

Crompton Greaves Consumer Electricals Ltd.

15th Dec 2022

Strong Execution Record Affirms Future Growth

Crompton Greaves Consumer Electricals Ltd. (CGCEL) is India's largest manufacturer of fans, with a 28% market share. The Company has also claimed a position in the top three players in almost all segments, namely, fans, pumps, lighting, etc., where it is present with its spot-on execution capabilities. Recently, CGCEL acquired Butterfly Gandhimathi Appliances Ltd. (BGAL) as a part of its growth strategy and plans to command a meaningful position in the kitchen appliances business. We initiate coverage on CGCEL with a BUY rating and a target price of Rs. 424 (based on SOTP valuation for FY24E).

Gaining Market Share and Maintaining Leadership

CGCEL is uncompromising for the top 3 positions that colonize the majority market in any consumer business. CGCEL is the leader in ceiling fans and residential pumps, with a 28% and 27% market share, respectively. Further, it holds the 3rd largest position in LED lights and geysers with 8% and 13% share, respectively. This unwavering focus on attaining a spot in the top 3 in all product categories and its powerful strategic execution has resulted in CGCEL gaining market share from unorganized players.

Additional Source of Robust Growth – BGAL

The Butterfly Gandhimathi Appliances Ltd (BGAL) acquisition in FY22 will be a growth accelerator and create synergies for both entities. CGCEL will enable BGAL to increase its market beyond South India and significantly improve its operating margins from ~7% in FY22 to at least low double digits. On the other hand, BGAL will empower CGCEL with its brand, production, and R&D facilities built in the kitchen appliance segment.

Organic Growth Far From Exhaustion

CGCEL is tapping alternate channels like the rural market and e-commerce, which accounts for 12% of revenue as of Q1FY23. The Company has employed micro-finance options and 250 channel partners in the rural market. Besides this, CGCEL has also entered the large appliances sub-segment with products like chimneys, dishwashers, etc., which will drive future growth. Apart from this, the Company is also open to entering new adjacencies. In addition, the premiumization of products across the segments activates triggers for solid growth.

View & Valuation

We initiate coverage on Crompton Greaves Consumer Electricals Ltd. with a BUY rating and a target of Rs. 424 (based on SOTP valuation for FY24E). Primary growth drivers will be innovation-backed growth in the existing business and potential synergies with BGAL. The Company can target multiple areas to create value from the acquisition in the short to medium term. Effective execution by the management in the past builds our confidence that CGCEL will be able to accomplish outstanding work with BGAL coming under its fold and increasing its Total Addressable Market (TAM).

BUY

CMP Rs. 350

TARGET Rs. 424 (+21%)

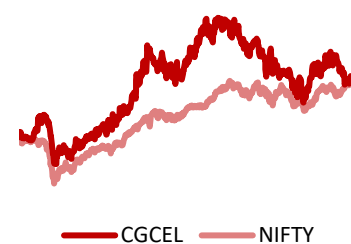
Company Data

MCAP (Rs. Mn)	2,22,592
O/S Shares (Mn)	636
52w High/Low	451/312
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Mn)	564

Shareholding Pattern %

	Sep '22	Jun '22	Mar '22
Promoters	2.54	5.94	5.94
FIIIs	39.67	37.27	38.00
DIIIs	45.44	44.98	44.39
Non-Institutional	12.33	11.81	11.67

CGCEL vs Nifty



	Dec, 19	Dec, 20	Dec, 21	Dec, 22
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Key Financial Data

(Rs Mn)	FY22	FY23E	FY24E
Revenue	53,941	69,530	77,039
EBITDA	7,695	8,135	10,554
Net Profit	5,784	5,204	7,220
Total Assets	64,486	65,638	68,309
ROCE (%)	19%	16%	20%
ROE (%)	26%	20%	24%

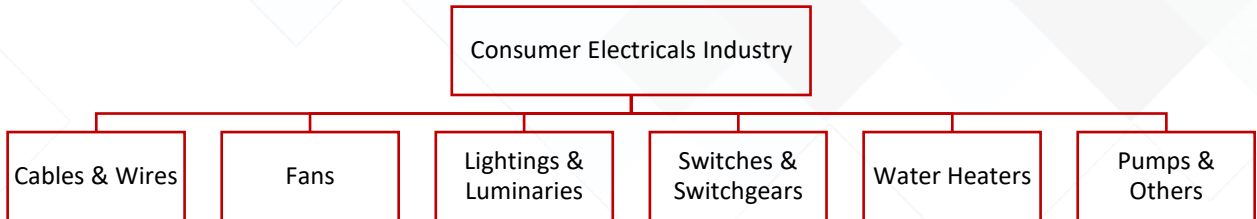
Source: Company, Keynote Capitals Ltd.

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Consumer Electricals Industry

The Consumer Electricals sector comprises household electrical appliances such as fans, lights, cables & wires, switches & switchgear, water heaters, kitchen appliances, and other small domestic appliances (pumps, irons, etc.). The collective industry size is around Rs. 1.4-1.5 Trn as of FY22.



Source: Company, Keynote Capitals Ltd.

The demand for consumer electrical goods is less prone to substitution and is resilient due to its partial or complete nature of being non-discretionary. These characteristics make the industry independent of the economic cycles.

Players in the industry are required to establish an extensive distribution network, as general trade (brick-and-mortar hardware stores) account for more than 80% of the total sales because these products require installation support.

The macro drivers for the Consumer Electricals sector include better power connectivity (through rising urban and rural electrification), an increase in housing development (rising urbanization, thrust on rural housing through Pradhan Mantri Awas Yojna (PMAY), incentives for affordable housing), and construction activities (residential, commercial, industrial and infrastructure creation). The sector is witnessing consolidation in favour of industry leaders, with consumers preferring branded and premium products with better brand image and product quality.

Sector leaders have emerged stronger from the Covid-19 pandemic, led by a deeper distribution network, direct retail reach, the ability to manage the supply chain through alternate sourcing, and structural cost savings.

Important Sub-sector details

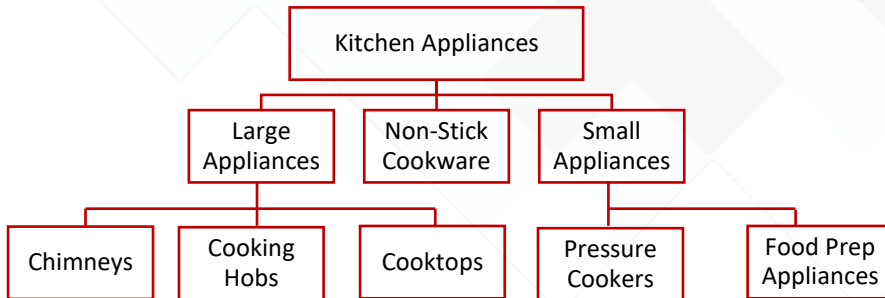
Particulars	Lighting & Luminaires	Fans	Pumps	Appliances
Estimated Market Size (Rs. Bn)	140	106	67	100
Estimated 5Y (FY22-27) Growth Rate %	4%-6%	5%-7%	6% - 8%	8% - 10%
Top Player	Phillips	CGCEL	CGCEL (Residential)	NA
Prominent Players	Havells, Bajaj Electricals, Crompton, Orient Electric, Polycab.	Havells, Bajaj Electricals, Crompton, Orient Electric, V-Guard.	Kirloskar, Shakti, CRI, Havells, Crompton, KSB.	Philips, Havells, Crompton, Samsung, LG, Bajaj Electricals

Source: Company, Keynote Capitals Ltd.

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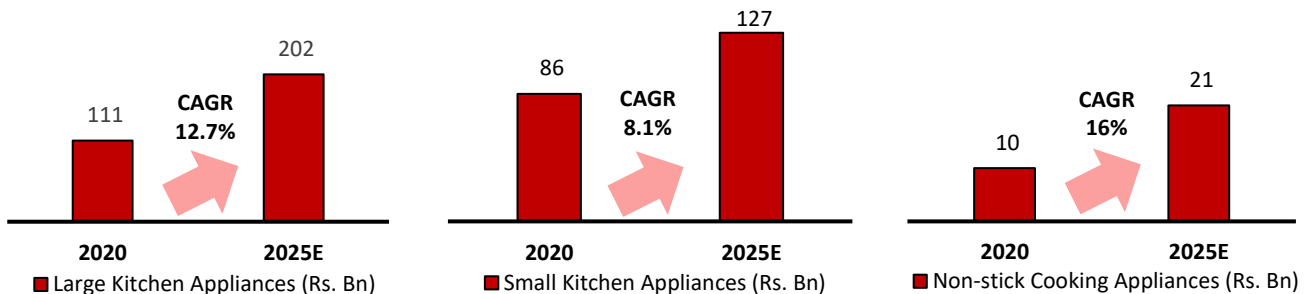
Kitchen Appliances Industry

The market size for “Small” and “Large” kitchen appliances in 2017 was estimated at Rs. 145 Bn. The market is estimated to reach Rs. 238 Bn by the end of 2022, registering a 9% CAGR. The kitchen appliance market can be bifurcated into the following categories.



Source: Company, Keynote Capitals Ltd.

Market Size & Potential of Kitchen Appliances



Source: Company, Keynote Capitals Ltd.

Nature and Dynamics of the Industry

The kitchen appliances business is skewed towards unorganized players, while organized players only dominate specific geographies. Geographically, South India is the most penetrated market and contributes about 35% to the total kitchen appliance sales in India. On the contrary, Eastern India is the least penetrated and only contributes 10% to the entire industry sales.

Growth drivers for the Indian kitchen appliances market include improving lifestyle, aesthetically pleasing appliances replacing old bulky ones, the need for faster and healthier cooking, growing e-commerce, and the availability of easy financing.

Prominent kitchen appliance industry players include TTK Prestige, Stove Kraft Limited, Butterfly Gandhimathi Appliances Ltd, Hawkins, Bajaj Electricals, Preethi Industries Ltd., Glen, Faber, Kaff Appliances, Inalsa, IFB, Panasonic, Phillips, etc.

Important Sub-sector details

Particulars	Mixer Grinders (incl. wet grinders)	Pressure Cookers	Gas Stoves	Others
Estimated Market Size (Rs. Bn)	32	17	22	90
Estimated Growth Rate % (FY20-25)	7% - 8%	9% - 10%	10% - 15%	NA
Top Player	Bajaj Electric	TTK Prestige	Stove Kraft Ltd.	NA

Source: Company, Stove Kraft RHP, Keynote Capitals Ltd.

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Trends in Consumer Electrical & Kitchen Appliances Industry

Increase in share of premium, energy-efficient, and aesthetically appealing products

The preference of the Indian consumer is shifting towards premium, energy-efficient, and aesthetically appealing products. Industry players are either setting up the manufacturing of premium products or acquiring companies doing consistent innovations. This is done to strengthen innovation and increase the share of high-margin premium products in their sales mix. Commentary on the premiumization of products by the top management of peer companies:

“We have actually seen a little bit of upgrading towards more energy-efficient products and products becoming more expensive. So, people are going in for a little bit higher onetime costs and then focusing more on the electricity consumption.” – Anil Rai Gupta, MD, Havells India, Q4 FY22.

“We are starting to move up end product portfolio a little more towards premium, more contemporary energy-efficient BLDC (Brushless Direct Current Motor) aesthetic fans, etc.” – Anuj Poddar, Executive Director, Bajaj Electricals, Q4 FY22.

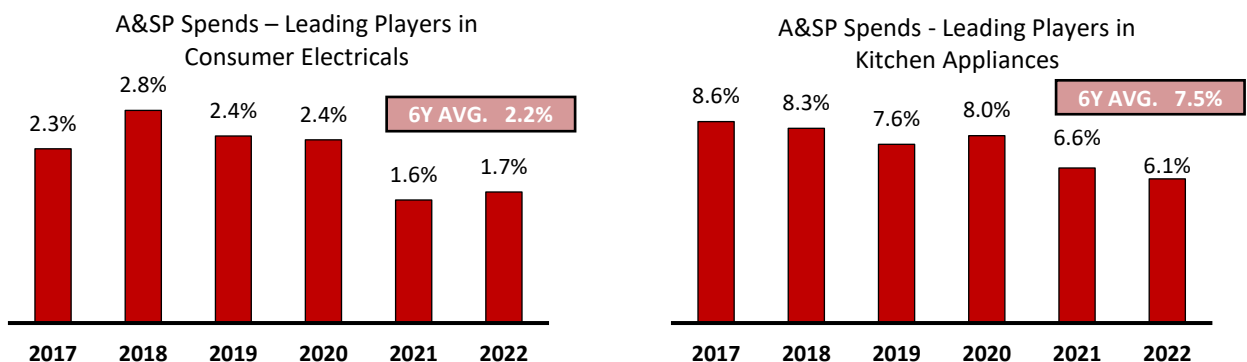
The trend remains the same in the kitchen appliances business as companies focus on delivering high-quality and appealing products to customers.

“We acquired a manufacturing facility for modular furniture from Metsmith Innovations, along with the entire operations and design team, for a consideration of Rs. 86 lakhs.” – Stove Kraft FY22 AR.

“The Company expanded its product portfolio with the launch of 20+ new ranges of innovative and segment-specific products, with functional and aesthetic improvements.” – Butterfly Gandhimathi FY22 AR.

Focus on marketing and branding

Advertising and Sales Promotion (A&SP) are the key to selling consumer-based products. Leading players in both industries continue to focus on brand building to drive market share. A&SP spending as % of sales in Consumer Electricals will inch further up to pre-COVID levels, whereas A&SP spending in Kitchen Appliances space in absolute terms will continue to rise but is expected to come down as a % of sales (operating leverage) before settling closer to that of Consumer Electricals.



Companies included in the A&SP calculation for Cons. Durables are Polycab, Havells, Crompton, Orient Electric, Bajaj Electricals, V-Guard Ind, Finolex Cables, and KEI. Companies included in the A&SP calculation for Kitchen Appliances are TTK Prestige, Butterfly Gandhimathi, and Stove Kraft
Source: Company, Keynote Capitals Ltd.

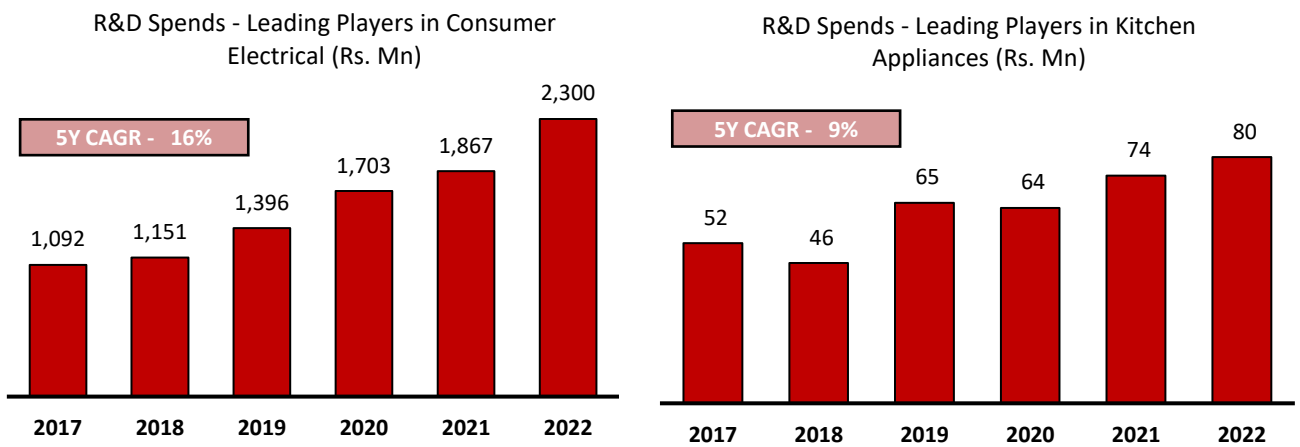
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Continuous efforts on building the brand will help leading players gain market share from the un-branded local players and strengthen their industry position by driving industry consolidation.

“We have made consistent efforts to reach closer to consumers through our wide-ranging activities across various touch points with the aim to strengthen the brand awareness and conversion” – Shantanu Khosla, MD, CGCEL, Q1FY23.

Focus on Research and Development (R&D)

Prominent players have been increasing their focus on R&D, which helps them produce newer and smarter products. Stalwarts in both industries are inching up their R&D spending year after year to remain competitive and gain market share. R&D spending of Consumer Durable players since 2017 has compounded at a substantial rate of 16%, and Kitchen Appliances players at 9%.



Companies included in the A&SP calculation for Cons. Durables are Polycab, Havells, Crompton, Orient Electric, Bajaj Electricals, V-Guard Ind, Finolex Cables, and KEI. Companies included in the A&SP calculation for Kitchen Appliances are TTK Prestige, Butterfly Gandhimathi, and Stove Kraft

Source: Companies, Keynote Capitals Ltd.

The commitment of industry players to R&D spending in the Consumer Electrical industry can be seen in the quantum of investments done by them in the last five years. Spending behind R&D has slightly more than doubled since 2017, from Rs. 1,092 Mn to Rs. 2,300 Mn. Though a similar commitment is not seen in numbers for Kitchen Appliances players, their seriousness for innovation is equally high.

“Prestige as a brand constantly puts out new innovations, and the new product pipeline is working well. And we are getting a lot of new products into the market. Hopefully, the inflation-proof target audience will be addressed with these new innovations. So, we are hoping to keep the top line going.” – Chandru Kalro, TTK Prestige, Q2FY23.

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Crompton Greaves Consumer Electricals Ltd.

Crompton Greaves Consumer Electricals was formed in 2015 due to CG Power (Avantha Group Company) de-merging its Consumer Electrical division to divide the B2B and B2C businesses.

Avantha Group later decided to sell its 34.37% stake in CGCEL to two private equity companies, Advent International and Temasek Holdings, for Rs. 20 Bn shortly after the de-merger. Advent purchased 22.34% of the Company through its subsidiary Amalfiaco, while Temasek acquired 12.03% through its subsidiary Macritche Investments. Post-acquisition, both PE firms qualified to be the “Promoter Group” of CGCEL.

In Q2FY23, the last promoter, Macritche Investments, with 2.5% of the Company, was reclassified as the ‘Public’ category upon passing a resolution by the shareholders.

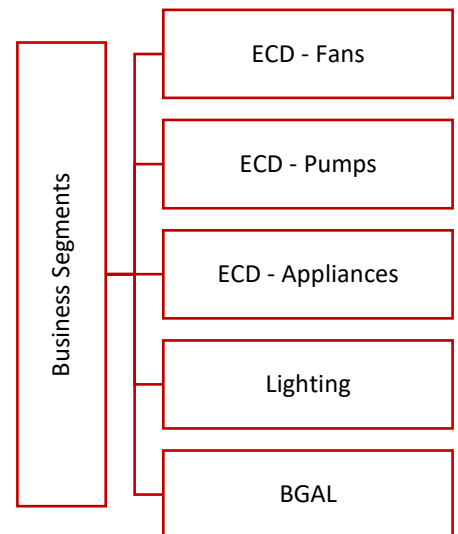
Business Operations of CGCEL

CGCEL operates in three segments: Electronic Consumer Durables (ECD), Lighting, and Kitchen Appliances. The Company has been in the ECD and Lighting business since 2015, whereas the Kitchen Appliances segment has come due to CGCEL’s acquisition of BGAL in late FY22.

ECD is a group of business lines: Fans, Pumps, and Appliances. Together they’ve been a prominent business responsible for 68% of the Company’s revenue as of H1FY23.

Lighting is a segment that sells LED lights, bulbs, panels, and fixtures via B2B and B2C models. This vertical accounted for 15% of the revenue for the same period.

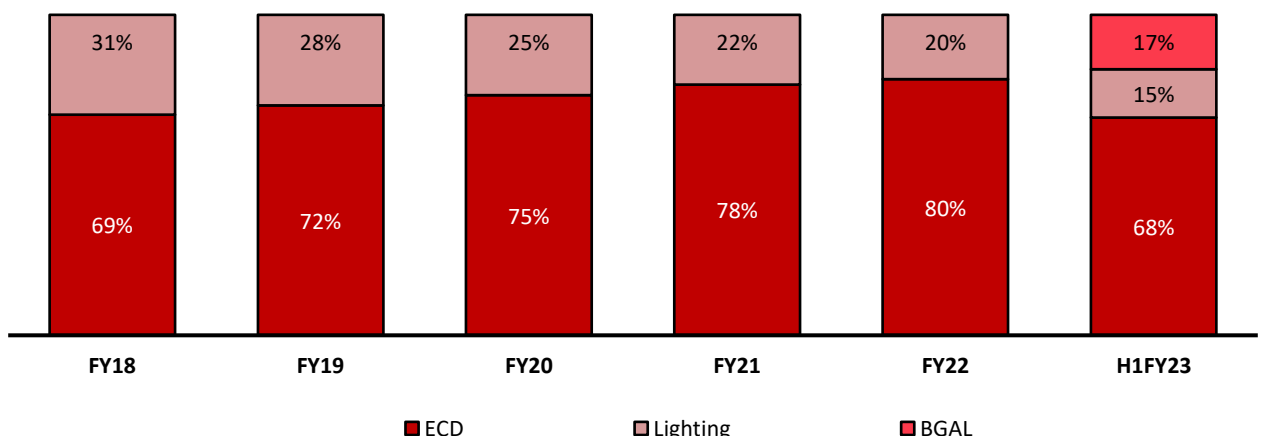
Kitchen Appliances has been recently plugged into the Company’s line of businesses with the acquisition of Butterfly Gandhimathi Appliances Limited (BGAL) in February 2022. BGAL manufactures kitchen products like stoves, cooktops, tabletops, and wet grinders. The acquired company contributed 17% to CGCEL’s revenue in H1FY23.



Source: Company, Keynote Capitals Ltd.

CGCEL’s Segmental Revenue mix

Segmental Revenue Composition (%)



Source: Company, Keynote Capitals Ltd.

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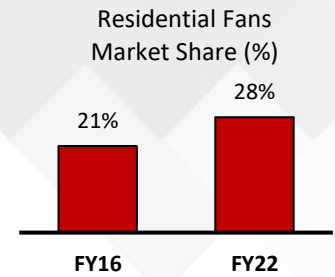
Fans

Based on application, fans are broadly classified as ceiling fans, table wall and pedestal (TWP) fans, and exhaust fans. These fans are accounted for based on price ranges like premium, mass premium, and economy. Premium Fans (MRP > Rs. 2,500) contribute 17% to revenue in FY22. The Company has made a significant investment in this section to make it the fastest-growing category in the portfolio. Resultantly, value growth in revenue has been more than or equal to volume growth for the previous few years. Following this is the mass premium and economy category, contributing around 60% and 23% of the segment's revenue for the last fiscal year (FY22).

CGCEL is the market leader in ceiling fans with a 28% market share and the second biggest seller of premium fans with a 35% market share. COVID-19 aided larger players in winning the market from smaller players. Moreover, commodity inflation prevailed during that time. In response to all these headwinds, CGCEL maintained its investment in R&D, innovation, product launches, and advertising. As a result, it gained space on the distributors' and retailers' shelves more than two times compared to its peers.

CGCEL has also increased its distribution from 40% urban points of sale in FY17 to 55% in FY22. In the long run, the Company anticipates expanding its reach to 95%-98% and becoming a significant player in rural India, where they've recently entered.

Apart from these developments, the Company stands well-prepared for the expected changes by the Bureau of Energy Efficiency (BEE). Of the entire fans business, 40% is ready for the regulatory environment post-Dec '22, whereas 60% needs to be converted.



Source: Company, Keynote Capitals Ltd.

Innovation in Fans

Product	Description
Air 360	Covers 50% more room area
VSenseTM	Delivers high speed, for regions with power fluctuations
Air Buddy	A unique product that doesn't disturb the cooking process and enables sweat free cooking.
Aura Fluidic	Better aesthetics and improved durability offered five-year warranty – a first in the industry
SilentPro	Saves up to 50% energy
Jura Design	Wooden and marble finish fans

Source: Company, Keynote Capitals Ltd.

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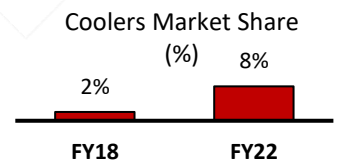
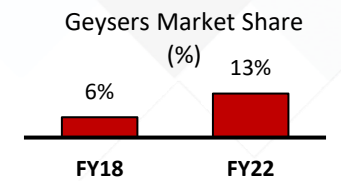
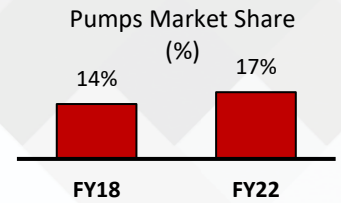
Pumps

Residential, agricultural, and commercial/industrial are the main types of pumps sold by the Company. CGCEL is the market leader in residential pumps with a 27% market share, and the product contributes significantly to the segment's revenue. The Company is looking at agro-pumps or non-residential pumps as an avenue for growth.

The Company has been taking calibrated actions in East and North India to maintain its strong market position. CGCEL is also making significant efforts to develop business in South and West India, where it is relatively weak against its peers. The Company has a proven track record of understanding customers' needs and launching relevant and innovative products.

Besides this, CGCEL has also started focusing on energy-efficient solar pumps and aims to become a prominent player in this segment.

As of FY22, lower-tier pumps accounted for 20-25% of the sub-segment revenue. The Company believes innovation and attention should be where the mass is, not the niche. However, the Company is present across all price points.



Appliances

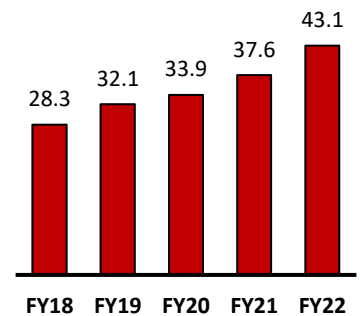
This category broadly represents water heaters, coolers, and mixer grinders.

With 25% urban penetration and 13% market share, the Company is India's second-largest seller of geysers. CGCEL has expressed its aspirations to capture 20% market, and more than 30% in the long term.

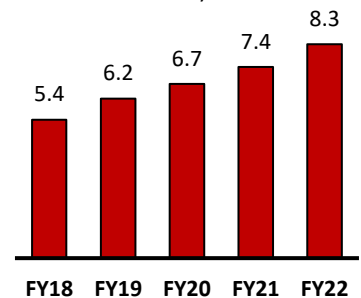
In the coolers segment, the Company had just a 1-2% share in FY18, which rose to 4% in FY20 and then to 8% in FY22. The Company believes in introducing one exceptional innovation once every two seasons.

Mixer Grinder is also a product with a low single-digit market share.

ECD Revenue (Rs. Bn)



ECD Operating Profit (Rs. Bn)

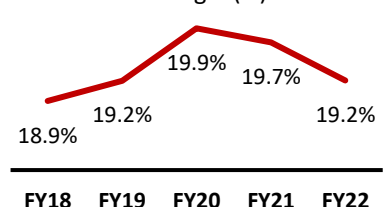


Innovation in Pumps and Appliances

Product	Description
Mini Crest	A lower-tier pump that suits mass market
Ultima	A pump suitable for places with power fluctuations
Mini Champ Plus	Hybrid winding pump that helps in longer durability and less jams during operation
Dessert Cooler	With auto-drainage facility and mosquito net filler
Ameo Mixer	Provides 10% higher grinding efficiency at 10% lesser mixer body temperature

Source: Company, Keynote Capitals Ltd.

ECD Segment Operating Margin (%)



Source: Company, Keynote Capitals Ltd.

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Lights

The company sells bulbs, battens, panels, and fixtures in the lighting business. Battens and panels together account for 60% of the segment's revenue as of Q4FY22. Classifying the lighting business into B2B and B2C, both segments currently contribute equally to the revenue mix. Within the B2B segment, the Company took government orders, accounting for 10% of the segment's revenue in FY 18-19, which has rolled down to zero due to inactivity by the Government. Currently, B2B includes lighting solutions provided to large private institutions for road lighting, infrastructure, commercial, sports, etc.

We believe that the Company was behind the curve in building its B2B business, unlike peers like Havells, which acted faster by launching innovative lighting solutions and strong go-to-market efforts. Also, CGCEL's dependence on government orders acted as a drag. To address these issues, the Company appointed a country head and field force to build its B2B lighting business.

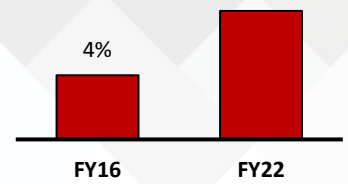
Increasing acceptance of LED lights had a negative impact on CGCEL's conventional lighting business. The conventional business accounted for 18% of the segment's revenue in FY18, which is down to 8% as of Q2FY23 and is expected to go further down to 5% in the future.

With the help of its 'Ujala' scheme, the Government increased the penetration of LED lights. This resulted in a massive price erosion of LED lights, especially for bulbs and battens.

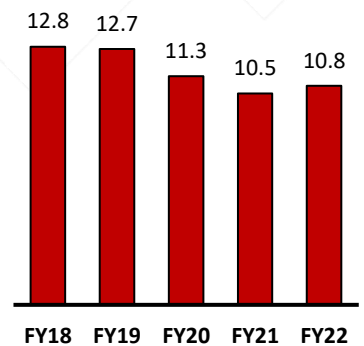
To combat this situation, CGCEL increased its focus on innovation, premiumization, and cost savings. These efforts ensured that the Company's lighting segment's margin was maintained and aided CGCEL to grow its LED panels business faster than LED battens and bulbs.

The Company believes there is much room for innovation and premiumization in LED panels and aims to significantly increase this business. In the lighting industry, CGCEL currently has a 9-10% market share which has increased from 5% in FY18.

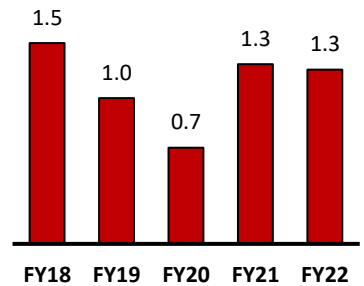
Lights - LED Market Share (%)



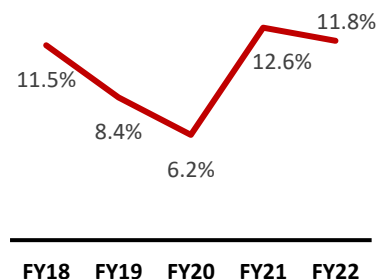
Lighting Revenue (Rs. Bn)



Lighting Operating Profit (Rs. Bn)



Lighting Operating Margin (%)



Innovation in Lighting

Product	Description
Lyor LED Lamps	India's first BEE rated, star energy efficient lamps
ANTIBAC	Kills up to 85% bacteria in the house
Back up Lamp	Works even after power failure
IoT Lamp	Wi-fi and mobile phones enabled lamp
Star Lord 3 in 1	Offers natural, white and warm lighting in one light

Source: Company, Keynote Capitals Ltd.

FY18 FY19 FY20 FY21 FY22

Source: Company, Keynote Capitals Ltd.

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Butterfly Gandhimathi Appliances Ltd – Ideal Acquisition on Multiple Counts

Background & Transaction

The management had been evaluating making an acquisition for growth in an existing business or diversifying into adjacent products since FY19. One of the alternatives was the 'Kitchen Appliances,' as the Management believed they could become one of India's top 3 kitchen players.

In Feb'22, CGCEL acquired BGAL and forayed into the kitchen appliances space. CGCEL initially acquired a 55% stake from BGAL's promoters along with some crucial trademarks for a consideration of Rs. 1.4 Bn. The Company later spent another Rs. 0.66 Bn to acquire an additional 26% stake.

The Company subsequently sold a 6% stake to meet the maximum promoter holding of 75% in BGAL as of Q2FY23. Most of the remaining shares are held by the public, followed by DIIs.

About Butterfly Gandhimathi Appliances Ltd.

BGAL is among the Top 3 Indian kitchen appliances brands which sell products under the brand name "Butterfly." The Company has a solid brand recall in South India, with a leading position in all core product categories.

About Core Product Categories of BGAL

Core Categories	Est. Market Size (Rs Bn)	Revenue (Rs. Bn.)	Contribution % FY22	In-house manufacturing %
Mixer Grinders	~28.0	3.0	29%	100%
LPG Stoves	~22.0	2.5	25%	73%
Pressure Cookers	~17.0	1.8	18%	100%
Wet Grinders	~3.8	1.3	13%	100%
Other Products	-	1.5	15%	-
Total	~70.8	10.1	100%	-

Source: Company, Keynote Capitals Ltd.

FY22 Revenue (Rs. Mn.) split across Trade Channels

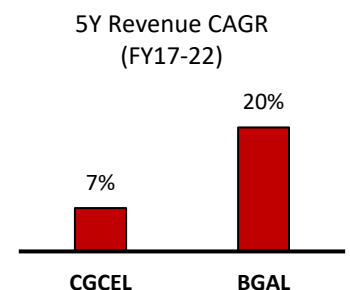
General Trade	Online	B2B	Modern Retail	Others	Total Revenue
443	369	143	35	15	1,005

Source: Company, Keynote Capitals Ltd.

The right pick in terms of business and the player

The domestic kitchen appliances industry is expected to grow at a low to mid-double-digit rate in the near future. Therefore, from a top-down point of view, CGCEL has entered into a business segment with high growth potential.

Also, if we compare, BGAL has grown faster than CGCEL in the last five years (FY17-22). This gives us confidence that BGAL will provide a much-needed push to CGCEL's topline.



Source: Company, Keynote Capitals Ltd.

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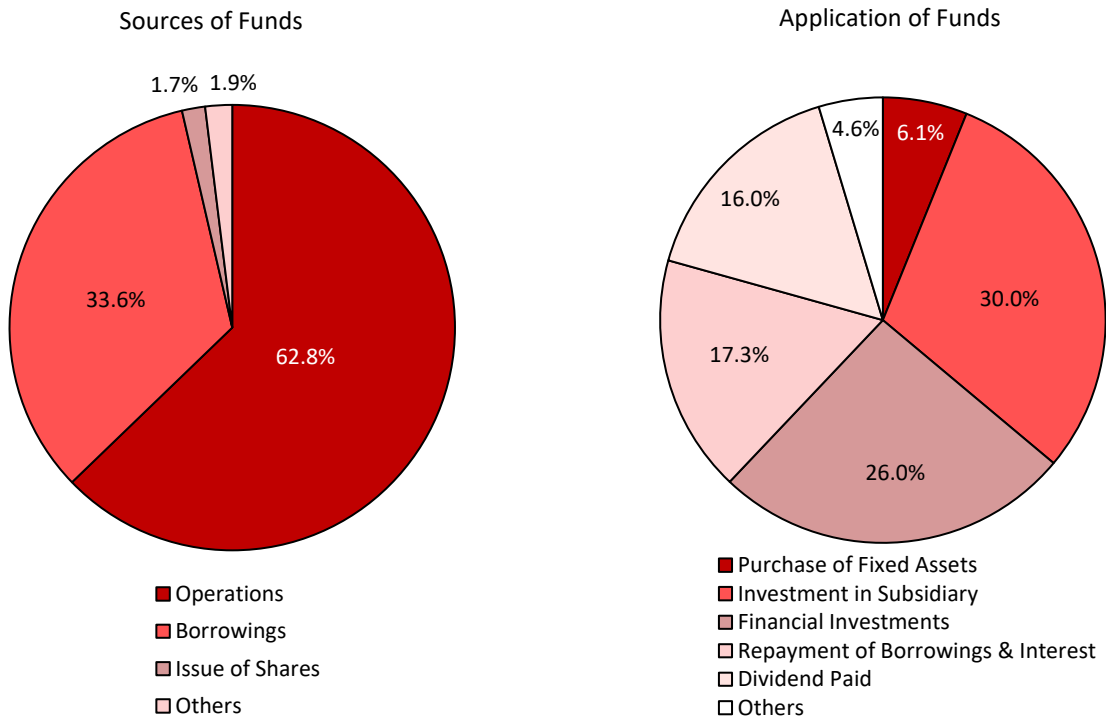
Immediate advantages that will accrue to CGCEL

BGAL is an excellent fit as per the growth strategy of CGCEL. Acquiring BGAL gives CGCEL an immediate scale across various products which are complementary to some of CGCEL's existing products.

Post-acquisition, the Company has a complete product portfolio of kitchen appliances and owns a brand with a strong recall in India's best and most significant market. South India has the highest kitchen appliances penetration in the Country.

Apart from this, the Company gets access to manufacturing facilities and R&D capabilities that BGAL has built. Also, there are a lot of common raw materials across CGCEL's existing business and BGAL. Sourcing these materials simultaneously for the combined entity will add to the Company's robust cost management program.

Historical Capital Allocation of CGCEL (FY17-22)



Source: Company, Keynote Capitals Ltd.

Since FY17, CGCEL has relied on internal accruals and partially used debt financing to support expenses and business investments.

In Feb'22, as a part of its growth and diversification strategy, CGCEL acquired a controlling stake in Butterfly Gandhimathi Appliances Ltd. (BGAL) along with some crucial trademarks for a consideration of ~Rs. 14 Bn.

Looking at CGCEL's sourcing and application of money, we believe that the Company has been prudent in allocating its financial resources.

Consumer Electricals Peer Analysis

CGCEL and Bajaj Electricals Ltd. are the only two players who are present in 4 product categories. On the flip side, other players are present in at least 6 out of the 7 product categories in the Consumer Electricals space.

Company	Cables and Wires	Fans	Lightings	Switches	Switchgear	Water Heaters	Home Appliances
Polycab India	*	*	*	*	*	*	*
Crompton Cons.		*	*			*	*
Finolex Cables	*	*	*	*	*	*	
Havells India	*	*	*	*	*	*	*
Orient Electric		*	*	*	*	*	*
V-Guard Ind.	*	*		*	*	*	*

Source: Company, Keynote Capitals Ltd.

Financial & Operating Parameters

Particulars	Havells India	Crompton Greaves Cons.	Orient Electric
Revenue FY22 (Rs. Mn.)	139,380	54,668	24,480
Operating Profit FY22 (Rs. Mn.)	17,600	8,421	2,310
5Y Revenue CAGR %	17.9%	7.0%	11.2%^
5Y Op. Profit CAGR %	16.6%	11.7%	13.5%^
FY22 Op. Profit Margin %	12.6%	15.4%	9.4%
5Y Avg ROE %	18.7%	33.4%	23.7%
5Y Avg ROCE %	22.7%	29.4%	29.0%
5Y A&SP as a % of sales (Cumulative)	3.7%	2.0%	3.8%
5Y R&D as a % of sales (Cumulative)	0.9%	0.5%	0.1%
Dealers/Distributors	14,000	4,000	-
Retailers/Retail outlets	2,10,000	1,50,000	-
FY22 Debt/Equity (x)	0.1	0.7	0.1
FY22 Working Capital Days	44	11	33
5Y Avg Cash Conversion %	72.6%	85.9%	90.9%
Current P/E (x)	66.5	39.6	55.1
Current EV/EBITDA (x)	39.5	26.3	27.2

^aOrient Electric's numbers are available from FY18, thus 4Y CAGR is calculated

Source: Company, Keynote Capitals Ltd.

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Comprehending the Financials of Peers from Consumer Electrical Industry

In scale, CGCEL is at less than half of Havells India Ltd. (HIL) and more than double compared to Orient Electric Ltd. (OEL). In growth terms, HIL and OEL have grown their revenues much faster than CGCEL in the last 4-5 years.

Despite being slower in growth, CGCEL has increased its operating margins from 12% in FY17 to 14% in FY22, whereas HIL remained at 13%, and OEL declined from 11% to 8% over the same period.

Regarding A&SP and R&D, HIL & OEL spend ~1.5% more on A&SP than CGCEL. HIL spends almost 1% on R&D, while CGCEL spends 0.5% on its Sales.

Even though HIL has more distributors and retailers than CGCEL, HIL has 15 retailers per distributor. In contrast, CGCEL has ~38 retailers per distributor, making CGCEL's distribution network 2.5 times more efficient than HIL.

Apart from this, all companies maintain a robust balance sheet, working capital position, and satisfactory cash conversion. On valuations, CGCEL trades at the lowest multiples, at a 43% discount to HIL and a ~30% discount to OEL.

Kitchen Appliances Peer Analysis

All the major players in the Kitchen Appliances space operate as a one-stop shop for all kitchen products. All three major players are present across all product categories.

Company	Chimneys	Cooking Hobs	Cooktops	Pressure Cookers	Food Preparation Appliances	Cookware
Butterfly Gandhimathi	*	*	*	*	*	*
TTK Prestige	*	*	*	*	*	*
Stove Kraft	*	*	*	*	*	*
Hawkins Cookers				*		*

Source: Company, Keynote Capitals Ltd.

Financial & Operating Parameters

Particulars	Butterfly Gandhimathi	TTK Prestige	Stove Kraft	Hawkins Cookers
Revenue FY22 (Rs. Mn.)	10,053	27,225	11,364	9,580
Operating Profit FY22 (Rs. Mn.)	606	4,616	967	1,256
5Y Revenue CAGR %	20.0%	9.3%	18.1%	13.3%
5Y Op. Profit CAGR %	NA	14.4%	80.6%	10.2%
FY22 Op. Profit Margin %	5.9%	15.7%	8.5%	13.1%
5Y Avg ROE %	6.6%	18.3%	8.6%	45.3%
5Y Avg ROCE %	12.7%	19.6%	11.8%	51.1%
5Y A&SP as a % of sales (Cumulative)	9.4%	6.5%	3.1%	0.1%
5Y R&D as a % of sales (Cumulative)	0.2%	0.2%	<0.1%	4.5%
FY22 Debt/Equity (x)	-	0.1	0.2	0.2
5Y Avg Cash Conversion %	97.3%	67.2%	51.2%	54.1%
Current P/E (x)	97.5	38.3	35.1	35.3
Current EV/EBITDA (x)	37.5	27.2	19.5	24.3

Source: Company, Keynote Capitals Ltd.

Comprehending the Financials of Peers from Kitchen Appliances Industry

BGAL is smaller in scale compared to TTK Prestige (TTK) and Stove Kraft Ltd. (SKL). BGAL, unlike other players, is unable to generate double-digit margins, but now that CGCEL is engaged, this scenario is expected to change positively.

CGCEL's management has already shown a glimpse of double-digit margins in H1FY23 and now expects a 10% operating margin to be the base margin for BGAL. Apart from profitability parameters, BGAL fairs equally or slightly better than peers.

Management Analysis

Highly experienced industry veterans associated with the Company since its inception are in charge of managing CGCEL.

Name	Designation	Previous Associations	Total Experience (Yrs.)	Experience with CGCEL (Yrs.)
Shantanu Khosla	MD	Ex-MD & CEO, P&G	30+	7+
Mathew Job	ED & CEO	Ex-MD, Racold	25+	7+
Kaleeswaran Arunachalam	Group CFO	Ex-Global CFO, Eicher	19+	Less than 1

Source: Company, Keynote Capitals Ltd.

ED: Executive Director

The current MD, Mr. Shantanu Khosla, and CEO, Mr. Mathew Job, have been with CGCEL since its inception. Before joining the Company, both executives had extensive experience serving at the helm of marquee consumer-facing organizations. Recently, there was a change in CFO; Mr. Kaleeswaran Arunachalam (Ex- Global CFO, Eicher Motors) took charge in place of Mr. Sandeep Batra. The role and stickiness of these professionals are incredibly crucial as CGCEL is not a promoter owned/operated entity, unlike most Indian listed companies

Compensation and Skin in the Game

Particulars	FY20	FY21	FY22	Q2 FY23
% Promoter Holding	26.2%	11.4%	5.9%	2.5%
Management Salary (Rs Mn)	140	120	200	-
As a % of PAT	3%	2%	4%	-

Source: Company, Keynote Capitals Ltd.

After the stake sale by the promoter in 2016, private equity companies Advent International and Temasek qualified as promoters of the Company. These PEs also started offloading their stake from FY20; now Temasek holds just 2.5% as of Q2FY23. Regarding compensation, pay packages given to the top management continue to stay in a comfortable range.

Top 8 shareholders combined are currently at the highest ownership since FY20.

Stakeholders	FY20	FY21	FY22	Q2 FY23
Aditya Birla Mutual Fund	5.0%	4.6%	4.3%	4.6%
HDFC Mutual Fund	3.0%	3.5%	3.3%	4.5%
Mirae Asset Mutual Fund	-	1.4%	3.4%	4.3%
HDFC Life Insurance Company	2.4%	3.3%	4.0%	3.8%
UTI Mutual Fund	2.9%	2.5%	2.9%	3.1%
Amansa Holdings Pvt. Ltd.	3.9%	3.4%	3.0%	3.0%
DSP Mutual Fund	2.4%	2.1%	2.8%	2.7%
Vanguard Emerging Market Stock Index Fund	1.2%	1.0%	1.0%	2.5%
Total stake held	20.8%	21.8%	24.7%	28.5%

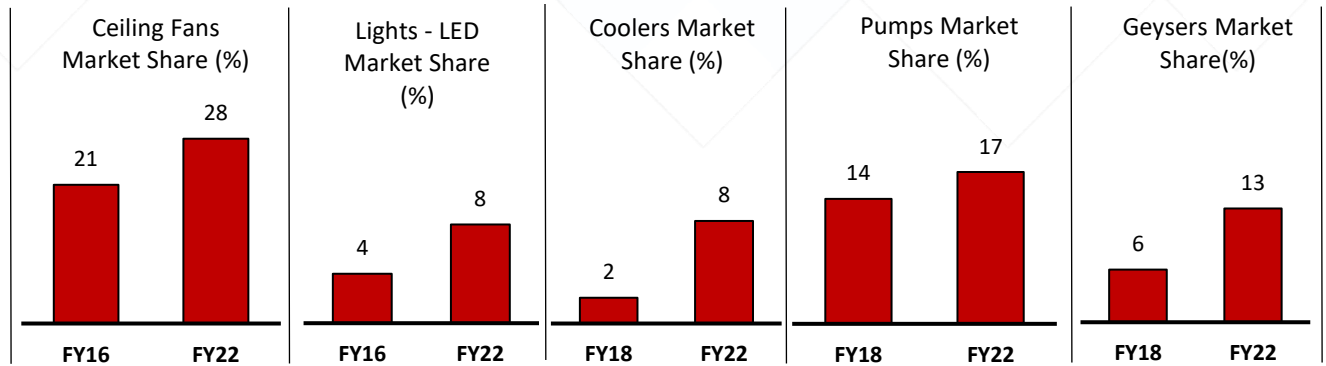
Source: Company, Keynote Capitals Ltd.

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Opportunities

Gaining Market Share and Maintaining Leadership

CGCEL has a clear goal to be in the top three players in each product category. This is because, in customer-facing businesses, it's generally the top three-four players who take away sizeable market share. Moreover, the Company is unwilling to enter segments where they cannot attain leading positions. In all the product categories where CGCEL operates, it has either become the leader or is second-to-leader. Despite fierce competition in the Industry, the Company has maintained its industry-leading position and consistently gained share.



Source: Company, Keynote Capitals Ltd.

Amid market share gains, the fact remains that none of these share gains have come at the cost of margins. CGCEL continues to make industry-leading margins, giving us high confidence in management's execution.

Market share gains by CGCEL can be credited to the Company's constant efforts in cost savings, brand building, and product innovation. CGCEL has made significant cost savings every year and has constantly invested them in building its brand. The Company plans to invest ~2% of its sales every year behind strengthening the "Crompton" brand.

Besides brand building, the Company also believes in constant innovation and producing effective products per customers' needs. The result of these efforts is visible as products introduced in the past three years account for half of CGCEL's revenues in FY22.

Crucial Innovations by CGCEL

Pioneered "Anti-dust" fans and led the category for several years

"Vsense" was introduced to run even in power fluctuations

"Anti Bac" bulb was introduced that kills up to 85% of bacteria

CGCEL's achievements and future business goals

Segment		Historical (2015-2022)	Medium Term (Next 2-3 years)	Long Term (3-5 years)
Core Segments	Fans	Maintained #1 in Fans	Maintain #1 in Fans, 2x premium fans growth over FY 21	Achieve #1 in Premium Fans
	Pumps	Maintained leadership in Residential	Maintain #1 in Residential and grow share of Agri.	Maintain #1 in Residential and double share of Agri.
Emerging Segment	Lighting	Top 3 in Lighting B2C	Become a top 2 player in LED, wind down CFL	Become a clear #2 in lighting
	Appliances	#3 in Geysers and #4 in Air Coolers Acquired Butterfly Gandhimati	Become Top 3 player in SDA Segment	Become Top 2 player in SDA Segment and further extend kitchen portfolio
New	New Segments	Evaluated attractive adjacencies	Enter and establish an Adjacency	Top 3 player in established adjacency, Enter a new Adjacency

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Additional Source of Robust Growth – BGAL

The long-time pending acquisition plan finally got executed when the Company acquired BGAL in February 2022. Given the capabilities both companies have to offer each other, there are multiple short to medium-term synergies that can result in growth for the combined entity.

Synergies between CGCEL & BGAL and Improvements in BGAL in short to mid-term

Pan India presence of BGAL – BGAL is a South India-focused brand ready to be launched pan India. Now that CGCEL has the onus of the Company, it will use its country-wide solid distribution network to scale BGAL's business.

Leveraging BGAL's manufacturing & R&D capabilities to launch products under its umbrella – CGCEL has multiple kitchen appliance products in its portfolio. Now that BGAL has come under its fold, the Company will leverage BGAL's manufacturing and R&D capabilities to carry out a dual brand expansion. CGCEL has recently launched a range of large kitchen appliances (Chimneys, Hobs, Built-in Ovens, and Dishwashers).

Best-in-class margins for BGAL – Despite qualifying among the top 3 kitchen appliances brand in India, BGAL has not been able to make the desired margins.

Operating margin (FY22) comparison of BGAL vs Peers & CGCEL

CGCEL	BGAL	TTK Prestige	Stove Kraft	Hawkins Cookers
15.4%	6.5%	14.9%	8.2%	13.1%

Source: Company, Keynote Capitals Ltd.

BGAL makes the lowest margins amongst listed kitchen appliance players and not even 50% of what CGCEL makes in its existing business. The Management of CGCEL has always focused on making industry-leading margins in the consumer electricals space.

Now that CGCEL is handling the reins of BGAL, operating margins are expected to expand, given the higher scale that BGAL is expected to achieve. CGCEL's management has already started to make its presence felt as BGAL in H1FY23 clocked an operating margin of 10.7%, which is significantly better than history.

The Management has also guided to maintain and improve operating margin levels as stability is achieved and synergies start to kick in. Current guidance from the management considers 10% operating margins as the floor for BGAL.

Qualifying in the Top 3 players in a few product categories – Apart from maintaining industry-leading margins, CGCEL's management also has a reputation of entering a new product category only if they are confident in claiming a spot in the top 3.

They have achieved this across a few product categories where CGCEL was nowhere close to the top but managed to break into the top league with its efforts and management execution.

CGCEL's management has also stuck to the same goal for BGAL, and given its execution history, we believe this goal is achievable.

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Organic Growth Far from Exhaustion

CGCEL enjoys a strong distribution penetration of 55% in fans, 30% in lights, and 25% in water heaters pan India and aspires to increase it to much higher levels. This will result in increased offtakes which will be followed by market share gains.

The Company can track over 85% of its secondary sales using its in-house software (Tally Patch). This makes CGCEL capable of collecting end-customer feedback and operate efficiently.

In 2020, the Company also expanded its Go-to-Market program into rural India to achieve Channel Excellence. In Phase 1, the Company's goal was to reach 400 towns with populations ranging from 50,000 to 1 lakh people. The Company has already built a presence in 75% of such towns by FY21. Currently, Phase 2 is being implemented, which includes building a presence in all towns with populations ranging from 20,000 to 50,000, totaling about 2,000 towns. Moreover, the Company has appointed around 250 channel partners in the corresponding areas and has strengthened its rural standing.

Apart from increasing rural penetration, e-commerce is another channel the Company uses seriously. Together, these two (Rural & E-commerce) accounted for around 12% of the Company's revenue in approximately equal proportion as of Q1FY23.

Organically entering new product categories is another way growth can be achieved. According to the management, the Company would always opt for a segment whose market size is less than Rs 100 Bn. For example, Chimney, the new segment, has a current market size of Rs 22 Bn. Also, product segments of BGAL are under the same threshold.

In addition to all these levers, premiumization is another potent trigger to attract growth. The demand for innovative and aesthetically good-looking appliances will continue to rise, presenting growth opportunities for CGCEL.

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Challenges

High-Penetration, High-Competition, Low-Growth Industry

Almost all the product segments of CGCEL are highly penetrated and low-growth segments. Industry estimates suggest that all these segments will grow below 10% from FY22 to FY27.

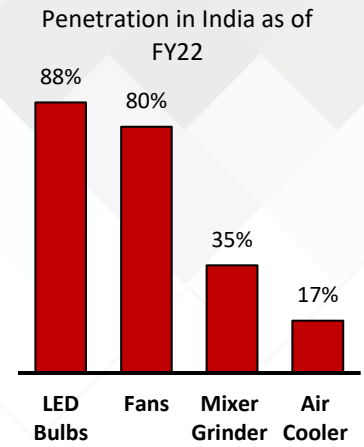
Because of limited historical growth, competition among players to increase market share has become fierce. As a result, only the top 2-3 players have created value, while others have exited the market.

In such a situation where growth is essentially a function of taking market share from peers, CGCEL will have to continue its top-notch execution and put significant efforts behind building the brand and product innovation.

So far, the Company has done very well in saving costs and has invested the same behind the brand. CGCEL aims to save 0.5% on costs annually and spend it on brand building. On innovations also, the efforts of the Company are bearing fruit as 10% of CGCEL's revenue now comes from products launched in the past 12 months, and more than 50% of revenue comes from products introduced in the last three years.

Any weakness in brand-building and product innovation efforts can negatively affect CGCEL's business growth or lead to market share loss. The Company faced a challenging situation when its market share in the water heaters segment stagnated at around 5-6% due to a lack of innovation.

Fortunately, CGCEL sensed the problem promptly and controlled the situation by revamping its water heater portfolio completely. This new range immediately started showing results and helped CGCEL increase its market share to 11% by FY20.



Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	48,035	53,941	69,530	77,039	84,743
Growth %		12%	29%	11%	10%
Raw Material Expenses	32,128	36,549	47,280	52,233	57,371
Employee Expenses	3,366	3,624	5,076	5,393	5,932
Other Expenses	5,357	6,074	9,039	8,860	9,322
EBITDA	7,185	7,695	8,135	10,554	12,118
Growth %		7%	6%	30%	15%
Margin%	15%	14%	12%	14%	14%
Depreciation	297	423	685	700	716
EBIT	6,888	7,272	7,450	9,854	11,402
Growth %		6%	2%	32%	16%
Margin%	14%	13%	11%	13%	13%
Interest Paid	429	353	1,211	928	629
Other Income & exceptional	777	597	700	700	700
PBT	7,236	7,515	6,939	9,627	11,473
Tax	1,070	1,732	1,735	2,407	2,868
PAT	6,167	5,784	5,204	7,220	8,604
Others (Minorities, Associates)	0	0	0	0	0
Net Profit	6,167	5,784	5,204	7,220	8,604
Growth %		-6%	-10%	39%	19%
Margin%	13%	11%	7%	9%	10%
Shares (Mn)	627.7	633.4	633.4	633.4	633.4
EPS	9.82	9.13	8.22	11.40	13.58

Balance Sheet

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Cash, Cash equivalents & Bank	6,040	9,152	7,973	8,905	11,817
Current Investments	7,697	6,238	6,238	6,238	6,238
Debtors	4,608	6,154	7,648	8,474	8,474
Inventory	5,186	7,210	8,038	8,880	9,753
Short Term Loans & Advances	1,182	1,204	1,204	1,204	1,204
Other Current Assets	1,082	1,041	1,041	1,041	1,041
Total Current Assets	25,795	31,001	32,143	34,743	38,528
Net Block & CWIP	9,259	32,865	32,875	32,945	33,076
Long Term Investments	0	3	3	3	3
Other Non-current Assets	335	617	617	617	617
Total Assets	35,389	64,486	65,638	68,309	72,225
Creditors	8,204	10,178	10,584	11,676	12,814
Provision	1,024	1,822	1,822	1,822	1,822
Short Term Borrowings	0	14,483	11,586	8,110	4,866
Other Current Liabilities	3,081	3,672	3,672	3,672	3,672
Total Current Liabilities	12,309	30,155	27,664	25,281	23,174
Long Term Debt	2,988	46	46	46	46
Deferred Tax Liabilities	-586	394	394	394	394
Other Long Term Liabilities	1,363	1,537	1,537	1,537	1,537
Total Non Current Liabilities	3,765	1,977	1,977	1,977	1,977
Paid-up Capital	1,255	1,267	1,267	1,267	1,267
Reserves & Surplus	18,059	23,263	26,890	31,924	37,922
Shareholders' Equity	19,314	24,530	28,157	33,191	39,189
Non Controlling Interest	0	7,825	7,840	7,861	7,886
Total Equity & Liabilities	35,389	64,486	65,638	68,309	72,225

Cash Flow

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Pre-tax profit	7,236	7,515	6,939	9,627	11,473
Adjustments	197	512	1,196	928	646
Change in Working Capital	1,445	1,005	-1,915	-575	264
Total Tax Paid	-575	-1,798	-1,735	-2,407	-2,868
Cash flow from operating Activities	8,303	7,234	4,485	7,573	9,514
Net Capital Expenditure	-198	-1,706	-695	-770	-847
Change in investments	-5,027	-2,093	0	0	0
Other investing activities	267	-13,430	700	700	700
Cash flow from investing activities	-4,957	-17,229	5	-70	-147
Equity raised / (repaid)	72.7	603.3	0	0	0
Debt raised / (repaid)	1,300	10,769	-2,897	-3,476	-3,244
Dividend (incl. tax)	-1,874	-1,564	-1,561	-2,166	-2,581
Other financing activities	-461	-735	-1,211	-928	-629
Cash flow from financing activities	-962	9,073	-5,669	-6,570	-6,455
Net Change in cash	2,384	-922	-1,179	933	2,912

Valuation Ratios

	FY21	FY22	FY23E	FY24E	FY25E
Per Share Data					
EPS	10	9	8	11	14
Growth %		-7%	-10%	39%	19%
Book Value Per Share	31	39	57	65	74
Return Ratios					
Return on Assets (%)	20%	12%	8%	11%	12%
Return on Equity (%)	36%	26%	20%	24%	24%
Return on Capital Employed (%)	34%	19%	16%	20%	22%
Turnover Ratios					
Asset Turnover (x)	1.5	1.1	1.1	1.2	1.2
Sales / Gross Block (x)	4.9	2.5	2.0	2.2	2.4
Working Capital / Sales (x)	21%	13%	4%	9%	15%
Receivable Days	35	36	36	38	37
Inventory Days	56	62	59	59	59
Payable Days	82	87	79	77	77
Working Capital Days	9	11	16	21	19
Liquidity Ratios					
Current Ratio (x)	2.1	1.0	1.2	1.4	1.7
Interest Coverage Ratio (x)	17.9	22.7	6.7	11.4	19.2
Total Debt to Equity	0.2	0.7	0.3	0.2	0.1
Net Debt to Equity	-0.1	0.3	0.1	0.0	-0.1
Valuation					
PE (x)	40.0	41.0	42.8	30.9	25.9
Earnings Yield (%)	3%	2%	2%	3%	4%
Price to Sales (x)	5.1	4.4	3.2	2.9	2.6
Price to Book (x)	12.8	9.7	7.9	6.7	5.7
EV/EBITDA (x)	34.1	31.7	28.4	21.9	19.0
EV/Sales (x)	5.1	4.5	3.3	3.0	2.7

Source: Company, Keynote Capitals Ltd. estimates

CGCEL's SOTP valuation

Valuation Scenario (in Rs. Mn, otherwise stated)	CGCEL		BGAL	
	FY22	FY24E	FY22	FY24E
Revenue	53,730	64,422	9,960	12,617
PAT Margin %	11.0%	10.0%	1.6%	6.4%
PAT	5,930	6,412	160	808
PE	40	39	-	35
Expected MCAP (Pre-Hold Co. Discount)	-	2,50,068	-	28,280
Hold Co. Discount %	-	-	-	30%
Expected MCAP (Post-Dis)	-	2,50,068	-	19,796

	FY24E
Expected MCAP (Consolidated Entity) (Rs. Mn)	2,69,864
Shares O/S (Mn)	636
Target Price (Rs.)	424
CMP (Rs.)	350
% Upside/(Downside)	21.1%

Source: Company, Keynote Capitals Ltd. estimates

We estimate steady a ~10% sales growth for CGCEL standalone in FY23 & FY24 to continue along with 10% FY24E PAT margin and a PAT of ~Rs. 6,412 Mn in FY24E. Valuing the standalone entity at close to median of 39x FY24E earnings, we arrive standalone market cap of Rs. 2,50,068 Mn.

For BGAL, we estimate a muted 10% sales growth in FY23 due to the ongoing consolidation and revamping exercise which is being undertaken by CGCEL. Once both organizations are in perfect alignment, we believe last 5Y growth of 15% to continue from FY24 onwards.

Management of CGCEL has a reputation to clock industry leading margins in the consumer electricals business and has further guided to substantially improve margins of BGAL going forward. Given the management's superior execution track record, we estimate BGAL to clock a 6.4% PAT margin in FY24E.

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Based on SOTP methodology and a 30% holding company discount to BGAL, we arrive at a target price of Rs. 424 per share for CGCEL (Consolidated entity), resulting in an upside of ~21% from current levels.

Valuation – 6-year Trailing PE band



Source: Company, Keynote Capitals Ltd.

Our Recent Reports

G R Infraprojects Ltd | Initiating Coverage Report **KEYNOTE**

G R Infraprojects Limited 11th Nov 2022

Clear road of opportunities ahead

BUY
CMP: Rs. 1,172
TARGET: Rs. 1,510 (+29%)

Company Data

Revenue (Rs. Crores)	1,511.00
EPS (Rs.)	61.00
Dividend Yield (%)	2.07 / 1.08
Free Cash Flow (Rs. Crores)	171.00
Shareholding Pattern (%)	
Govt	22
Private	78
Ins	0.00
Non Institutional	0.00

Key Financial Data

(Rs. Crores)	FY20	FY21	FY22E
Revenue	79,281	82,030	86,267
EBITDA	13,814	14,346	14,938
Net Profit	5,886	5,786	5,857
EPS	82,209	78,320	79,823
ROE (%)	10%	10%	10%
ROCE (%)	12%	12%	12%

Debt Info: Revenue Account Payable

Dividend Yield: Revenue Account Payable

Can Fin Homes Ltd. | Initiating Coverage Report **KEYNOTE**

Can Fin Homes Ltd. 23rd November 2022

Growth to sustain with Best-in-Class Asset Quality

BUY
CMP: Rs. 525.7
TARGET: Rs. 670 (27.0%)

Company Data

Revenue (Rs. Crores)	65.00
EPS (Rs.)	100
Dividend Yield (%)	107 / 40
Free Cash Flow (Rs. Crores)	2
Shareholding Pattern (%)	
Govt	22
Private	80
Ins	0.00
Non Institutional	0.00

Key Financial Data

(Rs. Crores)	FY20	FY21	FY22E
Revenue	6,206	6,224	6,242
EBITDA	6,206	6,241	6,280
Net Profit	4,798	4,796	4,810
EPS	14,926	14,926	14,926
ROE (%)	1.2%	1.2%	1.2%
ROCE (%)	15.2%	15.2%	15.2%

Debt Info: Revenue Account Payable

Dividend Yield: Revenue Account Payable

Varun Beverages Limited | Initiating Coverage Report **KEYNOTE**

Varun Beverages Limited 4th Dec 2022

Ample Flex Available to Grow while Maintaining Profitability

BUY
CMP: Rs. 1,318
TARGET: Rs. 1,540 (+16.8%)

Company Data

Revenue (Rs. Crores)	6,533.00
EPS (Rs.)	433
Dividend Yield (%)	1.37 / 1.46
Free Cash Flow (Rs. Crores)	381
Shareholding Pattern (%)	
Govt	22
Private	62
Ins	25
Non Institutional	6.80

Key Financial Data

(Rs. Crores)	FY20	FY21	FY22E
Revenue	88	136	152
EBITDA	67	107	121
Net Profit	6	14	17
EPS	106	197	219
ROE (%)	14%	14%	14%
ROCE (%)	28%	28%	27%

Debt Info: Revenue Account Payable

Dividend Yield: Revenue Account Payable

G R Infraprojects Ltd.

Can Fin Homes Ltd.

Varun Beverages Ltd.

Rating Methodology

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
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