

July 26, 2022

Q1FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	505		534	
Sales (Rs. m)	73,089	83,276	73,309	83,526
% Chng.	(0.3)	(0.3)		
EBITDA (Rs. m)	10,064	12,426	10,939	12,941
% Chng.	(8.0)	(4.0)		
EPS (Rs.)	10.4	13.2	11.6	14.0
% Chng.	(10.5)	(6.2)		

Key Financials - Standalone

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	48,034	53,940	73,089	83,276
EBITDA (Rs. m)	7,214	7,693	10,064	12,426
Margin (%)	15.0	14.3	13.8	14.9
PAT (Rs. m)	5,405	5,987	6,591	8,335
EPS (Rs.)	8.6	9.5	10.4	13.2
Gr. (%)	23.5	9.8	10.1	26.5
DPS (Rs.)	5.5	2.5	7.2	8.2
Yield (%)	1.5	0.7	1.9	2.2
RoE (%)	31.8	27.3	24.8	27.4
RoCE (%)	37.8	24.9	24.4	28.5
EV/Sales (x)	4.7	4.4	3.3	2.9
EV/EBITDA (x)	31.4	31.0	23.8	19.1
PE (x)	43.6	39.7	36.0	28.5
P/BV (x)	12.2	9.7	8.3	7.3

Key Data

CROP.BO | CROMPTON IN

52-W High / Low	Rs.513 / Rs.312
Sensex / Nifty	55,766 / 16,631
Market Cap	Rs.238bn/ \$ 2,980m
Shares Outstanding	634m
3M Avg. Daily Value	Rs.627.95m

Shareholding Pattern (%)

Promoter's	5.94
Foreign	37.27
Domestic Institution	44.98
Public & Others	11.81
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	8.9	(10.8)	(18.3)
Relative	3.0	(7.4)	(22.4)

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All eyes on expansion into Kitchen appliances

Quick Pointers:

- Targeting 10% market share in Chimney and hobs category
- Margin normalcy to restore from Q2 onwards

We cut our FY23/24 earnings by 11%/6% to mainly reflect our trimmed margin expectations. Management highlighted that correction in commodities will be positive for demand, going forward. Crompton remains confident of achieving success in Kitchen appliances segment which will be key re-rating trigger going forward, in our view. Despite unprecedented RM inflation, Crompton has maintained the structural profitability of business and is confident of sustaining it through 1) pricing actions 2) improving business mix 3) cost saving program and 4) advance booking of key RM.

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 Kitchen appliances) and 4) strong balance sheet. We estimate 18% PAT CAGR over FY22-24 and assign a target price of Rs505 @ 40xMarch24 EPS (Rs534 earlier). Maintain BUY

Sales grew 77% YoY, Adj PAT up 33% YoY: Revenues grew by 77% YoY to Rs18.6bn. Gross margin fell by 170bps YoY to 30.6%. EBITDA grew by 76% YoY to Rs2.2bn with margins at 11.8% (-190bps YOY). Adj PAT grew by 33% YoY to Rs1.81bn.

ECD sales up by 52%, Lighting margins at 8.9%: ECD segment sales grew by 52% YoY to Rs13.47bn. ECD EBIT margin came at 17% (-60bps YoY). Lighting segment revenue grew by 61% YOY to Rs2.62bn. Lighting EBIT margin came at 8.9% (-110bps YoY).

Concall Takeaways: 1) Inflation is adversely impacting the demand. However, company expects prices to ease going forward which will be positive for demand. 2) Margin improvement will happen from 2Q onwards as per management. Higher A&P spend adversely impacted the margin which should normalize going forward. 3) Demand of pumps is weak only and it has seen price hike of almost 20-25% in last 18 months. GST increase might happen for pumps category from 12% to 18%. 4) Built-in-Kitchen appliance is a potential growth area. Management said that chimney and hobs market is worth Rs25bn. Crompton is targeting to become top 3 players in chimney and hobs market with almost 10% market share. It is planning to tap 300 cities covering 90% of market. 5) Fans market share is 28% and it has consistently gained market share in this category in last 2 years. 6) 1Q had one-off variable cost under employee cost. 7) B2C lighting is growing faster than B2G and B2B. 8) Butterfly acquisition : It derived ~5% revenue growth from appointing new retailers/distributors. It is targeting to establish 40-50 EBOs via franchise route.

**Exhibit 1: Q1FY23 Result Overview (Rs m): Sales grew by 77% YoY; PAT down 28% YoY**

Y/e March	Q1FY23	Q1FY22	YoY gr. (%)	Q4FY22	FY22	FY21	YoY gr. (%)
Net Sales	18,629	10,505	77.3	15,479	53,940	48,034	12.3
Operating & Manufacturing Expenses	12,780	7,087	80.3	10,764	37,019	32,672	13.3
<i>% of Net Sales</i>	<i>68.6</i>	<i>67.5</i>	<i>1.1</i>	<i>69.5</i>	<i>68.6</i>	<i>68.0</i>	<i>0.6</i>
Gross Profit	5,849	3,417	71.2	4,716	16,922	15,362	10.2
<i>% of Net Sales</i>	<i>31.4</i>	<i>32.5</i>	<i>-1.1</i>	<i>30.5</i>	<i>31.4</i>	<i>32.0</i>	<i>-0.6</i>
Personnel Cost	1,434	885	62.0	835	3,624	3,366	7.7
<i>% of Net Sales</i>	<i>7.7</i>	<i>8.4</i>	<i>-0.7</i>	<i>5.4</i>	<i>6.7</i>	<i>7.0</i>	<i>-0.3</i>
Other Expenses	2,216	1,261	75.7	1,499	5,605	4,782	17.2
<i>% of Net Sales</i>	<i>11.9</i>	<i>12.0</i>	<i>-0.1</i>	<i>9.7</i>	<i>10.4</i>	<i>10.0</i>	<i>0.4</i>
Total Expenditure	16,430	9,234	77.9	13,097	46,248	40,821	13.3
EBITDA	2,199	1,271	73.0	2,382	7,693	7,214	6.6
<i>Margin (%)</i>	<i>11.8</i>	<i>12.1</i>	<i>-0.3</i>	<i>15.4</i>	<i>14.3</i>	<i>15.0</i>	<i>-0.8</i>
Other income	104	197	-47.1	180	727	756	-3.9
Depreciation	276	76	264.1	145	423	297	42.4
EBIT	2,028	1,392	45.6	2,417	7,997	7,673	4.2
Interest	225	101	123.5	106	353	429	-17.7
PBT before exceptional item	1,803	1,292	39.6	2,312	7,643	7,244	5.5
Total Taxes	479	317	51.2	335	1,729	1,839	-6.0
<i>ETR (%)</i>	<i>26.6</i>	<i>24.5</i>	<i>2.0</i>	<i>14.5</i>	<i>22.6</i>	<i>25.4</i>	<i>-2.8</i>
Adj. PAT	1,323	975	35.8	1,976	5,914	5,405	9.4
Exceptional item	-64	767	-108.3	0	-130	767	-116.9
PAT	1,260	1,741	-27.7	1,976	5,785	6,172	-6.3

Source: Company, PL

Exhibit 2: Segmental Breakup (Rs m): Core business margin weak

Y/e March	Q1FY23	Q1FY22	YoY gr. (%)	Q4FY22	FY22	FY21	YoY gr. (%)
Revenues							
Electric Consumer Durables	13,472	8,844	52.3	12,309	42,918	37,470	14.5
Lighting Products	2,623	1,661	57.9	3,170	10,735	10,399	3.2
Butterfly Products	2,535						
EBIT							
Electric Consumer Durables	2,285	1,558	46.7	2,279	8,267	7,392	11.8
<i>EBIT margin (%)</i>	<i>17.0</i>	<i>17.6</i>	<i>-0.7</i>	<i>18.5</i>	<i>19.3</i>	<i>19.7</i>	<i>-0.5</i>
Lighting Products	232	177	30.9	448	1,161	1,161	-0.1
<i>EBIT margin (%)</i>	<i>8.8</i>	<i>10.7</i>	<i>(1.8)</i>	<i>14.1</i>	<i>10.8</i>	<i>11.2</i>	<i>(0.4)</i>
Butterfly Products	2187						
<i>EBIT margin (%)</i>	<i>8.6</i>						

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	48,034	53,940	73,089	83,276
YoY gr. (%)	6.5	12.3	35.5	13.9
Cost of Goods Sold	32,672	37,019	48,134	53,883
Gross Profit	15,362	16,922	24,956	29,393
Margin (%)	32.0	31.4	34.1	35.3
Employee Cost	3,366	3,624	5,847	6,662
Other Expenses	3,960	5,605	7,126	8,119
EBITDA	7,214	7,693	10,064	12,426
YoY gr. (%)	20.9	6.6	30.8	23.5
Margin (%)	15.0	14.3	13.8	14.9
Depreciation and Amortization	297	423	443	557
EBIT	6,917	7,270	9,621	11,869
Margin (%)	14.4	13.5	13.2	14.3
Net Interest	429	353	1,124	967
Other Income	756	799	502	500
Profit Before Tax	7,244	7,716	9,000	11,402
Margin (%)	15.1	14.3	12.3	13.7
Total Tax	1,839	1,729	2,286	2,896
Effective tax rate (%)	25.4	22.4	25.4	25.4
Profit after tax	5,405	5,987	6,714	8,506
Minority interest	-	-	123	171
Share Profit from Associate	-	-	-	-
Adjusted PAT	5,405	5,987	6,591	8,335
YoY gr. (%)	23.6	10.8	10.1	26.5
Margin (%)	11.3	11.1	9.0	10.0
Extra Ord. Income / (Exp)	767	(130)	(123)	(171)
Reported PAT	6,172	5,857	6,468	8,164
YoY gr. (%)	24.8	(5.1)	10.4	26.2
Margin (%)	12.8	10.9	8.8	9.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	6,172	5,857	6,468	8,164
Equity Shares O/s (m)	628	633	633	633
EPS (Rs)	8.6	9.5	10.4	13.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	3,500	2,502	6,008	6,718
Tangibles	3,336	2,152	5,638	6,328
Intangibles	164	350	370	390
Acc: Dep / Amortization	2,144	2,853	3,296	3,853
Tangibles	2,008	2,684	3,081	3,591
Intangibles	136	169	214	262
Net fixed assets	1,356	19,169	20,169	21,169
Tangibles	1,328	4,045	6,045	8,045
Intangibles	28	15,124	14,124	13,124
Capital Work In Progress	462	841	100	100
Goodwill	7,794	12,855	12,855	12,855
Non-Current Investments	114	277	106	110
Net Deferred tax assets	585	(394)	(306)	(190)
Other Non-Current Assets	201	325	204	207
Current Assets				
Investments	7,697	6,238	6,238	6,238
Inventories	5,178	7,214	7,460	8,795
Trade receivables	4,609	6,154	7,609	8,670
Cash & Bank Balance	6,039	9,152	5,600	5,422
Other Current Assets	2,180	2,092	1,883	1,904
Total Assets	36,347	64,463	62,499	65,897
Equity				
Equity Share Capital	1,255	1,267	1,267	1,267
Other Equity	18,059	23,263	27,281	31,056
Total Network	19,314	24,530	28,548	32,322
Non-Current Liabilities				
Long Term borrowings	2,988	46	-	-
Provisions	1,124	1,096	274	312
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	1,800	16,030	13,889	11,889
Trade payables	8,204	10,177	11,209	12,548
Other current liabilities	2,325	3,926	3,821	4,047
Total Equity & Liabilities	35,993	64,463	62,499	65,897

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	7,244	7,643	9,000	11,402
Add. Depreciation	297	423	443	557
Add. Interest	429	353	1,124	967
Less Financial Other Income	756	799	502	500
Add. Other	(692)	(385)	(1,181)	(257)
Op. profit before WC changes	7,278	8,034	9,385	12,669
Net Changes-WC	1,397	1,028	(2,279)	(2,367)
Direct tax	(526)	(1,703)	(2,286)	(2,896)
Net cash from Op. activities	8,149	7,359	4,820	7,406
Capital expenditures	(198)	(1,712)	(702)	(1,557)
Interest / Dividend Income	265	485	-	-
Others	(4,955)	(15,978)	-	-
Net Cash from Inv. activities	(4,887)	(17,204)	(702)	(1,557)
Issue of share cap. / premium	73	603	-	-
Debt changes	1,300	10,539	(494)	-
Dividend paid	(1,874)	(1,564)	(1,584)	(4,560)
Interest paid	(461)	(505)	(1,124)	(967)
Others	-	-	-	-
Net cash from Fin. activities	(962)	9,073	(3,201)	(5,527)
Net change in cash	2,300	(771)	917	322
Free Cash Flow	7,952	5,648	4,118	5,849

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	8.6	9.5	10.4	13.2
CEPS	9.1	10.1	11.1	14.0
BVPS	30.8	38.7	45.1	51.0
FCF	12.7	8.9	6.5	9.2
DPS	5.5	2.5	7.2	8.2
Return Ratio(%)				
RoCE	37.8	24.9	24.4	28.5
ROIC	78.8	33.3	24.2	28.0
RoE	31.8	27.3	24.8	27.4
Balance Sheet				
Net Debt : Equity (x)	(0.5)	0.0	0.1	0.0
Net Working Capital (Days)	12	22	19	22
Valuation(x)				
PER	43.6	39.7	36.0	28.5
P/B	12.2	9.7	8.3	7.3
P/CEPS	41.3	37.1	33.8	26.7
EV/EBITDA	31.4	31.0	23.8	19.1
EV/Sales	4.7	4.4	3.3	2.9
Dividend Yield (%)	1.5	0.7	1.9	2.2

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net Revenue	13,848	14,102	15,321	17,966
YoY gr. (%)	15.6	6.6	1.1	71.7
Raw Material Expenses	9,415	9,635	10,764	-
Gross Profit	4,434	4,467	4,557	5,390
Margin (%)	32.0	31.7	29.7	30.0
EBITDA	2,141	2,016	2,223	2,458
YoY gr. (%)	15.2	(3.6)	(1.1)	100.2
Margin (%)	15.5	14.3	14.5	13.7
Depreciation / Depletion	101	102	145	106
EBIT	2,041	1,915	2,078	2,352
Margin (%)	14.7	13.6	13.6	13.1
Net Interest	80	67	106	281
Other Income	284	138	180	197
Profit before Tax	2,245	1,986	2,153	2,268
Margin (%)	16.2	14.1	14.1	12.6
Total Tax	540	504	335	567
Effective tax rate (%)	24.1	25.4	15.6	25.0
Profit after Tax	1,705	1,481	1,818	1,701
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,705	1,481	1,818	1,701
YoY gr. (%)	24.4	(8.2)	7.0	82.7
Margin (%)	12.3	10.5	11.9	9.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,705	1,481	1,818	1,701
YoY gr. (%)	24.4	(8.2)	(26.3)	82.7
Margin (%)	12.3	10.5	11.9	9.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,705	1,481	1,818	1,701
Avg. Shares O/s (m)	628	628	628	628
EPS (Rs)	2.7	2.4	2.9	2.7

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-Jul-22	BUY	534	350
2	30-May-22	BUY	534	352
3	27-Apr-22	BUY	531	374
4	11-Apr-22	BUY	531	376
5	23-Feb-22	BUY	533	408
6	31-Jan-22	BUY	533	425
7	07-Jan-22	BUY	530	441
8	25-Oct-21	BUY	530	451
9	06-Oct-21	BUY	518	486

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bajaj Electricals	Accumulate	1,091	1,077
2	Crompton Greaves Consumer Electricals	BUY	534	350
3	Havells India	Hold	1,251	1,257
4	KEI Industries	Accumulate	1,273	1,198
5	Polycab India	Hold	2,264	2,199
6	Voltas	Hold	1,071	966

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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