

Crompton Greaves Consumer Electricals

24 October 2019

Reuters: CROP.BO; Bloomberg: CROMPTON IN

ECD segment outperforms, Lighting affects margin

Crompton Greaves Consumer Electricals (CGCEL) posted net revenue of Rs10.7bn in 2QFY20, up 4% YoY, 5%/6% below our/consensus estimates. Electric Consumer Durables (ECD) revenue grew by 11% YoY to Rs7.9bn (73% of total sales), led by healthy growth in Fans, Pumps and Geysers. Lighting revenue fell by 12% YoY to Rs2.9bn (27% of total sales) due to continued price erosion in LED lights. Gross margin rose 330bps YoY to 31.9%, driven by improved sales mix, new product launches and cost optimization programmes. EBITDA rose by 5% YoY to Rs1.3bn, leading to an EBITDA margin of 12%, up 10bps YoY, slightly below our estimate of 12.2%. EBIT margin of the ECD segment was healthy at 19.2%, up 30bps YoY, while Lighting segment EBIT margin was weak at 5.2%, down 110bps YoY. Lower interest cost (down 42% YoY due to NCD repayment of Rs3bn in June 2019) and lower tax rate (at 12.1%) drove 45% YoY growth in PAT to Rs1.1bn. The bottomline was 14%/3% above our/consensus estimates. CGCEL aims to sustain healthy growth and margin led by premiumisation, meaningful innovation, cost reduction, augmentation of distribution network and significant investments in product categories. We have cut our earnings estimates by 2%/4%/4% for FY20E/FY21E/FY22E, owing to low profitability in the Lighting segment. We maintain Buy rating on the stock with a revised target price of Rs335 (Rs350 earlier) based on 35x September 2021E earnings.

ECD segment outlook: ECD segment's sales grew by 11% YoY to Rs7.9bn in 2QFY20, while 1HFY20 sales grew by 14% YoY to Rs18.6bn. Fans registered volume growth of 8% YoY as CGCEL continues to be the market leader and gained a further 80bps market share. It continues to focus on premiumisation of the portfolio and took ~2% price hikes. In the Pumps category, Agro Pumps continued healthy momentum with volume growth of 17% YoY while growth in Residential Pumps was restricted owing to heavy rains and floods in the East region. Continuing its focus on revamp of its Appliances portfolio, CGCEL reported a robust volume growth of 38% YoY in the Geyser category, further aiding market share gain. CGCEL plans to revamp Mixer Grinder portfolio in 3QFY20 after successfully revamping Air-cooler and Geyser and aims to be among the top three players in Appliances. EBIT margin rose by 30bps YoY to 19.2% in 2QFY20 while 1HFY20 EBIT margin grew 60bps YoY to 19.8%.

Lighting segment outlook: Lighting segment's sales fell by 12% YoY to Rs2.9bn, owing to 15% YoY price erosion in LED lights in 2QFY20 due to irrational competition. Excluding EESL, Lighting segment revenue fell 4% YoY. In 1HFY20, Lighting sales fell by 7% YoY to Rs5.6bn. CGCEL is focusing on scaling up its presence in other categories which are not as commoditised as LED bulbs. It reported 35% volume growth in LED panel and battens while B2B lights grew 9% YoY. For LED lights, the focus will be on sales growth and market share while aiming to sustain the current gross margin. The LED light market share of CGCEL rose by 108bps. Revenue booking from EESL was lower at Rs190mn versus Rs490mn YoY. However, the order book remains similar YoY at Rs1bn, which implies higher revenue booking in the upcoming quarters. The current scope of work is largely towards street lights versus earlier scope of pure LED bulb supply. EESL contracts are fixed price in nature. Owing to pricing pressure on LED lights and investment towards B2B capability building and product innovation, EBIT margin fell by 110bps YoY to 5.2% in 2QFY20 and 130bps YoY to 5.2% in 1HFY20.

Outlook and valuation: 17% earnings CAGR over FY19-FY22E, industry-leading return ratios, high asset turnover, strong free cash flow and a lean working capital cycle will support its valuation.

BUY

Sector: Consumer Electricals

CMP: Rs262

Target Price: Rs335

Upside: 28%

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Key Data

Current Shares O/S (mn)	627.0
Mkt Cap (Rsbn/US\$bn)	141.2/2.0
52 Wk H / L (Rs)	273/190
Daily Vol. (3M NSE Avg.)	721,045

Price Performance (%)

	1 M	6 M	1 Yr
CGCEL	(2.4)	4.6	(4.7)
Nifty Index	(4.6)	4.4	1.1

Source: Bloomberg

Y/E March (Rsmn)	2QFY19	1QFY20	2QFY20	YoY (%)	QoQ (%)	1HFY19	1HFY20	YoY (%)
Net revenues	10,378	13,468	10,758	3.7	(20.1)	22,417	24,226	8.1
Raw material costs	7,411	9,073	7,327	(1.1)	(19.3)	15,554	16,400	5.4
Staff costs	675	820	810	19.9	(1.2)	1,394	1,630	16.9
Other expenses	1,053	1,655	1,326	26.0	(19.8)	2,558	2,981	16.5
Total expenditure	9,139	11,548	9,463	3.5	(18.1)	19,505	21,011	7.7
EBITDA	1,239	1,921	1,295	4.5	(32.6)	2,912	3,216	10.4
EBITDA margin (%)	11.9	14.3	12.0	-	-	13.0	13.3	-
Depreciation	32	58	64	97.8	10.6	63	122	92.3
Interest costs	150	150	87	(42.1)	(41.9)	303	237	(21.7)
Other income	98	173	122	24.5	(29.3)	187	296	58.3
PBT	1,155	1,886	1,267	9.7	(32.9)	2,733	3,153	15.4
Tax	386	660	154	(60.1)	(76.7)	921	814	(11.6)
PAT	769	1,226	1,113	44.7	(9.2)	1,812	2,339	29.1
PAT margin (%)	7.4	9.1	10.3	-	-	8.1	9.7	-
EPS (Rs)	1.2	2.0	1.8	44.6	(9.2)	2.9	3.7	29.0

Source: Company, Nirmal Bang Institutional Equities Research

Please refer to the disclaimer towards the end of the document.

Exhibit 1: Financial summary

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Net revenues	40,797	44,789	49,668	56,491	64,105
EBITDA	5,310	5,858	6,576	7,531	8,663
Net profit	3,238	4,025	4,729	5,527	6,504
EPS (Rs)	5.2	6.4	7.5	8.8	10.4
EPS growth (%)	14.3	24.3	17.5	16.9	17.7
EBITDA margin (%)	13.0	13.1	13.2	13.3	13.5
P/E (x)	50.7	40.8	34.7	29.7	25.3
P/BV (x)	20.8	15.0	11.9	9.6	7.8
EV/EBITDA (x)	31.8	28.4	25.0	21.5	18.3
Dividend yield (%)	0.7	0.8	1.0	1.1	1.3
RoCE (%)	39.8	39.7	42.1	44.4	43.9
RoIC (%)	62.1	69.3	77.1	81.3	87.3

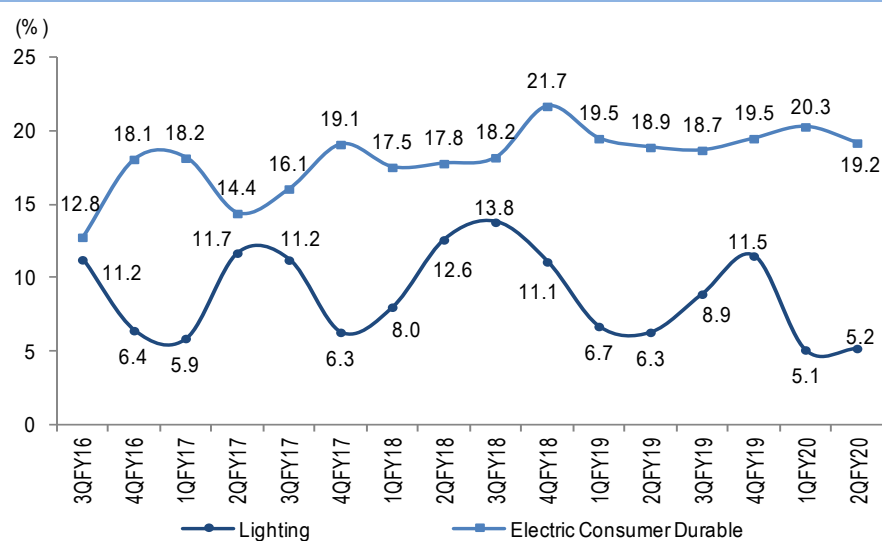
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Segment-wise analysis

Y/E March (Rsmn)	2QFY19	1QFY20	2QFY20	YoY (%)	QoQ (%)	1HFY19	1HFY20	YoY (%)
Revenues								
Lighting	3,250	2,739	2,877	(11.5)	5.0	6,041	5,616	(7.0)
Electric consumer durable	7,128	10,729	7,881	10.6	(26.5)	16,377	18,610	13.6
Revenue mix (%)								
Lighting	31.3	20.3	26.7	-	-	26.9	23.2	-
Electric consumer durable	68.7	79.7	73.3	-	-	73.1	76.8	-
EBIT (Rsmn)								
Lighting	206	141	151	(26.9)	7.0	394	292	(25.9)
Electric consumer durable	1,348	2,173	1,514	12.4	(30.3)	3,150	3,688	17.1
EBIT margin (%)								
Lighting	6.3	5.1	5.2	-	-	6.5	5.2	-
Electric consumer durable	18.9	20.3	19.2	-	-	19.2	19.8	-

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Segment-wise EBIT margin trend



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Actual performance versus our estimates

2QFY20 (Rsmn)	Actual	Our estimate	Deviation (%)	Consensus est.	Deviation (%)
Revenues	10,758	11,317	(4.9)	11,466	(6.2)
EBITDA	1,295	1,379	(6.1)	1,446	(10.4)
PAT	1,113	976	14.0	1,086	2.5

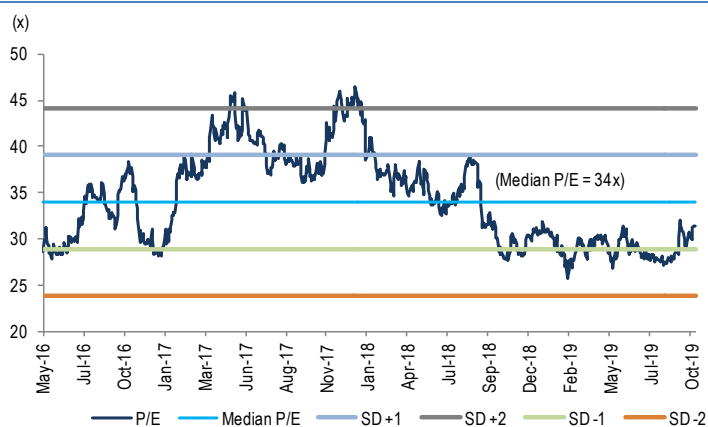
Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 5: Change in our estimates

(Rsmn) Y/E March	Old			New			Deviation (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenues	50,748	57,715	65,484	49,668	56,491	64,105	(2.1)	(2.1)	(2.1)
EBITDA	6,733	7,818	8,970	6,576	7,531	8,663	(2.3)	(3.7)	(3.4)
PAT	4,833	5,773	6,773	4,729	5,527	6,504	(2.1)	(4.3)	(4.0)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: One-year forward P/E charts



Source: Nirmal Bang Institutional Equities Research

Financials

Exhibit 7: Income statement

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Net sales	40,797	44,789	49,668	56,491	64,105
% growth	4.6	9.8	10.9	13.7	13.5
Raw material costs	27,996	30,918	33,774	38,301	43,399
Staff costs	2,827	2,919	3,228	3,615	4,039
Other overheads	4,664	5,094	6,089	7,043	8,004
Total expenditure	35,486	38,931	43,091	48,960	55,442
EBITDA	5,310	5,858	6,576	7,531	8,663
% growth	9.6	10.3	12.3	14.5	15.0
EBITDA margin (%)	13.0	13.1	13.2	13.3	13.5
Other income	308	483	505	525	540
Interest costs	637	596	449	314	100
Depreciation	126	129	241	274	314
Profit before tax	4,854	5,615	6,391	7,468	8,789
Tax	1,617	1,590	1,662	1,942	2,285
PAT	3,238	4,025	4,729	5,527	6,504
PAT margin (%)	7.9	9.0	9.5	9.8	10.1
EPS (Rs)	5.2	6.4	7.5	8.8	10.4
% growth	14.3	24.3	17.5	16.9	17.7

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Cash flow

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
EBIT	5,184	5,729	6,335	7,257	8,349
(Inc.)/dec. in working capital	(971)	1,457	(960)	(232)	(1,133)
Cash flow from operations	4,213	7,186	5,375	7,025	7,217
Other income	308	483	505	525	540
Depreciation	126	129	241	274	314
Tax paid (-)	(1,800)	(1,707)	(1,662)	(1,942)	(2,285)
Net cash from operations	2,846	6,090	4,459	5,883	5,785
Capital expenditure (-)	(134)	(158)	(490)	(250)	(250)
Net cash after capex	2,712	5,932	3,969	5,633	5,535
Interest paid (-)	(637)	(596)	(449)	(314)	(100)
Dividends paid (-)	(1,322)	(1,512)	(1,890)	(2,268)	(2,645)
Inc./(dec.) in total borrowings	7	(2,993)	(1,700)	(1,793)	-
Inc./(dec.) in investments	(487)	(1,766)	-	-	-
Cash from financial activities	(2,440)	(6,866)	(4,039)	(4,374)	(2,745)
Others	804	586	-	-	-
Opening cash balance	697	1,774	1,425	1,355	2,614
Closing cash balance	1,774	1,425	1,355	2,614	5,404
Change in cash balance	1,076	(349)	(70)	1,259	2,790

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Balance sheet

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Share capital	1,254	1,254	1,254	1,254	1,254
Reserves	6,642	9,731	12,571	15,830	19,688
Net worth	7,895	10,985	13,825	17,084	20,942
Borrowings	6,486	3,493	1,793	-	-
Total liabilities	14,381	14,477	15,617	17,084	20,942
Net block	760	786	1,045	1,021	957
Goodwill	7,856	7,846	7,846	7,846	7,846
Investments	3,676	5,442	5,442	5,442	5,442
Inventories	3,032	3,524	3,979	4,617	5,113
Debtors	5,536	5,660	6,532	7,274	8,079
Cash	1,774	1,425	1,355	2,614	5,404
Other current assets	1,131	1,411	1,490	1,695	1,923
Total current assets	11,474	12,019	13,356	16,200	20,519
Creditors	7,682	6,642	7,865	9,234	10,701
Other current liabilities & provisions	2,187	5,579	4,801	4,786	3,715
Total current liabilities	9,869	12,221	12,666	14,020	14,416
Net current assets	1,604	(201)	689	2,180	6,102
Deferred tax asset (net)	479	596	596	596	596
Total assets	14,381	14,477	15,617	17,084	20,942

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Key ratios

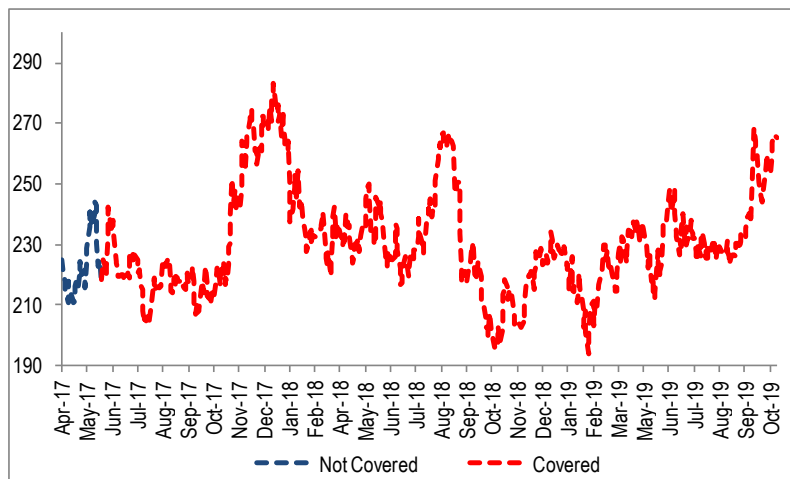
Y/E March	FY18	FY19	FY20E	FY21E	FY22E
Per share (Rs)					
EPS	5.2	6.4	7.5	8.8	10.4
Book value	12.6	17.5	22.0	27.2	33.4
Valuation (x)					
P/E	50.7	40.8	34.7	29.7	25.3
P/BV	20.8	15.0	11.9	9.6	7.8
EV/EBITDA	31.8	28.4	25.0	21.5	18.3
EV/sales	4.1	3.7	3.3	2.9	2.5
Return ratios (%)					
RoCE	39.8	39.7	42.1	44.4	43.9
RoE	49.5	42.6	38.1	35.8	34.2
RoIC	62.1	69.3	77.1	81.3	87.3
Profitability ratios (%)					
EBITDA margin	13.0	13.1	13.2	13.3	13.5
EBIT margin	12.7	12.8	12.8	12.8	13.0
PAT margin	7.9	9.0	9.5	9.8	10.1
Turnover ratios					
Total asset turnover ratio (x)	2.8	3.1	3.2	3.3	3.1
Fixed asset turnover ratio (x)	42.8	41.2	31.3	30.7	30.7
Debtor days	50	46	48	47	46
Inventory days	40	42	43	44	43
Creditor days	100	78	85	88	90

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price	Target price (Rs)
23 June 2017	Buy	218	260
6 July 2017	Buy	225	260
28 July 2017	Buy	208	260
9 October 2017	Buy	217	260
27 October 2017	Buy	218	275
9 January 2018	Buy	275	275
25 January 2018	Accumulate	250	270
6 April 2018	Accumulate	230	270
17 May 2018	Accumulate	228	255
10 July 2018	Accumulate	230	255
27 July 2018	Accumulate	237	266
9 October 2018	Accumulate	202	266
29 October 2018	Buy	197	265
9 January 2019	Buy	229	265
30 January 2019	Buy	214	270
9 April 2019	Buy	224	285
22 May 2019	Buy	217	285
9 July 2019	Buy	228	285
25 July 2019	Buy	225	285
23 September 2019	Buy	268	350
7 October 2019	Buy	253	350
24 October 2019	Buy	262	335

Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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