

India

**Overweight** (no change)

**Highlighted Companies**

**Crompton Greaves Consumer Electricals**

**ADD, TP Rs346, Rs297 close**

Fan business was challenging again due to weak demand, relatively higher channel inventory and cooler weather conditions in Mar 2023. We believe 1QFY24F should see strong demand for summer products and an improved performance. We see more upside risks vs. downside risks for the stock and recommend an ADD rating.

**Kajaria Ceramics**

**ADD, TP Rs1175, Rs1112 close**

Recovery in tile sales volume growth qoq and lower input cost qoq should aid margins. While short-term demand trend remains weak, we expect a back-ended recovery in 2HFY24F. Improving sales mix, capacity addition and softening input cost are key positives over FY24F-25F.

**Century Plyboards**

**ADD, TP Rs626, Rs489 close**

MDF pricing and margins could be under further pressure due to the rise in input cost, adequate domestic MDF capacity and sustained imports. We expect a weak 4Q. We recommend buying the stock due to the favourable risk-reward ratio.

**Summary Valuation Metrics**

P/E (x)	Mar22-A	Mar23-F	Mar24-F
Crompton Greaves Consumer Electricals	32.39	39.64	30.02
Kajaria Ceramics	46.93	52.85	35.95
Century Plyboards	33.4	32.54	28.9

P/BV (x)	Mar22-A	Mar23-F	Mar24-F
Crompton Greaves Consumer Electricals	7.64	6.79	5.89
Kajaria Ceramics	8.34	7.81	7.02
Century Plyboards	6.94	5.82	4.92

Dividend Yield	Mar22-A	Mar23-F	Mar24-F
Crompton Greaves Consumer Electricals	0.84%	0.85%	1.01%
Kajaria Ceramics	0.99%	1.08%	1.35%
Century Plyboards	0.31%	0.31%	0.31%

**Analyst(s)**



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# Industrial - Overall

## 4Q preview: Durables and building materials

- Given soft demand in 4QFY23 and an unfavourable base, we expect our coverage universe to report single-digit yoy growth in revenue/EBITDA/PAT.
- Management meeting and channel check indicated healthy volume growth yoy for cable/wire, steel tubes, CPVC pipes and bathware in Jan-Mar 2023F.
- Better 4Q: Havells, Polycab, KEI, Finolex Cables, APL Apollo, Astral, Supreme Inds., Kajaria, & Cera. Weak 4Q: CG Consumer, Orient Electric, & Century Ply.

### B2C demand concerns across durables and building materials

B2B demand was above average while B2C demand continued to be weak in Jan-Mar 2023. As regards summer products, 4QFY23 witnessed a volatile weather with Jan/Feb relatively hotter while Mar cooled down considerably due to untimely rains. Non-rated fan channel inventory has now been completely cleared while new launches in the star-rated fans category witnessed below-normal channel-fill. Commercial ACs did relatively better vs. RACs while air-coolers saw strong primary sales. Cable and wire sales continued to be relatively better owing to a diversified customer mix between B2C & B2B while government competition remained high for B2B LEDs. As regards building materials, steel structural tube demand held up well qoq driven by residential/commercial real estate development and private/public capex. PVC pipe demand was lower than expected while channel-filling was volatile given a strong Jan-Feb (stable PVC prices) and weak Mar 2023 (PVC prices fell 5-8%). Tile market remained oversupplied which led to price cuts across brands driven by Morbi units in 4Q. However, given some respite in input cost, we expect a relatively higher volume growth & margin expansion qoq. Short supply and expensive timber to hit plywood/MDF margins negatively while sanitaryware/faucet demand was relatively stable.

### Expectations from consumer durables companies

We expect cumulative revenue/EBITDA/PAT to grow by 7%/6%/5% yoy, respectively. We expect a best set of numbers from Havells (similar to 3Q) while CG Consumer and Orient Electric are likely to witness a muted performance. VGuard's 4Q consolidated financials won't be comparable yoy/qoq owing to Sunflame consolidation. Cable and wire revenue and margins to see good performance and most companies will meet guidance.

### Expectations from building material companies

We expect cumulative revenue/EBITDA/PAT to grow by 7%/-10%/-12% yoy, respectively. APL Apollo saw a strong volume growth of 30% yoy (4Q business update) and is expected to improve margins qoq, given a better sales mix. In PVC pipes, Supreme Industries and Astral are expected to deliver 10-15% sales volume growth yoy while Finolex Cable's sales volume growth may disappoint vs. expectations. Kajaria's tile sales volume growth is likely to be better qoq (5-10% yoy) while Cera to meet its FY23 growth guidance. Century Plyboards to see pressure on gross margin due to rise in input cost leading to a weak 4Q.

### Preferred stocks across coverage universe

Prefer CG Consumer (turnaround), Kajaria & Century Plyboard over the next two years.

**Figure 1: 4QFY23F estimates summary**

	Revenue	% yoy	EBITDA	% yoy	PAT	% yoy
Havells India	46,708	5.5	5,250	1.0	3,641	3.3
CG Consumer Electricals	17,253	11.5	1,898	-17.0	1,423	-24.9
V-Guard Industries	10,850	2.5	1,009	-9.1	653	-27.2
Orient Electric	8,052	6.9	595	-26.3	275	-43.5
Polycab India	42,947	8.2	5,698	19.6	3,813	18.4
Finolex Cables	13,221	11.4	1,688	40.6	1,631	58.9
KEI Industries	19,042	6.3	2,004	16.5	1,329	14.3
Astral	15,005	7.9	2,451	13.0	1,529	16.5
Supreme Inds.	22,032	13.3	3,056	-3.9	2,089	-15.0
Finolex Inds.	11,248	11.9	923	-61.9	799	-54.9
APL Apollo	47,630	13.0	3,143	18.2	1,950	19.8
Kajaria	11,872	7.8	1,644	-0.9	984	2.7
Cera Sanitaryware	5,066	23.6	866	8.7	597	2.3
Century Plywood	8,869	-0.9	1,333	-17.2	798	-12.3
<b>Total</b>	<b>282,231</b>	<b>7.3</b>	<b>31,806</b>	<b>-1.6</b>	<b>21,918</b>	<b>-3.1</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Coverage universe - valuation summary

Company Name	Bblg ticker	Rating	Market cap US\$m	Closing price Rs/share	Price Target Rs/share	Upside [%]	P/E (x)		EVE (x)		CAGR % (FY20-24F)		FY24F	
							FY23F	FY24F	FY23F	FY24F	Revenue	EPS	RoE (%)	RoCE (%)
<b>Building Materials</b>														
Astral	ASTRA IN	HOLD	4,601	1,430	2,143	52.6	69.7	49.1	37.2	29.4	22.6	14.8	19.8	24.2
Supreme Industries	SI IN	ADD	4,007	2,619	2,668	3.2	43.5	34.9	30.8	23.1	14.8	19.1	20.5	23.5
APL Apollo Tubes	APAT IN	ADD	4,015	1,201	1,360	14.6	52.3	34.9	33.2	22.7	26.6	37.1	29.6	31.6
Kajaria Ceramics	KJC IN	ADD	2,141	1,112	1,175	6.6	52.4	35.6	29.8	21.7	15.8	17.8	20.6	25.6
Finolex Industries	FNXP IN	REDUCE	1,251	167	153	-7.5	41.2	11.4	29.7	11.2	13.6	28.1	12.3	16.3
Century Plyboards	CPBI IN	ADD	1,266	489	626	34.1	31.1	27.6	19.0	17.9	16.2	24.2	18.5	20.5
Cera Sanitaryware	CRS IN	ADD	1,005	6,305	6,172	-2.6	40.0	33.9	26.0	22.0	14.0	24.6	18.8	23.9
<b>Simple Average</b>							<b>47.2</b>	<b>32.5</b>	<b>29.4</b>	<b>21.1</b>	<b>17.7</b>	<b>23.7</b>	<b>20.0</b>	<b>23.7</b>
<b>Electricals</b>														
Havells India	HAVL IN	ADD	8,939	1,182	1,437	22.9	68.0	48.0	44.1	31.4	19.2	20.0	21.8	27.4
Polycab India	POLYCAB IN	REDUCE	5,434	3,051	2,674	-10.1	36.4	33.4	23.4	21.2	15.2	15.0	19.2	25.3
KEI Industries	KEII IN	ADD	1,881	1,753	1,707	-0.2	32.6	25.3	21.8	16.9	13.0	21.0	21.3	27.6
Crompton Greaves Consumer Electricals	CROMPTON IN	ADD	2,320	297	346	15.7	39.9	30.2	24.3	19.4	14.0	5.9	21.0	21.6
Finolex Cables	FNXC IN	HOLD	1,592	823	612	-28.3	27.3	17.3	20.7	15.7	15.8	17.8	14.3	14.7
V-Guard Industries	VGRD IN	ADD	1,327	255	269	6.9	54.2	39.7	33.3	25.0	16.1	9.6	16.7	22.0
Orient Electric	ORIENTEL IN	ADD	591	227	312	37.2	51.7	32.6	26.2	16.0	11.0	17.2	22.6	33.4
<b>Simple Average</b>							<b>44.3</b>	<b>32.4</b>	<b>27.7</b>	<b>20.8</b>	<b>14.9</b>	<b>15.2</b>	<b>19.6</b>	<b>24.6</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Consumer durables sector's 4QFY23F earnings preview

	4QFY23F	4QFY22	3QFY23	Change (%)		Comments
				yoy	qoq	
<b>FMEG</b>						
<b>Havells</b>						
Net Sales	46,708	44,263	41,276	5.5	13.2	# Revenue growth yoy will be lower given the high base quarter.
EBITDA	5,018	5,199	4,236	-3.5	18.5	# Within segments, cable and wire & ECD will have higher revenue growth versus switchgears and lighting.
EBITDA margin (%)	10.7	11.7	10.3	-100bp	148bp	
<b>Consolidated PAT</b>	<b>3,409</b>	<b>3,525</b>	<b>2,835</b>	<b>-3.3</b>	<b>20.3</b>	# Lloyd too had a high base quarter revenue leading to sub-10% yoy revenue growth in 4QFY23F. # Lower opex growth qoq versus revenue growth should lead to higher EBITDA margin qoq. # Margins will continue to be lower yoy given weak B2C demand continuing from 3Q and lower operating leverage flow-through.
<b>CG Consumer</b>						
Net Sales	17,616	15,479	15,162	13.8	16.2	# Seasonally strong quarter for CG Consumer while weak for Butterfly.
EBITDA	2,233	2,288	1,524	-2.4	46.5	# High base will lead to lower revenue growth for ECD and lighting segments.
EBITDA margin (%)	12.7	14.8	10.1	-210bp	473bp	# Higher consolidated opex will lead to lower EBITDA margin yoy.
<b>Consolidated PAT</b>	<b>1,249</b>	<b>1,895</b>	<b>853</b>	<b>-34.1</b>	<b>46.6</b>	
<b>V-Guard</b>						
Net Sales	10,850	10,582	9,808	2.5	10.6	# Strong quarter for summer products like voltage stabilizer (RAC-led), fans and air-coolers. ECD segment to lead consolidated revenue growth.
EBITDA	1,009	1,110	659	-9.1	53.2	# Gross/EBITDA margin expansion to continue qoq while EBITDA margin will be lower yoy due to lower opex in the base quarter.
EBITDA margin (%)	9.3	10.5	6.7	-119bp	378bp	# We expect lower other income due to lower treasury income led by cash outflow for Sunflame acquisition.
<b>Consolidated PAT</b>	<b>653</b>	<b>897</b>	<b>393</b>	<b>-27.2</b>	<b>66.2</b>	
<b>Orient Electric</b>						
Net Sales	8,052	7,533	7,390	6.9	9.0	# Seasonally strongest quarter. We expect balanced revenue growth between ECD and lighting segments.
EBITDA	595	806	549	-26.3	8.4	# Wire business will add to revenue performance in the L&S segment. Gross margin recovery to continue qoq.
EBITDA margin (%)	7.4	10.7	7.4	-332bp	328bp	# EBITDA margin will be down yoy due to higher opex and higher A&P spending.
<b>Consolidated PAT</b>	<b>275</b>	<b>488</b>	<b>326</b>	<b>-43.5</b>	<b>-15.4</b>	
<b>C&amp;W</b>						
<b>Polycab</b>						
Net Sales	42,947	39,700	37,152	8.2	15.6	# C&W segment's revenue expected to grow by 8% yoy while FMEG revenue will largely remain flat yoy.
EBITDA	5,698	4,763	5,038	19.6	13.1	# Base quarter gross/EBITDA margins were low due to peaking copper prices, leading to higher EBITDA/PAT growth yoy in 4QFY23F.
EBITDA margin (%)	13.3	12.0	13.6	127bp	-156bp	
<b>Consolidated PAT</b>	<b>3,813</b>	<b>3,222</b>	<b>3,576</b>	<b>18.4</b>	<b>6.6</b>	
<b>Finolex Cables</b>						
Net Sales	13,221	11,869	11,503	11.4	14.9	# Consolidated revenue growth will be led by the communication cable segment's revenue growth of 55% yoy while cable and FMEG segments' revenue growth will be in single digits yoy.
EBITDA	1,688	1,201	1,459	40.6	15.7	# Copper prices peaked and gross margin bottomed out in 4Q last fiscal. A low base quarter may lead to meaningful margin expansion yoy in 4QFY23F.
EBITDA margin (%)	12.8	10.1	12.7	265bp	-256bp	# Other income would be lower qoq given no MTM gains on Finolex Inds. equity holding of 32.4%.
<b>Consolidated PAT</b>	<b>1,631</b>	<b>1,027</b>	<b>1,543</b>	<b>58.9</b>	<b>5.7</b>	
<b>KEI Industries</b>						
Net Sales	19,042	17,917	17,843	6.3	6.7	# In the cable segment, LT cable revenue will be flat yoy, EHV revenue to decline 10% yoy while EPC sales will recover and grow 25% yoy in 4QFY23F.
EBITDA	2,004	1,719	1,822	16.5	10.0	# KEI should meet its annual guidance of 17-18% revenue growth yoy. Given lower base quarter margins similar to C&W peers, gross/EBITDA margins to improve yoy.
EBITDA margin (%)	10.5	9.6	10.2	93bp	-61bp	
<b>Consolidated PAT</b>	<b>1,329</b>	<b>1,162</b>	<b>1,286</b>	<b>14.3</b>	<b>3.3</b>	
<b>Cumulative Financials</b>						
Net Sales	158,073	147,343	140,135	7.3	12.8	
EBITDA	18,142	17,087	15,286	6.2	18.7	
EBITDA margin (%)	11.5	11.6	10.9	-12bp	69bp	
<b>Consolidated PAT</b>	<b>12,765</b>	<b>12,215</b>	<b>10,812</b>	<b>4.5</b>	<b>18.1</b>	

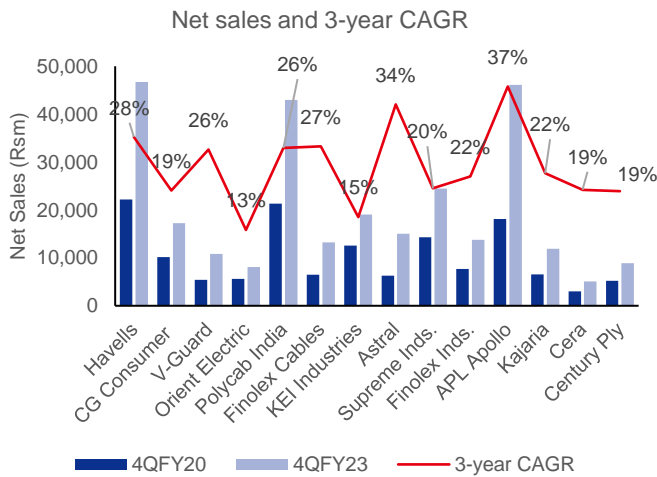
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 4: Building material sector 4QFY23F earnings preview

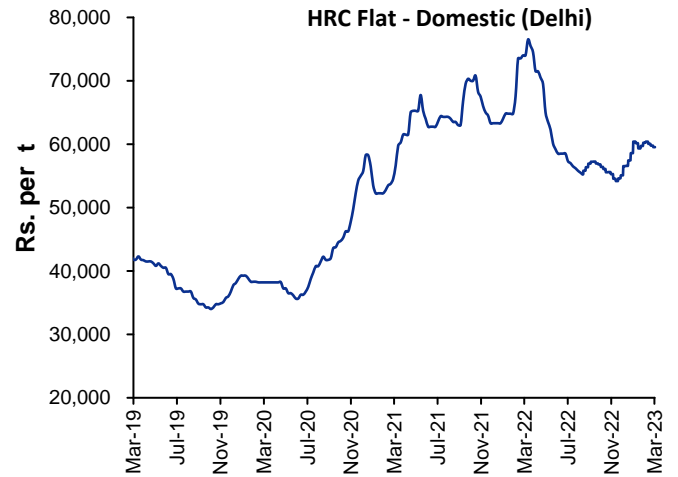
	4QFY23F	4QFY22	3QFY23	Change (%)		Comments
				yoy	qoq	
<b>Plastic Pipes</b>						
<b>Astral</b>						
Net Sales	15,005	13,906	12,678	7.9	18.4	# We expect pipe sales volume of 55kt, + 16% yoy and 20% qoq. Channel-filling has been volatile, given the fall in PVC prices in Mar 2023. We expect minimal inventory gains in 4QFY23F in the pipe division. # Adhesives segment's revenue growth will be lower than average, given high price competition. EBITDA margin could surprise negatively. #Bathware to continue with marginal losses, with the path to breakeven in 1QFY24F, as per management. #Paints segment won't be comparable yoy. # Commentary on bathware, capex and commissioning of Dahej adhesive facility needs to be monitored.
EBITDA	2,451	2,168	1,864	13.0	31.5	
EBITDA margin (%)	16.3	15.6	14.7	74bp	163bp	
<b>Consolidated APAT</b>	<b>1,529</b>	<b>1,312</b>	<b>930</b>	<b>16.5</b>	<b>64.4</b>	
<b>Supreme Industries</b>						
Net Sales	24,469	25,571	23,107	-4.3	5.9	# We expect sales volume growth of 10-15% for plastic pipe and Industrial products segment. # Packaging and consumer product sales volume expected to be flattish yoy. # Consolidated EBIT/kg is estimated at Rs19.
EBITDA	3,442	3,914	3,034	-12.1	13.5	
EBITDA margin (%)	14.1	15.3	13.1	-124bp	94bp	
<b>Consolidated APAT</b>	<b>2,633</b>	<b>3,239</b>	<b>2,100</b>	<b>-18.7</b>	<b>25.4</b>	
<b>Finolex Industries</b>						
Net Sales	11,299	15,946	11,248	-29.1	0.5	# We expect pipe and fittings sales volume at 88kt, +12% yoy, while PVC resin sales volume to be flat yoy. # Expect inventory gains to be minimal owing to the decline in PVC prices in Mar 2023.
EBITDA	1,876	2,647	923	-29.1	103.4	
EBITDA margin (%)	16.6	16.6	8.2	1bp	840bp	
<b>Consolidated APAT</b>	<b>1,192</b>	<b>1,191</b>	<b>799</b>	<b>0.2</b>	<b>49.2</b>	
<b>Steel Pipes</b>						
<b>APL Apollo Tubes</b>						
Net Sales	47,630	42,146	43,271	13.0	10.1	# In its 4QFY23 performance update, APL reported sales volume of 650kt, +18% yoy and 7% qoq. We expect realiation to increase by 5.6% qoq in-line with the rise in HRC prices # VAP revenue mix rose to 67% of total sales volume. # EBITDA/ton expected at Rs4800 vs Rs4500 qoq.
EBITDA	3,143	2,659	2,729	18.2	15.2	
EBITDA margin (%)	6.6	6.3	6.3	29bp	29bp	
<b>Consolidated APAT</b>	<b>1,950</b>	<b>1,628</b>	<b>1,692</b>	<b>19.8</b>	<b>15.3</b>	
<b>Sanitaryware &amp; Tiles</b>						
<b>Kajaria Ceramics</b>						
Net Sales	11,872	11,018	10,911	7.8	8.8	# We expect tile sales volume to grow by 5% yoy and 7% qoq to nearly 27msm in 4QFY23F. after a flattish 3QFY23. # Channel check reveals price cuts across tile categories in 4Q. Tile realization could surprise negatively. # Owing to propane/LPG now being expensive vs. natural gas, the fuel mix will largely be a mix of natural gas and bio-fuel (mustard husk) in 4QFY23F. # Lower fuel cost qoq should lead to higher EBITDA margin.
EBITDA	1,644	1,659	1,331	-0.9	23.5	
EBITDA margin (%)	13.8	15.1	12.2	-122bp	165bp	
<b>Consolidated APAT</b>	<b>984</b>	<b>958</b>	<b>743</b>	<b>2.7</b>	<b>32.4</b>	
<b>Cera Sanitaryware</b>						
Net Sales	5,066	4,099	4,578	23.6	10.7	# We expect a strong quarter with the sanitaryware segment's revenue to grow by 20% yoy. # Faucet and tile segment's revenue expected to grow by 29% yoy. # High base quarter EBITDA margin to lead to weaker EBITDA/PAT growth yoy.
EBITDA	866	797	750	8.7	15.5	
EBITDA margin (%)	17.1	19.4	16.4	-234bp	72bp	
<b>Consolidated APAT</b>	<b>597</b>	<b>583</b>	<b>564</b>	<b>2.3</b>	<b>5.8</b>	
<b>Plywood</b>						
<b>Century Plyboards</b>						
Net Sales	8,869	8,953	8,772	-0.9	1.1	# We expect an overall flattish 4QFY23F performance with revenue at Rs8.8bn #Plywood segment's revenue to grow 3% yoy and 1% qoq to Rs4.9bn #Laminate business to grow by 9% qoq and MDF business to decline by 8% qoq. #Overall EBITDA to decline by 17% yoy and grow by 5% qoq to Rs3bn and margins are expected to contract by 295bp yoy and expand by 50bp qoq to 15%.
EBITDA	1,333	1,609	1,274	-17.2	4.6	
EBITDA margin (%)	15.0	18.0	14.5	-295bp	50bp	
<b>Consolidated APAT</b>	<b>798</b>	<b>910</b>	<b>838</b>	<b>-12.3</b>	<b>-4.7</b>	
<b>Cumulative Financials</b>						
Net Sales	124,158	115,739	112,729	7.3	10.1	
EBITDA	13,664	15,227	9,554	-10.3	43.0	
EBITDA margin (%)	11.0	13.2	8.5	-215bp	253bp	
<b>Consolidated APAT</b>	<b>9,152</b>	<b>10,404</b>	<b>5,913</b>	<b>-12.0</b>	<b>54.8</b>	

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 5: Trend in commodity prices

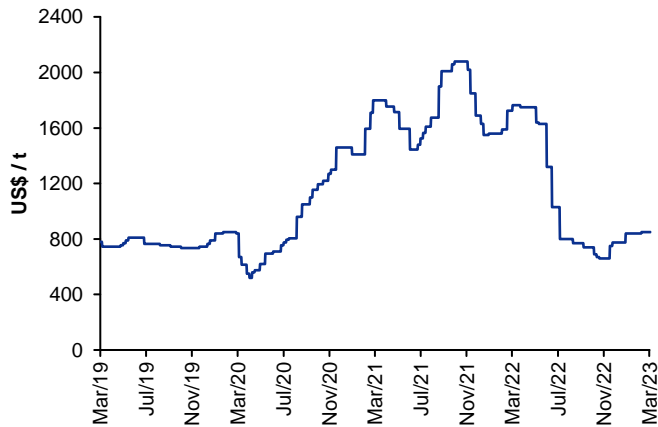


SOURCE: INCRED RESEARCH



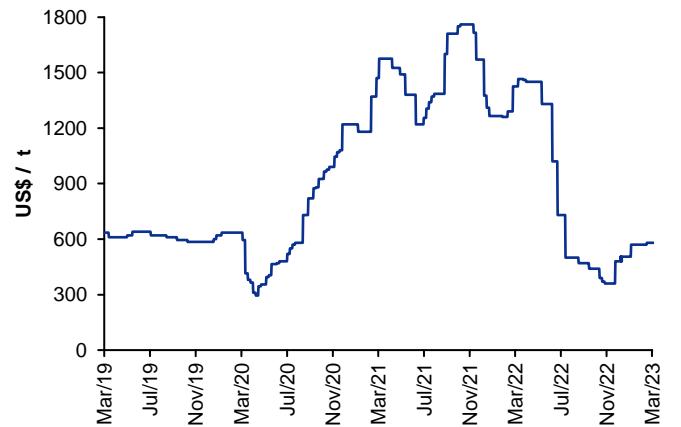
SOURCE: INCRED RESEARCH

PVC (Polyvinyl chloride) Resin



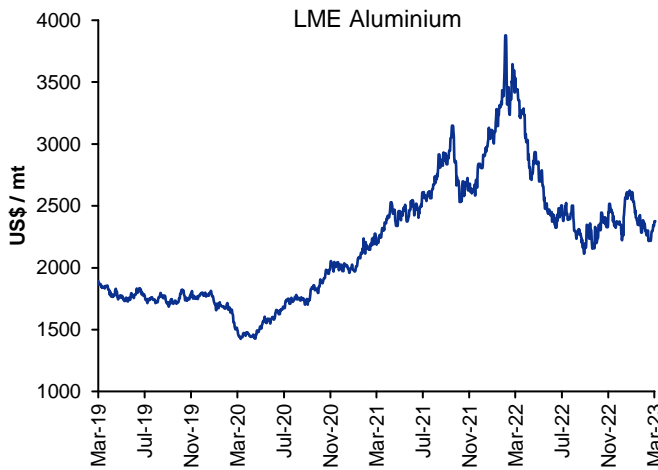
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VCM (Vinyl Chloride Monomer)



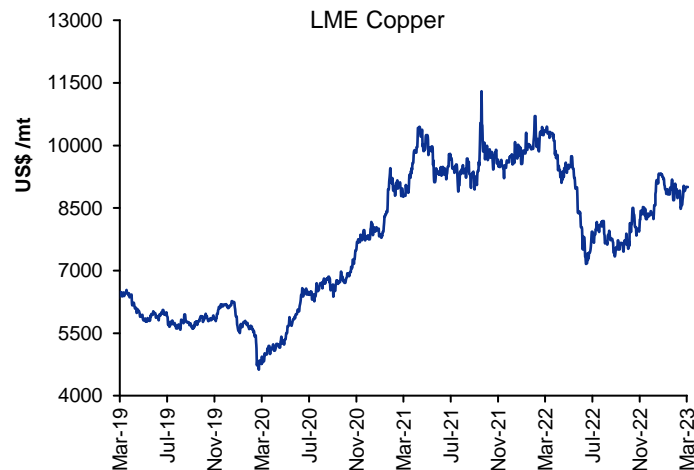
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LME Aluminium



SOURCE: INCRED RESEARCH

LME Copper



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