

CMP : Rs.144

STOCK INFO

BSE	500093
NSE	CROMPGREAV
Bloomberg	CRG IN
Reuters	CROM BO
Sector	Heavy Electrical Equipment
Face Value (Rs)	2
Equity Capital (Rs mn)	1,283
Mkt Cap (Rs mn)	93,016
52w H/L (Rs)	349.0/133.8
3m Avg Daily Vol. in mn (BSE + NSE)	5,048,435

SHAREHOLDING PATTERN

	%
<i>(as on 30th Sep. 2011)</i>	
Promoters	41.7
FIs	15.7
DIs	22.3
Public & Others	22.3

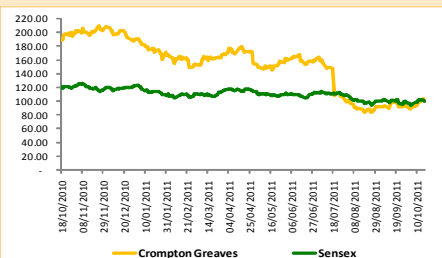
Source: BSE

STOCK PERFORMANCE (%) 1m 3m 12m

Crompton Greaves	3	-32	-47
Sensex	0	-10	-17

Source: Capitaline; IndiaNivesh Research

CROMPTON GREAVES v/s BSE SENSEX



Source: Capitaline; IndiaNivesh Research

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Consolidated Results

- Crompton Greaves (CG) continued earnings disappointment in Q2FY12. The only positive of the results announced have been that the company surpassed street top-line expectations by 7.3% to Rs 27.8 bn. Q2FY12 net top-line growth reflects, 12.8% year-over-year and 11.0% sequential increase. Growth in top-line numbers reflect increased sales from international power system segment, which reported 16.1% sequential as well as 11.6% year-over-year growth in revenues. Top-line growth was restricted due to 11.7% sequential decline seen across Consumer products segment.
- CG reported consolidated EBITDA of Rs 2.2 bn, below the street's expectations of Rs 2.3 bn. Consolidated EBITDA margins continued to be weaker during the quarter at 8.4% compared to 13.9% in Q2FY11, however, it improved sequentially (7.5% in Q1FY12). Pressure on margins is on the back of higher raw material consumption, which comprised 64.8% of net sales (vs. 53.5% in Q2FY11). Also, the employee costs witnessed 15.6% year-over-year and 11.0% sequential increase to Rs 3.5 bn (13.2% of sales in Q2FY12 vs. 12.9% in Q2FY11).
- The company continued its earnings disappointment by reporting net profit of Rs 1.1 bn, 18.7% below consensus expectations. The earnings disappointment reflects lower quarterly tax rate of 28.1% against 30.1% and 37.9% levels in Q2FY11 and Q1FY12, respectively.
- On analyzing the profit before interest and tax margins, power systems margins experienced a revival. Margins bounced back from 2.6% in Q1FY12 to 5.3% in Q2FY12; however, it continued below the 12.3% levels in Q2FY11. The remaining 2 segments continued experiencing margin compression scenario. Consumer and Industrial products segments reported 256 bps and 140 bps sequential decline in their margins to 11.3% and 12.0%, respectively.

Standalone Results

- Standalone business, which reflects company's domestic business, reported a marginal 0.5% year-over-year growth to Rs 15.3 bn. However, sequentially top-line de-grew by 1.2%, reflecting 11.7% sequential de-growth seen across the consumer products segment. These growth numbers also reflect 5.3% sequential increase in the power segment sales (declined 7.0% on year-over-year basis).
- EBITDA margins during the quarter stood at 11.1% compared to 12.7% in Q1FY12 and 16.0% in Q2FY11. The margin compression seen on a year-over-year basis reflects 1.5% increase in consumption of raw materials to Rs 7.6 bn and 20.3% increase in employee costs to Rs 892 mn.
- Net profitability of the company on year-over-year basis has been partly impacted due to 36.9% increase in depreciation to Rs 267.1 mn. Further, slower top-line growth coupled with margin compression at operating levels have dented the overall profitability of the company, which declined from 11.0% in Q2FY11 and 8.8% in Q1FY12 to 7.7% in Q2FY12.

Valuation

If we look at the last 3 years, the company has traded in one-year forward P/E band of ~15x levels. As per the street estimates, at CMP of Rs 144, the stock is trading at FY12E and FY13E P/E multiple of 13.1x and 10.3x. We intend to come out with detailed analysis post interaction with the management in Analyst meet scheduled tomorrow.

Consolidated Financials

(Rs in Mn)	Q2FY12	Q1FY12	Q2FY11	y-o-y	q-o-q
Gross Sales	27,877.4	25,130.2	24,825.7	12.3%	10.9%
Less: Excise Duty	<u>822.1</u>	<u>752.8</u>	<u>846.9</u>		
Net Sales	27,055.3	24,377.4	23,978.8	12.8%	11.0%
Inc/Dec. in Stock-in-Trade & WIP	(1,846.7)	(2,720.7)	(636.2)		
Consumption of Raw Material	17,545.1	16,103.7	12,839.0	36.7%	9.0%
Employee Cost	3,574.4	3,220.5	3,093.1	15.6%	11.0%
Purchase of Traded Goods	2,502.2	2,896.5	2,434.0	2.8%	-13.6%
Other Expenditure	<u>3,020.5</u>	<u>3,058.8</u>	<u>2,916.7</u>	3.6%	-1.3%
Total Expenditure	24,795.5	22,558.8	20,646.6	20.1%	9.9%
EBITDA	2,259.8	1,818.6	3,332.2	-32.2%	24.3%
EBITDA Margin	8.4%	7.5%	13.9%		
Depreciation	726.3	607.7	457.8	58.7%	19.5%
Other Income	<u>215.0</u>	<u>151.3</u>	<u>227.8</u>	-5.6%	42.1%
EBIT	1,748.5	1,362.2	3,102.2	-43.6%	28.4%
Interest Exp. (net)	<u>102.2</u>	<u>109.5</u>	<u>48.5</u>	110.7%	-6.7%
EBT	1,646.3	1,252.7	3,053.7	-46.1%	31.4%
Current Tax	474.2	481.5	821.4	-42.3%	-1.5%
Deferred tax	<u>(11.0)</u>	<u>(6.4)</u>	<u>98.1</u>	-111.2%	71.9%
Total Tax	463.2	475.1	919.5	-49.6%	-2.5%
Tax Rate	28.1%	37.9%	30.1%		
Net Profit from Ord. activities	1,183.1	777.6	2,134.2	-44.6%	52.1%
NPM (%)	4.4%	3.2%	8.9%		
Minority Interest	1.1	(0.7)	0.0		
Share of profit in associates	<u>(17.6)</u>	<u>17.8</u>	<u>1.7</u>		
NP from Ord. activities bef. Ext. items	1,166.6	794.7	2,135.9	-45.4%	46.8%
EPS- Diluted	1.82	1.24	3.33		

Source: Company Filings; IndiaNivesh Research



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