

RESEARCH
CROMPTON GREAVES | TARGET: Rs 360 | +17% | BUY

Analyst meet: A full revamp

SUMMARY
CROMPTON GREAVES

- Lighting division moving to a new corporate structure, eyeing commercial orders, and pruning prices to spur volumes
- Butterfly merger to close soon; entry into other new product categories also on the cards
- Remains a better play in the ECD space; maintain BUY with TP unchanged at Rs 360

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Daily macro indicators

Indicator	21-Aug	22-Aug	Chg (%)
US 10Y yield (%)	4.34	4.32	(1bps)
India 10Y yield (%)	7.22	7.22	0bps
USD/INR	83.11	82.93	0.2
Brent Crude (US\$/bbl)	84.5	84.0	(0.5)
Dow	34,464	34,289	(0.5)
Hang Seng	17,623	17,791	1.0
Sensex	65,216	65,220	0.0
India FII (US\$ mn)	18-Aug	21-Aug	Chg (\$ mn)
FII-D	166.9	268.0	101.1
FII-E	69.2	(153.7)	(222.9)

Source: Bank of Baroda Economics Research



BUY
 TP: Rs 360 | ▲ 17%

CROMPTON GREAVES

Consumer Durables

23 August 2023

Analyst meet: A full revamp

- **Lighting division moving to a new corporate structure, eyeing commercial orders, and pruning prices to spur volumes**
- **Butterfly merger to close soon; entry into other new product categories also on the cards**
- **Remains a better play in the ECD space; maintain BUY with TP unchanged at Rs 360**

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Revamp of lighting business: Crompton’s lighting division has underperformed peers in recent quarters due to price erosion as well as servicing of government orders. The company is now taking steps to revamp the segment by (a) setting up a separate corporate structure within the company to sharpen focus on the business, (b) eyeing commercial orders over government orders, (c) taking price cuts to pass on the benefit of new on-board diagnostics (OBD) technology, and (d) pushing sales of its 9W bulbs and 20W battens, the two largest products in its lighting portfolio.

BGAL integration in final lap: Crompton owns 75% of Butterfly Gandhimathi (BGAL) and expects the merger process to be completed by end-FY24. Derisking initiatives are ongoing and management stated that business integration is on track.

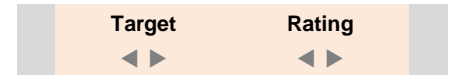
BLDC fans adding value: The company introduced brushless direct current (BLDC) fans ~15 months ago, long before the new energy rating norms were announced. The rating change has helped promote the segment, and it is on track to becoming a ~Rs 3bn category for Crompton.

New products planned: Management is evaluating entry into a variety of product categories via the organic route. The company expects to roll out one new product category in the next 18 months and two more over the next 3-5 years.

Cost management to the fore: Cost takeout via the ‘Unnati’ project continues. In FY23, the company achieved the highest savings under this programme at Rs 2.5bn, a 4Y CAGR of 14.6% from Rs 1.4bn in FY19. Management has identified more areas of cost optimisation, such as logistics.

Maintain BUY: Crompton is in the midst of transition, comprising the revamp of its lighting portfolio, BGAL business integration, planned product forays, and an ongoing premiumisation drive. Though profitability in the electrical consumer durables (ECD) business remains muted, we expect the company’s premiumisation strategy and market leadership in fans to bolster its topline and profitability. We maintain BUY with an unchanged TP of Rs 360, based on 30x Jun’25E EPS.

Key changes



Ticker/Price	CROMPTON IN/Rs 309
Market cap	US\$ 2.4bn
Free float	100%
3M ADV	US\$ 10.5mn
52wk high/low	Rs 429/Rs 251
Promoter/FPI/DII	0%/40%/44%

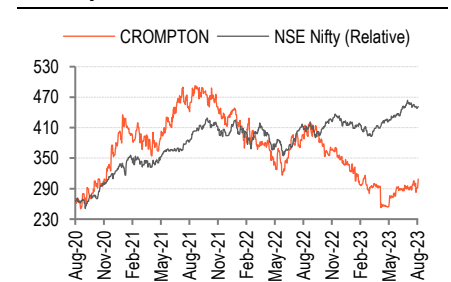
Source: NSE | Price as of 23 Aug 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	68,696	79,054	91,036
EBITDA (Rs mn)	7,705	8,996	10,803
Adj. net profit (Rs mn)	4,632	5,834	7,292
Adj. EPS (Rs)	7.3	9.2	11.5
Consensus EPS (Rs)	7.3	9.0	11.1
Adj. ROAE (%)	18.1	20.2	21.3
Adj. P/E (x)	42.4	33.7	26.9
EV/EBITDA (x)	26.2	21.3	17.5
Adj. EPS growth (%)	(21.7)	25.9	25.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



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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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