

Consumer Durables Sector

14 December 2020

Considerable headwinds emerging

After a weak 1QFY21 owing to COVID-19 led lockdown, the Consumer Durables industry witnessed a healthy revival in 2QFY21, led by pent-up demand. The festive sales in October were also encouraging. However, considerable headwinds are emerging now which make the near term outlook challenging. These headwinds include (1) steep rise in commodity prices (2) higher transportation costs (3) shortage of certain components and (4) softening of demand. The key trends highlighting these headwinds are as follows:

- The cost of various commodities like copper, aluminium, zinc, steel as well as plastic compounds are rising sharply. In addition, there is a significant rise in transportation cost coupled with shortages of components.
- The current copper spot price is up by 18%-20% QoQ vs. 2QFY21 average price and is up 33%-35% YoY vs. 3QFY20 average price (refer exhibit 1).
- The current aluminium spot price is up by 15%-17% QoQ vs. 2QFY21 avg. price and is up 12%/21% YoY at LME/MCX vs. 3QFY20 avg. price (exhibit 2).
- The current zinc spot price is up by 18%-21% QoQ as well as YoY (exhibit 3).
- For the cold rolled steel prices, no domestic indexes are available. However, as a reference point, the Chinese and North European cold rolled steel prices are up by 30% to 38% vs. QoQ as well as YoY average price (exhibit 4).
- The major types of plastics used in home appliances like polypropylene, polystyrene and ABS are also witnessing rise in prices by 17% to 40% vs. QoQ as well as YoY average prices (exhibit 5).
- There is a sharp rise in overseas ocean freight cost and transit time due to lower container availability as well as higher charges. The Container Freight Index is up by 56% from 2QFY21 avg. price and 152% from 3QFY20 avg. price (exhibit 6).
- The transportation cost within the country is also rising as the current diesel price of ~Rs78/litre is up 13% YoY compared to average price of 3QFY20 (exhibit 7).
- Several home appliances category are also witnessing shortages of components, especially the imported ones, due to supply side constraints.
- In LED TV category, there is a global shortage as well as steep rise in the cost of its most important component – the open cell LED panel. Partly, it is also attributable to shift in import policy to licensing mode as well as levy of 5% customs duty. The 32-inch screen size LED TV has been the worst affected.
- In the smartphone category, domestic makers are facing severe shortage of chipsets due to supply chain constraints in the global semiconductor industry.
- The prices of chemicals such as MDI, which are used in making foams for refrigerators and freezers, have jumped by 200%.
- Considering the steep rise in input costs, the Consumer Durables industry will be bound to hike prices by 5% to 20% across categories. A steep rise in products prices could likely lead to demand moderation in the near term. Our channel checks suggest that demand in December thus far is lower than November, which in turn was lower than October. Consequently, growth challenges and pressure on gross margins is likely in 2HFY21.
- The key tailwinds to watch out for are (1) how the disposable income and consumer spending pans out in FY22 and (2) the intensity of upcoming summer season as majority of the listed companies have higher summer dependency.

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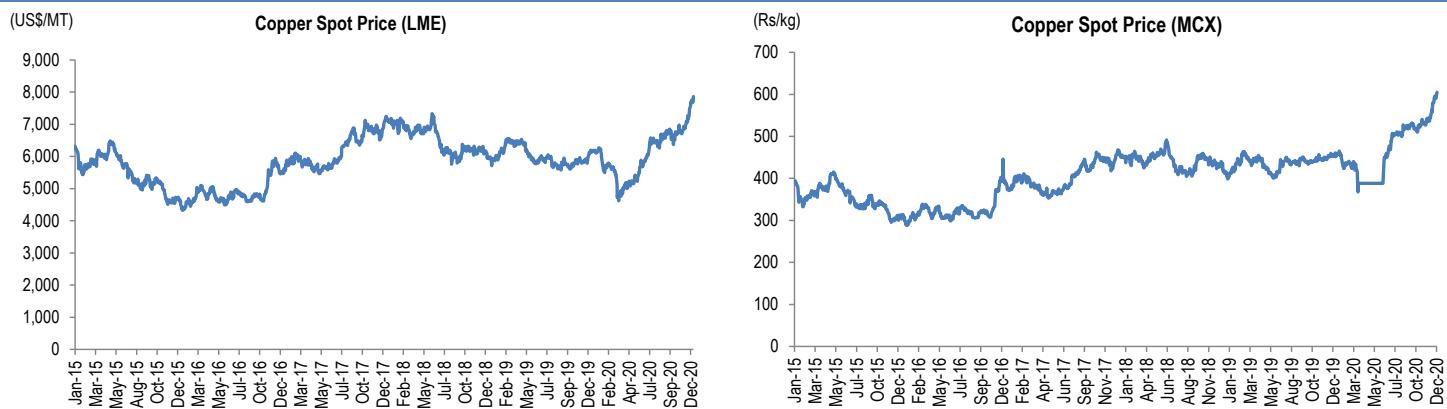
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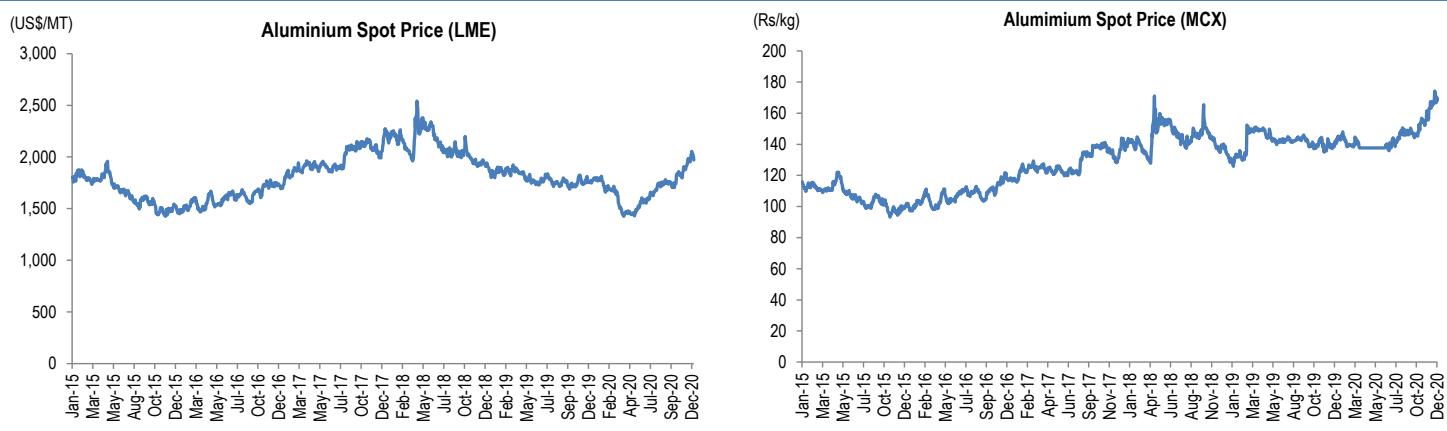
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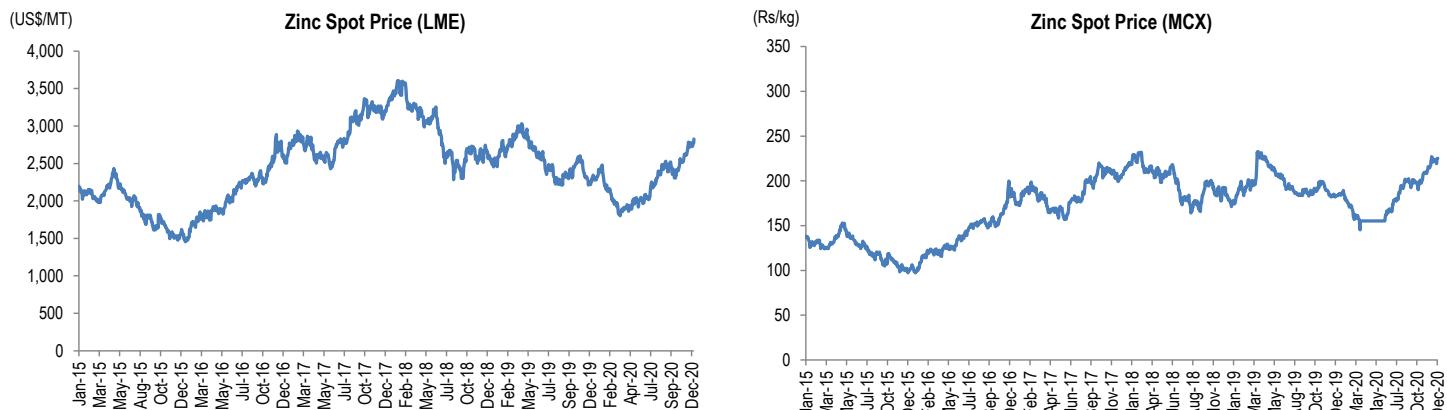
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Exhibit 1: Copper Price Trend


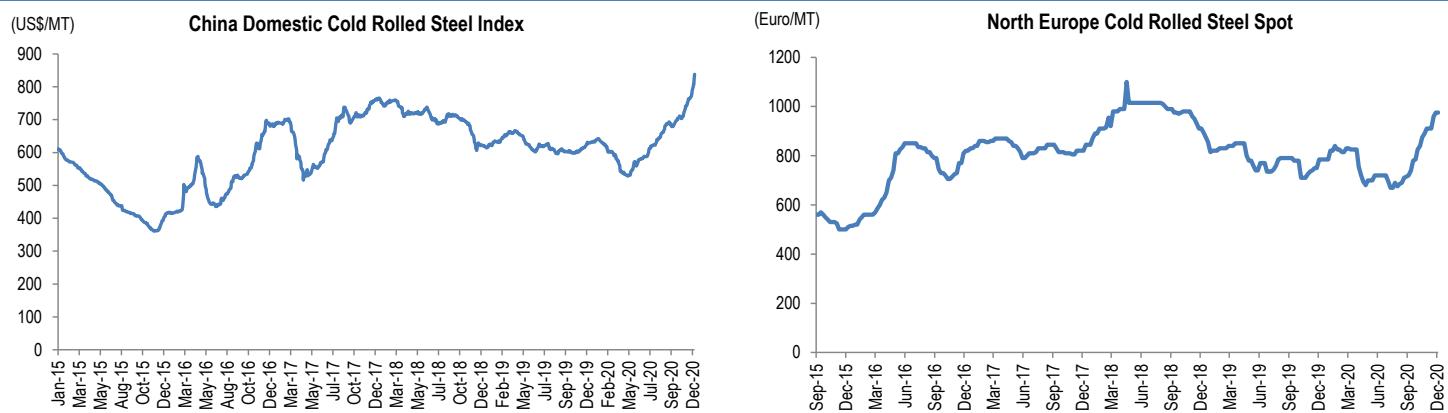
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 2: Aluminium Price Trend


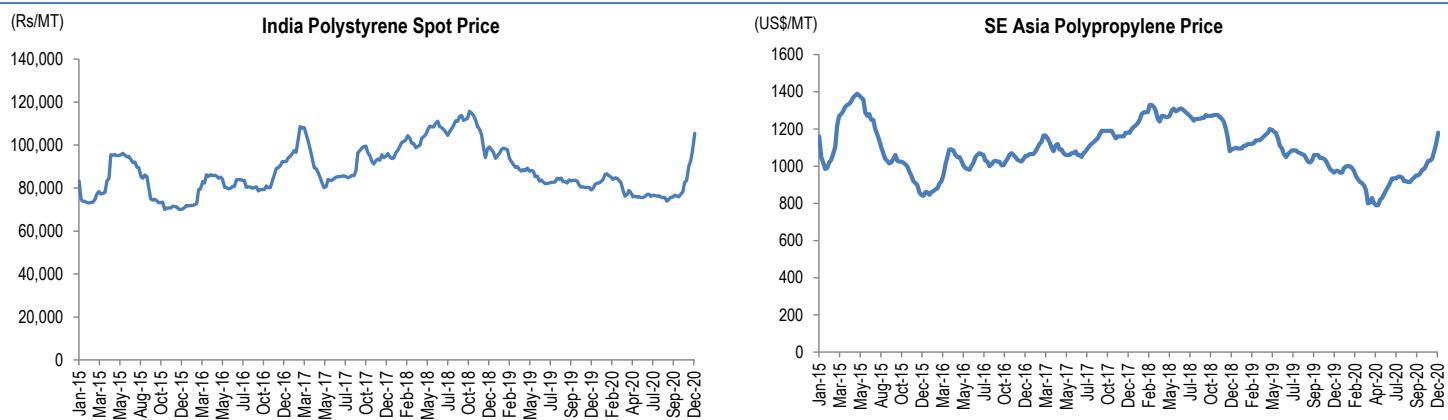
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 3: Zinc Price Trend


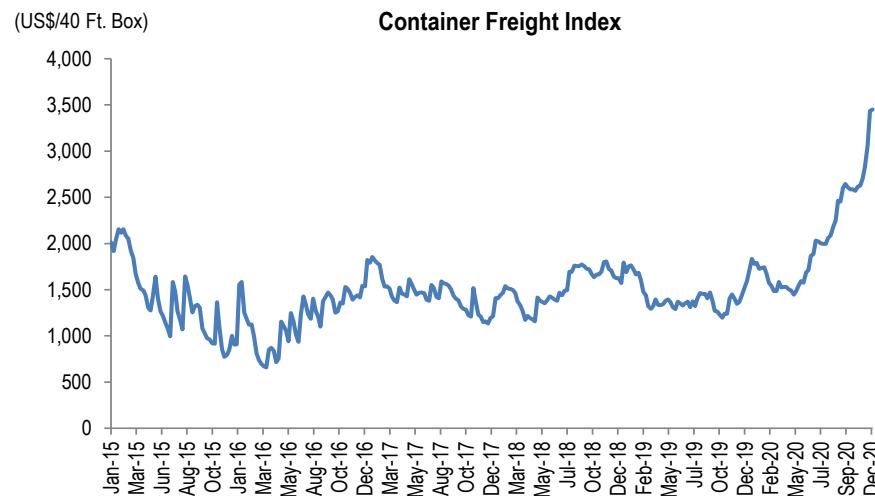
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 4: Steel Price Trend


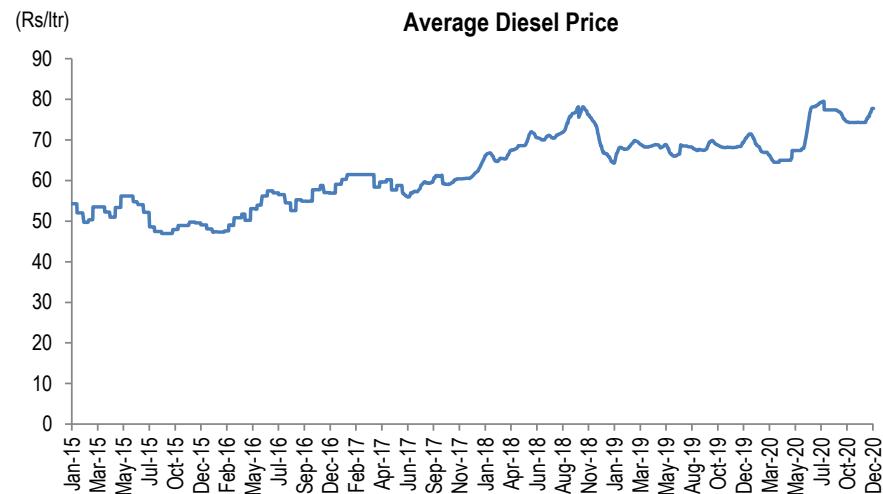
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 5: Plastic Price Trend


Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 6: Container Freight Index – Indicative of Ocean Freight


Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 7: Average Diesel Price Trend – Indicative of Domestic Freight


Source: Bloomberg, Nirmal Bang Institutional Equities Research

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