

BUY

TP: Rs 330 | ▲ 15%

CROMPTON GREAVES

Consumer Durables

06 November 2023

ECD robust; lighting and kitchen appliances falter

- ECD revenue growth ahead of peers but lighting segment declines in Q2
- Management reiterates focus on scaling up distribution and spurring growth in ecommerce and rural markets
- Our TP moves to Rs 330 (vs. Rs 360) as we trim FY24/FY25 EPS by 7%/11% and roll valuations over; maintain BUY

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Mixed bag: Crompton reported muted 5% YoY revenue growth to Rs 17.8bn in Q2FY24 due to softness in lighting and kitchen appliances (Butterfly Gandhimathi: BGAL). The electrical consumer durables (ECD) business bettered industry growth, whereas its lighting segment declined due to price erosion in the B2C category. Gross margin contracted 80bps YoY to 31.3% and EBITDA margin shed 160bps to 9.8% on higher A&P spend, pulling adj. PAT down 20% YoY to Rs 1bn. Management expects cost synergies to kick in ahead coupled with a better product mix.

ECD improves; lighting falters: ECD revenue at Rs 12.4bn increased 17% YoY, accompanied by an EBIT margin of 14.2% (-290bps), led by strong sales momentum in fans (+18%) and domestic appliances (+17%). Pumps also registered 10% YoY growth. Crompton's ECD topline growth compares favourably against peers, such as HAVL (which reported a decline of 5% YoY), POLYCAB (+8%) and VGRD (+5%), while matching ORIENTEL's print (+17%). Lighting revenue at Rs 2.4bn dipped 12% YoY but with a stronger EBIT margin of 10.5%. Subsidiary BGAL clocked a 17% YoY drop in revenue to Rs 3bn and 440bps contraction in EBIT margin to 6.6%.

Premium thrust to strengthen topline: Management's strategy going forward is to boost 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 BLDC (brushless direct current) fans. The revenue share of premium fans has already risen from the high teens to ~28% of Crompton's fan portfolio mix in Q2. In lighting, the company is targeting a higher contribution from ceiling lighting solutions, which have a better margin profile. Per the company, a smart go-to-market strategy has helped double e-commerce business to Rs 1bn.

Maintain BUY: We pare our FY24/FY25 EPS estimates by 7%/11% given slower growth than estimated in Q2. We value the stock at an unchanged P/E multiple of 30x – a 15% discount to the 5Y average – and roll valuations over to Sep'25E, arriving at a revised TP of Rs 330 (vs. Rs 360). Though the energy rating change has led to uncertainty in the fans industry, we believe Crompton will do better on account of its market leadership and growing share in the premium segment.

Key changes

| Target | Rating |
|--------|--------|
| ▼ | ◀ ▶ |

| | |
|------------------|--------------------|
| Ticker/Price | CROMPTON IN/Rs 287 |
| Market cap | US\$ 2.2bn |
| Free float | 100% |
| 3M ADV | US\$ 9.6mn |
| 52wk high/low | Rs 377/Rs 251 |
| Promoter/FPI/DII | 0%/40%/44% |

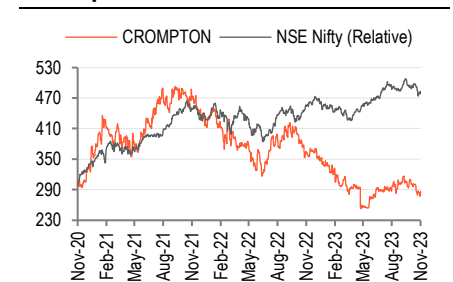
Source: NSE | Price as of 3 Nov 2023

Key financials

| Y/E 31 Mar | FY23A | FY24E | FY25E |
|-------------------------|--------|--------|--------|
| Total revenue (Rs mn) | 68,696 | 79,054 | 91,036 |
| EBITDA (Rs mn) | 7,705 | 8,443 | 9,711 |
| Adj. net profit (Rs mn) | 4,632 | 5,420 | 6,474 |
| Adj. EPS (Rs) | 7.3 | 8.5 | 10.2 |
| Consensus EPS (Rs) | 7.3 | 8.0 | 10.0 |
| Adj. ROAE (%) | 18.1 | 18.8 | 19.3 |
| Adj. P/E (x) | 39.4 | 33.6 | 28.2 |
| EV/EBITDA (x) | 24.3 | 21.0 | 18.0 |
| Adj. EPS growth (%) | (21.7) | 17.0 | 19.5 |

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

| Particulars (Rs mn) | Q2FY24 | Q2FY23 | YoY (%) | Q1FY24 | QoQ (%) | H1FY24 | H1FY23 | YoY (%) |
|---------------------|--------|--------|----------|--------|---------|--------|--------|----------|
| Revenue | 17,823 | 16,995 | 4.9 | 18,769 | (5.0) | 36,591 | 35,624 | 2.7 |
| EBITDA | 1,745 | 1,931 | (9.6) | 1,858 | (6.1) | 3,603 | 4,130 | (12.8) |
| EBITDA Margin (%) | 9.8 | 11.4 | (160bps) | 9.9 | (10bps) | 9.8 | 11.6 | (170bps) |
| Depreciation | 321 | 283 | | 292 | | 613 | 558 | |
| Interest | 215 | 299 | | 206 | | 421 | 524 | |
| Other Income | 149 | 183 | | 198 | | 347 | 287 | |
| PBT | 1,358 | 1,533 | (11.4) | 1,558 | (12.9) | 2,916 | 3,335 | (12.6) |
| Tax | 349 | 226 | | 338 | | 687 | 705 | |
| Adjusted PAT | 1,009 | 1,258 | (19.8) | 1,184 | (14.8) | 2,229 | 2,631 | (15.3) |
| Exceptional item | - | - | | 0 | | - | 64 | |
| Reported PAT | 1,009 | 1,258 | (19.8) | 1,184 | (14.8) | 2,192 | 2,468 | (11.2) |
| Adj. PAT Margin (%) | 5.7 | 7.4 | (170bps) | 6.3 | (60bps) | 6.1 | 7.4 | (130bps) |
| EPS (Rs) | 1.6 | 2.1 | (22.8) | 1.9 | (17.3) | 3.5 | 4.1 | (15.4) |

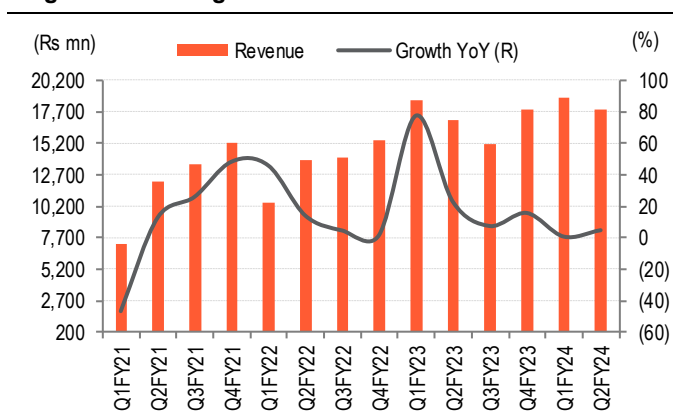
Source: Company, BOBCAPS Research

Fig 2 – Segmental performance

| Particulars (Rs mn) | Q2FY21 | Q3FY21 | Q4FY21 | Q1FY22 | Q2FY22 | Q3FY22 | Q4FY22 | Q1FY23 | Q2FY23 | Q3FY23 | Q4FY23 | Q1FY24 | Q2FY24 |
|------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Revenue | | | | | | | | | | | | | |
| Electrical Consumer Durables | 9,317 | 10,359 | 11,930 | 8,844 | 10,964 | 10,993 | 12,309 | 13,472 | 10,622 | 10,201 | 13,257 | 14,290 | 12,380 |
| YoY growth (%) | | | | 48.3 | 17.7 | 6.1 | 3.2 | 52.3 | (3.1) | (7.2) | 7.7 | 6.1 | 16.5 |
| Lighting Products | 2,815 | 3,123 | 3,291 | 1,661 | 2,887 | 3,113 | 3,170 | 2,623 | 2,696 | 2,477 | 2,786 | 2,290 | 2,387 |
| YoY growth (%) | | | | 34.4 | 2.6 | (0.3) | (3.7) | 57.9 | (6.6) | (20.4) | (12.1) | (12.7) | (11.5) |
| Butterfly Gandhimathi | | | | | | | | 2,535 | 3,677 | 2,484 | 1,867 | 2,189 | 3,056 |
| YoY growth (%) | | | | | | | | | | | | (13.7) | (16.9) |
| EBIT | | | | | | | | | | | | | |
| Electrical Consumer Durables | 1,558 | 2,046 | 1,905 | 1,558 | 2,300 | 2,130 | 2,279 | 2,285 | 1,814 | 1,617 | 2,177 | 1,816 | 1,755 |
| Margin (%) | 16.7 | 19.8 | 16.0 | 17.6 | 21.0 | 19.4 | 18.5 | 17.0 | 17.1 | 15.8 | 16.4 | 12.7 | 14.2 |
| Lighting Products | 177 | 383 | 71 | 177 | 329 | 324 | 448 | 232 | 215 | 255 | 303 | 273 | 250 |
| Margin (%) | 6.3 | 12.3 | 2.2 | 10.7 | 11.4 | 10.4 | 14.1 | 8.8 | 8.0 | 10.3 | 10.9 | 11.9 | 10.5 |
| Butterfly Gandhimathi | | | | | | | | 219 | 403 | 181 | 37 | 160 | 202 |
| Margin (%) | | | | | | | | 8.6 | 11.0 | 7.3 | 2.0 | 7.3 | 6.6 |

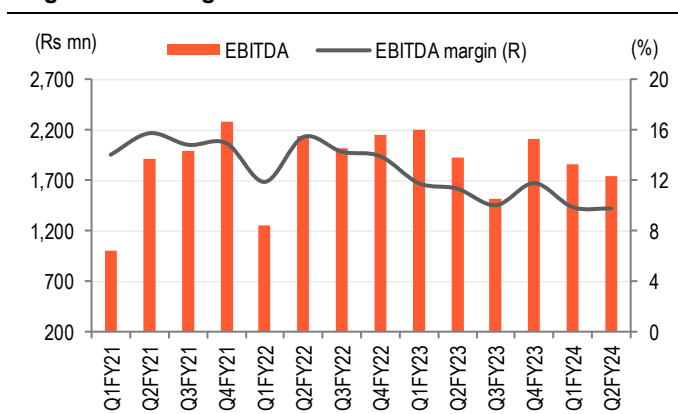
Source: Company, BOBCAPS Research

Fig 3 – Revenue growth



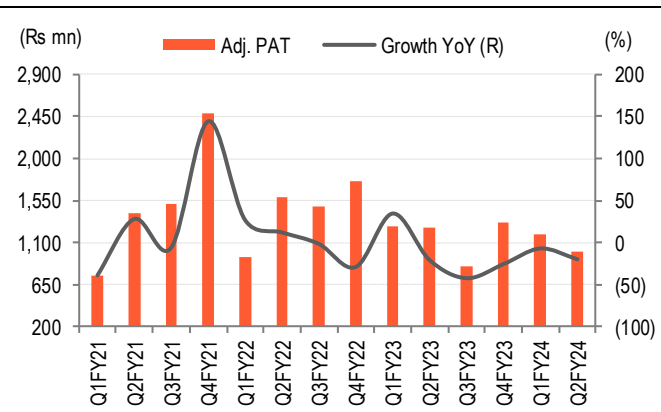
Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth



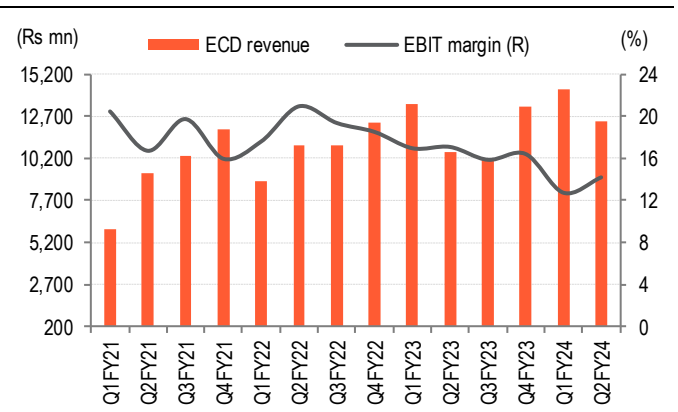
Source: Company, BOBCAPS Research

Fig 5 – Profit growth



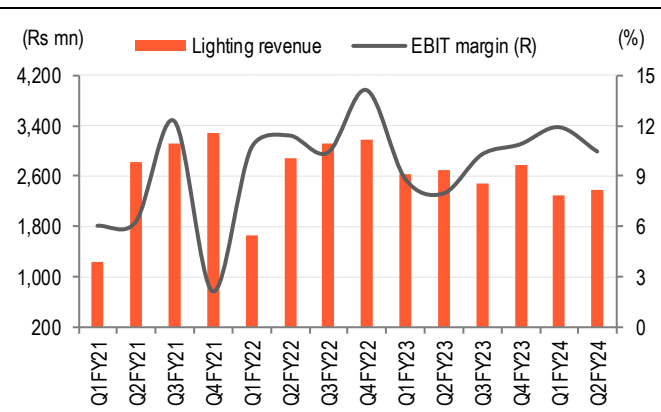
Source: Company, BOBCAPS Research

Fig 6 – ECD business performance



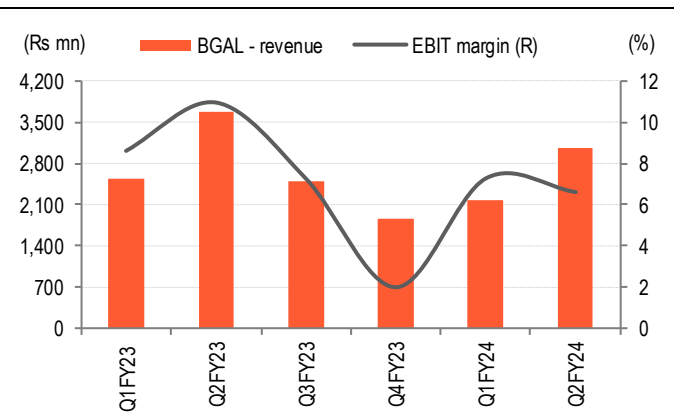
Source: Company, BOBCAPS Research

Fig 7 – Lighting business performance



Source: Company, BOBCAPS Research

Fig 8 – BGAL performance



Source: Company, BOBCAPS Research

Earnings call highlights

Electrical consumer durables (ECD)

- **Fans:** Crompton’s revenue from fans grew 18% YoY in Q2FY24, largely driven by ceiling as well as table, wall and pedestal (TPW) fans. Product launches spurred growth in premium fans and the company indicated that it gained share in the modern trade channel. Pricing action was taken across categories to protect margins during the quarter.
- **Pumps:** The pumps business grew 10% YoY backed by new launches and pricing action, with demand traction in both the agriculture and residential segments.
- **Appliances:** Revenue from appliances increased 17% YoY on the back of kitchen appliance sales and seasonally strong demand for water heaters. Appliances are bifurcated into two sub-categories: large and small domestic appliances (LDA and SDA). Under SDA, most of the company’s growth came from water heaters which saw the highest ever quarterly volumes at 1mn units aided by significant growth in e-commerce sales. In kitchen appliances, growth was bolstered by mixer grinders.

- **Margin:** ECD EBIT margin contracted -290bps YoY on account of higher A&P spends, coupled with a loss of Rs 65mn in the built-in kitchen appliances category.

Lighting products

- **Market environment:** Q2 was weak for the lighting industry due to price erosion in bulbs and battens, lower demand, and subsequent lower channel stocking.
- **Margin:** Lighting EBIT margin expanded 250bps YoY to 11% due to cost optimisation.
- **B2B:** The company has seen some signs of recovery in the B2B category with flattish demand.
- **Premiumisation:** Ceiling lights have a better margin profile than bulbs and battens, and Crompton is pursuing this premiumisation opportunity.
- **Network:** Management retains its focus on widening distribution by strengthening its direct dealer network as well as e-commerce and modern trade channels.

Butterfly Gandhimathi (BGAL)

- **Revenue:** Subsidiary BGAL witnessed growth in retail and modern trade sales amidst a demand slowdown. Per management, the shift of key festivals to Q3 this year has resulted in delayed pre-buying, though Q2 did see one-off corporate sales. Also, BGAL saw strong sales in South India with the Onam festival in August, especially in Kerala.
- **Gross margin:** The subsidiary's gross margin expanded 170bps YoY to 37% driven by a rebound in the trade channel, value engineering and cost optimisation.

Valuation methodology

We pare our FY24/FY25 EPS estimates for Crompton by 7%/11% to incorporate slower growth than estimated in Q2FY24 and also introduce our FY26 forecasts. Valuing the stock at an unchanged P/E multiple of 30x – a 15% discount to the five-year average, and rolling valuations over to Sep'25E, we arrive at a revised TP of Rs 330 (vs. Rs 360).

Though ECD profitability remains muted, 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 peers amid industrywide uncertainty engendered by the recent change in energy rating norms. Maintain BUY.

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 | 8,443 | 9,711 | 8,996 | 10,803 | (6.2) | (10.1) |
| PAT | 5,420 | 6,474 | 5,834 | 7,292 | (7.1) | (11.2) |
| EPS (Rs) | 8.5 | 10.2 | 9.2 | 11.5 | (7.1) | (11.2) |
| EBITDA Margin (%) | 10.7 | 10.7 | 11.4 | 11.9 | (70bps) | (120bps) |

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- lighting business staying dull, and
- Butterfly Gandhimathi 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 | 1.3 | 3,117 | 2,900 | HOLD |
| Blue Star | BLSTR IN | 2.3 | 972 | 1,100 | BUY |
| Crompton Greaves | CROMPTON IN | 2.2 | 287 | 330 | BUY |
| Dixon Technologies | DIXON IN | 3.8 | 5,274 | 6,300 | BUY |
| Havells India | HAVL IN | 9.7 | 1,271 | 1,600 | BUY |
| KEI Industries | KEII IN | 2.8 | 2,570 | 2,400 | HOLD |
| Orient Electric | ORIENTEL IN | 0.6 | 221 | 240 | HOLD |
| Polycab India | POLYCAB IN | 9.2 | 5,037 | 6,100 | BUY |
| Syrma SGS | SYRMA IN | 1.1 | 510 | 560 | HOLD |
| V-Guard Industries | VGRD IN | 1.6 | 296 | 300 | HOLD |
| Voltas | VOLT IN | 3.4 | 836 | 910 | HOLD |

Source: BOBCAPS Research, NSE | Price as of 3 Nov 2023

Financials

Income Statement

| Y/E 31 Mar (Rs mn) | FY22A | FY23A | FY24E | FY25E | FY26E |
|----------------------------|---------------|---------------|---------------|---------------|----------------|
| Total revenue | 53,941 | 68,696 | 79,054 | 91,036 | 103,926 |
| EBITDA | 7,695 | 7,705 | 8,443 | 9,711 | 11,120 |
| Depreciation | 423 | 1,159 | 1,158 | 1,170 | 1,182 |
| EBIT | 7,272 | 6,546 | 7,285 | 8,540 | 9,938 |
| Net interest inc./(exp.) | 353 | 1,092 | 600 | 520 | 520 |
| Other inc./(exp.) | 727 | 668 | 735 | 808 | 889 |
| Exceptional items | 0 | 0 | 0 | 0 | 0 |
| EBT | 7,645 | 6,122 | 7,419 | 8,828 | 10,307 |
| Income taxes | 1,732 | 1,358 | 1,867 | 2,222 | 2,594 |
| Extraordinary items | 130 | 0 | 0 | 0 | 0 |
| Min. int./Inc. from assoc. | 0 | 0 | 0 | 0 | 0 |
| Reported net profit | 5,784 | 4,632 | 5,420 | 6,474 | 7,581 |
| Adjustments | 130 | 0 | 0 | 0 | 0 |
| Adjusted net profit | 5,914 | 4,632 | 5,420 | 6,474 | 7,581 |

Balance Sheet

| Y/E 31 Mar (Rs mn) | FY22A | FY23A | FY24E | FY25E | FY26E |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|
| Accounts payables | 10,178 | 10,354 | 11,915 | 13,721 | 15,664 |
| Other current liabilities | 3,948 | 3,496 | 4,023 | 4,632 | 5,288 |
| Provisions | - | - | - | - | - |
| Debt funds | 16,075 | 10,051 | 7,500 | 6,500 | 6,500 |
| Other liabilities | 1,931 | 1,567 | 1,803 | 2,076 | 2,370 |
| Equity capital | 1,267 | 1,272 | 1,272 | 1,272 | 1,272 |
| Reserves & surplus | 31,087 | 29,805 | 34,161 | 39,364 | 45,457 |
| Shareholders' fund | 32,354 | 31,077 | 35,433 | 40,637 | 46,729 |
| Total liab. and equities | 64,486 | 56,544 | 60,674 | 67,566 | 76,552 |
| Cash and cash eq. | 15,390 | 1,095 | 1,454 | 4,050 | 8,451 |
| Accounts receivables | 6,154 | 6,706 | 7,717 | 8,886 | 10,145 |
| Inventories | 7,210 | 7,439 | 8,560 | 9,858 | 11,253 |
| Other current assets | 2,246 | 7,344 | 8,451 | 9,732 | 11,110 |
| Investments | - | - | - | - | - |
| Net fixed assets | 32,735 | 32,710 | 33,052 | 33,381 | 33,699 |
| CWIP | 130 | 55 | 63 | 72 | 83 |
| Intangible assets | 0 | 0 | 0 | 0 | 0 |
| Deferred tax assets, net | - | - | - | - | - |
| Other assets | 621 | 1,197 | 1,377 | 1,586 | 1,811 |
| Total assets | 64,486 | 56,544 | 60,674 | 67,566 | 76,552 |

Cash Flows

| Y/E 31 Mar (Rs mn) | FY22A | FY23A | FY24E | FY25E | FY26E |
|------------------------------------|-----------------|----------------|----------------|----------------|----------------|
| Cash flow from operations | 7,234 | 5,526 | 5,427 | 6,312 | 7,330 |
| Capital expenditures | (1,706) | (708) | (1,500) | (1,500) | (1,500) |
| Change in investments | - | - | - | - | - |
| Other investing cash flows | (15,523) | 3,340 | 48 | 55 | 59 |
| Cash flow from investing | (17,229) | 2,632 | (1,452) | (1,445) | (1,441) |
| 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) | (1,064) | (1,271) | (1,488) |
| Cash flow from financing | 9,073 | (9,105) | (3,615) | (2,271) | (1,488) |
| Chg in cash & cash eq. | (922) | (948) | 359 | 2,597 | 4,401 |
| Closing cash & cash eq. | 15,390 | 1,095 | 1,454 | 4,050 | 8,451 |

Per Share

| Y/E 31 Mar (Rs) | FY22A | FY23A | FY24E | FY25E | FY26E |
|----------------------|-------|-------|-------|-------|-------|
| Reported EPS | 9.1 | 7.3 | 8.5 | 10.2 | 11.9 |
| Adjusted EPS | 9.3 | 7.3 | 8.5 | 10.2 | 11.9 |
| Dividend per share | 2.5 | 3.0 | 1.7 | 2.0 | 2.3 |
| Book value per share | 38.7 | 41.8 | 48.7 | 56.8 | 66.4 |

Valuations Ratios

| Y/E 31 Mar (x) | FY22A | FY23A | FY24E | FY25E | FY26E |
|----------------|-------|-------|-------|-------|-------|
| EV/Sales | 3.5 | 2.7 | 2.2 | 1.9 | 1.7 |
| EV/EBITDA | 24.7 | 24.3 | 21.0 | 18.0 | 16.0 |
| Adjusted P/E | 30.7 | 39.4 | 33.6 | 28.2 | 24.0 |
| P/BV | 7.4 | 6.9 | 5.9 | 5.0 | 4.3 |

DuPont Analysis

| Y/E 31 Mar (%) | FY22A | FY23A | FY24E | FY25E | FY26E |
|------------------------------|-------|-------|-------|-------|-------|
| Tax burden (Net profit/PBT) | 77.4 | 75.7 | 73.1 | 73.3 | 73.6 |
| Interest burden (PBT/EBIT) | 105.1 | 93.5 | 101.8 | 103.4 | 103.7 |
| EBIT margin (EBIT/Revenue) | 13.5 | 9.5 | 9.2 | 9.4 | 9.6 |
| Asset turnover (Rev./Avg TA) | 2.6 | 2.1 | 2.4 | 2.7 | 3.1 |
| Leverage (Avg TA/Avg Equity) | 1.0 | 1.3 | 1.1 | 1.0 | 0.9 |
| Adjusted ROAE | 27.0 | 18.1 | 18.8 | 19.3 | 19.3 |

Ratio Analysis

| Y/E 31 Mar | FY22A | FY23A | FY24E | FY25E | FY26E |
|--|-------|--------|-------|-------|-------|
| YoY growth (%) | | | | | |
| Revenue | 12.3 | 27.4 | 15.1 | 15.2 | 14.2 |
| EBITDA | 6.8 | 0.1 | 9.6 | 15.0 | 14.5 |
| Adjusted EPS | (4.1) | (21.7) | 17.0 | 19.5 | 17.1 |
| Profitability & Return ratios (%) | | | | | |
| EBITDA margin | 14.3 | 11.2 | 10.7 | 10.7 | 10.7 |
| EBIT margin | 13.5 | 9.5 | 9.2 | 9.4 | 9.6 |
| Adjusted profit margin | 11.0 | 6.7 | 6.9 | 7.1 | 7.3 |
| Adjusted ROAE | 27.0 | 18.1 | 18.8 | 19.3 | 19.3 |
| ROCE | 23.1 | 16.9 | 19.4 | 21.1 | 21.7 |
| 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 | 2.2 | 2.4 | 2.7 |
| Current ratio | 1.0 | 1.3 | 1.3 | 1.5 | 1.7 |
| Net interest coverage ratio | 20.6 | 6.0 | 12.1 | 16.4 | 19.1 |
| 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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Name of the Research Entity: **BOB Capital Markets Limited**

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SEBI Research Analyst Registration No: **INH0000000040 valid till 03 February 2025**

Brand Name: **BOBCAPS**

Trade Name: **www.barodaetrade.com**

CIN: **U65999MH1996GOI098009**



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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

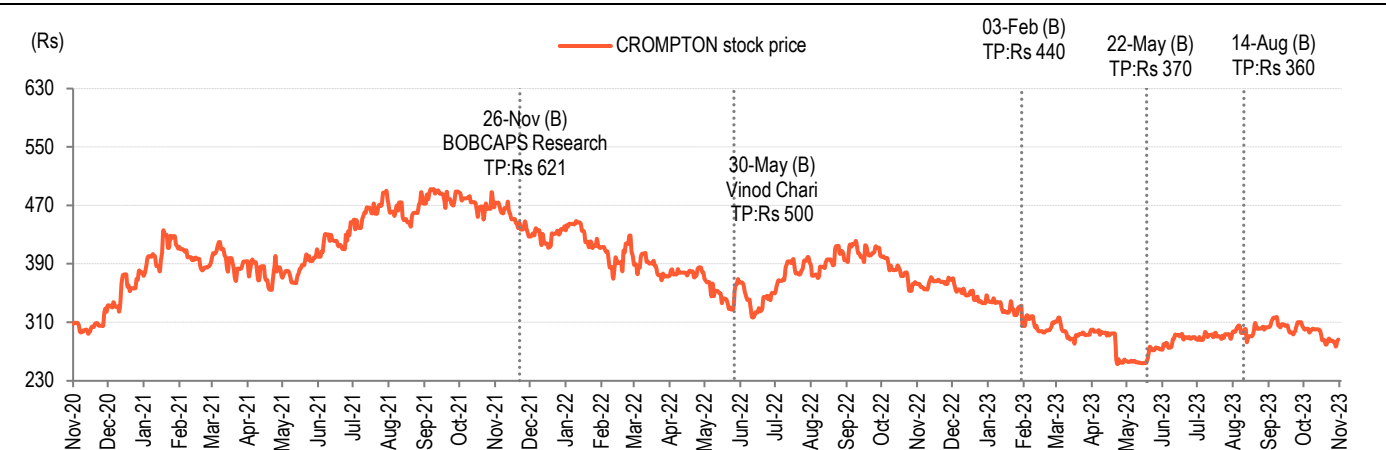
HOLD – Expected return from -6% to +15%

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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