

Cost management aids margins in Q1; Maintain Buy

- Q1 sales were down 47% resulting in a PAT decline of 39%. However, margins were helped by good cost management, especially in ad expenses, which enabled CG Consumer to maintain 14% margins. At segmental levels, ECD margins were flat while lightning margins though flattish yoy, declined sequentially due to lower operating leverage
- Crompton has seen recovery since the opening of the lockdown, with June activities ~90% of last year levels. However, uncertainty in the industry continues with fresh restrictions
- CG consumer remains best placed for faster recovery within the FMEG space given its main portfolio of fans and lighting are low ticket, replacement items. We continue to maintain our Buy our rating to Buy with a TP of Rs 300, valuing the stock at 38x FY22E

Cost management aids margins in Q1.

Revenues came in at Rs7.2bn, down 47% yoy, while EBIDTA was down 47% at Rs1bn while PAT was down 39% at Rs748mn. While sales were lower than estimates, EBDITA and PAT came in ahead of our estimates by 10%/15% respectively (Refer Exhibit 1). ECD revenues were down 44% while lighting was down 55% at Rs6bn and Rs1.2bn respectively. ECD margins were strong at 20.5% in line with the 20% margins seen in Q4, while EBIT margins in lighting were up 100ps yoy though down 160bps qoq at 6.1%. Overall EBIDTA came at 14.1% up aided by good cost management on part of CG that have helped in the operating leverage of the company. PAT came in at Rs748mn, down 39% yoy.

Activity levels are gradually ramping up for CG.

CG said volume spurt came as the lockdown improved, with them achieving 70% of last year's levels in May, while June was even better with ~90% of last year levels. It has seen a 9% volume growth in B2C LED in June and continued to gain market share in fans and B2C LED. The E-commerce channel also helped where they saw a strong 5x growth in volumes in May and June. According the company secondary sales data is also indicating similar recovery. While the company has said uncertainty persists with fresh restrictions, they see the business continuing to come back to normal in Q2.

Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	7,201	13,468	(46.5)	10,263	(29.8)
Total Expense	6,189	11,549	(46.4)	8,851	(30.1)
EBITDA	1,012	1,919	(47.3)	1,412	(28.3)
Depreciation	80	58	38.2	82	(2.6)
EBIT	932	1,861	(49.9)	1,330	(29.9)
Other Income	186	173	7.4	120	55.4
Interest	108	150	(28.1)	83	30.7
EBT	1,010	1,885	(46.4)	1,367	(26.1)
Tax	262	660	(60.3)	346	(24.3)
RPAT	748	1,224	(38.9)	1,022	(26.7)
APAT	748	1,224	(38.9)	1,022	(26.8)
			(bps)		(bps)
Gross Margin (%)	32.5	32.6	(9)	31.7	88
EBITDA Margin (%)	14.1	14.2	(20)	13.8	30
NPM (%)	10.4	9.1	130	9.9	44
Tax Rate (%)	25.9	35.0	(908)	25.3	63
EBIT Margin (%)	12.9	13.8	(88)	13.0	(2)

CMP	Rs 250
Target / Upside	Rs 300 / 20%
BSE Sensex	38,154
NSE Nifty	11,216

Script Details

Equity / FV	Rs 1,255mn / Rs 2
Market Cap	Rs 157bn
	US\$ 2bn
52-week High/Low	Rs 301/Rs 177
Avg. Volume (no)	917,918
NSE Symbol	CROMPTON
Bloomberg Code	CROMPTON IN

Shareholding Pattern Jun'20(%)

Promoters	26.2
MF/Banks/FIs	25.7
FII	29.9
Public / Others	18.2

Valuation (x)

	FY20A	FY21E	FY22E
P/E	31.6	46.4	32.7
EV/EBITDA	25.5	32.6	23.6
ROE (%)	38.7	22.8	28.9
RoACE (%)	36.0	22.1	24.9

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	45,203	38,988	45,022
EBITDA	5,991	4,679	6,348
PAT	4,964	3,381	4,793
EPS (Rs.)	7.9	5.4	7.6

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Balance sheet and liquidity management is the focus, along with costs.

WC has been well managed with CFO in Q1'21 improving to Rs2.3bn from Rs 1.75bn last year. Balance sheet is strong with investment and cash at Rs9.7bn, while debt is at Rs5.2bn. Company has raised Rs3bn NCDs, which will help meet its near-term liquidity requirements as well as continue with investments in long term plans. It is also focusing on cost management, with the current covid providing cost savings of Rs600mn, 40% of which came from A&P savings alone. It has a cost saving target of more Rs1bn over the year, which will be reinvested in topline to gain share.

Likely to recover faster than peers, our pick in electricals; Maintain Buy

CG consumer is best primed for faster recovery within the FMEG space given its main portfolio of fans and lighting are low ticket, replacement items. As of now, we maintain our estimates for the company, which implied a flat sales and profit for the remaining 9 months. It is our pick in FMEG and we maintain our Buy rating with a TP of Rs 300, valuing the stock at 38x FY22E, similar to sector leader Havells.

Exhibit 1: Actual v/s DART estimates

Particulars (Rs mn)	Actual Q1FY21	DART Q1FY21E	Consensus Q1FY21E	DART Var (%)	Consensus Var (%)	Comments
Sales	7,201	8,952	7,320	(19.6)	(1.6)	Sales was impacted by the lockdown during the quarter
EBITDA	1,012	915	500	10.6	102.4	
EBITDA margins	14.1	10.2	6.8	383.2	722.3	EBITDA was strong due to cost management and lower overheads
PAT	748	648	316	15.4	136.7	Strong EBITDA has led to a PAT beat
Pat margins	10.4	7.2	4.3	314.9	607.1	
EPS	1.2	1.0	0.5	15.4	136.7	

Source: Company, DART

Exhibit 2: Change in estimates

Particulars (Rs mn)	FY21			FY22		
	Earlier	New	Change	Earlier	New	Change
Sales	38,988	38,988	0%	45,022	45,022	0%
EBITDA	4,679	4,679	0%	6,348	6,348	0%
PAT	3,381	3,381	0%	4,793	4,793	0%
EPS (RS)	5.4	5.4	0%	7.6	7.6	0%

Source: Company, DART

Exhibit 3: Quarterly Performance

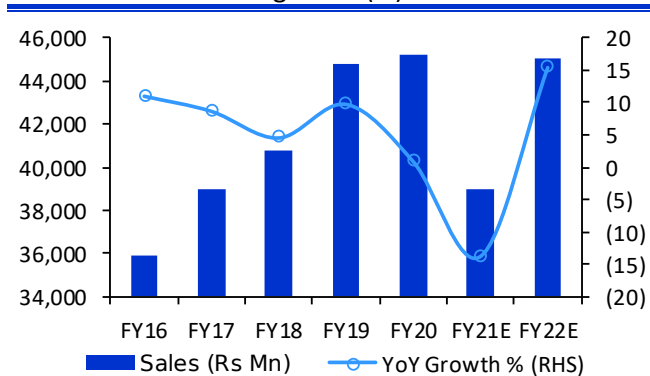
Particulars (Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ(%)	YTD FY20	YTD FY21	YoY(%)
Net Revenue	13,468	10,758	10,713	10,263	7,201	(46.5)	(29.8)	13,468	7,201	(46.5)
Cost of materials consumed	2,616	2,310	2,164	2,705	712	(72.8)	(73.7)	2,616	712	(72.8)
Purchase of Stock in trade	6,429	5,281	5,202	5,259	2,893	(55.0)	(45.0)	6,429	2,893	(55.0)
Changes in Inventories, WIP & SIP	28	(265)	(77)	(950)	1,253	4,328	(231.9)	28	1253	4328.3
Total Raw Material Cost	9,073	7,327	7,290	7,014	4,858	(46.5)	(30.7)	9,073	4,858	(46.5)
Staff Expenditure	820	810	774	706	720	(12.2)	2.0	820	720	(12.2)
Other Expenses	1,656	1,326	1,283	1,131	611	(63.1)	(46.0)	1,656	611	(63.1)
EBITDA	1,919	1,295	1,367	1,412	1,012	(47.3)	(28.3)	1,919	1,012	(47.3)
Depreciation	58	64	64	82	80	38.2	(2.6)	58	80	38.2
EBIT	1,861	1,231	1,303	1,330	932	(49.9)	(29.9)	1,861	932	(49.9)
Other Income	173	122	175	120	186	7.4	55.4	173	186	7.4
Interest	150	87	87	83	108	(28.1)	30.7	150	108	(28.1)
PBT	1,885	1,267	1,391	1,367	1,010	(46.4)	(26.1)	1,885	1,010	(46.4)
Tax	660	154	(219)	346	262	(60.3)	(24.3)	660	262	(60.3)
Net Profit	1,224	1,113	1,610	1,021	748	(38.9)	(26.7)	1,224	748	(38.9)
Reported EPS	2.0	1.8	2.6	1.6	1.2	(38.9)	(26.7)	2.0	1.2	(38.9)
Operating Cost as a % of Sales						bps	bps			bps
Raw Material Cost	67.4	68.1	68.0	68.3	67.5	9.1	(88.0)	67.4	67.5	9.1
Staff Cost	6.1	7.5	7.2	6.9	10.0	391.2	311.9	6.1	10.0	391.2
Other Expenses	12.3	12.3	12.0	11.0	8.5	(380.7)	(253.4)	12.3	8.5	(380.7)
Margins (%)						bps	bps			bps
GM	32.6	31.9	32.0	31.7	32.5	(9.1)	88.0	32.6	32.5	(9.1)
EBITDA	12.3	12.3	12.0	11.0	8.5	(380.7)	(253.4)	12.3	8.5	(380.7)
EBIT	13.8	11.4	12.2	13.0	12.9	(87.6)	(1.6)	13.8	12.9	(87.6)
PBT	14.0	11.8	13.0	13.3	14.0	3.5	70.6	14.0	14.0	3.5
NPM	9.1	10.3	15.0	9.9	10.4	129.7	43.9	9.1	10.4	129.7

Source: DART

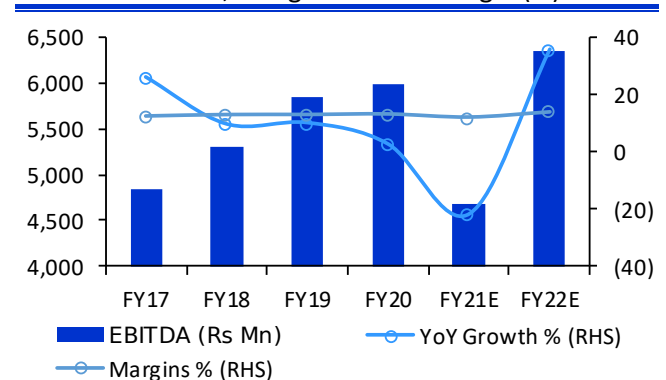
Exhibit 4: Segment Performance

	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ(%)	YTD FY20	YTD FY21	YoY(%)
Revenue										
Electric Consumer Durables	10,729	7,881	7,870	7,411	5,965	(44.4)	(19.5)	10,729	5,965	(44.4)
Lighting Products	2,739	2,877	2,843	2,853	1,236	(54.9)	(56.7)	2,739	1,236	(54.9)
Total	13,468	10,758	10,713	10,263	7,201	(46.5)	(29.8)	13,468	7,201	(46.5)
EBIT										
Electric Consumer Durables	2,173	1,514	1,561	1,482	1,223	(43.7)	(17.5)	2,173	1,223	(43.7)
Lighting Products	141	151	196	219	75	(47.0)	(65.8)	141	75	(47.0)
EBIT Margin (%)										
Electric Consumer Durables	20.3	19.2	19.8	20.0	20.5	23.8	49.6	20.3	20.5	23.8
Lighting Products	5.1	5.2	6.9	7.7	6.1	90.6	(161.0)	5.1	6.1	90.6
Segment Capital employed										
Electric Consumer Durables	1,619	1,831	1,919	2,427	896	(44.7)	(63.1)	1,619	896	(44.7)
Lighting Products	1,038	1,163	1,045	1,096	1,404	35.3	28.0	1,038	1,404	35.3
Un allocable	9,622	8,958	10,658	11,160	13,165	36.8	18.0	9,622	13,165	36.8

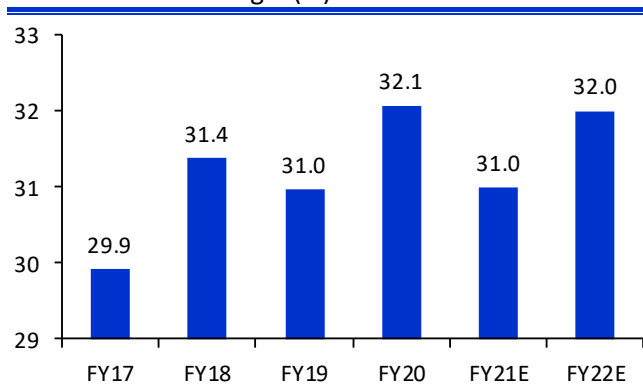
Source: DART

Exhibit 5: Sales & YoY growth (%)


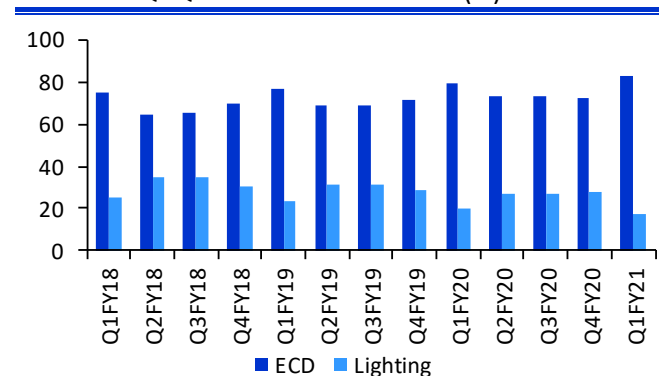
Source: Company, DART

Exhibit 6: EBITDA, YoY growth and margin (%)


Source: Company, DART

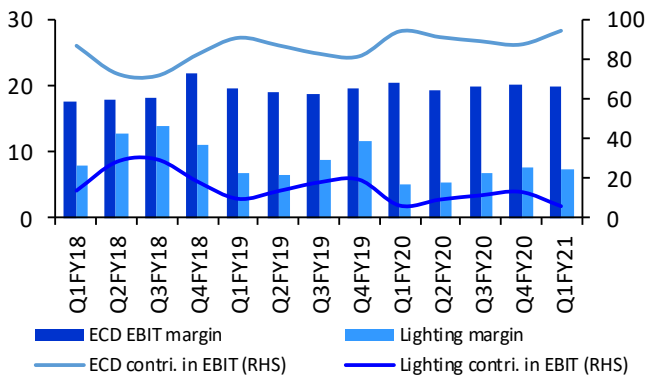
Exhibit 7: Gross margin (%)


Source: Company, DART

Exhibit 8: QoQ Revenue contribution (%)


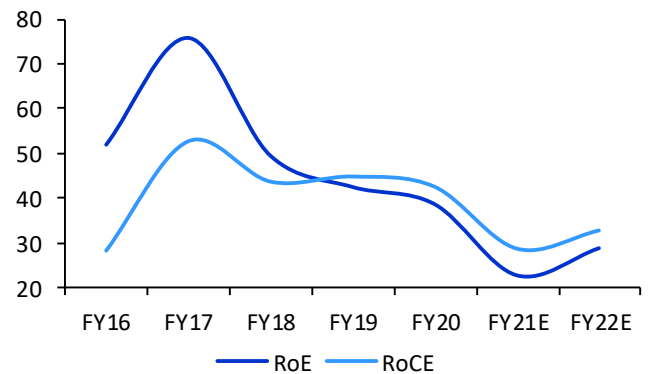
Source: Company, DART

Exhibit 9: QoQ EBIT margin & contribution (%)



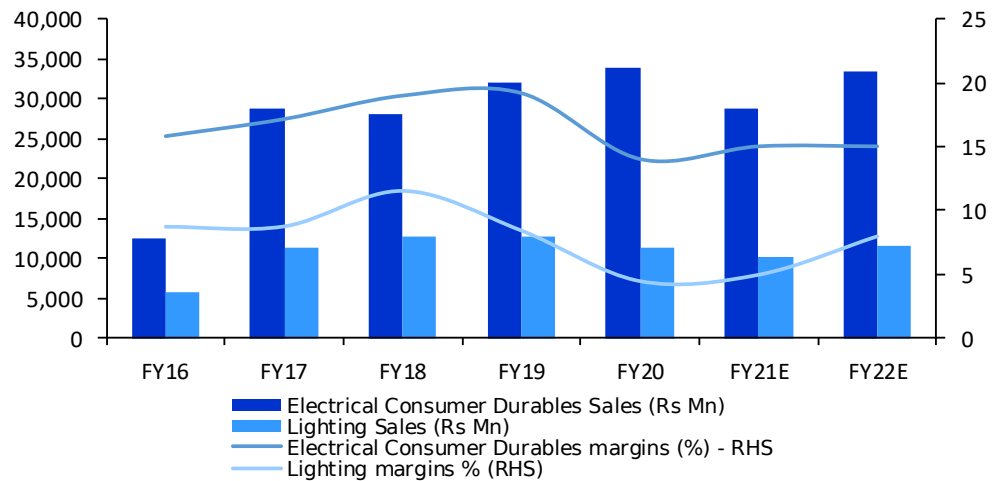
Source: Company, DART

Exhibit 10: Return Ratio (%)



Source: Company, DART

Exhibit 11: Segment wise sales and marings



Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	44,789	45,203	38,988	45,022
Total Expense	38,946	39,212	34,309	38,674
COGS	30,918	30,703	26,902	30,615
Employees Cost	2,919	3,110	3,119	3,152
Other expenses	5,109	5,399	4,289	4,907
EBIDTA	5,843	5,991	4,679	6,348
Depreciation	129	268	131	136
EBIT	5,714	5,723	4,548	6,213
Interest	596	407	507	407
Other Income	480	591	468	585
Exc. / E.O. items	0	0	0	0
EBT	5,598	5,907	4,509	6,391
Tax	1,585	943	1,127	1,598
RPAT	4,014	4,964	3,381	4,793
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	3,730	4,964	3,381	4,793

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	1,254	1,255	1,255	1,255
Minority Interest	0	0	0	0
Reserves & Surplus	9,719	13,429	13,724	16,979
Net Worth	10,973	14,683	14,978	18,233
Total Debt	3,493	1,797	4,797	4,797
Net Deferred Tax Liability	(603)	(507)	(507)	(507)
Total Capital Employed	13,863	15,974	19,269	22,524

Applications of Funds

Net Block	8,632	9,090	9,285	9,499
CWIP	10	199	199	199
Investments	0	0	0	0
Current Assets, Loans & Advances	17,451	17,722	19,272	22,124
Inventories	3,524	4,636	3,306	3,070
Receivables	5,660	4,635	5,536	5,754
Cash and Bank Balances	1,429	480	3,860	6,549
Loans and Advances	0	0	0	0
Other Current Assets	1,427	2,563	1,170	1,351
Less: Current Liabilities & Provisions	12,231	11,036	9,487	9,299
Payables	6,650	6,436	5,828	5,298
Other Current Liabilities	5,580	4,601	3,659	4,001
<i>sub total</i>				
Net Current Assets	5,221	6,685	9,785	12,825
Total Assets	13,863	15,974	19,269	22,524

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	31.0	32.1	31.0	32.0
EBIDTA Margin	13.0	13.3	12.0	14.1
EBIT Margin	12.8	12.7	11.7	13.8
Tax rate	28.3	16.0	25.0	25.0
Net Profit Margin	9.0	11.0	8.7	10.6
(B) As Percentage of Net Sales (%)				
COGS	69.0	67.9	69.0	68.0
Employee	6.5	6.9	8.0	7.0
Other	11.4	11.9	11.0	10.9
(C) Measure of Financial Status				
Gross Debt / Equity	0.3	0.1	0.3	0.3
Interest Coverage	9.6	14.1	9.0	15.3
Inventory days	29	37	31	25
Debtors days	46	37	52	47
Average Cost of Debt	11.9	15.4	15.4	8.5
Payable days	54	52	55	43
Working Capital days	43	54	92	104
FA T/O	5.2	5.0	4.2	4.7
(D) Measures of Investment				
AEPS (Rs)	6.0	7.9	5.4	7.6
CEPS (Rs)	6.2	8.3	5.6	7.9
DPS (Rs)	2.1	0.0	2.5	2.5
Dividend Payout (%)	35.1	0.0	45.5	32.1
BVPS (Rs)	17.5	23.4	23.9	29.1
RoANW (%)	42.5	38.7	22.8	28.9
RoACE (%)	33.2	36.0	22.1	24.9
RoAIC (%)	46.5	41.0	29.4	39.6
(E) Valuation Ratios				
CMP (Rs)	250	250	250	250
P/E	42.1	31.6	46.4	32.7
Mcap (Rs Mn)	157,032	157,032	157,032	157,032
MCap/ Sales	3.5	3.5	4.0	3.5
EV	153,683	152,941	152,569	149,881
EV/Sales	3.4	3.4	3.9	3.3
EV/EBITDA	26.3	25.5	32.6	23.6
P/BV	14.3	10.7	10.5	8.6
Dividend Yield (%)	0.8	0.0	1.0	1.0
(F) Growth Rate (%)				
Revenue	9.8	0.9	(13.7)	15.5
EBITDA	10.0	2.5	(21.9)	35.7
EBIT	10.2	0.2	(20.5)	36.6
PBT	15.3	5.5	(23.7)	41.8
APAT	15.2	33.1	(31.9)	41.8
EPS	15.2	33.1	(31.9)	41.8
Cash Flow				
(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	5,130	2,062	1,205	3,445
CFI	(1,885)	(911)	(318)	(350)
CFF	(3,589)	(2,101)	2,493	(407)
FCFF	4,981	1,148	879	3,095
Opening Cash	1,774	1,429	480	3,860
Closing Cash	1,429	509	3,860	6,549

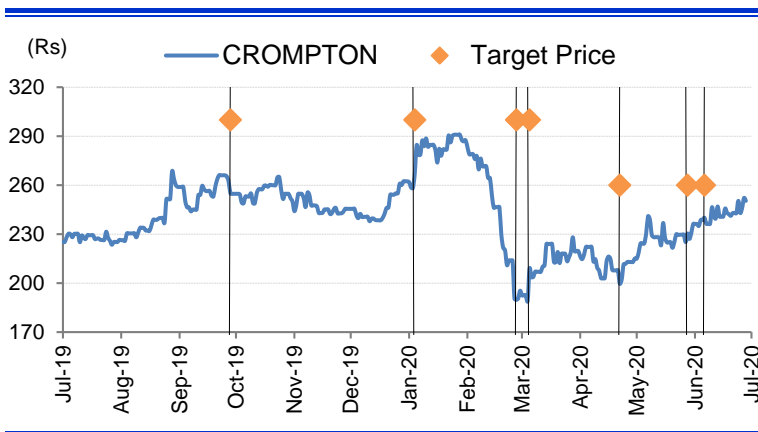
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Oct-19	Accumulate	300	255
Jan-20	Accumulate	300	267
Mar-20	Accumulate	300	190
Mar-20	Buy	300	209
May-20	Buy	260	200
Jun-20	Buy	260	230
Jul-20	Buy	260	240

*Price as on recommendation date

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