

Crompton Greaves Cons. Electricals

BUY

CMP Rs247

Target Rs277

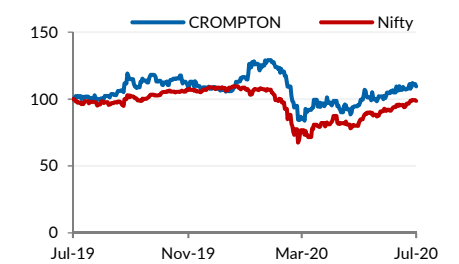
Upside 12.1%

HIGHLIGHTS	✓ Crompton's numbers are a beat on all fronts. Revenue outperformance was led by faster revival in its B2C business in June, wherein it managed to recover to 90% of last year's level.
	✓ In June, amongst the ECD business, fans recovered to 85% levels, whereas residential pumps were flat yoy, agro pumps registered 25% value growth, mixer grinders 120%, geysers 42% volume
	✓ ECD margins improved yoy due to sharp reduction in A&P spend (-95% yoy) and various cost saving measures taken
	✓ B2C lighting segment registered 9% volume growth. Company has taken 3-4% price hike in May which led to gross margin expansion in June (highest levels in recent past). However, B2B segment remained weak due to lower government and institutional offtake
	✓ Secondary sales pickup was similar to primary sales and overall demand revival extended to July. Ecommerce channel witnessed 400% growth in June
Our View	✓ Net cash improved from Rs2.3bn at the end of FY20 to Rs4.6bn led by strong operating cashflows.
	✓ We marginally increase our FY21 margin estimate post the strong Q1 performance and various cost saving initiatives implemented.
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 32.1x 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 maintain our Buy rating for a target price of Rs277, valuing the company at 36x FY22 P/E.
	✓ Slower pickup in market activity than anticipated.

Stock data (as on Jul 27, 2020)

Nifty	11,132
52 Week h/l (Rs)	301 / 177
Market cap (Rs/USD mn)	154,814 / 2069
Outstanding Shares (mn)	627
6m Avg t/o (Rs mn):	247
Div yield (%):	-
Bloomberg code:	CROMPTON IN
NSE code:	CROMPTON

Stock performance



	1M	3M	1Y
Absolute return	4.5%	14.1%	9.5%

Shareholding pattern (As of Jun'20 end)

Promoter	26.2%
FII+DII	57.2%
Others	16.6%

Δ in earnings estimates

	FY21e	FY22e
EPS (New)	6.0	7.7
EPS (Old)	5.8	7.7
% change	2.6	-

Exhibit 1: Result table

(Rs mn)	Q1 FY21	Q1 FY20	% yoy	Q4 FY20	% qoq
Net sales	7,201	13,468	(46.5)	10,263	(29.8)
Material costs	4,858	9,073	(46.5)	7,014	(30.7)
Personnel costs	720	820	(12.2)	706	2.0
Other overheads	611	1,656	(63.1)	1,131	(46.0)
Operating Profit	1,012	1,919	(47.3)	1,412	(28.3)
OPM(%)	14.1	14.2	-20 bps	13.8	30 bps
Other Income	186	173	7.4	120	55.4
Depreciation	(80)	(58)	38.2	(82)	(2.6)
Interest	(108)	(150)	(28.1)	(83)	30.7
PBT	1,010	1,885	(46.4)	1,367	(26.1)
Tax	(262)	(660)	(60.3)	(346)	(24.3)
PAT	748	1,224	(38.9)	1,021	(26.7)

TARANG BHANUSHALI
Lead Analyst

tarang.bhanushali@ysil.in
+91 9820498838

Himanshu Nayyar, Lead Analyst

himanshu.nayyar@ysil.in | +91 9920915754

AMAR AMBANI, Sr. President, Head of Research

amar.ambani@ysil.in

CON-CALL HIGHLIGHTS

Q1 FY21 performance:

- ✓ April was completely a wash out month. Business picked up in May, close to 70% of last year's level and improved to 90% in June. First 3 weeks data of July is also encouraging
- ✓ Secondary sales data indicate similar levels to primary offtake
- ✓ The company's focus in Q1 was on cost saving initiatives: Margin structure at Gross and PBT remain flat at previous year's level
- ✓ Covid related spending cuts coupled with ongoing cost rationalization initiatives led to the company maintaining its margins during the quarter
- ✓ A&P spend was sharply lower at Rs20mn against Rs450mn in Q1 FY20
- ✓ Cost savings during the year would be invested back into R&D and brand building
- ✓ The company plans to scale up its R&D in FY21 and has recruited key people for this division
- ✓ Cost saving programs (Ex Covid related) are expected to yield Rs1-1.5bn of savings in FY22, similar to the levels achieved over the last 4 years
- ✓ Currently plants are operational at 90% utilisation levels and most of the supply chain has been operational
- ✓ Ecommerce channel registered 400% growth in May and June for the company

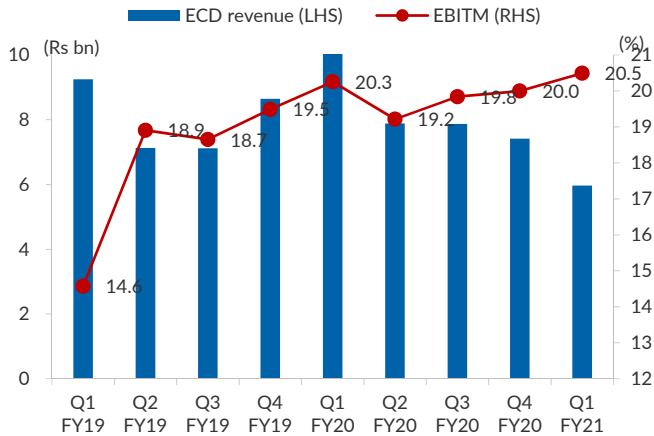
Electrical Consumer Durable (ECD)

- ✓ In June: ECD segment revenues were at 90% of last year, Amongst this
- ✓ Fans recovery rate was 85%, residential pumps were flat yoy and agro pumps witnessed 25% value growth.
- ✓ Revival in appliances sub-sector was led by 125% growth in kitchen appliances (primarily mixer grinders) and 42% volume growth in geysers.
- ✓ The company has started Inhouse manufacturing of TPW fans in Goa reducing imports from China
- ✓ Fans reach increased from 48% to 60% during the year
- ✓ 100bps market share gains in fans in last 12 months and it is across all categories
- ✓ Implementation of new rating for fans has been postponed by 18 months (Jan 2022)
- ✓ New premium fans launched: Feedback has been good. However, contribution remained low during lockdown

Lighting:

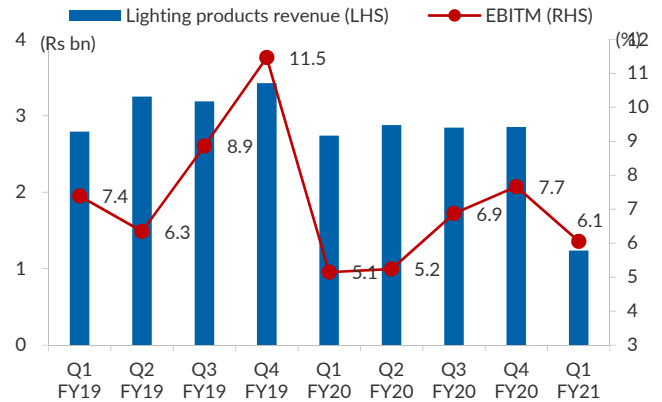
- ✓ B2C lighting registered 9% volume in June
- ✓ B2C price hike of 3-4% was taken from May
- ✓ B2B segment remained weak due to lower spending by both, institutions and government
- ✓ Gross margins for lighting in June were at record levels due to price hikes and lower costs
- ✓ EESL sales have been largely for street lighting against bulbs last year
- ✓ Lighting reach increased from 15% to +20% during the year

Exhibit 2: ECD margins improved yoy led by sharp cut in A&P and cost rationalization exercise



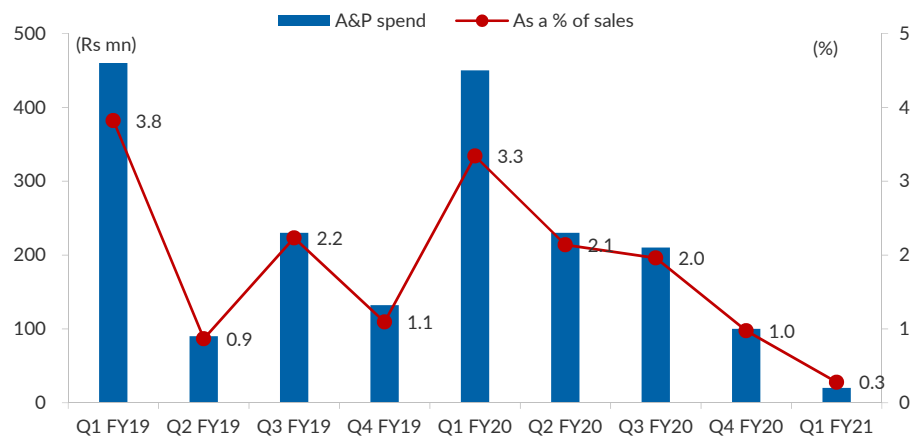
Source: Company, YES Sec – Research

Exhibit 3: Recovery in lighting segment division was curtailed by subdued B2B demand



Source: Company, YES Sec – Research

Exhibit 4: A&P spend reduced significantly in Q1 FY21, expected to increase going forward



Source: Bloomberg, YES Sec – Research

Exhibit 5: Cash levels improved significantly on a sequential basis

	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21
Total Debt	6,490	3,500	3,500	3,500	3,500	5,160
Less: Cash & CE	1,410	650	510	370	470	900
Less: Current investment	5,300	4,310	3,540	4,890	5,400	8,810
Total Net Debt	(220)	(1,460)	(560)	(1,770)	(2,370)	(4,550)

Source: Industry, Company, YES Sec – Research

Crompton Greaves Cons Electrical

Exhibit 6: Segmental analysis

(Rs mn)	Q1 FY21	Q1 FY20	yoy (%)	Q4 FY20	qoq (%)
Revenue break-up					
Lightning products	1,236	2,739	(54.9)	2,853	(56.7)
Electric Consumer Durables	5,965	10,729	(44.4)	7,411	(19.5)
Total	7,201	13,468	(46.5)	10,263	(29.8)
EBIT					
Lightning products	75	141	(47.0)	219	(65.8)
Electric Consumer Durables	1,223	2,173	(43.7)	1,482	(17.5)
Less: Un-allocated item	179	280	(35.9)	251	(28.5)
Total	1,118	2,034	(45.1)	1,450	(22.9)
EBIT Margin					
			bps yoy		bps qoq
Lightning products	6.1	5.1	91	7.7	(161)
Electric Consumer Durables	20.5	20.3	24	20.0	50
Blended	15.5	15.1	42	14.1	637

Source: Company, YES Sec - Research

Exhibit 7: Cost analysis

As a % of net sales	Q1 FY21	Q1 FY20	bps yoy	Q4 FY20	bps qoq
Material costs	67.5	67.4	9	68.3	(88)
Personnel costs	10.0	6.1	391	6.9	312
Other overheads	8.5	12.3	(381)	11.0	(253)
Total costs	85.9	85.8	20	86.2	(30)

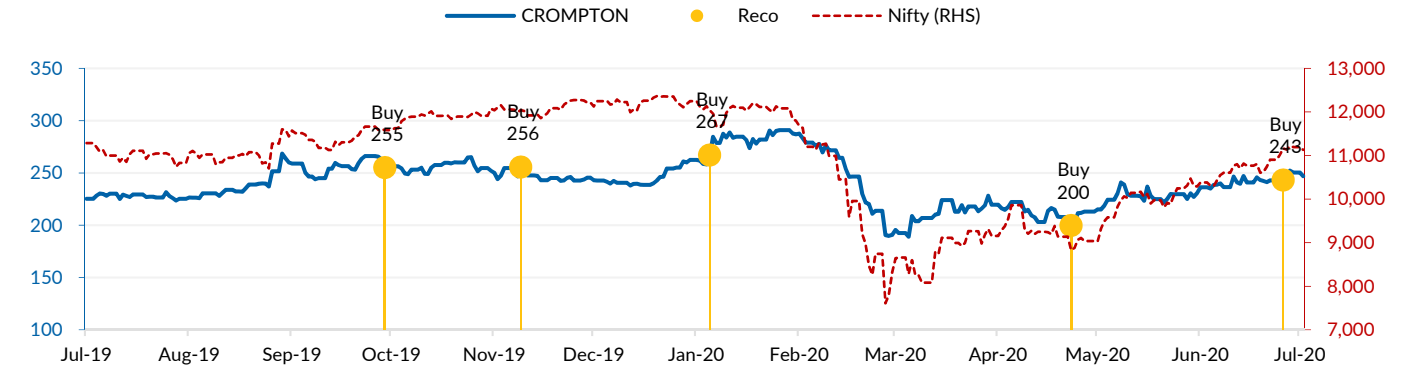
Source: Company, YES Sec - Research

Exhibit 8: Financial Summary

Y/e 31 Mar (Rs m)	FY18	FY19	FY20	FY21E	FY22E
Revenues	40,796	44,789	45,203	39,270	47,033
yoy growth (%)	4.6	9.8	0.9	(13.1)	19.8
Operating profit	5,310	5,844	5,992	4,995	6,402
OPM (%)	13.0	13.0	13.3	12.7	13.6
Reported PAT	3,237	4,014	4,965	3,735	4,825
Adjusted PAT	3,237	4,014	4,965	3,735	4,825
yoy growth (%)	10.6	24.0	23.7	(24.8)	29.2
EPS (Rs)	5.2	6.4	7.9	6.0	7.7
P/E (x)	47.8	38.6	31.2	41.5	32.1
Price/Book (x)	19.6	14.1	10.6	9.1	7.7
EV/EBITDA (x)	30.0	27.4	26.4	30.6	23.5
Net Debt/Equity (x)	0.6	0.5	0.2	(0.1)	(0.2)
RoE (%)	49.5	42.5	38.7	23.5	25.8
RoCE (%)	42.9	39.8	36.1	27.1	30.3

Source: Company, YES Sec - Research

Recommendation Tracker



Source: Bloomberg, YES SEC Research

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YES Securities (India) Limited

Registered Address: Unit No. 602 A, 6th Floor, Tower 1 & 2,
Indiabulls Finance Centre, Senapati Bapat Marg, Elphinstone Road,
Mumbai - 400013, Maharashtra, India.

Contact Details: +91-22-71123123
Email: research@ysil.in | Website: <https://yesinvest.in>

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AMFI ARN Code - 94338

Details of Compliance Officer: Name: Vaibhav Purohit,
Email id: compliance@ysil.in, Contact No.+91-22-33479208

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