Crompton Greaves

BUY

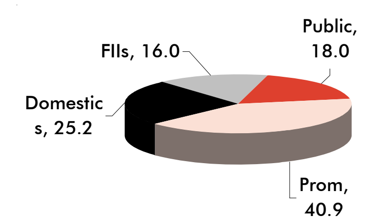
Price	Rs261
Target Price	**%Upside**
Rs317	21↑
Market Capitalisation	
Rs167,333mn	(US$3,758mn)
52 week range H/L (Rs)	280/90
Shares o/s (mn)	**Daily vol (mn)**
366.57	0.87
Reuters	**Bloomberg**
CROM.BO	CRG IN

Perfm(%)	**1M**	**3M**	**12M**	**YTD**
Absolute	(4.3)	6.3	185.0	6.8
Relative	(2.6)	0.8	87.0	7.3

BSE Sensex	**Nifty**
17,386	5,223

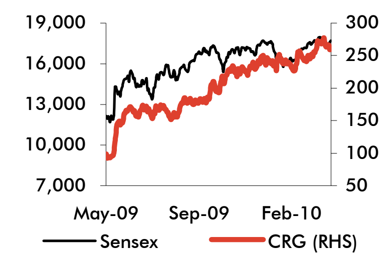
Source: Bloomberg

Shareholding pattern (%)



Source: Bloomberg

Price performance



Source: Bloomberg

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AMBIT
Acumen at work

Expansion Key To Re-rating

Among world's fastest growing T&D equipment manufacturers

Crompton Greaves, market leader in the Indian transformer market and a significant participant in European and American T&D space through Pauwels and Ganz, is among the best plays on global T&D spend. With a capacity of 70,000 MVA and projected earnings CAGR of 23.8% over FY09-12E, the company is among world's fastest growing transformer manufacturers.

Crompton ahead of competition in 765 KV segment

Indian transformer market, currently at around 160 GVA, is expected to grow at around 15% over next three years. Growth is expected to be faster in 400 KV / 765 KV systems as bulk of inter-regional transmission capacity expansion, from 20 GW (FY10) to 38 GW (FY12), is based on high voltage systems. Demand for 765 KV transformers is pegged at 51 GVA in the 11th Five-Year Plan, from 2 GV in the 10th Plan. Crompton Greaves is market leader in transformer - reactor segment, with over 40% market share.

Margins to drive earnings

Pauwels and Ganz, the wholly-owned subsidiaries, have strong presence in their respective markets (Parts of Europe and US) and will continue to participate in the growth of these regions by maintaining a steady market share. In the near term, international operations will witness moderate growth due to slowdown in sales of distribution transformers (1/3rd of international sales), even as power transformer sales are expected to remain strong in the next couple of years.

Trades at a significant discount to peers; BUY

Crompton Greaves' stock has appreciated by 200% in the past one year, from the lows of November 2009, when it sharply fell due to concerns on the company's investments in power venture of a Group Company. Currently, stock trades at 18 x FY11E earnings, at 25% discount to Siemens and 40% discount to ABB and is a good long-term investment. We initiate coverage on stock with 'buy' rating and target price of Rs 317. Our SOTP target price is based on 23x FY11E domestic earnings, 18x FY11E international earnings and Rs. 14 / share for the company's stake in Avantha Power. Any large-size acquisition will be a key re-rating catalyst.

Exhibit 1: Key financials

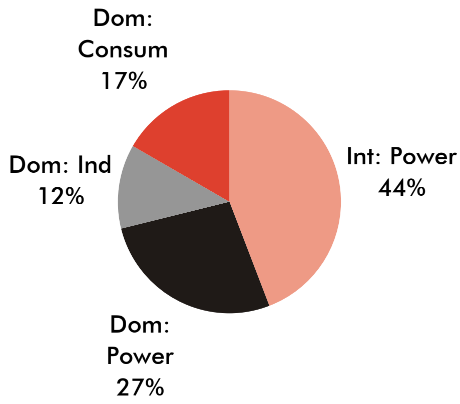
Y/E Mar (Rs mn)	FY09	FY10E	FY11E	FY12E
Net Sales	87,373	94,212	105,870	122,575
EBIDTA	9,956	12,392	14,680	17,075
Net Profit	5,625	7,545	9,042	10,663
EPS (Rs)	8.8	11.8	14.1	16.6
EPS Growth %	37.3	34.1	19.8	17.9
P/E (x)	29.8	22.2	18.5	15.7
EV/EBIDTA (x)	16.8	13.6	11.0	9.0
Dividend Yield %	0.4	0.7	0.7	1.0
ROE %	35.6	36.1	33.3	30.1
ROCE %	38.9	40.8	40.9	38.6

Source: Company, Ambit Capital research estimates

Company financial snapshot

Profit and loss (Rsmn)	FY10E	FY11E	FY12E
Net Sales	94,212	105,870	122,575
Optg. Exp (Adj for OI.)	81,820	91,190	105,500
EBIDTA	12,392	14,680	17,075
Depreciation	1,297	1,362	1,484
Interest Expense	310	320	380
PBT	11,315	13,558	15,871
Tax	3,770	4,516	5,208
PAT	7,545	9,042	10,663
Profit and loss ratios			
EBIDTA Margin %	13.2	13.9	13.9
Net Margin %	8.0	8.5	8.7
P/E (x)	22.0	18.4	15.6
EV/EBIDTA(x)	13.6	11.0	9.0
Dividend Yield (%)	0.7	0.7	1.0

Revenue Mix

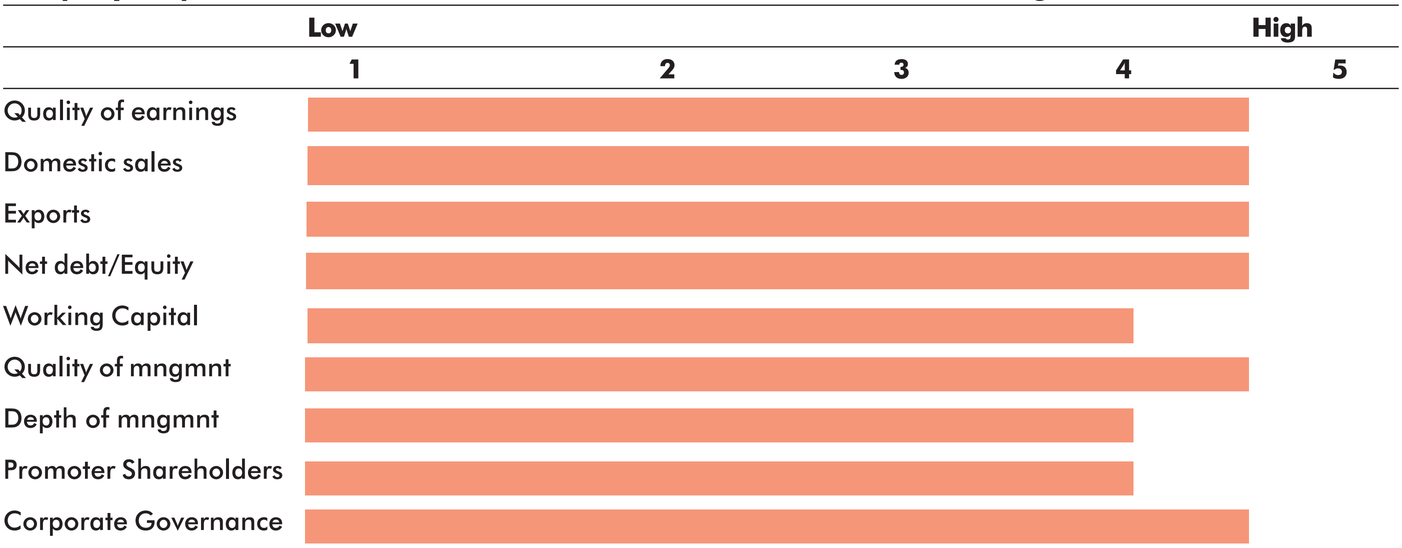


Source: Company, Ambit Capital research

Balance sheet (Rsmn)	FY10E	FY11E	FY12E
Total Assets	65,042	76,044	91,310
Net Fixed Assets	17,708	18,307	18,673
Current Assets	45,661	56,065	70,964
Other Assets	1,672	1,672	1,672
Total Liabilities	65,042	76,044	91,310
Networth	23,319	31,024	39,806
Debt	6,100	5,100	5,200
Current Liabilities	34,591	38,597	44,657
Deferred Tax	1,033	1,323	1,647
Balance sheet ratios (%)			
ROE %	36.1	33.3	30.1
ROCE %	40.8	40.9	38.6
Net Debt/Equity	9.7	(15.5)	(31.5)
Equity/Total Assets	1.4	1.8	2.2
P/BV (x)	7.2	5.4	4.2

Cash flow (Rsmn)	FY10E	FY11E	FY12E
Pre-tax profit	11,315	13,558	15,871
Dep / non-cash exp	1,241	1,352	1,484
Other Income	(530)	(560)	(660)
Interest expenses	310	320	380
change in NWC	(3,207)	(333)	(1,004)
Taxes paid	-3,520	-4,225	-4,885
Net Cash from Operations	5,609	10,113	11,187
Net capex	(5,321)	(1,950)	(1,851)
Other Income	530	560	660
Net Cash from Investing	(4,791)	(1,390)	(1,191)
Net Borrowings	(1,082)	(1,000)	100
Interest Paid others	(310)	(320)	(380)
Dividends Paid	(1,254)	(1,337)	(1,881)
Net Cash from Financing	(2,646)	(2,657)	(2,161)
Net Cash Flow	(1,828)	6,065	7,835
Opening Cash	5,656	3,828	9,893
Closing Cash	3,829	9,893	17,728

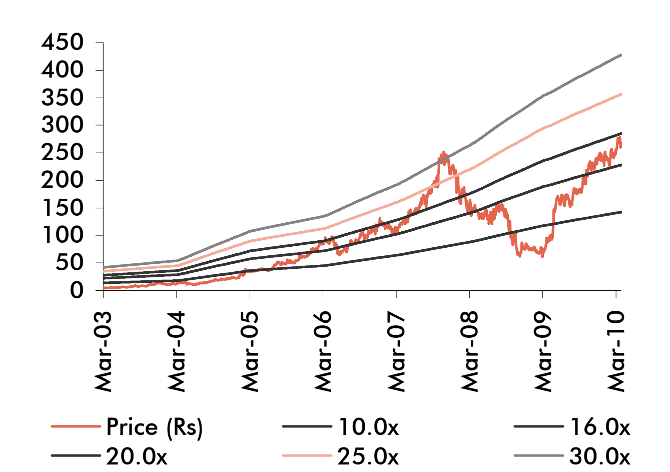
Company snapshot **Ratings**



Valuations Appear Just Right - Not Inexpensive, Yet Not Stretched

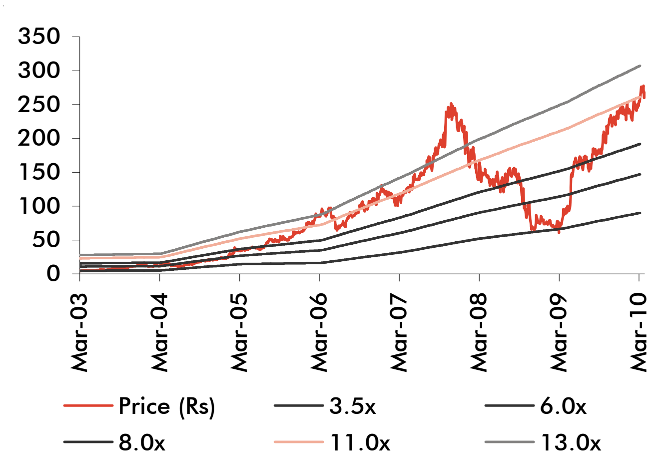
The stock currently trades at 18x FY11E earnings. This is in line with the broad market valuation (17x FY11E earnings). Relative to peers, it trades at 25% discount to Siemens and at over 40% discount to ABB. We believe that the company has shown strong fundamentals, which will help maintain growth in future.

Exhibit 2: 1 year forward P/E band



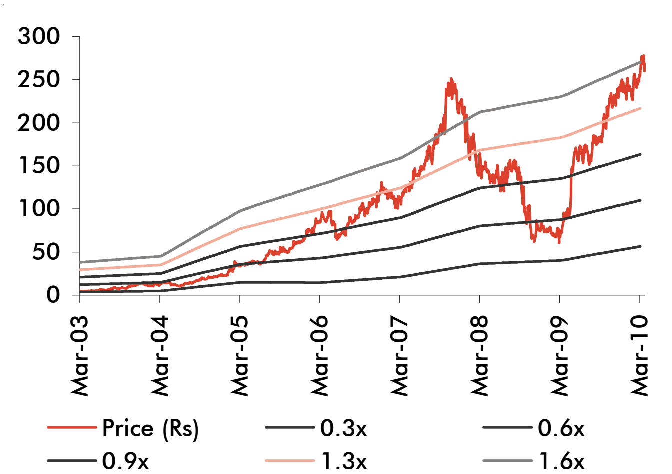
Source: Bloomberg, Company

Exhibit 3: 1 year forward EV/EBITDA band



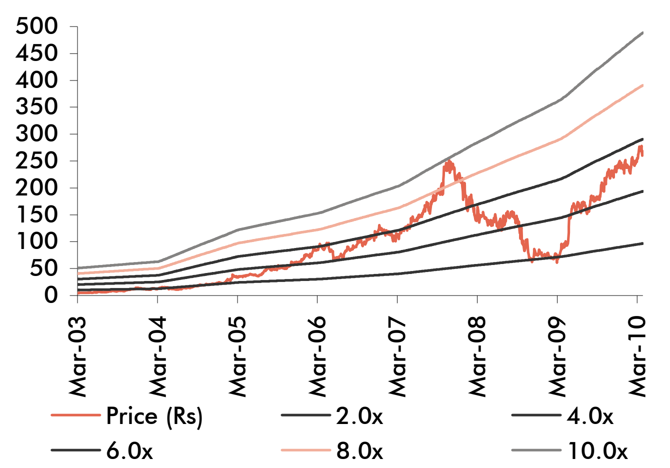
Source: Bloomberg, Company

Exhibit 4: EV/Sales



Source: Bloomberg, Company

Exhibit 5: 1 year forward P/BV band



Source: Bloomberg, Company

Exhibit 6: Peer group valuation

Stock	Reco	Mkt cap	P/E(x)		EV/EBITDA (x)		P/B (x)		ROE(%)	ROCE (%)
		USD mn	CY10	CY11	CY10	CY11	CY10	CY11	CY10	CY10
Global										
ABB, Zurich	NR	44,630	17.2	13.5	8.9	7.6	3.0	2.6	18.5	16.9
Siemens AG	NR	89,263	13.3	11.8	8.1	7.4	2.2	1.9	18.0	14.7
Indian										
ABB India	NR	3,544	31.6	24.5	19.9	15.6	5.5	4.6	18.7	18.7
Siemens India	Buy	5,205	27.8	22.0	16.0	12.5	6.6	5.4	26.0	40.4
Areva T&D	NR	1,460	35.8	24.5	16.4	12.8	6.5	5.4	40.0	43.0
Crompton Greavs	Buy	3,720	18.5	15.7	11.1	9.1	5.4	4.2	33.3	40.9

Note: CY10 and CY11 are FY11 and FY12 for Crompton Greaves, year ending Sept 2010 and Sept 2011 for Siemens
Source: Company, Ambit Capital research

Why BUY Crompton Greaves?

- International business to sustain growth: There are concerns about the company's ability to sustain growth momentum in the international business. We believe Pauwels and Ganz have strong presence in their respective markets and will be able to grow at a reasonable pace.
- Best placed in the fast-growing 765 KV market: Crompton Greaves is the first Indian company to receive orders for 765 KV transformers. The segment is expected to grow rapidly (demand to go up to 50,000 MVA in the 11th Five Year Plan). This will ensure the company maintains strong domestic market growth.
- Acquisitions in the areas of automation will likely propel growth further and provide the trigger to re-rate the stock.

We have assigned different PE-multiples to domestic & international operations due to different risk profiles. We value domestic business at 23.5x FY11E earnings, at 20% discount to our Siemens target PE(CMP:Rs695, BUY). Target PE for international business assignes to 20% discount to domestic operation. We have valued Crompton Greaves stake in Avantha Power at Rs14/share.

Exhibit 7: BUY with a target price of Rs317

	EPS (Rs)			PE x	Target Price
	FY10E	FY11E	FY12E	FY11E (x)	Rs/share
Domestic	8.4	9.8	10.9	23.0	226
International	3.3	4.3	5.7	18.0	77
Consolidated	11.8	14.1	16.6	21.1	303
Stake in Avantha Power	-	-	-	-	13.7
Target Price	-	-	-	-	317

Source: *Company, Ambit Capital research*

Earnings Outlook

Pace of earnings maintained

We expect Crompton Greaves to post earnings CAGR of 23.8% over FY09-12E. The company's earnings have maintained pace in the past two years, outperforming peers, despite an industrial slowdown. Faster recovery in Europe and North America can provide upside to earnings in FY11E.

Key earnings drivers

- We expect strong volume growth in domestic business; led by power and consumer segments. Industrial products business is showing signs of recovery and will contribute to growth in 2HFY10 and FY11. Despite intensifying competition in the power T&D business, particularly transformers, the company has improved margins considerably in FY10. Though there is limited upside to margins from the prevailing level, the company is best positioned to maintain them based on better-cost structure and a high degree of indigenisation.
- Earnings in international business will largely be driven by margin expansion, even as volume growth is expected to be muted.

Exhibit 8: Earnings Summary

Rs mn	FY09	FY10E	FY11E	FY12E	CAGR(%) FY06-09	CAGR(%) FY09-12E
Domestic						
Revenues	46,107	52,758	61,987	72,110	22.3	16.1
EBITDA	6,380	8,361	9,764	10,894	40.0	19.5
Net Profit	3,971	5,417	6,307	7,000	34.5	20.8
EBITDA Margin (%)	13.8	15.8	15.8	15.1	-	-
International						
Revenues	41,266	41,453	43,883	50,465	37.1	6.9
EBITDA	3,575	4,031	4,916	6,181	61.7	20.0
Net Profit	1,654	2,128	2,736	3,663	41.7	30.3
EBITDA Margin (%)	8.7	9.7	11.2	12.2	-	-
Consolidated						
Revenues	87,373	94,212	105,870	122,575	28.4	11.9
EBITDA	9,956	12,392	14,680	17,075	45.3	19.7
Net Profit	5,625	7,545	9,042	10,663	34.3	23.8
EBITDA Margin (%)	11.4	13.2	13.9	13.9	-	-

Source: Company, Ambit research

Returns likely maintained, strong cash flows

Crompton Greaves is expected to maintain RoCE at around 38% and ROE at around 30% over the next two years. While we expect strong cash flow generation during the next two years, we expect the company to record net cash balance of Rs20bn. Strong cash flow generation will help the company make target acquisitions without raising debt or equity.

WiDening Global Footprint Via The Inorganic Route

Though India is among the fastest growing markets for power equipment, it still accounts for merely 6-7% of the US$25bn global transformer market, dominated by America (22%), China (26%) and Europe (21%). With a view of expanding presence in the developed markets, Crompton Greaves acquired Belgium-based Pauwels in May 2005, followed by the Hungary-based Ganztranselektro in October 2006. While Pauwels gave the company access to the West European markets and North America, Ganz provided access to the East European market. Subsequently, the company acquired three more companies in diverse areas with the objective of gaining access to newer technology and processes.

Exhibit 9: Crompton Greaves' acquisitions

Company	Acquisition Date	Cost	Benefit
Pauwels	May-05	€ 32 mn	Access to technology for transformers upto 525 kV, slim transformers, mobile sub-stations
Ganz	Oct-06	€ 35 mn	Access to technology for EHV transformers upto 1200 kV, GIS substations, 12 MW class of motors (CG has 2 MW)
Microsol	May-07	€ 10.5 mn	Automation products and systems for sub-stations
Sonomatra	May-08	€ 1.3 mn	Servicing of transformers and on-site maintenance
MSE	Sep-08	US$ 16 mn	EPC for wind and power systems
Power Tech. solutions	Mar-10	£ 30mn	UK based electrical EPC company

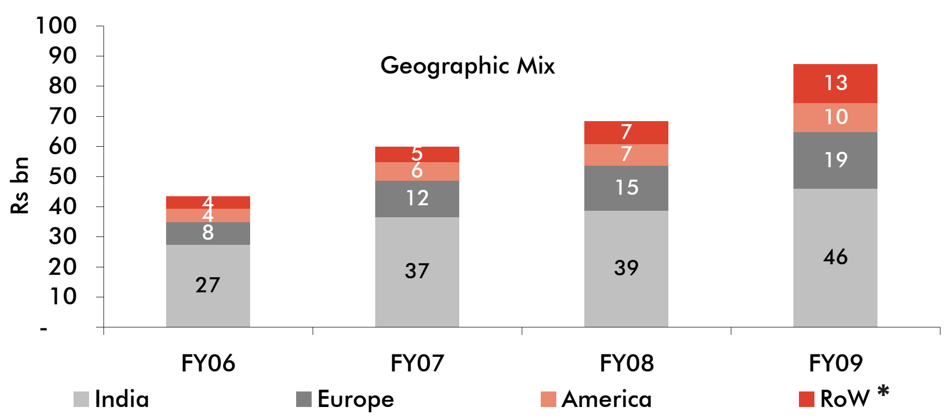
Source: Company, Ambit research

Pauwels and Ganz provided access to key markets

Entry into the electrical engineering industry in a developed market is tough without a local manufacturing presence, particularly for manufacturers from developing countries. The company's first two acquisitions - Pauwels and Ganz - were mainly targeted at acquiring key markets in Europe and USA. By successfully turning around these companies, Crompton Greaves has marked its presence in the developed world. While Pauwels provided access to Belgium (60% of Pauwels' sales), North America, Luxembourg, Netherlands, Spain, Norway, Denmark and Sweden, Ganz opened up markets in Hungary, Romania, Russia, the Middle East and Slovenia.

Value creation through successful turnaround

Exhibit 10: Accelerated growth, 3-yr CAGR of 26% led by 37% growth in international sales



*Note: *RoW: Rest of World; Source: Company, Ambit Capital research*

- During the past three years, international sales grew at an accelerated pace of 37%, now nearly 45% of the company's total sales.
- The company's consolidated net profit grew at a CAGR of 34% over the past three years, with profit from international operations growing at 42%.
- ROCE jumped from 20% in FY05 to 39% in FY09, while ROE has improved from 30% to 36% during the same period.
- Crompton Greaves becomes the seventh largest transformer manufacturer worldwide with total capacity of 70,000 MVA. Pauwels with five manufacturing facilities (Belgium, Ireland, Canada, USA and Indonesia) and Ganz (factory in Hungary) add 38,000 MVA to the domestic (India) capacity of 32,000 MVA.
- Ganz provides qualification for extra-high-voltage transformers (765 KV), which helped the company win orders for 14 such transformers till date (and 86 reactors) from PowerGrid Corporation of India.

From US$380mn (FY05) to US$2bn in FY09; aims to achieve US$8bn by FY15

This translates to growing 4x in six years, or CAGR of 25%. We note that while the company grew 6x in the past four years, it will be challenging for it to grow at a similar pace ahead, given the size of the company and intensifying competition in the global T&D industry.

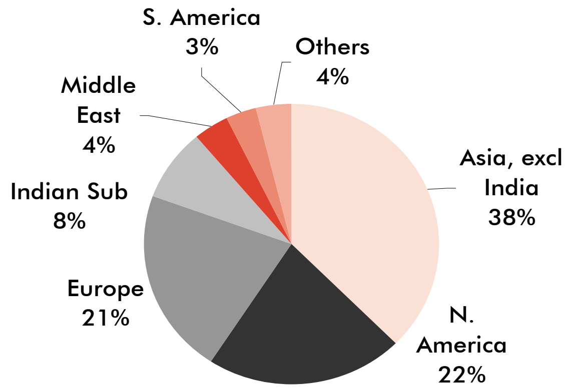
We believe the company will follow the acquisition route for growth.

- Acquisition likely in automation space: Crompton Greaves lacks significant presence in the automation space (both power and industrial). Given the strong growth expected in this space, we believe Crompton Greaves will likely target an acquisition in this space. The company's strong balance sheet is adequate to support any acquisition of a reasonable size.
- Acquisition for entering in a newer market? Given the company's success with Pauwels and Ganz, we do not rule out an acquisition in newer markets (Europe or Asia).

Pauwels and Ganz will continue to enjoy leadership in respective markets

The global transformer market was estimated at around 1.6mn MVA in 2007, valued at around US$25bn. However, the top five countries account for nearly two-thirds of the market and the top ten countries account for nearly 75% of the market.

Exhibit 11: Global transformer mkt (MVA)



Source: Industry, Ambit Capital Research

The industry is characterised by a few key factors:

- Transformer industry is highly localised, with imports meeting only 20% of demand globally. Trade is restricted to regional players.
- Strong local players dominate the market. So, while ABB, Siemens and Alstom have only 10-15% market share each globally, they have high share in countries where they have manufacturing bases. For example, ABB has 28% share in Europe and 21% share in USA. Importantly, several local players like Pauwels (Belgium), Ganz (Hungary), Cooper (USA), Daihen (Asia), Hitachi (Japan) dominate local markets due to a strong preference for them by the respective local utilities.
- Distribution transformers constitute nearly 45% of the market, in terms of MVA. There are several companies in various parts of world that have a strong presence in this space.

Exhibit 12: Key regional players

Asia Pacific	N. America	Europe	ME	S. America	Others
46%	**22%**	**21%**	**4%**	**3%**	**4%**
Misubishi	GE	ABB	Siemens	ABB	Alstom
ABB	ABB	Siemens	ABB	Siemens	Siemens
Toshiba	Howard	Alstom	Alstom	Alstom	Schneider
Hitachi	Waukesha	CG-Pauwels	Hitachi	GE	ABB
Siemens	Siemens	Schneider	Schneider	Waukesha	CG-Pauwels

Source: Industry, Ambit Capital research

Pauwels and Ganz will continue to be strong players in their markets

Crompton Greaves is among the top ten transformer manufacturers worldwide with total capacity of 70,000 MVA. Pauwels (30,000 MVA capacity), CG India (32,000 MVA) and Ganz have cumulative manufacturing capacity of 70,000 MVA.

- Pauwels, with five manufacturing facilities in Belgium, Ireland, Canada, USA and Indonesia, is a strong player in Western Europe with an estimated market share of 6%. Similarly, it has a strong presence in USA and Canada.
- Ganz, on the other hand, has a presence in the Eastern European market, with a strong base in Hungary.

The European Union is not a single block with respect to the market for electrical goods and services. Typically, each large country has 5-6 main utilities that prefer to source equipments locally. Companies such as Alstom, Siemens and ABB have dominant shares in France, Germany and Scandinavian countries. Similarly, Pauwels has around 75% share in Belgium, which accounts for the company's 60% sales. Other key markets for Pauwels include nations in the same regions such as Ireland, Luxembourg, Netherlands, Spain, Norway, Denmark and Sweden. Ganz, on the other hand, has a key presence in Hungary, Romania, Russia, the Middle East and Slovenia.

We believe, given the industry structure in European countries, Pauwels will continue to be a strong regional player and will be able to maintain its dominance in Belgium and enhance its presence in other parts of Western Europe.

Near term outlook is subdued, though profitability gains likely

Global demand for transformers has grown at 6-7% in 2002-2008. Emerging markets - Eastern Europe, India, China and MENA countries - have shown strong growth of 10-15% in past few years, even as developed markets - Western Europe and North America - have grown moderately. We believe this trend should continue over the next five years,.

Growth in the past 18 months has slowed down owing to the global slowdown resulting in a liquidity crunch and postponement of purchases by utilities. While demand for power transformers is picking up, that for distribution transformers continues to languish.

We believe that the distribution transformer market, which is driven by the housing and retail segments, is unlikely to recover from the downturn in the next one year.

Due to sluggish growth in distribution transformer sales (nearly one-thirds of the total), Crompton Greaves' international business is expected to slow down considerably in FY10 and FY11. However, we believe, growth in power transformers will remain steady in the next two years.

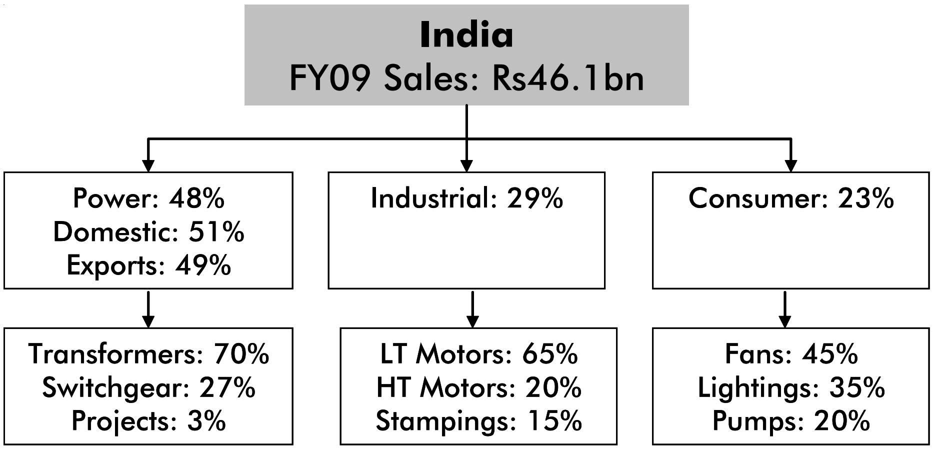
Exhibit 13: International business

Rs mn	FY06	FY07	FY08	FY09	CAGR
Net Sales	16,005	23,199	29,597	40,340	36.1
EBIT	825	1,437	1,795	2,760	49.6
EBIT (%)	5.2	6.2	6.1	6.8	-
Order-book	-	23,650	32,950	37,320	25.6

Source: Company, Ambit Capital research

Strong Growth Momentum In Domestic Market To Continue

Exhibit 14: Crompton Greaves: Domestic revenue mix



Source: *Company, Ambit Capital research*

Power: EHV segment to be in a sweet spot

The Indian T&D market is expected to register growth of 15-20% over the next five years, due to accelerated expenditure by the Central transmission utility (PowerGrid Corporation of India) and the states. Crompton Greaves is a key player in the T&D segment, which focuses on the transformer segment that accounts for nearly 6-7% of the total power investment (addressable market). To increase its share in the overall power spend Crompton will have to increase presence in the projects business.

Exhibit 15: Power investment

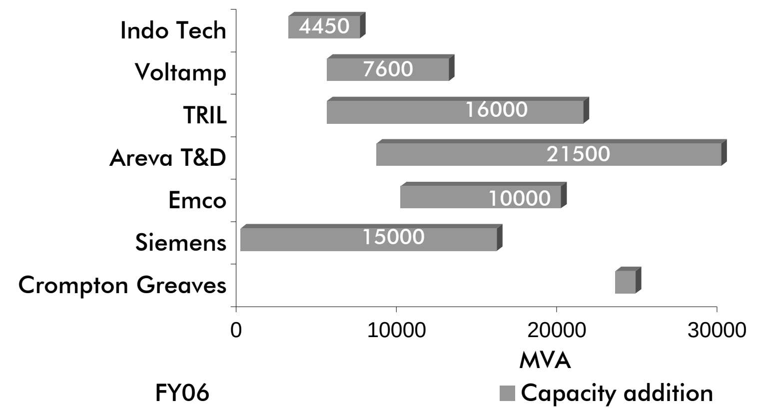
Rs bn	11th Plan Target	10th Plan Prov.
Generation	4,110	1,200
Transmission	1,400	460
Distribution	2,870	350
Total T&D	4,270	810
Total Power	8,380	2,010

Source: *Ambit Capital Research*

Crompton Greaves with 32,000 MVA capacity, is the largest transformer manufacturer in the country, with share of around 11%. The company has strong presence in both LV and MV switchgears. Likewise, it has strong presence in the export markets (nearly half the segmental revenues in FY09) in Asia, South America and Africa.

The Indian transformer market is expected to be at an average of around 200,000 MVA per year for the 11th Five Year Plan (FY08-12), creating a market opportunity of around Rs500bn during the period (including exports). While the recent spate of capacity additions will create, near term, a supply overhang in the industry, it will be more pronounced in the <400 KV segment.

Exhibit 16: Key capacity built up in FY06-09 (MVA)

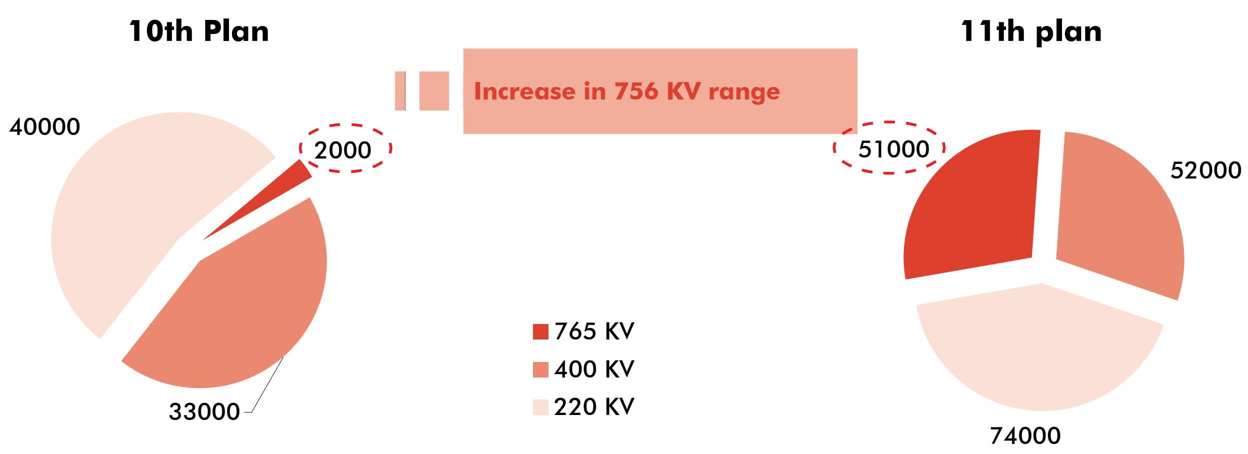


Source: Company Data, Ambit research

Multifold jump in demand for 765KV transformers

With growing emphasis on large-scale power projects based on super critical technology, extra-high-voltage (EHV) transmission segment will witness increased activity, particularly in the 765KV transformer range. This segment comprises 29% of total transformation capacity proposed in the 11th Five Year Plan, at 51,000MVA. This number is expected to move to over 100,000MVA for the 12th Plan. *Companies in this segment are likely to benefit on account of technological barriers to entry and limited competition versus other growing transformer segments.*

Exhibit 17: HV transformation capacity addition - 10th Plan v/s 11th Plan (MVA)



Source: CEA, Ambit Capital

Exhibit 18: Expected requirement of EHV equipment in 12th Plan:

Transformer type	nos.
765 kV 500 MVA 1phase	210
765 kV 333 MVA 1 phase	70
400 kV 500 MVA 3 phase	70
400 kV 315 MVA 3 phase	150

Source: CEA

Crompton Greaves enjoys a competitive advantage

Crompton Greaves is the only Indian manufacturer to have received orders to supply 765 KV range transformers and reactors. It has received orders for 14 units of 765 KV transformers in FY09 (first unit expected to be delivered in 4QFY10) and 86 reactor units (in 3QFY10), valued at Rs3.3bn and Rs6.5bn, respectively, implying nearly 50% market share. The company expects to maintain 35% share in this space, estimated to be at around **100-120bn**?units?** in next three years.

We believe that the company has significant cost advantages over its competitors due to process efficiencies and lower cost of manufacturing and will likely dominate the space in next two years.

Exhibit 19: Power segment: Expect revenue growth of 18% over FY09-12E

Rs mn	FY05	FY06	FY07	FY08	FY09	CAGR
Net Sales	8,079	11,200	16,021	18,060	22,240	28.8
EBIT	660	1,078	1,835	2,577	3,490	51.6
EBIT (%)	8.2	9.6	11.5	14.3	15.7	-
Order-book	7,995	12,208	17,044	17,086	24,310	32.1
Order-intake	9,367	15,414	20,857	18,102	29,464	33.2

Source: Company, Ambit Capital research

Exhibit 20: PDCIL 765KV orders

Company	Nos	Value Rs mn
Transformers		
Baoding, China	17	2,468
Hyosung, Korea	72	9,111
JV of Crompton & Ganz	17	3,752
JV of ABB, Sweden & ABB, India	7	890
Total	113	16,220
Reactors		
JV of Crompton & ZTR	86	6,112
TBEA	NA	5,265

Source - PGCIL, Ambit research

Industrial segment - signs of a revival

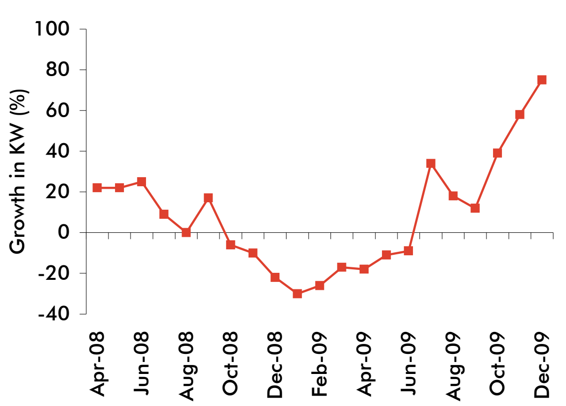
Crompton Greaves is a strong player in the Indian electrical motors industry. While the company is ranked number two in the HT motor segment (after BHEL), it is a leader in the LT motor segment. The industry, which has shown strong growth over the past five years, has witnessed a slide in the past one year owing to the global slowdown. With pick up in industrial activity likely, the segment is expected to post stronger growth in FY11-12, though growth in FY10 is likely to be muted at around 7-8%.

Exhibit 21: Industrial segment growth

Rs mn	FY05	FY06	FY07	FY08	FY09	CAGR
Net Sales	5,228	6,310	8,254	9,650	11,500	21.8
EBIT	767	930	1,302	1,960	2,130	29.1
EBIT (%)	14.7	14.7	15.8	20.3	18.5	-
Order-book	2,022	2,397	3,367	4,247	4,030	18.8
Order-intake	5,611	6,685	9,225	10,530	11,283	19.1

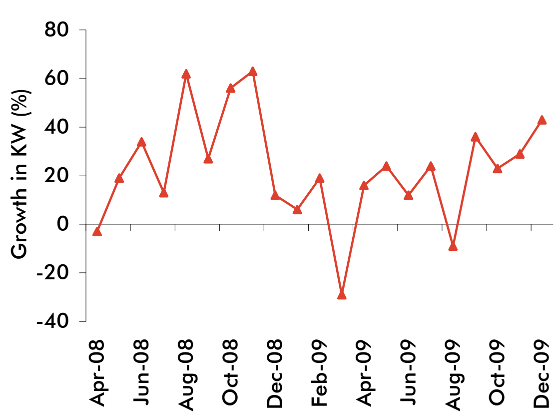
Source: Company, Ambit Capital research

Exhibit 22: HT motor demand



Source: Company, Ambit Capital research

Exhibit 23: LT motor demand



Source: Company, Ambit Capital research

Consumer products - strong growth to continue riding on thrust to housing sector

- **Fans:** Largest manufacturer of fans in India, with around 25% share. Growth will continue to be strong due to housing segment pick up in semi-urban markets.
- **Lighting:** Fourth largest player with 10-12% share. Housing will drive growth in this segment.
- **Pumps:** Mainly agricultural and domestic pumps. Among the top five players in the industry.

Exhibit 24: Consumer products - 15% growth expected to be maintained

Rs mn	FY05	FY06	FY07	FY08	FY09	CAGR
Net Sales	6,153	7,520	9,146	11,180	13,220	21.1
EBIT	580	777	955	1,208	1,460	26.0
EBIT (%)	9.4	10.3	10.4	10.8	11.0	-

Source: Company, Ambit Capital research

Earnings Outlook

Exhibit 25: Revenue growth assumptions

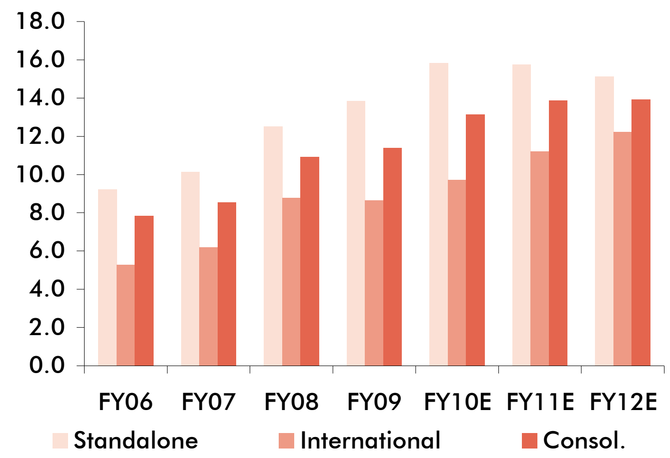
	FY09	FY10E	FY11E	FY12E	CAGR FY06-09	CAGR FY09-12E
Power	21,932	25,441	30,529	36,024	25	18
Industrial	10,552	11,396	13,106	15,071	20	13
Consumer	13,219	15,598	18,094	20,808	21	16
Standalone	46,107	52,758	61,987	72,110	23	16
CG - International	41,266	41,453	43,883	50,465	37	7
CG - Cosol.	87,373	94,212	105,870	122,575	28	12

Source: Company, Ambit Capital research

Margins to remain steady over next two years

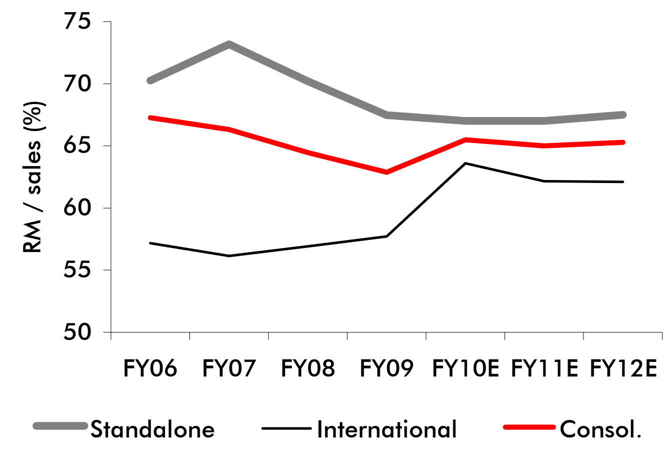
The company's EBITDA margin has increased substantially over the past two years due to better processes, global sourcing and increasing value addition, reflected by declining RM/sales. We believe profitability in the Indian operations has reached the optimal level and any significant rise hereon is unlikely. On the other hand, we foresee upside in margins for the international operations going by better capacity utilisation in FY11/FY12 and better resource management.

Exhibit 26: EBITDA margin (%)



Source: Company, Ambit Capital research

Exhibit 27: RM/Sales

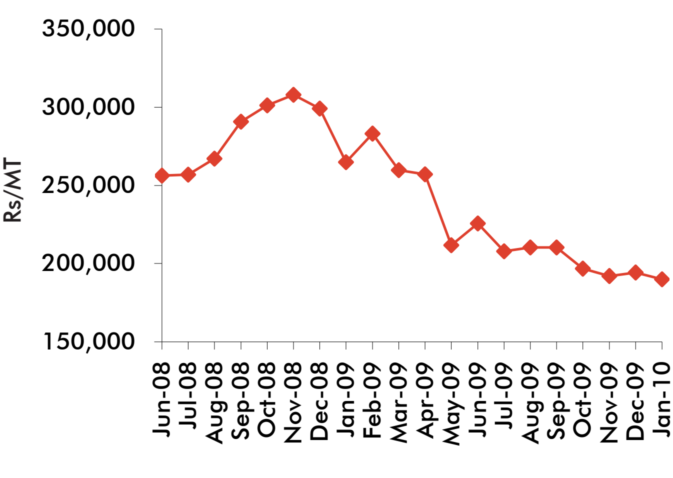


Source: Company, Ambit Capital research

Volatile RM prices are key risks to margins

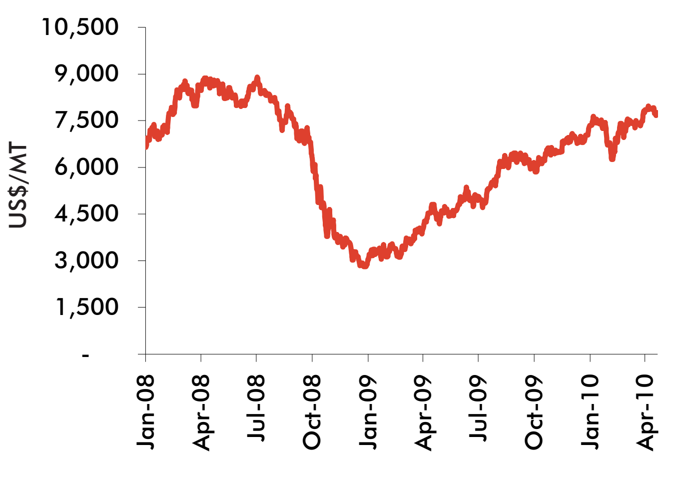
Transformers contribute nearly 70% to the company's consolidated sales and hence prices of CRGO (cold rolled grain oriented steel - which is the material used for the 'core' of the transformer), copper (used for winding), insulating materials and oil are critical to the company's margins. While the company is able to mitigate margin risk due to price-variation clauses in domestic orders and global materials sourcing, sharp fluctuations can lead to margin variations.

Exhibit 28: CRGO prices (C&F)



Source: Company, Ambit Capital research

Exhibit 29: Copper prices (CME Spot)



Source: Company, Ambit Capital research

Earnings to grow at CAGR of 23.8%

- We expect consolidated earnings to grow at 34% in FY10E. Earnings will likely be driven by margin expansion in domestic and international businesses.
- Earnings growth in FY11E and FY12E could grow at 20% and 18%, respectively. While domestic profit will be volume-led, international earnings will be driven by margin expansion in FY11.
- We have not assumed any upside from acquisitions.

Investment in Avantha Power

Avantha Power, in which Crompton Greaves holds a 31.6% stake, has filed its DRHP for its forthcoming IPO. Avantha Power presently has 191.19MW of power projects in operations, and another 2,400MW under implementation.

The five operational projects are spread over various locations and serve mainly the Avantha Group's captive requirements. The two under implementation projects are the 1,200MW Chhattisgarh Power Project and the 1,200MW MP Power Project.

The company intends to raise Rs10bn from the IPO to part fund these two under implementation projects, with Rs5bn being deployed for each of the projects. These projects are expected to be commissioned from FY13 onwards.

Exhibit 30: Valuations

	Rs Mn	Multiple	Equity Value (Rs Mn)	Value / CGL Share (Rs)
Existing Net Worth	918	2.0	1,835	0.9
U/I Projects				
Amount Infused	2,951			
IPO Proceeds	10,000			
Total U/I Projects	12,951	2.0	25,902	12.8
			27,737	13.7

Source: Company, AMbit Capital research

As against CGL's average acquisition price of Rs11.0 per share, we arrive at a value of Rs13.7 per CGL share for its 31.6% stake in Avantha Power which is based on an average P/BV multiple of 2x.

Exhibit 31: Standalone - P&L

Rs mn	FY06	FY07	FY08	FY09	FY10E	FY11E	FY12E
Net Revenues	**25,206**	**33,676**	**38,758**	**46,107**	**52,758**	**61,987**	**72,110**
% yoy growth	27.8	33.6	15.1	19	14.4	17.5	16.3
Raw material consumed	17,704	24,643	27,210	31,112	35,348	41,531	48,674
Employee expenses	1,695	1,743	2,010	2,272	2,613	3,005	3,456
Other operating expenses	3,481	3,872	4,679	6,342	6,437	7,686	9,086
Total Operating Expenses	**22,880**	**30,258**	**33,899**	**39,726**	**44,398**	**52,223**	**61,216**
EBITDA	**2,326**	**3,418**	**4,858**	**6,380**	**8,361**	**9,764**	**10,894**
Depreciation	442	394	407	452	537	582	704
Other income	327	349	720	500	530	560	660
Interest paid	264	304	315	286	20	40	80
PBT	**1948**	**3070**	**4856**	**6143**	**8333**	**9703**	**10770**
Tax	318	1146	1717	2172	2917	3396	3769
Net profit	**1630**	**1924**	**3139**	**3971**	**5417**	**6307**	**7000**
OPM	9.20%	10.20%	12.50%	13.80%	15.80%	15.80%	15.10%
EPS (Rs.)	2.5	3	4.9	6.2	8.4	9.8	10.9

Exhibit 32: Standalone - Balance sheet

Rs mn	FY06	FY07	FY08	FY09	FY10E	FY11E	FY12E
Gross block	8,474	9,153	10,555	11,115	12,015	13,265	14,515
Depreciation	4,977	5,253	5,628	6,008	6,646	7,218	7,922
Net block	**3,497**	**3,900**	**4,927**	**5,107**	**5,369**	**6,047**	**6,593**
Capital WIP	141	434	226	130	200	300	301
Investments	1,021	1,351	1,943	2,655	4,413	4,713	4,713
Total Fixed Assets	**4,659**	**5,685**	**7,096**	**7,892**	**9,982**	**11,060**	**11,607**
Current Assets							
Stock	1,918	2,470	2,630	2,813	3,614	4,246	4,939
Stock as No of sales days	28	27	25	22	25	25	25
Debtors	6,596	8,039	9,562	10,123	13,009	15,284	17,781
Debt as No of sales days	96	87	90	80	90	90	90
Loans, advances	1,571	2,364	2,794	3199	3400	3600	4000
Cash and bank	1,251	1,736	1,577	4,725	3,868	7,823	12,549
Total Current Assets	**11,337**	**14,608**	**16,562**	**20,860**	**23,890**	**30,953**	**39,268**
Current Liabilities							
Creditors	5,514	6,548	7,796	8,757	10,118	11,718	13,632
Other current liabilities	1,910	2,346	2,616	3,120	3,570	4,194	4,879
Other provisions	600	1,580	2,541	3,280	3,753	4,410	5,130
Total current liabilities	**8,024**	**10,474**	**12,953**	**15,157**	**17,441**	**20,323**	**23,641**
Total Provisions	**88**	**79**	**84**	**80**			
Working Capital	3,313	4,134	3,609	5,703	6,449	10,631	15,627
Total assets/capital deployed	**7,973**	**9,819**	**10,706**	**13,595**	**16,431**	**21,691**	**27,234**
Financed by							
Equity share capital	523.7	733	733	733	1,283	1,283	1,283
Reserves & surplus	4,840	6,010	8,574	11,686	14,016	18,985	24,104
Shareholders' funds	**5,364**	**6,743**	**9,307**	**12,419**	**15,299**	**20,268**	**25,387**
Deferred tax liabilities	111	376	522	639	1032	1323	1646
Total Loans	**2,498**	**2,700**	**876**	**537**	**100**	**100**	**200**
Total Equity & Loans	**7,972**	**9,819**	**10,706**	**13,595**	**16,431**	**21,691**	**27,234**

Source: Company, Ambit Capital research

Exhibit 33: Consolidated - P&L

Y/E Mar (Rsmn)	FY06	FY07	FY08	FY09	FY10E	FY11E	FY12E
Net sales	**41,265**	**56,396**	**68,323**	**87,373**	**94,212**	**105,870**	**122,575**
Operating expenses	-38,023	-51,567	-60,864	-77,417	-81,820	-91,190	-105,500
Operating profit	**3,242**	**4,828**	**7,459**	**9,956**	**12,392**	**14,680**	**17,075**
EBITDA	**3,242**	**4,828**	**7,459**	**9,956**	**12,392**	**14,680**	**17,075**
Depreciation	-758	-948	-1,263	-1,216	-1,297	-1,362	-1,484
Other income	652	1,051	737	740	530	560	660
EBIT	**3,136**	**4,932**	**6,934**	**9,480**	**11,625**	**13,878**	**16,251**
Interest paid	-359	-566	-781	-808	-310	-320	-380
Pre-tax profit	**2,778**	**4,366**	**6,152**	**8,672**	**11,315**	**13,558**	**15,871**
Tax (current + deferred)	-452	-1,495	-2,054	-3,047	-3,770	-4,516	-5,208
Net profit	**2,325**	**2,871**	**4,098**	**5,625**	**7,545**	**9,042**	**10,663**

Exhibit 34: Consolidated - Balance sheet

Y/E Mar (Rsmn)	FY06	FY07	FY08	FY09	FY10E	FY11E	FY12E
Assets OwnedAssets Owned							
Gross block	17,122	22,332	26,854	30,288	35,539	37,389	39,239
Depreciation	11,926	12,480	14,886	17,040	18,438	19,790	21,274
Net block	**5,196**	**9,852**	**11,968**	**13,248**	**17,101**	**17,599**	**17,965**
Capital WIP	207	1,021	476	537	608	708	709
Investments	651	645	934	1,672	1,672	1,672	1,672
Total	**6,054**	**11,517**	**13,378**	**15,457**	**19,380**	**19,979**	**20,345**
Stock	5,959	9,156	10,664	10,949	13,835	15,066	17,521
Stock as No of sales days	53	59	57	46	54	52	52
Debtors	10,950	14,214	17,204	20,556	23,798	26,706	30,915
Debt as No of sales days	97	92	92	86	92	92	92
Loans, advances	2,206	3,646	3,704	4,537	4,200	4,400	4,800
Cash and bank	2,073	2,415	2,445	5,656	3,828	9,893	17,728
Total Current Assets	21,188	29,430	34,016	41,699	45,661	56,065	70,964
Creditors	9,016	11,662	12,229	15,884	17,841	19,893	23,034
Other current liabilities	5,448	8,575	8,769	10,138	10,498	11,528	13,313
Other provisions	1,012	2,112	5,425	5,986	6,252	7,175	8,310
Total current liabilities	**15,476**	**22,348**	**26,423**	**32,008**	**34,591**	**38,597**	**44,657**
Working Capital	**5,712**	**7,082**	**7,593**	**9,692**	**11,071**	**17,468**	**26,307**
Capital deployed	**11,766**	**18,599**	**20,972**	**25,149**	**30,451**	**37,447**	**46,652**
Financed by							
Equity share capital	524	733	733	733	1,283	1,283	1,283
Reserves & surplus	7,330	8,955	12,285	17,577	22,036	29,741	38,523
Shareholders' funds	**7,854**	**9,688**	**13,018**	**18,310**	**23,319**	**31,024**	**39,806**
Minorities interests	117	284	123	139	0	0	0
Net Def tax liabilities	-426	-416	-590	-482	1,032	1,323	1,646
Total Loans	**4,222**	**9,045**	**8,420**	**7,182**	**6,100**	**5,100**	**5,200**
Capital employed	**11,766**	**18,599**	**20,972**	**25,149**	**30,451**	**37,447**	**46,652**

Source: Company, Ambit Capital research

Exhibit 35: Cash flow statement

Y/ E Mar (Rsmn)	FY06	FY07	FY08	FY09	FY10E	FY11E	FY12E
PBT	2,774	4,360	6,152	8,672	11,315	13,558	15,871
Depreciation	762	954	1,263	1,216	1,297	1,362	1,484
Other non-cash Expenses					(56)	(10)	
Net Interest Expense	360	566	781	808	310	320	380
Other Income	(254)	(203)	302	855	(530)	(560)	(660)
less inc in NWC	(1,369)	(750)	(842)	56	(3,207)	(333)	(1,004)
Current taxes paid	(313)	(1,136)	(1,868)	(2,165)	(3,520)	(4,225)	(4,885)
Net Cash from Operations	1,960	3,791	5,788	9,441	5,609	10,113	11,187
Net Capex	(637)	(6,365)	(2,525)	(1,977)	(5,321)	(1,950)	(1,851)
Net Investments	(408)	(895)	(946)	(1,380)	-	-	-
Other Income received	19	15	2	14	530	560	660
Net Cash from Investing	(1,026)	(7,245)	(3,469)	(3,343)	(4,791)	(1,390)	(1,191)
Issue of equity & Prem.							
Net Borrowings	1,075	4,863	(908)	(1,374)	(1,082)	(1,000)	100
Interest Paid others	(336)	(563)	(684)	(702)	(310)	(320)	(380)
Dividends Paid	(267)	(503)	(696)	(814)	(1,254)	(1,337)	(1,881)
Net Cash from Financing	471	3,798	(2,289)	(2,890)	(2,646)	(2,657)	(2,161)
Net Cash Flow	1,404	344	30	3,208	(1,828)	6,065	7,835
Opening Cash	669	2,074	2,417	2,448	5,656	3,828	9,893
Closing Cash	2,074	2,417	2,448	5,656	3,828	9,893	17,728

Exhibit 36: Key ratios

Y/ E Mar	FY06	FY07	FY08	FY09	FY10E	FY11E	FY12E
EPS (Rs)	3.6	4.5	6.4	8.8	11.8	14.1	16.6
EPS growth (%)	98.5	23.5	42.7	37.3	34.1	19.8	17.9
EBITDA margin (%)	7.9	8.6	10.9	11.4	13.2	13.9	13.9
EBIT margin (%)	7.6	8.7	10.1	10.8	12.3	13.1	13.3
Net margin (%)	5.6	5.1	6	6.4	8	8.5	8.7
ROCE (%)	31.4	30.7	33.2	38.9	40.8	40.9	38.6
RoE (%)	38.2	32	35.5	35.6	36.1	33.3	30.1
Asset turnover (x)	2	1.6	1.5	1.6	1.5	1.5	1.5
Leverage factor (x)	3.4	3.9	3.9	3.4	3	2.6	2.4
Net debt/Equity (%)	26.9	66.5	45.5	8.3	4	-18.8	-33.6

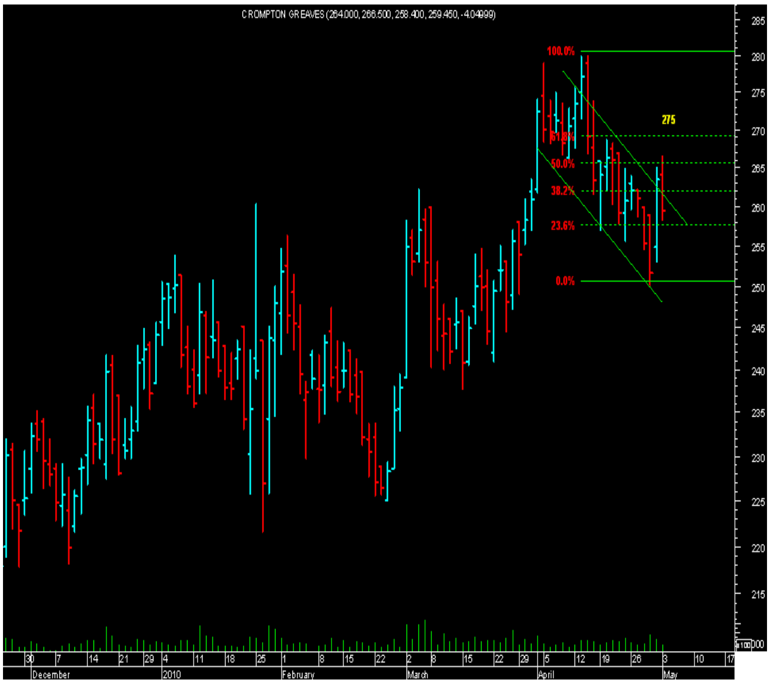
Exhibit 37: Valuations

Y/E Mar	FY06	FY07	FY08	FY09	FY10E	FY11E	FY12E
PER (x)	72.0	52.3	40.0	29.8	22.2	18.5	15.7
PCE (x)	53.9	43.5	31	24.3	18.8	16	13.7
Price/Book (x)	21.3	16.9	12.8	9.1	7.2	5.4	4.2
Yield (%)	0.2	0.3	0.4	0.4	0.7	0.7	1
EV/Net sales (x)	4.1	3.1	2.5	1.9	1.8	1.5	1.3
EV/EBITDA (x)	51.9	35.8	23.1	16.8	13.6	11	9

Source: Company, Ambit Capital research

Technical View: Crompton Greaves - Resistance at higher levels

Exhibit 39: Daily Chart



Source: MetaStock

- Compton Greaves was trading in the downward channel but had an upside breakout.
- The momentum oscillators are in Sell mode for the short term but for medium term they are curving upward from sell to Buy.
- The stock could witness bounce till Rs275 which is the 61.8% retracement of the fall from 280 to 250.
- We expect the stock to find resistance around Rs275.
- On the downside, support is at Rs250 and therefore we advise Buying the stock with a short term target of Rs275.

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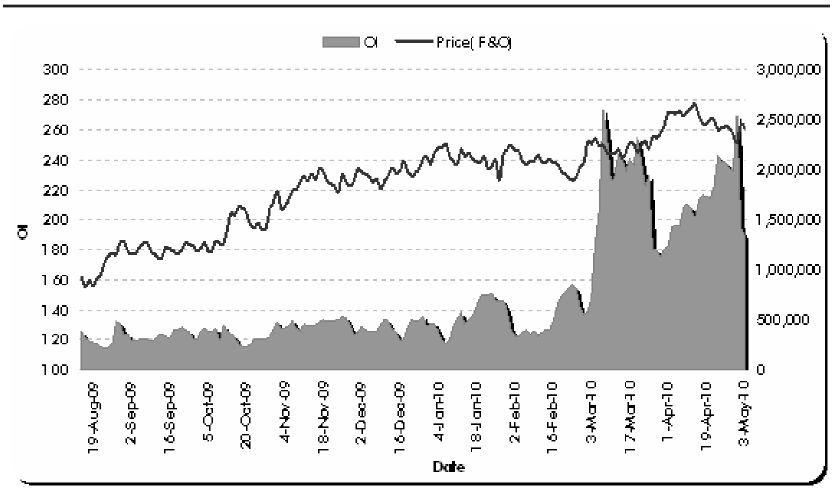
Derivatives View: Crompton Greaves

- The stock had seen good amount of shorts coming in as the price declined from around 280 to 250 levels. In the last couple of days, however, the stock has seen some huge good short covering with the prices finding good support at 250 levels. Overall, we think that the stock will continue to find strong support in the 245-250 range on the way down and looks likely to target 280 in the short term on the way up, a successful breach of which should propel the stock to 300 levels in the medium term.

Exhibit 40: OI & price (F&O)



Source: Ambit Capital Research

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Explanation of Investment Rating

Investment Rating	Expected return (over 12-Month period from date of initial rating)
Buy	>15%
Hold	5% to 15%
Sell	<5%

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