

CMP: ₹ 408

Target: ₹ 465 (14%)

Target Period: 12 months

HOLD

February 24, 2022

Expansion through acquisition...

About the stock: Crompton Greaves Consumer (CGCEL) is among India's leading fast moving electrical goods (FMEG) companies, present in electrical consumer durables (78% of revenue) and lighting businesses (22% of revenue).

- Market leader in the domestic fan industry with value market share of 27%. The company has enhanced focus on increasing market share in home appliances categories like (air coolers, water heater and kitchen appliances)
- Robust balance sheet with RoE & RoCE of 34% & 39% (three-year average), respectively, with stringent working capital policy

Acquisition Details: CGCEL acquired a majority stake in Butterfly Gandhimathi Appliance (Butterfly) for a consideration of ~₹ 2077 crore. The transaction includes 55% stake and trademark license from Butterfly's promoters at ₹ 1410 crore (implied market cap of ₹ 2564 crore for Butterfly). CGCEL will also launch open offer for acquiring 26% stake from public for a consideration of ~₹ 667 crore (~₹ 1434/share). CGCEL will finance this acquisition through mix of debt and internal accruals (CGCEL had net cash of ₹ 1083 crore as on December 2021). With the offer price, Butterfly is valued at 2.9x FY21 sales and 71x FY21 earnings.

What should investors do? CGCEL's share price has grown by 2.1x in the past five years (from ~₹ 192 in February 2017 to ~₹ 408 levels in February 2022).

- We revise our rating from BUY to HOLD

Target Price & Valuation: With our SoTP based valuation, we arrive at a target price of ₹ 465/share ascribing CGCEL's standalone business 37x FY24E EPS and 2x FY24E sales to Butterfly.

Key triggers for future price performance:

- Total ~1.7 crore new houses under PMAY, replacement of ~20 million water pumps under government's flagship scheme KUSUM, urbanisation and rising aspiration are demand boosters of home appliances
- Dealer addition in areas with population 10,000-100,000 in next five years
- Expanding Butterfly products pan India leveraging existing dealer networks

Alternate Stock Idea: Apart from CGCEL, we also like Havells in the same space.

- Trigger for Havells' future revenue growth would be revival in Lloyds revenues and improvement in margin
- BUY with a target price of ₹ 1515



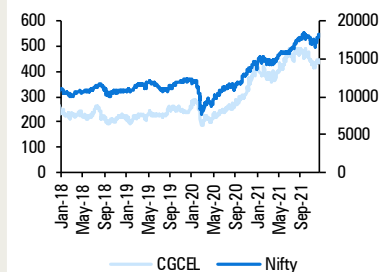
Particulars

Particular	Amount
Market cap (₹ crore)	25573.4
Total Debt (FY21 ₹ crore)	298.8
Cash & Inves (FY21 ₹ crore)	603.9
EV (₹ crore)	25268.3
52 Week H/L (₹)	512/350
Equity Capital (₹ crore)	125.4
Face Value(₹)	2.0

Shareholding pattern

(in %)	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	17.4	11.4	6.0	6.0	6.0
FII	34.3	39.2	40.1	41.5	40.2
DII	37.6	38.7	43.7	42.3	43.2
Others	10.7	10.7	10.2	10.2	10.7

Price Chart



Recent event & key risks

- Key Risk:** (i) Rising competition in core business segment (ii) Better than expected EBITDA margin

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Key Financial Summary

(₹ crore)	FY19	FY20	FY21	5 Year CAGR (FY16-21)	FY22E	FY23E	FY24E	3 Year CAGR (21-24E)
Net Sales	4478.9	4520.3	4803.5	26%	5387.2	6223.2	7097.6	13.9
EBITDA	584.3	599.1	720.5	30%	754.2	908.6	1057.5	13.6
EBITDA Margin (%)	13.0	13.3	15.0		14.0	14.6	14.9	
Net Profit	401.4	496.4	616.7	47%	557.6	608.8	729.7	5.8
EPS (₹)	6.4	7.9	9.8		8.9	9.7	11.6	
P/E (x)	63.7	51.5	41.5		45.9	42.0	35.0	
RoE (%)	36.6	33.8	31.9		28.1	25.3	25.9	
RoCE (%)	42.8	38.3	34.4		35.7	28.8	32.0	

Source: Company, ICICI Direct Research

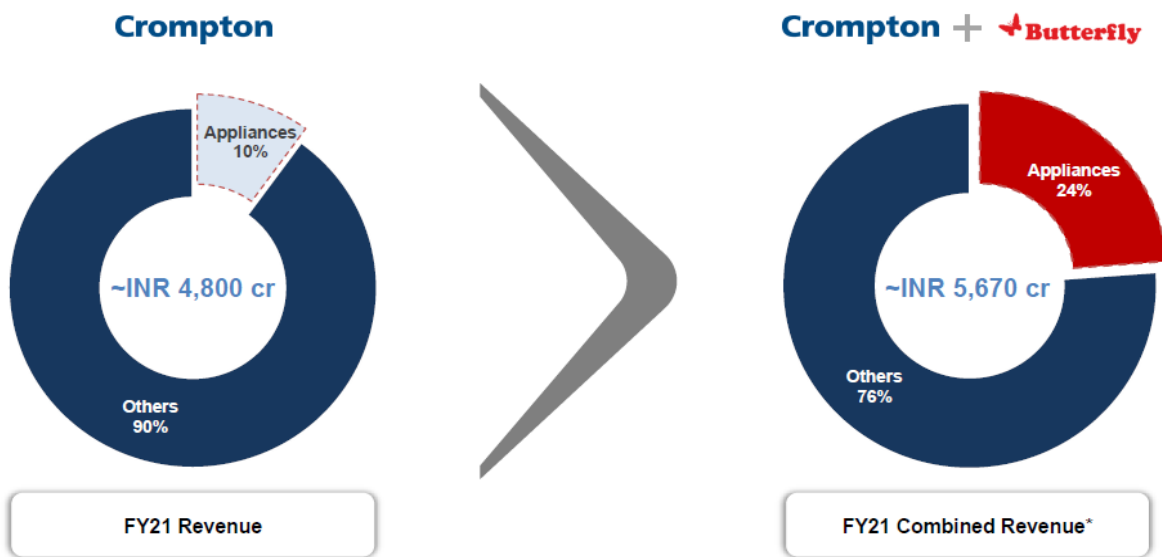
'Butterfly' to boost CGCEL's kitchen appliances portfolio

Started in 1986, Butterfly Gandhimathi Appliances (Butterfly) is among top three brands in India in the kitchen & small domestic appliances categories. The company sells its products under the brand name 'Butterfly'. Its core product includes LPG stoves, mixer grinder, pressure cookers & wet grinders. Butterfly is South India's No.1 brand in table top wet grinders and LGP stoves. Other products of the company include non-stick cookware, chimney, built in hobs, electric kettles, tower fans, air coolers, etc. The company registered a revenue CAGR of 21% during FY17-21 to ₹ 870 crore (+22% YoY in 9MFY22 to ₹ 807 crore) led by expansion in new geographies and launch of new products.

We believe Butterfly offers immediate scale in kitchen appliances with its diverse portfolio, increasing the share of small domestic appliances (SDA) in CGCEL's offering. CGCEL's kitchen appliances segment contributes ~10% to its overall topline in FY21 while 90% revenues are contributed by fans, pumps and lighting. Post-acquisition, CGCEL's revenue from kitchen appliances is likely to increase from 10% to ~23% thereby diversifying risk from slow growing Pumps and Lighting categories.

Exhibit 1: Acquisition of Butterfly to provide immediate scale to CGCEL's appliances business

Provides immediate scale in key existing kitchen subcategories



Source: Company, ICICI Direct Research

Exhibit 2: Butterfly's diverse product range to provide boost

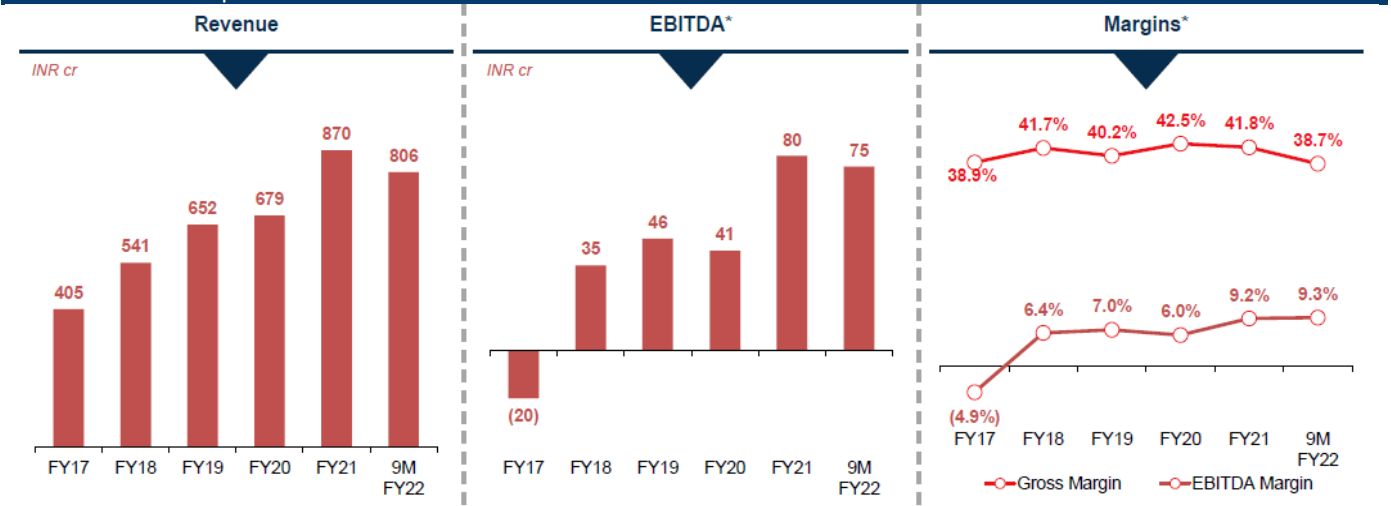


Source: Company, ICICI Direct Research

Focus to improve EBITDA margin of 'Butterfly'

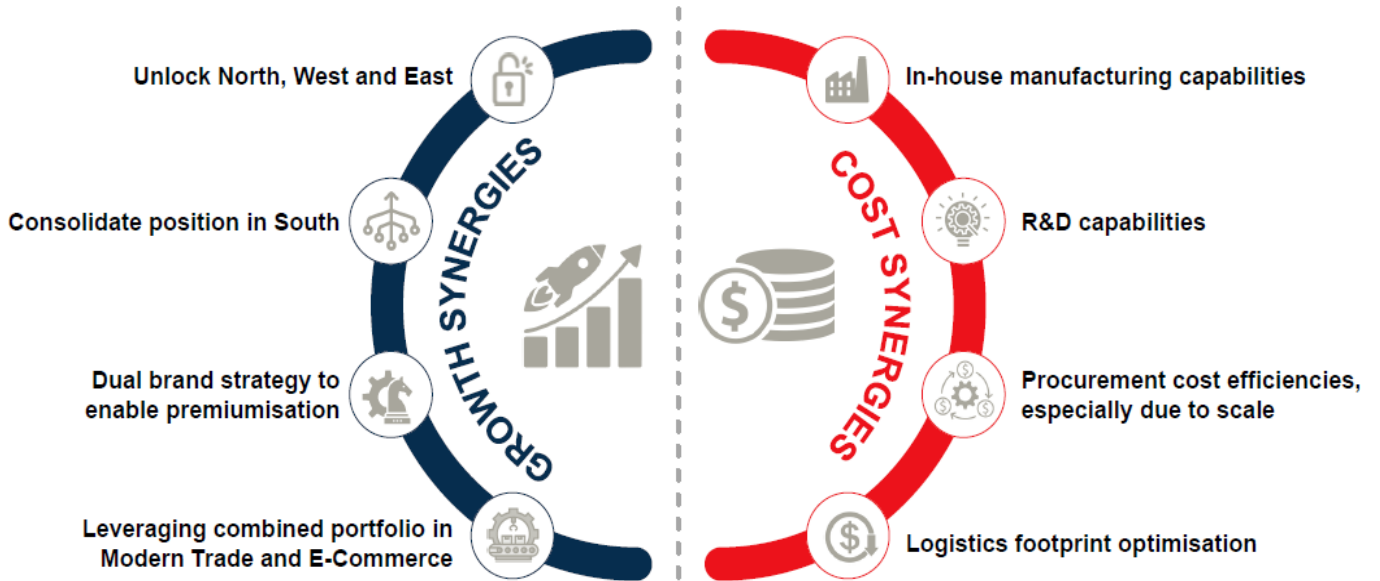
Butterfly's EBITDA margin is much lower at 9% in FY21 vs. 15% of CGCEL. The lower EBITDA margin of Butterfly is attributable to higher advertisement and other expenditures. On the gross margin front, Butterfly's average gross margin for the last three years (FY19-21) was at ~41%, much higher than 32% of CGCEL. Butterfly manufactures 80% of its sales in house through strong backward integrated facility. That gives an edge to Butterfly in terms of better gross margins than peers. CGCEL plans to bring up the EBITDA margin of Butterfly in line with the standalone entity at 14-15% through various cost optimisation measures. However, we believe the EBITDA margin of Butterfly is likely to remain under pressure in the near term due to higher raw material prices and restoration of advertisement expense (gross margin and EBITDA margin declined 330 bps and 60 bps YoY, respectively).

Exhibit 3: Peer comparison



Source: Company, ICICI Direct Research

Exhibit 4: Future synergies to drive future revenue growth and savings costs

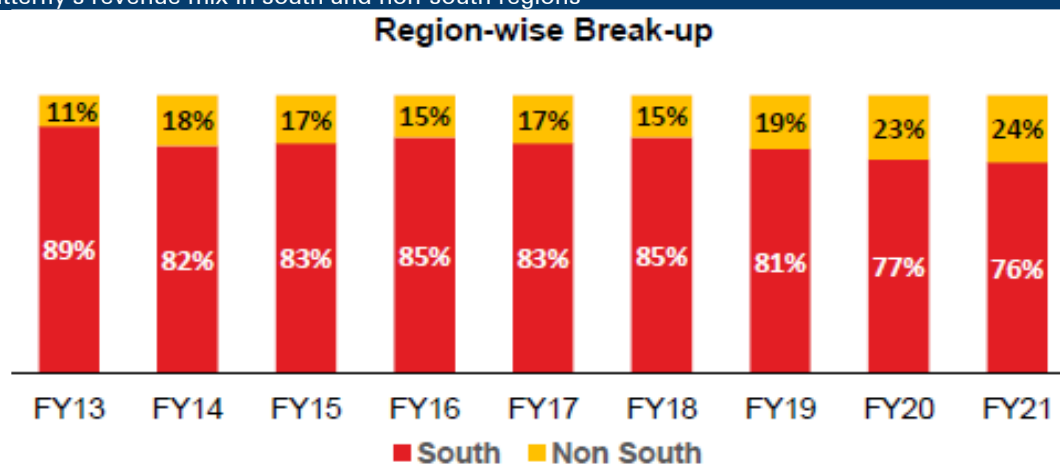


Source: Company, ICICI Direct Research

CGCEL to scale up its kitchen appliances business by distributing Butterfly products pan India

Butterfly has a dominant presence in south India with ~76% revenue coming from this region. However, the company has been increasing its non-south regions presence through dealer expansion (non-south regions contribution in sales increased from 17% in FY17 to 24% in FY21). We believe CGCEL will leverage its existing dealer networks in north, east and west (which are dealing in appliances) to scale up its kitchen appliances business in the next two to three years. CGCEL has established retail touch points of over 1 lakh across India vs. ~25000 touch points of Butterfly mainly in south India. CGCEL has strengthened its distribution network in towns with population between 50,000 & 1,00,000 and where demand is largely served by unorganised players. That has helped increase market share gain for the company especially in the fan business.

Exhibit 5: Butterfly's revenue mix in south and non-south regions



Source: Company, ICICI Direct Research

Key takeaways from conference call

1. Post-acquisition of 55% stake, existing promoter's stake will reduce to 9% in Butterfly and they will be classified as public shareholder. The new management from CGCEL will take over for the key positions in Butterfly
2. The industry size of small domestic appliances (such as LPG stove, mixer grinder, pressure cooker, wet grinder, etc) is pegged at ₹ 8000 crore. The segment is continuing to grow at 10-12% annually due to rising urbanisation and nuclear families.
3. The company is likely to utilise ~12 acre of land parcel in Tamil Nadu (acquired through current deal) to set up a new manufacturing unit in the coming future
4. The 'Butterfly' trademark will remain either with CGCEL or with acquired entity
5. The company expects to close the deal in FY22. Butterfly will remain a listed entity and the final call on de-listing will be taken by the board of directors of both the companies, going ahead

Valuation & outlook

We have incorporated investment made by CGCEL in Butterfly Gandhimathi Appliances. We assume 26% open offer gets tendered thereby CGCEL acquiring 81% stake in the said company. We have revised CGCEL standalone earnings downward by ~14% and ~12% YoY for FY23E and FY24E, respectively. We believe CGCEL will utilise the cash and in addition will raise debt to fund the acquisition. With this acquisition, we now value CGCEL based on SoTP method to arrive at a target price of ₹ 465/share (assigning P/E of 37x FY24E earnings to standalone business and 2x MCap/sales of FY24E sales of Butterfly). We revise our rating to HOLD.

Exhibit 6: Change in estimates

₹ Crore)	FY22E			FY23E			FY24E			Comments
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg	
Revenue	5387.2	5387.2	-	6223.2	6223.2	-	7097.6	7097.6	-	We kept our topline assumption unchanged
EBITDA	754.2	754.2	-	908.6	908.6	-	1057.5	1057.5	-	
EBITDA Margin %	14.0	14.0	0bps	14.6	14.6	0bps	14.9	14.9	0bps	We have maintained our EBITDA margin guidance
PAT	561.6	557.6	(0.7)	709.6	608.8	(14.2)	828.7	729.7	(11.9)	Cashoutflow and inclusion of debt to finance the acquisition would result in lower other income and increased interest outflow
EPS (₹)	9.0	8.9	(0.7)	11.3	9.7	(14.2)	13.2	11.6	(11.9)	

Source: ICICI Direct Research

Exhibit 7: Assumptions

CGCEL (A)	FY24E	Target P/E	Target Mcap (₹ crore)
Net Profit (₹ crore)	729.7	37	26854
Butterfly Gandhimati (B)	FY24E*	Target Mcap/Sales	Target Mcap (₹ crore)
Sales (₹ crore)	1432	2	2864.0
81% stake of CGCEL**			2319.8
Target Mcap (A+B) (₹ crore)			29174
Nos of shares			62.7
Target Price/share			465.1
CMP			408.0
Upside			14%

Source: ICICI Direct Research; * I-direct estimate, ** Considering 26% open offer gets tendered

Financial Summary

Exhibit 8: Profit and loss statement ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	4,520.3	4,803.5	5,387.2	6,223.2	7,097.6
Growth (%)	0.9	6.3	12.2	15.5	14.1
Expenses					
Raw material exp	3,070.3	3,267.2	3,663.3	4,194.4	4,769.6
Employee exp	311.0	336.6	382.5	423.2	475.5
Other exp	440.9	397.1	484.9	560.1	638.8
Total Operating exp	3,921.2	4,083.0	4,633.0	5,314.6	6,040.1
EBITDA	599.1	720.5	754.2	908.6	1,057.5
Growth (%)	2.5	20.3	4.7	20.5	16.4
Depreciation	26.8	29.7	38.8	49.8	59.6
Interest	40.7	42.9	31.6	52.0	37.6
Other Income	59.1	75.8	64.6	6.2	14.2
PBT	590.7	723.6	748.5	813.0	974.5
Total Tax	94.3	107.0	190.9	204.2	244.8
PAT	496.4	616.7	557.6	608.8	729.7

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E	FY24E
Profit after Tax	496.4	616.7	557.6	608.8	729.7
Add: Depreciation	26.8	29.7	38.8	49.8	59.6
(Inc)/dec in Current Assets	-124.5	-77.6	-310.0	-309.4	-263.1
Inc/(dec) in CL and Provisions	-119.3	283.3	-5.0	8.2	184.1
Others	40.7	42.9	31.6	52.0	37.6
CF from operating activities	320.1	895.0	313.0	409.4	747.9
(Inc)/dec in Investments	0.4	-228.9	-100.0	869.7	0.0
(Inc)/dec in Fixed Assets	-92.5	-26.6	-60.0	-70.0	-80.0
Others	12.7	-6.2	-3.2	-1,451.4	-1.5
CF from investing activities	-79.4	-261.8	-163.2	-651.7	-81.5
Issue/(Buy back) of Equity	0.1	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-169.5	119.1	-100.0	401.2	-260.0
Dividend paid & dividend tax	-151.1	-344.7	-313.4	-188.0	-313.4
Others	-15.1	148.2	-221.7	-52.0	-37.6
CF from financing activities	-335.6	-77.5	-635.1	161.1	-611.0
Net Cash flow	-94.9	555.8	-485.3	-81.2	55.4
Opening Cash	143.0	48.1	603.9	118.6	37.5
Closing Cash	48.1	603.9	118.6	37.5	92.9

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E	FY24E
Liabilities					
Equity Capital	125.5	125.5	125.5	125.5	125.5
Reserve and Surplus	1,342.9	1,805.9	1,860.0	2,280.7	2,697.1
Total Shareholders funds	1,468.4	1,931.4	1,985.5	2,406.2	2,822.5
Total Debt	179.7	298.8	198.8	600.0	340.0
Total Liabilities	1,648.1	2,230.1	2,184.3	3,006.2	3,162.5
Assets					
Gross Block	191.1	226.8	286.8	356.8	436.8
Less: Acc Depreciation	61.6	91.3	130.0	179.8	239.4
Total Fixed Assets	149.5	146.4	167.6	187.8	208.2
Goodwill	779.4	779.4	779.4	1,029.4	1,029.4
Other investmens	0.0	0.0	0.0	1,200.0	1,200.0
Liquid Investments	540.8	769.7	869.7	0.0	0.0
Inventory	463.6	518.6	575.6	664.9	758.4
Debtors	463.5	491.2	664.2	784.3	894.5
Other CA	248.5	243.3	323.2	423.2	482.6
Cash	48.1	603.9	118.6	37.5	92.9
Total Current Assets	1,223.7	1,857.0	1,681.7	1,909.9	2,228.4
Creditors	643.6	864.7	885.6	988.9	1,127.8
Provisions	184.6	226.2	254.0	276.9	304.5
Other CL	275.6	296.2	242.4	124.5	142.0
Total Current Liabilities	1,103.8	1,387.1	1,382.0	1,390.2	1,574.3
Net current assets	119.9	469.9	299.6	519.6	654.1
Other non current assets	58.5	64.7	67.9	1,269.3	1,270.8
Total Assets	1,648.1	2,230.1	2,184.3	3,006.2	3,162.5

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios

(Year-end March)	FY20	FY21	FY22E	FY23E	FY24E
Per share data (₹)					
EPS	7.9	9.8	8.9	9.7	11.6
Cash EPS	8.3	10.3	9.5	10.5	12.6
BV	23.4	30.8	31.7	38.4	45.0
DPS	2.4	5.5	5.0	3.0	5.0
Operating Ratios (%)					
EBITDA Margin	13.3	15.0	14.0	14.6	14.9
PAT Margin	11.0	12.8	10.4	9.8	10.3
Asset Turnover	23.7	21.2	18.8	17.4	16.2
Inventory Days	37.4	39.4	39.0	39.0	39.0
Debtor Days	37.4	37.3	45.0	46.0	46.0
Creditor Days	52.0	65.7	60.0	58.0	58.0
Return Ratios (%)					
RoE	33.8	31.9	28.1	25.3	25.9
RoCE	38.3	34.4	35.7	28.8	32.0
RoIC	120.0	232.0	123.3	43.3	47.5
Valuation Ratios (x)					
P/E	51.5	41.5	45.9	42.0	35.0
EV / EBITDA	42.0	34.0	32.9	28.8	24.4
EV / Net Sales	5.6	5.1	4.6	4.2	3.6
Market Cap / Sales	5.7	5.3	4.7	4.1	3.6
Price to Book Value	17.4	13.2	12.9	10.6	9.1
Solvency Ratios					
Debt / Equity	0.1	0.2	0.1	0.2	0.1
Current Ratio	1.4	1.1	1.4	1.5	1.5
Quick Ratio	0.9	0.7	0.9	1.0	1.0

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct Consumer Discretionary universe

Sector / Company	CMP (₹)	TP(₹)	Rating	M Cap (₹ Cr)	EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)				RoE (%)			
					FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Asian Paints (ASIPAI)	3,274	3,870	Buy	3,13,977	33.4	32.4	46.5	58.2	97.9	101.2	70.4	56.2	63.7	65.7	47.3	37.9	29.6	28.0	35.6	39.4	25.0	23.4	29.9	32.6
Berger Paints (BERPAI)	731	800	Hold	70,995	7.4	8.7	11.1	13.3	98.6	84.2	65.9	54.9	59.5	52.8	42.3	35.6	24.9	27.7	32.5	34.4	21.3	23.1	26.8	28.0
Kansai Nerolac (KANNR)	483	610	Hold	26,030	10.8	9.0	12.6	15.1	44.6	53.8	38.3	31.9	29.3	33.7	24.7	20.8	18.2	15.5	19.8	21.7	14.3	12.0	15.2	16.5
Pidilite Industries (PIDIND)	2,402	2,640	Hold	1,21,974	22.2	23.9	29.8	35.3	108.3	100.5	80.5	68.1	72.3	65.2	54.3	46.4	23.8	22.1	26.3	30.1	20.2	18.6	22.3	25.3
Bajaj Electricals (BAJELE)	1,084	1,280	Hold	12,417	16.5	13.3	28.8	36.8	65.7	81.8	37.6	29.5	41.7	42.5	25.5	20.8	15.1	15.5	23.4	24.6	10.7	10.6	18.5	19.6
Crompton Greaves(CROGR)	408	465	Buy	25,573	9.8	8.9	9.7	11.6	41.5	45.9	42.0	35.0	34.0	32.9	28.8	24.4	34.4	35.7	28.8	32.0	31.9	28.1	25.3	25.9
Havells India (HAVIND)	1,216	1,515	Buy	75,866	16.7	18.5	22.3	28.6	73.0	65.6	54.5	42.6	47.7	44.2	37.0	29.2	24.9	25.5	29.2	35.7	20.1	21.1	24.2	29.4
Polycab India (POLI)	2,384	3,000	Buy	35,550	59.4	55.0	69.2	84.9	40.1	43.3	34.5	28.1	31.2	31.1	23.0	18.8	20.8	18.3	22.2	23.3	17.9	14.5	17.0	18.0
Symphony (SYMLIM)	982	975	Hold	6,870	15.3	18.4	29.0	39.1	64.2	53.5	33.9	25.1	48.1	39.0	25.4	18.6	15.2	20.2	28.5	33.3	14.9	18.0	25.6	29.1
V-Guard Ind (VGUARD)	199	255	Buy	8,523	4.7	4.6	6.5	7.2	42.2	42.9	30.6	27.5	26.4	25.9	20.0	17.7	23.9	23.1	27.7	27.5	16.7	16.6	21.2	21.1
Voltas Ltd (VOLTAS)	1,255	1,310	Hold	41,507	16.0	16.8	24.4	31.3	78.5	74.5	51.5	40.1	64.0	61.3	42.4	32.9	15.0	16.4	20.2	21.8	10.6	11.8	15.2	17.0
Amber Enterprises (AMBER)	3,235	4,330	Buy	10,900	24.7	45.7	76.4	104.5	130.9	70.8	42.4	31.0	49.3	35.2	23.9	18.6	7.7	11.1	15.2	18.0	5.2	9.2	13.4	15.6
Dixon Technologies (DIXTE)	4,231	5,700	Buy	25,111	27.3	35.9	78.5	110.9	155.1	117.8	53.9	38.2	87.6	61.0	33.6	24.8	23.5	27.4	39.9	39.7	21.7	26.4	39.9	38.3
Supreme Indus (SUPIND)	2,052	2,625	Buy	26,066	77.0	72.3	82.3	93.4	26.6	28.4	24.9	22.0	19.7	20.8	18.0	15.7	33.1	26.9	27.0	27.5	30.9	25.6	25.1	25.0
Astral Ltd (ASTPOL)	1,853	2,310	Hold	37,224	20.3	24.7	31.4	38.2	91.2	75.2	59.1	48.5	57.1	48.5	39.2	32.6	27.5	29.4	31.9	32.4	21.5	22.8	24.7	24.9

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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