Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

Crompton Greaves Consumer Electricals (CROMPTON IN)

Rating: BUY | CMP: Rs309 | TP: Rs369

August 24, 2023

Analyst Meet Update

■ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	369		338	
Sales (Rs. m)	74,407	86,129	74,407	86,129
% Chng.	-	-		
EBITDA (Rs. m)	8,160	10,005	8,160	10,005
% Chng.	-	-		
EPS (Rs.)	8.0	10.4	8.0	10.4
% Chng.	-	-		

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 (%)	*0.8*	*1.0*	*1.0*	*1.6*
RoE (%)	*26.1*	*18.1*	*18.6*	*21.8*
RoCE (%)	*23.7*	*18.5*	*21.2*	*26.5*
EV/Sales (x)	3.7	2.9	2.7	2.3
EV/EBITDA (x)	26.2	26.0	24.7	19.8
PE (x)	34.1	42.4	38.6	29.6
P/BV (x)	8.0	7.4	6.8	6.1

Key Data	CROP.BO | CROMPTON IN
52-W High / Low	Rs.429 / Rs.251
Sensex / Nifty	65,433 / 19,444
Market Cap	Rs.198bn/ $ 2,390m
Shares Outstanding	640m
3M Avg. Daily Value	Rs.962.39m

Shareholding Pattern (%)

Promoter's	-
Foreign	34.99
Domestic Institution	49.02
Public & Others	15.99
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	6.2	3.8	(20.4)
Relative	8.2	(5.4)	(28.2)

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Reiterated Crompton 2.0 strategy - Focus on growth

CROMTON's management hosted an analyst meet to discuss Crompton 2.0. The company's growth strategy at healthy margins remains intact as it 1) restructured organization with five business units, 2) appointed second level leadership team (incl. business unit leaders + functional heads), 3) setup innovation center to continuously increase SKUs across BUs, 4) diversified GTM channels (enabled by technology) by leveraging new channels (ecom, modern retails) & building future ready channels (D2C, export) and 5) increased focus on A&P. Although the strategy may impact FY24 financials, we expect better growth FY25 onwards as highlighted in our Jun-23 visit update (link).

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 Rs369 @ 35x FY25 EPS, 10% discount to avg PE (Rs338 earlier). Maintain 'BUY'.

Key takeaways:

- **Focus on portfolio expansion**: Crompton is focusing on expanding its premium products contributions in overall sales. In Fans category, premium segment (>15% CAGR over FY18-23) is growing at a faster rate than mid-mass (<5% CAGR over FY18-23). Further with launch of new innovative products (mostly BLDC Fans), there is huge opportunity to gain premium market share in the segment (Premium Fan accounts ~40% industry and ~20% for CROMTON). It is also expanding water heater & coolers SKUs to drive growth in home electrical category. In Pumps category, CROMTON has consolidated its leadership in residential pumps through competitive pricing (taken 7-8% price correction, which is still 2-3% premium to competition) & increased SKUs, further expanding agricultural pumps portfolio to drive growth. The company is also expecting next wave of product innovations in large kitchen appliances by differentiated product offering, which will scale up the business from current annual revenue run rate of Rs ~600mn.

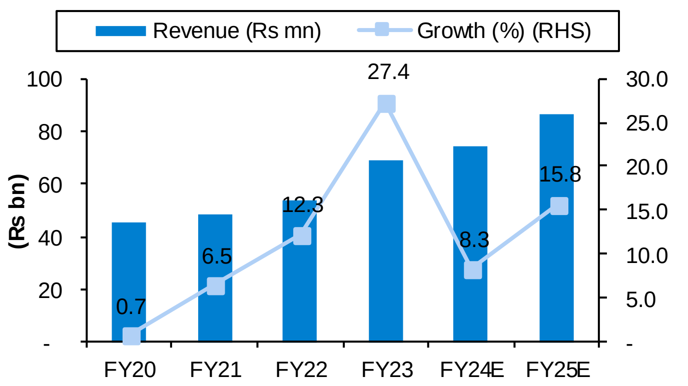
- **Diversification in GTM channels:** CROMTON is focusing on expanding its distribution channels via 1) expansion in existing trade channels, 2) leveraging new channels and 3) building future ready channels. The company is expected to leverage its new channels of e-commerce, modern retail, intuitional channel to bring growth across business units. The large kitchen appliances are expanding its reach to next 20 cities and Butterfly plans to expand pan-India through all three channels. Further, growth in domestic appliance/fans/heaters etc. is also expected to come through strengthening presence in new channels like e-commerce. The company is further building its future ready channels like D2C & Omnichannel and export to drive the growth.

- **Effective Procurement management**: Crompton streamlined/centralized its procurement and supply chain. The company has appointed functional heads in segment, driving effective procurement across business units. In lighting business effective procurement has already led to improvement in unit economics and margin (reached EBIT margin of ~12% in Q1FY24). The company has overall in-house manufacturing of ~35% volume and rest outsourced, where focus is to correct product level unit economics with value engineering to achieve competitive pricing across business units without compromising its margins.

- **Diversifying into new categories; focus on SKUs expansion:** CROMTON is evaluating multiple potential whitespaces and synergies to grow in future e.g. switches, switch gear, air purifier, water purifier, W&C etc. The company is investing in innovation and R&D (expected Rs800mn investment per annum) and has created innovation center in Mumbai with 161 people to manufacture innovative products across verticals. It is also developing consumer-centric and technologically enabled products to drive growth in coming years.

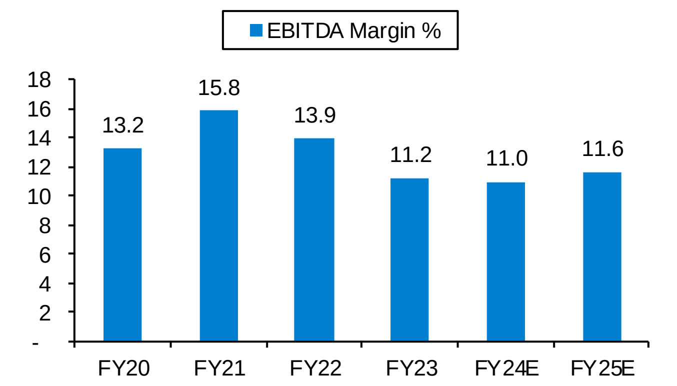
- Butterfly – CROMTON merger will complete by this calendar year; Merger ratio will be 22 CROMPTON share for every 5 Butterfly share.

Exhibit 1: Revenue growth to accelerate in FY25



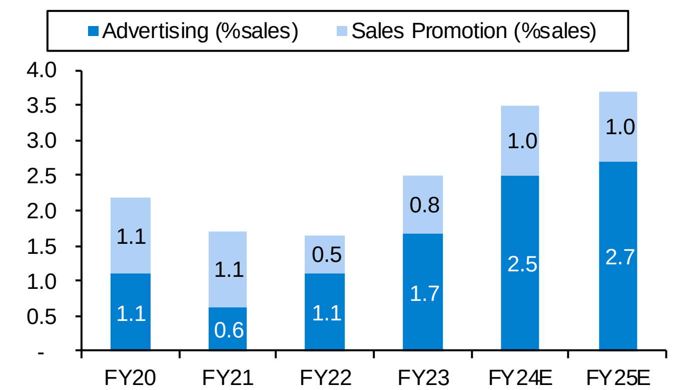
Source: Company, PL

Exhibit 2: EBITDA margin expected range bound



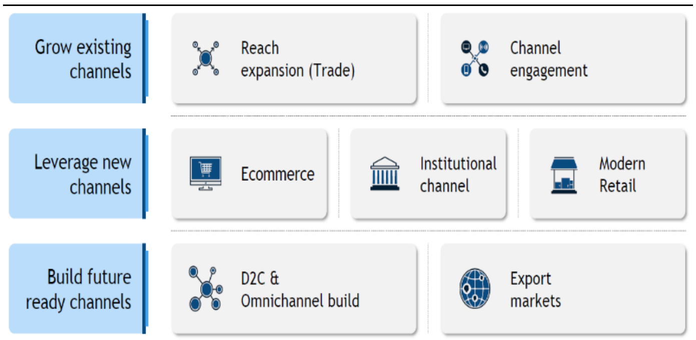
Source: Company, PL

Exhibit 3: A&P expenses expected to increase



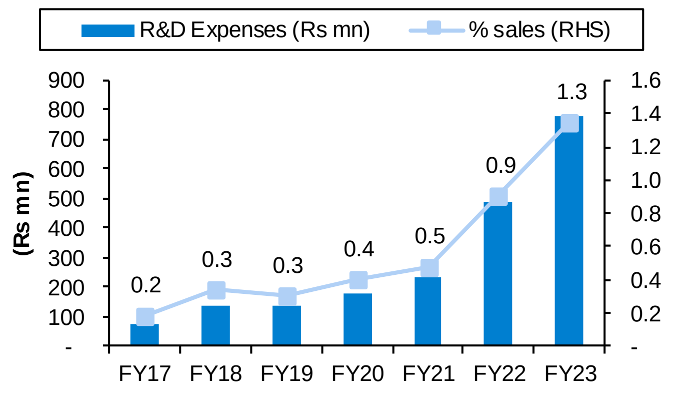
Source: Company, PL

Exhibit 4: Diversification in GTM channels enabled by tech.



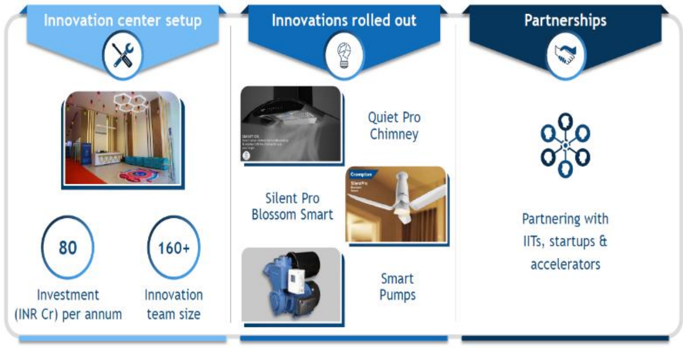
Source: Company, PL

Exhibit 5: R&D expenses (% of sales) moving up



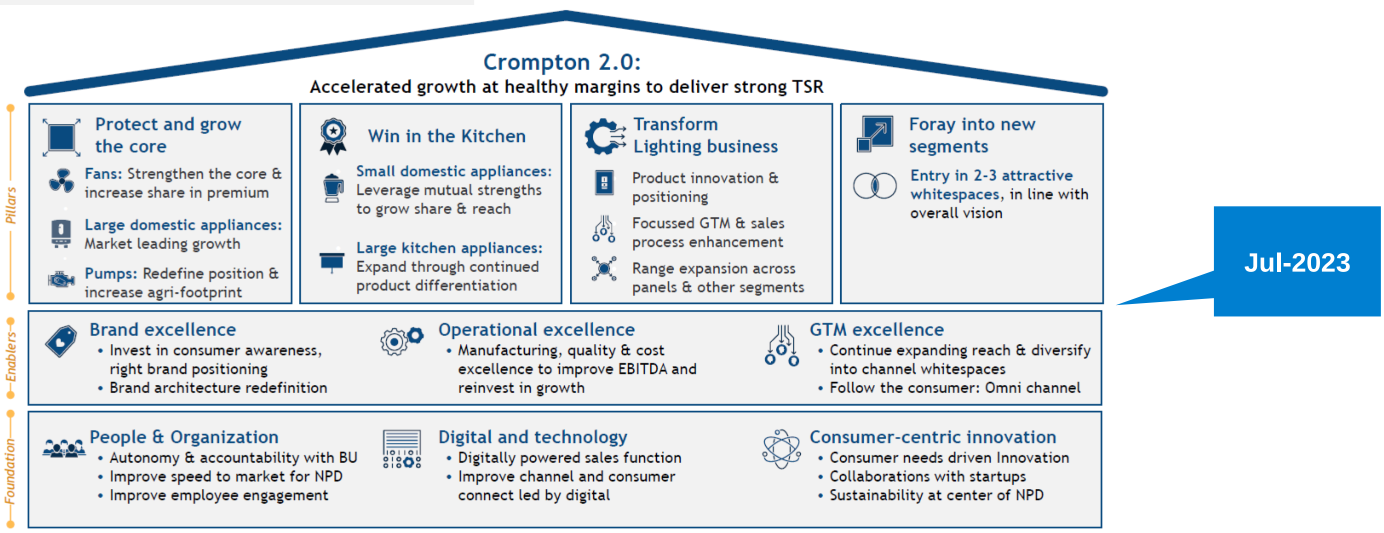
Source: Company, PL

Exhibit 6: Innovation at the center of growth agenda



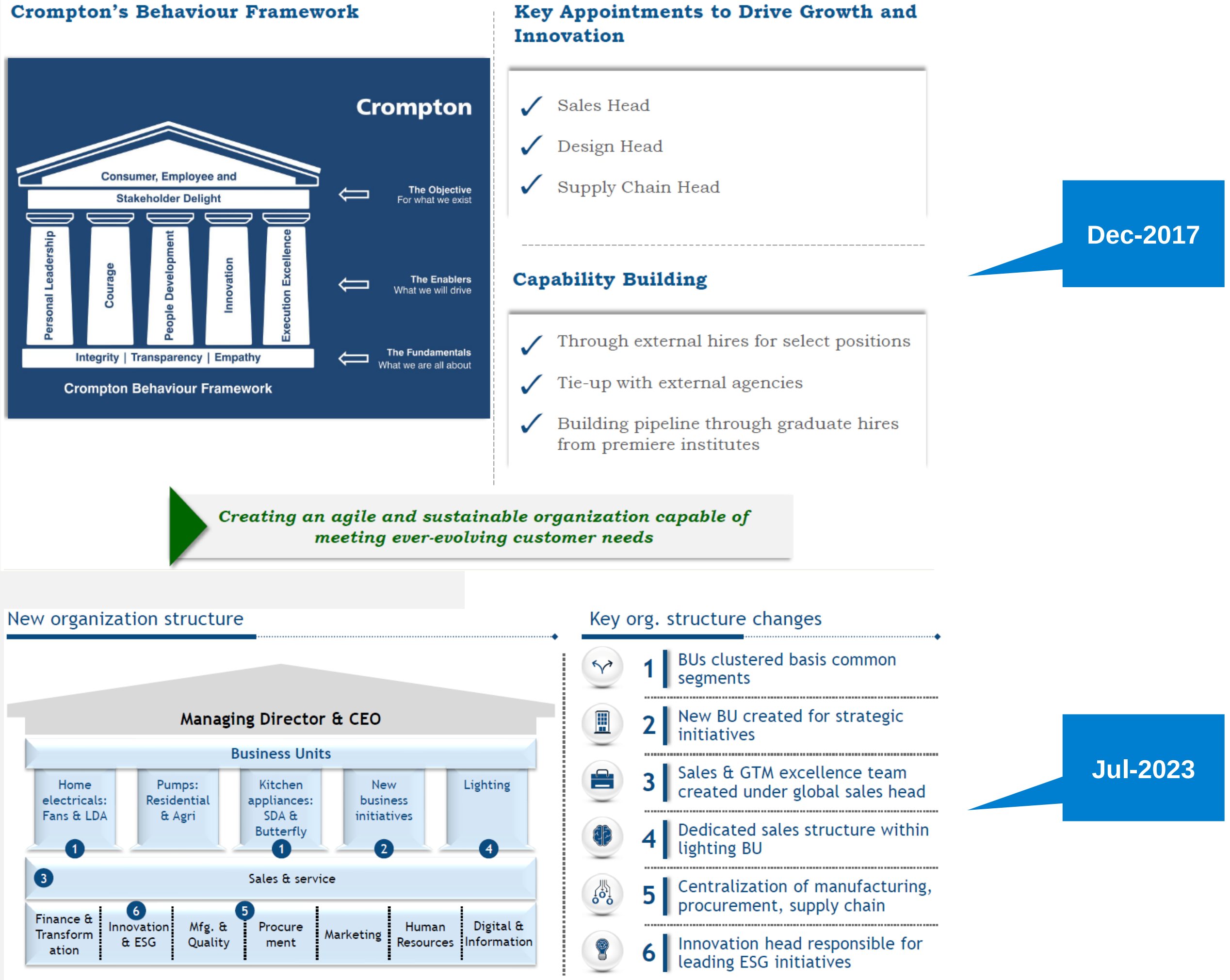
Source: Company, PL

Exhibit 7: Crompton Strategy – Is Just New Cover with Old Constituent!!



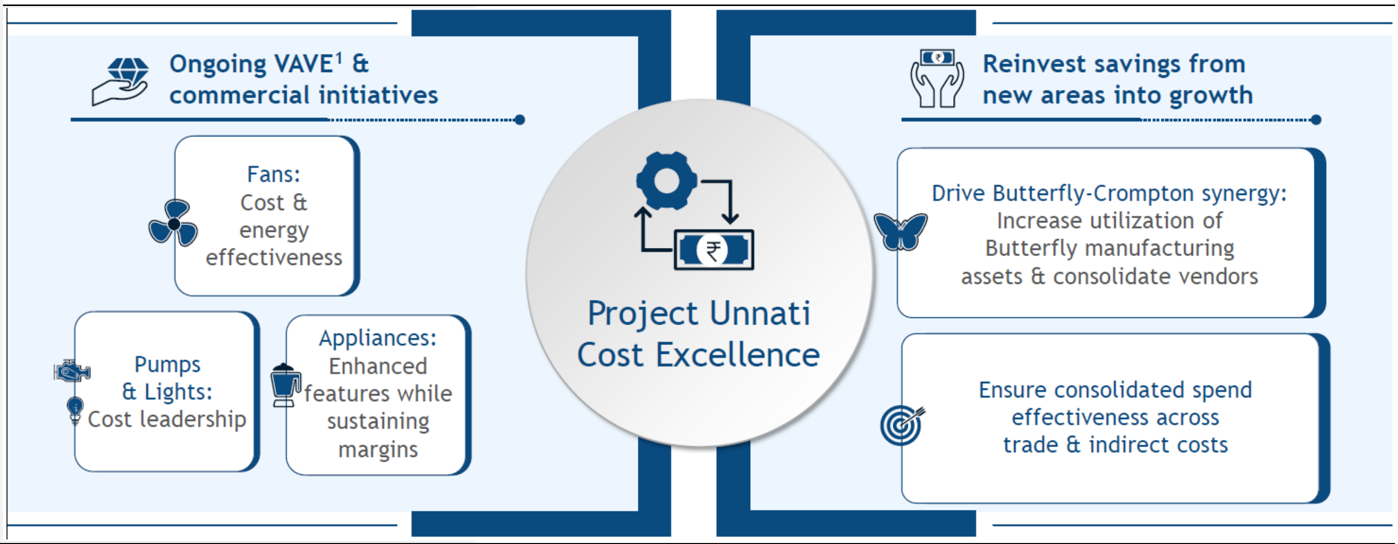
Source: Company, PL

Exhibit 8: Crompton - Organization structure revamped to drive company objectives



Source: Company, PL; Note: LDA Large Domestic Appliances; SDA Small Domestic Appliances

Exhibit 9: Project Unnati to continue driving cost excellence



Source: Company, PL; VAVE – Value Addition and Value Engineering

Link to presentation:

Dec-2017: https://www.crompton.co.in/media/Crompton-Investor-Presentation.pdf

Jul-2023: https://www.bseindia.com/xml-data/corpfiling/AttachHis/f109bfba-a8a6-43bd-8077-b2514b2bd564.pdf

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 Invt. 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

Quarterly Financials (Rs m)

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Net Revenue	**16,995**	**15,162**	**17,910**	**18,769**
YoY gr. (%)	*22.7*	*7.5*	*15.7*	*0.7*
Raw Material Expenses	11,534	10,230	12,260	12,983
Gross Profit	5,461	4,932	5,650	5,786
Margin (%)	*32.1*	*32.5*	*31.5*	*30.8*
EBITDA	**1,931**	**1,524**	**1,416**	**1,069**
YoY gr. (%)	*(9.8)*	*(24.4)*	*(40.6)*	*(51.4)*
Margin (%)	*11.4*	*10.1*	*7.9*	*5.7*
Depreciation / Depletion	283	297	304	292
EBIT	**1,648**	**1,227**	**1,112**	**778**
Margin (%)	*9.7*	*8.1*	*6.2*	*4.1*
Net Interest	299	294	274	206
Other Income	183	213	168	198
Profit before Tax	**1,533**	**1,146**	**1,006**	**770**
Margin (%)	*9.0*	*7.6*	*5.6*	*4.1*
Total Tax	226	264	389	338
Effective tax rate (%)	*14.7*	*23.0*	*38.7*	*43.9*
Profit after Tax	**1,307**	**882**	**617**	**432**
Minority interest	49	29	4	37
Share Profit from Associates	-	-	-	-
Adjusted PAT	**1,258**	**853**	**613**	**395**
YoY gr. (%)	*(26.2)*	*(42.4)*	*(69.0)*	*(70.5)*
Margin (%)	*7.4*	*5.6*	*3.4*	*2.1*
Extra Ord. Income / (Exp)	-	(29)	-	-
Reported PAT	**1,258**	**823**	**613**	**395**
YoY gr. (%)	*(26.2)*	*(44.4)*	*(69.0)*	*(71.8)*
Margin (%)	*7.4*	*5.4*	*3.4*	*2.1*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**1,258**	**823**	**613**	**395**
Avg. Shares O/s (m)	634	628	628	628
EPS (Rs)	**2.0**	**1.4**	**1.0**	**0.6**

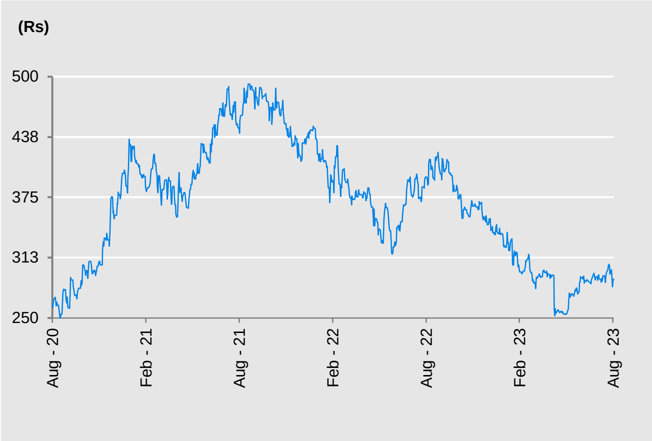
Source: Company Data, PL Research

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	34.1	42.4	38.6	29.6
P/B	8.0	7.4	6.8	6.1
P/CEPS	31.8	33.9	32.5	25.8
EV/EBITDA	26.2	26.0	24.7	19.8
EV/Sales	3.7	2.9	2.7	2.3
Dividend Yield (%)	0.8	1.0	1.0	1.6

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	14-Aug-23	BUY	338	300
2	06-Jul-23	BUY	338	286
3	16-Jun-23	BUY	338	293
4	22-May-23	BUY	371	260
5	11-Apr-23	BUY	403	298
6	05-Feb-23	BUY	406	305
7	06-Jan-23	BUY	435	338

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Astral Ltd.	Hold	1,955	1,974
2	Bajaj Electricals	Accumulate	1,337	1,220
3	Century Plyboard (I)	BUY	800	629
4	Cera Sanitaryware	Hold	8,224	7,917
5	Crompton Greaves Consumer Electricals	BUY	338	300
6	Finolex Industries	Accumulate	197	184
7	Greenpanel Industries	BUY	459	341
8	Havells India	BUY	1,460	1,348
9	Kajaria Ceramics	Hold	1,363	1,393
10	KEI Industries	Hold	2,319	2,270
11	Polycab India	Accumulate	4,760	4,309
13	Supreme Industries	Hold	3,377	3,382
14	Voltas	Hold	831	829

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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