

Crompton Gr. Con

BSE SENSEX

37,871

S&P CNX

11,133

CMP: INR246
TP: INR285 (+16%)
Buy

Strong FCF, balance sheet to support in current times

Crompton's FY20 Annual Report focuses on a five-dimensional growth strategy and various cost rationalization measures that have yielded satisfactory results. The launch of newer products and a deepening reach within the current product portfolio were among the key focus areas for the year gone by. Here are the key highlights:

- **Cost savings plowed back for growth:** Under Project Unnati, Crompton saw cost savings worth INR1.4b (~3.2% of FY20 sales). Savings were reported across areas such as design optimization, in-house manufacturing, backward integration, and ad spend. These savings have been pumped back into the business, into domains such as innovation, design, and technology.
- **Strengthening distribution network:** Under the Go-To-Market (GTM) strategy, the company made more than 1,500 direct channel appointments. Brand Crompton is now present in approximately 60% of all electrical goods stores in India.
- **Targeting tier 2/3 towns:** Crompton directly catered to 359 towns with below-100k populations and appointed 241 channel partners in rural areas in FY20. Also, it tied up with micro-finance institutions to make access to finance easy for rural customers purchasing Crompton's products. The management envisages high growth potential in the rural channel in FY21 and beyond.
- **Product category expansion:** Crompton launched new products across product categories such as Fans, Pumps, Lighting, and Appliances. Notable launches in Fans include the launch of 'Aura Fluidic' fans with a five-year warranty, a first in the industry. In Pumps, Crompton launched the Ultima series of agricultural pumps for the mass market. The company revamped its Water Heater portfolio with technologically superior and aesthetically better products. In Lighting, the company launched inverter bulbs with backup capacity, which remains lit even after a power failure. The two variants of this inverter bulb have one-hour and four-hour backup capacities.
- **Increasing ad spend:** With new product launches in FY20, the company increased its advertisement and sales promotion spend by 9% YoY in spite of flat revenue growth witnessed in FY20. Ad spends as a percentage of sales stood at 2.2% in FY20, in line with the past range of 2–2.5%.
- **Segment-wise performance and outlook highlights:** The ECD segment was growing in the double digits until Feb'20, before the COVID-19-led shutdown impacted growth, with FY20 revenues increasing at 6% YoY. Lighting volumes grew in the low double digits, while price erosion led to 11% YoY decline in revenue in FY20. Management expects FY21 to be the recovery year from the COVID-19-led shutdown witnessed over March–May'20.



Motilal Oswal values your support in the Asiamoney Brokers Poll 2020 for India Research, Sales and Trading team. We request your ballot.



Stock Info

Bloomberg	CROMPTON IN
Equity Shares (m)	627
M.Cap.(INRb)/(USDb)	154.2 / 2
52-Week Range (INR)	301 / 178
1, 6, 12 Rel. Per (%)	1/2/9
12M Avg Val (INR M)	293

Financials Snapshot (INR b)

Y/E Mar	2020	2021E	2022E
Sales	45.1	40.6	51.0
EBITDA	6.0	5.1	7.1
PAT	4.4	3.8	5.6
EBITDA (%)	13.2	12.6	14.0
EPS (INR)	7.0	6.0	8.9
EPS Gr. (%)	16.9	(13.6)	47.4
BV/Sh. (INR)	23.4	26.9	32.0

Ratios

Net D/E	(0.2)	(0.3)	(0.4)
RoE (%)	29.8	22.4	27.7
RoCE (%)	28.9	21.8	28.4
Payout (%)	34.4	42.0	42.0

Valuations

P/E (x)	35.2	40.7	27.6
P/BV (x)	10.5	9.1	7.7
EV/EBITDA (x)	25.4	29.1	20.4
Div Yield (%)	0.8	0.9	1.3
FCF Yield (%)	2.4	2.4	3.3

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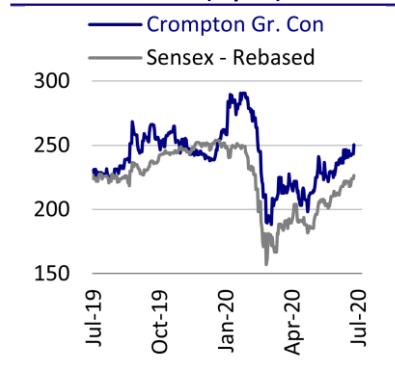
Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	26.2	26.2	34.4
DII	26.7	26.9	18.9
FII	30.5	30.9	30.5
Others	16.6	16.1	16.3

FII Includes depository receipts

Stock Performance (1-year)

- **FY20 performance highlights:** (a) **P&L highlights:** Revenue was flat YoY at INR45b, with the ECD segment growing at 6% YoY and the Lighting segment declining by 11% YoY. EBITDA grew 2% YoY to INR6b, with the EBITDA margin improving marginally to 13.2% (v/s 13.1% in FY19). Adj. PAT grew 17% to INR4.4b as the effective tax rate stood at 25.7% (v/s 33.4% in FY19). (b) **BS highlights:** The working capital cycle stretched to 23 days from 16 days in FY19 due to a rise in inventory days. Net D/E remained comfortable at -0.2x. (c) **Cash flow highlights:** Cash flow from operations increased 40% to INR4.2b, resulting in strong FCF generation of INR3.7b (FY19: INR2.9b). (d) **Return ratios:** RoE declined to 30% from 34% in FY19, while RoIC stood at 35% (v/s 36% in FY19).
- **Valuation and view:** Even amid the ongoing disruption, we commend Crompton's efforts to further improve its leadership position in the Fans segment and its good start in the new Water Heaters and Air Coolers categories. Crompton's strong FCF generation is under-appreciated at current valuations, in our view. We maintain our Buy rating, with TP of INR285 (32x Mar'22E EPS).

Story in charts

Exhibit 1: FY19 revenue breakup

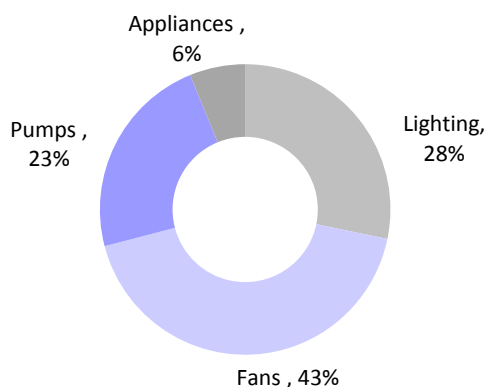


Exhibit 2: FY20–22E CAGR estimates, by category

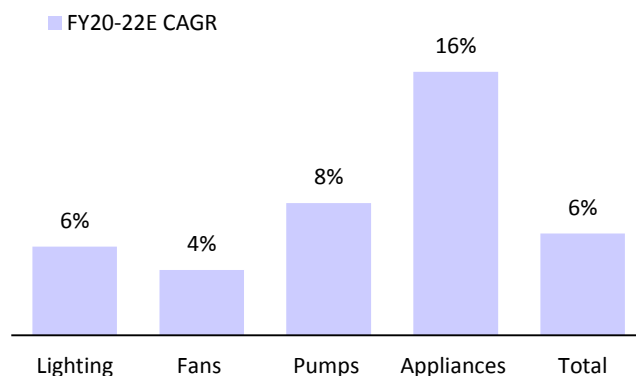


Exhibit 3: Expect 6% rev. CAGR for Lighting over FY20–22E

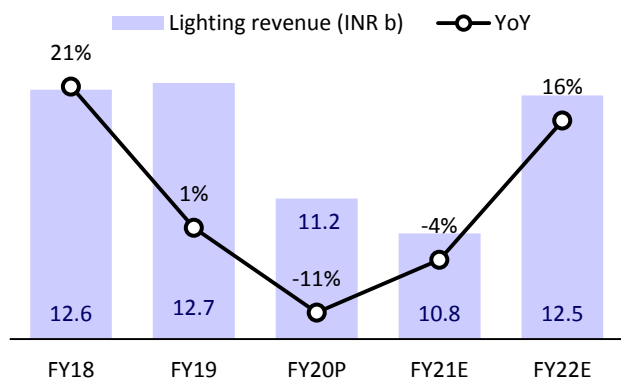


Exhibit 4: Lighting margins to scale up in FY22E

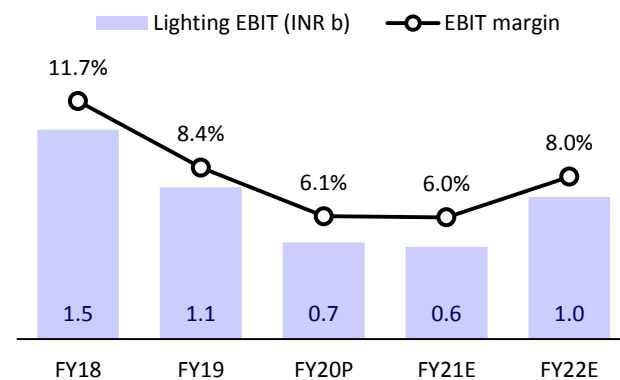


Exhibit 5: Expect 7% revenue CAGR for ECD over FY20–22E after washout in FY21E

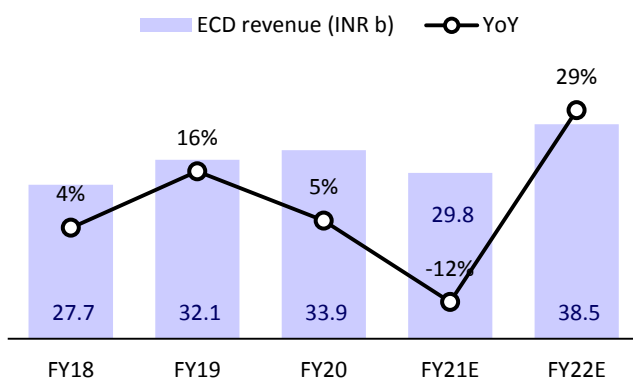


Exhibit 6: ECD margins to rebound in FY22E after temporary blip in FY21E

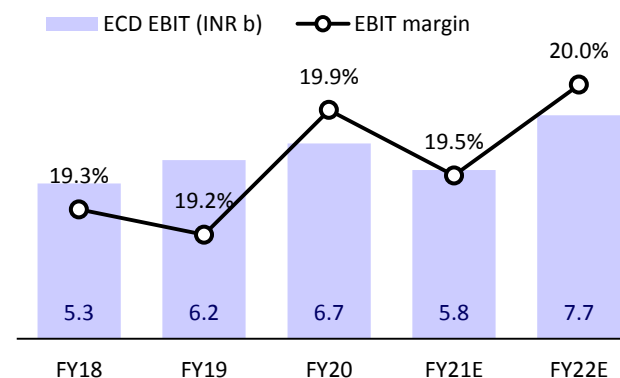
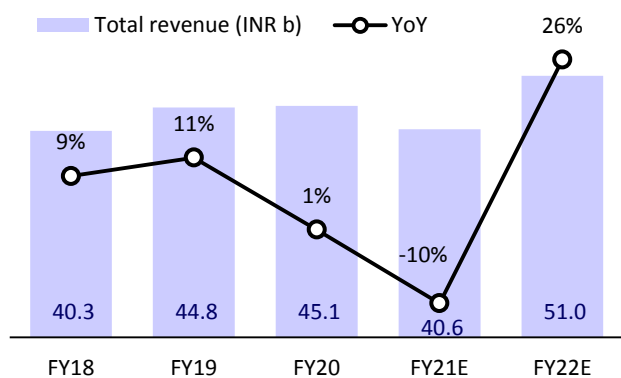
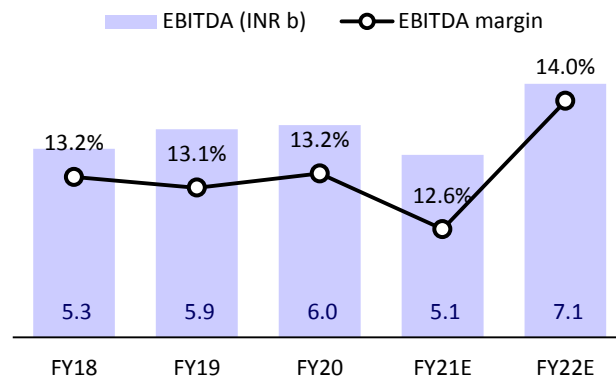
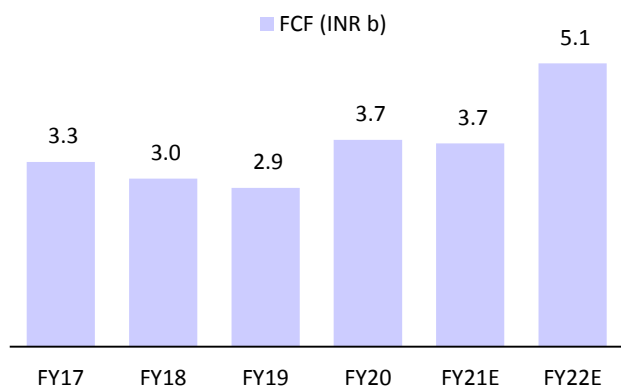


Exhibit 7: Expect total revenue CAGR of 6.3% over FY20–22E

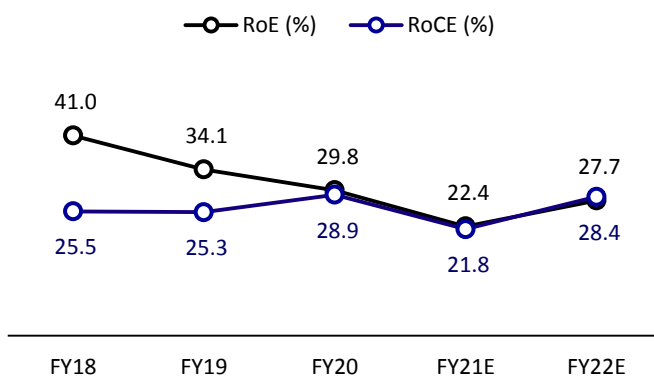
Source: MOFSL, Company

Exhibit 8: EBITDA margin to expand 80bp over FY20–22E

Source: MOFSL, Company

Exhibit 9: Strong FCF generation over FY20–22E

Source: MOFSL, Company

Exhibit 10: Return ratios to remain healthy

Source: MOFSL, Company

Management discussion and analysis – Key takeaways

#1: Five-dimensional growth strategy

The company's five-dimensional growth strategy comprises achieving excellence in brand, product portfolio, supply chain and distribution, operations, and organization development. This five-pillared strategy has been the mainstay strategy for the management in recent years.

Brand excellence

Crompton has steadily ramped-up efforts under brand awareness across media channels to increase consumer recall for products such as Aura ceiling fans (with a five-year Duratech warranty) and Anti-Bac LED bulbs. These products disrupted the market with first-time features such as a five-year warranty (in Fans) and bacteria destruction (LED Bulbs). Similar initiative was taken in the Appliances segment with a first-time television commercial for water heaters, positioning the product as 'The Perfect Hot Water'. This led to a strong uptick in sales and market share gains.

Cricket World Cup 2019, where Crompton was one of the sponsors, led to huge viewership and awareness about its fan and LED lighting products. In addition to television advertisements, the company has also expanded its efforts in the Digital Advertising domain, with a specific campaign launched for personal digital devices.

Exhibit 11: Outdoor advertisement for Anti-BAC LED Bulbs



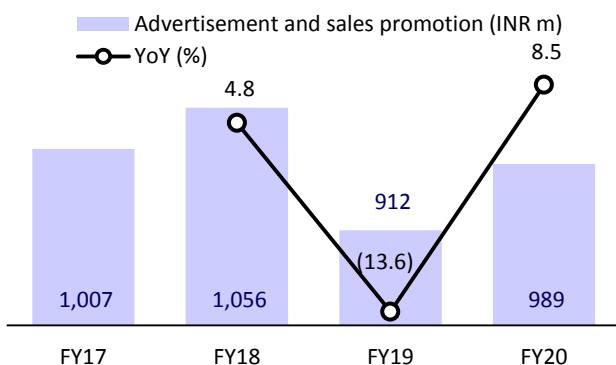
Source: Company

Exhibit 12: Press advertisement for Water Heaters



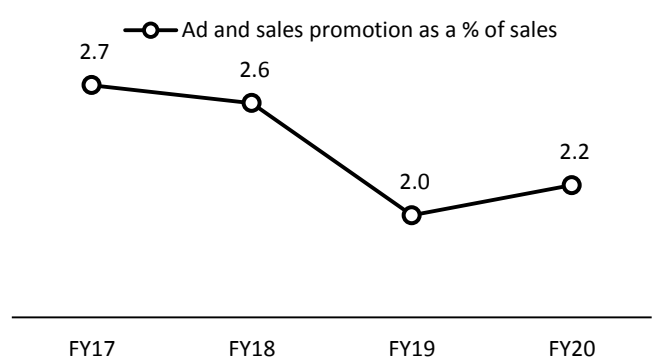
Source: Company

Exhibit 13: Ad spend grows at 8.5% YoY in FY20



Source: MOFSL, Company

Exhibit 14: Ad spend as % of sales remains stable



Source: MOFSL, Company

Portfolio excellence

Crompton continues to focus on product differentiation, enhancing value and performance, be it in the affordable or premium category. The company has refreshed its entire range of water heaters and incorporated power-saving technologies in fans, lights, and appliances. Some of these product enhancements are part of the company's premiumization strategy.

In the Fans category, a segment in which Crompton is the market leader, the company has invested significantly in consumer research and laboratory R&D. Attuned to consumer needs, Crompton launched the SilentPro fan, which is noiseless in operation and ensures excellent air delivery. In Lighting, the company launched inverter bulbs with backup capacity, which remain lit even after a power failure. The two variants of this inverter bulb have one-hour and four-hour backup capacities.

Although the Pumps business was impacted by an extended monsoon season, the company went ahead with launching new high-performance products in the segments. Solar pumps are one of the focus areas within the Pumps segment; the management expects an uptick in demand in this category from the Farming industry in the next three years. The government, under its scheme named KUSUM, plans to further boost the Solar Pumps business, with targets to install 2.75m pumps over the next five years.

Exhibit 15: New launches in Fan segment



Source: Company

Exhibit 16: New launches in Pumps segment



Source: Company

Exhibit 17: New launches in B2B Lighting segment

Source: Company

Exhibit 18: New launches in B2C Lighting segment

Source: Company

Exhibit 19: New launches in Appliances segment

Source: Company

Go-to-market excellence

Crompton is now has a presence in ~60% of all electrical goods stores in India. 50% of secondary sales are now trackable through the Tally Patch software, with 75% targeted for the next year. It intends to expand beyond tier 1/2 cities and foray into smaller towns and cities with populations of 50–100k through a structured distribution model via IT enablement. It has also tied up with a major HVAC distributor to capitalize on potential sales opportunities.

Exhibit 20: Pump awareness drive in rural towns

Source: Company

Exhibit 21: Downlighter and panel product display unit

Source: Company

Exhibit 22: Numeric reach of brand in southern region increases by 17.6% in Fans over FY16–19

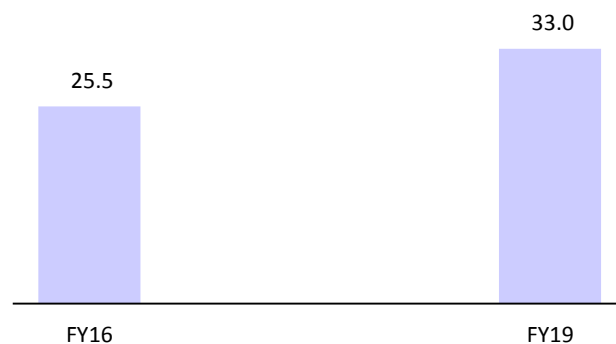
■ Numeric reach in South (%)



Source: MOFSL, Company

Exhibit 23: Numeric reach of brand in southern region increases by 7.5% in LED over FY16–19

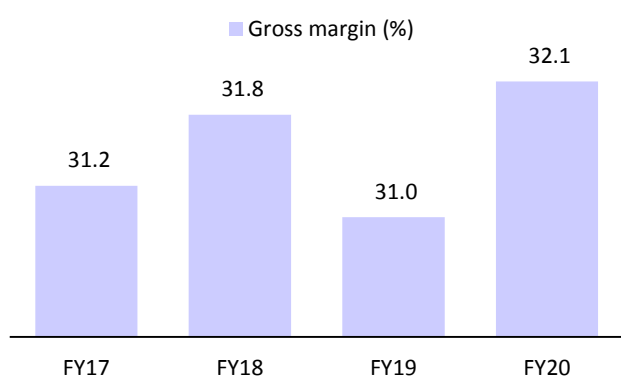
■ Numeric reach in South (%)



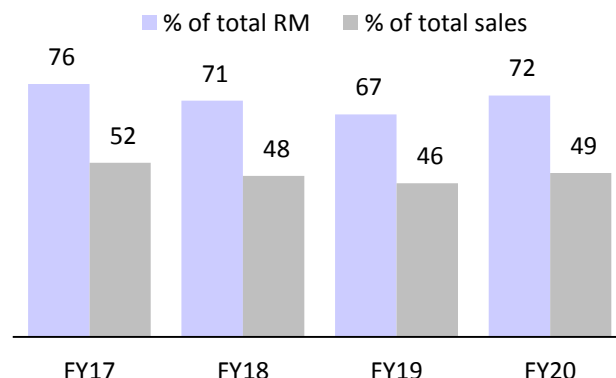
Source: MOFSL, Company

Operational excellence

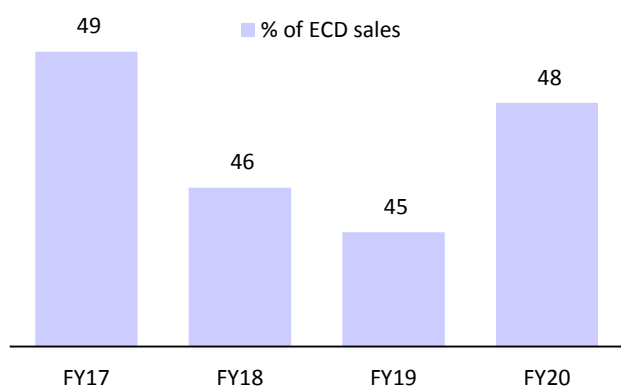
The consolidation of warehouses has led to the accrual of GST benefits. It has also led to cash savings via lower inventory levels. Savings from Project Unnati stood at INR1.44b in FY20 (3.2% of FY20 sales). The company has implemented backward integration in Fans, wherein certain operations such as winding and power coating have been localized and are carried out in-house; localization work is also underway for liquid painting. Cost reduction across the four business verticals has freed up capital, which is being pumped back into the business in the form of brand advertising.

Exhibit 24: Gross margins steadily expands by 90bp over FY17–20

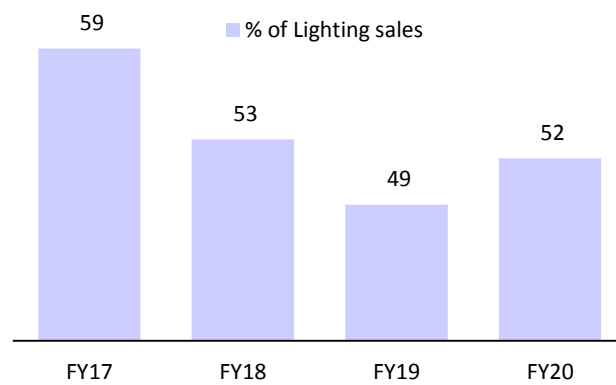
Source: MOFSL, Company

Exhibit 25: Purchase of traded goods declines moderately over FY17–20

Source: MOFSL, Company

Exhibit 26: Purchase of traded goods in ECD segment as % of sales remains at similar level over FY17–20

Source: MOFSL, Company

Exhibit 27: Purchase of traded goods in Lighting segment as % of sales declines over FY17–20

Source: MOFSL, Company

Organizational excellence

In FY20, the company bolstered its leadership team with the appointment of the heads of sales and distribution and the Lighting business. The company structurally strengthened its innovation process with the establishment of a Central Innovation Organisation headed by the Chief Technology Officer.

In addition, a company-wide employee engagement survey conducted saw an extraordinarily high response rate of 96%. The survey covered topics such as employees' perception of the company brand, line managers' behavior, performance management, rewards and recognition, and job content. The overall engagement score was calculated as 63%.

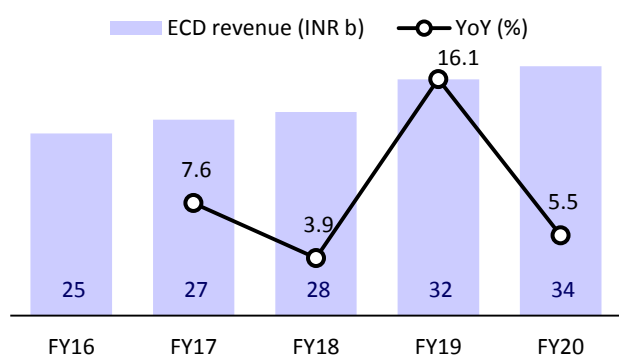
#2: Segmental performance

Electrical Consumer Durables (ECD)

The ECD segment was in line for double-digit growth up to Feb'20 before the COVID-19-led disruption witnessed in March resulted in growth of 5.5% YoY. The company grew across the Fans, Pumps, Water Heaters, and Air Coolers categories. Demand for improved aesthetics and superior technology are driving growth in the premium industry segment.

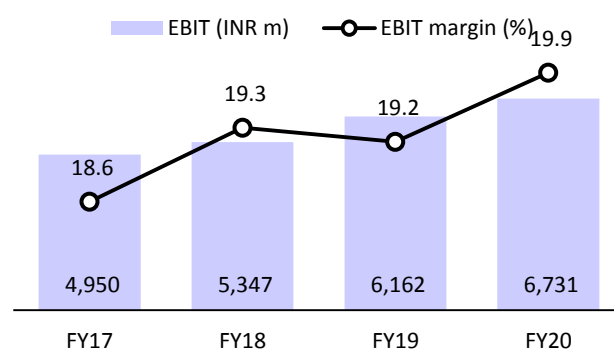
The EBIT margin expanded 70bp YoY to 19.9% on rising sales of premium products in Fans and Other Appliances.

Exhibit 28: ECD revenue grows at 8.2% CAGR over FY16–20, with growth across Fans, Pumps, and Appliances



Source: MOFSL, Company

Exhibit 29: With rising premiumization and cost control, EBIT margin expands by 130bp over FY17–20



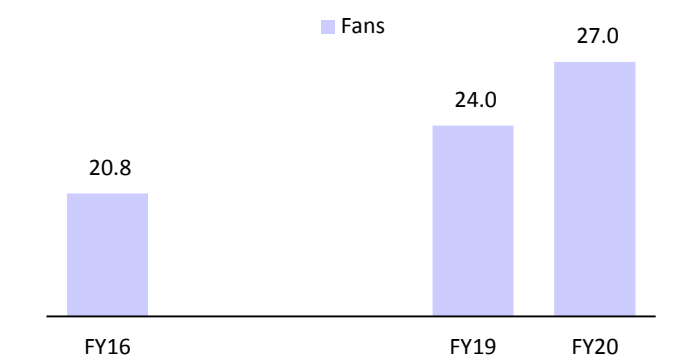
Source: MOFSL, Company

- Fans:** The Domestic Fan market continues to grow in line with the economy, with annual volumes estimated to be around 65 million units. Increased electrification, growing market penetration, and rising income levels are driving rural penetration. Growth in urban households is primarily driven by shorter replacement cycles owing to premiumization. The mandatory new energy rating system would increase demand for compliant products.

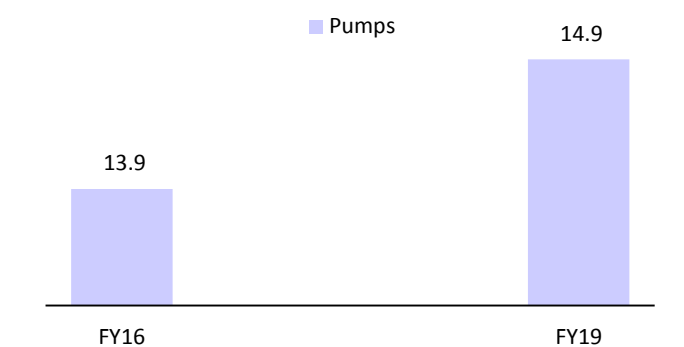
Crompton continued to lead in the Fans segment with market share of around ~27% in FY20. The company was successful in increasing its share of Premium Fans revenue to 20% in FY20 (Fans above INR2,500 price point) from ~10% in FY16.

Crompton launched the Aura Fluidic product with a five-year warranty, a first in the industry. It also launched SilentPro in the premium range, which delivers superior airflow and is twice more silent than a conventional fan.

Government initiatives such as Pradhan Mantri Awas Yojana (PMAY) and Smart City projects would collectively add up to 15 million new houses over the next two to four years. The government has also announced an outlay of INR250b for the completion of stalled housing projects.

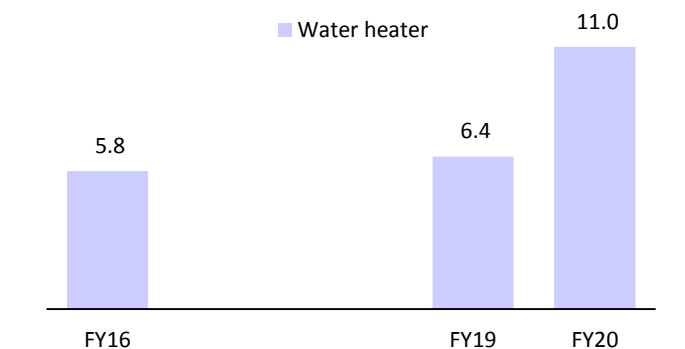
Exhibit 30: Market share (volume) trend in Fans

Source: MOFSL, Company

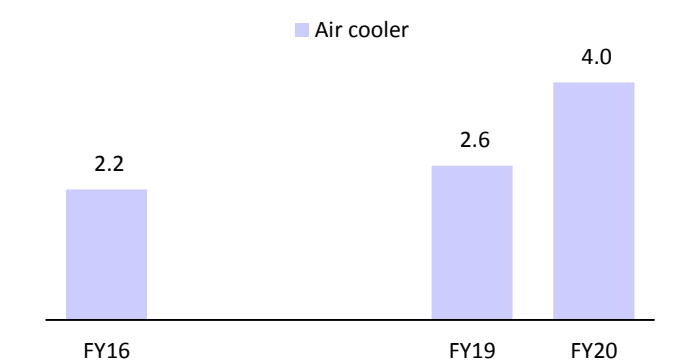
Exhibit 31: Market share (volume) trend in Pumps

Source: MOFSL, Company

- **Pumps** The Water Pumps industry is estimated to be worth INR75b. The Solar Energy sector is fast emerging as an attractive industry. Under the Kisan Urja Suraksha evam Utthan Mahabhiyan (KUSUM) scheme, the government intends to install 2.75m solar-based water pumps over a period of five years, reducing farmers' dependency on the power grid. The company continues to witness significant traction in the Mini Crest product models and is increasing its focus on tier 2 and 3 cities through a channel expansion program. It intends to enter into the Solar Pumps business.
- **Water Heaters:** A revamped portfolio led to healthy sales and market share gains in FY20. New product launches included Regallio, Qube, Rapid Jet, and Solarium Vogue.
- **Air Coolers:** Crompton continued its steady growth in this category, with newly launched products featuring technological advantages and better aesthetics. It launched the desert cooler range Optimus with features such as superior air delivery, easy drainage, and unique design for easy cleaning. Other launches included the Genie Neo and Marvel Neo.
- **Other Appliances:** In the Other Appliances category, Crompton manufactures mixer grinders and irons. During the year, it launched the Ameo mixer grinder, which provides 10% higher grinding efficiency at a 10% lower mixer body temperature than competition mixers. Brio and Instaglide were launched in the Irons category.

Exhibit 32: Market share (value) trend in Water Heaters

Source: MOFSL, Company

Exhibit 33: Market share (value) trend in Air Coolers

Source: MOFSL, Company

Lighting and Fixtures

Revenue declined 11% YoY, with low-double-digit volume growth negated by price erosion in LED. The EBIT margin declined 230bp YoY to 6.1% in FY20.

India's Lighting industry continues to be competitive, but exhibited relative stabilization in prices in the second half of FY20, specifically in the Consumer Lighting space.

Consumer Lighting delivered low double-digit growth in volume terms, but value growth was impacted owing to price erosion. The B2B segment was impacted by economic slowdown and witnessed delays in the execution of government and institutional orders. The Lighting business thus reported decline in value terms for the full year.

Crompton has continued to drive innovation in the Consumer Lighting business by launching differentiated products with value-added benefits. It has invested in the automation of the production process of LED Lamps at the Vadodara plant. In the B2B segment, through value engineering of the product range, improved internal processes, and IT enablement through a Lead Management tool, the company has continued to strengthen its execution capabilities. Cost optimization efforts have allowed Crompton to offer a competitive product range across product segments. The company also bagged prestigious Smart City projects during the year, aiding its entry into the Connected Light Solutions market.

Exhibit 34: Lighting revenue remains flat over FY16–20, with rising volume growth offset by declining prices

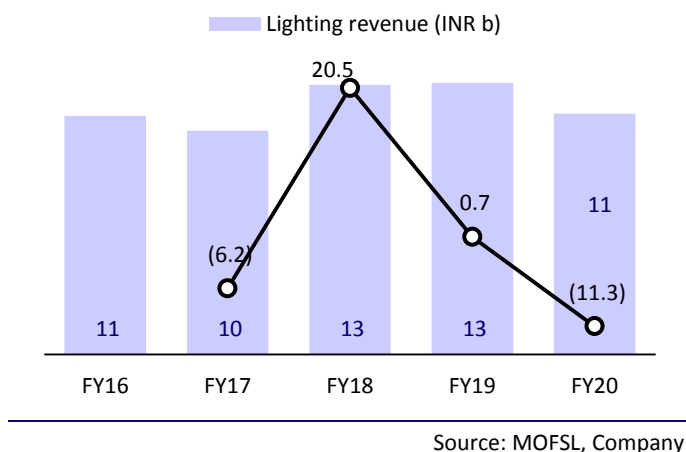


Exhibit 35: EBIT margin declines 230bp YoY on price erosion and INR depreciation

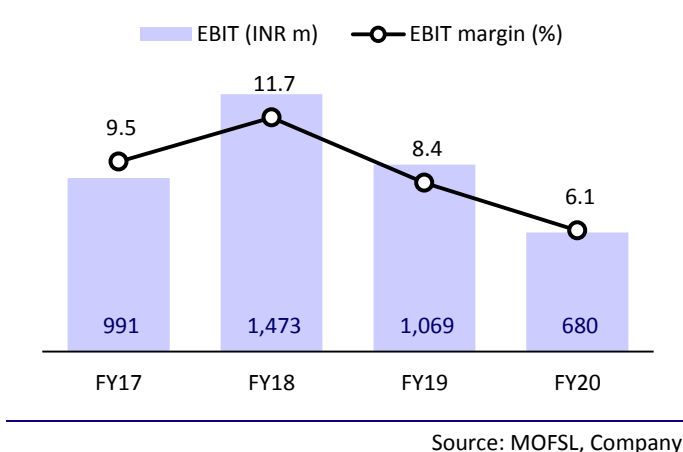
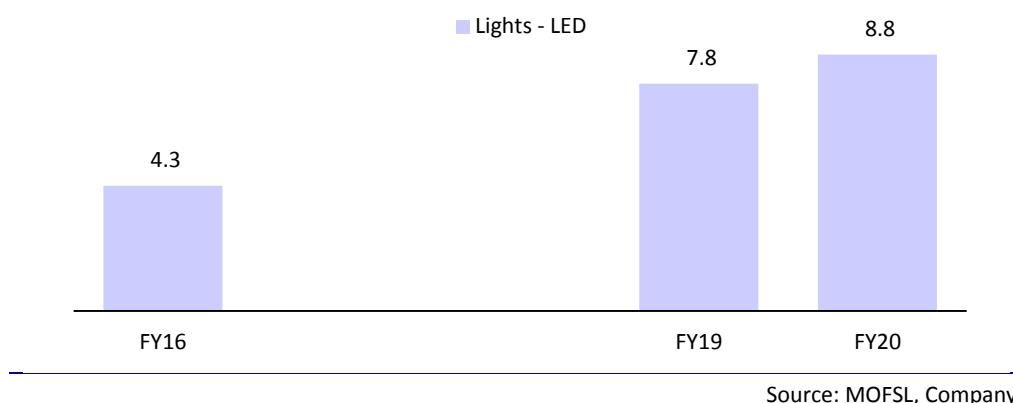


Exhibit 36: Market share (volume) trend in LED segment**Exhibit 37: Product portfolio**

Fans	Pumps	Appliances	Lighting
Ceiling Fans	Residential Pumps	Water Heaters	LED Lamps
Table Fans	Agricultural Pumps	Air Coolers	LED Battens
Pedestal Fans	Solar Pumps	Mixer Grinders	LED Panels
Wall-mounted Fans	Specialty Pumps	Irons	LED Streetlights and Floodlights
Ventilating Fans		Small Kitchen Appliances	High Mast/Street Lighting Poles
Heavy-duty Exhaust Fans		Power Solutions	Interior and Architectural Lighting
Air Circulators			High-intensity Discharge Lamps
Industrial Fans			Incandescent Lamps
			Compact Fluorescent Lamps
			Fluorescent Tubular Lights

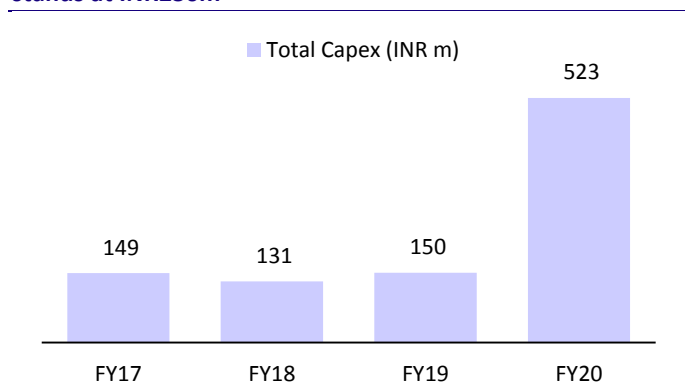
Source: MOFSL, Company

Other comments in AR

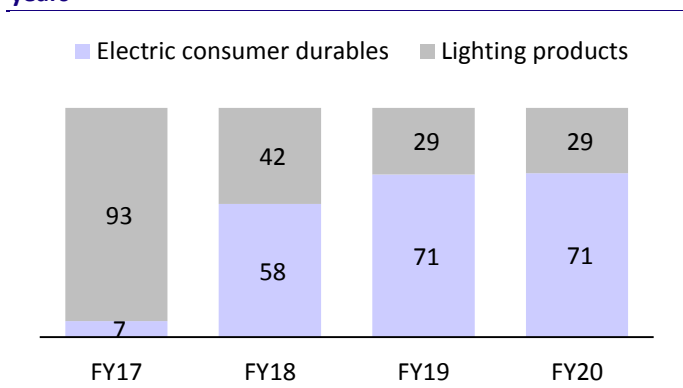
- E-Commerce would be a vital channel and an economic driver for both domestic growth and international trade.
- The potential impact of economic slowdown could also spill over to channel partners and back-end supply chain partners.
- A significant increase in metal prices (copper, aluminum, and steel) and the strengthening of the dollar could enhance overall product cost and pressure margins.

#3: Other key takeaways:

- **Capex outlay at INR523m:** Capex in FY20 was higher than the average capex for the last three years, led by the ongoing localization of various manufacturing activities. Excluding the recognition of right to use of assets, capex stands at INR230m. This largely includes expenditure toward the TPW plant, an in-house winding project, and a varnish project, a new SMT machine for LED battens, and molds for Appliances.

Exhibit 38: Excluding right to use of assets, FY20 capex stands at INR230m

Source: MOFSL, Company

Exhibit 39: Share of capex higher in ECD segment in last two years

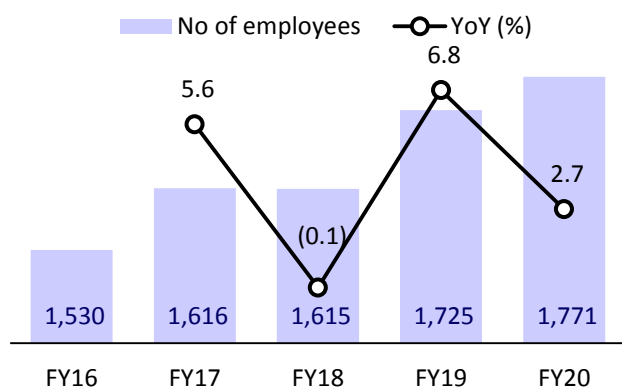
Source: MOFSL, Company

■ **Sustainability:** Certain initiatives toward sustainability are summarized as follows:

- Energy efficiency initiatives:
 - ❖ Shifted from reciprocating compressor to screw compressor at Bethora
 - ❖ Power generated through solar source at Bethora
 - ❖ Converted to LED lighting fixtures at Kundaim
 - ❖ Plant's electricity load reduced to 300KVA from 500KVA at Ahmednagar
 - ❖ Replaced all shop floor conventional lighting with LED lighting at Ahmednagar
 - ❖ Improved ventilation by installing lowers at production shop, thereby resulting in the removal of 16 ceiling fans at Ahmednagar
- Water conservation initiatives:
 - ❖ Saved 1,866kl water; reduced and recycled wastewater for potential use
 - ❖ Upgraded 50kl capacity STP with new SBR technology for 100% flushing purposes at Bethora
 - ❖ Used 100% recycling water for flushing purposes at Kundaim
 - ❖ Utilized cooling tower for reducing freshwater consumption at Vadodara
 - ❖ Installed water sprinkler and dripping system in gardens to reduce water consumption at Ahmednagar
 - ❖ Installed automatic water level cut-off switch for drinking water coolers at Ahmednagar
 - ❖ Installed alarm systems in rooftop water tanks to control overflow at Baddi Units
 - ❖ Addressed water leakage problem through constant monitoring at Baddi Units
- Waste management initiatives:
 - ❖ Reduced hazardous waste by 2,893kg vis-à-vis FY19
 - ❖ Outsourced die casting process at Goa
 - ❖ Reduced FTL production at Vadodara
 - ❖ Changed Effluent Treatment Plant (ETP) treatment chemical at Goa to reduce sludge formation

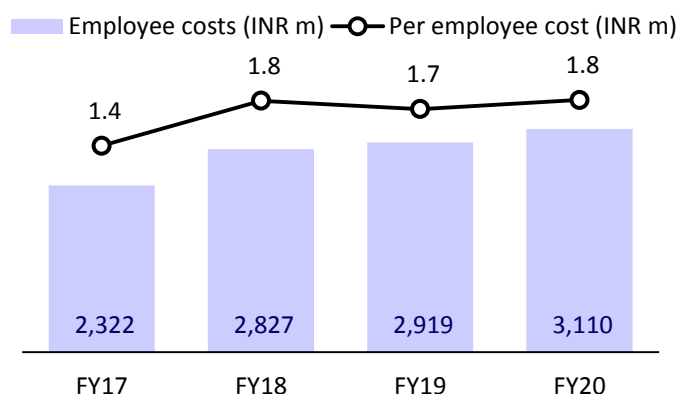
- **Employees:** Crompton has introduced a robust Succession Planning framework mapping the career development and opportunities for progress for suitable employees, thereby ensuring talent retention.

Exhibit 40: Steady growth in number of employees over FY16–20



Source: MOFSL, Company

Exhibit 41: Per employee cost shows upward trend over FY17–20



Source: MOFSL, Company

- **Remuneration:** While adj.net profits were up 17% in FY20, senior management remuneration rose by ~8% for the MD and CEO and 31% for the CFO. The remuneration included a variable pay component from FY19, which was paid in FY20.

Exhibit 42: Management compensation

Name	Designation	FY19 (INR m)	FY20 (INR m)	YoY (%)
Shantanu Khosla	Managing Director	75	81	7.6
Mathew Job	Chief Executive Officer	53	57	7.7
Sandeep Batra	Chief Financial Officer	38	49	31.0

Source: Company, MOFSL

- **Goodwill:** Over FY17–20, goodwill remained constant, without any impairment.

Exhibit 43: Goodwill remains constant with no impairment over FY17–20

(INR m)	FY17	FY18	FY19	FY20
Electric consumer durables	5,901	5,901	5,901	5,901
Lighting products	1,893	1,893	1,893	1,893
Total	7,794	7,794	7,794	7,794

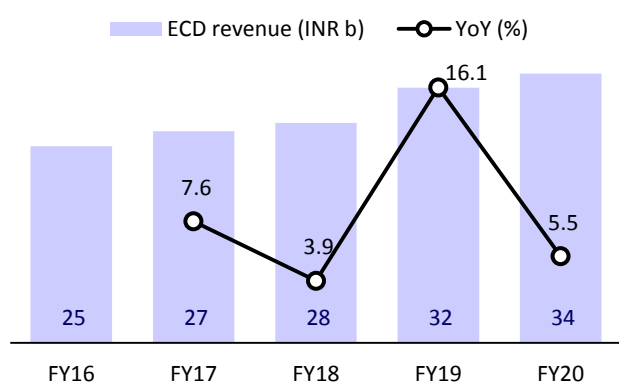
Source: Company, MOFSL

Financial analysis

Revenue analysis

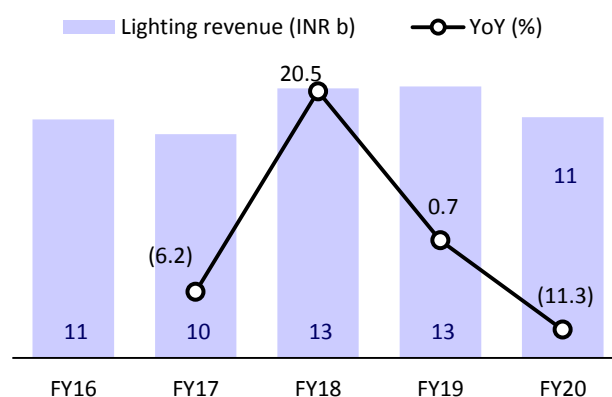
- **Price erosion weighs on value growth in Lighting:** Crompton's revenue came in flat YoY, with the ECD segment expanding 6.3% YoY; on the other hand, the Lighting segment declined 11.3% YoY. Although volume growth in Lighting was in the low double digits, decline was largely attributed to continued price erosion in LED.

Exhibit 44: ECD revenue trend



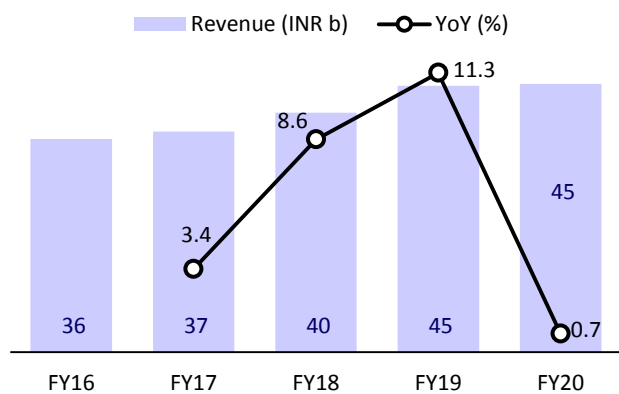
Source: MOFSL, Company

Exhibit 45: Lighting revenue trend



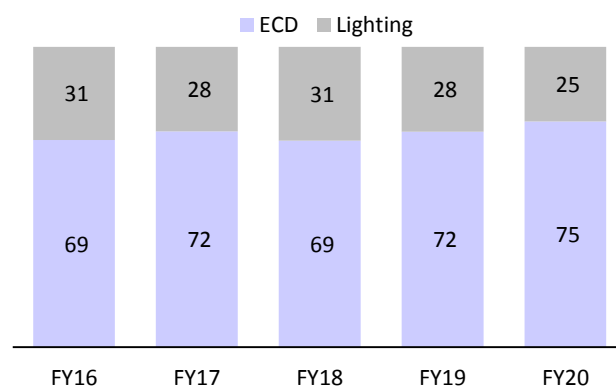
Source: MOFSL, Company

Exhibit 46: Revenue grows at 6% CAGR over FY16–20



Source: MOFSL, Company

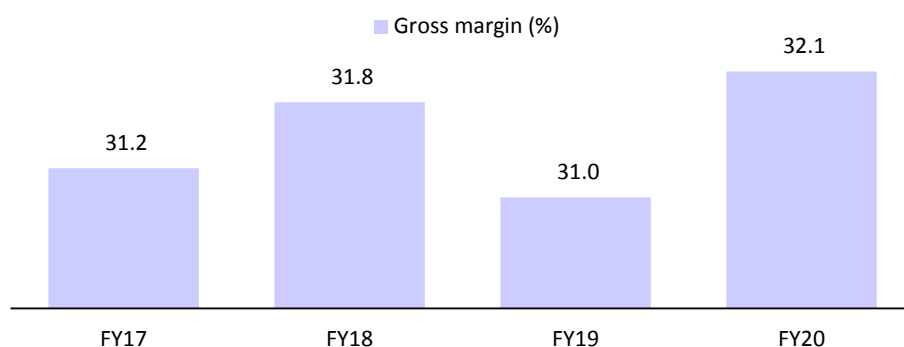
Exhibit 47: Share of ECD revenue over 70% in last two years



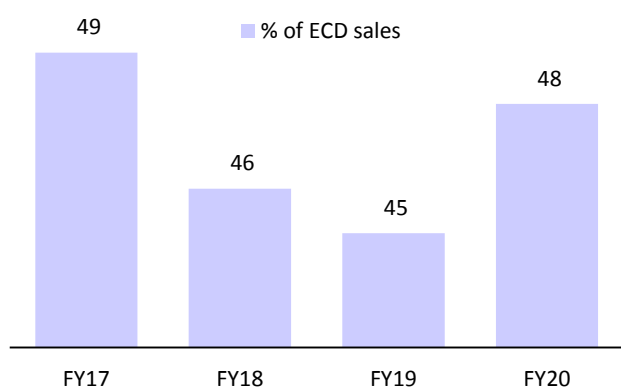
Source: MOFSL, Company

Gross margin analysis

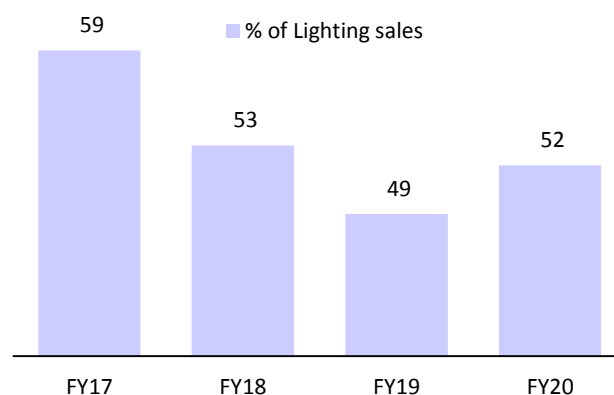
- Gross margins improved by 90bp over FY17–20 on account of rising backward integration and indigenization.
- Although the purchase of traded goods as a percentage of sales has remained constant in ECD, this has decreased in Lighting.

Exhibit 48: Gross margin expands 90bp over FY17–20

Source: MOFSL, Company

Exhibit 49: Purchase of traded goods as % of ECD sales

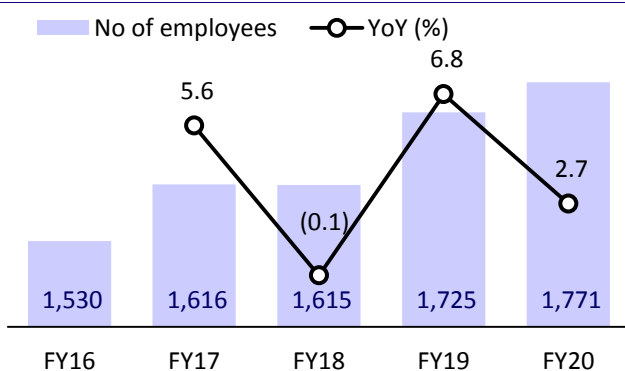
Source: MOFSL, Company

Exhibit 50: Purchase of traded goods as % of Lighting sales

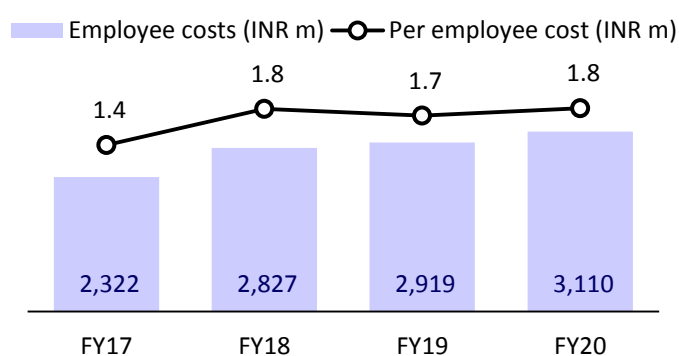
Source: MOFSL, Company

Employee cost analysis

- The number of employees marginally increased at 3% YoY, with staff cost rising 6.5% YoY in FY20.
- Implied per employee cost has increased steadily since FY17, with a 4% YoY increase seen in FY20. We expect per employee cost to either remain flat or decline in FY21E.
- ESOP charges to the P&L also saw a gradual reduction over FY17–20; we expect ESOP charges to continue to remain in a similar range as FY20.

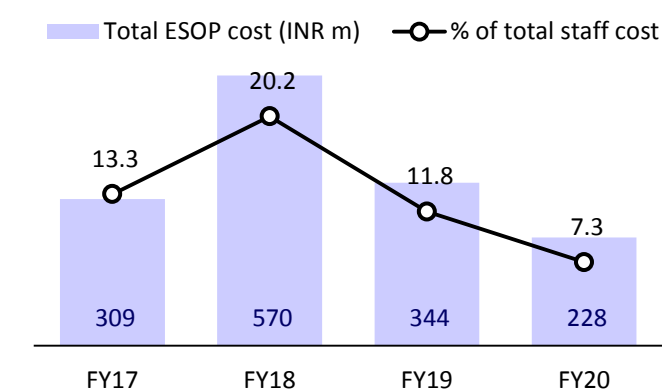
Exhibit 51: Employee increase steady since FY16

Source: MOFSL, Company

Exhibit 52: Per employee cost shows upward trend over FY17–20

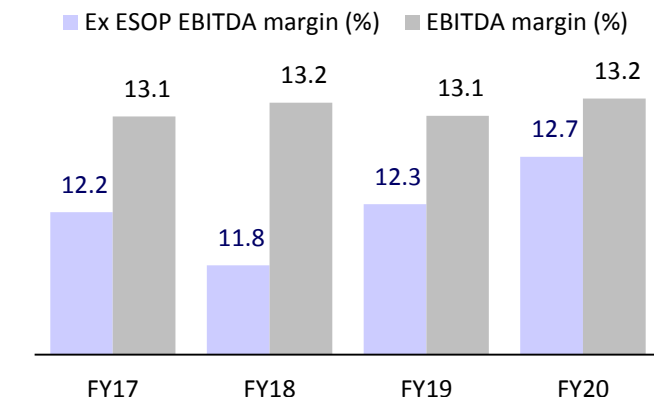
Source: MOFSL, Company

Exhibit 53: Trend in ESOP charges over FY17–20



Source: MOFSL, Company

Exhibit 54: Ex-ESOP EBITDA margin trend

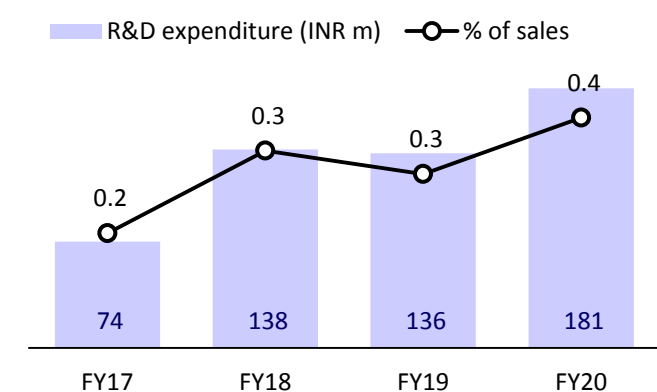


Source: MOFSL, Company

Analysis of other expenses

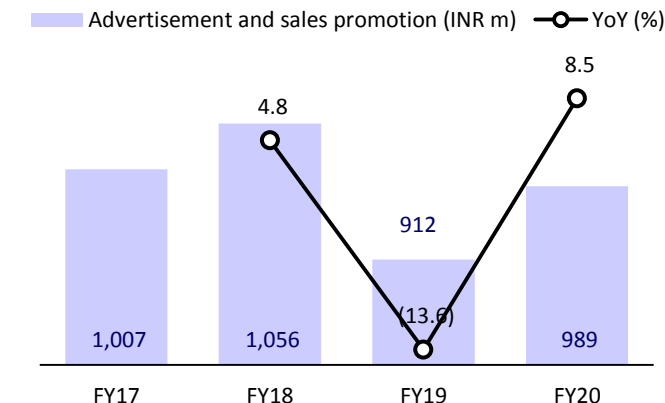
- **R&D expenses:** Even as in-house production stood at ~50%, Crompton has slowly been increasing its focus on R&D spend and in-house development. In FY20, R&D expenses were up 33% YoY and stood at 0.4% of sales.
- **Ad spends:** Crompton has been prudent in ad spend; with ad spend to sales at 2–3% of sales over FY17–20. In spite of flat sales growth in FY20, advertisement and sales promotions increased by 8.5% YoY on new product launches across different categories. However, ad and sales promotion spends as a percentage of sales stood 20bp YoY higher at 2.2% in FY20.

Exhibit 55: Trend in R&D expenses



Source: MOFSL, Company

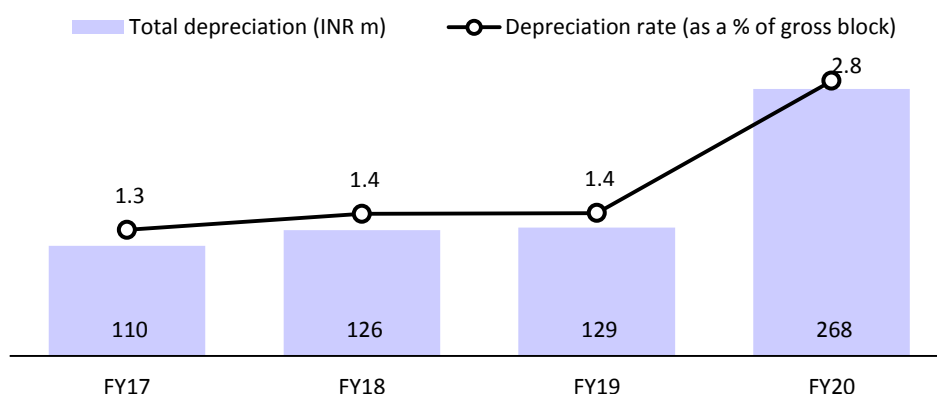
Exhibit 56: Ad spend trend



Source: MOFSL, Company

Depreciation

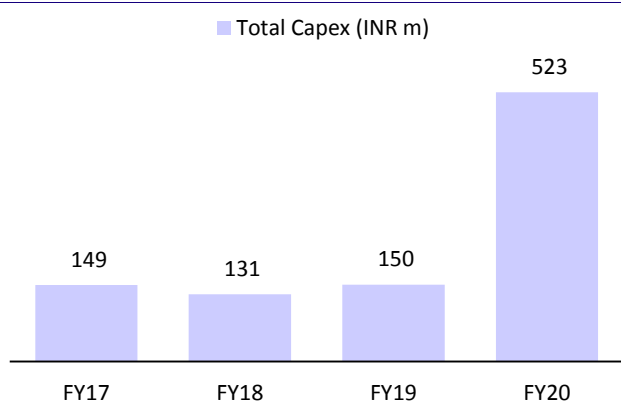
- The rise in depreciation in FY20 was on account of the adoption of Ind-AS 116, wherein rent has been reclassified as depreciation and amortization expenses.
- Besides this, depreciation has largely been in-line owing to the absence of any major capex up to FY20.

Exhibit 57: Depreciation increases in FY20 on account of adoption of Ind-AS 116

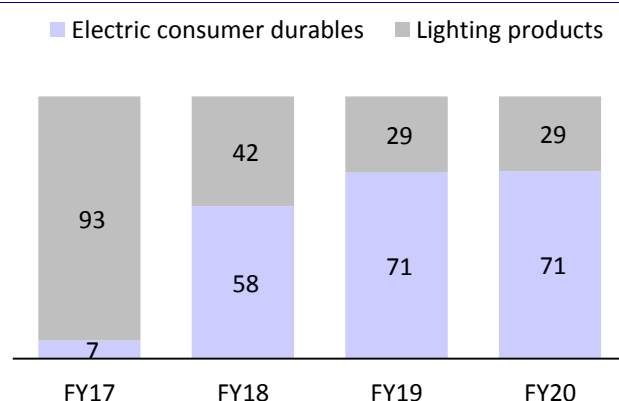
Source: MOFSL, Company

Capex trend

- Capex in FY20 was higher owing to backward integration activities undertaken in Fans, Lighting, and Appliances. Excluding right to use of assets, capex stood at INR230m.
- Capex was largely toward TPW plant, an in-house winding project, a varnish project, a new SMT machine for LED battens, and molds for Appliances.

Exhibit 58: Excluding right to use of assets, FY20 capex stands at INR230m

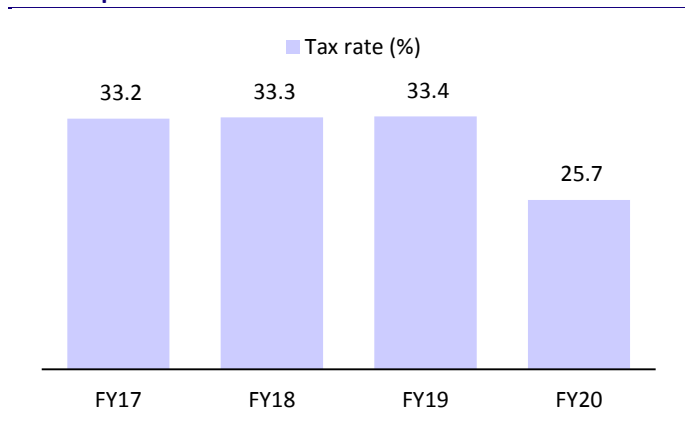
Source: MOFSL, Company

Exhibit 59: Capex share higher in ECD segment in last two years

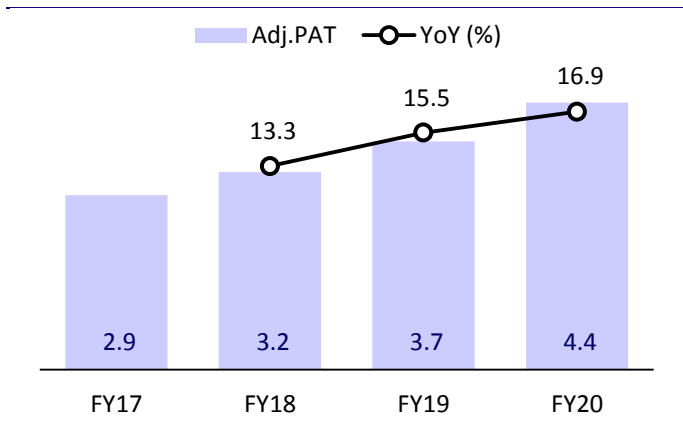
Source: MOFSL, Company

Migration to new tax rate in FY20

- Crompton migrated to a new corporate tax rate of 25.2% from 2QFY20.
- Lower taxation YoY aided growth in adj. PAT at 17% YoY.
- Over FY15–20, adj. PAT grew at a 15.2% CAGR, higher than a revenue CAGR of 7% over the same period.

Exhibit 60: Effective tax rate lower in FY20 on account of new corporate tax rates

Source: MOFSL, Company

Exhibit 61: Adj. PAT(INR b) grows at a 15.2% CAGR over FY17–20

Source: MOFSL, Company

Working capital analysis

- Crompton's working capital cycle has elongated in FY19 and FY20 on account of higher inventory days. Reduction in debtor days has been negated by likewise reduction in creditor days.
- The company does not prefer channel financing and usually pays the creditor early in case there is a cash discount.

Exhibit 62: Working capital analysis

	FY17	FY18	FY19	FY20
Net working capital days	(8.3)	2.8	16.1	23.3
Net working capital (as a % of sales)	(2.3)	0.8	4.4	6.4
Receivable days	46.6	50.2	46.1	37.1
Payable days	70.4	69.7	54.1	51.5
Inventory days	26.9	27.5	28.7	37.5

Source: Company, MOFSL

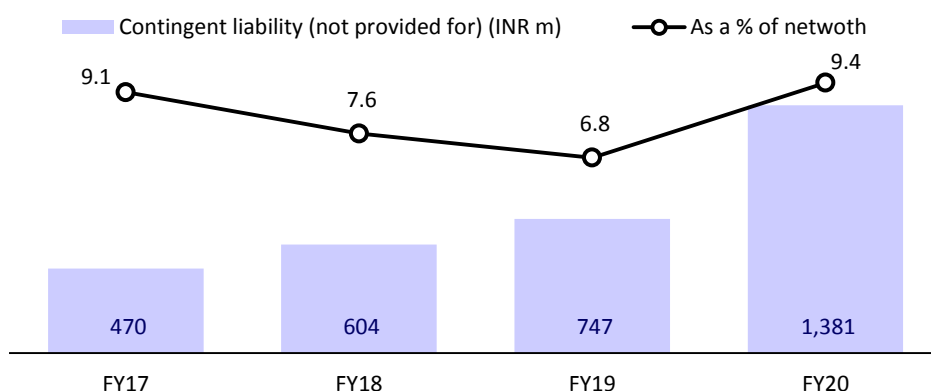
Contingent liability

- Contingent liability was at 7–10% of networth over FY17–20.
- In FY20, contingent liability was up 85% YoY, with an increase witnessed across all heads, as indicated in the table below.
- Contingent liability as a percentage of networth stood at 9.4% in FY20.

Exhibit 63: Contingent liability trend

(INR m)	FY17	FY18	FY19	FY20
Claims against the company not acknowledged as debts	5	7	7	237
Income tax liability that may arise in respect of matters in appeal	208	208	268	287
Excise duty / Customs duty / Service tax liability that may arise in respect of matters in appeal	1	-	-	56
GST / Sales tax / VAT liability that may arise in respect of matters in appeal	257	388	306	571
Estimated amount of contracts remaining to be executed on capital account and not provided for	1	1	165	230
Total	470	604	747	1,381

Source: MOFSL, Company

Exhibit 64: Contingency liability stood at 9.4% of network in FY20

Source: MOFSL, Company

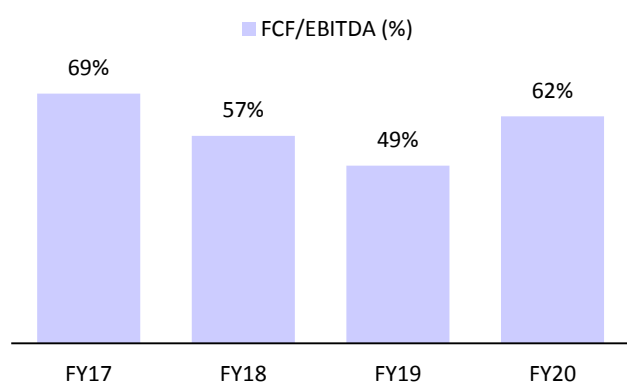
Cash flow analysis

- Owing to its asset-light business model, FCF generation was strong over FY17–20.
- Over the past five years, FCF/EBITDA and FCF/PAT have remained healthy, barring aberrations reported in FY19.
- In FY20, FCF/EBITDA stood at 62%, with FCF/PAT conversion at 85%.

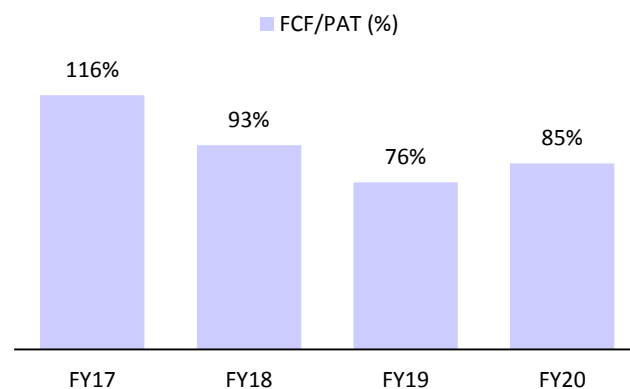
Exhibit 65: Cash flow statement

Y/E March (INR m)	2017	2018	2019	2020
PBT before EO Items	4,250	5,423	5,788	5,817
Add : Depreciation	110	126	129	268
Interest	460	350	293	173
Less : Direct Taxes Paid	-1,419	-1,812	-1,994	-1,445
(Inc)/Dec in WC	-1,175	-933	-1,202	-602
CF from Operations	2,227	3,154	3,014	4,211
(Inc)/Dec in FA	1,093	-133	-160	-494
Free Cash Flow	3,320	3,021	2,855	3,717
(Pur)/Sale of Investments & Others	195	-188	-1,343	-18
CF from Investments	1,288	-322	-1,503	-512
(Inc)/Dec in Debt	1,306	0	0	-3,088
Less : Interest Paid	-655	-634	-587	-586
Dividend Paid	0	-1,129	-1,312	-1,506
Others	0	486	1,624	572
CF from Fin. Activity	651	-1,269	-237	-4,556
Inc/Dec of Cash	4,166	1,564	1,274	-857
Add: Beginning Balance	900	3,886	5,450	6,724
Closing Balance	5,066	5,450	6,724	5,866

Source: MOFSL, Company

Exhibit 66: FCF/EBITDA remains healthy at 50–70% over FY17–20

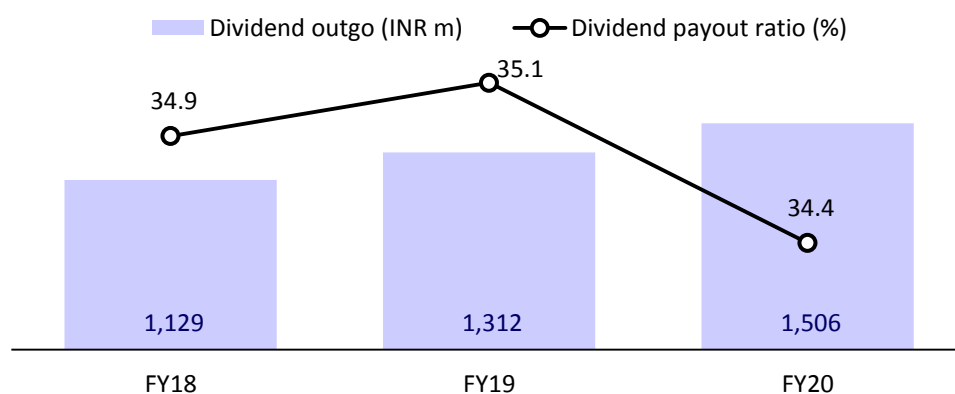
Source: MOFSL, Company

Exhibit 67: FCF/PAT rebounds to 85% in FY20 following moderate decline in FY19

Source: MOFSL, Company

Dividend payout trend

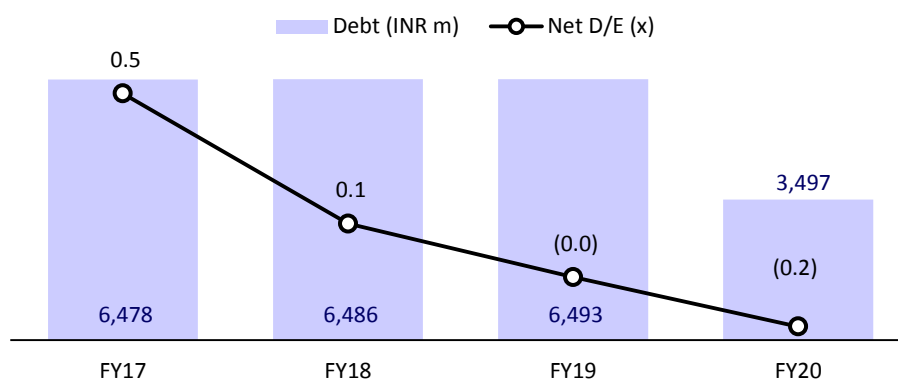
- With strong cash generation over FY17–20, dividend payout remained at ~35% over FY18–20.
- Dividend cash outgo steadily increased by 16%/15% YoY in FY19/FY20.

Exhibit 68: Dividend cash outgo largely at ~35% over FY18–20

Source: MOFSL, Company

Debt analysis

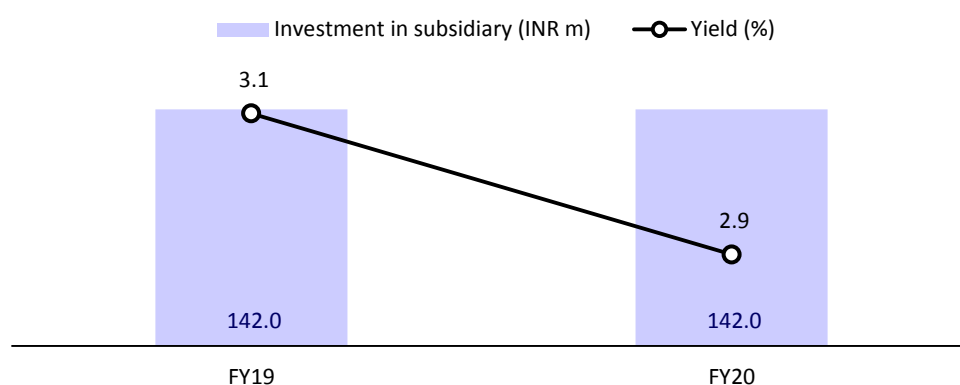
- Crompton had INR6.5b worth of debt via non-convertible debentures (NCDs) (8.95% coupon). It repaid INR3b worth of debentures in FY20, thus reducing its absolute debt to INR3.5b.
- Crompton is further scheduled to repay INR1.7b in FY21, but at the same time, this is likely to be refinanced through the new NCD issuance.
- With strong cash generation witnessed in FY20, net D/E further improved to - 0.2x.

Exhibit 69: Improving trend in Net D/E

Source: MOFSL, Company

Non-current investment

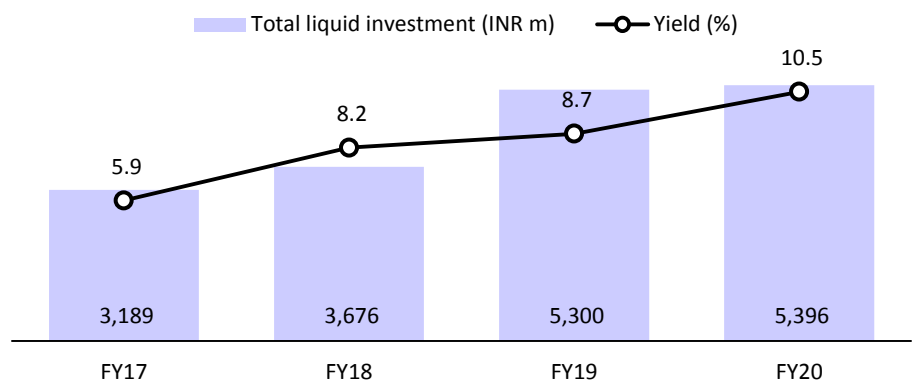
- Crompton holds a 100% stake in two subsidiary companies: Pinnacles Lighting Project Private Limited and Nexustar Lighting Project Private Limited.
- Pinnacles Lighting Project Private Limited was incorporated on 31st Dec'18 for the execution, design, manufacture, testing, supply, and O&M of LED street lights and poles and other related works. These would be used in the implementation of the Greenfield Street Lighting Project for 19 urban local bodies (ULBs) in Odisha.
- Nexustar Lighting Project Private Limited was incorporated on 2nd Jan'19 for the execution, design, manufacture, testing, supply, and O&M of LED street lights and poles and other related works. These would be used in the implementation of the Greenfield Street Lighting Project for 36 ULBs in Odisha.

Exhibit 70: Investment in subsidiaries

Source: MOFSL, Company

Current investment

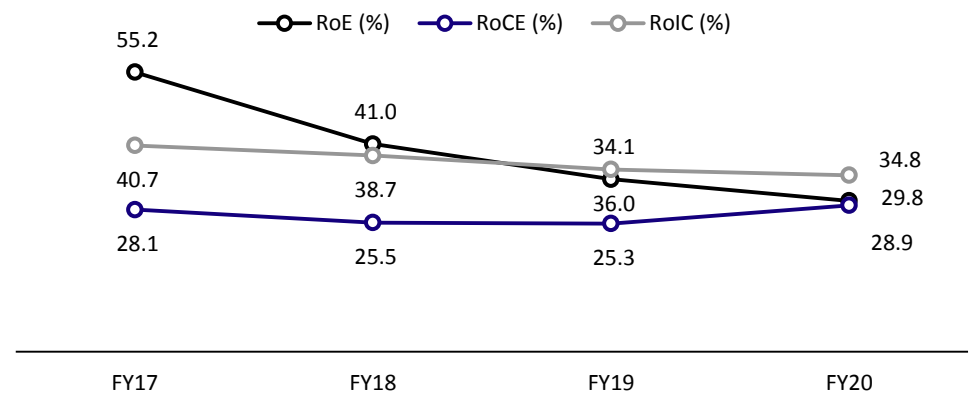
- With a rising cash balance, current investments stood at INR5.4b in FY20 (v/s INR3.2b in FY17).
- Yield on investments was up to 10.5% in FY20 from 6% in FY17.

Exhibit 71: Liquid investments and yield

Source: MOFSL, Company

Return ratios

- Crompton has a healthy return ratio profile, with both RoE and RoCE in the higher double digits (partly suppressed due to higher cash balances; INR5.9b in FY20).
- RoIC generation has remained healthy at 35–41% over FY17–20.

Exhibit 72: Trend in return ratios

Source: MOFSL, Company

Financials and valuation

Income Statement					(INR m)
Y/E March	2018	2019	2020	2021E	2022E
Total Revenues	40,254	44,789	45,120	40,600	51,000
Change (%)	8.6	11.3	0.7	-10.0	25.6
EBITDA	5,310	5,858	5,969	5,132	7,137
% of Total Revenues	13.2	13.1	13.2	12.6	14.0
Depreciation	126	129	268	285	300
Other Income	308	483	589	600	800
Interest	637	596	407	400	200
PBT	4,854	5,616	5,883	5,047	7,437
Tax	1,617	1,875	1,510	1,270	1,872
Rate (%)	33.3	33.4	25.7	25.2	25.2
Adjusted PAT	3,238	3,741	4,373	3,777	5,565
Extra-ordinary Income	0	285	574	0	0
Reported PAT	3,238	4,025	4,947	3,777	5,565
Change (%)	14.3	24.3	22.9	-23.7	47.4

Balance Sheet					(INR m)
Y/E March	2018	2019	2020	2021E	2022E
Share Capital	1,254	1,254	1,255	1,255	1,255
Reserves	6,641	9,731	13,423	15,614	18,842
Net Worth	7,895	10,985	14,678	16,868	20,096
Loans	6,486	6,493	3,497	1,797	0
Capital Employed	14,381	17,477	18,175	18,666	20,096
Gross Fixed Assets	8,849	8,991	9,705	10,205	10,705
Less: Depreciation	234	359	616	901	1,201
Net Fixed Assets	8,616	8,632	9,090	9,304	9,505
Capital WIP	6	10	199	199	199
Investments	0	142	142	142	142
Curr. Assets	15,628	17,915	18,010	17,357	20,723
Inventory	3,032	3,524	4,636	4,172	4,192
Debtors	5,536	5,660	4,587	4,128	5,185
Cash & Bank Balance	5,450	6,724	5,866	6,430	8,046
Loans & Advances	0	0	0	0	0
Other Assets	1,610	2,007	2,920	2,628	3,301
Current Liab. & Prov.	9,869	9,221	9,265	8,337	10,473
Current Liabilities	8,719	7,530	7,426	6,682	8,394
Provisions	1,150	1,691	1,839	1,655	2,078
Net Current Assets	5,759	8,694	8,745	9,020	10,250
Application of Funds	14,381	17,477	18,175	18,666	20,096

Financials and valuation

Ratios

Y/E March	2018	2019	2020	2021E	2022E
Basic (INR)					
Adj EPS	5.2	6.0	7.0	6.0	8.9
Cash EPS	5.4	6.2	7.4	6.5	9.3
Book Value	12.6	17.5	23.4	26.9	32.0
DPS	1.5	1.7	2.0	2.1	3.1
Payout (incl. Div. Tax.)	34.9	35.1	34.4	42.0	42.0
Valuation (x)					
P/E	47.0	40.7	34.9	40.7	27.6
Cash P/E	45.3	39.4	32.8	37.9	26.2
EV/EBITDA	28.9	26.0	25.1	29.1	20.4
EV/Sales	3.8	3.4	3.3	3.7	2.9
Price/Book Value	19.3	13.9	10.4	9.1	7.7
Dividend Yield (%)	0.7	0.7	0.8	0.9	1.3
Profitability Ratios (%)					
RoE	41.0	34.1	29.8	22.4	27.7
RoCE	25.5	25.3	28.9	21.8	28.4
RoIC	38.7	36.0	34.8	30.0	43.0
Turnover Ratios					
Debtors (Days)	50	46	37	37	37
Inventory (Days)	27	29	38	38	30
Creditors (Days)	69	54	52	52	52
Asset Turnover (x)	2.8	2.6	2.5	2.2	2.5
Leverage Ratio					
Net Debt/Equity (x)	0.1	0.0	-0.2	-0.3	-0.4

Cash Flow Statement

Y/E March	2018	2019	2020	2021E	2022E
(INR m)					
PBT before EO Items	5,423	5,788	5,817	5,047	7,437
Depreciation	126	129	268	285	300
Interest & other	350	293	173	-200	-600
Direct Taxes Paid	-1,812	-1,994	-1,445	-1,270	-1,872
(Inc)/Dec in WC	-933	-1,202	-602	288	385
CF from Operations	3,154	3,014	4,211	4,150	5,650
(Inc)/Dec in FA	-133	-160	-494	-500	-500
Free Cash Flow	3,021	2,855	3,717	3,650	5,150
Investment & Others	-188	-1,343	-18	600	800
CF from Investments	-322	-1,503	-512	100	300
(Inc)/Dec in Debt	0	0	-3,088	-1,700	-1,797
Interest Paid	-634	-587	-586	-400	-200
Dividend Paid	-1,129	-1,312	-1,506	-1,586	-2,337
Others	486	1,624	572	0	0
CF from Fin. Activity	-1,269	-237	-4,556	-3,686	-4,335
Inc/Dec of Cash	1,564	1,274	-857	564	1,615
Add: Beginning Balance	3,886	5,450	6,724	5,866	6,430
Closing Balance	5,450	6,724	5,866	6,430	8,046

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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