Crompton Consumer

Reinvestment mode to impact margins in near term

Crompton’s Q1FY24 print was a mixed bag with ECD revenues surpassing expectations but disappointing on margins. Overall EBITDA was in line at INR 1.9bn (HSIE: INR 1.9bn). ECD revenue grew 6% YoY (TTM for Crompton was up 1% YoY vs. flat for Havells and -5% for Orient, which continue to see impact of the BEE rating change). Within ECD, appliances clocked 19% growth, followed by fans at 5% (premium fans grew 22%) while pumps were flat. ECD margins fell 425bps to 12.7% (16.4% in Q4), given (1) higher A&P spends (150bps); (2) GM pressure in fans due to rating change and delayed price hike (150bps); and (3) built-in kitchen loss which is in investment phase (50bps). Crompton 2.0 is focusing on accelerating revenue with increase in branding, distribution and R&D expenses. These costs are upfront in nature, thereby impacting operating margin. We believe revenue acceleration will be visible gradually but in interim cost increase may impact margin in the near term. In our opinion, if management executes this strategy well, then investors’ confidence on valuation multiple will improve. We marginally cut our EPS for FY24/25 and value the stock at 35x on Jun’25E EPS to derive a TP of INR 400. Maintain BUY.

- **Beat on revenue as ECD surprises positively**: Revenue grew 1% YoY to INR 18.8bn (HSIE INR 18bn). Organic revenue (ex-Butterfly) grew 3% YoY to INR 16.6bn (HSIE INR 16.6bn). ECD growth was led by water heaters and air coolers (+11%) while mixer grinders grew by 50%+. Fans grew by 5%, led by 22% growth in premium fans. Lighting/Butterfly margins contracted (150bps in Q1). Crompton 2.0 strategy is to grow faster than the industry by (1) protecting & growing the core of fans and appliances; (2) winning in the kitchen segment; (3) strengthening the lighting business; and (4) foraying into new segments. We model 12% revenue growth over FY23-26.

- **Accelerated brand investments impact profitability**: GM fell by 60bps YoY to 31%, largely on account of higher BEE cost in fans and price correction in pumps. EBITDAM fell by 190bps YoY to 9.9%. While employee expenses were flat, other expenses grew 13% due to higher A&P spending (4.5% vs 3% YoY), distribution and capability building. EBITDA fell 16% YoY. ECD margin fell by 425bps YoY to 12.7% (down 370bps QoQ) due to accelerated brand investments, delayed price hikes and new launches. Lighting margin expanded by 10bps YoY to 11.9% (up 100bps QoQ), aided by cost optimization initiatives. Butterfly margins contracted by 130bps YoY to 7.3%. We model 14.5-15% EBIT margin for FY24-FY26.

- **Con call takeaways**: (1) Demand remains challenging, and a gradual pick-up is seen in June. Expect momentum to sustain. (2) Premium fans’ saliency improved to 28% from mid-teens a few years back. BLDC fans grew by 80%. (3) Built-in kitchen appliances revenue stood at INR 110mn in Q1FY24, led by chimneys and hobs. (4) Strategic channel restructuring in BGAL led to double-digit growth in the retail channel. Pilot initiated to expand in north and west regions. (5) BGAL merger expected to be completed by end of FY24.

Quarterly/annual financial summary

<table>
<thead>
<tr>
<th>(INR mn)</th>
<th>Q1 FY24</th>
<th>Q1 FY23</th>
<th>YoY (%)</th>
<th>Q4 FY23</th>
<th>QoQ (%)</th>
<th>FY22</th>
<th>FY23</th>
<th>FY24E</th>
<th>FY25E</th>
<th>FY26E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Sales</td>
<td>18,769</td>
<td>18,629</td>
<td>0.7</td>
<td>17,910</td>
<td>4.8</td>
<td>53,941</td>
<td>68,696</td>
<td>76,354</td>
<td>86,720</td>
<td>97,588</td>
</tr>
<tr>
<td>EBITDA</td>
<td>1,858</td>
<td>2,199</td>
<td>(15.5)</td>
<td>2,114</td>
<td>(12.1)</td>
<td>7,695</td>
<td>7,705</td>
<td>8,775</td>
<td>10,389</td>
<td>11,990</td>
</tr>
<tr>
<td>APAT</td>
<td>1,220</td>
<td>1,306</td>
<td>(6.5)</td>
<td>1,316</td>
<td>(7.2)</td>
<td>5,829</td>
<td>4,764</td>
<td>5,528</td>
<td>6,791</td>
<td>8,039</td>
</tr>
<tr>
<td>EPS (INR)</td>
<td>1.91</td>
<td>2.06</td>
<td>(7.4)</td>
<td>2.05</td>
<td>(6.7)</td>
<td>9.2</td>
<td>7.5</td>
<td>8.7</td>
<td>10.7</td>
<td>12.7</td>
</tr>
<tr>
<td>P/E (x)</td>
<td>32.2</td>
<td>39.4</td>
<td></td>
<td>33.9</td>
<td>27.6</td>
<td>23.3</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EV / EBITDA (x)</td>
<td>24.5</td>
<td>24.7</td>
<td></td>
<td>21.1</td>
<td>17.4</td>
<td>14.6</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Core RoCE (%)</td>
<td>16.9</td>
<td>15.1</td>
<td></td>
<td>17.5</td>
<td>21.0</td>
<td>24.8</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Company, HSIE Research
HSIE Results Daily

Disclosure:
Authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have not been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.
Research Analyst or his/her relative or HDFC Securities Ltd. does not have any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate does have/does not have any material conflict of interest.
HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

Disclaimer:
This report has been prepared by HDFC Securities Ltd and is solely for information of the recipient only. The report must not be used as a singular basis of any investment decision. The views herein are of a general nature and do not consider the risk appetite or the particular circumstances of an individual or a particular investor; readers are requested to take professional advice before investing. Nothing in this document should be construed as investment advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in securities of the companies referred to in this document (including merits and risks) and should consult their own advisors to determine merits and risks of such investment. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete. HSL is not obliged to update this report for such changes. HSL has the right to make changes and modifications at any time.
This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction. If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.
Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk. It should not be considered to be taken as an offer to sell or a solicitation to buy any security. This document is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments.
This report should not be construed as an invitation or solicitation to do business with HSL. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.
HSL and its affiliated company(ies), their directors and employees may: (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.
HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.
HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report. As regards the associates of HSL, please refer the website.
HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.
HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from t date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.
HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage services transaction. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.
HDFC securities
Institutional Equities
Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,
Senapati Bapat Marg, Lower Parel, Mumbai - 400 013
Board: +91-22-6171-7330 www.hdfcsec.com

Investment in securities market are subject to market risks. Read all the related documents carefully before investing. Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.
Registration granted by SEBI, membership of BASL (in case of IAs) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Health and Safety Information:
- Wear protective clothing when handling chemicals.
- Keep flammable materials away from heat and direct sunlight.
- Store chemicals in a well-ventilated area.
- Dispose of waste materials properly.

Disclaimer:
- All the information provided is for general guidance and may not be applicable in all situations.
- The accuracy and completeness of the information is not guaranteed.
- Readers are advised to consult with a professional before making any decisions.

---

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 1109 400 013
Disclaimer:
- All the information provided is for general guidance and may not be applicable in all situations.
- The accuracy and completeness of the information is not guaranteed.
- Readers are advised to consult with a professional before making any decisions.

---

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 1109 400 013
Disclaimer:
- All the information provided is for general guidance and may not be applicable in all situations.
- The accuracy and completeness of the information is not guaranteed.
- Readers are advised to consult with a professional before making any decisions.

---

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 1109 400 013
Disclaimer:
- All the information provided is for general guidance and may not be applicable in all situations.
- The accuracy and completeness of the information is not guaranteed.
- Readers are advised to consult with a professional before making any decisions.

---

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 1109 400 013
Disclaimer:
- All the information provided is for general guidance and may not be applicable in all situations.
- The accuracy and completeness of the information is not guaranteed.
- Readers are advised to consult with a professional before making any decisions.