

India

August 23, 2023 - 11:00 PM

**HOLD** (no change)

Consensus ratings\*: Buy 31 Hold 14 Sell 1

Current price:	Rs309
Target price:	Rs307
Previous target:	Rs307
Up/downside:	-0.6%
InCred Research / Consensus:	-7.6%
Reuters:	CROP.NS
Bloomberg:	CROMPTON IN
Market cap:	US\$2,390m
	Rs197,597m
Average daily turnover:	US\$11.2m
	Rs928.3m
Current shares o/s:	639.7m
Free float:	100.0%

\*Source: Bloomberg

Key financial forecast

	Mar-24F	Mar-25F
Net Profit (Rsm)	5,194	6,556
Core EPS (Rs)	8.14	10.25
Core EPS Growth	8.8%	26.0%
FD Core P/E	37.93	30.11
Recurring ROE	18.5%	20.8%
P/BV (x)	6.67	5.88
DPS (Rs)	3.48	3.98
Dividend Yield	1.13%	1.29%



SOURCE: BLOOMBERG

Price performance	1M	3M	12M
Absolute (%)	6.2	16.1	(20.4)
Relative (%)	7.8	9.6	(28.1)

Major shareholders	% held
Promoters	0.0
Mirae Asset Tax Saver Fund	7.7
HDFC Mutual Fund	6.2

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# Crompton Greaves Consumer Electricals

## Management meet update

- Crompton 2.0 will focus on protecting/growing fan and pump market share, gain share in kitchen appliances, transform lighting and enter new categories.
- Changing customer needs require product/channel reorientation. Future opex and capex to focus on technology, alternate channels and captive production.
- Employee attrition is falling. Business reorientation will lead to back-ended sales growth recovery & a reset to lower margins, in our view. Retain HOLD.

### Crompton 2.0: Premium next-gen products, growth over margins

- **Core (TAM: Rs250bn):** Management reiterated its priority to protect and grow its fan, pump and large domestic appliances (LDA) businesses. These segments have seen a rise in competition post Covid-19 pandemic led by the entry of new players and hence, more brands competing for less business (weak demand). Given the higher salience of economy fans currently, Crompton intends to premiumize and increase its revenue share (28% in 1QFY24) of premium fans (MRP of >Rs2,500/unit) including BLDC fans, going ahead. As regards residential pumps, the selling prices have been realigned (7-8% price cut, still at a 2-3% premium vs. peers), in line with the market trend to stimulate demand. The company plans to expand its product range and customer reach for agriculture, solar and specialty pumps going ahead. LDAs (geysers, air-coolers) face a channel overlap with electrical products and the same will be used to expand reach, product offerings and e-commerce salience on a combined basis going ahead.
- **Emerging (TAM: Rs250bn):** Small domestic (mixer, cooktop, cooker) and large kitchen appliances (chimney, hob, dishwasher) will be the fastest-growing business segments over the medium term. Crompton intends to offer differentiated products and derive synergy from Butterfly's acquisition to gain market share and expand its reach pan-India in both these segments.
- **New categories:** Crompton has identified switches, switchgear, wires, modular kitchen and personal grooming as some of the new categories that it might enter in the future.

### Changing customer preferences need product/channel realignment

- Durable industry has been under-invested and has not kept pace with changing customer preferences, as per management. Product and channel realignment will focus on B2C, next-gen IoT products and alternate channels (rural, modern trade and e-commerce). As regards Crompton, the lighting segment is undergoing a large transformation in terms of new product launches, reach expansion and enhanced focus on B2C customer need of panels and smart lighting.
- The company has budgeted ~Rs800m per year for product innovation and research for meeting future customer needs and commercial rollout of new products.
- Capex budget is now higher at ~Rs800m/year to shift manufacturing of premium products in-house. Currently, in-house manufacturing accounts for ~35% of total sales volume.

### Other relevant updates:

- **Debt repayment:** Gross debt stood at Rs9.2bn (as of Jun 2023-end). Crompton plans to repay Rs3bn each by Mar and Jun 2024F and fully repay debt by Mar 2025F.
- **BLDC fans:** The category accounts for sub-10% of total fan industry sales. Category expansion is the fastest and management expects BLDC fans to account for 35%+ of total fan sales in India by Dec 2028F. Crompton expects its annualized sales run-rate of Rs3bn currently to double over the next three years.
- **In-house production mix:** Fan 50%, pump 15% and lighting 35-40%.
- **Butterfly merger:** The merger is expected to be completed by Mar 2024F. Based on the merger equity share swap ratio of 22:5, Crompton will issue ~19.7m new equity shares, implying a post-issue equity dilution of 3%.
- **Non-compete pact with CG Power:** Crompton is subject to restrictive clauses with regards to the usage of 'Crompton' brand for specific product categories based on the non-compete agreement signed with CG Power at the time of demerger. We note that all existing and future product launches must fully abide by this.

Figure 1: Category positioning

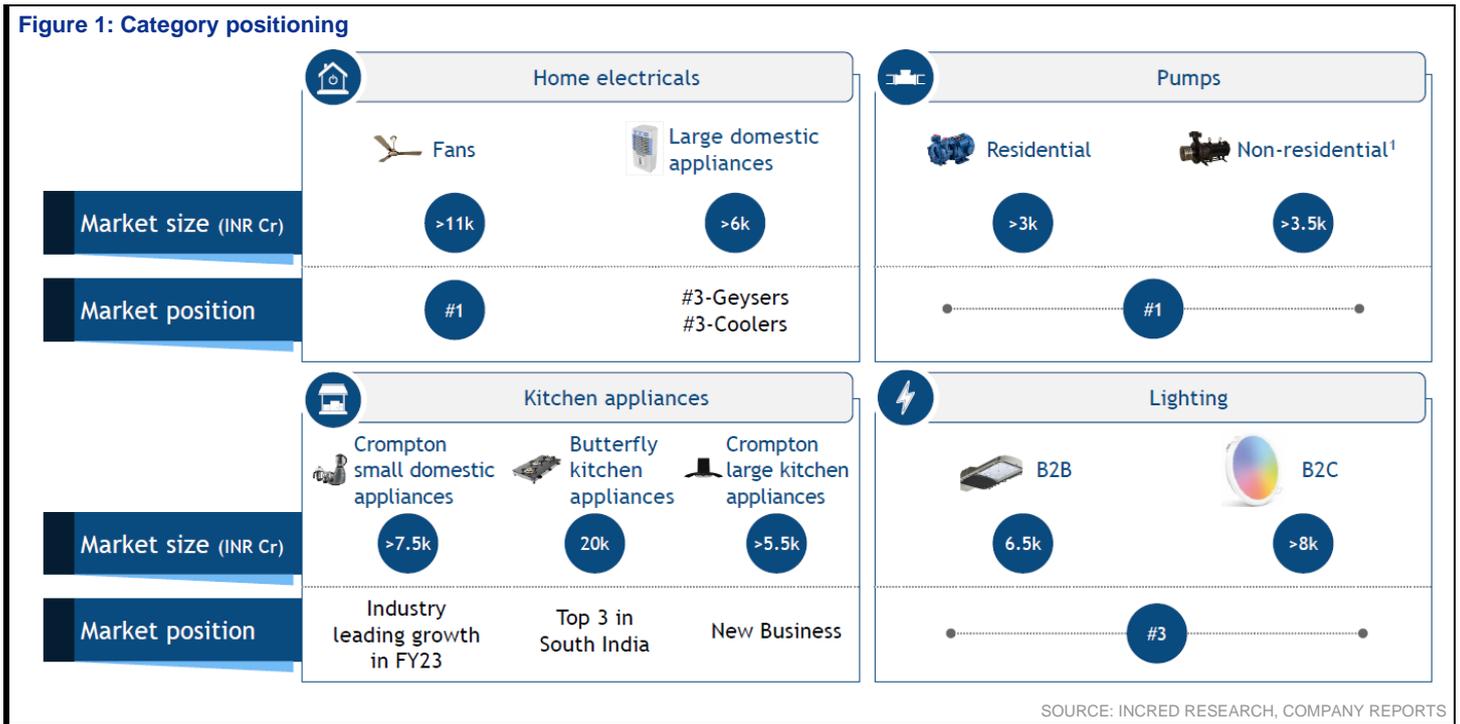


Figure 2: Growth opportunities

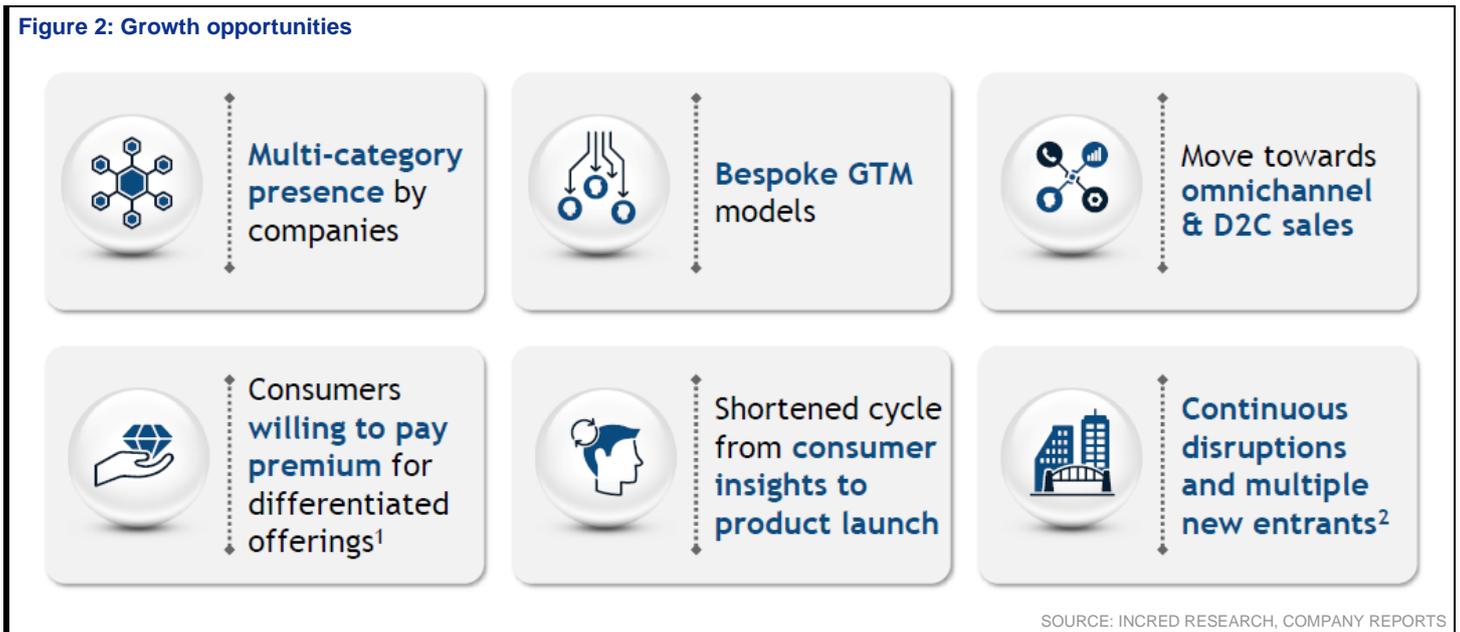
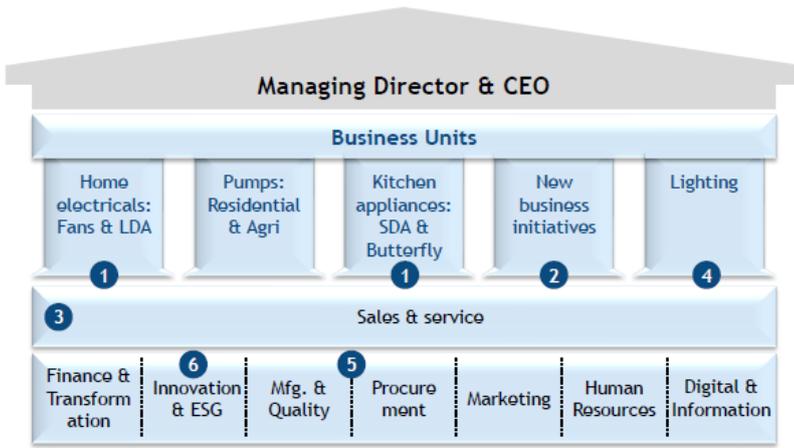


Figure 3: Organizational structure

New organization structure



Key org. structure changes

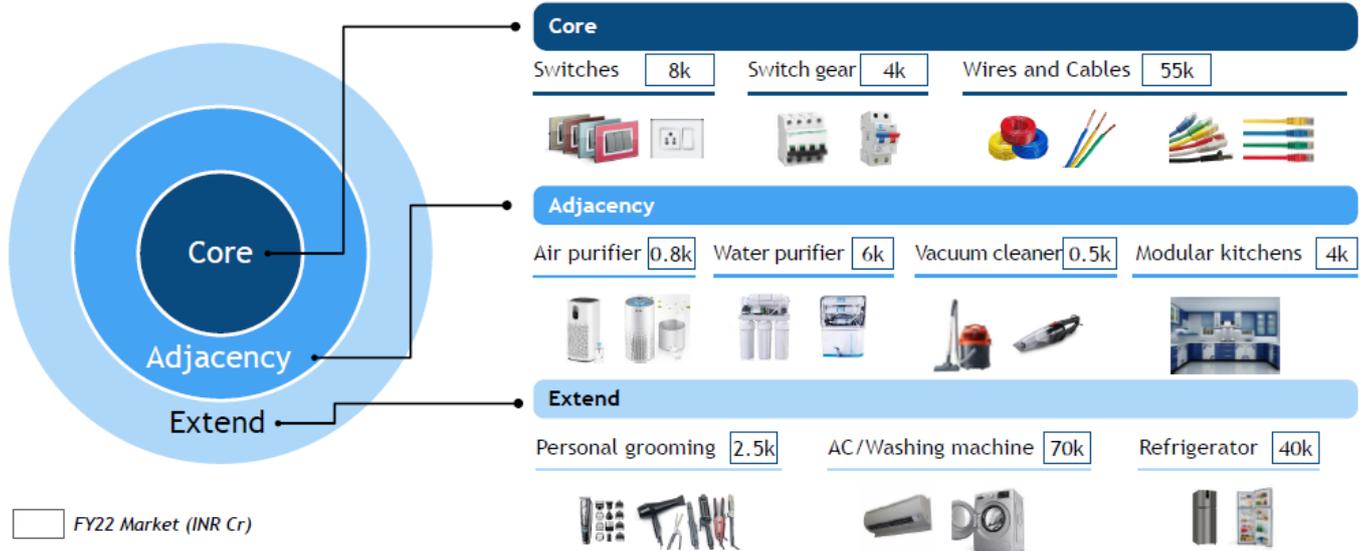
- 1 | BUs clustered basis common segments
- 2 | New BU created for strategic initiatives
- 3 | Sales & GTM excellence team created under global sales head
- 4 | Dedicated sales structure within lighting BU
- 5 | Centralization of manufacturing, procurement, supply chain
- 6 | Innovation head responsible for leading ESG initiatives

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Foray into new product categories

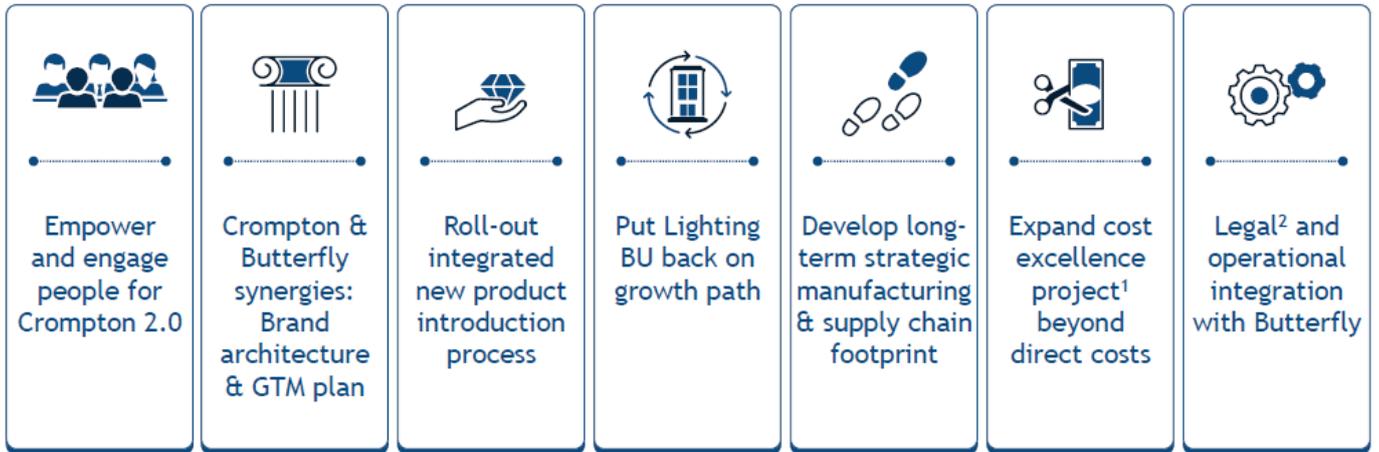
Multiple potential plays; to be evaluated for whitespaces and synergies

Non-exhaustive



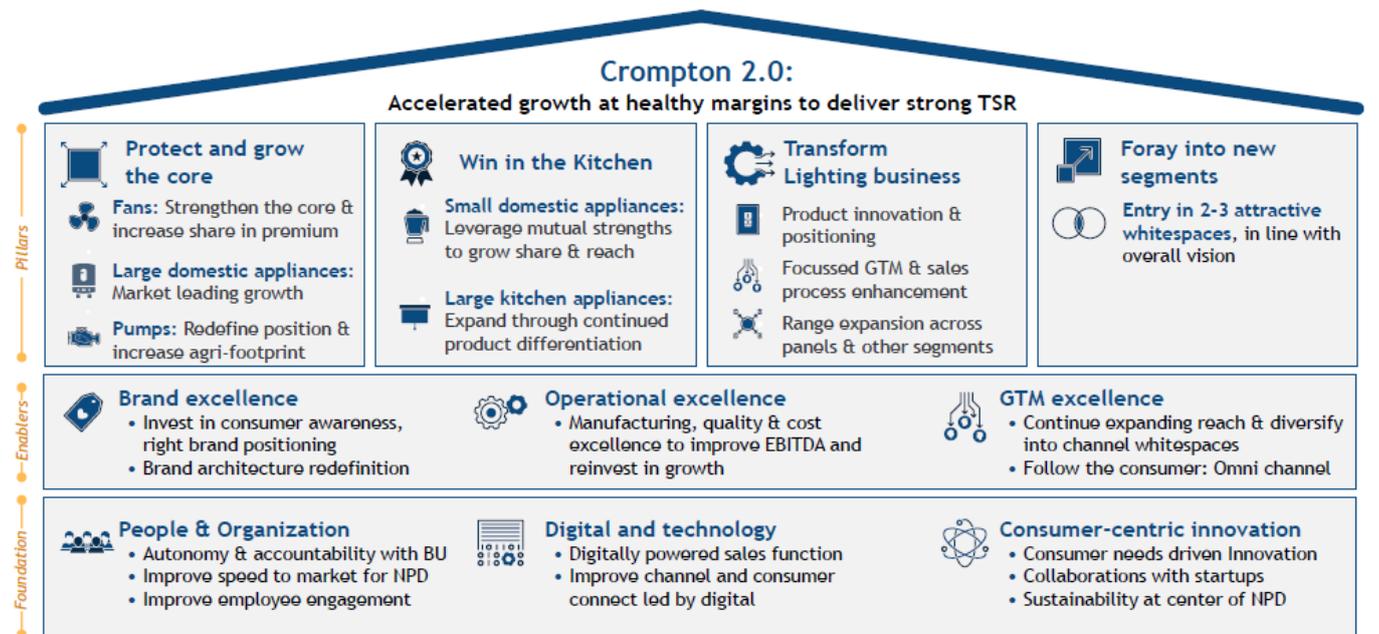
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Short-term goals



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Long-term vision



SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Profit & Loss**

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F
<b>Total Net Revenues</b>	<b>53,941</b>	<b>68,696</b>	<b>74,460</b>	<b>83,726</b>
<b>Gross Profit</b>	<b>16,923</b>	<b>21,893</b>	<b>23,641</b>	<b>26,792</b>
<b>Operating EBITDA</b>	<b>7,695</b>	<b>7,705</b>	<b>8,191</b>	<b>9,670</b>
Depreciation And Amortisation	(423)	(1,159)	(1,259)	(1,291)
<b>Operating EBIT</b>	<b>7,272</b>	<b>6,546</b>	<b>6,932</b>	<b>8,380</b>
Financial Income/(Expense)	373	(633)	(291)	163
Pretax Income/(Loss) from Assoc.				
Non-Operating Income/(Expense)		209	250	150
<b>Profit Before Tax (pre-EI)</b>	<b>7,645</b>	<b>6,122</b>	<b>6,890</b>	<b>8,693</b>
Exceptional Items	(130)			
<b>Pre-tax Profit</b>	<b>7,515</b>	<b>6,122</b>	<b>6,890</b>	<b>8,693</b>
Taxation	(1,732)	(1,358)	(1,510)	(1,908)
Exceptional Income - post-tax				
<b>Profit After Tax</b>	<b>5,784</b>	<b>4,764</b>	<b>5,380</b>	<b>6,784</b>
Minority Interests			(186)	(228)
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
<b>Net Profit</b>	<b>5,784</b>	<b>4,764</b>	<b>5,194</b>	<b>6,556</b>
Recurring Net Profit	5,884	4,764	5,194	6,556
<b>Fully Diluted Recurring Net Profit</b>	<b>5,884</b>	<b>4,764</b>	<b>5,194</b>	<b>6,556</b>

**Balance Sheet**

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F
<b>Total Cash And Equivalents</b>	<b>15,390</b>	<b>6,573</b>	<b>7,279</b>	<b>8,509</b>
<b>Total Debtors</b>	<b>6,154</b>	<b>6,861</b>	<b>7,140</b>	<b>8,029</b>
Inventories	7,210	7,439	8,160	9,175
<b>Total Other Current Assets</b>	<b>2,233</b>	<b>1,859</b>	<b>2,015</b>	<b>2,266</b>
<b>Total Current Assets</b>	<b>30,988</b>	<b>22,731</b>	<b>24,594</b>	<b>27,979</b>
<b>Fixed Assets</b>	<b>19,880</b>	<b>19,096</b>	<b>18,341</b>	<b>17,601</b>
Total Investments	3	4	4	4
<b>Intangible Assets</b>	<b>12,855</b>	<b>12,855</b>	<b>12,855</b>	<b>12,855</b>
<b>Total Other Non-Current Assets</b>	<b>760</b>	<b>1,859</b>	<b>1,855</b>	<b>1,855</b>
<b>Total Non-current Assets</b>	<b>33,498</b>	<b>33,814</b>	<b>33,055</b>	<b>32,314</b>
<b>Short-term Debt</b>	<b>16,370</b>	<b>3,250</b>	<b>2,017</b>	<b>783</b>
Current Portion of Long-Term Debt				
<b>Total Creditors</b>	<b>10,178</b>	<b>10,354</b>	<b>11,220</b>	<b>12,616</b>
<b>Other Current Liabilities</b>	<b>3,607</b>	<b>3,496</b>	<b>4,080</b>	<b>4,588</b>
<b>Total Current Liabilities</b>	<b>30,155</b>	<b>17,100</b>	<b>17,316</b>	<b>17,987</b>
<b>Total Long-term Debt</b>	<b>487</b>	<b>5,972</b>	<b>3,705</b>	<b>1,439</b>
Hybrid Debt - Debt Component				
<b>Total Other Non-Current Liabilities</b>	<b>1,096</b>	<b>2,273</b>	<b>2,273</b>	<b>2,273</b>
<b>Total Non-current Liabilities</b>	<b>1,583</b>	<b>8,245</b>	<b>5,979</b>	<b>3,712</b>
<b>Total Provisions</b>	<b>394</b>	<b>123</b>	<b>123</b>	<b>123</b>
<b>Total Liabilities</b>	<b>32,132</b>	<b>25,468</b>	<b>23,418</b>	<b>21,822</b>
<b>Shareholders Equity</b>	<b>24,530</b>	<b>26,600</b>	<b>29,568</b>	<b>33,580</b>
Minority Interests	7,825	4,477	4,663	4,891
<b>Total Equity</b>	<b>32,354</b>	<b>31,077</b>	<b>34,231</b>	<b>38,471</b>

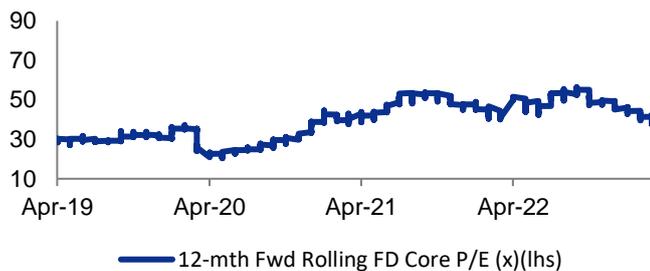
**Cash Flow**

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F
<b>EBITDA</b>	<b>7,695</b>	<b>7,705</b>	<b>8,191</b>	<b>9,670</b>
Cash Flow from Invt. & Assoc.				
Change In Working Capital	1,005	(1,039)	293	(251)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	265	(374)	(41)	313
Net Interest (Paid)/Received	68	633	291	(163)
Tax Paid	(1,798)	(1,399)	(1,510)	(1,908)
<b>Cashflow From Operations</b>	<b>7,234</b>	<b>5,526</b>	<b>7,223</b>	<b>7,661</b>
Capex	(1,712)	(791)	(500)	(550)
Disposals Of FAs/subsidiaries	6	83		
Acq. Of Subsidiaries/Investments	(2,093)	(3,822)		(1,500)
Other Investing Cashflow	370	432	485	553
<b>Cash Flow From Investing</b>	<b>(3,429)</b>	<b>(4,098)</b>	<b>(15)</b>	<b>(1,497)</b>
Debt Raised/(repaid)	10,539	(7,179)	(3,500)	(3,500)
Proceeds From Issue Of Shares	603	416		
Shares Repurchased				
Dividends Paid	(1,564)	(1,578)	(2,226)	(2,544)
Preferred Dividends				
Other Financing Cashflow	(505)	(765)	(776)	(390)
<b>Cash Flow From Financing</b>	<b>9,074</b>	<b>(9,105)</b>	<b>(6,502)</b>	<b>(6,434)</b>
Total Cash Generated	12,879	(7,677)	706	(270)
<b>Free Cashflow To Equity</b>	<b>14,344</b>	<b>(5,751)</b>	<b>3,708</b>	<b>2,664</b>
<b>Free Cashflow To Firm</b>	<b>3,452</b>	<b>336</b>	<b>6,432</b>	<b>5,774</b>

**Key Ratios**

	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue Growth	12.3%	27.4%	8.4%	12.4%
Operating EBITDA Growth	6.8%	0.1%	6.3%	18.1%
Operating EBITDA Margin	14.3%	11.2%	11.0%	11.6%
Net Cash Per Share (Rs)	(2.32)	(4.16)	2.44	9.83
BVPS (Rs)	38.87	41.74	46.31	52.49
Gross Interest Cover	20.59	6.00	8.93	21.50
Effective Tax Rate	23.0%	22.2%	21.9%	22.0%
Net Dividend Payout Ratio	20.5%	31.1%	33.2%	30.1%
Accounts Receivables Days	37.44	34.58	34.31	33.06
Inventory Days	61.12	57.12	56.02	55.57
Accounts Payables Days	92.81	80.06	77.48	76.41
ROIC (%)	82.8%	18.5%	19.2%	23.9%
ROCE (%)	22.2%	15.6%	18.4%	22.1%
Return On Average Assets	14.4%	11.2%	12.6%	14.5%

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



SOURCE: INCRED RESEARCH, COMPANY REPORTS

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