

## Conference call update

## White Goods & Durables

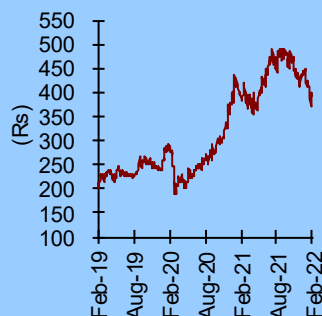
Target price Rs504

## Shareholding pattern

	Jun '21	Sep '21	Dec '21
Promoters	6.0	6.0	6.0
Institutional investors	83.8	83.8	83.4
MFs and others	31.5	30.8	31.2
FI/ Banks	10.6	9.9	10.4
FII	41.7	43.1	41.8
Others	10.2	10.2	10.6

Source: BSE

## Price chart



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# Crompton Greaves Consumer Electricals

**BUY**  
Maintained

## Early achievement of synergy benefits holds key **Rs408**

The acquisition of Butterfly will be earnings accretive in FY24 based on achievement of certain synergy benefits. That the key insight we understood from conference call with the management. Other key highlights (1) Existing promoters will cease to play any role in active management of the company, (2) Due to non-compete agreement, the existing promoters will not be allowed to use Butterfly brand, (3) merger of distribution network of both companies will provide some synergies for cross selling and (4) The company will have access to two strong brands and it also offers opportunities for cross selling. We maintain BUY rating on the stock with a DCF-based TP of Rs504 (implied P/E of 40x FY24E EPS).

Links for detailed notes on [Butterfly financials](#) and earnings accretion post [acquisition](#).

- **Existing promoters will play no active role in management:** Post completion of the transaction, existing promoters will hold ~9% stake in Butterfly but will step down from director and management positions and will have no active role. Further, they have signed non-compete agreement and cannot use Butterfly brand.
- **Merger of distribution network:** While Crompton has strong presence in small domestic appliances, it had limited offerings in kitchen segment. Post-acquisition, Butterfly will benefit with distribution network merger. Some outlets of Crompton will be able to sell Butterfly products. Crompton's retail network of 130,000 outlets and Butterfly's 25,000+ outlets will result in strong distribution synergies.
- **Efficiencies in sourcing:** Efficiencies in sourcing of raw materials, rationalization of logistics, synergies in distribution and media sourcing are expected to improve the profitability of Butterfly. The management guided to grow profits in line with revenues.
- **Earnings accretive acquisition from FY24:** The company has indicated that higher revenues, synergies in distribution, raw material sourcing, media buying, freight and transportation will help to improve margins. Even after adjusting for loss of other income, there will be earnings accretion in FY24.
- **Maintain BUY:** We model Crompton to report PAT CAGR of 8.6% over FY21-FY24E and RoE to be at ~28% over FY23-24E. We remain positive on the company's business model due to its competitive advantages and growth opportunities. We maintain BUY rating with a DCF-based TP of Rs504 (implied P/E of 40x FY24E EPS). Key risks: Delay in launch of new products and/or delay in expansion of distribution.

Market Cap	Rs257bn/US\$3.4bn
Reuters/Bloomberg	CROP / CROMPTON IN
Shares Outstanding (mn)	628.1
52-week Range (Rs)	492/355
Free Float (%)	94.0
FII (%)	41.8
Daily Volume (US\$'000)	9,530
Absolute Return 3m (%)	(8.2)
Absolute Return 12m (%)	7.5
Sensex Return 3m (%)	(2.3)
Sensex Return 12m (%)	16.2

Year to March	FY21	FY22E	FY23E	FY24E
Revenue (Rs mn)	48,035	55,190	63,069	72,165
Adj. Net Profit (Rs mn)	6,167	5,921	6,838	7,893
Dil. Rec. EPS (Rs)	9.8	9.4	10.9	12.6
% Chg YoY	24.2	(4.0)	15.48	15.44
P/E (x)	41.5	43.3	37.5	32.4
CEPS (Rs)	10.3	9.9	11.4	13.1
EV/EBITDA (x)	34.1	33.1	28.5	24.5
Dividend Yield (%)	1.3	1.5	1.6	1.6
RoCE (%)	34.0	36.7	36.6	36.6
RoE (%)	31.9	27.6	28.2	28.2

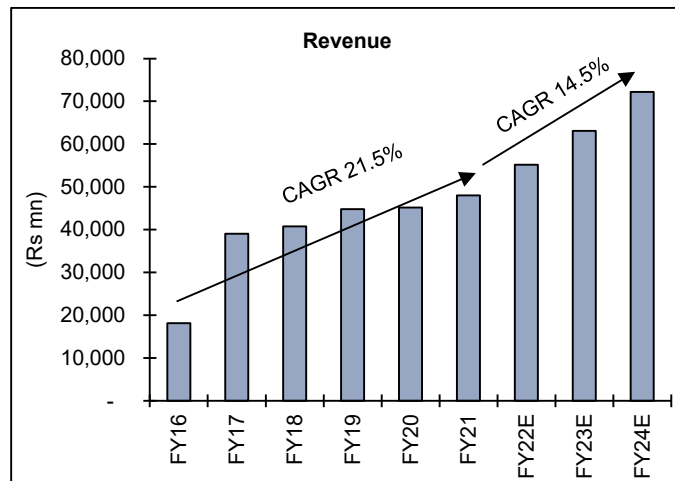
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## Key takeaways from the conference call and investor presentation

- Butterfly has been delivering industry leading revenue growth with very competitive margins for the last 4-5 years, operating in small domestic appliances, a key focus area of Crompton (due to its high potential of growth). Further, kitchen appliances offer opportunity for long-term growth, led by latest trends of working women and nuclear families.
- Butterfly has market leading positions in key kitchen appliance categories, and strong brand equity. The brand is more developed in south India. Now Crompton has opportunity to grow the business in non-south regions.
- Butterfly has four manufacturing facilities, and ~80% of its revenue comes from in-house manufactured products. Factories are backward integrated which is a critical capability.
- It also brings design capabilities with strong R&D. Further, it will result in cost efficiencies in procurement and logistics.
- First objective – stabilize Butterfly business after this transition and ensure it continues to deliver the growth it has been delivering. Second objective – after stabilization over few months, management will look into building new capabilities, same way the company restructured the Crompton consumer business.
- About 80% revenue of Butterfly comes from mixers, wet grinders, cookers, and hobs and gas stoves. 100% business is B2C.
- Kitchen appliances is a Rs80bn segment which offers long-term potential. Post-acquisition, Crompton is now a key player in both the small domestic appliances and kitchen appliances.
- The company targets to be a leading brand in kitchen with improving customer experience in the kitchen segment.
- Currently, the company is not thinking of changing any brand name, but over time with larger size and scale there will be space for two brand positioning as premium and economy.
- Crompton's balance sheet will allow higher branding and GTM investments in the business to Butterfly too.
- The management targets to grow revenues faster than industry, and grow profits at least in line with revenue growth.
- Existing promoters will hold ~9% of BGMAL. They will step down from director and management positions as well, and will have no active role in operations.
- The company has signed comprehensive non-compete agreement with promoters of Butterfly. Promoters and their immediate family cannot enter into the business categories for a definite period of time. Further, they cannot use Butterfly brand name.
- The management indicated the transaction will be EPS accretive from year two (FY24).

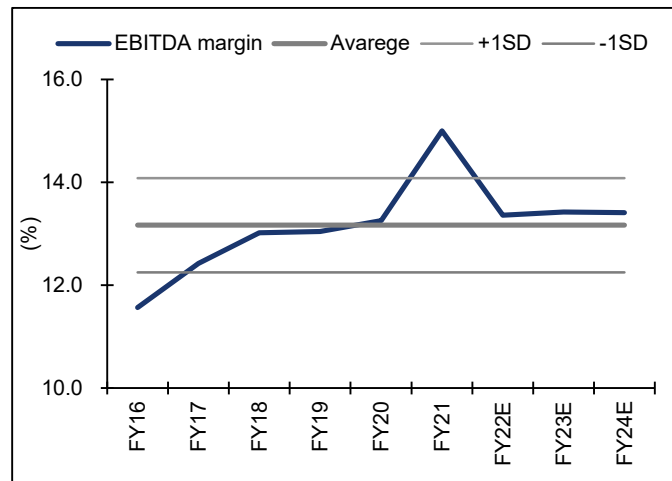
## Key ratios – Annual

### Chart 1: Revenue and revenue growth



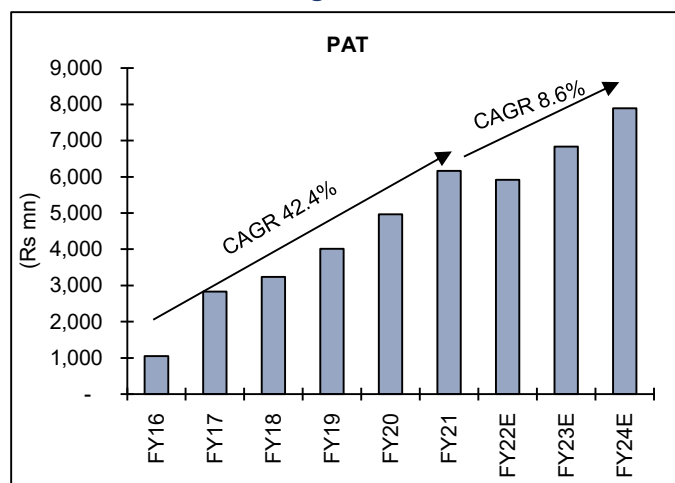
Source: Company data, I-Sec research

### Chart 2: EBITDA margin



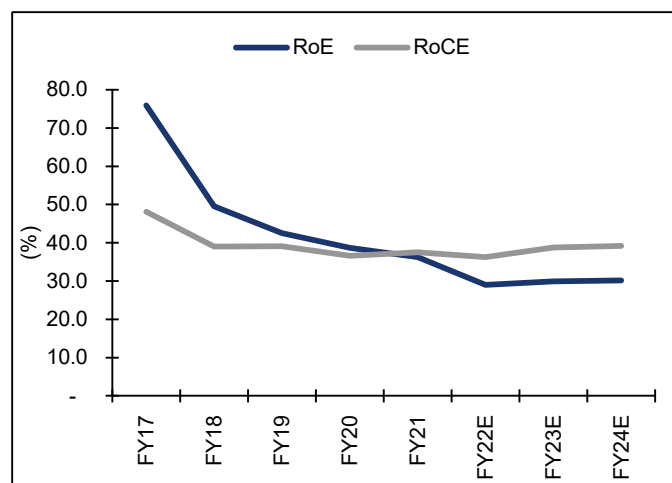
Source: Company data, I-Sec research

### Chart 3: PAT and PAT growth



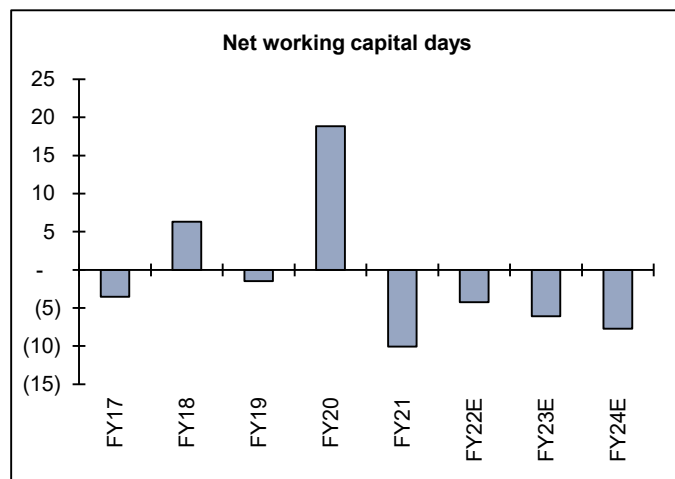
Source: Company data, I-Sec research

### Chart 4: RoE and RoCE



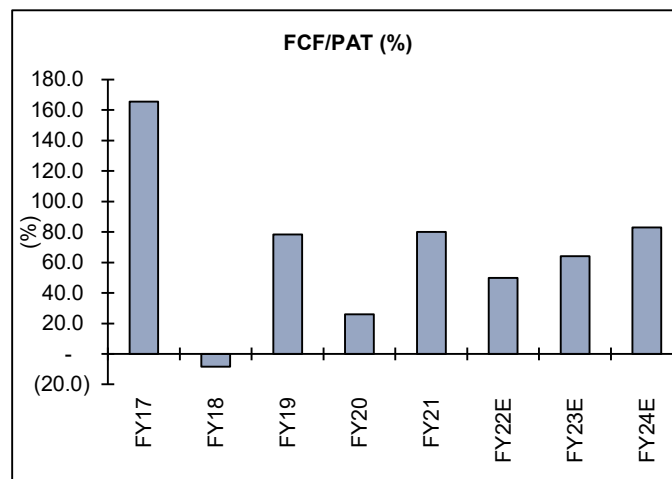
Source: Company data, I-Sec research

### Chart 5: Net working capital days



Source: Company data, I-Sec research

### Chart 6: FCF/PAT (%)



Source: Company data, I-Sec research

## Valuation and risks

We model Crompton to report revenue and PAT CAGRs of 14.5% and 8.6% over FY21-FY24E and RoCE to increase to 36.6% in FY24E from 34% in FY21. At our DCF-based target price of Rs504, the implied P/E works out to 40x FY24E EPS. Maintain BUY.

**Table 1: DCF-based valuation**

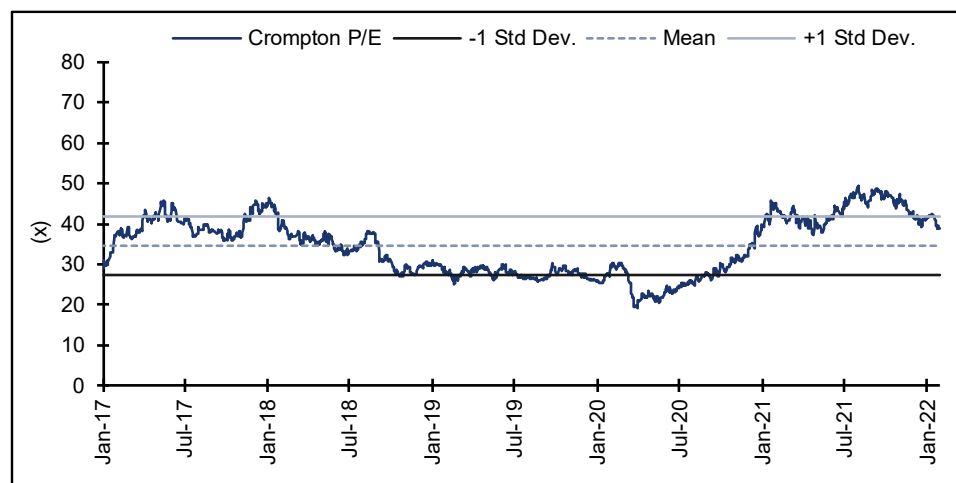
Particulars	Amt (Rs)
Cost of Equity (%)	10.3%
Terminal growth rate (%)	5.0%
Discounted interim cash flows (Rs mn)	90,274
Discounted terminal value (Rs mn)	2,26,087
Total equity value (Rs mn)	3,16,361
<b>Value per share (Rs)</b>	<b>504</b>

Source: Company data, I-Sec research

## Mean P/E and standard valuation

The stock has traded at an average P/E of 34.5x over the past five years. Considering strong earnings growth now and improving return ratios, we expect the company to trade at premium to historical average.

**Chart 7: Mean P/E (x) and standard deviation**



Source: Company data, I-Sec research

## Risks

### Sharp increase in input prices and competitive pressures

Major increase in input prices and/or increase in competitive pressures will result in downside to our estimates.

### Delays in launch of new plants/products

Any delays in launch of new products and/or plants may result in lower earnings than estimated.

## Financial summary

Table 2: Profit &amp; Loss statement

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
Operating Income	48,035	55,190	63,069	72,165
Operating Expenses	40,830	47,817	54,602	62,489
EBITDA	7,205	7,373	8,466	9,676
% margins	15.0	13.4	13.4	13.4
Depreciation & Amortisation	297	309	326	346
Gross Interest	429	278	49	49
Other Income	758	1,005	906	1,105
PBT	7,236	7,791	8,997	10,386
Add: Extraordinaries	-	0	0	0
Less: Taxes	1,070	1,870	2,159	2,493
Reported Net Income	6,167	5,921	6,838	7,893
Recurring Net Income	6,167	5,921	6,838	7,893

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
<b>Assets</b>				
Total Current Assets	26,067	26,039	30,523	36,400
Cash and Current Investments	13,737	12,315	15,160	19,142
Total Current Liabilities	13,656	14,365	16,415	18,783
Net Current Assets	12,410	11,674	14,108	17,617
Loans and advances	262	262	262	262
Deferred Tax Assets	586	586	586	586
Net Fixed Assets with CWIP	9,259	9,449	9,773	10,077
Total Assets	22,517	21,971	24,729	28,542
<b>Liabilities</b>				
Borrowings	2,988	288	288	288
Provisions	214	214	214	214
Equity Share Capital	1,255	1,255	1,255	1,255
Face Value per share (Rs)	2.0	2.0	2.0	2.0
Reserves & Surplus*	18,059	20,214	22,971	26,785
Net Worth	19,314	21,469	24,227	28,040
Total Liabilities	22,517	21,971	24,729	28,542

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
Operating Cash flow ex WC	6,858	6,230	7,164	8,239
Working Capital Changes	1,445	(685)	410	474
Capital Commitments ex asset sale	5,229	1,750	1,900	1,900
Free Cash Flow	3,074	3,795	5,674	6,813
Cash flow from Investing Activities	(4,957)	(1,750)	(1,900)	(1,900)
Inc (Dec) in Borrowings	1,373	(2,700)	-	-
Dividend paid including taxes	3,452	-	-	-
Cash flow from Financing Activities	(962)	(6,466)	(4,080)	(4,080)
Chg. in Cash & Bank balance	2,384	(2,671)	1,594	2,733

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY21	FY22E	FY23E	FY24E
<b>Per Share Data (in Rs.)</b>				
EPS(Basic Recurring)	9.8	9.4	10.9	12.6
Diluted Recurring EPS	9.8	9.4	10.9	12.6
Recurring Cash EPS	10.3	9.9	11.4	13.1
Dividend per share (DPS)	5.5	6.0	6.5	6.5
Book Value per share	30.8	34.2	38.6	44.7
FCF per share	4.9	6.0	9.0	10.9
<b>Growth Ratios (%)</b>				
Revenue	6.3	14.9	14.3	14.4
EBITDA	20.3	2.3	14.8	14.3
Recurring Net Income	24.2	(4.0)	15.5	15.4
<b>Valuation Ratios (x)</b>				
P/E	41.5	43.3	37.5	32.4
P/CEPS	39.6	41.1	35.7	31.1
P/BV	13.3	11.9	10.6	9.1
EV / EBITDA	34.1	33.1	28.5	24.5
EV / FCF	79.8	64.3	42.5	34.8
FCF Yield(%)	1.2	1.5	2.2	2.7
<b>Operating Ratio (%)</b>				
Inventory Days	39.4	39.0	39.0	39.0
Receivables (days)	37.3	37.0	37.0	37.0
Other Current Liabilities Days	38.1	35.0	35.0	35.0
Payables (days)	65.7	60.0	60.0	60.0
WC Days	(27)	(19)	(19)	(19)
Net D/E Ratio (x)	(0.6)	(0.6)	(0.6)	(0.7)
Net D/EBITDA Ratio (x)	(1.5)	(1.6)	(1.8)	(1.9)
Asset Turnover(x)	2.1	2.5	2.6	2.5
<b>Profitability Ratio (%)</b>				
Recurring Net Income Margins	12.8	10.7	10.8	10.9
RoCE	34.0	36.7	36.6	36.6
RoE	31.9	27.6	28.2	28.2
Dividend Payout Ratio	0.6	0.6	0.6	0.5
EBITDA Margins	15.0	13.4	13.4	13.4

Source: Company data, I-Sec research

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