

## Key consumption states and current status of lockdown

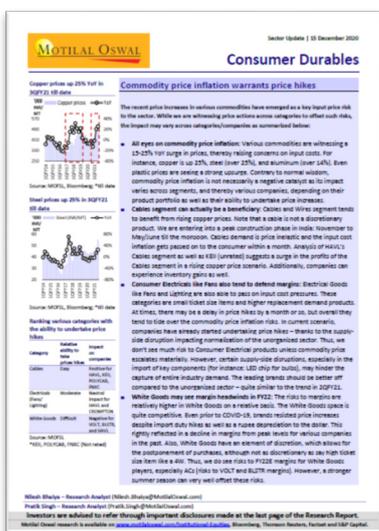
Key states	Lockdown	Period
UP	❖ Night curfew (8pm-7am) in 10 key districts	30 <sup>th</sup> April
Rajasthan	❖ All cities under curfew (6pm-6am)	30 <sup>th</sup> April
Delhi	❖ Weekend curfew	30 <sup>th</sup> April
MP	❖ Key cities and towns	22 <sup>nd</sup> April
Maharashtra	❖ Full state under curfew (8pm-7am)	30 <sup>th</sup> April

Source: MOFSL, Company

## Valuation summary – adjusted for the Project business of BLSTR and VOLT

Current PE(x)	Rating	FY22E	FY23E
HAVL	Neutral	51.6	46.0
VOLT	Neutral	48.9	42.7
WHIRL	Buy	47.0	39.0
CROMPTON	Buy	36.4	32.0
BLSTR	Sell	61.7	48.0
OEL	Buy	44.3	35.4

Source: MOFSL, Company, Bloomberg



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## Demand robust, but sentiment turning cautious

With the onset of the summer season, we performed channel checks across various product categories. The following are the key takeaways:

- Ongoing summer season augurs well for demand for cooling products:** The summer season has set in strongly across the country, leading to the robust off-take of secondary sales for most summer products – such as fans, air coolers, and air conditioners – for Mar'21. **However, rising COVID cases in certain states such as Maharashtra, Gujarat, Delhi, and Rajasthan have led to some softening in secondary sales at the start of April'21.**
- Stable demand for refrigerators, LED lights, and pumps:** Secondary sales of refrigerators, LED lights, and pumps have been stable sequentially, with each of these categories growing in the double digits (10–20%) YoY. Small appliances such as mixer grinders and juicers have seen robust sales on a month-on-month basis. On the other hand, demand for washing machines and dishwashers has now moderated (after growing strongly during Apr–Dec'20) and could grow in the higher single digits hereafter.
- Pre-buying toward end-Mar'21, although not as strong v/s end-Dec'20:** Our channel checks suggest there was some amount of pre-buying for summer-linked products – such as air conditioners, fans, and air coolers – towards the end of Mar'21. This was due to the expectation of another round of price hikes in these products on account of rising commodity prices. However, the quantum of pre-buying was not similar to that observed at end-Dec'20. This was largely attributable to (a) higher-than-normal inventory in the channel and (b) rising COVID cases leading to apprehension among dealers. **As per the channel feedback, 8- to 15-day lockdown does not pose a high risk for summer products (fans, air coolers, and ACs) – as sales can be recouped in May'21 based on the ongoing strong summer demand.**
- Inventory levels marginally higher for summer-linked products:** Pre-buying toward the end of 4QFY21 has led to higher-than-normal inventory levels for summer products such as fans and air conditioners. While secondary sales were uniform across Consumer Electricals categories (such as Fans and other appliances) in 4QFY21, they have yet to match the primary sales in the Consumer Durables category (barring Refrigerators).
- Key commodities remain elevated, but price hikes taken:** The uptrend in commodity prices has continued, with various commodities such as copper/aluminum/steel seeing a 16%/7%/10% QoQ rise in 4QFY21 (up 61%/30%/45% YoY in 4QFY21). As indicated in our previous note on commodity price inflation ([link](#)), the latter is not necessarily a negative catalyst as many companies have the capability to take price hikes. Most companies took price hikes (4–8%) across various products in the first week of Jan'21, with the likelihood of another round of price hikes in Apr'21.
- Near-term headwinds may escalate, but medium- to long-term story intact:** In light of the rising COVID-19 cases in India, near-term demand / supply / competition trends may change rapidly across regions in India. We recall the key learnings of last year to simplify the investment decision – a) pent-up demand plays out very quickly (within months) in B2C Consumer Electricals categories

such as Fans and Lighting; **b)** in-house usage products see strong sales; **c)** companies have cut down on ad spends and have strong control over the cost structure (although employee cost cuts may be difficult and unwarranted this time), **d)** balance sheets, most importantly, are protected and cash flows remain intact on a full-year basis, and **e)** the only negative impact can be seen in highly seasonal products – such as ACs and air coolers. However, even for these products (ACs and air coolers), the leaders don't see material deterioration of balance sheets, and then the case for pent-up demand for next year increases further. In a nutshell, we believe stock price volatility may increase given the near-term uncertainties; however, this may present a good opportunity to increase exposure to strong structural stories with superior business models.

- **Valuation and view: a) WHIRL (TP: INR3,020, Buy)** – WHIRL is our top pick in the underpenetrated White Goods space as it currently offers the best risk-reward matrix. **b) OEL (TP: INR365, Buy)** – OEL is our top pick in Consumer Electricals, with a strong case for the EBITDA margin to converge within the 13–15% range enjoyed by peers. It has a superior RoE vis-à-vis peers, despite higher investments in people and branding-related spends. **c) CROMPTON (TP: INR485, Buy)** – Product categories are resilient to input cost pressures. The ongoing revival / pent-up demand in Real Estate may aid revenue growth. **d) HAVL (TP: INR1,100, Neutral)** – Given the diversified nature of its portfolio and various degrees of impact from cost inflation, the latter tends to get nullified. **e) VOLT (TP: INR1,170, Neutral)** – As low-cost inventory gradually gets liquidated, we see margin risks for VOLT in FY22E. **f) BLSTR (TP: INR740, Sell)** – Adjusted for the Projects business, the stock is now more expensive than VOLT. Also, BLSTR remains a single-product company, while VOLT is expanding into the wider White Goods space in Refrigerators and Washing Machines. The restructuring of VOLT's Projects business may be a precursor to a demerger and could help sustain higher multiples. On a relative basis, VOLT scores over BLSTR as an investment thesis. Moreover, as our Neutral ratings on Havells and Voltas are only on account of expensive valuations, these companies stand out owing to their business models and long-term growth rates. Any sharp correction in these stocks may provide a good entry point from the medium- to long-term perspective.

#### Exhibit 1: Feedback from our channel checks across various categories

Products	Demand scenario/trend	Price action
Cables and Wires	❖ Wire (B2C) demand has remained robust, while that for industrial cables is picking up gradually. Barring the COVID disruption, the offtake could be strong (10–15% growth) going ahead.	❖ Since any rise in copper is a straight pass on, product prices have gone up 15–20%.
Fans	❖ Demand has been ~15% YoY higher owing to a strong summer.	❖ Post the first lockdown, prices have gone up 10–12%.
LED Lights	❖ Volume growth is almost similar to that of the last couple of years.	❖ Prices have stabilized, but the competitive intensity remains high.
Pumps	❖ Residential pumps have seen a ~10% YoY increase in offtake, while that for Agricultural pumps has been higher on account of seasonality.	❖ From Nov'20 to date, prices have gone up 15–20%.
Air Coolers	❖ Demand has picked up gradually from Mar'21.	❖ Prices have gone up 5–10% in the last 3–4 months.
Refrigerators	❖ Sales have steadied post the lifting of the first lockdown (10–15% YoY growth).	❖ A 5–6% price hike has been seen across variants in the last 3 months.
Washing Machines	❖ Sales have moderated in the last couple of months as demand was strong over May–Dec'20.	❖ Most of the brands have hiked prices by 5–6%.
Air Conditioners	❖ Offtake had started showing strong traction as summer started settling in; however, sales have moderated since the start of Apr'21	❖ Prices have hiked by 5–6% from Dec'20 to date.

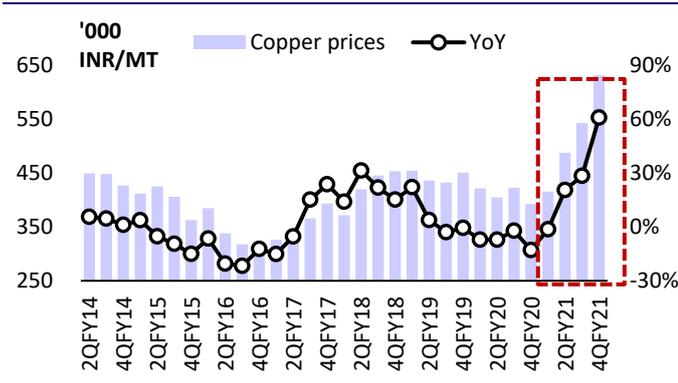
Source: MOFSL, Channel checks

**Exhibit 2: Manufacturing facilities of various companies for tracking risk to operations based on local state-wise lockdowns**

Company	Plant location	State
<b>Havells</b>	Alwar	Rajasthan
	Baddi	Himachal Pradesh
	Neemrana	Rajasthan
	Sahibabad	Uttar Pradesh
	Ghiloth	Rajasthan
	Faridabad	Haryana
	Haridwar	Uttar Pradesh
	Guwahati	Assam
<b>Crompton</b>	Goa	Goa
	Vadodara	Gujarat
	Ahmednagar	Gujarat
	Baddi	Himachal Pradesh
<b>Voltas</b>	Waghodia	Gujarat
	Thane	Maharashtra
	Dadra	Dadra & Nagar Haveli
	Pantnagar	Uttarakhand
	Sanand	Gujarat
<b>Blue Star</b>	Ahmedabad	Gujarat
	Wada	Maharashtra
	Dadra	Dadra & Nagar Haveli
	Baddi	Himachal Pradesh
<b>Whirlpool</b>	Pune	Maharashtra
	Faridabad	Haryana
	Puducherry	Pondicherry
<b>Orient</b>	Kolkata	West Bengal
	Faridabad	Haryana
	Noida	Uttar Pradesh
<b>Amber</b>	Kasna	Uttar Pradesh
	Kala Amb	Himachal Pradesh
	Pune	Maharashtra
	Jhajjar	Haryana
	Dehradun	Uttarakhand
	Noida	Uttar Pradesh
	Rajpura	Punjab
Faridabad	Haryana	
<b>Dixon</b>	Noida	Uttar Pradesh
	Dehradun	Uttarakhand
	Tirupati	Andhra Pradesh
<b>Polycab</b>	Daman	Daman and Diu
	Halol	Gujarat
	Nashik	Maharashtra
	Roorkee	Uttar Pradesh
	Chhani	Rajasthan
	Padana	Gujarat
	Waghodia	Gujarat
<b>Bajaj Electricals</b>	Chakan	Maharashtra
	Ranjangaon	Maharashtra
	Nashik	Maharashtra
	Shikohabad	Uttar Pradesh
	Parwanoo	Himachal Pradesh
	Aurangabad	Maharashtra

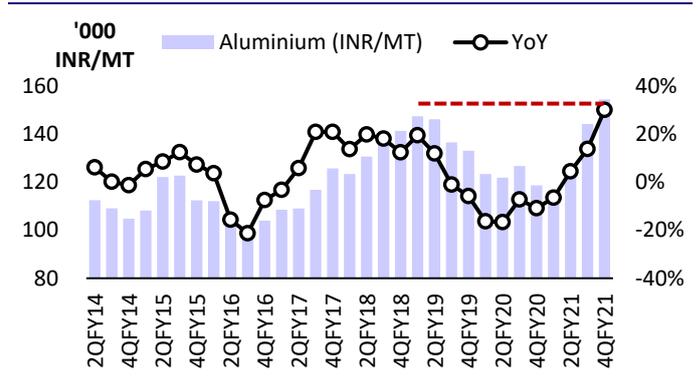
Source: MOFSL, Company

**Exhibit 3: Copper prices up 61% YoY and 16% QoQ in 4QFY21**



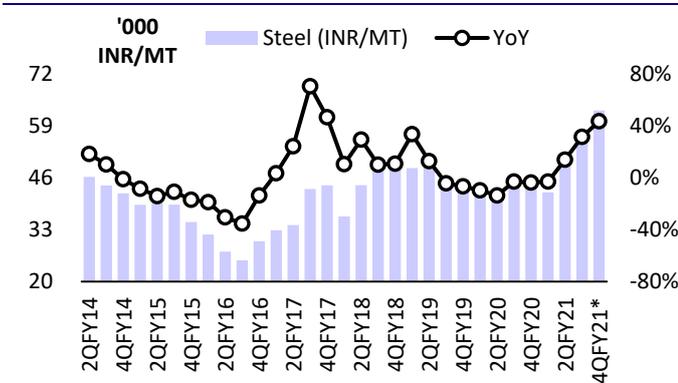
Source: MOFSL, Bloomberg

**Exhibit 4: Aluminum prices back at 1HFY19 levels, up 30% YoY and 7% QoQ in 4QFY21**



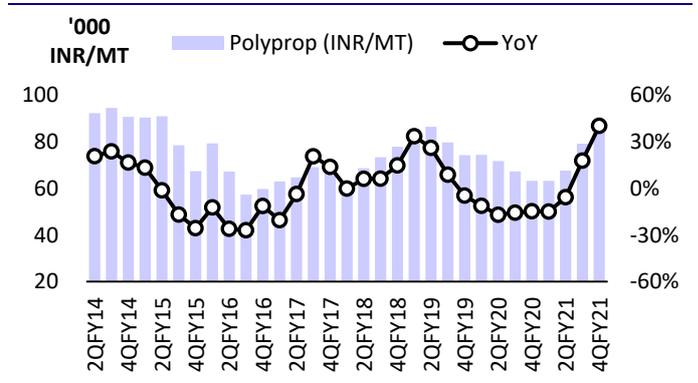
Source: MOFSL, Bloomberg

**Exhibit 5: Steel prices up 45% YoY and 10% QoQ in 4QFY21**



Source: MOFSL, Bloomberg; \*till date

**Exhibit 6: Polypropylene prices up 40% YoY and 12% QoQ in 4QFY21**



Source: MOFSL, Bloomberg; \*till date

**Exhibit 7: Ranking various categories with the ability to undertake price hikes**

Category	Relative ability to undertake prices hikes	Remarks	Impact on companies
Cables	Easy	❖ Copper is the key commodity; price inflation gets passed on to the consumer (B2B/B2C) within a month.	❖ Positive for HAVL (Cables segment), KEI (unrated), POLYCAB (unrated), and FNXC (unrated)
Electricals (Fans/Lighting)	Moderate	❖ Electrical items are of low ticket sizes and have higher replacement demand. The ability to undertake price hikes is moderate.	❖ Neutral impact for HAVL and CROMPTON
White Goods	Difficult	❖ The segment has a strong MNC presence. Players give priority to market share over margins, especially in ACs. White Goods have an element of discretion v/s the Consumer Electricals category.	❖ Negative for VOLT, BLSTR, HAVL (Lloyd business), and WHIRL

Source: MOFSL

**Exhibit 8: 4QFY21E implied ask rate – on account of pre-buying, there can be upside risk to these estimates**

Revenue (INR m)	4QFY19	4QFY20	4QFY21E	YoY	Two-year CAGR
BLSTR – UCP*	7,036	5,963	7,135	19.7%	0.7%
CROMPTON	12,069	10,181	14,353	41.0%	9.1%
HAVL	27,535	22,161	34,533	55.8%	12.0%
VOLT – UCP*	9,976	11,989	13,816	15.2%	17.7%
POLYCAB	24,636	21,294	31,609	48.4%	13.3%
OEL	6,377	5,631	7,691	36.6%	9.8%
VGRD	7,397	5,366	8,621	60.7%	8.0%
WHIRL	13,552	13,536	16,383	21.0%	10.0%

Note: From a two-year CAGR perspective, BLSTR has a high base, whereas VOLT has a lower base

Source: MOFSL, Company, Bloomberg;

**Exhibit 9: Valuation summary**

Company	M-cap (INR b)	CMP (INR)	TP (INR)	Rating	P/E (x)			EV/EBITDA (x)			RoE (%)		
					FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
HAVL	632	1,010	1,100	Neutral	61.3	51.6	46.0	39.6	34.5	30.7	20.6	21.2	20.6
VOLT	317	957	1,170	Neutral	66.9	44.5	38.9	54.8	35.8	31.4	10.3	13.9	14.3
WHIRL	271	2,138	3,020	Buy	78.5	47.0	39.0	49.2	30.8	25.7	12.3	17.4	17.8
CROMPTON	242	387	485	Buy	46.2	36.4	32.0	34.0	27.0	24.2	29.4	30.5	28.7
BLSTR	83	858	740	Sell	87.6	42.2	32.0	33.5	22.7	18.8	11.5	21.8	25.8
OEL	61	288	365	Buy	54.5	44.3	35.4	29.2	24.5	20.1	26.9	28.2	29.8

Source: MOFSL, Bloomberg, Company

**Exhibit 10: Valuation summary – adjusted for the Project business of BLSTR and VOLT**

Current PE (x)	Rating	FY19	FY20	FY21E	FY22E	FY23E
HAVL	Neutral	80.3	86.3	61.3	51.6	46.0
VOLT	Neutral	90.0	61.9	65.8	48.9	42.7
WHIRL	Buy	66.6	57.0	78.5	47.0	39.0
CROMPTON	Buy	64.8	55.4	46.2	36.4	32.0
BLSTR	Sell	67.8	94.3	124.6	61.7	48.0
OEL	Buy	88.3	77.8	54.5	44.3	35.4

Source: MOFSL, Company, Bloomberg

## NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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