

Headline: Consumer durables market to grow despite price increases

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New Delhi: Refrigerators, washing machines and air conditioners (ACs) are set to get costlier because of surging raw materials prices, even though the budget left duties on consumer durables unchanged.

Though manufacturers claim higher prices will not dent growth in the sector, independent analysts say that the price rise could adversely affect the replacement market while first-time buyers could downtrade.

Top executives in durables companies argue that economic expansion at close to 9% growth in this fiscal year and the next puts more disposable income in the hands of Indian consumers.

Data from the Index of Industrial Production shows that output of consumer durables has been growing smartly despite the fact that high inflation has led to demand destruction in consumer non-durables.

Saloni Nangia, senior vice-president (retail) at Technopak Advisors Pvt. Ltd, said, “Though the consumer durables industry is one of the fastest growing industries at present, general inflation is likely to maintain the pressure on the manufacturers.”

Economic buoyancy is expected to keep demand strong and help the Rs35,000-40,000 crore sector maintain last year’s 12-13% growth rate in the 12 months to December, said Y.V. Verma, chief operating officer at LG Electronics India Pvt. Ltd.

The AC segment, subject to seasonal vagaries, especially in the north—an extended winter leads to purchases being deferred, while high summer temperatures can push up sales—is expected to be the worst hit. Prices of ACs may rise 7-8%, while other appliances such as refrigerators, washing machines and microwave ovens could become 3-10% more expensive, companies said. Raw materials drove prices up 7-8% in December.

“I don’t foresee this having much of an impact on sales,” said Eric Braganza, president at Haier Appliances (India) Pvt. Ltd. “The market would remain buoyant and, in fact, we expect Haier’s AC market share to go up to 7% by the end of calendar year 2011.”

Companies will pass on the higher raw material prices to consumers, said Anil Arora, chief marketing officer (consumer electronics and home appliances business) at Videocon group, which has raised AC prices by 5-7%.

The trend is likely to continue until raw material prices stabilize. Samsung India Electronics Pvt. Ltd increased the price of refrigerators and washing machines by 1.5-3%, and ACs by 10% in January. “While we wouldn’t want to hurt consumer sentiments with back-to-back price hikes, we would take our decision based on trends in raw material prices,” said Ravinder Zutshi, deputy managing director at Samsung India.

Still, Samsung expects sales of split ACs to more than double in the current calendar year, Zutshi said. Last year Samsung sold around 650,000 ACs, including both window and split variants.

Bajaj Electricals Ltd will raise prices for home appliances by 10% this month as overall input costs have risen 15-20%, said Pradeep Patil, senior general manager (marketing). “There would be no significant impact on demand,” he said. The last price hike of 4-5% by Bajaj was in October-November.

Blame rising prices on increased costs of steel, copper, aluminium and plastic. Copper, a key AC component, has become dearer by 45-50% in the last one year, from \$7,600 (Rs3.4 lakh) per tonne to \$9,800 per tonne, while steel is up 15%, aluminium 25% and plastic more than 10%. LG Electronics raised AC prices in February by 8.5%,

Haier’s washing machines and refrigerators will cost 2-3% more, largely on account of plastic costs. Manoj Sharma, deputy general manager (sales and marketing) at LG Polymers India Pvt. Ltd, said: “The price of polystyrene resins used to manufacture the plastic casing of consumer durables has gone up 15% from December 2010 till now.” He said manufacturers announced pre-emptive price hikes to offset margin erosion on the expectation that crude oil prices will continue to rise owing to unrest in the Middle East. Polystyrene is derived from crude oil.

Onida will follow a 4-5% January price increase for its ACs, with another 4-5% hike by mid-March as there have been “no rebates offered on duty, while raw material prices show no sign of stabilizing”, said Vipul Mathur, general manager and business group head (Onida air conditioners) at Mirc Electronics Ltd.

Despite economic buoyancy, high inflation and rising oil prices could put pressure on household budgets.

Analysts tracking consumer products and retail industries say durables companies could be under pressure and demand could slide if inflation continued. Although the top-end buyer may not defer purchase, the less affluent buyers may be more cautious in spending. The replacement market could also shrink.

Ahish Nanda, partner (consumer products) at audit and consulting firm Ernst and Young, said, “We cannot be too optimistic in this sort of high inflationary scenario. First-time buyers are likely to down trade and look for better value propositions like discounts. Therefore, companies which can manage their supply chain efficiencies better to absorb the raw material price hike and pass on that benefit to their consumers will perform better.” He added that it would be better to wait and watch.

Onida’s Mathur points to the availability of finance as cushioning some of the pain, with a Rs1,000 increase translating into an extra Rs100 per instalment. This has to be seen against the backdrop of a rising interest rate regime as the central bank seeks to rein in inflation. “So we don’t expect a dramatic impact on the sales growth of these appliances,” he said. At the most, ACs, which grew 35% in 2010, may ease to 25-30% in 2011, he said.

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