CROMPTON GREAVES CONSUMER ELECTRICALS LIMITED

Tepid quarter, Growth metrics to revive

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Crompton Consumer (Crompton) had a tepid quarter largely due to transition of Fans business to the new BEE norms impacting ECD segments (-7% YoY) while Appliances delivered growth with strong momentum. However, weakness was seen across lighting (-21% YoY) and pumps business. Overall revenues at ₹15.2bn grew 7.5% YoY. Despite lower scale and inflationary pressures, gross margins were relatively resilient and improved 90bps yoy/ 40bps qoq to 32.5%. But higher spends higher A&P, R&D, new business development and ₹160mn BEE transition cost) for future growth and additional support in the fans business led to a 424bps yoy/131bps qoq EBITDA margin decline to 10.1%. Management expects an improvement in margins with improvement in volumes. APAT stood at ₹843mn declined 43% YoY (BGAL PAT grew 29% YoY). Crompton continues to focus on product innovation (differentiated and premium products), GTM (improved reach) and branding (omni channel branding) as also on cost optimisation (Unnati program, better sourcing, etc) will reap benefits. We believe these initiatives will likely bode well with steady market share gains and margin improvement over the medium term. The acquisition of Butterfly Gandhimathi Appliances will increase synergies and enhance growth opportunities in Kitchen Appliances space. We have pruned down our estimates and target price accordingly given the 9MFY23 performance and remain positive on the upcoming summer season and improving operating performance along with recovery in B2C demand and shrinking unorganized market. Hence, we maintain our Buy stance with a revised PT of ₹394.

Q3FY23 Summary

Consolidated revenues grew 7.5% yoy to ₹15.2bn. ECD fell 7% YoY to ₹10.2bn due to weak consumer demand (impact in fans business due to slow channel stocking over BEE transition). Lighting revs fell 21% YoY led by 30% decline in conventional and weak B2C. Rural business grew by 40% yoy while alternate channel contributed to 15% of business (+45% growth YoY). Overall, standalone revenues de-grew by 10% YoY to ₹12.7bn due to weak consumer demand (high retail inflation & price volatility). OPM contracted 424bps YoY to 10.1% due to negative operating leverage (revenue decline) and higher other expenses (higher A&P, R&D, new business development and ₹160mn BEE transition cost). Notably, GMs were relatively resilient at 32.5% (+90 bps YoY +40bps QoQ) led by cost reduction initiatives (₹460mn in Q323 Project Unnati savings), strategic inventory stocking, higher mix of premium products, etc. Accordingly, EBITDA de-grew by 24.4% YoY to ₹1.5bn.

Key Financials	FY21	FY22	FY23E	FY24E	FY25E
Total Sales (₹ bn)	47	54	68	77	86
EBITDA Margins (%)	14.8	14.3	11.5	12.5	13.3
PAT Margins	12.7	10.7	6.9	8.3	9.2
EPS (₹)	9.6	9.3	7.5	10.1	12.5
P/E (x)	31.7	32.7	40.7	30.2	24.4
P/BV (x)	9.98	5.97	5.38	4.78	4.21
EV/EBITDA (x)	25.9	25.2	24.5	19.5	16.0
RoE (%)	35.7	22.9	13.9	16.8	18.4
RoCE (%)	28.9	14.9	15.2	18.5	20.7
Dividend Yield (%)	0.8	0.8	0.6	1.0	1.2

Rating :	BUY
Current Market Price (₹) :	305
12 M Price Target (₹) :	394
Potential upside (%) :	29

Stock Data	
Sector :	Consumer Durables
FV (₹) :	2
Total Market Cap (₹ bn) :	194
Free Float Market Cap (₹ bn) :	188
52-Week High / Low (₹)	431 / 295
2-Year High / Low (₹) :	513 / 295
1Y Avg. Dly Traded Volume (in lakh)	20
BSE Code / NSE Symbol	539876 / CROMPTON
Bloomberg :	CROMPTON IN

Shareholding Pattern

(%)	Dec-22	Sep-22	Jun-22	Mar-22
Promoter	-	2.54	5.94	5.94
FPIs	39.52	39.67	37.27	38.00
MFs	32.37	33.13	32.58	32.08
Insurance	10.43	10.29	10.89	10.58
Others	17.68	14.37	13.32	13.40

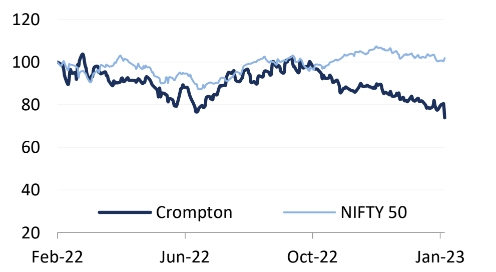
Source: BSE

Price Performance

(%)	1M	3M	6M	1YR
Crompton	-12.0%	-16.0%	-22.0%	-26.1%
Nifty 50	-2.1%	-1.1%	2.7%	1.9%

** To date / current date : February 3, 2023*

Crompton vs Nifty 50



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Outlook and Valuation

Crompton continues to focus on product innovation (differentiated and premium products), GTM (improved reach) and branding (omni channel branding) as also on cost optimisation (Unnati program, better sourcing, etc) 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 and target price accordingly due to the weakness during the quarter but remain positive on the upcoming summer season and improving operating performance along with recovery in B2C demand and shrinking unorganized market. Hence, we maintain our Buy stance with a revised PT of ₹394.

Exhibit 1: Result Summary

(₹ mn)	Q3FY23	Q3FY22	*YoY (%)*	Q2FY23	*QoQ (%)*
Net Sales	15,162	14,102	*7.5%*	16,995	*-10.8%*
Raw Material	10,230	9,638	*6.1%*	11,534	*-11.3%*
- % of sales	*67.5%*	*68.3%*	*-87 bps*	*67.9%*	*-39 bps*
Gross profit	4,932	4,464	*10.5%*	5,461	*-9.7%*
Gross margin(%)	*32.5%*	*31.7%*	*87 bps*	*32.1%*	*39 bps*
Employee cost	1,341	941	*42.5%*	1,332	*0.7%*
- % of sales	*8.8%*	*6.7%*	*217 bps*	*7.8%*	*101 bps*
Other expenses	2,067	1,511	*36.8%*	2,198	*-6.0%*
- % of sales	*13.6%*	*10.7%*	*292 bps*	*12.9%*	*70 bps*
EBITDA	1,524	2,011	*-24.2%*	1,931	*-21.1%*
EBITDA margin (%)	*10.1%*	*14.3%*	*-421 bps*	*11.4%*	*-131 bps*
Depreciation	297	102	*191.8%*	283	*5.0%*
Interest	294	67	*341.1%*	299	*-1.5%*
Other income	213	140	*51.7%*	183	*16.4%*
PBT	1,146	1,983	*-42.2%*	1,533	*-25.2%*
Tax	264	505	*-47.7%*	393	*17.1%*
Tax rate (%)	*23.0%*	*25.4%*	*-241 bps*	*25.6*	*833 bps*
Recurring PAT	882	1,479	*-40.4%*	1,140	*-32.5%*
Minority	(29)	0		(49)	
Reported PAT	853	1,483	*-40.5%*	1,258	*-32.5%*
EPS - recurring (INR)	1.4	2.3	*-40.4%*	1.8	*-32.5%*

Source: Company, LKP Research

Concall Highlights

Operations:

- low growth momentum continued in Q3, as consumer demand remained weak owing to high inflation and price volatility.
- Demand is expected to come back once BEE impact normalizes on the back of strong product portfolio, improved consumer sentiment and higher brand investment.
- Alternate channel grew by 45%. E-commerce revenues grew by 89%. CSD and rural channel grew by ~30% over last year. On Amazon, product placement and rating has improved.
- Invested ₹160mn for BEE transition and other growth initiatives.
- Company continued investment in A&P, capability building for new biz, R&D, manufacturing excellence and alternate channels.
- Key actions for growth revival: Fans – ramp up production and optimize cost, Pumps – Strengthen product portfolio through new brand architecture and strategic pricing, Lighting- Structured GTM approach to drive reach expansion along with aggressive cost saving, Appliances- Penetrate new categories and addressing product portfolio gap.

ECD:

- Festive demand was impacted, and warmer winters impacted the offtake of seasonal appliances.
- ECD gross margins are at normal levels and are not impacted despite continued investment and A&P. With summer approaching volumes will come back and margins should improve.

Fans:

- In fans, Crompton didn't push non-star rated inventories aggressively at higher discounts. Crompton has liquidated all non-star fans and transitioning to new norms. It has ramped up star rated fans production mainly 1-star fans.
- From second half of Q4, it expects demand for star rated fans to improve.
- Old star rated inventories are 2.5-3 weeks lower compared to other players. For Havells, channel inventories were filled for Standard and Rio brand. Brands started giving discounts from the end of November and Crompton started giving in the December, which led to above normal inventories.
- In fans, mid segment was slightly higher impacted.
- Impact of non-BEE compliant inventory was almost NIL.
- In Fans, 1-star fans offer 30% energy saving.
- Price impact due to transition is ~5-6%. However, at early-stage it might give ~0.5-1% discount.
- The plan for stabilizing and ramping up production both inhouse and sourced products is in place wherein the focus will be to further improve the cost structure with scale.

Pumps:

- Pumps remained under pressure mainly due to higher competition and industry slowdown. In December, it took corrective pricing actions which reduced price gap compared to peers.
- Additionally, based on consumer insights, Crompton is revamping entire range of product portfolio.
- Pumps declined by 10%. In residential pumps, Crompton has ~27% market share.

Appliances:

- Festive demand was weak. On annual basis, small appliances ~ ₹10bn revenue.
- Appliances grew by 13% driven by growth in mixers, geysers and other small appliances.
- Mixer grinders grew by ~20% and geysers grew by ~12%.
- Going ahead, kitchen appliance will remain a key growth driver. Combined Crompton and Butterfly, one of the leading players with ₹20bn revenues.
- Built In Kitchen Appliances clocked revenues of ₹65mn in Q3 and YTD Dec'22 revenues of ₹140mn.
- Crompton opened 40 brand stores across 10 cities.

Lighting:

- Conventional lighting declined for consecutive quarters. B2C LED business largely impacted while B2B trade business maintaining current year run rate.
- Conventional lighting declined by ~30% YoY. B2C LED lamps biz. was impacted due to competition and pricing pressures.
- Pricing was instable during the quarter. Focus was on maintaining gross margins which impacted performance. However, going ahead focus will be on fixing B2C lighting biz. Crompton is focusing on reach expansion in B2C (currently in two regions).
- B2B excluding GOI is growing. However, B2G was under pressure due to lower growth in street lighting.

Butterfly:

- Peers degrew, however Crompton posted marginal growth. It continues to reduce price parity between online and open trade channel.
- Share of retail increased as a part of strategic decision.
- Share of the revenues from new biz improved in 3Q3 (14% contribution). 25 new products were launched.
- Multiple process excellence initiatives have been undertaken to reduce costs and smoothen operations.
- FY23 PBT will be ~₹1bn. Post which debt will reduce and interest expense will also reduce.

Exhibit 2: Profit and Loss Statement - Consolidated

(₹ mn)	FY21	FY22	FY23E	FY24E	FY25E
Total Income	47,500	53,941	68,387	77,030	86,289
Raw material Cost	32,304	37,018	46,845	52,149	58,159
Employee Cost	3,366	3,624	5,221	6,350	6,410
Other expenses	4,782	5,605	8,474	8,873	10,232
Total operating Expenses	**40,453**	**46,247**	**60,541**	**67,373**	**74,800**
EBITDA	**7,047**	**7,695**	**7,847**	**9,657**	**11,489**
EBITDA Margins(%)	*14.8*	*14.3*	*11.5*	*12.5*	*13.3*
Depreciation & Amortisation	297	423	1,124	1,201	1,277
EBIT	**6,750**	**7,272**	**6,723**	**8,456**	**10,212**
Interest	429	353	1,012	509	270
Other Income	756	727	633	605	658
Recurring PBT	**7,077**	**7,645**	**6,343**	**8,551**	**10,600**
Add: Extraordinaries	-	-	-	-	-
Add: Share in associates					
PBT	7,077	7,645	6,343	8,551	10,600
Less: Taxes	1,030	1,732	1,598	2,155	2,671
Less: Minority Interest & Share in associates					
Net Income (Reported)	**6,047**	**5,914**	**4,745**	**6,396**	**7,929**
Adjusted Net Income	**6,047**	**5,784**	**4,745**	**6,396**	**7,929**

Source: Company, LKP Research

Exhibit 3: Balance Sheet

(₹ mn)	FY21	FY22	FY23E	FY24E	FY25E
Assets					
Total Current Assets	17,846	25,380	21,714	24,860	29,962
of which cash & cash eqv.	5,945	9,152	3,046	3,924	6,622
Total Current Liabilities & Provisions	11,462	15,662	17,360	19,327	21,102
Net Current Assets	**6,384**	**9,717**	**4,354**	**5,533**	**8,860**
Investments	7,753	6,242	6,242	6,242	6,242
Net Fixed Assets	1,356	19,880	20,756	21,055	21,278
Capital Work-in-Progress	**109**	**130**	**130**	**130**	**130**
Goodwill	7,794	12,855	12,855	12,855	12,855
Total Assets	**23,395**	**48,824**	**44,336**	**45,814**	**49,364**
Liabilities					
Borrowings	4,788	16,075	8,030	5,030	3,030
Deferred Tax Liability	(583)	394	394	394	394
Minority Interest	-	-	-	-	-
Equity Share Capital	1,255	1,267	1,267	1,267	1,267
Face Value per share (₹)	2.0	2.0	2.0	2.0	2.0
Reserves & Surplus	17,935	31,087	34,646	39,123	44,673
Net Worth	**19,190**	**32,354**	**35,913**	**40,390**	**45,940**
Total Liabilities	**23,395**	**48,824**	**44,336**	**45,814**	**49,364**

Source: Company, LKP Research

Exhibit 4: Key Ratios

Y/E Mar	FY21	FY22	FY23E	FY24E	FY25E
Per Share Data (in ₹)					
AEPS	9.6	9.3	7.5	10.1	12.5
CEPS	10.0	10.0	9.3	12.0	14.5
BVPS	30.3	51.1	56.7	63.8	72.5
DPS	2.5	2.5	1.9	3.0	3.8
Growth Ratios (%)					
Total Revenues	5.1	13.6	26.8	12.6	12.0
EBITDA	16.5	9.2	2.0	23.1	19.0
PAT	20.3	(4.4)	(18.0)	34.8	24.0
AEPS	20.2	(3.1)	(19.8)	34.8	24.0
CEPS	18.8	(0.1)	(7.4)	29.5	21.2
Valuation Ratios					
P/E	31.7	32.7	40.7	30.2	24.4
P/CEPS	30.5	30.5	32.9	25.4	21.0
P/BV	10.0	6.0	5.4	4.8	4.2
EV / EBITDA	25.9	25.2	24.5	19.5	16.0
EV / Sales	3.8	3.6	2.8	2.4	2.1
Operating Ratio					
Raw Material/Sales (%)	68.0	68.6	68.5	67.7	67.4
SG&A/Sales (%)	10.1	10.4	12.4	11.5	11.9
Effective Tax Rate (%)	14.6	22.6	25.2	25.2	25.2
NWC / Total Assets (%)	1.9	1.2	2.9	3.5	4.5
Inventory Turnover (days)	39.8	34.6	41.0	41.0	41.0
Receivables (days)	34.8	34.7	40.0	40.0	40.0
Payables (days)	89.4	84.8	85.0	85.0	85.0
D/E Ratio (x)	0.2	0.5	0.2	0.1	0.1
Return/Profitability Ratio (%)					
RoCE	28.9	14.9	15.2	18.5	20.7
RoNW	35.7	22.9	13.9	16.8	18.4
Dividend Payout Ratio	25.9	26.8	25.0	30.0	30.0
Dividend Yield	0.8	0.8	0.6	1.0	1.2
PAT Margins	12.7	10.7	6.9	8.3	9.2
EBITDA Margins	14.8	14.3	11.5	12.5	13.3

Source: Company, LKP Research

Exhibit 5: Cash Flow Statement

(₹ mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT	7,077	7,645	6,343	8,551	10,600
Depreciation	297	423	1,124	1,201	1,277
Chng in working capital	1,397	1,005	(743)	(301)	(629)
Tax paid	(526)	(1,798)	(1,598)	(2,155)	(2,671)
Cash flow from operations (a)	8,149	7,234	5,506	7,202	8,188
Free cash flow	7,947	5,522	3,506	5,702	6,688
Capital expenditure	(202)	(1,712)	(2,000)	(1,500)	(1,500)
Chng in investments	(4,955)	(15,893)	-	-	-
Other investing activities	269	376	633	605	658
Cash flow from investing (b)	(4,887)	(17,229)	(1,367)	(895)	(842)
Inc/dec in borrowings	1,300	14,069	(8,046)	(3,000)	(2,000)
Dividend paid (incl. tax)	(1,874)	(1,564)	(1,186)	(1,919)	(2,379)
Interest paid	(342)	(505)	(1,012)	(509)	(270)
Other financing activities	(119)	(3,530)	-	-	-
Cash flow from financing (c)	(962)	9,073	(10,244)	(5,428)	(4,649)
Net chng in cash (a+b+c)	2,300	(922)	(6,106)	878	2,698
Closing cash & cash equivalents	5,945	9,152	3,046	3,924	6,622

Source: Company, LKP Research

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