

BUY

TP: Rs 330 | ▲ 16%

CROMPTON GREAVES

Consumer Durables

15 February 2024

Slowdown at BGAL weighs on quarter

- Strong Q3 topline from higher fan, lighting and pump sales, but EBITDA margin fell 120bps YoY on ad expenses and weakness in BGAL
- Premiumisation and buildout of presence across alternate channels on track; e-commerce sales doubled YoY
- We cut FY24/FY25/FY26 EPS estimates by 13%/5%/1% post Q3; TP unchanged at Rs 330 upon rollover – maintain BUY

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Strong topline, margin falls on high A&P: Crompton posted a strong topline of Rs 16.9bn, growing 12% YoY in Q3FY24. Gross margin was flat YoY at 32.5%, but EBITDA margin slipped 120bps to 8.8%. Adj. PAT dipped slightly by 3% YoY to Rs 855mn. Electrical consumer durables (ECD: above peers) and lighting (in line) fared well, but kitchen appliances subsidiary BGAL pulled the overall performance down. This apart, Crompton invested heavily in A&P company-wide, with incremental promotional expenses of Rs 350mn over the year-ago quarter in the ECD segment.

ECD and lighting shine...: Crompton saw strong revenue growth of 18.5% YoY in ECD and volume growth of 5% in LED lighting. The revenue uptick in ECD was stronger than peers like ORIENTEL (-0.7% YoY), VGRD (+11.1%), POLYCAB (-13.4%), and HAVL (+2.8%). However, the ECD operating margin was sapped by high promotional expenses despite strong gains in fans and pumps. The lighting segment exhibited healthy margin expansion of 90bps YoY to 11.2%, midway between peers such as ORIENTEL (-140bps) and HAVL (+150bps).

...but BGAL a dampener: BGAL continued to underperform, with revenue down 6% YoY (vs. 2% growth for rival Sunflame), largely due to soft institutional demand amid a slowdown in the kitchen appliances industry. Management indicated strong growth in the core categories of mixer grinders, LPG stoves and pressure cookers. EBIT margin plunged 810bps YoY to -0.8% due to higher A&P and wage costs.

New strategies on track: Premiumisation in fans and lighting continues, with both segments yielding healthy results for the company. Sales from alternate channels (+38% YoY) are also exhibiting healthy growth, with e-commerce doubling in Q3.

Maintain BUY: Crompton is a market leader in fans and has tackled the ongoing pricing pressure in the lighting industry well. BGAL, however, is facing industry-related and internal impediments, causing a string of poor quarterly performances. We cut FY24/FY25/FY26 EPS estimates by 13%/5%/1% on continued weakness at BGAL and higher advertising expenses. On rolling valuations to Dec'25E, our TP stays at Rs 330, set at an unchanged 30x P/E – a 15% discount to the 5Y mean. BUY.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	CROMPTON IN/Rs 285
Market cap	US\$ 2.2bn
Free float	100%
3M ADV	US\$ 8.5mn
52wk high/low	Rs 328/Rs 251
Promoter/FPI/DII	0%/40%/44%

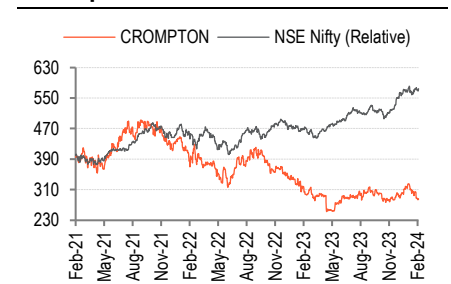
Source: NSE | Price as of 14 Feb 2024

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)	39.2	38.4	29.4
EV/EBITDA (x)	24.2	23.0	18.7
Adj. EPS growth (%)	(21.7)	2.1	30.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

Particulars (Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Revenue	16,927	15,162	11.6	17,823	(5.0)	53,518	50,787	5.4
EBITDA	1,498	1,524	(1.7)	1,745	(14.2)	5,101	5,654	(9.8)
EBITDA Margin (%)	8.8	10.1	(120bps)	9.8	(90bps)	9.5	11.1	(160bps)
Depreciation	325	297		321		938	855	
Interest	215	294		215		636	818	
Other Income	167	213		149		514	500	
PBT	1,125	1,146	(1.9)	1,358	(17.2)	4,040	4,481	(9.8)
Tax	270	264		349		957	969	
Adjusted PAT	855	882	(3.1)	1,009	(15.3)	3,084	3,512	(12.2)
Exceptional item	-	-		0		-	64	
Reported PAT	855	882	(3.1)	1,009	(15.3)	3,084	3,449	(10.6)
Adj. PAT Margin (%)	5.0	5.8	(80bps)	5.7	(60bps)	5.8	6.9	(120bps)
EPS (Rs)	1.3	1.4	(3.1)	1.6	(15.3)	4.8	5.5	(12.3)

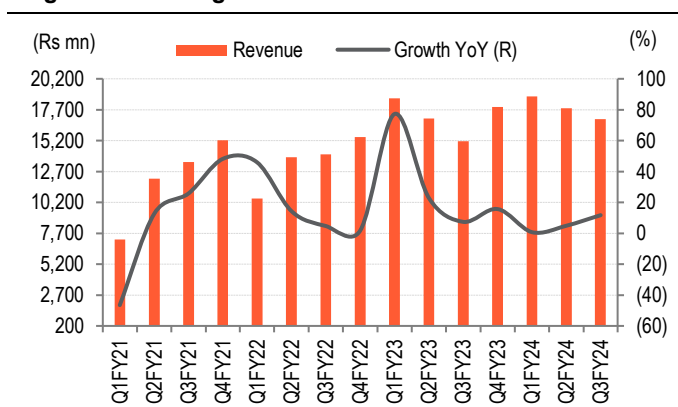
Source: Company, BOBCAPS Research

Fig 2 – Segment-wise performance

Particulars (Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Revenue											
Electrical Consumer Durables	8,844	10,964	10,993	12,309	13,472	10,622	10,201	13,257	14,290	12,380	12,093
YoY growth (%)	48.3	17.7	6.1	3.2	52.3	(3.1)	(7.2)	7.7	6.1	16.5	18.5
Lighting Products	1,661	2,887	3,113	3,170	2,623	2,696	2,477	2,786	2,290	2,387	2,494
YoY growth (%)	34.4	2.6	(0.3)	(3.7)	57.9	(6.6)	(20.4)	(12.1)	(12.7)	(11.5)	0.7
Butterfly Gandhimathi					2,535	3,677	2,484	1,867	2,189	3,056	2,341
YoY growth (%)									(13.7)	(16.9)	(5.8)
EBIT											
Electrical Consumer Durables	1,558	2,300	2,130	2,279	2,285	1,814	1,617	2,177	1,816	1,755	1,642
Margin (%)	17.6	21.0	19.4	18.5	17.0	17.1	15.8	16.4	12.7	14.2	13.6
Lighting Products	177	329	324	448	232	215	255	303	273	250	280
Margin (%)	10.7	11.4	10.4	14.1	8.8	8.0	10.3	10.9	11.9	10.5	11.2
Butterfly Gandhimathi					219	403	181	37	160	202	(19)
Margin (%)					8.6	11.0	7.3	2.0	7.3	6.6	(0.8)

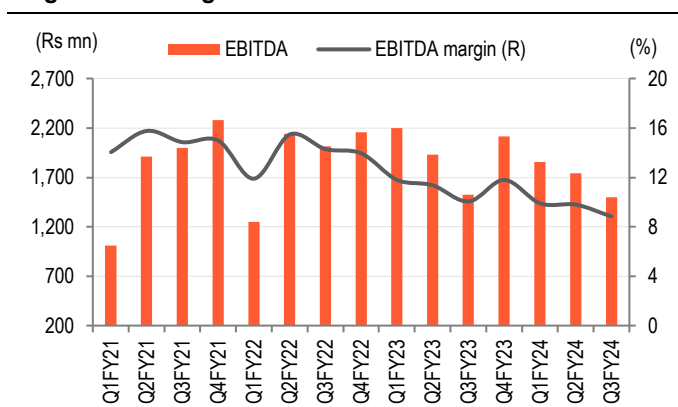
Source: Company, BOBCAPS Research

Fig 3 – Revenue growth



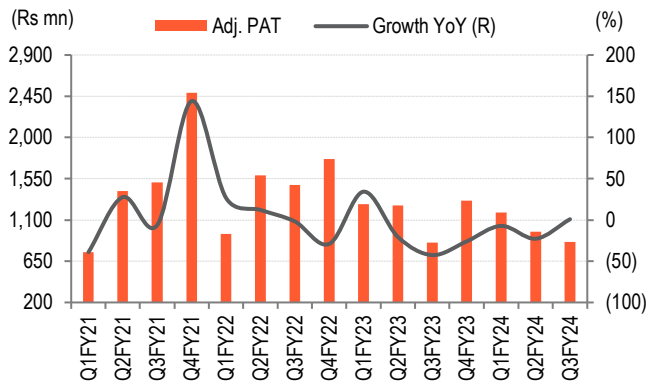
Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth



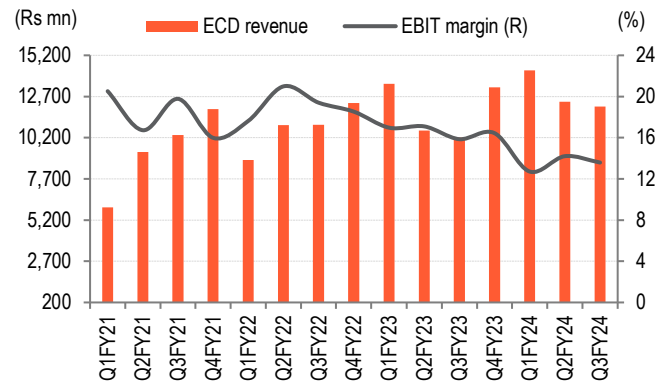
Source: Company, BOBCAPS Research

Fig 5 – Profit growth



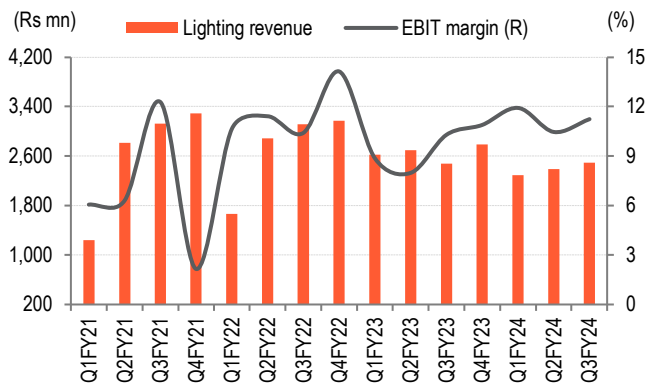
Source: Company, BOBCAPS Research

Fig 6 – ECD business performance



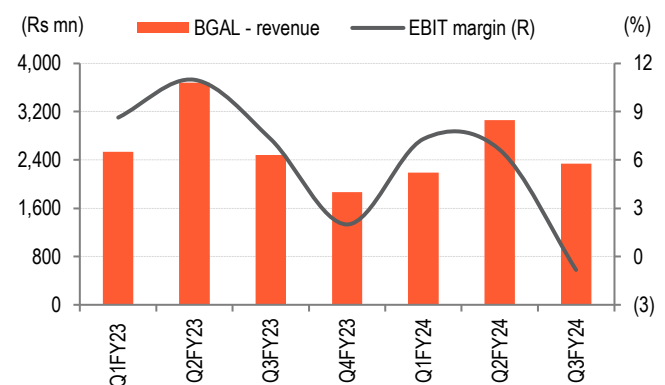
Source: Company, BOBCAPS Research

Fig 7 – Lighting business performance



Source: Company, BOBCAPS Research

Fig 8 – BGAL performance



Source: Company, BOBCAPS Research

Earnings call highlights

Electrical consumer durables (ECD)

- Performance:** Crompton’s ECD segment grew 18.5% YoY during Q3FY24, well above peers such as ORIENTEL (-0.7% YoY), VGRD (+11.1%), POLYCAB (-13.4%), and HAVL (+2.8%). However, the segmental EBIT margin underperformed relative to peers, contracting 220bps YoY to 13.6%. The margin in pumps increased significantly, but this benefit was erased by higher company-wide promotional expenses which climbed by Rs 350mn YoY during the quarter.
- Fans:** Fans grew 11% YoY as premium ceiling fans, domestic exhaust and table-wall-pedestal (TPW) fans continued to gain demand traction. The company took price hikes in the TPW category effective Nov’23.
- Pumps:** Agricultural (+39% YoY) and solar pumps performed well during the quarter, with the product category growing 28% YoY accompanied by significant gross and EBIT margin expansion from a better product mix. Pumps saw strong growth in alternate channels as well as rural areas. The company also received an order for solar pumps from Haryana, which was booked last quarter, and has received newer orders in this space. Crompton commands 7-8% market share in agricultural pumps.

- **Appliances:** The appliances category grew 23% YoY on the back of a strong uptick in water heaters and small domestic appliances, with the largest ever quarterly sales achieved in the water heaters category. Large domestic appliances grew 28% YoY. Crompton continues to focus on premiumisation in water heaters and air coolers, besides launching industrial coolers during the quarter. Large kitchen appliances clocked 40% YoY revenue growth to Rs 190mn.

Lighting products

- **Performance:** The segment fared well with 1% YoY topline growth despite 15-20% price erosion industrywide, which continued to deepen during the quarter. EBIT margin expanded 90bps YoY to 11.2% on the back of mix improvement, channel partner additions and new launches.
- **B2B:** The B2B segment grew 4% YoY with multiple project wins.
- **B2C:** Crompton expanded its B2C product offerings, which led to mix improvement as sales of ceiling lights grew. In B2C, the e-commerce channel remains in focus. LED business posted 5% YoY volume growth but experienced price erosion.

Butterfly Gandhimathi (BGAL)

- **Performance:** Revenue from kitchen appliances under BGAL fell 6% YoY as a slump in the corporate channel wiped out growth in retail and e-commerce. EBIT margin also shrank 810bps YoY as advertising expenditure and minimum wage revision pushed up other expenses and employee costs respectively. However, the company's core categories of mixer grinders, LPG stoves (+47% YoY) and pressure cookers (+200% YoY) collectively grew 12% YoY.
- **Channel mix:** Retail and regional stores continued to grow, with retail revenue up 11% YoY and modern trade growing 14%. E-commerce also fared well, posting market share gains.

Valuation methodology

Crompton is a market leader in fans and has tackled the ongoing pricing pressure in the lighting industry well. BGAL, on the other hand, is facing industry-related and internal impediments, driving a string of poor quarterly performances. We cut FY24/FY25/FY26 EPS estimates by 13%/5%/1% considering continued weakness at BGAL and higher advertising expenses. On rolling valuations to Dec'25E, our TP stays at Rs 330, set at an unchanged 30x P/E – a 15% discount to the stock's five-year mean.

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	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales	74,722	86,690	99,832	79,054	91,036	1,03,926	(5.5)	(4.8)	(3.9)
EBITDA	7,684	9,325	10,832	8,443	9,711	11,120	(9.0)	(4.0)	(2.6)
PAT	4,729	6,179	7,379	5,420	6,474	7,581	(12.7)	(4.6)	(2.7)
EPS (Rs)	7.4	9.7	11.6	8.5	10.2	11.8	(12.7)	(4.6)	(1.3)
EBITDA Margin (%)	10.3	10.8	10.9	10.7	10.7	10.7	(40bps)	10bps	10bps

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- continued weakness in Butterfly Gandhimathi vis-à-vis peers, 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	1.6	3,859	3,200	SELL
Crompton Greaves	CROMPTON IN	2.2	285	330	BUY
Havells India	HAVL IN	10.5	1,381	1,600	BUY
KEI Industries	KEII IN	3.6	3,308	3,120	HOLD
Polycab India	POLYCAB IN	7.9	4,355	5,200	BUY
Syrma SGS	SYRMA IN	1.1	503	550	HOLD
V-Guard Industries	VGRD IN	1.6	310	310	HOLD
Voltas	VOLT IN	4.4	1,086	1,060	HOLD

Source: BOBCAPS Research, NSE | Price as of 14 Feb 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	3.5	2.7	2.4	2.0	1.8
EV/EBITDA	24.6	24.2	23.0	18.7	16.4
Adjusted P/E	30.6	39.2	38.4	29.4	24.6
P/BV	7.4	6.8	6.0	5.1	4.4

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%

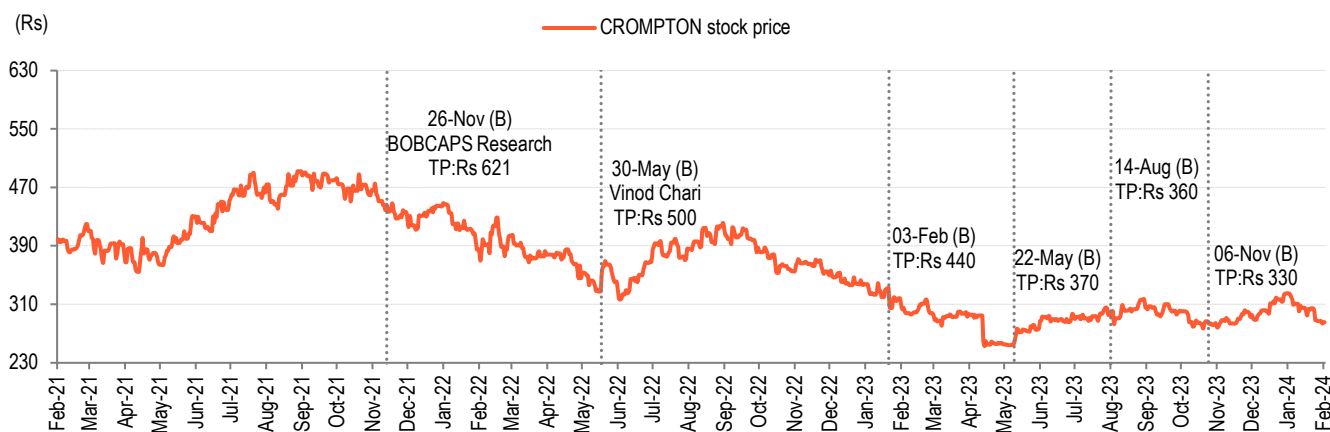
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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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