

September 26, 2024

COMPANY UPDATE | Sector: Consumer Durables

Crompton Greaves CE Ltd

Medium term demand driver in place amid near term sluggishness; reiterate ADD

We interacted with Mr Kaleeswaran Arunachalam (CFO) and Natasha Kedia (Head – Investor Relations) of CROMPTON to get update on various initiatives undertaken to drive growth ahead of peers and industry. To achieve industry leading growth the company is implementing certain action plans which includes i) restructuring Butterfly business by focusing on innovation and projecting it as customer centric innovative brand; ii) continuing CROMPTON to be volume and scale driven brand; iii) working towards achieving excellency in human resource, sourcing and other supply chain initiatives enabling to bring down costs; iv) Increasing thrust towards alternate channels as alternate channels like quick commerce provides additional opportunity for growth and v) premiumization. CROMPTON has charted out the above strategy and is currently implementing it as it gets set for next phase for growth in medium term with which will enable the company to outperform the industry. Margins is expected to improve from the current levels as unit economies continues to remain strong and gross margins have come back to normalized levels, while operating margins will improve as company realizes benefit of leverage given the brand investments company is currently undertaking. We remain optimistic on the company's prospects and reiterate our ADD with PT of Rs510 valuing the stock at 45x FY26 EPS.

- **Strategies under implementation phase to achieve industry leading growth:** Crompton is investing in R&D, implementing new GTM structure and increasing focus on alternate channels, increasing brand spends and focusing on premiumization to achieve industry leading digit revenue growth. The company is working towards achieving in excellency in human resources, sourcing and managing supply chain to improve efficiencies.
- **Butterfly transformation will be completed by festive season:** Restructuring that has been undertaken in the butterfly products (which includes reducing its dependency on e-commerce and lowering its institutional sales) have been largely done with and company expects restructuring to be completed by festive post which one can expect stability in the revenue for Butterfly products. Management expects growth to improve from 2HFY25 and margins are expected to be in mid-single digit in FY25 and improve to ~7% in FY26 and further improve as the scale increases. The company has taken two rounds of price increase which will result in gross margins to reach normalized levels.
- **Thrust on alternate channels, new products, and innovation to result in market share gains:** Crompton is putting emphasis to increase its presence on alternate channels like e-commerce, modern retail, and quick commerce to improve its share and grow faster than the industry. The company is looking to increase its presence in Agri, Solar and Submersible pumps, increasing proportion of higher value of ceiling lights and accessories and launching of innovative regmote BLDC fans. These initiatives will help the company to increase its market share.
- **Medium term demand drivers in place, despite near term sluggishness:** Demand for Fans and Kitchen appliances in Q2 is expected to remain muted as customers have preponed its fans purchase on back of heatwaves across the country which had resulted in exceptional Q1. However, the strong growth in real-estate in metros, tier i and tier ii cities along with replacement cycle in kitchen space expected to provide tailwind for the next phase of growth. We are expecting 14% revenue CAGR from FY24-26E.

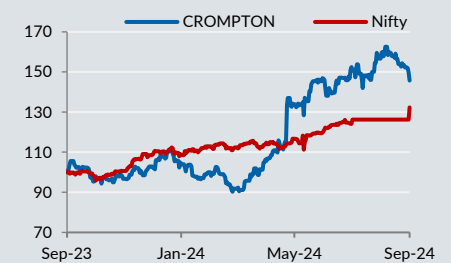
Our Take: Considering the restructuring is in the last lag and with leadership team along strategies in implementation we believe company can achieve industry leading growth with gradual margin improvement as scale and efficiencies improve. We reiterate our ADD rating with PT of Rs510.

Reco	: ADD
CMP	: Rs 441
Target Price	: Rs 510
Potential Return	: +15.7%

Stock data (as on Sep 26, 2024)

Nifty	26041
52 Week h/l (Rs)	484 / 261
Market cap (Rs/USD mn)	282716 / 3379
Outstanding Shares (mn)	644
6m Avg t/o (Rs mn):	1398
Div yield (%)	0.7
Bloomberg code:	CROMPTON IN
NSE code:	CROMPTON

Stock performance



	1M	3M	1Y
Absolute return	-8.6%	-0.3%	44.4%

Shareholding pattern (As of Mar'23 end)

Promoter	0.0%
FII+DII	86.4%
Others	13.6%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	510	517

Δ in earnings estimates

	FY25e	FY26e
EPS (New)	9.5	11.3
EPS (Old)	9.5	11.5
% change	0.0%	-1.7%

Financial Summary

(Rs mn)	FY24	FY25E	FY26E
Revenue	73,128	84,159	94,356
YoY Growth	6.5%	15.1%	12.1%
EBIDTA	7,137	9,089	10,379
YoY Growth	-7.4	27.4	14.2
PAT	4,418	6,134	7,292
YoY Growth	6.0%	7.3%	7.7%
ROE	13.5	16.9	18.2
EPS	6.9	9.5	11.3
P/E	64.2	46.2	38.9
BV	53.6	59.0	65.4
EV/EBITDA	40.3	31.4	27.0

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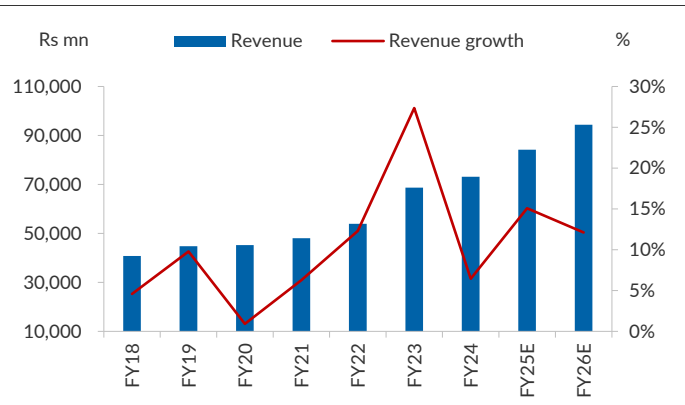
Lead Analyst

aakash.fadia@ysil.in



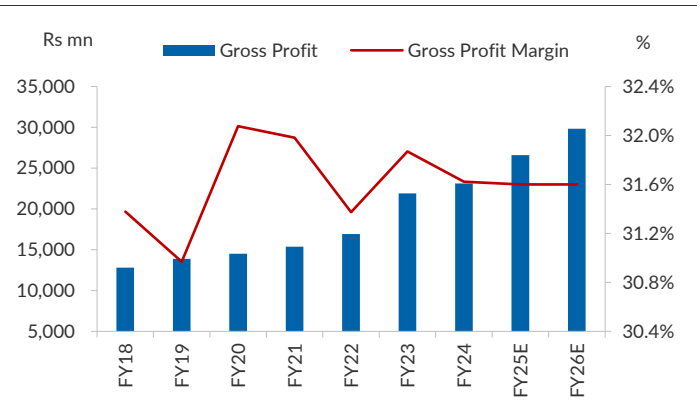
CHARTS

Exhibit 1: Revenue to grow 14% CAGR during FY23-FY26E



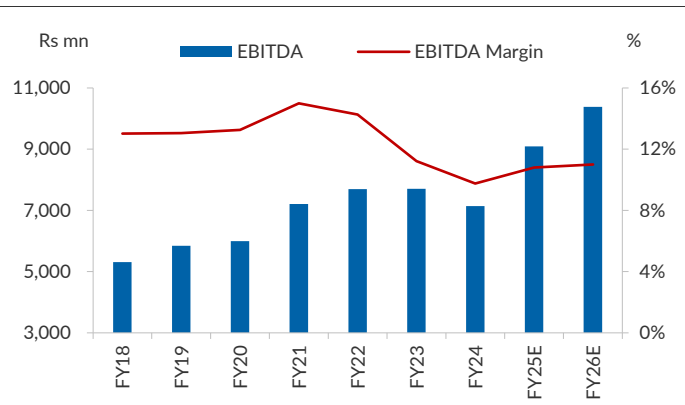
Source: Company, YES Sec

Exhibit 2: Gross margins are expected to remain steady



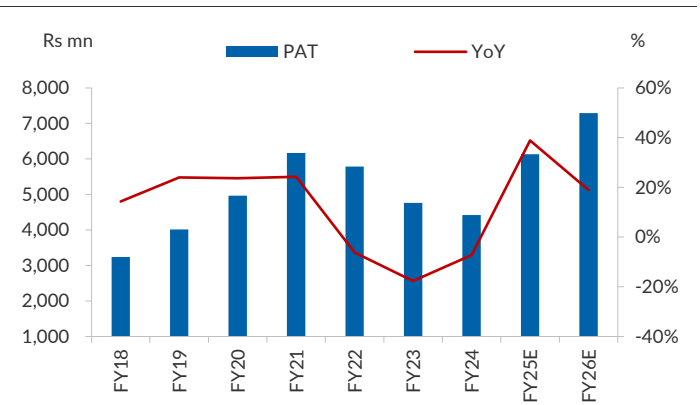
Source: Company, YES Sec

Exhibit 3: EBITDA margin to see gradual expansion as scale improves



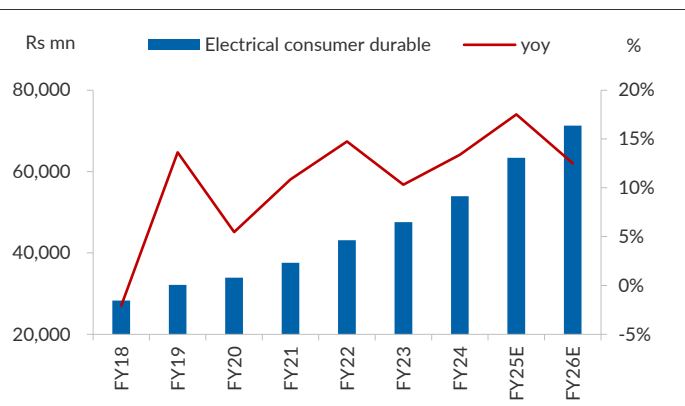
Source: Company, YES Sec

Exhibit 4: PAT to expand at 28% CAGR from FY24-26E on favorable base



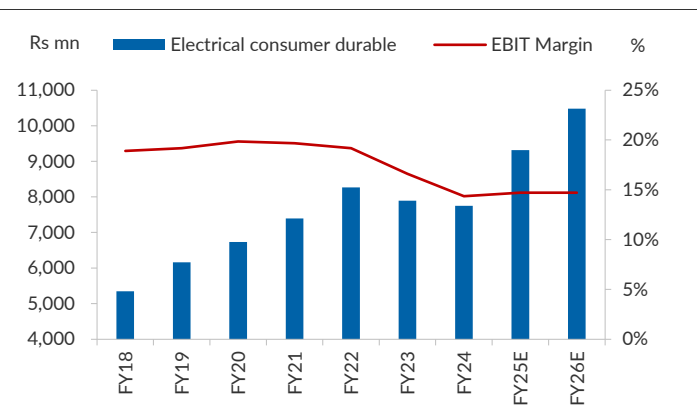
Source: Company, YES Sec

Exhibit 5: ECD to grow in double digit on back of market share gains



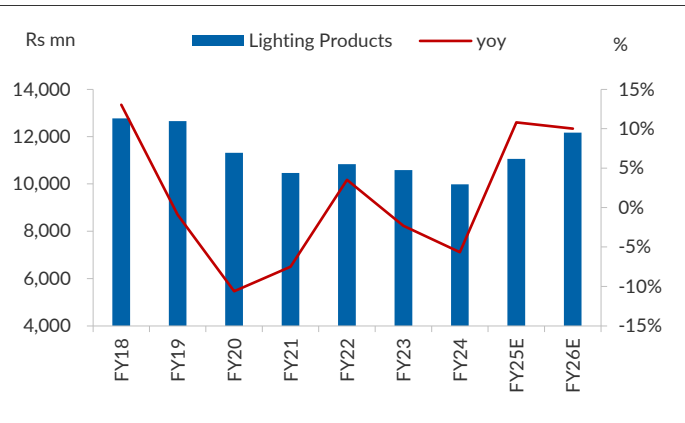
Source: Company, YES Sec

Exhibit 6: EBIT margin to remain steady



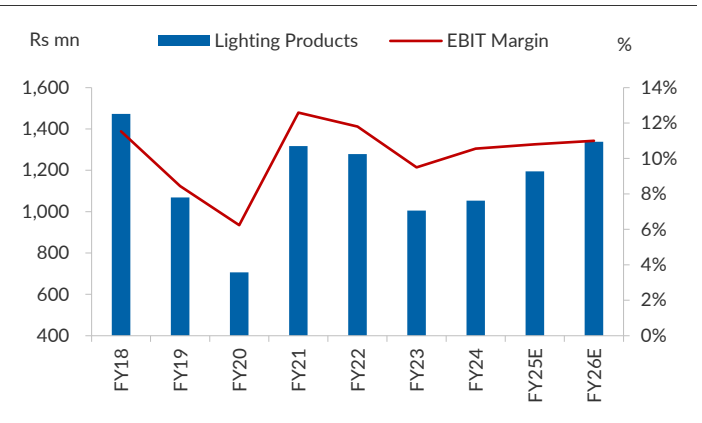
Source: Company, YES Sec

Exhibit 7: Lighting products revenue to see improvement



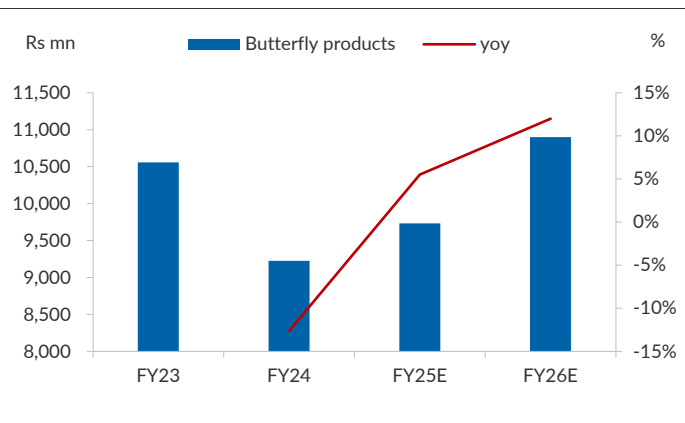
Source: Company, YES Sec

Exhibit 8: Margins set to improve on costs optimisation



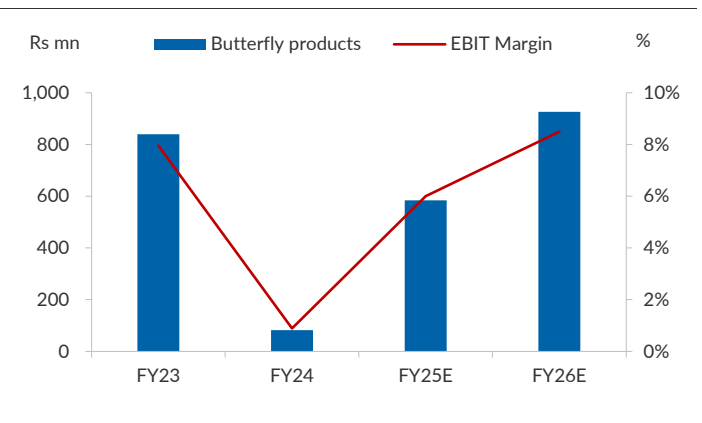
Source: Company, YES Sec

Exhibit 9: Butterfly's revenue to grow in double-digits in FY26



Source: Company, YES Sec

Exhibit 10: Margin to see improvement on price increase and higher operating leverage



Source: Company, YES Sec

FINANCIALS

Exhibit 11: Balance Sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Equity capital	1,267	1,272	1,286	1,286	1,286
Reserves	31,087	29,805	33,204	36,659	40,766
Net worth	32,354	31,077	34,490	37,945	42,053
Debt	16,075	9,222	5,990	2,990	1,990
Deferred tax liab (net)	394	123	99	99	99
Other non current liabilities	1,618	2,004	2,606	2,790	3,064
Total liabilities	50,441	42,425	43,184	43,824	47,206
Fixed Asset	32,154	32,005	31,791	31,616	31,373
Investments	6,242	5,482	6,891	6,891	6,891
Other Non-current Assets	1,676	1,798	1,852	1,683	1,502
Net Working Capital	8,653	2,372	930	2,277	2,508
Inventories	7,210	7,439	8,304	9,523	10,676
Sundry debtors	6,154	6,861	7,335	8,746	9,806
Loans and Advances	1,660	1,668	2,004	2,306	2,585
Sundry creditors	10,097	10,354	13,145	14,134	15,847
Other current liabilities	2,125	2,081	2,448	2,735	3,000
Cash & equivalents	1,716	768	1,721	1,357	4,931
Total Assets	50,441	42,425	43,184	43,824	47,206

Source: Company, YES Sec

Exhibit 12: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	53,941	68,696	73,128	84,159	94,356
Operating profit	7,695	7,705	7,137	9,089	10,379
Depreciation	423	1,159	1,288	1,399	1,467
Interest expense	353	1,092	792	395	263
Other income	727	668	674	902	1,096
Profit before tax	7,645	6,121	5,731	8,198	9,745
Taxes	1,732	1,358	1,313	2,063	2,453
Minorities and other	-	-	-	-	-
Adj. profit	5,914	4,764	4,418	6,134	7,292
Exceptional items	130	-	-	-	-
Net profit	5,784	4,764	4,418	6,134	7,292

Source: Company, YES Sec

Exhibit 13: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Profit before tax	7,998	7,213	6,523	8,593	10,008
Depreciation	423	1,159	1,288	1,399	1,467
Tax paid	(1,732)	(1,358)	(1,313)	(2,063)	(2,453)
Working capital Δ	(3,309)	7,041	32	(1,347)	(231)
Other operating items					
Operating cashflow	3,381	14,056	6,530	6,581	8,792
Capital expenditure	(23,318)	(1,011)	(1,074)	(1,224)	(1,224)
Free cash flow	(19,938)	13,046	5,456	5,357	7,568
Equity raised	8,840	(4,133)	924	0	0
Investments	-	-	-	-	-
Debt financing/disposal	11,287	(6,853)	(3,232)	(3,000)	(1,000)
Interest paid	(353)	(1,092)	(792)	(395)	(263)
Dividends paid	(1,584)	(1,908)	(1,929)	(2,679)	(3,185)
Net Δ in cash	(908)	(948)	952	(364)	3,574

Source: Company, YES Sec

Exhibit 14: Du-pont analysis

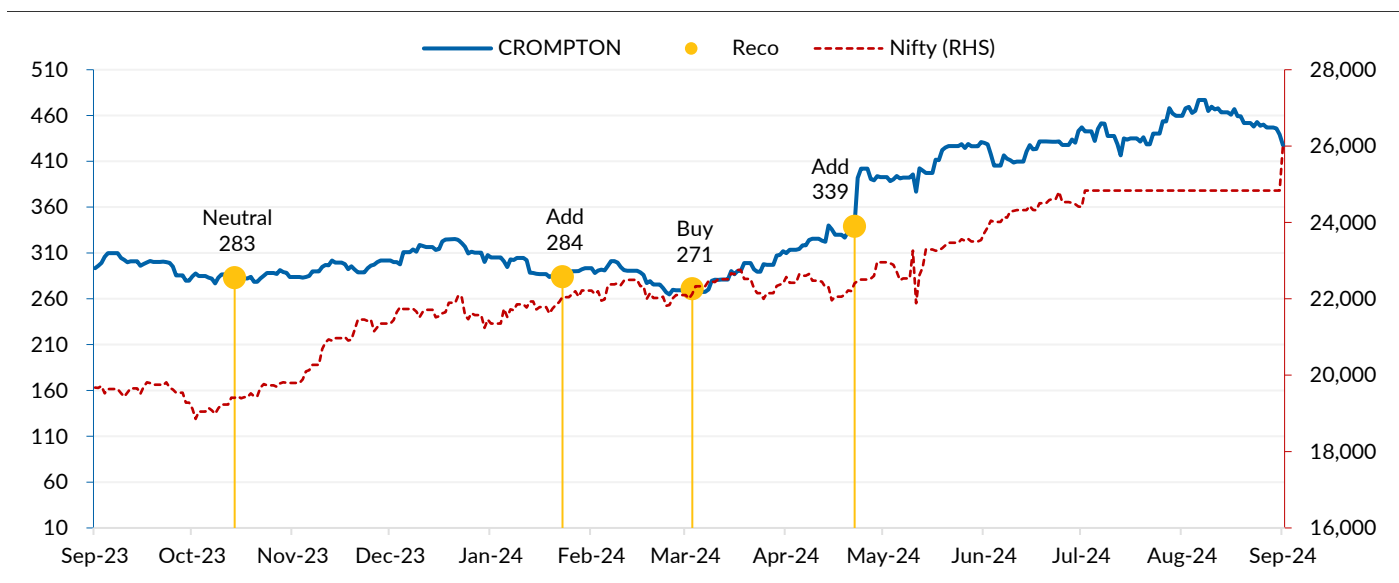
Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Tax burden (x)	0.77	0.78	0.77	0.75	0.75
Interest burden (x)	0.96	0.85	0.88	0.95	0.97
EBIT margin (x)	0.15	0.11	0.09	0.10	0.11
Asset turnover (x)	1.07	1.14	1.25	1.36	1.43
Financial leverage (x)	1.95	1.91	1.79	1.71	1.65
RoE (%)	22.9	15.0	13.5	16.9	18.2

Exhibit 15: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
Growth matrix (%)					
Revenue growth	12.3	27.4	6.5	15.1	12.1
Op profit growth	6.8	0.1	(7.4)	27.4	14.2
EBIT growth	4.3	(9.8)	(9.6)	31.7	16.5
Net profit growth	(4.1)	(19.4)	(7.3)	38.9	18.9
Profitability ratios (%)					
OPM	14.3	11.2	9.8	10.8	11.0
EBIT margin	14.8	10.5	8.9	10.2	10.6
Net profit margin	11.0	6.9	6.0	7.3	7.7
RoCE	22.1	16.3	16.1	21.1	23.6
RoNW	22.9	15.0	13.5	16.9	18.2

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
RoA	11.7	7.9	7.5	9.9	11.1
Per share ratios					
EPS	9.3	7.5	6.9	9.5	11.3
Dividend per share	2.5	3.0	3.0	4.2	5.0
Cash EPS	10.0	9.3	8.9	11.7	13.6
Book value per share	51.1	48.9	53.6	59.0	65.4
Valuation ratios					
P/E	48.3	58.9	64.2	46.2	38.9
P/CEPS	45.0	47.4	49.7	37.6	32.4
P/B	11.4	10.5	9.5	8.5	7.6
EV/EBIDTA	38.2	37.5	40.3	31.4	27.0
Payout (%)					
Dividend payout	26.8	40.1	43.7	43.7	43.7
Tax payout	22.6	22.2	22.9	25.2	25.2
Liquidity ratios					
Debtor days	41.6	36.5	36.6	37.9	37.9
Inventory days	48.8	39.5	41.4	41.3	41.3
Creditor days	68.3	55.0	65.6	61.3	61.3

Recommendation Tracker



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Analyst signature

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YES Securities (India) Limited ("YSIL") is a wholly owned subsidiary of YES BANK LIMITED. YSIL is a Securities and Exchange Board of India (SEBI) registered Stock broker holding membership of National Stock Exchange (NSE), Bombay Stock Exchange (BSE), Multi Commodity Exchange (MCX) & National Commodity & Derivatives Exchange (NCDEX). YSIL is also a SEBI-registered Category I Merchant Banker, Investment Adviser and Research Analyst. YSIL is also a Sponsor and Investment Manager of Alternate Investment Fund - Category III (YSIL Alternates) and AMFI registered Mutual Fund Distributor. The Company is also a registered Depository Participant with CDSL and NSDL. YSIL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSIL by SEBI/Stock Exchanges.