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SYSTEMATIX INSTITUTIONAL EQUITIES

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Institutional Equities

Crompton Greaves Consumer

03 February 2023

Growth, margin uptick key stock price triggers

RESULT UPDATE

Sector: Consumer Electricals Rating: BUY

CMP: Rs 305 Target Price: Rs 387

Stock Info

Sensex/Nifty	59,932/17,610
Bloomberg	CROMPTON IN
Equity shares (mn)	635.9
52-wk High/Low	429/317
Face value	Rs 2
M-Cap	Rs 193.9bn/USD 2.4bn
3-m Avg turnover	USD 4.9mn

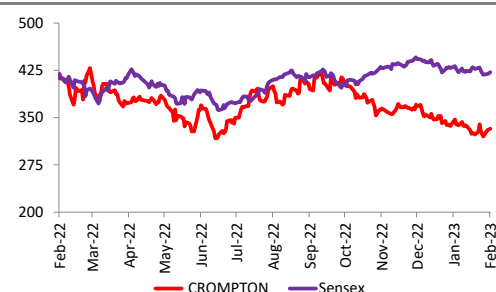
Financial Snapshot (Rs mn)

Y/E Mar	FY23E	FY24E	FY25E
Net sales	70,393	79,209	89,136
EBITDA	8,132	10,489	12,169
OPM (%)	11.6	13.2	13.7
PAT (adj.)	4,943	6,875	8,172
EPS (Rs)	7.8	10.9	12.9
PE (x)	39.1	28.1	23.6
P/B (x)	7.2	6.3	5.5
EV/EBITDA (x)	23.7	18.2	15.3
RoE (%)	18.3	22.4	23.4
RoCE (%)	14.5	17.0	18.7
Net-D/E (x)	(0.0)	(0.1)	(0.1)

Shareholding Pattern (%)

	Dec'22	Sep'22	Jun'22
Promoter	0.0	2.5	5.9
- Pledged			
FII	39.5	39.7	37.3
DII	44.7	45.4	45.0
Others	15.7	12.3	11.8

Stock Performance (1-year)



Crompton Greaves Consumer's (CROMPTON) 3Q result was significantly below our estimates due to muted performance in all segments. Surprisingly, the company chose to focus on selling star-rated BLDC fans, unlike peers, over liquidating its non-star inventory through heavy discounting. Muted growth in mixers and wet grinders impacted the Butterfly business. A decline in conventional category and intense competition in B2C LED hurt the lighting segment. A revamped portfolio should drive traction in pumps, in our view. Despite healthy gross margin (32.5%, up 86bps YoY and 39bps QoQ), EBITDA margin was restricted at 10.1% (down 424bps YoY and 131bps QoQ), as the company continued to invest in brand building, people, innovation and R&D. Further impact came from additional support to channels amid the intense competition. A weak 3Q has led us to cut earnings by ~10% each year till FY25E. We now estimate CAGR of 18%/17%/12% in revenue/EBITDA/PAT over FY22-25E, respectively, with 13.7% EBITDA margin and ~23% RoE, largely driven by the Butterfly acquisition. At ~24x FY25E P/E, we maintain BUY rating, with a lower target price of Rs 387 (from Rs 427), based on 30x FY25E P/E. Growth and margin uptick are key triggers that would drive CROMPTON's stock performance.

Weak 3Q revenue hurt by all segments: Consol. revenue (up 7% YoY and down 11% QoQ) was much lower than our estimate due to muted performance in all segments. **ECD revenue (down 7% YoY and 4% QoQ)** was restricted by a warmer winter which impacted sales of heating appliances, whereby the company focused on selling star-rated BLDC fans, unlike peers, who concentrated on liquidating non-star inventory through heavy discounting. Appliances grew at 13% YoY driven by mixers (up 20%), geysers (up 12%), and other small appliances. Pumps continued to face high competition from unorganized sector. CROMPTON has revamped its entire portfolio and taken adequate pricing action across the portfolio. Built-in kitchen appliances clocked Rs 65mn revenue (YTD Rs 140mn) in 3Q. CROMPTON has opened 40 stores (signature studios + exclusive stores) across 10 cities and aims to open 100+ stores in the coming years. **Butterfly revenue (down 10% YoY and 55% QoQ)** felt the impact of muted growth in mixers and wet grinders (increase in GST rates from 5% to 18% affected sales), but kettles and flasks saw strong growth. Focus on increasing retail sales (up 19% YoY in 9M) stayed. New products contributed 14% to total revenue in 3Q. Alternate channels (up 45% YoY, 15% mix), e-commerce (up 89% YoY) and CSD & rural channel (up 40%+ YoY) witnessed healthy recovery. Within **Lighting (revenue down 20% YoY and 8% QoQ)**, B2C LED stayed in the slow lane amid competitive intensity and pricing pressure, while conventional business continued to decline (down 30% YoY in 3Q); B2B maintained traction though.

Intense competition and continued A&P spend caused a dent in margins: Despite healthy gross margin (up 86bps YoY and 39bps QoQ), EBITDA margin was restricted at 10.1% (down 424bps YoY and 131bps QoQ). Employee and other expenses stayed at elevated levels, as CROMPTON continued to invest in brand building, people, innovation and R&D. Additional support to channels amid intense competition also hurt margins. Operational efficiency, cost optimisation to aid margin expansion, per management.

Improvement in core segments, Butterfly integration - key stock price triggers: A weak 3Q has led us to cut earnings by ~10% each year till FY25. We now estimate CAGR of 18%/17%/12% in revenue/EBITDA/PAT over FY22-25E, respectively, with 13.7% EBITDA margin and ~23% RoE, largely driven by the Butterfly acquisition. While we expect margins in core segments (ECD, Lighting) to improve, consolidated earnings and RoE could bear the brunt of Butterfly's relatively weak operating performance.

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Investors are advised to refer disclosures made at the end of the research report.

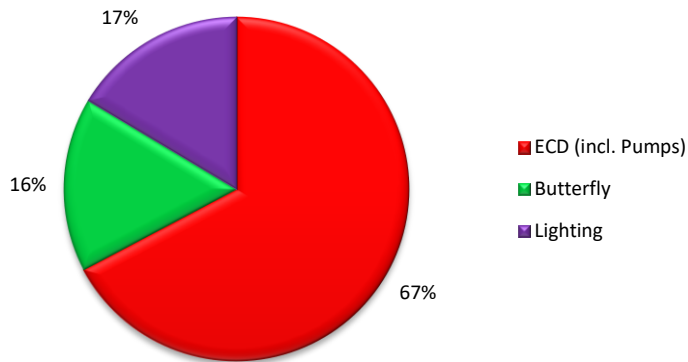
Exhibit 1: Crompton Greaves Consumer – Quarterly result summary

(Rs mn)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	YoY (%)	QoQ (%)	9MFY23	9MFY22	YoY (%)
Total Income	14,106	15,479	18,629	16,995	15,162	7	(11)	50,787	38,462	32
Raw material costs	9,638	10,857	12,780	11,534	10,230	6	(11)	34,544	26,161	32
Employee costs	941	835	1,434	1,332	1,341	42	1	4,108	2,789	47
Other expenses	1,511	1,499	2,216	2,198	2,067	37	(6)	6,481	4,106	58
EBITDA	2,015	2,288	2,199	1,931	1,524	(24)	(21)	5,654	5,407	5
Depreciation	102	145	276	283	297	192	5	855	278	208
Finance costs	67	106	225	299	294	341	(2)	818	248	230
Other income	140	222	104	183	213	52	16	500	505	(1)
PBT	1,987	2,129	1,739	1,533	1,146	(42)	(25)	4,417	5,386	(18)
Tax	505	364	479	226	264	(48)	17	969	1,368	(29)
PAT	1,483	1,766	1,210	1,258	853	(42)	(32)	3,321	4,018	(17)
EPS (Rs)	2.4	2.8	2.0	2.1	1.4	(41)	(33)	5.4	6.3	(14)
As % Total Income						YoY (bps)	QoQ (bps)			YoY (bps)
Gross margin	31.7	29.9	31.4	32.1	32.5	86	39	32.0	32.0	(0)
Employee costs	6.7	5.4	7.7	7.8	8.8	217	101	8.1	7.3	84
Other expenses	10.7	9.7	11.9	12.9	13.6	292	70	12.8	10.7	209
EBITDA margin	14.3	14.8	11.8	11.4	10.1	(424)	(131)	11.1	14.1	(292)
Depreciation	0.7	0.9	1.5	1.7	2.0	124	29	1.7	0.7	96
Finance costs	0.5	0.7	1.2	1.8	1.9	147	18	1.6	0.6	97
Other income	1.0	1.4	0.6	1.1	1.4	41	33	1.0	1.3	(33)
Effective tax rate	25.4	17.1	27.6	14.7	23.0	(236)	833	21.9	25.4	(347)
PAT	10.5	11.4	6.8	7.7	5.8	(469)	(187)	6.8	10.4	(366)
Segment Revenues						YoY (%)	QoQ (%)			YoY (%)
ECD (incl. Pumps)	10,993	12,309	13,472	10,622	10,201	(7)	(4)	34,295	30,801	11
Lighting	3,113	3,170	2,623	2,696	2,477	(20)	(8)	7,796	7,661	2
Butterfly Products [#]	2,585	1,898	2,535	3,677	2,484	(4)	(32)	8,696		
Total	13,851	14,106	15,479	18,629	16,995	23	(9)	35,624	24,356	46
Mix (%)										
ECD (incl. Pumps)	78	80	72	63	67			68	80	
Lighting Products	22	20	14	16	16			15	20	
Butterfly Products			14	22	16			17		
Segment EBIT						YoY (%)	QoQ (%)			YoY (%)
ECD (incl. Pumps)	2,130	2,279	2,285	1,814	1,617	(24)	(11)	5,716	5,988	(5)
Lighting	324	448	232	215	255	(21)	18	702	831	(16)
Butterfly Products [#]	164	(206)	219	403	181	10	(55)	802		
Total	2,454	2,727	2,736	2,432	2,052	(16)	(16)	7,220	6,818	6
Unallocated income/(exp)	(400)	(363)	(708)	(601)	(612)			(1,921)	(1,184)	
EBIT (%)						YoY (bps)	QoQ (bps)			YoY (bps)
ECD (incl. Pumps)	19.4	18.5	17.0	17.1	15.8	(353)	(123)	16.7	19.4	(277)
Lighting	10.4	14.1	8.8	8.0	10.3	(12)	231	9.0	10.8	(184)
Butterfly Products [#]	6.3	(10.9)	8.6	11.0	7.3	94	(369)	9.2		
Blended	17.4	17.6	14.7	14.3	13.5	(386)	(78)	14.2	17.7	(351)
Unallocated income/(exp)	(2.8)	(2.3)	(3.8)	(3.5)	(4.0)			(3.8)	(3.1)	

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

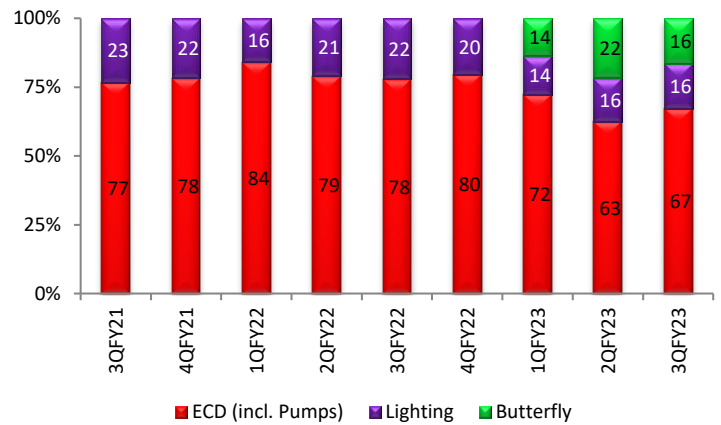
[#]Butterfly business integration from 1QFY23

Exhibit 2: Revenue mix – 3QFY23



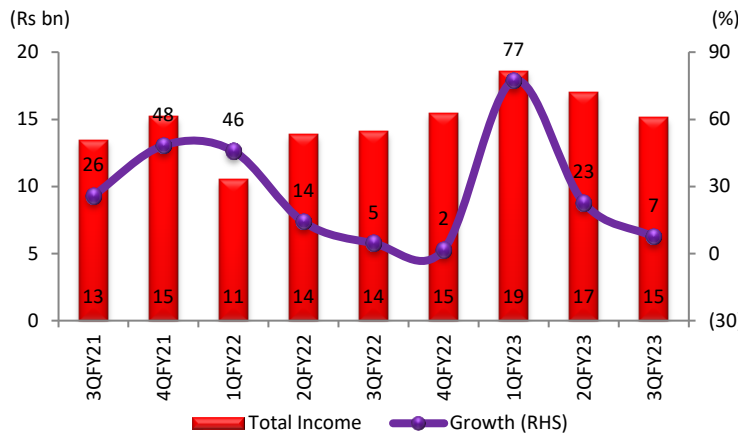
Source: Company, Systematix Institutional Research

Exhibit 3: Revenue mix – Quarterly trend



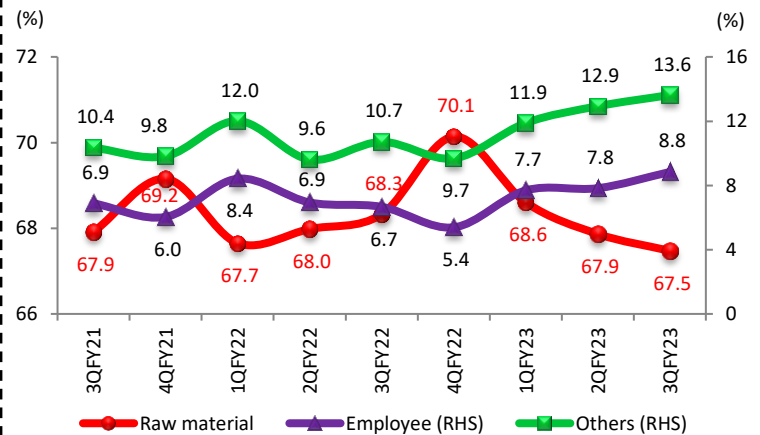
Source: Company, Systematix Institutional Research

Exhibit 4: Consol. Revenue - growth trend



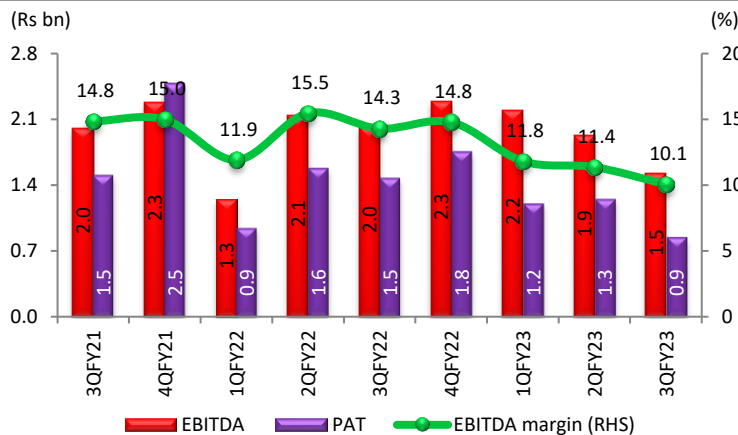
Source: Company, Systematix Institutional Research

Exhibit 5: Expenses as % total income



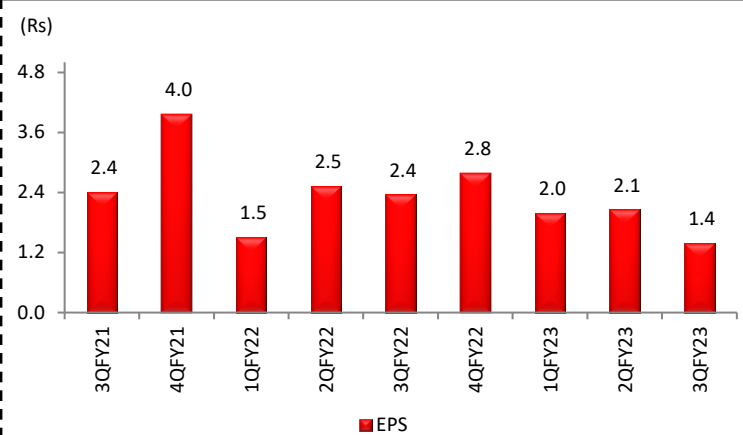
Source: Company, Systematix Institutional Research

Exhibit 6: EBITDA, PAT & margin trend



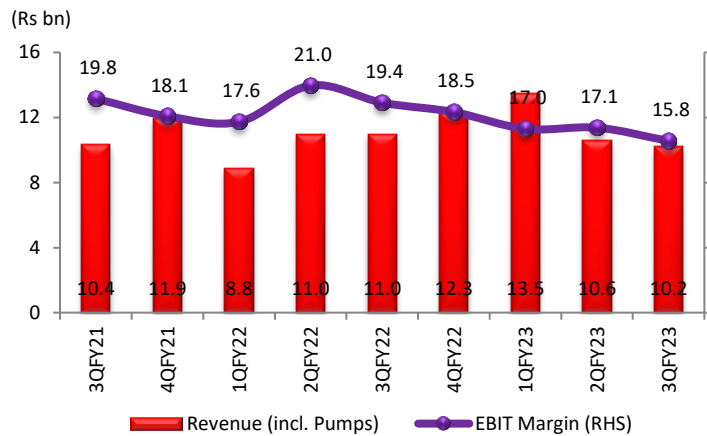
Source: Company, Systematix Institutional Research

Exhibit 7: Earnings - trend



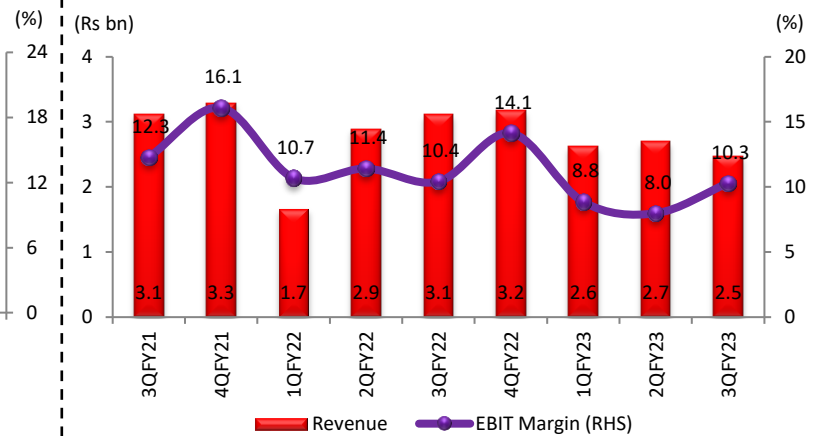
Source: Company, Systematix Institutional Research

Exhibit 8: ECD - Revenue and EBIT margin quarterly trend



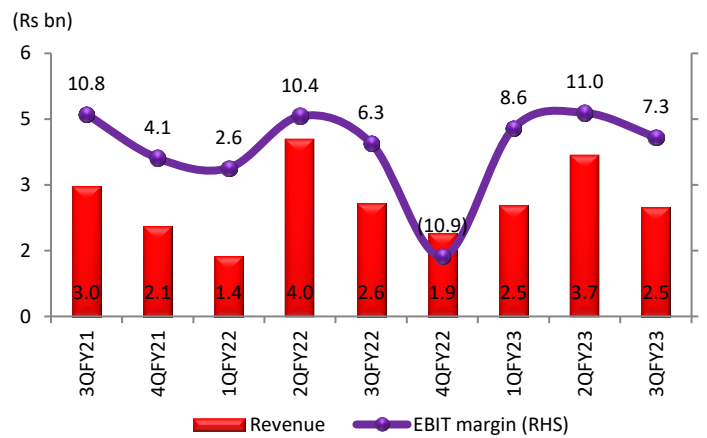
Source: Company, Systematix Institutional Research

Exhibit 9: Lighting - Revenue and EBIT margin quarterly trend



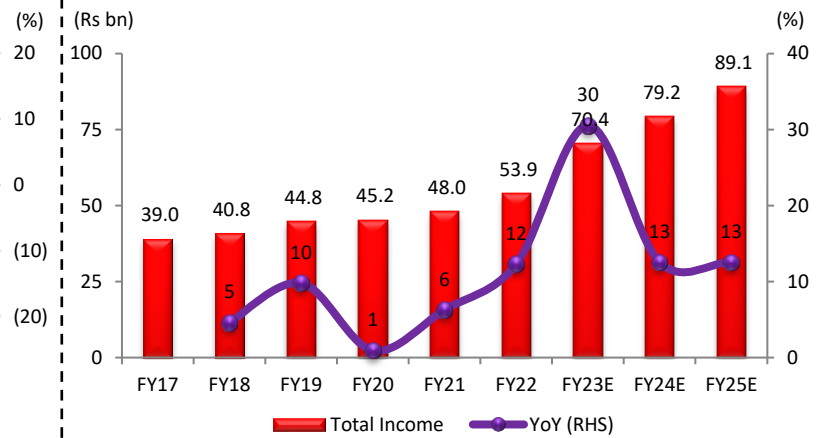
Source: Company, Systematix Institutional Research

Exhibit 10: Butterfly – Revenue, EBIT margin quarterly trend



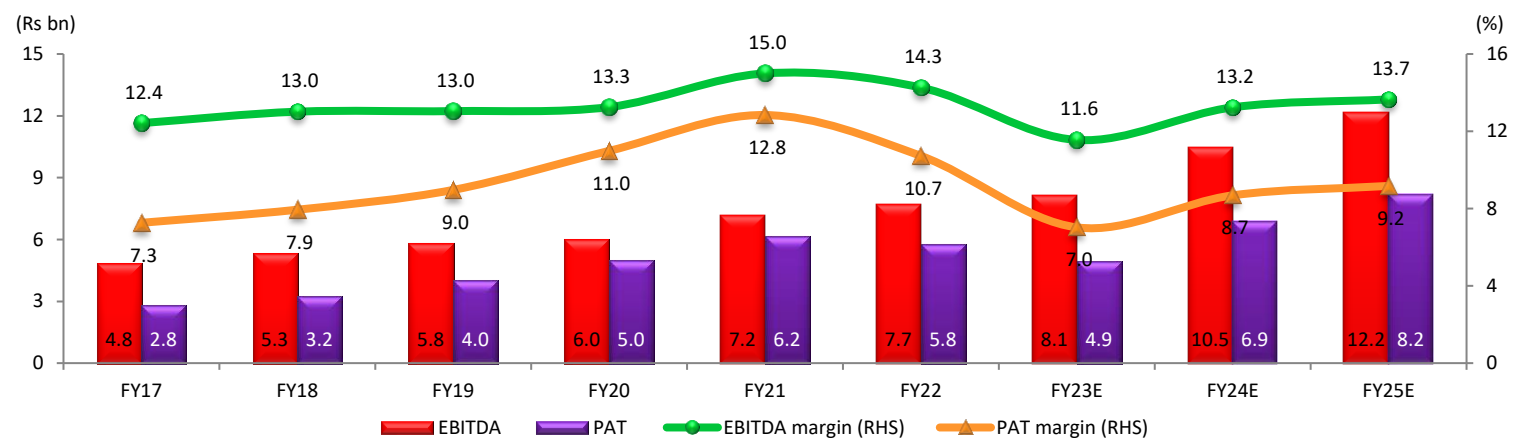
Source: Company, Systematix Institutional Research

Exhibit 11: Consol. revenue – Annual growth trend



Source: Company, Systematix Institutional Research

Exhibit 12: 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 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 a strong margin status over the years. Weak 3QFY23 results have led us to cut earnings by ~10% each year till FY25. We now estimate CAGR of 18%/17%/12% in revenue/EBITDA/PAT over FY22-25E (7%/10%/16% over FY18-22), respectively, with 13.7% EBITDA margin and ~23% RoE, largely driven by the Butterfly acquisition. While we expect margins in CROMPTON's core business to improve, consolidated earnings and return ratios could bear the brunt of 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. At ~24x FY25E P/E on CMP, we maintain our **BUY** rating on the stock, with a downward revised target price of Rs 387 (from Rs 427), based on 30x FY25E P/E. Growth and margin recovery in core segments (ECD and Lighting), and integration of the Butterfly business are key near to medium-term monitorables.

Exhibit 13: Change in estimates

(Rs mn)	Old estimates			New estimates			% Var		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Total Income	74,624	84,005	94,574	70,393	79,209	89,136	(6)	(6)	(6)
EBITDA	8,820	11,180	13,107	8,132	10,489	12,169	(8)	(6)	(7)
EBITDA margin (%)	11.8	13.3	13.9	11.6	13.2	13.7			
PAT	5,596	7,525	9,013	4,943	6,875	8,172	(12)	(9)	(9)
EPS	8.8	11.9	14.2	7.8	10.9	12.9	(12)	(9)	(9)

Source: Systematix Institutional Research

Exhibit 14: One-year-forward - P/E Band and standard deviation



Source: BSE, Systematix Institutional Research

Key risks

- **Delay or failure in the integration of 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 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.
- **Keener competition:** In the race to garner market share amid a low demand scenario, regional players as well as big brands turned immensely aggressive, squeezing the company's volumes and margins. More so, 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)	FY21	FY22*	FY23E	FY24E	FY25E
Net revenues	48,035	53,941	70,393	79,209	89,136
Growth (%)	6	12	31	13	13
Raw material expenses	32,672	37,018	47,861	52,723	59,143
Gross Margin (%)	32.0	31.4	32.0	33.4	33.6
Employee & Other exp	8,158	9,229	14,400	15,997	17,824
EBITDA	7,205	7,695	8,132	10,489	12,169
EBITDA margins (%)	15.0	14.3	11.6	13.2	13.7
Depreciation	297	423	1,159	1,195	1,248
Other income	758	727	700	713	802
Finance costs	429	353	1,033	792	802
PBT	7,236	7,515	6,576	9,215	10,921
Effective tax rate (%)	14.8	23.0	22.9	24.0	24.0
Associates/(Minorities)	-	-	(128)	(128)	(128)
Net Income	6,167	5,784	4,943	6,875	8,172
Adjusted net income	5,346	5,784	4,943	6,875	8,172
Shares outstanding	628	633	633	633	633
FDEPS (Rs per share)	9.7	9.1	7.8	10.9	12.9
FDEPS growth (%)	24	(6)	(15)	39	19

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY21	FY22*	FY23E	FY24E	FY25E
Share capital	1,255	1,267	1,267	1,267	1,267
Net worth	19,314	24,530	27,014	30,645	34,993
Total debt	5,027	16,517	21,517	21,517	21,517
Minority interest	-	7,825	7,825	7,825	7,825
DT Liability/ (Asset)	(586)	394	494	594	694
Capital Employed	23,755	49,265	56,850	60,580	65,029
Net tangible assets	1,328	4,756	4,597	4,403	4,155
Net Intangible assets	28	15,124	15,124	15,124	15,124
Goodwill	7,794	12,855	12,855	12,855	12,855
CWIP	109	130	110	90	70
Investments (Strategic)	-	-	-	-	-
Investments (Financial)	7,697	6,242	16,242	18,242	20,242
Current Assets	12,394	16,228	19,486	21,769	24,311
Cash	6,040	9,152	5,361	5,697	7,677
Current Liabilities	11,634	15,221	16,925	17,599	19,405
Working capital	760	1,007	2,561	4,170	4,906
Capital Deployed	23,755	49,265	56,850	60,580	65,029
Contingent Liabilities	1,782	1,922	-	-	-

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY21	FY22*	FY23E	FY24E	FY25E
EBIT (incl. other income)	7,136	7,604	6,681	9,066	10,693
Non-cash items	297	423	1,159	1,195	1,248
OCF before WC changes	7,433	8,027	7,840	10,261	11,941
Incr./(decr.) in WC	(1,445)	(1,005)	1,355	1,409	536
Others including taxes	575	1,798	1,505	2,212	2,621
Operating cash-flow	8,303	7,234	4,980	6,640	8,784
Capex	202	1,712	980	980	980
Free cash-flow	8,101	5,522	4,000	5,660	7,804
Acquisitions	-	14	-	-	-
Dividend	1,874	1,564	2,458	3,245	3,824
Equity raised	73	603	-	-	-
Debt raised	1,300	10,769	5,000	-	-
Fin Investments	5,027	15,893	10,000	2,000	2,000
Misc. Items (CFI + CFF)	189	359	333	79	-
Net cash-flow	2,384	(908)	(3,791)	336	1,980

Source: Company, Systematix Institutional Research

Ratios @ Rs 305

YE: Mar	FY21	FY22*	FY23E	FY24E	FY25E
P/E (x)	31.3	33.4	39.1	28.1	23.6
EV/EBITDA (x)	25.4	25.3	23.7	18.2	15.3
EV/sales (x)	3.8	3.6	2.7	2.4	2.1
P/B (x)	10.0	7.9	7.2	6.3	5.5
RoE (%)	31.9	23.6	18.3	22.4	23.4
RoCE (%)	38.6	21.9	14.5	17.0	18.7
ROIC (%)	61.3	25.8	14.1	19.1	22.2
DPS (Rs per share)	5.5	2.5	3.9	5.1	6.0
Dividend yield (%)	1.8	0.8	1.3	1.7	2.0
Dividend payout (%)	56.5	27.4	49.7	47.2	46.8
Net debt/equity (x)	(0.5)	0.0	(0.0)	(0.1)	(0.1)
Receivables (days)	35	42	40	40	40
Inventory (days)	39	49	45	45	45
Payables (days)	62	69	60	55	55
CFO:PAT%	155	125	101	97	107

Source: Company, Systematix Institutional Research

*Note: Butterfly nos. are consolidated from 25th March, 2022.

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