



Crompton Greaves

STOCK INFO.	BLOOMBERG
BSE Sensex: 15,235	CRG IN
S&P CNX: 4,445	REUTERS CODE
	CROM.BO

27 July 2007

Neutral

Previous Recommendation: Buy

Rs282

Equity Shares (m)	366.6
52-Week Range	287/133
1,6,12 Rel. Perf. (%)	9/25/63
M.Cap. (Rs b)	103.4
M.Cap. (US\$ b)	2.5

YEAR	NET SALES	PAT*	EPS*	EPS*	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	33,676	2,417	6.6	0.6	42.8	15.7	32.6	38.6	3.1	30.5
3/08E	44,009	3,505	9.6	45.0	29.5	12.1	35.9	42.7	2.4	21.9
3/09E	55,091	5,050	13.8	44.1	20.5	9.2	38.2	47.9	1.9	16.2

* Consolidated nos, pre exceptionals

- Robust 1QFY08 performance:** In 1QFY08, Crompton Greaves reported net revenues of Rs9b (up 21% YoY), EBIDTA of Rs1b (up 45% YoY) and net profit of Rs688m (up 89% YoY). While revenues are in line with estimates, EBIDTA margins at 11.7% in 1QFY08 are better than estimates of 9.9%.
- Robust FY08 Management Guidance:** Revenue growth of 22% for Crompton Greaves, 20-25% for Pauwels and 20-25% for Ganz for FY08, standalone EBIDTA margin to improve to ~11% (vs 10.2% in FY07) and Ganz EBIDTA margins of 5% for FY08 and breakeven at PBT level. The management has maintained capex at Rs2b p.a. on a consolidated basis for FY08 and FY09.
- Key takeaways from Annual Report FY07:** 1) Creation of 'CG Power' will enable to leverage global opportunities as 'Complete Solutions Provider' and gains from operational synergies 2) ambitious target to achieve EBIT margin of 14% for 'CG Power' (vs 8.2% in FY07) and 3) inorganic growth opportunities in Industrial systems and Consumer business.
- Valuation and view:** We now expect Crompton to report a consolidated net profit of Rs3.5b in FY08 (up 45% YoY, upgrade of 4.1%) and Rs5.1b in FY09 (up 44.1% YoY, upgrade of 15.1%). At CMP of Rs282, stock trades at PER of 42.8x FY07, 29.5x FY08E and 20.5x FY09E. We maintain **Neutral**, with price target of Rs303/sh.

QUARTERLY PERFORMANCE (STANDALONE)

									(Rs Million)	
	FY07				FY08E				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	7,406	8,240	8,130	9,900	8,961	10,331	10,974	13,743	33,676	44,009
Change (%)	42.5	48.6	25.5	24.0	21.0	25.4	35.0	38.8	33.6	30.7
EBITDA	722	736	818	1,143	1,045	956	1,097	1,658	3,418	4,756
Change (%)	58.7	39.1	38.5	52.0	44.8	29.9	34.2	45.0	46.9	39.1
As of % Sales (Adj)	9.7	8.9	10.1	11.5	11.7	9.3	10.0	12.1	10.2	10.8
Depreciation	100	81	100	113	105	130	145	139	394	519
Interest	53	72	78	101	66	75	100	93	304	333
Other Income	49	94	72	133	126	65	85	62	349	338
PBT	618	677	713	1,063	1,000	816	937	1,489	3,070	4,242
Tax	254	270	258	363	313	302	347	566	1,146	1,527
Effective Tax Rate (%)	41.1	39.9	36.3	34.2	31.2	37.0	37.0	38.0	37.3	36.0
Reported PAT	364	407	454	699	688	514	591	923	1,924	2,715
Adj PAT	364	387	454	749	653	514	591	923	1,954	2,715
Change (%)	16.4	18.9	-17.0	0.1	79.6	32.9	30.0	23.1	1.0	39.0

E: M0St Estimates

Key takeaways from Annual Report FY07

Crompton Greaves Annual Report FY07 highlights initiatives towards emerging as a global leader in power transmission and distribution, performance improvement targets through operational synergies and plans for inorganic growth opportunities in industrial and consumer business:

✎ **Creation of ‘CG Power’:** ‘CG Power’ has been created which consists of the transformer, switchgear and engineering projects business of Crompton Greaves, Pauwels, Ganz and will also encompass Microsol. The creation of a global power business SBU has led to a serious change in the organization design and reporting structures, across business units spread across India, Belgium, Ireland, USA, Canada, Indonesia and Hungary. This will enable the company to leverage global opportunities as ‘Complete Solutions Provider’ and also gain from operational synergies.

✎ **Stretch target of 14% EBIT margins for ‘CG Power’:** The management has set an ambitious target to achieve an EBIT margin of 14% for ‘CG Power’. This could be possible through synergies and operational excellence. During FY07, ‘CG Power’ reported revenues of Rs40.3b (up 43.1% YoY) and EBIT of Rs3.3b (EBIT margin of 8.2%). Going forward, we expect ‘CG Power’ to report revenues of Rs55.3b (up 32.9% YoY) in FY08 and Rs68.8b (up 24.4% YoY) in FY09, and EBIT margins of 9.3% in FY08 and 9.8% in FY09.

✎ **Acquisitions in Industrial systems and Consumer business:** The Chairman has stated that both the industrial systems and consumer product business will also witness acquisitions and inorganic growth in years to come. The goal in these businesses is: to lead across most of Asia Pacific in motors and drives and to be the South Asian leader in consumer electrical products and appliances.

Robust 1QFY08 performance, positive surprise on EBIDTA margin front

During 1QFY08, Crompton Greaves reported net revenues of Rs9b (up 21% YoY), EBIDTA of Rs1b (up 45% YoY) and net profit of Rs688m (up 89% YoY). While revenues are in line with estimates, EBIDTA margins at 11.7% in 1QFY08 are better than estimates of 9.9%. Other income

in 1QFY08 stood at Rs126m, up 55% YoY, which includes a foreign exchange gain of Rs50m, adjusted for which the net profit at Rs638m, up 75.5% YoY.

On a consolidated basis, the company reported revenues at Rs16.1b, EBIDTA of Rs1.2b and net profit of Rs892m. The reported numbers includes a forex gain of Rs100m, adjusted for which, the net profit stood at Rs779m. During 1QFY08, Pauwels and Ganz combined reported revenues of Rs7.1b, EBIDTA of Rs179m, (margins of 2.5%) and Net profit of Rs205m. Pauwels reported revenues of Rs5.7b, EBIDTA of Rs198m (margin of 6.8%) and PAT of Rs395m. For Ganz, revenue was Rs565m while it reported loss at EBIDTA level of Rs330m (margin -5.8%).

Segment wise analysis

During 1QFY08, revenues of Power Systems grew by 24.7% YoY to Rs4.3b (vs Rs3.5b in 1QFY07). Industrial division however recorded robust growth in revenue at 32.3% YoY to Rs2.5b while consumer division grew by 13.5% YoY to Rs3b.

TREND IN REVENUE (RS M) AND % YOY

	Q1FY07	Q2FY07	Q3FY07	Q4FY07	1QFY08
Power Systems	3,469	4,497	4,262	5,601	4,326
YoY growth (%)	66.4	68.6	27.9	37.1	24.7
Consumer Products	2,658	2,253	2,263	2,767	3,016
YoY growth (%)	27.8	33.3	21.0	9.3	13.5
Industrial Systems	1,895	2,261	2,311	2,408	2,508
YoY growth (%)	26.8	36.8	32.9	22.2	32.3
Digital Group	71	40	57	52	31
YoY growth (%)	(21.9)	(52.5)	(43.8)	(49.3)	-57.1
Total	8,094	9,051	8,892	10,827	9,880
Inter-segment	77	71	61	55	87
Total Revenue	8,017	8,980	8,832	10,772	9,793

Source: Company

During 1QFY07, EBIT margin for all the division improved significantly driven largely by value engineering on the products front bringing the material to sales ration lower and by way of improved supply chain management. EBIT margins for the power division grew by healthy 250bps to 11.5% while the industrial division recorded an improvement of 380bps to 17.8% in 1QFY08. Consumer division too showed an improvement of 80bps in EBIT margin to 10.5% (vs 9.7% earlier).

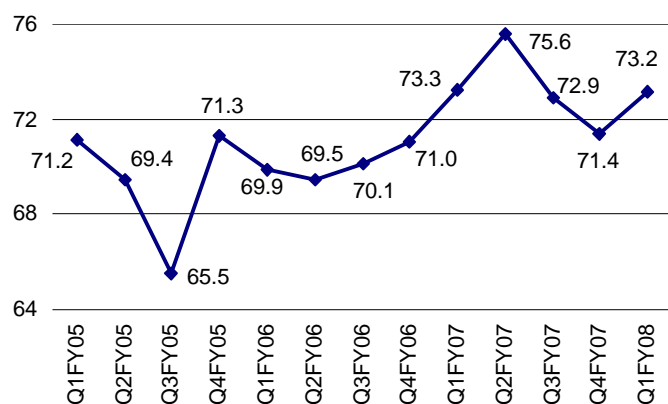
SEGMENT WISE EBIT MARGINS (%)

	Q1FY07	Q2FY07	Q3FY07	Q4FY07	1QFY08
Power Systems	313	361	414	781	499
Margin %	9.0	8.0	9.7	13.9	11.5
Consumer Products	258	184	198	314	316
Margin %	9.7	8.2	8.7	11.4	10.5
Industrial Systems	265	307	330	402	447
Margin %	14.0	13.6	14.3	16.7	17.8
Digital Group	-5	-26	-12	-71	-23
Margin %	-7.6	-63.5	-20.3	-137.6	-74.8
Total	832	826	930	1,426	1,239

Source: Company

EBIT margin improvement across divisions is being driven by: value engineering on products front, resulting in lower material cost to sales ratio, improved supply chain management and operational efficiencies. Material cost as a percentage of revenues decline to 71.4% during 1QFY08, vs 73.3% during 1QFY07 and 73.2% during FY07.

TREND IN MATERIAL COST AS A % TO SALES



Source: Company

Robust FY08 Management Guidance

- Revenue growth of 20-25% for the Crompton Greaves, Pauwels and Ganz each for FY08.
- Standalone EBIDTA margin to improve to ~11% (vs 10.2% in FY07).
- Ganz:** EBIDTA margins of 5% for FY08 and breakeven at PBT level.
- Capex of Rs2b per annum for FY08 and FY09 on consolidated basis.

Acquisition of Microsol to position Crompton as “Complete solution provider”

The company has recently completed the acquisition of Microsol Holdings together with other companies in the Microsol Group based in Ireland. The company is valued at an EV of Euro10.5m (Rs567m), which mainly represents the equity as Microsol is a debt free company. The company is engaged in the business of providing automation solution for MV and HV sub-stations for new installation and retrofit and has operations in UK, USA and Ireland. The acquisition would enable it to transform into complete solution provider from product based company.

During FY07, Microsol reported revenues of Euro 8.8m, EBIDTA of Euro1.2m and positive net profit. The company aims to increase the revenues to Euro50-70m over a 3 year period, and expect margin improvement. We have however not factored in the financials of Microsol in our earnings estimates, as we await further clarity from the management.

Expect robust consolidated performance

We now expect Crompton to report a consolidated net profit of Rs3.6b in FY08 (up 22.6% YoY, upgrade of 4.1%) and Rs5b in FY09 (up 37.1% YoY, upgrade of 15.1%). During FY08, we expect Pauwels and Ganz to report net profit of Rs942m in FY08 (up 11% YoY) and Rs1.2b in FY09 (up 31.3% YoY). The FY09 net profit is higher as we estimate Ganz to report a net profit of Rs144m in FY09 vs loss of Rs90m in FY08.

CONSOLIDATED NET PROFIT (PRE EXCEPTIONAL, RS M)

NET PROFIT (REPOR.)	FY04	FY05	FY06	FY07	FY08E	FY09E
Crompton	711	1,396	1,630	1,924	2,715	3,777
Pauwels	-9	52	699	851	1,032	1,093
Ganz				207	-90	144
Others				1	0	0
Consolidated	701	1,447	2,329	2,982	3,657	5,014
% YoY				28.0	22.6	37.1

	FY04	FY05	FY06	FY07	FY08E	FY09E
Crompton	711	1,396	1,933	1,924	2,715	3,777
Pauwels	-9	52	559	851	1,032	1,093
Ganz				-193	-90	144
Others				1	0	0
Consolidated	701	1,447	2,492	2,582	3,657	5,014
% YoY				3.6	41.6	37.1

Source: Company/ Motilal Oswal Securities

Valuation and view

We now expect Crompton to report a consolidated net profit of Rs3.5b in FY08 (up 45% YoY, upgrade of 4.1%) and

Rs5.1b in FY09 (up 44.1% YoY, upgrade of 15.1%). At CMP of Rs282, stock trades at PER of 42.8x FY07, 29.5x FY08E and 20.5x FY09E. We maintain **Neutral**.

Crompton Greaves: an investment profile

Company description

Crompton Greaves (CG), established in 1937, is the market leader in power systems, industrial motors and consumer fans in India. The recent acquisition of Pauwels and Ganz has catapulted it to the world's seventh largest transformer manufacturer in the world, with a global market share of ~4%. The company now has access to US and European markets, and is poised to leverage the advantage of global scale with Indian cost economics.

Key investment arguments

- Acquisition of Pauwels, Ganz has catapulted Crompton as the seventh largest transformer manufacturer globally, with a market share of ~4%.
- Successful turnaround of Pauwels indicates the management bandwidth in managing large acquisitions.
- Strong net profit CAGR of 40% till FY09 on consolidated basis.

Key investment risks

- Slowdown of power sector reforms, deterioration of financial health of SEBs and downturn in the industrial capex cycle may hamper growth
- Competitive pressures from domestic and MNC companies.

Recent developments

- Acquisition of Microsol holding to bridge the competency gap in providing the automation solution in MV & HV substation instillation and retrofit.

Valuation and view

- At CMP of Rs282, the stock trades at a PER of 42.8x FY07, 29.5x FY08E and 20.5x FY09E.
- We maintain **Neutral**.

Sector view

- Power sector is expected to witness increased traction till FY07, both on generation and transmission
- Investments in manufacturing industries are likely to continue their momentum as they are operating at their peak utilization rates
- Buoyant demand and stable raw-material prices have resulted in EBIDTA margins expansion.
- We remain positive view on the sector.

COMPARATIVE VALUATIONS

		CROMPTON	ABB*	SIEMENS*
P/E (x)	FY08E	29.5	45.9	29.4
	FY09E	20.5	35.6	22.7
P/BV(x)	FY08E	12.1	21.3	12.6
	FY09E	9.2	16.9	9.5
EV/Sales (x)	FY08E	2.4	3.7	1.9
	FY09E	1.9	2.8	1.5
EV/EBITDA (x)	FY08E	21.9	29.8	19.6
	FY09E	16.2	22.7	16.4

* For ABB, FY08 is CY07 and FY09 is CY08; For Siemens FY08 and FY09 is Sept ending FY08 and FY09 respectively

SHAREHOLDING PATTERN (%)

	JUN-07	MAR-07	JUN-06
Promoter	39.4	39.4	39.3
Domestic Inst	23.4	24.0	27.2
Foreign	24.9	24.9	22.3
Others	12.3	11.8	11.2

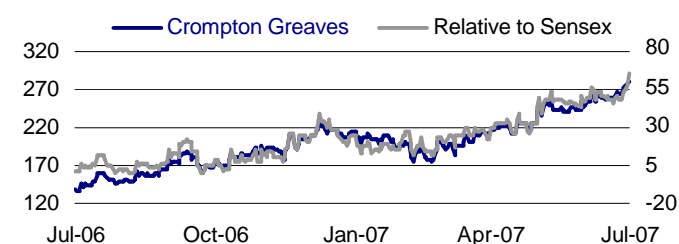
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY08	9.6	10.6	-9.0
FY09	13.8	13.9	-0.8

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
282	303	7.4	Neutral

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT						(Rs)
Y/E MARCH	2005	2006	2007	2008E	2009E	
Net Sales	19,725	25,206	33,676	44,009	55,091	
Change (%)	6.3	27.8	33.6	30.7	25.2	
Raw Materials	13,698	17,704	24,643	32,170	40,216	
Staff Cost	1,423	1,695	1,743	2,091	2,509	
Other Mfg. Expenses	2,848	3,481	3,872	4,992	5,968	
EBITDA	1,756	2,326	3,418	4,756	6,398	
% of Net Sales	8.9	10.4	10.2	10.8	11.6	
Depreciation	420	442	394	519	604	
Interest	231	264	304	333	249	
Other Income	269	327	349	338	357	
Extra-ordinary Items (as rep.)	-4	0	0	0	0	
PBT	1,248	1,948	3,070	4,242	5,902	
Tax	100	318	1,146	1,527	2,125	
Rate (%)	8.0	6.3	37.3	36.0	36.0	
Reported PAT	1,147	1,630	1,924	2,715	3,777	
Extra-ordinary Inc. (net of expe	-248	-303	0	0	0	
Adjusted PAT	1,396	1,933	1,924	2,715	3,777	
Change (%)	96.5	38.5	-0.5	41.1	39.1	
Consolidated PAT	1,447	2,320	2,417	3,505	5,050	
Change (%)	106.4	60.3	4.2	45.0	44.1	

BALANCE SHEET						(Rs)
Y/E MARCH	2005	2006	2007	2008E	2009E	
Share Capital	524	524	733	733	733	
Reserves	3,407	4,688	5,860	7,802	10,505	
Net Worth	3,931	5,211	6,593	8,536	11,238	
Loans	3,145	2,498	2,700	2,852	2,277	
Deferred Tax Liability	0	111	376	376	376	
Capital Employed	7,076	7,820	9,669	11,763	13,891	
Gross Fixed Assets	7,929	8,322	9,003	10,587	12,087	
Less: Depreciation	4,665	4,977	5,253	5,664	6,268	
Net Fixed Assets	3,264	3,345	3,750	4,923	5,819	
Capital WIP	95	141	434	100	100	
Investments	682	1,021	1,351	1,500	1,800	
Curr. Assets	8,908	11,337	14,608	19,125	23,554	
Inventory	1,771	1,918	2,470	3,275	4,100	
Debtors	5,411	6,596	8,039	10,611	13,282	
Cash & Bank Balance	734	1,251	1,736	2,096	2,236	
Loans & Advances	992	1,571	2,364	3,144	3,936	
Current Liab. & Prov.	5,872	8,024	10,474	13,885	17,382	
Creditors	5,139	5,398	6,497	8,646	10,823	
Other Liabilities	577	2,025	2,397	3,275	4,100	
Provisions	157	600	1,580	1,965	2,460	
Net Current Assets	3,036	3,313	4,134	5,240	6,172	
Application of Funds	7,076	7,820	9,669	11,763	13,891	

E: MOST Estimates

RATIOS					
Y/E MARCH	2005	2006	2007	2008E	2009E
Basic (Rs)					
Adjusted EPS	5.3	7.4	5.2	7.4	10.3
Growth (%)	96.5	38.5	3.2	41.1	39.1
Consolidated EPS	5.5	8.9	6.6	9.6	13.8
Growth (%)	106.4	60.3	0.6	45.0	44.1
Cash EPS	6.9	9.1	6.3	8.8	12.0
Book Value	75.1	19.9	18.0	23.3	30.7
DPS	7.0	14	13	19	2.6
Payout (incl. Div. Tax.)	32.0	22.5	24.5	25.0	25.0
Valuation (x)					
P/E (standalone)		38.2	53.7	38.1	27.4
P/E (consolidated)		29.6	42.8	29.5	20.5
Cash P/E		31.1	44.6	32.0	23.6
EV/EBITDA		32.3	30.5	21.9	16.2
EV/Sales		3.0	3.1	2.4	1.9
Price/Book Value		14.2	15.7	12.1	9.2
Dividend Yield (%)		0.5	0.5	0.7	0.9
Profitability Ratios (%)					
RoE	38.9	42.3	32.6	35.9	38.2
RoCE	21.6	29.7	38.6	42.7	47.9
Turnover Ratios					
Debtors (Days)	92	88	80	81	81
Inventory (Days)	30	26	25	25	25
Creditors. (Days)	87	72	65	66	66
Asset Turnover (x)	2.8	3.2	3.5	3.7	4.0
Leverage Ratio					
Debt/Equity (x)	0.8	0.5	0.4	0.3	0.2

CASH FLOW STATEMENT						(Rs)
Y/E MARCH	2005	2006	2007	2008E	2009E	
PBT before EO Items	1,252	1,948	3,070	4,242	5,902	
Add : Depreciation	542	442	394	519	604	
Interest	231	264	304	333	249	
Less : Direct Taxes Paid	100	318	1,146	1,527	2,125	
(Inc)/Dec in WC	-603	240	-337	-745	-792	
CF from Operations	1,321	2,576	2,284	2,822	3,839	
EO Income	-4	0	0	0	0	
CF from Oper. incl. EO I	1,317	2,576	2,284	2,822	3,839	
(Inc)/Dec in FA	-375	-569	-1,092	-1,358	-1,500	
(Pur)/Sale of Investments	17	-339	-330	-149	-300	
CF from Investments	-358	-908	-1,422	-1,507	-1,800	
(Inc)/Dec in Networth	-149	179	260	0	0	
(Inc)/Dec in Debt	-191	-648	203	152	-575	
Less : Interest Paid	231	264	304	333	249	
Dividend Paid	46	418	537	772	1,075	
CF from Fin. Activity	-986	-1,150	-378	-954	-1,898	
Inc/Dec of Cash	-27	517	484	360	140	
Add: Beginning Balance	762	734	1,251	1,736	2,096	
Closing Balance	734	1,251	1,736	2,096	2,236	

N O T E S



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Crompton Greaves

1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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