

Consumer Durables

Voltas

Valuations summary (INR b)

Y/E March	2018	2019E	2020E
Net Sales	64.0	71.7	79.6
EBITDA	6.6	8.0	9.1
Adj PAT	5.7	6.2	7.1
EPS(INR)	17.3	18.8	21.5
EPS Gr. (%)	11.9	8.7	14.6
BV/Sh. (INR)	118.0	131.7	147.5
RoE (%)	15.9	15.1	15.4
RoCE (%)	15.3	14.8	15.1
Payout (%)	26.8	26.8	26.8
Valuations			
P/E (x)	29.3	27.0	23.5
P/BV (x)	4.3	3.8	3.4
EV/EBITDA (x)	25.1	20.4	17.6
Div Yield (%)	0.8	0.9	1.0

Blue Star

Valuations summary (INR b)

Y/E March	2018	2019E	2020E
Net Sales	46.4	50.0	55.6
EBITDA	2.7	3.5	4.1
Adj PAT	1.4	1.9	2.4
EPS(INR)	14.5	19.9	25.1
EPS Gr. (%)	12.7	37.4	25.6
BV/Sh. (INR)	87.0	96.2	107.7
RoE (%)	17.5	21.8	24.6
RoCE (%)	14.7	17.7	21.0
Payout (%)	68.9	45.0	45.0
Valuations			
P/E (x)	35.5	25.8	20.6
P/BV (x)	5.9	5.4	4.8
EV/EBITDA (x)	19.6	14.9	12.4
Div Yield (%)	1.9	1.7	2.2

Festive season brings cheer to consumer durable cos

Room AC segment witnesses 30% LTL growth during the period

We recently interacted with the management of one of the largest multi-brand durables' outlets having a strong presence in India's Western and Northern regions. Our discussion revolved around the demand scenario for consumer durables during the ongoing festive season. Key takeaways from our interaction:

Overall business environment

- Sales are up 14% YoY on a like-to-like (LTL) basis and are coming off from the weak base of last year. Overall, expect 10-15% YoY growth this festive season.
- Air-conditioner (AC) sales were good in Mumbai, Pune and Gujarat. The western parts of India are experiencing summer-like conditions this October, which is helping AC sales.
- Price hikes have been seen across categories in refrigerators and washers, but not in AC's.
- In metros, modern retail share is increasing, taking away share from the smaller retail stores. Currently, market share of modern retail outlets is at 50%, as against 30% three years ago.

Consumer financing – no impact till now; business continues as usual

- The recent NBFC liquidity squeeze has not impacted sales. While Bajaj controls 70-80% of the financing business, Capital First too is continuing to do well alongside new entrants like HDFC, HDB, Kotak Bank. Therefore, consumer financing is unlikely to get impacted. When brands tie up with consumer financing companies, usually 80% of the interest subvention is borne by the brand and the balance is borne by the retailer.
- Companies are offering zero cost financing schemes across players and some also have the option of zero down payment.
- Bajaj was the only player in consumer durables' financing until four years back. Now, new players have joined in, but Bajaj remains very strong with a 70% share.
- Currently, ~70-75% customers opt for EMI financing across categories as compared to 40-45% three years ago.

Air conditioners – 30% YoY growth on high temperatures in Oct'18

- Growth was hurt due to a weak summer in CY18; however, western India is experiencing a good second summer this October, which is helping demand.
- Prices had increased post the star rating changes, beginning Jan'18. The shift to 'inverter' ACs mean prices will increase further, while 'fixed speed' ACs will get phased out.
- AC manufacturers have not taken a price hike since there is a large inventory in the channel; they are expected to do so post Diwali.
- Voltas and Daikin are the largest selling brands along with LG

- Whirlpool has aggressively taken price cuts and focused on advertising and branding, thus, increasing its market share in the last two years. The company was also helped by a low base.

Voltas BEKO – impressive product quality

- The Voltas BEKO product portfolio is good and can do excellent business over the next few years
- Have a strong relationship with Voltas and will keep the Voltas-Beko brand if margins and the terms-of-trade of work offered is similar to peers.

Refrigerators: 8-10% category growth continues

- All refrigerator brands have taken a price hike of 3-4% in Oct'18 due to: a) customs duty hike in Sept'18, and b) the fall in the INR.
- Expect 8-10% category growth. LG, Samsung are the top brands in this segment along with Whirlpool.

Washing Machines – front loaders taking share

- All washing machine brands have taken a price hike of 3-4% due to the customs duty hike and the slide in the INR over the past few quarters.
- Front-loaders are garnering share as consumers are moving from top-load to front-load. IFB, LG, Samsung, IFB, Whirlpool are gaining share.
- Overall category is growing at 8-10%, while front-load is growing 25-30%.

Online retail – growth driven primarily by discounts

- Online sales were good, driven by large discounts and ad spends.
- Manufacturers are selling different models via online and offline medium.
- Large appliances and TV's have an issue of service and installation, therefore consumer's preference is the offline channel.
- The online medium is able to sell only on big discounts and not otherwise
- Online is just 'buying' market share from offline, luring consumers through discounts

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