

October 27, 2022

RESULT REPORT Q2 FY23 | Sector: Consumer Durables

Crompton Greaves CE Ltd

Butterfly acquisition progressing smoothly; reiterate BUY

Result Synopsis

Crompton has reported marginally lower than expected revenue with ECD and Lighting segment declining 3% and 7% respectively. Decline in ECD was on back of high base subdued demand environment for Fans which has been marred by high inflationary environment and de-stocking by channel as it is moving towards BEE ratings. Gross margins at 32% have come back to its normalized levels, while operating margins were lower as company continues to invest in its long-term strategic initiatives like R&D innovation center, increased A&P spends and investing in alternate channels. On Butterfly front company transition is happening smoothly and now company is confident of double-digit EBITDA margins to be base which can be improved upon. CROMPTON continues to gain market share in key categories like Fans. CROMPTON entry into built-in kitchen appliances has met with positive response which has been ahead of expectation. We continue to remain positive on the stock and maintain BUY as consolidation of Butterfly, entry into built-in appliances and investments in alternate channels along with strong impetus on R&D will lead CROMPTON to maintain its industry leading growth.

We expect industry leading growth momentum to continue for CROMPTON with significant opportunity to improve on BGAL's performance and entry into built-in kitchen appliances. We however have trimmed our margin estimates on higher investments on account of developing new business and brand building for BGAL. We now build in FY22-24E Revenue/EBITDA/PAT CAGR of 23%/19%/11% and arrive at our PT of Rs 465 valuing the company at 42x FY24EPS and maintain our BUY rating.

Result Highlights

- Quarter Summary** – CROMPTON saw revenue decline of 4% yoy on standalone basis with its core category ECD and lighting declining at 3.1% and 6.6% respectively. Butterfly revenue on other hand has declined 9% yoy on high base and absence of pent-up demand.
- Margins** – Margins were lower than estimates on negative operating leverage and higher investments in products and brand building. Company continues to invest in developing alternate channels, R&D center and brand building and development.
- Market share performance** – Crompton has marginally managed to gain market share in Fans on rolling 12 months basis. On the premium fans side company's market share has increased 5% in similar period.
- New product category** - Crompton foray into built-in kitchen appliances has met with strong positive response from the channel and customer. The response on new products were better than company's own expectation. CROMPTON will continue to focus on top 10 cities for this new product category.

Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	16,995	19,487	16,972	-13.0	1.3	Company's continued long-term strategic investments have resulted lower than expected margins.
EBITDA	1,931	2,350	2,215	-18.0	-12.8	
EBITDA Margin (%)	11.4	12.1	13.0	-70 bps	-160 bps	
Adjusted PAT	1,307	1,408	1,431	-7.1	-8.6	

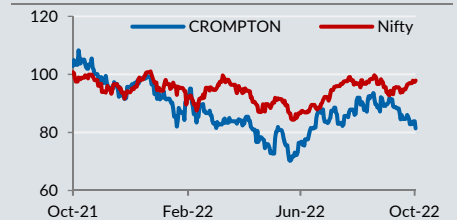
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 367
Target Price	: Rs 465
Potential Return	: +26.9%

Stock data (as on October 27, 2022)

Nifty	17,737
52 Week h/l (Rs)	493 / 312
Market cap (Rs/USD mn)	233275 / 2827
Outstanding Shares (mn)	636
6m Avg t/o (Rs mn):	799
Div yield (%)	0.7
Bloomberg code:	CROMPTON IN
NSE code:	CROMPTON

Stock performance



	1M	3M	1Y
Absolute return	-9.3%	-3.7%	-21.9%

Shareholding pattern (As of Jun'22 end)

Promoter	2.5%
FII+DII	82.3%
Others	12.3%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	465	492

Δ in earnings estimates

	FY23e	FY24e
EPS (New)	9.1	11.1
EPS (Old)	9.8	11.7
% change	-7.1%	-6.0%

Financial Summary

(Rs mn)	FY22	FY23E	FY24E
Revenue	53,941	73,419	82,145
YoY Growth	12.3%	36.1%	11.9%
EBIDTA	7,694	9,251	10,925
YoY Growth	6.8	20.2	18.1
PAT	5,695	5,739	7,023
YoY Growth	-6.2%	4.8%	22.3%
ROE	22.9	16.6	17.8
EPS	9.0	9.1	11.1
P/E	40.8	40.5	33.1
BV	51.1	58.1	66.6
EV/EBITDA	32.1	26.0	21.5

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Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	y/y %	q/q %	1HFY23	1HFY22	y/y %
Sales	13,851	14,106	15,479	18,629	16,995	22.7	(8.8)	35,624	24,356	46.3
EBITDA	2141	2015	2288	2199	1931	(9.8)	(12.2)	4,130	3,392	21.8
EBITDA Margin %	15.5	14.3	14.8	11.8	11.4			11.6	13.9	
Depreciation	100.6	101.7	144.8	275.6	282.8	181.1	2.6	558	176	216.7
EBIT	2041	1914	2143	1924	1648	(19.2)	(14.3)	3,572	3,215	11.1
EBIT Margin %	14.7	13.6	13.8	10.3	9.7			10.0	13.2	
Interest charges	80	67	106	225	299	272.4	32.7	524	181	189.6
Other Income	169	140	222	104	183	8.5	75.8	287	365	(21.3)
PBT	2129	1987	2129	1739	1533	(28.0)	(11.9)	3271	3399	(3.8)
Tax	541	505	364	479	226	(58.3)	(52.9)	705	863	(18.4)
Effective Tax Rate (%)	25.4	25.4	17.1	27.6	14.7			21.5	25.4	
PAT	1588	1483	1766	1260	1307	(17.7)	3.8	2567	2536	1.2
PAT Margin %	11.5	10.5	11.4	6.8	7.7			7.2	10.4	
EPS (Rs)	2.5	2.4	2.8	2.0	2.1	(17.7)	3.8	4.1	4.0	1.2

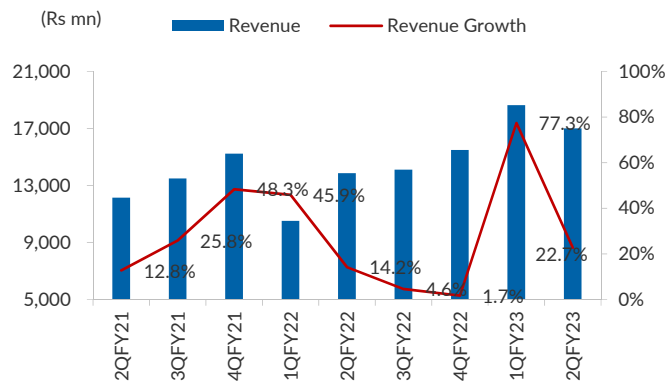
Source: Company, YES Sec

Exhibit 3: Segmental Performance

Rs mn	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	y/y %	q/q %	1HFY23	1HFY22	y/y %
Electrical consumer durables	10,964	10,993	12,309	13,472	10,622	(3.1)	(21.2)	24,094	19,808	21.6
Lighting products	2,887	3,113	3,170	2,623	2,696	(6.6)	2.8	5,319	4,548	17.0
Butterfly Products				2,535	3,677	NM	NM	6,212	0	
Total Sales	13,851	14,106	15,479	18,629	16,995	22.7	(8.8)	35,624	24,356	46.3
PBIT										
Electrical consumer durables	2300	2130	2279	2285	1814	(21.1)	(20.6)	4099	3857	6.3
Lighting products	329	324	448	232	215	(34.7)	(7.4)	447	507	(11.7)
Butterfly Products				219	403	NM	NM	622	0	
Total PBIT	2,629	2,454	2,727	2,736	2,432	(7.5)	(11.1)	5,168	4,364	18.4
Finance Costs	80	67	106	225	299	272.4	32.7	524	181	189.6
Unallocable expense	420	400	363	708	601	43.1	(15.2)	1,309	784	66.9
as % of sales	3.0	2.8	2.3	3.8	3.5			3.7	3.2	
Exceptional Items	0	0	130	64	0			64	0	
PBT	2129	1987	2129	1739	1533	(28.0)	(11.9)	3,271	3,399	(3.8)

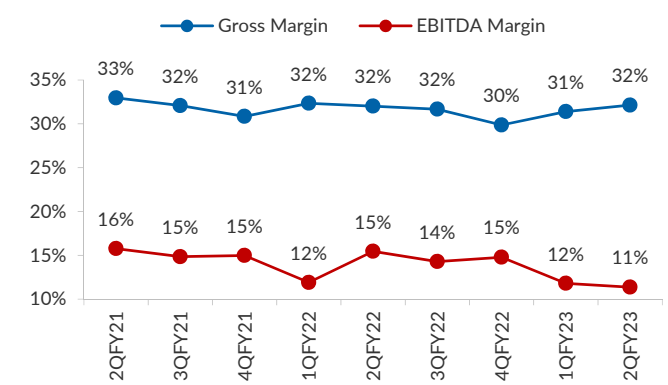
Source: Company, YES Sec

Exhibit 4: Revenue growth was aided by favorable base and consolidation of butterfly



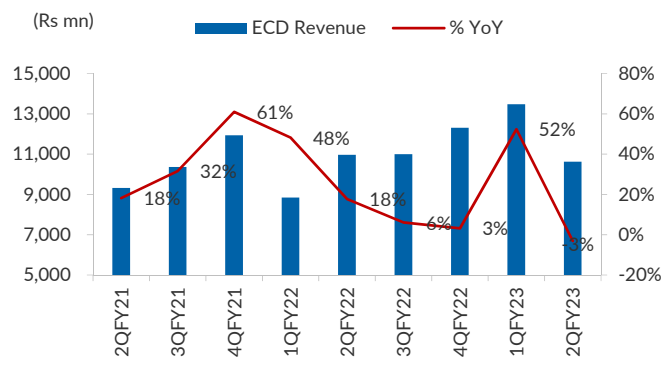
Source: Company, YES Sec

Exhibit 5: Gross margin continues to improve on softer commodity prices



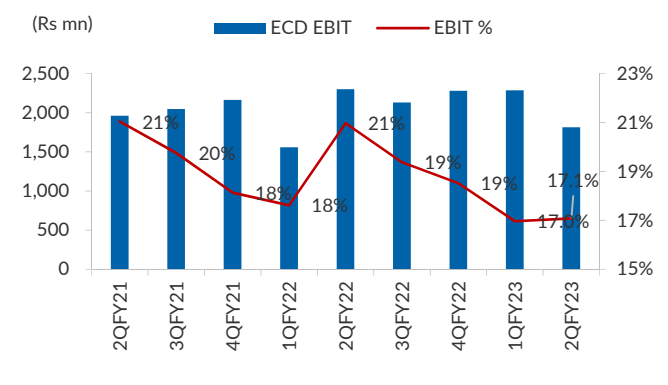
Source: Company, YES Sec

Exhibit 6: Sluggish demand environment for fans has resulted in ECD revenue decline



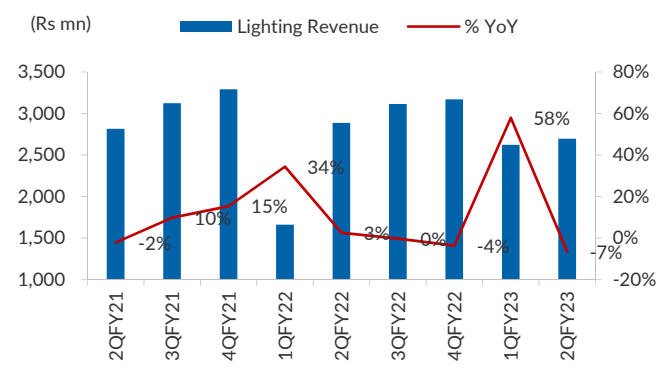
Source: Company, YES Sec

Exhibit 7: EBIT margins continue to remain stable



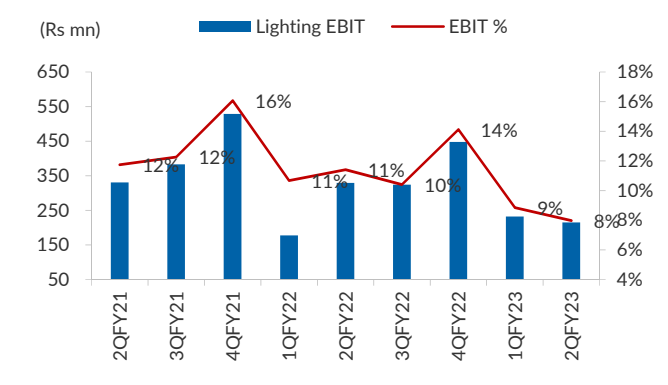
Source: Company, YES Sec

Exhibit 8: Decline in conventional lighting has resulted in lighting revenue decline



Source: Company, YES Sec

Exhibit 9: High raw material prices have resulted in lower margins



Source: Company, YES Sec

Exhibit 10: Revenue and Margin Assumption (Crompton – SA)

Revenue (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Electrical consumer durables	33,890	37,571	43,110	49,027	54,321
% yoy growth	5%	11%	15%	14%	11%
Lighting Products	11,312	10,464	10,831	12,106	13,337
% yoy growth	-11%	-7%	4%	12%	10%
Less: Excise	0	0	0	0	0
Total Revenue	45,203	48,035	53,941	61,133	67,658
% yoy growth	1%	6%	12%	13%	11%
PBIT (Rs mn)					
	FY20	FY21	FY22	FY23E	FY24E
Electrical consumer durables	6,731	7,392	8,267	8,727	10,049
% margin	19.9%	19.7%	19.2%	17.8%	18.5%
Lighting Products	706	1,317	1,278	1,118	1,321
% margin	6.2%	13%	12%	9%	10%
Total PBIT	7,437	8,710	9,545	9,845	11,371
% margin	16%	18%	18%	16%	17%

KEY CON-CALL HIGHLIGHTS

- **Butterfly** – Sold 6% through OFS to confer with SEBI regulation. Current shareholding of Crompton is at 75%. EBITDA margins for butterfly has improved to double digit and base level EBITDA margins are now 10%. Endeavor is to reduce costs and improve margins. Current gross margins are will be ongoing gross margins. Savings in cost will be invested in business.
- **Butterfly channel mix** – Channel mix will move more towards retail as company has increased product availability and pricing across the channels have been rationalized. Online channel now contributes 35% to revenue vs 45% in Q2FY22 still higher than industry average of 25%.
- **Festive demand** – ECD business has not been festive season business but more driven by summer season. Early days of Diwali saw positive trend in butterfly sales in secondary sales. Online has seen some slowdown in growth post easing of Covid.
- **ECD** – Fans business have been lackluster on account of high base, moving to BEE ratings and inflationary pressure. Pumps business which have been struggling since past many quarters have started to see green shoots with specialty pumps growing at 20%. Appliances business continued to trend well.
- **ECD ex- fans** – Appliances business has grown at 12% for the quarter, while on 3-year CAGR basis growth is 26% CAGR. Growth has been strong for water heater and Specialty Pumps.
- **Market share** – Crompton has consistently seen growth in market share and market share has grown by 500bps on rolling 12month basis for premium fans and have marginally grown in overall fans segment. Crompton is the only company to have seen market share growth every quarter in past 2 years.
- **Margins** – Gross margins have seen recovery is now at 31.7% vs all time high of 32%. This is despite high inflation and macro challenges. Product mix improvement has also helped in improving material margins. EBIT margins are lower on yoy basis as company has been continuously investing in its long term strategic initiatives which includes A&P spends, R&D innovative center and investments in alternate channels.
- **Loyalty program** – Company has launched its loyalty program Saathi and are registering plumbers under this loyalty program to improve sales of Pumps.
- **Fans** – Company's 40% of the fans business is already compliant to new BEE rating table. On the average basis 8-10% of the price increase would be required depending on the product.
- **Technology Change** – Technology change is an opportunity to gain share among the economy segment, as company like Crompton will get and advantage to modify its products with minimal costs and gain market share.
- **Lighting** – Lighting has been subdued as conventional lighting has been declining at the rapid pace and now stands at 8% of the total lighting business and EESL business which were at 10% two year back which is now trending to almost zero.

FINANCIALS

Exhibit 11: Balance Sheet

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Equity capital	1,255	1,255	1,267	1,267	1,267
Reserves	13,429	18,059	31,087	35,505	40,911
Net worth	14,684	19,314	32,354	36,772	42,178
Debt	3,497	4,788	16,075	13,075	10,075
Deferred tax liab (net)	0	0	394	394	394
Other non current liabilities	191	214	1,537	2,106	2,180
Total liabilities	18,372	24,317	50,360	52,348	54,827
Fixed Asset	9,289	9,259	32,154	31,707	31,028
Investments	5,408	7,697	6,238	6,238	6,238
Other Non-current Assets	813	848	1,332	1,556	1,656
Net Working Capital	2,622	3,889	8,921	7,743	7,751
Inventories	4,636	5,186	7,210	7,302	8,169
Sundry debtors	4,635	4,912	6,154	8,509	9,520
Loans and Advances	1,468	2,024	2,008	2,732	3,057
Sundry creditors	6,436	8,647	10,178	12,451	13,931
Other current liabilities	1,056	1,162	2,125	2,893	3,237
Cash & equivalents	240	2,624	1,716	5,103	8,153
Total Assets	18,372	24,317	50,360	52,348	54,827

Source: Company, YES Sec

Exhibit 12: Income statement

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Revenue	45,203	48,035	53,941	73,419	82,145
Operating profit	5,991	7,205	7,694	9,251	10,925
Depreciation	268	297	423	956	1,189
Interest expense	407	429	353	915	705
Other income	591	758	727	723	883
Profit before tax	5,907	7,236	7,645	8,103	9,913
Taxes	943	1,070	1,732	2,300	2,890
Minorities and other	-	-	-	-	-
Adj. profit	4,964	6,167	5,913	5,739	7,023
Exceptional items	-	-	130	-	-
Net profit	4,964	6,167	5,695	5,739	7,023

Source: Company, YES Sec

Exhibit 13: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Profit before tax	6,314	7,665	7,998	9,018	10,618
Depreciation	268	297	423	956	1,189
Tax paid	(943)	(1,070)	(1,732)	(2,300)	(2,890)
Working capital Δ	(1,059)	(3,556)	(3,573)	1,178	(8)
Other operating items					
Operating cashflow	4,580	3,336	3,117	8,852	8,910
Capital expenditure	(915)	(267)	(23,318)	(510)	(510)
Free cash flow	3,665	3,070	(20,201)	8,342	8,400
Equity raised	79	346	8,914	324	395
Investments	-	-	-	-	-
Debt financing/disposal	(2,995)	1,291	11,287	(3,000)	(3,000)
Interest paid	(407)	(429)	(353)	(915)	(705)
Dividends paid	(1,332)	(1,882)	(1,569)	(1,645)	(2,013)
Net Δ in cash	(929)	2,384	(819)	3,451	3,050

Source: Company, YES Sec

Exhibit 14: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Tax burden (x)	0.84	0.85	0.77	0.71	0.71
Interest burden (x)	0.94	0.94	0.96	0.90	0.93
EBIT margin (x)	0.14	0.16	0.15	0.12	0.13
Asset turnover (x)	1.67	1.51	1.07	1.09	1.12
Financial leverage (x)	2.11	1.87	1.95	1.96	1.85
RoE (%)	38.7	36.3	22.9	16.6	17.8

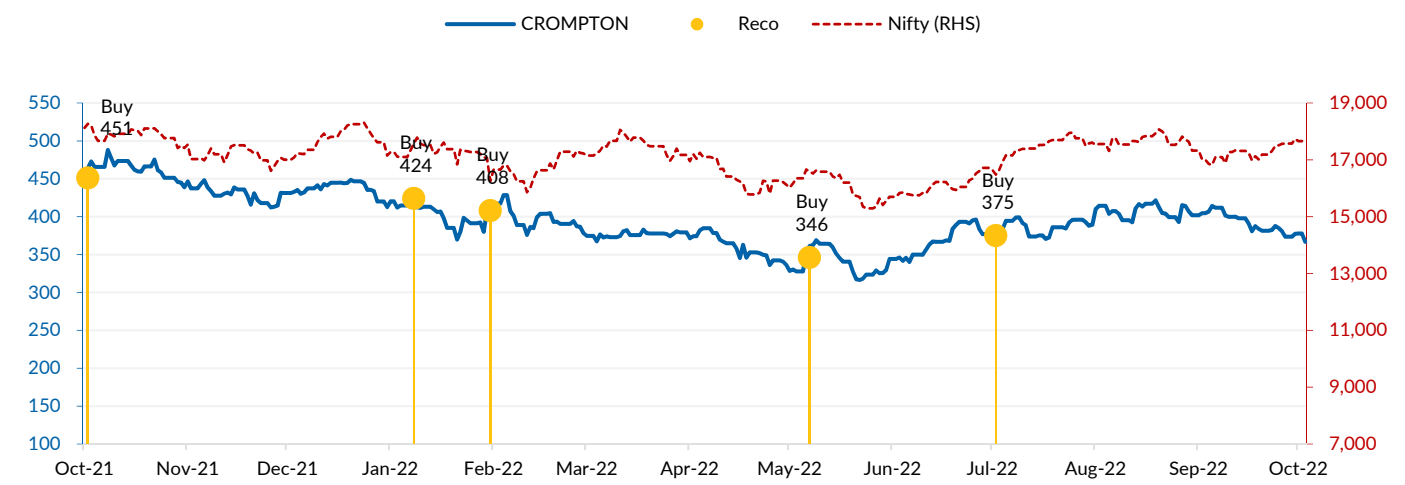
Exhibit 15: Ratio analysis

Y/e 31 Mar	FY20	FY21	FY22	FY23E	FY24E
Growth matrix (%)					
Revenue growth	0.9	6.3	12.3	36.1	11.9
Op profit growth	2.5	20.3	6.8	20.2	18.1
EBIT growth	1.9	21.4	4.3	12.7	17.7
Net profit growth	23.7	24.2	(4.1)	(2.9)	22.4
Profitability ratios (%)					
OPM	13.3	15.0	14.3	12.6	13.3
EBIT margin	14.0	16.0	14.8	12.3	12.9
Net profit margin	11.0	12.8	11.0	7.8	8.6
RoCE	35.4	36.3	22.1	18.4	20.8
RoNW	38.7	36.3	22.9	16.6	17.8

Crompton Greaves CE Ltd

Y/e 31 Mar	FY20	FY21	FY22	FY23E	FY24E
RoA	18.3	19.4	11.7	8.5	9.6
Per share ratios					
EPS	7.9	9.8	9.3	9.1	11.1
Dividend per share	2.1	3.0	2.5	2.6	3.2
Cash EPS	8.3	10.3	10.0	10.6	13.0
Book value per share	23.4	30.8	51.1	58.1	66.6
Valuation ratios					
P/E	46.4	37.4	40.8	40.5	33.1
P/CEPS	44.1	35.6	37.1	32.8	26.8
P/B	15.7	11.9	9.4	8.0	6.7
EV/EBIDTA	39.0	32.3	32.1	26.0	21.5
Payout (%)					
Dividend payout	27	30.5	26.5	28.7	28.7
Tax payout	16	14.8	22.6	28.4	29.1
Liquidity ratios					
Debtor days	37	37.3	41.6	42.3	42.3
Inventory days	37	39.4	48.8	36.3	36.3
Creditor days	52.0	65.7	68.9	61.9	61.9

Recommendation Tracker



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BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

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