

January 25, 2021

Q3FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	447		400	
Sales (Rs. m)	54,726	62,220	52,488	59,368
% Chng.	4.3	4.8		
EBITDA (Rs. m)	7,885	9,180	7,753	8,886
% Chng.	1.7	3.3		
EPS (Rs.)	9.6	11.2	9.3	10.8
% Chng.	3.0	3.3		

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	45,120	46,351	54,726	62,220
EBITDA (Rs. m)	5,969	6,783	7,885	9,180
Margin (%)	13.2	14.6	14.4	14.8
PAT (Rs. m)	4,373	5,075	6,001	7,013
EPS (Rs.)	7.0	8.1	9.6	11.2
Gr. (%)	16.9	16.1	18.2	16.9
DPS (Rs.)	2.0	4.0	4.8	5.6
Yield (%)	0.5	1.0	1.2	1.4
RoE (%)	34.1	31.2	30.2	29.5
RoCE (%)	40.6	38.8	36.5	37.1
EV/Sales (x)	5.6	5.4	4.6	4.0
EV/EBITDA (x)	42.6	37.1	31.7	26.9
PE (x)	59.1	51.0	43.1	36.9
P/BV (x)	17.6	14.5	11.8	10.1

Key Data CROP.BO | CROMPTON IN

52-W High / Low	Rs.456 / Rs.177
Sensex / Nifty	48,348 / 14,239
Market Cap	Rs.259bn/ \$ 3,545m
Shares Outstanding	627m
3M Avg. Daily Value	Rs.1700.82m

Shareholding Pattern (%)

Promoter's	17.42
Foreign	34.33
Domestic Institution	34.15
Public & Others	14.10
Promoter Pledge (Rs bn)	11.43

Stock Performance (%)

	1M	6M	12M
Absolute	15.7	64.6	57.1
Relative	12.4	29.8	35.2

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Growth story on track

Quick Pointers:

- Fans/ Pumps/ Appliances/ B2C lighting grew by 36%/ 19%/ 45%/ 13%, Geysers sales up 50% as Crompton eyes leadership
- 5-8% price increase across portfolio to ward off Inflation

We increase our FY21/22/23 earnings by 6.7%/ 3%/ 3.3% respectively given 1) resilient sales momentum across product categories 2) sustained market share gains through superior market penetration and GTM initiatives and 3) improving margins led by cost reduction program. Crompton remains upbeat on the future demand trends given 1) encouraging secondary sales data despite likelihood of up stocking by trade ahead of price hikes 2) resilient demand momentum witnessed in small towns and rural India 3) market share gains from unorganized players and 4) steady distribution expansion.

While steep increase in commodity prices might impact margins in near term, management remains confident on restoring industry leading margins through 1) calibrated price actions 2) cost saving programs (Project Unnati: Rs40cr saving in 3Q) and 3) improving sales mix. We estimate margins to improve by 160bps over FY20-23.

We remain structurally positive on Crompton and like the company's strategy of investing in strategic initiatives 1) product innovation 2) distribution & GTM initiatives 3) well defined plan of entering and scaling up new categories. We estimate 17% PAT CAGR over FY20-23 and assign a target price of Rs447 @ 40x FY23 EPS (earlier Rs400@37x FY23 EPS). We expect back ended returns post 60% rally in 4 months, we recommend Buy on declines.

Sales up by 23.5%, Adj. PAT up by 42.3% YoY: Revenues grew by 23.5% to Rs13.2bn with ECD segment growing by 31.6% YoY. Gross margin expanded by ~40bps YoY to 32.3%. EBITDA grew by 42.6% YoY to Rs2bn. Better scale, 140bps/20bps decline in other expenses/employee cost enabled margin expansion of 200bps to 14.8%. PBT grew 42.1% to Rs2bn aided by 14% increase in other income to Rs199mn. Adj. PAT grew by 42.3% YoY to Rs1.5bn

ECD sales up by 31.6%, Lighting margins at 11.6%: ECD segment sales grew 31.6% YoY to Rs10.4bn, with all segments showing good growth. EBIT grew by 31% YoY to Rs2bn while margins contracted by 10bps YoY to 19.8%. Lighting revenues/EBIT grew by 1%/ 70.9% YoY to Rs2.9bn/ Rs334mn, while margins expanded by 480bps/ 120bps YoY/QoQ to 11.6% benefitting from 1) cost reduction program 2) changing mix and 3) price increases

Concall Takeaways: 1) With commodity inflation, 5-8% price increase taken effective January. 2) Despite pre-buying in December, secondary sales data remains encouraging 3) Margins can come under pressure in near term. Confident of fully recovering cost in medium term through mix of price actions, cost saving program and sales mix. 4) Larger brands to have gained market share during these

tough times through better supply chain management, preference of consumers and channel in favor of leading/ trusted brands. **5)** Fans/ Pumps/ Appliances/ B2C lighting grew by 36%/ 19%/ 45%/ 13% in 3Q. Geysers grew by 50%, Mixer-Grinder sales doubled. **6)** E-Com and MOR/ Rural sales grew by 53%/ 88% in 3Q. **7)** Savings of Rs40cr through cost saving program (Project Unnati) **8)** In Oct-Nov, Fans industry grew by 9%.

Exhibit 1: Q3FY21 Result Overview (Rs m): Sales grew by 23.5% YoY; Adj PAT up by 42.3% YoY

Y/e March	Q3FY21	Q3FY20	YoY gr. (%)	Q2FY20	9MFY21	9MFY20	YoY gr. (%)
Net Sales	13,231	10,713	23.5	11,984	32,347	34,939	(7.4)
Operating & Manufacturing Expenses	8,956	7,290	22.9	8,041	21,811	23,689	(7.9)
<i>% of Net Sales</i>	<i>67.7</i>	<i>68.0</i>		<i>67.1</i>	<i>67.4</i>	<i>67.8</i>	
Gross Profit	4,275	3,423	24.9	3,943	10,536	11,250	-6.3
<i>% of Net Sales</i>	<i>32.3</i>	<i>32.0</i>		<i>32.9</i>	<i>32.6</i>	<i>32.2</i>	
Personnel Cost	929	774	20.1	797	2,446	2,403	1.8
<i>% of Net Sales</i>	<i>7.0</i>	<i>7.2</i>		<i>6.6</i>	<i>7.6</i>	<i>6.9</i>	
Other Expenses	1,394	1,281	8.8	1,288	3,292	4,262	(22.8)
<i>% of Net Sales</i>	<i>10.5</i>	<i>12.0</i>		<i>10.7</i>	<i>10.2</i>	<i>12.2</i>	
Total Expenditure	11,280	9,344	20.7	10,125	27,548	30,355	-9.2
EBITDA	1,952	1,369	42.6	1,859	4,799	4,584	4.7
<i>Margin (%)</i>	<i>14.8</i>	<i>12.8</i>		<i>15.5</i>	<i>14.8</i>	<i>13.1</i>	
Other income	199	174	14.3	167	553	470	17.8
Depreciation	69	64	7.2	77	225	186	21.2
EBIT	2,082	1,478	40.8	1,949	5,126	4,868	5.3
Interest	106	87	21.1	111	325	324	0.2
PBT before exceptional item	1,976	1,391	42.1	1,837	4,802	4,544	5.7
Total Taxes	502	355	41.5	467	1,219	1,169	4.3
<i>ETR (%)</i>	<i>25.4</i>	<i>25.5</i>		<i>25.4</i>	<i>25.4</i>	<i>25.7</i>	
Adj. PAT	1,474	1,036	42.3	1,371	3,582	3,375	6.1
Exceptional item	0	574		0	0	574	
PAT	1,474	1,610	(8.4)	1,371	3,582	3,949	(9.3)

Source: Company, PL

Exhibit 2: Segmental Breakup (Rs m): Lighting margin up 480bps/120bps YoY/QoQ to 11.6%, ECD sales up by 31.6% YoY

Y/e March	Q3FY21	Q3FY20	YoY gr. (%)	Q2FY20	9MFY21	9MFY20	YoY gr. (%)
Revenues							
Electric Consumer Durables	10,359	7,870	31.6	9,317	25,641	26,480	-3.2
Lighting Products	2,872	2,843	1.0	2,667	6,706	8,460	-20.7
EBIT							
Electric Consumer Durables	2,046	1,561	31.0	1,960	5,229	5,249	-0.4
<i>EBIT margin (%)</i>	<i>19.8</i>	<i>19.8</i>		<i>21.0</i>	<i>20.4</i>	<i>19.8</i>	
Lighting Products	334	196	70.9	276	665	487	36.5
<i>EBIT margin (%)</i>	<i>11.6</i>	<i>6.9</i>		<i>10.4</i>	<i>9.9</i>	<i>5.8</i>	

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	45,120	46,351	54,726	62,220
YoY gr. (%)	0.7	2.7	18.1	13.7
Cost of Goods Sold	30,650	31,401	36,963	41,840
Gross Profit	14,470	14,950	17,763	20,379
Margin (%)	32.1	32.3	32.5	32.8
Employee Cost	3,110	3,393	3,721	4,106
Other Expenses	4,171	3,778	4,624	5,320
EBITDA	5,969	6,783	7,885	9,180
YoY gr. (%)	1.9	13.6	16.3	16.4
Margin (%)	13.2	14.6	14.4	14.8
Depreciation and Amortization	268	298	315	348
EBIT	5,701	6,485	7,570	8,832
Margin (%)	12.6	14.0	13.8	14.2
Net Interest	407	435	298	246
Other Income	589	753	773	814
Profit Before Tax	5,883	6,803	8,045	9,400
Margin (%)	13.0	14.7	14.7	15.1
Total Tax	1,510	1,728	2,043	2,388
Effective tax rate (%)	25.7	25.4	25.4	25.4
Profit after tax	4,373	5,075	6,001	7,013
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	4,373	5,075	6,001	7,013
YoY gr. (%)	16.9	16.1	18.2	16.9
Margin (%)	9.7	10.9	11.0	11.3
Extra Ord. Income / (Exp)	574	-	-	-
Reported PAT	4,947	5,075	6,001	7,013
YoY gr. (%)	22.9	2.6	18.2	16.9
Margin (%)	11.0	10.9	11.0	11.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,947	5,075	6,001	7,013
Equity Shares O/s (m)	627	627	627	627
EPS (Rs)	7.0	8.1	9.6	11.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	3,149	3,567	3,795	4,423
Tangibles	2,987	3,385	3,593	4,201
Intangibles	162	182	202	222
Acc: Dep / Amortization	1,854	2,059	2,270	2,517
Tangibles	1,737	1,920	2,108	2,328
Intangibles	117	139	163	189
Net fixed assets	1,296	1,508	1,524	1,906
Tangibles	1,251	1,465	1,485	1,873
Intangibles	45	44	40	33
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	588	684	797
Other Non-Current Assets	228	202	208	214
Current Assets				
Investments	5,396	9,396	10,896	11,896
Inventories	4,636	4,064	4,498	5,114
Trade receivables	4,587	5,714	6,747	7,671
Cash & Bank Balance	471	794	874	1,014
Other Current Assets	1,971	1,715	1,883	2,033
Total Assets	27,440	32,240	35,604	38,964
Equity				
Equity Share Capital	1,255	1,255	1,255	1,255
Other Equity	13,423	16,617	20,579	24,393
Total Network	14,678	17,871	21,834	25,647
Non-Current Liabilities				
Long Term borrowings	1,797	3,000	3,000	1,500
Provisions	191	185	219	249
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	6,372	6,710	7,899	8,941
Other current liabilities	4,402	4,473	2,653	2,626
Total Equity & Liabilities	27,440	32,240	35,604	38,964

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	5,883	6,803	8,045	9,400
Add. Depreciation	268	298	315	348
Add. Interest	407	435	298	246
Less Financial Other Income	589	753	773	814
Add. Other	(299)	(67)	(75)	(96)
Op. profit before WC changes	6,258	7,469	8,583	9,899
Net Changes-WC	(602)	(3)	(519)	(718)
Direct tax	(1,445)	(1,728)	(2,043)	(2,388)
Net cash from Op. activities	4,211	5,738	6,021	6,793
Capital expenditures	(483)	(412)	(331)	(729)
Interest / Dividend Income	209	-	-	-
Others	258	(4,000)	(1,500)	(1,000)
Net Cash from Inv. activities	(17)	(4,412)	(1,831)	(1,729)
Issue of share cap. / premium	52	-	-	-
Debt changes	(3,088)	1,314	(1,773)	(1,479)
Dividend paid	(1,506)	(1,882)	(2,039)	(3,199)
Interest paid	(586)	(435)	(298)	(246)
Others	-	-	-	-
Net cash from Fin. activities	(5,128)	(1,003)	(4,110)	(4,924)
Net change in cash	(934)	324	80	140
Free Cash Flow	3,728	5,326	5,689	6,064

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	7.0	8.1	9.6	11.2
CEPS	7.4	8.6	10.1	11.7
BVPS	23.4	28.5	34.8	40.9
FCF	5.9	8.5	9.1	9.7
DPS	2.0	4.0	4.8	5.6
Return Ratio(%)				
RoCE	40.6	38.8	36.5	37.1
ROIC	44.1	57.0	51.0	50.4
RoE	34.1	31.2	30.2	29.5
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.4)	(0.4)	(0.4)
Net Working Capital (Days)	23	24	22	23
Valuation(x)				
PER	59.1	51.0	43.1	36.9
P/B	17.6	14.5	11.8	10.1
P/CEPS	55.7	48.1	40.9	35.1
EV/EBITDA	42.6	37.1	31.7	26.9
EV/Sales	5.6	5.4	4.6	4.0
Dividend Yield (%)	0.5	1.0	1.2	1.4

Source: Company Data, PL Research

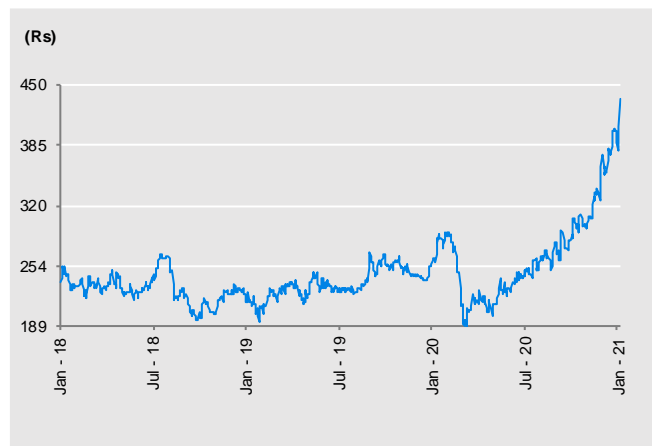
Quarterly Financials (Rs m)

Y/e Mar	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Net Revenue	10,181	7,132	11,984	13,231
YoY gr. (%)	(15.6)	(47.0)	11.4	23.5
Raw Material Expenses	6,961	4,814	8,041	8,956
Gross Profit	3,220	2,318	3,943	4,275
Margin (%)	31.6	32.5	32.9	32.3
EBITDA	1,384	988	1,859	1,952
YoY gr. (%)	(17.9)	(48.5)	43.5	42.6
Margin (%)	13.6	13.9	15.5	14.8
Depreciation / Depletion	82	80	77	69
EBIT	1,302	908	1,782	1,883
Margin (%)	12.8	12.7	14.9	14.2
Net Interest	83	108	111	106
Other Income	119	188	167	199
Profit before Tax	1,339	988	1,837	1,976
Margin (%)	13.2	13.9	15.3	14.9
Total Tax	341	251	467	502
Effective tax rate (%)	25.5	25.4	25.4	25.4
Profit after Tax	998	737	1,371	1,474
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	998	737	1,371	1,474
YoY gr. (%)	(11.8)	(39.9)	23.2	42.3
Margin (%)	9.8	10.3	11.4	11.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	998	737	1,371	1,474
YoY gr. (%)	(29.5)	(39.9)	23.2	(8.4)
Margin (%)	9.8	10.3	11.4	11.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	998	737	1,371	1,474
Avg. Shares O/s (m)	627	627	627	627
EPS (Rs)	1.6	1.2	2.2	2.3

Source: Company Data, PL Research



Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jan-21	BUY	400	395
2	23-Oct-20	BUY	346	305
3	06-Oct-20	BUY	308	280
4	28-Sep-20	BUY	308	260
5	27-Jul-20	BUY	288	247
6	07-Jul-20	BUY	287	241
7	18-May-20	BUY	267	199
8	13-Apr-20	BUY	291	224
9	30-Jan-20	BUY	306	267

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Hold	2,829	2,740
2	Avenue Supermarts	BUY	3,296	2,968
3	Bajaj Electricals	BUY	647	637
4	Britannia Industries	BUY	4,301	3,540
5	Colgate Palmolive	Hold	1,570	1,598
6	Crompton Greaves Consumer Electricals	BUY	400	395
7	Dabur India	Accumulate	539	534
8	Emami	BUY	526	450
9	GlaxoSmithKline Consumer Healthcare	Hold	9,377	9,247
10	Havells India	Hold	1,126	1,131
11	Hindustan Unilever	BUY	2,502	2,417
12	ITC	BUY	254	205
13	Jubilant FoodWorks	UR	-	2,789
14	Kansai Nerolac Paints	UR	-	613
15	Marico	Hold	410	419
16	Nestle India	Hold	17,640	18,515
17	Pidilite Industries	UR	-	1,795
18	Polycab India	BUY	1,247	1,278
19	Titan Company	UR	-	1,573
20	Voltas	UR	-	882

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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