

Crompton Greaves Consumer Electricals Ltd.

7th November 2023

Strong growth in the ECD business, margin uptick to follow

In Q2 FY24, Crompton Greaves Consumer Electricals Ltd. (CGCEL), delivered a moderate revenue growth of ~5% along with a 157 Bps decline in the overall EBITDA margins on a YoY basis. The ECD segment witnessed a robust ~17% revenue growth, but the lighting and Butterfly segments registered ~12% and ~17% degrowth, respectively, on a YoY basis. The margin weakness was on account of higher costs owing to the BEE transition, elevated promotional expenses, and losses in the large kitchen appliances business. CGCEL continues to prioritize absolute profit over profitability, and, therefore, the ongoing efforts behind the brand, people and innovation will continue. These business efforts will continue to have a near-term impact on margins but will result in a superior growth in topline as the business environment improves.

ECD business witnessed a strong growth, but margins remained subdued

In Q2 FY24, the ECD business of CGCEL recorded a robust ~17% revenue growth on a YoY basis. This growth was driven by the Company's flagship category of fans which grew by 18% on a YoY basis. Strong performance from fans was followed by a 17% growth from Appliances and a 10% growth in the pumps segment on a YoY basis. Despite strong growth, segment margins registered a 290-bps decline on a YoY basis primarily due to the absorption of cost pressure induced by the BEE transition and a minor loss in the newly launched built-in kitchen appliances segment. However, the Company undertook a moderate price hike in fans w.e.f 1st Sep'23 and is contemplating a couple more as the demand environment improves. Additionally, CGCEL is also taking significant cost control measures to mitigate the impact of the transition. A culmination of the above interventions should result in improved margins in the future.

Decision to call off the merger will not have impact on operational synergies

The scheme of amalgamation of Butterfly Gandhimathi Appliances Ltd. (BGAL) with CGCEL was subject to approval of (i) majority in number representing three-fourth in value of the equity shareholders (including public shareholders) of Butterfly; and (ii) majority of public shareholders of Butterfly. While the 1st approval was obtained, the majority of public shareholders of Butterfly voted against the scheme and hence the same cannot be acted upon by the Company. Going forward, both the companies will continue to operate as separate entities. CGCEL is confident that this will not impede them from realizing synergies between both entities and they will continue to work on mutual growth potential and shareholder value creation.

View & Valuation

The business situation in terms of growth and margins should improve as the Company continues to put substantial efforts behind driving topline growth and cost rationalization. Further, CGCEL is also contemplating a couple of price hikes in the fans segment to mitigate the cost pressure induced by the BEE transition. We anticipate margins to 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. 330 (~34x FY25E EPS.)

BUY

CMP Rs. 284

TARGET Rs. 330 (+16.2%)

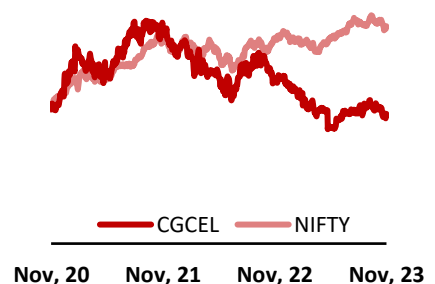
Company Data

Bloomberg Code	CROMPTON IN
MCAP (Rs. Mn)	1,81,841
O/S Shares (Mn)	640
52w High/Low	376 / 251
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Mn)	787

Shareholding Pattern %

	Sep '23	Jun '23	Mar '23
Promoters	-	-	-
FIIs	35.65	34.99	39.63
DIIIs	47.69	48.72	44.41
Non-Institutional	16.65	16.29	15.97

CGCEL vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Mn)	FY23	FY24E	FY25E
Revenue	68,696	73,505	80,855
EBITDA	7,705	7,865	9,945
Net Profit	4,764	4,775	6,316
Total Assets	56,544	60,643	65,888
ROCE (%)	15%	15%	19%
ROE (%)	19%	17%	20%

Source: Company, Keynote Capitals Ltd.

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Q2 FY24 Result Update

Result Highlights (Rs. Mn)

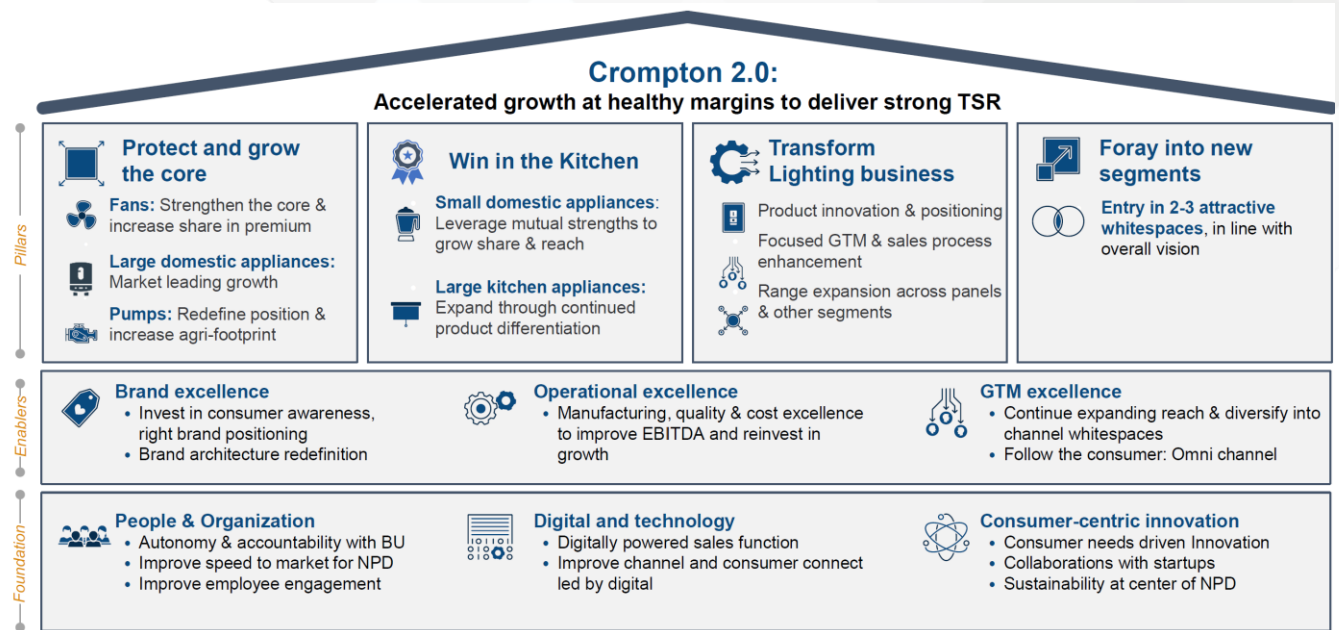
Particulars	Q2 FY24	Q2 FY23	Change % (Y-o-Y)	Q1 FY24	Change % (Q-o-Q)	H1 FY24	H1 FY23	Change % (Y-o-Y)	FY23
Revenue	17,823	16,995	4.9%	18,769	-5.0%	36,591	35,624	2.7%	68,696
COGS	12,240	11,534	6.1%	12,983	-5.7%	25,223	24,314	3.7%	46,804
Gross Profit	5,582	5,461	2.2%	5,786	-3.5%	11,368	11,310	0.5%	21,893
Gross Profit %	31.3%	32.1%	-81 Bps	30.8%	50 Bps	31.1%	31.7%	-68 Bps	31.9%
Employee Benefit Expense	1,501	1,332	12.7%	1,434	4.7%	2,935	2,766	6.1%	5,408
Other Expense	2,336	2,198	6.3%	2,494	-6.3%	4,830	4,414	9.4%	8,780
EBITDA	1,745	1,931	-9.6%	1,858	-6.1%	3,603	4,130	-12.8%	7,705
EBITDA %	9.8%	11.4%	-157 Bps	9.9%	-11 Bps	9.8%	11.6%	-175 Bps	11.2%
Depreciation	321	283	13.6%	292	10.1%	613	558	9.8%	1,159
EBIT	1,424	1,648	-13.6%	1,566	-9.1%	2,990	3,572	-16.3%	6,546
EBIT %	8.0%	9.7%	-171 Bps	8.3%	-35 Bps	8.2%	10.0%	-186 Bps	9.5%
Finance Cost	215	299	-27.9%	206	4.7%	421	524	-19.6%	1,092
Other Income	149	183	-18.7%	198	-24.8%	347	287	20.8%	668
PBT	1,358	1,533	-11.4%	1,558	-12.9%	2,916	3,335	-12.6%	6,122
Exceptional Item	-	-	-	-	-	-	64	-	0
Tax	349	226	54.7%	338	3.2%	687	705	-2.6%	1,358
Profit for the period	1,009	1,307	-22.8%	1,220	-17.3%	2,229	2,567	-13.2%	4,764
EPS	1.52	2.05	-	1.85	-	3.37	4.03	-	7.27

Segment Highlights (Rs. Mn)

Particulars	Q2 FY24	Q2 FY23	Change % (Y-o-Y)	Q1 FY24	Change % (Q-o-Q)	H1 FY24	H1 FY23	Change % (Y-o-Y)	FY23
Revenue									
Electric Consumer Durables (ECD)	12,380	10,622	16.5%	14,290	-13.4%	26,669	24,094	10.7%	47,557
Lighting	2,387	2,696	-11.5%	2,290	4.2%	4,677	5,319	-12.1%	10,581
Butterfly	3,056	3,677	-16.9%	2,189	39.6%	5,245	6,212	-15.6%	10,558
Operating Profit									
Electric Consumer Durables (ECD)	1,755	1,814	-3.2%	1,816	-3.4%	3,572	4,099	-12.9%	7,893
Lighting	250	215	16.1%	273	-8.5%	523	447	16.9%	1,005
Butterfly	202	403	-49.9%	160	26.6%	362	622	-41.8%	840
Operating Profit Margin %									
Electric Consumer Durables (ECD)	14.2%	17.1%	-290 Bps	12.7%	147 Bps	13.4%	17.0%	-362 Bps	16.6%
Lighting	10.5%	8.0%	249 Bps	11.9%	-146 Bps	11.2%	8.4%	277 Bps	9.5%
Butterfly	6.6%	11.0%	-435 Bps	7.3%	-68 Bps	6.9%	10.0%	-311 Bps	8.0%

Source: Company, Keynote Capitals Ltd.

Tenets under the Crompton 2.0



Source: Company, Keynote Capitals Ltd.

Q2 FY24 Conference Call Takeaways

General Highlights

- In Q2 FY24, the demand environment continued to be challenging due to a weak consumer sentiment. However, a demand uptick was seen from the month of September which is expected to stay through the festive season. Sustainability of this uptick will be known after the festival.
- Alternate channels continue to do well for the Company and are currently growing twice as fast compared to the general trade channel. The e-commerce business is currently clocking a revenue of ~Rs. 1 Bn/quarter.
- Focus on general trade channel has not diluted despite the alternate channels growing faster. The Company anticipates its general trade channel to grow in line with the industry.

Fans

- Fans witnessed a robust growth driven by new product launches in premium fans. CGCEL now has the largest range of BLDC fans in the industry.
- Currently, the manufacturing mix of CGCEL in this segment stands at 50:50 in-house vs. outsourced. Focus is on manufacturing entry level fans in-house as it has certain cost advantages.
- The Company is mitigating the cost pressure induced by the BEE transition with the help of cost control measures and price hikes.
- Share of premium fans in CGCEL's fan portfolio is lower than the industry which gives the Company significant headroom to expand its premium fans business. Also, the Table-Pedestal-Wall (TPW) segment offers a large growth headroom.

CGCEL | Quarterly Update

- The BEE transition has resulted in a total cost increase of 15%. Out of this, 8-9% was mitigated by cost measures and 1-1.5% by the recent price hike taken in September. Rest of the cost impact is currently being borne by the Company will be gradually be mitigated with a mix of cost measures coupled with 1-2 price hikes as the demand environment improves.

Pumps

- In Q2 FY24, the Company introduced a new brand architecture in its main category of MINI pumps.
- Agri pumps and residential submersible pumps registered a robust 17% and 20% growth, respectively.

Lighting

- Margins improved by ~250 bps despite revenue degrowth on account of cost optimization initiatives and a better product mix.
- Price erosion challenges were witnessed in the B2C lighting business while the B2B business witnessed a flattish growth.
- The sales team restructuring exercise is now over and the Company is working on building a comprehensive portfolio with a focus on the fastest growing sub-segment of ceiling lights.

BGAL

- BGAL's growth was hampered due to a shift in the festive season and a one-off corporate order in the base quarter.
- The Company's efforts behind strengthening the "Butterfly" brand and behind R&D will continue.
- Gross margins in this segment improved by ~170 bps on a YoY basis to 37% owing to rebound in trade channel, value engineering and cost optimization initiatives.

Appliances

- CGCEL is empowering the "Feet-on-the-street" approach in the small appliances segment.
- In Q2 FY24, water heaters delivered the highest ever quarterly volume. CGCEL was also the No. 1 appliances brand on the e-commerce channel.
- In H1 FY24, the Company incurred a Rs. 140 Mn. EBITDA loss in the newly launched built-in-appliances segment. Losses in this category will continue for some more quarters until the scales allows profitability.
- CGCEL is not seeing the kitchen appliances as a separate business on a standalone basis and will continue to update the product portfolio from time to time.
- Currently, most of the appliances sold by CGCEL are being manufactured by outsourced entities.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	53,941	68,696	73,505	80,855	88,941
Growth %		27%	7%	10%	10%
Raw Material Expenses	36,549	46,381	50,571	54,739	60,213
Employee Expenses	3,624	5,408	5,880	6,064	6,226
Other Expenses	6,074	9,203	9,188	10,107	11,118
EBITDA	7,695	7,705	7,865	9,945	11,384
Growth %		0%	2%	26%	14%
Margin%	14%	11%	11%	12%	13%
Depreciation	423	1,159	1,191	1,217	1,246
EBIT	7,272	6,546	6,674	8,728	10,138
Growth %		-10%	2%	31%	16%
Margin%	13%	10%	9%	11%	11%
Interest Paid	353	1,092	831	831	831
Other Income & exceptional	597	668	700	700	700
PBT	7,515	6,122	6,543	8,597	10,007
Tax	1,732	1,358	1,636	2,149	2,502
PAT	5,784	4,764	4,907	6,447	7,505
Others (Minorities, Associates)	0	-132	-132	-132	-132
Net Profit	5,784	4,632	4,775	6,316	7,373
Growth %		-20%	3%	32%	17%
EPS	9.13	7.28	7.47	9.84	11.43

Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Cash, Cash equivalents & Bank	9,152	1,095	3,111	8,056	15,305
Current Investments	6,238	5,478	5,478	5,478	5,478
Debtors	6,154	6,706	8,086	8,086	8,894
Inventory	7,210	7,439	8,597	9,306	10,236
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	27,137	32,792	41,780
Net Block & CWIP	32,865	32,554	32,098	31,689	31,333
Long Term Investments	3	4	4	4	4
Other Non-current Assets	617	1,405	1,404	1,404	1,404
Total Assets	64,486	56,545	60,643	65,888	74,520
Creditors	10,178	10,631	11,381	12,198	13,452
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	18,396	19,214	20,467
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	28,789	33,342	40,847
Shareholders' Equity	24,530	26,587	30,068	34,626	42,138
Non Controlling Interest	7,825	4,345	4,213	4,081	3,950
Total Equity & Liabilities	64,486	56,545	60,643	65,888	74,520

Cash Flow

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	7,515	6,122	6,543	8,597	10,007
Adjustments	512	1,842	1,322	1,349	1,377
Change in Working Capital	1,005	-1,039	-1,789	109	-486
Total Tax Paid	-1,798	-1,399	-1,636	-2,149	-2,502
Cash flow from operating Activities	7,234	5,526	4,441	7,905	8,397
Net Capital Expenditure	-1,706	-708	-735	-809	-889
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	-35	-109	-189
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	-1,433	-1,895	-2,212
Other financing activities	-735	-1,102	-831	-831	-831
Cash flow from financing activities	9,073	-9,105	-2,264	-2,726	-3,043
Net Change in cash	-922	-948	2,142	5,071	5,164

Valuation Ratios

	FY22	FY23	FY24E	FY25E	FY26E
Per Share Data					
EPS	9	7	7	10	11
Growth %		-18%	0%	32%	16%
Book Value Per Share	39	42	54	60	71
Return Ratios					
Return on Assets (%)	12%	8%	8%	10%	11%
Return on Equity (%)	26%	19%	17%	20%	19%
Return on Capital Employed (%)	19%	15%	15%	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%	9%	14%	20%
Receivable Days	36	34	37	37	35
Inventory Days	62	58	58	60	59
Payable Days	87	80	77	78	77
Working Capital Days	11	11	18	19	18
Liquidity Ratios					
Current Ratio (x)	1.0	1.3	1.5	1.7	2.0
Interest Coverage Ratio (x)	22.7	6.6	8.9	11.3	13.0
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	39.2	29.8	25.6
Earnings Yield (%)	2%	3%	3%	3%	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	5.3	4.4
EV/EBITDA (x)	31.7	25.2	24.2	19.1	16.7
EV/Sales (x)	4.5	2.8	2.6	2.4	2.1

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%
7 th November 2023	BUY	284	+16%

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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