



COMPANY BACKGROUND.....

- Crompton Greaves Consumer Electricals Ltd. (Crompton) is India's market leader in fans, No. 1 player in residential pumps and has leading market positions in its other product categories.
- The Company manufactures and markets a wide spectrum of consumer products, ranging from fans, lamps and luminaries to pumps and household appliances such as water heaters, coolers, mixer grinders and irons.
- The Company has strong dealer base across the country and wide service network offering robust after sales service to its customers.

INVESTMENT THEME.....

- Crompton dominates the fan market with continuous product innovation and launches which has seen it increase the market share gap from the second largest player to almost 9-10 percentage points.
- Leadership position in pumps (#1 in residential pumps), B2C lighting (in top 3) as well as increasing market share in newer appliances bode well for the company.
- Robust competitive niche reflecting in wider market share gap vs peers in fans/pumps etc and improving focus on a much bigger market pie of small appliance market could help it consolidate its leadership positioning leading to its re-rating vs larger peers.
- Crompton's healthy margin profile, cashflows, lean net working capital cycle and industry leading return ratios and fixed asset turn will support its valuation.

Q4FY21 / FY21 all round performance

- Crompton continued its growth momentum in Q4FY21 with topline, PAT growth of ~48%, ~144%, YoY, respectively, much ahead of street expectations.
- The company gained 1% market share in the fan segment during FY21 and retained No. 1 slot in the segment with overall market share of 27%.
- However, in the near term, Crompton will witness demand challenges and However, despite near term challenges, the company will continue to invest in R&D and strengthen its rural distributions to drive its future sales.
- Also, launch of premium products, cost saving measures and price hikes will support its margin once normalcy returns.
- Crompton has maintained robust balance sheet (RoCE: 34%) despite various challenges. This, along with strong brand, would help the company for a faster sales recovery post opening up of economy.
- ECD segment revenues saw a healthy 2-year CAGR of 17%, driven by growth across product categories and channels, market share gains in fans and rural expansion.
- After many challenging quarters, the lighting segment registered 15% YoY growth in revenue, supported by 23% volume growth in the B2C business. Despite weak B2G business, EBIT margins expanded by 841bps YoY to 16.1%, driven by cost optimization.

FINANCIAL PERFORMANCE (STANDALONE).....

(INR Mn)	Net Sales	EBITDA	EBITDA Margin	Adj. Net Profit	EPS (INR)
FY19	44,789	6,218	13.9%	3,980	6.3
FY20	45,120	6,037	13.4%	4,229	6.7
FY21	47,500	7,047	14.8%	5,281	8.4

Source: Company, Moneycontrol.com, Screener.in, KSL Research

Key Data

BSE Code	539876
NSE Code	CROMPTON
Reuters	CROP.NS
Bloomberg	CROMPTON IN

Market Data (INR) as on 28th May 2021

Face Value	2.0
CMP	394.05
52 Week H/L	456.0 / 213.5
MCAP (Cr)	INR 24,730 Cr
Book Value (INR)	30.6
Stock Price 1 Year CAGR	80%
No. of Shares	628 Mn

Key Ratios

	FY19	FY20	FY21
RoE (%)	42.2	33.0	31.2
EV/EBITDA	40.1	40.9	33.9
PE(x)	62.7	59.0	47.3

SHAREHOLDING PATTERN as on 31st March 2021

PROMOTERS	11.36%
FII	39.18%
DII	38.69%
PUBLIC	10.77%

Q4-FY21 Result Highlights (Standalone).....

- Net revenue grew by 48% YoY (-15% in 4QFY20 and +26% in 3QFY21)
- ECD saw 61% growth (-14% in 4QFY20, 32% in 3QFY21), and most products saw robust growth in Jan and Feb (no base benefits), reflecting the improving underlying demand and Crompton's share gain story
- ECD growth (FY21) stood at 11% (2-year CAGR at 8%)
- Crompton's rural business saw 117% growth in 4Q (72% in Jan and Feb)
- Lighting revenue was up by 15% YoY (-17% in 4QFY20, +10% in 3QFY21), but declined by 12% in FY21. B2C led lighting saw 23% volume growth. Lighting B2B was muted
- GM contracted by 90bps YoY to 31% (+70bps in 4QFY20 and +13bps in 3QFY21)
- Lighting EBIT margin was at 16.1% with an expansion of 840bps YoY (-380bps in 4QFY20 and +539bps in 3QFY21). ECD EBIT margin dipped by 187bps YoY (+51bps in 4QFY20 and -9bps in 3QFY21)
- Employee/Other expenses grew by 30/32% YoY as operations returned to normal for the company
- EBITDA margin was healthy at 15%, seeing an expansion of 120 bps YoY (-21bps in 4QFY20 and 206bps in 3QFY21)
- EBITDA grew by 62% YoY
- APAT grew by 70% (adjusting for income tax)
- Gross debt rose to INR 4.8 Bn from INR 3.5 Bn at FY20-end, with the company raising money to pay interim dividend. However, net cash position improved considerably (INR 9 Bn vs. INR 2.4 Bn in FY20)
- Working capital days stood at 11 days vs. 23 days in Q4FY20.
- The company generated FCF of INR 8.1 Bn vs. INR 3.6 Bn in FY20
- The board declared a dividend of INR 2.5/share, taking total dividend for FY21 to INR 5.5/share

(INR Mn)	Q4-FY21	Q4-FY20	YoY	Q3-FY21	QoQ	FY21	FY20	YoY
Total Revenue	15,153	10,181	49%	13,231	15%	47,500	45,120	5%
Electrical Durables	11,930	7,411	61%	10,359	15%	37,571	33,890	11%
Lighting	3,223	2,770	16%	2,872	12%	9,928	11,229	-12%
Cost of RM Consumed	10,494	6,961	51%	8,956	17%	32,304	30,650	5%
% of Sales	69.3%	68.4%		67.7%		68.0%	67.9%	
Gross Profit	4,659	3,220	45%	4,275	9%	15,195	14,470	5%
Gross Margin	30.7%	31.6%	-90 bps	32.3%	-160 bps	32.0%	32.1%	-10 bps
Employee Costs	920	706	30%	929	-1%	3,366	3,110	8%
% of Sales	6.1%	6.9%	-90 bps	7.0%		7.1%	6.9%	20 bps
Other Expenses	1,491	1,129	32%	1,394	7%	4,782	5,323	-10%
% of Sales	9.8%	11.1%	-130 bps	10.5%		10.1%	11.8%	-170 bps
Total Expenditure	12,904	8,796	47%	11,280	14%	40,453	39,083	4%
EBITDA	2,248	1,384	62%	1,952	15%	7,047	6,037	17%
EBITDA Margin	14.8%	13.6%	120 bps	14.8%	10 bps	14.8%	13.4%	150 bps
Depreciation	72	82	-13%	69	4%	297	268	11%
EBIT	2,177	1,302	67%	1,883	16%	6,750	5,769	17%
Other Income	203	119	71%	199	2%	756	589	28%
Finance Cost	104	83	27%	106	-1%	429	407	6%
XO (Income) / Expenses							131	
PBT	2,276	1,339	70%	1,976	15%	7,077	6,394	11%
Tax	-190	341	-156%	502	-138%	1,030	1510	-32%
Tax Rate	-8.3%	25.5%		25.4%		14.6%	23.6%	
Reported PAT	2,465	998	147%	1,474	67%	6,047	4,884	24%
Reported EPS	3.9	1.6	147%	2.2	80%	9.6	7.8	22%
Adj. PAT	1,698	998	70%	1,474	15%	5,281	4,229	25%
Adj. EPS	2.7	1.6	70%	2.3	15%	8.4	6.7	25%

Conference call key takeaways.....

ECD

- ECD revenue grew at 17% 2-year CAGR with broad-based growth across categories while EBIT margins 190bps YoY/160bps QoQ with rising commodity prices.
- Fans grew 59% YoY (29% in Jan-Feb'21) as super-premium/decorative fans grew 76%/72% YoY. It saw doubling of volumes in its super-premium fans. On a TTM basis, it posted 100bps increase in market share to c.28%. Fans production increased 55% YoY in 4QFY21. Fans market grew 9-10% in 2HFY21.
- Pumps grew 61% YoY (18% in Jan-Feb'21) as residential and agro pumps grew 64% and 51% respectively.
- Appliances grew 74% YoY (40% in Jan-Feb'21) as Air coolers, geysers, Mixer grinders and Irons saw 74%, 84%, 81% and 86% YoY growth respectively.
 - According to management, it is a close #2 in water heaters and has seen a significant improvement in shelf positions.
 - In has grown strongly in air coolers. While growth in the past was desert air coolers, it has since expanded to tower coolers and personal coolers.
 - It intends to double its mixer grinder business (low base) by refreshing its product portfolio in 12-18 months.
 - It is very low in small kitchen appliances where it believes there is enough headroom for growth.
- According to management, Crompton's market share in various categories is as follows: Fans and residential pumps 27-28%; B2C LED lighting: 8-10%; Water Heaters: 15%; Mixer grinders and Air coolers: single-digit.
- Its saw 300bps points expansion in fans distribution reach to 55% of the outlets. It is gaining rapidly in water heaters where its reach grew 60% in the past 18 months. However, in lighting its reach is only at 30% which intends to improve going ahead.
- Channel inventories are at normalised levels but higher than last year levels given lockdowns in end of Mar'20. Therefore pickup in primary sales will depend on revival of demand and hence secondary sales.

Lighting

- Lighting segment revenues grew fell 3% on a 2-year CAGR basis while EBIT margins improved 380bps QoQ with a) easing of pricing pressure (in B2C) and b) cost initiatives. Management believes double-digit margins are sustainable in lighting business.
- B2C LED saw 23% YoY volume growth but B2G remains challenging due to slow uptick in EESL and government orders.

Others

- Tally patch can cover more than 80% of secondary sales now.
- Only 1 more year of tax write-back is left now.
- Under project UNNATI, the company targets cost saving of INR 1.75 Bn in FY22. However, it will be reviewed due to pandemic. A part of saving will continue to be re-invested back into the business for growth. Major cost savings are derived from 1) level of product redesign – use of alternate material, 2) eliminating non-value added products, 3) negotiating better with suppliers and 4) optimizing factory efficiency
- If the company does not find any suitable acquisition, possibility of higher dividend cannot be ruled out going forward to use its strong cash position.

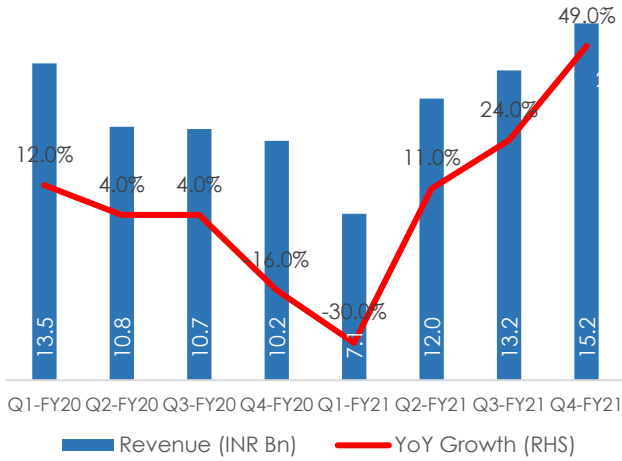
Valuation and view.....

- Crompton remains optimistic on increasing consumer traction and strong demand trends post unlocking of markets given sustained investments in 1) product innovation 2) distribution & GTM initiatives 3) brand building and 4) business processes and teams (improving efficiency).
- Echoing structural trend of shift of market share from weak marginal players to robust pan-India leaders, Crompton maintained high growth in low share products like water heaters, air coolers, and mixer grinders with potential reach expansion.
- Cost initiative 'Unnati' with expanding reach (fans / lighting still at 55% / 30% of pan India reach) offer strong bottom-line upside visibility.
- Market consolidation could offer M&A opportunity quicker than expected, adding higher TAM, a key value trigger for the stock.
- We are positively surprised by Crompton's ability to not only plan right, but also to execute effectively, showing up in improved qualitative parameters. Tapping into low-hanging fruit / not being complacent despite a high share in fans paid off.
- **We remain structurally positive on Crompton given 1) sustained market share gains across core categories of Fans, Pumps and LED lights 2) well defined plan of entering and scaling up new categories (Water Heaters, Air Coolers, Mixer-Grinders) 3) Double digit LED lighting margins aided by price stability and cost efficiency and 4) strong balance sheet (FY21 net cash: INR 9 Bn). Maintain BUY**

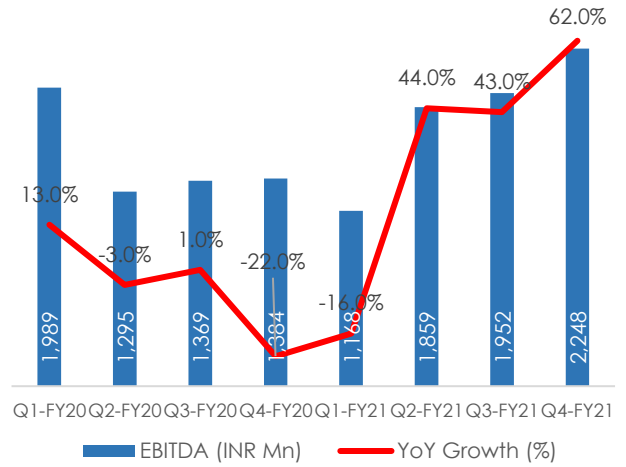
Key Risks.....

- High penetration Fans market value growth is led by innovation and has seen emergence of several stronger peers. This could pose market share challenges going ahead.
- Small appliance market has a large tail of regional players making market share/OPM ramp challenging.

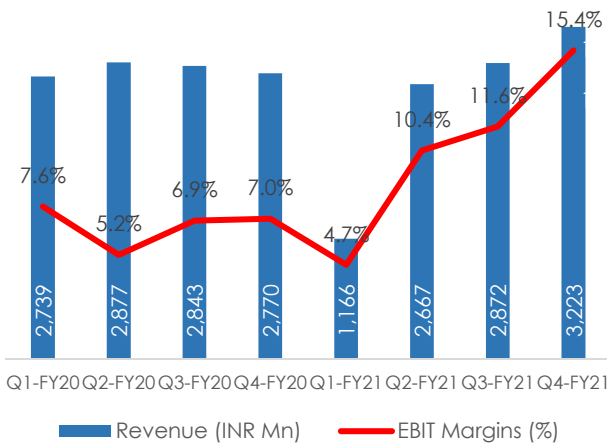
TOTAL REVENUE



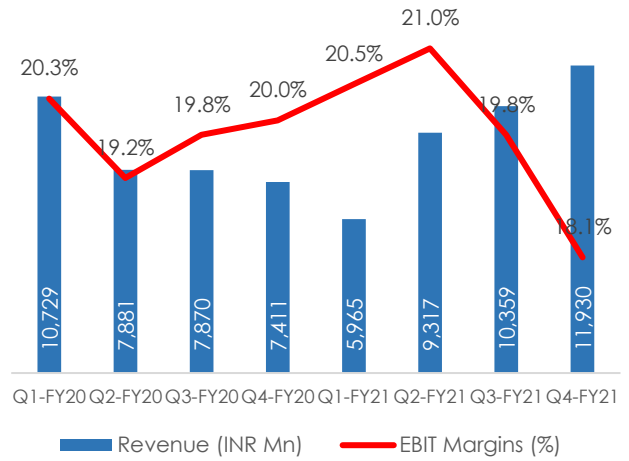
EBITDA



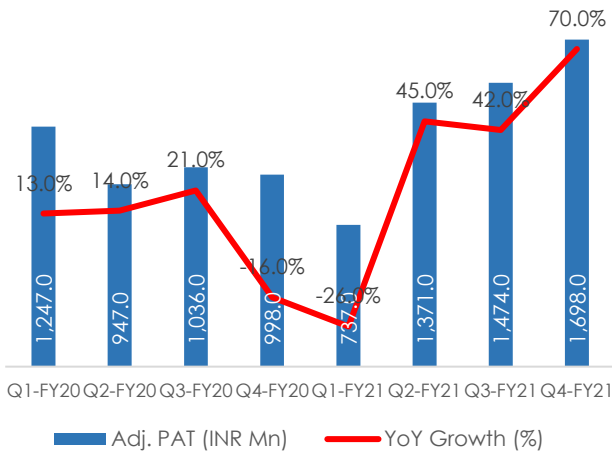
LIGHTING



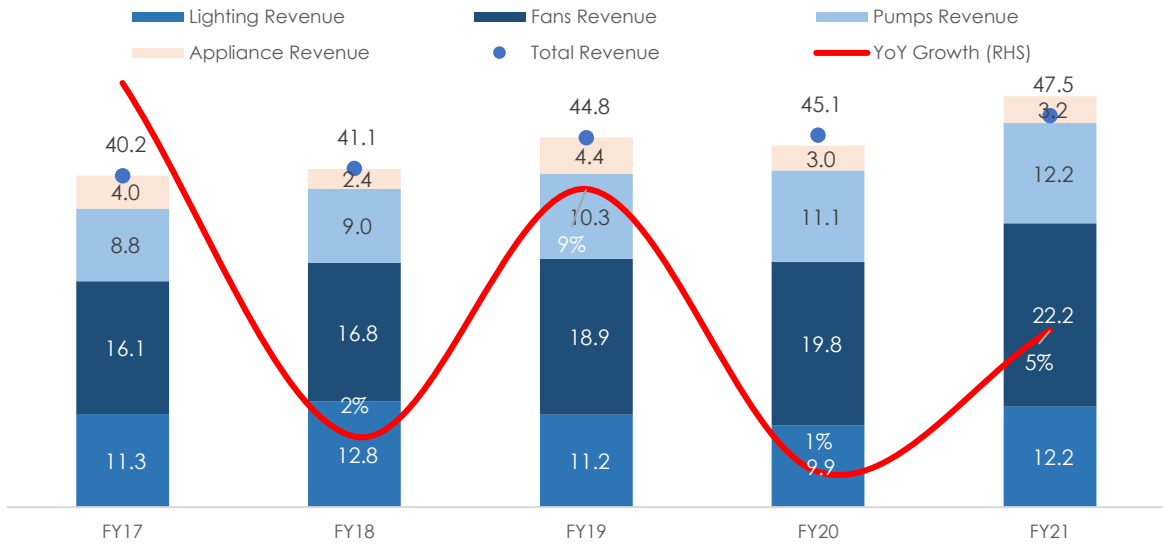
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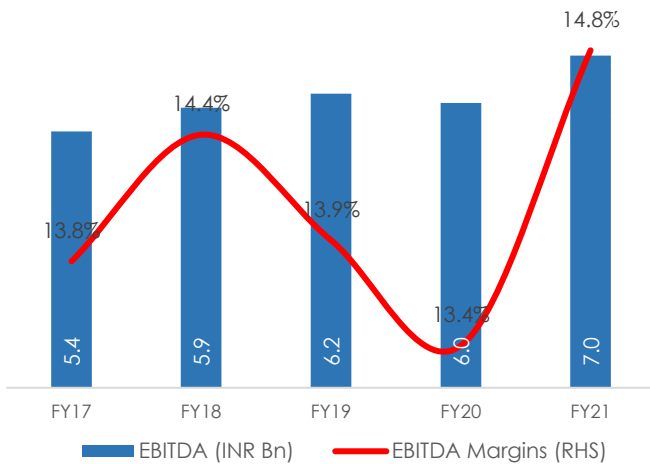
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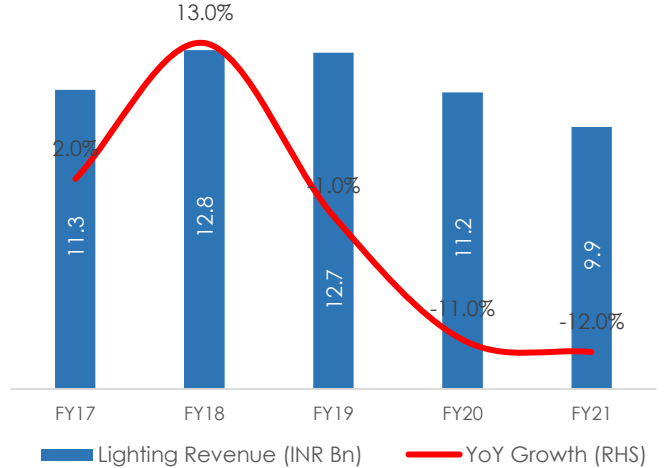
BASED BORAD REVENUE (INR Bn)



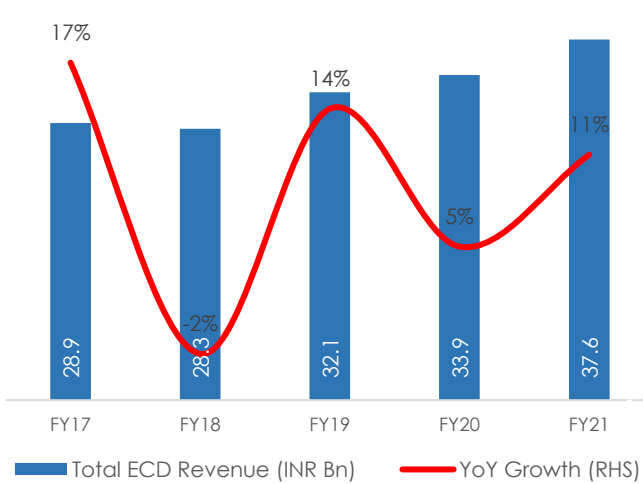
EBITDA



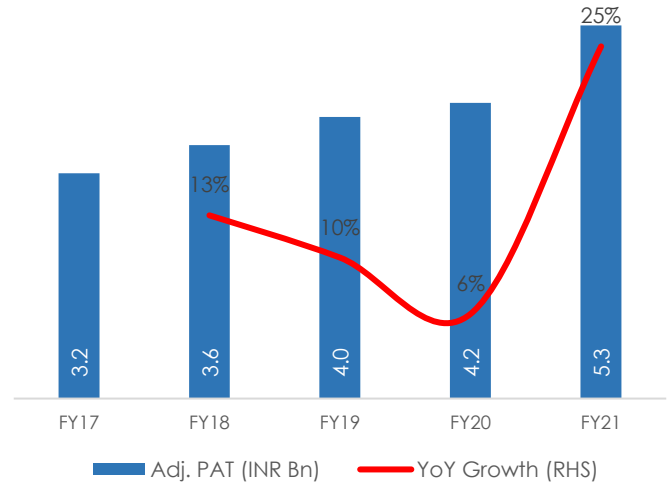
LIGHTING SEGMENT



ECD SEGMENT



PAT



Standalone Profit and Loss (INR Mn)

Y/E March	FY19	FY20	FY21
Total Revenue	44,789	45,120	47,500
Sales Growth	9.8%	0.7%	5.3%
Cost of Goods Sold	30,918	30,650	32,304
Personnel Cost	2,559	3,110	3,366
Other Expenses	5,094	5,323	4,782
EBITDA	6,218	6,037	7,047
EBITDA Margin	13.9%	13.4%	14.8%
EBITDA Growth	6.0%	-2.9%	16.7%
Depreciation & Amortization	129	268	297
EBIT	6,089	5,769	6,750
Other Income	483	589	756
Finance Cost	596	407	429
PBT before Excep. & Forex	5,976	5,951	7,077
Excep. & Forex Income / Loss	-360	-131	-
PBT	5,616	5,820	7,077
Taxes	1,875	1,510	1,030
Reported Net Profit	3,741	4,310	6,047
Adj. Net Profit	3,980	4,229	5,281
Net Margin	8.9%	9.4%	11.1%
Diluted EPS (INR)	6.3	6.7	8.4

Standalone Balance Sheet (INR Mn)

Y/E March	FY20	FY21
Share Capital	1,225	1,255
Reserves and Surplus	13,423	17,935
Total Loans	3,497	2,988
Def. Tax Liability / Asset	-506	-583
Total – Equity & Liability	17,669	21,595
Net Fixed Assets	9,090	9,150
Gross Fixed Assets	9,705	10,062
Less: Depreciation & Amortization	616	913
Capital WIP	199	109
Investments	5,538	7,753
Current Assets	12,108	18,045
Inventories	4,636	5,178
Sundry Debtors	4,587	4,827
Cash & Bank Balance	471	5,945
Loans and Advances	2,414	2,095
Current Liabilities	6,372	8,353
Provisions & Others	2,893	5,108
Net Current Assets	2,843	4,584
TOTAL - Assets	17,669	21,595

Source: Company, Moneycontrol.com, Screener.in, KSL Research

Y/E March	FY19	FY20	FY21
BV / Share (INR)	17.5	23.4	30.6
ROIC	41.5%	37.5%	55.9%
ROE	42.2%	33.0%	31.2%
Net Debt / Equity (x)	-	-0.2	-0.6
P/E (x)	62.7	59.0	47.3
P/B (x)	22.7	17.0	13.0
EV / EBITDA (x)	40.1	40.9	33.9
EV / Sales	5.6	5.5	5.0
Debtor Days	46	37	37
Inventory Days	29	38	40
Creditor Days	63	60	75
Dupont Analysis			
Net Margin	8.9%	9.4%	11.1%
Asset Turnover (x)	2.9	2.6	2.4
Leverage Factor (x)	1.6	1.3	1.2
RoE	42.2%	33.0%	31.2%

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