

Crompton Consumer

Demand softness in the near term

We recently met with the management of Crompton, who acknowledged near-term demand softness, particularly in summer products, as there was an advancement in demand during 1HCY24 due to rising temperatures and heat waves. However, the non-summer portfolio continues to show a gradual recovery. The management reaffirmed their commitment to an absolute profit-led growth strategy. In the fans segment, the focus remains on (1) enhancing the premium mix alongside GTM excellence, (2) scaling up alternate channels, (3) increasing market share in under-penetrated regions, and (4) expanding the non-ceiling portfolio (TWP). The restructuring of BGAL is progressing as planned, and management expects this to arrest the declining trend in 2H, targeting mid-to-high single-digit (MSD-HSD) margins. Festive demand pickup remains the key monitorable.

Despite the near-term challenges, we remain positive on Crompton's medium-to long-term prospects. The Crompton 2.0 strategy focuses on (1) protecting and growing the core categories (fans and pumps), (2) scaling up the kitchen portfolio (SDA and LKA) as the next growth driver, (3) transforming the lighting business, (4) portfolio premiumisation driven by innovation, (5) GTM excellence and diversification, and (6) entering 2-3 new segments. We have reduced our FY25-27 earnings estimates by 2-3% to account for near-term weakness. We roll forward to Sep'26 EPS and assign a 40x multiple to derive a target price (TP) of INR 500. Maintain BUY.

- **After a scorching summer, fans' demand set to taper down:** Summer products, such as fans and air coolers, capitalised on the intense heat experienced across the country. Consequently, in 1HCY24, fan revenues are estimated to have grown in the mid-teens, while air coolers faced inventory stockouts. With the early surge in demand for summer products, Crompton anticipates a natural tapering-off in Q2, with any significant recovery likely in Q4. The company continues to implement gradual pricing adjustments. In the fans segment, the focus remains on (1) increasing the premium mix (aiming to raise it from 25% to 40%), (2) achieving GTM excellence in the premium segment, (3) scaling up alternate channels (rural, modern trade, e-commerce, exports), (4) expanding market share in under-penetrated regions, and (5) growing the non-ceiling portfolio (TWP).
- **Onam demand below expectation; festive season key monitorable:** Demand remains soft across segments with inflation a key deterrent. Moreover, Onam demand (start of the festive season) has been below expectations. Pick-up in demand during the festive season remains a key monitorable.
- **Solar pumps gaining traction; cooktops launch delayed:** Within pumps, Crompton has made a foray into solar pumps; this is seeing a good tailwind due to the PM Kusum scheme. Crompton executed orders worth INR 360mn in FY24 and has more in the offing. The collection cycle remains good, and it expects to accelerate order wins by the end of FY25. Within the built-in kitchen, the launch of cooktops has been delayed due to supply chain issues. Usually, 75% of chimney purchases are accompanied by cooktops and hobs as consumers are inclined to acquire product combos from a single brand.
- **Making progress in lighting segment turnaround:** Within B2C, Crompton has been focusing on expanding its product range (increasing mix of ceiling and battens) and enhancing market penetration through a structured GTM strategy (dedicated sales and distribution team). From a predominantly bulb-heavy mix earlier, ceiling and battens now contribute 40%+ of revenues. For the B2B segment, Crompton has a dedicated enterprise team which is seeing good traction. In the near term, the B2C segment will continue to witness pricing pressure while the B2B order pipeline is coming down.

BUY

CMP (as on 26 Sep 2024)	INR 419
Target Price	INR 500
NIFTY	26,216

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 500	INR 500
EPS %	FY26E -3.0%	FY27E -3.0%

KEY STOCK DATA

Bloomberg code	CROMPTON IN
No. of Shares (mn)	644
MCap (INR bn) / (\$ mn)	270/3,226
6m avg traded value (INR mn)	1,748
52 Week high / low	INR 484/261

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(2.2)	54.7	41.7
Relative (%)	(11.3)	36.3	11.5

SHAREHOLDING PATTERN (%)

	Mar-24	Jun-24
Promoters	0.00	0.00
FIs & Local MFs	51.47	51.63
FPIs	32.18	34.37
Public & Others	16.35	14.00
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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- Butterfly (BGAL) restructuring under progress:** Repositioning of BGAL as a lifestyle brand with higher retail saliency (GT, MT, regional chains, etc.) remains on track. Akin to Crompton, BGAL is charting a new organisational structure and is now being run by Swetha Sagar who comes from a kitchen background (ex-Preeti). Crompton has already started deriving some synergies from BGAL like (1) leveraging BGAL's manufacturing capabilities for mixer grinders and cooktops; (2) logistics synergies; (3) combining sales office and manpower. BGAL will look to further strengthen its position in the south (opportunities in TN and Andhra Pradesh) post which, focus will shift towards Maharashtra and Gujarat. In the near term, BGAL will look to arrest the declining trend likely to be seen in 1H with MSD-HSD margins.

Financial Summary

YE Mar (INR mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	53,941	68,696	73,128	81,919	93,205	1,05,118
EBITDA	7,695	7,705	7,137	8,939	10,863	12,879
APAT	5,914	4,632	4,399	5,779	7,393	8,873
Diluted EPS (INR)	9.3	7.3	6.8	9.0	11.5	13.8
P/E (x)	44.9	57.5	61.3	46.6	36.4	30.4
EV / EBITDA (x)	34.6	34.9	37.3	29.4	23.7	19.4
RoE (%)	27.0	18.1	13.4	15.9	18.0	19.0

Source: Company, HSIE Research

Exhibit 1: Change in estimates

Year End (March) - INR mn	Old			New			Change %		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	83,173	95,205	1,08,375	81,919	93,205	1,05,118	-2	-2	-3
EBITDA	9,157	11,132	13,215	8,939	10,863	12,879	-2	-2	-3
EBITDAM %	11.0	11.7	12.2	10.9	11.7	12.3	-10bps	0bps	10bps
APAT	5,943	7,584	9,116	5,779	7,393	8,873	-3	-3	-3
EPS (INR)	9.2	11.8	14.2	9.0	11.5	13.8	-3	-3	-3

Source: Company; HSIE Research

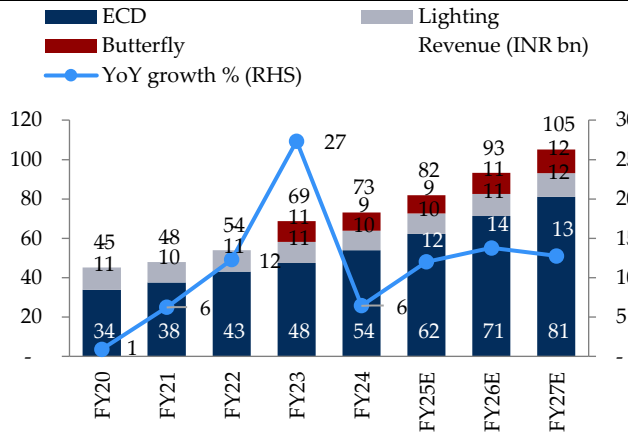
Exhibit 2: Key Assumptions

Year End (March)	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenue (INR mn)								
ECD	33,890	37,571	43,110	47,557	53,922	62,202	71,365	81,097
Lighting	11,312	10,464	10,831	10,581	9,982	10,431	11,161	11,942
Butterfly	-	-	-	10,558	9,225	9,286	10,679	12,078
Total	45,203	48,035	53,941	68,696	73,128	81,919	93,205	1,05,118
Revenue Growth %								
ECD	5	11	15	10	13	15	15	14
Lighting	-11	-7	4	-2	-6	4	7	7
Butterfly	-	-	-	-	-13	1	15	13
Total	1	6	12	27	6	12	14	13
EBIT (INR mn)								
ECD	6,731	7,392	8,267	7,893	7,747	9,330	10,990	12,570
Lighting	706	1,317	1,278	1,005	1,053	1,069	1,228	1,344
Butterfly	-	-	-	840	82	418	534	966
Total	7,437	8,710	9,545	9,738	8,882	10,817	12,752	14,880
EBIT Margin %								
ECD	19.9	19.7	19.2	16.6	14.4	15.0	15.4	15.5
Lighting	6.2	12.6	11.8	9.5	10.6	10.3	11.0	11.3
Butterfly	-	-	-	8.0	0.9	4.5	5.0	8.0
Total	16.5	18.1	17.7	14.2	12.1	13.2	13.7	14.2

Source: Company, HSIE Research

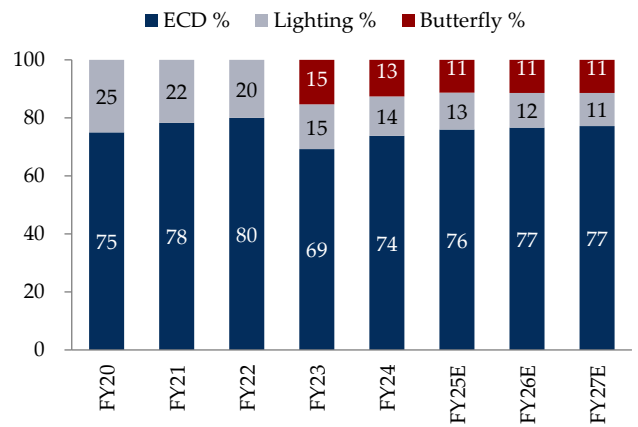
Story in Charts

Exhibit 3: Revenue to grow at 13% CAGR over FY24-27



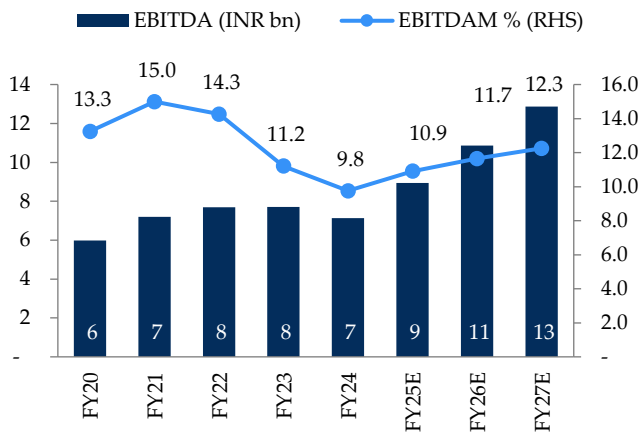
Source: Company, HSIE Research

Exhibit 4: ECD continue to dominate revenue mix



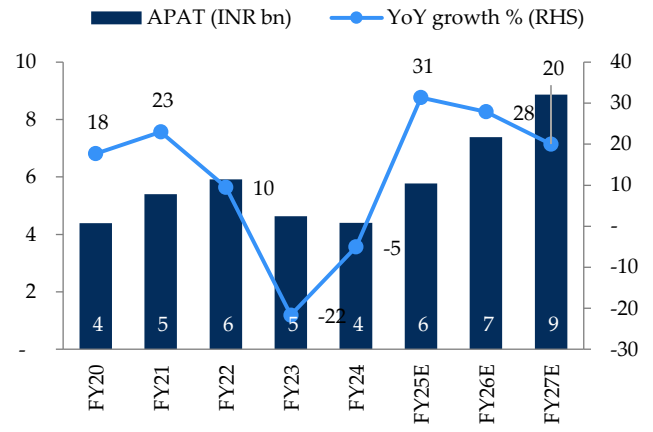
Source: Company, HSIE Research

Exhibit 5: EBITDA to grow at 22% CAGR over FY24-27



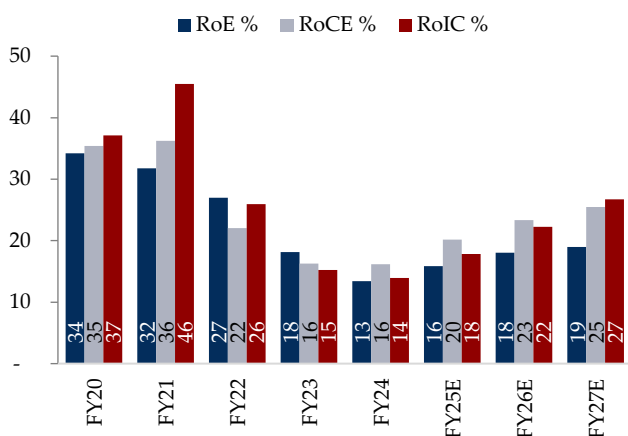
Source: Company, HSIE Research

Exhibit 6: PAT to grow at 26% CAGR over FY24-27



Source: Company, HSIE Research

Exhibit 7: Return profile to improve



Source: Company, HSIE Research

Exhibit 8: Trading at 45x 1yr-forward P/E



Source: Bloomberg

Financials

Consolidated P&L

Year End (March) - INR mn	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net Revenues	53,941	68,696	73,128	81,919	93,205	1,05,118
Growth (%)	12.3	27.4	6.5	12.0	13.8	12.8
Material Expenses	37,018	46,804	50,003	55,705	62,914	70,692
Employee Expense	3,624	5,408	5,899	6,554	7,270	7,884
Other Expenses	5,605	8,780	10,089	10,722	12,159	13,663
EBITDA	7,695	7,705	7,137	8,939	10,863	12,879
EBITDA Growth (%)	6.8	0.1	(7.4)	25.2	21.5	18.6
EBITDA Margin (%)	14.3	11.2	9.8	10.9	11.7	12.3
Depreciation	423	1,159	1,288	1,518	1,576	1,793
EBIT	7,272	6,545	5,849	7,421	9,287	11,086
Other Income (Including EO Items)	727	668	674	830	979	1,210
Interest	353	1,092	792	432	262	205
PBT	7,645	6,121	5,731	7,818	10,004	12,091
Total Tax	1,732	1,358	1,313	1,974	2,526	3,053
Profit before JV/Associates/NCI	5,914	4,764	4,418	5,844	7,478	9,038
Non-controlling Interest	-	132	19	65	86	165
Exceptional Gain/ (loss)	(130)	-	-	-	-	-
RPAT	5,784	4,632	4,399	5,779	7,393	8,873
Adjusted PAT	5,914	4,632	4,399	5,779	7,393	8,873
APAT Growth (%)	9.5	(21.7)	(5.0)	31.4	27.9	20.0
EPS	9.3	7.3	6.8	9.0	11.5	13.8
EPS Growth (%)	8.5	(22.0)	(6.1)	31.4	27.9	20.0

Consolidated Balance Sheet

Year End (March) - INR mn	FY22	FY23	FY24	FY25E	FY26E	FY27E
SOURCES OF FUNDS						
Share Capital - Equity	1,267	1,272	1,286	1,286	1,286	1,286
Other Equity	23,263	25,328	28,710	32,560	37,702	43,842
Total Shareholders Funds	24,530	26,600	29,996	33,846	38,988	45,128
NCI	7,825	4,477	4,494	4,558	4,644	4,809
Long Term Debt	46	5,972	2,990	2,990	-	-
Short Term Debt	16,030	3,250	3,000	-	2,990	-
Total Debt	16,075	9,222	5,990	2,990	2,990	-
Net Deferred Taxes	394	123	99	158	233	324
Other Non Current Liabilities	1,618	2,004	2,606	2,857	3,147	3,531
TOTAL SOURCES OF FUNDS	50,441	42,425	43,184	44,409	50,002	53,792
APPLICATION OF FUNDS						
Net Block	4,045	4,080	3,991	4,909	5,267	5,550
Goodwill	12,855	12,855	12,855	12,855	12,855	12,855
CWIP	130	265	585	100	100	100
Intangible assets	15,124	14,805	14,361	13,915	13,504	13,090
Right of Use Assets	711	760	762	721	825	1,086
Non Current Investments	3	4	-	-	-	-
Other Non Current Assets	1,184	1,193	1,216	1,251	1,298	1,350
Total Non-current Assets	34,052	33,961	33,769	33,750	33,849	34,031
Current-Investments	6,238	5,478	6,891	7,891	12,891	16,391
Inventories	7,210	7,439	8,304	8,977	10,214	11,520
Debtors	5,936	6,706	7,209	7,855	8,937	10,080
Cash & Equivalents	9,152	1,095	2,608	2,184	2,612	2,622
Other Current Assets	1,898	1,866	2,036	2,172	2,395	2,643
Total Current Assets	30,434	22,583	27,048	29,081	37,049	43,256
Creditors	10,097	10,354	13,145	13,466	15,321	17,280
Other Current Liabilities & Provns	3,948	3,766	4,488	4,956	5,575	6,216
Total Current Liabilities	14,045	14,119	17,633	18,422	20,896	23,496
Net Current Assets	16,389	8,464	9,415	10,659	16,153	19,761
TOTAL APPLICATION OF FUNDS	50,441	42,425	43,184	44,409	50,002	53,792

Source: Company, HSIE Research

Consolidated Cash Flow

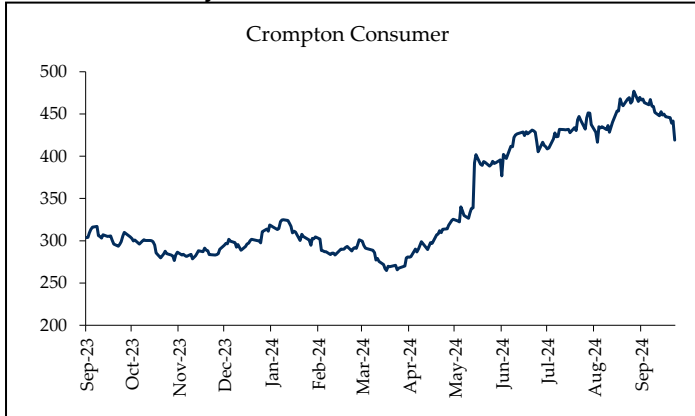
Year End (March) - INR mn	FY22	FY23	FY24	FY25E	FY26E	FY27E
Reported PBT	7,645	6,121	5,731	7,818	10,004	12,091
Non-operating & EO Items	(264)	(409)	(619)	(271)	(341)	(360)
Interest Expenses	353	1,092	792	432	262	205
Depreciation	423	1,159	1,288	1,518	1,576	1,793
Working Capital Change	1,005	(1,039)	2,226	(691)	(98)	(123)
Tax Paid	(1,798)	(1,399)	(984)	(1,974)	(2,526)	(3,053)
OPERATING CASH FLOW (a)	7,364	5,526	8,434	6,833	8,877	10,554
Capex	(1,706)	(708)	(805)	(1,100)	(1,100)	(1,100)
Free Cash Flow (FCF)	5,658	4,818	7,629	5,733	7,777	9,454
Investments	1,829	8,027	(1,696)	(1,200)	(5,100)	(3,700)
Non-operating Income	(3,551)	432	432	475	569	682
Others	(13,930)	(5,119)	-	-	-	-
INVESTING CASH FLOW (b)	(17,359)	2,632	(2,069)	(1,825)	(5,631)	(4,118)
Debt Issuance/(Repaid)	10,769	(6,842)	(3,250)	(3,000)	-	(2,990)
Interest Expenses	(505)	(765)	(754)	(432)	(262)	(205)
FCFE	16,932	(1,259)	5,133	3,165	8,039	6,668
Share Capital Issuance	603	416	893	-	-	-
Dividend	(1,564)	(1,578)	(1,912)	(1,929)	(2,251)	(2,733)
Others	(230)	(337)	(390)	(269)	(406)	(697)
FINANCING CASH FLOW (c)	9,073	(9,105)	(5,413)	(5,631)	(2,919)	(6,624)
NET CASH FLOW (a+b+c)	(922)	(948)	952	(623)	327	(189)
EO Items, Others	(130)	-	-	-	-	-
Closing Cash & Equivalents	1,703	768	1,721	1,097	1,424	1,235

Ratios

Year End (March)	FY22	FY23	FY24	FY25E	FY26E	FY27E
PROFITABILITY (%)						
GPM	31.4	31.9	31.6	32.0	32.5	32.8
EBITDA Margin (%)	14.3	11.2	9.8	10.9	11.7	12.3
EBIT Margin	13.5	9.5	8.0	9.1	10.0	10.5
PBT Margin	14.2	8.9	7.8	9.5	10.7	11.5
APAT Margin	11.0	6.7	6.0	7.1	7.9	8.4
RoE	27.0	18.1	13.4	15.9	18.0	19.0
RoIC (or Core RoCE)	25.9	15.3	13.9	17.8	22.2	26.7
RoCE	22.1	16.3	16.1	20.2	23.3	25.5
EFFICIENCY						
Tax Rate (%)	22.6	22.2	22.9	25.3	25.3	25.3
Fixed Asset Turnover (x)	12.3	11.2	11.4	11.2	10.9	11.0
Inventory (days)	42	39	41	40	40	40
Debtors (days)	36	34	36	35	35	35
Other Current Assets (days)	14	10	10	10	9	9
Payables (days)	62	54	66	60	60	60
Other Current Liab & Provns (days)	21	20	22	22	22	22
Cash Conversion Cycle (days)	9	8	(0)	3	3	3
Net D/E (x)	0.3	0.3	0.1	0.0	0.0	(0.1)
Interest Coverage (x)	20.6	6.0	7.4	17.2	35.4	54.1
PER SHARE DATA (Rs)						
EPS	9.3	7.3	6.8	9.0	11.5	13.8
CEPS	10.0	9.1	8.8	11.3	13.9	16.6
Dividend	2.5	3.0	3.0	3.5	4.3	5.0
Book Value	38.7	41.8	46.6	52.6	60.6	70.2
VALUATION						
P/E (x)	44.9	57.5	61.3	46.6	36.4	30.4
P/BV (x)	10.8	10.0	9.0	8.0	6.9	6.0
EV/EBITDA (x)	34.6	34.9	37.3	29.4	23.7	19.4
EV/Revenues (x)	4.9	3.9	3.6	3.2	2.8	2.4
OCF/EV (%)	2.8	2.1	3.2	2.6	3.5	4.2
FCF/EV (%)	2.1	1.8	2.9	2.2	3.0	3.8
FCFE/Mkt Cap (%)	6.4	(0.5)	1.9	1.2	3.0	2.5
Dividend Yield (%)	0.6	0.7	0.7	0.8	1.0	1.2

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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