

◆ Crompton: Competition will keep earnings under pressure

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CONSUMER ELECTRICAL space in India is amidst high competitive intensity which will keep near term earnings for player like Crompton Greaves Consumer Electricals (Crompton) under pressure.

Most of the players are trying to de-risk by expanding product portfolio, often through inorganic means. Crompton has significant dependence on fans/lighting for growth. While it is struggling to improve margins in lighting, premiumisation driven growth in fans would also be incrementally difficult.

Premium fan value share has already crossed 20% for the industry and volume growth in fans remains tepid. Crompton has also lagged peers in terms of new launches and/or inorganic acquisitions. The water heater/cooler will be tested in H2FY19. Currently, the stock is trading at 33x FY20E EPS. Considering the challenge of recovering margins in lighting and the increasing

competition in the space, we do not find the risk reward beneficial.

Competitive pressure in lighting remains strong despite marginal price increase which has happened in the LED space. There continue to be new brands which are entering the space with significant A&P spend like Jaquar, Indiabulls and now Svarochi.

Additionally, market leaders like Philips and Surya Roshni continue to have healthy margins (both had more than 10% Ebitda margins in lighting in FY18) due to their scale and reach and as such can accommodate some more pricing pressure. Crompton itself is working its way back to reclaim 10% margins in lighting from 6% reported in Q2FY19. This will have to include measures in improving quality, which the management intends to address through in house manufacturing.

The premium share of fans of Crompton has been at 20% for some time now. 20% of estimated ₹18bn of fan revenue of Crompton in FY18 would translate to ₹3.6 bn.