

Result Snapshot

<u>Amt. in Rs. Crs.</u>	Q4FY20	Q3FY20	Q-o-Q(%)	Q4FY19	Y-o-Y(%)
Revenue	1026.3	1071.3	-4.2%	1206.9	-15.0%
Other Income	12.0	17.5		17.0	
Total Income	1038.3	1088.8	-4.6%	1223.8	-15.2%
EBITDA	141.2	136.7	3.3%	167.1	-15.5%
EBIDTA (%)	13.8%	12.8%		13.8%	
EBIT	133.0	130.3	2.1%	163.8	-18.8%
PBT	136.7	139.1	-1.7%	166.4	-17.8%
PAT	102.1	161.0	-36.6%	140.5	-27.4%
PAT%	9.9%	15.0%		11.6%	

Result / Con-call Highlights:

1) Result Update:

Crompton reported topline of Rs. 1026 cr a fall of 15% Y-o-Y basis as against revenue of Rs. 1206 cr same period last year. The 15% decline in revenue is majorly attributed to Covid-19, whereas pre Covid-19 growth was strong at 14% Y-o-Y increase in sales for Jan-Feb 2020. EBITDA for the quarter ended March, 2020 came in at Rs. 141 cr with EBITDA margin of 13.8%. The company reported 27% decline on Y-o-Y basis in net profit to Rs. 102 cr as compared to profit of Rs. 140 cr reported a year-ago period. Given the uncertain economic outlook, the company considered it prudent not to recommend any dividend in FY20.

2) Business Update:

The standalone numbers of Crompton represent company's main business of household appliances. The company has two subsidiaries created in FY19 for operation and management of LED street lights and poles under the PPP basis (Public Private Partnership) for the Government of Odisha.

Standalone (Rs. Cr)	Q4 FY20	Q3 FY20	Q-o-Q	Q4 FY19	Y-o-Y
Revenue	1018.1	1071.3	-5.0%	1206.9	-15.6%
Other Income	11.9	17.4		17.2	
Total Income	1030.0	1088.7	-5.4%	1224.1	-15.9%
EBITDA	138.4	136.9	1.1%	168.5	-17.9%
EBITDA %	13.6%	12.8%		14.0%	
EBIT	130.2	130.4	-0.2%	165.2	-21.2%
PBT	133.9	139.1	-3.7%	168.1	-20.4%
PAT	99.8	161.0	-38.0%	141.7	-29.5%
PAT %	9.8%	15.0%		11.7%	

Result / Con-call Highlights: (Continued)

Electrical Consumer Durables Business (ECD)

The ECD business contributed 72% of Q4 FY20 standalone revenue which was down 14% Y-o-Y basis. EBIT came in at Rs. 148 cr with EBIT margins improving 20 bps to 20% in Q4 FY20.

Pre Covid-19 (January and February 2020) ECD business sales were up 18% led by 21% volume growth in fans on Y-o-Y basis. Crompton continues to dominate fans market with its market share rising by 77 bps to ~28%. Other appliances continue to grow pre Covid-19 in double digit driven by 48% growth in geysers, 54% growth in mixer grinder and 84% growth in air coolers. We believe continuous focus on appliance categories of geysers, mixer grinder and air coolers will drive the future growth of the company as it targets to become the second largest player in these category. Collectively these 3 appliances have a market size of Rs. 10,000 cr where the company is focusing on significantly scaling up in coming years. Key drivers for ECD segment include premiumisation, innovation and cost reduction which the company is committed to invest in.

Lighting Business

The lighting business contributes ~27% of Q4 FY20 standalone revenue with EBIT of Rs. 19 cr and EBIT margins of 7%. Lighting business excluding EESL in pre Covid-19 (January & February 2020) was up 7.5% Y-o-Y basis. B2G business continues to witness slowdown in Govt/EESL order execution & clearance. The company's investment in B2G segment remains a strategic choice as more and more govt. orders kick start energy efficiency movement in India.

The lighting segment registered a volume growth of 5% and value growth of 4%. Although, the prices improved slightly the LED portfolio continue to face price erosion over last year. We believe, better EBIT margins in this segment can be obtained by cost control measures and not pricing.

3) Covid-19 impact:

Company's plants and warehouses have resumed operations from 3rd week of April with limited manpower. Although, the company has given credit extension to its distributors, it does not see any inventory crisis or credit crunch at this juncture. To better manage the company's financial during the time of crisis, management has decided to raise Rs. 300 cr in the form of NCD's. Also, management has guided for cost optimisation measures up to Rs 100 cr that would help safeguard margins in the financial year. Focus on cost saving program and sufficient cash to manage during uncertain time are strategically right step forward to navigate through the crisis.

In the post Covid-19 scenario, we believe sales may take longer time to pick up as ~50% of the FY20 revenue is from B2B & B2G segment. As most of the appliances are non-discretionary in nature, institutions may be reluctant in spending as they recover from this crisis.

4) Outlook:

Crompton trades at a trailing valuation of 25.5 times. At this valuation; in the current state of affairs with subdued sales, poor government expenditure and continuous price erosion in LED industry Crompton has many challenges along the way. We believe that the slowdown in current business, tapering of industry prospects in the mid-term and re-rating of stock to factor in the complete impact of covid-19 shall further weigh heavy on the stock & hence assign a SELL rating to the stock.

Disclaimer

Methodology & implications of Risk-Reward Quadrant: Ratings on the risk reward quadrant are not to be perceived as riskiness / reward possibilities of the stock price. The risk & the reward terms used refer to the risk arising due to misjudgement of estimated financials for the subject company & rewards refer to the greater alignment of actual financials with estimated financials. The perceived risk and reward for each entity/individual shall vary and requires personalised assessment and judgement. The subject companies are investments belong to equity asset class which by nature is a highly risky asset class each individual/entity shall practice due diligence at their own level before making any investment decisions. PM Securities Equity Research shall in no way be held liable for any variation in perceived riskiness / rewards or any losses suffered in the subject company / investment. Please refer to the below disclosures & disclaimers carefully. PM Securities Equity Research ("Research Entity") is regulated by the Securities and Exchange Board of India ("SEBI") and is licensed to carry on the business of Equity Research. Equity Research services offered by PM Securities Equity Research under SEBI Registration No.: INH000006013; Corporate Office: 406, Atlantic Commercial Towers, RB Mehta Road Ghatkopar East, Mumbai – 400077. Ph: +91-22-62554701 This Report has been prepared by PM Securities Equity Research in the capacity of a Research Analyst having SEBI Registration No. INH00000601 and distributed as per SEBI (Research Analysts) Regulations 2014. This report does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors. This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject PM Securities Equity Research and associates / group companies to any registration or licensing requirements within such jurisdiction. The distribution of this report in certain jurisdictions may be restricted by law, and persons in whose possession this report comes, should observe, any such restrictions. The information given in this report is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. PM Securities Equity Research reserves the right to make modifications and alterations to this statement as may be required from time to time. PM Securities Equity Research or any of its associates / group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. PM Securities Equity Research is committed to providing independent and transparent recommendation to its clients. Neither PM Securities Equity Research nor any of its associates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including loss of revenue or lost profits that may arise from or in connection with the use of the information. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this report are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The information provided in these reports remains, unless otherwise stated, the copyright of PM Securities Equity Research. All layout, design, original artwork, concepts and other Intellectual Properties, remains the property and copyright of PM Securities Equity Research and may not be used in any form or for any purpose whatsoever by any party without the express written permission of the copyright holders. PM Securities Equity Research shall not be liable for any delay or any other interruption which may occur in presenting the data due to any reason including network (Internet) reasons or snags in the system, break down of the system or any other equipment, server breakdown, maintenance shutdown, breakdown of communication services or inability of the PM Securities Equity Research to present the data. In no event shall PM Securities Equity Research be liable for any damages, including without limitation direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with the data presented by the PM Securities Equity Research through this report. We offer our research services to clients as well as our prospects. Though this report is disseminated to all the customers simultaneously, not all customers may receive this report at the same time. We will not treat recipients as customers by virtue of their receiving this report. PM Securities Equity Research and its associates, officer, directors, and employees, research analyst (including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company(ies), mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company(ies) discussed herein or act as advisor or lender/borrower to such company(ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance. PM Securities Equity Research may have proprietary long/short position in the above mentioned scrip(s) and therefore should be considered as interested. The views provided herein are general in nature and do not consider risk appetite or investment objective of any particular investor; readers are requested to take independent professional advice before investing. This should not be construed as invitation or solicitation to do business with PM Securities Equity Research. PM Securities Equity Research or its associates may have received compensation from the subject company in the past 12 months. PM Securities Equity Research or its associates may have managed or co-managed public offering of securities for the subject company in the past 12 months. PM Securities Equity Research or its associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. PM Securities Equity Research or its associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. PM Securities Equity Research or its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. Research analyst or his/her relative or PM Securities Equity Research's associates may have financial interest in the subject company. PM Securities Equity Research, its associates, research analyst and his/her relative may have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance. Participants in foreign exchange transactions may incur risks arising from several factors, including the following: (i) exchange rates can be volatile and are subject to large fluctuations; (ii) the value of currencies may be affected by numerous market factors, including world and national economic, political and regulatory events, events in equity and debt markets and changes in interest rates; and (iii) currencies may be subject to devaluation or government imposed exchange controls which could affect the value of the currency. Investors in securities such as ADRs and Currency Derivatives, whose values are affected by the currency of an underlying security, effectively assume currency risk. Research analyst has served as an officer, director or employee of subject Company: No PM Securities Equity Research has financial interest in the subject companies: No PM Securities Equity Research's Associates may have actual / beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report. Research analyst or his/her relative has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No PM Securities Equity Research has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No Subject company may have been a client during twelve months preceding the date of distribution of the research report. There were no instances of non-compliance by PM Securities Equity Research on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years. A graph of daily closing prices of the securities is also available at www.nseindia.com Analyst Certification: The research analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. Additional Disclaimer for U.S. Persons Disclaimer PM Securities Equity Research is not a registered investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act" and together with the 1934 Act, the "Acts"), and under applicable state laws in the United States. Accordingly, in the absence of specific exemption under the Acts, any brokerage and investment services provided by PM Securities Equity Research, including the products and services described herein are not available to or intended for U.S. persons. This report does not constitute an offer or invitation to purchase or subscribe for any securities or solicitation of any investments or investment services and/or shall not be considered as an advertisement tool. "U.S. Persons" are generally defined as a natural person, residing in the United States or any entity organized or incorporated under the laws of the United States. US Citizens living abroad may also be deemed "US Persons" under certain rules. Additional Disclaimer for U.K. Persons The contents of this research report have not been approved by an authorised person within the meaning of the Financial Services and Markets Act 2000 ("FSMA"). In the United Kingdom, this research report is being distributed only to and is directed only at (a) persons who have professional experience in matters relating to investments falling within Article 19(5) of the FSMA (Financial Promotion) Order 2005 (the "Order"); (b) persons falling within Article 49(2)(a) to (d) of the Order (including high net worth companies and unincorporated associations); and (c) any other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This research report must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this research report relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this research report or any of its contents. This research report must not be distributed, published, reproduced or disclosed (in whole or in part) by recipients to any other person. Additional Disclaimer for Canadian Persons PM Securities Equity Research is not a registered adviser or dealer under applicable Canadian securities laws nor has it obtained an exemption from the adviser and/or dealer registration requirements under such law. Accordingly, any brokerage and investment services provided by PM Securities Equity Research, including the products and services described herein, are not available to or intended for Canadian persons. This research report and its respective contents do not constitute an offer or invitation to purchase or subscribe for any securities or solicitation of any investments or investment services. Disclosures under the provisions of SEBI (Research Analysts) Regulations 2014 (Regulations) PM Securities Equity Research ("PM Securities Equity Research" or "Research Entity") is regulated by the Securities and Exchange Board of India ("SEBI") and is licensed to carry on the business of Equity Research. There were no instances of non-compliance by PM Securities Equity Research on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years. This research report has been prepared and distributed by PM Securities Equity Research ("PM Securities Equity Research") in the capacity of a Research Analyst as per Regulation 22(1) of SEBI (Research Analysts) Regulations 2014 having SEBI Registration No. INH000006013.