

CROMPTON GREAVES CONSUMER ELECTRICALS

Good quarter with all round performance

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Crompton's consolidated sales rose by 13.9% YoY to ₹21.4 bn, aligning with expectations. The ECD segment saw a 21% YoY increase, reaching ₹17.3 bn, driven by robust growth in fans (16%) and coolers (68% volume growth), supported by harsh summer conditions and price hikes. Appliances grew by 30%, led by coolers and mixer grinders, while pumps also saw a 30% YoY increase. The company continues to capture market share in fans, pumps, and appliances. However, lighting sales remained subdued YoY at ₹2.3 bn, as strong growth in B2B was offset by ongoing price erosion in B2C. Gross margin improved by 110 basis points YoY to 31.9% due to cost savings, pricing strategies, and premiumization. EBITDA increased by 25% YoY to ₹2.3 bn, resulting in a 100 bps YoY rise in EBITDA margin to 10.9%, which was better than expected. PAT grew 28% YoY to ₹1.5 bn. The company is focusing on boosting the performance of the Butterfly brand, with a recovery anticipated starting in H2FY25. Crompton will continue to invest in branding, R&D, and enhancing capabilities, in line with sales growth. The implementation of Crompton's 2.0 strategies is showing positive results and is expected to drive consistent market share gains and margin improvements in the medium term. Given these developments, we maintain a BUY rating with a revised target price of ₹510.

Segment Results

ECD: The ECD segment saw a 21% YoY increase in sales to ₹17.3 bn, driven by broad-based growth. The EBIT margin improved by 230 bps YoY to 15%, supported by premiumization, an enhanced product mix, and strategic pricing actions. Fans grew by 16% YoY (15% in volume terms), with the increase driven by TPW fans and a fourth consecutive quarterly price hike of 1.5% in Q1, which boosted gross margins. Premiumization now accounts for 25% of fan sales, leading to an increased market share of 28-29%. Pumps grew by 30% YoY, benefiting from strong performance in residential pumps where market share rose by 210 bps to 31.5%, with a focus on expanding agri and solar pumps. Air coolers experienced a 68% YoY volume increase, selling 200,000 units. Large domestic appliances grew by 25% YoY, while mixer grinders grew by 20% YoY.

Lighting: Lighting sales remained flat YoY at ₹2.3 bn. While there was double-digit volume growth in B2C battens and ceiling lights, this was offset by LED price erosion and the discontinuation of conventional products. B2B growth, driven by streetlights and the industrial segment, remained strong. However, EBIT margin declined by 300 bps YoY to 8.9% due to increased A&P expenditures, which amounted to ₹60 mn or 2.4% of sales.

Key Financials	FY22	FY23	FY24	FY25E	FY26E
Total Sales (₹ bn)	54	69	73	85	99
EBITDA Margins (%)	14.3	11.2	9.8	10.7	11.6
PAT Margins	10.7	6.7	6.0	7.2	8.2
EPS (₹)	9.3	7.5	6.9	9.5	12.6
P/E (x)	48.7	60.8	66.2	47.9	36.0
P/BV (x)	8.91	9.31	8.48	7.67	6.80
EV/EBITDA (x)	37.5	37.9	40.5	31.3	24.6
RoE(%)	22.9	15.0	13.5	16.8	20.0
RoCE(%)	14.9	16.2	14.4	19.2	22.9
Dividend Yield (%)	0.5	0.7	0.7	0.8	1.1

BUY

Current Market Price (₹)	450
12 M Price Target (₹)	510
Potential upside (%)	13

Stock Data

Sector :	Consumer Durables
FV (₹) :	2
Total Market Cap (₹ bn) :	251
Free Float Market Cap (₹ bn) :	251
52-Week High / Low (₹)	471 / 261
BSE Code / NSE Symbol	539876 / CROMPTON
Bloomberg :	CROMPTON IN

Shareholding Pattern

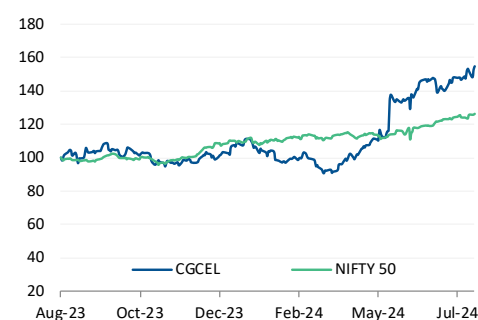
(%)	Jun-24	Mar-24	Dec-23	Sep-23
Promoter	-	-	-	-
FPIs	34.36	32.18	35.58	35.65
MFs	42.31	40.21	36.01	35.43
Insurance	8.11	9.79	10.18	10.16
Others	15.22	17.82	18.23	18.76

Source: BSE

Price Performance

(%)	1M	3M	6M	1YR
CGCEL	11.4%	41.8%	49.0%	54.5%
Nifty 50	3.9%	10.4%	14.8%	26.4%

* To date / current date : July 31, 2024

CGCEL vs Nifty 50

Butterfly: Butterfly sales decreased by 19% YoY to ₹1.8 bn. The online channel faced challenges due to process streamlining and pricing adjustments, although retail growth persisted. The new management is implementing various strategies, including pricing actions, product laddering, and channel optimization, but turning around Butterfly remains a work in progress. The EBIT margin fell by 500 bps YoY to 2.3%, partly due to higher A&P expenses, which accounted for 4% of sales.

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. Taking into account these recent developments, we maintain a BUY rating with a revised target price of ₹510.

Q1 FY25 Result Summary

(₹ mn)	Q1FY25	Q1FY24	YoY(%)	Q4FY24	QoQ(%)
Revenue	21,377	18,769	13.9	19,610	9
Direct Costs	14,561	12,983	12.2	13,352	9.1
Gross Profit	6,816	5,786	17.8	6,258	8.9
Gross margin (%)	31.9	30.8	106 bps	31.9	-
Staff Cost	1,617	1,434	12.8	1,507	7.3
Other Expenses	2,875	2,494	15.3	2,715	5.9
Total Expenditure	19,053	16,911	12.7	17,574	8.4
EBITDA	2,324	1,858	25.1	2,036	14.1
EBITDA Margin (%)	10.9	9.9	97 bps	10.4	49 bps
Depreciation	372	292	27.3	350	6
EBIT	1,952	1,566	24.7	1,686	15.8
Interest	155	206	-24.6	156	-0.3
Other Income	238	198	20.1	160	48.3
PBT	2,035	1,558	30.6	1,690	20.4
Tax	511	338	51.3	356	43.6
Less : Minority interest	6	37	-82.9	-49	NA
PAT after minority interest	1,517	1,184	28.2	1,384	9.7
EPS (₹/share)	2.4	1.9	27.5	2.2	9.6

Segment Results

Revenue (₹ mn)	Q1FY25	Q1FY24	YoY(%)	Q4FY24	QoQ(%)
ECD	17,266	14,290	20.8	15,160	13.9
Lighting	2,333	2,290	1.9	2,811	-17.0
Butterfly	1,777	2,189	-18.8	1,639	8.4
Total	21,377	18,769	13.9	19,610	9.0

EBIT (₹ mn)	Q1FY25	Q1FY24	YoY(%)	Q4FY24	QoQ(%)
ECD	2,587	1,816	42.4	2,533	2.1
Lighting	209	273	-23.6	251	-16.8
Butterfly	41	160	-74.3	-261	NA
Total	2,836	2,249	26.1	2,523	12.4

EBIT Margin %	Q1FY25	Q1FY24	YoY (bps)	Q4FY24	QoQ (bps)
ECD	15.0	12.7	230	16.7	-170
Lighting	8.9	11.9	-300	8.9	0
Butterfly	2.3	7.3	-500	-15.9	1820

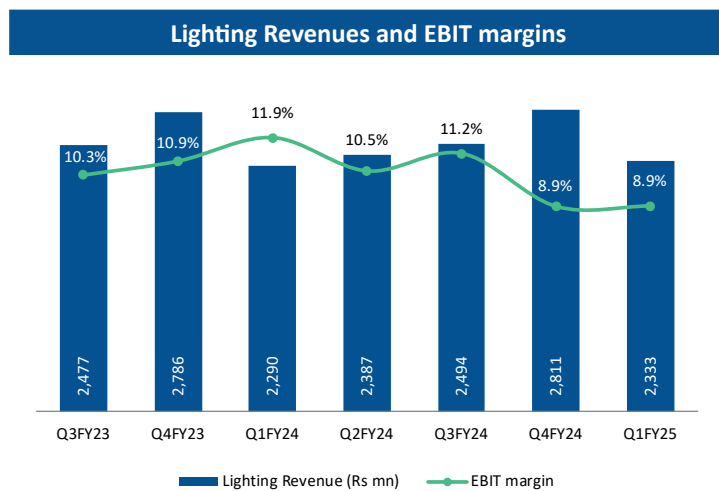
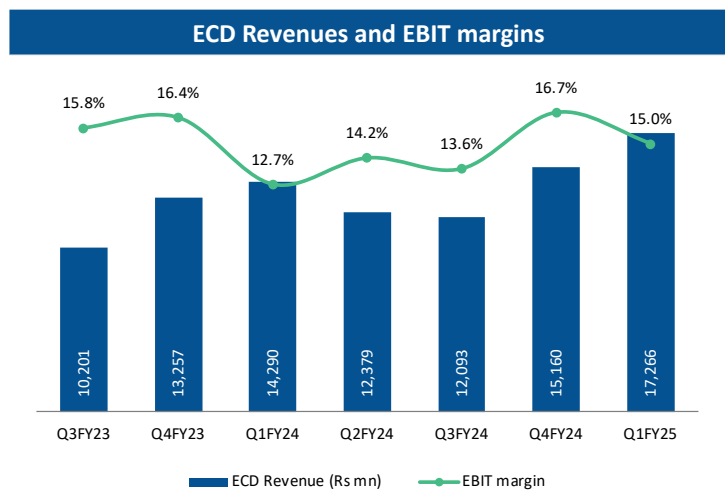
Source: Company, LKP Research

Key Concall Highlights:

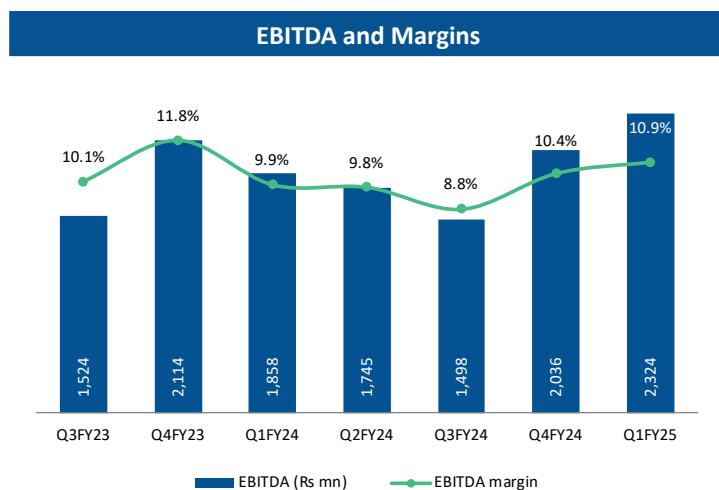
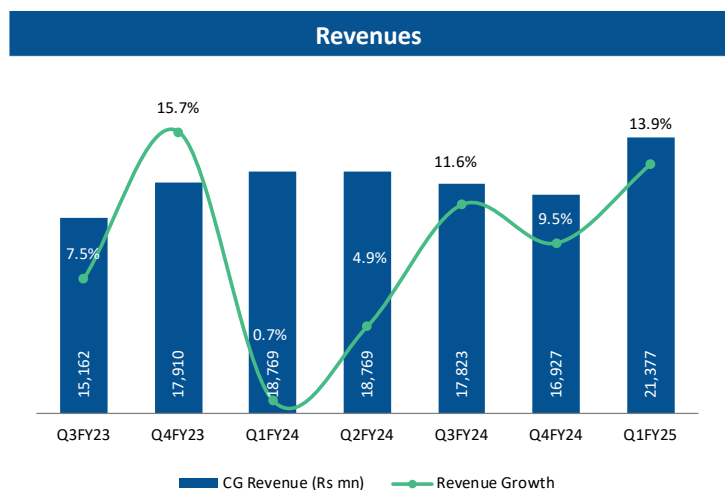
- Growth has been widespread, with Fans increasing by 16%, Pumps by 30%, and Appliances by 24% YoY. The company is closely monitoring consumer demand and is seeing early indications of improvement.
- **Channel-wise growth rates:** E-commerce saw growth of 82%, rural at 16%, and modern retail at 22% YoY. The company aims to take a balanced approach across all channels.
- E-commerce sales have exceeded ₹1 bn for the fourth consecutive quarter.
- A&P spends grew by 30% YoY and 60% QoQ.
- Launched 41 new products in Q1. Continued focus on Innovation led to securing 2 patents for cooling products for kitchen.
- The company will only venture into product categories that are closely related to its current offerings and where it perceives a clear opportunity for success.
- The large appliances business is performing as expected, with EBITDA losses in line with projections. Large kitchen appliances are now offered at 100 exclusive brand outlets (EBOs).
- **Fans:** Hike in pricing of Fans to offset the rise in raw material costs has led to an increase in gross margin. The company raised fan prices by 1.5% starting in mid-May and is considering additional price hikes. Fan volume growth is projected to be about 15% YoY, with value growth of 16-17%. The industry is expected to have grown at a slower rate. According to the company, its market share in fans is projected to be ~28-29%. Premium fans now account for 25% of the category, up from 16-17%, 2-3 years ago. The goal is to achieve 40-45% within the medium term of 4-5 years.
- **Debt:** The company holds ₹3 bn in Non-Convertible Debentures (NCDs) from the butterfly acquisition. Crompton has become a net cash company, and strong cash flow will lead to greater investments and higher dividends.
- **Manufacturing:** The split between in-house and outsourced would be equally divided, with each accounting for 50%.
- **Pumps:** Pumps have shown strong growth with increased market share in residential and solar pumps, earning ₹210 mn in Q1. The solar pump order book is solid. There's potential to boost market share in submersible pumps, with a focus on improving the agricultural pump segment, where the company is less established compared to residential. In Residential pumps, Crompton already is market leader with 31% share.
- **Geysers:** Crompton is one of the top three players in Geysers and aims to increase its channel presence.
- **Air coolers:** Sold 200,000 units of air coolers per quarter over the last two quarters, with a volume growth of 68% YoY.
- **Kitchen Appliances:** In Kitchen Appliances, Crompton is the second largest player following the Butterfly acquisition. The initial goal for Crompton-branded large kitchen appliances is to grow it into a ₹1 bn business. Mixers saw a 20% YoY growth with increased market share, driven by broad-based expansion. Higher wattage mixers have also been introduced.
- **Lighting:** Lighting growth has been subdued due to price erosion in the B2C product portfolio. However, LED battens and ceiling lights have experienced strong double-digit volume growth. The company's decision to cease selling conventional lighting has also affected lighting revenue. On the other hand, B2B lighting has shown robust growth, driven by street and industrial lighting. In the lighting segment, no money was spent on advertising and promotion last year. However, ₹60 mn was allocated for A&P in Q1.

- Butterfly Gandhimathi Appliances:** Efforts are underway to achieve price parity and optimize channels. The Butterfly strategy is still being developed, with a decline expected in H1FY25 and growth anticipated to resume in H2FY25 as the strategy is fully implemented, which will take another quarter. Pricing actions have been taken regarding, product laddering, and streamlining the e-commerce channel. A&P expenditure for Butterfly has increased to 4.5%, compared to 3.5% the previous year.

Financials in charts



Source: Company, LKP Research



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Profit and Loss Statement - Consolidated

(₹ mn)	FY22	FY23	FY24	FY25E	FY26E
Total Income	53,941	68,696	73,128	85,365	99,021
Raw material Cost	37,018	46,804	50,003	58,389	66,938
Employee Cost	3,624	5,408	5,899	6,606	6,440
Other expenses	5,605	8,780	10,089	11,263	14,158
Total operating Expenses	46,247	60,991	65,991	76,258	87,537
EBITDA	7,695	7,705	7,137	9,107	11,485
EBITDA Margins(%)	14.3	11.2	9.8	10.7	11.6
Depreciation & Amortisation	423	1,159	1,288	1,338	1,498
EBIT	7,272	6,545	5,849	7,769	9,987
Interest	353	1,092	792	625	236
Other Income	727	668	674	788	801
Recurring PBT	7,645	6,121	5,730.70	7,932	10,552
Add: Extraordinaries	-	-	-	-	-
Add: Share in associates					
PBT	7,645	6,121	5,731	7,932	10,552
Less: Taxes	1,732	1,358	1,313	1,824	2,427
Less: Minority Interest & Share in associates					
Net Income (Reported)	5,914	4,764	4,418	6,107	8,125
Adjusted Net Income	5,784	4,632	4,399	6,107	8,125

Balance Sheet

(₹ mn)	FY22	FY23	FY24	FY25E	FY26E
Assets					
Total Current Assets	25,380	18,298	21,373	23,057	27,589
of which cash & cash eqv.	9,152	1,095	2,608	3,255	4,121
Total Current Liabilities & Provisions	15,662	16,123	20,238	21,370	21,979
Net Current Assets	9,717	2,175	1,135	1,687	5,610
Investments	6,242	5,482	6,891	6,891	6,891
Net Fixed Assets	19,880	19,645	19,114	18,476	17,678
Capital Work-in-Progress	130	265	585	585	585
Goodwill	12,855	12,855	12,855	12,855	12,855
Total Assets	48,824	40,422	40,579	40,493	43,618
Liabilities					
Borrowings	16,075	9,222	5,990	2,240	490
Deferred Tax Liability	394	123	99	99	99
Minority Interest	-	-	-	-	-
Equity Share Capital	1,267	1,272	1,286	1,286	1,286
Face Value per share (Rs)	2.0	2.0	2.0	2.0	2.0
Reserves & Surplus	31,087	29,805	33,204	36,868	41,743
Net Worth	32,354	31,077	34,490	38,154	43,029
Total Liabilities	48,824	40,422	40,579	40,493	43,618

Key Ratios

(₹ mn)	FY22	FY23	FY24	FY25E	FY26E
Per Share Data (in Rs.)					
AEPS	9.3	7.5	6.9	9.5	12.6
CEPS	10.0	9.2	8.9	11.6	15.0
BVPS	50.9	48.3	53.6	59.3	66.9
DPS	2.5	3.0	3.0	3.8	5.1
Growth Ratios (%)					
Total Revenues	13.6	27.4	6.5	16.7	16.0
EBITDA	9.2	0.1	(7.4)	27.6	26.1
PAT	(4.4)	(19.9)	(5.0)	38.8	33.0
AEPS	(3.1)	(19.8)	(8.3)	38.2	33.0
CEPS	(0.6)	(7.5)	(3.7)	30.5	29.2
Valuation Ratios					
P/E	48.3	60.2	65.7	47.5	35.7
P/CEPS	45.3	49.0	50.8	39.0	30.1
P/BV	8.8	9.2	8.4	7.6	6.7
EV / EBITDA	37.2	37.6	40.1	31.0	24.3
EV / Sales	5.3	4.2	3.9	3.3	2.8
Operating Ratio					
Raw Material/Sales (%)	68.6	68.1	68.3	68.4	67.6
SG&A/Sales (%)	10.4	12.8	13.8	13.2	14.3
Effective Tax Rate (%)	22.6	22.2	22.9	23.0	23.0
NWC / Total Assets (%)	1.2	2.7	(3.6)	(3.9)	3.4
Inventory Turnover (days)	48.8	39.5	41.4	41.0	40.0
Receivables (days)	41.6	36.5	36.6	37.0	37.0
Payables (days)	100.4	81.8	86.0	88.0	86.0
D/E Ratio (x)	0.5	0.3	0.2	0.1	0.0
Return/Profitability Ratio (%)					
RoCE	14.9	16.2	14.4	19.2	22.9
RoNW	22.9	15.0	13.5	16.8	20.0
Dividend Payout Ratio	26.8	40.1	43.7	40.0	40.0
Dividend Yield	0.6	0.7	0.7	0.8	1.1
PAT Margins	10.7	6.7	6.0	7.2	8.2
EBITDA Margins	14.3	11.2	9.8	10.7	11.6

Cash Flow Statement

(₹ mn)	FY22	FY23	FY24	FY25E	FY26E
PBT	7,645	6,121	5,731	7,932	10,552
Depreciation	423	1,159	1,288	1,338	1,498
Chng in working capital	1,005	(1,039)	2,226	95	(3,057)
Tax paid	(1,798)	(1,399)	(984)	(1,824)	(2,427)
Cash flow from operations (a)	7,234	5,526	8,434	7,378	6,001
Free cash flow	5,522	4,735	7,596	6,678	5,301
Capital expenditure	(1,712)	(791)	(838)	(700)	(700)
Chng in investments	(15,893)	2,908	(1,696)	-	-
Other investing activities	376	515	465	788	801
Cash flow from investing (b)	(17,229)	2,632	(2,069)	88	101
Inc/dec in borrowings	14,069	9,250	-	(3,750)	(1,750)
Dividend paid (incl. tax)	(1,564)	(1,578)	(1,912)	(2,443)	(3,250)
Interest paid	(505)	(765)	(754)	(625)	(236)
Other financing activities	(3,530)	(16,429)	(3,640)	-	-
Cash flow from financing (c)	9,073	(9,105)	(5,413)	(6,818)	(5,236)
Net chng in cash (a+b+c)	(922)	(948)	952	647	866
Closing cash & cash equivalents	9,152	1,095	2,608	3,255	4,121

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