CG Consumer Electricals

BUY

DART
DOLAT ANALYSIS & RESEARCH THEMES
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Electrical Appliances | Q4FY23 Result Update

Result Update

On the path to recovery

- CG Consumer Electricals (CGCEL) registered revenue growth of 15.7% YoY in Q4FY23, driven by 7.7% increase in ECD, partially restricted by 12.1% decline in the Lighting segment.
- In Q4, CGCEL outperformed peers –Havells (-14%) and Orient (-20%) in the ECD segment. This is mainly attributed to relatively better performance in the Fans category (flattish growth) on the back of calibrated approach to manage BEE transition and improved share in premium fans.
- We like CGCEL due to its leadership position in core categories, strong distribution network, premiumization and continuous innovation. Merger with Butterfly Gandhimathi (BGAL) should unlock growth & cost synergies and fortify CGCEL's position in the kitchen appliance category. We build in revenue and PAT CAGR of 11%/26% resp over FY23-FY25E. The stock has corrected 24% YTD. It is trading at the lowest multiple among consumer electrical companies and offers a favorable risk reward. We assume coverage on the stock with a TP of Rs 315 based on 28x FY25E EPS.

Higher A&P spends impacted margins

CGCEL's revenue (incl BGAL) grew 15.7% YoY to Rs 17.9bn. Standalone revenue stood at Rs 16.0bn, up 5% YoY. At consol level, a 170bps decline in RM cost was completely offset by 190/280 bps increase in staff/other expense. A&P spends stood at 3.9% of revenue vs 2% in 4QFY22. Consequently, EBITDA margin fell 300bps YoY to 11.8%. EBITDA declined by 7.6% YoY to Rs 2.1bn. APAT stood at Rs. 1.3bn, down by 25.5% YoY. We expect margins to improve gradually with synergies from the merger, cost control initiatives and better operating leverage.

Strategic channel restructuring aids BGAL's performance

BGAL recorded 2% YoY revenue decline in Q4FY23. With increased focus towards retail channel, BGAL exhibited 10% revenue growth in FY23. Margins improved from 5-7% historically to 8-9% currently, led by cost optimization initiatives (Rs 200mn savings) and better mix. E-com pressures have been overcome and the brand will launch channel specific products to drive growth. New product launches in Q4 contributed to 15% revenue. Market shares across categories remained flat in Q4 with marginal gains in mixer grinders.

Q4FY23 Result (Rs Mn)

Particulars	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
Revenue	17,910	15,479	15.7	15,162	18.1
Total Expense	15,795	13,192	19.7	13,638	15.8
EBITDA	2,114	2,288	(7.6)	1,524	38.7
Depreciation	304	145	109.9	297	2.4
EBIT	1,810	2,143	(15.5)	1,227	47.5
Other Income	168	222	(24.3)	213	(21.3)
Interest	274	106	159.5	294	(6.9)
EBT	1,704	2,129	(20.0)	1,146	48.7
Tax	389	364	6.9	264	47.3
RPAT	1,316	1,766	(25.5)	882	49.2
APAT	1,316	1,895	(30.6)	882	49.2
			(bps)		(bps)
Gross Margin (%)	31.5	29.9	169	32.5	(98)
EBITDA Margin (%)	11.8	14.8	(297)	10.1	176
NPM (%)	7.3	11.4	(406)	5.8	153
Tax Rate (%)	22.8	17.1	573	23.0	(23)
EBIT Margin (%)	10.1	13.8	(374)	8.1	202

CMP	Rs 260
Target / Upside	Rs 315 / 21%
NIFTY	18,314

Scrip Details

Equity / FV	Rs 1,272mn / Rs 2
Market Cap	Rs 170bn
	USD 2.1bn
52-week High/Low	Rs 429/ 251
Avg. Volume (no)	3,415,560
Bloom Code	CROMPTON IN

Price Performance	1M	3M	12M
Absolute (%)	(12)	(13)	(24)
Rel to NIFTY (%)	(17)	(17)	(37)

Shareholding Pattern

	Sep'22	Dec'22	Mar'23
Promoters	2.5	0.0	0.0
MF/Banks/FIs	45.5	44.8	44.1
FIIs	39.7	39.5	39.6
Public / Others	12.3	15.7	16.0

Valuation (x)

	FY23P	FY24E	FY25E
P/E	36.8	28.5	23.0
EV/EBITDA	22.4	18.4	15.3
ROE (%)	18.1	21.7	23.7
RoACE (%)	13.1	17.0	19.4

Estimates (Rs bn)

	FY23P	FY24E	FY25E
Revenue	68.7	75.1	84.0
EBITDA	7.7	9.2	10.8
PAT	4.6	6.0	7.4
EPS (Rs.)	7.1	9.1	11.3

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Exhibit 1: Segmental performance

Segmental Revenues (Rs mn)	Q4FY23	Q4FY22	YoY(%)	Q3FY23	QoQ(%)
ECD	13257	12309	7.7	10,201	30.0
Lighting	2786	3170	(12.1)	2,477	12.5
Butterfly Gandhimathi	1867	0	NA	2,484	(24.9)
Total	17910	15479	15.7	15162	18.1

EBIT	Q4FY23	Q4FY22	YoY(%)	Q3FY23	QoQ(%)
ECD	2176.9	2279	(4.5)	1,617	34.6
Lighting	303.4	448	(32.2)	254.7	19.1
Butterfly Gandhimathi	37	-	NA	180.6	(79.3)
Total	2517.6	2727	(7.7)	2052.1	22.7

EBIT Margins %	Q4FY23	Q4FY22	YoY(bps)	Q3FY23	QoQ(bps)
ECD	16.4	18.5	(210)	15.8	57
Lighting	10.9	14.1	(323)	10.3	61
Butterfly Gandhimathi	2.0	-	NA	7.3	(527)

Source: Company, DART

Earning call KTAs

Early signs of revival in fans

- The company delivered flat YoY growth in fans in Q4FY23 as corroborated from our channel checks in Mar'23 (https://tinyurl.com/yc3h5ya9). In FY23 fans category grew ~3% by volume and ~5% by value amid muted consumer demand and BEE transition.
- Focus on the premium category in Q4FY23 resulted in its growth by over 20% in value as well as volume terms and some improvement in MS. The BLDC category grew 2.5x in Q4FY23and 2x in FY23, placing Crompton as the #2 player in the category. 300K BLDC fans were sold in Q4FY23. The company aims to expand its BLDC offering (currently ~2-3% of fans portfolio).
- Crompton has been ramping up manufacturing capacity both in-house and at third-party facilities for the BEE transition. TPW fans witnessed a growth of over 10% YoY by volume and value in Q4FY23 aided by in-house manufacturing to improve quality and for cost advantage.
- Cost increase in fans on account of the BEE transition is ~15%, however Crompton's cost savings narrowed this gap to ~5-7%. This price differential has not yet been passed on due to the competitive environment in the industry, however, calibrated price increases in the near term are likely. Volume and value growth in the category remains focus area over EBITDA margins.
- Management indicated that while competition pushed non-compliant 1 & 2 star fans in the channel due to their lower cost, Crompton's compliant 1 & 2 star rated inventory were competitively priced to counter them.

Appliances & Pumps drive growth in ECD segment

- Appliances demonstrated a strong growth momentum of ~42% YoY in Q4FY23 and ~30% in FY23 (by value). Growth was spread across categories with water heaters & air coolers growing by ~34% and small domestic appliances by ~60% in Q4FY23. During Q4FY23, Crompton sold ~0.2mn units of mixer grinders, growing by 70% YoY. MS gains were registered in water heaters.
- Revenue of Pumps improved by ~15% YoY in Q4FY23 led by ~17% growth in residential pumps; and ~9% in FY23 (by value) driven by roll out of new brand architecture and competitive pricing action.

- ~2x growth in modern retail channel was promising, albeit on a low base. Additionally, Crompton's plumber loyalty program Saathi is progressing well. Through such initiatives, the company aims to strengthen its brand position in the North.

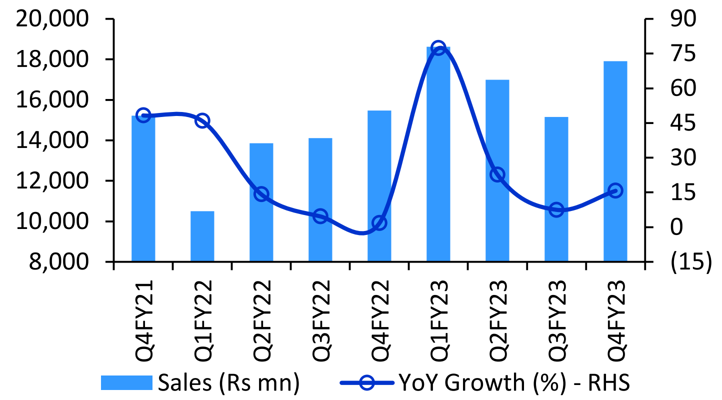
Weak Lighting segment performance

- The Lighting segment de-grew 12% in Q4 as it continued to witness pricing pressure in the B2C LED and B2B trade channels. It lagged both, Havells (+2.6% YoY) and Orient (+11.8% YoY) in Q4FY23. In FY23, revenue was flattish YoY. Lighting is split equally into B2B and B2C, however management focus will be to expand B2B. Portfolio revamp and change in distribution strategy in lighting are likely to increase market share. Going ahead, the company expects growth to come from panels (down lighters/ceiling lights), which also fetch better margins.

Acceleration in Built-in kitchen appliances

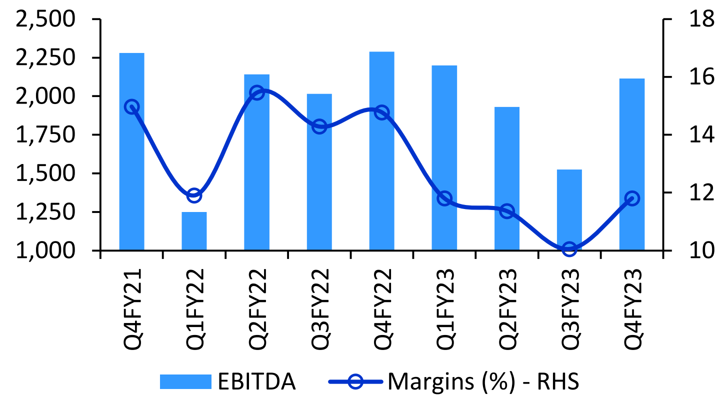
- The Indian built-in-kitchen market is valued at Rs 22bn growing at ~10%. The company clocked a revenue of Rs 130mn in Q4FY23 and Rs 260mn in FY23. Operating loss in FY23 was Rs 240mn. Channel development for the segment is underway and number of brand stores (incl. signature and exclusive) stand at 55 nos. across 12 cities and is expected to grow to over 100 stores across 26 cities in by FY24. CGCEL expects to achieve ~10% MS and rank among the top 3 players in the category in the next 2-3 years.

Exhibit 2: Sales (Rs mn) & YoY Growth (%)



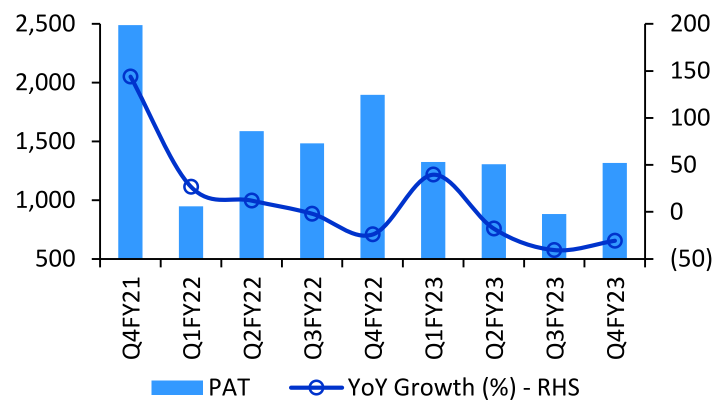
Source: DART, Company

Exhibit 3: EBITDA (Rs mn) & margin (%)



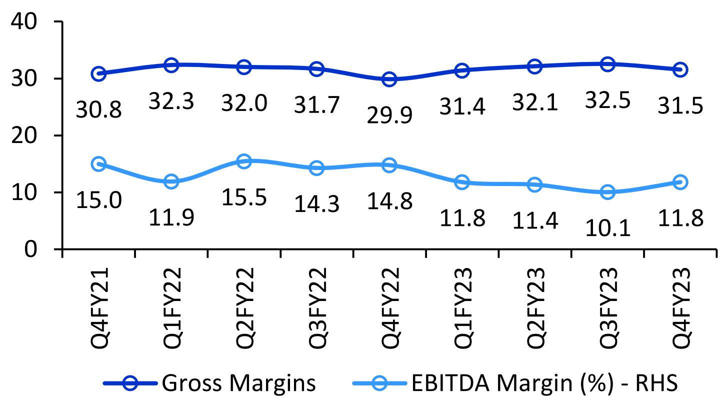
Source: DART, Company

Exhibit 4: PAT (Rs mn) & YoY Growth (%)



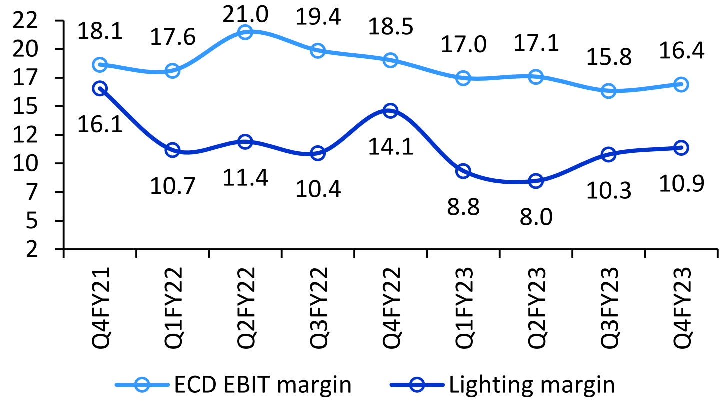
Source: DART, Company

Exhibit 5: Margin Trends (%)



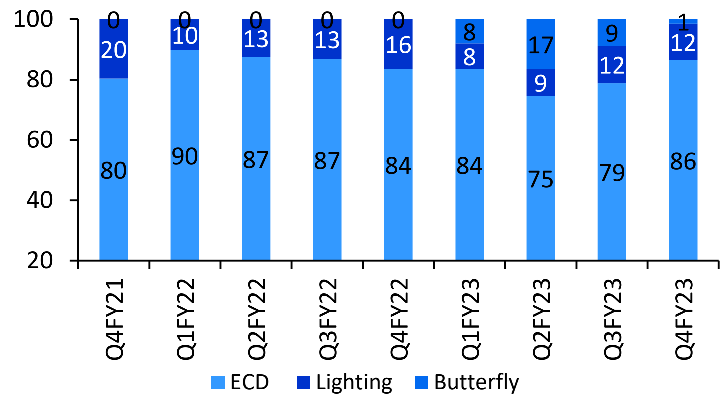
Source: DART, Company

Exhibit 6: Segment EBIT margin (%)



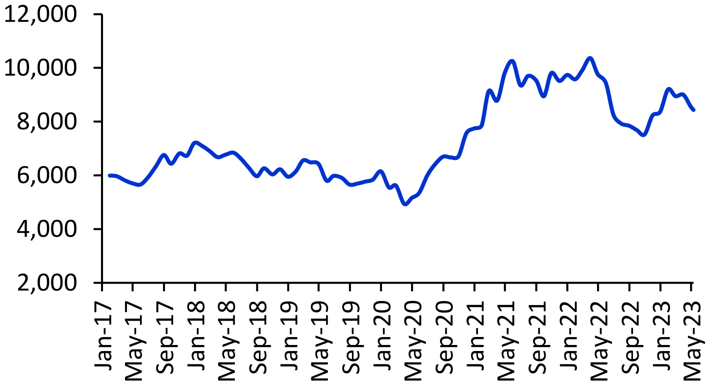
Source: DART, Company

Exhibit 7: EBIT Contribution (%)



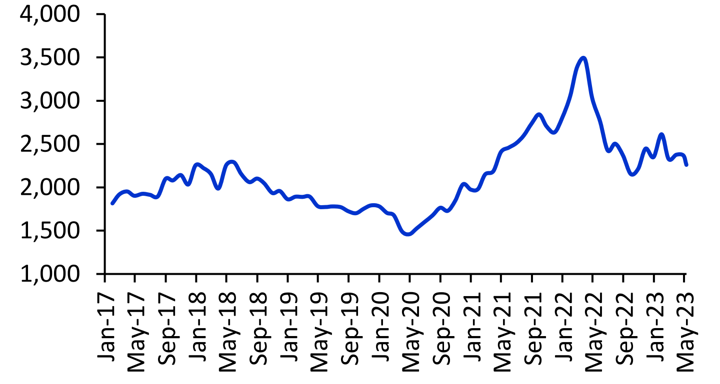
Source: DART, Company

Exhibit 8: Trend in Copper Prices (US$/MT)



Source: DART, Company

Exhibit 9: Trend in Aluminum Prices (US$/MT)



Source: DART, Company

Financial Performance

Profit and Loss Account

(Rs Mn)	FY22A	FY23P	FY24E	FY25E
Revenue	**53,941**	**68,696**	**75,090**	**84,047**
Total Expense	**46,247**	**60,991**	**65,854**	**73,289**
COGS	37,018	46,803	51,061	57,236
Employees Cost	3,624	5,408	5,632	6,177
Other expenses	5,605	8,780	9,161	9,876
EBIDTA	**7,695**	**7,705**	**9,236**	**10,758**
Depreciation	423	1,159	1,193	1,220
EBIT	**7,272**	**6,545**	**8,043**	**9,539**
Interest	353	1,092	657	451
Other Income	727	668	751	798
Exc. / E.O. items	(130)	0	0	0
EBT	**7,515**	**6,121**	**8,137**	**9,886**
Tax	1,732	1,358	2,051	2,491
RPAT	5,784	4,632	5,968	7,394
Minority Interest	0	132	119	0
Profit/Loss share of associates	**0**	**0**	**0**	**0**
APAT	**5,914**	**4,632**	**5,968**	**7,394**

Balance Sheet

(Rs Mn)	FY22A	FY23P	FY24E	FY25E
Sources of Funds				
Equity Capital	1,267	1,272	1,272	1,311
Minority Interest	7,825	4,477	4,358	4,358
Reserves & Surplus	23,263	25,328	27,123	32,821
Net Worth	**24,530**	**26,600**	**28,395**	**34,133**
Total Debt	16,075	9,222	5,972	3,472
Net Deferred Tax Liability	395	123	123	123
Total Capital Employed	**48,824**	**40,421**	**38,847**	**42,086**
Applications of Funds				
Net Block	**32,735**	**32,710**	**32,317**	**31,897**
CWIP	130	55	55	55
Investments	0	0	0	0
Current Assets, Loans & Advances	**31,296**	**23,776**	**24,171**	**28,452**
Inventories	7,210	7,438	7,995	8,538
Receivables	6,154	6,860	7,288	8,066
Cash and Bank Balances	9,152	1,095	890	3,760
Loans and Advances	0	0	0	0
Other Current Assets	2,541	2,904	2,521	2,610
Less: Current Liabilities & Provisions	**15,337**	**16,119**	**17,695**	**18,319**
Payables	10,178	10,354	11,727	12,048
Other Current Liabilities	5,159	5,766	5,968	6,271
sub total				
Net Current Assets	15,959	7,657	6,476	10,134
Total Assets	**48,824**	**40,421**	**38,847**	**42,086**

E – Estimates

Important Ratios

Particulars	FY22A	FY23P	FY24E	FY25E
(A) Margins (%)				
Gross Profit Margin	31.4	31.9	32.0	31.9
EBIDTA Margin	14.3	11.2	12.3	12.8
EBIT Margin	13.5	9.5	10.7	11.3
Tax rate	23.0	22.2	25.2	25.2
Net Profit Margin	10.7	6.7	7.9	8.8
(B) As Percentage of Net Sales (%)				
COGS	68.6	68.1	68.0	68.1
Employee	6.7	7.9	7.5	7.4
Other	10.4	12.8	12.2	11.8
(C) Measure of Financial Status				
Gross Debt / Equity	0.7	0.3	0.2	0.1
Interest Coverage	20.6	6.0	12.2	21.1
Inventory days	49	40	39	37
Debtors days	42	36	35	35
Average Cost of Debt	3.4	8.6	8.6	9.6
Payable days	69	55	57	52
Working Capital days	46	35	27	28
FA T/O	1.6	2.1	2.3	2.6
(D) Measures of Investment				
AEPS (Rs)	9.0	7.1	9.1	11.3
CEPS (Rs)	9.7	8.8	10.9	13.1
DPS (Rs)	2.4	2.4	2.4	2.6
Dividend Payout (%)	26.4	34.1	26.6	22.9
BVPS (Rs)	37.4	40.6	43.3	52.1
RoANW (%)	26.4	18.1	21.7	23.7
RoACE (%)	17.3	13.1	17.0	19.4
RoAIC (%)	25.4	16.6	20.8	25.0
(E) Valuation Ratios				
CMP (Rs)	260	260	260	260
P/E	28.8	36.8	28.5	23.0
Mcap (Rs Mn)	170,240	170,240	170,240	170,240
MCap/ Sales	3.2	2.5	2.3	2.0
EV	170,925	172,889	169,844	164,473
EV/Sales	3.2	2.5	2.3	2.0
EV/EBITDA	22.2	22.4	18.4	15.3
P/BV	6.9	6.4	6.0	5.0
Dividend Yield (%)	0.9	0.9	0.9	1.0
(F) Growth Rate (%)				
Revenue	12.3	27.4	9.3	11.9
EBITDA	6.8	0.1	19.9	16.5
EBIT	5.3	(10.0)	22.9	18.6
PBT	3.9	(18.5)	32.9	21.5
APAT	(4.1)	(21.7)	28.8	23.9
EPS	(4.1)	(21.7)	28.8	23.9

E – Estimates

Cash Flow

Particulars	FY22A	FY23P	FY24E	FY25E
Profit before tax	**7,272**	**6,545**	**8,043**	**9,539**
Depreciation & w.o.	423	1,159	1,193	1,220
Net Interest Exp	727	668	751	798
Direct taxes paid	(1,798)	(1,399)	(2,051)	(2,491)
Change in Working Capital	1,005	(1,039)	976	(787)
Non Cash	(295)	(377)	(2,820)	0
(A) CF from Operating Activities	**7,333**	**5,558**	**6,092**	**8,278**
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(1,705)	(708)	(800)	(800)
Free Cash Flow	**5,628**	**4,850**	**5,292**	**7,478**
(Inc)./ Dec. in Investments	(12,101)	(4,201)	0	0
Other	130	63	0	0
(B) CF from Investing Activities	**(13,676)**	**(4,847)**	**(800)**	**(800)**
Issue of Equity/ Preference	603	416	0	39
Inc./(Dec.) in Debt	10,769	(6,842)	(3,250)	(2,500)
Interest exp net	(353)	(765)	(657)	(451)
Dividend Paid (Incl. Tax)	(1,564)	(1,578)	(1,590)	(1,696)
Other	0	0	0	0
(C) CF from Financing	**9,456**	**(8,768)**	**(5,497)**	**(4,608)**
Net Change in Cash	3,112	(8,057)	(205)	2,871
Opening Cash balances	**6,040**	**9,152**	**1,095**	**890**
Closing Cash balances	**9,152**	**1,095**	**890**	**3,760**

E – Estimates

Notes

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

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