

July 31, 2024

RESULT REPORT Q1 FY25 | Sector: Consumer Durables

Crompton Greaves CE Ltd

Strong all-round performance with broad based growth; reiterate ADD

Result Synopsis

Crompton has reported lower than estimated revenue growth on account of subdued performance of Butterfly Appliances. ECD revenue grew 21% (in line with estimates). Fans have witnessed growth of 16%, Pumps (+30%) and Appliances (+24%) registering strong growth. Appliance growth has been driven by air-coolers and mixer grinders. Air-cooler delivered volume growth of 68%, supply glitch had resulted in some volume loss for the air-coolers. Company continues to gain share in its key categories of fans, Pumps and Appliances. Margins in ECD stood at 15% expansion of 227bps yoy despite higher A&P spends. Lighting revenue growth was impacted as company has stopped selling conventional lighting and there has been price erosion in LED lights, B2B is segment saw robust growth. As far as Butterfly appliances is concerned Crompton is implementing corrective action and expects growth from 2HFY25. CROMPTON has delivered on the growth as well as margin front and management is expecting industry leading growth as it drives premiumization across the product category. Crompton's 2.0 strategy has started to pay dividends with company gaining market share in its core categories and profitability has started to improve. Crompton would be focusing on growth with improvement in profitability. The company has started to deliver on expectations on consistent basis and should command higher multiple in line with peers. We now increase our target multiple to 45x and reiterate our ADD rating with PT of Rs517. 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 FY24-26E Revenue/EBITDA/PAT CAGR of 14%/21%/29% and arrive at our PT of Rs 517 valuing the company at 45x FY26EPS and reiterate ADD rating.

Result Highlights

- Quarter Summary** – CROMPTON consolidated revenue grew 14% yoy. ECD business delivered strong growth of 21% driven by broad based performance across the product categories. Lighting (+2% yoy) and Butterfly (-18.8% yoy) dragged overall performance.
- Margins** – Gross margins has seen improvement of 106bps to 31.9%, while EBITDA margin at 10.9% has improved 97bps 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. Fans growth has been driven by seasonality and continued momentum in TPW fans, while residential pumps has seen market share gains. The company has strong pipeline of order in solar pumps as well. On the Appliances side Air-coolers and mixer grinders continues to do well
- Lighting** – Price erosion continues to impact B2C lighting, resulting in muted revenue growth despite double digit volume growth. Higher A&P spends impacts margin.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	21,377	22,758	21,260	-6.1	+0.6	Revenue and EBITDA miss is largely attributed to poor performance of Butterfly.
EBITDA	2,324	2,481	2,250	-6.3	-3.3	
EBITDA Margin (%)	10.9	10.9	10.6	0 bps	30 bps	
Adjusted PAT	1,524	1,647	1,460	-7.5	+4.4	

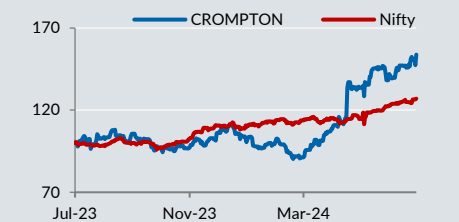
Source: Company, YES Sec

Reco	: ADD
CMP	: Rs 451
Target Price	: Rs 517
Potential Return	: +14.7%

Stock data (as on Jul 31, 2024)

Nifty	24951
52 Week h/l (Rs)	461 / 261
Market cap (Rs/USD mn)	278048 / 3325
Outstanding Shares (mn)	643
6m Avg t/o (Rs mn):	1235
Div yield (%):	0.7
Bloomberg code:	CROMPTON IN
NSE code:	CROMPTON

Stock performance



	1M	3M	1Y
Absolute return	11.4%	41.8%	53.6%

Shareholding pattern (As of Mar'24 end)

Promoter	0.0%
FII+DII	86.4%
Others	13.6%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	517	393

Δ in earnings estimates

	FY25e	FY26e
EPS (New)	9.5	11.5
EPS (Old)	9.3	11.2
% change	2.2%	2.7%

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	7,395
YoY Growth	6.0%	7.3%	7.8%
ROE	13.5	16.9	18.5
EPS	6.9	9.5	11.5
P/E	65.7	47.3	39.2
BV	53.6	59.0	65.5
EV/EBITDA	41.2	32.1	27.7

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Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs mn)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	y/y %	q/q %	FY24	FY23	y/y %
Sales	18,769	17,823	16,927	19,610	21,377	13.9	9.0	73,128	68,696	6.5
EBITDA	1858	1745	1498	2036	2324	25.1	14.1	7,137	7,769	(8.1)
EBITDA Margin %	9.9	9.8	8.8	10.4	10.9			9.8	11.3	
Depreciation	292	321	325	350	372	27.3	6.0	1,288	1,159	11.1
EBIT	1566	1424	1173	1686	1952	24.7	15.8	5,849	6,609	(11.5)
EBIT Margin %	8.3	8.0	6.9	8.6	9.1			8.0	9.6	
Interest charges	206	215	215	156	155	(24.6)	(0.3)	792	1,092	(27.5)
Other Income	198	149	167	160	238	20.1	48.3	674	668	0.9
PBT	1558	1358	1125	1690	2035	30.6	20.4	5,731	6,122	(6.4)
Tax	338	349	270	356	511	51.3	43.6	1,313	1,358	(3.3)
Effective Tax Rate (%)	21.7	25.7	24.0	21.1	25.1			22.9	22.2	
PAT	1220	1009	855	1334	1524	24.8	14.2	4418	4764	(7.3)
PAT Margin %	6.5	5.7	5.0	6.8	7.1			6.0	6.9	
EPS (Rs)	1.9	1.6	1.3	2.1	2.4	24.8	14.2	7	8	(7.3)

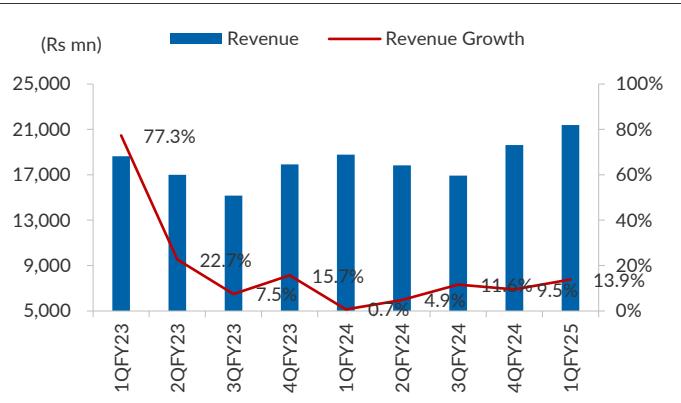
Source: Company, YES Sec

Exhibit 3: Segmental Performance

Rs mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	y/y %	q/q %	FY24	FY23	y/y %
Electrical consumer durables	14,290	12,380	12,093	15,160	17,266	20.8	13.9	53,922	47,553	13.4
Lighting products	2,290	2,387	2,494	2,811	2,333	1.9	(17.0)	9,982	10,581	(5.7)
Butterfly Products	2,189	3,056	2,341	1,639	1,777	(18.8)	8.4	9,225	10,562	(12.7)
Total Sales	18,769	17,823	16,927	19,610	21,377	13.9	9.0	73,128	68,696	6.5
PBIT										
Electrical consumer durables	1816	1755	1642	2533	2587	42.4	2.1	7,747	7,893	(1.9)
Lighting products	273	250	280	251	209	(23.6)	(16.8)	1,053	1,005	4.8
Butterfly Products	160	202	-19	-261	41	(74.3)	(115.7)	82	840	(90.2)
Total PBIT	2,249	2,207	1,903	2,523	2,836	26.1	12.4	8,882	9,738	(8.8)
Finance Costs	206	215	215	156	155	(24.6)	(0.3)	792	1,092	(27.5)
Unallocable expense	485	634	563	677	646	33.2	(4.5)	2,359	2,461	(4.1)
as % of sales	2.6	3.6	3.3	3.5	3.0			3.2	3.6	
Exceptional Items	0	0	0	0	0			0	64	
PBT	1558	1358	1125	1690	2035	30.6	20.4	5,731	6,122	(6.4)

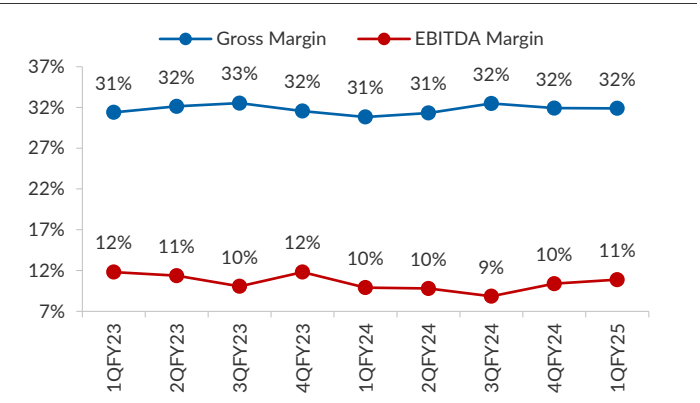
Source: Company, YES Sec

Exhibit 4: Decline in Butterfly appliances and flat lighting revenue have dragged revenue growth



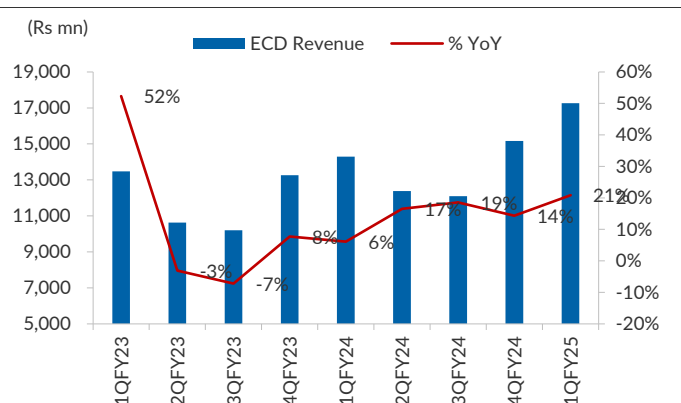
Source: Company, YES Sec

Exhibit 5: Pricing actions has resulted in gross margin expansion



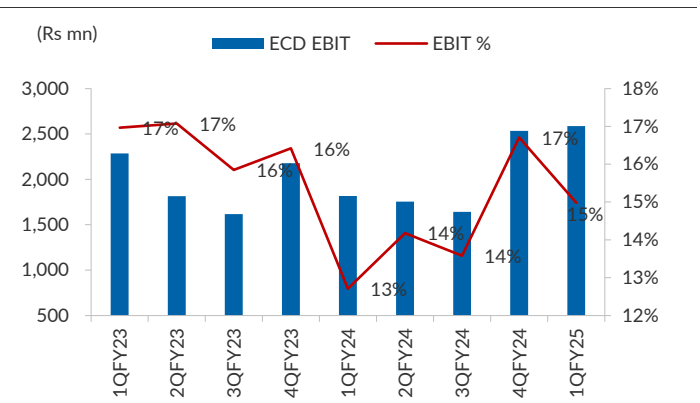
Source: Company, YES Sec

Exhibit 6: Revenue growth has been broad based across product categories



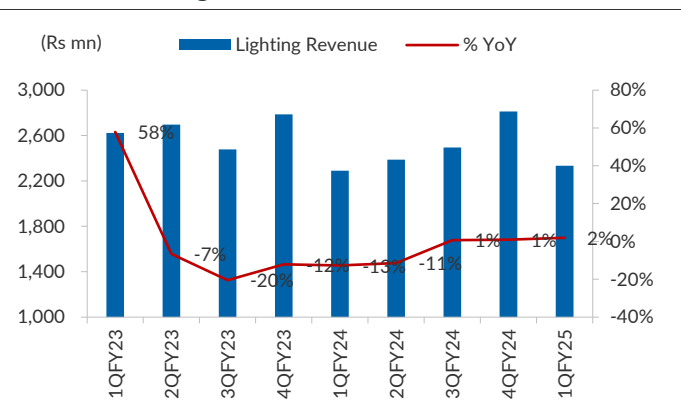
Source: Company, YES Sec

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



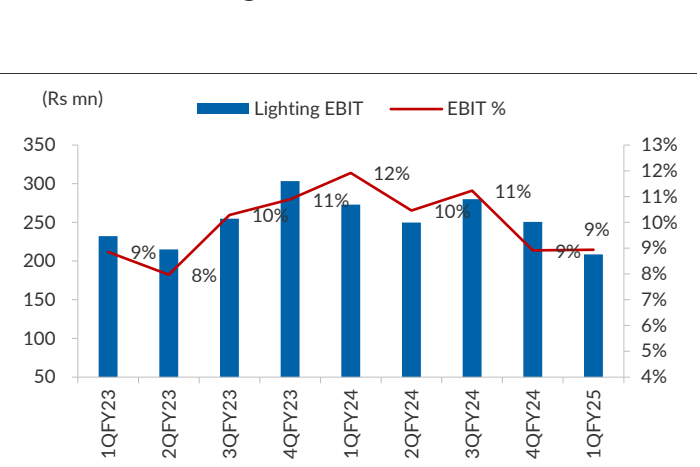
Source: Company, YES Sec

Exhibit 8: Price erosion in B2C LED lights along with stoppage of selling conventional lighting has resulted muted revenue growth



Source: Company, YES Sec

Exhibit 9: EBIT margin has remained stable



Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- **Management commentary** – Growth has been broad based with Fans growing 16%, Pumps growing by 30% and Appliances grew by 24%. Company is keenly watching on the consumer demand and are witnessing early signs of improvement.
- **Gross Margin** – pricing action in Fans to mitigate increase RM prices has resulted in gross margin expansion
- **Pumps** – Pumps has seen strong growth with market share gains in residential pumps segment and healthy execution in the of the solar pumps with revenue of Rs210mn in Q1. Order-book of solar pumps continues to remain healthy. There is opportunity to improve share in submersible pumps, focus will remain on agri pumps as company is not as strong on agri side as compared to residential pumps
- **Appliances growth** – Appliances growth has been driven by strong sales of Air-coolers which has seen highest ever sales. Air-coolers volume growth stood at 68%. Some supply glitches in Fans and Air-coolers has resulted in loss of revenue in Q1
- **Large Appliances** – Large appliances business continues to trend well with EBITDA losses as per the expectation. Large kitchen appliances are now available at 100 EBO's.
- **Lighting** – Lighting growth has been muted as there has been price erosion in B2C product portfolio. LED batten and ceiling lights has seen strong double digit volume growth. The company has stopped selling conventional lighting has also impacted lighting revenue. B2B lighting has seen robust growth led by street light and industrial lighting.
- **A&P Spends** – A&P spends has increased by 30% on yoy basis and 60% on the sequential basis.
- **New products launches** – The company has launched 41 new products in Q1. The company has secured patent for 2 innovative cooling products for kitchen.
- **Price hikes** – The company has increased fans price of 1.5% from mid-May and company is evaluating further price increase.
- **Channel growth** – E-commerce has seen growth of 82%, rural channel has increased 16% and modern retail has grown by 22%. Share of business from alternate channel will continue to increase in next 2-3 years. The company want to adopt balanced approach across the channel.
- **Debt** – The company has Rs3bn worth of NCD which had been taken on account of butterfly acquisition. Crompton has become Net cash company and healthy cash flow will result in increased investments and higher dividends.
- **New product categories** – The company will enter only those product category which are adjacent to existing product category and the company can see right to win opportunity.
- **Growth in Appliances have been on back of market share gains and company is still a smaller player in the appliances space as compared to other categories.**
- **Butterfly Appliances** – Butterfly strategy is work in progress. 1HFY25 would be decline and growth would be resume from 2HFY25 as strategy is being implement which would take an another quarter. A&P spends for butterfly stood at 4.5% vs 3.5% in the previous year.
- **In-house vs Outsourced for Fans** – Split between in-house vs outsourced would be 50%-50% equally.
- **Fans market share according to the company would be 28-29%. Premium fans now contribute 25% of the fans category vs 16-17% 2-3 years back.**

FINANCIALS

Exhibit 10: 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	40,824
Net worth	32,354	31,077	34,490	37,945	42,110
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	47,264
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	4,989
Total Assets	50,441	42,425	43,184	43,824	47,264

Source: Company, YES Sec

Exhibit 11: 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	1,233
Profit before tax	7,645	6,121	5,731	8,198	9,882
Taxes	1,732	1,358	1,313	2,063	2,487
Minorities and other	-	-	-	-	-
Adj. profit	5,914	4,764	4,418	6,134	7,395
Exceptional items	130	-	-	-	-
Net profit	5,784	4,764	4,418	6,134	7,395

Source: Company, YES Sec

Exhibit 12: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Profit before tax	7,998	7,213	6,523	8,593	10,145
Depreciation	423	1,159	1,288	1,399	1,467
Tax paid	(1,732)	(1,358)	(1,313)	(2,063)	(2,487)
Working capital Δ	(3,309)	7,041	32	(1,347)	(231)
Other operating items					
Operating cashflow	3,381	14,056	6,530	6,581	8,894
Capital expenditure	(23,318)	(1,011)	(1,074)	(1,224)	(1,224)
Free cash flow	(19,938)	13,046	5,456	5,357	7,670
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)	(3,229)
Net Δ in cash	(908)	(948)	952	(364)	3,632

Source: Company, YES Sec

Exhibit 13: Du-point analysis

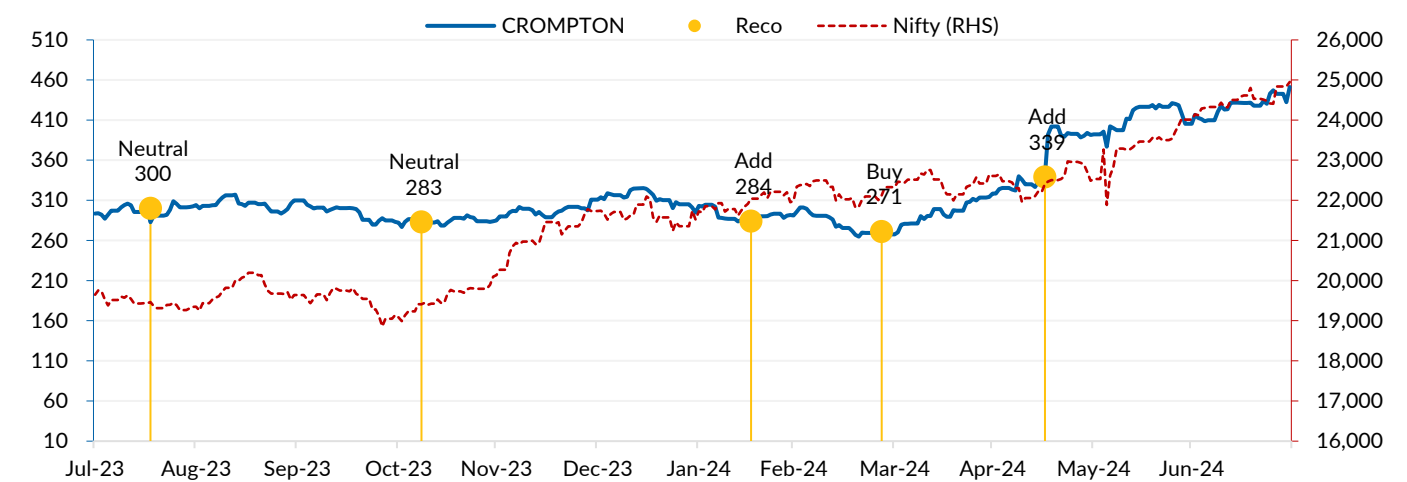
Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Tax burden (x)	0.77	0.78	0.77	0.75	0.75
Interest burden (x)	0.96	0.85	0.88	0.95	0.97
EBIT margin (x)	0.15	0.11	0.09	0.10	0.11
Asset turnover (x)	1.07	1.14	1.25	1.36	1.43
Financial leverage (x)	1.95	1.91	1.79	1.71	1.65
RoE (%)	22.9	15.0	13.5	16.9	18.5

Exhibit 14: 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	18.1
Net profit growth	(4.1)	(19.4)	(7.3)	38.9	20.5
Profitability ratios (%)					
OPM	14.3	11.2	9.8	10.8	11.0
EBIT margin	14.8	10.5	8.9	10.2	10.8
Net profit margin	11.0	6.9	6.0	7.3	7.8
RoCE	22.1	16.3	16.1	21.1	23.9
RoNW	22.9	15.0	13.5	16.9	18.5

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
RoA	11.7	7.9	7.5	9.9	11.2
Per share ratios					
EPS	9.3	7.5	6.9	9.5	11.5
Dividend per share	2.5	3.0	3.0	4.2	5.0
Cash EPS	10.0	9.3	8.9	11.7	13.8
Book value per share	51.1	48.9	53.6	59.0	65.5
Valuation ratios					
P/E	49.4	60.2	65.7	47.3	39.2
P/CEPS	46.0	48.4	50.8	38.5	32.7
P/B	11.6	10.8	9.7	8.7	7.7
EV/EBIDTA	39.0	38.3	41.2	32.1	27.7
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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