

India

ADD (no change)

Consensus ratings*: Buy 35 Hold 8 Sell 2

Current price:	Rs260
Target price:	Rs320
Previous target:	Rs346
Up/downside:	23.1%
InCred Research / Consensus:	-6.6%
Reuters:	CROP.NS
Bloomberg:	CROMPTON IN
Market cap:	US\$2,275m Rs165,177m
Average daily turnover:	US\$9.2m Rs666.4m
Current shares o/s:	636.1m
Free float:	100.0%

*Source: Bloomberg

Key changes in this note

- FY24F/25F revenue raised by 1.3%/2.5%.
- FY24F/25F EBITDA cut by 7.6%/6.3%.
- FY24F/25F PAT cut by 10.8%/8.6%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(11.9)	(12.5)	(24.1)
Relative (%)	(15.2)	(15.8)	(33.5)

Major shareholders	% held
Promoters	0.0
HDFC Mutual Fund	5.6
Mirae Asset Tax Saver Fund	5.0

Analyst(s)



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Crompton Greaves Consumer Electricals

Gets back into business; recovery ahead

- CGCEL retained its market share in fans last fiscal. Premium fans did well. 4Q was largely in line & relatively better than its peers in fan and ECD segments.
- Product revamp, GTM initiatives help sales growth recovery in fans, pumps, B2C lighting and Butterfly. The focus is on absolute profits vs. % margins.
- Inflation-hit demand remains weak. Heat wave across India is supportive of a healthy summer season. Retain ADD rating with a lower TP of Rs320.

4Q surprisingly in line with estimates; fan biz does better vs peers

Crompton Greaves Consumer Electricals' (CGCEL) revenue/EBITDA/PAT stood at Rs18bn/Rs2.1bn/Rs1.3bn, +16%/-8%/-31% yoy while +18%/+39%/+54% qoq, respectively, in 4QFY23. The good performance was led by product revamp and go-to-market (GTM) initiatives leading to premium fans gaining revenue share, recovery in pump sales after a long lull, realignment of Butterfly's offline/online sale channels and some shift in the B2C lighting business sales team's reporting structure. Consolidated gross/EBITDA margins stood at 31.5%/11.8%, +170bp /-300bp yoy, respectively. ECD revenue was at Rs13.2bn, +8% yoy, while lighting revenue stood at Rs2.8bn, -12% yoy. In the ECD segment, premium ceiling fans' revenue grew by 24% yoy, TPW by 16% yoy, residential pumps by 17% yoy and geysers/air-coolers combined by 34% yoy in 4QFY23. In the lighting segment, LED faced pricing pressure, leading to a decline in 4Q revenue yoy. ECD/lighting EBIT margins stood at 16.4%/10.9%, down 210bp/320bp yoy, respectively.

Focus ahead is on absolute revenue/profit growth vs % margins

CGCEL plans to gain/recover market share across fan, pump, lighting and small domestic appliance segments by launching best-in-class products. The focus is to grow absolute revenue/PAT vs. margin recovery over FY24F. The pass-through of full cost increase of 5-7% due to ceiling fan BEE rating transition has not happened, given high competition and weak customer demand. CGCEL is realigning its B2C lighting (50% of LED sales) portfolio and GTM strategy to ramp up lighting SKUs closer to market leaders. Upgraded pumps now have IoT features, and strategic pricing changes led to sales recovery, after a long period of falling sales, from 4QFY23. The under-recovery on margins could stretch a bit longer, despite cheaper input prices, and we expect revenue/EBITDA CAGR of 12%/16%, respectively. The EBITDA margin to be range-bound between 11.5-12.5% over FY23-25F.

Change in our estimates, valuation and risks

Our revenue estimates largely remain unchanged while EBITDA/PAT stands reduced by 6-11% over FY24F-25F due to lower EBITDA margin. We retain ADD rating on CGCEL with a lower target price of Rs320 (Rs346 earlier) based on a lower exit P/E of 30x on rolled-forward FY25F EPS. Downside risks: Persistent weak B2C demand, and incremental management changes.

Financial Summary	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	48,035	53,941	68,696	77,208	85,999
Operating EBITDA (Rsm)	7,206	7,695	7,705	9,125	10,422
Net Profit (Rsm)	6,168	5,784	4,411	5,607	6,791
Core EPS (Rs)	8.8	9.3	7.0	8.8	10.7
Core EPS Growth	12.4%	5.7%	(25.3%)	26.6%	21.1%
FD Core P/E (x)	26.60	28.33	37.29	29.46	24.32
DPS (Rs)	5.5	2.5	3.0	4.0	5.0
Dividend Yield	2.10%	0.96%	1.16%	1.54%	1.93%
EV/EBITDA (x)	21.28	22.50	22.28	18.45	15.77
P/FCFE (x)	36.25	11.43	(28.55)	41.16	54.67
Net Gearing	(55.6%)	4.5%	8.5%	(4.3%)	(15.0%)
P/BV (x)	8.50	6.68	6.18	5.57	4.96
ROE	32.8%	26.8%	17.3%	19.9%	21.6%
% Change In Core EPS Estimates				(10.85%)	(8.58%)
InCred Research/Consensus EPS (x)					

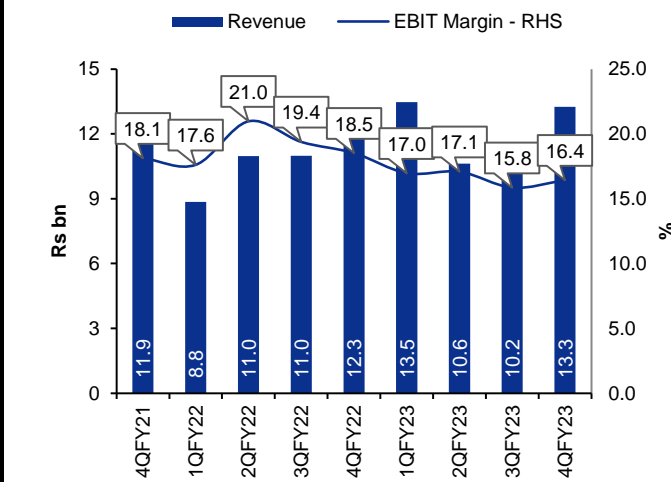
SOURCE: INCRED RESEARCH, COMPANY REPORTS

4QFY23 earnings-call highlights

- **Management changes:** CEO Mr. Mathew Job resigned from the company while Mr. Shantanu Khosla, MD, was elevated as executive vice chairman with effect from 30 Apr 2023. Mr. Promeet Ghosh has been appointed as the new MD and CEO of CGCEL. Mr. Promeet Ghosh is a graduate in engineering (electrical & electronics) from the National Institute of Technology, Trichy and an MBA from the Indian Institute of Management, Kolkata. Mr. Ghosh was an investment banker for two decades. He has worked with DSP Merrill Lynch for 18 years and helped build its M&A franchise. Thereafter, Mr. Ghosh was deputy head at Temasek India, leading the team on the ground for nearly a decade. After leaving his full-time role at Temasek in Mar 2022, he served as an advisor to Temasek until Mar 2023. Mr. Ghosh has been on CGCEL's board since 2016.
- **Fan segment:** Ceiling fan sales volume and revenue grew by 20% each while TPW revenue grew by 10% yoy in 4QFY23. BLDC fans accounted for 2-3% of fan sales volume and CGCEL was the second-largest BLDC fan brand in India with Atomberg still at the No.1 position. CGCEL sold 300,000 BLDC fans in 4Q and plans to expand the decorative BLDC fan offerings over the next 12 months. Entry prices for BLDC fans are in the range of Rs2,500-3,000/fan vs. Rs1,500-1,800/fan (1 star rating). In FY23, total fan sales revenue grew by 5% yoy.
- **Pump segment update:** CGCEL launched a new mini-series of pumps for residential buildings, enabling quick fill-up of tanks and with a revised pricing, in line with peers, during 4QFY23. 4Q revenue growth recovered sharply and grew 15% yoy while total pump sales rose 9% yoy in FY23.
- **Appliances segment update:** The appliances segment's revenue grew by 40%+ yoy in 4QFY23 and by 30% yoy in FY23. Water coolers/heaters combined revenue grew by 34% yoy while mixers/grinders sales rose by 60% yoy in 4QFY23.
- **New product development:** CGCEL launched 46 new stock-keeping units or SKUs in the small domestic appliances segment in FY23 and appointed 100 new distributors to boost secondary sales in the SDA category.
- **Built-in-kitchen (BIK) appliances:** The total addressable market for BIK appliances stood at Rs22bn in India and grew at a 10% CAGR over the past five years. The company targets to be among the top 3 players in the segment with a market share of at least 10%. CGCEL is now present in 12 cities and operates 55 brand stores (signature studios and exclusive stores) as at end-Mar 2023. The company targets over 100 brand stores by the end of Mar 2024F. Built-in kitchen appliances clocked revenue of Rs130m and Rs260m in 4Q and FY23, respectively. The EBITDA loss was to the tune of Rs240m in FY23.
- **Lighting products:** The lighting segment's revenue declined by 1% yoy in FY23 due to subdued B2G demand in the category in the case of CGCEL. B2C and B2B lighting sales were equally split at 50% each in FY23. LED continues to face pricing pressure, but a better mix led to better margins yoy for the segment.
- **Butterfly update:** Butterfly Gandhimati reported its best year so far with the highest-ever net profit of over Rs500m in FY23. The business continues to realign towards more offline vs. online sales channel and retail sales grew by 19% yoy in 4QFY23. The company plans to launch channel-specific products and expects EBITDA margin to be in the range of 8-9%. Advertising expenditure stood at Rs600m vs. Rs540m yoy, 5.7% of total sales.
- **Advertising and R&D expenses:** Advertising expenditure stood at 3.6% vs. 2.8% of standalone sales yoy in FY23. R&D investments stood at Rs800m, +50% yoy.

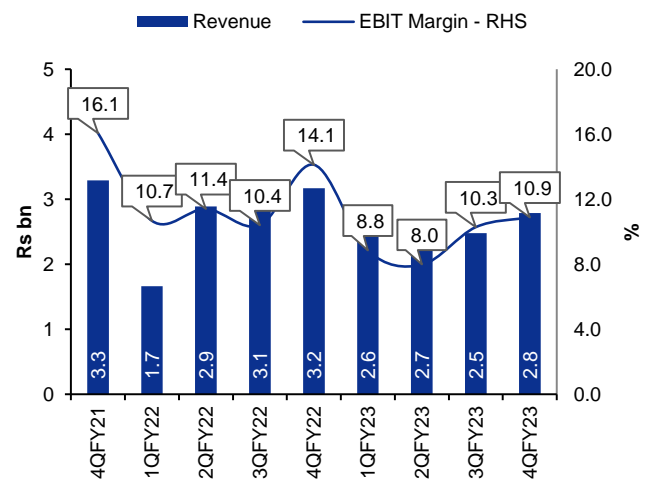
- **No M&A plan:** Management refuted all rumours pertaining to any potential merger with a leading electrical brand or any other strategic partner.
- **Cash flow:** Gross debt stood at Rs9.2bn at the end of Mar 2023, of which the company plans to repay Rs3.2bn by Jan 2024F and the remaining by Jun/Jul 2024F. The net working capital cycle stood at 12 days at the end of Mar 2023. Gross cash (including equivalents) stood at Rs6.6bn at the end of Mar 2023. Dividend payout stood at 40%+ for FY23.

Figure 1: ECD - revenue and EBIT trend



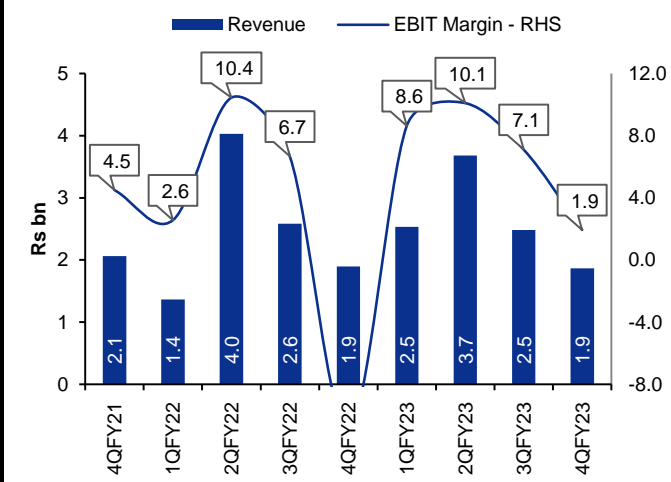
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Lighting - revenue and EBIT trend



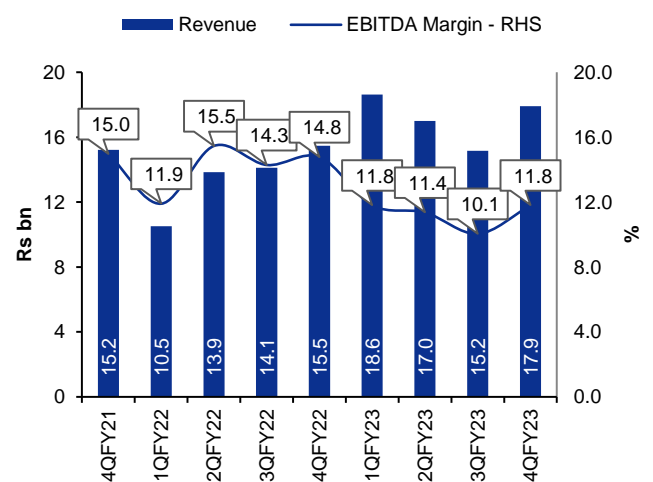
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Butterfly Gandhimathi's revenue and EBIT trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: CGCEL's consolidated revenue and EBITDA trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: New products launched in 4QFY23 with strong product development in the pipeline

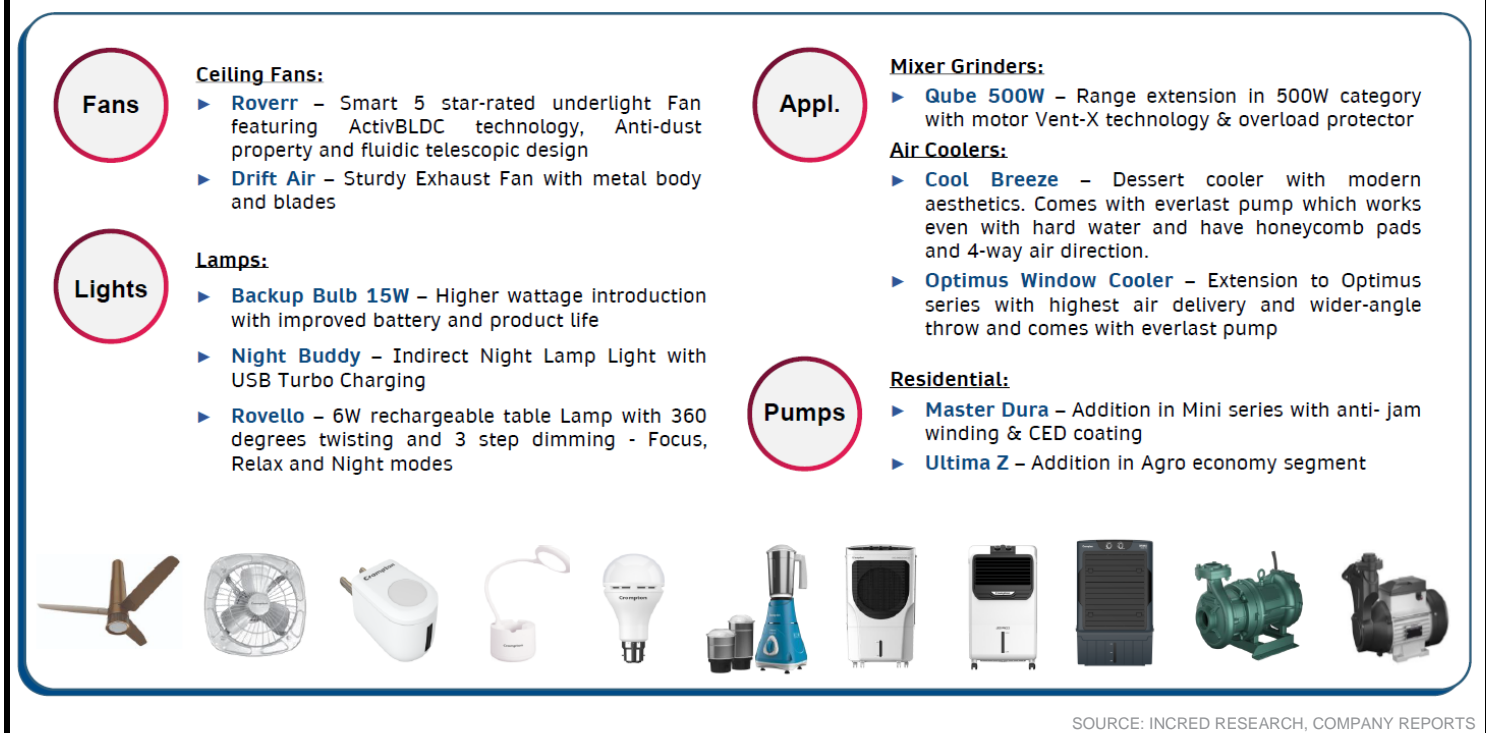


Figure 6: Key focus areas

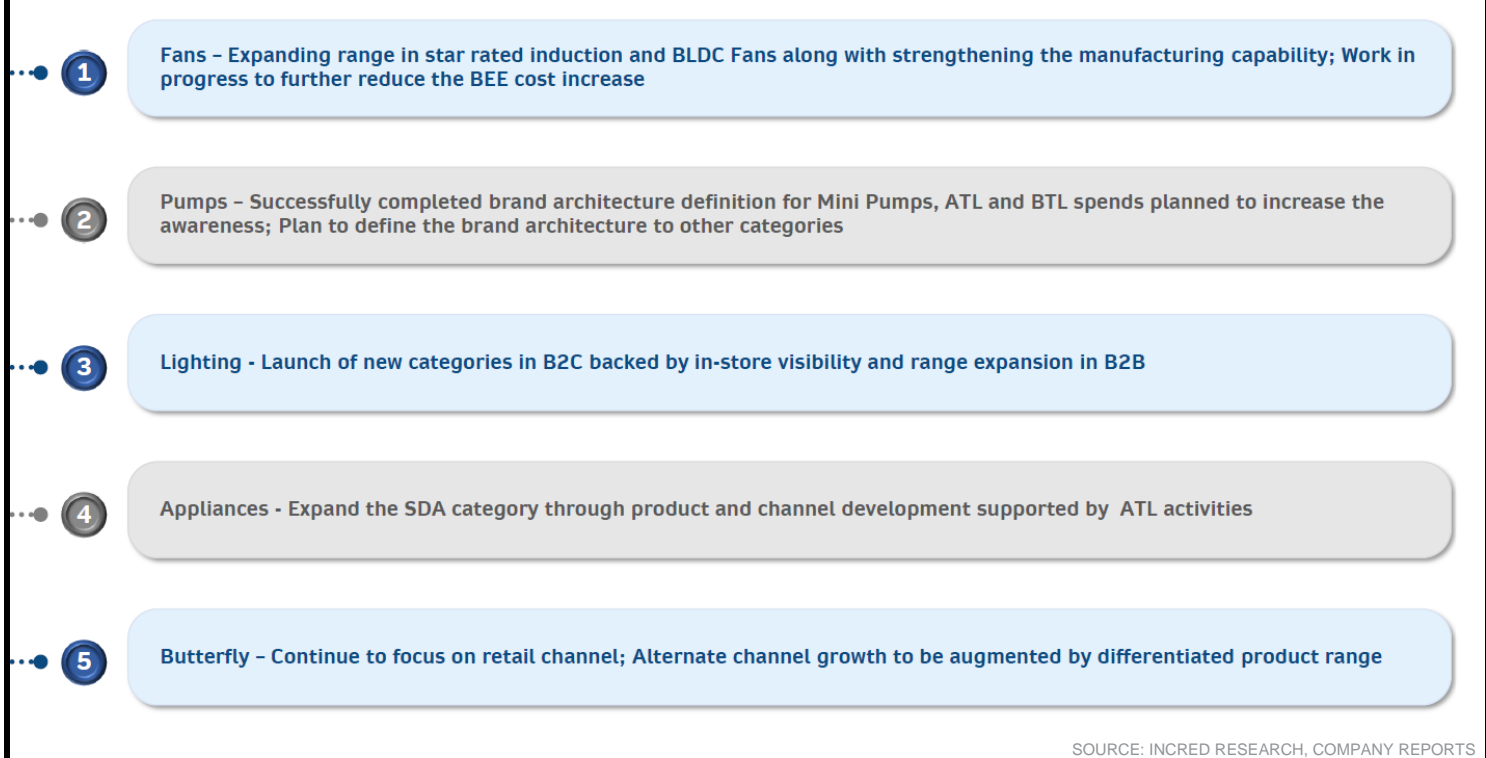


Figure 7: 4QFY23 results snapshot

YE Mar (Rs m)	4QFY23	4QFY22	yoy (%)	3QFY23	qoq (%)	FY23	FY22	yoy (%)
Revenue	17,910	15,479	15.7	15,162	18.1	68,696	53,941	27.4
EBITDA	2,114	2,288	(7.6)	1,524	38.7	7,705	7,694	0.1
EBITDA margin (%)	11.8	14.8	-297 bp	10.1	176 bp	11.2	14.3	-305 bp
Adj. PAT	1,312	1,895	(30.8)	853	53.9	4,411	5,913	(25.4)
Diluted EPS (Rs)	2.1	3.0		1.3		7.0	9.4	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: 4QFY23 segmental results snapshot

YE Mar (Rs m)	4QFY23	4QFY22	yoy (%)	3QFY23	qoq (%)	FY23	FY22	yoy (%)
Revenue								
ECD	13,257	12,309	7.7	10,201	30.0	10,581	10,736	(1.4)
Lighting products	2,786	3,170	(12.1)	2,477	12.5	47,557	42,918	10.8
Butterfly products	1,867	-	-	2,484	(24.9)	10,558	-	-
Total	17,910	15,479	15.7	15,162	18.1	68,696	53,653	28.0
EBIT								
ECD	2,177	2,279	(4.5)	1,617	34.6	1,005	1,278	(21.4)
Lighting products	303	448	(32.2)	255	19.1	7,893	8,267	(4.5)
Butterfly products	37	-	-	181	(79.3)	840	-	-
Total	2,518	2,727	(7.7)	2,052	22.7	9,738	9,545	2.0
EBIT margin (%)								
ECD	16.4	18.5	-210 bp	15.8	57 bp	9.5	11.9	-241 bp
Lighting products	10.9	14.1	-323 bp	10.3	61 bp	16.6	19.3	-267 bp
Butterfly products	2.0	-	-	7.3	-527 bp	8.0	-	-
Total	14.1	17.6	-356 bp	13.5	52 bp	14.2	17.8	-362 bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Actuals vs. our estimates

Rs m	4QFY23	4QFY23F	Var (%)
Revenue	17,910	17,253	3.8
EBITDA	2,114	2,233	(5.3)
EBITDA margin (%)	11.8	12.9	-114 bp
Adj. PAT	1,312	1,278	2.6

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 10: Actuals vs. Bloomberg consensus estimates

Rs m	4QFY23	4QFY23C	Var (%)
Revenue	17,910	17,441	2.7
EBITDA	2,114	2,031	4.1
EBITDA margin (%)	11.8	11.6	16 bp
Adj. PAT	1,312	1,214	8.1

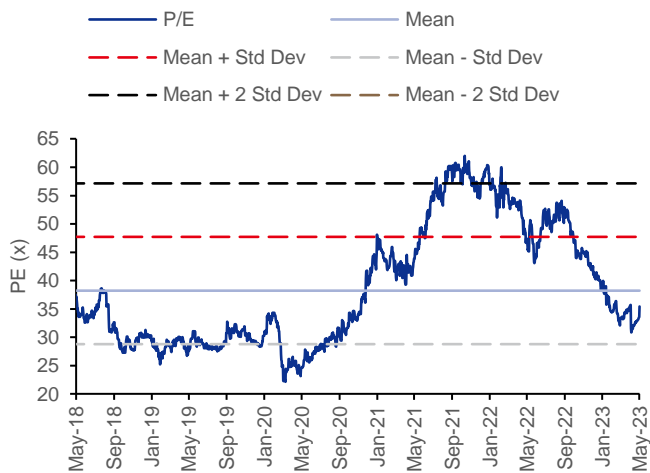
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 11: Our revised earnings estimates

	New estimates		Old estimates		Change (%)	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Revenue	77,208	85,999	76,235	83,928	1.3	2.5
EBITDA	9,125	10,422	9,872	11,120	-7.6	-6.3
Adjusted consol. PAT	5,607	6,791	6,287	7,426	-10.8	-8.6
EPS	8.8	10.7	9.9	11.7	-11.0	-8.8
EBITDA margin (%)	11.8	12.1	13.0	13.3	-113 bp	-113 bp

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 12: P/E standard deviation (since listing)



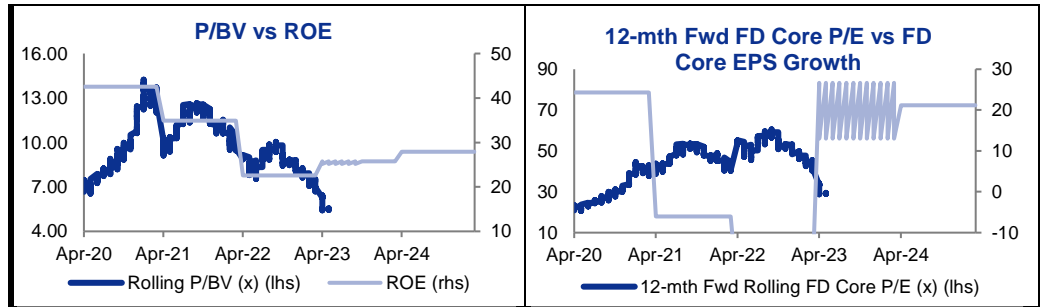
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 13: P/E band (one-year forward EPS)



SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Net Revenues	48,035	53,941	68,696	77,208	85,999
Gross Profit	15,363	16,923	21,893	24,707	27,864
Operating EBITDA	7,206	7,695	7,705	9,125	10,422
Depreciation And Amortisation	(297)	(423)	(1,159)	(1,182)	(1,209)
Operating EBIT	6,909	7,272	6,546	7,944	9,213
Financial Income/(Expense)	322	373	(660)	(538)	(240)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	7		15	16	17
Profit Before Tax (pre-EI)	7,238	7,645	5,901	7,421	8,990
Exceptional Items	767	(130)			
Pre-tax Profit	8,005	7,515	5,901	7,421	8,990
Taxation	(1,837)	(1,732)	(1,358)	(1,637)	(1,982)
Exceptional Income - post-tax					
Profit After Tax	6,168	5,784	4,543	5,784	7,008
Minority Interests			(132)	(177)	(217)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	6,168	5,784	4,411	5,607	6,791
Recurring Net Profit	5,577	5,884	4,411	5,607	6,791
Fully Diluted Recurring Net Profit	5,577	5,884	4,411	5,607	6,791

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
EBITDA	7,206	7,695	7,705	9,125	10,422
Cash Flow from Invt. & Assoc.					
Change In Working Capital	1,445	1,005	(1,039)	191	(226)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	112	265	(374)	(522)	(223)
Net Interest (Paid)/Received	115	68	633	538	240
Tax Paid	(575)	(1,798)	(1,399)	(1,637)	(1,982)
Cashflow From Operations	8,303	7,234	5,526	7,695	8,230
Capex	(198)	(1,712)	(791)	(500)	(550)
Disposals Of FAs/subsidiaries		6	83		
Acq. Of Subsidiaries/investments	(5,027)	(2,093)	(3,822)		(1,500)
Other Investing Cashflow	267	370	432	310	340
Cash Flow From Investing	(4,957)	(3,429)	(4,098)	(190)	(1,710)
Debt Raised/(repaid)	1,180	10,539	(7,179)	(3,500)	(3,500)
Proceeds From Issue Of Shares	73	603	416		
Shares Repurchased					
Dividends Paid	(1,874)	(1,564)	(1,578)	(2,544)	(3,181)
Preferred Dividends					
Other Financing Cashflow	(342)	(505)	(765)	(848)	(580)
Cash Flow From Financing	(963)	9,074	(9,105)	(6,892)	(7,261)
Total Cash Generated	2,384	12,879	(7,677)	612	(740)
Free Cashflow To Equity	4,526	14,344	(5,751)	4,004	3,021
Free Cashflow To Firm	2,917	3,452	336	6,657	5,941

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Cash And Equivalents	13,736	15,390	6,573	7,185	7,946
Total Debtors	4,912	6,154	6,861	7,404	8,247
Inventories	5,186	7,210	7,439	8,461	9,425
Total Other Current Assets	2,231	2,233	1,767	1,986	2,212
Total Current Assets	26,065	30,988	22,639	25,036	27,829
Fixed Assets	1,356	19,880	19,096	18,369	17,709
Total Investments		3	4	4	4
Intangible Assets	7,794	12,855	12,855	12,855	12,855
Total Other Non-Current Assets	957	760	1,859	1,905	1,905
Total Non-current Assets	10,106	33,498	33,813	33,131	32,472
Short-term Debt		16,370	3,250	2,017	783
Current Portion of Long-Term Debt					
Total Creditors	8,647	10,178	10,486	11,634	12,959
Other Current Liabilities	5,008	3,607	3,404	4,231	4,712
Total Current Liabilities	13,654	30,155	17,139	17,881	18,454
Total Long-term Debt	2,988	487	5,972	3,705	1,439
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	214	1,096	2,142	2,142	2,142
Total Non-current Liabilities	3,202	1,583	8,113	5,847	3,580
Total Provisions		394	123	123	123
Total Liabilities	16,857	32,132	25,375	23,851	22,157
Shareholders Equity	19,314	24,530	26,600	29,662	33,272
Minority Interests		7,825	4,477	4,654	4,871
Total Equity	19,314	32,354	31,077	34,317	38,144

Key Ratios					
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue Growth	6.3%	12.3%	27.4%	12.4%	11.4%
Operating EBITDA Growth	20.3%	6.8%	0.1%	18.4%	14.2%
Operating EBITDA Margin	15.0%	14.3%	11.2%	11.8%	12.1%
Net Cash Per Share (Rs)	17.01	(2.32)	(4.18)	2.30	9.00
BVPS (Rs)	30.56	38.87	41.98	46.63	52.31
Gross Interest Cover	16.10	20.59	6.00	9.37	15.88
Effective Tax Rate	22.9%	23.0%	23.0%	22.1%	22.1%
Net Dividend Payout Ratio	47.7%	20.5%	33.1%	35.1%	36.3%
Accounts Receivables Days	36.27	37.44	34.58	33.72	33.21
Inventory Days	54.86	61.12	57.12	55.27	56.15
Accounts Payables Days	84.25	92.81	80.57	76.89	77.20
ROIC (%)	55.4%	82.8%	18.5%	22.1%	26.2%
ROCE (%)	37.8%	22.2%	15.5%	20.5%	23.7%
Return On Average Assets	21.7%	14.4%	10.8%	13.9%	15.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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