

# Crompton Consumer

## BGAL to be a near-term drag

We met the management of Crompton which reiterated its commitment to an absolute profit-led growth mindset. The summer season has started on a positive note and Crompton has taken a 4-5% price hike in fans (cumulatively over the last few months) which has helped recoup all but 150bps cost increase (BEE rating change led). In the medium term, fans are poised for double-digit growth, led by (1) an increasing premium mix (25% vs industry average of 40%); (2) a shift from unorganized to organized (BEE rating change every two years); and (3) focus on scaling up the non-ceiling portfolio (TPW). Other ECD products (pumps, SDA and LKA) are showing promising trajectories. In lighting, price erosion intensity has reduced and it is expected to be MSD-to-HSD in FY25. Butterfly (BGAL) channel correction is a WIP (away from e-com/corporate/OMC in favour of retail) and will continue to impact earnings for two more quarters.

In the medium to long term, we like the Crompton 2.0 strategy, where the focus is on (1) protecting and growing the core (fans and pumps); (2) scaling up the kitchen portfolio (both SDA and LKA) as the new vector for growth; (3) transforming the lighting business; (4) premiumisation of the portfolio, led by innovation; (5) GTM excellence and diversification; and (6) entry into 2-3 new segments. We believe the sustained execution of the Crompton 2.0 strategy and industry outperformance can help rerate the stock. We cut our FY24-26 earnings by 2-4%, largely on account of BGAL. We roll forward to 35x FY26 EPS to arrive at a TP of INR 380. Maintain BUY.

- Positive start to the summer season; initiated price hikes in fans:** The management cited that the summer season has started on a positive note and it remains optimistic about demand trends for the coming months. Crompton has initiated three rounds of price hikes over the past few months (cumulative price hike of 4-5%) with one more on the anvil in Q1FY25. Through these price hikes and cost initiatives, Crompton has recouped all but 150bps of BEE rating-led cost increase. Fans can grow in double digits in the medium term, led by (1) increasing premium mix (Crompton at 25% vs industry average of 40%); (2) change in BEE rating regulations (akin to RAC) every two years helping shift from unorganized to organized; and (3) focus on scaling up the non-ceiling portfolio (TWP).
- ECD (ex of fans) shows promising trajectories:** Ex of fans, all product categories within ECD are scaling up well. Within pumps, Crompton has arrested the decline seen in the last three years by changing the brand architecture. Within residential where they are market leaders, the focus is on increasing the submersible mix. They are also looking to scale up their agri and solar pump offerings. Under the PM Kusum scheme (solar pumps), Crompton has won orders in four states with more on the anvil. The built-in kitchen foray is progressing well with an exit annual run rate of INR 1bn. Management expects the built-in kitchen to turn EBITDA break-even by FY26.
 

**Lighting segment turnaround on track:** Crompton has lagged behind the industry in the lighting segment as it was highly dependent on the government B2B channel and had a higher mix towards bulbs. In its bid to turn around the business, Crompton has decentralized the sales structure with a dedicated sales and distribution team. Moreover, it is focusing on increasing its mix towards ceiling and decorative lighting. The intensity of price erosion due to technology change has come down and is expected to be in the mid-to-high single digits in FY25. Crompton currently manufactures 35% of its lighting requirements. It is increasingly looking to increase outsourcing of these products.

**BUY**

CMP (as on 26 Mar 2024)	INR 271
Target Price	INR 380
NIFTY	22,005

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 375	INR 380
EPS %	FY25E -4.0%	FY26E -4.0%

### KEY STOCK DATA

Bloomberg code	CROMPTON IN
No. of Shares (mn)	643
MCap (INR bn) / (\$ mn)	174/2,131
6m avg traded value (INR mn)	765
52 Week high / low	INR 328/251

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(9.7)	(8.4)	(7.7)
Relative (%)	(11.6)	(18.2)	(33.7)

### SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	0.00	0.00
FIs & Local MFs	47.99	48.30
FPIs	34.86	35.58
Public & Others	17.15	16.12
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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- Restructuring of BGAL channels to have a near-term impact on earnings:** Erstwhile BGAL had higher saliency towards low margin e-com and corporate/OMC (20% of sales). Crompton has initiated channel correction initiatives which will continue for the next two quarters thereby impacting earnings. The near-term target is to reposition BGAL as a lifestyle brand with higher retail saliency (GT, MT, regional chains, etc.) with 8-10% margins. In the INR 250bn kitchen industry which is growing in double digits, Crompton + BGAL are the second-largest players.
- Valuation and outlook:** Crompton 2.0 strategy has already showcased initial promise with the ECD segment growing ahead of peers (9M: Crompton +13% vs +1/+9/+9% of Havells/Orient/V-Guard). We believe sustained execution of the Crompton 2.0 strategy and industry outperformance can help rerate the stock. We cut our FY24-26 earnings by 2-4%, largely on account of BGAL. We roll forward to FY26 EPS and assign 35x multiple to arrive at a target price of INR 380. Maintain BUY.

### Financial Summary

YE Mar (INR mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	48,035	53,941	68,696	72,870	81,687	91,853
EBITDA	7,205	7,695	7,705	6,945	8,663	10,540
APAT	5,400	5,914	4,632	4,148	5,492	6,903
Diluted EPS (INR)	8.6	9.3	7.3	6.5	8.6	10.9
P/E (x)	31.0	28.6	36.7	40.9	30.9	24.6
EV / EBITDA (x)	22.0	22.1	22.4	24.4	19.0	15.1
RoE (%)	31.8	27.0	18.1	12.8	15.4	17.2

Source: Company, HSIE Research

### Exhibit 1: Change in estimates

Change in Estimates	Old			New			Change %		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Year End (March) - INR mn									
Revenue	72,527	82,274	92,527	72,870	81,687	91,853	0.0	-1.0	-1.0
EBITDA	7,138	9,042	10,941	6,945	8,663	10,540	-3.0	-4.0	-4.0
EBITDAM %	9.8	11.0	11.8	9.5	10.6	11.5	-30bps	-40bps	-40bps
APAT	4,241	5,730	7,169	4,148	5,492	6,903	-2.0	-4.0	-4.0
EPS (INR)	6.7	9.0	11.3	6.5	8.6	10.9	-2.0	-4.0	-4.0

Source: Company; HSIE Research

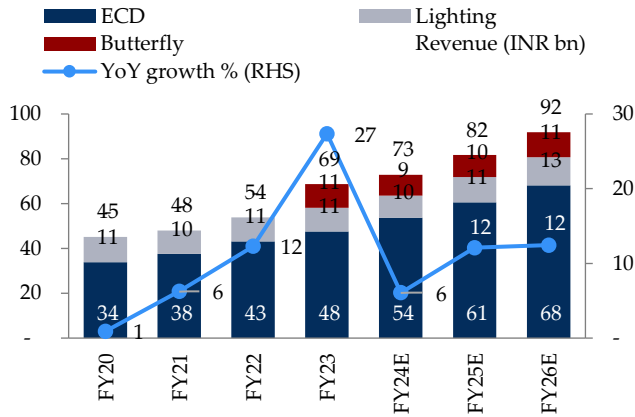
### Exhibit 2: Key Assumptions

Year End (March)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Revenue (INR mn)</b>							
ECD	33,890	37,571	43,110	47,557	53,683	60,585	68,121
Lighting	11,312	10,464	10,831	10,581	9,841	11,267	12,620
Butterfly	-	-	-	10,558	9,346	9,835	11,113
<b>Total</b>	<b>45,203</b>	<b>48,035</b>	<b>53,941</b>	<b>68,696</b>	<b>72,870</b>	<b>81,687</b>	<b>91,853</b>
<b>Revenue Growth %</b>							
ECD	5	11	15	10	13	13	12
Lighting	-11	-7	4	-2	-7	15	12
Butterfly	-	-	-	-	-11	5	13
<b>Total</b>	<b>1</b>	<b>6</b>	<b>12</b>	<b>27</b>	<b>6</b>	<b>12</b>	<b>12</b>
<b>EBIT (INR mn)</b>							
ECD	6,731	7,392	8,267	7,893	7,328	8,482	9,878
Lighting	706	1,317	1,278	1,005	1,102	1,268	1,451
Butterfly	-	-	-	840	299	541	778
<b>Total</b>	<b>7,437</b>	<b>8,710</b>	<b>9,545</b>	<b>9,738</b>	<b>8,729</b>	<b>10,290</b>	<b>12,107</b>
<b>EBIT Margin %</b>							
ECD	19.9	19.7	19.2	16.6	13.7	14.0	14.5
Lighting	6.2	12.6	11.8	9.5	11.2	11.3	11.5
Butterfly	-	-	-	8.0	3.2	5.5	7.0
<b>Total</b>	<b>16.5</b>	<b>18.1</b>	<b>17.7</b>	<b>14.2</b>	<b>12.0</b>	<b>12.6</b>	<b>13.2</b>

Source: Company, HSIE Research

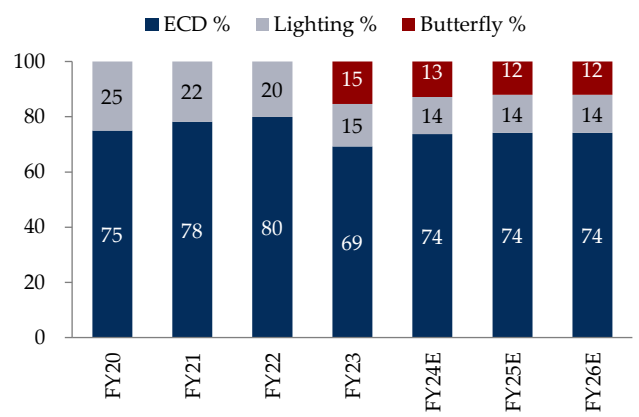
## Story in Charts

**Exhibit 3: Revenue to grow at 10% CAGR over FY23-26**



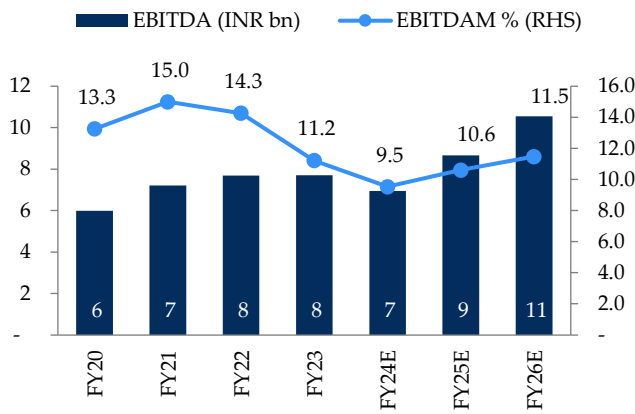
Source: Company, HSIE Research

**Exhibit 4: ECD continue to dominate revenue mix**



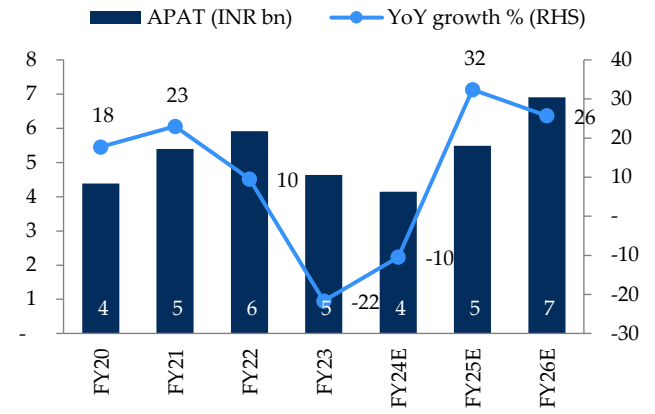
Source: Company, HSIE Research

**Exhibit 5: EBITDA to grow at 11% CAGR over FY23-26**



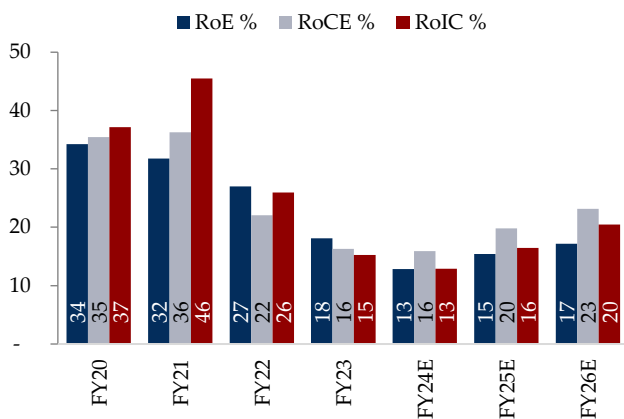
Source: Company, HSIE Research

**Exhibit 6: PAT to grow at 14% CAGR over FY23-26**



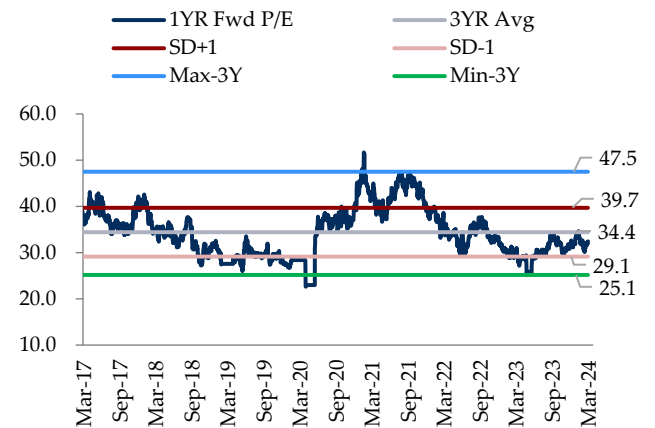
Source: Company, HSIE Research

**Exhibit 7: Return profile to improve**



Source: Company, HSIE Research

**Exhibit 8: Trading at 30x 1yr-forward P/E**



Source: Company, HSIE Research

## Financials

### Consolidated P&L

Year End (March) - INR mn	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Net Revenues</b>	<b>45,203</b>	<b>48,035</b>	<b>53,941</b>	<b>68,696</b>	<b>72,870</b>	<b>81,687</b>	<b>91,853</b>
Growth (%)	0.9	6.3	12.3	27.4	6.1	12.1	12.4
Material Expenses	30,703	32,672	37,018	46,804	49,806	55,547	62,001
Employee Expense	3,110	3,366	3,624	5,408	5,902	6,535	7,165
Other Expenses	5,399	4,792	5,605	8,780	10,216	10,942	12,148
<b>EBITDA</b>	<b>5,991</b>	<b>7,205</b>	<b>7,695</b>	<b>7,705</b>	<b>6,945</b>	<b>8,663</b>	<b>10,540</b>
EBITDA Growth (%)	2.5	20.3	6.8	0.1	(9.9)	24.7	21.7
EBITDA Margin (%)	13.3	15.0	14.3	11.2	9.5	10.6	11.5
Depreciation	268	297	423	1,159	1,266	1,422	1,636
<b>EBIT</b>	<b>5,723</b>	<b>6,908</b>	<b>7,272</b>	<b>6,545</b>	<b>5,679</b>	<b>7,240</b>	<b>8,904</b>
Other Income (Including EO Items)	591	758	727	668	685	713	755
Interest	407	429	353	1,092	838	495	252
<b>PBT</b>	<b>5,907</b>	<b>7,236</b>	<b>7,645</b>	<b>6,121</b>	<b>5,527</b>	<b>7,458</b>	<b>9,407</b>
Total Tax	1,517	1,837	1,732	1,358	1,340	1,883	2,375
<b>Profit before JV/Associates/NCI</b>	<b>4,390</b>	<b>5,400</b>	<b>5,914</b>	<b>4,764</b>	<b>4,186</b>	<b>5,575</b>	<b>7,032</b>
Non-controlling Interest	-	-	-	132	38	83	128
Exceptional Gain/ (loss)	574	767	(130)	-	-	-	-
<b>RPAT</b>	<b>4,964</b>	<b>6,167</b>	<b>5,784</b>	<b>4,632</b>	<b>4,148</b>	<b>5,492</b>	<b>6,903</b>
Adjusted PAT	4,390	5,400	5,914	4,632	4,148	5,492	6,903
APAT Growth (%)	17.7	23.0	9.5	(21.7)	(10.4)	32.4	25.7
EPS	7.0	8.6	9.3	7.3	6.5	8.6	10.9
EPS Growth (%)	17.7	22.9	8.5	(22.0)	(10.4)	32.4	25.7

### Consolidated Balance Sheet

Year End (March) - INR mn	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>SOURCES OF FUNDS</b>							
Share Capital - Equity	1,255	1,255	1,267	1,272	1,272	1,272	1,272
Other Equity	13,429	18,059	23,263	25,328	27,886	31,787	36,782
<b>Total Shareholders' Funds</b>	<b>14,683</b>	<b>19,314</b>	<b>24,530</b>	<b>26,600</b>	<b>29,158</b>	<b>33,060</b>	<b>38,055</b>
NCI	-	-	7,825	4,477	4,515	4,598	4,727
Long Term Debt	1,797	2,988	46	5,972	2,972	-	-
Short Term Debt	1,700	1,800	16,030	3,250	3,000	2,972	-
<b>Total Debt</b>	<b>3,497</b>	<b>4,788</b>	<b>16,075</b>	<b>9,222</b>	<b>5,972</b>	<b>2,972</b>	<b>-</b>
Net Deferred Taxes	(507)	(586)	394	123	137	192	263
Other Non-Current Liabilities	191	1,363	1,618	2,004	2,063	2,256	2,428
<b>TOTAL SOURCES OF FUNDS</b>	<b>17,865</b>	<b>24,879</b>	<b>50,441</b>	<b>42,425</b>	<b>41,844</b>	<b>43,078</b>	<b>45,472</b>
<b>APPLICATION OF FUNDS</b>							
<b>Net Block</b>	<b>836</b>	<b>974</b>	<b>4,045</b>	<b>4,080</b>	<b>4,070</b>	<b>4,110</b>	<b>4,177</b>
<b>Goodwill</b>	<b>7,794</b>	<b>7,794</b>	<b>12,855</b>	<b>12,855</b>	<b>12,855</b>	<b>12,855</b>	<b>12,855</b>
CWIP	199	109	130	265	100	100	100
Intangible assets	45	28	15,124	14,805	14,750	14,710	14,668
Right of Use Assets	415	353	711	760	851	846	914
Non-Current Investments	-	-	3	4	4	4	4
Other Non-Current Assets	306	335	1,184	1,193	1,175	1,233	1,297
<b>Total Non-current Assets</b>	<b>9,595</b>	<b>9,594</b>	<b>34,052</b>	<b>33,961</b>	<b>33,804</b>	<b>33,856</b>	<b>34,013</b>
Current-Investments	5,408	7,697	6,238	5,478	5,478	6,478	9,178
Inventories	4,636	5,186	7,210	7,439	7,786	8,504	9,311
Debtors	4,635	4,608	5,936	6,706	6,788	7,385	8,305
Cash & Equivalents	481	6,040	9,152	1,095	1,004	1,502	1,132
Other Current Assets	2,257	2,264	1,898	1,866	1,936	2,043	2,227
<b>Total Current Assets</b>	<b>17,417</b>	<b>25,795</b>	<b>30,434</b>	<b>22,583</b>	<b>22,992</b>	<b>25,914</b>	<b>30,153</b>
Creditors	6,436	8,204	10,097	10,354	10,980	12,309	13,841
Other Current Liabilities & Provisions	2,711	2,305	3,948	3,766	3,971	4,383	4,853
<b>Total Current Liabilities</b>	<b>9,147</b>	<b>10,509</b>	<b>14,045</b>	<b>14,119</b>	<b>14,951</b>	<b>16,692</b>	<b>18,694</b>
<b>Net Current Assets</b>	<b>8,270</b>	<b>15,286</b>	<b>16,389</b>	<b>8,464</b>	<b>8,041</b>	<b>9,221</b>	<b>11,459</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>17,865</b>	<b>24,879</b>	<b>50,441</b>	<b>42,425</b>	<b>41,844</b>	<b>43,078</b>	<b>45,472</b>

Source: Company, HSIE Research

## Consolidated Cash Flow

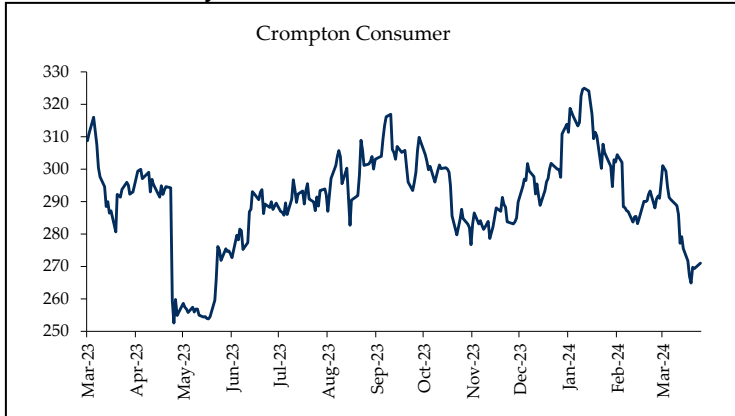
Year End (March) - INR mn	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Reported PBT	5,907	7,236	7,645	6,121	5,527	7,458	9,407
Non-operating & EO Items	(305)	(529)	(264)	(409)	(208)	(128)	(193)
Interest Expenses	407	429	353	1,092	838	495	252
Depreciation	268	297	423	1,159	1,266	1,422	1,636
Working Capital Change	(721)	1,445	1,005	(1,039)	367	303	76
Tax Paid	(1,446)	(575)	(1,798)	(1,399)	(1,340)	(1,883)	(2,375)
<b>OPERATING CASH FLOW ( a )</b>	<b>4,109</b>	<b>8,303</b>	<b>7,364</b>	<b>5,526</b>	<b>6,449</b>	<b>7,668</b>	<b>8,803</b>
Capex	(483)	(198)	(1,706)	(708)	(1,128)	(1,416)	(1,730)
Free Cash Flow (FCF)	3,627	8,105	5,658	4,818	5,321	6,252	7,073
Investments	363	(5,027)	1,829	8,027	(200)	(1,200)	(2,900)
Non-operating Income	209	267	(3,551)	432	265	333	389
Others	-	-	(13,930)	(5,119)	-	-	-
<b>INVESTING CASH FLOW ( b )</b>	<b>89</b>	<b>(4,957)</b>	<b>(17,359)</b>	<b>2,632</b>	<b>(1,062)</b>	<b>(2,284)</b>	<b>(4,240)</b>
Debt Issuance/(Repaid)	(3,000)	1,300	10,769	(6,842)	(3,250)	(3,000)	(2,972)
Interest Expenses	(586)	(342)	(505)	(765)	(838)	(495)	(252)
FCFE	1,212	9,747	16,932	(1,259)	2,909	3,747	4,354
Share Capital Issuance	52	73	603	416	-	-	-
Dividend	(1,506)	(1,874)	(1,564)	(1,578)	(1,590)	(1,590)	(1,908)
Others	(88)	(119)	(230)	(337)	-	-	-
<b>FINANCING CASH FLOW ( c )</b>	<b>(5,128)</b>	<b>(962)</b>	<b>9,073</b>	<b>(9,105)</b>	<b>(5,678)</b>	<b>(5,086)</b>	<b>(5,132)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>(930)</b>	<b>2,384</b>	<b>(922)</b>	<b>(948)</b>	<b>(291)</b>	<b>299</b>	<b>(570)</b>
EO Items, Others	574	767	(130)	-	-	-	-
Closing Cash & Equivalents	240	2,624	1,703	768	477	776	206

## Ratios

Year End (March)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>PROFITABILITY (%)</b>							
GPM	32.1	32.0	31.4	31.9	31.7	32.0	32.5
EBITDA Margin (%)	13.3	15.0	14.3	11.2	9.5	10.6	11.5
EBIT Margin	12.7	14.4	13.5	9.5	7.8	8.9	9.7
PBT Margin	13.1	15.1	14.2	8.9	7.6	9.1	10.2
APAT Margin	9.7	11.2	11.0	6.7	5.7	6.7	7.5
RoE	34.2	31.8	27.0	18.1	12.8	15.4	17.2
RoIC (or Core RoCE)	37.1	45.5	25.9	15.3	12.9	16.4	20.4
RoCE	35.4	36.3	22.1	16.3	15.9	19.8	23.2
<b>EFFICIENCY</b>							
Tax Rate (%)	25.7	25.4	22.6	22.2	24.3	25.3	25.3
Fixed Asset Turnover (x)	19.0	18.2	12.3	11.2	10.9	10.8	10.7
Inventory (days)	33	37	42	39	39	38	37
Debtors (days)	42	35	36	34	34	33	33
Other Current Assets (days)	14	17	14	10	10	9	9
Payables (days)	53	56	62	54	55	55	55
Other Current Liab & Provns (days)	21	19	21	20	20	20	19
Cash Conversion Cycle (days)	15	15	9	8	8	6	5
Net D/E (x)	0.2	(0.1)	0.3	0.3	0.2	0.0	(0.0)
Interest Coverage (x)	14.1	16.1	20.6	6.0	6.8	14.6	35.3
<b>PER SHARE DATA (Rs)</b>							
EPS	7.0	8.6	9.3	7.3	6.5	8.6	10.9
CEPS	7.4	9.1	10.0	9.1	8.5	10.9	13.4
Dividend	3.0	2.5	2.5	2.5	2.5	3.0	3.8
Book Value	23.4	30.8	38.7	41.8	45.8	52.0	59.8
<b>VALUATION</b>							
P/E (x)	38.2	31.0	28.6	36.7	40.9	30.9	24.6
P/BV (x)	11.4	8.7	6.9	6.4	5.8	5.1	4.5
EV/EBITDA (x)	27.6	22.0	22.1	22.4	24.4	19.0	15.1
EV/Revenues (x)	3.7	3.3	3.1	2.5	2.3	2.0	1.7
OCF/EV (%)	2.5	5.2	4.3	3.2	3.8	4.7	5.5
FCF/EV (%)	2.2	5.1	3.3	2.8	3.1	3.8	4.4
FCFE/Mkt Cap (%)	0.7	5.8	10.0	(0.7)	1.7	2.2	2.6
Dividend Yield (%)	1.1	0.9	0.9	0.9	0.9	1.1	1.4

Source: Company, HSIE Research

## 1 Yr Price History



## Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: >10% Downside return potential



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