

India

**Overweight** (no change)

**Highlighted Companies**

**APL Apollo Tubes**

**ADD, TP Rs1814, Rs1547 close**

The company reported sales volume growth of 5% yoy in its 4Q business update. HRC steel price decline was very gradual in 4Q, aiding sales volume. Better sales mix will lead to a lower fall in realization yoy. We estimate EBITDA/t at Rs4,800 in 4QFY24F.

**Polycab India**

**ADD, TP Rs5465, Rs5302 close**

Quarterly PAT to surpass Rs5bn for the first time ever due to strong local demand from a diversified customer base (B2C, B2B, B2G) and a recovery in export deliveries in 4QFY24F. The sharp rise in copper prices (~10%) during Mar 2024 remains an upside risk as trade channels resort to upstocking. FMEG business to be soft. Consolidated EBITDA margin to be maintained at ~14%.

**Orient Electric**

**ADD, TP Rs269, Rs211 close**

We expect strong topline growth due to seasonal demand and a low base. Margins will remain soft as higher opex investments continue. Progress on new CEO appointment and Phase-1 commissioning of Hyderabad plant to be monitored.

**Summary Valuation Metrics**

P/E (x)	Mar24-F	Mar25-F	Mar26-F
APL Apollo Tubes	56.05	39.4	27.62
Polycab India	46.48	43.66	37.83
Orient Electric	46.11	32.87	24.26

P/BV (x)	Mar24-F	Mar25-F	Mar26-F
APL Apollo Tubes	11.91	9.54	7.4
Polycab India	9.97	8.52	7.29
Orient Electric	6.91	6.01	5.1

Dividend Yield	Mar24-F	Mar25-F	Mar26-F
APL Apollo Tubes	0.39%	0.45%	0.58%
Polycab India	0.47%	0.57%	0.66%
Orient Electric	0.71%	0.83%	1.18%

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# Industrial - Overall

## 4Q preview: Durables and building materials

- The quarter saw a similar qoq demand trend while supply rose. Good primary pick-up in summer-dependent products. Building materials trend was weak.
- Cable/wire, fan, air-conditioner, plastic pipe likely to display good sales volume growth. Other FMEG, wood panel, bathware and tiles show weakness.
- Good 4Q: Polycab, KEI, V-Guard. Weak 4Q: Havells, CG Consumer, Orient Electric, Astral, Supreme, Finolex Industries, Century Plyboard, Cera, Kajaria.

### FMEG business trend constant qoq; building materials trend gloomy

Our interactions with company managements and channel check indicate no material change in the FMEG and small domestic appliances segments qoq as demand remained weak. The building materials demand-supply equilibrium was balanced till Dec 2023, but wood panel, bathware and tiles have seen a meaningful deterioration in 4QFY24. FMEG remains fiercely competitive and new brands (~2-to-3-year-old) disturb market share economics for incumbents periodically. Cables and wires have also seen revival/entry of old/new brands both in North and West India. Prices of key raw materials such as aluminium, copper, hot-rolled coil steel, plastic and chemicals have been range-bound in Jan-Feb 2024. Timber prices remain elevated. We note that North India demand trend was weaker vs. West and South India. Regional competition, oversupplied local market and imports have led to slower sales growth for wood panels (medium density fibre, particle boards), tiles and bathware (sanitaryware and faucets) for our coverage universe in 4Q.

### Our expectations from consumer durable companies

We expect our cumulative coverage universe to deliver revenue/EBITDA/PAT growth of 13-14% yoy, with cable and wire (C&W) companies to continue their outperformance over FMEG peers. The extended winter season in North India led to West and South India brands doing relatively better in seasonal summer product sales. Fans, coolers and room air-conditioners have seen marginal price hikes and healthy primary fills in Mar 2024. Higher ad spends and one-time Extended Producer Responsibility (EPR) provisions will restrict EBITDA margin expansion yoy (ex-V-Guard Industries) in 4Q. We would monitor capex progress for Havells India – cables/refrigerators, Polycab India – EHV cables, Orient Electric – fans, KEI Industries – cables/wires, and Finolex Industries – optic fibre. V-Guard Industries, Polycab and KEI Industries to report a relatively better 4Q performance.

### Our expectations from building material companies

We expect a revenue growth of 4% yoy and EBITDA/PAT to decline by 6-12% yoy for our cumulative coverage universe (high base). We estimate strong sales volume growth (18-25% yoy) for plastic pipes while low single-digit growth for structural steel pipes, wood panels, bathware and tiles. We expect reported EBITDA margin to decline yoy across our coverage universe (ex-Kajaria Ceramics) due to no inventory gains (plastic pipes).

### What do we prefer?

Based on current PE-G matrix, we prefer APL Apollo, Polycab India, and Orient Electric.

**Figure 1: 4QFY24F earnings summary (Rs m)**

	Revenue	% yoy	EBITDA	% yoy	PAT	% yoy
Havells India	53,465	10.0	5,744	7.1	3,934	7.1
CG Consumer	19,711	10.1	2,217	4.9	1,403	7.0
V-Guard Inds.	12,887	13.0	1,243	26.0	717	36.0
Orient Electric	7,914	20.3	489	5.4	231	-6.4
Polycab India	50,484	16.8	7,270	19.3	5,117	20.5
Finolex Cables	13,299	8.6	1,616	10.9	1,771	1.2
KEI Industries	22,463	14.9	2,517	23.5	1,629	18.0
Astral	16,369	8.7	2,791	-9.7	1,697	-18.2
Supreme Industries	27,540	6.0	4,456	-7.2	2,982	-17.0
Finolex Industries	12,386	8.6	1,856	-14.6	1,531	-8.0
APL Apollo	45,119	1.8	3,269	1.3	1,963	-2.7
Kajaria Ceramics	12,653	5.0	2,004	13.9	1,173	4.4
Cera Sanitaryware	5,191	-2.5	841	-3.6	639	-5.7
Century Plyboard	9,997	3.9	1,235	-24.0	781	-30.7

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Valuation summary

Company Name	Bblg ticker	Rating	Market cap US\$m	Closing price Rs/share	Target price Rs/share	Upside [%]	P/E (x)		EV/E (x)		CAGR % (FY23-25F)		FY25F	
							FY24F	FY25F	FY24F	FY25F	Revenue	EPS	RoE (%)	RoCE (%)
<b>Electricals</b>														
Havells India	HAVL IN	ADD	11,556	1,539	1,513	-1.7	76.9	61.0	51.1	39.9	13.5	21.4	20.1	25.7
Polycab India	POLYCAB IN	ADD	9,407	5,225	5,465	4.6	45.8	43.0	31.6	28.4	18.6	21.5	21.1	28.5
KEI Industries	KEII IN	ADD	3,879	3,587	2,728	-23.9	55.8	47.3	38.3	31.7	17.0	19.6	19.8	26.0
CG Consumer Electricals	CROMPTON IN	HOLD	2,163	281	286	1.9	38.3	29.4	23.8	19.2	10.1	12.9	19.6	21.2
Finolex Cables	FNXC IN	REDUCE	1,856	1,013	809	-20.1	21.4	18.2	19.3	16.0	14.7	30.1	15.4	16.1
V-Guard	VGRD IN	REDUCE	1,765	339	294	-13.2	56.0	46.1	34.2	28.4	14.1	29.9	16.6	19.5
Orient Electric	ORIENTEL IN	ADD	543	213	269	26.4	46.4	33.1	24.9	16.1	12.6	34.0	19.6	27.3
<b>Simple Average</b>							<b>48.7</b>	<b>39.7</b>	<b>31.9</b>	<b>25.7</b>	<b>14.4</b>	<b>24.2</b>	<b>18.9</b>	<b>23.5</b>
<b>Building Materials</b>														
Astral	ASTRA IN	HOLD	6,640	2,063	1,736	-15.8	96.9	89.1	57.5	52.6	12.5	14.7	18.1	22.5
Supreme Industries	SI IN	REDUCE	6,383	4,193	3,771	-10.1	51.3	44.5	34.5	29.7	10.4	17.6	21.8	26.1
APL Apollo	APAT IN	ADD	5,152	1,549	1,814	17.1	56.1	39.4	34.8	25.1	13.1	30.3	26.9	29.5
Kajaria Ceramics	KJC IN	ADD	2,367	1,240	1,379	11.2	42.2	34.2	25.5	20.9	13.5	29.5	20.8	25.6
Finolex Industries	FNXP IN	REDUCE	1,895	255	182	-28.4	32.8	16.2	24.5	16.8	3.1	97.5	10.4	13.8
Century Plyboards	CPBI IN	REDUCE	1,779	668	595	-10.9	47.5	39.3	30.4	24.2	10.7	1.5	16.0	18.4
Cera Sanitaryware	CRS IN	HOLD	1,168	7,495	7,903	5.4	42.3	37.0	30.7	26.1	8.5	12.2	18.5	23.3
<b>Simple Average</b>							<b>52.7</b>	<b>42.8</b>	<b>34.0</b>	<b>27.9</b>	<b>10.2</b>	<b>29.0</b>	<b>18.9</b>	<b>22.8</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Consumer durables sector 4QFY24 earnings preview

	Change (%)				Key highlights for the quarter	
	4QFY24F	4QFY23A	3QFY24A	yoy qoq		
<b>Fast Moving Electrical Goods (FMEG)</b>						
<b>Havells India</b>						
Net Sales	53,465	48,592	44,139	10.0	21.1	# ECD (fans), Lloyd (room ACs) and Others segments would drive revenue growth in 4Q
EBITDA	5,744	5,364	4,327	7.1	32.7	(14-20% yoy) led by good primary channel fills for summer products and consistent healthy
EBITDA margin (%)	10.7	11.0	9.8	-30bp	94bp	demand from the e-commerce channel.
Consolidated PAT	3,934	3,673	2,879	7.1	36.7	# Switchgear revenue would decline yoy due to the high base effect while lighting would see flattish revenue yoy due to continued pricing decline. # Expect a modest revenue increase of 6% yoy for the C&W segment. # Gross/EBITDA margins to be flattish yoy. # Lloyd's revenue growth estimated at 20% yoy (new plant + seasonal room AC demand) and EBIT loss estimated at Rs294m, 1.9% of sales. # We expect the company's board to recommend a final dividend of Rs5/share for FY24F. Expect net cash to be approx. Rs30bn at the end of Mar 2024F.
<b>CG Consumer (Consolidated)</b>						
Net Sales	19,711	17,910	16,927	10.1	16.4	# Expect ECD segment's sales growth at 13% yoy due to the high base for fans and pump
EBITDA	2,217	2,114	1,498	4.9	48.0	revenue.
EBITDA margin (%)	11.3	11.8	8.8	-56bp	240bp	# Lighting sales estimated to be flat yoy due to pricing weakness.
Consolidated PAT	1,403	1,312	860	7.0	63.2	# Due to a low base quarter, we expect Butterfly to report a revenue growth of 8% yoy (~Rs2bn) in 4QFY24F. Owing to an off-season quarter, EBITDA margin would continue to be sub-par due to inefficient fixed-cost absorption. # Crompton 2.0 (absolute profit-led strategy) would lead to flattish gross margins yoy at 31.5% while a lower EBITDA margin of 11.3% (down 60bp yoy) due to higher ad spends. # Net profit growth yoy would be aided by lower financial costs yoy (debt repaid of ~Rs3bn in 4QFY24F).
<b>V-Guard Industries (Consolidated)</b>						
Net Sales	12,887	11,401	11,654	13.0	10.6	# We expect consumer durables revenue growth of 17% yoy, followed by electronics at
EBITDA	1,243	987	1,016	26.0	22.3	11% yoy and then electricals at 8% yoy in 4QFY24F.
EBITDA margin (%)	9.6	8.7	8.7	100bp	93bp	# Sunflame was consolidated from 12 Jan 2023. 4QFY24F would not be an LTL
Consolidated PAT	717	527	582	36.0	23.2	comparison due to partial consolidation yoy. # We expect Sunflame revenue at Rs839m with the EBITDA margin at ~10%. # Consolidated margin is expected to continue to improve, with gross and EBITDA margin expansion of 180bp and 100bp yoy, respectively. # Expenses provision (~Rs25-30m) for accelerated sales program of inverters could lead to a marginal negative impact on EBITDA margin in 4QFY24F (not a part of our estimates). # New plant commissioning (battery + kitchen appliances) should lead to an increase in depreciation costs qoq.
<b>Orient Electric</b>						
Net Sales	7,914	6,579	7,519	20.3	5.2	# We expect ECD revenue growth of 25% yoy owing to good seasonal summer demand for
EBITDA	489	464	489	5.4	-0.0	fans and a low base yoy. The extended winter season in North India could be a downside
EBITDA margin (%)	6.2	7.0	6.5	-87bp	-33bp	risk to our estimates.
Consolidated PAT	231	246	243	-6.4	-5.2	# We expect lighting and switchgear segment's revenue growth at 8% yoy. Pricing erosion continues globally for LED products, impacting the segment's value growth. # We expect gross margin improvement yoy while sustaining the qoq level of ~30%. However, given higher re-investments in talent acquisition, after-sales, branding and promotions, EBITDA margin is expected to be lower by 90bp yoy at 6.2% in 4QFY24F. # Updates on the appointment of the CEO and commissioning of Phase-1 of the greenfield Hyderabad plant are the important things that need to be tracked.
<b>Cable &amp; Wire</b>						
<b>Polycab India</b>						
Net Sales	50,484	43,237	43,405	16.8	16.3	# Average copper prices were down 3-5% yoy in 4QFY24.
EBITDA	7,270	6,095	5,695	19.3	27.6	# We expect C&W segment's revenue growth at 14% yoy aided by continued demand
EBITDA margin (%)	14.4	14.1	13.1	30bp	128bp	momentum in the domestic market and recovery in export sales (postponement from
Consolidated PAT	5,117	4,247	4,129	20.5	23.9	3QFY24). # Sharp upmove of ~10% in copper prices in Mar 2024 could be an upside risk to our revenue growth estimates, given channel upstocking. # The FMEG segment's revenue growth would be sub-par at 4% yoy, in our view. # Gross margin improvement yoy will continue while stability should sustain qoq at 26.3%, +110bp yoy. # However, higher staff costs and opex growth vs. revenue growth would restrict EBITDA margin expansion to 30bp yoy at 14.4% in 4QFY24F. # Quarterly net profit would be >Rs5bn for the first time historically.
<b>Finolex Cables</b>						
Net Sales	13,299	12,243	12,217	8.6	8.9	# We estimate electrical cable revenue at >Rs11bn, +9% yoy, in 4QFY24F.
EBITDA	1,616	1,457	1,337	10.9	20.9	# Communication cable revenue expected to be flat yoy due to the delay in getting new
EBITDA margin (%)	12.2	11.9	10.9	25bp	121bp	orders.
Consolidated PAT	1,771	1,750	1,510	1.2	17.3	# The FMEG segment's sales are expected to grow 15%+ yoy on a low base led by new product launches. # We expect gross margin to improve by 20bp yoy to 21.5% while improving qoq (due to a better mix). The EBITDA margin is expected to be back to 12%+ in 4QFY24F.
<b>KEI Industries</b>						
Net Sales	22,463	19,545	20,617	14.9	9.0	# We expect KEI Industries to meet its FY24F revenue growth guidance. We estimate
EBITDA	2,517	2,038	2,273	23.5	10.7	cable segment's sales growth at 15% yoy.
EBITDA margin (%)	11.2	10.4	11.0	78bp	18bp	# Steel wire would see lower revenue growth due to a correction in stainless steel prices in
Consolidated PAT	1,629	1,381	1,507	18.0	8.1	4QFY24. The EPC segment should achieve annual sales of Rs5bn+. # Gross margin is expected to be stable at ~26%. However, operating leverage should aid the EBITDA margin to touch 11.2%, +80bp yoy, in 4QFY24F.
<b>Aggregate sector financials</b>						
Net Sales	1,80,222	1,59,508	1,56,477	13.0	15.2	
EBITDA	21,096	18,519	16,636	13.9	26.8	
EBITDA margin (%)	11.7	11.6	10.6	10bp	107bp	
Consolidated PAT	14,803	13,137	11,710	12.7	26.4	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Building materials sector 4QFY24 earnings preview

	4QFY24F	4QFY23A	3QFY24A	Change (%)		Key highlights for the quarter
				yoy	qoq	
<b>Plastic pipes</b>						
<b>Astral</b>						
Net Sales	16,369	15,062	13,702	8.7	19.5	# PVC and CPVC resin prices were largely stable qoq. However, on a yoy basis, PVC prices are down ~15% yoy and that would impact consolidated revenue growth yoy.
EBITDA	2,791	3,089	2,051	-9.7	36.1	# A strong base quarter would restrict EBITDA/PAT growth yoy in 4QFY24F.
EBITDA margin (%)	17.0	20.5	15.0	-346bp	208bp	# We expect plastic product sales volume at 64kt, +18% yoy.
<b>Consolidated APAT</b>	<b>1,697</b>	<b>2,075</b>	<b>1,135</b>	<b>-18.2</b>	<b>49.5</b>	# We expect plastic product EBITDA margin at Rs36/kg, down ~25% yoy. Base quarter EBITDA margin was abnormally high at Rs48/kg. # We expect adhesives revenue growth at 15% yoy as chemical prices have stabilized. Paint sales to remain sub-par, down ~10% yoy. # Bathware sales are expected at Rs225m, +83% yoy, while EBITDA loss should be flat at Rs35m yoy.
<b>Supreme Industries</b>						
Net Sales	27,540	25,983	24,491	6.0	12.5	# PVC prices were stable qoq in India, averaging ~Rs78/kg in 4QFY24F. However, on a yoy basis, PVC prices were down ~15% yoy and that would restrict revenue growth yoy.
EBITDA	4,456	4,803	3,788	-7.2	17.6	# We expect plastic pipe sales volume at 141.5kt, +26% yoy. Industrial segment's sales volume growth at 10% yoy would be aided by a seasonally strong quarter while the packaging and consumer product segment's sales volume is expected to be flattish yoy.
EBITDA margin (%)	16.2	18.5	15.5	-230bp	71bp	# Consolidated sales volume is estimated at 178.5kt, +21% yoy, while realization is expected to decline 12.5% yoy due to the decline in PVC prices in India, leading to a revenue growth of 6% yoy.
<b>Consolidated APAT</b>	<b>2,982</b>	<b>3,594</b>	<b>2,562</b>	<b>-17.0</b>	<b>16.4</b>	# Base quarter yoy had large inventory gains of Rs3-4/kg. Hence, consolidated EBITDA margin would decline to Rs25/kg, down 23% yoy.
<b>Finlex Industries</b>						
Net Sales	12,386	11,411	10,197	8.6	21.5	# We expect pipes and fittings sales volume at 98kt, +20% yoy, owing to good seasonal demand for agriculture pipe and fittings in 4QFY24F.
EBITDA	1,856	2,174	1,199	-14.6	54.8	# Realization is expected to be lower by 11% yoy, in line with the drop in PVC prices by 15% yoy, restricting revenue growth (~6-7% yoy) for the pipes and fittings segment.
EBITDA margin (%)	15.0	19.1	11.8	-407bp	323bp	# Slack sales volume from the previous quarter would lead to higher-than-normal sales (85kt, +46% yoy) of PVC resins in 4QFY24F.
<b>Consolidated APAT</b>	<b>1,531</b>	<b>1,665</b>	<b>954</b>	<b>-8.0</b>	<b>60.5</b>	# Despite PVC-EDC and PVC-VCM spreads worsening qoq, higher sales volume would lead to a marginal decline in the resin segment's margins. # We estimate EBIT margin of ~Rs11/kg for pipes and fittings and ~Rs6.5/kg for the resin segment in 4QFY24F. # Update on capex plan and leasehold land usage rights sale would be key monitorables.
<b>Steel Tube</b>						
<b>APL Apollo Tubes</b>						
Net Sales	45,119	44,311	41,778	1.8	8.0	# HRC prices in India weakened qoq. Average HRC prices stood at Rs54k/t, down 6% qoq.
EBITDA	3,269	3,229	2,795	1.3	17.0	# Spreads between primary and secondary structural steel products remained high at Rs15-18/kg, leading to pressure on general structure product sales in 4QFY24F.
EBITDA margin (%)	7.2	7.3	6.7	-4bp	55bp	# Better sales mix to lead to a lower decline in realization by 3% yoy.
<b>Consolidated APAT</b>	<b>1,963</b>	<b>2,018</b>	<b>1,655</b>	<b>-2.7</b>	<b>18.6</b>	# 4Q sales volume stood at 679kt, +5% yoy, as disclosed in the 4QFY24 business update on 1 Apr 2024. # We expect EBITDA/t at ~Rs4,800, given a better mix and improved absorption of fixed costs qoq.
<b>Tiles and Bathware</b>						
<b>Kajaria Ceramics</b>						
Net Sales	12,653	12,048	11,518	5.0	9.9	# Tile demand remained subdued pan-India. South and West India markets saw relatively better demand versus North India in 4QFY24F, as per our channel check.
EBITDA	2,004	1,759	1,788	13.9	12.1	# We expect tile sales volume at ~30mms, +6% yoy, in 4QFY24F. ASP expected to follow a flat-to-declining trend (down 3% yoy).
EBITDA margin (%)	15.8	14.6	15.5	124bp	32bp	# Bathware sales would reach ~Rs1bn, +12% yoy. Plywood should show better sales growth momentum (~Rs350m+ sales). Adhesive sales growth qoq would be restricted due to lower tile sale volume in 4QFY24F.
<b>Consolidated APAT</b>	<b>1,173</b>	<b>1,124</b>	<b>1,042</b>	<b>4.4</b>	<b>12.6</b>	# We expect margins to be better yoy due to an improving mix and lower fuel costs yoy. # We note that the base quarter had a sub-par (22%) effective tax rate.
<b>Cera</b>						
Net Sales	5,191	5,325	4,389	-2.5	18.3	# Owing to soft demand for bathware products, as per channel check, for the quarter and a high base quarter, we expect a decline in revenue for sanitaryware (down 5% yoy) and tiles (down 9% yoy) in 4QFY24F.
EBITDA	841	872	614	-3.6	36.9	# Faucet revenue expected at ~Rs2bn, +3% yoy.
EBITDA margin (%)	16.2	16.4	14.0	-18bp	220bp	# Gross and EBITDA margins to be stable yoy.
<b>Consolidated APAT</b>	<b>639</b>	<b>678</b>	<b>509</b>	<b>-5.7</b>	<b>25.6</b>	# Expect dividend (~30% payout) recommendation by the company's board.
<b>Wood Panel</b>						
<b>Century Plyboards</b>						
Net Sales	9,997	9,618	9,343	3.9	7.0	# We expect the quarter to be weak, similar to management's guidance in 3QFY24.
EBITDA	1,235	1,626	1,071	-24.0	15.4	# Laminate and MDF sales would be aided by higher utilisation of spare and new capacities.
EBITDA margin (%)	12.4	16.9	11.5	-455bp	90bp	# Sales volume growth yoy - a) Plywood: +3%; b) Laminate: +15%; c) MDF: +18%; d) Particle Board: 5% yoy.
<b>Consolidated APAT</b>	<b>781</b>	<b>1,127</b>	<b>646</b>	<b>-30.7</b>	<b>20.9</b>	# Plywood realization should be flattish while laminate, MDF and PB realizations would decline between 4-12% yoy. # The EBITDA margin would decline across segments yoy, given limitations on raising prices due to competition and high input costs.
<b>Aggregate sector financials</b>						
Net Sales	1,29,255	1,23,758	1,15,417	4.4	12.0	
EBITDA	16,453	17,552	13,307	-6.3	23.6	
EBITDA margin (%)	12.7	14.2	11.5	-145bp	120bp	
<b>Consolidated APAT</b>	<b>10,767</b>	<b>12,280</b>	<b>8,503</b>	<b>-12.3</b>	<b>26.6</b>	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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