

India

HOLD (no change)

Consensus ratings*: Buy 27 Hold 14 Sell 1

Current price:	Rs283
Target price:	Rs286
Previous target:	Rs307
Up/downside:	1.1%
InCred Research / Consensus:	-13.9%
Reuters:	CROP.NS
Bloomberg:	CROMPTON IN
Market cap:	US\$2,178m Rs181,265m
Average daily turnover:	US\$10.2m Rs849.6m
Current shares o/s:	640.2m
Free float:	100.0%

*Source: Bloomberg

Key changes in this note

- FY24F revenue/EBITDA/PAT cut by 1.1%/5.6%/9.9%.
- FY25F revenue/EBITDA/PAT cut by 0.6%/2.8%/6.9%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(5.9)	(4.7)	(21.8)
Relative (%)	(4.4)	(3.3)	(26.4)

Major shareholders	% held
Promoters	0.0
Mirae Asset Tax Saver Fund	8.6
HDFC Mutual Fund	6.1

Analyst(s)



Rahul AGARWAL
 T (91) 22 4161 1553
 E rahul.agarwal@incredcapital.com

Harshit SARAWAGI
 T (91) 22 4161 0000
 E harshit.sarawagi@incredcapital.com

Crompton Greaves Consumer Electricals

Moving in line with management's guidance

- 2QFY24 ECD revenue growth was good as fans/appliances sales grew 17-18% yoy. Pumps grew 10% yoy. Lighting & Butterfly sales fell by 11-17% yoy.
- Management is focused on Crompton 2.0 tenets of premiumization, realigning products, focus on manufacturing/sales channel and launching new products.
- We account for 1H and cut EPS by 7-10% for FY24-25F. Retain our HOLD rating with a lower target price of Rs286 based on a P/E of 30x FY25F EPS.

2QFY24 performance in line with management's guidance

Crompton Greaves Consumer Electricals (CGCEL) 2QFY24 revenue/EBITDA/PAT stood at Rs17.8bn/Rs1.7bn/Rs972m, +5%/(10%)/(23%) yoy, respectively, in line with our estimates. EBITDA/PAT missed Bloomberg consensus estimates by 7%/22%, respectively. Consol. gross/EBITDA margins stood at 31.3%/9.8%, a contraction of 81bp/157bp yoy, respectively. Within segments, ECD sales stood at Rs12.3bn, +17% yoy, led by fan sales +18% yoy, pumps +10% yoy and appliances +17% yoy. The ECD segment's EBIT margin fell to 14.2%, down 290bp yoy, due to pending price hikes for pass-through of the higher cost of production & EBITDA loss of Rs65m in the built-in-kitchen segment. The lighting segment's revenue stood at Rs2.4bn, down 12% yoy, while the EBIT margin improved to 10.5%, +249bp yoy, led by a better mix and cost controls. Butterfly's revenue/EBIT stood at Rs3.1bn/Rs202m, down 17%/50% yoy, respectively, due to the festive season pre-purchases shifting to 3Q and a high base owing to one-off corporate sales yoy. The EBIT margin declined to 6.6%, down 435bp yoy.

All set to achieve Crompton 2.0 objectives going ahead

CGCEL moved ahead on its goals like a) a higher premium sales mix (premium fans at 28% of total fan sales, 1-1.5% fan price hike from 1 Sep 2023, new B2C lighting product launches), b) market-leading growth and differentiated products for the appliances segment (highest-ever sales volume of water heaters, strong mixer-grinder sales), c) omnichannel presence (alternate channel mix at 17% vs. 13% yoy, e-commerce sales run-rate of Rs1bn/quarter, +100% yoy), and d) realigning the product portfolio. We believe most of the steps taken would lead to a meaningful improvement in the market share, sales growth and margins. We estimate revenue/EBITDA/PAT CAGR of 10.5%/12%/15%, respectively, over FY23-26F.

Change in our estimates, valuation and risks

We cut revenue/EBITDA/PAT by 1%/6%/10% and by 1%/3%/7% for FY24F and FY25F, respectively, and introduce FY26F. We expect a back-ended recovery in revenue growth and margins from 2HFY25F. Retain HOLD rating on the stock with a lower TP of Rs286 (Rs307 earlier) based on a P/E of 30x FY25F EPS. Upside risks: Faster recovery in B2C demand. Downside risks: Realignment delay and lower-than-estimated margins.

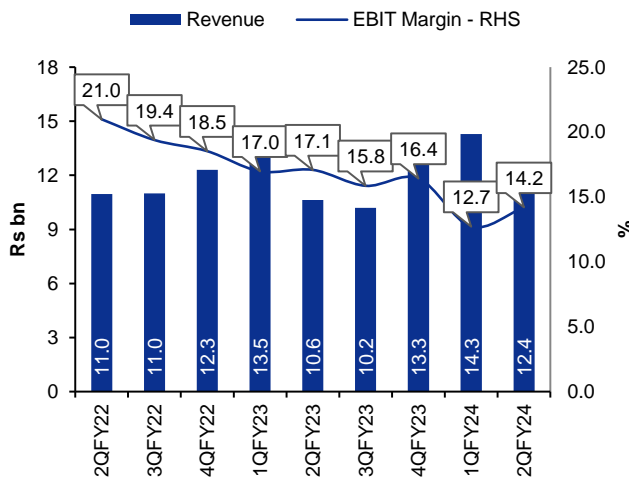
Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	53,941	68,696	73,612	83,216	92,680
Operating EBITDA (Rsm)	7,695	7,705	7,729	9,403	10,797
Net Profit (Rsm)	5,784	4,764	4,679	6,104	7,264
Core EPS (Rs)	9.3	7.5	7.3	9.5	11.3
Core EPS Growth	5.7%	(19.8%)	(2.0%)	30.2%	19.0%
FD Core P/E (x)	30.89	37.87	38.65	29.70	24.95
DPS (Rs)	2.5	3.0	3.0	4.0	5.0
Dividend Yield	0.88%	1.06%	1.06%	1.40%	1.75%
EV/EBITDA (x)	24.43	24.34	23.98	19.35	16.46
P/FCFE (x)	12.47	(31.22)	48.70	96.88	24.77
Net Gearing	4.5%	8.5%	(0.5%)	(10.9%)	(20.6%)
P/BV (x)	7.28	6.78	6.16	5.50	4.90
ROE	26.8%	18.6%	16.7%	19.6%	20.8%
% Change In Core EPS Estimates			(9.96%)	(6.97%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

2QFY24 earnings-call takeaways

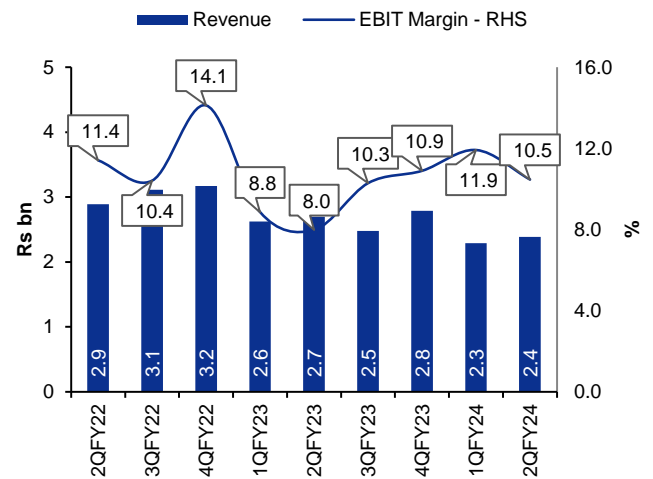
- **Strengthening the board:** The company has appointed Mr. D Sundaram, Mr. Anil Chaudhry and Mr. Sanjiv Kakkar as independent directors on its board. All the directors have over 30 years of rich work experience across consumer and industrial businesses.
- **Butterfly merger approval rejected:** The merger between CGCEL and Butterfly has been withdrawn due to rejection by most minority shareholders of Butterfly. Hence, both these entities will function as separate individual listed entities and continue to optimize various revenue and cost synergies by leveraging the distinctive strengths of each company.
- **Fan sales update:** Fan sales grew by 18% yoy in 2Q, driven by a strong performance in ceiling and TPW fans. The sales of premium fans improved to 28% from 24% yoy. TPW fan sales growth was higher than the overall fan segment's sales growth. New models of BLDC and premium fans were rolled out during 2Q. The company took a price hike of 1-1.5% across its fan product portfolio.
- **Pump update:** Pump sales grew by 10% yoy led by traction in both agriculture and residential segments. The company received an order worth Rs250m under the PM KUSUM scheme for solar pumps.
- **Appliances:** The appliances segment's revenue grew by 17% yoy, led by healthy growth in the mixer-grinder category. Water heaters delivered their highest-ever quarterly volume (1m units, 10% market share) and turned into the No.1 water heater brand in the e-commerce category.
- **Built-in-kitchen (BIK) appliances:** The built-in-kitchen appliances' sales stood at Rs140m in 2Q (vs. Rs110m qoq). The company suffered an EBIT loss of Rs65m (vs. Rs 70m qoq) in the BIK segment. The company opened its 75th signature store during the quarter. CGCEL launched the new Wave 2 model in the Hob category.
- **Lighting segment update:** B2C demand remained weak for LED lighting products, especially bulbs and battens, in 2QFY24. The sales team restructuring was completed in Sep 2023 and the company is focusing on growing its distribution reach by strengthening the direct dealer network as well as e-commerce and modern trade.
- **Butterfly update:** The shift in festive season pre-purchases to 3Q and a higher mix of corporate sales in the base quarter led to a muted revenue growth in 2QFY24 yoy. The company initiated the sales of Butterfly products through the Crompton distribution network. Butterfly launched India's first, star-rated gas stove. The share of business from new products stood at 9% of total sales in 2Q.
- **Cash conversion cycle:** The net working capital cycle stood at 16 days of TTM sales at the end of Sep 2023 as compared to 12 days of TTM sales at the end of Jun 2023. 1HFY24 OCF/FCF stood at Rs2.4bn/Rs1.9bn, respectively, at the end of Sep 2023. Gross debt and cash (including equivalents) stood at Rs10bn and Rs6.6bn, respectively, at the end of Sep 2023.

Figure 1: ECD revenue and EBIT trend



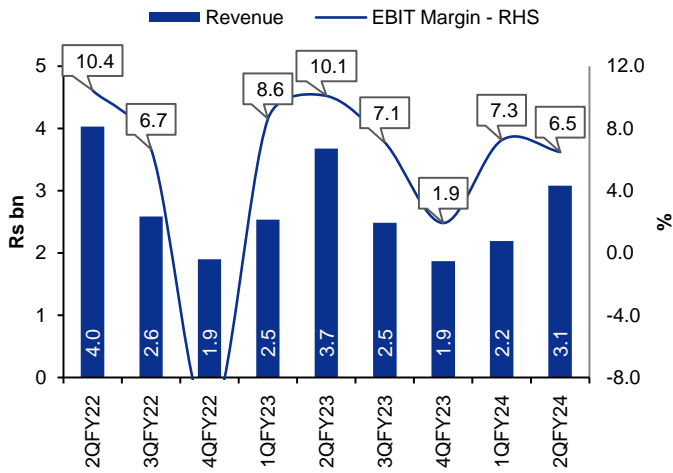
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Lighting revenue and EBIT trend



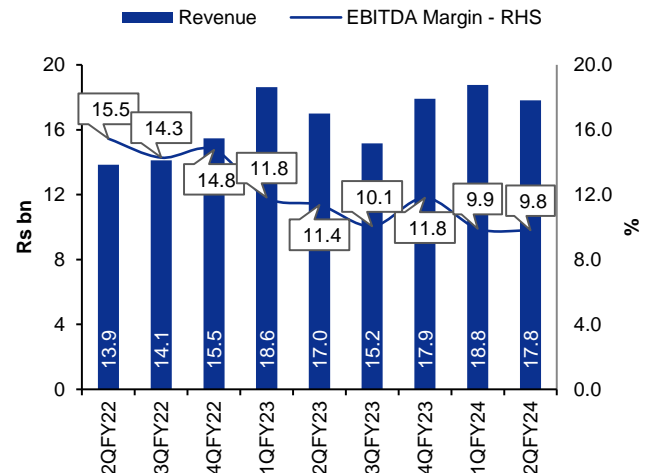
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Butterfly Gandhimathi's revenue and EBIT trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Crompton's consolidated revenue and EBITDA trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: 2QFY24 results snapshot

Y/E Mar (Rs m)	2QFY24	2QFY23	yoy (%)	1QFY24	qoq (%)	1HFY24	1HFY23	yoy (%)
Revenue	17,823	16,995	4.9	18,769	(5.0)	36,591	35,624	2.7
EBITDA	1,745	1,931	(9.6)	1,858	(6.1)	3,603	4,130	(12.8)
EBITDA margin (%)	9.8	11.4	-157 bp	9.9	-11 bp	9.8	11.6	-175 bp
Adj. PAT	972	1,258	(22.7)	1,184	(17.9)	2,156	2,532	(14.8)
Diluted EPS (Rs)	1.5	2.0		1.9		5.4	4.9	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: 2QFY24 segmental results snapshot

Y/E Mar (Rs m)	2QFY24	2QFY23	yoy (%)	1QFY24	qoq (%)	1HFY24	1HFY23	yoy (%)
Revenue								
ECD	12,380	10,622	16.5	14,290	(13.4)	26,669	24,094	10.7
Lighting products	2,387	2,696	(11.5)	2,290	4.2	4,677	5,319	(12.1)
Butterfly products	3,056	3,677	(16.9)	2,189	39.6	5,245	6,212	(15.6)
Total	17,823	16,995	4.9	18,769	(5.0)	36,591	35,624	2.7
EBIT								
ECD	1,755	1,814	(3.2)	1,816	(3.4)	3,572	4,099	(12.9)
Lighting products	250	215	16.1	273	(8.5)	523	447	16.9
Butterfly products	202	403	(49.9)	160	26.6	362	622	(41.8)
Total	2,207	2,432	(9.3)	2,249	(1.9)	4,456	5,168	(13.8)
EBIT margin (%)								
ECD	14.2	17.1	-290 bp	12.7	147 bp	13.4	17.0	-362 bp
Lighting products	10.5	8.0	249 bp	11.9	-146 bp	11.2	8.4	277 bp
Butterfly products	6.6	11.0	-435 bp	7.3	-68 bp	6.9	10.0	-311 bp
Total	12.4	14.3	-193 bp	12.0	40 bp	12.2	14.5	-233 bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Actuals vs. our estimates

Rs m	2QFY24	2QFY24F	Var (%)
Revenue	17,823	17,885	(0.3)
EBITDA	1,745	1,699	2.7
EBITDA margin (%)	9.8	9.5	29bp
Adj. PAT	972	1,004	(3.1)

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 8: Actuals vs. Bloomberg consensus estimates

Rs m	2QFY24	2QFY24C	Var (%)
Revenue	17,823	17,436	2.2
EBITDA	1,745	1,876	(6.9)
EBITDA margin (%)	9.8	10.8	-96 bp
Adj. PAT	972	1,239	(21.5)

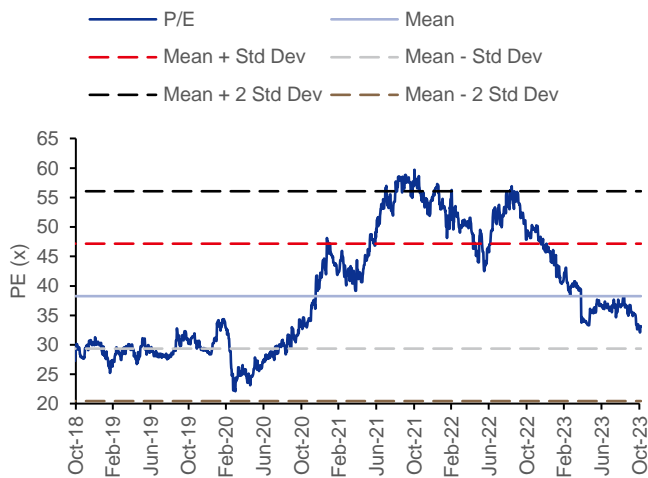
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 9: Our revised earnings estimates

	New estimates			Old estimates			Change (%)		
	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Revenue	73,612	83,216	92,680	74,460	83,726	NA	-1.1	-0.6	NA
EBITDA	7,729	9,403	10,797	8,191	9,670	NA	-5.6	-2.8	NA
Adjusted consol. PAT	4,679	6,104	7,264	5,194	6,556	NA	-9.9	-6.9	NA
EPS	7.3	9.5	11.3	8.1	10.2	NA	-10.0	-7.0	NA
EBITDA margin (%)	10.5	11.3	11.7	11.0	11.6	NA	-50 bp	-25 bp	NA

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 10: P/E standard deviation (since listing)



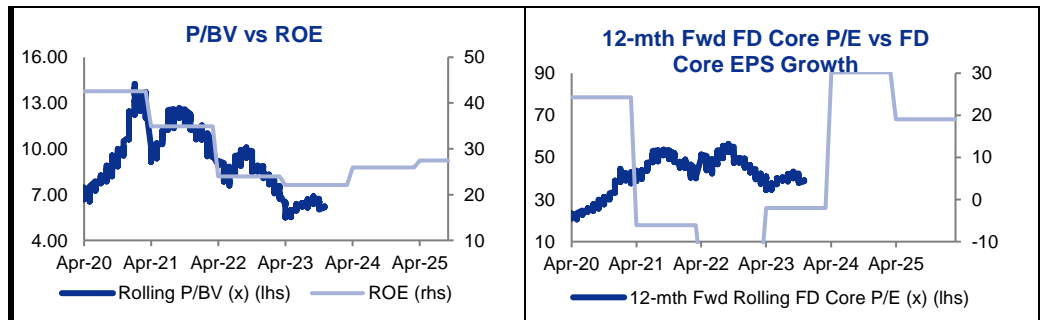
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 11: P/E band (one-year forward EPS)



SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	53,941	68,696	73,612	83,216	92,680
Gross Profit	16,923	21,893	23,298	26,671	29,843
Operating EBITDA	7,695	7,705	7,729	9,403	10,797
Depreciation And Amortisation	(423)	(1,159)	(1,265)	(1,308)	(1,352)
Operating EBIT	7,272	6,546	6,464	8,096	9,446
Financial Income/(Expense)	373	(633)	(360)	23	239
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)		209	250	150	158
Profit Before Tax (pre-EI)	7,645	6,122	6,354	8,269	9,842
Exceptional Items	(130)				
Pre-tax Profit	7,515	6,122	6,354	8,269	9,842
Taxation	(1,732)	(1,358)	(1,502)	(1,970)	(2,343)
Exceptional Income - post-tax					
Profit After Tax	5,784	4,764	4,852	6,299	7,498
Minority Interests			(173)	(195)	(234)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	5,784	4,764	4,679	6,104	7,264
Recurring Net Profit	5,884	4,764	4,679	6,104	7,264
Fully Diluted Recurring Net Profit	5,884	4,764	4,679	6,104	7,264

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	7,695	7,705	7,729	9,403	10,797
Cash Flow from Invt. & Assoc.					
Change In Working Capital	1,005	(1,039)	(692)	(391)	(386)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	265	(374)	(110)	173	1,172
Net Interest (Paid)/Received	68	633	360	(23)	(239)
Tax Paid	(1,798)	(1,399)	(1,502)	(1,970)	(2,343)
Cashflow From Operations	7,234	5,526	5,785	7,192	9,001
Capex	(1,712)	(791)	(700)	(721)	(743)
Disposals Of FAs/subsidiaries	6	83			
Acq. Of Subsidiaries/investments	(2,093)	(3,822)	1,750	(1,500)	(1,500)
Other Investing Cashflow	370	432	374	397	560
Cash Flow From Investing	(3,429)	(4,098)	1,424	(1,824)	(1,683)
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)	(1,908)	(2,544)	(3,181)
Preferred Dividends					
Other Financing Cashflow	(505)	(765)	(734)	(374)	(321)
Cash Flow From Financing	9,074	(9,105)	(6,143)	(6,419)	(3,501)
Total Cash Generated	12,879	(7,677)	1,067	(1,050)	3,817
Free Cashflow To Equity	14,344	(5,751)	3,709	1,869	7,318
Free Cashflow To Firm	3,452	336	6,475	4,995	6,997

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	15,390	6,573	5,890	6,340	10,881
Total Debtors	6,154	6,861	7,059	7,980	8,887
Inventories	7,210	7,439	9,075	10,259	11,426
Total Other Current Assets	2,233	1,859	1,992	2,252	2,508
Total Current Assets	30,988	22,731	24,016	26,831	33,703
Fixed Assets	19,880	19,096	18,535	17,949	17,340
Total Investments	3	4	4	4	4
Intangible Assets	12,855	12,855	12,855	12,855	12,855
Total Other Non-Current Assets	760	1,859	1,855	1,855	1,855
Total Non-current Assets	33,498	33,814	33,249	32,662	32,053
Short-term Debt	16,370	3,250	2,017	783	783
Current Portion of Long-Term Debt					
Total Creditors	10,178	10,354	11,092	12,539	13,966
Other Current Liabilities	3,607	3,496	4,034	4,560	5,078
Total Current Liabilities	30,155	17,100	17,142	17,882	19,827
Total Long-term Debt	487	5,972	3,705	1,439	1,439
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	1,096	2,273	2,273	2,273	2,273
Total Non-current Liabilities	1,583	8,245	5,979	3,712	3,712
Total Provisions	394	123	123	123	123
Total Liabilities	32,132	25,468	23,244	21,717	23,662
Shareholders Equity	24,530	26,600	29,370	32,930	37,014
Minority Interests	7,825	4,477	4,650	4,846	5,080
Total Equity	32,354	31,077	34,021	37,776	42,094

Key Ratios

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	12.3%	27.4%	7.2%	13.0%	11.4%
Operating EBITDA Growth	6.8%	0.1%	0.3%	21.7%	14.8%
Operating EBITDA Margin	14.3%	11.2%	10.5%	11.3%	11.6%
Net Cash Per Share (Rs)	(2.32)	(4.16)	0.26	6.43	13.53
BVPS (Rs)	38.87	41.74	45.99	51.44	57.82
Gross Interest Cover	20.59	6.00	8.80	21.63	29.43
Effective Tax Rate	23.0%	22.2%	23.6%	23.8%	23.8%
Net Dividend Payout Ratio	20.5%	31.1%	30.9%	31.5%	33.1%
Accounts Receivables Days	37.44	34.58	34.51	32.98	33.21
Inventory Days	61.12	57.12	59.90	62.40	62.98
Accounts Payables Days	92.81	80.06	77.79	76.27	76.98
ROIC (%)	82.8%	18.5%	17.9%	22.3%	26.2%
ROCE (%)	22.2%	15.6%	17.0%	21.2%	23.7%
Return On Average Assets	14.4%	11.2%	11.8%	14.1%	15.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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