Equity | India | Capital Goods

21 July 2010

Crompton Greaves

Positive stance maintained

Buy

Target price
Rs304.00 (from Rs282.00)

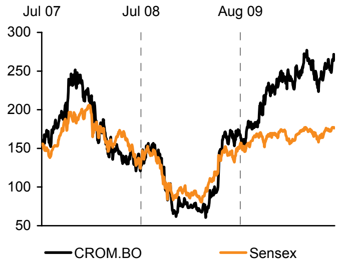
Price
Rs265.60

Short term (0-60 days)
n/a

Market view
Underweight

Price performance

	(1M)	(3M)	(12M)
Price (Rs)	253.0	266.4	166.9
Absolute (%)	5.0	-0.3	59.1
Rel market (%)	3.2	-2.6	35.2
Rel sector (%)	7.3	10.6	34.3



Market capitalisation
Rs170.38bn (US$3.62bn)

Average (12M) daily turnover
Rs333.22m (US$7.18m)

Sector: BBG AP Electronic & Elec
RIC: CROM.BO, CRG IN
Priced Rs265.60 at close 20 Jul 2010.
Source: Bloomberg

We maintain our positive outlook on Crompton despite subdued growth in the power business in 1Q, which we believe will get corrected in the rest of the year. Crompton is our top pick among transmission equipment stocks and we retain our Buy rating with a Rs304 target price. We also introduce our FY13 forecasts.

Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue (Rsm)	87,373	91,409	101,442	113,435	126,989
EBITDA (Rsm)	9,956	12,770	13,701	15,305	17,023
Reported net profit (Rsm)	5,599	8,599	9,065	10,249	11,399
Normalised net profit (Rsm)[1]	5,599	8,247	9,065	10,249	11,399
Normalised EPS (Rs)	8.73	12.9	14.1	16	17.8
Dividend per share (Rs)	1.14	2.2	2.4	2.6	2.8
Dividend yield (%)	0.43	0.83	0.9	0.98	1.05
Normalised PE (x)	30.4	20.7	18.8	16.6	14.9
EV/EBITDA (x)	17.3	13.2	12	10.4	9.18
Price/book value (x)	9.31	6.8	5.27	4.2	3.41
ROIC (%)	45.7	56.2	51.2	52.2	50.8

1. Post-goodwill amortisation and pre-exceptional items
Accounting standard: Local
Source: Company data, RBS forecasts

year to Mar, fully diluted

Power segment sluggish in 1Q; but margins improve led by consumer segment

Crompton reported 1Q11 results largely in line with our expectations. Revenue and profit grew 5% and 19% yoy to Rs23bn and Rs1.9bn, with overall EBITDA margins expanding 165bps yoy. The consumer segment continued its strong performance with revenues up 28.8%, while the Industrial segment grew 14.9% yoy with revenues at Rs3.2bn. However, the power segment remained sluggish in both the domestic market (with flat revenue yoy as some customers deferred orders) and the International (with revenue contracting marginally due to currency depreciation). Margins improved in all segments except Industrial systems where they remained flat on a yoy basis.

Our positive outlook on the company remains intact

We remain positive on the company. The customer deferral in the domestic power business in 1Q was more a timing issue, in our view, than a trend, and we expect that to get corrected as the year progresses. The domestic T&D business has a strong order pipeline, in our view. Crompton's largest customer, Powergrid, has indicated a spending plan of around Rs260bn over FY11 and FY12. This, coupled with signs of a revival in transformer demand from the renewable sector in the international business, should put the overall power business in good stead. We expect the industrial segment to do well, as the demand for motors picks up with rising industrial capex. We also expect Crompton to sustain margins in the 13-14% range, as its cost efficiency measures and global sourcing have begun to show results.

Introducing FY13 numbers, maintaining our Buy recommendation

We introduce FY13 numbers and roll forward our DCF, which raises our target price to Rs304 (from Rs282). Crompton remains our preferred pick in the T&D space, as the company's mostly products-based business gives it an advantage over peers. We believe that Crompton's consumer products business also gives the company unique diversification among sector peers. The stock is currently trading at 18.8x our FY11F EPS of Rs14.

Researched by

RBS Equities (India) Limited
Institutional Team

Mafatlal Chambers – C Wing, Ground Floor, N.M. Joshi Marg, Lower Parel (E), Mumbai 400 013, India. Tel : +91 022 6754 8411 Fax : +91 022 6754 8420

www.rbs.in/broking

Positive stance maintained

Crompton's in-line 1Q11 was led by the consumer business. Management is maintaining its positive stance on the domestic business and is also seeing signs of improvement in its international business. Buy.

Margin improvement leads to profit growth

Crompton reported 1Q11 results largely in line with our expectations. Revenue and profit for grew 5% and 19% yoy to Rs23bn and Rs1.9bn, helped by strong performance in the consumer products segment, with EBITDA margins expanding 165bps yoy. However, revenues from the power segment remained sluggish during the quarter mainly due to a marginal contraction in the international segment while revenues from the domestic segment remained flat. The contraction in international was expected, due to the currency depreciation during the year; the flat revenue in the domestic power business was on account of various customers deferring pick-up of delivery by a month or two. Margins remained strong as 1Q saw a fall in other expenses. Margins improved in power and consumer and were flat in the industrial segment.

Management, in its 1Q11 conference call, maintained its FY11 guidance for growth in the domestic business at 15% and in the international segment at 5% (in constant currency terms). Management mentioned that although revenues from the domestic power business remained flat during 1Q, order inflow was strong. It expects revenue to catch up with the order inflow in 3-4 months. It also mentioned that it was seeing improved demand in the international business, especially in wind power. Management was also upbeat about demand from the industrial segment, which, it stated, grew across product lines.

Continued traction in domestic business

1Q11 consolidated revenues came in at Rs23bn (up 4.8% yoy) largely in line with our estimate of Rs23.6bn. Revenue for the standalone business grew 14.4% yoy to Rs13.4bn, while revenues from the international segment fell 6.3% yoy to Rs9.6bn, partly due to currency depreciation.

EBITDA margin for the quarter was reported at 12.9% (up 165bp yoy) vs our estimate of 12.8% mainly due to lower other expenses (12% of net sales, down 143bp yoy). PBT for the quarter was reported at Rs2.7bn (up 17.1% yoy) in line with our estimate of Rs2.8bn. PAT for the quarter was reported at Rs1.9bn (up 19% yoy) vs our estimate of Rs2bn.

Table 1 : 1Q11 performance (consolidated)

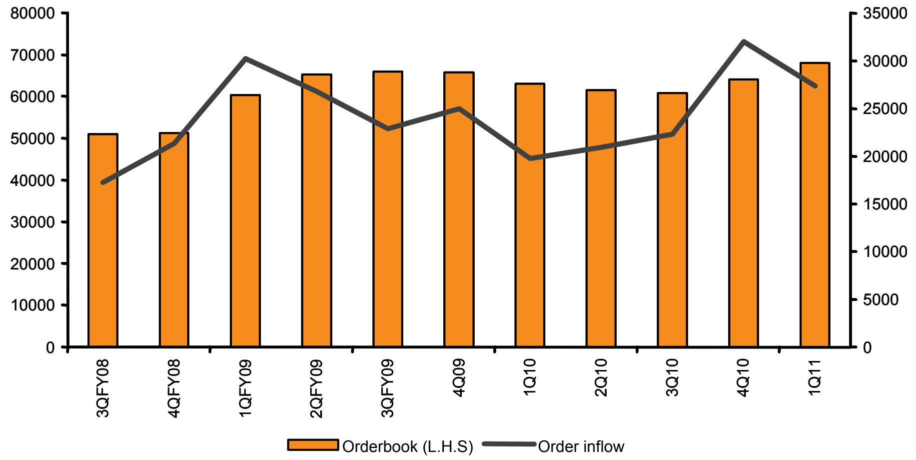
	1Q11	1Q10	yoy	4Q10	qoq
Order inflow	27320	19774	38.2%	32000	-14.6%
Order backlog	68020	63000	8.0%	64000	6.3%
Net Sales	**23,022**	**21,975**	**4.8%**	**25,079**	**-8.2%**
Expenditure	**20,049**	**19,499**	**2.8%**	**21,052**	**-4.8%**
as percentage of net sales	87.1%	88.7%	-165bp	83.9%	314bp
Consumption of raw materials	14,183	13,579	4.5%	15,782	-10.1%
as percentage of net sales	61.6%	61.8%	-18bp	62.9%	-132bp
Employees Cost	2,994	2,865	4.5%	2,621	14.2%
as percentage of net sales	13.0%	13.0%	-3bp	10.5%	255bp
Other expenditure	2,871	3,055	-6.0%	2,650	8.4%
as percentage of net sales	12.5%	13.9%	-143bp	10.6%	191bp
Operating Profit	**2,973**	**2,476**	**20.1%**	**4,027**	**-26.2%**
OPM	12.9%	11.3%	165bp	16.1%	-314bp
Other Income	183	239	-23.4%	329	-44.4%
Depreciation	415	371	11.8%	397	4.6%
EBIT	**2,741**	**2,344**	**16.9%**	**3,959**	**-30.8%**
Interest	50	45	11.1%	119	-57.9%
PBT	**2,691**	**2,299**	**17.1%**	**3,840**	**-29.9%**
Tax	794	695	14.3%	1,138	-30.3%
tax rate (%)	29.5%	30.2%	-71bp	29.6%	-14bp
Reported PAT	**1,897**	**1,605**	**18.2%**	**2,702**	**-29.8%**
Adjusted PAT	**1897**	**1605**	**18.2%**	**2702**	**-29.8%**
Minority Interest in Profit	-1	-7.9	-87.3%	-1.6	-37.5%
Share of Profit of Associate	12	6.9	76.8%	12.8	-4.7%
Net Profit	**1,909**	**1,604**	**19.0%**	**2,713**	**-29.7%**

Source: Company data

Order inflow improves in domestic and international market

The company reported consolidated order inflow of Rs27.3bn (up 35% yoy) with inflow improving in both the domestic (Rs18.2bn, up 48.9% yoy) and international markets (Rs9.1bn, up 20.9% yoy). Management said order inflow had improved in the domestic power market even though some customers had delayed deliveries. However, it expects this to normalise over next 2-3 months with order execution picking up in line with the inflow. In the European business, the company stated that the housing distribution business remained sluggish, but this had been mitigated by a pick-up in orders from the wind-power business.

Chart 1: Order inflow remains strong (Rs m)

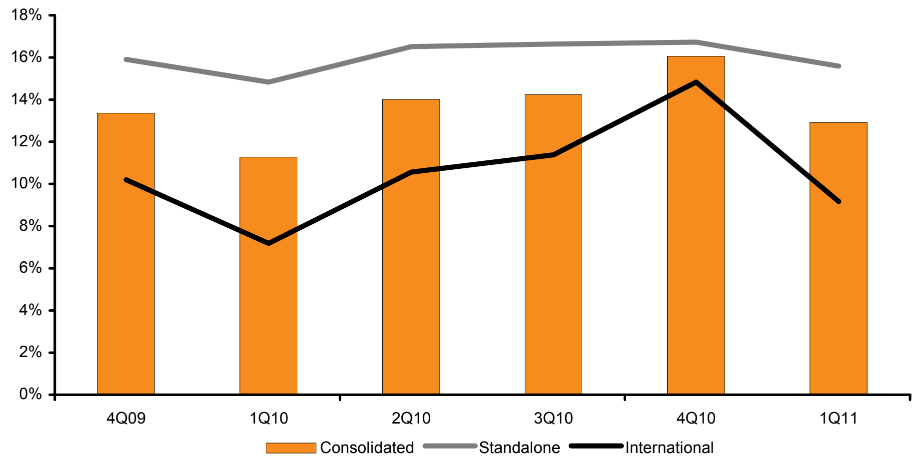


Source: Company data

Decline in other expenses leads to margin expansion

Margins rose 165bp yoy to 12.9% in 1Q11 mainly due to lower other expenses (12.5% of net sales, down 143bp yoy). The improvement occurred in both the standalone (15.6%, up 76bp yoy) and International business (9.2%, up 198bp yoy). However, the improvement in the standalone business was partly negated by a rise in materials costs, which have been trending up over the past few quarters.

Chart 2 : yoy margin improvement in both domestic and international business



Source: Company data

Strong growth in consumer products segment

Consumer products drove both revenue and profitability growth during the quarter with revenues up 28.8% yoy and 15.5% qoq to Rs5.3bn and PBIT margin up 104bp yoy to 15.1%. Management said it expects the segment to maintain its growth trajectory in the coming quarters.

Table 2 : Segmental Performance

Rs m	1Q11	1Q10	yoy	4Q10	qoq
Sales					
Consumer Products	5318	4129	28.8%	4604	15.5%
Industrial Systems	3210	2794	14.9%	3476	-7.6%
Others	86	308	-72.2%	291	-70.5%
Power Systems	14564	14838	-1.8%	16838	-13.5%
Less: inter segment	156	93	67.5%	130	19.9%
Gross sales	**23022**	**21975**	**4.8%**	**25079**	**-8.2%**
PBIT					
Consumer Products	803	580	38.3%	671	19.7%
Industrial Systems	598	526	13.6%	889	-32.7%
Others	16	52	-69.2%	19	-18.0%
Power Systems	1556	1395	11.6%	2495	-37.6%
Total PBIT	**2972**	**2553**	**16.4%**	**4074**	**-27.0%**
Less: interest expense	50	45	11.1%	119	-57.9%
Net unallocable income/expenditure	231	209	10.8%	115	101.2%
Total PBT	**2691**	**2299**	**17.1%**	**3840**	**-29.9%**
Capital employed					
Consumer Products	390	470	-16.9%	510	-23.5%
Industrial Systems	2952	2463	19.9%	2299	28.4%
Others	11430	7579	50.8%	10553	8.3%
Power Systems	18072	16008	12.9%	16782	7.7%
PBIT Margins					
Consumer Products	15.1%	14.1%	104bp	14.6%	52bp
Industrial Systems	18.6%	18.8%	-21bp	25.6%	-694bp
Others	18.6%	16.7%	181bp	6.7%	1188bp
Power Systems	10.7%	9.4%	128bp	14.8%	-413bp
Total	12.9%	11.6%	129bp	16.2%	-333bp

Source: Company data

Revenue for industrial systems was reported at Rs3.2bn (up 14.9% yoy) with PBIT margin for the segment remaining flat qoq. The company mentioned that growth had been across product categories and, so, it expected this segment to continue to perform well in the coming quarters.

However, the power segment reported a marginal decline in revenue at Rs14.6bn. Revenue from the domestic power business was flat at Rs5.1bn, while that from international segment fell to Rs9.5bn (down 3% yoy). In the domestic segment, some customers delayed order deliveries, but the company expects a pick up in 3Q11 and 4Q11 if not earlier. The decline in the overseas power business could largely be attributed to a decline in euro rates (down 12.8% yoy).

Table 3 : Power segment

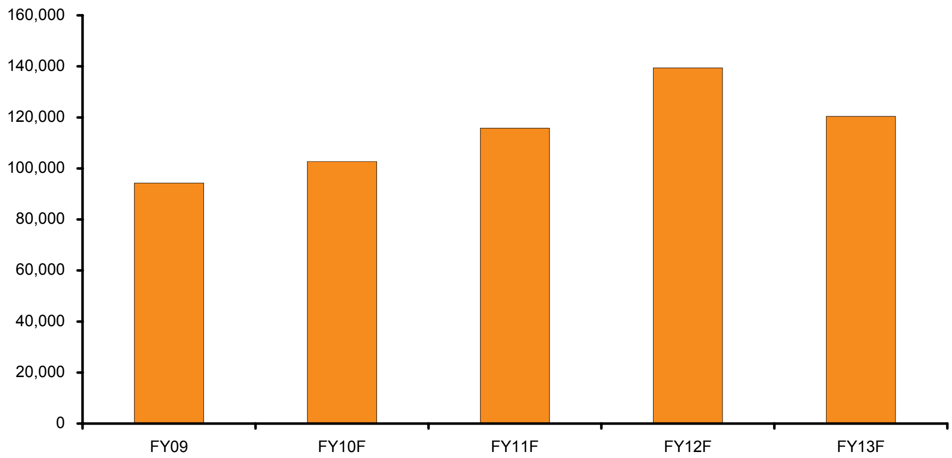
Rs m	1Q11	1Q10	yoy	4Q10	qoq
Sales					
Power - Domestic	5100.9	5084	0.3%	8286	-38.4%
Power - International	9463	9754	-3.0%	8553	10.6%
PBIT	**163.2**	**146.7**	**11.3%**		
Power - Domestic	845.9	809	4.6%	1612	-47.5%
Power - International	710	586	21.2%	883	-19.6%
PBIT margins (%)					
Power - Domestic	16.6%	15.9%	67bp	19.5%	-287bp
Power - International	7.5%	6.0%	150bp	10.3%	-282bp

Source: Company data

Our positive outlook on the company remains intact

We remain positive on the company. The customer deferral in the domestic power business in 1Q was more a timing issue, in our view, than a trend, and we expect that to be corrected as the year progresses. The domestic T&D business has a strong order pipeline, in our view. Our discussions with Crompton's largest customer, Powergrid, indicate a spending plan of Rs260bn over FY11 and FY12. This, coupled with signs of a revival in transformer demand from the renewable sector in the international business, should put the overall power business in good stead. We expect the industrial segment to do well, as the demand for motors picks up with rising industrial capex. We expect Crompton to sustain its margins in the 13-14% range, as its cost efficiency measures and global sourcing have begun to show results.

Chart 3 : PGCIL's planned capex, Rs m



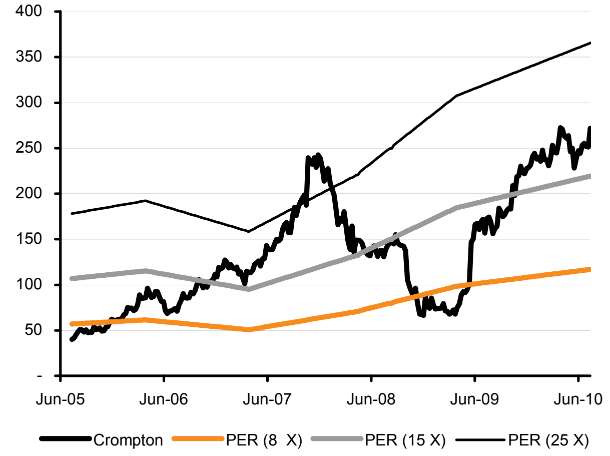
Source: Company data, RBS forecasts

We introduce FY13 numbers and maintain our Buy recommendation

We introduce our FY13 numbers and roll forward our DCF which raises our target price to Rs304. We maintain our Buy rating. Our target price in based on a WACC of 11.1% and CoE -12.1%. We have assumed EBITDA margins of 13.5% for FY11, slightly lower than management guidance of 14%, and have built in similar figures for FY12 and FY13, based on rising materials costs offset by lower staff costs and other expenses.

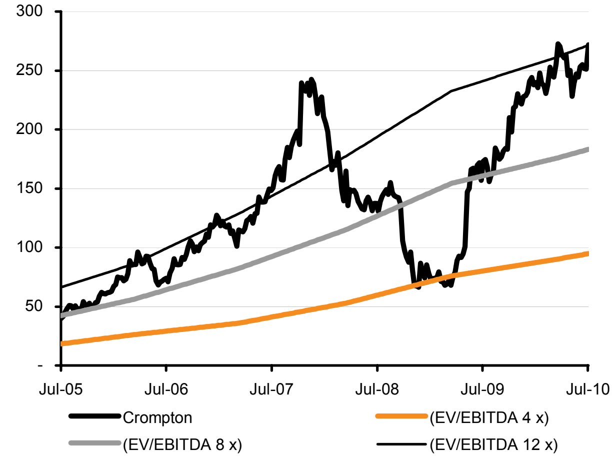
We continue to prefer Crompton Greaves over MNC peers in the T&D space. The company's focus on products over projects in the T&D space has enabled it to register better margins than its peers. In addition, the consumer products business has given it unique diversification, enabling it to outperform its peers even when the main power segment has been sluggish. We believe the key to the company's future performance will be: 1) inflationary pressure (on raw material prices) in the domestic market; 2) timely order delivery in the domestic market; and 3) demand and currency movements in the international market. The stock is currently trading at 18.8x our FY11F EPS estimate of Rs14.

Chart 4 : PE band chart



Source: Bloomberg

Chart 5 : EV/EBITDA band chart



Source: Bloomberg

Income statement

Rsm	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue	87373	91409	101442	113435	126989
Cost of sales	-66309	-64840	-76460	-85444	-95986
Operating costs	-11108	-13799	-11281	-12686	-13980
EBITDA	**9956**	**12770**	**13701**	**15305**	**17023**
DDA & Impairment (ex gw)	-1216	-1551	-1714	-1814	-1863
EBITA	**8740**	**11219**	**11987**	**13491**	**15161**
Goodwill (amort/impaired)	n/a	n/a	n/a	n/a	n/a
EBIT	**8740**	**11219**	**11987**	**13491**	**15161**
Net interest	-808.0	-427.9	-291.4	-297.2	-303.2
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Forex gain / (loss)	n/a	n/a	n/a	n/a	n/a
Exceptionals (pre-tax)	0.00	352.1	0.00	0.00	n/a
Other pre-tax items	739.9	1100	1127	1240	1363
Reported PTP	**8672**	**12243**	**12823**	**14434**	**16220**
Taxation	-3047	-3650	-3732	-4159	-4822
Minority interests	-17.1	-25.5	-17.1	-17.1	0.00
Exceptionals (post-tax)	n/a	n/a	n/a	n/a	n/a
Other post-tax items	-8.90	31.5	-8.90	-8.90	0.00
Reported net profit	**5599**	**8599**	**9065**	**10249**	**11399**
Normalised Items Excl. GW	0.00	352.1	0.00	0.00	0.00
Normalised net profit	**5599**	**8247**	**9065**	**10249**	**11399**

Source: Company data, RBS forecasts year to Mar

Balance sheet

Rsm	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs (1)	5656	6688	9342	11438	12566
Other current assets	36043	34330	42481	47471	41437
Tangible fixed assets	13785	13760	13778	14316	28268
Intang assets (incl gw)	n/a	n/a	n/a	n/a	n/a
Oth non-curr assets	2154	5486	6986	9486	11986
Total assets	**57639**	**60265**	**72588**	**82711**	**94258**
Short term debt (2)	n/a	n/a	n/a	n/a	n/a
Trade & oth current liab	26022	26567	33814	37812	42329
Long term debt (3)	7182	5010	2794	639.8	-1575
Oth non-current liab	5986	3603	3602	3603	3603
Total liabilities	**39190**	**35179**	**40210**	**42054**	**44357**
Total equity (incl min)	18449	25086	32377	40657	49901
Total liab & sh equity	**57639**	**60265**	**72588**	**82711**	**94258**
Net debt	1526	-1679	-6549	-10798	-14141

Source: Company data, RBS forecasts year ended Mar

Cash flow statement

Rsm	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA	9956	12770	13701	15305	17023
Change in working capital	1113	-125.4	-903.7	-993.1	10552
Net interest (pd) / rec	-3047	-3650	-3732	-4159	-4822
Taxes paid	n/a	n/a	n/a	n/a	n/a
Other oper cash items	819.9	1989	1101	1214	1364
Cash flow from ops (1)	**8842**	**10984**	**10167**	**11367**	**24117**
Capex (2)	-2557	-1526	-1732	-2352	-15815
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	-737.8	-3864	-1500	-2500	-2500
Cash flow from invest (3)	**-3295**	**-5389**	**-3232**	**-4852**	**-18315**
Incr / (decr) in equity	567.5	-310.4	28.2	-17.1	-53.1
Incr / (decr) in debt	-1238	-2173	-2216	-2154	-2215
Ordinary dividend paid	-857.9	-1651	-1802	-1952	-2102
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	-808.0	-427.9	-291.4	-297.2	-303.2
Cash flow from fin (5)	**-2336**	**-4562**	**-4280**	**-4420**	**-4673**
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
Inc/(decr) cash (1+3+5+6)	**3212**	**1032**	**2654**	**2095**	**1129**
Equity FCF (1+2+4)	6285	9458	8435	9015	8302

Lines in bold can be derived from the immediately preceding lines. year to Mar
Source: Company data, RBS forecasts

Standard ratios

Performance	Crompton FY09A	FY10A	FY11F	FY12F	FY13F	ABB Ltd FY10F	FY11F	FY12F	Siemens India FY10F	FY11F	FY12F
Sales growth (%)	27.9	4.62	11.0	11.8	11.9	10.5	19.0	13.6	11.6	12.7	17.4
EBITDA growth (%)	33.5	28.3	7.30	11.7	11.2	1.14	29.0	15.9	27.2	15.2	17.6
EBIT growth (%)	41.0	28.4	6.85	12.5	12.4	0.75	31.5	16.8	30.4	15.6	18.6
Normalised EPS growth (%)	37.7	47.3	9.92	13.1	11.2	8.48	26.5	17.6	57.4	15.9	17.0
EBITDA margin (%)	11.4	14.0	13.5	13.5	13.4	7.74	8.39	8.57	12.9	13.2	13.2
EBIT margin (%)	10.0	12.3	11.8	11.9	11.9	7.00	7.74	7.96	11.0	11.3	11.4
Net profit margin (%)	6.41	9.02	8.94	9.03	8.98	5.58	5.94	6.15	8.20	8.43	8.40
Return on avg assets (%)	12.2	14.8	14.1	13.6	13.2	6.97	7.73	7.83	9.90	10.2	10.2
Return on avg equity (%)	35.7	38.0	31.6	28.1	25.2	14.8	16.3	16.6	27.3	25.7	24.5
ROIC (%)	45.7	56.2	51.2	52.2	50.8	17.8	18.1	18.0	87.2	56.8	56.1
ROIC - WACC (%)	34.6	45.0	40.1	41.1	39.6	7.76	8.05	8.01	77.4	47.0	46.3
					year to Mar			year to Dec			year to Sep

Valuation	Crompton FY09A	FY10A	FY11F	FY12F	FY13F	ABB Ltd FY10F	FY11F	FY12F	Siemens India FY10F	FY11F	FY12F
EV/sales (x)	1.97	1.85	1.62	1.41	1.23	2.58	2.16	1.89	2.22	1.94	1.63
EV/EBITDA (x)	17.3	13.2	12.0	10.4	9.18	33.3	25.8	22.1	17.2	14.7	12.3
EV/EBITDA @ tgt price (x)	19.7	15.1	13.8	12.0	10.6	19.1	14.8	12.6	12.2	10.4	8.60
EV/EBIT (x)	19.7	15.0	13.7	11.8	10.3	36.8	28.0	23.8	20.1	17.2	14.2
EV/invested capital (x)	8.61	7.21	6.34	5.34	4.37	7.55	6.44	5.58	9.89	8.13	6.65
Price/book value (x)	9.31	6.80	5.27	4.20	3.41	6.59	5.69	4.90	7.03	5.72	4.66
Equity FCF yield (%)	3.69	5.55	4.95	5.29	4.87	-0.33	0.41	0.78	0.04	2.80	3.01
Normalised PE (x)	30.4	20.7	18.8	16.6	14.9	47.3	37.4	31.8	28.4	24.5	21.0
Norm PE @tgt price (x)	34.8	23.6	21.5	19.0	17.1	27.6	21.8	18.5	20.5	17.7	15.1
Dividend yield (%)	0.43	0.83	0.90	0.98	1.05	0.23	0.23	0.28	0.70	0.70	0.70
					year to Mar			year to Dec			year to Sep

Per share data	FY09A	FY10A	FY11F	FY12F	FY13F
Tot adj dil sh, ave (m)	641.5	641.5	641.5	641.5	641.5
Reported EPS (INR)	8.73	13.4	14.1	16.0	17.8
Normalised EPS (INR)	8.73	12.9	14.1	16.0	17.8
Dividend per share (INR)	1.14	2.20	2.40	2.60	2.80
Equity FCF per share (INR)	9.80	14.7	13.1	14.1	12.9
Book value per sh (INR)	28.5	39.0	50.4	63.3	77.8
					year to Mar

Solvency	FY09A	FY10A	FY11F	FY12F	FY13F
Net debt to equity (%)	8.27	-6.69	-20.2	-26.6	-28.3
Net debt to tot ass (%)	2.65	-2.79	-9.02	-13.1	-15.0
Net debt to EBITDA	0.15	-0.13	-0.48	-0.71	-0.83
Current ratio (x)	1.60	1.54	1.53	1.56	1.28
Operating CF int cov (x)	3.90	4.01	3.72	3.73	6.00
Dividend cover (x)	7.64	5.84	5.89	6.14	6.35
					year to Mar

Priced as follows: CROM.BO - Rs265.60; ABB.BO - Rs857.95; SIEM.BO - Rs715.95
Source: Company data, RBS forecasts

Valuation methodology

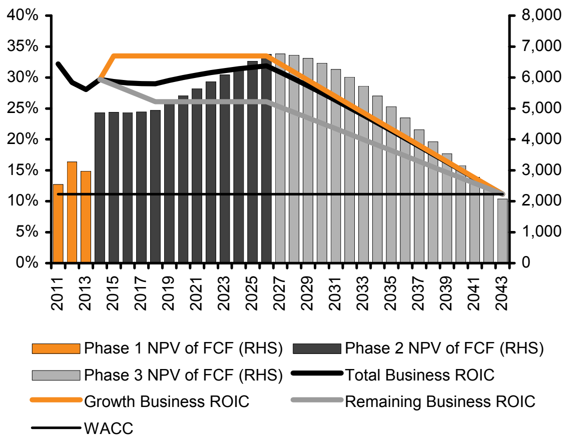
Economic Profit Valuation	Rs m	%
Adjusted Opening Invested Capital	28400.6	15
NPV of Economic Profit During Explicit Period	13129.5	7
NPV of Econ Profit of Remaining Business (1, 2)	40896.4	21
NPV of Econ Profit of Net Inv (Grth Business) (1, 3)	110641.6	57
Enterprise Value	193068.0	100
Plus: Other Assets	0.0	0
Less: Minorities	0.0	0
Less: Net Debt / Leases (as at 20 Jul 2010)	-1678.7	-1
Equity Value	194746.7	101
No. Shares (millions)	641.5	
Per Share Equity Value	**304**	
Current Share Price	265.60	
	13%	

Sensitivity Table		No of Years in Fade Period				
		15	18	20	23	25
WACC	**6.0%**	645.12	733.88	798.49	904.29	981.20
	7.0%	545.34	612.06	659.86	736.90	792.02
	8.0%	463.77	514.02	549.48	605.74	645.39
	9.0%	396.77	434.68	461.04	502.26	530.87
	10.0%	341.48	370.13	389.77	420.04	440.77

Performance Summary	2011	2012	2013	Phase 2 Avg (2014 - 2026)
Invested Capital Growth (%)	17.4	16.9	17.4	13.6
Operating Margin (%)	13.5	12.9	13.0	11.9
Capital Turnover (x)	3.6	3.4	3.2	3.0

Discounted Cash Flow Valuation	Rs m	%
Value of Phase 1: Explicit (2011 to 2013)	8783.9	5
Value of Phase 2: Value Driver (2014 to 2026)	72214.3	37
Value of Phase 3: Fade (2027 to 2043)	81920.5	42
Terminal Value	30145.0	16
Enterprise Value	193063.7	100
FCF Grth Rate at end of Phs 1 implied by DCF Valuation		9.4
FCF Grth Rate at end of Phs 1 implied by Current Price		9.1

Returns, WACC and NPV of Free Cash Flow



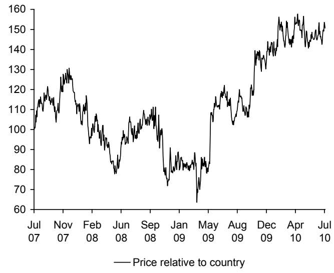
Source: Company data, RBS forecasts

1. In periods following the Explicit Period i.e. Phase 2 and Phase 3
2. Remaining Business is defined as Capital as at the end of Phase 1 and capex = depreciation thereafter
3. Net Investment is defined as capex over and above depreciation after Phase 1

Company description — Buy

Crompton Greaves (CGL) is part of the US$3bn market cap Avantha group and is a major player in electrical engineering products. CGL has three business divisions - Power Systems, Industrial Systems and Consumer Products. India and Middle East markets are supplied by CGL's India operations, while the company also has an established presence in Europe and North America through Pauwels, Ganz and Microsol Holdings. These acquisitions, apart from adding to profits and geographies, also bring technology that helps CGL compete with multinationals like Siemens and ABB, and with Areva's Indian operations. CGL also has a 32% stake in group company Avantha Power, which it acquired last year.

Price relative to country



Strategic analysis — Average SWOT company score: 4

Strengths — 4

One of the key large players in the Indian electrical engineering products business. Size gives operating leverage and the wide product range provides an opportunity to grow faster than the market. CGL is pre-qualified with all key customers.

Weaknesses — 3

Technology-wise, there are some gaps between CGL and multinational companies like ABB, Siemens and Areva, which get technology from their overseas parents.

Opportunities — 4

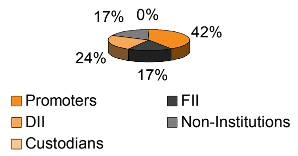
CGL has an established presence through subsidiaries in the larger markets of Europe and North America. This provides the company with a larger addressable market.

Threats — 3

Chinese and Korean competition entering the initially protected, but now opened, market for power T&D products. New competitors could undercut prices to establish themselves in India.

Scoring range is 1-5 (high score is good)

Shareholding



Source: Company data

Market data

Headquarters
Thapar House Prabhadevi

Website
www.cglonline.com

Shares in issue
641.5m

Freefloat
59%

Majority shareholders
Promoters (41%)

Country view: India

The Indian market underperformed over 1Q10 in local currency terms and we suspect this trend will continue. However, currency strength saw the market outperform in USD. We believe the announced budget represented an opportunity missed for implementation of crucial structural reforms while leaving the central bank even more behind the curve as far as monetary policy is concerned. Thus, the inter-meeting hike was neither a surprise nor a one-off event, in our view. Liquidity conditions therefore, while reasonably benign today (although already past their peak), are likely to tighten going forward. That will matter for a market where an ambitious forward earnings yield ranks much below the prevailing bond yields.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.

Country rel to Asia Pacific

Competitive position — Average competitive score: 3+

Supplier power — 3+

Key raw materials like CRGO are supplied by only a few steel makers globally and are generally imported, thus giving the specialty steel makers the advantage.

Barriers to entry — 2+

Approval for products like transformers, switchgears and large motors is a long and difficult process. Scale is also important in making margins, therefore pricing power is low for new entrants.

Customer power — 3-

Intense competition enables customers to choose from various suppliers of electrical engineering products, more so in the T&D space.

Substitute products — 3-

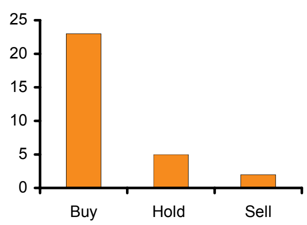
Large motors, transformers and switchgear have no substitutes. Consumer products like fans and tubelights may have substitutes, such as ACs and CFLs.

Rivalry — 2+

The electrical equipment market is competitive and includes large players such as BHEL, ABB, L&T and Siemens. ABB and Siemens are also competitors in the global market.

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse

Broker recommendations



Source: Bloomberg

Global disclaimer

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions. This material is for the personal information of the authorized recipient and we are not soliciting any action based upon it. This report is not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of RBS Equities (India) Limited (RBSEIL). It does not constitute a personal recommendation or take into account the particular investment objectives, financial situation or needs of individual clients. We have reviewed the report and in so far as it includes current or historical information, it is believed to be reliable though its accuracy or completeness cannot be guaranteed. Neither RBSEIL nor any person connected with it accepts any liability arising from the use of this document. The information contained in the said report should be construed as non-discretionary in nature and the recipient of this material should rely on their own investigations and take their own professional advice. Price and value of investments referred to in this material may go up or down. Past performance is not a guide for future performance. Certain transactions – including those involving futures and options and other derivatives as well as non-investment grade securities – involve substantial risk and are not suitable for all investors. Reports based on technical analysis centre on studying charts of a stock's price movement and trading volumes, as opposed to focusing on a company's fundamentals, and as such, may not match with a report on fundamentals. Opinions expressed are our current opinions as of the date appearing on this material only. Clients should not await such reports at regular intervals / frequency and should not hold RBSEIL responsible for failure to send such reports. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance or other reasons that prevent us from doing so. Prospective investors are cautioned that any forward looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. RBSEIL has two independent equity research groups: Institutional Equities (IE) and Retail Broking Services. This report has been prepared by IE and is being distributed to Retail Broking clients after the report is being distributed to IE Clients. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the IE research of RBSEIL. We and our affiliates, officer, directors and employees worldwide may (a) from time to time have long or short positions in and buy or sell securities thereof, of company(ies) mentioned therein or (b) be engaged in any other transactions involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities and no part of his or her compensation was, is or will be directly related to specific recommendations and related information and opinions. No part of this material may be duplicated in any form and / or re-distributed without RBSEIL's prior written consent.