

Strong traction in premium product portfolios...

About the stock: Crompton Greaves Consumer (CGCEL) is among India's leading fast moving electrical goods (FMEG) companies, present in electrical consumer durables (78% of revenue) and lighting businesses (22% of revenue).

- Market leader in the domestic fan industry with value market share of 24%. The company has increased focus on increasing market share in home appliances categories like (air coolers, water heater and kitchen appliances)
- Robust balance sheet with RoE & RoCE of 34% & 39% (three-year average), respectively, with stringent working capital policy

Q1FY22 Results: Higher other costs delayed recovery in the EBITDA margin.

- Reported revenue growth of 46% YoY to ₹ 1050 crore (down 31% QoQ)
- Price hikes (5-6%) better product mix help maintain gross margin YoY. However, higher advertisement cost and other costs led to ~215 bps EBITDA margin correction to 12% YoY
- PAT increased 27% YoY to ₹ 95 crore, tracking topline growth

What should investors do? CGCEL's share price has grown by ~3x in the past five years (from ~₹ 157 in July 2016 to ~₹ 467 levels in July 2021).

- We maintain our BUY rating on the stock

Target Price and Valuation: We value CGCEL at ₹ 540 i.e. 45x P/E on FY23E EPS

Key triggers for future price performance:

- Total ~1.7 crore new houses under PMAY, replacement of ~20 million water pumps under government's flagship scheme KUSUM, urbanisation and rising aspiration are demand boosters of home appliances
- Dealer addition in areas with population 10-100k in the next five years
- Focus on launches of premium products to drive margin
- Model revenue, earnings CAGR of 17%, 10%, respectively, in FY21-23E

Alternate Stock Idea: Apart from CGCEL, we also like Havells in the same space.

- Trigger for Havells' future revenue growth would be revival in Lloyds revenues and improvement in margin
- BUY with a target price of ₹ 1345

Key Financial Summary

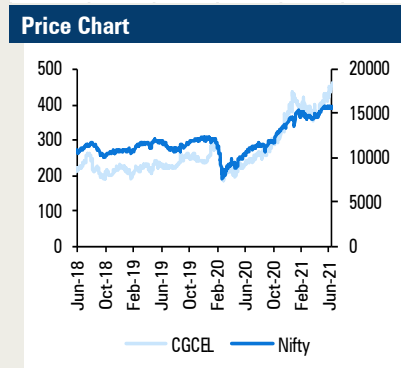
(₹ crore)	FY19	FY20	FY21	5 Year CAGR (FY16-21)	FY22E	FY23E	2 Year CAGR(21-23E)
Net Sales	4478.9	4520.3	4803.5	26%	5462.9	6566.7	16.9
EBITDA	584.3	599.1	720.5	30%	759.3	958.7	15.4
EBITDA Margin (%)	13.0	13.3	15.0		13.9	14.6	
Net Profit	401.4	496.4	616.7	47%	583.8	749.3	10.2
EPS (₹)	6.4	7.9	9.8		9.3	12.0	
P/E (x)	73.1	59.1	47.6		50.3	39.1	
RoE (%)	36.6	33.8	31.9		29.0	33.2	
RoCE (%)	42.8	38.3	34.4		36.6	42.1	

Source: Company, ICICI Direct Research



Particulars	
Particular	Amount
Market cap (₹ crore)	29334.2
Total Debt (FY21 ₹ crore)	298.8
Cash & Inves (FY21 ₹ crore)	603.9
EV (₹ crore)	29029.1
52 Week H/L (₹)	497/238
Equity Capital (₹ crore)	125.4
Face Value(₹)	2.0

Shareholding pattern					
(in %)	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	26.2	26.2	17.4	11.4	6.0
FII	29.9	30.3	34.3	39.2	43.4
DII	25.7	26.0	37.6	38.7	40.1
Others	18.2	17.5	10.7	10.7	10.4



Recent event & key risks

- Key Risk:** (i) Rising competition in core business segment (ii) Lower than expected EBITDA margin

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Key takeaways of recent quarter & conference call highlights

Q1FY22 Results: Strong traction in premium product portfolio

- Revenue growth of 46% YoY led by 48% YoY growth in the ECD segment. Under the ECD segment, fan segment revenue increased 63% YoY led by premium and decorative fans. Lighting business revenue increased albeit at a slow pace of 34% given a favourable base of Q1FY21. B2C lighting (50% of total lighting revenue) category up by 48% while B2B & B2G witnessed a delayed recovery
- Price hikes (of 5-6%), improved product mix helped drive gross margin up by 150 QoQ. However, higher advertisement costs and other expense dragged overall EBITDA margin down by 215 bps YoY to ~12%
- The management has guided for further price hikes in the coming periods to offset inflationary pressure

Q1FY22 Earnings Conference Call highlights

Strong recovery across product segments:

- June 2021 revenue growth was higher than pre-Covid level revenue in Jun 2019
- Fan segment grew 63% YoY in the ECD segment led by 121%, 258% revenue growth in decorative, super premium fan categories, respectively
- In the appliances category, geyser, air coolers and iron segment revenue increased 205%, 90% and 55% YoY, respectively, in Q1FY22
- Pump segment sales growth at 17% was on the lower side, due to delayed recovery in the agri pump business
- On the lighting front, lower offtake from institutional clients (50% of lighting revenue) delayed the overall segment recovery and slow opening of eastern regions from lockdown
- Sales from rural markets increased 192% while the company has gained market share by about 160 bps at the portfolio level
- Revenue contribution from rural and e-commerce segment together increased to 9% in Q1FY22 from 3-4% in Q1FY21
- In the last two years, the company's value market share in the fan and residential pump business has increased to 26% and 27%, respectively, from 24% (both businesses). Even in the lighting business, market share has increased from 5% to 10% in the last two years

Demand outlook:

- The company has guided for strong demand in the upcoming season supported by a reduction in Covid-19 cases, opening up of southern regions (35% of revenue)

Margins:

- The company has entered into an advance contract for sourcing of raw materials to mitigate inflationary pressure

Capex:

- It has planned a capex of ₹ 30-50 crore for FY22E

Exhibit 1: Variance Analysis

	Q1FY22E	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Revenue	1,050.5	1,048.3	720.1	45.9	1,522.1	-31.0	Strong recovery in ECD segment helped drive topline growth
Other Income	19.6	21.0	18.6	5.5	20.6	-4.9	
Raw Material Exp	710.7	712.8	485.8	46.3	1,052.5	-32.5	Gross margin remains intact on a YoY basis as the company has managed to pass on higher input costs
Employee Exp	88.5	89.1	72.0	23.0	92.0	-3.8	
Advertisement Exp	25.0	10.5	2.0	1,150.0	30.1	-17.1	Restoration of A&P spends in Q1FY22
Other expenditure	101.3	83.9	59.1	71.2	119.4	-15.2	Continue investment in key initiatives such as GTM led to higher other expenditure
EBITDA	125.0	152.0	101.2	23.6	228.0	-45.2	
EBITDA Margin (%)	11.9	14.5	14.1	-215 bps	15.0	-308 bps	Higher other expenses dragged EBITDA margin down
Depreciation	7.6	6.9	8.0	-5.3	7.2	5.7	
Interest	10.1	7.9	10.8	-6.6	10.4	-3.5	
Excp item							
PBT	127.0	158.2	101.0	25.7	231.0	-45.0	
Tax	32.2	39.7	26.2	23.0	-18.1	-278.1	
PAT	94.8	118.5	74.8	26.7	249.1	-62.0	Lower-than-expected bottomline growth was mainly due to decline in EBITDA margins
Key Metrics							
ECD	884.4	815.5	596.5	48.3	1,193.0	-25.9	Home appliances, fans and pump business drove recovery with segment revenue growth of 99%, 63%, 17%, respectively. The growth was largely on a favourable base
Lighting & Products	166.1	232.8	123.6	34.4	329.1	-49.5	In B2C lighting, LED continues to witness healthy value growth of 48% while lighting B2B and B2G business faced lower volume offtake

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	5429.4	5462.9	0.6	6521.5	6566.7	0.7	We largely keep our revenue estimates unchanged for FY22E, FY23E
EBITDA	743.8	759.3	2.1	952.1	958.7	0.7	
EBITDA Margin %	13.7	13.9	20bps	14.6	14.6	0bps	We maintain our EBITDA margin estimates
PAT	573.9	583.8	1.7	744.1	749.3	0.7	
EPS (₹)	9.2	9.3	1.8	11.9	12.0	0.7	

Source: ICICI Direct Research

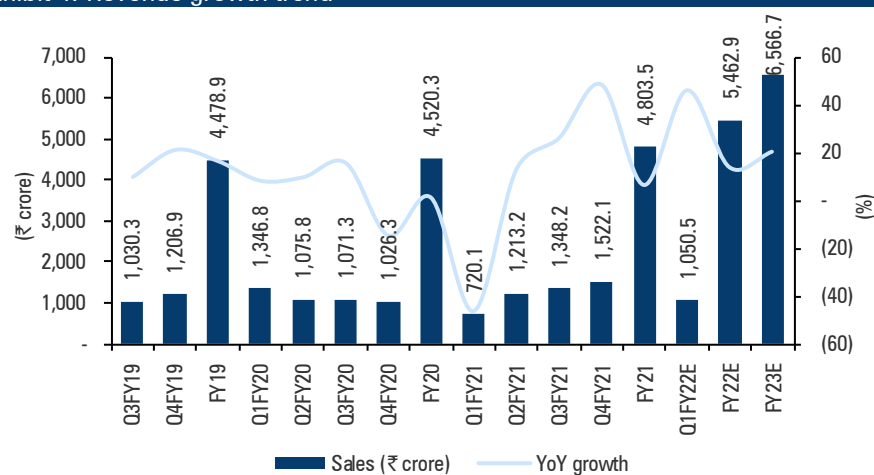
Exhibit 3: Assumptions

(%)	Current			Earlier			Comments
	FY20	FY21E	FY22E	FY23E	FY22E	FY23E	
ECD	5.5	10.9	14.4	21.6	13.5	21.5	Continuous 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 18% in FY21-23E
Lighting & Products	-10.6	-7.50	11.4	15.0	11.4	15.0	Low base, price stability and improved government expenditure on street lights segment would help drive revenue of lighting business for CGCEL, going forward

Source: ICICI Direct Research

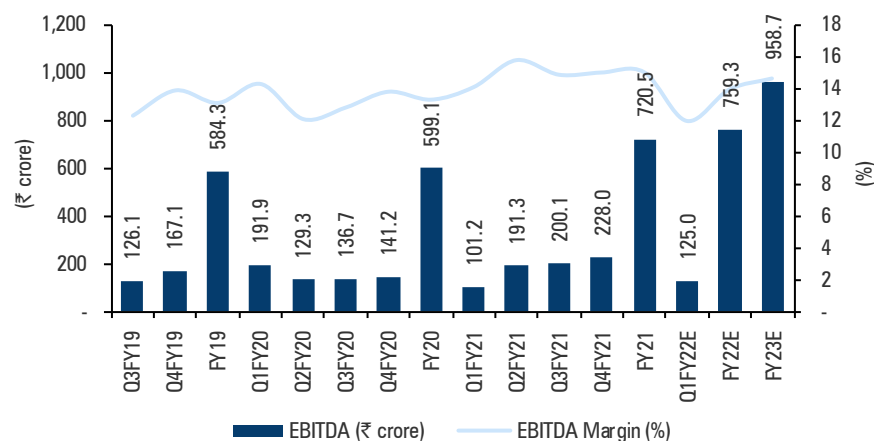
Financial story in charts

Exhibit 4: Revenue growth trend



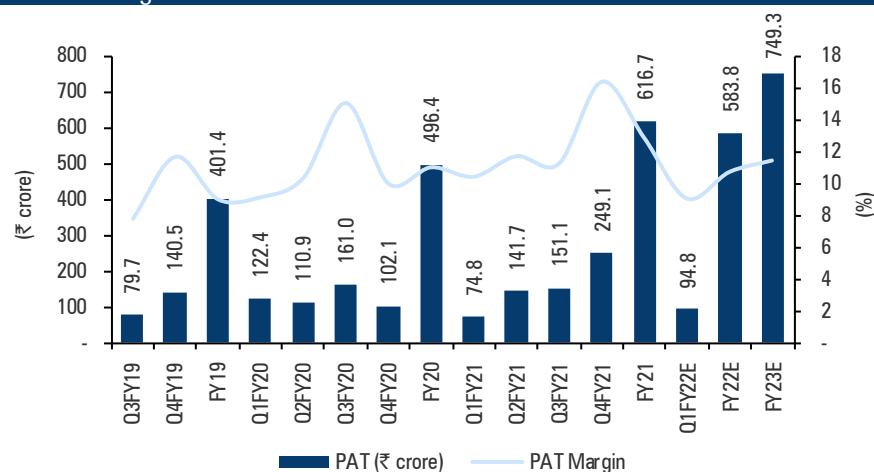
Source: Company, ICICI Direct Research

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	FY21	FY22E	FY23E
Revenue	4,520.3	4,803.5	5,462.9	6,566.7
Growth (%)	0.9	6.3	13.7	20.2
Expenses				
Raw material exp	3,070.3	3,267.2	3,714.8	4,465.4
Employee exp	311.0	336.6	371.5	426.8
Other exp	440.9	397.1	491.7	584.4
Total Operating exp	3,921.2	4,083.0	4,703.6	5,608.0
EBITDA	599.1	720.5	759.3	958.7
Growth (%)	2.5	20.3	5.4	26.3
Depreciation	26.8	29.7	31.7	36.1
Interest	40.7	42.9	29.6	13.9
Other Income	59.1	75.8	81.9	91.9
PBT	590.7	723.6	780.0	1,000.7
Total Tax	94.3	107.0	196.3	251.4
PAT	496.4	616.7	583.8	749.3

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	496.4	616.7	583.8	749.3
Add: Depreciation	26.8	29.7	31.7	36.1
(Inc)/dec in Current Assets	-124.5	-77.6	-331.9	-372.8
Inc/(dec) in CL and Provisions	-119.3	283.3	14.4	122.4
Others	40.7	42.9	29.6	13.9
CF from operating activities	320.1	895.0	327.5	548.9
(Inc)/dec in Investments	0.4	-228.9	-100.0	200.0
(Inc)/dec in Fixed Assets	-92.5	-26.6	-60.0	-70.0
Others	12.7	-6.2	-3.3	-1.9
CF from investing activities	-79.4	-261.8	-163.3	128.1
Issue/(Buy back) of Equity	0.1	0.0	0.0	0.0
Inc/(dec) in loan funds	-169.5	119.1	-100.0	-50.0
Dividend paid & dividend tax	-151.1	-344.7	-313.4	-501.4
Others	-15.1	148.2	-219.6	-13.9
CF from financing activities	-335.6	-77.5	-633.0	-565.3
Net Cash flow	-94.9	555.8	-468.9	111.7
Opening Cash	143.0	48.1	603.9	135.0
Closing Cash	48.1	603.9	135.0	246.7

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	125.5	125.5	125.5	125.5
Reserve and Surplus	1,342.9	1,805.9	1,886.2	2,134.0
Total Shareholders funds	1,468.4	1,931.4	2,011.6	2,259.5
Total Debt	179.7	298.8	198.8	148.8
Total Liabilities	1,648.1	2,230.1	2,210.4	2,408.3
Assets				
Gross Block	191.1	226.8	286.8	356.8
Less: Acc Depreciation	61.6	91.3	122.9	159.1
Total Fixed Assets	149.5	146.4	174.7	208.6
Goodwill	779.4	779.4	779.4	779.4
Investments	540.8	769.7	869.7	669.7
Inventory	463.6	518.6	583.7	701.7
Debtors	463.5	491.2	673.5	809.6
Other CA	248.5	243.3	327.8	446.5
Cash	48.1	603.9	135.0	246.7
Total Current Assets	1,223.7	1,857.0	1,720.0	2,204.5
Creditors	643.6	864.7	898.0	1,079.5
Provisions	184.6	226.2	257.6	313.0
Other CL	275.6	296.2	245.8	131.3
Total Current Liabilities	1,103.8	1,387.1	1,401.5	1,523.8
Net current assets	119.9	469.9	318.6	680.6
Other non current assets	58.5	64.7	68.0	69.9
Total Assets	1,648.1	2,230.1	2,210.4	2,408.3

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios

(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	7.9	9.8	9.3	12.0
Cash EPS	8.3	10.3	9.8	12.5
BV	23.4	30.8	32.1	36.0
DPS	2.4	5.5	5.0	8.0
Operating Ratios (%)				
EBITDA Margin	13.3	15.0	13.9	14.6
PAT Margin	11.0	12.8	10.7	11.4
Asset Turnover	23.7	21.2	19.0	18.4
Inventory Days	37.4	39.4	39.0	39.0
Debtor Days	37.4	37.3	45.0	45.0
Creditor Days	52.0	65.7	60.0	60.0
Return Ratios (%)				
RoE	33.8	31.9	29.0	33.2
RoCE	38.3	34.4	36.6	42.1
RoIC	120.0	232.0	122.7	120.9
Valuation Ratios (x)				
P/E	59.1	47.6	50.3	39.1
EV / EBITDA	48.3	39.2	37.6	29.8
EV / Net Sales	6.4	5.9	5.2	4.4
Market Cap / Sales	6.5	6.1	5.4	4.5
Price to Book Value	20.0	15.2	14.6	13.0
Solvency Ratios				
Debt / Equity	0.1	0.2	0.1	0.1
Current Ratio	1.4	1.1	1.4	1.4
Quick Ratio	0.9	0.7	0.9	0.9

Source: Company, ICICI Direct Research

Exhibit 11: ICICI Direct Consumer Discretionary universe

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Asian Paints (ASIPAI)	3,160	3,665	Buy	3,03,044	33.4	39.5	50.4	94.5	80.0	62.7	61.5	53.2	42.4	25.0	27.6	30.7	29.6	32.6	36.8
Astral Polytechnik (ASTPOL)	2,046	1,915	Hold	30,825	20.3	21.8	29.3	100.7	94.0	69.9	55.0	51.8	39.6	27.5	27.0	31.4	21.5	20.7	23.9
Amber Enterprises (AMBEN)	3,015	3,130	Buy	9,481	24.7	45.7	88.2	122.0	65.9	34.2	38.8	27.5	16.5	7.7	11.5	18.3	5.2	9.2	15.2
Bajaj Electricals (BAJELE)	1,066	1,280	Buy	12,119	16.5	23.8	35.7	64.9	45.0	30.0	40.9	29.6	20.7	15.1	20.0	26.1	10.7	16.8	20.6
Berger Paints (BERPAI)	856	835	Hold	83,135	7.4	9.3	12.3	115.5	92.4	69.7	64.7	56.2	43.5	24.9	28.3	34.6	21.3	24.3	28.4
Crompton Greaves(CROGR)	475	480	Buy	29,783	9.8	9.2	11.9	48.3	51.9	40.0	33.1	32.5	25.4	34.4	36.1	42.1	31.9	28.7	33.2
Dixon Technologies (DIXTE)	4,595	4,635	Buy	26,903	27.3	54.8	95.8	168.5	83.9	48.0	81.5	47.2	28.6	23.5	35.8	46.4	21.7	35.0	40.8
EPL (ESSPRO)	250	275	Hold	7,888	7.7	9.2	11.4	32.3	27.1	21.9	13.5	12.2	10.2	16.2	17.6	20.6	14.8	16.3	18.7
Havells India (HAVIND)	1,151	1,345	Buy	71,811	16.7	18.8	24.3	69.1	61.3	47.4	44.9	40.9	31.8	24.9	25.6	31.1	20.1	21.3	25.7
Kansai Nerolac (KANNER)	624	655	Buy	33,629	9.9	12.1	14.4	63.3	51.5	43.4	36.6	31.1	26.2	17.2	20.3	21.5	13.2	15.7	16.6
Moldtek Packaging (MOLP)	522	600	Buy	1,447	16.5	20.8	28.0	31.7	25.1	18.7	15.4	12.6	9.8	20.7	23.6	27.8	19.9	20.9	23.1
Pidilite Industries (PIDIND)	2,315	2,035	Hold	1,17,556	22.2	26.3	31.8	104.4	88.0	72.8	55.9	47.3	39.9	23.8	23.9	29.9	20.2	20.1	25.2
Polycab India (POLI)	1,910	2,025	Buy	28,436	59.4	64.8	79.5	32.1	29.5	24.0	21.1	17.8	14.6	21.9	22.7	24.3	18.5	17.8	18.6
Supreme Indus (SUPIND)	2,098	2,450	Buy	26,650	77.0	64.1	75.9	27.3	32.8	27.6	20.2	23.0	18.8	33.1	25.1	25.9	30.9	23.4	23.5
Symphony (SYMLIM)	1,084	1,345	Hold	7,583	15.3	28.5	39.5	70.9	38.1	27.4	60.0	33.1	23.8	15.2	28.2	34.9	14.9	26.8	32.5
Time Techno (TIMTEC)	83	100	Buy	1,877	4.8	8.5	10.8	17.4	9.7	7.7	6.5	5.2	4.4	8.7	12.1	13.7	5.7	9.7	11.3
V-Guard Ind (VGUARD)	250	320	Buy	10,707	4.7	5.5	7.3	59.0	50.4	38.1	37.3	35.4	27.3	23.9	25.1	29.0	16.7	19.2	22.5
Voltas Ltd (VOLTAS)	1,048	1,150	Buy	34,661	16.0	21.2	28.9	65.5	49.5	36.3	50.8	41.8	29.8	15.0	19.5	23.0	10.6	14.4	17.1

Source: Bloomberg, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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