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Weak demand; sequential margin recovery...

The I-direct consumer discretionary (CD) universe is likely to report muted volume offtake of ~2-8% (barring pipe companies) in Q3FY23. The lower volume offtake of paints and FMEG is attributable to unfavourable base, weak rural demand and slow inventory build-up of winter related home appliances. Plastic piping companies, on the other hand, are likely to report strong volume growth of 22-34% YoY, supported by dealer inventory build-up amid stabilising PVC prices. On the margin front, the EBITDA margin is likely to recover ~300 bps QoQ supported by easing raw material prices. However, on a YoY basis, the margin is likely to remain lower by ~100 bps due to higher advertisement expenses and low operating leverage. As a result, universe's bottomline is likely to be flat on a YoY basis. We expect a demand recovery to kick in from Q4 onwards on easing inflationary pressure and fresh inventory build-up of seasonal products.

Tepid rural demand, unfavourable base to hit topline growth

In Q3FY23E, FMEG companies (excluding wires) are likely to report muted volume offtake (of ~2%) due to weak rural demand, slow channel inventory build-up of fans/water heaters & an unfavourable base. Under our coverage, Havells is likely to report revenue growth of 8%, better than 5-6% revenue growth of CGCEL (excluding Butterfly) and Bajaj Electricals. On the paint front, the volume growth of (3-8%) is attributable to strong industrial paint demand led by both automotive and non-automotive demand. Under our coverage, Kansai Nerolac is likely to report overall revenue growth of 8% led by strong industrial paint volume growth of ~16% YoY. However, decorative paints demand is likely to be muted owing to unfavourable base and extended monsoon. On the piping front, Supreme Industries, Astral are likely to report strong volume growth of 34%, 22% YoY, respectively, on a favourable base and dealer inventory build-up.

Subsiding inventory loss to ease EBITDA margin pressure QoQ

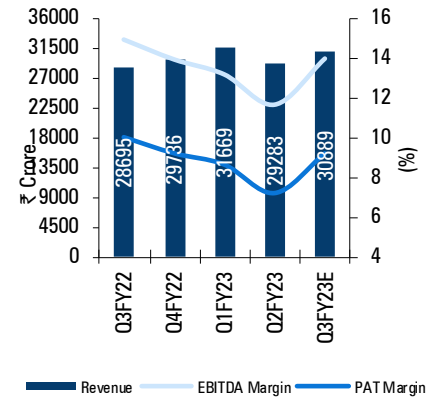
Key raw materials like PVC, TiO2, VAM prices have corrected between 12% and 20% from Q2FY23 level. We believe this will help a sequential recovery in EBITDA margin by ~300 bps. Sequentially, lower RM cost and subsiding inventory losses will result in a sharp recovery of EBITDA margin for piping and adhesive companies (280-755 bps QoQ). FMEG companies (barring Bajaj Electricals) are likely to witness EBITDA margin improvement on a QoQ basis (up in range of 50-220 bps) supported by subsiding inventory losses. However, despite a sequential recovery, EBITDA margins continue to be lower by ~100 bps YoY.

Exhibit 1: Estimates for Q3FY23E: (Consumer Discretionary) (₹ crore)

Company	Revenue		Change (%)		EBITDA		Change (%)		PAT		Change (%)	
	Q3FY23E	YoY	QoQ	Q3FY23E	YoY	QoQ	Q3FY23E	YoY	QoQ	Q3FY23E	YoY	QoQ
Asian Paints	8,988.5	5.4	6.3	1,546.0	0.2	25.9	1,041.6	1.0	29.6			
Berger Paints	2,749.1	7.8	2.9	406.9	3.8	11.8	262.5	3.8	19.6			
Kansai Nerolac	1,838.9	8.6	1.4	230.2	9.6	16.7	142.3	7.4	21.3			
Pidilite Industries	2,964.3	4.0	-1.6	574.5	4.6	14.9	380.2	5.8	12.6			
Supreme Industries	2,097.7	7.8	0.5	306.3	-3.7	108.2	199.3	-18.9	143.0			
Astral Ltd	1,237.1	12.2	5.6	190.5	-3.6	32.3	108.6	-15.1	45.6			
Havells	3,993.3	9.3	8.8	399.3	-9.3	39.1	279.0	-8.8	49.3			
Crompton Greaves Con	1,769.1	25.4	4.1	222.8	10.6	15.3	134.3	-9.4	6.7			
Bajaj Electricals	1,418.5	7.5	15.7	102.1	10.9	6.8	64.6	34.1	4.2			
V-guard	1,015.8	5.0	3.0	79.2	-8.7	9.0	51.2	-5.1	17.2			
Voltas Ltd	1,946.2	8.5	10.1	148.2	-4.8	47.0	102.0	5.6	LP			
Sheela Foam	870.1	-1.3	20.5	105.6	11.2	35.0	69.8	4.3	31.6			
Total	30,888.6	7.6	5.5	4,311.8	0.7	26.5	2,835.3	-1.2	35.0			

Source: Company, ICICI Direct Research

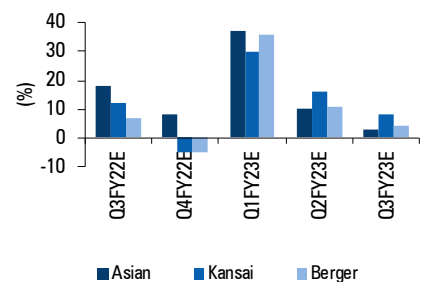
Topline & Profitability (Coverage Universe)



EBITDA margin (%) movement

EBITDA margin	Q3'22	Q4'22	Q1'23	Q2'23	Q3'23
Asian Paints	18.1	18.3	18.1	14.5	17.2
Berger Paints	15.4	15.8	14.7	13.6	14.8
Kansai Ner	12.4	5.9	13.1	10.9	12.5
Pidilite Ind	19.3	16.0	17.1	16.6	19.4
Supreme Ind	16.3	15.3	12.2	7.1	14.6
Astral Poly	17.9	15.6	14.2	12.3	15.4
Havells	12.1	11.8	8.5	7.8	10.0
CGCEL	14.3	14.8	11.8	11.4	12.6
Bajaj Ele	7.0	4.7	6.1	7.8	7.2
V-Guard	9.0	10.5	8.1	7.4	7.8
Voltas	8.7	9.8	6.4	5.7	7.6
Sheela Foam	10.8	9.4	9.0	10.8	12.1

Volume change of paint companies



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Exhibit 2: Company Specific Views (Consumer Discretionary)

Company	Remarks
Asian Paints	Asian Paints is likely to report muted revenue growth of ~5% YoY to ~₹ 8989 crore in Q3FY23 owing to lower volume offtake. We believe, volume growth is likely to be lower at ~3% YoY in Q3FY23 (three year CAGR ~17%) due to higher base and lower rural demand. On the margin front, benefits of lower raw material prices are likely to get offset by inferior product mix resulting flattish gross margin YoY (up 80 bps QoQ). The EBITDA margin is likely to decline ~90 bps YoY at 17%, mainly due to higher advertisement expenses and low operating leverage. The company is likely to report flattish PAT of ₹ 1042 crore YoY tracking lower EBITDA margin
Berger Paints	Consolidated sales are likely to increase ~8% YoY to ~₹ 2749 crore supported by volume growth of 5% YoY (three year CAGR 16%). We believe the volume growth will be largely driven by industrial paints segment (~20% of total volume). However, decorative segment volume growth is likely to be muted owing to higher base and lower rural demand. On the margin front, the EBITDA margin is likely to decline ~57 bps YoY (up 117 bps QoQ) to ~14.8% due to low operating leverage. As a result, the company is likely to report a marginal PAT growth of 4% YoY to ₹ 263 crore in Q3
Kansai Nerolac	Kansai is likely to report revenue growth of 8.6% YoY to ~₹ 1839 crore on a lower base of last year and rebound in industrial paint demand. We believe the overall volume growth of ~8% YoY will be driven by industrial paints segment (up ~16%) amid recovery in automotive demand. Decorative paint volume is likely to grow albeit at a slow pace of ~2% YoY mainly due to lower rural demand. On the margin front, we build in EBITDA margin of 12.5% (up 165 bps QoQ, 10 bps YoY) supported by lower raw material costs and improved operating leverage (in industrial paints). Further, PAT is likely to increase ~7% YoY to ~₹ 142 crore tracking sales growth
Pidilite Industries	Revenue growth is likely to be muted at ~4% YoY to ~₹ 2964 crore in Q3FY23 owing to higher base and slower volume offtake in consumer & bazaar (C&B) segments. The C&B and B2B segment is likely to report revenue growth of ~4%, 6% YoY to ₹2345 crore, ₹ 653 crore, respectively. The EBITDA margin is likely to improve 12 bps YoY (+278 bps QoQ) to 19.4% supported by lower raw material costs. PAT is likely to increase 6% YoY (+13% QoQ) at ₹ 380 crore, tracking improved EBITDA margin
Supreme Industries	Supreme Industries' Q3FY23 consolidated revenue is likely to increase 8% YoY to ₹ 2098 crore led by overall volume growth of ~26%. Segment wise, piping segment volume is likely to increase by ~34% YoY supported by favourable base and channel inventory filling amid stabilising PVC prices. However, strong volume growth is expected to be partially offset by lower realisations thereby restricting revenue growth at 9% YoY to ~₹ 1254 crore. The other segments packaging, industrial and consumer product segments are likely to see revenue growth of 6.7%, 7.3% and 1% YoY, respectively, on a favourable base. We believe EBITDA margin is likely to see a sharp recovery QoQ by 755 bps (down 175 bps YoY) to 14.6% supported by subsidising inventory losses. PAT is likely to see recovery on a QoQ basis to ₹ 199 crore (up 143% QoQ, down ~19% YoY) tracking EBITDA margins and lower revenues from associates
Astral	Astral's consolidated revenue is likely to increase by ~12% YoY to ~₹ 1237 crore in Q3FY23E on a favourable base and consolidation of new business. The piping segment revenue is likely to increase by ~6% YoY to ₹ 891 crore led by volume growth of 22% YoY. A sharp fall in PVC prices from its peak (~50% FY23 YTD) is likely to keep piping segment realisation under check. The adhesive & paint segment revenue is likely to increase by 28% YoY to ₹ 335 crore supported by consolidation of paint business. On the margin front, EBITDA margin to recover on a QoQ basis by 310 bps (down 252 bps YoY) to 15.4% tracking lower inventory losses. PAT is likely to increase by ~46% QoQ (down 15% YoY) to ₹ 109 crore tracking sequential EBITDA margin improvement
Havells India	Havells's consolidated revenue is likely to increase by ~9% YoY to ~₹ 3993 crore in Q3FY23 supported by ~11% and ~12% YoY revenue growth in cable and Lloyd division, respectively. We believe cable segment revenue growth is attributable to higher government capex while Lloyd sales growth is attributable to new product launches and market share gains. The ECD and switchgear revenues are likely to increase albeit a slow pace of 10% and 9% YoY, respectively, supported by price hikes. EBITDA margin is likely to decline ~210 bps YoY to ~10% dragged by low operating leverage. PAT may decline by ~9% YoY to ₹ 279 crore tracking lower EBITDA margins
Crompton Greaves Consumer	Consolidated revenue is likely to increase ~25% YoY to ~₹ 1769 crore in Q3FY23E supported by consolidation of Butterfly business. The core business (ECD + lighting) is likely to see revenue growth of 5% YoY to ~₹ 1485 crore supported by price hikes and new product launches. The EBITDA margin is likely to decline 170 bps YoY (up 120 bps QoQ) to ~13% YoY due to low operating leverage and high advertisement cost. PAT is likely to decline by ~9% YoY to ₹ 134 crore dragged by higher interest outgo

Source: Company, ICICI Direct Research

Exhibit 3: Company Specific Views (Consumer Discretionary)

Bajaj Electricals (BEL)	<p>BEL is likely to post consolidated revenue growth of 7.5% YoY to ~₹ 1419 crore in Q3FY23E led by ~6% YoY growth in consumer product segment to ~₹ 1149 crore. The engineering & project segment revenue is likely to increase by ~13% YoY to ₹ 270 crore due to a pick-up in executions of new orders. EBITDA margin is likely to remain flat on YoY basis at 7.2% as benefit of lower RM costs will be offset by higher advertisement & promotional activities. PAT is likely to increase by 34% YoY to ~₹ 65 crore due to one-time exceptional loss in the base period and lower interest outgo YoY</p>
V-Guard	<p>V-Guard is likely to report price led revenue growth of ~5% YoY to ₹ 1016 crore in Q3FY23E. However, volume growth is likely to remain under pressure due to lower rural demand. Lower demand of fan/water heaters and higher base of last year. Segment wise, Electronics, electricals and CD segment are likely to see revenue growth of ~8%, 3% and 6% YoY to ₹ 215 crore, ₹ 442 crore and ₹ 357 crore, respectively. The EBITDA margin is likely to decline ~120 bps YoY to 7.8% due to low operating leverage. As a result, PAT is likely to decline by 5% YoY to ~₹ 51 crore</p>
Sheela Foam	<p>Sheela Foam is likely to report a flattish revenue of ₹ 870 crore mainly due to lower volume offtake of mattresses in India and demand pressure in Europe. The home care revenue (India) is likely to decline by 5% YoY to ₹ 492 crore dragged by 7% dip in mattresses volumes amid continuous demand weakness. The technical foam segment is likely to see revenue growth of 19% YoY to ₹ 157 crore supported by favourable base and strong demand from auto OEMs. Spanish business is likely to report revenue decline of 17% amid lower exports demand. The EBITDA margin is likely to increase by 137 bps YoY to 12.1% mainly due to lower RM costs. PAT may see a marginal improvement of 4% YoY to ~₹ 70 crore tracking increased EBITDA margin</p>
Voltas	<p>In Q3FY23, Voltas' consolidated revenue is likely to increase by 8.5% YoY to ₹ 1946 crore led by 9% revenue growth in EMPS segment to ₹ 601 crore supported by healthy order book. The unitary cooling product (UCP) division is likely to report revenue growth of 8% YoY to ₹ 1182 crore mainly due to pricing action take during H1CY22. However, the volume offtake was impacted by lower rural demand. The EBITDA margin is likely to decline by 106 bps YoY to 7.6% higher discounts and low operating leverage. Finally, PAT is likely to see a marginal growth of ~6% YoY to ~₹ 102 crore, mainly tracking topline growth and higher other income</p>

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)	2,978	3,685	Buy	2,85,590	33.4	32.2	38.8	53.4	89.1	92.6	76.8	55.7	57.9	58.9	50.8	37.8	29.6	27.1	31.2	38.8	25.0	23.0	26.3	32.2
Berger Paints (BERPAI)	568	670	Hold	55,170	7.4	8.6	10.2	12.1	76.6	66.2	55.6	46.9	46.2	41.6	35.1	30.2	24.9	23.3	28.7	30.8	21.3	21.2	25.8	27.2
Kansai Nerolac (KANNER)	419	515	Hold	22,581	9.8	6.9	10.4	13.1	42.6	60.3	40.4	32.1	26.8	34.8	24.7	19.8	17.2	12.1	17.3	20.0	13.2	9.2	13.4	15.2
Pidilite Industries (PIDIND)	2,522	2,965	Hold	1,28,067	22.2	23.8	30.9	43.2	113.7	106.1	81.6	58.3	75.9	69.1	54.6	40.0	23.3	21.7	25.6	31.0	19.6	18.4	21.4	25.5
Sheela Foam (SHEFOA)	1,240	1,659	Buy	12,097	24.4	22.3	25.4	32.9	50.9	55.7	48.8	37.6	33.5	39.1	33.7	25.8	24.3	18.0	19.8	23.5	20.1	15.6	16.2	18.8
Bajaj Electricals (BAJELE)	1,196	1,275	Hold	13,736	16.5	10.8	23.5	33.1	72.5	110.4	50.9	36.1	46.1	54.5	33.3	25.0	15.1	13.5	22.4	25.3	10.7	7.8	15.8	18.7
Crompton Greaves(CROGR)	338	415	Hold	21,186	9.8	9.2	8.9	11.1	34.4	36.6	37.9	30.4	27.9	27.6	24.5	20.3	34.4	16.2	16.6	20.5	31.9	24.0	21.7	23.4
Havells India (HAVIND)	1,192	1,565	Buy	74,655	16.7	19.1	17.4	27.1	71.5	62.5	68.5	44.0	46.9	41.3	45.6	30.6	24.9	23.7	22.7	33.9	20.1	20.0	19.2	28.8
V-Guard Ind (VGUARD)	259	310	Buy	11,093	4.7	5.3	5.4	7.9	54.9	48.6	48.3	33.0	34.7	32.7	31.1	20.2	23.9	21.2	23.7	25.4	16.7	16.2	17.8	22.9
Voltas Ltd (VOLTAS)	815	1,005	Hold	26,955	16.0	15.3	16.1	23.3	51.0	53.3	50.6	35.0	41.3	38.6	37.5	26.7	15.0	14.0	16.5	20.3	10.6	9.2	10.9	14.2
Supreme Indus (SUPIND)	2,450	2,600	Buy	31,122	77.0	76.2	61.7	77.6	31.8	32.1	39.7	31.6	23.6	24.6	27.2	21.5	33.1	25.9	22.4	26.6	30.9	25.2	20.1	23.1
Astral Ltd (ASTPOL)	2,060	2,275	Buy	41,382	20.3	24.4	22.1	32.7	101.4	84.4	93.2	63.0	63.6	54.1	53.3	40.6	27.5	26.6	23.3	27.7	21.5	21.0	17.3	22.0

Source: Company, ICICI Direct Research

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