

## Cooling products drive Q1

- Our consumer durables universe grew 32% YoY in Q1, fueled by strong demand in cooling products, EMS, and cables
- Price erosion in lighting persists, kitchen appliances remain subdued, and wires slow down due to steep copper price correction
- Optimistic about select companies - Dixon, BlueStar, CG, & Polycab, given their promising earnings outlook & strong performance potential

Arshia Khosla

research@bobcaps.in

**Summer heat spurs growth and margin rebound:** In Q1FY25, the consumer durables sector saw strong trends. The intense summer heat drove a surge in demand for cooling products like ACs, coolers, and commercial refrigeration, while non-summer categories struggled with soft demand. Operating margins improved fueled by a better product mix, cost controls, and increased operating leverage. Cables posted robust double-digit growth, whereas wires grew slowly due to trade destocking and falling copper prices. Fans benefited from summer demand and premiumization, though lighting sales was hit by falling LED prices. Appliances faced weaker sales amid demand moderation, while ACs saw a 60% growth, despite capacity issues. Refrigerators grew well but washing machine sales lagged. Overall, our coverage universe revenue rose 32% YoY to Rs. 337bn, with EBITDA increasing by 40% to Rs. 29 bn and PAT increasing by 44% YoY to Rs. 19.6bn.

**RAC segments heat up on summer demand:** A scorching summer and pent-up demand fueled ~60% YoY growth in the cooling products industry during Q1, leading to a surge in RAC and air cooler sales and resulting in widespread shortages and low channel inventory. Voltas led with a 51.2% rise and 67% volume growth, selling 1 million RAC units. Havells (Lloyd) and Blue Star followed with 47% and 44% growth, respectively. Price hikes of 3-5% helped counter rising commodity costs, with Voltas increasing its market share to 21.2% and Blue Star holding steady at 13.75%. Blue Star led margins at 9.1%, followed by Voltas at 8.6%, while Lloyd maintained operating profitability for two consecutive quarters now.

**... also continues in ECD segment:** In the ECD segment, strong summer demand for fans and air coolers drove robust growth. VGRD sales saw a 26% rise, outpacing Havells (20%) and Crompton (21%), while Orient grew by just 6% due to capacity constraints. Crompton expanded margins by 230bps to 15%, while Orient's margins contracted by 50bps. Bajaj lagged with 3.7% growth and a 210bps margin decline. Air coolers thrived, with Symphony recording 74.7% growth, driven by strong penetration in semi-urban and rural markets.



**Cables outpace wires:** The cables segment outpaced wires in Q1, as channel destocking hit wire sales due to a sharp drop in input costs in June'24. Business sentiment was further dampened by the heatwave and the general elections, affecting electric wire sales. Export sales struggled with logistical challenges, like container shortages. KEI led growth at 16%, driven by an 18% volume increase, while Polycab followed with 12% growth and a 10% volume rise. However, Havells and Finolex saw muted growth due to their wire-heavy portfolios. Despite a 220bps YoY margin decline, Polycab maintained industry-leading margins at 12.6%. With rising demand from sectors like renewables, power infrastructure, and industrials, C&W players are ramping up capacity to meet the surge.

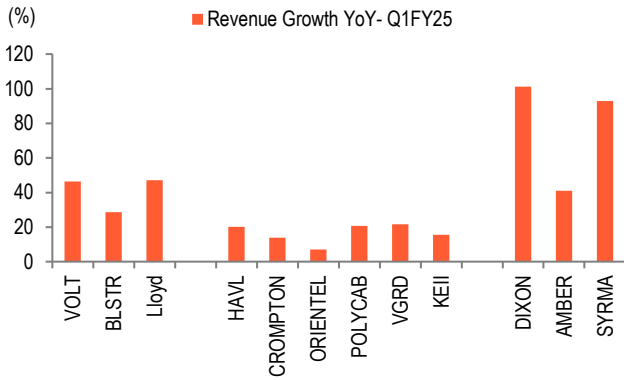
**EMS segment shines bright in Q1:** The EMS sector saw a strong boost in Q1, with impressive revenue growth across the board. Amber enjoyed a 41% increase, driven by a 40bps margin improvement from better operating efficiency and a shift to components. Dixon's revenue soared by 100%, fueled by a huge 189% jump in its mobiles and EMS business, though its EBITDAM slipped 30bps due to lower-margin mobile sales. Syrma also grew by 93% across its consumer, auto, and industrial sectors, but its margins fell by 230bps because of a less favorable business mix.

**Lighting segment brightens amidst price pressures:** In the quarter, strong volume-driven growth in B2C lighting helped offset the ongoing price erosion in LEDs. While B2B lighting remained robust, some government projects faced delays due to elections. Orient Electric led the pack with a 10.2% growth in lighting, driven by impressive gains in both consumer and professional segments. Other players saw modest single-digit revenue increases. Orient also excelled on the margin front, improving by 250bps due to effective cost control and a refined product mix. In contrast, Crompton's EBIT margins fell 300bps due to increased A&P expenditures.

**Kitchen appliances face soft growth amid intense competition:** In a challenging quarter for the kitchen appliance industry, growth remained subdued due to heightened competition. Butterfly's revenues fell 19% as e-commerce sales declined from pricing adjustments. Sunflame also experienced a ~7% drop, hampered by ongoing internal restructuring. Conversely, Stove Kraft shone with a 6% growth, fueled by gains in the small appliances sector and new product innovations. The company enjoyed a 210bps margin expansion to 10.2%, driven by backward integration and strategic price hikes. In contrast, Butterfly and Sunflame saw margin contractions of 560bps and 500bps, respectively, due to increased A&P expenses.

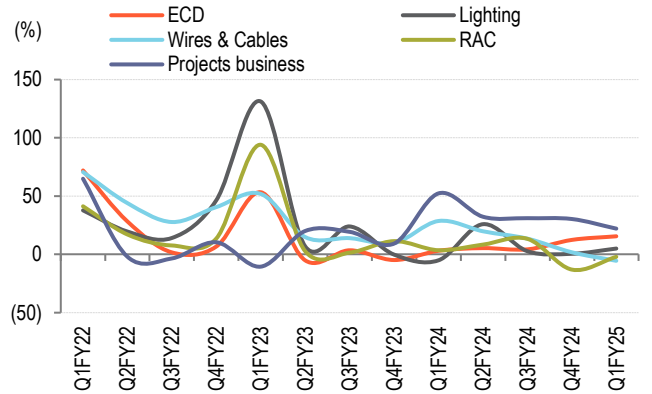
**View:** We maintain an optimistic outlook for both the Consumer Durable and EMS sectors, anticipating robust demand in non-summer categories as the festival season approaches. The demand landscape in the C&W segment remains vibrant, supported by a solid order book and favorable industry trends, which bode well for EMS companies. Among our top recommendations are Dixon (BUY, TP Rs. 13800), Bluestar (BUY, TP Rs. 1870), CG Consumer (BUY, TP Rs. 520), and Polycab (HOLD, TP Rs. 7100), all of which are well-positioned to capitalize on these promising market conditions.

**Fig 1 – Consumer durables universe: Revenue growth**



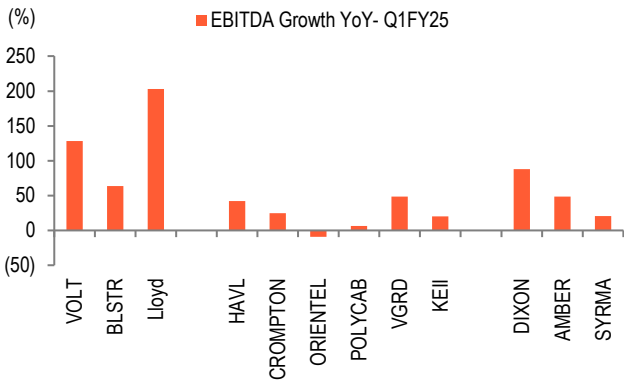
Source: Company, BOBCAPS Research

**Fig 2 – Industry-wide revenue growth**



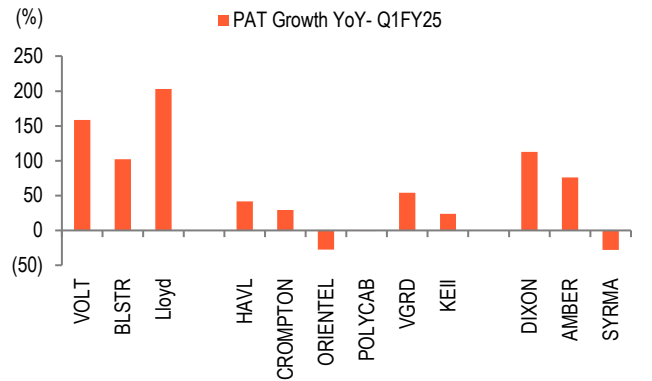
Source: Company, BOBCAPS Research

**Fig 3 – Consumer durables universe: EBITDA growth**



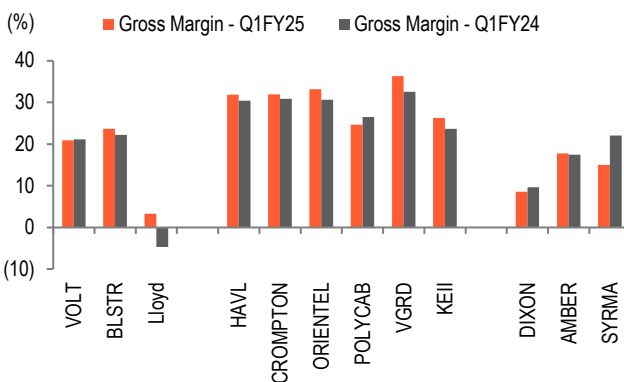
Source: Company, BOBCAPS Research

**Fig 4 – Consumer durables universe: PAT growth**



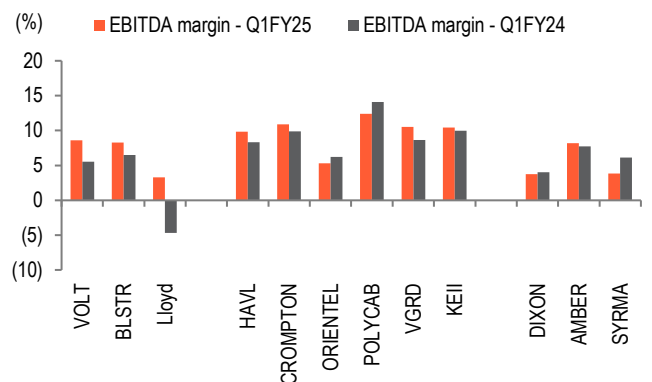
Source: Company, BOBCAPS Research

**Fig 5 – Consumer durables universe: Gross margin trend**



Source: Company, BOBCAPS Research

**Fig 6 – Consumer durables universe: EBITDA margin trend**



Source: Company, BOBCAPS Research

**Fig 7 – UCP segment: Peer comparison**

Company	EBIT Margin (%)			Revenue		
	Q1FY25	Q1FY24	Q4FY24	4Y CAGR (%)	Growth YoY (%)	Growth QoQ (%)
VOLT	8.6	8.2	9.2	47.1	51.2	28.7
BLSTR	9.1	7.5	8.3	58.4	44.3	1.2
Lloyd	3.3	(4.7)	2.9	58.4	0.0	54.8

Source: Company, BOBCAPS Research

**Fig 8 – ECD segment: Peer comparison**

Company	EBIT Margin (%)			Revenue		
	Q1FY25	Q1FY24	Q4FY24	4Y CAGR (%)	Growth YoY (%)	Growth QoQ (%)
HAVL	10.9	10.9	11.3	36.8	20.3	15.9
CROMPTON	15.0	12.7	16.7	30.4	20.8	13.9
ORIENTEL	9.1	9.5	8.2	51.5	5.8	(4.3)
VGRD	5.2	0.3	3.5	48.7	26.1	14.2

Source: Company, BOBCAPS Research

**Fig 9 – Lighting segment: Peer comparison**

Company	EBIT Margin (%)			Revenue		
	Q1FY25	Q1FY24	Q4FY24	4Y CAGR (%)	Growth YoY (%)	Growth QoQ (%)
HAVL	16.2	14.3	18.0	28.5	4.5	(11.0)
CROMPTON	8.9	11.9	8.9	17.2	1.9	(17.0)
ORIENTEL	18.6	16.1	12.8	29.2	10.2	(3.9)

Source: Company, BOBCAPS Research

**Fig 10 – Wires and Cables segment: Peer comparison**

Company	EBIT Margin (%)			Revenue		
	Q1FY25	Q1FY24	Q4FY24	4Y CAGR (%)	Growth YoY (%)	Growth QoQ (%)
HAVL	11.2	11.4	12.0	34.8	2.4	(15.0)
POLYCAB	12.6	14.8	15.1	47.8	11.6	(19.0)
VGRD	10.1	6.4	12.5	27.8	6.8	(16.1)

Source: Company, BOBCAPS Research

**Fig 11 – Valuation snapshot**

Companies	Revenue (Rs bn)					EBITDA (Rs bn)				
	FY24	FY25E	FY26E	FY27E	CAGR (%)	FY24	FY25E	FY26E	FY27E	CAGR (%)
VOLT	125	149	174	201	17.3	4.7	11.5	14.3	17.4	54.3
BLSTR	97	118	138	163	18.8	6.6	9.2	11.3	13.9	27.9
POLYCAB	180	211	241	279	15.6	24.9	29.8	33.8	39.7	16.8
CROMPTON	73	89	107	131	21.3	7.1	10.1	12.1	15.2	28.5
HAVL	186	212	246	286	15.4	18.4	23.6	29.9	35.7	24.7
ORIENTEL	28	34	40	48	19.8	1.4	2.5	3.3	4.2	42.9
VGRD	49	56	65	75	15.6	4.3	5.8	6.9	8.3	24.7
KEII	81	96	114	137	19.0	8.4	11.4	14.0	16.9	26.5
DIXON	177	275	373	487	40.2	7.0	11.9	16.4	21.2	44.9
AMBER	67	88	123	153	31.5	4.9	6.4	8.9	10.9	30.4
SYRMA	31	43	57	77	34.8	1.9	2.0	3.0	4.2	4.2

Source: Company, BOBCAPS Research

**Fig 12 – Valuation snapshot**

Companies	EBITDA Margin (%)				PAT (Rs bn)					PE (x)			
	FY24	FY25E	FY26E	FY27E	FY24	FY25E	FY26E	FY27E	CAGR (%)	FY24	FY25E	FY26E	FY27E
VOLT	3.8	7.7	8.2	8.7	3.8	2.5	8.2	10.0	10.0	219.9	67.7	55.3	45.6
BLSTR	6.9	7.9	8.2	8.6	2.6	4.2	6.0	7.5	7.5	79.5	54.9	43.7	35.1
POLYCAB	13.8	14.1	14.1	14.2	12.7	17.8	20.7	23.6	23.6	57.1	49.2	43.1	37.0
CROMPTON	9.8	11.3	11.3	11.6	4.6	4.4	6.8	8.4	8.4	67.7	43.7	35.2	27.4
HAVL	9.9	11.2	12.1	12.5	10.7	12.7	17.2	21.6	21.6	94.6	69.8	55.7	46.9
ORIENTEL	5.1	7.5	8.1	8.7	0.8	0.8	1.1	1.6	1.6	77.5	51.7	35.8	25.7
VGRD	8.8	10.3	10.6	11.0	1.9	2.6	3.8	4.8	4.8	78.6	53.3	42.0	34.5
KEII	10.3	11.9	12.3	12.4	4.8	5.8	8.0	9.8	9.8	73.6	53.6	43.6	36.1
DIXON	3.9	4.3	4.4	4.4	2.6	3.7	6.8	10.1	10.1	198.4	125.7	95.2	95.2
AMBER	7.3	7.2	7.2	7.1	1.6	1.3	2.3	4.2	4.2	106.9	60.7	33.8	25.4
SYRMA	6.3	7.0	7.2	7.1	1.2	1.1	1.8	2.5	2.5	73.2	44.3	32.1	24.2

Source: Company, BOBCAPS Research

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