

### Primed to recover the fastest despite Q4 miss; upgrade to Buy

- Q4 numbers were a miss across our and consensus estimates, due to impact of March lockdown on sales, despite a strong Jan and Feb. However, margins were helped by lower costs, especially in ad expenses, which enabled CG Consumer to maintain 13.8% margins. At segmental levels, ECD margins were flat while lighting margins improved QoQ by 80bps showing a breather on price erosion in LEDs
- Given that Q1'20 is severely impacted due to lockdown, and recovery likely to be gradual, we trim our FY21E and FY22E estimates of sales/EBIDTA/PAT by 26% / 34% / 34% and 22% / 26% / 26%, respectively.
- CG consumer is best primed for faster recovery within the FMEG space given its main portfolio of fans and lighting are low ticket, replacement items. Given recent price correction, we upgrade our rating to Buy with a TP of Rs 260, valuing the stock at 34x FY22E

### Q4 was a miss despite strong Jan-Feb; but costs managed well.

CG consumer numbers were a miss across our and consensus estimates on Sales, EBIDTA, PAT (Refer Exhibit 1). Sales declined 15%yoy at Rs10.2bn, while EBIDTA was down 16%yoy at Rs1.4bn while PAT was down 28%yoy at Rs1.02bn. ECD (mainly fans) declined 14% yoy at Rs 7.4bn while lighting declined 17% yoy at Rs2.8bn. Jan Feb was strong with ECD growing at 33% on volumes and 18% on value. Similarly, B2C lighting was up 37% in volume and 7.5 %in value (ex EESL). However, this growth momentum was reversed following the lockdown in March. EBIDTA margins, however, were just down 20bps yoy at 13.8%, the 70bps GM gain offset by increase in staff cost and other exp as percentage of sales, despite lower other exp(lower A&P) and staff exp. EBIT margins for ECD was down just 20bps sequentially while lighting EBIT improved 80bps qoq, confirming the view of prices bottoming in the LED market in Q4. Possible market share gains and cost reduction programs too helped.

### Q4FY20 Result (₹ Mn)

Particulars	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Revenue	10,263	12,069	(15.0)	10,713	(4.2)
Total Expense	8,851	10,383	(14.8)	9,346	(5.3)
EBITDA	1,412	1,685	(16.2)	1,367	3.3
Depreciation	82	33	148.5	64	27.7
EBIT	1,330	1,652	(19.5)	1,303	2.1
Other Income	120	172	(30.5)	175	(31.8)
Interest	83	143	(42.4)	87	(5.4)
EBT	1,367	1,681	(18.7)	1,391	(1.7)
Tax	346	265	30.8	(219)	(258.2)
RPAT	1,021	1,417	(27.9)	1,610	(36.6)
APAT	1,022	1,133	(9.8)	1,610	(36.5)
			(bps)		(bps)
Gross Margin (%)	31.7	31.0	70	32.0	(29)
EBITDA Margin (%)	13.8	14.0	(21)	12.8	100
NPM (%)	9.9	11.7	(179)	15.0	(508)
Tax Rate (%)	25.3	15.7	958	(15.7)	4106
EBIT Margin (%)	13.0	13.7	(73)	12.2	80

CMP	Rs 200
Target / Upside	Rs 260 / 30%
BSE Sensex	31,070
NSE Nifty	9,137

### Scrip Details

Equity / FV	Rs 1,255mn / Rs 2
Market Cap	Rs 125bn
	US\$ 2bn
52-week High/Low	Rs 301/Rs 177
Avg. Volume (no)	1,108,970
NSE Symbol	CROMPTON
Bloomberg Code	CROMPTON IN

### Shareholding Pattern Mar'20(%)

Promoters	26.2
MF/Banks/FIs	34.9
FII	30.5
Public / Others	8.4

### Valuation (x)

	FY20A	FY21E	FY22E
P/E	25.3	37.1	26.2
EV/EBITDA	20.2	26.1	18.8
ROE (%)	38.7	23.9	31.4
RoACE (%)	36.0	24.5	29.9

### Estimates (₹ mn)

	FY20A	FY21E	FY22E
Revenue	45,203	38,988	45,022
EBITDA	5,991	4,679	6,348
PAT	4,964	3,381	4,793
EPS (Rs.)	7.9	5.4	7.6

VP Research: Vinod Chari  
Tel: +91 22 40969776

E-mail: vinodc@dolatcapital.com

### Balance sheet and liquidity management is the focus, along with costs.

WC has been well managed with CFO in FY20 improving to Rs5.5bn from Rs 5bn last year. Balance sheet continues to be strong with investment and cash at Rs5.6bn, while debt has gone down with repayment of Rs3bn debt in the year. Company has not declared dividends for FY20, with a focus on retaining cash. It has already taken board approval to raise up to Rs3bn, which will help meet its near-term liquidity requirements. It is also focusing on cost management, where along with ongoing cost control efforts, it is identifying cost saving projects of Rs1bn over the year.

### Primed for faster recovery compared to peers; Upgrade rating to Buy

CG consumer is best primed for faster recovery within the FMEG space given its main portfolio of fans and lighting are low ticket, replacement items. We trim our FY21E and FY22E estimates of sales/EBITDA/PAT by 26%/34%/34% and 22%/26%/2.6%, respectively. However, given recent stock price correction, we upgrade our rating to Buy with a TP of Rs 260, valuing the stock at 34x FY22E, at a 10% discount to sector leader Havells.

#### Exhibit 1: Actual v/s DART estimates

Particulars (Rs mn)	Actual	DART	Consensus	DART	Consensus	Comments
	Q4FY20	Q4FY20E	Q4FY20E	Var (%)	Var (%)	
Sales	10,263	12,069	12,213	(15.0)	(16.0)	Lockdown impacted sales in March and hence the entire Q4
EBITDA	1,412	1,593	1,794	(11.4)	(21.3)	
EBITDA margins	13.8	13.2	14.7	55.9	(93.1)	Cost initiatives, especially ad expenses, helped them maintain margins broadly
PAT	1,021	1,238	1,383	(17.5)	(26.2)	Higher depreciation and lower other income contributed to fall in PAT
Pat margins	9.9	10.3	11.3	(31.0)	(137.6)	
EPS	1.6	2.0	2.2	(17.5)	(26.2)	

Source: Company, DART

#### Exhibit 2: Change in estimates

Particulars (Rs mn)	FY21			FY22		
	Earlier	New	Change	Earlier	New	Change
Sales	52,517	38,988	(26)	58,962	45,022	(24)
EBITDA	7,090	4,679	(34)	8,255	6,348	(23)
PAT	5,386	3,381	(37)	6,227	4,793	(23)
EPS	8.6	5.4	(37)	9.9	7.6	(23)

Source: Company, DART

**Exhibit 3: Quarterly Performance**

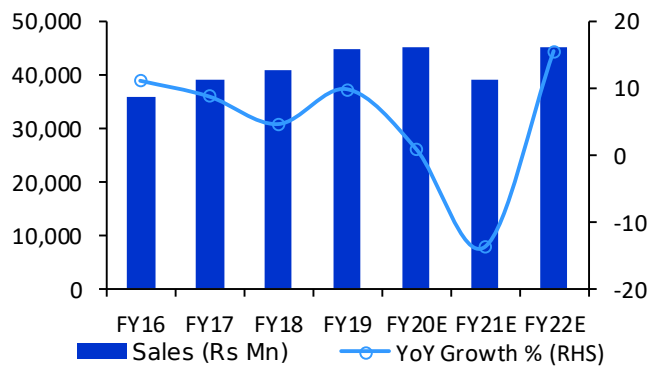
Particulars (Rs mn)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	YoY (%)	QoQ(%)	YTD FY19	YTD FY20	YoY(%)
<b>Net Revenue</b>	<b>12,069</b>	<b>13,468</b>	<b>10,758</b>	<b>10,713</b>	<b>10,263</b>	<b>(15.0)</b>	<b>(4.2)</b>	<b>44,788</b>	<b>45,203</b>	<b>0.9</b>
Cost of materials consumed	2,809	2,616	2,310	2,164	2,705	(3.7)	25.0	10,565	9,795	(7.3)
Purchase of Stock in trade	5,564	6,429	5,281	5,202	5,259	(5.5)	1.1	20,586	22,172	7.7
Changes in Inventories, WIP & SIP	(41)	28	(265)	(77)	(950)	2211.2	1141.7	(233)	(1,263)	442.0
Total Raw Material Cost	8,332	9,073	7,327	7,290	7,014	(15.8)	(3.8)	30,918	30,703	(0.7)
Staff Expenditure	765	820	810	774	706	(7.7)	(8.7)	2,919	3,110	6.5
Other Expenses	1,286	1,655	1,326	1,283	1,131	(12.0)	(11.8)	5,094	5,395	5.9
<b>EBITDA</b>	<b>1,685</b>	<b>1,921</b>	<b>1,295</b>	<b>1,367</b>	<b>1,412</b>	<b>(16.2)</b>	<b>3.3</b>	<b>5,857</b>	<b>5,995</b>	<b>2.3</b>
Depreciation	33	58	64	64	82	148.5	27.7	129	268	107.8
<b>EBIT</b>	<b>1,652</b>	<b>1,863</b>	<b>1,231</b>	<b>1,303</b>	<b>1,330</b>	<b>(19.5)</b>	<b>2.1</b>	<b>5,729</b>	<b>5,727</b>	<b>0.0</b>
Other Income	172	173	122	175	120	(30.5)	(31.8)	483	591	22.4
Interest	143	150	87	87	83	(42.4)	(5.4)	596	407	(31.8)
<b>PBT</b>	<b>1,681</b>	<b>1,886</b>	<b>1,267</b>	<b>1,391</b>	<b>1,367</b>	<b>(18.7)</b>	<b>(1.7)</b>	<b>5,615</b>	<b>5,911</b>	<b>5.3</b>
Tax	265	660	154	(219)	346	30.8	(258.2)	1,590	941	(40.8)
<b>Net Profit</b>	<b>1,417</b>	<b>1,226</b>	<b>1,113</b>	<b>1,610</b>	<b>1,021</b>	<b>(27.9)</b>	<b>(36.6)</b>	<b>4,025</b>	<b>4,969</b>	<b>23.5</b>
Reported EPS	2.3	2.0	1.8	2.6	1.6	(27.9)	(36.6)	6.4	7.9	23.5
<b>Operating Cost as a % of Sales</b>						<b>bps</b>	<b>bps</b>	<b>bps</b>		
Raw Material Cost	69.0	67.4	68.1	68.0	68.3	(70.2)	29.4	69.0	67.9	(110.8)
Staff Cost	6.3	6.1	7.5	7.2	6.9	54.1	(34.1)	6.5	6.9	36.2
Other Expenses	10.7	12.3	12.3	12.0	11.0	36.7	(95.3)	11.4	11.9	56.3
<b>Margins (%)</b>						<b>bps</b>	<b>bps</b>	<b>bps</b>		
GM	31.0	32.6	31.9	32.0	31.7	70.2	(29.4)	31.0	32.1	110.8
EBITDA	10.7	12.3	12.3	12.0	11.0	36.7	(95.3)	11.4	11.9	56.3
EBIT	13.7	13.8	11.4	12.2	13.0	(73.2)	80.0	12.8	12.7	(12.1)
PBT	13.9	14.0	11.8	13.0	13.3	(61.0)	33.9	12.5	13.1	53.9
NPM	11.7	9.1	10.3	15.0	9.9	(179.1)	(507.8)	9.0	11.0	200.7

Source: DART

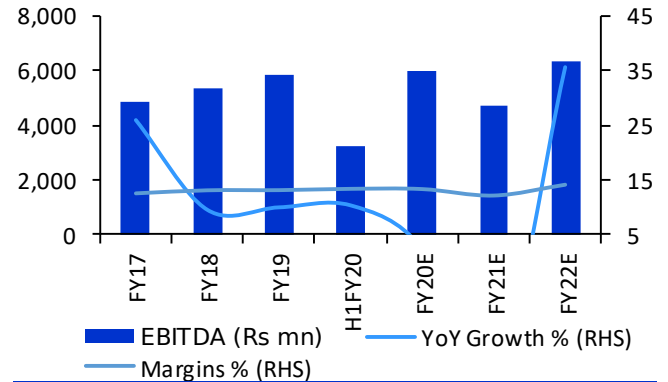
**Exhibit 4: Segment Performance**

	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	YoY (%)	QoQ(%)	YTD FY19	YTD FY20	YoY(%)
<b>Revenue</b>										
Electric Consumer Durables	8,644	10,729	7,881	7,870	7,411	(14.3)	(5.8)	32,135	33,890	5.5
Lighting Products	3,425	2,739	2,877	2,843	2,853	(16.7)	0.3	12,653	11,312	(10.6)
Total	12,069	13,468	10,758	10,713	10,263	(15.0)	(4.2)	44,788	45,203	0.9
<b>EBIT</b>										
Electric Consumer Durables	1,685	2,173	1,514	1,561	1,482	(12.0)	(5.1)	6,161	6,731	9.3
Lighting Products	393	141	151	196	219	(44.3)	11.8	1,069	706	(33.9)
<b>EBIT Margin (%)</b>										
Electric Consumer Durables	19.5	20.3	19.2	19.8	20.0	50.8	15.6	19.2	19.9	69.0
Lighting Products	11.5	5.1	5.2	6.9	7.7	(379.9)	78.8	8.4	6.2	(220.6)
<b>Segment Capital employed</b>										
Electric Consumer Durables	2,214	1,619	1,831	1,919	2,427	(12.6)	26.5	7,518	7,795	3.7
Lighting Products	440	1,038	1,163	1,045	1,096	67.8	5.0	2,557	4,342	69.8
Un allocable	8,320	9,622	8,958	10,658	11,160	60.5	4.7	27,922	40,398	44.7

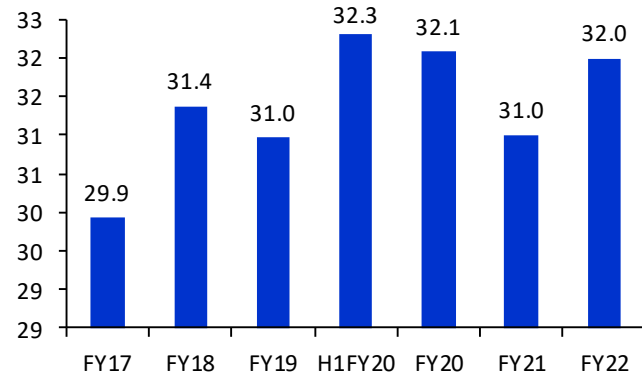
Source: DART

**Exhibit 5: Sales & YoY growth (%)**


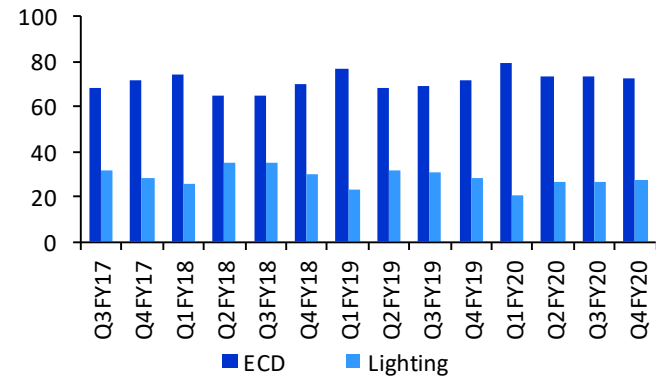
Source: Company, DART

**Exhibit 6: EBITDA, YoY growth and margin (%)**


Source: Company, DART

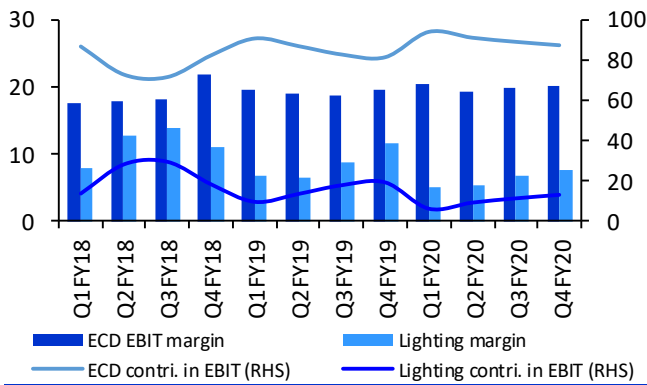
**Exhibit 7: Gross margin (%)**


Source: Company, DART

**Exhibit 8: QoQ Revenue contribution (%)**


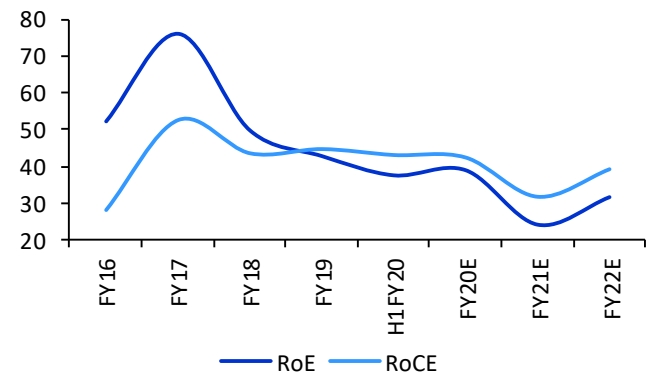
Source: Company, DART

**Exhibit 9: QoQ EBIT margin & contribution (%)**



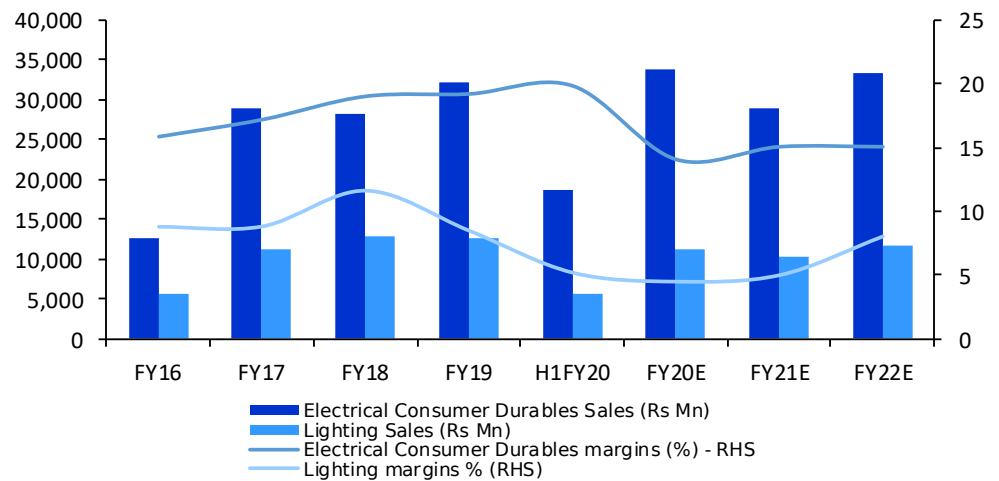
Source: Company, DART

**Exhibit 10: Return Ratio (%)**



Source: Company, DART

**Exhibit 11: Segment wise sales and marings**



Source: Company, DART

### Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
<b>Revenue</b>	<b>44,789</b>	<b>45,203</b>	<b>38,988</b>	<b>45,022</b>
<b>Total Expense</b>	<b>38,946</b>	<b>39,212</b>	<b>34,309</b>	<b>38,674</b>
COGS	30,918	30,703	26,902	30,615
Employees Cost	2,919	3,110	3,119	3,152
Other expenses	5,109	5,399	4,289	4,907
<b>EBIDTA</b>	<b>5,843</b>	<b>5,991</b>	<b>4,679</b>	<b>6,348</b>
Depreciation	129	268	131	136
<b>EBIT</b>	<b>5,714</b>	<b>5,723</b>	<b>4,548</b>	<b>6,213</b>
Interest	596	407	507	407
Other Income	480	591	468	585
Exc. / E.O. items	0	0	0	0
<b>EBT</b>	<b>5,598</b>	<b>5,907</b>	<b>4,509</b>	<b>6,391</b>
Tax	1,585	943	1,127	1,598
RPAT	4,014	4,964	3,381	4,793
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>3,730</b>	<b>4,964</b>	<b>3,381</b>	<b>4,793</b>

### Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
<b>Sources of Funds</b>				
Equity Capital	1,254	1,255	1,255	1,255
Minority Interest	0	0	0	0
Reserves & Surplus	9,719	13,429	12,402	15,657
<b>Net Worth</b>	<b>10,973</b>	<b>14,683</b>	<b>13,656</b>	<b>16,911</b>
Total Debt	3,493	1,797	2,597	2,597
Net Deferred Tax Liability	(603)	(507)	(507)	(507)
<b>Total Capital Employed</b>	<b>13,863</b>	<b>15,974</b>	<b>15,747</b>	<b>19,002</b>

### Applications of Funds

Net Block	8,632	9,090	9,285	9,499
CWIP	10	199	199	199
Investments	0	0	0	0
<b>Current Assets, Loans &amp; Advances</b>	<b>17,451</b>	<b>17,722</b>	<b>15,750</b>	<b>18,602</b>
Inventories	3,524	4,636	3,306	3,070
Receivables	5,660	4,635	5,536	5,754
Cash and Bank Balances	1,429	480	338	3,027
Loans and Advances	0	0	0	0
Other Current Assets	1,427	2,563	1,170	1,351
<b>Less: Current Liabilities &amp; Provisions</b>	<b>12,231</b>	<b>11,036</b>	<b>9,487</b>	<b>9,299</b>
Payables	6,650	6,436	5,828	5,298
Other Current Liabilities	5,580	4,601	3,659	4,001
<i>sub total</i>				
Net Current Assets	5,221	6,685	6,263	9,303
<b>Total Assets</b>	<b>13,863</b>	<b>15,974</b>	<b>15,747</b>	<b>19,002</b>

E – Estimates

**Important Ratios**

Particulars	FY19A	FY20A	FY21E	FY22E
<b>(A) Margins (%)</b>				
Gross Profit Margin	31.0	32.1	31.0	32.0
EBIDTA Margin	13.0	13.3	12.0	14.1
EBIT Margin	12.8	12.7	11.7	13.8
Tax rate	28.3	16.0	25.0	25.0
Net Profit Margin	9.0	11.0	8.7	10.6
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	69.0	67.9	69.0	68.0
Employee	6.5	6.9	8.0	7.0
Other	11.4	11.9	11.0	10.9
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.3	0.1	0.2	0.2
Interest Coverage	9.6	14.1	9.0	15.3
Inventory days	29	37	31	25
Debtors days	46	37	52	47
Average Cost of Debt	11.9	15.4	23.1	15.7
Payable days	54	52	55	43
Working Capital days	43	54	59	75
FA T/O	5.2	5.0	4.2	4.7
<b>(D) Measures of Investment</b>				
AEPS (Rs)	6.0	7.9	5.4	7.6
CEPS (Rs)	6.2	8.3	5.6	7.9
DPS (Rs)	2.1	2.1	2.5	2.5
Dividend Payout (%)	35.1	26.6	45.5	32.1
BVPS (Rs)	17.5	23.4	21.8	27.0
RoANW (%)	42.5	38.7	23.9	31.4
RoACE (%)	33.2	36.0	24.5	29.9
RoAIC (%)	46.5	41.0	29.4	39.6
<b>(E) Valuation Ratios</b>				
CMP (Rs)	200	200	200	200
P/E	33.6	25.3	37.1	26.2
Mcap (Rs Mn)	125,400	125,400	125,400	125,400
MCap/ Sales	2.8	2.8	3.2	2.8
EV	122,051	121,309	122,259	119,570
EV/Sales	2.7	2.7	3.1	2.7
EV/EBITDA	20.9	20.2	26.1	18.8
P/BV	11.4	8.5	9.2	7.4
Dividend Yield (%)	1.0	1.1	1.2	1.2
<b>(F) Growth Rate (%)</b>				
Revenue	9.8	0.9	(13.7)	15.5
EBITDA	10.0	2.5	(21.9)	35.7
EBIT	10.2	0.2	(20.5)	36.6
PBT	15.3	5.5	(23.7)	41.8
APAT	15.2	33.1	(31.9)	41.8
EPS	15.2	33.1	(31.9)	41.8
<b>Cash Flow</b>				
(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	5,130	2,062	(117)	3,445
CFI	(1,885)	(911)	(318)	(350)
CFF	(3,589)	(2,101)	293	(407)
FCFF	4,981	1,148	(443)	3,095
Opening Cash	1,774	1,429	480	338
Closing Cash	1,429	509	338	3,027

E – Estimates

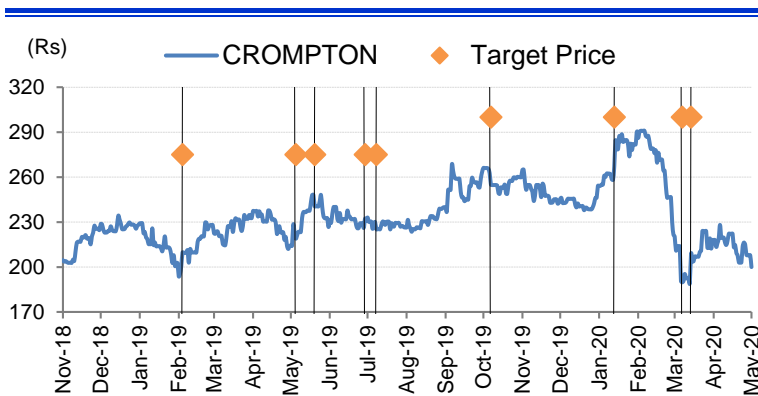


### DART RATING MATRIX

Total Return Expectation (12 Months)

<b>Buy</b>	<b>&gt; 20%</b>
<b>Accumulate</b>	<b>10 to 20%</b>
<b>Reduce</b>	<b>0 to 10%</b>
<b>Sell</b>	<b>&lt; 0%</b>

### Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Feb-19	Buy	275	210
May-19	Buy	275	219
Jun-19	Buy	275	241
Jul-19	Buy	275	232
Jul-19	Buy	275	225
Oct-19	Accumulate	300	255
Jan-20	Accumulate	300	267
Mar-20	Accumulate	300	190
Mar-20	Buy	300	209

\*Price as on recommendation date

### DART Team

<b>Purvag Shah</b>	<b>Managing Director</b>	<b>purvag@dolatcapital.com</b>	<b>+9122 4096 9747</b>
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<b>Amit Khurana, CFA</b>	<b>Head of Equities</b>	<b>amit@dolatcapital.com</b>	<b>+9122 4096 9745</b>
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### CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Yomika Agarwal	VP - Equity Sales	yomika@dolatcapital.com	+9122 4096 9772
Jubbin Shah	VP - Derivatives Sales	jubbins@dolatcapital.com	+9122 4096 9779
Ashwani Kandoi	AVP - Equity Sales	ashwanik@dolatcapital.com	+9122 4096 9725
Lekha Nahar	Manager - Equity Sales	lekhan@dolatcapital.com	+9122 4096 9740

Equity Trading	Designation	E-mail	Direct Lines
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Dinesh Mehta	Co- Head Asia Derivatives	dinesh.mehta@dolatcapital.com	+9122 4096 9765
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

**Dolat** Capital Market Private Limited.

Sunshine Tower, 28th Floor, Senapati Bapat Marg, Dadar (West), Mumbai 400013



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Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com

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