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Soft demand, high cost inventory drags profitability...

The I-direct consumer discretionary universe's bottomline (excluding paints) is likely to see a fall of ~12% YoY in Q2FY23E dragged by 220 bps contraction in EBITDA margin. High cost inventory and higher ad spends is likely to weigh on Q2 EBITDA margin. On the revenue front, CD universe (excluding paints) is likely to report price led revenue growth of 10% YoY in Q2FY23. The volume offtake of electrical goods and plastic pipes is likely to be muted owing to lower rural spending, volatile PVC prices and high base impact. The demand recovery was seen towards the end of the quarter with the start of festive season. Under our coverage universe, paint companies are likely to report strong revenue growth of ~20% in Q2FY23 supported by higher realisations. We maintain our positive stance on the CD universe over mid to long term as organised players are likely to be major beneficiary of strong real estate demand & fall in commodity prices.

Price led revenue growth

In Q2FY23E, CD universe is likely to report revenue growth of 15% YoY led by strong growth in paint companies. We expect paint companies to continue to report strong revenue growth of ~20% led by higher realisations. However, volume growth is likely to be in range of 6-7% mainly due to high base and lower consumer spending in rural regions. Under our paint coverage, on a favourable base, Kansai Nerolac is likely to outperform industry with overall volume growth of 19% in Q2FY23 led by strong demand for industrial paints. On FMEG front, coverage companies are likely to deliver moderate revenue growth of ~11% due to soft demand of consumer appliances in July 2022 and relatively weak season for air conditioners. Havells is likely to report revenue growth of 10%, better than 8% revenue growth of CGCEL, Bajaj Electricals each. On the piping front, continued volatility in PVC prices is likely to result in lower volume offtake for key players like Supreme Industries and Astral Poly in Q2FY23.

High cost inventory to weigh on EBITDA margin

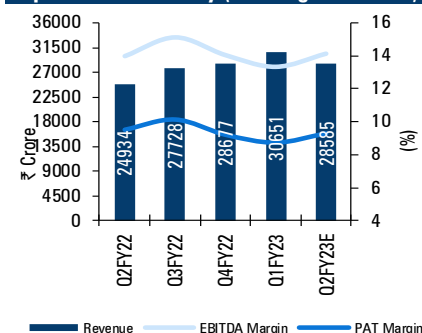
We believe, CD universe (excluding paints) is likely to witness margin pressure to the tune of 220 bps YoY mainly due to use of high cost inventories and higher ad spends. PVC and copper prices have corrected by 13% and 17% YoY, respectively, which will result in inventory loss for FMEG, plastic piping industry in Q2. However, paint companies are likely to report gross margin improvement on a QoQ basis (up in range of 30-120 bps) considering their low level of high cost inventories. Adhesive major Pidilite industries is likely to report EBITDA margin expansion by ~110 bps QoQ supported by a steep fall in VAM prices (declined 25% QoQ).

Exhibit 1: Estimates for Q2FY23E: (Consumer Discretionary) (₹ crore)

Company	Revenue			EBITDA			PAT		
	Q2FY23E	YoY	QoQ	Q2FY23E	YoY	QoQ	Q2FY23E	YoY	QoQ
Asian Paints	8,530.7	20.2	-0.9	1,475.8	63.2	-5.2	973.1	60.8	-6.1
Berger Paints	2,684.9	20.7	-2.7	389.3	10.0	-3.8	244.3	11.5	-3.7
Kansai Nerolac	1,854.5	21.9	-4.6	254.0	54.3	-0.6	160.4	62.7	-1.5
Pidilite Industries	3,075.5	17.1	-0.8	559.7	1.8	5.7	377.6	0.5	5.6
Supreme Industries	1,816.9	-5.8	-17.6	232.6	-25.2	-13.5	175.7	-23.2	-17.8
Astral Ltd	1,310.2	13.5	8.0	180.8	-14.5	5.3	98.5	-31.3	5.0
Havells	3,529.5	9.6	-16.6	416.5	-6.1	15.2	281.4	-6.7	16.1
Crompton Greaves Con	1,820.5	31.4	-2.3	214.8	0.3	-2.3	120.7	-24.0	-0.3
Bajaj Electricals	1,347.4	3.5	9.6	101.5	7.6	35.8	68.2	9.0	65.6
Voltas Ltd	1,766.0	4.6	-36.2	126.0	-2.4	-28.8	95.9	-8.0	-12.4
Sheela Foam	848.6	8.0	16.4	88.0	-19.9	33.6	60.5	-20.8	43.8
Total	28,584.6	14.6	-6.7	4,039.0	15.9	-1.1	2,656.3	11.9	-0.7

Source: Company, ICICI Direct Research

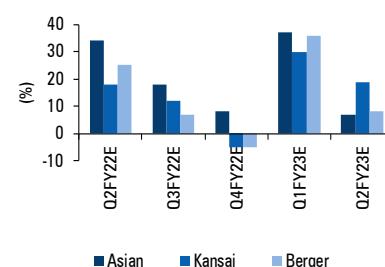
Topline & Profitability (Coverage Universe)



EBITDA margin (%) movement

EBITDA margin	Q2'22	Q3'22	Q4'22	Q1'23	Q2'23
Asian Paints	12.7	18.1	18.3	18.1	17.3
Berger Paints	15.9	15.4	15.8	14.7	14.5
Kansai Nerolac	10.8	12.4	5.9	13.1	13.7
Pidilite Ind	20.9	19.3	16.0	17.1	18.2
Supreme Ind	16.1	16.3	15.3	12.2	12.8
Astral Poly	18.3	17.9	15.6	14.2	13.8
Havells	13.8	12.1	11.8	8.5	11.8
Bajaj Ele	7.2	7.0	4.7	6.1	7.5
CGCEL	15.5	14.3	14.8	11.8	11.8
Sheela Foam	14.0	10.8	9.4	9.0	10.4
Voltas	7.6	8.7	9.8	6.4	7.1

Volume growth movement of paint companies



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Exhibit 2: Company Specific Views (Consumer Discretionary)

Company	Remarks
Asian Paints	Asian Paints is likely to report consolidated revenue growth of ~20% YoY to ~₹ 8531 crore led by higher realisation (up ~12% YoY) in Q2FY23E. We model moderate volume growth of ~7% YoY in Q2FY23 owing to high base and softer demand in the rural regions. We model EBITDA margin expansion of 455 bps YoY to 17.3% supported by benign raw material prices. PAT is likely to increase 61% YoY to ~ ₹ 973 crore in Q2FY23E
Berger Paints	Consolidated sales of Berger Paints is likely to increase ~21% YoY to ~₹ 2685 crore supported by higher realisation. We model moderate volume growth of 8% supported by festive demand for decorative paints and recovery in the industrial paints demand. On the margin front, the EBITDA margin is likely to decline ~140 bps YoY to ~14.5% dragged by use of high cost inventories and higher advertisement expenditure. PAT is likely to increase ~12% YoY to ₹ 244 crore, tracking strong topline growth
Kansai Nerolac	Kansai is likely to report revenue growth of ~22% YoY to ~₹ 1855 crore, mainly on a lower base of last year and rebound in industrial paint demand. We believe the overall volume growth of 19% YoY will be driven by industrial paints segment (up ~35%) amid recovery in automotive demand. Decorative paint volume is likely to grow albeit at a slow pace of ~6% YoY. On the margin front, we believe the EBITDA margin is likely to expand 287 bps YoY to 13.7% supported by price hike and improved operating leverage. Further, PAT is likely to increase ~63% YoY to ~₹ 160 crore tracking strong sales growth in Q2
Pidilite Industries	Pidilite is likely to report consolidated revenue growth of ~17% YoY to ~₹ 3076 crore in Q2FY23 led by 18% growth in the revenue of consumer & bazaar segment to ₹ 2514 crore. The B2B segment is also likely to report revenue growth of 15% to ~₹ 612 crore supported by increased demand of construction chemicals. On the margin front, the EBITDA margin is likely to increase ~110 bps QoQ to ~18% supported by decline in raw material prices. However, on a YoY basis the EBITDA margin is likely to remain lower by 273 bps YoY due to use of high cost inventory. PAT at ₹ 378 crore is likely to up ~6% QoQ (flat on YoY basis) tracking EBITDA margin
Supreme Industries	Supreme Industries is likely to report decline in revenue by 6% YoY to ₹ 1817 crore in Q2FY23 on account of sharp fall in PVC prices. PVC prices continued to remain under pressure in Q2FY23, down 18% QoQ & 13% YoY, respectively. Piping segment volume, value growth is likely to decline 2%, 7% YoY, respectively, in Q2FY23 due to slow inventory build-up at dealer level amid volatile PVC prices. The industrial and packaging segments are also likely to see flattish revenue in Q2FY23 on account of higher base. We believe EBITDA margin will decline ~332 bps YoY to ~13% due to loss of inventory amid softening of PVC prices. PAT is likely to decline ~23% YoY to ₹ 176 crore tracking lower EBITDA margins
Astral	Astral's consolidated sales is likely to increase ~14% YoY to ~₹ 1310 crore in Q2FY23E supported by consolidation of new business. We believe revenue from paint and adhesive segment is likely to increase ~39% YoY (excluding paint +15%YoY) to ₹ 366 crore. However, piping segment revenue is likely to grow at a slow pace of 3% to ₹ 918 crore supported by volume growth of 5% YoY. The slower offtake is attributable to volatility in PVC prices and higher base of Q2FY22. We believe EBITDA margin will decline ~453 bps YoY to ~14% due to inventory loss and higher operating costs associated with new business. PAT is likely to decline ~31% YoY to ~₹ 98.5 crore dragged by lower EBITDA margin
Havells India	Havell's Q2FY23E topline is likely to grow ~10% YoY to ~₹ 3530 crore supported by festive demand towards the end of Q2FY23. The ECD and Lloyd segment is likely to grow by 11% and 12% YoY to ₹ 806 crore and ₹ 382 crore, respectively, supported by market share gains and favourable base. The wire & cable and switchgear revenues is likely to see revenue growth in the range of 8-10% YoY supported by higher realisations. The EBITDA margin is likely to decline ~200 bps to ~12% mainly due to use of high cost inventory. PAT is likely to see a decline of 7% YoY to ₹ 281 crore on high base effect and lower EBITDA margins
Crompton Greaves Consumer	CGCEL's consolidated revenue is likely to grow 31% YoY to ~₹ 1821 crore in Q2FY23E supported by consolidation of Butterfly business. The core business (ECD + lighting) is likely to see revenue growth of 8% YoY to ~₹ 1495 crore supported by price hikes and new product launches. The EBITDA margin is likely to decline 366 bps YoY to ~12% YoY considering consolidation of low margin business. Finally, PAT is likely to decline 24% YoY to ₹ 121 crore dragged by higher interest outgo and lower other income
Bajaj Electricals	BEL is likely to post consolidated revenue growth of ~4% YoY to ~₹ 1347 crore in Q2FY23E led by ~8% YoY growth in consumer product segment to ~₹ 1113 crore. The engineering & project segment revenue is likely to fall ~12% YoY to ₹ 234 crore due to its increased focus on executing high margin orders. EBITDA margin is likely to improve 145 bps QoQ (30 bps YoY) to 7.5% supported by turnaround of project business and improved sales mix in consumer product segment. BEL is likely to report PAT of ~₹ 68 crore in Q2FY23E up 9% YoY, supported by lower interest outgo

Source: Company, ICICI Direct Research

Exhibit 3: Company Specific Views (Consumer Discretionary)

Sheela Foam Sheela Foam is likely to report consolidated revenue growth of 8% YoY to ₹ 849 crore led by its domestic business. The domestic business is likely to grow 11% YoY to ₹ 647 crore led by 8% volume growth in the mattress segment. However, subsidiaries revenue is likely to remain flat owing to slow offtake in its Spanish business. The EBITDA margin is likely to decline 360 bps YoY (up 100 bps QoQ) owing to high raw material cost and lower operating leverage. PAT may see a decline of 21% YoY to ~₹ 61 crore, tracking lower EBITDA margin and higher depreciation charges

Voltas Voltas' consolidated revenue is likely to see a muted growth of 5% YoY to ₹ 1766 crore on a higher base and slow execution of EMPS orders. The unitary cooling product (UCP) division is likely to see subdued growth of 6% YoY to ₹ 1068 crore on a higher base and slower offtake of large appliances in the rural regions. The EBITDA margin is likely to remain under pressure (down by 51 bps YoY) to 7.1% owing to limited price hikes and low operating leverage. Finally, PAT is likely to decline ~8% YoY to ~₹ 96 crore tracking lower EBITDA margins in Q2FY23

Source: Company, ICICI Direct Research

Exhibit 4: Valuation Matrix

Sector / Company	CMP (₹)	TP(₹)	Rating	M Cap	EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)				RoE (%)			
				(₹ Cr)	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Asian Paints (ASIPAI)	3,350	4,045	Buy	3,21,265	33.4	32.2	47.5	59.1	100.2	104.1	70.5	56.7	65.2	66.3	46.9	38.3	29.6	27.1	36.6	40.2	25.0	23.0	30.4	32.8
Berger Paints (BERPAI)	626	740	Hold	60,803	7.4	8.6	9.9	12.3	84.5	73.0	63.2	50.9	51.0	45.9	40.2	33.2	24.9	23.3	27.6	31.0	21.3	21.2	25.2	27.7
Kansai Nerolac (KANNER)	476	560	Hold	25,653	9.8	6.9	11.6	13.4	48.4	68.5	41.1	35.5	30.4	39.5	25.6	21.9	17.2	12.1	19.5	21.1	13.2	9.2	14.7	15.6
Pidilite Industries (PIDIND)	2,673	3,010	Hold	1,35,735	22.2	23.8	27.8	39.9	120.5	112.5	96.1	67.0	80.5	73.3	64.2	45.7	23.8	22.2	23.9	30.0	20.2	18.8	20.2	25.0
Sheela Foam (SHEFOA)	2,723	3,650	BUY	13,283	48.7	44.5	51.8	65.9	55.9	61.1	52.6	41.3	36.8	42.8	36.6	29.0	24.3	18.0	19.6	22.6	20.1	15.6	16.4	18.8
Bajaj Electricals (BAJELE)	1,205	1,340	BUY	13,839	16.5	10.8	21.0	31.7	73.0	111.2	57.3	38.1	46.4	54.9	37.8	26.4	15.1	13.5	19.6	24.2	10.7	7.8	14.4	18.3
Crompton Greaves(CROGR)	397	415	Hold	24,884	9.8	9.2	8.4	10.5	40.4	43.0	47.4	37.8	33.0	32.4	28.9	23.9	34.4	16.2	16.0	19.7	31.9	24.0	20.5	22.6
Havells India (HAVIND)	1,351	1,650	Buy	84,289	16.7	19.1	19.8	27.5	81.1	70.6	68.4	49.1	53.1	46.7	46.3	34.1	24.9	23.7	24.9	33.5	20.1	19.9	21.2	28.3
Voltas Ltd (VOLTAS)	910	1,075	Hold	30,097	16.0	15.3	18.8	25.1	56.9	59.5	48.3	36.3	46.2	43.2	35.8	27.3	15.0	14.0	17.5	20.3	10.6	9.2	12.6	14.9
Supreme Indus (SUPIND)	2,007	2,510	Buy	25,494	77.0	76.2	78.1	89.0	26.1	26.3	25.7	22.6	19.3	20.1	19.8	17.0	33.1	25.9	24.6	25.4	30.9	25.2	24.2	24.4
Astral Ltd (ASTPOL)	2,266	2,650	Hold	45,520	20.3	24.4	25.8	35.9	111.5	92.8	88.0	63.1	70.0	59.5	52.4	39.9	27.5	26.6	25.5	29.3	21.5	21.0	19.6	23.1

Source: Company, ICICI Direct Research

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