

# Crompton Greaves Consumer Electricals Ltd.

## Company overview

Crompton Greaves Consumer Electricals Ltd. (CGCEL) manufactures and markets a wide spectrum of consumer products ranging from fans, pumps, light sources and luminaires and household appliances. Company has maintained leadership in fans and pumps with market share of 24% and 28% respectively. In lighting segment, which is a highly competitive and evolving space, company is the third largest player. The products (fans and domestic pumps) in which company holds leadership position, contribute 60% to its revenue. Crompton Greaves demerged its consumer business during October 2015 and promoter Thapars divested their stake to Advent & Temasek (a global PE investors), thus brought much needed professionalism in the company.

## Investment Rationale

### Market leader in fans & pumps

CGCEL has strong presence across fans, pumps, lighting and appliances. Company has been market leader in fans, domestic pumps and street lighting for over 20 years. Fans are the highest contributors to the revenue, contributing 45% followed by lighting (28%), pumps (20%) and appliances (6%). CGCEL's business is classified into core portfolio (includes non premium fans, residential pumps and non-led lighting) and high growth portfolio (premium fans, LED lighting, agri pumps and appliances). Core portfolio contributes ~60% of the revenue and is steadily growing and CGCEL holds leadership position in this segment. Core products' market is less disruptive than growth portfolio and company is focusing on incremental market share. In high growth portfolio, company is launching new products, doing aggressive marketing and expanding its distribution reach in bid to tap the markets. Fans and residential products contribute 60% of its revenue and it is considered as one of the highest among peers. Crompton sustains its market leadership

Particulars (in Rs. Cr.)	FY16	FY17E	FY18E
Net Sales	1,811.7	3,980.0	4,491.6
Growth (%)	NA	119.7%	12.9%
EBITDA	209.5	490.1	563.7
EBITDA Margin (%)	11.6%	12.3%	12.5%
Net profit	105.2	288.1	344.7
Net Profit Margin (%)	5.8%	7.2%	7.7%
EPS (Rs)	3.4	4.5	5.4

Source: Ashika Research & Bloomberg; Note: FY16 financials are for 6 months

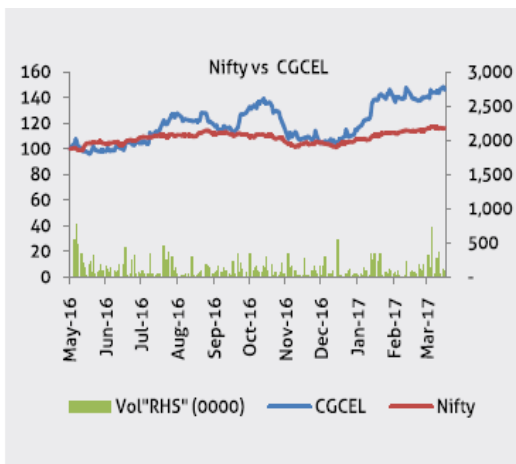
April 01, 2017

Recommendation	BUY
Closing price	Rs 211
Target price	Rs 244
Potential upside	16%

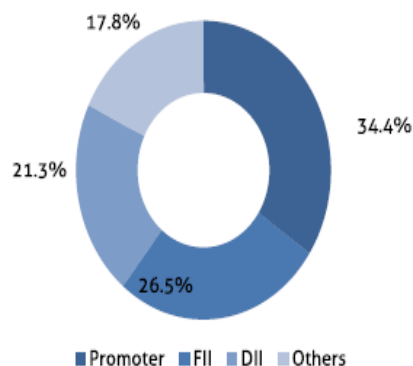
### Company Information

BSE Code	539876
NSE Code	CROMPTON
Bloomberg Code	CROMPTON IN
ISIN	INE299U01018
Market Cap (Rs. Cr)	13,406
Outstanding shares(Cr)	62.67
52-wk Hi/Lo (Rs.)	219.9/126.2
Avg. daily volume (1yr. on NSE)	12,16,943
Face Value(Rs.)	2
Book Value	5.99

### Relative performance chart (one year)



Shareholding pattern as of December 2016



## Investment Rationale Cont...

position in fans owing to consistent new launches and strong hold across price points. CGCEL's fan mix is also very balanced with ceiling fans comprising of 63% of total fan's portfolio followed by table, pedestal & wall-mounted at 28%, exhaust 6% and others 3%. The premium segment of fans is growing faster compared to others and CGCEL has the highest number of models in the premium and super premium segment. Company's pump business witnessed robust 15% CAGR growth in last 8 years on the back of consistent new launches from CGCEL. Historically, new launches have contributed ~33% to the revenue of pump segment and company would continue to gain market share through a focus on new launches. Apart from residential pumps, company also has presence in industrial pump segment which offers high growth. The government's increased focus on irrigation is positive for industrial pumps manufacturers and CGCEL is well placed to capitalize the growing opportunity in the segment.

### LED has strong potential to grow

The organized light electrical industry is expected to grow steadily by 10-11% for the next 5-10 years led by improving income levels, urbanization & demographic profile, electrification, premiumization, replacement demand and shift in market from unorganized to organized. A revolution has happened in light industry with the emergence of LED. In the past two years, it has witnessed a big shift from CFL/incandescent to LED based lighting. A sharp fall in LED prices further increase its popularity in light industry. CGCEL has been witnessing a healthy growth in its LED business, which grew by robust 70-80% during 9MFY17. LED contributes 55% revenue in lighting business. Despite of not being a leader in the lighting space, company has delivered a healthy 12% CAGR growth in the last 7 years. The size of the lighting market is estimated at ~Rs 210 billion and it expects to touch Rs 370 billion by 2020, driven by strong LED growth, thus it can be anticipated that there is huge growth potential in LED segment. A strong government push to use LED lights along with a sharp drop in LED prices is supporting the growth of this segment. As per Energy Efficiency Services Ltd. India is saving Rs 100 billion on electricity after successfully implementing LED based light vs. CFL or incandescent. Even, globally the penetration of LED is growing at rapid space and it has touched ~25% as compared to 1% in 2010.

### Leveraging its brand in appliances

CGCEL has been striving to leverage its brand in appliance business in order to increase its market share. The four key products namely water heaters, air coolers, mixer grinders and irons have a combined market of Rs 100 billion, which is growing at ~15%. The largest market opportunity is that of air coolers, followed by mixer grinders, water heaters and irons. Currently company derives Rs 200 crore from appliance segment, which accounts mere 6% of total revenue, thus there is enough headroom for the company to demonstrate robust growth in its appliance business in the coming years. Due to its strong brand, company's appliance products are well accepted in the market. Thus, given the market opportunity for appliances and company's brand image, it is expected that company will continue to show healthy revenue growth in this segment.

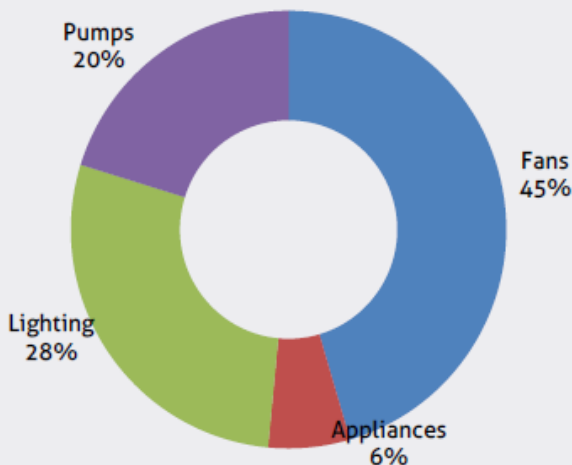
## Key Risks

- As company is engaged in consumer product business which is discretionary in nature, hence any slowdown in domestic economy could hurt its product sales which in turn impede its future revenue growth.
- Raw material costs accounts 20% of its revenue, hence any volatility in raw material price could have negative bearings on its margins.

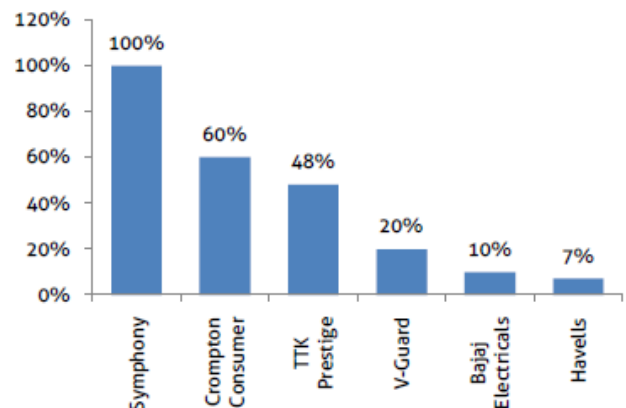
## Valuation

CGCEL is an undisputed market leader in fans and domestic pumps, having healthy market share of 24% and 28% respectively. These two products contribute ~60% of its total revenue and it is comparatively higher than other consumer players except Symphony. In lighting business segment, company is more focused on LED segment as it offers strong growth potential given government push to implement LED lights and its cost advantage compared to CFL/incandescent. Further, company is striving to leverage its brand in appliance business which is at nascent stage. Strong relationship with dealers and distributors is aiding to increase the penetration of its appliance products in the market. We believe, going ahead company would be able to garner more market share in appliance segment given the market opportunity and strong brand image. After demerger from Crompton Greaves and divestment of entire promoter stake to global private equity has brought more professionalism in the company which would help to underpin its foothold in domestic consumer market. Asset light model and healthy cash flow of CGCEL ensure one of the best return ratios in the consumer durable space which justifies its premium valuation. Higher growth in premium & energy-efficient fans, full benefit of LED growth in the lighting segment and channel expansion in the appliance business would be the key catalysts for the company going ahead. We believe that professional management, strong presence in premium fan segment and healthy return ratios justifies its premium valuation. Hence, we recommend our investors to BUY the scrip with target of Rs 244 from 12 months investment perspective. Currently the scrip is valued at P/E multiple of 38x on Bloomberg consensus EPS of Rs 5.4.

Revenue Breakup



Revenue share by leadership brands



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