

September 6, 2018

Management Meet Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY19E	FY20E	FY19E	FY20E
Rating	BUY		BUY	
Target Price	290		290	
Sales (Rs. m)	47,032	54,210	47,032	54,210
% Chng.			-	-
EBITDA (Rs. m)	6,391	7,422	6,391	7,422
% Chng.			-	-
EPS (Rs.)	6.5	7.6	6.5	7.6
% Chng.			-	-

Key Financials

	FY17	FY18	FY19E	FY20E
Sales (Rs. m)	39,009	40,797	47,032	54,210
EBITDA (Rs. m)	4,846	5,310	6,391	7,422
Margin (%)	12.4	13.0	13.6	13.7
PAT (Rs. m)	2,857	3,238	4,046	4,775
EPS (Rs.)	4.6	5.2	6.5	7.6
Gr. (%)	139.8	13.3	25.0	18.0
DPS (Rs.)	1.5	1.7	3.0	3.5
Yield (%)	0.7	0.8	1.4	1.6
RoE (%)	78.9	49.5	46.0	44.4
RoCE (%)	50.1	39.8	41.0	42.2
EV/Sales (x)	3.6	3.4	2.9	2.5
EV/EBITDA (x)	29.2	26.4	21.7	18.5
PE (x)	48.7	43.0	34.4	29.1
P/BV (x)	26.9	17.6	14.4	11.8

Key Data

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52-W High / Low	Rs.295 / Rs.204
Sensex / Nifty	38,018 / 11,477
Market Cap	Rs.139bn / \$ 1,940m
Shares Outstanding	627m
3M Avg. Daily Value	Rs.293.58m

Shareholding Pattern (%)

Promoter's	34.38
Foreign	34.79
Domestic Institution	15.45
Public & Others	15.38
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(11.6)	(5.4)	2.2
Relative	(12.6)	(16.1)	(14.5)

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Focusing on innovation

Crompton Greaves Consumer Electrical Ltd (CG) continues to focus on innovation to differentiate across product segments. Strong growth potential in core categories and significant opportunity to improve reach/distribution offers multi-year growth visibility.

Go-to-market (GTM) strategy implementation is on track and focus is to improve quality and distribution reach using technology as the backbone. While the implementation of GTM strategy might create short-term disruptions, it will create a strong base for sustainable growth in future, as it is witnessing strong traction in regions where GTM is being implemented. GTM is expected to cover ~75% of CG's distribution in next 12-18 months.

In lighting segment with only 35% lighting converted to LED, long term growth potential remains intact. However, there are near term headwinds due to price led competition by one key player in LED bulbs.

In fans after success of "Anti-Dust", "Air360" has received good response. CG has few more innovations lined up to achieve faster than market growth in fans. Commodity prices and currency remain a headwind and it has taken price like of ~2% in September to neutralize the same. CG has access to 70% of relevant distribution. It expects to increase reach by 200bps every year.

The company's focus is on a) investing and increasing brand awareness, b) developing innovative products in core categories like Fans/Lighting and Air Coolers and c) strengthening the go-to-market in order to increase its reach (both quality and quantity of reach) and focus on retail/distributor network.

While the company has successfully executed the first leg of strategy of setting Fans/Lighting/Agro pumps on a strong growth footing, maintenance of the growth and successful scale up in other categories will be the key monitorable. We expect sales to grow at a CAGR of 11.5% and earnings CAGR of 18% over FY17-20E. We maintain "BUY" with a TP of Rs290 (37x FY20).

Fans segment-Riding on innovation: While fans market continues to grow at 6-8%, CG 's focus on distribution and growth in the premium fans segment continues to help the company grow faster than the market. The focus on innovation to drive the business continues to be at the core. After success of "Anti-Dust", "Air360" is also seeing good response. CG has few more innovation lined up to faster than market growth in fans sustains. The focus is on mass premium market (fans above Rs1600 which is 65% of the market). CGCEL has maintained market share in the fan segment in in Q219 till date (400bps market share gain in last 2-3 years). Commodity and currency continue to be a headwind, to counter the same it has taken a price like of ~2% in September. Reach in fans is 70% of total possible reach. Expect to increase reach by 200bps every year. Out of total reach of 100,000 touch point of company fans reach is 60,000 touch points.

Lighting segment-near term head winds, long term potential intact: Lighting business continues to offer huge growth potential as only 35% conversion to LED has happened till now. Lighting business can grow in double digits in volume terms over next few years, however value growth impacted by reducing prices. While prices of LED bulbs had stabilized over last few quarters, recently LED bulb has again started to seeing some price pressure due to increase in competitive intensity. Fixture prices also coming down, however increasing volumes are compensating for decline in prices. CG is looking to upgrade customer by offering value addition, it recently launched 5 star rated products. **Out of total reach of 100,000 touch point of company fans reach is 40,000 touch points and hence lighting remains most under leveraged segment leaving huge scope for improving reach in segment.** While CG was largely a B2B player in lighting it is working on improving its B2C presence under its go-to- market strategy over last 18 months.

Pumps segment: CGCEL saw strong performance in domestic and agricultural pumps, witnessing a 30% volume growth in Q119. Their latest launch, the “Crest Mini Pumps” have received an over whelming response. To build on the success of its latest innovative products, the company is readying a steady stream of new products which could be potential market winners.

Appliances: CGCEL’s focus is to scale the Air cooler and Geyser business. In spite of the adverse market conditions, the company saw some green shoots, leading to a ~20% growth in the cooler business. **It aspires to be amongst the top three players in the both Air cooler& Geyser segment over near/medium term** led by innovative product offering to differentiate in the category. In Geyser it has already refreshed current portfolio in look and feel, it is also looking to launch few new products in current season. CG believes that appliance sector is ripe for consolidation will offer lot of M&A opportunities.

Go-to-market strategy: The current reach for CGCEL is ~3000+dealers and 1,00,000+ retail touch points; it expects to increase its touch points to ~1,50,000 in the next few years through its go-to market programme. CGCEL had implemented pilot programme for B-2-C business in lightning/fan segment to improve its retail reach. It has got very encouraging results in most regions where it has been implemented (achieved 36% increase in store reach in lighting, 20-25% in sales etc.). CGCEL has also started with a pilot programme for fan and pumps and is implementing it on a Pan-India basis based on the above achieved response. While go-to-market strategy is a continuous effort, channel switch should be completed in this year for all market and segments.

Financials

Income Statement (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
Net Revenues	39,009	40,797	47,032	54,210
YoY gr. (%)	115.3	4.6	15.3	15.3
Cost of Goods Sold	27,335	27,996	32,170	37,079
Gross Profit	11,674	12,801	14,862	17,130
Margin (%)	29.9	31.4	31.6	31.6
Employee Cost	2,322	2,827	3,109	3,420
Other Expenses	4,506	4,664	5,362	6,288
EBITDA	4,846	5,310	6,391	7,422
YoY gr. (%)	131.4	9.6	20.4	16.1
Margin (%)	12.4	13.0	13.6	13.7
Depreciation and Amortization	110	126	135	144
EBIT	4,736	5,184	6,256	7,277
Margin (%)	12.1	12.7	13.3	13.4
Net Interest	655	637	637	637
Other Income	195	308	331	331
Profit Before Tax	4,250	4,854	5,950	6,971
Margin (%)	10.9	11.9	12.7	12.9
Total Tax	1,419	1,617	1,904	2,196
Effective tax rate (%)	33.4	33.3	32.0	31.5
Profit after tax	2,832	3,238	4,046	4,775
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	2,857	3,238	4,046	4,775
YoY gr. (%)	139.8	13.3	25.0	18.0
Margin (%)	7.3	7.9	8.6	8.8
Extra Ord. Income / (Exp)	(25)	-	-	-
Reported PAT	2,832	3,238	4,046	4,775
YoY gr. (%)	169.2	14.3	25.0	18.0
Margin (%)	7.3	7.9	8.6	8.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,832	3,238	4,046	4,775
Equity Shares O/s (m)	627	627	627	627
EPS (Rs)	4.6	5.2	6.5	7.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
Non-Current Assets				
Gross Block	8,725	8,849	9,049	9,299
Tangibles	853	954	1,154	1,404
Intangibles	7,873	7,895	7,895	7,895
Acc: Dep / Amortization	110	234	385	529
Tangibles	95	194	329	473
Intangibles	15	39	56	56
Net fixed assets	8,615	8,616	8,664	8,770
Tangibles	758	760	825	931
Intangibles	7,858	7,856	7,839	7,839
Capital Work In Progress	1	6	6	6
Goodwill	-	-	-	-
Non-Current Investments	124	129	141	163
Net Deferred tax assets	295	479	477	477
Other Non-Current Assets	64	147	188	271
Current Assets				
Investments	3,189	3,676	3,676	3,676
Inventories	2,734	3,032	3,221	3,713
Trade receivables	4,728	5,536	6,443	7,426
Cash & Bank Balance	697	1,774	3,256	4,797
Other Current Assets	549	718	941	1,193
Total Assets	21,133	24,250	27,152	30,630
Equity				
Equity Share Capital	1,254	1,254	1,254	1,254
Other Equity	3,924	6,641	8,431	10,574
Total Network	5,178	7,895	9,685	11,827
Non-Current Liabilities				
Long Term borrowings	6,478	6,486	6,486	6,486
Provisions	176	175	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	7,128	7,682	8,762	10,099
Other current liabilities	2,174	2,012	2,218	2,216
Total Equity & Liabilities	21,133	24,250	27,152	30,630

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
PBT	4,250	4,854	5,950	6,971
Add. Depreciation	110	126	135	144
Add. Interest	655	637	637	637
Less Financial Other Income	195	308	331	331
Add. Other	124	282	(312)	(331)
Op. profit before WC changes	5,140	5,900	6,410	7,422
Net Changes-WC	(548)	(933)	(261)	(496)
Direct tax	(1,466)	(1,812)	(1,904)	(2,196)
Net cash from Op. activities	3,126	3,154	4,245	4,730
Capital expenditures	(148)	(133)	(200)	(250)
Interest / Dividend Income	188	285	331	331
Others	(3,233)	(482)	-	-
Net Cash from Invt. activities	(3,193)	(331)	131	81
Issue of share cap. / premium	-	-	-	-
Debt changes	56	7	-	-
Dividend paid	-	(1,129)	(2,256)	(2,632)
Interest paid	(230)	(634)	(637)	(637)
Others	-	-	-	-
Net cash from Fin. activities	(175)	(1,755)	(2,894)	(3,270)
Net change in cash	(242)	1,069	1,482	1,541
Free Cash Flow	2,976	3,020	4,045	4,480

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY17	FY18	FY19E	FY20E
Per Share(Rs)				
EPS	4.6	5.2	6.5	7.6
CEPS	4.7	5.4	6.7	7.8
BVPS	8.3	12.6	15.5	18.9
FCF	4.7	4.8	6.5	7.1
DPS	1.5	1.7	3.0	3.5
Return Ratio(%)				
RoCE	50.1	39.8	41.0	42.2
ROIC	56.8	45.7	51.0	56.8
RoE	78.9	49.5	46.0	44.4
Balance Sheet				
Net Debt : Equity (x)	0.5	0.1	0.0	(0.2)
Net Working Capital (Days)	3	8	7	7
Valuation(x)				
PER	48.7	43.0	34.4	29.1
P/B	26.9	17.6	14.4	11.8
P/CEPS	4.5	5.1	6.3	7.4
EV/EBITDA	29.2	26.4	21.7	18.5
EV/Sales	3.6	3.4	2.9	2.5
Dividend Yield (%)	0.7	0.8	1.4	1.6

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Net Revenue	9,597	9,382	11,263	12,039
YoY gr. (%)	9.8	12.2	7.6	14.1
Raw Material Expenses	6,686	6,277	7,704	8,143
Gross Profit	2,911	3,105	3,560	3,896
Margin (%)	30.3	33.1	31.6	32.4
EBITDA	1,207	1,165	1,645	1,673
YoY gr. (%)	(6.7)	(3.5)	41.2	1.7
Margin (%)	12.6	12.4	14.6	13.9
Depreciation / Depletion	32	32	31	31
EBIT	1,175	1,133	1,614	1,642
Margin (%)	12.2	12.1	14.3	13.6
Net Interest	157	158	161	152
Other Income	35	66	109	88
Profit before Tax	1,054	1,040	1,562	1,578
Margin (%)	11.0	11.1	13.9	13.1
Total Tax	346	345	530	535
Effective tax rate (%)	32.8	33.2	33.9	33.9
Profit after Tax	708	695	1,032	1,043
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	708	695	1,032	1,043
YoY gr. (%)	22.3	36.6	29.0	29.9
Margin (%)	7.4	7.4	9.2	8.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	708	695	1,032	1,043
YoY gr. (%)	22.3	36.6	29.0	29.9
Margin (%)	7.4	7.4	9.2	8.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	708	695	1,032	1,043
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	-	-	-	-

Source: Company Data, PL Research

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-Oct-17	BUY	270	213
2	27-Oct-17	BUY	270	219
3	10-Jan-18	BUY	304	276
4	24-Jan-18	BUY	297	250
5	20-Feb-18	BUY	297	232
6	13-Apr-18	BUY	297	232
7	16-May-18	BUY	299	228
8	23-May-18	BUY	299	244
9	21-Jun-18	BUY	299	223
10	26-Jul-18	BUY	290	240

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Accumulate	1,415	1,135
2	Ashoka Buildcon	BUY	191	138
3	Bharat Electronics	BUY	150	116
4	BHEL	Reduce	73	72
5	Crompton Greaves Consumer Electricals	BUY	290	240
6	Cummins India	BUY	836	671
7	Engineers India	Accumulate	180	125
8	Havells India	NR	-	535
9	J.Kumar Infraprojects	BUY	365	232
10	Kalpataru Power Transmission	Accumulate	472	369
11	KEC International	BUY	400	328
12	KSB Pumps	Accumulate	925	797
13	Larsen & Toubro	BUY	1,566	1,321
14	Power Grid Corporation of India	Accumulate	229	185
15	RPP Infra Projects	BUY	353	216
16	Sadbhav Engineering	BUY	417	296
17	Siemens	Accumulate	1,401	975
18	Thermax	Hold	1,138	1,105
19	Voltas	Accumulate	658	621

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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