

Crompton Gr. Con

Estimate change

TP change

Rating change
CMP: INR198
TP: INR240 (+21%)
Buy

March plays spoilsport in an otherwise strong quarter

16% revenue decline suggests similar COVID-19 impact to that of peers

- CROMPTON was all set to witness one of its strongest quarter (based on Jan-Feb'20 sales) before the onset of the COVID-19 led disruption in Mar'20, which led the sales decline across categories in 4QFY20. While management is optimistic of supply side getting back to normal as the lockdown gradually eases, it still remains cautious on the demand outlook.
- Volume growth was robust during Jan-Feb'20 (33% YoY across ECD and B2C Lighting). Primary sales have resumed from end-Apr'20, and Fans and Pumps have seen good pick-up in the South and East India in May'20.
- We have cut our FY21E/FY22E earnings estimates by 22%/11% to build in the impact caused by the COVID-19 disruption and modest demand outlook ahead. We maintain our **Buy** rating with TP of INR240 (prior: INR270).

Ongoing cost initiatives partly offset impact of sales decline

- Revenue declined 16% YoY to INR10.2b (16% below est.). EBITDA declined 18% YoY to INR1.4b (17% below est.) while EBITDA margin was down 40bp YoY to 13.6% (v/s est. 13.8%).
- Employee cost **declined 8% YoY to INR706m**.
- PBT declined 20% to INR1.34b (23% below est.). Adj. PAT was down 12% YoY to INR1b (23% below est.).
- Given the uncertain economic outlook, the CROMPTON board has deferred dividend for FY20.
- **FY20:** Revenue was flat at INR45b. EBITDA grew 2% YoY to INR6b. EBITDA margin improved marginally to 13.2% (v/s 13.1% in FY19). Adj. PAT grew 17% to INR4.4b as effective tax rate stood at 25.7% (v/s 33.4% in FY19).
- CFO stood at INR4.2b (v/s INR3b in FY19) owing to lower working capital.

Strong volume growth across categories in Jan-Feb'20

- **4QFY20 segmental highlights:** **ECD** – Revenue at INR7.4b were down 14% YoY, with EBIT margins stable at 20%. **Lighting** – Revenue declined 19% YoY to INR2.8b, with EBIT margins at 7% (-450bp YoY).
- **Robust growth in Jan-Feb'20 across categories:** **ECD** grew 18%, while volume growth stood at 22%. **Fans** volume growth stood at 21%, while market share increased by 80bp YoY. **Domestic pump** grew 19% in volumes. **Appliances** grew 60% YoY in value, with Water heater growing 48% in volume and 97% in value. Mixer grinders/Air coolers grew 54%/83% in value. **Lighting (ex-EESL)** was up 7.5%; volume growth in LED bulbs, batons and panels was 40% and value growth was 15%. Market share in LED lamps grew by 100bp.

Valuation and view

- Even amidst the ongoing disruption, we commend CROMPTON's efforts to further improve its leadership position in the Fans segment and its good start in the new category of Water heaters and Air coolers. CROMPTON's strong FCF generation is under-appreciated at current valuations, in our view. We maintain our **Buy** rating with TP of INR240 (28x Mar'22E EPS).

Bloomberg	CROMPTON IN
Equity Shares (m)	627
M.Cap.(INRb)/(USD\$b)	124.4 / 1.7
52-Week Range (INR)	301 / 178
1, 6, 12 Rel. Per (%)	-4/0/14
12M Avg Val (INR M)	282

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	45.1	40.6	50.5
EBITDA	6.0	5.1	7.0
PAT	4.4	3.8	5.4
EBITDA (%)	13.2	12.6	13.8
EPS (INR)	7.0	6.0	8.6
EPS Gr. (%)	16.9	(13.6)	42.6
BV/Sh. (INR)	23.4	26.9	31.9

Ratios

Net D/E	(0.2)	(0.3)	(0.4)
RoE (%)	29.8	22.4	26.9
RoCE (%)	28.9	21.8	27.7
Payout (%)	34.4	42.0	42.0

Valuations

P/E (x)	29.8	34.5	24.2
P/BV (x)	8.9	7.7	6.5
EV/EBITDA (x)	21.4	24.5	17.5
Div Yield (%)	1.0	1.0	1.4
FCF Yield (%)	2.9	2.8	3.9

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	26.2	26.2	34.4
DII	26.7	26.9	18.9
FII	30.5	30.9	30.5
Others	16.6	16.1	16.3

FII Includes depository receipts

Quarterly Estimates

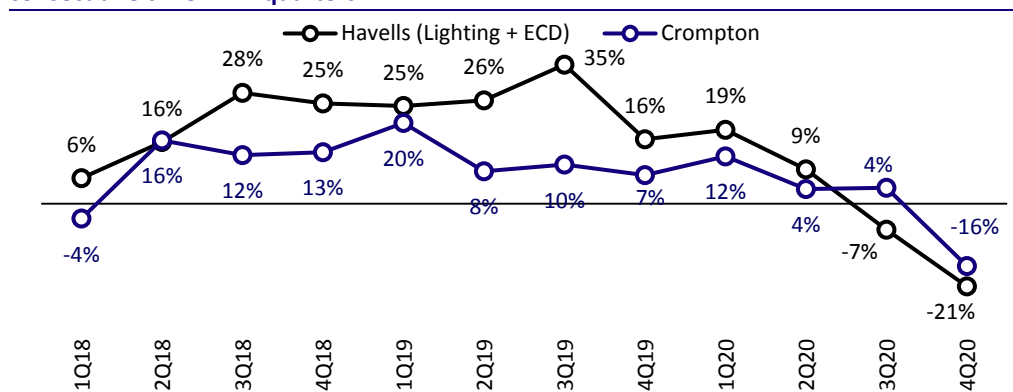
(INR M)

Y/E March	FY19				FY20				FY19	FY20	Vs Est. 4QE	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Sales	12,039	10,378	10,303	12,069	13,468	10,758	10,713	10,181	44,789	45,120	12,108	-15.9%
Change (%)	20.2	8.1	9.8	7.2	11.9	3.7	4.0	-15.6	9.8	0.7	0.3	
EBITDA	1,673	1,239	1,261	1,685	1,919	1,295	1,369	1,384	5,858	5,969	1,673	-17.3%
Change (%)	29.3	2.7	8.2	2.5	14.7	4.5	8.6	-17.9	10.3	1.9	-0.7	
As of % Sales	13.9	11.9	12.2	14.0	14.2	12.0	12.8	13.6	13.1	13.2	13.8	
Depreciation	31	32	33	33	58	64	64	82	129	268	64	
Interest	152	150	150	143	150	87	87	83	596	407	76	
Other Income	88	98	124	172	173	122	174	119	483	589	206	
PBT	1,578	1,155	1,202	1,681	1,885	1,267	1,391	1,339	5,616	5,883	1,739	-23.0%
Tax	535	386	405	549	660	154	355	341	1,875	1,510	439	
Effective Tax Rate (%)	33.9	33.4	33.7	32.7	35.0	12.1	25.5	25.5	33.4	25.7	25.3	
Adjusted PAT	1,043	769	797	1,132	1,224	1,113	1,036	998	3,741	4,373	1,300	-23.2%
Change (%)	29.9	8.6	14.6	9.7	17.4	44.7	30.1	(11.8)	15.5	16.9	14.8	
Extra-ordinary Income (net)	-	-	-	285	-	-	574	-	285	574	-	
Reported PAT	1,043	769	797	1,417	1,224	1,113	1,610	998	4,025	4,947	1,300	-23.2%
Change (%)	29.9	8.6	14.6	37.3	17.4	44.7	102.1	(29.5)	24.3	22.9	(8.2)	

Segmental sales (INR m)

Y/E March	FY19				FY20			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Lighting	2,791	3,250	3,188	3,425	2,739	2,877	2,843	2,770
Electrical consumer durables	9,248	7,128	7,116	8,644	10,729	7,881	7,870	7,411
Total Sales	12,039	10,378	10,303	12,069	13,468	10,758	10,713	10,181
YoY Growth (%)								
Lighting	9.6	(3.8)	(2.4)	1.4	(1.8)	(11.5)	(10.8)	(19.1)
Electrical consumer durables	23.9	14.6	16.3	9.6	16.0	10.6	10.6	(14.3)
EBIT								
Lighting	188	206	282	393	141	151	196	193
Electrical Consumer durables	1,802	1,348	1,327	1,685	2,173	1,514	1,561	1,482
EBIT Margin (%)								
Lighting	6.7	6.3	8.9	11.5	5.1	5.2	6.9	7.0
Electrical Consumer durables	19.5	18.9	18.7	19.5	20.3	19.2	19.8	20.0

Exhibit 1: In comparative segments, CROMPTON's growth is than Havells for the second consecutive time in 12 quarters



Source: MOSL, Company

Story in charts

Exhibit 2: FY19 revenue break-up

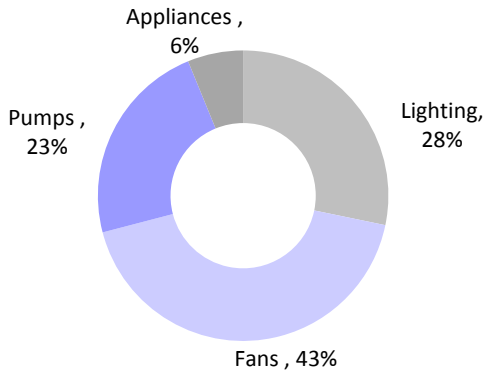


Exhibit 3: FY20-22E CAGR estimates by category

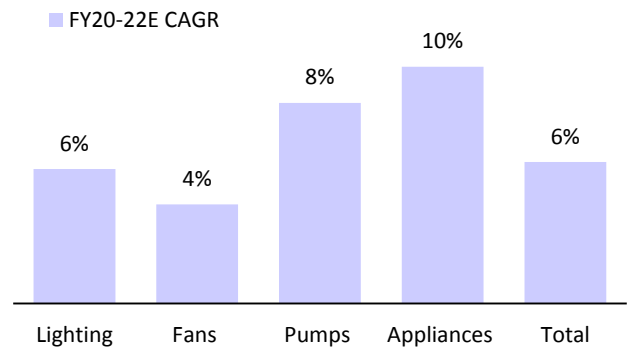


Exhibit 4: Expect Lighting revenue CAGR of 6% over FY20-22E

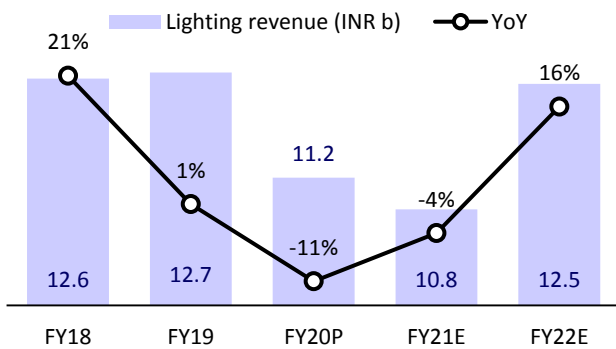


Exhibit 5: Lighting margins expected to scale up in FY22E

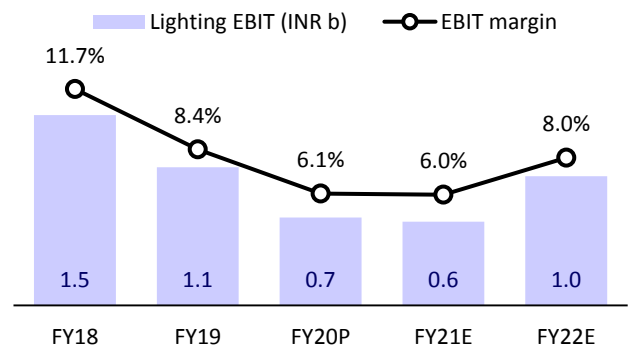


Exhibit 6: Expect ECD revenue CAGR of 6% over FY20-22E after a wash-out in FY21E

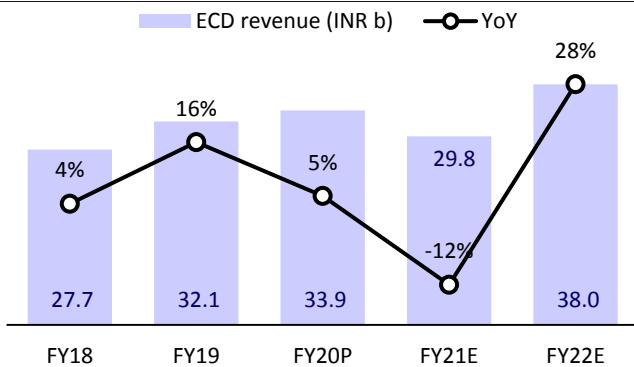


Exhibit 7: ECD margins to bounce back in FY22E after temporary blip in FY21E

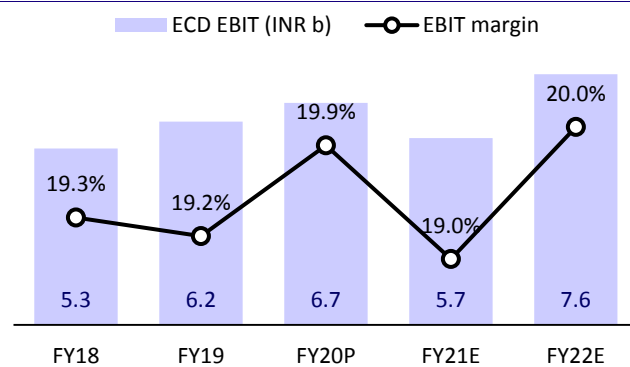
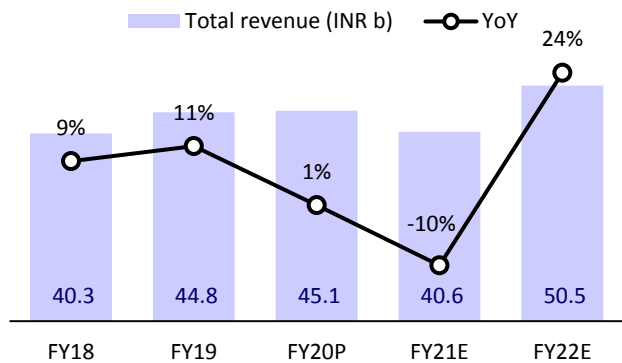
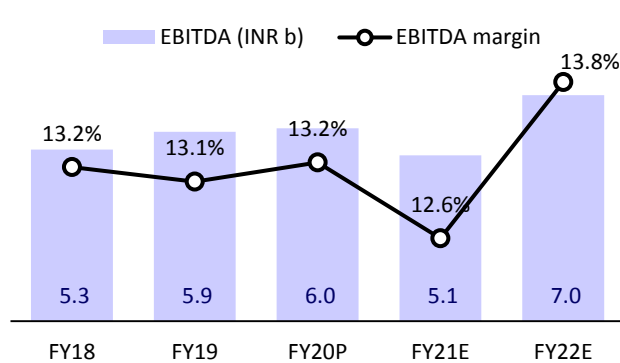


Exhibit 8: Expect revenue CAGR of 6% over FY20-22E



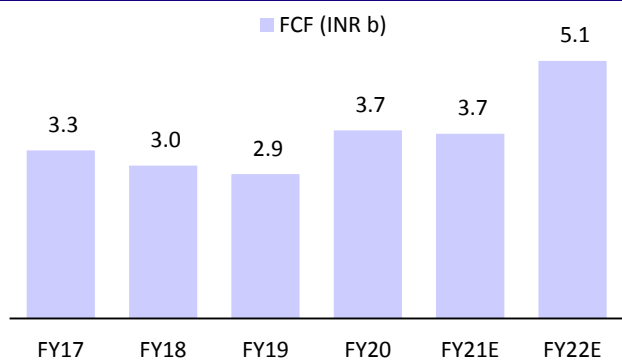
Source: MOFSL, Company

Exhibit 9: EBITDA margin to expand 60bp over FY20-22E



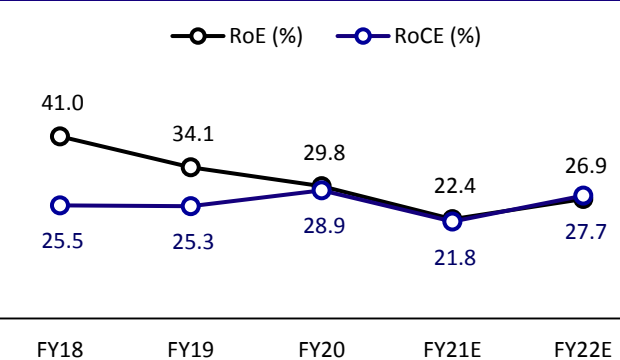
Source: MOFSL, Company

Exhibit 10: Strong FCF generation over FY20-22E



Source: MOFSL, Company

Exhibit 11: Return ratios to remain healthy



Source: MOFSL, Company

Exhibit 12: We cut our FY21E/FY22E earnings estimates by 22%/11% to build in the impact caused by the COVID-19 disruption and modest demand outlook ahead

Earnings Change	Old			New			Change		
	FY20E	FY21E	FY22E	FY20P	FY21E	FY22E	FY20P	FY21E	FY22E
Revenue	47,048	46,096	54,857	45,120	40,600	50,500	-4%	-12%	-8%
EBITDA	6,256	6,131	7,512	5,969	5,132	6,994	-5%	-16%	-7%
EBITDA margin	13.3%	13.3%	13.7%	13.2%	12.6%	13.8%	-0.1%	-0.7%	0.2%
Adj. PAT	4,673	4,840	6,051	4,373	3,777	5,384	-6%	-22%	-11%

Source: MOSL, Company

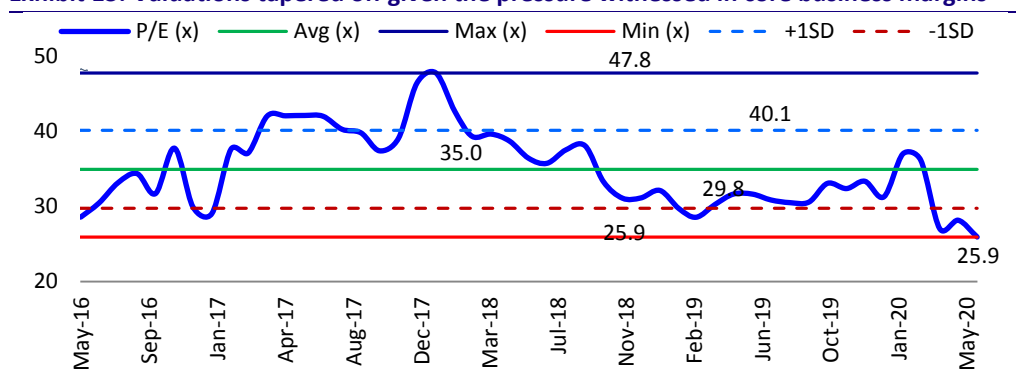
Valuation and view

- Largest player in the fans and residential pumps market:** CROMPTON has been the leader in fans and residential pumps with a market share of 27% and 28%, respectively. In lighting, the company has an 8% market share (third highest). It has also revamped its small appliances portfolio with new product launches in water heaters and air coolers.
- Rising premiumization in existing portfolio:** New management has continuously focused on increasing sales of premium products within the existing product portfolio. Share of premium fans (as % of total fans revenue) has gone up from 10% in FY16 to 30% in FY19. CROMPTON intends to maintain its leadership in the fans segment while increasing the sales of premium fans.
- Strong free cash flow generation:** With moderate capex and strong operating performance, CROMPTON has been able to generate healthy free cash flow of

over INR12.9b from FY17 to FY20 v/s adj. PAT of INR14.2b over the same period, indicating FCF/PAT conversion at 0.9x.

- **Robust return ratios:** With strong profitability and an asset-light business model, return ratios are healthy – RoE/RoCE of 30%/29% in FY20.
- **Valuation extremely comfortable:** CROMPTON trades at FY21/FY22E P/E of 35x/24x. Since demerger from its erstwhile parent, the company has delivered good financial results, led by margin expansion. In the last 12 quarters, like-to-like revenue growth was higher than Havells for two consecutive quarters. We estimate adjusted EPS CAGR (FY20-22E) of 11% on the back of 6% CAGR in revenue. CROMPTON's strong FCF generation is under-appreciated at current valuations, in our view. We cut our FY21E/FY22E earnings estimates by 22%/11%, respectively, to build in the impact caused by the COVID-19 disruption and modest demand outlook ahead. Maintain **Buy** with a TP of INR240 (prior: INR270).

Exhibit 13: Valuations tapered off given the pressure witnessed in core business margins



Source: MOFSL, Company

Highlights from management commentary

Update on COVID-19 situation

- The company has resumed operations now. While capacity utilization is limited currently, it is expected to slowly ramp up production.
- 22 out of 23 warehouses have started operations.
- More than 60% vendor partners have started operations. There is adequate inventory in the system, with CROMPTON having inventory for 1 month.
- The company has mapped channel partners in each zone to drive sales as soon as market reopens.
- The company has witnessed better than expected collections.
- The North market has started picking up, but West market remains an issue, particularly due to Maharashtra and Gujarat.
- Management's key focus is cash conservation and it is looking for further cost reduction initiatives.
- Balance sheet remains strong along with net cash position. However, given the uncertainty, management has taken board approval to raise INR3b of NCDs to maintain high cash levels.

ECD segment

Jan – Feb'20 period

- Volume growth in fans stood at 21% YoY, while market share increased by 77bp.
- Appliances witnessed exponential volume growth. Geysers grew 48% and market share gains continued accruing in the segment.
- Domestic Pumps volume growth stood at 19% while Agricultural pumps remained under pressure.

Lighting segment

Jan–Feb'20 period

- Ex-EESL, Lighting segment grew 7.5% YoY.
- LED Panels and Battens registered 61% volume growth. LED bulb panels and batons registered 41% volume growth.
- LED portfolio continues to face price erosion as compared to last year.
- The company increased its market share by 106bp in LED Lamps.

Other key takeaways

- Ad spends were up 10% YoY in FY20 to INR1b.
- Management believes that there would be a shift in the trade channel to (a) Ecommerce, and (b) direct sales to customer. Both these channels currently form a small portion of the overall sales channel. B2B channel is expected to remain largely traditional.
- **Down trading** – Management believes that these are still early days to suggest down trading. If it happens, it should benefit CROMPTON as the company is present across value points with a range of offerings.
- Most big markets are in the Red zones and have opened up just 25-30%, and hence, demand is not back in full force. In the Green zones, this number stands at ~60-70%.
- According to data received in the last two weeks, 40% of dealers are now open and are working at optimal levels.
- **Supply chain** – CROMPTON currently has 1 month of inventory. Hence, it is adequately covered for 1 month of production. Overall, management believes that demand-side issue is more significant than supply-side issue.
- Current inventory in the channel is at normal level, except for some seasonal products like air coolers.
- Management is aiming for cost optimization initiatives of INR1b in FY21.
- CROMPTON would continue scouting for investments in key strategic areas from a long-term perspective.
- The B2B + B2G business constitutes 50% of CROMPTON's lighting revenue. Institutional demand, especially EESL, may take a bit longer to recover.
- **Inorganic opportunity** – Management would continue to pursue opportunities where there is a strategic fit and value addition.

Financials and valuations

Income Statement					(INR M)
Y/E March	2018	2019	2020	2021E	2022E
Total Revenues	40,254	44,789	45,120	40,600	50,500
Change (%)	8.6	11.3	0.7	-10.0	24.4
EBITDA	5,310	5,858	5,969	5,132	6,994
% of Total Revenues	13.2	13.1	13.2	12.6	13.8
Depreciation	126	129	268	285	300
Other Income	308	483	589	600	700
Interest	637	596	407	400	200
PBT	4,854	5,616	5,883	5,047	7,194
Tax	1,617	1,875	1,510	1,270	1,811
Rate (%)	33.3	33.4	25.7	25.2	25.2
Adjusted PAT	3,238	3,741	4,373	3,777	5,384
Extra-ordinary Income	0	285	574	0	0
Reported PAT	3,238	4,025	4,947	3,777	5,384
Change (%)	14.3	24.3	22.9	-23.7	42.6

Balance Sheet					(INR M)
Y/E March	2018	2019	2020	2021E	2022E
Share Capital	1,254	1,254	1,255	1,255	1,255
Reserves	6,641	9,731	13,423	15,614	18,736
Net Worth	7,895	10,985	14,678	16,868	19,991
Loans	6,486	6,493	3,500	1,800	0
Capital Employed	14,381	17,477	18,178	18,668	19,991
Gross Fixed Assets	8,849	8,991	9,717	10,217	10,717
Less: Depreciation	234	359	627	913	1,212
Net Fixed Assets	8,616	8,632	9,090	9,304	9,504
Capital WIP	6	10	199	199	199
Investments	0	142	142	142	142
Curr. Assets	15,628	17,915	18,010	17,358	20,512
Inventory	3,032	3,524	4,636	4,172	4,151
Debtors	5,536	5,660	4,587	4,128	5,134
Cash & Bank Balance	5,450	6,724	5,866	6,431	7,959
Loans & Advances	0	0	0	0	0
Other Assets	1,610	2,007	2,920	2,628	3,268
Current Liab. & Prov.	9,869	9,221	9,262	8,335	10,367
Current Liabilities	8,719	7,530	7,424	6,680	8,309
Provisions	1,150	1,691	1,839	1,655	2,058
Net Current Assets	5,759	8,694	8,747	9,023	10,145
Application of Funds	14,381	17,477	18,178	18,668	19,991

Financials and valuations

Ratios					
Y/E March	2018	2019	2020	2021E	2022E
Basic (INR)					
Adj EPS	5.2	6.0	7.0	6.0	8.6
Cash EPS	5.4	6.2	7.4	6.5	9.1
Book Value	12.6	17.5	23.4	26.9	31.9
DPS	1.5	1.7	2.0	2.1	3.0
Payout (incl. Div. Tax.)	34.9	35.1	34.4	42.0	42.0
Valuation (x)					
P/E	40.2	34.8	29.8	34.5	24.2
Cash P/E	38.7	33.6	28.1	32.1	22.9
EV/EBITDA	24.7	22.2	21.4	24.5	17.5
EV/Sales	3.2	2.9	2.8	3.1	2.4
Price/Book Value	16.5	11.8	8.9	7.7	6.5
Dividend Yield (%)	0.8	0.8	1.0	1.0	1.4
Profitability Ratios (%)					
RoE	41.0	34.1	29.8	22.4	26.9
RoCE	25.5	25.3	28.9	21.8	27.7
RoIC	38.7	36.0	34.8	30.0	42.1
Turnover Ratios					
Debtors (Days)	50	46	37	37	37
Inventory (Days)	27	29	38	38	30
Creditors. (Days)	69	54	52	52	52
Asset Turnover (x)	2.8	2.6	2.5	2.2	2.5
Leverage Ratio					
Net Debt/Equity (x)	0.1	0.0	-0.2	-0.3	-0.4

Cash Flow Statement					(INR M)
Y/E March	2018	2019	2020	2020E	2020E
PBT before EO Items	5,423	5,788	5,817	5,047	7,194
Depreciation	126	129	268	285	300
Interest & other	350	293	173	-200	-500
Direct Taxes Paid	-1,812	-1,994	-1,445	-1,270	-1,811
(Inc)/Dec in WC	-933	-1,202	-602	289	406
CF from Operations	3,154	3,014	4,211	4,151	5,590
(Inc)/Dec in FA	-133	-160	-494	-500	-500
Free Cash Flow	3,021	2,855	3,717	3,651	5,090
Investment & Others	-188	-1,343	-18	600	700
CF from Investments	-322	-1,503	-512	100	200
(Inc)/Dec in Debt	0	0	-3,088	-1,700	-1,800
Interest Paid	-634	-587	-586	-400	-200
Dividend Paid	-1,129	-1,312	-1,506	-1,586	-2,261
Others	486	1,624	572	0	0
CF from Fin. Activity	-1,269	-237	-4,556	-3,686	-4,261
Inc/Dec of Cash	1,564	1,274	-857	564	1,528
Add: Beginning Balance	3,886	5,450	6,724	5,866	6,431
Closing Balance	5,450	6,724	5,866	6,431	7,959

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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