

July 05, 2023

SECTOR UPDATE

Consumer Durables/Electricals

Weak summer demand leads to weak Q1

- **Demand for summer products take beating:** After strong and early start to summer season, demand for summer products have faltered in the peak summer months of April and May. June saw recovery in demand with growth of ~12%, however this was not enough to recover losses of April and May which would result in overall demand decline in Q1. As per our dealer checks inventory of summer products is higher than normal which according to them will require another 30-35 days to liquidate. Dealers are now pinning hopes on the upcoming festive season to see demand uptick.
- **Wires and Cables continues to see strong demand:** Wires and cables have been registering strong double-digit growth since past few quarters is continuing its double-digit growth in Q1 as well. Cables are expected to register growth of more than 15% on increase in industrial capex and infra push by the government. Exports of cables continues to remain strong with Indian wires and cables companies getting product approvals in the international market. Dealers are expecting strong demand to continue in wires and cables as domestic real estate continues to remain buoyant.
- **B2B business continues to outperform B2C:** B2B business like commercial refrigeration and B2B lighting like industrial lighting, façade lighting and street lighting are growing ~20%. Dealers are confident of growth continuing in upcoming quarters as well with strong order enquiry pipeline. Dealers of commercial refrigeration suggest that they have orders that will take care of growth for FY24 with strong demand coming from the new brands and dairy players.
- **Decline in commodity prices to aid in gross margin improvement:** Prices of key commodity like copper and aluminum have registered decline of 5.1% and 13.5% on yoy basis and 7.5% and 3.9% on sequential basis. This decline has brought much needed relief to companies which has led to stability in the product prices which have been volatile for past few quarters. We expect gross margins to most of the durables/electrical companies to improve in Q1.
- **Rural demand has seen initial signs in demand pick-up:** Demand from the rural has seen initial signs of pick up in the month of June with demand for entry level products outgrowing that of the premium products. Dealers are witnessing demand fatigue from the urban areas which have been the demand driver for past two years.
- **Wires and cables and companies and with higher share of B2B to outperform in Q1** – We prefer wires and cable companies and companies with higher share of revenue coming from B2B segment as there has not been slowdown in the capex of the companies which are resulting in higher ordering and revenue. We prefer blue star, Amber Enterprises, Polycab and Whirlpool from our coverage universe.

Our view: We believe wires and cables company will continue to outperform as demand continues to remain strong with increased infra spends and strong export opportunities. Ordering from B2B business continues to remain strong with strong demand for commercial refrigeration and B2B lighting. One will have to wait for festive season to see improvement in sentiments and see demand pick up in B2C categories. Our preferred pick are Blue star, Amber enterprises, Polycab and Whirlpool of India.

| Company | Rating | TP |
|-------------|---------|-------|
| AMBER IN | BUY | 2,929 |
| BLSTR IN | ADD | 1,600 |
| DIXON IN | NEUTRAL | 3,506 |
| JCHAC IN | NEUTRAL | 1,149 |
| SYML IN | ADD | 1,064 |
| TTKPT IN | BUY | 987 |
| VOLT IN | NEUTRAL | 840 |
| WHIRL IN | BUY | 1,690 |
| BJE IN | ADD | 1,253 |
| IFB IN | REDUCE | 821 |
| CROMPTON IN | NEUTRAL | 302 |
| HAVL IN | BUY | 1,480 |
| ORIENTEL IN | BUY | 275 |
| POLYCARB IN | ADD | 3,368 |
| VGRD IN | BUY | 314 |
| STOVEKRA IN | BUY | 714 |

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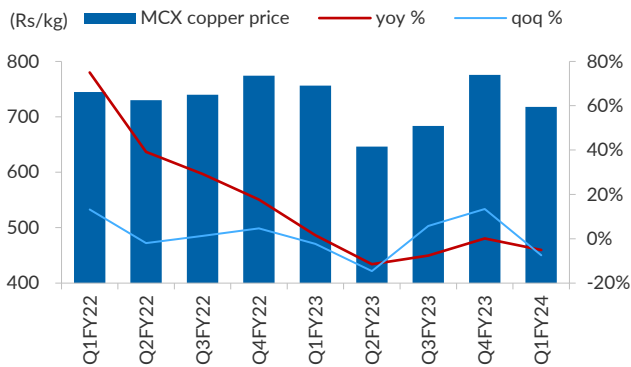
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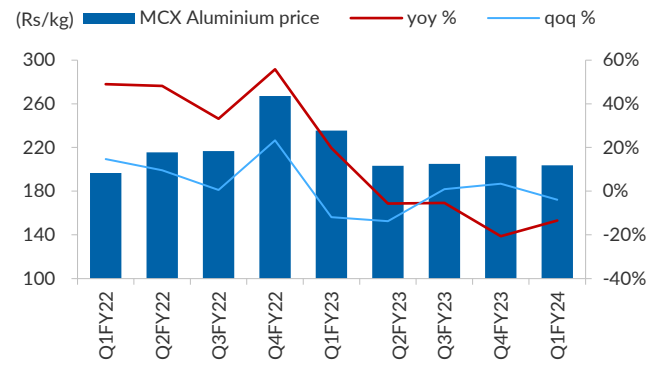
CHARTS

Exhibit 1: Copper prices have registered decline on yoy and sequential basis



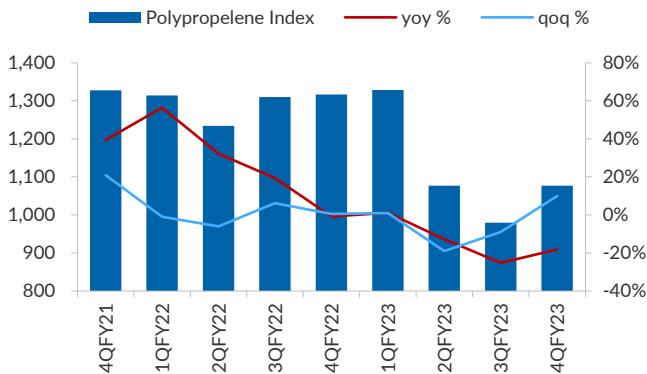
Source: Company, YES Sec

Exhibit 2: Aluminum prices have seen yoy decline for past 3 quarters



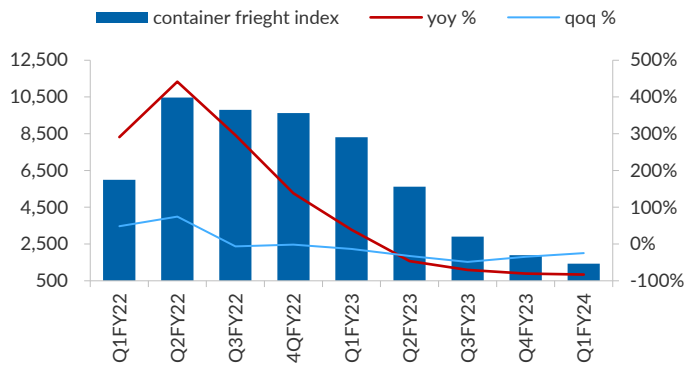
Source: Company, YES Sec

Exhibit 3: Plastics prices have stabilized at lower levels



Source: Company, YES Sec

Exhibit 4: Container freight index have seen sharp correction from its peak



Source: Company, YES Sec

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