



India

ADD (previously REDUCE)

Consensus ratings*: Buy 39 Hold 3 Sell 3

Current price:	Rs305
Target price:	Rs346
Previous target:	Rs366
Up/downside:	13.4%
InCred Research / Consensus:	-18.3%
Reuters:	CROP.NS
Bloomberg:	CROMPTON IN
Market cap:	US\$2,672m Rs194,041m
Average daily turnover:	US\$10.3m Rs746.9m
Current shares o/s:	635.9m
Free float:	100.0%

*Source: Bloomberg

Key changes in this note

- FY23F/24F revenue cut by 2.6%/4.5%.
- FY23F/24F EBITDA cut by 11%/5.6%.
- FY23F/24F PAT cut by 12.6%/5.1%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(10.2)	(15.8)	(26.1)
Relative (%)	(11.6)	(15.6)	(28.8)

Major shareholders	% held
Promoters	0.0
HDFC Mutual Fund	4.7
Mirae Asset Balanced Advantage Fund	4.3

Analyst(s)



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Crompton Greaves Consumer Electricals

The worst is over; early summer could help

- Changes in ceiling fan regulations, intense competition in pumps and weak B2C/B2G lighting demand led to a significantly weak performance in 3QFY23.
- We expect fans and kitchen appliances to lead short-term revenue growth and margin recovery. Pump/lighting business recovery to take some more time.
- We feel the worst is over. The stock trades at a P/E of 26x FY25F EPS. Early summer to be a positive. Upgrade the rating to ADD with a lower TP of Rs346.

3Q was expected to be weak but actuals turned out to be even weaker

Crompton Greaves Consumer Electricals or CGCEL posted consolidated 3QFY23 revenue/EBITDA/PAT of Rs15.2bn/Rs1.5bn/Rs853m, +7.5%/-24%/-43% yoy, respectively. EBITDA/PAT missed our/Bloomberg consensus estimates significantly by 20-30%. Consolidated gross/EBITDA margin stood at 32.5%/10%, +90bp/-425bp yoy, respectively. The higher opex was due to continued investment in brand building, manufacturing excellence and development of alternate sales channels. The ECD segment's sales stood at Rs10.2bn, down 7% yoy, due to a) intentionally low production of non-star rated ceiling fans ensuring no unsold inventory and lighter channel inventory enabling the dealers to restock BEE-compliant fans sooner, and b) the decline in residential pump sales due to persistent weak demand and loss of market share to new entrants with lower-priced pumps. Lighting sales stood at Rs2.5bn, down 20% yoy, due to a) persistent weakness in B2C/B2G business, and b) the delay in product portfolio revamp, in line with latest demand trend and the incremental decline in conventional lighting sales (down 30% yoy). Butterfly revenue/EBITDA stood at Rs2.5bn/Rs216m, -4%/+2% yoy, respectively.

Fan business to revive quickly, but pump/lighting to take more time

Fans and kitchen appliances (70% of consolidated sales including Butterfly) should, in our view, lead revenue growth recovery over the next 12 months. CGCEL's management highlighted that its decision to keep channel inventory low (1 week vs. 2-3 weeks for peers) of non-star rated ceiling fans would enable a relatively quicker recovery of star-rated fan sales vs. peers in 4QFY23F. Issues relating to pump and lighting products portfolio and pricing are structural in nature and will take some more time to be resolved. Butterfly continues to shift its sales channel mix to offline from online, leading to better realization.

The worst is behind; upgrade rating to ADD, rationalize estimates

We incorporate weak 3Q performance and alter revenue growth/margin assumptions. We cut revenue and PAT estimates by 2-6% and 5-12.5% for FY23F-25F. The stock price is down 25%+ in the past one year and we feel the worst is now behind. An early summer could be a positive. We expect revenue/EPS CAGR of 11%/24%, respectively, over FY23F-25F. We upgrade our rating on the stock to ADD (REDUCE earlier) with a lower target price of Rs346 (P/E of 35x FY24F EPS). Downside risk: Loss of market share.

Financial Summary	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	48,035	53,941	68,403	76,235	83,928
Operating EBITDA (Rsm)	7,206	7,695	8,037	9,872	11,120
Net Profit (Rsm)	6,168	5,784	4,744	6,287	7,426
Core EPS (Rs)	8.8	9.3	7.6	9.9	11.7
Core EPS Growth	12.4%	5.7%	(18.8%)	30.7%	18.1%
FD Core P/E (x)	31.27	33.29	40.75	30.86	26.13
DPS (Rs)	5.5	2.5	2.5	3.0	3.5
Dividend Yield	1.79%	0.82%	0.82%	0.98%	1.15%
EV/EBITDA (x)	25.27	26.23	24.79	19.77	17.05
P/FCFE (x)	42.60	13.43	41.74	80.24	44.83
Net Gearing	(55.6%)	4.5%	4.2%	(10.0%)	(22.6%)
P/BV (x)	9.98	7.85	6.98	6.05	5.21
ROE	32.8%	26.8%	18.4%	21.0%	21.4%
% Change In Core EPS Estimates			(12.51%)	(5.14%)	(6.15%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

3QFY23 earnings-call highlights

- Demand trend:** The slow growth momentum in Sep 2022 continued in 3QFY23 as consumer demand remained weak owing to high retail inflation and price volatility. The anticipated festive demand was affected, and a weak winter season further impacted the offtake of seasonal appliances. In addition, the transition of the largest business - fans (40%+ of total sales) to new BEE norms created an unstable environment and deferred primary demand.
- Fan channel inventory:** Management indicated that channel inventory for non-star rated ceiling fans is ~ one week for CGCEL vs. two-to-three weeks for its peers. Management expects to restock the channel with fresh BEE-compliant star-rated fans and benefit from early customer engagement with the new energy efficiency norms. The price difference between zero-star and one-star rated ceiling fans is 5-6% for CGCEL fans.
- Sales channel mix:** Alternate channel revenue grew 45% yoy, accounting for 15% of total consolidated sales for CGCEL in 3Q. Interventions in e-commerce sales grew 89% yoy while Canteen Sales Department (CSD) and rural channel sales rose 40% yoy.
- Lighting business update:** Conventional lighting sales declined by ~30% yoy and B2C LED lamps business was impacted due to higher competitive intensity and pricing pressure. B2G order inflow for street lighting remained low in 9MFY23.
- Appliance business update:** Revenue from small appliances for CGCEL's standalone business grew 13% yoy. On an annualized basis, the appliance business segment clocked a revenue of Rs10bn on a run-rate basis in 3QFY23. Mixer-grinder sales grew by ~20% yoy and geyser sales rose by ~12% yoy.
- New product update:** Built-in kitchen revenue stood at Rs65m and Rs140m in 3Q/9MFY23, respectively. Till date, 40 brand stores (Signature Studios + Exclusive Stores) have been opened across 10 cities, mostly in South India.
- Butterfly business update:** Weak demand persisted in kitchen appliances throughout 3QFY23. However, management highlighted that given the constraints, Butterfly sales did better than peers in South India. Aggressive efforts on new product development helped with the successful launch of 25 new products and led to a 14% revenue contribution to 3Q sales. Mixer-grinders and wet grinders (GST rate hiked from 5% to 18%) witnessed muted sales growth in 3Q. Kettle and flask sales grew strongly. Improvement in the retail channel sales mix led gross margin to expand to 38.6% vs. 36.2% yoy.

Figure 1: ECD revenue and EBIT trend

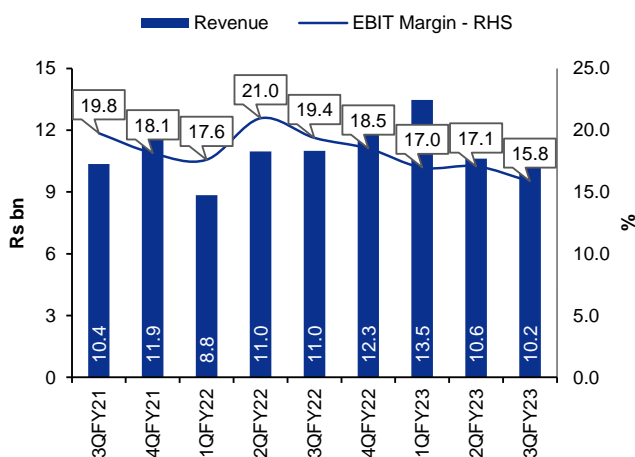
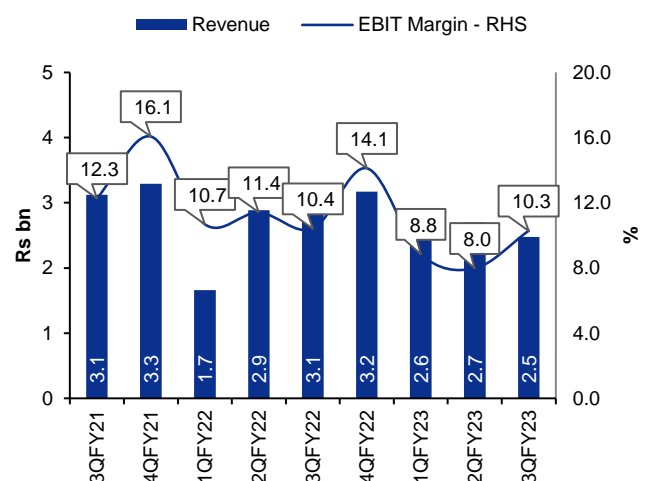


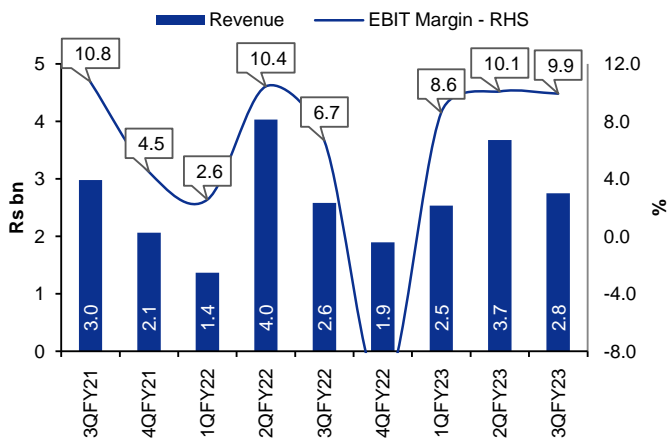
Figure 2: Lighting revenue and EBIT trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

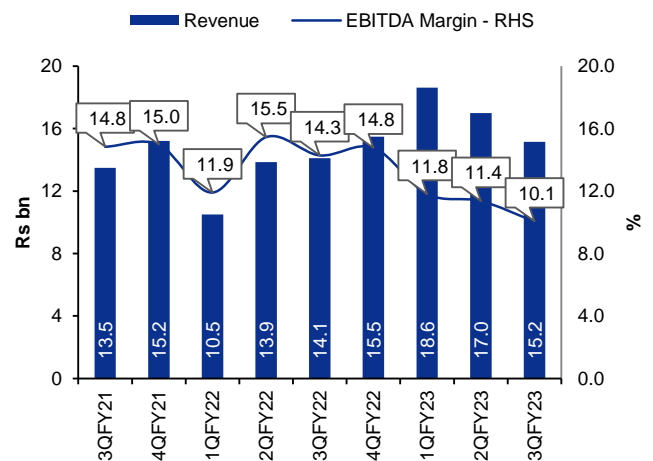
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Butterfly Gandhimathi's revenue and EBIT trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: CGCEL's consolidated revenue and EBITDA trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Key priorities for Butterfly Gandhimathi's integration with CGCEL

Continue to make progress on priority areas:

1. **Increasing share of retail** - Strategic choice of change in channel mix in favour of retail has resulted in increasing share of retail business (YTD Dec ~19% GoLY)
2. **New Product** - With continued focus on refreshing the portfolio, the share of business from new products has increased significantly in Q3 (14% contribution to total sales)
3. **Cost excellence program** - Multiple process excellence initiatives have been undertaken to reduce costs and smoothen operations
4. **Brand Awareness** - Structured ATL and BTL campaigns have resulted into achievement of the targeted SOVs
5. **Building a safe working place** - Various initiatives on health and safety have resulted into significant reduction in safety incidents
6. **Strengthening Capability** - Capabilities have been strengthened through key positions hiring and driving L&D programs

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: 3QFY23 results snapshot

YE Mar (Rs m)	3QFY23	3QFY22	yoy (%)	2QFY23	qoq (%)	9MFY23	9MFY22	yoy (%)
Revenue	15,162	14,106	7.5	16,995	(10.8)	50,787	38,462	32.0
EBITDA	1,524	2,015	(24.4)	1,931	(21.1)	5,654	5,407	4.6
EBITDA margin (%)	10.1	14.3	-424 bp	11.4	-131 bp	11.1	14.1	-292 bp
Adj. PAT	853	1,483	(42.5)	1,258	(32.2)	3,321	4,018	(17.4)
Diluted EPS (Rs)	1.3	2.4	-	2.0	-	7.9	6.4	-

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: 3QFY23 segmental results snapshot

YE Mar (Rs m)	3QFY23	3QFY22	yoy (%)	2QFY23	qoq (%)	9MFY23	9MFY22	yoy (%)
Revenue								
ECD	10,201	10,993	(7.2)	10,622	(4.0)	34,295	30,801	11.3
Lighting products	2,477	3,113	(20.4)	2,696	(8.1)	7,796	7,661	1.8
Butterfly products	2,484	-	-	3,677	(32.4)	8,696	-	-
Total	15,162	14,106	7.5	16,995	(10.8)	50,787	38,462	32.0
EBIT								
ECD	1,617	2,130	(24.1)	1,814	(10.9)	5,716	5,988	(4.5)
Lighting products	255	324	(21.4)	215	18.5	702	831	(15.5)
Butterfly products	181	-	-	403	(55.2)	802	-	-
Total	2,052	2,454	(16.4)	2,432	(15.6)	7,220	6,818	5.9
EBIT margin (%)								
ECD	15.8	19.4	-353 bp	17.1	-123 bp	16.7	19.4	-277 bp
Lighting products	10.3	10.4	-12 bp	8.0	231 bp	9.0	10.8	-184 bp
Butterfly products	7.3	-	-	11.0	-369 bp	9.2	-	-
Total	13.5	17.4	-386 bp	14.3	-78 bp	14.2	17.7	-351 bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Actuals vs. our estimates

Rs m	3QFY23A	3QFY23F	Var (%)
Revenue	15,162	17,266	(12.2)
EBITDA	1,524	1,944	(21.6)
EBITDA margin (%)	10.1	11.3	-121 bp
Adj. PAT	853	1,125	(24.2)

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 9: Actuals vs. Bloomberg consensus estimates

Rs m	3QFY23A	3QFY23C	Var (%)
Revenue	15,162	15,470	(2.0)
EBITDA	1,524	1,925	(20.8)
EBITDA margin (%)	10.1	12.4	-239 bp
Adj. PAT	853	1,171	(27.2)

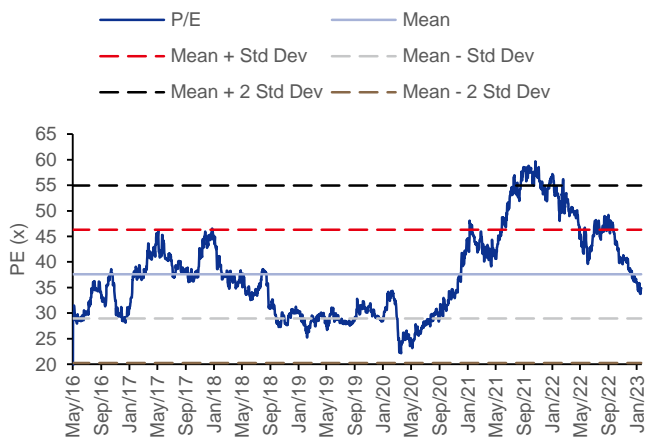
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 10: Our revised earnings estimates

	New estimates			Old estimates			Change (%)		
	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F
Revenue	68,403	76,235	83,928	70,250	79,863	89,339	-2.6	-4.5	-6.1
EBITDA	8,037	9,872	11,120	9,027	10,462	11,882	-11.0	-5.6	-6.4
Adjusted consol. PAT	4,744	6,287	7,426	5,430	6,628	7,913	-12.6	-5.1	-6.2
EPS	7.6	9.9	11.7	8.7	10.4	12.4	-12.5	-5.1	-6.2
EBITDA margin (%)	11.8	13.0	13.3	12.9	13.1	13.3	-110 bp	-15 bp	-5 bp

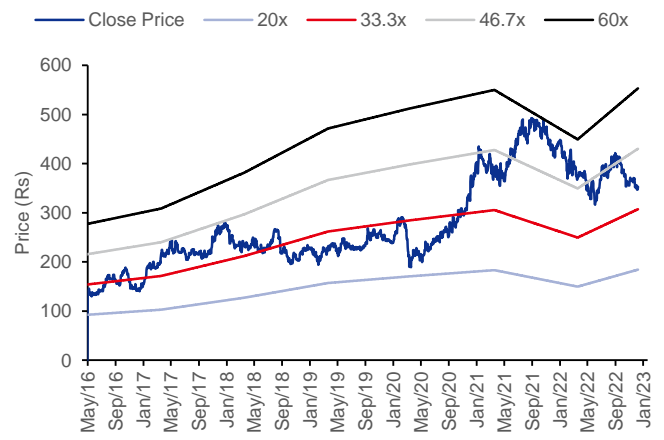
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 11: P/E SD (since listing)



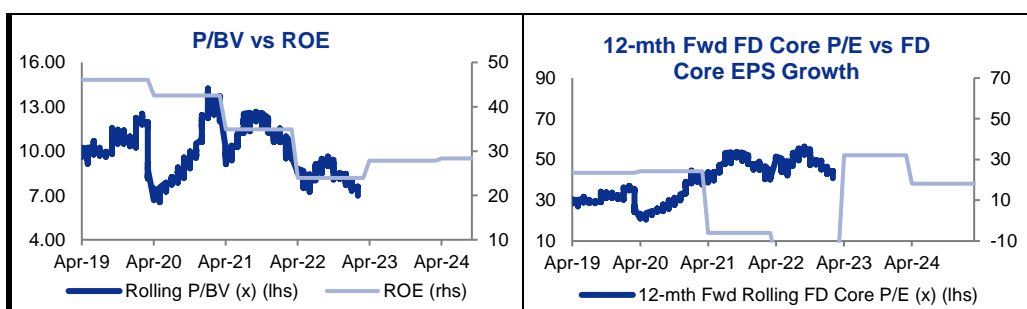
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 12: P/E band (one-year forward EPS)



SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS

**Profit & Loss**

(Rs m)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenue	48,035	53,941	68,403	76,235	83,928
Gross Profit	15,363	16,923	22,026	24,929	27,402
Operating EBITDA	7,206	7,695	8,037	9,872	11,120
Depreciation And Amortisation	(297)	(423)	(1,168)	(1,192)	(1,221)
Operating EBIT	6,909	7,272	6,870	8,681	9,900
Financial Income/(Expense)	322	373	(447)	(119)	220
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	7				
Profit Before Tax (pre-EI)	7,238	7,645	6,422	8,562	10,120
Exceptional Items	767	(130)	(64)		
Pre-tax Profit	8,005	7,515	6,359	8,562	10,120
Taxation	(1,837)	(1,732)	(1,444)	(2,038)	(2,404)
Exceptional Income - post-tax					
Profit After Tax	6,168	5,784	4,914	6,523	7,717
Minority Interests			(171)	(236)	(291)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	6,168	5,784	4,744	6,287	7,426
Recurring Net Profit	5,577	5,884	4,793	6,287	7,426
Fully Diluted Recurring Net Profit	5,577	5,884	4,793	6,287	7,426

Cash Flow

(Rs m)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	7,206	7,695	8,037	9,872	11,120
Cash Flow from Invt. & Assoc.					
Change In Working Capital	1,445	1,005	(644)	(281)	(276)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	112	265	(511)	(119)	220
Net Interest (Paid)/Received	115	68	447	119	(220)
Tax Paid	(575)	(1,798)	(1,444)	(2,038)	(2,404)
Cashflow From Operations	8,303	7,234	5,885	7,553	8,441
Capex	(198)	(1,712)	(350)	(500)	(550)
Disposals Of FAs/subsidiaries		6			
Acq. Of Subsidiaries/investments	(5,027)	(2,093)	6,000		(1,500)
Other Investing Cashflow	267	370	587	361	438
Cash Flow From Investing	(4,957)	(3,429)	6,237	(139)	(1,612)
Debt Raised/(repaid)	1,181	10,539	(7,500)	(5,000)	(2,500)
Proceeds From Issue Of Shares	73	603	5		
Shares Repurchased					
Dividends Paid	(1,874)	(1,564)	(1,590)	(1,908)	(2,226)
Preferred Dividends					
Other Financing Cashflow	(342)	(505)	(1,034)	(480)	(218)
Cash Flow From Financing	(962)	9,073	(10,119)	(7,388)	(4,943)
Total Cash Generated	2,384	12,878	2,003	26	1,885
Free Cashflow To Equity	4,527	14,344	4,622	2,414	4,328
Free Cashflow To Firm	2,917	3,452	11,088	6,934	6,611

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs m)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	13,736	15,390	8,013	8,039	11,425
Total Debtors	4,912	6,154	6,559	7,310	8,048
Inventories	5,186	7,210	8,433	9,399	10,347
Total Other Current Assets	2,231	2,233	2,832	3,156	3,475
Total Current Assets	26,065	30,988	25,838	27,905	33,295
Fixed Assets	1,356	19,880	19,093	18,401	17,730
Total Investments		3	3	3	3
Intangible Assets	7,794	12,855	12,855	12,855	12,855
Total Other Non-Current Assets	957	760	730	730	730
Total Non-current Assets	10,106	33,498	32,680	31,988	31,318
Short-term Debt		16,370	357	166	71
Current Portion of Long-Term Debt					
Total Creditors	8,647	10,178	11,244	12,532	13,796
Other Current Liabilities	5,008	3,607	4,123	4,595	5,059
Total Current Liabilities	13,654	30,155	15,725	17,293	18,926
Total Long-term Debt	2,988	487	9,000	4,191	1,786
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	214	1,096	1,096	1,096	1,096
Total Non-current Liabilities	3,202	1,583	10,096	5,286	2,882
Total Provisions		394	394	394	394
Total Liabilities	16,857	32,132	26,214	22,974	22,202
Shareholders' Equity	19,314	24,530	27,689	32,068	37,268
Minority Interests		7,825	4,615	4,851	5,142
Total Equity	19,314	32,354	32,304	36,919	42,410

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	6.3%	12.3%	26.8%	11.4%	10.1%
Operating EBITDA Growth	20.3%	6.8%	4.5%	22.8%	12.6%
Operating EBITDA Margin	15.0%	14.3%	11.7%	13.0%	13.2%
Net Cash Per Share (Rs)	17.01	(2.32)	(2.12)	5.79	15.05
BVPS (Rs)	30.56	38.87	43.71	50.43	58.61
Gross Interest Cover	16.10	20.59	6.64	18.08	45.51
Effective Tax Rate	22.9%	23.0%	22.7%	23.8%	23.8%
Net Dividend Payout Ratio	47.7%	20.5%	25.4%	22.9%	22.6%
Accounts Receivables Days	36.27	37.44	33.92	33.20	33.40
Inventory Days	54.86	61.12	61.56	63.43	63.75
Accounts Payables Days	84.25	92.81	84.30	84.57	85.00
ROIC (%)	55.4%	82.8%	19.5%	24.7%	28.5%
ROCE (%)	37.8%	22.2%	16.3%	21.6%	23.9%
Return On Average Assets	21.7%	14.4%	11.2%	14.7%	15.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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