

Sector update

White Goods &
Durables

INDIA



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

Please refer to important disclosures at the end of this report

Research Analysts:

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

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

Karan Bhuwania
karan.bhuwania@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

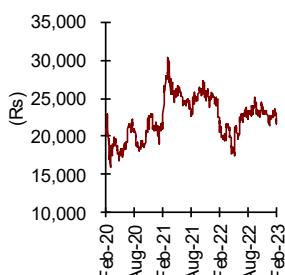
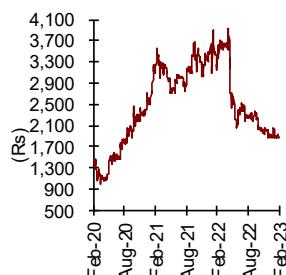
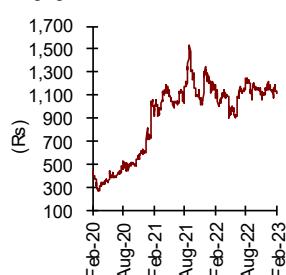
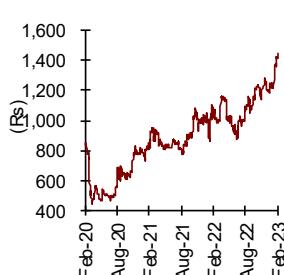
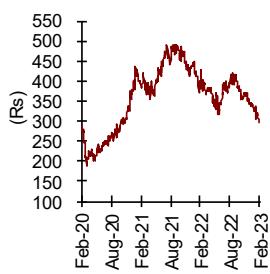
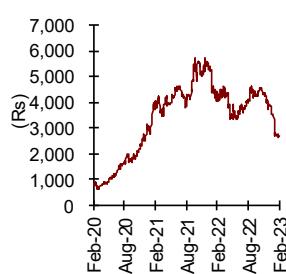
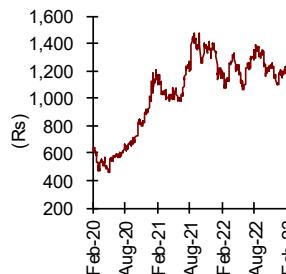
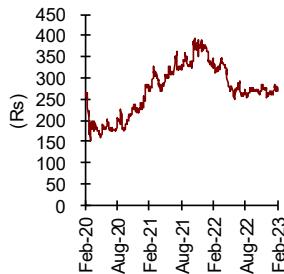
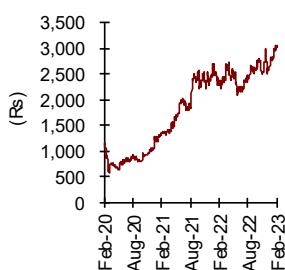
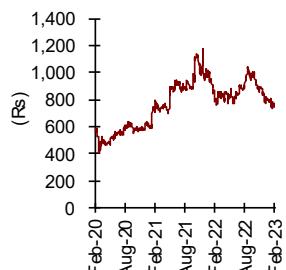
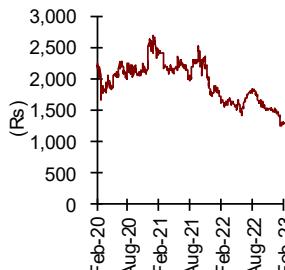
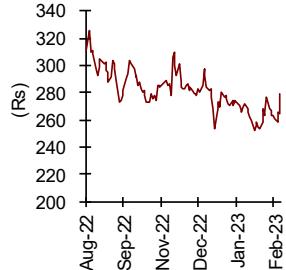
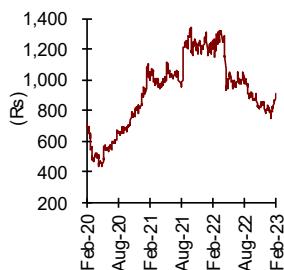
Valuation and risks

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****Whirlpool****Syрма SGS****Volta**

Source: Bloomberg

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