

Crompton Greaves Consumer Electricals Ltd.

20th November 2024

Business revival in lighting and BGAL to drive growth

In Q2 FY25, Crompton Greaves Consumer Electricals Ltd. (CGCEL) reported a revenue growth of 6% along with a 94 bps expansion in EBITDA margin on a YoY basis. The ECD segment saw a revenue growth of 13% on a YoY basis, driven by strong performance in pumps and appliances. The lighting business also grew by 6% on a YoY basis, driven by a strong performance in the B2C segment. BGAL experienced a revenue decline of 18% on a YoY basis, but the management's corrective actions have started to show results, with notable EBITDA and PAT margin improvements. Under the Crompton 2.0 strategy, the Company continues to demonstrate operational improvements through revenue growth and margin expansion.

Strong performance in the ECD segment continues

In Q2 FY25, the ECD segment posted robust revenue growth of 13% on a YoY basis, driven by strong sales in pumps and appliances. Pump sales surged by 20% on a YoY basis, fueled by strong growth in the solar pumps business. Additionally, appliances performed well on the back of a robust growth in mixer grinders, supported by strong e-commerce and modern trade performance. The segment also benefited from increased contributions from new product categories across various wattage ranges.

Steady progress in the growth revival of the Lighting segment

The lighting segment achieved a 6% revenue growth on a YoY basis, along with a 23 bps operating margin expansion on a YoY basis. This growth was driven by portfolio premiumization and an expansion into outdoor and accessory products. The B2C segment performed strongly, while in B2B, the Company successfully executed a marquee project for Bengaluru's Satellite Town Ring Road (STRR) under NHAI using high-performance LED streetlights. Currently, the focus is on building a strong order pipeline across categories and increasing traction for new products.

BGAL - Significant margin uptick, revenue decline expected to stop from Q3 FY25

In Q2 FY25, BGAL experienced a revenue decline of 18% on a YoY basis, but saw slight improvements in Gross, EBITDA, and PAT margins due to management interventions. Despite rising competition, the Company successfully implemented price increases, pushing toward premiumization. Retail channels continue to grow, while online channels have gained momentum following operational changes, leading to improved profitability. Export channels are also showing positive growth. Looking ahead, the Company will focus on arresting sales growth in H2 FY25 while maintaining profitability and gradually drive growth.

View & Valuation

The management's effort on business revival over the past few years are now yielding results in terms of growth and margin expansion. We expect the management to continue balancing well between growth, cost optimization, premiumization and price interventions. As a result, we change our rating on CGCEL from NEUTRAL to BUY, with a target price of Rs. 486 (46x FY26E EPS).

BUY

CMP Rs. 390

TARGET Rs. 486 (24.3%)

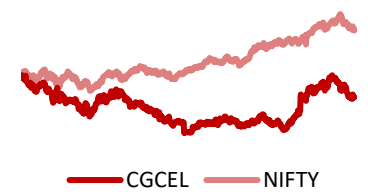
Company Data

Bloomberg Code	CROMPTON IN
MCAP (Rs. Mn)	2,51,023
O/S Shares (Mn)	644
52w High/Low	484 / 262
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Mn)	1,235

Shareholding Pattern %

	Sep '24	Jun '24	Mar '24
Promoters	-	-	-
FIIIs	36.02	34.36	32.18
DIIIs	50.01	51.63	51.47
Non-Institutional	13.97	14.01	16.36

CGCEL vs Nifty



Nov, 21 Nov, 22 Nov, 23 Nov, 24

Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Bn)	FY24	FY25E	FY26E
Revenue	73.1	80.1	89.7
EBITDA	7.1	8.6	10.1
Net Profit	4.4	5.6	6.9
Total Assets	60.8	60.6	63.9
ROCE (%)	15%	17%	19%
ROE (%)	16%	18%	19%

Source: Company, Keynote Capitals Ltd.

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Q2 FY25 Result Update

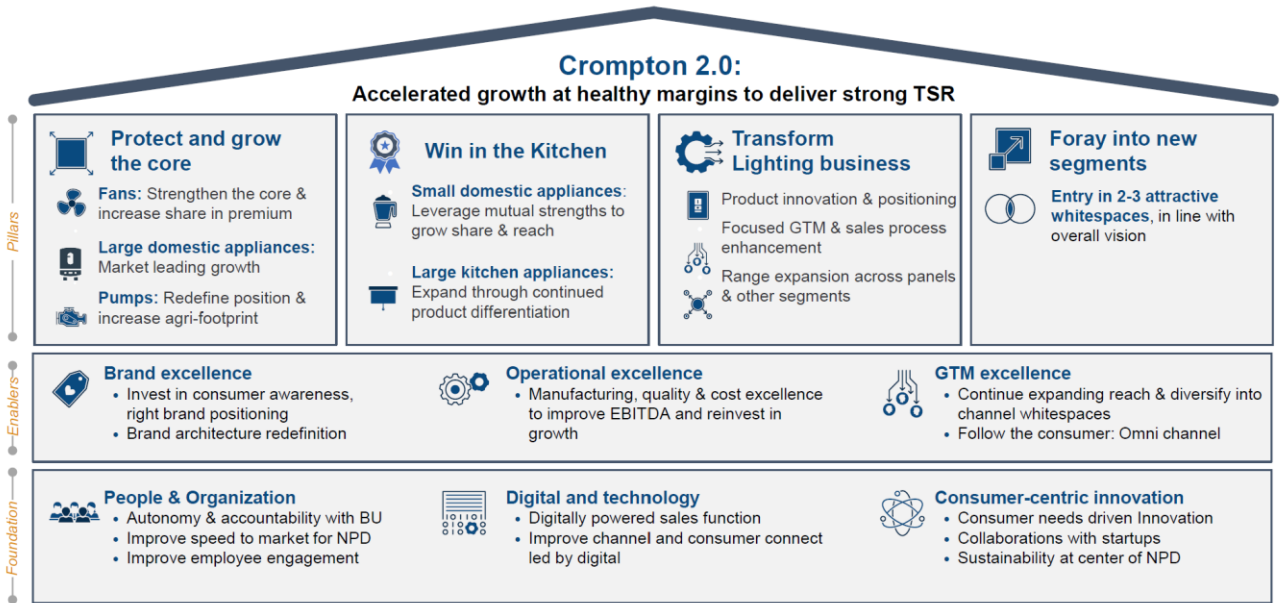
Result Highlights (Rs. Mn)

Particulars	Q2 FY25	Q2 FY24	Change % (Y-o-Y)	Q1 FY25	Change % (Q-o-Q)	H1 FY25	H1 FY24	Change % (Y-o-Y)	FY24
Revenue	18,960	17,823	6%	21,377	-11%	40,337	36,591	10%	73,128
COGS	12,756	12,240	4%	14,561	-12%	27,317	25,223	8%	50,003
Gross Profit	6,204	5,582	11%	6,816	-9%	13,020	11,368	15%	23,125
Gross Profit %	32.7%	31.3%	140 Bps	31.9%	84 Bps	32.3%	31.1%	121 Bps	31.6%
Employee Cost	1,597	1,501	6%	1,617	-1%	3,214	2,931	10%	5,899
Other Operating Expense	2,572	2,336	10%	2,875	-11%	5,448	4,830	13%	10,089
EBITDA	2,034	1,745	17%	2,324	-12%	4,358	3,607	21%	7,137
EBITDA %	10.7%	9.8%	94 Bps	10.9%	-14 Bps	10.8%	9.9%	95 Bps	9.8%
Depreciation	382	321	19%	372	3%	753	613	23%	1,288
EBIT	1,653	1,424	16%	1,952	-15%	3,605	2,994	20%	5,849
EBIT %	8.7%	8.0%	73 Bps	9.1%	-42 Bps	8.9%	8.2%	75 Bps	8.0%
Finance Cost	120	215	-44%	155	-22%	276	421	-35%	792
Other Income	175	149	18%	238	-26%	413	347	19%	674
PBT	1,707	1,358	26%	2,035	-16%	3,742	2,920	28%	5,731
Tax	427	349	22%	511	-17%	938	687	37%	1,313
Profit for the period	1,281	1,009	27%	1,524	-16%	2,804	2,233	26%	4,418
PAT %	6.8%	5.7%	110 Bps	7.1%	-37 Bps	7.0%	6.1%	85 Bps	6.0%
EPS	1.94	1.52	-	2.36	-	4.30	3.37	-	6.88

Segment Highlights (Rs. Mn)

Particulars	Q2 FY25	Q2 FY24	Change % (Y-o-Y)	Q1 FY25	Change % (Q-o-Q)	H1 FY25	H1 FY24	Change % (Y-o-Y)	FY24
Revenue									
Electric Consumer Durables	13,928	12,380	13%	17,266	-19%	31,193	26,669	17%	53,928
Lighting Products	2,531	2,387	6%	2,333	8%	4,865	4,677	4%	9,982
Butterfly Products	2,502	3,056	-18%	1,777	41%	4,279	5,245	-18%	9,225
Operating Profit									
Electric Consumer Durables	2,064	1,755	18%	2,587	-20%	4,651	3,572	30%	7,747
Lighting Products	271	250	8%	209	30%	471	523	-10%	1,053
Butterfly Products	177	202	-12%	41	-	218	362	-40%	82
Operating Profit Margin %									
Electric Consumer Durables	15%	14%	64 Bps	15%	-16 Bps	15%	13%	152 Bps	14%
Lighting Products	11%	10%	23 Bps	9%	175 Bps	10%	11%	-149 Bps	11%
Butterfly Products	7%	7%	46 Bps	2%	477 Bps	5%	7%	-180 Bps	1%

Source: Company, Keynote Capitals Ltd.



Source: Company, Keynote Capitals Ltd.

Q2 FY25 Conference Call Takeaways

General Highlights

- In Q2 FY25, the A&P spend stood at Rs. 580 Mn, marking a 69% on a YoY basis. Additionally, CGCEL was granted two new patents during the quarter and launched new products across all categories, including two key offerings—one in the fan segment and another in kitchenware. These initiatives reflect the Company's ongoing commitment to brand building and product innovation under the Crompton 2.0 strategy, which continues to deliver positive results.
- Alternate channels continued to show strong momentum, growing by 37% on a YoY basis in Q2 FY25. Their contribution to total sales increased from 18% in Q2 FY24 to 21% in Q2 FY25. The e-commerce channel achieved its highest-ever quarterly sales, surpassing Rs. 2 Bn for the quarter.
- CGCEL and BGAL continue to capitalize on each other's strengths, with CGCEL relying on BGAL for product manufacturing, while BGAL leverages CGCEL's extensive distribution network. Together, they have become the leader in India's mixer and grinder market.
- Currently, the sales teams of both companies operate separately in South India, but there is some overlap in their salesforce outside of this region.
- To drive growth, the Company is focusing on fast-growing sub-segments such as solar in pumps, TPW in fans, and outdoor and decorative lighting. According to management, CGCEL's business has the potential to double over the next five years.

CGCEL | Quarterly Update

Fans

- In the fans segment, the Company has acted like a leader by implementing several price hikes which led to margin expansion. This showcases the brand's strength, especially as competitors struggled with taking similar pricing actions.
- In the premium fan segment, the Company is ramping up in-house manufacturing of BLDC fans to ensure better quality control. The combination of price increases, new product launches, and a stronger premium mix has resulted in improvements in both gross profit and EBIT margins. The Company is positioning itself to lead the market with this strategic approach.
- During the quarter, the non-ceiling fan segment has performed exceptionally well, with the Company managing a smooth transition to BIS norms in its product portfolio.

Pumps

- In Q2 FY25, the pumps business recorded 20% growth on a YoY basis, driven primarily by solar pumps. During the quarter, the Company executed solar pump orders worth Rs. 420 Mn, surpassing Rs. 1 Bn in total solar pump sales. This is a tender-based business, and CGCEL continues to maintain a strong order pipeline of solar pumps.
- Growth in the residential pumps segment was driven by new product launches and a focus on premiumization.
- This quarter, the Company continued to invest in BTL activities and influencer programs to boost growth in the agri-segment. Additionally, it implemented a price adjustment in July to offset rising commodity costs.

Lighting

- In Q2 FY25, the lighting segment revenue grew by 6% with a 23 bps operating profit margin expansion on a YoY basis. Excluding discontinued business, this was the highest growth in the industry, despite price erosion.
- Growth was primarily driven by the B2C segment, particularly in outdoor and non-conventional products such as accessories.
- In the B2C segment, despite price erosion, the Company saw strong volume and value growth, particularly in ceiling panels and battens. Bulbs and battens now contribute 50% of total revenue, down from 70%, highlighting a more diversified product mix.
- CGCEL is seeing market share gains in the ceiling panels and batten categories. E-commerce and modern retail (MOR) channels are performing strongly, with a continued focus on expanding its range of high-wattage and premium products in the B2C segment.
- In the B2B segment, growth in industrial lighting slowed due to government-related infrastructure slowdown ahead of elections. The focus going forward is on converting a strong order pipeline across categories and driving momentum for new products.

BGAL

- CGCEL is currently focused on improving unit economics by fine-tuning pricing and controlling costs. With the business now in a stronger position, it is gearing up to invest in brand building and new product development.
- Amid rising competition, the Company introduced pricing adjustments that are now clearly reflected in the market. These pricing strategies, combined with targeted product positioning, have led to a 400 bps increase in premiumization within the trade channel.
- Looking ahead, the Company's focus will be to stop the sales decline while preserving margins, with a gradual shift towards driving business growth.
- As part of its innovation roadmap, CGCEL is set to launch key new products in H2 FY25.
- The last few weeks of Diwali have been promising for BGAL, with strong performance in categories like stoves and cookers.

Appliances

- In the appliances segment, CGCEL saw growth across air coolers, geysers, and room heaters, along with market share gains. Notably, air coolers and room heaters posted higher sales despite off-season. Water heaters led the growth, driven by the launch of new products in the mass premium segment.
- CGCEL is now positioned as a leader across all its key business segments and remains highly optimistic about the growth potential of the appliances division over the coming years.
- During the quarter in the LDA segment, the Company generated Rs. 190 Mn in revenue and reduced EBITDA losses. During the quarter, they launched festive season campaigns, with a strong emphasis on promoting their premium range of chimneys.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	68,696	73,128	80,075	89,684	1,00,446
Growth %		6%	10%	12%	12%
Raw Material Expenses	46,381	49,546	54,211	60,716	68,002
Employee Expenses	5,408	5,899	6,406	6,906	7,533
Other Expenses	9,203	10,547	10,810	11,928	13,058
EBITDA	7,705	7,137	8,648	10,134	11,853
Growth %		-7%	21%	17%	17%
Margin%		11%	10%	11%	12%
Depreciation	1,159	1,288	1,495	1,530	1,570
EBIT	6,546	5,848	7,154	8,604	10,283
Growth %		-11%	22%	20%	20%
Margin%		10%	8%	9%	10%
Interest Paid	1,092	792	433	370	357
Other Income & exceptional	668	674	800	950	1,050
PBT	6,122	5,730	7,521	9,184	10,975
Tax	1,358	1,313	1,880	2,296	2,744
Net Profit	4,764	4,418	5,641	6,888	8,232
Growth %		-7%	28%	22%	20%
EPS	7.28	6.84	8.73	10.61	12.62

Balance Sheet

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Cash, Cash equivalents & Bank	1,095	2,608	1,392	3,254	6,356
Current Investments	5,478	6,891	6,891	6,891	6,891
Debtors	6,706	7,209	8,008	8,968	10,045
Inventory	7,439	8,304	9,216	10,322	11,560
Short Term Loans & Advances	891	645	645	645	645
Other Current Assets	974	1,382	1,382	1,382	1,382
Total Current Assets	22,583	27,038	27,533	31,462	36,878
Net Block & CWIP	32,554	32,083	31,389	30,755	30,190
Long Term Investments	4	0	0	0	0
Other Non-current Assets	1,404	1,687	1,687	1,687	1,687
Total Assets	56,544	60,807	60,608	63,903	68,754
Creditors	10,486	13,285	12,127	13,601	12,690
Provision	1,797	2,274	2,274	2,274	2,274
Short Term Borrowings	3,250	3,000	3,000	0	0
Other Current Liabilities	1,982	2,205	2,205	2,205	2,205
Total Current Liabilities	17,514	20,763	19,605	18,079	17,168
Long Term Debt	5,972	2,990	0	0	0
Deferred Tax Liabilities	123	99	99	99	99
Other Long Term Liabilities	1,872	2,465	2,465	2,465	2,465
Total Non Current Liabilities	7,966	5,554	2,564	2,564	2,564
Paid-up Capital	1,272	1,286	1,292	1,298	1,304
Reserves & Surplus	25,315	28,710	32,653	37,468	43,225
Shareholders' Equity	26,587	29,996	33,945	38,767	44,529
Non Controlling Interest	4,477	4,494	4,494	4,494	4,494
Total Equity & Liabilities	56,544	60,807	60,608	63,903	68,754

Cash Flow

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Pre-tax profit	6,122	5,730	7,521	9,184	10,975
Adjustments	1,842	1,461	1,127	950	877
Change in Working Capital	-1,039	2,226	-2,868	-593	-3,226
Total Tax Paid	-1,399	-984	-1,880	-2,296	-2,744
Cash flow from operating Activities	5,526	8,434	3,900	7,245	5,883
Net Capital Expenditure	-708	-805	-801	-897	-1,004
Change in investments	8,027	-1,696	0	0	0
Other investing activities	432	432	800	950	1,050
Cash flow from investing activities	7,750	-2,069	-1	53	46
Equity raised / (repaid)	416	893	0	0	0
Debt raised / (repaid)	-6,842	-3,250	-2,990	-3,000	0
Dividend (incl. tax)	-1,578	-1,912	-1,692	-2,066	-2,469
Other financing activities	-1,102	-1,144	-433	-370	-357
Cash flow from financing activities	-9,105	-5,413	-5,115	-5,436	-2,827
Net Change in cash	4,171	952	-1,216	1,862	3,102

Valuation Ratios

	FY23	FY24	FY25E	FY26E	FY27E
Per Share Data					
EPS	7	7	9	11	13
Growth %		-6%	28%	22%	19%
Book Value Per Share	42	47	59	67	75
Return Ratios					
Return on Assets (%)	8%	7%	9%	11%	12%
Return on Equity (%)	18%	16%	18%	19%	20%
Return on Capital Employed (%)	15%	15%	17%	19%	21%
Turnover Ratios					
Asset Turnover (x)	1.1	1.2	1.3	1.4	1.5
Sales / Gross Block (x)	2.0	2.1	2.3	2.5	2.7
Working Capital / Sales (x)	4%	8%	9%	12%	16%
Receivable Days	34	35	35	35	35
Inventory Days	58	58	59	59	59
Payable Days	80	85	84	76	83
Working Capital Days	11	8	10	17	10
Liquidity Ratios					
Current Ratio (x)	1.3	1.3	1.4	1.7	2.1
Interest Coverage Ratio (x)	6.6	8.2	18.4	25.8	31.7
Total Debt to Equity	0.3	0.2	0.1	0.0	0.0
Net Debt to Equity	0.3	0.1	0.0	-0.1	-0.1
Valuation					
PE (x)	40.2	39.1	33.6	27.6	23.2
Earnings Yield (%)	2%	3%	3%	4%	4%
Price to Sales (x)	2.7	2.4	3.0	2.7	2.4
Price to Book (x)	7.0	5.7	7.0	6.2	5.4
EV/EBITDA (x)	25.2	24.6	28.4	24.2	20.7
EV/Sales (x)	2.8	2.4	3.1	2.7	2.4

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%
2 nd August 2024	NEUTRAL	439	+1%
20 th November 2024	BUY	390	+24%

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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