

September 25, 2023

SECTOR UPDATE

Consumer Electricals

Visible moderation in demand

- **FMEG demand largely erratic:** Following a strong August (marked by a 10% rise in FMEG demand), September has seen degrowth, especially in the case of fans. Dealers say demand is erratic with no clear trend at this juncture. YTD demand growth for Fans is ~2-3% and value growth is ~4-5%, which are lower than the historical average. Dealers do not expect any significant demand revival in the first fortnight of October. (The first fortnight marks the inauspicious Pitru Paksha span when new construction and home renovation projects are not undertaken.)
- **High primary sales have caused higher-than-normal channel inventory:** Inventory across FMEG product categories has been on the higher side as companies have pushed high primary sales into the channel considering strong demand in August. On the other hand, dealers report de-growth in retails in September which has caused high channel inventory, 20% higher than normalized levels.
- **Downward revision in Fan prices:** Few companies have resorted to downward price revision to entice demand. Some of them have gone through two rounds of price cuts with cumulative price cuts amounting to 5-7% in the past 45 days.
- **New players with deep pockets intensify FMEG competition:** New players like Reliance Retail have entered entry-level Fan market through its sub-brand BPL and is aggressively expanding its distribution presence. Its entry level fans have been aggressively priced and its range starts from Rs999, which is 15-20% lower than that of incumbent brands.
- **Un-organized players seek comeback:** Un-organized players have again become active in the market. They have turned more aggressive post the introduction of the BEE star rating as price differential between them has increased and demand for low priced fans exists in rural areas.
- **Wires and Cables demand moderates in September:** Demand for Wires and cables has moderated from double-digits in August to mid-to-high single digit in September so far. Revival in monsoon across the country has triggered the moderation. Dealers expect current month's demand to be no more than a blip and reckon it would return to normalcy once monsoon abates given the upbeat housing and infra projects.
- **Revival in rural demand likely to be gradual:** Though demand in rural areas picked up in July and August, it has taken a hit in September. We expect this demand revival to be gradual coinciding with subsiding impact of the high inflationary environment.
- **We remain Neutral to Positive on the Sector:** We believe the September drop in demand is transient and it should pick up from the festive season of Navratri given the strong traction in real estate and infrastructure activity.

Our view: We believe demand contraction in September is largely due to resurgent monsoons across the country which has affected the pace of projects. We reckon home improvement activities will pick up once monsoon abates which in turn will recharge demand for FMEG products. Our preferred sector picks are Orient electric and Havells India.

Company	Rating	TP
AMBER IN	BUY	2,929
BLSTR IN	ADD	879
DIXON IN	NEUTRAL	4,319
JCHAC IN	SELL	741
SYML IN	ADD	1,029
TTKPT IN	BUY	938
VOLT IN	NEUTRAL	909
WHIRL IN	BUY	1,770
BJE IN	ADD	1,257
IFB IN	REDUCE	788
CROMPTON IN	NEUTRAL	327
HAVL IN	BUY	1,641
ORIENTEL IN	BUY	289
POLYCAB IN	NEUTRAL	4,505
VGRD IN	ADD	345
STOVEKRA IN	BUY	631

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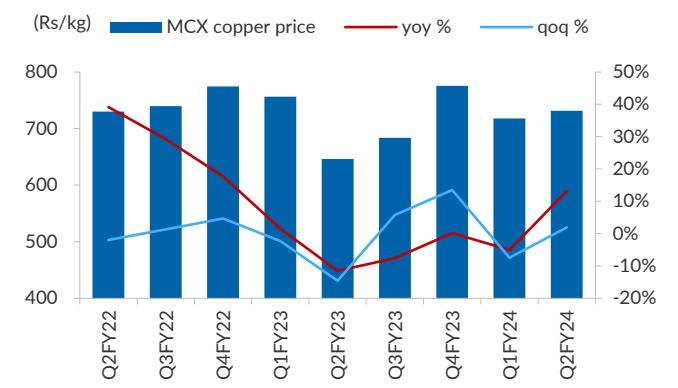
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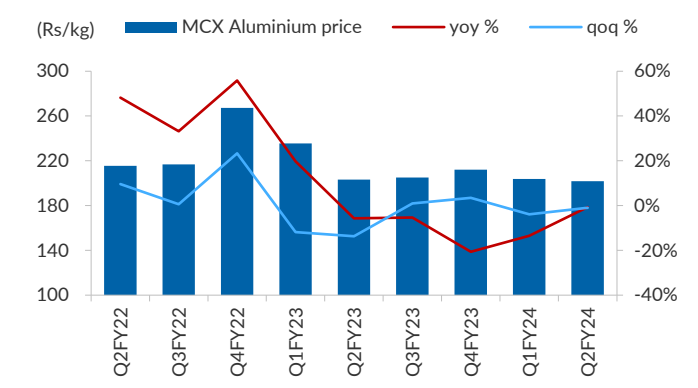
CHARTS

Exhibit 1: Copper prices largely stable on sequential basis



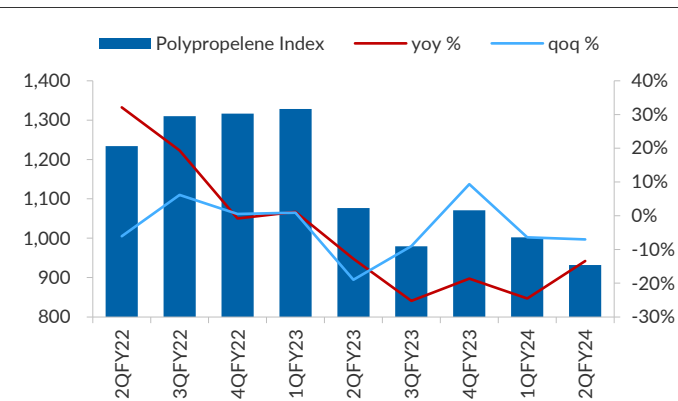
Source: Company, YES Sec

Exhibit 2: Aluminum prices largely flattish for past few quarters



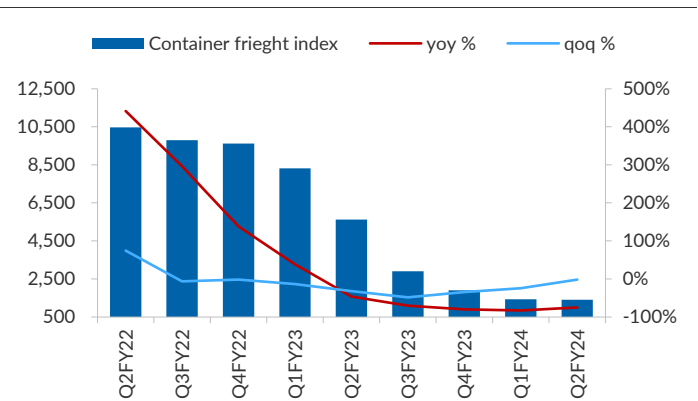
Source: Company, YES Sec

Exhibit 3: Plastics prices are trending lower



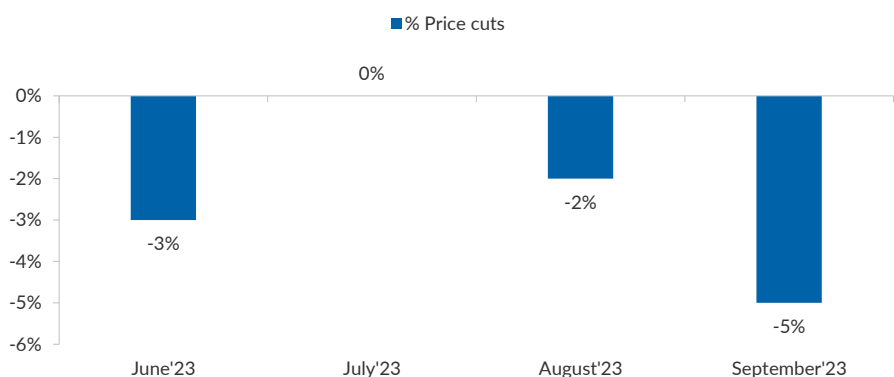
Source: Company, YES Sec

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



Source: Company, YES Sec

Exhibit 5: Brand enforce Price cuts in Fans category



Source: Company, YES Sec

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