

CONSUMER DURABLES

Q4FY23 Review

05 June 2023

Margin worries continue

- Topline growth improves in Q4 amidst demand concerns, though margins remain sedate
- Demand and cost headwinds show signs of abating, raising prospects of a better FY24
- Prefer HAVL, CROMPTON and POLYCAB

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Topline resilient but margins lack vigour: In Q4FY23, our consumer durables universe clocked similar trends as in Q3, with topline growth of 16% YoY but a slight 20bps dip in EBITDA margin. The pickup in revenue was reasonable considering inflationary pressure and weather disruptions, but margins flagged owing to price discounts to push sales. Thus, margin recovery stands delayed beyond our earlier expectation of H2FY23 to H1FY24 which should see tailwinds from seasonal summer demand and price hikes

Patchy demand in fans and ACs....: Room air conditioning players saw uneven demand while the fans segment suffered from the overhang of energy rating transition. CROMPTON led the charge in fans with its strategy of pushing new star-rated products vs. peers who promoted older inventory and had a muted quarter. Higher channel inventory dampened sale volumes even as price discounts weighed on margins. The kitchen appliances division exhibited slow demand trends and sedate margins for CROMPTON (Butterfly Gandhimathi) and VGRD (Sunflame).

...but seasonal boost ahead: The outlook for both ACs and fans looks promising for H1FY24 amidst a seasonally favourable period, channel refilling and scope for price hikes.

EMS on a strong footing: In contrast to consumer durables players, electronic manufacturing services (EMS) companies across our coverage saw robust demand traction and strong topline growth (only DIXON posted flat YoY growth). In addition to healthy order books, our coverage companies added new clients and incurred capex to cater to future demand, reflection demand traction.

Top picks: We now prefer **HAVL** (TP Rs 1,500, BUY), **CROMPTON** (TP Rs 370, BUY), and **POLYCAB** (TP Rs 3,900, BUY) in the consumer durables space. In the air conditioning space, we continue to prefer BLSTR (TP Rs 1,650, BUY).

Recommendation snapshot

| Ticker | Price | Target | Rating |
|-------------|-------|--------|--------|
| AMBER IN | 2,182 | 2,260 | HOLD |
| BLSTR IN | 1,442 | 1,650 | BUY |
| CROMPTON IN | 273 | 370 | BUY |
| DIXON IN | 3,966 | 4,100 | BUY |
| HAVL IN | 1,331 | 1,500 | BUY |
| KEII IN | 2,094 | 2,130 | BUY |
| ORIENTEL IN | 240 | 240 | HOLD |
| POLYCAB IN | 3,552 | 3,900 | BUY |
| SYRMA IN | 386 | 440 | BUY |
| VGRD IN | 252 | 270 | HOLD |
| VOLT IN | 819 | 900 | HOLD |

Price & Target in Rupees | Price as of 2 Jun 2023

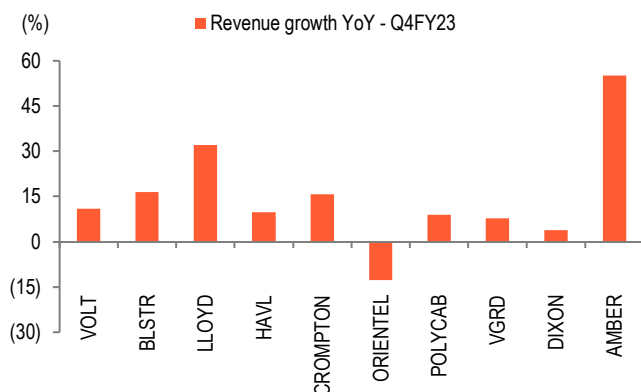
Consumer Durables: Q4 result reviews

| Company | Result review link |
|-------------|---|
| AMBER IN | Strong performance on new client and capacity addition |
| BLSTR IN | Momentum continues; outlook bright |
| CROMPTON IN | Mixed quarter |
| DIXON IN | In-line quarter; strong guidance reiterated |
| HAVL IN | Moderate quarter; in-line performance |
| KEII IN | Momentum continues; capacity addition to spur growth |
| ORIENTEL IN | Weak end to a challenging FY23 |
| POLYCAB IN | Cables business resilient |
| SYRMA IN | Strong show; positive outlook intact |
| VGRD IN | Sunflame key for FY24 |
| VOLT IN | EMP underperformance overshadows resilient cooling business |

Source: BOBCAPS Research

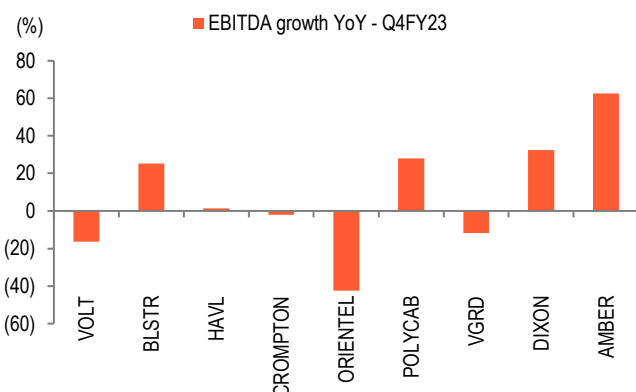


Fig 1 – Revenue growth



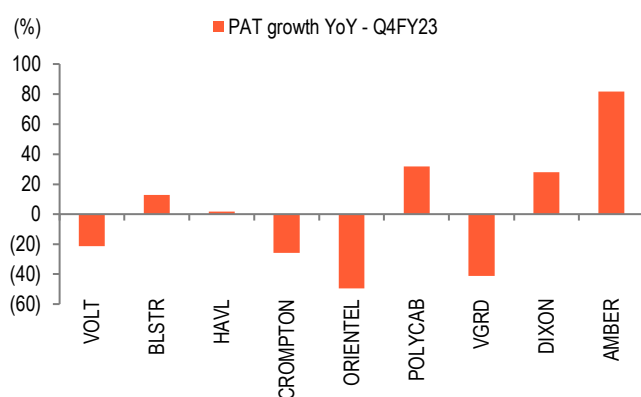
Source: Company, BOBCAPS Research

Fig 2 – EBITDA growth



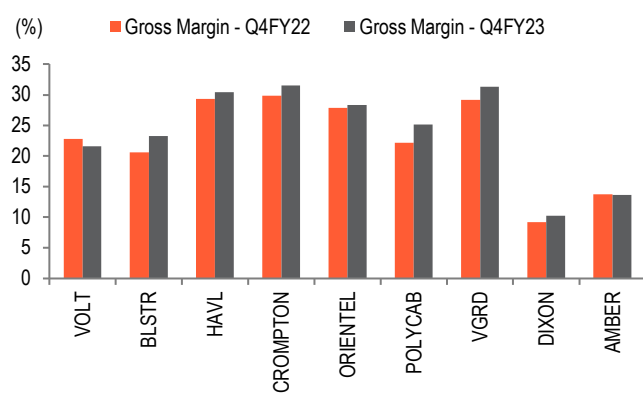
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Fig 3 – PAT growth



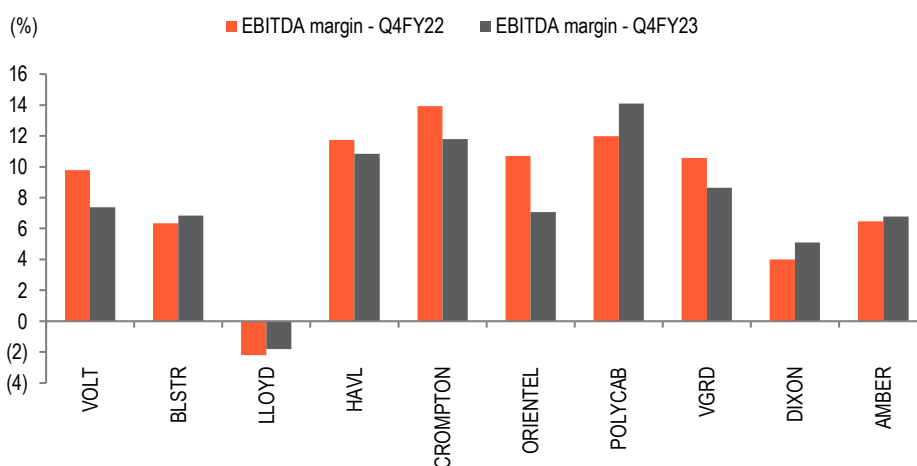
Source: Company, BOBCAPS Research

Fig 4 – Gross margin trend



Source: Company, BOBCAPS Research

Fig 5 – EBITDA margin trend



Source: Company, BOBCAPS Research

Fig 6 – UCP segment: Peer comparison

| Company | EBIT Margin (%) | | Revenue | | |
|---------|-----------------|-------|-------------|----------------|----------------|
| | Q4FY23 | FY23 | 4Y CAGR (%) | Growth YoY (%) | Growth QoQ (%) |
| VOLT | 10.0 | 8.3 | 19.7 | 12.7 | 68.5 |
| BLSTR | 8.4 | 7.8 | 15.9 | 22.6 | 79.8 |
| LLOYD | (1.8) | (4.5) | 24.3 | 32.5 | 108.3 |

Source: Company, BOBCAPS Research

Fig 7 – Electronic consumer durables (ECD) segment: Peer comparison

| Company | EBIT Margin (%) | | Revenue | | |
|----------|-----------------|------|-------------|----------------|----------------|
| | Q4FY23 | FY23 | 4Y CAGR (%) | Growth YoY (%) | Growth QoQ (%) |
| HAVL | 12.8 | 13.5 | 8.9 | (14.1) | (19.9) |
| CROMPTON | 16.4 | 6.6 | 11.3 | 7.7 | 30.0 |
| ORIENTEL | 9.7 | 9.1 | (1.0) | (20.3) | (15.1) |
| VGRD | (0.4) | 0.6 | 12.5 | (3.3) | (19.1) |

Source: Company, BOBCAPS Research

Fig 8 – Lighting segment: Peer comparison

| Company | EBIT Margin (%) | | Revenue | | |
|----------|-----------------|------|-------------|----------------|----------------|
| | Q4FY23 | FY23 | 4Y CAGR (%) | Growth YoY (%) | Growth QoQ (%) |
| HAVL | 18.1 | 16.0 | 2.3 | 2.7 | (1.7) |
| CROMPTON | 10.9 | 9.5 | (5.0) | (12.1) | 12.5 |
| ORIENTEL | 19.5 | 14.9 | 5.5 | 11.8 | 0.0 |
| VGRD | 12.0 | 13.2 | 10.3 | 2.0 | 20.5 |

Source: Company, BOBCAPS Research

Fig 9 – Wires & Cables: Peer comparison

| Company | EBIT Margin (%) | | Revenue | | |
|---------|-----------------|------|-------------|----------------|----------------|
| | Q4FY23 | FY23 | 4Y CAGR (%) | Growth YoY (%) | Growth QoQ (%) |
| HAVL | 12.0 | 8.6 | 15.0 | 5.4 | 11.1 |
| POLYCAB | 14.5 | 13.1 | 17.7 | 15.2 | 22.0 |
| VGRD | 12.0 | 13.2 | 10.3 | 2.0 | 20.5 |

Source: Company, BOBCAPS Research

Fig 10 – Valuation snapshot

| Companies | Rating | Target Price (Rs) | Upside (%) | Revenue (Rs bn) | | | | EBITDA (Rs bn) | | | |
|-----------|--------|-------------------|------------|-----------------|-------|-------|----------|----------------|-------|-------|----------|
| | | | | FY23 | FY24E | FY25E | CAGR (%) | FY23 | FY24E | FY25E | CAGR (%) |
| VOLT | Hold | 900 | 10 | 95 | 108 | 127 | 16 | 6 | 9 | 11 | 38 |
| BLSTR | Buy | 1,650 | 14 | 80 | 92 | 108 | 16 | 5 | 6 | 8 | 29 |
| POLYCAB | Buy | 3,900 | 10 | 141 | 163 | 182 | 14 | 19 | 22 | 25 | 15 |
| CROMPTON | Buy | 370 | 36 | 69 | 79 | 91 | 15 | 8 | 10 | 12 | 22 |
| HAVL | Buy | 1,500 | 13 | 169 | 191 | 217 | 13 | 16 | 22 | 27 | 30 |
| ORIENTEL | Hold | 240 | 0 | 25 | 30 | 34 | 16 | 2 | 3 | 3 | 43 |
| VGRD | Hold | 270 | 7 | 41 | 51 | 57 | 18 | 3 | 5 | 6 | 38 |
| KEII | Buy | 2,130 | 2 | 69 | 80 | 94 | 17 | 7 | 9 | 11 | 23 |
| DIXON | Buy | 4,100 | 3 | 122 | 177 | 209 | 31 | 5 | 8 | 8 | 28 |
| AMBER | Hold | 2,260 | 4 | 69 | 85 | 101 | 21 | 4 | 5 | 6 | 23 |
| SYRMA | Buy | 440 | 14 | 20 | 27 | 36 | 33 | 2 | 3 | 4 | 37 |

Source: Company, BOBCAPS Research

Fig 11 – Valuation snapshot

| Companies | EBITDA Margin (%) | | | PAT (Rs bn) | | | | P/E (x) | | |
|-----------|-------------------|-------|-------|-------------|-------|-------|----------|---------|-------|-------|
| | FY23 | FY24E | FY25E | FY23 | FY24E | FY25E | CAGR (%) | FY23 | FY24E | FY25E |
| VOLT | 6.0 | 8.0 | 8.6 | 4 | 6 | 7 | 40 | 72 | 46 | 36 |
| BLSTR | 6.2 | 6.8 | 7.6 | 3 | 3 | 4 | 27 | 53 | 47 | 33 |
| POLYCAB | 13.1 | 13.4 | 13.5 | 13 | 15 | 17 | 14 | 42 | 36 | 32 |
| CROMPTON | 11.2 | 12.2 | 12.7 | 5 | 6 | 8 | 30 | 37 | 28 | 22 |
| HAVL | 9.5 | 11.3 | 12.4 | 11 | 15 | 18 | 31 | 78 | 55 | 45 |
| ORIENTEL | 6.0 | 8.5 | 9.0 | 1 | 1 | 2 | 50 | 67 | 39 | 30 |
| VGRD | 7.8 | 10.8 | 10.7 | 2 | 3 | 4 | 42 | 58 | 32 | 28 |
| KEI | 10.2 | 10.8 | 11.3 | 5 | 5 | 7 | 20 | 40 | 35 | 28 |
| DIXON | 4.2 | 4.3 | 4.0 | 3 | 4 | 4 | 32 | 92 | 58 | 53 |
| AMBER | 6.0 | 6.1 | 6.3 | 2 | 2 | 3 | 31 | 47 | 36 | 26 |
| SYRMA | 9.2 | 9.4 | 9.7 | 1 | 2 | 2 | 36 | 57 | 42 | 31 |

Source: Company, BOBCAPS Research

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Note: Recommendation structure changed with effect from 21 June 2021

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