

BUY
 TP: Rs 520 | ▲ 15%

CROMPTON GREAVES

Consumer Durables

01 August 2024

Strong quarter; healthy outlook

- **Strong Q1 topline from higher fan, B2B lighting and pump sales, and GM expansion of 110bps driven by strategic pricing actions**
- **Premiumisation and buildout of presence across alternative channels on track; e-commerce sales surge 82% YoY**
- **We raise our FY25E/FY26E EPS by ~6%/9% and value the stock at 36x Jun'26E P/E (33x earlier). Maintain BUY with increased TP of Rs 520**

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Strong quarter: CROMPTON reported consolidated topline growth of ~14% YoY, reaching Rs 21.4bn (in line with our estimate). The company's gross margin (GM) expanded by 110bps to 31.9%, driven by strategic pricing actions. EBITDA margin also improved by 100bps to 10.9%. On a standalone basis (excluding BGAL), gross margin rose by 190bps to 31.3%, and EBITDA margin by 140bps to 11.4%. Adjusted PAT stood at Rs 1.5bn. Promotional expenditure for standalone revenues rose to 4.5%, from 3.1% in the previous quarter.

Growth across segments; BGAL declines: The ECD segment's topline grew a robust 21% in Q1, fuelled by favourable summer demand across the country, and EBIT margins expanded by 230bps YoY to 15%. The lighting sector delivered steady performance, with B2B lighting experiencing strong volume growth and a modest revenue increase of about 2% YoY for Q1FY25. BGAL's revenue declined 19% YoY due to decreased e-commerce sales but made a notable recovery, turning positive after two quarters with EBIT reaching Rs 41mn.

Strategies driving success: CROMPTON's cost savings initiatives, premiumisation efforts, and focus on alternative channels are starting to yield results. Alternative channels grew 30% YoY, with e-commerce sales surging 82% and contributing over Rs 1bn in Q1. It has had the same run rate over the past four quarters, driven by fans and appliances. The company repaid Rs 3bn of debt from the Butterfly acquisition, but still carries Rs 3bn of debt on its books. Despite this, CROMPTON remains net cash positive and continues to generate strong cash flow.

Maintain BUY: CROMPTON is a market leader in fans, and has tackled the ongoing price erosion in the lighting industry well. However, BGAL is facing industry-related issues such as subdued consumer demand, which we expect will subside over the next 2-3 quarters. We raise FY25E/26E EPS estimates by ~6%/9% on a likely turnaround in BGAL, margin expansion in the ECD segment as a result of ongoing efforts in premiumisation, sales from alternative channels, and e-commerce sales. We roll forward our valuation to Jun'26E and raise our TP to Rs 520 (from Rs 400), which is based on 36x P/E (33x earlier) in line with the 5Y average. Maintain BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	CROMPTON IN/Rs 451
Market cap	US\$ 3.4bn
Free float	100%
3M ADV	US\$ 23.9mn
52wk high/low	Rs 461/Rs 261
Promoter/FPI/DII	0%/40%/44%

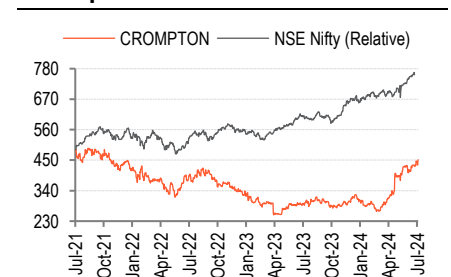
Source: NSE | Price as of 31 Jul 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	73,128	89,082	107,110
EBITDA (Rs mn)	7,137	10,050	12,103
Adj. net profit (Rs mn)	4,399	6,812	8,449
Adj. EPS (Rs)	6.9	10.7	13.3
Consensus EPS (Rs)	6.9	10.0	13.5
Adj. ROAE (%)	15.5	21.1	22.3
Adj. P/E (x)	65.3	42.2	34.0
EV/EBITDA (x)	39.6	27.9	23.5
Adj. EPS growth (%)	(5.0)	54.8	24.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

(Rs mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	BOB Est. Q1FY25E	Variance (%)
Revenue	21,377	18,769	13.9	19,610	9.0	21,420	0.2
Gross Profit	6,816	5,786	17.8	6,258	8.9	6,726	(1.3)
Gross Margin (%)	31.9	30.8	110bps	31.9	0bps	31.4	(1.5)
EBITDA	2,324	1,858	25.1	2,036	14.1	2,172	(6.5)
EBITDA Margin (%)	10.9	9.9	100bps	10.4	50bps	10.1	(6.7)
Depreciation	372	292		350			
Interest	155	206		156			
Other Income	238	198		160			
PBT	2,035	1,558	30.6	1,690	20.4		
Tax	511	338		356			
Adjusted PAT	1,524	1,220	24.8	1,334	14.2	1,387	(9.0)
Exceptional item	-	-		0			
Reported PAT	1,524	1,220	24.8	1,334	14.2		
Adj. PAT Margin (%)	7.1	6.5	60bps	6.8	30bps		
EPS (Rs)	2.4	1.9	24.7	2.1	14.0		

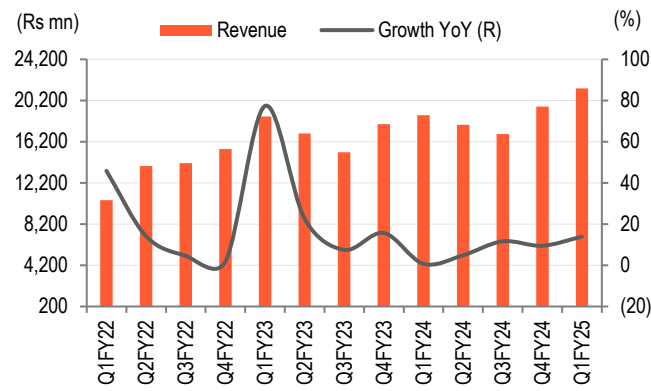
Source: Company, BOBCAPS Research

Fig 2 – Segmental performance

(Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
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	15,160	17,266
YoY growth (%)	48.3	17.7	6.1	3.2	52.3	(3.1)	(7.2)	7.7	6.1	16.5	18.5	14.3	20.8
Lighting Products	1,661	2,887	3,113	3,170	2,623	2,696	2,477	2,786	2,290	2,387	2,494	2,811	2,333
YoY growth (%)	34.4	2.6	(0.3)	(3.7)	57.9	(6.6)	(20.4)	(12.1)	(12.7)	(11.5)	0.7	0.9	1.9
Butterfly Gandhimathi					2,535	3,677	2,484	1,867	2,189	3,056	2,341	1,639	1,777
YoY growth (%)									(13.7)	(16.9)	(5.8)	(12.2)	(18.8)
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	2,533	2,587
Margin (%)	17.6	21.0	19.4	18.5	17.0	17.1	15.8	16.4	12.7	14.2	13.6	16.7	15.0
Lighting Products	177	329	324	448	232	215	255	303	273	250	280	251	209
Margin (%)	10.7	11.4	10.4	14.1	8.8	8.0	10.3	10.9	11.9	10.5	11.2	8.9	8.9
Butterfly Gandhimathi					219	403	181	37	160	202	(19)	(261)	41
Margin (%)					8.6	11.0	7.3	2.0	7.3	6.6	(0.8)	(15.9)	2.3

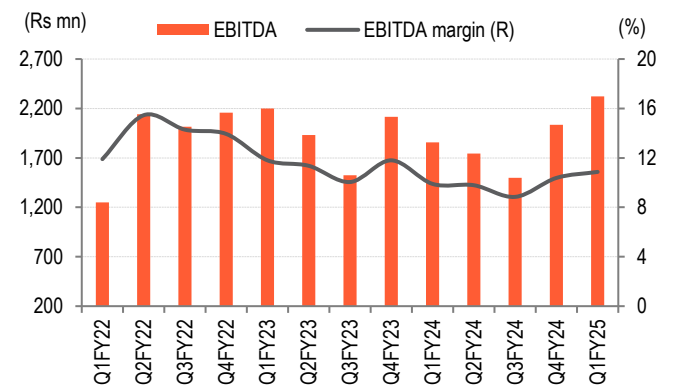
Source: Company, BOBCAPS Research

Fig 3 – Revenue growth



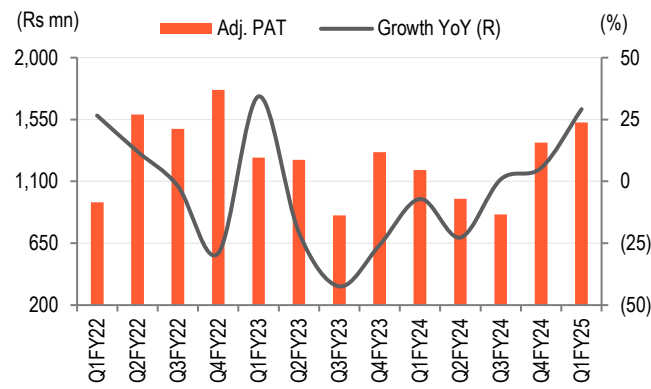
Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth



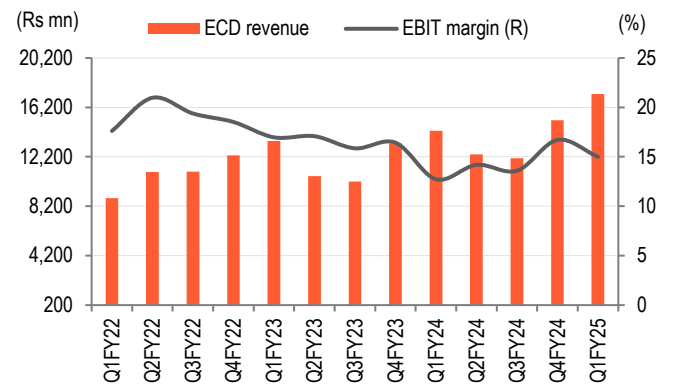
Source: Company, BOBCAPS Research

Fig 5 – Profit growth



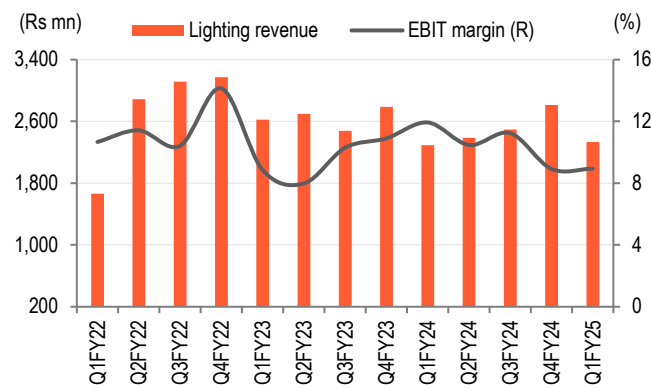
Source: Company, BOBCAPS Research

Fig 6 – ECD business performance



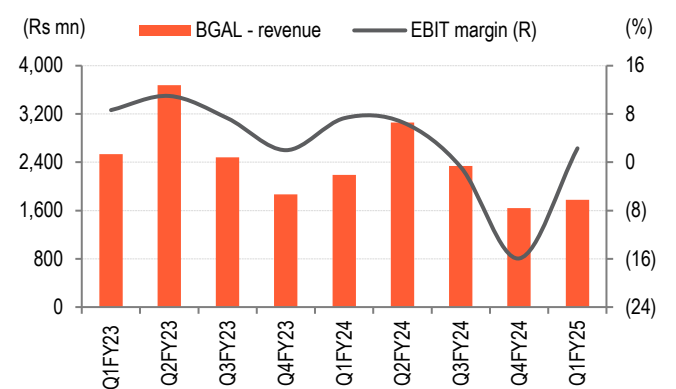
Source: Company, BOBCAPS Research

Fig 7 – Lighting business performance



Source: Company, BOBCAPS Research

Fig 8 – BGAL's performance



Source: Company, BOBCAPS Research

Earnings call highlights

Electrical Consumer Durables

- **Segment performance:** The ECD segment reported topline growth of ~21% with EBIT margin expansion of 230bps to 15% during Q1FY25.
- **Broad-based growth across portfolio drives strong performance:** Across the portfolio, growth has been strong and widespread. Fans experienced a 16% YoY increase in revenue, pumps 30% YoY, and appliances 24%YoY. Seasonal products, particularly cooling items such as fans and air coolers, showed robust growth across all categories. Within the fans segment, there was broad-based growth in volume, including a notable increase in the table-pedestal-wall (TPW) category and ceiling fans. This strong performance was supported by favourable demand conditions from the summer season.
- **Strategic pricing actions enhance gross margin and drive growth in pumps:** The company implemented consistent pricing strategies to counteract the rise in commodity prices, particularly evident in the early part of Q1. This approach successfully improved gross margins for residential and agricultural pumps. As a result, the pumps category experienced robust 30% YoY overall revenue growth, as previously noted. The solar pumps segment, which the company recently began to focus on, continues to gain traction and show results.
- **Strong performance and pipeline growth drive record air cooler sales:** During Q1, the company executed orders worth about Rs 210mn and has been actively building a robust pipeline for future orders in this segment. Execution improved QoQ, rising from about Rs 280mn in the second half of FY24 to Rs 210mn in Q1FY25 alone. Several brand awareness initiatives were launched for new products in the pumps category. The increased intensity of the summer season significantly boosted air cooler sales, resulting in the highest sales figures ever recorded for this category. Volume growth for air coolers surged by 68% in Q1, contributing to an overall revenue increase of ~25% in the large domestic appliances segment.
- **Appliances:** The premium segment of large domestic appliances improved, reaching a saliency of 25.6%. To support this premiumisation, three new high-end water heater models were introduced. Despite some supply chain issues affecting air coolers and fans, the small domestic appliances segment still achieved 20% YoY growth, driven by the strong performance of mixer grinders. Jun marked the highest-ever sales for mixer grinders, bolstered by exclusive product launches on e-commerce platforms.
- **Large kitchen appliances:** The large kitchen appliances segment, still in its incubation phase, generated revenue of about Rs 140mn. The business continues to incur EBITDA-level losses, consistent with the previous quarter. Notably, there has been progress in the segment, with 100 exclusive brand outlets now showcasing the large kitchen appliances products. Efforts are ongoing to further develop this segment.
- **E-commerce:** The chimney portfolio has also been launched on e-commerce platforms. The company recognises significant long-term potential in this business.

Lighting

- Lighting revenue flat with positive signs from restructuring:** Lighting revenue remained relatively flat, showing only 2% YoY growth. This stability reflects the positive effects of restructuring undertaken about a year ago. While the overall B2C lighting category saw a decline – partly due to the discontinuation of conventional products and ongoing price erosion – there was marginal growth when excluding these discontinued categories. The segment is witnessing notable double-digit growth in battens and ceiling lights, highlighting successful efforts in portfolio diversification and premiumisation.
- B2B lighting segment thrives with robust growth and project success:** The B2B lighting segment continues to show robust growth, led by street lighting and industrial projects. Several large B2B projects were secured and executed in the last quarter. The company remains focused on expanding its channels and appointing direct dealers to enhance its market presence further.
- Increased investments in lighting and e-commerce drive future growth:** A year ago, CROMPTON allocated minimal funds to lighting advertisements and promotions (A&P), but this year's investment has reached about Rs 60mn. Although this has not yet translated to sales, it is expected to build future growth. The focus remains on expanding alternative channels, which grew 30% YoY and now account for 17% of CROMPTON's sales, up from 16% last year. E-commerce continues to perform strongly, generating over Rs 1bn in revenue for the fourth consecutive quarter, with an 82% YoY increase. Rural/modern retail channels also grew 16%/22%.

Butterfly Gandhimati Appliances Limited

- Segment performance:** BGAL's topline declined ~19% during Q1FY25, with EBIT profit of Rs 41mn in Q1. Major contributors to revenue included new product launches and continued premiumisation.
- Strategic initiatives enhanced Butterfly's business fundamentals:** In recent quarters, several initiatives were taken to strengthen Butterfly's business fundamentals. These include actions on pricing strategies, product laddering, streamlining processes (particularly in the online channel), optimising schemes and A&P spending. The company has been selective in promoting pullback promotions that do not create value, all while maintaining its market position.
- Peer comparison:** Sunflame's topline degrew 7% during Q1, with EBIT margin of 4.7%.
- Segment strategy:** The company's core categories continue to maintain market share. It continued to grow its regional chain stores. CROMPTON continues to improve on its channel partners with timely interactions in the non-South India markets.

Other highlights

- CROMPTON 2.0 investment strategy boosts brand spending and innovation:** CROMPTON 2.0 emphasises growth through significant investments, particularly in brand development. A&P expenditure surged by 30% YoY and 60% QoQ. The

successful Picture Perfect marketing campaign, that featured during the Indian Premier League, was well-received and highlights the superior aesthetics of CROMPTON fans.

- **Committed to innovation:** The company's commitment to innovation is evident with the launch of 41 new products in Q1. CROMPTON also secured two innovation patents for cooling technology and kitchen appliances in Q1. Despite rising raw material costs, standalone material margins improved to 31.3% from 29.4% a year ago.
- **Price hikes:** CROMPTON implemented a 1.5% price increase in Q1FY25 and plans to continue with additional hikes in the coming quarters.
- **CROMPTON reduces debt and maintains strong cash flow amid strategic priorities:** CROMPTON has repaid Rs 3bn of the debt incurred for the acquisition of Butterfly, leaving an outstanding of Rs 3bn. Despite this, the company continues to be net cash positive and generate strong cash flow. CROMPTON is committed to leveraging its robust cash flow to align with its capital allocation priorities, which include maintaining a strong dividend, reducing debt leverage, and investing in key operational areas.

Valuation methodology

CROMPTON continues to lead the market in fans and has effectively managed the ongoing price erosion in the lighting sector. The successful launch of solar pumps this year further strengthened the ECD business. Despite these positives, BGAL is currently facing industry-related and internal challenges. However, these issues are anticipated to resolve over the next two to three quarters, as BGAL's strategy to build brand equity progresses. We expect a turnaround in the segment in the coming quarters, which should positively impact overall performance.

Given these developments, we raise our EPS estimates for FY25 by 6% and FY26 by 9%. This adjustment reflects anticipated improvements in BGAL and margin expansion within the ECD segment, driven by ongoing efforts in premiumisation, growth through alternative channels, and strong e-commerce sales. With our valuation update extending to Jun'26, we raise TP to Rs 520 (from Rs 400), based on 36x P/E (previously 33x) and in line with the five-year average. We maintain a BUY rating and introduce forecasts for FY27.

Fig 9 – Revised estimates

(Rs mn)	Old			New			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	89,082	107,110	130,646	86,763	99,840	NA	2.7	7.3	NA
EBITDA	10,050	12,103	15,155	9,537	11,182	NA	5.4	8.2	NA
PAT	6,812	8,449	10,860	6,417	7,739	NA	6.2	9.2	NA
EPS (Rs)	10.7	13.3	17.1	10.1	12.2	NA	6.2	9.2	NA
EBITDA Margin (%)	11.3	11.3	11.6	11.0	11.2	NA	30bps	10bps	NA

Source: BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- continued weakness in Butterfly Gandhimathi vis-à-vis peers beyond FY25, and
- higher advertising expenses that eat away at margins.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	68,696	73,128	89,082	107,110	130,646
EBITDA	7,705	7,137	10,050	12,103	15,155
Depreciation	1,159	1,288	1,278	1,286	1,295
EBIT	6,546	5,849	8,772	10,817	13,860
Net interest inc./(exp.)	1,092	792	735	735	735
Other inc./(exp.)	668	674	809	890	979
Exceptional items	0	0	0	0	0
EBT	6,122	5,731	8,847	10,972	14,104
Income taxes	1,358	1,313	2,035	2,524	3,244
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	4,632	4,399	6,812	8,449	10,860
Adjustments	0	0	0	0	0
Adjusted net profit	4,632	4,399	6,812	8,449	10,860

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	10,354	13,145	16,012	19,253	23,483
Other current liabilities	3,496	4,174	5,084	6,113	7,457
Provisions	-	-	-	-	-
Debt funds	10,051	6,832	6,500	6,500	6,500
Other liabilities	1,567	2,177	2,652	3,189	3,889
Equity capital	1,272	1,286	1,286	1,286	1,286
Reserves & surplus	29,805	33,204	37,904	44,240	52,385
Shareholders' fund	31,077	34,490	39,190	45,526	53,671
Total liab. and equities	56,544	60,817	69,438	80,581	95,001
Cash and cash eq.	1,095	2,608	5,385	9,960	15,881
Accounts receivables	6,706	7,209	8,782	10,559	12,879
Inventories	7,439	8,304	10,116	12,163	14,836
Other current assets	7,344	8,927	10,875	13,075	15,948
Investments	-	-	-	-	-
Net fixed assets	32,710	32,439	32,661	32,875	33,080
CWIP	55	114	139	167	204
Intangible assets	0	0	0	0	0
Deferred tax assets, net	-	-	-	-	-
Other assets	1,197	1,216	1,481	1,781	2,172
Total assets	56,544	60,817	69,438	80,581	95,001

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	5,526	8,434	6,536	7,979	9,863
Capital expenditures	(708)	(805)	(1,500)	(1,500)	(1,500)
Change in investments	-	-	-	-	-
Other investing cash flows	3,340	(1,264)	185	209	273
Cash flow from investing	2,632	(2,069)	(1,315)	(1,291)	(1,227)
Equities issued/Others	416	893	0	0	0
Debt raised/repaid	9,250	(4,394)	(332)	0	0
Interest expenses	-	-	-	-	-
Dividends paid	-	-	-	-	-
Other financing cash flows	(18,771)	(1,912)	(2,112)	(2,112)	(2,715)
Cash flow from financing	(9,105)	(5,413)	(2,444)	(2,112)	(2,715)
Chg in cash & cash eq.	(948)	952	2,777	4,576	5,920
Closing cash & cash eq.	1,095	2,608	5,385	9,960	15,881

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	7.3	6.9	10.7	13.3	17.1
Adjusted EPS	7.3	6.9	10.7	13.3	17.1
Dividend per share	3.0	3.0	3.3	3.3	4.3
Book value per share	41.8	47.2	54.5	64.5	77.3

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	4.3	3.9	3.1	2.7	2.2
EV/EBITDA	37.9	39.6	27.9	23.5	19.0
Adjusted P/E	62.0	65.3	42.2	34.0	26.4
P/BV	10.8	9.6	8.3	7.0	5.8

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	75.7	76.8	77.0	77.0	77.0
Interest burden (PBT/EBIT)	93.5	98.0	100.8	101.4	101.8
EBIT margin (EBIT/Revenue)	9.5	8.0	9.8	10.1	10.6
Asset turnover (Rev./Avg TA)	2.1	2.2	2.7	3.3	4.0
Leverage (Avg TA/Avg Equity)	1.3	1.2	1.0	0.9	0.7
Adjusted ROAE	18.1	15.5	21.1	22.3	24.1

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	27.4	6.5	21.8	20.2	22.0
EBITDA	0.1	(7.4)	40.8	20.4	25.2
Adjusted EPS	(21.7)	(5.0)	54.8	24.0	28.5
Profitability & Return ratios (%)					
EBITDA margin	11.2	9.8	11.3	11.3	11.6
EBIT margin	9.5	8.0	9.8	10.1	10.6
Adjusted profit margin	6.7	6.0	7.6	7.9	8.3
Adjusted ROAE	18.1	15.5	21.1	22.3	24.1
ROCE	16.9	15.9	22.5	24.4	26.9
Working capital days (days)					
Receivables	36	36	36	36	36
Inventory	40	41	41	41	41
Payables	55	66	66	66	66
Ratios (x)					
Gross asset turnover	2.0	2.1	2.4	2.8	3.3
Current ratio	1.3	1.3	1.4	1.6	1.7
Net interest coverage ratio	6.0	7.4	11.9	14.7	18.9
Adjusted debt/equity	0.2	0.1	0.0	0.0	(0.1)

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

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SEBI Research Analyst Registration No: **INH000000040 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%

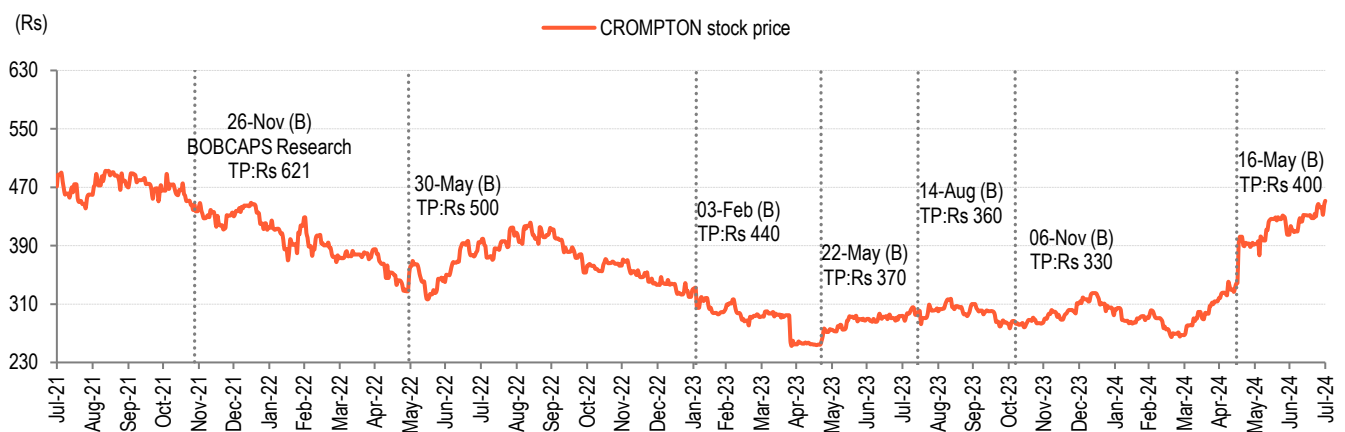
HOLD – Expected return from -6% to +15%

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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