

March 25, 2009

Rating	Reduce
Price	Rs106
Target Price	Rs115
Implied Upside	8.6%
Sensex	9,668

(Prices as on March 25, 2009)

Trading Data

Market Cap. (Rs bn)	38.9
Shares o/s (m)	366.6
Free Float	60.6%
3M Avg. Daily Vol ('000)	184.5
3M Avg. Daily Value (Rs m)	24.4

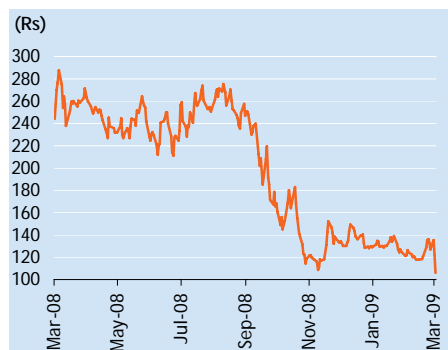
Major Shareholders

Promoters	39.4%
Foreign	12.8%
Domestic Inst.	25.0%
Public & Others	22.8%

Stock Performance

(%)	1M	6M	12M
Absolute	(13.1)	(57.7)	(58.8)
Relative	(21.7)	(29.1)	(18.4)

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



Source: Bloomberg

■ **Acquisition of stake in APIL:** Crompton Greaves (CRG) board has given approval to buy a stake of 41% for Rs2.3bn at book value in Avantha Power and Infrastructure (APIL), a promoter group company. These funds are to be utilized for the Korba 1x600mw power plant for which a debt of Rs21bn has already been underwritten, 80% of land acquisition has been completed, water allocation has been done and coal linkage are in place. Another Rs1.6bn worth of equity will have to be raised either by private equity or through group companies, which will result in dilution of CRGs stake (but will not go lower than 26%).

APIL is a power generation company having 165MW capacity (by June 2009), expandable to 1365mw (2 plants of 1x600mw each) in various stages. The other stake holders of APIL are BILT, BILT paper and Solaris (all are Avantha group companies).

■ **Buy-back offer:** CRG board has approved a buy-back of shares for Rs2.2bn upto a price of Rs170 per share. Keeping in mind that the APIL stake will be paid in cash and the current cash balance is just about Rs3.0bn, CRG will have to utilize internal cash generation over the next 9-12 months if it wants to complete the buy-back. We believe that only a part of this buy-back will be completed and in the current situation, this offer is largely there to just act as a check on the declining stock price.

■ **Valuation:** At the CMP of Rs106, the stock is trading at 6.9x FY09E and 5.9x FY10E earnings of Rs13.7 and Rs15.3, respectively. The diversification into power generation could yield lucrative cash flows post 2013. However, in the near term this diversification would have a negative impact as the future cash flow commitments to this segment are not known. Also, to maintain its stake in the venture, CRG will have to commit larger sums of money, going ahead. Our **Reduce** rating stays.

Key financials (Y/e March)	FY08	FY09E	FY10E	FY11E
Revenues (Rs m)	68,323	85,457	95,770	109,042
Growth (%)	21.2	25.1	12.1	13.9
EBITDA (Rs m)	7,439	9,274	10,324	11,965
PAT (Rs m)	4,098	5,005	5,626	6,595
EPS (Rs)	11.2	13.7	15.3	18.0
Growth (%)	43.0	22.1	12.4	17.2
Net DPS (Rs)	1.6	2.0	2.3	2.7

Source: Company Data; PL Research

Profitability & valuation	FY08	FY09E	FY10E	FY11E
EBITDA margin (%)	10.9	10.9	10.8	11.0
RoE (%)	31.5	29.0	25.5	23.8
RoCE (%)	21.8	21.5	20.8	20.9
EV / sales (x)	0.7	0.6	0.5	0.4
EV / EBITDA (x)	6.0	5.1	4.5	3.8
PE (x)	9.5	7.8	6.9	5.9
P / BV (x)	3.0	2.2	1.8	1.4
Net dividend yield (%)	1.5	1.9	2.2	2.5

Source: Company Data; PL Research

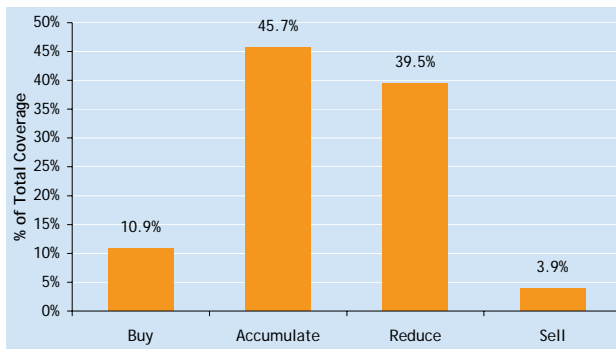
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Rating Distribution of Research Coverage



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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