



## Crompton Greaves

STOCK INFO.	BLOOMBERG
BSE SENSEX: 10,170	CRG IN
	REUTERS CODE
S&P CNX: 3,065	CROM.BO

22 October 2008

Neutral

Previous Recommendation: Neutral

Rs166

Equity Shares (m)	366.6
52-Week Range	454/163
1,6,12 Rel. Perf. (%)	-6/2/-10
M.Cap. (Rs b)	60.7
M.Cap. (US\$ b)	1.2

YEAR	NET SALES	PAT*	EPS*	EPS*	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	33,676	2,283	6.2	0.6	26.6	9.0	30.7	38.3	1.8	18.1
3/08A	38,758	3,654	10.0	60.0	16.6	6.5	34.3	50.0	1.5	12.4
3/09E	46,231	5,047	13.8	38.1	12.0	5.0	34.1	46.6	1.3	10.3
3/10E	54,751	6,074	16.6	20.3	10.0	4.0	30.9	43.9	1.0	8.6

\* Consolidated nos, pre exceptionals

- Robust 2QFY09 performance:** Crompton reported robust 2QFY09 performance driven by EBITDA margin expansion of 140bpYoY to 13.2%, while revenues at Rs10.9b (up 20% YoY) were in line with estimates. EBITDA margin expanded due to 270bp savings in raw material cost (as % of revenues) to 68.2% in 2QFY09. EBITDA margins have expanded to 11.1% in 2QFY09 (up 140bp), largely due to turnaround of Ganz. During 2QFY09, consolidated order book stands at Rs68b (+13% QoQ, +31% YoY).
- Key takeaways from Conference call:** 1) The management indicated strong confidence in sustaining the growth rates in power T&D business, given the strong cash flows of utilities, both in India and US / Europe, 2) For overseas operations, power distribution accounts for 55% of revenues, which could possibly be impacted from slowdown in housing demand, 3) CG Power has entered into long term contract of Euro200m for supply of power transformers for wind turbines, 4) EBITDA expansion in 1HFY09 is driven by improved operational parameters and commodity price decline unlikely to add significantly to margins given PVC clauses, 5) Industrial division is witnessing slowdown in terms of enquiries from steel, cement, petrochemicals, etc.
- FY09 guidance maintained:** The management has guided for 18-20% revenue growth in FY09 and 15-20% in FY10. EBITDA margins in FY09 / FY10 are expected to be maintained. Tax rate for Pauwels, Ganz, etc in 2QFY09 stands at 48%, vs 27% during 1QFY09, largely due to increase in tax rates in US and higher deferred tax component.
- Valuations and view:** We have upgraded FY09 earnings estimates and now expect Crompton to report consolidated EPS of Rs13.8/sh in FY09 (up 38% YoY, upgrade of 9.1%) and Rs16.6/sh in FY10 (up 20% YoY). At CMP of Rs166sh, the stock trades at PER of 12x FY09E and 10x FY10E. Maintain **Neutral** with price target of Rs199/sh.

### QUARTERLY PERFORMANCE (STANDALONE)

(Rs Million)

	FY08				FY09				FY08	FY09E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
<b>Sales</b>	<b>8,961</b>	<b>9,050</b>	<b>9,152</b>	<b>11,595</b>	<b>10,829</b>	<b>10,862</b>	<b>10,808</b>	<b>13,732</b>	<b>38,758</b>	<b>46,231</b>
Change (%)	21.0	9.8	12.6	17.1	20.8	20.0	18.1	18.4	15.1	19.3
<b>EBITDA</b>	<b>1,045</b>	<b>1,068</b>	<b>1,160</b>	<b>1,566</b>	<b>1,381</b>	<b>1,435</b>	<b>1,281</b>	<b>1,645</b>	<b>4,838</b>	<b>5,741</b>
Change (%)	44.8	45.2	41.8	36.9	32.2	34.4	10.5	5.1	41.5	18.7
As of % Sales (Adj)	11.7	11.8	12.7	13.5	12.8	13.2	11.9	12.0	12.5	12.4
Depreciation	105	113	115	74	108	120	132	152	407	512
Interest	66	60	72	74	22	39	25	40	271	126
Other Income	126	185	144	241	81	102	108	123	696	415
<b>PBT</b>	<b>1,000</b>	<b>1,080</b>	<b>1,117</b>	<b>1,659</b>	<b>1,332</b>	<b>1,379</b>	<b>1,232</b>	<b>1,575</b>	<b>4,856</b>	<b>5,518</b>
Tax	313	339	438	628	443	453	431	549	1,717	1,876
Effective Tax Rate (%)	31.2	31.4	39.2	37.8	33.3	32.9	35.0	34.8	35.4	34.0
<b>Reported PAT</b>	<b>688</b>	<b>742</b>	<b>679</b>	<b>1,031</b>	<b>889</b>	<b>925</b>	<b>801</b>	<b>1,027</b>	<b>3,139</b>	<b>3,642</b>
<b>Adj PAT</b>	<b>538</b>	<b>642</b>	<b>629</b>	<b>944</b>	<b>889</b>	<b>925</b>	<b>801</b>	<b>1,027</b>	<b>2,752</b>	<b>3,642</b>
Change (%)	47.8	65.9	38.5	26.0	65.3	44.3	27.3	8.8	40.9	32.3

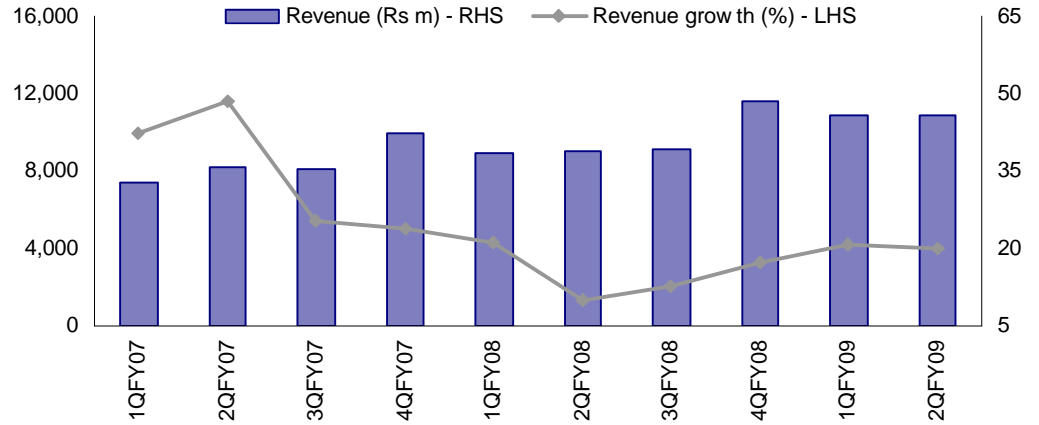
E: MOST Estimates

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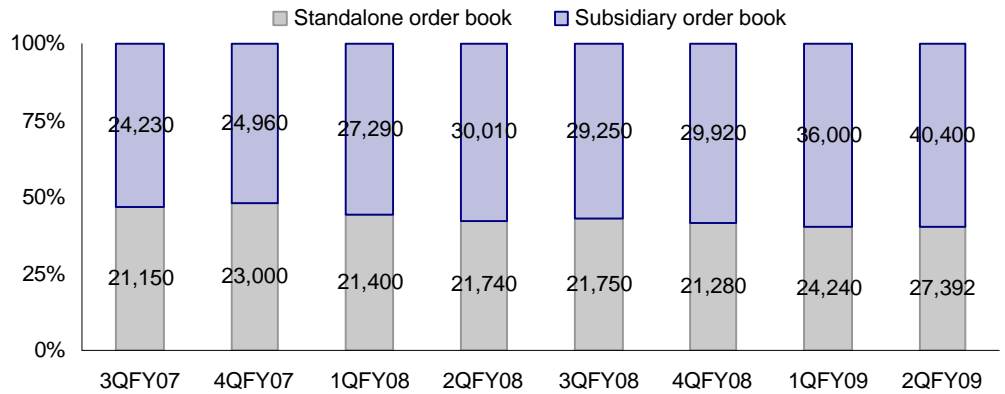
REVENUE GROWTH TREND (RS M)

Standalone net revenues of Rs10.8b (up 20.8% YoY), in line with estimates



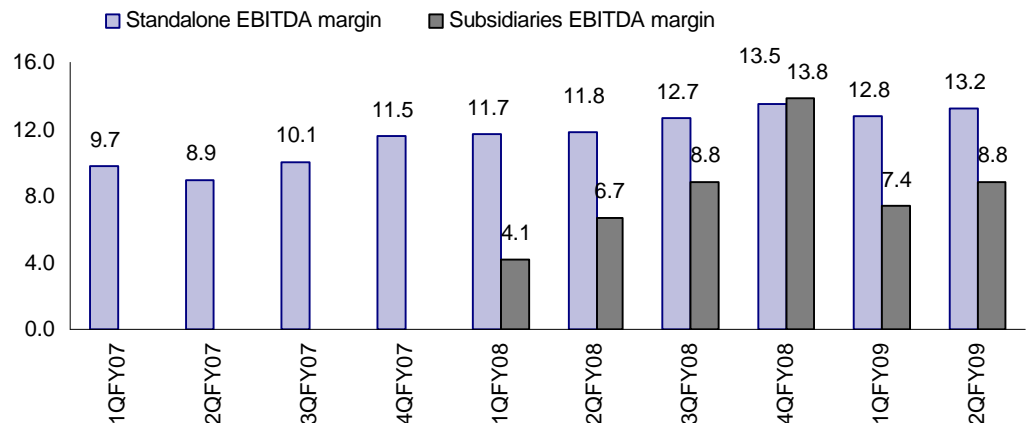
ORDER BOOK TREND (RS M)

For standalone business, order book stands at Rs27.4b (+11%QoQ, 26%YoY) and for international business, order book stands at Rs40.3b (+12%QoQ, 34%YoY). Even after adjusting for Euro appreciation, international order book is up 14%YoY



EBITDA MARGIN TREND (%)

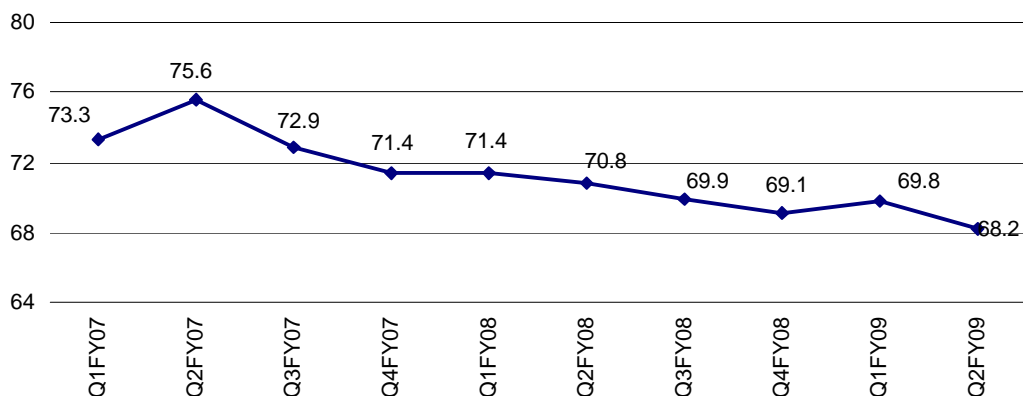
EBITDA margins for 2QFY09 expanded by 140bp to 13.2%, largely driven by savings in raw material costs



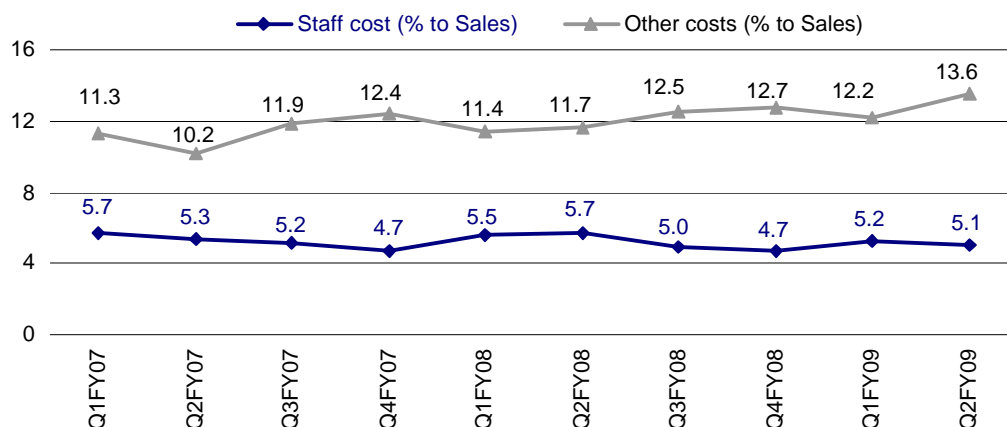
Source: Company

2QFY09 MARGINS DRIVEN BY 270BP YOY SAVINGS IN RM COST (% OF SALES)

*Raw material savings is mainly due operational parameters. Decline in commodity price is unlikely to add to EBITDA margins due to PVC clause*



*Increase in the other costs is mainly due to higher exports, resulting in increased freight and insurance costs*



Source: Company

SEGMENTAL - REVENUE TREND (RS M) AND % YOY

*Power division continued to witness slower than anticipated revenue growth at 16.2%YoY during 2QFY09 to Rs5.3b*

	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09
Power Systems	4,326	4,601	4,731	6,064	4,906	5,348
YoY growth (%)	24.7	50.8	11.0	8.3	13.4	16.2
Consumer Prod	3,016	2,528	2,603	3,522	3,771	3,138
YoY growth (%)	13.5	27.9	15.0	27.3	34.8	24.1
Industrial Systems	2,508	2,583	2,634	2,855	3,006	3,179
YoY growth (%)	32.3	28.5	14.0	18.6	27.8	23.1
Others	31	270	89	127	72	126
YoY growth (%)	-57.1	3.0	56.0	146.3	0.7	-53.3
<b>Total</b>	<b>9,880</b>	<b>9,982</b>	<b>10,057</b>	<b>12,568</b>	<b>11,755</b>	<b>11,792</b>
Inter-segment	87	57	58	59	91	75
<b>Total Revenue</b>	<b>9,793</b>	<b>9,925</b>	<b>9,999</b>	<b>12,509</b>	<b>11,664</b>	<b>11,717</b>

Source: Company

*Standalone EBITDA margin expansion of 140bp to 13.2% during 2QFY09 is mainly led by improvement in profitability of the power division. Industrial EBIT is likely to be under pressure due to aggressive pricing*

## SEGMENTAL - EBIT (RS M) AND EBIT MARGINS (%)

	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	1QFY09	VARI, BP YOY
Power Systems	499	550	589	948	614	737	
Margin %	11.5	11.9	12.4	15.6	12.5	13.8	180
Consumer Products	316	267	255	370	422	321	
Margin %	10.5	10.6	9.8	10.5	11.2	10.2	-100
Industrial Systems	447	469	482	548	522	546	
Margin %	17.8	18.1	18.3	19.2	17.4	17.2	-30
Others	-23	-9	-32	-17	-23	-2	
Margin %	-74.8	-3.1	-35.6	-13.7	-37.7	-1.7	
<b>Total</b>	<b>1,239</b>	<b>1,277</b>	<b>1,294</b>	<b>1,849</b>	<b>1,535</b>	<b>1,601</b>	

Source: Company

*During 2FY09, subsidiaries (Pauwels, Ganz and Microsal) reported revenues of Rs10(up 50 YoY), largely due to 18YoY Euro appreciation against rupee. Excluding this, growth is at 27YoY in line with estimates*

## ROBUST SUBSIDIARY PERFORMANCE (RS M)

	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2FY09	% YOY
Revenues	6,265	8,425	7,983	8,612	9,519	10,065	50
<b>EBIDTA</b>	<b>259</b>	<b>461</b>	<b>704</b>	<b>1,190</b>	<b>702</b>	<b>883</b>	<b>97</b>
EBIDTA (%)	4.1	5.5	8.8	13.8	7.4	7.4	
Depreciation	165	179	281	231	215	223	
Interest	112	80	117	121	115	127	
Other Income	197	0	-63	-153	90	24	
Tax	-26	10	81	271	124	271	
<b>PAT</b>	<b>205</b>	<b>170</b>	<b>162</b>	<b>414</b>	<b>338</b>	<b>276</b>	<b>67</b>
PAT (%)	3.3	2.0	2.0	4.8		3.6	2.7

Source: Company

## Consolidated financials

## CONSOLIDATED NET PROFIT (REPORTED, RS M)

NET PROFIT	FY04	FY05	FY06	FY07	FY08	FY09E	FY10E
Crompton	711	1396	1630	1924	3140	3642	4212
Pauwels	-9	52	699	644	1751	1683	1972
Ganz				207	-860	-278	-111
Others				1	0	0	0
<b>Consolidated</b>	<b>701</b>	<b>1447</b>	<b>2329</b>	<b>2775</b>	<b>4031</b>	<b>5047</b>	<b>6074</b>
% YoY				19.1	45.2	24.9	20.3

## CONSOLIDATED NET PROFIT (PRE-EXCEPTIONAL, RS M)

NET PROFIT	FY04	FY05	FY06	FY07	FY08E	FY09E	FY10E
Crompton	711	1,396	1,933	1,924	2,990	3,642	4,212
Pauwels	-9	52	559	644	1,751	1,683	1,972
Ganz				-193	-860	-278	-111
Others				1	0	0	0
<b>Consolidated</b>	<b>701</b>	<b>1,447</b>	<b>2,492</b>	<b>2,375</b>	<b>3,881</b>	<b>5,047</b>	<b>6,074</b>
% YoY				-4.7	63.4	38.1	20.3

Source: Company/Motilal Oswal Securities

### Key takeaways from Conference call

- ✍ The management indicated strong confidence in sustaining the growth rates in power T&D business, given the strong cash flows of utilities, both in India and US / Europe,
- ✍ For the overseas operations, power distribution accounts for 55% of revenues, which could possibly be impacted from slowdown in housing demand
- ✍ CG Power has entered into long term contract of Euro200m for supply of power transformers for wind turbines, which will compensate for slowdown in distribution transformers
- ✍ EBITDA expansion in 1H FY09 is driven by improved operational parameters and commodity price decline unlikely to add to significantly margins given PVC clauses
- ✍ Industrial division is witnessing slowdown in terms of enquiries from steel, cement, petrochemicals, etc, which could impact growth in FY10, and EBIT margin pressure (73bp in 1H) was due to aggressive pricing.

**FY09 guidance maintained:** The management has guided for 18-20% revenue growth in FY09 and 15-20% in FY10. EBITDA margins in FY09 / FY10 are expected to be maintained. Tax rate for Pauwels, Ganz, etc in 2QFY09 stands at 48%, vs 27% during 1QFY09, largely due to increase in tax rates in US and higher deferred tax component.

### Valuation and view

We have upgraded FY09 earnings estimates and now expect Crompton to report consolidated EPS of Rs13.8/sh in FY09 (up 38% YoY, upgrade of 9.1%) and Rs16.6/sh in FY10 (up 20% YoY). At CMP of Rs166/sh, the stock trades at PER of 12x FY09E and 10x FY10E. Maintain **Neutral** with price target of Rs199/sh.

## Crompton Greaves: an investment profile

### Company description

Crompton Greaves (CG), established in 1937, is the market leader in power systems, industrial motors and consumer fans in India. The recent acquisition of Pauwels and Ganz has catapulted it to the world's seventh largest transformer manufacturer in the world, with a global market share of ~4%. The company now has access to US and European markets, and is poised to leverage the advantage of global scale with Indian cost economics.

### Key investment arguments

- ✍ Acquisition of Pauwels, Ganz has catapulted Crompton as the seventh largest transformer manufacturer globally, with a market share of ~4%.
- ✍ Successful turnaround of Pauwels indicates the management bandwidth in managing large acquisitions.
- ✍ Strong net profit CAGR of 29% till FY10 on consolidated basis.

### Key investment risks

- ✍ Slowdown of power sector reforms, deterioration of financial health of SEBs and downturn in the industrial capex cycle may hamper growth
- ✍ Competitive pressures from domestic and MNC companies.

### Recent developments

- ✍ Acquisition of rights for distribution of power in the Nagpur circle of Maharashtra.

### Valuation and view

- ✍ At CMP of Rs166sh, the stock trades at PER of 12x FY09E and 10x FY10E. Maintain **Neutral** with price target of Rs199/sh.

### Sector view

- ✍ T&D projects could get delayed due to back ended generation capacity addition during 11<sup>th</sup> plan.
- ✍ Credit crunch is likely to delay the proposed and few existing generation projects, thus impacting the order intake for T&D players like Crompton.
- ✍ We remain neutral view on the sector.

EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY09	13.8	13.8	-0.2
FY10	16.6	17.9	-7.1

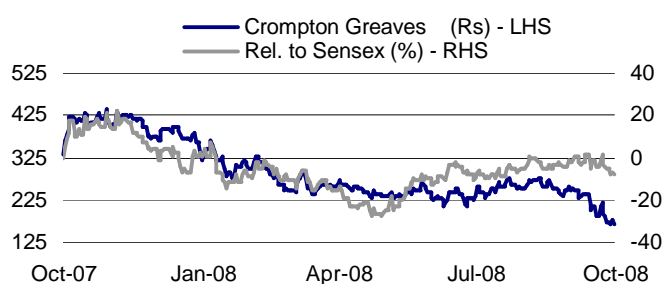
SHAREHOLDING PATTERN (%)

	SEP-08	JUN-08	SEP-07
Promoter	39.7	39.4	39.4
Domestic Inst	25.1	24.8	24.4
Foreign	20.2	20.8	23.9
Others	15.0	15.0	12.3

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
166	199	20.0	Neutral

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT					
(Rs Million)					
Y/E MARCH	2006	2007	2008	2009E	2010
<b>Net Sales</b>	<b>25,206</b>	<b>33,676</b>	<b>38,758</b>	<b>46,231</b>	<b>54,751</b>
Change (%)	27.8	33.6	15.1	19.3	18.4
Raw Materials	17,704	24,643	27,210	32,482	38,763
Staff Cost	1,695	1,743	2,010	2,311	2,658
Other Mfg. Expenses	3,481	3,872	4,700	5,696	6,677
<b>EBITDA</b>	<b>2,326</b>	<b>3,418</b>	<b>4,838</b>	<b>5,741</b>	<b>6,653</b>
% of Net Sales	10.4	10.2	12.5	12.4	12.2
Depreciation	442	394	407	512	581
Interest	264	304	271	126	140
Other Income	327	349	696	415	548
Extra-ordinary Items (as rep.)	0	0	0	0	0
<b>PBT</b>	<b>1,948</b>	<b>3,070</b>	<b>4,856</b>	<b>5,518</b>	<b>6,481</b>
Tax	318	1,146	1,717	1,876	2,268
Rate (%)	16.3	37.3	35.4	34.0	35.0
<b>Reported PAT</b>	<b>1,630</b>	<b>1,924</b>	<b>3,139</b>	<b>3,642</b>	<b>4,212</b>
Extra-ordinary Inc. (net of expe	-303	92	387	0	0
<b>Adjusted PAT</b>	<b>1,933</b>	<b>1,832</b>	<b>2,752</b>	<b>3,642</b>	<b>4,212</b>
Change (%)	38.5	-5.2	50.2	32.3	15.7
<b>Consolidated PAT</b>	<b>2,320</b>	<b>2,283</b>	<b>3,654</b>	<b>5,047</b>	<b>6,074</b>
Change (%)	60.3	-1.6	60.0	38.1	20.3

BALANCE SHEET					
(Rs Million)					
Y/E MARCH	2006	2007	2008	2009E	2010E
Share Capital	524	733	733	733	733
Reserves	4,688	6,010	8,574	11,304	14,462
<b>Net Worth</b>	<b>5,211</b>	<b>6,743</b>	<b>9,307</b>	<b>12,038</b>	<b>15,195</b>
Loans	2,498	2,700	876	952	952
Deferred Tax Liability	111	376	523	523	523
<b>Capital Employed</b>	<b>7,820</b>	<b>9,819</b>	<b>10,706</b>	<b>13,512</b>	<b>16,670</b>
Gross Fixed Assets	8,322	9,153	10,555	11,381	12,631
Less: Depreciation	4,977	5,253	5,628	6,086	6,667
<b>Net Fixed Assets</b>	<b>3,345</b>	<b>3,900</b>	<b>4,927</b>	<b>5,294</b>	<b>5,963</b>
Capital WIP	141	434	226	100	100
Investments	1,021	1,351	1,943	2,000	2,000
<b>Curr. Assets</b>	<b>11,337</b>	<b>14,608</b>	<b>16,562</b>	<b>20,744</b>	<b>25,929</b>
Inventory	1,918	2,470	2,630	3,450	4,085
Debtors	6,596	8,039	9,562	11,177	13,237
Cash & Bank Balance	1,251	1,736	1,577	2,806	4,684
Loans & Advances	1,571	2,364	2,794	3,312	3,922
<b>Current Liab. &amp; Prov.</b>	<b>8,024</b>	<b>10,474</b>	<b>12,953</b>	<b>14,627</b>	<b>17,322</b>
Creditors	5,398	6,497	7,710	9,107	10,786
Other Liabilities	2,025	2,397	2,702	3,450	4,085
Provisions	600	1,580	2,541	2,070	2,451
<b>Net Current Assets</b>	<b>3,313</b>	<b>4,134</b>	<b>3,609</b>	<b>6,117</b>	<b>8,606</b>
<b>Application of Funds</b>	<b>7,820</b>	<b>9,819</b>	<b>10,706</b>	<b>13,512</b>	<b>16,670</b>

E: MOST Estimates

RATIOS					
Y/E MARCH	2006	2007	2008	2009E	2010E
<b>Basic (Rs)</b>					
<b>Adjusted EPS</b>	<b>7.4</b>	<b>5.0</b>	<b>7.5</b>	<b>9.9</b>	<b>11.5</b>
Growth (%)	38.5	3.2	50.2	32.3	15.7
<b>Consolidated EPS</b>	<b>8.9</b>	<b>6.2</b>	<b>10.0</b>	<b>13.8</b>	<b>16.6</b>
Growth (%)	60.3	0.6	60.0	38.1	20.3
Cash EPS	9.1	6.1	8.6	11.3	13.1
Book Value	19.9	18.4	25.4	32.8	41.5
DPS	14	13	16	2.2	2.5
Payout (incl. Div. Tax.)	22.5	24.5	18.7	22.0	22.0
<b>Valuation (x)</b>					
P/E (standalone)		33.2	22.1	16.7	14.4
P/E (consolidated)		26.6	16.6	12.0	10.0
Cash P/E		27.3	19.2	14.6	12.7
EV/EBITDA		18.1	12.4	10.3	8.6
EV/Sales		1.8	1.5	1.3	1.0
Price/Book Value		9.0	6.5	5.0	4.0
Dividend Yield (%)		0.8	1.0	1.3	1.5
<b>Profitability Ratios (%)</b>					
RoE	42.3	30.7	34.3	34.1	30.9
RoCE	29.7	38.3	50.0	46.6	43.9
<b>Turnover Ratios</b>					
Debtors (Days)	88	80	83	81	81
Inventory (Days)	26	25	23	25	25
Creditors. (Days)	72	65	67	66	66
Asset Turnover (x)	3.2	3.4	3.6	3.4	3.3
<b>Leverage Ratio</b>					
Debt/Equity (x)	0.5	0.4	0.1	0.1	0.1

CASH FLOW STATEMENT					
(Rs Million)					
Y/E MARCH	2006	2007	2008	2009E	2010E
<b>PBT before EO Items</b>	<b>1,948</b>	<b>3,070</b>	<b>4,856</b>	<b>5,518</b>	<b>6,481</b>
Add : Depreciation	442	394	407	512	581
Interest	264	304	271	126	140
Less : Direct Taxes Paid	318	1,146	1,717	1,876	2,268
(Inc)/Dec in WC	240	-337	366	-1,279	-610
<b>CF from Operations</b>	<b>2,576</b>	<b>2,284</b>	<b>4,183</b>	<b>3,001</b>	<b>4,323</b>
EO Income	0	0	0	0	0
<b>CF from Oper. incl. EO I</b>	<b>2,576</b>	<b>2,284</b>	<b>4,183</b>	<b>3,001</b>	<b>4,323</b>
(Inc)/Dec in FA	-569	-1,242	-1,226	-754	-1,250
(Pur)/Sale of Investments	-339	-330	-592	-57	0
<b>CF from Investments</b>	<b>-908</b>	<b>-1,572</b>	<b>-1,818</b>	<b>-810</b>	<b>-1,250</b>
(Inc)/Dec in Networth	179	410	258	0	0
(Inc)/Dec in Debt	-648	203	-1,825	76	0
Less : Interest Paid	264	304	271	126	140
Dividend Paid	418	537	686	912	1,055
<b>CF from Fin. Activity</b>	<b>-1,150</b>	<b>-228</b>	<b>-2,524</b>	<b>-961</b>	<b>-1,195</b>
<b>Inc/Dec of Cash</b>	<b>517</b>	<b>484</b>	<b>-159</b>	<b>1,229</b>	<b>1,878</b>
Add: Beginning Balance	734	1,251	1,736	1,577	2,806
<b>Closing Balance</b>	<b>1,251</b>	<b>1,736</b>	<b>1,576</b>	<b>2,806</b>	<b>4,684</b>



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**Disclosure of Interest Statement**

**Crompton Greaves**

1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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