

# Crompton Greaves CE Ltd

BUY

CMP Rs396

Target Rs498

Upside 25.8%

## Expect share gains and cost efficiencies to continue; maintain BUY

### Result Highlights

- ✓ **Quarter summary** – Crompton delivered better than expected revenue growth of 48%, with ECD continue to register market leading growth. Gross margins contracted by 81bps yoy on higher commodity prices. Continued cost controls have resulted in EBITDA margin expansion despite contraction in gross margins.
- ✓ **Growth across segments** – ECD continues with its strong growth momentum delivering 61% yoy growth. All the products categories have contributed to strong growth with Fans/Appliances/Pumps growing at 59%/74%/61%. Lighting business saw growth of 15.4% as B2B business continues to face challenges.
- ✓ **Market share & channel trends** – Fans have registered 1% increase in market share led by higher growth in premium category. E-com and modern retail channels continues to do well growing 86% in Q4.
- ✓ **Working capital** – Focused initiatives and efficiency measures have led to improvement in working capital cycle and healthy FCF generation. Working capital cycle has improved to 11 days as on Mar'21 vs 23 days as on Mar'20.

**Valuation and view** – 4Q saw growth across product categories and geographies with West and East returning to normalcy. Rural economy continues to be resilient and has witnessed exponential growth. B2C portfolio continues to see market leading growth with Fans continuing to gain market share, geysers witnessing strong traction and B2C LED lighting registering volume growth of 23%. Commodity headwinds have impacted gross margins, but cost control initiatives have resulted in expanding EBITDA margin. The company will try and alleviate gross margin pressures with a combination of price hikes, continued premiumization and further cost savings.

**Crompton's improving efficiencies, R&D capabilities, increased brand investments and strong distribution presence across channels with increasing investments in rural areas bodes well for further market share gains and continued industry leading growth. We expect strong growth momentum to continue in B2C followed by gradual recovery in B2B business; furthermore, we expect higher operating leverage and increased efficiencies to drive higher earnings growth. We build in FY21-23E Revenue/EBITDA/Adj. PAT CAGR of 14%/14%/16% to arrive at our PT of Rs498 valuing the company at 45x FY23EPS and maintain our BUY rating.**

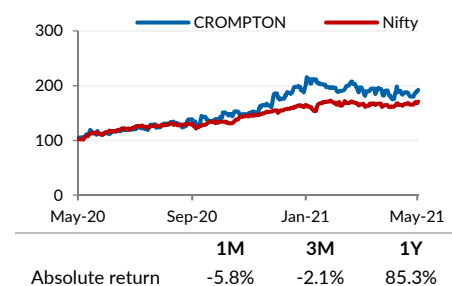
### Exhibit 1: Result table

(Rs mn)	Q4FY21	Q4FY20	% yoy	Q3FY21	% qoq
Total sales	15,221	10,263	48.3%	13,482	12.9%
EBITDA	2280	1412	61.4%	2001	13.9%
EBITDAM (%)	15.0%	13.8%		14.8%	
Depreciation	72	82	-12.7%	69	4.1%
Interest	104	83	26.5%	105.6	-1.1%
Other income	206	120	72.2%	199	3.6%
PBT	2310	1367	68.9%	2025	14.1%
Tax	-181	346	-152.3%	514	-135.2%
Adjusted PAT	1728	1021	69.3%	1511	14.4%
Reported PAT	2491	1021	144.0%	1511	64.9%
PATM (%)	16.4%	9.9%		11.2%	
EPS (Rs)	2.0	0.8		1.2	

### Stock data (as on May 24, 2021)

Nifty:	15,175
52 Week h/l (Rs)	456/208
Market cap (Rs/USD mn)	243,844/3,348
Outstanding Shares	628
6m Avg t/o (Rs mn):	656
Div yield (%):	0.6
Bloomberg code:	CROMPTON IN
NSE code:	CROMPTON

### Stock performance



### Shareholding pattern (As of Mar'21 end)

Promoter	26.2%
FII+DII	56.4%
Others	68.3%

### Financial Summary

(Rs mn)	FY21	FY22e	FY23e
Net Revenue	48,035	55,146	62,565
YoY Growth	6.3%	14.8%	13.5%
EBITDA	7,205	7,886	9,009
Margins (%)	15.0	14.3	14.4
PAT	6,167	5,958	6,998
YoY Growth	24.2%	-3.4%	17.5%
ROE	36.3	28.6	28.6
ROCE	37.9	34.8	35.5
EPS	9.8	9.5	11.1
P/E	40.3	41.7	35.5
EV/EBITDA	34.6	31.5	27.1

### Change in earnings estimates

	FY21	FY22e	FY23e
EPS (New)	9.8	9.8	11.1
EPS (Old)	9.8	9.5	11.1
% Change	NA	(3.1)	0.0

### Change in Rating and TP

	Rating	TP
New	BUY	498
Old	BUY	498

#### HIMANSHU NAYYAR

Lead Analyst

himanshu.nayyar@ysil.in

+91 99209 15754



#### AAKASH FADIA

aakash.fadia@ysil.in

AMAR AMBANI, Sr. President, Head of Research

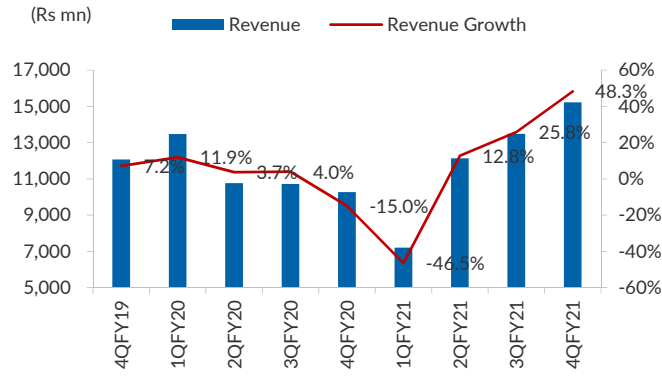
amar.ambani@ysil.in

## CONCALL TAKEAWAYS

- ✓ **Distribution GTM** – Trade partners and monthly billing in March has reached record levels. Fans distribution reach has gone up by 3.3 % to 55,000 outlets. Water heater reach has increased by 60% in past 18 months. Lighting reach is only 30% and there is still huge scope to grow.
- ✓ **Rural and E-comm channels** – Rural has grown by 117% in Q4 with 72% growth in Jan-Feb. Continue to gain share in rural areas. E-comm and modern retail has seen 85% growth in Q4 with 25% growth in Jan and Feb.
- ✓ **Technology** – Investments in tally patch are now giving dividends which have helped the company take informed decisions backed by data.
- ✓ **Commodity inflation** – Commodity inflation has been unprecedented, increase has happened in short spell of time. It has further increased 8% in April and May. Premiumization, accelerated costs savings and pricing actions are the tools used to mitigate high commodity costs.
- ✓ **Cost Savings** – Cost savings initiatives have seen encouraging results and company has achieved Rs600mn cost savings in Q4. Company has targeted to Rs1750mn costs savings under project Unnati under normal circumstances. However, this is likely to vary given the second wave of Covid.
- ✓ **ECD** – There has been broad based growth across the product categories, with Fans growing at 59% (30% in Jan and Feb), with premium Fans growing at 76%, decorative fans growing at 72% and super premium fans volume doubling. Have gained 1% market share in Fans on rolling 12 months basis. Pumps has seen 61% growth (Jan & Feb growth 18%) with residential pumps growing at 63% in volume terms and 53% in value terms. Appliances have seen 74% growth (Jan & Feb growth over 40%) with Geysers witnessing 84% growth, Air-coolers 74%, Mixer 81% and Irons 86%.
- ✓ **Lighting** – Lighting B2C LED volume growth has been 23% while value growth stood at 31%. B2G business continues to remain challenging as there is very little off take from EESL and government institutions. On the margin front, cost reduction initiatives have led to double digit margins. Price have stabilized that have helped in margin expansion.
- ✓ **Price hikes** – Have taken 2 cumulative price increases this year in January and May totaling 8-10% but have been able to offset only half of the commodity price increase. Sequentially commodity price has increased 12% in Q4 and it has increased further by 8% in April and May.
- ✓ **Margin outlook** – Expects continued margin pressure in next 2 quarters. May require around 5-8% further price increase to offset higher commodity prices.
- ✓ **Supply chain** – All factories have been up and running with Q4 witnessing 53% higher fans production.
- ✓ **Market share gains** - Crompton has been fastest growing Fans brand in past 12 months and has seen market share gains. It has gained largest share in Fans category. It has gained market share from unorganized and smaller brands. Fans has market share of 27-28% and similar market share in residential pumps. B2C LED market share is 8-10%, water heater market share is 15%, while that of mixer and air-coolers is in single digit.
- ✓ **New launches** – Range of new products have been launches across product categories. Have launched more than 30 innovative products to give more value to the consumer.
- ✓ **Demand outlook** – Most retail market are currently in lockdown. Demand is expected to see gradual return to normalcy in Q2. Demand recovery would follow post reduction of covid cases. Expect markets to open by 2<sup>nd</sup> half of June.

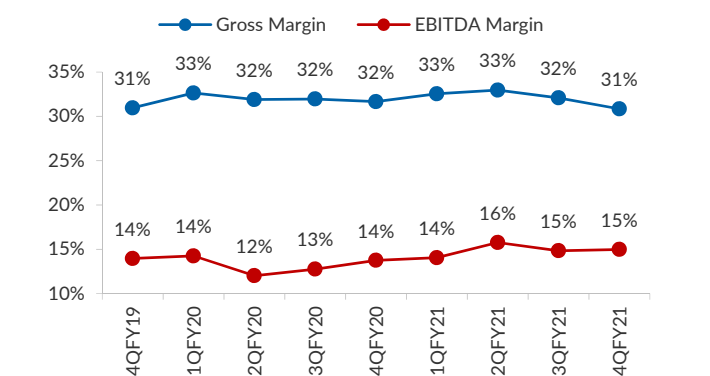
## CHARTS

**Exhibit 2: Broad based growth was visible across geographies and product categories**



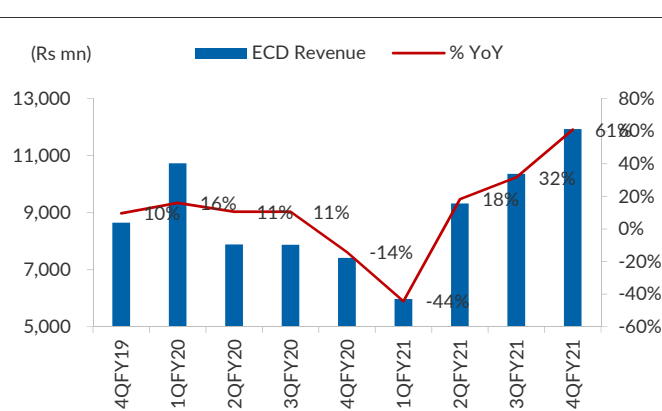
Source: Company, YES Sec - Research

**Exhibit 3: Commodity cost escalations have led to gross margin contraction**



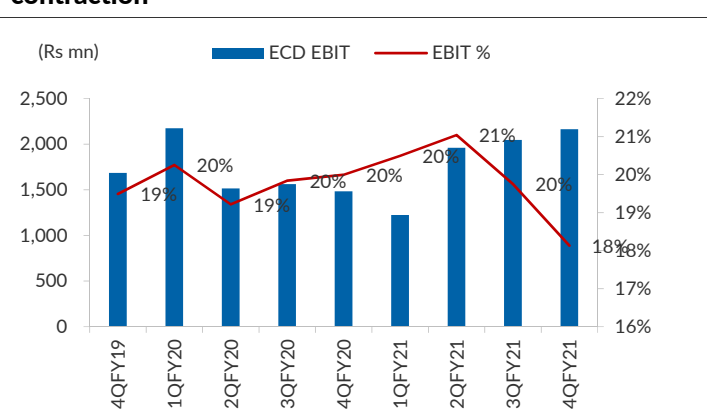
Source: Company, YES Sec - Research

**Exhibit 4: All product categories saw strong growth**



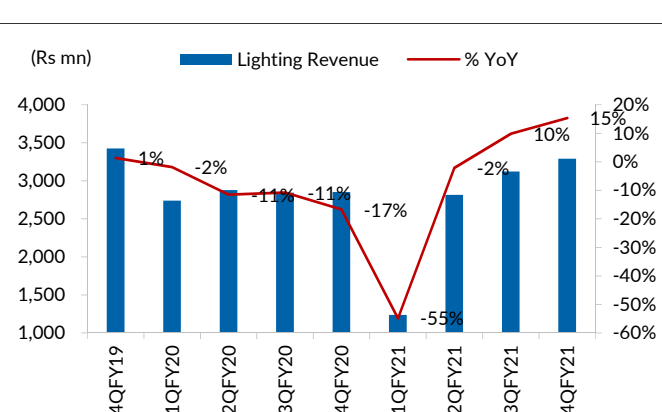
Source: Company, YES Sec - Research

**Exhibit 5: Commodity costs pressure resulted in margin contraction**



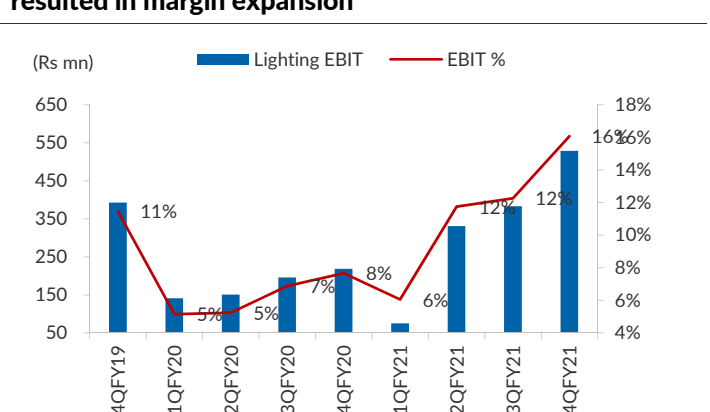
Source: Company, YES Sec - Research

**Exhibit 6: Revenue growth was driven by B2C lighting**



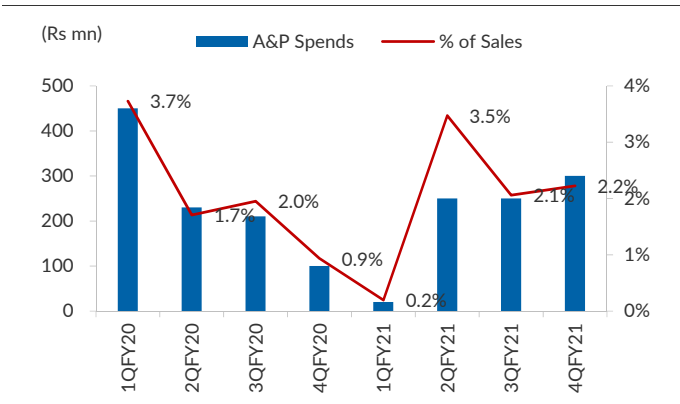
Source: Company, YES Sec - Research

**Exhibit 7: Costs saving initiatives and pricing action have resulted in margin expansion**



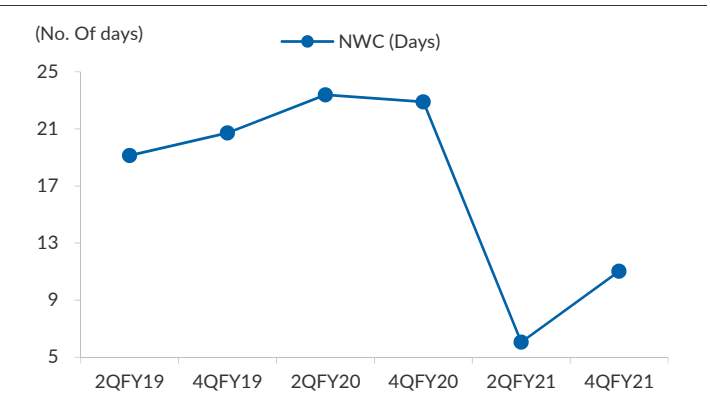
Source: Company, YES Sec - Research

**Exhibit 8: A&P spends have come back to normalized levels**



Source: Company, YES Sec – Research

**Exhibit 9: Increased efficiencies have led to improvement of NWC**



Source: Company, YES Sec – Research

**Exhibit 10: Revenue and Margin Assumptions**

Revenue (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Electrical consumer durables	32,136	33,890	37,571	43,059	49,027
% yoy growth	14%	5%	11%	15%	14%
Lighting Products	12,653	11,312	10,464	12,087	13,537
% yoy growth	-1%	-11%	-7%	16%	12%
Less: Excise	0	0	0	0	0
<b>Total Revenue</b>	<b>44,789</b>	<b>45,203</b>	<b>48,035</b>	<b>55,146</b>	<b>62,565</b>
% yoy growth	10%	1%	6%	15%	13%
<b>PBIT (Rs mn)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY20</b>	<b>FY20</b>	<b>FY20</b>
Electrical consumer durables	6,162	6,731	7,392	8,267	9,560
% margin	19%	19.9%	19.7%	19.2%	19.5%
Lighting Products	1,069	706	1,317	1,437	1,624
% margin	8%	6.2%	13%	12%	12%
<b>Total PBIT</b>	<b>7,230</b>	<b>7,437</b>	<b>8,710</b>	<b>9,704</b>	<b>11,184</b>
% margin	16%	16%	18%	18%	18%

Source: Company, YES Sec – Research

## FINANCIALS

### Exhibit 11: Balance sheet

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity capital	1,254	1,255	1,255	1,255	1,255
Reserves	9,719	13,429	18,027	21,162	25,338
Net worth	10,973	14,684	19,283	22,418	26,593
Debt	6,493	3,497	2,988	3,288	1,788
Deferred tax liab (net)	0	0	0	0	0
Other non current liabilities	173	191	214	235	267
Total liabilities	17,639	18,372	22,485	25,941	28,648
Fixed Asset	8,641	9,289	9,259	9,307	9,300
Investments	5,412	5,408	7,697	7,697	7,697
Other Non-current Assets	857	813	848	887	927
Net Working Capital	1,559	2,622	2,089	4,644	4,782
Inventories	3,524	4,636	5,186	5,802	6,582
Sundry debtors	5,660	4,635	4,912	5,651	6,411
Loans and Advances	992	1,468	2,024	2,324	2,637
Sundry creditors	6,650	6,436	8,647	9,080	10,302
Other current liabilities	889	1,056	2,962	1,324	1,502
Cash & equivalents	1,170	240	2,592	3,406	5,941
Total Assets	17,639	18,372	22,485	25,941	28,648

### Exhibit 12: Income statement

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Revenue	44,789	45,203	48,035	55,146	62,565
Operating profit	5,843	5,991	7,205	7,886	9,009
Depreciation	129	268	297	352	407
Interest expense	596	407	429	395	259
Other income	480	591	758	822	1,009
Profit before tax	5,598	5,907	7,236	7,962	9,352
Taxes	1,585	943	1,070	2,004	2,354
Minorities and other	-	-	-	-	-
Adj. profit	4,014	4,964	6,166	5,958	6,998
Exceptional items	-	-	-	-	-
Net profit	4,014	4,964	6,166	5,958	6,998

## Exhibit 13: Cash flow statement

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Profit before tax	6,194	6,314	7,665	8,356	9,612
Depreciation	129	268	297	352	407
Tax paid	(1,585)	(943)	(1,070)	(2,004)	(2,354)
Working capital Δ	(3,517)	(1,059)	(1,756)	(2,556)	(137)
Other operating items					
Operating cashflow	1,221	4,580	5,136	4,149	7,527
Capital expenditure	(148)	(915)	(267)	(400)	(400)
Free cash flow	1,073	3,665	4,870	3,749	7,127
Equity raised	576	79	1	-	-
Investments	-	-	-	-	-
Debt financing/disposal	7	(2,995)	(509)	300	(1,500)
Interest paid	(596)	(407)	(429)	(395)	(259)
Dividends paid	(1,512)	(1,332)	(1,568)	(2,823)	(2,823)
Net Δ in cash	(555)	(929)	2,352	813	2,536

## Exhibit 14: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Tax burden (x)	0.72	0.84	0.85	0.75	0.75
Interest burden (x)	0.90	0.94	0.94	0.95	0.97
EBIT margin (x)	0.14	0.14	0.16	0.15	0.15
Asset turnover (x)	1.76	1.67	1.51	1.47	1.53
Financial leverage (x)	2.70	2.11	1.87	1.79	1.67
RoE (%)	42.5	38.7	36.3	28.6	28.6

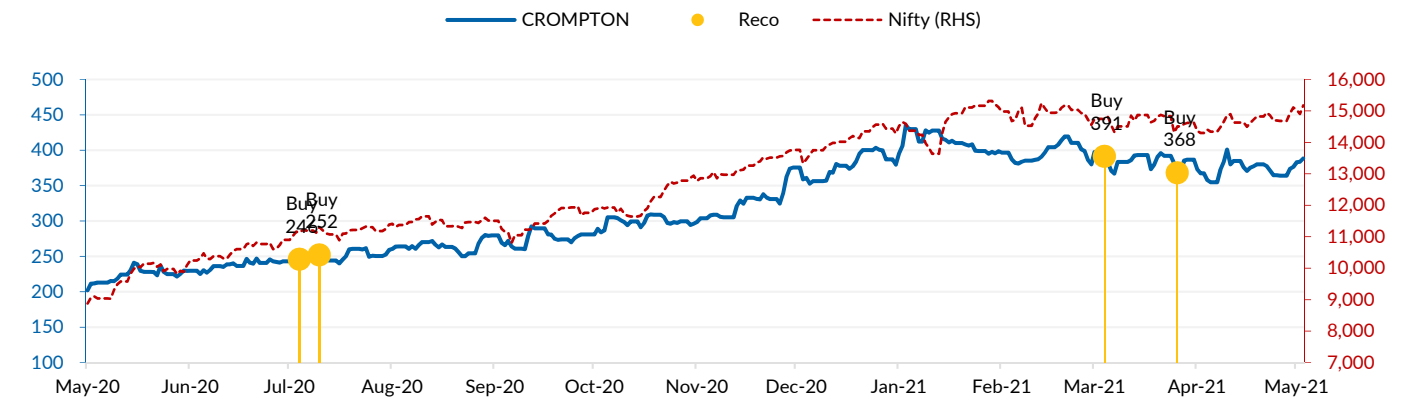
## Exhibit 15: Ratio analysis

Y/e 31 Mar	FY19	FY20	FY21	FY22E	FY23E
<b>Growth matrix (%)</b>					
Revenue growth	9.8	0.9	6.3	14.8	13.5
Op profit growth	10.0	2.5	20.3	9.5	14.2
EBIT growth	12.8	1.9	21.4	9.0	15.0
Net profit growth	24.0	23.7	24.2	(3.4)	17.5
<b>Profitability ratios (%)</b>					
OPM	13.0	13.3	15.0	14.3	14.4
EBIT margin	13.8	14.0	16.0	15.2	15.4
Net profit margin	9.0	11.0	12.8	10.8	11.2
RoCE	38.9	35.4	37.9	34.8	35.5
RoNW	42.5	38.7	36.3	28.6	28.6
RoA	15.8	18.3	19.4	15.9	17.1
<b>Per share ratios</b>					
EPS	6.4	7.9	9.8	9.5	11.1
Dividend per share	2.4	2.1	2.5	4.5	4.5
Cash EPS	6.6	8.3	10.3	10.1	11.8
Book value per share	17.5	23.4	30.7	35.7	42.4
<b>Valuation ratios</b>					
P/E	61.9	50.0	40.3	41.7	35.5
P/CEPS	61.7	50.2	40.3	41.7	35.5
P/B	22.6	16.9	12.9	11.1	9.3
EV/EBIDTA	43.4	42.0	34.6	31.5	27.1
<b>Payout (%)</b>					

# Crompton Greaves CE Ltd

Y/e 31 Mar	FY19	FY20	FY21	FY22E	FY23E
Dividend payout	38	27	25.4	47.4	40.3
Tax payout	28	16	14.8	25.2	25.2
<b>Liquidity ratios</b>					
Debtor days	46	37	37.3	37.4	37.4
Inventory days	29	37	39.4	38.4	38.4
Creditor days	54.2	52.0	65.7	60.1	60.1

## Recommendation tracker



Source: Company, YES Sec – Research

## DISCLAIMER

Investments in securities market are subject to market risks, read all the related documents carefully before investing.

The information and opinions in this report have been prepared by YSL and are subject to change without any notice. The report and information contained herein are strictly confidential and meant solely for the intended recipient and may not be altered in any way, transmitted to, copied or redistributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of YSL.

The information and opinions contained in the research report have been compiled or arrived at from sources believed to be reliable and have not been independently verified and no guarantee, representation of warranty, express or implied, is made as to their accuracy, completeness, authenticity or validity. No information or opinions expressed constitute an offer, or an invitation to make an offer, to buy or sell any securities or any derivative instruments related to such securities. Investments in securities are subject to market risk. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Investors should note that each security's price or value may rise or fall and, accordingly, investors may even receive amounts which are less than originally invested. The investor is advised to take into consideration all risk factors including their own financial condition, suitability to risk return profile and the like, and take independent professional and/or tax advice before investing. Opinions expressed are our current opinions as of the date appearing on this report. Investor should understand that statements regarding future prospects may not materialize and are of general nature which may not be specifically suitable to any particular investor. Past performance may not necessarily be an indicator of future performance. Actual results may differ materially from those set forth in projections.

Technical Analysis reports focus on studying the price movement and trading turnover charts of securities or its derivatives, as opposed to focussing on a company's fundamentals and opinions, as such, may not match with reports published on a company's fundamentals.

YSL, its research analysts, directors, officers, employees and associates accept no liabilities for any loss or damage of any kind arising out of the use of this report. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject YSL and associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

## DISCLOSURE OF INTEREST

Name of the Research Analyst : Himanshu Nayyar, Aakash Fadia

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

Sr. No.	Particulars	Yes/No
1	Research Analyst or his/her relative's or YSL's financial interest in the subject company(ies)	No
2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received any compensation from the subject company in the past twelve months	No
6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

### YES Securities (India) Limited

**Registered Office:** Unit No. 602 A, 6th Floor, Tower 1 & 2, One International Center, Senapati Bapat Marg, Elphinstone Road, Mumbai – 400013, Maharashtra, India.

Email: [research@ysil.in](mailto:research@ysil.in) | Website: [www.yesinvest.in](http://www.yesinvest.in)

**Registration Nos.:** CIN: U74992MH2013PLC240971 | SEBI Single Registration No.: NSE, BSE, MCX & NCDEX : INZ000185632 | Member Code: BSE – 6538, NSE – 14914, MCX – 56355 & NCDEX - 1289 | MERCHANT BANKER: INM000012227 | RESEARCH ANALYST: INH000002376 | INVESTMENT ADVISER: INA000007331 | Sponsor and Investment Manager to YSL Alternates Alpha Plus Fund (Cat III AIF) SEBI Registration No.: IN/AIF3/20-21/0818 | AMFI ARN Code – 94338.

**Details of Compliance Officer:** Name: Vaibhav Purohit, Email id: [compliance@ysil.in](mailto:compliance@ysil.in), Contact No-+91-22-33479208



## **RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS**

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

**BUY:** Potential return >15% over 12 months

**ADD:** Potential return +5% to +15% over 12 months

**REDUCE:** Potential return -10% to +5% over 12 months

**SELL:** Potential return <-10% over 12 months

**NOT RATED / UNDER REVIEW**

## **ABOUT YES SECURITIES (INDIA) LIMITED**

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a SEBI registered stock broker holding membership of NSE, BSE, MCX & NCDEX. YSL is also a SEBI registered Category I Merchant Banker, Investment Adviser and a Research Analyst. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.