

February 15, 2024

RESULT REPORT Q3 FY24 | Sector: Consumer Durables

Crompton Greaves CE Ltd

Crompton 2.0 strategy to impact margins in near term; upgrade to ADD

Result Synopsis

Crompton has reported lower than estimated revenue with its consolidated revenue missing estimates by 4.9%. ECD for second quarter in a row has outperformed peers with ECD revenue growing 18.5%. Fans have witnessed strong momentum with growth of 11%, Pumps (+28%) and Appliances (+23%) registering strong growth. Appliances growth has been driven by water heater with Crompton becoming one of the top three brand in water heater. Company continues to gain share in its key categories of Premium fans, Water heaters and Pumps. On Lighting front company has managed to arrest the decline and has witnessed flattish revenue despite price erosion in LED bulbs and battens and decline in traditional lighting business. Company is seeing increased traction in B2B lighting and is executing projects such as Mumbai coastal road and has orders from Ahmedabad and Chennai municipal corporation. As far as Butterfly appliances is concerned Crompton is implementing corrective action and implementing GTM initiatives to improve its reach beyond South. Management believes results will start showing after couple of quarters. CROMPTON will have to continue to invest in brand building and is not shying away from the increased brands spends. On absolute front it's A&P spends have been increased by Rs350mn as it focuses on premiumization and making Butterfly sustainable PAN India brand. Further investments will have to be made in building capabilities, R&D and GTM initiatives resulting in lower than historical margin in near term. Crompton is poised for change with its 2.0 strategy where it will focus on outperforming industry and peers in terms of revenue growth and focus on improving absolute profit growth. We believe company is on the right path, however benefits of the strategy will require sustained investments and efforts.

We now feel recent initiatives taken by CROMPTON will require sustained efforts and investments. Considering increased investments, we expect margins lower than the historical levels. We now bake in FY23-26E Revenue/EBITDA/PAT CAGR of 10%/9%/13% and arrive at our PT of Rs 328 valuing the company at 30x FY26EPS and upgrade the stock to ADD.

Result Highlights

- Quarter Summary** – CROMPTON revenue growth of 11.6% yoy. was driven by industry leading growth in ECD. Lighting segment revenue growth has been flattish, while Butterfly appliances saw de-growth as company has slowed down its institutional business.
- Margins** – Gross margins has been flat on yoy basis. Higher investments in brand, building capabilities and GTM initiatives has resulted in EBITDA margin contraction.
- ECD** – Strong growth in ECD was driven by Pumps and Appliances. Focus on agriculture pumps has resulted in pumps growing 39% yoy, while highest ever sales in water heater boosted appliances revenue.
- Lighting** – Lighting revenue was flat yoy. Company has managed to arrest decline in lighting with traction in B2B lighting where company has managed to bag few prestigious projects.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	16,927	17,808	16,660	-4.9	+1.6	Higher investments in brand, capability building and GTM initiatives impacted margins.
EBITDA	1,498	1,784	1,690	-16.0	-11.4	
EBITDA Margin (%)	8.8	10.0	10.1	-120 bps	-130 bps	
Adjusted PAT	855	1,062	1,050	-19.5	-18.6	

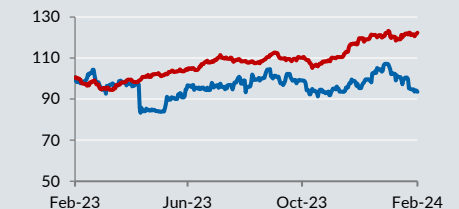
Source: Company, YES Sec

Reco	: ADD
CMP	: Rs 284
Target Price	: Rs 328
Potential Return	: +15.8%

Stock data (as on Feb 15, 2024)

Nifty	21,911
52 Week h/l (Rs)	328 / 251
Market cap (Rs/USD mn)	182744 / 2202
Outstanding Shares (mn)	640
6m Avg t/o (Rs mn):	709
Div yield (%)	1.0
Bloomberg code:	CROMPTON IN
NSE code:	CROMPTON

Stock performance



	1M	3M	1Y
Absolute return	-12.5%	0.5%	-7.1%

Shareholding pattern (As of Dec'22 end)

Promoter	0.0%
FII+DII	83.9%
Others	16.1%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	NEUTRAL
Target Price	328	306

Δ in earnings estimates

	FY25e	FY26e
EPS (New)	9.2	10.2
EPS (Old)	10.2	NA
% change	-9.8%	NA%

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Revenue	73,281	82,624	92,227
YoY Growth	6.7%	12.7%	11.6%
EBIDTA	7,255	8,841	10,053
YoY Growth	-5.8	21.9	13.7
PAT	4,362	5,882	6,951
YoY Growth	6.0%	7.1%	7.5%
ROE	13.5	16.6	17.7
EPS	6.9	9.2	10.9
P/E	41.4	30.7	26.0
BV	53.0	58.5	65.1
EV/EBITDA	25.6	20.6	17.7

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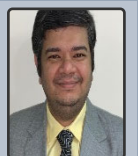


Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	y/y %	q/q %	9MFY24	9MFY23	y/y %
Sales	15,162	17,910	18,769	17,823	16,927	11.6	(5.0)	53,518	50,787	5.4
EBITDA	1524	2114	1858	1745	1498	(1.7)	(14.2)	5,101	5,654	(9.8)
EBITDA Margin %	10.1	11.8	9.9	9.8	8.8			9.5	11.1	
Depreciation	296.8	304.0	291.8	321.2	324.8	9.4	1.1	938	855	9.7
EBIT	1227	1810	1566	1424	1173	(4.4)	(17.6)	4,163	4,799	(13.3)
EBIT Margin %	8.1	10.1	8.3	8.0	6.9			7.8	9.4	
Interest charges	294	274	206	215	215	(26.8)	-	636	818	(22.2)
Other Income	213	168	198	149	167	(21.7)	12.0	514	500	2.7
PBT	1146	1704	1558	1358	1125	(1.9)	(17.2)	4,040	4,417	(8.5)
Tax	264	389	338	349	270	2.3	(22.6)	957	969	(1.2)
Effective Tax Rate (%)	23.0	22.8	21.7	25.7	24.0			23.7	21.9	
PAT	882	1316	1220	1009	855	(3.1)	(15.3)	3084	3449	(10.6)
PAT Margin %	5.8	7.3	6.5	5.7	5.0			5.8	6.8	
EPS (Rs)	1.4	2.1	1.9	1.6	1.3	(3.1)	(15.3)	4.9	5.4	(10.6)

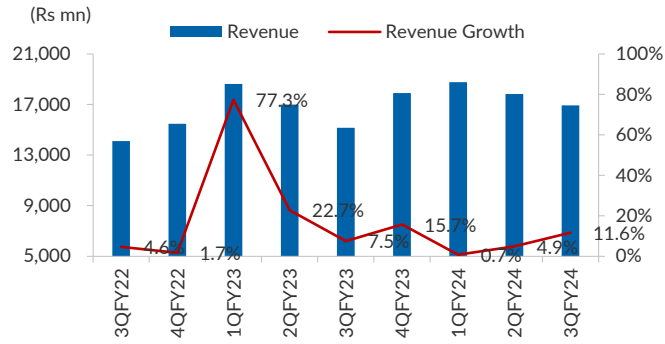
Source: Company, YES Sec

Exhibit 3: Segmental Performance

Rs mn	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	y/y %	q/q %	9MFY24	9MFY23	y/y %
Electrical consumer durables	10,201	13,257	14,290	12,380	12,093	18.5	(2.3)	38,762	34,295	13.0
Lighting products	2,477	2,786	2,290	2,387	2,494	0.7	4.5	7,171	7,796	(8.0)
Butterfly Products	2,484	1,867	2,189	3,056	2,341	(5.8)	(23.4)	7,586	8,696	(12.8)
Total Sales	15,162	17,910	18,769	17,823	16,927	11.6	(5.0)	53,518	50,787	5.4
PBIT										
Electrical consumer durables	1617	2177	1816	1755	1642	1.6	(6.4)	5,214	5,716	(8.8)
Lighting products	255	303	273	250	280	9.9	12.1	803	702	14.4
Butterfly Products	181	37	160	202	-19	(110.6)	(109.5)	343	802	(57.3)
Total PBIT	2,052	2,518	2,249	2,207	1,903	(7.3)	(13.8)	6,359	7,220	(11.9)
Finance Costs	294	274	206	215	215	(26.8)	-	636	818	(22.2)
Unallocable expense	612	540	485	634	563	(8.0)	(11.2)	1,682	1,921	(12.4)
as % of sales	4.0	3.0	2.6	3.6	3.3			3.1	3.8	
Exceptional Items	0	0	0	0	0			0	64	
PBT	1146	1704	1558	1358	1125	(1.9)	(17.2)	4,040	4,417	(8.5)

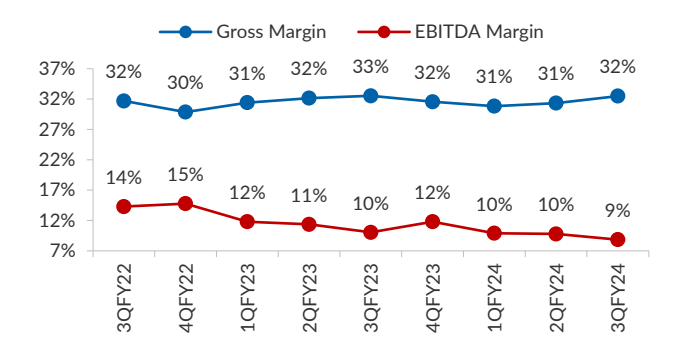
Source: Company, YES Sec

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



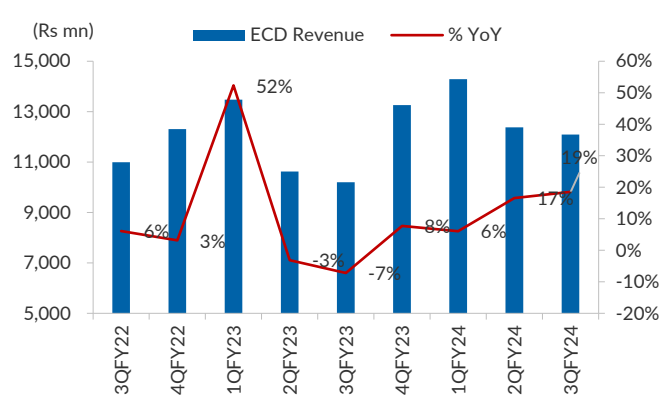
Source: Company, YES Sec

Exhibit 5: Increased investments have resulted in EBITDA margin contraction



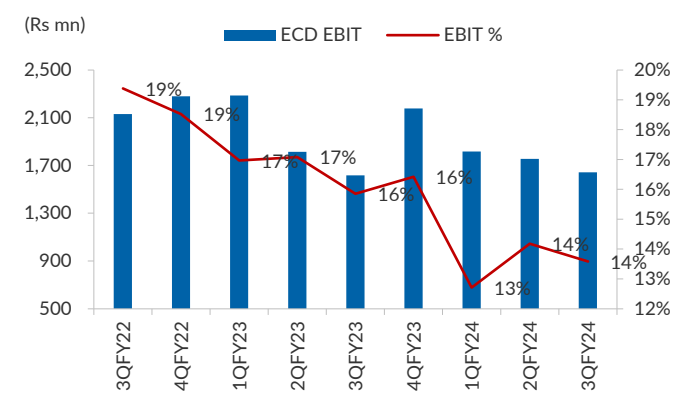
Source: Company, YES Sec

Exhibit 6: Higher growth in Pumps and Appliances resulted in strong ECD growth



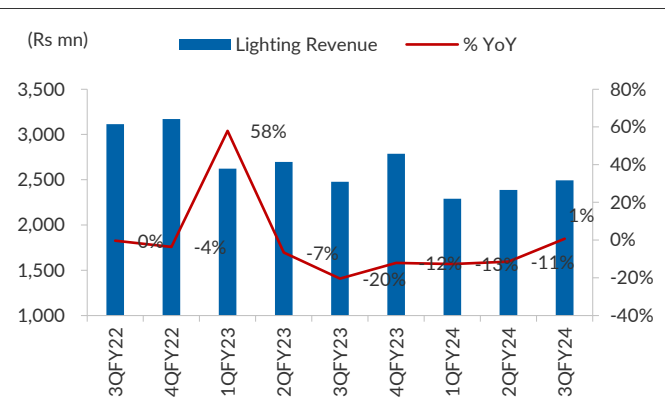
Source: Company, YES Sec

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



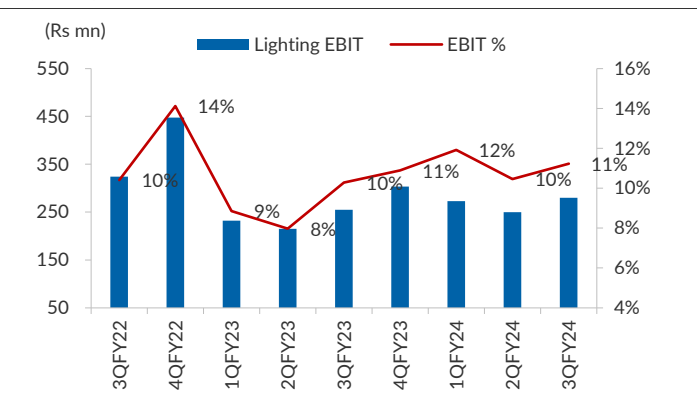
Source: Company, YES Sec

Exhibit 8: Company has managed to arrest revenue decline in lighting



Source: Company, YES Sec

Exhibit 9: EBIT margin improvement is on back of cost reduction activities and increased proportion of B2B lighting



Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- **Crompton 2.0** – Creating center of excellence to create demand, which will result in increase in absolute profit. The has made strong progress and has managed to outperform peers in ECD and Lighting.
- **Premium category** –Premium category has been faster growth. There has been robust growth in Premium ceiling fans, exhaust and TPW Fans. The company has large BLDC presence in the market and Crompton is now 2nd largest BLDC player in the market.
- **Market share** – Company is gaining share in Fans led by premium fans, Pumps market share increase is on back of strong traction in agri pumps and in Lighting the company is holding share. Company is one of the top 3 player in water heater.
- **Fans** – Fans has seen growth of 11%, driven by categories like BLDC
- **Price increases** – The company has passed on moderate price increase to its customer. The company has taken price increase in Fans and Pumps in past two weeks
- **Water heater** – The company has sold highest ever storage water heater in its history of company. The company has sold 300,000 units of water heater in Q3
- **Pumps** – Pumps growth has been robust after facing challenges in the past. The company has strengthen its residential pumps business and has made strong inroads in the agricultural pumps business. The company has 7-8% market share in pumps. The company is actively working on the solar pumps which will continue to drive pumps revenue. There has been margin improvement in Pumps.
- **Small domestic appliances** – Small domestic appliances have seen growth od ~40% and now quarterly revenue run rate has reached Rs200mn vs Rs150mn earlier.
- **Lighting** – Lighting is back on the growth path, with B2C business being flat and B2B business is now delivering growth. The company has strong order pipeline with Mumbai costal road, Ahmedabad and Chennai municipal orders which will be executed. Pricing pressure continues in LED bulbs and batten.
- **Butterfly appliances** – Revenue de-growth is on account of loss of institutional business which company has strategize to reduce dependence on institutional channel and focus on B2C.
- **Channel** – Both the channel viz Traditional channel like GT and modern trade has seen growth. Alternate channel has seen 40% growth.
- **GTM** – Company believes to have strong position in each channel to be successful. Brand has to be equally be strong in GT as well as E-comm platform as both will compliment each other. Penetrating deep into the market will be focus.
- **Premium Fans** – Company is steadily growing share of the premium fans. Crompton commands 26-28% of the premium fans share.
- **Butterfly** – Company expects another 2 quarters of restructuring process post which its revenue growth will be back on growth trajectory. Turnaround of Butterfly is taking longer than anticipated. Butterfly is the high operating leverage business and certain revenue threshold is required to achieve margin of 7-8%.
- **Manufacturing** – The company is moving some of its sourcing of Kitchen Appliances from its Vendors to Butterfly. Mixer Grinders of Crompton will be moved to Butterfly. Company manufactures 50% of Fans inhouse.

FINANCIALS

Exhibit 10: Balance Sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Equity capital	1,267	1,272	1,272	1,272	1,272
Reserves	31,087	29,805	32,420	35,946	40,112
Net worth	32,354	31,077	33,692	37,218	41,385
Debt	16,075	9,222	5,222	2,222	1,222
Deferred tax liab (net)	394	123	123	123	123
Other non current liabilities	1,618	2,004	2,087	2,242	2,437
Total liabilities	50,441	42,425	41,123	41,804	45,166
Fixed Asset	32,154	32,005	31,674	31,293	30,863
Investments	6,242	5,482	5,482	5,482	5,482
Other Non-current Assets	1,676	1,798	1,636	1,539	1,446
Net Working Capital	8,653	2,372	2,443	2,722	3,009
Inventories	7,210	7,439	7,790	8,783	9,804
Sundry debtors	6,154	6,861	8,116	9,150	10,214
Loans and Advances	1,660	1,668	1,779	2,006	2,239
Sundry creditors	10,097	10,354	11,866	13,378	14,933
Other current liabilities	2,125	2,081	2,103	2,337	2,577
Cash & equivalents	1,716	768	(111)	768	4,367
Total Assets	50,441	42,425	41,123	41,804	45,166

Source: Company, YES Sec

Exhibit 11: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	53,941	68,696	73,281	82,624	92,227
Operating profit	7,695	7,705	7,255	8,841	10,053
Depreciation	423	1,159	1,258	1,307	1,357
Interest expense	353	1,092	835	355	195
Other income	727	668	668	683	789
Profit before tax	7,645	6,121	5,829	7,861	9,289
Taxes	1,732	1,358	1,467	1,979	2,338
Minorities and other	-	-	-	-	-
Adj. profit	5,914	4,764	4,362	5,882	6,951
Exceptional items	130	-	-	-	-
Net profit	5,784	4,764	4,362	5,882	6,951

Source: Company, YES Sec

Exhibit 12: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	7,998	7,213	6,665	8,217	9,484
Depreciation	423	1,159	1,258	1,307	1,357
Tax paid	(1,732)	(1,358)	(1,467)	(1,979)	(2,338)
Working capital Δ	(3,309)	7,041	(71)	(279)	(287)
Other operating items					
Operating cashflow	3,381	14,056	6,384	7,266	8,217
Capital expenditure	(23,318)	(1,011)	(927)	(927)	(927)
Free cash flow	(19,938)	13,046	5,458	6,340	7,290
Equity raised	8,840	(4,133)	-	(0)	(0)
Investments	-	-	-	-	-
Debt financing/disposal	11,287	(6,853)	(4,000)	(3,000)	(1,000)
Interest paid	(353)	(1,092)	(835)	(355)	(195)
Dividends paid	(1,584)	(1,908)	(1,747)	(2,356)	(2,784)
Net Δ in cash	(908)	(948)	(880)	879	3,599

Source: Company, YES Sec

Exhibit 13: Du-point analysis

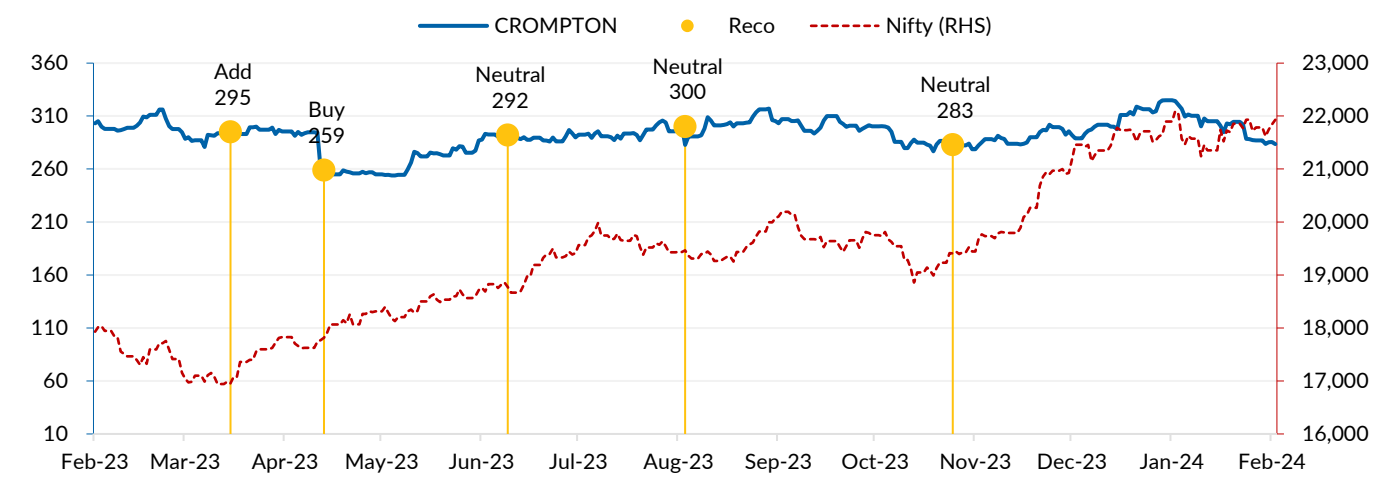
Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Tax burden (x)	0.77	0.78	0.75	0.75	0.75
Interest burden (x)	0.96	0.85	0.87	0.96	0.98
EBIT margin (x)	0.15	0.11	0.09	0.10	0.10
Asset turnover (x)	1.07	1.14	1.29	1.42	1.48
Financial leverage (x)	1.95	1.91	1.75	1.64	1.58
RoE (%)	22.9	15.0	13.5	16.6	17.7

Exhibit 14: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)					
Revenue growth	12.3	27.4	6.7	12.7	11.6
Op profit growth	6.8	0.1	(5.8)	21.9	13.7
EBIT growth	4.3	(9.8)	(7.6)	23.3	15.4
Net profit growth	(4.1)	(19.4)	(8.4)	34.9	18.2
Profitability ratios (%)					
OPM	14.3	11.2	9.9	10.7	10.9
EBIT margin	14.8	10.5	9.1	9.9	10.3
Net profit margin	11.0	6.9	6.0	7.1	7.5
RoCE	22.1	16.3	16.8	21.0	23.1
RoNW	22.9	15.0	13.5	16.6	17.7

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
RoA	11.7	7.9	7.7	10.1	11.2
Per share ratios					
EPS	9.3	7.5	6.9	9.2	10.9
Dividend per share	2.5	3.0	2.7	3.7	4.4
Cash EPS	10.0	9.3	8.8	11.3	13.1
Book value per share	51.1	48.9	53.0	58.5	65.1
Valuation ratios					
P/E	31.1	37.9	41.4	30.7	26.0
P/CEPS	28.9	30.4	32.0	25.0	21.7
P/B	7.3	6.8	6.2	5.5	4.9
EV/EBIDTA	25.2	24.5	25.6	20.6	17.7
Payout (%)					
Dividend payout	26.8	40.1	40.1	40.1	40.1
Tax payout	22.6	22.2	25.2	25.2	25.2
Liquidity ratios					
Debtor days	41.6	36.5	40.4	40.4	40.4
Inventory days	48.8	39.5	38.8	38.8	38.8
Creditor days	68.3	55.0	59.1	59.1	59.1

Recommendation Tracker



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2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received any compensation from the subject company in the past twelve months	No
6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
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

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

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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

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