

October 23, 2020

Q2FY21 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	346		308	
Sales (Rs. m)	52,488	59,368	51,460	57,612
% Chng.	2.0	3.0		
EBITDA (Rs. m)	7,753	8,886	7,478	8,486
% Chng.	3.7	4.7		
EPS (Rs.)	9.3	10.8	9.0	10.3
% Chng.	3.6	5.3		

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	45,120	44,561	52,488	59,368
EBITDA (Rs. m)	5,969	6,602	7,753	8,886
Margin (%)	13.2	14.8	14.8	15.0
PAT (Rs. m)	4,373	4,786	5,817	6,777
EPS (Rs.)	7.0	7.6	9.3	10.8
Gr. (%)	16.9	9.4	21.6	16.5
DPS (Rs.)	2.0	4.0	4.5	5.5
Yield (%)	0.7	1.3	1.5	1.8
RoE (%)	34.1	29.7	29.8	29.0
RoCE (%)	40.6	37.0	35.9	36.5
EV/Sales (x)	4.2	4.1	3.5	3.0
EV/EBITDA (x)	31.4	27.9	23.6	20.3
PE (x)	43.8	40.0	32.9	28.3
P/BV (x)	13.0	10.9	8.9	7.6

Key Data

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52-W High / Low	Rs.329 / Rs.177
Sensex / Nifty	40,686 / 11,930
Market Cap	Rs.191bn/ \$ 2,601m
Shares Outstanding	627m
3M Avg. Daily Value	Rs.456.23m

Shareholding Pattern (%)

Promoter's	26.19
Foreign	30.32
Domestic Institution	30.20
Public & Others	13.29
Promoter Pledge (Rs bn)	17.17

Stock Performance (%)

	1M	6M	12M
Absolute	12.2	33.8	16.2
Relative	3.9	4.8	11.6

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Innovation and GTM initiatives pays off; BUY

Quick Pointers:

- Fans/Geysers/Mixer-Grinders/B2C lighting grew by 23%/43%/26%/10% as focus on large categories, Go-to-Market strategy and innovation pays off
- Incremental margin expansion to be tepid as advertising, marketing and overheads will gradually perk up

We increase our FY21/22/23 earnings by 15.7%/ 3.6%/ 5.3% respectively and reiterate our positive stance on Crompton given 1) strong sales with market share gains in core categories of Fan, Pumps 2) Focus on scaling up large categories like Geysers, Coolers and Mixer Grinders 3) Superior market penetration and on shelf availability due to go to market initiatives and 4) Improved visibility of double digit lighting margins led by cost reduction program and pricing discipline in B2C portfolio. We like the company's strategy of reinvesting savings from their cost savings program - Project Unnati (Rs350mn in Q2) into longer term growth initiatives like 1) creating & scaling up new legs of growth in Geysers, Air Coolers and Mixer Grinders 2) distribution expansion & GTM initiatives and 3) sustained product innovations across categories.

We believe Crompton is better placed than peers given 1) Steady growth potential given low discretionary nature of products (fans, lighting, mixer grinder, pumps) 2) market share gains led by Innovation and brand building and 3) well defined plan to scale up new segments like Geysers, Air Coolers & mixers-grinders etc. We estimate 15.7% PAT CAGR over FY20-23. We expect steady re-rating given 29% ROE, 50% dividend payout and Rs11bn net cash by FY23. We assign a target price of Rs346 @ 32x FY23 EPS (earlier Rs308@30x FY23 EPS), Maintain Buy.

Sales up by 11.4%, PAT up by 23.2% YoY: Revenues grew by 11.4% to Rs12bn with ECD segment growing by 18% YoY. Gross margin expanded by ~100bps YoY to 32.9% benefitting from soft raw material prices & better mix. EBITDA grew by 43.5% YoY to Rs1.9bn. Better scale, 160bps/90bps decline in other expenses/employee cost enabled margin expansion of 350bps to 15.5%. PBT grew 45.1% to Rs1.4bn aided by 36% increase in other income to Rs167mn. Despite higher tax rate (25.4% vs 12.1%) Adj. PAT grew by 23.2% YoY to Rs1.4bn

ECD sales up by 18.2%, Lighting margins at 10.4%

- ECD segment sales grew 18.2% YoY to Rs9.3bn, with all segments showing good growth. EBIT grew 29.4% to Rs2bn as margins expanded ~180bps YoY to 21%.
- Lighting revenues de-grew by 7.3% to Rs2.7bn. EBIT grew by 83.3% YoY to 276mn. Benefitting from cost reduction program and changing mix margins expanded by 510bps YoY to 10.4%

Concall Takeaways: 1) Fans/ Appliances grew by 23%/ 32% YoY. 2) Fan market growth has not recovered to earlier 8-10% growth levels, CG gained 1% market share (organized players lost share) as it grew 300% in super premium segment 3) Pump volumes grew by 18% led by 24% growth in residential pumps, Agri pumps and East India remained under pressure due to heavy rains 4) B2B lighting remains flat while B2G segments is likely to remain soft 5) commodity prices are rising the impact of which will be neutralized by Unnati project savings, mix and price increases 6) Margins in the quarter have been helped by holding back salary hikes & other costs (1% total savings). 7) Channel inventory at normal levels, Company level inventory a tad lower than normal 8) 1/3rd growth in 2Q attributable to alternate channels (E-com, Rural, CSD etc). E-com grew by 72% YoY 6) Cost savings from Project Unnati at Rs35cr

Exhibit 1: Q2FY21 Result Overview (Rs m): Sales grew by 11.4% YoY; PBT up by 45.1% YoY

Y/e March	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY20	1HFY21	1HFY20	YoY gr. (%)
Net Sales	11,984	10,758	11.4	10,181	19,116	24,226	(21.1)
Operating & Manufacturing Expenses	8,041	7,327	9.8	4,814	12,854	16,400	(21.6)
<i>% of Net Sales</i>	<i>67.1</i>	<i>68.1</i>		<i>67.5</i>	<i>67.2</i>	<i>67.7</i>	
Gross Profit	3,943	3,431	14.9	2,318	6,261	7,827	(20.0)
<i>% of Net Sales</i>	<i>32.9</i>	<i>31.9</i>		<i>32.5</i>	<i>32.8</i>	<i>32.3</i>	
Personnel Cost	797	810	(1.7)	720	1,517	1,630	(7.0)
<i>% of Net Sales</i>	<i>6.6</i>	<i>7.5</i>		<i>10.1</i>	<i>7.9</i>	<i>6.7</i>	
Other Expenses	1,288	1,326	(2.9)	610	1,898	2,981	(36.3)
<i>% of Net Sales</i>	<i>10.7</i>	<i>12.3</i>		<i>8.6</i>	<i>9.9</i>	<i>12.3</i>	
Total Expenditure	10,125	9,463	7.0	6,144	16,269	21,011	(22.6)
EBITDA	1,859	1,295	43.5	988	2,847	3,216	(11.5)
<i>Margin (%)</i>	<i>15.5</i>	<i>12.0</i>		<i>13.9</i>	<i>14.9</i>	<i>13.3</i>	
Other income	167	122	36.1	188	354	296	19.8
Depreciation	77	64	19.9	80	157	122	28.6
EBIT	1,949	1,354	44.0	1,096	3,045	3,390	(10.2)
Interest	111	87	27.8	108	219	237	(7.6)
PBT before exceptional item	1,837	1,267	45.1	988	2,825	3,153	(10.4)
Total Taxes	467	154	203.3	251	718	814	(11.8)
<i>ETR (%)</i>	<i>25.4</i>	<i>12.1</i>		<i>25.4</i>	<i>25.4</i>	<i>25.8</i>	
Adj. PAT	1,371	1,113	23.2	737	2,108	2,339	(9.9)
Exceptional item	0	0		0	0	0	
PAT	1,371	1,113	23.2	737	2,108	2,339	(9.9)

Source: Company, PL

Exhibit 2: Segmental Breakup (Rs m): Lighting margin up 520bps YoY to 10.4%, ECD sales up by 18% YoY to Rs9.3bn

Y/e March	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY20	1HFY21	1HFY20	YoY gr. (%)
Revenues							
Electric Consumer Durables	9,317	7,881	18.2	5,965	15,282	18,610	(17.9)
Lighting Products	2,667	2,877	(7.3)	1,166	3,833	5,616	(31.7)
EBIT							
Electric Consumer Durables	1,960	1,514	29.4	1,223	3,183	3,688	(13.7)
<i>EBIT margin (%)</i>	<i>21.0</i>	<i>19.2</i>		<i>20.5</i>	<i>20.8</i>	<i>19.8</i>	
Lighting Products	276	151	83.3	55	331	292	13.4
<i>EBIT margin (%)</i>	<i>10.4</i>	<i>5.2</i>		<i>4.7</i>	<i>8.6</i>	<i>5.2</i>	

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	45,120	44,561	52,488	59,368
YoY gr. (%)	0.7	(1.2)	17.8	13.1
Cost of Goods Sold	30,650	29,938	35,156	39,766
Gross Profit	14,470	14,623	17,332	19,602
Margin (%)	32.1	32.8	33.0	33.0
Employee Cost	3,110	3,164	3,412	3,800
Other Expenses	4,171	3,944	4,540	5,076
EBITDA	5,969	6,602	7,753	8,886
YoY gr. (%)	1.9	10.6	17.4	14.6
Margin (%)	13.2	14.8	14.8	15.0
Depreciation and Amortization	268	312	327	361
EBIT	5,701	6,290	7,426	8,525
Margin (%)	12.6	14.1	14.1	14.4
Net Interest	407	437	296	243
Other Income	589	571	678	814
Profit Before Tax	5,883	6,424	7,808	9,096
Margin (%)	13.0	14.4	14.9	15.3
Total Tax	1,510	1,638	1,991	2,320
Effective tax rate (%)	25.7	25.5	25.5	25.5
Profit after tax	4,373	4,786	5,817	6,777
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	4,373	4,786	5,817	6,777
YoY gr. (%)	16.9	9.4	21.6	16.5
Margin (%)	9.7	10.7	11.1	11.4
Extra Ord. Income / (Exp)	574	-	-	-
Reported PAT	4,947	4,786	5,817	6,777
YoY gr. (%)	22.9	(3.3)	21.6	16.5
Margin (%)	11.0	10.7	11.1	11.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,947	4,786	5,817	6,777
Equity Shares O/s (m)	627	627	627	627
EPS (Rs)	7.0	7.6	9.3	10.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	3,149	3,546	3,772	4,395
Tangibles	2,987	3,364	3,570	4,173
Intangibles	162	182	202	222
Acc: Dep / Amortization	1,854	2,073	2,296	2,560
Tangibles	1,737	1,934	2,132	2,368
Intangibles	117	139	164	192
Net fixed assets	1,296	1,472	1,476	1,835
Tangibles	1,251	1,430	1,438	1,804
Intangibles	45	43	38	30
Capital Work In Progress	199	100	100	100
Goodwill	7,794	7,794	7,794	7,794
Non-Current Investments	220	226	232	239
Net Deferred tax assets	506	590	691	809
Other Non-Current Assets	228	202	208	214
Current Assets				
Investments	5,396	9,396	10,896	11,896
Inventories	4,636	3,907	4,314	4,880
Trade receivables	4,587	5,494	6,471	7,319
Cash & Bank Balance	471	632	707	770
Other Current Assets	1,971	1,679	1,838	1,976
Total Assets	27,440	31,624	34,884	38,009
Equity				
Equity Share Capital	1,255	1,255	1,255	1,255
Other Equity	13,423	16,327	20,262	23,902
Total Networth	14,678	17,582	21,517	25,157
Non-Current Liabilities				
Long Term borrowings	1,797	3,000	3,000	1,500
Provisions	191	178	210	237
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	6,372	6,398	7,513	8,498
Other current liabilities	4,402	4,467	2,645	2,617
Total Equity & Liabilities	27,440	31,624	34,884	38,009

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	5,883	6,424	7,808	9,096
Add. Depreciation	268	312	327	361
Add. Interest	407	437	296	243
Less Financial Other Income	589	571	678	814
Add. Other	(299)	(76)	(82)	(104)
Op. profit before WC changes	6,258	7,097	8,349	9,597
Net Changes-WC	(602)	97	(501)	(636)
Direct tax	(1,445)	(1,638)	(1,991)	(2,320)
Net cash from Op. activities	4,211	5,556	5,856	6,641
Capital expenditures	(483)	(390)	(330)	(720)
Interest / Dividend Income	209	-	-	-
Others	258	(4,000)	(1,500)	(1,000)
Net Cash from Invst. activities	(17)	(4,390)	(1,830)	(1,720)
Issue of share cap. / premium	52	-	-	-
Debt changes	(3,088)	1,314	(1,773)	(1,479)
Dividend paid	(1,506)	(1,882)	(1,882)	(3,136)
Interest paid	(586)	(437)	(296)	(243)
Others	-	-	-	-
Net cash from Fin. activities	(5,128)	(1,005)	(3,950)	(4,858)
Net change in cash	(934)	161	76	63
Free Cash Flow	3,728	5,166	5,526	5,921

Source: Company Data, PL Research

Key Financial Metrics

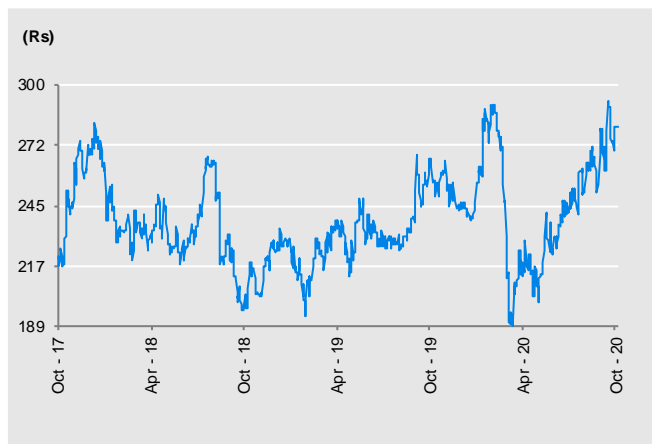
Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	7.0	7.6	9.3	10.8
CEPS	7.4	8.1	9.8	11.4
BVPS	23.4	28.0	34.3	40.1
FCF	5.9	8.2	8.8	9.4
DPS	2.0	4.0	4.5	5.5
Return Ratio(%)				
RoCE	40.6	37.0	35.9	36.5
ROIC	44.1	55.1	50.5	49.2
RoE	34.1	29.7	29.8	29.0
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.4)	(0.4)	(0.4)
Net Working Capital (Days)	23	25	23	23
Valuation(x)				
PER	43.8	40.0	32.9	28.3
P/B	13.0	10.9	8.9	7.6
P/CEPS	41.3	37.6	31.2	26.8
EV/EBITDA	31.4	27.9	23.6	20.3
EV/Sales	4.2	4.1	3.5	3.0
Dividend Yield (%)	0.7	1.3	1.5	1.8

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	10,713	10,181	7,132	11,984
YoY gr. (%)	4.0	(15.6)	(47.0)	11.4
Raw Material Expenses	7,290	6,961	4,814	8,041
Gross Profit	3,423	3,220	2,318	3,943
Margin (%)	32.0	31.6	32.5	32.9
EBITDA	1,369	1,384	988	1,859
YoY gr. (%)	8.6	(17.9)	(48.5)	43.5
Margin (%)	12.8	13.6	13.9	15.5
Depreciation / Depletion	64	82	80	77
EBIT	1,304	1,302	908	1,782
Margin (%)	12.2	12.8	12.7	14.9
Net Interest	87	83	108	111
Other Income	174	119	188	167
Profit before Tax	1,391	1,339	988	1,837
Margin (%)	13.0	13.2	13.9	15.3
Total Tax	355	341	251	467
Effective tax rate (%)	25.5	25.5	25.4	25.4
Profit after Tax	1,036	998	737	1,371
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,036	998	737	1,371
YoY gr. (%)	30.1	(11.8)	(39.9)	23.2
Margin (%)	9.7	9.8	10.3	11.4
Extra Ord. Income / (Exp)	574	-	-	-
Reported PAT	1,610	998	737	1,371
YoY gr. (%)	102.1	(29.5)	(39.9)	23.2
Margin (%)	15.0	9.8	10.3	11.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,610	998	737	1,371
Avg. Shares O/s (m)	627	627	627	627
EPS (Rs)	1.7	1.6	1.2	2.2

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-20	BUY	308	280
2	28-Sep-20	BUY	308	260
3	27-Jul-20	BUY	288	247
4	07-Jul-20	BUY	287	241
5	18-May-20	BUY	267	199
6	13-Apr-20	BUY	291	224
7	30-Jan-20	BUY	306	267
8	03-Jan-20	BUY	292	241
9	24-Oct-19	BUY	303	255

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Hold	2,000	2,100
2	Avenue Supermarts	BUY	2,316	1,988
3	Bajaj Electricals	BUY	564	498
4	Britannia Industries	BUY	4,301	3,553
5	Colgate Palmolive	Hold	1,445	1,427
6	Crompton Greaves Consumer Electricals	BUY	308	280
7	Dabur India	Hold	469	522
8	Emami	Hold	424	353
9	GlaxoSmithKline Consumer Healthcare	Hold	9,377	9,247
10	Havells India	Reduce	571	688
11	Hindustan Unilever	BUY	2,502	2,173
12	ITC	BUY	244	167
13	Jubilant FoodWorks	Hold	2,255	2,330
14	Kansai Nerolac Paints	BUY	550	477
15	Marico	Hold	359	372
16	Nestle India	Reduce	14,496	16,305
17	Pidilite Industries	Hold	1,415	1,487
18	Titan Company	Accumulate	1,352	1,254
19	Titan Company	Accumulate	1,352	1,254
20	Voltas	Accumulate	702	672

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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