

Crompton Greaves

Rating: ◀▶ Target price: ▼

EPS: ◀▶

CMP	Rs. 279	Absolute	ADD
Target	Rs. 321	Relative	Outperform

St. alone power business pick up unlikely in FY11, but consumer & industrial to drive growth

Crompton greaves (CRG) reported revenue growth (consolidated) of 6.7% yoy during 3QFY11 to Rs. 24bn. Growth in the power segment was muted at -0.9% due to customers not picking up delivery as projects are being delayed (st. alone) and despite the overseas revenue growing by 13% yoy in local currency forex impact resulted in a flat performance. Consumer & Industrial segment continued their onward march, growing at 30% and 23% yoy respectively. EBITDA margin of 14.2% was flat yoy but ahead of our estimates on the back of strong margin in the power & consumer segment. While the revenue growth in the st alone power segment is likely to be flat yoy in FY11, with order inflow expected to improve in FY12 we expect the segment to pick up considerably in FY12. Apart from that, the Consumer, Industrial and International segments are expected to continue their growth momentum going forward. We reiterate our ADD/O-PF rating given the steady growth outlook, strong debt free balance sheet, strong cash flows and quality management. We value CRG at 19x FY12E earnings.

Highlights of the quarter's performance and outlook

- **Strong order book:** CRG has an order book of Rs. 71bn (yoy growth 15%) which is executable over 8-10 months. St. alone and international segment account for Rs. 31bn and Rs. 40bn respectively. CRG is currently well placed for a Rs. 2.5bn 765kv transformer and reactor order from PGCIL but the over all order inflow from PGCIL is expected to pick up considerably only by Q1FY12. The international order inflow has been and is expected to be driven by demand from renewable energy (solar and wind).
- **St. alone power segment pick up unlikely in FY11:** St. alone power segment growth was low at 2.1% yoy for the quarter due to customers not picking up delivery of equipments. This trend in unlike to change in Q4FY11 but the management is confident of this segment growing by 10-12% in FY12 on the back of improved order inflow and pick up in execution over the next two quarters. While the domestic segment struggled, the **international power segment** grew by 13% yoy in local currency and is expected to sustain this growth in both, Q4FY11 and FY12. This growth is expected to be driven by the distribution segment which caters to solar and wind energy.
- **Industrial segment margins to improve:** EBIT margin for the industrial segment decreased by 245bps yoy and 128bps qoq to 18.2%. The main reason behind this decrease was increase in raw material cost and since these are short lead time products, pass through is not possible. The new orders are being taken at higher pricing and margin for the segment is expected to go back to 20% levels.
- **Guidance for FY12:** St.alone and Intl power segment are expected to grow by 10-12% and 11-13%. Industrial and consumer segment are expected to maintain their growth momentum and consol EBITDA margin to be maintained.

Financial summary (Consolidated)

Year	Revenue (Rs. mn)	EBITDA (Rs. mn)	PAT (Rs. mn)	EPS (Rs.)	P/E(x)	RoE (%)
FY10	91,409	12,770	8,241	12.9	21.7	38.0%
FY11E	99,568	13,870	9,124	14.3	19.5	31.8%
FY12E	115,424	15,813	10,601	16.6	16.8	29.0%

3QFY11 Update

Date: 1 Feb, 2011

Market Data

SENSEX	18328
Nifty	5506
Bloomberg	CRG IN
Shares o/s	641mn
Market Cap	Rs. 179bn
52-wk High-Low	Rs. 349-219
3m Avg. Daily Vol	Rs. 332mn
Index member	BSE 100

Latest shareholding (%)

Promoters	40.9
Institutions	43.1
Public	15.9

Stock performance (%)

	1m	3m	12m
CRG	-9%	-15%	11%
Sensex	-10%	-10%	12%
CG Index	-12%	-16%	3%

Apurva Patel

apurva@sparkcapital.in

+91 44 4344 0028



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Quarterly Financial Results

CMP	Rs. 279	Absolute	ADD
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Consolidated Financial Result

Rs. mn\Period	31-Dec-10	31-Dec-09	YoY Growth	30-Sep-10	QoQ Growth	FY11E	FY12E	YoY Growth
Revenues	23,970	22,464	6.7%	23,979	0.0%	99,568	115,424	15.9%
Material cost	14,896	13,183	13.0%	14,637	1.8%	61,533	71,794	16.7%
Employee cost	3,005	2,817	6.7%	3,093	-2.8%	12,346	14,082	14.1%
Other expenditure	2,667	3,265	-18.3%	2,917	-8.6%	11,819	13,735	16.2%
Operating Expenses	20,568	19,265	6.8%	20,647	-0.4%	85,698	99,611	16.2%
EBITDA	3,402	3,200	6.3%	3,332	2.1%	13,870	15,813	14.0%
EBITDA margin (%)	14.2%	14.2%	-5 bps	13.9%	29 bps	13.9%	13.7%	-23 bps
Depreciation	467	395	18.2%	458	1.9%	1,825	1,980	-7.8%
Other income	200	215	-7.1%	228	-12.2%	842	1,089	29.3%
EBIT	3,135	3,020	3.8%	3,102	1.1%	12,887	14,922	15.8%
Interest	39	49	-21.7%	49	-20.6%	197	95	-51.7%
PBT	3,096	2,971	4.2%	3,054	1.4%	12,690	14,827	-14.4%
Tax	703	968	-27.4%	920	-23.5%	3,566	4,226	18.5%
Effective tax rate	22.7%	32.6%		30.1%		28.1%	28.5%	
PAT	2,393	2,003	19.5%	2,134	12.1%	9,124	10,601	16.2%
PAT margin (%)	10.0%	8.9%	107 bps	8.9%	108 bps	9.2%	9.2%	2 bps
EPS (Rs.)	3.7	3.1	19.5%	3.3	12.1%	14.3	16.6	16.2%

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Quarterly Financial Results

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Consolidated Segment Analysis

Rs. mn\Period	31-Dec-10	31-Dec-09	YoY Growth	30-Sep-10	QoQ Growth	FY11E	FY12E	YoY Growth
Revenues								
Power Systems	15,452	15,596	-0.9%	15,778	-2.1%	63,491	70,937	11.7%
Consumer Products	4,751	3,647	30.3%	4,634	2.5%	20,584	25,936	26.0%
Industrial Systems	3,809	3,100	22.9%	3,606	5.6%	15,080	18,096	20.0%
Total	23,970	22,464	6.7%	23,979	0.0%	99,568	115,424	15.9%
EBIT								
Power Systems	2,008	2,012	-0.2%	1,935	3.8%	7,619	8,406	10.3%
Consumer Products	666	524	27.2%	671	-0.7%	2,985	3,683	23.4%
Industrial Systems	694	641	8.3%	702	-1.1%	3,046	3,710	21.8%
Total Adj. EBIT	3,055	3,020	1.2%	3,102	-1.5%	12,887	14,922	15.8%
EBIT Margins (%)								
Power Systems	13.0	12.9	9 bps	12.3	73 bps	12.0	11.9	-15 bps
Consumer Products	14.0	14.4	-34 bps	14.5	-46 bps	14.5	14.2	-30 bps
Industrial Systems	18.2	20.7	-245 bps	19.5	-124 bps	20.2	20.5	30 bps
Total Adj EBIT Margin	12.7	13.4	-70 bps	12.9	-19 bps	12.9	12.9	-2 bps

Crompton Greaves

Business Overview

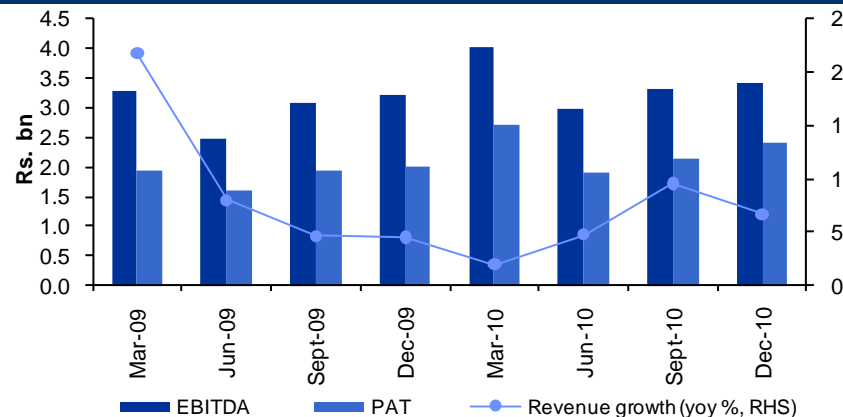
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Key estimate revision (Consolidated)

	FY11E			FY12E		
	Old	New	Change	Old	New	Change
Revenue	100,024	99,568	-0.5%	116,182	115,424	-0.7%
EBITDA	13,853	13,870	0.1%	15,975	15,813	-1.0%
Margin (%)	13.9%	13.9%	8 bps	13.8%	13.7%	-5 bps
PAT	8,913	9,124	2.4%	10,546	10,601	0.5%
PAT Margin	8.9%	9.2%	25 bps	9.1%	9.2%	11 bps
EPS	14.0	14.3	2.0%	16.6	16.6	0.1%

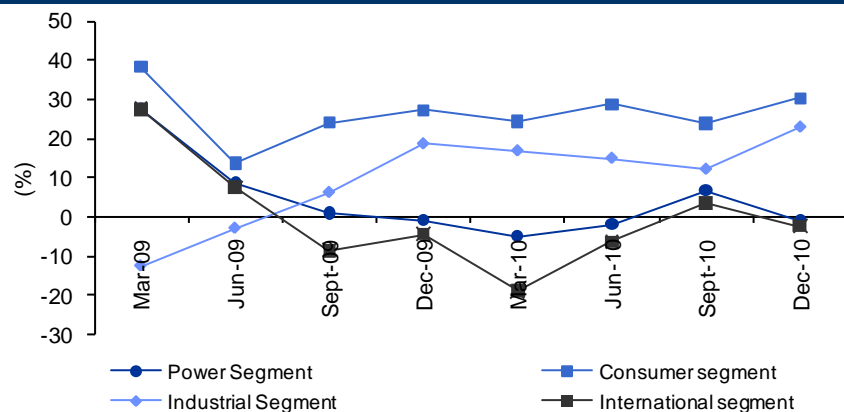
All figures in Rs. mn, except EPS, which is in Rs.

Revenue growth, EBITDA and PAT trend (Consolidated)



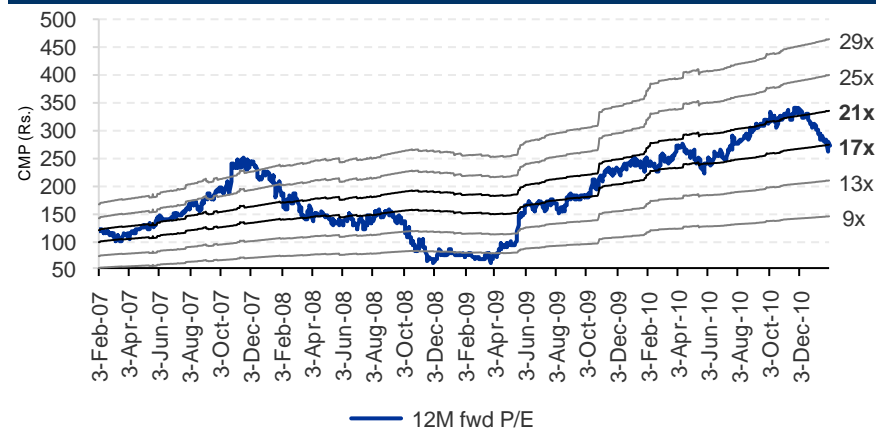
Source: Company data, Spark Capital Research

Segmental revenue growth profile (Consolidated)



Source: Company data, Spark Capital Research

P/E trend (1yr forward Bloomberg estimates)



Source: Bloomberg, Spark Capital Research

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Financial Summary

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Abridged Financial Statements (Consolidated)				
Rs. mn	FY09	FY10	FY11E	FY12E
Profit & Loss				
Revenues	87,373	91,409	99,568	115,424
EBITDA	9,956	12,770	13,870	15,813
Other Income	587	937	842	1,089
Depreciation	1,216	1,551	1,825	1,980
EBIT	9,327	12,155	12,887	14,922
Interest	655	265	197	95
PBT	8,672	11,891	12,690	14,827
PAT	5,625	8,241	9,124	10,601
Balance Sheet				
Net Worth	18,311	25,043	32,288	40,707
Deferred Tax	(482)	49	49	49
Total debt	7,182	5,010	2,316	0
Total Networth and liabilities	25,149	30,145	34,696	40,800
Gross Fixed assets	30,289	29,858	34,108	37,358
Net fixed assets	13,248	12,623	15,049	16,319
CWIP	537	1,137	0	0
Investments	1,672	5,536	5,536	8,036
Inventories	10,949	10,412	12,913	15,010
Sundry Debtors	20,556	21,463	24,551	28,461
Cash and bank balances	5,656	6,688	7,161	7,942
Loans and advances	2,290	2,455	1,846	2,154
Current liabilities	29,760	30,169	32,360	37,121
Net current assets	9,692	10,849	14,111	16,446
Total assets	25,149	30,145	34,696	40,800
Cash Flows				
Cash flow s from Operations	9,444	10,561	8,356	11,123
Cash flow s from Investing	(3,216)	(5,751)	(3,068)	(5,695)
Cash flow s from Financing	(3,017)	(3,778)	(4,816)	(4,647)

Key metrics				
	FY09	FY10	FY11E	FY12E
Growth ratios				
Sales	27.9%	4.6%	8.9%	15.9%
EBITDA	33.5%	28.3%	8.6%	14.0%
PAT	37.3%	46.5%	10.7%	16.2%
Margin ratios				
EBITDA	11.4%	14.0%	13.9%	13.7%
PAT	6.4%	9.0%	9.2%	9.2%
Performance ratios				
RoE	35.9%	38.0%	31.8%	29.0%
RoCE	25.6%	30.2%	28.6%	28.3%
RoA	12.2%	16.1%	16.1%	16.4%
Fixed asset turnover (x)	2.9	3.1	2.9	3.1
Total asset turnover (x)	1.6	1.5	1.5	1.5
Financial stability ratios				
Net Debt to Equity (x)	0.1	(0.1)	(0.2)	(0.2)
Current ratio (x)	1.3	1.4	1.4	1.4
Inventory and debtor days	147	144	152	152
Creditor days	112	110	108	107
Working capital days	35	34	44	45
Interest cover (x)	14.2	45.9	65.5	157.1
Valuation metrics				
Fully Diluted Shares (mn)	641.6	641.6	641.6	641.6
Market cap (Rs.mn)		179,153		
EPS (Rs.)	8.7	12.9	14.3	16.6
P/E (x)	32.0	21.7	19.5	16.8
EV (Rs.mn)		177,474		
EV/ EBITDA (x)	18.1	13.9	12.6	10.8
BV/ share (Rs.)	28.5	39.0	50.3	63.5
Price to BV (x)	9.8	7.2	5.5	4.4

Absolute Rating Interpretation	
BUY	Stock expected to provide positive returns of > 15% over a 1-year horizon
ADD	Stock expected to provide positive returns of <=15% over a 1-year horizon
REDUCE	Stock expected to fall <=15% over a 1-year horizon
SELL	Stock expected to fall >15% over a 1-year horizon
Relative Rating Interpretation	
OUTPERFORM	Stock expected to outperform sector index /sector peers in our coverage
UNDERPERFORM	Stock expected to underperform sector index/ sector peers in our coverage

Recommendation History				
Date	CMP	Target price	Absolute Rating	Relative Rating
6-Jan-11	308	356	ADD	O-PF
14-Dec-10	323	366	ADD	O-PF
27-Oct-10	320	366		O-PF
8-Oct-10	323	357		O-PF
5-Oct-10	318	356		O-PF

Analyst Certification

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