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Rating	Accumulate
Price	Rs144
Target Price	Rs152
Implied Upside	5.6%
Sensex	17,301
Nifty	5,236

(Prices as on February 01, 2012)
Trading data

Market Cap. (Rs bn)	92.3
Shares o/s (m)	642.0
3M Avg. Daily value (Rs m)	269.8

Major shareholders

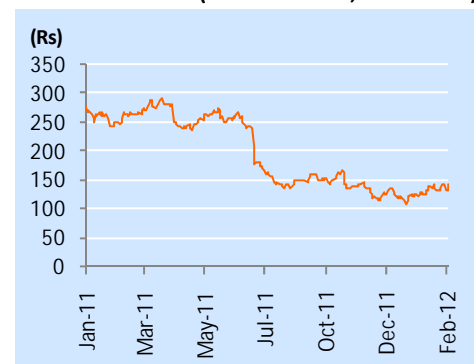
Promoters	41.69%
Foreign	16.55%
Domestic Inst.	21.69%
Public & Other	20.07%

Stock Performance

(%)	1M	6M	12M
Absolute	14.0	(10.2)	(47.6)
Relative	2.1	(4.6)	(43.6)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	11.6	11.6	-0.3
2014	14.3	13.9	2.7

Price Performance (RIC: CROM.BO, BB: CRG IN)


Source: Bloomberg

■ **Consolidated results:** Consolidated sales were up 26% YoY at Rs30bn, ahead of our estimate of Rs27bn. Sales for the subsidiaries was up 40% YoY, partly driven by favourable currency. EBITDA margin was down 820bps YoY to 6.2%, lower than our estimate of 9.2%. About 500bps impact on margins was due to termination of one of the orders in the US (Euro -50m) as it was a very low margin order and cost over runs in few orders and about 300bps impact was on account of fluctuation in the RM cost. Adj. PAT was down 67% YoY to Rs755m. EBIT margin for the power system and industrial system was down 280bps and 160bps QoQ, respectively. The subsidiaries reported a loss Rs512m for the quarter. Amortization of goodwill on account of acquisition of QEI and Emerton also impacted subsidiary results.

■ **Standalone results:** The sales growth was strong at 16% YoY at Rs16.2bn, ahead of our estimate of Rs14.6bn. The surprise came in from higher-than-expected sales in the power system segment which registered a growth of 30% YoY after weak sales growth for the last two quarters. The EBITDA margin came in at 10.8% lower than our estimate of 11.5%. The EBIT margin of power (10.7%) and industrial segments (14.6%) continues to slide, while it remained flat for the consumer segment (11.8%). Margin for the power segment and industrial segment was down 50bps and 90bps QoQ. PAT was down 28% YoY to Rs1.2bn.

■ **Order flow up 69% YoY:** CG reported robust inflow of Rs34bn in the quarter, up 69% YoY and 50% QoQ. The order flow in the power system was driven by renewable sector in the overseas market (wind and solar). The company also managed to bag order for MENA region as well from Power grid, especially on 765KV side. It has also received orders for 17 of 765kv reactors in January from Power grid. The order flow growth in the industrial segment was primarily driven by HT motors and Variable Speed Drives (VDS) which was recently introduced in the domestic markets. The order backlog grew by 17% at Rs81.8bn from Rs70.17bn YoY. In terms of geography, 12% of orders came from USA, 35% from EMEA region, 38% from India and 15% from Asia pacific.

Key financials (Y/e March)

	2011	2012E	2013E	2014E
Revenues (Rs m)	100,051	115,124	134,204	154,798
Growth (%)	9.5	15.1	16.6	15.3
EBITDA (Rs m)	13,442	8,410	12,506	15,000
PAT (Rs m)	9,116	4,302	7,448	9,175
EPS (Rs)	14.2	6.7	11.6	14.3
Growth (%)	10.7	(52.8)	73.1	23.2
Net DPS (Rs)	2.6	1.0	1.8	2.2

Profitability & Valuation

	2011	2012E	2013E	2014E
EBITDA margin (%)	13.4	7.3	9.3	9.7
RoE (%)	31.5	12.2	18.5	19.7
RoCE (%)	27.6	11.0	16.0	17.6
EV / sales (x)	0.9	0.8	0.7	0.6
EV / EBITDA (x)	7.0	11.6	7.7	6.4
PE (x)	10.1	21.4	12.4	10.1
P / BV (x)	2.8	2.4	2.2	1.8
Net dividend yield (%)	1.8	0.7	1.2	1.5

Source: Company Data; PL Research

- Valuation and outlook:** The stock is currently trading at 12.4x FY13E earnings. While strong improvement in order flow is a definite positive, we continue to remain worried on the margin front, given the strong competition in domestic market, especially 765KV. Also, we believe the management is still not completely on top of its risk management policy and hence, further negative surprise on cost overruns on the project cannot be ruled out.

Exhibit 1: Q3FY12 Result Overview - Standalone (Rs m)

Y/e March	Q3FY12	Q3FY11	YoY gr. (%)	Q2FY12	9MFY12	9MFY11	YoY gr. (%)
Net Sales	16,245	13,986	16.1	14,515	29,203	27,877	4.8
Expenditure							
Raw Material	11,865	9,419	26.0	10,493	20,904	18,963	10.2
<i>% of Net Sales</i>	<i>73.0</i>	<i>67.3</i>		<i>72.3</i>	<i>71.6</i>	<i>68.0</i>	
Personnel Cost	909	773	17.6	892	1,810	1,467	23.4
<i>% of Net Sales</i>	<i>5.6</i>	<i>5.5</i>		<i>6.1</i>	<i>6.2</i>	<i>5.3</i>	
Others	1,717	1,513	13.5	1,516	3,008	3,044	(1.2)
<i>% of Net Sales</i>	<i>10.6</i>	<i>10.8</i>		<i>10.4</i>	<i>10.3</i>	<i>10.9</i>	
Total Expenditure	14,492	11,705	23.8	12,901	25,722	23,474	9.6
EBITDA	1,753	2,281	(23.1)	1,614	3,481	4,403	(20.9)
<i>Margin (%)</i>	<i>10.8</i>	<i>16.3</i>	<i>(5.5)</i>	<i>11.1</i>	<i>11.9</i>	<i>15.8</i>	
Other income	135	221	(39.0)	168	325	341	(4.7)
Depreciation	169	211	(19.9)	267	553	368	50.4
EBIT	1,719	2,291	(25.0)	1,515	3,253	4,376	(25.7)
Interest	(24)	23	NA	5	19	(13)	NA
PBT	1,743	2,268	(23.2)	1,510	3,233	4,389	(26.3)
Total Taxes	476	507	(6.2)	391	824	1,383	(40.4)
<i>ETR (%)</i>	<i>27.3</i>	<i>22.4</i>		<i>25.9</i>	<i>25.5</i>	<i>31.5</i>	
PAT	1,267	1,760	(28.0)	1,119	2,409	3,007	(19.9)

Source: Company Data, PL Research

Exhibit 2: Operating Metrics – Standalone (Rs m)

Y/e March	Q3FY12	Q3FY11	YoY gr. (%)	Q2FY12	9MFY12	9MFY11	YoY gr. (%)
Revenues							
Power Systems	7,542	5,807	29.9	5,988	19,216	17,349	10.8
Industrial Systems	3,886	3,497	11.1	3,766	11,269	10,051	12.1
Consumer Products	5,033	4,751	5.9	4,801	15,271	14,704	3.9
Others	19	30	(35.9)	30	78	144	(46.2)
Total	16,245	13,986	16.1	14,515	45,434	41,926	8.4
EBIT							
Power Systems	811	1,149	(29.5)	672	2,199	3,123	(29.6)
Industrial Systems	567	637	(11.0)	591	1,733	1,984	(12.6)
Consumer Products	593	666	(11.0)	543	1,889	2,140	(11.7)
Others	2	6	(67.2)	3	8	22	(62.3)
Total	1,972	2,458	(19.8)	1,808	4,995	6,627	(24.6)
EBIT Margins (%)							
Power Systems	10.7	19.8		11.2	11.4	18.0	
Industrial Systems	14.6	18.2		15.7	15.4	19.7	
Consumer Products	11.8	14.0		11.3	12.4	14.6	

Source: Company Data, PL Research

Exhibit 3: Q3FY12 Result Overview - Consolidated (Rs m)

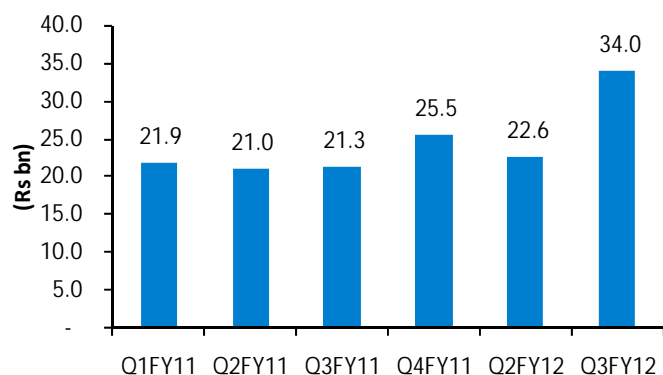
Y/e March	Q3FY12	Q3FY11	YoY gr. (%)	Q2FY12	9MFY12	9MFY11	YoY gr. (%)
Net Sales	30,280	23,970	26.3	27,055	81,712	70,971	15.1
Expenditure							
Raw Material	21,297	14,896	43.0	18,201	55,778	43,717	27.6
<i>% of Net Sales</i>	<i>70.3</i>	<i>62.1</i>		<i>67.3</i>	<i>68.3</i>	<i>61.6</i>	
Personnel Cost	3,929	3,005	30.8	3,574	10,724	9,092	17.9
<i>% of Net Sales</i>	<i>13.0</i>	<i>12.5</i>		<i>13.2</i>	<i>13.1</i>	<i>12.8</i>	
Others	3,227	2,667	21.0	3,021	9,306	8,455	10.1
<i>% of Net Sales</i>	<i>10.7</i>	<i>11.1</i>		<i>11.2</i>	<i>11.4</i>	<i>11.9</i>	
Total Expenditure	28,453	20,568	38.3	24,795	75,808	61,265	23.7
EBITDA	1,826	3,402	(46.3)	2,260	5,904	9,706	(39.2)
<i>Margin (%)</i>	<i>6.0</i>	<i>14.2</i>	<i>8.2</i>	<i>8.4</i>	<i>7.2</i>	<i>13.7</i>	
Other income	155	120	28.5	215	521	531	(1.9)
Depreciation	627	467	34.3	726	1,961	1,340	46.4
EBIT	1,354	3,055	(55.7)	1,749	4,464	8,898	(49.8)
Interest	112	39	191.7	102	324	137	136.6
PBT	1,242	3,017	(58.8)	1,647	4,140	8,761	(52.7)
Total Taxes	487	703	(30.8)	463	1,425	2,417	(41.0)
<i>ETR (%)</i>	<i>39.2</i>	<i>23.3</i>		<i>28.1</i>	<i>34.4</i>	<i>27.6</i>	
Share of Profit from Associate	-	-		2	20	13	51.2
PAT	755	2,313	(67.4)	1,165	2,735	6,357	(57.0)

Source: Company Data, PL Research

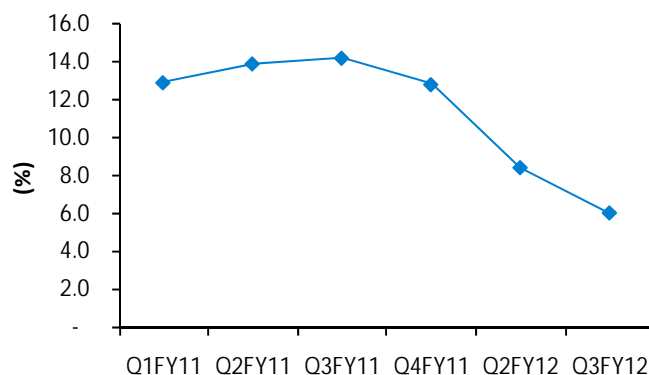
Exhibit 4: Operating Metrics - Consolidated (Rs m)

Y/e March	Q3FY12	Q3FY11	YoY gr. (%)	Q2FY12	9MFY12	9MFY11	YoY gr. (%)
Revenues							
Power Systems	20,689	15,452	33.9	17,611	53,465	45,794	16.8
Industrial Systems	4,749	3,809	24.7	4,655	13,202	10,625	24.2
Consumer Products	5,033	4,751	5.9	4,801	15,271	14,704	3.9
Others	45	57	(20.7)	58	161	231	(30.5)
Total	30,280	24,069	25.8	27,055	82,099	71,354	15.1
EBIT							
Power Systems	518	2,008	(74.2)	934	1,853	5,498	(66.3)
Industrial Systems	494	694	(28.7)	558	1,561	1,993	(21.7)
Consumer Products	593	666	(11.0)	543	1,889	2,140	(11.7)
Others	8	(145)	(105.2)	7	25	(119)	(121.4)
Total	1,362	3,223	(57.7)	2,041	4,473	9,066	(50.7)
EBIT Margins (%)							
Power Systems	2.5	13.0		5.3	3.5	12.0	
Industrial Systems	10.4	18.2		12.0	11.8	18.8	
Consumer Products	11.8	14.0		11.3	12.4	14.6	
Others	16.6	-253.9		11.2	15.8	-51.4	

Source: Company Data, PL Research

Exhibit 5: Trend in Order Book


Source: Company Data, PL Research

Exhibit 6: Trend in EBITDA Margin


Source: Company Data, PL Research

Key Highlights of the Analyst Meet

Power Systems:

Domestic power systems business reported growth of 29.9% YoY at Rs7.5bn after a gap of almost seven quarters. Growth in the power systems is driven by 1200 kV power transformer and surge arrester to Power grid and 765kv first utility substation in India. However, EBIT margin for the segment continued to be weak with a dip of 902bps YoY and 50bps QoQ. Pressure on pricing in the domestic market continued to take a toll on margins

On consolidated basis, power systems grew with a strong top-line of Rs20.68bn (up by 34%) YoY and for nine months, it grew by 16.8% at Rs53.46bn YoY. Order inflows surprised positively by growing 82% YoY at Rs29.39bn.

Key orders received by CG in this segment include:

- Offshore wind HVAC project in consortium with four other companies. CG's scope of work will be to design, engineer, supply and integrate all critical high voltage power equipments to connect the 33kV and 155kV networks, including power transformers, high voltage and medium voltage switchgear as well as protection and automation equipment. CG has developed an innovative AC/AC connection link for offshore wind farms.
- CG received 7x500 MVA 765kV power transformers project from Power grid. Transformers will be delivered from the new manufacturing unit of CG in USA for transformers.
- As per the management, CG is to receive 17 x 765 kV reactors order from Power grid any time soon.

Industrial Systems:

Domestic industrial systems business continued posting double-digit growth. Revenues increased by 11.1% at Rs3.88bn YoY. EBIT margins stood at 14.6% YoY (down by 360bps). The growth in industrial systems were primarily driven by HT motors (Supplied 2.8MW 16 pole HT motors for thermal power plant and 4.5MW 22 pole HT motor for nuclear plant). Also, variable speed drives got a good response from the market.

On a consolidated basis, industrial system's revenues grew by 25% at Rs4.7bn YoY and on nine months basis, grew by 24% at Rs13.2bn. EBIT margins reduced by 780bps at 10.4% from 18.2% YoY. The EBIT margins for the company were partly impacted by amortization of goodwill on account of acquisition of QEI and Emertron which stood at Euro~1m per quarter for QEI and US\$3.5m per quarter for Emertron. Adjusted for the same EBIT margin for the segment would have been 13.6%. Company received orders worth Rs4.62bn, up by 6% YoY.

CG is growing its productivity and capacity utilization levels at the Sweden-based manufacturing unit of QEI to enable growth in industrial space and enabling it to offer integrated solutions to industrial clients in the international market space with its presence.

Consumer products:

Consumer products revenue growth stagnated at 5.9% YoY. The major contribution came in from lighting/fans and appliances section. Margins in this segment stood at 11.8%, declined by 220bps YoY.

Management highlighted that CG's market share has increased for FANS section from 21.2% to 22.7%.

In the consumer segment, CG believes to beat the market, widen the market and diversify geographically.

Key orders:

- It bagged large orders for LED city lightning.
- Apart from this, CG bagged another large order for 300,000 fans from Tamil Nadu civil supplies corporation.
- Management highlighted that appliances have seen good supply and they are sourcing it from different countries like China. At the same time, they are also concentrating on quality and productivity.

Other highlights:

- The management highlighted long-term plan to improve margins, including increasing sourcing from low cost countries, taking various cost reduction measures and productivity improvement.
- CG sold the aircraft in Q3FY12 at book value (~Rs2.2bn).
- It highlighted that tax rate will continue to be around current levels of 27%.
- CG is working strategically in adding new capacities in Indonesia by setting up 500kV transformer plant and in Brazil by setting up factory for disconnections.
- Inventory days coming down to 56days in Q3FY12 from 84days YoY. New initiatives like LEAN manufacturing helped in reducing the inventory days and further in improving margins. Debtor's days remain at around 90days and cash balances at ~ US\$100m.

Income Statement (Rs m)

Y/e March	2011	2012E	2013E	2014E
Net Revenue	100,051	115,124	134,204	154,798
Raw Material Expenses	62,684	78,498	84,817	97,523
Gross Profit	37,367	36,626	49,387	57,275
Employee Cost	11,811	14,733	15,433	17,802
Other Expenses	12,113	13,483	21,448	24,474
EBITDA	13,442	8,410	12,506	15,000
Depr. & Amortization	1,936	2,557	2,739	2,873
Net Interest	209	424	277	252
Other Income	999	871	849	663
Profit before Tax	12,296	6,299	10,339	12,538
Total Tax	3,100	1,933	2,840	3,323
Profit after Tax	9,196	4,366	7,499	9,216
Ex-Od items / Min. Int.	80	64	51	41
Adj. PAT	9,116	4,302	7,448	9,175
Avg. Shares O/S (m)	641.5	641.5	641.5	641.5
EPS (Rs.)	14.2	6.7	11.6	14.3

Cash Flow Abstract (Rs m)

Y/e March	2011	2012E	2013E	2014E
C/F from Operations	5,601	(1,708)	13,764	10,440
C/F from Investing	(7,383)	(3,965)	(8,233)	(8,000)
C/F from Financing	(1,926)	6,016	(6,402)	(2,134)
Inc. / Dec. in Cash	(3,708)	343	(870)	306
Opening Cash	6,688	2,985	3,328	2,458
Closing Cash	2,985	3,328	2,458	2,763
FCFF	(1,354)	(3,018)	6,821	4,267
FCFE	(1,660)	1,077	4,821	3,767

Key Financial Metrics

Y/e March	2011	2012E	2013E	2014E
Growth				
Revenue (%)	9.5	15.1	16.6	15.3
EBITDA (%)	5.3	(37.4)	48.7	19.9
PAT (%)	10.7	(52.8)	73.1	23.2
EPS (%)	10.7	(52.8)	73.1	23.2
Profitability				
EBITDA Margin (%)	13.4	7.3	9.3	9.7
PAT Margin (%)	9.1	3.7	5.5	5.9
RoCE (%)	27.6	11.0	16.0	17.6
RoE (%)	31.5	12.2	18.5	19.7
Balance Sheet				
Net Debt : Equity	0.1	0.1	0.1	0.1
Net Wrkng Cap. (days)	(10)	13	(4)	—
Valuation				
PER (x)	10.1	21.4	12.4	10.1
P / B (x)	2.8	2.4	2.2	1.8
EV / EBITDA (x)	7.0	11.6	7.7	6.4
EV / Sales (x)	0.9	0.8	0.7	0.6
Earnings Quality				
Eff. Tax Rate	25.2	30.7	27.5	26.5
Other Inc / PBT	8.1	13.8	8.2	5.3
Eff. Depr. Rate (%)	5.1	6.3	6.0	5.7
FCFE / PAT	(18.2)	25.0	64.7	41.1

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2011	2012E	2013E	2014E
Shareholder's Funds	32,747	37,795	42,784	50,457
Total Debt	4,703	8,798	6,798	6,298
Other Liabilities	317	204	204	44
Total Liabilities	37,767	46,797	49,786	56,799
Net Fixed Assets	19,417	19,324	21,818	22,745
Goodwill	—	—	—	—
Investments	6,747	8,247	11,247	14,247
Net Current Assets	11,604	19,226	16,721	19,807
<i>Cash & Equivalents</i>	<i>2,984</i>	<i>3,328</i>	<i>2,458</i>	<i>2,763</i>
<i>Other Current Assets</i>	<i>42,512</i>	<i>54,379</i>	<i>59,410</i>	<i>68,021</i>
<i>Current Liabilities</i>	<i>33,892</i>	<i>38,481</i>	<i>45,146</i>	<i>50,976</i>
Other Assets	—	—	—	—
Total Assets	37,767	46,797	49,786	56,799

Quarterly Financials (Rs m)

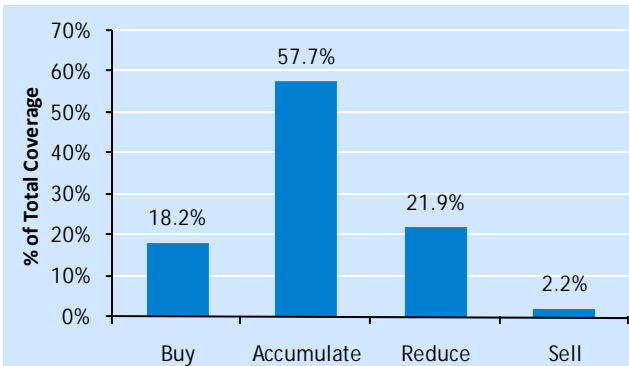
Y/e March	Q4FY11	Q1FY12	Q2FY12	Q3FY12
Net Revenue	29,080	24,377	27,055	30,280
EBITDA	3,816	1,818	2,260	1,826
<i>% of revenue</i>	<i>13.1</i>	<i>7.5</i>	<i>8.4</i>	<i>6.0</i>
Depr. & Amortization	597	608	726	627
Net Interest	72	110	102	112
Other Income	406	151	215	50
Profit before Tax	3,553	1,252	1,647	1,137
Total Tax	683	475	463	487
Profit after Tax	2,870	777	1,163	755
Adj. PAT	2,870	777	1,163	755

Source: Company Data, PL Research.



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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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