

18 November 2024

India | Equity Research | Q2FY25 results review

Crompton Greaves Consumer Electricals

White Goods

Restructuring-led growth in fast lane; Butterfly's recovery lags expectations

Takeaways: (1) Crompton's strategic business restructuring initiatives are driving structural growth across major verticals. Despite a soft demand trend, strong growth in various sub-segments highlights structural growth rather than mere a demand driven one. (2) Lighting business is seeing strong revenue/EBIT margin expansion QoQ led by: (i) product portfolio revamp; (ii) launch of innovative products; and (iii) change in business mix. While B2B growth sustains, recovery in B2C segment may boost performance in H2FY25. (3) ECD segment is leading the charge with key appliances/pumps/fans segments delivering strong growth. Market share gains, portfolio expansion and price hikes are driving growth. (4) Weakness in Butterfly's revenue growth persisted YoY; yet, EBIT margin expanded with: (i) price laddering; (ii) process intervention; and (iii) cost reduction. Ongoing restructuring-led benefits have lagged.

We cut FY25/FY26E EPS by 3.8%/4.5% to factor in the Q2FY25 result and slowdown in consumer spends. Maintain **BUY** with a DCF-based revised TP of INR 508 (earlier INR 540; implied P/E of 48x FY26E/ 40x FY27E).

Q2FY25 result

Crompton reported revenue/EBITDA/PAT growth of 6.4%/16.6%/23.9% YoY. Gross margin expanded 140bps YoY on better product mix and price increases, in our view. EBITDA grew 16.6% YoY in spite of higher other expenses. EBITDA margin expanded 94bps YoY. Profitability was lifted by higher other income (+17.7% YoY) and lower finance cost (-44.1% YoY). Repayment of debt and cash accumulation are resulting in strong PAT growth.

Segment-wise performance

ECD segment reported 12.5% revenue growth YoY. In ECD, growth was led by pumps/appliances/fans, registering 20%/24%/5% YoY growth. Lighting segment revenue reported industry-leading revenue growth YoY (+6% YoY). Butterfly's revenue declined 18.1% YoY amid ongoing restructuring activities with recovery anticipated Q4FY25/ Q1FY26 onwards.

Strong broad-based growth in core ECD segment

ECD (~74% revenue contribution) segment registered strong double-digit revenue growth (+12.5% YoY) for its fifth consecutive quarter. Robust growth in appliances and pumps primarily drove ECD growth. Growth in select segments was higher YoY despite Q2FY25 being a non-seasonal quarter. While demand has largely remained soft, we reckon consistent segmental growth over the past few quarters is primarily driven by strategic initiatives undertaken by the management.

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	73,128	80,825	90,739	1,01,871
EBITDA	7,137	8,312	9,989	11,595
EBITDA Margin (%)	9.8	10.3	11.0	11.4
Net Profit	4,401	5,406	6,804	8,107
EPS (INR)	6.8	8.4	10.6	12.6
EPS % Chg YoY	(6.1)	22.8	25.9	19.2
P/E (x)	54.2	44.1	35.1	29.4
EV/EBITDA (x)	33.1	28.1	23.0	19.3
RoCE (%)	10.6	12.6	15.4	17.0
RoE (%)	13.4	15.2	17.7	19.0

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Market Data

Market Cap (INR)	239bn
Market Cap (USD)	2,827mn
Bloomberg Code	CROMPTON IN
Reuters Code	CROP BO
52-week Range (INR)	484 /261
Free Float (%)	100.0
ADTV-3M (mn) (USD)	15.0

Price Performance (%)	3m	6m	12m
Absolute	(13.4)	11.4	33.2
Relative to Sensex	(11.5)	5.3	13.7

ESG Score	2022	2023	Change
ESG score	53.6	71.0	17.4
Environment	25.6	43.1	17.5
Social	38.0	77.2	39.2
Governance	81.7	87.9	6.2

Note - Score ranges from 0 - 100 with a higher number indicating a higher ESG score.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY25E	FY26E
Revenue	0.0	0.0
EBITDA	(3.3)	(3.9)
EPS	(3.8)	(4.5)

Previous Reports

01-08-2024: [Q1FY25 results review](#)

17-05-2024: [Q4FY25 results review](#)

Fans – market leader charting its own growth strategy

Crompton indicated higher than industry growth (+5% YoY) in fans segment. Gross/EBIT margin expanded YoY led by: (1) regular price increase; (2) premiumisation of product portfolio and (3) positive response to NPDs. Crompton's price hikes, commenced in Nov'23 and have continued in Q2FY25, unlike peers who lag materially to market leader on price hikes. Crompton indicated that the current modest growth trend may continue in H2FY25 YoY led by: (1) product portfolio expansion and higher insourcing in BLDC fans; and (2) higher contribution of NPDs.

Pumps – market share gains; strong business outlook

Strong revenue growth in residential and solar pumps primarily drove revenue growth YoY in the pumps business in Q2FY25. Crompton, indicated that it has expanded the market share in residential pumps business. Solar business generated revenues of INR 0.4bn/INR 1bn+ in Q2/H1FY25 and has a strong order pipeline for H2FY25. At present, the key operating states for the solar business are Maharashtra and Haryana. With solar's strong order pipeline and market share gains in residential segment, Crompton's pump business may continue strong growth in H2FY25 YoY.

Lighting – on growth track; restructuring benefits are visible

Crompton's strategic restructuring initiatives in lighting segment (strategy 2.0) have started yielding positive results. Lighting segment is consistently delivering improvement segmental revenue growth for the past four quarters QoQ (negative revenue growth YoY in Sep'22-Sep'23 period). Also, there is EBIT margin expansion YoY in Q2FY25. Key growth triggers are: (1) product portfolio revamp; (2) launch of innovative products; and (3) change in business mix. Crompton's both B2B and B2C (signs of recovery) lighting segments are registering growth QoQ.

Strong e-commerce drives growth in alternate channels

Alternate channel registered strong 37% revenue growth in Q2FY25 YoY led by strong traction in e-commerce channel. Saliency increased to 21% vs. 18% in Q2FY24. Crompton generated INR 1bn for its fifth consecutive quarter from e-commerce channels.

Valuation

We model Crompton to report revenue/PAT CAGR of 11.7%/22.6% YoY. We maintain our **BUY** rating with a revised TP of INR 508 (earlier INR 540; implied P/E of 48x FY26E/40x FY27E). We model growth in its core businesses to continue with revival in lighting segment to continue in H2FY25E. However, weakness in Butterfly may persist H2FY25.

Key risks: Steep increase in commodity prices; and increase in competitive pressures.

Exhibit 1: Q2FY25 consolidated financial performance

Y/e March INR mn	Q2FY25	Q2FY24	YoY % chg.	Q1FY25	QoQ % chg.	H1FY25	H1FY24	YoY % chg.
Revenue	18,960	17,823	6.4	21,377	(11.3)	40,337	36,591	10.2
Expenditure								
Raw materials	12,756	12,240	4.2	14,561	(12.4)	27,317	25,223	8.3
% of revenue	67.3	68.7		68.1		67.7	68.9	
Employee cost	1,597	1,501	6.4	1,617	(1.2)	3,214	2,935	9.5
% of revenue	8.4	8.4		7.6		8.0	8.0	
Other expenditure	2,572	2,336	10.1	2,875	(10.5)	5,448	4,830	12.8
% of revenue	13.6	13.1		13.5		13.5	13.2	
Total expenditure	16,926	16,078	5.3	19,053	(11.2)	35,979	32,988	9.1
EBITDA	2,034	1,745	16.6	2,324	(12.5)	4,358	3,603	21.0
EBITDA margin	10.7	9.8		10.9		10.8	9.8	
Other income	175	149	17.7	238	(26.3)	413	347	19.1
PBDIT	2,209	1,894	16.7	2,562	(13.7)	4,771	3,950	20.8
Depreciation	382	321	18.8	372	2.7	753	613	22.9
PBIT	1,828	1,573	16.2	2,190	(16.5)	4,018	3,337	20.4
Interest	120	215	(44.1)	155	(22.4)	276	421	(34.5)
PBT	1,707	1,358	25.8	2,035	(16.1)	3,742	2,916	28.3
Prov. for tax	427	349	22.3	511	(16.5)	938	687	36.6
% of PBT	25.0	25.7		25.1		25.1	23.6	
PAT	1,281	1,009	27.0	1,524	(15.9)	2,804	2,229	25.8
Minority Interest	31	-	-	6	423.3	37	72	(48.3)
Adjusted PAT	1,249	1,009	23.9	1,518	(17.7)	2,767	2,157	28.3
Extra ordinary items	0	(41)	-	0	100.0	0	(11)	-
Reported PAT	1,250	968	29.1	1,518	(17.7)	2,767	2,146	28.9

Source: Company data, I-Sec research

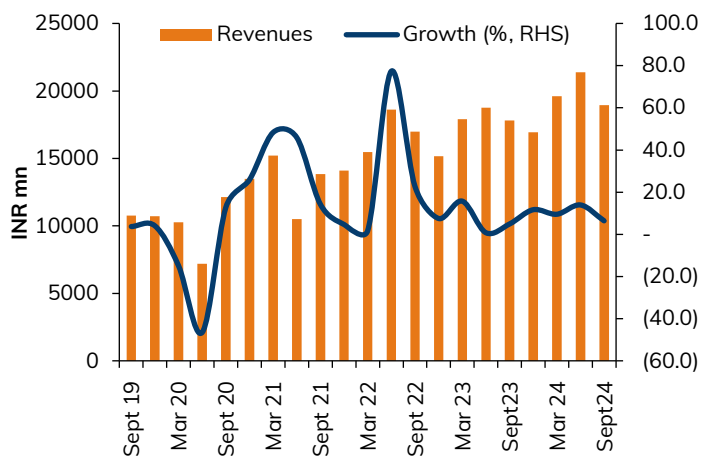
Exhibit 2: Segment-wise performance

Particulars	Q2FY25	Q2FY24	YoY % chg.	Q1FY25	QoQ % chg.	H1FY25	H1FY24	YoY % chg.
Revenues (INR mn)								
Lighting products	2,531	2,387	6.0%	2,333	8.5%	4,865	4,677	4.0%
Electric consumer durables	13,927	12,380	12.5%	17,266	-19.3%	31,193	26,669	17.0%
BGMAL	2,502	3,056	-18.1%	1,777	40.8%	4,279	5,245	-18.4%
Total	18,960	17,823	6.4%	21,377	-11.3%	40,337	36,591	10.2%
EBIT (INR mn)								
Lighting products	271	250	8.3%	209	29.7%	479	523	-8.3%
Electric consumer durables	2,064	1,755	17.6%	2,587	-20.2%	4,651	3,572	30.2%
BGMAL	177	202	-12.4%	41	331.7%	218	362	-39.7%
Total	2,512	2,207	13.8%	2,836	-11.4%	5,348	4,456	20.0%
EBIT margin (%)								
Lighting products	10.7	10.5		8.9		9.8	11.2	
Electric consumer durables	14.8	14.2		15.0		14.9	13.4	
BGMAL	7.1	6.6		2.3		5.1	6.9	
Total	13.2	12.4		13.3		13.3	12.2	

Source: Company data, I-Sec research

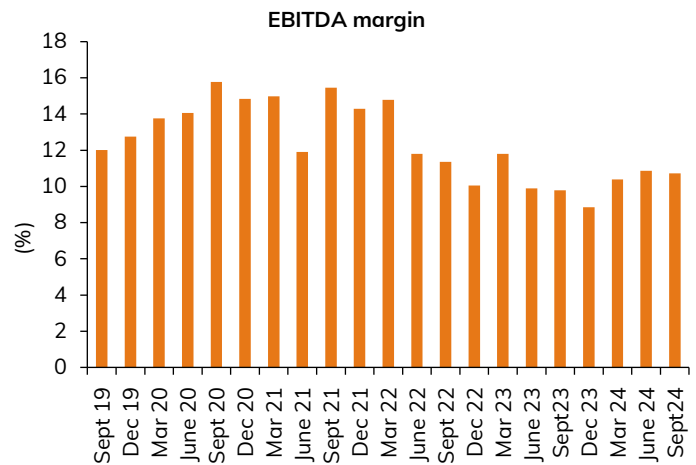
Key performance highlights

Exhibit 3: Revenue and revenue growth



Source: Company data, I-Sec research

Exhibit 4: EBITDA margin



Source: Company data, I-Sec research

Q2FY25 result and conference call highlights

- **Revenue growth:** Crompton's standalone revenue grew in double-digit (+11.5% YoY) for its fifth consecutive quarter.
- **ECD:** Segment recorded robust 13% revenue growth YoY. Growth was broad-based in ECD segment. Appliances: 26% YoY; pumps: 20% YoY; fans: 5% YoY. Appliances and pumps segments boosted ECD revenue growth despite Q2FY25 being a non-seasonal quarter.
- **Fans:** Fans segment recorded 5% YoY. Crompton has registered higher growth in fans than market.

Pricing action has continued in Q2FY25 for Crompton. There is a consistent lag by competition against Crompton on price hikes. Despite relatively lower price increase by peers, Crompton is steadfast in its pricing strategy.

Crompton had introduced new premium induction models in later part of Q1FY25. Contribution of these NPDs may improve materially in coming quarters. The company aims to further expand its BLDC product portfolio. Also, it is focusing on increasing inhouse manufacturing which may improve product quality.

Non-ceiling product portfolio has also registered strong growth in Q2FY25 YoY. Fans business is in midst of regulatory changes and Crompton has largely completed transition of its product portfolio to BIS requirements.

Crompton expects fans segment may post moderate growth in H2FY25 with demand trend persisting its current pace.

Crompton registered gross/EBIT margin expansion in fans segment in Q2FY25 YoY. Key triggers for the same are: (1) regular price increase; (2) premiumisation of product portfolio; and (3) positive response to NPDs.

- **Pumps:** Crompton recorded strong revenue growth in both key segments of pumps segment – (1) solar and (2) residential pumps. Solar pumps garnered sales of INR 0.42bn in Q2FY25 (INR 1bn+ in H1). Additionally, it has strong order pipeline at Q2-end. Agricultural pump business was impacted by headwinds on weather condition and delay in agricultural season.

Crompton indicates of market share gains in core residential pumps business.

Solar pump orders are undertaken by a tender based process. Crompton has a lead partner and the tenders are jointly placed (lead by the partner). Key states for Crompton's solar pump business, at present, are - Haryana and Maharashtra.

Crompton indicates that sourcing of solar panels has not yet been an impediment, at company level, as highlighted by other peers.

- **Appliances:** Segment reported broad-based growth in Q2FY25 YoY. Sub-segments like room heaters and air coolers grew strongly despite Q2 being a typical lean season.

Crompton's mixer grinder business is witnessing strong growth traction led by: (1) new launches of premium products; and (2) channel expansion.

The company indicates it has attained market leadership position in mixer grinder segment led by cumulative business of Crompton and butterfly. At present, Crompton has started to insource its small domestic appliances from Butterfly manufacturing facilities.

Large appliances segment recorded sales of INR 190mn in Q2FY25. Segment is recording improvement in revenue generation with reduction of losses at EBITDA level.

- **Lighting:** Initiative undertaken in strategy 2.0 for restructuring of lighting segment are now showing results. There is consistent improvement in the lighting segment on both revenue and margin parameter. Revenue growth is picking up on a QoQ basis. Segment recorded 6% revenue growth YoY. The company has recorded industry-leading revenue growth in conventional lighting segment. While strong growth traction in B2B segment has sustained, B2C has now started to contribute to revenue growth. Non-conventional products, ceiling and outdoor lighting segment have done significantly well on new product launches. Batons and pumps earlier contributed 70% of segmental revenue. The contribution has now lowered to 50% due to material improvement in business mix.

On the industrial business segment, Crompton has completed the Bengaluru project for NHAI. There was a QoQ improvement in EBIT margins at overall lighting business despite higher A&P spends. Crompton spent INR 0.58bn on ad-spends (+69% QoQ).

In lighting, the company is focusing on innovation. It has received grants for two products in Q2. It launched 20 new products with meaningful contribution to lighting sales in Q2.

- **Alternate channels:** Alternate channel registered strong 37% revenue growth in Q2FY25 YoY. Saliency increased to 21% YoY vs. 18% in Q2FY24. Crompton generated INR 1bn for its fifth consecutive quarter from e-commerce channels. In Q2FY25, Crompton generated INR 2bn+ sales from alternate channels.
- **Butterfly:** Crompton indicates that its business refresh process is well on track at Butterfly. Butterfly generated revenue of INR 2.58bn (+42% QoQ) in Q2 with festive-led demand. Exports channel is consistently delivering high growth YoY. The company has undertaken price hikes despite higher competition.

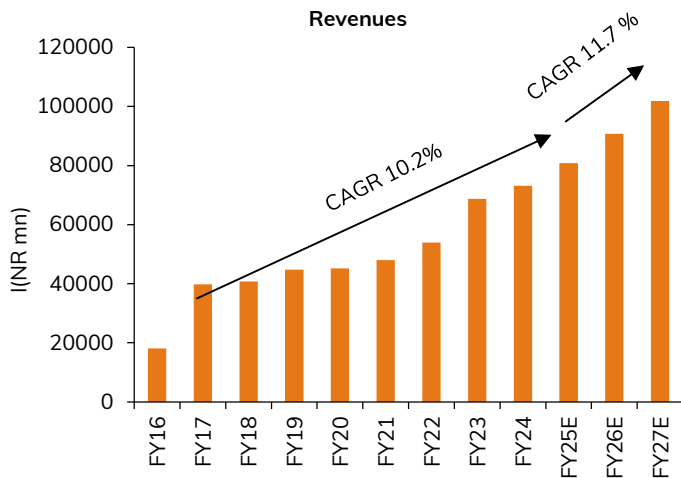
EBIT margin expansion was led by: (1) price laddering; (2) process intervention; and (3) cost reduction. The company indicates that performance may continue to improve in H2FY25 led by change in trade terms, price laddering and improved unit economics.

- **Demand trend:** There was a moderate demand trend across products segment except kitchen appliances which saw strong demand in few weeks before Diwali festival. There was healthy consumer offtake. Segments such as pressure cookers, non-electrical products saw good demand.

While demand has remained moderate on an overall basis, select sub-segments registered disproportionately high growth. In pumps (solar), kitchen appliances (mixer grinder), large domestic appliances (air coolers), fans (TPW) are some segments that recorded strong growth on better demand.

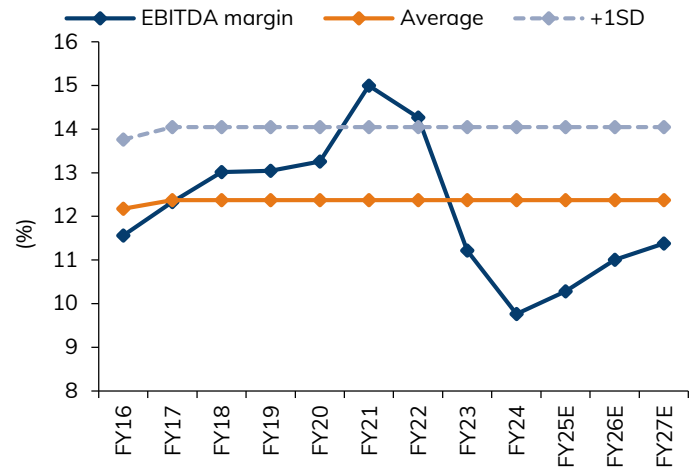
Key performance highlights – annual

Exhibit 5: Revenue



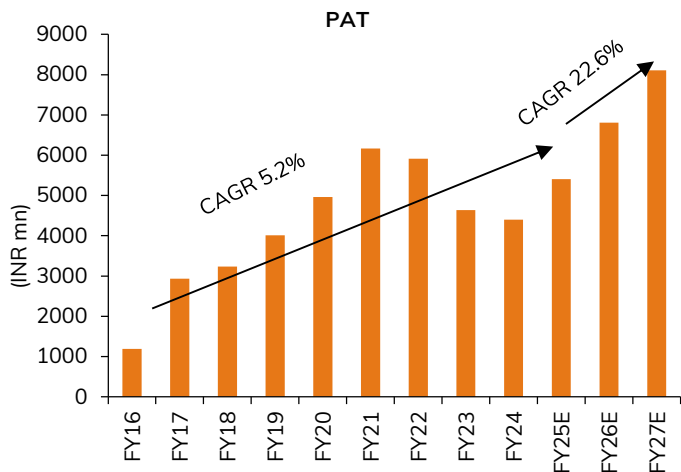
Source: Company data, I-Sec research

Exhibit 6: EBITDA margin



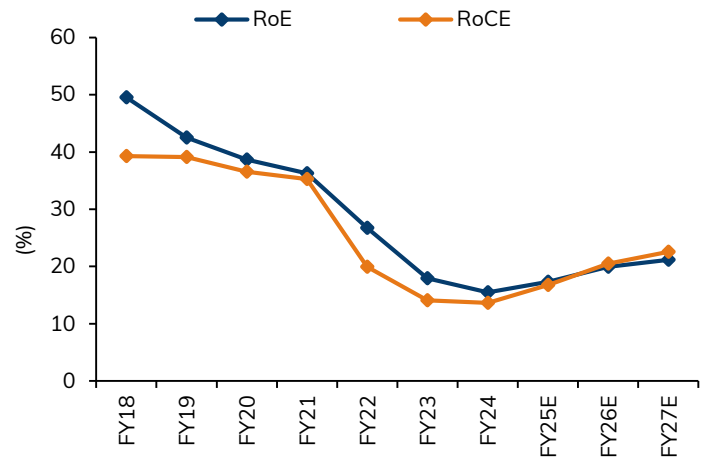
Source: Company data, I-Sec research

Exhibit 7: PAT



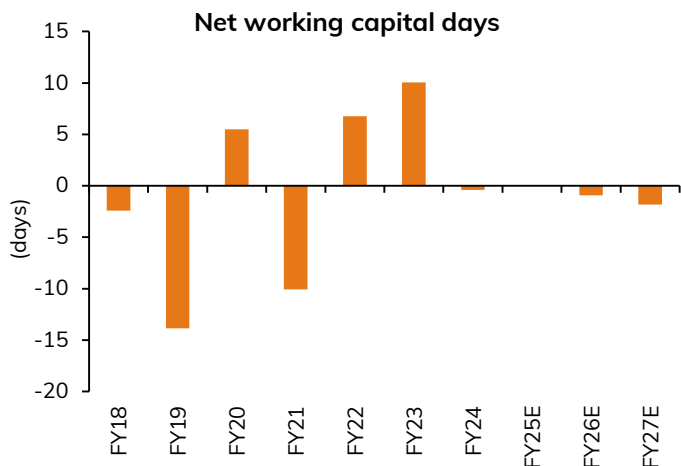
Source: Company data, I-Sec research

Exhibit 8: RoE and RoCE



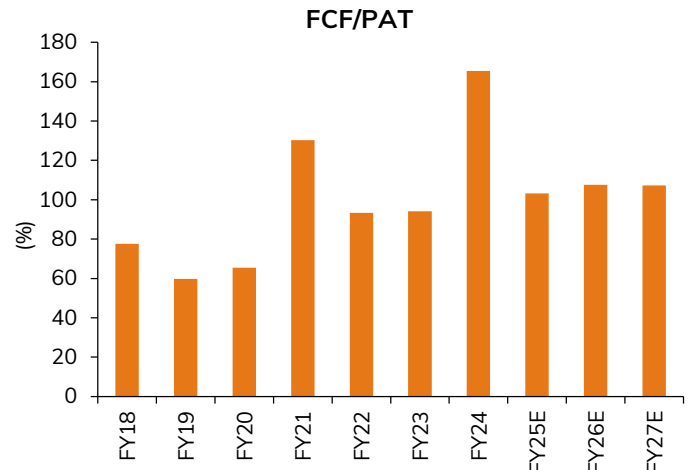
Source: Company data, I-Sec research

Exhibit 9: Net working capital days



Source: Company data, I-Sec research

Exhibit 10: FCF/PAT (%)



Source: Company data, I-Sec research

Valuation and risks

We model Crompton to report revenue/PAT CAGRs of 11.7%/22.6% over FY24–27E and RoCE of 22.6% in FY27. At our DCF-based revised target price of INR 508 (earlier INR 540), implied P/E works out to 48x FY26E EPS/ 40x FY27E. Maintain BUY.

Exhibit 11: DCF-based valuation

Particulars	
Cost of Equity (%)	11.0%
Terminal growth rate (%)	4.0%
Discounted interim cash flows (INR mn)	1,47,035
Discounted terminal value (INR mn)	1,79,659
Total equity value (INR mn)	3,26,695
Value per share (INR)	508

Source: Company data, I-Sec research

Risks

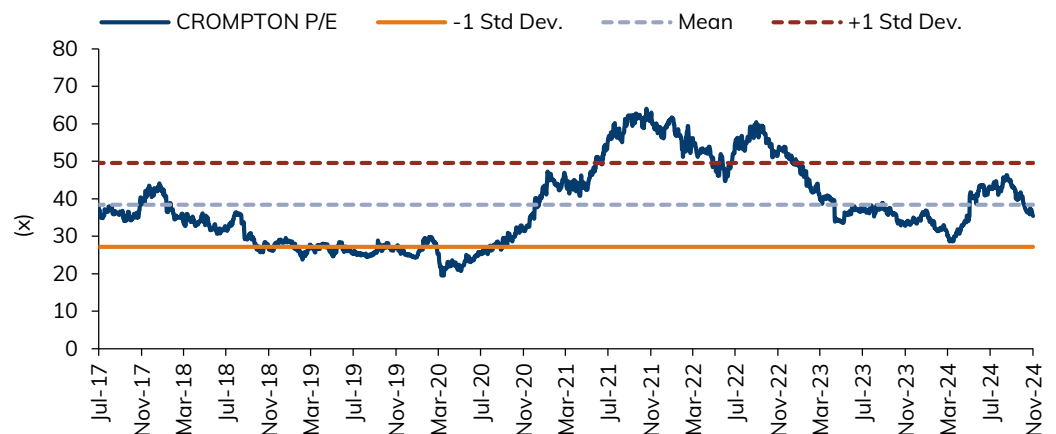
Sharp increase in input prices and competitive pressures

Major increase in input prices and/or increase in competitive pressures may 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 12: Mean PE (x) and standard deviations



Source: I-Sec research, Bloomberg

Exhibit 13: Shareholding pattern

%	Mar'24	Jun'24	Sep'24
Promoters	0.0	0.0	0.0
Institutional investors	84.0	85.9	85.9
MFs and others	40.2	42.3	41.7
FIs/Banks	0.3	0.4	0.4
Insurance	9.8	8.1	7.0
FIIIs	33.7	35.6	37.3
Others	16.0	14.1	14.1

Source: Bloomberg

Exhibit 14: Price chart



Source: Bloomberg

Financial Summary

Exhibit 15: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	73,128	80,825	90,739	1,01,871
Operating Expenses	65,991	72,513	80,750	90,276
EBITDA	7,137	8,312	9,989	11,595
EBITDA Margin (%)	9.8	10.3	11.0	11.4
Depreciation & Amortization	1,288	1,141	1,187	1,232
EBIT	5,849	7,171	8,802	10,363
Interest expenditure	792	497	304	217
Other Non-operating Income	674	559	603	697
Recurring PBT	5,731	7,234	9,101	10,843
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	1,313	1,808	2,275	2,711
PAT	4,418	5,425	6,826	8,132
Less: Minority Interest	17	19	22	25
Extraordinaries (Net)	(3)	-	-	-
Net Income (Reported)	4,398	5,406	6,804	8,107
Net Income (Adjusted)	4,401	5,406	6,804	8,107

Source Company data, I-Sec research

Exhibit 16: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	20,157	21,000	21,705	26,045
of which cash & cash eqv.	2,608	1,990	614	2,616
Total Current Liabilities & Provisions	17,633	18,994	21,324	23,940
Net Current Assets	2,524	2,006	382	2,106
Investments	8,578	8,578	11,578	15,078
Net Fixed Assets	19,114	18,937	18,650	18,318
ROU Assets	-	-	-	-
Capital Work-in-Progress	114	-	-	-
Total Intangible Assets	12,855	12,855	12,855	12,855
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	43,184	42,375	43,464	48,356
Liabilities				
Borrowings	8,595	5,595	3,095	3,095
Deferred Tax Liability	99	99	99	99
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	1,286	1,286	1,286	1,286
Reserves & Surplus	28,710	30,901	34,490	39,382
Total Net Worth	29,996	32,187	35,776	40,668
Minority Interest	4,494	4,494	4,494	4,494
Total Liabilities	43,184	42,375	43,464	48,356

Source Company data, I-Sec research

Exhibit 17: Quarterly trend

(INR mn, year ending March)

	Dec-23	Mar-24	Jun-24	Sep-24
Net Sales	16,927	19,610	21,377	18,960
% growth (YOY)	11.6	9.5	13.9	6.4
EBITDA	1,498	2,036	2,324	2,034
Margin %	8.8	10.4	10.9	10.7
Other Income	167	160	238	175
Extraordinaries	(5)	13	0	0
Adjusted Net Profit	860	1,384	1,518	1,249

Source Company data, I-Sec research

Exhibit 18: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	8,112	6,448	8,239	9,618
Working Capital Changes	2,226	(99)	248	278
Capital Commitments	(805)	(850)	(900)	(900)
Free Cashflow	7,307	5,598	7,339	8,718
Other investing cashflow	(1,663)	-	(3,000)	(3,500)
Cashflow from Investing Activities	(2,468)	(850)	(3,900)	(4,400)
Issue of Share Capital	893	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	(3,640)	(3,000)	(2,500)	-
Dividend paid	(1,912)	(3,216)	(3,216)	(3,216)
Others	-	-	-	-
Cash flow from Financing Activities	(4,659)	(6,216)	(5,716)	(3,216)
Chg. in Cash & Bank balance	985	(617)	(1,376)	2,002
Closing cash & balance	1,753	1,990	614	2,616

Source Company data, I-Sec research

Exhibit 19: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	6.8	8.4	10.6	12.6
Adjusted EPS (Diluted)	6.8	8.4	10.6	12.6
Cash EPS	8.8	10.2	12.4	14.5
Dividend per share (DPS)	3.0	5.0	5.0	5.0
Book Value per share (BV)	46.6	50.0	55.6	63.2
Dividend Payout (%)	43.5	59.5	47.3	39.7
Growth (%)				
Net Sales	6.5	10.5	12.3	12.3
EBITDA	(7.4)	16.5	20.2	16.1
EPS (INR)	(6.1)	22.8	25.9	19.2
Valuation Ratios (x)				
P/E	54.2	44.1	35.1	29.4
P/CEPS	41.9	36.4	29.9	25.5
P/BV	8.0	7.4	6.7	5.9
EV / EBITDA	33.1	28.1	23.0	19.3
P / Sales	3.3	3.0	2.6	2.3
Dividend Yield (%)	0.8	1.3	1.3	1.3
Operating Ratios				
Gross Profit Margins (%)	31.6	31.1	31.8	32.0
EBITDA Margins (%)	9.8	10.3	11.0	11.4
Effective Tax Rate (%)	22.9	25.0	25.0	25.0
Net Profit Margins (%)	6.0	6.7	7.5	8.0
NWC / Total Assets (%)	5.8	4.7	0.9	4.4
Net Debt / Equity (x)	(0.1)	(0.1)	(0.2)	(0.3)
Net Debt / EBITDA (x)	(0.4)	(0.6)	(0.9)	(1.3)
Profitability Ratios				
RoCE (%)	10.6	12.6	15.4	17.0
RoE (%)	13.4	15.2	17.7	19.0
RoIC (%)	13.6	16.9	21.0	25.2
Fixed Asset Turnover (x)	3.3	3.5	3.8	4.1
Inventory Turnover Days	43	42	42	42
Receivables Days	37	38	39	39
Payables Days	80	80	81	81

Source Company data, I-Sec research

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