

Crompton Consumer

Surprises continue; market share story intact

Crompton continued its strong run in 3QFY21 as revenue/EBITDA grew by 26/46% YoY (HSIE 19/32%). ECD saw 32% YoY broad-based growth, as Fans/Pumps/Geysers posted 36/19/49% YoY growth. Crompton saw market share gains across its portfolio, share gain in fans by 1% YoY. Lighting sustained recovery, B-C clocked 13% volume growth while B-B remained a laggard. Consistent focus on distribution reach (mainly in rural), cost optimisation, and product innovation is driving overall performance. EBITDA margin was up >200bps YoY despite RM inflation, as cost control, product mix, and oplev supported margin. We expect earnings momentum to sustain in the coming quarters too. We increase EPS by 6/4% for FY22/23. We value Crompton at 40x P/E on Mar-23E EPS to derive a TP of Rs 460. Maintain BUY.

- **ECD-led beat in revenue:** Revenue grew by 26% YoY (+4% in 3QFY20 and +13% in 2QFY21), beating our expectation of 19% YoY growth. ECD revenue was up by 32% YoY (+11% in 3QFY20 and +32% in 2QFY21). Lighting revenue was up by 10% YoY (-11% in 3QFY20 and -2% in 2QFY21). ECD saw broad-based growth while Lighting B-C was strong (13% growth) with weak B-B. E-com and MT grew by >50% YoY while rural grew by 88% YoY.
- **Robust margin expansion:** GM expanded by 13bps YoY (+21bps in 3QFY20 and +106bps in 2QFY21) vs expectation of 25bps YoY expansion. Employee/Other expenses grew by 20/9% YoY as operations returned to normal for the company. EBITDA margin expanded by 206bps YoY to 14.8% (+54bps in 3QFY20 and 373bps in 2QFY21). EBITDA grew by 46% YoY (HSIE 32%).
- **Lighting margin recovery sustained:** EBIT margins were healthy for Lighting with an expansion of 539bps YoY (-198bps in 3QFY20 and +651bps in 2QFY21) while ECD margin remained flat YoY (+119bps in 3QFY20 and +182bps in 2QFY21). Price stability in Lighting supported margins. However, ECD margins were impacted by the sharp increase in commodity inflation. PBT clocked 46% YoY growth while PAT declined by 6% YoY due to tax refund in the base quarter.
- **Concall takeaways:** (1) Capacity utilisation is 30-40% higher YoY; (2) secondary data indicated no inventory buildup in the channel; (3) Crompton took a 5-8% price hike in ECD due to commodity inflation; (4) the company intends to restore ECD margin to industry-leading level; (5) several players including Crompton announced a 5% price hike in B-C Lighting in Jan'2021; (6) premium fans saw 51% YoY growth.

Quarterly/Annual Financial summary

YE Mar (Rs mn)	3QFY21	3QFY20	YoY (%)	2QFY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	13,482	10,713	25.8	12,132	11.1	45,120	47,207	58,494	65,405
EBITDA	2,001	1,369	46.2	1,913	4.6	5,969	6,986	8,367	9,335
APAT	1,511	1,043	44.8	1,417	6.6	4,401	5,230	6,490	7,354
Diluted EPS (Rs)	2.41	1.66	44.9	2.26	6.7	7.0	8.1	10.1	11.5
P/E (x)						58.4	50.3	40.6	35.8
EV / EBITDA (x)						42.7	36.7	30.2	26.7
RoCE (%)						38.9	41.4	46.4	48.3

Change in Estimates

	FY21E			FY22E			FY23E		
	OLD	NEW	Chg (%)	OLD	NEW	Chg (%)	OLD	NEW	Chg (%)
Sales	44,568	47,207	5.9	54,000	58,494	8.3	61,049	65,405	7.1
EBITDA	6,431	6,986	8.6	7,960	8,367	5.1	9,090	9,335	2.7
APAT	4,825	5,230	8.4	6,107	6,490	6.3	7,048	7,354	4.3
EPS	7.5	8.1	8.4	9.5	10.1	6.3	11.0	11.5	4.3

Source: Company, HSIE Research

BUY

CMP (as on 25 Jan 2021)	Rs 412
Target Price	Rs 460
NIFTY	14,239

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 440	Rs 460
	FY22E	FY23E
EPS %	6%	4%

KEY STOCK DATA

Bloomberg code	CROMPTON IN
No. of Shares (mn)	627
MCap (Rs bn) / (\$ mn)	259/3,545
6m avg traded value (Rs mn)	550
52 Week high / low	Rs 456/177

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	35.1	64.6	57.1
Relative (%)	16.2	37.8	40.9

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	26.19	17.42
FIs & Local MFs	26.05	37.59
FPIs	30.32	34.33
Public & Others	17.44	10.66
Pledged Shares	17.17	11.43

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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