

CMP: ₹ 412

Target: ₹ 480 (17%)

Target Period: 12 months

BUY

January 26, 2021

Strong performance led by ECD business...

Crompton Greaves Consumer Electrical (CGCEL) reported a strong all round performance with topline, PBT growth of ~26%, ~46%, respectively, in Q3FY21. The strong topline growth was contributed by electrical consumer durable (ECD) segment (75% of topline) wherein revenue growth came in at 32% YoY, much ahead of our growth expectation of 16% YoY. The company's strong distribution network in semi urban/rural India has helped it to gain market share from unorganised players, which were largely impacted by various supply related issues. According to the management, the current market share gain is likely to sustain in future due to the company's aggressive go to market (GTM) strategy and continuous launch of new products. On the lighting front (~25% of revenue) while B2C category of products registered strong volume growth of 13% in Q3FY21, the institutional business (that is 50% of lighting revenues) remains weak due to slow offtake by institutional clients. On the costs front, the continuous focus on its cost optimisation measure helped the company to save ~₹ 40 crore of operating costs in Q3FY21. The company has also taken price hikes (in the range of 5-8%) from the start of January 2021, to offset rising input costs. We believe the company's various cost optimisation measures along with price hikes to offset higher input price would help it to maintain its operating margins at an elevated level, going forward.

Premium product category leads topline growth

For Q3FY21, CGCEL's topline increased 26% YoY led by ~25% volume growth during the same period. Revenues from ECD and lighting product categories increased ~32% and ~10% to ₹ 1036 crore and ₹ 312 crore, respectively. Under the ECD category, fan, pump and appliances business grew ~36%, 19% and 45%, respectively. The premium fan and geysers segments grew strongly by 51% and 50%, respectively, in Q3FY21. The company witnessed market share gain from unorganised players and the gain is likely to stay, going forward.

Strong operating leverage drives EBITDA margin up

EBITDA margin for Q3FY21 was up 208 bps YoY to 14.8% led by saving in other expenditure. Better operating leverage along with focus on various cost optimisation measures taken by the company over the last two years has helped CGCEL to increase its EBITDA margin. Further, the company guided for elevated margin, going forward, supported by price hikes and continuous focus on cost optimisation measures.

Valuation & Outlook

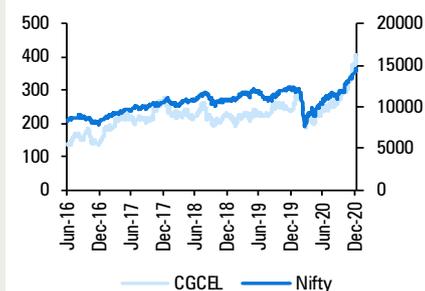
CGCEL's revenue, earnings are likely to grow at CAGR of 13.5%, 15%, respectively, in FY20-23E supported by elevated margins and saving in interest outgo. We maintain our **BUY** rating on the stock with a revised target price of ₹ 480 (earlier TP of ₹ 440) valuing at 40x FY23E earnings.



Particulars

Particular	Amount
Market cap (₹ crore)	25698.8
Total Debt (FY20 ₹ crore)	179.7
Cash & Inves (FY20 ₹ crore)	48.1
EV (₹ crore)	25830.4
52 Week H/L (₹)	455/177
Equity Capital (₹ crore)	125.4
Face Value(₹)	2.0

Price performance



Key risk to our call

- Rising competition in CGCEL's core business (especially fan segment) from other organised players may restrict/lower market share, going forward
- Sharp rise in raw material prices may drag EBITDA margin

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Key Financial Summary

(₹ crore)	FY19	FY20E	FY21E	FY22E	FY23E	CAGR(20-23E)
Net Sales	4478.9	4520.3	4654.9	5719.8	6609.7	13.5
EBITDA	584.3	599.1	670.3	783.6	971.6	17.5
EBITDA Margin (%)	13.0	13.3	14.4	13.7	14.7	
Net Profit	401.4	496.4	498.3	597.0	754.5	15.0
EPS (₹)	6.4	7.9	7.9	9.5	12.0	
P/E (x)	64.3	52.0	51.8	43.3	34.2	
RoE (%)	36.6	33.8	27.4	28.4	32.1	
RoCE (%)	42.8	38.3	31.1	34.8	41.1	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Revenue	1,348.2	1,230.7	1,071.3	25.8	1,213.2	11.1	Strong sales growth led by ECD division
Other Income	19.9	17.2	17.5	13.4	16.7	19.2	
Raw Material Exp	915.6	830.7	729.0	25.6	813.3	12.6	Better product mix helps maintain gross margin at same level on a YoY basis
Employee Exp	92.9	86.1	77.4	20.1	79.7	16.7	
Advertisement Exp	25.0	27.1	23.5	6.6	25.0	0.0	
Other expenditure	114.6	110.8	104.8	9.3	104.0	10.2	Various cost optimisation measures help in saving in other costs
EBITDA	200.1	176.0	136.7	46.4	191.3	4.6	
EBITDA Margin (%)	14.8	14.3	12.8	208 bps	15.8	-93 bps	Intact gross margin and saving in other costs help drive EBITDA margin up 208 bps YoY
Depreciation	6.9	8.0	6.4	7.2	7.7	-10.2	
Interest	10.6	12.4	8.7	21.1	11.1	-5.1	
Excp item							
PBT	202.5	172.8	139.1	45.6	189.1	7.1	
Tax	51.4	43.4	-21.9	NM	47.5	8.3	
PAT	151.1	129.4	161.0	-6.1	141.7	6.6	Lower PAT on account of reversal of tax benefits in base period. However, on like-to-like basis, PAT was by up ~53% YoY
Key Metrics							
ECD	1,035.9	813.3	787.0	31.6	931.7	11.2	Strong growth in fan segment (led by 51% YoY growth in premium fan category) and pump segment up 25% YoY help drive overall sales growth
Lighting & Products	312.3	274.1	284.3	9.8	281.5	10.9	B2C lighting LED continues to witness healthy volume growth of 13%

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	5669.7	5719.8	0.9	6483.5	6609.7	1.9	We tweak our revenue estimates upward for FY22E-23E considering market share gains from unorganised segments along with government push of infra projects
EBITDA	844.8	783.6	(7.2)	940.1	971.6	3.4	
EBITDA Margin %	14.9	13.7	-120bps	14.5	14.7	20bps	We believe EBITDA margin would remain elevated considering the company's various cost optimisation measures and rising proportion of premium products
PAT	637.4	597.0	(6.3)	724.2	754.5	4.2	
EPS (₹)	10.2	9.5	(6.3)	11.6	12.0	4.1	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

(%)	Current				Earlier		Comments
	FY20	FY21E	FY22E	FY23E	FY22E	FY23E	
ECD	5.5	4.0	22.3	16.7	21.0	15.0	Continous rising proportion of premium fans in the topline, along with appliances business would help drive sales of ECD segment going forward. We build in ECD segment revenue CAGR of 14% in FY20-23E
Lighting & Products	-10.6	-0.13	24.8	12.0	25.0	12.0	Low base, price stability and improved government expenditure on street lights segment would help drive revenue of lighting business for CGCEL going forward

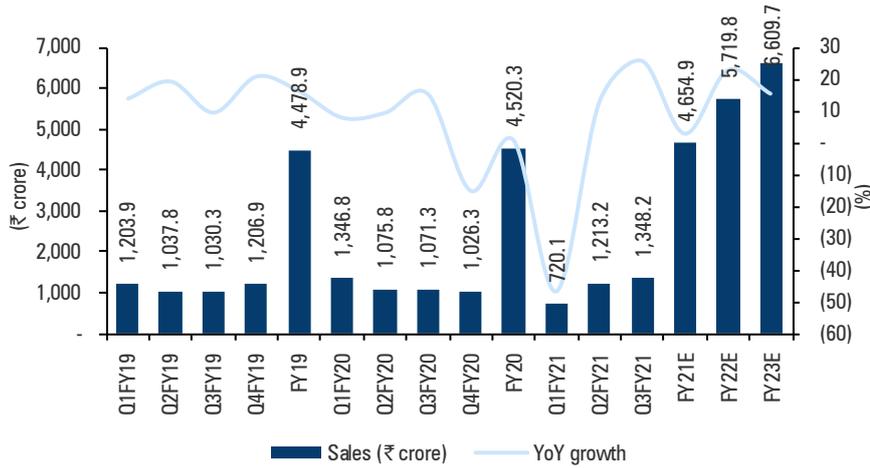
Source: Company, ICICI Direct Research

Conference Call Highlights

- Revenues from e-commerce channel saw 53% YoY growth in Q3FY21. Sales from rural regions increased 88%YoY in Q3FY21
- Revenues grew ~20%+ in all three months of Q3FY21
- CGCEL gained market share in the fan business by 100 bps YoY
- The company's focus on price, product mix and cost would help drive its future performance
- Lighting B2C segment registered volume growth of 13% while B2B segment witnessed demand headwinds from institutions. Significant rise in EBIT margin from 4.3% in Q3FY20 to 12.3% in Q3FY21, is attributable to price stability and various cost rationalisation initiatives by company
- The company aims to keep EBIT margin of lighting business at mid-teens level
- Inventory level at dealer level was normal by the end of December 2020
- Net cash balance by the end of December 2020 was at ₹ 807 crore
- CGCEL has initiated price hikes in the range of 5-8% from January 2021 onwards largely to offset rising input costs
- Continuous focus on driving sales through launch of premium products
- The company has planned a phase wise expansion to increase its rural reach. In phase 1, CGCEL plans to cover 400 towns with population between 50,000 and 1,00,000, of which ~75% is already covered. In phase 2 (that is yet to be implemented) the company is planning to cover ~2000 towns with population ranging between 20,000 and 50,000

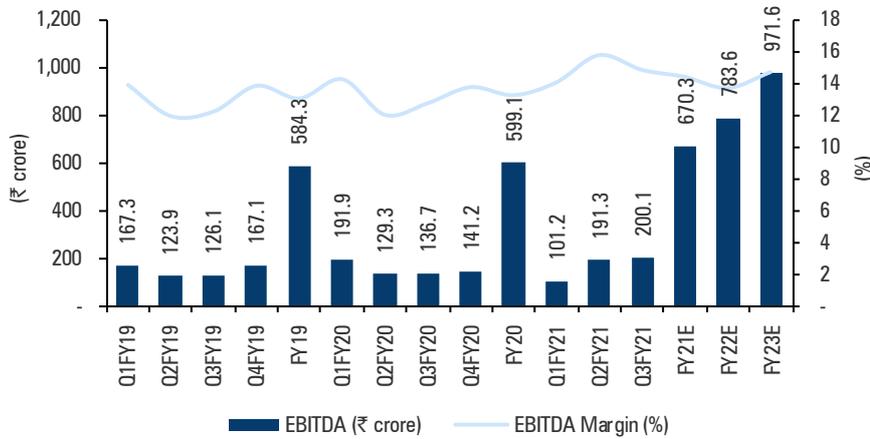
Financial story in charts

Exhibit 4: Revenue growth trend



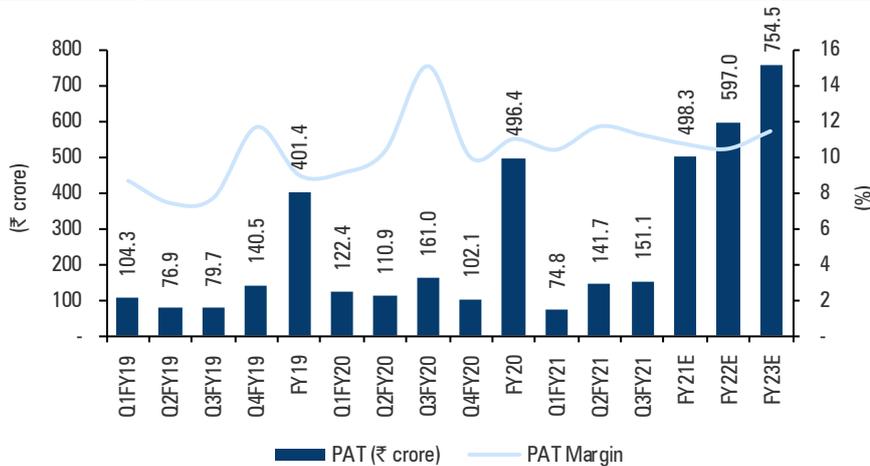
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA margin movement



Source: Company, ICICI Direct Research

Exhibit 6: PAT growth trend



Source: Company, ICICI Direct Research

Financial summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Revenue	4,520.3	4,654.9	5,719.8	6,609.7
Growth (%)	0.9	3.0	22.9	15.6
Expenses				
Raw material exp	3,070.3	3,165.4	3,946.7	4,494.6
Employee exp	311.0	335.2	388.9	456.1
Other exp	440.9	400.3	486.2	555.2
Total Operating exp	3,921.2	3,984.6	4,936.2	5,638.0
EBITDA	599.1	670.3	783.6	971.6
Growth (%)	2.5	11.9	16.9	24.0
Depreciation	26.8	30.3	33.2	36.4
Interest	40.7	47.4	39.0	20.2
Other Income	59.1	74.5	85.8	92.5
PBT	590.7	667.1	797.3	1,007.6
Total Tax	94.3	168.9	200.3	253.1
PAT	496.4	498.3	597.0	754.5

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	125.5	125.5	125.5	125.5
Reserve and Surplus	1,342.9	1,691.7	1,975.3	2,228.4
Total Shareholders funds	1,468.4	1,817.2	2,100.8	2,353.8
Total Debt	179.7	479.7	299.7	149.7
Total Liabilities	1,648.1	2,296.9	2,400.5	2,503.5
Assets				
Gross Block	191.1	231.1	291.1	361.1
Less: Acc Depreciation	61.6	91.8	125.0	161.3
Total Fixed Assets	149.5	159.2	186.0	219.7
Goodwill	779.4	779.4	779.4	779.4
Investments	540.8	620.8	720.8	520.8
Inventory	463.6	573.9	579.8	670.0
Debtors	463.5	650.4	783.5	905.4
Other CA	248.5	279.3	343.2	449.5
Cash	48.1	378.0	253.2	243.5
Total Current Assets	1,223.7	1,881.6	1,959.7	2,268.5
Creditors	643.6	714.2	814.9	941.7
Provisions	184.6	204.9	233.8	273.1
Other CL	275.6	283.8	257.4	132.2
Total Current Liabilities	1,103.8	1,202.8	1,306.0	1,346.9
Net current assets	119.9	678.8	653.7	921.5
Other non current assets	58.5	58.7	60.6	62.1
Total Assets	1,648.1	2,296.9	2,400.5	2,503.5

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	496.4	498.3	597.0	754.5
Add: Depreciation	26.8	30.3	33.2	36.4
(Inc)/dec in Current Assets	-124.5	-328.1	-202.9	-318.4
Inc/(dec) in CL and Provisions	-119.3	99.1	103.2	40.9
Others	40.7	47.4	39.0	20.2
CF from operating activities	320.1	346.9	569.4	533.6
(Inc)/dec in Investments	0.4	-80.0	-100.0	200.0
(Inc)/dec in Fixed Assets	-92.5	-40.0	-60.0	-70.0
Others	12.7	-0.2	-1.8	-1.5
CF from investing activities	-79.4	-120.2	-161.8	128.5
Issue/(Buy back) of Equity	0.1	0.0	0.0	0.0
Inc/(dec) in loan funds	-169.5	300.0	-180.0	-150.0
Dividend paid & dividend tax	-151.1	-150.4	-313.4	-501.4
Others	-15.1	-46.4	-39.0	-20.2
CF from financing activities	-335.6	103.2	-532.4	-671.7
Net Cash flow	-94.9	329.9	-124.8	-9.6
Opening Cash	143.0	48.1	378.0	253.2
Closing Cash	48.1	378.0	253.2	243.5

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	7.9	7.9	9.5	12.0
Cash EPS	8.3	8.4	10.1	12.6
BV	23.4	29.0	33.5	37.6
DPS	2.4	2.4	5.0	8.0
Operating Ratios (%)				
EBITDA Margin	13.3	14.4	13.7	14.7
PAT Margin	11.0	10.7	10.4	11.4
Asset Turnover	23.7	20.1	19.6	18.3
Inventory Days	37.4	45.0	37.0	37.0
Debtor Days	37.4	51.0	50.0	50.0
Creditor Days	52.0	56.0	52.0	52.0
Return Ratios (%)				
RoE	33.8	27.4	28.4	32.1
RoCE	38.3	31.1	34.8	41.1
RoIC	120.0	88.4	91.1	92.6
Valuation Ratios (x)				
P/E	52.0	51.8	43.3	34.2
EV / EBITDA	42.4	37.8	32.1	25.9
EV / Net Sales	5.6	5.4	4.4	3.8
Market Cap / Sales	5.7	5.5	4.5	3.9
Price to Book Value	17.6	14.2	12.3	11.0
Solvency Ratios				
Debt / Equity	0.1	0.3	0.1	0.1
Current Ratio	1.4	1.6	1.6	1.7
Quick Ratio	0.9	1.0	1.1	1.1

Source: Company, ICICI Direct Research

Exhibit 11: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap			EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)			
	(₹)	TP(₹)	Rating	(₹ Cr)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Asian Paints (ASIPAI)	2,513	3,010	Hold	2,40,997	32.8	39.9	46.3	76.5	62.9	54.3	52.7	43.8	37.5	26.7	28.6	28.5	31.1	33.4	34.0			
Astral Polyteknik (ASTPOL)	1,656	1,260	Hold	24,950	20.7	25.5	27.8	79.9	65.0	59.6	41.8	35.8	33.1	22.3	24.5	24.1	17.3	19.1	18.6			
Amber Enterprises (AMBEN)	2,514	2,830	Buy	7,906	23.7	75.1	90.0	106.0	33.5	27.9	35.8	15.9	13.2	7.2	17.0	17.8	5.3	14.3	14.7			
Bajaj Electricals (BAJELE)	744	585	Buy	8,459	11.8	17.1	23.0	NM	43.6	32.3	26.3	20.2	15.9	10.8	14.7	18.6	8.3	13.0	15.4			
Berger Paints (BERPAI)	748	675	Hold	72,646	7.8	9.7	11.7	96.2	77.5	63.7	60.3	50.8	43.0	26.9	30.3	34.0	23.8	25.7	27.9			
Crompton Greaves(CROGR)	412	480	Buy	25,832	7.9	9.5	12.0	51.8	43.3	34.2	37.6	31.9	25.8	31.1	34.8	41.1	27.4	28.4	32.1			
EPL (ESSPRO)	257	280	Hold	8,108	8.0	8.9	11.2	31.9	28.8	23.0	13.0	12.3	10.3	18.7	18.7	21.2	16.0	15.6	17.4			
Havells India (HAVIND)	1,122	1,255	Hold	70,002	16.1	17.8	22.9	69.8	63.0	48.9	45.8	41.2	32.5	23.7	25.5	30.8	20.6	21.2	25.7			
Kansai Nerolac (KANNER)	612	605	Buy	32,982	10.3	12.0	14.0	59.6	50.8	43.7	36.4	32.1	27.9	18.4	19.6	20.5	14.3	15.1	15.7			
Pidilite Industries (PIDIND)	1,765	1,850	Buy	89,627	22.7	27.8	31.9	77.9	63.5	55.3	55.0	45.3	36.1	28.2	30.9	31.6	23.2	24.9	25.3			
Polycab India (POLI)	1,211	1,040	Buy	18,029	58.1	62.9	74.4	20.8	19.3	16.3	13.3	11.3	9.2	21.4	23.2	25.1	18.2	18.0	19.2			
Supreme Indus (SUPIND)	1,732	1,695	Buy	22,001	44.9	47.8	54.9	38.5	36.2	31.5	22.7	21.9	18.2	23.3	22.5	24.3	22.3	21.2	21.6			
Symphony (SYMLIM)	1,020	1,090	Hold	7,136	13.1	29.8	40.0	77.6	34.2	25.5	61.3	26.7	19.7	16.7	35.7	41.8	17.1	34.1	38.7			
Time Techno (TIMTEC)	51	43	Hold	1,153	7.5	4.0	9.1	6.8	12.8	5.6	3.1	4.3	2.8	12.5	8.0	13.2	9.3	5.0	10.7			
V-Guard Ind (VGUARD)	235	210	Buy	10,065	3.7	5.3	6.2	63.8	44.2	37.8	34.5	25.4	21.6	20.1	25.3	26.9	15.1	19.5	20.8			
Voltas Ltd (VOLTAS)	940	845	Hold	31,089	12.3	22.6	29.8	76.4	41.6	31.6	57.7	31.1	25.2	12.8	20.1	21.9	9.1	15.3	17.5			

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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