

BUY

TP: Rs 500 | ▲ 36%

CROMPTON GREAVES

Consumer Durables

28 October 2022

Q2 a minor blip; expect swift recovery

- Q2 EBITDA margin subdued at 11.4% (-410bps YoY) despite in-line revenue; BGAL's revenue back on track with double-digit margins
- Sustained brand and distribution investments position company well for BEE transition and market share gains
- FY23/FY24 EPS pared 5%/2% on subdued margins; on rollover, our TP remains unchanged at Rs 500 – retain BUY

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EBITDA margin muted: Crompton's Q2FY23 revenue at Rs 17bn was broadly in line while EBITDA margin came in lower at 11.4% vs. our/consensus estimates of 13.8%/13.1%. However, gross margin expanded 70bps QoQ to 32.1% backed by a better product mix, premiumisation trends and strategic pass-through of costs. The electrical consumer durables (ECD) business declined 3% YoY due to a muted performance in fans, whereas a sequential fall in conventional lighting sales weighed on the lighting segment which dipped 7%.

Fans segment slows in Q2 but maintains traction in H1: Apart from market share gains, revenue from the fans division increased 22% YoY in H1FY23 despite a relatively weak Q2 (growth declined to mid-single-digits) amidst seasonality. Channel destocking and a transitional phase in view of upcoming energy norms resulted in subdued growth. Management anticipates a relatively better H2 for fans and believes Crompton is well placed to capture market share in the low-to-mid segments post new BEE (Bureau of Energy Efficiency) norms.

BGAL run-rate back on track: Subsidiary Butterfly Gandhimathi Appliances (BGAL) recorded a double-digit EBITDA margin (11.2%) for the second consecutive quarter with improved profitability. Management affirmed 10% as a base margin hereafter for BGAL, which we find reasonable given Crompton is implementing its cost-saving structure for the subsidiary (cost reduction to the tune of 0.5% of sales, aiding 50bps margin improvement p.a.). Crompton is focussed on backend integration with BGAL, with synergies in areas such as commodity procurement and designing aid.

Maintain BUY: Crompton has constantly expanded its leadership position in fans and maintained its industry-leading market share in pumps over the years. The BGAL acquisition should fuel market share gains in kitchen appliances as well. In our view, premiumisation trends and the company's pricing power give it an edge over peers. Muted Q2 margins compel us to trim FY23/FY24 EPS estimates by 5%/2%, though we do expect a better H2FY23 as retail inflation cools, aiding volumes. We continue to value the stock at 35x FY24E EPS, in line with its 5Y average. Estimate revision coupled with valuation rollover to Sep'24E leaves our TP unchanged at Rs 500; retain BUY.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	CROMPTON IN/Rs 367
Market cap	US\$ 2.8bn
Free float	94%
3M ADV	US\$ 12.1mn
52wk high/low	Rs 493/Rs 312
Promoter/FPI/DII	6%/37%/45%

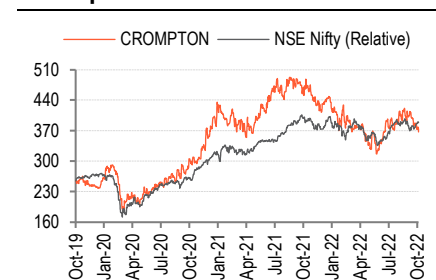
Source: NSE | Price as of 27 Oct 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	53,941	75,785	87,274
EBITDA (Rs mn)	7,694	9,853	12,341
Adj. net profit (Rs mn)	5,914	6,531	8,649
Adj. EPS (Rs)	9.3	10.3	13.6
Consensus EPS (Rs)	9.3	10.3	12.5
Adj. ROAE (%)	27.0	24.1	26.1
Adj. P/E (x)	39.3	35.6	26.9
EV/EBITDA (x)	31.2	24.1	19.0
Adj. EPS growth (%)	(4.1)	10.4	32.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly overview

(Rs mn)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)
Revenue	16,995	13,851	22.7	18,629	(8.8)
EBITDA	1,931	2,141	(9.8)	2,199	(12.2)
EBITDA margin (%)	11.4	15.5	(410bps)	11.8	(40bps)
Depreciation	283	101	-	276	-
Interest	299	80	-	225	-
Other Income	183	169	-	104	-
PBT	1,533	2,129	(28.0)	1,803	(15.0)
Tax	226	541	-	479	-
Adjusted PAT	1,258	1,588	(20.8)	1,274	(1.3)
Exceptional item	-	-	-	64	-
Reported PAT	1,258	1,588	(20.8)	1,210	4.0
Adj. PAT margin (%)	7.4	11.5	(410bps)	6.8	60bps
EPS (Rs)	2.1	2.5	(17.7)	2.1	(1.2)

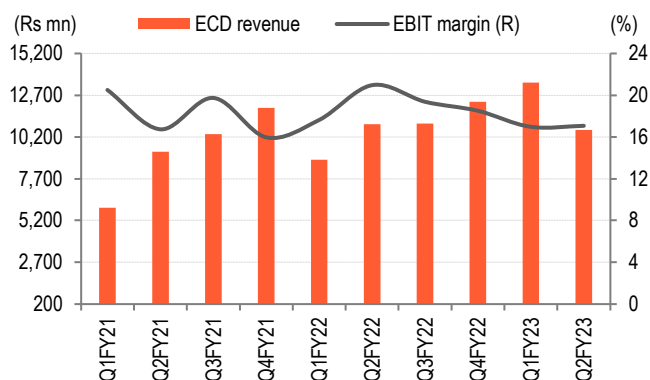
Source: Company, BOBCAPS Research

Fig 2 – Actual vs. Estimates

(Rs mn)	Actual	Estimates	Variance
Revenue	16,995	16,720	1.6
EBITDA	1,931	2,302	(16.1)
EBITDA margin (%)	11.4	13.8	(240bps)
Adj. PAT	1,258	1,494	(15.8)

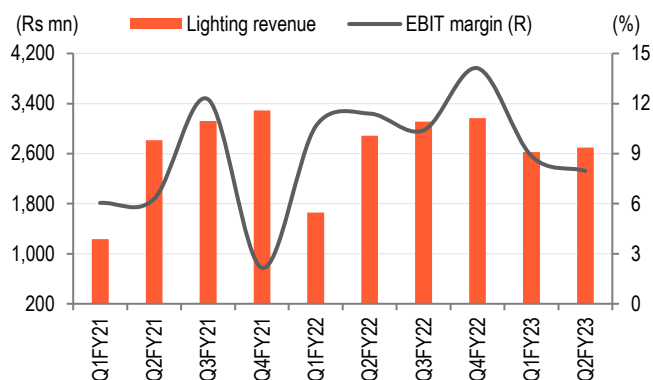
Source: Company, BOBCAPS Research

Fig 3 – ECD segment relatively muted due to transitory phase in fans, partly offset by growth in appliances



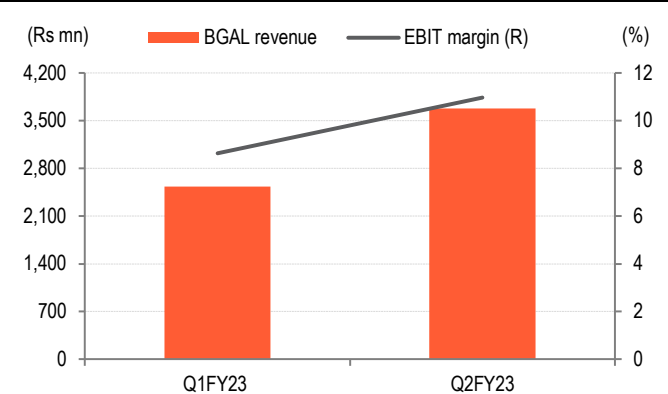
Source: Company, BOBCAPS Research

Fig 4 – Lighting business remained muted amid sharp drop in conventional product sales



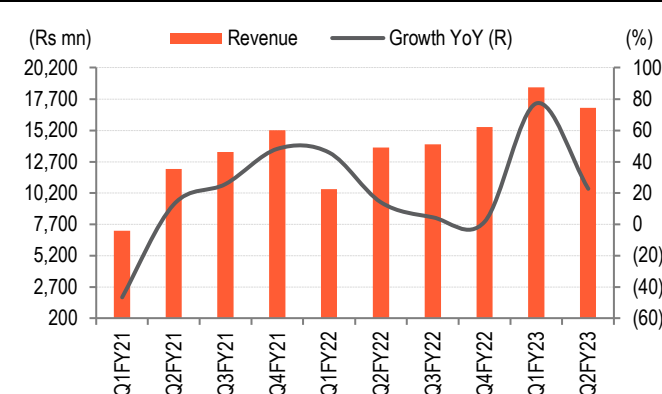
Source: Company, BOBCAPS Research

Fig 5 – BGAL appears to be on track post-acquisition



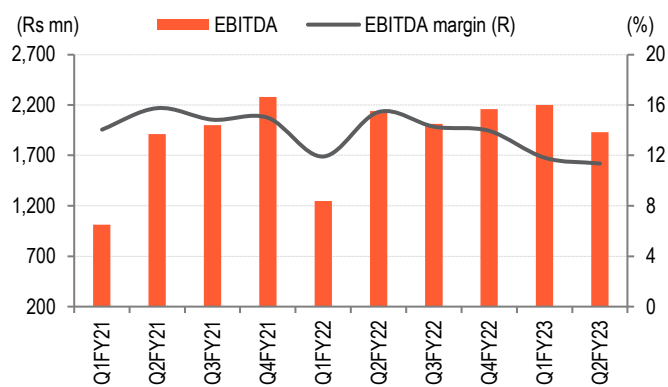
Source: Company, BOBCAPS Research

Fig 6 – Unfavourable base and weak consumer demand impacted Crompton’s revenue



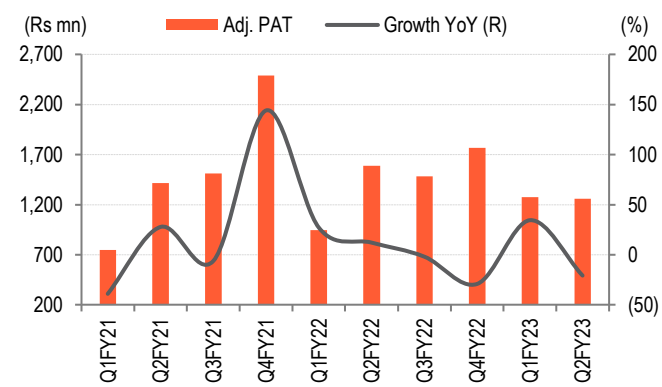
Source: Company, BOBCAPS Research

Fig 7 – Margin muted due to higher A&P spend, R&D expense, and strategic investments...



Source: Company, BOBCAPS Research

Fig 8 – ...leading to lower PAT



Source: Company, BOBCAPS Research

Earnings call highlights

- Price revision:** During Q2FY23, management implemented a tactical price reduction of 1.5-2% in certain products. This was done primarily in response to competition and is likely to be temporary.
- BEE norms to prompt fan price hike of 9%:** Crompton has 40% of its fan portfolio converted and compliant with upcoming BEE ratings. The new standards would imply an 8-9% price increase. Management stated that a potential price hike could provide an opportunity for traders to stock up.
- Growth:** In H1FY23, (1) fans grew 22% YoY, (2) pumps 16%, (3) appliances 39%, (4) ECD 23%, and (5) lighting 21%. During Q2FY23, (1) fans declined in mid-single-digits, (2) pumps were flattish, (3) appliances grew 12% YoY, and (4) lighting declined 5-6% YoY as LED sales were flat and conventional lighting declined by 35%.
- Guidance:** Management maintained its previous guidance of 0.5% in annual savings every year.

- **Demand:** Per management, in the **ECD** business – particularly fans – demand is primarily influenced by seasonality (and not festivals). The company has increased market share by 5% in the premium category and marginally in the overall category during the quarter. Apart from fans, the business includes geysers, coolers and kitchen appliances, with encouraging growth seen in geysers and mixer grinders, both of which have been focus areas. Backed by new products and strong marketing, mixer grinder sales increased 15% YoY and reached 400,000 units in Q2. The appliances business has grown 12% YoY, while geysers increased 6%.

Pumps continued to face challenges due to the effect of the monsoons and higher prices as a result of inflation. Nonetheless, the company is seeing encouraging signs, with sales of specialty pumps increasing 20% YoY during the quarter.

In **lighting**, conventional business which accounts for 8% of lighting revenue has been on a steady decline as demand wanes. Per Crompton, the B2C LED (light-emitting diode) market was essentially flat and competition has been high. The company has been able to maintain 9-10% market share in LED bulbs and battens.

- **Built-in kitchen appliances:** Crompton has opened 22 signature studios across metro cities to market its built-in kitchen appliances, and has more in the pipeline.
- **Working capital:** In Q2FY23, working capital improved by Rs 1.2bn compared to Mar'22, owing primarily to lower creditors as the company made a conscious decision to assist vendors in light of market uncertainty. Consolidated cash and equivalents totaled Rs 10.8bn, including Rs 1.6bn from the 6% stake sale (via an offer for sale) in BGAL.

Valuation methodology

Crompton has constantly expanded its leadership position in fans and maintained its industry-leading market share in pumps over the years. The BGAL acquisition should fuel market share gains in kitchen appliances as well. In our view, premiumisation trends and the company's pricing power give it an edge over peers.

Muted margins in Q2FY23 and resultant lower profitability compel us to trim FY23/FY24 EPS estimates by 5%/2%, though we do expect a better H2FY23 as retail inflation cools, aiding volume growth. We continue to value the stock at 35x FY24E EPS, in line with its five-year average. Estimate revision coupled with valuation rollover to Sep'24E results in an unchanged TP of Rs 500; retain BUY.

Fig 9 – Revised estimates

Particulars (Rs mn)	New		Old		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Sales	75,785	87,274	76,000	87,520	(0.3)	(0.3)
EBITDA	9,853	12,341	10,273	12,607	(4.1)	(2.1)
PAT	6,531	8,649	6,845	8,848	(4.6)	(2.3)
EPS (Rs)	10.3	13.6	10.8	14.0	(4.6)	(2.3)
EBITDA margin (%)	13.0	14.1	13.5	14.4	(50bps)	(30bps)

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- loss of market share in fans, and
- BGAL acquisition failing to play out as anticipated.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	0.8	2,039	2,100	HOLD
Blue Star	BLSTR IN	1.4	1,224	1,100	HOLD
Crompton Greaves	CROMPTON IN	2.8	367	500	BUY
Dixon Technologies	DIXON IN	3.2	4,409	5,200	BUY
Havells India	HAVL IN	9.0	1,187	1,500	BUY
Orient Electric	ORIENTEL IN	0.7	271	310	HOLD
Polycab India	POLYCAB IN	5.0	2,775	3,300	BUY
V-Guard Industries	VGRD IN	1.3	253	250	HOLD
Voltas	VOLT IN	3.5	874	1,100	HOLD

Source: BOBCAPS Research, NSE | Price as of 27 Oct 2022

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Total revenue	48,035	53,941	75,785	87,274	100,513
EBITDA	7,205	7,694	9,853	12,341	14,555
Depreciation	297	423	1,048	1,062	1,076
EBIT	6,908	7,272	8,805	11,279	13,479
Net interest inc./(exp.)	115	353	840	560	560
Other inc./(exp.)	443	727	763	839	923
Exceptional items	0	0	0	0	0
EBT	7,236	7,645	8,728	11,558	13,842
Income taxes	1,070	1,732	2,197	2,909	3,484
Extraordinary items	0	130	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	6,166	5,784	6,531	8,649	10,358
Adjustments	0	130	0	0	0
Adjusted net profit	6,166	5,914	6,531	8,649	10,358

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Accounts payables	8,647	10,178	14,299	16,467	18,965
Other current liabilities	5,010	3,948	5,546	6,387	7,356
Provisions	-	-	-	-	-
Debt funds	2,988	16,075	10,500	7,000	7,000
Other liabilities	214	1,931	2,713	3,125	3,599
Equity capital	1,255	1,267	1,267	1,267	1,267
Reserves & surplus	18,059	31,087	36,276	43,227	51,552
Shareholders' fund	19,314	32,354	37,543	44,494	52,819
Total liab. and equities	36,173	64,486	70,602	77,473	89,739
Cash and cash eq.	13,737	15,390	14,428	17,377	25,203
Accounts receivables	4,608	6,154	8,646	9,957	11,468
Inventories	5,186	7,210	10,130	11,666	13,436
Other current assets	2,264	2,246	3,155	3,633	4,184
Investments	-	-	-	-	-
Net fixed assets	9,150	32,735	33,187	33,625	34,049
CWIP	109	130	183	210	242
Intangible assets	0	0	0	0	0
Deferred tax assets, net	-	-	-	-	-
Other assets	1,119	621	872	1,004	1,157
Total assets	36,173	64,486	70,602	77,473	89,739

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash flow from operations	8,878	7,234	6,977	9,395	11,070
Capital expenditures	(202)	(1,706)	(1,500)	(1,500)	(1,500)
Change in investments	-	-	-	-	-
Other investing cash flows	(4,756)	(15,523)	478	251	290
Cash flow from investing	(4,957)	(17,229)	(1,022)	(1,249)	(1,210)
Equities issued/Others	73	603	0	0	0
Debt raised/repaid	0	14,069	(5,575)	(3,500)	0
Interest expenses	-	-	-	-	-
Dividends paid	-	-	-	-	-
Other financing cash flows	(1,034)	(5,599)	(1,342)	(1,698)	(2,033)
Cash flow from financing	(962)	9,073	(6,917)	(5,198)	(2,033)
Chg in cash & cash eq.	2,959	(922)	(962)	2,948	7,826
Closing cash & cash eq.	13,737	15,390	14,428	17,377	25,203

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
Reported EPS	9.7	9.1	10.3	13.6	16.3
Adjusted EPS	9.7	9.3	10.3	13.6	16.3
Dividend per share	0.0	1.5	2.1	2.7	3.2
Book value per share	30.5	38.7	46.9	57.9	71.0

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
EV/Sales	4.9	4.4	3.1	2.7	2.4
EV/EBITDA	32.8	31.2	24.1	19.0	16.5
Adjusted P/E	37.7	39.3	35.6	26.9	22.4
P/BV	12.0	9.5	7.8	6.3	5.2

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Tax burden (Net profit/PBT)	85.2	77.4	74.8	74.8	74.8
Interest burden (PBT/EBIT)	104.7	105.1	99.1	102.5	102.7
EBIT margin (EBIT/Revenue)	14.4	13.5	11.6	12.9	13.4
Asset turnover (Rev./Avg TA)	5.3	2.6	2.3	2.6	3.0
Leverage (Avg TA/Avg Equity)	0.5	1.0	1.2	1.0	0.8
Adjusted ROAE	36.3	27.0	24.1	26.1	25.4

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
YoY growth (%)					
Revenue	6.3	12.3	40.5	15.2	15.2
EBITDA	20.3	6.8	28.0	25.3	17.9
Adjusted EPS	24.2	(4.1)	10.4	32.4	19.8
Profitability & Return ratios (%)					
EBITDA margin	15.0	14.3	13.0	14.1	14.5
EBIT margin	14.4	13.5	11.6	12.9	13.4
Adjusted profit margin	12.8	11.0	8.6	9.9	10.3
Adjusted ROAE	36.3	27.0	24.1	26.1	25.4
ROCE	35.6	23.1	21.8	26.9	28.2
Working capital days (days)					
Receivables	35	42	42	42	42
Inventory	39	49	49	49	49
Payables	66	69	69	69	69
Ratios (x)					
Gross asset turnover	4.9	2.5	2.2	2.4	2.7
Current ratio	1.9	1.0	1.2	1.5	1.7
Net interest coverage ratio	59.9	20.6	10.5	20.1	24.1
Adjusted debt/equity	(0.3)	0.0	(0.1)	(0.1)	(0.2)

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

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

BUY – Expected return >+15%

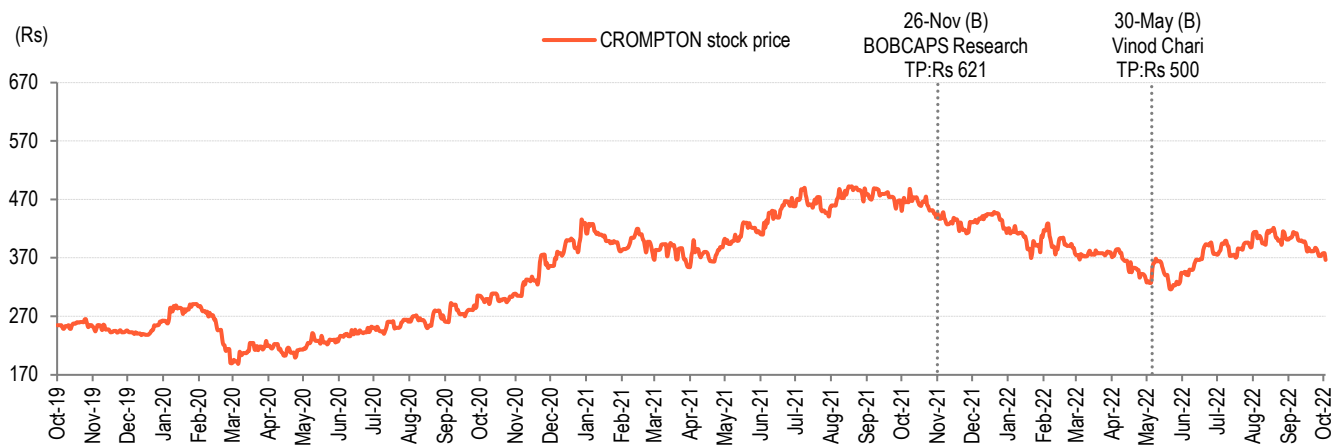
HOLD – Expected return from -6% to +15%

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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