

26 September 2019

## Crompton Greaves – BUY

**CMP** : Rs.261  
**Target Price** : Rs.328.0  
**Upside** : 25%+  
**Stop Loss** : Rs.220.0(Closing basis)

### Investment Thesis

Recently, the stock price of Crompton Greaves Consumer Electricals Ltd. (CGCEL) corrected by ~7% from 52-week high of Rs.277 as the company has reported lower than expected EBITDA margin in the recent quarters.

CGCEL is market leader in fans, domestic pumps and street lighting for over 20 years. Currently, fans account for largest part of CGCEL's product portfolio with ~43% revenue share and 'Crompton' is an industry leader in fan with ~24% market share. Lighting, which accounting for 28% of its revenues has over 10% market share in India's lighting segment and is the second largest brand. Pumps is the third-largest division accounting for 23% of sales where it has industry leader status in the residential pumps category with 28% market share, while in pumps industry, it has 8% market share. CGCEL has plan to focus on gyser and cooler business (market size Rs.20,000mn each) in coming year to reach top position in market share.

Post CGCEL's demerger from Crompton Greaves Ltd., a new management with wide experience in FMCG and consumer electrical space is at the helm at the new entity with a mandate to focus on premiumisation and growth. Post de-merger, CGCEL's focus on innovative products, deepening distribution reach, operational efficiencies and strengthening of critical capabilities has enabled it to grow at faster-than-industry growth rate. CGCEL's steady focus on innovative product is getting strengthened with value added products like 'V-sense', 'Aura' with 5-year warranty and 'Air buddy' in premium fans along with anti-bac LED bulbs (kills up to 85% bacteria) and new dessert cooler range for north India. Innovative products pipeline will help CGCEL to gain market share across product categories. CGCEL is gaining market share in certain segments as premium products are driving the growth along with focus on improvement in cost structure.

### Financials

- During the past 3 years, revenue of CGCEL grew at a CAGR of 35.2% while PAT grew at a CAGR of 56.4% in the same period.

Standal. (Rs. Mn)	FY17	FY18	FY19	FY20E	FY21E
Revenue	40,917	41,051	44,789	51,507	59,234
EBITDA	4,902	5,310	5,858	6,737	7,747
% growth	134.0	8.3	10.3	15.0	15.0
PAT	2,907	3,238	4,025	4,633	5,337
EPS (INR)	4.6	5.2	6.4	7.4	8.5
P/E (x)	55.8	50.1	40.3	35.1	30.4
RoE (%)	53.9%	41.0%	36.6%	38.7%	41.0%

- CGCEL has reported only 7.2% YoY growth in revenue to Rs.12,069mn in Q4FY19 as both ECD & lighting segment reported tepid

### Stock Data

Market Cap (Rs. Mn)	162,245
Market Cap (\$ Mn)	2,289.0
Shares O/S (in Mn)	627.0
Avg. Volume (3 month)	1,245,000
52-Week Range (Rs.)	277 / 190

### Shareholding Pattern

Promoters	34.37%
FII's	30.47%
Institutions	18.90%
Others (incl. body corporate)	16.26%

Performance (%)	1M	6M	1Yr
Absolute	14.2%	20.6%	18.4%
BSE CD	13.0%	12.3%	31.7%

### Key Ratios

Div Yield	0.8%
TTM PE	38.7x
ROE	36.9%
TTM EPS (Rs.)	6.7/-

- EBITDA of CGCEL grew by only 2.5% YoY to Rs.1,685mn in Q4FY19 due to input cost pressure and its inability to take price hike. As a result, EBITDA margin has declined by 60bps YoY to 14.0% in Q4FY19.
- CGCEL's PAT after extra ordinary income has, however, increased by 9.7% YoY to Rs.1,132mn in Q4FY19 due to 58.0% YoY increase in other income and 11.0% YoY decline in interest cost.

## Key Business Highlights

- CGCEL came into existence in 2015 as a result of the de-merger of consumer electrical business of erstwhile Crompton Greaves Ltd.
- CGCEL manufactures and markets a wide spectrum of consumer products ranging from fans, light sources and luminaires, pumps and household appliances such as geysers, mixer-grinders, toasters and irons and sells them under the brand name Crompton.
- Crompton has been the market leader in fans, domestic pumps and street lighting for over 20 years. CGCEL has pan-India presence of Crompton products with ~100,000 outlets in India. Its manufacturing plant is located in Goa, Vadodara, Ahmednagar and Baddi.

## Valuation

- Lighting industry is undergoing a major shift from traditional light sources to energy-efficient LED lights. Government initiatives for increasing electrification and providing uninterrupted supply of power in both urban and rural areas as well as affordable LEDs for all and replace street lights have aided rapid commercialization of LED technology. CGCEL is actively participating in such schemes and launched high performance and energy-efficient products like the Hawk series of street lights and industrial lights to cater to commercial lighting (45-50% share of industry) and outdoor lighting (20-25% share of industry). The sales growth of CGCEL is mainly coming from Lighting business, which has ~70% LED business and become 2<sup>nd</sup> largest domestic player in lighting. Recently, it has won orders for 14mn LED lamps and LED streets lights from Energy Efficiency Services (EESL).
- CGCEL has a strong distribution network of more than 4,000 distributors and a retail presence of 1,50,000 outlets, which it aims to enhance further to ensure the right product at the right price and at the right place. With a focus on increasing distribution to new geographies and expanding retail reach in smaller towns, CGCEL increased its presence in channels like modern retail to cover 850 stores across formats and e-commerce. Products like LEDs, geysers, coolers and mixer-grinders are among the best-sellers in the organized retail as well as the online format. To further deliver best-in-class after-sales service, CGCEL is expanding its service centers to over 500 with a focus on faster resolution of service requests.
- CGCEL has launched new range of specialty fans, Air buddy for kitchens and V-Sense for voltage fluctuation. It is focused on continuously introducing innovative fans as a result, its premium fans contribute 25% to sales as against 13% three years back.
- With market leader in Consumer Electricals, rebuilding its brand by focusing on product innovation and improving brand positioning, launched high performance and energy-efficient LED and strong distribution network, we value CGCEL at 38.58x FY21E EPS of Rs.8.50 to arrive at target price of Rs.328, an upside of 25%.

## Risk & Concern

- Any significant slowdown in consumer spending may impact industry demand and affect CGCEL's revenue growth.
- Any unforeseen rise in competitive intensity, especially by premium brands, may impact the margins of CGCEL.
- Any negative fluctuations in commodity prices, if cannot be passed to consumers, may impact profitability of CGCEL.

## Graphs & Charts

Figure 1: Net Sales Trend

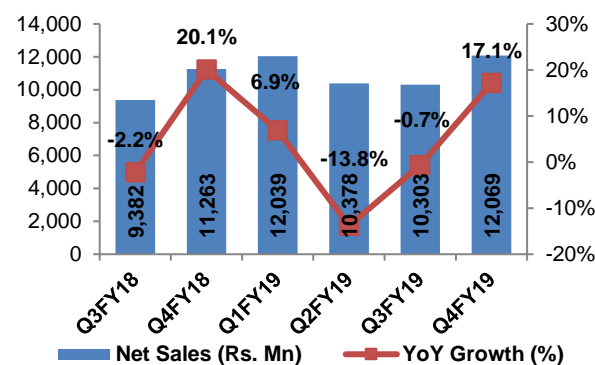


Figure 2: EBITDA & EBITDA Margin Trend

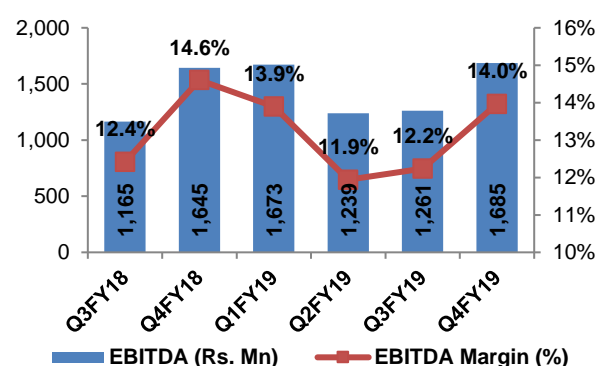


Figure 3: PAT Trend

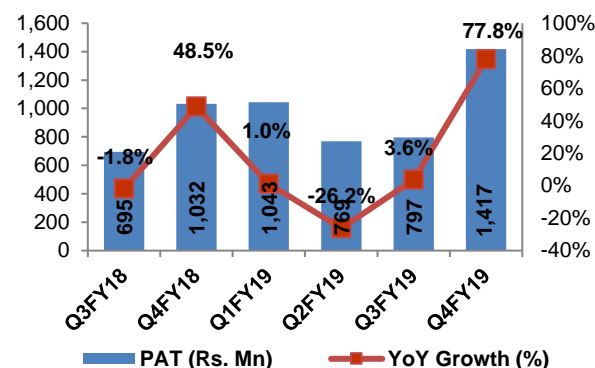
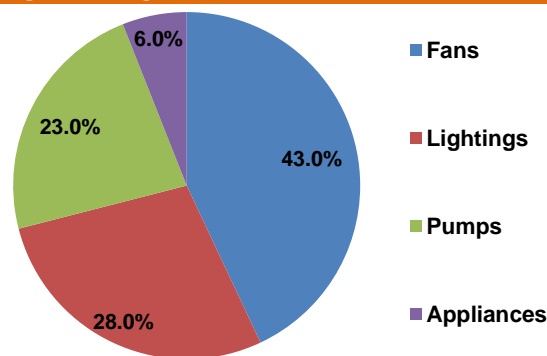


Figure 4: Segment-wise Revenue Share



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