

July 6, 2023

Exhibit 1: PL Universe

Companies	Rating	CMP (Rs)	TP (Rs)
Bajaj Electricals	Acc	1,219	1,326
CC Cons. Elect.	BUY	286	338
Havells India	BUY	1,287	1,460
KEI Industries	HOLD	2,329	2,319
Polycab India	HOLD	3,553	3,476
Voltas	HOLD	767	813

Source: PL

Top Picks

Havells India

Compton Greaves Consumer

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Consumer Durables

Apr-Jun'23 Earnings Preview

Unseasonal rains, Soft demand + Competitive pricing

Quick Pointers:

- ECD segment impacted due to unseasonal rains, higher fan inventory in the channel and weak demand environment.
- Strong volume growth in C&W segment; KEI/Polycab to outperform in sales.

Consumer Durables sector continues to witness 1) muted demand environment, 2) competitive pricing and 3) higher channel inventory. Seasonal product sales like RAC and fan impacted due to unseasonal rain, soft demand and higher inventory in channels. Rural demand continued to remain weak. However, Cable & Wire segment continues with healthy growth, largely from B2B segment. We expect our consumer durable universe to register Sales/EBITDA/PAT growth of 7.4%/20.0%/23.2% YoY in 1QFY24. On sales front KEI Ind & Polycab to outperform, while Crompton Consumer & Bajaj Electricals to underperform. On profitability Havells, Polycab and Voltas are expected to outperform.

We prefer Havells India given its robust return profile, controlled working capital, cost leader and continuously expanding opportunity market. Our second pick is Crompton Consumer who took corrective measures towards growth such as 1) restructuring business in five verticals, 2) hiring/appointing second level management team, 3) addressing frontend sales team attrition, and 4) increasing focus on A&P and R&D for driving growth. Although this strategy may impact FY24 financials, we expect better growth FY25 onwards.

- **FMEG (ECD and lighting) segment's soft performance to continue:** ECD segment impacted because of higher fan inventory at the start of Q1FY24, which was pushed by the brand through discounts & incentives. Our channel check suggests gradual decrease in inventory of fans at dealers'/retailers' level which reached normalcy by Jun-23 end. The channel also suggested that price hikes due to rating norm changes has not been fully absorbed in the system, while inventory has been pushed by players through discounts & incentive. Lighting segment continued to face challenges in B2C segment, while pickup in B2B/B2G drive segmental growth. Crompton faced challenges due to weak demand & competitive pricing in fan, pump & lightings in Q1FY24. However, Havells with its distribution expansion, increase in product portfolio and channel supports is expected to outperform (est. 6% YoY growth vs coverage universe of 0.5% YoY in ECD segment).
- **RAC segment - weak demand sentiment:** Unseasonal rains, competitive pricing and weak demand environment have all impacted RAC segment. Our channel interaction in Jun-23 suggests slowdown in demand besides higher channel inventory (45-50days) restricted primary sales. Competitive pricing and slowdown in demand restricted price action, whereas, companies are offering discounts & promotions to liquidate inventory. Summer season impacted due to unseasonal rains mostly in North India, where industry saw decline of 15-20% in volume, which indicated sluggish FY24. However,

Q4FY24 should be better in demand/volume growth, else sector may see de-growth. Voltas expected 2.5% growth in UCP revenue in Q1FY24. However, in race of market share, players like Voltas/Lloyd are expected to see contraction in margins.

- **Cable & Wire – to continue with healthy growth:** The KEI/Polycab will continue to benefit from industrial volume growth mainly in B2B business. Correction in commodity prices in second half of Q1FY24 saw strong volume improvement. KEI/Polycab to show volume growth of ~15% and outperform our coverage over sales growth. However, stretched valuation keeps limited upside potential for the stocks.
- **Key changes in target multiple:** In our coverage universe, we have upward revised our target multiple for KEI Ind./Polycab to 28x/31x FY25 earnings (earlier 23x/29x FY25 earnings). KEI is expected to deliver 25.1% CAGR in earnings over FY23-25 (increase FY25 earnings by ~5%) with higher RoCE of 28%. Polycab, on the other hand, is expected to deliver 15.1% CAGR in earnings over FY23-25 with higher RoCE of 27%+. **We maintain our 'HOLD' rating on KEI/Polycab.** For Voltas, we have downward revised our target multiple to 34x FY25 earnings (earlier 36x FY25 earnings), due to weak performance in UCP segment and slow pick up in EMPS segment. **We maintain our 'HOLD' rating.**

Exhibit 2: Q1FY24 Result Preview

Company Name		Q1FY24E	Q1FY23	YoY gr. (%)	Q4FY23	QoQ gr. (%)	Remark
Bajaj Electricals	Sales	12,962	12,236	5.9	14,904	(13.0)	We expect sales to grow by 5.9% YoY despite weak demand & higher Fan channel stocking. Consumer Products to grow by 5.2% YoY, with appliance growth of 7%. Lighting expected ~3% YoY growth, while EPC est. revenue of Rs1.2bn. We expect margin of 6.2% (+10bps YoY). Profitability growth of 6.1%.
	EBITDA	804	745	7.9	888	(9.4)	
	Margin (%)	6.2	6.1		6.0		
	PBT	630	600	5.1	862	(26.9)	
	Adj. PAT	472	445	6.1	587	(19.6)	
Crompton Greaves Consumer Electricals	Sales	17,760	18,629	(4.7)	17,910	(0.8)	We expect sales to de-grow by 4.7% YoY with ECD/Lighting segment revenues de-growth of 5.1%/4.1%. Weak demand scenario and higher channel inventory in Fan along with competitive pricing by the company impacted revenue. Butterfly segment revenues are expected to fall by 3% YoY. EBITDA margin to contract by 130bps YoY mainly with lower GM due to competitive pricing and RM inflation. PAT is expected to see de-growth of 11.7% YoY.
	EBITDA	1,865	2,199	(15.2)	1,416	31.7	
	Margin (%)	10.5	11.8		7.9		
	PBT	1,579	1,803	(12.4)	1,006	57.0	
	Adj. PAT	1,181	1,338	(11.7)	613	92.7	
Havells India	Sales	45,021	42,301	6.4	48,592	(7.3)	Revenue expected to grow at 7.3% YoY with C&W/ECD/Lighting/Lloyd businesses to grow at 8%/6%/5%/10% despite on higher base and weak demand scenario. RAC sector impacted with unseasonal rain & competitive pricing, while Lloyd (with start of south India plant) expected to continue with double digit growth. EBITDA margin expected at 10.9%, with the restricted GM due to price competition and commodity. PAT is expected to grow by 40.1% YoY, on lower base.
	EBITDA	4,997	3,614	38.3	5,272	(5.2)	
	Margin (%)	11.1	8.5		10.8		
	PBT	4,592	3,266	40.6	4,867	(5.6)	
	Adj. PAT	3,436	2,424	41.7	3,580	(4.0)	
KEI Industries	Sales	17,730	15,654	13.3	19,545	(9.3)	We expect revenues to grow by 13.3% YoY with C&W segment growing by 13.5% mainly with strong demand in institutional cable business and market share gain in retail. The EPC segment is expected to register a growth of 10% YoY. EBITDA margin to remain flat sequentially at 10.4% YoY, mainly with favorable product mix and cost control.
	EBITDA	1,844	1,596	15.5	2,038	(9.5)	
	Margin (%)	10.4	10.2		10.4		
	PBT	1,653	1,400	18.1	1,845	(10.4)	
	Adj. PAT	1,237	1,039	19.1	1,381	(10.4)	

Company Name		Q1FY24E	Q1FY23	YoY gr. (%)	Q4FY23	QoQ gr. (%)	Remark
Polycab India	Sales	31,291	27,366	14.3	43,237	(27.6)	We expect sales to grow by 14.3% YoY with Wires & Cables growing by 15% mainly with strong volume growth in B2B business. FMEG expected de-growth of 3% impacted due to Fan segment. We expect margins to improve with (+140bps YoY) with commodity price changes and cost control. PAT to grow by 23.3% YoY with increase in other income and controlled interest expenses.
	EBITDA	4,005	3,111	28.7	6,095	(34.3)	
	Margin (%)	12.8	11.4		14.1		
	PBT	3,694	2,960	24.8	5,794	(36.2)	
	Adj. PAT	2,710	2,198	23.3	4,248	(36.2)	
Voltas	Sales	29,461	27,680	6.4	29,568	(0.4)	RAC industry has been affected by unseasonal rains and increased competition in Q1FY24 (seasonally strong quarter), resulting in lower sales volumes and margins for Voltas. UCP is expected to report revenue growth of 2.5% YoY, although its four-year CAGR expected at 6%. The volume growth expected to be good while aggressive pricing strategy impacted its revenue in RAC. Beko continue to report loss. EMPS segment expected to grow by 25% YoY with positive margin. Consolidated revenues to grow by 6.4% YoY with EBITDA margin at 7.4% (+100bps YoY). PAT is expected to grow by 38.8%.
	EBITDA	2,180	1,770	23.2	2,182	(0.1)	
	Margin (%)	7.4	6.4		7.4		
	PBT	2,246	1,913	17.4	2,420	(7.2)	
	Adj. PAT	1,511	1,089	38.8	1,439	5.0	

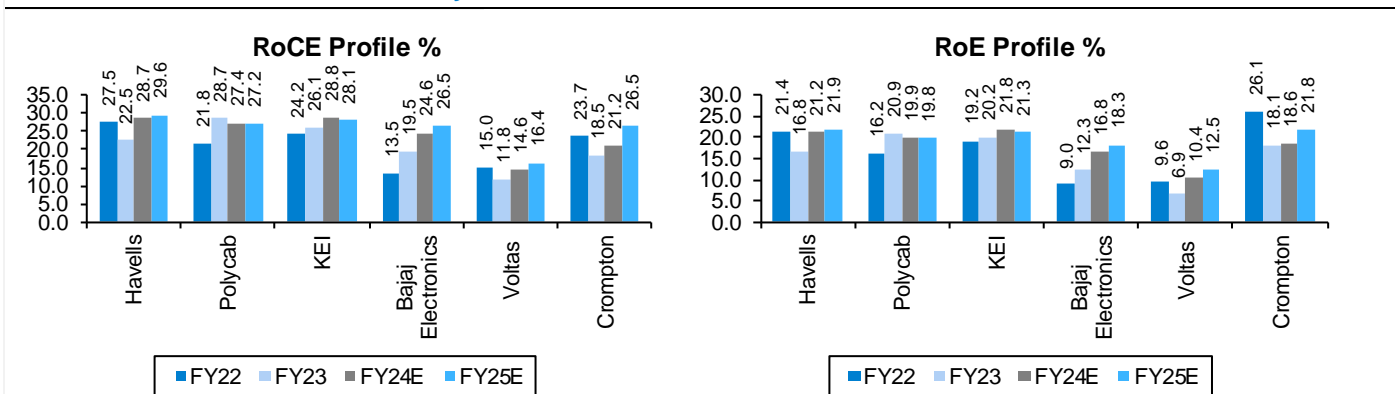
Source: Company, PL

Exhibit 3: Category wise growth across our coverage – Healthy growth expected in Cable & wire and ECD segment

	FY17	FY18	FY19	FY20	FY21	FY22	FY23	5 yr CAGR	FY24E	FY25E
Cables & wires (Rs Bn)	26.8	26.8	32.3	29.9	31.8	46.5	55.3	15.6%	63.6	74.4
Havells	56.1	62.4	69.3	75.2	75.8	107.0	125.4	15.0%	143.6	161.5
Polycab	21.8	28.1	35.0	41.2	37.2	53.5	65.1	18.3%	77.4	90.8
KEI Industries										
Cables & Wires margin %										
Havells	12.2	16.3	16.1	16.3	16.3	14.6	16.0		16.0	16.0
Polycab	7.1	10.3	12.1	12.3	12.0	9.7	11.8		12.0	12.0
KEI Industries	12.5	10.8	10.7	10.9	11.2	9.3	10.4		10.9	11.4
FMEG (Rs bn) (ECD & Lighting)										
Polycab	3.4	4.9	6.4	8.4	10.3	12.5	12.5	20.9%	15.1	18.0
Bajaj Electricals	23.1	22.3	27.4	30.9	33.0	32.9	48.8	17.0%	55.3	62.9
Havells	41.0	42.5	53.3	52.1	55.6	77.2	88.3	15.7%	100.9	116.4
Crompton	40.2	41.1	44.8	45.1	48.0	53.9	58.1	7.2%	62.6	73.1
FMEG margin %										
Polycab	1.0	1.8	1.2	2.0	5.5	1.6	2.0		3.5	5.5
Bajaj Electricals	4.3	4.9	6.6	6.8	9.8	7.5	5.5		7.7	8.4
Havells	25.2	27.6	27.1	27.5	27.1	25.7	27.7		27.7	27.7
Crompton	14.8	16.6	16.1	16.4	17.8	17.7	18.4		18.6	18.7
EPC (Rs bn)										
KEI Industries	6.8	9.6	10.3	14.0	9.8	8.7	7.1	-5.9%	10.4	11.5
Bajaj Electricals	19.8	24.9	39.3	18.9	12.7	4.2	5.4	-26.3%	5.8	8.9
EPC margin %										
KEI Industries	9.2	10.9	13.8	11.7	9.3	9.4	8.5		8.5	8.5
Bajaj Electricals	7.1	7.8	5.0	-1.8	-4.3	-3.4	3.0		3.0	4.0

Source: Company, PL

Exhibit 4: Returns maintained at healthy level



Source: Company, PL

Exhibit 5: Efficient working capital management, robust business model

Days		Havells	Polycab	KEI	Bajaj Electricals	Voltas	Crompton
Inventory	FY22	78	66	69	74	76	49
	FY23	80	76	58	71	61	40
	FY24E	75	85	60	68	50	40
	FY25E	75	85	65	68	50	40
Debtor	FY22	20	39	89	87	97	42
	FY23	21	32	73	100	84	36
	FY24E	18	26	75	75	85	34
	FY25E	17	26	80	72	85	34
Payable	FY22	62	47	49	93	135	69
	FY23	57	71	40	105	116	56
	FY24E	46	65	46	78	114	54
	FY25E	46	65	46	70	113	54
Cash Cycle	FY22	35	58	109	68	38	22
	FY23	44	38	92	65	30	20
	FY24E	47	46	89	66	21	20
	FY25E	46	46	99	69	22	20

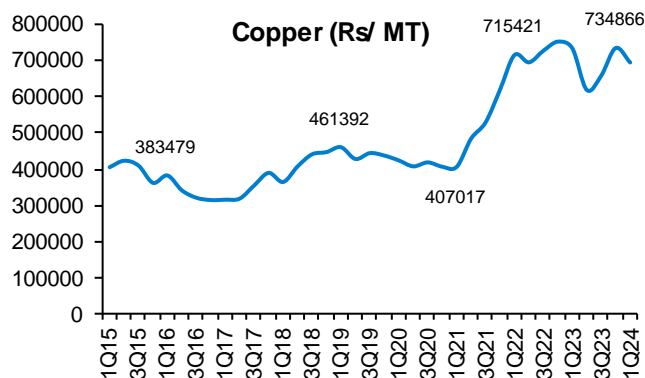
Source: Company, PL

Exhibit 6: FCF improvement visible across companies

		Net Profit	CF before WC chng.	Less: Chng. in WC	OCF	Less: Capex	FCF	OCF/PAT (%)	FCF/PAT (%)
Havells	FY22	11,965	18,186	3,243	17,280	(2,528)	14,752	144.4%	123.3%
	FY23	10,587	17,135	(8,967)	4,415	(6,022)	(1,607)	41.7%	-15.2%
	FY24E	15,378	23,023	(2,633)	15,141	(4,712)	10,429	98.5%	67.8%
	FY25E	18,774	29,031	(1,597)	21,024	(2,100)	18,924	112.0%	100.8%
Polycab	FY22	8,361	13,430	(4,974)	5,116	5,330	10,446	61.2%	124.9%
	FY23	12,728	19,092	(652)	14,190	(4,763)	9,427	111.5%	74.1%
	FY24E	14,370	21,456	(3,200)	13,343	(5,489)	7,854	92.9%	54.7%
	FY25E	16,825	24,752	(3,683)	15,329	(5,272)	10,057	91.1%	59.8%
KEI Industries	FY22	3,761	6,088	(2,555)	2,286	(596)	1,690	60.8%	44.9%
	FY23	4,773	7,004	(439)	4,918	(915)	4,003	103.0%	83.9%
	FY24E	6,270	9,108	(2,990)	3,958	(2,829)	1,129	63.1%	18.0%
	FY25E	7,470	10,909	(5,905)	2,432	(1,826)	606	32.6%	8.1%
Bajaj Electricals	FY22	1,368	9,611	190	9,358	(49)	9,309	684.1%	680.5%
	FY23	2,283	5,335	739	5,201	206	5,408	227.8%	236.8%
	FY24E	3,553	6,171	(1,889)	3,046	(442)	2,604	85.7%	73.3%
	FY25E	4,509	7,634	(2,573)	3,493	(908)	2,585	77.5%	57.3%
Voltas	FY22	5,041	8,449	(438)	5,842	(469)	5,373	115.9%	106.6%
	FY23	1,350	2,031	31	352	(2,196)	(1,844)	26.1%	-136.5%
	FY24E	5,949	10,311	684	8,798	(2,212)	6,586	147.9%	110.7%
	FY25E	7,820	11,827	(2,245)	6,874	(1,721)	5,153	87.9%	65.9%
Crompton	FY22	5,862	8,034	1,028	7,359	(1,712)	5,648	125.6%	96.4%
	FY23	4,632	7,896	3,614	10,153	(1,059)	9,094	219.2%	196.3%
	FY24E	5,248	8,840	(387)	6,685	748	7,432	127.4%	141.6%
	FY25E	6,849	10,816	(2,606)	5,903	(476)	5,427	86.2%	79.2%

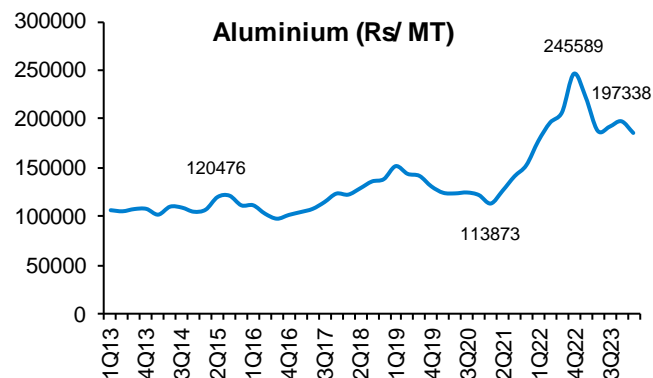
Source: Company, PL

Exhibit 7: Copper price down 5.3%YoY / 5.4%QoQ



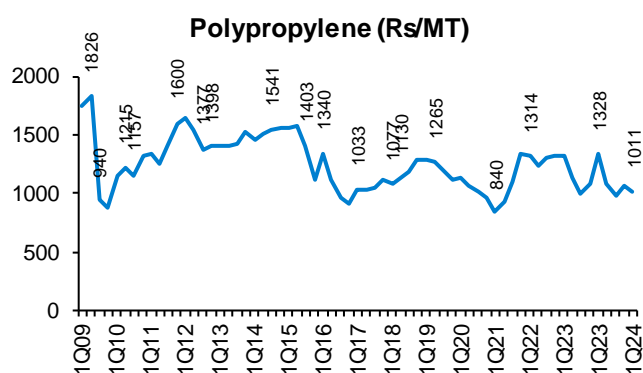
Source: Bloomberg, PL

Exhibit 8: Aluminum price down 16.3%YoY / 6.0%QoQ



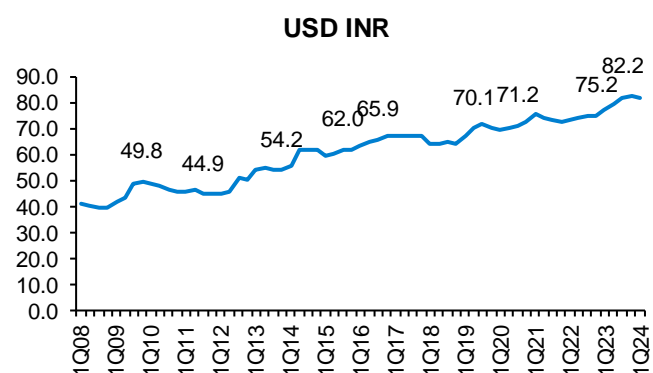
Source: Bloomberg, PL

Exhibit 9: Polypropylene prices down 23.9%YoY/ 5.7% QoQ



Source: Bloomberg, PL

Exhibit 10: Avg INR depreciated by 6.4% YoY/flat QoQ



Source: Bloomberg, PL

Exhibit 11: Valuation Summary

Company Names	S/C	Rating	CMP (Rs)	TP (Rs)	MCap (Rs bn)	Sales (Rs bn)				EBITDA (Rs bn)				PAT (Rs bn)				EPS (Rs)				RoE (%)				PE (x)			
						FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E
Bajaj Electricals	S	Acc	1,219	1,326	140.3	47.9	54.2	61.1	71.8	2.5	3.6	5.2	6.5	1.5	2.3	3.6	4.5	13.1	19.8	30.9	39.2	9.0	12.3	16.8	18.3	93.4	61.4	39.5	31.1
Crompton Greaves Consumer Electricals	C	BUY	286	338	181.8	53.9	68.7	74.4	86.1	7.5	7.7	8.2	10.0	5.7	4.6	5.2	6.8	9.0	7.3	8.0	10.4	26.1	18.1	18.6	21.8	31.6	39.3	35.7	27.4
Havells India	C	BUY	1,287	1,460	806.4	139.4	169.1	193.1	221.4	17.6	15.9	22.2	26.5	12.0	10.6	15.4	18.8	19.1	16.9	24.5	30.0	21.4	16.8	21.2	21.9	67.4	76.2	52.4	43.0
KEI Industries	C	HOLD	2,329	2,319	210.0	57.3	69.1	81.9	95.7	5.9	7.1	9.2	10.9	3.8	4.8	6.3	7.5	41.9	52.9	69.5	82.8	19.2	20.2	21.8	21.3	55.6	44.0	33.5	28.1
Polycab India	C	HOLD	3,553	3,476	532.1	122.0	141.1	162.7	184.1	12.6	18.5	20.7	23.9	8.4	12.7	14.4	16.8	55.9	85.0	96.0	112.3	16.2	20.9	19.9	19.8	63.5	41.8	37.0	31.6
Voltas	C	HOLD	767	813	253.6	79.3	95.0	107.5	123.4	6.8	5.7	7.8	9.7	5.0	3.8	5.9	7.8	15.2	11.5	18.0	23.6	9.6	6.9	10.4	12.5	50.3	66.9	42.6	32.4

Source: Company, PL

S=Standalone / C=Consolidated / Acc=Accumulate

Exhibit 12: Change in Estimates

	Rating		Target Price			Sales						PAT						EPS					
						FY24E			FY25E			FY24E			FY25E			FY24E			FY25E		
	C	P	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.
Bajaj Electricals	Acc	Acc	1,326	1,301	2.0%	61,114	61,114	0.0%	71,808	70,856	1.3%	3,553	3,553	0.0%	4,509	4,420	2.0%	30.9	30.9	0.0%	39.2	38.4	2.0%
Crompton Greaves Consumer Electricals	BUY	BUY	338	338	0.0%	74,407	74,407	0.0%	86,129	86,129	0.0%	5,248	5,248	0.0%	6,849	6,849	0.0%	8.0	8.0	0.0%	10.4	10.4	0.0%
Havells India	BUY	BUY	1,460	1,447	0.9%	1,93,092	1,93,092	0.0%	2,21,415	2,19,886	0.7%	15,378	15,378	0.0%	18,774	18,671	0.5%	24.5	24.5	0.0%	30.0	29.8	0.5%
KEI Industries	HOLD	HOLD	2,319	1,811	28.1%	81,941	80,726	1.5%	95,677	91,149	5.0%	6,270	6,168	1.6%	7,470	7,088	5.4%	69.5	68.4	1.6%	82.8	78.6	5.4%
Polycab India	HOLD	HOLD	3,476	3,249	7.0%	1,62,722	1,62,722	0.0%	1,84,084	1,84,084	0.0%	14,370	14,370	0.0%	16,825	16,825	0.0%	96.0	96.0	0.0%	112.3	112.3	0.0%
Voltas	HOLD	HOLD	813	848	-4.2%	1,07,512	1,07,512	0.0%	1,23,405	1,23,405	0.0%	5,949	5,949	0.0%	7,820	7,820	0.0%	18.0	18.0	0.0%	23.6	23.6	0.0%

Source: Company, PL

C=Current / P=Previous / Acc=Accumulate

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Astral Ltd.	Hold	1,955	1,924
2	Bajaj Electricals	Accumulate	1,301	1,213
3	Cera Sanitaryware	Hold	7,805	7,690
4	Crompton Greaves Consumer Electricals	BUY	338	293
5	Finolex Industries	Accumulate	194	175
6	Havells India	BUY	1,447	1,245
7	Kajaria Ceramics	Hold	1,264	1,255
8	KEI Industries	Hold	1,811	1,836
9	Polycab India	Hold	3,249	3,381
10	Prince Pipes and Fittings	Accumulate	718	657
11	Supreme Industries	Accumulate	3,245	3,245
12	Voltas	Hold	848	808

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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