

September 28, 2020

Company Update

■ Change in Estimates | ☒ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	308		288	
Sales (Rs. m)	51,460	57,612	51,460	57,612
% Chng.	-	-	-	-
EBITDA (Rs. m)	7,478	8,486	7,478	8,489
% Chng.	-	-	-	-
EPS (Rs.)	9.0	10.3	9.0	10.3
% Chng.	-	-	-	-

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	45,120	43,647	51,460	57,612
EBITDA (Rs. m)	5,969	5,683	7,478	8,486
Margin (%)	13.2	13.0	14.5	14.7
PAT (Rs. m)	4,373	4,137	5,617	6,438
EPS (Rs.)	7.0	6.6	9.0	10.3
Gr. (%)	16.9	(5.4)	35.8	14.6
DPS (Rs.)	2.0	-	2.7	3.6
Yield (%)	0.8	-	1.0	1.4
RoE (%)	34.1	24.7	27.0	25.9
RoCE (%)	40.6	31.2	32.9	32.8
EV/Sales (x)	3.5	3.5	3.0	2.6
EV/EBITDA (x)	26.7	27.2	20.5	17.7
PE (x)	37.3	39.5	29.1	25.4
P/BV (x)	11.1	8.7	7.2	6.1

Key Data

CROP.BO | CROMPTON IN

52-W High / Low	Rs.301 / Rs.177
Sensex / Nifty	37,982 / 11,228
Market Cap	Rs.163bn / \$ 2,213m
Shares Outstanding	627m
3M Avg. Daily Value	Rs.440.66m

Shareholding Pattern (%)

Promoter's	26.19
Foreign	29.92
Domestic Institution	31.27
Public & Others	12.62
Promoter Pledge (Rs bn)	17.18

Stock Performance (%)

	1M	6M	12M
Absolute	(3.7)	35.2	0.5
Relative	0.1	6.1	2.7

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Creating multiple levers to drive growth

Quick Pointers:

- Geysers, Air Coolers & Mixer-Grinders to drive next leg of growth
- Lighting margins likely to improve gradually on the back of price stability
- Net cash at Rs4.5bn (June20), FCF/Adj PAT at 85%, superior than peers

We reiterate our positive stance on CROMPTON given its strategy of investing in long term strategic initiatives like 1) distribution & GTM initiatives 2) Creating new legs of growth in large durable categories and 3) sustained product innovations to consolidate its position in Fans, Lighting and Pumps. CROMPTON is creating & scaling up new legs of growth in Geysers, Air Coolers and now with Mixer-Grinders (Rs65bn category). We believe margins in lighting have bottomed out (declined 540bps to 6.1% in FY20) as price stability will enable 240bps margin expansion (8.5%) and 63% growth in EBIT over FY20-23 with a scope to still surprise positively.

We believe CROMPTON is better placed than peers given 1) low discretionary nature of products (fans, lighting, mixer-grinder, pumps) 2) sustained growth potential in core categories of fans & pumps 3) Well defined plan to scale up new segments like Geysers, Air Coolers & Mixer-Grinders and 4) strong balance sheet (FY23 Net cash of Rs21.1/share, ROE of 25.9% and ROCE of 32.8% and FCF/Adj PAT of 88%). Although we expect Havells to command premium given higher scale and product range, expect valuation gap to narrow overtime. We estimate 13.8% PAT CAGR over FY20-23 and assign a target of Rs308 at 30x FY23 EPS (Rs288/- @30x Sept22 EPS earlier). BUY

- **Creating new legs of growth in ECD:** Over the last 4 years, CROMPTON has successfully fortified its leadership position in its core categories of Fans (c27% market share) and Pumps (c28% share in residential pumps). With its core portfolio now well-established in the market, the management is focused on creating new legs of growth which started with revamp of air cooler & geysers portfolio and recent addition of mixer-grinders. CROMPTON continues to work on consumer meaningful innovations across its products lines.
- **With prices stabilizing, lighting margins to look up:** Although LED lighting industry exhibited double-digit volume growth over last couple of years, value growth remained impacted owing to price erosion. However, with the segment (especially B2C) witnessing relative price stabilization in the second half of FY20, we expect gradual margin expansion. CROMPTON registered record gross margins in June 2020 aided by price stability and cost reduction program.
- **Robust balance sheet:** CROMPTON has consistently managed to strengthen its balance sheet on the back of strong cash flow generations. CROMPTON turned Net Cash positive in FY19 with Net Cash at Rs231mn (vs -Rs2.6bn in FY17) which has further improved to Rs4.5bn at the end of June 2020. Cash conversion remained strong for FY20 with FCF/Adj.PAT and FCF/EBITDA at 85% and 63% respectively.

Creating new legs of growth in ECD

Over the last few years, CROMPTON has successfully fortified its leadership position in its core categories of fans and pumps. With the core product categories now established, the management has identified geysers, air coolers and mixer-grinders to be the next legs of growth.

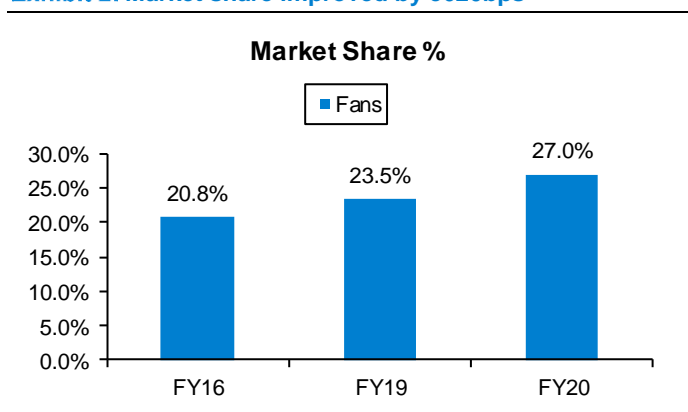
- Fans:** With Fans contributing c60% of ECD revenues, it is the largest product category for CROMPTON. Already a market leader, over the last 4 years CROMPTON has further improved its market share by c620bps to 27%. Although share of premium fan has increased from c10% to c20% over FY16-20, lower than overall share in the segment offers scope to improve mix.

Exhibit 1: Some new launches in FY20



Source: Company, PL

Exhibit 2: Market share improved by c620bps



Source: Company, PL

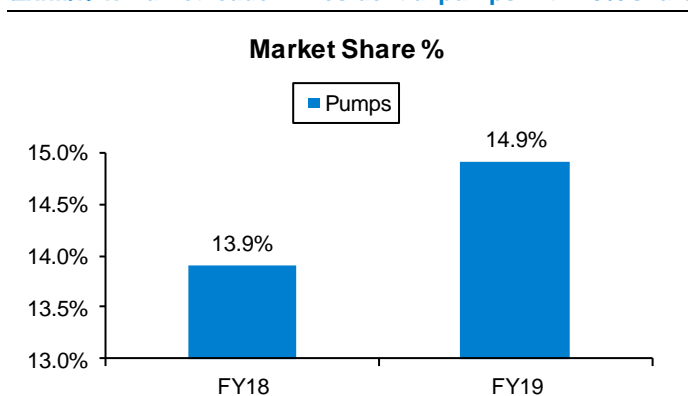
- Pumps:** Pumps is the second largest product category within the ECD segment and contributes ~27-30% of ECD revenues. CROMPTON is the market leader in residential pumps enjoying a market share of c28%. While overall, CROMPTON enjoys c15% market share in pumps. Although floods are a near term drag in few regions, innovations like crest Mini will enable it to sustain growth higher than the market.

Exhibit 3: New launches in FY20



Source: Company, PL

Exhibit 4: Market leader in residential pumps with 28% share



Source: Company, PL

- **Geysers, Air Coolers and Mixer-Grinders to lead next leg of growth:** With its core portfolio well established, the management is focused on creating new legs of growth which started with revamp of air cooler & geysers portfolio and recent addition of mixer-grinders. Market share in Geysers have increased by c520bps to 11% vs 5.8% in FY20. Even in June 2020, with the economy opening up, appliances segment continued to lead the recovery with geysers/ kitchen appliances growing by 42%/ 125% over June 2019.

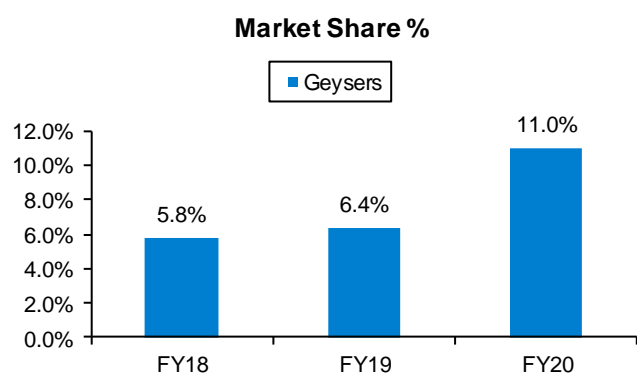
Crompton has identified Mixer grinders as next big category as its size is bigger than the total size of geysers and air coolers put together. Given that mixer Grinder is largest kitchen appliance segment, scale up in this category will significantly augment sales growth in coming years.

Exhibit 5: Quarterly YoY% growth

Category	3Q19	4Q19	1Q20	2Q20	3Q20	Jan-Feb20
Geyser	30.0%	19.0%	44.0%	38.0%	64.0%	54.0%
Cooler			138.0%	100%+	100%+	83.0%
Mixer-Grinder					40.0%	54.0%

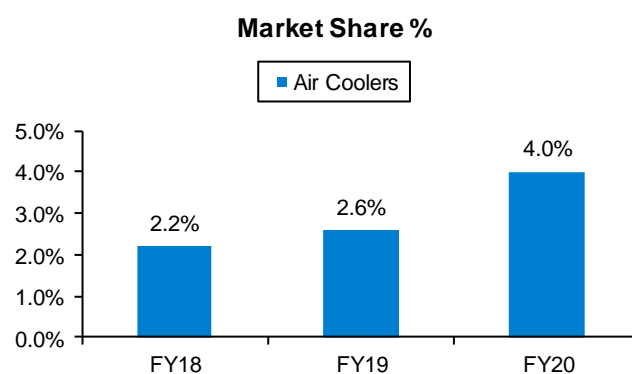
Source: Company, PL

Exhibit 6: Market share improved by c520bps over FY18-20



Source: Company, PL

Exhibit 7: Market share improved by c180bps over FY18-20



Source: Company, PL

Exhibit 8: New launches during FY20 – Mixer Grinder Next growth segment



Source: Company, PL

Lighting: expect margin recovery from 2H21

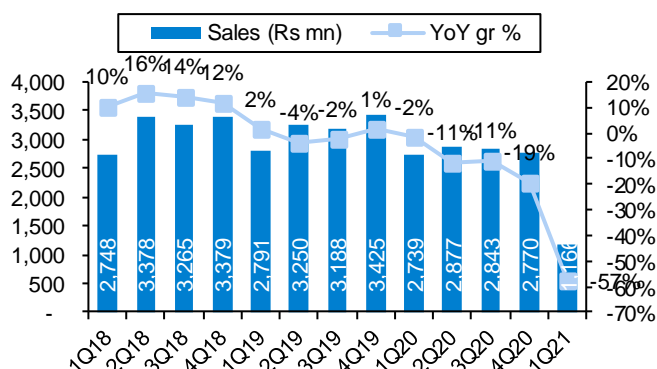
Government's thrust on promoting energy-efficient lighting and greater awareness amongst consumers on safer and energy-efficient products, has led to faster adoption of LED lights over the past few years. Although India's LED lighting industry was exhibiting healthy double-digit volume growth over the last couple of years, value growth has remained subdued due to price erosion and heightened competitive industry.

However, the segment (especially B2C) has witnessed relatively better price stability during the second half of FY20, a trend which has continued in the current fiscal as well which is a positive. In 1Q21, with activity levels at 50% of previous years, CROMPTON reported a decline of mere c40bps in margins. We believe going ahead, lighting margins will be on the mend due to **1)** stability in pricing **2)** benefits derived from cost reduction program and **3)** favorable product mix.

On the B2C side, CROMPTON continues to invest in innovation in their bid to offer consumer meaningful products. They introduced Anti-bac bulbs (bulbs which kills 85% germs). They also launched inverter lamps which worked even during power failure

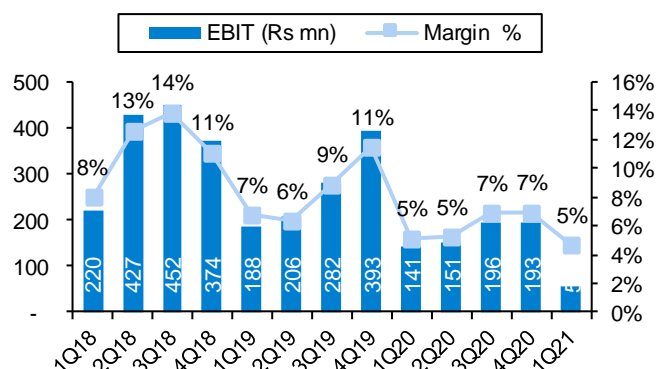
We believe lighting margins have bottomed out and expect 240bps margin expansion over FY20-23 with 63% growth in EBIT, starting 2H21.

Exhibit 9: Value growth impacted by price erosion



Source: Company, PL

Exhibit 10: Cost reduction program helping margin recovery



Source: Company, PL

Exhibit 11: New launches during the year



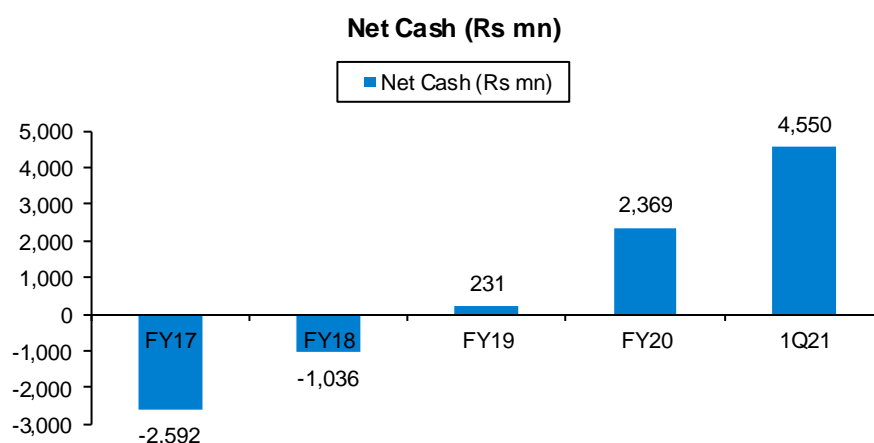
Source: Company, PL

Robust Balance Sheet

CROMPTON has consistently managed to strengthen its balance sheet on the back of strong cash flow generations. CROMPTON turned Net Cash positive in FY19 with Net Cash at Rs231mn (vs –Rs2.6bn in FY17) which has further improved to Rs4.5bn at the end of June 2020. For FY20 CROMPTON's FCF/Adj.PAT and FCF/EBITDA stood at 85% and 63% respectively.

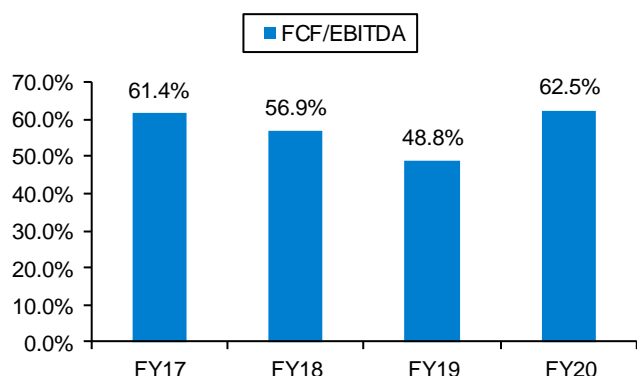
CROMPTON had a total debt of Rs6.5bn in the form of NCDs of which Rs3bn were repaid in FY20 while another Rs1.7bn were repaid in June 2020. In view of the pandemic, CROMPTON raised another Rs3bn in NCDs (@7.35%) with a three-year maturity.

Exhibit 12: Crompton turned net cash positive in FY19



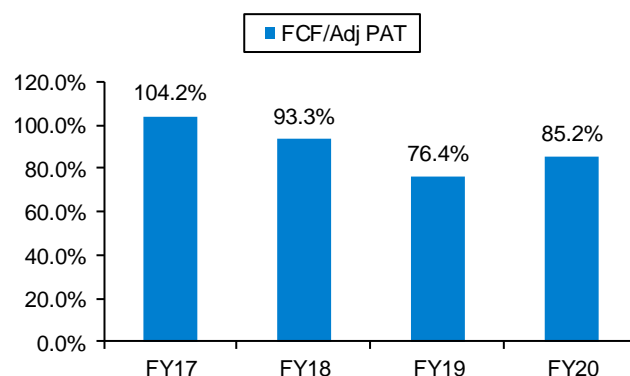
Source: Company, PL

Exhibit 13: FCF/EBITDA remains healthy



Source: Company, PL

Exhibit 14: FCF/Adj PAT improves in FY20



Source: Company, PL

ECD margins have been on an uptrend. Expanded by 100bps over FY18-20

Lighting margins contracted by 540bps to 6.1% over FY18-20 impacted by price erosion & competitive intensity

Exhibit 15: Lighting margins to expand aided by price stability/cost programs

Particulars (Rs mn)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Sales						
Electric Consumer Durables	28,281	32,136	33,890	33,316	39,579	44,543
YoY gr. (%)	-2.0%	13.6%	5.5%	-1.7%	18.8%	12.5%
Lighting Products	12,770	12,653	11,229	10,331	11,881	13,069
YoY gr. (%)	13.1%	-0.9%	-11.3%	-8.0%	15.0%	10.0%
Total	41,051	44,789	45,120	43,647	51,460	57,612
YoY gr. (%)	2.2%	9.1%	0.7%	-3.3%	17.9%	12.0%
EBIT						
Electric Consumer Durables	5,347	6,162	6,731	6,696	8,114	9,131
YoY gr. (%)	8.0%	15.2%	9.2%	-0.5%	21.2%	12.5%
margin (%)	18.9%	19.2%	19.9%	20.1%	20.5%	20.5%
Lighting Products	1,473	1,069	680	646	891	1,111
YoY gr. (%)	48.6%	-27.4%	-36.4%	-5.0%	38.0%	24.7%
margin (%)	11.5%	8.4%	6.1%	6.3%	7.5%	8.5%
Total	6,820	7,230	7,411	7,342	9,005	10,242
YoY gr. (%)	14.8%	6.0%	2.5%	-0.9%	22.6%	13.7%
margin (%)	16.6%	16.1%	16.4%	16.8%	17.5%	17.8%

Source: Company, PL

Exhibit 16: PL Valuation Matrix: CROMPTON's RoE/RoCE higher than others; Strong cash conversion cycle

Company	M Cap (Rs bn)	CMP (Rs)	TP (Rs)	Rating	Sales Growth %				PAT Growth %				EPS (Rs)			
					FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
Bajaj Electricals	56	488	500	BUY	-25.4	-5.3	14.7	12.7	-100.1	NA	225.6	35.1	-0.0	5.7	18.7	25.2
Crompton Consumer	163	260	308	BUY	0.7	-3.3	17.9	12.0	16.9	-5.4	35.8	14.6	7.0	6.6	9.0	10.3
Havells	428	685	524	Reduce	-6.3	-1.6	18.6	13.4	-6.9	-13.0	42.8	19.0	11.7	10.2	14.5	17.3
Company	RoE %				RoCE %				Net Cash/Share (Rs)				PE (x)			
	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
Bajaj Electricals	-0.0	4.6	13.7	16.3	8.0	8.9	17.3	20.9	-55.6	-40.1	-8.6	-3.2	NA	85.0	26.1	19.3
Crompton Consumer	34.1	24.7	27.0	25.9	40.6	31.2	32.9	32.8	6.5	13.5	16.0	21.1	37.3	39.5	29.1	25.4
Havells	17.3	13.8	17.4	18.4	21.6	18.1	21.5	24.3	17.7	24.5	35.8	46.4	58.4	67.2	47.1	39.5

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	45,120	43,647	51,460	57,612
YoY gr. (%)	0.7	(3.3)	17.9	12.0
Cost of Goods Sold	30,650	29,684	34,912	39,055
Gross Profit	14,470	13,962	16,548	18,556
Margin (%)	32.1	32.0	32.2	32.2
Employee Cost	3,110	3,055	3,191	3,543
Other Expenses	4,171	4,090	4,207	4,655
EBITDA	5,969	5,683	7,478	8,486
YoY gr. (%)	1.9	(4.8)	31.6	13.5
Margin (%)	13.2	13.0	14.5	14.7
Depreciation and Amortization	268	325	350	386
EBIT	5,701	5,358	7,128	8,100
Margin (%)	12.6	12.3	13.9	14.1
Net Interest	407	424	295	241
Other Income	589	618	706	782
Profit Before Tax	5,883	5,553	7,539	8,641
Margin (%)	13.0	12.7	14.7	15.0
Total Tax	1,510	1,416	1,923	2,203
Effective tax rate (%)	25.7	25.5	25.5	25.5
Profit after tax	4,373	4,137	5,617	6,438
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	4,373	4,137	5,617	6,438
YoY gr. (%)	16.9	(5.4)	35.8	14.6
Margin (%)	9.7	9.5	10.9	11.2
Extra Ord. Income / (Exp)	574	-	-	-
Reported PAT	4,947	4,137	5,617	6,438
YoY gr. (%)	22.9	(16.4)	35.8	14.6
Margin (%)	11.0	9.5	10.9	11.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,947	4,137	5,617	6,438
Equity Shares O/s (m)	627	627	627	627
EPS (Rs)	7.0	6.6	9.0	10.3

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	3,149	3,535	3,761	4,377
Tangibles	2,987	3,353	3,559	4,155
Intangibles	162	182	202	222
Acc: Dep / Amortization	1,854	2,086	2,332	2,613
Tangibles	1,737	1,946	2,168	2,421
Intangibles	117	139	164	192
Net fixed assets	1,296	1,449	1,428	1,764
Tangibles	1,251	1,406	1,391	1,734
Intangibles	45	43	38	30
Capital Work In Progress	199	100	100	100
Goodwill	7,794	7,794	7,794	7,794
Non-Current Investments	220	226	232	239
Net Deferred tax assets	506	578	676	789
Other Non-Current Assets	228	202	208	214
Current Assets				
Investments	5,396	9,396	10,396	11,896
Inventories	4,636	3,827	4,230	4,735
Trade receivables	4,587	5,381	6,344	7,103
Cash & Bank Balance	471	2,052	2,665	2,858
Other Current Assets	1,971	1,661	1,817	1,940
Total Assets	27,440	32,797	36,045	39,605
Equity				
Equity Share Capital	1,255	1,255	1,255	1,255
Other Equity	13,423	17,560	21,483	25,663
Total Network	14,678	18,815	22,738	26,917
Non-Current Liabilities				
Long Term borrowings	1,797	3,000	3,000	1,500
Provisions	191	175	206	230
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	6,372	6,343	7,461	8,346
Other current liabilities	4,402	4,464	2,641	2,611
Total Equity & Liabilities	27,440	32,796	36,045	39,605

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	5,883	5,553	7,539	8,641
Add. Depreciation	268	325	350	386
Add. Interest	407	424	295	241
Less Financial Other Income	589	618	706	782
Add. Other	(299)	(68)	(79)	(101)
Op. profit before WC changes	6,258	6,233	8,105	9,168
Net Changes-WC	(602)	253	(479)	(571)
Direct tax	(1,445)	(1,416)	(1,923)	(2,203)
Net cash from Op. activities	4,211	5,070	5,703	6,393
Capital expenditures	(483)	(379)	(329)	(721)
Interest / Dividend Income	209	-	-	-
Others	258	(4,000)	(1,000)	(1,500)
Net Cash from Invst. activities	(17)	(4,379)	(1,329)	(2,221)
Issue of share cap. / premium	52	-	-	-
Debt changes	(3,088)	1,314	(1,773)	(1,479)
Dividend paid	(1,506)	-	(1,694)	(2,258)
Interest paid	(586)	(424)	(295)	(241)
Others	-	-	-	-
Net cash from Fin. activities	(5,128)	890	(3,761)	(3,978)
Net change in cash	(934)	1,581	613	193
Free Cash Flow	3,728	4,691	5,374	5,671

Source: Company Data, PL Research

Key Financial Metrics

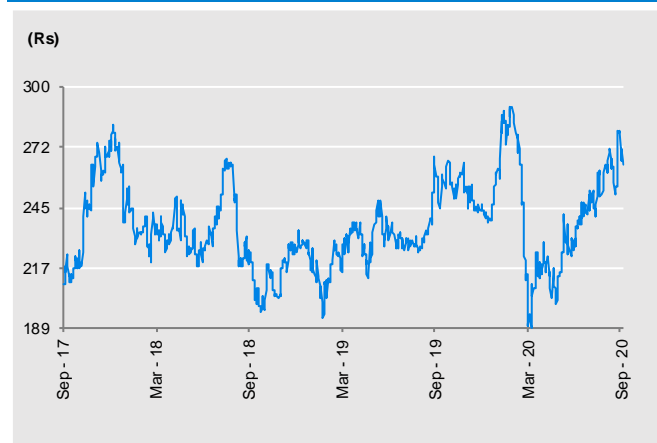
Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	7.0	6.6	9.0	10.3
CEPS	7.4	7.1	9.5	10.9
BVPS	23.4	30.0	36.2	42.9
FCF	5.9	7.5	8.6	9.0
DPS	2.0	-	2.7	3.6
Return Ratio(%)				
RoCE	40.6	31.2	32.9	32.8
ROIC	44.1	51.9	49.6	49.0
RoE	34.1	24.7	27.0	25.9
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.4)	(0.4)	(0.5)
Net Working Capital (Days)	23	24	22	22
Valuation(x)				
PER	37.3	39.5	29.1	25.4
P/B	11.1	8.7	7.2	6.1
P/CEPS	35.2	36.6	27.4	23.9
EV/EBITDA	26.7	27.2	20.5	17.7
EV/Sales	3.5	3.5	3.0	2.6
Dividend Yield (%)	0.8	-	1.0	1.4

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Net Revenue	10,758	10,713	10,181	7,132
YoY gr. (%)	3.7	4.0	(15.6)	(47.0)
Raw Material Expenses	7,327	7,290	6,961	4,814
Gross Profit	3,431	3,423	3,220	2,318
Margin (%)	31.9	32.0	31.6	32.5
EBITDA	1,295	1,369	1,384	988
YoY gr. (%)	4.5	8.6	(17.9)	(48.5)
Margin (%)	12.0	12.8	13.6	13.9
Depreciation / Depletion	64	64	82	80
EBIT	1,231	1,304	1,302	908
Margin (%)	11.4	12.2	12.8	12.7
Net Interest	87	87	83	108
Other Income	122	174	119	188
Profit before Tax	1,267	1,391	1,339	988
Margin (%)	11.8	13.0	13.2	13.9
Total Tax	154	355	341	251
Effective tax rate (%)	12.1	25.5	25.5	25.4
Profit after Tax	1,113	1,036	998	737
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,113	1,036	998	737
YoY gr. (%)	44.7	30.1	(11.8)	(39.9)
Margin (%)	10.3	9.7	9.8	10.3
Extra Ord. Income / (Exp)	-	574	-	-
Reported PAT	1,113	1,610	998	737
YoY gr. (%)	44.7	102.1	(29.5)	(39.9)
Margin (%)	10.3	15.0	9.8	10.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,113	1,610	998	737
Avg. Shares O/s (m)	627	627	627	627
EPS (Rs)	1.8	1.7	1.6	1.2

Source: Company Data, PL Research

Price Chart

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	27-Jul-20	BUY	288	247
2	07-Jul-20	BUY	287	241
3	18-May-20	BUY	267	199
4	13-Apr-20	BUY	291	224
5	30-Jan-20	BUY	306	267
6	03-Jan-20	BUY	292	241
7	24-Oct-19	BUY	303	255
8	03-Oct-19	BUY	300	244

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,829	1,717
2	Avenue Supermarts	Hold	2,055	2,163
3	Bajaj Electricals	BUY	500	436
4	Britannia Industries	BUY	4,316	3,785
5	Colgate Palmolive	Reduce	1,344	1,448
6	Crompton Greaves Consumer Electricals	BUY	288	247
7	Dabur India	Hold	469	494
8	Emami	BUY	419	257
9	GlaxoSmithKline Consumer Healthcare	Hold	9,377	9,247
10	Havells India	Reduce	524	595
11	Hindustan Unilever	Hold	2,304	2,249
12	ITC	BUY	262	200
13	Jubilant FoodWorks	Hold	2,255	2,251
14	Kansai Nerolac Paints	BUY	501	443
15	Marico	Hold	355	350
16	Nestle India	Reduce	14,089	17,095
17	Pidilite Industries	Hold	1,415	1,378
18	Titan Company	Hold	1,057	1,108
19	Voltas	Accumulate	660	629

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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