# Consumer Durables Channel Check - Vijay Sales

## Management Interaction - Key Takeaways

31 March 2015

### INDIA | Consumer Durables | Management Interaction

We recently had a discussion with Mr. Nilesh Gupta (Managing Partner of Vijay Sales) to for an update and outlook on the consumer durable industry. Vijay Sales is one of the oldest and largest consumer durables retailers in India with 64 stores across Maharashtra, Gujarat and NCR. It retails more than 30 plus brands in consumer durables and also retails mobiles and laptops. Following are some of the key takeaways from our interaction.

- **Air Conditioners (ACs )**-
  - AC sales have started to pickup in the second fortnight of March 2015 due to delayed summer this year as compared to the last year.
  - Overall demand for consumer durables has picked up; but not in line with the expectations.
  - Air Conditioners (ACs) volumes have picked up with the weather becoming very hot. Should do 15% growth in air conditioners after a 20% growth last year with rise in temperature. Price hike doesn't matter so much in the industry any more as these are necessity products for today’s consumers. Average price hike has been around 4-5%, which is not significant.
  - Unseasonal rains had hurt volumes and the key risk is that there could be a fall in temperature with rains in Kashmir and this could hurt volumes in Q1FY16.
  - Inverter A/C sales have moved to 15% of sales v/s 3% last year.
  - There is a clear shift towards energy efficiency and 4/5 star ACs where premium brands such as Daikin, Hitachi (HTHL IN) and O-General are faring better. Higher competition being witnessed from the Japanese players (Hitachi, Daikin) while the Korean companies (LG, Samsung) remain less aggressive as they are now focusing more on profitability across categories.
  - Highest selling brand for Vijay Sales in ACs is Voltas (VOLT IN) followed by Hitachi and LG. Voltas is very aggressive in marketing and dealer margins. Discounts (15-20%) are prevalent across air conditioner brands but selling prices have also been increased to mitigate the higher discounts. Up trading will continue to happen as consumers shift to higher priced and feature rich air conditioners.
  - There is an increasing trend towards 1.5 ton ACs because of consumers buying bigger homes. As a corollary there is de-growth in the 1 ton segment.
- **Air cooling Segment** – It is dominated by Symphony (SYML IN), which has 40-50% market share. Air cooling is primarily a 4 month market and a small market as compared to air conditioners, making it unattractive for larger players to tap in this segment.
- **Small Appliances** - This space has registered a single growth rate; this space is cluttered by lot of brands. Brands such as Havells (HAVL IN), Crompton Greaves (VGRD IN) , V-Guard (VGRD IN) are registering growth in line with the industry growth rate.
- **Refrigerators segment –** It is growing at 15-20%. Top 3 brands are LG, Whirlpool (WHIRL IN) and Samsung.
- **Washing machines –** It is growing at 8%. LG is the most preferred brand followed by Whirlpool and Samsung.
- **Brands and extensions** - Domestic brands are doing well as they operate at lower price points and are focused more on Tier II / Tier III cities. Consumers are not cognizant that IFB (IFBI IN) is a domestic brand. While IFB is doing well in washing machines they lag behind in ACs. The IFB brand is doing well in Tier II / Tier III cities. Brand extensions have not been very successful for most players.

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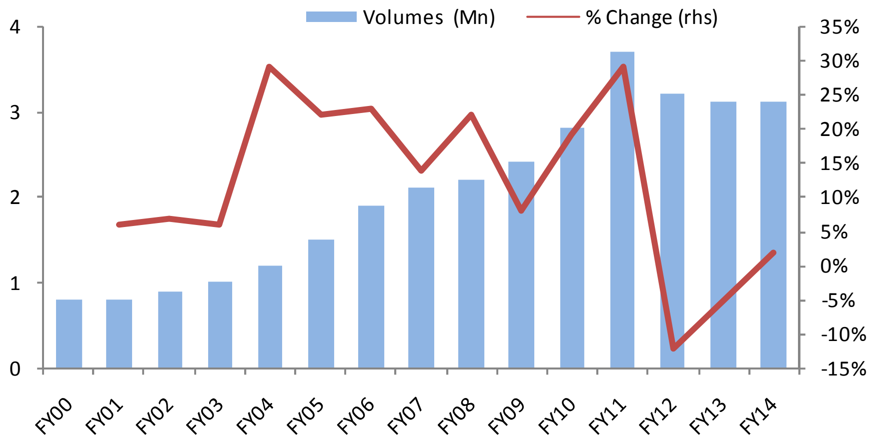
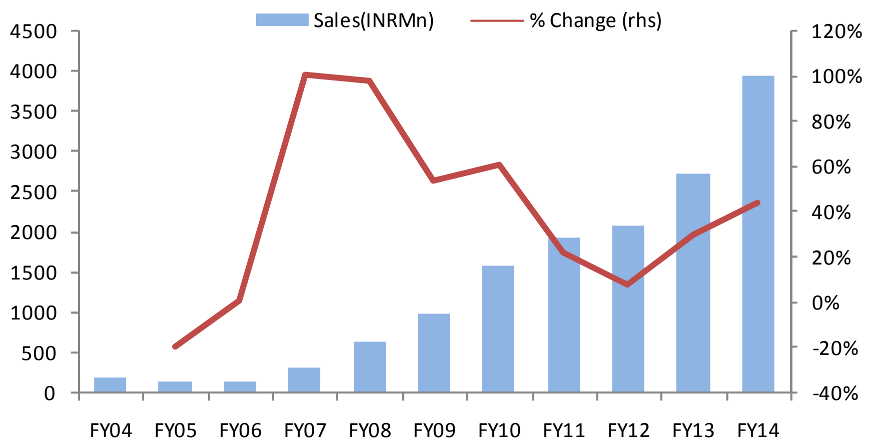
- **Ecommerce** – Ecommerce is more focused towards sales of mobiles, cameras etc. Consumer durables may not see similar disruption as brands will resist it. If Ecommerce players get active in the small appliances space then even that space is likely to get disrupted. Vijay Sales had tied-up with Amazon for a short period for selling products online as business was mostly generated from the discount provided by Amazon
- **Role of Redington and Ingram** - Procures laptops from Ingram and Redington (REDI IN) as it's easier to manage the logistics as against dealing directly with the brands because most brands have their relevant regional offices outside India. It would make sense to deal with them directly if fees paid to likes of Ingram and Redington increases.
- **After Sales service** -Key feature needed by a brand is service and the brand factor to sell in the market apart from product and packaging. Presently most of the OEMs have outsourced their servicing department.
- **Videocon** – Operating well. Positioned their products at lower price points. Eating into sales of players like LG and Samsung

**Room air conditioner markets industry volumes (secondary market)**




**Symphony domestic market sales (INR Mn)**




Source: Company, PhillipCapital India Research

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