

White goods & durables

Copper prices rise, but other raw materials still in deflation zone; model margin expansion in Q4FY23

Copper, a major raw material (>35% of RM cost) is back in inflation zone. However, other raw materials such as aluminium, steel and HDPE are still in deflation. We model white goods and durable companies to report 100-300bps YoY EBITDA margin expansion in Q4FY23. However, we believe the benefit will be highest for ECD companies, followed by cable and wire companies. We model white goods companies to pass on most benefits of correction in input prices. We also model white goods and durable companies to invest the gains in (1) raising ad-spend, (2) increasing R&D spends and launching differentiated products, and (3) increasing trade schemes and consumer offers to gain market share. We remain positive on the sector; Top picks are Havells (BUY) and Crompton Greaves (BUY).

- **Steady increase in copper prices:** Copper, a key raw material (>35% of raw material cost) is back in inflation zone after remaining in deflation zone over July'22-Dec'22. While it is likely to affect the entire sector, we expect white goods to get impacted the most. Cable and wire companies have raised the prices to pass on the impact.
- **Other raw materials are still in deflation zone:** Other key raw material prices such as aluminium, steel and HDPE have remained in deflation zone. Prices of aluminium, steel and HDPE have declined 16.3%, 1.3% and 7%, respectively YoY in Feb'23.
- **Margins to inch upwards steadily:** We model gross and EBITDA margins to inch upwards YoY as well as QoQ in Q4FY23 with correction in input prices. Freight prices have also corrected with reduction in fuel prices. While we model most companies to increase ad-spend YoY, we believe there is a strong scope to see EBITDA margin expansion of 100-300bps YoY in Q4FY23.
- **Expect higher trade discounts:** We do not model durable companies to pocket all the benefits and expect them to invest gains in (1) increasing trade schemes and discounts as well as consumer offers, (2) increasing R&D spends and launching new products, (3) increasing ad-spend. We believe increase in trade discounts is imminent in white goods considering there is steep competitive pressure.
- **Sector view and top picks:** Considering the strong return ratios, healthy growth potential and low penetration levels, we remain structurally positive on white goods and durables sector. We also expect the migration from unorganised to organised sector to steadily generate value. Havells and Crompton Greaves remain our top picks. **Key risks:** Higher-than-expected rise in RM prices and irrational competition.

Valuation summary

Company	CMP (Rs)	Target Price (Rs)	Rating	RoE (FY24E)	RoCE (FY24E)	EPS CAGR FY22-25E	P/E (x) FY24E
3M India	21,861	27,400	BUY	28.9%	35.6%	30.7%	49.7
Amber	1,868	2,110	HOLD	10.3%	11.2%	38.6%	29.7
Bajaj Ele	1,102	1,230	ADD	13.9%	16.3%	31.8%	43.2
Bluestar	1,440	1,270	HOLD	21.8%	20.5%	25.8%	52.3
Crompton	301	495	BUY	28.8%	29.0%	19.7%	23.0
Dixon	2,785	3,000	REDUCE	24.5%	24.9%	37.5%	48.0
Havells	1,174	1,550	BUY	22.6%	25.3%	17.9%	44.2
Orient	269	295	ADD	25.1%	30.3%	15.6%	34.6
Polycab	2,995	2,700	HOLD	20.0%	24.0%	30.4%	31.4
Syrma SGS	268	325	BUY	10.7%	11.1%	44.2%	26.0
TTK Prestige	769	1000	BUY	16.0%	18.8%	8.7%	32.3
V-Guard	241	275	ADD	18.6%	22.5%	18.7%	33.4
Voltas	887	880	HOLD	11.9%	11.7%	20.8%	40.6
Whirlpool	1,307	1,600	BUY	10.1%	10.2%	22.1%	45.2

Source: Company data, I-Sec research

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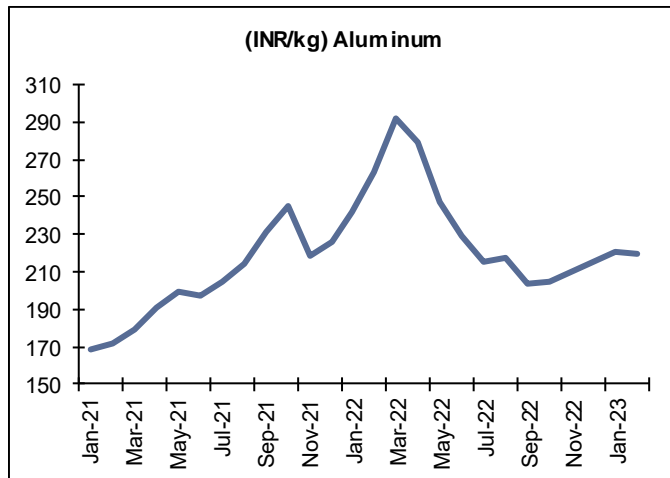
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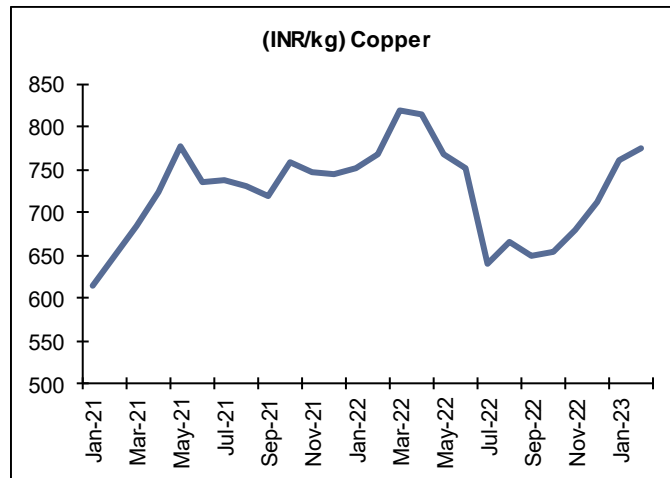
Raw material prices

Chart 1: Aluminium prices are decreasing



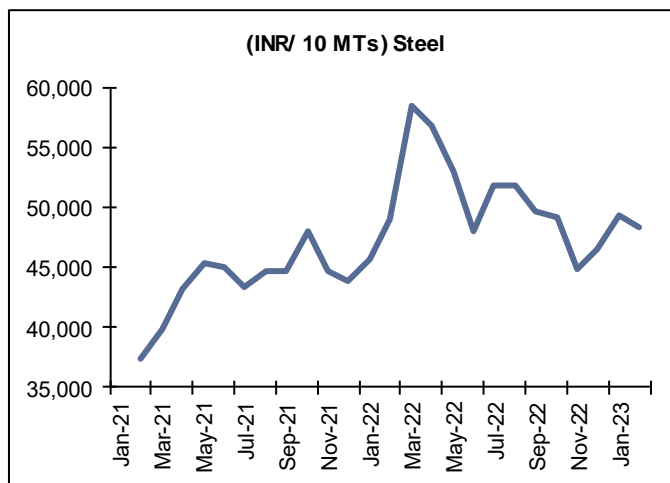
Source: Bloomberg, I-Sec research

Chart 2: Copper prices are correcting



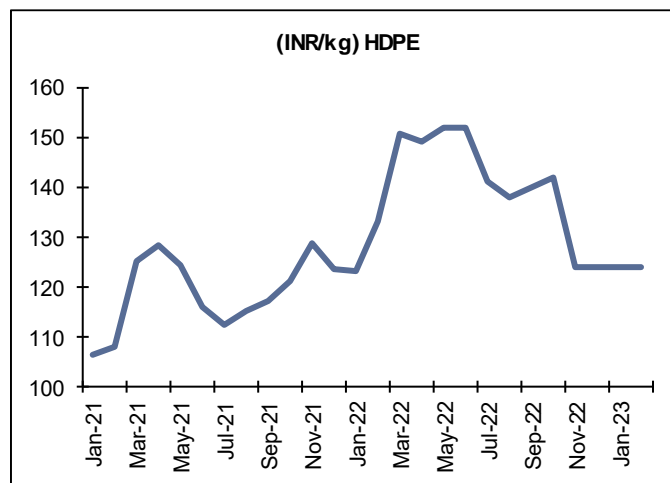
Source: Bloomberg, I-Sec research

Chart 3: Steel prices are going down



Source: Bloomberg, I-Sec research

Chart 4: HDPE prices are decreasing



Source: Bloomberg, I-Sec research

Valuation and risks

We value stocks in white goods and durables market on DCF methodology (WACC and TG ranging from 10-13% and 3-6%, respectively). Key upside risk: Better-than-expected gross margins due to correction in input prices. Key downside risks: (1) Unexpected irrational competition due to deceleration in general consumption demand and (2) steep inflation in input prices.

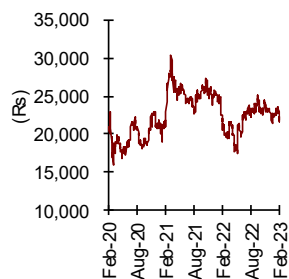
Table 1: White goods sector valuation summary

Company	CMP (Rs)	Rating	RoE (%) FY24E	RoCE (%) FY24E	CAGR FY22-25E (%)			P/E (x)	
					Revenues	EBITDA	PAT	FY23E	FY24E
3M India	21,861	BUY	28.9%	35.6%	17.6%	30.2%	30.7%	59.3	49.7
Amber	1,868	HOLD	10.3%	11.2%	31.4%	32.8%	38.6%	46.9	29.7
Bajaj Electricals	1,102	ADD	13.9%	16.3%	14.2%	26.1%	31.8%	56.3	43.2
Bluestar	1440	HOLD	21.8%	20.5%	19.8%	21.5%	25.8%	58.1	52.3
Crompton Cons	301	BUY	28.8%	29.0%	23.4%	23.8%	19.7%	29.9	23.0
Dixon	2,785	REDUCE	24.5%	24.9%	27.8%	30.2%	37.5%	70.0	48.0
Havells	1,174	BUY	22.6%	25.3%	17.5%	15.9%	17.9%	68.1	44.2
Orient Electrics	269	ADD	25.1%	30.3%	13.7%	12.3%	15.6%	51.5	34.6
Polycab	2,995	HOLD	20.0%	24.0%	15.6%	26.9%	30.4%	37.0	31.4
Syrma SGS	268	BUY	10.7%	11.1%	36.4%	38.5%	44.2%	36.7	26.0
TTK Prestige	769	BUY	16.0%	18.8%	11.2%	7.7%	8.7%	42.1	32.3
V-Guard	241	ADD	18.6%	22.5%	18.3%	18.7%	18.7%	46.9	33.4
Voltas	887	HOLD	11.9%	11.7%	17.9%	9.9%	20.8%	54.5	40.6
Whirlpool	1,307	BUY	10.1%	10.2%	14.0%	21.9%	22.1%	68.2	45.2

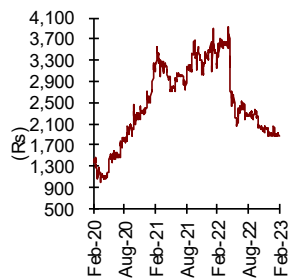
Source: Company data, I-Sec research

Price charts

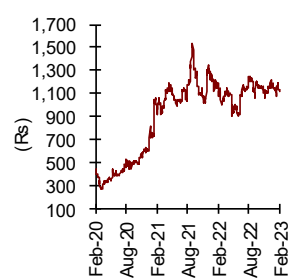
3M India



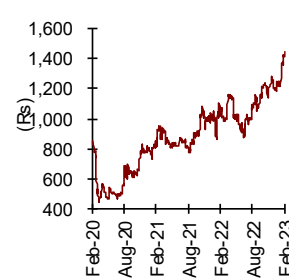
Amber



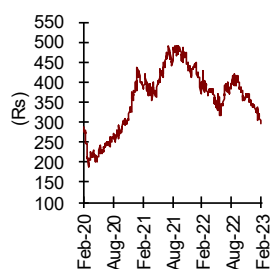
Bajaj Electricals



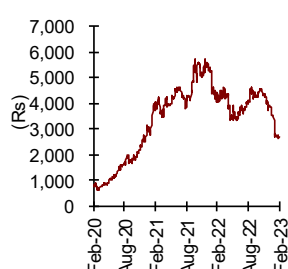
Blue Star



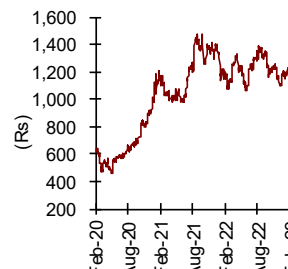
Crompton Consumer



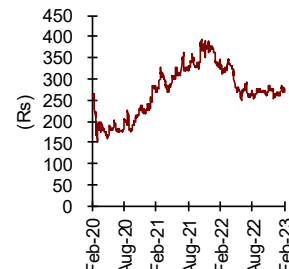
Dixon



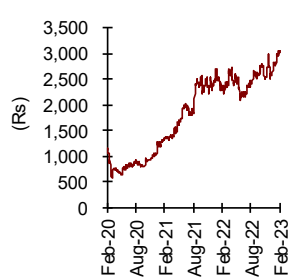
Havells



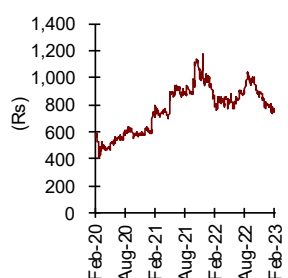
Oriental Electric



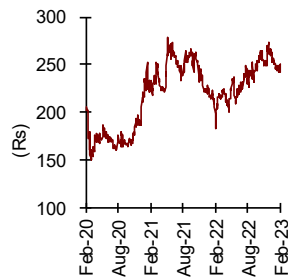
Polycab



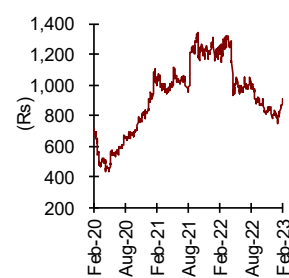
TTK Prestige



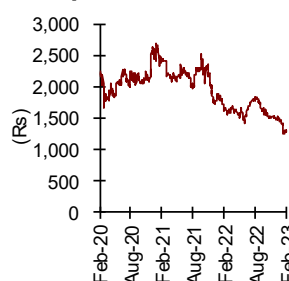
V-Guard



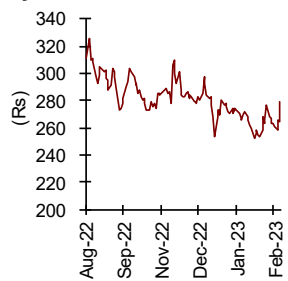
Voltas



Whirlpool



Syrrma SGS



Source: Bloomberg

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