

## White Goods & Durables

INDIA



## White goods & durables

### GST rate on LED bulbs likely to increase: Passing on of additional cost to consumers when inflation is high

The GST rates on LED bulbs are likely to increase to 18% from 12%, as per media reports ([Link](#)). We believe any increase in taxes in a highly competitive segment like lighting may impact the industry profitability. Smaller / unorganised companies are likely to gain market shares. As most durable companies have raised prices by more than 20% in past 18 months, any further price hikes may impact volumes and /or may result in down-trading. Durable companies such as Crompton, Orient and Bajaj Electricals generate more than 20% revenues from lighting segment whereas Havells generates 10% revenue from lighting. Any increase in taxes will have 2-5% impact on earnings. We remain positive on the sector; our top picks are Havells (BUY) and Crompton Greaves (BUY).

- **GST rate may move up to 18% from 12% on LED bulbs:** As per media reports, GST rate on LED bulbs may move upwards to 18% from 12% now. We believe most durable companies will be required to raise prices to pass on additional costs.
- **Increase in taxes when inflation is already high:** The increase in GST rate is likely to happen when inflation is already high. Most durable companies have raised prices by 20%+ in past 18 months. We believe any further increase in prices may hurt demand or it may result in down-trading in the sector. We also believe the smaller/ unorganised sector will be able to gain some market share.
- **Lighting is low HHI segment:** The Herfindahl Hirschman Index (HHI) is less than 0.1 in lighting which indicates very high competitive intensity. We believe any increase in taxes/ costs may hurt the profitability of the sector and the incumbents.
- **Impact on durable companies:** Key companies that generate more than 20% revenues from lighting are Crompton, Bajaj Electricals and Orient. Other companies such as Dixon and Havells also generate 12% and 10% of revenues from lighting, respectively.
- **Sector view and top picks:** Considering the strong return ratios, healthy growth potential and low penetration levels, we remain structurally positive on the white goods and durables sector. We also expect the migration from unorganised to organised sector to steadily generate value. Havells India and Crompton Greaves are our top picks. **Key risks:** Higher-than-expected rise in crude oil prices, any delay in price hikes to protect margins, and irrational competition.

### Valuation summary

Company	Price (Rs)	M.Cap (Rs bn)	Target Price (Rs)	Rating	RoE (FY23E)	RoCE (FY23E)	EPS CAGR FY22-24E	P/E (x) FY24E
3M India	22,412	252.5	26,000	BUY	15.5	19.1	39.4	47.7
Amber	2,353	79.3	2,280	ADD	9.4	9.3	51.1	31.8
Bajaj Electricals	959	110.1	1,035	ADD	12.1	14.4	38.5	36.7
Bluestar	924	89.0	1,047	HOLD	17.7	16.6	9.8	44.1
Crompton Cons.	346	219.0	504	BUY	19.1	18.7	4.0	35.0
Dixon	3,641	216.1	3,950	HOLD	26.5	25.1	59.9	44.5
Havells	1,098	688.1	1,644	BUY	21.6	22.6	27.2	35.5
Orient Electrics	260	55.1	285	ADD	24.3	28.9	17.2	31.7
Polycab	2,224	332.7	2,500	HOLD	15.6	18.4	20.8	27.2
TTK Prestige	807	111.9	975	BUY	17.1	20.0	10.0	30.3
V-Guard	220	94.9	250	ADD	15.9	19.8	17.2	30.3
Voltas	970	321.1	1,033	HOLD	11.6	11.2	24.2	41.4
Whirlpool	1,562	198.1	2,000	BUY	11.2	11.3	47.5	37.7

Source: Company data, I-Sec research

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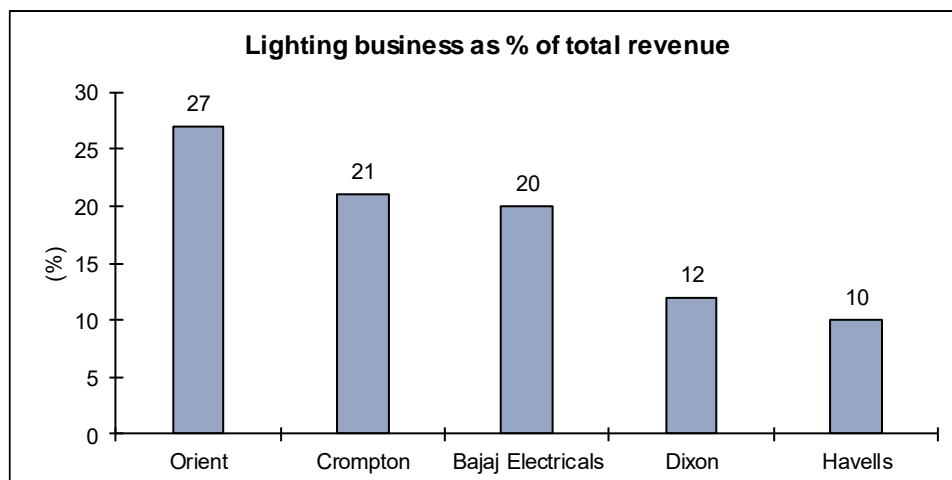
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## Exposure to lighting business

Key companies that generate 20% or higher revenues from lighting are Crompton, Bajaj Electricals and Orient. Other companies such as Havells and Dixon also generate revenues in low double digits.

**Chart 1: Lighting as % of net sales (FY22)**



Source: Company data, I-Sec research, \*For Bajaj Electricals the number is for Q4FY22.

**Sensitivity impact on key companies:** If the GST increases to 18% from 12% on LED bulb, it will have some impact on earnings as follows.

**Table 1: Sensitivity impact on key companies**

Particulars	Havells	Crompton	Orient	Bajaj
Revenues (FY22, Rsmn)	1,39,385	53,941	24,484	48,130
Lighting Revenues (FY22, Rsmn)	13,916	10,622	6,491	9,626
Lighting revenues as % of Total Revenues	10.0%	19.7%	26.5%	20.0%
Impact of increase in GST (Rsmn)	746	569	348	516
Assuming 75% impact is passed on (Rsmn)	559	427	261	387
Net impact on PBT (Rsmn)	186	142	87	129
Current FY22 PBT estimates (Rsmn)	16,066	7,515	1,698	1,795
Impact on earnings (%)	1.2%	1.9%	5.1%	7.2%

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.

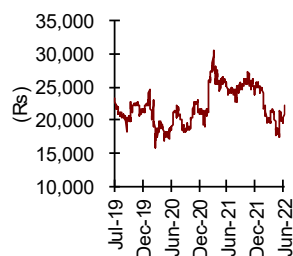
**Table 2: White goods sector valuation summary**

Company	CMP (Rs)	Rating	RoE (%) FY23E	RoCE (%) FY23E	CAGR FY22P-24E (%)			P/E (x)	
					Revenues	EBITDA	PAT	FY23E	FY24E
3M India	22,412	BUY	15.5	19.1	16.6	34.7	39.4	70.1	47.7
Amber	2,353	ADD	9.4	9.3	27.5	34.6	51.1	43.9	31.8
Bajaj Electricals	959	ADD	12.1	14.4	14.1	33.4	38.5	47.7	36.7
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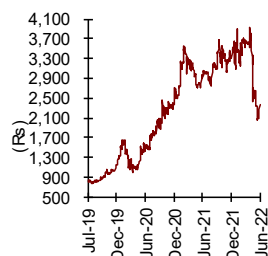
Source: Company data, I-Sec research

## Price charts

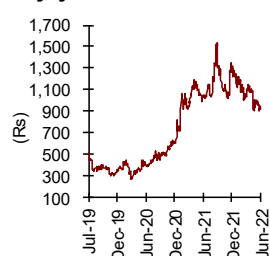
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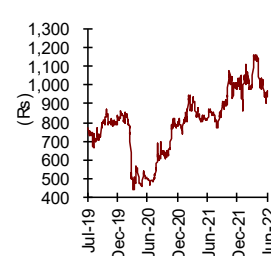
Amber



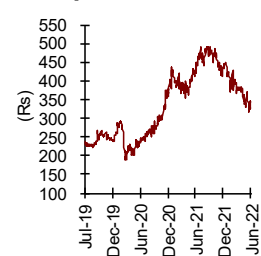
Bajaj Electricals



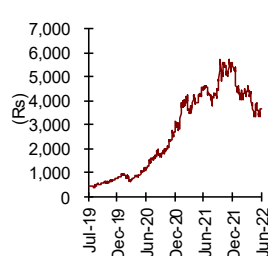
Blue Star



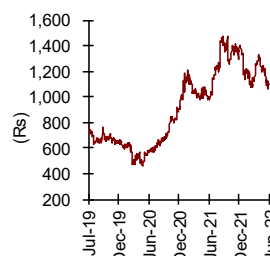
Crompton Consumer



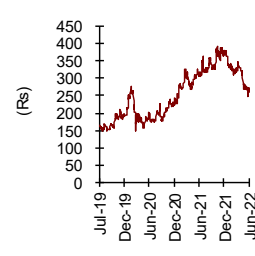
Dixon



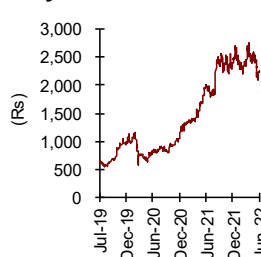
Havells



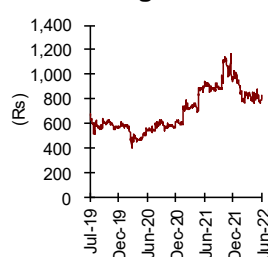
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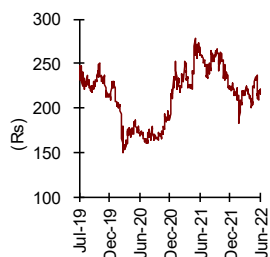
Polycab



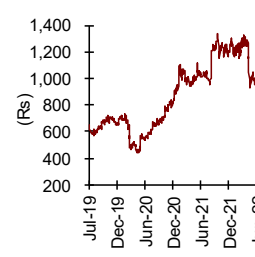
TTK Prestige



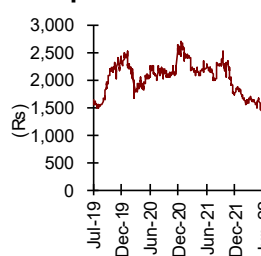
V-Guard



Voltas



Whirlpool



Source: Bloomberg

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