## Result Update - Q2FY12

# Crompton Greaves

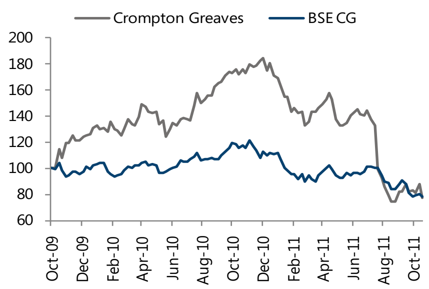
## Standalone performance spoils the show

### HOLD

| | |
|---|---|
| Reco | Maintained |
| CMP | ₹ 143.5 |
| Target Price | ₹ 136 |
| Downside Potential | 4.3% |

**Price Performance**

| | |
|---|---|
| 52 wk Hi/Lo | 349/133 |
| All time Hi/Lo | 349/1.46 |
| 6 mnth Average Vol | 2743526 |
| Stock Beta | 0.74 |




**Valuation**

| | FY11 | FY12P | FY13P |
|---|---|---|---|
| P/E (x) | 9.9 | 16.3 | 12.4 |
| P/BV (x) | 2.8 | 2.4 | 2.1 |
| RONW (%) | 32.1 | 15.9 | 18.1 |
| ROCE (%) | 25.1 | 12.3 | 14.3 |

**Peer Valuation (FY13P)**

| | CG | Siemens | ABB |
|---|---|---|---|
| P/E | 12.4 | 26.0 | 30.8 |
| P/BV | 2.1 | 5.7 | 4.8 |

**Equity Data**

| | |
|---|---|
| Market Cap. (₹ bln) | 92 |
| Face value (₹) | 2 |
| No of shares o/s (mln) | 642 |

| | Sep'10 | Sep'11 | %Δ |
|---|---|---|---|
| Promoters | 40.92 | 41.69 | 1.88 |
| DFI's | 22.22 | 22.33 | 0.50 |
| FII's | 20.36 | 15.72 | -22.79 |
| Public | 16.50 | 20.62 | 22.79 |

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**Crompton Greaves (CG)' Q2FY12 results were marred by poor stand alone performance despite decent top line numbers on a consolidated level. Operating performance (consolidated and stand alone) also disappointed due to high input cost and lower realization.**

- CG's consolidated sales grew by 13% y-o-y to ₹ 27.1bln; led by growth in Power Systems and Industrial Systems. The growth was a result of improvement in subsidiaries' performance which was aided by two acquisitions (QEI and Emotron) and rupee depreciation. Consumer segment which is a standalone business grew by just 4% y-o-y to ₹ 4.8bln; amid industry de growth of 2.3% y-o-y.
- EBITDA for the group declined by 32% y-o-y to ₹ 2.26bln; therefore EBITDA margin for the group declined by 554bps y-o-y while improved 90 bps q-o-q.
- Interest cost for the company increased by 108% y-o-y due to increased borrowings for funding acquisitions during the first quarter. Hence, PAT came in at ₹ 1.18bln; down 45% y-o-y.
- Unexecuted order book at the end of Q2FY12 stands at ₹ 71.2bln. Order inflow came in at ₹ 22.6bln; declining 17% y-o-y and improving 33% q-o-q. Standalone order inflow for the company came in at ₹ 13.5bln; declining 14% y-o-y; while subsidiaries' order inflow declined by 9% y-o-y and improved 16% q-o-q to ₹ 9.1bln.
- CG managed few significant orders such as PGCIL's 765kV substation; high voltage offshore substation in Belgium and 450kV (120 MVA) convertor transformer order in Canada
- In analysts meet, CG conceded pressure on realizations and therefore does not expect situation to improve before FY13. The management sees cost control as the only way to improve its margins in standalone and subsidiaries. It plans to concentrate on low cost countries (India, Indonesia and Hungary) for manufacturing for sales in Europe and USA.
- In Consumer Products segment, the company seeks an acquisition target so as to consolidate its position. CG is also targeting neighboring countries as well as Middle East for widening its consumer business.

### Outlook and Valuation

Poor standalone performance of CG compels us to cut our FY12P and FY13P sales estimates by 2% and 4% and earnings estimates by 10% and 13% respectively. Decline in earnings and bleak business outlook has led to significant de-rating of the stock and at our revised estimates the stock trades at 16.3xFY12P and 12.4xFY13P; thereby restricting upside potential. We, therefore maintain Hold with a TP of ₹ 136 (including Avantha Power valuation at ₹ 9.65).

**Summary Financials**

| ₹ in Mln | FY10 | FY11 | FY12P | FY13P |
|---|---|---|---|---|
| Total Income | 91409 | 100051 | 108598 | 121339 |
| OPBDIT | 12770 | 13438 | 9391 | 11840 |
| Adj. Net Profit | 8247 | 9268 | 5609 | 7395 |
| Adj EPS | 12.8 | 14.4 | 8.7 | 11.5 |
| Networth | 25043 | 32747 | 37652 | 44101 |
| Debt | 5010 | 4703 | 8203 | 5703 |
| Fixed Assets | 13760 | 19417 | 20514 | 21344 |
| Net Current Assets | 10849 | 11604 | 18123 | 19742 |

## Key Highlights

**Exhibit 1: Q2FY12 Performance Highlights (consolidated)**

| (in ₹ Mln) | Q2FY12 | Q2FY11 | Y-o-Y | Q1FY12 | Q-o-Q |
|---|---|---|---|---|---|
| Sales | 27055 | 23979 | 13% | 24377 | 11% |
| Raw material cost | 18201 | 14637 | 24% | 16280 | 12% |
| Staff cost | 3574 | 3093 | 16% | 3221 | 11% |
| Other expenditure | 3021 | 2917 | 4% | 3059 | -1% |
| OPBDIT | 2260 | 3332 | -32% | 1819 | 24% |
| OPBDIT margin | 8.4% | 13.9% | | 7.5% | |
| Depreciation | 726 | 458 | 59% | 608 | 19% |
| Interest cost (Net) | 102 | 49 | 108% | 110 | -7% |
| Other Income | 215 | 228 | -6% | 151 | 42% |
| PBT | 1646 | 3054 | -46% | 1253 | 31% |
| Tax | 463 | 920 | -50% | 475 | -3% |
| PAT | 1183 | 2134 | -45% | 778 | 52% |
| Net Profit | 1167 | 2136 | -45% | 795 | 47% |
| EPS | 1.82 | 3.33 | | 1.24 | |

*Source: Company*

**Exhibit 2: Segmental Analysis (consolidated)**

| (in ₹ Mln) | Q2FY12 | Q2FY11 | Y-o-Y | Q1FY12 | Q-o-Q |
|---|---|---|---|---|---|
| **Power Systems** | | | | | |
| Revenue | 17611 | 15778 | 12% | 15166 | 16% |
| PBIT | 934 | 1935 | -52% | 401 | 133% |
| PBIT Margin (%) | 5.3% | 12.3% | | 2.6% | |
| **Consumer Products** | | | | | |
| Revenue | 4801 | 4634 | 4% | 5437 | -12% |
| PBIT | 543 | 671 | -19% | 754 | -28% |
| PBIT Margin (%) | 11.3% | 14.5% | | 13.9% | |
| **Industrial Systems** | | | | | |
| Revenue | 4655 | 3606 | 29% | 3797 | 23% |
| PBIT | 558 | 702 | -21% | 509 | 10% |
| PBIT Margin (%) | 11.9% | 19.5% | | 13.4% | |
| **Revenue Mix** | | | | | |
| Power Systems | 64.9% | 65.4% | | 62.0% | |
| Consumer Products | 17.7% | 19.2% | | 22.2% | |
| Industrial Products | 17.2% | 14.9% | | 15.5% | |
| Others | 0.2% | 0.4% | | 0.2% | |

*Source: Company*

### Not out of the blues yet, margin still under pressure

- CG's sales for Q2FY12 grew 13% y-o-y to ₹ 27.1bln. The sales growth was led by decent performance of Power Systems and Industrial Systems which grew by 12% and 29% respectively.

- EBITDA declined 32% y-o-y to ₹ 2.3bln in Q2FY12. EBITDA margins were at 8.4% for the quarter. Raw material cost (including purchase of traded goods) as a percentage of sales has increased from 61% to 67.3% in Q2FY12. Soaring input cost and declining realizations took a toll on margins once again.

- Consequently, PAT for the company stood at ₹ 1.18bln; declining by 45% y-o-y. Interest cost for the company increased by 108% y-o-y due to increased borrowings for funding acquisitions of QEI and Emotron during the first quarter.

**Exhibit 3: Q2FY12 Performance Highlights (standalone)**

| (in ₹ Mln) | Q2FY12 | Q2FY11 | Y-o-Y | Q1FY12 | Q-o-Q |
|---|---|---|---|---|---|
| Sales | 14515 | 14448 | 0.5% | 14688 | -1% |
| Raw material cost | 10493 | 9858 | 6% | 10412 | 0.8% |
| Staff cost | 892 | 741 | 20% | 918 | -3% |
| Other expenditure | 1516 | 1540 | -2% | 1492 | 2% |
| OPBDIT | 1614 | 2309 | -30% | 1867 | -14% |
| OPBDIT margin | 11.1% | 15.9% | | 12.7% | |
| Depreciation | 267 | 195 | 37% | 286 | -7% |
| Interest cost (Net) | 0.5 | -6.9 | - | 14 | -96% |
| Other Income | 168 | 193 | -13% | 157 | 7% |
| PBT | 1515 | 2314 | -35% | 1723 | -12% |
| Tax | 391 | 729 | -46% | 433 | -10% |
| PAT | 1123 | 1585 | -29% | 1290 | -13% |
| EPS | 1.75 | 2.47 | | 2.01 | |

*Source: Company*

**Exhibit 4: Segmental Analysis (standalone)**

| (in ₹ Mln) | Q2FY12 | Q2FY11 | Y-o-Y | Q1FY12 | Q-o-Q |
|---|---|---|---|---|---|
| **Power Systems** | | | | | |
| Revenue | 5988 | 6440 | -7% | 5686 | 5% |
| PBIT | 672 | 1128 | -40% | 717 | -6% |
| PBIT Margin (%) | 11.2% | 17.5% | | 12.6% | |
| **Consumer Products** | | | | | |
| Revenue | 4801 | 4634 | 4% | 5437 | -12% |
| PBIT | 543 | 671 | -19% | 754 | -28% |
| PBIT Margin (%) | 11.3% | 14.5% | | 13.9% | |
| **Industrial Systems** | | | | | |
| Revenue | 3766 | 3442 | 9% | 3617 | 4% |
| PBIT | 591 | 705 | -16% | 576 | 3% |
| PBIT Margin (%) | 15.7% | 20.5% | | 15.9% | |
| **Revenue Mix** | | | | | |
| Power Systems | 41.1% | 44.2% | | 38.5% | |
| Consumer Products | 32.9% | 31.8% | | 36.8% | |
| Industrial Products | 25.8% | 23.6% | | 24.5% | |
| Others | 0.2% | 0.4% | | 0.2% | |

*Source: Company*

- On a standalone basis, CG's sales were flat at ₹ 14.5bln. Power Systems de grew by 7%. Industrial Systems recorded a moderate growth of 9% y-o-y. Consumer Products segment once again disappointed with tepid growth of 4% y-o-y. The management said that market for the Consumer Products itself de grew by 2.3%; thereby necessitating price cut by about 15%. Although this led to considerable margin erosion, the company managed to grow in single digit.

- EBITDA declined 30% y-o-y to ₹ 1.6bln in Q2FY12. EBITDA margin stands at 11.1% for the quarter; down 480bps y-o-y. Raw material cost as a percentage of sales increased from 68.2% to 72.3% y-o-y in Q2FY12. EBIT margin for Power Systems declined to 11.2% as compared to 17.5% in Q2FY12. Consumer Products margin were 320bps down to 11.3%. Industrial Systems' EBIT margin declined to 15.7% as compared to 20.5% in Q2FY11. PAT for the company stood at ₹ 1.12bln; a decline of 29% y-o-y.

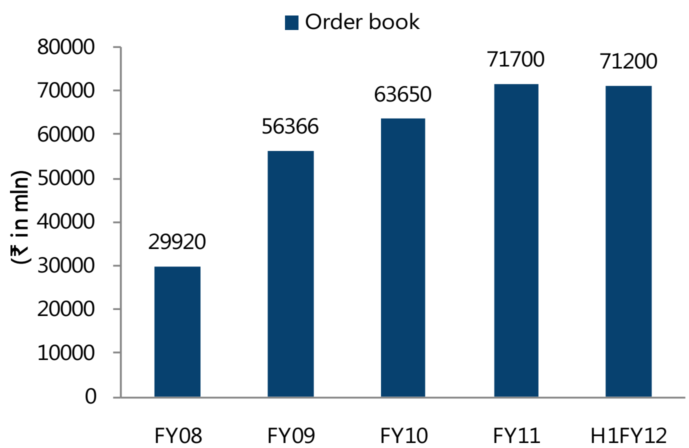
**Subsidiaries post decent performance (exclusive of rupee depreciation and contribution from QEI and Emotron)**

Subsidiaries which contributed over 45% to total sales registered a growth of 32% y-o-y in rupee terms at ₹ 12.54bln. In last quarter around ₹ 2.4-2.5bln worth of sales had been deferred which have been realized this quarter. The two new acquisitions (QEI and Emotron) in Q1FY12 have proved to be beneficial for the company contributing Euro 12mln and $ 4mln to the total sales respectively. Therefore, excluding sales of the two new additions; on a constant currency basis the sales have grown by 11%. CG is confident of maintaining this growth aided by robust overseas order book. This quarter the overseas business was EBITDA positive with margins coming at 5.1%. However, heavy interest and amortization cost restricted net profit to just ₹ 60mln.

**Order book at ₹ 71.2bln; order inflow in Q2FY12 at ₹ 22.6bln (down 14% y-o-y)**

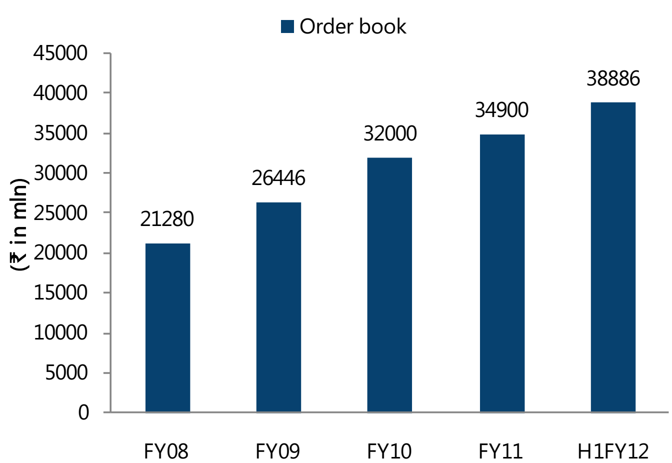
Consolidated unexecuted order book for the company stood flat at ₹ 71.2bln. Order inflow came in at ₹ 22.6bln; declining 17% y-o-y and improving 33% q-o-q. Standalone order inflow for the company came in at ₹ 13.5bln; declining 14% y-o-y. Subsidiaries' order inflow declined by 9% y-o-y and improved 16% q-o-q to ₹ 9.1bln. Apart from PGCIL's 765kV substation; high voltage offshore substation in Belgium and 450kV, 120 MVA convertor transformer order in Canada were few significnat orders that the company managed to bag during Q2FY12

**Exhibit 5: Consolidated order book**




*Source: Company, MSFL Research*

**Exhibit 6: Standalone order book**




*Source: Company, MSFL Research*

### Key analyst meet takeaways

- In Power Systems, CG is facing pressure on realizations and does not expect situation to improve before FY13. The management sees cost control as the only way to improve its margins in standalone as well as subsidiaries. The company is trying to make low cost countries like India, Indonesia and Hungary their manufacturing hubs for sales in Europe and USA.

- In Consumer Products segment, although the company has improved market share in fans from 19.1% to 21.2%; it cannot rule out competitive pressure and therefore is seeking a suitable acquisition target so as to consolidate its position. CG is also targeting neighboring countries as well as Middle East for widening its consumer business.

- The two recent acquisitions have proved to be quite beneficial for the company in providing further product depth to Power Systems and Industrial Systems and broaden its market reach in countries like Germany.

### Change in estimates

CG has maintained its guidance of 10-12% y-o-y sales growth in FY12 and EBITDA margin of 8-10% and a slight growth in earnings y-o-y. However, we understand that guided sales growth is unlikely given the poor stand alone performance in Q2FY12. Earnings growth shall be a difficult task given the margin erosion at operating level. In H1FY12, the company has managed an EBIDTA margin of 7.93% which can improve provided commodity prices stabilize and there is no further pressure on realization. We, therefore revise our estimates factoring in the muted performance for Q2FY12.

**Exhibit 7: Change in estimates**

| | FY12P | | | FY13P | | |
|---|---|---|---|---|---|---|
| In ₹ Mln | Revised | Old | % chg | Revised | Old | % chg |
| Sales | 108598 | 110630 | -2% | 121339 | 126327 | -4% |
| EBITDA | 9391 | 10171 | -8% | 11840 | 13414 | -12% |
| EBITDA Margin % | 8.6 | 9.2 | (60) bps | 9.8 | 10.6 | (80) bps |
| PAT | 5609 | 6218 | -10% | 7395 | 8503 | -13% |

*Source: MSFL Research*

### Outlook and Valuation

We believe moderate growth of sales and deceleration in earnings shall be an overhang on the stock. CG's superior margins and diversification across segments had helped in narrowing down the discounting gap between the former and its peers. However, current global turmoil has taken its toll on CG's performance and hence; it shall continue to trade at a discount to its MNC peers. Currently, it trades at 16.3xFY12P and 12.4xFY13P; assigning a multiple of 11; we arrive at revised TP of ₹ 136 (including Avantha Power valuation at ₹ 9.65) and maintain hold.

## Financial Summary

### Profit & Loss

| Particulars (₹ in mln) | 2008 | 2009 | 2010 | 2011 | 2012P | 2013P |
|---|---|---|---|---|---|---|
| **Sales** | **68323** | **87373** | **91409** | **100051** | **108598** | **121339** |
| Total Expenditure | 60864 | 77398 | 78639 | 86613 | 99207 | 109499 |
| **EBIDTA** | **7460** | **9975** | **12770** | **13438** | **9391** | **11840** |
| EBIDTA Margin (%) | 10.9 | 11.4 | 14.0 | 13.4 | 8.6 | 9.8 |
| Depreciation | 1263 | 1216 | 1551 | 1936 | 2190 | 2369 |
| EBIT | 6197 | 8759 | 11219 | 11502 | 7202 | 9471 |
| Interest cost | 781 | 808 | 428 | 209 | 410 | 438 |
| Operating Profit | 5416 | 7951 | 10791 | 11292 | 6791 | 9034 |
| Other Income | 737 | 740 | 1100 | 999 | 777 | 823 |
| Extraordinary Item | 0 | 0 | 352 | -381 | - | - |
| **PBT** | **6153** | **8691** | **11891** | **12291** | **7568** | **9857** |
| Tax | 2054 | 3047 | 3650 | 2931 | 2022 | 2519 |
| **Adj Net Profit** | **4068** | **5618** | **8247** | **9268** | **5609** | **7395** |
| NP Margin (%) | 6.0 | 6.4 | 9.0 | 9.3 | 5.2 | 6.1 |
| Adjusted EPS | 6.3 | 8.8 | 12.8 | 14.4 | 8.7 | 11.5 |
| Sales Growth (%) | 21.2 | 27.9 | 4.6 | 9.5 | 8.5 | 11.7 |
| EBITDA Growth (%) | 54.5 | 33.7 | 28.0 | 5.2 | -30.1 | 26.1 |
| PAT Growth (%) | 44.4 | 38.1 | 46.8 | 12.4 | -39.5 | 31.8 |

### Balance Sheet

| Particulars (₹ in mln) | 2008 | 2009 | 2010 | 2011 | 2012P | 2013P |
|---|---|---|---|---|---|---|
| **Sources of Funds** | | | | | | |
| Share Capital | 733 | 733 | 1283 | 1283 | 1283 | 1283 |
| Reserves & Surplus | 12285 | 17577 | 23760 | 31464 | 36369 | 42818 |
| **Networth** | **13018** | **18311** | **25043** | **32747** | **37652** | **44101** |
| Secured Loans | 8120 | 6923 | 4766 | 4554 | 7954 | 5454 |
| Unsecured Loans | 300 | 260 | 244 | 149 | 249 | 249 |
| **Total Loans** | **8420** | **7182** | **5010** | **4703** | **8203** | **5703** |
| **TOTAL** | **21560** | **25631** | **31041** | **38851** | **47257** | **51205** |
| | | | | | | |
| **Application of Funds** | | | | | | |
| Net Fixed Assets | 12444 | 13785 | 13760 | 19417 | **20514** | **21344** |
| Investment | 934 | 1672 | 5536 | 6747 | 7536 | 9036 |
| Current Assets | 34016 | 39452 | 41018 | 45496 | 54385 | 58985 |
| Current Liabilities | 26423 | 29760 | 30170 | 33892 | 36261 | 39243 |
| **Net Current Assets** | **7593** | **9692** | **10849** | **11604** | **18123** | **19742** |
| Deferred Tax Asset (Net) | 588 | 482 | 896 | 1084 | 1084 | 1084 |
| **TOTAL** | **21560** | **25631** | **31041** | **38851** | **47257** | **51205** |

### Cash Flow

| Particulars (₹ in mln) | 2008 | 2009 | 2010 | 2011 | 2012P | 2013P |
|---|---|---|---|---|---|---|
| Internal accruals | 5330 | 6834 | 9798 | 11204 | 7799 | 9764 |
| (Inc)/Dec in Net Current Assets | -844 | 58 | 543 | -5133 | -3225 | -1040 |
| Other Adjustments | 1301 | 2551 | 221 | -466 | - | - |
| **Cash flow from Operations** | **5788** | **9444** | **10561** | **5605** | **4574** | **8725** |
| Inc/(Dec) in Debt | -908 | -1374 | -2169 | -306 | 3500 | -2500 |
| Inc/(Dec) in Equity | - | - | - | - | - | - |
| Dividend & Tax | -696 | -814 | -1159 | -1645 | -704 | -948 |
| Other Adjustments | -684 | -829 | -451 | 24 | - | - |
| **Cash flow from Financing** | **-2289** | **-3017** | **-3778** | **-1927** | **2796** | **-3448** |
| Fixed Asset formation | -2525 | -1977 | -2070 | -6259 | -3287 | -4699 |
| Inc/(Dec) in Investment | -944 | -1239 | -3681 | -1123 | -789 | - |
| **Cash flow from Investments** | **-3469** | **-3216** | **-5751** | **-7382** | **-4075** | **-4699** |
| **Net Change in Cash** | **30** | **3212** | **1032** | **-3704** | **3295** | **578** |

### Ratios

| Valuation Ratio | 2008 | 2009 | 2010 | 2011 | 2012P | 2013P |
|---|---|---|---|---|---|---|
| P/E | 22.5 | 16.3 | 11.1 | 9.9 | 16.3 | 12.4 |
| P/BV | 7.0 | 5.0 | 3.7 | 2.8 | 2.4 | 2.1 |
| EV/EBIDTA | 11.5 | 9.0 | 7.3 | 6.7 | 9.5 | 7.8 |
| EV/Sales | 1.3 | 1.0 | 1.0 | 0.9 | 0.8 | 0.8 |
| Dividend Yield (%) | 0.64 | 0.80 | 0.88 | 1.54 | 0.66 | 0.89 |
| EPS | 6.3 | 8.8 | 12.8 | 14.4 | 8.7 | 11.5 |
| DPS | 0.9 | 1.1 | 1.3 | 2.2 | 0.9 | 1.3 |
| Book Value | 20.3 | 28.5 | 39.0 | 51.0 | 58.7 | 68.7 |
| ROE | 35.8 | 35.9 | 38.0 | 32.1 | 15.9 | 18.1 |
| ROCE | 20.3 | 24.1 | 27.4 | 25.1 | 12.3 | 14.3 |
| | | | | | | |
| Solvency Ratio (x) | | | | | | |
| Debt/Equity | 0.65 | 0.39 | 0.20 | 0.14 | 0.22 | 0.13 |
| Debt/EBIDTA | 1.13 | 0.72 | 0.39 | 0.35 | 0.87 | 0.48 |
| | | | | | | |
| Turnover Ratio (x) | | | | | | |
| Asset Turnover | 3.4 | 3.7 | 3.2 | 2.9 | 2.5 | 2.5 |
| Fixed Asset Turnover | 5.9 | 6.7 | 6.6 | 6.0 | 5.4 | 5.8 |
| Current Ratio | 1.3 | 1.3 | 1.4 | 1.3 | 1.5 | 1.5 |
| Inventory (days) | 57 | 46 | 42 | 43 | 47 | 45 |
| Debtors (days) | 92 | 86 | 86 | 93 | 98 | 97 |
| Creditors (days) | 111 | 98 | 92 | 94 | 91 | 88 |

### MSFL Disclaimer:



### Analyst declaration

We, **Khadija Bohra** & **Rajvi Thakrar**, hereby certify that the views expressed in this report are purely our views taken in an unbiased manner out of information available to the public and believing it to be reliable. No part of our compensation is or was or in future will be linked to specific view/s or recommendation(s) expressed by us in this research report. All the views expressed herewith are our personal views on all the aspects covered in this report.

### MSFL Investment Rating

The ratings below have been prescribed on a potential returns basis with a timeline of up to 12 months. At times, the same may fall out of the price range due to market price movements and/or volatility in the short term. The same shall be reviewed from time to time by MSFL. The addressee(s) decision to buy or sell a security should be based upon his/her personal investment objectives and should be made only after evaluating the stocks' expected performance and associated risks.

### Key ratings:

| Rating | Expected Return |
|---|---|
| Buy | > 15% |
| Accumulate | 5 to 15% |
| Hold | -5 to 5% |
| Sell | < -5% |
| Not Rated | - |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