

July 25, 2019

## Q1FY20 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	BUY		BUY	
Target Price	297		284	
Sales (Rs. m)	50,425	56,626	50,425	56,669
% Chng.	-	(0.1)		
EBITDA (Rs. m)	6,833	7,984	6,883	8,019
% Chng.	(0.7)	(0.4)		
EPS (Rs.)	7.1	8.6	7.2	8.6
% Chng.	(0.4)	0.1		

### Key Financials - Standalone

Y/e Mar	FY18	FY19	FY20E	FY21E
Sales (Rs. m)	40,797	44,789	50,425	56,626
EBITDA (Rs. m)	5,310	5,858	6,833	7,984
Margin (%)	13.0	13.1	13.6	14.1
PAT (Rs. m)	3,238	3,741	4,471	5,398
EPS (Rs.)	5.2	6.0	7.1	8.6
Gr. (%)	13.3	15.5	19.5	20.7
DPS (Rs.)	1.5	1.8	2.0	2.4
Yield (%)	0.7	0.8	0.9	1.1
RoE (%)	49.5	39.6	35.9	34.3
RoCE (%)	42.2	43.0	47.7	50.4
EV/Sales (x)	3.5	3.1	2.7	2.3
EV/EBITDA (x)	26.7	23.5	19.9	16.6
PE (x)	43.5	37.7	31.5	26.1
P/BV (x)	17.9	12.8	10.1	8.0

### Key Data

CROP.BO | CROMPTON IN

52-W High / Low	Rs.273 / Rs.190
Sensex / Nifty	37,831 / 11,252
Market Cap	Rs.141bn/ \$ 2,043m
Shares Outstanding	627m
3M Avg. Daily Value	Rs.310.44m

### Shareholding Pattern (%)

Promoter's	34.36
Foreign	28.32
Domestic Institution	21.27
Public & Others	16.05
Promoter Pledge (Rs bn)	48.85

### Stock Performance (%)

	1M	6M	12M
Absolute	(2.5)	4.4	(4.9)
Relative	1.6	(0.6)	(7.3)

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## Innovation to drive growth

*Crompton 1Q growth was led by ECD segment (16% sales and 20.6% EBIT growth) mainly in Fans, Geysers and Air Coolers. However, lighting margins were impacted due to 1) higher ad spends on new launches (Cricket World Cup) 2) investment in building B2B capabilities & 3) higher provisioning due to delay in payment (on account of elections).*

*We like the company strategy of 1) creating new legs of growth in ECD by scaling up presence in segments like Geysers and Air Coolers in order to achieve No2/3 slot in next 3 years and 2) Increasing presence in B2B segment in lighting where they have lost ground over the years.*

*We retain our positive stance on Crompton given 1) success of new launches in emerging segments like Geysers and Air Coolers 2) rising innovations with products like Anti-Bac, Air Buddy, Aura Fluidic and Crest Mini in mature categories 3) deeper distribution reach (through GTM) 4) increasing focus on brand building and 5) gains from cost optimization program (Unnati). We estimate 20% PAT CAGR over FY19-21 and value the stock at 33x June 21 EPS of Rs9. Maintain BUY with a target price of Rs297 (earlier Rs284)*

**Sales up by 11.9%, PAT up by 17.6%:** Revenues grew by 11.9% to Rs13.4bn led by 16% growth in ECD segment. Gross margin expanded by ~30bps YoY to 32.6% benefitting from softening raw material prices. Absolute EBITDA grew by 14.8% YoY to Rs1.9bn while margins expanded by 40bps to 14.3% as cost reduction programs continue to bear fruit. A near 2X increase in other income partially offset by higher tax outlay (35% vs 34%) enabled PAT growth of 17.6% to Rs1.2bn

**ECD margins up ~80bps to 20.3%, Lighting margins down ~160bps YoY:** ECD segment revenues grew by 16% YoY to Rs10.7bn driven by strong performance in fans, pumps & cooler segment. Absolute EBIT was up by 20.6% to Rs2.2bn while margins expanded by ~80bps YoY to 20.3% Although LED's reported strong volume growth, lighting segment revenues de-grew by 1.8% to Rs2.7bn. With price erosion continuing in LED EBIT margins declined by 160bps YoY to 5.1% (11% in 4Q19). Absolute EBIT de-grew by 24.8% to Rs141mn.

**Concall Takeaways:** 1) LED segment grew in value/volume by 4%/12%. Conventional lighting (20% of lighting) declined by 21% 2) Anti-bac & Lyor LED bulbs (sells at 20% premium) is showing good traction with 15% contribution to lamp sales 3) Lighting margins impacted by higher ad spends, increased investment in B2B capability building & higher provisioning. 4) Price erosion continues in LED battens (down 10% QoQ) while B2B segment witnessing 5-7% QoQ decline in prices 5) Fans market share increased by 100bps, Premium fans grew by 24% led by success of Aura Fluidic range 6) Geysers/Coolers recorded 28/44% growth on a lower base, Crompton aims at attaining no.2/3 position in 2-3 years 7) Benefits delivered from project Unnati (Rs25-30cr/quarter) being used to improve brand awareness, build capability & fund LED price erosion.

**Exhibit 1: Q1FY20 Result Overview (Rs m): Sales up 11.9%, PAT up by 17.6%**

Y/e March	Q1FY20	Q1FY19	YoY gr. (%)	Q4FY19	FY20E	FY19	YoY gr. (%)
<b>Net Sales</b>	<b>13,468</b>	<b>12,039</b>	<b>11.9</b>	<b>12,069</b>	<b>50,425</b>	<b>44,789</b>	<b>12.6</b>
<b>Expenditure</b>							
Operating & Manufacturing Expenses	9,073	8,143	11.4	8,332	34,667	30,918	12.1
<i>% of Net Sales</i>	<i>67.4</i>	<i>67.6</i>		<i>69.0</i>	<i>68.8</i>	<i>69.0</i>	
<b>Gross Profit</b>	<b>4,395</b>	<b>3,896</b>	<b>12.8</b>	<b>3,736</b>	<b>15,758</b>	<b>13,871</b>	<b>13.6</b>
<i>% of Net Sales</i>	<i>32.6</i>	<i>32.4</i>		<i>31.0</i>	<i>31.3</i>	<i>31.0</i>	
Personnel Cost	820	718	14.1	765	3,152	2,919	8.0
<i>% of Net Sales</i>	<i>6.1</i>	<i>6.0</i>		<i>6.3</i>	<i>6.3</i>	<i>6.5</i>	
Other Expenses	1,655	1,505	9.9	1,286	5,774	5,094	13.3
<i>% of Net Sales</i>	<i>12.3</i>	<i>12.5</i>		<i>10.7</i>	<i>11.5</i>	<i>11.4</i>	
Total Expenditure	11,548	10,366	11.4	10,383	43,592	38,931	12.0
<b>EBITDA</b>	<b>1,921</b>	<b>1,673</b>	<b>14.8</b>	<b>1,685</b>	<b>6,833</b>	<b>5,858</b>	<b>16.6</b>
<i>Margin (%)</i>	<i>14.3</i>	<i>13.9</i>		<i>14.0</i>	<i>13.6</i>	<i>13.1</i>	
Other income	173	88	95.9	172	513	483	6.3
Depreciation	58	31	86.5	33	133	129	2.9
<b>EBIT</b>	<b>2,036</b>	<b>1,730</b>	<b>17.7</b>	<b>1,825</b>	<b>7,213</b>	<b>6,212</b>	<b>16.1</b>
Interest	150	152	-1.4	143	489	596	-17.9
<b>PBT before exceptional item</b>	<b>1,886</b>	<b>1,578</b>	<b>19.5</b>	<b>1,681</b>	<b>6,724</b>	<b>5,616</b>	<b>19.7</b>
Total Taxes	660	535		549	2,252	1,875	
<i>ETR (%)</i>	<i>35.0</i>	<i>33.9</i>		<i>32.7</i>	<i>33.5</i>	<i>33.4</i>	
<b>Adj. PAT</b>	<b>1,226</b>	<b>1,043</b>	<b>17.6</b>	<b>1,132</b>	<b>4,471</b>	<b>3,741</b>	<b>19.5</b>
Exceptional item	0	0		285	0	285	
<b>PAT</b>	<b>1,226</b>	<b>1,043</b>	<b>17.6</b>	<b>1,417</b>	<b>4,471</b>	<b>4,025</b>	<b>11.1</b>

Source: Company, PL

**Exhibit 2: Segmental Breakup (Rs m): Lighting EBIT margins down 160bps YoY to 5.1%, ECD EBIT up 80bps YoY**

Y/e March	Q1FY20	Q1FY19	YoY gr. (%)	Q4FY19
<b>Revenues</b>				
Electric Consumer Durables	10,729	9,248	16.0	8,644
Lighting Products	2,739	2,791	-1.8	3,425
<b>EBIT</b>				
Electric Consumer Durables	2,173	1,802	20.6	1,685
<i>EBIT margin (%)</i>	<i>20.3</i>	<i>19.5</i>		<i>19.5</i>
Lighting Products	141	188	-24.8	393
<i>EBIT margin (%)</i>	<i>5.1</i>	<i>6.7</i>		<i>11.5</i>

Source: Company, PL

Exhibit 3: Anti-Bac LED bulb



Source: Company, PL

Exhibit 4: Lyor LE bulb – 5-star rating



Source: Company, PL

Exhibit 5: Crompton Optimus – Desert Cooler



Source: Company, PL

Exhibit 6: Fans – Aura Range



Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
<b>Net Revenues</b>	<b>40,797</b>	<b>44,789</b>	<b>50,425</b>	<b>56,626</b>
YoY gr. (%)	4.6	9.8	12.6	12.3
Cost of Goods Sold	27,996	30,918	34,667	38,732
Gross Profit	12,801	13,871	15,758	17,894
Margin (%)	31.4	31.0	31.3	31.6
Employee Cost	2,827	2,919	3,152	3,398
Other Expenses	3,378	3,924	4,236	4,757
<b>EBITDA</b>	<b>5,310</b>	<b>5,858</b>	<b>6,833</b>	<b>7,984</b>
YoY gr. (%)	9.6	10.3	16.6	16.9
Margin (%)	13.0	13.1	13.6	14.1
Depreciation and Amortization	126	129	133	143
<b>EBIT</b>	<b>5,184</b>	<b>5,729</b>	<b>6,700</b>	<b>7,842</b>
Margin (%)	12.7	12.8	13.3	13.8
Net Interest	637	596	489	259
Other Income	308	483	513	535
<b>Profit Before Tax</b>	<b>4,854</b>	<b>5,616</b>	<b>6,724</b>	<b>8,117</b>
Margin (%)	11.9	12.5	13.3	14.3
Total Tax	1,617	1,875	2,252	2,719
Effective tax rate (%)	33.3	33.4	33.5	33.5
<b>Profit after tax</b>	<b>3,238</b>	<b>3,741</b>	<b>4,471</b>	<b>5,398</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>3,238</b>	<b>3,741</b>	<b>4,471</b>	<b>5,398</b>
YoY gr. (%)	13.3	15.5	19.5	20.7
Margin (%)	7.9	8.4	8.9	9.5
Extra Ord. Income / (Exp)	-	285	-	-
<b>Reported PAT</b>	<b>3,238</b>	<b>4,025</b>	<b>4,471</b>	<b>5,398</b>
YoY gr. (%)	14.3	24.3	11.1	20.7
Margin (%)	7.9	9.0	8.9	9.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,238	4,025	4,471	5,398
<b>Equity Shares O/s (m)</b>	<b>627</b>	<b>627</b>	<b>627</b>	<b>627</b>
<b>EPS (Rs)</b>	<b>5.2</b>	<b>6.0</b>	<b>7.1</b>	<b>8.6</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>2,293</b>	<b>2,435</b>	<b>2,615</b>	<b>2,795</b>
Tangibles	2,152	2,286	2,445	2,605
Intangibles	142	149	169	189
<b>Acc: Dep / Amortization</b>	<b>1,472</b>	<b>1,598</b>	<b>1,730</b>	<b>1,873</b>
Tangibles	1,392	1,500	1,614	1,735
Intangibles	80	98	117	138
<b>Net fixed assets</b>	<b>822</b>	<b>837</b>	<b>884</b>	<b>922</b>
Tangibles	760	786	832	870
Intangibles	62	52	53	51
Capital Work In Progress	6	10	10	10
Goodwill	7,794	7,794	7,794	7,794
Non-Current Investments	129	242	247	253
Net Deferred tax assets	479	597	597	597
Other Non-Current Assets	147	155	160	166
<b>Current Assets</b>				
Investments	3,676	5,300	5,800	6,800
Inventories	3,032	3,524	3,933	4,389
Trade receivables	5,536	5,660	6,355	7,136
Cash & Bank Balance	1,774	1,424	1,138	1,556
Other Current Assets	718	1,028	1,089	1,200
<b>Total Assets</b>	<b>24,250</b>	<b>26,698</b>	<b>28,158</b>	<b>30,992</b>
<b>Equity</b>				
Equity Share Capital	1,254	1,254	1,254	1,254
Other Equity	6,641	9,731	12,691	16,276
<b>Total Network</b>	<b>7,895</b>	<b>10,985</b>	<b>13,945</b>	<b>17,530</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	6,486	3,493	1,793	-
Provisions	175	173	202	227
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	7,682	6,642	8,667	9,683
Other current liabilities	2,012	5,406	3,551	3,552
<b>Total Equity &amp; Liabilities</b>	<b>24,250</b>	<b>26,698</b>	<b>28,158</b>	<b>30,992</b>

Source: Company Data, PL Research



## Cash Flow (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	4,854	5,616	6,724	8,117
Add. Depreciation	126	129	133	143
Add. Interest	637	596	489	259
Less Financial Other Income	308	483	513	535
Add. Other	282	(131)	18	13
Op. profit before WC changes	5,900	6,210	7,363	8,532
Net Changes-WC	(933)	(1,202)	711	(461)
Direct tax	(1,812)	(1,994)	(2,252)	(2,719)
<b>Net cash from Op. activities</b>	<b>3,154</b>	<b>3,014</b>	<b>5,821</b>	<b>5,352</b>
Capital expenditures	(133)	(156)	(180)	(180)
Interest / Dividend Income	285	258	-	-
Others	(482)	(1,817)	(500)	(1,000)
<b>Net Cash from Invt. activities</b>	<b>(331)</b>	<b>(1,714)</b>	<b>(680)</b>	<b>(1,180)</b>
Issue of share cap. / premium	7	38	-	-
Debt changes	-	-	(3,428)	(1,682)
Dividend paid	(1,129)	(1,312)	(1,511)	(1,813)
Interest paid	(634)	(587)	(489)	(259)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(1,755)</b>	<b>(1,862)</b>	<b>(5,428)</b>	<b>(3,754)</b>
<b>Net change in cash</b>	<b>1,069</b>	<b>(562)</b>	<b>(286)</b>	<b>418</b>
Free Cash Flow	3,021	2,859	5,642	5,172

Source: Company Data, PL Research

## Key Financial Metrics

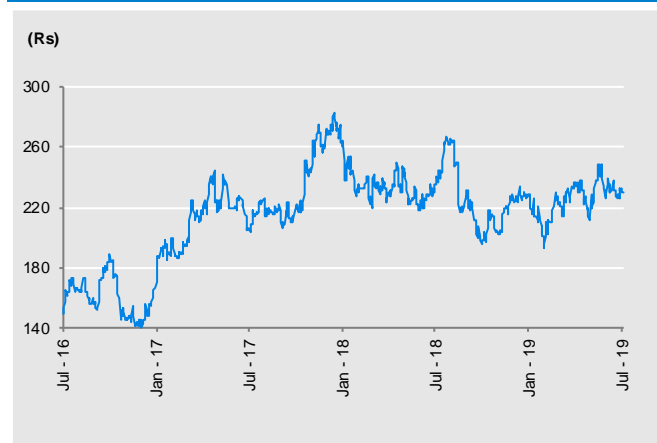
Y/e Mar	FY18	FY19	FY20E	FY21E
<b>Per Share(Rs)</b>				
EPS	5.2	6.0	7.1	8.6
CEPS	5.4	6.2	7.3	8.8
BVPS	12.6	17.5	22.2	28.0
FCF	4.8	4.6	9.0	8.2
DPS	1.5	1.8	2.0	2.4
<b>Return Ratio(%)</b>				
RoCE	42.2	43.0	47.7	50.4
ROIC	45.7	49.5	54.5	63.0
RoE	49.5	39.6	35.9	34.3
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.1	(0.3)	(0.4)	(0.5)
Net Working Capital (Days)	8	21	12	12
<b>Valuation(x)</b>				
PER	43.5	37.7	31.5	26.1
P/B	17.9	12.8	10.1	8.0
P/CEPS	41.9	36.4	30.6	25.4
EV/EBITDA	26.7	23.5	19.9	16.6
EV/Sales	3.5	3.1	2.7	2.3
Dividend Yield (%)	0.7	0.8	0.9	1.1

Source: Company Data, PL Research

## Quarterly Financials (Rs m)

Y/e Mar	Q2FY19	Q3FY19	Q4FY19	Q1FY20
<b>Net Revenue</b>	<b>10,378</b>	<b>10,303</b>	<b>12,069</b>	<b>13,468</b>
YoY gr. (%)	8.1	9.8	7.2	11.9
Raw Material Expenses	7,411	7,032	8,332	9,073
Gross Profit	2,968	3,271	3,736	4,395
Margin (%)	28.6	31.7	31.0	32.6
<b>EBITDA</b>	<b>1,239</b>	<b>1,261</b>	<b>1,685</b>	<b>1,921</b>
YoY gr. (%)	2.7	8.2	2.5	14.8
Margin (%)	11.9	12.2	14.0	14.3
Depreciation / Depletion	32	33	33	58
<b>EBIT</b>	<b>1,207</b>	<b>1,228</b>	<b>1,652</b>	<b>1,863</b>
Margin (%)	11.6	11.9	13.7	13.8
Net Interest	150	150	143	150
Other Income	98	124	172	173
<b>Profit before Tax</b>	<b>1,155</b>	<b>1,202</b>	<b>1,681</b>	<b>1,886</b>
Margin (%)	11.1	11.7	13.9	14.0
Total Tax	386	405	549	660
Effective tax rate (%)	33.4	33.7	32.7	35.0
<b>Profit after Tax</b>	<b>769</b>	<b>797</b>	<b>1,132</b>	<b>1,226</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>769</b>	<b>797</b>	<b>1,132</b>	<b>1,226</b>
YoY gr. (%)	8.6	14.6	9.7	17.6
Margin (%)	7.4	7.7	9.4	9.1
Extra Ord. Income / (Exp)	-	-	285	-
<b>Reported PAT</b>	<b>769</b>	<b>797</b>	<b>1,417</b>	<b>1,226</b>
YoY gr. (%)	8.6	14.6	37.3	17.6
Margin (%)	7.4	7.7	11.7	9.1
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>769</b>	<b>797</b>	<b>1,417</b>	<b>1,226</b>
Avg. Shares O/s (m)	627	627	627	627
<b>EPS (Rs)</b>	<b>1.2</b>	<b>1.3</b>	<b>1.8</b>	<b>2.0</b>

Source: Company Data, PL Research

**Price Chart**

**Recommendation History**

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	4-Jul-19	BUY	284	234
2	22-May-19	BUY	284	218
3	5-Apr-19	BUY	272	232
4	30-Jan-19	BUY	272	216
5	7-Jan-19	BUY	276	227
6	26-Oct-18	BUY	276	195
7	6-Sep-18	BUY	290	222
8	26-Jul-18	BUY	290	240

**Analyst Coverage Universe**

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,522	1,479
2	Avenue Supermarts	Hold	1,338	1,359
3	Britannia Industries	Accumulate	3,145	2,841
4	Colgate Palmolive	Hold	1,208	1,204
5	Crompton Greaves Consumer Electricals	BUY	284	234
6	Dabur India	Hold	437	420
7	Emami	Accumulate	382	301
8	Future Retail	BUY	554	471
9	GlaxoSmithKline Consumer Healthcare	Hold	7,744	7,805
10	Hindustan Unilever	Accumulate	1,816	1,690
11	ITC	BUY	369	278
12	Jubilant FoodWorks	BUY	1,459	1,153
13	Kansai Nerolac Paints	Accumulate	464	442
14	Marico	Hold	351	374
15	Nestle India	Accumulate	10,656	11,884
16	Pidilite Industries	Accumulate	1,184	1,227
17	Titan Company	BUY	1,267	1,290
18	Voltas	Accumulate	584	635

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly





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