

May 22, 2009

Rating	Reduce
Price	Rs249
Target Price	Rs259
Implied Upside	4.1%
Sensex	13,737

(Prices as on May 21, 2009)

Trading Data

Market Cap. (Rs bn)	91.3
Shares o/s (m)	366.6
Free Float	58.8%
3M Avg. Daily Vol ('000)	595.5
3M Avg. Daily Value (Rs m)	76.1

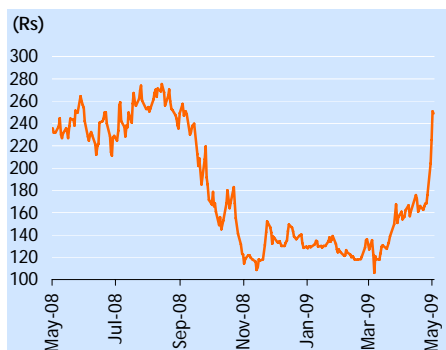
Major Shareholders

Promoters	41.2%
Foreign	9.3%
Domestic Inst.	28.5%
Public & Others	21.0%

Stock Performance

(%)	1M	6M	12M
Absolute	61.8	109.9	7.4
Relative	35.8	55.8	27.8

Price Performance (RIC: CROM.BO, BB: CRG IN)



Source: Bloomberg

- **Result beats estimate:** On a standalone basis, Crompton Greaves (CGL) reported topline of Rs13.6bn, a growth of 17% YoY. EBITDA margin improved by 240bps to 15.9%. This improved EBITDA margin was on the back of better performance from both power and consumer segments. PAT grew by 27% YoY to Rs1.3bn.

Consolidated revenue for Q4FY09 stood at Rs24.6bn, an increase of 22% YoY, with EBITDA margin stable at 13.4%. PAT increased by 35.5% to Rs1.9bn due a decrease in depreciation by 1% YoY to Rs299m, higher other income and lower interest cost of Rs128m (YoY decrease of 34%).

- **Order book grows YoY but flat QoQ:** Current order book stands at Rs65bn, a YoY growth of 20% and flat QoQ. Standalone and international order book stand at Rs28bn and Rs38bn. The management expects order inflow for the power segment to grow by 20% in FY10. We expect order inflow from the industries segment to be slow in H1FY10 and improve in H2FY10 if there is a pick up in corporate capex.
- **Valuation:** At CMP of Rs249, the stock is trading at 14.9x FY10E and 13.0x FY11E earnings of Rs16.8 and Rs19.2, respectively. Although the power division is expected to continue its good performance, we are concerned about the slump in the distribution products internationally (33% of international sales), impact of an appreciating rupee (depreciating rupee had a 13-14% positive impact on FY09 international sales) and the traction in industry segment growth. Keeping in mind the recent run up in the stock (100% return in 3months), the good performance in Q4FY09 and the positive impact of the power sector seem to have been priced in. We recommend **Reduce** on strength.

Key financials (Y/e March)	FY08	FY09	FY10E	FY11E
Revenues (Rs m)	68,323	87,373	96,315	108,086
Growth (%)	21.2	27.9	10.2	12.2
EBITDA (Rs m)	7,439	9,956	10,757	12,222
PAT (Rs m)	4,067	5,599	6,146	7,039
EPS (Rs)	11.1	15.3	16.8	19.2
Growth (%)	42.0	37.7	9.8	14.5
Net DPS (Rs)	1.6	2.0	2.5	2.9

Source: Company Data; PL Research

Profitability & valuation	FY08	FY09	FY10E	FY11E
EBITDA margin (%)	10.9	11.4	11.2	11.3
RoE (%)	31.2	31.3	26.5	24.1
RoCE (%)	21.6	24.5	22.1	21.2
EV / sales (x)	1.4	1.1	1.0	0.9
EV / EBITDA (x)	13.1	9.9	9.0	7.7
PE (x)	22.4	16.3	14.9	13.0
P / BV (x)	7.0	5.1	3.9	3.1
Net dividend yield (%)	0.6	0.8	1.0	1.2

Source: Company Data; PL Research

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Q4FY09 Result Overview (Standalone)

(Rs m)

Y/e March	Q4FY09	Q4FY08	YoY gr. (%)	Q3FY09	FY09	FY08	YoY gr. (%)
Net Sales	13,618	11,595	17.4	10,802	46,107	38,758	19.0
Expenditure							
Raw Material	8,856	8,012	10.5	7,292	31,112	27,210	14.3
<i>% of Net Sales</i>	<i>65.0</i>	<i>69.1</i>		<i>67.5</i>	<i>67.5</i>	<i>70.2</i>	
Personnel Cost	611	546	12.0	545	2,272	2,010	13.0
<i>% of Net Sales</i>	<i>4.5</i>	<i>4.7</i>		<i>5.0</i>	<i>4.9</i>	<i>5.2</i>	
Others	1,985	1,468	35.2	1,575	6,342	4,679	35.5
<i>% of Net Sales</i>	<i>14.6</i>	<i>12.7</i>		<i>14.6</i>	<i>13.8</i>	<i>12.1</i>	
Total Expenditure	11,451	10,025	14.2	9,412	39,726	33,899	17.2
EBITDA	2,167	1,571	38.0	1,390	6,381	4,858	31.3
<i>Margin (%)</i>	<i>15.9</i>	<i>13.5</i>		<i>12.9</i>	<i>13.8</i>	<i>12.5</i>	
Other income	104	236	(56.0)	81	361	676	(46.6)
Depreciation	130	74	76.9	94	452	407	11.2
EBIT	2,140	1,732	23.5	1,377	6,289	5,128	22.7
Interest	38	74	(48.4)	47	146	272	
PBT	2,102	1,658	26.8	1,330	6,143	4,856	26.5
Total Taxes	793	628	26.4	483	2,172	1,718	
<i>ETR (%)</i>	<i>37.7</i>	<i>37.8</i>		<i>36.3</i>	<i>35.4</i>	<i>35.4</i>	
PAT	1,309	1,031	27.0	848	3,971	3,139	26.5

Q4FY09 Result Overview (Consolidated)

(Rs m)

Y/e March	Q4FY09	Q4FY08	YoY gr. (%)	Q3FY09	FY09	FY08	YoY gr. (%)
Net Sales	24,600	20,207	21.7	21,504	87,373	68,323	27.9
Expenditure							
Raw Material	14,978	12,737	17.6	13,469	54,924	44,037	24.7
<i>% of Net Sales</i>	<i>60.9</i>	<i>63.0</i>		<i>62.6</i>	<i>62.9</i>	<i>64.5</i>	
Personnel Cost	2,891	2,068	39.8	2,702	10,627	7,968	33.4
<i>% of Net Sales</i>	<i>11.7</i>	<i>10.2</i>		<i>12.6</i>	<i>12.2</i>	<i>11.7</i>	
Others	3,445	2,684	28.3	3,070	11,866	8,879	33.6
<i>% of Net Sales</i>	<i>14.0</i>	<i>13.3</i>		<i>14.3</i>	<i>13.6</i>	<i>13.0</i>	
Total Expenditure	21,313	17,489	21.9	19,242	77,417	60,885	27.2
EBITDA	3,287	2,718	20.9	2,262	9,956	7,439	33.8
<i>Margin (%)</i>	<i>13.4</i>	<i>13.5</i>		<i>10.5</i>	<i>11.4</i>	<i>10.9</i>	
Other income	215	125	72.2	82	587	677	(13.3)
Depreciation	299	304	(1.8)	252	1,216	1,263	(3.7)
EBIT	3,203	2,538	26.2	2,093	9,327	6,853	36.1
Interest	128	195	(34.2)	224	656	701	(6.4)
PBT	3,075	2,343	31.2	1,869	8,671	6,152	40.9
Total Taxes	1,135	898	26.4	620	3,047	2,054	48.3
<i>ETR (%)</i>	<i>36.9</i>	<i>38.3</i>		<i>33.2</i>	<i>35.1</i>	<i>33.4</i>	
Share of Profit from Ass.	(0)	(14)		(17)	(26)	(31)	
PAT	1,940	1,431	35.5	1,232	5,598	4,067	37.6



Operating Metrics (Standalone)

(Rs m)

Y/e March	Q4FY09	Q4FY08	YoY gr. (%)	Q3FY09	FY09	FY08	YoY gr. (%)
Gross Revenues							
Power Systems	7,222	5,618	28.6	5,696	22,244	18,057	23.2
Industrial Systems	2,698	2,507	7.6	2,727	10,552	9,185	14.9
Consumer Products	3,703	3,403	8.8	2,971	13,219	11,178	18.3
Others	74	127	(42.0)	132	404	598	(32.3)
Less: Inter Segmental	78	59	33.2	68	312	260	19.8
Total	13,618	11,595		11,457	46,107	38,758	
EBIT							
Power Systems	1,284	948	35.5	859	3,493	2,577	35.5
Industrial Systems	550	548	0.3	421	2,038	1,946	4.7
Consumer Products	449	370	21.3	270	1,463	1,208	21.1
Others	7	(17)	—	7	8	(73)	—
Total	2,291	1,849		1,556	7,002	5,658	
EBIT Margins (%)							
Power Systems	17.8	16.9		15.1	15.7	14.3	
Industrial Systems	20.4	21.9		15.4	19.3	21.2	
Consumer Products	12.1	10.9		9.1	11.1	10.8	

Operating Metrics (Consolidated)

(Rs m)

Y/e March	Q4FY09	Q4FY08	YoY gr. (%)	Q3FY09	FY09	FY08	YoY gr. (%)
Gross Revenues							
Power Systems	17,713	13,889	27.5	16,001	61,745	46,668	32.3
Industrial Systems	2,976	3,403	(12.6)	2,907	11,498	9,649	19.2
Consumer Products	3,703	2,680	38.2	2,971	13,219	11,178	18.3
Others	286	294	(2.5)	350	1,223	1,089	12.4
Less: Inter Segmental	78	59	33.6	68	312	260	19.8
Total	24,600	20,207	21.7	22,160	87,373	68,323	27.9
EBIT							
Power Systems	2,241	1,778	26.0	1,510	6,250	4,372	43.0
Industrial Systems	618	551	12.3	418	2,133	1,956	9.0
Consumer Products	449	370	21.3	270	1,463	1,208	21.1
Others	45	10	350.0	74	194	(3)	—
Total	3,354	2,709	23.8	2,272	10,040	7,533	33.3
EBIT Margins (%)							
Power Systems	12.7	12.8		9.4	10.1	9.4	
Industrial Systems	20.8	16.2		14.4	18.5	20.3	
Consumer Products	12.1	13.8		9.1	11.1	10.8	



Segmental Highlights

Power systems

Power systems, which contributed more than 48% to standalone revenue and 50% to EBIT in FY09, grew by 29% YoY in Q4FY09 (53% of sales). EBIT margin improved by 91bps YoY to 17.4%. On a consolidated basis, revenue for the segment grew by 28% and margins increased by 15bps to 12.7% in Q4FY09. We expect the power systems segment to be the growth driver for the company and expect it to grow at 18% with EBITDA margin of 15% in FY10.

Industrial segment

Industrial segment, which contributed close to 23% to stand alone revenue and about 29% to EBIT in FY09, grew by 8% YoY in Q4FY09 (20% of sales). We expect this segment to remain more or less flat (with margin similar to FY09) for FY10 as the pick up in demand is expected to come in only by H2FY10.

Consumer products

Consumer products, which contributed 29% to standalone revenue and about 21% to EBIT in FY09, grew by 9% YoY in Q4FY09. EBIT margins for the quarter increased by 125bps to 12.1%. We expect the consumer product segment to continue its growth part by growing 12% in FY10 with EBITDA margin of 11%.

Valuation

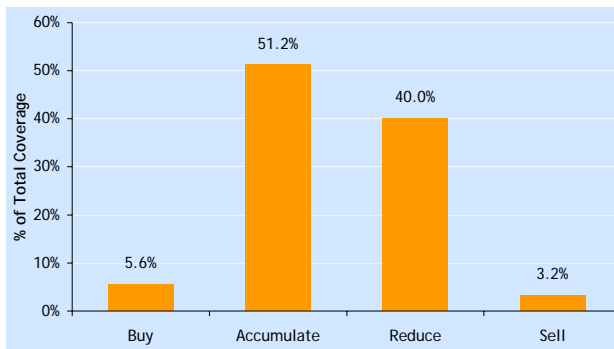
At CMP of Rs249, the stock is trading at 14.9x FY10E and 13.0x FY11E earnings of Rs16.8 and Rs19.2, respectively. Although the power division is expected to continue its good performance, we are concerned about the slump in the distribution products internationally (33% of international sales), impact of an appreciating rupee (depreciating rupee had a 13-14% positive impact on FY09 international sales) and the traction in industry segment growth. Keeping in mind the recent run up in the stock (100% return in 3months), the good performance in Q4FY09 and the positive impact of the power sector seem to have been priced in. We recommend Reduce on strength.

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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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