



TM

Crompton Greaves Consumer

06 September 2022

Targets pan-India leadership in kitchen appliances

COMPANY UPDATE

Sector: Consumer Electricals Rating: HOLD

CMP: Rs 413 Target Price: Rs 426

Stock Info

Sensex/Nifty	59,197/17,656
Bloomberg	CROMPTON IN
Equity shares (mn)	633.7
52-wk High/Low	492/317
Face value	Rs 2
M-Cap	Rs 262bn/USD 3.4bn
3-m Avg turnover	USD 12.3mn

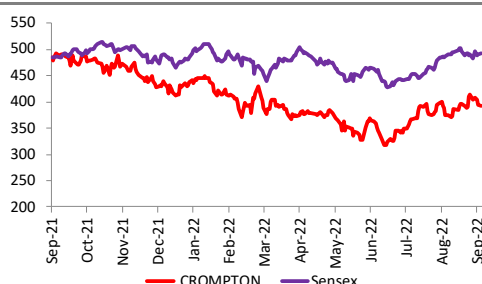
Financial Snapshot (Rs mn)

Y/E Mar	FY22	FY23E	FY24E
Net sales	53,941	73,630	84,047
EBITDA	7,695	9,671	12,114
OPM (%)	14.3	13.1	14.4
PAT (adj.)	5,784	5,954	7,708
EPS (Rs)	9.1	9.4	12.2
PE (x)	45.2	43.9	33.9
P/B (x)	10.7	9.5	8.3
EV/EBITDA (x)	34.1	27.0	22.1
RoE (%)	23.6	21.6	24.4
RoCE (%)	21.9	16.5	18.5
Net-D/E (x)	0.0	(0.0)	0.1

Shareholding Pattern (%)

	Jun'22	Mar'22	Dec'21
Promoter	5.9	5.9	6.0
- Pledged			
FII	37.3	38.0	40.2
DII	45.0	44.4	43.2
Others	11.8	11.7	10.7

Stock Performance (1-year)



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Strong distribution reach and a lean cost structure are reasons why Crompton Greaves Consumer (CROMPTON) has gained market share in key categories (fans, pumps, lighting, geysers, etc.) and maintained a superior margin profile. By acquiring South India-based company Butterfly, CROMPTON is targeting pan-India leadership as a kitchen appliance brand through a 15-20% share in the Rs 100bn addressable market (holds the top 3 position in mixer grinders, pressure cookers and gas stoves). Our estimate of 25%/26%/15% CAGR in revenue/EBITDA/PAT over FY22-24E (7%/10%/16% over FY18-22, respectively), with 14.4% EBITDA margin and ~24% RoE, is largely driven by the Butterfly acquisition. While we expect healthy growth and margins to improve in the core and Butterfly businesses, consolidated earnings and return ratios could bear the impact of Butterfly's relatively weak operating metrics and fall in other income resulting from cash outflows towards the acquisition. At ~34x FY24E P/E on CMP, we maintain HOLD rating on the stock, with an unchanged target price of Rs 426, based on 35x FY24E P/E (in line with peers). Integration of Butterfly business is key near-to-medium-term monitorable.

Kitchen appliances – targets 15-20% addressable market share: The Butterfly acquisition has helped CROMPTON's big bang expansion in the kitchen appliances segment, as it targets 1) 15-20% share in this Rs 100bn addressable market (holds the top 3 position in mixer grinders, pressure cookers and gas stoves), 2) industry-leading margins, and 3) healthy cash flows. Butterfly is a 35-year old brand with a high consumer recall in South India. Nearly 80% of its revenue is from in-house manufactured products sold through 500+ distributors and 25,000+ retail touchpoints. After clocking in ~Rs 10bn revenue (FY17-22 CAGR of ~20%) and a low 4.4% EBIT margin in FY22, we estimate ~13% revenue CAGR over FY22-24E, and ~10% EBIT margin in FY24E.

Core ECD categories continue on a strong footing: Premiumization has enabled CROMPTON to consistently gain market share in its core categories (~28% in fans, ~25% in domestic pumps, ~13% in geysers). While a rebound in demand has structurally improved the outlook on B2C LED business, the B2B/B2G lighting business is yet to recover from the COVID-19 pandemic impact. CROMPTON's focus on product innovation, portfolio expansion, premiumization, network expansion (rural and weaker regions) and digitization should help it sustain the momentum. We estimate ~15% CAGR in revenue and 100bps better EBIT margin at 14% from the core business over FY22-24E.

Exhibit 1: Five key levers to help attain pan-India leadership







Source: Company

Exhibit 2: CROMPTON is a leading consumer electrical products company with a pan-India footprint

Source: Market size and market growth estimates based on Market Pulse and Management Estimates Note: (1) Market growth across categories (2) SKUs launched in the last 3 years are classified as new products (3) PAT CAGR is calculated based on reported PAT for FY16-22. (4) RoCE is adjusted for Butterfly acquisition.

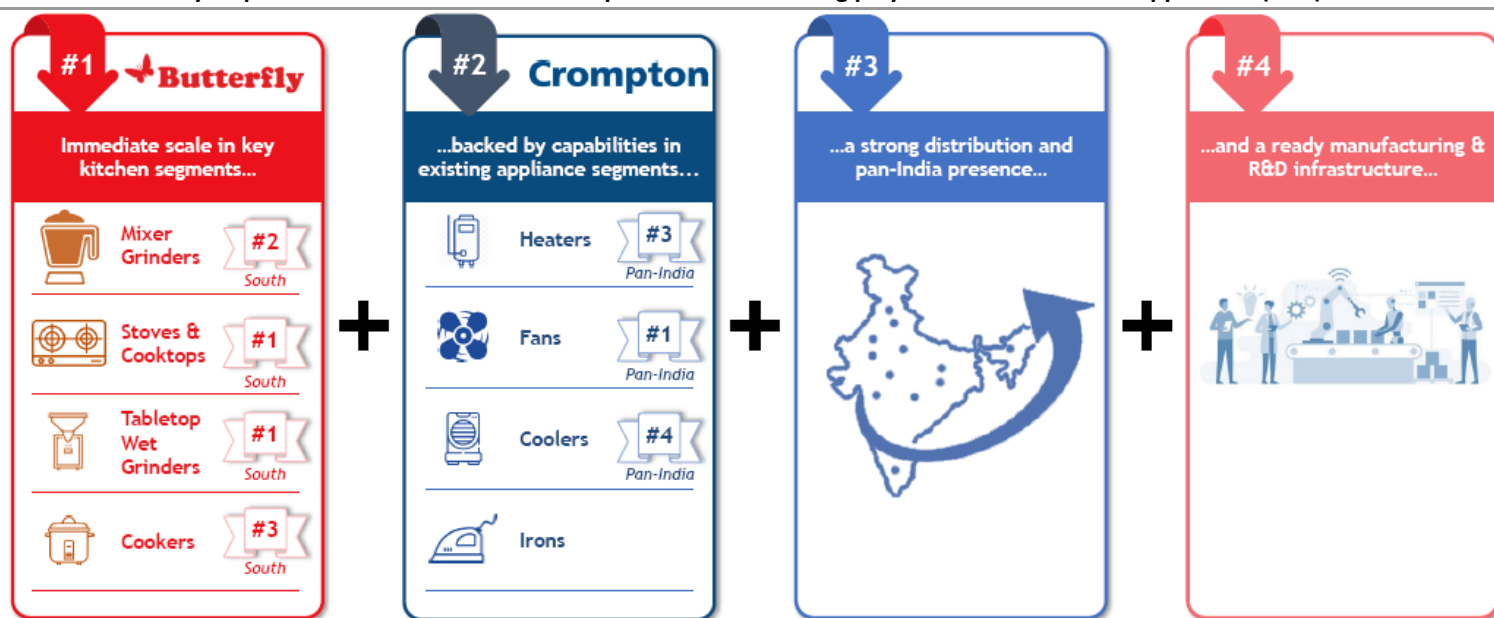
Source: Company

Exhibit 3: CROMPTON commands leadership in fans and residential pumps

				
	Fans	Lighting	Pumps	Appliances
Market Share	28%	8% (LED Lighting)	17%	13% (Water Heater) 8% (Air Coolers)
Market Position	#1	#3	#2	#3 (Water Heater) #4 (Air Coolers)
Product Portfolio	<ul style="list-style-type: none"> Ceiling Fans Table Fans Pedestal Fans Wall-mounted Fans Ventilating Fans Heavy-Duty Exhaust Fans Air Circulators Industrial Fans 	<ul style="list-style-type: none"> LED Lamps LED Battens & Panels LED Streetlights and Floodlights High Mast/ Streetlighting Poles Interior and Architectural Lighting High Intensity Discharge Lamps Incandescent Lamps CFL/FTL 	<ul style="list-style-type: none"> Residential Pumps Agricultural Pumps Solar Pumps Specialty Pumps 	<ul style="list-style-type: none"> Water Heaters Air Coolers Mixer Grinders Irons Small Kitchen Appliances

Source: Market Pulse data for Fans and Lighting; Management Estimates for Pumps, Water Heaters and Air Coolers

Source: Company

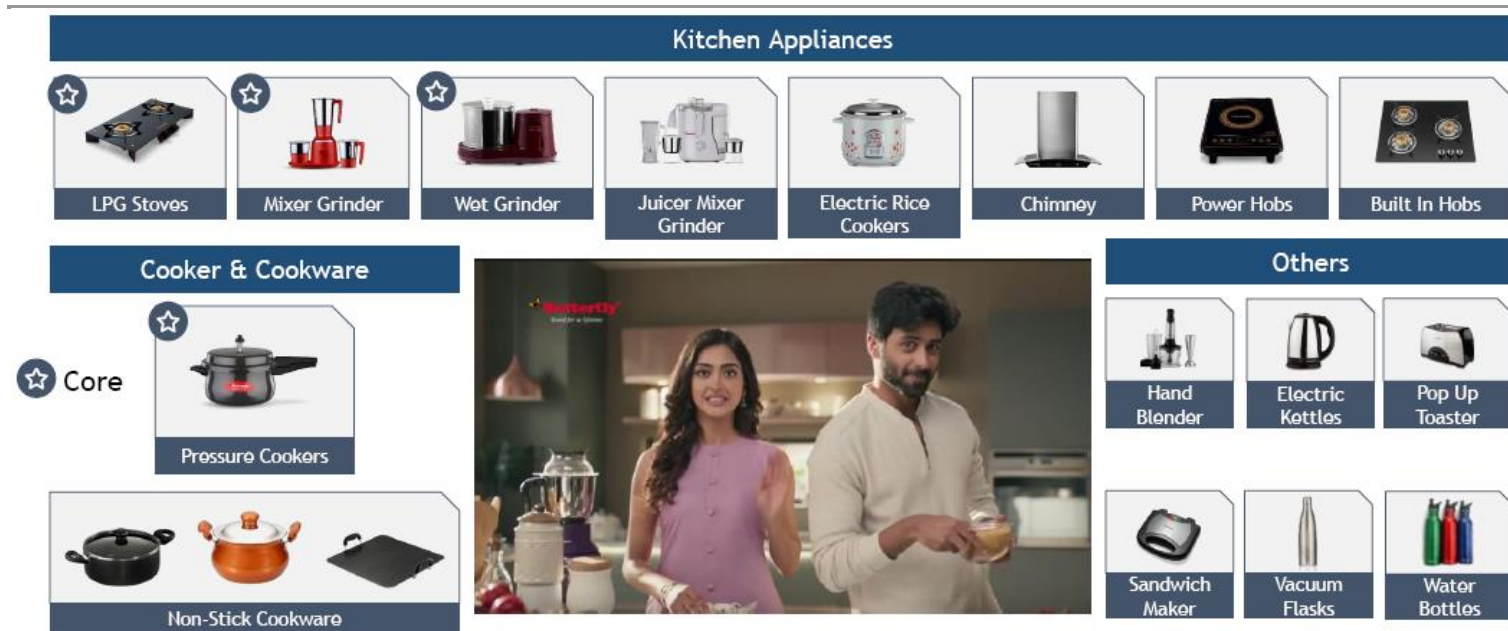
Exhibit 4: Butterfly acquisition – a transformational step to become a leading player in Small Domestic Appliances (SDA)

Source: Company

Exhibit 5: Butterfly is a leading kitchen appliances player with a strong foothold in South India


Source: Company

Exhibit 6: Butterfly's product portfolio – an entire range of kitchen appliances that increases connect with the entire household



Source: Company

Exhibit 7: Butterfly's 3 core categories account for >50% of the branded kitchen appliances market; a ~5% market share represents tremendous opportunity for growth

Category	FY22 Est. Market Size (INR Cr)	FY22 Butterfly Sales (INR Cr)	FY22 Butterfly Market Share
 Mixers Grinders (incl. Wet Gr.)	3,500-3,800	401	~11%
 Pressure Cookers	3,000-3,200	169	~5%
 Gas Stoves	3,000-3,200	248	~8%
 Others ¹	8,500-9,000	198	~2%
Total	18,000-19,000	1,005	~5%

Core Categories

1. Others include non-stick cookware, chimneys, hobs, induction stoves, electric kettles, rice cookers, OTG, sandwich makers, water purifiers & coffee makers
Market size estimates done for branded players

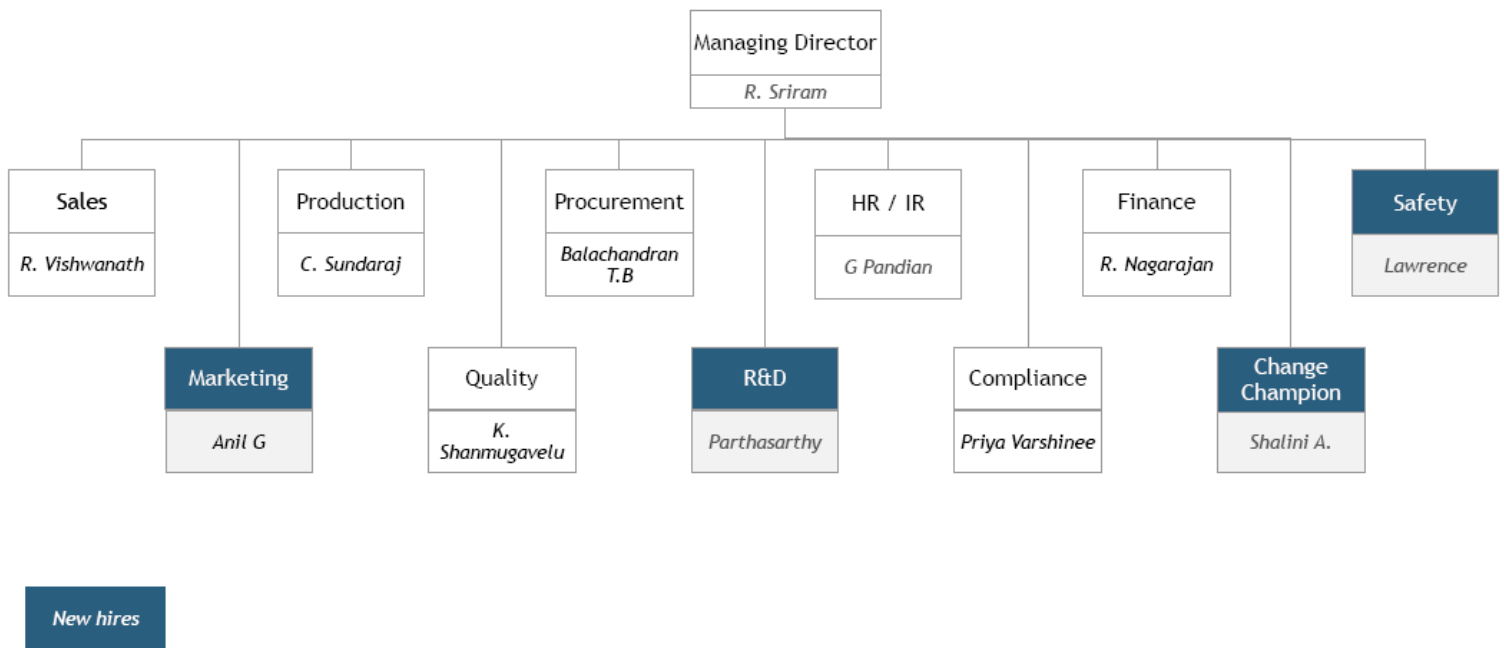
Source: Company

Exhibit 8: Butterfly - Strengthening organizational capabilities



Source: Company

Exhibit 9: Butterfly – Key capability gaps bridged to enable growth in future



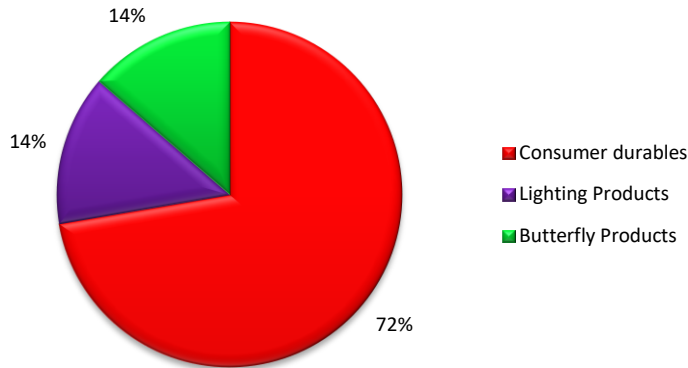
Source: Company

Exhibit 10: Crompton Greaves Consumer – Quarterly result summary

(Rs mn)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	YoY (%)	QoQ (%)	FY22	FY21	YoY (%)
Total Income	10,505	13,851	14,106	15,479	18,629	77	20	53,941	48,035	12
Raw material costs	7,107	9,416	9,638	10,857	12,780	80	18	37,018	32,672	13
Employee costs	885	962	941	835	1,434	62	72	3,624	3,366	8
Other expenses	1,263	1,332	1,511	1,499	2,216	75	48	5,605	4,792	17
EBITDA	1,250	2,141	2,015	2,288	2,199	76	(4)	7,695	7,205	7
Depreciation	76	101	102	145	276	264	90	423	297	42
Finance costs	101	80	67	106	225	124	113	353	429	(18)
Other income	196	169	140	222	104	(47)	(53)	727	758	(4)
PBT	1,270	2,129	1,987	2,129	1,739	37	(18)	7,515	7,236	4
Tax	322	541	505	364	479	49	32	1,732	1,070	62
PAT	948	1,588	1,483	1,766	1,260	33	(29)	5,784	6,167	(6)
EPS (Rs)	1.5	2.5	2.4	2.8	2.0	32	(29)	9.1	9.7	(6)
As % Total Income						YoY (bps)	QoQ (bps)			YoY (bps)
Gross margin	32.3	32.0	31.7	29.9	31.4	(95)	154	31.4	32.0	(61)
Employee costs	8.4	6.9	6.7	5.4	7.7	(73)	230	6.7	7.0	(29)
Other expenses	12.0	9.6	10.7	9.7	11.9	(13)	221	10.4	10.0	41
EBITDA margin	11.9	15.5	14.3	14.8	11.8	(10)	(297)	14.3	15.0	(73)
Depreciation	0.7	0.7	0.7	0.9	1.5	76	54	0.8	0.6	17
Finance costs	1.0	0.6	0.5	0.7	1.2	25	53	0.7	0.9	(24)
Other income	1.9	1.2	1.0	1.4	0.6	(131)	(87)	1.3	1.6	(23)
Effective tax rate	25.4	25.4	25.4	17.1	27.6	217	1,048	23.0	14.8	826
PAT	9.0	11.5	10.5	11.4	6.8	(226)	(464)	10.7	12.8	(212)
Segment Revenues						YoY (%)	QoQ (%)			YoY (%)
ECD	8,844	10,964	10,993	12,309	13,472	52	9	43,110	37,571	15
Lighting	1,661	2,887	3,113	3,170	2,623	58	(17)	10,831	10,464	4
Butterfly Products	-	-	-	-	2,535	-	-	-	-	-
Total	10,505	13,851	14,106	15,479	18,629	77	20	53,941	48,035	12
Mix (%)										
Consumer products	84	79	78	80	72			80	78	
Lighting Products	16	21	22	20	14			20	22	
Butterfly Products	-	-	-	-	14			-	-	
Segment EBIT						YoY (%)	QoQ (%)			YoY (%)
ECD	1,558	2,300	2,130	2,279	2,285	47	0	8,267	7,392	12
Lighting	177	329	324	448	232	31	(48)	1,278	1,317	(3)
Butterfly Products	-	-	-	-	219	-	-	-	-	-
Total	1,735	2,629	2,454	2,727	2,736	58	0	9,545	8,710	10
Unallocated income/(exp)	(364)	(420)	(400)	(363)	(708)			(1,547)	(1,044)	
EBIT (%)						YoY (bps)	QoQ (bps)			YoY (bps)
ECD	17.6	21.0	19.4	18.5	17.0	(65)	(155)	19.2	19.7	(50)
Lighting	10.7	11.4	10.4	14.1	8.8	(183)	(527)	11.8	12.6	(79)
Butterfly Products	-	-	-	-	8.6	-	-	-	-	-
Total	16.5	19.0	17.4	17.6	14.7	(183)	(293)	17.7	18.1	(44)
Unallocated income/(exp)	(3.5)	(3.0)	(2.8)	(2.3)	(3.8)			(2.9)	(2.2)	

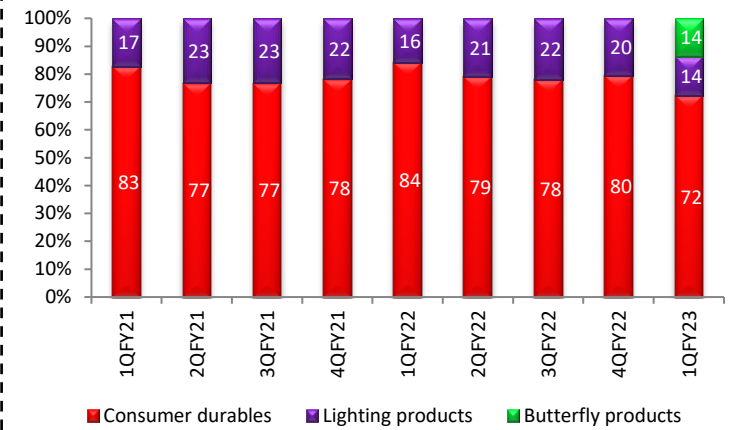
Source: Company, Systematix Institutional Research; *Note: Segment EBIT margin is as per reported numbers and not adjusted for the un-allocable expenses/income

Exhibit 11: Revenue mix – 1QFY23



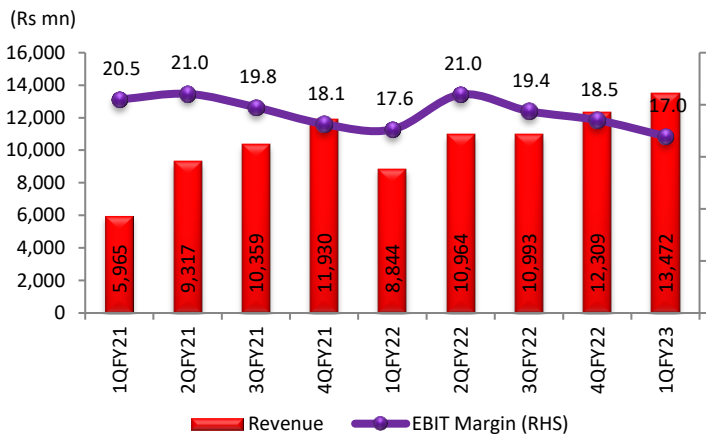
Source: Company, Systematix Institutional Research

Exhibit 12: Revenue mix – Quarterly trend



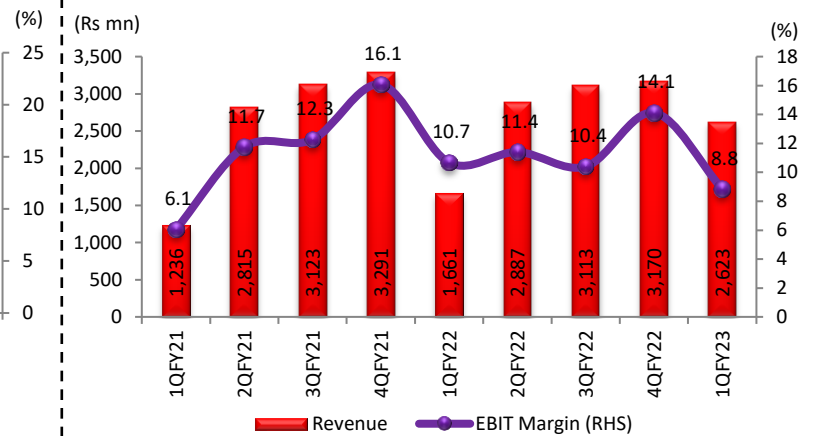
Source: Company, Systematix Institutional Research

Exhibit 13: ECD - Revenue and EBIT margin (%) trend



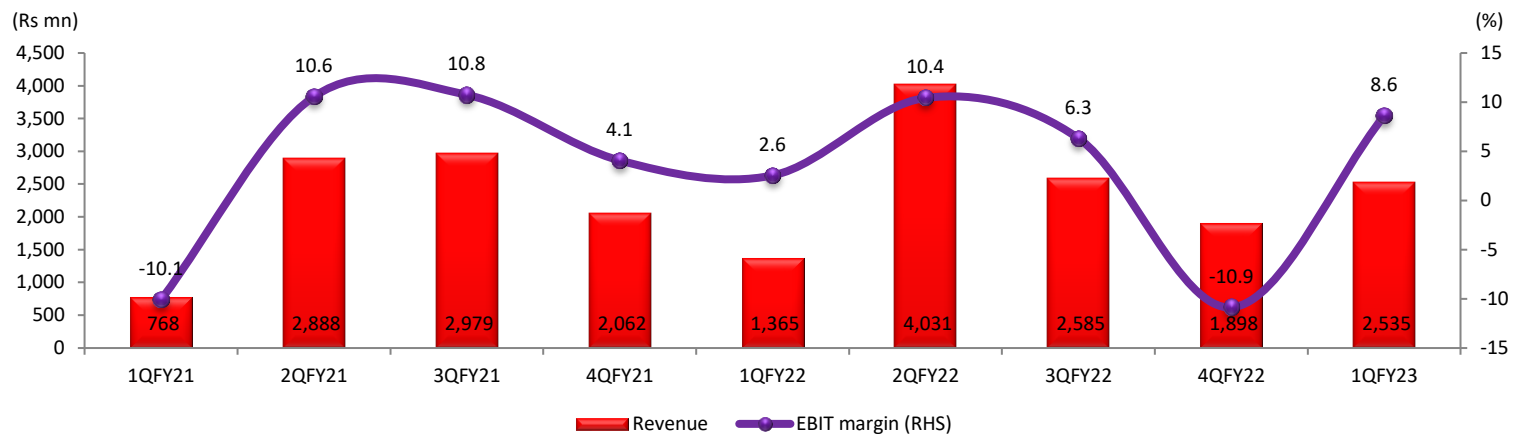
Source: Company, Systematix Institutional Research

Exhibit 14: Lighting Products - Revenue and EBIT margin (%) trend

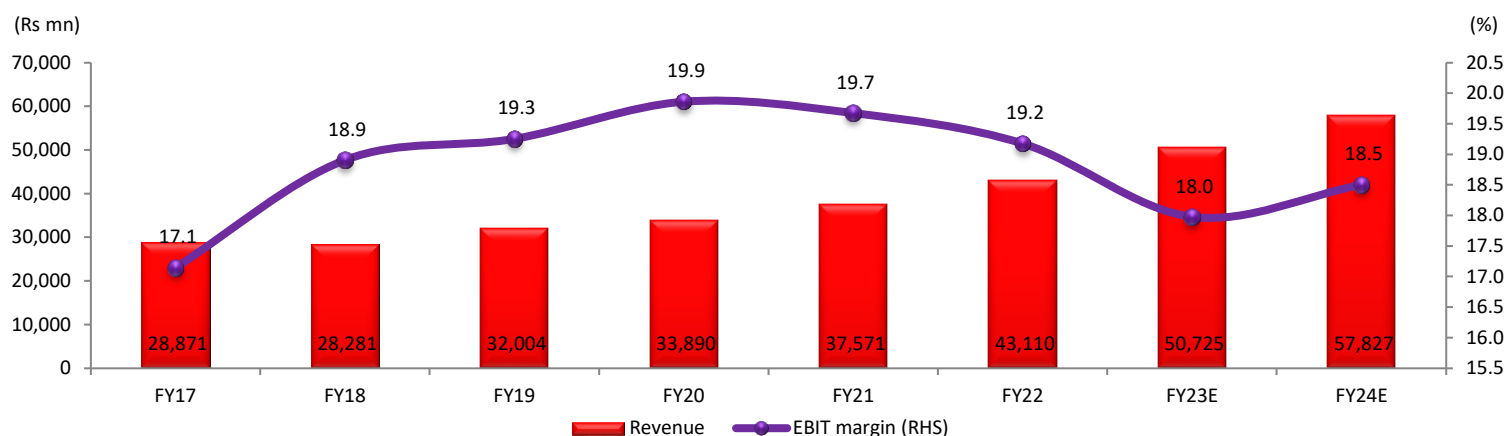


Source: Company, Systematix Institutional Research

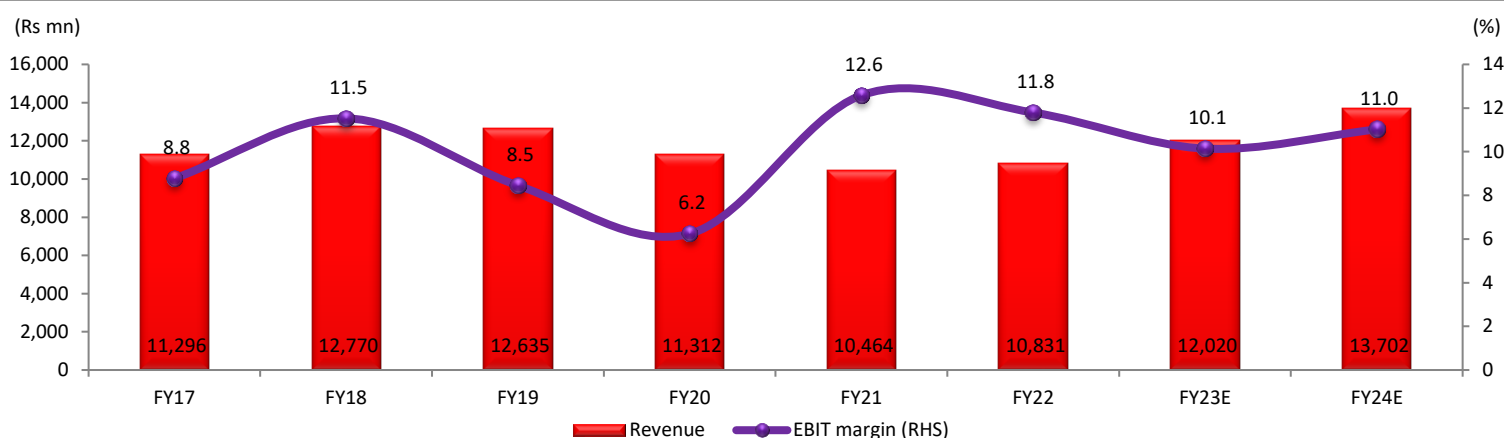
Exhibit 15: Butterfly products – Revenue, EBIT margin (%) trend



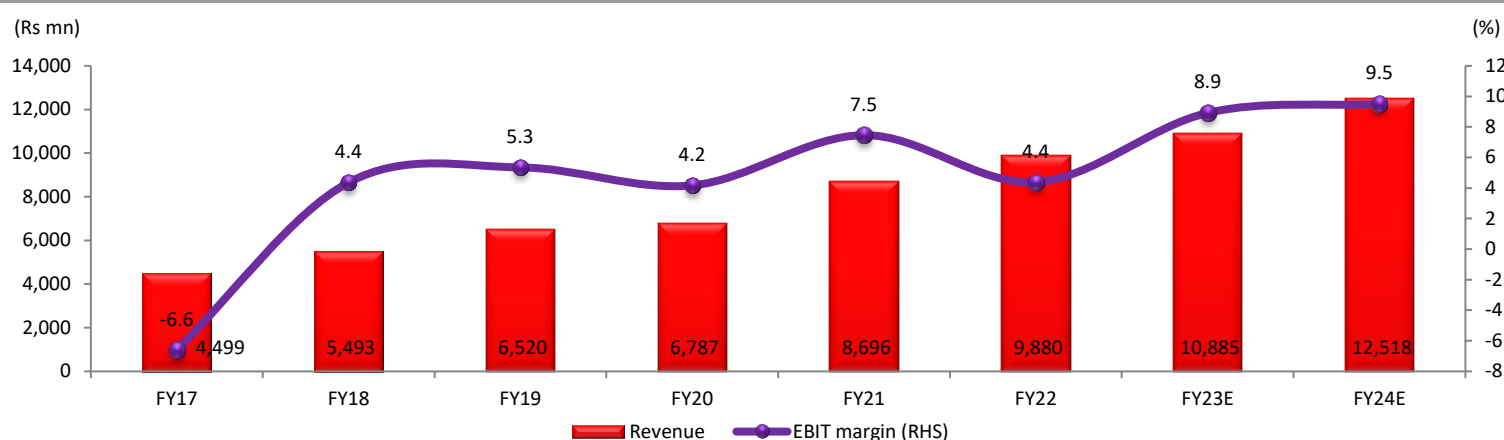
Source: Company, Systematix Institutional Research

Exhibit 16: ECD – Revenue, EBIT margin (%) annual trend

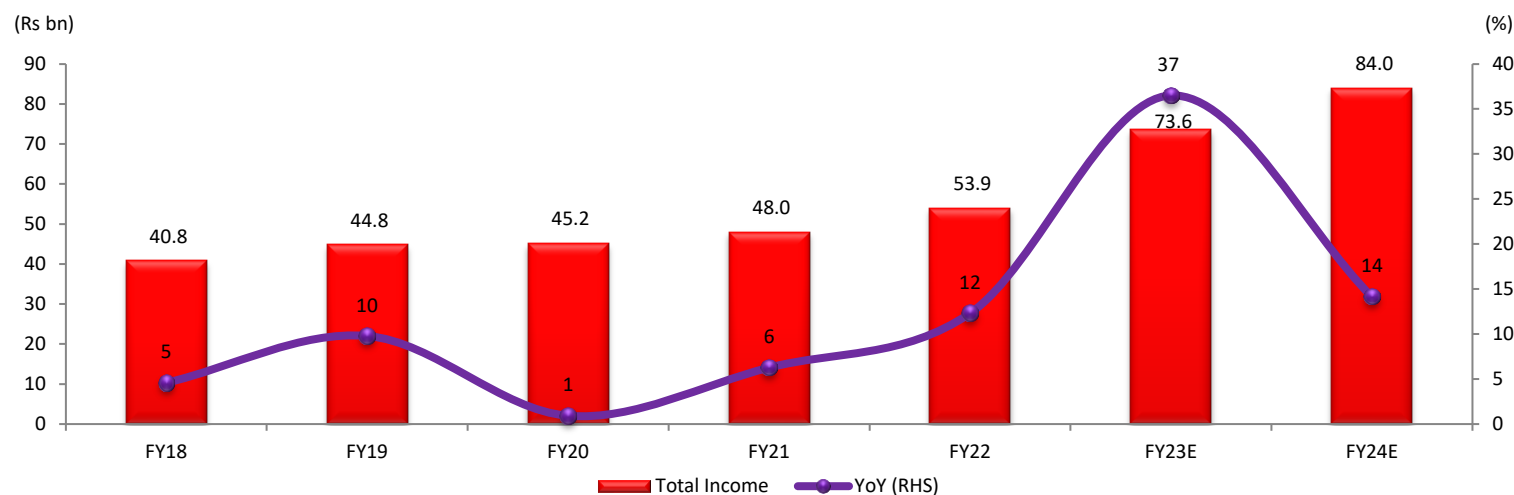
Source: Company, Systematix Institutional Research

Exhibit 17: Lighting products – Revenue, EBIT margin (%) annual trend

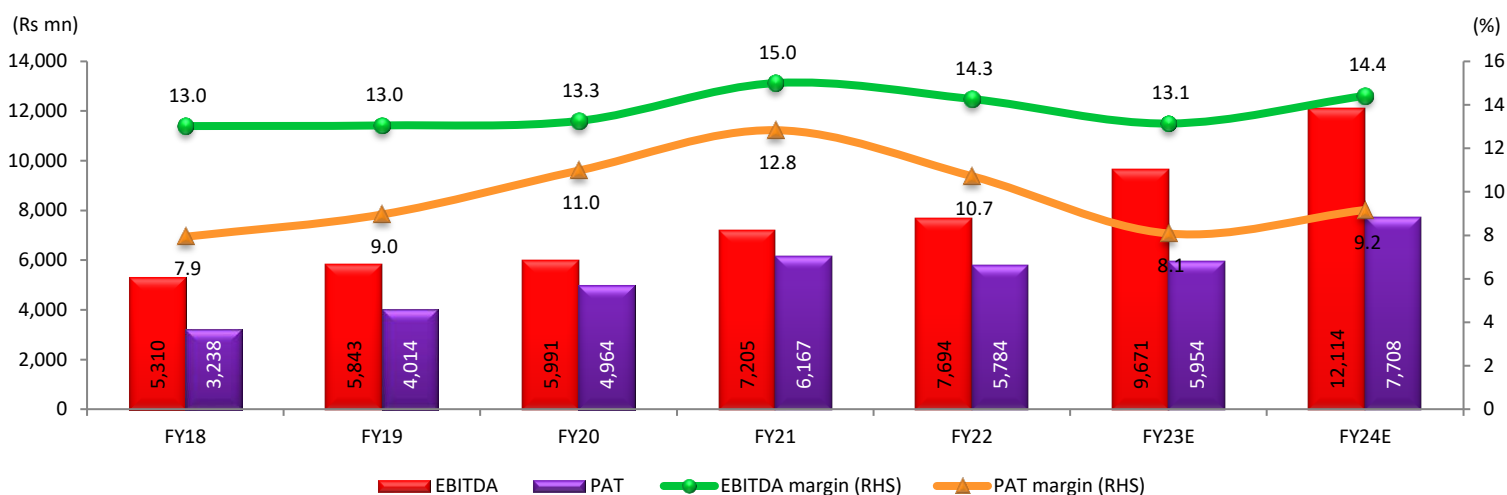
Source: Company, Systematix Institutional Research

Exhibit 18: Butterfly products – Revenue, EBIT margin (%) annual trend

Source: Company, Systematix Institutional Research; Note: nos. are consolidated FY23 onwards

Exhibit 19: Income – Annual growth trend

Source: Company, Systematix Institutional Research

Exhibit 20: EBITDA, PAT – Annual growth, margin trend

Source: Company, Systematix Institutional Research

Valuation and View

CROMPTON is a leader in fans, residential pumps and lighting segments. The company's Butterfly acquisition in 2022 has given it entry into the fast-growing kitchen appliances segment. A five-dimensional growth strategy has helped CROMPTON strengthen its position in its key categories. Industry-best operating margins, high return ratios and ability to generate free cash-flows are CROMPTON's other positives.

Strong distribution reach and a lean cost structure have helped the company gain market share in key categories and maintain strong margin status over the years. We estimate CAGR of 25%/26%/15% in revenue/EBITDA/PAT over FY22-24E (7%/10%/16% over FY18-22, respectively), with 14.4% EBITDA margin and ~24% RoE, largely driven by the Butterfly acquisition. While we expect margins in CROMPTON's core business to improve, consolidated earnings and return ratios could be impacted by Butterfly's relatively weak operating performance and lower other income, resulting from cash outflows towards acquiring the company.

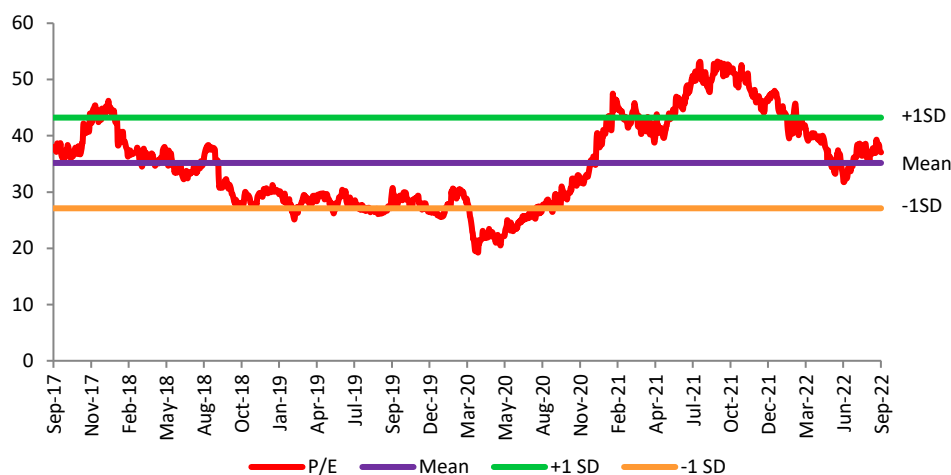
We like CROMPTON for its healthy outlook arising from strong brand equity and ability to expand its portfolio and reach. But, at ~34x FY24E P/E on CMP, we maintain **HOLD** rating on the stock, with an unchanged target price of Rs 426, based on 35x FY24E P/E (in line with peers). Integration of Butterfly business is the key monitorable in the near to medium term.

Exhibit 21: Systematix vs. Bloomberg

(Rs mn)	Old estimates		New estimates		Variance (%)		Bloomberg estimates		Variance vs. Systematix (%)	
	FY23	FY24	FY23	FY24	FY23	FY24	FY23	FY24	FY23	FY24
Total Income	73,630	84,047	73,630	84,047	-	-	72,346	82,311	(2)	(2)
EBITDA	9,671	12,114	9,671	12,114	-	-	9,694	11,570	0	(4)
EBITDA margin (%)	13.1	14.4	13.1	14.4			13.4	14.1		
PAT	5,954	7,708	5,954	7,708	-	-	6,370	7,924	7	3
EPS (Rs)	9.4	12.2	9.4	12.2	-	-	10.1	12.5	7	3

Source: Bloomberg, Systematix Institutional Research

Exhibit 22: One-year-forward - P/E Band and standard deviation



Source: BSE, Systematix Institutional Research

Key risks

- **Success in new business verticals:** After having a concentrated product portfolio (mainly fans, lighting, and pumps) since long, CROMPTON has been gradually expanding its appliances range over the last 2-3 years. While Butterfly's acquisition in 2022 has given CROMPTON an entry into the fast-growing kitchen appliances business, margin improvement and return ratios are key monitorables.
- **CG Power's foray into the Consumer Electricals industry.** CG Power, a demerged entity of the erstwhile Crompton Greaves, has entered the consumer electricals industry, starting with fans. Given the similar name and existing association with channel partners (both companies being part of the same group pre-demerger), CROMPTON could face unhealthy competition from CG Power.

FINANCIALS (CONSOLIDATED)

Profit & Loss Statement

YE: Mar (Rs mn)	FY20	FY21	FY22*	FY23E	FY24E
Net revenues	45,203	48,035	53,941	73,630	84,047
Growth (%)	0.9	6.3	12.3	36.5	14.1
Raw material expenses	30,703	32,672	37,018	50,395	56,450
Gross Margin (%)	32.1	32.0	31.4	31.6	32.8
Employee & Other exp.	8,508	8,158	9,229	13,564	15,483
EBITDA	5,991	7,205	7,695	9,671	12,114
EBITDA margins (%)	13.3	15.0	14.3	13.1	14.4
Depreciation	268	297	423	1,120	1,406
Other income	591	758	727	254	290
Finance costs	407	429	353	701	588
PBT	5,907	7,236	7,515	8,040	10,409
Effective tax rate (%)	16.0	14.8	23.0	25.9	25.9
Associates/(Minorities)	-	-	-	-	-
Net Income	4,964	6,167	5,784	5,954	7,708
Adjusted net income	4,964	5,346	5,784	5,954	7,708
Shares outstanding	627	628	633	633	633
FDEPS (Rs per share)	7.8	9.7	9.1	9.4	12.2
FDEPS growth (%)	23.7	24.2	(6.2)	2.9	29.5

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY20	FY21	FY22*	FY23E	FY24E
Share capital	1,255	1,255	1,267	1,267	1,267
Net worth	14,683	19,314	24,530	27,613	31,650
Total debt	1,797	5,027	16,517	21,517	21,517
Minority interest	-	-	7,825	7,825	7,825
DT Liability/ (Asset)	(507)	(586)	394	494	594
Capital Employed	15,974	23,755	49,265	57,448	61,585
Net tangible assets	1,251	1,328	4,756	4,636	13,229
Net Intangible assets	45	28	15,124	15,124	15,124
Goodwill	7,794	7,794	12,855	12,855	12,855
CWIP	199	109	130	110	90
Investments (Strategic)	-	-	-	-	-
Investments (Financial)	5,408	7,697	6,242	6,242	6,242
Current Assets	11,833	12,394	16,228	20,240	22,895
Cash	481	6,040	9,152	15,699	9,478
Current Liabilities	11,038	11,634	15,221	17,457	18,328
Working capital	796	760	1,007	2,783	4,568
Capital Deployed	15,974	23,755	49,265	57,448	61,585
Contingent Liabilities	1,381	1,782	1,922	-	-

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY20	FY21	FY22*	FY23E	FY24E
EBIT (incl. other income)	6,008	7,136	7,604	8,387	10,607
Non-cash items	268	297	423	1,120	1,406
OCF before WC changes	6,276	7,433	8,027	9,507	12,014
Incr./(decr.) in WC	721	(1,445)	(1,005)	1,576	1,585
Others including taxes	1,446	575	1,798	2,086	2,701
Operating cash-flow	4,109	8,303	7,234	5,845	7,728
Capex	494	202	1,712	980	9,980
Free cash-flow	3,615	8,101	5,522	4,865	(2,252)
Acquisitions	-	-	14	-	-
Dividend	1,506	1,874	1,564	2,871	3,671
Equity raised	52	73	603	-	-
Debt raised	(3,000)	1,300	10,769	5,000	-
Fin Investments	(363)	5,027	15,893	-	-
Misc. Items (CFI + CFF)	454	189	359	447	298
Net cash-flow	(929)	2,384	(908)	6,547	(6,221)

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY20	FY21	FY22*	FY23E	FY24E
P/E (x)	52.7	42.4	45.2	43.9	33.9
EV/EBITDA (x)	43.0	35.1	34.1	27.0	22.1
EV/sales (x)	5.7	5.3	4.9	3.5	3.2
P/B (x)	17.8	13.5	10.7	9.5	8.3
RoE (%)	33.8	31.9	23.6	21.6	24.4
RoCE (%)	42.3	38.6	21.9	16.5	18.5
ROIC (%)	58.0	61.3	25.8	17.0	18.9
DPS (Rs per share)	-	5.5	2.5	4.5	5.8
Dividend yield (%)	-	1.3	0.6	1.1	1.4
Dividend payout (%)	-	56.5	27.4	48.2	47.6
Net debt/equity (x)	(0.3)	(0.5)	0.0	(0.0)	0.1
Receivables (days)	37.4	35.0	41.6	40.0	40.0
Inventory (days)	37.4	39.4	48.8	45.0	45.0
Payables (days)	52.0	62.3	68.9	60.0	55.0
CFO:PAT (%)	82.8	155.3	125.1	98.2	100.3

Source: Company, Systematix Institutional Research

*Note: Butterfly nos. are consolidated FY22 onwards

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