

October 24, 2019

## Q2FY20 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	BUY		BUY	
Target Price	303		300	
Sales (Rs. m)	48,893	54,966	50,425	56,626
% Chng.	(3.0)	(2.9)		
EBITDA (Rs. m)	6,576	7,833	6,833	7,984
% Chng.	(3.8)	(1.9)		
EPS (Rs.)	7.6	9.2	7.9	9.6
% Chng.	(4.5)	(3.4)		

### Key Financials - Standalone

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. m)	44,789	48,893	54,966	61,767
EBITDA (Rs. m)	5,858	6,576	7,833	9,018
Margin (%)	13.1	13.5	14.3	14.6
PAT (Rs. m)	3,741	4,740	5,787	6,863
EPS (Rs.)	6.0	7.6	9.2	10.9
Gr. (%)	15.5	26.7	22.1	18.6
DPS (Rs.)	1.8	2.0	2.7	3.3
Yield (%)	0.7	0.8	1.1	1.3
RoE (%)	39.6	37.6	36.0	34.0
RoCE (%)	43.0	44.9	47.6	46.1
EV/Sales (x)	3.5	3.2	2.8	2.4
EV/EBITDA (x)	26.8	23.7	19.5	16.7
PE (x)	42.8	33.7	27.6	23.3
P/BV (x)	14.6	11.3	8.9	7.2

### Key Data

CROP.BO | CROMPTON IN

52-W High / Low	Rs.276 / Rs.190
Sensex / Nifty	39,020 / 11,583
Market Cap	Rs.160bn / \$ 2,252m
Shares Outstanding	627m
3M Avg. Daily Value	Rs.349.27m

### Shareholding Pattern (%)

Promoter's	34.36
Foreign	28.07
Domestic Institution	22.00
Public & Others	15.57
Promoter Pledge (Rs bn)	48.85

### Stock Performance (%)

	1M	6M	12M
Absolute	(3.4)	8.9	25.4
Relative	(3.2)	9.0	9.4

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## On track for steady growth

*We cut Crompton's FY20/FY21 EPS by 4.5%/3.4% given 1) slowdown in consumer discretionary spends impacting ECD growth rates and 2) near term profitability pressures in lighting due to ~15% price erosion in LED, delayed execution in EESL orders and increased investments in B2B business.*

*Although the near term outlook remains cautious, Crompton remains focused on creating new legs of growth in ECD. After successfully scaling up presence in segments like Geysers and Air Coolers, mixers and grinders have been identified as new areas of growth. Crompton will invest gains from higher gross margins in ECD to scale up new categories, increased go to market initiatives and growing B2B segment in lighting by building capabilities and technology.*

*We remain positive on Crompton given 1) strong growth potential in core categories of fans, pumps 2) well defined plan to scale up new segments like Geysers, Air Coolers and now mixers and grinders 3) rising innovations and 4) increasing focus on brand building. We estimate 22% PAT CAGR over FY19-22 and value the stock at 30x Sept21 EPS of Rs10.1. Maintain BUY with a target price of Rs303*

**Sales up by 3.7%, PBT up by 9.7%:** Revenues grew by 3.7% to Rs10.8bn as ECD segment growth slowed down to 10.6% while lighting segment reported 11.5% decline. Gross margin expanded by ~330bps YoY to 32.6% benefitting from softening raw material prices. Absolute EBITDA grew by 4.5% YoY to Rs1.3bn A 26%/20% increase in other expenses & employee cost limited margin expansion by 10bps to 12%. Aided by 24.5% increase in other income to Rs122mn and lower interest expense, PBT grew by 9.7% to Rs1.26bn. Lower tax outlay (12.1% vs 33.4%) enabled PAT growth of 44.7% to Rs1.1bn

**ECD margins up ~30bps to 19.2%, Lighting margins down ~110bps YoY:** ECD segment revenue grew by 10.6% YoY to Rs7.8bn. ECD growth rate slowed down partly due to impact of floods on the pump segment. Absolute EBIT was up by 12.4% to Rs1.5bn while margins expanded by ~30bps YoY to 19.2% Although LED's reported strong volume growth, lighting segment revenues de-grew by 11.5% to Rs2.8bn. With price erosion continuing in LED EBIT margins declined by 110bps YoY to 5.2% (5.1% in 1Q20). Absolute EBIT de-grew by 26.9% to Rs151mn.

**Concall Takeaways:** **1)** Ex-EESL LED segment de-grew in by 3%. Battens & panels grew by 35% in volume terms. **2)** B2B lighting division grew by 9% on the back of increased investments. **3)** Lighting margins impacted by higher ad spends, increased investment in B2B capability building & continued price erosion (down 15% YoY) **4)** Fans market share increased by 80bps. Fans recorded close to double digit volume growth. Took a price of ~2% **5)** Introduction of star rating in fans likely to benefit organized players owing to need for re-designing the product and the technology changes **6)** Agri pumps reported 17% volume growth. Domestic pumps impacted by floods and heavy rains **7)** Geysers/Coolers recorded 30+% growth on, Crompton to now focus on developing SDA segment starting with mixer grinders.

**Exhibit 1: Q2FY20 Result Overview (Rs m): Sales up 3.7%, PBT up by 9.7%**

Y/e March	Q2FY20	Q2FY19	YoY gr. (%)	Q1FY20	H1FY20	H1FY19	YoY gr. (%)
<b>Net Sales</b>	<b>10,758</b>	<b>10,378</b>	<b>3.7</b>	<b>13,468</b>	<b>24,226</b>	<b>22,417</b>	<b>8.1</b>
<b>Expenditure</b>							
Operating & Manufacturing Expenses	7,327	7,411	(1.1)	9,073	16,400	15,554	5.4
<i>% of Net Sales</i>	<i>68.1</i>	<i>71.4</i>		<i>67.4</i>	<i>67.7</i>	<i>69.4</i>	
<b>Gross Profit</b>	<b>3,431</b>	<b>2,968</b>	<b>15.6</b>	<b>4,395</b>	<b>7,827</b>	<b>6,864</b>	<b>14.0</b>
<i>% of Net Sales</i>	<i>31.9</i>	<i>28.6</i>		<i>32.6</i>	<i>32.3</i>	<i>30.6</i>	
Personnel Cost	810	675	19.9	820	1,630	1,394	16.9
<i>% of Net Sales</i>	<i>7.5</i>	<i>6.5</i>		<i>6.1</i>	<i>6.7</i>	<i>6.2</i>	
Other Expenses	1,326	1,053	26.0	1,655	2,981	2,558	16.5
<i>% of Net Sales</i>	<i>12.3</i>	<i>10.1</i>		<i>12.3</i>	<i>12.3</i>	<i>11.4</i>	
Total Expenditure	9,463	9,139	3.5	11,548	21,011	19,505	7.7
<b>EBITDA</b>	<b>1,295</b>	<b>1,239</b>	<b>4.5</b>	<b>1,921</b>	<b>3,216</b>	<b>2,912</b>	<b>10.4</b>
<i>Margin (%)</i>	<i>12.0</i>	<i>11.9</i>		<i>14.3</i>	<i>13.3</i>	<i>13.0</i>	
Other income	122	98	24.5	173	296	187	58.3
Depreciation	64	32	97.8	58	122	63	92.3
<b>EBIT</b>	<b>1,354</b>	<b>1,305</b>	<b>3.7</b>	<b>2,036</b>	<b>3,390</b>	<b>3,035</b>	<b>11.7</b>
Interest	87	150	(42.1)	150	237	303	(21.7)
<b>PBT before exceptional item</b>	<b>1,267</b>	<b>1,155</b>	<b>9.7</b>	<b>1,886</b>	<b>3,153</b>	<b>2,733</b>	<b>15.4</b>
Total Taxes	154	386	(60.1)	660	814	921	(11.6)
<i>ETR (%)</i>	<i>12.1</i>	<i>33.4</i>		<i>35.0</i>	<i>25.8</i>	<i>33.7</i>	
<b>Adj. PAT</b>	<b>1,113</b>	<b>769</b>	<b>44.7</b>	<b>1,226</b>	<b>2,339</b>	<b>1,812</b>	<b>29.1</b>
Exceptional item	0	0		0	0	0	
<b>PAT</b>	<b>1,113</b>	<b>769</b>	<b>44.7</b>	<b>1,226</b>	<b>2,339</b>	<b>1,812</b>	<b>29.1</b>

Source: Company, PL

**Exhibit 2: Segmental Breakup (Rs m): Lighting EBIT margins down 110bps YoY to 5.2%, ECD EBIT up 30bps YoY to 19.2%**

Y/e March	Q2FY20	Q2FY19	YoY gr. (%)	Q1FY20	H1FY20	H1FY19
<b>Revenues</b>						
Electric Consumer Durables	7,881	7,128	10.6	10,729	18,610	16,377
Lighting Products	2,877	3,250	(11.)	2,739	5,616	6,041
<b>EBIT</b>						
Electric Consumer Durables	1,514	1,348	12.4	2,173	3,688	3,150
<i>EBIT margin (%)</i>	<i>19.2</i>	<i>18.9</i>		<i>20.3</i>	<i>19.8</i>	
Lighting Products	151	206	(26.9)	141	292	394
<i>EBIT margin (%)</i>	<i>5.2</i>	<i>6.3</i>		<i>5.1</i>	<i>5.2</i>	<i>6.5</i>

Source: Company, PL

Exhibit 3: Anti-Bac LED bulb



Source: Company, PL

Exhibit 4: Air Buddy Kitchen Fan



Source: Company, PL

Exhibit 5: Crompton LED Dynamic Façade lighting at BMC HQ



Source: Company, PL



## Financials

## Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Net Revenues</b>	<b>44,789</b>	<b>48,893</b>	<b>54,966</b>	<b>61,767</b>
YoY gr. (%)	9.8	9.2	12.4	12.4
Cost of Goods Sold	30,918	33,076	37,047	41,600
Gross Profit	13,871	15,817	17,919	20,167
Margin (%)	31.0	32.4	32.6	32.7
Employee Cost	2,919	3,276	3,490	3,737
Other Expenses	3,924	4,205	4,727	5,312
<b>EBITDA</b>	<b>5,858</b>	<b>6,576</b>	<b>7,833</b>	<b>9,018</b>
YoY gr. (%)	10.3	12.3	19.1	15.1
Margin (%)	13.1	13.5	14.3	14.6
Depreciation and Amortization	129	244	280	296
<b>EBIT</b>	<b>5,729</b>	<b>6,332</b>	<b>7,553</b>	<b>8,722</b>
Margin (%)	12.8	13.0	13.7	14.1
Net Interest	596	421	245	-
Other Income	483	509	531	575
<b>Profit Before Tax</b>	<b>5,616</b>	<b>6,420</b>	<b>7,839</b>	<b>9,296</b>
Margin (%)	12.5	13.1	14.3	15.1
Total Tax	1,875	1,680	2,051	2,433
Effective tax rate (%)	33.4	26.2	26.2	26.2
<b>Profit after tax</b>	<b>3,741</b>	<b>4,740</b>	<b>5,787</b>	<b>6,863</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>3,741</b>	<b>4,740</b>	<b>5,787</b>	<b>6,863</b>
YoY gr. (%)	15.5	26.7	22.1	18.6
Margin (%)	8.4	9.7	10.5	11.1
Extra Ord. Income / (Exp)	285	-	-	-
<b>Reported PAT</b>	<b>4,025</b>	<b>4,740</b>	<b>5,787</b>	<b>6,863</b>
YoY gr. (%)	24.3	17.8	22.1	18.6
Margin (%)	9.0	9.7	10.5	11.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,025	4,740	5,787	6,863
<b>Equity Shares O/s (m)</b>	<b>627</b>	<b>627</b>	<b>627</b>	<b>627</b>
<b>EPS (Rs)</b>	<b>6.0</b>	<b>7.6</b>	<b>9.2</b>	<b>10.9</b>

Source: Company Data, PL Research

## Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>2,435</b>	<b>3,065</b>	<b>3,245</b>	<b>3,424</b>
Tangibles	2,286	2,895	3,055	3,215
Intangibles	149	169	189	209
<b>Acc: Dep / Amortization</b>	<b>1,598</b>	<b>1,842</b>	<b>2,121</b>	<b>2,418</b>
Tangibles	1,500	1,720	1,973	2,240
Intangibles	98	121	148	178
<b>Net fixed assets</b>	<b>837</b>	<b>1,223</b>	<b>1,123</b>	<b>1,006</b>
Tangibles	786	1,175	1,082	975
Intangibles	52	48	41	31
Capital Work In Progress	10	10	10	10
Goodwill	7,794	7,794	7,794	7,794
Non-Current Investments	242	247	253	260
Net Deferred tax assets	597	477	477	477
Other Non-Current Assets	155	160	166	172
<b>Current Assets</b>				
Investments	5,300	4,300	5,300	6,800
Inventories	3,524	3,814	4,260	4,756
Trade receivables	5,660	6,162	6,927	7,742
Cash & Bank Balance	1,424	1,469	2,051	2,747
Other Current Assets	1,028	1,061	1,170	1,293
<b>Total Assets</b>	<b>26,698</b>	<b>26,863</b>	<b>29,696</b>	<b>33,242</b>
<b>Equity</b>				
Equity Share Capital	1,254	1,254	1,254	1,254
Other Equity	9,731	12,960	16,707	21,115
<b>Total Networth</b>	<b>10,985</b>	<b>14,214</b>	<b>17,961</b>	<b>22,369</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	3,493	1,793	-	-
Provisions	173	196	220	247
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	6,642	7,111	7,965	8,944
Other current liabilities	5,406	3,549	3,549	1,681
<b>Total Equity &amp; Liabilities</b>	<b>26,698</b>	<b>26,863</b>	<b>29,696</b>	<b>33,242</b>

Source: Company Data, PL Research



## Cash Flow (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	5,616	6,420	7,839	9,296
Add. Depreciation	129	244	280	296
Add. Interest	596	421	245	-
Less Financial Other Income	483	509	531	575
Add. Other	(131)	131	13	15
Op. profit before WC changes	6,210	7,217	8,376	9,607
Net Changes-WC	(1,202)	(402)	(596)	(570)
Direct tax	(1,994)	(1,680)	(2,051)	(2,433)
<b>Net cash from Op. activities</b>	<b>3,014</b>	<b>5,135</b>	<b>5,728</b>	<b>6,604</b>
Capital expenditures	(156)	(630)	(180)	(180)
Interest / Dividend Income	258	-	-	-
Others	(1,817)	1,000	(1,000)	(1,500)
<b>Net Cash from Inv. activities</b>	<b>(1,714)</b>	<b>370</b>	<b>(1,180)</b>	<b>(1,680)</b>
Issue of share cap. / premium	38	-	-	-
Debt changes	-	(3,428)	(1,682)	(1,773)
Dividend paid	(1,312)	(1,511)	(2,040)	(2,455)
Interest paid	(587)	(421)	(245)	-
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(1,862)</b>	<b>(5,360)</b>	<b>(3,966)</b>	<b>(4,228)</b>
<b>Net change in cash</b>	<b>(562)</b>	<b>145</b>	<b>582</b>	<b>696</b>
Free Cash Flow	2,859	4,505	5,549	6,425

Source: Company Data, PL Research

## Key Financial Metrics

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Per Share(Rs)</b>				
EPS	6.0	7.6	9.2	10.9
CEPS	6.2	7.9	9.7	11.4
BVPS	17.5	22.7	28.6	35.7
FCF	4.6	7.2	8.8	10.2
DPS	1.8	2.0	2.7	3.3
<b>Return Ratio(%)</b>				
RoCE	43.0	44.9	47.6	46.1
ROIC	49.5	49.3	57.9	60.6
RoE	39.6	37.6	36.0	34.0
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.3)	(0.3)	(0.4)	(0.4)
Net Working Capital (Days)	21	21	21	21
<b>Valuation(x)</b>				
PER	42.8	33.7	27.6	23.3
P/B	14.6	11.3	8.9	7.2
P/CEPS	41.3	32.1	26.4	22.3
EV/EBITDA	26.8	23.7	19.5	16.7
EV/Sales	3.5	3.2	2.8	2.4
Dividend Yield (%)	0.7	0.8	1.1	1.3

Source: Company Data, PL Research

## Quarterly Financials (Rs m)

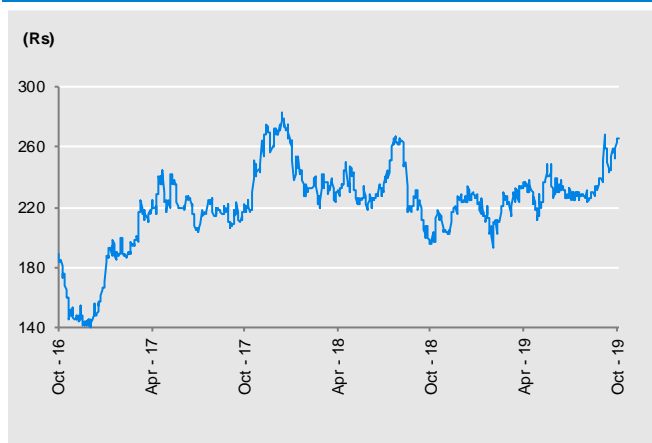
Y/e Mar	Q3FY19	Q4FY19	Q1FY20	Q2FY20
<b>Net Revenue</b>	<b>10,303</b>	<b>12,069</b>	<b>13,468</b>	<b>10,758</b>
YoY gr. (%)	9.8	7.2	11.9	3.7
Raw Material Expenses	7,032	8,332	9,073	7,327
Gross Profit	3,271	3,736	4,395	3,431
Margin (%)	31.7	31.0	32.6	31.9
<b>EBITDA</b>	<b>1,261</b>	<b>1,685</b>	<b>1,921</b>	<b>1,295</b>
YoY gr. (%)	8.2	2.5	14.8	4.5
Margin (%)	12.2	14.0	14.3	12.0
Depreciation / Depletion	33	33	58	64
<b>EBIT</b>	<b>1,228</b>	<b>1,652</b>	<b>1,863</b>	<b>1,231</b>
Margin (%)	11.9	13.7	13.8	11.4
Net Interest	150	143	150	87
Other Income	124	172	173	122
<b>Profit before Tax</b>	<b>1,202</b>	<b>1,681</b>	<b>1,886</b>	<b>1,267</b>
Margin (%)	11.7	13.9	14.0	11.8
Total Tax	405	549	660	154
Effective tax rate (%)	33.7	32.7	35.0	12.1
<b>Profit after Tax</b>	<b>797</b>	<b>1,132</b>	<b>1,226</b>	<b>1,113</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>797</b>	<b>1,132</b>	<b>1,226</b>	<b>1,113</b>
YoY gr. (%)	14.6	9.7	17.6	44.7
Margin (%)	7.7	9.4	9.1	10.3
Extra Ord. Income / (Exp)	-	285	-	-
<b>Reported PAT</b>	<b>797</b>	<b>1,417</b>	<b>1,226</b>	<b>1,113</b>
YoY gr. (%)	14.6	37.3	17.6	44.7
Margin (%)	7.7	11.7	9.1	10.3
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>797</b>	<b>1,417</b>	<b>1,226</b>	<b>1,113</b>
Avg. Shares O/s (m)	627	627	627	627
<b>EPS (Rs)</b>	<b>1.3</b>	<b>1.8</b>	<b>2.0</b>	<b>1.8</b>

Source: Company Data, PL Research



## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	3-Oct-19	BUY	300	244
2	25-Jul-19	BUY	297	225
3	4-Jul-19	BUY	284	234
4	22-May-19	BUY	284	218
5	5-Apr-19	BUY	272	232
6	30-Jan-19	BUY	272	216
7	7-Jan-19	BUY	276	227
8	26-Oct-18	BUY	276	195

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,855	1,767
2	Avenue Supermarts	Reduce	1,647	1,843
3	Britannia Industries	Accumulate	3,307	2,903
4	Colgate Palmolive	Reduce	1,240	1,490
5	Crompton Greaves Consumer Electricals	BUY	300	244
6	Dabur India	Hold	464	434
7	Emami	Accumulate	373	317
8	Future Retail	BUY	477	381
9	GlaxoSmithKline Consumer Healthcare	Hold	8,631	8,456
10	Havells India	Reduce	640	702
11	Hindustan Unilever	Accumulate	2,083	2,009
12	ITC	BUY	344	262
13	Jubilant FoodWorks	BUY	1,753	1,435
14	Kansai Nerolac Paints	Accumulate	507	496
15	Marico	Hold	339	384
16	Nestle India	Hold	12,149	13,710
17	Pidilite Industries	Accumulate	1,429	1,393
18	Titan Company	BUY	1,282	1,296
19	Voltas	Hold	626	674

## 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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