

Crompton Gr. Con

BSE SENSEX	S&P CNX
35,388	10,741
Bloomberg	CROMPTON IN
Equity Shares (m)	627
M.Cap.(INRb)/(USD\$)	144.8/2.3
52-Week Range (INR)	295 / 200
1, 6, 12 Rel. Per (%)	-5/-13/-22
Avg Val, INRm	248.0
Free float (%)	65.6

Financials & Valuations (INR b)

Y/E Mar	2018	2019E	2020E
Net Sales	40.8	46.7	52.9
EBITDA	5.3	6.3	7.2
PAT	3.2	3.9	4.7
EPS (INR)	5.2	6.2	7.5
Gr. (%)	14.3	19.5	22.0
BV/Sh (INR)	12.6	15.8	19.6
RoE (%)	48.7	43.5	42.6
RoCE (%)	27.9	28.0	31.4
P/E (x)	44.7	37.4	30.7
P/BV (x)	18.3	14.7	11.8

Estimate change

TP change

Rating change



CMP: INR231

TP: INR270(+17%)

Buy

In-line operational performance, ECD business impacted by GTM strategy implementation-led disruption

- **In-line results:** CROMPTON's results were broadly in line with expectations. Sales grew 7.6% YoY (12.9% YoY on an LTL basis) to INR11.3b, driven by healthy growth in the Lighting division (+11.8% YoY, +21% YoY LTL). However, the Electrical consumer durables (ECD) segment exhibited a subdued performance (+1.9% YoY, 10% LTL growth), impacted by the implementation of the go-to-market strategy in the north region, which led to sales decline because of inventory destocking. Within ECD, post a weak 3QFY18, domestic pump sales picked up and the pump segment grew by 13-14% YoY. EBITDA for the quarter improved 27.5% YoY to INR1.6b, with the margin improving 230bp YoY to 14.6%, led by a better revenue mix. Net profit of INR1.0b (+29% YoY) was in line with our estimate. For FY18, sales stood at INR46b (+4.6% YoY, ~9.3% YoY LTL), EBITDA at INR5.3b (+10% YoY) and adj. profit at INR3.2b (+14.3% YoY).
- **Margins improve led by better revenue mix and cost-reduction measures:** Gross margin expanded 210bp YoY to 31.6%, led by (a) a revenue mix improvement and b) continued cost-reduction measures. EBITDA of INR1.6b (+27.5% YoY) was marginally ahead of our estimate. Operating margin expanded 230bp YoY to 14.6% v/s 12.3% in 4QFY17. Lighting business, which contributed 30% of revenue (v/s 28% in 4QFY17), registered a 470bp YoY margin improvement to 11.1%. ECD, which accounted for 70% of revenue (v/s 72% in 4QFY17), registered a 270bp YoY margin improvement to 21.7%.
- **Key concall highlights:** (1) ECD market is expected to grow strongly, given a better product line-up and no GST-related disruption. (2) Company entered cooler market on a pilot basis, with 15-20% geography covered; the target is to be among top 2-3 players in the industry over the next 2-3 years. (3) LED segment offers a big opportunity, as only 20% of the CFL lighting is converted into LED, so 80% of the market pie is yet to be captured.

Valuation view: We like CROMPTON for its strong product portfolio, established brand, market leadership, wide distribution network and a robust RoCE profile (28%/31.4% in FY19/20). We cut our estimates for FY18/19 by 5/2% to factor in the near-term impact of the go-to-market strategy-related disruption on sales. We maintain our **Buy** rating, with a revised TP of INR270 (36x FY20E EPS of INR7.5, in line with its historical valuation of 37x P/E multiple since listing).

Quarterly Estimates (Standalone)

	(INR m)											
Y/E March	FY17				FY18				FY17	FY18	Vs Est.	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4Q	(%)
Sales	10,962	8,737	8,792	10,463	10,554	9,597	9,382	11,263	39,009	40,797	11,650	-3.3%
Change (%)			8.5	4.5	-3.7	9.8	6.7	7.6	115.3	4.6	8.3	
EBITDA	1,573	1,012	972	1,290	1,294	1,207	1,165	1,645	4,846	5,310	1,608	2.3%
Change (%)			17.4	1.4	-17.8	19.3	19.8	27.5	131.4	9.6	16.1	
As of % Sales	14.4	11.6	11.1	12.3	12.3	12.6	12.4	14.6	12.4	13.0	13.8	
Depreciation	28	27	26	29	32	32	32	31	110	126	32	
Interest	180	161	162	153	162	157	158	161	655	637	153	
Other Income	34	41	50	69	97	35	66	109	195	308	58	
PBT	1,400	865	834	1,177	1,198	1,054	1,040	1,562	4,276	4,854	1,481	5.5%
Tax	465	286	290	377	395	346	345	530	1,419	1,617	437	
Effective Tax Rate (%)	33.2	33.1	34.8	32.0	33.0	32.8	33.2	33.9	33.2	33.3	29.5	
Adjusted PAT	935	579	544	800	802	708	695	1,032	2,832	3,238	1,043	-1.1%
Change (%)			28.3	5.5	(14.2)	22.3	27.9	29.0	130.6	14.3	17.9	
Reported PAT	935	574	544	780	802	708	695	1,032	2,832	3,238	1,043	-1.1%
Change (%)			32.0	17.0	(14.2)	23.3	27.9	32.4	160.1	14.3	20.7	

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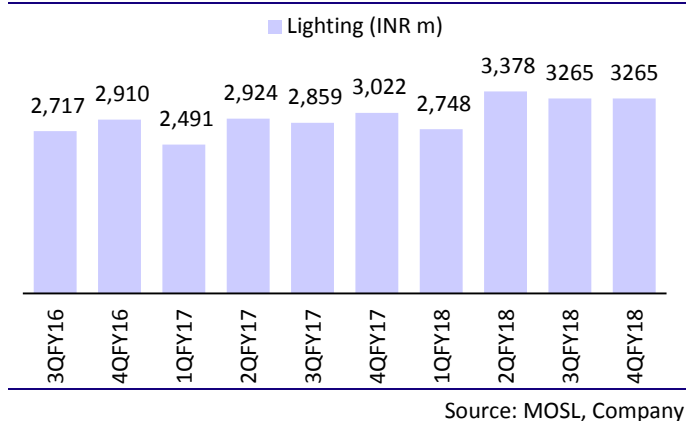
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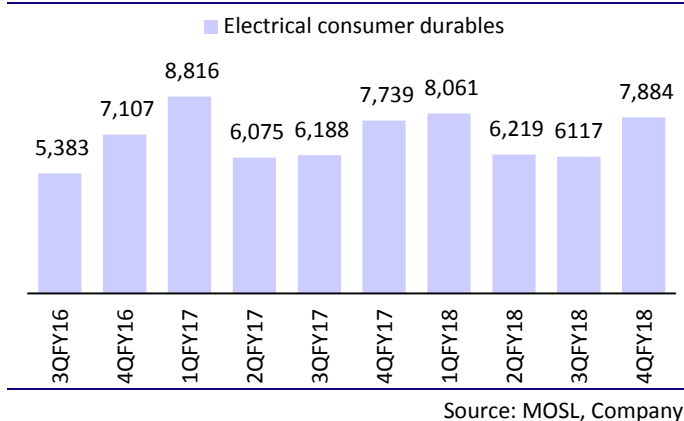
ECD revenue impacted by go-to-market strategy-led sales disruption

- CROMPTON's results were broadly in line with expectations. Sales grew 7.6% YoY (12.9% YoY on an LTL basis) to INR11.3b, driven by healthy growth in the Lighting division (+11.8% YoY, +21% YoY LTL). However, the Electrical consumer durables (ECD) segment exhibited a subdued performance (+1.9% YoY, 10% LTL growth), impacted by the implementation of the go-to-market strategy in the north region, which led to sales decline because of inventory destocking.
- Within ECD, post weak 3QFY18, domestic pump sales has picked up and pump segment grew 13-14% YoY. Even in the Fans category despite flattish growth in the industry Crompton registered double digit growth (~10%) driven by premiumization. Fans sales was also impacted by the new Go to market distribution strategy implemented by the company in the Northern region. Southern region where it has successfully completed implementation of the new distribution strategy has seen 25% revenue growth. Crompton expects FY19 to be much better given strong pipeline of new products and also absence of GST led disruption which prevailed in FY18.
- Lighting segment witnessed robust growth of 11.8% YoY (21% YoY adjusting for excise duty on the manufactured and sourced products) to INR3.4b. LED business offers robust business opportunity given that only 20% of the CFL lighting has been converted into LED lighting and balance 80% is yet to be converted which provides strong replacement business opportunity for the Lighting players in the industry.
- Crompton has entered the air cooler segment and has pilot launched its first product at price point of INR12,500. It has covered 20% of the market and expects to enter the air cooler market in a big way from next season. Crompton expects to be amongst the top 2-3 players in the segment with in next 2-3 years.
- EBITDA for the quarter improved 27.5% YoY to INR1.6b, with EBITDA margin improving 230bp YoY to 14.6%, led by better revenue mix. Net profit of INR1.0b (+29% YoY) was in line with our estimate. For FY18, sales stood at INR46b (+4.6% YoY, ~9.3% YoY LTL), EBITDA stood at INR5.3b (+10% YoY) and Adjusted profit stood at INR3.2b (+14.3% YoY).

**Exhibit 1: Lighting sales grew 11.8% YoY
(21% YoY on LTL basis)**

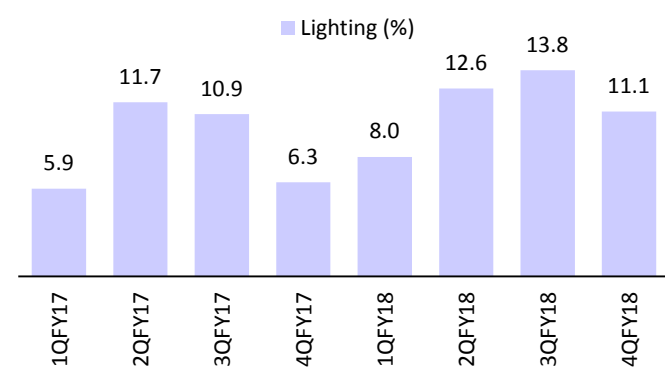


**Exhibit 2: Electrical consumer durables segment reported
1.9% YoY growth (+10% YoY on LTL basis)**

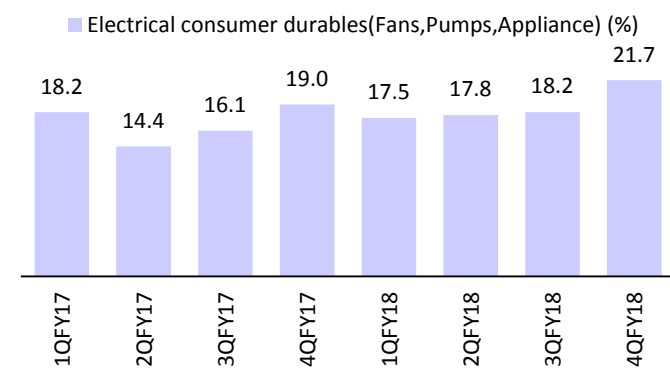


Margin improvement driven by better revenue mix and cost-reduction measures

- Gross margin expanded 210bp YoY to 31.6%, led by (a) revenue mix improvement, and b) continued cost reduction exercise.
- EBITDA of INR1.6b (+27.5% YoY) was marginally ahead of our estimate. Operating margin was 14.6% v/s 12.3% in 4QFY17 and rose 230bp YoY).
- Lighting business, which contributed 30% of revenue (v/s 28% in 4QFY17), registered 470bp margin improvement YoY to 11.1%.
- ECD, which accounted for 70% of revenue (v/s 72% in 4QFY17), registered 270bp margin improvement YoY to 21.7%.

Exhibit 3: Lighting segment EBIT margins improved 470bp YoY to 11.1%

Source: MOSL, Company

Exhibit 4: Electrical consumer durables segment EBIT margin improved 270bp YoY to 21.7%

Source: MOSL, Company

**Concall highlights****Overall business environment**

- Are looking at meaningful innovation across product categories - these innovations are new to the industry and take longer for implementation
- Continue to grow faster than market and building topline faster than the bottom-line
- Were first to launch anti dust and doing similar innovation in coolers - their new product is IP protected and Crompton will have first mover advantage
- Want to do at least 1-2 innovation in each season across categories - Anti dust in last season and Air360 in current season along with coolers for next summer season

Fans – channel destocking in North India lead to weak sales in Q418

- 3 focus areas in fans: a) Consumer based innovation for new products which make a difference. Eg Anti Dust fans which has been quite successful and sold INR2b of this variant. Also launched Air 360 - unique design for 50% more coverage and preferred over most peers, Was launched in Mar'18 and results very good. Have been taking market share - industry has been flat and sales growth in close to double digits for Crompton showing market share growth in fans in Q418 driven by premiumization, b) Revamp Go to Market (GTM) - drive distribution and increase display in stores via higher dealer partnership and technology. The new GTM began in lighting in the South and is the lead market for Go to Market and doing very good. Fans in the South grew 25% YoY in Q318 and 25% in Q418 - result of better distribution and expanding this to other geographies/categories. Started in North India as well which is the most

challenging - involves price stabilization, stronger coverage as industry is very wholesale dependent and North is declining in sales over last 2 quarters as inventory levels settle and focus shifts from Wholesale to Retail c) Driving down costs and focus on operational efficiency - drive the premium segment and key contributor of profit

- Share of premium fans is highest in the South India and Western India - this has also been driving the growth nationally
- **FY19 will be a much stronger year for ECD than FY18** - much better product line up and no disruption from GST
- Premium is 8-10% of the overall market in fans and for Crompton of the market share taken ~80% taken due to premium fans of the 3% market share gain
- **Industry growth:** Housing starts drive the fan market, Industry has grown at 6% CAGR and is dependent on housing starts, Larger % of fan demand is new than replacement demand

Pumps: 13-14% growth in Q418

- Competitive challenges faced in pumps in Q318 - were growing but growth rate had come down and were looking to address this.
- Launched Crest mini which would go head on with lower priced peers, this has been very well and volumes have grown 25% YoY and Pumps overall back to 13-14% YoY in Q418.

Air Coolers – launching a truly unique air cooler

- Developed and introduced a truly unique cooler - has a innovative design and offers 60% better cooling than the market leader, It's a window cooler with better looks and maintenance.
- 15-20% of the air cooler market has been covered - doing a pilot project and is installed like an aircon, Offering free installation on this air cooler and will roll out pan India
- Will be priced at INR12,500 for a 50 liters and in line with peer pricing; Target is to be in the top 2-3 players in next few players

Lighting – 20% plus growth in FY18

- 20% plus growth in Fy18 - strong focus on B2C on driving distribution and availability, LED build and tube lights
- Q418 margins were affected and down to 11% - driven partly by pricing is still declining and market is very competitive and also on a one off provision in Q418
- LED has 2 opportunities -a)Despite strong LED growth, ~20% of lights converted to LED so 80% replacement demand is still there, b) Will give value added benefits in LED. CFL had limited offerings while LED has huge scope - smart and colored lighting
- Aim for at least one consumer meaningful innovation in LED in this year itself

Distribution – Go to market changing by focus on retailers

- Aim is to integrate the salesman all the way to the factory by automation and digitalization for minimum inventory in the channel and real time sales update as well. This was started in 2015 when the company was formed, Objective is a) balance the risks and move forward - grew 10% in fans in Q418 even with market being flat and North de-growing which is balanced by 25% growth in South

- Go to market changes has led to destocking in North India and affected sales during Q418
- As this is rolled out and retail focus build, new distributor partnership/Technology, Focus on establishing price stability for the channel which causes destabilization and inventory adjustments
- North India sees more disruption on the new Go to Market strategy - doing this branch wise and in phases. There is a dip of 3-5 months and is coming to an end and will start growing now. Saw this in South and East as well
- East saw 25% growth in Q3, 15% in Q418 post implementation of the new GTM. West was declining in Q318 and flat in Q418 and will now start growing in Q119
- Confident that North India sales will come back - not lost sales in the secondary market as taking market share across categories
- South - implementing Go to Market 2 which has better data analytics incl salesmen with handhelds, dealer portals. Started with South India in lighting and seeing good growth in these market
- Within 3-6 months, the sales and growth starts to come back - not doing in 100% of the market, West done in Goa and Gujarat and now in Pune
- Ph1 of GTM implemented in North while Ph2 implemented in the South and thereafter Ph2 will come in the North India - aim is to make the brand available at all time with the consumer.

Valuation and view

- We like CROMPTON for its strong product portfolio, established brand, market leadership, wide distribution network and a robust RoCE profile (28%/31.4% in FY19/20). We cut our estimates for FY18/19 by 5/2% to factor in the near-term impact of the go-to-market strategy-related disruption on sales. We maintain our **Buy** rating, with a revised TP of INR270 (36x FY20E EPS of INR7.5, in line with its historical valuation of 37x P/E multiple since listing).

Financials and valuations

Income Statement

(INR Million)

Y/E March	FY16	FY17	FY18	FY19E	FY20E
Total Revenues	18,117	39,009	40,797	46,683	52,936
Change (%)	-	115.3	4.6	14.4	13.4
Raw Materials	12,702	27,335	27,996	32,036	36,475
Staff Cost	1,005	2,322	2,827	3,147	3,435
Other Expenses	2,315	4,506	4,664	5,248	5,808
EBITDA	2,095	4,846	5,310	6,251	7,218
% of Total Revenues	11.6	12.4	13.0	13.4	13.6
Depreciation	63	110	126	138	162
Other Income	39	195	308	289	374
Interest	355	655	637	637	490
PBT	1,716	4,276	4,854	5,764	6,941
Tax	525	1,419	1,617	1,895	2,220
Rate (%)	30.6	33.2	33.3	32.9	32.0
Adjusted PAT	1,191	2,857	3,238	3,869	4,721
Extra-ordinary Income (net)	-139	-25	0	0	0
Reported PAT	1,052	2,832	3,238	3,869	4,721
Change (%)	-96.7	169.2	14.3	19.5	22.0
Adj. Consolidated PAT	1,052	2,832	3,238	3,869	4,721
Change (%)	-96.7	169.2	14.3	19.5	22.0

Balance Sheet

(INR Million)

Y/E March	FY16	FY17	FY18	FY19E	FY20E
Share Capital	1,254	1,254	1,254	1,254	1,254
Reserves	1,034	4,138	6,641	8,623	11,041
Net Worth	2,287	5,392	7,895	9,877	12,295
Loans	6,445	6,500	6,486	6,486	3,486
Deferred Tax Liability	-43	-182	-479	-479	-479
Capital Employed	8,689	11,710	13,902	15,884	15,302
Gross Fixed Assets	2,024	2,147	2,280	2,710	3,140
Less: Depreciation	1,238	1,326	1,452	1,590	1,752
Net Fixed Assets	786	821	828	1,120	1,388
Capital WIP	1	1	0	0	0
Goodwill	7,794	7,794	7,794	7,794	7,794
Investments		3,185	3,676	3,676	3,676
Curr. Assets	7,907	9,167	11,474	14,587	15,250
Inventory	2,100	2,348	3,032	3,470	3,935
Debtors	4,165	5,434	5,536	6,335	7,184
Cash & Bank Balance	900	700	1,774	3,488	2,664
Loans & Advances	742	685	0	0	0
Other Assets	0	0	1,131	1,294	1,468
Current Liab. & Prov.	7,798	9,258	9,869	11,293	12,806
Current Liabilities	7,373	8,448	8,719	9,977	11,314
Provisions	425	811	1,150	1,316	1,493
Net Current Assets	109	-91	1,604	3,294	2,444
Application of Funds	8,689	11,710	13,902	15,884	15,302

Financials and valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19E	FY20E
Basic (INR)					
Adj EPS	1.7	4.5	5.2	6.2	7.5
Cash EPS	1.8	4.7	5.4	6.4	7.8
Book Value	3.6	8.6	12.6	15.8	19.6
DPS	0.0	1.5	1.8	2.5	3.1
Payout (incl. Div. Tax.)	0.0	33.5	33.9	40.6	40.6

Valuation (x)

P/E	137.6	51.1	44.7	37.4	30.7
Cash P/E	129.9	49.2	43.0	36.1	29.7
EV/EBITDA	71.8	31.1	28.2	23.6	20.2
EV/Sales	8.3	3.9	3.7	3.2	2.8
Price/Book Value	63.3	26.9	18.3	14.7	11.8
Dividend Yield (%)	-	0.7	0.8	1.1	1.3

Profitability Ratios (%)

RoE	46.0	73.8	48.7	43.5	42.6
RoCE	24.8	31.7	27.9	28.0	31.4
RoIC	18.0	39.5	38.8	44.6	50.8

Turnover Ratios

Debtors (Days)	42	51	50	50	50
Inventory (Days)	21	22	27	27	27
Creditors. (Days)	68	67	69	69	69
Asset Turnover (x)	2.1	3.3	2.9	2.9	3.5

Leverage Ratio

Debt/Equity (x)	2.8	1.2	0.8	0.7	0.3
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Cash Flow Statement

(INR Million)

Y/E March	FY16	FY17	FY18	FY19E	FY20E
PBT before EO Items	1,716	4,276	4,854	5,764	6,941
Depreciation	63	110	126	138	162
Interest	355	655	637	637	490
Direct Taxes Paid	-525	-1,419	-1,617	-1,895	-2,220
(Inc)/Dec in WC	(229)	(1)	(621)	24	26
CF from Operations	1,379	3,622	3,380	4,669	5,399
EO Income	0	0	0	0	0
CF from Oper. Incl. EO Items	1,379	3,622	3,380	4,669	5,399
(Inc)/Dec in FA	209	(122)	(430)	(430)	(430)
Free Cash Flow	1,588	3,499	2,950	4,239	4,969
Investment & Others	0	(3,324)	(491)	0	0
CF from Investments	209	-3,446	-921	-430	-430
(Inc)/Dec in Network	(18)	1,413	582	0	0
(Inc)/Dec in Debt	-316	56	-14	0	-3,000
Interest Paid	-355	-655	-637	-637	-490
Dividend Paid	0	-1,140	-1,316	-1,887	-2,303
Others		-49	0		
CF from Fin. Activity	(689)	(376)	(1,386)	(2,525)	(5,793)
Inc/Dec of Cash	899	(200)	1,074	1,714	(824)
Add: Beginning Balance	1	900	700	1,774	3,488
Closing Balance	900	700	1,774	3,488	2,664

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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Disclosure of Interest Statement

Analyst ownership of the stock

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