

26 July 2021

## Crompton Greaves Consumer

Rating: **Buy**

Target Price: Rs.549

Share Price: Rs.470

*Well set to benefit from product-portfolio/network expansion; Buy*

**Crompton's market-share gains continued in Q1 (fans up 1%, dominant position in geyser/domestic pumps/B2C LED). B2B/B2G lighting remained in the slow lane while the growth/margin outlook of B2C LED has improved structurally. We are positive on the company's prospects owing to its brand image, product innovation and vast scope for portfolio/network expansion (incl. inorganically). On 16%/20% revenue/PAT CAGRs over FY21-23, ~30% RoE and strong FCFs, we retain a Buy, with a target of Rs.549 (45x FY23e P/E, ~10% discount to Havells). The strong operating performance has allayed investor concerns about the high product concentration (reducing now through entry into other appliance categories) and the exit of PE investors, and is the key to the recent significant re-rating in its scrip being sustained.**

**A mixed-bag Q1.** Driven by strong ECD, revenue/EBITDA/PAT grew 46%/24%/27% y/y. Lighting revenue/margins were weak, though. The EBITDA margin (11.9%, FY21: 15%) contracted as A&P spend continued. The on-going cost-savings programs saved Rs380m in Q1. Intentionally built high stocks will help market-share gain on the opening-up of markets.

**ECD/B2C-lighting held strong; B2B/B2G still in slow lane.** ECD/lighting (up 48%/34% y/y, down 26%/50% q/q) was driven by premium fans (up 63% y/y), appliances (up 99%, driven by geysers, mixer-grinders, coolers, irons), pumps (up 17% led by domestic sales) and B2C LEDs (up 48%). Despite rising RMCs, the ECD Q1 margin was flattish q/q; weak lighting margin will improve on stable pricing and structural changes.

**Market-share gains continued; product-portfolio/network expansion to drive growth.** Crompton continues to gain market share in key categories (fans up 1% in Q1 to ~27%, geysers 2x in the last few years to ~15%, dominant in domestic pumps, etc). Its focus on product innovation, portfolio expansion (incl. inorganically), premiumisation, network expansion (rural, weaker regions) and digitisation will keep the momentum going. These, pricing and the ongoing cost-saving programs will also protect margins.

Key financials (YE Mar)	FY19	FY20	FY21	FY22e	FY23e
Sales (Rsm)	44,789	45,203	48,035	55,327	64,886
Net profit (Rsm)	4,014	4,964	6,167	6,280	7,652
EPS (Rs)	6.4	7.9	9.8	10.0	12.2
PE (x)	73.5	59.4	47.8	47.0	38.6
EV / EBITDA (x)	49.9	48.6	39.5	34.1	27.9
PBV (x)	26.9	20.1	15.3	13.1	11.2
RoE (%)	36.6	33.8	31.9	27.9	29.0
RoCE (%) after tax	29.5	26.1	23.3	24.1	25.5
Dividend yield (%)	0.4	-	1.2	1.0	1.3
Net debt / equity (x)	(0.3)	(0.3)	(0.6)	(0.6)	(0.6)

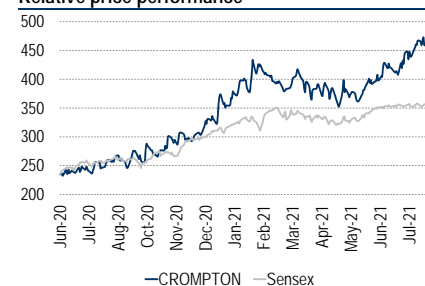
Source: Company, Anand Rathi Research

Key data	CROMPTON IN / CROP.BO
52-week high / low	Rs.497 / 238
Sensex / Nifty	52835 / 15821
3-m average volume	\$12.7m
Market cap	Rs.293bn / \$3941.7m
Shares outstanding	628m

Shareholding pattern (%)	Jun'21	Mar'21	Dec'20
Promoters	6.0	11.4	17.4
- of which, Pledged	-	-	-
Free float	94.0	88.6	82.6
- Foreign institutions	40.1	39.2	34.3
- Domestic institutions	43.7	38.7	37.6
- Public	10.2	10.8	10.7

Estimates revision (%)	FY22e	FY23e
Sales	(0)	3
EBITDA	(0)	6
PAT	(1)	6

### Relative price performance



Source: Bloomberg

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Research Analyst

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## Quick Glance – Financials and Valuations (consol)

**Fig 1 – Income statement (Rs m)**

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
Net revenues	44,789	45,203	48,035	55,327	64,886
<i>Growth (%)</i>	9.8	0.9	6.3	15.2	17.3
Direct costs	30,918	30,703	32,672	37,683	43,934
SG&A	8,028	8,508	8,158	9,383	10,970
<b>EBITDA</b>	<b>5,843</b>	<b>5,991</b>	<b>7,205</b>	<b>8,261</b>	<b>9,981</b>
<i>EBITDA margins (%)</i>	13.0	13.3	15.0	14.9	15.4
- Depreciation	129	268	297	309	349
Other income	480	591	758	817	998
Interest expenses	596	407	429	341	362
PBT	5,598	5,907	7,236	8,428	10,269
<i>Effective tax rate (%)</i>	28.3	16.0	14.8	25.5	25.5
+ Associates / (Minorities)	-	-	-	-	-
Net income	4,014	4,964	6,167	6,280	7,652
Adjusted income	4,014	4,964	5,346	6,280	7,652
WANS	627	627	628	628	628
FDEPS (Rs / sh)	6.4	7.9	9.8	10.0	12.2
<i>FDEPS growth (%)</i>	24.0	23.7	24.2	1.8	21.8
<i>Gross margins (%)</i>	31.0	32.1	32.0	31.9	32.3

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

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
EBIT (before other income)	6,062	6,008	7,136	7,852	9,533
+ Non-cash items	129	268	297	309	349
Oper. prof. before WC	6,190	6,276	7,433	8,161	9,881
- Incr. / (decr.) in WC	1,208	721	(1,445)	364	148
Others incl. taxes	1,994	1,446	575	2,148	2,617
Operating cash-flow	2,989	4,109	8,303	5,649	7,117
- Capex (tang. + intang.)	160	494	202	480	680
Free cash-flow	2,830	3,615	8,101	5,169	6,437
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	1,312	1,506	1,874	3,092	3,773
+ Equity raised	38	52	73	-	-
+ Debt raised	-	(3,000)	1,300	(1,000)	(500)
- Fin investments	1,787	(363)	5,027	6,500	2,500
- Misc. (CFI + CFF)	324	454	189	(476)	(637)
Net cash-flow	(555)	(929)	2,384	(4,948)	300

Source: Company, Anand Rathi Research

**Fig 5 – Price movement**


Source: Bloomberg

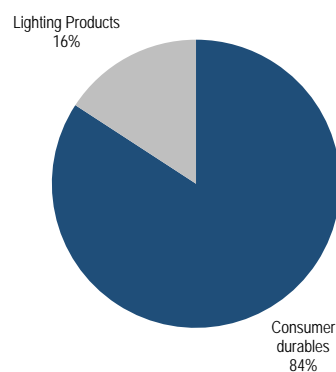
**Fig 2 – Balance sheet (Rs m)**

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
Share capital	1,254	1,255	1,255	1,255	1,255
Net worth	10,973	14,683	19,314	22,502	26,381
Debt	3,493	1,797	2,988	1,988	1,488
Minority interest	-	-	-	-	-
DTL / (Assets)	(603)	(507)	(586)	(486)	(386)
<b>Capital employed</b>	<b>13,864</b>	<b>15,974</b>	<b>21,717</b>	<b>24,005</b>	<b>27,484</b>
Net tangible assets	786	1,251	1,328	1,519	1,870
Net intangible assets	52	45	28	28	28
Goodwill	7,794	7,794	7,794	7,794	7,794
CWIP (tang. & intang.)	10	199	109	89	69
Investments (strategic)	-	-	-	-	-
Investments (financial)	5,412	5,408	7,697	14,197	16,697
Current assets (ex cash)	10,610	11,833	12,592	12,728	14,687
Cash	1,431	481	6,040	1,092	1,392
Current liabilities	12,231	11,038	13,871	13,442	15,053
Working capital	(1,620)	796	(1,279)	(714)	(366)
<b>Capital deployed</b>	<b>13,864</b>	<b>15,974</b>	<b>21,717</b>	<b>24,005</b>	<b>27,484</b>
Contingent liabilities	747	1,381	-	-	-

**Fig 4 – Ratio analysis**

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
P/E (x)	73.5	59.4	47.8	47.0	38.6
EV / EBITDA (x)	49.9	48.6	39.5	34.1	27.9
EV / Sales (x)	6.5	6.4	5.9	5.1	4.3
P/B (x)	26.9	20.1	15.3	13.1	11.2
RoE (%)	36.6	33.8	31.9	27.9	29.0
RoCE (%) - after tax	29.5	26.1	23.3	24.1	25.5
ROIC	35.7	38.0	41.9	33.9	32.3
DPS (Rs /sh)	2.0	-	5.5	4.9	6.0
Dividend yield (%)	0.4	-	1.2	1.0	1.3
Dividend payout (%) - incl. DDT	31.3	-	56.0	49.2	49.3
Net debt / equity (x)	(0.3)	(0.3)	(0.6)	(0.6)	(0.6)
Receivables (days)	46.1	37.4	37.3	36.0	36.0
Inventory (days)	28.7	37.4	39.4	30.0	30.0
Payables (days)	54.2	52.0	65.7	52.0	52.0
CFO:PAT %	74.5	82.8	155.3	89.9	93.0

Source: Company, Anand Rathi Research

**Fig 6 – Revenue break-up, by segment (Q1 FY22)**


Source: Company

## Financial highlights

Fig 7 – Financials (consolidated)

(Rs m)	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	% Y/Y	% Q/Q	FY21	FY20	% Y/Y
Income	7,201	12,132	13,482	15,221	10,505	46	(31)	48,035	45,203	6
Raw material costs	4,858	8,133	9,156	10,525	7,107	46	(32)	32,672	30,703	6
Employee costs	720	797	929	920	885	23	(4)	3,366	3,110	8
Other expenses	611	1,290	1,396	1,495	1,263	107	(16)	4,792	5,399	(11)
<b>EBITDA</b>	<b>1,012</b>	<b>1,913</b>	<b>2,001</b>	<b>2,280</b>	<b>1,250</b>	<b>24</b>	<b>(45)</b>	<b>7,205</b>	<b>5,991</b>	<b>20</b>
Depreciation	80	77	69	72	76	(5)	6	297	268	11
Finance costs	108	111	106	104	101	(7)	(4)	429	407	6
Other income	186	167	199	206	196	5	(5)	758	591	28
<b>PBT</b>	<b>1,010</b>	<b>1,891</b>	<b>2,025</b>	<b>2,310</b>	<b>1,270</b>	<b>26</b>	<b>(45)</b>	<b>7,236</b>	<b>5,907</b>	<b>23</b>
Tax	262	475	514	(181)	322			1,070	943	13
<b>PAT</b>	<b>748</b>	<b>1,417</b>	<b>1,511</b>	<b>2,491</b>	<b>948</b>	<b>27</b>	<b>(62)</b>	<b>6,167</b>	<b>4,964</b>	<b>24</b>
EPS (Rs)	1.2	2.3	2.4	4.0	1.5	27	(62)	9.8	7.9	24
<b>As % of Income</b>						<i>bps y/y</i>	<i>bps q/q</i>			<i>bps y/y</i>
<b>Gross margins</b>	<b>32.5</b>	<b>33.0</b>	<b>32.1</b>	<b>30.8</b>	<b>32.3</b>	<b>(19)</b>	<b>150</b>	<b>32.0</b>	<b>32.1</b>	<b>(9)</b>
Employee costs	10.0	6.6	6.9	6.0	8.4	(157)	238	7.0	6.9	13
Other expenses	8.5	10.6	10.4	9.8	12.0	353	219	10.0	11.9	(197)
<b>EBITDA margins</b>	<b>14.1</b>	<b>15.8</b>	<b>14.8</b>	<b>15.0</b>	<b>11.9</b>	<b>(215)</b>	<b>(308)</b>	<b>15.0</b>	<b>13.3</b>	<b>175</b>
Depreciation	1.1	0.6	0.5	0.5	0.7	(39)	25	0.6	0.6	3
Finance costs	1.5	0.9	0.8	0.7	1.0	(54)	27	0.9	0.9	(1)
Other income	2.6	1.4	1.5	1.4	1.9	(71)	51	1.6	1.3	27
Effective tax rates	25.9	25.1	25.4	(7.8)	25.4	(56)		14.8	16.0	(118)
<b>PAT</b>	<b>10.4</b>	<b>11.7</b>	<b>11.2</b>	<b>16.4</b>	<b>9.0</b>	<b>(137)</b>	<b>(734)</b>	<b>12.8</b>	<b>11.0</b>	<b>186</b>
<b>Segment revenues (Rs m)</b>						<i>% Y/Y</i>	<i>% Q/Q</i>			<i>% Y/Y</i>
Consumer products	5,965	9,317	10,359	11,930	8,844	48	(26)	37,571	33,890	11
Lighting products	1,236	2,815	3,123	3,291	1,661	34	(50)	10,464	11,312	(7)
<b>Total</b>	<b>7,201</b>	<b>12,132</b>	<b>13,482</b>	<b>15,221</b>	<b>10,505</b>	<b>46</b>	<b>(31)</b>	<b>48,035</b>	<b>45,203</b>	<b>6</b>
<b>Mix (%)</b>										
Consumer products	83	77	77	78	84			78	75	
Lighting products	17	23	23	22	16			22	25	
<b>Segment EBIT (Rs m)</b>						<i>% Y/Y</i>	<i>% Q/Q</i>			<i>% Y/Y</i>
Consumer products	1,223	1,960	2,046	2,163	1,558	27	(28)	7,392	6,731	10
Lighting products	75	331	383	529	177	137	(66)	1,317	706	87
<b>Total</b>	<b>1,297</b>	<b>2,291</b>	<b>2,429</b>	<b>2,692</b>	<b>1,735</b>	<b>34</b>	<b>(36)</b>	<b>8,710</b>	<b>7,437</b>	<b>17</b>
Unallocated income / (expense)	(179)	(288)	(299)	(278)	(364)			(1,044)	(1,123)	
<b>EBIT (%)</b>						<i>bps y/y</i>	<i>bps q/q</i>			<i>bps y/y</i>
Consumer products	20.5	21.0	19.8	18.1	17.6	(288)	(52)	19.7	19.9	(19)
Lighting products	4.7	10.4	11.6	15.4	10.0	533	(540)	11.7	6.1	564
<b>Total</b>	<b>17.9</b>	<b>18.7</b>	<b>18.0</b>	<b>17.6</b>	<b>16.4</b>	<b>(147)</b>	<b>(111)</b>	<b>18.0</b>	<b>16.4</b>	<b>158</b>
Unallocated income / (expense)	(2.5)	(2.4)	(2.3)	(1.8)	(3.5)			(2.2)	(2.5)	

Source: Company, Anand Rathi Research\* Note: Segment EBIT margins are as per reported figures and not adjusted for un-allocable expenses / income

## Q1 FY22 – Concall KTAs

### Outlook

- **Demand recovery** is more linear than last year; both divisions should recover strongly in coming quarters
- **Margins.** Pricing actions, premiumisation and better RM sourcing will help protect margins in future
- **Continues to gain market shares** in fans (1%) and other key categories
- **Channel.** Rural and e-com sales (~9% of revenues; ~5% last year) continue to expand well
- **Now tracks 85% of retail sales**
- **WC.** Built up vast inventories (RM/FG) to capture market-share after markets open
- **Long-term RM sourcing contract** will help to better pricing and availability
- **Saved Rs380m on cost-saving programs** in Q1 – will continue
- **Continues to explore inorganic opportunities** (may announce something in 1-2 quarters)
- **Capex.** Rs300m-500m in FY22

### Geographic

- North/West opened earlier than East/South; some markets in South still in lockdown
- **South revenue mix. 30% in Q1 FY22 (35% a year ago)**

### ECD

- Revenue up 27% y/y, down 28% q/q; EBIT margin at 17.6%, flattish q/q
- Broad-based growth in all product lines; **Fans up 63% y/y driven by premium and decorative fans**
- **Appliances up 99% y/y** driven by core categories: air-coolers, mixer-grinders and geysers
- **Pumps up 17% y/y** driven by domestic pumps (slower recovery due to prolonged lockdown in the East)
- Solar pumps, a huge opportunity; open to bid for government tenders (like lighting)

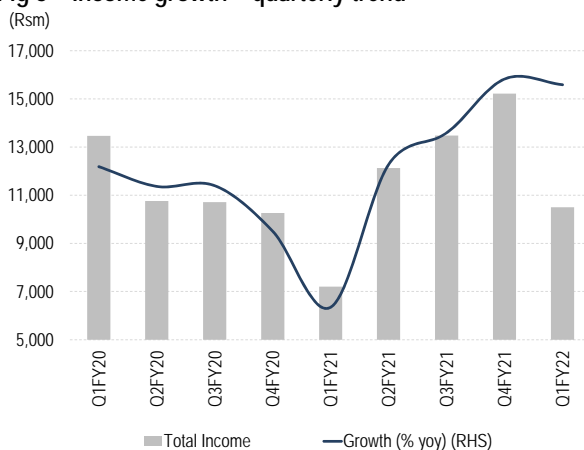
### Lighting

- Revenue up 34% y/y, down 50% q/q; EBIT margin 10%, down 540bps q/q
- B2C volumes continued to grow (LED up 48% y/y); B2B gradually recovering (key for the division); B2G most impacted
- B2C pricing stable now; expect margin recovery structural after 3-4 quarters of 10%+

Q1 FY22 result analysis

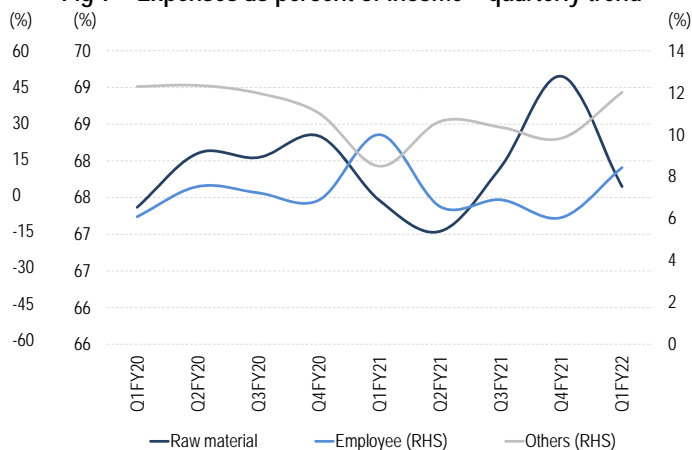
- **Revenue in-line; PAT miss on weak lighting revenue and margin**
- Revenue up 46% y/y, down 31% q/q (in-line)
- EBITDA/PAT down 45%/62% q/q (~15% below ARe)
- Gross margin up 150bps q/q on greater revenue mix of consumer products (84%)
- EBITDA margin at 11.9% (down 215bps y/y, 308bps q/q) – below ARe
- **Weak lighting (revenue down 50% q/q, 10% EBIT margin - down 540bps q/q) impacted overall margins and PAT**
- **Consumer products’ revenue (up 27% y/y, down 28% q/q) and EBIT margin (17.6%, flattish q/q) - in-line**

Fig 8 – Income growth – quarterly trend



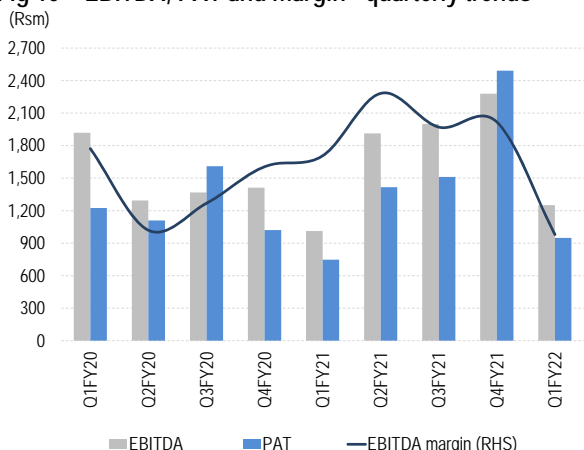
Source: Company, Anand Rathi Research

Fig 9 – Expenses as percent of income – quarterly trend



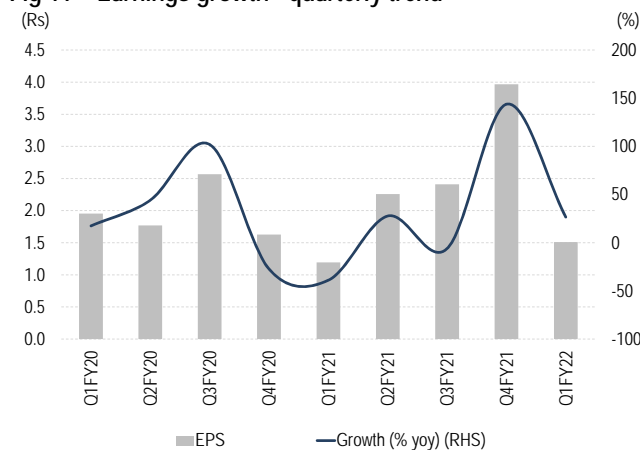
Source: Company, Anand Rathi Research

Fig 10 – EBITDA, PAT and margin - quarterly trends



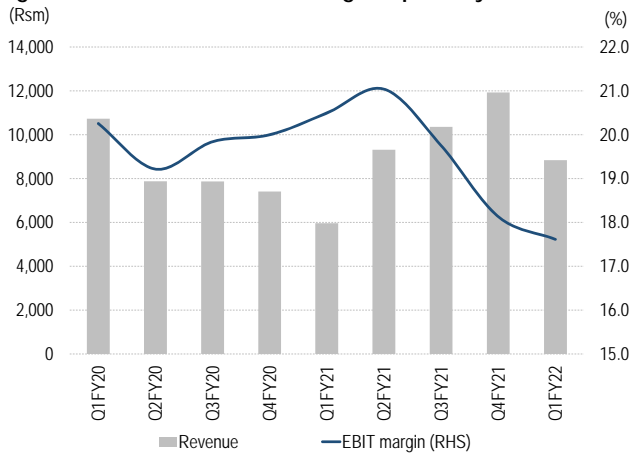
Source: Company, Anand Rathi Research

Fig 11 – Earnings growth - quarterly trend



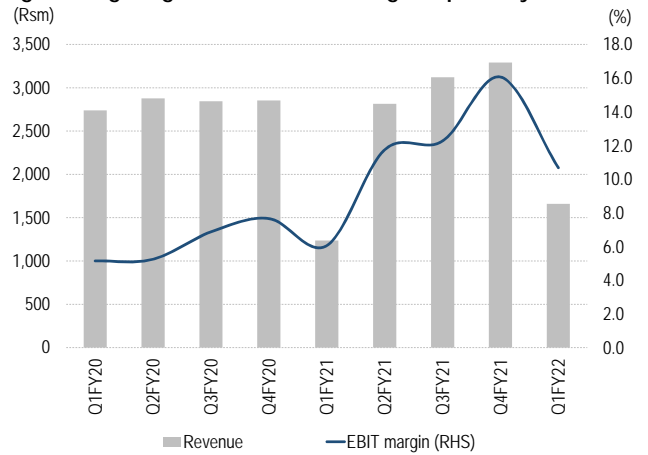
Source: Company, Anand Rathi Research

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



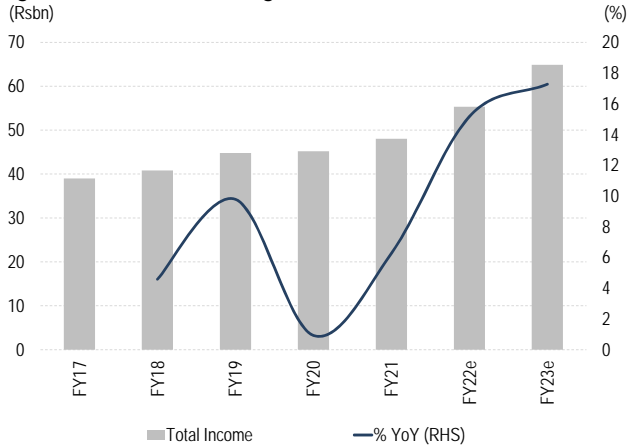
Source: Company, Anand Rathi Research

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



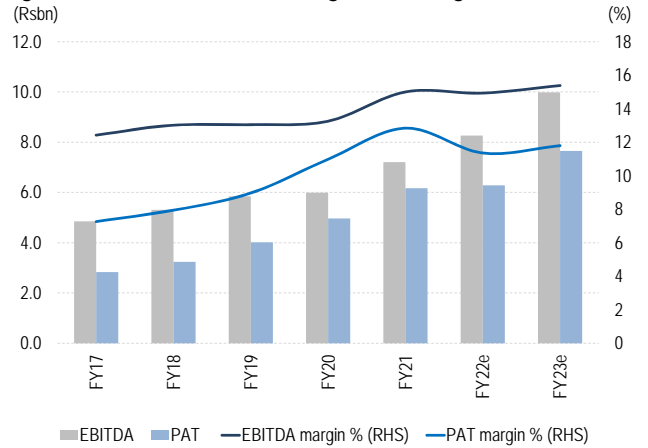
Source: Company, Anand Rathi Research

**Fig 14 – Income – annual growth trend**



Source: Company, Anand Rathi Research

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



Source: Company, Anand Rathi 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 ability are other positives.

The strong distribution and lean cost structure have helped it gain market share in its key categories and maintain its high-margin status. After 6%/11%/18% CAGRs over FY18-21, we expect 16%/18%/20% revenue/EBITDA/adj. PAT CAGRs over FY21-23, with 15%+ EBITDA margin, ~30% RoE and strong FCFs.

We are positive on Crompton's prospects owing to its brand image and vast scope for portfolio/network expansion. We maintain our Buy rating, with a target of Rs549 (45x FY23e P/E, ~10% discount to Havells), earlier Rs459. Its strong operating performance would allay investor concerns regarding the high degree of product concentration (though now reducing with its entry into other appliance categories) and the exit of PE investors, and is the key to the recent re-rating in the stock to be sustained.

**Fig 16 – Change in estimates**

(Rsm)	Old estimates		New estimates		% Var	
	FY22	FY23	FY22	FY23	FY22	FY23
Income	55,328	62,940	55,327	64,886	(0)	3
EBITDA	8,284	9,430	8,261	9,981	(0)	6
<i>EBITDA margin %</i>	<i>15.0</i>	<i>15.0</i>	<i>14.9</i>	<i>15.4</i>		
PAT	6,356	7,207	6,280	7,652	(1)	6
EPS	10.1	11.5	10.0	12.2	(1)	6

Source: Anand Rathi Research

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



Source: BSE, Company, Anand Rathi Research

### Key risks

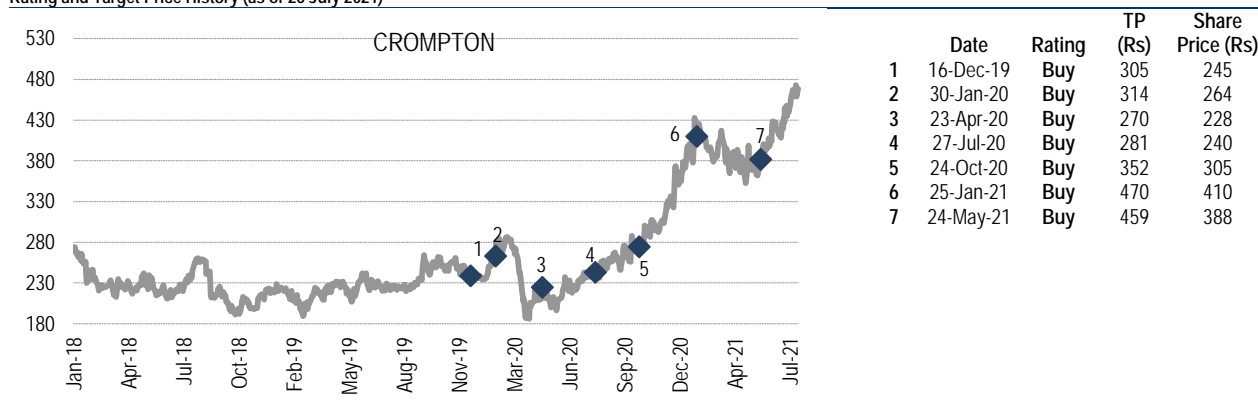
- Crompton depends greatly on its three prime products (fans, lighting, pumps). However, it has expanded its appliances range in the last 1-2 years. (This should allay investors' concerns.)
- Weaker-than-expected demand and volatile raw-material prices would have a bearing on our earnings estimates.

## Appendix

### Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

### Important Disclosures on subject companies Rating and Target Price History (as of 26 July 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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