

**BUY**

TP: Rs 440 | ▲ 32%

**CROMPTON GREAVES**

Consumer Durables

03 February 2023

## Weak lighting business dims performance

- Lighting (-20% YoY) saw tepid demand and volatile pricing in Q3 amid stiff competition; pumps fell 10%
- Strategy to push new star-rated fans over non-compliant inventory (unlike peers) hurt growth
- We cut FY23/FY24 EPS 23%/20% on delayed margin recovery and higher expenses post-acquisition; TP reduced to Rs 440 (vs. Rs 500)

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**Dull quarter:** Crompton's Q3FY23 results missed our estimates as lighting sales faltered. The company's topline grew 7.5% YoY to Rs 15.2bn, below our Rs 16.1bn projection due to subdued demand across verticals. The durables/lighting businesses fell 7%/20% YoY while BGAL was flat (+1%). In lighting, both the B2B and B2C verticals saw subdued demand and volatile pricing amid high competition.

**Gross margin expands but EBITDA margin falls:** Gross margin scaled to 32.5% (+80bps YoY, +40bps QoQ) on lower raw material cost (-11% QoQ). Higher employee (+43% YoY) and other (+39%) expenses post the BGAL acquisition continued to weigh on EBITDA margin, which contracted 420bps YoY and 130bps QoQ to 10%. Business-wise, the appliances division benefited from an improved product mix and lighting reported EBIT margin recovery on lower costs.

**Fan transition well on course:** Crompton looks well positioned for BEE rating transition in its largest business vertical of fans, with its entire portfolio aligned to newer energy-efficiency norms. Management also anticipates no impact on non-compliant inventory. In Q3FY23, the company adopted a different strategy than peers, prioritising sales of new star-rated fans over the clearing of non-compliant inventory. This resulted in low offtake with mid-segment fans being the hardest hit.

**BGAL flat:** Subsidiary BGAL grew 1% YoY in Q3 despite a low performance in its core segments (modest +13% YoY in 9MFY23). A better channel mix and cost reduction aided higher EBITDA (+40bps YoY) and material (+240bps) margins. Accelerated product portfolio expansion (25 launches) contributed 14% to Q3 topline.

**Maintain BUY:** We believe Crompton is well-placed for rating transition in fans due to its leadership position and thrust on premiumisation. BGAL is set to bring in synergistic benefits and expand Crompton's appliances business in southern states. We cut FY23/FY24 EPS by 23%/20% to digest the delayed margin recovery and higher expenses post BGAL's acquisition. Revised estimates and valuation rollover to Dec'24E lead to a reduced TP of Rs 440 (vs. Rs 500), set at an unchanged P/E multiple of 35x. Demand and margin revival remain the key growth triggers ahead – retain BUY.

## Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	CROMPTON IN/Rs 332
Market cap	US\$ 2.6bn
Free float	100%
3M ADV	US\$ 4.7mn
52wk high/low	Rs 431/Rs 312
Promoter/FPI/DII	0%/40%/45%

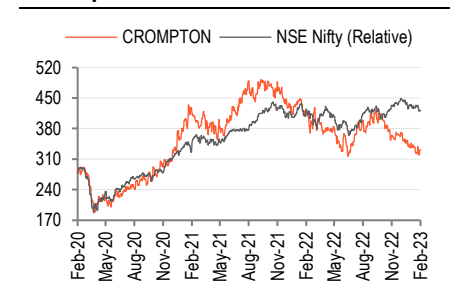
Source: NSE | Price as of 2 Feb 2023

## Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	53,941	68,050	78,350
EBITDA (Rs mn)	7,694	8,015	10,048
Adj. net profit (Rs mn)	5,914	5,011	6,903
Adj. EPS (Rs)	9.3	7.9	10.9
Consensus EPS (Rs)	9.3	10.3	12.5
Adj. ROAE (%)	27.0	18.9	22.1
Adj. P/E (x)	35.6	42.0	30.5
EV/EBITDA (x)	28.3	26.9	21.1
Adj. EPS growth (%)	(4.1)	(15.3)	37.8

Source: Company, Bloomberg, BOBCAPS Research

## Stock performance



Source: NSE



**Fig 1 – Quarterly performance**

Particulars (Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	9MFY23	9MFY22	YoY (%)
Revenue	15,162	14,106	7.5	16,995	(10.8)	50,787	38,462	32.0
EBITDA	1,524	2,015	(24.4)	1,931	(21.1)	5,654	5,407	4.6
EBITDA Margin (%)	10.1	14.3	(420bps)	11.4	(130bps)	11.1	14.1	(290bps)
Depreciation	297	102	-	283	-	855	278	-
Interest	294	67	-	299	-	818	248	-
Other Income	213	140	-	183	-	500	505	-
PBT	1,146	1,987	(42.3)	1,533	(25.2)	4,481	5,386	(16.8)
Tax	264	505	-	226	-	969	1,368	-
Adjusted PAT	853	1,483	(42.5)	1,258	(32.2)	3,384	4,018	(15.8)
Exceptional item	-	-	-	0	-	64	-	-
Reported PAT	853	1,483	(42.5)	1,258	(32.2)	3,321	4,018	(17.4)
Adj. PAT Margin (%)	5.6	10.5	(490bps)	7.4	(180bps)	6.7	10.4	(380bps)
EPS (Rs)	1.4	2.3	(40.5)	2.1	(32.5)	5.5	6.3	(12.6)

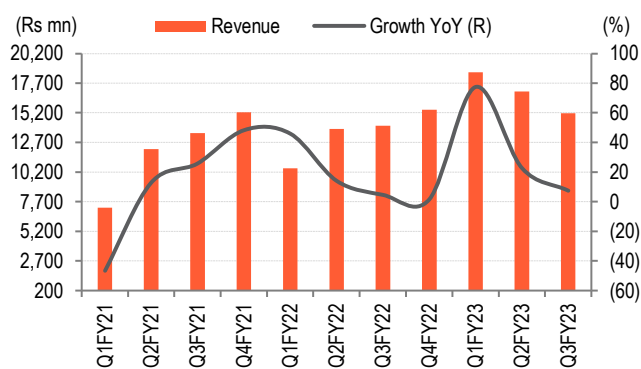
Source: Company, BOBCAPS Research

**Fig 2 – Actual vs. Estimates**

Particulars (Rs mn)	Actual	Estimates	Variance (%)
Revenue	15,162	16,089	(5.8)
EBITDA	1,524	2,333	(34.7)
EBITDA Margin (%)	10.1	14.5	(440bps)
Adj. PAT	853	1,486	(42.6)

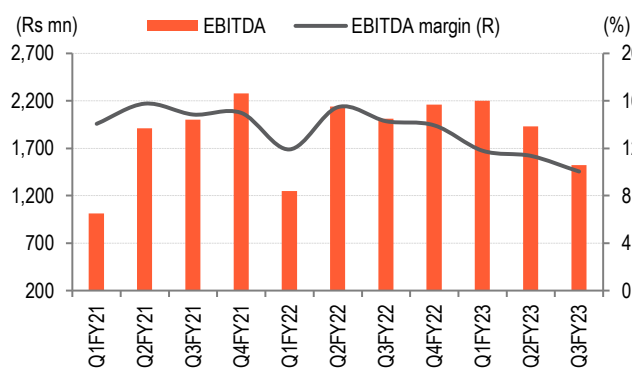
Source: Company, BOBCAPS Research

**Fig 3 – Revenue declined on weakness in lighting**



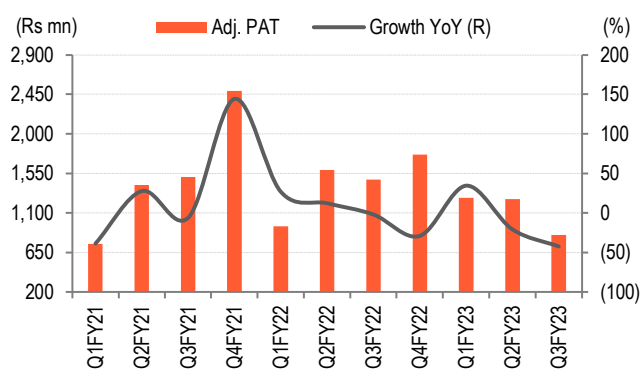
Source: Company, BOBCAPS Research

**Fig 4 – Margin recovery delayed**



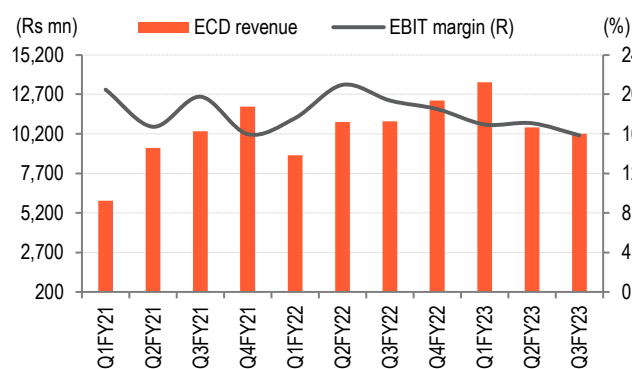
Source: Company, BOBCAPS Research

**Fig 5 – Profitability down 43% YoY**



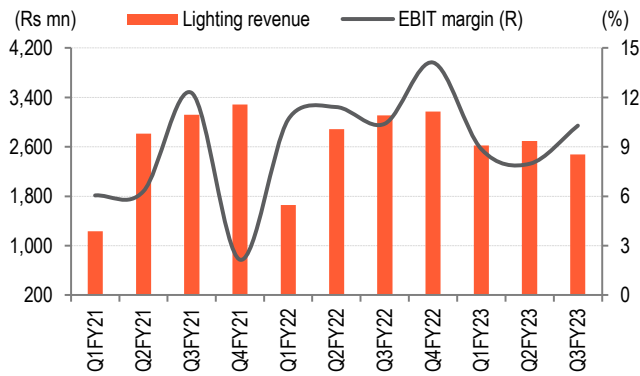
Source: Company, BOBCAPS Research

**Fig 6 – Lower offtake in fans hurt ECD revenue**



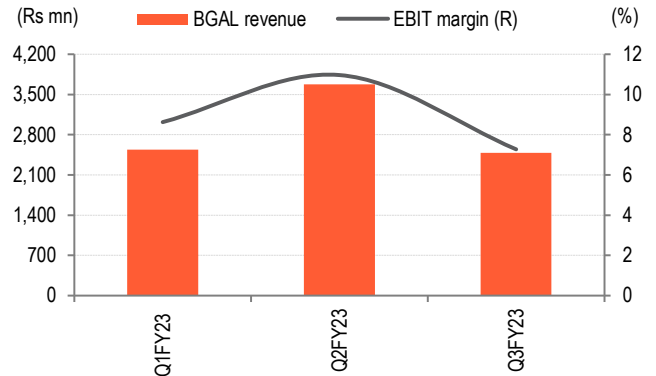
Source: Company, BOBCAPS Research

**Fig 7 – Lighting revenue declined while margin expanded**



Source: Company, BOBCAPS Research

**Fig 8 – BGAL remained resilient**



Source: Company, BOBCAPS Research | BGAL: Butterfly Gandhimathi Appliances

### Earnings call highlights

- **Electrical consumer durables (ECD):** After delivering consistent growth in the fans vertical, Crompton had a setback in Q3FY23 owing to a shift in strategy for Bureau of Energy Efficiency (BEE) rating transition. Unlike industry peers, the company did not offload non-compliant inventory to channel partners through heavy discounts, but instead introduced new star-rated fans in the market. This weighed on demand, especially in mid-segment fans, which together with continued weakness in pumps (-10% YoY) caused ECD revenue to contract 7% in Q3.

In the pumps business, where the company caters largely to residential requirements and commands ~27% market share, management indicated that it has now undertaken appropriate pricing adjustments to improve competitiveness and revamped its entire product to better meet client requirements and differentiate from peers.

- **Butterfly Gandhimathi Appliances (BGAL):** Despite a challenging demand environment, BGAL reported a resilient Q3 performance. Crompton is focused on filling the gaps in the portfolio with the launch of new products. The company introduced 25 products during the quarter, including new variants of cookers and sandwich makers, besides correcting the price disparity with open trade and online channels. People integration too is ramping up well, per management.
- **Lighting:** The business remained weak in both the B2B (slow government orders, especially in road lighting) and B2C (price volatility) segments. The company is focusing on maintaining margins in B2C and anticipates recovery in the coming quarters.

## Valuation methodology

We believe Crompton is well-placed for BEE rating transition in fans due to its leadership position in the market and thrust on premiumisation. Further, BGAL is set to bring in synergistic benefits and expand Crompton's kitchen appliances business in southern states.

We cut our FY23/FY24/FY25 EPS estimates by 23%/20%/19% to digest the slower-than-expected margin recovery and higher employee & other expenses post the BGAL acquisition. Revised estimates and valuation rollover to Dec'24E lead to a reduced TP of Rs 440 (vs. Rs 500) – set at an unchanged P/E multiple of 35x, a 15% premium to the three-year average on a two-year forward basis. Demand and margin revival remain the key growth triggers ahead – retain BUY.

**Fig 9 – Revised estimates**

(Rs mn)	New			Old			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY24E
Sales	68,050	78,350	90,224	75,785	87,274	100,513	(10.2)	(10.2)	(10.2)
EBITDA	8,015	10,048	12,001	9,853	12,341	14,555	(18.7)	(18.6)	(17.6)
PAT	5,011	6,903	8,414	6,531	8,649	10,358	(23.3)	(20.2)	(18.8)
EPS (Rs)	7.9	10.9	13.3	10.3	13.6	16.3	(23.3)	(20.2)	(18.8)
EBITDA Margin (%)	11.8	12.8	13.3	13.0	14.1	14.5	(120bps)	(130bps)	(120bps)

Source: Company, BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- chronic pain in lighting and pump business,
- lower market share in fans vertical following the BEE rating transition, and
- lower revenue run-rate at BGAL than anticipated.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	0.8	1,890	2,100	HOLD
Blue Star	BLSTR IN	1.6	1,330	1,450	BUY
Crompton Greaves	CROMPTON IN	2.6	332	440	BUY
Dixon Technologies	DIXON IN	2.0	2,766	4,100	BUY
Havells India	HAVL IN	9.1	1,199	1,500	BUY
KEI Industries	KEII IN	1.8	1,669	1,900	BUY
Orient Electric	ORIENTEL IN	0.7	272	290	HOLD
Polycab India	POLYCAB IN	5.5	3,002	3,300	BUY
Syrma SGS	SYRMA IN	0.5	254	390	BUY
V-Guard Industries	VGRD IN	1.3	249	250	HOLD
Voltas	VOLT IN	3.3	822	950	HOLD

Source: BOBCAPS Research, NSE | Price as of 2 Feb 2023

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Total revenue</b>	<b>48,035</b>	<b>53,941</b>	<b>68,050</b>	<b>78,350</b>	<b>90,224</b>
EBITDA	7,205	7,694	8,015	10,048	12,001
Depreciation	297	423	1,048	1,062	1,076
EBIT	6,908	7,272	6,968	8,986	10,925
Net interest inc./(exp.)	115	353	998	560	560
Other inc./(exp.)	443	727	727	799	879
Exceptional items	0	0	0	0	0
EBT	7,236	7,645	6,697	9,225	11,244
Income taxes	1,070	1,732	1,686	2,322	2,830
Extraordinary items	0	130	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>6,166</b>	<b>5,784</b>	<b>5,011</b>	<b>6,903</b>	<b>8,414</b>
Adjustments	0	130	0	0	0
<b>Adjusted net profit</b>	<b>6,166</b>	<b>5,914</b>	<b>5,011</b>	<b>6,903</b>	<b>8,414</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Accounts payables	8,647	10,178	12,840	14,783	17,024
Other current liabilities	5,010	3,948	4,980	5,734	6,603
Provisions	-	-	-	-	-
Debt funds	2,988	16,075	10,500	7,000	7,000
Other liabilities	214	1,931	2,436	2,805	3,230
Equity capital	1,255	1,267	1,267	1,267	1,267
Reserves & surplus	18,059	31,087	35,068	40,616	47,378
Shareholders' fund	19,314	32,354	36,335	41,883	48,645
<b>Total liab. and equities</b>	<b>36,173</b>	<b>64,486</b>	<b>67,092</b>	<b>72,206</b>	<b>82,502</b>
Cash and cash eq.	13,737	15,390	13,264	14,816	21,087
Accounts receivables	4,608	6,154	7,764	8,939	10,294
Inventories	5,186	7,210	9,096	10,473	12,060
Other current assets	2,264	2,246	2,833	3,262	3,756
Investments	-	-	-	-	-
Net fixed assets	9,150	32,735	33,187	33,625	34,049
CWIP	109	130	164	189	217
Intangible assets	0	0	0	0	0
Deferred tax assets, net	-	-	-	-	-
Other assets	1,119	621	783	902	1,038
<b>Total assets</b>	<b>36,173</b>	<b>64,486</b>	<b>67,092</b>	<b>72,206</b>	<b>82,502</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Cash flow from operations</b>	<b>8,878</b>	<b>7,234</b>	<b>5,670</b>	<b>7,681</b>	<b>9,163</b>
Capital expenditures	(202)	(1,706)	(1,500)	(1,500)	(1,500)
Change in investments	-	-	-	-	-
Other investing cash flows	(4,756)	(15,523)	309	225	260
<b>Cash flow from investing</b>	<b>(4,957)</b>	<b>(17,229)</b>	<b>(1,191)</b>	<b>(1,275)</b>	<b>(1,240)</b>
Equities issued/Others	73	603	0	0	0
Debt raised/repaid	0	14,069	(5,575)	(3,500)	0
Interest expenses	-	-	-	-	-
Dividends paid	-	-	-	-	-
Other financing cash flows	(1,034)	(5,599)	(1,030)	(1,355)	(1,652)
<b>Cash flow from financing</b>	<b>(962)</b>	<b>9,073</b>	<b>(6,605)</b>	<b>(4,855)</b>	<b>(1,652)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>2,959</b>	<b>(922)</b>	<b>(2,126)</b>	<b>1,552</b>	<b>6,271</b>
<b>Closing cash &amp; cash eq.</b>	<b>13,737</b>	<b>15,390</b>	<b>13,264</b>	<b>14,816</b>	<b>21,087</b>

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
Reported EPS	9.7	9.1	7.9	10.9	13.3
Adjusted EPS	9.7	9.3	7.9	10.9	13.3
Dividend per share	0.0	1.5	1.6	2.1	2.6
Book value per share	30.5	38.7	45.0	53.7	64.4

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
EV/Sales	4.5	4.0	3.2	2.7	2.4
EV/EBITDA	29.7	28.3	26.9	21.1	18.0
Adjusted P/E	34.2	35.6	42.0	30.5	25.0
P/BV	10.9	8.6	7.4	6.2	5.2

### DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Tax burden (Net profit/PBT)	85.2	77.4	74.8	74.8	74.8
Interest burden (PBT/EBIT)	104.7	105.1	96.1	102.7	102.9
EBIT margin (EBIT/Revenue)	14.4	13.5	10.2	11.5	12.1
Asset turnover (Rev./Avg TA)	5.3	2.6	2.1	2.3	2.7
Leverage (Avg TA/Avg Equity)	0.5	1.0	1.2	1.1	0.9
Adjusted ROAE	36.3	27.0	18.9	22.1	22.5

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
<b>YoY growth (%)</b>					
Revenue	6.3	12.3	26.2	15.1	15.2
EBITDA	20.3	6.8	4.2	25.4	19.4
Adjusted EPS	24.2	(4.1)	(15.3)	37.8	21.9
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	15.0	14.3	11.8	12.8	13.3
EBIT margin	14.4	13.5	10.2	11.5	12.1
Adjusted profit margin	12.8	11.0	7.4	8.8	9.3
Adjusted ROAE	36.3	27.0	18.9	22.1	22.5
ROCE	35.6	23.1	17.5	22.4	24.6
<b>Working capital days (days)</b>					
Receivables	35	42	42	42	42
Inventory	39	49	49	49	49
Payables	66	69	69	69	69
<b>Ratios (x)</b>					
Gross asset turnover	4.9	2.5	2.0	2.2	2.4
Current ratio	1.9	1.0	1.2	1.4	1.6
Net interest coverage ratio	59.9	20.6	7.0	16.0	19.5
Adjusted debt/equity	(0.3)	0.0	0.0	(0.1)	(0.2)

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

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**BUY** – Expected return >+15%

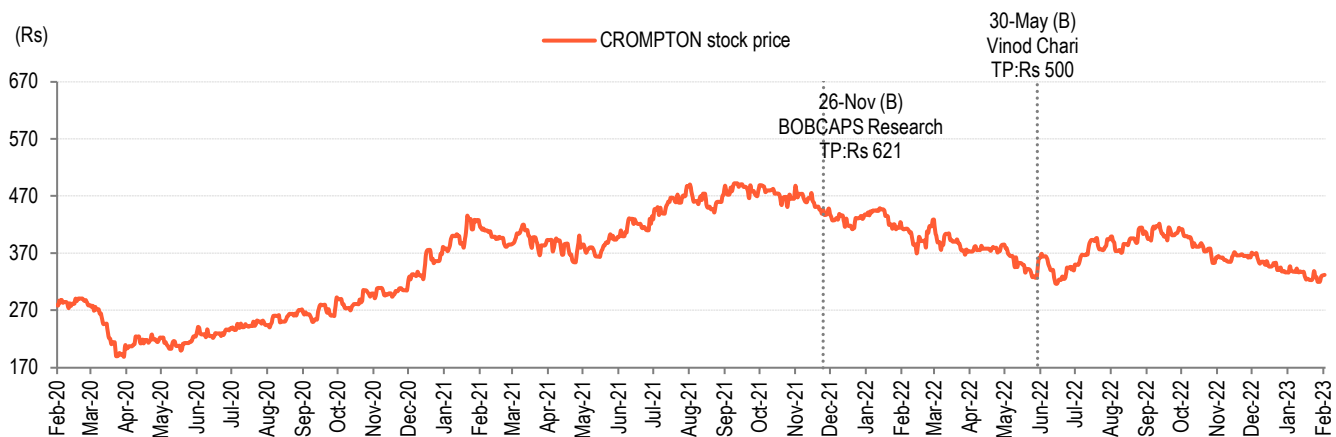
**HOLD** – Expected return from -6% to +15%

**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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