

BUY

TP: Rs 360 | ▲ 17%

CROMPTON GREAVES

Consumer Durables

23 August 2023

Analyst meet: A full revamp

- Lighting division moving to a new corporate structure, eyeing commercial orders, and pruning prices to spur volumes
- Butterfly merger to close soon; entry into other new product categories also on the cards
- Remains a better play in the ECD space; maintain BUY with TP unchanged at Rs 360

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Revamp of lighting business: Crompton's lighting division has underperformed peers in recent quarters due to price erosion as well as servicing of government orders. The company is now taking steps to revamp the segment by (a) setting up a separate corporate structure within the company to sharpen focus on the business, (b) eyeing commercial orders over government orders, (c) taking price cuts to pass on the benefit of new on-board diagnostics (OBD) technology, and (d) pushing sales of its 9W bulbs and 20W battens, the two largest products in its lighting portfolio.

BGAL integration in final lap: Crompton owns 75% of Butterfly Gandhimathi (BGAL) and expects the merger process to be completed by end-FY24. Derisking initiatives are ongoing and management stated that business integration is on track.

BLDC fans adding value: The company introduced brushless direct current (BLDC) fans ~15 months ago, long before the new energy rating norms were announced. The rating change has helped promote the segment, and it is on track to becoming a ~Rs 3bn category for Crompton.

New products planned: Management is evaluating entry into a variety of product categories via the organic route. The company expects to roll out one new product category in the next 18 months and two more over the next 3-5 years.

Cost management to the fore: Cost takeout via the 'Unnati' project continues. In FY23, the company achieved the highest savings under this programme at Rs 2.5bn, a 4Y CAGR of 14.6% from Rs 1.4bn in FY19. Management has identified more areas of cost optimisation, such as logistics.

Maintain BUY: Crompton is in the midst of transition, comprising the revamp of its lighting portfolio, BGAL business integration, planned product forays, and an ongoing premiumisation drive. Though profitability in the electrical consumer durables (ECD) business remains muted, we expect the company's premiumisation strategy and market leadership in fans to bolster its topline and profitability. We maintain BUY with an unchanged TP of Rs 360, based on 30x Jun'25E EPS.

Key changes

Target	Rating
◀ ▶	◀ ▶

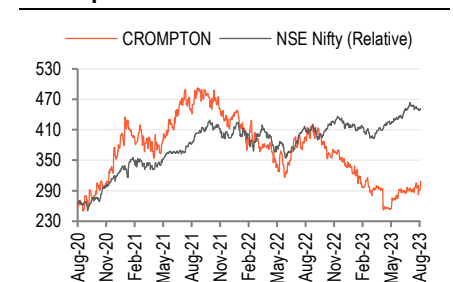
Ticker/Price	CROMPTON IN/Rs 309
Market cap	US\$ 2.4bn
Free float	100%
3M ADV	US\$ 10.5mn
52wk high/low	Rs 429/Rs 251
Promoter/FPI/DII	0%/40%/44%

Source: NSE | Price as of 23 Aug 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	68,696	79,054	91,036
EBITDA (Rs mn)	7,705	8,996	10,803
Adj. net profit (Rs mn)	4,632	5,834	7,292
Adj. EPS (Rs)	7.3	9.2	11.5
Consensus EPS (Rs)	7.3	9.0	11.1
Adj. ROAE (%)	18.1	20.2	21.3
Adj. P/E (x)	42.4	33.7	26.9
EV/EBITDA (x)	26.2	21.3	17.5
Adj. EPS growth (%)	(21.7)	25.9	25.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance

Source: NSE



Market size

Fig 1 – Market size of existing product categories

Product Category	Market size (Rs bn)
Fans	110
Geysers and coolers	60
Residential pumps	30
Non-residential pumps	35
Crompton small domestic kitchen appliances	75
Butterfly kitchen appliances	200
Crompton large domestic kitchen appliances	55
B2B lighting	65
B2C lighting	80

Source: Company, BOBCAPS Research

Analyst conference highlights

Lighting

- **Sharpening its focus:** Crompton is setting up a separate corporate structure within the company for the lighting division to sharpen focus on the business.
- **Transition away from government orders:** The lighting division has underperformed peers in recent quarters due to price erosion and servicing of government orders. Management indicated that it is now eyeing commercial over government orders and thus pursuing institutional (commercial) and retail customers. On the B2B side, the company is cautiously working on projects with National Highway Authority of India (NHA) and a few commercial players.
- **Combating price erosion:** The lighting industry has seen significant price erosion in recent months on account of new OBD technology. As the advancements have involved a decrease in costs as well, the company intends to take price cuts of 6-7%. Management believes this will boost volumes and gross margin in the segment.
- **Driving product evolution:** The lighting industry is seeing rapid shifts in technology. For instance, compact fluorescent bulbs (CFL) have been replaced by panels, and Crompton is now training its focus on ceiling lights.
- **Targeting premium positioning:** The company is launching decorative products in a bid to evolve into a high-end lighting brand.

Electrical consumer durables (ECD)

- **Fans:** Crompton estimates that the fans market in India is worth ~Rs 110bn (FY23). The company is the market leader with ~27% share and operates in the mid-to-mass segment, with a focus on transitioning to premium fans. To this end, it introduced the BLDC fan category ~15 months ago, which management believes is on track to attaining a Rs 3bn topline in FY24 and to doubling over 2-3 years.

Management pegs the domestic market for BLDC fans at Rs 12bn-13bn, implying 21-23% market share for FY24, and expects the category to soar to Rs 40bn-50bn in a few years. The company sees sizeable opportunities in India's eastern and northern regions that could bolster market share in the category. Additionally, this product is profit-accretive, in that it will increase absolute profits for the company.

- **Large domestic appliances:** This category includes water heaters and coolers, where Crompton is ranked third with ~10-12% market share in each category. The company sees good opportunities in e-commerce for this segment. Personal coolers in the sub-Rs 500 category are sold abundantly on e-commerce channels, and Crompton still has a small presence in this subcategory.
- **Pumps:** Crompton's residential pumps are widely recognised while it has a smaller presence in agricultural pumps. It has also launched solar and specialty pumps, which are at a nascent stage and expected to grow well in the coming years.

Butterfly Gandhimathi Appliances (BGAL)

- **Merger progressing well:** Kitchen appliances player BGAL was acquired by Crompton in FY23. The company has a strong presence in the e-commerce channel and in the South India region, particularly Tamil Nadu. Crompton has filed for merger approval with the National Company Law Tribunal (NCLT) and expects the final proceedings to go through by Q3 or Q4 of FY24. As BGAL was earlier a promoter-led company, the merger has involved hierarchical changes, apart from business and operations integration.
- **E-commerce revenue share settles at 25%:** E-commerce accounted for 47% of BGAL's revenue at the time of acquisition, which has now been strategically reduced to 25% – a level Crompton believes is sustainable and accretive for the business.
- **Industry growth muted:** Over the last few months, kitchen appliances have had a muted performance industrywide. Crompton, however, has pointed to some uptick since July.
- **Derisking underway:** Management is continuing to derisk BGAL's operations. For instance, under the 'Ujjwala' scheme, the company was supplying stoves, and revenue from this scheme contributed 7-8% of sales, which is now at 3-4%. Crompton aims to reduce this share to 2%.

Cost savings and profitability

- **Unnati programme fuelling cost savings:** Crompton has a record of posting industry-leading gross margins. Operating costs total ~Rs 8bn (including BGAL), of which after-sales service accounts for Rs 1bn, logistics Rs 3bn, and marketing Rs 2.5bn-3bn. The company is looking to optimise logistics costs and increase the effectiveness of marketing expenses.
- **Profitability vs. profit margins:** The company has shifted its focus from earning a good profit margin to increasing its absolute profits each year. It aims to achieve double-digit revenue growth per year, with even higher profit growth.
- **Leveraging distribution overlap:** Primary selling points of fans and large domestic appliances (geysers and coolers) have a ~70% overlap. Management plans to leverage this synergy to further optimise its sales network.

New categories

- The company is evaluating expansion in core categories along with entry into adjacencies and extensions. Core categories involve those that have significant integration with existing products such as switches, switchgears, wires and cables. Adjacencies include air purifiers, water purifiers, vacuum cleaners and modular kitchens. Lastly, extension categories include personal grooming items, air conditioners, washing machines and refrigerators.
- Management is not looking at inorganic expansion to achieve new category diversification.

Valuation methodology

We continue to value the stock at a Jun'25E P/E multiple of 30x – a 15% discount to the five-year average – for an unchanged TP of Rs 360 and maintain BUY. Though ECD profitability remains muted, we expect Crompton's premiumisation strategy to raise its topline and profitability. In our view, a premium push coupled with market leadership in fans makes the company a better bet than peers amid the industrywide uncertainty engendered by the recent change in energy rating norms.

Fig 2 – Key assumptions

Particulars (Rs mn)	FY24E	FY25E
Sales	79,054	91,036
EBITDA	8,996	10,803
PAT	5,834	7,292
EPS (Rs)	9.2	11.5
EBITDA Margin (%)	11.4	11.9

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- failure of the adopted premiumisation strategy in fans to pick up in tandem with the industry,
- lighting business staying dull, and
- BGAL registering a decline and market share losses.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	1.2	2,855	2,500	HOLD
Blue Star	BLSTR IN	1.7	738	880	BUY
Crompton Greaves	CROMPTON IN	2.4	309	360	BUY
Dixon Technologies	DIXON IN	3.6	4,997	4,300	HOLD
Havells India	HAVL IN	10.2	1,340	1,600	BUY
KEI Industries	KEII IN	2.8	2,580	2,300	HOLD
Orient Electric	ORIENTEL IN	0.6	238	250	HOLD
Syrma SGS	SYRMA IN	1.0	477	600	BUY
V-Guard Industries	VGRD IN	1.6	311	290	HOLD
Voltas	VOLT IN	3.4	836	910	HOLD

Source: BOBCAPS Research, NSE | Price as of 23 Aug 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Total revenue	48,035	53,941	68,696	79,054	91,036
EBITDA	7,205	7,695	7,705	8,996	10,803
Depreciation	297	423	1,159	1,158	1,170
EBIT	6,908	7,272	6,546	7,838	9,633
Net interest inc./(exp.)	115	353	1,092	600	520
Other inc./(exp.)	443	727	668	735	808
Exceptional items	0	0	0	0	0
EBT	7,236	7,645	6,122	7,973	9,921
Income taxes	1,070	1,732	1,358	2,007	2,497
Extraordinary items	0	130	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	6,166	5,784	4,632	5,834	7,292
Adjustments	0	130	0	0	0
Adjusted net profit	6,166	5,914	4,632	5,834	7,292

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Accounts payables	8,647	10,178	10,354	11,915	13,721
Other current liabilities	5,010	3,948	3,496	4,023	4,632
Provisions	-	-	-	-	-
Debt funds	2,988	16,075	10,051	7,500	6,500
Other liabilities	214	1,931	1,567	1,803	2,076
Equity capital	1,255	1,267	1,272	1,272	1,272
Reserves & surplus	18,059	31,087	29,805	34,494	40,354
Shareholders' fund	19,314	32,354	31,077	35,766	41,626
Total liab. and equities	36,173	64,486	56,544	61,006	68,556
Cash and cash eq.	13,737	15,390	1,095	1,787	5,040
Accounts receivables	4,608	6,154	6,706	7,717	8,886
Inventories	5,186	7,210	7,439	8,560	9,858
Other current assets	2,264	2,246	7,344	8,451	9,732
Investments	-	-	-	-	-
Net fixed assets	9,150	32,735	32,710	33,052	33,381
CWIP	109	130	55	63	72
Intangible assets	0	0	0	0	0
Deferred tax assets, net	-	-	-	-	-
Other assets	1,119	621	1,197	1,377	1,586
Total assets	36,173	64,486	56,544	61,006	68,556

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash flow from operations	8,878	7,234	5,526	5,841	7,130
Capital expenditures	(202)	(1,706)	(708)	(1,500)	(1,500)
Change in investments	-	-	-	-	-
Other investing cash flows	(4,756)	(15,523)	3,340	48	55
Cash flow from investing	(4,957)	(17,229)	2,632	(1,452)	(1,445)
Equities issued/Others	73	603	416	0	0
Debt raised/repaid	0	14,069	9,250	(2,551)	(1,000)
Interest expenses	-	-	-	-	-
Dividends paid	-	-	-	-	-
Other financing cash flows	(1,034)	(5,599)	(18,771)	(1,145)	(1,431)
Cash flow from financing	(962)	9,073	(9,105)	(3,696)	(2,431)
Chg in cash & cash eq.	2,959	(922)	(948)	692	3,254
Closing cash & cash eq.	13,737	15,390	1,095	1,787	5,040

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
Reported EPS	9.7	9.1	7.3	9.2	11.5
Adjusted EPS	9.7	9.3	7.3	9.2	11.5
Dividend per share	0.0	2.5	3.0	1.8	2.3
Book value per share	30.5	38.7	41.8	49.2	58.4

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
EV/Sales	4.2	3.8	2.9	2.4	2.1
EV/EBITDA	27.8	26.5	26.2	21.3	17.5
Adjusted P/E	31.7	33.1	42.4	33.7	26.9
P/BV	10.1	8.0	7.4	6.3	5.3

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	FY24E	FY25E
Tax burden (Net profit/PBT)	85.2	77.4	75.7	73.2	73.5
Interest burden (PBT/EBIT)	104.7	105.1	93.5	101.7	103.0
EBIT margin (EBIT/Revenue)	14.4	13.5	9.5	9.9	10.6
Asset turnover (Rev./Avg TA)	5.3	2.6	2.1	2.4	2.7
Leverage (Avg TA/Avg Equity)	0.5	1.0	1.3	1.1	1.0
Adjusted ROAE	36.3	27.0	18.1	20.2	21.3

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
YoY growth (%)					
Revenue	6.3	12.3	27.4	15.1	15.2
EBITDA	20.3	6.8	0.1	16.8	20.1
Adjusted EPS	24.2	(4.1)	(21.7)	25.9	25.0
Profitability & Return ratios (%)					
EBITDA margin	15.0	14.3	11.2	11.4	11.9
EBIT margin	14.4	13.5	9.5	9.9	10.6
Adjusted profit margin	12.8	11.0	6.7	7.4	8.0
Adjusted ROAE	36.3	27.0	18.1	20.2	21.3
ROCE	35.6	23.1	16.9	20.8	23.4
Working capital days (days)					
Receivables	35	42	36	36	36
Inventory	39	49	40	40	40
Payables	66	69	55	55	55
Ratios (x)					
Gross asset turnover	4.9	2.5	2.0	2.2	2.4
Current ratio	1.9	1.0	1.3	1.4	1.5
Net interest coverage ratio	59.9	20.6	6.0	13.1	18.5
Adjusted debt/equity	(0.3)	0.0	0.2	0.1	0.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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BUY – Expected return >+15%

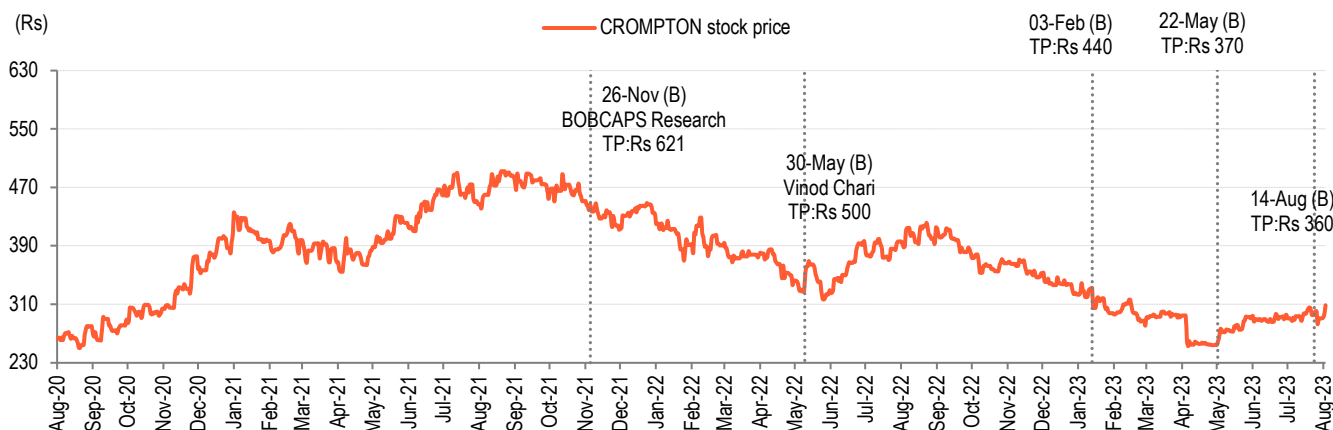
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Note: Recommendation structure changed with effect from 21 June 2021

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Ratings and Target Price (3-year history): CROMPTON GREAVES (CROMPTON IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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