

BUY

TP: Rs 500 | ▲ 42%

CROMPTON GREAVES

Consumer Durables

30 May 2022

Prudent cost management aids Q4

- Q4 margin well maintained led by key initiatives of brand building, fortifying the distribution network and cost cutting
- Retains leadership position in fans with exit market share of 29%, a 3ppt gain in FY22
- We remain positive on Crompton due to leadership in ECD and new growth avenue from BGAL; BUY, TP Rs 500

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Cost initiatives support performance: Crompton's Q4FY22 revenue increased 2% YoY to Rs 15.5bn as 3% growth in the ECD segment offset a 4% decline in lighting products. The pumps business remained weak which impacted the ECD segment, while B2G and B2C conventional business continued to erode lighting product sales. Gross margin declined by just 100bps YoY to 29.9%, relatively well managed as the impact of commodity cost inflation was mitigated by accelerated cost savings worth Rs 680mn and an improved product mix. EBITDA margin declined 115bps YoY to 13.8% as investment continued in keys initiatives such as brand building, R&D ramp-up and strengthening of the distribution network.

BGAL integration on track: Crompton completed the Butterfly Gandhimathi Appliances (BGAL) acquisition on 30 March. In Q4, BGAL booked non-recurring charges (pre-acquisition) related to stock reduction in distribution channels due to the uncertainty created by the transaction, lag between commodity price increase and passing on the prices, additional provision for old and ageing inventory, and expected credit loss. Management maintained its guidance of the deal being earnings-neutral in FY23 and accretive in FY24.

Maintains leadership in fans: Management indicated that the company's exit market share for fans stood at 29% (+3ppt above the previous year), and Crompton remains the market leader. The company took an overall price hike of 15% in the ECD segment and 7% in lighting in FY22, while volume growth for ECD (ex-pumps)/lighting stood at 17%/19%.

BUY, TP Rs 500: We are positive on Crompton given its leadership position in the ECD category and demonstrated market share gains. Further, the BGAL acquisition opens up new growth avenues in kitchen appliances. We value the stock at 35x FY24E EPS, in line with its 5Y average, and assume coverage with a BUY rating for a TP of Rs 500.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	CROMPTON IN/Rs 352
Market cap	US\$ 2.8bn
Free float	94%
3M ADV	US\$ 8.1mn
52wk high/low	Rs 513/Rs 324
Promoter/FPI/DII	6%/38%/44%

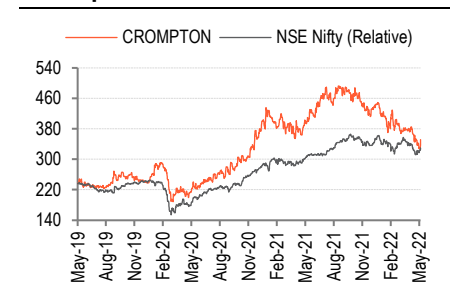
Source: NSE | Price as of 30 May 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	53,941	74,589	85,017
EBITDA (Rs mn)	7,694	10,185	12,173
Adj. net profit (Rs mn)	5,914	7,342	9,373
Adj. EPS (Rs)	9.3	11.3	14.4
Consensus EPS (Rs)	9.3	11.4	13.3
Adj. ROAE (%)	27.0	25.5	25.1
Adj. P/E (x)	37.6	31.1	24.4
EV/EBITDA (x)	28.6	21.9	18.5
Adj. EPS growth (%)	(4.1)	21.0	27.1

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



Fig 1 – Quarterly and Annual performance

Income Statement (Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
Revenue (post indirect taxes)	15,479	15,221	1.7	14,106	9.7	53,941	48,035	12.3
Cost of Revenue	(10,857)	(10,525)	-	(9,638)	-	(37,018)	(32,672)	-
Gross Profit	4,622	4,695	(1.6)	4,468	3.5	16,923	15,363	10.2
Gross Margin (%)	29.9	30.8	-	31.7	-	31.4	32.0	-
Employee Benefits Expense	(835)	(920)	-	(941)	-	(3,624)	(3,366)	-
Depreciation & Amortization	(145)	(72)	-	(102)	-	(423)	(297)	-
Other Expense	(1,499)	(1,495)	-	(1,511)	-	(5,605)	(4,792)	-
Other Income	0	0	-	0	-	0	0	-
EBIT	2,143	2,208	(3.0)	1,914	12.0	7,272	6,908	-
EBIT margin (%)	13.8	14.5	-	13.6	-	13.5	14.4	-
Interest Income	222	206	-	140	-	727	758	-
Interest Expense	(106)	(104)	-	(67)	-	(353)	(429)	-
Dividend	0	0	-	0	-	0	0	-
Other Financial Items	0	0	-	0	-	0	0	-
Forex	0	0	-	0	-	0	0	-
Total Financials	116	102	-	74	-	373	328	-
Income after financial items	2,259	2,310	-	1,987	-	7,645	7,236	-
Margin (%)	14.6	15.2	-	14.1	-	14.2	15.1	-
Associate Income	0	0	-	0	-	0	0	-
Pretax income	2,259	2,310	(2.2)	1,987	13.7	7,645	7,236	5.6
Non recurring	0	0	-	0	-	0	0	-
Non recurring expense	(130)	0	-	0	-	(130)	0	-
Non recurring income	0	0	-	0	-	0	0	-
Total Non-Recurring	(130)	0	-	0	-	(130)	0	-
Reported Pretax	2,129	2,310	(7.8)	1,987	7.1	7,515	7,236	-
Taxation	0	0	-	0	-	0	0	-
Current	(185)	158	-	(535)	-	(1,635)	(1,156)	-
% of pretax income before Associates	8.2	(6.8)	-	-	-	88.9	73.5	-
Deferred	(178)	23	-	30	-	(97)	86	-
% of pretax income before Associates	8	(1)	-	(2)	-	3	(5)	-
Total	(364)	181	-	(505)	-	(1,732)	(1,070)	-
% of pretax income before Associates	16	(8)	-	25	-	92	69	-
Net income before minorities	1,766	2,491	(29.1)	1,483	19.1	5,784	6,167	(6.2)
Minorities	0	0	-	0	-	0	0	-
Net income after minorities	1,766	2,491	(29.1)	1,483	19.1	5,784	6,167	(6.2)

Source: Company, BOBCAPS Research

Valuation methodology

Crompton has navigated the prevailing inflationary environment with relatively lower margin erosion, led by initiatives such as brand building, R&D ramp-up, and strengthening of the distribution network. We are positive on the company given its leadership position in the ECD category and demonstrated market share gains. Further, the BGAL acquisition opens up new growth avenues in kitchen appliances. We value the stock at 35x FY24E EPS, in line with its five-year average, and assume coverage with a BUY rating for a TP of Rs 500.

Fig 2 – Key assumptions

Parameter (Rs bn)	FY21	FY22	FY23E	FY24E
Revenue	48.0	53.9	74.6	85.0
EBITDA	7.2	7.7	10.2	12.2
EBITDA Margin (%)	15.0	14.3	13.7	14.3
EPS (Rs)	9.1	9.3	11.3	14.4

Source: Company, BOBCAPS Research | EPS adjusted for minorities in BGAL

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	1.1	2,630	3,500	HOLD
Blue Star	BLSTR IN	1.2	1,004	1,200	HOLD
Crompton Greaves	CROMPTON IN	2.8	352	500	BUY
Dixon Technologies	DIXON IN	2.9	3,804	5,431	HOLD
Havells India	HAVL IN	9.8	1,218	1,500	BUY
Orient Electric	ORIENTEL IN	0.8	275	350	HOLD
Polycab India	POLYCAB IN	4.7	2,434	3,000	BUY
V-Guard Industries	VGRD IN	1.3	235	250	HOLD
Voltas	VOLT IN	4.4	1,039	1,250	BUY
Whirlpool India	WHIRL IN	2.7	1,647	2,901	BUY

Source: BOBCAPS Research, NSE | Price as of 30 May 2022

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Total revenue	45,203	48,035	53,941	74,589	85,017
EBITDA	5,991	7,205	7,694	10,185	12,173
Depreciation	(268)	(297)	(423)	(786)	(852)
EBIT	5,723	6,908	7,272	9,399	11,321
Net interest inc./(exp.)	(173)	(115)	373	(103)	540
Other inc./(exp.)	357	443	0	0	0
Exceptional items	0	0	(130)	0	0
EBT	5,907	7,236	7,515	9,260	11,818
Income taxes	(943)	(1,070)	(1,732)	(1,951)	(2,494)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	4,964	6,166	5,784	7,342	9,373
Adjustments	0	0	130	0	0
Adjusted net profit	4,964	6,166	5,914	7,342	9,373

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Accounts payables	6,436	8,647	10,178	10,272	10,654
Other current liabilities	8,091	10,694	12,000	12,095	12,476
Provisions	191	214	1,096	1,096	1,096
Debt funds	1,797	2,988	16,075	4,651	0
Other liabilities	191	214	9,756	9,756	9,756
Equity capital	1,255	1,255	1,267	1,267	1,267
Reserves & surplus	13,429	18,059	23,263	30,421	39,520
Shareholders' fund	14,683	19,314	24,530	31,687	40,787
Total liab. and equities	27,518	36,173	64,486	60,314	65,144
Cash and cash eq.	481	6,040	9,152	3,124	4,846
Accounts receivables	4,635	4,912	6,154	6,848	8,717
Inventories	4,636	5,186	7,210	8,353	9,451
Other current assets	7,665	9,929	8,484	8,484	8,484
Investments	0	0	0	0	0
Net fixed assets	1,251	1,328	4,886	5,144	5,444
CWIP	0	0	0	0	0
Intangible assets	45	28	15,124	15,124	15,124
Deferred tax assets, net	507	586	0	0	0
Other assets	8,299	8,165	13,475	13,053	12,630
Total assets	27,518	36,173	64,486	60,130	64,694

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Cash flow from operations	5,556	8,878	7,234	5,757	6,123
Capital expenditures	(494)	(202)	0	(258)	(292)
Change in investments	0	0	0	0	0
Other investing cash flows	375	(5,023)	(17,599)	0	0
Cash flow from investing	(120)	(5,225)	(17,599)	(258)	(292)
Equities issued/Others	52	73	603	0	0
Debt raised/repaid	(3,000)	0	0	(11,424)	(4,651)
Interest expenses	0	0	0	(829)	(186)
Dividends paid	0	0	0	0	0
Other financing cash flows	769	(1,107)	7,867	12,253	4,837
Cash flow from financing	(2,179)	(1,034)	8,470	0	0
Chg in cash & cash eq.	517	2,959	(922)	(6,027)	1,721
Closing cash & cash eq.	481	6,040	9,152	3,124	4,846

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22P	FY23E	FY24E
Reported EPS	7.9	9.7	9.1	11.3	14.4
Adjusted EPS	7.9	9.7	9.3	11.3	14.4
Dividend per share	0.0	5.5	2.5	3.4	4.3
Book value per share	23.4	30.8	39.1	50.5	65.0

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22P	FY23E	FY24E
EV/Sales	5.0	4.6	4.1	3.0	2.6
EV/EBITDA	37.4	30.9	28.6	21.9	18.5
Adjusted P/E	44.8	36.1	37.6	31.1	24.4
P/BV	15.0	11.4	9.0	7.0	5.4

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22P	FY23E	FY24E
Tax burden (Net profit/PBT)	84.0	85.2	77.4	79.3	79.3
Interest burden (PBT/EBIT)	103.2	104.7	105.1	98.5	104.4
EBIT margin (EBIT/Revenue)	12.7	14.4	13.5	12.6	13.3
Asset turnover (Rev./Avg TA)	166.8	150.8	107.2	119.7	136.2
Leverage (Avg TA/Avg Equity)	2.1	1.9	2.3	2.2	1.7
Adjusted ROAE	38.7	36.3	27.0	26.1	25.9

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22P	FY23E	FY24E
YoY growth (%)					
Revenue	0.9	6.3	12.3	15.8	13.1
EBITDA	2.5	20.3	6.8	21.4	18.2
Adjusted EPS	23.4	24.1	(4.1)	21.0	27.1
Profitability & Return ratios (%)					
EBITDA margin	13.3	15.0	14.3	13.7	14.3
EBIT margin	12.7	14.4	13.5	12.6	13.3
Adjusted profit margin	11.0	12.8	11.0	9.8	11.0
Adjusted ROAE	38.7	36.3	27.0	25.5	25.1
ROCE	36.6	35.3	25.6	23.5	23.1
Working capital days (days)					
Receivables	37	37	42	40	45
Inventory	37	39	49	49	49
Payables	52	66	69	60	55
Ratios (x)					
Gross asset turnover	31.4	24.5	25.2	27.6	27.8
Current ratio	1.6	1.9	1.0	1.4	2.2
Net interest coverage ratio	33.1	59.9	(19.5)	91.7	(20.9)
Adjusted debt/equity	0.1	0.2	0.7	0.1	0.0

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

Disclaimer

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

BUY – Expected return >+15%

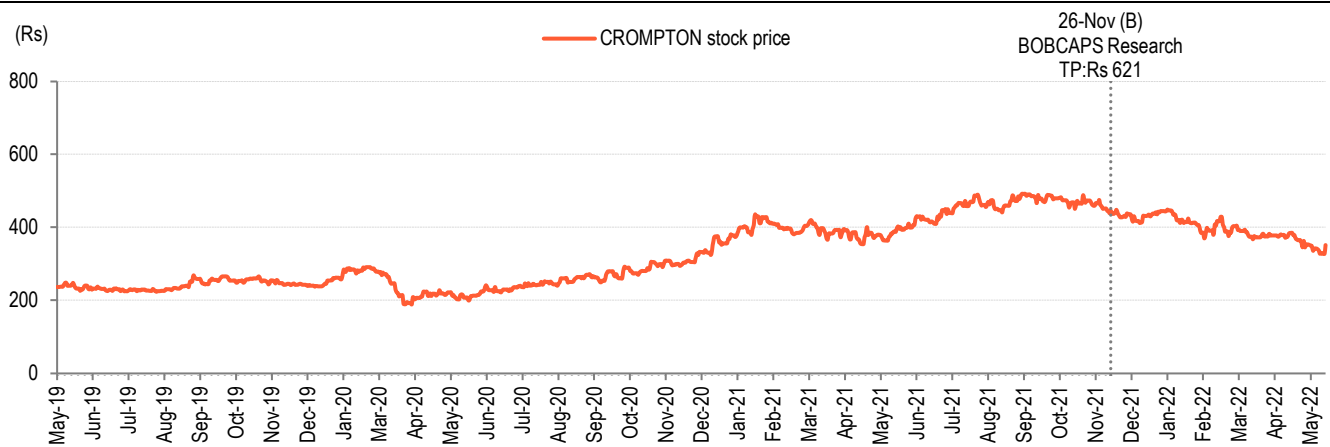
HOLD – Expected return from -6% to +15%

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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