

BUY

TP: Rs 360 | ▲ 22%

CROMPTON GREAVES

Consumer Durables

14 August 2023

Mixed quarter

- ECD revenue growth at par with industry but lighting segment lagged peers in Q1
- Focus on premiumisation across fans and lighting continues; share of premium fans now at ~25% of the segment mix
- We pare FY24/FY25 EPS 8%/7% to bake in Q1 and roll over to a new TP of Rs 360 (vs. Rs 370)

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Q1 mixed: Crompton's Q1FY24 topline grew only 0.7% YoY to Rs 18.8bn due to softness in the lighting and kitchen appliances (BGAL) businesses. Electrical consumer durables (ECD) revenue increased 6% YoY whereas the lighting segment declined 13%. Subsidiary BGAL's revenue also slipped 14% YoY. Gross and EBITDA margins contracted 60bps and 190bps YoY respectively to 30.8% and 9.9%. Consequently, adj. PAT fell 7% YoY to Rs 1.2bn.

ECD performance average; lighting lags: Crompton's ECD segment performed around the industry median, but lighting lagged peers. Against its ECD growth of 6% YoY, peers such as HAVL grew 4.5%, POLYCAB 2%, ORIENTEL 16% and VGRD 11%. The segment's EBIT margin stood at 12.7% for the company vs. 10.9%, -1.8%, 9.5% and 0.3% for peers respectively. In lighting, Crompton's 13% decline compares unfavourably with a 0.7% dip for HAVL and 3% growth for ORIENTEL. EBIT margins here stood at 11.9%, 14.3% and 16.1% respectively.

Premiumisation strategy to bolster topline: Going forward, the company is increasing the share of premium products in its fans and lighting portfolios. In fans, this includes higher quality products and higher price points, apart from a larger share of energy-efficient brushless direct current (BLDC) fans. The share of premium fans has increased from the high-teens to ~25% of Crompton's fan portfolio mix. In lighting, the company is targeting a higher contribution from ceiling lighting solutions, which entail a better margin profile.

Maintain BUY: Incorporating lower profitability from the fans business in Q1, we pare our FY24/FY25 EPS estimates by 8%/7%. We value the stock at an unchanged P/E multiple of 30x – a 15% discount to the stock's 5Y average, and roll valuations over to Jun'25E, arriving at a revised TP of Rs 360 (vs. Rs 370). Though the energy rating change has led to uncertainty in the fans industry, we believe Crompton is a better bet than peers on account of its market leadership and growing share in premium fans.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	CROMPTON IN/Rs 296
Market cap	US\$ 2.3bn
Free float	100%
3M ADV	US\$ 10.3mn
52wk high/low	Rs 429/Rs 251
Promoter/FPI/DII	0%/40%/44%

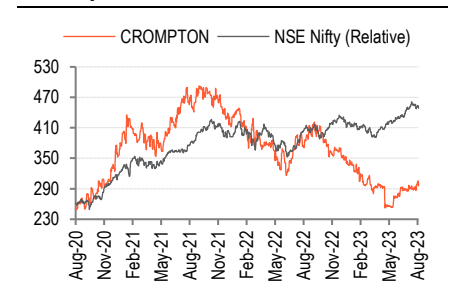
Source: NSE | Price as of 11 Aug 2023

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)	40.6	32.2	25.8
EV/EBITDA (x)	25.1	20.4	16.7
Adj. EPS growth (%)	(21.7)	25.9	25.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

Particulars (Rs mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Revenue	18,769	18,629	0.7	17,910	4.8
EBITDA	1,858	2,199	(15.5)	2,114	(12.1)
EBITDA Margin (%)	9.9	11.8	(190bps)	11.8	(190bps)
Depreciation	292	276		304	
Interest	206	225		274	
Other Income	198	104		168	
PBT	1,558	1,803	(13.6)	1,704	(8.6)
Tax	338	479		389	
Adjusted PAT	1,184	1,274	(7.1)	1,312	(9.8)
Exceptional item	-	64		0	
Reported PAT	1,184	1,210	(2.2)	1,312	(9.8)
Adj. PAT Margin (%)	6.3	6.8	(50bps)	7.3	(100bps)
EPS (Rs)	1.9	2.1	(8.1)	2.1	(7.2)

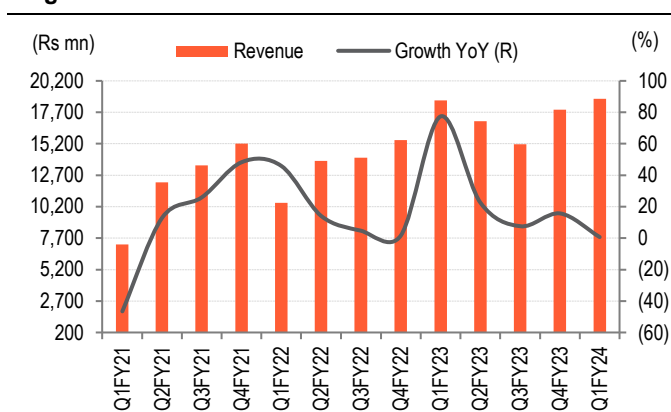
Source: Company, BOBCAPS Research

Fig 2 – Segment-wise performance

Particulars (Rs mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Revenue													
Electrical Consumer Durables	5,965	9,317	10,359	11,930	8,844	10,964	10,993	12,309	13,472	10,622	10,201	13,257	14,290
YoY growth (%)					48.3	17.7	6.1	3.2	52.3	(3.1)	(7.2)	7.7	6.1
Lighting Products	1,236	2,815	3,123	3,291	1,661	2,887	3,113	3,170	2,623	2,696	2,477	2,786	2,290
YoY growth (%)					34.4	2.6	(0.3)	(3.7)	57.9	(6.6)	(20.4)	(12.1)	(12.7)
Butterfly Gandhimathi (BGAL)									2,535	3,677	2,484	1,867	2,189
YoY growth (%)													(13.7)
EBIT													
Electrical Consumer Durables	1,223	1,558	2,046	1,905	1,558	2,300	2,130	2,279	2,285	1,814	1,617	2,177	1,816
Margin (%)	20.5	16.7	19.8	16.0	17.6	21.0	19.4	18.5	17.0	17.1	15.8	16.4	12.7
Lighting Products	75	177	383	71	177	329	324	448	232	215	255	303	273
Margin (%)	6.1	6.3	12.3	2.2	10.7	11.4	10.4	14.1	8.8	8.0	10.3	10.9	11.9
Butterfly Gandhimathi (BGAL)									219	403	181	37	160
Margin (%)									8.6	11.0	7.3	2.0	7.3

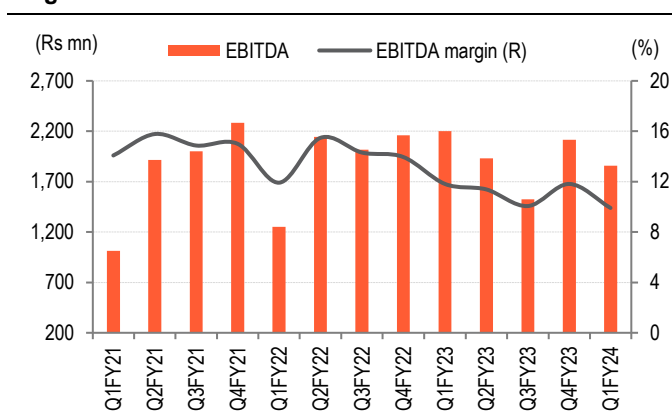
Source: Company, BOBCAPS Research

Fig 3 – Revenue trend



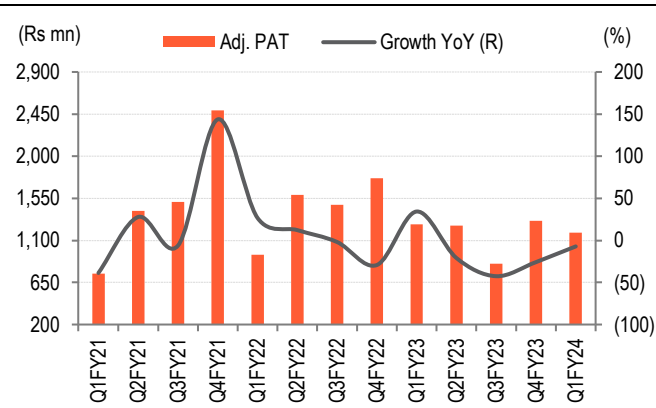
Source: Company, BOBCAPS Research

Fig 4 – EBITDA trend



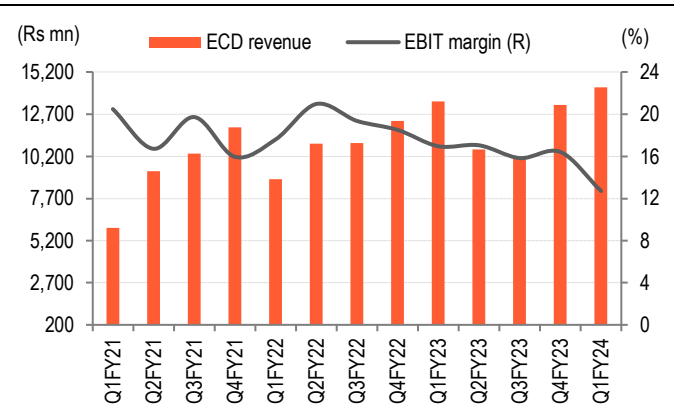
Source: Company, BOBCAPS Research

Fig 5 – Profit trend



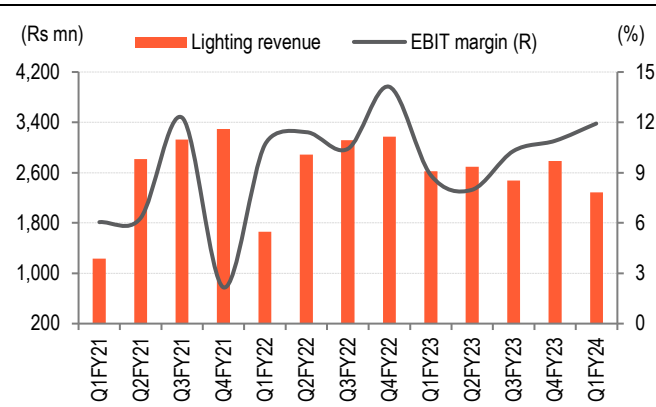
Source: Company, BOBCAPS Research

Fig 6 – ECD performance



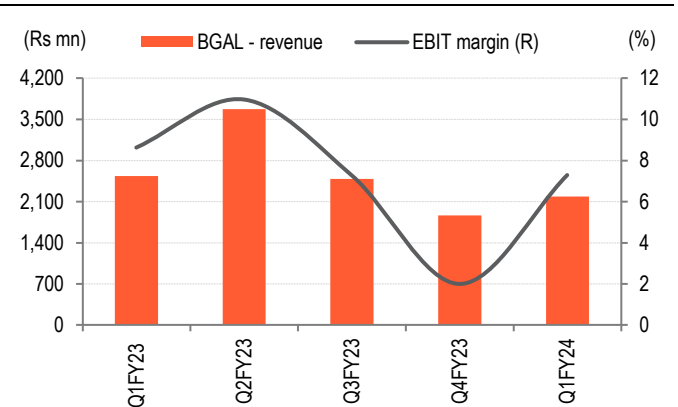
Source: Company, BOBCAPS Research

Fig 7 – Lighting performance



Source: Company, BOBCAPS Research

Fig 8 – BGAL's performance



Source: Company, BOBCAPS Research

Earnings call highlights

- Margins:** Crompton's Q1FY24 gross margin contracted 60bps YoY to 30.8% on account of high-cost inventory in fans due Bureau of Energy Efficiency (BEE) rating costs along with price corrections taken in pumps that partially offset margin improvement in lighting. EBITDA margin contracted 190bps YoY due to higher A&P spend at 4.5% of revenue vs. 3% in Q1FY23. At the EBIT level, the company expects cost synergies to kick in coupled with a better product mix, which may expand margin going forward.
- Working capital:** Working capital stayed negative, coupled with strong cash flow generation of Rs 7.8bn vs. Rs 6.6bn in Q1FY23.

Electrical Consumer Durables (ECD)

- **Fans:** Crompton's revenue from fans grew 5% YoY in Q1, and the company achieved a higher share in the premium BLDC category (>80% growth YoY) led by ceiling fans (+22% YoY) and table/wall/pedestal (TPW) fans. TPW sales grew largely in the eastern region and through e-commerce. Currently, ~25% of the sales in this category come from the premium segment as compared to 18-19% earlier. The company expects to further increase the contribution from premium fans.
- **Pumps:** Value growth was flat due to weak demand and stiff competition in the North, while East India is regaining its momentum. Agriculture and specialty pumps posted growth but were offset by a flat performance in the residential category due to unseasonal rains. Crompton is a market leader in residential pumps and sees a significant opportunity in agricultural pumps as well, although the latter is currently a small business for the company.
- **Appliances:** Segmental revenue grew 19% YoY on the back of kitchen appliances and seasonally strong demand for air coolers. Appliances are bifurcated into two sub-categories: large and small domestic appliances (LDA and SDA). Under SDA, water heaters and air coolers grew 11% YoY; in LDA, mixer grinders grew in excess of 50% YoY.
- **Margin:** ECD EBIT margin contracted 440bps YoY on account of higher A&P spends, coupled with a loss of Rs 70mn in the built-in kitchen appliances category (60bps impact). Additionally, marketing & promotional expenses as well as a lower gross margin had an impact of 150bps each.

Lighting products

- **Market environment:** Q1 was weak for the lighting industry due to price erosion in bulbs and battens, lower demand, and subsequent lower channel stocking.
- **B2C carved out:** The company has reorganised the segment by separating its B2C lighting division in order to give it adequate focus.
- **Margins:** EBIT margin expanded 310bps YoY to 11.9% due to cost optimisation.
- **Premiumisation:** In the lighting segment, ceiling lights have a better margin profile than bulbs and battens, and the opportunity to premiumise is being pursued.

BGAL

- **Revenue:** Subsidiary Butterfly Gandhimathi (BGAL) witnessed strong double-digit growth in its B2C channels, led by retail, modern trade and optimisation of e-commerce. The share of business from new products stood at 14% of total sales.
- **Expansion to non-south regions:** The company has identified pilot markets for BGAL's expansion into the northern and western regions of India.
- **Gross margin:** Material margin expanded 650bps YoY to 42% driven by a rebound in the trade channel.

Valuation methodology

Incorporating lower profitability from the fans business in Q1FY24, we pare our FY24/FY25 EPS estimates by 8%/7%. We value the stock at an unchanged P/E multiple of 30x – a 15% discount to the stock’s five-year average – and roll valuations over to Jun’25E, arriving at a revised TP of Rs 360 (vs. Rs 370). Maintain BUY.

Though ECD profitability remains muted, we expect Crompton’s premiumisation strategy to raise its topline and margin profile given higher quality products in the mix. 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 9 – Revised estimates

Particulars (Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	79,054	91,036	79,054	91,036	0.0	0.0
EBITDA	8,996	10,803	9,629	11,532	(6.6)	(6.3)
PAT	5,834	7,292	6,307	7,837	(7.5)	(7.0)
EPS (Rs)	9.2	11.5	9.9	12.3	(7.5)	(7.0)
EBITDA Margin (%)	11.4	11.9	12.2	12.7	(80bps)	(80bps)

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

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

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	1.0	2,477	2,500	HOLD
Blue Star	BLSTR IN	1.7	742	880	BUY
Crompton Greaves	CROMPTON IN	2.3	296	360	BUY
Dixon Technologies	DIXON IN	3.5	4,781	4,300	HOLD
Havells India	HAVL IN	9.9	1,301	1,600	BUY
KEI Industries	KEII IN	2.6	2,329	2,300	HOLD
Orient Electric	ORIENTEL IN	0.6	238	250	HOLD
Polycab India	POLYCAB IN	8.5	4,659	5,000	BUY
Syrma SGS	SYRMA IN	1.0	473	600	BUY
V-Guard Industries	VGRD IN	1.6	304	290	HOLD
Voltas	VOLT IN	3.3	829	910	HOLD

Source: BOBCAPS Research, NSE | Price as of 11 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	4.0	3.6	2.8	2.3	2.0
EV/EBITDA	26.6	25.4	25.1	20.4	16.7
Adjusted P/E	30.4	31.7	40.6	32.2	25.8
P/BV	9.7	7.6	7.1	6.0	5.1

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%

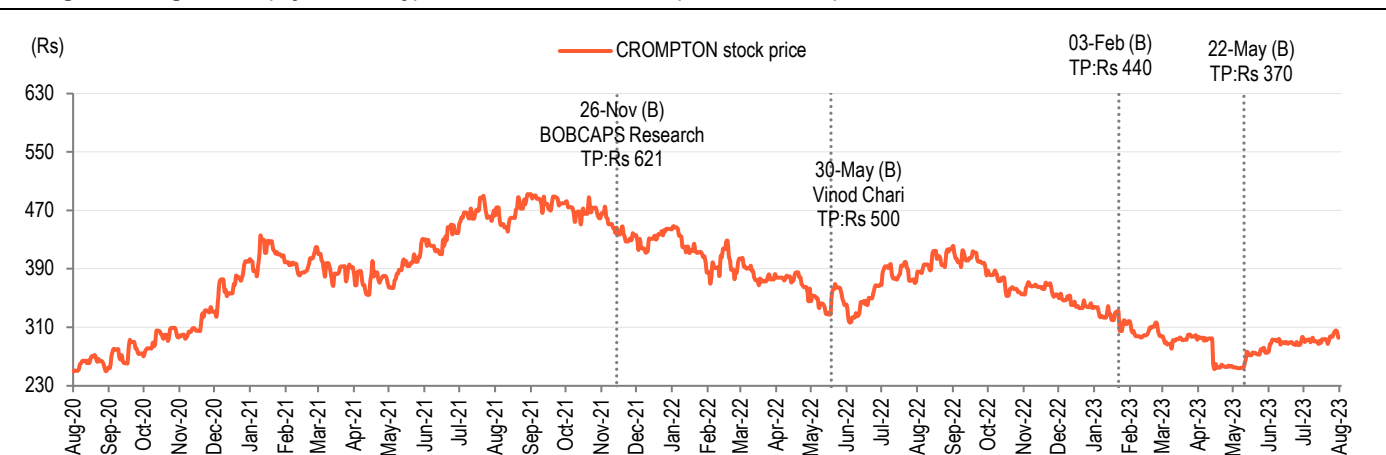
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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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