

Crompton Greaves Consumer Electricals Ltd.

17th August 2023

Focus on achieving scale led by premiumization

Crompton Greaves Consumer Electricals Ltd. (CGCEL) delivered flattish revenue growth in Q1 FY24 on a YoY basis, driven by degrowth in lighting and BGAL segments along with a 191 Bps decline in EBITDA margins on a YoY basis. The margin weakness was on account of higher costs on account of the BEE transition, elevated promotional expenses, and losses in the newly introduced large kitchen appliances business. In Q1 FY24, CGCEL clearly disclosed its focus on being a “Profit-Led” organization compared to a “Profitability Led” organization and, therefore, the ongoing efforts behind the brand and the business will continue. We believe this can lead to a near-term impact on margins but will result in a superior scale as the business environment improves and price hikes in BLDC fans are taken. Owing to the above, we maintain our view on CGCEL with a BUY rating with a target price of Rs. 323 based on FY25E revised estimates.

A clear focus on achieving a larger scale

The Company disclosed its focus on achieving a larger scale and is comfortable with some moderation on EBITDA margins which may come from higher investments behind the brand and with gestating newer product categories. In Q1 FY24, CGCEL’s A&P spending rose to 4.5% of sales compared to 3% in Q1 FY23. There was also a meager impact of Rs. 70 Mn on account of loss in the newly launched large kitchen appliances business. CGCEL also highlighted that it would not shy away from entering 2-3 new product segments with visibility of whitespace, where it has the right to win. Additionally, portfolio premiumization will be a major growth driver in each business segment. Premium fans now account for 25% of CGCEL’s total fans business, and the Company believes that there is still significant headroom for growth in the share of premium fans.

ECD margins are under pressure, but lighting interventions are paying off

In Q1 FY24 also, the EBIT margins of the ECD segment remained under significant pressure and tumbled by 425 bps and 371 bps on a YoY and QoQ basis, respectively. This was mainly because of higher promotional spending and not fully passing the cost increases in BLDC fans to the customers. While the former is expected to continue, the latter will be covered up as the business progresses. On the contrary, in the lighting business, CGCEL’s interventions around cost management and having more feet on the street seems to be paying off well, as the EBIT margins expanded by 307 bps and 103 bps on a YoY and QoQ basis, respectively.

View & Valuation

We believe that the business situation in terms of growth and margins should improve as FY24 progresses. However, margins may get impacted even for FY24 due to elevated promotional spending and losses in the large kitchen appliances business. The situation should improve as the demand environment gets better and the required price hikes are taken by the Company. Consequently, based on revised estimates, we maintain a BUY rating with a target price of Rs. 323 (31x FY25E EPS.)

BUY

CMP Rs. 282

TARGET Rs. 323 (+14.6%)

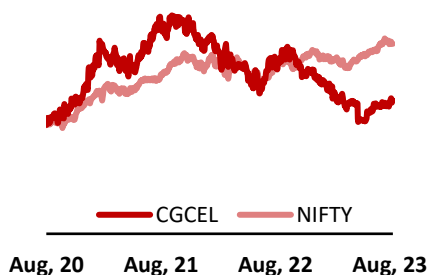
Company Data

Bloomberg Code	CROMPTON IN
MCAP (Rs. Mn)	1,80,080
O/S Shares (Mn)	640
52w High/Low	429 / 251
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Mn)	864

Shareholding Pattern %

	Jun '23	Mar '23	Dec '22
Promoters	-	-	-
FIIIs	34.99	39.63	39.52
DIIIs	48.72	44.41	44.77
Non-Institutional	16.29	15.97	15.71

CGCEL vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Mn)	FY23	FY24E	FY25E
Revenue	68,696	76,253	83,878
EBITDA	7,705	9,303	10,736
Net Profit	4,764	6,094	7,326
Total Assets	56,544	61,322	67,167
ROCE (%)	15%	18%	19%
ROE (%)	19%	20%	20%

Source: Company, Keynote Capitals Ltd.

Devin Joshi, Research Analyst
Devin@keynoteindia.net

Q1 FY24 Result Update

Result Highlights (Rs. Mn)

Particulars	Q1 FY24	Q1 FY23	Change % (Y-o-Y)	Q4 FY23	Change % (Q-o-Q)	FY23
Revenue	18,769	18,629	0.7%	17,910	4.8%	68,696
COGS	12,983	12,780	1.6%	12,260	5.9%	46,804
Gross Profit	5,786	5,849	-1.1%	5,650	2.4%	21,893
Gross Profit %	30.8%	31.4%	-57 Bps	31.5%	-72 Bps	31.9%
Employee Benefit Expense	1,434	1,434	-0.1%	1,301	10.2%	5,408
Other Expense	2,494	2,216	12.6%	2,235	11.6%	8,780
EBITDA	1,858	2,199	-15.5%	2,114	-12.1%	7,705
EBITDA %	9.9%	11.8%	-191 Bps	11.8%	-191 Bps	11.2%
Depreciation	292	276	5.9%	304	-4.0%	1,159
EBIT	1,566	1,924	-18.6%	1,810	-13.5%	6,546
EBIT %	8.3%	10.3%	-198 Bps	10.1%	-177 Bps	9.5%
Finance Cost	206	225	-8.6%	274	-24.9%	1,092
Other Income	198	104	90.2%	168	18.1%	668
PBT	1,558	1,803	-13.6%	1,704	-8.6%	6,122
Exceptional Item	-	64	-	0	-	0
Tax	338	479	-29.5%	389	-13.1%	1,358
Minority Interest	36.8	49.4	-25.5%	3.9	843.6%	131.9
Profit for the period	1,220	1,260	-3.1%	1,316	-7.2%	4,764
EPS	1.85	1.98	-	2.06	-	7.27

Segment Highlights (Rs. Mn)

Particulars	Q1 FY24	Q1 FY23	Change % (Y-o-Y)	Q4 FY23	Change % (Q-o-Q)	FY23
Revenue						
Electric Consumer Durables (ECD)	14,290	13,472	6.1%	13,257	7.8%	47,557
Lighting	2,290	2,623	-12.7%	2,786	-17.8%	10,581
BGAL	2,189	2,535	-13.7%	1,867	17.3%	10,558
Operating Profit						
Electric Consumer Durables (ECD)	1,816	2,285	-20.5%	2,177	-16.6%	7,893
Lighting	273	232	17.6%	303	-10.1%	1,005
BGAL	160	219	-27.0%	37	327.9%	840
Operating Profit Margin %						
Electric Consumer Durables (ECD)	12.7%	17.0%	-425 Bps	16.4%	-371 Bps	16.6%
Lighting	11.9%	8.8%	307 Bps	10.9%	103 Bps	9.5%
BGAL	7.3%	8.6%	-134 Bps	2.0%	529 Bps	8.0%

Source: Company, Keynote Capitals Ltd.

CGCEL | Quarterly Update

Q1 FY24 Conference Call Highlights

General Highlights

- The approval regarding the merger of CGCEL and BGAL has already been received from the BSE and NSE. This has enabled the Company to move to the NCLT for further approval.
- Overall demand environment has been picking up since June, and the business is expected to do well as it progresses further in FY24.

Fans

- Fans with induction and BLDC motors are expected to grow significantly compared to the other categories. In Q1 FY24, revenue from BLDC fans grew by more than 80%.
- The BEE transition cost is still not completely passed on to customers. The Company will take price hikes in Q2 and Q3 which will help restore gross margins.
- The Company believes that the BLDC fans business is just getting started, and there is much product innovation that can be expected in the future.

Pumps

- The demand for pumps in the Eastern market is returning, and there is an increased focus on improving CGCEL's share in the North Indian market. The agricultural pumps category is also doing well for the Company.
- Going forward, gross margins in the pumps business will be a function of premiumization and competitive pressure.

Lighting

- In Q1 FY24, price erosion in bulbs and battens led to a weaker response from the channel.

BGAL

- BGAL's business depended highly on the government and the e-com channel. This concentration has now been reduced with efforts to drive retail (general + modern) share.
- The e-com channel now only accounts for 25% of BGAL's total business and has a much wider e-com presence than before. The channel rationalization exercise for BGAL is now over, and the brand is ready to be taken pan India.
- In Q1 FY24, the Company's focused category of mixers and grinders grew by >50% YoY.

Appliances

- In Q1 FY24, the total revenue from the large kitchen appliances stood at Rs. 110 mn driven by chimneys and hobs. Currently, the Company's products have a nationwide presence in 260 outlets.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	53,941	68,696	74,192	81,611	89,772
Growth %		27%	8%	10%	10%
Raw Material Expenses	36,549	46,381	50,302	55,251	60,776
Employee Expenses	3,624	5,408	5,564	5,713	6,284
Other Expenses	6,074	9,203	9,274	10,201	11,222
EBITDA	7,695	7,705	9,051	10,446	11,491
Growth %		0%	17%	15%	10%
Margin%	14%	11%	12%	13%	13%
Depreciation	423	1,159	1,191	1,218	1,247
EBIT	7,272	6,546	7,860	9,229	10,244
Growth %		-10%	20%	17%	11%
Margin%	13%	10%	11%	11%	11%
Interest Paid	353	1,092	831	831	831
Other Income & exceptional	597	668	700	700	700
PBT	7,515	6,122	7,729	9,097	10,113
Tax	1,732	1,358	1,932	2,274	2,528
PAT	5,784	4,764	5,797	6,823	7,585
Others (Minorities, Associates)	0	-132	-132	-132	-132
Net Profit	5,784	4,632	5,665	6,691	7,453
Growth %		-20%	22%	18%	11%
EPS	9.13	7.28	8.86	10.42	11.55

Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Cash, Cash equivalents & Bank	9,152	1,095	3,753	9,158	16,196
Current Investments	6,238	5,478	5,478	5,478	5,478
Debtors	6,154	6,706	8,161	8,161	8,977
Inventory	7,210	7,439	8,551	9,393	10,332
Short Term Loans & Advances	1,204	891	891	891	891
Other Current Assets	1,041	974	974	974	974
Total Current Assets	31,001	22,583	27,810	34,056	42,849
Net Block & CWIP	32,865	32,554	32,105	31,703	31,354
Long Term Investments	3	4	4	4	4
Other Non-current Assets	617	1,404	1,404	1,404	1,404
Total Assets	64,486	56,545	61,322	67,167	75,611
Creditors	10,178	10,631	11,311	12,340	13,577
Provision	1,822	1,777	1,777	1,777	1,777
Short Term Borrowings	14,483	0	0	0	0
Other Current Liabilities	3,672	5,239	5,239	5,239	5,239
Total Current Liabilities	30,155	17,646	18,327	19,356	20,593
Long Term Debt	46	5,972	5,972	5,972	5,972
Deferred Tax Liabilities	394	123	123	123	123
Other Long Term Liabilities	1,537	1,872	1,872	1,872	1,872
Total Non Current Liabilities	1,977	7,966	7,966	7,966	7,966
Paid-up Capital	1,267	1,272	1,278	1,284	1,290
Reserves & Surplus	23,263	25,315	29,412	34,228	41,812
Shareholders' Equity	24,530	26,587	30,690	35,512	43,103
Non Controlling Interest	7,825	4,345	4,213	4,081	3,950
Total Equity & Liabilities	64,486	56,545	61,322	67,167	75,611

Cash Flow

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	7,515	6,122	7,729	9,097	10,113
Adjustments	512	1,842	1,322	1,349	1,378
Change in Working Capital	1,005	-1,039	-1,888	188	-518
Total Tax Paid	-1,798	-1,399	-1,932	-2,274	-2,528
Cash flow from operating Activities	7,234	5,526	5,231	8,360	8,444
Net Capital Expenditure	-1,706	-708	-742	-816	-898
Change in investments	-2,093	8,027	0	0	0
Other investing activities	-13,430	-4,687	700	700	700
Cash flow from investing activities	-17,229	2,632	-42	-116	-198
Equity raised / (repaid)	603.3	416	0	0	0
Debt raised / (repaid)	10,769	-6,842	0	0	0
Dividend (incl. tax)	-1,564	-1,578	-1,699	-2,007	-2,236
Other financing activities	-735	-1,102	-831	-831	-831
Cash flow from financing activities	9,073	-9,105	-2,531	-2,839	-3,067
Net Change in cash	-922	-948	2,659	5,405	5,180

Valuation Ratios

	FY22	FY23	FY24E	FY25E	FY26E
Per Share Data					
EPS	9	7	9	10	12
Growth %		-18%	18%	18%	11%
Book Value Per Share	39	42	55	62	73
Return Ratios					
Return on Assets (%)	12%	8%	10%	10%	10%
Return on Equity (%)	26%	19%	20%	20%	19%
Return on Capital Employed (%)	19%	15%	18%	19%	24%
Turnover Ratios					
Asset Turnover (x)	1.1	1.1	1.3	1.3	1.3
Sales / Gross Block (x)	2.5	2.0	2.1	2.3	2.4
Working Capital / Sales (x)	13%	4%	10%	15%	21%
Receivable Days	36	34	37	37	35
Inventory Days	62	58	58	59	59
Payable Days	87	80	77	77	77
Working Capital Days	11	11	18	19	17
Liquidity Ratios					
Current Ratio (x)	1.0	1.3	1.5	1.8	2.1
Interest Coverage Ratio (x)	22.7	6.6	10.3	11.9	13.2
Total Debt to Equity	0.7	0.3	0.2	0.2	0.1
Net Debt to Equity	0.3	0.3	0.1	-0.1	-0.2
Valuation					
PE (x)	41.0	39.1	33.1	28.1	25.4
Earnings Yield (%)	2%	3%	3%	4%	4%
Price to Sales (x)	4.4	2.7	2.5	2.3	2.1
Price to Book (x)	9.7	7.0	6.1	5.2	4.3
EV/EBITDA (x)	31.7	25.2	21.5	18.6	16.9
EV/Sales (x)	4.5	2.8	2.6	2.4	2.2

Source: Company, Keynote Capitals Ltd. estimates

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%
23 rd May 2023	BUY	266	+16%
17 th August 2023	BUY	282	+15%

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
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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Compliance Officer: Mr. Jairaj Nair; Tel: 022-68266000; email id: jairaj@keynoteindia.net

Registered Office: 9th Floor, The Ruby, Senapati Bapat Marg, Dadar West, Mumbai – 400028, Maharashtra. Tel: 022 – 68266000.

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