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India | Equity research | Sector Update

White Goods

Tracking the journey of CG Power in durables and its likely impact on incumbents

We analyse the progress of CG Power in consumer durables as it completes two years after the launch in H2FY22. We note: (1) It has reached revenue of INR ~4bn and is currently profitable, (2) it has 2%+ market share in fans, 3%+ in pumps and geysers have just been introduced and (3) its products are available pan-India and manufacturing is outsourced. Since CG Power is generating profitability and its product pricing is comparable with peers, we do not model any material impact on industry profitability in the short term. However, success of new formidable player like CG Power is likely to hurt long-term revenue prospects of all incumbents. We model Crompton Consumer to be relatively more impacted as consumers may get confused between Crompton and CG brands, in our view. We will closely monitor the progress of CG Power in consumer durables segment. Our top pick is Havells.

Consumer durables portfolio of CG Power

CG Power entered consumer durables in H2FY22 and has introduced fans, pumps for agri sector and geysers. This portfolio generates revenue of INR ~4bn and is profitable. We believe the margins are not comparable with industry standards but still the company is not losing money. The products have been launched pan-India and the manufacturing is outsourced. It has >2% market share in fans and >3% in pumps.

Comparison with Finolex, RR Kabel and Polycab

We note multiple players have entered FMEG segment in the past decade and some of the key companies are Finolex, RR Kabel and Polycab. These companies benefit from brands established in wires and cables, distribution reach and established connect with electricians. While CG Power does not enjoy similar competitive advantages, we note it has reached revenue size of INR ~4bn. RR Kabel and Polycab have taken ~4 years to reach revenue of INR 4bn whereas CG Power has achieved INR 4bn revenue in less than two years post its launch.

Key competitive advantages of CG Power

We believe CG Power benefits from the advantage that the brand logo of CG is extremely popular and plays an important role in attracting attention of consumers and retail outlets. Expansion of product portfolio and investments in distribution have also helped CG Power grow briskly, we believe.

Implications on incumbents

Since CG Power is not operating at losses and its product pricing is largely comparable to peers, we do not model any material impact on the profitability of the sector and peers in near term. However, addition of one more formidable player (CG Power) is likely to curtail growth opportunities for all players in long term. We believe Crompton Consumer is likely to be the relatively more impacted as consumers may get confused between Crompton and CG brands (in our view).

Key points to track the impact on other players

We will closely track: (1) New product launches by CG Power; (2) distribution expansion and initiatives to connect with electricians by CG Power; (3) investments in premiumisation of products e.g. BLDC fans; and (4) investments in brand building activities (R&D investments, new product launches, ad spend and sales promotion activities).

Aniruddha Joshi

aniruddha.joshi@icicisecurities.com
+91 22 6807 7249

Manoj Menon

manoj.menon@icicisecurities.com

Karan Bhuwania

karan.bhuwania@icicisecurities.com

Nilesh Patil

nilesh.patil@icicisecurities.com

Sector view and top pick

We remain structurally positive on white goods and durables sector due to: (1) Strong return ratios, (2) healthy growth potential led by low penetration levels. Migration from unorganised to organised sector is likely to drive revenue growth while premiumisation should boost profitability. Havells India, with the most diverse product portfolio and thrust on premiumisation, remains our top pick in the sector.

Key risks: Steep inflation in RM prices and irrational competition.

Journey of CG Power vs other entrants in FMEG segment

Exhibit 1: Journey of CG Power has been faster vs other entrants in FMEG

Company	Launch date	FY23 Revenues (INR mn)	Profitability	Years to reach INR 4bn revenues
CG Power	H2FY22	~4,000	Yes, but margin lower than industry average	Two years
Polycab	FY14	12,607	Still in investment mode; loss in FY23	Four years
Finolex	FY17	1,935	Marginally positive	Yet to reach INR 4bn
RR Kabel	FY16-FY17	6,474	Still in investment mode; loss in FY23	> Four years

Source: Company data, I-Sec research

Valuation and risks

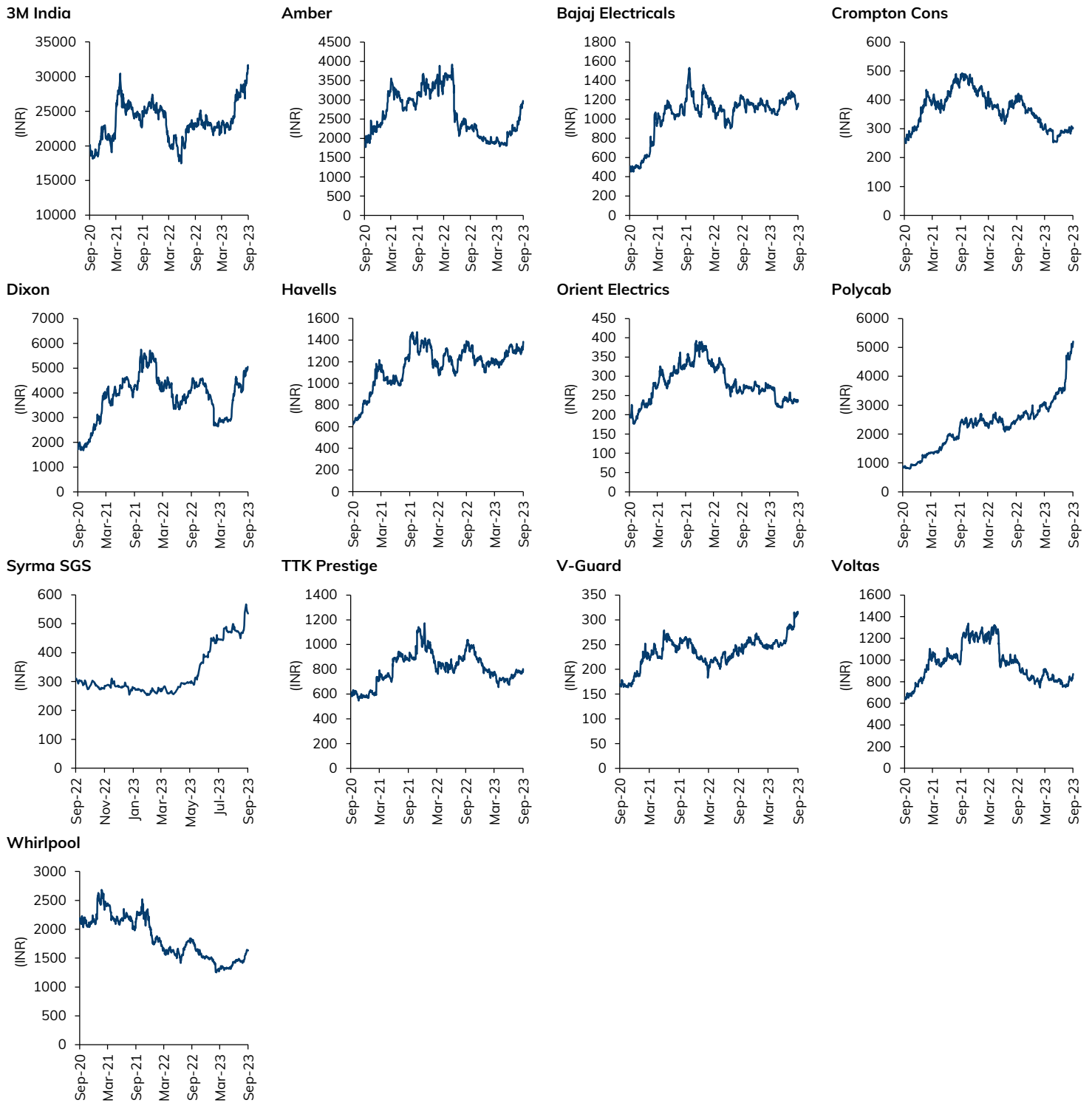
We value stocks in white goods and durables market by DCF methodology (WACC and TG ranging from 10-13% and 3-6%, respectively). **Key upside risk:** Better than expected gross margin due to correction in input prices. **Key downside risks:** (1) Unexpected irrational competition, and (2) steep inflation in input prices.

Exhibit 2: White goods sector – valuation summary

Company	CMP (INR)	Rating	RoE (%)	RoCE (%)	CAGR FY23-25E (%)			P/E (x)	
			FY24E	FY24E	Revenues	EBITDA	PAT	FY24E	FY25E
3M India	30,367	BUY	28.1%	34.1%	16.1%	36.2%	38.4%	65.7	56.0
Amber	2,975	HOLD	9.7%	9.9%	19.4%	27.3%	35.2%	49.1	34.9
Bajaj Electricals	1,128	ADD	11.8%	13.1%	4.8%	14.1%	16.7%	49.6	39.8
Crompton Cons	307	BUY	21.1%	22.5%	7.5%	10.6%	16.0%	33.4	31.3
Dixon	5,059	REDUCE	21.6%	23.7%	22.2%	23.6%	28.3%	95.9	71.3
Havells	1,431	BUY	18.8%	22.1%	14.5%	26.0%	28.1%	64.1	50.9
Orient Electric	223	ADD	21.0%	24.7%	13.9%	39.5%	44.7%	37.6	29.9
Polycab	5,167	HOLD	23.3%	27.4%	19.8%	21.8%	24.3%	45.0	39.3
Syrma SGS	545	BUY	10.4%	10.0%	36.7%	30.9%	36.1%	56.7	43.6
TTK Prestige	787	BUY	13.5%	15.5%	7.6%	12.9%	14.0%	39.1	33.0
V-Guard	311	ADD	15.8%	17.4%	20.3%	36.6%	37.2%	47.0	37.8
Voltas	894	HOLD	11.1%	10.7%	13.4%	25.6%	41.2%	47.2	39.5
Whirlpool	1,641	BUY	8.0%	7.9%	9.6%	33.1%	28.4%	72.0	57.6

Source: Company data, I-Sec research

Price charts



Source: Bloomberg

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, E-mail Address : complianceofficer@icicisecurities.com

For any queries or grievances: [Mr. Prabodh Avadhoot](mailto:Mr.Prabodh.Avadhoot) Email address: headservicequality@icicidirect.com Contact Number: 18601231122
