

# CROMPTON GREAVES CONSUMER ELECTRICALS

Mixed Quarter, Crompton 2.0 strategy in place

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Crompton results were a mixed bag wherein steady performance seen across ECD and lighting product segments marred by the soft performance of Butterfly (revenue down 6%, EBIT margin at -0.8%). ECD segment continued to perform well registering 18% YoY growth in revenues while ECD margins stood at 13.6%. The Lighting segment rose a little under 1% YoY, after several quarters of YoY declines. Butterfly (BGAL) remains a work in progress as its channel correction initiatives will continue for some time. Management firmly backs Crompton 2.0 strategy and its focus on growing its portfolio across fans/pumps along with scaling its kitchen portfolio and transforming lighting is expected to bear fruits with some initial green shoots visible. In the medium to long term product and distribution synergies expected to lead to better growth. Further with focus on product innovation (differentiated and premium products), GTM and cost optimization will reap benefits. We believe these initiatives will likely bode well with steady market share gains and margin improvement over the medium term. We have pruned down our estimates largely on account of BGAL performance and also introduce FY26 estimates. Hence, we maintain BUY with a revised TP of ₹335.

## Q3FY24 Result Summary

Consolidated revenue grew by 12% YoY to ₹16. Ex-BGAL, revenue grew by 15% YoY. Gross margin was flat YoY at 32.5%. EBITDA fell by 2% YoY to ₹1.5 bn while the margin contracted by 120bps YoY to 8.8% (HSIE: 10%). Employee/other expenses grew by 9%/23% YoY. A&P spending was up 65%. As a % of sales, employee/A&P expenses saw a -20/+140bps change YoY. Standalone EBITDA grew by 13%, with the margin falling 20bps to 10.1%. PBT fell by 2% YoY to INR1.1 bn while APAT grew by 1% YoY to ₹ 860 mn. Standalone PBT/PAT grew by 17%/13%.

## Segment results

ECD revenue grew by 19% YoY to ₹12.1 bn driven by fans, pumps and appliances while margin contracted 230bps YoY to 13.6%. Fans/pumps/appliances grew by 11%/28%/23%. Lighting revenue grew by 1% YoY to ₹2.5 bn driven by 4% YoY growth in the B2B segment, while the B2C segment faced price erosion in battens and lamps while the margin expanded 90bps YoY to 11.2%. BGAL revenue fell 6% YoY to ₹2.3 bn. BGAL registered a 4% YoY drop in revenue, mainly due to a 75% YoY plunge (₹340 mn) in corporate sales. On the other hand, the core categories such as mixer-grinders, gas stoves and pressure cookers saw a 12% YoY increase. Within this, stainless steel gas stoves and pressure cookers had a 47% YoY and 200% YoY growth, respectively.

Key Financials	FY22	FY23	FY24E	FY25E	FY26E
Total Sales (₹ bn)	54	69	72	82	92
EBITDA Margins (%)	14.3	11.2	9.8	11.0	11.8
PAT Margins	10.7	6.9	5.9	7.2	7.9
EPS (₹)	9.3	7.5	6.7	9.2	11.4
P/E(x)	30.4	37.9	42.5	30.9	25.0
P/BV (x)	5.56	5.82	5.41	4.89	4.38
EV/EBITDA (x)	23.5	23.8	25.5	19.5	16.1
RoE(%)	22.9	15.0	13.2	16.6	18.5
RoCE(%)	14.9	16.2	15.0	19.7	21.4
Dividend Yield (%)	0.9	1.1	0.9	1.3	1.6

Rating	BUY
Current Market Price (₹)	283
12 M Price Target (₹)	335
Potential upside (%)	18

## Stock Data

Sector :	Consumer Durables
FV (₹) :	2
Total Market Cap (₹ bn) :	182
Free Float Market Cap (₹ bn) :	182
52-Week High / Low (₹)	328 / 251
BSE Code / NSE Symbol	539876 / CROMPTON
Bloomberg :	CROMPTON IN

## Shareholding Pattern

(%)	Dec-23	Sep-23	Jun-23	Mar-23
Promoter	-	-	-	-
FPIs	35.58	35.65	34.99	39.62
MFs	36.01	35.43	37.49	33.18
Insurance	10.18	10.16	9.14	9.37
Others	18.23	18.76	18.38	17.83

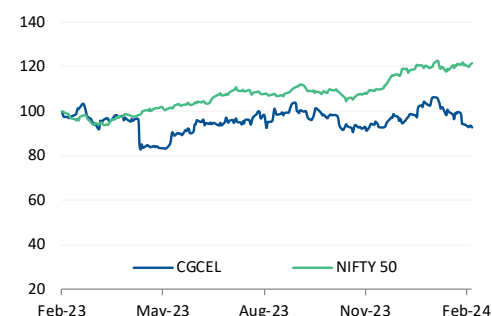
Source: BSE

## Price Performance

(%)	1M	3M	6M	1YR
CGCEL	-11.1%	-0.1%	0.7%	-5.1%
Nifty 50	0.0%	11.5%	13.2%	22.2%

\* To date / current date : February 16, 2024

## CGCEL vs Nifty 50



The company gained market share in all core categories in 3QFY24. The new products contributed 14% of the total revenue. The segment reported a negative EBIT of ₹19 mn as a result of higher spending on brand building and disproportionate A&P expenses in retail and e-commerce, investments in people capabilities and a 16% hike in salaries from April 2023.

### Outlook and Valuation

With management firm backing for Crompton 2.0 and its focus on growing its portfolio across fans/pumps along with scaling its kitchen portfolio and transforming lighting is expected to bear fruits with some initial green shoots visible. In the medium to long term product and distribution synergies expected to lead to better growth. Further with focus on product innovation (differentiated and premium products), GTM and cost optimization will reap benefits. We believe these initiatives accompanied by some recovery in margins on the back of Butterfly synergies, consumer demand recovery, pricing actions and operating leverage with steady market share gains will likely bode well over the medium term. We have pruned down our estimates largely on account of BGAL performance and also introduce FY26 estimates. Hence, we maintain BUY with a revised TP of ₹335.

### Concall Highlights

- Premium fans' saliency improved by 220bps YoY to 26.5%.
- Management said the company has gained market share in the fan industry (which has slow volume growth) due to new launches and laddering actions. Management also said the company has 50% in-house manufacturing for the fan category and it is planning to increase it as the capacity utilization is quite low.
- Within pumps, agri pumps revenue grew 39%. Secured and executed solar pumps order for Haryana; the company is investing more in in-house production. According to the company, it continues to be the market leader in the residential pump segment
- Registered highest quarterly sales of water heaters; it is also working on increasing the share of premium products in water heaters & air coolers. The entire category is outsourced. The company claims to be among the top 3 players in the geyser market
- Built-in kitchen appliance revenue stood at ₹190 mn in Q3FY24.
- Crompton has initiated further price hikes in the last couple of weeks in fans and pumps.
- Operational integration of BGAL remains on track.
- Channels. The alternate channels, which constitute e-commerce and the rural market, have registered 38% yoy growth. The e-commerce channel witnessed a 94% yoy surge, driven by appliances, especially water heaters, which achieved the #1 position in this channel.
- A&P spends. The cumulative A&P expenses for Q2FY24 and Q3FY24 have increased to ₹920 mn (~2.6% of sales) from ₹570 mn (~1.8% of sales). Out of this, A&P investments in Butterfly stand at ₹220 mn (31% yoy growth) in Q3FY24 for brand building

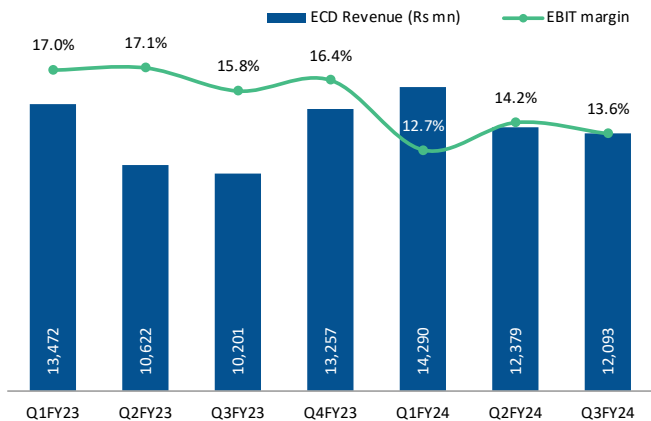
## Quarterly Snapshot

(₹ mn)	Q3 FY24	Q3 FY23	YoY	Q2 FY24	QoQ
Revenue	16,927	15,162	12.0%	17,823	-5.0%
RM Cost	11,428	10,230	12.0%	12,240	-7.0%
% of sales	67.5%	67.5%	0bps	68.7%	-120bps
Gross Profit	5,499	4,932	11.0%	5,582	-1.0%
GPM %	32.5%	32.5%	0bps	31.3%	120bps
Employee Cost	1,457	1,341	9.0%	1,501	-3.0%
% of sales	8.6%	8.8%	-20bps	8.4%	20bps
Other Expenses	2,544	2,067	23.0%	2,336	9.0%
% of sales	15.0%	13.6%	140bps	13.1%	190bps
EBITDA	1,498	1,524	-2.0%	1,745	-14.0%
EBITDAM %	8.8%	10.1%	120bps	9.8%	-90bps
Other income	167	213	-22.0%	149	12.0%
Depreciation	325	297	9.0%	321	1.0%
EBIT	1,340	1,440	-7.0%	1,573	-15.0%
EBIT Margin %	7.9%	9.5%	-158bps	8.8%	-90bps
Interest	215	294	-27.0%	215	0.0%
PBT before exceptional item	1,125	1,146	-2.0%	1,358	-17.0%
Tax Expense	270	264	2.0%	349	-23.0%
ETR (%)	24.0%	23.0%	100bps	25.7%	-170bps
Profit before JV/Associates/NCI	855	882	-3.0%	1,009	-15.0%
Non-controlling Interest	(5)	29		37	na
Exceptional item	-	-		-	na
PAT	860	852	1.0%	972	-12.0%
Adj. PAT	860	852	1.0%	972	-12.0%
Adj. EPS (₹)	1.3	1.3	0.0%	1.5	-12.0%
<b>Revenue (₹ mn)</b>	<b>Q3FY24</b>	<b>Q3FY23</b>	<b>YoY</b>	<b>Q2FY24</b>	<b>QoQ</b>
ECD	12,093	10,201	19.0%	12,380	-2.0%
Lighting	2,494	2,477	1.0%	2,387	4.0%
BGAL	2,341	2,484	-6.0%	3,056	-23.0%
<b>Total</b>	<b>16,927</b>	<b>15,162</b>	<b>12.0%</b>	<b>17,823</b>	<b>-5.0%</b>
<b>EBIT (₹ mn)</b>	<b>Q3FY24</b>	<b>Q3FY23</b>	<b>YoY</b>	<b>Q2FY24</b>	<b>QoQ</b>
ECD	1,642	1,617	2.0%	1,755	-6.0%
Lighting	280	255	10.0%	250	12.0%
BGAL	(19)	181	na	292	na
<b>Total</b>	<b>1,903</b>	<b>2,052</b>	<b>-7.0%</b>	<b>2,297</b>	<b>-17.0%</b>
<b>EBIT Margin %</b>	<b>Q3FY24</b>	<b>Q3FY23</b>	<b>YoY</b>	<b>Q2FY24</b>	<b>QoQ</b>
ECD	13.6%	15.8%	-230bps	14.2%	-60bps
Lighting	11.2%	10.3%	90bps	10.5%	80bps
BGAL	-0.8%	7.3%	-810bps	9.6%	-1040bps
<b>Total</b>	<b>11.2%</b>	<b>13.5%</b>	<b>-230bps</b>	<b>12.9%</b>	<b>-160bps</b>

Source: Company, LKP Research

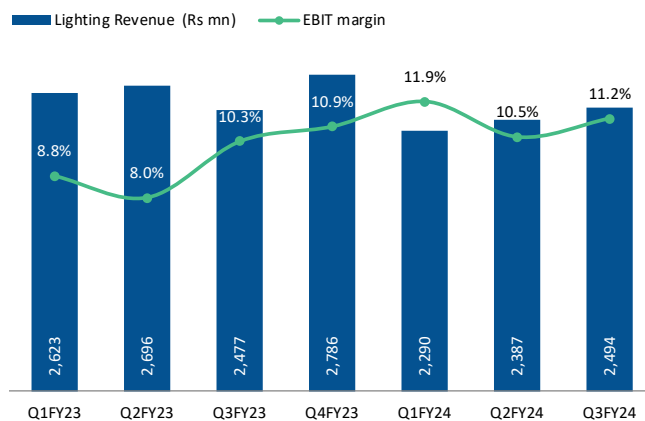
Financials in charts

ECD Revenues and EBIT margins

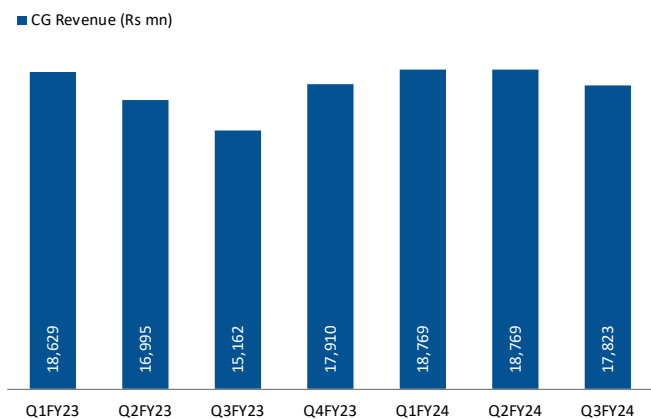


Source: Company, LKP Research

Lighting Revenues and EBIT margins

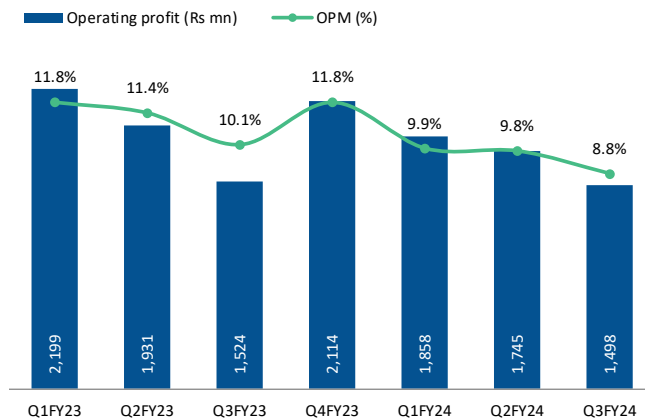


Revenues



Source: Company, LKP Research

EBITDA and Margins



### Profit and Loss Statement - Consolidated

(₹ mn)	FY22	FY23	FY24E	FY25E	FY26E
<b>Total Income</b>	<b>53,941</b>	<b>68,696</b>	<b>72,494</b>	<b>82,173</b>	<b>92,317</b>
Raw material Cost	37,018	46,804	49,513	55,919	62,406
Employee Cost	3,624	5,408	6,335	6,380	6,440
Other expenses	5,605	8,780	9,557	10,833	12,606
Total operating Expenses	46,247	60,991	65,406	73,131	81,452
<b>EBITDA</b>	<b>7,695</b>	<b>7,705</b>	<b>7,089</b>	<b>9,042</b>	<b>10,865</b>
<i>EBITDA Margins(%)</i>	<i>14.3</i>	<i>11.2</i>	<i>9.8</i>	<i>11.0</i>	<i>11.8</i>
Depreciation & Amortisation	423	1,159	1,227	1,404	1,620
<b>EBIT</b>	<b>7,272</b>	<b>6,545</b>	<b>5,862</b>	<b>7,637</b>	<b>9,245</b>
Interest	353	1,092	848	508	254
Other Income	727	668	684	741	763
<b>Recurring PBT</b>	<b>7,645</b>	<b>6,121</b>	<b>5,698</b>	<b>7,870</b>	<b>9,754</b>
Add: Extraordinaries	-	-	-	-	-
Add: Share in associates					
<b>PBT</b>	<b>7,645</b>	<b>6,121</b>	<b>5,698</b>	<b>7,870</b>	<b>9,754</b>
Less: Taxes	1,732	1,358	1,413	1,991	2,468
Less: Minority Interest & Share in associates					
<b>Net Income (Reported)</b>	<b>5,914</b>	<b>4,764</b>	<b>4,285</b>	<b>5,879</b>	<b>7,286</b>
<b>Adjusted Net Income</b>	<b>5,784</b>	<b>4,764</b>	<b>4,285</b>	<b>5,879</b>	<b>7,286</b>

### Balance Sheet

(₹ mn)	FY22	FY23	FY24E	FY25E	FY26E
<b>Assets</b>					
Total Current Assets	25,380	18,298	18,364	20,769	25,356
of which cash & cash eqv.	9,152	1,095	1,146	1,605	3,266
Total Current Liabilities & Provisions	15,662	16,123	17,884	20,606	20,702
<b>Net Current Assets</b>	<b>9,717</b>	<b>2,175</b>	<b>481</b>	<b>162</b>	<b>4,654</b>
Investments	6,242	5,482	5,482	5,482	5,482
Net Fixed Assets	19,880	19,645	19,918	20,014	19,894
<b>Capital Work-in-Progress</b>	<b>130</b>	<b>265</b>	<b>265</b>	<b>265</b>	<b>265</b>
Goodwill	12,855	12,855	12,855	12,855	12,855
<b>Total Assets</b>	<b>48,824</b>	<b>40,422</b>	<b>39,001</b>	<b>38,778</b>	<b>43,150</b>
<b>Liabilities</b>					
Borrowings	16,075	9,222	5,222	1,472	1,472
Deferred Tax Liability	394	123	123	123	123
Minority Interest	-	-	-	-	-
Equity Share Capital	1,267	1,272	1,280	1,280	1,280
Face Value per share (₹)	2.0	2.0	2.0	2.0	2.0
Reserves & Surplus	31,087	29,805	32,376	35,903	40,275
<b>Net Worth</b>	<b>32,354</b>	<b>31,077</b>	<b>33,656</b>	<b>37,183</b>	<b>41,555</b>
<b>Total Liabilities</b>	<b>48,824</b>	<b>40,422</b>	<b>39,001</b>	<b>38,778</b>	<b>43,150</b>

## Key Ratios

(₹ mn)	FY22	FY23	FY24E	FY25E	FY26E
<b>Per Share Data (in ₹)</b>					
AEPS	9.3	7.5	6.7	9.2	11.4
CEPS	10.0	9.3	8.6	11.4	13.9
BVPS	50.9	48.5	52.6	58.1	64.9
DPS	2.5	3.0	2.7	3.7	4.6
<b>Growth Ratios (%)</b>					
Total Revenues	13.6	27.4	5.5	13.4	12.3
EBITDA	9.2	0.1	(8.0)	27.6	20.2
PAT	(4.4)	(17.6)	(10.1)	37.2	23.9
AEPS	(3.1)	(19.8)	(10.6)	37.2	23.9
CEPS	(0.6)	(7.1)	(7.0)	32.2	22.3
<b>Valuation Ratios</b>					
P/E	30.4	37.9	42.5	30.9	25.0
P/CEPS	28.5	30.7	33.0	25.0	20.4
P/BV	5.6	5.8	5.4	4.9	4.4
EV / EBITDA	23.5	23.8	25.5	19.5	16.1
EV / Sales	3.3	2.7	2.5	2.1	1.9
<b>Operating Ratio</b>					
Raw Material/Sales (%)	68.6	68.1	68.3	68.1	67.6
SG&A/Sales (%)	10.4	12.8	13.2	13.2	13.7
Effective Tax Rate (%)	22.6	22.2	24.8	25.3	25.3
NWC / Total Assets (%)	1.2	2.7	(1.7)	(3.7)	3.2
Inventory Turnover (days)	48.8	39.5	39.0	39.0	39.0
Receivables (days)	41.6	36.5	34.0	34.0	36.0
Payables (days)	100.4	81.8	86.0	90.0	80.0
D/E Ratio (x)	0.5	0.3	0.2	0.0	0.0
<b>Return/Profitability Ratio (%)</b>					
RoCE	14.9	16.2	15.0	19.7	21.4
RoNW	22.9	15.0	13.2	16.6	18.5
Dividend Payout Ratio	26.8	40.1	40.0	40.0	40.0
Dividend Yield	0.9	1.1	0.9	1.3	1.6
PAT Margins	10.7	6.9	5.9	7.2	7.9
EBITDA Margins	14.3	11.2	9.8	11.0	11.8

### Cash Flow Statement

(₹ mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	7,645	6,121	5,698	7,870	9,754
Depreciation	423	1,159	1,227	1,404	1,620
Chng in working capital	1,005	(1,039)	1,746	777	(2,831)
Tax paid	(1,798)	(1,399)	(1,413)	(1,991)	(2,468)
Cash flow from operations (a)	7,234	5,526	7,421	7,827	5,566
Free cash flow	5,522	4,735	5,921	6,327	4,066
Capital expenditure	(1,712)	(791)	(1,500)	(1,500)	(1,500)
Chng in investments	(15,893)	2,908	-	-	-
Other investing activities	376	515	684	741	763
Cash flow from investing (b)	(17,229)	2,632	(816)	(759)	(737)
Inc/dec in borrowings	14,069	9,250	(4,000)	(3,750)	-
Dividend paid (incl. tax)	(1,564)	(1,578)	(1,714)	(2,352)	(2,914)
Interest paid	(505)	(765)	(848)	(508)	(254)
Other financing activities	(3,530)	(16,429)	-	-	-
Cash flow from financing (c)	9,073	(9,105)	(6,554)	(6,610)	(3,169)
Net chng in cash (a+b+c)	(922)	(948)	51	459	1,661
Closing cash & cash equivalents	9,152	1,095	1,146	1,605	3,266

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