FIRST LIGHT

28 March 2024

RESEARCH

CROMPTON GREAVES | TARGET: Rs 330 | +22% | BUY

Crompton 2.0 on track

JAI BALAJI INDUSTRIES | NOT RATED

Management meet takeaways: Jai Balaji's new avatar

Daily macro indicators

Indicator	25-Mar	26-Mar	Chg (%)
US 10Y yield (%)	4.25	4.23	(1bps)
India 10Y yield (%)	7.09	7.09	0bps
USD/INR	83.43	83.29	0.2
Brent Crude (US$/bbl)	86.8	86.3	(0.6)
Dow	39,314	39,282	(0.1)
Hang Seng	16,474	16,618	0.9
Sensex	72,832	72,470	(0.5)
India FII (US$ mn)	**21-Mar**	**22-Mar**	**Chg ($ mn)**
FII-D	113.2	(425.3)	(538.5)
FII-E	(159.6)	(464.5)	(304.8)

Source: Bank of Baroda Economics Research

SUMMARY

CROMPTON GREAVES

- ECD segment expected to do well on the back of a strong summer and fans premiumisation; solar pumps a big opportunity
- Lighting profits remain strong despite topline erosion; BGAL to bleed in the short term as brand is repositioned and reach widened
- Crompton remains a strong play in the ECD space with long-term growth strategy intact; maintain BUY with a TP of Rs 330

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JAI BALAJI INDUSTRIES

- JBIL turned around operations improving plant utilisation and efficiency, and restored its balance sheet by restructuring debt
- Targets growing DI pipe capacity by 175% and ferro alloy by 46% through brownfield expansions at a capex outlay of Rs10bn
- To grow EBITDA from Rs 7bn (TTM Dec'23) to Rs 18bn-20bn with stabilised operations following brownfield expansion

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BUY
TP: Rs 330 | ⮝ 22%

CROMPTON GREAVES | Consumer Durables | 27 March 2024

Crompton 2.0 on track

- **ECD segment expected to do well on the back of a strong summer and fans premiumisation; solar pumps a big opportunity**
- **Lighting profits remain strong despite topline erosion; BGAL to bleed in the short term as brand is repositioned and reach widened**
- **Crompton remains a strong play in the ECD space with long-term growth strategy intact; maintain BUY with a TP of Rs 330**

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Crompton 2.0 shaping up well: Crompton 2.0 was introduced in Jun'23 as an initiative to improve premiumisation and focus on absolute profits over profit margins. So far, progress seems to be on track, with a ~25% market share in premium fans segment, lighting profits improving, and strong saliency in pumps.

Robust summer to spur fans growth: Fans forms a large part of the Electric Consumer Durables (ECD) segment, along with pumps and appliances. Market share in the fans industry increased from 23% a few years ago to ~27% in the current market. Management expects wage inflation implementation, along with a strong summer, to increase disposable incomes of households and demand in ECD.

Solar pumps a big opportunity: Under the PM KUSUM scheme, Crompton has won four orders totalling Rs 750mn to date, and has executed three. As more states come up with tenders for solar pumps under the scheme, management expects this segment to provide a robust opportunity going forward.

Lighting topline may be affected, bottomline safe: As is visible industrywide, the B2C lighting industry has undergone strong price erosion over the last two years, ~30% in FY23 and ~15-18% in FY24. However, profitability has not been impacted significantly with EBIT margin for Crompton expanding YoY in the last few quarters. Crompton is in the process of outsourcing the manufacture of its lighting segment and is repurposing its existing plants in Baddi and Baroda to augment its fans manufacturing capacity.

BGAL may be a dampener now, to be accretive in the long term: Crompton is repositioning the Butterfly brand and expects losses in the business to continue for two quarters in line with the long-term growth strategy. The brand has had a strong presence in South India, and Crompton aims to improve its presence in the North and West markets as synergies between the two companies materialise.

Maintain BUY: We continue to value the stock at 30x P/E on Dec'25E, a 15% discount to the 5Y mean, with an unchanged target price of Rs 330.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	CROMPTON IN/Rs 271
Market cap	US$ 2.1bn
Free float	100%
3M ADV	US$ 10.1mn
52wk high/low	Rs 328/Rs 251
Promoter/FPI/DII	0%/40%/44%

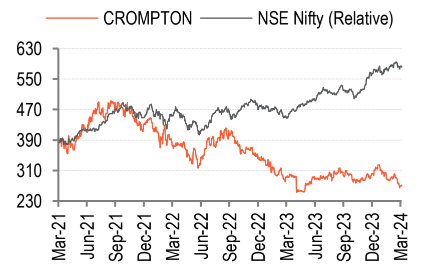
Source: NSE | Price as of 26 Mar 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	68,696	74,722	86,690
EBITDA (Rs mn)	7,705	7,684	9,325
Adj. net profit (Rs mn)	4,632	4,729	6,179
Adj. EPS (Rs)	7.3	7.4	9.7
Consensus EPS (Rs)	7.3	8.0	10.0
Adj. ROAE (%)	18.1	16.6	18.8
Adj. P/E (x)	37.2	36.5	27.9
EV/EBITDA (x)	23.0	21.8	17.7
Adj. EPS growth (%)	(21.7)	2.1	30.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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JAI BALAJI INDUSTRIES | Metals & Mining | 27 March 2024

Management meet takeaways: Jai Balaji's new avatar

- **JBIL turned around operations improving plant utilisation and efficiency, and restored its balance sheet by restructuring debt**
- **Targets growing DI pipe capacity by 175% and ferro alloy by 46% through brownfield expansions at a capex outlay of Rs10bn**
- **To grow EBITDA from Rs 7bn (TTM Dec'23) to Rs 18bn-20bn with stabilised operations following brownfield expansion**

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JBIL's new innings: JBIL (Not Rated) has turned around with a ~30% CAGR in turnover and 97% CAGR in EBITDA between FY21 and 9MFY24. It restructured debt and lowered net debt to EBITDA to 0.6 as of FY24E (management guidance).

Focus on high-margin products: After the stabilisation of its expansion, JBIL aims to grow revenue to Rs 100bn (from Rs 63bn TTM). The company plans to grow revenue of ductile iron (DI) pipe and ferro alloys to 80% (from 55% now) by growing DI pipes to 45-50% (from 30%) and ferro alloys to 35% (from 20-25%). JBIL aims to grow EBITDA to Rs 18bn-20bn (from Rs 7bn TTM) upon completing its expansion.

Gaining presence in DI pipe market: With 18% CAGR in sales over the past three years, JBIL has improved utilisation to ~80%. Further, with expansion to 660ktpa by FY26, the company aims to improve its market share from ~10% now to 18-20%.

India's largest specialised ferro alloy manufacturer: With 30% sales CAGR over the past three years, JBIL's plant utilisation improved to 83% in Q3FY24. Focusing on specialised ferro alloys for the export market (55-60% of sales realising Rs 260k/t currently), blended realisation rose to Rs 172k/t in 9MFY24 from Rs 74k/t in FY21.

Integrated operations lower production costs: JBIL benefits from lower iron ore cost due to its beneficiation plant and captive railway sliding. It has lowered coke cost with the captive production of prime and nut coke and the use of PCI coal in the blast furnace. Also, lowered power cost by utilising waste-heat for captive power.

Key monitorables: (a) Timely completion and stabilisation of expansion plan, (b) rebuild working capital to at least Rs 5bn-7bn for better flexibility of operations.

Scope for improved disclosures: JBIL needs to disclose segmental costs and profitability of all three segments due to significant differences in profit drivers.

Current valuation: JBIL trades at a TTM EV/EBITDA of 20.7x and TTM P/E of 27.3x. Based on management guidance of Rs 18bn-20bn EBITDA after expansion, implied forward EV/ EBITDA works out to 7.6x-8.4x.

Ticker/Price	JBIL IN/Rs 904
Market cap	US$ 1.8bn
Free float	35%
3M ADV	US$ 2.2mn
52wk high/low	Rs 1,314/Rs 42
Promoter/FPI/DII	65%/3%/0%

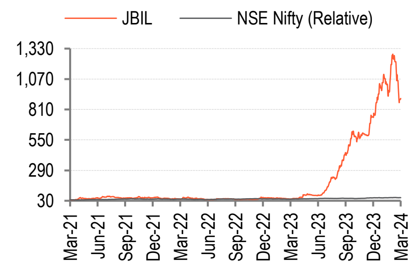
Source: NSE | Price as of 26 Mar 2024

Key financials

Y/E 31 Mar	FY21A	FY22A	FY23A
Total revenue (Rs mn)	27,852	46,925	61,251
EBITDA (Rs mn)	954	2,083	2,562
Adj. net profit (Rs mn)	(758)	481	578
Adj. EPS (Rs)	(6.9)	4.4	4.5
Adj. ROAE (%)	4.5	(2.8)	(10.5)
Adj. P/E (x)	(131.8)	207.9	201.4
EV/EBITDA (x)	192.2	87.5	70.5
Adj. EPS growth (%)	(38.0)	(163.4)	3.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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Note: Recommendation structure changed with effect from 21 June 2021

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