

October 25, 2021

Q2FY22 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	530		518	
Sales (Rs. m)	61,985	70,290	61,250	69,454
% Chng.	1.2	1.2		
EBITDA (Rs. m)	9,276	10,801	9,182	10,691
% Chng.	1.0	1.0		
EPS (Rs.)	11.7	13.6	11.4	13.3
% Chng.	2.7	2.0		

Key Financials - Standalone

Y/e Mar (Rs bn)	FY21	FY22E	FY23E	FY24E
Sales (Rs. m)	47,500	54,327	61,985	70,290
EBITDA (Rs. m)	7,047	7,864	9,275	10,801
Margin (%)	14.8	14.5	15.0	15.4
PAT (Rs. m)	5,281	6,156	7,317	8,527
EPS (Rs.)	8.4	9.8	11.7	13.6
Gr. (%)	20.7	16.6	18.9	16.5
DPS (Rs.)	5.5	6.0	7.2	8.2
Yield (%)	1.2	1.3	1.6	1.8
RoE (%)	31.2	28.7	28.6	29.1
RoCE (%)	38.8	35.0	35.9	38.2
EV/Sales (x)	5.7	5.0	4.3	3.8
EV/EBITDA (x)	38.6	34.6	28.9	24.4
PE (x)	53.6	46.0	38.7	33.2
P/BV (x)	14.7	11.9	10.4	9.0

Key Data CROP.BO | CROMPTON IN

52-W High / Low	Rs.513 / Rs.286
Sensex / Nifty	60,967 / 18,125
Market Cap	Rs.283bn/ \$ 3,768m
Shares Outstanding	628m
3M Avg. Daily Value	Rs.1331.48m

Shareholding Pattern (%)

Promoter's	5.99
Foreign	41.47
Domestic Institution	38.39
Public & Others	14.15
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(5.8)	27.1	47.7
Relative	(7.3)	(0.2)	(1.5)

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Sustains margins in tough environment; Buy

Quick Pointers:

- Fans (Premium & Deco/ Super Premium) grew by 17% (45%/40%). Pumps/ Mixer Grinder / Irons / B2C lighting grew by 8%/ 56%/ 31%/ 15% in 2Q
- Price hikes of 6-7%/3-4% taken in YTD/ 2Q22
- Confident of maintaining 2yr CAGR growth of 12-14% in H2FY22

We increase our FY22/ FY23/ FY24 earnings by 6.3%/ 2.7%/ 2% and reiterate BUY on Crompton. Crompton remains optimistic of sustaining double digit 2yr CAGR growth in H2FY22 buoyed by strong consumer demand further aided by tailwinds in real estate and infrastructure segments. Despite unprecedented RM inflation, Crompton has maintained the structural profitability of business and is confident of sustaining it through 1) pricing actions (3-4%/6-7% in 2Q/1H) 2) improving business mix 3) cost saving program (Project Unnati: Rs440mn saving in 2Q22, Rs380mn in 1Q22) and 4) advance booking of key RM at lower prices.

We remain structurally positive on CROMPTON for longer term given 1) market share gains across core categories of Fans, Pumps and LED lights 2) sustained investments in LT initiatives (brand building, GTM, innovation, business processes & teams 3) well defined plan of entering and scaling up new categories (Water Heaters, Air Coolers, Mixer-Grinders) and 4) strong balance sheet (Sep21 net cash: Rs8.9bn). We estimate 17.3% PAT CAGR over FY21-24 and assign a target price of Rs530 @ 42xSept23 EPS (Rs518 earlier). Maintain BUY

Sales up 15.6%, PAT up 24.4% YoY: Revenues grew by 15.6% YoY to Rs13.8bn. Gross margin fell by 90bps YoY to 32%. EBITDA grew by 15.2% YoY to Rs2.1bn with margins flat at 15.5%. 80bps/ 40bps decrease in A&P/ opex helped offset increase in employee cost and GPM decline. PAT grew by 24.4% YoY to Rs1.7bn

ECD sales up by 17.7%, Lighting margins at 11.4%: ECD segment sales grew by 17.7% YoY to Rs11bn. EBIT grew by 17.3% YoY to Rs2.3bn while margins were flat YoY at 21%. Lighting revenues/EBIT grew by 8.1%/ 19.3% YoY to Rs2.9bn/ Rs330mn, while margins expanded by 110bps YoY to 11.4%

Concall Takeaways: **1)** 2Q Revenues grew by 13.5% (2yr CAGR). Crompton is optimistic of maintaining similar trend in 2H. **2)** New innovations to focus on: energy savings, materials, connecting & IoT, health & wellbeing. **3)** Have ensured structural profitability remains intact. **4)** Fans/ Pumps/ Mixer-Grinder / Irons / B2C lighting grew by 17%/ 8%/ 56%/ 31%/ 15% in 2Q. **5)** Rural/ E-com-MT sales grew by 196%/ 17% **6)** Working capital remains higher than normal due to i) locked in supply of key RM at lower prices ii) inventory built up. Will normalize **7)** No significant change in channel inventory. Secondary and primary sales remain in sync. Secondary sales tracking now at 83% **8)** Fans market share at 27% (up 1.8% YTD) **9)** Premium and deco fans grew by 45%; Super premium fans grew by 40%

**Exhibit 1: Q2FY22 Result Overview (Rs m): Sales grew by 15.6% YoY; PAT up by 24.4% YoY**

Y/e March	Q2FY22	Q2FY21	YoY gr. (%)	Q1FY22	H1FY22	H1FY21	YoY gr. (%)
Net Sales	13,848	11,984	15.6	10,462	24,310	19,116	27.2
Operating & Manufacturing Expenses	9,415	8,041	17.1	7,087	16,502	12,854	28.4
<i>% of Net Sales</i>	<i>68.0</i>	<i>67.1</i>		<i>67.7</i>	<i>67.9</i>	<i>67.2</i>	
Gross Profit	4,434	3,943	12.4	3,374	7,808	6,261	24.7
<i>% of Net Sales</i>	<i>32.0</i>	<i>32.9</i>		<i>32.3</i>	<i>32.1</i>	<i>32.8</i>	
Personnel Cost	962	797	20.8	885	1,848	1,517	21.8
<i>% of Net Sales</i>	<i>6.9</i>	<i>6.6</i>		<i>8.5</i>	<i>7.6</i>	<i>7.9</i>	
Other Expenses	1,330	1,288	3.3	1,261	2,591	1,898	36.5
<i>% of Net Sales</i>	<i>9.6</i>	<i>10.7</i>		<i>12.1</i>	<i>10.7</i>	<i>9.9</i>	
Total Expenditure	11,707	10,125	15.6	9,234	20,941	16,269	28.7
EBITDA	2,141	1,859	15.2	1,228	3,369	2,847	18.3
<i>Margin (%)</i>	<i>15.5</i>	<i>15.5</i>		<i>11.7</i>	<i>13.9</i>	<i>14.9</i>	
Other income	284	167	70.7	197	481	354	35.9
Depreciation	101	77	31.3	76	176	157	12.7
EBIT	2,325	1,949	19.3	1,349	3,674	3,045	20.7
Interest	80	111	-27.9	101	181	219	-17.4
PBT before exceptional item	2,245	1,837	22.2	1,248	3,493	2,825	23.6
Total Taxes	540	467	15.8	317	857	718	19.5
<i>ETR (%)</i>	<i>24.1</i>	<i>25.4</i>		<i>25.4</i>	<i>24.5</i>	<i>25.4</i>	
Adj. PAT	1,705	1,371	24.4	931	2,636	2,108	25.1
Exceptional item	0	0		0	0	0	!
PAT	1,705	1,371	24.4	931	2,636	2,108	25.1

Source: Company, PL

Exhibit 2: Segmental Breakup (Rs m): ECD/ Lighting Revenues up by 17.7%/ 8.1%; Margins improve sequentially

Y/e March	Q2FY22	Q2FY21	YoY gr. (%)	Q1FY22	H1FY22	H1FY21	YoY gr. (%)
Revenues							
Electric Consumer Durables	10,964	9,317	17.7	8,844	19,808	15,282	29.6
Lighting Products	2,884	2,667	8.1	1,617	4,501	3,833	17.4
EBIT							
Electric Consumer Durables	2,300	1,960	17.3	1,558	3,857	3,183	21.2
<i>EBIT margin (%)</i>	<i>21.0</i>	<i>21.0</i>		<i>17.6</i>	<i>19.5</i>	<i>20.8</i>	
Lighting Products	330	276	19.3	162	492	331	48.5
<i>EBIT margin (%)</i>	<i>11.4</i>	<i>10.4</i>		<i>10.0</i>	<i>10.9</i>	<i>8.6</i>	

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	47,500	54,327	61,985	70,290
YoY gr. (%)	5.3	14.4	14.1	13.4
Cost of Goods Sold	32,304	36,825	41,784	47,311
Gross Profit	15,195	17,502	20,200	22,979
Margin (%)	32.0	32.2	32.6	32.7
Employee Cost	3,366	3,830	4,215	4,604
Other Expenses	3,960	4,591	5,083	5,729
EBITDA	7,047	7,864	9,275	10,801
YoY gr. (%)	18.1	11.6	17.9	16.4
Margin (%)	14.8	14.5	15.0	15.4
Depreciation and Amortization	297	378	393	418
EBIT	6,750	7,486	8,882	10,382
Margin (%)	14.2	13.8	14.3	14.8
Net Interest	429	306	168	56
Other Income	756	1,073	1,093	1,103
Profit Before Tax	7,077	8,252	9,808	11,430
Margin (%)	14.9	15.2	15.8	16.3
Total Tax	1,797	2,096	2,491	2,903
Effective tax rate (%)	25.4	25.4	25.4	25.4
Profit after tax	5,281	6,156	7,317	8,527
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	5,281	6,156	7,317	8,527
YoY gr. (%)	20.7	16.6	18.9	16.5
Margin (%)	11.1	11.3	11.8	12.1
Extra Ord. Income / (Exp)	767	-	-	-
Reported PAT	6,047	6,156	7,317	8,527
YoY gr. (%)	22.2	1.8	18.9	16.5
Margin (%)	12.7	11.3	11.8	12.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	6,047	6,156	7,317	8,527
Equity Shares O/s (m)	628	628	628	628
EPS (Rs)	8.4	9.8	11.7	13.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Non-Current Assets				
Gross Block	3,500	4,230	4,562	5,228
Tangibles	3,336	4,046	4,358	5,004
Intangibles	164	184	204	224
Acc: Dep / Amortization	2,144	2,522	2,915	3,334
Tangibles	2,008	2,364	2,733	3,124
Intangibles	136	159	183	210
Net fixed assets	1,356	1,708	1,647	1,894
Tangibles	1,328	1,682	1,626	1,879
Intangibles	28	26	21	15
Capital Work In Progress	109	100	100	100
Goodwill	7,794	7,794	7,794	7,794
Non-Current Investments	204	207	216	219
Net Deferred tax assets	583	682	799	936
Other Non-Current Assets	201	201	204	207
Current Assets				
Investments	7,611	9,100	11,467	13,355
Inventories	5,178	5,954	5,944	6,355
Trade receivables	4,827	5,954	6,453	7,318
Cash & Bank Balance	5,945	4,843	5,199	5,538
Other Current Assets	1,701	1,559	1,595	1,606
Total Assets	35,639	38,236	41,561	45,477
Equity				
Equity Share Capital	1,255	1,255	1,255	1,255
Other Equity	17,935	22,521	26,072	30,079
Total Networkth	19,190	23,777	27,327	31,335
Non-Current Liabilities				
Long Term borrowings	2,988	2,988	1,488	-
Provisions	214	217	232	264
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	8,353	8,071	9,158	10,370
Other current liabilities	4,893	3,182	3,355	3,510
Total Equity & Liabilities	35,639	38,236	41,561	45,477

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	7,077	8,252	9,808	11,430
Add. Depreciation	297	378	393	418
Add. Interest	429	306	168	56
Less Financial Other Income	756	1,073	1,093	1,103
Add. Other	(525)	(100)	(115)	(112)
Op. profit before WC changes	7,278	8,837	10,254	11,792
Net Changes-WC	1,397	(1,969)	714	553
Direct tax	(526)	(2,096)	(2,491)	(2,903)
Net cash from Op. activities	8,149	4,772	8,477	9,442
Capital expenditures	(198)	(722)	(332)	(666)
Interest / Dividend Income	265	-	-	-
Others	(4,955)	(1,489)	(2,367)	(1,888)
Net Cash from Inv. activities	(4,887)	(2,211)	(2,700)	(2,553)
Issue of share cap. / premium	73	-	-	-
Debt changes	1,300	(1,788)	(1,487)	(1,475)
Dividend paid	(1,874)	(1,569)	(3,766)	(4,519)
Interest paid	(461)	(306)	(168)	(56)
Others	-	-	-	-
Net cash from Fin. activities	(962)	(3,663)	(5,421)	(6,050)
Net change in cash	2,300	(1,103)	356	839
Free Cash Flow	7,952	4,050	8,145	8,777

Source: Company Data, PL Research

Key Financial Metrics

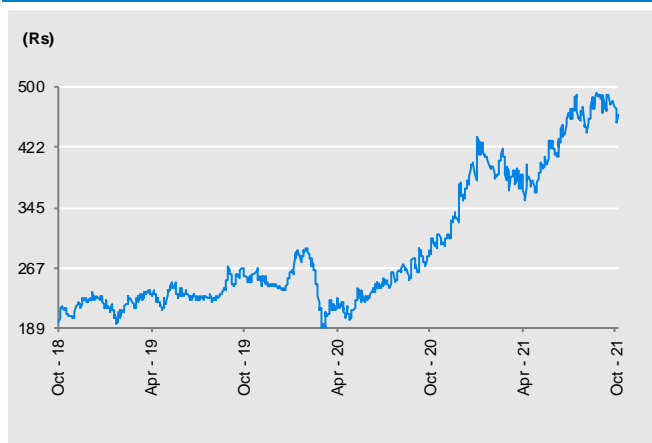
Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	8.4	9.8	11.7	13.6
CEPS	8.9	10.4	12.3	14.3
BVPS	30.6	37.9	43.5	49.9
FCF	12.7	6.5	13.0	14.0
DPS	5.5	6.0	7.2	8.2
Return Ratio(%)				
RoCE	38.8	35.0	35.9	38.2
ROIC	87.3	53.0	59.6	69.3
RoE	31.2	28.7	28.6	29.1
Balance Sheet				
Net Debt : Equity (x)	(0.6)	(0.5)	(0.6)	(0.6)
Net Working Capital (Days)	13	26	19	17
Valuation(x)				
PER	53.6	46.0	38.7	33.2
P/B	14.7	11.9	10.4	9.0
P/CEPS	50.7	43.3	36.7	31.6
EV/EBITDA	38.6	34.6	28.9	24.4
EV/Sales	5.7	5.0	4.3	3.8
Dividend Yield (%)	1.2	1.3	1.6	1.8

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Net Revenue	13,231	15,153	10,462	13,848
YoY gr. (%)	23.5	48.8	46.7	15.6
Raw Material Expenses	8,956	10,494	7,087	9,415
Gross Profit	4,275	4,659	3,374	4,434
Margin (%)	32.3	30.7	32.3	32.0
EBITDA	1,952	2,248	1,228	2,141
YoY gr. (%)	42.6	62.4	24.2	15.2
Margin (%)	14.8	14.8	11.7	15.5
Depreciation / Depletion	69	72	76	101
EBIT	1,883	2,177	1,152	2,041
Margin (%)	14.2	14.4	11.0	14.7
Net Interest	106	104	101	80
Other Income	199	203	197	284
Profit before Tax	1,976	2,276	1,248	2,245
Margin (%)	14.9	15.0	11.9	16.2
Total Tax	502	577	317	540
Effective tax rate (%)	25.4	25.4	25.4	24.1
Profit after Tax	1,474	1,698	931	1,705
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,474	1,698	931	1,705
YoY gr. (%)	42.3	70.2	26.3	24.4
Margin (%)	11.1	11.2	8.9	12.3
Extra Ord. Income / (Exp)	-	767	-	-
Reported PAT	1,474	2,465	931	1,705
YoY gr. (%)	(8.4)	147.0	26.3	24.4
Margin (%)	11.1	16.3	8.9	12.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,474	2,465	931	1,705
Avg. Shares O/s (m)	627	628	628	628
EPS (Rs)	2.3	2.7	1.5	2.7

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-21	BUY	518	486
2	26-Jul-21	BUY	518	468
3	06-Jul-21	BUY	454	450
4	24-May-21	BUY	454	398
5	06-Apr-21	BUY	447	374
6	25-Jan-21	BUY	447	412
7	08-Jan-21	BUY	400	395

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	BUY	3,675	3,002
2	Avenue Supermarts	Accumulate	5,359	5,324
3	Bajaj Electricals	Hold	1,246	1,284
4	Britannia Industries	Accumulate	4,260	3,939
5	Burger King India	BUY	251	159
6	Colgate Palmolive	Accumulate	1,846	1,680
7	Crompton Greaves Consumer Electricals	BUY	518	486
8	Dabur India	Hold	647	615
9	Emami	Accumulate	624	545
10	Havells India	Accumulate	1,400	1,286
11	Hindustan Unilever	Accumulate	2,930	2,547
12	ITC	BUY	271	231
13	Jubilant FoodWorks	Accumulate	4,111	3,965
14	Kansai Nerolac Paints	Accumulate	661	646
15	Marico	Hold	532	564
16	Mold-tek Packaging	BUY	669	666
17	Nestle India	Accumulate	19,501	19,368
18	Pidilite Industries	Reduce	2,221	2,416
19	Titan Company	BUY	2,554	2,148
20	Titan Company	BUY	2,554	2,148
21	Voltas	UR	-	1,250
22	Westlife Development	BUY	605	554

PL's Recommendation Nomenclature (Absolute Performance)

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



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