

Current	Previous
CMP : Rs.108	
Reco : SELL	Reco : SELL
Target : Rs.86	Target : Rs.86

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)	68,992
52w H/L (Rs)	167/ 100
3m Avg Daily Volume (BSE + NSE)	2,981,142

SHAREHOLDING PATTERN

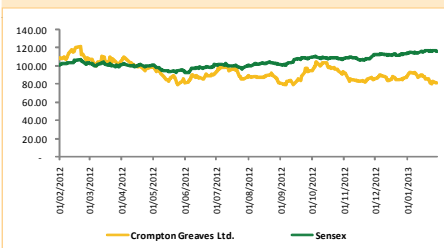
	%
(as on 31st Dec. 2012)	
Promoters	41.7
FII's	17.9
DII's	21.8
Public & Others	18.7

Source: BSE

STOCK PERFORMANCE (%)	1m	3m	12m
CROMPTON GREAVES	-7	-14	-19
SENSEX	3	8	16

Source: Capitaline, IndiaNivesh Research

CROMPTON GREAVES v/s SENSEX



Source: Capitaline, IndiaNivesh Research

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Bad times for Crompton Greaves (CG) continue, as the company continued disappointing across most of the areas.

Standalone business

- CG reported a top-line of Rs 17.4 bn, which is up 7.5% on a year-over-year basis. Increased traction from fans & appliances contributed to 20.6% year-over-year growth in Consumer products (~34.8% of Q3FY13 revenues) top-line. Power systems (~38.4% of Q3FY13 revenues) witnessed 4.5% year-over-year decline. Decline in segment revenues was mainly due to 20 days shut-down of Nashik factory. In management's view this shut-down resulted in a top-line loss of Rs 270 mn.
- EBITDA margins declined 320 bps on a year-over-year basis to 7.6% in Q3FY13. Increased competition in the domestic power segment has led to project executions at lower margins. Surge in year-over-year material (10.9% up to Rs 13.1 bn) & other expenses (14.4% up to Rs 1.9 bn) led to EBITDA margin compression.
- In line with EBITDA margin movement, PAT margins declined from 7.8% in Q3FY12 to 6.1% in Q3FY13. PAT margin compression was restricted, as other income increased by 92.2% to Rs 259.7 mn.

Consolidated business

- CG reported a consolidated top-line of Rs 29.7 bn against our expectations of Rs 29.7 bn. The reported top-line numbers declined 1.9% on a year-over-year basis. However, they were up 1.6% sequentially. Sharp slow-down in International Power business led to 9.9% decline in Power Systems (61.2% of Q3FY13 revenues) top-line.
- CG reported an EBITDA of Rs 20.1 mn against our expectations of Rs 1.3 bn. From EBITDA margins perspective, EBITDA margins declined from 6.0% a year-ago to 0.1% in Q3FY13. Such decline in year-over-year EBITDA margins is mainly on account of 46.5% increase in other expenses (to Rs 4.7 bn). Other expenses during the quarter included ~Rs 1.0 bn of restructuring expenses (of this ~Rs 830 mn is for Q3FY13 and the remaining ~Rs 250 mn is for Q1FY13 and Q2FY13).
- The company reported a net loss of ~Rs 1.9 bn against our PAT expectations of Rs 377 mn. The reported PAT margins were at negative 6.4% (vs. positive 2.5% a year ago). In Dec, 2012, CG completed restructuring exercise at their Belgium plant. As part of restructuring initiative, 199 employees were laid down and paid Rs 1.2 bn as retrenchment expenses (shown under exceptional item). On adjusting for the same, the net loss margins of the company were at 2.3%. Management claims that the restructuring process at their Mechelen Plant, Belgium is completed & now they would end up saving annually Euro ~14-15 mn. Recent ZIV acquisition, mostly funded through debt, in our view led to 89.3% increase in year-over-year interest expenses (to Rs 212.6 mn).
- International Industrials business (i.e. Emetron subsidiary) reported positive operating performance, while forex loss dragged down the overall segment's EBIT margins from negative 8.4% a year-ago to negative 9.0% in Q3FY13.

Update on Order Book

During the quarter, CG reported OI to the tune of Rs 22.6 bn, below our expectations of ~Rs 30 bn.

Order Inflows (Rs mn)

	India	Non-India	Total
Power Systems	7,530	9,760	17,290
Industrial Systems	4,600	780	5,380
Totals	12,130	10,540	22,670

Source: Company Filings; IndiaNivesh Research

Order Book (Rs mn)

	India	Non-India	Total
Power Systems	37,030	4,810	41,840
Industrial Systems	48,840	1,640	50,480
Totals	85,870	6,450	92,320

Source: Company Filings; IndiaNivesh Research

With slow-down in the Q3FY13 OI, the overall OB at Q3FY13-end stood at Rs 92.3 bn (below our expectation of ~Rs 98 bn).

Outlook & Valuation

At CMP of Rs 108, CG is trading at FY13E and FY14E, P/E multiple of 28.5x and 17.9x, respectively.

Even though management claims that all restructuring initiatives at the Belgium plant are done, we are skeptical about any manufacturing quality costs likely to be incurred going forward (we would wait for 1-2 quarters till quality metrics improve at the plant before changing our view).

Also, the slow-down in the PGCIL award activity coupled with increase in competition from Chinese and local players, has led to a margin compression scenario in the domestic Power segment. We expect this trend to continue and do not see any scope for bounce back in the segment margins, in the near-to-mid term. Slow-down in European economies, in our view would lead to slow-down in the award activity, thereby impacting the future growth prospects from this region too.

With all these negatives surrounding the stock and the current unjustified rich valuations, we maintain our SELL rating on the stock with FY14E price target of Rs 86.

Particulars	CONSOLIDATED			y-o-y gr. (%)	q-o-q gr. (%)	STANDALONE			y-o-y gr. (%)	q-o-q gr. (%)
	Q3FY13	Q2FY13	Q3FY12			Q3FY13	Q2FY13	Q3FY12		
Sales	29,718.3	29,241.7	30,279.5	-1.9%	1.6%	17,460.5	16,702.1	16,244.6	7.5%	4.5%
Material Exp.	20,570.9	19,713.9	21,297.3	-3.4%	4.3%	13,158.9	12,223.7	11,865.0	10.9%	7.7%
Staff Exp.	4,401.0	4,419.6	3,929.3	12.0%	-0.4%	1,011.7	1,009.6	909.4	11.2%	0.2%
Other Exp.	<u>4,726.3</u>	<u>3,743.4</u>	<u>3,226.7</u>	46.5%	26.3%	<u>1,964.6</u>	<u>1,998.7</u>	<u>1,717.3</u>	14.4%	-1.7%
Total Operating Exp.	29,698.2	27,876.9	28,453.3	4.4%	6.5%	16,135.2	15,232.0	14,491.7	11.3%	5.9%
EBITDA	20.1	1,364.8	1,826.2	-98.9%	-98.5%	1,325.3	1,470.1	1,752.9	-24.4%	-9.8%
EBITDA Margin (%)	0.1%	4.7%	6.0%			7.6%	8.8%	10.8%		
Depreciation Exp.	<u>565.7</u>	<u>544.3</u>	<u>626.7</u>	-9.7%	3.9%	<u>180.1</u>	<u>175.0</u>	<u>169.0</u>	6.6%	2.9%
EBIT	(545.6)	820.5	1,199.5	-145.5%	-166.5%	1,145.2	1,295.1	1,583.9	-27.7%	-11.6%
EBIT Margin (%)	-1.8%	2.8%	4.0%			6.6%	7.8%	9.8%		
Interest Exp.	212.6	189.6	112.3	89.3%	12.1%	(32.3)	(59.3)	(23.6)	36.9%	-45.5%
Other Income	<u>303.5</u>	<u>207.6</u>	<u>154.6</u>	96.3%	46.2%	<u>259.7</u>	<u>146.7</u>	<u>135.1</u>	92.2%	77.0%
EBT	(454.7)	838.5	1,241.8	-136.6%	-154.2%	1,437.2	1,501.1	1,742.6	-17.5%	-4.3%
Exceptional Items	(1,207.1)	0.0	0.0			0.0	0.0	0.0		
Tax Exp.	228.0	413.8	486.8	-53.2%	-44.9%	375.7	384.2	476.1	-21.1%	-2.2%
Tax Rate (%)	-50.1%	49.4%	39.2%			26.1%	25.6%	27.3%		
PAT bef. Ext.-Income	(1,889.8)	424.7	755.0	n/m	n/m	1,061.5	1,116.9	1,266.5	-16.2%	-5.0%
Minority Interest	0.1	5.3	3.3			0.0	0.0	0.0		
Sh. of P/L of Associate Co.	<u>(3.9)</u>	<u>(9.5)</u>	<u>13.1</u>			<u>0.0</u>	<u>0.0</u>	<u>0.0</u>		
Recurring PAT	(1,893.6)	420.5	771.4	n/m	n/m	1,061.5	1,116.9	1,266.5	-16.2%	-5.0%
Recurring PAT Margin (%)	-6.4%	1.4%	2.5%			6.1%	6.7%	7.8%		
Extra-Ord. Item	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>			<u>0.0</u>	<u>0.0</u>	<u>0.0</u>		
Reported PAT	(1,893.6)	420.5	771.4	n/m	n/m	1,061.5	1,116.9	1,266.5	-16.2%	-5.0%
Reported PAT Margin (%)	-6.4%	1.4%	2.5%			6.1%	6.7%	7.8%	-22.0%	-9.1%
EPS- Diluted	(3.0)	0.7	1.2			1.7	1.7	2.0		

Note: n/m- Not Meaningful; Source: Company Filings, IndiaNivesh Research



Trust.....we earn it.

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