

November 14, 2024

RESULT REPORT Q2 FY25 | Sector: Consumer Durables

# Crompton Greaves CE Ltd

**Attractive valuations coupled with improved performance results in upgrade; BUY**

## Result Synopsis

Crompton has reported marginally lower than estimated revenue growth on account of subdued performance of Butterfly Appliances. ECD revenue grew 12.5% (in line with estimates). Fans have witnessed muted growth of 5%, while Pumps (+20%) and Appliances (+26%) have registered strong growth. Appliance growth has been driven by water heater, room heater and mixer grinders. Air-cooler delivered strong growth even in the lean season. Company continues to gain share in its key categories of fans, Pumps and Appliances. Margins in ECD stood at 14.8% expansion of 64bps yoy despite higher A&P spends. A&P spends have seen increase of 69% to Rs540mn in Q2. Lighting revenue has seen mid-single digit growth after many quarters of decline. CROMPTON is witnessing initial green shoots in lighting revenue and margin which is a positive sign. As far as Butterfly appliances is concerned it is on track to improve its performance on sustainable basis. CROMPTON focus on delivering growth with profitability is playing out. Crompton's 2.0 strategy has started to pay dividends with company gaining market share in products like water heater and mixer grinders, in mixer grinders CROMPTON + Butterfly have become market leaders. The company has started to deliver on expectations on consistent basis and should command higher multiple in line with peers. We maintain our price target of Rs510 and upgrade the stock to BUY valuing the stock at 45x FY27 EPS. Moreover, company is generating strong cashflows and has now become Net cash company.

We believe initiatives taken by CROMPTON of sustained efforts and investments is bearing fruits resulting in market share gains with margins returning to normalcy despite higher A&P spends. We now bake in FY24-27E Revenue/EBITDA/PAT CAGR of 12%/18%/24% and arrive at our PT of Rs 510 valuing the company at 45x FY26EPS and upgrade the stock to BUY. We believe risk reward has turned favorable given the recent correction in the stock price.

## Result Highlights

- Quarter Summary** – CROMPTON consolidated revenue grew 6.4% yoy. ECD business delivered growth of 12.5% driven by broad based performance across the product categories. Lighting (+6% yoy) and Butterfly (-18.1% yoy) dragged overall performance.
- Margins** – Gross margins has seen improvement of 140bps to 32.7%, while EBITDA margin at 10.7% has improved 94bps despite higher A&P spends which has been commendable. Pricing action has led to gross margin improvement.
- ECD** – Strong growth in ECD was driven by broad based growth across product categories. Pumps and Appliances have delivered strong growth of 20% and 26% respectively. The company has strong pipeline of order in solar pumps as well. Air-coolers have done extremely well despite being lean season, while in mixer grinders it has become market leader.
- Lighting** – The company is seeing green shoots in lightings both in terms of revenue and margin. Lighting segment has seen mid-single digit growth after many quarters of decline.

## Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	18,960	19,448	19,170	-2.5	-1.1	Revenue and EBITDA miss is largely attributed to poor performance of Butterfly.
EBITDA	2,034	2,159	1,950	-5.8	+4.3	
EBITDA Margin (%)	10.7	11.1	10.2	-34 bps	50 bps	
Adjusted PAT	1,281	1,407	1,247	-9.0	+2.7	

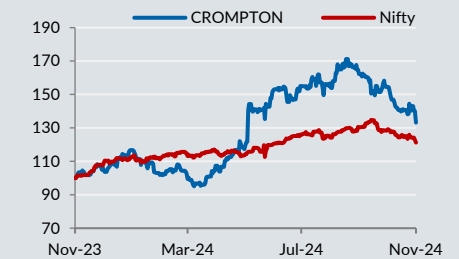
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 371
Target Price	: Rs 510
Potential Return	: +37.0%

## Stock data (as on Nov 14, 2024)

Nifty	23,533
52 Week h/l (Rs)	484 / 261
Market cap (Rs/USD mn)	251281 / 2976
Outstanding Shares (mn)	644
6m Avg t/o (Rs mn):	1,484
Div yield (%):	0.7
Bloomberg code:	CROMPTON IN
NSE code:	CROMPTON

## Stock performance



	1M	3M	1Y
Absolute return	-13.6%	-13.4%	33.2%

## Shareholding pattern (As of Jun'24 end)

Promoter	0.0%
FII+DII	86.4%
Others	13.6%

## Δ in stance

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

## Δ in earnings estimates

	FY26e	FY27e
EPS (New)	113	13.1
EPS (Old)	11.3	NA
% change	0.0%	NA%

## Financial Summary

(Rs mn)	FY25E	FY26E	FY27E
Revenue	82,602	92,616	103,565
YoY Growth	13.0%	12.1%	11.8%
EBIDTA	9,004	10,558	11,806
YoY Growth	26.2	17.3	11.8
PAT	5,896	7,264	8,407
YoY Growth	7.1%	7.8%	8.1%
ROE	16.3	18.2	19.0
EPS	9.2	11.3	13.1
P/E	40.5	32.8	28.4
BV	58.8	65.2	72.5
EV/EBITDA	26.7	22.3	19.5

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## Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs mn)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	y/y %	q/q %	1HFY25	1HFY24	y/y %
Sales	17,823	16,927	19,610	21,377	18,960	6.4	(11.3)	40,337	36,591	10.2
EBITDA	1745	1498	2036	2324	2034	16.6	(12.5)	4,358	3,603	21.0
EBITDA Margin %	9.8	8.8	10.4	10.9	10.7			10.8	9.8	
Depreciation	321	325	350	372	382	18.8	2.7	753	613	22.9
EBIT	1424	1173	1686	1952	1653	16.1	(15.3)	3,605	2,990	20.6
EBIT Margin %	8.0	6.9	8.6	9.1	8.7			8.9	8.2	
Interest charges	215	215	156	155	120	(44.1)	(22.4)	276	421	(34.5)
Other Income	149	167	160	238	175	17.7	(26.3)	413	347	19.1
PBT	1358	1125	1690	2035	1707	25.8	(16.1)	3,742	2,916	28.3
Tax	349	270	356	511	427	22.3	(16.5)	938	687	36.6
Effective Tax Rate (%)	25.7	24.0	21.1	25.1	25.0			25.1	23.6	
PAT	1009	855	1334	1524	1281	27.0	(15.9)	2,804	2,229	25.8
PAT Margin %	5.7	5.0	6.8	7.1	6.8			7.0	6.1	
EPS (Rs)	1.6	1.3	2.1	2.4	2.0	27.0	(15.9)	4	4	25.8

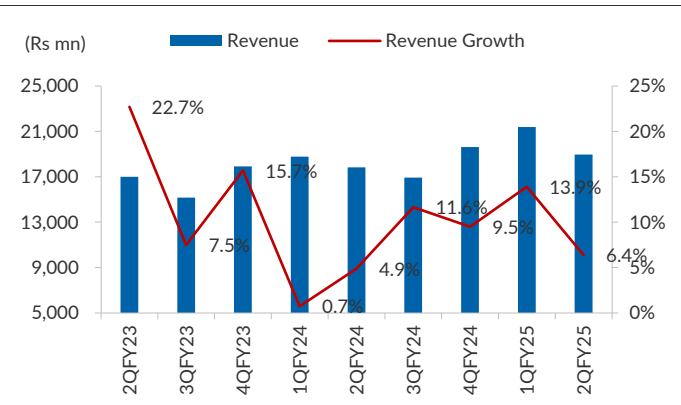
Source: Company, YES Sec

## Exhibit 3: Segmental Performance

Rs mn	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	YOY(%)	QOQ(%)	1HFY25	1HFY24	YoY (%)
Electrical consumer durables	12,380	12,093	15,160	17,266	13,927	12.5	(19.3)	31,193	26,669	17.0
Lighting products	2,387	2,494	2,811	2,333	2,531	6.0	8.5	4,864	4,677	4.0
Butterfly Products	3,056	2,341	1,639	1,777	2,502	(18.1)	40.8	4,279	5,245	(18.4)
Total Sales	17,823	16,927	19,610	21,377	18,960	6.4	(11.3)	40,337	36,591	10.2
<b>PBIT</b>										
Electrical consumer durables	1755	1642	2533	2587	2064	17.6	(20.2)	4,651	3,572	30.2
Lighting products	250	280	251	209	271	8.3	29.7	479	523	(8.3)
Butterfly Products	202	-19	-261	41	177	(12.4)	331.7	218	362	(39.7)
Total PBIT	2,207	1,903	2,523	2,836	2,512	13.8	(11.4)	5,348	4,456	20.0
<b>Finance Costs</b>										
Finance Costs	215	215	156	155	120	(44.1)	(22.4)	276	421	(34.5)
Unallocable expense	634	563	677	646	684	7.9	5.9	1,330	1,119	18.9
as % of sales	3.6	3.3	3.5	3.0	3.6			3.3	3.1	
Exceptional Items	0	0	0	0	0	#DIV/0!	#DIV/0!	0	0	
PBT	1358	1125	1690	2035	1707	25.8	(16.1)	3,742	2,916	28.3
<b>PBIT Margins (%)</b>										
						(bps)	(bps)			(bps)
Electrical consumer durables	14.2	13.6	16.7	15.0	14.8	64	(16)	14.9	13.4	152
Lighting products	10.5	11.2	8.9	8.9	10.7	23	175	9.8	11.2	(133)
Butterfly Products	6.6	(0.8)	(15.9)	2.3	7.1	46	477	5.1	6.9	(180)
Total PBIT	12.4	11.2	12.9	13.3	13.2	87	(2)	13.3	12.2	108

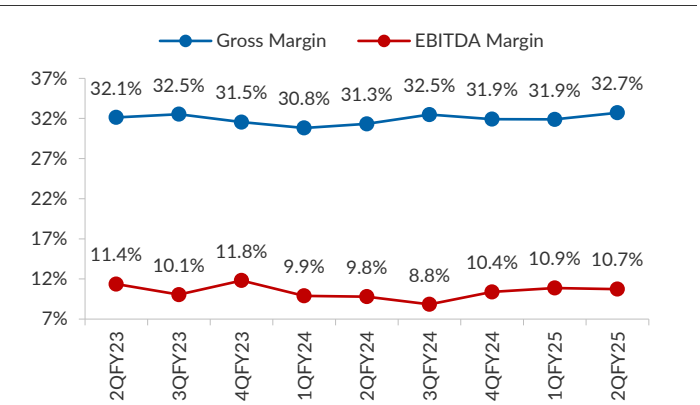
Source: Company, YES Sec

**Exhibit 4: Decline in Butterfly appliances have dragged revenue growth**



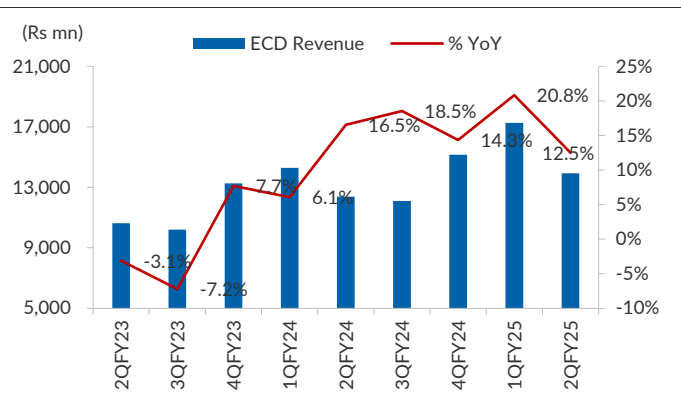
Source: Company, YES Sec

**Exhibit 5: Pricing actions has resulted in gross margin expansion**



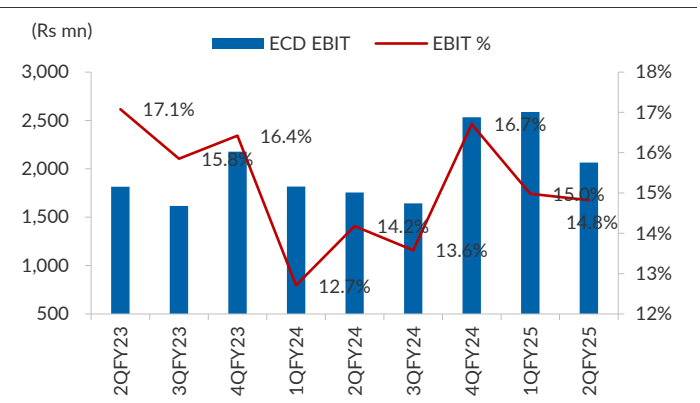
Source: Company, YES Sec

**Exhibit 6: Pumps and Appliances have driven revenue growth**



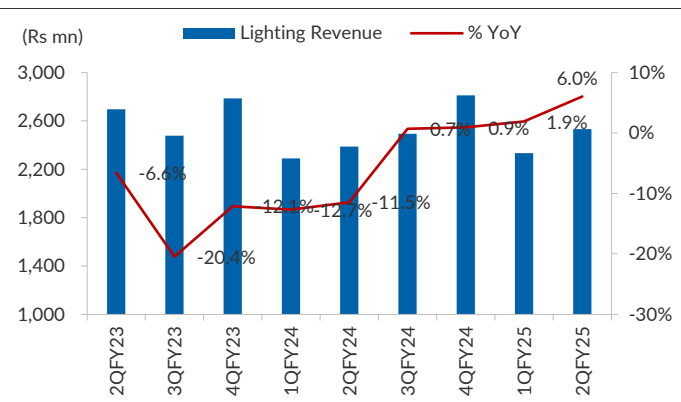
Source: Company, YES Sec

**Exhibit 7: EBIT margins have seen improvement on yoy basis despite increased A&P Spends**



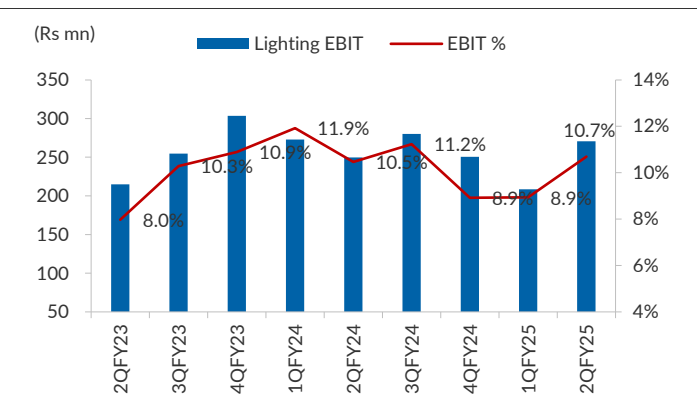
Source: Company, YES Sec

**Exhibit 8: Focused strategy has resulted in revenue growth**



Source: Company, YES Sec

**Exhibit 9: EBIT margin has seen improvement on back of improved product mix**



Source: Company, YES Sec

## KEY CON-CALL HIGHLIGHTS

- **Management commentary** – Growth has been broad based with Appliances growing 26%, Pumps growing by 20% and Fans grew by 5%. Company is seeing green shoot in lighting in revenue and margins.
- **Fans** – Growth in fans has been muted as competition has lagged in taking price increase, however Crompton is working on its strength and looking to introduce new fans. The company has introduced new premium induction motor fans and improving the portfolio of BLDC. Non-celling fans has seen strong growth. Premium fans proportion has been similar to previous period.
- **Pumps** – Pumps has seen strong growth in both solar and residential pumps. The company has executed Rs420mn orders in solar pumps and its revenue has crossed Rs1bn in solar pumps. The company has gained market share in residential pumps. The company has scaled up pretty well in solar pumps.
- **Appliances growth** – Appliances growth has been driven by strong sales of Water heater, room heater. Air cooler has seen strong growth despite being lean season for Air-coolers. **Mixer grinders continues to see solid run and Crompton + Butterfly has become market leader in mixer grinders. New launches in mass premium segment and channel expansion has resulted in strong growth.**
- **Large Appliances** – Large appliances revenue stood at Rs190mn in Q2 and EBITDA loss has been reducing
- **Lighting** – The company is witnessing green shoots in lighting in both in terms of revenue and margins. **The company expects that lighting segment will continue to improve as mix of LED bulbs and battens have been reducing.**
- **A&P Spends** – A&P spends has increased by 69% on yoy basis to Rs540mn.
- **Butterfly Appliances** – Butterfly improvement is on track and will continue to see improvement in coming quarters. Driving profitable growth in e-commerce channel has helped in improving margins. Company is following approach of brand first. Channel correction has been largely done with in Butterfly appliances. The company is looking to arrest decline in revenue in 2H.
- **Fans growth is expected to be moderate in 2HFY25.**
- **Compton is operating separate Butterfly channel in south and separate Crompton channel in south, with in non-south region there is combined effort in marketing.**
- **Festive demand** – Last few week of Diwali demand has been healthy, pressure cookers has done well for Butterfly. Demand outlook at broader level has been moderate, the company is looking to grow in certain segment disproportionately to maintain overall growth.
- **Price hikes** – Price hikes have been taken in the range of 1.5%-2% in each quarter in 1HFY25. Large part of pricing action has been done unless there is further rise in commodity prices.
- **Channel inventory** – Channel inventory is at the normalized levels across the product categories.

## FINANCIALS

### Exhibit 10: Balance Sheet

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Equity capital	1,272	1,286	1,286	1,286	1,286
Reserves	29,805	33,204	36,525	40,617	45,353
Net worth	31,077	34,490	37,811	41,903	46,639
Debt	9,222	5,990	2,990	1,990	990
Deferred tax liab (net)	123	99	99	99	99
Other non current liabilities	2,004	2,606	2,802	3,017	3,312
Total liabilities	42,425	43,184	43,703	47,009	51,040
Fixed Asset	32,005	31,791	31,498	31,122	30,661
Investments	5,482	6,891	6,891	6,891	6,891
Other Non-current Assets	1,798	1,852	1,661	1,478	1,708
Net Working Capital	2,372	930	2,242	2,469	2,717
Inventories	7,439	8,304	9,346	10,480	11,718
Sundry debtors	6,861	7,335	8,584	9,625	10,763
Loans and Advances	1,668	2,004	2,263	2,537	2,837
Sundry creditors	10,354	13,145	13,873	15,554	17,393
Other current liabilities	2,081	2,448	2,695	2,955	3,239
Cash & equivalents	768	1,721	1,410	5,049	9,062
Total Assets	42,425	43,184	43,703	47,009	51,039

Source: Company, YES Sec

### Exhibit 11: Income statement

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	68,696	73,128	82,602	92,616	103,565
Operating profit	7,705	7,137	9,004	10,558	11,806
Depreciation	1,159	1,288	1,517	1,601	1,685
Interest expense	1,092	792	434	289	144
Other income	668	674	826	1,038	1,257
Profit before tax	6,121	5,731	7,880	9,707	11,235
Taxes	1,358	1,313	1,983	2,443	2,828
Minorities and other	-	-	-	-	-
Adj. profit	4,764	4,418	5,896	7,264	8,407
Exceptional items	-	-	-	-	-
Net profit	4,764	4,418	5,896	7,264	8,407

Source: Company, YES Sec

## Exhibit 12: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Profit before tax	7,213	6,523	8,313	9,996	11,379
Depreciation	1,159	1,288	1,517	1,601	1,685
Tax paid	(1,358)	(1,313)	(1,983)	(2,443)	(2,828)
Working capital Δ	7,041	32	(1,312)	(227)	(248)
Other operating items					
Operating cashflow	14,056	6,530	6,535	8,926	9,988
Capital expenditure	(1,011)	(1,074)	(1,224)	(1,224)	(1,224)
Free cash flow	13,046	5,456	5,311	7,702	8,763
Equity raised	(4,133)	924	0	-	-
Investments	-	-	-	-	-
Debt financing/disposal	(6,853)	(3,232)	(3,000)	(1,000)	(1,000)
Interest paid	(1,092)	(792)	(434)	(289)	(144)
Dividends paid	(1,908)	(1,929)	(2,575)	(3,172)	(3,672)
Net Δ in cash	(948)	952	(311)	3,639	4,013

Source: Company, YES Sec

## Exhibit 13: Du-point analysis

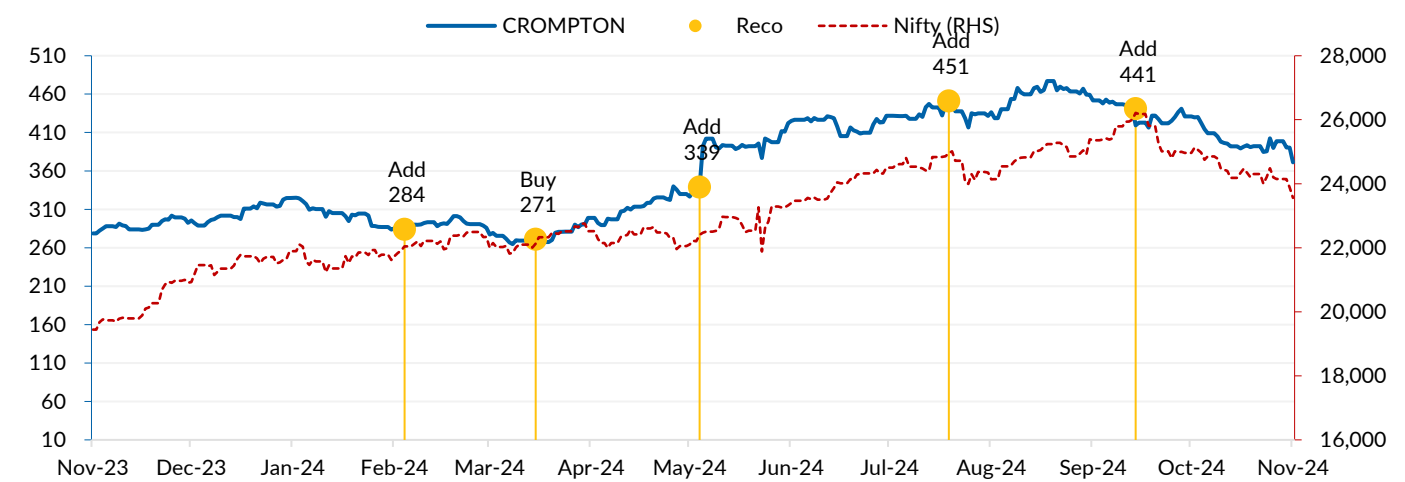
Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Tax burden (x)	0.78	0.77	0.75	0.75	0.75
Interest burden (x)	0.85	0.88	0.95	0.97	0.99
EBIT margin (x)	0.11	0.09	0.10	0.11	0.11
Asset turnover (x)	1.14	1.25	1.34	1.42	1.45
Financial leverage (x)	1.91	1.79	1.71	1.64	1.61
RoE (%)	15.0	13.5	16.3	18.2	19.0

## Exhibit 14: Ratio analysis

Y/e 31 Mar	FY23	FY24	FY25E	FY26E	FY27E
<b>Growth matrix (%)</b>					
Revenue growth	27.4	6.5	13.0	12.1	11.8
Op profit growth	0.1	(7.4)	26.2	17.3	11.8
EBIT growth	(9.8)	(9.6)	27.5	20.2	13.8
Net profit growth	(19.4)	(7.3)	33.5	23.2	15.7
<b>Profitability ratios (%)</b>					
OPM	11.2	9.8	10.9	11.4	11.4
EBIT margin	10.5	8.9	10.1	10.8	11.0
Net profit margin	6.9	6.0	7.1	7.8	8.1
RoCE	16.3	16.1	20.5	23.6	24.9
RoNW	15.0	13.5	16.3	18.2	19.0

Y/e 31 Mar	FY23	FY24	FY25E	FY26E	FY27E
RoA	7.9	7.5	9.6	11.1	11.8
<b>Per share ratios</b>					
EPS	7.5	6.9	9.2	11.3	13.1
Dividend per share	3.0	3.0	4.0	4.9	5.7
Cash EPS	9.3	8.9	11.5	13.8	15.7
Book value per share	48.9	53.6	58.8	65.2	72.5
<b>Valuation ratios</b>					
P/E	49.5	54.0	40.5	32.8	28.4
P/CEPS	39.8	41.8	32.2	26.9	23.6
P/B	8.9	8.0	7.2	6.4	5.7
EV/EBIDTA	31.7	34.0	26.7	22.3	19.5
<b>Payout (%)</b>					
Dividend payout	40.1	43.7	43.7	43.7	43.7
Tax payout	22.2	22.9	25.2	25.2	25.2
<b>Liquidity ratios</b>					
Debtor days	36.5	36.6	37.9	37.9	37.9
Inventory days	39.5	41.4	41.3	41.3	41.3
Creditor days	55.0	65.6	61.3	61.3	61.3

## Recommendation Tracker



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