

BUY

TP: Rs 500 | ▲ 33%

CROMPTON GREAVES

Consumer Durables

25 July 2022

Temporary margin miss; expect swift recovery

- Q1 miss on margins due to one-time costs; expect margins to course correct in 9MFY23 against backdrop of lower commodity costs
- BGAL integration on track and performance in line with internal forecasts
- We remain positive on Crompton due to leadership in ECD and new growth avenues from BGAL; retain BUY with unchanged TP of Rs 500

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Revenue beat estimates: Crompton reported Q1FY23 revenue of Rs 18.6bn (vs. Rs 16.4bn expected), driven by 52% and 58% YoY growth in ECD and lighting respectively. Gross margin held strong at 31.4% (29.9% in Q4FY22) mainly due to a robust performance in premium and TPW fans. The company has maintained market leadership every quarter for the past four years with ~28% share.

One-offs dent margin: EBITDA margin was relatively muted at 11.8% (14.3% est.), owing to an increase in other expense and employee cost (+42% QoQ) that stemmed from variable payouts to staff in Q1. Moreover, Crompton had a normal increment cycle beginning April in FY23 as compared to July last year. The company has also stepped up its A&P spends to Rs 450mn in Q1 – its highest ever quarterly spend. On top of this, it is investing in the built-in kitchen appliances business, which also impacted EBITDA margin.

Margins to recover in 9M: We expect Crompton's margins to revert to normal levels in 9MFY23 as (1) easing commodity prices translate to cost benefits from Q2 onward once the older high-cost inventory gets liquidated, (2) employee cost which was at Rs 1.2bn due to the incentives is likely to revert to a quarterly run-rate of Rs 1bn-1.05bn, and (3) A&P expenses are likely to moderate after peaking in the first quarter. We note that the Q1 exit margin has already retraced to FY22 levels.

BGAL integration on track: Subsidiary BGAL has bounced back to profitability in Q1, with sales of Rs 2.5bn and an EBITDA margin of 10.2% – in line with the company's internal forecasts. Growth was across products and channels, and we expect these numbers to sustain as the integration process continues and Crompton focuses more on non-southern markets.

Maintain BUY: We like Crompton for its leadership position in the ECD category and demonstrated market share gains. We continue to value the stock at 35x FY24E EPS, in line with its 5Y average, and maintain BUY with an unchanged TP of Rs 500. Key downside risks include loss of market share and slower-than-expected integration of BGAL.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	CROMPTON IN/Rs 377
Market cap	US\$ 3.0bn
Free float	94%
3M ADV	US\$ 7.6mn
52wk high/low	Rs 513/Rs 312
Promoter/FPI/DII	6%/37%/45%

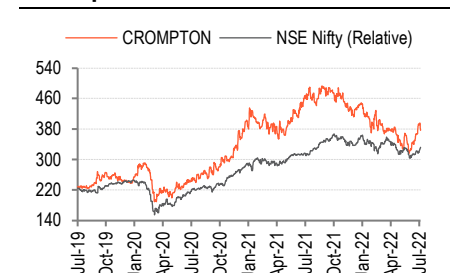
Source: NSE | Price as of 22 Jul 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	53,941	76,000	87,520
EBITDA (Rs mn)	7,694	10,273	12,607
Adj. net profit (Rs mn)	5,914	6,845	8,848
Adj. EPS (Rs)	9.3	10.8	14.0
Consensus EPS (Rs)	9.3	10.3	12.5
Adj. ROAE (%)	27.0	25.1	26.4
Adj. P/E (x)	40.4	34.9	27.0
EV/EBITDA (x)	32.0	23.7	19.1
Adj. EPS growth (%)	(4.1)	15.8	29.3

Source: Company, Bloomberg, BOBCAPS Research

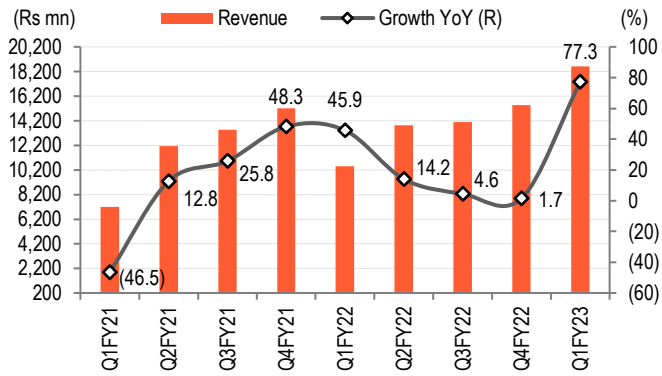
Stock performance



Source: NSE

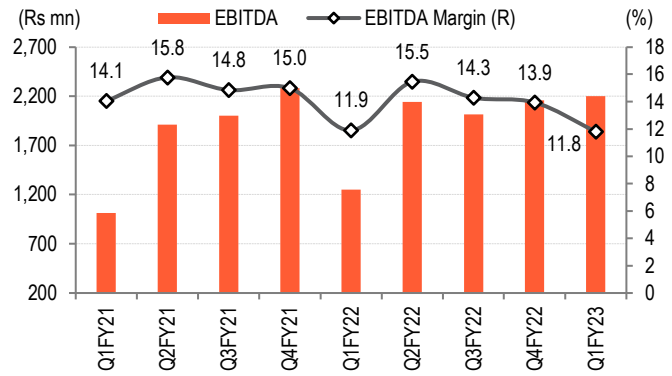


Fig 1 – Revenue driven by robust performance across categories (ex-pumps)



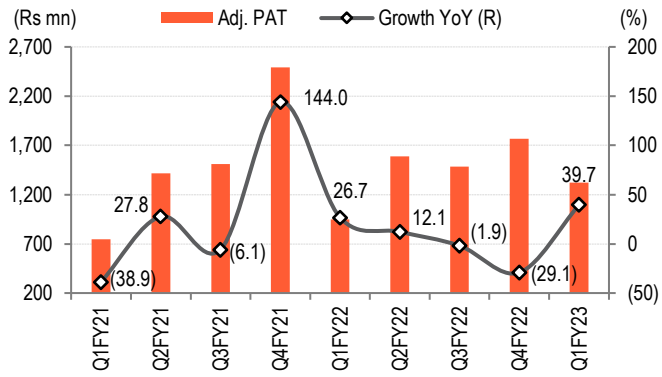
Source: Company, BOBCAPS Research

Fig 2 – EBITDA margin impacted due to one-offs and higher A&P expense



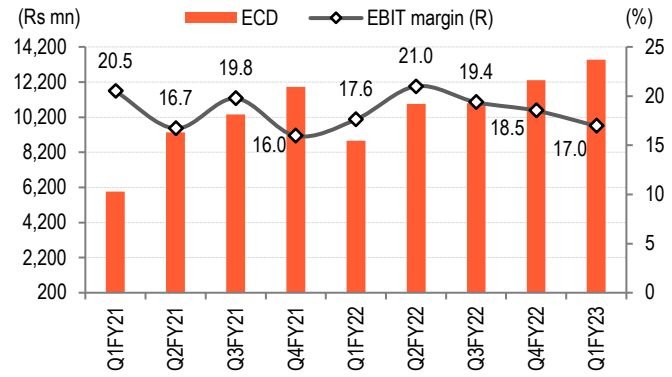
Source: Company, BOBCAPS Research

Fig 3 – PAT lower due to margin miss



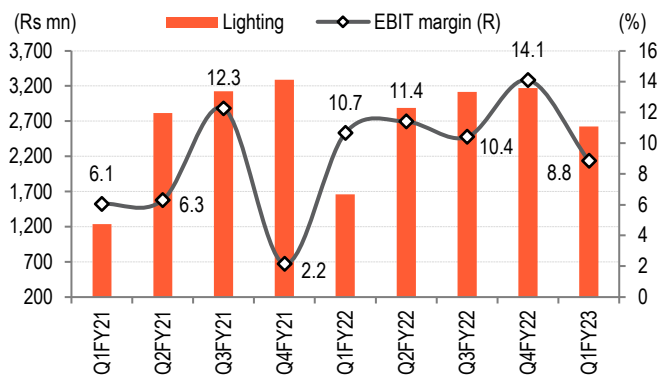
Source: Company, BOBCAPS Research

Fig 4 – ECD: Fans continue to be the mainstay



Source: Company, BOBCAPS Research

Fig 5 – Lighting revenue driven by B2C



Source: Company, BOBCAPS Research

Fig 6 – Quarterly performance

Particulars (Rs mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)
Revenue	18,629	10,505	77.3	15,479	20.4
EBITDA	2,199	1,250	75.9	2,158	1.9
EBITDA margin (%)	11.8	11.9	(10bps)	13.9	(214bps)
Depreciation	276	76	-	145	-
Interest	225	101	-	106	-
Other Income	104	196	-	222	-
PBT	1,803	1,270	41.9	2,129	(15.3)
Tax	479	322	-	364	-
Adjusted PAT	1,323	948	39.7	1,766	(25.0)
Exceptional item	64	-	-	-108	-
Reported PAT	1,260	948	32.9	1,873	(32.8)
Adj. PAT margin (%)	7.1	9.0	(192bps)	11.4	(430bps)
EPS (Rs)	2.1	1.5	39.7	2.8	(25.0)

Source: Company, BOBCAPS Research. Note: Q1FY23 not comparable as it includes BGAL numbers

Fig 7 – Actual vs. Estimates

Particulars (Rs mn)	Actual	Estimates	Variance
Revenue	18,629	16,493	13.0
EBITDA	2,199	2,358	(6.7)
EBITDA margin (%)	11.8	14.3	(249bps)
Adj. PAT	1,323	1,723	(23.2)

Source: Company, BOBCAPS Research

Fig 8 – Segmental performance

Particulars (Rs mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Revenue									
Electrical Consumer Durables	5,965	9,317	10,359	11,930	8,844	10,964	10,993	12,309	13,472
Lighting Products	1,236	2,815	3,123	3,291	1,661	2,887	3,113	3,170	2,623
Butterfly									2,535
EBIT									
Electrical Consumer Durables	1,223	1,558	2,046	1,905	1,558	2,300	2,130	2,279	2,285
Margin (%)	20.5	16.7	19.8	16.0	17.6	21.0	19.4	18.5	17.0
Lighting Products	75	177	383	71	177	329	324	448	232
Margin (%)	6.1	6.3	12.3	2.2	10.7	11.4	10.4	14.1	8.8
Butterfly									219
Margin (%)									8.6

Source: Company, BOBCAPS Research

Valuation methodology

We like Crompton for its leadership position in the ECD category and demonstrated market share gains. We continue to value the stock at 35x FY24E EPS, in line with its five-year average, and maintain BUY with an unchanged TP of Rs 500.

Fig 9 – Revised estimates

Particulars (Rs mn)	New		Old		Variation (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Sales	76,000	87,520	74,589	85,017	1.9	2.9
EBITDA	10,273	12,607	10,057	11,922	2.1	5.7
PAT	6,845	8,848	7,237	9,171	(5.4)	(3.5)
EPS	10.8	14.0	11.4	14.5	(5.4)	(3.5)
EBITDA margin (%)	13.5	14.4	13.5	14.0	3bps	38bps

Source: Company, BOBCAPS Research

Fig 10 – Peer comparison

Company	Rating	Mcap (Rs bn)	CMP (Rs)	TP (Rs)	Upside (%)	Revenue (Rs bn)				EBITDA (Rs bn)				EBITDA Margin (%)		
						FY22	FY23E	FY24E	CAGR (%)	FY22	FY23E	FY24E	CAGR (%)	FY22	FY23E	FY24E
VOLT	BUY	331	1,001	1,250	25	79	92	110	18	6.8	8.3	10.9	27	8.6	9.1	9.9
BLSTR	HOLD	96	994	1,200	21	60	70	81	16	3.5	4.4	5.0	20	5.7	6.2	6.2
POLYCAB	BUY	332	2,224	3,000	35	122	143	162	15	12.7	16.0	19.4	24	10.4	11.2	12.0
HAVL	Buy	769	1,227	1,500	22	139	158	179	13	17.6	21.1	25.4	20	12.6	13.3	14.2
ORIENTEL	HOLD	61	290	310	7	24	29	34	17	2.3	3.0	3.5	23	9.4	10.1	10.4
VGUARD	HOLD	100	232	250	8	35	40	43	11	3.3	4.0	4.5	16	9.5	10.2	10.4
DIXON	BUY	223	3,765	4,600	22	107	171	220	44	3.8	6.4	8.4	48	3.6	3.8	3.8
AMBER	HOLD	82	2,431	3,500	44	42	58	74	33	2.7	4.4	5.8	46	6.5	7.5	7.9

Source: Company, BOBCAPS Research

Fig 11 – Peer comparison (contd.)

Companies	PAT (Rs bn)				EPS (Rs)				RoE (%)			PE (x)		
	FY22	FY23E	FY24E	CAGR (%)	FY22	FY23E	FY24E	CAGR (%)	FY22	FY23E	FY24E	FY22	FY23E	FY24E
VOLT	5.0	6.1	8.2	28	15.2	18.5	24.8	28	9.6	10.6	12.6	66	54	40
BLSTR	1.7	2.5	2.8	29	17.4	26.3	29.0	29	17.6	23.7	23.9	57	38	34
POLYCAB	8.4	10.6	13.0	25	56.0	71.0	87.1	25	16.2	17.7	18.7	40	31	26
HAVL	12.0	14.6	17.4	21	19.1	23.3	27.8	21	21.4	21.4	21.4	64	53	44
ORIENTEL	1.3	1.5	1.9	23	6.0	7.1	9.0	23	25.4	25.4	26.3	49	41	32
VGUARD	2.3	2.7	3.1	16	5.3	6.3	7.1	16	17.4	17.9	17.5	44	37	33
DIXON	1.9	3.5	4.8	59	32.2	58.8	81.0	59	22	29.8	30.3	117	64	47
AMBER	1.0	1.9	2.9	71	30.1	57.9	87.7	71	5.8	10.4	13.9	81	42	28

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- demand being impacted by price increases due to raw material inflation and/or a potential new Covid wave,
- intense competition leading to challenges in growing market share, and
- synergies not playing out as anticipated post BGAL integration.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	1.0	2,484	3,500	HOLD
Blue Star	BLSTR IN	1.2	1,000	1,200	HOLD
Crompton Greaves	CROMPTON IN	3.0	377	500	BUY
Dixon Technologies	DIXON IN	2.8	3,857	4,600	BUY
Havells India	HAVL IN	9.6	1,226	1,500	BUY
Orient Electric	ORIENTEL IN	0.8	287	310	HOLD
Polycab India	POLYCAB IN	4.1	2,211	3,000	BUY
V-Guard Industries	VGRD IN	1.2	227	250	HOLD
Voltas	VOLT IN	4.2	1,002	1,250	BUY
Whirlpool India	WHIRL IN	2.8	1,739	2,901	BUY

Source: BOBCAPS Research, NSE | Price as of 22 Jul 2022

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Total revenue	45,203	48,035	53,941	76,000	87,520
EBITDA	5,991	7,205	7,694	10,273	12,607
Depreciation	268	297	423	1,048	1,062
EBIT	5,723	6,908	7,272	9,225	11,545
Net interest inc./(exp.)	173	115	353	840	560
Other inc./(exp.)	357	443	727	763	839
Exceptional items	0	0	0	0	0
EBT	5,907	7,236	7,645	9,148	11,824
Income taxes	943	1,070	1,732	2,303	2,976
Extraordinary items	0	0	130	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	4,964	6,166	5,784	6,845	8,848
Adjustments	0	0	130	0	0
Adjusted net profit	4,964	6,166	5,914	6,845	8,848

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Accounts payables	6,436	8,647	10,178	14,340	16,514
Other current liabilities	4,411	5,010	3,948	5,562	6,405
Provisions	-	-	-	-	-
Debt funds	1,797	2,988	16,075	10,500	7,000
Other liabilities	191	214	1,931	2,721	3,133
Equity capital	1,255	1,255	1,267	1,267	1,267
Reserves & surplus	13,429	18,059	31,087	36,526	43,637
Shareholders' fund	14,683	19,314	32,354	37,793	44,904
Total liab. and equities	27,518	36,173	64,486	70,916	77,956
Cash and cash eq.	5,889	13,737	15,390	14,677	17,785
Accounts receivables	4,635	4,608	6,154	8,671	9,985
Inventories	4,636	5,186	7,210	10,159	11,699
Other current assets	2,257	2,264	2,246	3,164	3,643
Investments	-	-	-	-	-
Net fixed assets	9,090	9,150	32,735	33,187	33,625
CWIP	199	109	130	183	211
Intangible assets	0	0	0	0	0
Deferred tax assets, net	-	-	-	-	-
Other assets	813	1,119	621	875	1,007
Total assets	27,518	36,173	64,486	70,916	77,956

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Cash flow from operations	5,556	8,878	7,234	7,286	9,593
Capital expenditures	(494)	(202)	(1,706)	(1,500)	(1,500)
Change in investments	-	-	-	-	-
Other investing cash flows	583	(4,756)	(15,523)	483	252
Cash flow from investing	89	(4,957)	(17,229)	(1,017)	(1,248)
Equities issued/Others	52	73	603	0	0
Debt raised/repaid	(3,000)	0	14,069	(5,575)	(3,500)
Interest expenses	-	-	-	-	-
Dividends paid	-	-	-	-	-
Other financing cash flows	(2,179)	(1,034)	(5,599)	(1,407)	(1,737)
Cash flow from financing	(5,128)	(962)	9,073	(6,982)	(5,237)
Chg in cash & cash eq.	517	2,959	(922)	(714)	3,108
Closing cash & cash eq.	5,889	13,737	15,390	14,677	17,785

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22A	FY23E	FY24E
Reported EPS	7.8	9.7	9.1	10.8	14.0
Adjusted EPS	7.8	9.7	9.3	10.8	14.0
Dividend per share	0.0	0.0	1.5	2.2	2.7
Book value per share	23.2	30.5	38.7	47.3	58.5

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22A	FY23E	FY24E
EV/Sales	5.3	5.1	4.6	3.2	2.7
EV/EBITDA	40.1	33.7	32.0	23.7	19.1
Adjusted P/E	48.1	38.7	40.4	34.9	27.0
P/BV	16.3	12.4	9.7	8.0	6.4

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22A	FY23E	FY24E
Tax burden (Net profit/PBT)	84.0	85.2	77.4	74.8	74.8
Interest burden (PBT/EBIT)	103.2	104.7	105.1	99.2	102.4
EBIT margin (EBIT/Revenue)	12.7	14.4	13.5	12.1	13.2
Asset turnover (Rev./Avg TA)	5.1	5.3	2.6	2.3	2.6
Leverage (Avg TA/Avg Equity)	0.7	0.5	1.0	1.2	1.0
Adjusted ROAE	38.7	36.3	27.0	25.1	26.4

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22A	FY23E	FY24E
YoY growth (%)					
Revenue	0.9	6.3	12.3	40.9	15.2
EBITDA	2.5	20.3	6.8	33.5	22.7
Adjusted EPS	23.7	24.2	(4.1)	15.8	29.3
Profitability & Return ratios (%)					
EBITDA margin	13.3	15.0	14.3	13.5	14.4
EBIT margin	12.7	14.4	13.5	12.1	13.2
Adjusted profit margin	11.0	12.8	11.0	9.0	10.1
Adjusted ROAE	38.7	36.3	27.0	25.1	26.4
ROCE	37.0	35.6	23.1	22.8	27.3
Working capital days (days)					
Receivables	37	35	42	42	42
Inventory	37	39	49	49	49
Payables	52	66	69	69	69
Ratios (x)					
Gross asset turnover	4.8	4.9	2.5	2.2	2.4
Current ratio	1.6	1.9	1.0	1.2	1.5
Net interest coverage ratio	33.1	59.9	20.6	11.0	20.6
Adjusted debt/equity	(0.1)	(0.3)	0.0	(0.1)	(0.1)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

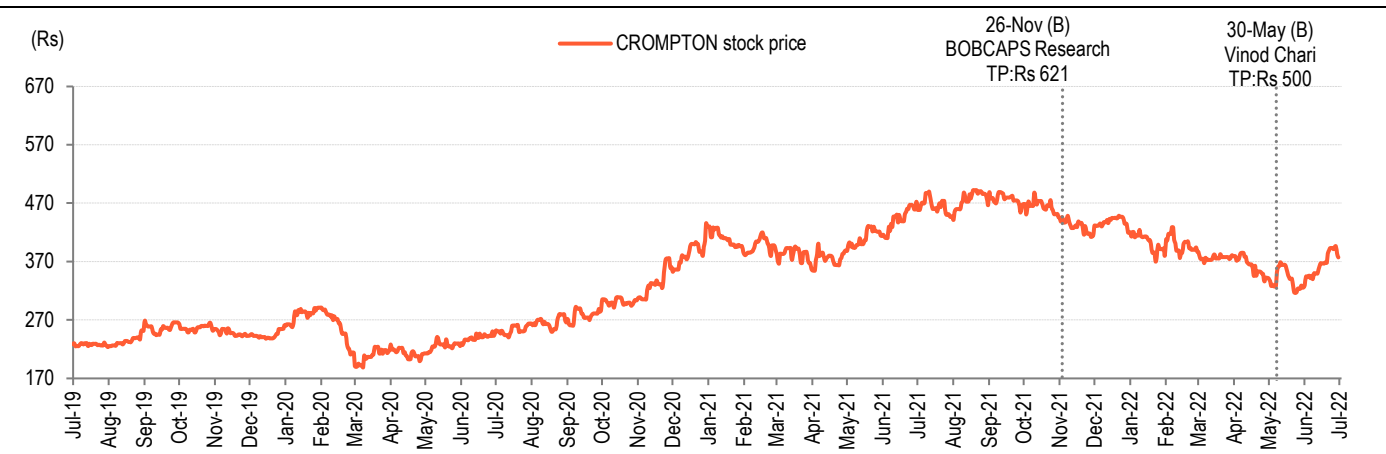
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): CROMPTON GREAVES (CROMPTON IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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