

September 26, 2024

Management Meet Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	BUY		ACCUMULATE	
Target Price	536		476	
Sales (Rs.m)	83,479	94,531	86,811	99,178
% Chng.	(3.8)	(4.7)		
EBITDA (Rs.m)	9,036	10,929	9,199	10,948
% Chng.	(1.8)	(0.2)		
EPS (Rs.)	9.3	11.5	9.5	11.5
% Chng.	(1.9)	(0.1)		

Key Financials - Consolidated

Y/e Mar	FY24	FY25E	FY26E	FY27E
Sales (Rs. m)	73,128	83,479	94,531	1,06,110
EBITDA (Rs. m)	7,137	9,036	10,929	12,496
Margin (%)	9.8	10.8	11.6	11.8
PAT (Rs. m)	4,399	5,982	7,417	8,617
EPS (Rs.)	6.8	9.3	11.5	13.4
Gr. (%)	(6.1)	36.0	24.0	16.2
DPS (Rs.)	3.0	3.0	6.0	6.0
Yield (%)	0.7	0.7	1.4	1.4
RoE (%)	15.5	18.7	20.7	21.5
RoCE (%)	17.8	22.8	26.5	28.0
EV/Sales (x)	3.7	3.2	2.8	2.4
EV/EBITDA (x)	37.5	29.3	23.9	20.5
PE (x)	61.4	45.1	36.4	31.3
P/BV (x)	9.0	7.9	7.2	6.4

Key Data CROP.BO | CROMPTON IN

52-W High / Low	Rs.484 / Rs.261
Sensex / Nifty	85,836 / 26,216
Market Cap	Rs.270bn / \$ 3,232m
Shares Outstanding	644m
3M Avg. Daily Value	Rs.1687.19m

Shareholding Pattern (%)

Promoter's	-
Foreign	34.36
Domestic Institution	51.99
Public & Others	13.64
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(10.2)	55.0	41.9
Relative	(14.5)	30.8	9.0

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Emphasis on growth continues

We met with the management of CROMTON to discuss the demand, product diversification, pricing, and market share & penetration. The company's growth strategy at restricted margins is expected to continue led by its 1) emphasis on market-share gain, 2) plans to expand geographical reach and product categories (solar pump, cooktop, etc.), 3) channel expansion plans, and 4) focus on sourcing and in-house manufacturing to improve efficiency and reduce expenses. Despite near-term softness projected in demand, it expects to gain market share. We estimate sales/EBITDA/PAT CAGR of 13.2%/20.5%/24.9% over FY24-27E. We introduce FY27 estimates and upgrade the stock to 'BUY' from Accumulate as we roll forward to FY27E, revised TP of Rs536 @ 40x FY27 EPS (Rs476 earlier).

Key Takeaways:

- ECD segment is expected to see soft revenue growth in Q2FY25 due to a high base of previous years and moderated demand, particularly in the Kerala market, where festival demand during Onam has not materialized. However, recovery is anticipated in H2FY25.
- CROMTON's market share in fan segment has increased from 17-18% to 25% in last couple of years; it targets to reach 40% in next 3-4 years. Growth is fueled by the strategic focus on competitive pricing and quality enhancement. While the fan category continues to grow, upcoming changes in energy efficiency ratings may temporarily impact the segment. However, the management is confident in the company's ability to adapt quickly through product adjustments, raw material sourcing efficiency, channel strategies, and pricing changes. It is also looking to drive growth in East and North India, where brand awareness and enhanced distribution will help increase market share.
- Butterfly's performance has been subdued due to pricing adjustments and other initiatives, but the management is optimistic about improvements starting FY26. The company has taken 2-3% price hike in Butterfly portfolio in Q2FY25. Gross margin for the segment improved in Q1FY25, which is expected to continue with further 100bps improvement likely. With the leadership team in place, initiatives are being rolled out to drive future growth. Crompton (incl. Butterfly) is a prominent player in small appliances segment and shall target 10% market share in near term.
- The company's focus on channel expansion is likely to drive growth; its alternate channel accounts for ~20% sales, which is expected to further increase as the management feels availability of products over every channel is important for growth in mature businesses. The company is also exploring regional chains and retailers like DMart (for lighting products) and CROMA (for select products).
- Crompton is focusing on in-house manufacturing to improve efficiency to 70% for fan production and exploiting Butterfly's manufacturing capability for Crompton's appliances portfolio. This strategy will help improve cost management and streamlining of operations, with increased vendor collaboration enhancing supply chain management.
- Solar pump segment presents a significant growth opportunity for Crompton.

Financials

Income Statement (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Net Revenues	73,128	83,479	94,531	1,06,110
YoY gr. (%)	6.5	14.2	13.2	12.2
Cost of Goods Sold	50,003	56,510	63,689	71,509
Gross Profit	23,125	26,968	30,842	34,601
Margin (%)	31.6	32.3	32.6	32.6
Employee Cost	5,899	6,467	7,075	7,724
Other Expenses	6,697	8,102	8,996	10,046
EBITDA	7,137	9,036	10,929	12,496
YoY gr. (%)	(7.4)	26.6	21.0	14.3
Margin (%)	9.8	10.8	11.6	11.8
Depreciation and Amortization	1,288	1,320	1,401	1,488
EBIT	5,849	7,716	9,529	11,009
Margin (%)	8.0	9.2	10.1	10.4
Net Interest	792	454	347	279
Other Income	674	736	735	790
Profit Before Tax	5,731	7,998	9,916	11,520
Margin (%)	7.8	9.6	10.5	10.9
Total Tax	1,313	2,015	2,499	2,903
Effective tax rate (%)	22.9	25.2	25.2	25.2
Profit after tax	4,418	5,982	7,417	8,617
Minority interest	19	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	4,399	5,982	7,417	8,617
YoY gr. (%)	(5.0)	36.0	24.0	16.2
Margin (%)	6.0	7.2	7.8	8.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	4,399	5,982	7,417	8,617
YoY gr. (%)	(5.0)	36.0	24.0	16.2
Margin (%)	6.0	7.2	7.8	8.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,399	5,982	7,417	8,617
Equity Shares O/s (m)	643	643	643	643
EPS (Rs)	6.8	9.3	11.5	13.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Non-Current Assets				
Gross Block	22,800	23,676	24,409	25,148
Tangibles	6,812	7,668	8,381	9,100
Intangibles	15,988	16,008	16,028	16,048
Acc: Dep / Amortization	3,215	3,859	4,934	6,065
Tangibles	2,059	2,148	2,667	3,242
Intangibles	1,156	1,711	2,266	2,822
Net fixed assets	19,584	19,816	19,475	19,083
Tangibles	4,753	5,520	5,714	5,858
Intangibles	14,831	14,297	13,761	13,225
Capital Work In Progress	114	100	100	100
Goodwill	12,855	12,855	12,855	12,855
Non-Current Investments	191	241	275	310
Net Deferred tax assets	(13)	62	156	265
Other Non-Current Assets	812	826	841	856
Current Assets				
Investments	6,891	5,231	7,684	8,670
Inventories	8,304	8,986	10,175	11,422
Trade receivables	7,335	8,103	9,175	10,299
Cash & Bank Balance	2,608	3,446	3,588	7,142
Other Current Assets	1,822	2,076	2,346	2,629
Total Assets	60,817	62,087	67,052	74,050
Equity				
Equity Share Capital	1,286	1,286	1,286	1,286
Other Equity	28,710	32,812	36,414	41,230
Total Network	29,996	34,099	37,700	42,516
Non-Current Liabilities				
Long Term borrowings	3,518	1,531	531	-
Provisions	1,937	1,837	1,891	2,122
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	3,314	1,814	1,814	1,814
Trade payables	13,285	13,432	15,138	16,997
Other current liabilities	4,174	4,776	5,375	5,992
Total Equity & Liabilities	60,817	62,087	67,052	74,050

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
PBT	5,731	7,998	9,916	11,520
Add. Depreciation	1,288	1,320	1,401	1,488
Add. Interest	792	454	347	279
Less Financial Other Income	674	736	735	790
Add. Other	551	(240)	(89)	72
Op. profit before WC changes	8,362	9,532	11,575	13,358
Net Changes-WC	1,224	(2,514)	(294)	(247)
Direct tax	(1,313)	(2,015)	(2,499)	(2,903)
Net cash from Op. activities	8,273	5,002	8,782	10,208
Capital expenditures	(1,087)	(1,538)	(1,060)	(1,096)
Interest / Dividend Income	-	-	-	-
Others	(1,409)	1,660	(2,453)	(985)
Net Cash from Invt. activities	(2,496)	122	(3,513)	(2,081)
Issue of share cap. / premium	14	-	-	-
Debt changes	(3,027)	(1,952)	(964)	(493)
Dividend paid	(1,908)	(1,929)	(3,859)	(3,859)
Interest paid	(792)	(454)	(347)	(279)
Others	-	-	-	-
Net cash from Fin. activities	(5,714)	(4,336)	(5,170)	(4,631)
Net change in cash	63	789	99	3,496
Free Cash Flow	7,186	3,464	7,722	9,113

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY24	FY25E	FY26E	FY27E
Per Share(Rs)				
EPS	6.8	9.3	11.5	13.4
CEPS	8.8	11.4	13.7	15.7
BVPS	46.6	53.0	58.6	66.1
FCF	11.2	5.4	12.0	14.2
DPS	3.0	3.0	6.0	6.0
Return Ratio(%)				
RoCE	17.8	22.8	26.5	28.0
ROIC	16.6	20.3	25.9	31.2
RoE	15.5	18.7	20.7	21.5
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.2)	(0.2)	(0.3)
Net Working Capital (Days)	12	16	16	16
Valuation(x)				
PER	61.4	45.1	36.4	31.3
P/B	9.0	7.9	7.2	6.4
P/CEPS	47.5	37.0	30.6	26.7
EV/EBITDA	37.5	29.3	23.9	20.5
EV/Sales	3.7	3.2	2.8	2.4
Dividend Yield (%)	0.7	0.7	1.4	1.4

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Net Revenue	17,823	16,927	19,610	21,377
YoY gr. (%)	4.9	11.6	9.5	13.9
Raw Material Expenses	12,240	11,428	13,352	14,561
Gross Profit	5,582	5,499	6,258	6,816
Margin (%)	31.3	32.5	31.9	31.9
EBITDA	1,745	1,498	2,036	2,324
YoY gr. (%)	(9.6)	(1.7)	(3.7)	25.1
Margin (%)	9.8	8.8	10.4	10.9
Depreciation / Depletion	321	325	350	372
EBIT	1,424	1,173	1,686	1,952
Margin (%)	8.0	6.9	8.6	9.1
Net Interest	215	215	156	155
Other Income	149	167	160	238
Profit before Tax	1,358	1,125	1,690	2,035
Margin (%)	7.6	6.6	8.6	9.5
Total Tax	349	270	356	511
Effective tax rate (%)	25.7	24.0	21.1	25.1
Profit after Tax	1,009	855	1,334	1,524
Minority interest	37	(5)	(49)	(6)
Share Profit from Associates	-	-	-	-
Adjusted PAT	972	860	1,384	1,530
YoY gr. (%)	(22.7)	0.9	5.5	29.3
Margin (%)	5.5	5.1	7.1	7.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	972	860	1,384	1,530
YoY gr. (%)	(22.7)	4.5	5.5	29.3
Margin (%)	5.5	5.1	7.1	7.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	972	860	1,384	1,530
Avg. Shares O/s (m)	628	628	628	628
EPS (Rs)	1.5	1.4	2.2	2.4

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	01-Aug-24	Accumulate	476	451
2	05-Jul-24	Accumulate	462	409
3	17-May-24	BUY	406	339
4	05-Apr-24	BUY	359	281
5	28-Mar-24	BUY	359	266
6	16-Feb-24	BUY	384	283
7	09-Jan-24	BUY	397	313
8	09-Nov-23	BUY	377	283
9	07-Oct-23	BUY	401	301

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Astral Ltd.	Hold	2,225	2,031
2	Bajaj Electricals	Hold	941	966
3	Century Plyboard (I)	Hold	714	707
4	Cera Sanitaryware	Hold	9,872	9,880
5	Crompton Greaves Consumer Electricals	Accumulate	476	451
6	Finolex Industries	Hold	321	328
7	Greenpanel Industries	Accumulate	390	356
8	Havells India	Accumulate	1,976	1,901
9	Kajaria Ceramics	Hold	1,488	1,468
10	KEI Industries	Hold	4,688	4,307
11	Polycab India	BUY	7,788	6,336
12	R R Kabel	BUY	2,066	1,796
13	Supreme Industries	Hold	6,069	5,694
14	Voltas	Hold	1,598	1,535

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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