

Crompton Greaves Consumer Electricals Ltd.

16th February 2024

Recorded Industry-leading growth, awaiting margin uptick

In Q3 FY24, Crompton Greaves Consumer Electricals Ltd. (CGCEL) delivered a revenue growth of ~12% along with a 120 Bps decline in the overall EBITDA margins on a YoY basis. The ECD segment witnessed a robust ~19% revenue growth, but the lighting and Butterfly segments registered ~1% and ~-6% degrowth, respectively, on a YoY basis. The margin weakness was on account of partially passing costs owing to the BEE transition, elevated promotional expenses, and losses in the BGAL business. CGCEL continues to prioritize absolute profit over margins, and therefore, the ongoing efforts behind the brand, people and innovation will continue. The business efforts under Crompton 2.0 have started to show encouraging results, resulting in industry-leading growth, which should be followed by improved profitability in the medium term as the Company exercises necessary interventions.

Strong growth in the ECD business continues

In Q3 FY24, the ECD business of CGCEL again recorded a robust ~19% revenue growth on a YoY basis. This growth was broad-based as all three categories, including fans, pumps, and appliances, delivered an industry-leading growth of ~11%, ~28% and ~23%, respectively. This has resulted in market share gains for CGCEL. In addition to this, growth was also well distributed amongst traditional and alternate (including rural) channels, with no channel dominating the other.

Investments in brand-building intact despite difficulties

Despite not being in the best demand environment, CGCEL stepped up its advertisement spending by ~60% on a YoY basis in Q2 and Q3 FY24 and continued to strengthen the brand saliency of Crompton and Butterfly. The Company spent Rs. 920 Mn on marketing in Q2 and Q3 FY24 as compared to Rs. 570 Mn in Q2 and Q3 FY23.

Reducing institutional contribution in BGAL

Under BGAL, the Company has strategically started to do away with its high reliance on corporate sales, which is lumpy in nature, resulting in a Rs 340 Mn revenue impact in Q3 FY24 and a 75% decline on a YoY basis. Channels like retail and e-commerce demonstrated good growth along with market share gains. The channel mix for BGAL now stands at 50% retail, 30% e-commerce, 15% institutional and corporate and 5% others (Canteen Sales Department, Exports, etc).

View & Valuation

The business revival efforts made by the management over the last few quarters have started to pay off in terms of growth under Crompton 2.0. We anticipate the double-digit revenue growth momentum to continue along with expansion in margins in a few quarters as the CGCEL starts to utilise various margin expansion levers. Normalcy in BGAL's business, both in terms of revenue and margins, will be a key driver of valuation going forward. Consequently, based on revised estimates, we maintain a BUY rating on CGCEL with a target price of Rs. 350 (~35x FY25E EPS.)

BUY

CMP Rs. 284

TARGET Rs. 350 (+23.2%)

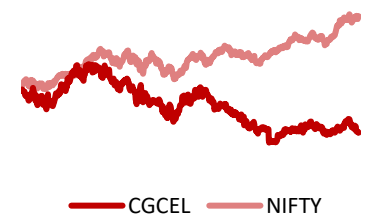
Company Data

Bloomberg Code	CROMPTON IN
MCAP (Rs. Mn)	1,81,043
O/S Shares (Mn)	640
52w High/Low	376 / 251
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Mn)	700

Shareholding Pattern %

	Dec '23	Sep '23	Jun '23
Promoters	-	-	-
FIIIs	35.58	35.65	34.99
DIIIs	47.98	47.69	48.72
Non-Institutional	16.44	16.65	16.29

CGCEL vs Nifty



Feb, 21 Feb, 22 Feb, 23 Feb, 24

Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Mn)	FY23	FY24E	FY25E
Revenue	68,696	73,505	80,855
EBITDA	7,705	6,909	9,703
Net Profit	4,764	4,295	6,400
Total Assets	56,544	57,202	59,506
ROCE (%)	15%	14%	19%
ROE (%)	19%	15%	20%

Source: Company, Keynote Capitals Ltd.

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Q3 FY24 Result Update

Result Highlights (Rs. Mn)

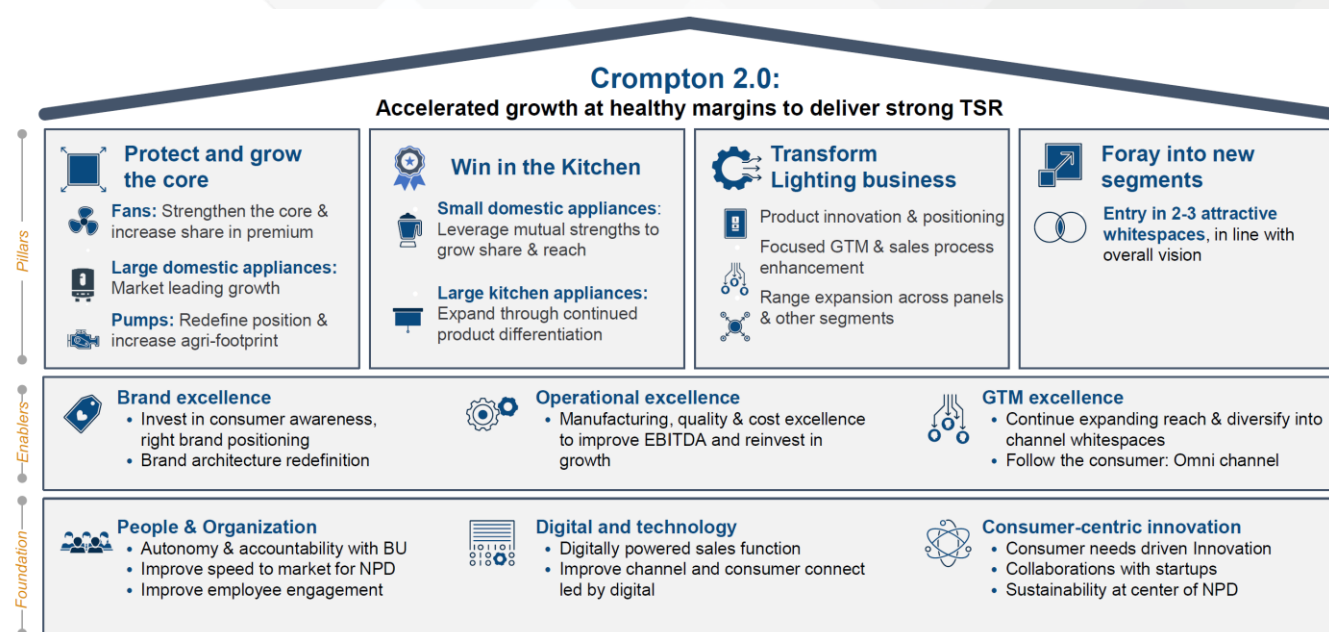
Particulars	Q3 FY24	Q3 FY23	Change % (Y-o-Y)	Q2 FY24	Change % (Q-o-Q)	9M FY24	9M FY23	Change % (Y-o-Y)	FY23
Revenue	16,927	15,162	11.6%	17,823	-5.0%	53,518	50,787	5.4%	68,696
COGS	11,428	10,230	11.7%	12,240	-6.6%	36,651	34,544	6.1%	46,804
Gross Profit	5,499	4,932	11.5%	5,582	-1.5%	16,867	16,243	3.8%	21,893
Gross Profit %	32.5%	32.5%	-4 Bps	31.3%	116 Bps	31.5%	32.0%	-47 Bps	31.9%
Employee Benefit Expense	1,457	1,341	8.6%	1,501	-3.0%	4,392	4,108	6.9%	5,408
Other Expense	2,544	2,067	23.1%	2,336	8.9%	7,374	6,481	13.8%	8,780
EBITDA	1,498	1,524	-1.7%	1,745	-14.2%	5,101	5,654	-9.8%	7,705
EBITDA %	8.8%	10.1%	-120 Bps	9.8%	-94 Bps	9.5%	11.1%	-160 Bps	11.2%
Depreciation	325	297	9.4%	321	1.1%	938	855	9.7%	1,159
EBIT	1,173	1,227	-4.4%	1,424	-17.6%	4,163	4,799	-13.3%	6,546
EBIT %	6.9%	8.1%	-116 Bps	8.0%	-106 Bps	7.8%	9.4%	-167 Bps	9.5%
Finance Cost	215	294	-26.8%	215	0.0%	636	818	-22.2%	1,092
Other Income	167	213	-21.7%	149	12.0%	514	500	2.7%	668
PBT	1,125	1,146	-1.9%	1,358	-17.2%	4,040	4,481	-9.8%	6,122
Exceptional Item	0	0	NA	0	NA	0	64	NA	0
Tax	270	264	2.3%	349	-22.6%	957	969	-1.2%	1,358
Profit for the period	855	882	-3.1%	1,009	-15.3%	3,084	3,449	-10.6%	4,764
EPS	1.34	1.34	-	1.52	-	4.71	5.21	-	7.27

Segment Highlights (Rs. Mn)

Particulars	Q3 FY24	Q3 FY23	Change % (Y-o-Y)	Q2 FY24	Change % (Q-o-Q)	9M FY24	9M FY23	Change % (Y-o-Y)	FY23
Revenue									
Electric Consumer Durables (ECD)	12,093	10,201	18.5%	12,380	-2.3%	38,762	34,295	13.0%	47,557
Lighting	2,494	2,477	0.7%	2,387	4.5%	7,171	7,796	-8.0%	10,581
Butterfly	2,341	2,484	-5.8%	3,056	-23.4%	7,586	8,696	-12.8%	10,558
Operating Profit									
Electric Consumer Durables (ECD)	1,642	1,617	1.6%	1,755	-6.4%	5,214	5,716	-8.8%	7,893
Lighting	280	255	9.9%	250	12.1%	803	702	14.4%	1,005
Butterfly	-19	181	-110.6%	202	-109.5%	343	802	-57.3%	840
Operating Profit Margin %									
Electric Consumer Durables (ECD)	13.6%	15.8%	-227 Bps	14.2%	-60 Bps	13.5%	16.7%	-322 Bps	16.6%
Lighting	11.2%	10.3%	95 Bps	10.5%	77 Bps	11.2%	9.0%	219 Bps	9.5%
Butterfly	-0.8%	7.3%	-809 Bps	6.6%	-743 Bps	4.5%	9.2%	-471 Bps	8.0%

Source: Company, Keynote Capitals Ltd.

Tenets under the Crompton 2.0



Source: Company, Keynote Capitals Ltd.

Q3 FY24 Conference Call Takeaways

General Highlights

- In Q3 FY24, the Company did better than its peers in terms of revenue growth across categories. In addition to this, CGCEL also continued making industry-leading margins.
- The management highlighted that the margin erosion for competition over the last year has taken place due to price and cost challenges, whereas for CGCEL, the erosion has taken place largely due to investments behind branding.
- In terms of manufacturing mix, as a strategic call, the Company wants to position its manufacturing in such a way that it manufactures products with critical importance in-house while outsourcing production for non-critical products.

Fans

- Fans witnessed a strong growth momentum, recording an 11% revenue growth on a YoY basis driven by improved products in the ceiling fans and TPW (Table, Pedestal, Wall) fans.
- Premium fans continue to grow faster than the overall category for CGCEL, resulting in market share gains boosted by new product launches. The Company also undertook price hikes in the premium and TPW categories w.e.f. November 2023.
- The Company has taken 3 price increases in order to pass on the increased cost on account of the BEE transition. CGCEL believe there is still some headroom for it to improve.

CGCEL | Quarterly Update

Pumps

- In Q3 FY24, the pumps business of CGCEL reported a strong 28% revenue growth on a YoY basis driven by robust performance by the agriculture as well as the residential segment.
- The Company witnessed strong traction in alternate channels for its products, including the rural channel.
- Apart from this, the CGCEL solar pumps business is also progressing well. The Company bagged and implemented an order from Haryana.
- After facing challenges for the last few quarters, the segment has demonstrated significant EBITDA margin expansion due to better gross margins and product mix.

Lighting

- Revenue for the business almost remained flat on a YoY basis, but EBIT margins recorded a 12% growth on a YoY basis, resulting in 100 bps expansion. This resulted due to cost optimization initiatives and an improved product mix.
- In the B2C segment, the Company expanded its range by introducing new ceiling lights, higher-wattage lamps, decorative lights, etc. Price erosion in battens and lamps.
- The B2B segment witnessed a recovery with a 4% revenue growth on a YoY basis. The Company secured orders for marquee projects like the Mumbai Coastal Road. In addition to this, a couple of municipal administrations also have given orders to the Company.
- To sharpen its focus on the business, CGCEL has carved out a dedicated sales team that will only focus on bringing business from large projects.

BGAL

- In Q3 FY24, the core of BGAL, including mixer grinders, gas stoves and pressure cookers, delivered a 12% revenue growth on a YoY basis. All categories witnessed market share gains during the quarter vs last year.
- Store count grew for the 3rd consecutive quarter. Retail and Modern trade counters grew by 11% and 14%, respectively, on a YoY basis.
- BGAL manufactures 85-90% of its products in-house. Therefore, a drop in scale results in declining margins due to negative operating leverage. Margins are expected to bounce back once the scale improves.
- Softness in revenue is on account of deliberately reducing the corporate business. Apart from this, the retail as well as the e-commerce channel continued to do well.

Appliances

- Appliances registered a 23% revenue growth on a YoY basis, led by momentum in water heaters and small domestic appliances. In Q3 FY24, the Company recorded the highest-ever quarterly sales of water heaters.
- Mix of premium products increased in the trade channel for water heaters and air coolers.

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	10,144	10,349	11,118
EBITDA	7,695	7,705	6,909	9,703	11,384
Growth %		0%	-10%	40%	17%
Margin%	14%	11%	9%	12%	13%
Depreciation	423	1,159	1,261	1,432	1,649
EBIT	7,272	6,546	5,648	8,271	9,735
Growth %		-10%	-14%	46%	18%
Margin%	13%	10%	8%	10%	11%
Interest Paid	353	1,092	696	437	313
Other Income & exceptional	597	668	700	700	700
PBT	7,515	6,122	5,652	8,534	10,123
Tax	1,732	1,358	1,356	2,133	2,531
Net Profit	5,784	4,764	4,295	6,400	7,592
Growth %		-18%	-10%	49%	19%
EPS	9.13	7.28	6.72	9.97	11.77

Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Cash, Cash equivalents & Bank	9,152	1,095	1,984	4,203	11,075
Current Investments	6,238	5,478	3,234	3,234	3,234
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	23,767	26,694	35,306
Net Block & CWIP	32,865	32,554	32,028	31,404	30,645
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	56,544	57,202	59,506	67,357
Creditors	10,178	10,486	11,381	12,198	13,452
Provision	1,822	1,777	1,777	1,777	1,777
Short Term Borrowings	14,483	3,250	0	0	0
Other Current Liabilities	3,672	2,002	2,002	2,002	2,002
Total Current Liabilities	30,155	17,514	15,159	15,977	17,230
Long Term Debt	46	5,972	5,972	2,972	1,972
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	4,966	3,966
Paid-up Capital	1,267	1,272	1,278	1,284	1,290
Reserves & Surplus	23,263	25,315	28,322	32,802	40,394
Shareholders' Equity	24,530	26,587	29,600	34,086	41,684
Non Controlling Interest	7,825	4,477	4,477	4,477	4,477
Total Equity & Liabilities	64,486	56,544	57,202	59,506	67,357

Cash Flow

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	7,515	6,122	5,652	8,534	10,123
Adjustments	512	1,842	1,258	1,169	1,262
Change in Working Capital	1,005	-1,039	-1,644	109	-486
Total Tax Paid	-1,798	-1,399	-1,356	-2,133	-2,531
Cash flow from operating Activities	7,234	5,526	3,909	7,679	8,368
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	-3,250	-3,000	-1,000
Dividend (incl. tax)	-1,564	-1,578	-1,289	-1,920	-2,278
Other financing activities	-735	-1,102	-696	-437	-313
Cash flow from financing activities	9,073	-9,105	-5,235	-5,357	-3,590
Net Change in cash	-922	-948	-1,361	2,213	4,588

Valuation Ratios

	FY22	FY23	FY24E	FY25E	FY26E
Per Share Data					
EPS	9	7	7	10	12
Growth %		-18%	-10%	48%	18%
Book Value Per Share	39	42	53	60	72
Return Ratios					
Return on Assets (%)	12%	8%	8%	11%	12%
Return on Equity (%)	26%	19%	15%	20%	20%
Return on Capital Employed (%)	19%	15%	14%	19%	26%
Turnover Ratios					
Asset Turnover (x)	1.1	1.1	1.3	1.4	1.4
Sales / Gross Block (x)	2.5	2.0	2.1	2.3	2.4
Working Capital / Sales (x)	13%	4%	9%	12%	16%
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	1.6	1.7	2.0
Interest Coverage Ratio (x)	22.7	6.6	9.1	20.5	33.4
Total Debt to Equity	0.7	0.3	0.2	0.1	0.0
Net Debt to Equity	0.3	0.3	0.1	0.0	-0.2
Valuation					
PE (x)	41.0	39.1	43.6	29.4	24.9
Earnings Yield (%)	2%	3%	2%	3%	4%
Price to Sales (x)	4.4	2.7	2.5	2.2	2.0
Price to Book (x)	9.7	7.0	6.1	5.3	4.3
EV/EBITDA (x)	31.7	25.2	27.2	19.4	16.5
EV/Sales (x)	4.5	2.8	2.6	2.3	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%
16 th February 2024	BUY	284	+23%

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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