RESULTS REVIEW

Share Data

Market Cap	Rs. 96.8 bn
Price	Rs. 264.00
BSE Sensex	15,750.40
Reuters	CROM.BO
Bloomberg	CRG IN
Avg. Volume (52 Week)	0.2 mn
52-Week High/Low	Rs. 454 / 183.25
Shares Outstanding	366.6 mn

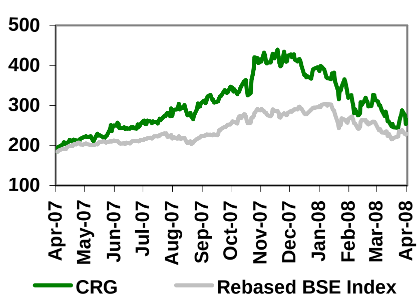
Valuation Ratios (Consolidated)

Year to 31 March	2008E	2009E
EPS (Rs.)	11.1	14.7
+/- (%)	44.5%	32.3%
PER (x)	23.8x	18.0x
EV/ Sales (x)	1.5x	1.2x
EV/ EBITDA (x)	15.6x	12.2x

Shareholding Pattern (%)

Promoters	39
FIIs	16
Institutions	24
Public & Others	21

Relative Performance



Crompton Greaves Limited — Buy

High on efficiency

The Crompton Greaves Limited (CGL) stock has taken a beating since our last report. We believe the current market price of CGL does not incorporate all the positives. Based on our DCF valuation, we expect a stock price of Rs. 330 with a 12-month perspective. This target price is 25% more than the current market levels. Therefore, we upgrade our rating to Buy.

We are optimistic about CGL's future on the back of improved efficiency in operations and the expected synergies of its recent acquisitions. Moreover, the strategy of diversification and integration to emerge as a complete solution provider in the T&D sub-station business will help the Company to reap benefits at a global scale.

We have lowered our FY08 consolidated earnings estimates by 3.4% on account of lower-than-expected standalone revenue growth, which was partially offset by better EBITDA margins. However, the current power generation investments are likely to drive T&D investments in the second half of the 11th Five Year Plan. We believe CGL would be able to take advantage of the power sector investments starting FY11-12, imparting better earnings due to its strong brand equity, technological readiness, and a large capacity base.

The stock is currently trading at a P/E of 23.8x for FY08E and 18x for FY09E, respectively. During the last three years, CGL traded on an average multiple of 22.8x; our target price also gives us the P/E multiple of 22.5x on the forward earnings for FY09E.

Key Figures (Standalone)

Quarterly data	Q3'07	Q2'08	Q3'08	QoQ%	YoY%	9M'07	9M'08	YoY%
(Figures in Rs. mn, except per share data)								
Net Sales	8,130	9,050	9,152	1.1%	12.6%	23,776	27,162	14.2%
Adj. EBITDA	818	1,068	1,160	8.6%	41.8%	2,275	3,272	43.8%
Adj. Net Profit	454	742	679	(8.5)%	49.5%	1,225	2,109	72.2%
Margins(%)								
EBITDA	10.1%	11.8%	12.7%			9.6%	12.0%	
NPM	5.6%	8.2%	7.4%			5.2%	7.8%	
Per Share Data (Rs.)								
Adj. EPS	1.2	2.0	1.9	(8.4)%	49.2%	3.3	5.8	72.2%

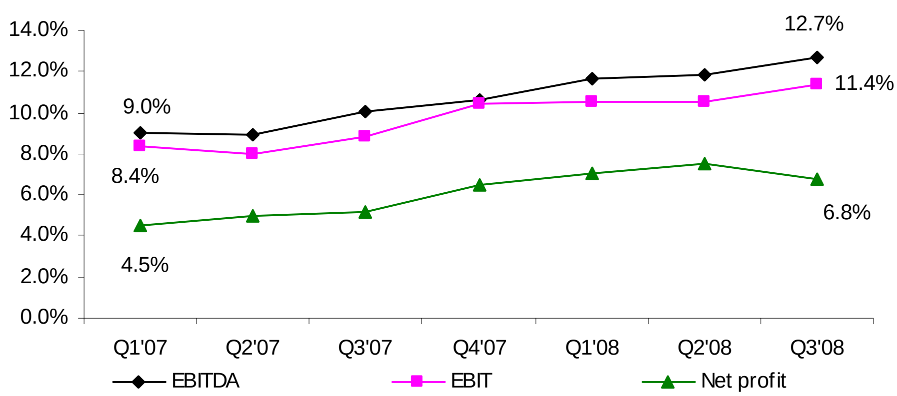
Result Highlights

Revenues are expected to improve in the next quarter

During the quarter ended Dec'07, CGL's revenues increased 12.6% yoy to Rs. 9.2 bn. Revenue growth was soft because of a temporary logistical problem that delayed deliveries for certain major orders. We expect better revenues in Q4'08 with the dispatch of a few large orders.

EBITDA improved 41.8% yoy to Rs. 1.2 bn, and EBITDA margin improved 261 bps to 12.7%. CGL is constantly improving upon its financial metrics, as is evident from the following chart.

Margin performance



Source: Company data, Indiabulls research

Value engineered products have worked like magic

The increase in EBITDA margin was primarily due to two reasons—using Pauwel's technology and own R&D initiatives to manufacture value-engineered products and hedging commodities to reduce the raw material costs.

Higher taxes limited the margin growth

Maintaining the growth momentum, net profit grew 49.5% yoy to Rs. 679 mn, aided by a favourable operating performance and higher other incomes (up 99.7% yoy). However, the net profit growth was contained by a higher tax provisioning.

Segmental Highlights

A stronger rupee has pushed up the operating margin

The *power systems* business registered a revenue growth of 13.1% yoy. Its operating margin increased 255 bps yoy to 12.4%, primarily on the back of benefits obtained from rupee appreciation while sourcing raw materials such as CRGO and copper.

The *consumer products* segment recorded a 15% yoy growth in revenue, to Rs. 2.6 bn, contributing 26% to the total sales. In absolute terms, operating profit increased 28.8% yoy and operating margin improved 105 bps.

The *industrial systems* segment reported a 14% yoy growth in net sales and 46.4% yoy increase in operating profit. The operating margin also surged 405 bps to 18.3%.

Outlook

Integration and diversification is the key to growth

CGL has emerged as the seventh largest transformer manufacturer globally after acquiring Pauwels and Ganz, with a market share of around 4%. The Company has consistently improved its operational performance during the last few quarters. Moreover, the strategies of developing synergies with its recent acquisitions and diversifying the business not only product-wise but also geography-wise will help CGL to grab opportunities at a global scale. In addition, the initiative to emerge as a complete solution provider in T&D sub-station business will help the company specialize in this field of business.

Considering CGL's strong brand equity, technological readiness, and a large capacity base, we are optimistic about its growth possibilities. Since the Company has sufficient capacity, it would not be required to incur any major capex in the next five years, thus saving on non-operating expenses such as depreciation and interest.

Valuation

Based on our DCF valuation, we arrive at the target price of Rs. 330 with a 12-month perspective, an increase of 25%. Despite showing an improved operational performance during the first nine months of FY08, the stock has performed badly since our last review, perhaps because the market did not consider all the positives. After considering all the factors, we upgrade our rating to Buy.

Key Figures (Consolidated)

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs. mn, except per share data)						(FY07-09E)
Net Sales	19,887	41,265	56,396	68,566	83,223	21.5%
EBITDA	1,664	3,242	4,827	6,658	8,489	32.6%
Net Profit	1,189	2,251	2,790	4,070	5,387	39.0%
Margins(%)						
EBITDA	8.4%	7.9%	8.6%	9.7%	10.2%	
NPM	6.0%	5.5%	4.9%	5.9%	6.5%	
Per Share Data (Rs.)						
Normalised EPS	3.3	6.4	7.7	11.1	14.7	38.3%
PER (x)	18.9x	23.6x	25.9x	23.8x	18.0x	

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