

Crompton Greaves

Performance Highlights

Y/E March (Rs cr)	1QFY11	1QFY10	%chg (yoy)	4QFY10	%chg (qoq)
Net Sales	2,302	2,198	4.7	2,508	(8.2)
EBITDA	297	248	19.8	403	(26.3)
EBITDA (%)	12.9	11.3		16.1	
PAT	190.8	160.3	19.5	307	(37.7)

Source: Company, Angel Research

Crompton Greaves (CG) posted 4.7% yoy growth in consolidated top-line to Rs2,302cr (Rs2,192cr) for 1QFY2011, which was slightly below our expectations. While the consumer products and industrial systems segments continued to register robust growth, the power systems segment remained depressed, witnessing a drop in the quarterly revenues. **We recommend an Accumulate on the stock.**

Better margins lead to increased profitability: On the operating front, consolidated EBITDA increased by 19.8% yoy to Rs297.3cr (Rs247.6cr), which was in line with our estimates. EBITDA margin witnessed an expansion of 160bp yoy to 12.9% (11.3%) during the quarter mainly due to lower other expenses that fell to 12.5% (13.9%) of net sales. Raw material cost, as a percentage of net sales, fell by 20bp yoy to 61.6% (61.8%). Interest cost remained nearly flat on a yoy basis, while other income dipped by 25% yoy to Rs18cr (Rs24cr). Improved operational efficiencies coupled with lower interest costs aided bottom-line growth. For 1QFY2011, net profit grew 19.5% yoy to Rs190.8cr (Rs160.3cr), which was in line in our estimates.

Outlook and Valuation: CG is one of the leading players in the power transmission and distribution (T&D) space in India. During FY2010-12E, we expect the company to register top-line and bottom-line CAGR of 11.4% and 7%, respectively. At the current price, the stock is quoting at 20.6x and 18.3x FY2011E and FY2012E EPS, respectively. We recommend an Accumulate on the stock, with a Target Price of Rs307.

Key Financials (Consolidated)

Y/E March (Rs cr)	FY2009	FY2010	FY2011E	FY2012E
Net Sales	8,737	9,141	10,068	11,354
% chg	27.9	4.6	10.1	12.8
Net Profit	560	860	882	986
% chg	37.7	53.6	2.5	11.8
EBITDA (%)	11.4	14.0	13.7	13.3
EPS (Rs)	8.7	13.4	13.7	15.4
P/E (x)	27.8	18.1	20.6	18.3
P/BV (x)	8.6	6.3	4.8	3.8
RoE (%)	36.1	39.9	30.9	27.3
RoCE (%)	27.5	31.5	29.0	27.1
EV/Sales (x)	1.8	1.7	1.5	1.3
EV/EBITDA (x)	15.7	12.0	10.8	9.5

Source: Company, Angel Research

ACCUMULATE

CMP	Rs283
Target Price	Rs307

Investment Period	12 Months
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Stock Info

Sector	Capital Goods
Market Cap (Rs cr)	18,122
Beta	0.8
52 Week High / Low	283/149
Avg. Daily Volume	180,480
Face Value (Rs)	2
BSE Sensex	17,977
Nifty	5,399
Reuters Code	CROM.BO
Bloomberg Code	CRG@IN

Shareholding Pattern (%)

Promoters	40.9
MF / Banks / Indian FIs	30.4
FII / NRIs / OCBs	19.8
Indian Public / Others	8.9

Abs. (%)	3m	1yr	3yr
Sensex	2.9	19.4	15.5
Crompton Greaves	6.4	67.1	87.6

Hemang Thaker

022 – 4040 3800 Ext: 342

hemang.thaker@angeltrade.com

Exhibit 1: Quarterly Performance (Consolidated)

Y/E March (Rs cr)	1QFY11	1QFY10	4QFY10	%yoy	%qoq
Net Sales	2,302	2,198	2,508	4.7	(8.2)
Raw Material	1,418	1,358	1,578	4.4	(10.1)
(% of Net Sales)	61.6	61.8	62.9		
Employee Cost	299	287	262	4.2	4.1
(% of Net Sales)	13	13.1	10.4		
Other Expenses	287	306	265	(6.2)	8.3
(% of Net Sales)	12.5	13.9	10.6		
Total Expenditure	2,046	1,951	2,105	4.9	(2.8)
EBITDA	297	248	403	19.8	(26.3)
EBITDA (%)	12.9	11.3	16.1		
Interest	5	5	12	0.0	(58.3)
Depreciation	41	37	40	10.8	2.5
Other Income	18	24	33	(25.0)	(45.5)
Profit before Tax	269	230	384	17.0	(29.9)
(% of Net Sales)	11.7	10.5	15.3		
Total Tax	79	69	114	14.5	(30.7)
(% of PBT)	29.4	30.0	29.7		
PAT before Minority Interest	190	160	270	18.8	(29.6)
Minority Interest	1.3	0.1	(1)	0	(222.0)
Adjusted PAT	191	160	271	19.5	(29.4)
(% of Net Sales)	8.3	7.3	10.8		
Extraordinary Items	-	-	(35)		
Reported PAT	191	160	307	19.5	(37.7)

Source: Company, Angel Research

Domestic business aiding growth: While CG's consolidated revenues posted a moderate growth of 4.7% on a yoy basis, it clocked 14.5% yoy growth in standalone top-line to Rs1,343cr (Rs1,173cr). This was mainly attributable to the healthy performance recorded by its consumer products and industrial systems segments. On a standalone basis, the consumer products segment grew by 29% yoy to Rs532cr (Rs413cr) with operating margins expanding by 90bp to 15.0% (14.1%). The growth came mainly on account of the strong performance witnessed in the domestic market. The industrial segment, on a standalone basis, also reported revenue growth of 22% yoy to Rs311cr (Rs254cr) owing to healthy demand for motors and rail transport equipment. Operating margin of this segment gained by 60bp yoy to 20.6%. The revival in the domestic sector augured well for the segment.

Ongoing weakness in power segment: The power systems segment continued to stagnate and extended its lacklustre performance from the previous quarter owing to muted outlook from the overseas markets. On a standalone basis, the segment posted flattish yoy growth at Rs510cr (Rs508.4cr) mainly due to the delayed off-take of power transformers and switchgears by both the public as well as private sector customers. Management expects the backlog to be cleared over the next two quarters. On a consolidated basis, the segment de-grew by 1.9% to Rs1,456.4cr (Rs1,483.7cr) on account of the depressed performance by its overseas business, mainly the international power systems segment. Nonetheless, on a consolidated basis, the segment margin improved by 120bp yoy to 10.6% (9.4%) on the back of better margins registered by both the standalone as well as overseas entities.

Exhibit 2: Quarterly performance (standalone)

Y/E March (Rs cr)	1QFY11	1QFY10	4QFY10	%yoy	%qoq
Net Sales	1,343	1,173	1,618	14.5	(17.0)
Raw Material	910	787	1,104	15.7	(17.5)
(% of Net Sales)	67.8%	67.1%	68.2		
Employee Cost	73	63	65	15.9	12.3
(% of Net Sales)	5.4%	5.4%	4.0		
Other Expenses	150	149	179	0.7	(16.2)
(% of Net Sales)	11.2	12.7	11.1		
Total Expenditure	1,151	999	1,348	15.2	(14.6)
EBITDA	209	174	271	20.1	(22.9)
EBITDA (%)	15.6	14.8	16.7		
Interest	-1	-1	4	0.0	(125.0)
Depreciation	17	13	13	30.8	30.8
Other Income	14	8	34	75.0	(58.8)
Profit before Tax	207	170	288	21.8	(28.1)
(% of Net Sales)	15.4	14.5	17.8		
Total Tax	65	56	97	16.1	(33.0)
(% of PBT)	31.4	32.6	33.7		
Adjusted PAT	142	114	191	24.6	(25.7)
(% of Net Sales)	10.6	9.7	11.8		
Extraordinary Items			-40		
Reported PAT	142	115	231	23.5	(38.5)
(% of Net Sales)	10.6	9.8	14.3		

Source: Company, Angel Research

Exhibit 3: Actual v/s Angel estimates (Consolidated)

Particulars (Rs cr)	Estimates	Actual	Var. (%)
Revenues	2,416	2,302	(4.7)
Operating Profit	270	256	(5.3)
PAT	193	190.8	(1.1)
EPS (Rs)	3.0	2.9	(3.3)

Source: Company, Angel Research

Exhibit 4: Segment-wise performance (consolidated)

Y/E March (Rs cr)	1QFY11	1QFY10	4QFY10	%yoy	%qoq
Revenues					
Power Systems	1,456	1,484	1,684	(1.9)	(13.5)
Consumer Products	532	413	460	28.8	15.6
Industrial Systems	321	279	348	15.1	(7.8)
Others	8	31	29	(74.2)	(72.4)
EBIT					
Power Systems	155	139	249	11.5	(37.8)
Consumer Products	80	58	67	37.9	19.4
Industrial Systems	60	53	89	13.2	(32.6)
Others	2	5	2	(60.0)	0.0
EBIT Margin (%)					
Power Systems	10.6	9.4	14.8		
Consumer Products	15.0	14.1	14.6		
Industrial Systems	18.7	18.8	25.6		
Others	25.0	16.7	6.7		

Source: Company, Angel Research

Exhibit 5: Segment-wise performance (standalone)

Y/E March (Rs cr)	1QFY11	1QFY10	4QFY10	%yoy	%qoq
Revenues					
Power Systems	510	508	829	0.4	(38.5)
Consumer Products	532	413	460	28.8	15.7
Industrial Systems	311	254	337	22.4	(7.7)
Others	5	8	6	(37.5)	(16.7)
EBIT					
Power Systems	85	81	161	37.9	(47.2)
Consumer Products	80	58	67	25.5	19.4
Industrial Systems	64	51	78	25.5	(17.9)
Others	1	1	0		
EBIT Margin (%)					
Power Systems	16.7	15.9	19.5		
Consumer Products	15.0	14.1	14.6		
Industrial Systems	20.6	20	23.2		
Others	17.5	9.9	5.6		

Source: Company, Angel Research

Investment Arguments

Power segment to drive growth: At present, the power systems segment accounts for 63% of company's consolidated revenues. The massive capacity expansion planned in the country has made inroads for investment opportunities in power generation, thereby outlining huge investments in the T&D space. In the Eleventh Five-year Plan, the government has proposed capacity addition target of 78,700MW. Renowned for solid expertise in manufacturing power transformers, extra high voltage (EHV) and medium voltage (MV) circuit breakers, CG is well poised to harness the opportunities in government's proposed upgrade of its 765kV ultra high voltage segment. The national grid capacity expansion plan increasingly focuses on higher voltage segments. CG is solidifying its technological competence in the UHV segment in partnership with its Hungarian subsidiary, and ZTR, Ukraine, a leading power transformer manufacturer. Notable orders bagged in FY2010 included 86 units of 765kV UHV reactors from PGCIL and setting up of the 765kV/400kv Unna sub-station project in UP. With a strong growth trajectory in the power sector, we believe that the power systems segment would continue to propel the company's future growth.

Growth through acquisitions: During the quarter, in continuation with its strategy of inorganic growth, CG concluded an arrangement for the acquisition of three businesses – Traction Electronics, SCADA and Industrial Drives - of the Indian company Nelco, on a slump sale basis. The approximate acquisition value of the above-mentioned three businesses is Rs92cr. We believe the acquisitions will enable CG to become a stronger and more comprehensive player in the railways business segment and build capabilities in drives by better leveraging on its existing product portfolio.

Outlook and Valuation: CG is one of the leading players in the power T&D space in the country. During FY2010-12E, we expect the company to register a top-line and bottom-line CAGR of 11.4% and 7%, respectively. At the current price, the stock is quoting at 20.6x and 18.3x FY2011E and FY2012E EPS, respectively. **We recommend an Accumulate on the stock, with a Target Price of Rs307.**

Exhibit 6: Key assumptions

Segment growth rates (%)	FY2011E	FY2012E
Power Systems Segment (Domestic)	15	15
Power Systems Segment (International)	2	8
Consumer Products	18	18
Industrial Systems	13	15
Others	10	13

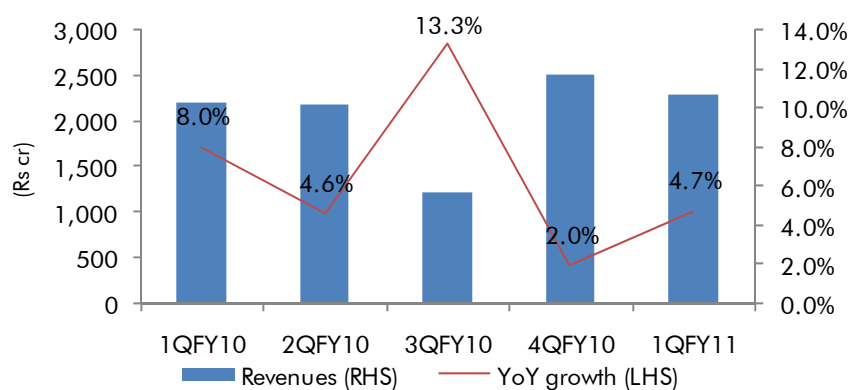
Source: Company, Angel Research

Exhibit 7: One-year forward P/E band



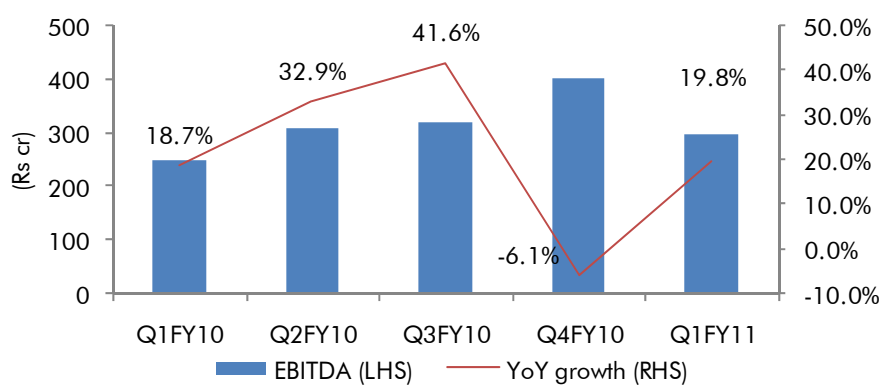
Source: Company, Angel Research

Exhibit 8: Quarterly revenue trend



Source: Company, Angel Research

Exhibit 9: Quarterly EBITDA trend



Source: Company, Angel Research

Exhibit 10: Recommendation summary

Company	Reco	CMP (Rs)	Tgt Price (Rs)	Upside (%)	FY2012E P/BV (x)	FY2012E P/E (x)	FY2010-12E EPS CAGR (%)	FY2012E RoCE (%)	FY2012E RoE (%)
ABB*	Neutral	849	-	-	4.4	28.1	35.3	28.8	21.1
Areva T&D*	Neutral	288	-	-	4.9	29.2	11.3	26.9	22.8
BHEL	Neutral	2,406	-	-	4.8	18.3	21.5	38.5	28.6
Crompton Greaves	Accumulate	282	307	8.9	3.8	18.4	7.2	34.0	27.3
Jyoti Structures	Buy	162	215	32.7	1.9	9.1	21.4	27.6	20.6
KEC International	Buy	523	648	23.9	2.4	9.5	22.3	27.7	26.2
Thermax	Neutral	792	-	-	5.5	19.9	30.9	39.4	29.7

Source: Company, Angel Research; * December year ending

Profit & Loss Statement (Consolidated)

Y/E March (Rs cr)	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
Net Sales	5,640	6,832	8,737	9,141	10,068	11,354
Other operating income	-	-	-	-	-	-
Total operating income	5,640	6,832	8,737	9,141	10,068	11,354
% chg	36.7	21.2	27.9	4.6	10.1	12.8
Total Expenditure	5,157	6,086	7,742	7,864	8,688	9,839
Net Raw Materials	3,862	4,565	5,694	5,797	6,235	7,342
Other Mfg costs	578	725	983	954	1,225	1,366
Personnel	717	797	1,065	1,113	1,228	1,385
Other	-	-	-	-	-	-
EBITDA	483	746	996	1,277	1,380	1,515
% chg	48.9	54.5	33.5	28.3	8.1	9.8
(% of Net Sales)	8.6	10.9	11.4	14.0	13.7	13.3
Depreciation & Amortisation	95	126	122	155	170	190
EBIT	387	620	874	1,122	1,209	1,325
% chg	56.2	60.0	41.0	28.4	7.8	9.6
(% of Net Sales)	6.9	9.1	10.0	12.3	12.0	11.7
Interest & other Charges	57	78	81	43	40	26
Other Income	105	74	74	110	128	151
(% of PBT)	24.1	12.0	8.5	9.2	9.8	10.4
Others	-	-	-	-	-	-
Recurring PBT	436	615	867	1,189	1,297	1,450
% chg	57.2	41.1	40.9	37.1	9.1	11.8
Extraordinary Expense/(Inc.)	-	-	-	-	-	-
PBT (reported)	436	615	867	1,189	1,297	1,450
Tax	149	205	305	365	415	464
(% of PBT)	34.3	33.4	35.1	30.7	32.0	32.0
PAT (reported)	286	410	563	824	882	986
Less: Minority interest (MI)	4.8	3.1	2.6	(0.6)	-	-
Prior period items	-	-	-	-	-	-
PAT after MI (reported)	282	407	560	825	882	986
ADJ. PAT	282	407	560	860	882	986
% chg	20.9	44.4	37.7	53.6	2.5	11.8
(% of Net Sales)	5.0	6.0	6.4	9.4	8.8	8.7
Basic EPS (Rs)	7.7	11.1	15.3	13.4	13.7	15.4
Fully Diluted EPS (Rs)	4.4	6.3	8.7	13.4	13.7	15.4
% chg	20.9	44.4	37.7	53.6	2.5	11.8

Balance Sheet (Consolidated)

Y/E March	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
SOURCES OF FUNDS						
Equity Share Capital	73	73	73	128	128	128
Preference Capital	-	-	-	-	-	-
Reserves & Surplus	881	1,214	1,743	2,362	3,079	3,885
Shareholders Funds	954	1,287	1,816	2,490	3,207	4,013
Minority Interest	28	12	14	4	4	4
Total Loans	904	842	718	501	351	201
Deferred Tax Liability	(42)	(59)	(48)	5	(90)	(90)
Total Liabilities	1,845	2,082	2,500	3,000	3,521	4,177
APPLICATION OF FUNDS						
Gross Block	1,977	2,353	2,600	2,557	3,334	3,734
Less: Acc. Depreciation	1,248	1,489	1,704	1,723	2,030	2,219
Net Block	729	864	896	834	1,304	1,515
Capital Work-in-Progress	102	48	54	114	20	20
Goodwill	241	318	414	414	414	414
Investments	64	93	167	554	554	554
Current Assets	2,943	3,402	3,945	4,102	5,140	5,607
Cash	241	244	566	669	897	1,260
Loans & Advances	365	370	229	246	529	596
Other	-	-	-	-	-	-
Current liabilities	2,235	2,642	2,976	3,017	3,752	3,773
Net Current Assets	708	759	969	1,085	1,388	1,834
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	1,845	2,082	2,500	3,000	3,521	4,177

Cash Flow Statement (Consolidated)

Y/E March	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
Profit before tax	436	615	867	1,189	1,297	1,450
Depreciation	95	126	122	155	170	190
(Inc)/Dec in Working Capital	(103)	(48)	111	(13)	(76)	(82)
Less: Other income	105	74	74	110	128	151
Direct taxes paid	116	202	267	314	415	464
Cash Flow from Operations	208	418	759	908	850	943
(Inc.)/Dec.in Fixed Assets	(603)	(398)	(350)	(17)	(683)	(400)
(Inc.)/Dec. in Investments	1	(29)	(74)	(227)	-	-
Other income	105	74	74	110	128	151
Cash Flow from Investing	(497)	(353)	(350)	(134)	(272)	(249)
Issue of Equity	(0)	0	0	-	(152)	-
Inc./Dec.) in loans	482	(63)	(124)	(217)	(150)	(150)
Dividend Paid (Incl. Tax)	54	69	86	150	165	180
Others	(105)	70	121	(303)	-	-
Cash Flow from Financing	428	(131)	(210)	(368)	(467)	(330)
Inc./Dec.) in Cash	34	3	321	103	262	363
Opening Cash balances	207	241	244	566	669	897
Closing Cash balances	241	244	566	669	897	1,260

Key Ratios

Y/E March	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
Valuation Ratio (x)						
P/E (on FDEPS)	60.3	41.8	30.4	19.8	20.6	18.3
P/CEPS	45.1	31.9	24.9	16.7	14.5	13.0
P/BV	17.8	13.2	9.4	6.8	4.8	3.8
Dividend yield (%)	0.5	0.6	0.8	0.8	0.8	0.9
EV/Sales	3.1	2.6	1.9	1.8	1.5	1.2
EV/EBITDA	36.5	23.5	17.1	12.9	10.6	9.3
EV/Total Assets	9.3	8.2	6.5	5.4	4.1	3.3
Per Share Data (Rs)						
EPS (Basic)	7.7	11.1	15.3	13.4	13.7	15.4
EPS (fully diluted)	4.4	6.3	8.7	13.4	13.7	15.4
Cash EPS	5.9	8.3	10.6	15.8	16.4	18.3
DPS	1.3	1.6	2.0	2.0	2.2	2.4
Book Value	14.9	20.1	28.3	38.8	50.0	62.6
Dupont Analysis						
EBIT margin (%)	6.9	9.1	10.0	12.3	12.0	11.7
Tax retention ratio	0.7	0.7	0.6	0.7	0.7	0.7
Asset turnover (x)	4.4	4.0	4.7	4.5	4.2	4.2
ROIC (Post-tax) (%)	19.9	24.0	30.2	38.4	34.5	33.6
Cost of Debt (Post Tax) (%)	5.6	6.0	6.7	-	-	-
Leverage (x)	0.7	0.4	0.0	-	-	-
Operating RoE (%)	29.2	31.5	30.3	38.4	34.5	33.6
Returns (%)						
RoCE (Pre-tax)	25.1	30.8	36.6	39.2	36.8	34.0
Angel RoIC (Pre-tax)	35.2	45.4	61.6	70.7	62.1	59.0
RoE	32.7	36.3	36.1	39.9	30.9	27.3
Turnover ratios (x)						
Asset Turnover (Gross Block)	3.1	3.2	3.5	3.5	3.4	3.2
Inventory / Sales (days)	49	53	45	44	43	43
Receivables (days)	81	84	79	78	78	77
Payables (days)	67	64	59	57	56	55
WC cycle (ex-cash) (days)	30	28	17	17	18	18
Solvency ratios (x)						
Net debt to equity	0.7	0.4	0.0	(0.2)	(0.2)	(0.3)
Net debt to EBITDA	1.3	0.7	0.0	(0.4)	(0.5)	(0.8)
Interest Coverage (EBIT/Int.)	6.8	7.9	10.8	26.2	30.1	51.1

Research Team Tel: 022 - 4040 3800

E-mail: research@angeltrade.com

Website: www.angeltrade.com

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Disclosure of Interest Statement

Crompton Greaves

1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below Rs 1 lakh for Angel, its Group companies and Directors.

Ratings (Returns) :	Buy (> 15%) Reduce (-5% to 15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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