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CONSUMER DURABLES

13 June 2022

A case for larger companies

- **FY22 sales of larger companies outpaced medium/small/micro players, per a BOB Economics study of 2,000+ companies across sectors**
- **This corroborates our view that larger players have potentially stronger pricing power, implying resilience amid inflationary stress**
- **We reiterate our preference for leaders with a proven record on pricing as well as cost control – BUY VOLT, HAVL, POLYCAB**

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Corporate performance lends credence to our view: In our FY22 earnings review of the consumer durables sector titled **Margin gains elusive**, we had highlighted our belief that larger companies are better able to handle pricing pressure and cost control. This is corroborated by research from the Bank of Baroda Economics team, which covered a detailed study of the financial performance of over 2,000 companies.

FY22 saw strong growth: As per the BOB Economics study, aggregate turnover across the sample set grew by 27.5% in FY22 compared to declines of 1.9%/0.8% in FY21/FY20. Even on a pre-Covid base of FY20, growth was healthy at 25.1%. However, inflation played a dampening role on operating profit which increased by 17.3%. PAT was stronger, rising 57.4% due to a combination of lower interest, taxes and employee cost, though lower employee cots would have benefited operating margins. Ex-BFSI, the performance was even better with sales/EBITDA/ PAT growth of 35%/25%/65%.

Deleveraging uplifted PAT growth: Interest payments declined in FY21 and FY22 on account of a slowdown in borrowing and reduction in interest rates amid pandemic measures by the RBI. Further, several companies have been deleveraging over the last couple of years. This has led to a high interest cover of 7.7x, supporting the strongest PAT margin of 9.2% in four years.

Larger companies have outperformed: Further unravelling of the data shows that larger companies (turnover above Rs 2.5bn; ~80% of sales for the sample size) grew by 28% in FY22, with medium/small/micro players lagging at +21%/+7%/-25%. This suggests relatively stronger pricing power for bigger companies and explains the anecdotal market share gains for most of these players during the pandemic.

Reiterate preference for bigger players: Given that pricing power and cost control are vital in the current inflationary environment, we reiterate our preference for leaders with a strong track record in these areas, viz. VOLT (BUY, TP: Rs 1,250), HAVL (BUY, TP: Rs 1,500) and POLYCAB (BUY, Rs 3,000).

Recommendation snapshot

Ticker	Price	Target	Rating
AMBER IN	2,227	3,500	HOLD
BLSTR IN	948	1,200	HOLD
CROMPTON IN	328	500	BUY
DIXON IN	3,490	4,600	BUY
HAVL IN	1,093	1,500	BUY
ORIENTEL IN	270	350	HOLD
POLYCAB IN	2,232	3,000	BUY
VGRD IN	218	250	HOLD
VOLT IN	981	1,250	BUY

Price & Target in Rupees | Price as of 13 Jun 2022

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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