

Crompton Greaves Consumer Electricals Ltd.

3rd Feb 2023

Demand improvement will lead to margin normalization

In Q3 FY23, Crompton Greaves Consumer Electricals Ltd. (CGCEL) registered a weak performance owing to a slowdown in key product categories like fans, pumps, and lighting. The Company reported a revenue growth of 7.5% Y-o-Y with a sharp decline in EBITDA margin from 14% in FY22 to 10% in Q3 FY23. This margin weakness is attributable to lower sales volume and continued investments in R&D, innovation, and marketing. We don't expect this weakness in the long term, and improved volumes coupled with debt reduction should lead to margin improvement going forward. Therefore, we maintain a BUY rating on CGCEL with a target price of Rs. 404 using the revised SOTP valuation.

Weak performance in fans, pumps, and lights

Q3 FY23 was a challenging quarter for the Company. Fans division observed weak sales as the Company decided not to overload the channel with old inventory, which would be non-compliant with BEE norms after 31st December 2022. Additionally, the management undertook price cuts in the pumps business to combat competition. Further, the lighting business continued weak performance due to a lack of government orders for the B2B division. However, the demand scenario for fans is expected to improve on the back of housing demand, and the pumps division is anticipated to expand owing to the Company's portfolio revamp.

Butterfly Gandhimati Appliances Ltd (BGAL) and CGCEL's Large Appliances will be key growth drivers in future

CGCEL sees BGAL and its large appliances business as drivers for future growth. The management expects these two businesses to significantly contribute to the Company's future growth and is putting all due efforts into strengthening them. Growth in these businesses will be a key monitorable.

Execution of plans for BGAL is well on track

The Company disclosed that they are well on track with their plans to bring growth and margin expansion in BGAL and extract synergies. The Management expects FY23 to be neutral from a synergy benefit accretion standpoint but expects benefits to start from FY24 onwards. The management execution is well on track as PAT margins for BGAL have increased from ~4.2% in FY22 to ~5.8% in 9M FY23. On an absolute basis, BGAL's 9M FY23 PAT is higher than the full-year PAT generated by the Company in any year since 2016.

View & Valuation

We believe that margins for CGCEL will expand as sales volume increases on the back of a normalized demand environment and the Company starts reaping operating leverage benefits. Debt reduction is another lever that will lead to improved PAT margins. Based on these rationales, we maintain our BUY rating on CGCEL with a target price of Rs. 404 based on the revised SOTP valuation.

BUY

CMP Rs. 305

TARGET Rs. 404 (+33%)

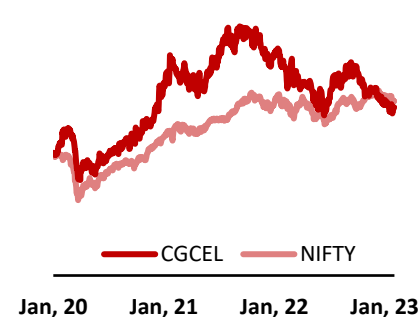
Company Data

MCAP (Rs. Mn)	2,11,305
O/S Shares (Mn)	636
52w High/Low	431/294
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Mn)	348

Shareholding Pattern %

	Dec '22	Sep '22	Jun '22
Promoters	0	2.5	5.9
FIIIs	39.5	39.6	37.2
DIIIs	44.7	45.4	44.9
Non-Institutional	15.7	12.3	11.8

CGCEL vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Mn)	FY22	FY23E	FY24E
Revenue	53,941	69,797	77,475
EBITDA	7,695	7,817	10,614
Net Profit	5,784	4,662	7,049
Total Assets	64,486	62,098	64,366
ROCE (%)	19%	15%	21%
ROE (%)	26%	18%	23%

Source: Company, Keynote Capitals Ltd.

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Q3 FY23 result update

Result Highlights (Rs. Mn)

Particulars	Q3 FY23	Q3 FY22	Change % (Y-o-Y)	Q2 FY23	Change % (Q-o-Q)	9M FY23	9M FY22	Change %	FY22
Revenue	15,162	14,106	7.5%	16,995	-10.8%	50,787	38,462	32.0%	53,941
COGS	10,230	9,638	6.1%	11,534	-11.3%	34,544	26,161	32.0%	37,018
Gross Profit	4,932	4,468	10.4%	5,461	-9.7%	16,243	12,301	32.0%	16,923
Gross Profit %	32.5%	31.7%	86 Bps	32.1%	39 Bps	32.0%	32.0%	-	31.4%
Employee Benefit Expense	1,341	941	42.5%	1,331	0.8%	4,108	2,789	47.3%	3,624
Other Expenses	2,067	1,511	36.8%	2,198	-6.0%	6,480	4,106	57.8%	5,605
EBITDA	1,524	2,015	-24.4%	1,931	-21.1%	5,654	5,407	4.6%	7,694
EBITDA %	10.1%	14.3%	-424 Bps	11%	-131 Bps	11.1%	14.1%	-292 Bps	14.3%
Depreciation	297	102	191.8%	283	5.0%	855	278	207.6%	423
EBIT	1,227	1,914	-35.9%	1,648	-25.6%	4,799	5,129	-6.4%	7,272
EBIT %	8.1%	13.6%	-547 Bps	9.7%	-160 Bps	9.4%	13.3%	-388 Bps	13.5%
Finance Cost	294	67	341.1%	299	-1.5%	818	248	230.4%	353
Other Income	213	140	51.7%	183	16.4%	500	505	-1.0%	727
PBT	1,146	1,987	-42.3%	1,533	-25.2%	4,481	5,386	-16.8%	7,645
Exceptional Item	-	-	-	-	-	64	-	-	130
Tax	264	505	-47.7%	226	17.1%	969	1,368	-29.2%	1,732
PAT	882	1,483	-40.5%	1,307	-32.5%	3,449	4,018	-14.2%	5,784
PAT (%)	5.8%	10.5%	-469 Bps	7.7%	-187 Bps	6.8%	10.4%	-365 Bps	10.7%
EPS	1.38	2.34	-41.0%	2.05	-32.7%	5.41	6.35	-15%	9.17

Segment Highlights (Rs. Mn)

Particulars	Q3 FY23	Q3 FY22	Change % (Y-o-Y)	Q2 FY23	Change % (Q-o-Q)	9M FY23	9M FY22	Change %	FY22
Revenue									
Electric Consumer Durables (ECD)	10,201	10,993	-7.2%	10,622	-4.0%	34,295	30,801	11.3%	43,110
Lighting	2,477	3,112	-20.4%	2,696	-8.1%	7,796	7,661	1.8%	10,831
BGAL	2,484	-	-	3,677	-32.4%	8,697	-	-	-
Operating Profit									
Electric Consumer Durables (ECD)	1,617	2,130	-24.1%	1,814	-10.9%	5,716	5,988	-4.5%	8,267
Lighting	255	324	-21.4%	215	18.5%	702	831	-15.5%	1,278
BGAL	181	-	-	403	-55.1%	802	-	-	-
Operating Profit Margin %									
Electric Consumer Durables (ECD)	15.8%	19.4%	-350 Bps	17.1%	-130 Bps	16.7%	19.4%	-270 Bps	19.2%
Lighting	10.3%	10.4%	-10 Bps	8.0%	230 Bps	9.0%	10.8%	-180 Bps	11.8%
BGAL	7.3%	-	-	11.0%	-367 Bps	9.2%	-	-	-

Source: Company, Keynote Capitals Ltd.

CGCEL | Quarterly Update

Q3 FY23 Conference Call Highlights

Fans

- The Company has been growing its market share in the fans segment and recorded a three-year revenue CAGR of 11% between Q3 FY20 to Q3 FY22. However, the Company saw a decline in Q3 FY23 due to transitioning to BEE compliance.
- The Company produced non-compliant fans in limited quantity to sell out the same before 31st December 2022. CGCEL also aimed not to overload the channel with the old inventory so that they could reach customers with new and compliant inventory, especially for the low to mid segment which is a large section of the market, faster in the quarter starting January '23.
- There is a 5-6% premium on star-fan versus non-star, but the customers' overall expenses reduce over a period of 2 years due to less energy consumption. For e.g., a one-star fan saves 30% of energy.
- According to management's estimates for the industry, the prices of fans have increased by 15% since pre-covid time. This has led to a decline in volumes, especially in the low to mid-segment. Customers opted to repair their fans instead of replacing them.
- The Company is optimistic about growth in the fans business as the housing market picked up 18 months ago. The estimated lag between the housing market and fans industry is 24 months.

Pumps

- CGCEL has the lead with a 27% market share in residential pumps. The category had been performing softly for the last few quarters. CGCEL faced intense competition and hence introduced price cuts to combat the same.
- The Company revamped the entire portfolio of pumps with new brand architecture. Also, mass advertisements will be conducted for pumps. The management expects these interventions to bring in future growth.

Appliances

- Despite the sluggish macro-environment, the segment grew aggressively, maintaining its QoQ growth rate and outperforming its peers.
- The annual revenue run-rate of the segment is ~Rs. 10 Bn.

Lighting

- In the B2C segment, the Company focused on gross margin stability due to the unstable pricing environment of the final product. The management controlled the situation with a combination of in-house production and selecting the right vendor base. The Company has selected two regions to improve distribution reach, after achieving success, the Company will implement the same across the country.
- Due to poor government orders, the road lighting division (the largest in B2B) saw a challenging quarter. However, the segment grew at a positive rate.

CGCEL | Quarterly Update

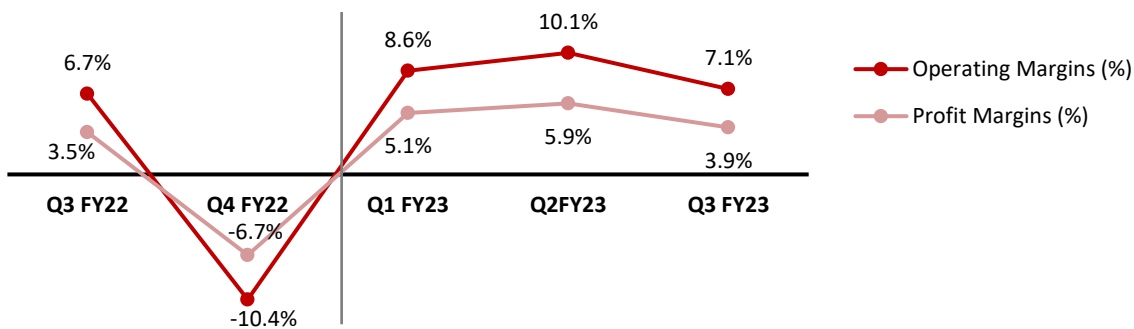
BGAL

- BGAL showed marginal growth despite a challenging external environment. Besides this, BGAL launched 25 new products across the portfolio categories.
- Before the acquisition of BGAL, e-commerce used to contribute ~45% to BGAL's total revenue and open trade was actively declining. This was because of the price disparity formed by BGAL. Later, CGCEL corrected the pricing disparity between the two channels and increased retail trade, and brought e-commerce to 20-25% share.
- The operational integration between the two companies is expected to complete in the next 6 to 9 months.
- Out of the debt (Rs. 19 Bn) raised by CGCEL for acquiring BGAL, Rs. 6 Bn will be paid off by the end of FY23.

Channels

- CGCEL has transformed 400 retail stores and will complete another 1,100 stores. This will improve customers' in-store experience.
- CGCEL has grown its business in double digits in small towns and large rural areas. Besides this, the e-commerce channel is also delivering strong growth for CGCEL.

Margin Improvement After Acquisition by CGCEL



Source: Company, Keynote Capitals Ltd.

New Products Launched During Q3 FY23

<p>Fans</p> <p>Ceiling Fans:</p> <ul style="list-style-type: none"> Energy Groove with Wood finish – High speed 5 Star Energy Efficient BLDC Fan 	<p>Appl.</p> <p>Mixer Grinders</p> <ul style="list-style-type: none"> Questa Royal – 750W mixer with motor Vent-X technology and overload protector
<p>Pumps</p> <p>Residential:</p> <ul style="list-style-type: none"> AB-15 – Automatic pressure controller pump with pipe leakage detection & anti jam sensor 	<p>Water Heater:</p> <ul style="list-style-type: none"> Amica Classic – High quality coated tank with quick heating and nano polybond technology
<p>Light.</p> <p>Batten:</p> <ul style="list-style-type: none"> Laser Neo 3-in-1 – Light weight 3-in-1 batten with trendy aesthetics, and surge protection 	<p>Others</p> <ul style="list-style-type: none"> BlendServe – 300W hand blender with silent DC motor with detachable stem Nouris Pro – Mechanical Air Fryer with super Helix Heating element for quick frying

Source: Company, Keynote Capitals Ltd.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	48,035	53,941	69,797	77,475	85,222
Growth %		12%	29%	11%	10%
Raw Material Expenses	32,128	36,549	47,462	52,528	57,696
Employee Expenses	3,366	3,624	5,444	5,423	5,966
Other Expenses	5,357	6,074	9,074	8,910	9,374
EBITDA	7,185	7,695	7,817	10,614	12,187
Growth %		7%	2%	36%	15%
Margin%	15%	14%	11%	14%	14%
Depreciation	297	423	1,165	1,190	1,218
EBIT	6,888	7,272	6,653	9,424	10,969
Growth %		6%	-9%	42%	16%
Margin%	14%	13%	10%	12%	13%
Interest Paid	429	353	1,136	725	471
Other Income & exceptional	777	597	700	700	700
PBT	7,236	7,515	6,217	9,398	11,198
Tax	1,070	1,732	1,554	2,350	2,800
PAT	6,167	5,784	4,662	7,049	8,399
Others (Minorities, Associates)	0	0	-15	-19	-21
Net Profit	6,167	5,784	4,647	7,030	8,377
Growth %		-6%	-20%	51%	19%
Shares (Mn)	627.7	633.4	633.4	633.4	633.4
EPS	9.82	9.13	7.34	11.10	13.23

Balance Sheet

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Cash, Cash equivalents & Bank	6,040	9,152	4,850	5,827	9,992
Current Investments	7,697	6,238	6,238	6,238	6,238
Debtors	4,608	6,154	7,678	8,522	8,522
Inventory	5,186	7,210	8,069	8,930	9,808
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	29,080	31,763	36,807
Net Block & CWIP	9,259	32,865	32,398	31,982	31,617
Long Term Investments	0	3	3	3	3
Other Non-current Assets	335	617	617	617	617
Total Assets	35,389	64,486	62,098	64,366	69,044
Creditors	8,204	10,178	10,630	11,746	12,886
Provision	1,024	1,822	1,822	1,822	1,822
Short Term Borrowings	0	14,483	8,374	4,587	2,239
Other Current Liabilities	3,081	3,672	3,672	3,672	3,672
Total Current Liabilities	12,309	30,155	24,499	21,827	20,619
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	26,516	31,435	37,295
Shareholders' Equity	19,314	24,530	27,782	32,702	38,562
Non Controlling Interest	0	7,825	7,840	7,861	7,886
Total Equity & Liabilities	35,389	64,486	62,098	64,366	69,044

Source: Company, Keynote Capitals Ltd. estimates

Cash Flow

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Pre-tax profit	7,236	7,515	6,217	9,398	11,198
Adjustments	197	512	1,601	1,216	989
Change in Working Capital	1,445	1,005	-1,929	-591	262
Total Tax Paid	-575	-1,798	-1,554	-2,350	-2,800
Cash flow from operating Activities	8,303	7,234	4,334	7,674	9,649
Net Capital Expenditure	-198	-1,706	-698	-775	-852
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	2	-75	-152
Equity raised / (repaid)	72.7	603.3	0	0	0
Debt raised / (repaid)	1,300	10,769	-6,109	-3,787	-2,348
Dividend (incl. tax)	-1,874	-1,564	-1,394	-2,109	-2,513
Other financing activities	-461	-735	-1,136	-725	-471
Cash flow from financing activities	-962	9,073	-8,639	-6,621	-5,332
Net Change in cash	2,384	-922	-4,302	978	4,165

Valuation Ratios

	FY21	FY22	FY23E	FY24E	FY25E
Per Share Data					
EPS	10	9	7	11	13
Growth %		-7%	-20%	51%	19%
Book Value Per Share	31	39	56	64	73
Return Ratios					
Return on Assets (%)	20%	12%	7%	11%	13%
Return on Equity (%)	36%	26%	18%	23%	24%
Return on Capital Employed (%)	34%	19%	15%	21%	23%
Turnover Ratios					
Asset Turnover (x)	1.5	1.1	1.1	1.2	1.3
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	76	77
Working Capital Days	9	11	16	21	19
Liquidity Ratios					
Current Ratio (x)	2.1	1.0	1.2	1.5	1.8
Interest Coverage Ratio (x)	17.9	22.7	6.5	14.0	24.8
Total Debt to Equity	0.2	0.7	0.2	0.1	0.0
Net Debt to Equity	-0.1	0.3	0.1	0.0	-0.2
Valuation					
PE (x)	40.0	41.0	45.3	29.9	25.1
Earnings Yield (%)	3%	2%	2%	3%	4%
Price to Sales (x)	5.1	4.4	3.0	2.7	2.5
Price to Book (x)	12.8	9.7	7.6	6.5	5.5
EV/EBITDA (x)	34.1	31.7	27.9	20.6	17.9
EV/Sales (x)	5.1	4.5	3.1	2.8	2.6

KEYNOTE Rating History

Date	Rating	Market Price at Recommendation	Upside/Downside
15 th December 2022	BUY	350	+21%
3 rd February 2023	BUY	305	+33%

Source: Company, Keynote Capitals Ltd. estimates

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
SELL	Expected to fall by >10% over 1-year horizon
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