

20 October 2011

MF Global Quarterly Report

CROMPTON GREAVES

| Not out of the woods; maintain Neutral

CAPITAL GOODS

CRG IN: **NEUTRAL**

RS 142

Crompton Greaves Q2FY12 results missed ours and consensus estimates, primarily on a sharp dip in margins across domestic and overseas businesses. This is the 3rd quarter in a row when Crompton has disappointed the street. We maintain our Neutral rating but cut our target price to Rs 150 (earlier Rs160).

Q2FY12 results highlights

- » Sales for Q212 at Rs27.8bn (+12% YoY) were higher than our estimate of Rs27bn. This was on account of higher-than-expected sales at the overseas subsidiaries (+31% YoY growth) which compensated for the lower growth at the consumer division (+3.6% YoY) and domestic power business (-7% YoY).
- » EBITDA at Rs2.26bn (-32% YoY) versus consensus Rs2.66bn; margins at 8.4% (13.9% in Q211) were down 550bps on a sharp rise in raw material costs by 520bps. PAT at Rs1.17bn (-45% YoY) versus consensus of Rs1.44bn was hurt by an increase in depreciation costs (+59% YoY).
- » Domestic consumer segment was extremely weak at Rs4.8bn; up 3.6% YoY in Q212 which is a continuation of the trend seen in Q112. Management attributes the rise in inflation and interest rate for the fall in demand. EBIT margins were at 11.3% (-320bps YoY),
- » Overseas subsidiaries reported sales of Rs12.5bn (+31% YoY in rupee and 22% YoY in euro) and margins of 5.2% (-550bps YoY); sharp growth in revenues attributed to deliveries deferred from Q112 to Q212 while drop in margins on account of an adverse mix and pricing pressures.
- » Power segment had sales of Rs 17.6bn (+11% YoY) primarily on growth in overseas subs which compensated for the weak growth in the domestic power revenues (-7% YoY); EBIT margins fell to 5.3% (-700bps YoY) driven by a dip in domestic margins, down on intense competition and higher raw material costs.
- » Industrial segment had sales of Rs 4.7bn (+29% YoY) driven by consolidation of Emotron revenues; EBIT margins of 12% (-750bps YoY); management attributed the fall in margins to lower margins contribution from Emotron.
- » Orders were weak at Rs 22.6bn (-17% YoY) in Q112. Book to bill down to 0.6x.

Valuations: We retain our Neutral rating on Crompton Greaves, but cut our earnings estimates for FY12E by 14% and FY13e by 9%. We reduce our target price to Rs 150 on a cut in our earnings. We expect concerns on margins for Crompton to weigh on the stock which should cap any significant upside.

VALUATION SUMMARY

Y/E MAR, RS MN	FY2009	FY2010	FY2011	FY2012E	FY2013E
NET SALES	87,373	91,409	100,051	111,550	123,140
GROWTH, %	27.9	4.6	9.5	11.5	10.4
EBIDTA	9,956	12,770	13,438	10,221	13,683
EBIDTA MARGINS, %	11.4	14.0	13.4	9.2	11.1
NET PROFIT	5,599	8,247	9,268	6,210	7,887
EPS, RS	8.7	12.9	14.4	9.7	12.3
EPS GROWTH, %	37.7	47.3	12.4	(33.0)	27.0
PER, X	16.0	10.9	9.7	14.5	11.4
ROE, %	35.4	37.9	32.0	17.6	19.4

Source: Company, MF Global India Research Estimates

TARGET RS 150 (+5%)

SECTOR RATING

OW	N	UW
	N	

STOCK RATING

BUY	NEUTRAL	SELL
	NEUTRAL	
> 15%	-15% TO +15%	< -15%

COMPANY DATA

O/S SHARES :	641MN
MARKET CAP (RS) :	92BN
MARKET CAP (USD) :	1.88BN
52 - WK HI/LO (RS) :	349 / 134
LIQUIDITY 3M (USD) :	17.3MN
FACE VALUE (RS) :	2

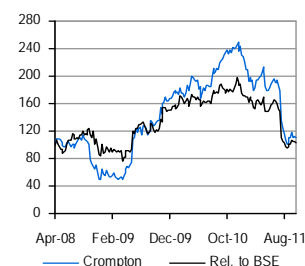
SHARE HOLDING PATTERN, %

PROMOTERS :	40.9
FII / NRI :	23.2
FI / MF :	18.3
NON-PROMOTER CORP. HOLDINGS :	8.4
PUBLIC & OTHERS :	7.3

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	-9.6	-30.7	-53.1
REL TO BSE	-11.5	-22.2	-38.6

PRICE VS SENSEX



Source: Bloomberg, MF Global India Research

QUARTERLY RESULTS

Y/E MAR, RS MN	Q212	Q211	% CHANGE	FY11
NET SALES	27,055	23,979	13%	100,051
RAW MATERIAL	15,698	12,203	29%	50,787
% OF SALES	58.0%	50.9%	7.1%	50.8%
PURCHASE OF TRADED GOODS	2,502	2,434	3%	11,902
% OF SALES	9%	10%	-1%	12%
EMPLOYEE COST	3,574	3,093	16%	11811.40
% OF SALES	13%	13%	0%	12%
OTHER EXPENSES	3,021	2,917	4%	12113.30
% OF SALES	11%	12%	-1%	12%
EBITDA	2,260	3,332	-32%	13,438
EBITDA MARGINS (%)	8.4%	13.9%	-6%	13%
DEPRECIATION	726	458	59%	1,936
EBIT	1,534	2,875	-47%	11,502
EBIT MARGINS (%)	5.7%	12.0%	-6%	11%
INTEREST	102	49	111%	209
OTHER INCOME	215	228	-6%	999
PBT	1,646	3,054	-46%	12,291
TAX	463	920	-50%	3,100
PAT	1,167	2,136	-45%	9,268
PAT MARGIN (%)	4%	9%	-5%	9%
EPS	1.8	3.3	-45%	14.5

Source: MF Global India Research

SEGMENTAL RESULTS (CONSOLIDATED)

Y/E MAR, RS MN	Q212	Q211	% CHANGE	FY11
SALES				
POWER	17,611	15,778	11.6%	65,029
CONSUMER	4,801	4,634	3.6%	20,212
INDUSTRIAL	4,655	3,606	29.1%	14,971
EBIT				
POWER	934	1,935	-51.7%	8,069
CONSUMER	543	671	-19.1%	2,928
INDUSTRIAL	558	702	-20.5%	2,642
EBIT MARGINS (%)				
POWER	5.3%	12.3%	-7%	12%
CONSUMER	11.3%	14.5%	-3%	14%
INDUSTRIAL	12.0%	19.5%	-7%	18%

Source: MF Global India Research

PARENT AND OVERSEAS BREAK-UP

Y/E MAR, RS MN	Q212	Q211	% CHANGE	FY11
PARENT				
SALES	14,515	14,448	0%	59,515
EBITDA	1,614	2,309	-30%	9,325
MARGIN (%)	11%	16%	-5%	16%
PAT	1,123	1,585	-29%	6,943
OVERSEAS SUBS				
SALES	12,541	9,531	32%	40,536
EBITDA	646	1,023	-37%	4,113
MARGIN (%)	5.1%	10.7%	-6%	10.1%
PAT	43	551	-92%	2,325
CONSOLIDATED				
SALES	27,055	23,979	12.8%	100,051
EBITDA	2,260	3,332	-32.2%	13,438
MARGIN (%)	8.4%	13.9%	-5.5%	13.4%
PAT	1,167	2,136	-45.4%	9,268

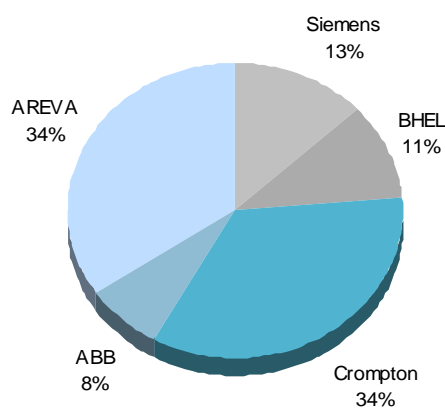
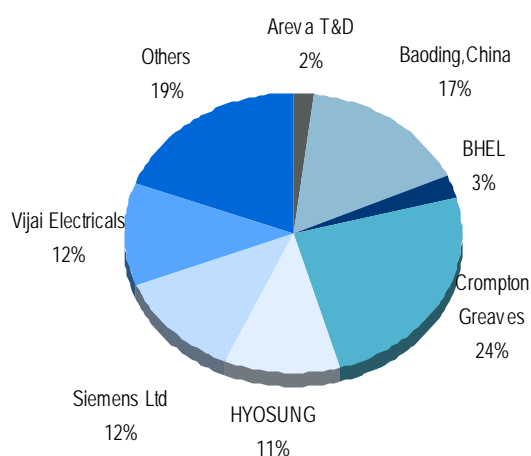
Source: MF Global India Research

CHANGE IN ESTIMATES

Y/E MAR, RS MN	NEW ESTIMATES			OLD ESTIMATES		% CHANGE	
	2011A	2012E	2013E	2012E	2013E	2012E	2013E
SALES	100,051	111,550	123,140	112,592	124,217	-1%	-1
EBITDA	13,438	10,221	13,683	11,433	14,338	-11%	-5
MARGINS (%)	13.4%	9.2%	11.1%	10.2%	11.5%	-1%	-0.4
PAT	9,268	6,210	7,887	7,241	8,704	-14%	-9
EPS	14.4	9.7	12.3	11.3	13.6	-14%	-9
YOY GROWTH (%)	12.4%	-33.0%	27.0%	-22%	20%		

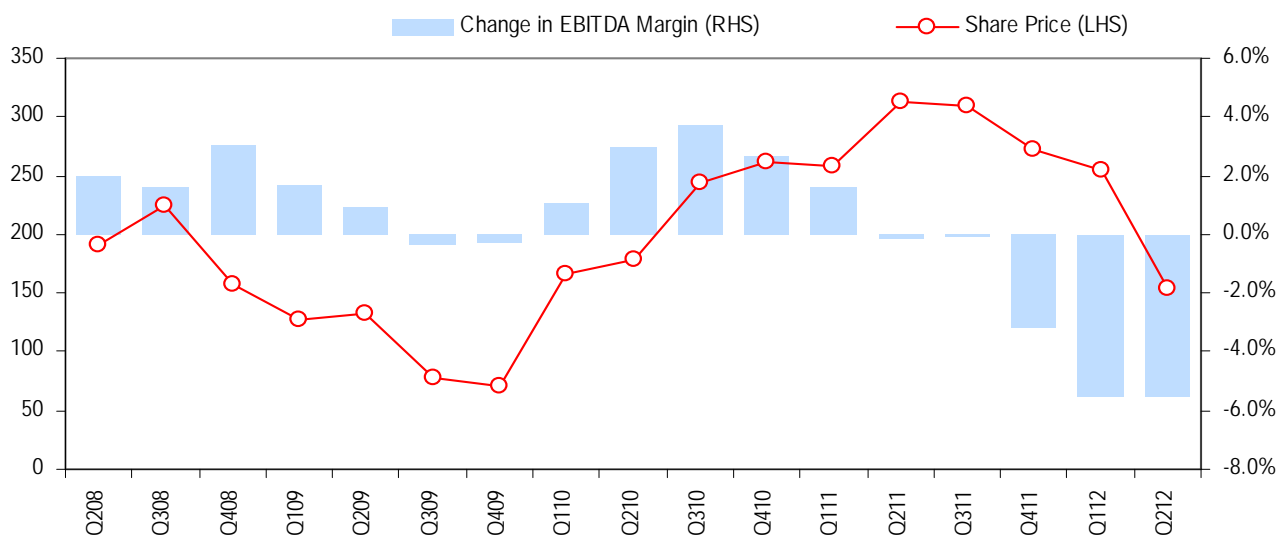
Source: MF Global India Research

PGCIL TRANSFORMER AND REACTOR ORDERS—RS 10BN (2010-11) PGCIL TRANSFORMER AND REACTOR ORDERS—RS 2.3BN (1H12)



Source: PGCIL, MF Global India Research

INCREASE IN CONSOLIDATED EBITDA MARGINS AND SHARE PRICE MOVEMENT: Q208 –Q212



Source: MF Global India Research

FINANCIALS

INCOME STATEMENT

Y/E MAR, RS MN	FY2009	FY2010	FY2011	FY2012E	FY2013E
NET SALES	87,373	91,409	100,051	111,550	123,140
GROWTH, %	28	5	9	11	10
TOTAL INCOME	87,373	91,409	100,051	111,550	123,140
OPERATING EXPENSES	-77,417	-78,639	-86,613	-101,329	-109,457
EBITDA (CORE)	9,956	12,770	13,438	10,221	13,683
GROWTH, %	33.8	28.3	5.2	(23.9)	33.9
MARGIN, %	11.4	14.0	13.4	9.2	11.1
DEPRECIATION	-1,216	-1,551	-1,936	-2,422	-2,810
EBIT	8,740	11,219	11,502	7,798	10,874
GROWTH, %	41.5	28.4	2.5	(32.2)	39.4
MARGIN, %	10.0	12.3	11.5	7.0	8.8
INTEREST PAID	-808	-428	-352	-526	-714
OTHER NON-OPERATING INCOME	740	1,100	1,142	1,016	395
PRE-TAX PROFIT	8,663	11,922	12,372	8,369	10,635
TAX PROVIDED	-3,047	-3,650	-3,100	-2,155	-2,744
PROFIT AFTER TAX	5,616	8,272	9,272	6,214	7,891
NET PROFIT	5,599	8,247	9,268	6,210	7,887
MF NET PROFIT	5,599	8,247	9,268	6,210	7,887
GROWTH, %	37.7	47.3	12.4	(33.0)	27.0
NET PROFIT (ADJUSTED)	5,599	8,247	9,268	6,210	7,887
EXTRAORDINARY ITEMS: GAINS/(LOSSES)	0	352	-381	0	0
UNADJ. SHARES (M)	642	642	642	642	642
WTD AVG SHARES (M)	642	642	642	642	642

Source: MF Global India Research

CASH FLOW

Y/E MAR, RS MN	FY2009	FY2010	FY2011	FY2012E	FY2013E
PRE-TAX PROFIT	8,663	11,922	12,372	8,369	10,635
DEPRECIATION	1,216	1,551	1,936	2,422	2,810
CHG IN WORKING CAPITAL	1,113	-125	-4,459	-5,458	-1,909
TOTAL TAX PAID	-2,941	-3,119	-2,989	-2,155	-2,744
CASH FLOW FROM OPERATING ACTIVITIES	8,051	10,229	6,860	3,179	8,791
CAPITAL EXPENDITURE	-2,557	-1,526	-7,593	-9,037	-4,500
CHG IN INVESTMENTS	-738	-3,864	-1,211	0	0
CASH FLOW FROM INVESTING ACTIVITIES	-3,295	-5,389	-8,804	-9,037	-4,500
FREE CASH FLOW	4,756	4,840	-1,944	-5,858	4,291
EQUITY RAISED/(REPAID)	0	550	0	0	0
DEBT RAISED/(REPAID)	-1,238	-2,173	-306	5,100	100
DIVIDEND (INCL. TAX)	-859	-947	-1,658	-1,507	-1,914
OTHER FINANCING ACTIVITIES	552	-1,117	94	0	0
CASH FLOW FROM FINANCING ACTIVITIES	-1,545	-3,808	-1,760	3,586	-1,821
NET CHG IN CASH	3,211	1,032	-3,704	-2,273	2,470

Source: MF Global India Research

BALANCE SHEET

AS AT 31ST MAR, RS MN	FY2009	FY2010	FY2011	FY2012E	FY2013E
CASH & BANK	5,656	6,688	2,984	636	3,033
DEBTORS	20,556	21,463	25,427	30,183	33,319
INVENTORY	10,949	10,412	11,893	15,399	16,999
LOANS & ADVANCES	2,290	2,455	4,677	5,215	5,757
TOTAL CURRENT ASSETS	39,452	41,018	45,496	52,007	59,742
INVESTMENTS	1,672	5,536	6,747	6,747	6,747
GROSS FIXED ASSETS	30,289	29,858	37,805	46,842	51,342
LESS: DEPRECIATION	-17,040	-17,234	-19,490	-21,913	-24,722
ADD: CAPITAL WIP	537	1,137	1,102	1,102	1,102
NET FIXED ASSETS	13,785	13,760	19,417	26,031	27,722
TOTAL ASSETS	56,239	61,210	72,744	85,870	95,295
CURRENT LIABILITIES	26,022	26,567	29,595	32,996	36,424
PROVISIONS	3,739	3,603	4,298	4,298	4,298
TOTAL CURRENT LIABILITIES	29,760	30,170	33,892	37,294	40,722
NON-CURRENT LIABILITIES	8,030	5,955	5,947	11,047	11,147
TOTAL LIABILITIES	37,790	36,125	39,840	48,341	51,870
PAID-UP CAPITAL	733	1,283	1,283	1,283	1,283
RESERVES & SURPLUS	17,577	23,760	31,464	36,167	42,140
SHAREHOLDERS' EQUITY	18,449	25,086	32,904	37,528	43,425
TOTAL EQUITY & LIABILITIES	56,239	61,210	72,744	85,869	95,294

Source: MF Global India Research

PER-SHARE DATA

	FY2009	FY2010	FY2011	FY2012E	FY2013E
MF EPS (INR)	8.7	12.9	14.4	9.7	12.3
GROWTH, %	37.7	47.3	12.4	(33.0)	27.0
BOOK NAV/SHARE (INR)	28.8	39.1	51.3	58.5	67.7
FDEPS (INR)	8.7	12.9	14.4	9.7	12.3
CEPS (INR)	10.6	15.3	17.5	13.5	16.7
CFPS (INR)	11.4	14.2	8.8	3.2	13.0
DPS (INR)	1.1	1.3	2.2	2.0	2.5

Source: MF Global India Research

FINANCIAL STRUCTURE

	FY2009	FY2010	FY2011	FY2012E	FY2013E
TOTAL DEBT/EQUITY (%)	38.9	20.0	14.3	26.1	22.8
NET DEBT/EQUITY (%)	8.3	(6.7)	5.2	24.4	15.8

Source: MF Global India Research

PROFITABILITY, PRODUCTIVITY, LIQUIDITY AND VALUATION RATIOS

	FY2009	FY2010	FY2011	FY2012E	FY2013E
RETURN ON ASSETS (%)	11.7	14.6	14.2	8.3	9.2
RETURN ON EQUITY (%)	35.4	37.9	32.0	17.6	19.5
RETURN ON INVESTED CAPITAL (%)	25.8	36.1	32.0	15.1	17.5
ROIC/COST OF CAPITAL (X)	3.0	4.3	3.9	1.8	2.1
ROIC - COST OF CAPITAL (%)	17.2	27.8	23.8	6.6	9.1
RETURN ON CAPITAL EMPLOYED (%)	21.4	26.4	24.4	13.6	14.9
COST OF CAPITAL (%)	8.6	8.3	8.2	8.4	8.4
ROCE - COST OF CAPITAL (%)	12.8	18.0	16.2	5.2	6.5
ASSET TURNOVER (X)	4.0	4.2	3.7	2.9	2.7
SALES/TOTAL ASSETS (X)	1.7	1.6	1.5	1.4	1.4
SALES/NET FA (X)	6.7	6.6	6.0	4.9	4.6
WORKING CAPITAL/SALES (X)	0.09	0.08	0.13	0.16	0.16
FIXED CAPITAL/SALES (X)	0.15	0.14	0.18	0.22	0.22
RECEIVABLE DAYS	85.9	85.7	92.8	98.8	98.8
INVENTORY DAYS	45.7	41.6	43.4	50.4	50.4
PAYABLE DAYS	122.7	123.3	124.7	118.9	121.5
CURRENT RATIO (X)	1.5	1.5	1.5	1.6	1.6
QUICK RATIO (X)	1.1	1.2	1.1	1.1	1.2
INTEREST COVER (X)	10.8	26.2	32.7	14.8	15.2
DIVIDEND COVER (X)	7.6	10.2	6.6	4.8	4.8
PER (X)	16.0	10.9	9.7	14.5	11.4
PEG (X) - Y-O-Y GROWTH	0.4	0.2	0.8	(0.4)	0.4
PRICE/BOOK (X)	4.9	3.6	2.7	2.4	2.1
YIELD (%)	0.8	0.9	1.6	1.4	1.8
EV/NET SALES (X)	1.0	1.0	0.9	0.9	0.8
EV/EBITDA (X)	9.2	6.9	6.8	9.7	7.1
EV/EBIT (X)	10.5	7.9	8.0	12.7	8.9
EV/NOPLAT (X)	13.2	9.7	8.9	12.3	8.8
EV/ICE	3.0	2.5	2.1	1.9	1.6
EV/IC (X)	4.2	4.1	3.4	2.6	2.1

Source: Company, MF Global India Research Estimates

RECOMMENDATION HISTORY

RECOMMENDATION	TARGET, RS	CMP, RS	DATE
NEU	150	140	20 OCT, 2011
NEU	160	175	20 JUL, 2011
NEU	260	253	29 APR 2011
NEU	290	284	20 APR 2011
BUY	290	250	9 MAR 2011

Source: MF Global India Research

VINEET BHATNAGAR	MANAGING DIRECTOR	91-22-2300 2999	VBHATNAGAR@MFGLOBAL.COM
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EQUITY RESEARCH

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TECHNICAL & QUANT RESEARCH

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PAWAN KAKUMANU	EQUITY SALES	91-22-6667 9934	PKAKUMANU@MFGLOBAL.COM
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INSTITUTIONAL CASH EQUITY DEALING

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Rating Rationale

BUY and SELL recommendations are used to draw attention to stocks, which we believe are under-priced or over-priced by circa 15%, that is, price differential of +/- 15% between our price target and the market price. Stocks which do not achieve this price differential are NEUTRAL. Price targets are established in the context of a flat market.

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