

India

HOLD (previously ADD)

Consensus ratings*: Buy 33 Hold 12 Sell 1

Current price:	Rs300
Target price:	Rs307
Previous target:	Rs320
Up/downside:	2.3%
InCred Research / Consensus:	-7.0%
Reuters:	CROP.NS
Bloomberg:	CROMPTON IN
Market cap:	US\$2,646m Rs192,128m
Average daily turnover:	US\$12.4m Rs899.9m
Current shares o/s:	639.7m
Free float:	100.0%

*Source: Bloomberg

Key changes in this note

- FY24F/25F revenue cut by 3.6%/2.6%.
- FY24F/25F EBITDA cut by 10.2%/7.2%.
- FY24F/25F PAT cut by 7.4%/3.5%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	2.7	18.1	(22.2)
Relative (%)	3.8	12.5	(29.3)

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

Analyst(s)



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Crompton Greaves Consumer Electricals

Short-term business & margin reset likely

- Lower gross margin & higher opex led to consolidated EBITDA miss of 15-20% in 1QFY24. Ex-appliances, revenue was flat or down yoy across segments.
- Management reiterated its focus on absolute revenue/EBITDA growth led by market share gains and realignment of product portfolio/sales channels.
- We lower our revenue/EBITDA CAGR to 10%/12% over FY23-25F. Business restructuring benefits to be back-ended. Downgrade our rating to HOLD.

Ex-appliances, other segments saw sub-par revenue rise, margins

Crompton Greaves Consumer Electricals (CGCEL) 1QFY24 revenue/EBITDA/PAT stood at Rs18.8bn/1.8bn/1.2bn, +1%/ (16%)/(7%) yoy, missing our/Bloomberg consensus estimates by 5-20% respectively. Consol. gross/EBITDA margins were at 30.8%/9.9%, down 60bp/190bp yoy. Price correction in pumps, unabsorbed costs of BEE-rated fans and higher advertising expenses hit margins. ECD sales stood at Rs14.3bn, +6% yoy. Fan sales grew 5% yoy, pump sales were flat & appliance sales grew 19% yoy. The ECD segment's EBIT margin fell to 12.7%, down 425bp yoy, due to lower gross margin, higher advertising expenses (4.2% of sales vs. 3% yoy) and EBIT loss of Rs70m in the new BIK segment. The lighting segment's revenue was at Rs2.3bn, down 13% yoy, while the EBIT margin improved to 11.9%, +300bp yoy and 100bp qoq, led by structural cost reduction. Butterfly's revenue/EBIT stood at Rs2.2bn/Rs160m, down 14%/27% yoy, respectively.

Focus is on absolute growth vs. margins, realign products/channels

Management aspires to gain market share led by premium products, channel expansion and realigning product pricing. Ex-appliances, CGCEL is undergoing a restructuring across fan, pump, lighting and Butterfly divisions. The fan segment saw a lot of new product launches, with the share of premium fans improving to 28% vs. 24% yoy. The pump segment saw meaningful price cuts, residential pump portfolio rebranding and rural channel expansion (agri pump sales: +7% yoy). The lighting segment saw the launch of a new ceiling/outdoor lighting range, expansion of B2C channels and structural cost cuts. Butterfly continued its channel rebalancing in favour of general trade and modern retail. CGCEL targets faster-than-industry sales growth and higher absolute revenue/EBITDA vs. industry-leading segment margins. We feel the restructuring will impact revenue growth in FY24F and the company should see a meaningful pick-up in FY25F-26F.

Change in our estimates, valuation and risks

We cut revenue estimates by 2.6-3.6%, EBITDA by 7-10% and PAT by 3.5-7.4% for FY24-25F. This implies revenue/EBITDA/PAT CAGR of 10%/12%/17%, respectively, over FY23-25F. We expect a recovery in revenue growth and margins. Downgrade the stock to HOLD (from ADD) with a lower target price of Rs307 (P/E of 30x FY25F EPS). Upside risk: Quick recovery in revenue growth and margins. Downside risk: Delay in the restructuring process.

Financial Summary

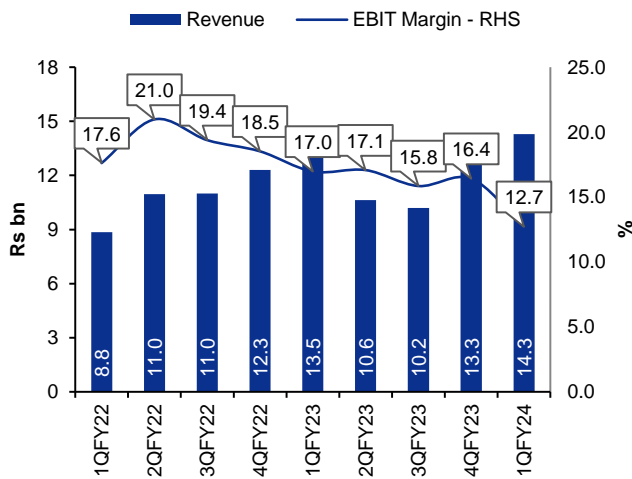
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	48,035	53,941	68,696	74,460	83,726
Operating EBITDA (Rsm)	7,206	7,695	7,705	8,191	9,670
Net Profit (Rsm)	6,168	5,784	4,764	5,194	6,556
Core EPS (Rs)	8.8	9.3	7.5	8.1	10.2
Core EPS Growth	12.4%	5.7%	(19.8%)	8.8%	26.0%
FD Core P/E (x)	30.77	32.77	40.17	36.92	29.31
DPS (Rs)	5.5	2.5	3.0	3.5	4.0
Dividend Yield	1.82%	0.83%	1.00%	1.16%	1.32%
EV/EBITDA (x)	24.85	25.84	25.76	23.79	19.72
P/FCFE (x)	41.93	13.22	(33.12)	51.66	72.05
Net Gearing	(55.6%)	4.5%	8.5%	(4.5%)	(16.3%)
P/BV (x)	9.83	7.73	7.19	6.49	5.72
ROE	32.8%	26.8%	18.6%	18.5%	20.8%
% Change In Core EPS Estimates				(7.69%)	(4.00%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

1QFY24 earnings-call highlights

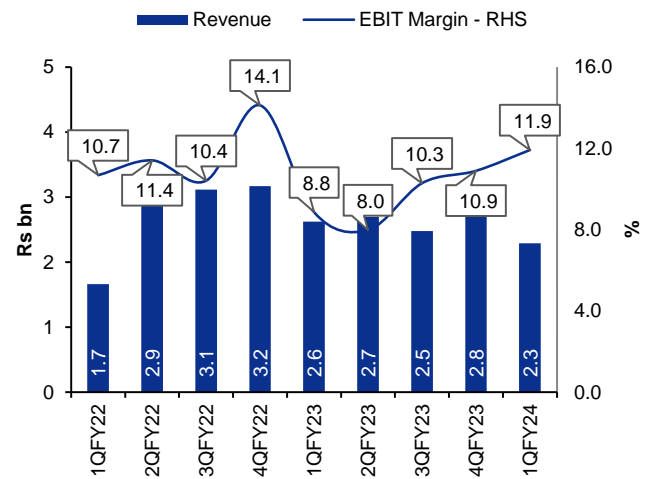
- **Fan business update:** 1Q fan revenue grew 5% yoy, with premium ceiling fan sales growing faster at 22% yoy. The premium fan mix improved to 28% vs. 25% yoy within total fan sales. BLDC fan sales grew by 80% yoy and the company sold approximately 300,000 BLDC fans in 1Q. As per management, CGCEL is the No.2 player in India in the BLDC segment. TPW sales were driven by more sales in East India, e-commerce and new product launches. CGCEL invested aggressively in media campaigns in 1Q, leading to a higher share of voice (SOV) at 35% within the industry.
- **Pump business update:** Agricultural (sales grew 7% yoy in 1Q) and specialty pump sales did well, which was offset due to flattish sales of residential pumps. Unseasonal rains led to lower-than-expected residential pump sales volume growth vs. management expectations. Alternate channel sales grew by 70% yoy.
- **Appliances:** The appliances segment's revenue grew by 19% yoy, led by a healthy growth in kitchen appliances and seasonally strong air-cooler sales. Water heater and air-cooler combined sales grew by 11% yoy while mixer-grinder sales grew by 50%+ in 1QFY24.
- **Built-in-kitchen (BIK) appliances:** Chimney and hob sales aided the recently launched built-in-kitchen appliance sales to touch Rs110m. The company incurred an EBIT loss of Rs70m (50bp impact on the ECD EBIT margin) in the BIK segment. The company operates 54 brand stores dedicated to BIK appliances and has its presence across 260 retail outlets at the end of Jun 2023.
- **Lighting segment update:** B2C demand remained weak for LED lighting products in 1QFY24. The company launched new premium products, expanded B2C reach and has also carved out B2C lighting as a separate business unit to enhance growth and margins in the segment. The fall in global LED prices led to channel destocking in the bulb and batten segment. Despite lighting revenue declining yoy, the EBIT margin improved to 11.9% due to direct and indirect structural cost-cutting initiatives.
- **Butterfly update:** General trade and modern retail sales grew in double digits yoy. The share of new products was at 14% of total sales in 1Q. As per management, Butterfly retained its market share, despite the kitchen appliance industry witnessing weak demand.
- **Advertising expenses:** CGCEL's (ex-Butterfly) advertising expenses stood at 4.2% of sales while for Butterfly they were at 5.4% of sales in 1QFY24. CGCEL achieved the highest share of voice (SOV) in the industry in media at 35% and 41% in the case of fans and air-coolers in 1Q.
- **Cash flow:** Consolidated cash PAT stood at Rs1.6bn. Gross cash (including equivalents) stood at Rs7.8bn at the end of Jun 2023 as compared to Rs6.6bn at the end of Mar 2023.

Figure 1: ECD revenue and EBIT trend



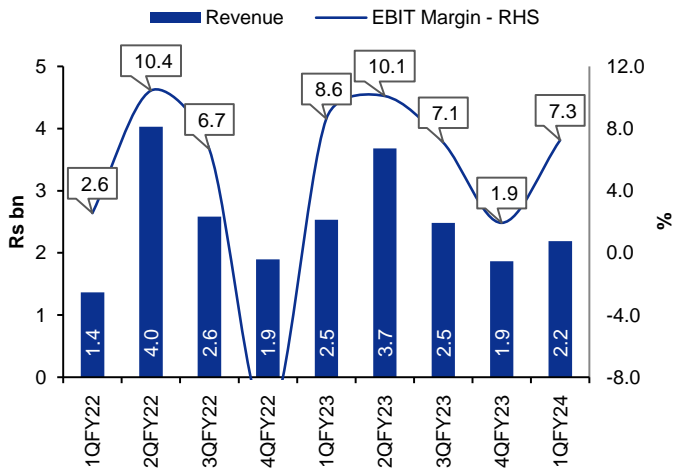
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Lighting revenue and EBIT trend



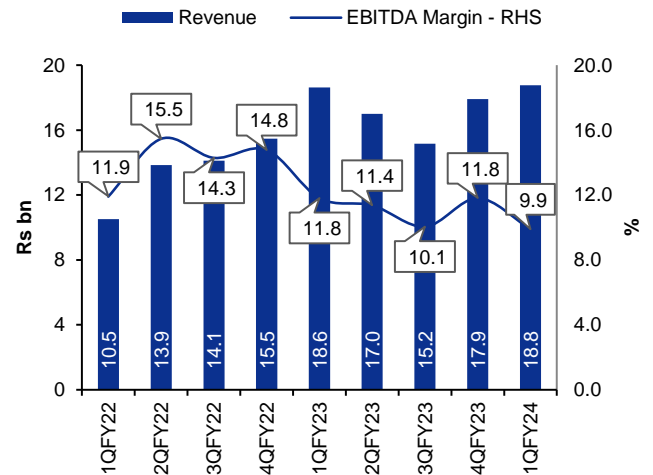
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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: 1QFY24 results snapshot

YE Mar (Rs m)	1QFY24	1QFY23	yoy (%)	4QFY23	qoq (%)
Revenue	18,769	18,629	0.7	17,910	4.8
EBITDA	1,858	2,199	(15.5)	2,114	(12.1)
EBITDA margin (%)	9.9	11.8	-191 bp	11.8	-191 bp
Adj. PAT	1,184	1,274	(7.1)	1,312	(9.7)
Diluted EPS (Rs)	1.9	2.0		2.1	

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 6: 1QFY24 segmental results snapshot

YE Mar (Rs m)	1QFY24	1QFY23	yoy (%)	4QFY23	qoq (%)
Revenue					
ECD	14,290	13,472	6.1	13,257	7.8
Lighting products	2,290	2,623	(12.7)	2,786	(17.8)
Butterfly products	2,189	2,535	(13.7)	1,867	17.3
Total	18,769	18,629	0.7	17,910	4.8
EBIT					
ECD	1,816	2,285	(20.5)	2,177	(16.6)
Lighting products	273	232	17.6	303	(10.1)
Butterfly products	160	219	(27.0)	37	327.9
Total	2,249	2,736	(17.8)	2,518	(10.7)
EBIT margin (%)					
ECD	12.7	17.0	-425 bp	16.4	-371 bp
Lighting products	11.9	8.8	307 bp	10.9	103 bp
Butterfly products	7.3	8.6	-134 bp	2.0	529 bp
Total	12.0	14.7	-270 bp	14.1	-207 bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Actuals vs. our estimates

Rs m	1QFY24	1QFY24F	Var (%)
Revenue	18,769	19,776	(5.1)
EBITDA	1,858	2,343	(20.7)
EBITDA margin (%)	9.9	11.8	-195 bp
Adj. PAT	1,184	1,448	(18.2)

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 8: Actuals vs. Bloomberg consensus estimates

Rs m	1QFY24	1QFY24C	Var (%)
Revenue	18,769	18,762	0.0
EBITDA	1,858	2,192	(15.3)
EBITDA margin (%)	9.9	11.7	-179 bp
Adj. PAT	1,184	1,313	(9.8)

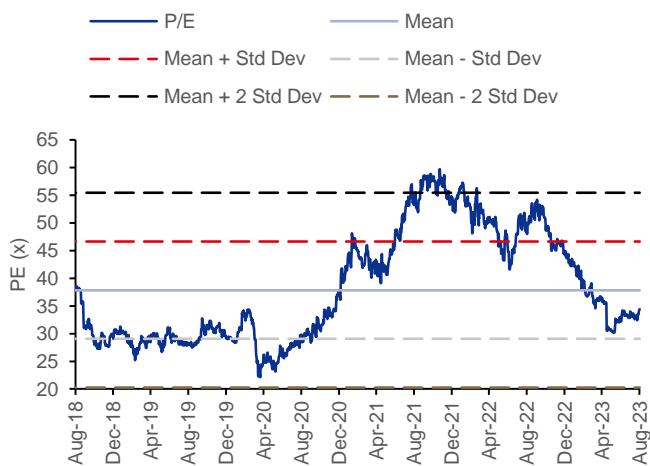
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 9: Our revised earnings estimates

	New estimates		Old estimates		Change (%)	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Revenue	74,460	83,726	77,208	85,999	-3.6	-2.6
EBITDA	8,191	9,670	9,125	10,422	-10.2	-7.2
Adjusted consol. PAT	5,194	6,556	5,607	6,791	-7.4	-3.5
EPS	8.1	10.2	8.8	10.7	-7.7	-4.0
EBITDA margin (%)	11.0	11.6	11.8	12.1	-82 bp	-57 bp

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

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



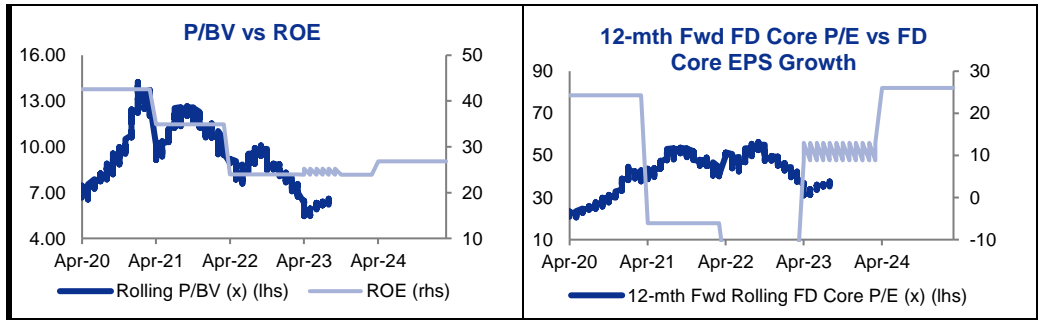
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

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



SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Net Revenues	48,035	53,941	68,696	74,460	83,726
Gross Profit	15,363	16,923	21,893	23,641	26,792
Operating EBITDA	7,206	7,695	7,705	8,191	9,670
Depreciation And Amortisation	(297)	(423)	(1,159)	(1,259)	(1,291)
Operating EBIT	6,909	7,272	6,546	6,932	8,380
Financial Income/(Expense)	322	373	(633)	(291)	163
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	7		209	250	150
Profit Before Tax (pre-EI)	7,238	7,645	6,122	6,890	8,693
Exceptional Items	767	(130)			
Pre-tax Profit	8,005	7,515	6,122	6,890	8,693
Taxation	(1,837)	(1,732)	(1,358)	(1,510)	(1,908)
Exceptional Income - post-tax					
Profit After Tax	6,168	5,784	4,764	5,380	6,784
Minority Interests				(186)	(228)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	6,168	5,784	4,764	5,194	6,556
Recurring Net Profit	5,577	5,884	4,764	5,194	6,556
Fully Diluted Recurring Net Profit	5,577	5,884	4,764	5,194	6,556

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
EBITDA	7,206	7,695	7,705	8,191	9,670
Cash Flow from Invt. & Assoc.					
Change In Working Capital	1,445	1,005	(1,039)	293	(251)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	112	265	(374)	(41)	313
Net Interest (Paid)/Received	115	68	633	291	(163)
Tax Paid	(575)	(1,798)	(1,399)	(1,510)	(1,908)
Cashflow From Operations	8,303	7,234	5,526	7,223	7,661
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	485	553
Cash Flow From Investing	(4,957)	(3,429)	(4,098)	(15)	(1,497)
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)	(2,226)	(2,544)
Preferred Dividends					
Other Financing Cashflow	(342)	(505)	(765)	(776)	(390)
Cash Flow From Financing	(963)	9,074	(9,105)	(6,502)	(6,434)
Total Cash Generated	2,384	12,879	(7,677)	706	(270)
Free Cashflow To Equity	4,526	14,344	(5,751)	3,708	2,664
Free Cashflow To Firm	2,917	3,452	336	6,432	5,774

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	7,279	8,509
Total Debtors	4,912	6,154	6,861	7,140	8,029
Inventories	5,186	7,210	7,439	8,160	9,175
Total Other Current Assets	2,231	2,233	1,859	2,015	2,266
Total Current Assets	26,065	30,988	22,731	24,594	27,979
Fixed Assets	1,356	19,880	19,096	18,341	17,601
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	1,855	1,855
Total Non-current Assets	10,106	33,498	33,814	33,055	32,314
Short-term Debt		16,370	3,250	2,017	783
Current Portion of Long-Term Debt					
Total Creditors	8,647	10,178	10,354	11,220	12,616
Other Current Liabilities	5,008	3,607	3,496	4,080	4,588
Total Current Liabilities	13,654	30,155	17,100	17,316	17,987
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	2,273	2,273	2,273
Total Non-current Liabilities	3,202	1,583	8,245	5,979	3,712
Total Provisions		394	123	123	123
Total Liabilities	16,857	32,132	25,468	23,418	21,822
Shareholders Equity	19,314	24,530	26,600	29,568	33,580
Minority Interests		7,825	4,477	4,663	4,891
Total Equity	19,314	32,354	31,077	34,231	38,471

Key Ratios					
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue Growth	6.3%	12.3%	27.4%	8.4%	12.4%
Operating EBITDA Growth	20.3%	6.8%	0.1%	6.3%	18.1%
Operating EBITDA Margin	15.0%	14.3%	11.2%	11.0%	11.6%
Net Cash Per Share (Rs)	17.01	(2.32)	(4.16)	2.44	9.83
BVPS (Rs)	30.56	38.87	41.74	46.31	52.49
Gross Interest Cover	16.10	20.59	6.00	8.93	21.50
Effective Tax Rate	22.9%	23.0%	22.2%	21.9%	22.0%
Net Dividend Payout Ratio	47.7%	20.5%	31.1%	33.2%	30.1%
Accounts Receivables Days	36.27	37.44	34.58	34.31	33.06
Inventory Days	54.86	61.12	57.12	56.02	55.57
Accounts Payables Days	84.25	92.81	80.06	77.48	76.41
ROIC (%)	55.4%	82.8%	18.5%	19.2%	23.9%
ROCE (%)	37.8%	22.2%	15.6%	18.4%	22.1%
Return On Average Assets	21.7%	14.4%	11.2%	12.6%	14.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
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been engaged in market making activity for the subject company	NO	NO

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