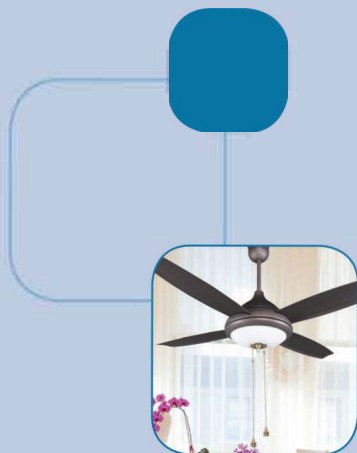
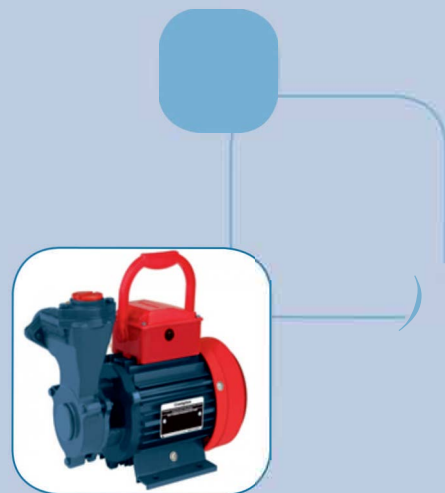


Crompton Greaves Consumer Electricals



Scores well on many counts



**Leadership in
key segments**

Strong return ratios

**Initiate with BUY;
TP of INR 275**

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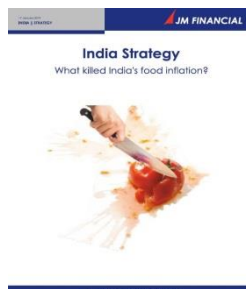
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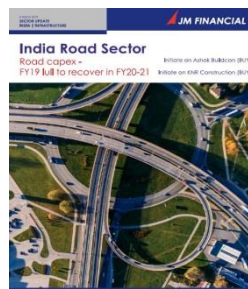
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Crompton Greaves Consumer Electricals

Scores well on many counts

We initiate coverage on Crompton Greaves Consumer (Crompton) with a Mar'20 TP of INR 275 32x FY21E (20% discount to Havells) and a potential upside of 19%. Contrary to popular perception, we believe Crompton has had a great track record in the past and is likely to deliver steady growth in future. It continues to work judiciously on a) innovative products and premiumisation in existing categories (anti-dust Fans, Air 360, Mini Crest pumps, Anti-bacterial LED bulb), b) revival / new launches of categories (water heaters, air cooler), c) brand building (A&P spend stepped up to 2.6% of revenues in FY17; 1.0% in FY17) and d) distribution (go to market- expected to cover 70-75% of target regions over next 18 months). While we appreciate product concentration risks, we believe Crompton is attractively priced given its excellent return profile, cash flow conversion and stronger bottom-line growth (lower ESOP / consultant fees and incremental supplier discounting). Key risks include slower than expected macro recovery.

Valuations attractive; Initiate Coverage with BUY and TP of INR 275: We value Crompton at 32x FY21EPS to arrive at Mar'20TP of INR 275, 19% potential upside. Slower than expected macro recovery and market disruption (e.g. EESL) are key risks to our call.

On a strong footing: We believe Crompton has a strong brand and distribution network, which is reflected in the fact that it has maintained market leadership in the fans category and reported revenue / EBIT CAGR of 14%/18% respectively in FY08-18, one of the best in industry (see Exhibit 1), despite the lack of focus by erstwhile Crompton Greaves. Under its new leadership Crompton has undertaken several initiatives to maintain and strengthen the platform including a) launch of innovative products in each of its existing categories (premium fans, anti-bacterial LED bulbs, Mini Crest water pumps), b) revival of categories (e.g. water heaters), c) introduction of new products (air coolers), and possibly switches and kitchen appliances in future, d) step-up branding initiatives, and e) Go to market (GTM) strategy to improve efficiency in distribution / sourcing / inventory management.

Concerns over product concentration factored in: While we appreciate product concentration risks for Crompton (fans-mature product category; lighting-price disruption and intensifying competition), we believe the current valuation adequately factors in the same (trades at 27.1x FY21EPS vs average PE of 38x). Moreover, there is an upside surprise possible with the launch of new products (e.g. switches). An ESOP incentive structure for the top management will ensure achievement of the company's stated targets of higher-than-market growth and portfolio diversification.

Scores well on return ratio / cash flow / balance sheet front: We estimate Crompton to report Revenue / EBITDA / PAT CAGR of 12%/13%/19% respectively in FY19-21E, almost similar to industry average but with one the best return profile (ROCEs > 45%), free cash flow generation (> 90% of OCF) and balance sheet.

Recommendation and Price Target		Financial Summary					(INR mn)
		Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E
Current Reco	BUY	Net Sales	39,009	40,797	45,065	50,273	56,555
Current Price Target (12M)	275	Sales Growth (%)	0.0	4.6	10.5	11.6	12.5
Upside/Downside	19.3%	EBITDA	5,372	5,868	6,300	7,127	8,044
		EBITDA Margin (%)	13.8	14.4	14.0	14.2	14.2
		Adjusted Net Profit	3,200	3,610	4,003	4,673	5,420
		Diluted EPS (INR)	5.1	5.8	6.3	7.4	8.5
		Diluted EPS Growth (%)	0.0	12.8	9.9	16.5	15.7
		ROIC (%)	45.2	45.9	44.1	46.6	48.9
		ROE (%)	61.8	55.2	43.6	40.8	39.6
		P/E (x)	45.2	40.1	36.5	31.3	27.1
		P/B (x)	28.0	18.3	14.0	11.7	9.8
		EV/EBITDA (x)	28.3	25.7	23.6	20.9	18.3
		Dividend Yield (%)	0.0	0.8	1.1	1.5	1.7

Source: Company data, JM Financial. Note: Valuations as of 1/Apr/2019

Price Performance			
%	1M	6M	12M
Absolute	9.9	5.0	-2.6
Relative*	2.0	-1.3	-17.4

*To the BSE Senses

JM Financial Research is also available on: Bloomberg - JMFR <GO>, Thomson Publisher & Reuters, S&P Capital IQ, FactSet and Visible Alpha.

You can also access our portal: www.jmflresearch.com

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

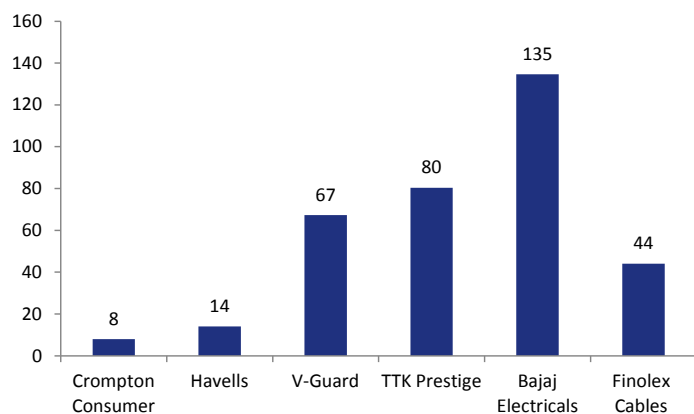
Key Focus charts

Exhibit 1. Comparison with peers

INR Bn	FY08	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E	Incremental FY08-18	FY08-18	FY13-18	FY19- 21E
Revenue														
Crompton (ECD +Lighting)	11.2	25.9	29.0	32.3	35.9	39.0	40.8	45.1	50.3	56.6	29.6	14%	9%	12%
Havells (ECD + Lighting)	5.2	14.5	15.7	17.7	19.2	23.5	27.2	33.9	40.1	47.8	21.9	18%	13%	19%
V-Guard (Total)	2.8	13.6	15.2	17.5	18.1	20.9	23.1	25.6	29.4	33.7	20.3	24%	11%	15%
Orient (ECD+Lighting)	2.9	9.1	11.4	11.9	13.0	13.6	16.3	NA	NA	NA	13.4	19%	12%	NA
Havells (ex-Lloyd)	20.7	42.2	47.2	52.4	53.8	44.5	67.2	83.6	96.4	111.3	46.6	13%	10%	15%
Havells (Total)	20.7	42.2	47.2	52.4	53.8	61.4	81.4	103.2	118.4	135.9	60.7	15%	14%	15%
EBIT														
Crompton (ECD +Lighting)	1.1	2.5	3.1	3.8	3.6	5.3	5.7	6.2	7.0	7.9	4.6	18%	18%	13%
Havells (ECD + Lighting)	0.4	2.1	2.5	2.5	2.4	2.8	3.7	4.7	5.8	7.1	3.3	25%	12%	23%
V-Guard (Total)	0.3	1.0	1.1	1.2	1.6	1.9	2.1	1.9	2.5	3.0	1.8	23%	16%	25%
Orient (ECD+Lighting)	0.2	0.6	0.6	0.5	0.7	0.8	1.8	NA	NA	NA	1.6	24%	25%	NA
Havells (ex-Lloyd)	1.7	4.8	6.2	6.1	6.5	7.0	8.3	10.1	12.2	14.5	6.5	17%	12%	20%
Havells (Total)	1.7	4.8	6.2	6.1	6.5	7.0	9.1	11.2	13.7	16.4	7.4	18%	14%	21%
EBIT Margins														
Crompton (ECD +Lighting)	9.8%	9.6%	10.8%	11.7%	10.0%	13.5%	14.1%	13.7%	13.9%	14.0%	430 bps			
Havells (ECD + Lighting)	7.8%	14.4%	15.6%	13.9%	12.6%	11.7%	13.6%	13.8%	14.4%	14.7%	580 bps			
V-Guard (Total)	9.5%	7.2%	7.3%	6.7%	9.0%	9.2%	8.9%	7.5%	8.5%	8.9%	-60 bps			
Orient (ECD+Lighting)	7.7%	6.5%	5.6%	3.8%	5.2%	6.1%	11.2%	NA	NA	NA				
Havells (ex-Lloyd)	8.4%	11.2%	13.1%	11.7%	12.1%	15.8%	12.3%	12.1%	12.6%	13.0%	390 bps			
Havells (Total)	8.4%	11.2%	13.1%	11.7%	12.1%	11.5%	11.2%	10.9%	11.5%	12.1%	270 bps			
Adj. PAT (Co level)														
Crompton	NA	NA	NA	NA	NA	3.2	3.6	4.0	4.7	5.4	NA	NA	NA	16%
Havells	1.4	3.7	5.1	4.5	5.1	5.9	6.8	8.4	10.4	12.5	4.5	17%	13%	22%
V-Guard	0.1	0.6	0.7	0.7	1.1	1.4	1.6	1.6	2.1	2.5	1.4	27%	21%	25%
RoCE (Co level)														
Crompton	NA	NA	NA	NA	NA	33%	33%	32%	34%	34%		NA	NA	33%
Havells	32%	21%	25%	20%	19%	18%	19%	21%	23%	24%		20%	20%	23%
V-Guard	16%	21%	20%	20%	25%	26%	25%	20%	22%	23%		20%	23%	22%
Orient	18%	13%	5%	8%	11%	13%	33%	NA	NA	NA		17%	14%	NA
ROIC (Co level)														
Crompton	88%	162%	179%	NM	NM	48%	48%	45%	47%	49%		NA	NA	47%
Havells	41%	44%	58%	51%	46%	44%	37%	32%	36%	45%		43%	47%	38%
V-Guard	20%	21%	20%	19%	25%	28%	27%	22%	25%	25%		21%	24%	24%
RoE (Co level)														
Crompton	NA	NA	NA	NA	NA	55%	50%	41%	39%	39%		NA	NA	40%
Havells	31%	21%	26%	20%	19%	19%	19%	21%	23%	24%		20%	21%	23%
V-Guard	19%	27%	24%	20%	26%	26%	23%	20%	22%	22%		23%	24%	22%
OCF/EBITDA (Co level)														
Crompton	NA	NA	NA	NA	NA	58%	54%	67%	62%	62%		NA	NA	64%
Havells	69%	71%	95%	86%	70%	94%	106%	66%	77%	76%		90%	90%	73%
V-Guard	20%	10%	90%	67%	74%	62%	24%	72%	52%	53%		41%	63%	59%

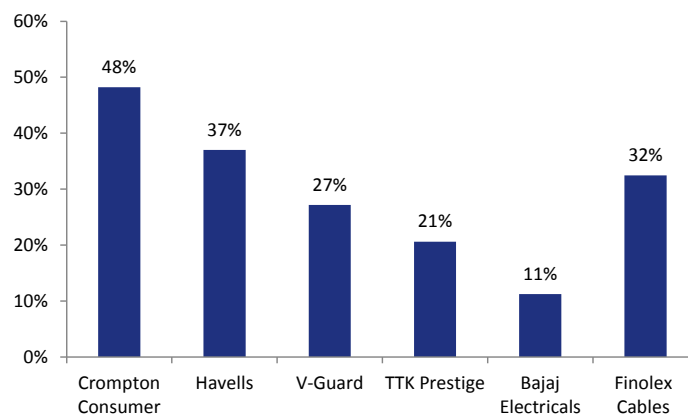
Source: Company, JM Financial

Exhibit 2. Most efficient net working capital - FY18 (days)



Source: Company, JM Financial

Exhibit 3. Highest RoIC in the industry-FY18



Source: Company, JM Financial; Invested capital is including intangibles (goodwill and trademarks)

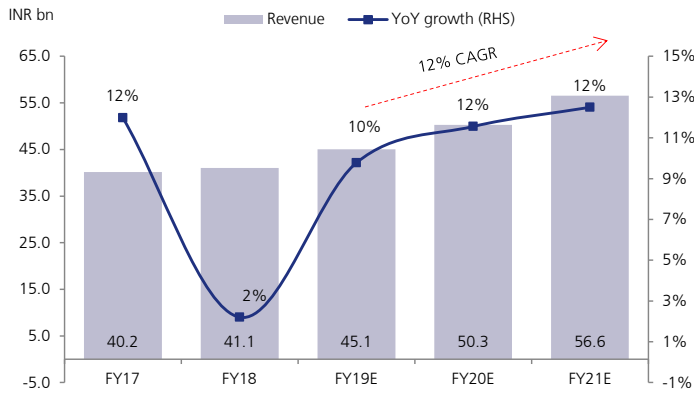
Exhibit 4. Huge potential addressable market size

INR bn unless otherwise specified	FY18			FY23E			CAGR (FY18-23)		Key Players
	Total	Org	Org (%)	Total	Org	Org (%)	Industry	Org	
Electricals	314	191	61%	477	339	71%	9%	12%	
Lighting and Fixtures	209	136	65%	308	246	80%	8%	13%	Philips, Surya, Crompton, Bajaj Electricals, Havells
Motor Pumps	105	55	52%	169	93	55%	10%	11%	Crompton, Kirloskar, CRI, Texmo
Home appliances	140	87	62%	236	156	66%	11%	12%	
Fans	80	60	75%	129	103	80%	10%	11%	Crompton, Usha, Orient, Havells, Bajaj Electricals, V-Guard, Luminous
Air Coolers	40	14	35%	74	29	40%	13%	16%	Symphony, Kenstar, Bajaj Electricals, Havells, Blue Star, Crompton, Voltas, Singer, Maharaja Whiteline, Orient, Cello, V-Guard
Water Heaters	20	13	65%	33	23	70%	11%	12%	Racold, Havells, V-Guard, Bajaj, Venus, A.O. Smith, Crompton Greaves, Usha, Orient
Current Addressable Market	455	278	59%	713	495	69%	9%	12%	
New Opportunities									
Digital UPS	53	45	86%	67	60	90%	5%	6%	Microtek, Luminous, V-Guard, Su-Kam, Exide,
Mixer Grinders	24	15	60%	39	25	65%	10%	12%	TTK Prestige, Preethi, Bajaj Electricals, Morphy Richards, Butterfly, Panasonic, USHA, Kenstar, Inalsa, Glen, Maharaja Whiteline, Pigeon, V-Guard, Havells, Crompton
Modular Switches	22	15	70%	32	24	75%	8%	10%	Anchor (Panasonic), Havells, Legrand, Shneider, ABB, Siemens
Chimneys	19	11	60%	31	20	65%	10%	12%	Faber, Elica, Sunflame
Stabilisers	13	7	56%	16	10	60%	5%	6%	Micro tech, Livguard, Bluebird, Capri, Logicstat, Premier, Everest, V-Guard
Iron	8	6	70%	13	10	80%	10%	13%	Bajaj Electricals, Philips, Eveready, Orient, Usha, Inalsa, Crompton, Maharaja Whiteline, Havells, V-Guard
Rice Cooker	5	3	60%	7	5	65%	10%	12%	Philips, Panasonic, Prestige, Preethi
Total new opportunities	143	102	71%	206	155	75%	8%	9%	
Future Addressable Market	598	380	48%	918	650	55%	9%	12%	

Source: Company, Industry, JM Financial

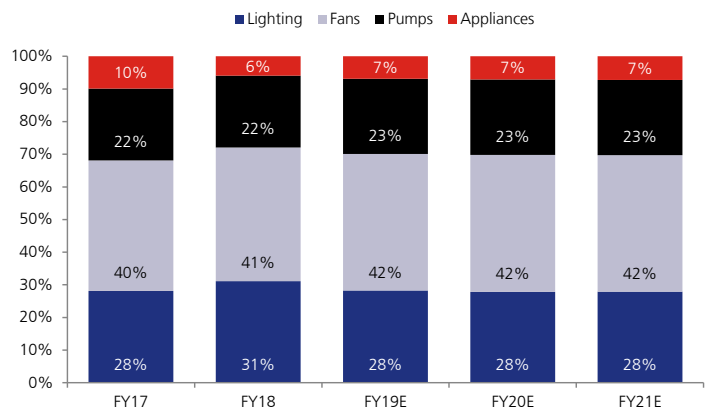
Crompton in charts

Exhibit 5. Revenue Growth



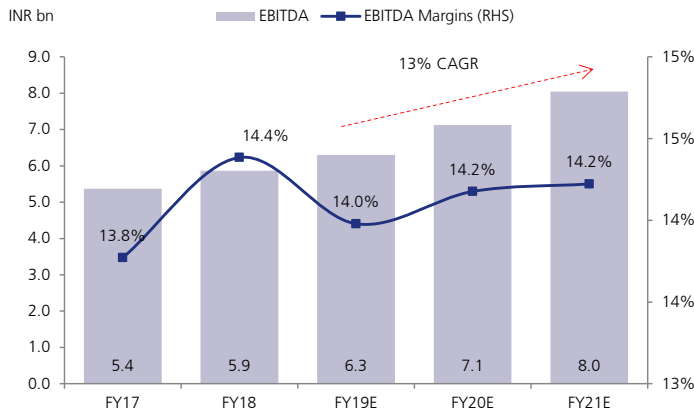
Source: Company, JM Financial

Exhibit 6. Revenue Mix- Fans, Pumps, lighting constitute 93% of sales



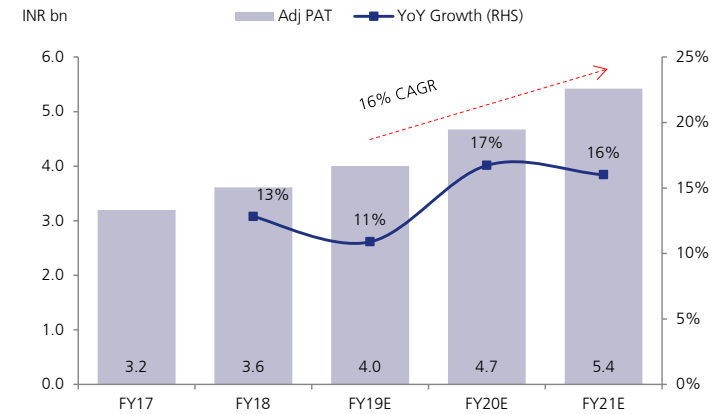
Source: Company, JM Financial

Exhibit 7. EBITDA performance



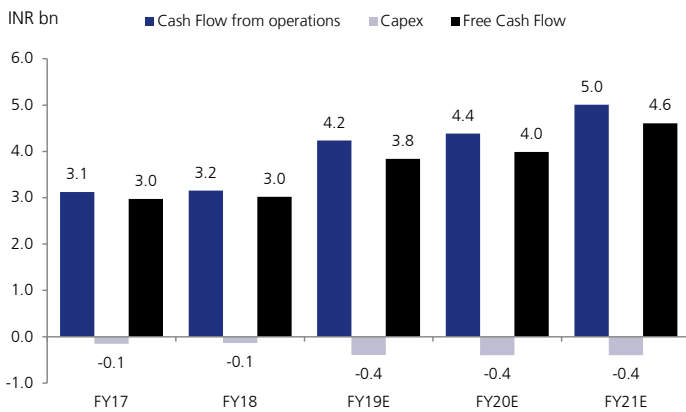
Source: Company, JM Financial

Exhibit 8. Adj. PAT performance



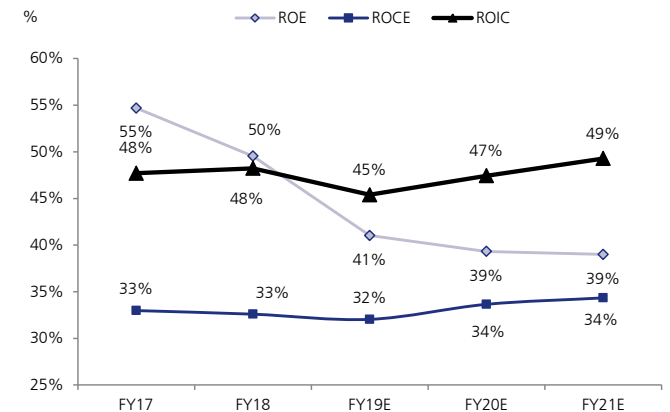
Source: Company, JM Financial

Exhibit 9. Cash flow performance - Always free cash flow positive



Source: Company, JM Financial

Exhibit 10. Return profile (including goodwill)



Source: Company, JM Financial

Investment rationale

Strong growth track record in the past, without much focus: Contrary to perception, Crompton's Revenue / EBIT growth was at par or superior to its peers, for its product categories, indicating a strong brand and distribution network. We note that this growth was despite the lack of focus by erstwhile Crompton Greaves on brand / distribution expansion (as it was saddled with its industrial segment issues). The new management has adequately stepped up on these aspects.

Exhibit 11. Strong performance historically

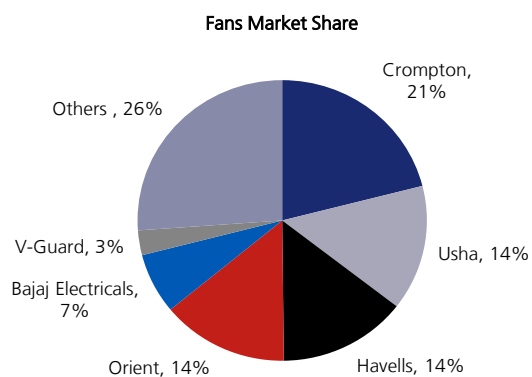
INR bn, unless otherwise specified	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	Incremental FY10-18	CAGR 10-18	CAGR 15-18
Revenue (ECD+ Lighting)												
Crompton (ECD+ Lighting)	16.2	20.4	21.5	25.9	28.9	32.3	35.9	40.2	41.1	24.8	12%	8%
Havells India (ECD+ Lighting)	6.8	9.1	11.3	14.5	15.7	17.7	19.2	23.5	27.2	20.3	19%	15%
Usha (CD + Lighting)	7.9	10.3	12.6	15.9	16.1	16.6	18.5	20.3	22.5	14.6	14%	11%
Bajaj Electricals (ECD + Lighting)	14.9	19.1	22.6	27.0	28.8	29.3	30.6	27.9	26.6	11.7	7%	-3%
Orient (ECD + Lighting)	4.8	6.4	7.6	9.1	11.4	11.9	13.0	13.6	16.3	11.4	16%	11%
TTK Prestige (Appliances)	1.6	2.7	4.5	5.8	5.6	5.7	6.7	7.5	8.6	7.0	23%	15%
V-Guard (ECD + Pumps)	1.6	2.6	3.2	4.4	5.0	5.9	6.8	7.7	8.5	6.9	23%	13%

Source: Company, MCA, JM Financial

Market leadership in fans and domestic pumps and among the top 3 players in lighting:

Crompton is market leader in fans, largest category of electrical appliances (INR 80bn market size) with 21% market share (27% organised market share) and about 24-25% based on primary sales, almost 7-8 ppt higher than its next competitor. Crompton is a market leader in 'domestic pumps' and also among the top 3 players in lighting segment (market size of INR 200bn).

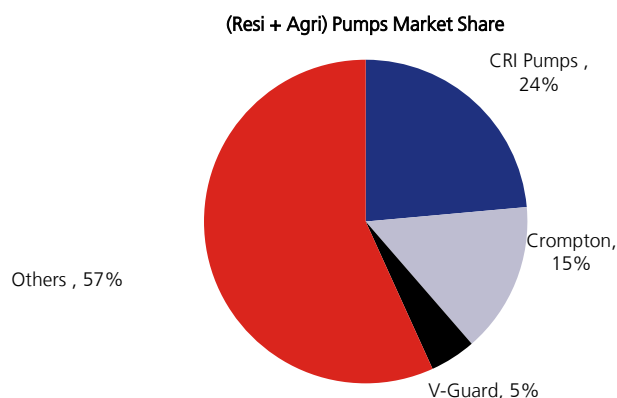
Exhibit 12. Holds highest market share in fans



Source: Company, Polycab DRHP, MCA, JM Financial

*Market share calculated assuming total industry size as INR 80.0bn as per Polycab DRHP

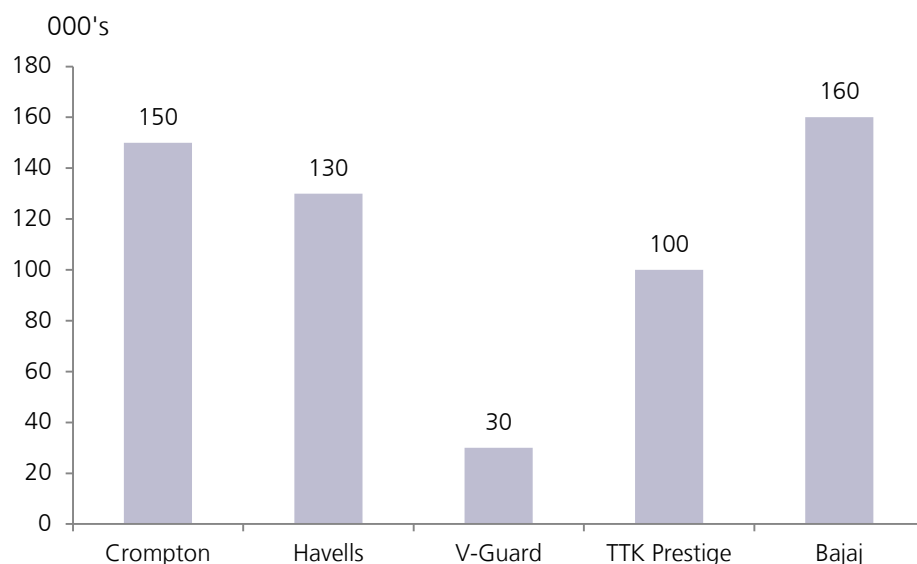
Exhibit 13. Second largest in overall pumps category (Resi+Agri)



Source: Company, MCA, JM Financial;

*Market share calculated assuming total industry size as INR 60.0bn (Residential + Agricultural)

Brand building and distribution expansion initiative-'we are changing': Our interaction with dealers / distributors, retailers, consumers and peers suggest that Crompton has been perceived as a strong product quality provider and "value-for-money" brand, over the past several decades. This was mainly due to lesser focus on the premium branding of the consumer business by the former management of the parent company 'Crompton Greaves', and consequently lower spending on A&P and brand equity. However there has been more focus on A&P ever since the new management took over in 2015.

Exhibit 14. Distribution Reach - Retailers

Source: Company, JM Financial;

Consistent launches of new innovative products in existing categories: Crompton has witnessed a series of new product innovation including introduction of premium fans (anti dust fans in FY17), Mini Crest pumps (FY18) and more recently in LED bulbs (anti-bacteria bulb in FY19) We believe that helps the company adequately to thwart competition as it offers refreshed range of products to its channel/customers.

Exhibit 15. History of continuous product launches

Date	Product	Remarks
FY11	Fans	Started selling new range of 5 star rated fans
FY14	Pumps	Introduced a premium range with stainless steel and cathodic electro deposition
FY14	Pumps	Introduced open well submersibles and a shallow well mono block series for agri markets
FY14	Appliances	Launched rice cookers and electric kettles
FY15	Appliances	New models of air coolers, mixer grinders, rice cookers and voltage stabilisers launched
FY16	Fans	New eSense range ceiling fan with automatic temperature control and radio frequency based remote functions developed
FY17	Fans	Anti-dust fans launched
FY18	Pumps	Mini Crest launched
FY18	Appliances	Tricool air coolers launched

Source: Company, JM Financial

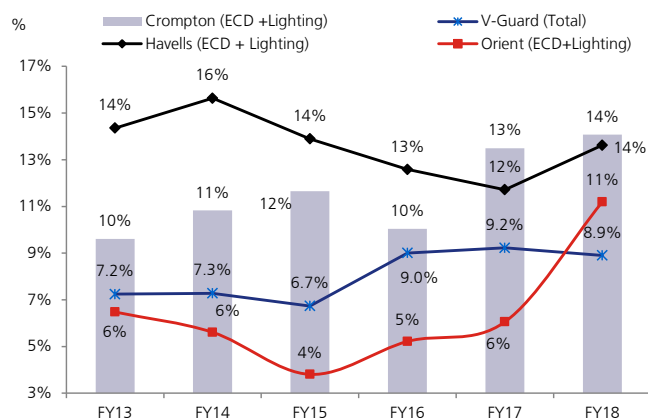
Potential new categories can boost growth prospects: Crompton derives c.94% of its revenue from 3 product categories (fans, lighting, pumps and water heaters) and has a relatively small presence in other appliances (4% of revenue; largely water heaters). As seen in the Exhibit below, Crompton has a potential to increase the addressable market by c.INR 143 bn (c.30% of its current addressable market). While there is an overlap in the distribution of some of these categories (eg. switches), Crompton has to invest to strengthen its distribution in appliances and kitchen utensil channel, depending on its execution of 'right to win' strategy. Hypothetically, if Crompton is able to gain even 2% market share in potential addressable market, it can boost topline growth by c.5ppt (FY21).

Exhibit 16. Huge potential addressable market size

INR bn unless otherwise specified	FY18			FY23E			CAGR (FY18-23)		Key Players
	Total	Org	Org (%)	Total	Org	Org (%)	Industry	Org	
Electricals	314	191	61%	477	339	71%	9%	12%	
Lighting and Fixtures	209	136	65%	308	246	80%	8%	13%	Philips, Surya, Crompton, Bajaj Electricals, Havells
Motor Pumps	105	55	52%	169	93	55%	10%	11%	Crompton, Kirloskar, CRI, Texmo
Home appliances	140	87	62%	236	156	66%	11%	12%	
Fans	80	60	75%	129	103	80%	10%	11%	Crompton, Usha, Orient, Havells, Bajaj Electricals, V-Guard, Luminous
Air Coolers	40	14	35%	74	29	40%	13%	16%	Symphony, Kenstar, Bajaj Electricals, Havells, Blue Star, Crompton, Voltas, Singer, Maharaja Whiteline, Orient, Cello, V-Guard
Water Heaters	20	13	65%	33	23	70%	11%	12%	Racold, Havells, V-Guard, Bajaj, Venus, A.O. Smith, Crompton Greaves, Usha, Orient
Current Addressable Market	455	278	61%	713	495	69%	9%	12%	
New Opportunities									
Digital UPS	53	45	86%	67	60	90%	5%	6%	Microtek, Luminous, V-Guard, Su-Kam, Exide,
Mixer Grinders	24	15	60%	39	25	65%	10%	12%	TTK Prestige, Preethi, Bajaj Electricals, Morphy Richards, Butterfly, Panasonic, USHA, Kenstar, Inalsa, Glen, Maharaja Whiteline, Pigeon, V-Guard, Havells, Crompton
Modular Switches	22	15	70%	32	24	75%	8%	10%	Anchor (Panasonic), Havells, Legrand, Shneider, ABB, Siemens
Chimneys	19	11	60%	31	20	65%	10%	12%	Faber, Elica, Sunflame
Stabilisers	13	7	56%	16	10	60%	5%	6%	Micro tech, Livguard, Bluebird, Capri, Logicstat, Premier, Everest, V-Guard
Iron	8	6	70%	13	10	80%	10%	13%	Bajaj Electricals, Philips, Eveready, Orient, Usha, Inalsa, Crompton, Maharaja Whiteline, Havells, V-Guard
Rice Cooker	5	3	60%	7	5	65%	10%	12%	Philips, Panasonic, Prestige, Preethi
Total new opportunities	143	102	71%	206	155	75%	8%	9%	
Future Addressable Market	598	380	48%	918	650	55%	9%	12%	

Source: Company, Industry, JM Financial

One of the best operating margins, despite significant outsourcing mix: Despite a significant outsourcing mix (c.40% of products are outsourced), Crompton earns one of the highest operating margins across the industry. This is on the back of efficient sourcing, lean cost structure and strong distribution / brand strength. Havells margins are one of the highest largely on account of pricing strength and in house manufacturing (excluding Lloyd products, c.90% of Havells products are manufactured in house).

Exhibit 17. One of the highest EBITDA margins

Source: Company, JM Financial

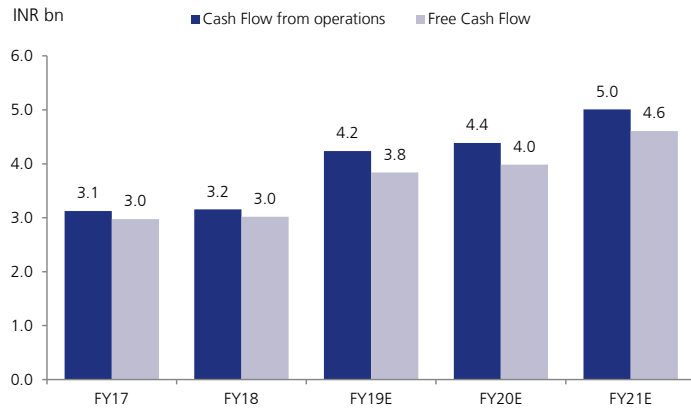
Exhibit 18. Crompton's reliance on outsourcing

Company	Key Products of the company	Outsourcing
Crompton	Fans, Lighting, Pumps and appliances (Water heater, air cooler)	45%
Havells (Excl Lloyd)	Cables and Wires, switchgears, Lighting, fan, water heater, Air Conditioners, Washing Machine,	10%
V-Guard	Stabiliser, UPS, cables and wires, water heater, fan	40%
TTK Prestige	Cooker, Cookware, Gas Stove, Mixer Grinder and other kitchen appliances	40%
Bajaj Electricals	Lighting, Fan, Mixer Grinder, Iron,	40%

Source: Company, Industry, JM Financial

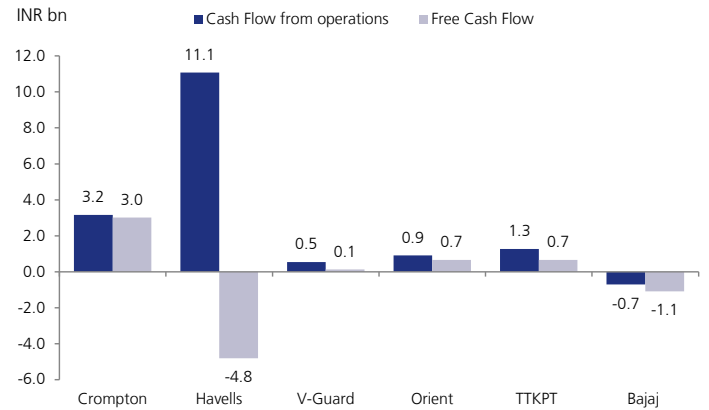
Strong cash flow generation, one of its biggest positives: Crompton has among the leanest working capital and capex requirements, therefore generating superior return ratios and cash flows (OCF and FCF).

Exhibit 19. Superior cash flow performance expected



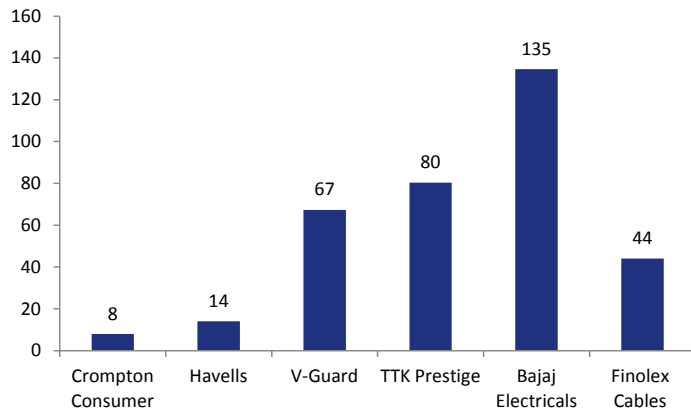
Source: Company, JM Financial

Exhibit 20. Comparable free cash flow generation (FY18)



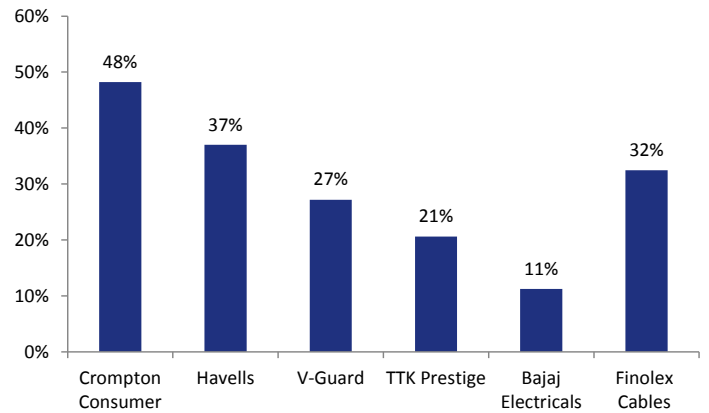
Source: Company, JM Financial; Havells FY18 due to acquisition of Lloyd in May 2017

Exhibit 21. Most efficient net working capital - FY18 (days)



Source: Company, JM Financial

Exhibit 22. Highest RoIC in the industry-FY18

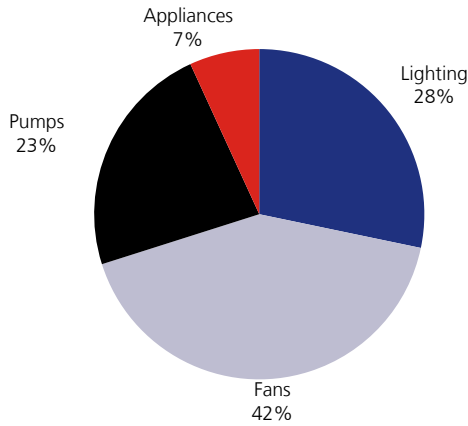


Source: Company, JM Financial; Invested capital is including intangibles (goodwill and trademarks)

Key Concerns

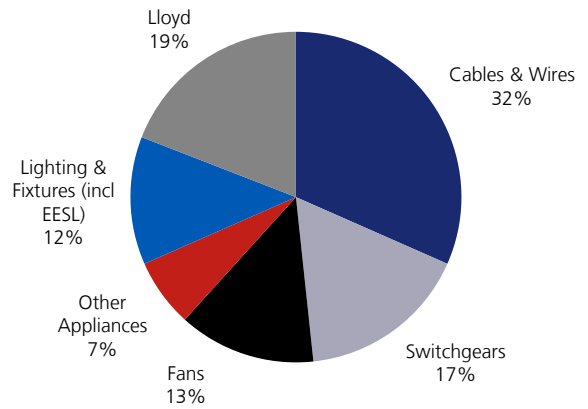
Product concentration: Crompton derives c.94% of its revenue from 3 key products (fans, lighting and pumps) and therefore is vulnerable to disruption in any of these categories (e.g. weak summer / EESL / good monsoon). While Crompton continues to judiciously expand its branding, distribution and product portfolio expansion, its belief in ‘right to win’ and ‘bottomline growth higher than topline growth’ strategy may restrict its ability /willingness to aggressively invest in brand / distribution / new product categories. Hence, product concentration risks will continue to be its single biggest concern. Nevertheless, this risk can be partially addressed through acquisitions.

Exhibit 23. Crompton Revenue Mix (FY19E)



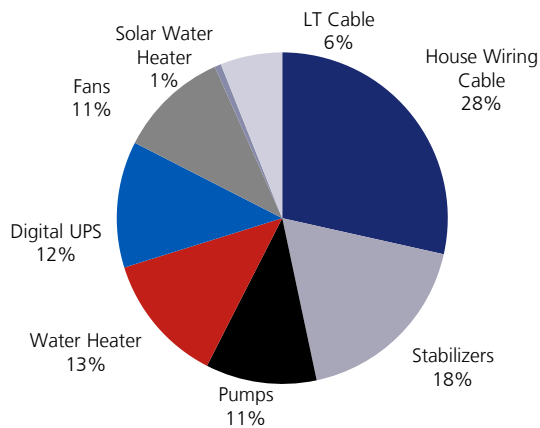
Source: Company, JM Financial

Exhibit 24. Havells Revenue Mix (FY19E)



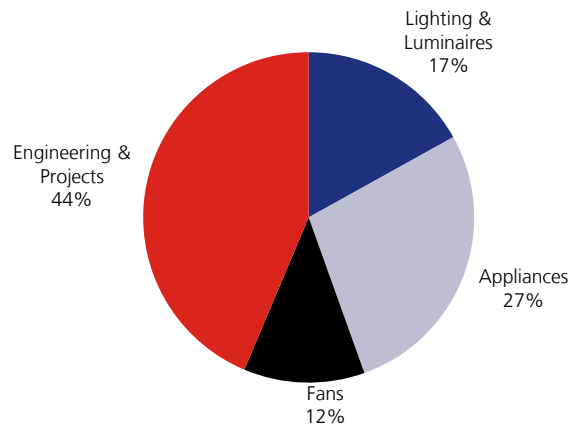
Source: Company, JM Financial

Exhibit 25. V-Guard Revenue Mix (FY19E)

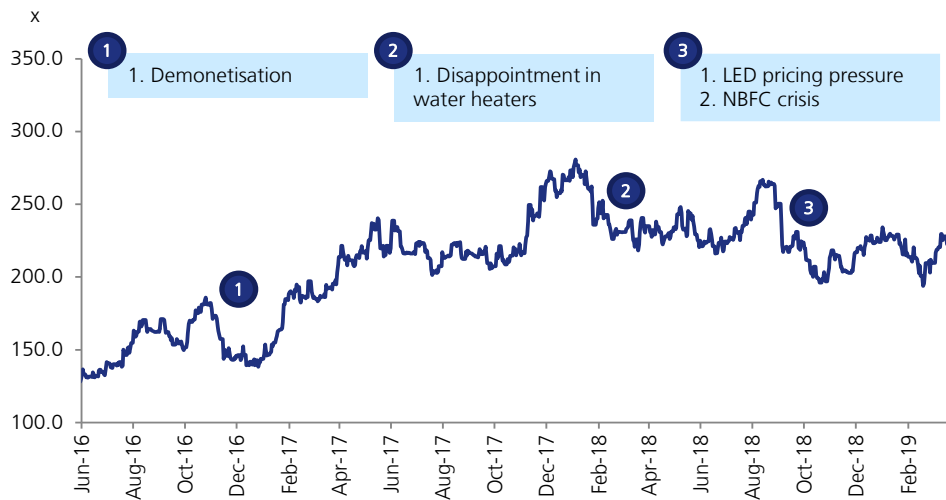


Source: Company, JM Financial

Exhibit 26. Bajaj Electricals Revenue Mix (FY18)



Source: Company, JM Financial
*Category wise forecast unavailable

Exhibit 27. Crompton share price chart highlights the risks of product concentration

Source: Company, JM Financial

Intensifying competition in products where Crompton is market leader: Crompton holds a 21% market share (INR 80bn market size; growing at 6-8%) and 27% market share in the organised fans segment. Many mono-line product companies like Polycab, Anchor, Eveready, and Luminous have entered the appliances market, particularly in fans (given large market size). While Crompton has de-risked itself through premiumisation (from 7-8% to 17-18% in the past 3 years), the entry of new players can impact its ability to gain / hold market share, particularly in a weak demand scenario.

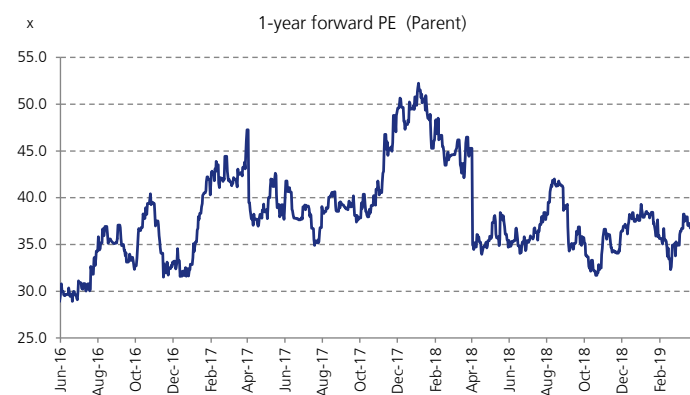
PE ownership: Crompton's current promoters Advent and Temasek are private equity investors (bought out erstwhile promoter's 34% stake in 2015). While we appreciate investors' concerns over PE ownership (possibly in terms of short-term profit orientation / lack of long-term focus and / or PE exit weighing on stock performance), we believe the current valuation more than adequately reflects these concerns.

Valuation:

We have limited trading history of Crompton Greaves Consumer (ECD division of erstwhile Crompton Greaves). Since its listing in 2015, Crompton has traded at an average 1yr forward PE of 38x (52x/28x Maximum / Minimum respectively). We value Crompton at 32x FY21EPS to arrive at Mar'20TP of INR 275, a potential upside of 19%. Our target PE is at a 20% discount to our 40xPE valuation of Havells India (Mar'20TP of INR 800). Currently, Crompton trades at a 32% discount to Havells on 1yr forward PE basis, the highest since its listing. We believe the street's concerns over product concentration / PE ownership are more than adequately factored into Crompton's current share price.

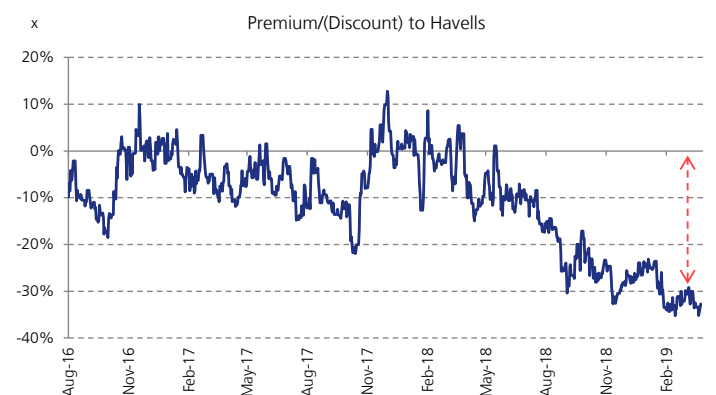
We estimate Crompton to report 12% / 19% CAGR in Revenue / Reported PAT respectively in FY19-21E. Our estimates for Crompton assume a modest improvement of 20bps in EBITDA margins over the next two years as the cost savings (ESOP, professional expenses and other costs) are invested into A&P and distribution expansion, a long-term positive for the company. Our FY20 / 21E PAT estimates are 1-2% below the Bloomberg Consensus.

Exhibit 28. Crompton PE Band (1-Yr Forward)



Source: Bloomberg, JM Financial

Exhibit 29. Premium/(Discount) to Havells



Source: Bloomberg, JM Financial

We also run the discounted cash flow (DCF) valuation methodology to back test our target PE Ratio for Crompton. Our findings indicate a justified PER of c.32x for Crompton, assuming: a) sales growth in double digits for the next 10 years (12%), higher than the industry growth (as it gains market share in existing categories and also expands into new product categories), b) stable margins after FY21, c) terminal growth of 6%, WACC of 10.3% (100% equity), Beta of 0.55 and RFR/RF of 7.5%/5% respectively, and d) Crompton retaining its asset light business model. We estimate CMP indicates 10%/8% CAGR in Crompton's Revenue / EBIT in FY19-28. 50bps change in WACC result into 12% cut in PER.

Exhibit 30. Strong free cash flow generation over the coming years

INR mn	FY17	FY18	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
Revenue	39,009	40,797	45,065	50,273	56,555	63,026	70,242	78,288	87,262	97,271	1,08,435	1,20,887
YoY Growth (%)	12%	5%	10%	12%	12%	11%	11%	11%	11%	11%	11%	11%
EBIT	5,261	5,742	6,171	6,996	7,910	9,111	10,176	11,365	12,694	14,179	15,838	17,692
EBIT Margin (%)	13.5%	14.1%	13.7%	13.9%	14.0%	14.5%	14.5%	14.5%	14.5%	14.6%	14.6%	14.6%
PAT	3,516	3,830	4,104	4,687	5,299	6,378	7,123	7,955	8,886	9,925	11,087	12,384
YoY Growth (%)		9%	7%	14%	13%	20%	12%	12%	12%	12%	12%	12%
Operating Cash Flow	2,688	3,147	3,504	4,088	4,689	6,149	6,868	7,671	8,569	9,572	10,693	11,946
Capex	1,093	-124	-400	-400	-400	-378	-421	-470	-524	-584	-651	-725
% of Sales	2.8%	-0.3%	-0.9%	-0.8%	-0.7%	-0.6%	-0.6%	-0.6%	-0.6%	-0.6%	-0.6%	-0.6%
Free Cash Flow	3,781	3,023	3,104	3,688	4,289	5,771	6,447	7,202	8,045	8,988	10,042	11,220
# of Shares	627	627	632	634	635	635	635	635	635	635	635	635
EPS	5.6	6.1	6.5	7.4	8.3	10.0	11.2	12.5	14.0	15.6	17.5	19.5

Source: Company, JM Financial

Exhibit 31. Comparison Table

Particulars	MCap		P/E(x)				EV/EBITDA (x)				ROE(%)				FY19-21E CAGR			FCFF Yield (FCFF/Mcap)			FY20 PEG
	CMP	(INR bn)	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	Sales	EBITDA	EPS	FY19E	FY20E	FY21E	
ECD																					
Crompton Consumer	231	145	40.0	36.4	31.3	27.0	25.4	23.3	20.7	18.1	50%	41%	39%	39%	12%	13%	16%	3%	3%	3%	1.9
Havells India Limited	776	485	71.1	57.5	46.7	38.7	44.8	36.9	30.0	24.9	19%	21%	23%	24%	15%	20%	22%	1%	2%	2%	2.1
V-Guard India Limited	221	95	58.3	57.8	45.1	37.2	41.7	43.5	33.6	27.8	23%	20%	22%	22%	15%	24%	25%	1%	1%	2%	1.8
TTK Prestige Limited	8,524	98	61.5	52.1	44.6	38.4	38.6	33.1	28.6	24.2	15%	18%	18%	19%	15%	16%	16%	1%	1%	1%	2.7
Bajaj Electricals Limited	551	56	34.1	26.1	23.4	20.0	21.6	17.5	14.8	12.4	18%	21%	20%	20%	0%	10%	14%	NM	12%	9%	1.6
Finolex Cables Limited	477	73	23.1	22.1	20.3	17.9	16.4	16.4	15.4	13.4	14%	15%	15%	16%	14%	15%	11%	2%	3%	3%	1.8
Symphony Limited	1,370	96	57.6	49.8	62.9	46.7	42.4	42.4	50.3	36.3	36%	23%	27%	26%	22%	31%	3%	0%	2%	2%	19.0
Median-ECD			57.6	49.8	44.6	37.2	38.6	33.1	28.6	24.2	19%	21%	22%	22%	15%	16%	16%	1%	2%	2%	1.9
White Goods																					
Whirlpool of India Limited	1,506	191	61.5	54.5	46.1	38.3	32.2	28.6	23.6	20.5	21%	21%	21%	21%	15%	18%	19%	1%	2%	2%	2.4
Hitachi Home	2,055	56	68.9	55.8	61.5	44.2	26.3	30.8	23.5	18.0	21%	16%	19%	21%	17%	31%	12%	NA	NA	NA	5.0
Blue Star Limited	698	67	54.2	44.7	44.5	32.0	26.0	22.9	18.2	15.0	19%	18%	23%	26%	14%	24%	18%	1%	2%	3%	2.4
IFB Industries	956	39	70.3	47.9	48.7	29.9	21.7	25.6	16.3	12.5	16%	15%	19%	21%	18%	43%	27%	NA	NA	NA	1.8
Voltas Limited	624	207	39.9	36.1	36.6	31.3	31.6	29.5	25.2	22.1	16%	14%	15%	15%	13%	16%	7%	2%	2%	2%	5.0
Median-White Goods			61.5	47.9	46.1	32.0	26.3	28.6	23.5	18.0	19%	16%	19%	21%	15%	24%	18%	1%	2%	2%	2.4

Source: Company, Bloomberg, JM Financial

*Crompton, Havells, V-Guard, TTK Prestige, Bajaj Electricals are JMFe rest are Bloomberg Estimates

Comparison with Havells

Product concentration risk: While Crompton derives 94% of its revenue from fans, pumps and lighting (c.41% fans alone), Havells' product portfolio is much more diversified and evolved (industrial cable, consumer wires, switchgears, switches, lighting, fans, water heater, air conditioner, washing machine among others; 'consumer wire' is the largest revenue segment contributing 16-17%).

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. Hence the product portfolio is currently restricted to fans, pumps, appliances, consumer lighting and newly added categories of water heaters and air coolers. This exposes the company to disruption in any product segment (eg. recent irrational pricing in the LED segment).

Havells' superior distribution and brand strength: Havells score significantly higher of Crompton in terms of distribution, reach and strength across channels (electricals, appliances, modern retail format, and multi brand outlets) given its diverse product offering and branding initiatives. While we believe the Crompton brand is reasonably strong in tier 1/tier 2 cities, it will require significant investments to penetrate deeper into tier 3 cities and rural markets, which are expected to be a key growth driver (beneficiary of extensive rural electrification programmes).

Crompton's return ratios are superior due to high operating margins and low capex / working capital investments: Crompton has been mostly perceived as 'value-for-money' brand due to a lack of focus on brand positioning in the past (changing slowly from FY16). On the other hand, Havells has positioned itself as a formidable 'premium brand' with aggressive spending on brand building (INR 13.5bn in FY08-18; 10yr average of c.2.9% of sales).

Despite the economy perception, Crompton's RoCE / RoIC are significantly higher than that of Havells on the back of superior EBIT margins and a negligible capex / working capital requirement (55-60% outsourcing vs. 10-12% for Havells excluding Lloyd).

Concerns regarding PE ownership: Unlike Havells (promoter family owns c.62% of the company), Crompton's current promoters Advent and Temasek (bought out erstwhile promoter's 34% stake in 2015) are private equity investors. This creates a possible perception of short-term profit orientation / lack of long-term focus and / or PE exit weighing on its stock performance. We believe the current valuation more than adequately reflects these concerns.

Exhibit 32. Crompton vs Havells segmental margin

INR bn, unless specified otherwise	FY17	FY18	FY19E	FY20E	FY21E	CAGR 19-21E	INR bn, unless specified otherwise	FY17	FY18	FY19E	FY20E	FY21E	CAGR 19-21E
Crompton							Havells India						
Revenues	39.0	40.8	45.1	50.3	56.6	12%	Revenues	78.2	81.4	103.2	118.4	135.9	15%
YoY		5%	10%	12%	12%		YoY		4%	27%	15%	15%	
ECD	28.9	28.3	32.3	36.3	40.8	12%	ECD	13.8	15.6	21.1	25.3	30.3	20%
Lighting	11.3	12.8	12.7	14.0	15.8	11%	Lighting	9.7	11.6	12.9	14.8	17.5	17%
							Cable & Wires	23.8	26.0	32.5	36.7	41.1	12%
							Switchgears	14.1	14.1	17.2	19.6	22.3	14%
							Lloyd	16.8	14.1	19.6	22.0	24.6	12%
Gross Profit	11.7	12.8	14.0	15.7	17.5	12%	Gross Profit	24.9	31.6	39.2	45.6	52.3	15%
Gross Margins (%)	29.9%	31.4%	31.1%	31.3%	31.0%		Gross Margins (%)	31.8%	38.8%	38.0%	38.5%	38.5%	
EBITDA	5.4	5.9	6.3	7.1	8.0	13%	EBITDA	8.2	10.5	12.7	15.4	18.3	20%
EBITDA margin (%)	13.8%	14.4%	14.0%	14.2%	14.2%		EBITDA margin (%)	10.5%	12.9%	12.3%	13.0%	13.5%	
YoY		9%	7%	13%	13%		YoY		27%	21%	21%	19%	
ECD	5.0	5.4	6.4	7.1	8.0	12%	ECD	1.8	2.3	3.1	3.9	4.7	24%
Lighting	1.0	1.5	1.0	1.4	1.6	24%	Lighting	1.4	1.8	2.0	2.4	2.9	19%
							Cable & Wires	1.7	2.4	2.7	3.2	3.6	15%
							Switchgears	2.9	3.0	3.6	4.2	4.9	17%
							Lloyd	-	1.1	1.3	1.7	2.2	30%
Reported EBIT	5.3	5.7	6.2	7.0	7.9	13%	Reported EBIT	7.0	9.1	11.2	13.7	16.4	21%
EBIT margin (%)	13.5%	14.1%	13.7%	13.9%	14.0%		EBIT margin (%)	9.0%	11.2%	10.9%	11.5%	12.1%	
YoY		9%	7%	13%	13%		YoY		29%	24%	21%	20%	
EBIT break-up (post unallocable exp)	4.7	5.2	5.8	6.7	7.9	17%	EBIT break-up (post unallocable exp) - computed	5.2	7.2	8.9	11.0	13.4	23%
ECD	4.1	4.2	5.2	5.8	6.8	14%	ECD	1.6	2.1	2.8	3.6	4.4	25%
Lighting	0.6	1.0	0.6	0.9	1.1	40%	Lighting	1.2	1.6	1.8	2.2	2.6	20%
							Cable & Wires	2.5	2.6	3.2	3.7	4.4	18%
							Switchgears	1.2	2.0	2.3	2.7	3.1	15%
							Lloyd	-	0.9	1.1	1.5	1.9	33%
EBIT margin							EBIT margin						
ECD	14.1%	14.9%	16.2%	16.1%	16.6%		ECD	11.5%	13.2%	13.4%	14.2%	14.6%	
Lighting	5.7%	7.5%	4.5%	6.4%	7.2%		Lighting	12.0%	14.2%	14.3%	14.7%	15.1%	
							Cable & Wires	10.4%	10.0%	9.7%	10.2%	10.6%	
							Switchgears	8.9%	14.0%	13.5%	13.6%	13.7%	
							Lloyd	6.7%	5.6%	6.8%	7.9%		
Reported PAT	2.8	3.2	3.8	4.5	5.3	19%	Reported PAT	5.4	7.1	8.5	10.4	12.5	21%
YoY		14%	16%	20%	19%		YoY		32%	19%	22%	20%	
Adj. PAT	3.2	3.6	4.0	4.7	5.4	16%	Adj. PAT	5.9	6.8	8.4	10.4	12.5	22%
YoY		13%	11%	17%	16%		YoY		15%	24%	23%	20%	
Adj PAT margin	8.2%	8.8%	8.9%	9.3%	9.6%		PAT margin	7.6%	8.4%	8.2%	8.8%	9.2%	
CFO	3.1	3.2	4.2	4.4	5.0	9%	CFO	7.8	11.1	8.3	11.8	13.9	29%
CFO/EBITDA (x)	58.2%	53.7%	67.2%	61.5%	62.2%	-4%	CFO/EBITDA (x)	94.4%	105.6%	65.7%	76.8%	76.1%	8%
FCF	3.0	3.0	3.8	4.0	4.6	10%	FCF	5.4	-4.8	3.8	9.3	11.4	72%
FCF Yield to market cap	2.1%	2.1%	2.7%	2.8%	3.2%		FCF Yield to market cap	1.1%	-1.0%	0.8%	1.9%	2.4%	
Net Debt	2.6	1.0	-0.8	-2.0	-3.8		Net Debt	-17.4	-14.2	-15.7	-21.9	-28.9	
DPS (Rs)	-	1.8	2.5	3.5	4.0		DPS (Rs)	3.0	3.5	4.0	6.0	8.0	
Dividend Yield		0.8%	1.1%	1.5%	1.7%		Dividend Yield	0.4%	0.5%	0.5%	0.8%	1.0%	
Average Net-worth	3.6	6.5	9.2	11.5	13.7		Average Net-worth	31.1	35.1	40.0	45.4	51.6	
Net Debt/ Equity (x)	0.7	0.2	-0.1	-0.2	-0.3		Net Debt/ Equity (x)	-0.6	-0.4	-0.4	-0.5	-0.6	

Source: Company, JM Financial

Exhibit 33. Comparison of financial metrics

INR bn, unless specified otherwise	FY17	FY18	FY19E	FY20E	FY21E	INR bn, unless specified otherwise	FY17	FY18	FY19E	FY20E	FY21E
Crompton						Havells India					
EPS	5.1	5.8	6.3	7.4	8.5	EPS	9.5	10.9	13.5	16.6	20.0
P/E (x)	45.2	40.1	36.5	31.3	27.1	P/E (x)	81.9	71.1	57.5	46.7	38.8
Discount to Havells			-37%	-33%	-30%	Premium to Crompton			58%	49%	43%
EV/EBITDA (x)	27.4	24.8	22.9	20.0	17.5	EV/EBITDA (x)	56.7	44.8	36.9	30.1	24.9
EV/Sales (x)	3.8	3.6	3.2	2.8	2.5	EV/Sales (x)	6.0	5.8	4.5	3.9	3.4
P/BV (x)	40.0	22.2	15.8	12.6	10.6	P/BV (x)	15.6	13.8	12.1	10.7	9.4
EV	147	146	144	143	141	EV	467	470	469	463	456
EV/FCF	49.5	48.3	37.5	35.8	30.6	EV/FCF	86.2	(97.8)	122.3	49.6	39.9
Discount to Havells			-69%	-28%	-23%	Premium to Crompton			226%	39%	31%
Dividend Yield (%)	0.0%	0.8%	1.1%	1.5%	1.7%	Dividend Yield (%)	0.4%	0.5%	0.5%	0.8%	1.0%
RoCE (%)	33.0%	32.6%	32.0%	33.6%	34.3%	RoCE (%)	18.4%	18.7%	20.9%	22.8%	24.1%
ROE (%)	88.4%	55.2%	43.6%	40.8%	39.6%	ROE (%)	19.0%	19.5%	21.1%	22.9%	24.2%
Avg IC (incl GW)	7.1	8.4	9.3	10.1	10.8	Avg IC (incl GW)	11.4	16.9	24.2	25.9	25.4
Avg RoIC (incl GW)	52%	48%	46%	49%	51%	Avg RoIC (incl GW)	43%	38%	32%	37%	45%
Avg IC (Excl GW)	-0.7	0.6	1.5	2.3	3.0	Avg IC (Excl GW)	11.4	10.2	10.8	12.5	12.0
Avg RoIC (Excl GW)	NM	723%	284%	216%	187%	Avg RoIC (Excl GW)	43%	62%	73%	77%	96%
PAT/Sales	8.3%	8.9%	8.9%	9.3%	9.6%	PAT/Sales	9.6%	8.4%	8.2%	8.8%	9.2%
Sales/Total Assets	1.85	1.68	1.85	1.85	1.95	Sales/Total Assets	1.27	1.28	1.45	1.46	1.47
Total assets/Equity	4.08	3.07	2.33	2.18	1.95	Total assets/Equity	1.48	1.69	1.68	1.68	1.69
Calculated ROE	62%	46%	38%	38%	36%	Calculated ROE	18%	18%	20%	21%	23%
Working capital days (x)						Working capital days (x)					
Debtor days	44	50	50	50	50	Debtor days	14	15	15	15	15
Inventory days	26	27	27	27	27	Inventory days	55	73	70	70	70
Creditor days	67	69	65	62	60	Creditor days	37	73	60	60	60
Net working capital cycle	3	8	12	15	17	Net working capital cycle	31	14	25	25	25

Source: Company, JM Financial

Business Analysis #1: Electrical consumer durables segment

(FY18: 70% of revenue and 78% of EBIT)

Crompton's Electric Consumer Durables (ECD) segment includes a) fans (41% of total revenues), b) pumps (22%) and c) other electrical appliances (4%; mainly include water heaters).

Crompton is a market leader in the domestic fans (economy and mass premium segment; c.26% market share) and also in residential pumps (over 20% market share). It expects to see a meaningful scale up in the electrical appliances in the medium-term led by water heaters, air coolers, mixer grinders and small domestic appliances (currently c.4% of revenue), aptly aided by 'right to win' strategy. While all the products may not be a runaway success, we believe Crompton has a good chance of scaling up revenues in some of these categories.

As shown in Exhibit below, Crompton has delivered market leading growth (in absolute terms) in the ECD segment, despite product concentration. In percentage terms, Crompton registered a revenue growth of 12% over FY10-18, driven by growth in fans (12% CAGR; premium segment CAGR of 30% over FY14-18) and appliances (17% in FY10-18).

Exhibit 34. Market leading growth in ECD business (in absolute terms)

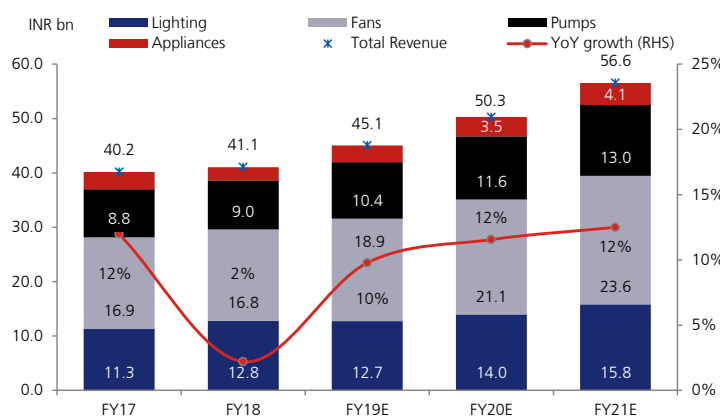
INR bn	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY10-18 Incremental	CAGR 10-18	CAGR 16-18
Crompton (ECD)	11.3	14.6	14.8	18.3	20.0	22.7	24.7	28.9	28.3	17.0	12%	7%
Havells India (ECD)	3.3	4.7	5.7	7.9	8.5	10.3	11.3	13.8	15.6	12.3	21%	18%
Usha (ECD+Lighting)	7.9	10.3	12.6	15.9	16.1	16.6	18.5	20.2	22.3	14.4	14%	10%
Bajaj Electricals (ECD)	9.5	12.8	15.0	18.4	19.3	20.2	20.0	19.2	18.6	9.1	9%	-4%
Orient (ECD+Lighting)	4.9	6.5	7.6	9.2	11.5	12.0	13.0	13.6	16.3	11.4	16%	12%
TTK Prestige (Appliances)	1.6	2.7	4.5	5.8	5.6	5.7	6.7	7.5	8.6	7.0	23%	14%
V-Guard (ECD + Pumps)	1.6	2.6	3.2	4.4	5.0	5.9	6.8	7.7	8.5	6.9	23%	12%

Source: Company, JM Financial

We expect Crompton to achieve revenue CAGR of 12% during FY19-21E on the back of steady growth in fans led by premiumisation (12% CAGR; 20% CAGR in premium fans) and pumps (new launches in the agricultural segment). We expect appliances to witness a 15% CAGR due to a small base and refreshed range of water heaters and introduction of other appliances.

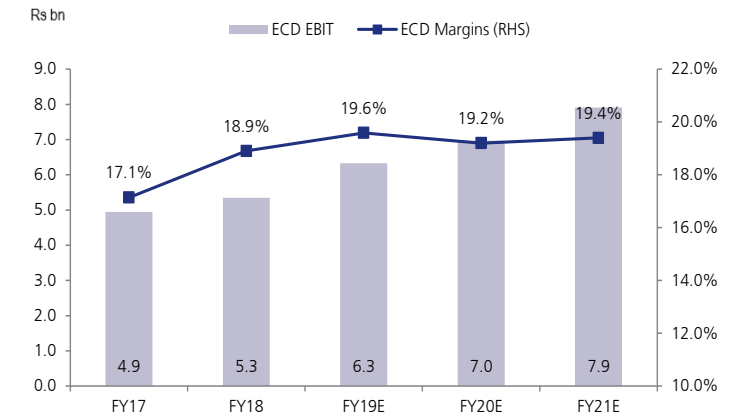
Crompton enjoys one of the highest margins in the industry in the ECD segment on the back of a strong brand, reasonably good pricing power as well as operating leverage and cost optimisation (vendor sourcing efficiency and optimal pricing). We assume the ECD segment's margins to remain stable (assumed 19.4% EBIT margins for FY19-21E) as we believe Crompton will scale up on A&P (lowest among peers) and product mix (higher growth in other appliances).

Exhibit 35. Crompton-ECD mix



Source: Company, JM Financial

Exhibit 36. ECD Segment Margins



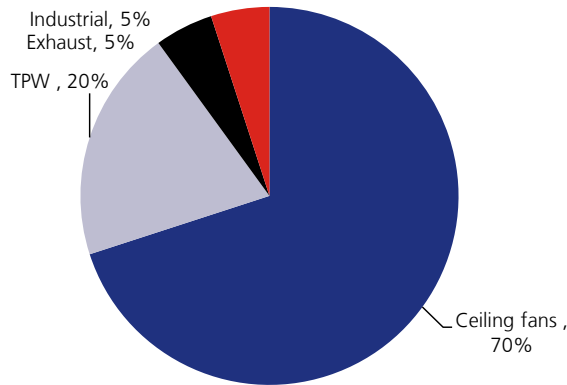
Source: Company, JM Financial

Fans (41% of FY18 revenue)

The electrical fans industry in India is approximately INR 80bn in size and is mainly represented by ceiling fans (c.70% of the total). Domestic demand for fans in India is largely met locally and the industry is seeing major premiumisation led by product innovations (decorative, anti-dust, tech enabled fans). Majority of the industry demand continues to be replacement demand (c.65%). As the real estate pickup remains elusive we still expect the replacement demand to remain steady.

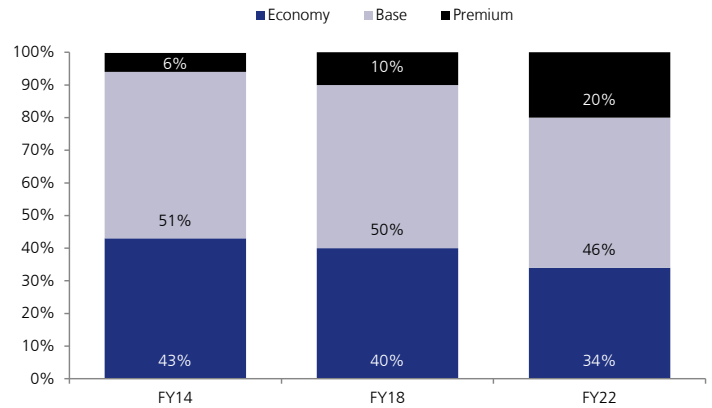
We estimate the industry is 75% organised and captured by five players (Crompton being the market leader with c.21% share followed by Orient, Usha, Havells and Bajaj Electricals with c.27% of organised market).

Exhibit 37. Ceiling fans account for major chunk of the fans market



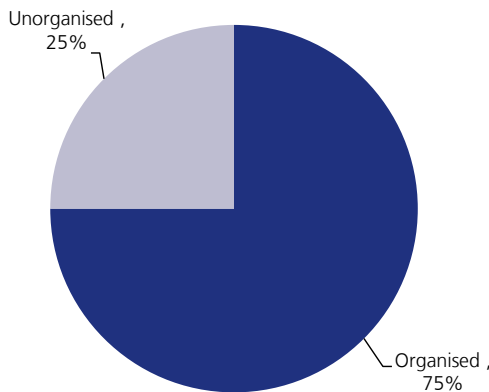
Source: Company, JM Financial, Crisil, Polycab DRHP

Exhibit 38. Premiumisation trend visible



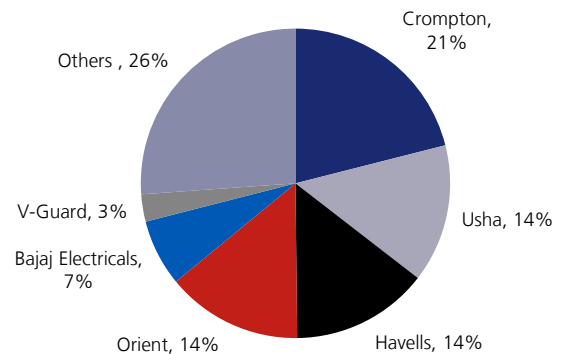
Source: Company, JM Financial, Crisil
 *Economy (<1500), Standard (INR 1500-400) and Premium (INR 4000)

Exhibit 39. Relatively high penetration of the organised sector



Source: Company, JM Financial, Crisil, Polycab DRHP

Exhibit 40. Fans market share



Source: Company, JM Financial
 *Market size taken as INR 8.0bn as per Polycab DRHP

Historically Crompton reported strongest growth among peers (in absolute terms):

Over the period FY10-18, Crompton has incrementally added more revenue in the fans segment than any other competitor, even without a meaningful focus by the former Crompton Greaves (it was more focused on / issues in the industrial and power business). In percentage terms, Crompton has a strong 12% CAGR in FY10-18 led by a) strong brand presence, especially in the economy segment, b) successful launch of new models in the mass premium range and c) higher share of premium fans (c.10% of fan revenues in FY16 to over 17% in FY18). The industry is dominated by branded players, as consumers prefer investing in good quality for a product category, which has a longer replacement cycle (fans are believed to have a c.8-10 years of replacement cycle).

Exhibit 41. Strong growth in mature fans category

INR bn	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY10-18 Incremental	CAGR 10-18	CAGR 16-18
Crompton	6.6	8.6	8.8	10.7	12.4	14.1	14.7	16.9	16.8	10.3	12%	7%
Usha	4.8	6.1	7.5	8.5	8.3	8.9	9.4	10.2	11.5	6.8	12%	11%
Havells	3.3	4.3	4.9	6.1	6.4	7.7	8.4	9.7	11.5	8.1	17%	17%
Orient	4.4	6.1	6.8	7.8	8.6	9.6	9.8	10.5	11.4	7.0	13%	8%
Bajaj Electricals	3.8	5.1	5.5	6.1	6.2	6.5	6.4	5.9	5.6	1.8	5%	-7%
V-Guard	0.3	0.5	0.6	0.8	1.0	1.4	1.8	2.0	2.3	2.0	31%	14%
Polycab	NA	NA	NA	NA	NA	NA	NA	1.4	1.9	NA	NA	NA

Source: Company, MCA, JM Financial

Focus on the premium segment:

We believe the premiumisation trend will continue going forward with changing customer preferences and up-trading by existing customers. Premium / mass premium fans constitute 17% / 25% of Crompton’s revenue and expected to grow at a faster rate on the back of a low base and new range introduction launches (e.g. Air 360).

Crompton is currently focusing on new stylish launches (models with electroplating, new contemporary designs, attractive blade designs, temperature sensors, etc.) and high brand promotion (conveying premium aspects of brand), given that Crompton is an established good quality brand.

Our dealer checks suggest that Crompton products are perceived to be good in terms of quality; however, there is further scope to improve the customer perception from a “value for money” brand to a ‘premium’ brand. We believe refreshed range of fans and revamped distribution strategy (go to market) coupled with strong brand recall offers a strong value proposition for Crompton (Premium fan share has come up from 10% in FY16 to 17% in FY19).

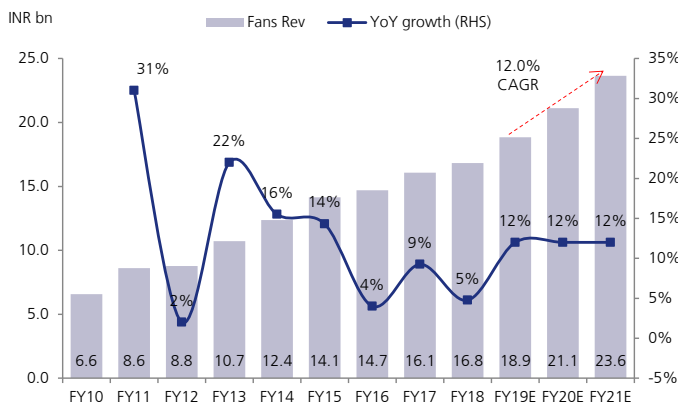


Air 360 covers more area and has a differentiated offering in a highly competitive category

Outlook

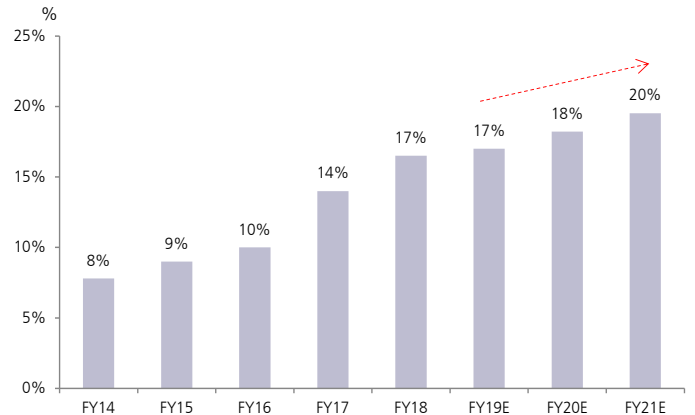
We estimate Crompton fans to post 12% revenue CAGR in FY19-21E (vs. 9-10% CAGR for the industry) on the back of a) improving premium fans mix, (market share gains), and b) continued market leadership in economy fans with a possible shift from unorganised to organised segments on continuous rise in consumers’ living standards.

Exhibit 42. Fan revenue growth



Source: Company, JM Financial

Exhibit 43. Premium mix improving steadily



Source: Company, JM Financial

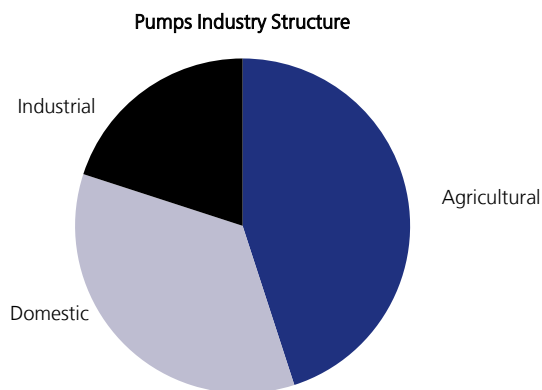
Water pumps (21% of FY18 revenue)

Industry background:

The residential and agriculture water pump industry in India is estimated at INR 60.0bn (residential INR 27bn and agriculture INR 33bn) and expected to register high single digit growth over the next 3-5 years. While urbanisation / new house construction and increasing scarcity of surface water are expected to drive residential water pumps, agricultural pumps are linked to rural income levels, monsoon conditions and electrification. The government has recently been focussing on energy efficient and solar pumps for irrigation (Kisan Urja Suraksha Evam Utthaan Mahaabhiya scheme) which will help drive growth. The pump market is dominated by CRI, Crompton and V-Guard accounting for INR 25.9bn (43% of industry size).

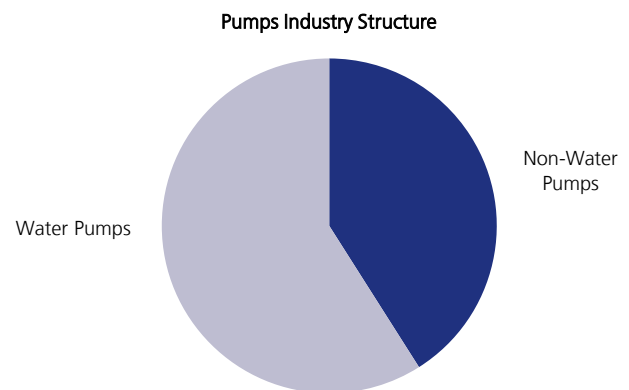
While most companies focus on the residential pump market, agri-pumps segment too offers a huge opportunity as the market is largely fragmented and industry expects double digit growth as it sees a reasonable traction in the eastern and northern regions. However, the agricultural pumps segment is relatively more price sensitive and is undergoing rapid changes due to a) demand shift towards energy-efficient pumps, b) increase electrification and reduce power inefficiencies and c) solar pumps.

Exhibit 44. Pumps Industry Structure- Industry usage based



Source: Company, JM Financial, Industry

Exhibit 45. Pumps Industry Structure- Water/Non-Water



Source: Company, JM Financial, Industry

Crompton is a market leader in domestic pumps

Crompton is the undisputed market leader in domestic pumps with c.26-27% market share (double the size of the second player) on: a) availability of high-quality products at competitive prices, b) continuous launch of new technologically advanced products (in-house R&D), and c) strong brand perception. Resultantly, domestic / residential pump sales account for c.75% of Crompton's pump revenue. Recently introduced Mini Crest pumps has helped Crompton to break into traditionally difficult Western and Southern markets (dominated by local players), though it has cannibalised premium sales to some extent.

The company is making efforts towards developing 4-star and 5-star rating energy efficient pumps. In FY18, 74 numbers of 4-star and 5-star ratings were developed and added in product portfolio (167 till date) and was focused on developing solar pumps.

Exhibit 46. Pumps revenue have grown in line with peers

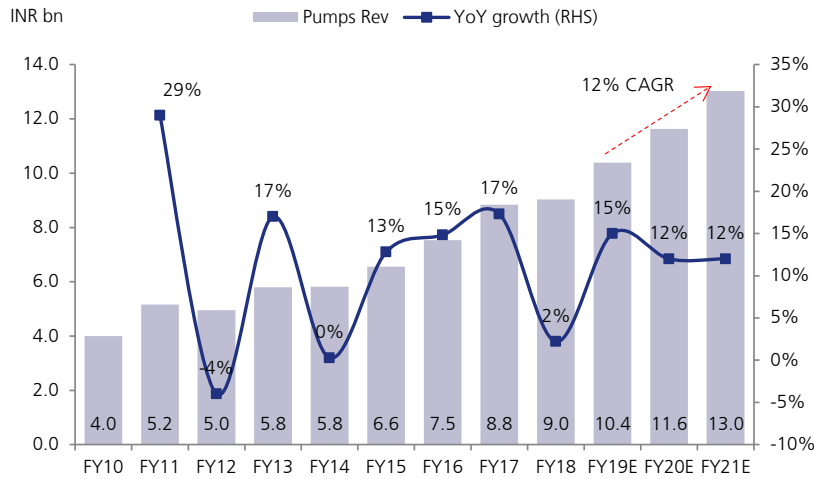
INR bn	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY10-18 Incremental	CAGR 10-18	CAGR 16-18
CRI Pumps ⁽¹⁾	5.7	6.5	6.8	7.9	8.6	10.4	11.4	11.8	14.6	8.9	12%	13%
Crompton	4.0	5.2	5.0	5.8	5.8	6.6	7.5	8.8	9.0	5.0	11%	9%
V-Guard	0.9	1.2	1.5	2.1	2.0	1.9	2.1	2.6	2.8	1.9	16%	15%

Source: Company, MCA, JM Financial

1. Assumption of INR 1.0/2.0bn as revenue coming from other businesses

We estimate Crompton’s pump revenue to report a CAGR of 12% during FY19-21E on: a) steady industry growth and continued market leadership in domestic pumps (#1 player with >c.27% market share), b) sinking ground water levels (c.54% of the groundwater wells reported decline in water levels over the past seven years and 21 major cities are expected to run out of groundwater), c) rise in electrification of rural areas (c.100% rural electrification achieved) with improving power availability due to schemes like Saubhagya, d) expected growth in the housing sector due to PMAY scheme, and e) shift towards branded products on a rise in farm income (preference changing to high-quality products vs. low-cost variants).

Exhibit 47. Pumps segment growth



Source: Company, JM Financial



Mini Crest pump a new launch is gaining traction

Appliances (6% of FY18 Revenue) – just scratched the surface!

The electrical appliances industry (excluding white goods) is estimated to be worth INR 636bn and is highly unorganised (30-65% depending on products) with several players and a large number of SKUs. The white goods industry (air conditioner, refrigerator, washing machine and television) is almost of a similar size worth INR 694bn, largely dominated by organised players.

Exhibit 48. Huge potential addressable market size

INR bn unless otherwise specified	FY18			FY23E			CAGR (FY18-23)		Key Players
	Total	Org	Org (%)	Total	Org	Org (%)	Industry	Org	
Electricals	314	191	61%	477	339	71%	9%	12%	
Lighting and Fixtures	209	136	65%	308	246	80%	8%	13%	Philips, Surya, Crompton, Bajaj Electricals, Havells
Motor Pumps	105	55	52%	169	93	55%	10%	11%	Crompton, Kirloskar, CRI, Texmo
Home appliances	140	87	62%	236	156	66%	11%	12%	
Fans	80	60	75%	129	103	80%	10%	11%	Crompton, Usha, Orient, Havells, Bajaj Electricals, V-Guard, Luminous
Air Coolers	40	14	35%	74	29	40%	13%	16%	Symphony, Kenstar, Bajaj Electricals, Havells, Blue Star, Crompton, Voltas, Singer, Maharaja Whiteline, Orient, Cello, V-Guard
Water Heaters	20	13	65%	33	23	70%	11%	12%	Racold, Havells, V-Guard, Bajaj, Venus, A.O. Smith, Crompton Greaves, Usha, Orient
Current Addressable Market	455	278	61%	713	495	69%	9%	12%	
New Opportunities									
Digital UPS	53	45	86%	67	60	90%	5%	6%	Microtek, Luminous, V-Guard, Su-Kam, Exide,
Mixer Grinders	24	15	60%	39	25	65%	10%	12%	TTK Prestige, Preethi, Bajaj Electricals, Morphy Richards, Butterfly, Panasonic, USHA, Kenstar, Inalsa, Glen, Maharaja Whiteline, Pigeon, V-Guard, Havells, Crompton
Modular Switches	22	15	70%	32	24	75%	8%	10%	Anchor (Panasonic), Havells, Legrand, Shneider, ABB, Siemens
Chimneys	19	11	60%	31	20	65%	10%	12%	Faber, Elica, Sunflame
Stabilisers	13	7	56%	16	10	60%	5%	6%	Micro tech, Livguard, Bluebird, Capri, Logicstat, Premier, Everest, V-Guard
Iron	8	6	70%	13	10	80%	10%	13%	Bajaj Electricals, Philips, Eveready, Orient, Usha, Inalsa, Crompton, Maharaja Whiteline, Havells, V-Guard
Rice Cooker	5	3	60%	7	5	65%	10%	12%	Philips, Panasonic, Prestige, Preethi
Total new opportunities	143	102	71%	206	155	75%	8%	9%	
Future Addressable Market	598	380	48%	918	650	55%	9%	12%	

Source: Company, Industry, JM Financial

Given the presence of a large number of players (large / small / organised / un-organised / regional / single products) and numerous categories (small / large / home / kitchen), Crompton focuses on innovative product features to create differentiation and gain market share in order to penetrate competitive categories..

Crompton has a limited presence in the distribution channel for most of the appliances: a) appliance shops (for home / kitchen appliances), b) kitchen utensil stores (for kitchen appliances) and c) modern retail format stores.

Unlike its peers, Crompton's new category introductions are relatively few and focused as it follows a 'right to win' strategy where its entry solely depends on its belief of becoming one of the top 3 players in those product categories.

- Crompton is initially focussing on water heaters with a revamped product (positive channel feedback in terms of quality, design and pricing) and also leverages its existing channels.
- The air cooler category is another focus appliance category for Crompton (65% unorganised) and it has introduced an entire range of new window coolers (Tricool) this season. However, the extended winter along with high inventory levels of last year in the system have created initial challenges, though long term potential remain strong.



Newly launched Tricool air cooler

- It has identified mixer grinders and small appliances as the focus areas after air coolers. Except white goods and cables and wires categories, Crompton does not rule out portfolio extension over long term.

However, a bulk of the other small appliances are sold through the consumer appliances / electronics shops while small kitchen appliances are sold through the kitchen utensil stores channel. Going forward, it plans to use the newly launched Tricool air coolers to break into the home electronics category and later a similar strategy will be replicated for mixer grinders.

Outlook:

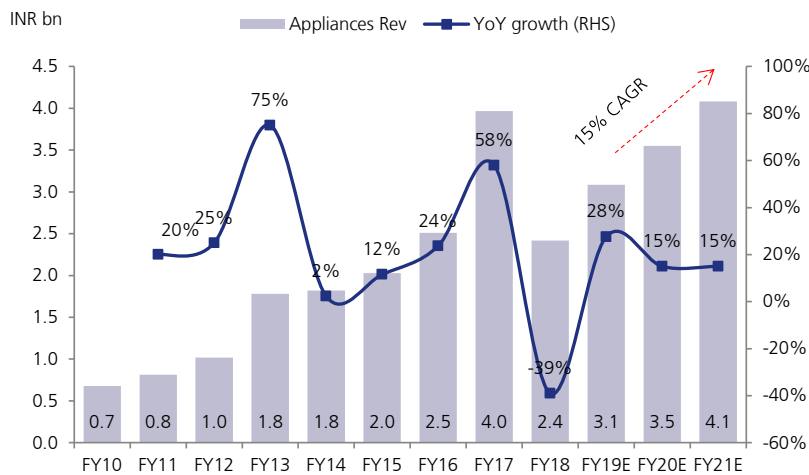
We believe Crompton can achieve strong revenue growth (15% CAGR in FY19-21E) in this segment given: a) low revenue base (c.6% of overall revenue vs. c.25% for Havells and c.47% for Bajaj Electricals), b) strong brand presence and distribution expansion in calibrated manner, c) ability to maintain best quality standards even in asset light model (outsourced manufacturing), and d) potential shift from the unorganised to organised segment.

While FY18 was poor on account of water heaters undergoing a revamp, FY19 is expected to be a point of inflection for the appliances business. Though gaining significant market share in the appliances segment is difficult due to numerous SKUs and a relatively different distribution set up (more modern retail format, kitchen appliances / utensil stores), in our view, Crompton with its brand strength can definitely make a dent in the medium- term.



Crompton is aggressively exploring opportunities to grow in adjacent categories organically/inorganically with coolers being one of them.

Exhibit 49. Appliances segment revenue growth trend



Source: Company, JM Financial

Business Analysis #2—Lighting and luminaires:

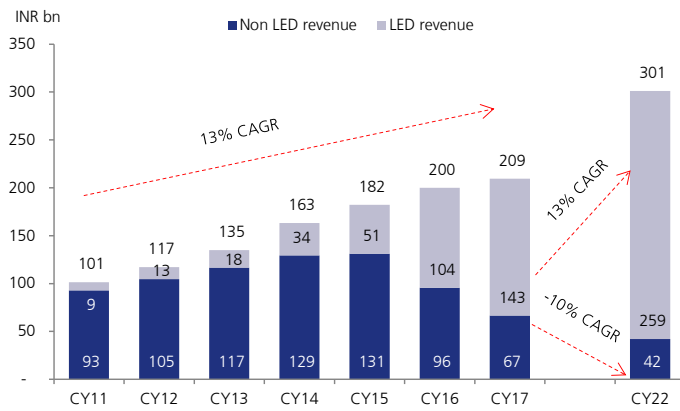
31% of FY18 Revenue (22% of FY18 EBIT)

Industry background:

The Indian electrical lighting industry is valued at INR 210bn in CY17, recording a c.13% CAGR during CY11-17, mainly led by exponential growth in LEDs (c.60% CAGR; c.68% of the market in CY17 vs. 8% in CY11). CFL which grew handsomely in CY10-13, has witnessed a substantial decline (-32% CAGR over CY15-17) as adoption of LEDs picked up (on lower pricing, EESL push and lower power consumption).

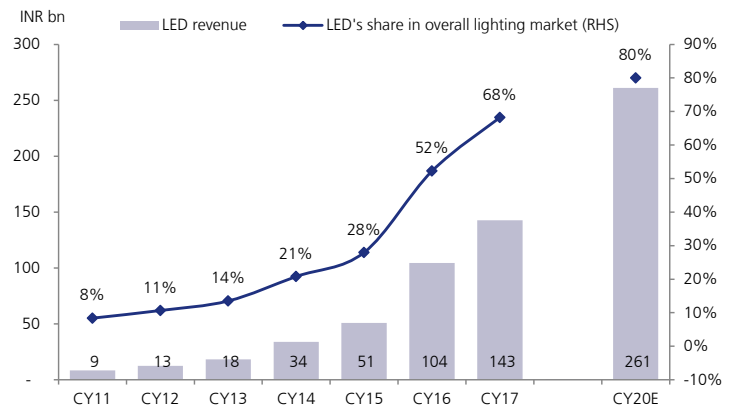
As per Electric Lamp and Component Manufacturers' Association of India (ELCOMA), LEDs' market share is set to increase from the current 68-70% to 86% by CY23 (vs. c.28% in CY15) on government initiatives (UJALA and DELP). The Indian lighting industry is expected to witness 8% CAGR during CY18-23E.

Exhibit 50. Lighting industry structure



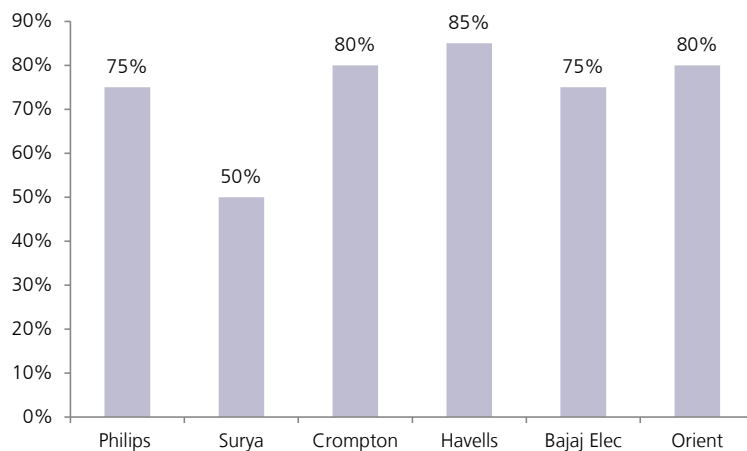
Source: Company, JM Financial, Industry

Exhibit 51. Share of LED increasing fast



Source: Company, JM Financial, Industry

Exhibit 52. Portfolio of most companies have shifted towards LED



Source: Company, JM Financial
These are Indicative mix

The competitive intensity in the segment remains high due to the commoditised nature of products (shrunk the market size) and a higher presence of unorganised players (c.35-40%; focused on the lower end of the market with no real entry barrier while in CFL process technology was a differentiator). However, the organised segment is fairly consolidated with c.70% of market share captured by the top-6 players (Crompton has a market share of 10%; positioned among top-4 organised players; Philips is the market leader) and has the ability to differentiate in terms of design and hence costs.

There is pricing pressure in the B2B segment as well, though there is not much difference in the gross margin between B2B and B2C (B2B:B2C mix is 50:50 for Crompton). A lot of value engineering in the industry is also leading to cost reduction.

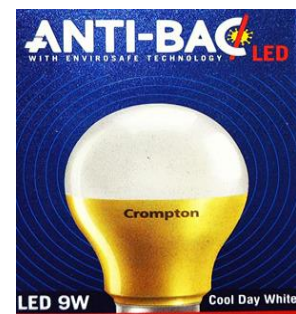
Exhibit 53. Lighting Industry - companies have recorded strong revenue growth in past

Lighting Revenue (INR bn)	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY10-18 Incremental	CAGR 10-18	CAGR 16-18
Philips India	10.4	13.6	19.5	18.7	32.4	34.5	33.0	33.3	35.1	24.7	16%	3%
Surya	5.6	7.5	7.7	9.1	10.8	11.5	13.7	13.5	14.0	8.4	12%	1%
Crompton	5.0	5.8	6.8	7.6	8.9	9.6	11.1	11.3	12.8	7.8	12%	7%
Havells	3.5	4.4	5.5	6.7	7.2	7.4	7.9	9.7	11.6	8.1	16%	21%
Wipro	1.6	2.1	5.1	5.4	5.8	5.9	7.0	8.7	10.1	8.5	26%	20%
Bajaj Electricals	5.4	6.3	7.6	8.6	9.5	9.0	10.5	8.7	8.0	2.6	5%	-13%
Orient	0.6	0.6	1.0	1.3	1.9	2.2	3.1	2.9	3.9	3.3	27%	12%
Jaguar	NA	NA	NA	NA	NA	NA	NA	1.0	2.0	NA	NA	NA
Usha	NA	NA	NA	NA	NA	NA	NA	0.1	0.2	NA	NA	NA

Source: Company, JM Financial includes substantial export revenues for Philips and Wipro

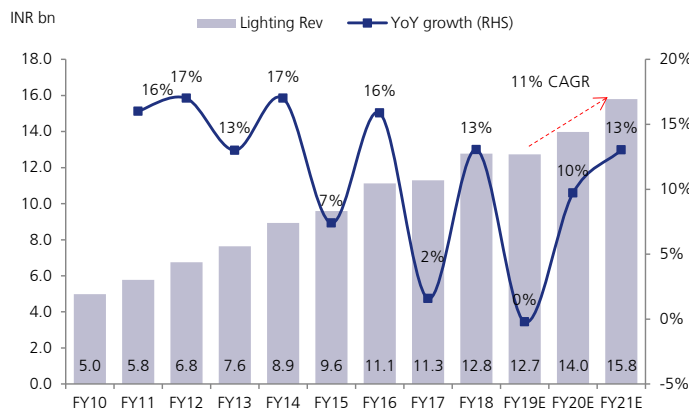
Outlook

We believe Crompton’s lighting revenue will report a CAGR of 11% during FY19-21E mainly due to: a) increasing demand for LED fixtures with a rise in disposable income, b) abatement of price erosion on the bulb side (25% of LED revenue) c) rise in rural electrification and improving power availability across the country coupled with infrastructure developments. However, this is partially offset by: a) the rapid decline in CFL products’ revenue (c.17% of lighting revenue), and b) downward pricing pressures in LED battern segment due to fierce competition and scale benefits. More importantly, now with the management focus on superior design and cost optimisation. We believe, Crompton margins will inch upwards towards double digit by FY20E. As c.80% of its portfolio is already LED, the effect of price decline in CFL will also reduce.



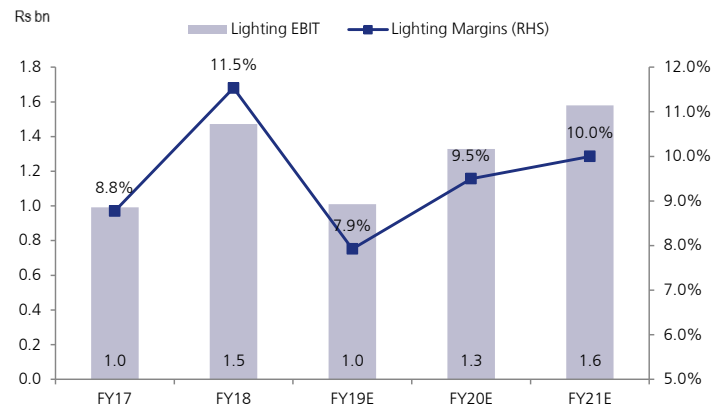
Newly launched anti-bacterial bulb – a unique offering

Exhibit 54. Crompton - Lighting revenue growth trend



Source: Company, JM Financial

Exhibit 55. Lighting segment margins



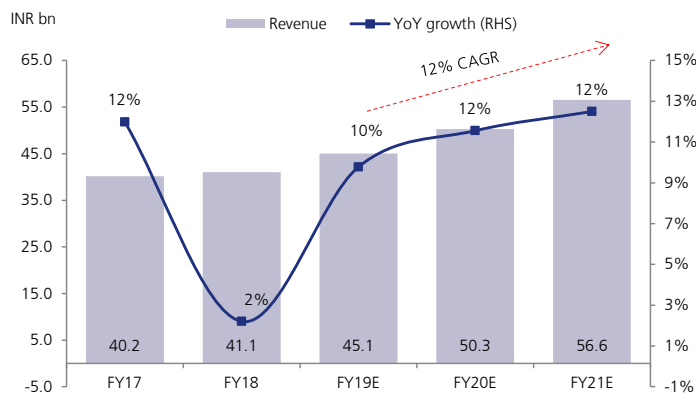
Source: Company, JM Financial

Financial performance analysis:

Revenue outlook: Crompton has reported a revenue CAGR of 13% over FY10-18 (including 'ECD segment' of erstwhile Crompton Greaves for pre-demerger period), mainly driven by: a) strong growth in fans (shift from unorganised to organised; market share gains; scale up in premium fans), b) lighting segment revenue, led by LED products, and c) ramp-up in appliances (17% CAGR; contributing to 6% of revenue); however, it was marginally impacted by comparatively slower growth in pumps (due to sluggish industry growth). It has surpassed industry growth in almost all years in the past in most categories.

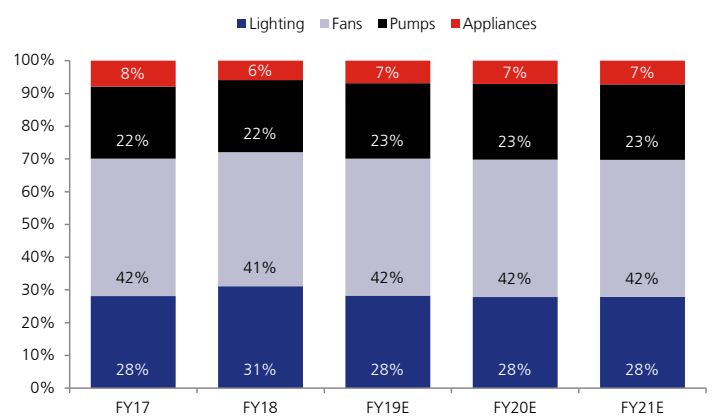
Given the product categories (fans, pumps are largely mature categories) and Crompton's strategy of 'right to win', we estimate 12% CAGR in revenue, driven by almost all categories (expect fans /lighting / pumps FY19-21CAGR of 12% / 11% / 13% respectively). Our estimates include modest growth in new appliances (7.2% of revenue vs 5.9% in FY18).

Exhibit 56. Revenue growth to remain steady



Source: Company, JM Financial

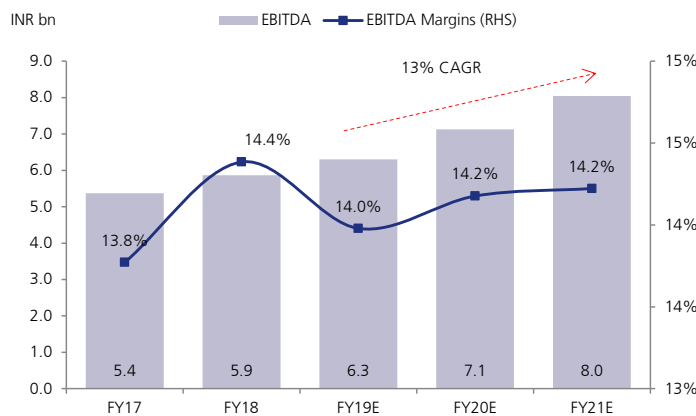
Exhibit 57. Mix broadly remain the same



Source: Company, JM Financial

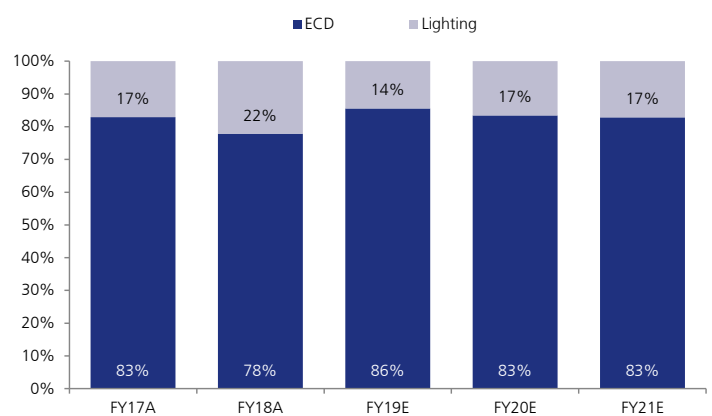
Operating profit outlook: We estimate Crompton's EBITDA to report a 13% CAGR in FY19-21 on the back of revenue growth, and improving premium fans mix. However, EBITDA CAGR will be higher at 16% as the ESOP charges see a decline. We expect EBITDA margins to remain broadly stable as the company sticks to its internal guiding principle of 'bottomline growth better than topline growth'.

Exhibit 58. 13% CAGR in EBITDA (FY19-21)



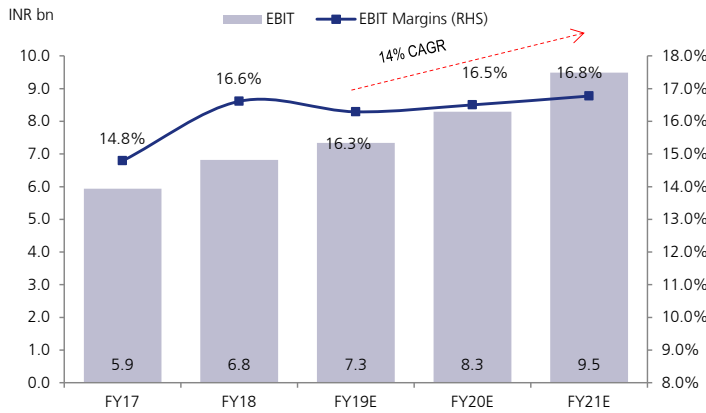
Source: Company, JM Financial

Exhibit 59. EBITDA mix to remain broadly same



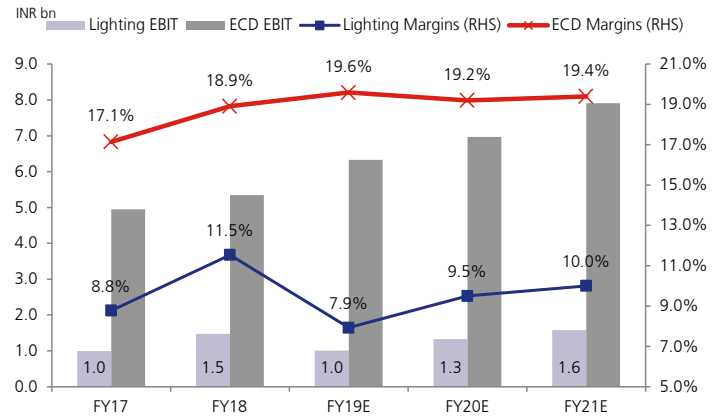
Source: Company, JM Financial excluding unallocable expenses

Exhibit 60. EBIT trends



Source: Company, JM Financial

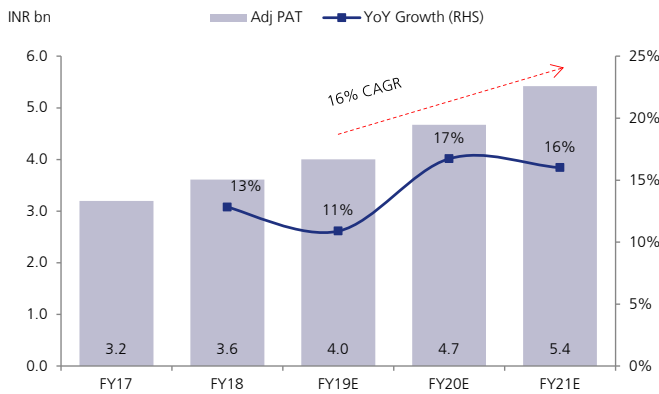
Exhibit 61. Segmental EBIT Margins



Source: Company, JM Financial

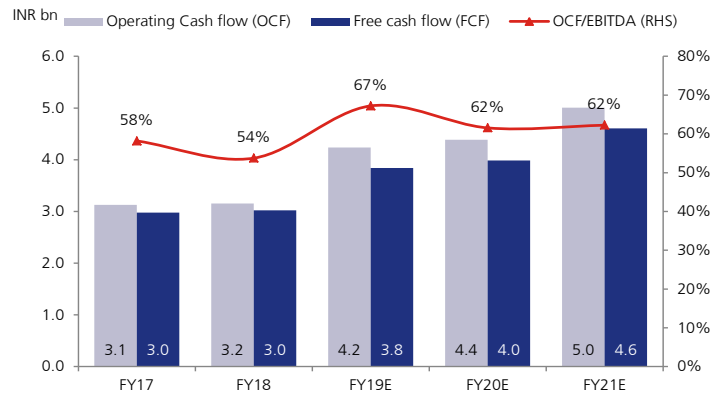
Cash flow and return profile remain excellent: We estimate Crompton to report a 16% CAGR in its net profit (19% on reported basis due to EOSP costs reduction). Crompton is expected to continue its track record of minimal working capital and capex investments. We expect Crompton to report an average cash flow from operations (OCF) of INR 4.6bn (INR 4.2bn FCF as it spends just INR 0.3-0.4bn on capex). Crompton will continue to report market leading average RoE / RoCE / RoIC of 34% / 46% / 39% respectively (RoIC of 141% excluding goodwill).

Exhibit 62. 16% CAGR in Adj PAT



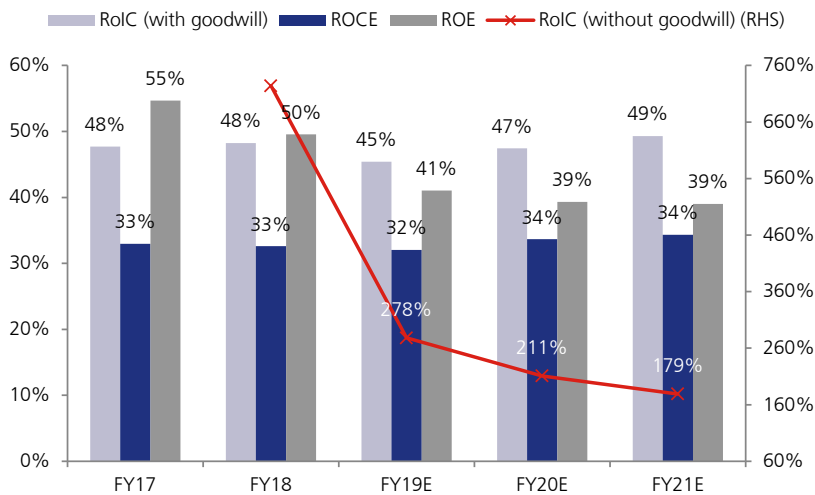
Source: Company, JM Financial

Exhibit 63. Strong OCF and FCF



Source: Company, JM Financial

Exhibit 64. Superior return ratios



Source: Company, JM Financial

Go-to-Market (GTM)

The contribution of modern retail is very less (c3% of sales) as intermediaries are involved in the fans, pumps and geyser categories. Direct dealers / distributors / wholesalers account for approximately 20-25% / 40-50% / 30% of sales for Crompton respectively.

The new management in 2015 started implementing its 'Go-to-Market' strategy to strengthen distribution network. The primary objectives are a) pricing stability (removing channel conflict), and b) deeper penetration.

The entire project is spread across two phases: In the first phase they corrected the pan-India distribution network by removing the price differential between distributors and wholesalers thereby gaining more control over the distribution channel, which is the basic foundation for any B2C business.

Normally, GTM implementation results in challenges for the first 2-3 months as the distributor destocks (primary sales reduce) after which primary sales regularise.

Crompton indicates that regions where GTM is implemented grow at higher a pace (up to 5-7ppt) than other regions. The company believes that wholesalers will still be an important part of the distribution chain in the long term.

Phase 1:

Target Action: The company appoints a distributor, assigns the territory and increases coverage (i.e. retail reach). Simultaneously, it also rationalises the channel pricing structure. Distributor costs are adjusted in such a way that wholesalers can't undercut the distributor (i.e. wholesaler price would be higher than distributor landed price).

Status:

- Lighting segment- All large towns are covered across regions.
- 20-25% of western region covered for all products.
- Crompton has largely distributor driven model for fans in south and already has covered 40% of the market but is about 85% of weighted distribution (i.e. 85% of relevant market is already covered). Hence, requires only pricing stability (similar in Mumbai).
- 20-25% of west is already covered for all products.

- All efforts are focused on West and Northern market. Some geography in eastern regions is already covered.
- It plans to cover 75% of the market over next 18 months

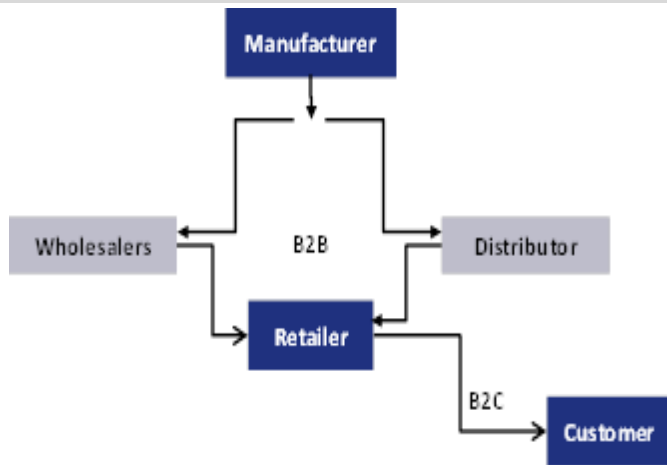
Phase 2

Target Action: The company starts tracking secondary sales. It works along with the distributor to improve wallet share at the retail counters in respective geographies.

Status:

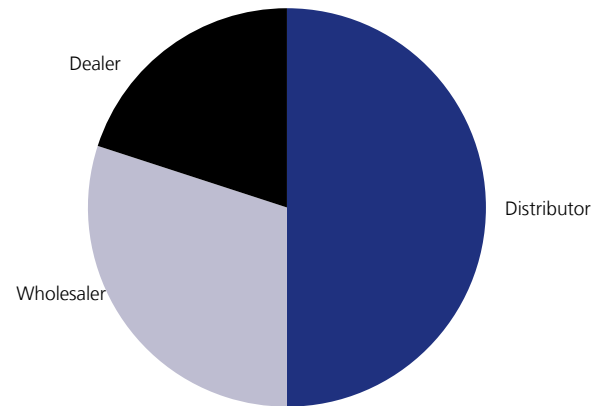
- The company has installed software in 200 distributors (out of over 3000 distributors; however, 1500 would make 80% of sales).
- It plans to cover 800-900 distributors in the next 3-4 months.

Exhibit 65. Distribution Channel



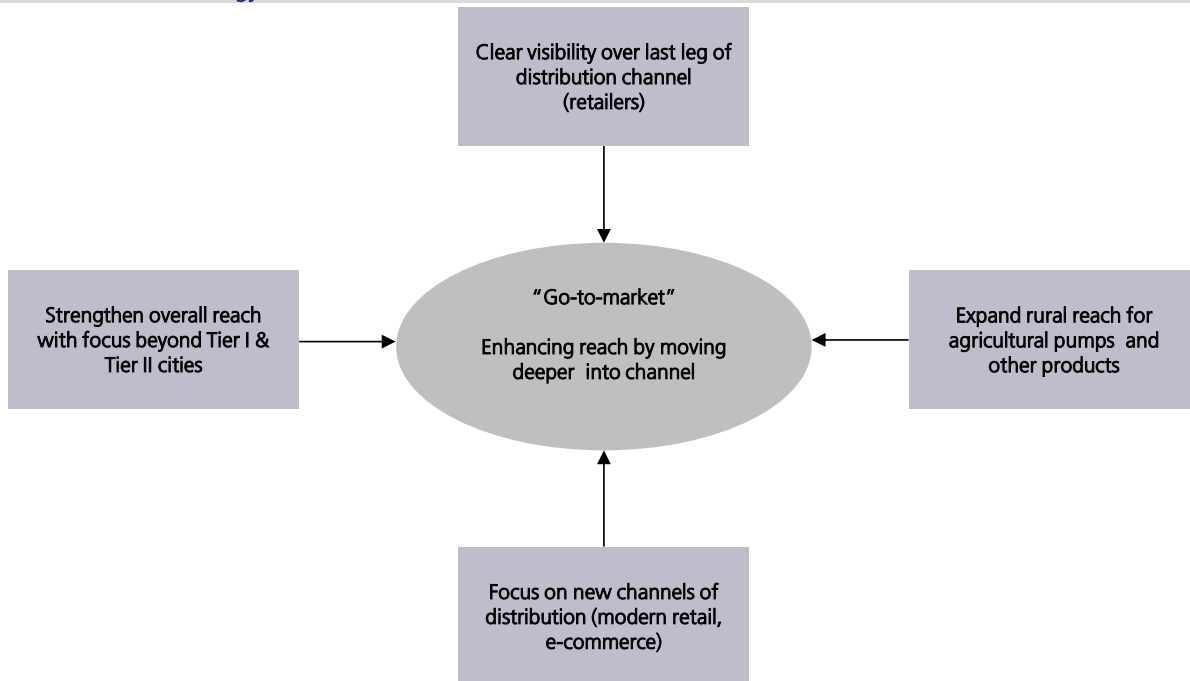
Source: Company, JM Financial

Exhibit 66. Crompton revenue mix through channels



Source: Company, JM Financial

Exhibit 67. Benefits of GTM strategy



Source: Company, JM Financial

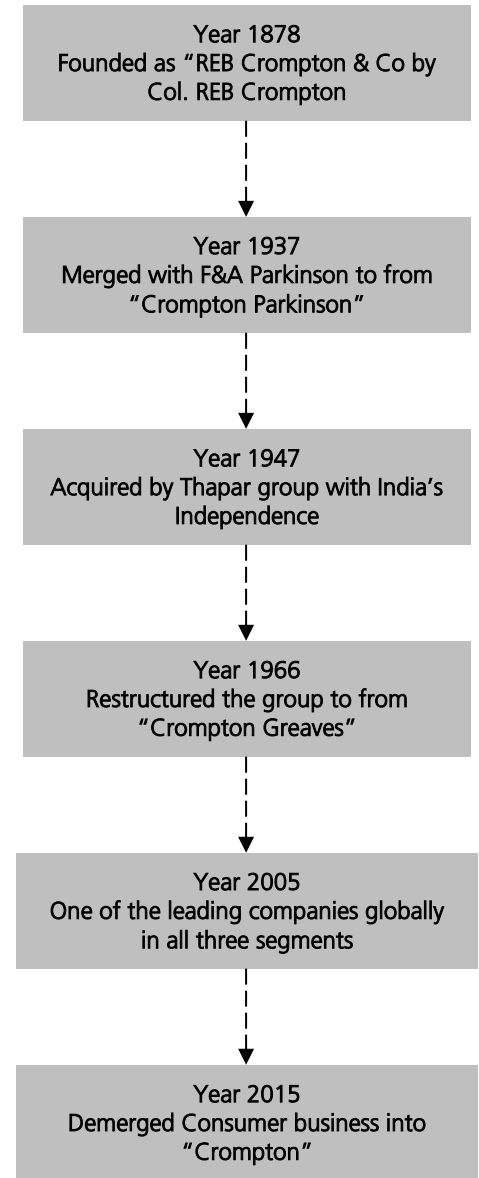
Company Background

Founded as a manufacturer and contractor of electrical equipment in 1878 by Colonel REB Crompton ("REB Crompton & Co."), Crompton has come a long way to become one of the leading consumer electrical companies in India (market leader in fans and domestic pumps). Despite various changes at the helm of operations (from Col. Crompton to Thapar Group a.k.a. Avantha Group to current PE investors - Advent and Temasek), Crompton has been setting the standard for product quality, reliability and performance for decades.

Following the acquisition of Crompton Parkinson in 1947, (erstwhile REB Crompton & Co. merged with F&A Parkinson, an electric motor manufacturing company in 1937) the Thapar family restructured the company to form Crompton Greaves Limited in 1966. By 2005, it had emerged as one of the leading companies in the electrical engineering domain of India, in its three business areas of power systems, industrial systems and consumer products.

However, the distinct nature and risks involved in both power and industrial systems business necessitated different management approaches. Hence, Crompton Greaves Consumer Electricals Limited (Crompton) was incorporated in Feb'15 to separate the consumer products business from the parent company. The company was demerged to accelerate the growth of the consumer business with a realigned focus of the new management (erstwhile MDs of P&G and Racold are now MD and CEO of Crompton) on strengthening brand and product positioning.

Crompton, broadly deals in four product categories, viz., fans, lighting products, pumps and home appliances. Being present in the industry for several decades (as part of the parent), it has developed the strong "Crompton" brand, synonymous with 'quality' and 'reliability'. The company focuses on an asset light business model (mix of in-house and outsourced manufacturing) to deliver superior returns on capital. Crompton has been the market leader in fans, domestic pumps and street lighting for over 20 years. It has manufacturing locations in Goa, Vadodara, Ahmednagar and Baddi, and its products are available in nearly 150,000 retail points across the country. The business is rapidly expanding into new categories and expanding its reach.



Company History

Exhibit 68. Key management and directors

Name	Designation	Brief description
Shantanu Khosla	Managing Director	<p>Joined the Company in Jan'16, Prior to Crompton, served as the MD & CEO of Procter & Gamble India from Jul'02 to Jun'15.</p> <p>Holds a Bachelor of technology in mechanical Engineering from IIT, Mumbai. Has also completed his MBA from IIM, Calcutta.</p>
Mathew Job	Chief Executive Officer	<p>Joined the company in Jan'16. Prior to Crompton, held several key positions with Philips Electronics India Ltd from Jun'94 to Oct'09.</p> <p>Served as VP and MD of Grohe India Pvt Ltd from Nov'09 till Jan'12, and later as MD of Racold (Ariston) Thermo Ltd till Sep'15.</p> <p>Holds a Bachelor in Technology (Electrical & Electronics) and is an alumnus of the IIM, Calcutta.</p>
Sandeep Batra	Chief Financial Officer	<p>Has served as CFO of ICI India and Pidilite Industries before joining Crompton.</p> <p>A chartered accountant by profession with over 25 years of experience</p> <p>An alumnus from St. Xavier's College, Kolkata, and a Company Secretary by profession.</p>
Shweta Jalan (MD, Advent India)	Non-Executive Additional Director at Crompton	<p>Serves as the MD of Advent India PE Advisors Private Limited having worked at ICICI Venture for almost a decade.</p> <p>Has a range of experience across various sectors, including healthcare, consumer and IT/BPO.</p>
Sahil Dalal (Director, Advent India)	Non-Executive Additional Director at Crompton	<p>Serves as director at Advent India and Advent International Corporation. After joining Advent in 2009, focused on the industrials and technology, media and telecom sectors.</p> <p>Prior to business school, served as an associate with JLL Partners, a New York-based private equity firm, focusing on buyout and growth equity transactions.</p>
Promeet Ghosh (MD, Temasek India)	Non-Executive Additional Director at Crompton	<p>Currently serving as MD at Temasek India. Prior to joining Temasek in 2012, has served as a partner with BofA providing M&A and advisory services along with bearing the responsibility of maintaining senior relationships with large conglomerates.</p>

Source: Company, JM Financial

Annexure

Exhibit 69. Channel feedback on Crompton and competition

Regions	Comments
Northern	<ul style="list-style-type: none"> - Rural electrification has helped in sales of consumer appliances/durables - In fans segment, Havells is the most expensive while on an average Crompton remains cheaper than Havells. Havells is the category leader in fans with good designs, dealer schemes, product finishing and packaging and higher advertisements leading to higher brand perception and selling price - Crompton has a loyal customer base in old/traditional people while Havells on the other hand does a lot of marketing and is popular in the younger generation - Anti dust and Air 360 degree fans are popular and customers specifically ask for them - Small builders tend to prefer Crompton/Bajaj while those with more expensive projects prefer installing Havells - Crompton is the preferred brand for middle class people planning to buy a branded fan while Havells can be too expensive for them - In geysers, the revamped range and rationalised pricing helped sell well this season but Havells continues to do well in the market with good product quality and 7 year warranty scheme - On the distribution front same day delivery / urgent delivery facility had scope for improvement
Eastern	<ul style="list-style-type: none"> - Intense competition in product categories, but the market is large for everyone. Advertisements do impact customers but it takes to convert that impact into purchases. - In standard fan category, Havells model is bestselling (INR 1,500-1,700), whereas, in premium category, Crompton fans are best sellers (INR 4,000-5,000) - Builders generally prefer Crompton/Bajaj fans in most of their projects.
West and Central	<ul style="list-style-type: none"> -In the premium fans category, Havells is the leader, followed by Crompton and then Orient. Havells is a big brand and it continues to do advertisements and promotional activities to maintain its brand image. In premium fans, Havells is c.5-7% expensive and in standard category it is c.15-20% expensive than Crompton. Orient fans are c.5-10% cheaper than Crompton. Dealers have experienced a price increase of c.2% every 3 months by Crompton and Havells. -For after sale service, Crompton and Havells are considered the best in the industry. - Aura and Evancer models of Crompton are selling well while there is competition from Aero series of Orient - All the three fan segments (economy/decorative/premium) are doing good for Crompton -In rural/backward areas, Crompton/Havells face competition from regional fan players. Fans by regional players are c.30-40% cheaper than Crompton. - The Mini Crest pump is of good quality and doing well , it has competition from Kirloskar Chotu but Chotu is very small, hence, people prefer buying crest mini - In the Industrial pumps category, Kirloskar pumps are the most selling, though they are c.5% expensive than Crompton, they have made a goodwill in the market for its product quality and performance. - In pumps, price differential with unorganised segment remains at c.20-25% with no visible shift from unorganised to organised segment - Revamped water heater selling much better than last year and customer complaints have also been handled well
Southern	<ul style="list-style-type: none"> - Many dealers have highlighted that they only keep premium fans (above INR 3,000), as premium fans category has the highest share in the overall south India fan market. - Crompton fans provide the optimum mix of a good brand, good quality and at a reasonable price and hence are popular. Even for projects most builders prefer Crompton fans. Both, Crompton and Havells give 2 years warranty on fans. - Crompton is a top brand in fans and the premium segment is growing fast now, though Havells is the leader in the premium category. Best-selling fans are the ones in INR 1800-2000 range. Even the sub economy is good for Crompton - In geysers category, Racold is the most selling brand as it is famous for its product quality and shelf life, which is followed by Crompton and Havells. Havells is giving 7 year warranty on geysers which is giving tough competition to Crompton.
General Point	<ul style="list-style-type: none"> - Internet of Things (IoT) based products like wi-fi switches and fans are getting famous in the market, customers are getting attracted to these products and appreciate the technological innovation, but it is not easily getting converted into purchases. Dealers believe as these products are expensive than the premium category also, it is tough for these products to see huge volumes.

Source: Industry, JM Financial

Exhibit 70. Crompton - Recent Financial Performance

INR mn	3Q18	3Q19	YoY	2Q19	QoQ	9MFY18	9MFY19	YoY
Revenue	9,382	10,303	10%	10,378	-1%	29,534	32,720	11%
Electrical durables	6,117	7,116	16%	7,128	0%	20,397	23,492	15%
Lighting	3,265	3,188	-2%	3,250	-2%	9,391	9,228	-2%
Cost of RM Consumed	6,277	7,032	12%	7,411	-5%	20,292	22,586	11%
% of sales	66.9%	68.3%		71.4%		68.7%	69.0%	
Gross Margin	33.1%	31.7%	-130 bps	28.6%	320 bps	31.3%	31.0%	-30 bps
Employee Costs	602	670	11%	585	15%	1,709	1,884	10%
% of sales	6.4%	6.5%		5.6%		5.8%	5.8%	
Other Expenses	1,198	1,250	4%	1,053	19%	3,449	3,808	10%
% of sales	12.8%	12.1%		10.1%		11.7%	11.6%	
Total Expenditure	8,077	8,952	11%	9,049	-1%	25,450	28,278	11%
% of sales	86.1%	86.9%		87.2%		86.2%	86.4%	
EBITDA	1,305	1,351	4%	1,329	2%	4,084	4,443	9%
EBITDA Margin	13.9%	13.1%	-80 bps	12.8%	30 bps	13.8%	13.6%	-30 bps
Depreciation	32	33	1%	32	1%	95	96	1%
EBIT	1,273	1,318	4%	1,297	2%	3,988	4,347	9%
Other Income	66	124	87%	98	26%	198	311	57%
Finance Costs	158	150	-5%	150	0%	477	453	-5%
Forex Loss/(Gain)	0	0		0		0	0	
Profit Before Tax	1,180	1,292	9%	1,245	4%	3,710	4,204	13%
Tax Expense	345	405	17%	386	5%	1,086	1,326	22%
Tax Rate	29.3%	31.3%	0 bps	31.0%	40 bps	29.3%	31.5%	0 bps
XO (Income)/Expenses	140	90		90		418	270	
Reported Net Profit	695	797	15%	769	4%	2,206	2,609	18%
Reported EPS	1.1	1.3	14%	1.2	3%	3.5	4.1	18%
Adjusted Net Profit	789	856	9%	829	3%	2,486	2,788	12%
Adjusted EPS	1.3	1.4	8%	1.3	3%	4.0	4.4	12%

Source: Company, JM Financial

Exhibit 71. Segmental Performance

INR mn	3Q18	3Q19	YoY	2Q19	QoQ	9MFY18	9MFY19	YoY
Total Revenue	9,382	10,303	10%	10,378	-1%	29,788	32,720	10%
ECD Revenue	6,117	7,116	16%	7,128	0%	20,397	23,492	15%
Lighting revenue	3,265	3,188	-2%	3,250	-2%	9,391	9,228	-2%
Total EBIT (Reported)	1,564	1,610	3%	1,554	4%	4,735	5,153	9%
Lighting	452	282	-38%	206	37%	1,099	676	-38%
ECD	1,112	1,327	19%	1,348	-2%	3,636	4,477	23%
EBIT Margin	16.7%	15.6%	-100 bps	15.0%	70 bps	15.9%	15.7%	-10 bps
Lighting	13.8%	8.9%	-500 bps	6.3%	250 bps	11.7%	7.3%	-440 bps
ECD	18.2%	18.7%	50 bps	18.9%	-30 bps	17.8%	19.1%	120 bps

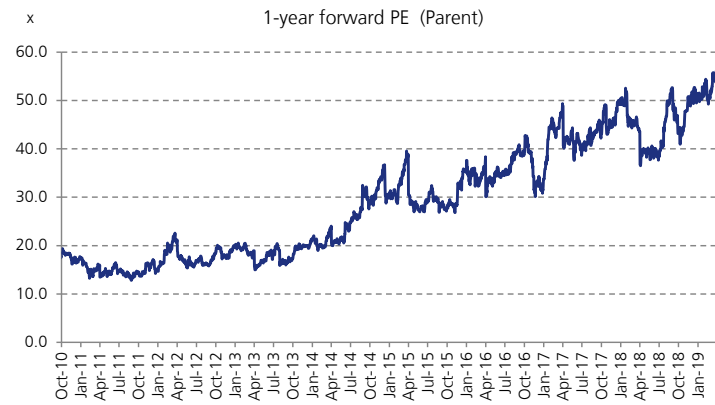
Source: Company, JM Financial

Exhibit 72. Quarterly Comparison ECD Companies

INR mn	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	3QFY19 YoY	3QFY19 QoQ	9MFY18	9MFY19	YoY
Net Sales												
Havells (incl-Lloyd)	18,605	17,774	19,658	25,349	25,963	21,910	25,184	28%	15%	56,037	73,058	30%
V-Guard	5,595	5,639	5,297	6,586	6,349	5,976	5,943	12%	-1%	16,531	18,267	11%
TTK Prestige	3,575	5,147	4,580	4,164	4,189	5,523	5,520	21%	0%	13,301	15,232	15%
Bajaj Electricals	10,297	9,356	11,451	16,063	11,399	15,984	21,618	89%	35%	31,104	49,002	58%
Crompton Consumer	10,555	9,597	9,382	11,263	12,039	10,378	10,303	10%	-1%	29,534	32,720	11%
Symphony	1,298	1,843	2,176	1,554	790	1,480	1,590	-27%	7%	5,316	3,860	-27%
Orient	3,046	3,258	3,463	6,230	4,355	3,752	4,204	21%	12%	9,767	12,311	26%
EBITDA												
Havells	1,854	2,649	2,622	3,577	3,208	2,578	2,946	12%	14%	7,126	8,731	23%
V-Guard	346	670	494	739	565	498	450	-9%	-10%	1,511	1,513	0%
TTK Prestige	447	763	665	578	555	810	853	28%	5%	1,875	2,217	18%
Bajaj Electricals	544	459	703	1,350	798	799	1,378	96%	72%	1,707	2,975	74%
Crompton Consumer	1,432	1,347	1,305	1,785	1,763	1,329	1,351	4%	2%	4,084	4,443	9%
Hawkins	65	240	192	209	168	276	198	3%	-28%	497	642	29%
Symphony	194	642	873	495	10	450	490	-44%	9%	1,709	950	-44%
Orient	96	175	265	829	265	171	270	2%	58%	536	706	32%
EBITDA margins												
Havells	10.0%	14.9%	13.3%	14.1%	12.4%	11.8%	11.7%	-160 bps	-10 bps	12.7%	12.0%	-80 bps
V-Guard	6.2%	11.9%	9.3%	11.2%	8.9%	8.3%	7.6%	-180 bps	-80 bps	9.1%	8.3%	-90 bps
TTK Prestige	12.5%	14.8%	14.5%	13.9%	13.2%	14.7%	15.5%	90 bps	80 bps	14.1%	14.6%	50 bps
Bajaj Electricals	5.3%	4.9%	6.1%	8.4%	7.0%	5.0%	6.4%	20 bps	140 bps	5.5%	6.1%	60 bps
Crompton Consumer	13.6%	14.0%	13.9%	15.8%	14.6%	12.8%	13.1%	-80 bps	30 bps	13.8%	13.6%	-30 bps
Hawkins	8.1%	14.7%	13.8%	12.3%	13.9%	16.0%	11.3%	-250 bps	-470 bps	13.0%	13.7%	70 bps
Symphony	15.0%	34.8%	40.1%	31.9%	1.3%	30.4%	30.8%	-930 bps	40 bps	32.2%	24.6%	-750 bps
Orient	3.2%	5.4%	7.6%	13.3%	6.1%	4.6%	6.4%	-120 bps	190 bps	5.5%	5.7%	20 bps
PAT												
Havells	1,239	1,617	1,670	2,297	2,163	1,753	1,885	13%	8%	4,526	5,801	28%
V-Guard	248	465	358	553	422	382	337	-6%	-12%	1,070	1,141	7%
TTK Prestige	270	490	437	370	359	538	568	30%	6%	1,197	1,465	22%
Bajaj Electricals	297	220	368	867	405	341	639	74%	88%	885	1,385	56%
Crompton Consumer	895	802	789	1,125	1,102	829	856	9%	3%	2,486	2,788	12%
Hawkins	46	188	125	128	107	176	125	0%	-29%	358	408	14%
Symphony	240	500	668	419	50	380	440	-34%	16%	1,408	870	-38%
Orient	3	46	122	470	120	69	118	-3%	71%	170	307	80%

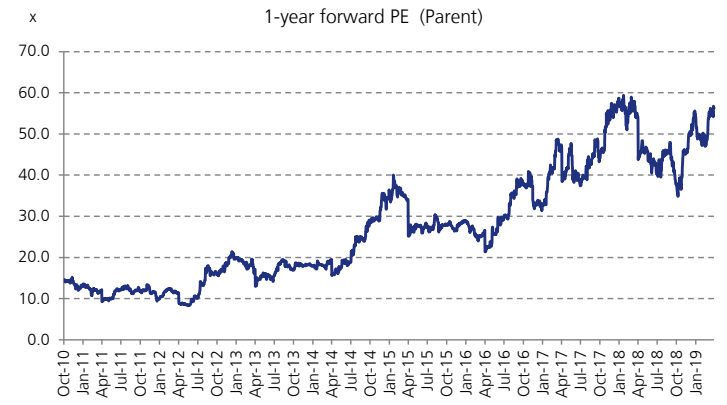
Source: Company, JM Financial

Exhibit 73. Havells PE Band



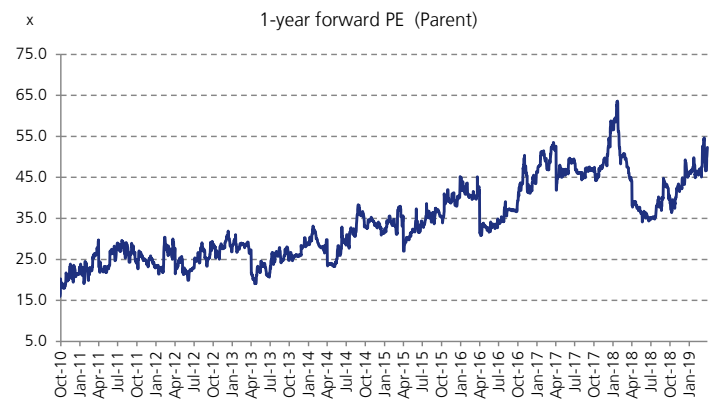
Source: Bloomberg as on 31st March, JM Financial

Exhibit 74. V-Guard PE Band



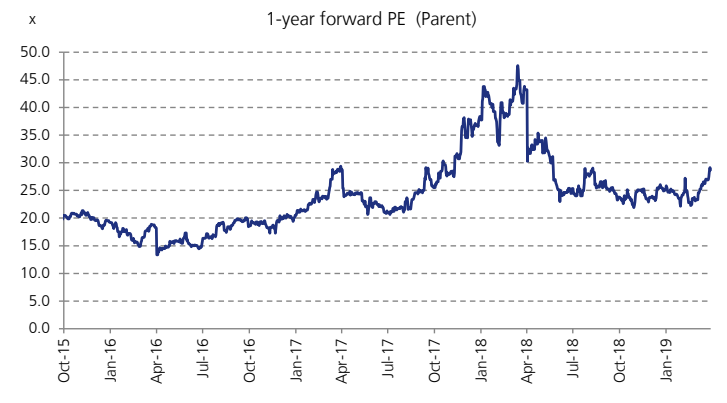
Source: Bloomberg as on 31st March, JM Financial

Exhibit 75. TTK Prestige PE Band



Source: Bloomberg as on 31st March, JM Financial

Exhibit 76. Bajaj Electricals PE Band



Source: Bloomberg as on 31st March, JM Financial

Financial Tables (Standalone)

Income Statement		(INR mn)				
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E	
Net Sales	39,009	40,797	45,065	50,273	56,555	
Sales Growth	NA	4.6%	10.5%	11.6%	12.5%	
Other Operating Income	0	0	0	0	0	
Total Revenue	39,009	40,797	45,065	50,273	56,555	
Cost of Goods Sold/Op. Exp	27,335	27,996	31,042	34,537	39,023	
Personnel Cost	2,079	2,269	2,533	2,913	3,350	
Other Expenses	4,223	4,664	5,190	5,695	6,139	
EBITDA	5,372	5,868	6,300	7,127	8,044	
EBITDA Margin	13.8%	14.4%	14.0%	14.2%	14.2%	
EBITDA Growth	NA	9.2%	7.3%	13.1%	12.9%	
Depn. & Amort.	110	126	129	131	134	
EBIT	5,261	5,742	6,171	6,996	7,910	
Other Income	195	308	451	380	460	
Finance Cost	655	637	603	401	220	
PBT before Excep. & Forex	4,801	5,412	6,018	6,974	8,149	
Excep. & Forex Inc./Loss(-)	-526	-558	-360	-250	-120	
PBT	4,276	4,854	5,658	6,724	8,029	
Taxes	1,419	1,617	1,895	2,219	2,689	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	2,857	3,238	3,764	4,505	5,340	
Adjusted Net Profit	3,200	3,610	4,003	4,673	5,420	
Net Margin	8.2%	8.8%	8.9%	9.3%	9.6%	
Diluted Share Cap. (mn)	626.8	626.8	632.2	633.6	635.0	
Diluted EPS (INR)	5.1	5.8	6.3	7.4	8.5	
Diluted EPS Growth	NA	12.8%	9.9%	16.5%	15.7%	
Total Dividend + Tax	0	1,320	1,907	2,675	3,064	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E	
Profit before Tax	4,276	4,584	5,658	6,724	8,029	
Depn. & Amort.	110	126	129	131	134	
Net Interest Exp. / Inc. (-)	466	350	152	21	-240	
Inc (-) / Dec in WCap.	-548	-933	-501	-451	-408	
Others	288	839	690	180	180	
Taxes Paid	-1,466	-1,812	-1,895	-2,219	-2,689	
Operating Cash Flow	3,126	3,154	4,234	4,387	5,007	
Capex	-150	-135	-394	-400	-400	
Free Cash Flow	2,976	3,020	3,841	3,987	4,607	
Inc (-) / Dec in Investments	-3,191	-474	500	-1,500	0	
Others	148	279	451	380	460	
Investing Cash Flow	-3,193	-331	557	-1,520	60	
Inc / Dec (-) in Capital	0	7	11	3	3	
Dividend + Tax thereon	0	-1,129	-1,907	-2,675	-3,064	
Inc / Dec (-) in Loans	56	7	-3,000	0	-1,700	
Others	-230	-641	-603	-401	-220	
Financing Cash Flow	-175	-1,755	-5,499	-3,074	-4,982	
Inc / Dec (-) in Cash	-242	1,069	-708	-208	85	
Opening Cash Balance	898	656	1,725	1,017	810	
Closing Cash Balance	656	1,725	1,017	810	894	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E	
Shareholders' Fund	5,178	7,895	10,453	12,466	14,924	
Share Capital	1,254	1,254	1,264	1,267	1,270	
Reserves & Surplus	3,924	6,641	9,189	11,198	13,654	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	6,478	6,486	3,486	3,486	1,786	
Def. Tax Liab. / Assets (-)	-295	-479	-479	-479	-479	
Total - Equity & Liab.	11,361	13,902	13,460	15,473	16,231	
Net Fixed Assets	8,615	8,616	8,887	9,155	9,421	
Gross Fixed Assets	8,725	8,849	9,249	9,649	10,049	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	110	234	363	494	628	
Capital WIP	1	6	0	0	0	
Investments	3,189	3,676	3,176	4,676	4,676	
Current Assets	9,034	11,474	11,839	12,876	14,463	
Inventories	2,734	3,032	3,350	3,737	4,204	
Sundry Debtors	4,728	5,536	6,173	6,887	7,747	
Cash & Bank Balances	697	1,774	1,066	859	944	
Loans & Advances	875	1,131	1,249	1,394	1,568	
Other Current Assets	0	0	0	0	0	
Current Liab. & Prov.	9,477	9,869	10,441	11,235	12,329	
Current Liabilities	7,128	7,682	8,025	8,539	9,297	
Provisions & Others	2,349	2,187	2,416	2,695	3,032	
Net Current Assets	-443	1,604	1,397	1,641	2,134	
Total - Assets	11,361	13,902	13,460	15,473	16,231	

Source: Company, JM Financial

Closing cash does not match with cash and bank balances due to fixed deposits

Dupont Analysis						
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E	
Net Margin	8.2%	8.8%	8.9%	9.3%	9.6%	
Asset Turnover (x)	3.4	3.2	3.3	3.5	3.6	
Leverage Factor (x)	2.2	1.9	1.5	1.3	1.2	
RoE	61.8%	55.2%	43.6%	40.8%	39.6%	

Key Ratios						
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E	
BV/Share (INR)	8.3	12.6	16.5	19.7	23.5	
ROIC	90.5%	45.9%	44.1%	46.6%	48.9%	
ROE	61.8%	55.2%	43.6%	40.8%	39.6%	
Net Debt/Equity (x)	1.1	0.6	0.2	0.2	0.1	
P/E (x)	45.2	40.1	36.5	31.3	27.1	
P/B (x)	28.0	18.3	14.0	11.7	9.8	
EV/EBITDA (x)	28.3	25.7	23.6	20.9	18.3	
EV/Sales (x)	3.8	3.6	3.2	2.9	2.6	
Debtor days	44	50	50	50	50	
Inventory days	26	27	27	27	27	
Creditor days	77	80	76	72	70	

Source: Company, JM Financial

APPENDIX I

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(formerly known as JM Financial Securities Limited)

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd., National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

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Rating	Meaning
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Hold	Price expected to move in the range of 10% downside to 15% upside from the current market price.
Sell	Price expected to move downwards by more than 10%

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