

BUY

TP: Rs 400 | ▲ 18%

CROMPTON GREAVES

Consumer Durables

16 May 2024

Healthy quarter, growth ahead

- Q4 standalone topline growth ex-BGAL at 12% YoY in Q4, gross margin expanded 130bps and EBITDA margin 30bps ex-BGAL
- ECD and lighting business showed healthy growth with EBIT margin expansion in both; BGAL’s channel strategy in progress
- We raise our FY25E/FY26E EPS by ~4%/5% and value the stock at 33x Mar’26E P/E (30x earlier); maintain BUY with TP of Rs 400

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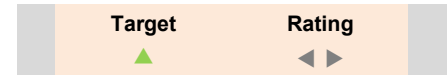
Healthy quarter: Crompton reported consolidated topline growth of 9.5% YoY to Rs 19.6bn, with gross margin expanding 40bps to 31.9%, though EBITDA margin contracted by 140bps to 10.4%, largely due to BGAL’s poor performance. On a standalone basis (ex-BGAL), the company’s gross margin expanded 130bps YoY to 32%, while EBITDA margin expanded 30bps to 12.5%. The EBITDA included Extended Producer Responsibility (EPR) costs of Rs 142mn during the quarter. Adjusted PAT was reported at Rs 1.3bn. During FY24, the company’s standalone revenues grew 10% YoY to Rs 63.9bn, with flattish gross margin of 30.9% and 80bps EBITDA margin contraction to 10.8%. Promotional expenditure amounted to 3.4% of standalone revenues, compared to 2.5% in FY23.

ECD and lighting decent: The ECD segment reported topline growth of 14.3% in Q4, with EBIT margin expansion of 80bps YoY (ex-EPR impact) to 17.2%. Lighting delivered healthy volume growth in B2C lighting, with EBIT margin expansion of 30bps YoY (ex-EPR impact).

Management strategies playing out: Cost savings initiatives, premiumisation, and growth through alternate channels are starting to show benefits. Alternate channels grew 37% YoY, led by 75% growth through the e-commerce channel. E-commerce contributed to sales in excess of Rs 1bn during Q4, driven by fans and appliances. Exports contributed over Rs 1bn in FY24. The company had a net cash balance of Rs 2.4bn at the end of FY24 compared to net debt of Rs 1.9bn in FY23. The company plans to incur a capex of ~Rs 1bn in FY25.

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 as well as internal issues, which we expect will subside over the next 2-3 quarters. We raise FY26E EPS by ~4%/5%, on a likely turnaround in BGAL and margin expansion in the ECD segment as a result of ongoing efforts in premiumisation, sales from alternate channels, and e-commerce sales. Rolling forward valuations to Mar’26E, we arrive at a higher TP of Rs 400 (previously Rs 330), based on 33x P/E (30x earlier) – a 5% discount to the 5Y mean.

Key changes



Ticker/Price	CROMPTON IN/Rs 339
Market cap	US\$ 2.6bn
Free float	100%
3M ADV	US\$ 15.3mn
52wk high/low	Rs 345/Rs 252
Promoter/FPI/DII	0%/40%/44%

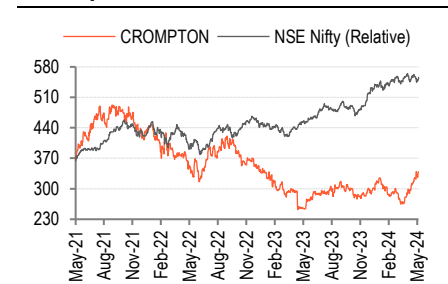
Source: NSE | Price as of 16 May 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	73,128	86,763	99,840
EBITDA (Rs mn)	7,137	9,537	11,182
Adj. net profit (Rs mn)	4,399	6,417	7,739
Adj. EPS (Rs)	6.9	10.1	12.2
Consensus EPS (Rs)	6.9	8.9	11.0
Adj. ROAE (%)	15.5	19.9	20.7
Adj. P/E (x)	49.0	33.6	27.9
EV/EBITDA (x)	29.5	21.9	19.0
Adj. EPS growth (%)	(5.0)	45.9	20.6

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

Stock performance



Source: NSE



Fig 1 – Quarterly performance

Particulars (Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Revenue	19,610	17,910	9.5	16,927	15.9	73,128	68,696	6.5
Gross Profit	6,258	5,650	10.8	5,499	13.8	23,125	21,893	5.6
Gross Margin (%)	31.9	31.5	40bps	32.5	(60bps)	31.6	31.9	60bps
EBITDA	2,036	2,114	(3.7)	1,498	35.9	7,137	7,705	(7.4)
EBITDA Margin (%)	10.4	11.8	(140bps)	8.8	150bps	9.8	11.2	(150bps)
Depreciation	350	304		325		1,288	1,159	
Interest	156	274		215		792	1,092	
Other Income	160	168		167		674	668	
PBT	1,690	1,704	(0.8)	1,125	50.3	5,731	6,122	(6.4)
Tax	356	389		270		1,313	1,358	
Adjusted PAT	1,334	1,316	1.4	855	56.1	4,418	4,764	(7.3)
Exceptional item	-	-		0		-	-	
Reported PAT	1,334	1,316	1.4	855	56.1	4,399	4,632	(5.0)
Adj. PAT Margin (%)	6.8	7.3	(50bps)	5.0	180bps	6.0	6.9	(90bps)
EPS (Rs)	1.3	2.1	(35.0)	1.3	0.0	6.9	7.3	(5.0)

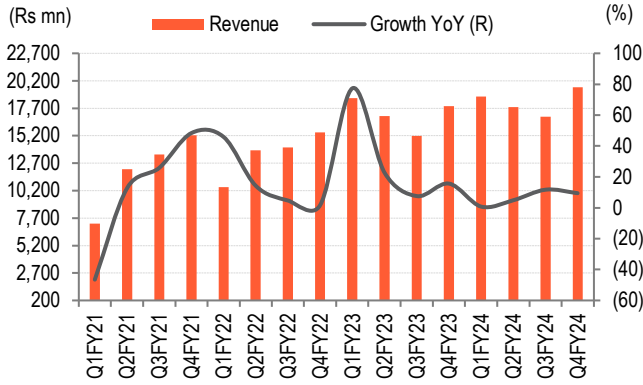
Source: Company, BOBCAPS Research

Fig 2 – Segment-wise performance

Particulars (Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
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
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
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
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
Butterfly Gandhimathi					2,535	3,677	2,484	1,867	2,189	3,056	2,341	1,639
YoY growth (%)									(13.7)	(16.9)	(5.8)	(12.2)
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
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
Lighting Products	177	329	324	448	232	215	255	303	273	250	280	251
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
Butterfly Gandhimathi					219	403	181	37	160	202	-19	-261
Margin (%)					8.6	11.0	7.3	2.0	7.3	6.6	(0.8)	(15.9)

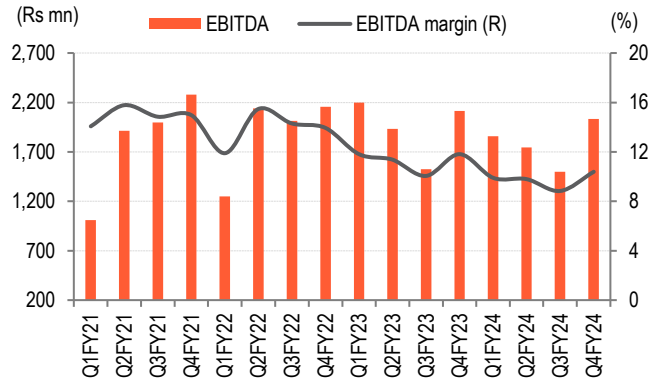
Source: Company, BOBCAPS Research

Fig 3 – Revenue growth



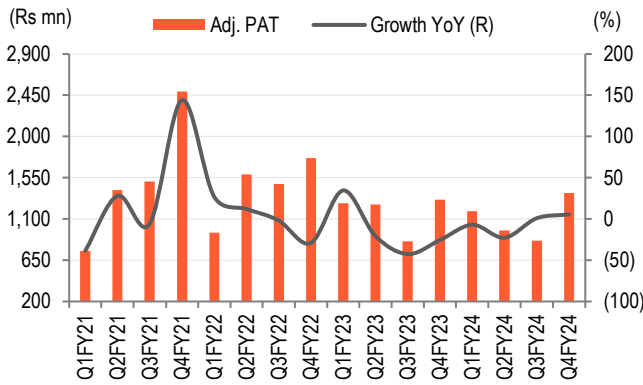
Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth



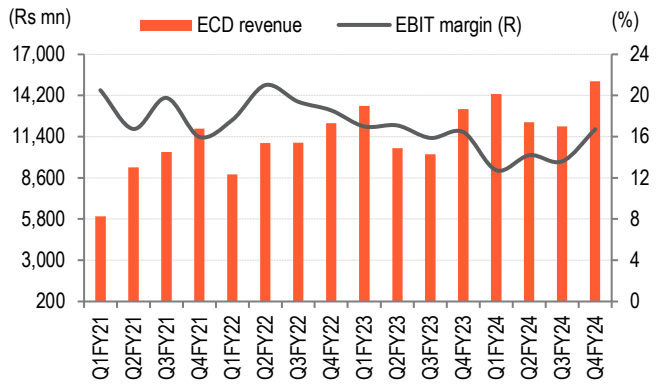
Source: Company, BOBCAPS Research

Fig 5 – Profit growth



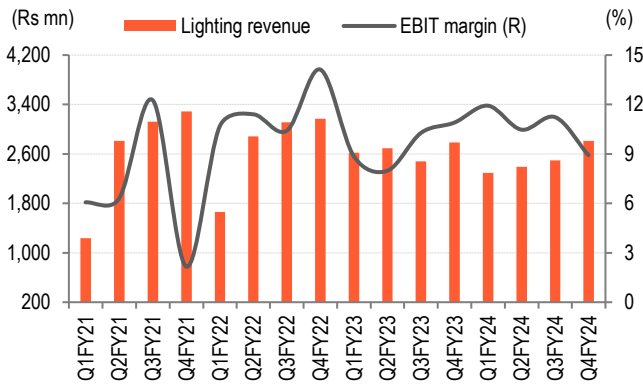
Source: Company, BOBCAPS Research

Fig 6 – ECD business performance



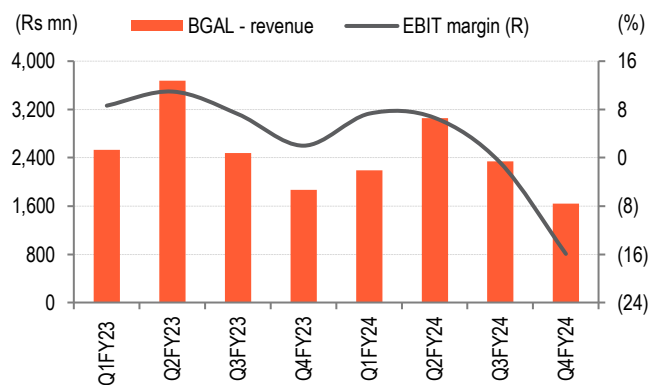
Source: Company, BOBCAPS Research

Fig 7 – Lighting business performance



Source: Company, BOBCAPS Research

Fig 8 – BGAL performance



Source: Company, BOBCAPS Research

Earnings call highlights

Electrical Consumer Durables (ECD)

- **Segment performance:** The ECD segment reported topline growth of 14.3% with EBIT margin expansion of 80bps to 17.2% during Q4, after adjusting for the EPR impact. Alternate channels grew 31% YoY during Q4, largely led by e-commerce.
- **Fans:** Fans grew 13% YoY during the quarter and 11% in FY24. The company sold over 200mn fans in FY24, closing the year with double-digit volume growth. The saliency of premium fans improved 300bps YoY to 24.3% (indicative of the market share). During FY24, growth in fans was largely driven by volume growth, with premium categories of ceiling fans and table pedestal wall fans (TPW) growing over 20%. The company undertook three price increases across categories in H2FY24. Gross margin in fans increased from 23% in Q1 to 25% in Q4.
- **Pumps:** Pumps grew 9% YoY during the quarter and 10% during FY24, largely led by agricultural and solar pumps. Crompton executed many solar pump orders during the year, and closed FY24 with a total empanelment of Rs 1.22bn, of which it executed orders worth Rs 280mn. During FY24, revenue in agricultural and residential borewell pump grew on the back of filling product portfolio gaps along with channel expansion. The company gained 100bps worth of market share in the agricultural pumps category.
- **Appliances:** Appliances grew 27% YoY during the quarter. The company grew 35% YoY in small domestic appliances (SDA) during Q4 and 39% during FY24, selling over 1mn grinder units during the year. Air coolers grew 33% YoY during Q4. FY24 growth stood at 22% YoY, with Crompton being the #1 Geyser player in e-commerce channels. Large kitchen appliances (LDA) registered an annual revenue of Rs 610mn, with EBITDA loss of Rs 250mn.

Lighting products

- **Segment performance:** The lighting segment had a flattish topline despite strong price erosion across the industry, and EBIT margin expansion of 30bps YoY to 11.2%, after adjusting for the EPR impact of Rs 62mn. The saliency of premium lighting products grew 380bps YoY to 18%.
- **B2C segment:** The company witnessed healthy volume growth in the B2C lighting categories of ceiling lights, battens, and accessories.
- **B2B segment:** The B2B segment witnessed strong growth during the quarter, largely led by streetlight and industrial segments. Crompton secured orders from many public and private companies like NHAI, TCS, JSW, and Megha Engineering & Infrastructure Ltd. The B2B segment grew 4% during FY24 along with improved profitability.

Butterfly Gandhimathi Appliances Limited (BGAL)

- **Segment performance:** BGAL's topline declined 12.2% during Q4FY24, with continued EBIT losses of Rs 261mn and EBITDA losses of Rs 200mn in Q4. Major contributors to the revenue included new product launches and continued premiumisation. EBIT was negative due to higher marketing activities, impact of

EPR liability to the tune of Rs 12mn, re-organisation of sourcing of bottle and flasks, and one-time settlements with channel partners. Promotional expenses amounted to Rs 240mn (Rs 100mn in Q4FY23), growth of 138% YoY. The segment had one-time costs aggregating to Rs 150mn during the quarter.

- **Peer comparison:** Sunflame grew 28% on topline during Q4, with EBIT margin of 9.4%.
- **Segment strategy:** The core categories of the company continue to maintain market share, the company continued to grow its regional chain stores. Crompton continues to improve on its channel partners in the non-South India markets.

Valuation methodology

Crompton is a market leader in fans, and has tackled the ongoing price erosion in the lighting industry well. The company's launch of solar pumps during the year also boded well for its ECD business. However, BGAL is facing industry-related as well as internal impediments, which we expect will subside over the next 2-3 quarters. BGAL's strategy of gaining brand equity is in progress, and we expect the segment to turn around over the next few quarters.

We raise FY25E/FY26E EPS by 3.8%/4.9%, on a likely turnaround in BGAL as well as margin expansion in the ECD segment as a result of ongoing efforts into premiumisation, sales from alternate channels, and e-commerce sales. Rolling forward valuations to Mar'26E, we arrive at a revised TP of Rs 400 (previously Rs 330), based on 33x P/E (30x earlier) – a 5% discount to the 5Y mean. We maintain BUY.

Fig 9 – Revised estimates

Particulars (Rs mn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	86,763	99,840	86,690	99,832	0.1	0.0
EBITDA	9,537	11,182	9,325	10,832	2.3	3.2
PAT	6,417	7,739	6,179	7,379	3.8	4.9
EPS (Rs)	10.1	12.2	9.7	11.6	3.8	4.9
EBITDA Margin (%)	11.0	11.2	10.8	10.9	20bps	30bps

Source: Company, 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.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	1.6	3,804	3,200	SELL
Crompton Greaves	CROMPTON IN	2.6	339	400	BUY
Dixon Technologies	DIXON IN	6.0	8,260	9,400	BUY
Havells India	HAVL IN	13.6	1,778	1,780	HOLD
Orient Electric	ORIENTEL IN	0.6	215	230	HOLD
Polycab India	POLYCAB IN	11.8	6,470	7,100	BUY
Syrma SGS	SYRMA IN	0.9	398	420	HOLD
Voltas	VOLT IN	5.3	1,321	1,260	HOLD

Source: BOBCAPS Research, NSE | Price as of 16 May 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Total revenue	53,941	68,696	73,128	86,763	99,840
EBITDA	7,695	7,705	7,137	9,537	11,182
Depreciation	423	1,159	1,288	1,278	1,286
EBIT	7,272	6,546	5,849	8,259	9,896
Net interest inc./(exp.)	353	1,092	792	735	735
Other inc./(exp.)	727	668	674	809	890
Exceptional items	0	0	0	0	0
EBT	7,645	6,122	5,731	8,333	10,051
Income taxes	1,732	1,358	1,313	1,917	2,312
Extraordinary items	130	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	5,784	4,632	4,399	6,417	7,739
Adjustments	130	0	0	0	0
Adjusted net profit	5,914	4,632	4,399	6,417	7,739

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Accounts payables	10,178	10,354	13,145	15,595	17,946
Other current liabilities	3,948	3,496	4,174	4,952	5,698
Provisions	-	-	-	-	-
Debt funds	16,075	10,051	6,832	6,500	6,500
Other liabilities	1,931	1,567	2,177	2,583	2,972
Equity capital	1,267	1,272	1,286	1,286	1,286
Reserves & surplus	31,087	29,805	33,204	37,631	43,435
Shareholders' fund	32,354	31,077	34,490	38,917	44,721
Total liab. and equities	64,486	56,544	60,817	68,547	77,838
Cash and cash eq.	15,390	1,095	2,608	5,311	9,779
Accounts receivables	6,154	6,706	7,209	8,553	9,842
Inventories	7,210	7,439	8,304	9,853	11,338
Other current assets	2,246	7,344	8,927	10,591	12,188
Investments	-	-	-	-	-
Net fixed assets	32,735	32,710	32,439	32,661	32,875
CWIP	130	55	114	135	156
Intangible assets	0	0	0	0	0
Deferred tax assets, net	-	-	-	-	-
Other assets	621	1,197	1,216	1,443	1,660
Total assets	64,486	56,544	60,817	68,547	77,838

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Cash flow from operations	7,234	5,526	8,434	6,366	7,752
Capital expenditures	(1,706)	(708)	(805)	(1,500)	(1,500)
Change in investments	-	-	-	-	-
Other investing cash flows	(15,523)	3,340	(1,264)	158	151
Cash flow from investing	(17,229)	2,632	(2,069)	(1,342)	(1,349)
Equities issued/Others	603	416	893	0	0
Debt raised/repaid	14,069	9,250	(4,394)	(332)	0
Interest expenses	-	-	-	-	-
Dividends paid	-	-	-	-	-
Other financing cash flows	(5,599)	(18,771)	(1,912)	(1,989)	(1,935)
Cash flow from financing	9,073	(9,105)	(5,413)	(2,321)	(1,935)
Chg in cash & cash eq.	(922)	(948)	952	2,703	4,469
Closing cash & cash eq.	15,390	1,095	2,608	5,311	9,779

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24P	FY25E	FY26E
Reported EPS	9.1	7.3	6.9	10.1	12.2
Adjusted EPS	9.3	7.3	6.9	10.1	12.2
Dividend per share	2.5	3.0	3.0	3.1	3.0
Book value per share	38.7	41.8	47.2	54.1	63.2

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24P	FY25E	FY26E
EV/Sales	4.1	3.2	2.9	2.4	2.1
EV/EBITDA	29.0	28.6	29.5	21.9	19.0
Adjusted P/E	36.3	46.6	49.0	33.6	27.9
P/BV	8.8	8.1	7.2	6.3	5.4

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24P	FY25E	FY26E
Tax burden (Net profit/PBT)	77.4	75.7	76.8	77.0	77.0
Interest burden (PBT/EBIT)	105.1	93.5	98.0	100.9	101.6
EBIT margin (EBIT/Revenue)	13.5	9.5	8.0	9.5	9.9
Asset turnover (Rev./Avg TA)	2.6	2.1	2.2	2.7	3.0
Leverage (Avg TA/Avg Equity)	1.0	1.3	1.2	1.0	0.9
Adjusted ROAE	27.0	18.1	15.5	19.9	20.7

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
YoY growth (%)					
Revenue	12.3	27.4	6.5	18.6	15.1
EBITDA	6.8	0.1	(7.4)	33.6	17.3
Adjusted EPS	(4.1)	(21.7)	(5.0)	45.9	20.6
Profitability & Return ratios (%)					
EBITDA margin	14.3	11.2	9.8	11.0	11.2
EBIT margin	13.5	9.5	8.0	9.5	9.9
Adjusted profit margin	11.0	6.7	6.0	7.4	7.8
Adjusted ROAE	27.0	18.1	15.5	19.9	20.7
ROCE	23.1	16.9	15.9	21.2	22.6
Working capital days (days)					
Receivables	42	36	36	36	36
Inventory	49	40	41	41	41
Payables	69	55	66	66	66
Ratios (x)					
Gross asset turnover	2.5	2.0	2.1	2.4	2.6
Current ratio	1.0	1.3	1.3	1.4	1.6
Net interest coverage ratio	20.6	6.0	7.4	11.2	13.5
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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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

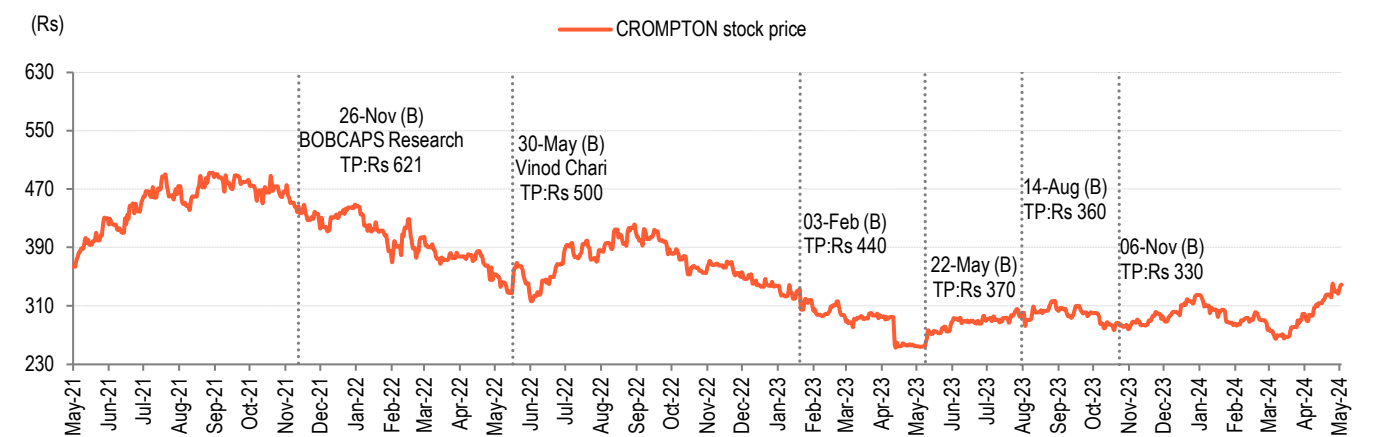
HOLD – Expected return from -6% to +15%

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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