.81	17.70		18.35	18.61	18.66	
<b>EPC(INR Bn)</b>											
KEI Industries	6.75	9.56	10.33	13.97	9.77	8.73	-14.5%	7.44	9.08	9.61	3.3%
Bajaj Electricals	19.83	24.88	39.32	18.92	12.69	10.42	-18.0%	3.70	5.81	8.89	-5.2%
<b>EPC margin %</b>											
KEI Industries	9.15	10.86	13.76	11.72	9.29	9.39		8.50	8.50	8.50	
Bajaj Electricals	7.14	7.82	4.97	(1.83)	(4.27)	(3.40)		3.00	3.00	4.00	

Source: Company, PL

**Exhibit 4: Returns maintained at healthy level**



Source: Company, PL

**Exhibit 5: Efficient working capital management, robust business model**

Days		Havells	Polycab	KEI	Bajaj Electricals	Voltas	Crompton
Inventory	FY22	78	66	69	72	76	49
	FY23E	70	88	60	75	55	40
	FY24E	70	85	60	75	50	40
	FY25E	75	85	65	75	50	40
Debtor	FY22	20	39	89	86	97	42
	FY23E	14	28	75	97	87	34
	FY24E	14	26	75	75	85	34
	FY25E	14	26	80	72	85	34
Payable	FY22	62	47	49	93	135	69
	FY23E	55	65	47	94	123	58
	FY24E	46	65	46	78	119	58
	FY25E	46	65	46	70	118	57
Cash Cycle	FY22	35	58	109	66	38	22
	FY23E	29	51	88	78	19	16
	FY24E	38	46	89	73	16	16
	FY25E	43	46	99	77	17	17

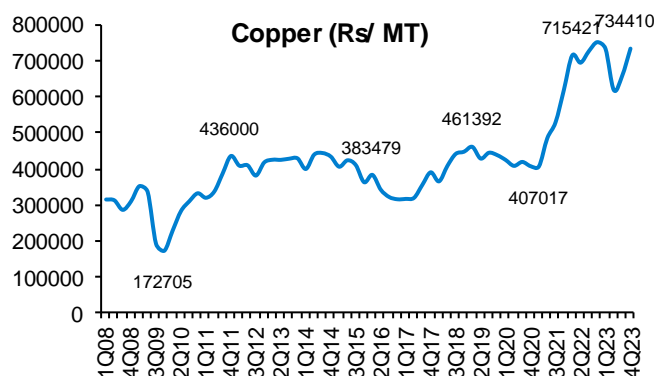
Source: Company, PL

Exhibit 6: FCF improvement visible across companies

		Net Profit	CF before WC changes	Less: changes in WC	OCF	Less: Capex	FCF	OCF/PAT (%)	FCF/PAT (%)
Havells	FY22	11,965	18,184	3,243	17,278	(2,528)	14,751	144.4%	123.3%
	FY23E	11,057	17,535	883	14,643	(4,163)	10,480	132.4%	94.8%
	FY24E	15,559	24,353	(4,471)	14,570	(2,600)	11,970	93.6%	76.9%
Polycab	FY22	8,361	13,430	(4,974)	5,116	5,330	10,446	61.2%	124.9%
	FY23E	11,451	17,406	(953)	12,336	(4,259)	8,077	107.7%	70.5%
	FY24E	13,292	20,204	(1,078)	14,618	(4,176)	10,442	110.0%	78.6%
KEI Industries	FY22	3,760	6,088	(2,555)	2,286	(596)	1,690	60.8%	44.9%
	FY23E	4,588	6,947	632	5,933	(2,942)	2,991	129.3%	65.2%
	FY24E	5,848	8,800	(3,345)	3,357	(2,277)	1,080	57.4%	18.5%
Bajaj Electricals	FY22	1,800	9,611	190	9,358	(49)	9,309	520.0%	517.3%
	FY23E	2,417	4,251	212	3,622	(1,434)	2,189	149.9%	90.5%
	FY24E	3,192	5,347	(1,643)	2,593	(864)	1,730	81.2%	54.2%
Voltas	FY22	5,060	8,449	(438)	5,842	(469)	5,373	115.5%	106.2%
	FY23E	4,585	5,700	(104)	3,579	(1,161)	2,418	78.1%	52.7%
	FY24E	7,543	11,960	210	9,572	(1,729)	7,843	126.9%	104.0%
Crompton	FY22	5,862	8,034	1,028	7,359	(1,712)	5,648	125.6%	96.4%
	FY23E	5,195	9,736	(1,166)	6,735	(1,398)	5,337	129.6%	102.7%
	FY24E	6,099	10,644	(1,868)	6,624	(96)	6,529	108.6%	107.1%

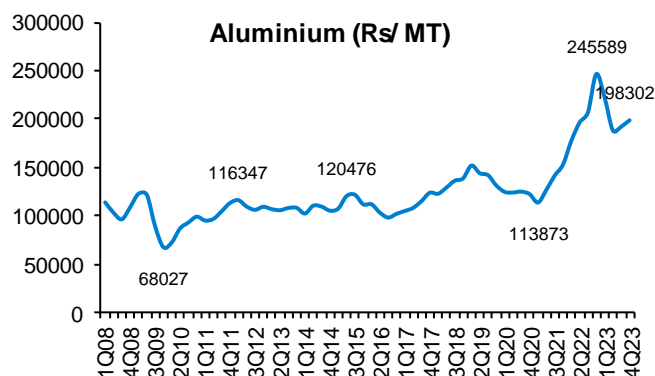
Source: Company, PL

Exhibit 7: Copper price down 2.4%YoY / up 11.5%QoQ



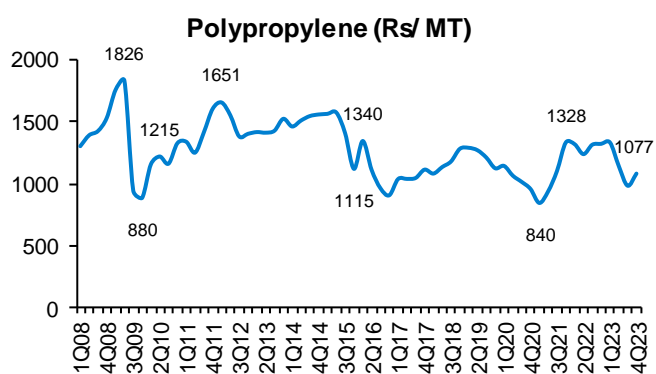
Source: Bloomberg, PL

Exhibit 8: Aluminum price down 19.3%YoY / up 3.4%QoQ



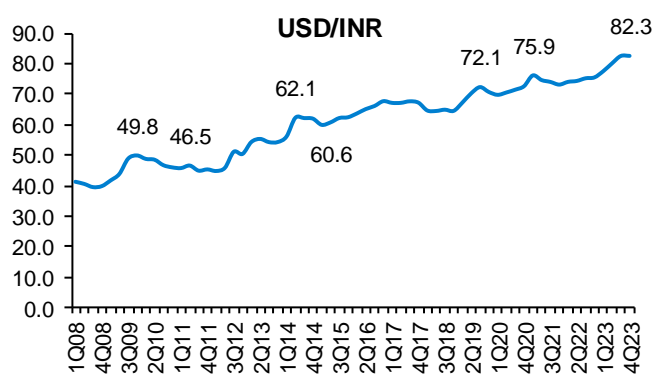
Source: Bloomberg, PL

Exhibit 9: Polypropylene prices down 18.2%YoY/up10% QoQ



Source: Bloomberg, PL

Exhibit 10: Avg INR depreciated by 9.3% YoY/flat QoQ



Source: Bloomberg, PL

## Exhibit 11: Valuation Summary

Company Names	S/C	Rating	CMP (Rs)	TP (Rs)	MCap (Rs bn)	Sales (Rs bn)				EBITDA (Rs bn)				PAT (Rs bn)				EPS (Rs)				RoE (%)				PE (x)			
						FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E
Bajaj Electricals	S	Acc	1,053	1,280	121.0	47.7	52.7	61.1	70.0	2.3	3.9	5.2	6.3	1.7	2.5	3.5	4.3	14.5	22.1	30.6	37.7	9.8	13.6	16.6	17.6	72.6	47.7	34.4	27.9
Crompton Greaves Consumer Electricals	C	BUY	298	403	189.0	53.9	68.9	76.6	84.9	7.5	7.5	9.7	11.3	5.7	4.3	5.9	7.3	9.0	6.8	9.4	11.5	26.1	16.6	21.2	24.7	33.0	44.0	31.9	25.9
Havells India	C	BUY	1,166	1,448	729.9	139.4	169.1	191.7	215.4	17.6	15.6	21.8	25.8	12.0	10.5	15.9	19.2	19.1	16.7	25.4	30.7	21.4	16.2	21.1	21.6	61.0	69.7	45.9	38.0
KEI Industries	C	HOLD	1,710	1,811	153.6	57.3	70.0	80.4	91.0	5.9	7.2	9.1	10.4	3.8	4.9	6.1	7.1	41.8	54.5	68.3	78.7	19.2	20.6	21.2	20.1	40.9	31.4	25.0	21.7
Polycab India	C	HOLD	2,982	2,794	445.6	122.0	142.0	161.6	182.6	12.6	18.0	20.3	23.2	8.4	12.3	14.0	16.2	55.9	82.6	93.5	108.2	16.2	20.4	19.6	19.3	53.3	36.1	31.9	27.6
Voltas	C	BUY	823	970	272.3	79.3	93.4	105.5	118.6	6.8	5.8	8.5	10.0	5.0	4.0	6.8	8.4	15.2	12.0	20.4	25.3	9.6	7.2	11.6	13.0	54.0	68.8	40.3	32.6

Source: Company, PL

S=Standalone / C=Consolidated / Acc=Accumulate

## Exhibit 12: Change in Estimates

	Rating		Target Price			Sales						PAT						EPS					
						FY23E			FY24E			FY23E			FY24E			FY23E			FY24E		
	C	P	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.
Bajaj Electricals	Acc	Acc	1,280	1,286	-0.4%	52,667	52,814	-0.3%	61,069	61,234	-0.3%	2,538	2,552	-0.5%	3,514	3,530	-0.5%	22.1	22.2	-0.5%	30.6	30.7	-0.5%
Crompton Greaves Consumer Electricals	BUY	BUY	403	406	-0.6%	68,915	68,492	0.6%	76,587	76,140	0.6%	4,293	4,958	-13.4%	5,926	5,917	0.2%	6.8	7.8	-13.4%	9.4	9.3	0.2%
Havells India	BUY	BUY	1,448	1,447	0.1%	1,69,103	1,68,528	0.3%	1,91,705	1,91,053	0.3%	10,467	11,156	-6.2%	15,897	15,855	0.3%	16.7	17.8	-6.2%	25.4	25.3	0.3%
KEI Industries	HOLD	HOLD	1,811	1,572	15.2%	69,954	69,954	0.0%	80,444	80,444	0.0%	4,897	4,858	0.8%	6,139	6,131	0.1%	54.5	54.1	0.8%	68.3	68.2	0.1%
Polycab India	HOLD	HOLD	2,794	2,750	1.6%	1,42,016	1,39,877	1.5%	1,61,634	1,59,238	1.5%	12,345	12,005	2.8%	13,968	13,777	1.4%	82.6	80.3	2.8%	93.5	92.2	1.4%
Voltas	BUY	BUY	970	980	-1.0%	93,431	94,131	-0.7%	1,05,452	1,06,257	-0.8%	3,958	4,114	-3.8%	6,757	6,768	-0.2%	12.0	12.4	-3.8%	20.4	20.5	-0.2%

Source: Company, PL

C=Current / P=Previous / Acc=Accumulate

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Astral Ltd.	BUY	1,620	1,331
2	Bajaj Electricals	Accumulate	1,286	1,154
3	Cera Sanitaryware	BUY	7,280	6,535
4	Crompton Greaves Consumer Electricals	BUY	406	305
5	Finolex Industries	BUY	224	172
6	Havells India	BUY	1,447	1,205
7	Kajaria Ceramics	BUY	1,302	1,055
8	KEI Industries	Hold	1,572	1,508
9	Polycab India	Hold	2,750	2,761
10	Prince Pipes and Fittings	BUY	693	574
11	Supreme Industries	BUY	3,177	2,535
12	Voltas	BUY	980	850

## PL's Recommendation Nomenclature

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



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