

September 8, 2014

CROMPTON GREAVES LTD.

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Crompton Greaves Ltd (CGL), India's largest power equipment company, is pioneering leader in the management and application of electrical energy, with more than 15,000 employees across its operations in around 85 countries. CGL is active in the global power transmission & distribution (T&D) arena, and is amongst the world's top ten transformer manufacturers. The company is organized into three business groups, viz., power systems, industrial systems and consumer products, having 20 manufacturing divisions spread across India. On 17th July 2014, the company said it would look to de-merge its consumer business as a separate listed company. The company has formed a panel to examine all aspects of demerger and listing.

Investor's Rationale

Improved performance in consumer segment boosted topline by 7.7% – CGL registered 7.7% YoY growth in its topline to ₹34.4 bn in Q1FY15 on the back of growth in consumer segment (on pent up demand) and international power systems, and favorable currency movement for overseas subsidiaries. The revenue from Power systems that contribute 68% of the entire revenue grew by 10.4% at ₹20.19 bn and consumer products grew by 8.61% at ₹13.32 bn. whereas, industrial systems saw their sales declining by 1.4%, at ₹4.52 bn respectively.

Net profit grew marginally by 6.6% YoY on better operational performance – CGL's net profit grew by around 7% YoY to ₹0.64 bn in Q1FY15 as against ₹0.60 bn in Q1FY14 on the back of better operational performance. Further, the rise in other income to ₹0.38 bn against ₹0.35 bn also assisted the bottomline growth. However, the interest cost and depreciation grew by 21.4% and 27.2% to ₹0.2 bn and ₹0.71 bn respectively, while, taxation was also higher by 18.4% at ₹0.54 bn, which dented the topline. Consequently, NPM contracted 2bps YoY to 1.8% from 1.9%.

EBITDA margin expanded 49 bps on strong top line growth– The company has witnessed a decent growth on the EBITDA front that grew by 19.4% YoY to ₹1.7 bn against ₹1.4 bn, in line with growth in et sales and better operational performance. The material cost (as % to sales net of stocks) was lower by 5.45% to ₹16.91 bn. But the employee costs were up by 12.9% to ₹5.07 bn and other expenses were higher by 11.7% to ₹4.49 bn. Accordingly, OPM expanded 49 bps YoY to 5.0% from 4.5%.

Turnaround in overseas business improve revenue visibility - The turnaround of operations in Europe and Canada as planned and traction on smart metering initiatives globally, stabilisation in Hungary, and increase in exports from domestic operations will benefit in improving profitability. Further, CGL is working on making India as manufacturing hub Company.

Market Data

Rating	BUY	
CMP (₹)	220	
Target Price	255	
Stop Loss	202	
Duration	Medium-term	
52-week High-Low (₹)	224/80.5	
Rise from 52WL (%)	173.3	
Correction from 52WH (%)	1.8	
Beta	1.90	
1 year Average Volume (mn)	3.2	
Stock Return (%)	3M-	5.8
	6M-	52.6
	1Y-	149.0
Market Cap (₹bn)	137.9	
Book Value (₹)	60.7	

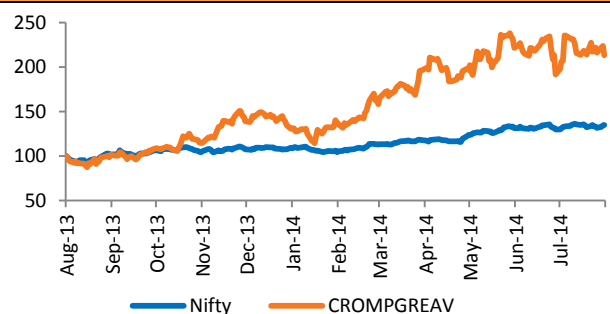
Shareholding Pattern

	Jun'14	Mar'14	Chg
Promoters (%)	42.67	42.67	0.00
FII (%)	19.95	19.32	0.63
DII (%)	22.24	23.15	(0.91)
Public & Others (%)	15.14	14.86	0.28

Quarterly Performance (Consolidated)

(₹bn)	Q1 FY'15	Q1 FY'14	Q4 FY'14	YoY Change(%)	QoQ Change (%)
Sales	34.4	31.9	38.1	7.7	(9.6)
Op. exp	32.7	30.5	36.2	7.2	(9.7)
EBITDA	1.7	1.4	1.9	19.4	(8.1)
OPM (%)	5.0	4.5	4.9	49bps	8bps
Net profit	0.6	0.6	0.6	6.6	0.3
NPM (%)	1.8	1.9	1.6	(2bps)	20bps
EPS (₹)	1.0	0.9	1.0	8.5	1.0

One Year Price Chart





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