

25 January 2021

## Crompton Greaves Consumer

*Market-share gains continue; retaining a Buy*

Rating: Buy

Target Price: Rs470

Share Price: Rs410

Driven by a strong uptick in rural/e-commerce sales, premiumisation, cost optimisation and an expanding distribution network, Crompton's Q3 revenue/PBT were up 26%/46% y/y. In key categories (geysers, fans, etc.) it continued to gain more market-share than peers, said management. Price hikes from Jan'21 (5-8%) would help it face rising RM costs. We introduce FY23e and expect 12%/14% revenue/PAT CAGRs over FY20-23, with a ~15% EBITDA margin, healthy return ratios and FCFs. Its strong net cash (Rs8.1bn) would be used to re-invest in growth, incl. inorganic expansion and greater localisation. Thus, we retain a Buy on Crompton, with a target of Rs470 (40x FY23e P/E, a 20% discount to Havells), earlier Rs352. A strong operating performance is key for the recent stock re-rating to be sustained.

**Strong Q3.** ECD/lighting (up 32%/10% y/y) led by premium fans (up 51% y/y, ~18% revenue mix), geysers (up 50%), domestic pumps (up 25%) and LED lighting (up 13%) drove a 26% y/y jump in revenue. EBITDA grew 46% y/y with a 14.8% margin (up 208bps), aided by cost savings even as rising RMCs kept the gross margin flat. Net cash came at a high Rs8.1bn.

**Market-share gains continue.** Crompton continues to gain more market-share than peers. Oct/Nov/Dec sales were up 20%+ y/y each (volume led). With prices hikes expected, some advance buying (channel) was seen at end-Dec. Supply-chain issues have largely been resolved, incl. at vendors. 76% of secondary sales are being tracked, helping in better decision-making. Rural/e-com sales (up 53%/88%), premiumisation and entry into new categories (kitchen apps, etc.) are key focus areas ahead. B2B sales have yet to normalise.

**Price hikes to address margin pressure.** We believe 5-8% price hikes (1<sup>st</sup> Jan) and cost-optimisation steps (Rs400m saved in Q3) would retain the high margin.

**Maintaining a Buy.** We continue to like Crompton for its healthy long-term prospects, lean cost structure, balance sheet, strong return ratios and FCFs. We maintain a Buy. Key risks: Keener competition, slow economic recovery.

Key financials (YE Mar)	FY19	FY20	FY21e	FY22e	FY23e
Sales (Rs m)	44,789	45,203	46,537	55,121	62,887
Net profit (Rs m)	4,014	4,964	5,233	6,311	7,377
EPS (Rs)	6.4	7.9	8.3	10.1	11.8
PE (x)	64.9	52.4	49.7	41.3	35.3
EV / EBITDA (x)	44.0	42.8	36.0	30.1	25.6
PBV (x)	23.7	17.7	14.4	11.6	9.5
RoE (%)	36.6	33.8	28.8	28.2	27.0
RoCE (%) after tax	29.5	26.1	21.8	23.3	23.8
Dividend yield (%)	0.5	-	0.7	0.8	0.9
Net debt / equity (x)	(0.3)	(0.3)	(0.5)	(0.6)	(0.6)

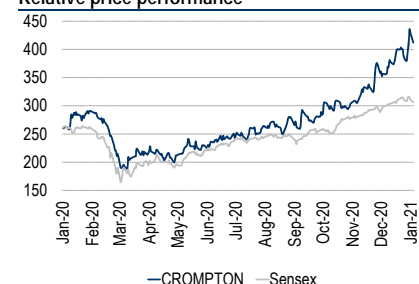
Source: Company, Anand Rathi Research

Key data	CROMPTON IN / CROP.BO
52-week high / low	Rs456 / 177
Sensex / Nifty	48348 / 14239
3-m average volume	\$11.9m
Market cap	Rs259bn / \$3545.7m
Shares outstanding	627m

Shareholding pattern (%)	Dec'20	Sep'20	Jun'20
Promoters	17.4	26.2	26.2
- of which, Pledged		-	
Free float	82.6	73.8	73.8
- Foreign institutions	34.3	30.3	29.9
- Domestic institutions	37.6	26.1	25.7
- Public	10.7	17.4	18.2

Estimates revision (%)	FY21e	FY22e
Sales 6		2
EBITDA 7		1
PAT 8		3

## Relative price performance



Source: Bloomberg

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## Quick Glance – Financials and Valuations (consol)

**Fig 1 – Income statement (Rs m)**

Year-end: Mar	FY19	FY20	FY21e	FY22e	FY23e
Net revenues	44,789	45,203	46,537	55,121	62,887
Growth (%)	9.8	0.9	3.0	18.4	14.1
Direct costs	30,918	30,703	31,484	37,516	42,821
SG&A	8,028	8,508	8,071	9,390	10,564
<b>EBITDA</b>	<b>5,843</b>	<b>5,991</b>	<b>6,982</b>	<b>8,215</b>	<b>9,502</b>
EBITDA margins (%)	13.0	13.3	15.0	14.9	15.1
- Depreciation	129	268	295	289	381
Other income	480	591	755	865	962
Interest expenses	596	407	425	320	182
PBT	5,598	5,907	7,017	8,471	9,902
Effective tax rate (%)	28.3	16.0	25.4	25.5	25.5
+ Associates / (Minorities)	-	-	-	-	-
Net income	4,014	4,964	5,233	6,311	7,377
Adjusted income	4,014	4,964	5,233	6,311	7,377
WANS	627	627	627	627	627
FDEPS (Rs / sh)	6.4	7.9	8.3	10.1	11.8
FDEPS growth (%)	24.0	23.7	5.4	20.6	16.9
Gross margins (%)	31.0	32.1	32.3	31.9	31.9

**Fig 3 – Cash-flow statement (Rs m)**

Year-end: Mar	FY19	FY20	FY21e	FY22e	FY23e
EBIT (before other income)	5,714	5,723	6,687	7,926	9,121
+ Non-cash items	129	268	295	289	381
Oper. prof. before WC	5,843	5,991	6,982	8,215	9,502
- Incr. / (decr.) in WC	(1,768)	1,332	(1,580)	97	59
Others incl. taxes	2,029	1,924	2,047	2,360	2,725
Operating cash-flow	5,583	2,735	6,514	5,758	6,719
- Capex (tang. + intang.)	148	915	200	680	680
Free cash-flow	5,435	1,819	6,314	5,078	6,039
Acquisitions					
- Div. (incl. buyback & taxes)	1,505	-	1,777	2,082	2,429
+ Equity raised	0	1	-	-	-
+ Debt raised	(2,993)	(1,695)	3,000	(2,000)	(2,000)
- Fin investments	1,736	(4)	8,000	1,500	2,500
- Misc. (CFI + CFF)	(456)	1,078	(494)	(645)	(881)
Net cash-flow	(343)	(949)	31	140	(10)

Source: Company, Anand Rathi Research

**Fig 5 – Price movement**



Source: Bloomberg

**Fig 2 – Balance sheet (Rs m)**

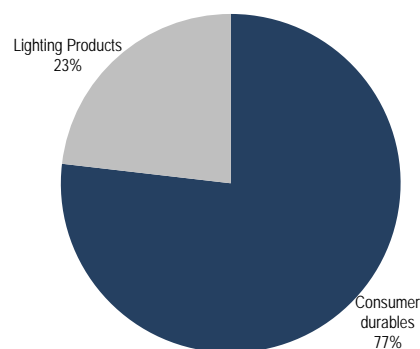
Year-end: Mar	FY19	FY20	FY21e	FY22e	FY23e
Share capital	1,254	1,255	1,255	1,255	1,255
Net worth	10,973	14,683	18,140	22,368	27,316
Debt	3,493	1,797	4,797	2,797	797
Minority interest	-	-	-	-	-
DTL / (Assets)	(603)	(507)	(407)	(307)	(207)
<b>Capital employed</b>	<b>13,864</b>	<b>15,974</b>	<b>22,531</b>	<b>24,859</b>	<b>27,906</b>
Net tangible assets	786	1,251	1,256	1,666	1,985
Net intangible assets	52	45	45	45	45
Goodwill	7,794	7,794	7,794	7,794	7,794
CWIP (tang. & intang.)	10	199	99	79	59
Investments (strategic)	-	-	-	-	-
Investments (financial)	5,412	5,408	13,408	14,908	17,408
Current assets (ex cash)	10,610	11,833	10,953	12,688	14,279
Cash	1,431	481	513	653	643
Current liabilities	12,231	11,038	11,536	12,974	14,308
Working capital	(1,620)	796	(584)	(287)	(28)
<b>Capital deployed</b>	<b>13,864</b>	<b>15,974</b>	<b>22,531</b>	<b>24,859</b>	<b>27,906</b>
Contingent liabilities	747	1,381	-	-	-

**Fig 4 – Ratio analysis**

Year-end: Mar	FY19	FY20	FY21e	FY22e	FY23e
P/E (x)	64.9	52.4	49.7	41.3	35.3
EV / EBITDA (x)	44.0	42.8	36.0	30.1	25.6
EV / Sales (x)	5.7	5.7	5.4	4.5	3.9
P/B (x)	23.7	17.7	14.4	11.6	9.5
RoE (%)	36.6	33.8	28.8	28.2	27.0
RoCE (%) - after tax	29.5	26.1	21.8	23.3	23.8
ROIC	35.7	38.0	29.6	28.3	29.2
DPS (Rs / sh)	2.0	-	2.8	3.3	3.9
Dividend yield (%)	0.5	-	0.7	0.8	0.9
Dividend payout (%) - incl. DDT	31.3	-	33.9	33.0	32.9
Net debt / equity (x)	(0.3)	(0.3)	(0.5)	(0.6)	(0.6)
Receivables (days)	46.1	37.4	36.0	36.0	36.0
Inventory (days)	28.7	37.4	28.0	28.0	28.0
Payables (days)	54.2	52.0	52.0	52.0	52.0
CFO : PAT %	139.1	55.1	124.5	91.2	91.1

Source: Company, Anand Rathi Research

**Fig 6 – Revenue break-up, by segment (Q3 FY21)**



Source: Company

## Financial highlights

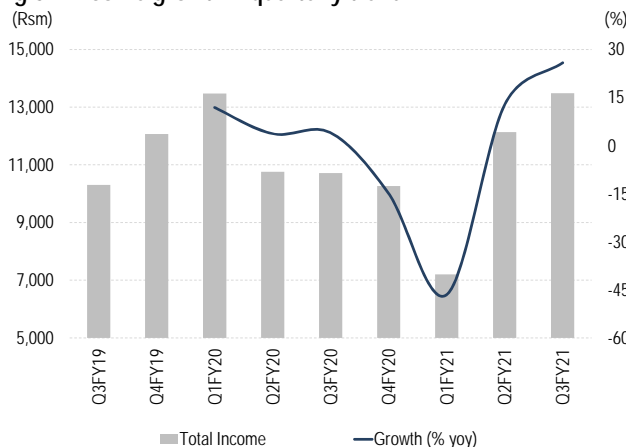
Fig 7 – Financials (consolidated)

(Rs m)	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	% Y/Y	% Q/Q	9M FY21	9M FY20	% Y/Y
Income	10,713	10,263	7,201	12,132	13,482	26	11	32,815	34,939	(6)
Raw material costs	7,290	7,014	4,858	8,133	9,156	26	13	22,147	23,689	(7)
Employee costs	774	706	720	797	929	20	17	2,446	2,403	2
Other expenses	1,283	1,131	611	1,290	1,396	9	8	3,297	4,268	(23)
<b>EBITDA</b>	<b>1,367</b>	<b>1,412</b>	<b>1,012</b>	<b>1,913</b>	<b>2,001</b>	<b>46</b>	<b>5</b>	<b>4,925</b>	<b>4,579</b>	<b>8</b>
Depreciation	64	82	80	77	69	7	(10)	225	186	21
Finance costs	87	83	108	111	106	21	(5)	325	324	0
Other income	175	120	186	167	199	13	19	552	471	17
<b>PBT</b>	<b>1,391</b>	<b>1,367</b>	<b>1,010</b>	<b>1,891</b>	<b>2,025</b>	<b>46</b>	<b>7</b>	<b>4,927</b>	<b>4,540</b>	<b>9</b>
Tax	(219)	346	262	475	514	(335)	8	1,251	597	110
<b>PAT</b>	<b>1,610</b>	<b>1,021</b>	<b>748</b>	<b>1,417</b>	<b>1,511</b>	<b>(6)</b>	<b>7</b>	<b>3,676</b>	<b>3,943</b>	<b>(7)</b>
EPS (Rs)	2.6	1.6	1.2	2.3	2.4	(6)	7	5.9	6.3	(7)
<b>As % of Income</b>						<b>bps y/y</b>	<b>bps q/q</b>			<b>bps y/y</b>
<b>Gross margin</b>	<b>32.0</b>	<b>31.7</b>	<b>32.5</b>	<b>33.0</b>	<b>32.1</b>	<b>13</b>	<b>(88)</b>	<b>32.5</b>	<b>32.2</b>	<b>31</b>
Employee costs	7.2	6.9	10.0	6.6	6.9	(33)	33	7.5	6.9	57
Other expenses	12.0	11.0	8.5	10.6	10.4	(162)	(28)	10.0	12.2	(217)
<b>EBITDA margin</b>	<b>12.8</b>	<b>13.8</b>	<b>14.1</b>	<b>15.8</b>	<b>14.8</b>	<b>208</b>	<b>(93)</b>	<b>15.0</b>	<b>13.1</b>	<b>190</b>
Depreciation	0.6	0.8	1.1	0.6	0.5	(9)	(12)	0.7	0.5	15
Finance costs	0.8	0.8	1.5	0.9	0.8	(3)	(13)	1.0	0.9	6
Other income	1.6	1.2	2.6	1.4	1.5	(16)	10	1.7	1.3	33
Effective tax rate	(15.7)	25.3	25.9	25.1	25.4	4,113	30	25.4	13.1	1,224
<b>PAT</b>	<b>15.0</b>	<b>9.9</b>	<b>10.4</b>	<b>11.7</b>	<b>11.2</b>	<b>(382)</b>	<b>(47)</b>	<b>11.2</b>	<b>11.3</b>	<b>(8)</b>
<b>Segment revenues (Rs m)</b>						<b>% Y/Y</b>	<b>% Q/Q</b>			<b>% Y/Y</b>
Consumer products	7,870	7,411	5,965	9,317	10,359	32	11	25,641	26,480	(3)
Lighting products	2,843	2,853	1,236	2,815	3,123	10	11	7,173	8,460	(15)
<b>Total</b>	<b>10,713</b>	<b>10,263</b>	<b>7,201</b>	<b>12,132</b>	<b>13,482</b>	<b>26</b>	<b>11</b>	<b>32,815</b>	<b>34,939</b>	<b>(6)</b>
<b>Mix (%)</b>										
Consumer products	73	72	83	77	77			78	76	
Lighting products	27	28	17	23	23			22	24	
<b>Segment EBIT (Rs m)</b>						<b>% Y/Y</b>	<b>% Q/Q</b>			<b>% Y/Y</b>
Consumer products	1,561	1,482	1,223	1,960	2,046	31	4	5,229	5,249	(0)
Lighting products	196	219	75	331	383	96	16	789	487	62
<b>Total</b>	<b>1,757</b>	<b>1,701</b>	<b>1,297</b>	<b>2,291</b>	<b>2,429</b>	<b>38</b>	<b>6</b>	<b>6,018</b>	<b>5,736</b>	<b>5</b>
Unallocated income / (expense)	(279)	(251)	(179)	(288)	(299)			(766)	(872)	
<b>EBIT (%)</b>						<b>bps y/y</b>	<b>bps q/q</b>			<b>bps y/y</b>
Consumer products	19.8	20.0	20.5	21.0	19.8	(9)	(129)	20.4	19.8	57
Lighting products	6.9	7.0	4.7	10.4	11.6	476	127	9.9	5.8	416
<b>Total</b>	<b>16.4</b>	<b>16.5</b>	<b>17.9</b>	<b>18.7</b>	<b>18.0</b>	<b>159</b>	<b>(67)</b>	<b>18.2</b>	<b>16.4</b>	<b>180</b>
Unallocated income / (expense)	(2.6)	(2.5)	(2.5)	(2.4)	(2.3)			(2.4)	(2.5)	

Source: Company, Anand Rathi Research

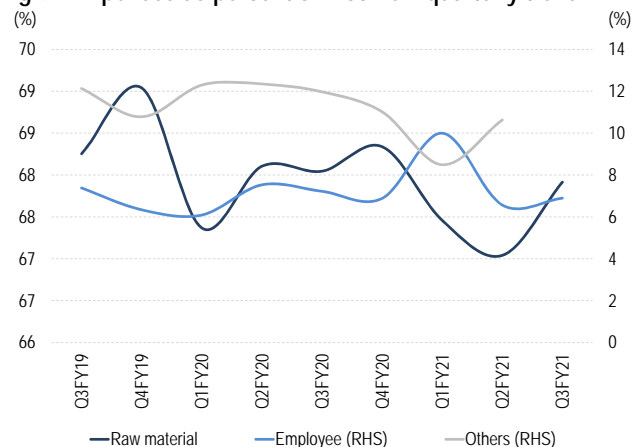
Note: EBIT margins are as reported, unadjusted for un-allocable items

Fig 8 – Income growth – quarterly trend



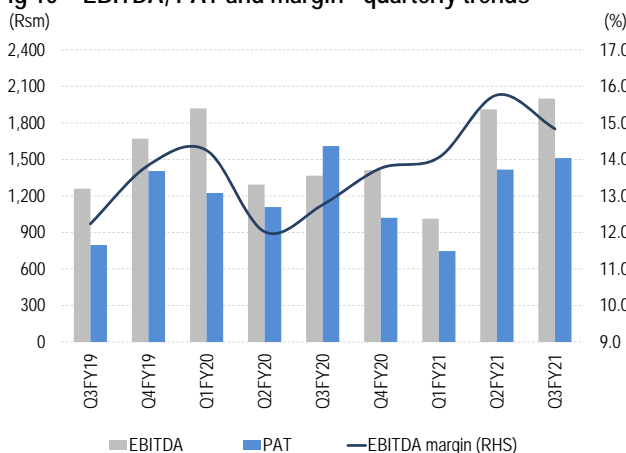
Source: Company, Anand Rathi Research

Fig 9 – Expenses as percent of income – quarterly trend



Source: Company, Anand Rathi Research

Fig 10 – EBITDA, PAT and margin - quarterly trends



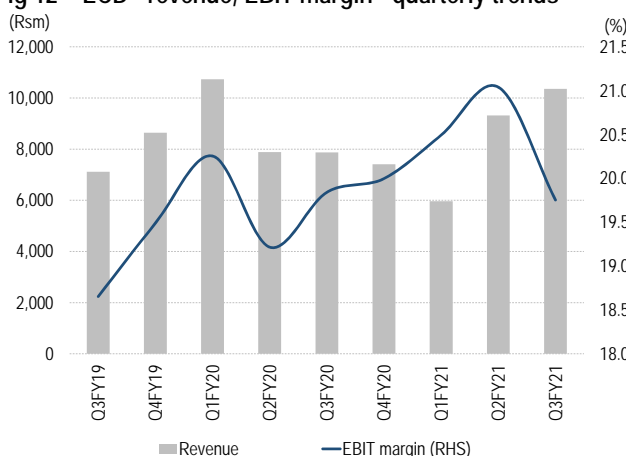
Source: Company, Anand Rathi Research

Fig 11 – Earnings growth - quarterly trend



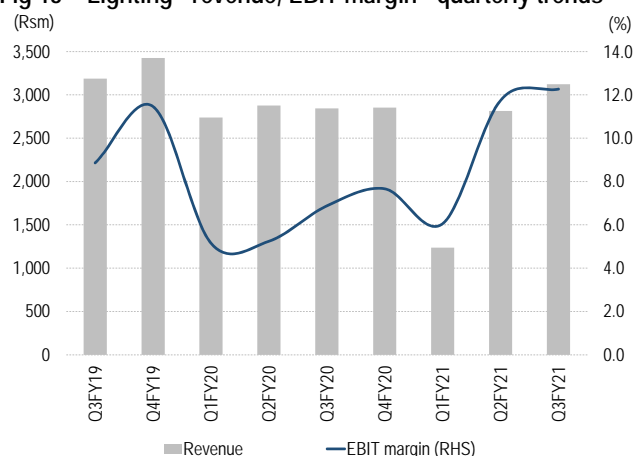
Source: Company, Anand Rathi Research

Fig 12 – ECD - revenue, EBIT margin - quarterly trends

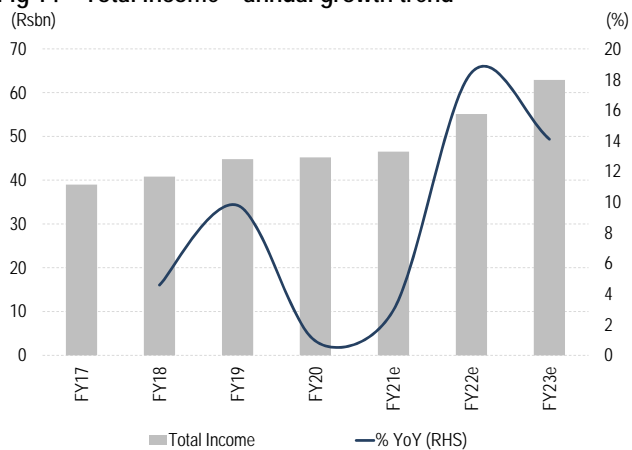


Source: Company, Anand Rathi Research

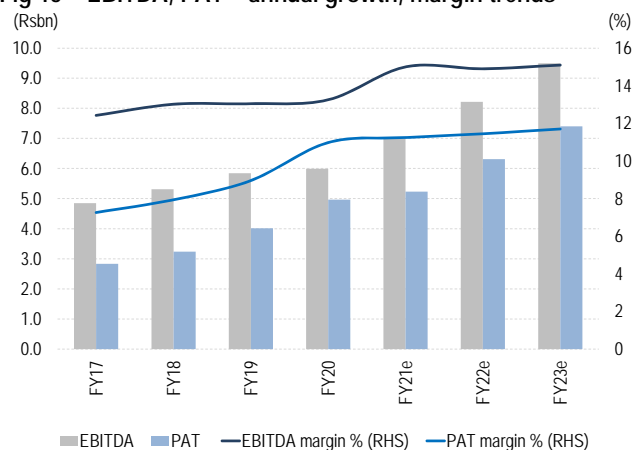
Fig 13 – Lighting - revenue, EBIT margin - quarterly trends



Source: Company, Anand Rathi Research

**Fig 14 – Total income – annual growth trend**

Source: Company, Anand Rath Research

**Fig 15 – EBITDA, PAT – annual growth, margin trends**

Source: Company, Anand Rath Research

## Valuation

We find Crompton appealing due to its leading position in fans and residential pumps and lighting. The new management has further strengthened its market position through a five-dimensional growth strategy, which is working well. One of the best operating margins, high return ratios and free-cash-flow-generation capability are other positives.

Crompton's strong distribution and lean cost structure has helped it gain market share in its key categories and maintain its high-margin status. We introduce FY23e and expect 12%/14% revenue/PAT CAGRs over FY20-23, with ~15% EBITDA margin, healthy return ratios and FCFs.

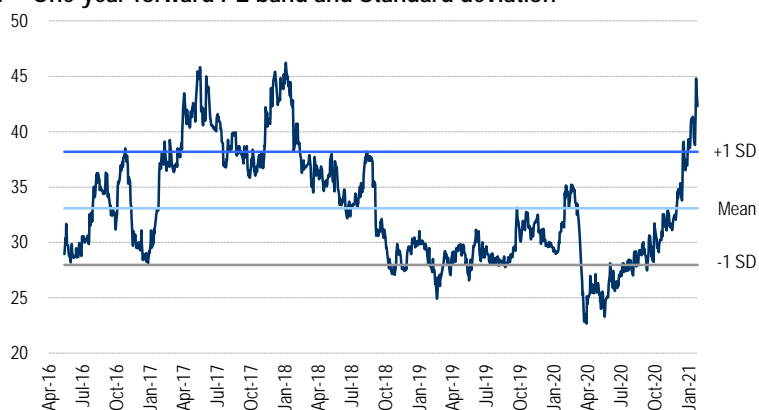
We continue to be upbeat about Crompton and maintain our Buy rating, with a higher target of Rs470 (40x FY23e P/E, a 20% discount to Havells), earlier Rs352. Its strong operating performance would allay investor concerns regarding the high degree of product concentration and the exit of PE investors, and is the key for the recent re-rating in the stock to be sustained.

Fig 16 – Change in estimates

(Rs m)	Old estimates		New estimates		% Var	
	FY21e	FY22e	FY21e	FY22e	FY21e	FY22e
Total Income	43,750	53,862	46,537	55,121	6	2
EBITDA	6,518	8,158	6,982	8,215	7	1
EBITDA margin %	14.9	15.1	15.0	14.9		
PAT	4,827	6,130	5,233	6,311	8	3
EPS	7.7	9.8	8.3	10.1	8	3

Source: Anand Rathi Research

Fig 17 – One-year-forward PE band and Standard deviation



Source: Company, Anand Rathi Research

### Key risks

- **Faster-than-expected improvement** in the macro-economic milieu.
- **High degree of product-concentration.** Crompton depends greatly on its three prime products (fans, lighting, pumps). However, it has expanded its appliance range in the last 1-2 years and this should allay investors' concerns.
- **Owned by private-equity investors.** While one of the PE investors (holding an ~18% stake) has been regularly selling its stake in Crompton, further such sales may put the squeeze on the stock price.

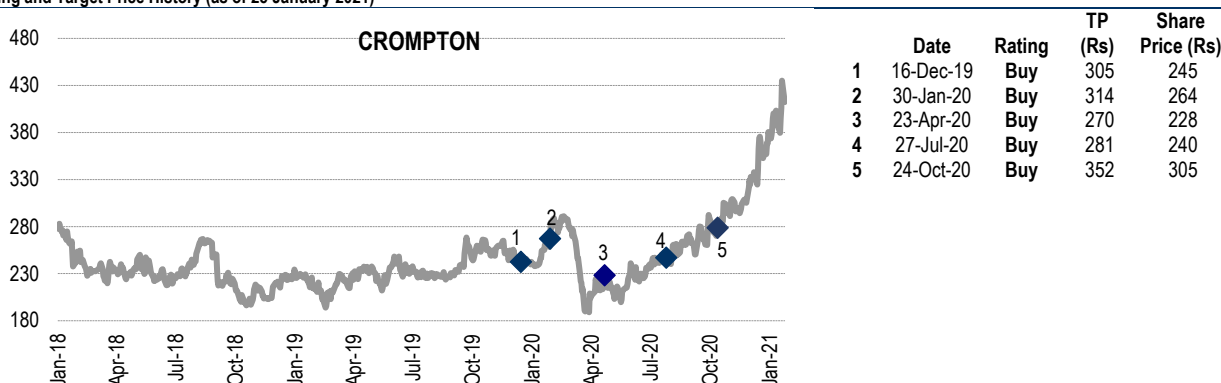
## Appendix

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#### Rating and Target Price History (as of 25 January 2021)



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Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US\$1bn) and Mid/Small Caps (<US\$1bn) as described in the Ratings Table below:

#### Ratings Guide (12 months)

	Buy	Hold	Sell
Large Caps (>US\$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US\$1bn)	>25%	5-25%	<5%

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