

August 14, 2023

RESULT REPORT Q1 FY24 | Sector: Consumer Durables

Crompton Greaves CE Ltd

Increased investments dents margin; maintain NEUTRAL

Result Synopsis

Crompton has reported inline revenue with ECD growing at 6.1%, while lighting and Butterfly products registering decline of 13% and 14% respectively. ECD growth was on back of strong growth in Appliances which grew by 19% yoy, while its core category of Fans grew by 5%. Lighting segment was impacted by low consumer demand. Gross margins at 30.8% have been lower as increased cost on shifting to BEE ratings in Fans have not been passed on, while operating margins were lower as company continues to invest in its long-term strategic initiatives like R&D innovation center, increased A&P spends and investing in alternate channels. On Butterfly front company has managed to improve its gross margins, while higher brand investments in Butterfly have impacted its operating margins. CROMPTON has devised strategy 2.0 where its aiming at accelerated growth at healthy margins to deliver shareholders return. Its strategy includes 1) Protecting and growing the core business; 2) Growing strongly in kitchen space; 3) transform the lighting business and 4) Foray into new segments. We remain Neutral on the stock as implementation of Strategy 2.0 will require higher brand investments which will result in lower margins in near to medium term.

We now feel recent initiatives taken by CROMPTON will require sustained efforts and investments. Considering increased investments, we have trimmed our margin estimates for FY24 and FY25. We now bake in FY22-24E Revenue/EBITDA/PAT CAGR of 12%/15%/21% and arrive at our PT of Rs 327 valuing the company at 30x FY25EPS and maintain Neutral rating.

Result Highlights

- Quarter Summary** – CROMPTON saw flattish revenue with ECD growing by 6%, while Lighting and Butterfly products registered decline of 12% and 13% respectively. Subdued demand environment and erratic weather conditions have impacted demand.
- Margins** – Gross margins was lower as higher BEE cost in fans has not been passed on, there was price correction in pumps to win back share. Higher A&P spends resulted in lower EBITDA margin
- Fans** – Fans exhibited growth of 5% yoy aided by strong growth momentum in premium fans which grew by 22%. Contribution of premium fans has now reached 28%. BLDC fans has seen growth of more than 80% on low base. Crompton has 70+SKU's of BLDC fans highest in the industry.
- Lighting** – Lighting revenue declined by ~13% on lower consumer demand. Company has started to take actions on restructuring of its portfolio with focus on strengthening its dealer network and driving premiumization.

Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	18,769	18,328	18,760	+2.4	+0.4	Higher brand investments and lower gross margin has led to EBITDA margin contraction.
EBITDA	1,858	2,245	2,190	-17.3	-15.1	
EBITDA Margin (%)	9.9	12.2	11.7	-230 bps	-180 bps	
Adjusted PAT	1,220	1,375	1,310	-11.2	-6.8	

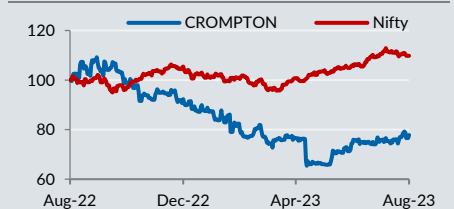
Source: Company, YES Sec

Reco	: NEUTRAL
CMP	: Rs 300
Target Price	: Rs 327
Potential Return	: +9.1%

Stock data (as on August 14, 2023)

Nifty	19,435
52 Week h/l (Rs)	429 / 251
Market cap (Rs/USD mn)	189057 / 2274
Outstanding Shares (mn)	640
6m Avg t/o (Rs mn):	713
Div yield (%)	1.0
Bloomberg code:	CROMPTON IN
NSE code:	CROMPTON

Stock performance



	1M	3M	1Y
Absolute return	2.7%	17.8%	-22.2%

Shareholding pattern (As of Jun'23 end)

Promoter	0.0%
FII+DII	84.0%
Others	16.0%

Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	NEUTRAL
Target Price	327	302

Δ in earnings estimates

	FY24e	FY25e
EPS (New)	8.3	10.9
EPS (Old)	9.4	11.2
% change	-11.7%	-2.7%

Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Revenue	68,696	77,632	86,064
YoY Growth	27.4%	13.0%	10.9%
EBIDTA	7,705	8,384	10,242
YoY Growth	13.1	8.8	22.2
PAT	4,764	5,287	6,942
YoY Growth	6.9%	6.8%	8.1%
ROE	15.0	16.2	19.1
EPS	7.5	8.3	10.9
P/E	40.1	36.1	27.5
BV	48.9	53.8	60.4
EV/EBITDA	25.9	23.4	18.7

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Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs mn)	Q1FY23	Q2FY22	Q3FY23	Q4FY23	Q1FY24	y/y %	q/q %	FY23	FY22	y/y %
Sales	18,629	16,995	15,162	17,910	18,769	0.7	18.1	68,696	53,941	27.4
EBITDA	2199	1931	1524	2114	1858	(15.5)	38.7	7,769	7,694	1.0
EBITDA Margin %	11.8	11.4	10.1	11.8	9.9			11.3	14.3	
Depreciation	275.6	282.8	296.8	304.0	291.8	5.9	2.4	1,159	423	174.2
EBIT	1924	1648	1227	1810	1566	(18.6)	47.5	6,609	7,272	(9.1)
EBIT Margin %	10.3	9.7	8.1	10.1	8.3			9.6	13.5	
Interest charges	225	299	294	274	206	(8.6)	(6.9)	1,092	353	209.2
Other Income	104	183	213	168	198	90.2	(21.3)	668	727	(8.1)
PBT	1739	1533	1146	1704	1558	(10.4)	48.7	6185	7645	(19.1)
Tax	479	226	264	389	338	(29.5)	47.3	1,358	1,732	(21.6)
Effective Tax Rate (%)	27.6	14.7	23.0	22.8	21.7			21.9	93	
PAT	1260	1307	882	1316	1220	(3.1)	49.2	4828	5913	(18.4)
PAT Margin %	6.8	7.7	5.8	7.3	6.5			7.0	11.0	
EPS (Rs)	2.0	2.1	1.4	2.1	1.9	(3.1)	49.2	8	9	(17.6)

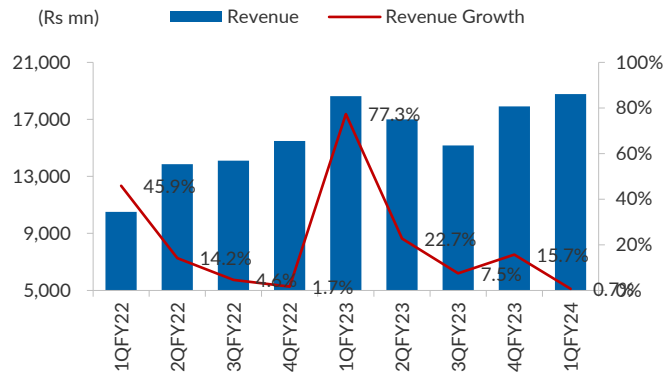
Source: Company, YES Sec

Exhibit 3: Segmental Performance

Rs mn	Q1FY23	Q2FY22	Q3FY23	Q4FY23	Q1FY24	y/y %	q/q %	FY23	FY22	y/y %
Electrical consumer durables	13,472	10,622	10,201	13,257	14,290	6.1	7.8	47,553	43,110	10.3
Lighting products	2,623	2,696	2,477	2,786	2,290	(12.7)	(17.8)	10,581	10,831	(2.3)
Butterfly Products	2,535	3,677	2,484	1,867	2,189	(13.7)	17.3	10,562	0	
Total Sales	18,629	16,995	15,162	17,910	18,769	0.7	4.8	68,696	53,941	27.4
PBIT										
Electrical consumer durables	2285	1814	1617	2177	1816	(20.5)	(16.6)	7,893	8,267	(4.5)
Lighting products	232	215	255	303	273	17.6	(10.1)	1,005	1,278	(21.4)
Butterfly Products	219	403	181	37	160	(27.0)	327.9	840	0	
Total PBIT	2,736	2,432	2,052	2,518	2,249	(17.8)	(10.7)	9,738	9,545	2.0
Finance Costs										
Finance Costs	225	299	294	274	206	(8.6)	(24.9)	1,092	353	209.2
Unallocable expense	708	601	612	540	485	(31.5)	(10.1)	2,461	1,547	59.1
as % of sales	3.8	3.5	4.0	3.0	2.6			3.6	2.9	
Exceptional Items	64	0	0	0	0			64	130	
PBT	1739	1533	1146	1704	1558	(10.4)	(8.6)	6,122	7,515	(18.5)

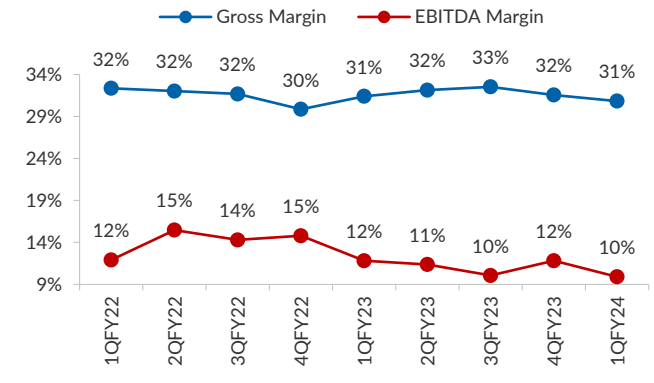
Source: Company, YES Sec

Exhibit 4: Muted growth in ECD and de-growth in lighting and Butterfly products has resulted in flat revenue



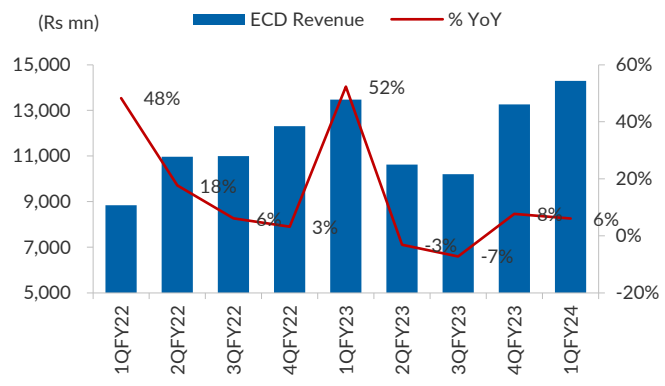
Source: Company, YES Sec

Exhibit 5: EBITDA margins are lower on increased investments in A&P and lower gross margin



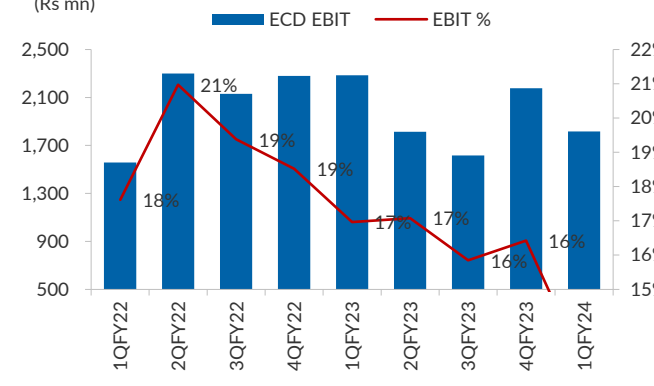
Source: Company, YES Sec

Exhibit 6: Higher growth in premium fans has resulted in ECD growing by 5%



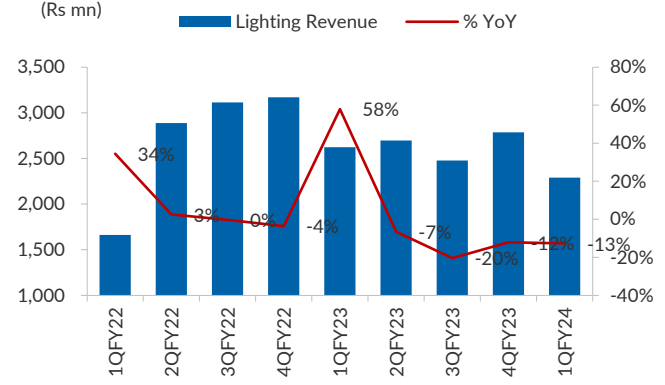
Source: Company, YES Sec

Exhibit 7: EBIT margins were lower on back on increased investments



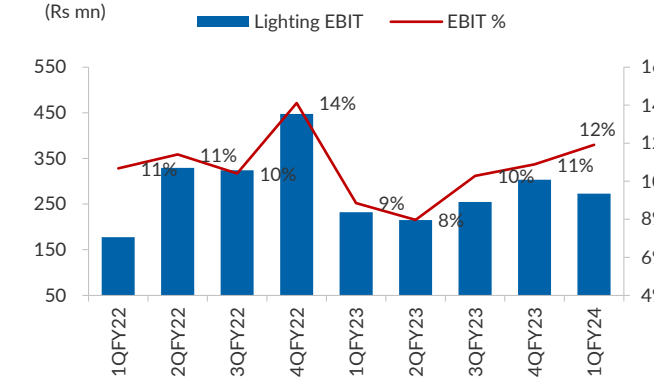
Source: Company, YES Sec

Exhibit 8: Lighting revenue de-growth is on back of negative consumer sentiments



Source: Company, YES Sec

Exhibit 9: Increased efficiency has resulted in margin improvement



Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- **Crompton 2.0** – Company is looking at accelerated growth at healthy margins to deliver shareholders return. It includes Strengthening core category of Fans with increase in share of Premium fans and expand into new categories which includes large kitchen appliances. Product innovation will continue with focus on range expansion across the price points
- **BLDC Fans** – The company highest range of BLDC fans portfolio, with more than 70+ SKU's in BLDC available across the price range. The company's share of premium fans has increased to 28% with 22% growth in premium fans.
- **Kitchen portfolio** – Company is looking at differentiated portfolio in kitchen with inputs from consumer survey. The company has come out with features that has enhanced features with first in the industry.
- **Butterfly merger** – The process of merger of Butterfly into Crompton is under way which will result in improved operating synergies
- **Fans** - Fans exhibited growth of 5% YoY aided by strong growth momentum in ceiling premium Fans at (22% YoY) and TPW Fans. BLDC fans grew by 80% on low base. Growth in TPW was driven by East market, E-commerce and through channel expansion & new product launches. Primary and secondary growth was similar.
- **Pumps** – Pumps segment was flat there was growth in agricultural pumps which grew by 7%, while residential pumps remained flat. volumes in Residential segment grew marginally, the overall growth was impacted by unseasonal rains.
- **Appliances** – There has been strong growth across the category driven by kitchen appliances and air-coolers. Core categories like Water Heaters and Air coolers combined grew by 11% YoY, Mixer Grinder grew by >50% YoY. The company has started to do well in storage water heaters. Appliances have seen growth of 19%.
- **Built in Kitchen Appliances** - Q1 revenue stood at Rs110mn led by Chimney & Hobs. Built in kitchen appliances is expected to grow 10% which has market size of Rs50-60bn. Crompton's currently operates through signature stores in 10 cities and is looking to expand in more than 10 cities with addition of alternate channels
- **ECD Margins** – ECD margins at 12.7% were lower on account of increased A&P spends. There was loss of Rs70mn in Built-in-kitchen appliances.
- **Lighting** – Lighting has seen de-growth of 13%. The company is focusing on Strengthening dealer network with range addition – e.g. expanding and driving placement of outdoor range, Driving premiumisation – e.g. extending the 'Trio' property across categories.
- **Butterfly** – There has been growth in B2C channels, however decline in alternate channels has resulted in overall decline in the revenue. There has been channel rebalancing between Retail and E-commerce completed; non-core channel de-risking underway. Share of business from new products at 14% of total Q1 Sales
- **Margins** - Gross margin, Butterfly and lighting gross margin has expanded. In Fans BEE ratings costs are yet to build in the costs. In Pumps competitive intensity has resulted in lower gross margin. EBIT margin were lower as there have been higher brand spends which is expected to continue.
- **Price hikes** – There is case of price increase given the higher costs of BEE ratings have not been passed on.
- **New product entry** – The company entry into the new products in 2-3 white spaces is under various stage of consideration.

FINANCIALS

Exhibit 10: Balance Sheet

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity capital	1,255	1,267	1,272	1,272	1,272
Reserves	18,059	31,087	29,805	32,974	37,135
Net worth	19,314	32,354	31,077	34,246	38,407
Debt	4,788	16,075	9,222	5,222	2,222
Deferred tax liab (net)	0	394	123	123	123
Other non current liabilities	214	1,618	2,004	2,159	2,312
Total liabilities	24,317	50,441	42,425	41,750	43,064
Fixed Asset	9,259	32,154	32,005	31,728	31,406
Investments	7,697	6,242	5,482	5,482	5,482
Other Non-current Assets	848	1,676	1,798	1,696	1,586
Net Working Capital	3,889	8,653	2,372	2,573	2,825
Inventories	5,186	7,210	7,439	8,252	9,149
Sundry debtors	4,912	6,154	6,861	8,598	9,531
Loans and Advances	2,024	1,660	1,668	1,885	2,089
Sundry creditors	8,647	10,097	10,354	12,570	13,935
Other current liabilities	1,162	2,125	2,081	2,212	2,423
Cash & equivalents	2,624	1,716	768	271	1,764
Total Assets	24,317	50,441	42,425	41,749	43,064

Source: Company, YES Sec

Exhibit 11: Income statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	48,035	53,941	68,696	77,632	86,064
Operating profit	7,205	7,695	7,705	8,384	10,242
Depreciation	297	423	1,159	1,204	1,248
Interest expense	429	353	1,092	783	333
Other income	758	727	668	668	617
Profit before tax	7,236	7,645	6,121	7,065	9,277
Taxes	1,070	1,732	1,358	1,778	2,335
Minorities and other	-	-	-	-	-
Adj. profit	6,167	5,914	4,764	5,287	6,942
Exceptional items	-	130	-	-	-
Net profit	6,167	5,784	4,764	5,287	6,942

Source: Company, YES Sec

Exhibit 12: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Profit before tax	7,665	7,998	7,213	7,848	9,610
Depreciation	297	423	1,159	1,204	1,248
Tax paid	(1,070)	(1,732)	(1,358)	(1,778)	(2,335)
Working capital Δ	(3,556)	(3,309)	7,041	(201)	(252)
Other operating items					
Operating cashflow	3,336	3,381	14,056	7,073	8,272
Capital expenditure	(267)	(23,318)	(1,011)	(927)	(927)
Free cash flow	3,070	(19,938)	13,046	6,146	7,345
Equity raised	346	8,840	(4,133)	-	-
Investments	-	-	-	-	-
Debt financing/disposal	1,291	11,287	(6,853)	(4,000)	(3,000)
Interest paid	(429)	(353)	(1,092)	(783)	(333)
Dividends paid	(1,882)	(1,584)	(1,908)	(2,118)	(2,781)
Net Δ in cash	2,384	(908)	(948)	(497)	1,493

Source: Company, YES Sec

Exhibit 13: Du-pont analysis

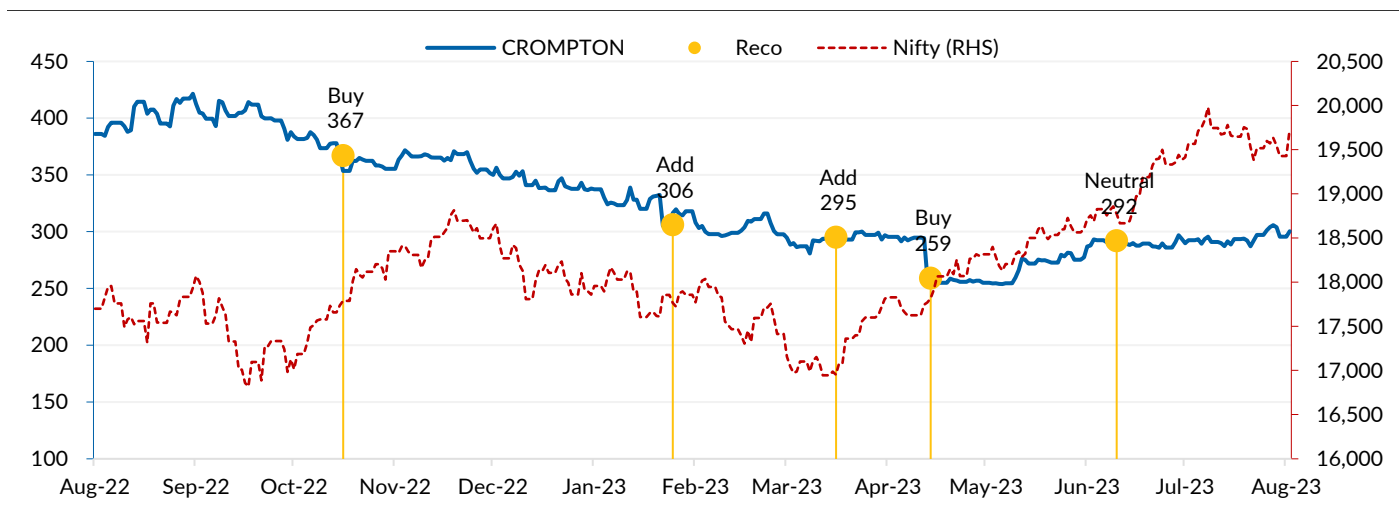
Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Tax burden (x)	0.85	0.77	0.75	0.75	0.75
Interest burden (x)	0.94	0.96	0.86	0.92	0.94
EBIT margin (x)	0.16	0.15	0.11	0.12	0.13
Asset turnover (x)	1.51	1.07	1.04	1.09	1.12
Financial leverage (x)	1.87	1.95	1.95	1.85	1.78
RoE (%)	36.3	22.9	14.5	16.8	17.7

Exhibit 14: Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23E	FY24E	FY25E
Growth matrix (%)					
Revenue growth	0.85	0.77	0.78	0.75	0.75
Op profit growth	0.94	0.96	0.85	0.90	0.97
EBIT growth	0.16	0.15	0.11	0.10	0.11
Net profit growth	1.51	1.07	1.14	1.35	1.43
Profitability ratios (%)					
OPM	15.0	14.3	11.2	10.8	11.9
EBIT margin	16.0	14.8	10.5	10.1	11.2
Net profit margin	12.8	11.0	6.9	6.8	8.1
RoCE	36.3	22.1	16.3	19.7	24.0
RoNW	36.3	22.9	15.0	16.2	19.1

Y/e 31 Mar	FY21	FY22	FY23E	FY24E	FY25E
RoA	19.4	11.7	7.9	9.2	11.6
Per share ratios					
EPS	9.8	9.3	7.5	8.3	10.9
Dividend per share	3.0	2.5	3.0	3.3	4.4
Cash EPS	10.3	10.0	9.3	10.2	12.9
Book value per share	30.8	51.1	48.9	53.8	60.4
Valuation ratios					
P/E	31.0	33.4	38.9	30.0	25.1
P/CEPS	29.7	30.9	31.4	24.5	20.9
P/B	9.9	7.8	6.8	5.8	5.0
EV/EBIDTA	26.9	27.0	24.5	19.8	16.4
Payout (%)					
Dividend payout	30.5	26.8	40.1	40.1	40.1
Tax payout	14.8	22.6	22.2	25.2	25.2
Liquidity ratios					
Debtor days	37.3	41.6	36.5	40.4	40.4
Inventory days	39.4	48.8	39.5	38.8	38.8
Creditor days	65.7	68.3	55.0	59.1	59.1

Recommendation Tracker



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Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

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