

## Crompton Greaves Limited

More triggers for overseas growth - ALERT

### Overweight

CROM.BO, CRG IN

Price: Rs257.30

26 May 2011

- More announcements to consolidate overseas addressable market and reach:** Post the Emotron acquisition (Rs3.7bn EV) last week, in quick succession CG has made two more announcements- **(1) Acquisition of US based QEI for EV of US\$30mn (Rs1.35bn).** QEI is a provider of SCADA and automation systems and products for management of electric T&D networks. It was formed in 1960. As per CG, the acquisition will help the company to penetrate the North American automation market by using QEI's customer references. For the year ended-July2010, QEI had revenue of US\$12.4mn (Rs558mn) and EBITDA margin of ~19%. North America accounted for ~11% of CG's consol revenues in FY10. **(2) To establish a transformer manufacturing plant in Brazil with investment of ~US\$30mn (~Rs1.35bn).** As per CG, Brazil is the biggest T&D market in Latin America with a size of ~US\$2.3bn and a growing domestic market. CG's plant is expected to compete in the transformer/switchgear market in Brazil and also export products to other Latin American countries. Land for the plant has been acquired.
- Small acquisitions, but going by CG's historical M&A track record these are likely to offer strong growth:** Overseas subsidiary revenue (primarily in power segment) has grown from Rs16bn in FY06 to Rs39.5bn in FY11 (20% CAGR) and EBITDA margins have improved from 5.2% to ~10.8% over the period. Since the announcement of the Emotron deal CG stock has given 8% absolute returns, outperforming the Sensex. We maintain OW.
- Onus to take growth forward rests with the incoming MD.** Mr. Laurent Demortier, MD designate will succeed Mr. Trehan who has been MD for the last 11 years, starting June-11. During the last conference call Mr. Trehan had stressed that one of the reasons behind selection of Mr. Demortier was his extensive overseas experience and relationships in the developed markets. His experience in leading acquisition, integration, turnaround and organic growth mandates across US and Europe will be put to test in the quarters to come.

#### Engineering

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- [Second attempt to foray into distribution](#)
- [Emotron acquisition boost industrial systems growth](#)
- [Emotron acquisition improves addressable market for CG](#)
- [Margin hiccup in the price, Maintain OW](#)

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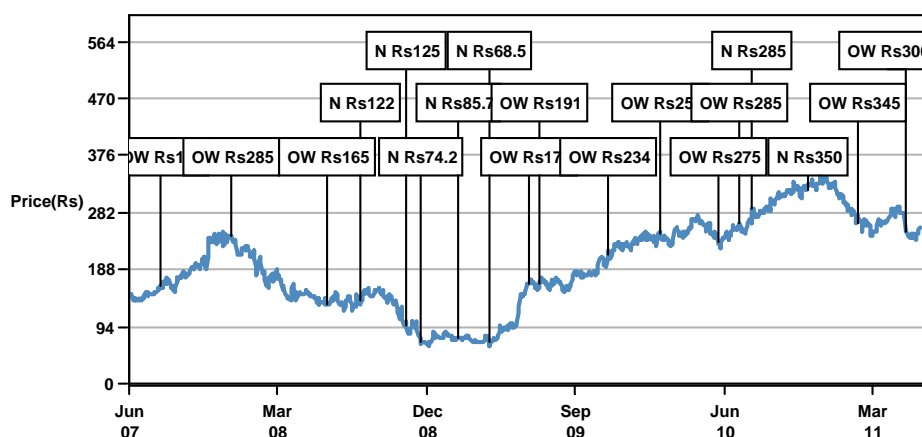
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**Crompton Greaves Limited (CROM.BO) Price Chart**



Date	Rating	Share Price (Rs)	Price Target (Rs)
30-Jul-07	OW	160.97	196.00
05-Dec-07	OW	243.11	285.00
29-May-08	OW	129.74	165.00
30-Jul-08	N	136.80	122.00
23-Oct-08	N	94.31	125.00
20-Nov-08	N	69.86	74.20
28-Jan-09	N	75.23	85.70
25-Mar-09	N	69.60	68.50
05-Jun-09	OW	166.26	171.00
25-Jun-09	OW	165.63	191.00
30-Oct-09	OW	211.66	234.00
01-Feb-10	OW	247.97	254.00
19-May-10	OW	232.90	275.00
29-Jun-10	OW	265.20	285.00
22-Jul-10	N	289.50	285.00
01-Nov-10	N	317.95	350.00
01-Feb-11	OW	262.65	345.00
01-May-11	OW	250.40	300.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.  
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