



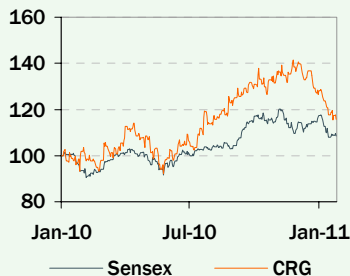
# Crompton Greaves

 Relative to sector: **Outperformer**
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**Relative Performance**


Source: Bloomberg, ENAM Research

**Stock data**

No. of shares	: 641 mn
Market cap	: Rs 179.1 bn
52 week high/low	: Rs 349/ Rs 219
Avg. daily vol. (6mth)	: 1.1 mn shares
Bloomberg code	: CRG IB
Reuters code	: CROM.BO

Shareholding (%)	Dec-10	QoQ chg
Promoters	: 40.9	0.0
FIs	: 22.3	2.0
MFs / UTI	: 14.5	(1.0)
Banks / FIs	: 6.3	(0.4)
Others	: 15.9	(0.6)

**MARGINS LEVERS WANING, VOLUME GROWTH A KEY**

Crompton Greaves (CG) reported consol sales of Rs 24 bn (up 7%), EBITDA of Rs 3.4 bn (up 6%) & PAT of Rs 2.3 bn (up 17%), in-line with our expectations. Despite 31% YoY vol. growth in dom. T&D, a combination of factors like pressure on realizations (down ~22%), slowdown in exports (40% of domestic T&D) and deferral in delivery by clients impacted revenues. The mgmt now expects standalone sales growth of ~14% in FY11 (vs. 15% earlier) & 16-18% for FY12. Driven by recovery in transformers for renewable, the Int'l biz surprised positively with ~13% YoY growth in constant currency. The mgmt has raised its guidance of int'l subs to 11-13% in Euro terms (vs 5-7% earlier) for Q4FY11 & FY12.

**Q3FY11 highlights and key conference call takeaways:**

- **Healthy Cons. orders intake despite PGCIL slowdown:** Despite deferrals in PGCIL orders during Q3, dom. order intake in 9MFY11 was at Rs 47 bn (up 10%). In spite of ~10% adverse impact of currency translation, int'l orders were up 11% YoY at Rs 29 bn. The order book stands healthy at Rs 37 bn (up 25% YoY) for domestic biz & at Rs 70 bn (up 18% in constant currency) for international biz.
- **Domestic T&D muted on slow exports, client delays & lower ASP:** The mgmt expects 3-5% growth in Q4 & 10-11% in FY12 (can be higher if orders pick up). Margins were at all time high at ~20%. The mgmt believes that benefits from design changes (lower material content) & operating leverage have largely been accrued and any further pressure due to pricing or input costs would impact margins.
- **Int'l subsidiaries surprise positively** The mgmt expects 11-13% growth for Q4 & FY12. However, due to intense competition it does not expect margins to improve in short-term. The mgmt, however, expects margins to improve substantially over a 2-3 yr period.
- **Industrial & Consumer Biz** grew by 20% and 30% respectively. The mgmt has guided for 20% & 25%+ growth in FY12 for these biz.

**Earnings cut marginally, Maintain Buy**

To factor in a potential squeeze in margins (due to rising competitive intensity) and lower dom. revenue growth (delay in receipt of orders), we have cut our earnings marginally. **Maintain BUY** with TP of Rs 311.

**Financial Summary (Consolidated)**

Y/E Mar	Sales (Rs mn)	Adj. PAT (Rs mn)	Consensus EPS* (Rs)	EPS (Rs)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs)
2010	91,409	8,180	-	12.8	47.1	-	37.8	44.2	-	1.3
2011E	99,931	9,084	14.1	14.2	11.1	19.7	31.3	39.6	12.5	1.4
2012E	117,252	10,813	16.4	16.9	19.0	16.6	28.5	38.8	10.5	1.5
2013E	137,811	12,517	19.2	19.5	15.8	14.3	25.8	36.1	9.1	1.5

Source: Company, ENAM estimates; \*Consensus broker estimates

## Results Update (Consolidated)

(Rs mn)	Quarter ended					12 months ended		
	Dec-10	Dec-09	% Chg	Sep-10	% Chg	Mar-11E	Mar-10	% Chg
<b>Net Sales</b>	<b>23,970</b>	<b>22,464</b>	<b>6.7</b>	<b>23,979</b>	<b>(0.0)</b>	<b>99,931</b>	<b>91,409</b>	<b>9.3</b>
<b>EBITDA</b>	<b>3,402</b>	<b>3,200</b>	<b>6.3</b>	<b>3,332</b>	<b>2.1</b>	<b>14,289</b>	<b>13,395</b>	<b>6.7</b>
Other income	120	215	(44.1)	228	(47.2)	400	408	(1.9)
<b>PBIDT</b>	<b>3,522</b>	<b>3,415</b>	<b>3.1</b>	<b>3,560</b>	<b>(1.1)</b>	<b>14,689</b>	<b>13,803</b>	<b>6.4</b>
Depreciation	467	395	18.2	458	1.9	1,738	1,551	12.1
Interest	39	49	(21.7)	49	(20.6)	172	428	(59.8)
<b>PBT</b>	<b>3,017</b>	<b>2,971</b>	<b>1.5</b>	<b>3,054</b>	<b>(1.2)</b>	<b>12,779</b>	<b>11,824</b>	<b>8.1</b>
Tax	759	968	(21.6)	821	(7.6)	3,706	3,650	1.5
Less: Minority Interest/ Associates	(15)	6	-	(2)	-	(11)	(6)	85.0
<b>Adjusted PAT</b>	<b>2,328</b>	<b>1,996</b>	<b>16.6</b>	<b>2,136</b>	<b>9.0</b>	<b>9,084</b>	<b>8,180</b>	<b>11.1</b>
No. of shares (mn)	642	642	-	642	-	642	642	-
EBITDA margins (%)	14.2	14.2	-	13.9	-	14.3	14.7	-
PBIDT margins (%)	14.7	15.2	-	14.8	-	14.7	15.1	-
<b>EPS - annualized (Rs.)</b>	<b>14.5</b>	<b>12.4</b>	<b>16.6</b>	<b>13.3</b>	<b>9.0</b>	<b>14.2</b>	<b>12.8</b>	<b>11.1</b>

Source: Company, ENAM Research

## Segmental performance (Consolidated)

Y/E	Revenues (Rs mn)			PBIDT margin (%)		
	Dec-10	Dec-09	% Chg	Dec-10	Dec-09	Chg bps
Power systems – Parent	5,807	5,690	2.1	19.8	19.0	81
Power systems - International	9,645	9,906	(2.6)	8.9	9.4	(51)
<b>Total Power systems</b>	<b>15,452</b>	<b>15,596</b>	<b>(0.9)</b>	<b>13.0</b>	<b>12.9</b>	<b>9</b>
Consumer Products	4,751	3,647	30.3	14.0	14.4	(34)
Industrial Systems	3,809	3,100	22.9	18.2	20.7	(245)
Others	57	188	-	-	-	-
<b>Total Net sales</b>	<b>24,069</b>	<b>22,532</b>	<b>6.8</b>	<b>13.4</b>	<b>14.4</b>	<b>(92)</b>
Less: inter segment	99	68	47.1	-	-	-
<b>Net Sales</b>	<b>23,970</b>	<b>22,464</b>	<b>6.7</b>	-	-	-

Source: Company, ENAM Estimates

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