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Favourable base, strong demand drive topline...

In Q2FY22, companies in the I-direct consumer discretionary universe are likely to report strong revenue growth of ~18% YoY. This is largely supported by a favourable base and demand revival led by easing of lockdown restrictions post the second wave of pandemic. We believe a swift demand recovery aids our coverage companies to cross their pre-Covid-19 level sales in Q2FY22. The home building material companies in the paints and piping segment are likely to report strong revenue growth backed by a pick-up in real estate demand & renovation activity. Paint majors such as Asian Paints & Berger Paints are likely to report strong revenue growth of 21% and 20% YoY led by volume growth of 15% & 14% YoY respectively. On the piping front, Supreme Industries, Astral Poly are likely to report strong revenue growth of 31%, 36% YoY, respectively, supported by favourable base and price hikes. In our electrical consumer durables universe, Havells and Crompton Greaves Consumer are likely to report strong revenue growth of ~15% YoY led by a favourable base and strong demand for kitchen & home appliances. New product launches and upgradation of kitchen/home appliances amid continuance of work from home culture were key triggers for demand growth.

Cost pressure to drag EBITDA margin for universe

Prices of key raw materials such as TiO₂, VAM, PVC and copper witnessed a sharp upward movement in the range of 31-124% YoY in Q2FY22. Although companies have taken price hikes of ~4-25% in Q2FY22 to pass on cost pressures, we believe the same can only partially offset the margin pressure. Further, restoration of key operating costs like advertisement and logistics is likely to drag EBITDA margins by ~270 bps YoY in Q2FY22 for our coverage companies. The paint/adhesive companies are likely to see EBITDA margin contraction in the range of 300-400 bps YoY. Under our coverage universe, Astral and Voltas are likely to see least fall in EBITDA margin by ~50-60 bps YoY mainly due to improved operating leverage.

Bottomline to remain flat except for piping companies

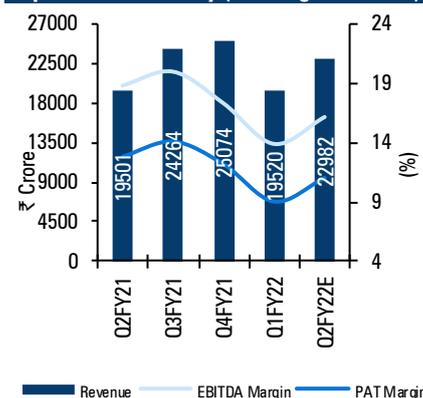
Piping majors like Supreme Industries and Astral Ltd are likely to report strong bottomline growth of 34% and 38% YoY, respectively, led by strong topline growth. Overall, CD coverage universe is likely to see a flattish PAT in Q2FY22 mainly due to lower EBITDA margin.

Exhibit 1: Estimates for Q2FY22E: (Consumer Discretionary) (₹ crore)

Company	Revenue			EBITDA			PAT		
	Q2FY22E	YoY	QoQ	Q2FY22E	YoY	QoQ	Q2FY22E	YoY	QoQ
Asian Paints	6,454.0	20.6	15.6	1,303.7	3.0	42.7	886.0	4.0	54.3
Berger Paints	2,082.0	19.5	15.8	341.4	1.9	43.1	223.3	1.0	59.0
Kansai Nerolac	1,492.2	15.8	14.7	236.5	-8.8	26.4	152.3	-3.9	28.4
Pidilite Industries	2,206.6	17.4	13.9	467.4	-8.8	34.5	318.7	-10.6	46.4
Supreme Industries	1,806.6	31.4	34.6	316.7	23.8	42.7	234.8	34.2	38.0
Astral Ltd	1,014.5	35.8	44.9	189.7	32.1	46.6	121.0	37.6	61.1
Havells	2,800.1	14.2	7.8	394.8	-6.1	11.8	264.6	-18.6	12.9
Crompton Greaves Con	1,389.8	14.6	32.3	194.6	1.7	55.6	148.0	4.5	56.2
Bajaj Electricals	1,246.9	2.4	45.5	95.2	-9.1	NM	53.5	0.7	LP
V-Guard Industries	731.3	17.4	29.4	68.0	-11.0	49.4	43.5	-15.8	70.3
Voltas Ltd	1,758.5	9.1	-1.5	94.9	-3.2	-30.1	83.0	4.1	-32.2
Total	22,982.4	17.9	17.7	3,702.9	1.1	37.2	2,528.6	1.1	44.6

Source: Company, ICICI Direct Research

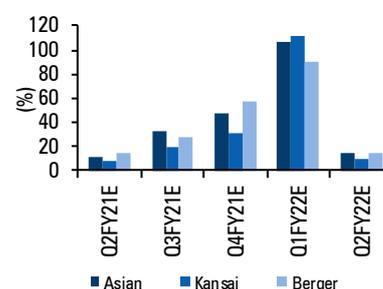
Topline & Profitability (Coverage Universe)



EBITDA margin (%) movement

EBITDA margin	Q2'21	Q3'21	Q4'21	Q1'22	Q2'22
Asian Paints	23.6	26.3	19.8	16.4	20.2
Berger Paints	19.2	19.6	16.6	13.3	16.4
Kansai Nerolac	20.1	19.7	15.3	14.4	15.8
Pidilite Ind	27.3	27.9	20.6	17.9	21.2
Supreme Ind	18.6	21.8	24.5	16.5	17.5
Astral Poly	19.2	21.4	22.6	18.5	18.7
Havells	17.2	16.0	15.2	13.6	14.1
Bajaj Ele	8.6	9.8	5.8	0.1	7.6
CGCEL	15.8	14.8	15.0	11.9	14.0
V-guard	12.3	13.8	12.9	8.1	9.3
Voltas	6.1	7.3	12.5	7.6	5.4
Overall	18.8	20.0	17.3	13.8	16.1

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 see consolidated revenue growth of 21% YoY to ₹ 6454 crore led by ~15% volume growth in Q2FY22E. The company has taken price hike of ~5% in Q1FY22. Pick up in construction activities post ease in lockdown restrictions and inventory build up at dealer levels in the fear of price hikes helped drive volume growth in Q2FY22. On the margin front, sharp rise in input prices along with restoration of advertisement and travelling expenses are likely to weigh on EBITDA margin as the same is likely to decline by 345 bps YoY to 21%. PAT is likely to increase by 4% YoY at ~ ₹ 886 crore mainly due to strong sales growth
Astral	Astral's consolidated sales will see growth of ~36% YoY to ~₹ 1015 crore in Q2FY22 on a favourable base and dealer additions in the adhesive business. Piping segment likely to report revenue growth of 40% YoY to ₹ 770 crore led by high realisations. Adhesive segment revenues is likely to increase 20% YoY to ₹ 236 crore in Q2FY22. We believe, improved operating leverage in the adhesive business will help partially offset higher input costs. Hence, EBITDA margin fall will be limited to 50 bps YoY at 18.7%. Finally, strong sales growth will drive PAT up by 38% YoY to ₹ 121 crore
Berger Paints	Berger's consolidated sales is likely to increase by ~20% YoY to ~₹ 2082 crore led by ~14% YoY volume growth in Q2FY22. Water proofing and construction chemical business helped drive demand as construction activities continued even in the lockdown. On the margin front, higher input prices and restoration of key operational costs are likely to drag EBITDA margin by 284 bps YoY to 16.4%. As a result, PAT is likely to remain flat on a YoY basis to ₹ 223 crore.
Bajaj Electricals	BEL is likely to post ~14% YoY revenue growth in its consumer product division to ~₹ 902 crore in Q2FY22E. This will be largely driven by price hike (of ~10% YTD) and festive demand. On the project business, company's strategy to rationalise exposure in the power distributor segment may result in ~19% YoY fall in revenue to ₹ 345 crore. Company is likely to post revenue growth of 2% YoY to ₹ 1247 crore. On the margin front, the EBITDA margin is likely to decline by 100 bps YoY to 7.6% due to sharp rise in raw material prices and higher other expenses. Finally, company is likely to report flattish PAT at ~₹ 54 crore on YoY basis
Crompton Greaves Consumer	CGCEL is likely to see revenue growth of 15% YoY at ₹ 1390 crore in Q2FY22 led by 16% and 14% YoY growth in lighting and consumer durable segment to ₹ 325 crore and ₹ 1064 crore respectively. New launches and upgradation of home appliances amid continue work from home culture likely to drive demand of home appliances. The company is likely to witness ~170 bps decline in EBITDA margin YoY to 14% mainly due to higher raw material prices and restoration of key operating costs. Finally, PAT is likely to increase by 4% YoY to ₹ 148 crore supported by savings in interest outgo
Havells India	Havell's topline is likely to increase by 14% YoY to ₹ 2800 crore led by 16% YoY increase in revenues of each consumer durable and Lloyd business to ₹ 674 crore and ₹ 326 crore respectively. We believe continuation of construction activities during the pandemic has helped drive demand for wire & cable and switchgear segment up by 15% and 12% YoY respectively. The EBITDA margin is likely to decline by 306 bps YoY to 14%. PAT is likely to decline by 19% YoY to ₹ 265 crore due to sharp decline in other income (base period includes additional other income of ₹ 43 crore due to sale of asset)
Kansai Nerolac	Kansai is likely to report revenue growth of ~16% YoY to ₹ 1492 crore led by volume growth of 9% YoY in Q2FY22. While decorative paint volume is likely to increase by 15% YoY, the tepid demand of industrial paints (mainly automotive) is likely to delay overall volume recovery for the company. On the margin front, we believe high raw material prices coupled with lower operating leverage in the industrial paint is likely to drag overall EBITDA margin down by 429 bps YoY to ~16%. As a result, PAT is likely to decline by ~4% YoY to ₹ 152 crore
Pidilite Industries	Pidilite is likely to report revenue growth of 17% YoY to ~₹ 2207 crore in Q2FY22 supported by pick up in construction activity and consolidation of new business (Araldite). Further, sharp increase in raw material prices (VAM prices almost doubled on a YoY basis) coupled with higher advertisement expenses will lead to decline in EBITDA margin by ~610 bps YoY to 21%. The company therefore is likely to report decline in PAT by ~11% YoY to ₹ 319 crore
Supreme Industries	Supreme is likely to post revenue growth of 31% YoY to ~₹ 1807 crore largely on a favourable base of last year. We believe, overall volume growth is likely to be ~7% YoY while realisation is likely to increase by ~26% YoY. The piping segments is likely to grow 40% YoY to ₹ 1182 crore. Further, EBITDA margin is likely to decline by ~108 bps YoY to 17.5% mainly due to higher input prices and increase in other expenses (up 19% YoY). However, PAT may see a growth of 34% YoY to ₹ 235 crore, supported by strong sales growth and higher income from associate company Supreme Petrochem

Source: Company, ICICI Direct Research

Exhibit 3: Company Specific Views (Consumer Discretionary)

V-Guard	<p>V-Guard is likely to report sales growth of ~17% YoY at ₹ 731 crore led by 18% YoY revenue growth in electronics segment to ₹ 202 crore largely on a favourable base and dealer additions in the northern regions. Electricals and consumer durable sales will also see a growth of 17% each YoY to ₹ 339 crore and ₹ 191 crore respectively. Higher raw material costs and advertisement expenses is likely to weigh on EBITDA margin as the same is likely to decline by ~300 bps YoY to 9.3%. As a result, PAT may see a decline of 16% YoY to ~₹ 44 crore in Q2FY22</p>
Voltas	<p>Voltas' consolidated revenue is likely to grow ~9% YoY to ₹ 1759 crore in Q2FY22 led by ~11% YoY growth in the UCP segment to ₹ 787 crore. UCP revenue growth is likely to be driven by price hikes (of ~4%) and strong festive demand. Besides, the EMPS and EPS segment revenues are also likely to increase by 6% and 20% YoY respectively on a favourable base. Sharp rise in input costs and restoration of key operating costs is likely to result in 70bps YoY fall in EBITDA margin to 5%. However, saving in interest costs and lower tax provision would help drive PAT up by 4% YoY to ₹ 83 crore.</p>

Source: Company, ICICI Direct Research

Exhibit 4: Valuation Matrix

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Asian Paints (ASIPAI)	3,028	2,970	Buy	2,90,385	33.4	36.7	45.4	90.6	82.4	66.7	49.6	45.4	36.8	25.0	26.2	28.0	29.6	30.8	33.5
Astral Ltd (ASTPOL)	2,031	1,915	Hold	30,599	20.3	21.8	29.3	99.9	93.3	69.4	55.0	51.8	39.6	27.5	27.0	31.4	21.5	20.7	23.9
Bajaj Electricals (BAJELE)	1,048	1,280	Buy	11,915	16.5	23.8	35.7	64.9	45.0	30.0	40.9	29.6	20.7	15.1	20.0	26.1	10.7	16.8	20.6
Berger Paints (BERPAI)	842	835	Hold	81,775	7.4	9.3	12.3	113.6	90.9	68.5	64.7	56.2	43.5	24.9	28.3	34.6	21.3	24.3	28.4
Crompton Greaves(CROGR)	441	480	Buy	27,651	9.8	9.2	11.9	44.8	48.2	37.2	33.1	32.5	25.4	34.4	36.1	42.1	31.9	28.7	33.2
Havells India (HAVIND)	1,028	1,255	Buy	64,137	16.7	16.7	22.0	61.7	61.4	46.6	40.1	40.8	31.3	24.9	24.0	30.0	20.1	19.5	24.4
Kansai Nerolac (KANNER)	600	655	Buy	32,335	9.9	12.1	14.4	60.9	49.5	41.7	36.6	31.1	26.2	17.2	20.3	21.5	13.2	15.7	16.6
Pidilite Industries (PIDIND)	2,283	2,035	Hold	1,15,931	22.2	26.3	31.8	102.9	86.8	71.8	55.9	47.3	39.9	23.8	23.9	29.9	20.2	20.1	25.2
Supreme Indus (SUPIND)	2,188	2,390	Hold	27,794	77.0	64.9	72.4	28.4	33.7	30.2	20.5	22.2	19.6	32.7	26.2	25.2	30.9	23.6	22.6
V-Guard Ind (VGUARD)	259	320	Buy	11,093	4.7	5.5	7.3	59.0	50.4	38.1	37.3	35.4	27.3	23.9	25.1	29.0	16.7	19.2	22.5
Voltas Ltd (VOLTAS)	1,011	1,150	Buy	33,437	16.0	21.2	28.9	63.2	47.8	35.0	50.8	41.8	29.8	15.0	19.5	23.0	10.6	14.4	17.1

Source: Company, ICICI Direct Research

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