

Estimate change	
TP change	
Rating change	

Bloomberg	CROMPTON IN
Equity Shares (m)	627
M.Cap.(INRb)/(USDb)	258.3 / 3.7
52-Week Range (INR)	456 / 178
1, 6, 12 Rel. Per (%)	12/37/41
12M Avg Val (INR M)	395

## Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	45.1	46.7	58.7
EBITDA	6.0	7.0	8.6
PAT	4.4	5.2	6.7
EBITDA (%)	13.2	14.9	14.7
EPS (INR)	7.0	8.4	10.6
EPS Gr. (%)	16.9	19.9	27.1
BV/Sh. (INR)	23.4	28.4	34.8

## Ratios

Net D/E	(0.2)	(0.3)	(0.4)
RoE (%)	29.8	29.4	30.5
RoCE (%)	28.9	28.3	31.2
Payout (%)	34.4	40.0	40.0

## Valuations

P/E (x)	59.0	49.2	38.7
P/BV (x)	17.6	14.5	11.8
EV/EBITDA (x)	42.8	36.2	28.8
Div Yield (%)	0.5	0.8	1.0
FCF Yield (%)	1.4	1.8	2.5

## Shareholding pattern (%)

As On	Dec-20	Sep-20	Dec-19
Promoter	17.4	26.2	26.2
DII	37.6	26.1	26.9
FII	34.3	30.3	30.9
Others	10.7	17.4	16.1

FII Includes depository receipts

**CMP: INR412**

**TP: INR485 (+18%)**

**Buy**

## Strong growth momentum in ECD continues

### Lighting segment sustaining double-digit margin

- CROMPTON's topline came in 12% higher than our estimates. The beat was driven by higher revenue growth in the ECD segment, with growth across Fans, Pumps, and Appliances. Margin in the Lighting segment continued to revive and stood at double-digits for the second consecutive quarter, thus indicating sustainability. It gained market share in Fans and Appliances, and continued its volume growth in the B2C Lighting category (+13% YoY).
- The management continues to deliver on our investment thesis ([read here](#)). In spite of commodity headwinds, CROMPTON has been able to maintain gross margin. It has raised prices by 5-8% across categories in Jan'21, which should help mitigate margin risks further.
- Its Balance Sheet has improved further, with a net cash position of INR8.1b (v/s INR7.5b in 1HFY21). Efficient working capital management has led to strong cash conversion, with FCF at INR2.3b in 3QFY21 (v/s INR1.1b in 3QFY20). Incorporating strong 3QFY21 performance, we have increased our FY21E/FY22E/FY23E EPS by 8%/10%/8%. Maintain **Buy** with a higher TP of INR485 per share (40x FY23E EPS).

### Beat across all parameters

- Revenue grew 24% YoY to INR13.2b, 10% ahead of our expectation. EBITDA grew 43% YoY to INR2b, 11% ahead of our expectation. EBITDA margin expanded 200bp YoY to 14.8%. Employee cost jumped 20% YoY to INR929m and constituted 7% (3QFY20: 7.2%) of sales. Adjusted PAT grew 42% to INR1.5b, 12% ahead of our expectation.
- **Segmental snapshot:** **a)** ECD revenue grew strongly (32% YoY) to INR10.4b, 18% ahead of our expectation. PBIT margin came in at 19.8% (flat YoY). **b)** Lighting revenue was flat YoY at INR2.8b. PBIT margin expanded to 11.6%, the second consecutive quarter of double-digit margin. B2C LED lighting business continues to register improved volume growth, with corresponding value growth. Lighting B2B activity remained challenging due to slow order pick up from institutional clients.

### Key highlights from the management commentary

- **Fans:** The segment grew 36% YoY, with premium Fans growing 51% YoY. Super premium Fans continued to gain traction. CROMPTON gained 1% market share on a YTD basis. It has increased its reach in Fans by 3% on a YTD basis. **Pumps** grew 19% YoY (largely volume-led growth), with Residential Pumps growing 22%/25% YoY in volume/value terms.
- **Appliances** grew by 45% YoY. Water heater grew 50% YoY in value terms and is rapidly moving towards a leadership position.
- A 5-8% price increase was undertaken across categories effective 1st Jan'21. Other brands too raised prices from mid Dec'20 till mid Jan'21.
- LED Lighting witnessed volume/value growth of ~13% each. The LED B2C business has helped maintain double-digit margin.

- CROMPTON continues to invest in business as suggested by normalized advertising spends in 3QFY21 (1.9% of sales v/s 2% last year). Employee cost rose 20% YoY as it offered increments to all employees effective 1 Oct'20.

### Valuation and view

CROMPTON has further consolidated its position in Fans and Pumps, and has become the number two player in the Water Heaters segment. Though there is some element of pre-buying in 3QFY21, we expect retail sales to gradually pick up. With price hikes in place, we expect double-digit revenue growth to sustain. Note that two-year revenue CAGR stood at 13.3% in 3QFY21 v/s 12% for HAVL. While unorganized and weaker brands would see some restoration of supply-side issues, it will be tough for them to bridge the gap with leading brands. We have increased our FY21E/FY22E/FY23E estimates by 8%/10%/8% and TP to INR485/share (Prior: INR430), based on unchanged target PER of 40x FY23E EPS.

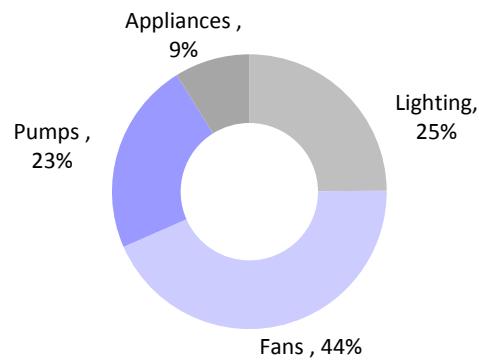
Quarterly estimates										(INR m)		
Y/E March	FY20				FY21				FY20	FY21E	v/s 3QFY21E estimate	Variance (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
<b>Sales</b>	<b>13,468</b>	<b>10,758</b>	<b>10,713</b>	<b>10,181</b>	<b>7,132</b>	<b>11,984</b>	<b>13,231</b>	<b>14,353</b>	<b>45,120</b>	<b>46,700</b>	<b>12,000</b>	<b>10.3%</b>
Change (%)	11.9	3.7	4.0	-15.6	-47.0	11.4	23.5	41.0	0.7	3.5	12.0	
<b>EBITDA</b>	<b>1,919</b>	<b>1,295</b>	<b>1,369</b>	<b>1,384</b>	<b>988</b>	<b>1,859</b>	<b>1,952</b>	<b>2,179</b>	<b>5,969</b>	<b>6,978</b>	<b>1,760</b>	<b>10.9%</b>
Change (%)	14.7	4.5	8.6	-17.9	-48.5	43.5	42.6	57.4	1.9	16.9	28.6	
As a percentage of sales	14.2	12.0	12.8	13.6	13.9	15.5	14.8	15.2	13.2	14.9	14.7	
Depreciation	58	64	64	82	80	77	69	74	268	299	80	
Interest	150	87	87	83	108	111	106	95	407	420	100	
Other income	173	122	174	119	188	167	199	197	589	750	175	
<b>PBT</b>	<b>1,885</b>	<b>1,267</b>	<b>1,391</b>	<b>1,339</b>	<b>988</b>	<b>1,837</b>	<b>1,976</b>	<b>2,208</b>	<b>5,883</b>	<b>7,009</b>	<b>1,755</b>	<b>12.6%</b>
Tax	660	154	355	341	251	467	502	545	1,510	1,764	442	
Effective tax rate (%)	35.0	12.1	25.5	25.5	25.4	25.4	25.4	24.7	25.7	25.2	25.2	
<b>Adjusted PAT</b>	<b>1,224</b>	<b>1,113</b>	<b>1,036</b>	<b>998</b>	<b>737</b>	<b>1,371</b>	<b>1,475</b>	<b>1,663</b>	<b>4,373</b>	<b>5,245</b>	<b>1,313</b>	<b>12.3%</b>
Change (%)	17.4	44.7	30.1	(11.8)	(39.8)	23.2	42.3	66.6	16.9	19.9	26.7	
Extra-ordinary income (net)	0	-	574	-	0	-	0	-	574	-	0	
<b>Reported PAT</b>	<b>1,224</b>	<b>1,113</b>	<b>1,610</b>	<b>998</b>	<b>737</b>	<b>1,371</b>	<b>1,475</b>	<b>1,663</b>	<b>4,947</b>	<b>5,245</b>	<b>1,313</b>	<b>12.3%</b>
Change (%)	17.4	44.7	102.1	(29.5)	(39.8)	23.2	(8.4)	66.6	22.9	6.0	(18.4)	

### Segmental sales (INR m)

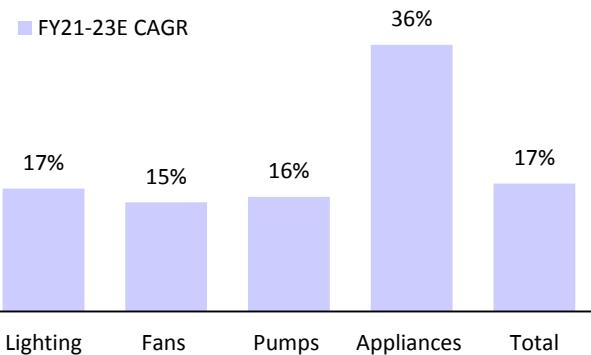
Y/E March	FY20				FY21				
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE	
Lighting	2,739	2,877	2,843	2,770	1,166	2,667	2,872	3,494	
Electrical Consumer Durables	10,729	7,881	7,870	7,411	5,965	9,317	10,359	10,859	
<b>Total sales</b>	<b>13,468</b>	<b>10,758</b>	<b>10,713</b>	<b>10,181</b>	<b>7,132</b>	<b>11,984</b>	<b>13,231</b>	<b>14,353</b>	
<b>YoY growth (%)</b>	(1.8)	(11.5)	(10.8)	(19.1)	(57.4)	(7.3)	1.0	26.2	
Lighting	16.0	10.6	10.6	(14.3)	(44.4)	18.2	31.6	46.5	
<b>EBIT</b>									
Lighting	141	151	196	193	55	276	334	386	
Electrical Consumer Durables	2,173	1,514	1,561	1,482	1,223	1,960	2,046	2,181	
<b>EBIT margin (%)</b>	5.1	5.2	6.9	7.0	4.7	10.4	11.6	11.0	
Lighting	20.3	19.2	19.8	20.0	20.5	21.0	19.8	20.1	

## Story in charts

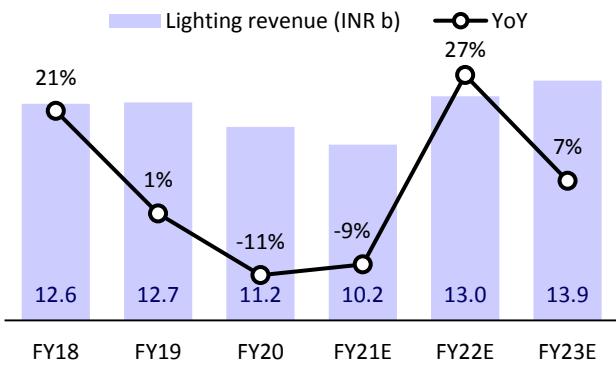
### Exhibit 1: FY20 revenue break-up



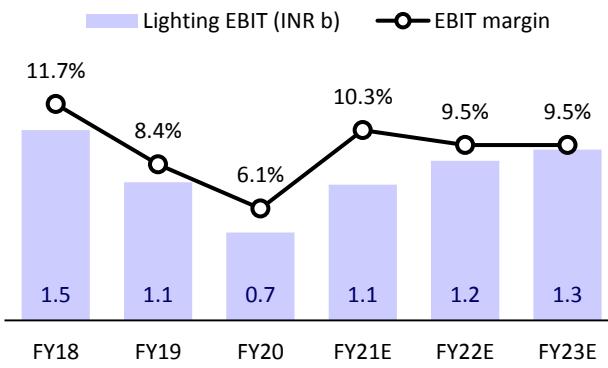
### Exhibit 2: FY21-23E CAGR estimates by category



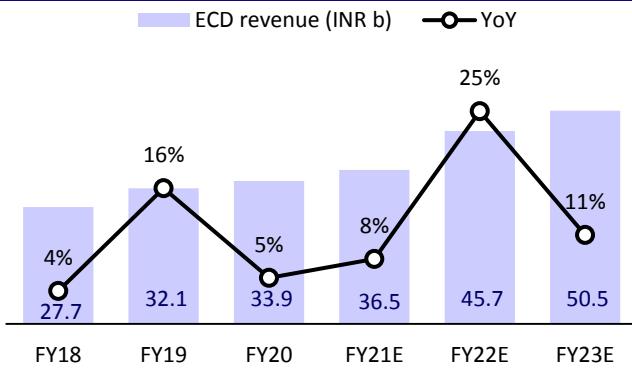
### Exhibit 3: Expect ~17% Lighting revenue CAGR over FY21-23E



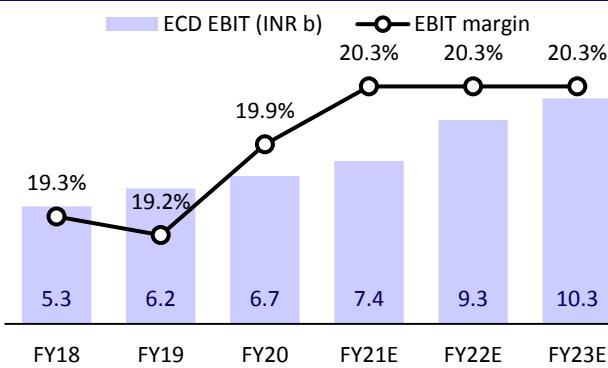
### Exhibit 4: Expect Lighting margin to normalize from FY21

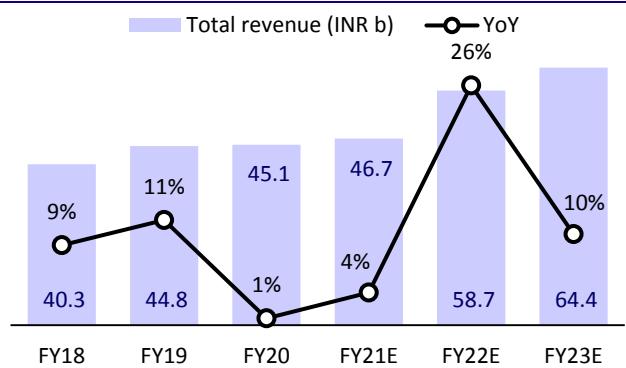


### Exhibit 5: Expect ~18% ECD revenue CAGR over FY21-23E driven by Appliances

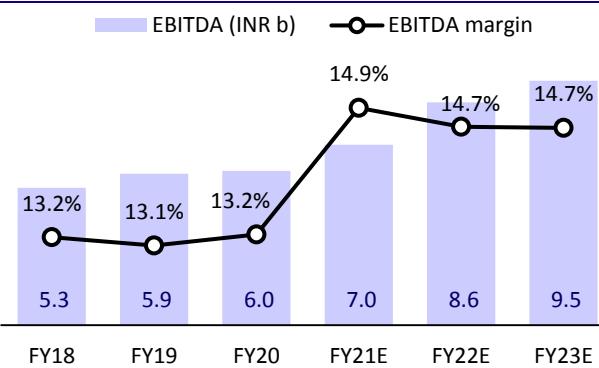


### Exhibit 6: ECD margin to remain stable over FY21-23E owing to market leading position across categories

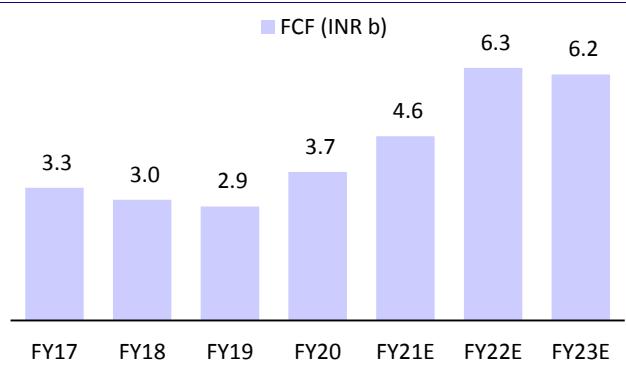


**Exhibit 7: Expect ~17% revenue CAGR over FY21-23E**

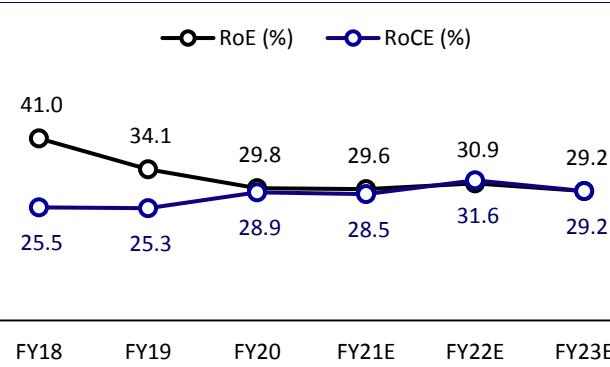
Source: MOFSL, Company

**Exhibit 8: Expect EBITDA margin ~14.7% in FY22E/FY23E**

Source: MOFSL, Company

**Exhibit 9: Strong FCF generation over FY21-23E**

Source: MOFSL, Company

**Exhibit 10: Return ratios to remain healthy**

Source: MOFSL, Company

**Exhibit 11: Increase our FY21E/FY22E/FY23E EPS by 8%/10%/8% owing to strong performance in 3QFY21**

Earnings change	Old			New			Change			
	INR m	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue		44,000	53,000	59,010	46,700	58,700	64,425	6%	11%	9%
EBITDA		6,508	7,811	8,745	6,978	8,621	9,452	7%	10%	8%
EBITDA margin		14.8%	14.7%	14.8%	14.9%	14.7%	14.7%	0.2%	-0.1%	-0.1%
Adjusted PAT		4,856	6,044	7,030	5,245	6,665	7,575	8%	10%	8%

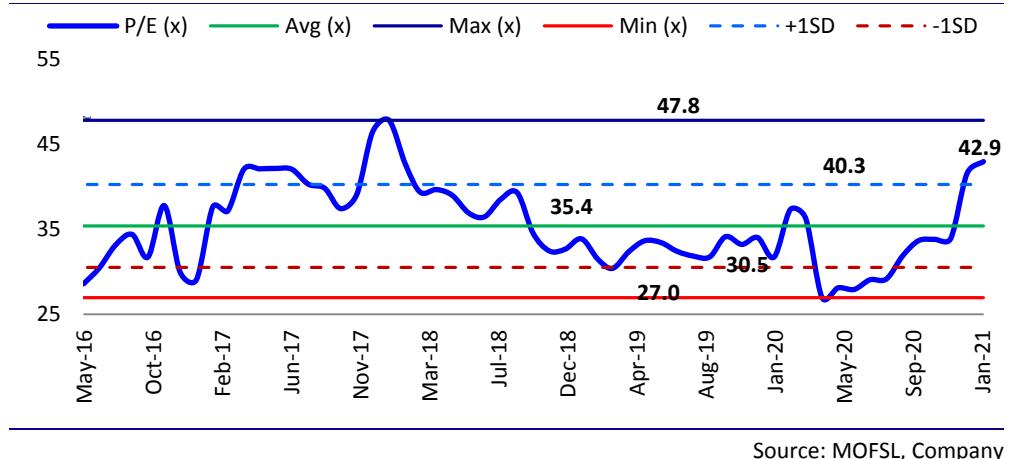
Source: MOFSL, Company

**Valuation and view**

- Largest player in Fans and Residential Pumps market:** CROMPTON is the leader in Fans and Residential Pumps with a market share of 27% and 28%, respectively. In Lighting, it commands 8% market share (third highest). It has also revamped its small appliances portfolio, with new product launches in Water Heaters and Air Coolers.
- Rising premiumization in existing portfolio:** The new management has continuously focused on increasing sales of premium products within its existing product portfolio. Share of premium Fans (as a percentage of total Fans revenue) has increased to ~30% in FY20. CROMPTON intends to maintain its leadership in the Fans segment while increasing sales of premium Fans.
- Strong free cash flow generation:** With moderate capex and strong operating performance, CROMPTON has been able to generate healthy free cash flow of over INR12.9b over FY17-20 v/s adjusted. PAT of INR14.2b, indicating an FCF-to-PAT conversion ratio of 0.9x.

- **Robust return ratios:** With strong profitability and an asset-light business model, return ratios are healthy (RoE/RoCE of 30%/29% in FY20).
- **Valuation and view:** We estimate adjusted EPS CAGR (FY21-23E) of ~20% on the back of ~17% revenue CAGR. CROMPTON's strong FCF generation is under appreciated at current valuations. Owing to sustained beat on profitability and margin in 3QFY21, we have increased our FY21E/FY22E/FY23E estimates by 8%/10%/8% and TP to INR485/share (Prior: INR430), based on unchanged target PER of 40x FY23E EPS.

Exhibit 12: CROMPTON is trading above its long term average P/E



Source: MOFSL, Company

## Highlights from the management commentary

### Business update

- Increments have been with effect from Oct'20.
- All factories are up and running, capacity utilization is now higher than FY20.
- Tally patch now tracks 76% of total business/secondary sales.
- CROMPTON witnessed growth in all months of 3QFY21, with monthly sales growth in excess of 20%.
- B2B business continues to face challenges. Slow government ordering has continued in 3QFY21.
- It saved INR400m via cost saving programs in 3QFY21.
- Secondary sales have largely been in line. Hence, any effects of Dec'20 end stocking of inventory are not appreciable.

### Electrical Consumer Durables:

- **Fans** grew 36% YoY, with premium Fans growing 51% YoY. Super premium Fans continued to gain traction. CROMPTON gained 1% market share on a YTD basis. It has increased its reach in Fans by 3% on a YTD basis.
- **Pumps** grew 19% YoY (largely volume-led growth), with Residential Pumps growing 22%/25% YoY in volume/value terms.
- **Appliances** grew by 45% YoY. Water grew 50% YoY in value terms and is rapidly moving towards a leadership position. It sold 1.25 lakh Water Heaters in 3QFY21. The Appliances business has exceeded pre-COVID growth levels.

**Lighting:**

- Volume growth has been in the mid-teens for the last one year. Price erosion has moderated to a large extent. In fact, a price increase of ~5% was announced by all brands in Jan'21.
- The management believes that the rural program would offer a strong traction in B2C Lighting going forward.
- LED Lighting witnessed volume/value growth of 13% each.
- Conventional Lighting still constitutes 15% of the Lighting business. LED B2C business has helped maintain double-digit margin.

**Margin and impact of commodity price inflation**

- A 5-8% price increase was undertaken across categories effective 1<sup>st</sup> Jan'21.
- Other brands too raised prices from mid Dec'20 till mid Jan'21.
- For CROMPTON, pricing, mix, and cost control are the three levers, which would be used to maintain margin.
- Around 95-97% of topline growth would be volume led.

**Rural program**

- Around 300 out of 400 towns are covered in Phase I (population of less than 0.1m). In Phase II, 2,000 towns have been targeted with a population of 20,000–50,000. CROMPTON has built capabilities throughout the COVID-19 pandemic to build infrastructure and deepen its reach.
- With a strong focus on the new channel, rural sales have doubled YoY.

**Supply chain**

- Capacity utilization is up by 30-40% as compared to last year.
- Insourcing v/s outsourcing is consequence of service, quality, propriety knowledge, and cost.
- Total import currently would be less than 5% of turnover (INR2b or less).

**Market share gains**

- Based on publicly released data, CROMPTON has gained the most market share in the last one year (v/s other brands).
- While market growth fell in 1Q and 2QFY21, the latest data up to Nov'20 shows market consumption in Fans has grown by 9% in Oct-Nov'20 from ~5% earlier.
- To maintain market share gains, the management intends to continue launching innovative products, focus on the GTM strategy, and adopt a prudent cost structure. Till the time CROMPTON continues doing all these three things, performance is expected to be in line.
- Many smaller companies had its supply chain restored by Nov-Dec'20, but failed to reclaim their lost market share.

## Financials and valuations

Income Statement						(INR m)
Y/E March	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>Total Revenue</b>	<b>40,254</b>	<b>44,789</b>	<b>45,120</b>	<b>46,700</b>	<b>58,700</b>	<b>64,425</b>
Change (%)	8.6	11.3	0.7	3.5	25.7	9.8
<b>EBITDA</b>	<b>5,310</b>	<b>5,858</b>	<b>5,969</b>	<b>6,978</b>	<b>8,621</b>	<b>9,452</b>
% of Total Revenue	13.2	13.1	13.2	14.9	14.7	14.7
Depreciation	126	129	268	299	314	329
Other Income	308	483	589	750	800	1,000
Interest	637	596	407	420	200	0
<b>PBT</b>	<b>4,854</b>	<b>5,616</b>	<b>5,883</b>	<b>7,009</b>	<b>8,907</b>	<b>10,123</b>
Tax	1,617	1,875	1,510	1,764	2,242	2,548
Rate (%)	33.3	33.4	25.7	25.2	25.2	25.2
<b>Adjusted PAT</b>	<b>3,238</b>	<b>3,741</b>	<b>4,373</b>	<b>5,245</b>	<b>6,665</b>	<b>7,575</b>
Extra-ordinary Income	0	285	574	0	0	0
<b>Reported PAT</b>	<b>3,238</b>	<b>4,025</b>	<b>4,947</b>	<b>5,245</b>	<b>6,665</b>	<b>7,575</b>
Change (%)	14.3	24.3	22.9	6.0	27.1	13.7

Balance Sheet						(INR m)
Y/E March	FY18	FY19	FY20	FY21E	FY22E	FY23E
Share Capital	1,254	1,254	1,255	1,255	1,255	1,255
Reserves	6,641	9,731	13,423	16,570	20,570	25,115
<b>Net Worth</b>	<b>7,895</b>	<b>10,985</b>	<b>14,678</b>	<b>17,825</b>	<b>21,824</b>	<b>26,369</b>
Loans	6,486	6,493	3,497	1,797	0	0
<b>Capital Employed</b>	<b>14,381</b>	<b>17,477</b>	<b>18,175</b>	<b>19,622</b>	<b>21,824</b>	<b>26,369</b>
Gross Fixed Assets	8,849	8,991	9,705	10,205	10,705	11,205
Less: Depreciation	234	359	616	914	1,228	1,557
<b>Net Fixed Assets</b>	<b>8,616</b>	<b>8,632</b>	<b>9,090</b>	<b>9,291</b>	<b>9,477</b>	<b>9,649</b>
Capital WIP	6	10	199	199	199	199
Investments	0	142	142	142	142	142
<b>Curr. Assets</b>	<b>15,628</b>	<b>17,915</b>	<b>18,010</b>	<b>19,580</b>	<b>24,060</b>	<b>29,609</b>
Inventory	3,032	3,524	4,636	4,798	4,825	5,295
Debtors	5,536	5,660	4,587	4,748	5,968	6,550
Cash and Bank Balance	5,450	6,724	5,866	7,011	9,468	13,595
Other Assets	1,610	2,007	2,920	3,022	3,799	4,170
<b>Current Liab. and Prov.</b>	<b>9,869</b>	<b>9,221</b>	<b>9,265</b>	<b>9,590</b>	<b>12,054</b>	<b>13,229</b>
Current Liabilities	8,719	7,530	7,426	7,687	9,662	10,604
Provisions	1,150	1,691	1,839	1,903	2,392	2,626
<b>Net Current Assets</b>	<b>5,759</b>	<b>8,694</b>	<b>8,745</b>	<b>9,990</b>	<b>12,006</b>	<b>16,380</b>
<b>Application of Funds</b>	<b>14,381</b>	<b>17,477</b>	<b>18,175</b>	<b>19,622</b>	<b>21,824</b>	<b>26,369</b>

## Financials and valuations

### Ratios

Y/E March	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>Basic (INR)</b>						
<b>Adj. EPS</b>	<b>5.2</b>	<b>6.0</b>	<b>7.0</b>	<b>8.4</b>	<b>10.6</b>	<b>12.1</b>
Cash EPS	5.4	6.2	7.4	8.8	11.1	12.6
Book Value	12.6	17.5	23.4	28.4	34.8	42.0
DPS	1.5	1.7	2.0	3.3	4.3	4.8
Payout (incl. Div. Tax.)	34.9	35.1	34.4	40.0	40.0	40.0
<b>Valuation (x)</b>						
P/E	79.6	68.9	59.0	49.2	38.7	34.0
Cash P/E	76.6	66.6	55.6	46.5	36.9	32.6
EV/EBITDA	48.7	44.0	42.8	36.2	28.8	25.8
EV/Sales	6.4	5.7	5.7	5.4	4.2	3.8
Price/Book Value	32.6	23.5	17.6	14.5	11.8	9.8
Dividend Yield (%)	0.4	0.4	0.5	0.8	1.0	1.2
<b>Profitability Ratios (%)</b>						
RoE	41.0	34.1	29.8	29.4	30.5	28.7
RoCE	25.5	25.3	28.9	28.3	31.2	28.7
RoIC	38.7	36.0	34.8	40.1	50.9	54.0
<b>Turnover Ratios</b>						
Debtors (Days)	50	46	37	37	37	37
Inventory (Days)	27	29	38	38	30	30
Creditors (Days)	69	54	52	52	52	52
Asset Turnover (x)	2.8	2.6	2.5	2.4	2.7	2.4
<b>Leverage Ratio</b>						
Net Debt/Equity (x)	0.1	0.0	-0.2	-0.3	-0.4	-0.5

### Cash Flow Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>PBT before EO Items</b>						
<b>5,423</b>	<b>5,788</b>	<b>5,817</b>	<b>7,009</b>	<b>8,907</b>	<b>10,123</b>	
Depreciation	126	129	268	299	314	329
Interest and other	350	293	173	-330	-600	-1,000
Direct Taxes Paid	-1,812	-1,994	-1,445	-1,764	-2,242	-2,548
(Inc.)/Dec. in WC	-933	-1,202	-602	-101	441	-247
<b>CF from Operations</b>	<b>3,154</b>	<b>3,014</b>	<b>4,211</b>	<b>5,113</b>	<b>6,820</b>	<b>6,656</b>
(Inc.)/Dec. in FA	-133	-160	-494	-500	-500	-500
<b>Free Cash Flow</b>	<b>3,021</b>	<b>2,855</b>	<b>3,717</b>	<b>4,613</b>	<b>6,320</b>	<b>6,156</b>
Investment and Others	-188	-1,343	-18	750	800	1,000
<b>CF from Investments</b>	<b>-322</b>	<b>-1,503</b>	<b>-512</b>	<b>250</b>	<b>300</b>	<b>500</b>
(Inc.)/Dec. in Debt	0	0	-3,088	-1,700	-1,797	0
Interest Paid	-634	-587	-586	-420	-200	0
Dividend Paid	-1,129	-1,312	-1,506	-2,098	-2,666	-3,030
Others	486	1,624	572	0	0	0
<b>CF from Fin. Activity</b>	<b>-1,269</b>	<b>-237</b>	<b>-4,556</b>	<b>-4,218</b>	<b>-4,663</b>	<b>-3,030</b>
<b>Inc./Dec. of Cash</b>	<b>1,564</b>	<b>1,274</b>	<b>-857</b>	<b>1,145</b>	<b>2,457</b>	<b>4,126</b>
Add: Opening Balance	3,886	5,450	6,724	5,866	7,011	9,468
<b>Closing Balance</b>	<b>5,450</b>	<b>6,724</b>	<b>5,866</b>	<b>7,011</b>	<b>9,468</b>	<b>13,595</b>

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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