

Crompton Gr. Con

BSE SENSEX	S&P CNX
39,020	11,583
Bloomberg	CROMPTON IN
Equity Shares (m)	627
M.Cap.(INRb)/(USDb)	160 / 2.3
52-Week Range (INR)	272 / 190
1, 6, 12 Rel. Per (%)	-3/12/11
12M Avg Val (INR M)	166
Free float (%)	65.6

Financials & Valuations (INR b)

Y/E Mar	2019	2020E	2021E
Net Sales	44.8	48.5	55.8
EBITDA	5.9	6.4	7.9
PAT	4.0	4.8	6.0
EPS (INR)	6.0	7.6	9.6
Gr. (%)	15.5	27.1	26.1
BV/Sh (INR)	17.5	21.9	27.5
RoE (%)	39.6	38.5	38.7
RoCE (%)	27.8	29.0	33.9
P/E (x)	42.7	33.6	26.7
P/BV (x)	14.6	11.6	9.3

Estimate change

TP change

Rating change



CMP: INR255

TP: INR296 (+16%)

Buy

Price erosion in Lighting segment impacts earnings

- **Earnings miss estimates marginally:** 2QFY20 revenue grew 4% YoY to INR10.7b (10% below est. INR11.9b), while EBITDA was up 4% YoY to INR1.3b (18% below est. INR1.6b). Reported EBITDA margin was marginally up 30bp YoY to 12% (lower than est. 13.2%). PBT came in at INR1.3b, up 9.5% YoY (15% lower than est. INR1.5b). Aided by lower tax rate of 12.3% (v/s 33.4% YoY), adj. PAT stood at INR1.1b (3.5% below est.). 1HFY20 revenue/EBITDA/PAT grew 8%/10%/29% YoY.
- **Lighting segment performance disappoints:** Lighting segment revenue declined 12% YoY to INR2.8b (v/s est. INR3.7b). However, adjusting for EESL, the revenue decline stood at 3.9%. Within the segment, B2B business grew 9% YoY. While volume growth in the B2C segment was robust, value growth was much lower due to price erosion. The average price erosion stood at 15% YoY in 2QFY20 for the industry. Consequently, EBIT declined 27% YoY to INR151m (v/s est. INR371m) on account of 110bp margin erosion to 5.2% (v/s est. 10%). Unlike 1QFY20, there were no one-offs/write-offs in the Lighting margins. Management intends to focus on preserving the margins and plans to continue making investments in this segment.
- **ECD segment makes up for weak Lighting segment performance:** ECD segment registered 11% YoY revenue growth to INR7.8b (v/s est. INR8.2b), supported by strong double-digit revenue growth in agro pumps and water heater. EBIT margins were up 30bp YoY to 19.2% (lower than est. 20%). Margin expansion was supported by ~2% price hike taken in fans.
- **Maintain Buy:** We cut our FY20/21 EPS by 8%/7% as we lower our revenue and margin assumption. We like CROMPTON for its strong product portfolio, established brand, market leadership, wide distribution network, robust RoE/RoCE profile and healthy free cash flow generating business model. We maintain our **Buy** rating with TP of INR296 (28x Sep'21 EPS).

Crompton: Quarterly Estimates

									(INR M)			
Y/E March	FY19				FY20				FY19	FY20	Vs Est.	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	(%)
Sales	12,039	10,378	10,303	12,069	13,468	10,758	10,973	13,309	44,789	48,509	11,903	-9.6%
Change (%)	14.1	8.1	9.8	7.2	11.9	3.7	6.5	10.3	9.8	8.3	14.7	
EBITDA	1,673	1,239	1,261	1,685	1,919	1,293	1,317	1,838	5,858	6,366	1,575	-17.9%
Change (%)	29.3	2.7	8.3	2.5	14.7	4.3	4.4	9.0	10.3	8.7	27.1	
As of % Sales	13.9	11.9	12.2	14.0	14.2	12.0	12.0	13.8	13.1	13.1	13.2	
Depreciation	31	32	33	33	58	64	60	49	129	231	60	
Interest	152	150	150	143	150	87	80	63	596	380	80	
Other Income	88	98	124	172	173	123	120	185	483	600	60	
PBT	1,578	1,155	1,202	1,681	1,885	1,264	1,297	1,910	5,616	6,356	1,495	-15.4%
Tax	535	386	405	549	660	156	296	488	1,875	1,600	346	
Effective Tax Rate (%)	33.9	33.4	33.7	32.7	35.0	12.3	22.9	25.5	33.4	25.2	23.2	
Adjusted PAT	1,043	769	797	1,132	1,224	1,109	1,000	1,422	3,741	4,756	1,149	-3.5%
Change (%)	30.0	8.6	14.7	9.7	17.4	44.2	25.5	25.6	15.5	27.1	49.3	
Extra-ordinary Income (net)	-	-	-	284.5	-	-	-	-	284.5	-	-	
Reported PAT	1,043	769	797	1,417	1,224	1,109	1,000	1,422	4,025	4,756	1,149	-3.5%
Change (%)	30.0	8.6	14.7	37.3	17.4	44.2	25.5	0.4	24.3	18.2	49.3	

Nilesh Bhaiya – Research Analyst (Nilesh.Bhaiya@MotilalOswal.com); +91 22 6129 1556

Pratik Singh – Research Analyst (Pratik.Singh@MotilalOswal.com); +91 22 6129 1543

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Story in charts

Exhibit 1: FY19 revenue break-up

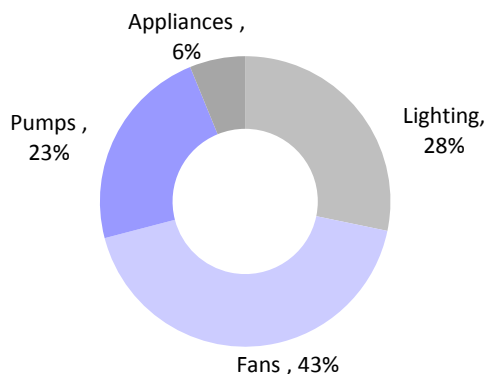


Exhibit 2: FY19-21 CAGR estimates by category

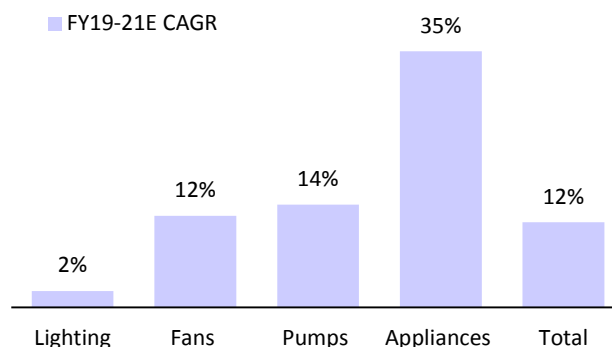


Exhibit 3: Expect lighting revenue CAGR of 2% over FY19-21

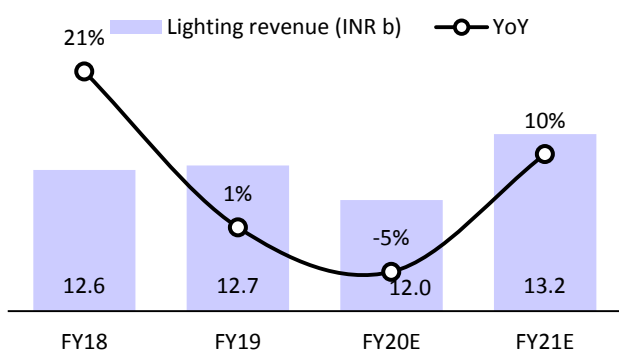


Exhibit 4: Lighting margins expected to scale up in FY21

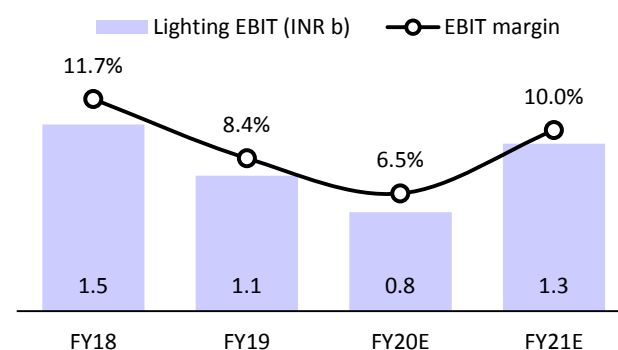


Exhibit 5: Expect ECD revenue CAGR of 15% over FY19-21

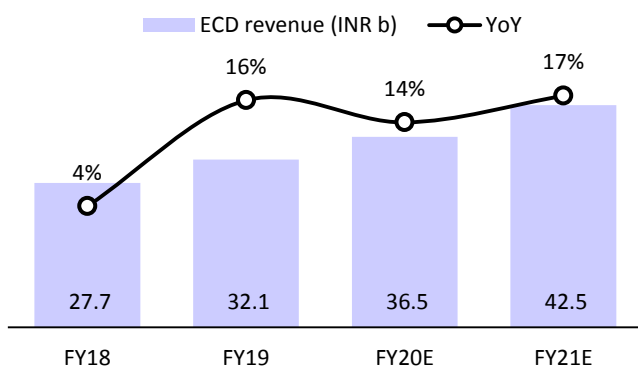


Exhibit 6: ECD margins to improve 80bp to 20% levels

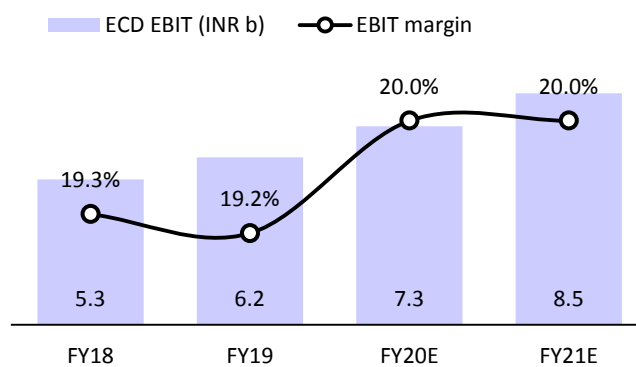


Exhibit 7: Expect revenue CAGR of 12% over FY19-21

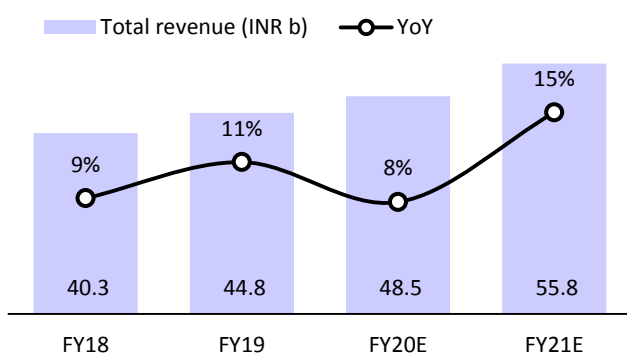
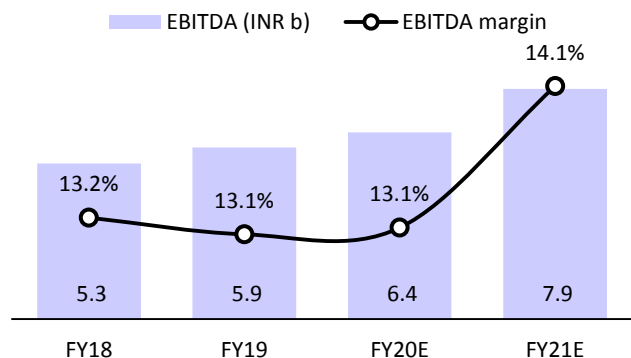
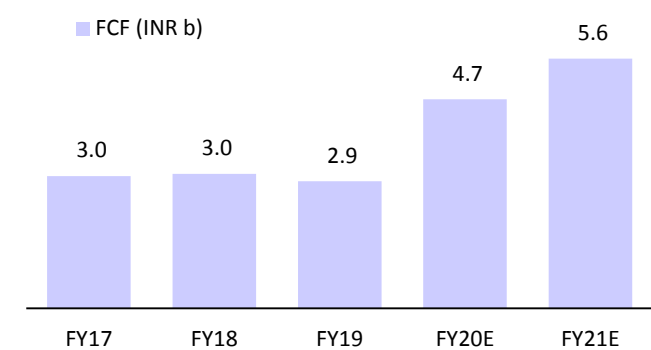


Exhibit 8: EBITDA margin to expand to 14.1% by FY21

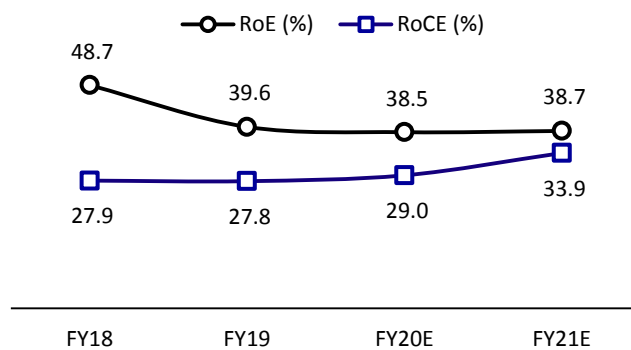


Source: MOFSL, Company

Source: MOFSL, Company

Exhibit 9: Strong FCF generation to drive re-rating

Source: MOFSL, Company

Exhibit 10: Return ratios to remain healthy

Source: MOFSL, Company

Valuation and view

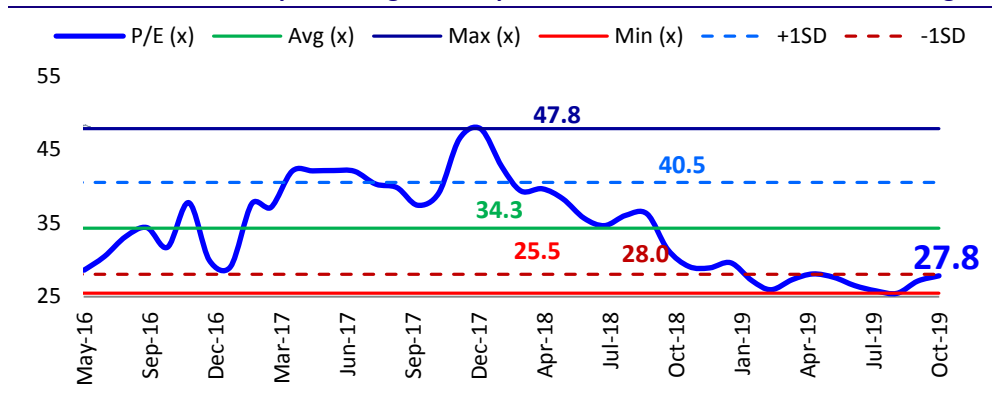
Valuation extremely comfortable, but needs backing-up with category expansion:

Crompton trades at FY20/FY21E P/E of 34x/27x. Since demerger from its erstwhile parent, company has delivered good financial results, led by margin expansion. However, revenue growth has lagged peers like Havells, attributable to its go-to-market (GTM) strategy and slow progress on new launches. We estimate EPS CAGR (FY19-21) of 22% on the back of 12.0% CAGR in revenue. Crompton's strong FCF generation is under-appreciated at current valuations, in our view. Maintain **Buy** at attractive valuations.

Exhibit 11: We cut our FY20/21E EPS by 8%/7%

Earnings Change INR m	Old		New		Change	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	51,233	59,075	48,509	55,766	-5%	-6%
EBITDA	7,182	8,629	6,366	7,856	-11%	-9%
EBITDA margin	14.0%	14.6%	13.1%	14.1%	-0.9%	-0.5%
Adj. PAT	5,179	6,426	4,756	5,997	-8%	-7%

Source: MOSL, Company

Exhibit 12: Valuations tapered off given the pressure witnessed in core business margins

Source: MOFSL, Company



Concall highlights

Lighting

- Ex-EESL, Lighting segment declined 4%. EESL revenues in 2QFY20 stood at INR190m v/s INR490m in 2QFY19.
- EESL order book stood at INR1b. The current order book is more skewed toward Street lights rather than bulbs. Street light projects have longer gestation period.
- Receivables from EESL remain elevated; however, those aren't a concern for Crompton since EESL is a strong financial franchise.
- LED Panel and Battens grew 35% YoY in volume terms; however, value growth did not come through due to price erosion.
- Market share in LED lamps increased by 108bp YoY.
- The B2B business, which forms balance 50% of the Lighting business sales saw pick-up in execution, which led to 9% YoY growth after subdued performance in 1QFY20.
- Lighting margins were mainly impacted due to price erosion. According to management, earlier price erosion was due to product cost rationalization. However, the current price erosion is more due to intense competitiveness.
- In the near term, management intends to focus on market share gain and revenue growth and will work toward preserving gross margins. The company will continue making investments in this segment and hence is unable to guide for a specific timeline to achieve double-digit margins.

Electronic Consumer Durables

- Market share further improved by 80bp YoY in the fans segment. This is after the company improved its market share by 100bp YoY in 1QFY20.
- Management believes that Crompton and Orient are the only brands to have gained market share in 2QFY20.
- ECD margins were partly supported by ~2% price hikes taken in fans.
- Appliances business was driven by strong performance in the water heater segment, which grew 38% YoY. The company has been able to address most of the supply chain issues, which were largely prevalent in 2QFY19.
- Agro pump also witnessed robust growth of 17%. Residential pumps witnessed lower growth on account of floods in the eastern parts of India.

Other key points

- Advertisement spends stood at INR230m in 2QFY20, higher as compared to INR90m in 2QFY19.
- Management intends to keep the ad-spends at 3% of the revenue. This is also because management is cognizant of the fact that cut in ad-spends has impacted revenue growth previously.
- ESOP charges stood at INR600m, same as 1QFY20.

Financials and valuations

Income Statement					(INR Million)	
Y/E March	FY17	FY18	FY19	FY20E	FY21E	FY22E
Total Revenues	39,009	40,797	44,789	48,509	55,766	63,722
Change (%)	115.3	4.6	9.8	8.3	15.0	14.3
Raw Materials	27,335	27,996	30,918	32,889	37,753	43,012
Staff Cost	2,322	2,827	2,919	3,432	3,575	4,005
Other Expenses	4,506	4,664	5,094	5,821	6,580	7,328
EBITDA	4,846	5,310	5,858	6,366	7,856	9,377
% of Total Revenues	12.4	13.0	13.1	13.1	14.1	14.7
Depreciation	110	126	129	231	244	256
Other Income	195	308	483	600	600	600
Interest	655	637	596	380	198	40
PBT	4,276	4,854	5,616	6,356	8,015	9,681
Tax	1,419	1,617	1,875	1,600	2,017	2,437
Rate (%)	33.2	33.3	33.4	25.2	25.2	25.2
Adjusted PAT	2,857	3,238	3,741	4,756	5,997	7,244
Extra-ordinary Income (net)	-25	0	285	0	0	0
Reported PAT	2,832	3,238	4,025	4,756	5,997	7,244
Change (%)	169.2	14.3	24.3	18.2	26.1	20.8

Balance Sheet					(INR Million)	
Y/E March	FY17	FY18	FY19	FY20E	FY21E	FY22E
Share Capital	1,254	1,254	1,254	1,254	1,254	1,254
Reserves	4,138	6,641	9,731	12,489	15,968	20,169
Net Worth	5,392	7,895	10,985	13,743	17,222	21,423
Loans	6,500	6,486	6,493	3,493	1,793	0
Deferred Tax Liability	-182	0	0	0	0	0
Capital Employed	11,710	14,381	17,477	17,236	19,014	21,423
Gross Fixed Assets	931	1,055	1,197	1,697	2,197	2,697
Less: Depreciation	110	234	359	590	834	1,090
Net Fixed Assets	821	822	837	1,106	1,363	1,607
Capital WIP	1	6	10	10	10	10
Goodwill	7,794	7,794	7,794	7,794	7,794	7,794
Investments	3,185	0	142	142	142	142
Curr. Assets	9,167	15,628	17,915	18,170	21,186	24,989
Inventory	2,348	3,032	3,524	3,816	4,387	5,013
Debtors	5,434	5,536	5,660	6,130	7,047	8,052
Cash & Bank Balance	700	5,450	6,724	6,050	7,252	9,068
Loans & Advances	685	0	0	0	0	0
Other Assets	0	1,610	2,007	2,174	2,499	2,856
Current Liab. & Prov.	9,258	9,869	9,221	9,986	11,480	13,118
Current Liabilities	8,448	8,719	7,530	8,155	9,375	10,712
Provisions	811	1,150	1,691	1,831	2,105	2,406
Net Current Assets	-91	5,759	8,694	8,184	9,705	11,871
Application of Funds	11,710	14,381	17,477	17,236	19,014	21,423

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20E	FY21E	FY22E
Basic (INR)						
Adj EPS	4.5	5.2	6.0	7.6	9.6	11.6
Cash EPS	4.7	5.4	6.2	8.0	10.0	12.0
Book Value	8.6	12.6	17.5	21.9	27.5	34.2
DPS	1.5	1.8	2.1	2.7	3.3	4.0
Payout (incl. Div. Tax.)	33.5	33.9	32.5	35.0	35.0	35.0
Valuation (x)						
P/E	56.2	49.2	42.3	33.3	26.4	21.9
Cash P/E	54.1	47.3	40.9	31.8	25.4	21.1
EV/EBITDA	34.0	30.2	27.0	24.5	19.5	15.9
EV/Sales	4.2	3.9	3.5	3.2	2.7	2.3
Price/Book Value	29.5	20.2	14.4	11.5	9.2	7.4
Dividend Yield (%)	0.6	0.7	0.8	1.1	1.3	1.6
Profitability Ratios (%)						
RoE	73.8	48.7	39.6	38.5	38.7	37.5
RoCE	31.7	27.9	27.8	29.0	33.9	36.0
RoIC	39.5	38.7	36.0	41.6	49.0	55.9
Turnover Ratios						
Debtors (Days)	51	50	46	46	46	46
Inventory (Days)	22	27	29	29	29	29
Creditors. (Days)	67	69	54	54	54	54
Asset Turnover (x)	3.3	2.8	2.6	2.8	2.9	3.0
Leverage Ratio						
Debt/Equity (x)	1.2	0.8	0.6	0.3	0.1	0.0

Cash Flow Statement

(INR Million)

Y/E March	FY17	FY18	FY19	FY20E	FY21E	FY22E
PBT before EO Items	4,276	4,854	5,616	6,356	8,015	9,681
Depreciation	110	126	129	231	244	256
Interest	655	511	399	380	198	40
Direct Taxes Paid	-1,419	-1,812	-1,994	-1,600	-2,017	-2,437
(Inc)/Dec in WC	-497	-933	-1,202	-164	-319	-350
CF from Operations	3,126	2,746	2,949	5,203	6,120	7,190
EO Income	0	409	66	0	0	0
CF from Oper. Incl. EO Items	3,126	3,154	3,014	5,203	6,120	7,190
(Inc)/Dec in FA	-150	-130	-160	-500	-500	-500
Free Cash Flow	2,976	3,025	2,855	4,703	5,620	6,690
Investment & Others	-3,324	-197	281	0	0	0
CF from Investments	-3,474	-327	121	-500	-500	-500
(Inc)/Dec in Networth	1,413	7	38	0	0	0
(Inc)/Dec in Debt	56	0	0	-3,000	-1,700	-1,793
Interest Paid	-655	-634	-587	-380	-198	-40
Dividend Paid	-1,140	-1,129	-1,312	-1,997	-2,519	-3,043
Others	475	3,721				
CF from Fin. Activity	148	1,967	-1,862	-5,377	-4,417	-4,875
Inc/Dec of Cash	-200	4,794	1,274	-674	1,203	1,815
Add: Beginning Balance	900	656	5,450	6,724	6,050	7,252
Closing Balance	700	5,450	6,724	6,050	7,252	9,068

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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Registered Office Address: Motilal Oswal Tower, Rahimtullah Sayani Road, Opposite Parel ST Depot, Prabhadevi, Mumbai-400025; Tel No.: 022 71934200/ 022-71934263; Website www.motilaloswal.com. CIN no.: L67190MH2005PLC153397. Correspondence Office Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad(West), Mumbai-400 064. Tel No: 022 7188 1000.

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