

Crompton Greaves Consumer Electricals

New avenues to aid growth; Margins to improve from Q2FY23

CROMPTON's consolidated Q1FY23 revenue stood at Rs18.6bn (Q1FY20-23 CAGR at 11.4%) and was higher than our estimate of Rs17.2bn. Gross margin improved QoQ by 150bps to 31.4%. While commodity prices started softening from end-May, its benefit would likely accrue from Q2FY23. EBITDA stood at Rs2.2bn (Q1FY20-23 CAGR at 4.6%) leading to EBITDA margin of 11.8%. Margin was lower than our estimate of 13.3% due to higher A&P spend (at all-time high of Rs450mn) and higher one-time variable pay. However, margins improved each month in Q1FY23 with exit margin of June being back to FY22 levels, which will be sustained. PAT stood at Rs1.2bn (Q1FY20-23 CAGR was flat), below our estimate of Rs1.4bn. The current demand situation remains challenging amidst high inflationary environment as the industry is witnessing slower volume growth. Factoring in the investment planned for built-in kitchen appliances, we cut our earnings estimates by 5%/2% for FY23E/24E. We retain BUY rating with a revised target price of Rs465 (Rs475 earlier) based on 40x FY24E EPS.

ECD: Fans continue to gain market share; pumps facing prolonged slowdown

ECD sales stood at Rs13.5bn (Q1FY20-23 CAGR at 8%) with EBIT margin at 17%, down 60bps/150bps YoY/QoQ due to higher input costs. Market share of Fans rose by 2% to 28% led by stronger growth in premium and TPW fans. However, past 3 years volume CAGR remains muted at 5%. Pumps is facing prolonged industry-wide slowdown due to 20-25% price hikes. Appliances sales doubled YoY led by air coolers, which posted 3 year CAGR of 45% and has crossed Rs1bn in sales.

Lighting: B2C continues to grow; B2G gradually picking up

Lighting sales stood at Rs2.6bn (Q1FY20-23 CAGR was flat) due to strong performance in B2C LED lights. Battens and panels posted volume/value growth at 64%/98% YoY. EBIT margin fell 190bps YoY to 8.8% after 7 quarters of double digit margin. Margin were lower due to 1% extra spend on advertising and higher ECL provision, however, structural margins are intact. While B2B business has picked up, the scale of EESL business is unlikely to revert to old levels. Near term growth will continue to be led by B2C.

Built-in kitchen appliances: Built-in kitchen appliances (chimneys, gas hobs, built-in ovens, microwave, dishwashers) has range of 38 models. Exclusive brand outlets named 'Crompton Signature Studios' will be expanded from 17 currently to 40-50 over next 2 quarters with eventual plan to cover 100 cities. Crompton aims to take 10% market share over the next 3 years in this Rs22bn industry, which is growing at 10% CAGR.

Butterfly updates: With business continuity progressing smoothly, CROMPTON aims to achieve synergies in sourcing as well as cost reduction through project Unnati. While sustaining Butterfly's strong e-commerce presence, CROMPTON aims to grow off-line and has added 1,000 retailers and 100 direct channel partners, which formed 5% of sales.

Maintain BUY, with a revised target price of Rs465

We expect CROMPTON to register 13% earnings CAGR over FY22-24E. Strong focus on margins, return ratios and cash flows along with renewed growth prospects post the Butterfly acquisition and built-in kitchen appliance foray will support its valuation.

Financial and valuation summary

YE Mar (Rs mn)	1QFY23A	1QFY22A	YoY (%)	4QFY22A	QoQ (%)	FY22A	FY23E	FY24E
Revenues	18,629	10,505	77.3	15,479	20.4	53,941	74,109	84,043
EBITDA	2,199	1,250	75.9	2,288	(3.9)	7,695	9,587	11,356
EBITDA margin (%)	11.8	11.9	(10bps)	14.8	(300bps)	14.3	12.9	13.5
Adj. Net profit	1,210	948	27.7	1,766	(31.5)	5,784	5,796	7,380
Adj. EPS (Rs)	1.9	1.5	27.7	2.8	(31.5)	9.1	9.2	11.7
EPS growth (%)						(7.1)	0.2	27.3
PE (x)						41.1	41.0	32.2
EV/EBITDA (x)						31.8	25.0	20.7
PBV (x)						9.7	8.4	7.1
RoE (%)						26.4	21.9	23.9
RoCE (%)						17.0	14.2	17.0

Source: Company, Centrum Broking

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Result Update

India | Consumer Electricals

25 July, 2022

BUY

Price: Rs375

Target Price: Rs465

Forecast return: 24%

Institutional Research

Market Data

Bloomberg:	CROMPTON IN
52 week H/L:	513/312
Market cap:	Rs237.7bn
Shares Outstanding:	633.7mn
Free float:	94.1%
Avg. daily vol. 3mth:	17,51,210

Source: Bloomberg

Changes in the report

Rating:	BUY; no change
Target price:	Rs465; down 2.0%
EPS:	FY23E: Rs9.2; down 4.9%
	FY24E: Rs11.7; down 2.0%

Source: Centrum Broking

Shareholding pattern

	Jun-22	Mar-22	Dec-21	Sep-21
Promoter	5.9	5.9	6.0	6.0
FIIs	37.3	38.0	40.2	41.5
DIIIs	32.6	32.1	31.2	30.9
Public/other	24.2	23.9	22.7	21.6

Source: BSE

Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q1FY23	Actual Q1FY23	Variance (%)
Revenue	17,185	18,629	8.4
EBITDA	2,287	2,199	(3.8)
EBITDA margin (%)	13.3	11.8 (150bps)	
PAT	1,466	1,260	(14.1)
EPS	2.2	1.9	(12.3)

Source: Bloomberg, Centrum Broking



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Consumer Electricals

Thesis Snapshot

Estimate revision

YE Mar (Rs mn)	FY23E New	FY23E Old	% chg	FY24E New	FY24E Old	% chg
Revenue	74,109	72,404	2.4	84,043	81,942	2.6
EBITDA	9,587	9,940	(3.5)	11,356	11,354	0.0
EBITDA margin	12.9	13.7 (80bps)		13.5	13.9 (40bps)	
Adj. PAT	5,796	6,095	(4.9)	7,380	7,532	(2.0)
Diluted EPS (Rs)	9.2	9.6 (4.9)		11.7	11.9 (2.0)	

Source: Centrum Broking, Estimate revision is largely due to incorporating Butterfly financials.

Crompton Greaves versus NIFTY Midcap 100

	1m	6m	1 year
CROMPTON IN	9.0	(10.7)	(18.3)
NIFTY Midcap 100	9.7	(2.2)	5.2

Source: Bloomberg, NSE

Key assumptions

Y/E Mar	FY23E	FY24E
Electrical Consumer Durables		
Revenue growth (%)	16.0	13.5
EBIT margin (%)	18.2	18.7
Lighting Products		
Revenue growth (%)	13.0	10.5
EBIT margin (%)	11.0	11.5
Butterfly Gandhimati		
Revenue growth (%)	18.0	16.0
EBITDA margin (%)	10.0	11.0

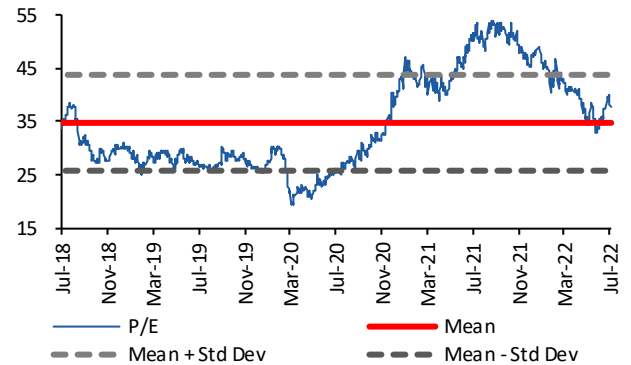
Source: Centrum Broking

Valuations

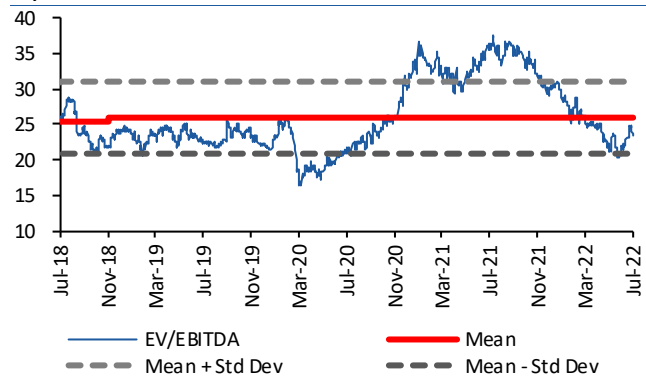
We value Crompton at 40x FY24E EPS and arrive at the target price of Rs465.

Valuations	Rs/share
FY24E EPS	11.7
PE (x)	40
Target price per share	465

P/E mean and standard deviation



EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

Peer comparison

Company	Mkt Cap		CAGR (FY22-24E)			P/E (x)			ROE (%)			ROCE (%)		
	(Rs mn)	Sales	EBITDA	EPS	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	
BJE	1,34,260	16.7	54.6	63.7	87.5	46.8	32.7	9.1	15.2	19.2	10.5	16.2	20.0	
CROMPTON	2,35,425	24.8	21.5	13.0	41.1	41.0	32.2	26.4	21.9	23.9	17.0	14.2	17.0	
HAVL	7,68,470	12.3	11.6	13.2	64.3	62.1	50.2	21.4	19.6	21.6	20.5	19.2	21.7	
ORIENTEL	61,114	13.4	21.9	25.0	48.3	38.8	30.9	25.4	26.5	27.8	27.6	26.9	26.3	
POLYCAB	3,32,275	5.8	15.7	17.7	39.7	33.3	28.7	16.2	16.9	17.3	16.4	17.2	17.6	
VGRD	99,537	13.3	20.4	19.6	44.0	37.2	30.7	17.4	17.9	18.8	17.7	18.2	19.3	

Source: Company, Centrum Broking

Quarterly performance trend

Exhibit 1: Quarterly Financial Snapshot

Y/E March (Rs mn)	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	YoY (%)	QoQ (%)
Revenue	12,132	13,482	15,221	10,505	13,851	14,106	15,479	18,629	77.3	20.4
Direct Costs	8,133	9,156	10,525	7,107	9,416	9,638	10,857	12,780	79.8	17.7
Gross Profit	3,999	4,326	4,695	3,398	4,435	4,468	4,622	5,849	72.1	26.5
Staff Cost	797	929	920	885	962	941	835	1,434	62.0	71.8
Other Expenses	1,290	1,396	1,495	1,263	1,332	1,511	1,499	2,216	75.5	47.8
Total Expenditure	10,219	11,481	12,941	9,254	11,710	12,091	13,192	16,430	77.5	24.6
EBITDA	1,913	2,001	2,280	1,250	2,141	2,015	2,288	2,199	75.9	(3.9)
Depreciation	77	69	72	76	101	102	145	276	264.1	90.3
EBIT	1,836	1,932	2,208	1,175	2,041	1,914	2,143	1,924	63.8	(10.2)
Interest	111	106	104	101	80	67	106	225	123.5	113.4
Other Income	167	199	206	196	169	140	222	104	(46.9)	(53.0)
Exceptional items	-	-	-	-	-	-	(130)	(64)		
PBT	1,891	2,025	2,310	1,270	2,129	1,987	2,129	1,739	36.9	(18.3)
Tax	475	514	(181)	322	541	505	364	479	48.6	31.8
Less : Minority interest	-	-	-	-	-	-	-	49		
PAT	1,417	1,511	2,491	948	1,588	1,483	1,766	1,210	27.7	(31.5)
EPS (Rs/share)	2.3	2.4	4.0	1.5	2.5	2.4	2.8	1.9	26.5	(31.5)

As a % of revenue

Direct Costs	67.0	67.9	69.2	67.7	68.0	68.3	70.1	68.6		
Gross Margin	33.0	32.1	30.8	32.3	32.0	31.7	29.9	31.4		
Staff Cost	6.6	6.9	6.0	8.4	6.9	6.7	5.4	7.7		
Other expenses	10.6	10.4	9.8	12.0	9.6	10.7	9.7	11.9		
EBITDA Margin	15.8	14.8	15.0	11.9	15.5	14.3	14.8	11.8		
PAT Margin	11.7	11.2	16.4	9.0	11.5	10.5	11.4	6.8		
Tax rate	25.1	25.4	(7.8)	25.4	25.4	25.4	17.1	27.6		

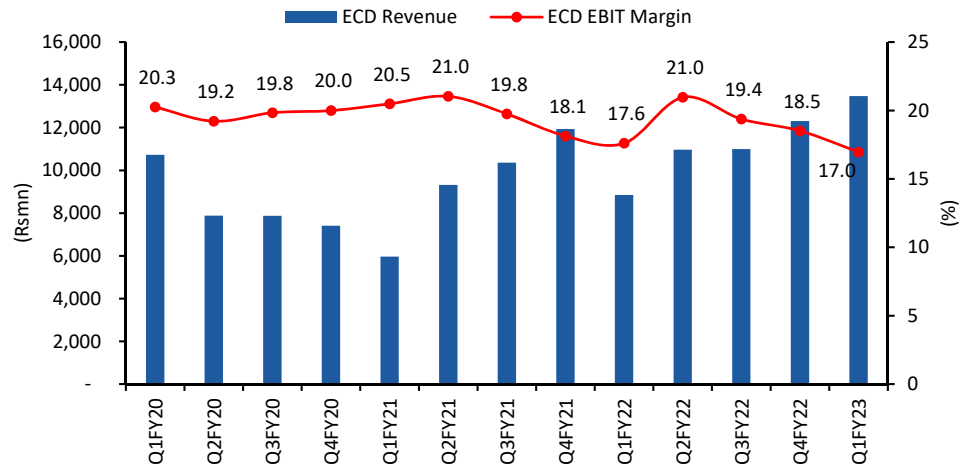
Source: Company Data, Centrum Broking

Exhibit 2: Quarterly Segmental Snapshot

Y/E March	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	YoY (%)	QoQ (%)
Revenue (Rs mn)										
Electrical Consumer Durables	9,317	10,359	11,930	8,844	10,964	10,993	12,309	13,472	52.3	9.4
Lighting	2,815	3,123	3,291	1,661	2,887	3,113	3,170	2,623	57.9	(17.3)
Butterfly	-	-	-	-	-	-	-	2,535	-	-
Total	12,132	13,482	15,221	10,505	13,851	14,106	15,479	18,629	77.3	20.4
Revenue mix (%)										
Electrical Consumer Durables	76.8	76.8	78.4	84.2	79.2	77.9	79.5	72.3	-	-
Lighting	23.2	23.2	21.6	15.8	20.8	22.1	20.5	14.1	-	-
Butterfly	-	-	-	-	-	-	-	13.6	-	-
EBIT (Rs mn)										
Electrical Consumer Durables	1,960	2,046	2,163	1,558	2,300	2,130	2,279	2,285	46.7	0.3
Lighting	331	383	529	177	329	324	448	232	30.9	(48.1)
Butterfly	-	-	-	-	-	-	-	219	-	-
Total	2,291	2,429	2,692	1,735	2,629	2,454	2,727	2,736	57.7	0.3
EBIT margin (%)										
Electrical Consumer Durables	21.0	19.8	18.1	17.6	21.0	19.4	18.5	17.0	-	-
Lighting	11.7	12.3	16.1	10.7	11.4	10.4	14.1	8.8	-	-
Butterfly	-	-	-	-	-	-	-	8.6	-	-

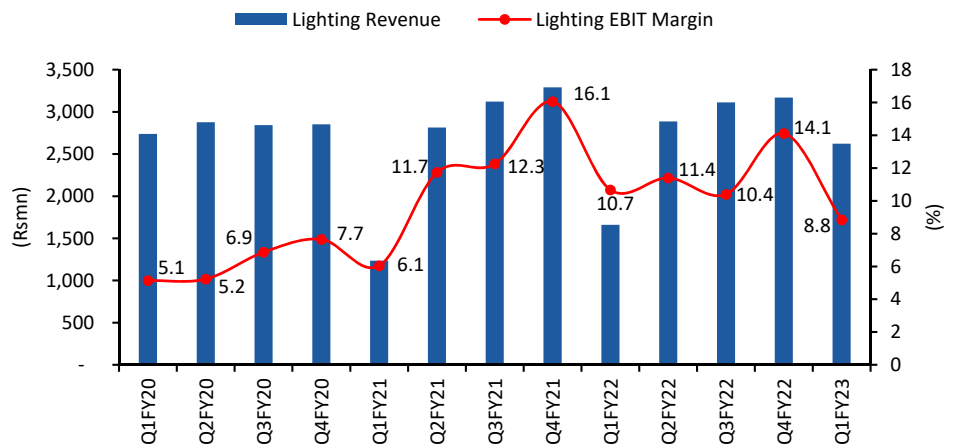
Source: Company Data, Centrum Broking

Exhibit 3: ECD revenue and EBIT margin trend



Source: Company Data, Centrum Broking

Exhibit 4: Lighting revenue and EBIT margin trend



Source: Company Data, Centrum Broking

P&L					
YE Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Revenues	45,203	48,035	53,941	74,109	84,043
Operating Expense	30,703	32,672	37,018	50,172	56,309
Employee cost	3,110	3,366	3,624	5,188	5,883
Others	5,399	4,792	5,605	9,162	10,496
EBITDA	5,991	7,205	7,695	9,587	11,356
Depreciation & Amortisation	268	297	423	1,097	1,194
EBIT	5,723	6,908	7,272	8,490	10,161
Interest expenses	407	429	353	978	620
Other income	591	758	727	550	580
PBT	5,907	7,236	7,515	7,998	10,121
Taxes	943	1,070	1,732	2,013	2,548
Effective tax rate (%)	16.0	14.8	23.0	25.2	25.2
PAT	4,964	6,167	5,784	5,985	7,574
Minority/Associates	0	0	0	(189)	(194)
Recurring PAT	4,964	6,167	5,784	5,796	7,380
Extraordinary items	0	0	0	0	0
Reported PAT	4,964	6,167	5,784	5,796	7,380

Ratios					
YE Mar	FY20A	FY21A	FY22A	FY23E	FY24E
Growth (%)					
Revenue	0.9	6.3	12.3	37.4	13.4
EBITDA	2.5	20.3	6.8	24.6	18.4
Adj. EPS	23.6	24.1	(7.1)	0.2	27.3
Margins (%)					
Gross	32.1	32.0	31.4	32.3	33.0
EBITDA	13.3	15.0	14.3	12.9	13.5
EBIT	12.7	14.4	13.5	11.5	12.1
Adjusted PAT	11.0	12.8	10.7	7.8	8.8
Returns (%)					
ROE	38.7	36.3	26.4	21.9	23.9
ROCE	34.3	32.2	17.0	14.2	17.0
ROIC	62.8	65.9	33.5	18.7	21.7
Turnover (days)					
Gross block turnover ratio (x)	25.3	22.5	9.3	11.6	12.2
Debtors	42	35	36	36	40
Inventory	49	55	61	61	64
Creditors	78	82	91	85	88
Net working capital	10	50	66	58	57
Solvency (x)					
Net debt-equity	0.1	(0.1)	0.2	0.0	(0.1)
Interest coverage ratio	14.7	16.8	21.8	9.8	18.3
Net debt/EBITDA	0.2	(0.2)	0.9	0.2	(0.3)
Per share (Rs)					
Adjusted EPS	7.9	9.8	9.1	9.2	11.7
BVPS	23.4	30.8	38.7	44.9	52.5
CEPS	8.3	10.3	9.8	10.9	13.5
DPS	0.0	5.5	2.5	3.0	4.0
Dividend payout (%)	0.0	56.0	27.4	32.8	34.3
Valuation (x)					
P/E	47.4	38.2	41.1	41.0	32.2
P/BV	16.0	12.2	9.7	8.4	7.1
EV/EBITDA	39.9	32.8	31.8	25.0	20.7
Dividend yield (%)	0.0	1.5	0.7	0.8	1.1

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Equity share capital	1,255	1,255	1,267	1,267	1,267
Reserves & surplus	13,429	18,059	23,263	27,159	32,005
Shareholders fund	14,684	19,314	24,530	28,425	33,272
Minority Interest	0	0	7,825	8,014	8,207
Total debt	1,797	4,788	16,075	10,480	5,980
Non Current Liabilities	0	0	0	0	0
Def tax liab. (net)	0	0	0	0	0
Total liabilities	16,481	24,102	48,429	46,918	47,459
Gross block	1,790	2,138	5,805	6,385	6,885
Less: acc. Depreciation	(539)	(810)	(1,049)	(2,146)	(3,340)
Net block	1,251	1,328	4,756	4,239	3,545
Capital WIP	199	109	130	50	50
Intangible Assets	7,839	7,822	27,978	27,978	27,978
Net fixed assets	9,289	9,259	32,865	32,268	31,573
Non Current Assets	0	0	0	0	0
Investments	5,408	7,697	6,242	3,242	3,242
Inventories	4,636	5,186	7,210	9,622	10,028
Sundry debtors	4,635	4,608	6,154	8,528	9,901
Cash & Cash Equivalents	481	6,040	9,152	8,719	8,955
Other current assets	2,563	2,599	2,863	4,447	5,043
Trade payables	6,436	8,204	10,178	13,058	14,193
Other current liab.	2,756	1,520	2,567	3,335	3,362
Provisions	1,846	2,148	2,918	3,118	3,333
Net current assets	1,277	6,561	9,717	11,804	13,038
Total assets	16,481	24,102	48,429	46,918	47,459

Cashflow					
YE Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Profit Before Tax	5,907	7,236	7,515	7,998	10,121
Depreciation & Amortisation	268	297	423	1,097	1,194
Net Interest	407	429	353	978	620
Net Change – WC	(2,416)	275	(44)	(2,519)	(999)
Direct taxes	(847)	(1,149)	(752)	(2,013)	(2,548)
Net cash from operations	3,318	7,088	7,496	5,541	8,389
Capital expenditure	(922)	(284)	(3,873)	(500)	(500)
Acquisitions, net	0	0	0	0	0
Investments	4	(2,289)	1,456	3,000	0
Others	0	0	0	0	0
Net cash from investing	(918)	(2,573)	(2,417)	2,500	(500)
FCF	2,400	4,516	5,078	8,041	7,889
Issue of share capital	1	1	11	0	0
Increase/(decrease) in debt	(1,695)	2,991	11,287	(5,596)	(4,500)
Dividend paid	0	(3,452)	(1,584)	(1,900)	(2,534)
Interest paid	(407)	(429)	(353)	(978)	(620)
Others	(1,248)	1,933	(11,328)	0	0
Net cash from financing	(3,349)	1,043	(1,966)	(8,474)	(7,654)
Net change in Cash	(949)	5,558	3,112	(433)	236

Source: Company, Centrum Broking

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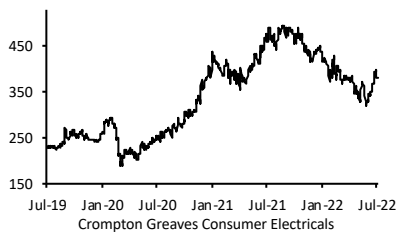
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Crompton Greaves Consumer Electricals



Source: Bloomberg

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