

Crompton Greaves Consumer Electricals Ltd.

The Union to Augment Benefitting Prospects

28th March 2023

Crompton Greaves Consumer Electricals Ltd. (CGCEL) is among India’s leading consumer electrical goods companies. On 24th March 2023, the Company announced a merger with its south India-focused subsidiary Butterfly Gandhimati Appliances Ltd. (BGAL), which it acquired in 2022. As per the scheme of the arrangement, public shareholders of BGAL shall receive 22 shares of CGCEL against every 5 shares of BGAL. The objective of this merger is to optimally utilize resources present with both companies with greater operational and compliance convenience. CGCEL informed that the synergies will be achieved from revenue, direct, and indirect costs. As per the Company’s guidance, this merger is expected to complete within 12-14 months. For more information, refer to our [initiating coverage report](#) and [Q3 FY23 update](#).

Merger to Supplement the Acquisition

According to the Company, the merger will be helpful in exploiting resources that are at the disposal of both companies more efficiently and conveniently. According to the management, the rationales behind the proposed merger are unlocking the potential of both businesses, simplifying the corporate structure, and aligning the interests of shareholders.

Benefits to Augment

The combined entity will benefit from revenue and cost synergies. The Company foresees sharing of warehouses and logistics of CGCEL, significantly helping BGAL as it plans to grow from south India to pan-India. Moreover, the Company perceives that the combined entity will benefit from strategic raw material procurement and commonizing warehousing, logistics, IT systems, etc. CGCEL also plans to reduce dependence on outsourcing manufacturing by means of using the underutilized capacity of BGAL.

The Merger

The Scheme of Amalgamation

As per the scheme of arrangements, the public shareholders of BGAL shall receive 22 equity shares of CGCEL for every 5 equity shares of BGAL.

BUY

CMP Rs. 295

TARGET Rs. 409 (+39%)

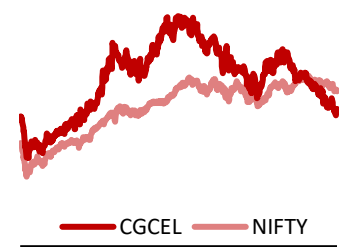
Company Data

MCAP (Rs. Mn)	1,85,994
O/S Shares (Mn)	636
52w High/Low	428.8/278.1
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Mn)	548

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

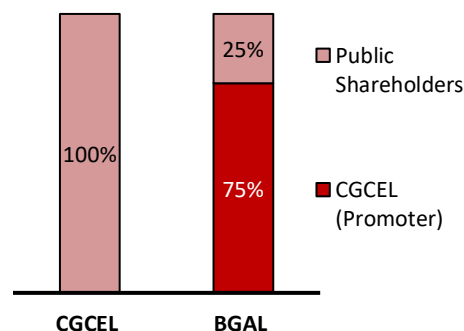
CGCEL vs Nifty



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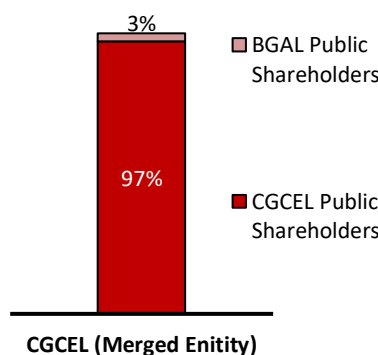
Source: Keynote Capitals Ltd.

Current Shareholding

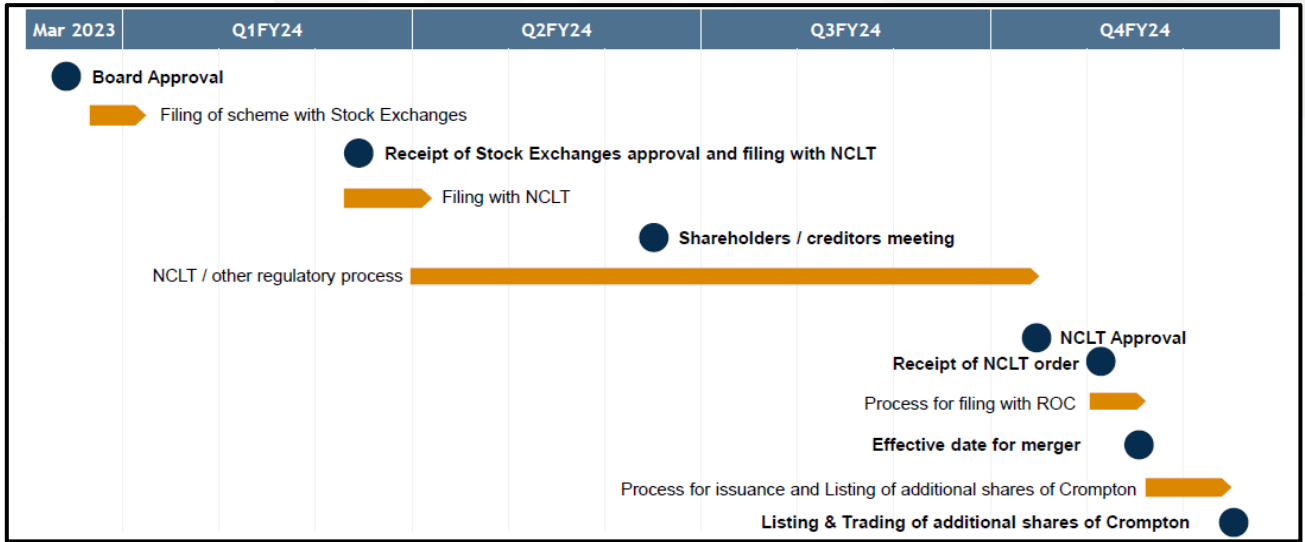


Source: Company, Keynote Capitals Ltd.

Resultant Shareholding



The Timeline of Events



Source: Company, Keynote Capitals Ltd.

The merger is subject to the approval of public shareholders of both entities (at least 75% of the public share holders must agree), creditors of BGAL and CGCEL, stock exchanges, SEBI and NCLT.

Merger Conference Call Notes

Revenue and Brands Synergy

The Company anticipates double-digit growth in BGAL’s top line and at least a few points of growth greater than the key competitors during weak times. The only overlap of brands that the combined entity has is in the mixer category. It is expected that the two brands might diverge there. One would be performance-driven, and the other would be aesthetics-driven or premium.

Cost Synergy

Guidance is that the merged entity will benefit from numerous direct and indirect cost savings like strategic raw material sourcing, warehousing, logistics, IT expenses, etc. The management doesn’t anticipate any reduction in employee costs as there’s no redundancy or duplication. The entire cost savings won’t flow down to the bottom line as a major chunk will be redirected to product innovation and marketing.

On the distributors front, the Company doesn’t foresee any cannibalization and anticipates that the distributors of both companies will trade products of both instead of just one currently. E.g., in Mumbai, where CGCEL has 4 distributors, BGAL has 5, and the market leader has 12-13 distributors, the combined entity will have 9 distributors carrying products of both brands. The combined entity will complete this activity over 18 months. Earlier, the Company had guided it to expand its distribution rate from ~55% in FY22 to 95-98% in the long run. This merger will enable the Company to reach there sooner.

CGCEL | Company Update

Manufacturing Facilities Benefits

CGCEL has integrated BGAL in its 5-year excellent manufacturing roadmap. Since it was divested from CG Power in 2015, it had a basic manufacturing facility and outsourced production of its units. However, with the growth that the Company anticipates achieving in the next few years, the Company sees a requirement for capex. The following covers the plan in more detail:

- Invest in existing assets to increase productivity. Line automation, being one of the initiatives, is already under process.
- Increase capacity utilization of BGAL asset base. For example, BGAL's manufacturing facility is under-utilized for mixers, while CGCEL outsources the manufacturing of mixers all over India.
- As part of supplier development, the Company aims to have fewer yet more capable suppliers and vendors for the long term.
- The Company plans to integrate backward and increase in-house production.
- Greenfield projects are also part of the plan and will be executed as and when required.

Others

The merged entity will become EPS accretive in a year's time.

The Cost of Acquiring BGAL

	Stake (%)	Shares (in Mn)	Price (Rs.)	Value (Rs. Mn)
Equity Acquisition				
<i>Promoters</i>	55%	9.8	1,408	13,797
<i>Open Offer</i>	26%	4.7	1,450	6,666
Total Equity Acquisition Cost (1)	81%	14.5	-	20,463
Other Assets Acquired				
<i>Trademarks</i>				300
<i>Land</i>				850
Total Additional Cost (2)				1,150
Total Effective Acquisition Cost (1+2)				21,613
Offer for Sale (3)	6%	1.1	1,503	1,611
Net Equity Stake (1-3)	75%	13.4	1,407	18,852

Source: Company, Keynote Capitals Ltd.

The Swap Transaction

	Stake	Shares (in Mn)
Shareholding Pattern of CGCEL		
<i>Promoters</i>	0%	
<i>Public</i>	100%	636
Total shares in CGCEL	100%	636
Shareholding Pattern of BGAL		
<i>Promoter - CGCEL</i>	75%	13.4
<i>Public</i>	25%	4.5
Total shares in BGAL	100%	17.9
Swap ratio: 22 Shares for Every 5 Shares		
Additional shares of CGCEL to be issued to minority shareholders of BGAL (1)	3%	19.7
Existing shares of CGCEL in the combined entity (2)	97%	636
Total shares in the combined Entity (1+2)	100%	656

Source: Company, Keynote Capitals Ltd.

Financial Projections of the Combined Entity

Particulars (in Mn)	FY24E	FY25E
Revenue	77,475	85,222
PAT	7,049	8,399
No. of Shares Outstanding	656	657
EPS (in Rs.)	10.75	12.19
PE	38	-
Share Price	409	-
% Upside	38.6%	-

Source: Company, Keynote Capitals 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
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd/Rating & Fair value under Review/Keynote Capitals Ltd has suspended coverage

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