

### Consumer durables industry to witness firm growth in coming future

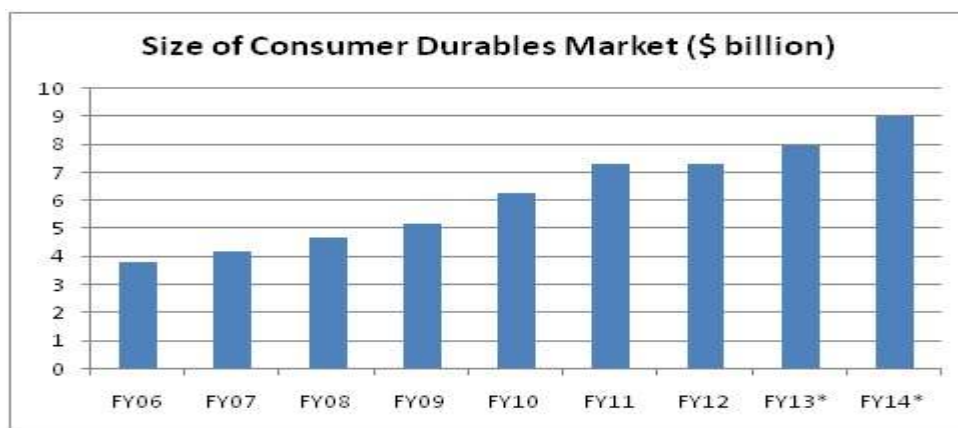
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Consumer durables refer to those goods that do not quickly wear out and yields utility over a long period of time. Indian consumer durables industry has become one of the fastest growing sectors in India, primarily driven by growing Indian economy. With the uninterrupted inflow of disposable incomes and the development of product technology, the demand for the diverse consumer durable goods are growing. Indian consumer market is extremely competitive and fragmented and mainly dominated by international players (MNCs), representing around 65 percent share due to their superior product as well as technological advancement. Further, LG and Samsung together account for over 40 percent of the consumer durables market in India. Consumer durables products are divided into the three categories such as white goods, brown goods and consumer electronics with key products such as televisions, refrigerators, air conditioners and washing machines. Present market size of the industry stands at around \$10 billion. 100 percent foreign direct investment (FDI) in electronics hardware-manufacturing sector is allowed under the automatic route.

White Goods	Brown Goods	Consumer Electronics
<ul style="list-style-type: none"> <li>▪ Refrigerators</li> <li>▪ Air conditioners</li> <li>▪ Washing Machines</li> <li>▪ Sewing Machines</li> <li>▪ Watches and clocks</li> <li>▪ Cleaning equipments</li> <li>▪ Other domestic appliances</li> </ul>	<ul style="list-style-type: none"> <li>▪ Microwave Ovens</li> <li>▪ Cooking Products</li> <li>▪ Chimneys</li> <li>▪ Mixers and Grinders</li> <li>▪ Electronics Fans</li> <li>▪ Irons</li> </ul>	<ul style="list-style-type: none"> <li>▪ TVs</li> <li>▪ LCDs/LEDs</li> <li>▪ Audio and Video systems</li> <li>▪ Electronics accessories</li> <li>▪ Personal computers</li> <li>▪ Mobile phones</li> <li>▪ Digital cameras</li> <li>▪ DVDs and Camcorders</li> </ul>

### Industry Performance

The sector has been witnessing significant growth in recent years, helped by several drivers such as rising disposable income, emerging real estate and housing demand, easy access to credit and an overall increase in the level of affluence of a significant section of the population. Indian consumer durables market size has been increased by double digit CAGR at 13 percent to around \$10 billion in FY14 from \$3.8 billion in FY06.



Some eminent industry side advantages like low priced energy efficient products, constant product upgradation with advance technology and improved distribution network of players all have provided the much needed impetus to industry's growth. Despite having limited control prices due to high competitive pressure, industry players have been able to maintain their margins at a decent level on the back of superior operating margins and healthy demand scenario in the country. With the appearance of cheap finance schemes such as zero equated monthly installment (EMI) charges, quick and easy loan, loan through credit card, it has now become easy for Indian consumers to purchase product. Further, growing discretionary income and easy financing options have led to shortened consumer durables product replacement cycles and growing life styles where products such as ACs, washing machines, LED and TVs are perceived as utility items rather than luxury goods. With the focused growth and appropriate planning for sector, Indian consumer durables industry is viewed as one of the most attractive sector in the world and has been attracting huge foreign investments. Fuelled by constantly growing domestic economy, the consumer durables market is expected to expand at a CAGR of 14.8 percent to \$12.5 billion by FY15 from \$7.3 billion in FY12. Further, penetration level for most of the consumer durables products, like AC, washing machines and microwave oven stands lower as compared to developed countries, offering huge market opportunities for industry players. By 2025, India is set to become fifth largest consumer durables market in the world.

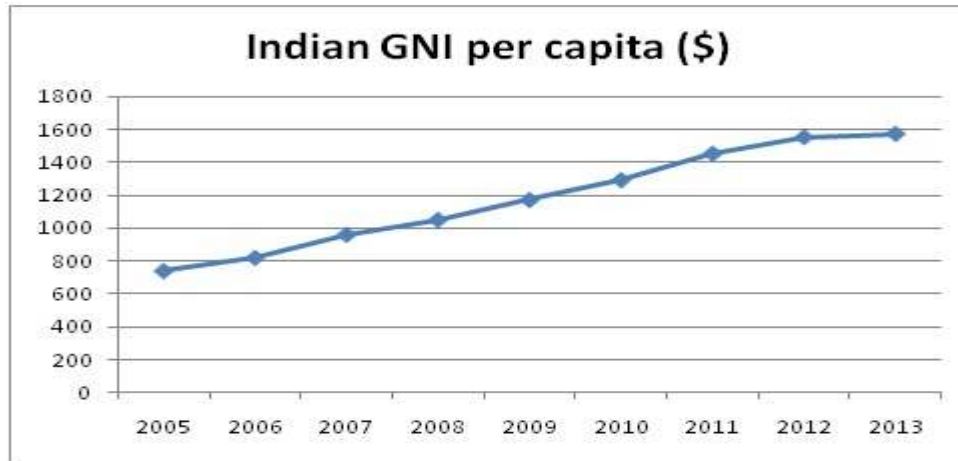
### Trends favoring growth of Consumer Durables Industry



### Revival in economic growth to provide impetus to sector

Consumer durables industry is highly correlated to economic scenario as the industry demand is largely depended upon disposable income. After registering an average growth rate of 8 percent during FY08-FY12, Indian economic growth had slowed down to below 5 percent over the last two financial years. The factors like high interest rate and stubborn inflation, low investments and slow execution of infrastructure projects have impacted country's economy growth. However, Indian economy has shown signs of nascent recovery and grew by 5.5 percent during the first half (April-September) of FY15 as compared to 4.9 percent in the same period in FY14.

Improved sentiments, the renewed policy thrust by new government and a pickup in consumer demand are likely to provide impetus to sector in the coming future. With the gradually growing domestic economy, per capita income of people in India grew by a CAGR of 10 percent to \$1570 in 2013 from \$740 in 2005. Household income in the top 20 boom cities in India is expected to grow at around 10 percent annually over the next ten years, which is likely to increase consumer spending on durables products.



(Source: World Bank data)

### **Increasing share of organised retail**

The demand of consumer durables products are growing at brisk pace in urban as well as rural markets and one of the key enablers of this growth has been the increasing penetration of organised retail. Though, there are established distribution networks in both rural and urban India, the presence of well-known brands and organized sector is increasing. Unorganized retailers dominated consumer durables segment and the penetration of modern retail is around 12 percent in consumer durables segment. This scenario is, however, changing as huge growth potential is attracting large corporate organisations to expand their retail operations into this territory. Furthermore, shopping malls are becoming more common in domestic cities, and according to plans announced by key developers of the country, large number of new malls is expected over the next few years.

Going forward, the market share of organized retail is expected to rise at fast pace. Modern retail stores across the country include Reliance Digital, Ezone and Croma are increasing their presence in the country. These three big retails have presently over 200 stores with around 80-90 percent located in cities with population over that 1 million. Further, organised retailers are also using E-commerce to expand their business. With the increase in organized shopping malls, Indian customers will have a far larger number of attractive, comfortable, brand-conscious outlets in which to shop. This will have a positive impact on the consumer durables industry, as organised retailing would not only streamline the supply chain, but also facilitate increased demand, especially for high-end and branded products.

### Rural Markets offer a big opportunity

Although, over 60 percent of the country's population resides in rural India, it represents only 35 percent of the total domestic sale. India is still an urban centric market with around two-thirds of the total domestic demand of the consumer appliances triggered by the top 40 cities of the country. However, the ratio of demand is transforming on the back of growing demand in rural markets. Growing rural income with higher non-farm income, increasing availability of power, rising product awareness through advertising and customized products for rural consumers are the major factors for such a tremendous change in the purchasing power of the rural customers. Lower penetration of durables in rural market is also generating huge demand for first time buyers in that market which is a big opportunity of durables manufactures. Rural Consumer durables market is growing by average annual growth rate of around 30 percent and thus the manufactures are also increasing their distribution networks to rural towns so that they can tap these markets as well. Furthermore, various companies are coming up with customized products which suits for rural demand. Rural consumer durables market is expected to post much faster growth than the urban markets in future and its share is expected to reach near 45 percent in near future.

### Government's favorable initiatives

In order to boost the domestic consumer durables sector, the government of India (GoI) has taken various initiatives like easing duty rate and providing more benefits under the EPCG, EHTP schemes. Excise duty for manufactures reduced to 12 percent and basic customs duty on important products as well as key raw materials eased to 10 percent. Further, excise duty has been reduced to 6 percent on LED lamps and LEDs required for manufacture of such lamps. 100 percent FDI is permitted in electronics hardware-manufacturing through automatic route. Under Electronic Hardware Technological Park (EHTP) scheme, the government increased the number of incentives such as duty waivers and tax incentives to companies which replace certain imports with local manufacturing. Furthermore, Export Promotion Capital Goods (EPCG) allows import of capital goods on paying 3 percent customs duty.

### Issues and Concerns

**Increasing Competition:** The consumer durable market has been transformed by the entry of over a dozen new brands and thus the competition among players has intensified. Growing competition among players has forced them to spend more on advertisement and also lessen their pricing power, thereby lowering industry margins.

**Need of large investment in technology:** Consumer durables products are required to undergo persistent changes to meet the varying demand of consumers due to the continuous change in the psychographic and demographic profile of the customer. Thus, the firms would continue to rely heavily on advancement in technology. Furthermore, major raw materials such as metals are exhibiting increasing trend over the past few years posing margin pressures.

**Poor rural distribution:** As around 65 percent of India's population still lives in rural areas, availability of products to rural village located in remote area is difficult due to inadequate infrastructure and poor road connectivity.

**Inadequate power supply:** India is still power deficit country and has been witnessing peak hour power deficit at around 3-5 percent with the southern India remaining the most affected region registering a peak power deficit of 8-10 percent. Therefore, the sector's growth is impacted by the inadequate infrastructure of the country as regular power supply is imperative for any consumer electronics products, which depends majorly on power.

### Outlook

India is an emerging economy and thus the domestic market is fast moving towards durables products. With the constant rise in disposable income of people, the importance of high end products is growing in India. Consumer durables industry has been growing at a fast pace and the factors like easy availability of finance, growth in consumer base of rural sector, fall in prices due to increased competition and the growth of media have become key growth drivers for industry. Besides, massive untapped potential in both rural and urban areas also present a remarkable growth opportunity for industry players. Given these factors, a good growth is projected for industry in the near and medium term future, too. Though, the manufactures are witnessing increasingly demanding customers and intensely competitive rivals, more investments in the sector are likely to flow in and the share of organized sector will also grow rapidly. However, as consumer preference is changing rapidly, there is need for industry players to become more observant and better prepared to make strategic decisions.

### Companies Financial Data In Industry

Company Name	CMP	MCAP (Rs Crore)	BOOK VALUE	DIV. YEILD %	TTM EPS	TTM PE
TTK Prestige Ltd.	3526.60	4105.10	547.79	0.57	94.06	37.49
Hawkins Cookers Ltd.	3724.95	1969.68	142.43	1.61	73.83	50.45
Symphony Ltd.	1953.55	6833.22	72.72	0.67	30.36	64.36
DHP India Ltd.	158.45	47.54	97.96	0.95	26.22	6.04
Whirlpool Of India Ltd.	627.10	7956.13	64.29	0.00	14.23	44.07
IFB Industries Ltd.	479.90	1944.50	88.75	0.00	12.51	38.35
Havells India Ltd.	269.30	16817.46	37.84	1.11	7.77	34.66
Singer India Ltd.	208.25	223.73	32.07	0.72	6.24	33.39
Butterfly Gandhimathi Appliances Ltd.	217.15	388.25	125.11	0.00	4.78	45.43
Sharp India Ltd.	70.15	182.00	10.30	0.00	3.42	20.54
Rexnord Electronics & Controls Ltd.	21.25	16.11	19.74	0.00	2.95	7.19
Salora International Ltd.	32.95	29.02	129.08	0.00	1.81	18.17
Calcom Vision Ltd.	1.73	0.56	-55.46	0.00	1.20	1.44
Jaipan Industries Ltd.	16.25	9.91	17.95	0.00	0.38	42.36
Sunrise Asian Ltd.	441.75	2017.17	17.26	0.00	0.15	0.00



Bajaj Electricals Ltd.	228.70	2303.17	69.69	0.66	0.08	0.00
Super Domestic Machines Ltd.	84.30	17.34	7.48	0.00	-0.04	0.00
Panasonic Appliances India Company Ltd.	250.70	246.49	9.32	0.00	-0.17	0.00
Sujana Universal Industries Ltd.	2.11	35.63	35.76	0.00	-0.64	0.00
Mirc Electronics Ltd.	9.05	177.59	7.21	0.00	-0.90	0.00
Videocon Industries Ltd.	165.45	5273.87	316.45	1.21	-1.12	0.00
PG Electroplast Ltd.	80.00	131.31	72.13	0.00	-11.41	0.00
Value Industries Ltd.	10.00	39.19	73.89	0.00	-12.47	0.00
Noesis Industries Ltd.	0.50	1.32	-89.08	0.00	-13.34	0.00
BPL Ltd.	20.75	101.44	15.31	0.00	-25.95	0.00
Khaitan Electricals Ltd.	48.15	55.37	57.72	0.00	-39.15	0.00
Trend Electronics Ltd.	23.00	17.25	-12.73	0.00	-51.69	0.00

Sorted with TTM EPS (High to Low)

Source – Ace Equity

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