

June 16, 2023

Visit Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	338		371	
Sales (Rs. m)	74,407	86,129	76,104	84,411
% Chng.	(2.2)	2.0		
EBITDA (Rs. m)	8,160	10,005	8,848	10,140
% Chng.	(7.8)	(1.3)		
EPS (Rs.)	8.0	10.4	8.8	10.6
% Chng.	(8.9)	(1.4)		

Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	53,941	68,696	74,407	86,129
EBITDA (Rs. m)	7,513	7,705	8,160	10,005
Margin (%)	13.9	11.2	11.0	11.6
PAT (Rs. m)	5,732	4,632	5,248	6,849
EPS (Rs.)	9.0	7.3	8.0	10.4
Gr. (%)	(2.5)	(19.5)	9.9	30.5
DPS (Rs.)	2.5	3.0	3.0	5.0
Yield (%)	0.9	1.0	1.0	1.7
RoE (%)	26.1	18.1	18.6	21.8
RoCE (%)	23.7	18.5	21.2	26.5
EV/Sales (x)	3.5	2.8	2.6	2.2
EV/EBITDA (x)	24.9	24.6	23.5	18.8
PE (x)	32.4	40.2	36.6	28.1
P/BV (x)	7.6	7.0	6.5	5.8

Key Data CROP.BO | CROMPTON IN

52-W High / Low	Rs.429 / Rs.251
Sensex / Nifty	62,918 / 18,688
Market Cap	Rs.187bn/ \$ 2,281m
Shares Outstanding	640m
3M Avg. Daily Value	Rs.1104.25m

Shareholding Pattern (%)

Promoter's	-
Foreign	39.63
Domestic Institution	44.40
Public & Others	15.97
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	15.2	(16.3)	(7.4)
Relative	14.2	(17.8)	(22.6)

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Investing in growth

We met CROMPTON's management to gauge how demand, competitive scenario and change in strategy is shaping overall business. Crompton has taken corrective measures like 1) restructured the business in five verticals, 2) hired/appointed second level management team, 3) addressed the frontend sales team attrition, and 4) increased focus on A&P and R&D for driving growth. Although the strategy might impact FY24 financials, we expect better growth from FY25 onwards.

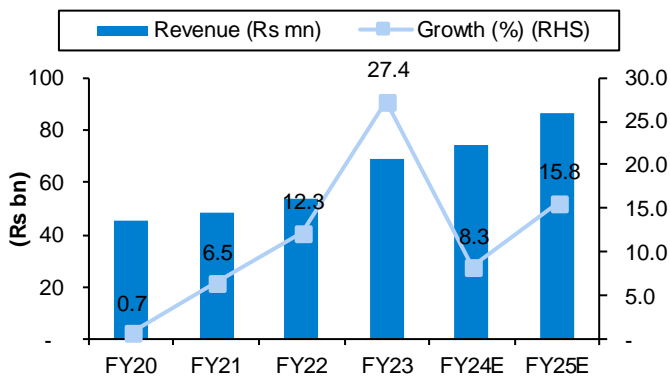
Over FY17-23 Company's Revenue/EBITDA/PAT CAGR stood at 9.9%/8%/8.7% while excluding Butterfly Revenue/EBITDA CAGR was at 6.4%/5.7%. Management expects 7-10% revenue growth in existing business and <30% in new vertical of large appliance business. Further, EBITDA margin is expected to be in 10-12% range over coming years. We estimate Sales/EBITDA/PAT CAGR of 12.0%/14.0%/21.6% over FY23-25E and revise our TP to Rs338 @ 32x FY25 EPS (Rs371 earlier). Maintain 'BUY'.

Key takeaways:

- Focus on growth across segments:** CROMPTON has delivered 6.4% revenue CAGR over FY17-23 in its core business (ex-Butterfly) due to lack of investment in growth against FMEG portfolio of Havells/Orient/V-Guard/Bajaj Electricals of 15.7%/10.8%/22.5%/13.2% over same period. The company is focusing on growth across verticals in coming year. It has guided 7-10% growth in existing business & ~30% growth in large appliance business (Built-in kitchen appliances, including chimneys, hobs, ovens and dishwashers).
- Restructuring of business to drive growth:** The company has restructured its business in five verticals 1) **Home Electrical** (include Fan, Cooler & Water heater): Focused on increasing premium and BLDC fans segment, 2) **Kitchen appliances** (Butterfly and existing small appliances business of Crompton): Non-south expansion of Butterfly business & new product launches to drive growth, 3) **Pump business** – Residential pump accounts 80% rev. and coming years more focus will be on agricultural pumps growth. Crompton has extensive range of pumps for Residential, Agricultural & Special applications and with new brand architecture, segment is expected to show healthy growth. 4) **Lighting:** With focus on product innovation, cost efficiency and portfolio optimization, the company is well-positioned to continue its growth trajectory in both B2B and B2C markets. and 5) **Large appliances:** Expects >30% growth in the segment, with a strong focus on quality, reliability, and performance.
- Restricted operating margin:** The company (consolidated) reported 11.2% EBITDA margin in FY23 and we believe it will contract further by ~20bps in FY24 due to corrective measures in terms of 1) employees (stabilizing frontend sales team attrition & hire leadership team), 2) increased focus on R&D and 3) rise in advertisement & promotion expenses (expected to reach 3.5-4% sales in coming years). However, it expected to improve from FY25 (PLe: 11.6%) onwards as a results of operational efficiency.

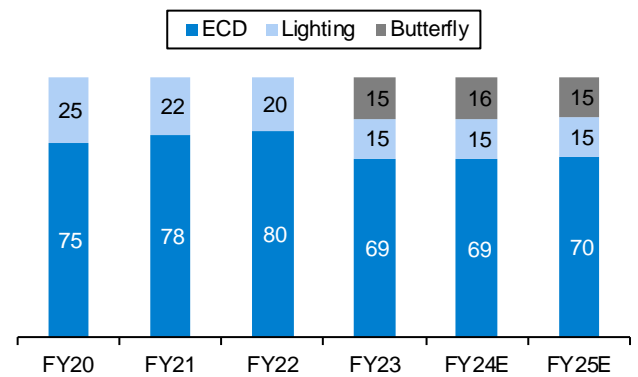
- Building second level management to drive business:** The company has hired/appointed senior level managements for various functions and 30% total leadership positions on-board internally. Also, as per management, second level leadership team has been created to lead each business units e.g. Mr. Rajat Chopra has been elevated to lead Pump business etc.
- Focus on A&P expenses and increasing R&D team:** The company expects to increase its A&P expenses and reach 3.5-4% revenue by FY24 onwards, which will help to drive its B2C revenue. Crompton also focus on investing in R&D (1.3% sales), where R&D team size increased to 161 people, to manufacture the innovative products across the verticals. It is also developing consumer-centric and technologically enabled products to drive growth in coming years.

Exhibit 1: Revenue growth to accelerate in FY25



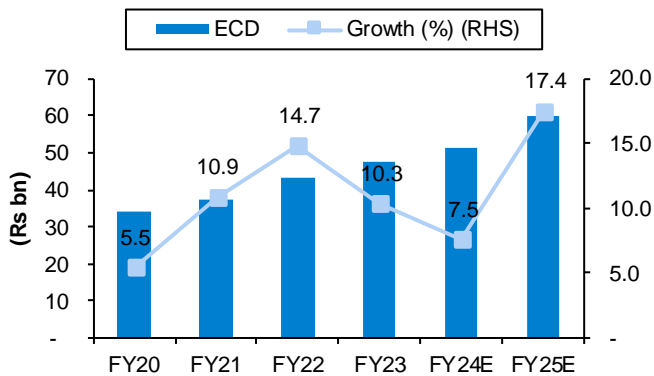
Source: Company, PL

Exhibit 2: ECD maintain ~70% rev. contribution



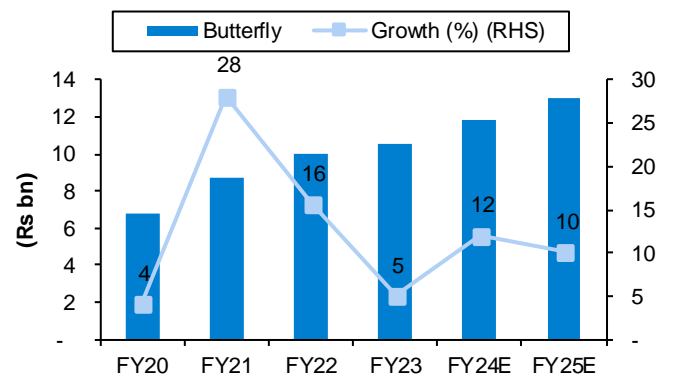
Source: Company, PL

Exhibit 3: ECD business expected 12.4% CAGR FY23-25E



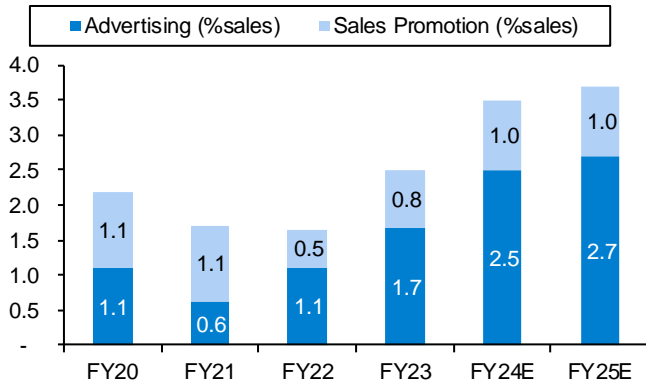
Source: Company, PL

Exhibit 4: Butterfly to sustain double digit growth



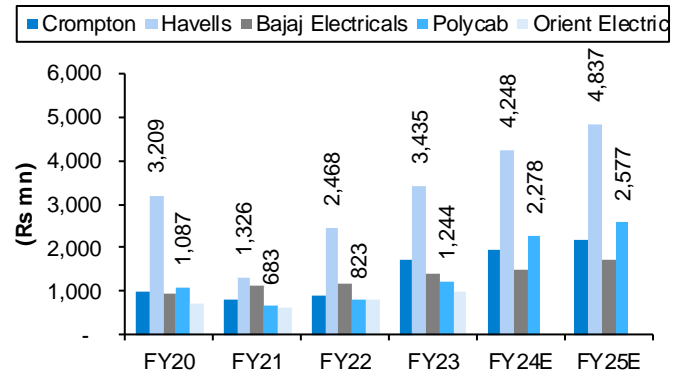
Source: Company, PL

Exhibit 5: A&P expenses expected to increase



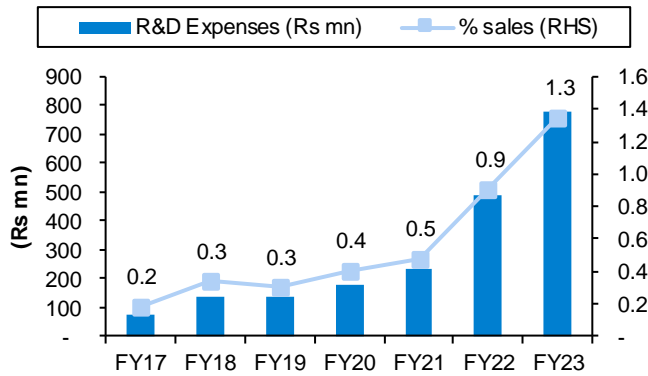
Source: Company, PL

Exhibit 6: A&P expenses – peer comparison



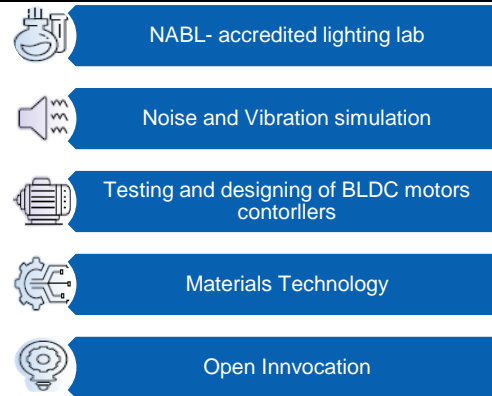
Source: Company, PL

Exhibit 7: R&D expenses (% of sales) moving up



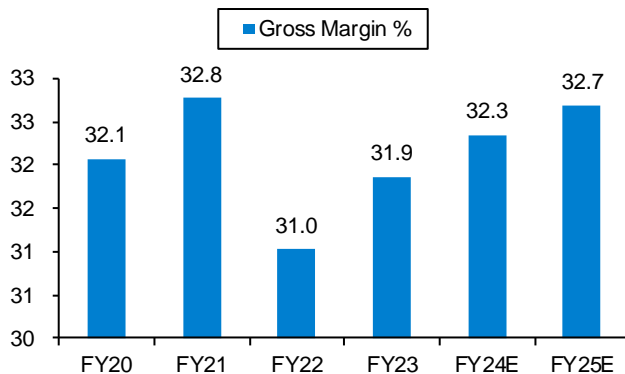
Source: Company, PL

Exhibit 8: Crompton - Key capabilities of the R&D centre



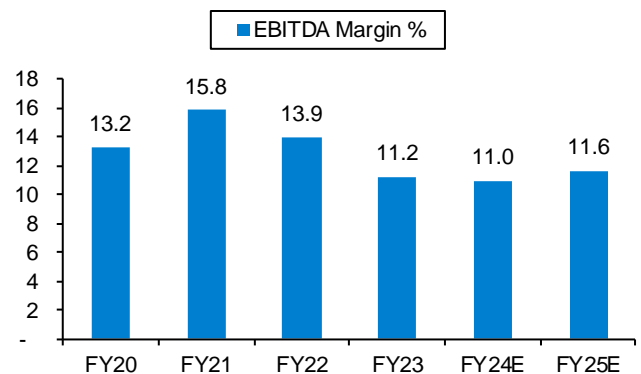
Source: Company, PL

Exhibit 9: GM expected to improve with premium products



Source: Company, PL

Exhibit 10: EBITDA margin expected range bound



Source: Company, PL

Exhibit 11: Key Managerial Personnel (KMPs) hired in last one year, to drive the growth

Name	Appointment Date	Designation	Education	Years of Experience	Previous Employment
Mr Sachin Phartiyal	Feb-22	Head - Fans business (VP) - Home Electricals	PGDBM - Marketing	25+ years	Whirlpool - Country director (16 years)
Mr Rangarajan Sriram	Apr-22	MD - Butterfly (Head - Kitchen appliances)	PGDBA - Marketing	17+ years	Crompton - VP (7yrs), Crompton Greaves (3yrs) and Whirlpool (6 years)
Mr Rajat Chopra		Head - Pump (VP - Sales North)	BE - Electrical & Electronics	26 years	Crompton (26 years)
Mr Prasanth Nair	May-23	CHRO	FPM - HR (IIM-A), BTech - Mechanical	29 years	Asynithis (Indus Partner), ZingHR, TVS Capital, Cipla, Thomas Cook
Ms Pragya Bijalwan	Apr-21	CMO	MBA - Marketing (IMT-Ghaziabad)	19 years	Castrol - GM (4+yrs), AkzoNobel (9yrs)

Source: Company, PL

Exhibit 12: Crompton - Addressed attrition concern

Attrition management	Adequacy of Succession Planning	Contract Management
Mitigating Measures and Current Progress		
Various programmes being run to address attrition and retention of key talents which include Great Manager certification and dealing with work stress	Job rotation plan and succession planning of key position with talent calibration is done	Initiatives in progress to maintain target ratio of labour across plants in progress through Automation, Outsourcing, hiring CGCEL trainees, NEEM deployment
Focus on bringing work-life balance, fun at work and increasing rewards and recognition	Structured leadership programmes are rolled out	
Constant investment in various trainings on talent management towards upskilling & reskilling	Inclusion of D&I agenda in the succession planning formats, as applicable	

Source: Company, PL

Exhibit 13: Durables companies' valuation

Company Names	M Cap (Rs bn)	CMP (Rs)	Rating	Target Price (Rs)	PER (x)			Target PER (x) FY25E	RoCE (%)			Sales CAGR (%) FY23-FY25E	EPS CAGR (%) FY23-FY25E	Return Expectation
					FY23	FY24E	FY25E		FY23	FY24E	FY25E			
Bajaj Electricals	132.9	1155.0	Accumulate	1301	58	37	30	34	19.5	24.6	26.1	14.4	39.1	12.6
Crompton Greaves Consumer Electricals	183.9	293.1	BUY	338	40	37	28	32	18.5	21.2	26.5	12.0	19.8	15.5
Havells India	852	1361.0	BUY	1447	81	55	46	49	22.5	28.7	29.4	14.0	32.8	6.3
Polycab India	518.5	3482.7	HOLD	3249	41	36	31	29	28.7	27.4	27.2	14.2	15.0	-6.7
Orient Electric	50.9	238.0	Not Rated	260	76	40	29	29	17.2	21.0	23.7	14.9	50.4	9.2
V-guard	108.0	252.3	Not Rated	279	57	37	31	32	15.2	17.5	23.1	15.6	34.9	10.6

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	53,941	68,696	74,407	86,129
YoY gr. (%)	12.3	27.4	8.3	15.8
Cost of Goods Sold	37,205	46,804	50,341	57,980
Gross Profit	16,736	21,893	24,066	28,148
Margin (%)	31.0	31.9	32.3	32.7
Employee Cost	3,624	5,408	5,954	6,514
Other Expenses	4,461	6,280	7,449	8,559
EBITDA	7,513	7,705	8,160	10,005
YoY gr. (%)	(1.0)	2.6	5.9	22.6
Margin (%)	13.9	11.2	11.0	11.6
Depreciation and Amortization	423	1,159	984	1,016
EBIT	7,090	6,545	7,176	8,989
Margin (%)	13.1	9.5	9.6	10.4
Net Interest	353	1,092	755	369
Other Income	727	668	596	536
Profit Before Tax	7,464	6,121	7,017	9,156
Margin (%)	13.8	8.9	9.4	10.6
Total Tax	1,732	1,358	1,768	2,307
Effective tax rate (%)	23.2	22.2	25.2	25.2
Profit after tax	5,732	4,764	5,248	6,849
Minority interest	-	132	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	5,732	4,632	5,248	6,849
YoY gr. (%)	(1.6)	(19.2)	13.3	30.5
Margin (%)	10.6	6.7	7.1	8.0
Extra Ord. Income / (Exp)	130	-	-	-
Reported PAT	5,862	4,632	5,248	6,849
YoY gr. (%)	(11.1)	(21.0)	13.3	30.5
Margin (%)	10.9	6.7	7.1	8.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,862	4,632	5,248	6,849
Equity Shares O/s (m)	633	636	656	656
EPS (Rs)	9.0	7.3	8.0	10.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	21,750	21,015	21,164	21,415
Tangibles	6,516	5,542	5,671	5,902
Intangibles	15,234	15,473	15,493	15,513
Acc: Dep / Amortization	1,159	2,318	3,086	3,877
Tangibles	1,049	1,751	2,058	2,388
Intangibles	110	567	1,028	1,489
Net fixed assets	19,880	19,855	18,078	17,538
Tangibles	4,756	4,840	3,613	3,515
Intangibles	15,124	15,016	14,465	14,023
Capital Work In Progress	130	55	100	100
Goodwill	12,855	12,855	12,855	12,855
Non-Current Investments	157	191	205	239
Net Deferred tax assets	(256)	(29)	35	120
Other Non-Current Assets	325	758	771	784
Current Assets				
Investments	6,238	5,478	5,896	5,848
Inventories	7,210	7,439	8,154	9,439
Trade receivables	6,154	6,861	6,931	8,023
Cash & Bank Balance	9,152	1,095	1,802	434
Other Current Assets	2,092	1,669	2,579	2,954
Total Assets	64,486	56,544	57,747	58,713
Equity				
Equity Share Capital	1,267	1,272	1,311	1,311
Other Equity	23,263	25,328	28,454	31,797
Total Networth	24,530	26,600	29,766	33,108
Non-Current Liabilities				
Long Term borrowings	487	6,531	3,531	531
Provisions	1,096	1,312	1,488	1,895
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	16,370	3,520	3,520	1,520
Trade payables	10,178	10,486	11,034	12,708
Other current liabilities	3,607	3,496	3,803	4,339
Total Equity & Liabilities	64,486	56,544	57,747	58,713

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	7,464	6,121	7,017	9,156
Add. Depreciation	423	1,159	984	1,016
Add. Interest	353	1,092	755	369
Less Financial Other Income	727	668	596	536
Add. Other	(205)	(476)	84	274
Op. profit before WC changes	8,034	7,896	8,840	10,816
Net Changes-WC	1,028	3,614	(387)	(2,606)
Direct tax	(1,703)	(1,358)	(1,768)	(2,307)
Net cash from Op. activities	7,359	10,153	6,685	5,903
Capital expenditures	(1,712)	(1,059)	748	(476)
Interest / Dividend Income	485	-	-	-
Others	(15,978)	760	(418)	49
Net Cash from Inv. activities	(17,204)	(299)	330	(428)
Issue of share cap. / premium	603	5	39	-
Debt changes	10,539	6,331	(2,970)	(2,968)
Dividend paid	(1,564)	(1,584)	(1,908)	(3,278)
Interest paid	(505)	(1,092)	(755)	(369)
Others	-	-	-	-
Net cash from Fin. activities	9,073	3,661	(5,593)	(6,616)
Net change in cash	(771)	13,515	1,421	(1,140)
Free Cash Flow	5,648	9,094	7,432	5,427

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	9.0	7.3	8.0	10.4
CEPS	9.7	9.1	9.5	12.0
BVPS	38.7	41.8	45.4	50.5
FCF	8.9	14.3	11.3	8.3
DPS	2.5	3.0	3.0	5.0
Return Ratio(%)				
RoCE	23.7	18.5	21.2	26.5
ROIC	31.0	15.7	18.5	22.6
RoE	26.1	18.1	18.6	21.8
Balance Sheet				
Net Debt : Equity (x)	0.1	0.1	0.0	(0.1)
Net Working Capital (Days)	22	20	20	20
Valuation(x)				
PER	32.4	40.2	36.6	28.1
P/B	7.6	7.0	6.5	5.8
P/CEPS	30.2	32.2	30.8	24.4
EV/EBITDA	24.9	24.6	23.5	18.8
EV/Sales	3.5	2.8	2.6	2.2
Dividend Yield (%)	0.9	1.0	1.0	1.7

Source: Company Data, PL Research

Quarterly Financials (Rs m)

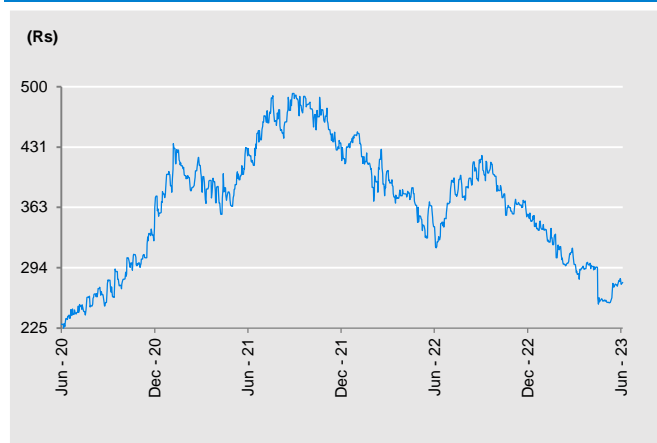
Y/e Mar	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Net Revenue	18,629	16,995	15,162	17,910
YoY gr. (%)	77.3	22.7	7.5	15.7
Raw Material Expenses	12,780	11,534	10,230	12,260
Gross Profit	5,849	5,461	4,932	5,650
Margin (%)	31.4	32.1	32.5	31.5
EBITDA	2,199	1,931	1,524	1,416
YoY gr. (%)	73.0	(9.8)	(24.4)	(40.6)
Margin (%)	11.8	11.4	10.1	7.9
Depreciation / Depletion	276	283	297	304
EBIT	1,924	1,648	1,227	1,112
Margin (%)	10.3	9.7	8.1	6.2
Net Interest	225	299	294	274
Other Income	104	183	213	168
Profit before Tax	1,867	1,533	1,146	1,006
Margin (%)	10.0	9.0	7.6	5.6
Total Tax	479	226	264	389
Effective tax rate (%)	25.7	14.7	23.0	38.7
Profit after Tax	1,387	1,307	882	617
Minority interest	49	49	29	4
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,338	1,258	853	613
YoY gr. (%)	37.3	(26.2)	(42.4)	(69.0)
Margin (%)	7.2	7.4	5.6	3.4
Extra Ord. Income / (Exp)	64	-	-	-
Reported PAT	1,402	1,258	853	613
YoY gr. (%)	43.8	(26.2)	(42.4)	(69.0)
Margin (%)	7.5	7.4	5.6	3.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,402	1,258	853	613
Avg. Shares O/s (m)	634	634	634	634
EPS (Rs)	2.1	2.0	1.3	1.0

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	22-May-23	BUY	371	260
2	11-Apr-23	BUY	403	298
3	05-Feb-23	BUY	406	305
4	06-Jan-23	BUY	435	338
5	26-Jul-22	BUY	505	375
6	04-Jul-22	BUY	534	350

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Astral Ltd.	BUY	1,830	1,687
2	Bajaj Electricals	Accumulate	1,301	1,213
3	Cera Sanitaryware	BUY	7,706	6,690
4	Crompton Greaves Consumer Electricals	BUY	371	260
5	Finolex Industries	Accumulate	194	182
6	Havells India	BUY	1,447	1,245
7	Kajaria Ceramics	Accumulate	1,264	1,185
8	KEI Industries	Hold	1,811	1,836
9	Polycab India	Hold	3,249	3,381
10	Prince Pipes and Fittings	BUY	716	610
11	Supreme Industries	BUY	3,245	2,722
12	Voltas	Hold	848	808

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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