January 8, 2021

Exhibit 1: PL Universe

Companies	Rating	CMP (Rs)	TP (Rs)
Bajaj Electricals	BUY	637	647
CG Cons. Elec.	BUY	395	400
Havells India	Under Review	971	NA
Polycab India	BUY	1,278	1,247
Voltas	Under Review	882	NA

Source: PL

Top Picks

Crompton Greaves Consumer Electricals

Polycab India

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Consumer Durables

Oct-Dec'20 Earnings Preview

B2C demand momentum sustains

With 2Q demand momentum persisting in 3Q, we expect consumer durables universe to register healthy growth rates benefitting from 1) good festival season sales 2) dipping mercury levels aiding winter portfolio and 3) smart share gains by large organized players. We expect Sales/EBITDA/PBT/Adj. PAT growth of 13.9%/ 28.0%/ 33.2%/ 27.9% across our coverage universe. For a second consecutive quarter commodity prices rose sharply with LME spot Copper/ Aluminum prices up by 26.3%/ 13.1% YoY, which will have intermittent impact on gross margins in 3Q/4Q21.

We maintain our positive stance on consumer durables given huge penetration scope and market consolidation. We prefer Crompton Consumer and Polycab as our top picks at this point of time. With sharp run up in stock prices, we place ratings/ targets under review for Havells and Voltas. We shall come out with revised target prices/ ratings at the time of 3Q results

- **Festival season sales, harsh winter sustains demand momentum:** Demand momentum witnessed in 2Q B2C sales has sustained in 3Q as well, benefitting from festival season sales and a harsh winter (water heaters). Home convenience products and everyday use items like kitchen appliances, fans, lighting, washing machine, dishwashers, refrigerators continued to lead the recovery post unlocking of the economy. Recovery in Room AC (a non-seasonal quarter) remains encouraging with the industry now expecting the annual de-growth to be lower than earlier estimated.

- **Organized sector continues to gain at the expense of unorganized sector:** With large organized players able to better manage/ support their channel/ supply chain partners during the pandemic (owing to scale of operations and stronger balance sheets), has led to market share gains at the expense of the unorganized sector. With unorganized sector already operating at thinner margins, we expect them to remain under pressure in an inflationary commodity environment, thereby further benefitting organized players.

- **B2B continues to remain a drag:** The pace of recovery in the B2B segments remained sluggish with lower offtake from both government and private players. The recovery in B2B can get derailed as a sharp rise in commodity prices can likely impact project viability thereby leading to project deferments.

- **Price hikes on the back of commodity price inflation:** Our channel checks suggest, on the back of an inflationary commodity environment, industry has initiated price hikes across product categories (particularly wires & cables) during the quarter. Since resumption of economic activities, commodity prices have inched up and some are even trading above pre-Covid levels. In 3Q, average LME spot Copper prices are up by 26.3%/ 9.2% YoY/QoQ, while average spot Aluminum prices are up 13.1%/ 11.5% YoY/ QoQ.

- **With costs coming back, margins likely to decline QoQ:** Most companies reported record high margins in 2Q on the back of aggressive cost reduction programs. However, with some of discretionary cost likely to return (like salary increments, A&P spends wtc), we expect margins to decline QoQ.

Top picks:

- **Crompton Consumer:** We retain Crompton as our preferred play given **1)** low discretionary nature of products (fans, lighting, mixer-grinder, pumps) **2)** sustained growth potential in core categories (fans & pumps) **3)** well defined plan to scale up new segments like Geysers, Air Coolers & Mixer-Grinder **4)** investments in distribution, GTM initiatives & product innovation and **5)** strong balance sheet (FY23 net cash of Rs20.2/ share, RoE/ RoCE of 29.1%/ 36.5%. We retain BUY with TP of Rs400 (37x FY23 EPS)

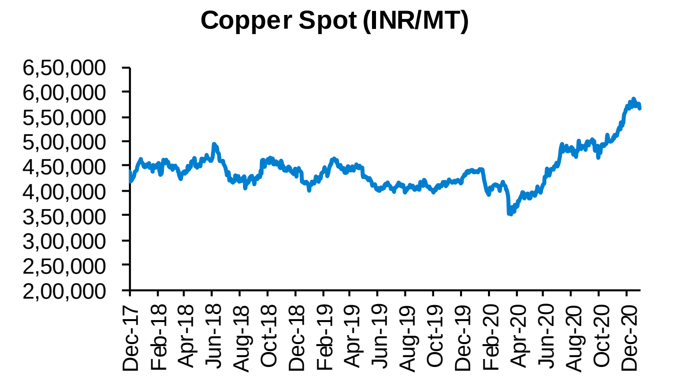
- **Polycab:** We believe Polycab is fast emerging as a B2C player and expect the mix to improve from 40% to 50% in next few years given 1) strong potential in FMEG and retail wires segment 2) sustained investments in brand building and 3) steadily increasing distribution network. We estimate Sales/PAT to grow at a CAGR of 16.7%/ 15% over FY21-23E. Steady increase in B2C mix will likely rerate the stock in long term. Retain BUY

Exhibit 2: Q3FY21 Result Preview

Company Name		Q2FY21E	Q2FY20	*YoY gr. (%)*	Q1FY21	*QoQ gr. (%)*	Remark
Bajaj Electricals	Sales	14,790	12,815	*15.4*	12,142	*21.8*	We expect sales to grow by 15.4% with Consumer Products/ EPC segment growing by 21%/ 4.1%. Changing mix, reducing interest burden and cost saving measures will help register a profit of Rs515mn
	EBITDA	991	684	*45.0*	1,031	*(3.9)*	
	Margin (%)	*6.7*	*5.3*		*8.5*		
	PBT	703	220	*219.4*	736	*(4.5)*	
	Adj. PAT	515	155	*233.3*	540	*(4.5)*	
Crompton Greaves Consumer Electricals	Sales	12,386	10,713	*15.6*	11,984	*3.4*	We expect sales to grow by 15.6% with ECD/ Lighting segment growing by 21%/ 3.5%. Benefitting from its cost initiative programs and improving scale of operations, we expect margins to expand by 170bps, however decline by 100bps QoQ on the back on return of some discretionary costs.
	EBITDA	1,796	1,369	*31.2*	1,859	*(3.4)*	
	Margin (%)	*14.5*	*12.8*		*15.5*		
	PBT	1,768	1,391	*27.1*	1,837	*(3.8)*	
	Adj. PAT	1,319	1,036	*27.3*	1,371	*(3.8)*	
Havells India	Sales	26,694	22,699	*17.6*	24,518	*8.9*	We expect core segment sales to grow by 16.5% YoY led by ECD segment. Lloyd shall post a growth of 25% on a low base. We expect margins to improve 300bps YoY, while decline QoQ on return of certain discretionary costs
	EBITDA	3,937	2,673	*47.3*	4,207	*(6.4)*	
	Margin (%)	*14.8*	*11.8*		*17.2*		
	PBT	3,492	2,309	*51.3*	3,808	*(8.3)*	
	Adj. PAT	2,588	2,004	*29.2*	2,821	*(8.3)*	
Polycab India	Sales	26,804	25,073	*6.9*	21,137	*26.8*	We expect sales to grow by 6.9% YoY with Wires & Cables/ FMEG growing by 3%/ 35%. Wires & Cables growth likely to be impacted due to higher export in base quarter (Dangote). We expect margins to grow 30bps YoY.
	EBITDA	3,686	3,391	*8.7*	3,125	*17.9*	
	Margin (%)	*13.8*	*13.5*		*14.8*		
	PBT	3,471	2,902	*19.6*	2,882	*20.4*	
	Adj. PAT	2,574	2,188	*17.7*	2,205	*16.7*	
Voltas	Sales	17,553	14,925	*17.6*	16,125	*8.9*	We expect sales to grow by 17.6% with UCP/ EMPS sales to grow by 15%/ 18% We expect margins to expand by 50bps YoY. With increasing scale of operations, we expect share of loss of JV to decline
	EBITDA	1,229	976	*26.0*	980	*25.4*	
	Margin (%)	*7.0*	*6.5*		*6.1*		
	PBT	1,492	1,381	*8.1*	1,221	*22.2*	
	Adj. PAT	998	869	*14.9*	784	*27.4*	

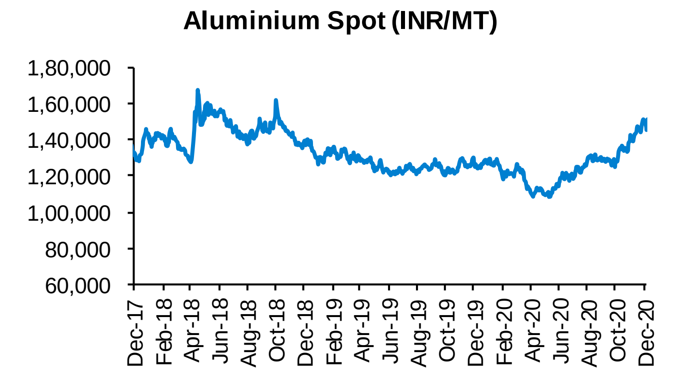
Source: Company, PL

Exhibit 3: Copper spot price up by 26.3%/9.2% YoY/QoQ



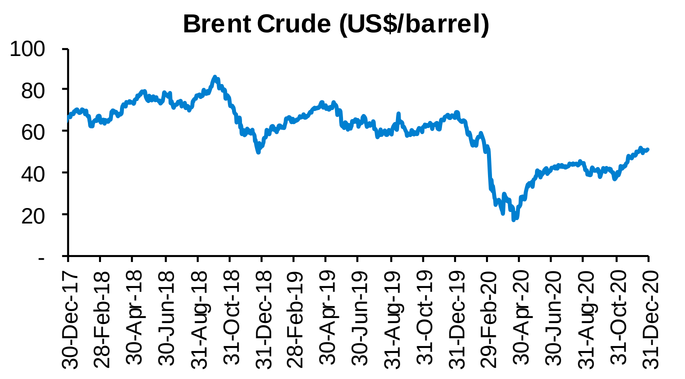
Source: PL

Exhibit 4: Aluminum spot price up by 13.1%/11.5% YoY/QoQ



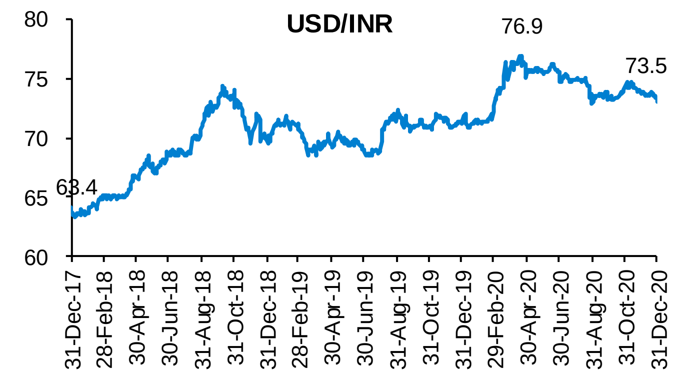
Source: PL

Exhibit 5: Brent crude down by 28.7% YoY; up 4.5% QoQ



Source: Company, PL

Exhibit 6: INR depreciated by 3.6% YoY



Source: Company, PL

Exhibit 7: Valuation Summary

Company Names	Rating	CMP (Rs)	TP (Rs)*	Sales (Rs bn)				EBITDA (Rs bn)				PAT (Rs bn)				EPS (Rs)				RoE (%)				PE (x)			
				FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
Bajaj Electricals	BUY	637	647	49.8	46.9	56.3	62.4	2.1	2.5	4.1	4.8	-0.0	1.0	2.4	3.1	-0.0	8.4	21.3	27.1	-0.0	6.7	15.2	16.8	NA	75.9	29.9	23.5
Crompton Greaves Consumer Electricals	BUY	395	400	45.1	44.6	52.5	59.4	6.0	6.5	7.8	8.9	4.4	4.8	5.8	6.8	7.0	7.6	9.3	10.8	34.1	29.5	29.8	29.1	56.7	52.1	42.5	36.5
Havells India	UR	971	NA	94.3	95.9	113.8	129.1	10.3	13.3	15.4	17.8	7.3	8.6	10.6	12.4	11.7	13.7	16.9	19.8	17.3	18.1	19.0	19.6	82.9	70.8	57.5	49.0
Polycab India	BUY	1,278	1,247	88.3	85.2	102.5	116.0	11.4	11.2	13.2	15.3	7.6	7.8	8.9	10.3	51.0	52.3	59.7	69.3	22.7	18.2	17.5	17.5	25.1	24.4	21.4	18.5
Voltas	UR	882	NA	76.6	74.6	88.2	98.6	6.9	6.7	9.3	10.5	5.7	5.7	7.9	8.9	17.2	17.2	23.7	27.1	13.5	12.7	15.7	15.9	51.3	51.3	37.1	32.6

Source: Company, PL *UR = Under Review*

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	UR	-	2,805
2	Avenue Supermarts	UR	-	2,915
3	Bajaj Electricals	BUY	605	505
4	Britannia Industries	BUY	4,301	3,540
5	Colgate Palmolive	Hold	1,570	1,598
6	Crompton Greaves Consumer Electricals	BUY	346	305
7	Dabur India	Accumulate	539	534
8	Emami	BUY	526	450
9	GlaxoSmithKline Consumer Healthcare	Hold	9,377	9,247
10	Havells India	Hold	700	725
11	Hindustan Unilever	BUY	2,502	2,417
12	ITC	BUY	254	205
13	Jubilant FoodWorks	UR	-	2,789
14	Kansai Nerolac Paints	UR	-	613
15	Marico	Hold	410	419
16	Nestle India	Hold	17,640	18,515
17	Pidilite Industries	UR	-	1,795
18	Titan Company	UR	-	1,573
19	Voltas	Hold	767	801

PL's Recommendation Nomenclature

Buy	:	> 15%
Accumulate	:	5% to 15%
Hold	:	+5% to -5%
Reduce	:	-5% to -15%
Sell	:	< -15%
Not Rated (NR)	:	No specific call on the stock
Under Review (UR)	:	Rating likely to change shortly

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