UBS

UBS Investment Research

Crompton Greaves Ltd

Global Equity Research

India

Industrial, Diversified

12-month rating	Sell
	Prior: Not Rated
12m price target	Rs240.00/US$5.36
Price	Rs272.75/US$6.09

RIC: CROM.BO BBG: CRG IB

30 March 2011

Solid fundamentals but priced in [EXTRACT]

■ Initiate coverage of Crompton Greaves with an anti-consensus Sell rating

Crompton Greaves (CG) is one of the largest engineering companies in India. It has three businesses—power systems, consumer products, and industrial systems. At the current share price, we think the risk/reward ratio is unfavourable as: 1) we forecast slower growth and strong competitive pressure in the domestic power systems business (36% of FY10 revenue); 2) we think margins are unlikely to increase significantly; and 3) we do not think the valuation is attractive at current levels (16.2x FY12E EPS) for a 14% EPS CAGR (FY10-13E). We initiate coverage with a Sell rating and a price target of Rs240.00.

■ Margin expansion looks difficult from current levels

CG's EBITDA margin increased 541bp over FY07-10. However, significant margin expansion from here looks unlikely (although we assume a 68bp improvement in FY11). We believe sales growth and margins are unlikely to surprise due to strong competition in the domestic power systems segment and an uncertain outlook for the overseas business (40% of revenue).

■ 14% earnings CAGR

We forecast EPS to increase from Rs12.86 in FY10 to Rs19.23 in FY13 (our FY11/12 forecasts are marginally above consensus estimates). We believe CG's share price is more closely correlated to margin expansion than order inflow growth.

■ Valuation: DCF-based price target of Rs240.00

We derive our price target from a DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCAM tool. Our price target assumes a WACC of 13.1%. On FY12E PE, CG trades at a 22% premium to Bharat Heavy Electricals (BHEL), which we think is expensive. Our price target for CG implies a FY12E PE of 14.3x.

Highlights (Rsm)	03/09	03/10	03/11E	03/12E	03/13E
Revenues	87,373	91,409	100,198	114,899	134,136
EBIT (UBS)	8,740	11,219	12,874	14,661	16,986
Net Income (UBS)	5,599	8,247	9,539	10,793	12,336
EPS (UBS, Rs)	8.73	12.86	14.87	16.82	19.23
Net DPS (UBS, Rs)	1.34	2.20	2.23	2.52	2.88

Profitability & Valuation	5-yr hist av.	03/10	03/11E	03/12E	03/13E
EBIT margin %	7.6	12.3	12.8	12.8	12.7
ROIC (EBIT) %	36.7	62.0	67.9	67.9	67.9
EV/EBITDA (core) x	-	9.0	11.2	9.5	8.0
PE (UBS) x	17.5	14.6	18.3	16.2	14.2
Net dividend yield %	1.3	1.2	0.8	0.9	1.1

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs272.75 on 29 Mar 2011 23:38 HKT

Trading data (local/US$)	
52-wk range	Rs342.30-223.70/US$7.61-4.69
Market cap.	Rs175bn/US$3.91bn
Shares o/s	641m (ORD)
Free float	59%
Avg. daily volume ('000)	135
Avg. daily value (m)	Rs35.8

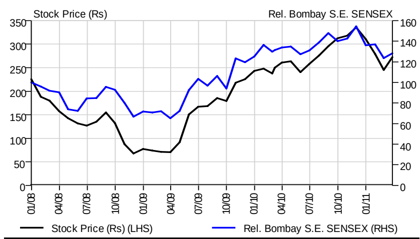
Balance sheet data 03/11E	
Shareholders' equity	Rs33.2bn
P/BV (UBS)	5.3x
Net Cash (debt)	Rs7.63bn

Forecast returns	
Forecast price appreciation	-12.0%
Forecast dividend yield	0.8%
Forecast stock return	-11.2%
Market return assumption	13.1%
Forecast excess return	-24.3%

EPS (UBS, Rs)

	03/11E			03/10
	From	To	Cons.	Actual
Q1E	-	2.98	-	2.50
Q2E	-	3.33	-	3.01
Q3E	-	3.63	-	3.11
Q4E	-	4.94	-	4.23
03/11E	-	14.87	*12.58*	
03/12E	-	16.82	*13.59*	

Performance (Rs)



Source: UBS

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This is an extract from our initiation of coverage report published on 30 March 2011. For more detail, please refer to the longer report.

Investment Thesis

Crompton Greaves (CG) is one of the largest engineering companies in India. Part of the Avantha Group (FY10 revenue of US$4bn), CG has three main businesses: power systems, consumer products, and industrial systems—nearly two-thirds of sales come from electrical products. CG has 22 manufacturing divisions spread across India, and a large customer base that includes state electricity boards and large companies in the private and public sectors. CG has a significant presence in overseas markets through its acquisitions; Pauwels (2005), Ganz (2006), Microsol (2007), Sonomatra (2008), MSE Power Systems (2008), and PTS (2010).

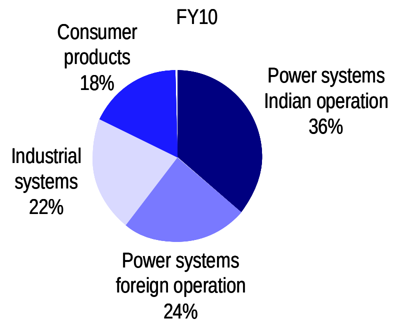
We believe CG has a strong competitive position in India's transmission and distribution (T&D) market, which we expect to grow strongly during the 11th Five-Year Plan (FY08-12) and the 12th Five-Year Plan (FY13-17). CG's access to technology via its subsidiaries in Europe, coupled with its domestic manufacturing capacity, puts it in a strong position vis-à-vis peers, in our view. CG has also increasingly focused on its overseas business—the revenue contribution from this business has grown over the past five years and currently comprises around 40% of the company's total revenue.

CG's EBITDA margin increased 541bp over FY07-10 at a time when the T&D equipment industry faced a margin squeeze and pricing pressure. However, significant margin expansion from here looks unlikely (although we assume a 68bp improvement in FY11). With strong competitive pressure in the domestic power systems business and the outlook for the overseas business still uncertain, we think a positive surprise in top-line growth is unlikely. Hence, we forecast EPS to increase from Rs12.86 in FY10 to Rs19.23 in FY13.

We derive our price target of Rs240 from a DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCAM tool. Cost of capital and EBIT margin forecasts are key sensitivity factors; our analysis suggests the company's valuation would rise 16% to Rs278 with a 1% decline in WACC. We believe key upside risks to our Sell rating include: 1) declining competition from domestic and foreign companies; 2) an improvement in ordering activity of Power Grid Corporation of India (Power Grid); and 3) faster execution.

We initiate coverage of CG with a Sell rating. Based on FY12E PE, CG is trading at a 22% premium to BHEL, which we think is expensive. Our price target implies a FY12E PE of 14.3x.

Chart 1: FY10—revenue mix



Source: Company data

Key catalysts

- **Slowdown in sales growth.** We think sales growth could be muted for the following reasons: 1) slow growth in the key segment, power systems—9M FY11 revenue was flat YoY; 2) during the Q3 FY11 results conference call, CG management guided for power systems revenue growth of 8-10% at most in FY12; and 3) consumer product revenue grew 27% YoY in 9M FY11 but contributed only 20% of CG's total revenue. Hence, we believe our overall revenue growth assumption for CG (15% YoY growth for FY12) is not conservative. We also highlight that sub-10% growth from the largest revenue contributor, power systems, would mean the other two businesses (industrial systems and consumer products) have to grow more than 25% to achieve overall growth in consolidated revenue above 15%. We think this will be difficult to achieve.

- **Margins may remain stagnant.** We think it will be difficult for CG to expand margins as: 1) the cost of key raw materials—copper and steel (20-25% of raw material costs)—has increased sharply; 2) the domestic power systems business (approximately 35% of revenue) is facing significant competition, and there have been instances of customers refusing to accept products on delivery; 3) industrial systems is a commodity business and may not record significant margin expansion in future; and 4) if revenue does not grow significantly, the scope of margin expansion through these initiatives would be limited. Hence, in line with a 50bp improvement in margin in the 9M FY11 results, we forecast a 70bp YoY margin improvement in FY11. We forecast similar margins in FY12, and do not think it would be easy to expand margins beyond 14.5-15%.

Slowdown in T&D market could impact CG

- **Slower activity in Indian T&D market.** Most of the large orders in India's T&D space come from Power Grid and state electricity boards (SEBs). Power Grid has invested Rs254bn in the T&D market in the past three years and has a robust project pipeline. We expect orders of more than Rs400bn in the next three years. However, ordering activity slowed in 9M FY11. This could be negative as Power Grid and SEBs contribute more than 60% of CG's orders in the power systems segment in India.

- **Delay in pick-up in overseas markets.** The overseas business contributes 42% of CG's total revenue. Given its increasing focus on the overseas business, a delay in a global recovery could impact CG's ability to grow its revenue base.

- **Slowdown in industrial and consumer products.** The industrial segment contributes 22% of CG's revenue, and a decline in growth in this segment could impact CG. The consumer products segment contributes 18% of CG's revenue, and we expect this segment to continue to grow due to a pick-up in construction activity and the company's strong position in this market. However, any slowdown in this segment would be a strong negative for CG, in our opinion.

Risks

We believe the key upside risks to our Sell rating for CG are: 1) a pick-up in order activity at Power Grid and SEBs; 2) increased government focus; 3) margin expansion; and 4) a better-than-expected performance in overseas markets.

We believe the key downside risks are: 1) competition; 2) delays in power generation projects; 3) rising raw material prices; 4) a slower-than-expected recovery in government spending and industrial activity; 5) a slowdown in the international business; and 6) a decline in margins.

Valuation and basis for our price target

We use a DCF-based methodology to value CG

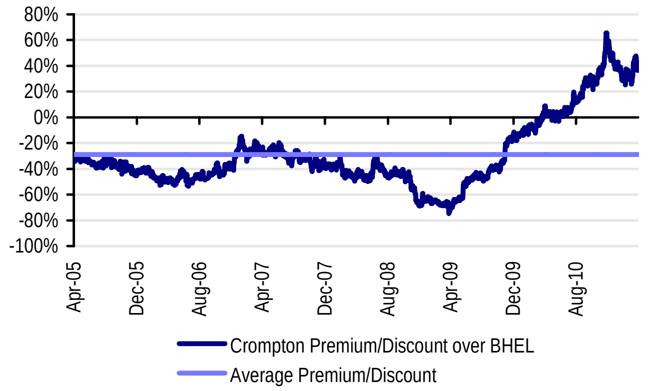
We derive our price target from a DCF-based methodology (assuming a WACC of 13.1%) and explicitly forecast long-term valuation drivers using UBS's VCAM tool. We consider this the most appropriate method to value CG and its growth prospects. However, we also highlight an alternative valuation method (PE).

■ Price-to-earnings valuation

Our price target implies an FY12E PE of 14.3x

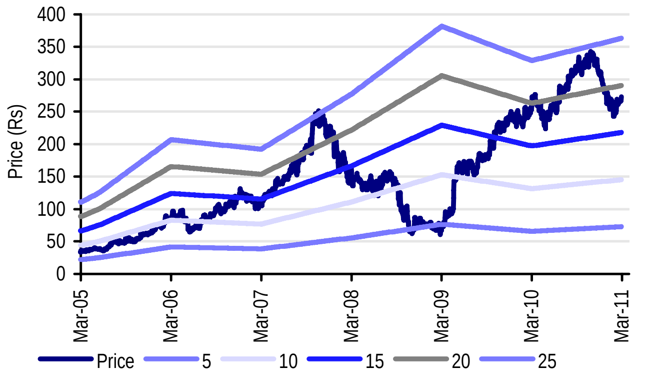
CG is trading at an FY12E PE of 16.2x, which we consider expensive. Our price target implies an FY12E PE of 14.3x. In the past year, the company has traded at a premium to competitors apart from ABB India, and we do not think this is justified considering CG's growth prospects.

Chart 2: CG vs BHEL PE premium/discount



Source: UBS estimates

Chart 3: CG PE band chart



Source: UBS estimates

Table 1: Comparison with Indian equipment companies

	Rating	Share price (Rs)	Price target (Rs)	Market cap (US$ m)	PE (x) FY11E	PE (x) FY12E	EV/EBITDA (x) FY11E	EV/EBITDA (x) FY12E
Crompton Greaves	Sell	273	240	3,909	18.3	16.2	11.2	9.5
Areva T&D	Not rated	244	N.A.	1,296	25.6	19.9	12.7	10.6
Siemens	Not rated	876	N.A.	6,563	31.2	26.2	18.8	15.8
Voltas	Not rated	173	N.A.	1,272	16.5	14.2	10.2	8.7
ABB	Sell	817	650	3,871	28.6	22.3	19.3	15.0
BHEL	Buy	2,068	2,950	22,618	16.4	13.3	10.2	8.6
L&T	Buy	1,649	2,100	22,179	22.0	18.4	12.6	10.3
Suzlon	Sell	44	50	1,532	139.7	20.0	9.2	7.1
BGR Energy	Not rated	481	N.A.	717	10.6	9.1	5.9	4.8
Thermax	Not rated	588	N.A.	1,558	18.8	15.6	11.1	9.2

Above data as of 29 March 2011. Note: estimates for BHEL, L&T, CG, Suzlon and ABB are UBS, others are consensus.
Source: Bloomberg, UBS estimates

UBS versus consensus

Our net profit estimates are not significantly different from consensus, although we are ahead of consensus in the near term (FY11 and FY12).

Consensus estimates are not significantly different from UBS estimates

Table 2: UBS estimates versus consensus

	FY11E			FY12E			FY13E		
	UBS est	Cons	% diff.	UBS est	Cons	% diff.	UBS est	Cons	% diff.
Sales	100,198	99,268	1%	114,899	114,234	1%	134,136	131,552	2%
EBITDA	14,678	13,994	5%	16,646	16,164	3%	19,159	18,658	3%
EBITDA margin	14.6%	14.1%	4%	14.5%	14.1%	2%	14.3%	14.2%	1%
Net profit	9,539	9,102	5%	10,793	10,537	2%	12,336	12,248	1%
EPS	14.87	14.19	5%	16.82	16.43	2%	19.23	19.09	1%

Note: Consensus estimates as at 29 March 2011.
Source: Bloomberg, UBS estimates

Of the 38 brokers that cover CG, most are positive on the company's prospects and have a Buy rating. We think this is because CG has recorded very strong results in a difficult environment, and the consensus view seems to be that the valuation premium will continue.

Table 3: Consensus ratings

	Number of ratings
Buy	32
Neutral	4
Sell	2

Note: as at 29 March 2011.
Source: Bloomberg

CG's share price has corrected 12% YTD and we attribute this to: 1) general weakness in the Indian market —the BSE Sensex has corrected 7% YTD; and 2) share prices of stocks in the capital goods space have corrected 15% YTD. Fundamentally, we think it is difficult to justify very aggressive valuations for a company with an EPS CAGR of 14% over FY10-13E.

Sensitivity analysis

Our valuation is sensitive to cost of capital, long-term EBIT margin and the capex-to-sales ratio. The results of our analysis suggest WACC is the key sensitivity factor. In the valuation section of this report, we assess the sensitivity of our valuation to different parameters, which we summarise below.

Cost of capital is a key sensitivity for CG

(1) **Cost of capital.** The key sensitivity is our WACC assumption. Our valuation rises 12% to Rs269 for a 1% decline in our cost of capital assumption. It declines 10% to Rs216 for a 1% higher cost of capital.

(2) **Long-term EBIT margin.** Our valuation increases 8% for a 1% higher long term EBIT margin, and vice-versa.

(3) **Capex to sales.** Our valuation increases 7% for every 1% decrease in the capex-to-sales ratio.

(4) **Sales growth.** We assume a 15% sales CAGR over FY10-15. If T&D and industrial activity is strong and the CAGR increases to 17.5%, this would increase our valuation 16% to Rs278. Similarly, if T&D and industrial activity is weaker than expected and the sales CAGR is 12.5%, this would lower our valuation 15% to Rs204.

Crompton Greaves Ltd

Income statement (Rsm)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Revenues	41,265	56,396	68,323	87,373	91,409	100,198	9.6	114,899	14.7	134,136	16.7
Operating expenses (ex depn)	(38,023)	(51,567)	(60,884)	(77,417)	(78,639)	(85,519)	8.7	(98,253)	14.9	(114,977)	17.0
EBITDA (UBS)	3,242	4,829	7,439	9,956	12,770	14,678	14.9	16,646	13.4	19,159	15.1
Depreciation	(762)	(954)	(1,263)	(1,216)	(1,551)	(1,804)	16.3	(1,984)	10.0	(2,173)	9.5
Operating income (EBIT, UBS)	2,480	3,874	6,176	8,740	11,219	12,874	14.8	14,661	13.9	16,986	15.9
Other income & associates	693	1,051	694	731	1,131	824	-27.2	910	10.5	1,006	10.5
Net interest	(360)	(566)	(701)	(808)	(428)	(263)	-38.4	(157)	-40.3	(121)	-22.8
Abnormal items (pre-tax)	0	0	0	0	0	0	-	0	-	0	-
Profit before tax	2,814	4,360	6,169	8,663	11,922	13,435	12.7	15,414	14.7	17,870	15.9
Tax	(453)	(1,494)	(2,054)	(3,047)	(3,650)	(3,885)	6.4	(4,611)	18.7	(5,523)	19.8
Profit after tax	2,361	2,866	4,115	5,616	8,272	9,549	15.4	10,804	13.1	12,347	14.3
Abnormal items (post-tax)	163	0	0	0	(352)	0	-	0	-	0	-
Minorities / pref dividends	(32)	(47)	(48)	(17)	(26)	(10)	-60.8	(11)	5.0	(11)	5.0
Net income (local GAAP)	2,492	2,818	4,067	5,599	7,895	9,539	20.8	10,793	13.1	12,336	14.3
Net Income (UBS)	2,329	2,818	4,067	5,599	8,247	9,539	15.7	10,793	13.1	12,336	14.3
Tax rate (%)	16	34	33	35	31	29	-5.5	30	3.4	31	3.3
Pre-abnormal tax rate (%)	16	34	33	35	31	29	-5.5	30	3.4	31	3.3

Per share (Rs)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
EPS (local GAAP)	3.89	4.39	6.34	8.73	12.31	14.87	20.8	16.82	13.1	19.23	14.3
EPS (UBS)	3.63	4.39	6.34	8.73	12.86	14.87	15.7	16.82	13.1	19.23	14.3
Net DPS	0.57	0.73	1.07	1.34	2.20	2.23	1.4	2.52	13.1	2.88	14.3
Cash EPS	4.82	5.88	8.31	10.62	15.27	17.68	15.8	19.92	12.6	22.62	13.6
BVPS	12.24	15.10	20.29	28.54	39.04	51.68	32.4	65.98	27.7	82.33	24.8

Balance sheet (Rsm)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Net tangible fixed assets	5,403	10,873	12,444	13,785	13,760	15,004	9.0	16,221	8.1	17,410	7.3
Net intangible fixed assets	0	0	0	0	0	0	-	0	-	0	-
Net working capital (incl. other assets)	4,065	5,085	5,737	4,517	4,161	5,087	22.3	6,991	37.4	9,500	35.9
Other liabilities	0	0	0	0	(49)	(49)	0.0	(49)	0.0	(49)	0.0
Operating invested capital	9,468	15,958	18,181	18,303	17,871	20,042	12.1	23,163	15.6	26,860	16.0
Investments	651	645	934	1,672	5,536	5,536	0.0	5,536	0.0	5,536	0.0
Total capital employed	10,119	16,603	19,115	19,975	23,407	25,578	9.3	28,699	12.2	32,396	12.9
Shareholders' equity	7,854	9,688	13,018	18,311	25,043	33,151	32.4	42,325	27.7	52,811	24.8
Minority interests	117	284	123	139	43	53	23.3	64	19.8	75	17.4
Total equity	7,970	9,972	13,140	18,449	25,086	33,204	32.4	42,389	27.7	52,886	24.8
Net debt / (cash)	2,149	6,630	5,975	1,526	(1,679)	(7,627)	354.3	(13,690)	79.5	(20,490)	49.7
Other debt-deemed items	0	0	0	0	0	0	-	0	-	0	-
Total capital employed	10,119	16,603	19,115	19,975	23,407	25,578	9.3	28,699	12.2	32,396	12.9

Cash flow (Rsm)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Operating income (EBIT, UBS)	2,480	3,874	6,176	8,740	11,219	12,874	14.8	14,661	13.9	16,986	15.9
Depreciation	762	954	1,263	1,216	1,551	1,804	16.3	1,984	10.0	2,173	9.5
Net change in working capital	(1,333)	(1,027)	(483)	1,113	(125)	(926)	638.7	(1,904)	105.6	(2,509)	31.7
Other (operating)	393	1,012	476	820	1,285	814	-36.7	900	10.5	995	10.6
Operating cash flow (pre tax/interest)	2,302	4,814	7,432	11,889	13,929	14,566	4.6	15,641	7.4	17,645	12.8
Net interest received / (paid)	(360)	(566)	(701)	(808)	(428)	(263)	-38.4	(157)	-40.3	(121)	-22.8
Dividends paid	(366)	(471)	(686)	(859)	(1,411)	(1,431)	1.4	(1,619)	13.1	(1,850)	14.3
Tax paid	(453)	(1,494)	(2,054)	(3,047)	(3,650)	(3,885)	6.4	(4,611)	18.7	(5,523)	19.8
Capital expenditure	(2,618)	(6,424)	(2,834)	(2,557)	(1,526)	(3,049)	99.8	(3,201)	5.0	(3,361)	5.0
Net (acquisitions) / disposals	0	0	0	0	0	0	-	0	-	0	-
Other	284	172	(450)	(722)	(3,959)	10	-	10	5.0	11	5.0
Share issues	1,538	(513)	(52)	552	249	0	-100.0	0	-	0	-
Cash flow (inc)/dec in net debt	327	(4,481)	655	4,449	3,204	5,948	85.6	6,063	1.9	6,800	12.2
FX / non cash items	0	0	0	0	0	0	-	0	-33.3	0	-
Balance sheet (inc)/dec in net debt	327	(4,481)	655	4,449	3,204	5,948	85.6	6,063	1.9	6,800	12.2
Core EBITDA	3,242	4,829	7,439	9,956	12,770	14,678	14.9	16,646	13.4	19,159	15.1
Maintenance capital expenditure	(762)	(954)	(1,263)	(1,216)	(1,551)	(1,804)	16.3	(1,984)	10.0	(2,173)	9.5
Maintenance net working capital	1,333	1,027	483	(1,113)	125	926	638.7	1,904	105.6	2,509	31.7
Operating free cash flow, pre-tax	3,813	4,901	6,659	7,626	11,344	13,800	21.7	16,566	20.0	19,495	17.7

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

Global Equity Research

India

Industrial, Diversified

12-month rating	Sell
12m price target	Rs240.00

Crompton Greaves Ltd

Company profile

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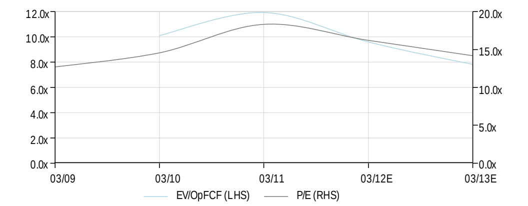
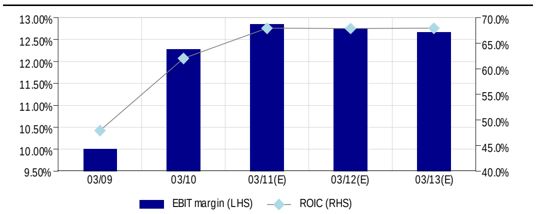
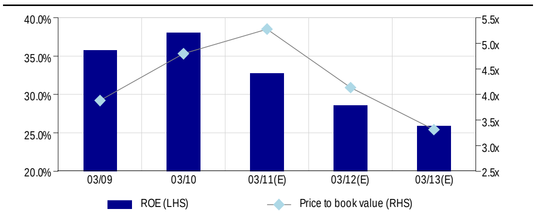
Value (EV/OpFCF & P/E)



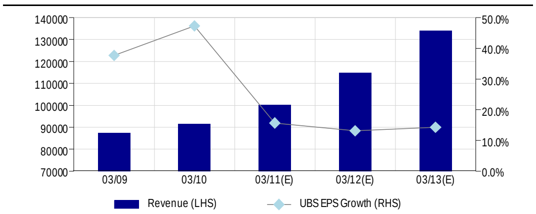
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
P/E (local GAAP)	17.2	12.7	15.2	18.3	16.2	14.2
P/E (UBS)	17.5	12.7	14.6	18.3	16.2	14.2
P/CEPS	13.3	10.4	12.3	15.4	13.7	12.1
Net dividend yield (%)	1.3	1.2	1.2	0.8	0.9	1.1
P/BV	5.2	3.9	4.8	5.3	4.1	3.3
EV/revenue (core)	-	-	1.3	1.6	1.4	1.1
EV/EBITDA (core)	-	-	9.0	11.2	9.5	8.0
EV/EBIT (core)	-	-	10.2	12.8	10.8	9.0
EV/OpFCF (core)	-	-	10.1	11.9	9.6	7.8
EV/op. invested capital	-	-	6.3	8.7	7.4	6.1

Enterprise value (Rsm)	03/09	03/10	03/11E	03/12E	03/13E
Average market cap	71,073	120,091	174,966	174,966	174,966
+ minority interests	131	91	48	58	69
+ average net debt (cash)	3,750	(77)	(4,653)	(10,658)	(17,090)
+ pension obligations and other	0	0	0	0	0
- non-core asset value	(1,672)	(5,536)	(5,536)	(5,536)	(5,536)
Core enterprise value	-	114,569	164,826	158,831	152,410

Growth (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Revenue	44.8	27.9	4.6	9.6	14.7	16.7
EBITDA (UBS)	56.5	33.8	28.3	14.9	13.4	15.1
EBIT (UBS)	63.2	41.5	28.4	14.8	13.9	15.9
EPS (UBS)	47.0	37.7	47.3	15.7	13.1	14.3
Cash EPS	43.1	27.9	43.8	15.8	12.6	13.6
Net DPS	23.8	25.2	64.3	1.4	13.1	14.3
BVPS	44.6	40.7	36.8	32.4	27.7	24.8

Margins (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBITDA / revenue	9.4	11.4	14.0	14.6	14.5	14.3
EBIT / revenue	7.6	10.0	12.3	12.8	12.8	12.7
Net profit (UBS) / revenue	5.8	6.4	9.0	9.5	9.4	9.2

Return on capital (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBIT ROIC (UBS)	36.7	47.9	62.0	67.9	67.9	67.9
ROIC post tax	-	31.1	43.0	48.3	47.6	46.9
Net ROE	34.7	35.7	38.0	32.8	28.6	25.9

Coverage ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBIT / net interest	9.1	11.7	28.9	NM	NM	NM
Dividend cover (UBS EPS)	5.6	6.5	5.8	6.7	6.7	6.7
Div. payout ratio (%, UBS EPS)	19.0	15.3	17.1	15.0	15.0	15.0
Net debt / EBITDA	0.7	0.2	NM	NM	NM	NM

Efficiency ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Revenue / op. invested capital	4.5	4.8	5.1	5.3	5.3	5.4
Revenue / fixed assets	6.7	6.7	6.6	7.0	7.4	8.0
Revenue / net working capital	14.7	19.0	22.3	21.7	19.0	16.3

Investment ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
OpFCF / EBIT	1.1	0.9	1.0	1.1	1.1	1.1
Capex / revenue (%)	5.4	2.9	1.7	3.0	2.8	2.5
Capex / depreciation	3.2	2.1	1.0	1.7	1.6	1.5

Capital structure (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Net debt / total equity	35.3	8.3	(6.7)	(23.0)	(32.3)	(38.8)
Net debt / (net debt + equity)	26.1	7.7	(7.2)	(29.9)	(47.8)	(63.4)
Net debt (core) / EV	-	-	(0.1)	(2.8)	(6.7)	(11.2)

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of Rs272.75 on 29 Mar 2011 23:38 HKT Market cap(E) may include forecast share issues/buybacks.

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■ Crompton Greaves Ltd

Crompton Greaves (CG) is one of the largest engineering companies in India. Part of the Avantha Group, CG has three main businesses - power systems, consumer products, and industrial systems - nearly two-thirds of sales come from electrical products. CG has 22 manufacturing divisions spread across India, and a large customer base that includes state electricity boards and large companies in the private and public sectors. CG has a significant presence in overseas markets through its acquisitions; Pauwels (2005), Ganz (2006), Microsol (2007), Sonomatra (2008), MSE Power Systems (2008), and PTS (2010).

■ Statement of Risk

We believe the key upside risks to our Sell rating on CG are: 1) a pick-up in order activity at Power Grid and SEBs; 2) increased government focus; 3) margin expansion; and 4) a better-than-expected performance in overseas markets. We think the key downside risks for the company are: 1) competition; 2) delays in power generation projects; 3) rising raw material prices; 4) a slower-than-expected recovery in government spending and industrial activity; 5) a slowdown in the international business; and 6) a decline in EBITDA margin.

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UBS 12-Month Rating	Rating Category	Coverage[1]	IB Services[2]
Buy	**Buy**	49%	40%
Neutral	**Hold/Neutral**	42%	35%
Sell	**Sell**	8%	21%
UBS Short-Term Rating	**Rating Category**	**Coverage[3]**	**IB Services[4]**
Buy	**Buy**	less than 1%	14%
Sell	**Sell**	less than 1%	0%

1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 December 2010.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	**Definition**
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

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Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

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Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

Equity Price Targets have an investment horizon of 12 months.

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UBS Securities India Private Ltd: Pankaj Sharma; Sandip Bansal.

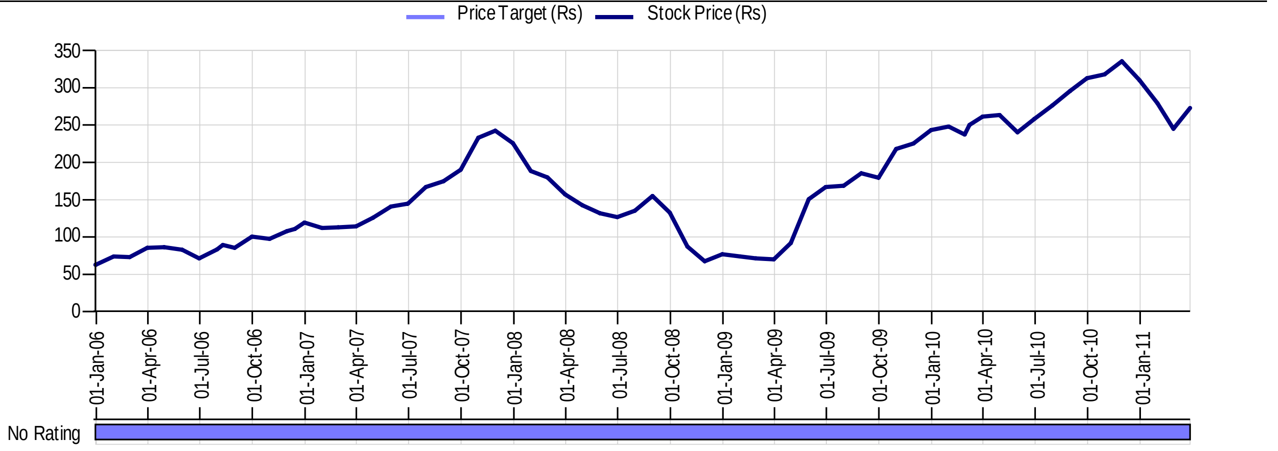
Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Crompton Greaves Ltd	CROM.BO	Not Rated	N/A	Rs272.75	29 Mar 2011

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Crompton Greaves Ltd (Rs)



Source: UBS; as of 29 Mar 2011

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