

## RESULT UPDATE

### LARGE CAP

#### Share Data

Reuters code	CROM.BO
Bloomberg code	CRG IN
Market cap. (US\$ mn)	2,644
6M avg. daily turnover (US\$ mn)	5.4
Issued shares (mn)	367
Target price (Rs)	408

#### Performance (%) 1M 3M 12M

Absolute	7	14	133
Relative	9	7	21

#### Valuation ratios

Yr to 31 Mar	FY10E	FY11E
EPS (Rs)	18.1	20.4
+/- (%)	17.6	13.1
PER (x)	18.8	16.6
Dividend/Yield (%)	0.6	0.6
EV/Sales (x)	1.3	1.1
EV/EBITDA (x)	11.4	10.0

#### Major shareholders (%)

Promoters	41
FII's	14
MF's	20
Institutions	6
Public & Others	19

#### Financial highlights (Standalone)

(Rs mn)	2QFY09	2QFY10	YoY (%)	1HFY09	1HFY10	YoY (%)	FY09	FY10E	YoY (%)	FY11E	YoY (%)
Net Revenues	10,862	12,686	16.8	21,690.7	24,420.2	12.6	46,107	52,743	14.4	63,291	20.0
EBITDA	1,435	2,094	45.9	2,815.8	3,834.5	36.2	6,381	7,516	17.8	8,544	13.7
EBITDA margin (%)	13.2	16.5	-	13.0	15.7	-	13.8	14.2	-	13.5	-
Other Income	102	99	(2.9)	183.5	183.7	0.1	361	361	0.1	400	10.8
Depreciation	120	129	7.8	228.2	257.6	12.9	452	515	14.0	567	9.9
Interest	39	0	(99.2)	61.0	(5.6)	(109.2)	146	37	(74.7)	50	35.1
PBT	1,379	2,064	49.7	2,710	3,766	39.0	6,143	7,324	19.2	8,328	13.7
Tax	453	703	55.1	895.7	1,258.0	40.4	2,172	2,504	15.3	2,915	16.4
PAT	925	1,361	47.1	1,814	2,508	38.2	3,971	4,820	21.4	5,413	12.3
EPS (Rs)	2.5	3.7	47.1	4.9	6.8	38.2	10.8	13.1	21.4	14.8	12.3

## Crompton Greaves

Maintain BUY

Price: Rs 339

BSE Index: 16,353

27 October 2009

### 2QFY10 Result – Consistent operational performance

- **Crompton Greaves reported impressive financials both in its domestic as well as international business, beating our expectation. During the quarter, standalone sales grew by ~17% led by power (48% of sales) and consumer (29% of sales) reporting a growth of 21% and 24%, respectively. Industrial segment (23% of sales) grew by 5% thereby indicating the early signs of recovery in the industrial space. EBITDA margins witnessed 3.3% expansion to 16.5% due to continuous focus on improvement in design; global sourcing and 2QFY09 witnessed forex loss which is not included in 2QFY10.**
- **Performance of the international subsidiaries witnessed slowdown with revenue de-growth of 8.5% to Rs 9.2 bn. However, despite the troubled times for the company's international distribution business, the company's margins improved by 1.8% to 10.6%. Higher other income, decline in Interest cost and lower tax provisioning resulted in a profitability growth of 101% YoY. We expect that the international business will continue to witness pressure from distribution transformer segment (nearly a third of sales) even as power transformer business continues to do well.**

### Outlook

Crompton Greaves is among the less-expensive large-cap engineering stocks in India and being a leader in 400 kV and 765 kV transformers, it will continue to be a key beneficiary of the growing transformer demand. We believe that concerns on its international business are overdone and the company will be able to grow its international operations at healthy pace despite slowdown. With the government of India's major thrust on the power sector, we expect the order momentum to continue for the company. In order to factor the better than expected operational performance, we have upward revised our estimate for FY10 to Rs 18.1 (earlier Rs 16.5) and FY11 to Rs 20.4 (earlier Rs 19.8). We maintain our Buy rating on the stock with a revised target price of Rs 408 based on 20x FY11E.

## Financial highlights (Consolidated)

(Rs mn)	2QFY09	2QFY10	YoY (%)	1HFY09	1HFY10	YoY (%)	FY09	FY10E	YoY (%)	FY11E	YoY (%)
Net Revenues	20,927	21,890	4.6	41,274.4	43,865.6	6.3	87,373	96,447	10.4	111,226	15.3
EBITDA	2,318	3,067	32.3	4,400.6	5,543.4	26.0	9,956	11,052	11.0	12,590	13.9
EBITDA margin (%)	11.1	14.0	–	10.7	12.6	–	11.4	11.5	–	11.3	–
Other Income	126	153	21.6	297.1	392.1	32.0	587	611	4.1	580	(5.1)
Depreciation	343	388	13.0	665.8	759.1	14.0	1,216	1,325	9.0	1,417	6.9
Interest	166	52	(69.0)	303.6	96.6	(68.2)	655	427	(34.8)	440	3.0
PBT	1,934	2,781	43.8	3,728	5,080	36.2	8,672	9,911	14.3	11,313	14.2
Tax	725	849	17.1	1,292.0	1,543.5	19.5	3,047	3,293	8.1	3,828	16.3
PAT	1,209	1,932	59.7	2,436	3,536	45.2	5,625	6,618	17.6	7,485	13.1
PAT margin (%)	5.8	8.8	–	5.9	8.1	–	6.4	6.9	–	6.7	–
EPS (Rs)	3.3	5.3	59.7	6.6	9.6	45.2	15.3	18.1	17.6	20.4	13.1

## Segmental performance (Standalone)

(Rs mn)	2QFY09	2QFY10	YoY(%)	1HFY09	1HFY10	YoY(%)
<b>Revenues</b>						
Power	5,007	6,043	20.7	9,591	11,127	16.0
Consumer	3,016	3,740	24.0	6,648	7,869	18.4
Industrial	2,788	2,926	5.0	5,420	5,466	0.8
Others	126	62	(50.8)	198	138	(30.5)
<b>Total</b>	<b>10,937</b>	<b>12,771</b>	<b>16.8</b>	<b>21,856</b>	<b>24,599</b>	<b>12.5</b>
Inter-segment	75	86	–	166	179	–
<b>Income from oper.</b>	<b>10,862</b>	<b>12,686</b>	<b>16.8</b>	<b>21,691</b>	<b>24,420</b>	<b>12.6</b>
<b>PBIT</b>						
Power	736	1,121	52.3	1,350	1,930	43.0
Consumer	321	524	62.9	743	1,104	48.5
Industrial	546	633	16.0	1,067	1,141	6.9
Others	(2)	4	(295.5)	(7)	12	(281.5)
<b>Total</b>	<b>1,601</b>	<b>2,282</b>	<b>42.5</b>	<b>3,154</b>	<b>4,187</b>	<b>32.7</b>
Interest	39	–	–	105	(6)	–
Un-allocable Exp.	184	218	–	357	426	–
<b>PBT</b>	<b>1,379</b>	<b>2,064</b>	<b>49.7</b>	<b>2,693</b>	<b>3,766</b>	<b>39.9</b>
<b>PBIT margin (%)</b>						
Power	14.7	18.6	–	14.1	17.3	–
Consumer	10.7	14.0	–	11.2	14.0	–
Industrial	19.6	21.6	–	19.7	20.9	–
Others	(1.7)	6.9	–	(3.3)	8.6	–
<b>Total</b>	<b>14.6</b>	<b>17.9</b>	<b>–</b>	<b>14.4</b>	<b>17.0</b>	<b>–</b>

## Segmental performance (Consolidated)

(Rs mn)	2QFY09	2QFY10	YoY (%)	1HFY09	1HFY10	YoY (%)
<b>Revenues</b>						
Power	14,624	14,773	1.0	28,295	29,611	4.6
Consumer	3,016	3,740	24.0	6,648	7,869	18.4
Industrial	3,029	3,182	5.0	5,908	5,976	1.1
Others	333	282	(15.2)	589	590	0.1
<b>Total</b>	<b>21,002</b>	<b>21,976</b>	<b>4.6</b>	<b>41,440</b>	<b>44,044</b>	<b>6.3</b>
Inter-segment	75	86	14.7	166	179	8.0
<b>Income from oper.</b>	<b>20,927</b>	<b>21,890</b>	<b>4.6</b>	<b>41,274</b>	<b>43,866</b>	<b>6.3</b>
<b>PBIT</b>						
Power	1,339	1,792	33.8	2,499	3,186	27.5
Consumer	321	524	62.9	743	1,104	48.5
Industrial	536	661	23.5	1,097	1,188	8.3
Others	41	73	79.9	75	125	66.0
<b>Total</b>	<b>2,236</b>	<b>3,050</b>	<b>36.4</b>	<b>4,414</b>	<b>5,603</b>	<b>26.9</b>
Interest	166	52	–	303	97	–
Un-allocable Exp.	137	218	–	383	426	–
<b>PBT</b>	<b>1,934</b>	<b>2,781</b>	<b>43.8</b>	<b>3,728</b>	<b>5,080</b>	<b>36.2</b>
<b>PBIT Margin (%)</b>						
Power	9.2	12.1	–	8.8	10.8	–
Consumer	10.7	14.0	–	11.2	14.0	–
Industrial	17.7	20.8	–	18.6	19.9	–
Others	12.2	26.0	–	12.8	21.2	–
<b>Total</b>	<b>10.6</b>	<b>13.9</b>	<b>–</b>	<b>10.7</b>	<b>12.7</b>	<b>–</b>

## Income Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
<b>Net sales</b>	<b>68,323</b>	<b>87,373</b>	<b>96,447</b>	<b>111,226</b>
<i>Growth (%)</i>	21.2	27.9	10.4	15.3
Operating expenses	(60,864)	(77,417)	(85,395)	(98,636)
Operating profit	7,459	9,956	11,052	12,590
<b>EBITDA</b>	<b>7,459</b>	<b>9,956</b>	<b>11,052</b>	<b>12,590</b>
<i>Growth (%)</i>	54.5	33.5	11.0	13.9
Depreciation	(1,263)	(1,216)	(1,325)	(1,417)
Other income	737	740	611	580
<b>EBIT</b>	<b>6,934</b>	<b>9,480</b>	<b>10,338</b>	<b>11,753</b>
Interest paid	(781)	(808)	(427)	(440)
Pre-tax profit	6,152	8,672	9,911	11,313
(before non-recurring items)				
Pre-tax profit	6,152	8,672	9,911	11,313
(after non-recurring items)				
Tax (current + deferred)	(2,054)	(3,047)	(3,293)	(3,828)
<b>Net profit</b>	<b>4,098</b>	<b>5,625</b>	<b>6,618</b>	<b>7,485</b>
Adjusted net profit	4,098	5,625	6,618	7,485
<b>Net income</b>	<b>4,098</b>	<b>5,625</b>	<b>6,618</b>	<b>7,485</b>
<i>Growth (%)</i>	42.7	37.3	17.6	13.1

## Balance Sheet

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Current assets	34,016	41,699	46,252	55,505
Investments	934	1,672	1,672	1,672
Net fixed assets	12,444	13,785	17,680	18,223
Other non-current assets	1,307	1,330	–	–
<b>Total assets</b>	<b>48,701</b>	<b>58,486</b>	<b>65,604</b>	<b>75,400</b>
Current liabilities	26,423	32,008	35,096	39,427
Total debt	8,420	7,182	6,500	5,400
Other non-current liabilities	719	848	–	–
<b>Total liabilities</b>	<b>35,561</b>	<b>40,037</b>	<b>41,596</b>	<b>44,827</b>
Share capital	733	733	733	733
Reserves & surplus	12,285	17,577	23,275	29,841
<b>Shareholders' funds</b>	<b>13,018</b>	<b>18,310</b>	<b>24,009</b>	<b>30,574</b>
Minorities interests	123	139	–	–
<b>Total equity &amp; liabilities</b>	<b>48,702</b>	<b>58,486</b>	<b>65,604</b>	<b>75,400</b>

## Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Pre-tax profit	6,152	8,672	9,911	11,313
Depreciation	2,406	2,154	1,426	1,407
Chg in working capital	(481)	1,113	(366)	(2,225)
Total tax paid	(2,224)	(2,941)	(2,811)	(3,828)
Other operating activities	(277)	–	–	–
<b>Cash flow from oper. (a)</b>	<b>5,576</b>	<b>8,999</b>	<b>8,160</b>	<b>6,667</b>
Capital expenditure	(3,978)	(3,496)	(5,321)	(1,950)
Chg in investments	(290)	(738)	–	–
Other investing activities	–	106	(225)	178
<b>Cash flow from inv. (b)</b>	<b>(4,267)</b>	<b>(4,127)</b>	<b>(5,546)</b>	<b>(1,772)</b>
<b>Free cash flow (a+b)</b>	<b>1,309</b>	<b>4,871</b>	<b>2,614</b>	<b>4,895</b>
Chg in minorities	(161)	16	(139)	–
Debt raised/(repaid)	(625)	(1,238)	(682)	(1,100)
Dividend (incl. tax)	(686)	(858)	(919)	(919)
<b>Cash flow from fin. (c)</b>	<b>(1,473)</b>	<b>(2,079)</b>	<b>(1,740)</b>	<b>(2,019)</b>
<b>Net chg in cash (a+b+c)</b>	<b>(164)</b>	<b>2,792</b>	<b>874</b>	<b>2,875</b>

## Key Ratios

Yr end 31 Mar (%)	FY08	FY09	FY10E	FY11E
DJ. EPS (Rs)	11.2	15.3	18.1	20.4
EPS growth	42.7	37.3	17.6	13.1
EBITDA margin	10.9	11.4	11.5	11.3
EBIT margin	10.1	10.8	10.7	10.6
RoCE	33.2	38.9	36.3	35.4
Net debt/Equity	45.5	8.3	(1.1)	(13.3)

## Valuations

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
PER	30.3	22.1	18.8	16.6
PCE	23.2	18.1	15.6	13.9
Price/Book	9.6	6.8	5.2	4.1
Yield (%)	0.5	0.6	0.6	0.6
EV/Net sales	1.8	1.4	1.3	1.1
EV/EBITDA	16.8	12.6	11.4	10.0

## Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
Net margin (%)	6.0	6.4	6.9	6.7
Asset turnover	1.5	1.6	1.6	1.6
Leverage factor	3.9	3.4	2.9	2.6
Return on equity (%)	35.5	35.6	31.2	27.4

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1. **BUY:** Potential upside of > +25% (absolute returns)
  2. **OUTPERFORMER:** 0 to +25%
  3. **UNDERPERFORMER:** 0 to -25%
  4. **SELL:** Potential downside of < -25% (absolute returns)
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