



Crompton Greaves Consumer Electricals Ltd.

CMP: Rs 215

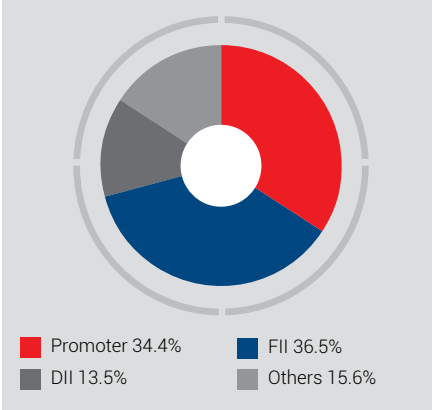
Rating: BUY

Target: Rs 256

Company Information

BSE Code	539876
NSE Code	CROMPTON
Bloomberg Code	CROMPTON IN
ISIN	INE299U01018
Market Cap (Rs. Cr)	13,458.3
Outstanding shares(Cr)	62.69
52-wk Hi/Lo (Rs.)	273.2/190
Avg. daily volume (1yr. on NSE)	678,760
Face Value(Rs.)	2
Book Value (Rs)	14.9

Shareholding pattern as of December 2018



Company overview

Crompton Greaves Consumer Electricals Ltd. (CGCEL) manufactures and markets a wide spectrum of consumer products ranging from fans, pumps, light sources and luminaires and household

appliances. CGCEL is one of the oldest and leading brands in the consumer electricals space in India with market share of 25% and 28% in fans and pumps. Company has two business segments including lighting & luminaries and electrical consumer durables which covers fans, pumps

and household appliances such as geysers, mixer grinders, toasters and irons. Over the past two decades, it has become a market leader in fans, domestic residential pumps and street lighting. Crompton Greaves demerged its consumer business during October 2015 and promoter Thapars divested

their stake to Advent & Temasek (a global PE investors), thus brought much needed professionalism in the company.

Investment Rationale

Market leader in fans & pumps

CGCEL has strong presence across fans, pumps, lighting and appliances. Company has been market leader in fans, domestic pumps and street lighting for over 20 years. Fans are the highest contributors to the revenue, contributing 44% followed by lighting (31%), pumps (19.5%) and appliances (5.3%). CGCEL's business is classified into core portfolio (includes non premium fans, residential pumps and non-led lighting) and high growth portfolio (premium fans, LED lighting, agri pumps and appliances). Core portfolio contributes ~60% of the revenue and is steadily growing and CGCEL holds leadership position in this segment. Core products' market is less disruptive than growth portfolio and company is focusing on incremental market share. In high growth portfolio, company is launching new products, doing aggressive marketing and expanding its distribution reach in a bid to tap the markets. In fan segment, Mass premium segment (Rs 1,500-Rs 2,200) account 60% of overall product mix while Mass (<Rs 1,500) and Premium (>Rs 2,200) segment share is 20%

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each. In Q3FY19, fans revenue growth was higher than volumes led by the mass premium segment. Accordingly, mass premium fans revenue share stood at 25% (vs industry at 20%). Based on retail audit data, the fans industry grew in low single digits and market share in ceiling fans improved by 150bp YoY to 25%. In pump segment, the growth was led by volume which grew by 20% yoy during Q3FY19, significantly higher than 14% yoy value growth. The higher value growth was led by Crest Mini (0.5-1HP) with a 44% yoy rise in agri pumps and 20% yoy in domestic pumps. Going ahead,

there could be traction in agri pumps segment as there is possibility of getting below normal monsoon in 2019 due to El Nino effect as per US National Oceanic and Atmospheric Administration (NOAA).

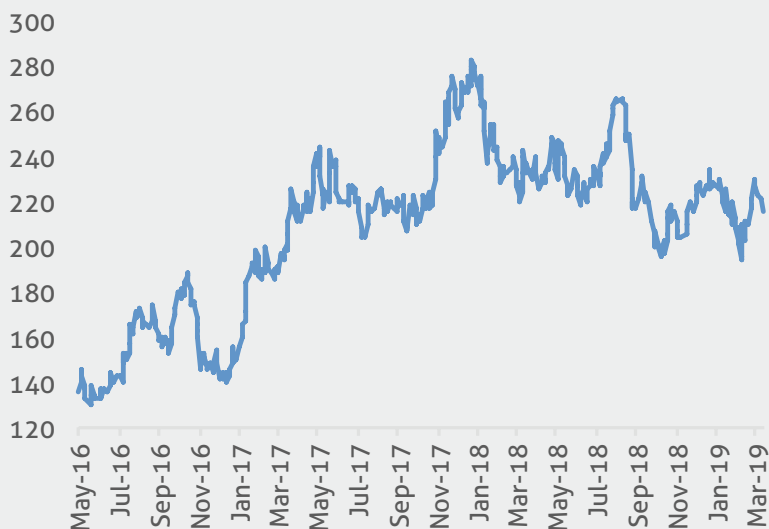
Launching innovative products in lighting segment

During Q3FY19, the LED business (excluding Energy Efficiency Services Ltd "EESL") was up by 18% yoy in value and 38% in volumes. As per management, the price erosion in bulbs has moderated, but has continued in batons and panels due to increased competition. Company launched anti-bacterial LED lights, which kill up to 85% bacteria at home and is priced at a 15% premium to base LED lights. Based on proprietary technology and recommended by Indian Medical, it is expected to accelerate growth and garner market share in Lighting volumes. Company has received an order of ~Rs 130 crore towards LED streetlights project in Odisha executed over H1CY19 and margin is expected in mid-teens. Management expects to boost lighting margins to hit double digits by Q4FY19 supported by cost reduction programs.

Strengthening distribution network

Since the last 6-9 months, CGCEL has started the Go-to-market (GTM) programs in aim to increase reach and raise its sales by reducing dependence on wholesale. According to the company, currently, the GTM strategy has covered nearly 8-10% of all-India market with 25-30% coverage in West India. It expects to increase coverage to 70-75% of the market over the next 12-18 months. In GTM strategy, company is appointing new distributors on cash and carry basis vs earlier 40-42 credit days and that should improve Net Working Capital and boost revenue growth going ahead. Currently, company has 100,000 touch points through which company offers its products to customers. Further, company intends to enter into new product categories

CGCEL Ltd 3 yr Price Chart



through the inorganic route over the next 2 years.

Reported steady Q3FY19 numbers

CGCEL reported steady standalone Q3FY19 numbers with healthy revenue growth of 9.8% yoy at Rs 1,030 crore on account of strong growth in Electric Consumer goods segment. Electric Consumer goods segment reported revenue growth of 16% yoy at Rs 711 crore as fans, pumps & water heaters posted double-digit growth. The lightening business revenue declined by 2% yoy at Rs 319 crore as EESL revenue declined sharply. On account of price cut in LED bulb due to higher competition and adverse forex impact on imports affected Gross margins of the company during Q3FY19. However, the impact was moderated on EBITDA margin front due to company's cost reduction initiatives. EBITDA margin declined marginally by 18 bps yoy at 12.2% with 8.2% yoy growth in EBITDA at Rs 126 crore. Company reported 15% yoy growth in net profitability at Rs 79.7 crore largely due to higher revenue and other income. Company's leading position in fan and pump segment coupled with new launches in decorative fans segment will act as catalysts going ahead.

Key Risks

- As company is engaged in consumer product business which is discretionary in nature, hence any slowdown in domestic economy could hurt its product sales which in turn impede its future revenue growth.
- Raw material costs accounts 20% of its revenue, hence any volatility in raw material price could have negative bearings on its margins.

Valuation

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and 28% respectively and it will be benefited from strong summer season ahead. With the start of the summer season, the consumer electrical companies are back in focus as the demand for the products generally increases during this period. As there is greater possibility of occurring El Nino in 2019, impacting the monsoon and extend summer season, the expectation is that there will be pick up in sales is high considering disappointment in FY19 owing to unfavorable weather condition and muted festive demand. CGCEL being a market leader in fan segment is well placed to capitalize on the emerging opportunities. Company's Electric Consumer goods segment is on strong footing due dominant market position in fan and pump segment. CGCEL continue to report strong volume growth in fan segment through launch of decorative fans, while pump segment growth was led by launch of Crest Mini, which improved the sales momentum. Given the strong brand recall, continuous product innovation and go to market strategy, we expect CGCEL to post healthy earnings growth in next couple of years. Hence, we recommend our investors to BUY the scrip with target of Rs 256 from 12 months investment perspective. Currently, the scrip is valued at P/E multiple of 29.3x on FY20E Bloomberg consensus EPS of Rs 7.3.

Particulars (in Rs Cr)	FY17	FY18	FY19E	FY20E
Revenue	3,894.9	4,071.6	4,552.0	5,165.4
Growth (%)	na	4.5%	11.8%	13.5%
EBITDA	484.9	531.0	601.1	705.7
EBITDA Margin (%)	12.4%	13.0%	13.2%	13.7%
Net profit	283.3	322.9	377.7	459.6
Net Profit Margin (%)	7.3%	7.9%	8.3%	8.9%
EPS (Rs)	4.5	5.1	6.0	7.3

Source: Bloomberg consensus

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