

March 28, 2024

Management Meet Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	BUY		BUY	
Target Price	359		384	
Sales (Rs. m)	82,953	93,283	85,207	98,357
% Chng.	(2.6)	(5.2)		
EBITDA (Rs. m)	8,692	9,941	9,123	10,715
% Chng.	(4.7)	(7.2)		
EPS (Rs.)	8.6	10.2	9.0	10.9
% Chng.	(4.2)	(6.7)		

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	68,696	73,111	82,953	93,283
EBITDA (Rs. m)	7,705	7,007	8,692	9,941
Margin (%)	11.2	9.6	10.5	10.7
PAT (Rs. m)	4,632	4,187	5,646	6,664
EPS (Rs.)	7.3	6.4	8.6	10.2
Gr. (%)	(19.5)	(12.3)	34.8	18.0
DPS (Rs.)	3.0	3.0	3.0	6.0
Yield (%)	1.1	1.1	1.1	2.3
RoE (%)	18.1	15.1	18.5	19.9
RoCE (%)	18.5	17.7	22.7	25.6
EV/Sales (x)	2.5	2.4	2.0	1.8
EV/EBITDA (x)	22.4	24.8	19.5	16.8
PE (x)	36.5	41.6	30.8	26.1
P/BV (x)	6.4	6.1	5.4	5.0

Key Data CROP.BO | CROMPTON IN

52-W High / Low	Rs.328 / Rs.251
Sensex / Nifty	72,996 / 22,124
Market Cap	Rs.171bn/ \$ 2,049m
Shares Outstanding	643m
3M Avg. Daily Value	Rs.905.92m

Shareholding Pattern (%)

Promoter's	-
Foreign	34.99
Domestic Institution	49.02
Public & Others	15.99
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(8.7)	(11.2)	(10.3)
Relative	(8.5)	(19.6)	(29.1)

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Prioritizing revenue growth over margins

We met with the management of CROMPTON to discuss the demand, product diversification, pricing, and market share & penetration. The company's growth strategy at restricted margins to continue as it 1) emphasis on product diversification across segment with focus on premium portfolio, 2) Innovation and R&D focus to continuously increase SKUs across BUs, 3) diversified GTM channels (enabled by technology) by leveraging new channels (ecom, modern retails), 4) increased focus on A&P and 5) growing new businesses. We downward revise our FY24/25/FY26E earnings by 1.5%/4.2%/6.7% to factor in margin contraction in ECD & Butterfly businesses with higher overhead expenses to continue in coming quarters. We estimate Sales/EBITDA/PAT CAGR of 13.0%/19.1%/25.9% over FY24-25E. Maintain 'Buy' with revised TP of Rs 359 (earlier Rs 384), valuing at 35x FY26 earnings.

ECD segment – growth to continue with restricted margin

Crompton continues to prioritize growth within its segment, with a sustained focus on product innovation, distribution expansion, and increased investment in A&P. Management anticipates positive demand trends this summer, particularly benefiting its ECD segment. However, ECD margins have been affected due to several factors: a) higher A&P expenses, b) failure to pass on expenses related to regulatory changes (with room for price adjustments, presenting an opportunity to improve margins by 150 bps), c) investments in innovation and R&D for new product development, d) expenses associated with expanding distribution channels, and e) losses related to large kitchen appliances.

The ECD margin is expected to remain at its current level for the next couple of quarters. However, a 150bps improvement is projected through the passing on of expenses related to regulatory changes and cost-saving activities, consequently, the margin is expected to reach ~15.0%.

Fan business (45% standalone business)

- Crompton has been steadily increasing its market share in the fan market, reaching 27-28%. This growth is attributed to a strategic focus on premium fans and enhancements in channel mix. While the company has a strong presence in the mass category (~Rs 65bn market with fans priced below Rs 2,000), it's making notable strides in other segments: a) Through product innovation and R&D efforts, Crompton is experiencing accelerated growth in the premium category (~Rs 45bn market encompassing fans priced between Rs 2,500 to Rs 5,000) and the BLDC fan category (~Rs 15bn market), which has seen a surge due to regulatory changes.
- Furthermore, the company has ventured into the super premium category (~Rs 5bn market with fans priced at Rs 10,000 and above). This strategic expansion aims to capture a larger share of the overall fan market (estimated at around Rs 120bn).

- Crompton has achieved a significant milestone in fan sales volume, reaching ~20mn units, equating to a substantial 27% market share.
- By focusing on product innovation and expanding distribution channels, Crompton is poised to further solidify its position across the entire fan market spectrum, driving sustained growth and market leadership
- Crompton has hiked prices thrice in Sept-23, Nov-23 and Feb-24, totaling a 2.5%-4% cumulative increase. Another rise is expected in 1QFY25.
- Fan market growing at higher single digit to double digit rate, driven by premium fan market and change in energy norms (BEE ratings). Crompton expected double digit growth in segment to continue.
- Crompton become second largest player in BLDC segment, which accounts ~13% of fan segment.
- Crompton bringing growth from Exhaust fans, TPW fans as well, which are growing at faster rate.
- Market share shift towards branded players continue as BEE rating norms expected to revise every two years.
- Crompton maintains its in-house manufacturing for its fan business at a steady 50%.

Pump business (22% standalone business)

- Product diversification is a key driver of growth for Crompton's pump segment, as the company expands beyond residential pumps into agricultural and solar pump businesses.
- In the solar pump segment, Crompton has secured orders worth ~Rs 850mn under the PM-KUSUM scheme from Maharashtra, Rajasthan, and Haryana states. The Government of India has allocated a total opportunity outlay of Rs 320bn for this scheme. Crompton aims to deploy over 10,000 solar-powered pumps under the PM-KUSUM scheme in the coming years. Major competitors in the solar pump segment include KSB Pumps and Shakti Pumps.
- Agri pumps and solar pumps generally yield comparatively lower margins than residential pumps, despite presenting significant growth opportunities.
- Crompton has increased prices twice in its pump segment YTD.
- The in-house manufacturing for Crompton's pump business stands at 15%.
- North & East India is stronger market for Crompton than South and West. The company is exploring West India through residential & Agri pump portfolio to grow its market. However, regional & national players are very competitive this segment.

Appliance business (~16% standalone business)

- Appliance business growing at faster rate and expected to reach pump's contribution in standalone revenue in couple of years.
- Crompton's opportunity market in this segment amounts to Rs 250bn, with a growth rate ranging from the mid to high teens.
- Heater/Geyser, Air cooler and large kitchen appliances are major driver for growth in appliance segment.
- The segment primarily focuses on expanding distribution channels and enhancing its premium portfolio to drive growth. The appliance business primarily operates as a trading business.

Lighting business (~16% standalone business)

- Product diversification and distribution expansion are the primary drivers for growth in this segment.
- LED lamps, battens, and bulbs now constitute 67% of lighting sales, down from the previous 70%, although still remaining at a higher level compared to peers.
- The company is focusing on the rural market for growth, leveraging its existing product portfolio.
- Crompton is concentrating on the B2B segment and anticipates its growth to accelerate in the coming years.
- Ceiling lighting is a focal point for growth in this segment, outperforming peers according to management assessments.
- Pricing in the lighting sector continues to be subdued due to technological shifts, low raw material costs, and intense competition driving competitive pricing strategies.
- The lighting margin is anticipated to remain stable at the current level of 11.0%-11.5% (EDIT margin).
- In-house manufacturing for the lighting business has decreased to 30-35% from 40-50% over the past two years.

Butterfly business (~13% consolidated revenue)

- Butterfly sales are expected to remain subdued for the next 2-3 quarters. The company aims to achieve revenues of Rs 10bn in the near term with margins in the high single digits.
- In-house manufacturing for Butterfly products continues to be maintained at a high level of 85%-90%.
- Butterfly products are priced at a 5% discount compared to Prestige, similar to Preethi, and higher than Pigeon.
- The company has appointed a new female head for the Butterfly business, bringing with her extensive experience in the kitchen appliance industry.

Others update

- New product sales currently contribute to 15% of total company sales, with a target to reach 20% in the future.
- Following the departure of Mr. Sachin Phartiyal, Crompton has announced a change in leadership for the Home Electricals Business Unit. Mr. Rajat Chopra, who currently heads the Pump segment, will continue as head of both segments.
- Company has received a notice of demand of Rs 686.7mn from Income Tax Department related to disallowance of ESOP expenses, provision against warranty and after sale services and depreciation on goodwill. (dated 20th Mar-24). Crompton expects maximum potential impact on financials of Rs 540mn. Also, management indicated that the Company is planning to file an appeal against this order before appellate authorities and expects favourable outcome. Crompton required to deposit 20% of the demand amount in dispute i.e. Rs 137.4mn, which will be accounted in Q4FY24 number.

Exhibit 1: Crompton segment details

	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue (Rs mn)								
ECD	32,136	33,890	37,571	43,110	47,557	53,681	62,031	70,037
Lighting	12,653	11,229	10,464	10,831	10,581	9,946	10,842	12,034
Butterfly	6,520	6,787	8,696	10,053	10,558	9,484	10,080	11,212
Contribution cons (%)								
ECD	72%	75%	78%	80%	69%	73%	75%	75%
Lighting	28%	25%	22%	20%	15%	14%	13%	13%
Butterfly					15%	13%	12%	12%
Revenue Growth (%)								
ECD		5.5%	10.9%	14.7%	10.3%	12.9%	15.6%	12.9%
Lighting		-11.3%	-6.8%	3.5%	-2.3%	-6.0%	9.0%	11.0%
Butterfly		4.1%	28.1%	15.6%	5.0%	-10.2%	6.3%	11.2%
EBIT (Rs mn)								
ECD	6,162	6,731	7,392	8,267	7,893	7,301	8,436	9,525
Lighting	1,069	680	1,161	1,281	1,005	1,094	1,193	1,324
Butterfly	(157)	(237)	872	140	796	350	372	414
EBIT margin (%)								
ECD	19.2%	19.9%	19.7%	19.2%	16.6%	13.6%	13.6%	13.6%
Lighting	8.4%	6.1%	11.1%	11.8%	9.5%	11.0%	11.0%	11.0%
Butterfly	-2.4%	-3.5%	10.0%	1.4%	7.5%	3.7%	3.7%	3.7%

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	68,696	73,111	82,953	93,283
YoY gr. (%)	27.4	6.4	13.5	12.5
Cost of Goods Sold	46,804	50,013	56,229	63,206
Gross Profit	21,893	23,098	26,724	30,078
Margin (%)	31.9	31.6	32.2	32.2
Employee Cost	5,408	6,101	6,456	7,090
Other Expenses	6,280	7,248	8,150	9,106
EBITDA	7,705	7,007	8,692	9,941
YoY gr. (%)	2.6	(9.1)	24.1	14.4
Margin (%)	11.2	9.6	10.5	10.7
Depreciation and Amortization	1,159	1,262	1,296	1,341
EBIT	6,545	5,744	7,397	8,601
Margin (%)	9.5	7.9	8.9	9.2
Net Interest	1,092	814	464	347
Other Income	668	671	714	766
Profit Before Tax	6,121	5,601	7,647	9,020
Margin (%)	8.9	7.7	9.2	9.7
Total Tax	1,358	1,344	1,927	2,273
Effective tax rate (%)	22.2	24.0	25.2	25.2
Profit after tax	4,764	4,257	5,720	6,747
Minority interest	132	69	74	82
Share Profit from Associate	-	-	-	-
Adjusted PAT	4,632	4,187	5,646	6,664
YoY gr. (%)	(19.2)	(9.6)	34.8	18.0
Margin (%)	6.7	5.7	6.8	7.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	4,632	4,187	5,646	6,664
YoY gr. (%)	(21.0)	(9.6)	34.8	18.0
Margin (%)	6.7	5.7	6.8	7.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,632	4,187	5,646	6,664
Equity Shares O/s (m)	636	656	656	656
EPS (Rs)	7.3	6.4	8.6	10.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	21,015	21,181	21,411	21,740
Tangibles	5,542	5,689	5,898	6,208
Intangibles	15,473	15,493	15,513	15,533
Acc: Dep / Amortization	2,318	3,364	4,433	5,519
Tangibles	1,751	2,197	2,666	3,152
Intangibles	567	1,166	1,766	2,367
Net fixed assets	19,855	17,818	16,978	16,221
Tangibles	4,840	3,491	3,232	3,055
Intangibles	15,016	14,326	13,746	13,166
Capital Work In Progress	55	100	100	100
Goodwill	12,855	12,855	12,855	12,855
Non-Current Investments	191	208	238	268
Net Deferred tax assets	(29)	21	91	174
Other Non-Current Assets	758	771	784	798
Current Assets				
Investments	5,478	5,996	5,101	7,386
Inventories	7,439	8,012	9,091	10,223
Trade receivables	6,861	6,810	7,727	8,689
Cash & Bank Balance	1,095	1,240	2,669	1,999
Other Current Assets	1,669	2,538	2,853	3,183
Total Assets	56,544	56,705	58,857	62,302
Equity				
Equity Share Capital	1,272	1,311	1,311	1,311
Other Equity	25,328	27,461	30,905	33,461
Total Networkth	26,600	28,772	32,217	34,773
Non-Current Liabilities				
Long Term borrowings	6,531	3,531	1,531	531
Provisions	1,312	1,462	1,825	1,866
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	3,520	3,520	2,020	2,020
Trade payables	10,486	10,962	12,324	13,853
Other current liabilities	3,496	3,852	4,328	4,640
Total Equity & Liabilities	56,544	56,705	58,857	62,302

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	6,121	5,601	7,647	9,020
Add. Depreciation	1,159	1,262	1,296	1,341
Add. Interest	1,092	814	464	347
Less Financial Other Income	668	671	714	766
Add. Other	(476)	69	250	(86)
Op. profit before WC changes	7,896	7,746	9,656	10,621
Net Changes-WC	3,614	(602)	(2,031)	(646)
Direct tax	(1,358)	(1,344)	(1,927)	(2,273)
Net cash from Op. activities	10,153	5,800	5,698	7,703
Capital expenditures	(1,059)	730	(457)	(583)
Interest / Dividend Income	-	-	-	-
Others	760	(517)	894	(2,285)
Net Cash from Inv. activities	(299)	213	438	(2,869)
Issue of share cap. / premium	5	39	-	-
Debt changes	6,331	(2,970)	(1,968)	(966)
Dividend paid	(1,584)	(1,908)	(1,967)	(3,934)
Interest paid	(1,092)	(814)	(464)	(347)
Others	-	-	-	-
Net cash from Fin. activities	3,661	(5,653)	(4,399)	(5,247)
Net change in cash	13,515	361	1,737	(413)
Free Cash Flow	9,094	6,530	5,242	7,119

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	7.3	6.4	8.6	10.2
CEPS	9.1	8.3	10.6	12.2
BVPS	41.8	43.9	49.1	53.0
FCF	14.3	10.0	8.0	10.9
DPS	3.0	3.0	3.0	6.0
Return Ratio(%)				
RoCE	18.5	17.7	22.7	25.6
ROIC	15.7	15.1	19.7	23.7
RoE	18.1	15.1	18.5	19.9
Balance Sheet				
Net Debt : Equity (x)	0.1	0.0	(0.1)	(0.2)
Net Working Capital (Days)	20	19	20	20
Valuation(x)				
PER	36.5	41.6	30.8	26.1
P/B	6.4	6.1	5.4	5.0
P/CEPS	29.2	32.0	25.1	21.8
EV/EBITDA	22.4	24.8	19.5	16.8
EV/Sales	2.5	2.4	2.0	1.8
Dividend Yield (%)	1.1	1.1	1.1	2.3

Source: Company Data, PL Research

Quarterly Financials (Rs m)

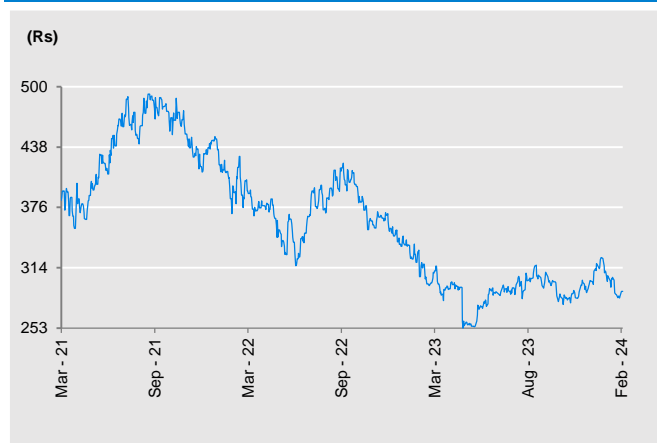
Y/e Mar	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Net Revenue	17,910	18,769	17,823	16,927
YoY gr. (%)	15.7	0.7	4.9	11.6
Raw Material Expenses	12,260	12,983	12,240	11,428
Gross Profit	5,650	5,786	5,582	5,499
Margin (%)	31.5	30.8	31.3	32.5
EBITDA	1,416	1,013	1,745	1,498
YoY gr. (%)	(40.6)	(53.9)	(9.6)	(1.7)
Margin (%)	7.9	5.4	9.8	8.8
Depreciation / Depletion	304	292	321	325
EBIT	1,112	721	1,424	1,173
Margin (%)	6.2	3.8	8.0	6.9
Net Interest	274	206	215	215
Other Income	168	198	149	167
Profit before Tax	1,006	714	1,358	1,125
Margin (%)	5.6	3.8	7.6	6.6
Total Tax	389	338	349	270
Effective tax rate (%)	38.7	47.4	25.7	24.0
Profit after Tax	617	376	1,009	855
Minority interest	4	37	37	(5)
Share Profit from Associates	-	-	-	-
Adjusted PAT	613	339	972	860
YoY gr. (%)	(69.0)	(74.7)	(22.7)	0.9
Margin (%)	3.4	1.8	5.5	5.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	613	339	972	860
YoY gr. (%)	(69.0)	(75.8)	(22.7)	4.5
Margin (%)	3.4	1.8	5.5	5.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	613	339	972	860
Avg. Shares O/s (m)	628	628	628	628
EPS (Rs)	1.0	0.5	1.5	1.4

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	16-Feb-24	BUY	384	283
2	09-Jan-24	BUY	397	313
3	09-Nov-23	BUY	377	283
4	07-Oct-23	BUY	401	301
5	24-Aug-23	BUY	369	309
6	14-Aug-23	BUY	338	300
7	06-Jul-23	BUY	338	286
8	16-Jun-23	BUY	338	293
9	22-May-23	BUY	371	260
10	11-Apr-23	BUY	403	298

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Astral Ltd.	Accumulate	2,244	2,044
2	Bajaj Electricals	Hold	997	1,065
3	Century Plyboard (I)	BUY	848	748
4	Cera Sanitaryware	Accumulate	8,486	6,993
5	Crompton Greaves Consumer Electricals	BUY	384	283
6	Finolex Industries	Accumulate	247	234
7	Greenpanel Industries	BUY	481	388
8	Havells India	Accumulate	1,538	1,306
9	Kajaria Ceramics	Accumulate	1,445	1,375
10	KEI Industries	Hold	3,268	3,315
11	Polycab India	BUY	6,021	4,335
12	R R Kabel	BUY	1,857	1,435
13	Supreme Industries	Accumulate	4,823	4,070
14	Voltas	Hold	1,017	1,058

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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