

# Initiating Coverage Crompton Greaves Consumer Electricals Ltd.

30-September-2020



# Crompton Greaves Consumer Electricals Ltd.



Industry	LTP	Base Case Fair Value	Bull Case Fair Value	Recommendation	Time Horizon
Consumer Durables	Rs. 279.05	Rs.288	Rs.307	Buy on dips to Rs.263-266band and add further on declines to Rs.239-243 band	2 quarters

HDFC Scrip Code	CROCONEQNR
BSE Code	539876
NSE Code	CROMPTON
Bloomberg	CROMPTON:IN
CMP Sept 29, 2020	279.05
Equity Capital (Rs cr)	125
Face Value (Rs)	2
Eq- Share O/S(cr)	62.73
Market Cap (Rs cr)	17524
Book Value (Rs)	23.00
Avg.52 Wk Volume	6190540
52 Week High	301.45
52 Week Low	177.90

Share holding Pattern % (Jun, 2020)	
Promoters	26.19
Institutions	57.19
Non Institutions	16.62
Total	100.0

## Fundamental Research Analyst

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## Our Take:

Crompton Greaves Consumer is one of the leading players in fan & residential pump market in India with having a market share of 27% in fan and 28% in pumps (double the size of the second player) segment. The company is working on an increasing revenue share of premium products which will help to improve the profitability of the company. We expect changing customer preferences and up-trading by existing customers to drive growth of premium fan category for the company. Crompton management follows 'right to win' strategy and hence does not plan to diversify into all appliances unless they have reasonable chances of market leadership (at least feature among the top 3 players) in the category. The government has been focusing on energy efficient and solar pumps for irrigation and Crompton has already launched solar pumps which will further drive growth in pumps segment. The water pump industry is estimated to be at Rs.7,500 crore. Rising building construction and industrialization activities, increasing agriculture activities, depleting groundwater levels and rise in electrification of rural areas with improving power availability due to schemes like Saubhagya will continue to drive demand for water pumps across India in the longer run. The Company has networked with more than 3000 distributors and over 1 lakh retailers and strong after-sales support of over 500 service centres.

We expect that Covid-19 led lockdown could impact the company's operations over the next 1-2 quarters but strong balance sheet provides opportunity to gain further market share.

## Valuations & Recommendation:

The company has a leadership position with a diversified revenue stream along with strong balance sheet and robust return ratios which is mainly driven by its asset light business model, and strong distribution network. It has been constantly leveraging its superior brand recall through new product launches in both value for money and premium categories. We expect, that the company will get benefits from its leading position in fan & residential pump segment, new premium product launch post-COVID-19 phase with de-risking of revenue stream but Covid-19 led lockdown will adversely impact with higher inventories, worsening working capital cycle, disturbance of supply chain, which could lead to 3% CAGR in top-line and -2% EPS CAGR over FY20-22E. Moreover, recent tax reform would also boost the profitability for Crompton, as the company was paying ~35% income tax in the previous years which has come down to ~25%. We believe that Crompton has shown strong track record in past and will be able to deliver stable growth in future with high return ratios. **We feel the base case fair value of the stock is Rs.288 (37.5x FY22E EPS) and the bull case fair value is Rs.307 (40.0x FY22E EPS). Investors can look to buy the stock on dips to Rs.263-266 band (34.5x FY22E EPS) and add more on dips to Rs.239-243 band (31.5x FY22E EPS).**



## Financial Summary

Particulars (Rs cr)	Q1FY21	Q1FY20	YoY-%	Q4FY20	QoQ-%	FY19	FY20	FY21E	FY22E
Total Operating Income	720	1347	-47%	1026	-30%	4,478.9	4,520.1	4,135.0	4,771.8
EBITDA	101	192	-47%	141	-28%	584.3	599.5	520.4	624.7
APAT	75	122	-39%	102	-27%	401.4	496.1	385.6	480.2
Diluted EPS (Rs)	1.19	1.95	-39%	1.63	-27%	6.4	7.9	6.2	7.7
RoE (%)						42.5	38.9	24.1	25.0
P/E (x)						43.6	35.3	45.4	36.4
EV/EBITDA (x)						30.3	29.5	34.0	28.3

(Source: Company, HDFC sec)

## Q1FY21 Result Update

- The revenues of the company were impacted due to the lockdown; it declined by 47% y-o-y.

### Segment-wise

- Revenue of electric consumer durables segment has posted 44% y-o-y degrowth to Rs.597 cr and EBIT of this segment degrew by 44% y-o-y to Rs.122 cr.
- Revenue of Lighting Products segment has posted 55% y-o-y degrowth to Rs.124 cr and EBIT of this segment declined by 47% y-o-y to Rs.7 cr.
- The company continued to gain market share in Fans and the B2C LED portfolio. Fans market share for April showed an improvement even as the company gained 100bps share over the last 21 months.
- The e-commerce channel witnessed 400% growth in May and June-2020.
- The company is actively pursuing the inorganic route of expansion. Players who do not have balance sheet strength may provide inorganic opportunities to Crompton during this period.



## Long term Triggers

### **Diversified product range with leadership position the fan and residential pumps market**

The company has a diversified range of products and is continuously expanding its product range through innovation. Crompton caters to the requirements of individual consumers as well as customers in the industrial, commercial and agricultural sectors. This in turn reduces dependence on a particular product or category.

Crompton Greaves Consumer is a market leader in the electrical fans industry with a market share of 27% and residential pumps industry with share of 28%. The fans & pumps business is a part of electrical consumer durable segment, which contributes ~75% of total sales. It has maintained its market leadership position in a highly competitive electricals industry. Also, stricter energy efficiency norms (fans from January 2022) will help industry leaders gain share from the unorganized segment.

As consumers avoid dining out, we expect food preparation appliances, such as mixer grinders and hand blenders, are likely to see strong demand. Appliance business is the fastest growing one for the past six-seven quarters. Mixer grinder is the biggest contributor in the segment and the company is ramping up the same with new offerings. The company is creating & scaling up new legs of growth in Geysers, Air Coolers and now with Mixer-Grinders (Rs65bn category).

Despite loss of sales of fans in peak Feb-July season due to lockdown, optimal manufacturing, outsourcing mix and better cost management may lead to lower impact on EBITDA margin in FY21. Management noted that demand is progressively improving each month in B2C segments while B2B demand remains subdued.

Pricing in B2C lighting has stabilized and the company could record double-digit margin with increased activity and operating leverage in the medium term. In agri pumps, the company is targeting to double the business in three years. Overall, key focus areas in the medium term will be premiumization led by product innovation (mainly on energy efficiency and connectivity features), improving reach.

The company has perhaps grown faster than the industry and has seen multi-fold increase in the e-commerce channel on a low base. Crompton is significantly asset-light as half of the products which the company sells is manufactured by the company and the other half is outsourced.



## Product portfolio

### Fans

Ceiling fans, Table fans, Pedestal fans, Wall mounted fans, Ventilating fans, Heavy-duty exhaust fans, Air circulator and Industrial fans.

### Lighting

General Lighting Service (incandescent lamp or GLS) and Fluorescent Tubular Lamps (FTL), High-Intensity Discharge lamps (HID), Compact Fluorescent Lamp (CFL), Light-Emitting Diode (LED) lamps save more than 50% energy and give 3 times more life compared to conventional HID / GLS / FTL / CFL, Conventional luminaires, commercial luminaires range consist of recessed, office lighting, surface, wall-mounted, suspended, pendant mounted, downlight, retail, health care and pharma lighting luminaires, Floodlighting, LED Luminaires for all applications, High Mast / Street Lighting Poles, Interior and architectural lighting, Home lighting.

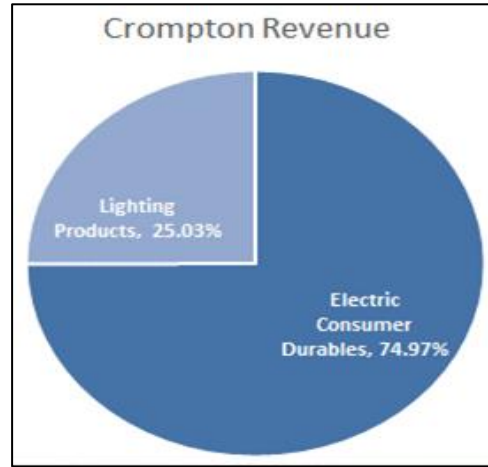
### Pumps

- **Residential pumps:** Residential pumps form a major part of the business under this segment. Domestic pumps consist of self-priming, jet series & submersible pumps set.
- **Agricultural pumps:** Company manufactures bore well submersible pumps, centrifugal mono set pumps which are commonly used to meet the water requirements in large agriculture farms. Open well submersible pump sets are also specially designed for its robustness and its applications under submerged conditions.
- Commercial and industrial pumps.

### Appliances

- Water heaters comprise instant and storage water heaters
- Small appliances include iron, mixer grinders, juicers, mixers, toasters, coffee makers, electric kettles and induction cooktops
- Air Coolers and room heaters
- **Power solutions:** UPS and batteries

The company has a market share of 27% in fan and 28% in pumps segment. In lighting, the company has an 8% market share which 3rd largest in India.



Source – Company, HDFC sec Research

### Premiumization of product mix and increase revenue share of high margin products

The company continuously focusses on an increasing revenue share of the premium products. Share of premium fans (as % of total fans revenue) has gone up from 10% in FY16 to 30% in FY19. Also, segment-wise the company is reducing revenue share of low margin products.

	in %	FY17	FY18	FY19	FY20
<b>Revenue share</b>	<b>Electric Consumer Durables</b>	71.88	68.89	71.75	74.97
	<b>Lighting Products</b>	28.12	31.11	28.25	25.03
<b>Margin</b>	<b>Electric Consumer Durables</b>	17.14	18.91	19.17	19.86
	<b>Lighting Products</b>	8.78	11.53	6.24	8.45

Source – Company, HDFC sec Research



## **New Launches in FY20**

### **Fans**

New product introductions across business segments such as Duratech and SilentPro in Fans - operate on ActivBLDC technology consuming 50% less energy than conventional fans. Also, The Company launched the 'Aura Fluidic' with a five-year warranty - a first in the industry. As the new BEE norms become mandatory, in FY21, the Company is well-positioned for the transition of its existing portfolio under new norms smoothly.

### **Pump**

Wide voltage and Ultima series of agricultural pumps in Pumps at an affordable price for the mass market. The Government, under its scheme named KUSUM, plans to provide further impetus to solar pumps business with targets to install 27.5 lakh pumps over the next 5 years. The company has launched and is working in product development is solar pumps which provide 20% to 30% more water output than the required MNRE guidelines. Mini Crest continues to deliver industry-leading growth to the company.

### **Appliances**

During the FY20, water heater portfolio of the company was entirely revamped in line with the innovation strategy. The company further launched new products such as Regallio, Qube, Rapid Jet and Solarium Vogue.

It has launched the desert cooler range Optimus with superior air delivery, easy drain feature and unique design for easy cleaning. Other launches included the Genie Neo and Marvel Neo.

During the FY20, the company launched Ameo mixer grinder which provides 10% higher grinding efficiency at 10% lesser mixer body temperature as compared to competition mixers. Brio and Instaglide were launched in the category of irons.

### **Lighting**

In the lighting business, the company bagged the prestigious smart city projects during the FY20. Inverter lamps was a consumer meaningful innovation launched during the year which works even during a power failure. It has two variants: one with an hour of backup capacity and other with four hours of backup capacity. It also launched Super Lumen Led Batten in select regions which deliver 3600 lumens at 36W.





## Enhancement of Distribution network and brand building

Company has started expanding distribution reach beyond Tier 1 and 2 cities and increasing market presence in untapped markets under the Go-To-Market strategy. This strategy will further boost the growth of the company. The company has a nationwide network with more than 3000 distributors and over 1 lakh retailers and strong after-sales support of over 500 service centres. The company is also focusing on strengthening footprint in rural, e-commerce and alternative channels to reach the end consumers. New ways to identify potential sales opportunities include a tie-up with a major HVAC distributor. This relationship will give early leads on where new constructions are coming up and, therefore, provide headstart in pitching lighting solutions. The company is targeting rural channels with towns with populations of 50,000 to 1 lakh through a focused approach. It will comprise both a traditional channel and microfinance network to enable rural consumers with financing at their doorstep to help rural consumers access easy loans for its products. The Company directly catered to 359 towns with below 1,00,000 population and has appointed 241 channel partners in rural areas.

Crompton is driving down costs for all businesses and also controlling some indirect costs which have freed up capital. So that it can be spent on brand advertising, thereby overcoming slowdown challenges to a degree.

## Robust financials

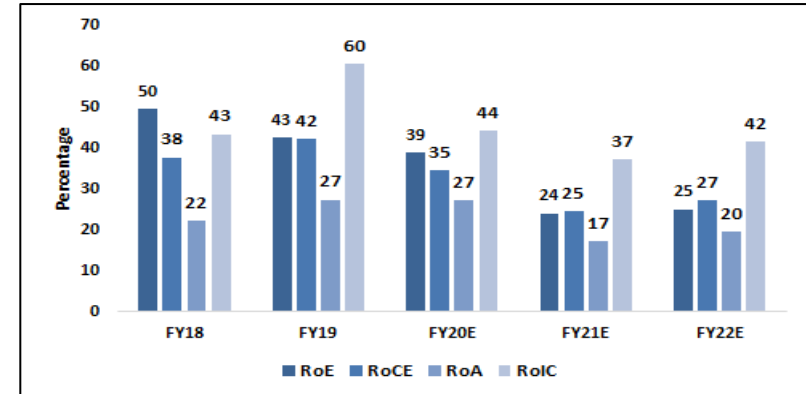
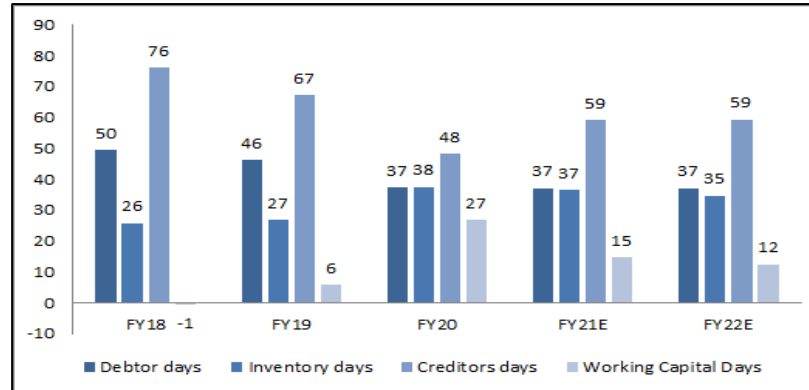
Crompton has a net debt-free balance sheet. Also, it has a strong cash flow from operating activities which helps to repay debt and keep the balance sheet strong. This situation helps Crompton to survive during tough times. Working capital days are favourable and expected to go lower by FY22E which will again help to the company to maintain balance sheet strength. Similarly, ongoing pandemic will affect the return ratios for a temporary period but that is expected to be getting normal by FY22E.

The company follows a business strategy that tries to achieve capital efficiency by focusing investments only on those assets where the company's expertise can achieve the best return. This helps the company to deliver superior returns on invested capital. Crompton has been one of the most efficient in terms of working capital and return ratios compared to the peers.

Crompton Consumer hiked prices in the LED lighting segment by 5-10% from 1 March. It has hiked prices in conventional lighting from 15 June. Crompton Consumer has hiked prices in fans and pumps by 3-5% from 1 June. Crompton Consumer raised prices in mixer grinder by 4-5% and water heater & geyser by 3% from September.



# Crompton Greaves Consumer Electricals Ltd.



Source – Company, HDFC sec Research

## What could go wrong

Promoters have pledged 65.58% of their 26.19% stake and promoters have reduced their stake from 34.36% in September-2019 to 26.19% in Dec-2019.

## Highly competitive market

Much of the market which Crompton operates in, is unorganized and fragmented with many small and medium-sized players. The company faces competition in each of the product categories from multi-national corporations and domestic companies.

Competitors			
Fans	Lighting and luminaire products	Pumps	Electrical appliances
Havells	Philips	Kirloskar	Bajaj Electric
Orient	Surya	CRI	Philips
Usha	Bajaj	Texmo	Havells
Luminous	Havells	Aqua	
PolyCab	Wipro	M&P	
Surya	PolyCab	Grundfos	
Anchor	HPL		
	GE		



## **Volatility in raw material prices**

Copper, steel and aluminium are the primary raw materials for fans, pumps and appliances. The prices of the aforesaid commodities are highly volatile and cyclical in nature. If the price of steel, copper and aluminium increases and the company is not be able to pass on such increases to its customers, then profitability margins will get affected adversely.

The company has not entered into long term contracts with the suppliers of raw material and components. Any severance of relations with these suppliers and/or vendors could adversely affect operations and profitability.

## **The Covid-19 outbreak and consequent lockdown has significantly impacted demand for consumer durables with the closure of retail outlets**

Covid-19 led lockdown has adversely impacted company's revenue and hence the company is expected to posted degrowth in FY21. The nationwide lockdown has shutdown retail shops which contributes to the revenues of the company. Also, the lockdown has stopped online sales so that company had minimal revenues for April and May-20. The industry participants expect that sales growth will return to normal level from H2FY21.

B2B lighting remains an area of concern as government orders have not picked up significantly and a revival will take more time.

Continued slowdown in the economy could impact demand for products of Crompton for a reasonable period of time.

## **About the Company**

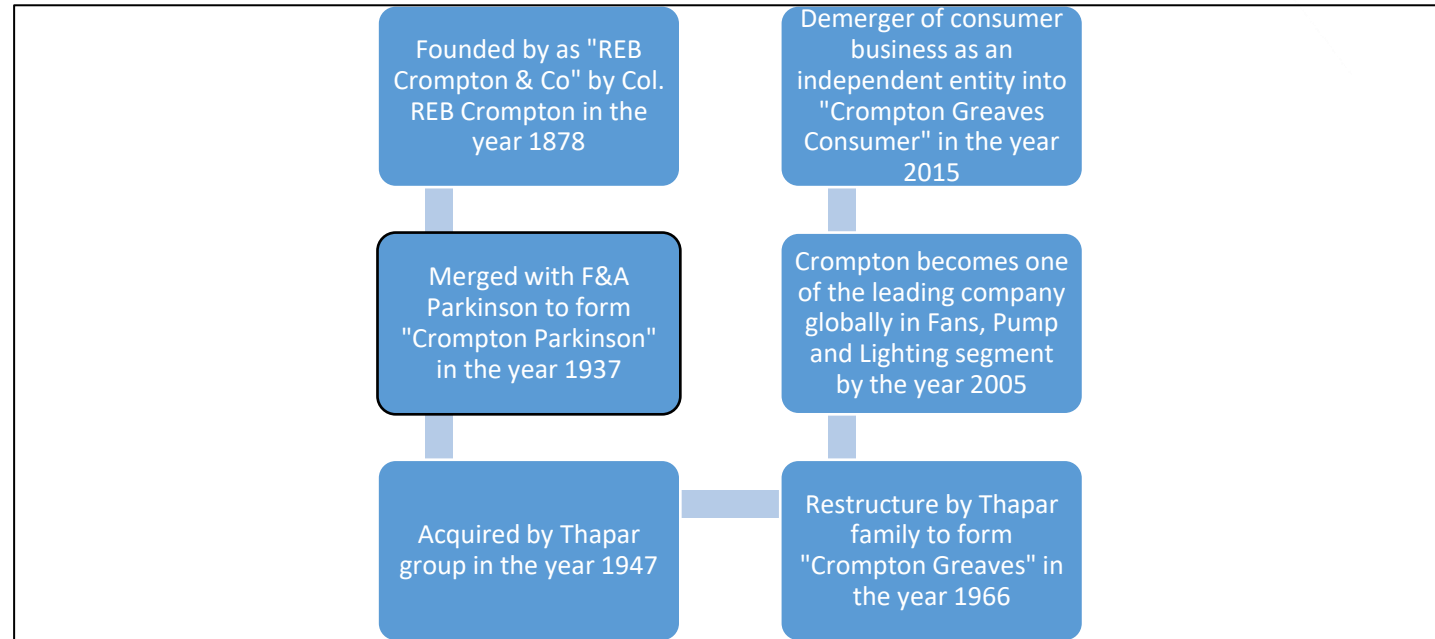
Crompton Greaves Consumer (Crompton) was acquired by Mr L K Thapar in 1947 as Crompton Parkinson Works Ltd. Consumer business of CG power got demerged in 2015 post which Crompton Greaves Consumer was formed as an independent entity.

Crompton Greaves Consumer Electricals Ltd is a leading player in India's consumer electricals sector with a wide portfolio which includes fans, lighting, pumps and household appliances. The company has manufacturing facility at Goa, Vadodara, Ahmednagar and Baddi.

Post the demerger, private equity group Advent, in association with Temasek, changed hands as the promoters with the Avantha Group. Crompton currently operates in four product categories - fans, lighting, pumps and appliances. It has a healthy 50:50 balance between in-house manufacturing and third-party local sourcing.

# Crompton Greaves Consumer Electricals Ltd.

## Journey of Crompton Greaves Consumer



Source: Company, HDFC sec Research

## Peer Comparison as per FY20 Financials

Company	CMP (As on 29-09-2020)	Mcap (Rs. Cr)	OPM%	NPM%	RoE%	RoCE%	D/E(x)	P/E (x)	Cash Conversion Cycle (Days)
<b>Crompton</b>	279	17524	13	11	39	35	0.2	35	27
<b>Havells</b>	666	41695	11	8	17	21	0.0	57	69
<b>Orient Electric</b>	179	3804	9	4	24	29	0.4	48	75
<b>Bajaj Electricals</b>	485	5519	4	0	-1	7	0.8	NA	161
<b>Polycab</b>	833	12412	13	9	22	29	0.0	16	150

# Crompton Greaves Consumer Electricals Ltd.

## Financials

### Income Statement

(Rs Cr)	FY18	FY19	FY20	FY21E	FY22E
<b>Net Revenue</b>	<b>4080</b>	<b>4479</b>	<b>4520</b>	<b>4135</b>	<b>4772</b>
Growth (%)	4.6	9.8	0.9	-8.5	15.4
Operating Expenses	3549	3895	3921	3615	4147
<b>EBITDA</b>	<b>531</b>	<b>584</b>	<b>599</b>	<b>520</b>	<b>625</b>
<b>Growth (%)</b>	<b>9.6</b>	<b>10.0</b>	<b>2.6</b>	<b>-13.2</b>	<b>20.0</b>
<b>EBITDA Margin (%)</b>	<b>13.0</b>	<b>13.0</b>	<b>13.3</b>	<b>12.6</b>	<b>13.1</b>
Other Income	30.8	48.0	59.0	60.5	74.5
Depreciation	12.6	12.9	26.9	27.7	33.0
<b>EBIT</b>	<b>549</b>	<b>619</b>	<b>632</b>	<b>553</b>	<b>666</b>
Interest	63.7	59.6	41.0	37.9	24.4
Shares of Profit in Joint Ventures (net of Tax)	0.0	0.0	0.0	0.0	0.0
<b>PBT</b>	<b>485</b>	<b>560</b>	<b>591</b>	<b>515</b>	<b>642</b>
Tax	161.7	158.5	94.5	129.7	161.5
<b>RPAT</b>	<b>324</b>	<b>401</b>	<b>496</b>	<b>386</b>	<b>480</b>
Minority Int.	0	0	0	0	0
<b>APAT</b>	<b>323.8</b>	<b>401.4</b>	<b>496.1</b>	<b>385.6</b>	<b>480.2</b>
<b>Growth (%)</b>	<b>13.3</b>	<b>24.0</b>	<b>23.6</b>	<b>-22.3</b>	<b>24.5</b>
EPS	5.2	6.4	7.9	6.2	7.7

### Balance Sheet

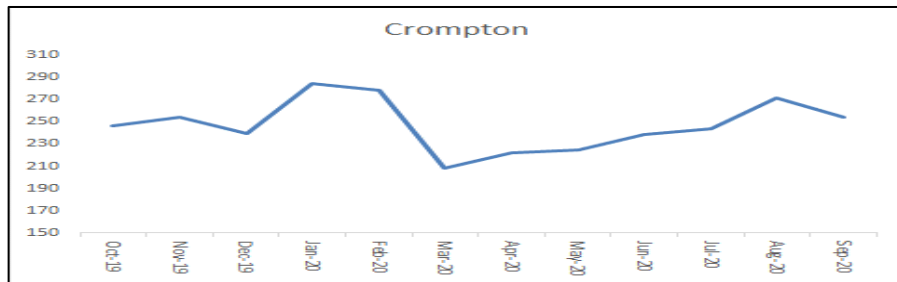
As at March	FY18	FY19	FY20	FY21E	FY22E
<b>SOURCE OF FUNDS</b>					
Share Capital	<b>125.4</b>	<b>125.4</b>	<b>125.4</b>	<b>125.4</b>	<b>125.4</b>
Reserves	664	972	1330	1621	1976
Minority Interest	0	0	0	0	0
Other Equity & Liabilities	0	0	0	0	0
<b>Shareholders' Funds</b>	<b>790</b>	<b>1097</b>	<b>1455</b>	<b>1747</b>	<b>2102</b>
Long Term Debt	649	349	350	480	330
Long Term Provisions & Others	17	17	19	19	19
<b>Total Source of Funds</b>	<b>1456</b>	<b>1464</b>	<b>1824</b>	<b>2245</b>	<b>2450</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	862	864	929	934	976
Non-Current Investments	0	0	0	0	0
Deferred Tax Assets (net)	48	60	0	0	0
Long Term Loans & Advances	28	25	83	165	238
Other Assets	0	0	0	0	0
<b>Total Non Current Assets</b>	<b>938</b>	<b>950</b>	<b>1012</b>	<b>1099</b>	<b>1214</b>
Current Investments	368	541	541	649	747
Inventories	303	352	464	414	453
Trade Receivables	554	566	463	420	485
Short term Loans & Advances	42	37	79	87	100
Cash & Equivalents	177	143	48	441	473
Other Current Assets	43	80	201	237	260
<b>Total Current Assets</b>	<b>1487</b>	<b>1720</b>	<b>1796</b>	<b>2247</b>	<b>2518</b>
Short-Term Borrowings	0	0	0	0	0
Trade Payables	768	665	517	584	674
Other Current Liab & Provisions	94	389	331	357	400
Short-Term Provisions	108	152	137	160	208
<b>Total Current Liabilities</b>	<b>969</b>	<b>1206</b>	<b>984</b>	<b>1101</b>	<b>1282</b>
Net Current Assets	518	514	812	1146	1236
<b>Total Application of Funds</b>	<b>1456</b>	<b>1464</b>	<b>1824</b>	<b>2245</b>	<b>2450</b>

# Crompton Greaves Consumer Electricals Ltd.

## Cash Flow Statement

(Rs Cr)	FY18	FY19	FY20	FY21E	FY22E
Reported PBT	485	560	591	515	642
Non-operating & EO items	-31	-48	-59	-61	-75
Interest Expenses	64	60	41	38	24
Depreciation	13	13	27	28	33
Working Capital Change	-137	-31	-393	59	-57
Tax Paid	-162	-158	-94	-130	-162
<b>OPERATING CASH FLOW ( a )</b>	<b>232</b>	<b>395</b>	<b>112</b>	<b>449</b>	<b>406</b>
Capex	-324	-15	-92	-33	-75
Free Cash Flow	-91	380	20	417	331
Investments	-27	-10	3	-82	-73
Non-operating income	31	48	59	61	75
<b>INVESTING CASH FLOW ( b )</b>	<b>-320</b>	<b>23</b>	<b>-30</b>	<b>-54</b>	<b>-74</b>
Debt Issuance / (Repaid)	1	-299	2	130	-150
Interest Expenses	-64	-60	-41	-38	-24
FCFE	-154	21	-19	509	156
Share Capital Issuance	0	0	0	0	0
Dividend	-94	-157	-138	-94	-125
<b>FINANCING CASH FLOW ( c )</b>	<b>-157</b>	<b>-516</b>	<b>-177</b>	<b>-2</b>	<b>-300</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>-245</b>	<b>-97</b>	<b>-95</b>	<b>393</b>	<b>32</b>

## One Year Price Chart



## Key Ratios

	FY18	FY19	FY20	FY21E	FY22E
<b>Profitability (%)</b>					
EBITDA Margin	13.0	13.0	13.3	12.6	13.1
EBIT Margin	13.5	13.8	14.0	13.4	14.0
APAT Margin	7.9	9.0	11.0	9.3	10.1
RoE	49.5	42.5	38.9	24.1	25.0
RoCE	37.7	42.3	34.6	24.6	27.2
<b>Solvency Ratio</b>					
D/E	0.8	0.3	0.2	0.3	0.2
Interest Coverage	8.6	10.4	15.4	14.6	27.3
<b>PER SHARE DATA</b>					
EPS	5.2	6.4	7.9	6.2	7.7
CEPS	5.4	6.6	8.3	6.6	8.2
BV	13	18	23	28	34
Dividend	1.5	1.8	2.0	1.5	2.0
<b>Turnover Ratios (days)</b>					
Debtor days	50	46	37	37	37
Inventory days	26	27	38	37	35
Creditors days	76	67	48	59	59
Working Capital Days	-1	6	27	15	12
<b>VALUATION</b>					
P/E	54.0	43.6	35.3	45.4	36.4
P/BV	22.1	15.9	12.0	10.0	8.3
EV/EBITDA	33.3	30.3	29.5	34.0	28.3
Dividend Yield	0.5	0.6	0.7	0.5	0.7
Dividend Payout	3.4	27.3	25.3	24.4	26.1

(Source: Company, HDFC sec)

# Crompton Greaves Consumer Electricals Ltd.

## Disclosure:

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