

23 August 2023

India | Equity Research | Company Update

Crompton Greaves Consumer Electricals

White Goods

Strategy 2.0 – To focus on absolute profit growth instead of margins

Crompton has done key fundamental changes to its business under strategy 2.0 which are likely to be DCF accretive in our view. (1) it plans to divide the business in multiple SBUs which will likely drive the accountability and improve efficiencies, (2) there will be separate on-ground sales teams for multiple product(s). It is likely to result in stronger connect with the trade and higher throughput-per-store, (3) Crompton has plans to premiumize the portfolio and believes Crompton and Butterfly brands have potential to drive premiumization, (4) There will be higher focus on E commerce and digital and (5) it plans to enter multiple new categories such as switches, switchgears, wires and cables and other adjacent products. We remain positive and maintain **BUY** rating with DCF based TP of INR 350.

Division of business in multiple SBUs

Crompton has divided the business in multiple SBUS as (1) Fans and large domestic appliances, (2) Pumps, (3) Kitchen appliances and small domestic appliances, (4) Lighting and (5) New business initiatives. Division of business across SBUs is likely to increase accountability and improve efficiencies.

Multiple sales teams to drive throughput-per-store

Crompton plans to have separate sales teams for different products at ground level. While the National sales manager and regional sales managers will be same for all products, there will be separate sales teams for different products. Also, there will be additional investments in influencer programs.

Focus on premiumization

The company plans to invest in premiumizing the product portfolio across products. The portfolio of premium fans is growing at ~15% whereas mid and mass market fans are growing at less than 5%. It believes that there is potential to premiumize the portfolio under Crompton and Butterfly brands.

Higher focus on E Commerce channel

Crompton generates just INR ~2.5bn revenues from E commerce channel whereas Butterfly generates INR ~3bn revenues in-spite of lower overall revenues. It indicates a strong potential to drive off-take of Crompton through E commerce channel. Crompton plans to invest more in digital channels.

Financial Summary

Y/E MarchMar (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	53,941	68,696	71,707	79,314
EBITDA	7,695	7,705	8,600	9,423
EBITDA Margin (%)	14.3	11.2	12.0	11.9
Net Profit	5,914	4,634	5,851	6,231
EPS (Rs)	9.3	7.3	9.2	9.8
EPS % Chg YoY	(5.0)	(22.0)	26.3	6.5
P/E (x)	31.9	40.9	32.4	30.4
EV/EBITDA (x)	24.6	25.0	21.6	19.3
RoCE (%)	15.9	11.5	15.4	15.7
RoE (%)	22.9	14.6	17.8	17.2

Aniruddha Joshi

aniruddha.joshi@icicisecurities.com
+91 22 6807 7249

Manoj Menon

manoj.menon@icicisecurities.com

Karan Bhuwania

karan.bhuwania@icicisecurities.com

Nilesh Patil

nilesh.patil@icicisecurities.com

Market Data

Market Cap (INR)	191bn
Market Cap (USD)	2,298mn
Bloomberg Code	CROMPTON IN
Reuters Code	CROP BO
52-week Range (INR)	429 /251
Free Float (%)	100.0
ADTV-3M (mn) (USD)	11.7

Price Performance (%)	3m	6m	12m
Absolute	16.0	1.5	(23.3)
Relative to Sensex	6.0	10.2	12.4

ESG Disclosure	2021	2022	Change
ESG score	35.3	38.0	2.8
Environment	16.8	16.8	-
Social	22.9	31.1	8.3
Governance	66.1	66.1	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Previous Reports

15-08-2023: [Q1FY24 results review](#)

23-05-2023: [Q4FY23 results review](#)

Price hikes across key products

Crompton has plans to increase prices of BLDC fans by ~1.5% in Sept'23 to pass on additional costs. However, there is price reduction in lighting products by 7-8% due to steep competitive pressures. The company also plans to invest more in marketing spends (ATL as well as BTL). Higher BTL spends may impact the realizations.

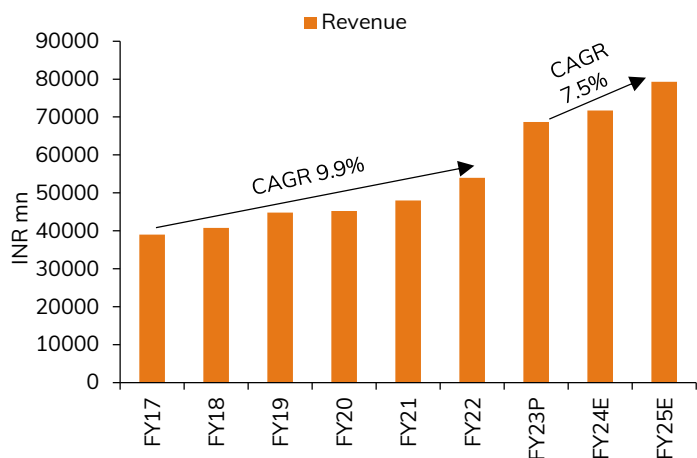
Launch of new products

Crompton plans to enter multiple new products and it has divided the new products in three buckets as (1) Core – switches and switchgear, wires and cables, (2) Adjacency – Air purifier, Water purifier, Vacuum cleaner and modular kitchens, (3) Extend – Personal grooming, Air conditioners, Washing machines, Refrigerators. While there are no timelines, entry in new products can help to leverage the brand (Crompton and Butterfly) and distribution network. Also there are no compete agreements with CG power for certain products under Crompton brand.

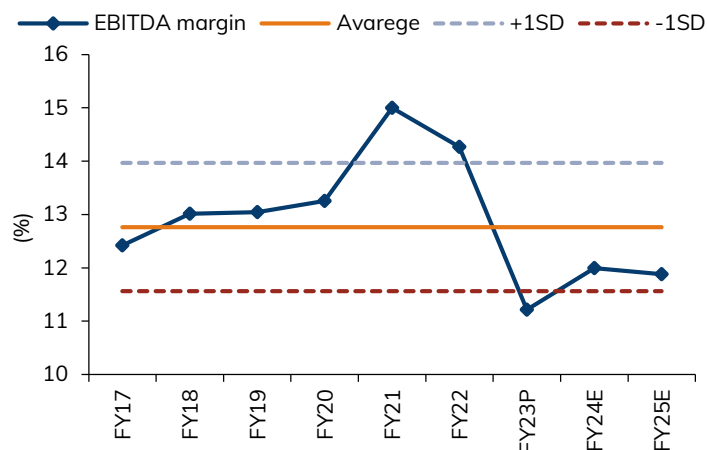
Valuation and risks

We model Crompton to report revenue and PAT CAGR of 7.5% and 15.8%, respectively YoY. We remain positive on Crompton and maintain BUY rating with DCF based TP of INR 350 (implied P/E of 30x FY25E). Key risks are steep increase in commodity prices and competitive pressures.

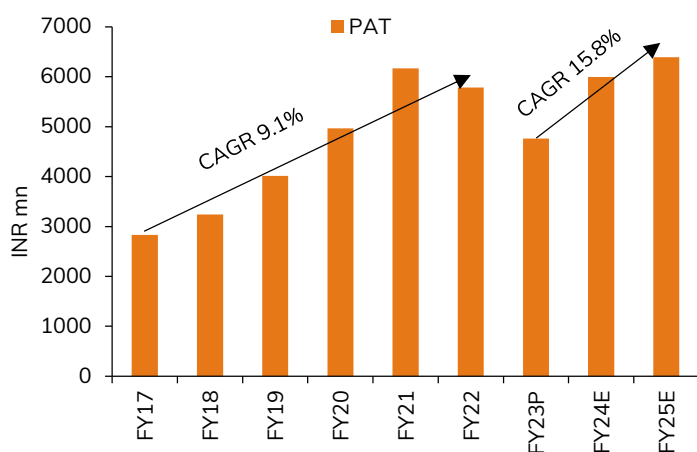
Key performance highlights – annual

Exhibit 1: Revenue


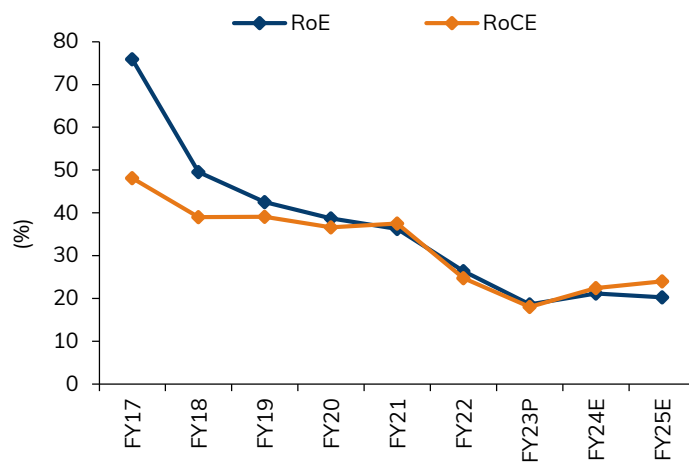
Source: Company data, I-Sec research

Exhibit 2: EBITDA margin


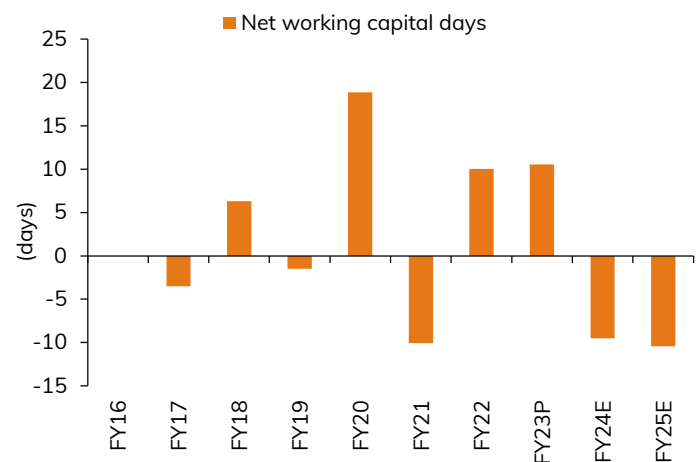
Source: Company data, I-Sec research

Exhibit 3: PAT


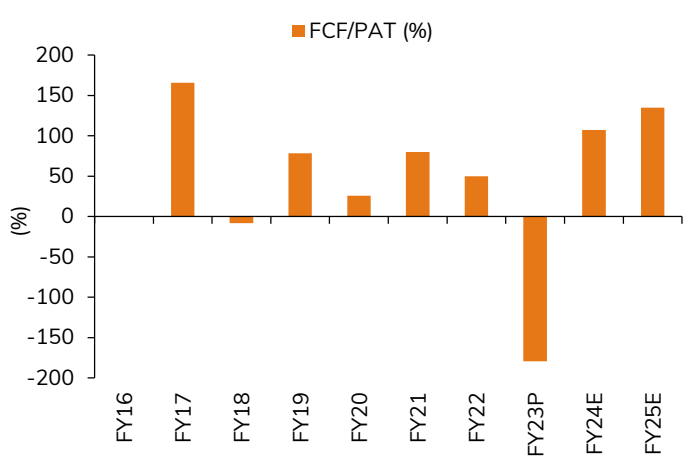
Source: Company data, I-Sec research

Exhibit 4: RoE and RoCE


Source: Company data, I-Sec research

Exhibit 5: Net working capital days


Source: Company data, I-Sec research

Exhibit 6: FCF/PAT (%)


Source: Company data, I-Sec research

Valuation and risks

We model Crompton to report revenue and PAT CAGRs of 7.5% and 16.3% over FY23-FY25E and RoCE higher than cost of capital. At our DCF-based target price of INR 350, implied P/E works out to 30x FY25E EPS. Maintain **BUY**.

Exhibit 7: DCF-based valuation

Particulars	Amt (INR)
Cost of Equity	12.4%
Terminal growth rate	4.0%
Discounted interim cash flows	95,703
Discounted terminal value	1,25,987
Total equity value	2,21,690
Value per share (INR)	350

Source: Company data, I-Sec research

Risks

Sharp increase in input prices and competitive pressures

Major increase in input prices and/or increase in competitive pressures will likely result in downside to our estimates.

Delays in launch of new plants/products

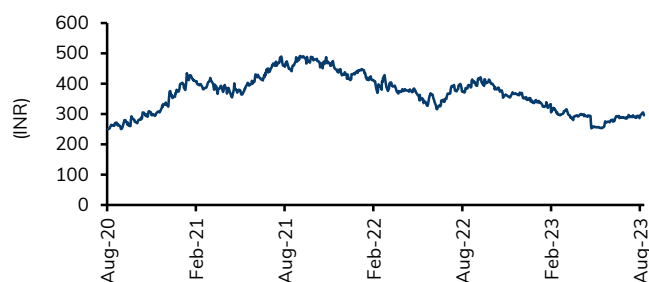
Any delays in launch of new products and/or plants may result in lower earnings than estimated.

Exhibit 8: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	0.0	0.0	0.0
Institutional investors	84.3	84.0	84.0
MFs and others	32.4	33.2	37.5
FIs/Banks	0.0	0.0	0.0
Insurance	10.4	9.4	9.1
FIIIs	41.5	41.4	37.3
Others	15.7	16.0	16.0

Source: Bloomberg

Exhibit 9: Price chart



Source: Bloomberg

Financial Summary

Exhibit 10: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Net Sales	53,941	68,696	71,707	79,314
Operating Expenses	46,247	60,991	63,107	69,891
EBITDA	7,695	7,705	8,600	9,423
EBITDA Margin (%)	14.3	11.2	12.0	11.9
Depreciation & Amortization	423	1,159	494	1,090
EBIT	7,272	6,546	8,106	8,333
Interest expenditure	353	1,092	578	258
Other Non-operating Income	727	668	360	500
Recurring PBT	7,645	6,122	7,888	8,575
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	1,732	1,358	1,893	2,187
PAT	5,914	4,764	5,995	6,389
Less: Minority Interest	-	130	143	158
Extraordinaries (Net)	(130)	-	-	-
Net Income (Reported)	5,784	4,634	5,851	6,231
Net Income (Adjusted)	5,914	4,634	5,851	6,231

Source Company data, I-Sec research

Exhibit 11: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	24,762	17,105	19,436	19,463
of which cash & cash eqv.	9,152	1,095	2,639	1,083
Total Current Liabilities & Provisions	14,126	14,027	18,664	20,643
Net Current Assets	10,637	3,077	772	(1,180)
Investments	6,238	5,478	6,728	7,978
Net Fixed Assets	32,735	32,499	33,005	32,915
ROU Assets	-	-	-	-
Capital Work-in-Progress	130	265	265	265
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	50,360	42,517	41,967	41,175
Liabilities				
Borrowings	16,075	9,222	5,222	1,222
Deferred Tax Liability	394	-	-	-
provisions	1,096	1,312	1,312	1,312
other Liabilities	441	814	814	814
Equity Share Capital	1,267	1,272	1,272	1,272
Reserves & Surplus	23,263	25,420	28,727	31,777
Total Net Worth	24,530	26,692	29,999	33,049
Minority Interest	7,825	4,477	4,620	4,778
Total Liabilities	50,360	42,517	41,967	41,175

Source Company data, I-Sec research

Exhibit 12: Quarterly trend

(INR mn, year ending March)

	Sep-22	Dec-22	Mar-23	Jun-23
Net Sales	16,995	15,162	17,910	18,769
% growth (YOY)	22.7%	7.5%	15.7%	0.7%
EBITDA	1,931	1,524	2,114	1,858
Margin %	11.4	10.1	11.8	9.9
Other Income	183	213	168	198
Extraordinaries	(5)	3	(29)	(5)
Adjusted Net Profit	1,250	856	1,283	1,179

Source Company data, I-Sec research

Exhibit 13: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Operating Cashflow	7,234	5,526	10,339	7,874
Working Capital Changes	1,005	(1,039)	3,850	396
Capital Commitments	(15,506)	(4,910)	(1,000)	(1,000)
Free Cashflow	(8,272)	616	9,339	6,874
Other investing cashflow	(1,723)	7,541	(1,250)	(1,250)
Cashflow from Investing Activities	(17,229)	2,632	(2,250)	(2,250)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	11,372	(6,763)	(4,000)	(4,000)
Dividend paid	(2,069)	(2,343)	(2,544)	(3,181)
Others	-	-	-	-
Cash flow from Financing Activities	9,073	(9,105)	(6,544)	(7,181)
Chg. in Cash & Bank balance	(922)	(948)	1,544	(1,556)
Closing cash & balance	1,703	768	2,639	1,083

Source Company data, I-Sec research

Exhibit 14: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
Per Share Data (INR)				
Reported EPS	9.3	7.3	9.2	9.8
Adjusted EPS (Diluted)	9.3	7.3	9.2	9.8
Cash EPS	10.0	9.1	10.0	11.5
Dividend per share (DPS)	3.3	3.7	4.0	5.0
Book Value per share (BV)	38.7	42.0	47.2	52.0
Dividend Payout (%)	35.0	50.6	43.5	51.0
Growth (%)				
Net Sales	12.3	27.4	4.4	10.6
EBITDA	6.8	0.1	11.6	9.6
EPS (INR)	(5.0)	(22.0)	26.3	6.5
Valuation Ratios (x)				
P/E	31.9	40.9	32.4	30.4
P/CEPS	29.8	32.7	29.9	25.9
P/BV	7.7	7.1	6.3	5.7
EV / EBITDA	24.6	25.0	21.6	19.3
P / Sales	3.5	2.8	2.6	2.4
Dividend Yield (%)	1.1	1.2	1.3	1.7
Operating Ratios				
Gross Profit Margins (%)	31.4	31.9	32.6	32.6
EBITDA Margins (%)	14.3	11.2	12.0	11.9
Effective Tax Rate (%)	22.6	22.2	24.0	25.5
Net Profit Margins (%)	11.0	6.7	8.2	7.9
NWC / Total Assets (%)	21.1	7.2	1.8	(2.9)
Net Debt / Equity (x)	0.0	0.1	(0.1)	(0.2)
Net Debt / EBITDA (x)	0.1	0.3	(0.5)	(0.8)
Profitability Ratios				
RoCE (%)	15.9	11.5	15.4	15.7
RoE (%)	22.9	14.6	17.8	17.2
RoC (%)	15.9	11.5	15.4	15.7
Fixed Asset Turnover (x)	2.5	2.0	2.0	2.2
Inventory Turnover Days	52	44	40	41
Receivables Days	44	40	38	39
Payables Days	28	22	36	37

Source Company data, I-Sec research

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, **E-mail Address** : complianceofficer@icicisecurities.com

For any queries or grievances: [Mr. Prabodh Avadhoot](mailto:Mr.Prabodh.Avadhoot) Email address: headservicequality@icicidirect.com Contact Number: 18601231122
