

Buy

The momentum seen in the last couple of quarters continues in Q4 for CG and it is confident of sustaining market share gains seen in Q2 and Q3. It is also confident of protecting margins by a combination of price hikes and cost control. All its segments are strong barring the B2B lighting business which is yet to pick up. Longer term plans are intact as it aims for a Top 2 position across product categories. We maintain our Buy rating and value the stock at 50xSEP22E with a TP of Rs500. It continues to be our pick among the light electrical stocks.

Price hikes and cost control should protect margins

In our interaction, company mentioned it has taken two price hikes in Jan and mid Feb respectively, while it is yet to take a call on a further hike in March. Company is also countering the input cost pressure through its product mix, with a focus on premium range of fans and appliances. The other big margin driver for them will be their cost saving initiatives under Unnati, where they have targeted cost savings of Rs1.5bn. Management indicated that this cost saving target should be comfortably met in FY21. It is thus confident of protecting margins by a combination of price hikes and cost control.

Recent market share gains in fans to sustain

CG consumer has gained market share of ~1% each in both Q2 and Q3 and is confident of sustaining this market share. This market share was gained at the expense of the smaller organized players. While the smaller players are making a comeback in the market, it will be difficult to dislodge the current players due to channel constraints. Its current channel reach is at ~60% covering ~75% of the market which is expanding under its Go to Market(GTM) strategy. Rural markets continue to be a focus where the company feels there is an upside for fans and company continues to invest in rural channels. Similarly, it is not worried about new players coming in as it's an easy industry to break into but gaining and maintaining market share is tougher against established players like itself.

Long term strategy for the company intact

CG Consumer continues with its three pronged strategy of increasing its premium product mix, cost control initiatives and expanding reach. It continues with its vision of being the Top 2 player in each of the category its operating. While it is already a leader in fans, pumps and lights, it is targeting a similar position for its newer products like heaters, air coolers and mixers in the next 3-4 years. It also looking at PLI of LEDs, but waiting for the final draft.

FINANCIALS (Rs Mn)

Particulars	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	44,789	45,203	46,332	53,281	61,273
Growth(%)	9.8	0.9	2.5	15.0	15.0
EBITDA	5,843	5,991	6,857	7,726	9,191
OPM(%)	13.0	13.3	14.8	14.5	15.0
PAT	3,730	4,964	5,142	5,744	6,856
Growth(%)	15.2	33.1	3.6	11.7	19.4
EPS(Rs.)	6.0	7.9	8.2	9.2	10.9
Growth(%)	15.2	33.1	3.6	11.7	19.4
PER(x)	67.4	50.7	48.9	43.8	36.7
ROANW(%)	42.5	38.7	32.7	30.5	29.0
ROACE(%)	33.2	36.0	30.3	27.6	28.0

CMP	Rs 401
Target / Upside	Rs 500 / 25%
NIFTY	14,930

Script Details

Equity / FV	Rs 1,255mn / Rs 2
Market Cap	Rs 252bn
	USD 3bn

52-week High/Low	Rs 456/ 177
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Avg. Volume (no)	1,902,710
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Bloom Code	CROMPTON IN
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Price Performance 1M 3M 12M

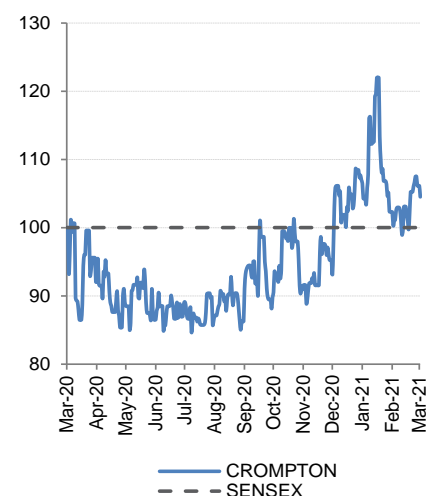
Absolute (%)	2	18	63
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Rel to NIFTY (%)	4	8	7
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Shareholding Pattern

	Jun'20	Sep'20	Dec'20
Promoters	26.2	26.2	17.4
MF/Banks/FIs	25.7	27.7	27.7
FIs	29.9	29.9	34.3
Public / Others	18.2	18.0	20.6

Crompton Relative to SENSEX



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Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	45,203	46,332	53,281	61,273
Total Expense	39,212	39,474	45,555	52,082
COGS	30,703	31,274	36,231	41,666
Employees Cost	3,110	3,475	3,623	3,921
Other expenses	5,399	4,726	5,701	6,495
EBIDTA	5,991	6,857	7,726	9,191
Depreciation	268	302	334	356
EBIT	5,723	6,555	7,392	8,835
Interest	407	463	533	613
Other Income	591	764	799	919
Exc. / E.O. items	0	0	0	0
EBT	5,907	6,856	7,659	9,142
Tax	943	1,714	1,915	2,285
RPAT	4,964	5,142	5,744	6,856
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	4,964	5,142	5,744	6,856

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	1,255	1,255	1,255	1,255
Minority Interest	0	0	0	0
Reserves & Surplus	13,429	15,484	19,689	25,007
Net Worth	14,683	16,739	20,944	26,261
Total Debt	1,797	4,797	4,047	3,047
Net Deferred Tax Liability	(507)	(507)	(507)	(507)
Total Capital Employed	15,974	21,029	24,484	28,802

Applications of Funds

Net Block	9,090	9,114	9,130	9,125
CWIP	199	199	199	199
Investments	0	0	0	0
Current Assets, Loans & Advances	17,722	22,770	26,130	32,058
Inventories	4,636	3,518	3,564	4,143
Receivables	4,635	6,019	6,823	7,846
Cash and Bank Balances	480	6,444	8,745	12,831
Loans and Advances	0	0	0	0
Other Current Assets	2,563	1,390	1,598	1,838
Less: Current Liabilities & Provisions	11,036	11,054	10,975	12,579
Payables	6,436	6,705	6,240	7,135
Other Current Liabilities	4,601	4,349	4,735	5,445
<i>sub total</i>				
Net Current Assets	6,685	11,717	15,155	19,478
Total Assets	15,974	21,029	24,484	28,802

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	32.1	32.5	32.0	32.0
EBIDTA Margin	13.3	14.8	14.5	15.0
EBIT Margin	12.7	14.1	13.9	14.4
Tax rate	16.0	25.0	25.0	25.0
Net Profit Margin	11.0	11.1	10.8	11.2
(B) As Percentage of Net Sales (%)				
COGS	67.9	67.5	68.0	68.0
Employee	6.9	7.5	6.8	6.4
Other	11.9	10.2	10.7	10.6
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.3	0.2	0.1
Interest Coverage	14.1	14.1	13.9	14.4
Inventory days	37	28	24	25
Debtors days	37	47	47	47
Average Cost of Debt	15.4	14.1	12.0	17.3
Payable days	52	53	43	43
Working Capital days	54	92	104	116
FA T/O	5.0	5.1	5.8	6.7
(D) Measures of Investment				
AEPS (Rs)	7.9	8.2	9.2	10.9
CEPS (Rs)	8.3	8.7	9.7	11.5
DPS (Rs)	0.0	2.5	2.5	2.5
Dividend Payout (%)	0.0	29.9	26.8	22.4
BVPS (Rs)	23.4	26.7	33.4	41.9
RoANW (%)	38.7	32.7	30.5	29.0
RoACE (%)	36.0	30.3	27.6	28.0
RoAIC (%)	41.0	43.6	48.8	55.7
(E) Valuation Ratios				
CMP (Rs)	401	401	401	401
P/E	50.7	48.9	43.8	36.7
Mcap (Rs Mn)	251,584	251,584	251,584	251,584
MCap/ Sales	5.6	5.4	4.7	4.1
EV	247,493	244,537	241,486	236,400
EV/Sales	5.5	5.3	4.5	3.9
EV/EBITDA	41.3	35.7	31.3	25.7
P/BV	17.1	15.0	12.0	9.6
Dividend Yield (%)	0.0	0.6	0.6	0.6
(F) Growth Rate (%)				
Revenue	0.9	2.5	15.0	15.0
EBITDA	2.5	14.5	12.7	19.0
EBIT	0.2	14.5	12.8	19.5
PBT	5.5	16.1	11.7	19.4
APAT	33.1	3.6	11.7	19.4
EPS	33.1	3.6	11.7	19.4

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	2,062	3,745	3,934	6,049
CFI	(911)	(318)	(350)	(350)
CFF	(2,101)	2,537	(1,283)	(1,613)
FCFF	1,148	3,418	3,584	5,699
Opening Cash	1,429	480	6,444	8,745
Closing Cash	509	6,444	8,745	12,831

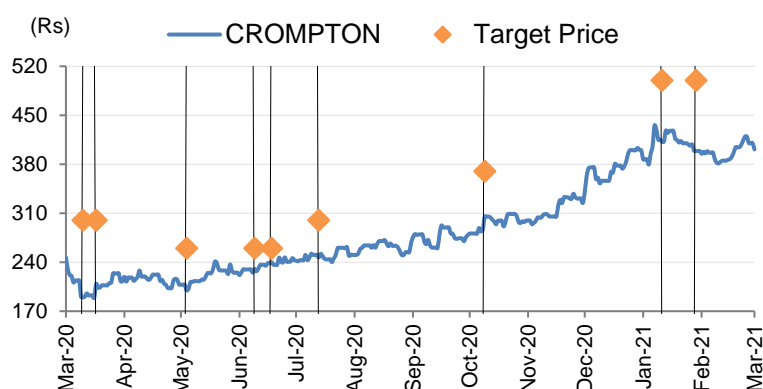
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Mar-20	Accumulate	300	190
Mar-20	Buy	300	209
May-20	Buy	260	200
Jun-20	Buy	260	230
Jul-20	Buy	260	240
Jul-20	Buy	300	247
Oct-20	Buy	370	305
Jan-21	Buy	500	412
Feb-21	Buy	500	399

*Price as on recommendation date

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