

## Crompton Greaves Limited

Emotron acquisition improves addressable market for  
CG: Maintain OW - ALERT

- **Crompton Greaves (CRG IN) announced the acquisition of Sweden based Emotron Group yesterday, at an EV of 57.8mn Euro (~Rs3.7bn).** In CY10 Emotron had revenues of Euro37.3bn (~Rs2.25bn) and EBITDA of Euro4.4mn (OPM of 11.8%). Implied EV/EBITDA of the acquisition is ~13.1x (CG is trading at ~11x FY11 EV/EBITDA).
- **Emotron is a power electronics and engineering company,** engaged in the manufacture of variable speed drives (VFDs) with range from 200 to 690V, 0.2kW to 3000kW. The focus application areas are flow control (pumps, fans, compressors), material handling (cranes, crushers, mills, conveyors) and lift control (Elevators). Emotron also manufactures soft starter, shaft power monitors, other energy saving equipment used in several industrial applications. As per CG's press release, Emotron has long experience in West European markets especially Germany and BENELUX and has requisite application knowledge of drive technology.
- **CG's overseas M&A track record has yielded favorable results:** This is CG's 7th overseas acquisition since 2005 and the largest in value terms, so far. Overseas subsidiary revenue (primarily in power segment) have grown from Rs16bn in FY06 to Rs39.5bn in FY11 (20% CAGR) and EBITDA margins have improved from 5.2% to ~10.8% over the period. During the analyst meet post Mar-q results, management had mentioned that they were scouting for an acquisition in the industrial systems space to plug the gap posed by industrial drives in their portfolio.
- **Growth opportunity.** As per CG, with rising energy costs and global focus on energy efficiency the global market for VFDs is expected to grow at ~12.5% CAGR over CY10 to 14 from US\$10bn to US\$16bn. CG estimates the market for VFDs in India at US\$375mn (~Rs16.9bn). ABB India manufactures electronic control and supply units for VFDs and had CY10 revenue of Rs7.1bn for this product line, which has grown at a CAGR of 35% over the last 5 years. Siemens India's drive technologies segment (which includes VFD applications) had revenue of Rs13.7bn (up 18% YoY) and EBITDA margin of 9.4% in year-ending Sep-10.
- **So far industry segment has been largely a domestic business for CG.** Industry segment has revenues of ~Rs15bn (~15% of revenues in FY11) and has grown at a CAGR of ~17% over last 5 years. The segment enjoys the highest EBITDA margin of ~19% among CG's business segments. Slightly under Rs1bn of revenue came from the rotating machines unit in overseas subsidiary Ganz in FY11.
- **Maintain OW.** The latest acquisition increases the addressable market and technology access for CG in industrial segment. We like the fact that CG has not made a bulky/capital intensive acquisition. Post deal consolidated Net-D/E will remain at comfortable levels of 0.17x.

See page 3 for analyst certification and important disclosures, including non-US analyst disclosures.

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### Overweight

CRG.BO, CRG IN

Price: Rs238.25

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Table 1: History of CG's overseas acquisition

	Acquired	Location	Brief description	EV	EV (Rs B)
Mar-10	Power Technology Solutions (PTS)	UK	Engineering, consulting, technical support and project management services for UK HV (sub 400kv) power systems	£30 Mn	2.01
Sep-08	MSE Power Systems	USA	EPC of high voltage electrical power transformer systems. To improve CG's strength as a systems integrator in the EPC arena, particularly in renewable energy with a focus on wind segment	US\$16 Mn	0.74
May-08	Sonomatra	France	Servicing of power systems such as providing on-site maintenance, repairing of power transformers and on-load tap changers, oil analysis, oil treatment and retrofitting solutions. Improved CG's solution providing capabilities beyond Belgium, to France	US\$2 Mn	0.09
May-07	Microsol	Ireland	Automated solutions for medium and high voltage substations. With Microsol, CG wanted to become a full solutions provider.	€10.5 Mn	0.64
Oct-06	Ganz	Hungary	Ganz has a history of 125 years of being a quality supplier to the Hungarian heavy electrical industry. It is in the business of contracting and sub-contracting turnkey solutions in power transmission and distribution (including servicing and retrofitting power plants), substations and industrial electrical systems. It manufactures power transformers (upto 765kv), GIS upto 245 KV, high-voltage asynchronous and traction motors at its plant in Tapioszele, Hungary. Ganz is also engaged in substation contracting services. Ganz has established CG as a supplier of UHV power transformer	€35 Mn	2.12
May-05 [a]	Pauwels	Belgium, mfg facilities in Belgium, Canda, USA, Ireland	Established over 60 years ago in Belgium, the Pauwels Group ('Pauwels') is a leader in the design and manufacture of three-phase distribution and power transformers, in the production and retrofitting of substations and in providing integrated solutions and services for the international transmission & distribution market. Pauwels remains global number 1 for SLIM transformers used in wind farm installations	-US\$19 Mn	0.87

Source: J.P. Morgan, Company data.

Table 2: CG: Consolidated Summary P&L

Rs. in billions, year-end March

	FY08	FY09	FY10	FY11E	FY12E	FY13E	FY14E
<b>Revenues</b>							
Power Systems	48.2	61.7	62.0	65.0	71.9	81.8	92.1
CG Standalone	18.1	22.2	25.1	25.5	27.3	32.2	37.1
Overseas Subsidiaries	30.2	39.5	36.9	39.5	44.6	49.5	55.0
Consumer Products	11.2	13.2	16.1	20.2	24.7	28.4	32.6
Industrial Systems	9.6	11.5	12.6	14.9	17.6	20.2	23.3
<b>Total</b>	<b>68.3</b>	<b>87.4</b>	<b>91.4</b>	<b>100.1</b>	<b>114.1</b>	<b>130.2</b>	<b>147.7</b>
% YoY growth	15.1	27.9	4.6	9.5	14.0	14.1	13.5
<b>EBIDTA margin (%)</b>	<b>10.9</b>	<b>11.4</b>	<b>14.0</b>	<b>13.4</b>	<b>13.5</b>	<b>14.0</b>	<b>13.9</b>
Power Systems (%)	10.5	11.5	14.2	14.2	14.2	14.3	14.3
CG Standalone (%)	15.3	16.6	19.3	18.8	18.5	18.5	18.3
Overseas Subsidiaries (%)	7.6	8.7	10.8	11.6	11.6	11.6	11.6
Consumer Products (%)	11.5	11.6	14.7	14.9	14.6	14.6	14.6
Industrial Systems (%)	22.1	20.0	23.4	18.7	18.0	21.0	21.0
<b>Reported EBIDTA</b>	<b>10.9</b>	<b>11.4</b>	<b>14.0</b>	<b>13.4</b>	<b>13.5</b>	<b>14.0</b>	<b>13.9</b>
Depreciation & amortization	(1.3)	(1.2)	(1.6)	(1.9)	(2.3)	(2.5)	(2.8)
Other income	0.7	0.7	1.1	1.1	1.1	1.3	1.5
Interest	(0.7)	(0.8)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
<b>Reported PBT</b>	<b>6.2</b>	<b>8.7</b>	<b>11.9</b>	<b>12.3</b>	<b>13.8</b>	<b>16.7</b>	<b>19.0</b>
Tax	(2.1)	(3.0)	(3.7)	(3.1)	(3.6)	(4.8)	(5.5)
Minority interest	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Associate income	0.0	(0.0)	0.0	0.1	0.1	0.2	0.2
<b>Reported PAT</b>	<b>4.1</b>	<b>5.6</b>	<b>7.9</b>	<b>9.6</b>	<b>10.2</b>	<b>12.0</b>	<b>13.6</b>
<b>EPS (Rs)</b>	<b>11.1</b>	<b>15.3</b>	<b>12.3</b>	<b>15.0</b>	<b>15.9</b>	<b>18.7</b>	<b>21.2</b>
EPS growth (%)	44.3	37.7	47.3	12.4	10.2	17.1	13.9
RoE (%)	35.8	35.7	38.0	32.1	27.4	25.4	23.3
RoCE (%)	23.5	27.2	31.1	28.4	25.1	23.7	22.1
Working capital days	27.5	18.4	16.6	31.4	33.4	35.1	36.5
<b>Net D/E (x)</b>	<b>0.4</b>	<b>0.0</b>	<b>(0.2)</b>	<b>(0.1)</b>	<b>(0.2)</b>	<b>(0.2)</b>	<b>(0.3)</b>

Source: J.P. Morgan estimates, Company data.

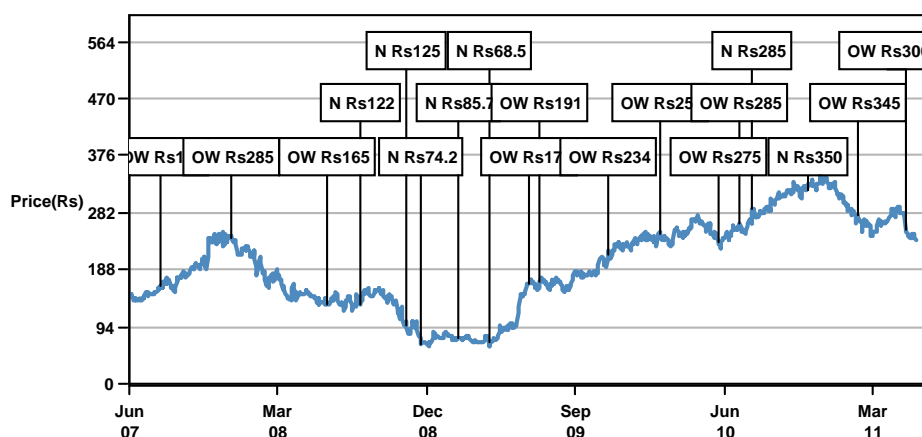
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**Crompton Greaves Limited (CROM.BO) Price Chart**



Date	Rating	Share Price (Rs)	Price Target (Rs)
30-Jul-07	OW	160.97	196.00
05-Dec-07	OW	240.54	285.00
29-May-08	OW	131.17	165.00
30-Jul-08	N	130.66	122.00
23-Oct-08	N	96.43	125.00
20-Nov-08	N	65.54	74.20
28-Jan-09	N	75.23	85.70
25-Mar-09	N	69.60	68.50
05-Jun-09	OW	164.57	171.00
25-Jun-09	OW	166.89	191.00
30-Oct-09	OW	211.66	234.00
01-Feb-10	OW	247.97	254.00
19-May-10	OW	232.90	275.00
29-Jun-10	OW	265.20	285.00
22-Jul-10	N	289.50	285.00
01-Nov-10	N	317.95	350.00
01-Feb-11	OW	278.55	345.00
01-May-11	OW	252.20	300.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Break in coverage May 18, 2004 - Dec 12, 2006. This chart shows J.P. Morgan’s continuing coverage of this stock; the current analyst may or may not have covered it over the entire period. J.P. Morgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

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