

Consumer Durables Update – March 2021

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Production

Consumer durables industry primarily comprises of consumer electronics (brown goods like TVs, laptops, audio & video systems, personal computers, electronic accessories) and consumer appliances (white goods like ACs, washing machines, refrigerators and other appliances). This sector witnessed sharp contraction in demand in Q1FY21 due to the ongoing outbreak of Covid-19. However, with subsequent stages of unlock in the country, consumer demand has been improving on a quarterly basis in FY21. The following table depicts the production of consumer durables goods in Q3FY21 in comparison with production in the same period last year.

Table 1: Production of consumer durable goods in Q3FY20 and Q3FY21

Type of goods	Unit	Q3FY20	Q3FY21	y-o-y % change
TV sets	lakh	5.1	6.5	27.5%
Air Conditioners		8.3	9.2	12.7%
Washing/laundry machines		14.4	19.8	37.5%
Refrigerators for domestic use		23.0	28.1	22.2%
Electric cooking appliances		7.6	9.5	25.0%
Travel goods, handbags, office bags etc	Rs billion	5.6	3.9	-30.0%
Computer & peripherals		5.3	7.0	32.1%
Telephone & mobile phone instruments	crore	1.5	1.4	-6.0%

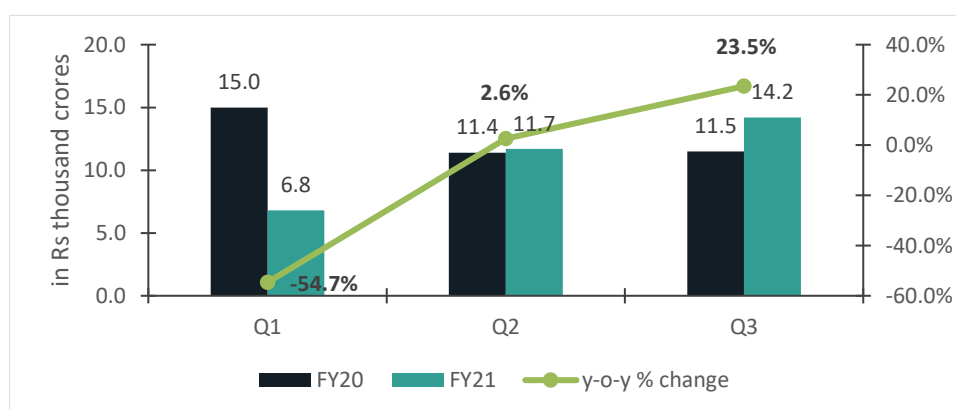
Source: CMIE, CARE Ratings

As can be seen from the chart above, consumer durables goods (except travel goods & telephone, mobile phone instruments) registered a double digit growth in production on a yearly basis in Q3FY21. Continuance of work from home culture and lectures/classes being conducted online supported the demand of goods that enhance convenience at home such as refrigerators, electric cooking appliances, washing machines and ACs. It is believed that as people spent more time at home, they focussed on upgrading their current TV sets for bigger screens. On the other hand, 'Travel goods, handbags, office bags' category recorded a decline of 30% mainly due to imposition of travel restrictions. Similarly, telephone and mobile phone instruments category declined on a yearly basis by 6% in Q3FY21.

Financial performance

The net sales of players in the consumer electronics and appliances industry grew by 23.5% y-o-y in Q3FY21 to Rs 14.2 thousand crores from Rs 11.5 thousand crores during the same period last year. Further, the net sales of players in this industry improved on a yearly basis from a decline of 54.7% in Q1FY21 to a growth of 23.5% in Q3FY21 as can be seen from the chart below. This growth was primarily driven by pent up demand and festive season in Q3FY21 in particular aided the growth.

Chart 1: Net sales of consumer durables players in FY2020 & FY2021 (Q1 to Q3)



Source: Industry, CARE Ratings

Note: Based on financials of 24 listed companies

According to business surveys conducted by Retailers Association of India (RAI), consumer durables and electronics category recorded yearly sales growth of 10% and 15% in the months of January 2021 and February 2021 respectively. This data is based on sample set of 63 retailers. The growth momentum recorded in Q3 is expected to continue in

Q4FY21 too. Also, it is believed that the top players in the consumer appliances industry are expecting double digit growth in sales the upcoming summer season for cooling products such as ACs, refrigerators, air coolers and air purifiers which could in a way help them offset the adverse impact they recorded in consumer demand during the last summer season due to the outbreak of Covid-19. However, it is to be noted that the recent spike in Covid-19 cases might hamper the consumer demand.

PLI scheme for large scale electronics manufacturing

In order to promote domestic manufacturing, the government rolled out production linked incentive scheme for large scale electronics as can be seen from the chart below. These schemes are in line with the vision of National Policy on Electronics, 2019 to position India as a global hub for Electronics Systems Design and Manufacturing (ESDM).

Table 2: Details of PLI scheme for large scale electronics manufacturing

Round	Target Segment	Incentives	Incentives applicable from	Duration of the scheme
1	Mobile phones and specified electronic components	4% to 6% on incremental sales (over base year) of goods manufactured in India and covered under target segments, to eligible companies	1st August, 2020	5 years subsequent to the base year
2	Specified electronic components	5% to 3% shall be extended on incremental sales (over base year) of goods manufactured in India and covered under the target segment, to eligible companies	1st April, 2021	4 years applicable from base year 2019-20

Source: MEITY, PIB

According to a press release by PIB dated 1st August, 2020, the scheme is expected to generate total production of Rs 11.5 lakh crores in the country and attract additional investments of Rs 11 thousand crores. Further, it will also promote exports and it is projected that more than 60% of the total production will be contributed by exports.

Union Budget proposals

In the budget announcements made for 2021-22, for electronics and mobile phones, a few exemptions on parts of chargers and sub parts of mobile phones are being withdrawn. In addition to this, some parts of mobiles which had 'nil' custom duty rate will now be charged at a moderate rate of 2.5%. Further, the import duty on compressor of refrigerators and ACs will be raised from 12.5% to 15%. The proposed changes in rates will be applicable with effect from 2.2.2021 unless stated otherwise. These measures are aimed at promoting domestic manufacturing in the country in the long run however cost of products will increase in the short to medium term.

Outlook for FY2022 & Concluding Remarks

Consumer electronics and appliances industry witnessed sharp contraction in demand in Q1FY21 due to the outbreak of Covid-19 and subsequent restrictions. However, demand has been improving from Q2FY21 due to ease in restrictions and is backed by pent up demand. Further, festive season also supported the growth in the third quarter of the current financial year. This momentum is expected to continue in Q4FY21.

In FY2022, production is expected to grow in the range of 5% to 8%. Work from home culture is expected to aid the growth in demand for goods that enhance personal convenience at home. Also, rural demand could outgrow the demand from urban markets on the back of rising rural incomes and government initiatives taken in relation to rural electrification.

Long term demand prospects for the industry remain positive supported by growing working population, higher disposable income, easier access to credit and improving standard of living.

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