INSTITUTIONAL RESEARCH

Sector Thematic

Consumer Durables

Fans - a compounding story but underrated

The consumer durable industry, including fans, has seen numerous trends over the past decade. However, fan continues to remain an underrated category. The industry (>INR 90bn) has seen a shift across product evolution, customer preferences, and distribution. With the best RoCE amongst durables, fans have helped companies reinvest and diversify into other appliances. We see further transformation in the fan industry with the implementation of energy efficiency norms, which would consolidate the industry further. We believe top brands including Crompton Consumer, Havells and Orient Electric stand to benefit the most from the industry transformation. We initiate coverage on Orient Electric with a BUY rating and maintain our BUY rating on Crompton Consumer and ADD ratings on Havells, Voltas, TTK Prestige, V-Guard and Symphony. We roll forward the target price for our coverage universe to FY24.

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Consumer Durables

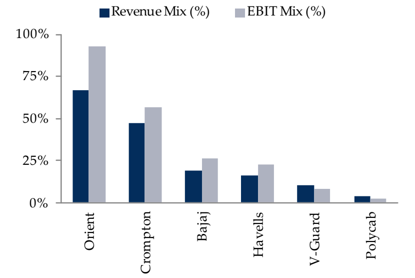
Fans - a compounding story but underrated

The consumer durable industry, including fans, has seen numerous trends over the past decade. However, fan continues to remain an underrated category. The industry (>INR 90bn) has seen a shift across product evolution, customer preferences, and distribution. With the best RoCE amongst durables, fans have helped companies reinvest and diversify into other appliances. We see further transformation in the fan industry with the implementation of energy efficiency norms, which would consolidate the industry further. We believe top brands including Crompton Consumer, Havells and Orient Electric stand to benefit the most from the industry transformation. We initiate coverage on Orient Electric with a BUY rating and maintain our BUY rating on Crompton Consumer and ADD ratings on Havells, Voltas, TTK Prestige, V-Guard and Symphony. We roll forward the target price for our coverage universe to FY24.

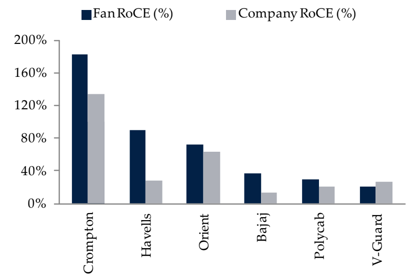
- **Fan fits in India's consumption story:** Fan is a part of India's traditional consumption story, with its journey evolving from being a necessity product to becoming an aspirational one. While the functional benefit of fans is 'necessity', the trends in design and technology are making this category aspirational. India's large consumption theme for electrical goods is around (1) electrification, (2) urbanisation, (3) premiumisation, (4) shift from unorganised, and (5) domestic manufacturing. We believe fans fit in well with India's consumption theme and will continue to enjoy all drivers.
- **New housing/home improvement theme to further drive premiumisation:** We believe that if the ongoing housing theme sustains, led by low home loan rates and positive consumer sentiment, categories like fan would benefit. New house demand leads to higher consumption (with a higher number of fan units being installed in a new house vs. general replacement demand) and premiumisation.
- **Traditional but best RoCE business:** The fan business at times was considered a commodity business with limited pricing power, high sensitivity to commodity inflation, and strong presence of regional/unorganised brands. Top players are driving the category with product innovation, strong marketing, and distribution expansion. The fan business requires limited capital investment and offers one of the best returns among all consumer durable categories. Low capital requirements along with superior operating margins are what makes this category unique amongst all other categories.
- **Fan is a crucial pie, important for reinvestment story**: Many investors/analysts prefer companies' entry into non-traditional categories that offer non-linear revenue growth. However, such reinvestment is taking place due to the strong business economies of traditional businesses like fans. In our view, the fan business does not only have a superior return profile but is also one of the best compounding stories among all the CD categories.
- **Near-term outlook and future winners:** We believe improving housing activities and resumption of Capex would sustain strong revenue traction in the coming quarters. Leading companies have already taken price hikes to pass on most of the costs; however, continued raw material inflation remains a concern. Leading fan players have initiated several effective strategies that are not only developing the category but will also help gain market share. Consumers prefer top brands across consumer categories, which would be of benefit to the top brands in the fan category. Crompton, Havells and Orient are category winners, and we believe their winning strategies will maintain their leadership position. Crompton remains our top pick in the coverage universe.

Company	CMP (INR)	Reco.
Havells	1,409	ADD
Voltas	1,309	ADD
Crompton	482	BUY
TTK Prestige	8,920	ADD
V-Guard	234	ADD
Symphony	1,072	ADD
Orient Electric	338	BUY

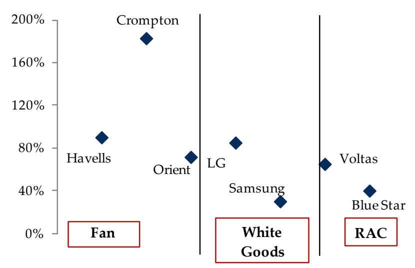
Fan Revenue and EBIT (% of Total Revenue and EBIT)



RoCE: Fan vs. Company



RoCE: Across categories



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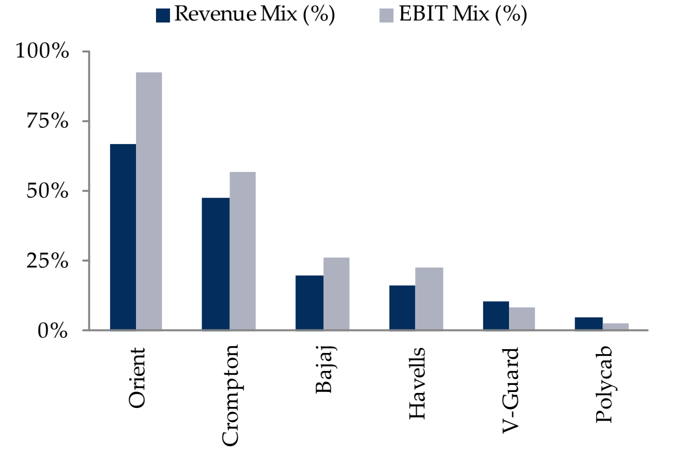
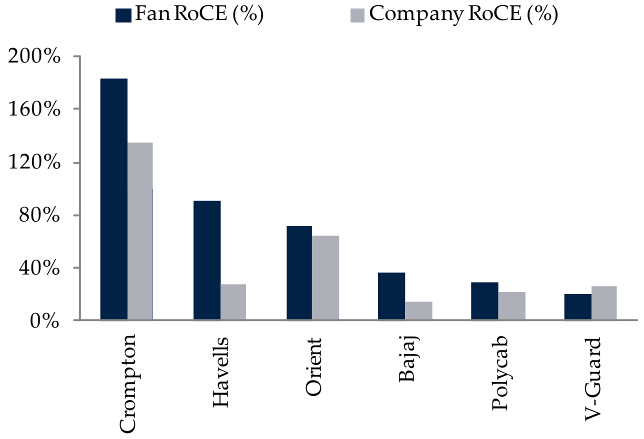
Focus Charts

Exhibit 1: Fan Revenue and EBIT % of Total Revenue and EBIT



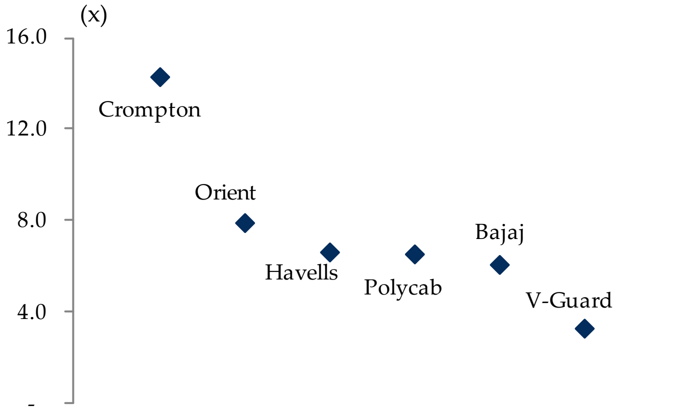
Source: HSIE Research

Exhibit 2: RoCE: Fan vs. Company



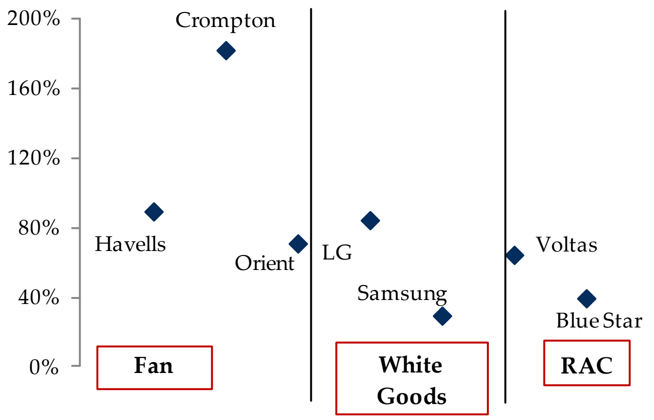
Source: HSIE Research

Exhibit 3: Fan: Asset turnover ratio



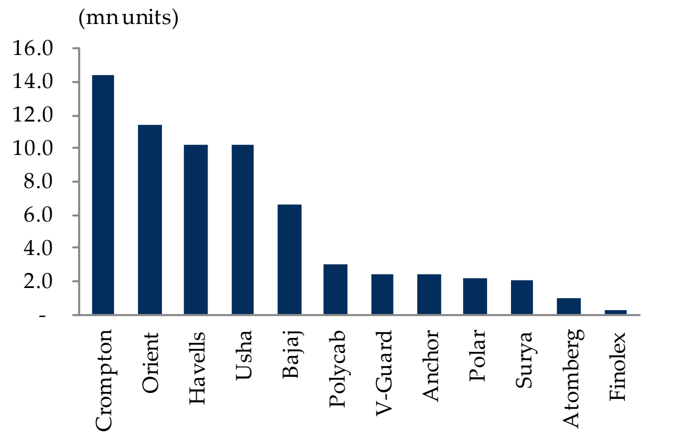
Source: HSIE Research

Exhibit 4: RoCE: Across categories



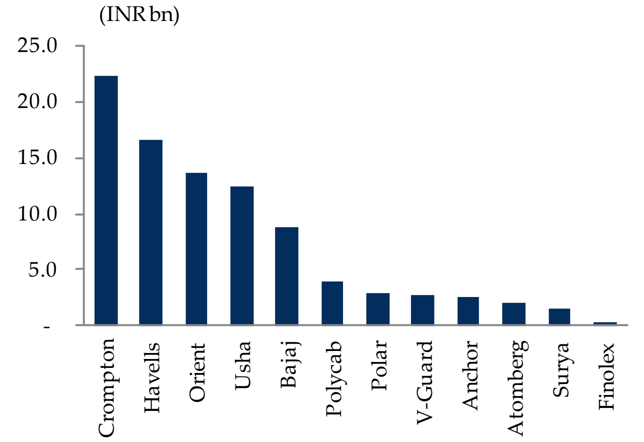
Source: HSIE Research

Exhibit 5: Fan Volume: Player-wise



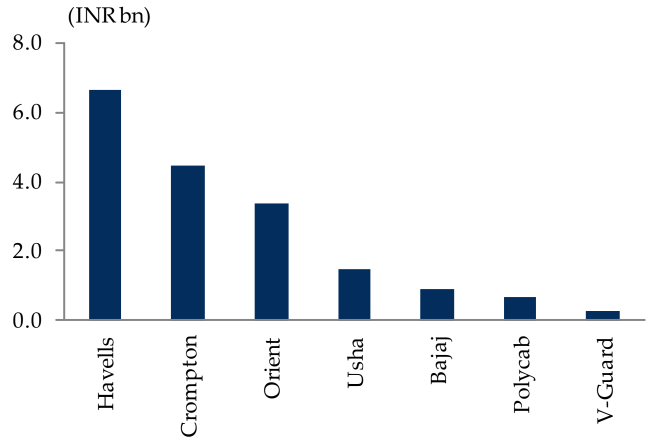
Source: HSIE Research

Exhibit 6: Fan Revenue: Player-wise



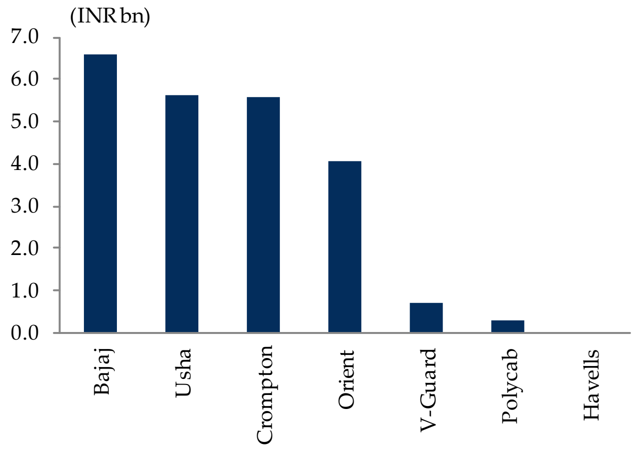
Source: HSIE Research

Exhibit 7: Revenue mix: Premium Fan



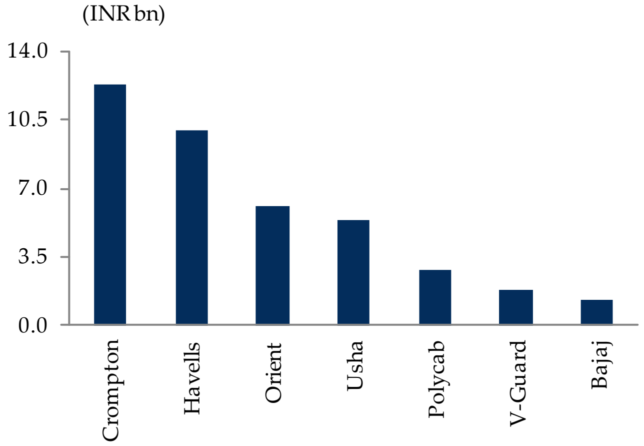
Source: HSIE Research

Exhibit 8: Revenue mix: Mass Premium



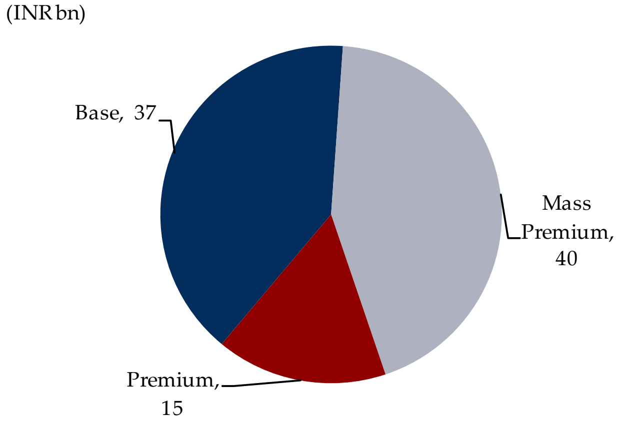
Source: HSIE Research

Exhibit 9: Revenue mix: Economy



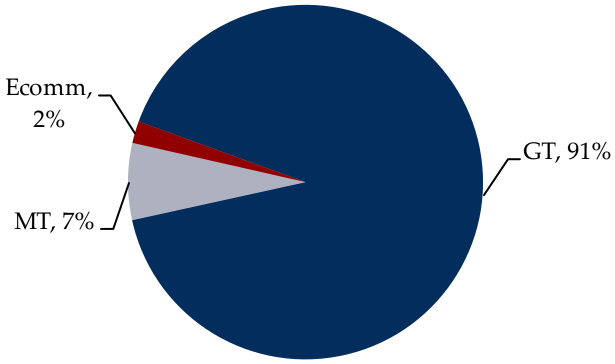
Source: HSIE Research

Exhibit 10: Industry Revenue Mix



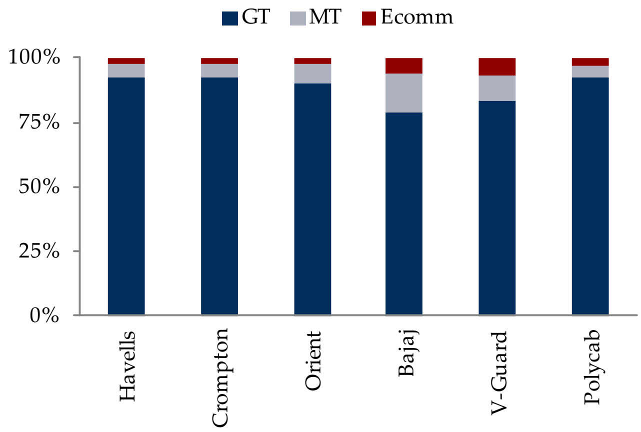
Source: HSIE Research

Exhibit 11: Fan Industry: Distribution channel mix



Source: HSIE Research

Exhibit 12: Fan Top Players: Distribution channel mix



Source: HSIE Research

Table of content

Fan category: compounding story

Fan fits in India's consumption story

Fan is part of India's traditional consumption story with its journey evolving from being a necessity product to becoming an aspirational one. While the functional benefit of fans is necessity, the trends in design and technology are making this category aspirational.

India's large consumption theme for electrical goods is around (1) electrification, (2) urbanisation, (3) premiumisation, (4) shift from unorganised to organised, and (5) domestic manufacturing. We believe fans fit in the India's consumption theme and will continue to enjoy all drivers.

Fan penetration is one of the highest among consumer durable categories, but we still expect organised industry growth trajectory to remain healthy and sustain ~1.2x of India's nominal GDP growth rate. The historical multiplier was around 1.2-1.4x on the nominal GDP growth rate and 2.5x on real GDP (with limited inflation in fan, historical industry growth can be compared with real GDP too). We see number of fans/HH (similar to two-wheeler story) going up with rising penetration for electrification and large replacement potential (fan installed base is one of the highest among electrical goods, probably next to lighting).

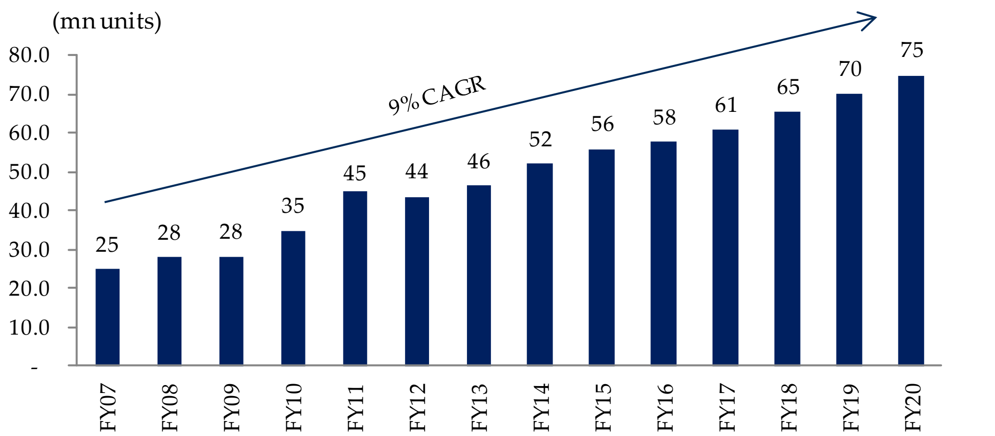
COVID has impacted consumption and consumer behaviour over the past 18-months; however, the home improvement theme has become stronger in the past 12 months. Many categories/companies have shown relatively stronger recovery after the first wave. We expect home improvement and new housing (low home loan rate, consumer sentiments) to remain stronger in the near to medium term.

Exhibit 13: Fan industry

Fan Market	Volume (mn units)	Size (INR bn)
Domestic Fan	75	92
- Organised	60	80
- Unorganised	15	12
Exports	5	4
Total	**80**	**96**

Source: Companies, HSIE Research

Exhibit 14: Domestic fan industry volume



Source: Companies, HSIE Research

Exhibit 15: Fan industry estimates

Particulars	FY20	1 Yr FY22E	2 Yr FY23E	3 Yr FY24E	4 Yr FY25E	5 Yr FY26E	5 Yr CAGR
Units mn							
Domestic Fan (mn units)	75	80	87	95	103	112	8%
- Organised	60	64	71	77	84	91	9%
- Unorganised	15	16	17	18	19	20	6%
Exports	5	5	5	5	6	6	3%
Total	**80**	**85**	**93**	**100**	**108**	**117**	**8%**
YoY Gr (%)							
Domestic Fan (mn units)							
- Organised		7%	10%	9%	9%	9%	
- Unorganised		5%	7%	6%	6%	6%	
Exports		3%	3%	3%	3%	3%	
Total		**6%**	**9%**	**8%**	**8%**	**8%**	
Seg. Volume Mix (%)							
Base	50%	49%	47%	46%	44%	43%	
Mass Premium	40%	41%	42%	42%	43%	44%	
Premium	10%	11%	12%	12%	13%	14%	
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	
Domestic Seg Volume (mn units)							
Base	38	39	41	43	45	47	5%
Mass Premium	30	33	36	40	44	49	10%
Premium	8	9	10	12	13	15	15%
Total	**75**	**80**	**87**	**95**	**103**	**112**	**8%**
Realisation Growth (%)							
Base		10%	1%	1%	1%	1%	
Mass Premium		13%	2%	1%	1%	1%	
Premium		13%	4%	2%	1%	1%	
Total		**13%**	**3%**	**2%**	**2%**	**2%**	
Domestic Seg Value (INR bn)							
Base	37	42	45	48	50	53	8%
Mass Premium	40	49	56	63	70	78	14%
Premium	15	19	24	28	32	38	20%
Total	**92**	**111**	**125**	**138**	**152**	**168**	**13%**

Source: HSIE Research
Note: Base fan <INR 1,500, Mass Premium INR 1500-2500, Premium: >INR 2,500

Fan – the utility to aspirational journey

Fan as a product is a necessity product and rising electrification further increasing its penetration level (~70% currently). However, premium/decorative/tech enabled fans are becoming aspirational products.

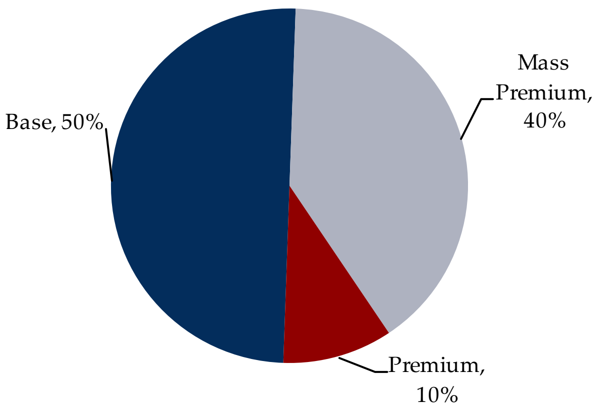
The width of price range for fans have improved significantly over the past 5-7 years. Although a large part of the market is still at an economy and mass premium level, product innovation and marketing are driving the premium segment. Strong product innovations with effective marketing are making fans aspirational products. Fans are now available at a price range of INR 800-100k.

Categories that have both necessity and aspirational drivers are the best categories, in our opinion.

Category	**Nessecity Drivers**	**Aspirational Drivers**
Fan		
Lighting		
TV		
Mobile		
Refrigerator		
Washing machine		
RAC		
Microwave		
Mixer grinder		
Air cooler		

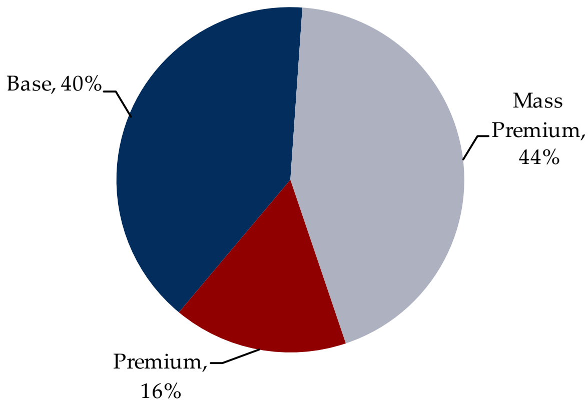
	Strong drivers
	Medium drivers
	Weak drivers

Exhibit 16: Fan industry: volume mix



Source: Companies, HSIE Research

Exhibit 17: Fan industry: value mix



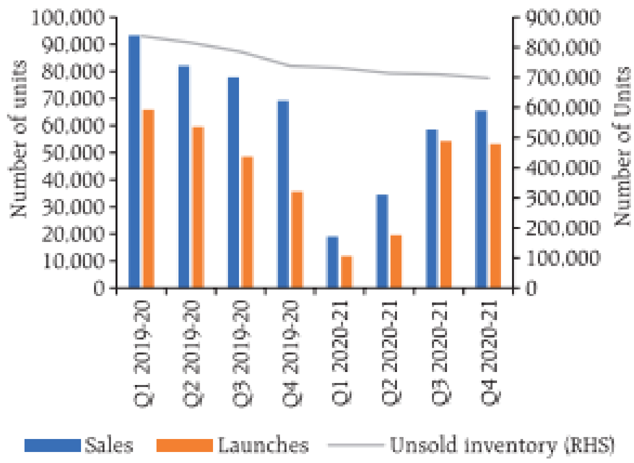
Source: Companies, HSIE Research

New-housing/home improvement theme to further drive premiumisation

We believe that if the ongoing housing theme sustains, led by low home loan rates and positive consumer sentiment, categories such as fan will benefit. New house demand leads to higher consumption (with more number of fan units being installed in a new house vs. general replacement demand) and premiumisaiton.

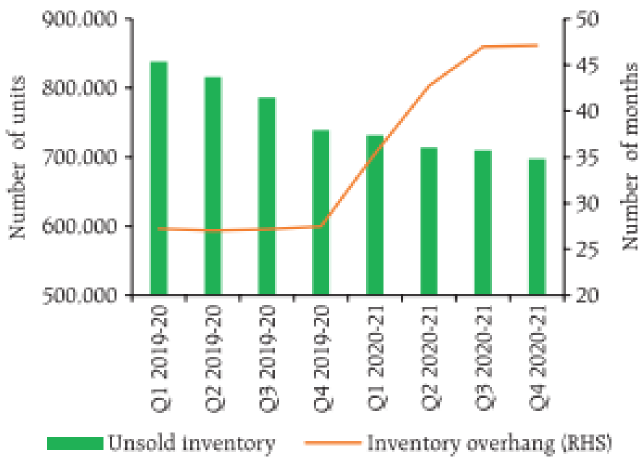
According to RBI's financial stability report released in July'21, the housing slowdown seen even before the onset of COVID has bottomed out in Q1FY21. The unsold inventory levels have dropped steadily in the past four quarters to around 0.7mn (0.85mn in Q1FY21), at a two-year low, as at Q4FY21. While unsold inventory remains elevated, a reduction in it shows recovery in the housing market. The report mentioned that the new launches in the premium and sub-premium categories remain robust. Improvement in the housing sector has a direct correlation on the fans demand. With a multi-year lull finally being over, we believe the organised fans market volume would grow at 9% CAGR over the next five years.

Exhibit 18: House launches and sales



Source: RBI - Financial Stability Report

Exhibit 19: Unsold inventory and inventory overhang



Source: RBI - Financial Stability Report

Rules of the game are changing rapidly

The fan industry has seen a sharp transition towards R&D focused products over the past five years and, with it, most of the top brands have built their capabilities and continue to evolve. We expect the changes in the industry to continue for the next five years as brands become more competitive and allocate higher resources for R&D. We expect market to consolidate with top players gaining market share. We believe, among the top players, Crompton, Havells and Orient will be the key capitalisers.

Crompton and Orient are deeply dependent on fans and, with their market leadership, distribution touch points, and muscle power, they will be able to drive this category, going ahead. Havells, despite being a late entrant in the fans category (launched fans in 2004), has been able to demonstrate its execution superiority by achieving a significant share over the past 5-7 years. Havells has been instrumental in driving premiumisation in the fan category with market leadership in decorative fans. It has the right to win in the category through (1) understanding of Indian premiumisation journey; (2) in-house manufacturing for consistently driving innovation; (3) large distribution touch points; (4) rising brand recall of 'Havells' brand at the consumer level; (5) muscle power to capitalise any share gain opportunity; (6) Havells Galaxy, which will be instrumental in driving premium fans.

Consumers' shift towards an alternate channel (MT+Ecomm) has further gained momentum during the phases of the COVID-led lockdowns. Fans have relatively low share from alternate channels, particularly from ecommerce. We believe fan as a category is also suitable for the alternate channel, particularly to drive premium fans. Although companies are trying a lot for improving display points at the retailer (GT channel), consumers do not have a great buying experience (limited SKUs, weak display, and unattractive communication). This has historically caused the category to see slower premiumisation. Companies are consistently launching super-premium fans, which need higher presence at alternate channels to generate demand. We believe most leading companies will tap this opportunity and alternate channels (MT+ecomm) will have a higher share for fans (>15%) over the next five years (currently at 8-10%).

With consistent product innovation (tech enabled, decorative, etc) along with strong marketing, we believe the share of premium fans will continue to rise. This, coupled with new-housing demand, will accelerate the premium segment.

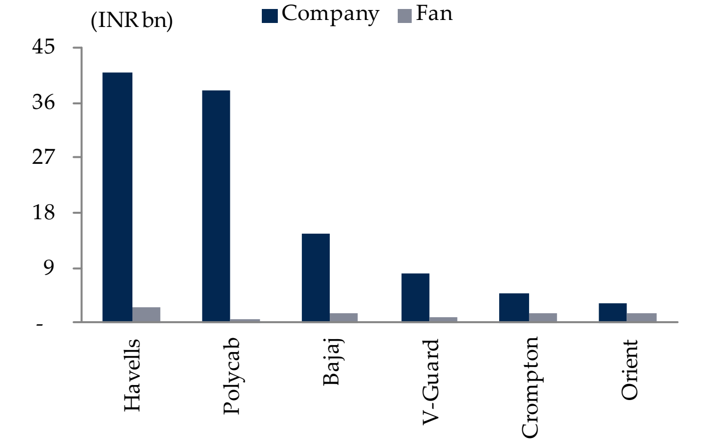
Top players have already initiated several differentiated strategies, which will continue to impact regional/marginal players. The rule of the game is changing very fast and we see more wining opportunities for top players.

Traditional but best RoCE business

The fan business at times was considered a commodity business with limited pricing power, high sensitivity to commodity inflation, and strong presence of regional/unorganised brands. Over the years, the category has evolved on various aspects i.e. aesthetics, noise, decorative, marketing, and distribution. The category has one of the highest penetration levels (70%) among all consumer durable categories. However, rising electricity penetration along with power availability will continue to drive both penetration and fan units per HH.

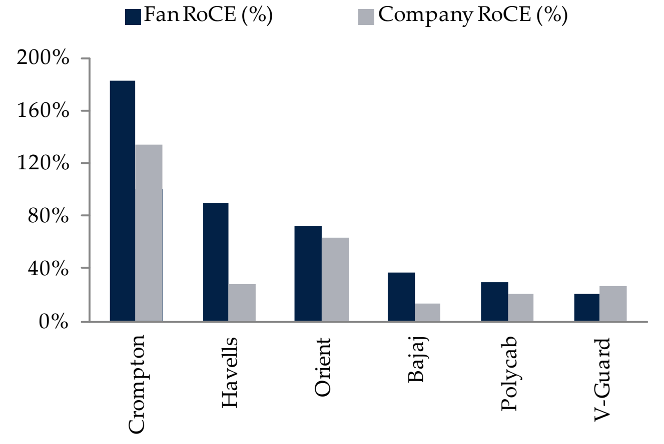
The premium volume mix (>INR 2,500), which was 4-5% five years ago, has reached 10% for the category. Category leaders like Crompton, Havells and Orient have a higher mix from the premium segment. Top players are driving the category with product innovation, strong marketing, and distribution expansion. The fan business requires limited capital investment and offers one of the best returns among all consumer durable categories. Low capital requirements along with superior operating margins are what makes this category unique amongst all other categories.

Exhibit 20: Capital employed: fan vs. company



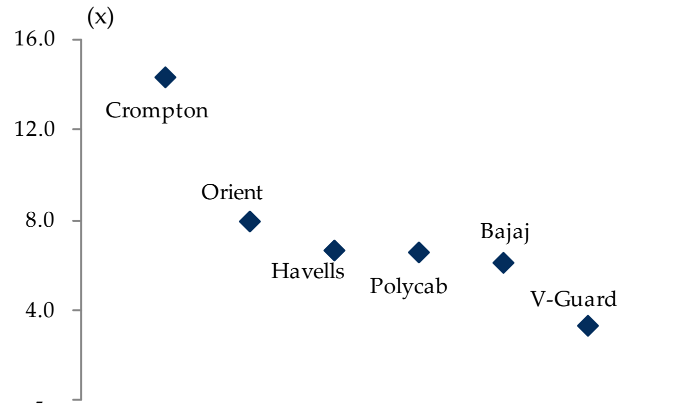
Source: HSIE Research
Note: Capital employed is ex-unallocable

Exhibit 21: RoCE: Fan vs. company



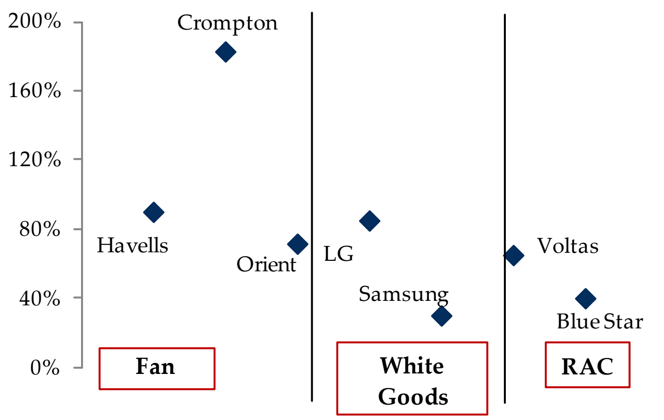
Source: HSIE Research
Note: Company RoCE is calculated on ex-unallocable

Exhibit 22: Fan: Asset turnover ratio



Source: HSIE Research
Note: Capital employed is ex-unallocable

Exhibit 23: RoCE: Across categories



Source: HSIE Research
Note: Company RoCE is calculated on ex-unallocable

Fan is a crucial pie, for reinvestment story

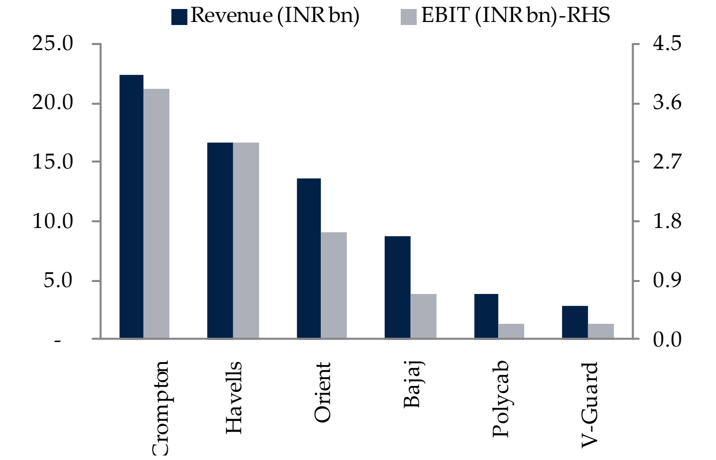
A lot of investors/analysts prefer companies' entry into non-traditional categories that offer non-linear revenue growth. However, such reinvestment is taking place due to the strong business economies of traditional businesses like fans. As per our opinion, the fan business does not only have a superior return profile but is also one of the best compounding stories among all the CD categories.

Although fan is a traditional category with high penetration (~70%), we believe it has multiple growth drivers that are crucial for leading fan companies.

The category drivers include: (1) essential consumption with growth opportunity both from penetration and consumption (replacement, more units/HHs); (2) strong premiumisation potential (gradual but certain); (3) limited threat from MNC competition; (4) distribution expansion story; (5) muscle power and branding story; (6) superior return ratio; (7) pricing power with favourable mix leading to margin expansion; (8) share gain and shift from unorganised to organised.

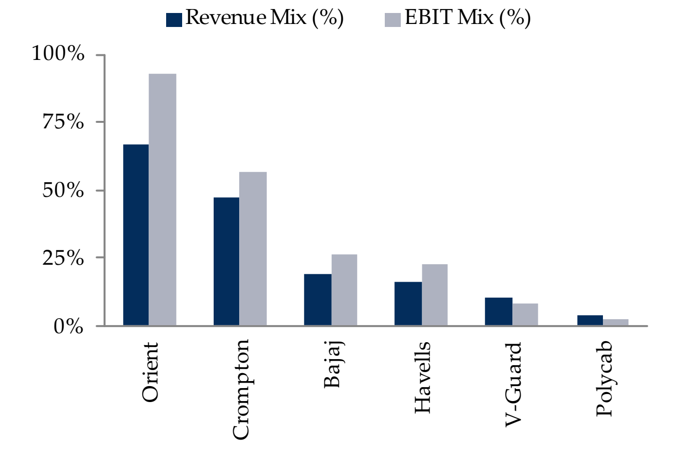
Fan contributes a significant portion for most leading consumer durable companies like Crompton, Havells, and Orient. As per our estimates, fan's revenue/EBIT mix is >50% for Orient and Crompton. Bajaj Electricals and Havells also have healthy (>20%) EBIT mix from the fans category.

Exhibit 24: Fan revenue and EBIT



Source: HSIE Research

Exhibit 25: Fan revenue and EBIT (% of total revenue and EBIT)



Source: HSIE Research

Product evolution: fans through the years

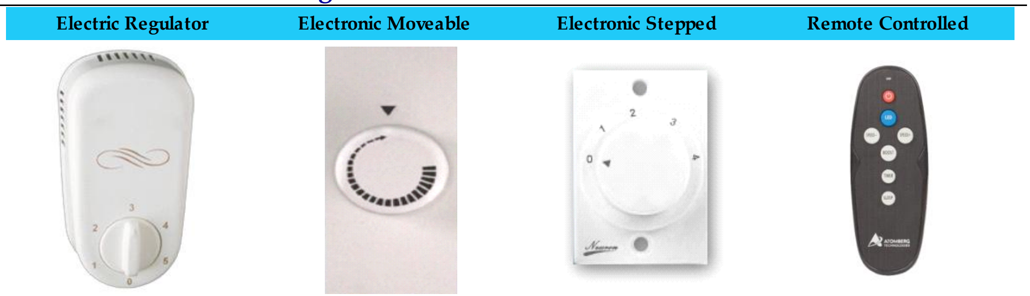
Fan - product evolution

India began its manufacturing journey of ceiling fans in the 1930s and, in 1937, Greaves Cotton entered into a JV with Crompton Parkinson of England to manufacture ceiling fans in India (now Crompton Consumer). In 1957, Crompton-Greaves invented ceiling fans with highly efficient cast aluminium housings with an induction motor developed through a joint venture with Crompton-Parkinson of England. <u>Besides BLDC motors, this motor is considered the most energy-efficient motor ever manufactured for ceiling fans</u>. These induction motors were further improved during the energy crisis of the late 1970s and early 1980s, bringing down power consumption to 70-80W.

Since the 1980s, there haven't been many changes in the fans segment; however, in 2006, the government introduced voluntary efficiency norms for ceiling fans, but not much adoption was seen. <u>The BEE efficiency norms have since been updated and are expected to have mandatory implementation in 2022.</u> In 2012, BLDC motor was introduced in India by Versa Drives under the brand SuperFan and these motors have seen popularity in the past 5-6 years.

Besides the transformation of fans, the way to regulate the fans has also transformed globally. <u>While electric regulators are cheap, they impact the energy consumption of fans. Electronic moveable regulators have reduced the fan life and electronic stepped are the most efficient of the options</u>. <u>According to the Kerala government report, a fan can achieve 27% reduction in energy consumption if the electric regulator is replaced with an electronic regulator</u>.

Exhibit 26: Evolution of regulators

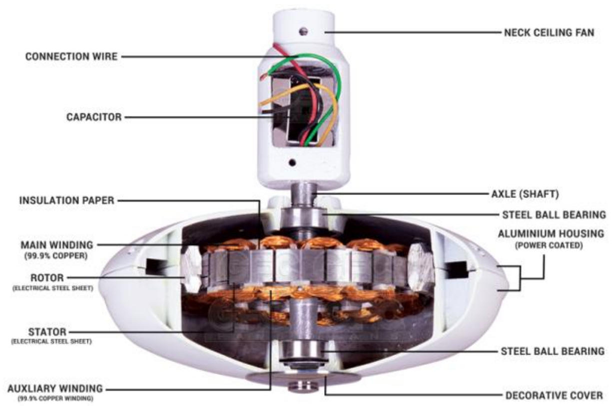


Source: industry

Efficient fans - the way forward

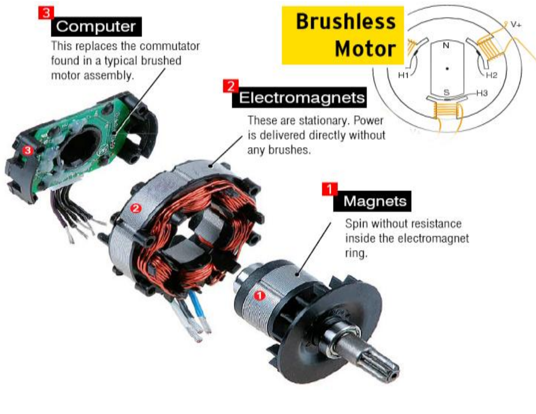
Until the introduction of brushless direct current (BLDC) motors in 2012 in India, the fan market relied upon alternating current induction motors (ACIM). While both the ACIM and BLDC motors achieve the same objective, i.e., converting electrical energy into mechanical energy, thus rotating the fan, the two motors approach the task in different ways.

Exhibit 27: ACIM motor used in fan



Source: industry

Exhibit 28: BLDC motor used in fan



Source: industry

BLDC motors have been in use across other products over the years; however, their usage in fans has picked up in the past few years due to their energy efficiency properties. Compared to the traditional induction motor, fans with BLDC motors have less mechanical wear and tear, have improved precision in speed control, and are more efficient.

Exhibit 29: Comparing BLDC and ACIM motors

Brushless DC motor (BLDC)	Alternating current induction motors (ACIM)
• It enables operations at varying speeds with the rated load. The speed characteristics are flat.	• The speed characteristics are non-linear, and it enables lower torque at lower speeds.
• It requires a controller to keep the motor running. You can also use the controller for variable speed control.	• For fixed speeds, there is no need for a controller. A controller is necessary only if you want variable speed.
• It has permanent magnets on the rotor, so it is possible to achieve a smaller size for given power output.	• As both the rotor and stator have windings, the output power is lower than the BLDC motor.
• As the rotor inertia is low, it enables better dynamic characteristics.	• The induction motor enables poor dynamic characteristics because of high rotor inertia.

Source: industry

Fans equipped with BLDC motor were introduced in India by the brand Superfan (Versa Drives). Top leading fan companies joined the space later along with some new entrant players like Jupiter and Gorilla (Atomberg).

Fans equipped with BLDC motors are priced at a premium of INR 1,700 to 2,100 on an average to normal fans. However, over the course of their life, these fans not only recoup the additional costs but turn out to be more cost efficient. While the cost of the BLDC motor is not too high compared to the ACIM, the addition of the cost of the controller makes the overall product expensive.

Exhibit 30: BLDC listings on Amazon across sweep size

	SKUs	Price (Rs)	MRP (Rs)	Rating
1400mm	2	3,763	5,145	4.25
1200mm	33	4,874	6,190	3.88
900mm	5	3,666	5,108	4.22
600mm	1	3,194	4,470	4.30

Source: Amazon India, HSIE Research

Exhibit 31: BLDC vs ACIM fan price comparison (1200mm)

	SKUs	Price (Rs)	MRP (Rs)	Rating
Total SKUs	531	3,158	4,120	3.90
BLDC SKUs	33	4,874	6,190	3.88
BLDC Premium (INR)		**1,716**	**2,070**	

Source: Amazon India, HSIE Research

Exhibit 32: BLDC vs. regular vs. energy efficient fans

Brand	ACIM Conventional	ACIM Efficient	BLDC
Sweep size (mm)	1,200	1,200	1,200
MRP (INR)	2,150	2,300	4,750
Amazon Price (Rs)	1,700	2,300	3,400
Premium to conventional (Rs)		**600**	**1,700**
Speed (RPM)	400	370	340
Air Delivery (CMM)	210	218	230
Power Consumption (W)	70	53	28
Hours of usage per day	16	16	16
KWHR units per day	1.12	0.85	0.45
Electricity Charges/yr (@INR6.5/unit)	2,657	2,012	1,063
Savings in yr 1 (compared to conventional)		**650**	**1,600**
Payback period (years)		**1**	**1**
Life of Fan (ys)	10	10	10
Lifetime energy cost savings (Rs)		6,500	16,000

Source: Amazon India, HSIE Research

As illustrated above, to operate a 28w power consuming BLDC fan for a year would be 60% and 47% cheaper compared to the 70w and 53w fans assuming daily usage of 16 hours (for 365 days). Growing awareness and push for energy efficient appliances by the government is leading the growth in this segment. Atomberg, which sells BLDC fans under the Gorilla brand, garnered a revenue of INR 689mn in FY20, and has, since then, grown to achieve INR 3,000mn revenue (based on monthly run rate) in September 2021, indicating the high adoption of BLDC fans.

Introduced in 2009, the BEE efficiency norms for ceiling fans have been voluntary. According to the India residential energy survey in 2020 (conducted over 14,850 households from 152 districts in the 21 most populous states), while ceiling fan ownership stood at 90% (of the surveyed population), only 4% of the fans were star rated.

Mandatory implementation of BEE energy efficiency norms for fans will further boost the demand for BLDC fans. The norms were earlier scheduled for July 2020; however, due to COVID-19, they were pushed to 1 Jan 2022 (implementation on this date is also not clear).

Exhibit 33: BEE rating minimum requirement across fan sizes

Sweep size mm	Minimum air delivery m3 /min	Minimum service value m3/min/W
900	130	3.1
1050	150	3.1
1200	210	4.0
1400	245	4.1
1500	270	4.3

Source: BEE

Exhibit 34: BEE rating 1 September 2019 to 30th June, 2022

Star Rating	Service value for fans < 1200 mm sweep size	Service value for fans≥ 1200 mm sweep size
1*	≥ 3.1 to < 3.6	≥ 4.0 to < 4.5
2	≥ 3.6 to < 4.1	≥ 4.5 to < 5.0
3	≥ 4.1 to < 4.6	≥ 5.0 to < 5.5
4	≥ 4.6 to < 5.1	≥ 5.5 to < 6.0
5	≥ 5.1	≥ 6.0

Source: BEE; * 4.1/4.3 for 1400/1500 sweep size

Prior to 2019, fans with service value above 4 were considered as 5 stars, which is equivalent to the current 1-star rating for 1200 sweep size fans. According to the industry participants, the new efficiency requirements would lead to a price increase of 2-10% for ceiling fans.

Below, we have calculated energy savings and electricity cost saving between all the star rated 1200mm sweep size fan with an air delivery of 210cmm, assuming usage of 16 hours every day and power cost at INR 6.5 per unit.

Exhibit 35: Energy saving (kWh/year)

	Energy savings by upgrading fan star			
Star	**2**	**3**	**4**	**5**
1	34	61	84	102
2		27	50	68
3			22	41
4				19

Source: HSIE Research
Note: @fan running 16 hours for 365 days

Exhibit 36: Cost saving (INR/year)

	Energy savings by upgrading fan star			
Star	**2**	**3**	**4**	**5**
1	221	399	544	664
2		177	322	443
3			145	266
4				121

Source: HSIE Research
Note: @fan running 16 hours for 365 days

Post the mandatory implementation of BEE efficiency norms, fans with 5 star ratings will have cost savings of INR 664 and energy savings of 102kWh per year over a 1 star rated fan with the same air delivery.

A 5-star rated fan needs to have at most power consumption of 35W, which is still lower than the current most popular fan on Amazon India with 28W power consumption, which is illustrated above.

While the implementation of the norms was delayed, brands including Havells, Orient Electric, and Crompton Consumer have already developed and launched several BLDC and energy efficient fans. With the awareness of energy efficient fans growing in metro and tier-1 cities, we see high growth opportunities for our coverage companies. This is reiterated by the growth seen by Atomberg, which sells to about 100 cities in India and generates 50% of its revenue from non-metro cities.

Feature filled fans

Besides energy efficiency, fans in India have seen a transformation with addition of features led by increased focus on research and development by the brands. Companies have also introduced aesthetic upgrades, which are categorised as decorative series, and introduced chandelier watches, which are priced at a premium.

Exhibit 37: Innovations seen across top brands in the past five years

Crompton Consumer	Orient Electric	Havells	Bajaj Electricals
Fans speed adjustment by sensing the room temperature	Fans with motion sensor, temperature and humidity sensor	Bluetooth technology enabled smart fan	Anti germ fans
Anti dust ceiling fan with a special coating	Fan control through remote and mobile phone	Anti dust paint finished fans	Anti-bacterial Fans
Fans for the kitchen that doesn't disturb the cooking process	Fans providing superior in air delivery and low noise levels	Fan speed regulated based on room temperature and humidity	
Silent fans	IoT enabled fan based on invertor technology		

Source: Company Data, HSIE Research

Exhibit 38: Fans offerings changing with aesthetics, tech and functional improvement

Source: Companies website

Customer evolution: fast lane

India's rising youth mix will continue to drive many consumption categories. Urbanisation, nuclear families, and house improvement are large broad stories of India. Consumers are evolving to a large extent both in terms of consumption and premiumisation. Thus, some consumption categories are growing faster than nominal GDP growth rates. Appliances are certainly pegged at a healthy GDP multiplier (1.5-2x; they were even higher historically≤ when the companies/categories bases were low).

Fan is certainly a large volumes category; consumption of 75mn units makes the fan category one of the largest buying category within consumer durables. This is despite having a high replacement cycle (>15 years) historically; with electrification, this category is still gaining in many parts of India.

We believe fan is certainly a category that will grow both through higher consumption (lower replacement cycle and new housing demand) and premiumisation (necessity to aspirational journey). With the kind of product innovation that is happening along with effective marketing, more and more consumers will treat premium/decorative fan as aspirational products.

Channel evolution: what is the future?

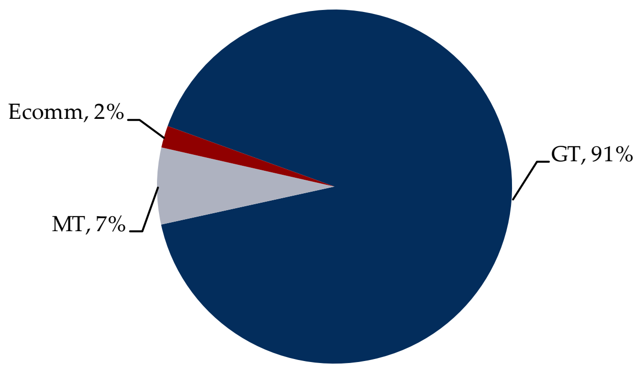
We have observed that many consumption categories have evolved along with distribution channel evolution. Certainly, alternate channels (MT+ecomm) are driving many consumption categories. Alternate channels not only filter consumers (with higher affordability and willingness to experiment new products) but also provide better product assortment, product features, and provide superior consumer experience.

Consumers' shift towards alternate channels (MT+ecomm) has further gained momentum during COVID-led lockdown phases. Fan has relatively a low share from alternate channels, particularly from ecomm. We believe fan, as a category, is also suitable for alternate channel, particularly to drive premium fans.

Most companies are trying to improve display points at the retailer's end (GT channel), but still consumers do not get a great buying experience (limited SKUs, weak display, and unattractive communication). Thus, the category is seeing gradual premiumisation, which is still in the low premium range.

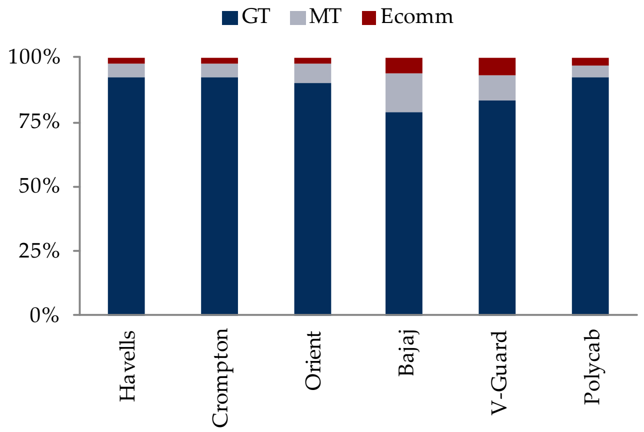
Companies are consistently launching super-premium fans but to get demand for them, it requires higher traction at the alternate channel. We believe most leading companies will tap this opportunity and alternate channels (MT+ecomm) will have higher share for fan >15% over the next five years (currently at 8-10%).

Exhibit 39: Fan industry: distribution channel mix



Source: Companies, HSIE Research

Exhibit 40: Fan top players: distribution channel mix



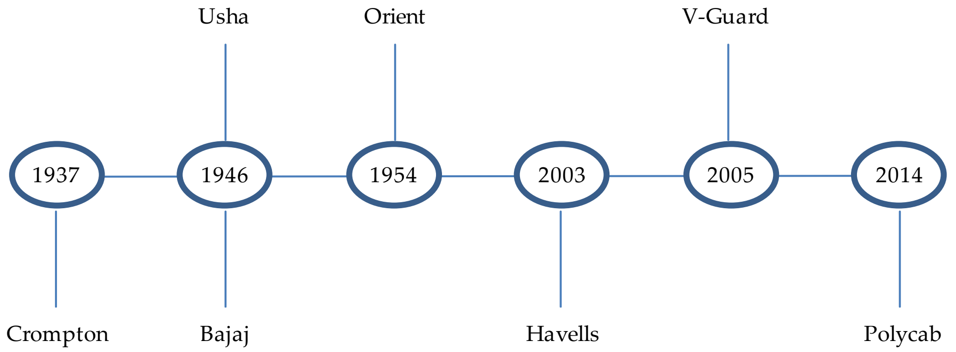
Source: Companies, HSIE Research

Winning strategies: future winners

Leading fan players have initiated several effective strategies, which are not only developing the category, but expanding distribution reach, resulting in gaining share. Consumers prefer top brands across consumer categories. Thus, top brands in the fans category are also seeing benefits of the same.

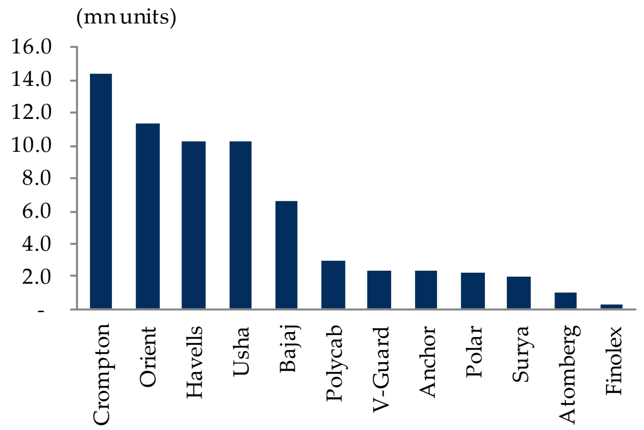
Brands with a pan-India presence that have a strong brand recall are usually preferred by consumers. Thus, even a late entrant brand like Havells has scaled up significantly in this category.

Exhibit 41: Fan launch timeline



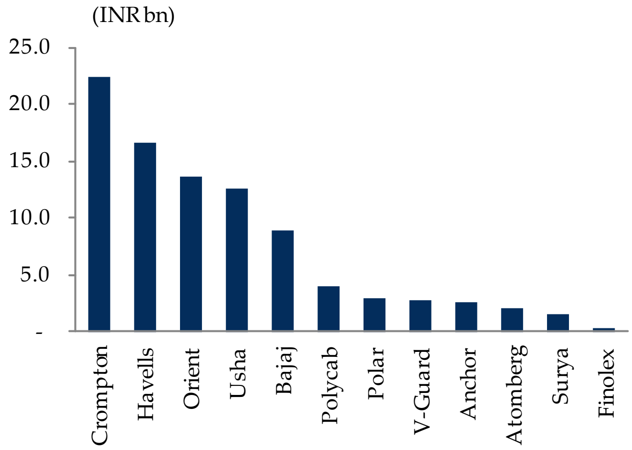
Source: Industry

Exhibit 42: Fan volume: player-wise



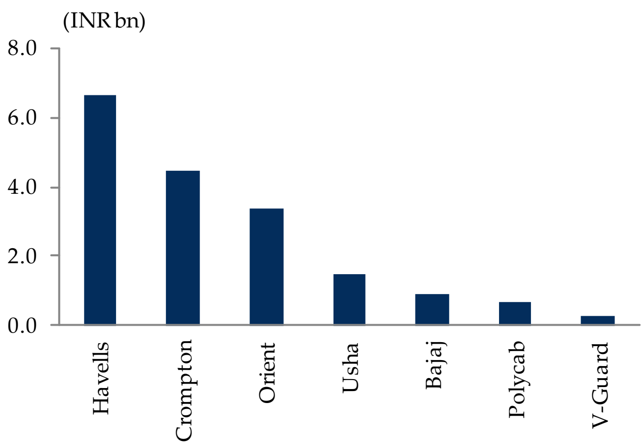
Source: HSIE Research

Exhibit 43: Fan revenue: player-wise



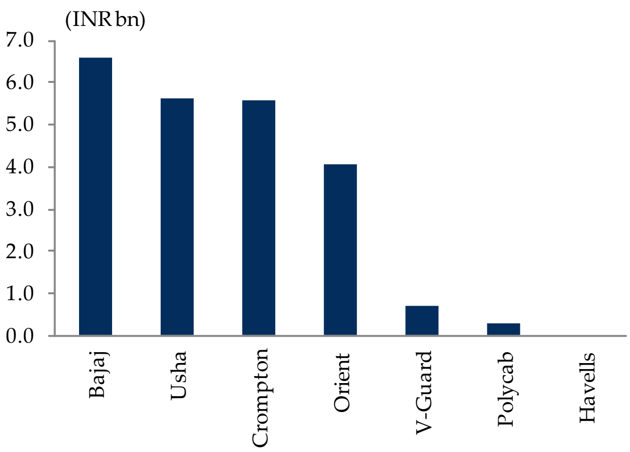
Source: HSIE Research

Exhibit 44: Revenue mix: premium Fan



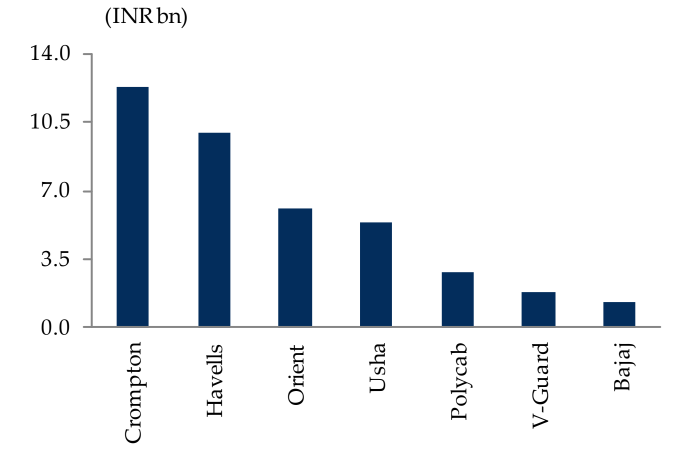
Source: HSIE Research

Exhibit 45: Revenue mix: mass premium



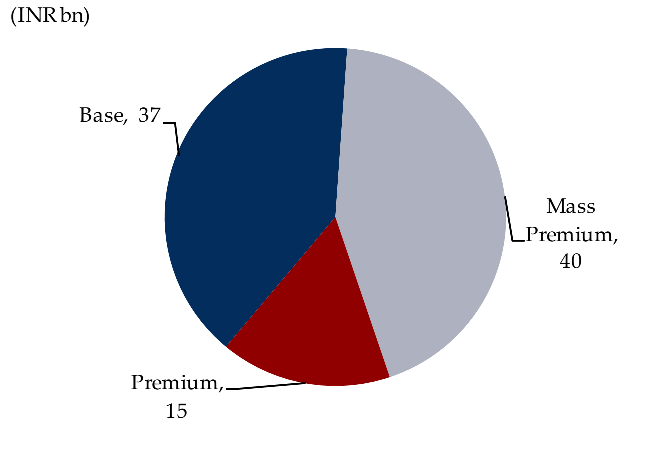
Source: HSIE Research

Exhibit 46: Revenue mix: economy



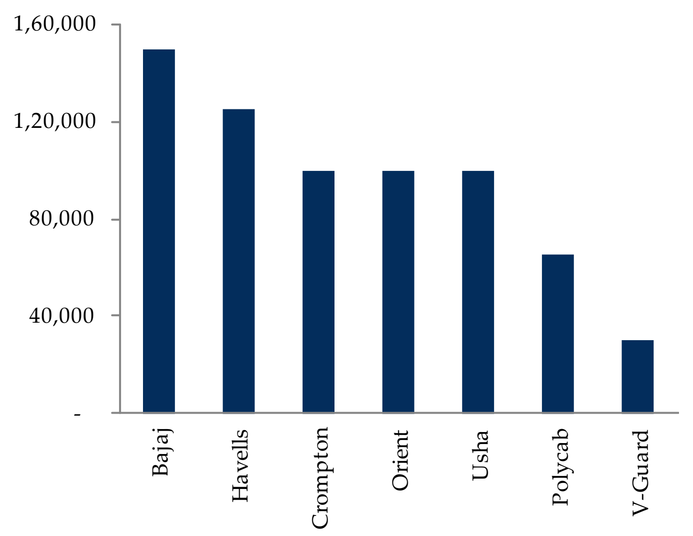
Source: HSIE Research

Exhibit 47: Industry revenue mix



Source: HSIE Research

Exhibit 48: Fan top players touch points



Source: HSIE Research

Exhibit 49: Innovations seen across top brands in the past five years

Crompton Consumer	Orient Electric	Havells	Bajaj Electricals
Fans speed adjustment by sensing the room temperature	Fans with motion sensor, temperature and humidity sensor	Bluetooth technology enabled smart fan	Anti germ fans
Anti dust ceiling fan with a special coating	Fan control through remote and mobile phone	Anti dust paint finished fans	Anti-bacterial Fans
Fans for the kitchen that doesn't disturb the cooking process	Fans providing superior in air delivery and low noise levels	Fan speed regulated based on room temperature and humidity	
Silent fans	IoT enabled fan based on invertor technology		

Source: HSIE Research

Exhibit 50: SKUs availability on ecommerce

Brand	Avg Amz Price	BLDC SKUs	Base <INR 1,500	Mass Premium INR 1,500 – 2,500	Premium INR 2,500- 4,000	Super Premium >INR 4,000
Anchor	2,397	1	-	11	1	1
Atomberg	4,218	19	-	-	10	9
Bajaj	2,517		4	17	16	1
Crompton	3,370	2	2	7	10	5
Finolex	1,969		-	11	-	-
Havells	4,319	1	-	20	33	18
Jupiter	3,485	7	-	-	6	1
Luminous	3,328	2	2	27	36	10
Orient Electric	3,360	2	-	13	9	6
Polycab	2,855		-	21	26	4
RR Electric	3,009		4	-	-	1
STANDARD	2,902		-	12	23	5
Superfan	4,350	6	-	-	3	3
Surya	2,242		1	5	8	-
Usha	2,938	1	1	12	13	5
V-Guard	1,990		2	6	1	-

Source: Amazon.in

Exhibit 51: Winning Strategies

Companies	Focus area
Crompton	- Available across price point and product range - Distributor friendly practices - Product innovation - Focus on relevant touch points, high shop share (~37%) - High share from South region where it has 1.5x of its total share (close to 40% market share in south region)
Orient	- High focus on mass premium and premium segment - The company generates about 25-30% of its fans revenue from premium products - Focusing on own smart shop format - Expanding distribution touch points
Havells	- Late entrant but focus on relevant segments - Understanding of Indian premiumisation journey - In-house manufacturing for consistently driving innovation - Large distribution touch points - Rising brand recall of 'Havells' brand at the consumer level - Muscle power to capitalise any share gain opportunity - Havells galaxies will also be instrumental to drive premium fans - High focus on increasing mix from alternate channel (MT+Ecomm)
Bajaj	- It has ~12% market share in the fans category and holds the 4th or 5th position in the industry. - Targets to gain momentum in South India and bridge its gap to Crompton, Orient Electric and Havells. - MT and Ecomm contribute to about 9% and 6% of fans revenue. This is lower than the company's overall revenue share from modern trade and ecommerce at 10% and 12%. - It is mainly present in the sub-economy segment with 85% share so the margin in this product category is low for the company. Working towards changing the mix going forward. - Bajaj is number 1 in terms of touch points (close to 150,000) for fans but shop share is significantly lower than others. The company is trying to address this issue.
Usha	- Strong distribution in hindi belt (Rajasthan, MP, UP) - Focusing on product launches in the premium segment - Focus on increasing mix from alternate channel (MT+Ecomm)
Polycab	- It has entered the fan business in FY16 with presence only in the mass premium segment (INR 1,500- 1,800). - It has no fans in the bottom of the pyramid and only entered the premium segment in the past 12 months with new launches. - It generates about 15-20% of its fans revenue from premium segment - Ecommerce and modern trade is small for the company with 7-8% contribution. The alternate channels are fast growing - It has 9 galleria shops, 3 arena and 20 shoppees outlets. - Polycab generates 30% of its fans revenue from west and south 30% each followed by 25% from east 25% and rest from north
V-Guard	- While the company has a low share of revenue from fans, the company plans to take this to INR 5bn in the next 3 years. - In fans, the company has set up its own manufacturing and it will continue to expand for import substitution - It generates about 7-8% of its fan revenue from ecommerce while modern trade contributes to 10%.

Management interaction

Interaction with:
Sandeep Batra
CFO, Crompton Consumer

Crompton Consumer

Discussion on overall business

- Demand recovery was extremely strong in July and August despite taking a steep price hike (12-15% across categories). However, volume growth decelerated in September.
- Reasons for deceleration in September is not known as demand is structurally strong. Industry has seen various divergences in the base quarter vis-a-vis the past six months. Thereby, softness in demand can have various reasons.
- Do not see any structural challenge in demand in the medium term. Most macro drivers are positive; thus, growth recovery will sustain in the coming quarters.
- Crompton has taken the last price hike in July, while it did not take any price hikes in August/September when other players have initiated.
- Lighting should maintain low double-digit EBIT margin. Availability of chips are an issue. The company is reinvesting money in this segment to drive growth.
- The ECD segment has room for EBIT margin expansion to reach the FY20 EBIT margin of 20% (~18% for the past two quarters). Cost increases have plateau, and cost saving initiatives will kick in the next couple of months.
- B-B demand is improving but not reached the pre-COVID level. Some green shoots are visible and hopeful for good recovery in H2FY22. Generally, B-B EBIT margin is lower for their categories.

Discussion on fan business

Industry

- Fan as a category has huge premiumisation potential, utility and is an aspirational product. However, fan needs to add more functional benefits for faster premiumisation trends. Only for decorative features, consumers would not pay more.
- Displaying products is a challenge and various companies are addressing this issue.
- Buying experience in fans is still primitive as companies have not found a way to improve consumer buying experience, excluding ecommerce channel.
- Housing demand is strong along with consumer sentiments. The fan category's growth should be good in the coming quarters.
- Leading players continue to gain market share; fans can sustain double-digit growth.
- Currently, there are no such pent-up demand benefits, and underlying trends are healthy.
- Price hike should not impact demand; fan is a necessity which consumers can buy with a lag (unlike FMCG products).
- Last year, demand during September was very strong; thus, it also has some impact on primary performance on YoY.
- Ecommerce is a strong channel for the category but most companies do not have a national service network while ecommerce has a national reach.
- A company will not be able to make higher margin on ecommerce.
- The company sees players who do not have R&D capabilities to lose market share in the long run.

	• Usha International is a large player with a high teen market share, led by its strong distribution and presence in the north (mostly Hindi belt). **Company** • The company, through its R&D capabilities, will develop fans with useful features, which will drive its premium portfolio. • Through the secondary data it collects, the company can do selective or micro level marketing. • The company has about 26% market share in value terms and about 23-24% share in volume terms. It has 70% weighted average reach with 37% shop share to reach 26% market share. A few years back, Crompton had 60% weighted average reach with 40% shop share. • The company is focusing on both - expansion of its reach and technology development. • Ecommerce and modern trade contribute to about 8-9% of revenue (ecomm stands at 6-7%). The company can achieve 12-13% on a stabilised rate. • In terms of distribution, the company has expanded its fans numeric reach from 45-46% 4-5 years back to 52% now. • The south is a stronghold for the company where it has 1.5x of its total share (close to 40% market share in south region). The east and north regions have a low mix for the company.

Interaction with: Manish Kaushik Head IR, Havells	**Havells** **Discussion on overall business** • The company continues to see commodity headwinds, and face COVID issues in a few cities. Despite the headwinds, demand is resilient for the company due to tailwinds, including channel expansion, rural expansion, real estate pick-up, and revival of B-B projects. • B-C performance is nothing out of the ordinary, and is sustaining the healthy momentum. • B-B is seeing positivity on a washout base year. The on-ground execution and new projects are good; however, the revenue for the company may come at a later stage depending on the cycle. • There is working capital revival in B-B compared to the past two years; however, it is not at the stage it was in FY19. • The company looks at contracts which have liquidity; hence, it does not look at government EESL orders. • Raw material pressure is continuing with the category still seeing volatility. Copper, aluminum, and plastic prices have not come down. • PLI in RAC is for components for captive consumption. The company has applied for the PLI in the low value components like controllers and plastic moulding. The company doesn't see this as a huge gain. • PLI in lighting is for components as well; however, the company has not applied for this PLI due to small benefit and limitations of either applying for PLI in RAC or lighting. • It has allocated around INR 1bn in Capex for PLI for the next five years. • As a concept, the company is happy with PLI as it would boost manufacturing in India. It will have indirect benefits such as the reduction in import dependence as components which will be developed in India. With the large scope of PLI, the company sees a Capex cycle boost, which will help in

	secondary demand for its products. • In Lloyds, AC had picked up in June and July, but post that, it was off season and there was nothing to highlight. • Diwali is seasonally strong for large and kitchen appliances. The earnings from a good season here is invested into the ac inventory from December.
	Discussion on fan business **Industry** • The company does not see fans as a matured category as there is scope for penetration in India's eastern belt at the small village level, which still fasces electricity unavailability. • Penetration level for certain regions are at 50%, thereby fan is not only premiumisaton story but also penetration story. • Internet and electricity penetration is helping rural India to consumer fans • Premiumisation trend is seen in urban while aspirational and basic buying is seen in semi urban and rural India. • The company sees ecommerce becoming a popular channel for fans. **Company** • Ecommerce and modern trade together have crossed the single digit contribution for the company. • Displaying various SKUs is the challenge but the company provides its retailers with display equipment for fans. • Havells galaxies are an important channel for categories like fans. Consumer experience is better at galaxy, which drives premiumisation.

Interaction with: Saibal Sengupta CFO, Orient Electric	**Orient Electric**
	Discussion on overall business • Overall business recovery is healthy across categories and markets. Steep price hike is slightly impacting demand. • The company's margin pressure, owing to high commodity prices, has not been covered fully by its pricing actions. • Q2FY22 and Q3FY22 will remain impacted by the elevated commodity costs, supply issues along with higher freight rates. • The company maintains its advertisement and promotion spends at 4% of revenue for FY22 as brand building is crucial in this industry. This is the industry norm. • The unorganised sector saw share loss due to unavailability of imports along with other supply chain related issues and low credit availability. Larger brands were able to gain share from the unorganised market.
	Discussion on fan business **Industry** • The organised fans industry is sized close to INR 70-80bn with about 60mn units fans sold annually. • Consumer demand will evolve with more energy efficient fans and more tech enabled fans. Replacement market and new housing will accelerate the demand for such products. • Energy efficient fans have grown in the past five years; however, BLDC fans have not been too popular. Government intervention will drive the demand for

them.

- Consumer preference is shifting towards tech enabled and feature filled products.
- The lifecycle of fans has also been gradually reducing, driving faster replacement demand.
- The entire durable distribution has evolved from being wholesale driven about 10-12 years back to being available across all type of channels. This trend was earlier seen for large appliances; however, even small appliances are available across channels.
- Consumer demand pattern is also changing with people not caring to change fans when they renovate their homes.
- The BEE regulations are agnostic for organised and unorganised players. As long the products are available for sale, the market will need to comply.
- Extension on BEE regulation is expected as it is Sept end already and no confirmation has come yet.
- BEE rating change will lead to cost increase of INR 400-600 per fan.
- With higher adoption in BLDC, the costs will go down as experienced in other products such as large durables and LED lights.

Company

- Ceiling fan should be in the region of 65-75% of total. TPW is significant for the company as well, for which it has a dedicated plant.
- The company imports only a few fan components.
- It generates about 25-30% of its fans revenue from premium products.
- It has a small presence in ecommerce and modern trade with these channels contributing to less than 10% of fans sales. These channels are fast growing.
- The company also has a network of its own store format name smart shop and is aggressive in growing this network.
- Multichannel presence will see pick-up, a part of which has already happened. All companies are gearing up for this shift.
- Large format stores have entered across other products versus kitchen appliances earlier.
- Fans margin is higher than the ECD mix but as the appliance scale picks up, the appliance margin will pick up and may even cross fans margin.
- The company has had lower ECD margin compared to Crompton; however, this gap is narrowing. Superior margin by Crompton is due to a favourable product mix, including pumps, which is a high-margin business versus Orient, which is predominantly in fans and coolers that have seen two consecutive years of failed summer season.
- The margin disparity between Orient Electric and Crompton is due to the difference in product offerings as the former mostly sells fans and coolers while the latter has a wide product offering including pumps, which is a high margin category.

Interaction with: Rakesh Dash Corporate Strategy, M&A and IR, Bajaj Electricals	**Bajaj Electricals**
	Discussion on overall business • The demand scenario was ok until August; however, post the September price hikes, the company is seeing pushback from the distributors. • The company has taken price hikes of 12-18% across its categories since March '20; however, fans was slightly lower due to lower RM inflation than other products. • There was price acceptability up to price hikes of 8-11% but the latest hikes have impacted the customer sentiments. The latest pricing action for the company was deferred compared to other companies, which took hikes in July and August.
	Discussion on fan business **Industry** • The fan industry demand will be driven by acceleration of organised sector, especially in favor of the national branded players, reduction in replacement cycle from 8-12 years earlier to 5-7 years now and aspiration driven premiumisation. • The sub-economy fans segment has shifted from 80-85% in 2005 to 75% in 2015; however, the acceleration of the shift since then has been faster with the share of this segment down to 55% currently. • The appliance industry has a large share of organised players, which is at about 60-70%, of which fans has a higher share. COVID has accelerated this shift. • The company sees a faster pick-up of organised brands with the implementation of energy efficiency norms, post which it expects consolidation in the market from 2023. • The transition to modern trade and ecommerce was driven by other small appliances like water heater and mixer; however, the fans category has been a laggard. Post COVID, the shift towards new age channels are picking up pace. • Havells earlier did not have strong ecommerce presence but the company has scaled up this channel. Crompton and Orient have also been more aggressive in ecommerce. • While this channel is picking up, the timeline for it to have significant share is not yet certain. • The company expects the BEE norms to eventually eliminate the unorganised market as the regulation keeps getting stringent as seen in RAC. • Atomberg has mass popularised BLDC and, since 2018, there has been a great acceptance of these fans, which are now at an inflection point. • With the higher volumes in BLDC Motors, the prices of the same are coming down. • Crompton, Havells and Orient are very aggressive in BLDC Motors with Crompton having about 10-12% BLDC offering while industry has about mid single digit of offerings. • The BLDC for Crompton, Havells and Orient is margin accretive; it typically needs to reach a certain scale to be margin accretive. • Deco fans will not be a mass product and will be an urban-focused high-value niche. • The company does not see IoT fans to be mass acceptable.

	Company • The company has ~12% market share in the fans category and holds the 4th or 5th position in the industry. • It is targeting to gain momentum in south India and bridge its gap with Orient Electric and Havells. • Modern Trade and ecommerce contribute to about 9% and 6% of fans revenue respectively. This is lower than the company's overall revenue share from modern trade and ecommerce at 10% and 12% respectively. • The company is mainly present in the sub-economy segment with 85% share so the margin in this product category is low for it. The company is working towards changing the mix, going forward. • The company produces about 15-20% of its ceiling fans inhouse while TPW is completely outsourced. • The company has a total reach of 220,000 touch-points, of which 140,000-150,000 counters would include fans.

Interaction with: Chintan Jalal IR, Polycab	**Polycab India** **Discussion on overall business** • The overall demand is strong with growth momentum across wires, lights, and switches. • B-B and B-C segments both are shaping up well. • Festival dependent products are expected to outperform. • Despite price hike, volume recovery is encouraging. • While wires were impacted in the previous quarter, they are seeing recovery. **Discussion on fan business** **Industry** • About 10% of the fan industry will be premium in value terms while economy (below INR 1,200) would be in the range of 30-40% and the remaining would be economy premium (INR 1200-2500). • Consolidation will be done through increasing compliance, change in consumer aspiration and introduction of innovative fans. • Mandatory BEE rating will make it difficult for unorganised players to survive. • The existing fans, with minimal changes, will become 1-2 star ratings. BLDC will be 4-5 star rating fan. • While 1-2 star rating will not have much impact on prices, major cost increase will be for BLDC, which premium fans can absorb. • To promote BLDC fans, government tenders include only 4-5 star rated fans. • Shift for energy efficient fans will be faster for the premium segment. • For the industry, south contributes to about 30% of the value, followed by west at 30%, east at 17-18% and remaining from the north. • Fans season was lost for the second year so there will be some pent-up demand as consumer upgrades would have waited out. • Fans saw double-digit price hikes in a couple of months; however, volume and demand trend was good. • For exports, global penetration level for fans is high along with sufficient capacity so the company doesn't focus on exports. India exports are tender, based on economy fans. Asian countries are large fan consumers.

	Company • The company would rank amongst the top 6 in the fan category, generating 35-40% of the FMEG segment topline from fans. It had entered this business in FY16. • The company entered the fan business in FY16 with a presence only in the mass premium segment (INR 1,500-1,800). It has no fans at the bottom of the pyramid and has only entered the premium segment in the past 12 months with new launches. • The company generates about 15-20% of its fans revenue from the premium segment. • It has 5-6% market share, which it captured from organised and regional players and not the unorganised players. • Ceiling fans contribute to about 80% of the company's fan revenue. • Ecommerce and modern trade are small for the company with 7-8% contribution. The alternate channels are fast growing. • The company has three types of store formats to showcase its products: (1) galleria – large cities with audio visual facilities and in-store electricians (2) arena – experience centres and (3) shoppee. • The company has nine galleria shops, three arena and 20 shoppees outlets. • The company sees potential of high single to double digit growth in value for the next five years with the next leg of growth driven by replacement demand, premiumisation, and IoT. • Polycab generates 30% of its fans revenue from the west and south markets each, followed by 25% from the east and the rest from the north. • Polycab has a reach of 165,000 touchpoints, of which a large portion will carry FMEG and fans. In next five years, the company aims to double this reach.

Interaction with: Sudarshan Kasturi CFO, V-Guard	**V-Guard Industries**
	Discussion on overall business • The overall demand is looking good; however, inflation has had some impact on demand in September. • 8-10% price hikes across products with some categories would be more. • Gross margin is expected to be stable. • South markets are shaping up well as economy has opened up. • Housing as a theme is positive on demand with commentary from builders in Bangalore and Cochin being positive.
	Disussion on fan business **Industry** • The company is seeing a trend of premiumisation. It doesn't see economy fans as an interesting space and sees mid and higher categories as the major growth drivers. • Even though penetration is high, fans will see both replacement demand and new demand from increasing construction activities. • The company expects replacement demand to shift to decorative fans. • The company finds right placement as a necessity for selling fans, given that the chances that premium buyers will not go to an electric store are high.

Company

- While the company has a low share of revenue from fans, it plans to take this to INR 5bn in the next three years.
- In fans, the company has set up its own manufacturing and it will continue to expand for import substitution.
- The company generates about 7-8% of its fan revenue from ecommerce while modern trade contributes 10%.

CD universe performance

Exhibit 52: Revenue

INR mn	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	FY17	FY18	FY19	FY20	FY21
Havells	22,306	22,699	22,161	14,791	24,518	31,659	33,312	25,982	61,353	81,386	100,593	94,292	104,279
Voltas	14,219	14,925	20,896	12,969	16,125	19,946	26,517	17,852	60,328	64,044	71,241	76,581	75,558
Crompton	10,758	10,713	10,263	7,201	12,132	13,482	15,221	10,505	39,009	40,797	44,789	45,120	48,035
V-Guard	6,193	6,266	5,366	4,058	6,167	8,274	8,491	5,607	20,856	23,117	25,664	24,820	26,990
Symphony (Stand.)	1,950	2,070	1,540	400	1,120	1,240	2,120	1,040	6,639	6,874	5,240	7,160	4,880
Whirlpool	13,935	12,712	13,536	10,271	15,995	14,940	17,794	11,503	39,408	48,319	53,977	59,925	58,999
Blue Star	12,495	12,359	12,994	6,260	9,021	11,239	16,116	10,520	43,852	47,408	52,348	53,602	42,636
Polycab	22,419	25,073	21,294	9,766	21,137	27,988	30,374	18,805	55,001	67,703	79,856	88,300	89,265
Johnson Hitachi	3,766	4,360	4,329	2,696	3,101	4,875	5,794	4,920	19,173	21,854	22,413	21,974	16,465
TTK Prestige	5,736	5,461	3,835	2,085	5,902	6,794	5,549	3,569	16,035	17,465	19,680	19,368	20,331
Amber	6,232	7,884	13,152	2,595	4,079	7,647	15,984	7,079	16,519	21,281	27,520	39,628	30,305
Bajaj Electricals	10,709	12,736	12,922	6,035	12,064	14,841	12,417	8,423	42,457	46,870	66,389	49,293	45,356
Orient Electric	4,347	4,957	5,631	1,788	4,338	6,183	8,017	4,223	14,146	15,998	18,644	20,618	20,326
IFB (Home App)	5,859	5,761	3,807	2,493	5,886	7,679	6,384	4,331	14,742	18,104	20,897	21,081	22,442
Dixon	14,020	9,938	8,574	5,169	16,387	21,828	21,097	18,673	24,570	28,416	29,844	44,001	64,482
Hawkins	1,926	1,933	1,460	1,008	1,932	2,311	2,434	1,515	5,120	5,526	6,528	6,739	7,685
KEI Industries	12,337	13,142	12,585	7,454	10,369	11,529	12,463	10,176	26,390	34,588	42,310	48,878	41,815
Finolex	7,158	7,024	6,514	3,771	6,394	8,302	9,214	6,754	26,708	28,946	30,778	28,773	27,681
Total	**176,363**	**180,012**	**180,860**	**100,810**	**176,667**	**220,758**	**249,295**	**171,476**	**532,306**	**618,695**	**718,711**	**750,151**	**747,530**

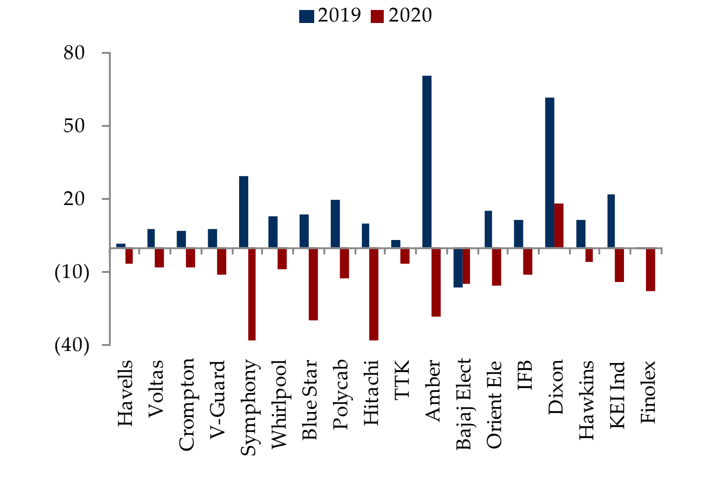
Exhibit 53: Revenue Growth

YoY Gr (%)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	FY17	FY18	FY19	FY20	FY21
Havells	2	(10)	(20)	(45)	10	39	50	76	14	37	24	(6)	11
Voltas	0	0	1	(52)	12	32	25	39	5	6	11	8	(2)
Crompton	4	4	(15)	(47)	13	26	48	46	10	8	11	1	6
V-Guard	4	5	(27)	(42)	(0)	32	58	38	15	15	12	(3)	9
Symphony (Stand.)	32	30	12	(75)	(43)	(40)	38	160	20	4	(24)	37	(32)
Whirlpool	18	5	(0)	(48)	15	18	31	12	15	23	12	11	(2)
Blue Star	21	12	(19)	(60)	(28)	(9)	24	68	23	7	13	2	(20)
Polycab	24	24	(14)	(49)	(6)	12	43	93	6	23	18	11	1
Johnson Hitachi	9	0	(35)	(72)	(18)	12	34	82	17	14	3	(2)	(25)
TTK Prestige	4	(1)	(14)	(52)	3	24	45	72	8	15	16	(2)	5
Amber	89	52	10	(79)	(35)	(3)	22	173	51	29	29	44	(24)
Bajaj Electricals	(32)	(41)	(27)	(53)	11	17	(3)	40	(7)	20	41	(25)	(8)
Orient Electric	17	18	(12)	(69)	(0)	25	42	74	9	13	17	11	(1)
IFB (Home App)	8	4	(25)	(56)	0	33	68	74	20	23	15	1	6
Dixon	90	25	(0)	(55)	17	120	146	261	77	16	5	47	47
Hawkins	12	11	(21)	(29)	0	20	67	50	(6)	8	18	3	14
KEI Industries	24	21	0	(31)	(16)	(12)	(1)	37	14	31	22	16	(14)
Finolex	0	(6)	(21)	(53)	(11)	18	41	79	4	8	6	(7)	(4)
Total	**12**	**2**	**(12)**	**(53)**	**0**	**23**	**38**	**70**	**14**	**19**	**16**	**4**	**(0)**

Exhibit 54: EBITDA Growth

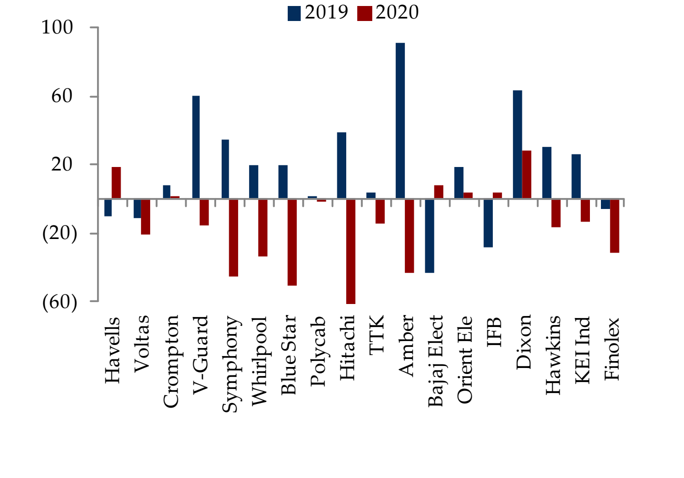
YoY Gr (%)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	FY17	FY18	FY19	FY20	FY21
Havells	(10)	(9)	(22)	(53)	79	89	106	170	9	27	13	(13)	52
Voltas	(2)	(16)	33	(77)	(7)	50	72	103	34	15	(8)	12	(7)
Crompton	4	9	(16)	(47)	48	46	61	24	13	10	10	2	20
V-Guard	56	32	(42)	(87)	(5)	91	143	379	17	6	3	11	19
Symphony (Stand.)	36	40	20	(133)	(52)	(48)	22	(100)	2	6	(39)	49	(42)
Whirlpool	32	(8)	(20)	(85)	28	12	38	62	27	15	15	5	(23)
Blue Star	27	35	(66)	(99)	(25)	43	173	3,005	3	24	25	(18)	(15)
Polycab	26	6	23	(72)	15	11	40	142	(2)	52	31	19	3
Johnson Hitachi	(62)	(1,200)	(65)	(120)	(360)	107	185	(121)	37	19	(18)	5	(32)
TTK Prestige	7	(3)	(45)	(86)	(1)	42	192	393	6	21	22	(9)	21
Amber	169	87	(10)	(105)	(41)	16	39	(863)	15	41	16	45	(29)
Bajaj Electricals	(70)	(50)	(52)	(126)	333	116	114	(135)	(8)	21	16	(39)	46
Orient Electric	28	68	(8)	(144)	164	86	49	(216)	16	37	3	25	24
IFB (Home App)	42	(39)	na	na	49	539	(170)	41	140	52	(41)	(56)	377
Dixon	93	32	49	(68)	42	95	43	184	61	23	20	65	28
Hawkins	30	59	(34)	(55)	1	4	121	143	9	(5)	22	21	7
KEI Industries	21	19	(10)	(37)	(3)	(8)	16	57	12	24	30	13	(7)
Finolex	(2)	(16)	(31)	(67)	(2)	15	50	104	10	17	4	(18)	(4)
Total	**12**	**3**	**(17)**	**(80)**	**25**	**44**	**72**	**178**	**15**	**23**	**10**	**3**	**8**

Exhibit 55: CD Universe – CY 2020 Revenue Growth



Source: Companies, HSIE Research

Exhibit 56: CD Universe – CY 2020 EBITA Growth



Source: Companies, HSIE Research

Exhibit 57: Outperformers and Underperformers in LTM

LTM Performance	2-Year CAGR (%)
Cooling Products	
Voltas (UCP)	3
Blue Star (UCP)	(11)
Havells-Lloyd	4
Johnson – Hitachi	(22)
V-Guard (Stabilizer+Inverter)	(3)
Symphony (Standalone)	(12)
Total	**(6)**
ECD	
Whirlpool	5
Crompton	20
Bajaj Electricals	20
Havells (ECD)	23
TTK Prestige	10
IFB (Home App)	12
Orient Electric	21
Polycab (FMEG)	47
V-Guard (CD)	15
Hawkins	21
Total	**16**
Lighting & Fixtures	
Havells	(6)
Crompton	(14)
Orient Electric	(4)
Total	**(9)**
Cables and Wires (C&W)	
Polycab	17
KEI	8
Havells	8
V-Guard	13
Finolex	(1)
Total	**12**
OEM	
Dixon	120
Amber	6
Total	**65**

(GREEN/RED is outperformer/underperformer in the category in the LTM)

Exhibit 58: Electrical Consumer Durables (ECD) Comparable Performance

Revenue (INR mn)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	LTM	FY17	FY18	FY19	FY20	FY21
Whirlpool	13,935	12,712	13,536	10,271	15,995	14,940	17,794	11,503	60,231	39,408	48,319	53,977	59,925	58,999
Crompton	7,881	7,870	7,411	5,965	9,317	10,359	11,930	8,844	40,450	28,817	28,281	32,136	33,890	37,571
Bajaj Electricals	6,977	8,579	7,457	3,944	7,886	11,494	9,712	6,132	35,224	23,142	22,285	27,408	30,846	33,035
Havells (ECD)	4,902	5,359	4,177	3,017	5,799	7,831	7,124	5,760	26,513	13,783	15,602	20,962	20,054	23,770
TTK Prestige	5,736	5,461	3,835	2,085	5,902	6,794	5,549	3,569	21,814	16,035	17,465	19,680	19,368	20,331
IFB (Home App)	5,859	5,761	3,807	2,493	5,886	7,679	6,384	4,331	24,279	14,742	18,104	20,897	21,081	22,442
Orient Electric	2,832	3,248	4,545	1,035	3,044	4,605	6,456	3,241	17,345	-	12,181	13,296	14,916	15,139
Polycab (FMEG)	1,956	2,166	1,833	1,378	2,440	3,055	3,468	1,919	10,882	3,384	4,853	6,433	8,356	10,341
V-Guard (CD)	1,750	2,020	1,441	855	1,634	2,641	2,237	1,497	8,009	5,085	5,738	6,779	6,745	7,367
Hawkins	1,926	1,933	1,460	1,008	1,932	2,311	2,434	1,515	8,191	5,398	5,526	6,528	6,739	7,685
Total	**53,753**	**55,108**	**49,501**	**32,050**	**59,833**	**71,708**	**73,087**	**48,310**	**252,938**	**149,793**	**178,354**	**208,095**	**221,921**	**236,679**

Revenue YoY Gr. (%)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	LTM	FY17	FY18	FY19	FY20	FY21
Whirlpool	18	5	(0)	(48)	15	18	31	12	19	15	23	12	11	(2)
Crompton	11	11	(14)	(44)	18	32	61	48	39	11	5	16	5	11
Bajaj Electricals	9	13	1	(50)	13	34	30	55	31	(11)	6	23	13	7
Havells (ECD)	15	1	(14)	(46)	18	46	71	91	52	22	21	30	6	19
TTK Prestige	4	(1)	(14)	(52)	3	24	45	72	27	8	15	16	(2)	5
IFB (Home App)	8	4	(25)	(56)	0	33	68	74	35	20	23	15	1	6
Orient Electric	16	14	(4)	(76)	7	42	42	213	49	na	na	9	12	1
Polycab (FMEG)									48	71	43	33	33	24
V-Guard (CD)	(4)	10	(19)	(44)	(7)	31	55	75	32	737	16	20	(1)	9
Hawkins	12	11	(21)	(29)	0	20	67	50	29	(6)	8	18	3	14
Weighted Avg. Gr. (%)	**13**	**8**	**(8)**	**(48)**	**12**	**31**	**50**	**61**	**33**	**36**	**16**	**17**	**8**	**7**

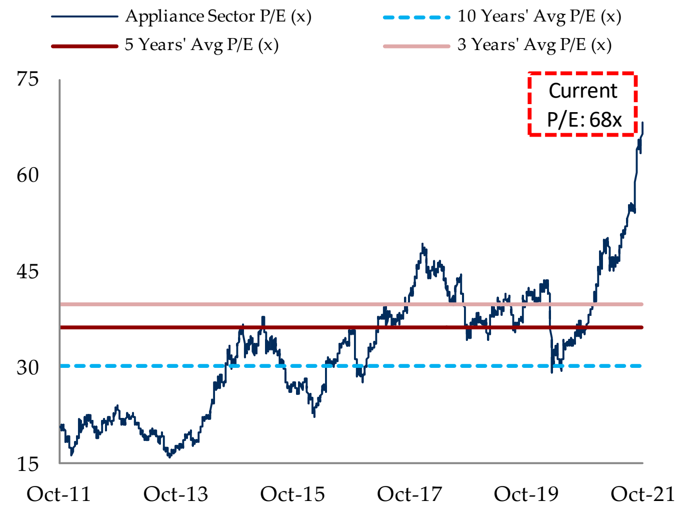
EBIT Margin (%)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	LTM	FY17	FY18	FY19	FY20	FY21
Whirlpool	10.5	7.8	9.4	3.2	10.9	6.3	9.4	5.2	8.2	12.0	11.3	11.8	11.2	7.9
Crompton	19.2	19.8	20.0	20.5	21.0	19.8	18.1	17.6	19.1	17.1	18.9	19.2	19.9	19.7
Bajaj Electricals	5.1	8.2	6.4	2.7	10.7	12.5	7.4	3.7	9.3	4.3	4.9	6.6	6.8	9.8
Havells	14.6	14.4	13.4	12.3	20.2	17.9	15.3	11.7	16.4	14.2	14.5	13.8	14.3	17.0
TTK Prestige	13.6	13.6	6.5	(0.2)	13.0	15.9	16.6	8.2	14.0	10.6	12.0	13.2	11.7	13.6
IFB (Home App)	6.0	2.1	(9.2)	(14.2)	9.0	10.1	3.9	(11.5)	4.4	4.3	5.3	2.7	1.2	5.4
Orient Electric	9.3	12.4	15.8	(6.8)	16.8	14.9	14.3	7.0	13.5	na	12.1	11.3	12.2	13.6
Polycab (FMEG)	3.3	0.6	0.1	(4.0)	8.0	5.9	7.0	(7.5)	4.4	na	1.8	1.2	2.0	5.5
V-Guard (CD)	10.6	5.6	2.5	(10.2)	8.3	10.0	4.0	(3.9)	5.4	3.3	3.6	4.7	5.9	5.5
Hawkins	18.0	15.7	9.1	8.7	18.0	13.5	12.6	15.0	14.6	13.8	12.1	12.6	14.7	13.7

EBIT Gr (%)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	LTM	FY17	FY18	FY19	FY20	FY21
Whirlpool	22	1	(23)	(89)	18	(6)	31	84	22	31	15	17	6	(31)
Crompton	12	18	(12)	(44)	29	31	46	27	34		9	15	9	10
Bajaj Electricals	(4)	28	4	(81)	138	104	79	47	100	(18)	10	66	16	56
Havells	5	2	(23)	(55)	63	83	95	82	80	22	16	27	(1)	41
TTK Prestige	5	(6)	(56)	(101)	(2)	46	270	(6,919)	73	4	24	24	(13)	22
IFB (Home App)	42	(39)	1,442	(377)	49	539	(170)	41	(563)	140	52	(41)	(56)	377
Orient Electric	6	34	11	(116)	93	70	29	(420)	79			2	21	13
V-Guard (CD)	61	138	(70)	(232)	(26)	134	151	(32)	1,819	80	23	54	25	1
Hawkins	30	61	(37)	(58)	1	3	132	160	74	10	(6)	23	21	13
Aggregate Growth (%)	**16**	**11**	**(25)**	**(81)**	**36**	**59**	**86**	**97**	**37.5**	**20**	**14**	**18**	**5**	**11**

Sector valuation

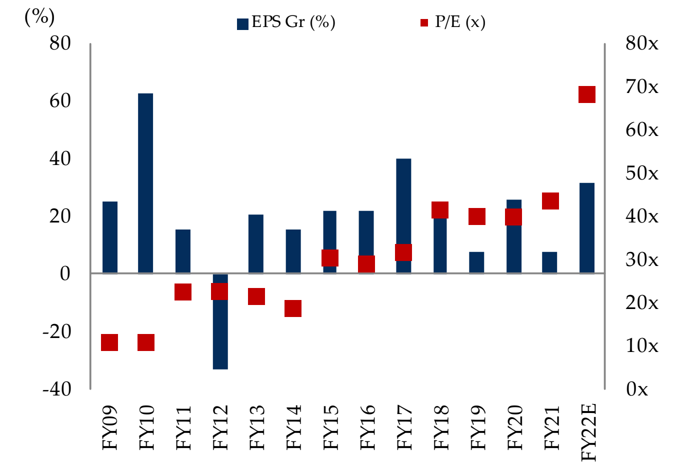
The sector is trading at ~68x P/E (one-year forward), having seen a sharp rerating in the past 10 years (21x 10 years ago). We believe the category winners will further gain market share in the current phase and command valuation premiums. With earnings momentum sustaining, we expect rich valuations would sustain. Further, the category winners hold the potential for quick turnarounds; therefore, any near-term disruption offers a good entry point to investors.

Exhibit 59: Sector P/E (12-month Rolling Forward)



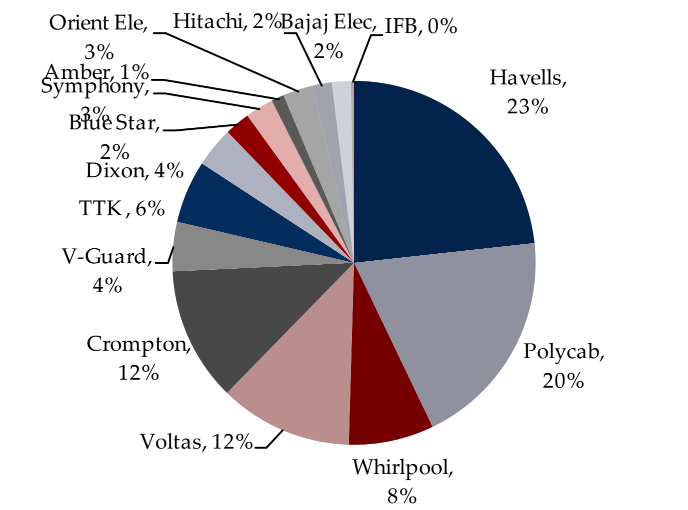
Source: Companies, Bloomberg, HSIE Research

Exhibit 60: CD Universe: Earnings vs. Valuation



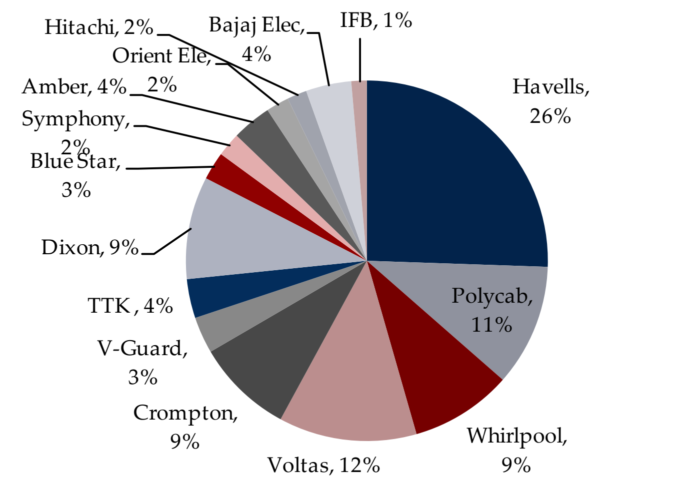
Source: Companies, Bloomberg, HSIE Research

Exhibit 61: CD universe: profit mix



Source: Companies, Bloomberg, HSIE Research

Exhibit 62: CD universe: market cap mix



Source: Companies, Bloomberg, HSIE Research

Exhibit 63: Consumer Durables Universe: Valuation Trend

Companies	1 - Yr Fwd PE (x)				Rerating/Derating		
	10 Yr Avg	5 Yr Avg	3 Yr Avg	Current	10 Yr Avg	5 Yr Avg	3 Yr Avg
Havells	36	47	49	67	87%	45%	36%
Voltas	27	36	39	53	98%	49%	36%
Crompton	na	35	33	44	na	25%	32%
Symphony	43	56	48	34	-19%	-39%	-28%
V-Guard	33	46	43	40	19%	-13%	-8%
TTK Prestige	38	39	38	43	14%	10%	13%
Blue Star	24	45	50	41	74%	-9%	-17%
Orient Electric	na	na	38	43	na	na	12%
Whirlpool	38	51	57	54	41%	4%	-5%
IFB Industries	44	62	62	35	-21%	-44%	-44%
Johnson-Hitachi	50	68	73	58	15%	-15%	-21%
Dixon	na	na	44	84	na	na	89%
Amber	na	na	42	55	na	na	31%
Hawkins	30	30	30	38	29%	30%	29%
Polycab	na	na	25	45	na	na	76%
Appliances	32	39	39	68	112%	74%	75%
Nifty-50	19	21	22	23	20%	8%	5%

Exhibit 64: Consumer Durables Universe: Stock Performance

Companies	1M (%)	3M (%)	6M (%)	12M (%)	3Yr (%)	5Yr (%)
Voltas	7.0	24.5	35.7	94.8	154.4	226.5
Blue Star	7.0	6.2	5.5	48.8	59.7	58.0
Symphony	6.9	0.2	(10.6)	25.0	8.7	(6.2)
Johnson-Hitachi	1.0	(0.7)	(11.6)	2.2	32.9	47.2
Whirlpool	8.9	24.5	16.8	16.1	66.6	125.1
IFB Industries	10.2	13.8	6.2	80.2	18.0	152.7
Havells	(2.1)	36.6	40.6	102.3	138.4	221.4
V-Guard	2.0	2.4	12.8	60.1	52.0	105.4
Polycab	4.6	34.5	82.1	217.2	N/A	N/A
Crompton	(1.0)	4.7	24.6	74.7	132.3	N/A
Bajaj Electricals	(6.8)	18.5	8.2	143.1	153.5	379.8
Orient Electric	(0.2)	8.2	16.2	78.8	N/A	N/A
Finolex Cables	26.7	29.2	58.9	129.5	133.3	150.9
KEI Industries	19.7	35.5	94.8	186.9	233.2	738.6
Surya Roshni	20.6	24.5	94.5	242.9	203.3	226.3
TTK Prestige	(4.7)	24.5	19.8	50.3	67.9	95.5
Butterfly	20.5	30.7	57.6	260.2	337.9	372.5
La Opala	5.0	12.8	47.7	45.2	43.2	15.9
Hawkins	(1.1)	4.5	15.1	20.3	105.0	104.6
Dixon	26.9	17.6	46.2	202.8	N/A	N/A
Amber	13.9	20.5	16.0	83.8	N/A	N/A
BSE Consumer Durables Index	**13.2**	**26.5**	**40.2**	**87.9**	**142.7**	**255.3**
Nifty 50	**3.7**	**13.0**	**23.1**	**50.8**	**71.8**	**109.6**

Note: As on 13th October, 2021

Green indicates outperformance to Nifty 50 during the respective period

Red indicates underperformance to Nifty 50 during the respective period

Exhibit 65: Peer Set Comparison

Company	Mcap (INR bn)	CMP (INR/sh)	Reco	TP	EPS (Rs)			P/E (x)			EV/EBITDA (x)			Core RoCE (%)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Havells	881	1,409	ADD	1,550	20.7	24.7	28.0	67.9	57.1	50.2	45.3	38.0	33.6	29.8	35.1	37.7
Voltas	433	1,309	ADD	1,400	21.8	28.4	32.9	60.1	46.1	39.7	51.0	38.7	33.9	27.3	31.7	31.0
Crompton	303	482	BUY	575	10.1	12.0	13.7	47.9	40.0	35.1	35.0	29.8	26.0	56.5	59.7	62.6
TTK Prestige	124	8,920	ADD	10,000	195.9	220.4	249.4	49.6	45.5	40.5	35.5	30.4	27.1	24.1	26.5	26.8
V-Guard	100	234	ADD	285	5.9	7.2	8.5	39.5	32.6	27.6	27.1	23.0	19.5	23.0	30.5	32.8
Symphony	75	1,072	ADD	1,300	28.1	33.4	37.8	38.1	32.1	28.3	27.3	22.8	20.5	44.5	58.0	68.3
Orient Electric	72	338	BUY	400	6.7	8.8	10.5	50.6	38.6	32.2	27.7	21.6	17.9	50.2	52.2	57.1

Source: Company, HSIE Research
Note: As on 12th October, 2021

Exhibit 66: Change in estimate, target multiple, TP and rating

Company	CMP	Rating		TP (Rs)		Target P/E (x)		Old EPS			New EPS			Est Chg (%)		
		Old	New	Old	New	Old	New	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Havells	1,409	ADD	ADD	1,200	1,550	52	55	19.0	22.5	25.3	20.7	24.7	28.0	9.1	9.5	11.1
Voltas	1,309	ADD	ADD	1,100	1,400	38	47	21.7	27.6	31.6	21.8	28.4	32.9	0.4	2.9	4.4
Crompton	482	BUY	BUY	475	575	40	42	9.8	11.5	13.1	10.1	12.0	13.7	3.0	4.5	5.2
V-Guard	234	ADD	ADD	265	285	35	35	5.9	7.2	8.5	5.9	7.2	8.5	-	-	-
Symphony	1,072	ADD	ADD	1,200	1,300	35	35	28.1	33.4	37.8	28.1	33.4	37.8	-	-	-
TTK Prestige	8,920	ADD	ADD	9,165	10,000	40	40	180.0	195.9	220.4	180.0	195.9	220.4	-	-	-

Note: Valuing target price on FY24E earnings

Orient Electric

Hitting the right notes

Orient Electric is one of the notable names in the fans industry, an industry that is seeing positive developments. The company is taking the right steps and evolving to not only meet its customer expectations but also contribute to the growth of the evolving industry through continuous research and development. While fans do contribute towards the company's mammoth share of revenue, the company has continued to diversify into new business avenues, such as lighting in FY08 and appliances in FY12, to sweat its brand. Although the near-term margin is expected to be weak (high base, restoration of cost), we are positive on the prospects of the long-term margin trajectory (current ECD EBIT margin at 12-13% vs. 20/17% for Crompton/Havells). We build in 13% revenue CAGR over FY20-FY24 (FY21 being impacted) and believe EBITDA margin would expand by 250bps to 11% in FY24 over FY20. We initiate coverage on Orient Electric with a BUY rating and a target price of INR 400, based on 38x P/E on FY24 EPS.

- **Fan is the best business to be in:** Until 2015, fan was predominantly a commodity; but this has, since then, changed, with growing acceptability of efficient and feature rich fans by consumers. Orient Electric has been one of the pioneers in introducing new features through its research and development capabilities. Further, the mandatory implementation of BEE rating for fans will benefit larger brands such as Orient, which have decent R&D capabilities, and the industry may gradually see a shift away from unorganised and smaller regional players.
- **Right to win in appliances:** In FY12, the company entered the appliance segment with a major presence in water heaters and air coolers categories. In FY20, the company had hired Mr Salil Kapoor to head this segment (rich experience in consumer durable). The new leadership has enhanced the focus on expanding distribution reach and launching new products aggressively. While the pandemic has partly masked the potential of the changes made, we believe this segment would emerge as not only a significant revenue contributor but also as a margin-accretive business in the next 3-4 years.
- **Lighting business shining bright again:** The lighting industry has seen margin pressure in FY19 and FY20; however, this trend had seen reversal at FY20 end. But the easing of pricing pressure was followed by the disruption caused by COVID, thus impacting the overall segmental performance for Orient Electric, especially in the B-B segment. We believe the near-term headwinds would taper over the next few quarters as there is on-ground recovery in infrastructure projects, boosting the B-B sales for the company.
- Although Orient has been rerated over the past three years, the company is still trading at a discount to Havells and Crompton. We believe some discount is justified as it is still in the testing phase for execution of its ex-fan business. Once it achieves success in other products, we expect the valuation gap to further go down and, hence, we value the company at 38x its FY24 EPS.

Financial Summary

Year Ending March (INR mn)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	20,618	20,326	25,354	29,654	33,163
EBITDA	1,764	2,195	2,499	3,153	3,708
APAT	786	1,197	1,417	1,857	2,229
Diluted EPS (Rs)	3.7	5.6	6.7	8.8	10.5
P/E (x)	91.2	59.9	50.6	38.6	32.2
EV / EBITDA (x)	41.2	31.6	27.7	21.6	17.9
Core RoCE (%)	20.5	33.9	50.2	52.2	57.1

Source: Company, HSIE Research

BUY

CMP *(as on 14 Oct 2021)*	INR 338
Target Price	INR 400
NIFTY	18,339

KEY CHANGES	OLD	NEW
Rating	NA	BUY
Price Target	NA	INR 400
	FY22E	FY23E
EPS %	0%	0%

KEY STOCK DATA	
Bloomberg code	ORIENTEL IN
No. of Shares (mn)	212
MCap (INR bn) / ($ mn)	72/951
6m avg traded value (INR mn)	184
52 Week high / low	INR 368/187

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	8.7	14.3	76.6
Relative (%)	(7.2)	(12.0)	26.3

SHAREHOLDING PATTERN (%)	Jun-21	Sept-21
Promoters	38.5	38.5
FIs & Local MFs	22.4	23.8
FPIs	8.8	8.7
Public & Others	30.3	29.0

Source : BSE

Pledged shares as % of total shares

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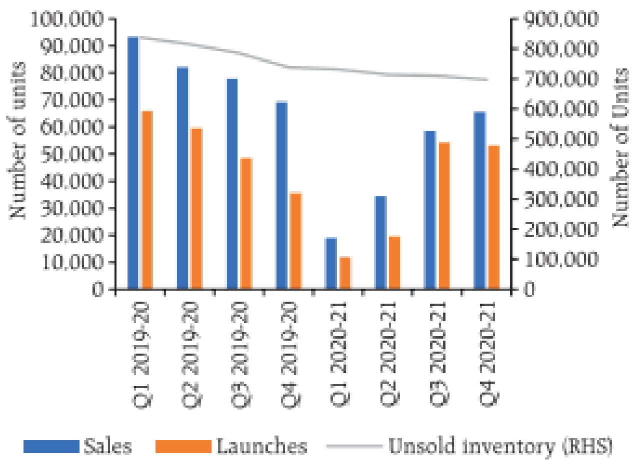
Fan - the best business to be in!

Orient Electric has about 19% market share in fans, a category which is not only a necessity but is also seeing premiumisation. With an expected lifespan of 10 years, we expect replacement demand to be around 60% of the total market. Besides the pure play replacement demand, fans are also replaced as a part of home improvement projects.

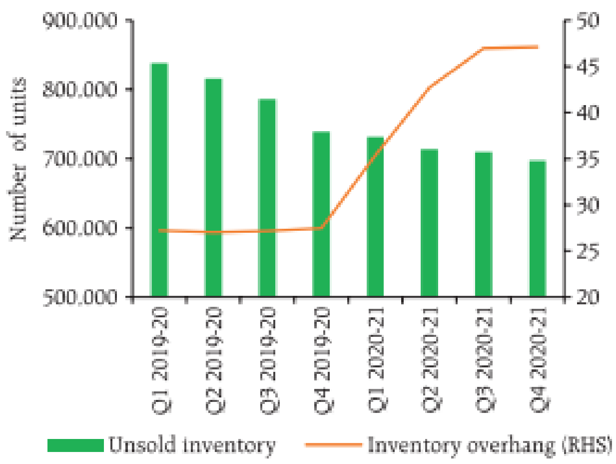
According to RBI's financial stability report released in July'21, the housing slowdown seen even before the onset of COVID has bottomed out in Q1FY21. The unsold inventory levels have dropped steadily in the past four quarters to around 0.7mn (0.85mn in Q1FY21), at a two-year low as at Q4FY21. While unsold inventory remains elevated, a reduction in it shows recovery in the housing market. The report mentioned that the new launches in the premium and sub-premium categories remain robust. Improvement in the housing sector has a direct correlation on the fans demand. With a multi-year lull finally being over, we see the organised fans market volume growing 9% CAGR over the next five years. With Orient Electric having a strong market share and robust distribution, we see the company as one of the main beneficiaries of the recovery in housing demand along with Havells and Crompton Consumer.

Exhibit 67: House launch and sales



Source: RBI - Financial Stability Report

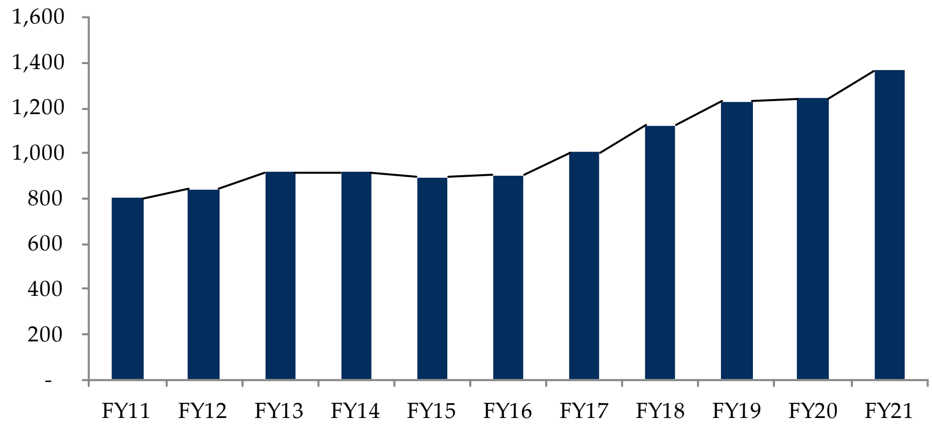
Exhibit 68: Unsold inventory and inventory overhang



Source: RBI - Financial Stability Report

Besides favourable demand levers, the fans industry is also witnessing a structural change with customer preference shifting towards energy efficient and feature equipped fans. The same is visible in the industry realisation growth. The estimated realisation grew at CAGR of 8% over FY16 and FY20 while the FY11 to FY16 CAGR stood at 2%. The high growth coincides with the introduction of feature rich and designer fans. Orient Electric has a strong portfolio of feature rich and energy efficient products, which will help the company capture the ongoing demand for premium fans. The company claims to have around 48% share in the above INR 4,000 fans category.

Exhibit 69: Realisation uptrend seen since FY16



Source: Company Data, HSIE Research

Besides the premiumisation trend, fans will need to be energy efficient, post the implementation of the BEE norms. This move will make the popular 75W fans obsolete. While large, branded companies such as Crompton Consumer, Havells and Orient Electric have already introduced energy efficient products, many unorganised players may lag with the implementation losing market share. Further, the BEE norms keep evolving every few years, making it more stringent, and to cope with such changes, only brands with a strong R&D focus will be able to compete. This will not just accelerate the shift to organised market but also lead to consolidation of fringe players in the industry.

Exhibit 70: 5 star AC in CY17 is a 2 star AC as per current norms

	Indian Seasonal Energy Efficiency Ratio		
	Jan 14 - Dec 17	Jan 18 - Dec 20	Jan 21 - Dec 23
1 Star	≥ 2.7 to < 2.89	≥ 3.1 to < 3.29	≥ 3.3 to < 3.49
2 Star	≥ 2.9 to < 3.09	≥ 3.3 to < 3.49	≥ 3.5 to < 3.79
3 Star	≥ 3.1 to < 3.29	≥ 3.5 to < 3.99	≥ 3.8 to < 4.39
4 Star	≥ 3.3 to < 3.49	≥ 4 to < 4.49	≥ 4.4 to < 4.99
5 Star	≥ 3.5	≥ 4.5	≥ 5

Source: BEE India

Exhibit 71: Evolution of BEE rating for fans (1,200mm)

	Service value for fans < 1200 mm sweep size	
	2009 to July 19	Sept 19 - 30 June 22
1 Star	≥ 3.2 to < 3.4	≥ 4.0 to < 4.5
2 Star	≥ 3.4 to < 3.6	≥ 4.5 to < 5.0
3 Star	≥ 3.6 to < 3.8	≥ 5.0 to < 5.5
4 Star	≥ 3.8 to < 4.0	≥ 5.5 to < 6.0
5 Star	≥ 4.0	≥ 6.0

Source: BEE India; Voluntary Ratings

We see the fan industry evolving into a specialised business rather than a commodity one and expect only the large, branded players to survive in the long run. Given Orient Electric's thrust on R&D, marketing and expansion of distribution, we see the company as one of the key players in the industry.

India is changing - is Orient changing with it?

The fans industry is currently witnessing several trends. These include (1) implementation of mandatory energy efficiency norms, (2) new technological developments like BLDS and IoT fans, and (3) evolving preference of customers on both the product as well as the buying experience. While new entrants are capitalising on such trends, companies with a strong foothold in the fans market are evolving as well.

Orient Electric has been on the forefront of introducing energy efficient fans with the launch of its BLDC fans in 2014. Besides the BLDC fans, the company also has low-cost energy efficient fans such as its Aero series and I-series, which has a power output of 50W compared to the conventional fans with 75W of output.

The company also forayed into the smart fan category in 2018 with the launch of its aeroslim series. It has not only kept up with its peers and introduced many new innovative products such as dust free fans and silent fans, but it has also introduced plastic fans in the premium segment.

Exhibit 72: Orient has a large portfolio of fan series to satisfy different customer needs

Series	No of SKUs	MRP Price (INR)		Description
		Min	Max	
Aero Series	20	7,910	13,480	Energy efficient (BLDC), reduced noise and higher air thrust
I-Series	22	3,930	7,950	Energy efficient (BLDC) premium fan
Chandelier	3	22,000	27,855	Remote enabled premium fans equipped with chandelier
Underlight Fans	12	8,540	10,985	Fans with lights
Lifestyle	4	2,690	7,380	Portable fans
Deco Category Fans	187	3,080	9,315	Premium top of the line fans, these also includes energy efficient fans, anti dust and kids series
Base Series	128	2,165	3,155	Generates close to 50% of its volume from the base series
Eco. Ceiling Fans	58	1,965	2,240	Generates close to 40% of its volume from the base series
Pedestal Fans	30	3,420	13,475	
Table Fans	26	2,420	4,630	
Wall Fans	27	3,005	12,640	
Ventilators	19	1,335	3,490	
Domestic Exhaust	10	1,675	2,750	
Heavy Duty Exhaust	16	3,900	10,935	
Industrial Heavy Duty Exhaust	8	3,900	6,320	

Source: Company Data

As seen above, the company has a robust portfolio of products at multiple price points. This is favorable for the company, given the trends seen towards premiumisation in fans. Fans were predominantly used as a utility earlier; however, with increasing disposable incomes and better standards of living, India is witnessing a surge in demand for premium fans. While penetration of fans remains at high levels (~70%), India is expected to see a large replacement demand. As per industry participants, premium fans are being well accepted by second time buyers. This augurs well for companies with a strong premium fan portfolio such as Havells, Orient Electric, and Crompton Consumer.

With the premiumisation trend, the customer preference for buying experience is also transforming. According to our checks, customers prefer an omnichannel experience rather than a traditional purchase experience. This has been a trend in other industries such as mobile phones and large durables.

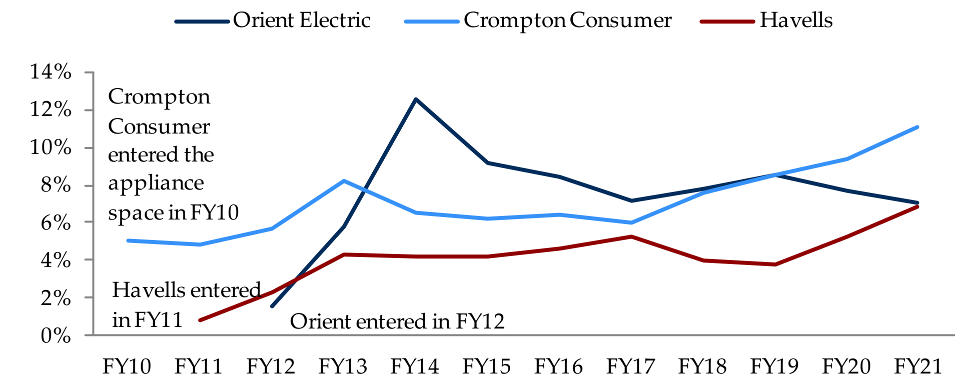
New age companies such as Fanzart and Atomberg have adopted different approaches to shape up its distribution. Fanzart has tied up with interior designers and architects to retail its fans in India. Further, it has experience centers in over 50 cities and flagship stores in four south Indian cities, including Bengaluru, Karur, Chennai, and Hyderabad. Atomberg has adopted an omnichannel approach with a retail presence in over 120 cities and strong ecommerce presence with about 50% share of its FY20 revenue being generated through this channel.

Orient Electric too is adopting the omnichannel strategy. While the company currently generates only 10% of its revenue through e-commerce and modern trade, it sees these channels growing at higher rates. Further, to display its products, the company had also introduced its 'Smart Shop' format in 2016, which carries the company's entire range products. While it currently has only nine smart shops across six states, it hopes to scale this up faster, going forward. In Dec'20, the company launched its Orient Smart Mobile, a mobile van with the company's entire range of products, including fans. This was launched in Tamil Nadu to create brand awareness and educate the features of the products to various stakeholders covering about 40 towns in two months.

Not just a fan company; right to win in appliances

Orient Electric generates about ~70% of its revenue from fans. In line with its peers such as Havells and Crompton Consumer, the company has also been diversifying into small electrical appliances since FY12. Orient's small electrical appliances mainly include air coolers, and water heaters generate about 6-8% of the total revenue. Havells and Crompton generate about 7/11% of their revenue from small electrical appliances.

Exhibit 73: Appliance revenue trend for Havells, Crompton Consumer and Orient Electric



Source: Company Data

While Havells and Crompton Consumer have significantly grown its presence in the appliance durables space, until now, Orient was lagging with significant focus given to its fans business. <u>The company hired Mr Salil Kapoor in Dec'19, an industry veteran, to head the appliance segment, with the aim of strengthening its product portfolio, increasing marketing effectiveness, improving service levels, and ramping up its distribution network</u>. The result of this move is yet to materialise as the onset of COVID has delayed matters. The company has launched various new products and has started to expand its distribution network.

Exhibit 74: Appliance launches over the past six quarters

Evoke water heater

Urja+ water heater

Supercooler Air Cooler

Tornado Desert Coolers

Miracle Diva mixer grinder

Inverter Air Cooler

Source: Company Data

The company sees huge potential in kitchen appliance where it will continue to add new products. This is a space where Crompton and Havells are present as well and have ramped up market share in a short period of time.

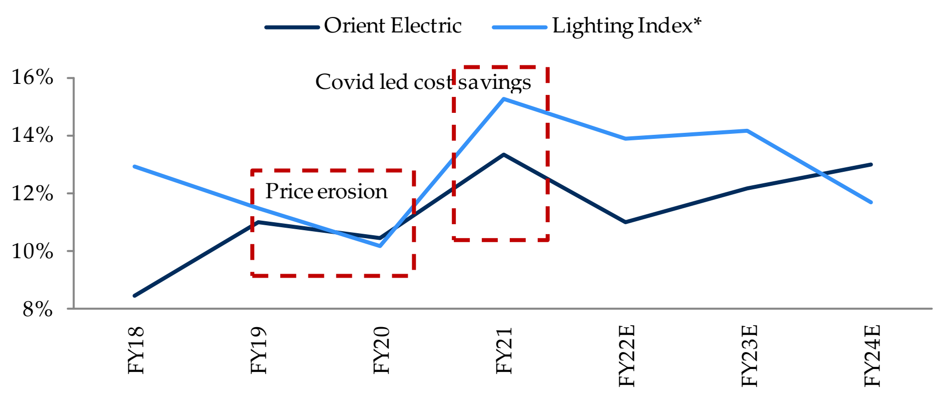
We expect appliance to not only be a significant revenue contributor in the next 3 to 4 years, but also be margin accretive once its scales up. This segment may see some near term disruption due to COVID and input cost pressures; however, we believe we will be able to see a positive performance in a stable year. Further, the addition of appliance will help the company reduce its dependability on summer products with the addition of winter products like water heaters and year round products like mixer grinders.

Will lighting shine bright again for Orient?

Orient entered the lighting segment with the launch of CFL and FTL in FY08; this segment later expanded into LED, professional luminaries, and street lighting in FY11, FY15 and FY16 respectively. This segment generates about 23-25% of the company's revenue.

The lighting industry had witnessed price erosion over FY19 and FY20 in the consumer (B-C) LED space. This was a result of cheap Chinese imports flooding the market. It led to aggregate margin compression of 270bps for the aggregate lighting companies between FY18 and FY20. The Orient Electric margin for FY19 was elevated due to its product mix. While lighting realisation had taken a hit, the volume growth continued over the period.

Exhibit 75: Lighting margin trend



Source: Company Data, HSIE Research

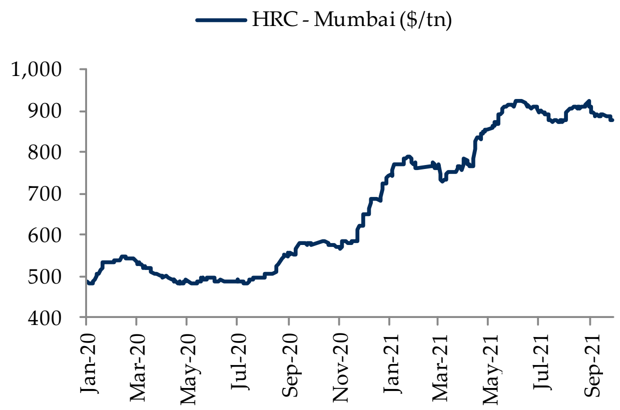
The price erosion had tapered down from Q3FY20 onwards; however, Q4FY20 and Q1FY21 saw the impact of COVID-led lockdown. While consumer lighting has recovered since, B-B lighting has seen muted demand. Recent commentary by companies suggests recovery in industrial activities, which will benefit the B-B lighting segment for Orient Electric, albeit with a lag.

Margin: weak in near term, positive for long term

Headwinds due to the commodity price have resulted in margin compression for not just Orient Electric, but the overall appliances industry. Since March '20, steel and copper prices have moved up by 72% and 81% respectively. While the prices have stabilised, they continue to remain at elevated levels.

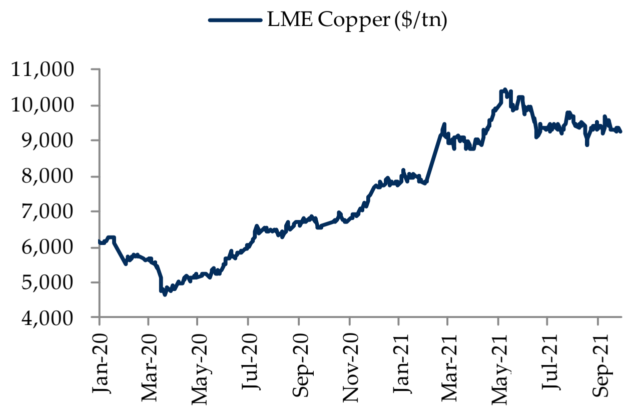
Although the near-term margin is expected to be weak (high base, restoration of cost), we are positive on the prospects of the long-term margin trajectory (current ECD EBIT margin at 12-13% vs. 20/17% for Crompton/Havells). We build in 13% revenue CAGR over FY20-FY24 (FY21 being impacted) and believe EBITDA margin would expand by 250bps to 11% in FY24 over FY20.

Exhibit 76: Domestic HRC steel prices



Source: Bloomberg

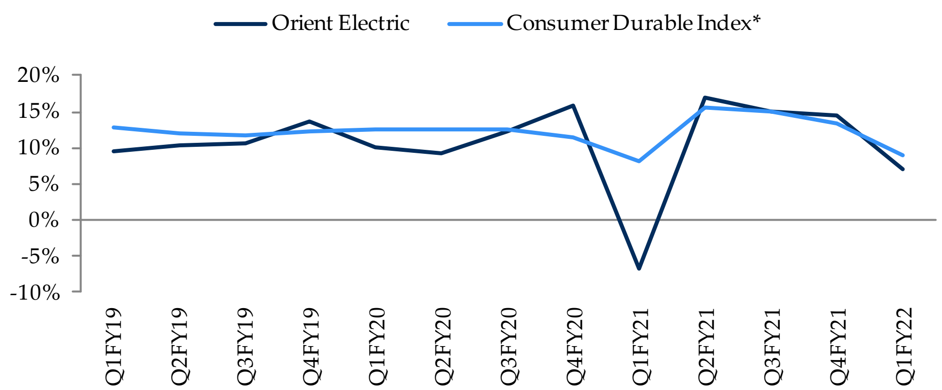
Exhibit 77: Copper LME prices



Source: Bloomberg

Besides the commodity increase, freight increase due to the container unavailability has also hampered the margins for appliance companies. EBIT margin for Orient's consumer durable segment has contracted 310bps to 7% in Q1FY22 over Q1FY20 (normal quarter), while the small consumer durable aggregate EBIT margin for the segment has contracted by 360bps to 9% over the same period.

Exhibit 78: Orient Electric and durables universe margin profile

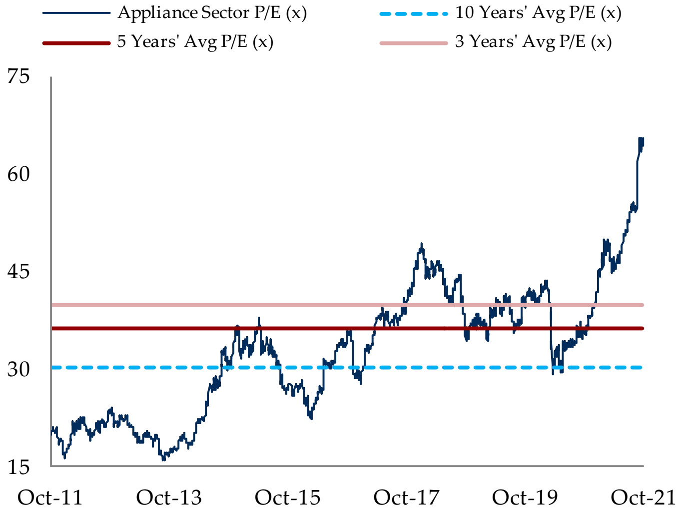


Source: Company Data, HSIE Research; * Only small durables

To combat the increase in input costs, Orient Electric has taken price hikes in the range of 12 to 16% over the past 12 months; however, with high consumer inflation, the company is finding it difficult to pass on additional cost pressure to the consumers.

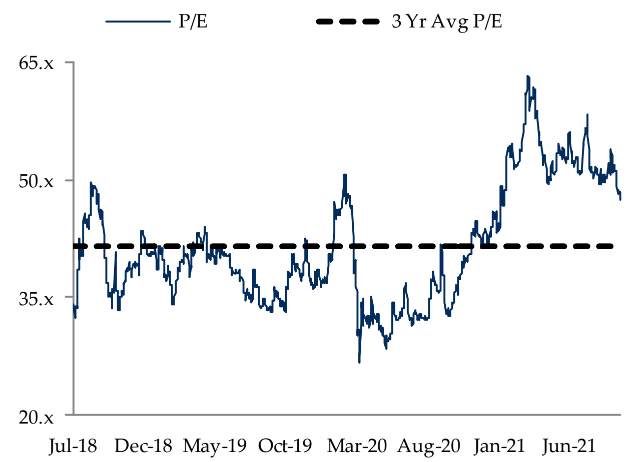
While the near-term pressure remains, we believe Orient Electric has sufficient headroom to increase its margin over the mid to long term. We see the company's EBITDA margin expanding by 250bps to 11% by FY24 vs. FY20 due to the benefits from cost saving initiatives, operating leverage, favorable product mix with more appliance contribution and premiumisation.

Exhibit 79: Appliance sector PE



Source: Bloomberg, HSIE Research

Exhibit 80: Orient Electric PE



Source: Bloomberg, HSIE Research

Profit & Loss

Year End (March)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net Revenues	**15,998**	**18,644**	**20,618**	**20,326**	**25,354**	**29,654**	**33,163**
Growth (%)	653.6	16.5	10.6	(1.4)	24.7	17.0	11.8
Material Expenses	10,434	12,713	14,094	14,210	18,019	20,165	22,385
Employee Expense	1,428	1,736	1,985	1,792	2,037	2,342	2,694
ASP Expense	709	738	830	591	913	1,127	1,260
Distribution Expense	451	499	636	615	767	898	1,004
Other Expenses	1,250	1,545	1,309	923	1,119	1,969	2,112
EBITDA	**1,727**	**1,413**	**1,764**	**2,195**	**2,499**	**3,153**	**3,708**
EBITDA Growth (%)	**624.6**	**(18.2)**	**24.9**	**24.4**	**13.9**	**26.2**	**17.6**
EBITDA Margin (%)	**10.8**	**7.6**	**8.6**	**10.8**	**9.9**	**10.6**	**11.2**
Depreciation	198	231	401	432	475	574	669
EBIT	**1,529**	**1,182**	**1,363**	**1,764**	**2,024**	**2,579**	**3,038**
Other Income (Including EO Items)	55	95	41	63	51	62	91
Interest	245	229	261	207	180	160	150
PBT	**1,340**	**1,049**	**1,143**	**1,619**	**1,895**	**2,481**	**2,979**
Tax	338	356	357	422	478	625	750
RPAT	**1,002**	**693**	**786**	**1,197**	**1,417**	**1,857**	**2,229**
Adjustment	(0)	(0)	(0)	-	-	-	0
APAT	**1,002**	**693**	**786**	**1,197**	**1,417**	**1,857**	**2,229**
APAT Growth (%)	**747.1**	**(30.8)**	**13.4**	**52.3**	**18.4**	**31.0**	**20.1**
Adjusted EPS (Rs)	**4.7**	**3.3**	**3.7**	**5.6**	**6.7**	**8.8**	**10.5**
EPS Growth (%)	**747.1**	**(30.8)**	**13.5**	**52.3**	**18.4**	**31.0**	**20.1**

Source: Company, HSIE Research

Balance Sheet

Year End (March)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
SOURCES OF FUNDS							
Share Capital - Equity	212	212	212	212	212	212	212
Reserves	2,420	2,854	3,382	4,344	5,338	6,770	8,575
Total Shareholders Funds	**2,632**	**3,066**	**3,594**	**4,557**	**5,550**	**6,982**	**8,787**
Long Term Debt	344	251	-	17	17	17	17
Short Term Debt	1,516	1,099	985	135	135	135	135
Total Debt	**1,859**	**1,349**	**985**	**153**	**153**	**153**	**153**
Net Deferred Taxes	(245)	(197)	(214)	(263)	(263)	(263)	(263)
Other Non Current Liabilities	60	129	842	688	688	688	688
TOTAL SOURCES OF FUNDS	**4,307**	**4,348**	**5,207**	**5,134**	**6,127**	**7,559**	**9,364**
APPLICATION OF FUNDS							
Net Block	**995**	**1,120**	**1,296**	**1,298**	**1,423**	**1,599**	**1,479**
CWIP	47	43	35	26	26	26	26
Other intangible assets	62	46	131	230	230	230	230
Goodwill	-	-	-	-	-	-	-
Non Current Investments	-	-	-	-	-	-	-
Other Non Current Assets	143	122	674	556	556	556	556
Total Non-current Assets	**1,246**	**1,331**	**2,135**	**2,111**	**2,235**	**2,411**	**2,292**
Inventories	2,091	2,640	2,865	2,492	3,108	3,635	4,065
Debtors	3,864	4,047	3,889	3,838	5,073	5,885	6,548
Other Current Assets	333	357	427	345	345	345	345
Cash & Equivalents	305	316	75	2,576	2,654	3,631	5,328
Total Current Assets	**6,593**	**7,360**	**7,255**	**9,250**	**11,180**	**13,497**	**16,286**
Creditors	2,761	3,509	3,305	5,191	6,252	7,312	8,177
Other Current Liabilities & Provns	771	834	878	1,036	1,037	1,037	1,037
Total Current Liabilities	**3,532**	**4,343**	**4,183**	**6,227**	**7,288**	**8,348**	**9,214**
Net Current Assets	**3,060**	**3,017**	**3,072**	**3,023**	**3,892**	**5,148**	**7,073**
TOTAL APPLICATION OF FUNDS	**4,307**	**4,348**	**5,207**	**5,134**	**6,127**	**7,559**	**9,364**

Source: Company, HSIE Research

Cash Flow

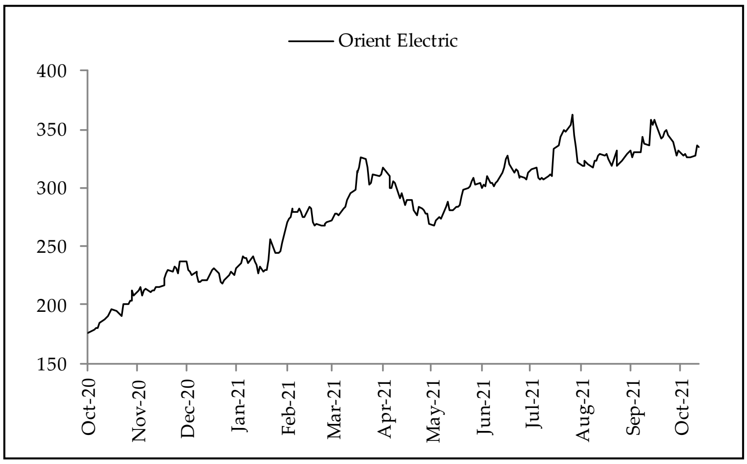
Year ending March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Reported PBT	978	1,049	1,143	1,619	1,895	2,481	2,979
Non-operating & EO Items	240	389	392	218	-	-	-
Interest Expenses	245	229	261	207	129	98	59
Depreciation	198	231	401	432	475	574	669
Working Capital Change	(489)	(276)	(423)	2,211	(791)	(279)	(227)
Tax Paid	(259)	(301)	(482)	(414)	(478)	(625)	(750)
OPERATING CASH FLOW (a)	**913**	**1,320**	**1,292**	**4,273**	**1,230**	**2,250**	**2,730**
Capex	(254)	(345)	(522)	(359)	(600)	(750)	(550)
Free Cash Flow (FCF)	659	975	771	3,914	630	1,500	2,180
Investments	(3)	3	(4)	(1,170)	-	-	-
Non-operating Income	34	30	17	22	51	62	91
INVESTING CASH FLOW (b)	**(223)**	**(312)**	**(508)**	**(1,506)**	**(549)**	**(688)**	**(459)**
Debt Issuance/(Repaid)	(246)	(513)	(367)	(832)	-	-	-
Interest Expenses	(245)	(229)	(259)	(210)	(180)	(160)	(150)
FCFE	**169**	**233**	**145**	**2,872**	**450**	**1,340**	**2,030**
Share Capital Issuance	-	-	-	-	-	-	-
Dividend	(128)	(256)	(294)	(265)	(424)	(424)	(424)
Others	-	-	(109)	(129)	-	-	-
FINANCING CASH FLOW (c)	**(618)**	**(998)**	**(1,029)**	**(1,437)**	**(604)**	**(584)**	**(574)**
NET CASH FLOW (a+b+c)	**72**	**10**	**(245)**	**1,330**	**77**	**978**	**1,697**
EO Items, Others	(0)	-	0	-	0	-	-
Closing Cash & Equivalents	305	315	71	1,401	1,478	2,456	4,153

Key Ratios

	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
PROFITABILITY (%)							
GPM	34.8	31.8	31.6	30.1	28.9	32.0	32.5
EBITDA Margin	10.8	7.6	8.6	10.8	9.9	10.6	11.2
EBIT Margin	9.6	6.3	6.6	8.7	8.0	8.7	9.2
APAT Margin	6.3	3.7	3.8	5.9	5.6	6.3	6.7
RoE	42.1	24.3	23.6	29.4	28.1	29.6	28.3
RoIC (or Core RoCE)	29.7	19.4	20.5	33.9	50.2	52.2	57.1
RoCE	27.8	18.1	19.6	25.2	26.9	28.2	26.9
EFFICIENCY							
Tax Rate (%)	25.2	33.9	31.2	26.0	25.2	25.2	25.2
Fixed Asset Turnover (x)	8.1	8.3	7.9	7.2	7.4	7.1	7.0
Inventory (days)	47.7	51.7	50.7	44.7	44.7	44.7	44.7
Debtors (days)	88.2	79.2	68.8	68.9	68.9	68.9	68.9
Other Current Assets (days)	7.5	6.8	7.4	6.0	4.8	4.1	3.7
Payables (days)	63.0	68.7	58.5	93.2	90.0	90.0	90.0
Other Current Liab & Provns (days)	9.5	10.0	9.5	12.5	10.1	8.6	7.7
Cash Conversion Cycle (days)	70.9	59.1	59.0	13.9	18.4	19.2	19.7
Net D/E (x)	0.6	0.3	0.3	(0.5)	(0.5)	(0.5)	(0.6)
Interest Coverage (x)	6.2	5.2	5.2	8.5	11.2	16.1	20.3
PER SHARE DATA (Rs)							
EPS	4.7	3.3	3.7	5.6	6.7	8.8	10.5
CEPS	5.7	4.4	5.6	7.7	8.9	11.5	13.7
Dividend	0.5	1.0	1.2	2.0	2.0	2.0	2.0
Book Value	12.4	14.4	16.9	21.5	26.2	32.9	41.4
VALUATION							
P/E (x)	71.6	103.5	91.2	59.9	50.6	38.6	32.2
P/BV (x)	27.2	23.4	20.0	15.7	12.9	10.3	8.2
EV/EBITDA (x)	42.4	51.5	41.2	31.6	27.7	21.6	17.9
EV/Revenues (x)	4.6	3.9	3.5	3.4	2.7	2.3	2.0
OCF/EV (%)	1.2	1.8	1.8	6.2	1.8	3.3	4.1
FCF/EV (%)	0.9	1.3	1.1	5.6	0.9	2.2	3.3
FCFE/Mkt Cap (%)	0.2	0.3	0.2	4.1	0.7	2.0	3.1
Dividend Yield (%)	0.1	0.3	0.3	0.6	0.6	0.6	0.6

Source: Company, HSIE Research

1 Yr Price Movement



Rating Criteria

BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: > 10% Downside return potential

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