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CONSUMER DURABLES | Q3FY23 Review | 15 February 2023

# Margin recovery delayed

- **Consumer durables players posted modest topline growth in Q3 as volumes moved up but pricing action faltered**
- **Margins recovered sequentially on exhaustion of high-cost inventory, raising hopes of a revival**
- **We maintain our top picks – HAVL, CROMPTON and POLYCAB**

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**Topline intact but margins stressed:** Our consumer durables universe posted modest topline growth of 10% YoY in Q3FY23 against our estimate of 14% (ex-DIXON), reinforcing our thesis of volume over value growth as all players refrained from taking price hikes. EBITDA margins, however, remained weak, dashing industry hopes of recovery from H2FY23 onwards. Players expect a better Q4FY23, laying the foundation for price hikes and margin recovery thereafter.

**Traction in fans:** Most companies posted strong growth in the fans business, particularly for lower-end products, as distributors pushed sales of non-compliant fan inventory at discounted prices ahead of BEE rating transition. In contrast, market leader CROMPTON chose to focus on its new star-rated fans, dampening growth.

**RAC players pin hopes on a better summer season:** RAC players reported resilient Q3 sales amidst a seasonally weak period and subdued demand. However, margin pressure persisted (ex-BLSTR). The industry outlook for the upcoming summer season remains optimistic, with expectations of higher volumes and price hikes.

**Margin recovery likely:** In line to our thesis, our coverage basket saw EBITDA margins deteriorating YoY but expanding sequentially (barring VOLT & VGRD). Margins were muted by high-cost inventory & rebound in commodity prices late in quarter. We expect margin recovery in core CD pack ahead as most of expensive inventory has been exhausted & commentary points to price hikes in Q4FY23.

**EMS traction continues:** Our EMS basket clocked strong topline growth YoY (ex-DIXON) and robust order booking, implying continued traction in the near future. While AMBER and SYRMA beat our topline estimates but saw muted margins, DIXON recorded a lower topline but better margin. DIXON's steep cut in topline guidance and delays in mobile client addition make for an uncertain near-term outlook.

**Retain top picks:** Barring DIXON, our top picks remain intact following target price adjustments due to valuation rollover and Q3 performance. We retain our positive bias on HAVL (TP Rs 1,500), CROMPTON (TP Rs 440, BUY), and POLYCAB (TP Rs 3,300).

### Recommendation snapshot

| Ticker | Price | Target | Rating |
|---|---|---|---|
| AMBER IN | 1,857 | 2,100 | HOLD |
| BLSTR IN | 1,385 | 1,450 | BUY |
| CROMPTON IN | 305 | 440 | BUY |
| DIXON IN | 2,702 | 4,100 | BUY |
| HAVL IN | 1,218 | 1,500 | BUY |
| KEII IN | 1,613 | 1,900 | BUY |
| ORIENTEL IN | 273 | 290 | HOLD |
| POLYCAB IN | 3,006 | 3,300 | BUY |
| SYRMA IN | 264 | 400 | BUY |
| VGRD IN | 246 | 260 | HOLD |
| VOLT IN | 859 | 910 | HOLD |

Price & Target in Rupees | Price as of 15 Feb 2023

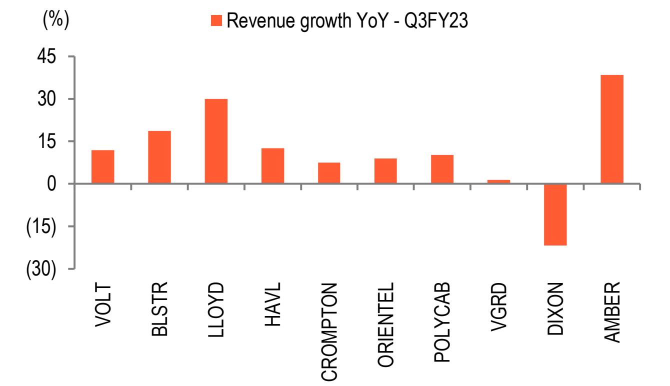
### Consumer durables: Q3 result reviews

| Company | Result review link |
|---|---|
| AMBER IN | Strong topline but margins remain muted |
| BLSTR IN | Buoyant performance; UCP margin expansion continues |
| CROMPTON IN | Weak lighting business dims performance |
| DIXON IN | Dull Q3 as mobiles business dials down |
| HAVL IN | Modest performance amid a challenging environment |
| KEII IN | Upbeat numbers |
| ORIENTEL IN | Back on track with Q3 rebound |
| POLYCAB IN | Buoyant quarter |
| SYRMA IN | Strong topline but margins soften |
| VGRD IN | Topline intact while margin pressure persists |
| VOLT IN | Subpar quarter as EMP losses deepen |

Source: BOBCAPS Research

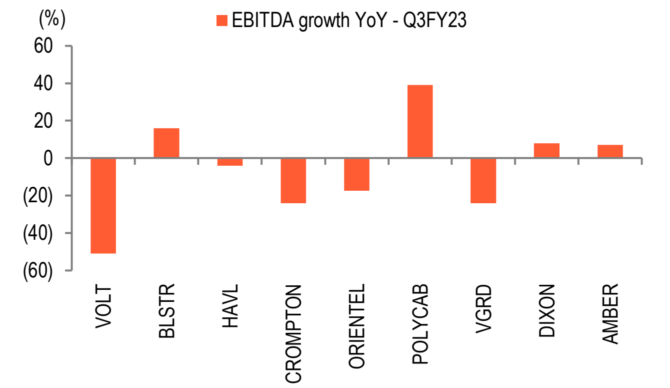
## Quarterly trends

**Fig 1 – Modest revenue growth led by RAC players…**



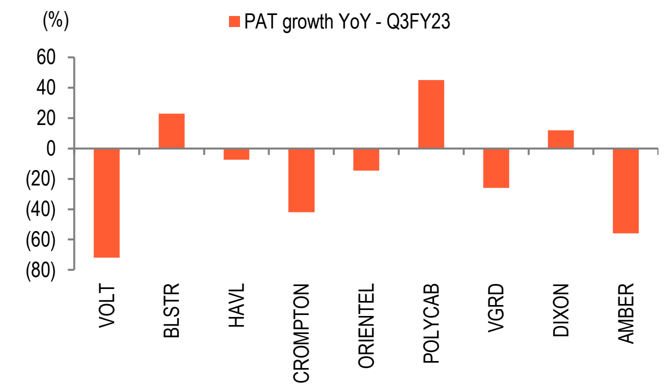

Source: Company, BOBCAPS Research

**Fig 2 – …but EBITDA deteriorated on high-cost inventory**



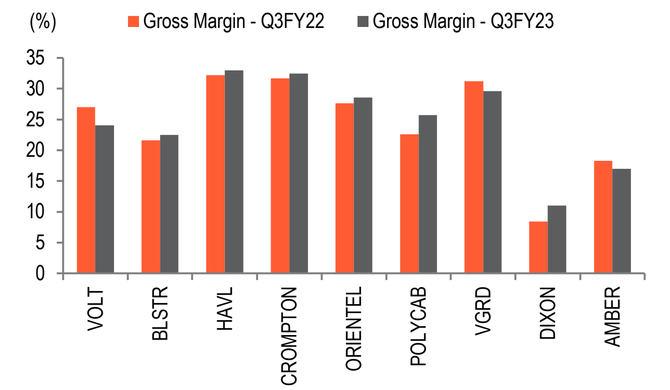

Source: Company, BOBCAPS Research

**Fig 3 – Profitability contracted for most players**



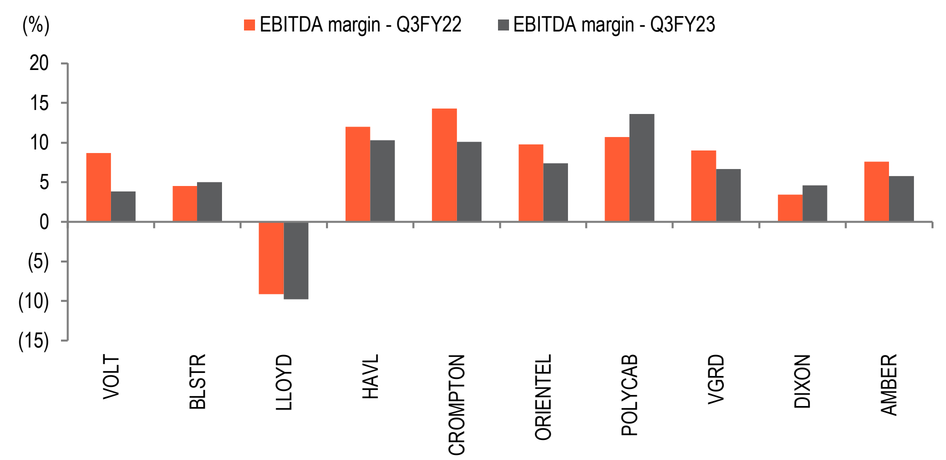

Source: Company, BOBCAPS Research

**Fig 4 – Gross margins reflect easing commodity inflation**




Source: Company, BOBCAPS Research

**Fig 5 – EBITDA margin below year-ago levels**




Source: Company, BOBCAPS Research

## Q3FY23: Company-wise snapshot

- **VOLT:** VOLT's topline was stable YoY in Q3FY23 but its EBITDA margin deteriorated further. The EBIT margin band in the UCP business appears to have softened to 7-9% vs. the earlier industry-leading 12-14%. Operational losses in the EMP division continued for the second consecutive quarter, in part due to provisions for cancellation of an overseas contract. The order book continued to expand, but uncertainty persists over seamless execution given overseas withdrawals.

- **BLSTR:** BLSTR remains a positive outlier amongst RAC players, displaying sustained YoY margin expansion in its unitary products business. Additionally, the EMP business maintained its strong momentum in Q3 with its best-ever margin performance in the past half decade and a growing order book. Strong delivery is critical for the RAC business and we believe the company is well-placed to end FY23 on a high amid onset of the busy summer season.

- **HAVL:** The company had a modest quarter owing to subdued B2C demand. Losses at Lloyd and high-cost inventory weighed on margins. Management now anticipates margin recovery only post Q4FY23 (from H2FY23 earlier). At the same time, HAVL's remains optimistic on demand in the fans segment following BEE transition, on account of its industry-leading market share in the premium segment.

- **CROMPTON:** Q3 was a dull quarter as the lighting division remained subdued. Subsidiary BGAL's topline was flat YoY while material margins expanded. The company pushed new star-rated fans while maintaining its inventory of non-compliant products, a strategy that was in stark contrast to that of peers and led to lower sales. However, CROMPTON continues to command the highest market share in fans and is well placed amid BEE transition given its leadership and ready portfolio of compliant models.

- **ORIENTEL:** Following an upset in Q2, the company recorded a strong rebound in Q3 led by the core ECD business. The upcoming rating transition proved beneficial for ORIENTEL in the fans division as it posted high volume growth (15% YoY) led by stronger sales of discounted, non-compliant fans. Distribution restructuring has also started to have the desired outcome.

- **POLYCAB:** Q3 was a beat on all key fronts. Traction continued in the company's core wires and cables division, though weakness persisted in the FMEG vertical. The fans vertical grew owing to sales of lower rated products ahead of the rating transition.

- **VGRD:** The company posted a resilient topline despite a decline in core southern markets (non-south markets grew 11% YoY). Margins were impacted by high-cost inventory in the system, but management expects recovery ahead on account of near exhaustion of this stock. The successful acquisition of Sunflame was the highlight of the quarter.

- **KEII:** KEI reported a robust performance on all key fronts led by strong volume growth (20% YoY) in the core cables division in Q3. EBITDA margin for FY23 YTD is tracking close to the guided band of 10.5-11%. The subdued performance in the EVH segment appears to be a near-term issue and is expected to revive on the back of new order wins with a higher margin profile.
- **DIXON:** In a subpar quarter, DIXON saw its topline impacted by weakness across segments, particularly mobiles and consumer appliances. Management reduced FY23 revenue guidance to ~Rs 130bn from Rs 150bn. The delay in marquee client addition and weak consumer demand point to a challenging near-term outlook.
- **AMBER:** Q3 was mixed with strong topline growth but muted margins. The share of the core RAC business in overall revenue has been coming down periodically as the company is focused on capturing the higher growth prospects of ancillary businesses (such as electronics and motors). Management expects capex to peak out in FY23 and likely moderate hereafter.
- **SYRMA:** Q3 was strong with a topline beat on robust domestic demand. The company expanded its order book and expects sustained traction in its key verticals of automotive, industrial and consumer appliances, implying high revenue visibility. Moderation in exports and in margins remains a concern.

**Fig 6 – UCP Segment: Peer comparison**

| UCP Segment | EBIT margin (%) Q3FY23 | Revenue | | |
|---|---|---|---|---|
| | | 3Y CAGR (%) | Growth YoY (%) | Growth QoQ (%) |
| VOLT | 7.4 | 11.2 | 16.1 | 26.5 |
| BLSTR | 7.4 | 15.1 | 33.7 | 18.6 |
| LLOYD | (9.8) | 29.9 | 45.4 | 26.6 |

Source: Company, BOBCAPS Research

**Fig 7 – ECD Segment: Peer comparison**

| ECD segment | EBIT margin (%) Q3FY23 | Revenue | | |
|---|---|---|---|---|
| | | 3Y CAGR (%) | Growth YoY (%) | Growth QoQ (%) |
| HAVL | 13.1 | 17 | 4 | 21 |
| CROMPTON | 15.8 | - | (7) | (4) |
| ORIENTEL | 12.0 | 18 | 12 | 74 |
| VGRD | (1.3) | 21 | 5 | 5 |

Source: Company, BOBCAPS Research

**Fig 8 – Lighting Segment: Peer comparison**

| Lighting segment | EBIT margin (%) Q3FY23 | Revenue | | |
|---|---|---|---|---|
| | | 3Y CAGR (%) | Growth YoY (%) | Growth QoQ (%) |
| HAVL | 12.7 | 11 | 2 | 5 |
| CROMPTON | 10.3 | - | (20) | (8) |
| ORIENTEL | 15.6 | 5 | 2 | 0 |
| VGRD | 9.1 | 16 | 2 | 3 |

Source: Company, BOBCAPS Research

### Fig 9 – Wires & Cables: Peer comparison

| Wires & Cables segment | EBIT margin (%) Q3FY23 | Revenue 3Y CAGR (%) | Revenue Growth YoY (%) | Revenue Growth QoQ (%) |
|---|---|---|---|---|
| HAVL | 11.5 | 26 | 17 | 4 |
| POLYCAB | 13.7 | 16 | 11 | 13 |
| VGRD | 9.1 | 16 | 2 | 3 |

Source: Company, BOBCAPS Research

### Fig 10 – Valuation snapshot

| Company | Rating | Target Price (Rs) | Upside (%) | Revenue (Rs bn) | | | | EBITDA (Rs bn) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | FY23E | FY24E | FY25E | CAGR (%) | FY23E | FY24E | FY25E | CAGR (%) |
| VOLT | HOLD | 910 | 6 | 89 | 108 | 127 | 17 | 5 | 9 | 12 | 19 |
| BLSTR | BUY | 1,450 | 7 | 71 | 82 | 95 | 16 | 4 | 5 | 7 | 24 |
| POLYCAB | BUY | 3,300 | 11 | 139 | 157 | 173 | 12 | 18 | 19 | 21 | 19 |
| CROMPTON | BUY | 440 | 45 | 68 | 78 | 90 | 19 | 8 | 10 | 12 | 16 |
| HAVL | BUY | 1,500 | 25 | 161 | 182 | 210 | 15 | 15 | 22 | 29 | 18 |
| ORIENTEL | HOLD | 290 | 6 | 27 | 31 | 35 | 13 | 2 | 3 | 3 | 11 |
| VGRD | HOLD | 260 | 7 | 40 | 44 | 50 | 13 | 3 | 5 | 5 | 15 |
| KEI | BUY | 1,900 | 18 | 68 | 78 | 89 | 16 | 7 | 9 | 11 | 24 |
| DIXON | BUY | 4,100 | 53 | 129 | 183 | 218 | 27 | 5 | 7 | 9 | 32 |
| AMBER | HOLD | 2,100 | 12 | 57 | 73 | 89 | 28 | 3 | 5 | 6 | 30 |
| SYRMA | BUY | 400 | 50 | 19 | 25 | 36 | 42 | 2 | 3 | 4 | 43 |

| Company | EBITDA Margin (%) | | | PAT (Rs bn) | | | | P/E (x) | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E | CAGR (%) | FY23E | FY24E | FY25E |
| VOLT | 6.2 | 8.5 | 9.1 | 4 | 6 | 8 | 16 | 77 | 46 | 36 |
| BLSTR | 5.9 | 6.1 | 7.0 | 2 | 3 | 4 | 34 | 55 | 48 | 33 |
| POLYCAB | 12.9 | 12.2 | 12.3 | 12 | 13 | 14 | 19 | 37 | 35 | 32 |
| CROMPTON | 11.8 | 12.8 | 13.3 | 5 | 7 | 8 | 12 | 39 | 28 | 23 |
| HAVL | 9.6 | 11.9 | 13.8 | 10 | 15 | 20 | 18 | 73 | 52 | 39 |
| ORIENTEL | 6.9 | 8.4 | 8.8 | 1 | 1 | 2 | 13 | 59 | 39 | 31 |
| VGRD | 7.9 | 10.4 | 10.3 | 2 | 3 | 3 | 14 | 53 | 35 | 32 |
| KEI | 10.2 | 12.0 | 12.7 | 4 | 6 | 7 | 24 | 33 | 25 | 20 |
| DIXON | 4.0 | 3.9 | 4.0 | 3 | 4 | 5 | 35 | 61 | 44 | 34 |
| AMBER | 6.1 | 6.8 | 6.8 | 1 | 2 | 3 | 35 | 49 | 31 | 23 |
| SYRMA | 9.4 | 9.9 | 10.1 | 1 | 2 | 2 | 42 | 40 | 29 | 21 |

Source: Company, BOBCAPS Research

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

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**Note:** Recommendation structure changed with effect from 21 June 2021

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