

# Crompton Greaves Consumer (CROGR)

CMP: ₹ 295

Target: ₹ 335 (14%)

Target Period: 12 months

HOLD

March 28, 2023

## Merger of Butterfly to unlock synergies...

**About the stock:** Crompton Greaves Consumer (CGCEL) is among India's leading fast moving electrical goods (FMEG) companies, present in ECD (~67% of revenue), Butterfly (~17% of revenue) and lighting (~16% of revenue).

- Market leader in the domestic fan industry with value market share of 27%. The company has enhanced focus on increasing market share in kitchen appliances category through expansion of Butterfly brand across India
- Robust balance sheet with RoE & RoCE of ~30% each (three-year average), respectively, with stringent working capital policy

**Merger Details:** The CGCEL board has approved the scheme of amalgamation of Butterfly with itself through a share swap deal. The swap ratio for the deal has been decided at 22 equity shares of CGCEL for every five shares of Butterfly. Hence, CGCEL will issue ~1.97 crore new equity shares (~3% of pre-merger share capital) to acquire 0.45 crore public shareholding of Butterfly. We believe with this swap ratio, Butterfly is valued at ~₹ 2305 crore (closing price of March 24, 2023) at ~29x FY25E earnings, 1.5x of FY25E sales, respectively. CGCEL already holds 75% stake in Butterfly. Hence, business synergies such as entry into kitchen appliances category and improved operating leverage through expansion into non south regions are already in place. Therefore, we do not see any additional business impact from the amalgamation in the near to mid-term. We believe various revenues & cost synergies will benefit CGCEL in the long run.

**What should investors do?** CGCEL's share price has given 25% returns in the past five years (from ~₹ 236 in March 2018 to ~₹ 295 levels in March 2023).

- We now value the merged entity at 30x FY25E earnings. We maintain our target price of ₹ 335/share and **HOLD** rating on the stock.

### Key benefits of the merger:

- Achievement of revenue & cost synergy on account of pooling of resources
- The combined business will have a stronger emphasis on appliance products with a broader geographic presence
- Streamlining and simplification of business structure

**Alternate Stock Idea:** We like Havells in the same space.

- Havells has a strong presence in the organised product category across its segments. Its market share ranges between 6% and 20% across segments
- BUY with a target price of ₹ 1420



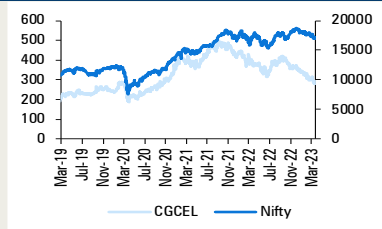
### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	18490.60
Total Debt (FY22) (₹ Crore)	1607.51
Cash & Invest. (FY22) (₹ Crore)	1539.02
EV (₹ Crore)	18559.09
52 week H/L	429/ 278
Equity capital (₹ Crore)	126.68
Face value (₹)	2.00

### Shareholding pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	6.0	5.9	5.9	2.5	0.0
FII	40.2	38.0	37.3	39.7	39.5
DII	43.2	44.4	45.0	45.2	44.5
Others	10.7	11.7	11.8	12.6	16.0

### Price Chart



### Recent event & key risks

- Key Risk:** (i) Rising competition in core business segment (ii) Better than expected EBITDA margin

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### Key Financial Summary

(₹ crore)	FY19	FY20	FY21	FY22	5 Year CAGR (FY17-22)	FY23E	FY24E	FY25E	3 Year CAGR (22-25E)
Net Sales	4478.9	4520.3	4803.5	5394.1	6%	6855.8	7870.4	8921.6	18.3
EBITDA	584.3	599.1	720.5	769.4	9%	788.8	935.0	1109.4	13.0
EBITDA Margin (%)	13.0	13.3	15.0	14.3		11.5	11.9	12.4	
Net Profit	401.4	496.4	616.7	578.4	15%	456.0	582.6	735.5	8.3
EPS (₹)	6.4	7.9	9.8	9.2		7.3	8.9	11.2	
P/E (x)	46.1	37.3	30.0	32.0		40.5	33.2	26.3	
RoE (%)	36.6	33.8	31.9	24.0		18.5	21.2	23.3	
RoCE (%)	42.8	38.3	34.4	16.2		14.3	17.6	21.3	

## Merger of Butterfly to aid streamlining of businesses

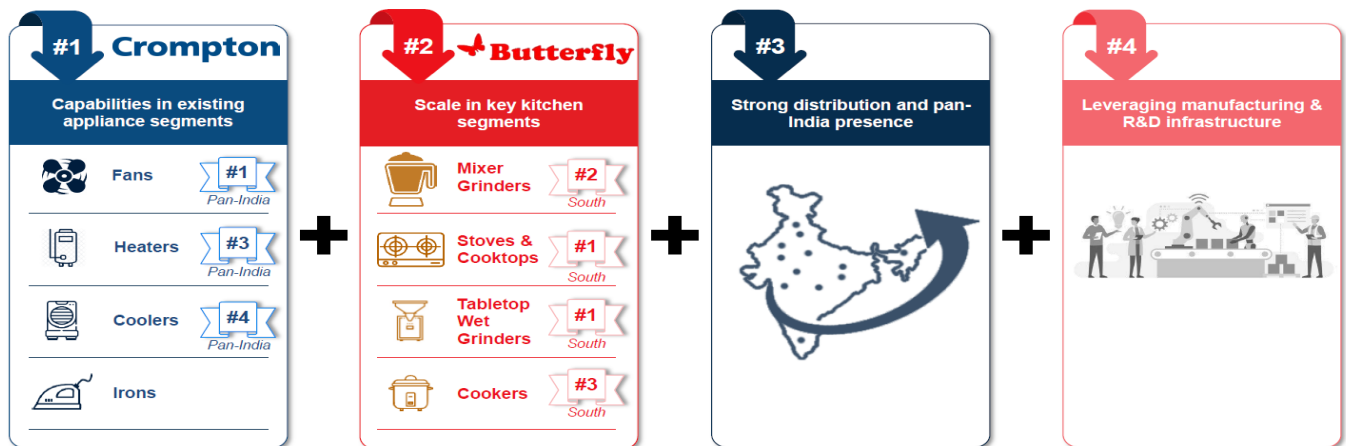
CGCEL holds 75% stake in Butterfly. On March 25, 2023, CGCEL announced the merger of Butterfly with itself. Post approval of the merger, CGCEL will issue 22 fully paid-up shares to shareholders of Butterfly for every five fully paid-up shares of Butterfly. At the given swap ratio there will be a 3% equity dilution for CGCEL. The merger is likely to be completed by Q4FY24 post receipt of required approvals. The key rationale behind the merger include:

- Simplification of the business structure, which is likely to provide greater operational flexibility and more efficient allocation of capital
- Combined business will have a stronger focus on diversified appliance products business with a wider geographical presence
- Realisation of revenue & cost synergies over the short to medium term
- Faster implementation of go-to-market strategy for pan India expansion
- Proposed merger will enable better scale for product-innovation and unlock cross-selling opportunities
- Combined business will result in pooling of human capital with diverse skills

CGCEL - ESG Disclosure Score*			
Score	FY19	FY20	FY21
Environmental	16.8	16.8	16.8
Social	13.5	14.5	22.9
Governance	66.1	66.1	66.1
<b>Overall ESG Score</b>	<b>32.2</b>	<b>32.5</b>	<b>35.3</b>

Source: Bloomberg, ICICI Direct Research, \*Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures

Exhibit 1: Combined business potential



Source: Company, ICICI Direct Research

## Merger likely to result in scale up of kitchen appliances portfolio

Butterfly is an established kitchen appliances player with a strong presence in South India. Butterfly is the No.1 player in stoves & cooktops & tabletop wet grinders, No.2 player in mixer grinders and No.3 player in cookers in South India. We believe CGCEL will leverage its existing dealer networks in north, east and west (which are dealing in appliances) to scale up its kitchen appliances business in the next two to three years. CGCEL has established retail touch points of over 1.5 lakh across India vs. ~25000 touch points of Butterfly mainly in south India. Currently, Butterfly has more than 500 distributors and CGCEL has more than 4000 channel partners. The combined distribution network will result in ramp up of the overall kitchen appliances portfolio.

## Diversification of product portfolio through new launches & product innovation

CGCEL's core segment (ECD+ lightings) revenues grew at 6% CAGR during 9MFY23 led by ~9% growth in the ECD segment. However, lighting segment revenue was impacted (down 8% from its pre Covid level revenues) by lower demand of conventional lightings and increased competition in B2C LED lightings. CGCEL's pump business has also remained under pressure due to lower demand for residential pumps. We believe an improvement in rural demand, new product launches and expansion in new geographies will help drive demand of lightings and

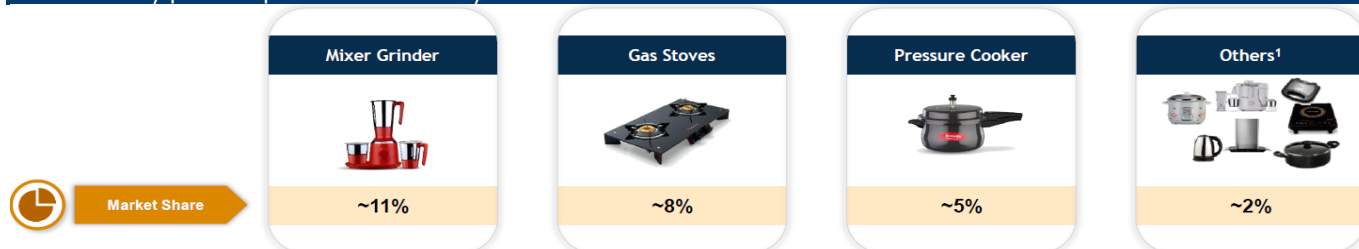
pumps over the next two years. On the appliances front, CGCEL has been increasing its focus on product innovation and new product launches. The company is focusing on increasing its market share in home appliances categories like air coolers, water heaters and kitchen appliances. On the Butterfly front, CGCEL plans to increase focus on both electric and non-electric product to gain market share. In Q3FY23, Butterfly launched 25 new products. We believe that increasing focus on new product launches and expansion of product portfolio will drive the company's revenue, going forward.

Exhibit 2: Key product portfolio of CGCEL



Source: Company, ICICI Direct Research

Exhibit 3: Key product portfolio of Butterfly



Source: Company, ICICI Direct Research \*Others include non-stick cookware, chimneys, hobs, induction stoves, electric kettles, rice cookers, OTG, sandwich makers, water purifiers & coffee makers

### Key takeaways from conference call

1. As per the management, the merger will result in enhancement of operational, organisational & financial efficiencies and achieve economies of scale by pooling resources
2. CGCEL is likely to achieve cost & revenue synergies post-merger
3. Integration of the businesses and focus on product innovation will enable more efficient allocation of capital and resources for growth opportunities
4. The merger is likely to enhance the ability to cross-sell products through the respective distribution channels in the high growth appliances segment with premium offering across product categories
5. The merger will enable the streamlining of the corporate structure and thereby result in a simplified business structure
6. Post acquisition, CGCEL has achieved cost synergy of ~₹ 20 crore till date. However, this amount has been reinvested into the business
7. The management aims double digit revenue growth in Butterfly, going forward

## Valuation & outlook

The CGCEL board has approved the scheme of amalgamation of Butterfly with itself through a share swap deal. The swap ratio for the deal has been decided at 22 equity shares of CGCEL for every five shares of Butterfly. Hence, CGECL will issue ~1.97 crore new equity shares (~3% of pre-merger share capital) to acquire 0.45 crore public shareholding of Butterfly. We believe with this swap ratio, Butterfly is valued at ~₹ 2305 crore (closing price of March 24, 2023) at ~29x FY25E earnings, 1.5x FY25E sales, respectively. CGCEL already holds 75% stake in Butterfly. Hence, business synergies such as entry into kitchen appliances category and improved operating leverage through expansion into non south regions are already in place. Therefore, we do not see any additional business impact from the amalgamation in the near to mid-term. We now value the merged entity at 30x FY25E earnings. We maintain our target price of ₹ 335/share and HOLD rating on the stock. We believe various revenues & cost synergies will benefit CGCEL in the long run.

### Exhibit 4: Change in estimates

(₹ Crore)	FY23E			FY24E			FY25E			Comments
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg	
Revenue	6855.8	6855.8	-	7870.4	7870.4	-	8921.6	8921.6	-	We maintain our revenue estimates for FY23E, FY24E, FY25E
EBITDA	788.8	788.8	-	935.0	935.0	-	1109.4	1109.4	-	
EBITDA Margin %	11.5	11.5	0bps	11.9	11.9	0bps	12.4	12.4	0bps	We build in EBITDA margin improvement from FY25E onwards led by various cost optimisation measures in the merged entity
PAT	456.0	456.0	-	561.4	582.6	3.8	708.8	735.5	3.8	Higher PAT estimates over FY24E-25E led by elimination of minority outgo
EPS (₹)	7.3	7.3	-	9.0	8.9	(0.7)	11.3	11.2	(0.7)	We believe equity dilution will lead to decline in our EPS estimate by ~1% each for FY24E-25E, respectively

Source: ICICI Direct Research

## Financial Summary

Exhibit 5: Profit and loss statement					₹ crore
(Year-end March)	FY22	FY23E	FY24E	FY25E	
<b>Revenue</b>	<b>5,394.1</b>	<b>6,855.8</b>	<b>7,870.4</b>	<b>8,921.6</b>	
Growth (%)	12.3	27.1	14.8	13.4	
<b>Expenses</b>					
Raw material exp	3,701.8	4,646.5	5,333.4	5,969.0	
Employee exp	362.4	546.5	576.6	662.3	
Other exp	463.4	659.2	757.6	852.6	
Total Operating exp	4,624.7	6,066.9	6,935.4	7,812.1	
<b>EBITDA</b>	<b>769.4</b>	<b>788.8</b>	<b>935.0</b>	<b>1,109.4</b>	
Growth (%)	6.8	2.5	18.5	18.7	
Depreciation	42.3	113.1	127.5	137.4	
Interest	35.3	111.7	114.3	85.9	
Other Income	72.7	64.4	84.7	96.1	
PBT	751.5	622.0	778.0	982.2	
Total Tax	173.2	148.1	195.4	246.7	
Minority Interest	0.0	17.9	0.0	0.0	
<b>PAT</b>	<b>578.4</b>	<b>456.0</b>	<b>582.6</b>	<b>735.5</b>	

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement					₹ crore
(Year-end March)	FY22	FY23E	FY24E	FY25E	
Profit after Tax	578.4	456.0	582.6	735.5	
Add: Depreciation	42.3	113.1	127.5	137.4	
(Inc)/dec in Current Assets	-308.0	-880.1	-231.7	-356.8	
Inc/(dec) in CL and Provisions	135.0	162.9	129.7	242.4	
Others	35.3	111.7	114.3	85.9	
<b>CF from operating activities</b>	<b>483.0</b>	<b>-36.4</b>	<b>722.3</b>	<b>844.3</b>	
(Inc)/dec in Investments	145.9	623.8	0.0	0.0	
(Inc)/dec in Fixed Assets	-1,896.9	-100.0	-80.0	-80.0	
Others	362.6	-656.1	-1.8	-1.8	
<b>CF from investing activities</b>	<b>-1,388.4</b>	<b>-132.3</b>	<b>-81.8</b>	<b>-81.8</b>	
Issue/(Buy back) of Equity	1.2	0.0	4.5	0.0	
Inc/(dec) in loan funds	1,308.7	200.0	-350.0	-460.0	
Dividend paid & dividend tax	-156.7	-125.4	-327.8	-327.8	
Others	63.4	-400.4	-114.3	-85.9	
<b>CF from financing activities</b>	<b>1,216.6</b>	<b>-325.8</b>	<b>-787.7</b>	<b>-873.8</b>	
Net Cash flow	311.3	-494.5	-147.1	-111.2	
Opening Cash	603.9	915.2	420.7	273.6	
Closing Cash	915.2	420.7	273.6	162.4	

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet					₹ crore
(Year-end March)	FY22	FY23E	FY24E	FY25E	
<b>Liabilities</b>					
Equity Capital	126.7	126.7	131.1	131.1	
Reserve and Surplus	2,326.3	2,368.2	2,622.9	3,030.5	
Total Shareholders funds	2,453.0	2,494.8	2,754.0	3,161.7	
Total Debt	1,607.5	1,807.5	1,457.5	997.5	
<b>Total Liabilities</b>	<b>4,926.5</b>	<b>5,168.4</b>	<b>5,077.6</b>	<b>5,025.2</b>	
<b>Assets</b>					
Gross Block	2,121.5	2,221.5	2,301.5	2,381.5	
Less: Acc Depreciation	133.5	246.7	374.2	511.5	
Total Fixed Assets	2,001.0	1,987.9	1,940.4	1,883.0	
Goodwill	1,285.5	1,285.5	1,285.5	1,285.5	
Other investmens	0.3	660.0	660.0	660.0	
Liquid Investments	623.8	0.0	0.0	0.0	
Inventory	721.0	1,033.1	1,121.3	1,271.0	
Debtors	615.4	995.5	1,078.1	1,222.1	
Other CA	223.3	411.3	472.2	535.3	
Cash	915.2	420.7	273.6	162.4	
Total Current Assets	2,476.2	2,861.8	2,946.5	3,192.0	
Creditors	1,017.8	1,258.5	1,358.5	1,539.9	
Provisions	291.8	289.4	298.9	338.8	
Other CL	212.5	137.1	157.4	178.4	
Total Current Liabilities	1,522.1	1,685.0	1,814.7	2,057.1	
Net current assets	954.1	1,176.8	1,131.8	1,135.0	
Other non current assets	62.1	718.2	720.0	721.8	
<b>Total Assets</b>	<b>4,926.5</b>	<b>5,168.4</b>	<b>5,077.6</b>	<b>5,025.2</b>	

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Per share data (₹)</b>				
EPS	9.2	7.3	8.9	11.2
Cash EPS	9.9	9.1	10.8	13.3
BV	39.1	39.8	42.0	48.2
DPS	2.5	2.0	5.0	5.0
<b>Operating Ratios (%)</b>				
EBITDA Margin	14.3	11.5	11.9	12.4
PAT Margin	10.9	6.7	7.4	8.2
Asset Turnover	2.5	3.1	3.4	3.7
Inventory Days	48.8	55.0	52.0	52.0
Debtor Days	41.6	53.0	50.0	50.0
Creditor Days	68.9	67.0	63.0	63.0
<b>Return Ratios (%)</b>				
RoE	24.0	18.5	21.2	23.3
RoCE	16.2	14.3	17.6	21.3
RoIC	32.5	19.2	22.4	26.4
<b>Valuation Ratios (x)</b>				
P/E	32.0	40.5	33.2	26.3
EV / EBITDA	24.1	25.2	21.0	17.4
EV / Net Sales	3.4	2.9	2.5	2.2
Market Cap / Sales	3.4	2.7	2.3	2.1
Price to Book Value	7.5	7.4	7.0	6.1
<b>Solvency Ratios</b>				
Debt / Equity	0.7	0.7	0.5	0.3
Current Ratio	1.2	1.6	1.6	1.6
Quick Ratio	0.6	0.9	0.9	0.9

Source: Company, ICICI Direct Research

Exhibit 9: ICICI Direct Consumer Discretionary universe

Sector / Company	CMP (₹)	TP(₹)	Rating	M Cap		EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)				RoE (%)			
				(₹ Cr)	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	
Asian Paints (ASIPAI)	2,803	3,180	Hold	2,68,808	33.4	32.2	41.3	49.5	83.8	87.1	67.8	56.6	54.4	55.4	45.3	37.8	29.6	27.1	32.6	33.7	25.0	23.0	27.5	27.7	
Berger Paints (BERPAI)	576	600	Hold	55,947	7.4	8.6	9.4	11.1	77.7	67.2	61.3	52.1	46.9	42.2	38.2	33.1	24.9	23.3	26.9	29.2	21.3	21.2	24.3	26.0	
Kansai Nerolac (KANNER)	386	435	Hold	20,802	9.8	6.9	9.2	11.2	39.2	55.6	41.8	34.5	24.7	32.0	25.6	21.3	17.2	12.1	15.6	17.6	13.2	9.2	12.1	13.5	
Pidilite Industries (PIDIND)	2,352	2,535	Hold	1,19,435	22.2	23.8	26.2	35.4	106.1	99.0	89.9	66.5	70.7	64.4	58.5	44.7	23.3	21.7	22.5	27.3	19.6	18.4	18.8	22.6	
Sheela Foam (SHEFOA)	995	1,450	Buy	9,707	24.4	22.3	20.1	29.0	40.8	44.7	49.6	34.3	26.9	31.5	34.3	24.4	24.3	18.0	16.3	19.0	20.1	15.6	13.2	15.6	
Bajaj Electricals (BAJELE)	1,102	1,275	Hold	12,656	16.5	10.8	19.5	31.1	66.8	101.7	56.6	35.5	42.5	50.2	34.6	25.0	15.1	13.5	20.2	24.6	10.7	7.8	13.5	18.2	
Crompton Greaves(CROGR)	295	335	Hold	18,491	9.8	9.2	7.3	9.0	30.0	32.0	40.5	32.9	24.2	24.1	25.2	21.1	34.4	16.2	14.3	17.6	31.9	24.0	18.5	20.5	
Havells India (HAVIND)	1,162	1,420	Buy	72,776	16.7	19.1	18.2	26.1	69.7	60.9	63.8	44.5	45.7	40.2	42.4	30.2	24.9	23.7	23.6	30.2	20.1	20.0	19.9	25.3	
Polycab India (POLI)	2,780	3,380	Buy	41,545	59.3	61.4	80.7	90.1	46.9	45.3	34.4	30.9	36.6	32.0	22.1	19.9	20.6	20.2	25.8	24.3	17.9	15.6	19.2	18.4	
Symphony (SYMLIM)	1,086	1,085	Hold	7,597	15.3	17.3	22.7	28.4	71.0	62.8	47.8	38.2	53.4	46.1	40.4	31.6	15.2	15.9	21.0	25.0	14.9	14.4	21.2	24.2	
V-Guard Ind (VGUARD)	246	310	Buy	10,536	4.7	5.3	4.6	6.7	52.2	46.1	53.6	36.6	32.9	31.0	33.8	21.2	23.9	21.2	16.0	22.0	16.7	16.2	14.0	17.0	
Voltas Ltd (VOLTAS)	823	940	Hold	27,219	16.0	15.3	5.6	20.7	51.5	53.8	147.8	39.8	41.7	39.0	43.9	29.6	15.0	14.0	15.1	19.2	10.6	9.2	6.9	13.7	
Amber Enterprises (AMBEN)	1,791	2,150	Hold	6,035	24.7	33.0	44.1	69.4	72.5	54.2	40.6	25.8	27.2	23.2	17.6	13.2	7.7	6.8	9.8	13.0	5.2	6.4	8.4	11.6	
Dixon Technologies (DIXTEC)	2,803	3,055	Hold	16,636	27.3	32.1	40.4	68.1	102.8	87.4	69.3	41.2	58.0	44.3	34.7	23.4	23.5	17.7	22.0	27.9	21.7	19.1	24.6	31.7	
Supreme Indus (SUPIND)	2,473	2,880	Buy	31,414	77.0	76.2	63.9	84.6	32.1	32.4	38.7	29.2	23.9	24.9	27.3	20.2	33.1	25.9	22.5	28.0	30.9	25.2	20.7	24.5	
Astral Ltd (ASTPOL)	1,322	2,185	Hold	26,557	20.3	24.4	21.4	32.3	65.1	54.2	61.7	40.9	40.5	34.4	34.5	25.9	27.5	26.6	22.6	27.6	21.5	21.0	16.9	21.9	
EPL (ESSPRO)	163	182	Hold	5,151	7.7	7.0	6.5	8.4	21.0	23.3	25.2	19.3	8.8	9.7	9.5	7.7	16.2	12.6	12.9	17.1	14.8	12.1	11.5	14.7	
Time Techno (TIMTEC)	70	95	Hold	1,583	4.8	8.5	10.4	13.0	14.7	8.2	6.7	5.4	5.6	4.6	3.9	3.5	8.7	11.3	13.0	14.5	5.7	9.3	10.9	12.4	
Moldtek Packaging (MOLPLA)	917	1,045	Hold	3,050	17.2	20.4	24.0	29.7	53.4	45.0	38.3	30.9	33.2	25.6	22.3	18.4	20.1	18.6	25.4	25.3	18.7	13.9	22.4	22.2	

Source: Bloomberg, ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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## ANALYST CERTIFICATION

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