

June 28, 2022

Margin recovery key monitorable...

The I-direct consumer discretionary universe is likely to report flattish EBITDA margin in FY23E due to a delay in price hikes and change in product mix with recovery kicking in from FY24E. After sharp price hikes (of ~20%) in FY22, coverage companies are likely to go slow on further price hikes in FY23 in fear of any demand destruction and increased risk of down-trading. However, the topline is likely to see ~14% CAGR over FY22-24E (I-direct consumer discretionary universe) led by 8% volume growth. We believe higher government capex, real estate recovery and favourable demographics of India will help drive volume growth for paints, electrical consumer durables and pipes companies, going forward. **Under our coverage universe, we like Asian Paints and Havells India.** We like Asian Paints for its market leadership position in the decorative paints and high earnings growth supported by recovery in EBITDA margin. We also like Havells considering strong growth of its AC and cable & wire business along with margin recovery on improved product mix & cooling metal prices.

Paint, adhesive segment

We believe coverage paint & adhesive companies are likely to report revenue CAGR of 13% over FY22-24E supported by volume growth of ~7-9%. Going forward, we build in normalised EBITDA margin (i.e. pre-Covid level) for paint companies considering growing competitive intensity and input cost pressure. EBITDA margin is likely to recover to its pre-Covid level of ~20% only by FY24E. We believe existing paint companies will have to sacrifice profitability in order to maintain market share. Grasim has announced major capex for its paint division. We believe it can become a meaningful player in paint industry over the long term on the back of its established pan India builder material dealer networks.

Given the sharp stock price correction (~21% from its peak), we revise our rating on market leader Asian Paints to **BUY**. The company is likely to report strong earning CAGR (of ~28%) supported by recovery in EBITDA margin.

Electrical Consumer Durables

After a steep price hike (of ~18%) in FY22, ECD players have slowed down on further price hikes, as they focus to liquidate old inventories. Companies will have to take further price hike of ~7-10% to pass on increased input costs arising due to change in energy norms. Further, they are sensing a possible demand destruction and increased down trading in case of incremental price hikes. We believe while recent price correction in metals (~20% price correction in copper) provides some relief, the same is likely to get offset by low operating leverage and adverse product mix. Hence we build in a flattish EBITDA margin for our coverage universe on YoY basis in FY23E. On the topline front, AC companies are likely to report strong revenue growth of ~30% YoY in FY23E on a favourable base. We are also positive on the cable & wire segment given the sharp dip in copper prices and increased government capex. Havells India is the major player in both segments. At the CMP, we revise our rating from HOLD to **BUY**, valuing the company at 51x FY24E EPS, considering high growth opportunities.

Plastic Piping

We build in volume CAGR of ~15% over FY22-24E attributable to favourable base and higher government capex on its flagship schemes such as Jal Jeevan Mission. The PVC prices (key raw material) were up by ~7% QoQ in Q1FY23, however is ~17% below its peak in Q3FY22. We believe EBITDA margin of coverage companies are likely to be better than its pre-Covid level margin supported by subsiding raw material prices on the back of easing supply concerns, better operating leverage and improved product mix

Sector view: Neutral

Top Picks in Consumer Discretionary Space

Company	CMP (₹/Share)	Target (₹/Share)	Upside	Rating
Asian Paints	2,820	3265	16%	BUY
Havells India	1,101	1300	18%	BUY

Key Highlights

- Sharp increase in crude and metal prices led to increase in key raw material prices of our coverage universe in the range of 9% to 48% YoY during FY22
- Coverage companies have already taken price hike in the range of ~20%. After a sharp price hikes in FY22, coverage companies are likely to go slow on further price hikes in FY23 in the fear of any demand destructions and increased risk of down-trading
- We model coverage universe's topline CAGR of 14% over FY22-24E led by 8% volume growth.
- We believe higher government capex, real estate recovery and favourable demographics of India will help drive volume growth for paints, electrical consumer durables and pipes companies going forward

Recent event & key risks

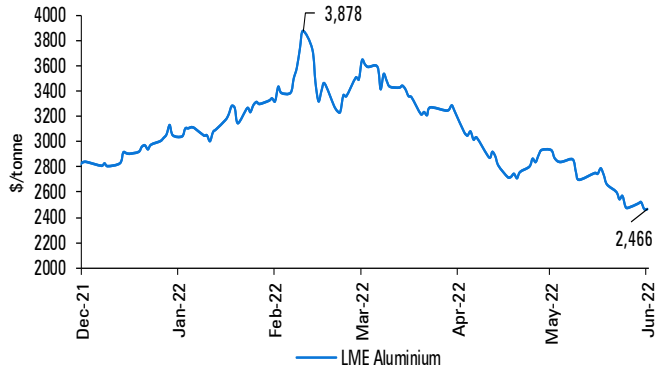
Key Risk: (i) Lower than expected volume offtake due to significant price increase (ii) Substantial decline in raw material prices

Research Analyst

Sanjay Manyal
sanjay.manyal@icicisecurities.com

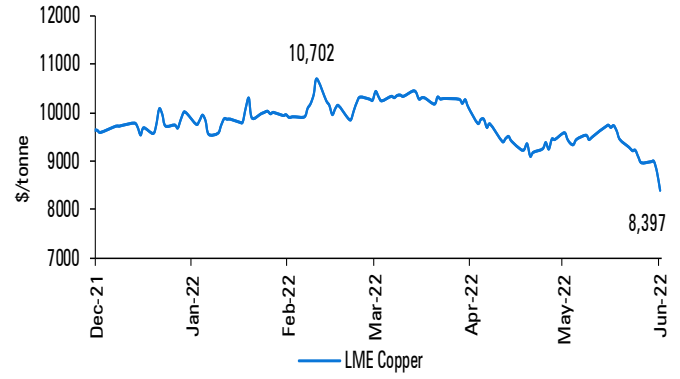
Hitesh Taunk
hitesh.taunk@icicisecurities.com

Exhibit 1: Price movement of aluminium



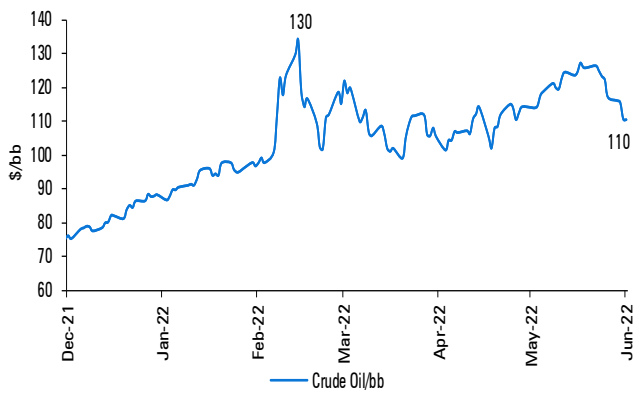
Source: Bloomberg, ICICI Direct Research

Exhibit 2: Price movement of copper



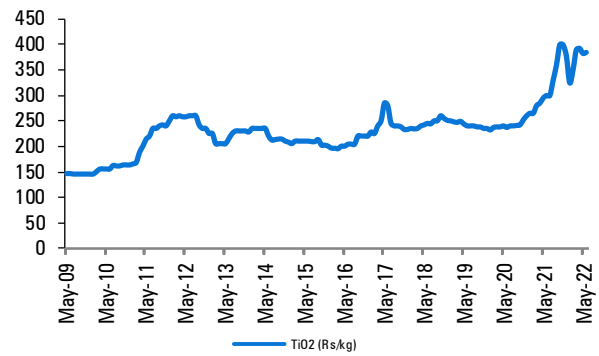
Source: Bloomberg, ICICI Direct Research

Exhibit 3: Price movement of crude oil



Source: Bloomberg ICICI Direct Research

Exhibit 4: Price movement of TiO2



Source: Bloomberg ICICI Direct Research

Top bets in Consumer Discretionary Space

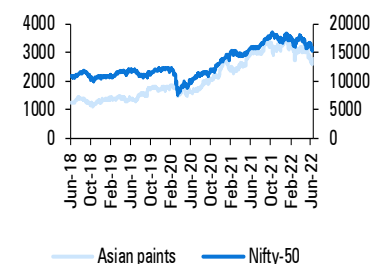
Asian Paints (ASIPAI)

Asian Paints (APL) is India's largest decorative paint company with ~ 50% value market share. The company derives ~98% revenue from the paints business while 2% business comes from the home improvement business (kitchen and bathroom fittings). We like Asian paints for:

- Strong distribution network of 70,000 dealers, 2x more than the No. 2 player
- Repainting represents ~80% of total decorative paint demand. Gradual reduction in repainting cycle would drive future paint demand. Increased focus on the 'water proofing & building chemical' category will continue to drive revenue growth for Asian Paints. Water proofing & building chemical industry is pegged at ₹ 6000 crore vs. ₹ 1.5 lakh crore in China

We model revenue, earnings CAGR of ~14%, ~28%, respectively, in FY22-24E supported by the company's aggressive product launches and continuous expansion in the tier III, IV cities. Further moderation of raw material prices will provide rooms for earnings upgrade. At the CMP of ₹ 2820 (post ~21% price correction from its peak) Asian paints is trading at ~54x FY24E earnings. We value the stock at 62x FY24E EPS to arrive at revised target price of ₹ 3265/Share. We upgrade our rating from HOLD to **BUY**.

Price Chart



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	2,70,438.0
Total Debt (FY22) (₹ Crore)	775.7
Cash & Inv (FY22) (₹ Crore)	2,732.1
EV (₹ Crore)	2,68,481.6
52 week H/L (₹)	3590/2560
Equity capital (₹ Crore)	95.9
Face value (₹)	1.0

Exhibit 5: Financial summary for Asian Paints

(₹ Crore)	FY19	FY20	FY21	FY22	5 Yr CAGR (17-22)	FY23E	FY24E	2 Yr CAGR (22-24E)
Net Sales	19240.1	20211.3	21712.8	29101.3	14.1	33133.0	37847.9	14.0
EBITDA	3765.5	4161.8	4855.6	4803.6	10.0	6096.5	7304.7	23.3
EBITDA Margin (%)	19.6	20.6	22.4	16.5		18.4	19.3	
Net Profit	2213.8	2779.1	3206.8	3084.8	8.9	4128.9	5012.6	27.5
EPS (₹)	23.1	29.0	33.4	32.2		43.05	52.27	
P/E (x)	122.2	97.3	84.3	87.7		65.5	54.0	
Price/Book (x)	28.6	26.7	21.1	19.6		18.6	16.7	
Mcap/Sales (x)	14.1	13.4	12.5	9.3		8.2	7.1	
RoE (%)	23.4	27.4	25.0	23.0		28.4	30.9	
RoCE (%)	28.9	30.5	29.6	27.1		33.3	36.8	

Source: Company, ICICI Direct Research

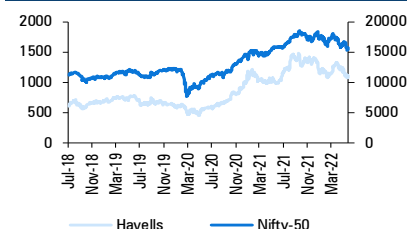
Havells India (HAVIND)

Havells India (HIL) is India's leading electrical appliances & equipment manufacturer with a diversified product portfolio consisting of switchgears, cables, electrical consumer durables and lighting & fixtures. Apart from 'Havells', other major brands include Crabtree, Standard, Reo and Lloyd. We like Havells for:

- In all its business segments, Havells has a strong presence in the organised product category with market share ranging between 6% and 20%
- Robust balance sheet with RoE & RoCE of 20% & 25%, respectively (five-year average), with stringent working capital policy
- Revival in the Lloyd business through new launches and improvement in segment margin
- It aims to increase its town penetration from current 1150 to 2000 and retail touch points from 1.6 lakh to 2.5 lakh over the next five years
- Total ~1.7 crore new houses under PMAY, urbanisation and rising aspiration level will give a significant boost to demand for home appliances

We build in revenue, earnings CAGR of ~13%, 16%, respectively, in FY22-24E. At the CMP of ₹ 1101 (post ~27% price correction from its peak) Havells is trading at ~43x FY24E earnings. We value the stock at 51x FY24E EPS to arrive at revised target price of ₹ 1300/Share. We upgrade our rating from HOLD to **BUY**.

Price Chart



Particulars

Particular	Amount
Market Capitalization (₹ Cr)	68,691.4
Total Debt (FY22) (₹ Cr)	395.5
Cash and Inv (FY22) (₹ Cr)	2,689.3
EV (₹ Cr)	66,397.7
52 week H/L	1504 / 977
Equity capital (₹ Cr)	62.6
Face value (₹)	1.0

Exhibit 6: Financial summary for Havells India

₹ Crore	FY19	FY20	FY21	FY22	5Year CAGR (FY17-22)	FY23E	FY24E	2Year CAGR (FY22-24E)
Net Sales	10067.8	9429.2	10427.9	13888.5	17.8	15725.5	17867.3	13.4
EBITDA	1183.9	1027.4	1565.2	1757.6	16.4	1827.0	2294.1	14.2
EBITDA Margin (%)	11.8	10.9	15.0	12.7		11.6	12.8	
PAT	787.4	733.0	1039.6	1194.7	17.2	1258.8	1604.6	15.9
EPS (₹)	12.6	11.7	16.7	19.1		20.2	25.7	
P/E (x)	87.2	93.7	66.1	57.5		54.6	42.8	
Price/Book Value (x)	16.4	16.0	13.3	11.5		11.7	11.5	
Mcap/Sales	6.8	7.3	6.6	4.9		4.4	3.8	
RoE (%)	18.8	17.0	20.1	19.9		21.5	26.9	
RoCE (%)	25.4	19.6	24.9	23.7		25.5	31.9	

Source: Company, ICICI Direct Research

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Buy: > 15%;

Hold: -5% to 15%;

Reduce: -5% to -15%;

Sell: < -15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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