CRISIL
Ratings

Press release

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Premiumisation to lift consumer durables revenue 8-10% this fiscal

Profitability to remain below pre-pandemic level, strong balance sheets to support credit profiles

The consumer durables sector[1] will see revenue grow 8-10% this fiscal, supported by premiumisation and steady growth in urban demand. This will be on the back of a healthy volume-led, post-pandemic growth of ~18% last fiscal.

Operating profitability will also improve this fiscal due to softening of raw material prices, reversing two years of contraction. Yet, it will remain below the pre-pandemic level, amid intense competition.

Credit profiles will remain stable, backed by strong balance sheets, despite some capital expenditure (capex) under the Production Linked Incentive (PLI) scheme.

A CRISIL Ratings analysis of eight companies accounting for around half of the market in value terms, indicates as much.

Says Mohit Makhija, Senior Director, CRISIL Ratings, "Demand for premium appliances is expected to gain traction this fiscal. This will play out in three ways: one, rising demand for appliances with smart technologies that integrate seamlessly with other home appliances; two, up-trading to higher capacity/sizes at limited incremental cost; and three, efficient appliances that lower the operating costs. Appliances such as air conditioners and television (TV) sets will benefit more due to this trend."

Some examples of premiumisation are large-screen TVs with smart features and inverter technology-based air conditioners that are more energy efficient.

Demand will also be fuelled by a near 67% growth in residential real estate area sold in the top six cities over the past two years. Improved residential real estate sales typically trigger demand for appliances after a lag, which is likely to play out this fiscal.

On the other hand, demand for non-premium or basic appliances will remain modest. Demand for such products is typically driven by rural or semi-urban areas and purchasing power of consumers in these areas will be affected by high inflation and the impact of erratic monsoon on income levels.

In addition to the revenue uplift, softening raw material costs (~70% of overall costs) will provide some respite. Average input prices of key commodities such as copper, aluminium and steel are likely to be lower by 12-15% this fiscal from the highs of fiscal 2022.

Says Anand Kulkarni, Director, CRISIL Ratings, "Operating profitability may recover by up to 100 basis points this fiscal after the steep drop in the past two fiscals due to rising input prices. The competitive environment, which forced players to take lower-than-warranted price hikes, had also contributed to the contraction in profitability. Considering the continued competitive pressure, recovery to the pre-pandemic profitability is still distant."

Still, credit profiles remain stable, backed by low leverage as reflected in a debt to earnings before interest, taxes, depreciation and amortisation ratio of below 0.3 time expected for this fiscal.

The low leverage will be despite manufacturers, especially of ACs, taking up capex under the PLI scheme. Investments of ~Rs 4,800 crore have been committed by manufacturers of appliances as well as components under the PLI scheme, which will yield benefits over the medium term.

That said, improvement in the rural economy will be essential for sustained and balanced demand. The extent of input price upswings and competitive intensity will also be monitorable.

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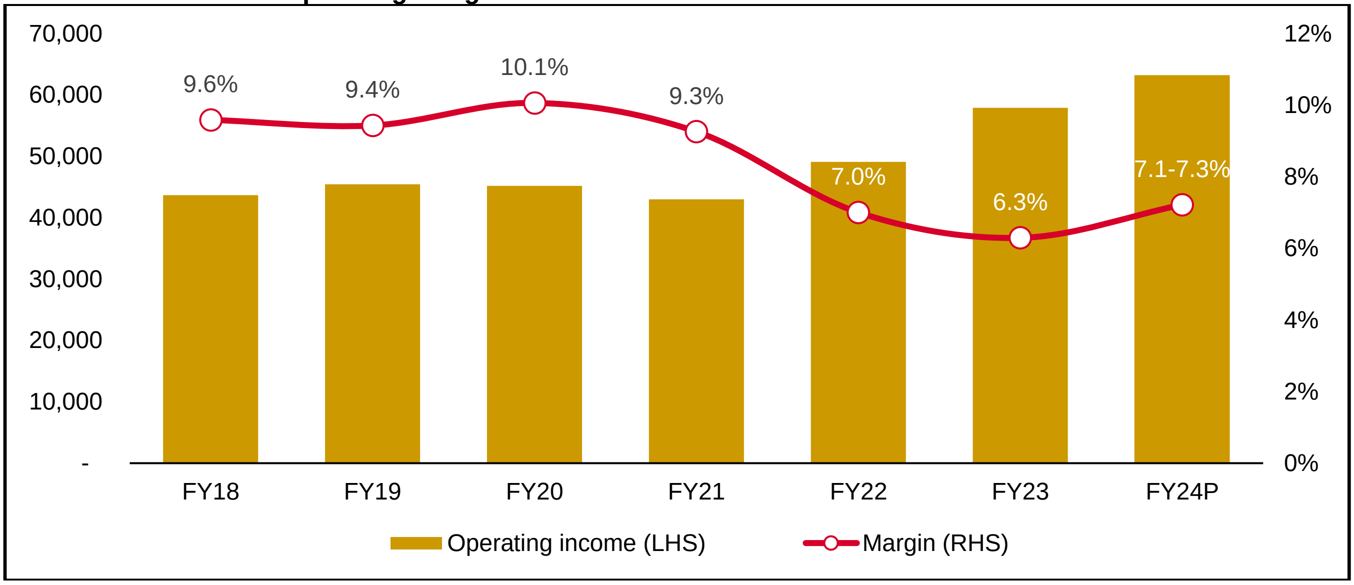
[1] Comprises manufacturers of large appliances such as TVs, refrigerators, washing machines and air conditioners.

Annexure

Chart 1: Revenue and operating margin trends



Source: Industry and CRISIL Ratings (sample of eight companies)

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