EARNING REVIEW

Crompton Greaves Ltd.

Date: 31st October 2009

BUY **CMP: Rs 384**

BSE Code	500093
NSE Code	CROMPGREV

Key Data

Sensex	15896
52 week H/L (Rs)	384/99
Market Cap (Rs Cr)	13588
Avg. daily vol. (6m)	199933
Face Value (Rs)	2

Source: Capitaline

Shareholding Pattern (%)

Promoters	40.92
Institution	25.09
Foreign holding	16.75
Non-promoter corp. holding	7.19
Public & Others	8.95

Source: Capitaline

Stock Performance compared to Sensex

Source: Capitaline

Result Highlights:

- net sales (cons.) for Q2FY10E increased by 6.4% from Rs. 2092 crore to Rs 2189 crore and net profit grew by 61% to 193 crore. CGL reported robust result (in terms of profitability) on account of savings in raw material cost, Over heads, lower interest expenses & tax rate.
- Consolidated order book stands at Rs. 6400 Crore. Standalone order book stands at Rs. 3100 Crore.
- Capex for FY10 stands at Rs. 200 crore out of which Rs. 100 Crore has already been spent.
- Management Guidance: - For FY10E, Domestic business to grow by 14-16% and international by 2-5% and for FY11E domestic to grow by 18-22% and international by 7-8%.

Financials

Quarterly Results (Cons)

Rs in crore	Q2FY10	Q2FY09	%YoY	Q1FY10	%QoQ
Net Sales	2,189.04	2,092.00	4.64	2,197.52	(0.39)
Total Expenditure	1,882.34	1,861.84	1.10	1,949.88	(3.46)
EBIDTA	306.70	230.16	33.26	247.64	23.85
EBIDTA Margin (%)	14.01	11.00	27.35	11.27	24.33
Other Income	15.98	13.26	20.51	24.59	(35.01)
Depreciation	38.78	34.32	13.00	37.13	4.44
EBIT	283.90	209.10	35.77	235.10	20.76
Interest	5.15	16.56	(68.90)	4.51	14.19
PBT	278.75	192.54	44.78	230.59	20.89
Tax	84.90	72.48	17.14	69.45	22.25
PAT	193.85	120.06	61.46	161.14	20.30
NPM	8.86	5.74	54.30	7.33	20.77

Ahead of Expectation:-Revenue muted, but robust profitability

Lower Interest expenses &lower tax rate boost profitability

CGL reported robust revenues in Q2FY10 (cons), net sales grew just by 4.6% from Rs. 2092 crore to Rs. 2189 crore. Sales growth was muted due to muted performance in power sector (contributed 67% to sales) and PAT grew by 61% from Rs. 120 crore to Rs.193 crore. PAT showed robust growth on account of lower raw material cost, interest expenses & low tax liability.

EBIDTA Margin stood at 14% V/s 11% levels…

During the Q2FY10, EBIDTA margin & NPM of CGL both jumped by 300bps mainly on account of global sourcing better, engineering & design.

Segmental Performance

- For Q2FY10, power segment reported muted growth of 1% on consolidated basis. EBIT margin increase to 12% V/s 9%.

Expect industrial activity to pick up in 2HFY10.

- Consumer segment which reported robust result grew by 24% & EBIT margin were up by 300bps to 14% from 11%.
- Industrial segment which focuses on industrial capex saw a flattish growth during quarter.

Segmental Performance (Cons)

Revenues	Q2FY10	Q1FY10	% Chg
Power Segment	1477.3	1462.4	1.02
Consumer Segment	374	301.6	24.01
Industrial Segment	318.2	302.9	5.05
Others	28.2	33.3	(15.32)
PBIT			
Power Segment	179.2	133.9	33.83
Consumer Segment	52.4	32.1	63.24
Industrial Segment	66.1	53.6	23.32
Others	7.3	4.1	78.05

Sources:- Company data, Anagram Research

Management is betting on Power & Industrial segment for order inflows

Power Grid has line up with total capex of each Rs. 100-110 bn for FY11E and FY12E

Order book

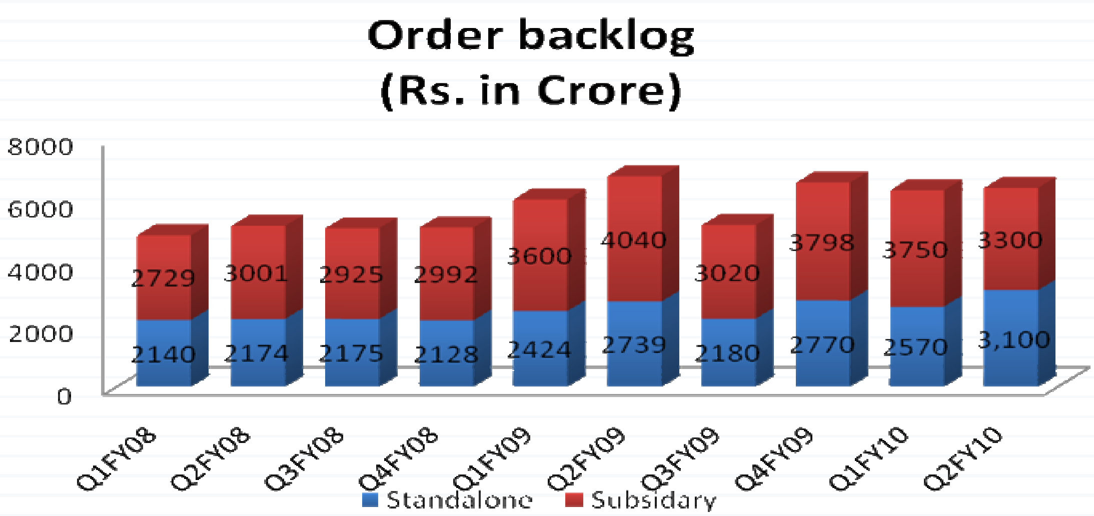
Total consolidated order backlog stands at Rs.6400 Crore and standalone level it is at 3100 Crore. For Q2FY10, order inflow stood at 2480 Crore on consolidated basis. The management expects the order inflow to pick up going forward particularly in the domestic markets. Company is also an L1 bidder for supplying 86 reactors.

Over sea business is expected to pick up from 2011 onwards

Guidance for domestic market is 12-16% for FY10E and 18-22% for FY11E

Guidance

For FY2010, the management has guided for a 12-16% increase in the revenues of the domestic business and a 4-5% growth in the international subsidiaries, maintaining the margins at the H1FY2010 level and for FY2011, management has guided for 18-22% increase in revenue for domestic markets & 7-8% in international market.



(Sources:-company data, Anagram Research)

Outlook:-

Given the improving visibility and the government's thrust on power sector reforms, we believe that 78577 MW of generation capacity is likely to be added in India over the Eleventh Plan, entailing investment of Rs. 4.2 trillion

Historically, CG has traded at an average discount of 25% to MNC T&D companies (ABB & Areva T&D). We believe CGL is well placed in the T&D segment with its presence across all the different range of products in Electrical equipments in Power, Industrial & Consumer segment. We expect the company to maintain similar margin going forward & robust cash generation will enable company to lower its debt & to use in M&A activity going forward.

At CMP, stock trades at 21.23x FY10E & 16.21x FY11E earnings with EPS of Rs. 18.09 & Rs. 23.7 respectively. We recommended **BUY** rating on the stock with target of Rs. 488.

Rs. Crore	**FY07**	**FY08**	**FY09**	**FY10E**	**FY11E**
Net Sales	5,639.56	6,832.00	8,737.26	9,523.61	10,714.07
Total Expenditure	5,156.88	6,088.45	7,742.57	8,370.30	9,224.81
EBIDTA	482.68	743.55	994.69	1,153.31	1,489.26
EBIDTA Margin (%)	*8.56*	*10.88*	*11.38*	*12.11*	*13.90*
Other Income	105.28	69.41	58.70	75.55	73.25
Depreciation	95.42	126.26	121.60	151.00	167.1
PBDT	387.26	617.29	873.09	1,002.31	1,322.16
Interest	56.58	70.09	65.51	91.23	91.23
Tax	149.46	205.40	304.67	318.88	430.82
RPAT	286.50	411.21	561.61	667.75	873.35
Minority N/P& Ex. item	4.76	4.80	1.70	4.80	4.8
ARPAT	281.74	406.41	559.91	662.95	868.55
ANPM (%)	*5.00*	*5.95*	*6.41*	*6.96*	*8.11*
Equity	73.31	73.31	73.31	73.31	73.31
EPS	7.69	11.09	15.28	18.09	23.70
CEPS	9.23	13.00	17.06	20.58	26.18

DISCLAIMER

RATING INTERPRETATION

Buy Expected to appreciate more than 20% over a 12-month period

Accumulate Expected to appreciate up to 20% over a 12-month period

Neutral Expected to remain in a narrow range

Sell Expected to depreciate more than 10% over a 12-month period