

Crompton Greaves Consumer Electricals Ltd.

21st May 2024

Healthy margin uptick along with growth

In Q4 FY24, Crompton Greaves Consumer Electricals Ltd. (CGCEL) delivered a revenue growth of 9.5% along with a 140 Bps decline in the overall EBITDA margins on a YoY basis. The ECD segment witnessed a robust 14.3% revenue growth. The lighting business remained flat with a growth of 1%, while BGAL witnessed a major degrowth of -12% on a YoY basis. The margin weakness was on account of higher promotional and product development expenses, EPR expense of ~Rs. 150 Mn incurred in the quarter, and losses in the BGAL business. The business efforts under Crompton 2.0 have started to show encouraging results.

Strong growth in the ECD business continues

In Q4 FY24, CGCEL's ECD business recorded a robust revenue growth of 14.3% on a YoY basis. This growth was broad-based, with all three categories - fans, pumps, and appliances showing decent growth of 13%, 9%, and 27%, respectively on a YoY basis. This strong performance was driven by high consumer demand, particularly due to a favourable start to the summer season. CGCEL achieved a significant milestone by selling over 20 Mn fans in FY24. Throughout the year, the Company also gained market share in the fans segment. In the pumps category, the continued focus on expanding the agri-pumps business has yielded positive results, with CGCEL now holding a 7-8% market share in the agricultural pump industry. Additionally, CGCEL is exploring opportunities in the solar pump market with strong interest and plans to participate in projects under the PM KUSUM Yojna selectively.

Investments in brand-building to grow in line with sales going forward

CGCEL has elevated its Advertising and Promotion (A&P) expenditure to 3.4% of its annual sales. In FY24, the Company allocated ~Rs. 2.7 Bn towards A&P, marking a 49% increase compared to FY23. Additionally, CGCEL considers the significant one-time increase in A&P spending to be complete. Moving forward, the Company anticipates that A&P expenses will closely align with the trajectory of sales growth.

Reviving of BGAL will bear fruits from Q2 FY25 onwards

In Q4 FY24, BGAL's revenue declined to ~Rs. 1.6 Bn, accompanied by an operating loss of ~Rs. 0.2 Bn. This decline was primarily attributed to the corrective measures implemented by CGCEL in the long-term interest of BGAL. The Company emphasized that most of the critical interventions for BGAL are now complete. The positive impact of these measures is expected to become evident from Q2 FY25 onwards.

View & Valuation

The management's business revival efforts over the past few quarters have begun to yield positive results in terms of growth and margins. We expect the momentum of double-digit revenue growth in ECD business to continue, with further potential for margin expansion as several margin-enhancing strategies remain only partially utilized. However, our updated estimates indicate that the recent strong increase in price now reflects much of the anticipated positivity for FY25. As a result, we are revising our rating on CGCEL from BUY to NEUTRAL, with a target price of Rs. 428 (43x FY25E EPS)

NEUTRAL

CMP Rs. 391

TARGET Rs. 428 (+9.4%)

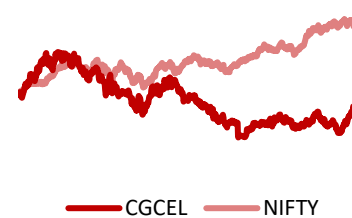
Company Data

Bloomberg Code	CROMPTON IN
MCAP (Rs. Mn)	2,51,717
O/S Shares (Mn)	643
52w High/Low	410 / 252
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Mn)	1,566

Shareholding Pattern %

	Mar '24	Dec '23	Sep '23
Promoters	-	-	-
FIIs	32.18	35.58	35.65
DIIIs	51.47	47.98	47.69
Non-Institutional	16.36	16.44	16.65

CGCEL vs Nifty



May, 21 May, 22 May, 23 May, 24

Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Mn)	FY23	FY24	FY25E
Revenue	68,696	73,128	80,441
EBITDA	7,705	7,137	9,492
Net Profit	4,764	4,418	6,382
Total Assets	56,544	60,817	61,191
ROCE (%)	15%	15%	19%
ROE (%)	19%	16%	20%

Source: Company, Keynote Capitals Ltd.

Devin Joshi, Research Analyst
Devin@keynoteindia.net

Q4 FY24 Result Update

Result Highlights (Rs. Mn)

Particulars	Q4 FY24	Q4 FY23	Change % (Y-o-Y)	Q3 FY24	Change % (Q-o-Q)	FY24	FY23	Change % (Y-o-Y)
Revenue	19,610	17,910	9.5%	16,927	15.9%	73,128	68,696	6.5%
COGS	13,352	12,260	8.9%	11,428	16.8%	50,003	46,804	6.8%
Gross Profit	6,258	5,651	10.8%	5,499	13.8%	23,125	21,893	5.6%
Gross Profit %	31.9%	31.5%	36 Bps	32.5%	-57 Bps	31.6%	31.9%	-25 Bps
Employee Benefit Expense	1,507	1,301	15.9%	1,457	3.5%	5,899	5,408	9.1%
Other Expense	2,715	2,235	21.5%	2,544	6.7%	10,089	8,780	14.9%
EBITDA	2,036	2,115	-3.7%	1,498	35.9%	7,137	7,705	-7.4%
EBITDA %	10.4%	11.8%	-143 Bps	8.8%	153 Bps	9.8%	11.2%	-146 Bps
Depreciation	350	304	15.3%	325	7.9%	1,288	1,159	11.1%
EBIT	1,686	1,811	-6.9%	1,173	43.7%	5,849	6,546	-10.6%
EBIT %	8.6%	10.1%	-151 Bps	6.9%	166 Bps	8.0%	9.5%	-153 Bps
Finance Cost	156	274	-43.2%	215	-27.7%	792	1,092	-27.5%
Other Income	160	168	-4.4%	167	-3.8%	674	668	0.9%
PBT	1,690	1,705	-0.8%	1,125	50.3%	5,731	6,122	-6.4%
Tax	356	388	-8.3%	270	31.8%	1,313	1,358	-3.3%
Profit for the period	1,334	1,316	1.4%	855	56.1%	4,418	4,764	-7.3%
EPS	2.15	2.06	-	1.34	-	6.84	7.27	-

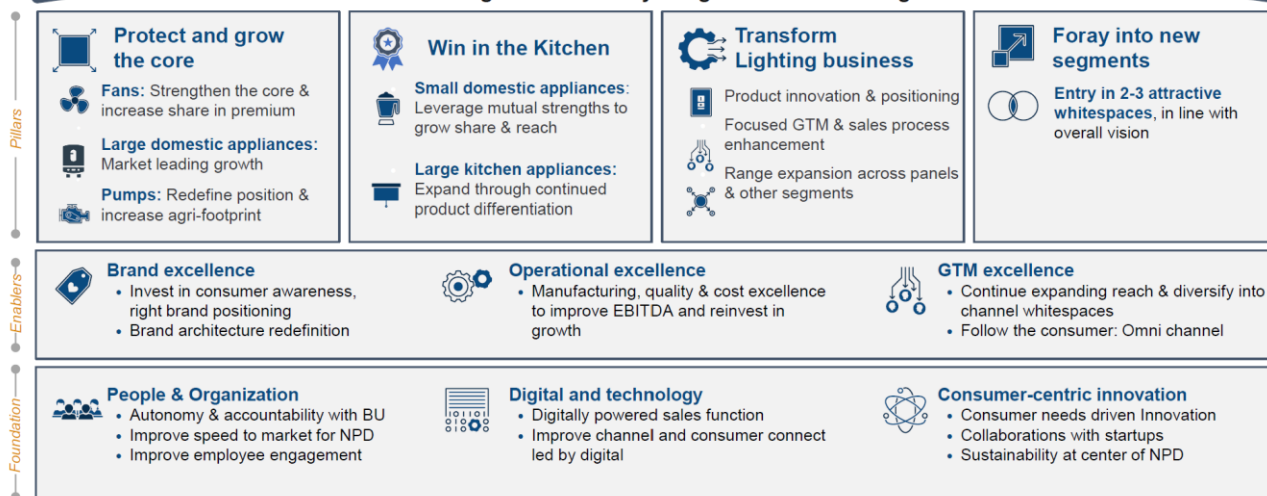
Segment Highlights (Rs. Mn)

Particulars	Q4 FY24	Q4 FY23	Change % (Y-o-Y)	Q3 FY24	Change % (Q-o-Q)	FY24	FY23	Change % (Y-o-Y)
Revenue								
Electric Consumer Durables (ECD)	15,160	13,257	14.3%	12,093	25.4%	53,922	47,557	13.4%
Lighting	2,811	2,786	0.9%	2,494	12.7%	9,882	10,581	-6.6%
BGAL	1,639	1,867	-12.2%	2,341	-30.0%	9,225	10,558	-12.6%
Operating Profit								
Electric Consumer Durables (ECD)	2,533	2,177	16.3%	1,642	54.2%	7,747	7,893	-1.9%
Lighting	251	303	-17.4%	280	-10.5%	1,053	1,005	4.8%
BGAL	-261	37	-798.7%	-19	1257.3%	82	840	-90.2%
Operating Profit Margin %								
Electric Consumer Durables (ECD)	16.7%	16.4%	29 Bps	13.6%	313 Bps	14.4%	16.6%	-223 Bps
Lighting	8.9%	10.9%	-198 Bps	11.2%	-231 Bps	10.7%	9.5%	116 Bps
BGAL	-15.9%	2.0%	-1790 Bps	-0.8%	-1508 Bps	0.9%	8.0%	-707 Bps

Source: Company, Keynote Capitals Ltd.

Crompton 2.0:

Accelerated growth at healthy margins to deliver strong TSR



Source: Company, Keynote Capitals Ltd.

Q4 FY24 Conference Call Takeaways

General Highlights

- In Q4 FY24, CGCEL demonstrated encouraging growth along with sequentially improved profitability. This is despite higher A&P spend during FY24.
- Apart from A&P, CGCEL recorded a ~Rs. 152 Mn EPR expense for FY24. This entire expense was taken in Q4 FY24 itself which impacted margins.
- Over the next two years, CGCEL will spend Rs. 0.8-1.0 Bn on capex, which will be used to improve manufacturing capabilities, product development, and innovation.
- Export revenue crossed Rs. 1 Bn for the first time in FY24. Though currently, the contribution is negligible, this is a channel with encouraging opportunities that the Company is building on.

Fans

- In Q4 FY24, fans achieved their highest quarterly sales, driven by robust summer demand. The category experienced volume-led growth across all segments, with ceiling premium fans and TPW fans showing an impressive growth of over 20% on a YoY basis.
- Over the past three quarters, the fans portfolio has consistently achieved double-digit growth, marking a significant milestone since the COVID-19 pandemic. CGCEL implemented three price hikes in FY24 and plans to introduce another soon. These price adjustments, coupled with cost-saving measures, have enhanced the gross margins for fans from 23% in Q1 FY24 to 25% in Q4 FY24.
- The growth has been significantly driven by the increased sales of premium fans, which have resulted in a 3% increase in their portfolio share on a YoY basis. Currently, premium fans account for ~25% of CGCEL's overall fans business.

CGCEL | Quarterly Update

Pumps

- In Q4 FY24, CGCEL's pumps business grew over 9% YoY, driven by advancements in agriculture pumps and residential borewells, and facilitated by addressing product gaps and expanding channels.
- CGCEL now has a market share of 7-8% in the agriculture pump market and is excited by its prospects.
- Additionally, the Company sees solar pumps as an interesting opportunity with a good cash flow cycle. In Q4 FY24, it secured orders worth ~Rs. 0.9 Bn. for solar pumps, bringing the total order book to ~Rs. 1.2 Bn. CGCEL's participation in the PM Kusum scheme will depend on the profitability of the project.

Lighting

- In Q4 FY24, CGCEL successfully halted the decline in its lighting business, signalling a move towards stability. This achievement is attributed to the Company's strategic focus on cost reduction and expanding its B2B lighting segment by undertaking enterprise projects.
- The B2C lighting segment continues to face price erosion in LED bulbs and battens, primarily driven by cost pressures due to dumping activities from China. Business growth in this segment is expected to materialize once the impact of dumping diminishes, allowing volume growth to translate into overall business growth.

BGAL

- In Q4 FY24, BGAL experienced a management transition, with Swetha Sagar stepping in as the Chief Business Officer. Bringing over 20 years of experience from her tenure at various prominent consumer-facing companies, her appointment marks a pivotal moment for BGAL.
- The Company has successfully mitigated channel concentration risks and aligned BGAL's revenue recognition policy with that of CGCEL. The management is confident that the strategic interventions undertaken are nearly complete, with the anticipated benefits expected to emerge from Q2 FY25 onwards.
- BGAL has also undertaken operational adjustments, including the shutdown and relocation of one of its manufacturing units, which resulted in a one-time closing expense. Additionally, certain interventions necessitated one-time settlements.
- Looking ahead, the strategic focus will be on establishing BGAL as a premium brand rather than a cost-effective option. The long-term financial objective is to achieve a double-digit EBITDA margin. The Company anticipates that substantial operating leverage will be realized as growth accelerates.

Appliances

- The Small Domestic Appliances (SDA) business has now reached a substantial size. In the Large Domestic Appliances (LDA) segment, CGCEL reported a revenue of ~Rs. 0.6 Bn, accompanied by an EBITDA loss of a ~Rs. 0.3 Bn. To support this segment, CGCEL has established a new production line at its Baroda facility.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24	FY25E	FY26E
Net Sales	53,941	68,696	73,128	80,441	88,485
Growth %		27%	6%	10%	10%
Raw Material Expenses	36,549	46,381	50,003	54,458	59,904
Employee Expenses	3,624	5,408	5,899	6,033	6,194
Other Expenses	6,074	9,203	10,089	10,457	11,326
EBITDA	7,695	7,705	7,137	9,492	11,061
Growth %		0%	-7%	33%	17%
Margin%	14%	11%	10%	12%	13%
Depreciation	423	1,159	1,288	1,254	1,283
EBIT	7,272	6,546	5,849	8,238	9,777
Growth %		-10%	-11%	41%	19%
Margin%	13%	10%	8%	10%	11%
Interest Paid	353	1,092	792	429	193
Other Income & exceptional	597	668	674	700	750
PBT	7,515	6,122	5,731	8,510	10,334
Tax	1,732	1,358	1,313	2,127	2,584
Net Profit	5,784	4,764	4,418	6,382	7,751
Growth %		-18%	-7%	44%	21%
EPS	9.13	7.28	6.84	9.88	11.94

Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24	FY25E	FY26E
Cash, Cash equivalents & Bank	9,152	1,095	2,608	1,768	4,064
Current Investments	6,238	5,478	6,891	6,891	6,891
Debtors	6,154	6,706	7,335	8,044	8,849
Inventory	7,210	7,439	8,304	9,258	10,184
Short Term Loans & Advances	1,204	891	4	4	4
Other Current Assets	1,041	974	2,032	2,032	2,032
Total Current Assets	31,001	22,583	27,175	27,998	32,024
Net Block & CWIP	32,865	32,554	32,083	31,633	31,235
Long Term Investments	3	4	0	0	0
Other Non-current Assets	617	1,404	1,560	1,560	1,560
Total Assets	64,486	56,544	60,817	61,191	64,818
Creditors	10,178	10,486	13,285	12,191	13,383
Provision	1,822	1,777	2,448	2,448	2,448
Short Term Borrowings	14,483	3,250	2,990	2,990	0
Other Current Liabilities	3,672	2,002	2,040	2,040	2,040
Total Current Liabilities	30,155	17,514	20,763	19,668	17,870
Long Term Debt	46	5,972	3,000	0	0
Deferred Tax Liabilities	394	123	99	99	99
Other Long Term Liabilities	1,537	1,872	2,465	2,465	2,465
Total Non Current Liabilities	1,977	7,966	5,565	2,565	2,565
Paid-up Capital	1,267	1,272	1,286	1,292	1,298
Reserves & Surplus	23,263	25,315	28,710	33,172	38,591
Shareholders' Equity	24,530	26,587	29,996	34,464	39,889
Non Controlling Interest	7,825	4,477	4,494	4,494	4,494
Total Equity & Liabilities	64,486	56,544	60,817	61,191	64,818

Cash Flow

Y/E Mar, Rs. Mn	FY22	FY23	FY24	FY25E	FY26E
Pre-tax profit	7,515	6,122	5,731	8,510	10,334
Adjustments	512	1,842	1,461	982	726
Change in Working Capital	1,005	-1,039	2,226	-2,756	-538
Total Tax Paid	-1,798	-1,399	-984	-2,127	-2,584
Cash flow from operating Activities	7,234	5,526	8,434	4,608	7,939
Net Capital Expenditure	-1,706	-708	-805	-804	-885
Change in investments	-2,093	8,027	-1,696	0	0
Other investing activities	-13,430	-4,687	432	700	750
Cash flow from investing activities	-17,229	2,632	-2,069	-104	-135
Equity raised / (repaid)	603.3	416	893.4	0	0
Debt raised / (repaid)	10,769	-6,842	-3,250	-3,000	-2,990
Dividend (incl. tax)	-1,564	-1,578	-1,912	-1,915	-2,325
Other financing activities	-735	-1,102	-1,144	-429	-193
Cash flow from financing activities	9,073	-9,105	-5,413	-5,343	-5,508
Net Change in cash	-922	-948	953	-840	2,296

Valuation Ratios

	FY22	FY23	FY24	FY25E	FY26E
Per Share Data					
EPS	9	7	5	10	12
Growth %		-18%	-37%	110%	21%
Book Value Per Share	39	42	54	60	68
Return Ratios					
Return on Assets (%)	12%	8%	8%	10%	12%
Return on Equity (%)	26%	19%	16%	20%	21%
Return on Capital Employed (%)	19%	15%	15%	19%	27%
Turnover Ratios					
Asset Turnover (x)	1.1	1.1	1.2	1.3	1.4
Sales / Gross Block (x)	2.5	2.0	2.1	2.2	2.4
Working Capital / Sales (x)	13%	4%	8%	9%	13%
Receivable Days	36	34	35	35	35
Inventory Days	62	58	57	59	59
Payable Days	87	80	86	84	77
Working Capital Days	11	11	6	10	17
Liquidity Ratios					
Current Ratio (x)	1.0	1.3	1.3	1.4	1.8
Interest Coverage Ratio (x)	22.7	6.6	8.2	20.9	54.6
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	-0.1
Valuation					
PE (x)	41.0	39.1	62.2	29.7	24.5
Earnings Yield (%)	2%	3%	2%	3%	4%
Price to Sales (x)	4.4	2.7	3.0	2.7	2.5
Price to Book (x)	9.7	7.0	7.3	6.3	5.5
EV/EBITDA (x)	31.7	25.2	31.5	23.7	20.3
EV/Sales (x)	4.5	2.8	3.1	2.8	2.5

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%
21 st May 2024	NEUTRAL	391	+9%

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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Keynote Capitals Limited (CIN: U67120MH1995PLC088172)

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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