CROMPTON CONSUMER

Edelweiss
Ideas create, values protect

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	415
12 month price target (INR)	594
Market cap (INR bn/USD bn)	261/3.5
Free float/Foreign ownership (%)	73.8/16.1

What's Changed

Target Price	↑
Rating/Risk Rating	–

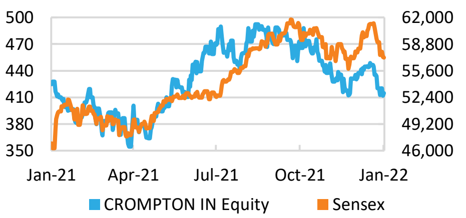
QUICK TAKE

	Above	In line	Below
Profit			•
Margins		•	
Revenue Growth			•
Overall			•

FINANCIALS (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Revenue	47,500	54,551	61,708	69,514
EBITDA	7,047	7,881	9,292	10,732
Adjusted profit	6,047	6,009	7,152	8,309
Diluted EPS (INR)	9.6	9.6	11.4	13.3
EPS growth (%)	22.2	(0.6)	19.0	16.2
RoAE (%)	35.7	29.2	30.3	30.6
P/E (x)	43.0	43.3	36.4	31.3
EV/EBITDA (x)	36.6	32.9	27.7	23.9
Dividend yield (%)	0.6	1.2	1.5	1.7

PRICE PERFORMANCE



Explore:

Financial model
Podcast
Corporate access
Video

Stable operationally; new segments key

Crompton's operational results were largely in line with consensus despite a sharp rise in ad-spend and range bound value growth versus its peers. On a 2Y basis, sales grew at a healthy 14% plus, with stable EBIDTA margins. Barring pumps, most segments grew well, with appliances/fans leading the top-line, while lighting on OPM scaled up.

Versus peers like Havells/Orient/Polycab, Crompton saw lower growth on ECD, while on OPMs it fared better (exhibit 1). We remain optimistic on Crompton's on ground execution. However, we maintain that the larger re-rating/valuation gap versus Havells hinges on category expansion/capital allocation decision. Retain BUY.

9M reflects operational stability; decent OPMs despite challenges

Crompton's Q3 headline numbers were largely in line with consensus, on growth and margins. This is despite limited pricing and high ad-spend during the quarter. On a 9M basis, 14.3% (versus 2Y avg. basis) ECD growth with flattish margins (14%), reflects a far stable set of numbers. This implies healthy 18% plus growth in ECD and a handsome 300bps EBIT margin scale up in lighting. Management indicated healthy and consistent market share gain in fans, led by premium fans, and decent momentum in appliances (kitchen, geysers etc.). Lighting is undergoing consolidation (exiting B2G largely) and fixtures led B2C has seen healthy growth for Crompton at par with peers. *Pl click to read detailed Q&A excerpt*.

What is key for Crompton's re-rating; critical variables for investors

Crompton's dominant competitive position in fans has helped it scale well in other categories, especially with compatible distribution and a solid premium brand positioning. Scope for a significant TAM expansion and revenue penetration remains key to Crompton's re-rating. For investors, clarity on capital allocation, organic/inorganic growth strategy will be key given rising competition and higher TAM for peers like Havells/Polycab. We see decent medium-term prospects, however, clarity on long-term growth/return will gain prominence in our view.

Outlook and valuation: Solid on ground track-record; retain BUY

Crompton has been consistent in penetrating across existing segments, which has helped it reduce volatility. How Crompton will leverage its premium brand image going forward, to cover a greater product range, will be key. Maintain **BUY/SO** with a revised TP of INR594 (versus INR570) rolling forward to Q1FY24E earnings.

Financials

Year to March	Q3FY22	Q3FY21	% Change	Q2FY22	% Change
Net Revenue	14,102	13,231	6.6	13,848	1.8
EBITDA	2,016	1,952	3.3	2,141	(5.8)
Adjusted Profit	1,481	1,474	0.5	1,705	(13.1)
Diluted EPS (INR)	2.4	2.4	0.3	2.7	(13.3)

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Financial Statements

Income Statement (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Total operating income	47,500	54,551	61,708	69,514
Gross profit	15,195	17,347	19,870	22,592
Employee costs	3,366	3,738	4,161	4,631
Other expenses	4,782	5,728	6,418	7,229
EBITDA	7,047	7,881	9,292	10,732
Depreciation	297	376	349	368
Less: Interest expense	429	331	380	368
Add: Other income	756	856	996	1,108
Profit before tax	7,077	8,030	9,558	11,104
Prov for tax	1,030	2,021	2,406	2,795
Less: Other adj	0	0	0	0
Reported profit	6,047	6,009	7,152	8,309
Less: Excp.item (net)	0	0	0	0
Adjusted profit	6,047	6,009	7,152	8,309
Diluted shares o/s	627	627	627	627
Adjusted diluted EPS	9.6	9.6	11.4	13.3
DPS (INR)	2.5	5.2	6.2	7.2
Tax rate (%)	14.6	25.2	25.2	25.2

Balance Sheet (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Share capital	1,255	1,255	1,255	1,255
Reserves	17,935	20,699	23,989	27,811
Shareholders funds	19,190	21,954	25,244	29,066
Minority interest	0	0	0	0
Borrowings	2,988	4,293	3,793	3,793
Trade payables	8,353	8,664	9,743	10,927
Other liabs & prov	4,525	4,438	4,354	4,272
Total liabilities	35,056	39,349	43,133	48,058
Net block	1,356	1,105	880	638
Intangible assets	7,794	7,794	7,794	7,794
Capital WIP	109	109	109	109
Total fixed assets	9,259	9,008	8,783	8,540
Non current inv	142	142	142	142
Cash/cash equivalent	5,945	5,901	6,659	7,491
Sundry debtors	4,827	7,174	7,777	8,761
Loans & advances	2,095	3,621	4,888	6,599
Other assets	12,788	13,503	14,883	16,524
Total assets	35,056	39,349	43,133	48,058

Important Ratios (%)

Year to March	FY21A	FY22E	FY23E	FY24E
COGS (% of rev)	68.0	68.2	67.8	67.5
Employee cost (% of rev)	7.1	6.9	6.7	6.7
A&P (% of rev)	0.6	1.1	1.1	1.1
EBITDA margin (%)	14.8	14.4	15.1	15.4
Net profit margin (%)	12.7	11.0	11.6	12.0
Revenue growth (% YoY)	5.3	14.8	13.1	12.7
EBITDA growth (% YoY)	18.1	11.8	17.9	15.5
Adj. profit growth (%)	22.2	(0.6)	19.0	16.2

Free Cash Flow (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Reported profit	6,047	6,009	7,152	8,309
Add: Depreciation	297	376	349	368
Interest (net of tax)	367	248	284	275
Others	567	1,248	1,506	1,780
Less: Changes in WC	1,397	(3,364)	(1,256)	(2,233)
Operating cash flow	8,149	2,496	5,630	5,704
Less: Capex	(198)	(125)	(125)	(125)
Free cash flow	7,952	2,371	5,505	5,579

Assumptions (%)

Year to March	FY21A	FY22E	FY23E	FY24E
GDP (YoY %)	(6.0)	7.0	6.0	7.0
Repo rate (%)	3.5	3.5	4.0	5.3
USD/INR (average)	75.0	73.0	72.0	71.0
Ind. Growth (%)-Fans	(3.0)	10.5	7.0	7.0
Ind. Growth (%)-Lighting	(7.0)	14.0	10.0	10.0
Ind. Growth (%)-Pumps	(4.0)	10.0	8.0	7.0
Ind. Grwth(%)-Appliance	0	13.0	10.0	10.0
CRG Growth (%)-Fans	11.6	8.0	9.9	10.8
CRG Growth(%)-Lighting	(5.9)	25.2	17.0	16.6

Key Ratios

Year to March	FY21A	FY22E	FY23E	FY24E
RoE (%)	35.7	29.2	30.3	30.6
RoCE (%)	37.2	34.5	36.0	37.1
Inventory days	55	49	44	44
Receivable days	36	40	44	43
Payable days	83	83	80	80
Working cap (% sales)	13.2	19.5	20.9	23.2
Gross debt/equity (x)	0.2	0.2	0.2	0.1
Net debt/equity (x)	(0.2)	(0.1)	(0.1)	(0.1)
Interest coverage (x)	15.7	22.7	23.5	28.2

Valuation Metrics

Year to March	FY21A	FY22E	FY23E	FY24E
Diluted P/E (x)	43.0	43.3	36.4	31.3
Price/BV (x)	13.5	11.8	10.3	8.9
EV/EBITDA (x)	36.6	32.9	27.7	23.9
Dividend yield (%)	0.6	1.2	1.5	1.7

Source: Company and Edelweiss estimates

Valuation Drivers

Year to March	FY21A	FY22E	FY23E	FY24E
EPS growth (%)	22.2	(0.6)	19.0	16.2
RoE (%)	35.7	29.2	30.3	30.6
EBITDA growth (%)	18.1	11.8	17.9	15.5
Payout ratio (%)	25.9	54.0	54.0	54.0

Q3FY22 conference call – Key highlights

Opening remarks

- Fans and appliances grew well during the quarter while Pumps was subdued. ECD 11% growth (ex of pumps).
- Premium and decorative fans contributed majorly to the growth. Super premium fans grew by 30% YoY.
- Gained 2.3% market share in fans. November share was at its highest level ever.
- Market share in Geysers up 0.7%.
- Consistently built fans distribution and further improved when compared to competition.
- Commodity cost inflation has been impacting margins but initiatives like price hikes, cost savings program as well as premiumisation helped to maintain margins. Saved INR460mn through 'Unnati' – the cost saving program. Margins to be sustainable.
- Working capital improved by INR500mn during the quarter due to reduction on back of production/inventory rationalization.
- Key go to market initiatives are helping the business grow. Made continuous effort to increase the retail points where our products are available. Continue to tap the rural market which grew exponentially (on a low base). Rural sales now contribute 4.8% to overall sales (up 320bps YoY).
- Opened a new R&D center in Mumbai with a workforce of 100 employees to focus on innovation.
- Ad-spends during the quarter at INR290mn.
- Witnessed marginal softening/stabilization in commodity cost but need to see how this plays out going ahead.
- Have seen some slowdown in demand owing to omicron fears however with the number of cases coming down, we are optimistic that demand will come back as markets open up again.

Question and answer

Q. How do you see volume growth shaping up in the next few quarters?

A. Growth over the previous quarters is largely value led. As this January wave passes, normal demand scenario should be back. The overall ECD growth reflects the subdued growth in the pumps industry.

Q. In an inflationary environment, how do you see the trade-off between margins and revenue growth?

A. In the current quarter the Fans business gained market share while maintaining margins. Margins lost are difficult to get back and thus the focus is to maintain margins for any segment. Focus is to improve market share as well as the margin profile.

Q. What are the reasons for the lag in growth compared to peers in the lighting segment?

A. EESL government tender business has almost become 0 which is the major drag on the overall lighting segment. The focus is on the non-government tender business and going forward and expect significant growth. Conventional lighting business down to 11-12% of the B2C lighting business.

Q. Are you seeing any impact of cannibalization in the pumps business?

A. Pumps have been slowing since the past few quarters. All pumps players have witnessed the same scenario. The opportunity remains large and are confident of capturing the growth opportunity in the segment.

Q. What would be the price hike taken in the last 12 months and in Q3?

A. 4-5 rounds of price hikes have been taken in the calendar year 2021 of around 17-18%. Further price hikes depend on how the commodity cost inflation plays out.

Q. How is the inventory levels in the channel right now?

A. Compared to last year the inventory levels are higher.

Q. Segment wise market share?

A. Fans – 27%, Water heaters – 11%, Lighting – 10%.

Q. What are the plans for cash utilization?

A. Continue to look at opportunities for capex or any other inorganic growth opportunities.

Q. How do you see the appliances growth shaping up and any specific category to witness better growth?

A. Key focus is the small domestic appliances and see significant growth opportunities. Have started investing in advertising for the same as well. Target market share in geysers of 20%.

Q. Any plans to enter new categories?

A. Have a definite plan to enter in to new category but cannot give any more details. The timelines are broadly intact.

Q. Any reason for the weak margins for the lighting segment and when do you expect margins to be back to mid teen levels?

A. The reason for the lower margins are the increased investment in advertising, while the gross margins have largely been maintained. 10-11% margins are sustainable. Focus has been made on ceiling lights. Advertising is crucial for the growth within the segment.

Q. Would the ad-spends be largely maintained?

A. Ad-spends may go up but would be around the 3% mark.

Q. How has the reach improved? What is the feedback across different product categories?

A. Special program was put in place to increase market share in North. From 2nd/3rd position, we are now the leaders in that zone. Today the reach for Crompton fans is the highest. On product feedback, the continuous improvement in market share especially categories like water heaters shows the feedback. For the small appliances category, a similar trajectory is expected.

Q. What are the initiatives that the company is working on to reduce confusion among the trade for another brand with a similar name?

A. There is bound to be some bit of confusion and have taken multiple steps. Have put in multiple actions inside the store as well as outside the store. These initiatives will also help to strengthen the overall brand positioning.

Q. What is difference in the market share between premium fans and the economy category?

A. Premium fans market share at 35% (number 2 player).

Q. What are the initiatives being taken to offset de-growth from the underperforming categories?

A. Coming towards the end of the drag as these segments would have bottomed out in the next few quarters. Plans are to enter in to new categories.

Q. Are there any specific focus categories in the small appliances basket?

A. Mixers and grinders are the key to win the small appliance category.

Q. Will the increased advertising spends for the lighting segment lead to higher growth?

A. Yes we expect higher growth due to the increased ad-spends but the ad-spends spends are also for a longer-term investment in the brand.

Exhibit 1: Q3 – Electrical consumer durables comparison across peers

Revenue	Q3FY22	Q3FY21	YoY %	Q2FY22	QoQ %	Growth over 3Y avg. %
Crompton	10,993	10,359	6.1	10,964	0.3	30.1
Havells	8,926	7,831	14.0	7,284	22.5	41.1
Polycab	3,404	3,055	11.4	3,429	-0.8	48.3
Orient	4,813	4,605	4.5	4,198	14.7	35.0
EBIT	**Q3FY22**	**Q3FY21**	**YoY %**	**Q2FY22**	**QoQ %**	**Growth over 3Y avg. %**
Crompton	2,130	2,046	4.1	2,300	-7.4	29.5
Havells	1,138	1,405	-19.0	1,264	-10.0	-4.9
Polycab	63	182	-65.5	172	-63.5	-8.8
Orient	534	685	-22.1	516	3.5	15.4
EBIT margin (%)	**Q3FY22**	**Q3FY21**	**Change bps**	**Q2FY22**	**Change bps**	**Change bps over 3Y avg.**
Crompton	19.4	19.8	-37.4	21.0	-159.5	-9.3
Havells	12.7	17.9	-520.0	17.3	-460.4	-616.0
Polycab	1.8	5.9	-410.3	5.0	-317.4	-115.5
Orient	11.1	14.9	-378.6	12.3	-119.4	-187.4

Source: Company, Edelweiss Research (Note: 3Y avg. based on Q3FY19,20,21)

Exhibit 2: 9M – Electrical consumer durables comparison across peers

Revenue	9MFY22	9MFY21	YoY %	Growth over 3Y avg. %
Crompton	30,801	25,641	20.1	22.2
Havells	21,970	16,646	32.0	36.9
Polycab	8,752	6,873	27.3	46.5
Orient	12,252	8,683	41.1	33.1
EBIT	**9MFY22**	**9MFY21**	**YoY %**	**Growth over 3Y avg. %**
Crompton	5,988	5,229	14.5	20.1
Havells	3,075	2,947	4.3	-1.7
Polycab	91	322	-71.6	-55.0
Orient	1,276	1,126	13.3	24.0
EBIT margin (%)	**9MFY22**	**9MFY21**	**Change bps**	**Change bps over 3Y avg.**
Crompton	19.4	20.4	-95.3	-33.9
Havells	14.0	17.7	-370.8	-548.1
Polycab	1.0	4.7	-364.4	-236.0
Orient	10.4	13.0	-255.1	-76.7

Source: Company, Edelweiss Research (Note: 3Y avg. based on Q3FY19,20,21)

Exhibit 3: Quarterly financial snapshot (INR mn)

Year to March	Q3FY22	Q3FY21	% change	Q2FY22	% change	FY21	FY22E	FY23E
Total Revenue	14,102	13,231	6.6	13,848	1.8	47,500	54,551	61,708
Raw Material Cost	9,635	8,956	7.6	9,415	2.3	32,304	37,204	41,838
Employees Cost	941	929	1.3	962	-2.2	3,366	3,738	4,161
Other expenditure	1,510	1,394	8.3	1,330	13.5	4,782	5,728	6,418
EBTIDA	2,016	1,952	3.3	2,141	-5.8	7,047	7,881	9,292
Depreciation	102	69	47.8	101	1.1	297	376	349
EBIT	1,915	1,883	1.7	2,041	-6.2	6,750	7,505	8,942
Interest	67	106	-36.8	80	-16.8	429	331	380
Other income	138	199	-30.8	284	-51.7	756	856	996
Exceptional items	0	0	0.0	0	0.0	0	0	0
PBT	1,986	1,976	0.5	2,245	-11.6	7,077	8,030	9,558
Total Provision for Taxation :	504	502	0.5	540	-6.6	1,030	2,021	2,406
Reported Profit	1,481	1,474	0.5	1,705	-13.1	6,047	6,009	7,152
Adjusted Profit	1,481	1,474	0.5	1,705	-13.1	6,047	6,009	7,152
Equity Capital (FV INR 5)	1,254	1,254		1,254		1,254	1,254	1,254
No. of shares (mn)	627	627		627		627	627	627
Diluted EPS	2.4	2		3		10	10	11
As a % of sales								
RM cost	68.3	67.7		68.0		68.0	68.2	67.8
Employee	6.7	7.0		6.9		7.1	6.9	6.7
Other expenses	10.7	10.5		9.6		10.1	10.5	10.4
EBTIDA margin	14.3	14.8		15.5		14.8	14.4	15.1
Depreciation	0.7	0.5		0.7		0.6	0.7	0.6
EBIT margin	13.6	14.2		14.7		14.2	13.8	14.5
Interest expenses	0.5	0.8		0.6		0.9	0.6	0.6
Other income	1.0	1.5		2.1		1.6	1.6	1.6
Tax rate	25.4	25.4		24.1		14.6	25.2	25.2
Adjusted profit margin	10.5	11.1		12.3		12.7	11.0	11.6
Diluted PE (x)						43.0	43.3	36.4
EV/EBITDA (x)						36.5	32.8	27.7
ROAE (%)						35.7	29.2	30.3

Source: Company, Edelweiss Research

Company Description

Crompton Greaves Consumer Electricals (CRG) was set up in 1878 as REB Crompton to manufacture electrical equipment. It was later merged with F&A Parkinson to form Crompton Parkinson. The latter was bought by the Thapar family in 1947 and was restructured into Crompton Greaves in 1966. In October 2015, the electrical and lighting business was demerged into Crompton Greaves Consumer Electricals. The Thapar family sold its stake to two private equity firms, Advent International and Temasek Holdings, in 2016. Currently, the company has four business segments—fans, lighting, pumps and electrical appliances. CRG is a market leader in fans and residential pumps segments with over 20% and 25% market share respectively.

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.

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.

Additional Data

Management

Chairman	H M Nerurkar
MD	Shantanu Khosla
CEO	Mathew Job
CFO	Sandeep Batra
Auditor	M/s MSKA & Associates

Holdings – Top 10*

	% Holding		% Holding
Macritchie Invs	5.99	Hdfc Life Insur	3.67
Sbi Funds Manag	5.88	Hdfc Asset Mana	3.60
Genesis Asset M	4.96	Amansa Holdings	3.35
Aditya Birla Su	4.78	Dsp Investment	2.89
Aditya Birla Su	4.30	Franklin Resour	2.89

**Latest public data*

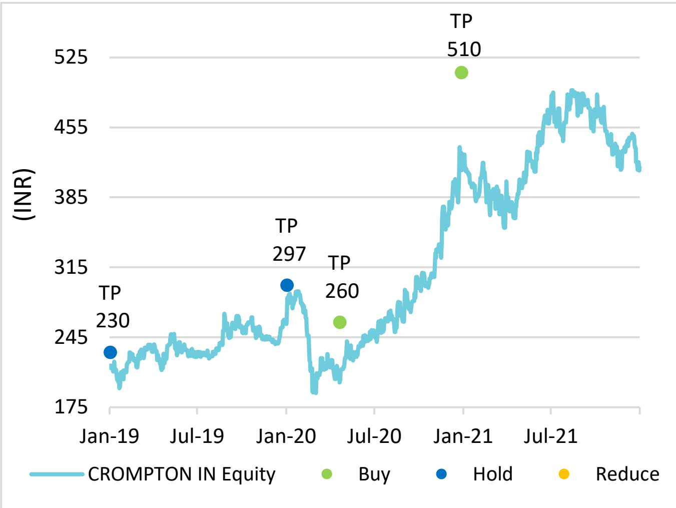
Recent Company Research

Date	Title	Price	Reco
25-Oct-21	Stable operation; TAM addition key; *Result Update*	451	Buy
17-Aug-21	Adding to future growth visibility; *Company Update*	455	Buy
26-Jul-21	Stable operations; growth focus visible; *Result Update*	459	Buy

Recent Sector Research

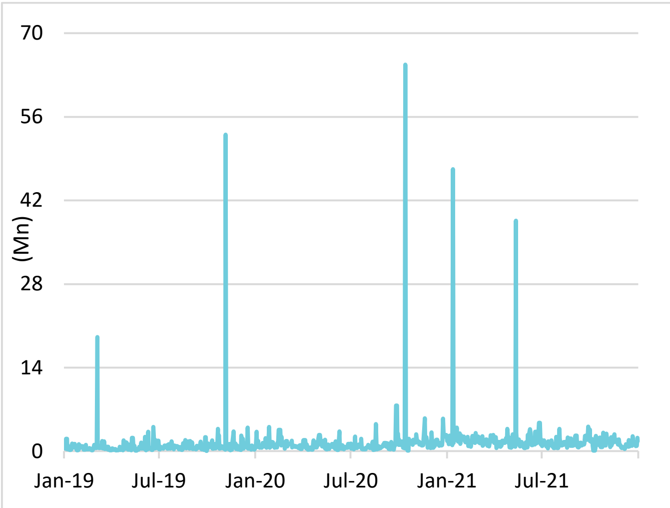
Date	Name of Co./Sector	Title
31-Jan-22	Amber Enterprises	Components lead RACs; execution key; *Result Update*
28-Jan-22	KEI Industries	Meets expectation; cash flow focus key; *Result Update*
28-Jan-22	Dixon	OPM lags growth; returns-scale key; *Result Update*

Rating Interpretation



Source: Bloomberg, Edelweiss research

Daily Volume



Source: Bloomberg

Rating Distribution: Edelweiss Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	189	57	17	264
	>50bn	**>10bn and <50bn**	**<10bn**	**Total**
Market Cap (INR)	236	41	5	282

**1 stocks under review*

Rating Rationale

Rating	Expected absolute returns over 12 months
Buy:	>15%
Hold:	>15% and <-5%
Reduce:	<-5%

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