

BUY

TP: Rs 370 | ▲ 42%

CROMPTON GREAVES

Consumer Durables

22 May 2023

Mixed quarter

- Q4 topline grew 16% YoY aided by a good ECD performance; lighting continues to disappoint
- Focus on star-rated fans helped push sales slightly ahead of peers; premium segment shines
- FY24/FY25 EPS cut 9%/7% and TP revised to Rs 370 (vs. Rs 440) on a lower target P/E of 30x (vs. 35x) due to volatility in fans; retain BUY

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Revenue in line, PAT a miss: Crompton reported a mixed Q4FY23 amid a difficult environment. The consolidated topline at Rs 17.9bn (+16% YoY) was in line with our estimate, but EBITDA margin at 11.8%% and adj. PAT at Rs 1.3bn fell short. Organic revenue grew at a modest 5% YoY to Rs 16bn.

ECD shores up revenue: Electrical consumer durables (ECD) grew 8% YoY, ahead of HAVL (-14% YoY) and ORIENTEL (-20% YoY), due to a relatively good performance in fans, particularly in the premium segment. However, weakness persisted in the lighting business (-12% YoY) as the B2C segment underperformed. Subsidiary BGAL (home appliances) continued to deliver flattish revenue (-2% YoY), shored up by the retail segment (+19% YoY).

Fan strategy turning favourable: Deviating from the industry trend of offloading non-star-rated fans, Crompton had pushed its new, compliant portfolio following the energy rating transition. This tactic backfired in Q3 but has showed traction in Q4, and management indicated that the company has performed ahead of peers in H2FY23. The premium segment has also been performing well since the rating transition (+24% YoY in Q4), with BLDC fans witnessing strong traction (+2.5x YoY).

Pumps to revive: The company seems to have tackled product inferiorities via new architecture and also altered pricing to become more competitive in the pumps business. Management expects better results here from H1FY24 onwards.

Maintain BUY; reduce TP to Rs 370: We lower our FY24/FY25 EPS estimates by 9%/7% and cut our target P/E to 30x (earlier 35x) to bake in the fluid demand environment in the fans business amidst the recent rating transition. On rollover to Mar'25E valuations, our TP stands revised to Rs 370 (vs. Rs 440). Though the rating change has led to an 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. Additionally, its strategy to focus on star-rated fans appears to be gaining traction. We thus retain our BUY rating on the stock.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	CROMPTON IN/Rs 260
Market cap	US\$ 2.0bn
Free float	100%
3M ADV	US\$ 11.3mn
52wk high/low	Rs 429/Rs 251
Promoter/FPI/DII	0%/40%/44%

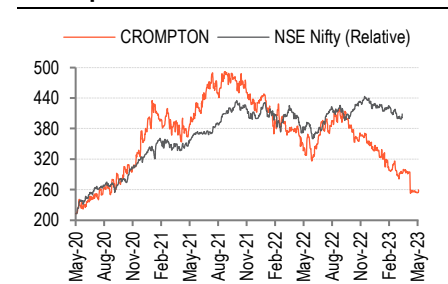
Source: NSE | Price as of 22 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	68,696	79,054	91,036
EBITDA (Rs mn)	7,705	9,629	11,532
Adj. net profit (Rs mn)	4,632	6,307	7,837
Adj. EPS (Rs)	7.3	9.9	12.3
Consensus EPS (Rs)	7.3	9.8	11.8
Adj. ROAE (%)	18.1	21.6	22.5
Adj. P/E (x)	35.7	26.2	21.1
EV/EBITDA (x)	22.1	16.7	13.7
Adj. EPS growth (%)	(21.7)	36.2	24.3

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



Fig 1 – Quarterly performance

Particulars (Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
Revenue	17,910	15,479	15.7	15,162	18.1	68,696	53,941	27.4
EBITDA	2,114	2,158	(2.0)	1,524	38.7	7,705	7,694	0.1
EBITDA Margin (%)	11.8	13.9	(210bps)	10.1	180bps	11.2	14.3	(300bps)
Depreciation	304	145	-	297	-	1,159	423	-
Interest	274	106	-	294	-	1,092	353	-
Other Income	168	222	-	213	-	668	727	-
PBT	1,704	2,129	(20.0)	1,146	48.7	6,122	7,645	(19.9)
Tax	389	364	-	264	-	1,358	1,732	-
Adjusted PAT	1,312	1,766	(25.7)	853	53.9	4,632	5,914	(21.7)
Exceptional item	-	(108)	-	0	-	-	130	-
Reported PAT	1,312	1,873	(30.0)	853	53.9	4,632	5,784	(19.9)
Adj. PAT Margin (%)	7.3	11.4	(410bps)	5.6	170bps	6.7	11.0	(420bps)
EPS (Rs)	2.1	2.8	(25.8)	1.4	49.2	7.5	9.3	(19.4)

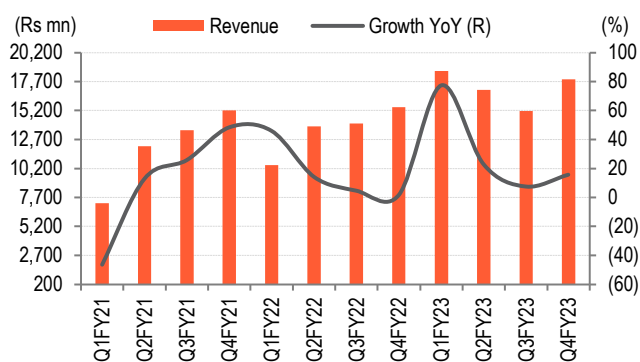
Source: Company, BOBCAPS Research

Fig 2 – Actuals vs. Estimates

Particulars (Rs mn)	Actuals	Estimates	Variance (%)
Revenue	17,910	17,263	3.7
EBITDA	2,114	2,361	(10.4)
EBITDA Margin (%)	11.8	13.7	(190bps)
Adj. PAT	1,312	1,469	(10.7)

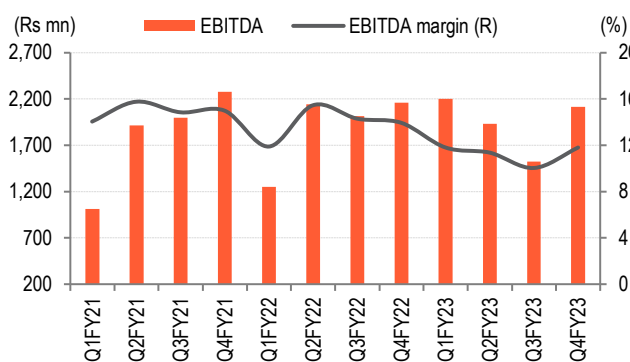
Source: Company, BOBCAPS Research

Fig 3 – Revenue growth trend



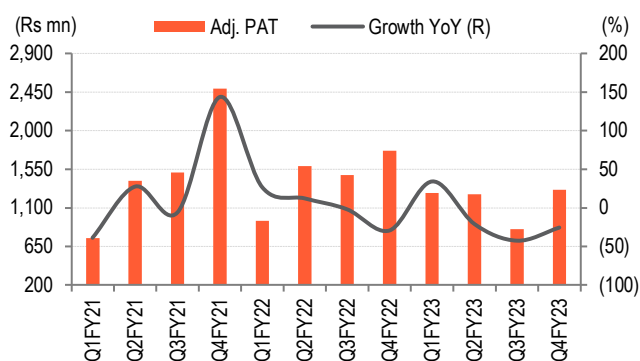
Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth trend



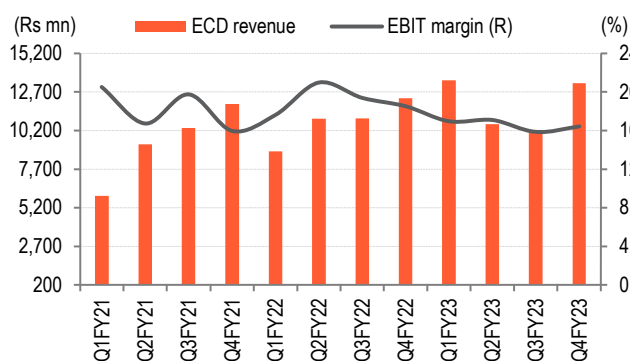
Source: Company, BOBCAPS Research

Fig 5 – Profitability growth trend



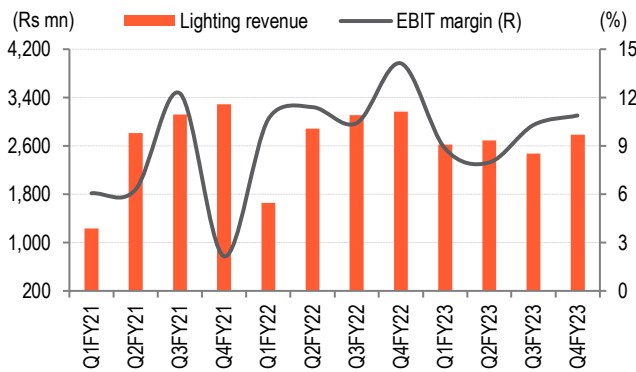
Source: Company, BOBCAPS Research

Fig 6 – ECD vertical growth trend



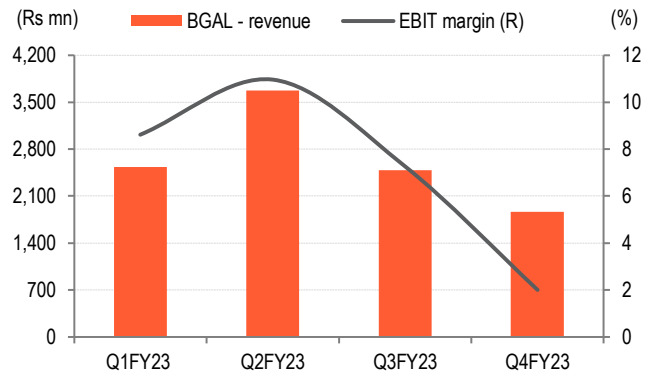
Source: Company, BOBCAPS Research

Fig 7 – Lighting vertical growth trend



Source: Company, BOBCAPS Research

Fig 8 – Butterfly Gandhimathi (BGAL) growth trend



Source: Company, BOBCAPS Research

Earnings call highlights

- **A&P:** A&P spends increased to 3.6% of total sales in FY23 vs. 2.3% a year ago. Investment on R&D and innovation has risen 50% YoY to Rs 800mn. Crompton aims to continue stepping up brand investments via digital campaigns, brand building exercises and higher R&D.
- **Fans:** The fans segment posted 5% value growth in FY23. Premium fans clocked 20% YoY volume and value growth in Q4FY23, and the table-pedestal-wall (TPW) fan segment also did well. In BLDC fans, Crompton sold ~300,000 units in Q4 and became the second largest player in the segment. The company aims to add more decorative products in its premium portfolio (inclusive of BLDC). Management expects the revenue share of BLDC fans to rise from the current 2-3% as the market expands.

Management believes that channel inventory for Crompton is lower than industry peers given its divergent strategy of pushing new, compliant fans over old inventory. On the cost front, the company has not been able to entirely pass on the additional cost following the new Bureau of Energy (BEE) rating norms and expects to do so in Q1FY24 (vs. Q4FY23 earlier). It indicated that *Unnati* programme implementation had brought the incremental cost down to 5-7%.

- **Pumps:** The company registered value growth of 15% YoY in pumps in Q4 aided by efforts to streamline the business, including new architecture for small pumps and strategic pricing decisions. Management aims to focus on improving the trade channel, growing in the northern market and a continued revamp in each segment
- **Appliances:** The appliances segment registered value growth of 40%+ YoY in Q4 and ~30% in FY23. Water heaters/air coolers grew 34% YoY in Q4 while mixers and grinders grew 70%+. The company sold 200,000+ units overall, aided by the introduction of 46 new SKUs and 100 new distributors.
- **Large kitchen appliances:** Crompton’s large kitchen appliances business is in a nascent stage. Management is focused on differentiated product introduction and streamlining distribution methods for growth. It aims to expand distribution to 26+ cities by 2024.

- **Lighting:** The lighting division underperformed with value growth flat for both FY23 as well as Q4. Management is striving to implement a go-to-market strategy in the segment and integrate B2C to aid growth.
- **Market share:** Crompton aims to maintain its market position which was stable across the four divisions in Q4 and believes the retail business holds the key to the same.

Valuation methodology

We lower our FY24/FY25 EPS estimates by 9%/7% and cut our target P/E to 30x (from 35x) – a 15% discount to the five-year average on a two-year forward basis – to bake in the fluid demand environment in the fans business amidst the recent rating transition. On rollover to Mar'25E valuations, our TP stands revised to Rs 370 (vs. Rs 440).

Though the rating change has led to an 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. Additionally, its strategy to focus on star-rated fans appears to be gaining traction. We thus retain our BUY rating on the stock.

Fig 9 – Revised estimates

Particulars (Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	79,054	91,036	78,350	90,224	0.9	0.9
EBITDA	9,629	11,532	10,048	12,001	(4.2)	(3.9)
PAT	6,307	7,837	6,903	8,414	(8.6)	(6.9)
EPS (Rs)	9.9	12.3	10.9	13.3	(9.0)	(7.2)
EBITDA Margin (%)	12.2	12.7	12.8	13.3	(60bps)	(60bps)

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- adopted fan strategy hurting growth,
- lighting business remaining 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	0.8	2,070	2,260	HOLD
Blue Star	BLSTR IN	1.7	1,412	1,650	BUY
Crompton Greaves	CROMPTON IN	2.0	260	370	BUY
Dixon Technologies	DIXON IN	2.3	3,232	4,100	BUY
Havells India	HAVL IN	9.6	1,264	1,500	BUY
KEI Industries	KEII IN	2.2	2,001	2,130	BUY
Orient Electric	ORIENTEL IN	0.6	220	240	HOLD
Polycab India	POLYCAB IN	6.2	3,431	3,900	BUY
Syrma SGS	SYRMA IN	0.8	355	440	BUY
V-Guard Industries	VGRD IN	1.3	249	260	HOLD
Voltas	VOLT IN	3.3	810	900	HOLD

Source: BOBCAPS Research, NSE | Price as of 22 May 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Total revenue	48,035	53,941	68,696	79,054	91,036
EBITDA	7,205	7,694	7,705	9,629	11,532
Depreciation	297	423	1,159	1,158	1,170
EBIT	6,908	7,272	6,546	8,471	10,361
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	8,605	10,649
Income taxes	1,070	1,732	1,358	2,166	2,680
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	6,307	7,837
Adjustments	0	130	0	0	0
Adjusted net profit	6,166	5,914	4,632	6,307	7,837

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	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	4,633
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	34,874	41,173
Shareholders' fund	19,314	32,354	31,077	36,146	42,445
Total liab. and equities	36,173	64,486	56,545	61,387	69,375
Cash and cash eq.	13,737	15,390	1,095	2,167	5,859
Accounts receivables	4,608	6,154	6,706	7,717	8,886
Inventories	5,186	7,210	7,438	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	1,378	1,586
Total assets	36,173	64,486	56,545	61,387	69,375

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Cash flow from operations	8,878	7,234	5,526	6,314	7,675
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)	(1,238)	(1,538)
Cash flow from financing	(962)	9,073	(9,105)	(3,789)	(2,538)
Chg in cash & cash eq.	2,959	(922)	(948)	1,072	3,692
Closing cash & cash eq.	13,737	15,390	1,095	2,167	5,859

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
Reported EPS	9.7	9.1	7.3	9.9	12.3
Adjusted EPS	9.7	9.3	7.3	9.9	12.3
Dividend per share	0.0	2.5	3.0	1.9	2.4
Book value per share	30.5	38.7	41.8	49.8	59.7

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	3.5	3.2	2.5	2.0	1.7
EV/EBITDA	23.4	22.4	22.1	16.7	13.7
Adjusted P/E	26.7	27.8	35.7	26.2	21.1
P/BV	8.5	6.7	6.2	5.2	4.4

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	FY24E	FY25E
Tax burden (Net profit/PBT)	85.2	77.4	75.7	73.3	73.6
Interest burden (PBT/EBIT)	104.7	105.1	93.5	101.6	102.8
EBIT margin (EBIT/Revenue)	14.4	13.5	9.5	10.7	11.4
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	21.6	22.5

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
YoY growth (%)					
Revenue	6.3	12.3	27.4	15.1	15.2
EBITDA	20.3	6.8	0.1	25.0	19.8
Adjusted EPS	24.2	(4.1)	(21.7)	36.2	24.3
Profitability & Return ratios (%)					
EBITDA margin	15.0	14.3	11.2	12.2	12.7
EBIT margin	14.4	13.5	9.5	10.7	11.4
Adjusted profit margin	12.8	11.0	6.7	8.0	8.6
Adjusted ROAE	36.3	27.0	18.1	21.6	22.5
ROCE	35.6	23.1	16.9	22.3	24.8
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	1.6
Net interest coverage ratio	59.9	20.6	6.0	14.1	19.9
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%

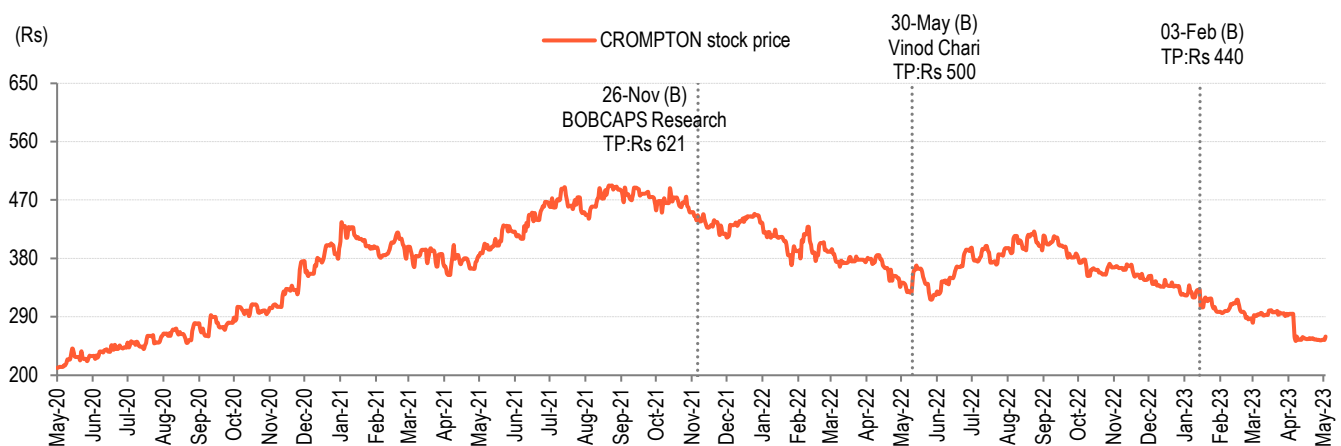
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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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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