EQUITY REPORT

Crompton Greaves Ltd.

April 4, 2014

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Crompton Greaves Ltd (CG), founded in 1878, is a USD 2 bn engineering conglomerate with an impressive and diverse portfolio of products, solutions and services ranging from high-end power and industrial equipment and solutions, to consumer products and home appliances, addressing myriad needs. The company is organized into three business groups: Power systems, Industrial systems and Consumer products. CG is a global enterprise with manufacturing, solutions and services facilities in Belgium, Brazil, Canada, Hungary, Indonesia, Ireland, France, Saudi Arabia, Spain, Sweden, the UAE, the UK & the USA in addition to over 15 manufacturing and design locations in India.

Investor's Rationale

- **Strong demand and higher disposal income to drive the consumer business -** Consumer business is the second largest Strategic business unit (SBU) of CG. It also enjoys a substantial brand presence and goodwill in India. CG's consumer business is expected to sustain growth on the back of strong demand and higher disposal income supported by improvement in the job market and business environment. We expect CG to sustain higher returns on the back of higher margins and its earning visibility.

- **Higher capex in power T&D Business to benefit the company -** Strong presence in domestic power Transmission and Distribution (T&D) segments would boost CG's profitability and order inflows, going forward. Vendor restriction by Power Grid Corporation of India Ltd. (PGCIL) could help CG to garner market share in transformer/reactor space. Meanwhile, higher capex by PGCIL in 12th five year plan improves visibility of order inflows for CG and this is expected to improve profitability. We also see some improvement in margins led by cost-efficiencies as CG has just completed its restructuring exercise in its key facilities in Belgium and Hungary and is confident of lifting its margins in the international business.

- **Overseas business on recovery path -** CG's global business has suffered significantly in the last two years due to cost overruns, deferrals by clients to take physical deliveries and global economic slowdown. During FY'13, the company reported highest ever loss of ₹361 mn. As a part of Belgium restructuring exercise, CG has shifted its power transformer manufacturing to Hungary (low labour cost), the benefits of which will play out in FY'15-16E, while Canada & US subsidiaries continue to post losses.

- **Showcased healthy performance on global front in Q3FY'14 -** CG's performance remained quite impressive on global front as it managed to post a consolidated net profit of ₹620 mn in Q3FY'14 as against a net loss of ₹1,893 mn in Q3FY'13. A sharp reversal in profitability was driven by higher revenues that grew by 12.8% YoY to ₹33.5 bn on the back of strong growth across segments. EBITDA jumped significantly to ₹1.67 bn in Q3FY'14 from ₹20 mn in Q3FY'13, Also EBITDA margin expanded 491 bps to 5% YoY.

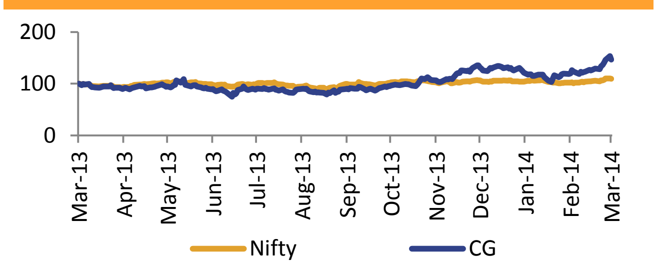
Market Data

Rating	**BUY**
CMP (₹)	156.8
Target (₹)	**185**
Potential Upside	~18.0%
Duration	Long Term
Face Value (₹)	2.0
52 week H/L (₹)	164.6/71.7
Adj. all time High (₹)	481.1
Decline from 52WH (%)	4.7
Rise from 52WL (%)	118.8
Beta	1.3
Mkt. Cap (₹bn)	98.8
Enterprise Value	112.3

Fiscal Year Ended

Y/E	FY12A	FY13A	FY14E	FY15E
Revenue (₹bn)	112.5	120.9	132.9	148.9
EBITDA (₹bn)	8.0	3.8	6.5	8.6
Net Profit (₹bn)	3.7	(0.4)	2.4	4.5
Adj EPS (₹)	5.8	(2.5)	3.9	7.2
P/E (x)	26.9	(63.3)	40.6	21.7
P/BV (x)	2.7	2.9	2.7	2.5
EV/EBITDA (x)	12.9	29.4	17.6	13.4
ROCE (%)	12.8	5.1	9.0	11.4
ROE (%)	10.0	(4.5)	6.6	11.4

One year Price Chart



Shareholding Pattern	Dec'13	Sep'13	Diff.
Promoters	42.5	42.5	-
FII	18.5	16.5	2.0
DII	23.8	24.5	(0.7)
Others	15.2	16.5	(1.3)

Crompton Greaves (CG) - one of the world's leading engineering corporations

CG is a global enterprise with manufacturing, solutions and services facilities in Belgium, Brazil, Canada, Hungary, Indonesia, Ireland, France, Saudi Arabia, Spain, Sweden, the UAE, the UK & the USA.

CG is one of the very few companies worldwide that designs and manufactures such a wide and diverse range of Power and Distribution Transformers as well as Reactors from 160kVA to 600MVA, and 11kV to 765kV Class, conforming to IEC, ANSI, IS, BS and other International Standards.

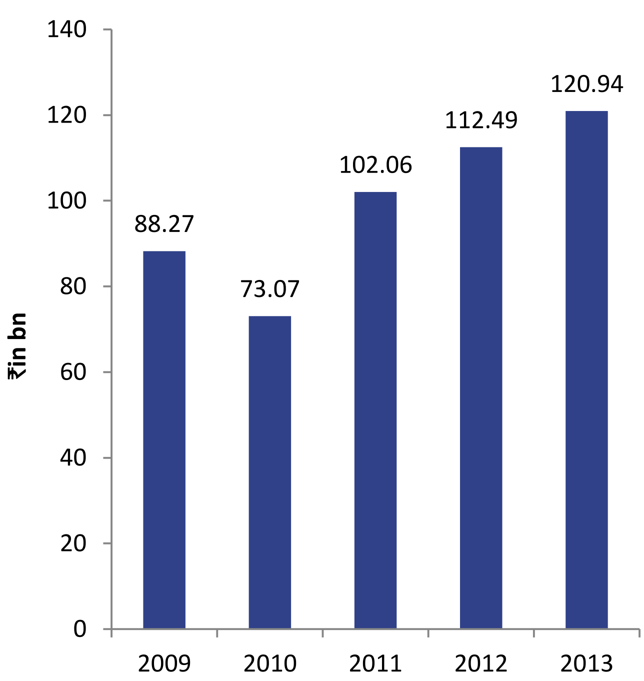
Established in 1878, CG is one of the world's leading engineering corporations with an impressive and diverse portfolio of products, solutions and services ranging from high-end power and industrial equipment and solutions, to consumer products and home appliances. CG is a global enterprise with manufacturing, solutions and services facilities in Belgium, Brazil, Canada, Hungary, Indonesia, Ireland, France, Saudi Arabia, Spain, Sweden, the UAE, the UK & the USA in addition to over 15 manufacturing and design locations in India. The company is organized into three business groups: Power systems, Industrial systems and Consumer products:

Power Systems – Power System includes the business area related to transformers, switchgear, circuit breakers, vacuum interrupters, network protection & control gear, as well as design, execution and servicing of turnkey T&D as well as substation projects and solutions including complete end to end Renewable projects. This is the largest business, which is now well entrenched throughout the world.

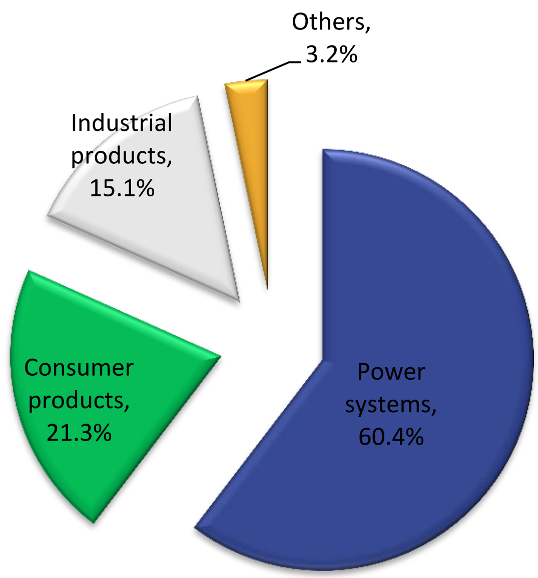
Industrial Systems – CG's Industrial Systems is engaged in the business of power conversion equipment a wider spectrum of High and Low Voltage rotating machines (motors and alternators), stampings, as well as railway transportation and signaling products. CG enjoys market leadership for AC Motors and the second position in AC Generators and DC Motors in India. CG is the largest manufacturer of Low Tension motors in India offering a range of AC and DC motors, ranging from 0.18 kW to 450 kW in various standard and customized configurations to respond to the exacting demands of the industry.

Consumer Products – Consumer products segment is one of CG's fastest growing businesses. It manufactures and markets a wide spectrum of products ranging from fans, light sources and luminaires, pumps and household appliances such as geysers, mixer grinders, toasters, irons and electric lanterns. This business is the second largest Strategic business unit (SBU) of CG.

CG's revenue trend



Segment-wise revenue (%)



Power systems order intake contribute nearly 79% of the total order intake during Q3FY'14

During Q3FY'14, the company's consolidated order intake grew 16% YoY to ₹26.2 bn, which includes `20.8 bn in power division alone.

CG has reported a 16% YoY growth in consolidated order intake of nearly ₹26.2 bn during Q3FY'14, which includes ₹20.8 bn in power division alone. Standalone order inflows for the same period were at ₹10.7 bn, out of which ₹6.3 bn is coming from power systems and ₹4.4 bn coming from Industrial division. In Q3FY'14, the company has reported consolidated order backlog of ₹100.7 bn and standalone order backlog stood at ₹39.7 bn.

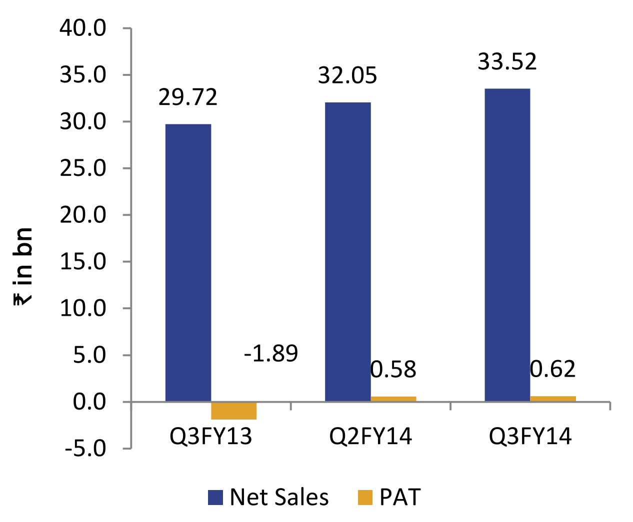
CG is a preferred supplier for a wide range of Transformers and Reactors for many critical applications. CG products find use in Industries, Power Utilities, Railways, Mines, and a wide population of Industrial users internationally.

Power play on domestic power and consumer products segments

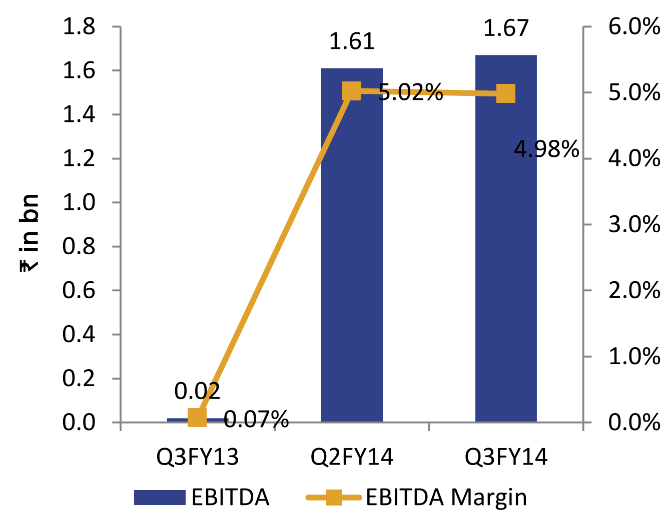
CG has maintained domestic EBITDA margins at 9.1% on the back of superior execution in power division and margin sustenance in consumer business.

CG's domestic revenues for Q3FY'14 stood at ₹18.6 bn as against ₹17.4 bn in Q3FY'13 driven by improved performance by all the divisions. Domestic power division has reported revenues at ₹7.3 bn in Q3FY'14 as against ₹6.7 bn last year. The company has maintained EBIT margins for the segment at 9.4% during Q3FY'14. Growth in consumer division has slowed down to 7.3% in Q3FY'14 to ₹6.5 bn as against ₹6.1 bn a year earlier. Volume growth in consumer business has been affected by sluggish consumer spending. EBIT margins for the segment stood at 11.7% in Q3FY'14 as against 10.4% last year. Domestic Industrial division revenues grew by 4.4% YoY and stood at ₹4.7 bn in Q3FY'14 as against ₹4.5 bn in Q3FY'13. Management has stated that the demand for industrial segment continues to get adversely affected by the slowdown in capex in power and cement sector.

Robust Q3FY'14 performance



EBITDA & EBITDA margin trend



Improvement in the global economic environment expected to boost company's profitability.

On global front, CG reported a consolidated net profit of ₹620 mn as against loss of ₹1,893 mn in the same quarter last year. In Q3FY'13, the company had an exceptional item of ₹1.21 bn that was a liability related to employee cost as the company carried out right sizing of its operation at Belgium facility. In addition, other restructuring related cost of ₹1.08 bn was also accounted under operating expenses. A sharp reversal in profitability was driven by higher revenues that grew by 12.8% YoY to ₹33.52 bn on the back of strong growth across segments. Earnings before interest, tax, depreciation and amortization (EBITDA) jumped significantly to

CG has been able to turn the loss of ₹614.1 mn in 9MFY'14 to a profit of ₹1.80 bn.

The company has bagged three contracts from Power Grid Corporation of India (PGCIL) for the supply of 7 nos. 500 MVA single phase 765 KV auto transformers and 38 nos. 80 MVAR and 110 MVAR single phase 765 KV reactors, valued at ₹2.32 bn.

CG's consumer product business is the second largest SBU of CG, which enjoys a substantial brand presence and goodwill in India.

₹1.67 bn in Q3FY'14 from ₹20 mn in Q3FY'13, Also EBITDA margin during the quarter expanded by 491 bps to 5% YoY. For Q3FY'14, revenue from power systems grew 17.3% YoY to ₹21.32 bn while consumer products business rose 7.2% YoY to ₹6.51 bn and industrial systems jumped 5.9 % YoY to ₹4.78 bn.

During 9MFY'14, consolidated net profit was at ₹1.80 bn as compared to consolidated net loss of ₹614.1 mn in the nine-months to December 31st 2012. Net Sales during the period was up by 11.5% to ₹97.1 bn as against ₹87.1 bn in the same period of last fiscal.

Management takeaways: Among the overseas geographies, Middle East has started to witness moderation after meaningful growth in FY13. Management has also stated that the company has been witnessing the growth in high value added areas. Europe has been witnessing initial signs of recovery.

Three contracts worth ₹2.32 bn from PGCIL to boost the profitability

CG, a leader in the UHV (Ultra High Voltage) transmission segment, bagged three contracts from Power Grid Corporation of India (PGCIL) for the supply of 7 nos. 500 MVA single phase 765 KV auto transformers and 38 nos. 80 MVAR and 110 MVAR single phase 765 KV reactors, valued at ₹2.32 bn. The scope of the contracts includes design, manufacturing, factory testing, dispatch, erection, site testing, commissioning and related civil construction, at various locations in India. The products will be manufactured at the CG's Bhopal plant and the projects are expected to be completed within 31 months. About 50% of PGCIL order placed for 765 KV is bagged by CG during 9MFY14. The market is shifting to turnkey order for substation instead of procurement of transformers by PGCIL. CG has been already strongly competitive in transformers for 765 KV and above and it will also become competitive in case of turnkey contracts for 765 KV and above substations.

Expects improvement in Power and Industrial Business in the coming 2-3 years

Power Business operations - In the global power business, where margins were under pressure for last many quarters, we don't expect this trend changing anytime soon because of the following reasons:

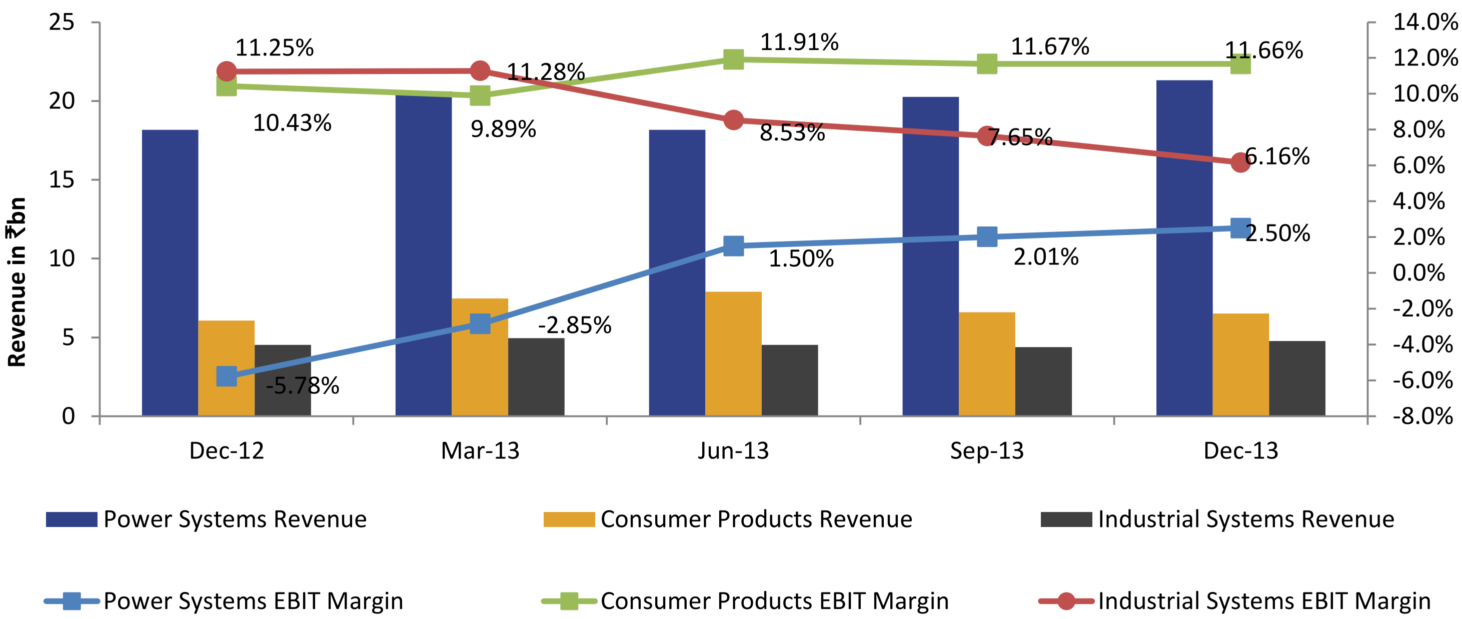
- Capacity utilization in the transformer industry is as low as 50-55%.
- Competition from Chinese and Korean players has continued to rise with the influx of new players each year.
- The much-required investments by state electricity boards (SEBs) in distribution infrastructure is still far away as the SEBs' financial health is not in good shape.

While we do not doubt the long-term potential of the Transmission and Distribution (T&D) equipment space as investment in T&D infrastructure has lagged demand for many years in India, the easing of the current demand supply mismatch and recovery for the transformer industry is still 2-3 years away, in our view.

Consumer Products - This business is the second largest SBU of CG, which enjoys a substantial brand presence and goodwill in India. CG is in a better position to reap benefits of any development on economic development as CG is market leader in most of its consumer systems segment. CG is the second largest player in India, with a market share of 12-13% in ₹45 bn lighting industry. CG manufactures mainly agricultural and domestic pumps. It is among the Top-5 players in India. It has No.2 position in pump business.

Industrial business - Industrial segment is expected to remain under pressure in the coming few quarters as its performance is directly linked with the economic or industrial activity. In the current scenario, almost all the major economies facing slowdown in economic activity, however some improvement has been reported by these economies, which means that slowdown in economic activity is bottoming out and economic and industrial activity is expected to pick up but it takes some time to realize the benefit of improvement in economic activity.

Segment wise quarterly performance trend



CG to pioneer in manufacturing of Smart Grid devices

The company has launched Smart Grid Facility for the manufacturing of Smart Grid devices which will offer numerical solutions to Indian Utilities and Industries in the Transmission and Distribution (T&D) segment.

CG launched its state-of-the-art Smart Grid facility at the Global Village, in Bangalore, for full-fledged manufacturing of Smart Grid devices. The Smart Grid devices manufactured in this facility will offer numerical solutions to Indian Utilities and Industries in the Transmission and Distribution (T&D) segment and provide improvement in the electricity grid to make it more efficient and reliable. The Smart Grid facility will manufacture Substation Automation products, Distribution Automation devices, Protection and Control systems, Advanced Metering Infrastructure (AMI) and Telecommunication Solutions. It will also offer Global Engineering Services such as systems integration, installation, and commissioning. The facility is fully equipped with modern equipment to ensure an annual production capacity of 10,000 units of Power Line Carrier Communication Terminals (PLCC) and Intelligent Electronic Devices (IED).

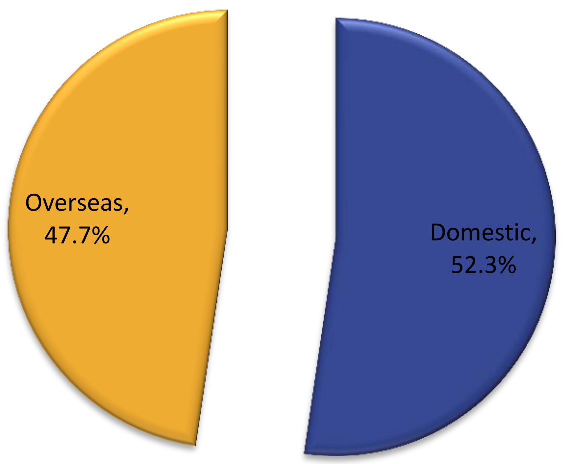
Restructuring in international operations yet to yield results

As part of Belgium restructuring exercise, CG has shifted its power transformer manufacturing facility to low-cost countries to give a boost to the margins.

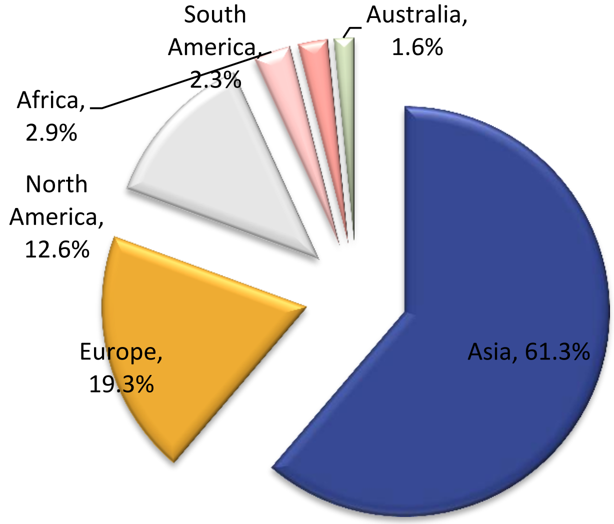
Over the past 2 years, CG has been trying to set things right in its international operations. To start with, it had the problem of a not-so-cost-efficient manufacturing facility in Belgium even as its other factory in Hungary (cost-effective factory) had the potential of ramping up and leading to cost reduction for the overall company.

As part of Belgium restructuring exercise, CG has shifted its power transformer manufacturing facility to low-cost countries to give a boost to the margins. The company has moved the production of several of its transformers from its Mechelin, Belgium, factory to Tapioszele, Hungary, citing cheaper labour and other lower manufacturing costs. It is noted that staff costs in Belgium, for instance, were almost 7x higher than they were in its Tapioszele plant.

Geography wise segmentation



Continent wise segmentation



Threats vs. Strengths

Threats

- Chinese players are entering into the Indian power equipment market as they are hopeful of long-term growth for the industry in India plus given the lower growth opportunities available in China currently.
- High voltage power transformer continues to remain a crowded space with more than eight players competing in this segment domestically.
- Chinese players dominated the transformer market, with a market share of 40-45% as on 9MFY'14. However, the market share enjoyed by the Chinese players could see some moderation due to PGCIL's stringent stance about domestic manufacturing clause.

Strength

- CG is the largest manufacturer of fans in India, with a 25% market share. The new products accounted for 25% of total fan sales and CG has launched a range of battery back-up ceiling fans and successfully forayed into industrial fans segment.
- CG is the second largest player in India, with a market share of 12-13% in ₹45 bn lighting industry.
- CG enjoys a very strong market presence in Industrial Systems business with market leadership position in most segments in India. CG ranked at No. 2 in HT motor segment after BHEL, while it is the market leader in LT motor segments offering a range of 0.18kW to 4MW.

Balance Sheet (Consolidated)

Y/E (₹mn)	FY12A	FY13A	FY14E	FY15E
Share Capital	1.3	1.3	1.3	1.3
Reserve and surplus	30.0	35.9	33.7	35.7
Net Worth	**37.2**	**35.0**	**36.9**	**40.0**
Minority Interest	0.2	0.1	0.1	0.1
Loans	9.9	18.5	22.9	26.2
Other long term liabilities	1.9	1.4	0.9	0.9
Long-term provisions	3.8	4.2	4.3	4.8
Current Liability	34.5	40.2	45.9	52.2
Net deferred tax	1.4	1.5	1.6	1.6
Total Liabilities	**88.8**	**100.9**	**112.6**	**125.8**
Fixed assets	22.2	30.7	35.5	39.6
Investments	5.0	5.0	2.0	3.0
Current Assets	56.7	58.8	68.1	76.3
Deferred tax asset	1.9	3.2	3.8	3.8
other asset	2.7	3.0	2.9	2.9
Total assets	**88.8**	**100.9**	**112.6**	**125.8**

Profit & Loss Account (Consolidated)

Y/E (₹bn)	FY12A	FY13A	FY14E	FY15E
Net Sales	112.5	120.9	132.9	148.9
Expenses	104.4	117.1	126.5	140.3
EBITDA	**8.0**	**3.8**	**6.5**	**8.6**
Depreciation	2.6	2.0	2.7	3.0
EBIT	**6.1**	**2.8**	**5.3**	**7.4**
Interest	0.6	1.0	1.0	1.1
Profit Before Tax	**5.5**	**1.8**	**4.3**	**6.3**
Tax	1.8	1.0	1.9	1.7
PAT	**3.7**	**0.8**	**2.4**	**4.5**
MI/Share of profit of associates	0.05	(0.02)	0.03	0.00
Net Profit	**3.7**	**(0.4)**	**2.4**	**4.5**

Key Ratios (Consolidated)

Y/E	FY12A	FY13A	FY14E	FY15E
EBITDA Margin (%)	7.2	3.2	4.9	5.8
EBIT Margin (%)	5.4	2.3	4.0	5.0
NPM (%)	3.3	(1.3)	1.8	3.1
ROCE (%)	12.8	5.1	9.0	11.4
ROE (%)	10.0	(4.5)	6.6	11.4
EPS (₹)	5.8	(2.5)	3.9	7.2
P/E (x)	26.9	(63.3)	40.6	21.7
BVPS (₹)	37.2	35.0	36.9	40.0
P/BVPS (x)	2.7	2.9	2.7	2.5
EV/Operating Income (x)	11.9	23.3	14.3	11.1
EV/EBITDA (x)	12.9	29.4	17.6	13.4

Valuation and view

The slowdown in the global economies has bottomed out and showed some sign of revival. Improvement in the macroeconomic environment coupled with a clearance of backlog projects suggests that the worst might be over for CG as far as growth and pricing pressure on the power T&D sector is concerned. While this still does not imply anything regarding timelines for a full-fledged recovery, which we believe will be Long-winded; we note that this is probably the right time to look at Crompton Greaves more constructively. CG now seems very confident of achieving break-even in the international business by end-FY'14 and is also possibly eyeing divestiture of some loss-making entities. Together with the fact that the global economy trends suggests modest reversals and global economies have bottomed out, while CG's domestic consumer and industrial businesses remain robust.

At a current market price (CMP) of ₹156.8, the stock trades at a P/E of 40.6 FY14E and 21.7x FY15E. We recommend 'BUY' with a target price of ₹185, which implies potential upside of ~18.0% to the CMP from long term (1 year) perspective.

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