

November 06, 2023

RESULT REPORT Q2 FY24 | Sector: Consumer Durables

Crompton Greaves CE Ltd

Increased investments lead to lower margin; maintain NEUTRAL

Result Synopsis

Crompton has reported lower than estimated revenue with ECD growing at 16.5%, while lighting and Butterfly products registering decline of 11.5% and 16.9% respectively. ECD growth was on back of strong growth in Fans (+18%) and small domestic appliances (+17%). Pumps too has exhibited growth of 10% led by robust traction in residential and agriculture segment. Lighting segment continues to be impacted by industry level challenges in B2C lighting, with price erosion being witnessed across players as competition continues to remain high. On Butterfly front shift in festive season has resulted in delayed pre-buying, this coupled with one off corporate sale in the base quarter has accentuated revenue decline. Gross margins at 31.3% have been lower as increased cost on shifting to BEE ratings in Fans have not been passed on, while operating margins were lower as company continues to invest in business, leading to increased A&P spends and investing in alternate channels. CROMPTON have started to implement its 2.0 strategy where its aiming at accelerated growth by Premiumization of the portfolio and focusing on the alternate channel has started to see initial success. Premium Fans for Crompton has seen growth of 31% in Q2 and now contributes 28% to overall fans sales, while its alternate channel is has growing at 2x the rate vs its GT with salience of 17% vs 13% of the overall sales. CROMPTON will have to continue with its investments which will result in lower profitability in the near term, while heightened competitive intensity and sluggish demand trend will result in longer than expected time to reap benefits of the changes that have been under implementation.

We now feel recent initiatives taken by CROMPTON will require sustained efforts and investments. Considering increased investments, we have trimmed our margin estimates for FY24 and FY25. We now bake in FY23-25E Revenue/EBITDA/PAT CAGR of 10%/12%/17% and arrive at our PT of Rs 306 valuing the company at 30x FY25EPS maintaining our Neutral rating.

Result Highlights

- Quarter Summary** – CROMPTON saw muted revenue growth of 4.9% yoy. ECD has registered growth of 17%, while lighting and Butterfly appliances registered decline of 11% and 16% respectively.
- Margins** – Gross margins has been lower as higher BEE cost in fans has not been passed on. Higher A&P spends, and other investments have resulted in lower EBITDA margin
- ECD** – Fans exhibited growth of 18% yoy aided by strong growth momentum in premium fans which grew by 31%. Contribution of premium fans has now reached 28%. Pumps and Small appliances have seen growth of 10% and 17% respectively.
- Lighting** – Lighting revenue declined by ~12% on lower B2C demand and price erosion witness across players on change in technology and heightened competition. Lighting margin by 250 bps YoY on account of cost optimization initiatives & product mix

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	17,823	18,983	17,440	-6.1	+2.1	Higher brand investments and lower gross margin has led to EBITDA margin contraction.
EBITDA	1,745	1,933	1,880	-9.7	-7.1	
EBITDA Margin (%)	9.8	10.2	10.8	-40 bps	-100 bps	
Adjusted PAT	1,009	1,239	1,240	-18.6	-18.6	

Source: Company, YES Sec

Reco	: NEUTRAL
CMP	: Rs 283
Target Price	: Rs 306
Potential Return	: +7.8%

Stock data (as on Nov 06, 2023)

Nifty	19412
52 Week h/l (Rs)	377/251
Market cap (Rs/USD mn)	183441/2206
Outstanding Shares (mn)	640
6m Avg t/o (Rs mn):	815
Div yield (%):	1.1
Bloomberg code:	CROMPTON IN
NSE code:	CROMPTON

Stock performance



Shareholding pattern (As of Dec'22 end)

Promoter	0.0%
FII+DII	83.7%
Others	16.4%

Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	NEUTRAL
Target Price	306	327

Δ in earnings estimates

	FY24e	FY25e
EPS (New)	7.7	10.2
EPS (Old)	8.3	10.9
% change	-7.2%	-6.4%

Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Revenue	68,696	75,997	84,244
YoY Growth	27.4%	10.6%	10.9%
EBITDA	7,705	7,904	9,604
YoY Growth	13.1	2.6	21.5
PAT	4,764	4,887	6,493
YoY Growth	6.9%	6.4%	7.7%
ROE	15.0	15.0	18.1
EPS	7.5	7.7	10.2
P/E	37.9	37.0	27.8
BV	48.9	53.5	59.6
EV/EBITDA	24.5	23.5	18.9

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Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs mn)	Q2FY23	Q3FY22	Q4FY23	Q1FY24	Q2FY24	y/y %	q/q %	1HFY24	1HFY23	y/y %
Sales	16,995	15,162	17,910	18,769	17,823	4.9	(5.0)	36,591	35,624	2.7
EBITDA	1931	1524	2114	1858	1745	(9.6)	(6.1)	3,603	4,130	(12.8)
EBITDA Margin %	11.4	10.1	11.8	9.9	9.8			9.8	11.6	
Depreciation	282.8	296.8	304.0	291.8	321.2	13.6	10.1	613	558	9.8
EBIT	1648	1227	1810	1566	1424	(13.6)	(9.1)	2,990	3,572	(16.3)
EBIT Margin %	9.7	8.1	10.1	8.3	8.0			8.2	10.0	
Interest charges	299	294	274	206	215	(8.6)	(6.9)	421	524	(19.6)
Other Income	183	213	168	198	149	90.2	(21.3)	347	287	20.8
PBT	1533	1146	1704	1558	1358	(10.4)	48.7	2916	3335	(12.6)
Tax	226	264	389	338	349	(29.5)	47.3	687	705	(2.6)
Effective Tax Rate (%)	14.7	23.0	22.8	21.7	25.7			23.6	21.1	
PAT	1307	882	1316	1220	1009	(3.1)	49.2	2229	2631	(15.3)
PAT Margin %	7.7	5.8	7.3	6.5	5.7			6.1	7.4	
EPS (Rs)	2.1	1.4	2.1	1.9	1.6	(3.1)	49.2	3.5	4.1	(13.2)

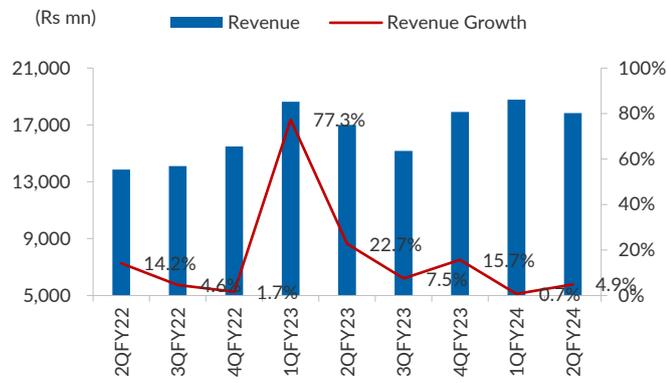
Source: Company, YES Sec

Exhibit 3: Segmental Performance

Rs mn	Q2FY23	Q3FY22	Q4FY23	Q1FY24	Q2FY24	y/y %	q/q %	1HFY24	1HFY23	y/y %
Electrical consumer durables	10,622	10,201	13,257	14,290	12,380	16.5	(13.4)	26,669	24,094	10.7
Lighting products	2,696	2,477	2,786	2,290	2,387	(11.5)	4.2	4,677	5,319	(12.1)
Butterfly Products	3,677	2,484	1,867	2,189	3,056	(16.9)	39.6	5,245	6,212	(15.6)
Total Sales	16,995	15,162	17,910	18,769	17,823	4.9	(5.0)	36,591	35,624	2.7
PBIT										
Electrical consumer durables	1814	1617	2177	1816	1755	(3.2)	(3.4)	3,572	4,099	(12.9)
Lighting products	215	255	303	273	250	16.1	(8.5)	523	447	16.9
Butterfly Products	403	181	37	160	202	(49.9)	26.6	362	622	(41.8)
Total PBIT	2,432	2,052	2,518	2,249	2,207	(9.3)	(1.9)	4,456	5,168	(13.8)
Finance Costs	299	294	274	206	215	(27.9)	4.7	421	524	(19.6)
Unallocable expense	601	612	540	485	634	5.5	30.7	1,119	1,309	(14.5)
as % of sales	3.5	4.0	3.0	2.6	3.6			3.1	3.7	
Exceptional Items	0	0	0	0	0			0	64	
PBT	1533	1146	1704	1558	1358	(11.4)	(12.9)	2,916	3,271	(10.9)

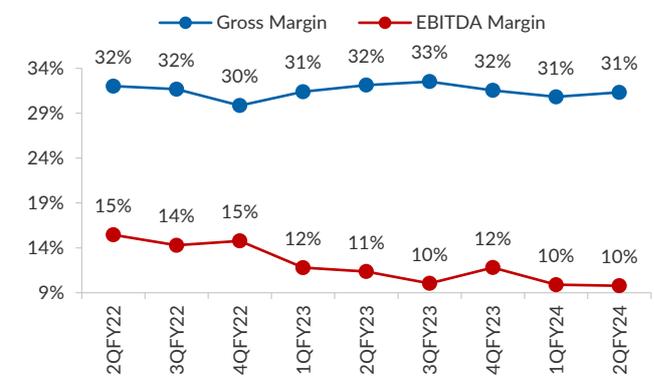
Source: Company, YES Sec

Exhibit 4: Decline in lighting and Butterfly appliances have dragged revenue growth



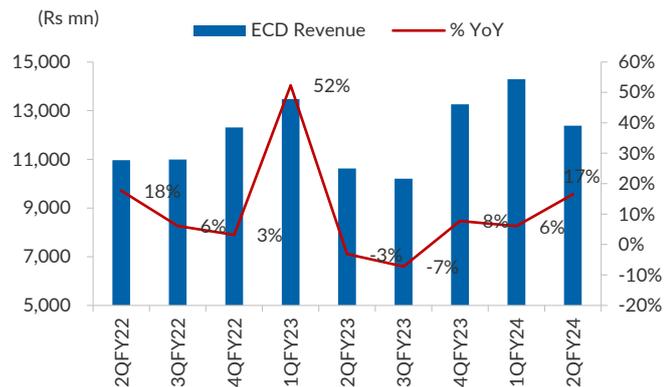
Source: Company, YES Sec

Exhibit 5: Increased investments has resulted in EBITDA margin contraction



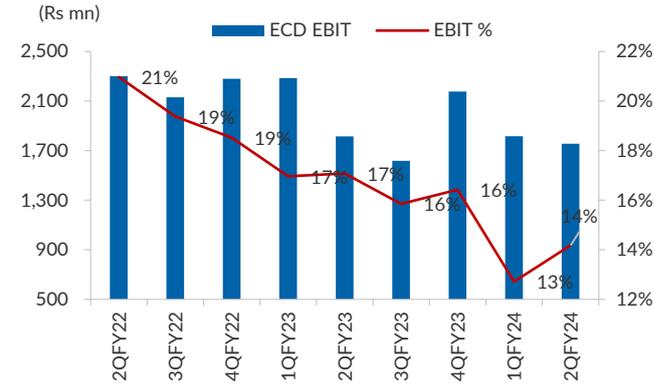
Source: Company, YES Sec

Exhibit 6: Higher growth in premium fans has resulted in ECD growing by 17%



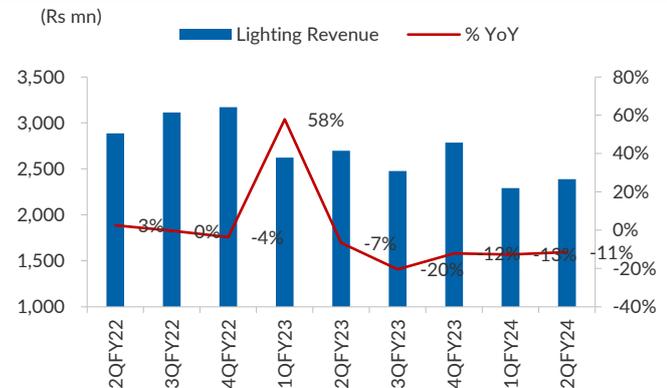
Source: Company, YES Sec

Exhibit 7: EBIT margins have been trending lower on increased investments



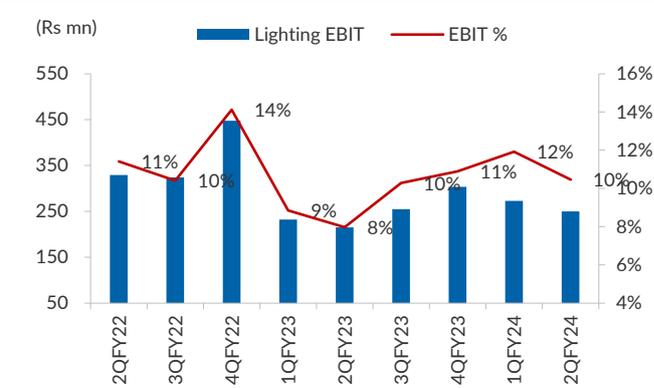
Source: Company, YES Sec

Exhibit 8: Lighting revenue de-growth is on back of price erosion and subdued B2C demand



Source: Company, YES Sec

Exhibit 9: EBIT margin improvement is on back of cost reduction activities and better product mix



Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- **Demand** – Demand environment is challenging, there has been some softness in discretionary spends. Consumer sentiment has seen improvement from September. Amid these challenges the company has posted Volume growth in Q2. Consumer demand continues to be moderate, while there has been good start to festive off-take
- **Premium Fans sales** – Premium fans now contribute 28% of the total sales. The company has largest portfolio of premium BLDC Fans
- **Alternate Channels** – Alternate channel has seen strong growth with e-commerce sales doubling. Rs1bn of the sales for the quarter has come from e-commerce. Salience of Alternate channels is now 17% vs 13% of the overall sales. Alternate channel growing at 2x vs the GT
- **A&P Spends** – A&P spends have been 31% higher inline with the planned strategy.
- **ECD** – The company has delivered industry leading growth with Fans and Pumps doing well. Both Agri as well as residential pumps has been doing well for the company.
- **Butterfly** – Industry slowdown and shift in festive season has led to decline in revenue. Merger process has not been passed by majority of the minority share holder and the merger process has been dropped. Synergies leveraging will continue to be unabated. Shifting of festive season and one of corporate gift sales in the base quarter has resulted in sharp revenue decline for butterfly.
- **Fans** – Premium Fans has seen growth of 31% this has been on back of BLDC fans and TPW fans. Complete cost increase on account of introduction of BEE ratings has not been passed on. **On the value fans the growth would be inline with the industry.**
- **Appliances** – Appliances has seen growth of 17% led by both large and small appliances. Small appliances have been led by mixer grinder and kettle, while large appliances have been led by water heater. The company has sold record number of water heater about more than 10 lakhs units.
- **Pumps** – Pumps have started to do well. Mini segment in the residential segment is doing well, while agri segment has demand coming back.
- **Built-in Appliances** – Built in Appliances have been growing on back channel expansion. The company has opened 75th Signature store to market built-in appliances. Losses incurred in Built-in Appliances in 1H would be Rs43crs. Losses would be continue for next few quarters as company achieves the scale.
- **Lighting** – Lighting sales have been impacted by industry challenges with bulbs and battens earlier not doing well, while now ceiling lights have also seen some softness in demand. There has been price erosion in battens and lamps. There have been early signs of recovery in B2B lighting.
- **Net debt** – Net debt stood at Rs610mn vs Rs1200mn
- **Butterfly Synergies** – Indirect cost of Rs8bn in butterfly has potential of 7-10% reduction
- **Price hikes** – The company has taken modest price increase. It indicates intent of the company of not compromising on the profitability for revenue growth.

FINANCIALS

Exhibit 10: Balance Sheet

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity capital	1,255	1,267	1,272	1,272	1,272
Reserves	18,059	31,087	29,805	32,734	36,626
Net worth	19,314	32,354	31,077	34,006	37,898
Debt	4,788	16,075	9,222	5,222	2,222
Deferred tax liab (net)	0	394	123	123	123
Other non current liabilities	214	1,618	2,004	2,144	2,275
Total liabilities	24,317	50,441	42,425	41,495	42,518
Fixed Asset	9,259	32,154	32,005	31,674	31,293
Investments	7,697	6,242	5,482	5,482	5,482
Other Non-current Assets	848	1,676	1,798	1,673	1,561
Net Working Capital	3,889	8,653	2,372	2,524	2,770
Inventories	5,186	7,210	7,439	8,079	8,955
Sundry debtors	4,912	6,154	6,861	8,417	9,330
Loans and Advances	2,024	1,660	1,668	1,845	2,045
Sundry creditors	8,647	10,097	10,354	12,305	13,641
Other current liabilities	1,162	2,125	2,081	2,171	2,378
Cash & equivalents	2,624	1,716	768	141	1,411
Total Assets	24,317	50,441	42,425	41,494	42,517

Source: Company, YES Sec

Exhibit 11: Income statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	48,035	53,941	68,696	75,997	84,244
Operating profit	7,205	7,695	7,705	7,904	9,604
Depreciation	297	423	1,159	1,258	1,307
Interest expense	429	353	1,092	783	333
Other income	758	727	668	668	714
Profit before tax	7,236	7,645	6,121	6,530	8,677
Taxes	1,070	1,732	1,358	1,644	2,184
Minorities and other	-	-	-	-	-
Adj. profit	6,167	5,914	4,764	4,887	6,493
Exceptional items	-	130	-	-	-
Net profit	6,167	5,784	4,764	4,887	6,493

Source: Company, YES Sec

Exhibit 12: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Profit before tax	7,665	7,998	7,213	7,314	9,010
Depreciation	297	423	1,159	1,258	1,307
Tax paid	(1,070)	(1,732)	(1,358)	(1,644)	(2,184)
Working capital Δ	(3,556)	(3,309)	7,041	(152)	(246)
Other operating items					
Operating cashflow	3,336	3,381	14,056	6,776	7,887
Capital expenditure	(267)	(23,318)	(1,011)	(927)	(927)
Free cash flow	3,070	(19,938)	13,046	5,849	6,960
Equity raised	346	8,840	(4,133)	-	0
Investments	-	-	-	-	-
Debt financing/disposal	1,291	11,287	(6,853)	(4,000)	(3,000)
Interest paid	(429)	(353)	(1,092)	(783)	(333)
Dividends paid	(1,882)	(1,584)	(1,908)	(1,957)	(2,601)
Net Δ in cash	2,384	(908)	(948)	(627)	1,269

Source: Company, YES Sec

Exhibit 13: Du-point analysis

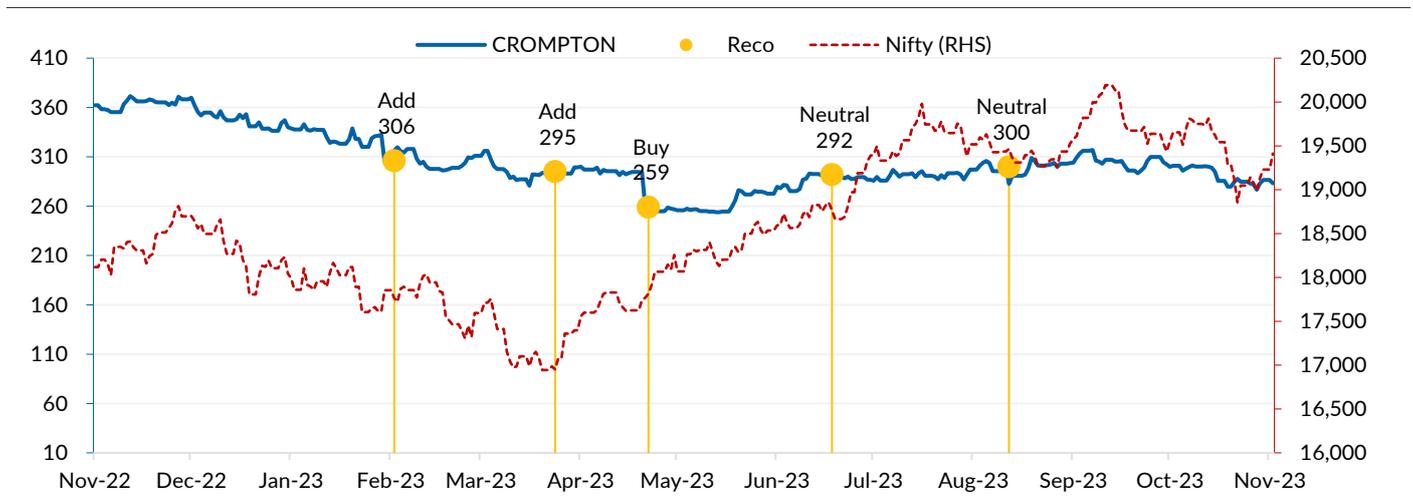
Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Tax burden (x)	0.85	0.77	0.78	0.75	0.75
Interest burden (x)	0.94	0.96	0.85	0.89	0.96
EBIT margin (x)	0.16	0.15	0.11	0.10	0.11
Asset turnover (x)	1.51	1.07	1.14	1.33	1.42
Financial leverage (x)	1.87	1.95	1.91	1.76	1.65
RoE (%)	36.3	22.9	15.0	15.0	18.1

Exhibit 14: Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23E	FY24E	FY25E
Growth matrix (%)					
Revenue growth	6.3	12.3	27.4	10.6	10.9
Op profit growth	20.3	6.8	0.1	2.6	21.5
EBIT growth	21.4	4.3	(9.8)	1.4	23.2
Net profit growth	24.2	(4.1)	(19.4)	2.6	32.9
Profitability ratios (%)					
OPM	15.0	14.3	11.2	10.4	11.4
EBIT margin	16.0	14.8	10.5	9.6	10.7
Net profit margin	12.8	11.0	6.9	6.4	7.7
RoCE	36.3	22.1	16.3	18.4	22.7
RoNW	36.3	22.9	15.0	15.0	18.1

Y/e 31 Mar	FY21	FY22	FY23E	FY24E	FY25E
RoA	19.4	11.7	7.9	8.5	11.0
Per share ratios					
EPS	9.8	9.3	7.5	7.7	10.2
Dividend per share	3.0	2.5	3.0	3.1	4.1
Cash EPS	10.3	10.0	9.3	9.7	12.3
Book value per share	30.8	51.1	48.9	53.5	59.6
Valuation ratios					
P/E	28.9	31.1	37.9	37.0	27.8
P/CEPS	27.6	29.0	30.5	29.4	23.2
P/B	9.2	7.3	6.8	6.1	5.4
EV/EBIDTA	25.0	25.2	24.5	23.5	18.9
Payout (%)					
Dividend payout	30.5	26.8	40.1	40.1	40.1
Tax payout	14.8	22.6	22.2	25.2	25.2
Liquidity ratios					
Debtor days	37.3	41.6	36.5	40.4	40.4
Inventory days	39.4	48.8	39.5	38.8	38.8
Creditor days	65.7	68.3	55.0	59.1	59.1

Recommendation Tracker



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9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a Securities and Exchange Board of India (SEBI) registered Stock broker holding membership of National Stock Exchange (NSE), Bombay Stock Exchange (BSE), Multi Commodity Exchange (MCX) & National Commodity & Derivatives Exchange (NCDEX). YSL is also a SEBI-registered Category I Merchant Banker, Investment Adviser and Research Analyst. YSL is also a Sponsor and Investment Manager of Alternate Investment Fund - Category III (YSL Alternates) and AMFI registered Mutual Fund Distributor. The Company is also a registered Depository Participant with CDSL and NSDL. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.