

Crompton Greaves Cons. Electricals

BUY

CMP Rs199

Target Rs242

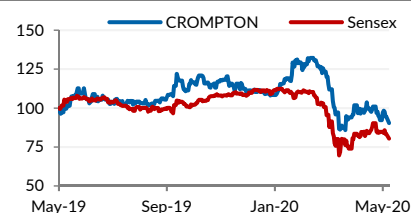
Upside 21.8%

HIGHLIGHTS	✓	Revenue de-growth was largely due to lower volume offtake in March. Jan-Feb growth across products segment was at 14% yoy.
	✓	ECD segment registered 18% yoy growth in first two months led by strong growth of 20% in fans and market share gains in its new products categories like water heaters, air coolers and mixer grinder
	✓	Lighting segment rev de-grew 16.7% yoy in Q4 largely due to weak B2B segment performance and revenue loss in March. Volume gr (Ex-EESL) in Jan-Feb was up 35% yoy.
	✓	Crompton could maintain margins on a yoy basis at 13.8% led by cost reduction initiatives since past few quarters, lower incentive payouts and curtailment of A&P.
	✓	ECD EBITM was higher by 51bps to 20% in Q4. Lighting EBITM was at 7.7%, down 380bps yoy, however it improved on a sequential basis
	✓	Inventory buildup in March led to an increase in capital employed in both the businesses, however at normal level due to seasonal course.
Our View	✓	Other income dip of 29.5% yoy was a negative surprise.
	✓	We cut our estimates by 33.2%/25.7% in FY21E/FY22E, respectively, considering subdued B2B business and weak economic environment.
Valuation	✓	We continue to remain positive on Crompton on the back of improved product mix, cost optimization exercises and good response to its new product categories.
	✓	We believe valuations are quite attractive at 26.1x FY22E P/E for a company with market leadership in its segments, strong free cash flows and high return ratios.
Risk to our call	✓	We value the company at 32x FY22 P/E and arrive at a revised target price of Rs242, while maintaining our Buy rating on the stock.
	✓	Slower pickup in market activity than anticipated.

Stock data (as on May 18, 2020)

Sensex:	30,029
52 Week h/l (Rs)	301 / 177
Market cap (Rs/USD mn)	124,829 / 1,634
Outstanding Shares	627
6m Avg t/o (Rs mn):	367
Div yield (%):	1.0
Bloomberg code:	CROMPTON IN
NSE code:	CROMPTON

Stock performance



	1M	3M	1Y
Absolute return	-8.7%	-30.5%	-9.6%

Shareholding pattern (As of Mar'20 end)

Promoter	26.2%
FII+DII	57.2%
Others	16.6%

Δ in earnings estimates

	FY21e	FY22e
EPS (New)	6.0	7.2
EPS (Old)	9.0	10.2
% change	(33.2)	(25.7)

Exhibit 1: Result table

(Rs mn)	Q4 FY20	Q4 FY19	yoy (%)	Q3 FY20	qoq (%)
Revenue	10,263	12,069	(15.0)	10,713	(4.2)
Material costs	7,014	8,332	(15.8)	7,290	(3.8)
Personnel costs	706	765	(7.7)	774	(8.7)
Other overheads	1,131	1,301	(13.0)	1,283	(11.8)
Operating Profit	1,412	1,671	(15.5)	1,367	3.3
OPM(%)	13.8	13.8	-8 bps	12.8	100 bps
Other Income	120	170	(29.5)	175	(31.8)
Depreciation	(82)	(33)	148.5	(64)	27.7
Interest	(83)	(143)	(42.4)	(87)	(5.4)
PBT	1,367	1,664	(17.8)	1,391	(1.7)
Tax	(346)	(259)	33.8	219	-
PAT	1,021	1,405	(27.4)	1,610	(36.6)

Source: Company, YES Sec - Research

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CON-CALL HIGHLIGHTS

Strong performance in Jan-Feb

- ✓ Overall revenue was up 14% yoy across categories. The volume growth was quite stronger as overall volumes grew 33% yoy, driven by 22% volume growth in ECD and 37% in B2C lighting segment.
- ✓ ECD revenue growth was 18% yoy, driven by fans and appliances. Overall appliances value growth stood at 60% yoy, with Mixer Grinder growth of 54%, Air Coolers - 83% and Geysers - 97%.
- ✓ Fans volumes were up 21% yoy, Geysers volume growth was 48% and Domestic pumps - 19%. Agro pump remained under pressure.
- ✓ Lighting segment saw value growth of 4%. Revenue Ex-EESL up 7.5%. Volume growth in LED- 5% (Excl EESL - 35%). Volume growth in bulbs, battens and panels was 40% and value gr was 15%. Conventional lighting segment was down 20% yoy.
- ✓ New products in lighting, geysers and coolers saw healthy response.

ECD (Electrical Consumer Durables)

- ✓ Fans market share up 77bps yoy. Fans 30-35% of the sales happens in Q1. ~70% of the fans are new points demand (new house/renovation) and rest is replacement/upgrade.
- ✓ The company announced price hikes to the tune of 5-7% in fans segment at the start of the March, however implementation was deferred due to lockdown and weak demand.
- ✓ The company continues to gain market share in geysers.
- ✓ Mixer grinder too has witnessed strong response from markets

Lighting products segment

- ✓ LED Lamps market share up 106bps yoy.
- ✓ 70% of the lighting points are already converted into LED from conventional lighting. Number of light points are also increasing per home.
- ✓ B2B (incl B2G) accounts for 50% of the total Lighting segment. B2B business continues to witness slowdown in Govt/EESL order execution & clearance. Institutional demand would take slightly more time to recover. The company's focus would continue on this segment on the back of investments by government in infrastructure.
- ✓ LED price erosion still going on in certain products. Bulbs and battens prices have stabilized, while panels could see some price erosion. B2B LED price erosion is expected to continue.

Manufacturing operations and trade activities

- ✓ Resumed operations in few manufacturing plants from mid-April in a phased manner and are slowly ramping up. Currently all the facilities are operational. However, they are running at 25-30% capacity due to safety measures. Also, slower ramp-up is due to lower end user demand.
- ✓ 22 of the 23 warehouses are operational
- ✓ 60 out of 80 channel partners commenced operations.
- ✓ 60% of the vendors partners have started operations and are ramping up.
- ✓ Bigger markets have just opened around 25%. Green/Orange zones market are not larger market, having 50-60% of the normal demand. Opened channels running at 50-60% capacity.

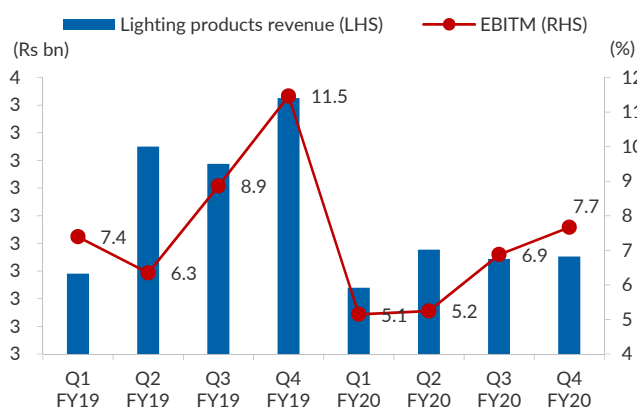
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- ✓ Last week of April saw some sales and May saw good pickup in fans and pumps with higher than expected sales from South and East. North is slowly picking up, while West is hampered.
- ✓ Better than expected collection happened in April and May.
- ✓ Ramping up investments in R&D and have recruited few senior personals to drive innovation.
- ✓ New product pipeline remains largely similar, with focus on health and wellness. The launches might be deferred due to current scenario.
- ✓ The company will continue to make investments in A&P, once the market stabilizes.
- ✓ Currently, inventory of 1month is considered at normal level. However, inventory of products like air coolers would be considered high in current scenario.

Other key highlights

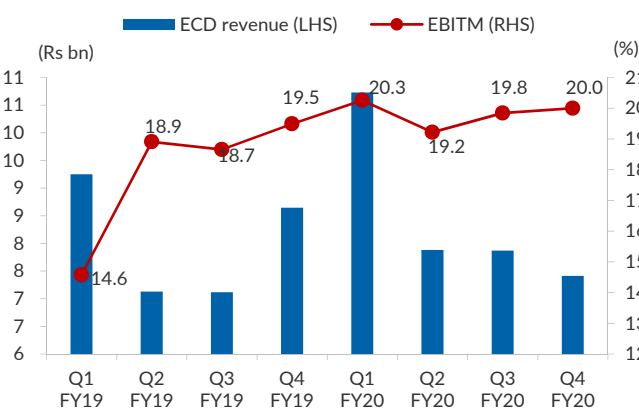
- ✓ Gross margin was up 30bps yoy led by better product mix and benefits from cost optimization program.
- ✓ Employee cost was down 7.7% in Q4 due to low incentive payout.
- ✓ A&P spends were lower by 24.3% in Q4 as company curtailed seasonal activity planned in Mar end. A&P spends in FY20 was at Rs990mn, up 8.5%.
- ✓ Finance cost was lower by 42.4% yoy in Q4 on account of debenture repayment.
- ✓ The company is tracking secondary sales with 60% of the dealers covered under this program.
- ✓ Cash conversion continues to be strong aided by efficient working capital management.
- ✓ Rs1bn cost saving measures have been identified by the company. This would be over and above the actual cost optimization program.
- ✓ Cash and Cash equivalent Rs5.9bn. Already have approval from board for Rs3bn NCD raising to build cash for worst case scenario.
- ✓ As per management, shift towards e-commerce and other forms of direct to consumers would happen gradually. The traditional channel would remain the core in the industry.

Exhibit 2: B2C lighting volume was up 37% in Jan-Feb, while B2B continue to get impacted



Source: Company, YES Sec – Research

Exhibit 3: New launches steer ECD performance in Jan-Feb



Source: Company, YES Sec – Research

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Exhibit 4: Segmental analysis

(Rs mn)	Q4 FY20	Q4 FY19	yoy (%)	Q3 FY20	qoq (%)
Revenue break-up					
Lightning products	2,853	3,425	(16.7)	2,843	0.3
Electric Consumer Durables	7,411	8,644	(14.3)	7,870	(5.8)
Total	10,263	12,069	(15.0)	10,713	(4.2)
EBIT					
Lightning products	219	393	(44.3)	196	11.8
Electric Consumer Durables	1,482	1,685	(12.0)	1,561	(5.1)
Un-allocated item	251	270	(7.0)	279	(10.0)
Total	1,450	1,807	(19.8)	1,478	(1.9)
EBIT Margin					
			bps yoy		bps qoq
Lightning products	7.7	11.5	(380)	6.9	79
Electric Consumer Durables	20.0	19.5	51	19.8	16
Blended	14.1	15.0	(85)	13.8	620

Source: Company, YES Sec – Research

Exhibit 5: Cost analysis

As a % of net sales	Q4 FY20	Q4 FY19	bps yoy	Q3 FY20	bps qoq
Material costs	68.3	69.0	(70)	68.0	29
Personnel costs	6.9	6.3	54	7.2	(34)
Other overheads	11.0	10.8	25	12.0	(95)
Total costs	86.2	86.2	8	87.2	(100)

Source: Company, YES Sec – Research

Exhibit 6: Financial Summary

Y/e 31 Mar (Rs m)	FY18	FY19	FY20E	FY21E	FY22E
Revenues	40,796	44,789	45,203	39,270	46,215
yoy growth (%)	4.6	9.8	0.9	(13.1)	17.7
Operating profit	5,310	5,844	5,992	4,944	6,095
OPM (%)	13.0	13.0	13.3	12.6	13.2
Reported PAT	3,237	4,014	4,965	3,769	4,752
yoy growth (%)	10.6	24.0	23.7	(24.1)	26.1
EPS (Rs)	5.2	6.4	7.9	6.0	7.6
P/E (x)	38.5	31.1	25.1	33.1	26.3
Price/Book (x)	15.8	11.4	8.5	7.3	6.2
EV/EBITDA (x)	24.4	22.2	21.4	25.0	19.9
Net Debt/Equity (x)	0.6	0.5	0.2	(0.1)	(0.2)
RoE (%)	49.5	42.5	38.7	23.7	25.4
RoCE (%)	42.9	39.8	36.1	28.8	33.4

Source: Company, YES Sec – Research

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