

May 28, 2012

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Rating	Accumulate
Price	Rs106
Target Price	Rs126
Implied Upside	18.9%
Sensex	16,218
Nifty	4,920

(Prices as on May 25, 2012)
Trading data

Market Cap. (Rs bn)	0.0
Shares o/s (m)	642.0
3M Avg. Daily value (Rs m)	298.9

Major shareholders

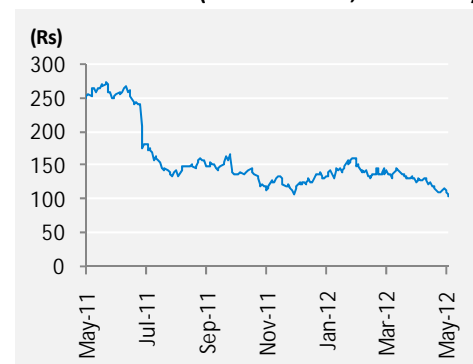
Promoters	41.69%
Foreign	18.70%
Domestic Inst.	20.74%
Public & Other	18.87%

Stock Performance

(%)	1M	6M	12M
Absolute	(20.2)	(12.1)	(58.3)
Relative	(14.8)	(15.4)	(49.2)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	8.9	10.3	-13.5
2014	11.4	12.4	-8.0

Price Performance (RIC: CROM.BO, BB: CRG IN)


Source: Bloomberg

■ **Pain in subsidiaries continues:** Crompton Greaves (CRG) disappointed the street again with lower-than-expected PAT numbers; PAT numbers were lower by ~40%. The consolidated PAT came in at Rs1bn against our estimate of Rs1.6bn. The disappointing PAT numbers were primarily driven by a loss of Rs408m at subsidiary level. Apart from poor pricing levels, the issue related to deferment of orders in both USA and European markets, certain cost related to product development and shifting of orders from the Belgium plant to the plant in Hungary impacted earnings in subsidiaries. In standalone business, profitability in power and industrial segment continues to fall QoQ. However, the company commented that the pricing in domestic business is stabilizing; however, we think it could continue to see pressure.

■ **A three-year action plan to set thing right and rolling:** Management highlighted its three-year action plan to improve margins and grow sales. **(1)** Improve Offerings *(a)* move towards high value offerings both in Power (1200/765 kV) and Industrial segments (energy efficient motors/drives for global markets) *(b)* enter new segments like engineering services for utilities *(c)* enter new geographies like Brazil, Europe and Middle East. The company believes that this should help improve EBITDA margins by 150bps over the next three years; **(2)** Measures to improvise the sourcing. The management has put in place a global sourcing organization with new sourcing office opened in Shanghai. It believes that the improved sourcing effort should help improve margins by 150bps over the next three years. **(3)** Optimize manufacturing footprint *(a)* The company will consolidate the European platform by FY13 to ensure loading to factories and optimize production based on cost *(b)* expected to add 50,000 MVA capacity in India to take the total capacity to 1,40,000MVA *(c)* to implement CGPS in European plants. The company believes this should help margins improve by 100bps over next three years.

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Key financials (Y/e March)

	2011	2012	2013E	2014E
Revenues (Rs m)	100,051	112,486	129,746	149,933
Growth (%)	9.5	12.4	15.3	15.6
EBITDA (Rs m)	13,442	8,036	10,134	12,585
PAT (Rs m)	9,116	3,611	5,706	7,334
EPS (Rs)	14.2	5.6	8.9	11.4
Growth (%)	10.7	(60.4)	58.0	28.5
Net DPS (Rs)	2.6	0.9	1.3	1.7

Profitability & Valuation

	2011	2012	2013E	2014E
EBITDA margin (%)	13.4	7.1	7.8	8.4
RoE (%)	31.5	10.5	14.8	16.6
RoCE (%)	27.6	9.3	12.1	14.3
EV / sales (x)	0.7	0.7	0.6	0.5
EV / EBITDA (x)	5.2	9.3	7.2	5.6
PE (x)	7.5	18.8	11.9	9.3
P / BV (x)	2.1	1.9	1.7	1.4
Net dividend yield (%)	2.4	0.8	1.3	1.6

Source: Company Data; PL Research

(4) Continuous improvement: This includes implementing six-sigma and rolling out sustainability program in each unit. This should help improve EBITDA margins by 50bps over the next three years. The plan, though quite elaborate, is a long drawn process and we are not sure that the management has factored in uncertainties of entering new business, geographies as well as other market uncertainties in target improving to 400bps over the next three years.

- **Guidance for FY13:** The company has guided for a sales growth of 12-14% on top-line and EBITDA margin of 8-9%. We believe the guidance on margin is slightly ambitious, given that the margin in domestic power business is likely to be under pressure and there would be uncertainty in international subsidiaries. The company is also quite confident of improved order intake in FY13, mainly driven by UHV and renewable markets in Asia, Europe and America in power SBU. In industrial SBU, penetration of European and Middle East should support growth and in consumer SBU, portfolio expansion and consolidation of trade channel should yield results.
- **Focusing to grow industrial and consumer business:** The management is looking at industrial business by increasing export to Europe markets with new offering (mainly motors). It is also increasing focus on railways business in India (for traction motors) and scaling up the new drives business (Emotron) in Indian market and export market. In the consumer business, it is looking at further improving the product offering in fans (both consumer and speciality fans). It believes speciality fans like industrial fans, solar fans and off grid fans have huge potential market in coming years. It is also looking at increasing its presence in fast growth kitchen appliances and personal care products segment. Focus has also been improved in better channel management.
- **Outlook and Valuation:** The stock is trading at 11.9x FY13E earnings. Though the management has put in place a plan to increase profitability over medium term, we expect the near-term pressure on profitability to continue as management tries to put house in order, leading to continued under performance. Also, recent loss in credibility will make it difficult for the market to believe in the ability to execute the plan.

Exhibit 1: Q4FY12 Result Overview - Standalone (Rs m)

Y/e March	Q4FY12	Q4FY11	YoY gr. (%)	Q3FY12	FY12	FY11	YoY gr. (%)
Net Sales	19,406	17,652	9.9	16,245	64,854	59,515	9.0
Expenditure							
Raw Material	14,488	12,274	18.0	11,865	47,257	40,655	16.2
<i>% of Net Sales</i>	<i>74.7</i>	<i>69.5</i>		<i>73.0</i>	<i>72.9</i>	<i>68.3</i>	
Personnel Cost	916	861	6.4	909	3,636	3,102	17.2
<i>% of Net Sales</i>	<i>4.7</i>	<i>4.9</i>		<i>5.6</i>	<i>5.6</i>	<i>5.2</i>	
Others	2,029	1,875	8.2	1,717	6,754	6,433	5.0
<i>% of Net Sales</i>	<i>10.5</i>	<i>10.6</i>		<i>10.6</i>	<i>10.4</i>	<i>10.8</i>	
Total Expenditure	17,433	15,010	16.1	14,492	57,647	50,190	14.9
EBITDA	1,973	2,642	(25.3)	1,753	7,207	9,325	(22.7)
<i>Margin (%)</i>	<i>10.2</i>	<i>15.0</i>		<i>10.8</i>	<i>11.1</i>	<i>15.7</i>	
Other income	44	232	(80.9)	135	504	794	(36.5)
Depreciation	185	230	(19.6)	169	907	809	12.1
EBIT	1,832	2,643	(30.7)	1,719	6,804	9,310	(26.9)
Interest	46	30	52.5	(24)	41	40	
PBT	1,787	2,613	(31.6)	1,743	6,763	9,270	(27.0)
Total Taxes	418	437	(4.3)	476	1,718	2,327	(26.2)
<i>ETR (%)</i>	<i>23.4</i>	<i>16.7</i>		<i>27.3</i>	<i>25.4</i>	<i>25.1</i>	
PAT	1,369	2,176	(37.1)	1,267	5,044	6,943	(27.3)

Source: Company Data, PL Research

Exhibit 2: Operating Metrics – Standalone (Rs m)

Y/e March	Q4FY12	Q4FY11	YoY gr. (%)	Q3FY12	FY12	FY11	YoY gr. (%)
Revenues							
Power Systems	9,458	8,194	15.4	7,542	28,675	25,542	12.3
Industrial Systems	3,932	4,016	(2.1)	3,886	15,201	14,066	8.1
Consumer Products	6,065	5,508	10.1	5,033	21,336	20,212	5.6
Others	21	27	(22.3)	19	98	171	(42.5)
Total	19,406	17,652	9.9	16,245	64,841	59,578	8.8
EBIT							
Power Systems	907	1,479	(38.7)	811	3,106	4,602	(32.5)
Industrial Systems	521	642	(18.9)	567	1,733	1,984	(12.6)
Consumer Products	740	789	(6.2)	593	1,889	2,140	(11.7)
Others	4	8	(45.3)	2	13	30	(58.1)
Total	1,787	2,643	(32.4)	1,743	6,782	9,271	(26.8)
EBIT Margins (%)							
Power Systems	9.6	18.1		10.7	10.8	18.0	
Industrial Systems	13.2	16.0		14.6	11.4	14.1	
Consumer Products	12.2	14.3		11.8	8.9	10.6	

Source: Company Data, PL Research

Exhibit 3: Q3FY12 Result Overview - Consolidated (Rs m)

Y/e March	Q4FY12	Q4FY11	YoY gr. (%)	Q3FY12	FY12	FY11	YoY gr. (%)
Net Sales	30,774	29,080	5.8	30,280	112,486	100,051	12.4
Expenditure							
Raw Material	21,073	18,967	11.1	21,297	76,851	62,684	22.6
<i>% of Net Sales</i>	<i>68.5</i>	<i>65.2</i>		<i>70.3</i>	<i>68.3</i>	<i>62.7</i>	
Personnel Cost	3,938	2,719	44.8	3,929	14,662	11,811	24.1
<i>% of Net Sales</i>	<i>12.8</i>	<i>9.4</i>		<i>13.0</i>	<i>13.0</i>	<i>11.8</i>	
Others	3,631	3,658	(0.7)	3,227	12,937	12,113	6.8
<i>% of Net Sales</i>	<i>11.8</i>	<i>12.6</i>		<i>10.7</i>	<i>11.5</i>	<i>12.1</i>	
Total Expenditure	28,642	25,344	13.0	28,453	104,450	86,609	20.6
EBITDA	2,132	3,736	(42.9)	1,826	8,036	13,442	(40.2)
<i>Margin (%)</i>	<i>6.9</i>	<i>12.8</i>		<i>6.0</i>	<i>7.1</i>	<i>13.4</i>	
Other income	3	468	(99.3)	155	524	999	(47.6)
Depreciation	639	597	7.1	627	2,600	1,936	34.3
EBIT	1,496	3,608	(58.5)	1,354	5,960	12,505	(52.3)
Interest	139	72	93.1	112	464	209	121.6
PBT	1,357	3,535	(61.6)	1,242	5,497	12,296	(55.3)
Total Taxes	396	683	(42.0)	487	1,821	3,100	(41.2)
<i>ETR (%)</i>	<i>29.2</i>	<i>19.3</i>		<i>39.2</i>	<i>33.1</i>	<i>25.2</i>	
Share of Profit from Associate	40	49	(18.4)	-	60	62	(3.9)
PAT	1,000	2,852	(64.9)	755	3,735	9,258	(59.7)

Source: Company Data, PL Research

Exhibit 4: Operating Metrics - Consolidated (Rs m)

Y/e March	Q4FY12	Q4FY11	YoY gr. (%)	Q3FY12	FY12	FY11	YoY gr. (%)
Revenues							
Power Systems	19,683	19,235	2.3	20,689	73,149	65,029	12.5
Industrial Systems	5,001	4,346	15.1	4,749	18,202	14,971	21.6
Consumer Products	6,065	5,508	10.1	5,033	21,336	20,212	5.6
Others	94	85	11.2	45	255	316	(19.3)
Total	30,844	29,173	5.7	30,280	112,942	100,527	12.4
EBIT							
Power Systems	541	2,570	(78.9)	518	2,394	8,068	(70.3)
Industrial Systems	542	649	(16.5)	494	2,103	2,642	(20.4)
Consumer Products	740	789	(6.2)	593	2,629	2,928	(10.2)
Others	12	(132)	NA	8	38	(251)	NA
Total	1,357	5,210	(74.0)	1,362	5,829	14,276	(59.2)
EBIT Margins (%)							
Power Systems	2.7	13.4		2.5	3.3	12.4	
Industrial Systems	10.8	14.9		10.4	11.6	17.6	
Consumer Products	12.2	14.3		11.8	12.3	14.5	
Others	12.9	(155.2)		16.6	14.7	(79.3)	

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2011	2012	2013E	2014E
Net Revenue	100,051	112,486	129,746	149,933
Raw Material Expenses	62,684	76,851	82,699	96,220
Gross Profit	37,367	35,635	47,047	53,713
Employee Cost	11,811	14,662	15,935	17,593
Other Expenses	12,113	12,937	20,978	23,535
EBITDA	13,442	8,036	10,134	12,585
Depr. & Amortization	1,936	2,600	2,794	3,046
Net Interest	209	464	275	304
Other Income	999	524	705	699
Profit before Tax	12,296	5,497	7,769	9,935
Total Tax	3,100	1,821	2,012	2,560
Profit after Tax	9,196	3,675	5,757	7,375
Ex-Od items / Min. Int.	80	64	51	41
Adj. PAT	9,116	3,611	5,706	7,334
Avg. Shares O/S (m)	641.5	641.5	641.5	641.5
EPS (Rs.)	14.2	5.6	8.9	11.4

Cash Flow Abstract (Rs m)

Y/e March	2011	2012	2013E	2014E
C/F from Operations	5,601	2,954	7,978	8,776
C/F from Investing	(7,383)	(6,826)	(5,000)	(5,000)
C/F from Financing	(1,926)	5,837	(3,601)	(1,910)
Inc. / Dec. in Cash	(3,708)	1,965	(623)	1,866
Opening Cash	6,688	2,985	4,950	4,327
Closing Cash	2,985	4,950	4,327	6,194
FCFF	(1,354)	1,960	3,331	2,565
FCFE	(1,660)	8,812	869	2,065

Key Financial Metrics

Y/e March	2011	2012	2013E	2014E
Growth				
Revenue (%)	9.5	12.4	15.3	15.6
EBITDA (%)	5.3	(40.2)	26.1	24.2
PAT (%)	10.7	(60.4)	58.0	28.5
EPS (%)	10.7	(60.4)	58.0	28.5
Profitability				
EBITDA Margin (%)	13.4	7.1	7.8	8.4
PAT Margin (%)	9.1	3.2	4.4	4.9
RoCE (%)	27.6	9.3	12.1	14.3
RoE (%)	31.5	10.5	14.8	16.6
Balance Sheet				
Net Debt : Equity	0.1	0.2	0.1	0.1
Net Wrkng Cap. (days)	(10)	(5)	(16)	(10)
Valuation				
PER (x)	7.5	18.8	11.9	9.3
P / B (x)	2.1	1.9	1.7	1.4
EV / EBITDA (x)	5.2	9.3	7.2	5.6
EV / Sales (x)	0.7	0.7	0.6	0.5
Earnings Quality				
Eff. Tax Rate	25.2	33.1	25.9	25.8
Other Inc / PBT	8.1	9.5	9.1	7.0
Eff. Depr. Rate (%)	5.1	6.7	6.4	6.2
FCFE / PAT	(18.2)	244.0	15.2	28.2

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2011	2012	2013E	2014E
Shareholder's Funds	32,747	36,109	41,003	47,272
Total Debt	4,703	11,555	9,092	8,592
Other Liabilities	317	(356)	(469)	(469)
Total Liabilities	37,767	47,308	49,626	55,395
Net Fixed Assets	19,417	16,693	18,899	20,853
Goodwill	—	5,882	5,882	5,882
Investments	6,747	7,864	7,864	7,864
Net Current Assets	11,604	16,869	16,389	21,070
<i>Cash & Equivalents</i>	<i>2,984</i>	<i>4,976</i>	<i>4,327</i>	<i>6,194</i>
<i>Other Current Assets</i>	<i>42,512</i>	<i>50,368</i>	<i>56,132</i>	<i>65,887</i>
<i>Current Liabilities</i>	<i>33,892</i>	<i>38,475</i>	<i>44,071</i>	<i>51,011</i>
Other Assets	—	—	—	—
Total Assets	37,767	47,308	49,626	55,395

Quarterly Financials (Rs m)

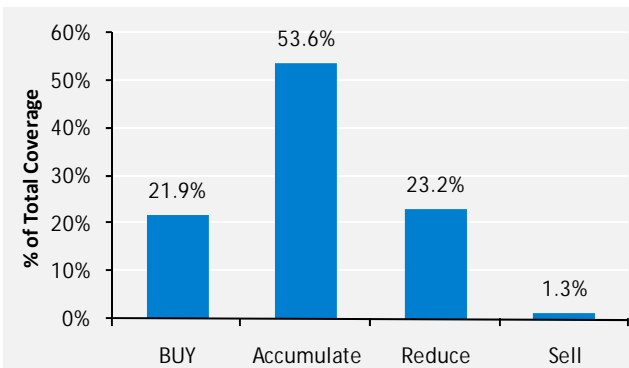
Y/e March	Q1FY12	Q2FY12	Q3FY12	Q4FY12
Net Revenue	24,377	27,055	30,280	30,774
EBITDA	1,818	2,260	1,826	2,132
<i>% of revenue</i>	<i>7.5</i>	<i>8.4</i>	<i>6.0</i>	<i>6.9</i>
Depr. & Amortization	608	726	627	639
Net Interest	110	102	112	139
Other Income	151	215	50	3
Profit before Tax	1,252	1,647	1,137	1,357
Total Tax	475	463	487	396
Profit after Tax	777	1,163	650	917
Adj. PAT	777	1,163	650	917

Source: Company Data, PL Research.



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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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