Detailed Report
SECTOR: ENGINEERING

Crompton Greaves

STOCK INFO.	BLOOMBERG
BSE Sensex: 8,484	CRG IN
	REUTERS CODE
S&P CNX: 2,567	CROM.BO

10 October 2005 — **Buy**

Previous Recommendation: Buy — Rs639

Moving to a bigger pond

- Leveraging on global scale and Indian cost economics
- Progress on integration with Pauwels has been encouraging
- Acquisition led growth strategy may get replicated for industrial motors
- Earnings CAGR of 29% over FY05-08; **Buy** with target price of Rs770

Satyam Agarwal (Agarwals@MotilalOswal.com); Tel: +91 22 5657 5353/Anjali Shah Vora (Anjali@MotilalOswal.com); Tel: +91 22 5657 5305

Contents

Page No.

Power systems: global scale and Indian cost economics 4-5

Pauwels: financial turnaround is faster than expected 6-11

Industrial systems: acquisition-led strategy could be replicated 12-13

Standalone businesses in a new growth trajectory 14-22

Strong case for improvement in EBITDA margins 23-24

Investment risks 25-26

Financial analysis: billion dollar revenues in sight 27-29

Valuations 30-31

Company background 32-34

Financial statements 35-38

Crompton Greaves

STOCK INFO.	BLOOMBERG
BSE Sensex: 8,484	CRG IN
	REUTERS CODE
S&P CNX: 2,567	CROM.BO

10 October 2005 **Buy**

Previous Recommendation: Buy Rs639

RS MILLION	2005	2006E	2007E	2008E
Net Sales	19,725	23,068	26,906	30,179
EBITDA	1,756	2,355	2,889	3,348
PAT*	1,447	2,075	2,685	3,083
EPS (Rs)*	27.6	39.6	51.3	58.9
EPS Growth (%)*	106.4	43.4	29.4	14.8
BV/Share (Rs)	75.1	97.9	125.7	157.2
P/E (x)*	23.1	16.1	12.5	10.9
P/BV (x)	8.5	6.5	5.1	4.1
EV/EBITDA (x)	20.4	14.9	12.0	10.1
EV/Sales (x)	1.8	1.5	1.3	1.1
RoE (%)	38.9	38.2	35.0	30.8
RoCE (%)	21.6	29.7	32.1	31.8

* *Consolidated*

KEY FINANCIALS	
Shares Outstanding (m)	52.4
Market Cap. (Rs b)	33.5
Market Cap. (US$ b)	0.8
Past 3 yrs. Sales Growth (%)	10.1
Past 3 yrs. NP Growth (%)	60.0
Dividend Payout (%)	32.0
Dividend Yield (%)	1.1

STOCK DATA	
52-Week Range (Rs)	688/210
Major Shareholders (as of June 2005)	(%)
Promoters	38.1
Domestic Institutions	27.5
FII/FDIs	23.3
Public	11.1
Average Daily Turnover	
Volume ('000 shares)	123.9
Value (Rs million)	52.5
1/6/12 Month Rel. Performance (%)	4/16/122
1/6/12 Month Abs. Performance (%)	9/49/171

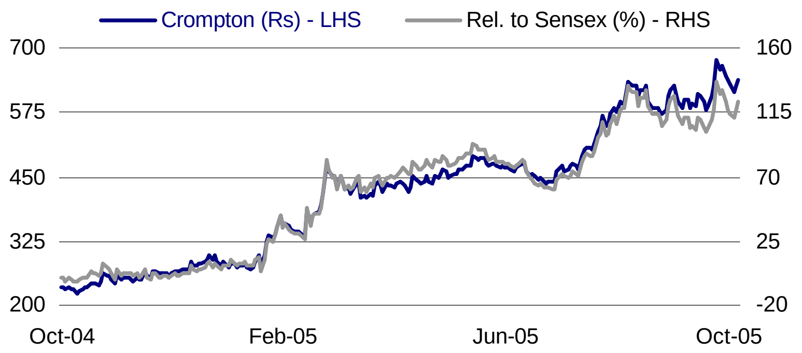
Crompton is the market leader in power systems, industrial motors and consumer fans in India. The recent acquisition of Pauwels has catapulted it to the world's seventh largest transformer manufacturer, with a market share of 3.3%. The company now has access to US and European markets, and is poised to leverage the advantage of global scale with Indian cost economics.

Progress on integration with Pauwels has been encouraging: From a loss of Eur2m in CY04, we expect Pauwels to turnaround with a net profit of Eur4.8m in CY05 and Eur10.1m in CY06. The progress so far on integration indicates that Crompton has the management bandwidth to manage large acquisitions.

Industrial systems - acquisition led strategy could be replicated: Crompton is the market leader in India in industrial motors, with a market share of ~30%. Like transformers, the manufacturing process of industrial motors is labour intensive, resulting in global manufacturing base shifting to low cost countries like China, India and South America. The Indian market for motors is just 2% of the global market of US$18.6b. Given the growth potential, we believe acquisition of a large sized global motors company would be the optimal way forward.

Strong earnings CAGR, recommend Buy: On a consolidated basis, we expect Crompton's net profit to increase to Rs3.1b in FY08, a CAGR of 29%. Based on 15x FY07E PER, our 12-month target price stands at Rs770/share, a potential stock appreciation of 21%.

STOCK PERFORMANCE (1 YEAR)

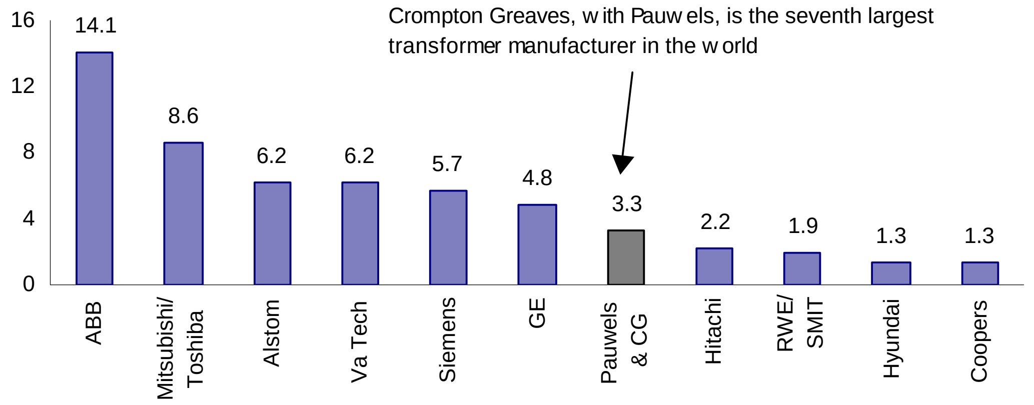


Power systems: global scale and Indian cost economics

The Pauwels acquisition will give Crompton access to the US and European markets

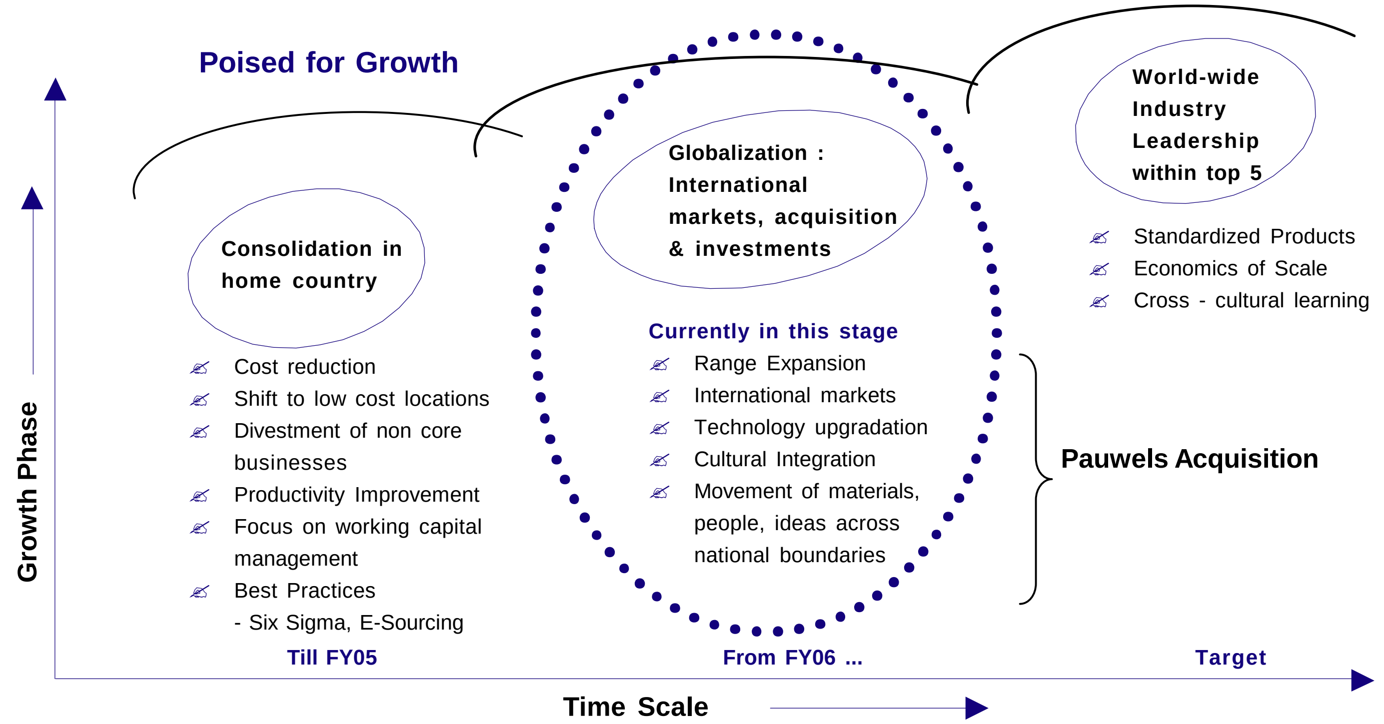
The recent acquisition of Pauwels has catapulted Crompton to seventh place among the transformer manufacturers in the world. The company now has access to US and European markets, which accounted for 71% of Pauwels' turnover in CY04. It now has manufacturing facilities in six countries: India, Belgium, Ireland, USA, Canada and Indonesia.

GLOBAL MARKET SHARE (TRANSFORMERS - %)



Source: Company

POST PAUWELS ACQUISITION, CROMPTON IS NOW READY TO TAKE THE NEXT LEAP FORWARD



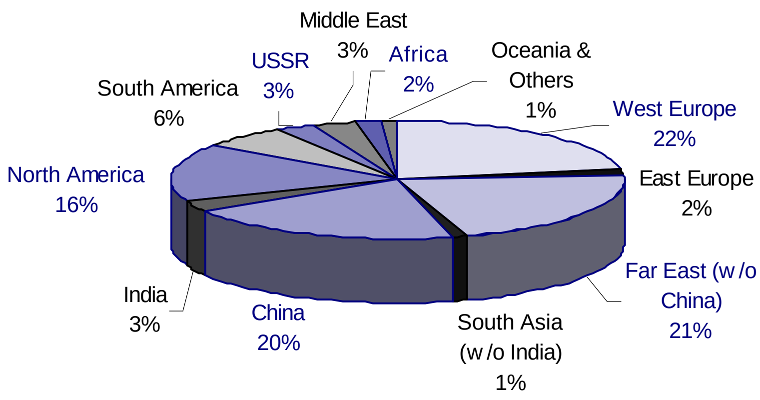
Source: Company/Motilal Oswal Securities

Which, along with the Far East represents 60% of the global transformers market

India represents just 2.6% of the global transformers market of US$11.2b, with developed economies of US, Europe and Far East representing 60% of the market. A sizeable chunk of the demand in these markets is being driven by replacements, with strong brand / customer access being important for market penetration. Post acquisition of Pauwels, Crompton now caters to 75% of the global market for transformers.

GLOBAL TRANSFORMERS MARKET	(US$ B)	
Rest of the World	10.9	Till FY05, Crompton was just focused on 2.7% of the global transformer market. The Pauwels acquisition has made the remaining pie accessable.
India	0.3	
Total World Market	**11.2**	

PIE CHART: GLOBAL TRANSFORMERS MARKET (%)



Source: Company

With a complete transformer product range, access to strong brands and the India cost advantage in a labour intensive business, Crompton is now ready for the next leap forward in power systems business, globally.

Pauwels: financial turnaround is faster than expected

The Pauwels deal will not only enhance Crompton's product basket but also result in cost savings

Crompton has identified the key areas for synergies as: (1) Design and Technology (2) Purchasing (3) Manufacturing Engineering and (4) Marketing. To begin with, the company has already appointed three integration teams focused on operations, marketing and finance for evaluation of potential synergies. In terms of raw material sourcing, the enhanced order size is already resulting in cost savings. New products from Pauwels stable are being launched in India, while plans are afoot to export high voltage switchgears being manufactured by Crompton. The company intends to complete the integration process over the next 15-18 months.

Emergence of an integrated solutions company

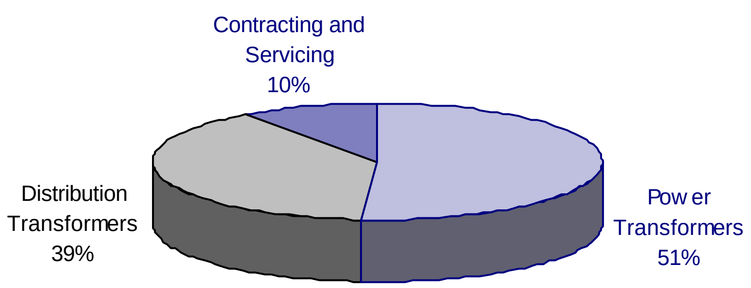
From 420kV, Crompton's transformer range will now expand to 500kV

Crompton manufactures and markets transformers up to 420kV while Pauwels transformer range expands up to 500kV. For transformers beyond 800kV, Crompton has tied up with Toshiba. Thus, the acquisition will complete the transformer product range for Crompton.

Crompton will also be able to leverage on Pauwels customer range with an integrated offering

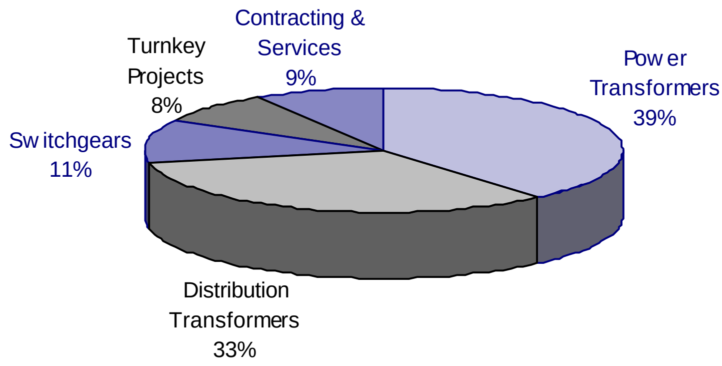
With Pauwels deriving nearly 90% of its revenues from the transformer segment, there is an opportunity for Crompton to leverage on the customer base of Pauwels with an integrated offering as a 'Complete Solutions Company' providing transformers, switchgears, capacitors, circuit breakers, etc. The facilities of Pauwels in Belgium can be utilized to test and assemble switchgears manufactured by Crompton. This will entail that even these products, can command a premium pricing, being associated with the Pauwels brand. Also, products like single phase distribution transformers, slim distribution transformers (for wind power applications), HVDS transformers, etc can be launched in the Indian market to strengthen the product range.

REVENUE MIX OF PAUWELS (CY04)



Source: Company

REVENUE MIX OF CROMPTON (POWER SYSTEMS) & PAUWELS (FY05)



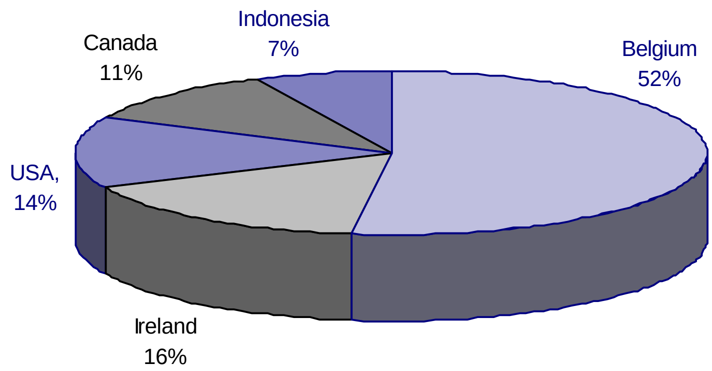
Source: Company

Leveraging Indian cost economics

The Pauwels Group has manufacturing facilities spread across three continents

The Pauwels Group's manufacturing facilities are spread across three continents covering five countries viz. Belgium, Ireland, Canada, USA and Indonesia, (the largest one being located at Belgium).

MANUFACTURING ORIGIN OF PAUWELS SALES



Source: Company

Crompton is likely to shift design functions to India while retaining manufacturing operations overseas

We believe that going forward, in line with the acquisition strategies being adopted by several companies in the past, Crompton will shift a large part of the design and related functions to India, and retain its mass manufacturing operations in the developed countries. This will enable shifting of a sizeable part of the cost to India and still retain the final manufacturing, assembly and testing operations in developed economies. This arrangement will provide comfort to the customers, maintaining the premium pricing being commanded by the 'Pauwels' brand and also enable the company to leverage on the low cost economics in India.

Economies in raw material sourcing

Raw material procurement, however, will be centralized to improve bargaining power

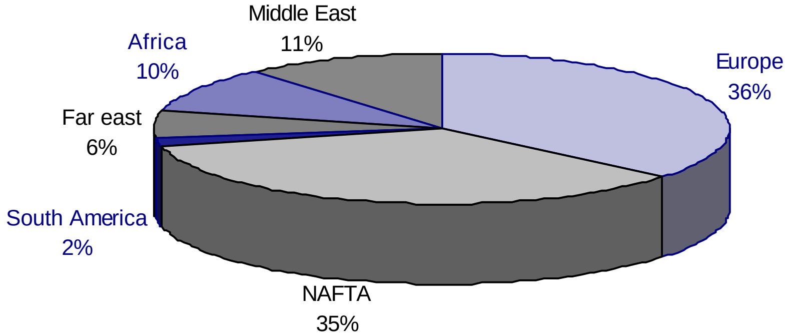
The management believes that a centralized raw material procurement strategy can drive sizeable gains for the consolidated entity. Prior to the acquisition, the various Pauwels Group entities in different countries operated as standalone entities. Thus, integrating the raw material sourcing for different Pauwels group companies and Crompton will improve the bargaining power of the consolidated entity, entailing substantial gains in terms of bulk purchase discounts.

Enhanced Geographical Reach

Crompton intends to vacate the markets where Pauwels has been present, as the brand commands a price premium.

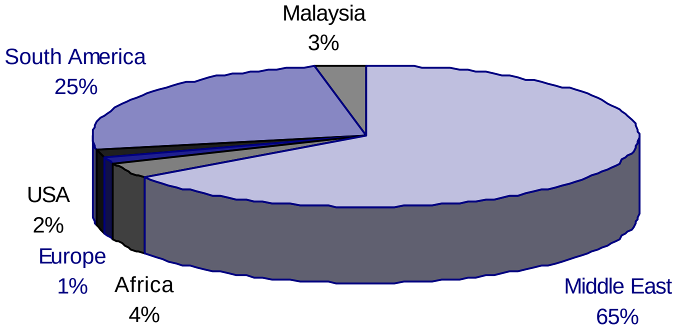
Pauwels has a marketing and distribution network across the globe, with 77% of its CY04 revenues accruing from the US, Europe and Far East. The transformer sales of Crompton are concentrated in India, Middle East and South America, which account for merely 12% of the world's addressable market. Acquisition of Pauwels has resulted in a significant synergy for Crompton as the combined entity will now be in a position to effectively address 75% of the global market for transformers. As part of the marketing strategy, Crompton intends to vacate the markets where Pauwels has been present, as the brand commands a price premium.

REGIONAL PRESENCE OF PAUWELS (%)



CY04 revenues = Eur244m *Source: Company*

EXPORTS OF CROMPTON (%)



FY05 power system exports = Rs2.6b *Source: Company*

Pauwels: improvement in financial performance to be visible in CY05 itself

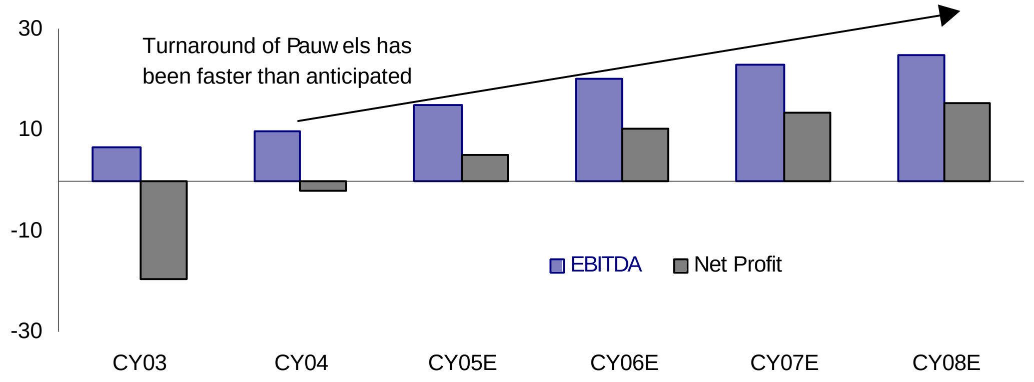
Benefits of improved synergies should accrue in CY05 itself

During CY05, we expect Pauwels revenues at Eur263m (up 15% YoY) and further increase to Eur283m (up 8% YoY) in CY06. EBITDA margins are expected to improve from 4.2% in CY04 to 5.6% in CY05, 7.1% in CY06 and then stabilize at 7.5% thereafter. This improvement in revenues and margins are being largely driven by improved synergies and better economies of scale.

Pauwels is likely to add Eur4.8m to consolidated PAT in CY05

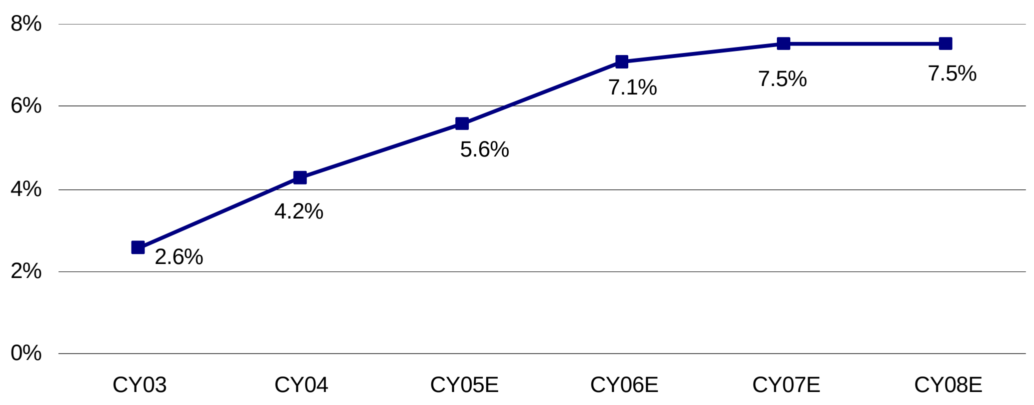
We expect Pauwels to report healthy growth in earnings on the back of improvement in EBITDA margins, debt repayment, marginal capex and reduction in interest rates. From a marginal loss of Eur2m in CY04, we expect Pauwels to report a net profit of Eur4.8m in CY05, Eur10.1m in CY06 and Eur13.2m in CY07.

TREND IN PAUWELS EBITDA AND NET PROFIT (EURO M)



Source: Company/Motilal Oswal Securities

TREND IN PAUWELS EBITDA MARGINS (%)



Source: Company/Motilal Oswal Securities

PAUWELS PROFIT & LOSS (EURO M)

	CY03	CY04	CY05E	CY06E	CY07E	CY08E
Net Sales	**250.5**	**228.5**	**262.8**	**283.8**	**306.5**	**331.0**
Other Operating Income	3.6	6.2	6.0	6.0	6.0	6.0
Total Income	**254.1**	**234.7**	**268.8**	**289.8**	**312.5**	**337.0**
% YoY		*-8%*	*15%*	*8%*	*8%*	*8%*
Material Costs	154.5	136.2	163.4	174.9	188.9	204.0
Staff Expenses	77	74.1	78.0	82.0	86.1	90.4
Other Expenses	16.2	14.7	12.6	12.8	14.5	17.8
Total Expenditure	247.7	225	254	270	290	312
Operating Profit	**6.4**	**9.7**	**14.7**	**20.1**	**23.0**	**24.8**
OPM (%)	*2.6%*	*4.2%*	*5.6%*	*7.1%*	*7.5%*	*7.5%*
Depreciation	8.9	7.4	7.9	8.3	8.5	8.7
PBIT	**-2.5**	**2.3**	**6.8**	**11.8**	**14.4**	**16.1**
Interest	5.5	4.3	2.0	1.7	1.2	0.6
Exceptional Items	11.5	0.0	0.0	0.0	0.0	0.0
Net Profit / Loss	**-19.5**	**-2.0**	**4.8**	**10.1**	**13.2**	**15.4**

PAUWELS BALANCE SHEET (EURO M)

	CY03	CY04	CY05E	CY06E	CY07E	CY08E
Shareholder Funds	7.0	38.6	43.1	53.2	66.5	81.9
Minority Interest	2.5	2.3	2.3	2.3	2.3	2.3
Loan Funds	78.3	33.4	18.5	14.9	9.2	3.6
Capital Employed	**87.8**	**74.3**	**63.9**	**70.5**	**77.9**	**87.9**
Fixed Assets	37.7	33.8	37.0	40.0	41.0	42.0
Financial Assets	0.5	0.5	0.5	0.5	0.5	0.5
Intangible Assets	1.8	1.2	1.2	1.2	1.2	1.2
Total Fixed Assets	**40.0**	**35.5**	**38.7**	**41.7**	**42.7**	**43.7**
Investments	0.0	0.3	0.3	0.3	0.3	0.3
Inventory	28.9	52.5	45.0	48.6	52.5	56.7
Debtors	97.2	66.7	69.0	74.6	80.5	87.0
Cash and Bank	5.0	5.3	5.0	5.0	10.0	20.0
Other Current Assets	12.4	14.4	15.0	15.0	15.0	15.0
Creditors	44.7	42.6	51.1	54.7	59.1	63.8
Customer Advance	14.4	22.5	23.0	25.0	28.0	33.0
Other Current Liabilities	36.5	35.3	35.0	35.0	36.0	38.0
Net Current Assets	**47.9**	**38.5**	**24.9**	**28.5**	**34.9**	**43.9**
Capital Deployed	**87.9**	**74.3**	**63.9**	**70.5**	**77.9**	**87.9**

The Pauwels deal was attractively valued at 0.12x EV/Sales

Background on Pauwels acquisition

Crompton acquired a 100% stake in Pauwels group (deal completed on 13 May 2005) for a consideration of Eur28.3m. Based on CY04 Pauwels revenues and EBITDA of Eur257m and Eur10.9m respectively, the deal was attractively valued at 2.7x EV/EBITDA and 0.12x EV/Sales.

PAUWELS' ACQUISITION: ATTRACTIVE VALUATIONS

PARTICULARS	EUR M	REMARKS
Enterprise Value	28.3	Transaction Value
Revenues	244.0	CY04
EBITDA	10.3	CY04
EV/Revenues (x)	0.12	
EV/EBITDA (x)	2.7	

Source: Company/Motilal Oswal Securities

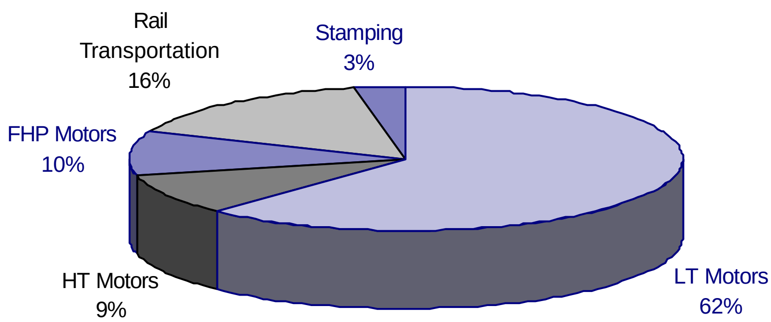
Industrial systems: acquisition-led strategy could be replicated

Crompton is the market leader in India

Crompton is the market leader in India in industrial systems with a 34% market share in LT Motors

Similar to the power systems division, the Industrial systems division of Crompton (27% contribution to revenues in FY05) is the market leader in the country, with a share of ~30%. This division comprises of LT Motors, HT Motors, FHP Motors, Rail Transportation and Stamping. Crompton is the market leader in LT Motors, with a market share of 34%. This segment comprises 62% of the revenues for the industrial systems division.

REVENUE BREAKDOWN OF INDUSTRIAL SYSTEMS (%, FY05)



Source: Company/Motilal Oswal Securities

CROMPTON'S POSITIONING IN INDUSTRIAL SYSTEMS IN INDIA

SEGMENT	RANK	COMPETITORS	MARKET SHARE (%)
LT Motors	1	KEC, ABB, Siemens, Newage	34
HT Motors	2	BHEL, KEC, Alstom, ABB	39
FHP Motors	2	GE, BPL, Videocon, Lawkim	21
Stamping	1		23

Source: Company/Motilal Oswal Securities

Aiming for the next leap forward: target 98% of global market

But caters to just 2% of global demand

As in the case of power systems, the Indian market for industrial systems is US$380m, compared to the global market size of Eur18.6b. With 94% of the sales of the company's industrial systems division being concentrated in India, Crompton caters to just 2% of the global demand.

GLOBAL MARKET: INDUSTRIAL SYSTEMS	(%)
Far East (w/o China)	15
China	17
Western Europe	32
North America	22
South America	3
Former USSR	2
Eastern Europe	3
India	2
Other regions	4

Source: Company

To increase its global share, Crompton may consider buyout of a global motors company

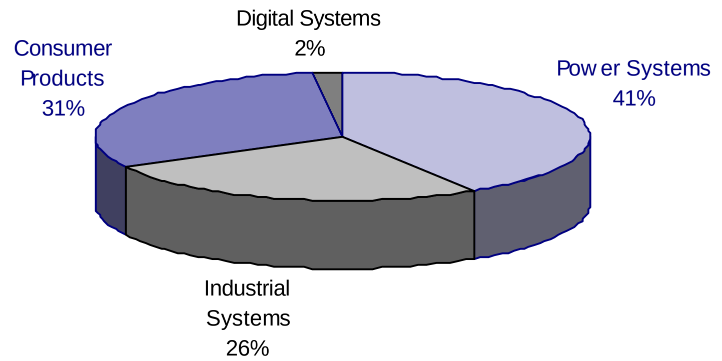
Like transformers, the manufacturing process of industrial motors is labour intensive, thus providing cost economics for Indian manufacturing. The management also stated that the manufacturing origin of global motors is shifting to low cost countries like China, India and South America. Given the growth potential, acquisition of a large sized global motors company, in our opinion, seems to be the best way to optimize sales going forward. Given this background, we believe that inorganic growth option through buyout of a company in developed countries cannot be ruled out.

Standalone businesses in a new growth trajectory

Crompton's SBUs - power systems, industrial systems and consumer products - are all witnessing an upturn…

Crompton (standalone) has three strategic business units: power systems, industrial systems and consumer products. While growth in the power systems is being largely driven by Accelerated Power Development and Reforms Programme (APDRP), expansion of interstate transmission network by Power Grid and build-up of generation capacity, the upturn in industrial production and capex plans announced by user industries is driving growth in industrial systems. Growth in consumer business (fans, lights and luminaries) is being driven by the boom in housing and construction segments.

REVENUE BREAK-UP OF VARIOUS DIVISIONS (FY05)



Source: Company/Motilal Oswal Securities

…and are likely to result in overall revenue CAGR (FY05-08E) of 15.2%

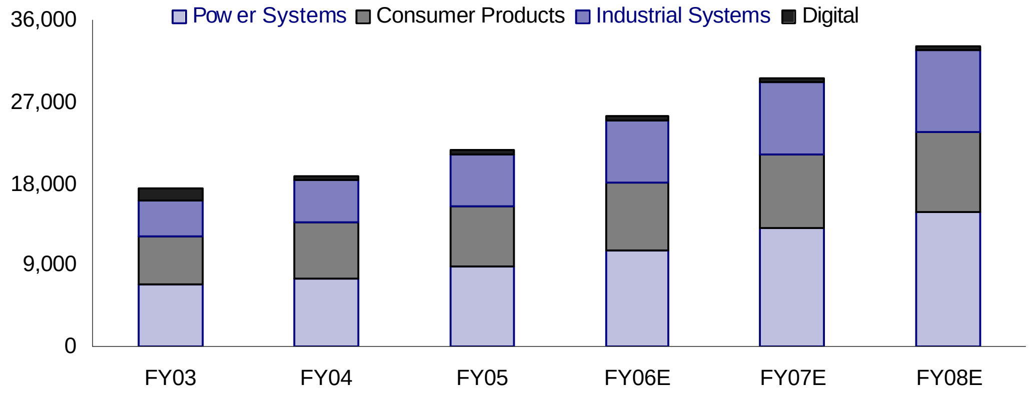
During FY05-08E, we expect a CAGR in revenue of 15.1% in the domestic market and 16.3% in exports, translating into overall revenue CAGR of 15.2%.

CROMPTON (STANDALONE) REVENUE GROWTH (% YOY)

PARTICULARS	FY03	FY04	FY05	FY06E	FY07E	FY08E
Power Systems	**15.72**	**9.39**	**16.70**	**20.63**	**22.34**	**13.75**
Domestic	9.42	12.58	21.67	25.0	25.0	10.0
Exports	30.31	3.18	6.16	10.0	15.0	25.0
Consumer Products	**15.7**	**14.9**	**9.4**	**9.9**	**9.9**	**9.9**
Domestic	8.4	14.9	9.5	10.0	10.0	10.0
Exports	3.3	15.7	6.8	6.0	6.0	6.0
Industrial Systems	**9.4**	**15.6**	**25.7**	**20.9**	**21.0**	**11.9**
Domestic	8.4	14.3	24.8	20.0	20.0	10.0
Exports	36.3	47.3	42.8	35.0	35.0	35.0
Digital	**(25.4)**	**(57.0)**	**(16.1)**	**-**	**-**	**-**
Domestic	(26.6)	(59.5)	(9.5)	-	-	-
Exports	776.0	80.8	(100.0)	-	-	-

Source: Company/Motilal Oswal Securities

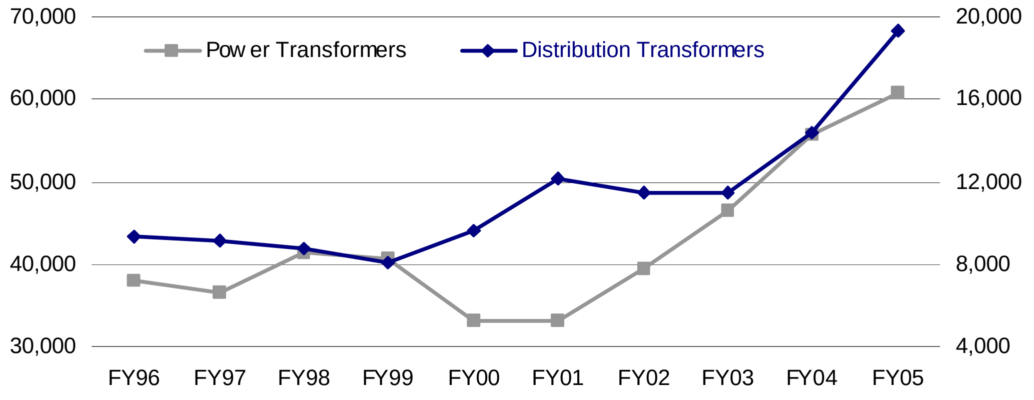
TREND IN CROMPTON'S DIVISIONWISE REVENUES (RS M)



Source: Company/Motilal Oswal Securities

Power systems: visibility of 20%+CAGR for at least two years

TREND IN PRODUCTION OF POWER TRANSFORMERS AND DISTRIBUTION TRANSFORMERS IN INDIA (MVA)



Source: Industry

Crompton's power systems division is likely to see 20%+ CAGR over FY05-07E with domestic sales likely to see 25% growth

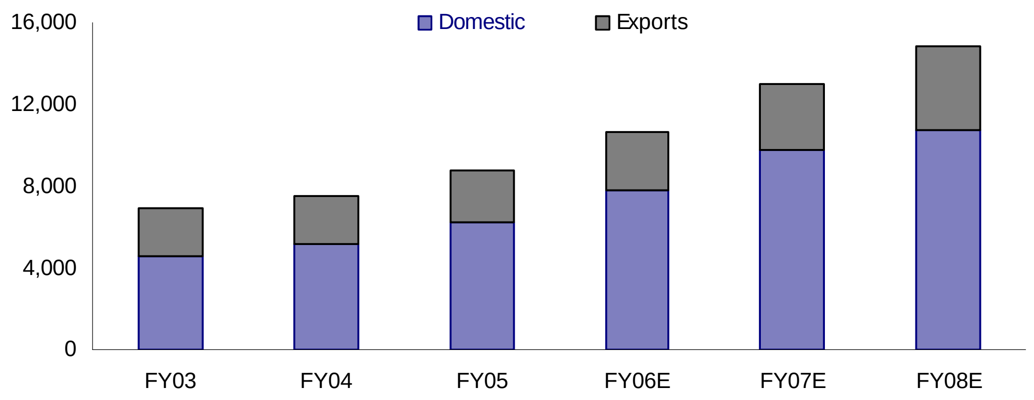
The power systems division of Crompton is expected to grow at a robust 20%+ CAGR till FY07. The domestic business is expected to witness a 25% CAGR during FY05-07, on the back of APDRP, expansion of interstate transmission network by Power Grid and bunching up of the build-up in generation capacity for the Tenth Plan during FY06-07. Post the acquisition of Pauwels, Crompton now has access to the entire transformer range, with a well diversified portfolio, which will also be a key revenue driver in the domestic market during FY06-07. Products like single phase distribution transformers, slim distribution transformers (for wind power applications), HVDS transformers, etc from the Pauwels portfolio would be launched in the Indian market to strengthen the product range.

Post FY07, we believe that a pick up in distribution reforms and privatization of SEBs would be crucial for sustaining the growth momentum. As these triggers are not clearly visible at this point, we have factored a 10% YoY increase in domestic revenues during FY08, v/s 25% CAGR during FY05-07. Nonetheless, we believe that from FY08, the Repairs and Modernization Programme of NTPC, etc could accelerate as plants commissioned in the 1990s would break the barrier of 100,000 operating hours or 15 years. This could result in a pick up of replacement demand.

For exports, we factor in 10% growth in FY06 and 15% in FY07

On the exports front, we factor in a 10% YoY growth during FY06, 15% during FY07 and 25% during FY08, largely on the back of advantage of Indian cost economics and leveraging the customer base of Pauwels with integrated offering (switchgears, etc). Thus, the association with Pauwels will lead to an increase in exports of semi finished components, to be finally tested and assembled at Pauwels facilities. Thus, we believe that there is a possibility of an upward surprise to our assumptions.

TREND IN POWER SYSTEMS REVENUES (RS M)



Source: Motilal Oswal Securities

Power sector is witnessing increased traction in investments

Capacity addition during the period FY03-05 has been 10,773 MW, indicating that during FY06-07 nearly 23,410 MW of incremental power capacity would be commissioned

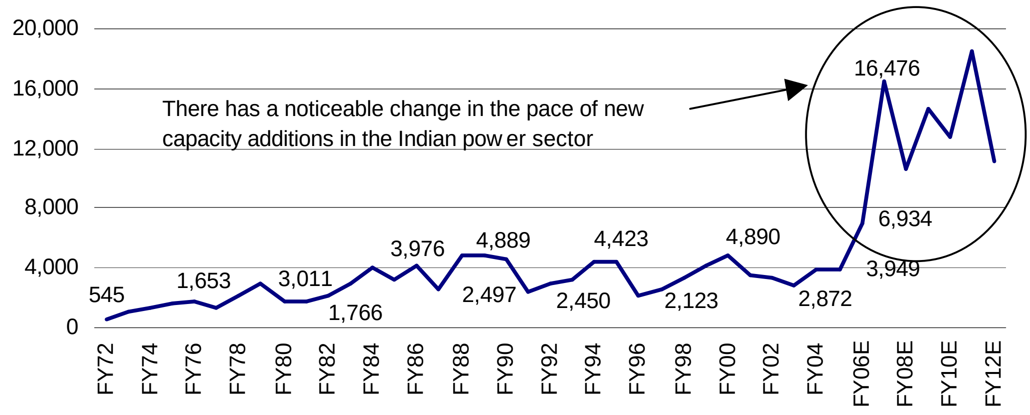
As a thumb rule, **generation** capacity of 1 MW of power entails transformer capacity addition of 7 MVA. This consists of 2 MVA for generation and 5 MVA for transmission / distribution. The Tenth five year plan (FY03-07) envisaged capacity addition of 41,110 MW of generation capacity. Based on the mid-term review by the Ministry of Power and Central Electricity Authority (CEA), the actual capacity addition is estimated at 83-87% of the targeted capacity addition. Capacity addition during the period FY03-05 has been 10,773 MW, indicating that during FY06-07 nearly 23,410 MW of incremental power capacity would be commissioned. Going forward, the Eleventh Five Year Plan (FY08-12) targets a capacity addition of 67,677 MW.

CEA'S ASSESSMENT OF LIKELY CAPACITY ADDITION DURING TENTH PLAN (MW)

	TARGET	FY03A	FY04A	FY05A	FY06E	FY07E	TOTAL
Thermal	25,417	2,223	1,362	2,934	3,458	12,548	22,525
Hydro	14,393	649	2,590	1,015	2,886	3,168	10,308
Nuclear	1,300	0	0	0	590	760	1,350
Total	**41,110**	**2,872**	**3,952**	**3,949**	**6,934**	**16,476**	**34,183**

Source: CEA

TREND IN GENERATION CAPACITY ADDITIONS (MW)



Source: CEA

Increase in inter state transmission capacity to 18,400 MW in CY07 from current levels of 9,500 MW will also drive growth

Even on the **inter state transmission capacity**, PowerGrid has drawn up plans to increase the inter state transmission capacity to 18,400 MW as at March 2007 from current levels of 9,500 MW and further to 30,700 MW as at March 2012. Central Electricity Regulatory Commission (CERC) has very recently released draft guidelines on competitive based bidding for inter regional transmission projects. In addition, the recent ruling by CERC in the case of Western region transmission strengthening project state that where 765/400 KV lines are not used, the project could be set up through 100% equity contribution by private companies. Thus, out of four sets, two (sets B and C) could be financed through this route. These developments are very encouraging.

TREND IN INTER STATE TRANSMISSION CAPACITY (MW)

PARTICULARS	EXISTING	FY07	FY12
East-North	700	6,700	10,950
East-West	1,850	3,250	6,900
West-North	900	1,900	4,900
East-South	3,150	3,650	3,650
West-South	1,600	1,600	2,300
East-NE	1,300	1,300	2,000
Total	**9,500**	**18,400**	**30,700**

Source: CEA

On the **distribution side**, the key growth driver for Crompton will be projects under APDRP scheme and privatization of distribution. The APDRP scheme provides

On the distribution side, APDRP and privatization of distribution will drive growth

encouragement in the form of easy loans, grants and incentives to reform oriented states and incentive for reduction in cash losses and improving the viability of SEBs. The government has earmarked Rs400b towards this, of which Rs200b is the investment component and Rs200b is the incentive component.

Of the Rs195b worth of projects identified till July 2005, APDRP projects account for Rs115b

Under the investment component, the government provides financial assistance to states to strengthen and upgrade their sub-transmission and distribution networks, with 50% of the cost of such projects met by the government (of which 50% is grant and 50% is concessional loan), with the balance arranged by the States as counterpart funding from financial institutions. Projects worth Rs195b have been identified by July 2005, of which the APDRP component is Rs115b. Apart from APDRP, privatization of the distribution network in the state will drive volume growth for Crompton in this segment.

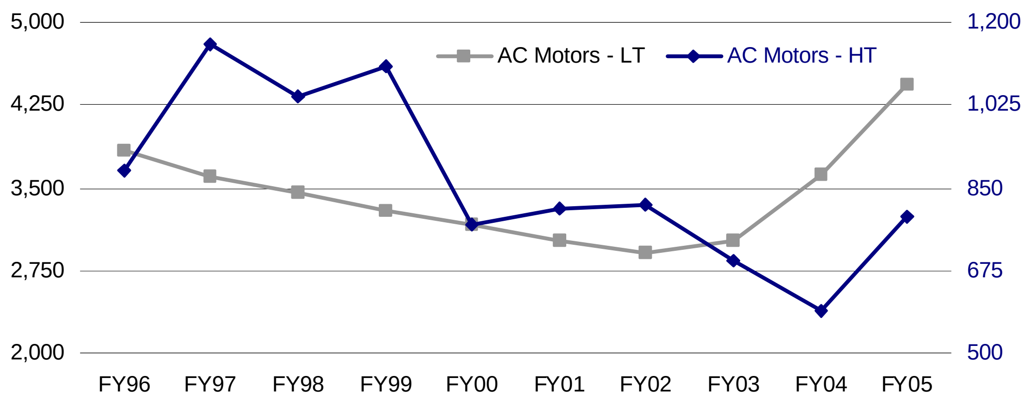
TREND IN APDRP FUNDING (INVESTMENT COMPONENT) (RS M)

	FOR FY03	FOR FY04	FOR FY05	CUMULATIVE UP TO JULY '05
Fund Released	17,555	23,565	14,288	56,426
Fund Utilized	5,870	22,690	38,527	75,923
Project Sanctioned	147,107	18,994	10,022	194,888
APDRP Funding				114,691
Counter Party Funds Tied up				67,609
Counter Party Funds Drawn				30,286

Source: CEA

Industrial systems: driven by enhanced capex spending

TREND IN PRODUCTION OF MOTORS IN INDIA (MW)

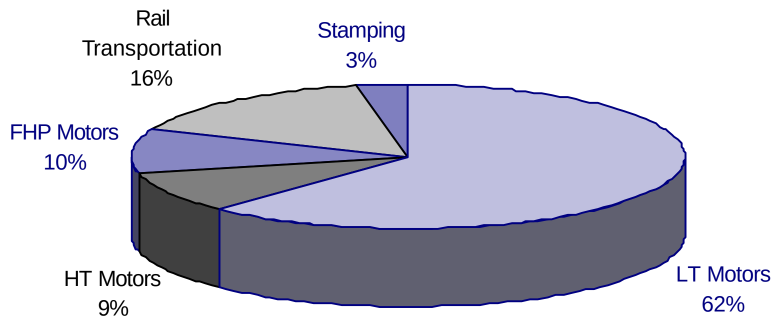


Source: Industry

In Industrial systems, motors and alternators account for bulk of Crompton's revenues and drove sales and margin improvement till FY05

Crompton's product range in the Industrial Systems division comprises of Motors and Alternators (81% of FY05 revenues), Railway Transportation & Signaling Products (16%) and Stampings (3%). During FY03-05, this division has been the key profit driver for Crompton, with a 21% CAGR in revenues and 81% CAGR in EBIT. During FY03, EBIT margins of the division stood at 6% which increased to 13.5% in FY05. The key reason for margin improvement has been the significantly improved volumes, which resulted in better cost absorption and improved realizations.

INDUSTRIAL SYSTEMS REVENUES (FY05)



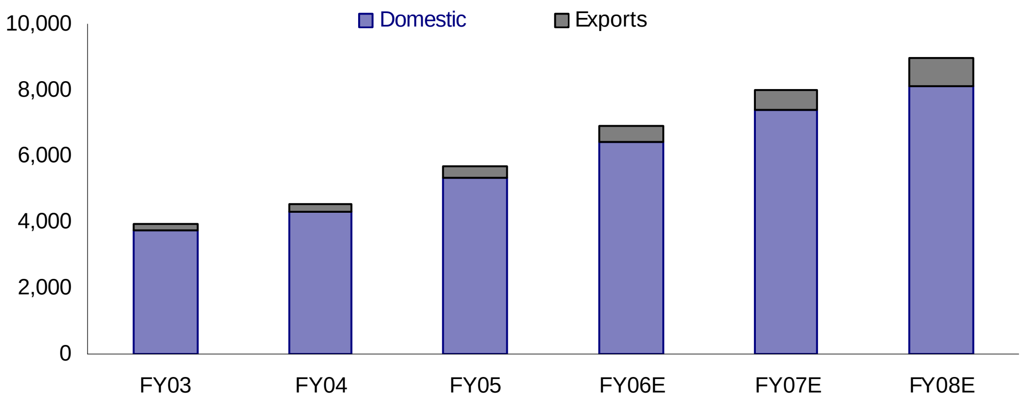
Source: Motilal Oswal Securities

INDUSTRIAL SYSTEMS - TREND IN REVENUES (RS M) AND EBIT MARGINS (%)

PARTICULARS	FY03	FY04	FY05
Revenues	3,924	4,538	5,706
EBIT	234	408	767
EBIT (%)	*6.0*	*9.0*	*13.5*

Source: Motilal Oswal Securities

TREND IN INDUSTRIAL SYSTEMS REVENUES (RS M)

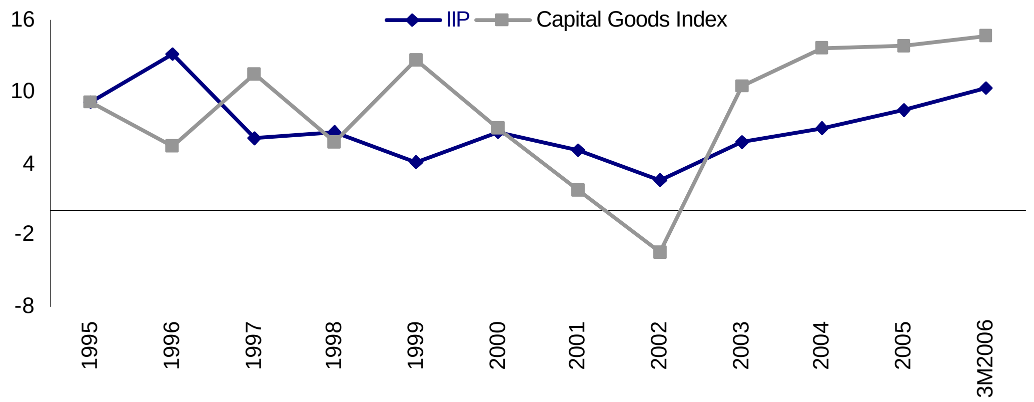


Source: Motilal Oswal Securities

We expect the division to continue to witness robust growth on the back of capex being undertaken by user industries

We expect domestic revenues to witness a YoY growth of 20% during FY06, 15% during FY07 and 10% YoY during FY08, with the main growth driver being the upturn in the capex cycle, which is evident from the fact that the IIP has posted a strong growth of 8.8% over the period April-August 2005. Similarly, the capital goods index grew by a robust 8.9% in April-August 2005. Moreover, user industries like steel, cement, paper, chemicals, petrochem and fertilizers are operating at full capacities and have firmed up huge capex plans for expansion and modernization. This will result in robust revenue CAGR for industrial motors.

IIP/ CAPITAL GOODS



Source: Projects Today

CAPEX IN KEY INDUSTRIAL SEGMENTS (RS B)

	FY99-05	FY06-10	CAP UTIL FY05 (%)
Steel	100	318	91
Aluminium	20	319	90
Paper	41	118	-
Cement	60	93	80
Petrochemicals	20	175	105
Textiles	26	148	81
Oil and Gas	998	1,456	100
Automobiles	181	245	75
Total	**1,265**	**2,627**	**-**

Source: CMIE, CRISInfac

Cost economics is likely to result in a CAGR of 35% in export of motors

During FY05, exports at Rs346m, accounted for just 6% of the revenues of the division. On a small base, we assume a CAGR of 35% during FY05-08 in exports, largely driven by the cost economics of manufacturing motors in India.

Stampings, in which Crompton has a 23% market share, and rail transportation will also see sustained growth

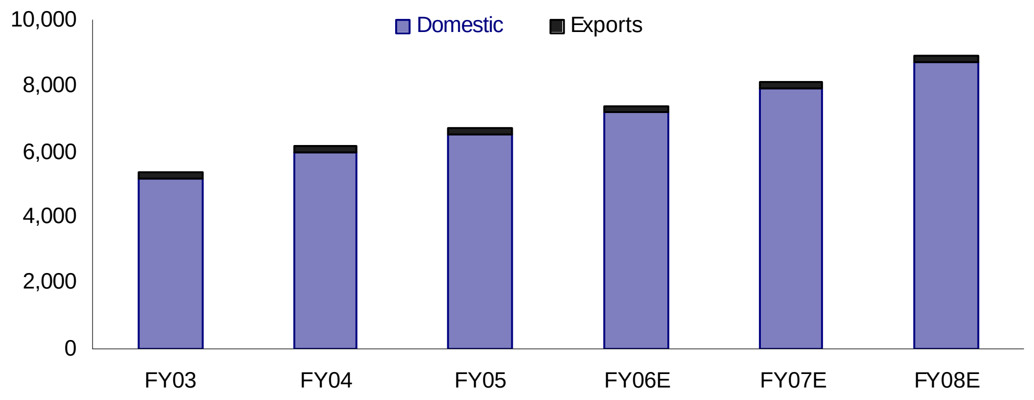
Crompton is a market leader in the stampings division as well, with a 23% market share. It is setting-up a new stamping division at Ahmednagar with a capacity of 5,000 ton per annum. Crompton is also the market leader in the manufacture of Relays and Point Machines. The rail transportation division is set to witness sustained growth as the railways expand and improve linkages and services. The company has also tied up with Traction Motors for Metro rails.

Consumer Division: steady growth business, with high RoCE

As Crompton is a market leader in most consumer product categories in its range

During FY03-05, the consumer division has been recording a steady performance, with a 12% CAGR in revenues and 16% in EBIT. Going forward, we believe that this division will continue to grow at 1.2-1.3x the GDP growth rate of 7%. Since Crompton is the market leader in most product categories, we expect revenues to grow by 10% CAGR during FY05-08.

TREND IN CONSUMER DIVISION REVENUES (RS M)

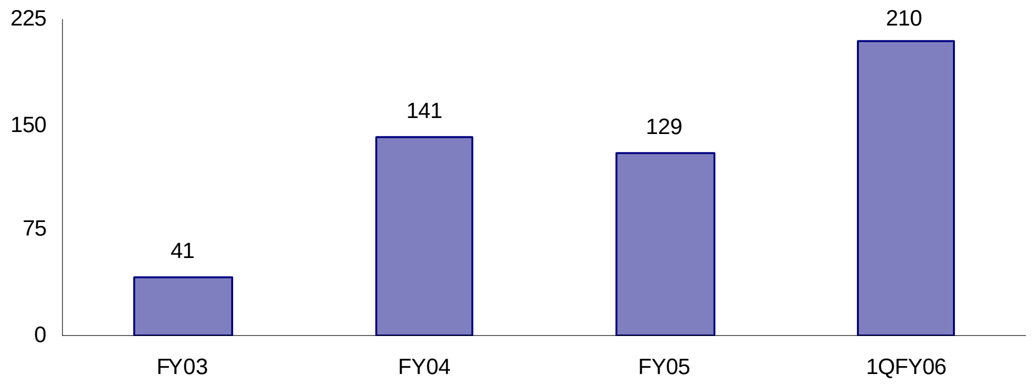


Source: Motilal Oswal Securities

The division has been operating at very high RoCEs – 130% in FY05

The division has a very high operating RoCE of 209% during 1QFY06, and 130% during FY05, with a strong operating cash flow profile, which enables the company to fund the growth of other business segments.

TREND IN CONSUMER BUSINESS (ROCE %)

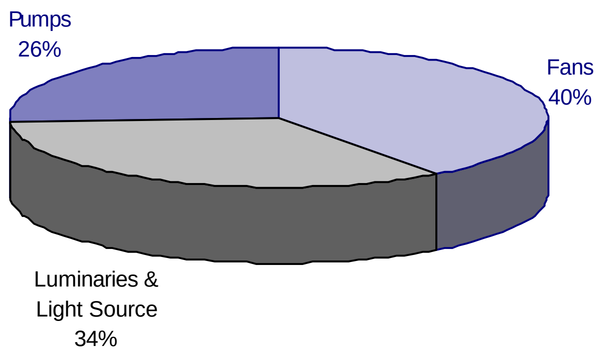


Source: Company/Motilal Oswal Securities

31% of the sales of this division comprise fans, luminaries and pumps with focus on the higher end of the market

The consumer division, contributing over 31% of the total revenues, consists of fans, luminaries and pumps. Crompton is the market leader in the fan business, having a market share of 21%, with focus on the higher end of the market. In order to combat imports, the company has recently introduced products at the lower end through local outsourcing arrangements. The company is also the leader in lower end pumps for agriculture and domestic markets.

CONSUMER DIVISION - BUSINESS MIX (FY05)

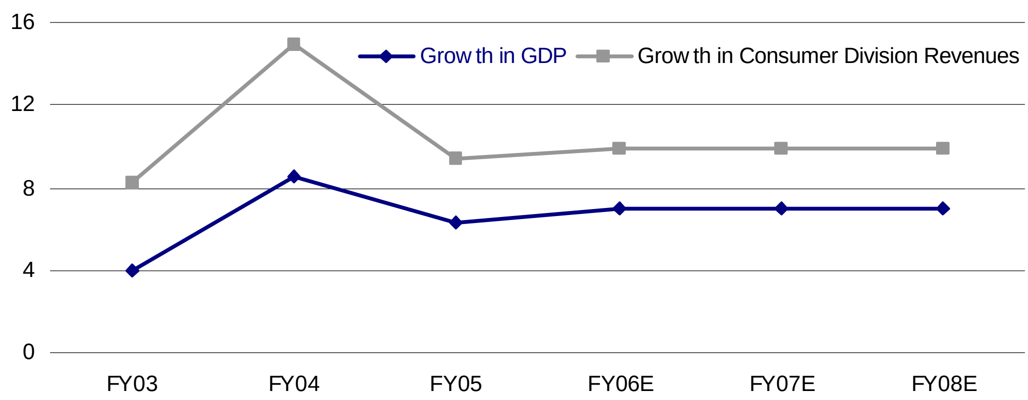


Source: Company/Motilal Oswal Securities

Given the upsurge in commercial and housing projects, Crompton is upgrading and expanding its fan capacity

The demand for consumer products is mainly driven by the upsurge in commercial and housing projects, easy availability of loans, etc. Crompton has upgraded its entire manufacturing facilities of the Fan Division at Goa and has also set up an additional facility at Baddi in Himachal Pradesh, a location with several tax incentives. In order to leverage on the brand equity and wide distribution reach, Crompton has launched a range of home appliances including geysers in FY05 and plans to launch water heaters by the end of FY06.

GDP GROWTH (% YOY) VS GROWTH IN CONSUMER DIVISION REVENUES (% YOY)



Source: Company/Motilal Oswal Securities

Strong case for improvement in EBITDA margins

An improvement in margins of the industrial systems division saw Crompton's overall margins improve

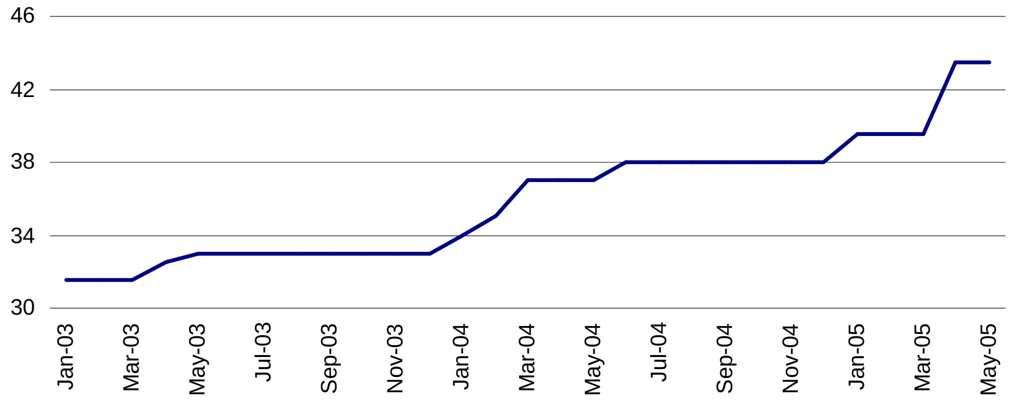
During FY05, Crompton reported an EBIDTA margin of 9.3% (pre-exceptional, 8.2% reported), up from 8.5% in FY04.The key reason for improvement has been the **industrial systems division,** where EBIT margins improved to 13.4% in FY05 from 9.0% in FY04, due to better absorption of fixed costs (resulting from 24.7% YoY improvement in volumes) and pricing power. The **power systems division** witnessed a margin reduction of 98bp in FY05 and 164bp during FY03-05. The key reason for this has been increased raw material costs, particularly of CRGO steel and copper, which accounts for ~60% of the cost structure of transformers. The **consumer division** business has been a steady performer with EBITDA margins in the range of 8-8.7%.

SEGMENT WISE EBIT MARGINS (%)

PARTICULARS	FY03	FY04	FY05
Power Systems	9.13	8.47	7.49
Consumer Products	8.04	8.74	8.64
Industrial Systems	5.96	8.99	13.45
Digital	2.89	(19.11)	(31.38)

Source: Company/Motilal Oswal Securities

TREND IN CRGO PRICES (RS/KG)

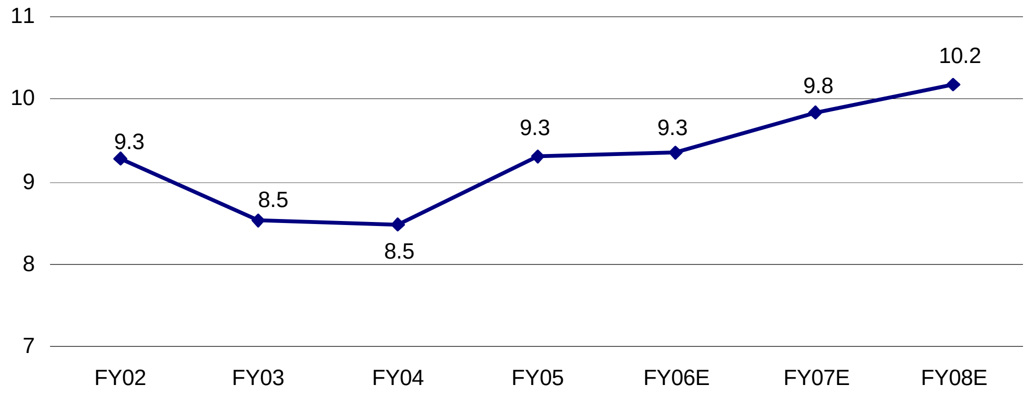


Source: Industry

Nonetheless, we have kept FY06 estimates conservative, with improvement in margins factored in from FY07

During FY06, we have assumed EBITDA margins to be stagnant at 9.3% v/s FY05 levels. During FY07, we factor in a 48bp improvement and a further 34bp improvement in FY08 to 10.2%. We believe that (1) stable commodity price environment, (2) better operating leverage, due to strong CAGR in revenue and (3) margin improvement in power systems division; would be the key reasons for improvement in EBITDA margins for the company, going forward. We believe that the possibility of a decline in EBITDA margins in the consumer and industrial systems division, can be more than offset by the buoyancy in the power systems division.

TREND IN EBITDA MARGINS* (%)



* *FY05 Pre Exceptional*

Source: Company/Motilal Oswal Securities

Investment risks

Increased costs may put pressure on operating margins

The key reason for the 164bp decline in EBIT margins for the power systems division during FY03-05 has been increased raw material costs, particularly of CRGO steel and copper, which accounts for ~60% of the cost structure of transformers. CRGO and other critical metal inputs are mainly sourced from a few manufacturers in Europe, USA, Japan and Russia and hence they face pressures not only in terms of higher prices but also availability.

Since July 2003, CRGO prices have increased by 38%, while steel and copper prices have nearly doubled in the last three years. For Crompton, raw material cost (with metals accounting for a chunk of the raw material costs), account for ~70% of revenues. Going forward, we believe that raw material costs will continue to be in the range of 69-70%, as (1) companies now bid for contracts factoring in the increased commodity prices (2) most orders from the power sector now have price variation clauses and (3) increased size post acquisition of Pauwels will provide significantly better bargaining power, in terms raw material sourcing.

Slowdown of reforms and deterioration of financial health of SEBs

Nearly 40% of Crompton revenues are contributed from the power systems division, which is experiencing an upsurge in demand based on the capex programme of Central PSUs and initiatives under the APDRP scheme. Given that the power sector in India is a concurrent subject, the pace of reforms in the country depend on the decisions being taken by the State governments, as the Central government can just provide the broad policy framework. Implementation of the provisions of the Electricity Act; attracting private sector investments in generation, transmission and distribution; improving the financial health of the State Electricity Boards (SEBs); etc have proved to be challenging tasks. Given this fact, the pace of reforms in the power sector is crucial for continued growth in the demand for transformers and switchgears.

Industrial capex is highly cyclical

The fortunes of the industrial systems division, accounting for 27% of FY05 revenues, is highly dependant on the pace of industrial capex in the economy. During FY99-03, a period of industrial slowdown, when the YoY growth in IIP had declined to 3-6%, production of LT motors in the country declined to 2,914 MW in FY02 from 3,830 MW in FY96. (Please refer page 20 of the report for production trend in industrial motors).

Increasing competition

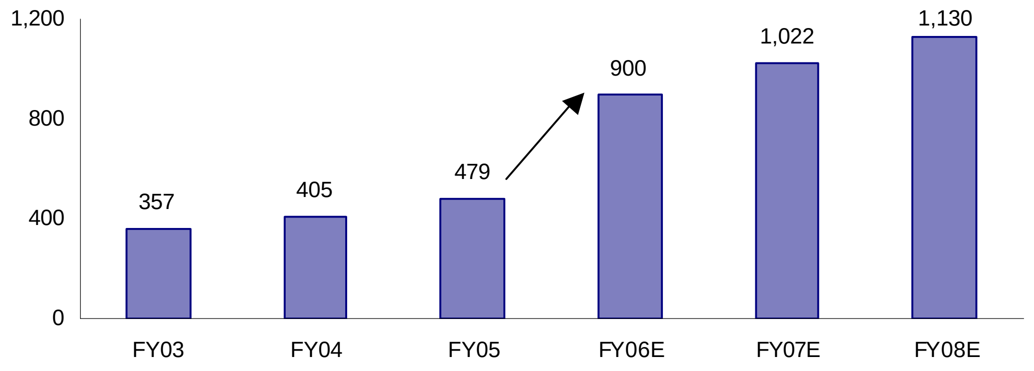
We believe that the domestic market will continue to witness intensified competition going forward, from local companies like BHEL, Emco, Bharat Bijlee, etc; MNC companies like ABB, Siemens, etc and China. While ABB has already set up a transformer manufacturing facility in India, Siemens is setting up an 8,000 MVA facility to be commissioned by December 2006. Also, the Chinese competition, particularly in LT motors, FHP motors and consumer products could intensify going forward. However, we believe that post acquisition of the Pauwels Group, Crompton now has access to the entire product range, has a global size in transformers and a lean cost structure, and hence will not be severely impacted.

Financial analysis: billion dollar revenues in sight

Consolidated revenues to touch US$1b in FY07

Post acquisition of Pauwels, the consolidated entity will have combined revenues of US$900m in FY06 and US$1b in FY07, compared to US$479m in FY05.

CONSOLIDATED REVENUES (US$ M)



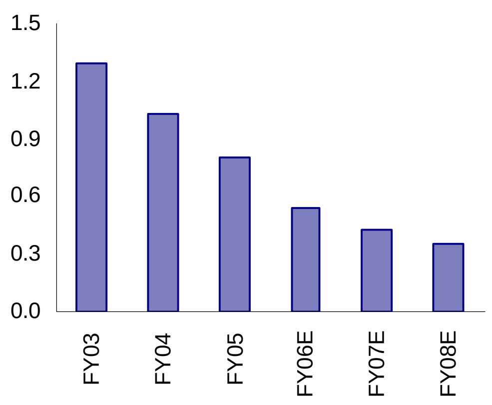
Source: Company/Motilal Oswal Securities

Improvement in operating cash flows

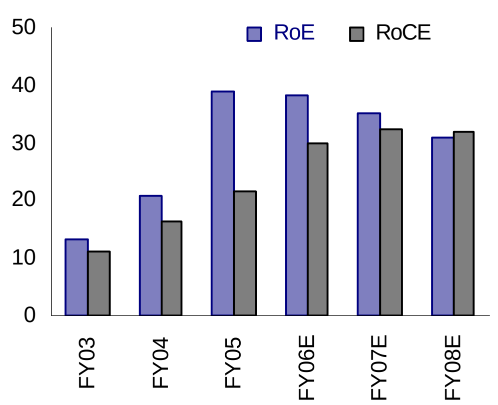
Which, along with improving cashflows and DER will see RoCE remain at over 30%

Improved business dynamics, effective working capital management and improvement in asset turnover ratios since FY02 has enabled the company to generate large free cash flows and repay debt. Since FY02, the debt equity ratio (DER) improved from 1.84x in FY02 to 0.8x in FY05. The debt in absolute terms declined from Rs5.7b in FY02 to Rs3.1b in FY05. RoE increased from 13.3% in FY03 to 38.9% in FY05, while RoCE increased from 11.0% to 21.6% over the same period.

DEBT-EQUITY RATIO (X)



ROE AND ROCE (%)



Source: Motilal Oswal Securities

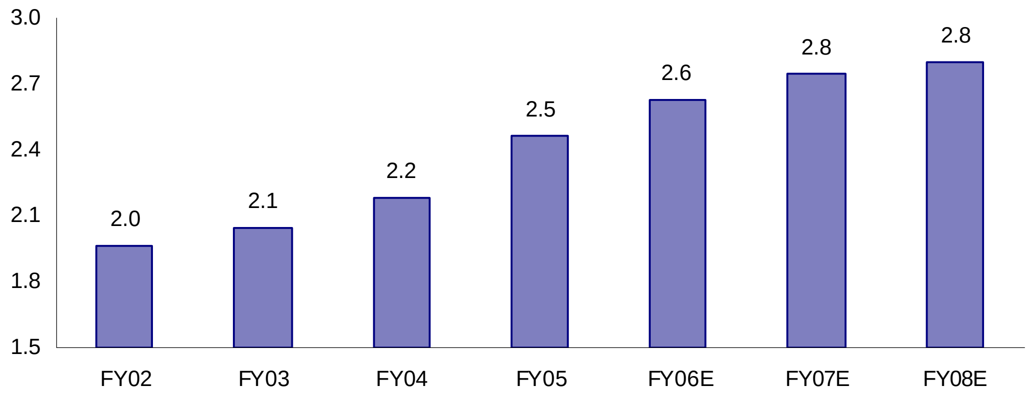
Capex requirements are minimal, even going forward

Capex will be minimal, resulting in improved fixed asset to turnover

For FY06, the management has indicated a capex in the region of Rs750m, primarily for the setting up of the new LT motors capacity at Goa, Rs300m for setting up the 800 Kv transformer line at Manideep factory and upgrading and expanding facilities for various products, in the industrial and power segment. The incremental revenue generation in FY06 is estimated at Rs3.7b, resulting in incremental fixed assets/turnover ratio of 4.9x. The fixed asset to turnover ratio for Crompton is expected to increase to 2.63x in FY06 from 2.46x in FY05 and likely to be 1.96x in FY02.

During FY05, capacity utilization for the power and industrial systems division was ~70-80% and for consumer products stood at 64% for fans, etc and 34% for lighting lamps. This indicates that capex requirement for the next two years will not be very significant.

FIXED ASSETS TO TURNOVER RATIO (X)



Source: Company/Motilal Oswal Securities

TREND IN CAPACITY UTILIZATION (%)

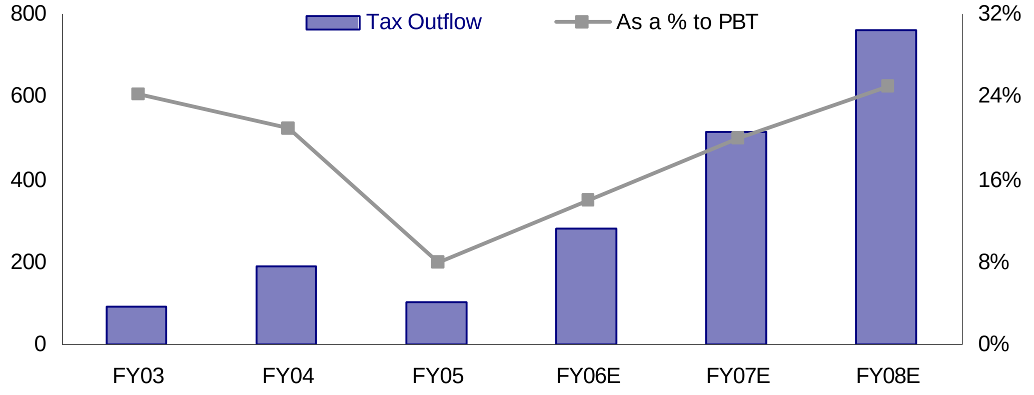
PARTICULARS	FY02	FY03	FY04	FY05
Transformers	56	61	71	72
Switchgears, Control Equipment	45	59	71	74
Motors, Alternators and Pumps	42	46	67	81
Stamping and Laminates	94	96	101	81
Electric Fan, Pollution Control Systems	90	61	60	64
Lighting - Electric Lamps	38	36	44	34

Source: Company

Tax rates will gradually increase

The tax outflow for FY05 was low at 8%, as the company had unabsorbed depreciation and carry forward losses. Part of the losses would be carried forward in FY06, resulting in tax rates at ~14%. During FY07, we expect tax rates to inch upwards towards 20% and further to 25% during FY08.

TAX OUTFLOW (RS M) AND TAX/PBT (%)



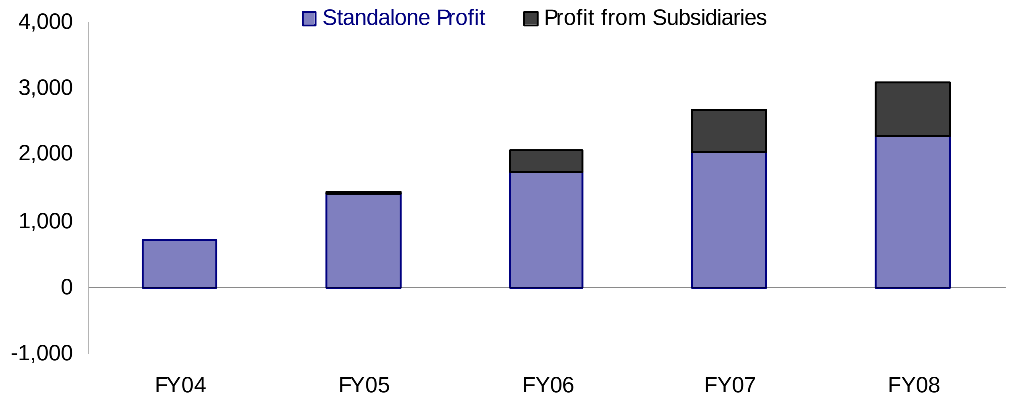
Source: Company/Motilal Oswal Securities

Consolidation will drive strong 29% CAGR in net profit, during FY05-08

And on a consolidated basis, earnings will register a CAGR of 29% over FY05-08

On a standalone basis, we expect Crompton to report a net profit of Rs2.3b in FY08, v/s Rs1.4b (pre exceptional) in FY05. On a reported basis, FY05 net profit stood at Rs1.1b. Contribution from subsidiaries, largely Pauwels is expected to increase from Rs52m in FY05 to Rs805m in FY08. Thus, on a consolidated basis, we expect net profit to increase from Rs1.4b in FY05 to Rs3.1b in FY08, a CAGR of 29%.

STANDALONE AND SUBSIDIARIES' PROFIT LEADING TO CONSOLIDATED PROFIT (RS M)



Source: Company/Motilal Oswal Securities

Valuations

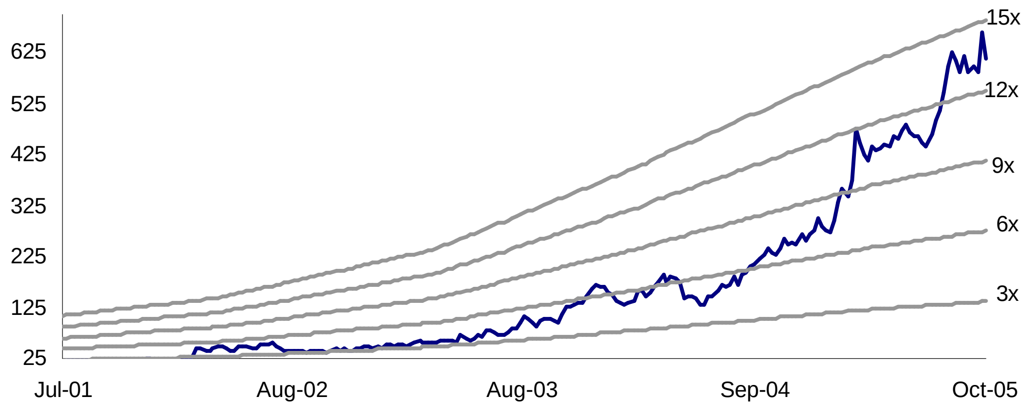
Crompton trades at 12.5x FY07E, at a steep discount to peers

At CMP of Rs639/share, Crompton Greaves trades at a PER of 23.1x FY05, 16.1x FY06, 12.5x FY07 and 10.9x FY08 consolidated earnings estimates. At the current PER of 12.5x FY07E, the stock trades at a significant discount to peers like ABB, Siemens and also to the engineering companies under our coverage (FY07 PER - 16.8x).

We recommend Buy with a target price of Rs770; an upside of 20.5%

We believe that given Crompton's vastly enhanced scale of operations and management bandwidth to successfully handle integration with Pauwels, the company should trade at industry average valuations. Based on PER of 15x FY07E, our 12-month target price stands at Rs770/share, a potential stock appreciation of 20.5%. At current levels, the BSE Sensex trades at a PER of 19x FY05, 15.1x FY06E and 13.3x FY07E.

PER BAND (X)



Source: Company/Motilal Oswal Securities

COMPARATIVE VALUATION

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
	10.10.05		FY05A	FY06E	FY07E	FY05A	FY06E	FY07E	FY05A	FY06E	FY07E	FY05A	FY06E	FY07E
Engineering														
ABB	1,722	Neutral	35.8	49.1	67.5	48.1	35.1	25.5	31.8	23.4	16.3	22.9	25.7	28.3
Alstom Projects	194	Neutral	5.2	7.0	8.8	37.2	27.7	22.1	32.1	24.8	17.7	12.5	16.4	19.7
BHEL	1,196	Buy	39.4	53.3	72.1	30.3	22.4	16.6	15.7	12.3	8.9	17.1	19.9	22.7
Crompton Greaves	639	Buy	27.6	39.6	51.3	23.1	16.1	12.5	20.4	14.9	12.0	38.9	38.2	35.0
Cummins India	152	Neutral	6.7	8.1	9.8	22.5	18.6	15.5	19.3	12.3	10.2	17.9	20.4	22.6
Larsen & Toubro	1,498	Buy	49.3	70.6	91.6	30.4	21.2	16.4	22.7	17.1	13.7	19.2	22.6	26.0
Siemens	2,525	Buy	47.1	84.1	112.8	53.6	30.0	22.4	28.6	18.6	13.6	24.6	36.4	39.6
Thermax	836	Buy	28.2	46.0	67.8	29.6	18.1	12.3	15.8	11.9	7.5	15.4	22.9	29.6
Sector Aggregate						**32.3**	**22.3**	**16.8**	**19.9**	**15.1**	**11.2**	**19.4**	**24.2**	**27.3**

Our target is based on the industry average P/E of 15x FY07E

Strong case for PER re-rating: Our price target of Rs770/share is based on a P/E of 15x FY07E consolidated earnings. At the current P/E of 12.5x FY07E, the stock trades at a significant discount to peers like ABB and Siemens. We believe that PE re-rating for Crompton would be driven by the following factors:

- Crompton now has a global size in transformers. Recent acquisition of Pauwels has catapulted it to the position of seventh largest transformer manufacturer in the world, with a market share of 3.3% (CY04). Crompton now has global scale and plans to leverage the same with Indian cost economics.

- The progress so far on integration with Pauwels and our expectations on Pauwels financial performance clearly indicate that Crompton has the management bandwidth to manage such large acquisitions. From a loss of Eur2m in CY04, we expect Pauwels to turn around with a net profit of Eur4.8m in CY05, Eur10.1m in CY06 and Eur13.2m in CY07.

- We believe that similar to Pauwels acquisition in the power systems division, the company could announce a sizeable acquisition in the industrial motors division. Successful integration will enable the company to again leverage on Indian cost economics.

- In the domestic market, Crompton has already achieved market leadership in the segments it operates in. The company is a market leader in Transformers, Switchgears (EHV), LT Motors and Fans; and is the second largest player in FHP Motors, HT Motors and Luminaires. In the domestic market, 75% of Crompton's revenues accrue from products where the company is either No.1 or No.2.

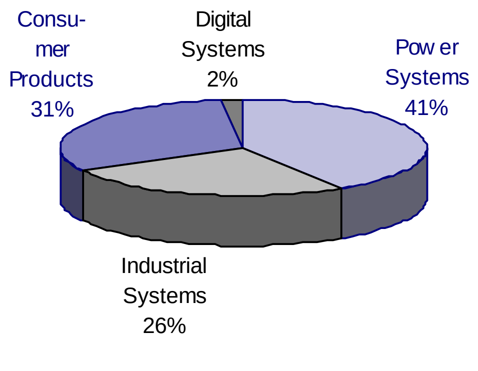
Company background

Crompton has three SBUs – power systems, industrial systems and consumer products

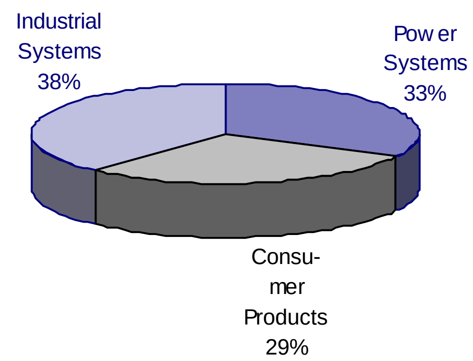
Crompton (standalone) has three strategic business units (SBUs): power systems, industrial systems and consumer products.

DIVISIONWISE CONTRIBUTION (FY05)

REVENUE-MIX (%)



EBITDA-MIX (%) *

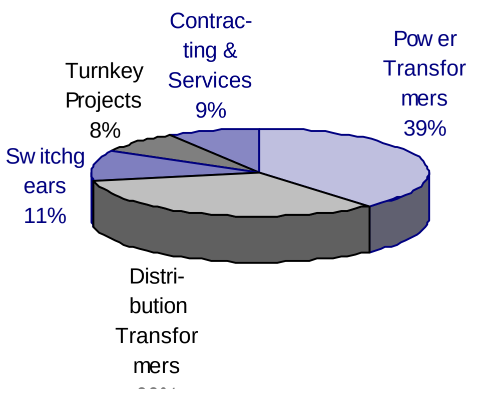


* Digital business has -ve EBiTDA of Rs143m in FY05

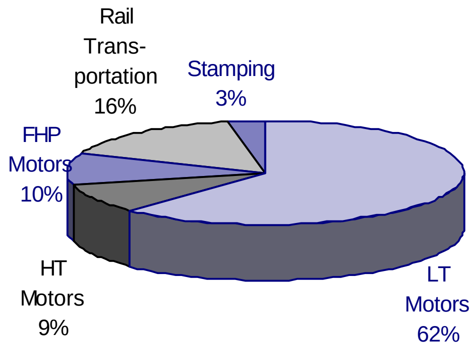
Source: Company/Motilal Oswal Securities

BREAK-UP OF REVENUES

POWER SYSTEMS DIVISION *



INDUSTRIAL SYSTEMS DIVISION



* Crompton & Pauwels

Source: Company/Motilal Oswal Securities

Power systems

In power systems, it has a share of 22%

As a 'complete solutions provider' with product range comprising of transformers, switchgears, capacitors, circuit breakers, etc; Crompton caters to 7-8% of the India's power sector investments, with a market share of ~22%.

The transformer business is the main focus area of the company, and accounted for 55% of the total power division revenues in FY05, followed by the switchgear business, which accounted for 37% of the total power division revenues. Crompton is the market leader in both these segments with market share of 18% and 22% respectively.

The key customers of the power systems division comprise of the Power Grid Corporation of India, Electricity Boards, Andhra Pradesh Transmission Corporation, L&T, ABB, projects funded by international agencies, private distribution companies and projects undertaken by the neighboring countries like Bhutan, Bangladesh, Nepal and Sri Lanka.

Post acquisition of Pauwels, the company has transformer product range upto 500kV. Tie up with Toshiba Mitsubishi has expanded the company's product range to 800kV. Crompton has also tied up with Hyundai for Gas Insulated Switchgears.

CROMPTON'S POSITIONING IN POWER SYSTEMS IN INDIA

SEGMENT	RANK	COMPETITORS	MARKET SHARE (%)
Transformers	1	BHEL, ABB, Alstom, EMCO	18
Switchgears (total)	3	ABB, Siemens, Alstom, BHEL, L&T	22
EHV Switchgears	1	ABB, Siemens, Alstom, BHEL, L&T	NA

Source: Company/Motilal Oswal Securities

Industrial systems

In industrial systems, primarily motors, it has a share of 30%

Crompton's product range in the Industrial Systems division comprise Motors and Alternators (81% of FY05 revenues), Railway Transportation & Signaling Products (16%) and Stampings (3%). This division contributes 27% to revenues (FY05) and Crompton is the market leader in the country, with a share of ~30%.

CROMPTON'S POSITIONING IN INDUSTRIAL SYSTEMS IN INDIA

SEGMENT	RANK	COMPETITORS	MARKET SHARE (%)
LT Motors	1	KEC, ABB, Siemens, Newage	34
HT Motors	2	BHEL, KEC, Alstom, ABB	39
FHP Motors	2	GE, BPL, Videocon, Lawkim	21
Stamping	1		23

Source: Company/Motilal Oswal Securities

Consumer products

In fans, it is a market leader with a share of 21%

The consumer products division, contributing over 31% of total revenues, consists of fans, luminaries and pumps. Crompton is the market leader in the fan business, having a market share of 21%, with focus on the higher end of the market. In order to combat imports, the company recently introduced products at the lower end through local outsourcing arrangements. The company is also the leader in lower end pumps for agriculture and domestic markets.

CROMPTON'S POSITIONING IN CONSUMER PRODUCTS IN INDIA

SEGMENT	RANK	COMPETITORS	MARKET SHARE (%)
Fans	1	Orient, Usha, Polar, Khaitan	21
Luminaires	2	Philips, Bajaj, Wipro	na

Source: Company/Motilal Oswal Securities

Acquisition of Pauwels Group

Post the Pauwels acquisition, Crompton has become the seventh largest transformer manufacturer in the world

Crompton acquired 100% stake in Pauwels group (deal completed on 13 May 2005) for a consideration of Eur28.3m. Based on CY04 figures, Pauwels revenues and EBITDA stood at Eur257m and Eur10.9m respectively, the deal was attractively valued at 2.7x EV/ EBITDA and 0.12x EV/Sales.

The Pauwels acquisition has catapulted Crompton to the position of seventh largest transformer manufacturer in the world. The company now has access to US and European markets, which accounted for 71% of Pauwels' turnover. It now has manufacturing facilities in six countries: India, Belgium, Ireland, USA, Canada and Indonesia.

INCOME STATEMENT						(RS MILLION)
Y/E MARCH	2003	2004	2005	2006E	2007E	2008E
Net Sales	**15,870**	**17,113**	**19,725**	**23,068**	**26,906**	**30,179**
Change (%)	*7.3*	*7.8*	*15.3*	*16.9*	*16.6*	*12.2*
Raw Materials	10,844	12,061	13,698	16,009	18,673	20,944
Staff Cost	1,367	1,364	1,423	1,501	1,652	1,817
Other Mfg. Expenses	2,091	2,112	2,848	3,203	3,693	4,070
EBITDA	**1,568**	**1,576**	**1,756**	**2,355**	**2,889**	**3,348**
% of Net Sales	*9.9*	*9.2*	*8.9*	*10.2*	*10.7*	*11.1*
Depreciation	453	441	420	456	509	561
Amortization	296	183	122	0	0	0
Interest	644	385	231	214	217	220
Other Income	135	270	269	329	400	471
Extra-ordinary Items (as reported)	62	58	-4	0	0	0
PBT	**372**	**895**	**1,248**	**2,014**	**2,563**	**3,037**
Tax	90	187	100	282	513	759
Rate (%)	*24.3*	*20.9*	*8.0*	*14.0*	*20.0*	*25.0*
Reported PAT	**282**	**708**	**1,147**	**1,732**	**2,050**	**2,278**
Extra-ordinary Income (Net of Expenses)	-158	-2	-248	0	0	0
Adjusted PAT	**440**	**711**	**1,396**	**1,732**	**2,050**	**2,278**
Change (%)	*29.0*	*61.5*	*96.5*	*24.1*	*18.4*	*11.1*
Consolidated PAT		**701**	**1,447**	**2,075**	**2,685**	**3,083**
Change (%)			*106.4*	*43.4*	*29.4*	*14.8*

E: MOSt Estimates

BALANCE SHEET						(RS MILLION)
Y/E MARCH	2003	2004	2005	2006E	2007E	2008E
Share Capital	524	524	524	524	524	524
Reserves	3,857	2,721	3,407	4,602	6,057	7,709
Net Worth	**4,381**	**3,245**	**3,931**	**5,126**	**6,581**	**8,233**
Loans	4,592	3,337	3,145	2,784	2,819	2,859
Deffered Tax Liability	-811	103	0	0	0	0
Capital Employed	**8,162**	**6,684**	**7,076**	**7,910**	**9,400**	**11,092**
Gross Fixed Assets	7,676	7,744	7,929	8,673	9,673	10,673
Less: Depreciation	3,980	4,328	4,665	5,014	5,522	6,084
Net Fixed Assets	**3,696**	**3,416**	**3,264**	**3,660**	**4,151**	**4,590**
Capital WIP	69	109	95	100	100	100
Investments	740	699	682	510	500	550
Curr. Assets	**8,564**	**8,943**	**8,908**	**10,681**	**12,865**	**15,053**
Inventory	1,932	1,743	1,771	2,071	2,417	2,706
Debtors	4,751	5,269	5,411	6,213	7,250	8,118
Cash & Bank Balance	547	762	734	1,155	1,749	2,605
Loans & Advances	1,335	1,170	992	1,243	1,450	1,624
Current Liab. & Prov.	**5,739**	**6,483**	**5,872**	**7,041**	**8,216**	**9,201**
Creditors	5,163	5,719	5,139	6,075	7,089	7,938
Other Liabilities	411	385	577	690	806	902
Provisions	166	379	157	276	322	361
Net Current Assets	**2,825**	**2,460**	**3,036**	**3,641**	**4,649**	**5,852**
Misc. Expenses	697	0	0	0	0	0
P&L Account	135	0	0	0	0	0
Application of Funds	**8,162**	**6,684**	**7,076**	**7,910**	**9,400**	**11,092**

E: MOSt Estimates

RATIOS

Y/E MARCH	2003	2004	2005	2006E	2007E	2008E
Basic (Rs)						
Adjusted EPS	**8.4**	**13.6**	**26.7**	**33.1**	**39.2**	**43.5**
Growth (%)	*29.0*	*61.5*	*96.5*	*24.1*	*18.4*	*11.1*
Consolidated EPS		**13.4**	**27.6**	**39.6**	**51.3**	**58.9**
Growth (%)			*106.4*	*43.4*	*29.4*	*14.8*
Cash EPS	17.0	22.0	34.7	41.8	48.9	54.2
Book Value	67.8	62.0	75.1	97.9	125.7	157.2
DPS	0.0	7.0	7.0	9.0	10.0	10.5
Payout (incl. Div. Tax.)	0	51.8	32.0	27.2	25.5	24.1
Valuation (x)						
P/E (Standalone)		47.1	24.0	19.3	16.3	14.7
P/E (Consolidated)		47.7	23.1	16.1	12.5	10.9
Cash P/E		29.1	18.4	15.3	13.1	11.8
EV/EBITDA		22.9	20.4	14.9	12.0	10.1
EV/Sales		2.1	1.8	1.5	1.3	1.1
Price/Book Value		10.3	8.5	6.5	5.1	4.1
Dividend Yield (%)		1.1	1.1	1.4	1.6	1.6
Profitability Ratios (%)						
RoE	13.2	20.9	38.9	38.2	35.0	30.8
RoCE	11.0	16.5	21.6	29.7	32.1	31.8
Turnover Ratios						
Debtors (Days)	100	103	92	90	90	90
Inventory (Days)	41	34	30	30	30	30
Creditors. (Days)	109	112	87	88	88	88
Asset Turnover (x)	1.9	2.6	2.8	2.9	2.9	2.7
Leverage Ratio						
Debt/Equity (x)	1.3	1.0	0.8	0.5	0.4	0.3

E: MOSt Estimates

CASH FLOW STATEMENT (RS MILLION)

Y/E MARCH	2003	2004	2005	2006E	2007E	2008E
PBT before Extraordinary Items	310	837	1,252	2,014	2,563	3,037
Add: Depreciation	748	624	542	456	509	561
Interest	644	385	231	214	217	220
Less: Direct Taxes Paid	90	187	100	282	513	759
(Inc)/Dec in WC	92	579	-603	-183	-415	-347
CF from Operations	**1,705**	**2,238**	**1,321**	**2,219**	**2,361**	**2,712**
EO Income	62	58	-4	0	0	0
CF from Oper. incl. EO Items	**1,767**	**2,297**	**1,317**	**2,219**	**2,361**	**2,712**
(Inc)/Dec in FA	-536	-384	-375	-858	-1,000	-1,000
(Pur)/Sale of Investments	209	40	17	172	10	-50
CF from Investments	**-327**	**-343**	**-358**	**-686**	**-990**	**-1,050**
(Inc)/Dec in Networth	255	315	-149	0	0	0
(Inc)/Dec in Debt	-1,115	-1,256	-191	-361	35	40
Less: Interest Paid	644	385	231	214	217	220
Dividend Paid	0	414	416	536	596	626
CF from Fin. Activity	**-1,504**	**-1,739**	**-986**	**-1,112**	**-778**	**-806**
Inc/Dec of Cash	**-65**	**214**	**-27**	**421**	**593**	**856**
Add: Beginning Balance	612	547	762	734	1,155	1,749
Closing Balance	**547**	**761**	**734**	**1,155**	**1,749**	**2,605**

E: MOSt Estimates

NOTES

For more copies or other information, contact
Institutional: Navin Agarwal. **Retail:** Manish Shah, Mihir Kothari
Phone: (91-22) 56575200 Fax: (91-22) 22885038. E-mail: inquire@motilaloswal.com

Disclosure of Interest Statement	**Crompton Greaves**
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No

MOSt is not engaged in providing investment-banking services.