Fundamental Pick of the Week

inditrade

Crompton Greaves Limited >>>> ACCUMULATE 04, June 2011

Mar quarterly financial performance in-line with estimates

CGL recorded decent performance in the Mar quarter as the Consolidated Top-line grew more than 16% YoY to Rs 2908 Crore led by firm growth in the Consumer segment 20% YoY and Industrial Segment 25% YoY. Consolidated Power segment managed to grow 14%, backed by solid 29% YoY growth in overseas subsidiaries, whereas the domestic segment continued deceleration as the problem of orders not getting picked-up persisted in the current quarter as well.

For the full year, consolidated revenue growth stood at 9.5% to Rs 10005 Crore (+1.5% above est.) as against Rs 9149 Crore (FY 10). Marred by high pricing pressure due to the acute rise in commodity prices, OPM's on both quarterly and yearly basis witnesses an acute drop. For FY 11, OPM's fell nearly 60 bps to 13.4% levels and are expected to be in this range for FY 12 as well.

Industrial and Consumer segments to actuate FY 12 growth

Industrial and Consumer segment are expected to be the CGL's growth drivers in the near term. The management is anticipating both the segments to accelerate in and around 20%-25% for FY 12 meanwhile growth guidance for standalone power segment has been revised downwards to 6-7% eventually imputing the performance for the standalone entity to 12-15% levels from 16-18% as expected earlier.

On the other side, the Overseas subsidiaries (Euro terms) are also expected to grow healthy around the 12%-13% levels for the next year mainly led by revival in distribution transformer segment.

CGL strengthens global positioning by two acquisitions in a month

In May 11, CGL acquired Sweden-based Emotron Group for $82 Mln. Emotron, is a power electronics & engineering company engaged in engineering & manufacturing of drive solutions with latest IGBT based technology for variable frequency drives (VFDs) ranging from 200 to 690V, 0.2kW to 3000kW. It also manufacturers Soft starters & shaft power monitors widely used in several industrial applications.

It also acquired US based QEI Inc for $30 Mln which is a market-leading provider of SCADA and automation systems, and products for the management of electric transmission and distribution networks.

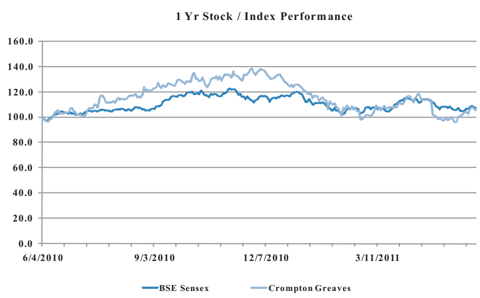
As per the management, both the acquisitions taken together could add around 15% to the company's revenues over next two-three years.

Accommodating the numbers in Q4 and FY 11, we now expect CGL Top-line to grow at around 12% to 11193 Crore (FY 12E). Inflicted by higher Raw material and other expenses, OPM's are expected to remain in sub-13% levels for the year resulting in a Bottom-line growth of around 9% to Rs 1009 Crore (FY 12E).

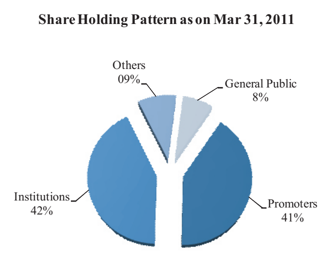
At the trailing market price of Rs 261, CGL is trading at 18.0X and 16.6X its FY 11 and FY 12E Earnings. Backed by strong growth in Industrial and Consumer segments and on anticipation of smoothening of Order book scenario in the domestic Power segment in latter half of FY 12, we continue to be positive on CGL. **We maintain our Rating with a Target price of Rs 315 (20X FY 12 Earnings).**

Industry: Heavy Electrical Equipment

Current Price	261
Target Price	315
Market Cap (Cr.)	16727
52 Week H/L	349/228
FV	2
Book Value/Share	51
BSE Sensex	18376
NSE Nifty	5517
BSE Code	500093
NSE Code	CROMPGREAV
Reuters Code	CROM.BO
Bloomberg Code	CRG:IN



Stock/Index Performance %	3 M	6 M	12 M
Crompton Greaves	4.3%	-22.8%	5.5%
BSE Sensex	-0.6%	-8.0%	7.4%
BSE Capital Goods	2.7%	-13.9%	-3.7%



Particulars (In Rs. Cr.)	FY 09	FY 10	FY 11	FY 12E
Net Sales	8737.3	9140.9	10005.1	11193.0
Operating Exp	7741.7	7863.9	8661.3	9704.3
EBITDA	995.6	1277.0	1343.8	1488.7
OPM	11.4%	14.0%	13.4%	13.3%
Adj Net Profit	559.9	824.7	926.8	1008.9
NPM	6.4%	8.9%	9.2%	8.9%
EPS	15.3	12.9	14.4	15.7
P/E	17.1	20.3	18.0	16.6
EV/EBITDA	9.8	13.0	12.6	11.2
RONW	30.7%	32.9%	28.1%	24.6%
ROCE	34.8%	37.2%	30.5%	27.9%

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