

White goods & durables

Consensus expectation of earnings upgrade due to heat wave appear overdone; Trivial change to DCF valuations

We differ from consensus that ongoing heat wave is likely to result in strong valuation upgrade for fan, cooler or air conditioner companies. Chief reasons: (1) Fan companies had sold inventory of non-star rated fans in Q3FY23 and there is ~3 weeks extra inventory in trade which will get liquidated in Q4FY23. It is likely to result in lower primary sales for fan companies in Q4FY23, (2) there is steep competition among air conditioner companies. Most companies are operating at RoCE < cost of capital. Market leader Voltas has not raised prices in H2FY23 in spite of higher cost pressures. We believe growth with low profitability might not lead to any valuation upgrade. Our channel check feedback also suggests that there is no material change in consumer off-take. Higher discounts (and not necessarily heat wave) are leading to slightly higher volume growth.

We remain positive on the sector; Top picks are Havells (BUY) and Crompton Greaves (BUY).

- **Up-stocking of fans by trade in Q3FY23 to lead to de-stocking in Q4FY23:** Due to shift to BEE norms, most fan companies have sold their inventory of non-star rated fans in Q3FY23 with higher trade margins. We note most fan companies reported strong revenue growth for economy fans in Q3FY23. As trade needs to sell the excess inventory of non-star rated fans before end of summer season in CY23, we model primary sales of fans to be muted in Q4FY23.
- **Profitability of air conditioners under pressure:** Steep competitive pressures have resulted in weak profitability / losses for most white goods companies. We note Voltas has not raised prices in Q3FY23 and does not plan to raise prices even in Q4FY23 in spite of cost pressures. We model profitability of most air conditioner companies to remain weaker in Q4FY23. We model Havells- Lloyd to report losses at EBIT level even in Q4FY23.
- **Channel check feedback does not indicate material increase in sales:** The trade partners indicated that while there is slightly higher growth possible for air conditioners in Q4FY23, it is largely attributable to higher trade discounts.

Valuation summary

Company	CMP (Rs)	Target Price (Rs)	Rating	RoE (FY24E)	RoCE (FY24E)	EPS CAGR FY22-25E	P/E (x) FY24E
3M India	22,822	27,400	BUY	28.9%	35.6%	30.7%	51.9
Amber	1,892	2,110	HOLD	10.3%	11.2%	38.6%	30.1
Bajaj Ele	1,089	1,230	ADD	13.9%	16.3%	31.8%	42.6
Bluestar	1,436	1,270	HOLD	21.8%	20.5%	25.8%	52.1
Crompton	304	495	BUY	28.8%	29.0%	19.7%	23.2
Dixon	2,892	3,000	REDUCE	24.5%	24.9%	37.5%	49.8
Havells	1,197	1,550	BUY	22.6%	25.3%	17.9%	45.1
Orient	274	295	ADD	25.1%	30.3%	15.6%	35.2
Polycab	3,080	2,700	HOLD	20.0%	24.0%	30.4%	32.3
Syrma SGS	264	325	BUY	10.7%	11.1%	44.2%	25.6
TTK Prestige	757	1000	BUY	16.0%	18.8%	8.7%	31.8
V-Guard	246	275	ADD	18.6%	22.5%	18.7%	34.1
Voltas	892	880	HOLD	11.9%	11.7%	20.8%	40.8
Whirlpool	1,304	1,600	BUY	10.1%	10.2%	22.1%	45.1

Source: Company data, I-Sec research

Research Analysts:

Aniruddha Joshi

aniruddha.joshi@icicisecurities.com
+91 22 6807 7249

Manoj Menon

manoj.menon@icicisecurities.com
+91 22 6807 7209

Karan Bhuvania

karan.bhuvania@icicisecurities.com
+91 22 6807 7351

- ▶ **One quarter benefit (if any) is not enough to warrant stock price rally:** Even if there is benefit for white goods companies in Q4FY24, we do not model it to be material enough to warrant valuation upgrade. Most likely higher sales in Q4FY23 (if any) may result in weaker sales in Q4FY24 due to high base and hence, we do not change in DCF assumptions.
- ▶ **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.

Table 1: Commentary about fans segment growth in Q3FY23

Company	Commentary
Havells	Economy segment did well. There was higher stocking. However, destocking at premium end of fans market
Crompton	Approximately 3 weeks extra inventory is pushed by competitors ahead of Crompton. Mid segment of fans was impacted in Q3FY23.
Bajaj	Fans grew 63.9% YoY.
Orient	Fans grew 15% and registered highest ever revenues during the quarter.

Source: Company data, 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.

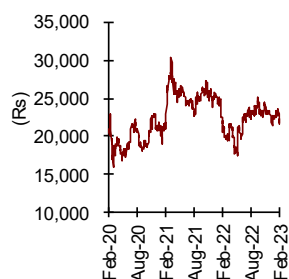
Table 2: White goods sector valuation summary

Company	CMP (Rs)	Rating	RoE (%) FY24E	RoCE (%) FY24E	CAGR FY22-25E (%)			P/E (x)	
					Revenues	EBITDA	PAT	FY23E	FY24E
3M India	22,822	BUY	28.9%	35.6%	17.6%	30.2%	30.7%	61.9	51.9
Amber	1,892	HOLD	10.3%	11.2%	31.4%	32.8%	38.6%	47.5	30.1
Bajaj Ele	1,089	ADD	13.9%	16.3%	14.2%	26.1%	31.8%	55.6	42.6
Bluestar	1436	HOLD	21.8%	20.5%	19.8%	21.5%	25.8%	57.9	52.1
Crompton Cons	304	BUY	28.8%	29.0%	23.4%	23.8%	19.7%	30.2	23.2
Dixon	2,892	REDUCE	24.5%	24.9%	27.8%	30.2%	37.5%	72.7	49.8
Havells	1,197	BUY	22.6%	25.3%	17.5%	15.9%	17.9%	69.5	45.1
Orient Elec	274	ADD	25.1%	30.3%	13.7%	12.3%	15.6%	52.4	35.2
Polycab	3,080	HOLD	20.0%	24.0%	15.6%	26.9%	30.4%	38.0	32.3
Syrma SGS	264	BUY	10.7%	11.1%	36.4%	38.5%	44.2%	36.2	25.6
TTK Prestige	757	BUY	16.0%	18.8%	11.2%	7.7%	8.7%	41.4	31.8
V-Guard	246	ADD	18.6%	22.5%	18.3%	18.7%	18.7%	47.9	34.1
Voltas	892	HOLD	11.9%	11.7%	17.9%	9.9%	20.8%	54.8	40.8
Whirlpool	1,304	BUY	10.1%	10.2%	14.0%	21.9%	22.1%	68.1	45.1

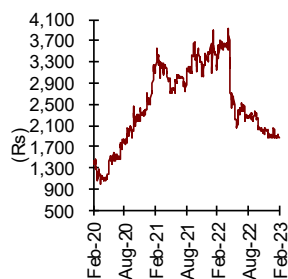
Source: Company data, I-Sec research

Price charts

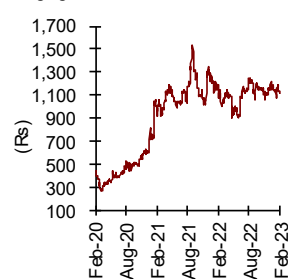
3M India



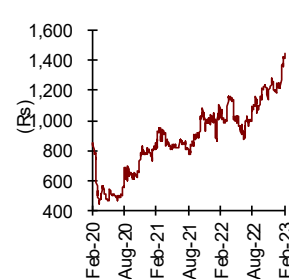
Amber



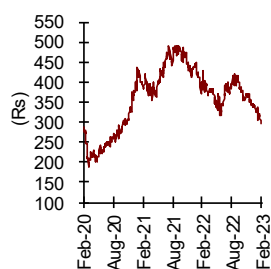
Bajaj Electricals



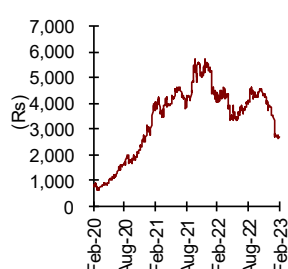
Blue Star



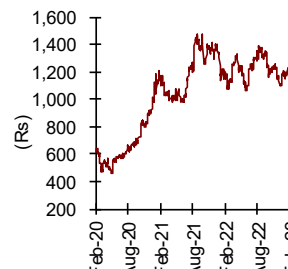
Crompton Consumer



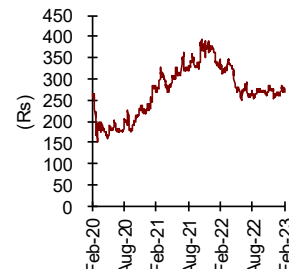
Dixon



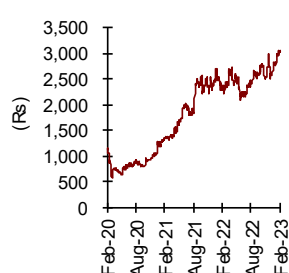
Havells



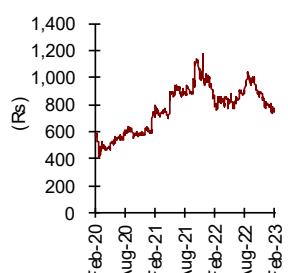
Oriental Electric



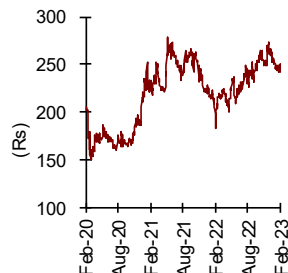
Polycab



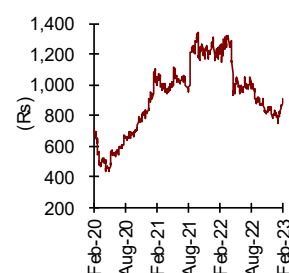
TTK Prestige



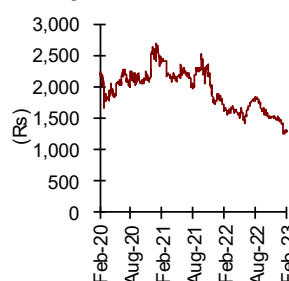
V-Guard



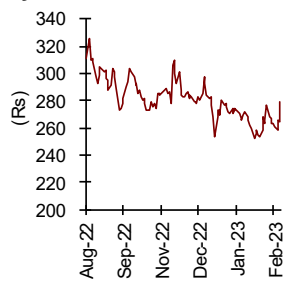
Voltas



Whirlpool



Syrrma SGS



Source: Bloomberg

In case of industry/sector reports or a report contain multiple stocks, the rating/recommendation for a particular stock may be based on the last released stock specific report for that company."

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)

BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

ANALYST CERTIFICATION

I/We, Aniruddha Joshi, CA; Manoj Menon, MBA, CMA; Karan Bhuwania, MBA; authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is SEBI registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/beneficial ownership of one percent or more or other material conflict of interest in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.