ADD (Maintained)

CMP: **INR 271** Target Price: **INR 308 (INR 320)** ▲ 14%

ICICI Securities

ICICI Securities Limited is the author and distributor of this report

27 March 2024

India | Equity Research | Company Update

Crompton Greaves Consumer Electricals

White Goods

Strong focus on strengthening competitive advantages

Crompton Greaves is focusing on: (1) Premiumisation of portfolio across segments. It has also gained market share in premium fans from ~17% three years ago to 25-26% now (Source: Company). (2) It wants to increase investments in in-house manufacturing, which may result in margin expansion and launch of differentiated products. (3) Increase investments in pumps. Crompton has gained market share in agri and solar pumps. (4) It has also won patent in pumps and believes there is potential to win more patents. (5) As per strategy 2.0, the company also plans to steadily enter new segments which may result in the expansion of addressable market. Stable/ lower commodity prices also augur well as pricing stability could allow the company to invest in brand-building activities as well as drive volume growth.

Portfolio premiumisation may provide margin tailwinds. However, we model Butterfly to remain in restructuring mode in H1FY25E and may recover only in H2FY25E. We maintain **ADD** rating on the stock with a revised DCF-based target price of INR 308 (earlier: INR 320; implied P/E of 32x FY26E).

Focus on premium fans is the key growth driver

Crompton has identified premium fans as key growth driver which is steadily gaining market share. Its market share has expanded from ~17% three years ago to 25-26% now. Chief reasons are steady investments in premiumisation and continuous launches. The company believes it has the potential to reach market share of ~40% in premium fans.

Focus on increasing in-house manufacturing

The company aims to expand its in-house manufacturing capabilities across key verticals of fans, pumps and appliances business. We believe steady increase in in-house manufacturing could result in margin expansion, too. It may also help to introduce differentiated products at regular intervals.

Investments in pumps paying off now

After suffering in pumps segments for multiple quarters, we note pumps business has recovered in H2FY25 led by (1) investments in agri pumps leading to strong growth rates, (2) steady order wins in solar pumps (current orderbook of INR 750mn) and (3) steady margins in residential pumps. It believes residential pumps may grow in mid-single digits in volumes but will generate strong FCF and support other sub-segments of pumps.

Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	68,696	72,818	80,548	89,105
EBITDA	7,705	7,355	8,458	9,534
EBITDA Margin (%)	11.2	10.1	10.5	10.7
Net Profit	4,634	4,341	5,263	6,176
EPS (INR)	7.3	6.8	8.3	9.7
EPS % Chg YoY	(22.0)	(6.3)	21.3	17.3
P/E (x)	37.2	39.7	32.8	27.9
EV/EBITDA (x)	22.8	23.5	20.1	17.4
RoCE (%)	11.0	11.3	13.6	15.7
RoE (%)	14.6	13.6	15.5	16.9

Aniruddha Joshi
aniruddha.joshi@icicisecurities.com
+91 22 6807 7249
Manoj Menon
manoj.menon@icicisecurities.com
Karan Bhuwania
karan.bhuwania@icicisecurities.com
Nilesh Patil
nilesh.patil@icicisecurities.com

Market Data

Market Cap (INR)	174bn
Market Cap (USD)	2,092mn
Bloomberg Code	CROMPTON IN
Reuters Code	CROP BO
52-week Range (INR)	328 /251
Free Float (%)	100.0
ADTV-3M (mn) (USD)	10.7

Price Performance (%)	3m	6m	12m
Absolute	(9.7)	(8.4)	(7.7)
Relative to Sensex	(10.3)	(18.0)	(33.4)

Previous Reports

16-02-2024: Q3FY24 results review
06-11-2023: Q2FY24 results review

Focus on patents

The company has recently won patent in 'a multistage centrifugal pump with hybrid diffusion technology'. It has also filed multiple other patents and believes there will be multiple newsflow regarding patents ahead. It is also in the process to introduce kitchen chimney with low decibel noise. We believe steady patent wins can increase the competitive advantages of the company.

Steady increase in addressable markets

The company used to earlier focus only on fans, lighting and pumps. However, it has done well in air coolers and water heaters. Acquisition of Butterfly also led to an increase in addressable market. It plans to introduce new products in FY25-26 to expand market size.

Butterfly performance likely to revive only in H2FY25E

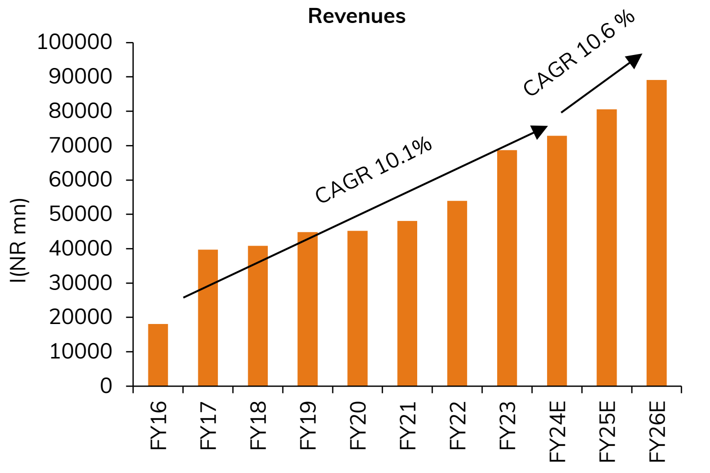
Butterfly segment continues to be under pressure due to weak market conditions. The company is also reducing B2B exposure. It is in the process to moderate sales to oil marketing companies, e-commerce and corporates and focus more on B2C segment. The company believes it has strong brand equity in kitchen appliances in South India. We model Butterfly's revenue and profitability to recover in H2FY25E.

Valuation and risks

We model Crompton to report revenue and PAT CAGRs of 10.6% and 19.3%, respectively, over FY24E-26E. We maintain **ADD** rating on the stock with a revised TP of INR 308 (earlier: INR 320; implied P/E of 32x FY26E). We model growth in core businesses may continue with likely revival in off-take in H2FY25E. We also model Butterfly's performance to recover in H2FY25E. Key risks: Steep increase in commodity prices and material increase in competitive pressures.

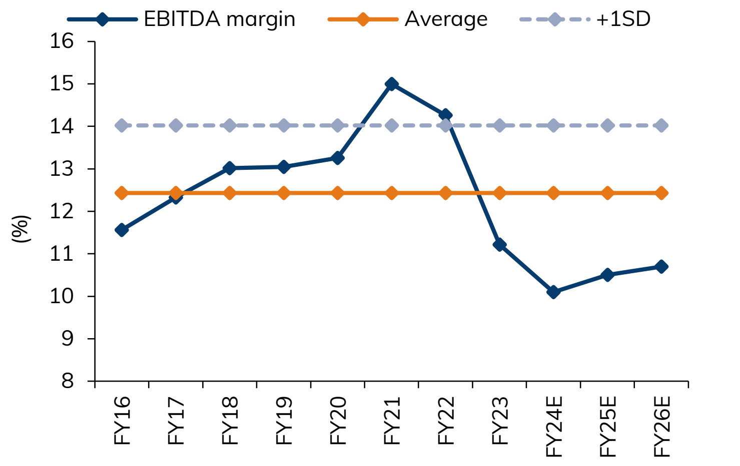
Key performance highlights – annual

Exhibit 1: Revenue



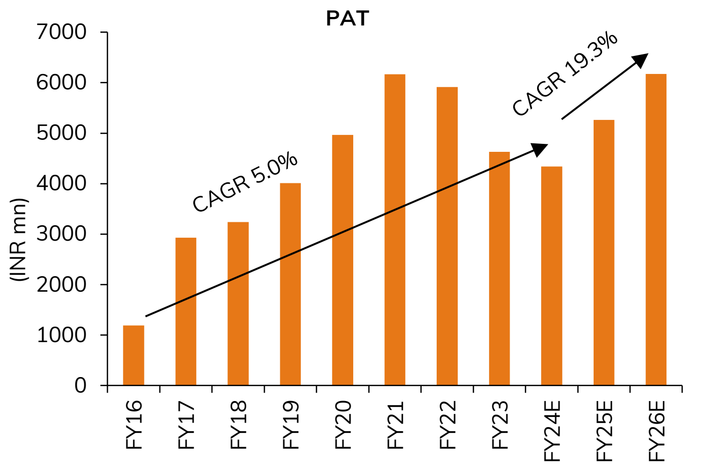
Source: Company data, I-Sec research

Exhibit 2: EBITDA margin



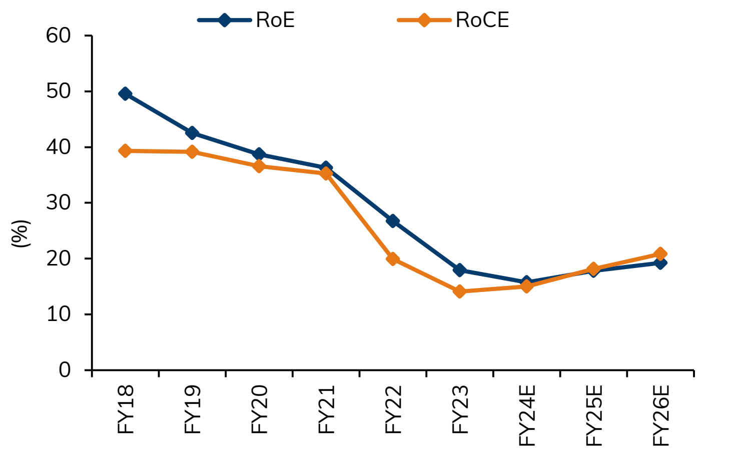
Source: Company data, I-Sec research

Exhibit 3: PAT



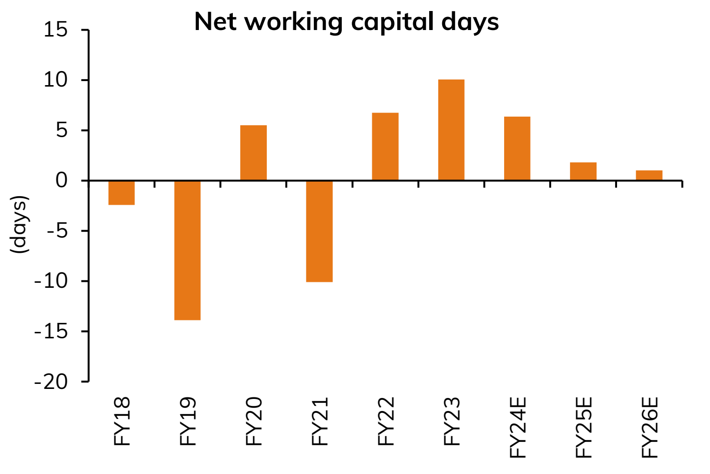
Source: Company data, I-Sec research

Exhibit 4: RoE and RoCE



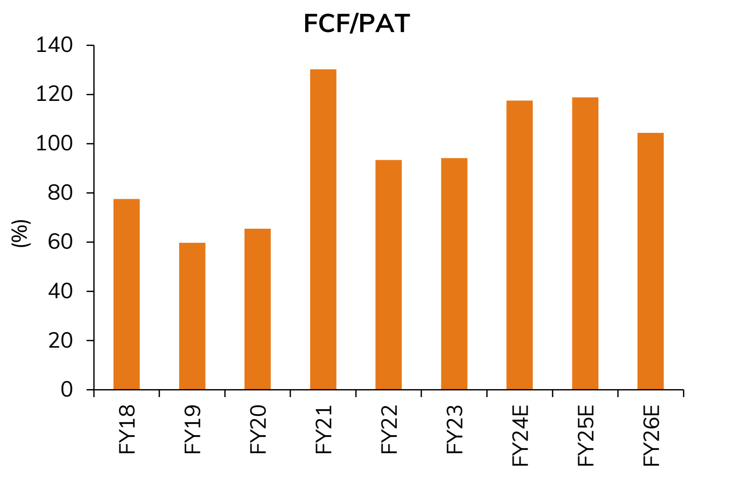
Source: Company data, I-Sec research

Exhibit 5: Net working capital days



Source: Company data, I-Sec research

Exhibit 6: FCF/PAT (%)



Source: Company data, I-Sec research

Valuation and risks

We model Crompton to report revenue and PAT CAGRs of 10.6% and 19.3% over FY23-26E and RoCE higher than the cost of capital. At our DCF-based revised target price of INR 308 (earlier: INR 320), implied P/E works out to 32x FY26E EPS. Maintain **ADD**.

Exhibit 7: DCF-based valuation

Particulars	Amt (INR mn)
Cost of Equity	11.6%
Terminal growth rate	4.0%
Discounted interim cash flows	76,213
Discounted terminal value	1,19,706
Total equity value	1,95,919
Value per share (INR)	**308**

Source: Company data, I-Sec research

Risks

Sharp increase in input prices and competitive pressures
Major increase in input prices and/or increase in competitive pressures could result in downside to our estimates.

Delays in launch of new plants/products
Any delays in launch of new products and/or plants may result in lower earnings than estimated.

Exhibit 8: Shareholding pattern

%	Jun'23	Sep'23	Dec'23
Promoters	0.0	0.0	0.0
Institutional investors	84.0	83.6	83.9
MFs and others	37.5	35.4	36.0
FIs/Banks	0.0	0.2	0.3
Insurance	9.1	10.2	10.2
FIIs	37.3	37.8	37.4
Others	16.0	16.4	16.1

Source: Bloomberg

Exhibit 9: Price chart

Source: Bloomberg

Financial Summary

Exhibit 10: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Net Sales	68,696	72,818	80,548	89,105
Operating Expenses	**60,991**	**65,463**	**72,090**	**79,571**
EBITDA	7,705	7,355	8,458	9,534
EBITDA Margin (%)	**11.2**	**10.1**	**10.5**	**10.7**
Depreciation & Amortization	1,159	1,112	1,154	1,198
EBIT	6,546	6,243	7,303	8,335
Interest expenditure	1,092	663	436	243
Other Non-operating Income	668	399	360	373
Recurring PBT	6,122	5,979	7,228	8,465
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	**1,358**	**1,495**	**1,807**	**2,116**
PAT	4,764	4,484	5,421	6,349
Less: Minority Interest	130	143	158	173
Extraordinaries (Net)	(23)	-	-	-
Net Income (Reported)	4,610	4,341	5,263	6,176
Net Income (Adjusted)	**4,634**	**4,341**	**5,263**	**6,176**

Source Company data, I-Sec research

Exhibit 11: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Total Current Assets	17,105	17,249	19,104	21,822
of which cash & cash eqv.	1,095	321	577	1,525
Total Current Liabilities & Provisions	14,119	15,656	18,123	20,049
Net Current Assets	**2,985**	**1,593**	**981**	**1,774**
Investments	6,886	6,886	6,886	6,886
Net Fixed Assets	19,645	19,388	19,083	18,785
ROU Assets	-	-	-	-
Capital Work-in-Progress	55	-	-	-
Total Intangible Assets	12,855	12,855	12,855	12,855
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	**42,425**	**40,721**	**39,804**	**40,299**
Liabilities				
Borrowings	**11,225**	**7,725**	**4,725**	**2,225**
Deferred Tax Liability	**123**	**123**	**123**	**123**
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	1,272	1,272	1,272	1,272
Reserves & Surplus	25,328	27,124	29,207	32,202
Total Net Worth	**26,600**	**28,396**	**30,479**	**33,474**
Minority Interest	4,477	4,477	4,477	4,477
Total Liabilities	**42,425**	**40,721**	**39,804**	**40,299**

Source Company data, I-Sec research

Exhibit 12: Quarterly trend

(INR mn, year ending March)

	Mar-23	Jun-23	Sep-23	Dec-23
Net Sales	17,910	18,769	17,823	16,927
% growth (YOY)	15.7%	0.7%	4.9	11.6
EBITDA	2,114	1,858	1,745	1,498
Margin %	11.8	9.9	9.8	8.8
Other Income	168	198	149	167
Extraordinaries	(29)	(5)	(41)	1
Adjusted Net Profit	1,283	1,179	968	855

Source Company data, I-Sec research

Exhibit 13: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Operating Cashflow	**5,193**	**6,071**	**7,286**	**7,529**
Working Capital Changes	(1,039)	618	868	155
Capital Commitments	(708)	(800)	(850)	(900)
Free Cashflow	**4,485**	**5,271**	**6,436**	**6,629**
Other investing cashflow	**2,991**	-	-	-
Cashflow from Investing Activities	2,283	(800)	(850)	(900)
Issue of Share Capital	416	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	(7,179)	(3,500)	(3,000)	(2,500)
Dividend paid	(1,578)	(2,544)	(3,181)	(3,181)
Others	-	-	-	-
Cash flow from Financing Activities	(8,341)	(6,044)	(6,181)	(5,681)
Chg. in Cash & Bank balance	**(865)**	**(774)**	**256**	**949**
Closing cash & balance	851	321	577	1,525

Source Company data, I-Sec research

Exhibit 14: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	7.3	6.8	8.3	9.7
Adjusted EPS (Diluted)	7.3	6.8	8.3	9.7
Cash EPS	9.1	8.6	10.1	11.6
Dividend per share (DPS)	2.5	4.0	5.0	5.0
Book Value per share (BV)	41.8	44.6	47.9	52.6
Dividend Payout (%)	34.0	58.6	60.4	51.5
Growth (%)				
Net Sales	27.4	6.0	10.6	10.6
EBITDA	0.1	(4.5)	15.0	12.7
EPS (INR)	(22.0)	(6.3)	21.3	17.3
Valuation Ratios (x)				
P/E	37.2	39.7	32.8	27.9
P/CEPS	29.8	31.6	26.9	23.4
P/BV	6.5	6.1	5.7	5.1
EV / EBITDA	22.8	23.5	20.1	17.4
P / Sales	2.5	2.4	2.1	1.9
Dividend Yield (%)	0.9	1.5	1.8	1.8
Operating Ratios				
Gross Profit Margins (%)	31.9	30.8	31.3	31.6
EBITDA Margins (%)	11.2	10.1	10.5	10.7
Effective Tax Rate (%)	22.2	25.0	25.0	25.0
Net Profit Margins (%)	6.7	6.0	6.5	6.9
NWC / Total Assets (%)	7.0	3.9	2.5	4.4
Net Debt / Equity (x)	0.1	0.0	(0.1)	(0.2)
Net Debt / EBITDA (x)	0.4	0.1	(0.3)	(0.6)
Profitability Ratios				
RoCE (%)	11.0	11.3	13.6	15.7
RoE (%)	14.6	13.6	15.5	16.9
RoIC (%)	11.0	11.3	13.6	15.7
Fixed Asset Turnover (x)	3.2	3.3	3.5	3.7
Inventory Turnover Days	44	40	41	41
Receivables Days	40	38	38	38
Payables Days	74	71	77	77

Source Company data, I-Sec research

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

ANALYST CERTIFICATION

I/We, Aniruddha Joshi, CA; Manoj Menon, MBA, CMA; Karan Bhuwania, MBA; Nilesh Patil MBA; authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager, Research Analyst and Alternative Investment Fund. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities AIF Trust's SEBI Registration number is IN/AIF3/23-24/1292 ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.