

April 8, 2023

## Slow quarter...

The I-direct consumer discretionary (CD) universe's revenue is likely to grow albeit at a slow pace of 10% YoY led by paints and large appliances categories. On a favourable base, paints players are likely to report volume growth in the range of 11-13% led by decorative paints and inventory build-up at dealer's level. On the FMEG front, large appliances players like Havells and Voltas are likely to report revenue growth in the range of 12-13% YoY led by strong AC demand. However, demand for small appliances remained muted due to higher channel inventory (in the fan segment) and lower rural demand. For plastic piping companies, volume growth of 11-12% YoY is backed by strong demand for plumbing products. On the margin front, the EBITDA margin is likely to recover ~100 bps QoQ supported by easing raw material prices and positive operating leverage. However, on a YoY basis, the margin is likely to remain flat due to higher A&P spends. We believe easing of inflationary pressure, rationalising channel inventory and pick up in construction activities will be key demand drivers for discretionary products going forward.

## Favourable base, seasonal product demand to drive topline

In Q4FY23E, paint companies are likely to report revenue growth in the range of 10-12% YoY supported by decorative volume growth of ~11-13% on a favourable base and inventory build-up at dealer's level. However, we believe realisation growth is likely to remain muted owing to higher demand for lower end products. On the FMEG front, Havells and Voltas are likely to report strong revenue growth of 12% and 13%, respectively, supported by strong demand for air conditioners in Q4. However, small appliances segment (fans, kitchen appliances, etc) are likely to see muted volume growth amid weak rural demand, slow channel inventory build-up of fans and an unfavourable base. Under our coverage, CGCEL (excluding Butterfly) and Bajaj Electricals are likely to report revenue growth in the range of 5-6%. On the piping front, Supreme Industries, Astral are likely to report volume growth in the range of 11-12%, respectively, supported by strong demand for plumbing products.

## Higher A&P spend restricts margin expansion YoY

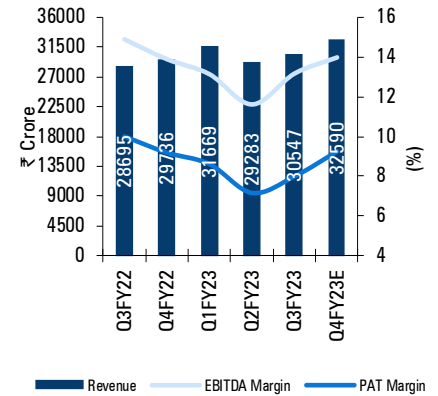
Key raw materials like PVC, TiO2, VAM prices have corrected between 16% and 49% on a YoY basis. However, benefit of lower RM cost will be partially offset by higher advertisement and promotional expense, resulting in flattish margin on a YoY basis. However, coverage universe is expected to report sequential recovery in EBITDA margin by ~100 bps supported by subsiding inventory losses and positive operating leverage.

Exhibit 1: Estimates for Q4FY23E: (Consumer Discretionary) (₹ crore)

Company	Revenue			EBITDA			PAT		
	Q4FY23E	YoY	QoQ	Q4FY23E	YoY	QoQ	Q4FY23E	YoY	QoQ
Asian Paints	8,679.3	10.0	0.5	1,655.9	14.7	2.8	1,111.3	27.1	1.3
Berger Paints	2,456.9	12.3	-8.8	370.3	6.9	5.9	230.4	4.6	14.5
Kansai Nerolac	1,558.7	10.3	-9.2	175.4	111.4	-7.0	105.9	331.8	-5.6
Pidilite Industries	2,764.2	10.3	-7.8	465.6	16.1	-6.1	290.1	14.0	-5.7
Supreme Industries	2,451.8	-4.1	6.1	367.8	-6.0	21.2	261.9	-19.1	24.7
Astral Ltd	1,533.7	10.3	21.0	234.9	8.4	26.0	146.6	1.7	54.4
Havells	4,965.1	12.4	20.5	558.5	7.3	31.8	380.8	7.9	34.1
Crompton Greaves Con	1,854.7	19.8	22.3	207.2	-9.4	36.0	122.2	-30.8	43.3
Bajaj Electricals	1,300.6	-2.5	-12.4	89.6	41.9	-11.9	56.9	47.3	-6.8
V-guard	1,152.4	8.9	17.5	98.8	-11.0	50.0	63.9	-28.7	62.7
Voltas Ltd	3,023.4	13.4	50.7	238.0	-8.8	211.6	174.3	-4.6	LP
Sheela Foam	848.9	11.2	3.9	103.0	43.4	36.0	70.0	42.1	15.6
<b>Total</b>	<b>32,589.8</b>	<b>9.6</b>	<b>6.7</b>	<b>4,565.0</b>	<b>10.3</b>	<b>13.2</b>	<b>3,014.2</b>	<b>10.4</b>	<b>23.4</b>

Source: Company, ICICI Direct Research

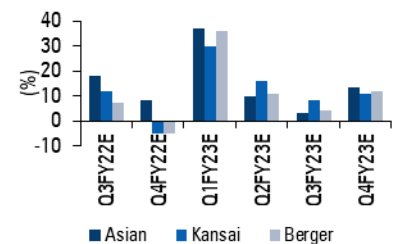
## Topline & Profitability (Coverage Universe)



## EBITDA margin (%) movement

EBITDA margin	Q4'22	Q1'23	Q2'23	Q3'23	Q4'23
Asian Paints	18.3	18.1	14.5	18.7	19.1
Berger Paints	15.8	14.7	13.6	13.0	15.1
Kansai Ner	5.9	13.1	10.9	11.0	11.2
Pidilite Ind	16.0	17.1	16.6	16.5	16.8
Supreme Ind	15.3	12.2	7.1	13.1	15.0
Astral Poly	15.6	14.2	12.3	14.7	15.3
Havells	11.8	8.5	7.8	10.3	11.2
CGCEL	14.8	11.8	11.4	10.1	11.2
Bajaj Ele	4.7	6.1	7.8	6.9	6.9
V-Guard	10.5	8.1	7.4	6.7	8.6
Voltas	9.8	6.4	5.7	3.8	7.9
Sheela Foam	9.4	9.0	10.8	9.3	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 revenue growth of ~10% YoY to ~₹ 8679 crore in Q4FY23E supported by volume growth of ~13% YoY. We believe volume growth is on the back of a favourable base and recovery in demand for decorative paints. On the margins front, we build in EBITDA margin expansion of 79 bps YoY to 19.1% on account of improvement in gross margin amid benign raw material prices. The company is likely to report PAT growth of ~27% YoY to ~₹ 1111 crore tracking improvement in EBITDA margin and base effect. Base period included one-time exceptional loss of ₹ 116 crore
Berger Paints	On a lower base, consolidated revenue of Berger Paints is likely to increase ~12.3% YoY to ~₹ 2457 crore. We believe the company will report volume growth of ~12% YoY largely driven by increased demand for decorative paints amid easing inflationary pressure. On the margin front, benefit of lower raw material prices is likely to be partially offset by increased advertisement & other expenses. As a result, EBITDA margin is likely to see a decline of 76 bps YoY (up ~209 bps QoQ) to ~15.1%. The company is likely to report flattish PAT of ~₹ 230.4 crore as a result of higher interest outgo and lower EBITDA margin
Kansai Nerolac	Kansai is likely to report revenue growth of ~10% YoY to ~ ₹ 1559 crore on a lower base of last year. We believe the overall volume growth of ~11% YoY will be driven by ~12% YoY growth in decorative paints ~10% YoY growth in industrial paints amid recovery in demand. On the margin front, gross margin is likely to see an improvement of 267 bps YoY supported by lower raw material costs. EBITDA margin is likely to improve by 538 bps YoY (flat QoQ) led by better gross margin and base effect. Base period included one-time expense of ₹ 24 crore. As a result, PAT is likely to increase ~332% YoY (down ~6% QoQ) to ~₹ 106 crore
Pidilite Industries	Pidilite is likely to report revenue growth of ~10% YoY to ~₹ 2764 crore in Q4FY23E led by recovery in volume offtake in both Consumer & Bazaar (C&B) and B2B segments. The C&B and B2B segment is likely to report revenue growth of ~10% and ~9% YoY to ~₹ 2102 crore and ~₹ 706 crore, respectively, amid better demand supported by a pick-up in construction activities. The EBITDA margin is likely to improve 84 bps YoY to 16.8% supported by lower raw material costs. PAT is likely to increase 14% YoY at ~₹ 290 crore, tracking improved EBITDA margin
Supreme Industries	Despite strong volume growth of ~11% YoY, the company is likely to post a flattish consolidated revenue of ₹ 2452 crore in Q4FY23E due to lower realisation amid sharp fall in PVC prices. Piping segment sales volume is likely to increase 12% YoY supported by channel inventory filling amid stabilising PVC prices. However, volume growth will be partially offset by lower realisations thereby resulting decline in segment revenue by ~9% YoY to ~₹ 1647 crore. Other segments- Packaging, Industrial and Consumer segments are likely to see revenue growth of ~10%, ~8% and ~2% YoY, respectively, on a favourable base and change in product mix. We believe EBITDA margin will see a sharp recovery QoQ by 187 bps (flat YoY) to 15% supported by lower raw material costs. PAT is likely to see recovery on a QoQ basis to ~₹ 262 crore (up~25% QoQ, down~19% YoY) tracking EBITDA margin and lower profit from associates
Astral	Astral's consolidated revenue is likely to increase ~10% YoY to ~₹ 1534 crore in Q4FY23E supported by consolidation of new business. The piping segment revenue is likely to increase ~6% YoY to ₹ 1144 crore led by volume growth of 12% YoY. Sharp fall in PVC prices (down 32% YoY) is likely to keep piping segment realisation under check. The adhesive & paint segment revenue is likely to increase 27% YoY to ₹ 390 crore supported by consolidation of paint business. On the margin front, EBITDA margin is expected to recover QoQ by 60 bps (flat YoY) to 15.3% tracking lower inventory losses. PAT is likely to increase ~54% QoQ (flat YoY) to ₹ 147 crore tracking sequential revenue growth and EBITDA margin improvement
Havells India	Havell's consolidated revenue is likely to increase by ~12% YoY to ~₹ 4965 crore in Q4FY23E supported by ~11% and ~22% YoY revenue growth in cable and Lloyd division, respectively. We believe a revival in government capex and price hike of ~5% will help drive cable revenues. On the Lloyd front, sales growth is attributable to new product launches and market share gains. ECD and switchgear revenues are likely to increase albeit at a slow pace of 9% each YoY supported by price hikes. EBITDA margin is likely to decline 55 bps YoY to ~11.2% dragged by higher A&P and other expenses. PAT is likely to increase ~8% YoY to ₹ 381 crore tracking the company's topline growth

Source: Company, ICICI Direct Research

**Exhibit 3: Company Specific Views (Consumer Discretionary)**

Crompton Greaves Consumer	<p>CGCEL's consolidated revenue is likely to increase ~20% YoY to ~₹ 1854 crore in Q4FY23E supported by consolidation of Butterfly. The core business (ECD + lighting) is likely to see revenue growth of 6% YoY to ~₹ 1644 crore on a favourable base and new product launches in the fan segment. The EBITDA margin is likely to decline 361 bps YoY (up 112 bps QoQ) to ~11% YoY due to high advertisement cost. PAT is likely to decline by ~31% YoY to ₹ 122 crore tracking lower EBITDA margins and sharp increase in interest costs (up ~3x YoY)</p>
Bajaj Electricals	<p>Bajaj Electricals is likely to post consolidated revenue of ~₹ 1301 crore in Q4FY23E down ~3% YoY, dragged by engineering &amp; project (E&amp;P) segment. The engineering &amp; project segment revenue is likely to decline ~28% YoY to ₹ 213 crore due to slow execution of new orders. On the ECD front (including lightings), the segment revenue is likely to increase 5% YoY to ₹ 1087 crore supported by new product launches. EBITDA margin is likely to increase 216 bps YoY to ~7% supported by lower RM costs. PAT is likely to increase 47% YoY to ~₹ 57 crore tracking EBITDA margin expansion in Q4</p>
V-Guard	<p>V-Guard is likely to report revenue growth of ~9% YoY to ₹ 1152 crore in Q4FY23E supported by consolidation of Sunflame. The consumer durable segment revenue is likely to increase 22% YoY to ~₹ 360 crore. However, electronics and electricals segments are likely to grow albeit a slow pace of 6% and 3% YoY to ₹ 262 crore and ₹ 530 crore, respectively, tracking lower offtake of digital UPS and pumps. The EBITDA margin is likely to decline ~190 bps YoY to 8.6% due to low operating leverage and higher advertisement expenses. As a result, PAT is likely to decline ~29% YoY to ~₹ 64 crore tracking lower EBITDA margin</p>
Sheela Foam	<p>On a favourable base, Sheela Foam is likely to report revenue growth of ~11% YoY to ~₹ 849 crore supported by recovery in mattress segment. The home care (India) segment is likely to report revenue growth of ~14% YoY to ~₹ 494 crore supported by favourable base and recovery in demand for mattresses. The technical foam segment is likely to see revenue growth of ~12.6% YoY led by strong demand from auto OEMs. Focus on market share gains in Australian business is likely to see revenue growth of 5% to ~₹ 116 crore led by improvement in demand amid higher spending on home improvement in the region. Spanish business is likely to see flattish revenue growth at ~₹ 91 crore amid slowdown in exports. On the margin front, we expect EBITDA margin to increase 272 bps YoY to 12.1% mainly due to lower RM costs. As a result, PAT is likely to increase ~42% YoY to ~₹ 70 crore tracking better EBITDA margin</p>
Voltas	<p>In Q4FY23E, Voltas' consolidated revenue is likely to increase ~13% YoY to ₹ 3023 crore led by strong growth in the unitary cooling product (UCP) division. The UCP segment revenue is likely to increase 17% YoY to ₹ 2127 crore on a favourable base and strong seasonal demand. The EMPS and EPS segment revenues are likely to increase 6% and 8% YoY to ₹ 733 crore and ₹ 133 crore, respectively. The EBITDA margin is likely to decline ~190 bps YoY to 7.9% due to higher discounts and advertisement &amp; promotional expenses. Finally, PAT is likely to decline 5% YoY to ~₹ 174 crore tracking lower EBITDA margin</p>

Source: Company, ICICI Direct Research

Exhibit 4: Valuation Matrix

Sector / Company	CMP (₹)	TP(₹)	Rating	M Cap (₹ Cr)	EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)				RoE (%)			
					FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E
Asian Paints (ASIPAI)	2,810	3,180	Hold	2,68,808	32.2	41.3	49.5	53.3	87.1	67.8	56.6	52.6	55.4	45.3	37.8	34.1	27.1	32.6	33.7	31.8	23.0	27.5	27.7	25.3
Berger Paints (BERPAI)	597	600	Hold	55,947	8.6	9.4	11.1	12.6	67.2	61.3	52.1	45.7	42.2	38.2	33.1	29.1	23.3	26.9	29.2	30.1	21.2	24.3	26.0	26.2
Kansai Nerolac (KANNER)	392	435	Hold	20,802	6.9	9.2	11.2	13.4	55.6	41.8	34.5	28.8	32.0	25.6	21.3	18.0	12.1	15.6	17.6	19.1	9.2	12.1	13.5	14.7
Pidilite Industries (PIDIND)	2,332	2,535	Hold	1,19,435	23.8	26.2	35.4	40.6	99.0	89.9	66.5	57.9	64.4	58.5	44.7	39.2	21.7	22.5	27.3	28.5	18.4	18.8	22.6	23.4
Sheela Foam (SHEFOA)	1,057	1,450	Buy	9,707	22.3	20.1	29.0	36.2	44.7	49.6	34.3	27.5	31.5	34.3	24.4	19.7	18.0	16.3	19.0	23.5	15.6	13.2	15.6	19.4
Bajaj Electricals (BAJELE)	1,049	1,275	Hold	12,656	10.8	19.5	31.1	36.8	101.7	56.6	35.5	30.0	50.2	34.6	25.0	21.1	13.5	20.2	24.6	24.3	7.8	13.5	18.2	18.1
Crompton Greaves(CROGR)	297	335	Hold	18,491	9.2	7.3	9.0	11.3	32.0	40.5	32.9	26.1	24.1	25.2	21.1	17.4	16.2	14.3	17.6	21.4	24.0	18.5	20.5	22.6
Havells India (HAVIND)	1,195	1,420	Buy	72,776	19.1	18.2	26.1	29.6	60.9	63.8	44.5	39.3	40.2	42.4	30.2	26.7	23.7	23.6	30.2	32.0	20.0	19.9	25.3	26.5
V-Guard Ind (VGUARD)	251	310	Buy	10,536	5.3	4.6	6.7	8.9	46.1	53.6	36.6	27.8	31.0	33.8	21.2	17.5	21.2	16.0	22.0	23.5	16.2	14.0	17.0	18.7
Voltas Ltd (VOLTAS)	831	940	Hold	27,219	15.3	5.6	20.7	28.0	53.8	147.8	39.8	29.4	39.0	43.9	29.6	22.1	14.0	15.1	19.2	22.4	9.2	6.9	13.7	16.3
Supreme Indus (SUPIND)	2,614	2,880	Buy	31,414	76.2	63.9	84.6	101.1	32.4	38.7	29.2	24.5	24.9	27.3	20.2	16.5	25.9	22.5	28.0	29.7	25.2	20.7	24.5	25.4
Astral Ltd (ASTPOL)	1,399	1,560	Hold	26,557	24.4	21.4	32.3	42.0	54.2	61.7	40.9	31.5	34.4	34.5	25.9	20.2	26.6	22.6	27.6	30.0	21.0	16.9	21.9	23.7

Source: Company, ICICI Direct Research

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