MOTILAL OSWAL

1QFY10 Results Update
SECTOR: ENGINEERING

Crompton Greaves

STOCK INFO.	BLOOMBERG
BSE Sensex: 14,745	CRG IN
	REUTERS CODE
S&P CNX: 4,375	CROM.BO

Equity Shares (m)	366.6
52-Week Range	312/100
1,6,12 Rel. Perf. (%)	6/77/21
M.Cap. (Rs b)	111.1
M.Cap. (US$ b)	2.3

17 July 2009

Neutral

Previous Recommendation: Neutral

Rs303

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS* GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/08A	38,758	3,654	10.0	60.0	30.4	11.9	34.3	50.0	2.8	22.8
3/09A	46,107	5,599	15.3	53.2	19.8	8.9	36.6	52.9	2.3	16.8
3/10E	52,400	6,179	16.9	10.4	18.0	7.0	32.1	47.2	2.1	15.2
3/11E	61,022	6,849	18.7	10.8	16.2	5.7	28.1	42.0	1.8	13.3

** Consolidated nos, pre exceptionals*

- **Strong 1QFY10 results on higher EBITDA margins:** In 1QFY10, Crompton reported standalone PAT of Rs1.15b (+29%YoY), v/s our estimates of Rs1b. Revenue grew only 8.4%YoY to Rs11.7b (est growth of 15.5%). EBITDA margin at 14.8% (+210bpYoY) was above estimates of 12.7% (-10bpYoY). Consolidated revenues grew 8% to Rs22b, EBITDA margin were 11.3% (+110bpYoY) and net profits grew 31% to Rs1.6b.
- **Decline in industrials, subdued power volumes impacted revenue growth:** During 1QFY10, the industrials segment witnessed revenue de-growth of 3.5%YoY to Rs2.5b on account of continued weakness in HT/LT motors demand. Also, the power segment revenues were impacted to the tune of Rs260m due to closure of facility at Bhopal (damage caused by cyclone) in June and will be operational within next 3-4months. This will marginally impact the revenues of the power division for next two quarters. The international business volumes were impacted due to continued demand pressure in the distribution transformers business. We believe that the underlying business revenue growth of the international subsidiaries is lower than even reported 7.6%YoY, since two small acquisitions would have contributed 1-2% and currency has contributed 1-2% during 1QFY10.
- **Management reduces revenue growth guidance for FY10:** Management reduced its standalone revenue growth guidance to 12-14% from initial 15-18%YoY due to continued pressure on industrials volumes. Also, the revenue growth guidance for the international subsidiary is at 4-5% now v/s 10-12% initially. It also indicated that there are no pricing pressures in the domestic as well as international markets.
- **Valuations and view:** While we have lowered our volume growth for subsidiaries, the earnings impact is not material due to benefits in interest cost, higher margins in standalone business etc. Our consolidated earnings have declined by -2% for FY11. Maintain **Neutral** with target price of Rs280/share (15x FY11 earnings).

QUARTERLY PERFORMANCE (STANDALONE) (RS MILLION)

	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	**10,829**	**10,862**	**10,797**	**13,618**	**11,735**	**12,272**	**12,583**	**15,810**	**46,107**	**52,400**
Change (%)	*20.8*	*20.0*	*18.0*	*17.4*	*8.4*	*13.0*	*16.5*	*16.1*	*19.0*	*13.6*
EBITDA	**1,381**	**1,435**	**1,386**	**2,167**	**1,740**	**1,595**	**1,573**	**2,330**	**6,381**	**7,238**
Change (%)	*32.2*	*34.4*	*19.5*	*38.4*	*26.0*	*11.2*	*13.5*	*7.5*	*31.9*	*13.4*
As of % Sales (Adj)	*12.8*	*13.2*	*12.8*	*15.9*	*14.8*	*13.0*	*12.5*	*14.7*	*13.8*	*13.8*
Depreciation	108	120	94	130	128	131	132	137	452	529
Interest	22	39	47	38	-6	20	35	31	146	80
Other Income	81	102	85	104	84	125	143	189	361	541
PBT	**1,332**	**1,379**	**1,330**	**2,102**	**1,702**	**1,569**	**1,549**	**2,351**	**6,143**	**7,171**
Tax	443	453	483	793	555	549	558	778	2,172	2,440
Effective Tax Rate (%)	*33.3*	*32.9*	*36.3*	*37.7*	*32.6*	*35.0*	*36.0*	*33.1*	*35.4*	*34.0*
Reported PAT	**889**	**925**	**847**	**1,309**	**1,147**	**1,020**	**991**	**1,573**	**3,971**	**4,731**
Adj PAT	**889**	**925**	**847**	**1,309**	**1,147**	**1,020**	**991**	**1,573**	**3,971**	**4,731**
Change (%)	*65.3*	*44.3*	*34.7*	*38.6*	*29.1*	*10.2*	*17.0*	*20.2*	*44.3*	*19.2*

E: MOSL Estimates

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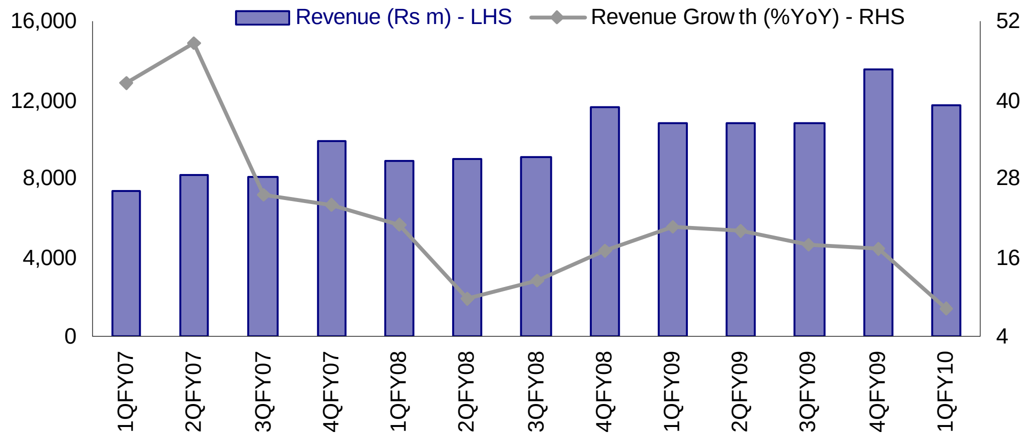
Strong 1QFY10 results on higher EBITDA margins

In 1QFY10, Crompton reported standalone PAT of Rs1.15b (+29%YoY), v/s our estimates of Rs1b. Revenue grew only 8.4%YoY to Rs11.7b (est growth of 15.5%). EBITDA margin at 14.8% (+210bpYoY) was above estimates of 12.7% (-10bpYoY). Consolidated revenues grew 8% to Rs22b, EBITDA margin were 11.3% (+110bpYoY) and net profits grew 31% to Rs1.6b.

Consolidated revenues grew 8% to Rs22b, EBITDA margin were 11.3% (+110bpYoY) and net profits grew 31% to Rs1.6b. Consolidated EBITDA margin expansion is lower than standalone due to due to margin pressure in the international business. While standalone power EBIT margin has increased 250bpYoY, consolidated power EBIT is up only 90bpYoY.

REVENUE GROWTH TREND



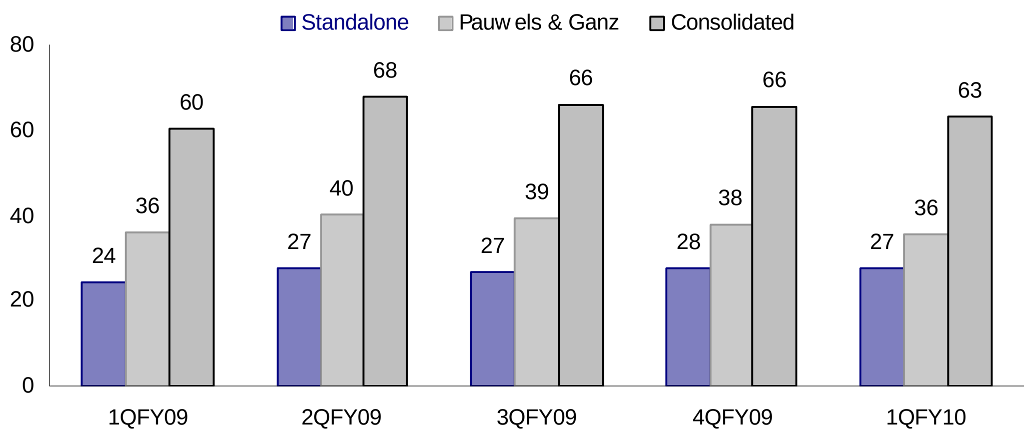
Source: Company/MOSL

Stagnant order book for past five quarters; power order intake to witness improvement during FY10

Consolidated order book stood at Rs63.2b (-4%QoQ, +2%YoY), is almost stagnant for previous 5 quarters. While the domestic order intake at Rs13b (-11%QoQ, -12%YoY) declined; the international order intake witnessed improvement. This is likely to be a blip and the power order intake is expected to witness improvement from 2QFY10. We understand that the orders from PGCIL are expected to improve from 2QFY10 and will be up 20%YoY during FY10. The international order intake stood at Rs8b (+29%QoQ, -51%YoY).

The order intake in the standalone and consolidated business would be at 20%YoY and 2-3%YoY respectively. Management indicated that the order intake would improve for the industrials and power business from 2QFY10.

ORDER BOOK TREND (RS B)



Source: Company/MOSL

Decline in industrials, subdued power volumes impacted revenue growth

During 1QFY10, industrials segment witnessed revenue de-growth of 3.5%YoY to Rs2.5b; impacting the overall standalone revenue growth. Management indicated that the two main drivers for the industrials division viz. HT/LT motors demand continues to be weak; impacting the overall segment growth.

SEGMENTAL BREAKUP - STANDALONE (RS M)

	1QFY09	1QFY10	% YOY	FY09	FY08	% YOY
Revenues (Net Revenues)						
Power Division	4,584	5,084	10.9	22,244	18,057	23.2
Industrial Division	2,632	2,539	-3.5	10,552	9,185	14.9
Consumer Division	3,631	4,129	13.7	13,219	11,178	18.3
EBIT						
Power Division	614	809	31.8	3,493	2,585	35.1
Industrial Division	522	508	-2.6	2,038	1,946	4.7
Consumer Division	422	580	37.5	1,463	1,208	21.1
EBIT Margin (%) / bp (Net)						
Power Division	13.4	15.9	2.5	15.7	14.3	1.4
Industrial Division	19.8	20.0	0.2	19.3	21.2	-1.9
Consumer Division	11.6	14.1	2.4	11.1	10.8	0.3

Source: Company/MOSL

We understand that the power segment revenues were impacted to the tune of Rs260m due to closure of facility at Bhopal on account of damage caused by cyclone in June. This facility will be again operational within next 3-4months; thus marginally impacting the revenues of the power division for next two quarters (Crompton is using another testing facility which will restrict the quantum of revenue loss).

International business witnessed significant moderation in revenue growth. The international revenues grew by only 7.6%YoY to Rs10.2b during 1QFY10, against 40%YoY revenues growth during FY09 (22% growth adj for currency gains). Volumes were impacted due to continued demand pressure in the distribution transformers business. We believe that the underlying business revenue growth of the international subsidiaries is lower than even reported 7.6%YoY, since two small acquisitions would have contributed 1-2% and currency has contributed 1-2% during 1QFY10.

SEGMENTAL BREAKUP (CONSOLIADTDED)

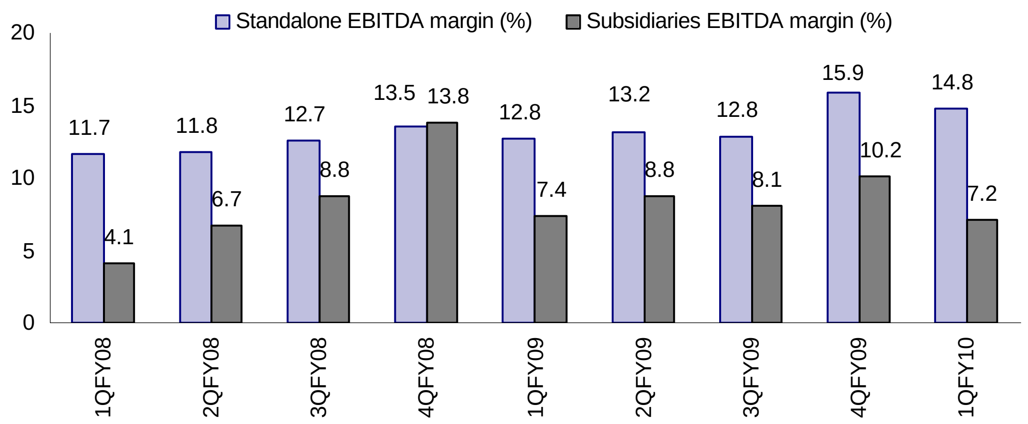
	1QFY09	1QFY10	% YOY	FY09	FY08	YOY %
Revenues (Rs m)						
Power Division	13,672	14,838	8.5	61,745	46,668	32.3
Industrial Division	2,879	2,794	-2.9	11,498	9,649	19.2
Consumer Division	3,631	4,129	13.7	13,219	11,178	18.3
EBIT (Rs m)						
Power Division	1,160	1,395	20.2	6,250	4,372	43.0
Industrial Division	561	526	-6.2	2,133	1,956	9.0
Consumer Division	422	580	37.5	1,463	1,208	21.1
EBIT Margin (%) / bp						
Power Division	8.5	9.4	0.9	10.1	9.4	0.8
Industrial Division	19.5	18.8	-0.7	18.5	20.3	-1.7
Consumer Division	11.6	14.1	2.4	11.1	10.8	0.3

Source: Company/MOSL

Domestic EBITDA margin expands by 210bpYoY; unlikely to be a trend

Surprisingly despite lower volumes, EBITDA margins for domestic (standalone) business expanded by 210bpYoY. Both the power and consumer division witnessed ~240bp margin expansion. The management has guided for FY10 EBITDA margins to remain stable despite strong up tick during 1QFY10.

STANDALONE / SUBSIDIARY EBITDA MARGIN TREND *



**Implied subsidiary margins based on subtraction of consolidated and standalone numbers*

Source: Company/MOSL

Management reduces revenue growth guidance for FY10

Mgmt reduced its standalone revenue growth guidance to 12-14% from initial 15-18%YoY due to continued pressure on industrials volumes. Also, the revenue growth guidance for the international subsidiary is at 4-5% now v/s 10-12% initially. Capex would be Rs1.9b at the consolidated level for FY10. It also indicated that there are no pricing pressures in the domestic as well as international markets. Also, the international business is likely to witness improved business environment in FY11.

Valuations and view

While we have lowered our volume growth for subsidiaries, the earnings impact is not material due to benefits in interest cost, higher margins in standalone business etc. Our consolidated earnings have declined by -2% for FY11. At CMP, the stock is trading at PER of 18x FY10E earnings and 16.2x FY11E earnings respectively. Maintain **Neutral** with target price of Rs280/share (15x FY11 earnings).

Crompton Greaves: an investment profile

Company description

Crompton is India's leading power equipment (transmission and distribution) manufacturer. Besides, it has presence in industrial / consumer products like motors, fans, lighting, etc. Over time, Crompton has acquired companies in Europe and US and now derives 47% revenues from overseas subsidiaries.

Key investment arguments

- Healthy order book of Rs63b (+2%YoY) provides revenue visibility for a year, consistent with the historical trend.
- Crompton recently secured orders for eleven 765kv transformers based on Ganz technology. This will enable Crompton to gain higher market share in the future 765kv substation orders (e.g. Powergrid plans to spend Rs120b (+50% YoY) in FY10).
- Distribution transformers contribute only 10-15% to the international business, partially insulating it from housing slowdown in US/Europe.
- FY09-11E revenue CAGR of 15% and earnings CAGR of 12%, with potential upside to margin assumptions.

Key investment risks

- Crompton derived 47% of revenue and 33% of EBITDA from Pauwels/Ganz in FY09. This exposure to developed markets could impact adversely if recession persists in US/Europe.
- Domestic industrial division contributed 13% to revenue and 22% to EBITDA in FY09. Delayed revival in industrial capex could impact profitability.

Recent developments

- Crompton approved investments of Rs2.3b in Avantha Power Infrastructure (APIL), a group company for 41% stake at book value of Rs11/sh. This investment is to expand APIL's power generation capacity by 1,200MW (two 600MW plants in MP and Chattisgarh) from current capacity of 165MW. There is a possibility of additional investments into APIL over the medium term to maintain Crompton's stake above 26%.

Valuation and view

- While we have lowered our volume growth for subsidiaries, the earnings impact is not material due to benefits in interest cost, higher margins in standalone business etc. Our consolidated earnings have declined by -2% for FY11. Maintain **Neutral** with target price of Rs280/share (15x FY11 earnings).

Sector view

- We remain neutral view on the sector.

COMPARATIVE VALUATIONS

		CROMPTON	ABB*	SIEMENS*
P/E (x)	FY10E	18.0	23.0	30.3
	FY11E	16.2	24.3	25.9
P/BV(x)	FY10E	7.0	4.5	5.9
	FY11E	5.7	3.9	4.9
EV/Sales (x)	FY10E	2.1	1.5	2.1
	FY11E	1.8	1.4	1.8
EV/EBITDA (x)	FY10E	15.2	12.7	18.9
	FY11E	13.3	12.9	16.4

** For ABB, FY08 is CY07 and FY09 is CY08; For Siemens FY08 and FY09 is Sept ending FY08 and FY09 respectively*

SHAREHOLDING PATTERN (%)

	JUN-09	MAR-09	JUN-08
Promoter	42.1	42.6	39.4
Domestic Inst	25.8	26.7	24.8
Foreign	16.1	12.7	20.8
Others	16.0	18.1	15.0

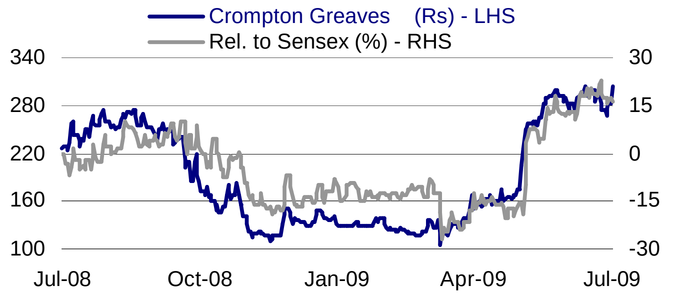
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY10	16.9	16.4	3.2
FY11	18.7	19.0	-1.7

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
303	280	-	Neutral

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT (Rs Million)

Y/E MARCH	2007	2008	2009	2010E	2011E
Net Sales	**33,676**	**38,758**	**46,107**	**52,400**	**61,022**
Change (%)	*33.6*	*15.1*	*19.0*	*13.6*	*16.5*
Raw Materials	24,643	27,210	31,112	35,317	41,495
Staff Cost	1,743	2,010	2,272	2,613	3,005
Other Mfg. Expenses	3,872	4,700	6,342	7,231	8,421
EBITDA	**3,418**	**4,838**	**6,381**	**7,238**	**8,101**
% of Net Sales	*10.2*	*12.5*	13.8	*13.8*	*13.3*
Depreciation	394	407	452	529	632
Interest	304	271	286	280	350
Other Income	349	696	500	541	526
PBT	**3,070**	**4,856**	**6,143**	**6,971**	**7,645**
Tax	1,146	1,717	2,172	2,440	2,676
Rate (%)	*37.3*	*35.4*	*35.4*	*35.0*	*35.0*
Reported PAT	**1,924**	**3,139**	**3,971**	**4,531**	**4,969**
Extra-ordinary Inc.(net)	92	387	0	0	0
Adjusted PAT	**1,832**	**2,752**	**3,971**	**4,531**	**4,969**
Change (%)	*-5.2*	*50.2*	*44.3*	*14.1*	*9.7*
Consolidated PAT	**2,283**	**3,654**	**5,599**	**6,179**	**6,849**
Change (%)	-1.6	60.0	*53.2*	*10.4*	*10.8*

BALANCE SHEET (Rs Million)

Y/E MARCH	2007	2008	2009	2010E	2011E
Share Capital	733	733	733	733	733
Reserves	6,010	8,574	11,686	15,084	18,811
Net Worth	**6,743**	**9,307**	**12,419**	**15,817**	**19,544**
Loans	2,700	876	537	700	700
Deffered Tax Liability	376	523	639	639	639
Capital Employed	**9,819**	**10,706**	**13,595**	**17,156**	**20,884**
Gross Fixed Assets	9,153	10,555	11,115	12,245	13,745
Less: Depreciation	5,253	5,628	6,008	6,537	7,168
Net Fixed Assets	**3,900**	**4,927**	**5,107**	**5,708**	**6,576**
Capital WIP	434	226	130	100	100
Investments	1,351	1,943	2,655	4,270	2,000
Curr. Assets	**14,608**	**16,562**	**20,860**	**23,692**	**31,272**
Inventory	2,470	2,630	2,813	4,581	6,223
Debtors	8,039	9,562	10,123	14,047	16,892
Cash & Bank Balance	1,736	1,577	4,725	1,400	3,890
Loans & Advances	2,364	2,794	3,199	3,664	4,267
Current Liab. & Prov.	**10,474**	**12,953**	**15,157**	**16,614**	**19,065**
Creditors	6,497	7,710	8,475	10,077	11,735
Other Liabilities	2,397	2,702	3,402	3,483	3,774
Provisions	1,580	2,541	3,280	3,054	3,556
Net Current Assets	**4,134**	**3,609**	**5,703**	**7,079**	**12,207**
Application of Funds	**9,819**	**10,706**	**13,595**	**17,156**	**20,884**

E: MOSL Estimates; Standalone financials unless otherwise stated

RATIOS

Y/E MARCH	2007	2008	2009	2010E	2011E
Basic (Rs)					
Adjusted EPS	**5.0**	**7.5**	**10.8**	**12.4**	**13.6**
Growth (%)	*3.2*	*50.2*	*44.3*	*14.1*	*9.7*
Consolidated EPS	**6.2**	**10.0**	**15.3**	**16.9**	**18.7**
Growth (%)	*0.6*	*60.0*	*53.2*	*10.4*	*10.8*
Cash EPS	6.1	8.6	12.1	13.8	15.3
Book Value	18.4	25.4	33.9	43.1	53.3
DPS	1.3	1.6	2.0	2.6	2.9
Payout (incl. Div. Tax.)	27.9	21.9	21.6	25.0	25.0
Valuation (x)					
P/E (standalone)	60.6	40.4	28.0	24.5	22.4
P/E (consolidated)	48.7	30.4	19.8	18.0	16.2
Cash P/E	49.9	35.2	25.1	22.0	19.8
EV/EBITDA	32.8	22.8	16.8	15.2	13.3
EV/Sales	3.3	2.8	2.3	2.1	1.8
Price/Book Value	16.5	11.9	8.9	7.0	5.7
Dividend Yield (%)	0.4	0.5	0.7	0.9	1.0
Profitability Ratios (%)					
RoE	30.7	34.3	36.6	32.1	28.1
RoCE	38.3	50.0	52.9	47.2	42.0
Turnover Ratios					
Debtors (Days)	80	83	75	92	95
Inventory (Days)	25	23	21	30	35
Creditors. (Days)	65	67	63	66	66
Asset Turnover (x)	3.4	3.6	3.4	3.1	2.9
Leverage Ratio					
Debt/Equity (x)	0.4	0.1	0.0	0.0	0.0

CASH FLOW STATEMENT (Rs Million)

Y/E MARCH	2007	2008	2009	2010E	2011E
PBT before EO Items	**3,070**	**4,856**	**6,143**	**6,971**	**7,645**
Add : Depreciation	394	407	452	529	632
Interest	304	271	286	280	350
Less : Direct Taxes Paid	1,146	1,717	2,172	2,440	2,676
(Inc)/Dec in WC	-337	366	1,055	-4,700	-2,639
CF from Operations	**2,284**	**4,183**	**5,763**	**640**	**3,312**
(Inc)/Dec in FA	-1,242	-1,226	-536	-1,100	-1,500
(Pur)/Sale of Investments	-330	-592	-712	-1,615	2,270
CF from Investments	**-1,572**	**-1,818**	**-1,247**	**-2,715**	**770**
(Inc)/Dec in Net Worth	410	258	115	0	0
(Inc)/Dec in Debt	203	-1,825	-339	163	0
Less : Interest Paid	304	271	286	280	350
Dividend Paid	537	686	858	1,133	1,242
CF from Fin. Activity	**-228**	**-2,524**	**-1,367**	**-1,249**	**-1,592**
Inc/Dec of Cash	**484**	**-159**	**3,149**	**-3,325**	**2,489**
Add: Beginning Balance	1,251	1,736	1,577	4,725	1,400
Closing Balance	**1,736**	**1,576**	**4,725**	**1,400**	**3,890**

N O T E S

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Disclosure of Interest Statement	Crompton Greaves
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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