

Crompton Greaves Consumer Electricals Ltd

Higher focus on market share

INDIA | MIDCAP | Initiating Coverage | CROMPTON IN

25 December 2020

Why do we like Crompton Greaves Consumer Electricals ?

- Market leader in fans; focused on increasing its market share by adding products in the mass and premium segments.
- Rising reach and offering in appliances led to market-share gains; #2 in water heaters.
- Leadership in residential pumps; improving its offerings here.
- In lighting, lower pricing pressure helped improve margins.
- Well-built distribution network and brand recall. GTM (go-to-market strategy) is helping it to increase its presence in tier 2 and 3 cities.
- 'Five-dimensional' growth strategy – brand, portfolio, distribution, operational, organisational excellence – is working.
- Along with market-share gains, it is focused on improving profitability via cost optimisation.
- Revenue and earning CAGR of 15%/19% over the next two years.
- Debt-free company + asset-light business model = healthy free cash-flow of Rs 8.9bn over the next two years.
- Healthy core ROCE/ROE of 61.3%/30.3% in FY23 – the highest in the consumer electricals space.

We initiate coverage on Crompton Greaves Consumer Electricals (CG) with a Buy recommendation and a target of Rs 433; our target PE multiple is 40x – at a 13% discount to the industry leader, despite CG's higher return ratios profile. Historically, CG has traded at an average PE of 30x; we expect that with profitable strong growth and market share gain in appliances and fans, it will see re-rating in its valuation multiple.

CG: Market leader in fans, gaining market share in appliances: CG is a leading player in consumer electrical products (fans, pumps, lighting, etc.) and has added appliances to its portfolio. Currently, about 50% of its revenue comes from fans, which remains its bastion. It is increasing its presence in the premium segment. It has c.26% market share in fans (industry leader). Over the last two years, CG has strengthened its appliances portfolio, and increased its visibility through its robust distribution network. Products such as water heaters, air-coolers and mixers have led to higher market share. In water heaters, CG is #2. Each of these products provides huge market potential and scope for accelerated growth because of its better offerings and reach. We expect ECD (electrical consumer durables) division's revenue CAGR at 16% over the next 2-3 years, and EBIT margins of 19.8%/21.1% in FY22/FY23. Over FY21-23, we see CG's revenue CAGR at 15% and EBITDA margins rising to 15% in FY23 vs. 13.2% in FY20.

Outlook and valuation

- CG trades at 33x PE and 23.4x EV/EBITDA on FY23 numbers vs. Havells' at 46x and 33x, Industry PE at 30x. We expect the valuation gap with peer to narrow, as over the next two years, CG will show healthy revenue growth and improvement in margins, majorly driven by:
 1. Fans: Moving up in the premium segment; better realisations.
 2. Appliances: Gaining market share. Management is focused on gaining share in water heaters where it currently holds #2 position and in other appliances.
 3. Lighting portfolio stabilising; margins will improve with lower pricing pressure.
 4. Cost-optimization program improving financials.
- We see revenue and earning CAGR of 15%/19% over the next two years.
- CG has a successful asset-light business model, lower working capital requirement, and higher asset sweating (sales/gross block is c. 24x in FY20 and asset turnover is c.1.7x), which results in healthy cash flow and return ratios (best in the consumer durable space) with core ROCE/ROE of 61.3%/30.3% in FY23, which are similar to FMCG companies.
- With a debt-free balance sheet and lower working-capital requirement, we expect FCF of Rs 8.9bn over the next two years, which will result in FCF/PAT of 77%/70% in FY22/FY23 – the highest in the industry.
- With the above positives, market share gain, and with reducing overhang of PE stake sales, its valuation should re-rate.

BUY

CMP Rs 357

TARGET RS 433 (+21%)

COMPANY DATA

O/S SHARES (MN) :	627
MARKET CAP (RSBN) :	224
MARKET CAP (USDBN) :	3.0
52 - WK HI/LO (RS) :	394 / 178
LIQUIDITY 3M (USDMMN) :	10.3
PAR VALUE (RS) :	2

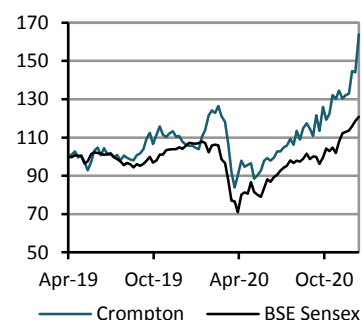
SHARE HOLDING PATTERN, %

	Sep 20
PROMOTERS :	26.19
PUBLIC :	73.19

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	15.6	35.8	45.3
REL TO BSE	10.1	7.3	32.0

PRICE VS. SENSEX



Source: Phillip Capital India Research

KEY FINANCIALS

Rs mn	FY20	FY21E	FY22E
Net Sales	45.12	45.47	52.87
EBIDTA	5.97	6.57	7.41
Net Profit	4.95	4.82	5.43
EPS, Rs	7.9	7.7	8.7
PER, x	45.0	46.1	41.0
EV/EBIDTA, x	36.6	32.9	28.9
P/BV, x	15.2	12.7	10.8
ROE, %	38.5	30.0	28.5

Source: PhillipCapital India Research Est.

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Company overview

CG has two segments:

- **Electrical consumer durables (ECD):** Which includes fans and appliances.
- **Lightings:** LED and non-LEDs; focused on both B2C and B2B categories.

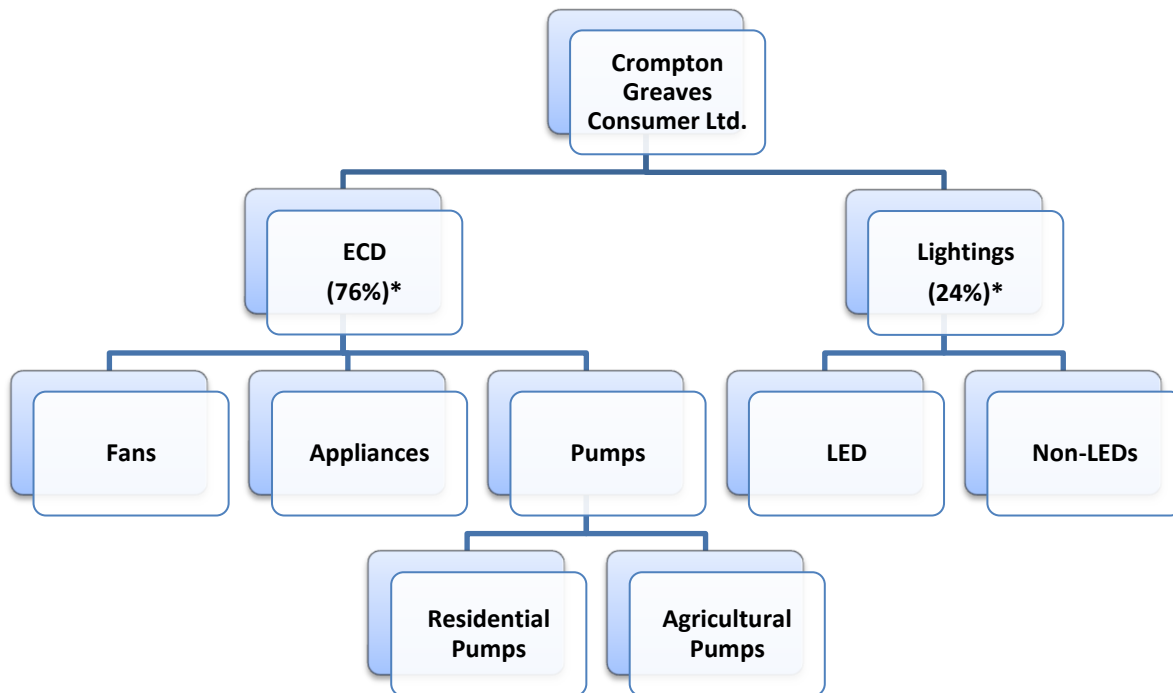
FANS: CG is a market leader in fans with c.26% market share; it is continuously increasing its share by adding products in the mass and premium segments. Currently, c.50% of its revenue comes from fans, a stronghold, with increasing presence in premium categories.

APPLIANCES: It is increasing its offering (product range) and has a high focus on market share. Currently, CG has achieved no. 2nd position in water heaters. Its products have huge market potential, which has resulted in accelerated growth and rising market share in this segment.

LIGHTING: B2C industry is stabilising, helping in improving margins.

We expect CG to report revenue CAGR of 15% over the next 2-3 years. It has a robust distribution network of over 100,000+ touch points, which provides opportunities to diversify into related products and use the channel more effectively, with marginal marketing costs.

CG's business model



Source: Company, PhillipCapital India Research Note: *As % of FY21 sales

CG is riding on its five-dimensional growth strategy - brand, portfolio, distribution, operational, and organisational excellence



Source: Company, PhillipCapital India Research

CG holds a leading position in the Indian fans market

Its fans revenue was c. Rs 2.2bn in FY20 and 26% share of the organised market. The fans industry remains competitive with new players entering the market and every major/bigger player fighting for market share. However, CG has continuously gained market share over 3-4 years, majorly because of its *brand, distribution network, product offering and aggressive pricing*.

This industry is likely to see a CAGR of 7%-8% over 2-3 years, driven by:

1. Rural penetration – due to increased electrification, affordable housing, market penetration, and better income levels.
2. Growth in urban households – due to shorter replacement cycles with premiumisation, better ergonomics, and energy-saving technologies.
3. Mandatory new energy rating system – which will increase demand for compliant products; positive for organized players. Channel expects this to increase realizations (likely to be implemented from June 2021).

The share of energy-efficient, premium, and super-premium fans should increase

This will provide an opportunity for rapid growth to CG, as it increases its presence in tier-3 and 4 cities (with deeper presence in tier-2 and 3 cities) and as its product portfolio strengthens with premium fans contributing c.20% of sales (according to our channel checks). We expect the premium and super premium segments to show a growth of 25% over the next 2-3 years, majorly driven by increased spending power, companies moving up in this segment, and changing BEE norms.

Top-5 leaders in fans and average realisation; CG is a leader in fans

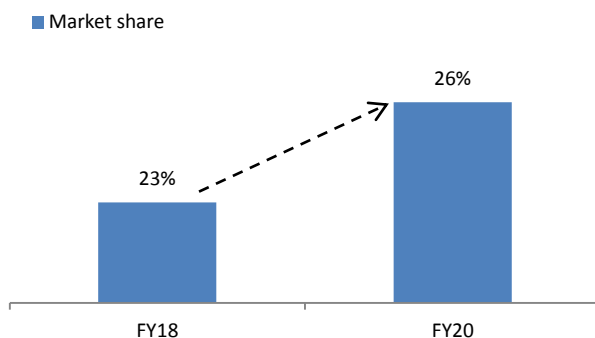
Company	Market share (%)	Avg. realisation (per fan)#	Volumes #
Crompton Consumer	26%	1,350	160
Orient	20%	1,350	99
USHA	20%	1,150	99
Havells	14%	1,600	60
Bajaj Elect	10%	1,200	50

Source: Company, PhillipCapital India Research Note: # Channel check & PC Estimate

What happened in the fans industry over the last 2-3 years?

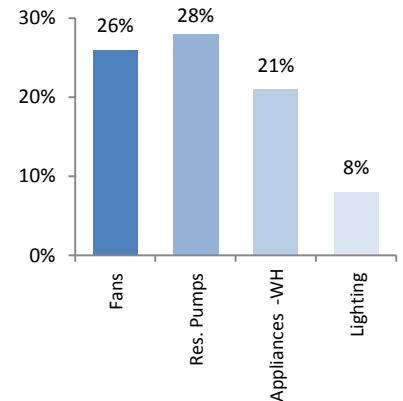
With GST at 18%, the price difference between branded and unbranded fans reduced to Rs 150 vs. Rs 250 earlier. Also, with demonetisation and COVID, unorganised share reduced. There should be a further shift to organised/branded players over the next 2-3 years. Also, with increasing spending power, the focus on the premium segment will increase. CG is well-placed to capitalise this opportunity with its strong brand, products, and distribution network.

CG: Leader in fans, continuously gaining market share due to aggressive pricing and...



Source: Company, PhillipCapital research

CG: Higher focus on gaining market share.



CG: Product offering in fans

- Ceiling
- Table
- Pedestal
- Wall-mounted
- Ventilating
- Heavy-duty exhaust
- Air-circulators
- Industrial

Channel check:

Brand and distribution matter a lot in the fans industry. Over the last five years, many companies entered this market because of low entry barriers, but were not able to gain share or profits.

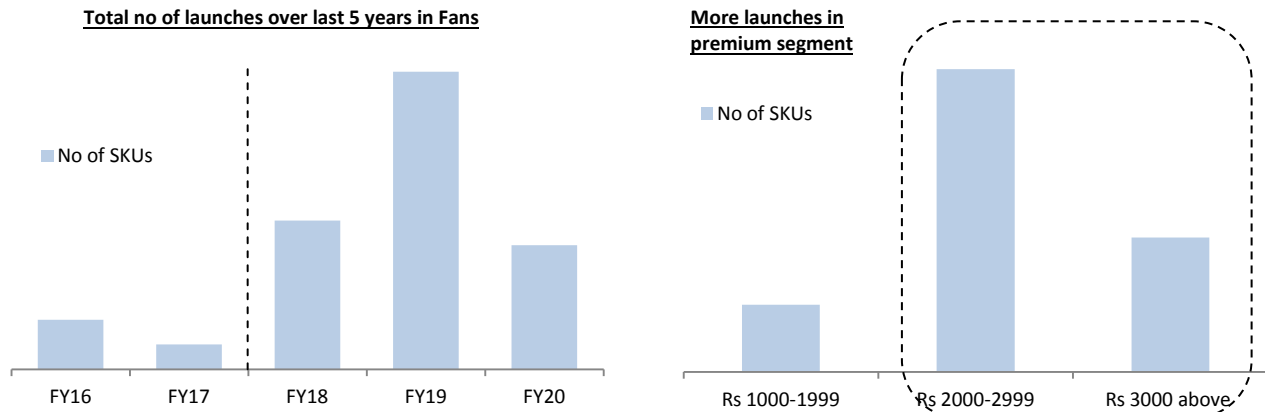
- Took price hike by c.8% from Dec 2020 in fans. OEL & Havells have taken a price hike of c5%/10%..
- Expect price hikes may impact volumes in Mass segment in short term.
- Saw strong growth in fans over the last 4-5 months.

Fan price (online), CG remain aggressive on all the channels

C11ompany	Mass	Anti-dust fans
Crompton	Rs 1245	Rs 2299
Havells	Rs 1799	Rs 2349
Bajaj	Rs 1379	Rs 3279
Orient	Rs 1528	Rs 2560
Usha	Rs 1450	Rs 2160

Note: Online prices. Source: amazon.com, flipkart.com

...increasing presence – leader in the mass segment, now increasing offering in the premium segment, along with...



Source: Company, PhillipCapital India research

...online presence; offline, too, CG is increasing its offering in premium products – **Adding SKUs in 2K+ range.**

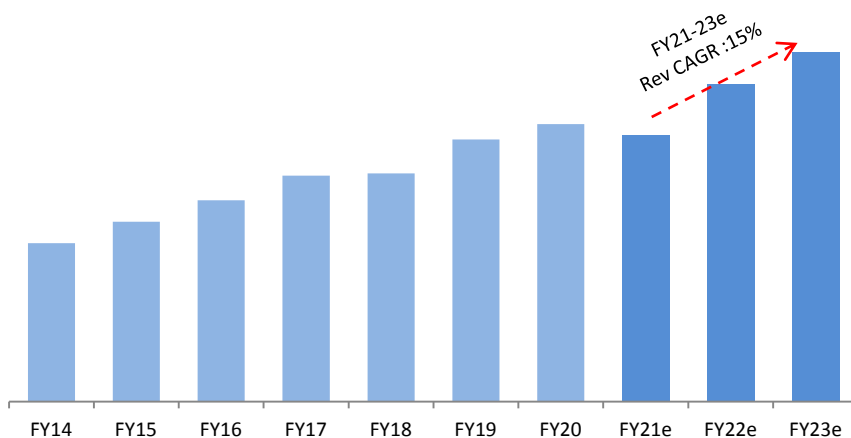
Price range	Rs 1000-1999	Price range	Rs 2000-2999	Price range	Rs 3000-4999	Price range	Rs 5000-9999
Brands	No of SKUs	Brands	No of SKUs	Brands	No of SKUs	Brands	No of SKUs
Bajaj	29	Havells	51	Havells	22	Havells	23
Usha	27	Orient	29	Orient	18	Orient	23
CG	27	CG	29	Luminous	17	Luminous	19
Luminous	20	Luminous	21	Bajaj	15	USHA	11
Orient	18	Usha	20	Usha	13	CG	10
Havells	7	Bajaj	18	CG	13	Bajaj	4
V guard	5	Polycab	7	V Guard	4	Finolex	3
Polycab	5	V Guard	5	Finolex	3	V guard	2
Finolex	1	Finolex	5	Polycab	1	Polycab	1

Source: PhillipCapital research, amazon.com, flipkart.com

CG launched the industry’s first ‘customisation’ idea through decal technology

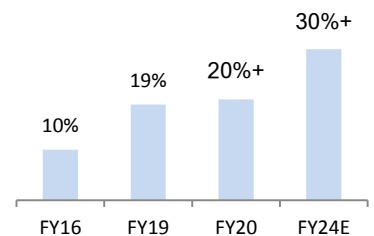
It has successfully piloted this in many parts of India, to offer a plethora of customised unique design choices to end consumer, to meet their décor requirements. In FY20, it launched Silence Pro, BLDC (brushless direct current) ceiling fans (consuming 50% less energy) and ‘Aura Fluidic’ with a five-year warranty. It is in the process of launching an entire range of BLDC products over 1-2 years with changing norms. We expect this to help CG improve its realisation in fans and to add to its margins. Its fans segment will see revenue CAGR of 15% over the next three years with about 25% growth in premium fans. In Q2, super premium fans saw a growth of 3x yoy; Silent Pro Fan was well accepted by customers. We believe with increasing share of premium fans help in improving realisation, with this CG can comfortably absorb any short term increase in raw material prices.

CG’s fans segment to report revenue CAGR of 15% over FY21-23



Source: Company, PhillipCapital India Research Estimate

Increasing share of Premium Fans



Source: Company, PhillipCapital research estimates.

Channel Check..

- Market share gains, as unorganised brands are seeing supply-chain issues.
- Expects CG will be adding products in BLDC with higher focus on design over next 2-3 months.
- CG – higher focus on increasing its share in premium fans.
- Strong market-share gains in the premium segment; over the last year, CG has added products in the premium segment, leading to better offerings.
- It is giving more focus to quality and after-sales services. It gives replacement guarantee for products such as fans.

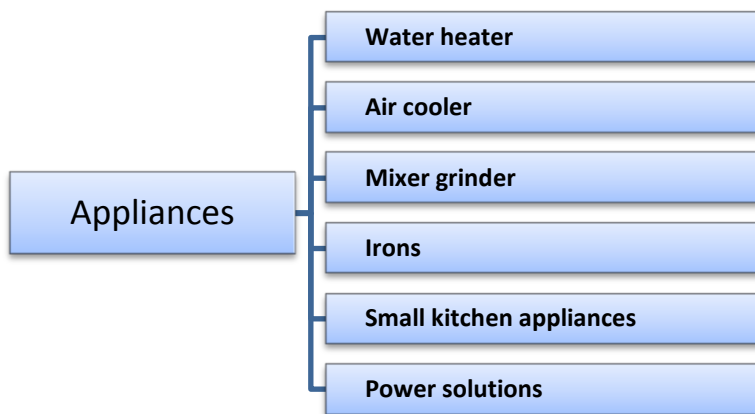
Appliances is a fast-growing segment

CG has seen strong growth here, with market share gain (higher focus on this) mainly because of innovative/differentiated products, competitive pricing, and higher focus on key products such as water heaters, mixer grinders, and air-coolers, and it is also looking to add more products in this segment. According to channel check added - room heater in this season.

In water heaters, CG gained market share and became the #2 player, expect it to further increase its market share.

This segment has seen change in approach after Mr. Sachin Phartiyal (Ex. Whirlpool) joined, resulting in improvement in its product offering, its touch points over last 1-2 years, and in terms of a product-focussed approach towards market share gains. In this segment, the company is focussing on increasing its product basket, product availability in its entire distribution channel, and investment in increasing its brand visibility.

CG: Home appliances product profile – looking to add more products in this segment



Channel check for appliances:

- Leading players have seen strong growth over the last 2-3 months, mainly because smaller brands are seeing pressure in supply. Leading brands are gaining market share.
- CG is planning a price hike of 8-10% in appliances.
- CG saw strong double digit growth in last 3-4 months, but still seeing some supply-chain issues mainly because of the Kisaan Bill road block

Source: Company, Phillipcapital research

In FY20, CG revamped its water heater portfolio, in line with its innovation strategy. This yielded great results – market share gains + increased volumes

FY17	FY19	FY20
Bliss (Instant)	Solarium new (Storage)	Regallio (Storage)
		Solarium Qube (Storage)
		Solarium Vogue (Instant)
		Rapid jet (Instant)

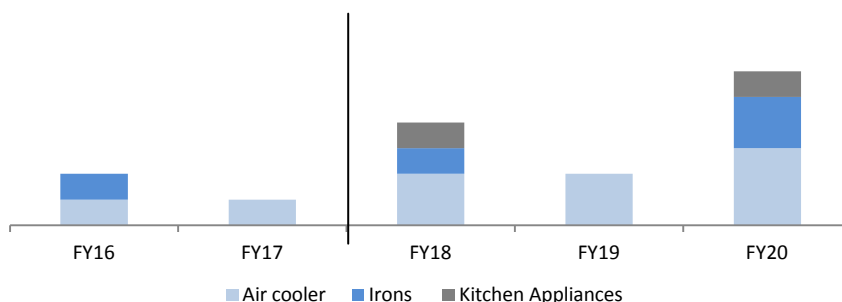
CG WH price* vs. other brands

Brand	Capacity	Price
Hindware	15 litre	Rs 4299
Orient Electric	15 litre	Rs 4390
Crompton	15 litre	Rs 4975
Kenstar	15 litre	Rs 4999
Bajaj	15litre	Rs 5390
Racold	15litre	Rs 5749

Source: Company Note: * Online prices

In other appliances, CG is focusing on improving channel capability in high-potential markets. Also, it is continuously improving its offering in appliances; added seven SKUs in FY20.

After a change in the team, new appliances head revamped the product portfolio with new launches

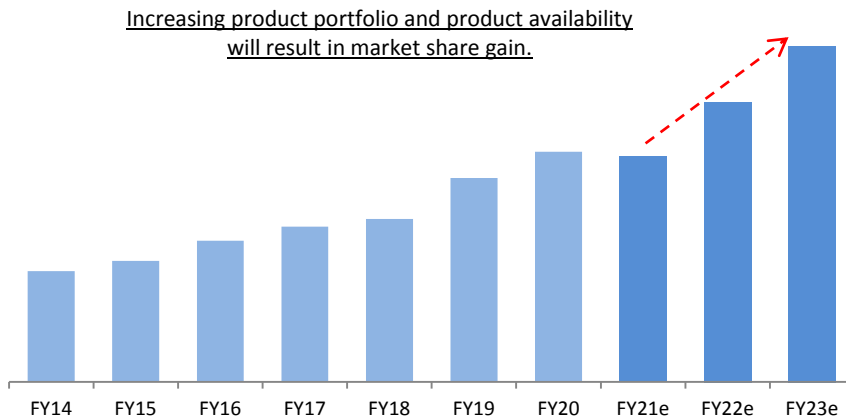


Source: Company, PhillipCapital India Research Estimates

- **In WH:** Strong demand, improved visibility and product offering (which improved two years ago) helped to gain market share.
- Earlier focusing on the wholesale channel; now selling through its GTM network.
- As WH has higher sales through the electricals channel, CG placed its WH in its fans electrical channel.
- Aggressive pricing in B2B helped in gaining market share.
- CG has gained market share in this segment. In some states, CG has become leader in this segment.
- Started doing advertisement of WH in both print and TV, resulting in gaining customer mind share and channel acceptability.

CG is well-placed in the home-comfort segment, one of its fastest growing segments. We expect it to see market-share gain in appliances and revenue CAGR at 27% over the next two years based on rising penetration and an increasing products basket, plus adding new products with aggressive pricing. Appliances also provide CG with a natural hedge against seasonality.

CG: Appliances revenue CAGR of 27% over FY21-23



Source: Company, PhillipCapital India Research Estimates

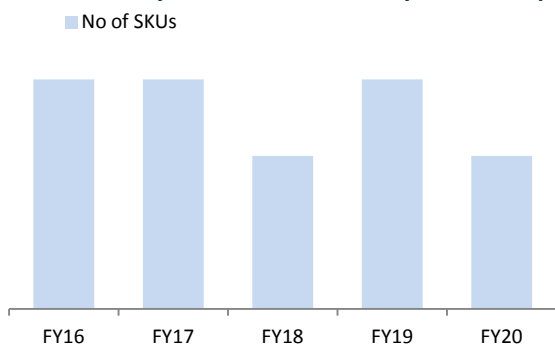
- **In Mixer Grinder/ Juicer Mixer Grinder** – CG has improved its product offering. In the last 4-5 months as home cooking has increased, CG has seen strong growth in this product.
- **In air coolers** – Booking has started (CG started receiving advances).
- In this segment, CG has added room heaters for the winter season.

Leadership in residential pumps; improving offerings

CG continued to focus on domestic and agricultural pumps. It is increasing focus on channel expansion programme. It is continuously adding products in the segment. In agricultural pumps, it launched the Ultima series of pumps at an affordable price for the mass market. CG has also launched a solar-powered agriculture pump, which provides 20-30% more water output than the required MNRE (Ministry of New and Renewable Energy) guidelines. Mini Crest continues to deliver industry-leading growth to CG.

- The pumps industry is estimated to be at Rs 75bn. Key growth drivers are:**
- > Growing dependency on groundwater
 - > Government Initiatives: Rural electrification along with improve water infrastructure and development of sanitation services.
 - > Solar-powered water pump
 - > Energy efficient pumps to drive replacement demand

New launches by CG over the last five years in the pump segment Leader in pumps. Pricing of CG and other brands



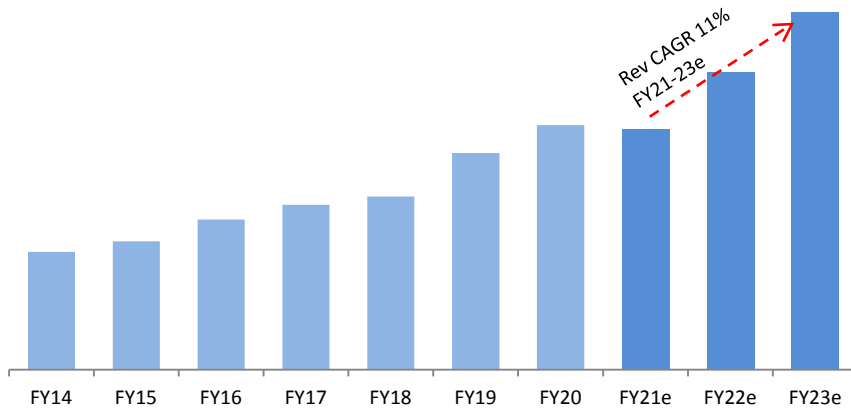
Source: Company, Phillipcapital India research

Company	Price range*
Kirloskar	Rs 2399
Crompton	Rs 2800
Sharp	Rs 2350
Lakshmi	Rs 2050

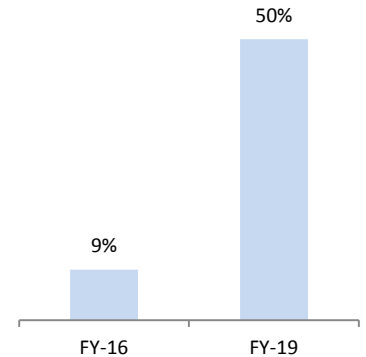
*Price for 0.5HP self- priming pump. Source: amazon.com

CG will continue to leverage its brand name and introduce products in the premium range in both domestic and agriculture pumps. The government’s pro-solar initiatives such as the PM Kisan Urja Suraksha Evam Utthaan Mahabhiyan (KUSUM) scheme has prompted CG to foray into the solar pumps. We expect this to help CG achieve a revenue CAGR of 11% in pumps over the next two years.

No.1 in Residential Pump and No. 2 Overall Pump Industry.

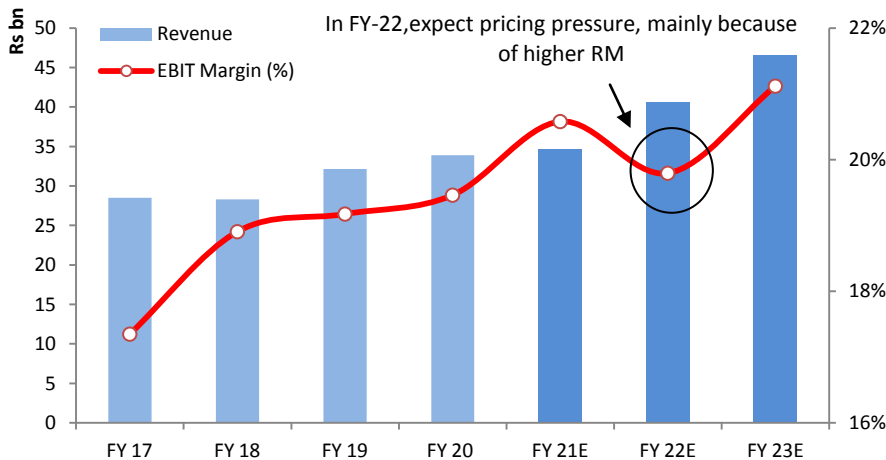
CG: Pumps segment to see a revenue CAGR of 11% over next 2-3 years


Strong Brand –Recall: Brand awareness %; increased more than 41%+ over last 4-5 years.



Source: Company, PhillipCapital India Research

Overall, in electric consumer durables, with product launches, improving distribution, and higher focus on key products in appliances, we expect this segment to see revenue CAGR of 16%. Additionally, margins will rise to 20.2%/21.5% in FY22/23 vs. 19.8% in FY20 due to improvement in product mix, moving up in premium product in fans, and cost measures.

ECD revenue and EBIT margin


Source: Company, Phillipcapital India research

Effective supply-chain management resulted in strong recovery + market share gain. Also, cost measures helped in improvement in margin for CG

ECD	FY16	FY17	FY18	FY19	FY20	Q1FY21	Q2FY21
Crompton		28,507	28,281	32,136	33,890	5,965	9,317
Growth (%)			-1%	14%	5%	-44%	-18%
V Guard	4,679	5,085	5,750	6,780	6,435	855	1,634
Growth (%)	16%	9%	13%	18%	-5%	-44%	-7%
Havells	12,549	13,784	15,696	20,964	22,158	3,017	5,799
Growth (%)	14%	10%	14%	34%	6%	-46%	18%
Bajaj Electricals	19,993	19,143	18,593	23,331	26,528	3,943	7,886
Growth (%)	-1%	-4%	-3%	25%	14%	-50%	13%
Orient	10,019	10,913	12,182	1396	14,916	1,788	4,338
Growth (%)	2%	9%	12%	9%	12%	-69%	0%

Source: Company, Phillipcapital India research

ECD EBIT	FY16	FY17	FY18	FY19	FY20	Q1FY21	Q2FY21
Crompton	1973	4946	5347	6162	6595	1223	1960
margin (%)	16%	17%	19%	19%	16%	20%	21%
V Guard			207.2	319	399	-87	136
margin (%)			4%	5%	6%	-10%	8%
Havells	2,872	3,494	4,202	5,526	5,742	370	1,172
margin (%)	23%	25%	27%	26%	26%	12%	20%
Bajaj Electricals	875	839	942	1,545	1,906	105	845
margin (%)	4%	4%	5%	7%	7%	3%	11%
Orient Electric			1475	1508	1818	-71	512
margin (%)			12%	11%	12%	-4%	12%

Source: Company, PhillipCapital India research

Lighting stabilizing with pressure on imports

CG's focus on LED lighting has helped it to increase its market share in this segment. In LED lamps, it has c.8% market share, which has placed it in the #3 position in India's lighting market. It remains aggressive in terms of pricing and has a higher focus on market-share gains.

LED lighting has now nearly replaced CFLs, which along with other conventional lights, are in the last stages of their product lifecycle. There is higher government spending, especially on LED street lighting projects, along with further emphasis on programs like UJALA and rural electrification. This segment has seen a strong CAGR of 19% over the last four years. Also, because of healthy growth, the industry has seen increased number of players and imports, and higher pressure on pricing.

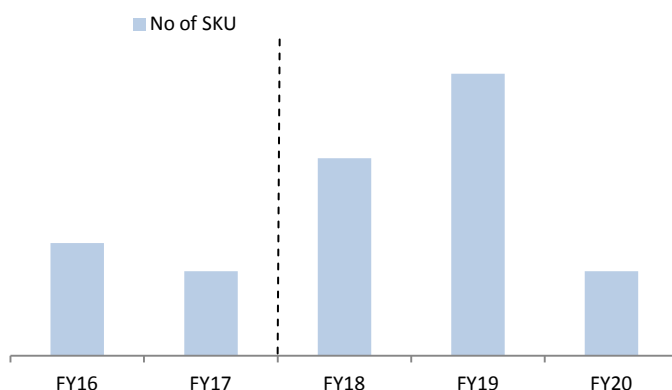
With the government focusing on domestic manufacturing and with restrictions on imports, imports have come down over last 5-6 months, leading to stable pricing. The channel also highlighted that companies have reduced the warranty to one year from two earlier, and also increased the prices by c.6% over the last six months.

CG stood the test of stiff price competition in the LED market, through design changes and value engineering. It is focusing on value-added products in this segment by innovation. It has invested in automation of production of LED lamps at its Vadodara plant. In B2B, it bagged the Smart City projects in FY20, helping it foray into connected light solutions.

CG has used global technology solutions in the internet-of-things space, which have been used for outdoor and commercial office lighting applications.

These solutions provide for energy conservation, convenience and health monitoring needs.

New launches adding to growth



Source: Company, Phillipcapital India research

Also, aggressive pricing has helped in gaining market share and volume

Pricing of CG products vs. competition

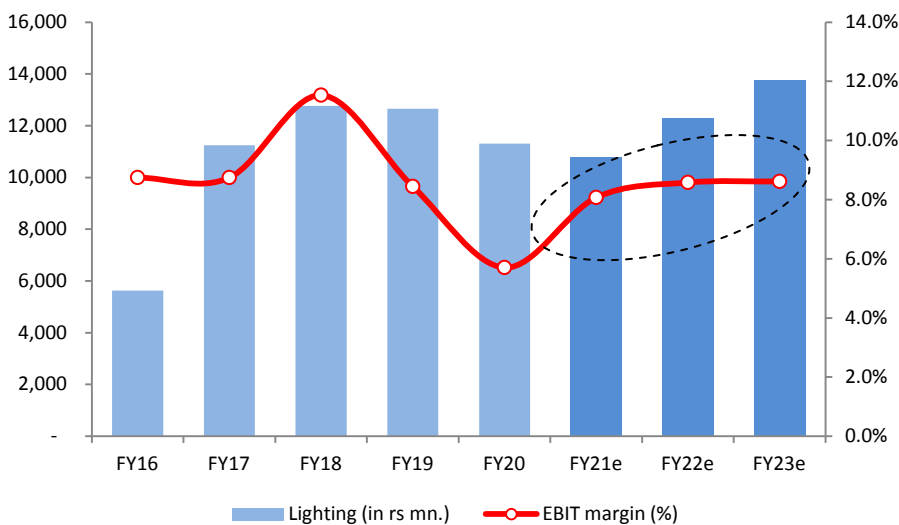
Company	Price (in Rs)*
Crompton	75
Havells	85
Bajaj	95
Phillips	80
Orient	84

*best price available online for 9W LED. Source: Amazon.com, flipkart.com

Increasing presence in lighting = 13% CAGR over 2-3 years

- **In B-to-C:** It will concentrate on expanding distribution in its existing channel by approaching small builders, architects, interior designers, and specialised retailers in major cities.
- **In B-to-B:** Dedicated teams for tenders and industry (these teams will focus more on banking, IT, and hospitals). Government tenders will remain a strategic area for CG in LED products because of the government’s aggressive focus on household electrification under rural electrification and other schemes.

CG has plans to increase its lighting business through more efficient manufacturing (innovative products), better channel management (increasing penetration), and by focussing more on high margin products.

Lighting revenue CAGR of 13% over the next two years with a margin of c.8%


Source: Company, PhillipCapital India Research Estimates

We expect this segment to report revenue CAGR of 13% over the next two years with margin of 8.6% vs. 5.7% in FY20, majorly driven by product mix, moving up in premium/high-margin products, and lower pricing pressure in the industry.

Recovery in lighting, with improvement in margin

Lighting	FY16	FY17	FY18	FY19	FY20	Q1FY21	Q2FY21
Crompton	5,627	11,252	12,770	12,653	11,310	1,166	2,667
Growth (%)		100%	13%	-1%	-11%	-57%	-7%
Havells	8,841	9,710	11,687	13,035	10,900	1,380	2,646
Growth (%)	6%	10%	20%	12%	-16%	-45%	4%
Bajaj Electricals	5,982	3,999	3,692	4,077	4,318	n.a.	n.a.
Growth (%)	-33%	-33%	-8%	10%	6%	n.a.	n.a.
Orient		2,749	4,074	5,348	5,702	753	1,294
Growth (%)			48%	31%	7%	-46%	-15%

Lighting EBIT	FY16	FY17	FY18	FY19	FY20	Q1FY21	Q2FY21
Crompton	492	984	1473	1069	645	55	276
margin (%)	9%	9%	12%	8%	6%	5%	10%
Havells	1,930	2,357	3,356	3,668	3,233	29	521
margin (%)	22%	24%	29%	28%	30%	2%	20%
Bajaj Electricals	685	152	147	256	176	n.a.	n.a.
margin (%)	5%	1%	1%	1%	1%	n.a.	n.a.
Orient Electric			345	588	597	48	189
margin (%)			8%	11%	10%	6%	15%

Source: Company, PhillipCapital India Research Estimates

Channel check: Lighting

- Planning to hike prices by c.10% in LED
- B2B, started seeing demand from old projects and hospitals, but demand from new projects still very slow.
- Also in this segment company is increasing its presence in strong markets like south.

Moving up in high-margin products in lighting; with not much pressure on pricing

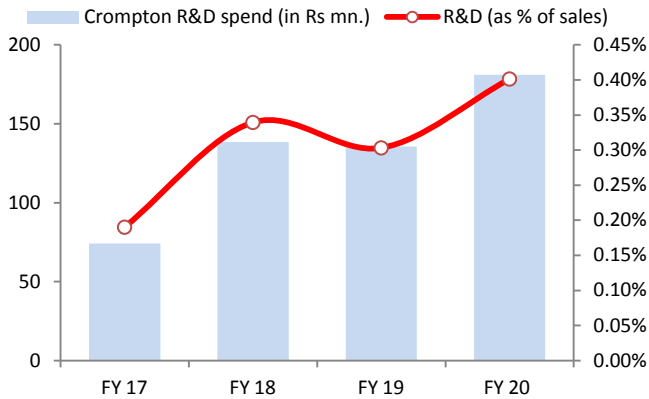
Additionally, with PLI (Production linked incentives) scheme of c. Rs 120bn in LED, it will be a positive for manufacturers like CG

Increasing spend in R&D, increasing the life of the company

CG is well equipped to deliver better product designs, in-house testing, better product performance and lifespan. It has plans to strengthen its modern equipment for photometry and surge testing, and enhance its capability by inducting more engineers to speed up the product-development process. It is increasingly focusing on augmenting its R&D capabilities to launch innovation-driven solutions.

CG has also strengthen its R&D team

Crompton R&D expenses; likely to increase



Source: Company, PhillipCapital India research

We expect R&D expenses to rise up to c.1% over the next 2-3 years, in line with the industry leader

R&D spend (Rs mn)	FY16	FY17	FY18	FY19	FY20
Crompton	5	74.1	138.4	135.7	181
% of sales	0.03%	0.19%	0.34%	0.30%	0.40%
Havells	360	490	580	790	1020
% of sales	0.66%	0.80%	0.71%	0.78%	1.08%
V guard	69	109	126	137	159
% of sales	0.37%	0.52%	0.54%	0.54%	0.64%
BJE	273	422	307	274	261
% of sales	0.59%	0.99%	0.65%	0.41%	0.52%

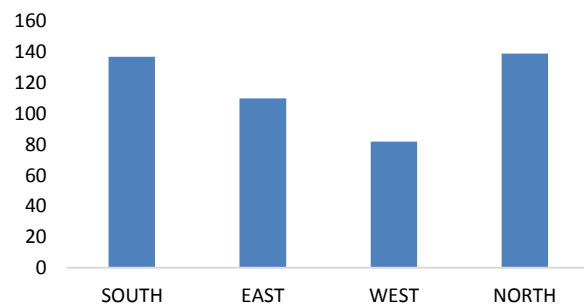
Well-built pan-India distribution network through GTM

CG has developed a Go-to-Market (GTM) strategy to achieve a wider distribution network and improve product coverage. It intends to expand beyond tier 1 and 2 cities and foray into smaller towns and cities with a population of 50,000 to 100,000 through a structured distribution model with IT enablement. It has developed robust data infrastructure pan-India to enable smooth data flow. Currently, it tracks secondary sales figures, for 60% of trade sales, with an aim to move to 75% in FY21. Primary schemes are now settled within 7-10 days, freeing up working capital for distributors. This will also help in facilitating real-time secondary order booking.

GTM helped CG to increase its touch points in tier 2 and 3 markets, Crompton has a pan India footprint with 3.5k+ distributors, 100k+ retailers and 500+ service centers

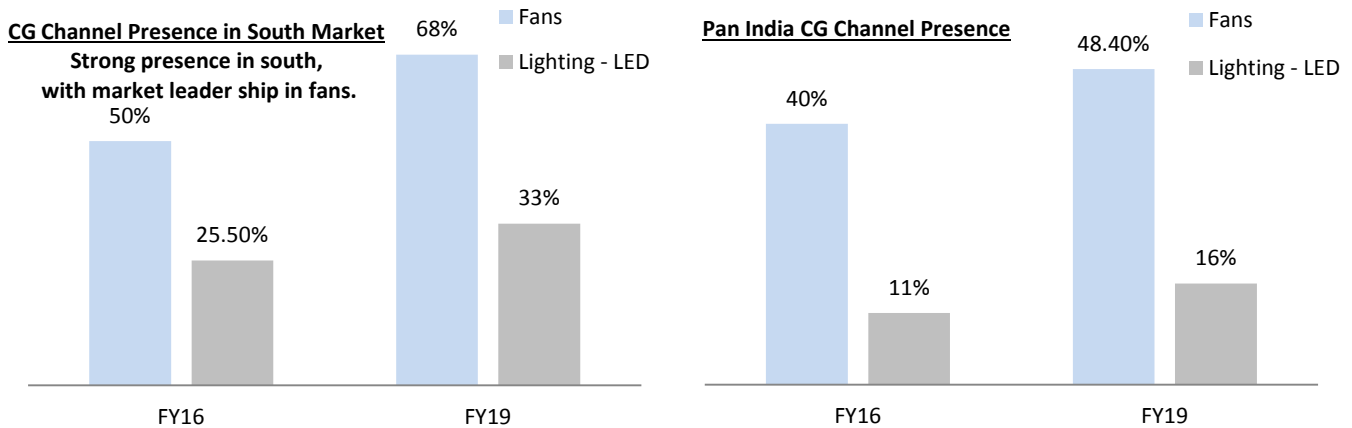


CG has 500+ Service centers, this help in faster turnaround of the customer compayns and also help in higher channel confidence.



Source: Company, PhillipCapital India Research Estimates

CG has improved its reach especially South market. Overall add 850+ channel in FY20.



Source: Company, PhillipCapital India research

CG directly caters to 359 towns with below-100,000 population and has appointed 241 channel partners in rural areas. It has tied up with micro-finance institutions to help rural consumers access easy loans for its products; this is a channel that has the potential to grow sturdily in FY21 and beyond. Under trade marketing, CG is working a retailer loyalty programme and focussed on retailer branding helping in gaining more shelf space.

It is consistently investing in developing its alternate sales channels such as rural, MOR (modern retail)/e-commerce and institutional (canteen store department) which have contributed to growth. In the rural business, in FY20, it scaled up the team size and improved its penetration. Likewise, MOR strengthened its network of channel partners throughout the country.

E-commerce business: The COVID-19 global pandemic was a defining event of FY20-21 and will have implications on across various sectors. It led to changes in consumer buying behaviour. E-Commerce will be a vital channel and an economic driver for both domestic growth and international trade ahead. In e-com, CG gained market share in appliances.

Strong brand recall

Crompton is one of India’s oldest and most reputed brands (been around for 50 years) with a strong recall among consumers. It enjoys solid brand equity with a pan-India distribution network of 100,000+ touch points. CG has been consistently investing in its brand through various marketing activities. Its advertising campaigns are aimed at positioning CG as an aspirational organisation that resonates well with the youth. It has stepped up investments in above-the-Line (ATL) marketing and digital advertising for all its business segments. In FY20-FY21, it ran a television commercial for a new range of water heaters. The successful campaign was titled “perfect hot water”, which helped its water heaters to gain shelf space.

Channel check on distribution

CG has strong presence in west / south, increasing its share in north / east.

GTM: Has resulted in more visibility in the rural markets and also increased its presence on counters.

Adding appliances products to the GTM distributor, increasing its ability.

Some states saw supply for both channels - CG GMT and wholesalers - resulting in a price war. Channel highlighted but now its reducing.

GTM: Not applicable in Bihar, south India.

Digital advertisement for newly launched kitchen fan ‘airbuddy’

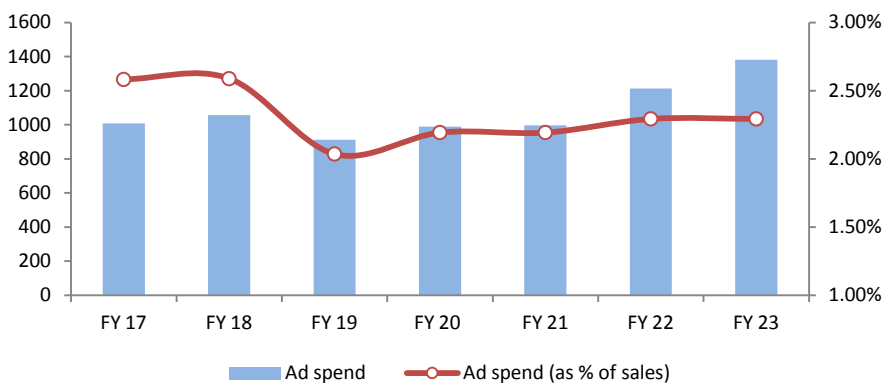


TV advertisement for Crompton water heaters



To strengthen its brands and e-commerce presence, CG is selling its products through leading online marketplaces (Amazon, Flipkart, Snapdeal) and is also focussing on aggressive advertising through TV, print, hoardings, and other media.

CG: Advertisement spend as a % of sales



Source: Company, PhillipCapital India Research

CG has taken significant measures to ensure consistency in product quality, distribution, accounts receivables, and customer service, which has led to business ramping up in its focus markets. Currently, it is spending about 2%-3% of sales in brand building. It is likely to start advertising its other product categories. Also, awareness for its other products in tier 3 and 4 cities should increase.

Takeaways from channel checks

We spoke to 10 of CG’s channel partners in Maharashtra, Rajasthan, UP, and Delhi. Here are the key takeaways:

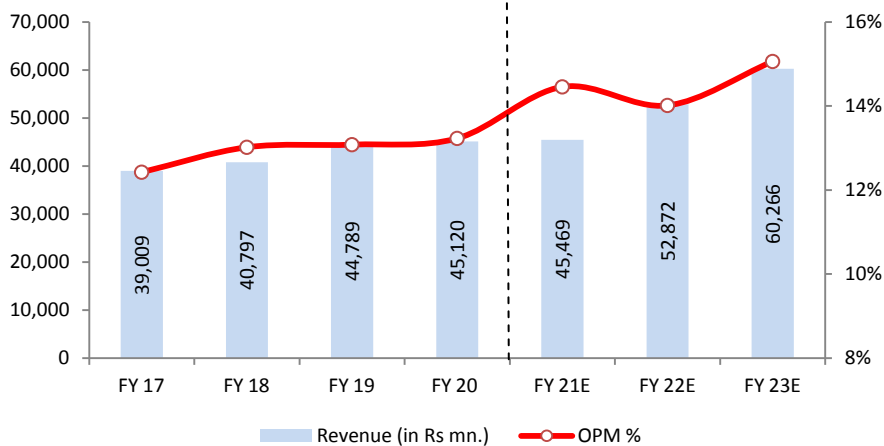
- It is a market leader in fans; good brand recall in the mass segment.
- Over the last year, it has concentrated on improving its offering in the premium segment via new product launches.
- The new India Sales Head is aggressively focusing on market share in all product segments.
- It is using its network (channel) for new product verticals such as appliances.
- It is giving more importance to quality and after-sales services. It gives replacement guarantees for products such as fans.
- In lighting, it is aggressively increasing its footprint – distribution network.
- In appliances, it does not yet have a strong presence for products such as irons and kitchen appliances.
- Over the last 5-6 months, the industry has seen strong collection. Helped CG in further improving its cash flows.
- Now the company is focusing more on MIS, increasing penetration (adding touch points more aggressively), and also on improving its IT infrastructure.

Financials

A cash-rich company, strong cash flow, high focus on market share

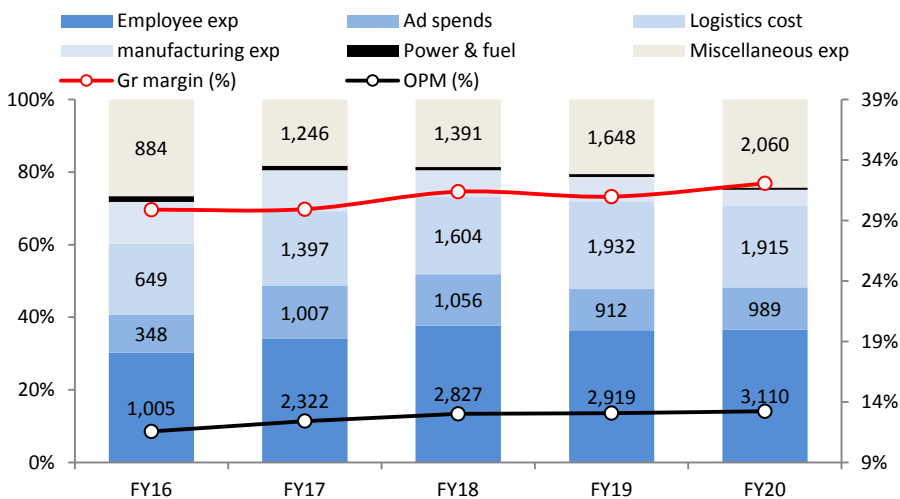
Overall, for CG, we expect a revenue CAGR of 15% over the next two years, majorly driven by: (1) channel sweating, (2) new product launches, and (3) higher concentration on key segments in appliances. We also expect that with improvement in revenue mix and channel sweating and cost control programs, overall margins will improve to 15.1% in FY23 from 13.2% in FY20.

CG revenue and EBITDA trend



Source: Company, PhillipCapital India Research Estimates

CG cost matrix: Improvement in product mix will help in improving gross margin and tight control will add to EBITA margin



Cost Initiatives

Fans: Design optimization in plastic & metal exhaust and alternate sourcing, negotiation with suppliers, Backward integration in ceiling fans & TPW.

LEDs: Operational improvements including kit costs reduction, spec optimization, packaging and moving manufacturing in-house.

Pumps: Renegotiation of vendors contracts on high throughput

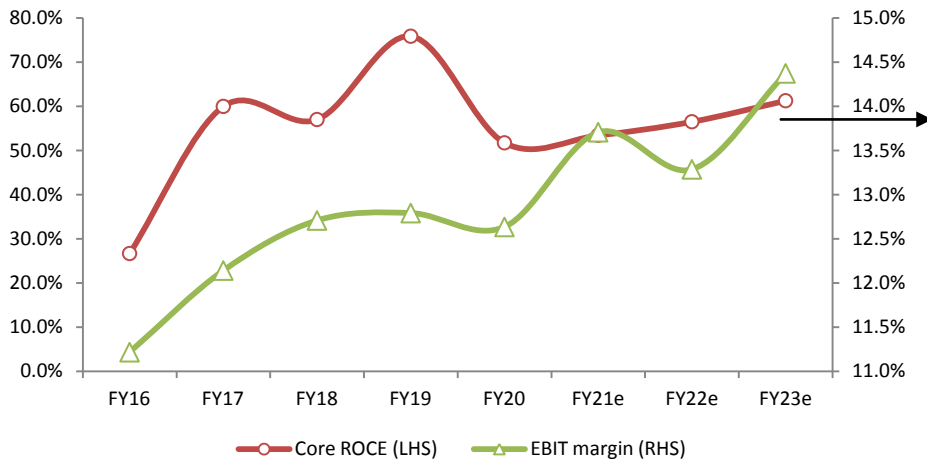
Appliances: Value engineering & alternate sourcing.

Robust return profile with strong FCF generation

CG has robust return ratios because of its asset-light business model, healthy margin, and strong working-capital cycle. With improving product mix (moving up in premium products, high focus on appliances, and tight control on cost) it should report a 180bps improvement in margin over FY20-23. Lower working capital requirement (currently at about -10 days) should also help. It should generate an FCF of Rs 8.9bn over two years. With not much capex underway, asset-sweating (sales/capital employed) should rise to 1.6x, Sales/net block will be 32.5x in FY23.

ROCE should improve based on: (1) better asset/channel sweating, (2) improvement in margins, and (3) better working capital days. We expect core ROCE at 53%/56%/61% in FY21/22/23

Improvement on all parameters will lead to higher FCF and higher return ratios

CG: Core ROCE and EBIT margin


Source: Company, PhillipCapital India Research Estimates

CG: DuPont analysis: Improvement in Margin but we have taken increased WCC & capex for PLI – resulted in Asset turnover of 1.6x in FY23.

CG FY	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Tax Burden (x)	0.7	0.7	0.7	0.8	0.7	0.7	0.7
Interest Burden (x)	0.9	0.9	1.0	1.0	1.0	1.0	1.0
EBIT Margin (%)	12.1	12.7	12.8	12.6	13.7	13.3	14.4
Asset Turnover (x)	1.9	1.7	1.7	1.7	1.5	1.6	1.6
Leverage Multiplier (x)	4.0	3.0	2.4	1.8	1.7	1.6	1.6
RoE (%)	55.2	41.0	36.6	33.4	27.5	26.2	28.0

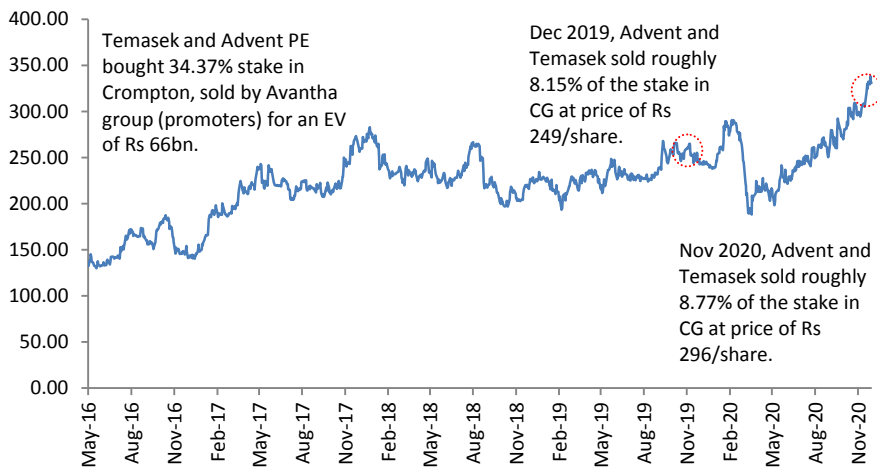
CG: One of the best balance sheets and cash flows in its industry

Particulars	Crompton			V Guard			Havells			Orient		
	FY18	FY19	FY20	FY18	FY19	FY20	FY18	FY19	FY20	FY18	FY19	FY20
Revenue '000	41,051	44,789	45,120	23,118	25,665	24,820	81,386	100,677	94,289	15,998	18,644	20,618
Growth (%)	2%	9%	1%	11%	11%	-3%	33%	24%	-6%	17%	17%	11%
Operating Profit '000	5,310	5,858	5,969	1,870	2,195	2,533	10,493	11,838	10,271	1,413	1,764	1,870
OPM (%)	12.9%	13.1%	13.2%	8.1%	8.6%	10.2%	12.9%	11.8%	10.9%	8.8%	9.5%	9.1%
PAT '000	3,238	4,025	4,946	1,331	1,656	1,852	7,125	7,873	7,327	693	786	930
CFO '000	3154	3014	4210	541	1,535	1,394	11,077	5,126	8,248	913	1,320	1,292
FCF '000	2,296	2,793	4,119	-77	959	784.7	-4,811	-286	5,685	91	272	239
FCF/PAT	0.71	0.69	0.83	(0.06)	0.58	0.42	(0.68)	(0.04)	0.78	0.13	0.35	0.26
FCF/market cap			2%			1%			1%			1%
ROCE *	53.4	56.5	61.3	23.6	23.6	24.9	26.7	27.6	20.6	20.6	18.0	8.1
ROE	40.8	36.6	33.7	20.0	21.0	20.3	20.3	19.9	17.3	28.1	24.3	23.7
Receivables days	50	46	37	69	66	47	14	15	10	78	68	60
Inventory days	27	29	38	53	57	77	72	69	71	55	55	55
Payable days	69	54	52	61	62	63	72	69	71	55	55	55
Working capital days	8	21	23	61	61	61	(30)	(10)	(10)	46	46	38

*Core ROCE= EBIT (excl. other income)/ Capital employed –(cash + investments)

Dupont Analysis	Crompton			V Guard			Havells			Orient		
	FY18	FY19	FY20	FY18	FY19	FY20	FY18	FY19	FY20	FY18	FY19	FY20
PATM (%)	7.9	9.0	11.0	5.7	6.4	7.5	8.6	7.8	7.7	3.9	3.6	3.7
Sales / Total Assets(x)	1.7	1.7	1.7	2.2	2	1.8	1.4	1.5	1.3	2.2	2.3	2.4
Assets to Equity (x)	3.0	2.4	1.8	1.6	1.6	1.5	1.6	1.7	1.7	3.3	2.9	2.7
ROE (%)	40.8	36.6	33.7	20	21	20.3	20.3	19.9	17.3	28.1	24.3	23.7

Source: Company, PhillipCapital India Research Estimates

Reduction in PE holding may lower the overhang on the stock


Currently – PE holding c. 18% in CG

Source: Company, PhillipCapital India Research

Current PE holding details

Name of the company	Bought when	Current stake
Aditya birla capital	Sep-19	4.1%
ASK Investment managers	Oct-16	49.6%
Bharat Serum and Vaccines	Nov-20	74.0%
Crompton Greaves Consumer	May-15	17.7%
DFM foods	Sep-19	73.7%
Dixcy Textiles	Jul-17	60%
Girnar Software	Nov-20	NA
Gokaldas intimate wear	Aug-19	100%
Manjushree technopak	Oct-18	NA
Pine labs	Apr-19	NA
QuEST Global	Dec-15	NA
RA Chem Pharma	Jul-20	100%
Verse Innovation	NA	NA

Exits		
Crompton greaves	Nov-20	Partial exit
Crompton greaves	Dec-20	Partial exit
Ask investment	Aug-18	Partial exit
Quality care	Jan-16	
Bolix SA	Apr-08	

A strong board

Name	Designation	
Mr Hemant Nerurkar	Chairman and independent director	Ex-COO, Tata Steel
Mr Shantanu Khosla	Managing director	Ex-MD, P&G
Mr D Sundaram	Independent director	Vice Chairman & MD, TVS Capital Funds
Mr P M Murthy	Independent director	Ex-MD, Asian Paints
Mr Smita Anand	Independent director	Ex-MD, Leadership Consulting India
Mr Shweta Jalan, Advent PE	Non-executive director	MD, Advent India PE Advisors
Mr Prommeet Ghosh, Temasek PE	Non-executive director	Deputy Head, Temasek
Mr Sahil Dalal, Advent PE	Non-executive director	Director, Advent PE Advisors

A powerful team. Over 3-4 years it has added leading FMCG + FMEG veterans

Management team	Designation	Years of exp	Date of Joining	Previous organisation
Shantanu Khosla	Managing Director	30+	Jul-15	P&G
Matthew Job	CEO	25+ years	Sep-15	Racold
Sandeep Batra	CFO	30+ years	Sep-15	Pidilite
Shaji Abraham	CIO	10+ years	Oct-15	Avantha power
Sunil Tolani	Chief Global Sales officer SH	28 years	Jan-20	Vodafone Idea
Sanjeev Agarwal	VP, CTO (R&D Head)	25+ years	Oct-19	Havells India
Krushnakant Sinojia	Head of innovation	10+ years	Aug-17	Usha, Whirlpool
Kishor Aher	VP International business	22 years	May-15	Globus stores
Rangarajan Sriram	VP (Fans Head)	21 years	Oct-12	Whirlpool
Sachin Phartiyal	VP - Appliance business	12+ years	Jan-18	Whirlpool
Premanand Bhat	SVP, Business head - Pumps	35+ years	Apr-06	Kirloskar
Vishal Kaul	VP, Head- Lighting business	20 years	Jan-20	Samsung

Outlook and valuation: Rerating imminent

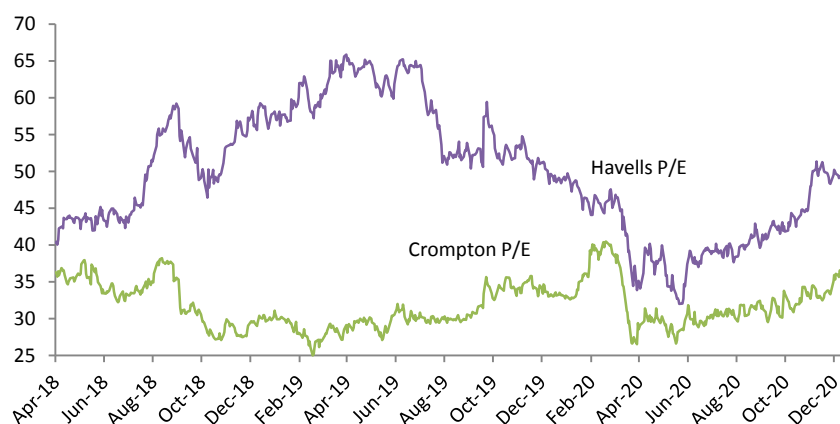
- CG trades at 33x PE and 23.5x EV/EBITDA on FY23 numbers vs. Havells' at 46x and 33x, Industry PE at 35x. We expect the valuation gap with peer to narrow, as over the next two years, CG will show healthy revenue growth and improvement in margins, majorly driven by:
 - Fans: Moving up in the premium segment; better realisations.
 - Appliances: Gaining market share. Management is focused on gaining share in water heaters where it currently holds #2 position and in other appliances.
 - Lighting portfolio stabilising; margins will improve with lower pricing pressure.
 - Cost-optimization program improving financials.
- We see revenue and earning CAGR of 15%/19% over the next two years.
- CG has a successful asset-light business model, lower working capital requirement, and higher asset sweating (sales/gross block is c. 24x in FY20 and asset turnover is c.1.7x), which results in healthy cash flow and return ratios (best in the consumer durable space) with core ROCE/ROE of 61.3%/30.3% in FY23, which are similar to FMCG companies.
- With a debt-free balance sheet and lower working-capital requirement, we expect FCF of Rs 8.9bn over the next two years, which will result in FCF/PAT of 77%/70% in FY22/FY23 – the highest in the industry.
- With the above positives, market share gain, and with reducing overhang of PE stake sales, its valuation should re-rate.
- We initiate coverage on Crompton Greaves Consumer Electricals (CG) with a Buy recommendation and a target of Rs 433; our target PE multiple is 40x – at a 13% discount to the industry leader, despite CG's higher return ratios profile. Historically, CG has traded at an average PE of 30x; we expect that with profitable strong growth and market share gain in appliances and fans, it will see re-rating in its valuation multiple.**

Valuation - CG

	FY23
EPS (Rs mn)	10.8
PE (x)	40
CD / Share Value (Rs)	433

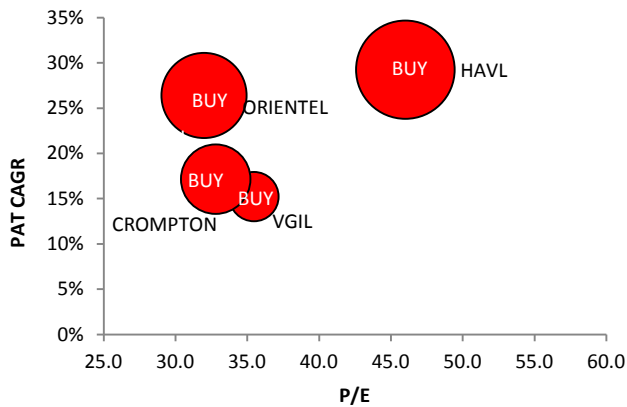
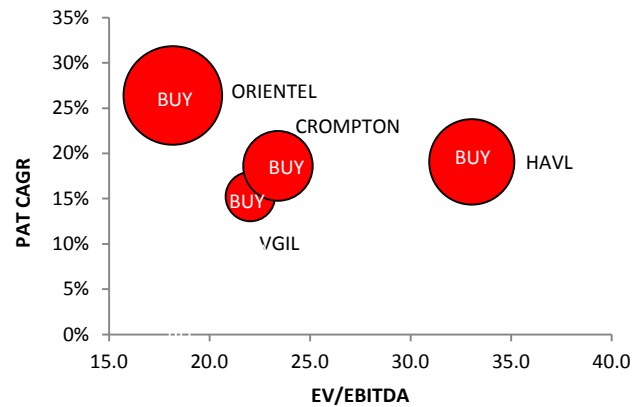
.Source: PhillipCapital India Research Estimates

Havells average PE of 50x and CG average PE of 32x 1yr forward.



Source: Company, PhillipCapital India Research

Peers vs. CG – The company is available at a good discount

PAT CAGR over FY20-23 and FY23 PER

PAT CAGR over FY20-23 and FY23 EV/EBITDA


Source: PhillipCapital India Research Estimates Note:

PC: Consumer Electrical – Peer Comparison

Financials

	CMP (Rs)	EPS (Rs)			EPS Growth (%)			PE (X)		
		FY21e	FY22e	FY23e	FY21e	FY22e	FY23e	FY21e	FY22e	FY23e
Orient Electric	224	4.4	5.9	7.0	18%	34%	19%	51.1	38.1	32.0
Bajaj Electricals	620	4.1	16.2	20.5	na	291%	27%	149.9	38.4	30.2
V-Guard Inds	192	4.1	4.9	5.4	-6%	21%	10%	47.1	39.0	35.5
KEI Industries	489	31.2	41.0	47.8	9%	31%	17%	15.7	11.9	10.2
Finolex Cables	350	17.2	24.7	26.2	-35%	44%	6%	20.4	14.2	13.4
Havells Ltd	901	13.8	16.8	19.6	18%	22%	16%	65.2	53.5	46.0
Voltas Ltd.	838	14.3	19.2	22.5	-18%	35%	17%	58.7	43.5	37.2
Crompton	355	7.7	8.7	10.8	-2%	13%	25%	46.2	41.0	32.8
Polycab India Ltd.	1,054	44.8	58.7	66.3	-13%	31%	13%	23.5	18.0	15.9
JC Hitachi	2301	7.8	36.0	47.2	-75%	363%	31%	300.2	64.8	49.4

	CMP (Rs)	EV/EBITDA (X)			ROE (%)			ROCE (%)		
		FY21e	FY22e	FY23e	FY21e	FY22e	FY23e	FY21e	FY22e	FY23e
Orient Electric	224	25.7	20.9	18.2	23.6	23.3	25.8	30.5	34.6	34.2
Bajaj Electricals	620	35.4	19.4	16.4	-0.0	3.3	11.8	6.9	16.5	18.8
V-Guard Inds	192	29.0	24.5	22.0	15.5	16.3	15.8	20.8	21.9	21.2
KEI Industries	489	8.8	7.4	6.5	15.8	17.3	17.0	22.6	23.9	23.2
Finolex Cables	350	9.9	7.0	6.4	9.4	12.5	12.0	12.4	16.5	15.9
Havells Ltd	901	45.2	38.4	33.0	19.1	21.1	22.5	25.2	27.3	29.1
Voltas Ltd.	819	49.8	36.7	30.5	10.6	13.2	13.9	11.6	13.8	14.5
Crompton*	353	32.9	28.9	23.4	30.0	28.5	30.3	53.4	56.5	61.3
Polycab India Ltd.	1054	13.6	11.0	9.8	15.4	17.5	17.1	20.7	23.3	22.7
JC Hitachi	2301	58.6	30.1	24.7	2.9	12.1	13.8	4.8	15.5	18.3

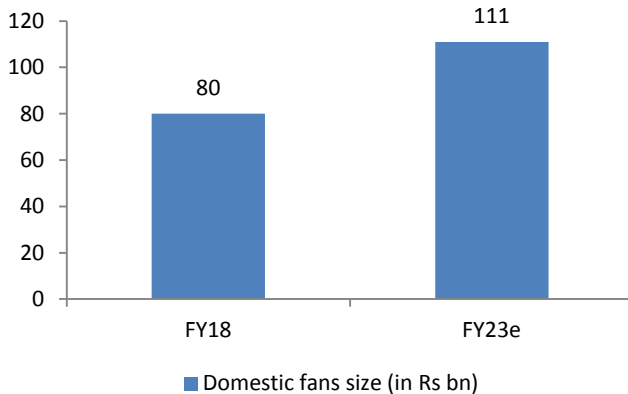
Source: PhillipCapital India Research Estimates* Crompton core ROCE

Key risks

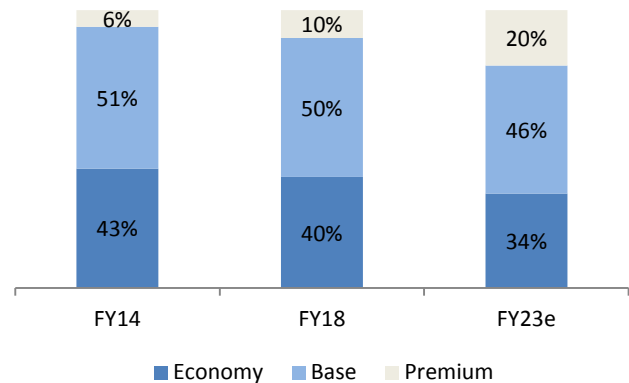
Raw material prices: Any sharp increase or decrease in raw material prices – copper and aluminium – would directly impact CG margins, as raw materials are 68% of sales.

Annexure

Domestic fans size (in Rs bn)

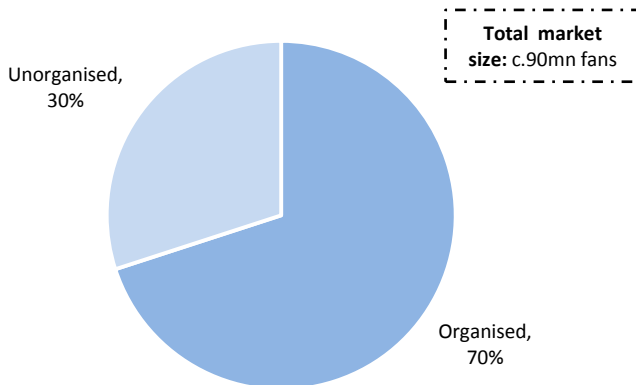


Segment wise share of ceiling fans



Source: Company, PhillipCapital India Research Estimates

Fan industry: Unorganised market share to come down



Fan industry: Segment break up

Segment	Industry share (%)	Ind. CAGR (%)
Ceiling fans	75%	8%
TPW Fans #	20%	20%
Exhaust Fans	5%	20%

CG remains a strong player in all sub-segments

Source: Company, PhillipCapital India Research Estimates Note: # TPW = Table, Pedestal & Wall Fans

In fans, expected BEE rating changing from June 2021

According to new BEE ratings, most fans currently rated 5-star will get a new rating of just 1-star. This will lead to companies innovating fans that have more air delivery and those that consume less power

Fans with BLDC (brushless direct current) motors use direct current (DC) magnetic field – through permanent magnets – instead of AC magnetic field – through electromagnets. Thus BLDC fans produce less heat, noise, and consume lesser power than those without BLDC motors.

Star rating	Old rating scale	New rating	
	Service value for ceiling fans*	Service value - for blade size <1200 mm	Service value - for blade size >= 1200
1 Star	≥ 3.2 to < 3.4	≥ 3.1 to < 3.6	≥ 4.0 to < 4.5 for 1200 mm, ≥ 4.1 to < 4.5 for 1400 mm, ≥ 4.3 to < 4.5 for 1500 mm
2 Star	≥ 3.4 to < 3.6	≥ 3.6 to < 4.1	≥ 4.5 to < 5.0
3 Star	≥ 3.6 to < 3.8	≥ 4.1 to < 4.6	≥ 5.0 to < 5.
4 Star	≥ 3.8 to < 4.0	≥ 4.6 to < 5.1	≥ 5.5 to < 6.0
5 Star	≥ 4.0	≥ 5.1	≥ 6.0

Impact of the change in BEE ratings in particular SKUs: '5 Star' becomes '1 Star'

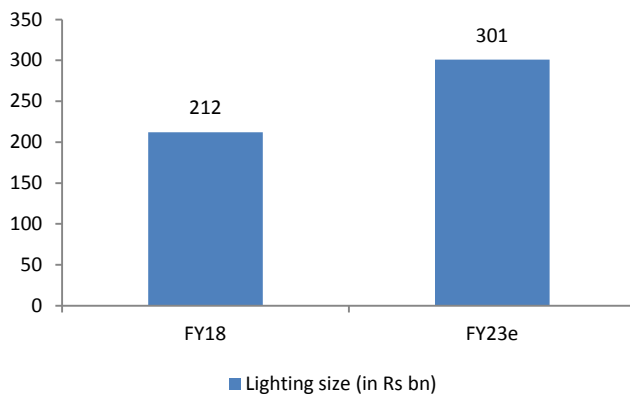
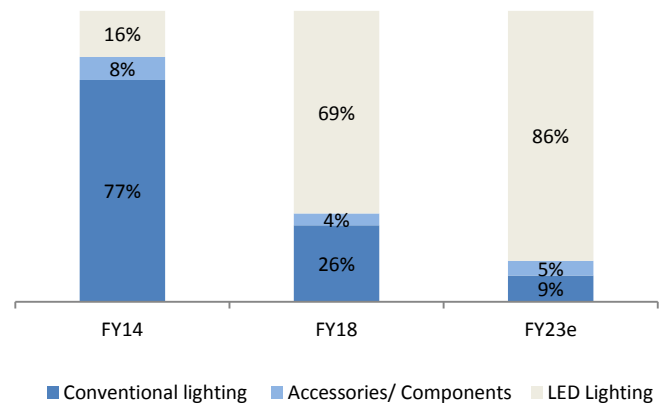
Company	Sweep	Wattage	Air Delivery (Cu.m/min)	Service Value	BEE Rating	New BEE Rating	Price (Rs)
Bajaj Electra 50	1200	50	210	4.2	5 Star	1 Star	1815
Crompton Entrust	1200	50	200	4	5 Star	1 Star	2275
Havells ES-50	1200	50	215	4.3	5 Star	1 Star	2237
Orient Energy Star	1200	48	200	4.2	5 Star	1 Star	2310
Orient Aero Smart	1360	70	300	4	5 Star	1 Star	4779

New standards require fans to consume lesser power to attain a 4/5-star rating, which is supposed to have wattage of c.40W and air delivery of c.230 cu.m. Lower power consumption by fans can be achieved through BLDC (Brushless Direct Current) motors, which are expensive, more efficient, and less noisy than current ones used in fans. According to our channel checks – these motors will increase the cost by Rs 400-600 per piece.

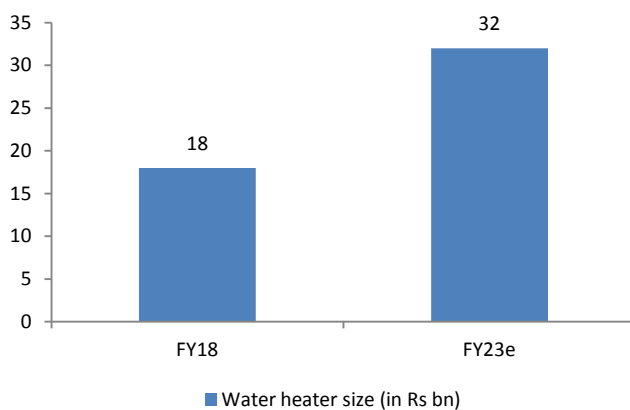
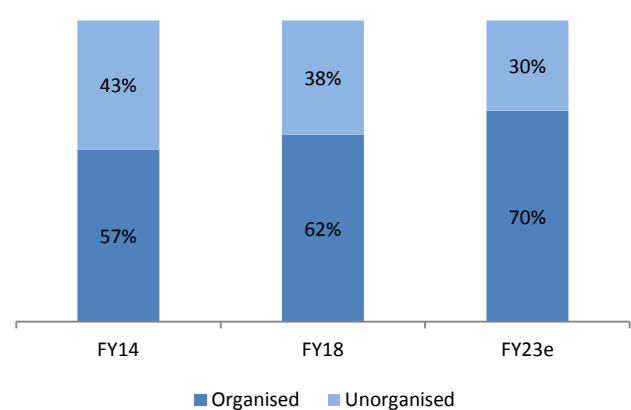
With the change in star ratings, the industry will see a cost increase of c.Rs 70 in mass fans that cost c.Rs 1,000 per product and c.Rs 500 in premium fans (+Rs 2,000) – and will lead to a corresponding increase in prices. In the premium segment, leading brands such as CG, OEL, USHA, Havells, and BJE will see market-share gains as the market will shift to star ratings.

BLDC fans available	Rating	Power	Price (Rs)
Crompton E-Saver	5	35 W	3900
Havells Efficiencia Neo	5	26 W	5110
Orient Ecotech Plus	5	32 W	3399
Atomberg- Gorilla Effecia	5	35 W	3046
Superfans Super X1	5	35 W	3392
Jupiter Tricpoter	5	25 W	3099

Currently industry is selling c. 0.15mn BLDC fans

Lighting industry size (in Rs bn)

LED – has gain share in lighting industry.


Source: Company, PhillipCapital India Research Estimates

Domestic electric water heater industry size (in Rs bn)

Water heater – Organised/Unorganised Share.


Source: Company, PhillipCapital India Research Estimates

Financial

Income Statement

Y/E Mar, Rs mn	FY20	FY21e	FY22e	FY23e
Net sales	45,120	45,469	52,872	60,266
Growth, %	1%	1%	16%	14%
Other income	588	616	517	593
Total income	45,708	46,085	53,389	60,859
Raw material expenses	30,650	30,888	36,181	40,819
Employee expenses	3,110	3,163	3,459	3,803
Other Operating expenses	5,391	4,846	5,824	6,569
EBITDA (Core)	5,969	6,573	7,409	9,076
Growth, %	2%	10%	13%	22%
Margin, %	13%	14%	14%	15%
Depreciation	268	340	384	414
EBIT	5,701	6,232	7,025	8,662
Growth, %	0%	9%	13%	23%
Margin, %	13%	14%	13%	14%
Interest paid	407	399	283	178
Pre-tax profit	5,882	6,450	7,259	9,076
Tax provided	936	1,625	1,829	2,287
Profit after tax	4,946	4,824	5,430	6,789
Net Profit	4,946	4,824	5,430	6,789
Growth, %	23%	-2%	13%	25%
Net Profit (adjusted)	4,946	4,824	5,430	6,789
Unadj. shares (m)	627	627	627	627
Wtd avg shares (m)	627	627	627	627

Balance Sheet

Y/E Mar, Rs mn	FY20	FY21e	FY22e	FY23e
Cash & bank	471	2,440	4,085	5,462
Debtors	4,587	5,357	6,663	8,256
Inventory	4,636	4,672	5,433	6,192
Other current assets	2,336	2,336	2,538	2,888
Total current assets	12,030	14,805	18,719	22,798
Investments	5,616	5,616	5,616	5,616
Gross fixed assets	1,911	2,211	2,911	3,611
Less: Depreciation	-616	-956	-1,340	-1,754
Add: Capital WIP	199	150	150	150
Net fixed assets	9,289	9,200	9,515	9,801
Total assets	26,934	29,620	33,850	38,215
Current liabilities	9,126	9,214	10,595	11,730
Provisions	1,839	1,839	2,039	2,239
Total current liabilities	10,965	11,053	12,634	13,968
Non-current liabilities	1,291	1,091	591	91
Total liabilities	12,256	12,144	13,225	14,059
Paid-up capital	1,255	1,255	1,255	1,255
Reserves & surplus	13,423	16,222	19,371	22,901
Shareholders' equity	14,678	17,476	20,625	24,156
Total equity & liabilities	26,934	29,620	33,850	38,215

Source: Company, PhillipCapital India Research Estimates

Cash Flow

Y/E Mar, Rs mn	FY20	FY21e	FY22e	FY23e
Pre-tax profit	675	1,435	2,071	2,790
Depreciation	438	443	464	492
Chg in working capital	-477	-366	-346	-412
Total tax paid	-42	-416	-621	-837
Other operating activities	311	141	145	82
Cash flow from operating activities	905	1,236	1,713	2,116
Capital expenditure	-827	-300	-500	-650
Chg in investments	86	0	0	0
Other investing activities	55	250	200	200
Cash flow from investing activities	-685	-50	-300	-450
Free cash flow	220	1,186	1,413	1,666
Debt raised/(repaid)	-476	-262	-406	-537
Dividend (incl. tax)	-63	-255	-382	-509
Other financing activities	60	-391	-345	-282
Cash flow from financing activities	-479	-908	-1,133	-1,328
Net chg in cash	-259	278	280	338

Valuation Ratios

	FY20	FY21e	FY22e	FY23e
Per Share data				
EPS (INR)	7.9	7.7	8.7	10.8
Growth, %	23%	-2%	13%	25%
Book NAV/share (INR)	23.4	27.9	32.9	38.5
CEPS (INR)	9.4	12.5	15.1	17.3
CFPS (INR)	6.7	6.7	7.8	8.6
DPS (INR)	-	3.0	3.0	4.3
Return ratios				
Return on assets (%)	18.4%	16.3%	16.0%	17.8%
Return on equity (%)	38.5%	30.0%	28.5%	30.3%
Return on capital employed (%)	51.7%	53.4%	56.5%	61.3%
Turnover ratios				
Asset turnover (x)	1.7	1.5	1.6	1.6
Sales/Total assets (x)	1.7	1.5	1.6	1.6
Sales/Net FA (x)	34.8	36.2	33.6	32.5
Working capital/Sales (x)	0.0	0.1	0.1	0.1
Fixed capital/Sales (x)	0.2	0.2	0.2	0.2
Receivable days	37.1	43.0	46.0	50.0
Inventory days	37.5	37.5	37.5	37.5
Payable days	75.9	75.9	73.9	71.9
Working capital days	(1.3)	4.6	9.6	15.6
Liquidity ratios				
Current ratio (x)	1.1	1.3	1.5	1.6
Quick ratio (x)	1.1	1.1	1.2	1.2
Interest cover (x)	14.0	15.6	24.8	48.7
Dividend cover (x)	na	2.9	2.9	2.5
Total debt/Equity (%)	0.1	0.1	0.1	0.0
Net debt/Equity (%)	0.1	(0.0)	(0.1)	(0.2)
Valuation				
PER (x)	45.0	46.1	41.0	32.8
Price/Book (x)	15.2	12.7	10.8	9.2
EV/Net sales (x)	4.8	4.8	4.1	3.5
EV/EBITDA (x)	36.6	32.9	28.9	23.4
EV/EBIT (x)	38.4	34.7	30.5	24.5

Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year. We have different threshold for large market capitalisation stock and Mid/small market capitalisation stock. The categorisation of stock based on market capitalisation is as per the SEBI requirement.

Large cap stocks

Rating	Criteria	Definition
BUY	$\geq +10\%$	Target price is equal to or more than 10% of current market price
NEUTRAL	$-10\% > \text{to} < +10\%$	Target price is less than +10% but more than -10%
SELL	$\leq -10\%$	Target price is less than or equal to -10%.

Mid cap and Small cap stocks

Rating	Criteria	Definition
BUY	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$-15\% > \text{to} < +15\%$	Target price is less than +15% but more than -15%
SELL	$\leq -15\%$	Target price is less than or equal to -15%.

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