



## Investment View – Buy Crompton Greaves; TP Rs.320

Crompton Greaves is recommended to buy with a one year target price of Rs.320, an appreciation of 30% over the current price of Rs.247.

### **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.

#### **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.

## **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 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 indigenization.
- Earnings in international business will largely be driven by margin expansion, even as volume growth is expected to be muted.

**DISCLAIMER:** Geojit BNP Paribas Financial Services Limited (GBNPP) or any of its Group companies, affiliates, subsidiaries or that of any of its shareholders do not accept any liability arising from the use of this report and the views and observations contained herein. While every effort is made to ensure the accuracy and completeness of information contained herein, GBNPP, or any of its group or associate companies or its affiliates take no guarantee and assume no liability for any errors or omissions of the information contained herein. Information contained herein cannot be the basis for any claim, demand or cause of action.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security. We are not soliciting any action based on this material. It is for the general information of retail clients of GBNPP. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur.

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions. Opinion expressed herein is our current opinion as of the date appearing on this report only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

Certain transactions - futures, options and other derivatives as well as non-investment grade securities - involve substantial risks and are not suitable for all investors. Reports based on technical analysis is focused on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have 'long' or 'short' positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein.

We or any of the group or associate or subsidiary companies affiliated to us and / or to any of our shareholders may from time to time solicit or perform investment banking, or other services for, any company mentioned in this document.

We do not undertake to advise any change in our views expressed in this document. While we would endeavor to update the information herein on a reasonable basis, Geojit BNP Paribas, its subsidiaries and associated companies, their directors and employees are under no obligation to update or keep the information current. Also there may be regulatory, compliance, or other reasons that may prevent Geojit BNP Paribas and affiliates from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

May 10, 2010