

India

March 28, 2023 - 1:54 AM

ADD (no change)

Consensus ratings*: Buy 40 Hold 3 Sell 2

Current price:	Rs296
Target price:	Rs346
Previous target:	Rs346
Up/downside:	16.9%
InCred Research / Consensus:	-9.3%
Reuters:	CROP.NS
Bloomberg:	CROMPTON IN
Market cap:	US\$2,285m Rs188,220m
Average daily turnover:	US\$6.4m Rs524.4m
Current shares o/s:	635.9m
Free float:	100.0%

*Source: Bloomberg

Key financial forecast

	Mar-23F	Mar-24F	Mar-25F
Net Profit (Rsm)	4,744	6,287	7,426
Core EPS (Rs)	7.57	9.89	11.68
Core EPS Growth	(18.8%)	30.7%	18.1%
FD Core P/E	39.04	29.88	25.34
Recurring ROE	18.4%	21.0%	21.4%
P/BV (x)	6.77	5.87	5.05
DPS (Rs)	2.50	3.00	3.50
Dividend Yield	0.85%	1.01%	1.18%



SOURCE: BLOOMBERG

Price performance	1M	3M	12M
Absolute (%)	(2.6)	(12.6)	(19.4)
Relative (%)	(0.4)	(7.6)	(19.5)

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

Analyst(s)

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Crompton Greaves Consumer Electricals

Butterfly to be merged with Crompton

- Butterfly merger to help achieve faster non-South India expansion, cost synergy, more focus on product innovation & a faster go-to-market strategy.
- The equity share swap ratio of 22:5 implies Rs23bn equity value. Subject to requisite approvals, the merger is likely to be completed in 12-14 months.
- Management maintains its view of the merger being EPS-accretive in FY24F. We expect a good summer season & retain ADD rating with a TP of Rs 346.

Merger to aid operational simplicity and higher synergy benefits

- One listed entity with the merger of electrical and non-electrical businesses will lead to operational simplicity and yield higher benefits by way of revenue growth & cost savings.
- We estimate post-issue equity dilution of 11%. Assuming more benefits on both counts – higher revenue growth and higher cost savings, we view the merger as a positive step.

Rationale for the merger

- Achieve synergies in revenue, costs, a faster go-to-market strategy and enable greater focus on product innovation.
- Ability to cross-sell products through respective distribution channels in the high-growth appliances segment, with premium offerings across product categories.
- Improved materials management, warehouse rationalization and unified approach to customer engagement.
- Efficient allocation of capital and simplification of the corporate structure.
- Improved organization capability and leadership arising from the pooling of human capital that has diverse skills, talent and vast experience to compete in an increasingly competitive industry.
- Consolidation of administrative and managerial functions and the elimination of multiple record-keeping, inter alia other expenditure and optimal utilization of resources.

Merger swap ratio and implied valuation

- The public shareholders of Butterfly Gandhimathi Appliances (Butterfly) as on the record date will receive 22 equity shares of Crompton Greaves Consumer Electricals or Crompton (face value or FV of Rs2/share) for every 5 equity shares of Butterfly (FV of Rs10/share). The implied equity value is Rs23bn based on the merger swap ratio vs. Rs25bn paid at the time of first stake buyout of 55% in Butterfly in Feb 2022.
- Post-merger, the public equity shareholders of Butterfly will own a 3% stake in the combined entity.

Conference-call key takeaways

- Merger is a key enabler for Butterfly's business expansion in non-South India markets.
- Existing trade channels for small kitchen appliances of Crompton and Butterfly will be combined post-merger, leading to single point of customer contact for both brands. Elimination of overlapping distributors and dealers is likely to be completed over the next 18 months.
- Management does not expect sales cannibalization when trade channel overlaps are eliminated.
- Raw material sourcing synergies have partially accrued, yielding cost savings of nearly Rs180-200m annually after the acquisition of Butterfly.
- Based on current capex budget, the average planned capex is Rs500-600m/year for both companies together. A manufacturing excellence roadmap for the next five years indicates significant upgradation and automation of existing Crompton plants and utilizing spare manufacturing capacity at Butterfly to manufacture products under the Crompton brand.
- Cost savings from business synergies will be partially reinvested in sales and marketing and capability building for Butterfly. Not all savings will lead to operating margin expansion.

Figure 1: Crompton's portfolio

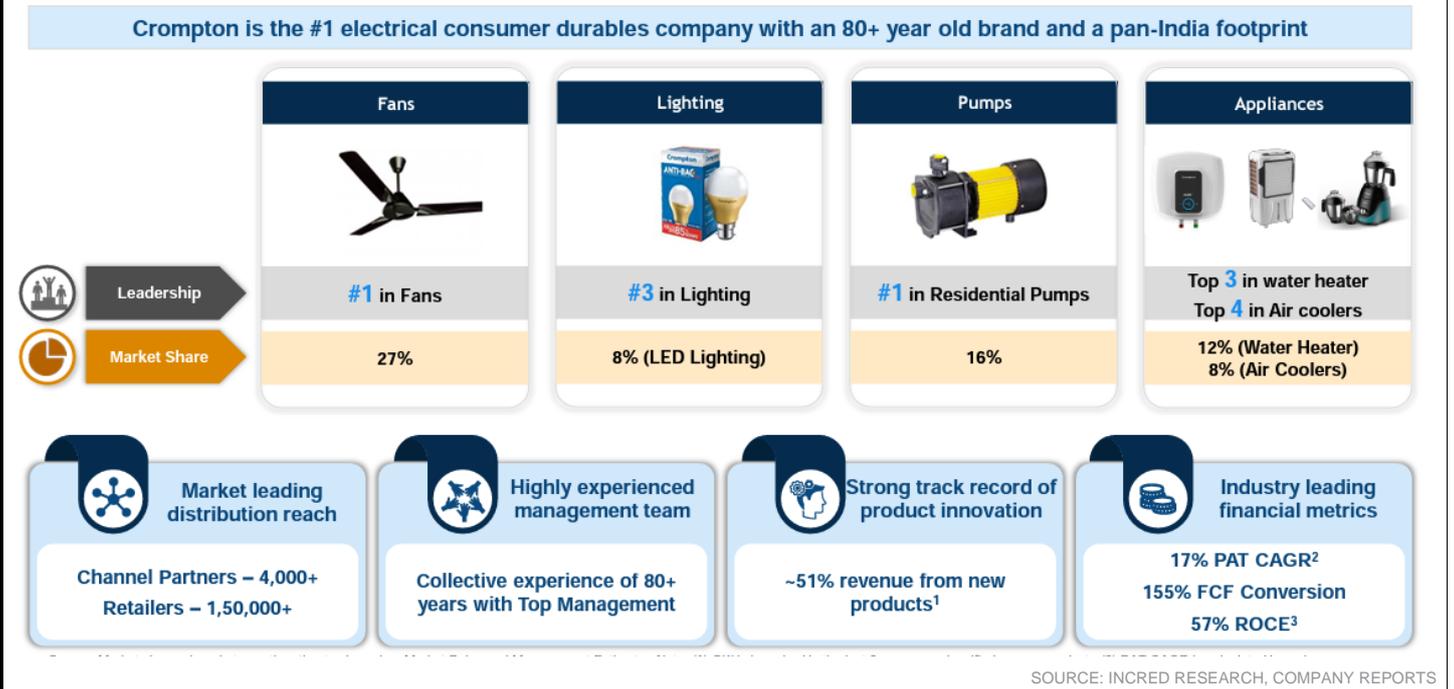


Figure 2: Butterfly's portfolio

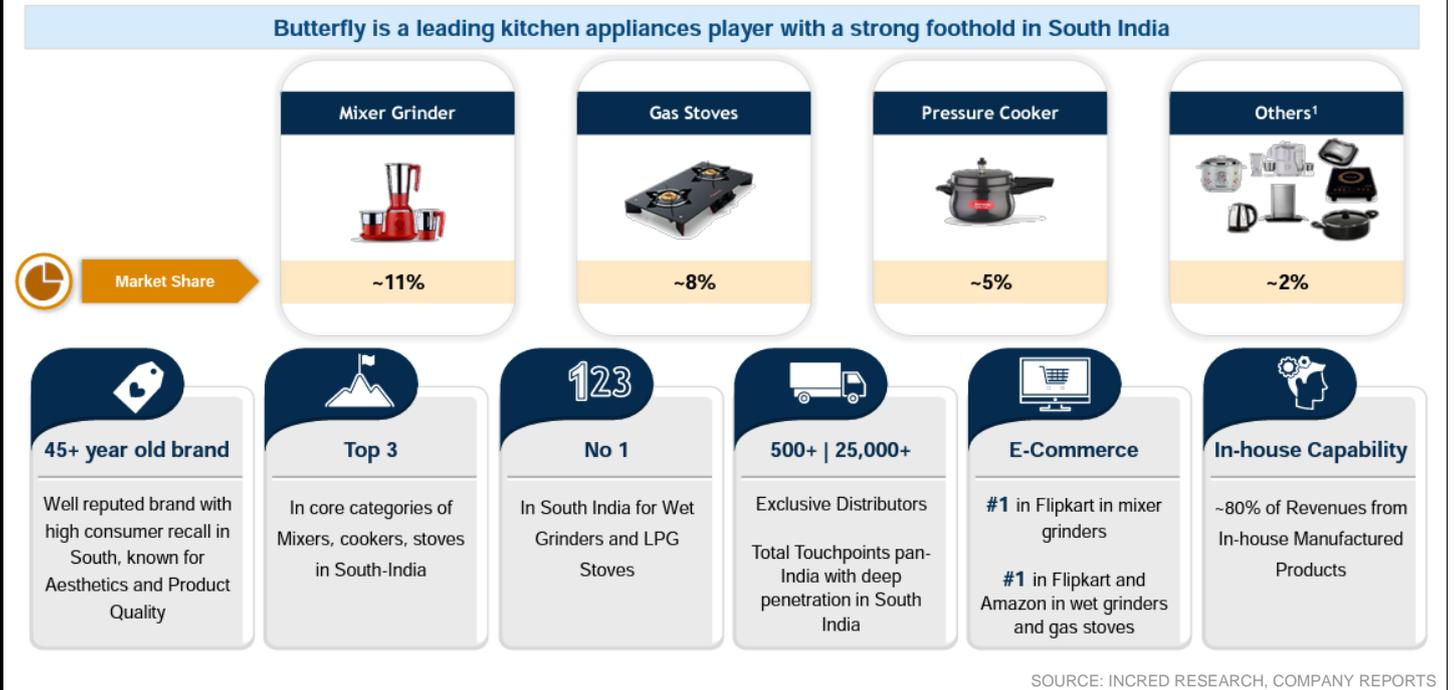
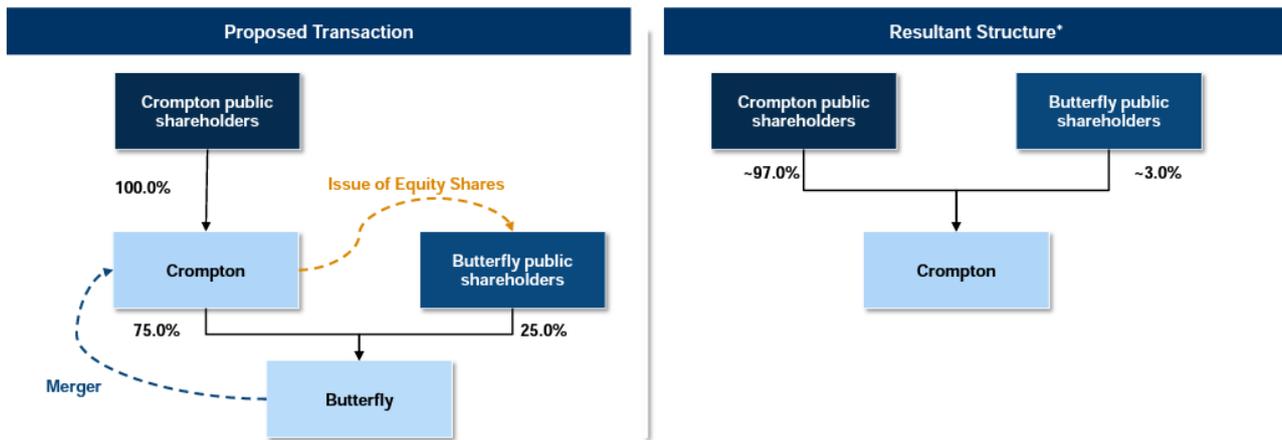


Figure 3: Transaction overview

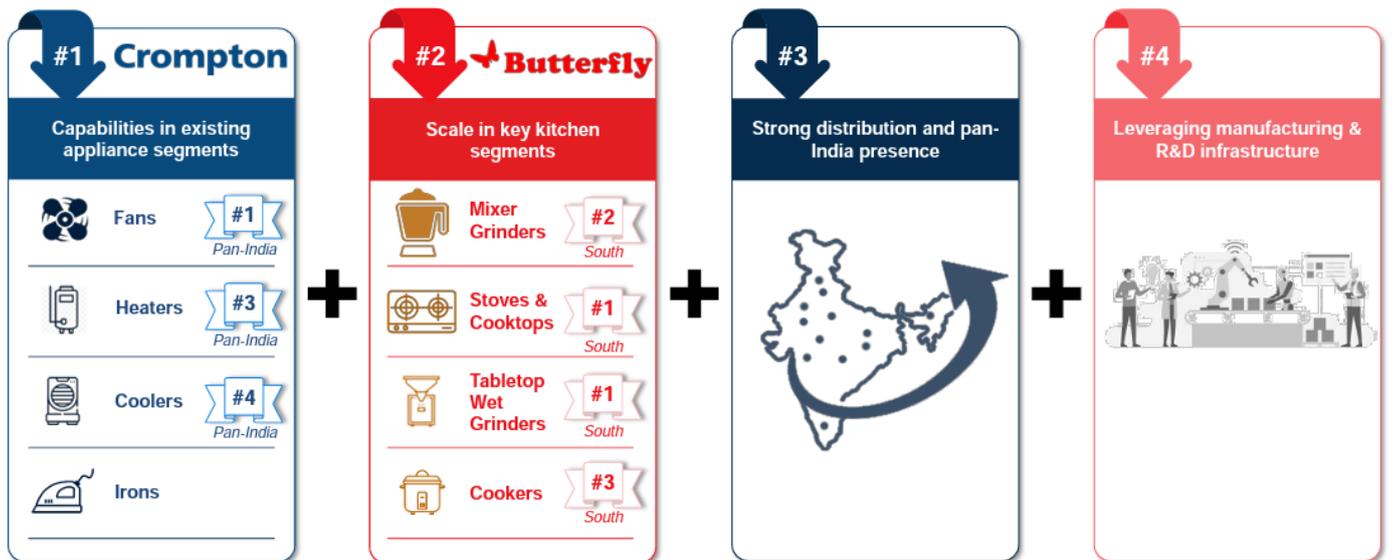


Transaction Overview

- Merger of Butterfly with Crompton
- As a consideration, the shareholders of Butterfly will be issued 22 equity shares of Crompton for every 5 equity shares held in Butterfly
- As part of this scheme, existing shareholding of Crompton in Butterfly will get cancelled

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Synergies of the merger



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Profit & Loss

(Rs mn)	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenues	53,941	68,403	76,235	83,928
Gross Profit	16,923	22,026	24,929	27,402
Operating EBITDA	7,695	8,037	9,872	11,120
Depreciation And Amortisation	(423)	(1,168)	(1,192)	(1,221)
Operating EBIT	7,272	6,870	8,681	9,900
Financial Income/(Expense)	373	(447)	(119)	220
Pretax Income/(Loss) from Assoc.				
Non-Operating Income/(Expense)				
Profit Before Tax (pre-EI)	7,645	6,422	8,562	10,120
Exceptional Items	(130)	(64)		
Pre-tax Profit	7,515	6,359	8,562	10,120
Taxation	(1,732)	(1,444)	(2,038)	(2,404)
Exceptional Income - post-tax				
Profit After Tax	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	5,784	4,744	6,287	7,426
Recurring Net Profit	5,884	4,793	6,287	7,426
Fully Diluted Recurring Net Profit	5,884	4,793	6,287	7,426

Balance Sheet

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

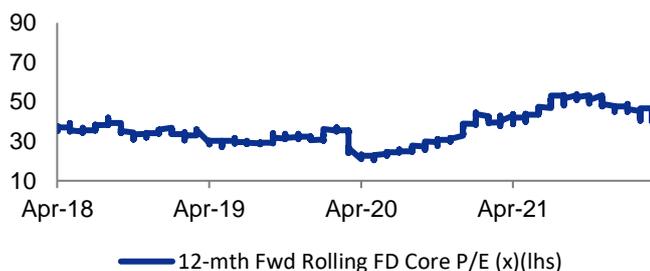
Cash Flow

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

Key Ratios

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

12-mth Fwd Rolling FD Core P/E (x)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

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