FIRST LIGHT

14 December 2023

RESEARCH

CONSUMER DURABLES

Channel checks: Premium products, wires and cables shine

POWER

Focus shifting to hybrid and RTC power

SUMMARY

CONSUMER DURABLES

- Dealers saw mixed demand across products during festive-cum-wedding season from September to November
- Verticals such as mobile phones and electronic goods (led by the World Cup) did well; premiumisation trend continues
- Wires and cables remain in demand due to government's infrastructure push and private capex

Click here for the full report.

POWER

- India to add 20GW of RE capacity in FY24 and power producers now pursuing hybrid and RTC solutions, per ICRA
- Storage solutions in the spotlight with several companies announcing plant setup within 7-8 years
- Solar segment remains dependent on China for key inputs; backward integration plans by Indian players still some time away

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Daily macro indicators

Indicator	11-Dec	12-Dec	Chg (%)
US 10Y yield (%)	4.23	4.20	(3bps)
India 10Y yield (%)	7.28	7.27	(1bps)
USD/INR	83.39	83.39	0.0
Brent Crude (US$/bbl)	76.0	73.2	(3.7)
Dow	36,405	36,578	0.5
Hang Seng	16,201	16,375	1.1
Sensex	69,929	69,551	(0.5)
India FII (US$ mn)	**8-Dec**	**11-Dec**	**Chg ($ mn)**
FII-D	139.0	39.1	(100.0)
FII-E	479.1	104.6	(374.5)

Source: Bank of Baroda Economics Research

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We interacted with ~15 dealers of large appliances and wires & cables across various regions in India to gauge festive and wedding season sales. Takeaways:

Mixed demand: Our channel checks suggest a spurt in demand for mobile phones and reasonably good sales of large appliances during the festive-cum-wedding months of September to November, but no broad-based pick-up in consumption**.**

Premiumisation continues: Dealers indicated higher demand for large-screen televisions due to the Cricket World Cup, frost-free refrigerator variants and top-load washing machines. However, our checks suggest that demand at the lower end is still poor.

Wires and cables (W&C) sales steady: As per W&C dealers, demand over the past few months has been constant and uninterrupted, mainly led by the government's infrastructure push, private capex and the boom in real estate. Dealers expect strong growth in high double digits for the cables industry and believe this will continue for the next 2-3 years. POLYCAB is well placed to benefit from this opportunity. KEII has some capacity constraints and a distributor we spoke to was also sourcing from competition to fulfil the robust demand.

Lloyd's aggressiveness wanes: Dealers of large appliances indicated that Lloyd has decreased distributor discounts and consumer cashbacks as compared to last year. It has also tempered its aggressive sales push for products such as washing machines and refrigerators, leading to a reduction in price gap vs. LG. Haier is gaining traction amongst dealers as it is currently the most aggressive brand with the best distribution margins.

CROMPTON's new management building confidence: Distributors believe that CROMPTON's new management has had a positive impact in terms of clear communication of distribution incentives, timely settlements of incentives and supply chain optimisation. All this is helping them pass on the benefits to consumers, making the company more competitive. The distributors also opined that CROMPTON is underinvesting in retail-level branding and needs to turn more aggressive.

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- **Storage solutions in the spotlight with several companies announcing plant setup within 7-8 years**
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We attended a call hosted by ICRA on the Indian renewable energy (RE) sector. Key takeaways:

20GW RE capacity expected in FY24: ICRA expects India to add 20GW of RE capacity during FY24, despite YTD addition of only 8GW. The country's total RE capacity, including hydro, stands at ~179GW as of Oct'23.

Focus shifting to hybrid and RTC power: Given concerns about the viability of 24-hour power supply from RE, producers are now shifting focus to hybrid and round-the-clock (RTC) supply solutions. Distribution companies (discoms) take up a bulk of the supply and need 24-hour dispatchable power that projects awarded over the last few years have been unable to meet. The tariff of Rs 4.1/kwH at which power producers have recently bid for hybrid RE projects is comparable with conventional power and lower than spot power, making them a viable option.

Storage solutions gaining momentum: A large storage capacity at reasonable cost is a requisite for the shift to renewables. Most power companies have announced plans to set up pumped storage plants (PSP) and battery energy storage systems (BESS) over the next 7-8 years, with PSPs seeing stronger traction. On the BESS side, battery prices have softened in the last six months, but competitiveness against PSPs is still unknown.

Solar supply chain still dependent on China: India only assembles solar panels and is dependent on China for most of the raw materials required in the polysilicon-ingot-wafer-cell-module of the supply chain. Several domestic developers have announced backward integration capacities, but these are expected to take time to be commissioned. About 70% of solar plant cost is incurred on equipment, which makes projects using Chinese parts more competitive.

ISTS waiver a key factor for RE: The waiver of inter-state transmission system (ISTS) charges has raised the competitiveness of RE, but this facility is available only for projects commissioned till Jun'25. For projects beyond this date, we estimate that tariffs could rise 8-10% unless this benefit is extended.

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Note: Recommendation structure changed with effect from 21 June 2021

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