

31 January 2018

Crompton Greaves Cons. – BUY

CMP : 237
Target Price : 295
Upside : 24%+
Stop Loss : 209 (closing basis)

Investment Thesis

Recently, the stock price of Crompton Greaves Consumer Electricals Ltd. (CGCEL) corrected by ~21.6% from 52-week high of Rs.295 as the company has reported lower than expected revenue growth 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 ~45% share and 'Crompton' is an industry leader in fan with 25% 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 18% 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. Moreover, the company's steady focus on product diversification to innovate and introduce premium products with better aesthetics and new features like, dust free fans, under light fans, sensor fans, across product categories has helped it 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 last one year, revenue of CGCEL grew by 119.5% while PAT grew by 176.3% in the same period.

Standal. (Rs.Mn.)	FY16	FY17	FY18E	FY19E
Revenue	18,117	39,759	45,723	52,581
EBITDA	2,095	4,902	5,637	6,483
% growth		134.0	15.0	15.0
PAT	1,052	2,907	3,358	3,878
EPS (INR)	1.7	4.6	5.4	6.2
P/E (x)	143.5	51.9	45.0	38.9
RoE (%)	46.0%	53.9%	57.8%	61.9%

- CGCEL has reported 6.7% YoY growth in net sales to Rs.9,382mn in Q3FY17 led by higher volume in Lighting and Consumer Electrical segments. Focus on premiumisation aided in posting 28% growth in premium fans and 57% in LED lights in Q3FY18.

Stock Data

Market Cap (INR MN)	148,260
Market Cap (\$ MN)	2,331.10
Shares O/S (in MN)	626.8
Avg. Volume (3 month)	1,245,000
52-Week Range (Rs.)	295 / 183

Shareholding Pattern

Promoters	34.38%
FII's	36.30%
Institutions	14.18%
Others (incl. body corporate)	15.14%

Performance (%)	1M	6M	1Yr
Absolute	-11.5%	16.3%	29.2%
BSE CD	1.8%	41.8%	82.4%

Key Ratios

Div Yield	0.0%
TTM PE	49.4x
ROE	54.4%
TTM EPS (INR)	4.9/-

- Lighting segment's revenues grew by 14.2% YoY to Rs3,265mn while in volume terms, the lighting segment grew 30% YoY in Q3FY18. The turnover was aided by 57% YoY rise in LED sales, which formed 70% of total lighting sales in Q3FY18 versus 55% a year ago.
- EBITDA of CGCEL grew by 19.8% YoY to Rs.1,165mn in Q3FY18 driven by consumer durables segment, owing to product-mix in favour of premium fans. As a result, EBITDA margin has also increased by 135bps YoY to 12.4% in Q3FY18.

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 lighting 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 2nd 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 3,500 distributors and a retail presence of 1,00,000 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 centres to over 500 with a focus on faster resolution of service requests.
- 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 47.50x FY19E EPS of Rs.6.20 to arrive at target price of Rs.295.00, an upside of ~22%.

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

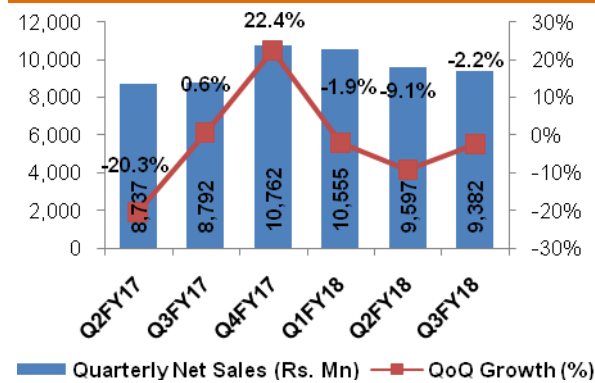


Figure 2: EBITDA & EBITDA Margin Trend

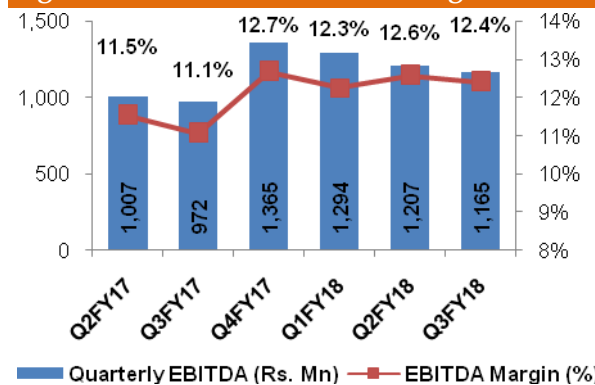


Figure 3: PAT Trend

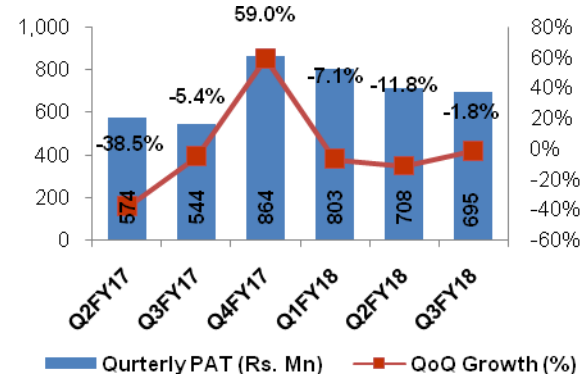
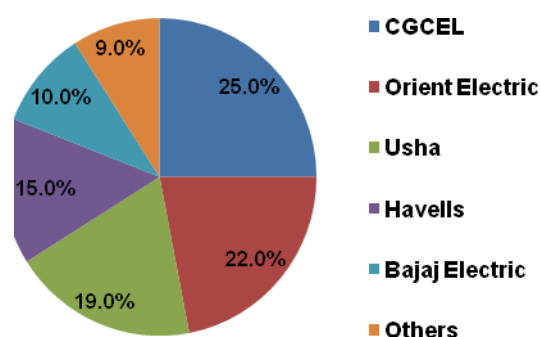


Figure 4: Market share in Fan Category



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