

Crompton Gr. Con

BSE SENSEX
38,313

S&P CNX
11,582



Stock Info

Bloomberg	CROMPTON IN
Equity Shares (m)	627
M.Cap.(INRb)/(USDb)	156.3 / 2.2
52-Week Range (INR)	295 / 204
1, 6, 12 Rel. Per (%)	-3/-9/-6
12M Avg Val (INR M)	240
Free float (%)	65.6

Financials Snapshot (INR b)

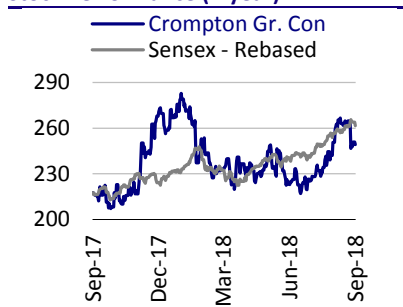
Y/E Mar	2018	2019E	2020E
Net Sales	40.8	46.7	52.9
EBITDA	5.3	6.5	7.5
PAT	3.2	4.0	4.9
EPS (INR)	5.2	6.4	7.8
Gr. (%)	14.3	23.4	22.6
BV/Sh (INR)	12.6	15.9	19.9
RoE (%)	48.7	44.8	43.7
RoCE (%)	27.9	28.7	32.3
P/E (x)	48.4	39.2	32.0
P/BV (x)	19.9	15.8	12.6

Shareholding pattern (%)

As On	Jun-18	Mar-18	Jun-17
Promoter	34.4	34.4	34.4
DII	16.7	15.5	16.7
FII	33.0	34.8	33.2
Others	16.0	15.4	15.7

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR249

TP: INR305 (+22%)

Buy

New product launches to drive growth

Lighting segment to see margin pressure given increased competitive pricing

We recently attended an analyst meet of Crompton Greaves. We highlight below the key takeaways from our meeting.

Price hikes taken in the Fans category to mitigate cost pressures

To mitigate the cost pressure on account of rise in key raw material prices (copper), Crompton went in for price hikes in the Fans category (1.5-2.0%) across its range. Crompton expects the Fans industry to register a 6-7% volume growth. Premium category sales, which now accounts for 18-20% of the overall Fans category sales, remains Crompton's focus area.

Strong new product pipeline in Fans segment to ensure growth momentum

In line with its strategy of growth through new product introduction and innovation, Crompton has lined up 3-4 new product ideas in the Fans category. Air 360 has been launched and rest of the new ideas should be launched either by end-FY19 or by 1QFY20. Anti-dust fan is now an INR2b product category, and Crompton expects the brand to continue growing as penetration in multiple geographies is still low.

Lighting segment faces margin pressure on increasing competitive strategy

Lighting segment's margins should remain under pressure in the near-term, given the a) high competitive intensity in the LED bulb segment (8% of the overall revenue) as competitors resort to price cuts (10% price cut taken by competitors), and b) falling INR, which is making imports of chipset kits (60% of the LED bulb cost) expensive for the company. Crompton has undertaken multiple cost rationalization initiatives to combat the margin pressure (it has introduced a five-star rated bulb with better realization, redesigned the LED bulb, started in-house manufacturing, and automation of assembly lines).

Go-to-market strategy implementation on track; expect completion in 18 months

Over the last two years, Crompton has been implementing its Go-to-market strategy on a pilot-basis-it's now targeting distributors, as against the wholesaler. This is expected to help Crompton stabilize product pricing and to have better control on the secondary sales as compared to the primary sales. Crompton expects to complete the Go-to-market strategy implementation over the next 18 months on a pan-India basis. As on now, Crompton has completed the implementation of the strategy in south India, certain pockets in the west, and is now expected to implement it in the northern areas.

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New product launches to provide additional stream of revenues

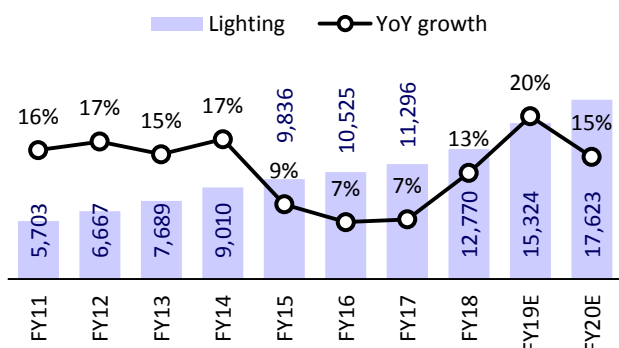
To diversify and broaden its product portfolio, Crompton has entered new product categories like water-heaters and air coolers. Crompton is well on track to introduce new product models in the water- heater category to take advantage of the upcoming season. It also launched air coolers in May 2018 and should see full traction in the next summer season.

Valuation and View

We like CROMPTON for its strong product portfolio, established brands, market leadership, wide distribution network and a robust ROE/RoCE profile. We maintain our Buy rating, with a TP of INR305 (39x FY20E EPS, in line with Havells).

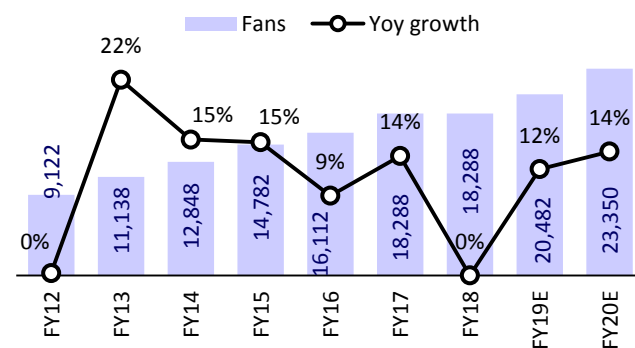
Operating metrics

Exhibit 1: Lighting growth to be driven by LED portfolio growth



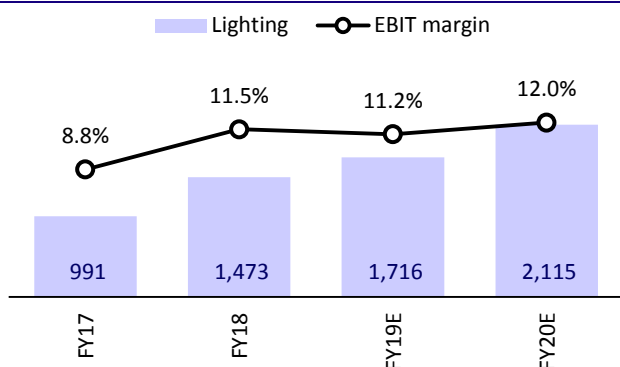
Source: MOSL, Company

Exhibit 2: Fans to deliver 13% CAGR over FY18-20 supported by an increase in premium fans share



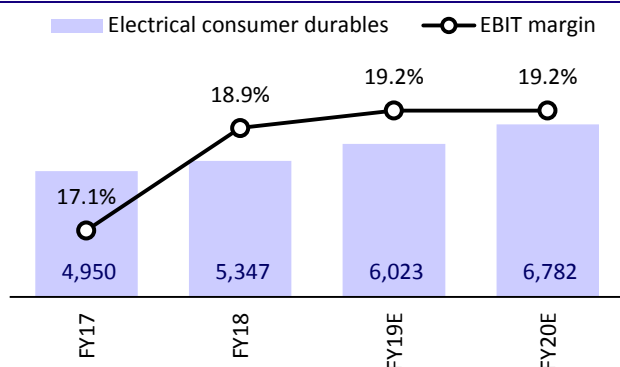
Source: MOSL, Company

Exhibit 3: Lighting margins to see near-term pressure on account of increased competitive intensity



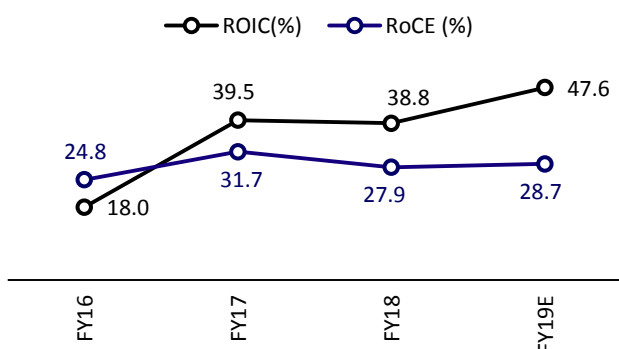
Source: MOSL, Company

Exhibit 4: Margin trajectory continuously showcasing improving trends given contribution from premium product increases



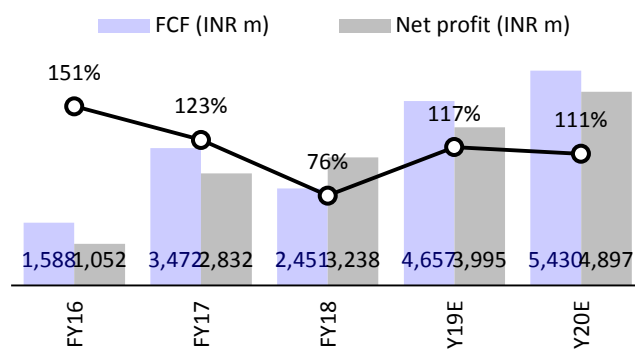
Source: MOSL, Company

Exhibit 5: Return ratios stand healthy



Source: MOSL, Company

Exhibit 6: FCF to remain healthy going forward



Source: MOSL, Company

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	32,170	36,898
Staff Cost	1,005	2,322	2,827	2,893	2,970
Other Expenses	2,315	4,506	4,664	5,168	5,603
EBITDA	2,095	4,846	5,310	6,453	7,466
% of Total Revenues	11.6	12.4	13.0	13.8	14.1
Depreciation	63	110	126	134	150
Other Income	39	195	308	270	374
Interest	355	655	637	637	490
PBT	1,716	4,276	4,854	5,951	7,199
Tax	525	1,419	1,617	1,957	2,302
Rate (%)	30.6	33.2	33.3	32.9	32.0
Adjusted PAT	1,191	2,857	3,238	3,995	4,897
Extra-ordinary Income (net)	-139	-25	0	0	0
Reported PAT	1,052	2,832	3,238	3,995	4,897
Change (%)	-96.7	169.2	14.3	23.4	22.6
Adj. Consolidated PAT	1,052	2,832	3,238	3,995	4,897
Change (%)	-96.7	169.2	14.3	23.4	22.6

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	8,686	11,194
Net Worth	2,287	5,392	7,895	9,940	12,448
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	15,947	15,455
Gross Fixed Assets	2,024	931	1,055	1,188	1,321
Less: Depreciation	1,238	110	234	368	518
Net Fixed Assets	786	821	822	821	804
Capital WIP	1	1	6	6	6
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	14,944	15,981
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	3,845	3,395
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	3,650	3,175
Application of Funds	8,689	11,710	13,902	15,947	15,455

Financials and valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19E	FY20E
Basic (INR)					
Adj EPS	1.7	4.5	5.2	6.4	7.8
Cash EPS	1.8	4.7	5.4	6.6	8.0
Book Value	3.6	8.6	12.6	15.9	19.9
DPS	0.0	1.5	1.8	2.6	3.2
Payout (incl. Div. Tax.)	0.0	33.5	33.9	40.7	40.7
Valuation (x)					
P/E	149.0	55.3	48.4	39.2	32.0
Cash P/E	140.6	53.3	46.6	38.0	31.1
EV/EBITDA	77.4	33.5	30.4	24.7	21.0
EV/Sales	9.0	4.2	4.0	3.4	3.0
Price/Book Value	68.5	29.1	19.9	15.8	12.6
Dividend Yield (%)	-	0.6	0.7	1.0	1.3
Profitability Ratios (%)					
RoE	46.0	73.8	48.7	44.8	43.7
RoCE	24.8	31.7	27.9	28.7	32.3
RoIC	18.0	39.5	38.8	47.6	56.1
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	3.4
Leverage Ratio					
Debt/Equity (x)	2.8	1.2	0.8	0.7	0.3

Cash Flow Statement

(INR Million)

Y/E March	FY16	FY17	FY18	FY19E	FY20E
PBT before EO Items	1,716	4,276	4,854	5,951	7,199
Depreciation	63	110	126	134	150
Interest	355	655	511	637	490
Direct Taxes Paid	-525	-1,419	-1,812	-1,957	-2,302
(Inc)/Dec in WC	(229)	(1)	(933)	24	26
CF from Operations	1,379	3,622	2,746	4,790	5,563
EO Income	0	0	-162	0	0
CF from Oper. Incl. EO Items	1,379	3,622	2,584	4,790	5,563
(Inc)/Dec in FA	209	(150)	(133)	(133)	(133)
Free Cash Flow	1,588	3,472	2,451	4,657	5,430
Investment & Others	0	(3,324)	(197)	0	0
CF from Investments	209	-3,474	-330	-133	-133
(Inc)/Dec in Networth	(18)	1,413	7	0	0
(Inc)/Dec in Debt	-316	56	0	0	-3,000
Interest Paid	-355	-655	-634	-637	-490
Dividend Paid	0	-1,140	-1,129	-1,949	-2,390
Others		-49	0		
CF from Fin. Activity	(689)	(376)	(1,755)	(2,587)	(5,880)
Inc/Dec of Cash	899	(228)	499	2,071	(450)
Add: Beginning Balance	1	900	656	1,774	3,845
Closing Balance	900	672	1,155	3,845	3,395

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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