Crompton Greaves Consumer Electricals

BUY

INDUSTRY	APPLIANCES
CMP *(as on 27 Oct 2017)*	Rs 219
Target Price	Rs 268
Nifty	10,323
Sensex	33,157
KEY STOCK DATA	
Bloomberg	CROMPTON IN
No. of Shares (mn)	627
MCap (Rs bn)/(US$ mn)	137/2,106
6m avg traded value (Rs mn)	189

STOCK PERFORMANCE (%)

52 Week high / low	Rs 246 /135		
	3M	6M	12M
Absolute (%)	4.4	(2.7)	18.8
Relative (%)	2.1	(13.2)	0.0

SHAREHOLDING PATTERN (%)

Promoters	34.38
FIs & Local MFs	14.59
FPIs	35.14
Public & Others	15.89

Source : BSE

Naveen Trivedi
naveen.trivedi@hdfcsec.com
+91-22-6171-7324

Growth thesis intact

Crompton's net revenue grew 9.8% to Rs 9.6bn. Like-to-like revenue growth was at 15.9%, and our expectation was 9.3%. Adj. EBITDA (Ex-ESOP) and APAT was up 33% and 39%, respectively.

Restocking was partial during 2Q, as recovery was slow for seasonal products. However, even in this challenging phase, Crompton gained market share in Fans and LED lamps (B2C). Fans gained a sharp 3 to 4% market share, primarily in the premium segment. Premium Fans contribute 18% to Crompton's Fans business.

Management's focus area remains the same, i.e. (1) Cost rationalisation (2) Premiumisation, and (3) Competitive pricing. Our structural thesis is unchanged.

Crompton is arguably India's strongest 'mass premium' brand in the Consumer Electricals space. We continue to like Crompton owing to (1) Premiumisation in Fans, (2) Healthy growth in the LED business, (3) Brand leveraging in appliances (4) Focus on efficient distribution (ROI model), and (5) an asset-light business model.

Given the healthy earnings growth (21% EPS CAGR over FY17-20E), asset-light business model and FCF generation of Rs 5-6bn in FY19-20E, high valuations are justified. We reiterate BUY with a TP of Rs 268, based on 35x Sep-19 EPS.

Highlights for the quarter

- **Strong revenue growth**: Revenues of the ECD segment (65% of revenues) was up 2%, while like-to-like growth was at 11%. High wholesale dependence and seasonality have delayed complete recovery in ECD. Lighting clocked 16% growth (like-to-like 25%), as B2C growth was strong for LED lamps. LED lamps share increased to 70% of lighting vs. 66% in 1QFY18.
- **EBITDA (Ex-ESOP) up 33%**: GM was up 97bps at 30.6%. Employee expenses grew 43% (Ex-ESOP 14% YoY), while other expenses were down 7%. EBITDA margin (Ex-ESOP) was up by 246bps at 14%. APAT was up 39% at Rs 803mn.
- **Near-term outlook**: With continuous improvement in operating performance, we expect a healthy upside in the near-term too.

Financial Summary

(Rs mn)	2QFY18	2QFY17	*YoY (%)*	1QFY18	*QoQ (%)*	*FY16	FY17	FY18E	FY19E	FY20E
Net Revenue	9,597	8,737	*9.8*	10,555	*(9.1)*	18,117	39,350	43,426	49,807	56,646
EBITDA	1,207	1,012	*19.3*	1,294	*(6.7)*	2,095	4,493	5,529	6,869	8,223
APAT	803	577	*39.1*	897	*(10.5)*	1,145	2,985	3,428	4,426	5,436
EPS (Rs)	1.28	0.92	*39.1*	1.43	*(10.5)*	1.8	4.8	5.3	6.9	8.4
P/E (x)						59.1	45.4	40.6	31.4	25.6
EV/EBITDA (x)						33.3	30.7	25.2	19.8	16.1
Core RoCE (%)						41.3	41.2	48.3	61.0	73.5

Source: Company, HDFC sec Inst Research * FY16: Financials are for 6 months, ratios are adjusted

Channel restocking with strong growth from LED lamps resulted in healthy growth of 15.9% on a like-to-like basis

Operational excellence continued to be visible in strong EBITDA margin expansion

Quarterly Financials

Particulars	2QFY18	2QFY17	YoY (%)	1QFY18	QoQ (%)
Net Revenue	9,597	8,737	*9.8*	10,555	*(9.1)*
Material Expenses	6,686	6,152	*8.7*	7,329	*(8.8)*
Employee Expenses	699	488	*43.3*	686	*2.0*
Other Operating Expenses	1,005	1,086	*(7.5)*	1,246	*(19.4)*
EBITDA	**1,207**	**1,012**	***19.3***	**1,294**	***(6.7)***
Adj EBITDA (Ex-ESOP)	**1,348**	**1,012**	***33.3***	**1,435**	***(6.1)***
Depreciation	32	27	*16.2*	32	*0.3*
EBIT	**1,175**	**984**	***19.4***	**1,263**	***(6.9)***
Other Income	35	41	*(14.7)*	97	*na*
Interest Cost	157	161	*(2.2)*	161	*(2.7)*
PBT	**1,054**	**861**	***22.4***	**1,198**	***(12.0)***
Tax	346	286	*20.7*	395	*(12.5)*
RPAT	**708**	**574**	***23.3***	**803**	***(11.8)***
EO Items (Adj For Tax)	(95)	(3)	*na*	(94)	*na*
APAT	**803**	**577**	***39.1***	**897**	***(10.5)***
EPS	1.28	0.92	*39.1*	1.43	*(10.5)*

Source: Company, HDFC sec Inst Research * Like-to-like growth is 15.9%

Margin Analysis

MARGIN ANALYSIS	2QFY18	2QFY17	YoY (%)	1QFY18	QoQ (%)
Material Expenses	69.7	70.4	*(74)*	69.4	*23*
Employee Expenses	7.3	5.6	*170*	6.5	*79*
Other Operating Expenses	10.5	12.4	*(196)*	11.8	*(134)*
EBITDA Margin	12.6	11.6	*100*	12.3	*32*
Adj EBITDA Margin	14.0	11.6	*247*	13.6	*45*
Tax Rate	32.8	33.3	*(47)*	33.0	*(19)*
APAT Margin	8.4	6.6	*176*	8.5	*(14)*

Source: Company, HDFC sec Inst Research

Like-to-like growth for Lighting and ECE was at 25% and 11%

LED now contributes 70% to lighting revenues as compared to 66% in Q1FY18

Retail Fan market has contracted in the last 6 to 8 months owing to demonet and GST impact. Crompton is still growing in double-digits and gaining market share

Higher LED mix in lighting resulted in 93bps expansion in EBIT margin

ECD EBIT margin continued to expand owing to higher share of Premium fans

Segmental Quarterly Performance

(Rs mn)	2QFY18	2QFY17	YoY (%)	1QFY18	QoQ (%)
Segmental Revenues					
Lighting Products	3,378	2,924	*15.5*	2,748	*22.9*
Electric Consumer Durables (ECD)	6,219	6,075	*2.4*	8,061	*(22.9)*
Total	**9,597**	**8,999**	***6.6***	**10,809**	***(11.2)***
Segmental EBIT					
Lighting Products	427	342	*24.7*	220	*93.7*
Electric Consumer Durables (ECD)	1,110	873	*27.1*	1,414	*(21.5)*
Total	**1,536**	**1,215**	***26.4***	**1,634**	***(6.0)***
Less:					
(a) Interest Cost & Bank Charges	157	161	*(2.2)*	161	*(2.7)*
(b) Other Un-allocable Expenses	325	194	*67.7*	275	*18.4*
PBT	**1,054**	**861**	***22.4***	**1,198**	***(12.0)***
Capital Employed					
Lighting Products	822	861	*(4.6)*	611	*34.6*
Electric Consumer Durables (ECD)	122	65	*85.8*	127	*(4.3)*
Total	**943**	**927**	***1.8***	**737**	***27.9***
Unallocable Capital Employed	4,820	2,829	*70.4*	5,332	*(9.6)*
Total Capital Employed	**5,763**	**3,756**	***53.4***	**6,070**	***(5.0)***

Source: Company, HDFC sec Inst Research

Segmental EBIT Margin

(Rs mn)	2QFY18	2QFY17	YoY (%)	1QFY18	QoQ (%)
Lighting Products	12.6	11.7	*92.5*	8.0	*461.4*
Electric Consumer Durables (ECD)	17.8	14.4	*346.8*	17.5	*29.9*
Total	**16.0**	**13.5**	**250.1**	**15.1**	**88.6**

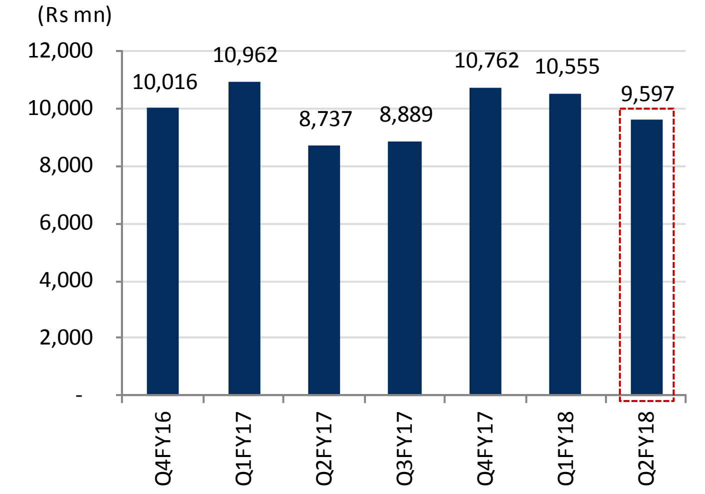
Source: Company, HDFC sec Inst Research

Premiumisation, cost control initiatives and distribution expansion reflecting in healthy operating performance in the last few quarters

Crompton did not spend on TV ads during the quarter, owing to uncertainty. However, they are sponsors for India vs. New Zealand series in this quarter

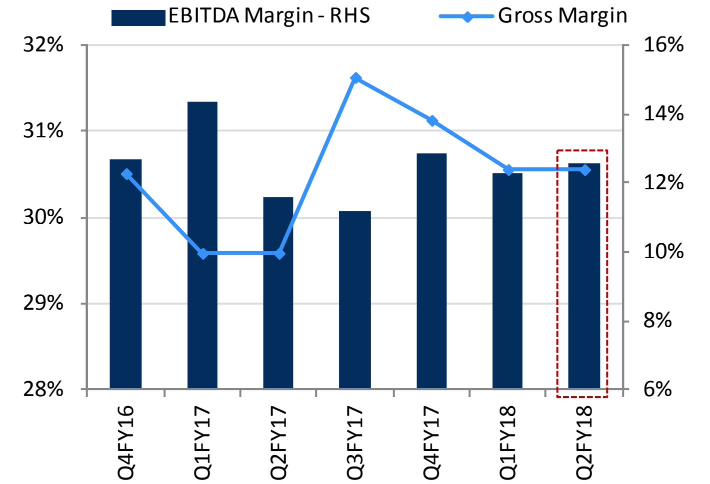
Ceiling fans' market share grew by 3to 4% to 27%, while the Premium Fans share stands at 8 to 8.5% market share of total market

Crompton's Revenue Performance



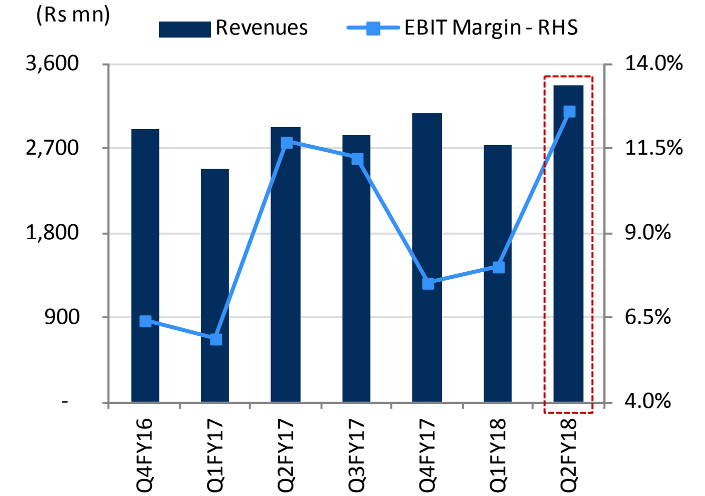
Source: Company, HDFC sec Inst Research

Crompton's Margin Performance



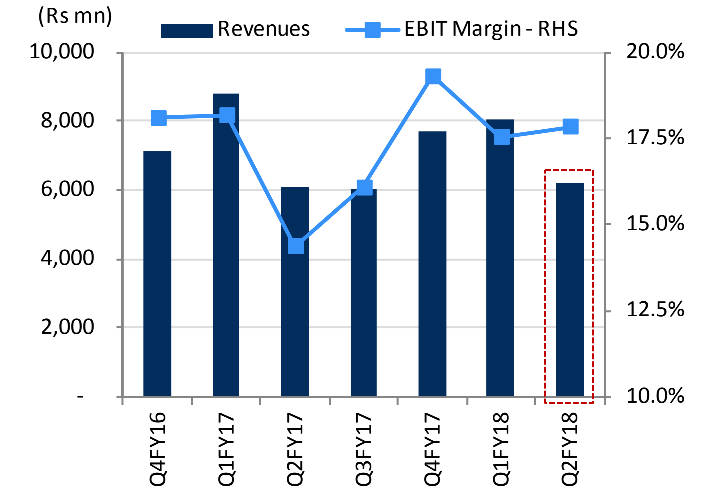
Source: Company, HDFC sec Inst Research

Crompton's Lighting Performance



Source: Company, HDFC sec Inst Research

Crompton's Electric Consumer Performance



Source: Company, HDFC sec Inst Research

Key Assumptions

Segments	Revenue (Rs mn)				Revenue Growth (%)				Revenue Mix (%)			
	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E
Fans	18,792	20,108	22,722	25,448	12.5%	7.0%	13.0%	12.0%	45.9%	45.2%	44.8%	44.1%
Lighting	11,312	12,953	15,090	17,580	8.5%	14.5%	16.5%	16.5%	27.6%	29.1%	29.7%	30.5%
Pumps	8,260	8,755	9,806	10,983	11.0%	6.0%	12.0%	12.0%	20.2%	19.7%	19.3%	19.0%
Appliances	2,555	2,709	3,142	3,707	12.0%	6.0%	16.0%	18.0%	6.2%	6.1%	6.2%	6.4%
Total	**40,920**	**44,524**	**50,759**	**57,718**	**11.0%**	**8.8%**	**14.0%**	**13.7%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Key Assumptions	FY17	FY18E	FY19E	FY20E
Gross Margin (%)	29.5	31.5	32.0	32.5
Employee Expense (% of sales)	5.7	6.7	6.1	5.9
Freight and forwarding (% of sales)	2.3	2.2	2.1	2.0
Advertising (% of sales)	1.4	1.7	1.9	2.2
After sales service (% of sales)	1.0	1.0	1.0	1.0
EBITDA Margin (%)	11.4	12.7	13.8	14.5
Tax Rate (%)	32.0	32.4	32.0	32.0

Source: Company, HDFC sec Inst Research

Income Statement

Year End March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenues	**18,117**	**39,350**	**43,426**	**49,807**	**56,646**
Growth (%)*		***8.6***	***10.4***	***14.7***	***13.7***
Material Expenses	12,889	27,753	30,216	34,382	38,819
Employee Expense	1,005	2,252	2,921	3,021	3,318
ASP Expense	348	1,159	1,387	1,716	2,093
Freight and forwarding	462	895	944	1,033	1,118
Other expenses	1,319	2,799	2,876	3,298	3,658
EBITDA	**2,095**	**4,493**	**5,529**	**6,869**	**8,223**
EBITDA Growth (%)*		***7.2***	***23.0***	***24.2***	***19.7***
EBITDA Margin (%)	***11.6***	***11.4***	***12.7***	***13.8***	***14.5***
Depreciation	63	110	137	174	204
EBIT	**2,032**	**4,853**	**5,392**	**6,695**	**8,018**
Other Income (Including EO Items)	178	220	264	398	425
Interest	355	655	585	585	450
PBT	**1,577**	**4,367**	**5,071**	**6,509**	**7,994**
Tax	525	1,399	1,643	2,083	2,558
RPAT	**1,052**	**2,968**	**3,428**	**4,426**	**5,436**
Adjustment	93	17	-	-	-
APAT	**1,145**	**2,985**	**3,428**	**4,426**	**5,436**
APAT Growth (%)*		***30.4***	***14.8***	***29.1***	***22.8***
Adjusted EPS (Rs)	**1.8**	**4.8**	**5.3**	**6.9**	**8.4**
EPS Growth (%)*		***30.4***	***11.8***	***29.1***	***22.8***

Source: Company, HDFC sec Inst Research
* FY16: Financials are for 6 months, growth is adjusted for FY16 annualised numbers

Balance Sheet

Year End March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital - Equity	1,254	1,254	1,288	1,288	1,288
Reserves	1,034	4,138	6,275	9,035	12,424
Total Shareholders Funds	**2,288**	**5,392**	**7,563**	**10,323**	**13,712**
Long Term Debt	5,072	6,500	6,500	6,500	3,500
Short Term Debt	100	-	-	-	-
Total Debt	**5,172**	**6,500**	**6,500**	**6,500**	**3,500**
Net Deferred Taxes	(43)	(182)	(182)	(182)	(182)
Other Non-Current Liabilities	146	176	228	235	259
TOTAL SOURCES OF FUNDS	**7,562**	**11,886**	**14,109**	**16,876**	**17,289**
APPLICATION OF FUNDS					
Tangible Assets	786	821	884	960	1,051
CWIP	1	-	-	-	-
Goodwill	7,794	7,794	7,794	7,794	7,794
Other Non-Current Assets	178	186	210	246	285
Total Non-current Assets	**8,759**	**8,801**	**8,888**	**9,000**	**9,130**
Inventories	2,100	2,348	2,519	2,839	3,229
Debtors	4,165	5,434	5,645	6,475	7,364
Other Current Assets	563	500	551	632	719
Cash & Equivalents	900	3,885	6,522	9,355	9,792
Total Current Assets	**7,728**	**12,167**	**15,238**	**19,301**	**21,104**
Creditors	6,641	7,145	7,886	9,044	10,286
Other Current Liabilities	2,285	1,938	2,131	2,381	2,660
Total Current Liabilities	**8,926**	**9,083**	**10,017**	**11,425**	**12,946**
Net Current Assets	**(1,197)**	**3,084**	**5,221**	**7,876**	**8,158**
TOTAL APPLICATION OF FUNDS	**7,562**	**11,885**	**14,109**	**16,876**	**17,289**

Source: Company, HDFC sec Inst Research

Cash Flow Statement

Year ending March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	1,577	4,306	5,071	6,509	7,994
Interest Expenses	351	655	585	585	450
Depreciation	63	110	137	174	204
Working Capital Change	357	(516)	500	178	155
Tax Paid	(540)	(1,466)	(1,643)	(2,083)	(2,558)
OPERATING CASH FLOW (a)	**1,757**	**3,105**	**4,650**	**5,362**	**6,245**
Capex	(15)	(150)	(200)	(250)	(295)
Free Cash Flow (FCF)	*1,742*	*2,955*	*4,450*	*5,112*	*5,950*
Investments	-	(3,191)	-	-	-
Non-operating Income	40	190	(24)	(36)	(39)
INVESTING CASH FLOW (b)	**24**	**(3,151)**	**(224)**	**(286)**	**(334)**
Debt Issuance/(Repaid)	(533)	56	-	-	(3,000)
Interest Expenses	(351)	(209)	(585)	(585)	(450)
FCFE	*898*	*(200)*	*3,841*	*4,491*	*2,461*
Share Capital Issuance	-	-	34	-	-
Dividend	-	-	(1,290)	(1,666)	(2,046)
Others		-	52	8	23
FINANCING CASH FLOW (c)	**(883)**	**(154)**	**(1,789)**	**(2,243)**	**(5,473)**
NET CASH FLOW (a+b+c)	**898**	**(200)**	**2,637**	**2,833**	**437**
EO Items, Others	-	-	-	-	-
Closing Cash & Equivalents	900	700	3,337	6,170	6,607

Source: Company, HDFC sec Inst Research

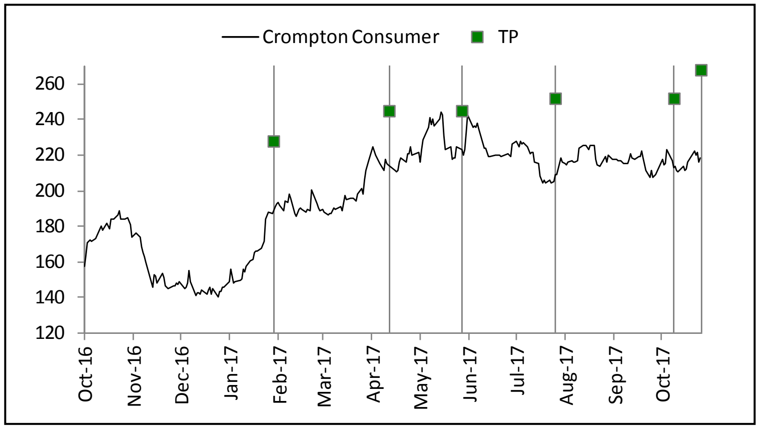
Key Ratios

	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY (%)					
GPM	28.9	29.5	31.5	32.0	32.5
EBITDA Margin	11.6	11.4	12.7	13.8	14.5
EBIT Margin	11.2	12.3	12.4	13.4	14.2
APAT Margin	6.3	7.6	7.9	8.9	9.6
RoE	100.1	55.4	45.3	42.9	39.6
RoIC (or Core RoCE)	41.3	41.2	48.3	61.0	73.5
RoCE	37.0	28.8	27.2	28.7	33.4
EFFICIENCY					
Tax Rate (%)	33.3	32.0	32.4	32.0	32.0
Fixed Asset Turnover (x)	3.7	4.0	4.3	4.8	5.3
Inventory (days)	*21.2*	*21.8*	*21.2*	*20.8*	*20.8*
Debtors (days)	*42.0*	*50.4*	*47.5*	*47.5*	*47.5*
Other Current Assets (days)	*5.7*	*4.6*	*4.6*	*4.6*	*4.6*
Payables (days)	*66.9*	*66.3*	*66.3*	*66.3*	*66.3*
Other Current Liab & Provns (days)	*23.0*	*18.0*	*17.9*	*17.4*	*17.1*
Cash Conversion Cycle (days)	(21.1)	(7.4)	(10.9)	(10.8)	(10.5)
Net D/E (x)	1.9	0.5	(0.0)	(0.3)	(0.5)
Interest Coverage (x)	0.2	0.1	0.1	0.1	0.1
PER SHARE DATA (Rs)					
EPS	1.8	4.8	5.3	6.9	8.4
CEPS	1.9	4.9	5.5	7.1	8.8
Dividend	-	1.6	1.8	2.3	2.8
Book Value	3.7	8.6	11.7	16.0	21.3
VALUATION					
P/E (x)	59.1	45.4	40.6	31.4	25.6
P/BV (x)	29.6	25.1	18.4	13.5	10.1
EV/EBITDA (x)	33.3	30.7	25.2	19.8	16.1
EV/Revenues (x)	3.9	3.5	3.2	2.7	2.3
OCF/EV (%)	1.3	2.3	3.3	3.9	4.7
FCF/EV (%)	1.2	2.1	3.2	3.8	4.5
FCFE/Mkt Cap (%)	0.7	(0.1)	2.8	3.2	1.8
Dividend Yield (%)	-	0.7	0.8	1.0	1.3

Source: Company, HDFC sec Inst Research

* FY16: Financials are for 6 months, ratios are adjusted for FY16 annualised numbers

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
30-Jan-17	188	BUY	228
14-Apr-17	215	BUY	245
29-May-17	224	BUY	248
28-Jul-17	209	BUY	252
10-Oct-17	217	BUY	252
27-Oct-17	219	BUY	268

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclosure:

I, **Naveen Trivedi, MBA**, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Research Analyst or his/her relative or HDFC Securities Ltd. **does not have** any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate **does not have** any material conflict of interest.

Any holding in stock –No

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

Disclaimer:

This report has been prepared by HDFC Securities Ltd and is meant for sole use by the recipient and not for circulation. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently send or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published for any purposes without prior written approval of HSL.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk.

It should not be considered to be taken as an offer to sell or a solicitation to buy any security. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the 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 company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from t date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

HDFC Securities Limited, SEBI Reg. No.: NSE-INB/F/E 231109431, BSE-INB/F 011109437, AMFI Reg. No. ARN: 13549, PFRDA Reg. No. POP: 04102015, IRDA Corporate Agent License No.: HDF 2806925/HDF C000222657, SEBI Research Analyst Reg. No.: INH000002475, CIN - U67120MH2000PLC152193

Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.

HDFC securities
Institutional Equities
Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,
Senapati Bapat Marg, Lower Parel,Mumbai - 400 013
Board : +91-22-6171 7330www.hdfcsec.com