

BUY

TP: Rs 330 | ▲ 22%

CROMPTON GREAVES

Consumer Durables

27 March 2024

Crompton 2.0 on track

- ECD segment expected to do well on the back of a strong summer and fans premiumisation; solar pumps a big opportunity
- Lighting profits remain strong despite topline erosion; BGAL to bleed in the short term as brand is repositioned and reach widened
- Crompton remains a strong play in the ECD space with long-term growth strategy intact; maintain BUY with a TP of Rs 330

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Crompton 2.0 shaping up well: Crompton 2.0 was introduced in Jun'23 as an initiative to improve premiumisation and focus on absolute profits over profit margins. So far, progress seems to be on track, with a ~25% market share in premium fans segment, lighting profits improving, and strong saliency in pumps.

Robust summer to spur fans growth: Fans forms a large part of the Electric Consumer Durables (ECD) segment, along with pumps and appliances. Market share in the fans industry increased from 23% a few years ago to ~27% in the current market. Management expects wage inflation implementation, along with a strong summer, to increase disposable incomes of households and demand in ECD.

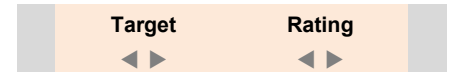
Solar pumps a big opportunity: Under the PM KUSUM scheme, Crompton has won four orders totalling Rs 750mn to date, and has executed three. As more states come up with tenders for solar pumps under the scheme, management expects this segment to provide a robust opportunity going forward.

Lighting topline may be affected, bottomline safe: As is visible industrywide, the B2C lighting industry has undergone strong price erosion over the last two years, ~30% in FY23 and ~15-18% in FY24. However, profitability has not been impacted significantly with EBIT margin for Crompton expanding YoY in the last few quarters. Crompton is in the process of outsourcing the manufacture of its lighting segment and is repurposing its existing plants in Baddi and Baroda to augment its fans manufacturing capacity.

BGAL may be a dampener now, to be accretive in the long term: Crompton is repositioning the Butterfly brand and expects losses in the business to continue for two quarters in line with the long-term growth strategy. The brand has had a strong presence in South India, and Crompton aims to improve its presence in the North and West markets as synergies between the two companies materialise.

Maintain BUY: We continue to value the stock at 30x P/E on Dec'25E, a 15% discount to the 5Y mean, with an unchanged target price of Rs 330.

Key changes



Ticker/Price	CROMPTON IN/Rs 271
Market cap	US\$ 2.1bn
Free float	100%
3M ADV	US\$ 10.1mn
52wk high/low	Rs 328/Rs 251
Promoter/FPI/DII	0%/40%/44%

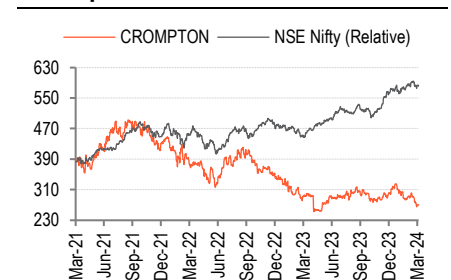
Source: NSE | Price as of 26 Mar 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	68,696	74,722	86,690
EBITDA (Rs mn)	7,705	7,684	9,325
Adj. net profit (Rs mn)	4,632	4,729	6,179
Adj. EPS (Rs)	7.3	7.4	9.7
Consensus EPS (Rs)	7.3	8.0	10.0
Adj. ROAE (%)	18.1	16.6	18.8
Adj. P/E (x)	37.2	36.5	27.9
EV/EBITDA (x)	23.0	21.8	17.7
Adj. EPS growth (%)	(21.7)	2.1	30.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Overview

Crompton is a market leader in fans and is present across many verticals of the consumer durables industry, with exposure to fans, pumps, small domestic appliances (water heaters and kitchen appliances), large domestic appliances (air coolers and geysers), and lighting. Also, Crompton has a 75% stake in BGAL, and is in the process of merging the two entities.

Key highlights

Fans

- **Market size:** The fans industry is currently a ~Rs 120bn market, with a mass market of Rs 60bn, premium market of Rs 40bn-45bn and brushless direct current (BLDC) market of Rs 15bn. Within the premium segment, super premium fans account for ~Rs 5bn only.
- **Pricing:** Crompton hiked prices in Sep, Nov and Feb last year and is expected to hike prices once more in Q1FY25. The company has changed its pricing strategy to incorporate small price hikes every few months against the earlier practice of a ~500bps price increase at one go. The cost impact of the BEE rating change has not been fully passed through, and the company expects to do so by H1FY25.
- **Customer preference:** Consumer preferences in the fans industry have changed in recent years, with more focus on product aesthetics, energy efficiency and noise levels. Crompton has been working on these features through premiumisation, and its market share in the premium fans market increased from ~15% earlier to ~25% currently, with a target of achieving 40% market share over the next few years.
- **Brand strategy:** Crompton has launched all its products, mass or premium, under one brand, ie, Crompton. The company believes this to be a strong differentiator as it provides flexibility in shifting focus across segments, improves the acceptance of new products launched and improves brand legacy.
- **BLDC fans:** Crompton had introduced brushless direct current fans ahead of the new energy rating norms implemented by the government in 2023, currently a ~Rs 4bn revenue business for Crompton. The company is no. 2 in this product category with a slightly lower share compared to the market leader.
- **Growth outlook:** Overall consumer demand has been subdued over the last few quarters. With wage inflation coming into effect, management expects disposable incomes of households to increase leading to some revival in demand. A strong summer season is also expected to boost demand in the coming quarters.

Pumps

- **Residential pumps:** Crompton is a market leader in the residential pumps category, commanding a ~29% market share currently.
- **Solar pumps:** The Pradhan Mantri Kisan Urja Suraksha evam Utthaan Mahabhiyan (PM KUSUM) scheme has a Rs 320bn market opportunity over the next few years, and a few states have begun releasing tenders for the installation of solar pumps. Crompton has won four orders worth Rs 750mn till now, three of which have been

executed. Key competitors in this space include Kirloskar Brothers and Shakti Pumps.

- **Submersible pumps:** The company also sees opportunity in the submersible pumps category, which is a Rs 10bn-15bn market currently.
- **Geographical presence:** The company has a strong presence in the East and North India market, followed by the West and South. Key challenges in the southern market include an abundance of local pump players in Coimbatore, where the only differentiators can be a strong difference in price or features provided. Management expects to conquer the West region before it moves on to South India.

Lighting

- **Price erosion:** The B2C lighting industry has seen strong price erosion over the last two years (~30% in FY22, ~15-18% in FY23, according to management), due to change in technology, lower raw material prices post COVID and struggling industry players cutting prices to survive. Management expects this erosion to continue in FY25, albeit with lower intensity (high single-digit erosion).
- **Profitability:** Despite the strong degrowth in topline, margins in this business have not wavered as the company continues to improve its EBIT margin YoY and absolute profit QoQ.
- **Manufacturing outsourced:** Management expects to completely outsource manufacturing for its lighting business, which was earlier manufactured in its Baddi and Baroda plants. Baddi has been repurposed into a fan manufacturing plant, and Baroda is expected to follow suit next year.

BGAL

- **About the company:** BGAL was primarily present in South India, with an online presence on Flipkart and tie-ups with oil marketing companies and large format stores.
- **Brand repositioning:** Crompton is restructuring the company by improving its online presence through the addition of Amazon and changing the brand's position from a promotional product to a brand conscious one. Management expects this process to take two more quarters of losses, and expects the long-term growth trajectory to be strong. Once removed from current brand channels, Crompton will introduce BGAL into modern trade, general trade, and regional chain stores. It expects the brand to reach Rs 10bn of annual revenue before FY26.

Valuation methodology

We expect Crompton's premiumisation strategy to raise its topline and margin profile given the emphasis on higher quality products in the mix. In our view, a premium push coupled with market leadership in fans makes the company a better choice than its peers amid industrywide uncertainty engendered by the recent change in energy rating norms. Continued efforts in BGAL are expected to materialise in the medium term, further boosting growth.

We continue to value the stock at a 30x P/E on Dec'25E, a 15% discount to the 5Y mean, with an unchanged target price of Rs 330. We maintain our BUY rating.

Fig 1 – Key assumptions

(Rs mn)	FY24E	FY25E	FY26E
Sales	74,722	86,690	99,832
EBITDA	7,684	9,325	10,832
PAT	4,729	6,179	7,379
EPS (Rs)	7.4	9.7	11.6
EBITDA margin (%)	10.3	10.8	10.9

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- prolonged weakness in Butterfly Gandhimathi vis-à-vis peers,
- delay in consumer demand revival, and
- higher advertising expenses that eat away at margins.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	1.5	3,623	3,200	SELL
Crompton Greaves	CROMPTON IN	2.1	271	330	BUY
Havells India	HAVL IN	11.3	1,488	1,600	BUY
KEI Industries	KEII IN	3.8	3,474	3,120	HOLD
Syrma SGS	SYRMA IN	1.0	473	550	HOLD
V-Guard Industries	VGRD IN	1.7	320	310	HOLD
Voltas	VOLT IN	4.4	1,101	1,060	HOLD

Source: BOBCAPS Research, NSE | Price as of 26 Mar 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	53,941	68,696	74,722	86,690	99,832
EBITDA	7,695	7,705	7,684	9,325	10,832
Depreciation	423	1,159	1,259	1,269	1,278
EBIT	7,272	6,546	6,425	8,057	9,554
Net interest inc./(exp.)	353	1,092	848	735	735
Other inc./(exp.)	727	668	735	808	889
Exceptional items	0	0	0	0	0
EBT	7,645	6,122	6,312	8,130	9,709
Income taxes	1,732	1,358	1,515	1,951	2,330
Extraordinary items	130	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	5,784	4,632	4,729	6,179	7,379
Adjustments	130	0	0	0	0
Adjusted net profit	5,914	4,632	4,729	6,179	7,379

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	10,178	10,354	11,262	13,066	15,047
Other current liabilities	3,948	3,496	3,802	4,411	5,080
Provisions	-	-	-	-	-
Debt funds	16,075	10,051	7,500	6,500	6,500
Other liabilities	1,931	1,567	1,704	1,977	2,277
Equity capital	1,267	1,272	1,272	1,272	1,272
Reserves & surplus	31,087	29,805	33,606	38,572	44,502
Shareholders' fund	32,354	31,077	34,878	39,844	45,774
Total liab. and equities	64,486	56,544	59,146	65,798	74,678
Cash and cash eq.	15,390	1,095	1,461	3,920	8,227
Accounts receivables	6,154	6,706	7,294	8,462	9,745
Inventories	7,210	7,439	8,091	9,387	10,810
Other current assets	2,246	7,344	7,988	9,268	10,673
Investments	-	-	-	-	-
Net fixed assets	32,735	32,710	32,951	33,182	33,404
CWIP	130	55	59	69	79
Intangible assets	0	0	0	0	0
Deferred tax assets, net	-	-	-	-	-
Other assets	621	1,197	1,302	1,510	1,739
Total assets	64,486	56,544	59,146	65,798	74,678

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	7,234	5,526	5,318	6,117	7,195
Capital expenditures	(1,706)	(708)	(1,500)	(1,500)	(1,500)
Change in investments	-	-	-	-	-
Other investing cash flows	(15,523)	3,340	28	55	60
Cash flow from investing	(17,229)	2,632	(1,472)	(1,445)	(1,440)
Equities issued/Others	603	416	0	0	0
Debt raised/repaid	14,069	9,250	(2,551)	(1,000)	0
Interest expenses	-	-	-	-	-
Dividends paid	-	-	-	-	-
Other financing cash flows	(5,599)	(18,771)	(928)	(1,213)	(1,448)
Cash flow from financing	9,073	(9,105)	(3,479)	(2,213)	(1,448)
Chg in cash & cash eq.	(922)	(948)	367	2,459	4,307
Closing cash & cash eq.	15,390	1,095	1,461	3,920	8,227

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	9.1	7.3	7.4	9.7	11.6
Adjusted EPS	9.3	7.3	7.4	9.7	11.6
Dividend per share	2.5	3.0	1.5	1.9	2.3
Book value per share	38.7	41.8	47.8	55.6	64.9

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	3.3	2.6	2.2	1.9	1.7
EV/EBITDA	23.4	23.0	21.8	17.7	15.5
Adjusted P/E	29.0	37.2	36.5	27.9	23.4
P/BV	7.0	6.5	5.7	4.9	4.2

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	77.4	75.7	74.9	76.0	76.0
Interest burden (PBT/EBIT)	105.1	93.5	98.2	100.9	101.6
EBIT margin (EBIT/Revenue)	13.5	9.5	8.6	9.3	9.6
Asset turnover (Rev./Avg TA)	2.6	2.1	2.3	2.6	3.0
Leverage (Avg TA/Avg Equity)	1.0	1.3	1.2	1.0	0.9
Adjusted ROAE	27.0	18.1	16.6	18.8	19.2

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	12.3	27.4	8.8	16.0	15.2
EBITDA	6.8	0.1	(0.3)	21.4	16.2
Adjusted EPS	(4.1)	(21.7)	2.1	30.7	19.4
Profitability & Return ratios (%)					
EBITDA margin	14.3	11.2	10.3	10.8	10.9
EBIT margin	13.5	9.5	8.6	9.3	9.6
Adjusted profit margin	11.0	6.7	6.3	7.1	7.4
Adjusted ROAE	27.0	18.1	16.6	18.8	19.2
ROCE	23.1	16.9	17.2	20.2	21.3
Working capital days (days)					
Receivables	42	36	36	36	36
Inventory	49	40	40	40	40
Payables	69	55	55	55	55
Ratios (x)					
Gross asset turnover	2.5	2.0	2.1	2.3	2.6
Current ratio	1.0	1.3	1.3	1.5	1.7
Net interest coverage ratio	20.6	6.0	7.6	11.0	13.0
Adjusted debt/equity	0.0	0.2	0.1	0.0	0.0

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

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BUY – Expected return >+15%

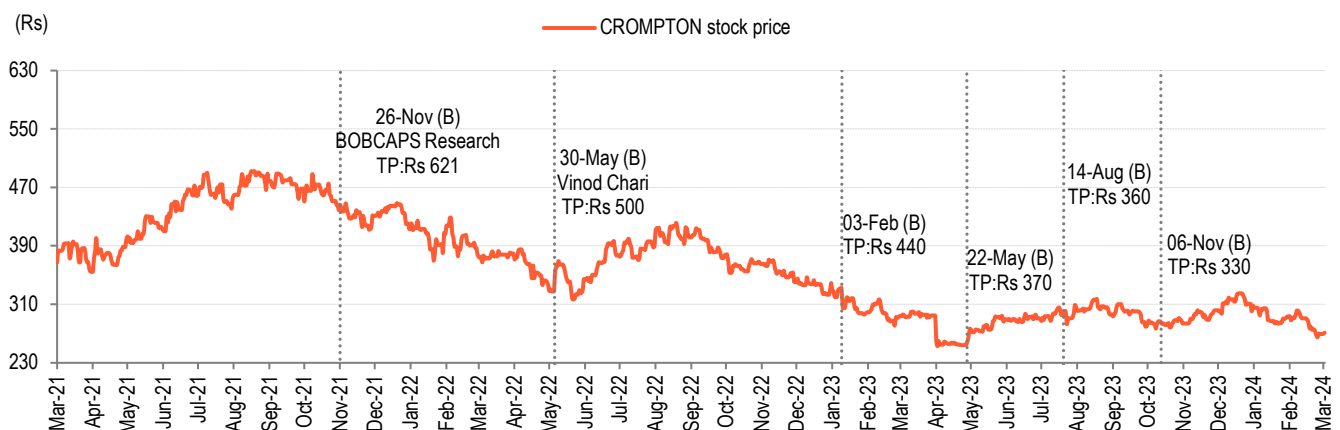
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

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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