BUY

Crompton Greaves Consumer Electricals Ltd: Q2FY17 Result Update

Margin Expansion Continues With Focus On Premiumisation… CMP INR: 183 Target: INR 190

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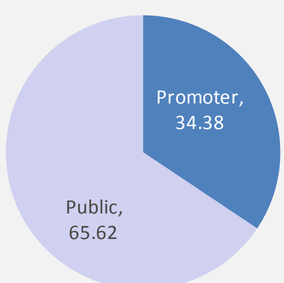
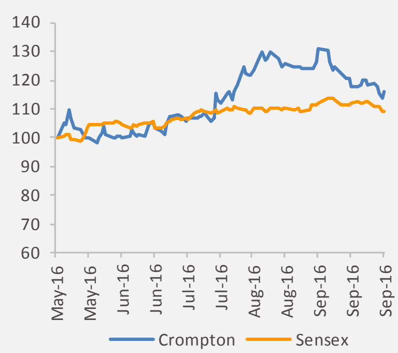
Bloomberg:	**CROMPTON:IN**
52-week range (INR):	191 / 126
Share in issue (Cr):	63
M cap (INR Cr):	11,470
Avg. Daily Vol. BSE/NSE :('000):	500/1,000

SHARE HOLDING PATTERN (%)





Date: 26th October, 2016

Crompton Greaves Consumer Electricals Ltd. (CGCEL) Q2FY17 reported revenues at INR 890cr (up ~11% YoY) in-line with our estimates of INR 901cr in seasonally weak quarter. The sales growth led by healthy volume growth in its premium fan (up 50% y-o-y), LED segment (up 64% y-o-y) and Pumps. Gross margin were reported at 30.9% against our estimate of 29.7%. EBITDA at INR ~97cr above our estimate of INR 90cr mainly due to higher gross margin and lower overhead expenses against our estimates. EBITDA margins were reported at 10.9% against our estimates of 10%. EBIT before corporate expenses and one-time Items grew to INR 120cr (up ~54% y-o-y). The healthy growth in sales was attributed to good growth across segment. The focused categories for the company e.g. Premium Fans, Agro Pumps and LED Lighting have all registered significant growth, as per management. Also, management guided that the company is continuing to gain share in ceiling fans and LED lights. We believe that the healthy growth across segment will continue with improvement in product mix, premiumisation and innovation. Further, GST implementation in future would accelerate the company's growth trajectory, as the unorganised players still have meaningful pie of domestic electric consumer durables' industry. We expect CGCEL to deliver strong earnings growth and maintain high RoE/RoCE. Hence, we maintain 'BUY'.

Revenues inline; Light products and premium products leads the growth

CGCEL has reported Q2FY17 revenues, at INR 890cr (up ~11% YoY) was in-line with our estimates of INR 901cr. Lighting products (contributes ~32% of revenue) reported healthy growth of 15.5% q-o-q in revenue with higher volumes growth in LED segment. The LED products accounts ~53% revenue of Lighting products segment and grew by 64% y-o-y in Q2FY17 revenue. The premium fan segment of CGCEL grew 50% y-o-y and contributed more than 10% to fans segment. CGCEL is focusing on agriculture pump segment where it has low market share, which grew by ~30% in Q2FY17 in value terms. The company has improved its operating margin in Lighting products by 440bps q-o-q whereas margin contracted by 300bps q-o-q in electric consumer durables segment (at ~15%) due to relatively weak quarter against Q1FY17. We believe that the healthy growth across segment will continue with improvement in product mix, premiumisation and innovation.

Growth momentum to continue

Management highlighted that products addition, inorganic growth, increasing market share and premiumisation would continue to bring growth in earnings. Also, increased focus on high-margin products like Appliances, agricultural pumps, premium fans etc will drive the next leg of growth. The margin improvement is majorly on account of cost efficiency and will continue to improve as per management. The mojor driver for margin would be 1) premium product growth across segments, 2) reduction in costs with supply chain efficiency, scale improvement and increase in operational/production efficiency.

Outlook and valuations:

The healthy growth in sales was attributed to good growth across segment. The focused categories for the company e.g. Premium Fans, Agro Pumps and LED Lighting have all registered significant growth, as per management. Also, management guided that the company is continuing to gain share in ceiling fans and LED lights. Also, Go-To-Market initiatives are making progress towards a more structured secondary distribution and costs saving initiatives are on track, resulted healthy growth and higher margins in the quarter. The ESOP expenses of INR 20cr expected in 2HFY17, however, total expenses is ~INR 98cr which will come in coming years. At current market price of INR 183, the stock is trading at 36x/30x FY17E/FY18E earnings respectively. We maintain 'BUY' rating on the stock with the target price of INR 190.

(INR cr)	Q2FY17	Q2FY16	% change	Q1FY17	% change	FY16	FY17E	FY18E
Income from operations	890	804	11%	1,121	-21%	3,661	4,212	4,832
Total operating expenses	793	0	NA	966	-18%	3,277	3,678	4,203
EBITDA	97	0	NA	155	-37%	384	535	629
EBIT	95	0	NA	152	-38%	372	537	632
Adjusted net profit	55	0	NA	92	-40%	209	318	385
Diluted EPS (INR)	4.4	0	NA	7.3	-40%	3	5	6
Diluted PE (x)						55.0	36.0	30.0
ROCE (%)						42	50	50

Q2FY17 Result Highlights

(INR Cr)	Q2FY17	Q2FY16	%Change	Q1FY17	%Change	H1FY17	H1FY16	%Change
Net Revenues	890	804	10.6%	1,121	-20.6%	2,011	1,775	13.3%
Operating Expenses	793	-	NA	966	-17.9%	1,758	-	NA
EBITDA	97	-	NA	155	-37.2%	252	-	NA
Depreciation	3	-	NA	3	-2.9%	6	-	NA
Interest	16	-	NA	18	-10.6%	34	-	NA
Other Income	4.2	-	NA	3.4	21.0%	7.6		NA
PBT	83	-	NA	138	-39.9%	220	-	NA
Tax	27	-	NA	46	-40.2%	73	-	NA
PAT Before Minority & Associate Share	55	-	NA	92	-39.7%	147	-	NA
Share of Associates			NA		NA	-	-	NA
Reported PAT	55	-	NA	92	-39.7%	147	-	NA
Equity Capital	125	125		125		125	125	
No of Shares (cr)	63	63		63		63	63	
EPS (INR)	0.9	-		1.5		2.4	-	
EBITDA Margin (%)	10.9%	0.0%		13.8%		12.5%	0.0%	
PAT Margin (%)	6.2%	0.0%		8.2%		7.3%	0.0%	
Tax Rate (%)	33.0%	NA		33.2%		33.1%	NA	

Business Overview:

Crompton Greaves Consumer Electricals (CGCEL), the demerged consumer business of Crompton Greaves (CG), is the undisputed market leader in the fans segment and a formidable branded player in the light consumer electrical market. In FY16, 45% of the company's revenue was contributed by fans, 30% by lighting, 20% by pumps and 6% by appliances.

Premiumisation, innovative offerings driving spurt; sharpening appliance market focus new growth avenue

Innovative products, deepening distribution reach, operational efficiencies and strengthening of critical capabilities have anchored CGCEL's faster-than-industry growth pace over the years. Moreover, the company's unwavering focus on product diversification to innovate and introduce premium products with better aesthetics and new features—dust free fans, under light fans, sensor fans—across product categories has fuelled its pole position across product categories. Sharpening focus on penetrating the appliance business and decorative fan market to cash in on its robust distribution reach offers humungous untapped growth opportunity.

Strong experienced management team at helm

Post CGCEL's demerger from CG, a new management with wide experience in FMCG and consumer electrical space is at the helm at the new entity with a mandate to focus on premiumisation and growth. Moreover, new promoter (Advent) boasts of a long and credible investment history in consumption sectors—Advent has invested in nearly 50 consumer products and industrial companies and is investing in India since 2007; since inception, its entire portfolio, including realized and unrealized investments, has generated gross IRR of 33% and gross 2.9x invested capital.

Bolstering already wide distribution reach to enhance market share of nascent appliances business

CGCEL has a robust distribution network in the consumer electrical space of 3,000 plus distributors and 100,000 plus touch points. Additionally, on the anvil are plans to further deepen its reach to enhance market share of the fledgling appliance business with the aim to have the right products at the right place.

Key Risks

- Threat of cheap imports from China
- Less supply of electricity or fewer electrified houses
- High competitive market and less scope from unorganized pie as organized players has higher market-share in each segment

Financials

Income Statement

Year to March (INR Cr)	FY14	FY15	FY16	FY17E	FY18E
Income from operations	2,947	3,321	3,661	4,212	4,832
Total operating expenses	2,599	2,902	3,277	3,678	4,203
EBITDA	348	420	384	535	629
Depreciation and amortisation	10	12	13	12	14
EBIT	338	407	372	537	632
Interest expenses	5	10	60	62	58
Profit before tax	333	397	312	475	574
Provision for tax	96	128	103	157	189
Core profit	237	270	209	318	385
Extraordinary items					
Profit after tax	237	270	209	318	385
Adjusted net profit	237	270	209	318	385
Equity shares outstanding (Cr)	63	63	63	63	63
EPS (INR) basic	4	3	3	5	6
Diluted shares (Cr)	63	63	63	63	63
EPS (INR) fully diluted	4	3	3	5	6
Dividend payout (%)	0	0	0	47	47

Common size metrics- as % of net revenues

Year to March	FY14	FY15	FY16	FY17E	FY18E
Operating expenses	88.2	87.4	89.5	87.3	87.0
Depreciation	0.3	0.4	0.4	0.3	0.3
Interest expenditure	0.2	0.3	1.6	1.5	1.2
EBITDA margins	11.8	12.6	10.5	12.7	13.0
Net profit margins	8.0	8.1	5.7	7.6	8.0

Growth metrics (%)

Year to March	FY14	FY15	FY16	FY17E	FY18E
Revenues	9.9	12.7	10.2	15.0	14.7
EBITDA	21.7	20.6	(8.4)	39.1	17.7
PBT	19.7	19.3	(21.5)	52.3	20.9
Net profit	30.2	13.9	(22.5)	52.3	20.9
EPS	13.9	(22.5)	0.0	52.3	20.9

Balance sheet (INR Cr)

As on 31st March	FY14	FY15	FY16	FY17E	FY18E
Equity share capital	0	0	125	125	125
Reserves & surplus	–	–	103	273	477
Shareholders funds	–	–	229	398	602
Secured loans	–	–	507	507	507
Unsecured loans	–	–	10	10	10
Borrowings	–	–	650	650	650
Sources of funds	**–**	**–**	**879**	**1,048**	**1,253**
Gross block	–	–	203	233	268
Depreciation	–	–	124	138	153
Net block	–	–	79	95	116
Capital work in progress	–	–	0	100	100
Total fixed assets	–	–	79	195	216
Inventories	–	–	210	346	397
Sundry debtors	–	–	417	519	596
Cash and equivalents	–	–	90	166	380
Loans and advances	–	–	73	87	100
Other current assets	–	–	1	2	2
Total current assets	–	–	791	1,121	1,475
Sundry creditors and others	–	–	664	907	1,036
Provisions	–	–	43	47	53
Total CL & provisions	–	–	707	954	1,089
Net current assets	–	–	84	167	385
Net Deferred tax	–	–	-4	-4	-4
Misc expenditure	–	–	201	231	265
Uses of funds	**–**	**–**	**359**	**589**	**862**

Cash flow statement

Year to March	FY14	FY15	FY16	FY17E	FY18E
Net profit	237	270	209	318	385
Add: Depreciation	10	12	13	12	14
Gross cash flow	247	282	222	330	399
Less: Changes in W. C.				100	0
Operating cash flow	247	282	222	230	399
Less: Capex	0	0	92	29	34
Free cash flow	**247**	**282**	**130**	**201**	**364**

Ratios

Year to March	FY14	FY15	FY16	FY17E	FY18E
ROAE (%)			91.3	101.5	76.9
ROACE (%)			41.6	50.5	49.8
Debtors (days)			42	45	45
Current ratio			0.9	0.9	1.1
Debt/Equity			2.8	1.6	1.1
Inventory (days)			21	30	30
Payable (days)			74	90	90
Cash conversion cycle (days)			-12	-15	-15
Debt/EBITDA			1.7	1.2	1.0
Adjusted debt/Equity			2.4	1.2	0.4

Valuation parameters

Year to March	FY14	FY15	FY16	FY17E	FY18E
Diluted EPS (INR)	3.8	4.3	3.3	5.1	6.1
Y-o-Y growth (%)		*13.9*	*(22.5)*	*52.3*	*20.9*
CEPS (INR)			3.5	5.3	6.4
Diluted P/E (x)			55.1	36.2	29.9
Price/BV(x)			0.8	0.5	0.3
EV/Sales (x)			3.3	2.8	2.4
EV/EBITDA (x)			31.4	22.0	18.3
Diluted shares O/S			62.7	62.7	62.7
Basic EPS			3.3	5.1	6.1
Basic PE (x)			55.1	36.2	29.9
Price/Sales			3.1	2.7	2.4
Asset turnover			2.2	2.2	1.8

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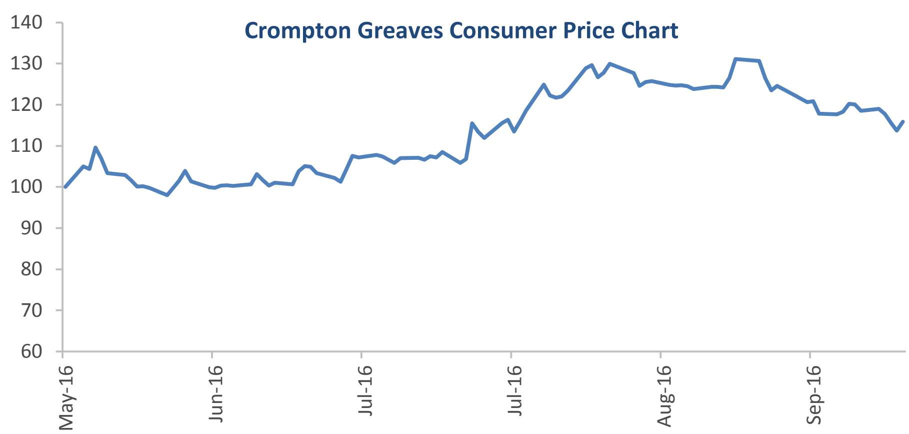
Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate between 5-15% over a 12-month period
Reduce	Return below 5% over a 12-month period



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