Crompton Greaves CROM.NS CRG IN

INDUSTRIALS

NOMURA EQUITY RESEARCH

Belied expectations; downgrade to Reduce

Receding hopes of a near-term turnaround; downgrade to Reduce

February 9, 2012

Rating Down from Buy	**Reduce**
Target price Reduced from 240	INR 130
Closing price February 8, 2012	INR 144
Potential downside	-9.7%

Action: Margin pressure may continue; Downgrade to Reduce

CRG surprised negatively again in 3Q as subsidiary margins deteriorated further, belying expectations of an improving trend. Management clarified subsequently that the poor margins were not due to inventory liquidation at a discount (in contrast to our initial belief). While we note few positives from the results such as a strong pick-up in power system revenue as well as strong order intake, we are now increasingly concerned over CRG's medium-term margin outlook. Our concerns emanate from the following key observations (in sync with investors who saw this much before us):

- Margins continue to worsen across segments despite a revenue pick-up; inspires little confidence in margin recovery when growth stabilises.
- Order inflow in the current environment might continue to deliver sub-normal margins due to heightened competitive intensity.
- Management has refrained from giving guidance for the FY13 outlook and has further hinted that the FY12F guidance could be at risk.

Catalysts: Europe overhang and competition

Profitability in overseas subsidiaries, delayed recovery are key triggers.

Valuation: Still expensive on our lowered est.; downgrade to Reduce

We believe that CRG is yet to hit the cyclical trough and further downgrade in FY13F earnings is possible. Our revised estimates are still based on the hope of a recovery and we would wait for visible recovery signals. Deteriorating ROE profile and uncertainties prompt us to assign a discount to average sector multiples; we now value the stock at 11x Sep-13F EPS to arrive at our new TP of INR130. Downgrade to Reduce.

31 Mar	FY11		FY12F		FY13F		FY14F
Currency (INR)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	100,051	110,459	111,134	125,990	121,482	147,523	138,522
Reported net profit (mn)	9,268	7,830	4,175	10,302	6,430	12,578	8,794
Normalised net profit (mn)	9,268	7,830	4,175	10,302	6,430	12,578	8,794
Normalised EPS	14.45	12.21	6.51	16.06	10.02	19.61	13.71
Norm. EPS growth (%)	12.4	-15.5	-55.0	31.6	54.0	22.1	36.8
Norm. P/E (x)	9.9	N/A	21.9	N/A	14.2	N/A	10.4
EV/EBITDA (x)	6.9	8.6	10.7	6.7	7.8	5.2	5.8
Price/book (x)	2.8	N/A	2.5	N/A	2.2	N/A	1.9
Dividend yield (%)	1.8	N/A	0.9	N/A	1.4	N/A	1.9
ROE (%)	32.1	21.8	12.1	23.9	16.6	24.0	19.6
Net debt/equity (%)	5.2	3.3	2.4	net cash	net cash	net cash	net cash

Source: Company data, Nomura estimates

Key company data: *See page 2 for company data and detailed price/index chart.*

Anchor themes

Decades of under-investment, followed by a march towards building sufficient power for the nation, has created significant opportunities, although structural constraints and rising competition suggest the need to be selective.

Nomura vs consensus

Our earnings estimates are 7%-14% below consensus as we become more cautious on margin recovery.

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See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

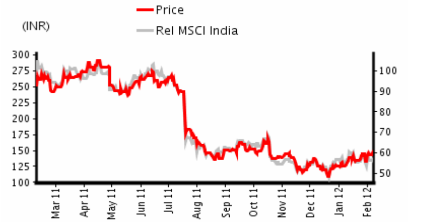
Key data on Crompton Greaves

Income statement (INRmn)

Year-end 31 Mar	FY10	FY11	FY12F	FY13F	FY14F
Revenue	**91,409**	**100,051**	**111,134**	**121,482**	**138,522**
Cost of goods sold	-59,517	-66,916	-80,319	-85,781	-97,073
Gross profit	**31,892**	**33,135**	**30,816**	**35,700**	**41,449**
SG&A	-9,542	-9,822	-10,608	-11,456	-12,373
Employee share expense	-11,131	-11,811	-14,174	-15,308	-16,838
Operating profit	**11,219**	**11,502**	**6,034**	**8,936**	**12,237**
EBITDA	**12,770**	**13,438**	**8,559**	**11,503**	**15,116**
Depreciation	-1,551	-1,936	-2,525	-2,566	-2,878
Amortisation					
EBIT	11,219	11,502	6,034	8,936	12,237
Net interest expense	-428	-352	-474	-572	-572
Associates & JCEs	32	80	80	80	80
Other income	1,100	1,142	670	733	811
Earnings before tax	**11,922**	**12,372**	**6,310**	**9,177**	**12,556**
Income tax	-3,650	-3,100	-2,118	-2,729	-3,743
Net profit after tax	**8,272**	**9,272**	**4,192**	**6,448**	**8,814**
Minority interests	-26	-4	-17	-18	-20
Other items					
Preferred dividends					
Normalised NPAT	**8,247**	**9,268**	**4,175**	**6,430**	**8,794**
Extraordinary items					
Reported NPAT	**8,247**	**9,268**	**4,175**	**6,430**	**8,794**
Dividends	-947	-1,645	-822	-1,274	-1,747
Transfer to reserves	**7,299**	**7,623**	**3,353**	**5,157**	**7,047**
Valuation and ratio analysis					
FD normalised P/E (x)	11.1	9.9	21.9	14.2	10.4
FD normalised P/E at price target (x)	9.2	8.2	18.1	11.8	8.6
Reported P/E (x)	11.1	9.9	21.9	14.2	10.4
Dividend yield (%)	1.0	1.8	0.9	1.4	1.9
Price/cashflow (x)	9.7	17.0	14.5	10.6	9.6
Price/book (x)	3.7	2.8	2.5	2.2	1.9
EV/EBITDA (x)	7.0	6.9	10.7	7.8	5.8
EV/EBIT (x)	8.0	8.0	15.1	10.0	7.1
Gross margin (%)	34.9	33.1	27.7	29.4	29.9
EBITDA margin (%)	14.0	13.4	7.7	9.5	10.9
EBIT margin (%)	12.3	11.5	5.4	7.4	8.8
Net margin (%)	9.0	9.3	3.8	5.3	6.3
Effective tax rate (%)	30.6	25.1	33.6	29.7	29.8
Dividend payout (%)	11.5	17.7	19.7	19.8	19.9
Capex to sales (%)	1.7	7.6	7.7	4.9	4.3
Capex to depreciation (x)	1.0	3.9	3.4	2.3	2.1
ROE (%)	38.0	32.1	12.1	16.6	19.6
ROA (pretax %)	21.4	18.9	8.4	11.2	13.9
Growth (%)					
Revenue	4.6	9.5	11.1	9.3	14.0
EBITDA	28.3	5.2	-36.3	34.4	31.4
EBIT	28.4	2.5	-47.5	48.1	36.9
Normalised EPS	47.3	12.4	-55.0	54.0	36.8
Normalised FDEPS	47.3	12.4	-55.0	54.0	36.8
Per share					
Reported EPS (INR)	12.85	14.45	6.51	10.02	13.71
Norm EPS (INR)	12.85	14.45	6.51	10.02	13.71
Fully diluted norm EPS (INR)	12.85	14.45	6.51	10.02	13.71
Book value per share (INR)	39.04	51.05	56.27	64.31	75.29
DPS (INR)	1.48	2.56	1.28	1.99	2.72

Source: Company data, Nomura estimates

Relative performance chart (one year)



Source: ThomsonReuters, Nomura research

(%)	1M	3M	12M
Absolute (INR)	12.9	-1.6	-46.2
Absolute (USD)	20.9	-1.8	-50.2
Relative to index	0.7	-1.6	-43.1
Market cap (USDmn)	1,859.8		
Estimated free float (%)	54.9		
52-week range (INR)	297/107.1		
3-mth avg daily turnover (USDmn)	6.42		
Major shareholders (%)			
Avantha Holdings	39.9		
Solaris Holding	22.8		

Source: Thomson Reuters, Nomura research

Notes

FY13F/14F numbers already build in a strong recovery

Cashflow (INRmn)

Year-end 31 Mar	FY10	FY11	FY12F	FY13F	FY14F
EBITDA	12,770	13,438	8,559	11,503	15,116
Change in working capital	-125	-4,459	282	357	-1,321
Other operating cashflow	-3,207	-3,588	-2,529	-3,239	-4,255
Cashflow from operations	**9,437**	**5,391**	**6,311**	**8,622**	**9,540**
Capital expenditure	-1,526	-7,593	-8,550	-6,000	-6,000
Free cashflow	**7,911**	**-2,202**	**-2,239**	**2,622**	**3,540**
Reduction in investments	-3,864	-1,211	3,256	0	0
Net acquisitions					
Reduction in other LT assets					
Addition in other LT liabilities					
Adjustments	1,100	1,142	670	733	811
Cashflow after investing acts	**5,148**	**-2,271**	**1,687**	**3,354**	**4,351**
Cash dividends	-947	-1,645	-822	-1,274	-1,747
Equity issue	-2,173	-306	2,446	0	0
Debt issue	0	0	0	0	0
Convertible debt issue					
Others	-996	518	0	0	0
Cashflow from financial acts	**-4,116**	**-1,433**	**1,623**	**-1,274**	**-1,747**
Net cashflow	**1,032**	**-3,704**	**3,310**	**2,081**	**2,604**
Beginning cash	5,656	6,688	2,984	6,294	8,375
Ending cash	6,688	2,984	6,294	8,375	10,979
Ending net debt	-1,679	1,719	854	-1,226	-3,831

Source: Company data, Nomura estimates

Notes

Sufficient free cash flow to fund the current quantum of capex and acquisitions

Balance sheet (INRmn)

As at 31 Mar	FY10	FY11	FY12F	FY13F	FY14F
Cash & equivalents	6,688	2,984	6,294	8,375	10,979
Marketable securities					
Accounts receivable	21,463	25,427	30,448	31,618	36,054
Inventories	10,194	11,893	12,788	13,679	15,484
Other current assets	2,674	5,192	5,307	5,801	6,614
Total current assets	**41,018**	**45,496**	**54,837**	**59,473**	**69,131**
LT investments	5,536	6,747	3,492	3,492	3,492
Fixed assets	13,760	19,417	25,442	28,875	31,997
Goodwill					
Other intangible assets					
Other LT assets	0	0	0	0	0
Total assets	**60,314**	**71,660**	**83,770**	**91,840**	**104,620**
Short-term debt					
Accounts payable	26,567	29,595	35,431	37,900	42,900
Other current liabilities	3,603	4,298	4,774	5,218	5,950
Total current liabilities	**30,170**	**33,892**	**40,205**	**43,118**	**48,851**
Long-term debt	5,010	4,703	7,149	7,149	7,149
Convertible debt					
Other LT liabilities	49	160	160	160	160
Total liabilities	**35,229**	**38,756**	**47,513**	**50,427**	**56,159**
Minority interest	43	157	157	157	157
Preferred stock	0	0	0	0	0
Common stock	1,283	1,283	1,283	1,283	1,283
Retained earnings	23,760	31,464	34,817	39,973	47,020
Proposed dividends					
Other equity and reserves					
Total shareholders' equity	**25,043**	**32,747**	**36,100**	**41,256**	**48,303**
Total equity & liabilities	**60,314**	**71,660**	**83,770**	**91,840**	**104,620**
Liquidity (x)					
Current ratio	1.36	1.34	1.36	1.38	1.42
Interest cover	26.2	32.7	12.7	15.6	21.4
Leverage					
Net debt/EBITDA (x)	net cash	0.13	0.10	net cash	net cash
Net debt/equity (%)	net cash	5.2	2.4	net cash	net cash
Activity (days)					
Days receivable	83.9	85.5	92.0	93.2	89.2
Days inventory	64.8	60.2	56.2	56.3	54.8
Days payable	161.3	153.2	148.2	156.0	151.9
Cash cycle	-12.5	-7.4	0.1	-6.5	-7.9

Source: Company data, Nomura estimates

Notes

Working capital cycle is lengthening and needs to be tracked

Margin pressure likely to continue

3QFY12 results review

Above or below consensus?

Crompton Greaves' 3QFY12 results surprised negatively yet again as subsidiary margins deteriorated further, belying expectations of an improving trend. Overall, the results were 36% and 46% below Nomura and consensus estimates, respectively.

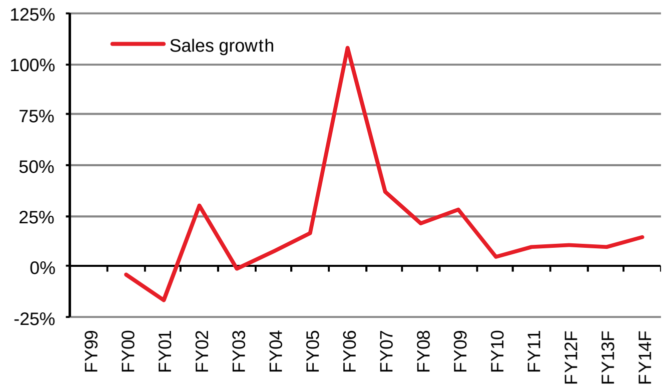
In the subsequent analyst meet, management clarified that the poor margins were due to changed product mix, higher raw material cost and one particular project (in the international business) completed during the quarter but that had zero margins. In contrast, we had initially interpreted the fall in margins to be a result of inventory liquidation at a discount.

While we also earlier noted a few positives from the results such as a strong pick-up in power system revenue as well as strong order intake, we are now increasingly concerned over CRG's medium-term margin outlook on the back of continued negative surprises on the same for four quarters in a row.

Our concerns emanate from the following key observations (in sync with investors who saw this much before us):

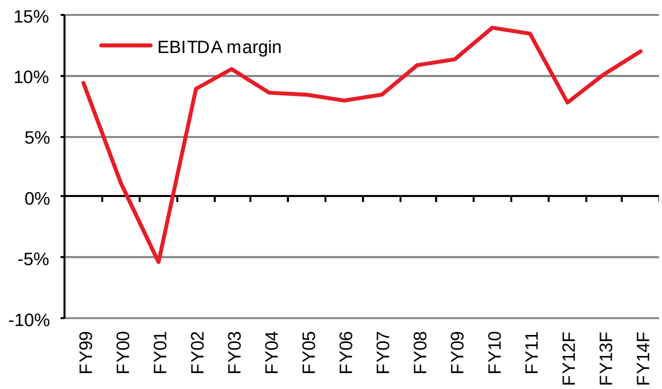
- Margins continue to worsen across segments despite a revenue pick-up; inspires little confidence in margin recovery when growth stabilises.
- Order inflow in the current environment might continue to deliver sub-normal margins due to heightened competitive intensity.
- Management has refrained from giving guidance for the FY13 outlook and has further hinted that the FY12F guidance could be at risk.

Fig. 1: Sales growth has been under pressure



Source: Company, Nomura estimates

Fig. 2: Forecast margins are still close to peak levels; we see downside risks



Source: Company, Nomura estimates

Fig. 3: CRG 3QFY12 results against estimates

Consolidated results

INR Mn	Dec-11	Nomura Est	Consensus Est	Dec-10	Sep-11	Change y-y	Change q-q
Net Sales	30,280	27,378	26,688	23,970	27,055	26%	12%
Operating EBITDA	1,826	2,384	2,459	3,402	2,260	-46%	-19%
EBITDA Margin	6.0%	8.7%	9.2%	14.2%	8.4%		
Reported PAT	771	1,205	1,375	2,328	1,167	-67%	-34%
Recurring EPS (Rs)	1.20	1.88	2.21	3.63	1.82	-67%	-34%

Source: Company data, Bloomberg, Nomura estimates

What do the results mean?

- The domestic power-systems business returned to solid growth after a gap of almost three years and posted 29.9% y-y growth.
- The domestic industrial-systems business continued to grow in double digits, although it is trending downwards from high teens to early teens now.

- Consumer products' revenue growth remained muted at 5.9% y-y.
- The international business revenue growth was also very strong at 40.6% (possibly also aided by a weakening INR vs. euro during the quarter).
- We notice a sharp liquidation of the stock in trade in the international segment during the quarter – this is partly due to the liquidation of unsold custom-built transformers that the company had been carrying since 1QFY12.
- The RM/sales ratio rose sharply in the international business (from ~61% in 1HFY12 to 67.2%).

Key numbers

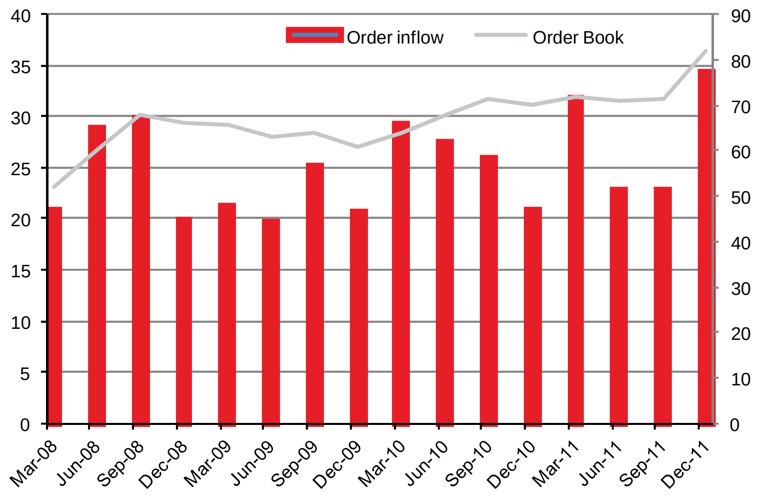
- CRG reported net income of INR0.77bn against Nomura's estimates of INR1.2bn and consensus estimates of INR1.37bn.
- Sales were strong, 11-13% ahead of Nomura and consensus estimates.
- Consolidated EBITDA margins plunged to 6%, down 240bp y-y mainly on account of a drop in gross margins in the international division.
- We note that the power-systems segment posted strong growth of ~30%y-y compared with a decline of 7% y-y in 2QFY12.

Key takeaways from management conference call post 3QFY12 results

- Management has refrained from giving guidance for FY13 as well as from confirming the guidance given for FY12 on account of changing macro conditions. Management had previously given guidance of 10-12% revenue growth and 8-10% EBITDA margins at the consolidated level for FY12F during the 1QFY12 call.
- Order inflows in 3QFY12 had been strong at INR34bn with order backlog of INR81.8bn. The domestic power-systems business has seen a pick-up in order activities. According to management, the company has received orders for 17 transformers of 756kV rating from Power Grid Corporation of India Limited (PGCIL) in January 2012.

Fig. 4: A sharp pickup in order inflows in Q3FY12

INR bn



Source: Company data

- The project mix accounted for ~500bps margin erosion in the consolidated power-systems segment, while another 300bps erosion due to increased raw material cost. According to management, the margins were also affected by a project worth EUR50mn that fetched zero margin which was completed in the quarter.
- The company has increased capacity of its factories in Indonesia and Brazil to better serve the local markets and get cost advantages.
- The tax benefit from increased R&D spending may not happen in FY12F and the tax rate for the full year is likely to be around 9MFY12 levels of ~34%.

• The company has sold the aircraft bought in the previous year at book value. As such, this will have no impact on earnings for FY12.

There has been no increase in loans and advances given to subsidiaries against the previous quarter on account of lower working capital needs. Inventory days decreased from 84 days to 56 days. The debtor days were flat over 1HFY12.

Fig. 5: Detailed results

Consolidated results

INR Mn	Dec-11	Sep-11	Dec-10
Net Sales	**30,280**	**27,055**	**23,970**
Other Income	155	215	120
Total Income	31,347	28,092	24,869
Expenditure			
(Increase)/Decrease - Stock in trade	4,063	(1,847)	423
Consumption of Raw materials	13,961	17,545	11,984
Purchase of traded goods	3,273	2,502	2,490
Staff Cost	3,929	3,574	3,005
Other Expenditure	3,227	3,021	2,667
Interest	112	102	39
Depreciation,amortisation and impairment	627	726	467
Profit before Tax	1,242	1,646	3,017
Provision for Taxation	487	463	703
Net Profit After Tax	755	1,183	2,313
Minority interest and share of associates	16	(17)	15
PAT	**771**	**1,167**	**2,328**
Recurring EPS	**1.20**	**1.82**	**3.63**
Core EBITDA Margin	**6.0%**	**8.4%**	**14.2%**
Tax rate	28.0%	28.1%	23.3%
EBIT Margin			
Domestic power business	10.7%	11.2%	19.8%
International power business	-2.2%	2.3%	8.9%
Consumer products	11.8%	11.3%	14.0%
Domestic Industrial systems	14.6%	15.7%	18.2%
Key cost heads as % of sales			
Raw materials (including trading goods)	70.3%	67.3%	62.1%
Staff cost	13.0%	13.2%	12.5%
Other Expenditure	10.7%	11.2%	11.1%
Core EBITDA	6.0%	8.4%	14.2%
Growth %			
Net sales	26.3%	12.8%	6.7%
Operating Profit	-46.3%	-32.2%	6.2%
PAT	-66.9%	-45.4%	16.4%
Consolidated Segment Revenue			
(a) Power Systems	20,689	17,611	15,452
(b) Consumer Products	5,033	4,801	4,751
(c) Industrial Systems	4,749	4,655	3,809
(d) Others	45	58	57
Total	30,515	27,126	24,069
Consolidated Segment EBIT			
(a) Power Systems	518	934	2,008
(b) Consumer Products	593	543	666
(c) Industrial Systems	494	558	694
(d) Others	8	7	(145)
Total	1,612	2,041	3,223
Consolidated EBIT Margin			
(a) Power Systems	3%	5%	13%
(b) Consumer Products	12%	11%	14%
(c) Industrial Systems	10%	12%	18%

Source: Company data, Nomura research

Fig. 6: 3QFY12 segment results

In INR mn

Standalone	Dec-11	Sep-11	Dec-10	
Segment Revenue				
(a) Power Systems	7,542	5,988	5,807	
(b) Consumer Products	5,033	4,801	4,751	
(c) Industrial Systems	3,886	3,766	3,497	
(d) Others	19	30	30	
Total	16,481	14,585	14,085	
Less: Intersegment revenue	236	71	99	
Sales/Income from operations	16,245	14,515	13,986	
Standalone Segment Results				
(a) Power Systems	811	672	1,149	
(b) Consumer Products	593	543	666	
(c) Industrial Systems	567	591	637	
(d) Others	2	3	6	
Total	1,972	1,808	2,458	
Standalone Sales Growth %				
(a) Power Systems	29.9%	-7.0%	2.1%	Pick up in power systems after ~3 years
(b) Consumer Products	5.9%	3.6%	30.3%	Consumer products growth remains muted
(c) Industrial Systems	11.1%	9.4%	20.1%	
International division p&L	**Dec-11**	**Sep-11**	**Dec-10**	
Net Sales	14,035	12,541	9,984	
Other Income	20	47	(101)	
Total Income	14,058	12,591	9,886	
Expenditure				
(Increase)/Decrease - Stock in trade	4,052	(2,145)	242	Reversal in inventory partly due to liquidation of unsold inventory accumulated in previous quarters
Consumption of Raw materials	5,253	9,853	5,225	
Purchase of traded goods	127	-	11	
Staff Cost	3,020	2,682	2,232	
Other Expenditure	1,509	1,504	1,154	
Interest	136	102	15	
Depreciation,amortisation and impairment	458	459	256	
Total Expenditure	14,559	12,459	9,137	
Profit before Tax	(501)	132	749	
Provision for Taxation	11	72	196	
Net Profit After Tax	(512)	60	553	
Operating EBITDA margin	0.5%	5.1%	11.2%	Margins remain under pressure
Tax rate	-2.1%	54.5%	26.2%	
International sales growth	40.6%	31.6%	-2.4%	Sharp increase in RM/sales
RM cost to sales	67.2%	61.5%	54.9%	
Staff cost to sales	21.5%	21.4%	22.4%	
Other expenses to sales	10.8%	12.0%	11.6%	

Source: Company data, Nomura research

What do the results imply for our earnings estimates for FY12F and ahead?

We are cutting our estimates by 30-45% over FY12-14F, led by lower-than-earlier expected revenue growth and margins.

Changes to our earnings estimates are driven by:

1) Slower growth assumptions for the international business and the domestic consumer business for FY13F.

2) Our revenue growth assumption estimate for FY12F is 11% y-y, which is at the middle of the guidance of 10-12%, primarily driven by our increased skepticism

on the international markets. We build in growth of 9% in FY13F revenue estimate.

3) Our margin estimate of 7.7% for FY12 is at the lower end of guidance as we think competitive pressure will hamper the recovery. However, margins will improve in FY13 to 9.5%, though still lower than earlier peaks, in our view.

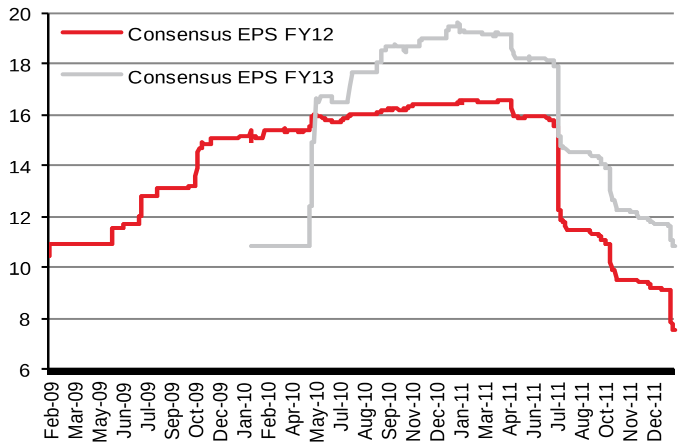
4) Our EPS estimate of INR6.51 for FY12F suggests an earnings decline of 55% y-y before it recovers to INR10 in FY13F. We are building in no benefit from increased R&D spending in FY12F.

What are consensus estimates building in?

Mean consensus EPS estimates have corrected by 45-50% for CRG since their peak, with recent estimates falling even lower. However, FY12 consensus estimates face further downside of 10-15% given risks to margins and sales from a likely severe global slowdown, in our view.

Fig. 7: Further downside of 10-15% possible for FY12F earnings

INR



Source: Bloomberg

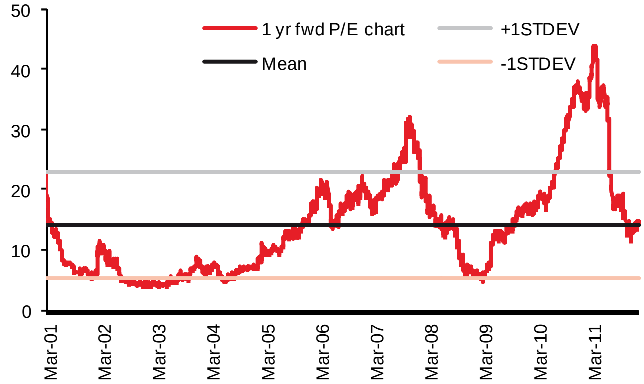
Valuation: The stock is still expensive on lowered estimates; downgrade to Reduce

We now value CRG at 11x (from 15x earlier) Sep-13F EPS of INR11.8 to arrive at our revised TP of INR130 (from INR240). Our change in multiple from 15x to 11x reflects a discount to the mid-cycle multiples as the uncertainty over earnings for CRG has increased substantially and its ROE profile continues to deteriorate.

We peg CRG's target multiple at a 10% discount to the peer average of 12.3x Sep-13F EPS. Our assigned discount of 10% to the sector average is justified as CRG's ROE profile is expected to remain at a 15-20% discount to the peers given the structural shift in margins and rising risks in international markets.

Fig. 8: Stock is trading at 10-year mean trading multiples…

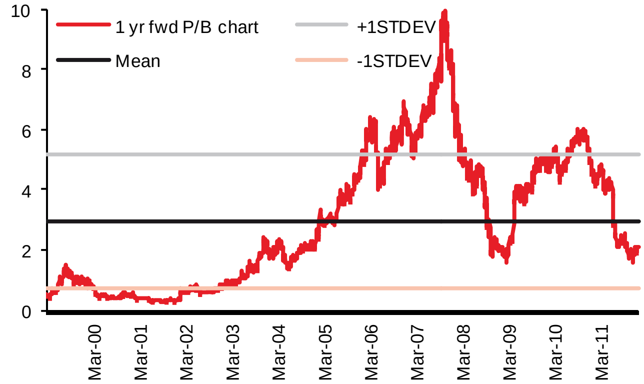
Crompton Greaves 1-year fwd P/E



Source: Company, Bloomberg, Nomura research

Fig. 9: …while slightly lower on average levels since FY06

Crompton Greaves 1-year fwd P/B



Source: Company, Bloomberg, Nomura research

Fig. 10: Sector valuation comps

INR

	Ticker	Rating	Target Price	Market Price	P/E (x)				EPS CAGR		ROE (%)			
					FY11	FY12F	FY13F	FY14F	FY10-12F	FY12-14F	FY11	FY12F	FY13F	FY14F
BHEL	BHEL IN	Buy	332	260	11.9	9.6	9.2	9.2	11%	2%	33.3	29.5	25.5	21.7
ABB India	ABB IN	Reduce	525	863	130.8	58.8	39.7	31.3	-6%	37%	2.6	12.1	15.9	17.5
Cummins India	KKC IN	Reduce	375	422	20.2	20.9	18.3	15.5	13%	16%	35.1	31.2	29.2	30.3
Crompton Greaves	CRG IN	Reduce	130	143	9.9	22.0	14.3	10.4	-29%	45%	32.1	12.1	16.6	19.6
Thermax	TMX IN	Reduce	440	487	15.2	14.8	17.3	14.0	23%	3%	31.9	27.0	19.5	21.0
Larsen & Toubro	LT IN	Buy	1691	1,355	15.2	13.0	11.0	9.4	17%	18%	19.7	18.3	18.6	18.5
Voltas	VOLT IN	Buy	150	100	10.4	12.2	10.2	8.3	-16%	21%	29.2	21.7	18.4	19.5
Covered companies' average					**13.8**	**15.4**	**13.4**	**11.1**	**3%**	**17%**	**30.2**	**23.3**	**21.3**	**21.8**
Siemens India*	SIEM IN	Unrated	-	777	30.1	29.9	28.7	24.8	8%	10%	25.5	22.8	20.3	20.6
Areva T&D India*	ATD IN	Unrated	-	177	24.4	21.8	17.8	14.2	1%	24%	18.0	17.4	18.5	20.8
AIA Engineering*	AIAE IN	Unrated	-	308	15.9	16.3	13.6	11.7	2%	18%	18.6	15.7	16.3	16.5
Bharat Electronics*	BHE IN	Unrated	-	1,482	14.8	13.0	11.3	10.2	11%	12%	16.8	16.9	16.4	16.5
Carborundum Universal*	CU IN	Unrated	-	154	8.4	7.9	6.7	10.9	34%	-15%	22.4	21.2	21.4	21.6
Blue Star*	BLSTR IN	Unrated	-	179	10.0	10.2	7.9	7.2	-6%	19%	27.0	25.0	29.1	32.5
Sector Average					**15.1**	**15.6**	**12.5**	**11.0**	**6%**	**15%**	**24.7**	**20.5**	**20.2**	**21.7**

Price as on 7th February, 2012.

* Consensus estimates for unrated companies

Source: Company data, Bloomberg, Nomura estimates

Investment risks

–A significant movement in currency.

–A pick-up in the domestic power sector's investments.

–Recovery from industrial slowdown could boost the industrial segment.

–Increased consumer spending could help fans and lighting segments performance.

Appendix A-1

Analyst Certification

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Mentioned companies

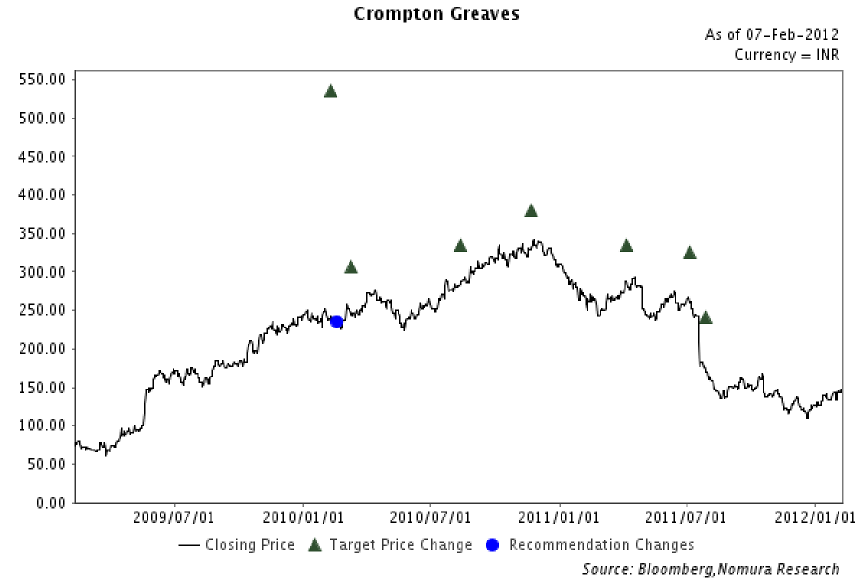
Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Crompton Greaves	CRG IN	INR 144	08-Feb-2012	Reduce	Not rated	

Previous Rating

Issuer name	Previous Rating	Date of change
Crompton Greaves	Buy	08-Feb-2012

Crompton Greaves (CRG IN) **INR 144 (08-Feb-2012)** Reduce (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
28-Jul-11		240.00	172.70
05-Jul-11		325.00	259.55
07-Apr-11		335.00	287.95
22-Nov-10		380.00	330.90
12-Aug-10		335.00	283.15
10-Mar-10		306.00	244.25
09-Feb-10	Buy		243.11
09-Feb-10		535.00	243.11

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value the core business at 11x Sep-13F EPS of INR11.8 to arrive at our target price of INR130. Our multiple of 11x reflects a discount to the mid-cycle multiple for the stock, which we believe is justified under the current circumstance of reduced earnings visibility.

Risks that may impede the achievement of the target price Key upside risks: 1)Significant movement in currency. 2)Pick-up in domestic power sector investments. 3)Recovery from industrial slowdown could boost the industrial segment. 4)Increased consumer spending could help the fans and lighting segments.

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STOCKS

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Explanation of Nomura's equity research rating system in Japan and Asia ex-Japan

STOCKS

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A '**Buy'** recommendation indicates that potential upside is 15% or more. A '**Neutral'** recommendation indicates that potential upside is less than 15% or downside is less than 5%. A '**Reduce'** recommendation indicates that potential downside is 5% or more. A rating of '**Suspended'** indicates that the rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the subject company.

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