

Initiating Coverage
November 9, 2010

Crompton Greaves Ltd.



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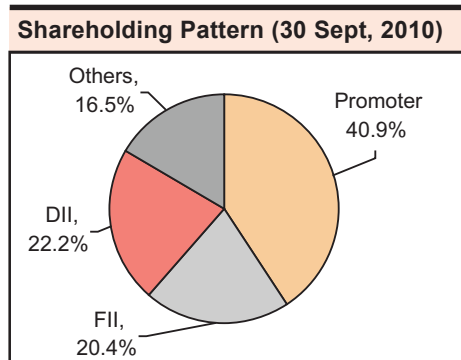
Crompton Greaves Ltd.

Powering India ...

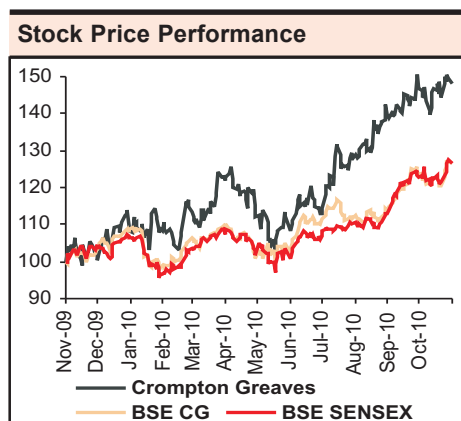
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Key Stock Data	
Sector	Heavy Electric Equipment
CMP	₹325.6
52-wk High / Low	341 / 207
Market Cap	₹208.87bn (\$4706.44mn)
Avg 12m daily vol.	168572
BSE Sensex	20852
Reco	Buy
TP	₹374

Stock Codes	
Bloomberg Code	CRG IN
Reuters Code	CROM.BO
BSE Code	500093
NSE Code	CROMPGREAV
Face Value	₹2per share



Price Performance (%)			
1 Mth	3 Mths	6 Mths	1 Yr
0.8%	16.0%	32.4%	48.3%



Crompton Greaves Limited (CG), an Avantha Group company, is one of the key private sector companies in India engaged in designing, manufacturing high technology electrical products, which caters the needs of power generation, transmission and distribution companies. Indian government's recent thrust with huge investments in Power and T&D sectors will see a substantial progress in the years ahead. We initiate coverage on CG due to its execution and marketing capabilities in electrical products as well as recent international acquisitions, which will drive the revenue of the company.

Executive Summary

- **First mover advantage in high voltage substation business:** India is likely to see a major shift from low-medium voltage substation to high voltage substation viz., 400kV, 765kV, and 1100kV power transmission networks to create huge potential opportunities for the players like CG, which has an edge over its peers. We see a major trigger for CG as fresh order inflows for 765kV substations is likely to expect from PGCIL in FY11. Power Grid is a major customer of CG, which has a capex plan of ₹260bn in FY2011-12.
- **Diversified business Verticals:** CG is a diversified into different business verticals such as Power System, Consumer Products, and Industrial Systems. The company's growth momentum is well connected to the growth in Indian economy. The company's diversification differentiates it from its peers and makes it less vulnerable to sector slowdown. CG has strong brand name in consumer products and enjoys market leadership in electric fans in India. CG is expecting an increase in order flow for motor division and improved activity in industrial engineering space
- **Immense Opportunity in power business:** As government has huge investment plan in power transmission & distribution segment in XI five year plan, CG

(continued...)

Key Financials

Particulars	2009 A	2010A	2011E	2012E
Net Sales	8737	9141	10172	11678
Growth	27.9%	4.6%	11.3%	14.8%
PAT	567	862	921	1071
Growth	36.1%	52.1%	6.8%	16.3%
EBDITA Margin	12.1%	15.4%	15.4%	15.4%
ROE	31.0%	34.4%	27.8%	25.1%
ROCE	39.2%	42.9%	34.8%	32.6%
EPS (Unit Curr.)	15.27	13.40	14.36	16.70
Book Value	28.5	39.0	51.7	66.5
P/E (x)	21.3	24.2	22.7	19.5
P/BV (x)	11.41	8.34	6.29	4.90
EV/EBIDTA (x)	19.99	14.71	13.16	11.23
Paid-up Equity Capital	73.32	128.3	128.3	128.3

E - Keynote Capitals Institutional Research Estimates

certainly has better position to take advantage of this favourable scenario. Through recent international acquisitions, the company has already made footprint in global power sector which will fuel its top line growth with main thrust on power system division. The demand for transformers in US & Europe market is likely to be improved based on the proposed plans of generating 20% of total power from renewable sources by 2020, which may benefit the company to grow inorganically in the international market.

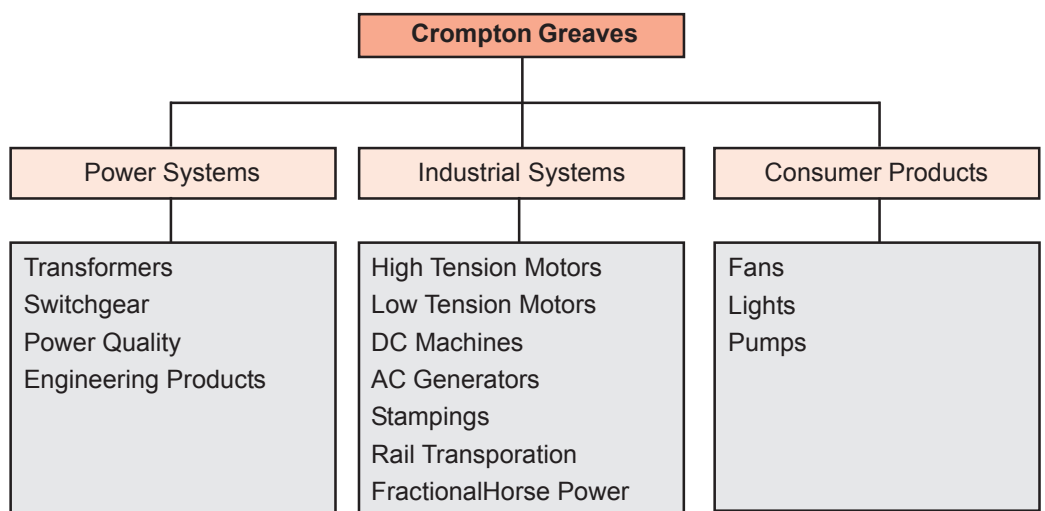
- **Functional Efficiency:** On account of various value engineering initiatives, better product design and higher efficiency in supply chain management, the profit margin of the company might increase by 50bps and sustain the operating margins at current levels of 13-14%. Increase in manufacturing capacity and changes in plant layout will create additional shop floor space to further improve its productivity.
- **Healthy Financial Position:** The company has cash balance to the tune of ₹669Cr and positive operational cash flows of ₹1000Cr demonstrates healthy financial position.
- **Valuation:** At the CMP, the stock is trading at 22.6x and 19.5x of FY11 & FY12 respectively. Based on the DCF valuation, we recommend a “buy” with a target price of ₹374/- per share.

Company Background

Crompton Greaves (CG) is market leader in most business areas where it operates and has employee strength of 8,000 all over the world. CG's business operations consist of 22 manufacturing divisions spread across in Gujarat, Maharashtra, Goa, Madhya Pradesh and Karnataka, supported by well knitted marketing and service network through 14 branches in various states under overall management of four regional sales offices located in Delhi, Kolkata, Mumbai and Chennai.

CG's exports its products over more than 60 countries viz., the US, the UK, the European Union, Australia and New Zealand. CG's international operations are spread over all the continents in the world to become the largest from India in each segment of transformers, Switchgear, Motors and Fans. Apart from developed countries, CG enjoys its export presence also in the emerging South-East Asian and Latin American countries.

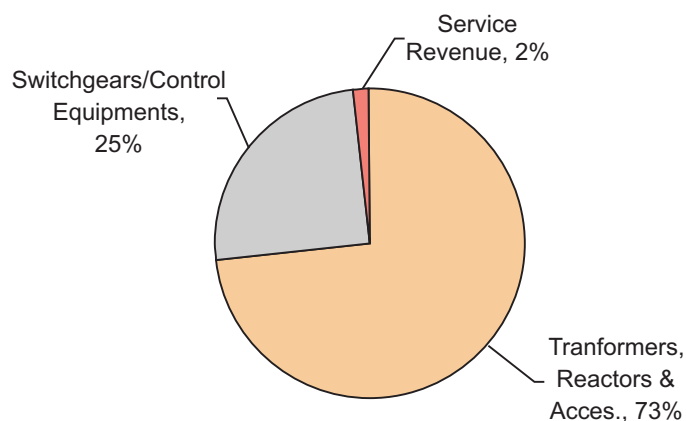
Business Segment



Power Systems: Power Systems unit includes the consolidated global transmission and distribution businesses, and a largest contributor to CG's revenues. The company manufactures i)Power transformers, Distribution transformers, ii)Extra high voltage (EHV) and iii) medium voltage (MV)Circuit breakers iv) Gas insulated switchgear (GIS), vi)EHV instrument transformers vii) Lightning arrestors & isolators viii) Vacuum interrupters and Electronic energy meters.

Chart 1

Power Systems Product Break up

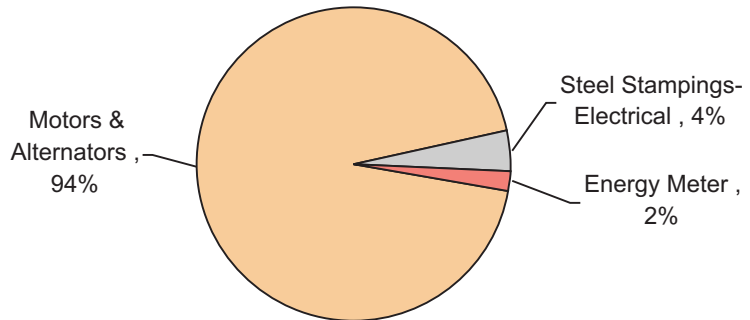


Source: Company & Keynote Capitals Institutional Research

Industrial Systems: CG's Industrial Systems manufactures High tension (HT) motors, Railway transportation equipment, Low tension (LT) motors, Direct current (DC) motors, AC drives, Railway signalling equipment, fractional horse power (FHP) motors, AC generators, Stampings.

Chart 2

Industrial System Product Breakup

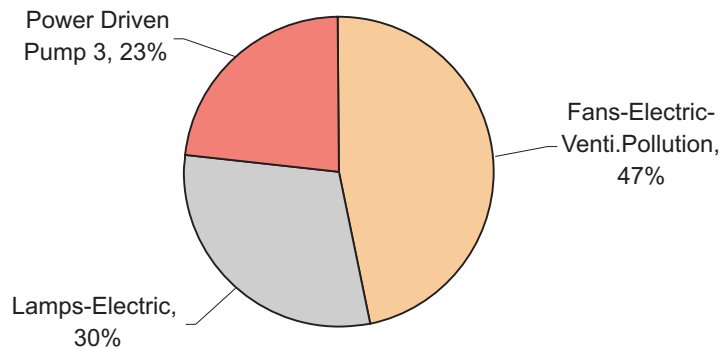


Source: Company & Keynote Capitals Institutional Research

Consumer Products: CG's Consumer Products division supplies fans, lighting equipment (light sources and luminaries), pumps, integrated security systems, home automation and a range of electrical household appliance.

Chart 3

Consumer Product Breakup



Source: Company & Keynote Capitals Institutional Research

Recent Acquisition

Years	Company	Description	Price
May 2005	Pauwels (Belgium)	Operates in the areas of power and distribution transformers	₹195Cr
Oct 2006	Ganz (Hungary)	Consistent track record in power transformers, GIS switchgear and rotating machines, as well as in the supporting areas of design, erection and commissioning.	₹200Cr
May 2007	Microsol (Ireland)	Expertise is in sub-station automation for (MV) and (HV) sub-stations.	₹158Cr
May 2008	Sonomatra (France)	Specializes in providing services of on-site maintenance/repair of power transformers and on-load tap changers, oil analysis, oil treatment and retro-filing.	₹8.06Cr
Sep 2008	MSE (USA)	Engaged in engineering, procurement and construction (EPC) of high voltage electric power applications. It is a systems integrator in international EPC business, especially in the renewable energy (wind) segment.	₹72Cr
Mar 2010	Power Technology Solutions(UK)	Provides consulting as well as technical and engineering support to regional electricity companies in the UK	₹200Cr
Sep 2010	3 businesses of Nelco Ltd	This acquisition should enable CG to become a stronger and more comprehensive player in its railways business and also build capabilities in drives. This is a significant acquisition for CG's Systems business	₹92Cr

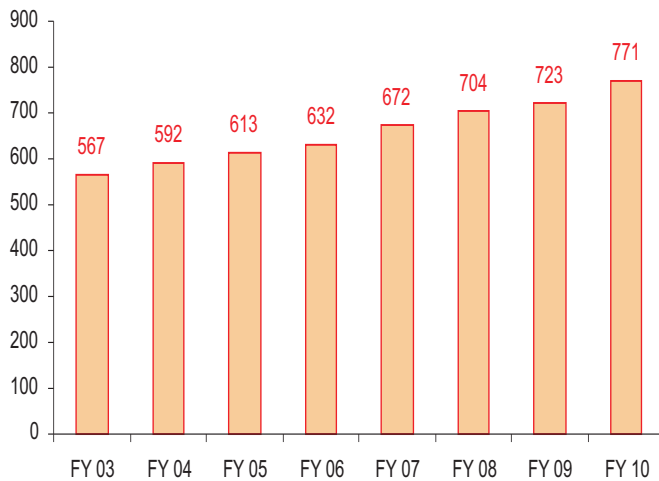
Industry Overview

India is world's 6th largest electricity-consuming country with annual electricity consumption of about 4% of the world. It is set to grow by 8-10% per year.

India has targeted to increase its generation capacity from current 1,63,669MW to 2,00,000MW by 2012. The National Electricity Policy (NEP) stipulates power for all by 2012 and annual per capita consumption of electricity to rise to 1000 units from the present level of 771 units whereas world average is 2,596 units. India has adopted a blend of thermal, hydel and nuclear sources with a view to increasing the availability of electricity. Thermal plants at present account for 1, 05,646 MW of the total power generation, hydro-electricity plants contribute 37,303 MW and the rest comes from nuclear power and wind energy. The overall generation in the country has increased to 771.51 BU in 2009-10 from 723.79 in 2008-09.

Chart 4

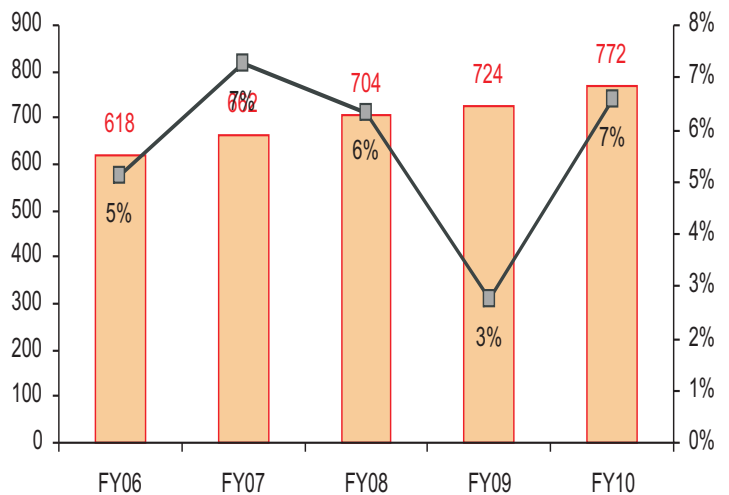
Per Capita Consumption (Kwh)



Source: Industry & Keynote Capitals Institutional Research

Chart 5

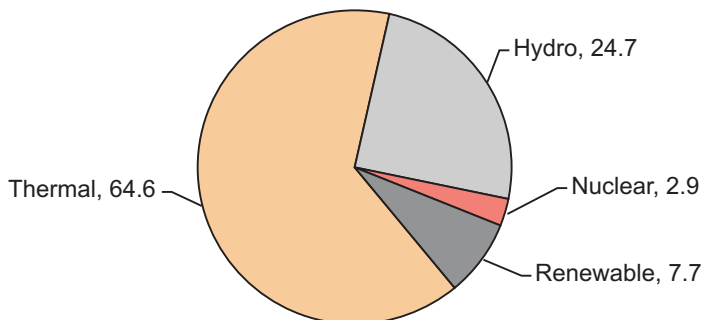
Power Generation Per Unit (BU)



Source: Industry & Keynote Capitals Institutional Research

Chart 6

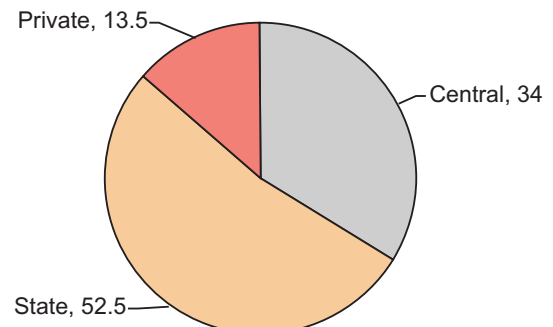
All India Generation Capacity Source Wise



Source:CEA & Keynote Capitals Institutional Research

Chart 7

Generation Capacity (%)

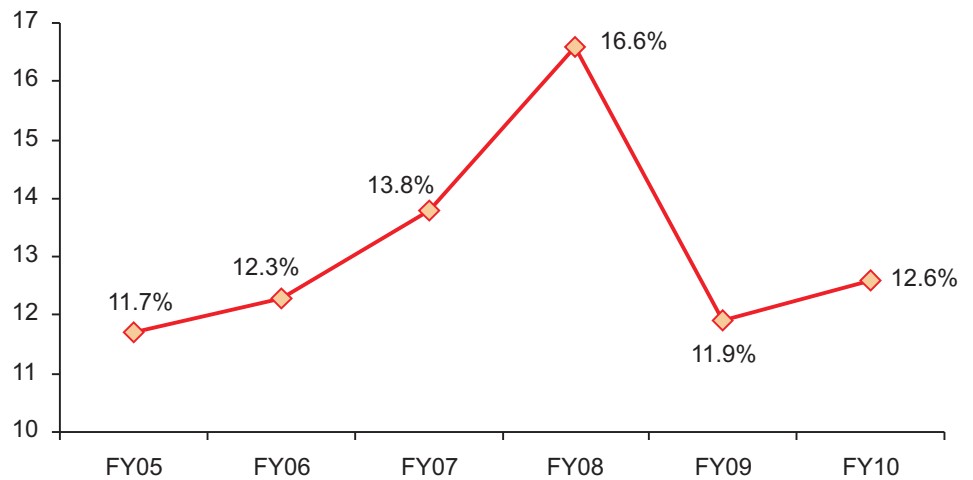


Source:CEA & Keynote Capitals Institutional Research

India's energy sector falls under the control of the government sector entities. Various central public sector corporations like National Hydroelectric Power Corporation, National Thermal Power Corporation and other state level corporations (State Electricity Boards or SEB's) are entrusted with the responsibility of managing the electric power generation in India. At present State sector has current installed capacity of 80,775MW, Central Sector 51,727 MW and Private sector 31,167 MW respectively.

Chart 8

Power Shortage Scenerio(%)



Source:CEA & Keynote Capitals Institutional Research

Switchgear Market: As the Indian power sector strives hard to plug the huge demand-supply gap caused by rapid economic growth, new opportunities are presenting themselves for switchgear manufacturers. For example, the poor financial health of the State Electricity Boards (SEBs) due to huge transmission and distribution (T&D) losses around 28%-35% of the generation capacity, government funding and power capacity additions open the doors for switchgear anufacturers.

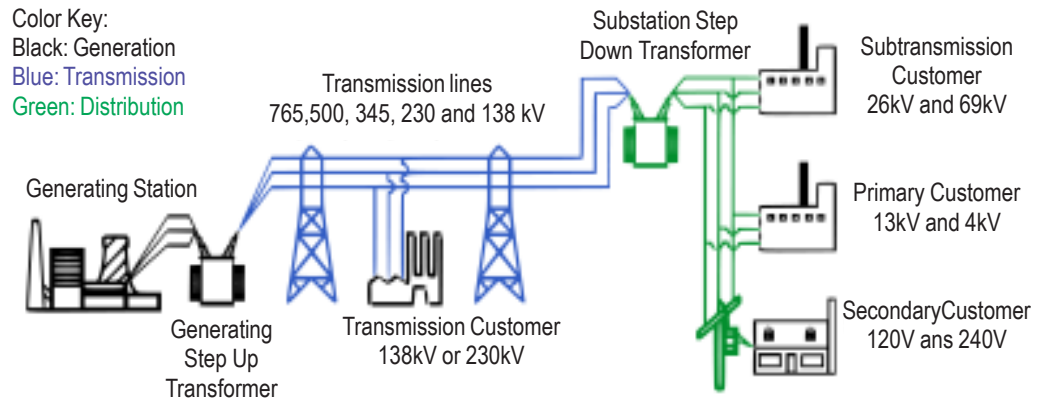
Transformer Industry

The transformer market is pegged at ₹10,000 crore and is expected to grow 2-3 times in another five years. The investment outlook for Transmission & Distribution (T&D) sector remains strong, at more than ~₹4, 27,000 Cr of investments are expected in the XI th plan. Transformers account ~10% of the cost of the network line, which will create a market opportunity of ₹42,700Cr over the XI th five year plans. Given that India has targeted to add 1.6 lakh mw of new power generation capacity in the 11th & 12th Plan periods, there is a huge demand for transformers. The Transformer Industry in India has evolved and now has a well matured technology base up to 800 KV class. Further, the country is majorly focusing on cutting down transmission & distribution losses, and strengthening the national regional grid. Going forward, this is likely to hold the key for the transformer industry.

Power transformers account for 50 % of the total value of the industry with remaining accounted for distribution and special transformers. Industry is witnessing a major shift from 400kV 765kV class transformer. Reason being High Voltage Direct Current (HVDC) / Ultra H (UHV) system is being developed in a very big way as India envisage a capacity addition of ~200,000 mw in 11th & 12th Plan periods. The transformer at UHV level has a capacity of 20,000 mw, which will be augmented to 38,000 mw by 2012. The major demand will be derived from the operation of national grid due to the linking of trunk lines for inter-transfer of bulk power from surplus to deficit states. Since the transformer industry is matured enough as a reliable supplier, it is already exporting transformer in various part of the world including even to the western countries, some parts of USA and the developing countries such as Middle East, Gulf and African countries etc.

Transmission & Distribution: Transmission of electricity is defined as bulk transfer of power over a long distance at a high voltage, generally of 132 kV and above. In India, bulk transmission has increased from 3708 ckm to more than 265,000 ckm. The sector can be divided in to five regions for transmission systems namely, Northern Regions, North Eastern Regions, Eastern Regions, Southern Regions and Western Regions. While the predominant technology for electricity transmission and distribution has been Alternating Current (AC) technology, High Voltage Direct Current (HVDC) technology has also been used for interconnection of all regional grids across the country and for bulk transmission of power over long distances. The total generating capacity is 163 GW in the country and total number of consumers is over 144mn. Apart from an extensive transmission system network at 500kV

HVDC, 400kV, 220kV, 132kV and 66kV which has developed to transmit the Power from generating stations to the grid substations, a vast network of sub transmission in distribution systems has also come up for the utilization for power by the ultimate consumer. With the initiative of the Government of India and of the States, the Accelerated Power Development & Reform Programmed (APDRP) was launched in 2001, for the strengthening of Sub - Transmission and Distribution network and reduction in AT&C losses.

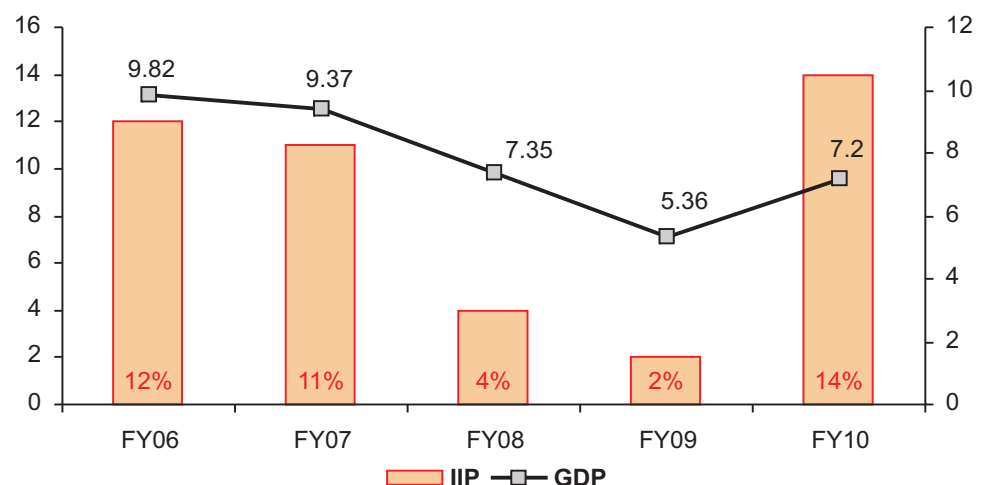


Consumer Product Market: A focus area for the Consumer Products business is tapping the vast potential of the Indian rural markets, estimated at ₹65,000 crore for FMCG products and ₹5000 crore for consumer durables. Indian consumer industry grew by 12.5% FY10. The Indian consumer durable industry has experienced several changes for the last few years on account of greater affordability and changing lifestyle, better housing, commercial advertisements, easy financing schemes etc. witnessing revolution in the Indian consumer behavior Pattern.

Engineering Segment: With signs that the global economic recession is fading away, we believe the industrial sector in India is slated for tremendous growth, as reflected in the Index of Industrial Production (IIP) growth for FY10 (at 14%). The indices of industrial production for the Mining, Manufacturing and Electricity sectors for April 2010 stood at 197.0, 341.5, and 246.9 respectively, up 11.4%, 19.4% and 6.0% respectively y-o-y. The revised annual growth in the three sectors during April-March, 2009-10 y-o-y, has been 9.8%, 10.9% and 6.0% respectively, which moved the overall growth in the General Index to 10.4%. According to UNIDO estimates, India's manufacturing value added (MVA) per capita is \$283. With India's GDP likely to grow 8% during FY11, For the Indian business, the most encouraging event was the recovery of capital goods industry with 11.1% growth and resurgence of the consumer durables industry with 12.5% growth, which resulted in growth for the The company's Industrial Systems and Consumer Products Businesses.

Chart 9

Improved GDP & IIP Numbers %



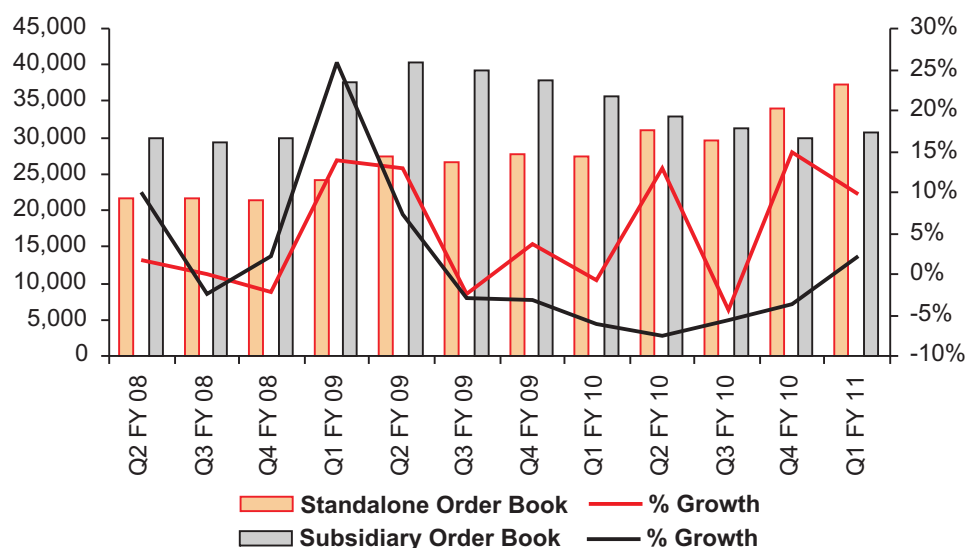
Source: CSO & Keynote Capitals Institutional Research

Investment Rationale

- Early mover advantage in 765kV transmission segment with market share of 35%:**
 CG has an edge over its peers in terms of introduction of 765kV transmission network. As India envisages a major shift from low voltage, 220kV transmission network to high voltage viz., 400kV, 765kV, and 1100kV power transmission network, we see a major opportunity for CG. Power Grid Corporation India Ltd. is a major customer of the company. CG bagged order for 86 units of 765kV Ultra high voltage reactors and setting up of the 765kV/400kV Unna substation project in UP in FY10. The company's order book to revenue was at 86% in FY10. The company will be in a better position to receive order book due to its presence in higher voltage category of 400-765kV transformers and its tie up with ZTR for reactors. Transmitting electricity at high voltage reduces the fraction of energy lost to resistance for a given amount of power; a higher voltage reduces the current and thus the resistive losses in the conductor. At extremely high voltages, more than 2MV between conductor and ground corona discharge losses are so large that they can offset the lower resistances loss in line conductors. As a result Going forward, we believe to minimize power losses during power transmission, there will be increase in 765kV and 1200kV transformers which will augur well for the company like Crompton Greaves.

Chart 10

Order Backlog in (₹Cr)

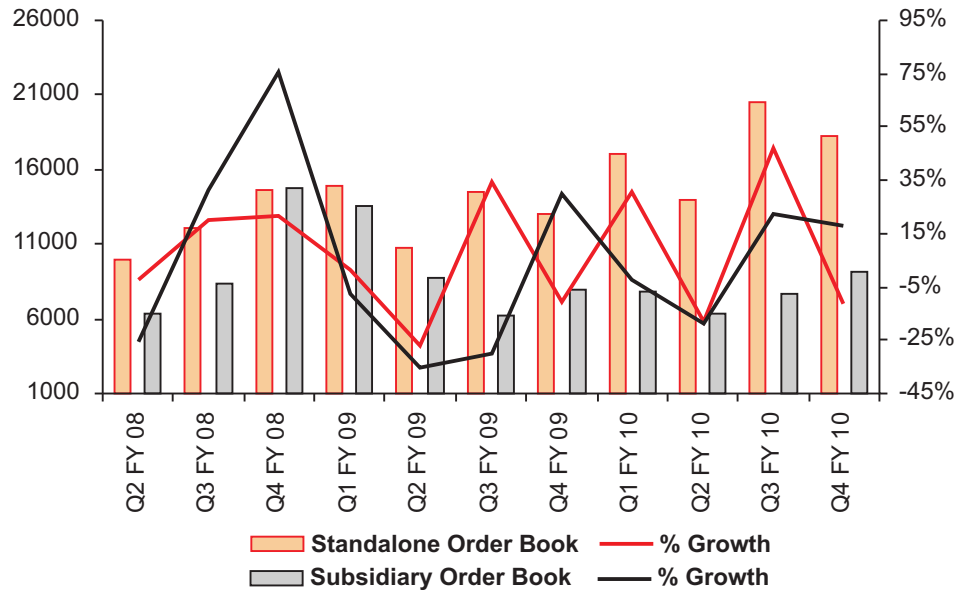


Source: Company & Keynote Capitals Institutional Research

At present the company's consolidated order book stands at ₹71.2 bn which reflects revenue visibility for next two years. Domestic order book is accounted for 55% of the total order book and has grown at a CAGR of 26% during FY2008-10. The higher growth rate implies that a sustained order inflow has witnessed in India despite of severe slowdown. This fact can be reconciled with its international order book, which registered muted CAGR of 0.13% during FY08-10. In 2Q FY11, the company had order inflows of ₹25.6bn.

Chart 11

Order Inflow (₹Cr)



Source: Company & Keynote Capitals Institutional Research

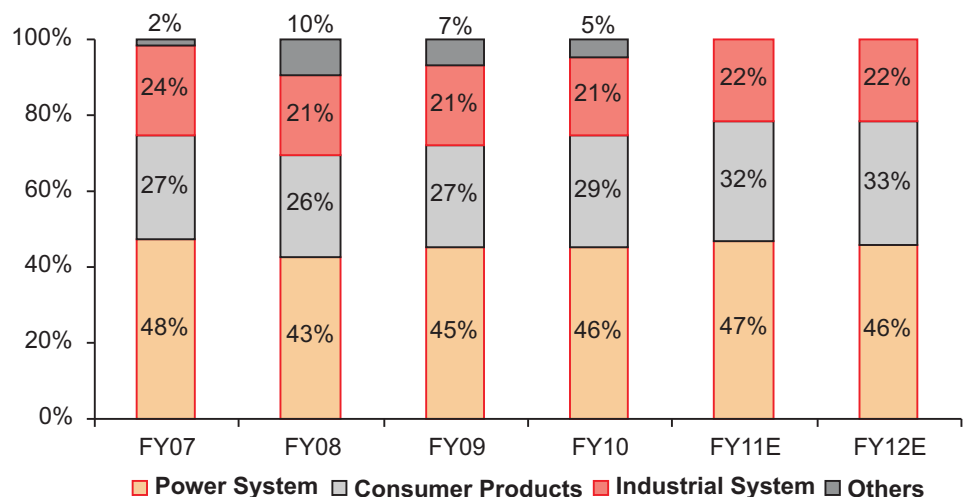
Crompton Greaves expects fresh order inflow for 765-KV substations from Power Grid Corporation of India in FY11. Power Grid has capex plan of ₹260bn in FY2011-12, which augurs well for CG. Crompton Greave has 24% of total market share in PGCIL's orders of transformer. Also, PGCIL is setting up seven transmission corridors at an investment of ₹500 bn over the next five years.

CG's domestic order intake has grown at CAGR of 31% during FY2008-10 while international order intake has shown muted CAGR de-growth of negative 4% during FY2008-10. We expect a revival in international order intake scenario as the demand for wind energy transformers which constitute 15% and power transformers which constitute 60% of international revenues will grow on account of replacement demand in Europe and the US.

- **Well Diversified business Model:** CG is the diversified company compare to its peers and operates in different business verticals such as Power System, Consumer Products, and Industrial Systems All the segments are well connected to the macro economic development of India and offer sustain growth over a long-term.

Chart 12

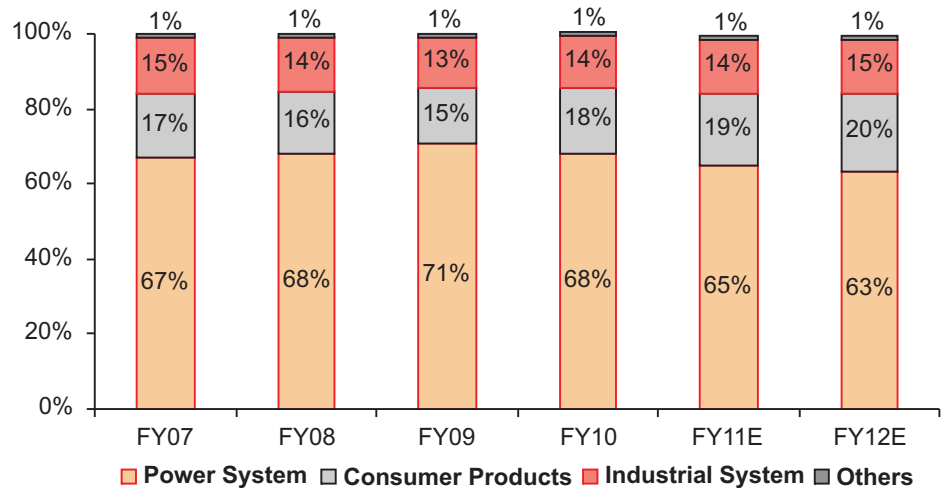
Revenue Mix Standalone



Source: Company & Keynote Capitals Institutional Research

Chart 13

Revenue Contribution Consolidate

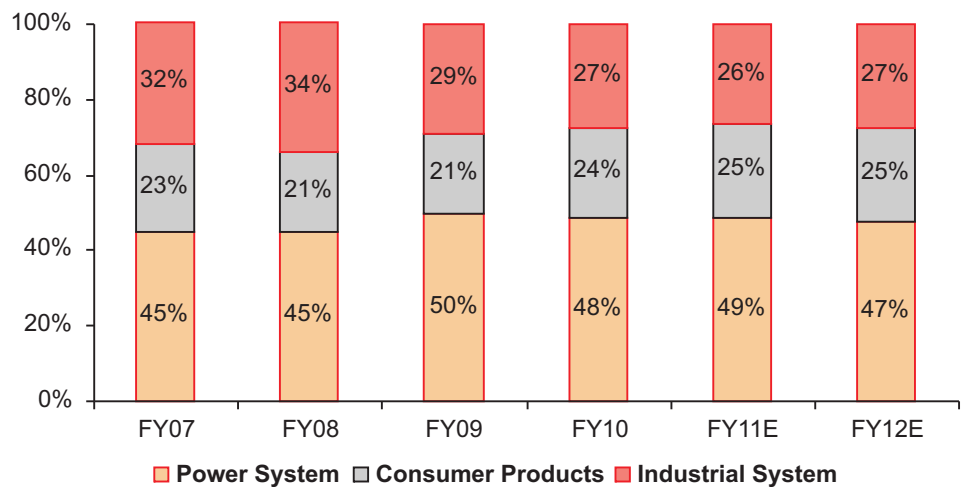


Source: Company & Keynote Capitals Institutional Research

We expect the consolidated revenue contribution of power system remains stable during the year FY11 and FY12, whereas marginal increase seen in consumer products during the same period.

Chart 14

Standalone EBIT segment wise contribution

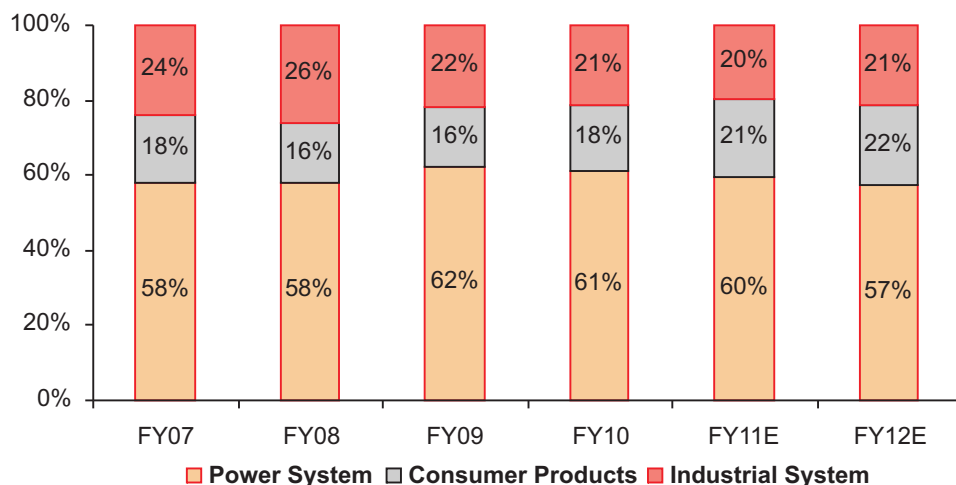


Source: Industry & Keynote Capitals Institutional Research

Power System segment contributes 48% to CG's standalone EBIT in FY10 . We expect the contribution to reduce slightly to 47% in FY12 due to contribution from other segments. Industrial systems business of the company accounts higher EBIT margins which will remain more or less constant over next 2 years.

Chart 15

Consolidate PBIT segment contribution



Source: Company & Keynote Capitals Institutional Research

Power systems contributes 60% of CG's consolidated EBIT in FY10. The higher contribution from power system division in EBIT is on account of the company's international operations. We assume a lower EBIT (57%) due to subdued growth in international markets.

- i) **Steady increase in power system:** We believe that CG will be a key beneficiary from the government's investments in power transmission & distribution businesses. To meet India's growing power demand, investments of \$600 billion is required. Of this, around \$300 billion for generation, around \$110 billion for transmission, and the balance \$190 billion for distribution. Crompton Greaves has market share of 25% and 55% in domestic transformer and reactor market respectively. CG's Power business is a capital intensive high turnover business with strong international presence.

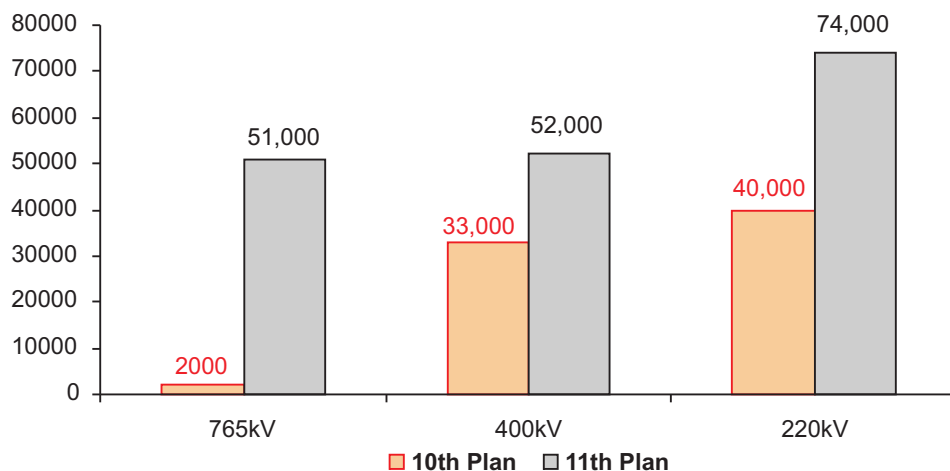
International business is a major contributor to CG's power segment. International business demonstrated a CAGR of 14% during FY2008-10., However, we believe the growth during FY2010-12 will be steady at 4% from de-growth in FY10 on account of demand from wind power in renewable energy and replacement demand for power transformer. We expect the company's domestic power business to grow at a CAGR of 19% during FY2010-12 as against 17% during FY08-10.

Consolidated (₹Cr)	FY07	FY08	FY09	FY10	FY11E	FY12E
Revenue	3990	4667	6174	6204	6615	7401
Growth %	42%	17%	32%	0%	7%	12%
PBIT	327	437	625	769	794	888
PBIT margin	8%	9%	10%	12%	12%	12%

Standalone (₹Cr)	FY07	FY08	FY09	FY10	FY11E	FY12E
Revenue	1741	1805	2224	2510	2884	3371
Growth %	43%	4%	23%	13%	15%	17%
PBIT	183	258	349	462	519	607
PBIT margin	11%	14%	16%	18%	18%	18%

Chart 16

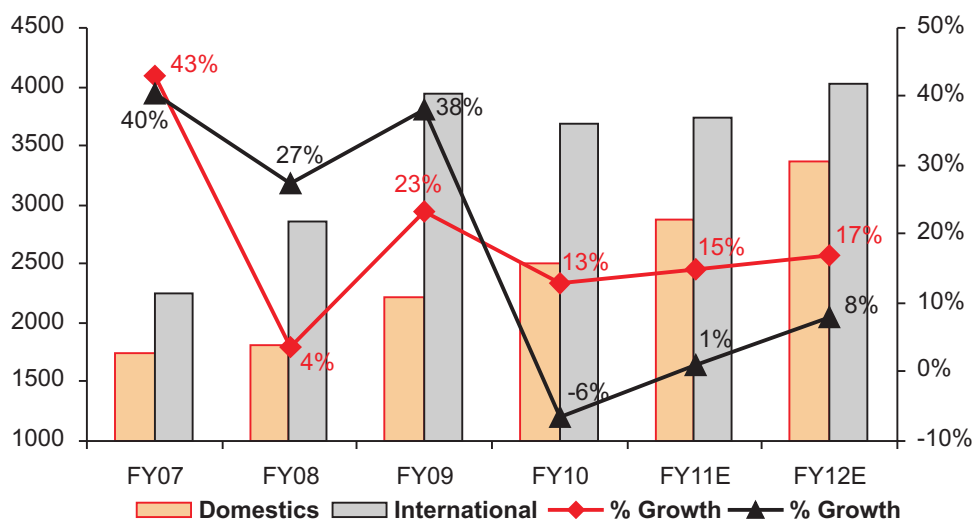
High Voltage Capacity Addition 10th Plan /11th Plan (MVA)



Source: Company & Keynote Capitals Institutional Research

Chart 18

Power System Growth Trajectory Geographically



Source: Company & Keynote Capitals Institutional Research

CG's consolidated power business is estimated to grow at a CAGR of 9% during FY10-12 on account of strong growth in domestic power business. We are more positive on transformer business, which we expect to report a CAGR of 20% during FY2010-12.

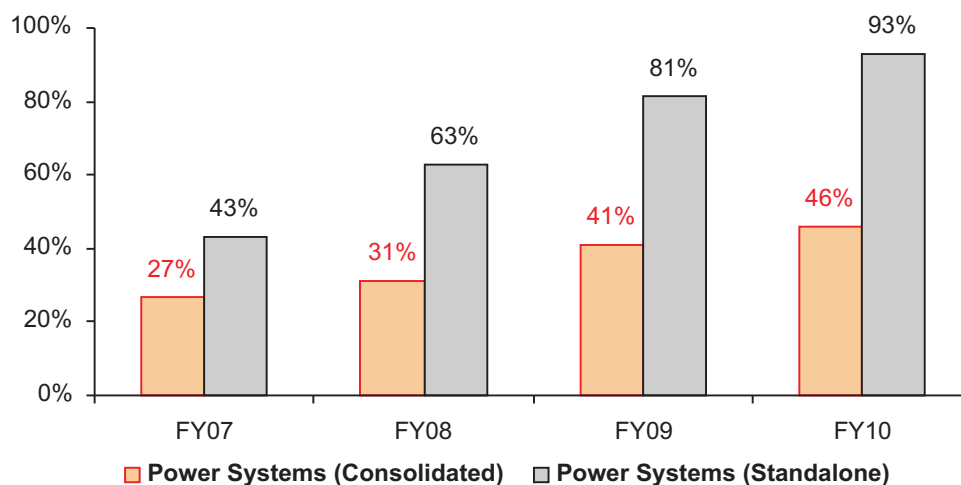
The company's standalone power system business EBIT margin improved by almost 200 bps in FY10 on account of low commodity prices. Going forward, we believe the company's power segment margin to sustain @ 18% levels as the company enjoys better positioning & local manufacturing advantage in 765kV space where there will be incremental order flow expected from PGCIL. We expect EBIT of power system business to report a CAGR @ 15% during FY2010-12.

CG's consolidated EBIT margins will remain constant @ 12% whereas its EBIT will demonstrate CAGR growth of 15% during 2010-12.

CG's ROCE of power business stands at 46% and 93% in consolidated and standalone respectively in FY10 as against 41% and 81% in FY09.

Chart 22

Power System ROCE



Source: Company & Keynote Capitals Institutional Research

- ii) **Consumer product Business to registered strong CAGR growth of 22% in FY2010-12:** CG has strong brand name in consumer products and enjoys market leadership in Electric Fans in India. The company occupies number 2 position in lighting market, and expanding its product portfolio at a rapid rate. It is one of the fastest growing brands in home appliances. The company has also a leadership presence in the domestic pumps market. CG's fans retained its 'Super brand' status, for the fourth time in succession. The company is a market leader in fans segment with 24% market share. It sold 6.5 million fans in FY10. New products accounted for over 25% of total fan sales. The pumps division achieved sales growth of 33% in FY2010, which was significantly greater than the market growth of 18%. CG's pumps retained their leadership position in the domestic segment. Led by the agricultural growth in India, CG turned its focus towards the rural market and is seriously considering it to a major growth driver. The company also entered in the industrial pumps segment with horizontal split case pumps and end suction pumps. New products accounted for 37% of total pump sales. Consumer products division is the most liquid business for the company. Consumer Products business has been growing at a CAGR of 20% during FY2008-10 which we expect further to grow @ CAGR of 22% in FY2010-12.

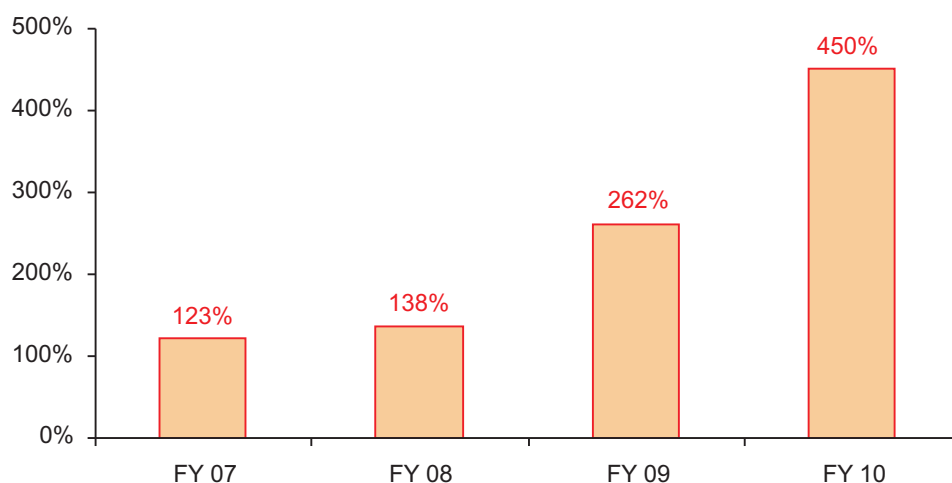
Consolidated (₹Cr)	FY07	FY08	FY09	FY10	FY11E	FY12E
Revenue	994.03	1117.74	1321.82	1611.93	1952	2393
% Growth	20%	12%	18%	22%	21%	23%
PBIT	95.46	120.81	146.28	229.86	273	335
PBIT Margin	10%	11%	11%	14%	14%	14%

The company's EBIT margins for consumer product segment have improved in FY10 by 300bps from 11% to 14%. Going forward, we believe the company will be able to sustain growth and profitability on account of strong branding, new design, innovative products and improving penetration in urban semi urban market. The company's Consumer business has renewed its thrust on enhanced after sales service by commissioning its customer care centre and a network of franchise based authorized service centre in metro cities. Consumer products EBIT has registered 14% growth in FY10, we believe the company EBIT is expected to grow at a CAGR of 19% during FY2010-12 on account of incremental volume growth in Electrics fans and motor pumps of 24% & 33% respectively in next two years.

CG ROCE of consumer business stands at 450% in FY10 as against 262% in FY 09.

Chart 25

Consumer Products (ROCE)



Source: Company & Keynote Capitals Institutional Research

iii) **Domestic Industrial growth will provide impetus to CG's industrial system:** Industrial system accounts for highest EBIT margin of 22% for the company. CG expects a strong pick up in demand for motors driven by the growth in the manufacturing sector. CG has around 40% of order for motors, which has higher margins. We expect the company to register a CAGR of 17% and 9% in revenue and EBIT respectively on account of increase in industrial capex and real infrastructure projects. LT Motors has maintained the number 1 position in India for AC motors; improved from number 2 to number 1 in India for alternators by quantity and maintained its number 2 position in DC motors. As far as rail transportation and railways signaling equipment goes, CG maintains a very strong presence in relays, point machines and BLDC fans - with market shares varying from 32% to 85% and it maintains the number 1 position in all the three products.

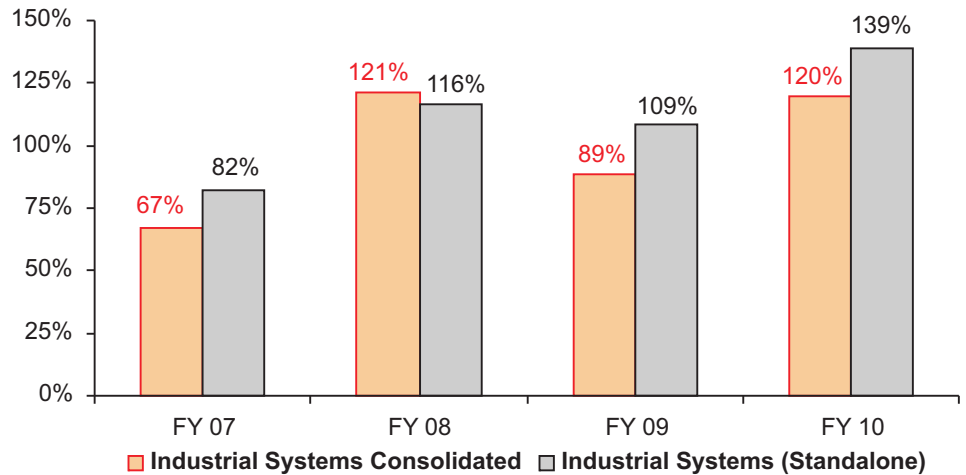
Consolidated (₹Cr)	FY07	FY08	FY09	FY10	FY11E	FY12E
Revenue	897.14	964.94	1149.77	1258.65	1462.09	1723.83
% Growth	31%	8%	19%	9%	16%	18%
PBIT	130.24	195.63	213.27	275.98	263	328
PBIT Margin	15%	20%	19%	22%	18%	19%

Standalone (₹Cr)	FY07	FY08	FY09	FY10	FY11E	FY12E
Revenue	862.51	893.36	1024.2	1136.96	1336	1588
% Growth	29%	4%	15%	11%	17%	19%
PBIT	130.37	194.6	203.84	259.98	280.5	349.5
PBIT Margin	15%	22%	20%	23%	21%	22%

CG's ROCE of industrial systems business stands at 120% and 139% in consolidated and standalone respectively in FY10 as against 89% and 139% in FY09 which indicates improved efficiency.

Chart 28

Industrial System (ROCE)



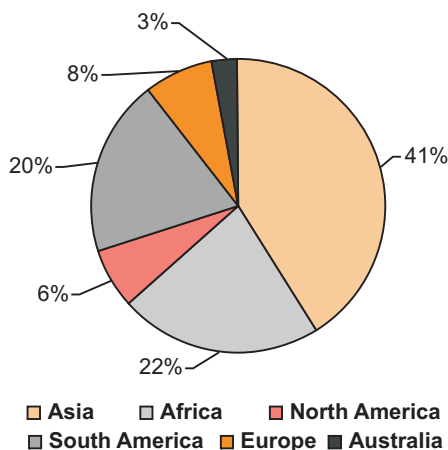
Source: Company & Keynote Capitals Institutional Research

- Inorganic Growth to act as a catalyst for Power & Industrial business:** Through acquisitions, the company is looking ahead of development in business, which may enhance the top line growth. Since the US and Europe have decided to generate 20% of the total power from renewable resources by 2020, there may be signs of a revival in demand for transformers from the renewable sector in the international business of the company. In its drive to becoming a 'Provider of Integrated Solutions, Services and Products', CG acquired Power Technology Solutions Limited (PTS), a UK-based high voltage electrical engineering company. PTS provides consulting as well as technical and engineering support to regional electricity companies in the UK. The approximate acquisition value was £30 million. CG concluded an arrangement for the acquisition of three businesses of Nelco Ltd- traction electronics, SCADA and industrial drives for a value of approximately ₹92 crore. This acquisition should enable CG to become a stronger and more comprehensive player in its railways business and also build capabilities in drives. This is a significant acquisition for CG's Industrial Systems business.

CG holds 32% in Avantha Power and Infrastructure Limited (APIL). This translates to 206.36 million equity shares of APIL at ₹11 per share or an of ₹227 crore. APIL, an Avantha Group the company, is engaged in the generation, transmission and distribution of electricity.

Chart 29

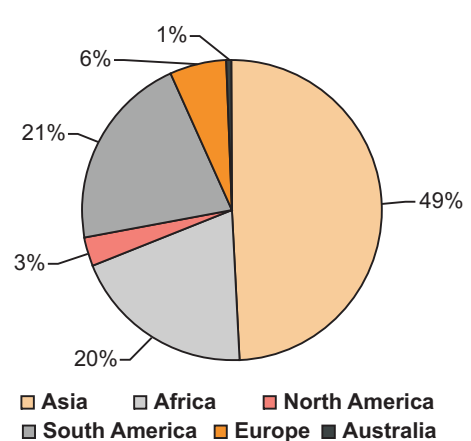
Sales & Service Revenue(Geography-wise) 2009



Source: Company & Keynote Capitals Institutional Research

Chart 30

Sales & Service Revenue(Geography-wise) 2010

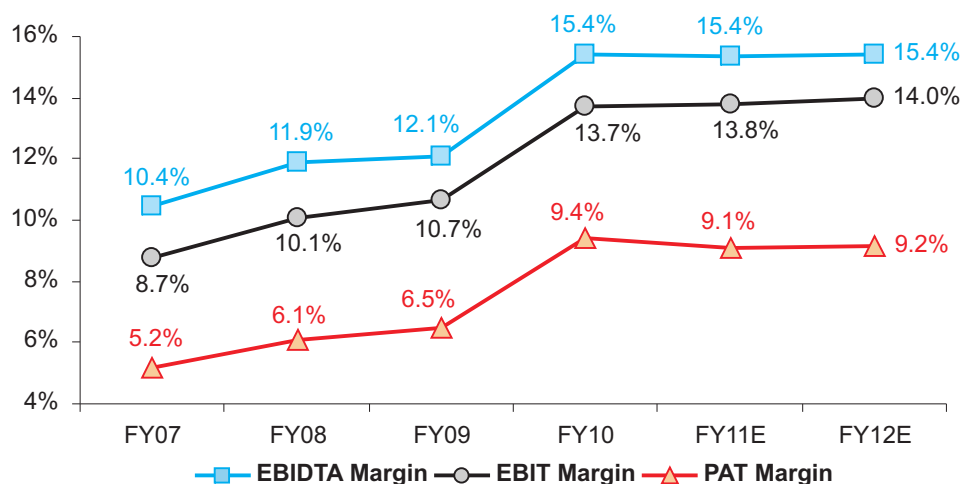


Source: Company & Keynote Capitals Institutional Research

- New Product Development:** CG has a clear metric to measure new product (NP) developments. In FY10, for CG Power India, NP accounted for 17% of revenues. For CG Industrial Systems, it was 22%. And for CG Consumer Products, it was 23%. Some of the new products include a 200MVA, 420/21kV single phase generator transformer, 315MVA, 400/220/33 kV 3 phase auto transformer, 800 kV 50kA gas circuit breaker, NEMA premium efficiency motors for range 90-132, high efficiency alternators, a 10 Bar pressure geyser and fans for automobile applications.
- Margin Expansion & Operational Efficiency:** On account of various value engineering initiatives, better product design and higher efficiency in supply chain management, the company may increase its PAT margin by 50 bps and sustain the operating margins at current levels of 13-14% over FY2010-12. Increase in manufacturing capacity and changes in plant layout will create additional shop floor space to further improve its productivity.

Chart 31

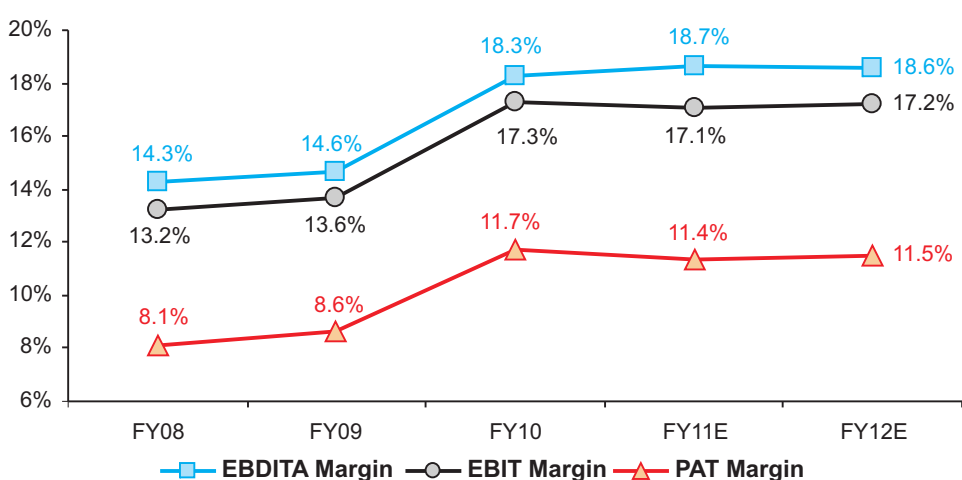
Consolidated Margins



Source: Company & Keynote Capitals Institutional Research

Chart 32

Standalone Margins

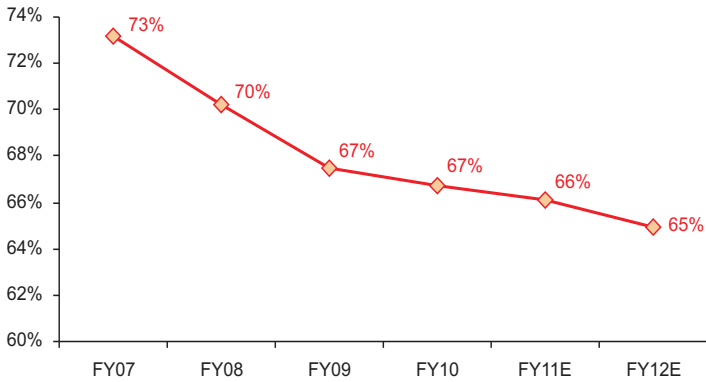


Source: Company & Keynote Capitals Institutional Research

Increase in manufacturing capacity as well as changes in the plant layout will create additional shop floor space, which will improve productivity. Overall improvement in supply chain management including new vendor development, helped with costs in reducing the raw material to sales ratio. Going forward, we believe margin to stabilize in the range of 13-14% on account of higher inflows in its order book from higher rating 765kV transmission systems which have better margins than systems of up to 400kV.

Chart 33

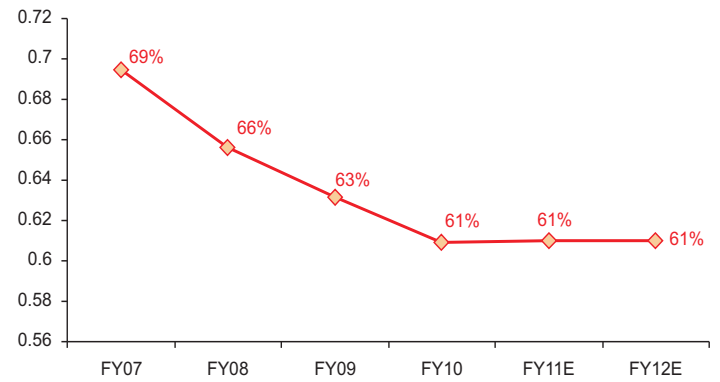
Raw Material % of Net Sales (Standalone)



Source: Company & Keynote Capitals Institutional Research

Chart 34

Raw Material% of Net Sales (Consolidated)

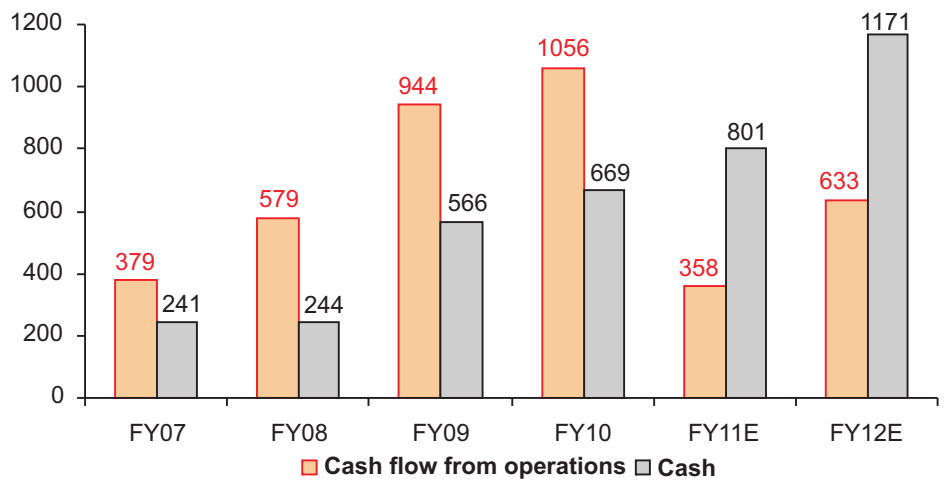


Source: Company & Keynote Capitals Institutional Research

Strong cash Position: The company has a strong cash balance to the tune of ₹669Cr with positive operational cash flows of ₹1000Cr symbolizes healthy financial position. At the same time, the company may look in for further acquisition in Power and Industrial segment for future business growth.

Chart 35

(Con) Strong Cash Position



Source: Company & Keynote Capitals Institutional Research

Key Risks/Concerns

- **Dependence on Power Generation:** Company is entirely dependent on power generation projects in India. In case of any inordinate delays in execution, the Company may face obstacles to meet its targets.
- **Weak Global Macro Factors:** CG has significant exposure in Europe and the US markets. Any downturn in these region may have significant impact.
- **Sharp increase in Commodity Prices:** The rise in price of raw material will adversely affect the margins of the company.
- **Increase in competition:** CG may face competition from China and Korea due to there low manufacturing cost and higher inventories.
- **Currency Risk:** CG derives nearly 50% of its revenues from the International business. The fluctuion in currency may affect its revenues and margins.

Chart 36

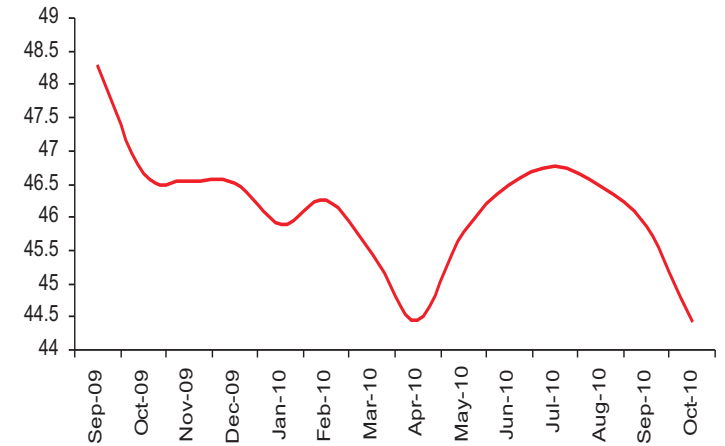
EUR Vs INR



Source: Company & Keynote Capitals Institutional Research

Chart 37

USD Vs INR



Source: Company & Keynote Capitals Institutional Research

Chart 38

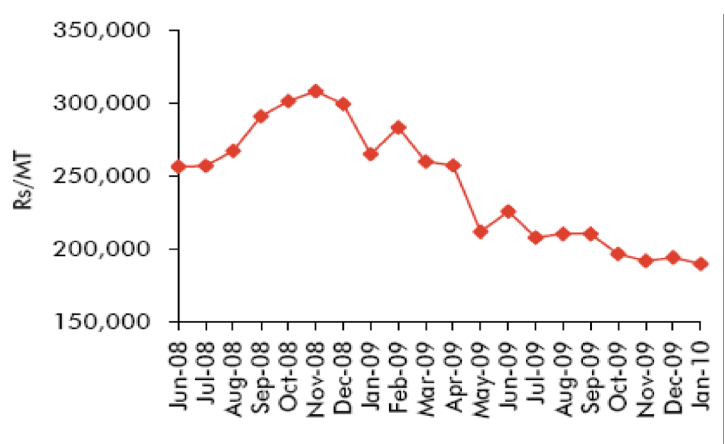
Copper Prices



Source: Company & Keynote Capitals Institutional Research

Chart 39

CRGO price (C&F)



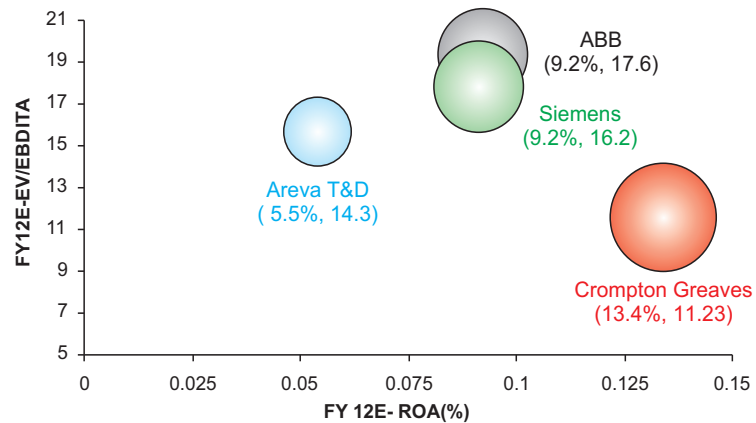
Source: Company & Keynote Capitals Institutional Research

Peer Comparison

Name of the Company	CMP	M CAP	EPS	P/E	P/BV	EV/EBDITA	ROE
Siemens	830	27997	16.84	49.3	10.1	13.5	35%
Crompton Greaves	326	20887	13.44	24.2	8.3	14.7	34%
ABB	865	18335	16.4	110.0	7.6	25.4	16%
Areva T&D	293	7009	7.72	42.0	8.1	16.4	24%

Chart 40

Peer Comparison



Source: Company & Keynote Capitals Institutional Research

Crompton Greaves is best placed against its competitors on EV/EBDITA basis and ROA which implies that the company has higher potential to grow since it is undervalued than its peers.

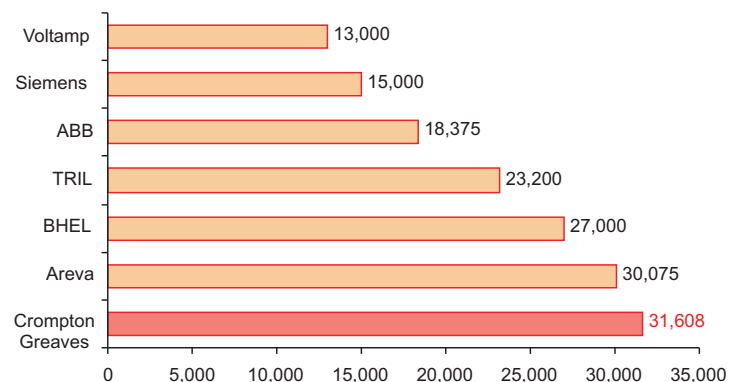
Forward Valuation

Particulars	Siemens		Crompton Greaves		ABB		Areva T&D	
	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E
Sales	11,520	13,464	10,172	11,678	8,466	10,070	4,659	4,792
EBDITA	1,442	1,643	1,564	1,799	858	1,089	511.5	548.5
PAT	953	1,106	921	1,071	547	705	229	268.2
EBDITA%	12.5%	12.2%	15.4%	15.4%	10.14%	10.81%	10.98%	11.45%
PAT%	8.3%	8.2%	9.1%	9.2%	6.5%	7.0%	4.9%	5.6%
EPS	27.97	31.43	14.36	16.70	25.77	32.84	9.37	11.22
P/BV	6.91	5.86	6.29	4.90	6.12	5.07	6.00	5.33
EV/EBDITA	18.55	16.27	13.16	11.23	22.27	17.56	15.34	14.32

Source: Bloomberg Estimates & Keynote Institutional Research

Chart 41

Transformer Capacity (MVA)



Source: Company & Keynote Capitals Institutional Research

Valuation

Crompton Greaves revenues are estimated at a CAGR of 13% during FY2010-12. Based on its order book in domestic and international markets, we have valued the company on DCF methodology and arrived at a price of ₹374/- per share.

Chart 42

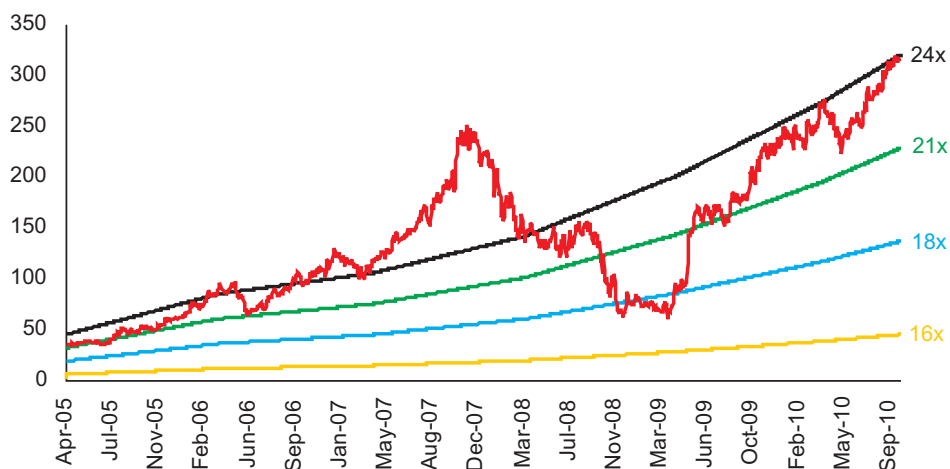
P/B Bands



Source: Industry & Keynote Capitals Institutional Research

Chart 43

PE Bands



Source: Industry & Keynote Capitals Institutional Research

DCF Valuation

Market Return	15.0%
Beta	0.85
WACC	12.9%
Long Term Growth Rate	4%
Terminal Value	15037
PV of Cash Flow	8819
Enterprise Value	23855
Net Debt	-168
Value of firm	24023
No of Outstanding Share	64.15
Equity Value Per Share	374

Consolidated Quaterly Income Statement

Particulars	Q1	Q2	Q1	Q2	Y-o-Y	Q-o-Q	H1	H1	Y-o-Y
	FY10	FY10	FY11	FY11			FY11	FY10	
Net Sales	2198	2189	2302	2398	9.5%	4.2%	4700	4387	7%
Other Income	25	16	20	23	43.6%	17.6%	42	41	5%
Total Income	2222	2205	2322	2421	9.8%	4.3%	4743	4427	7%
Raw Material Consumed	1146	1170	1197	1284	9.8%	7.3%	2481	2316	7%
Stock Adjustment	-32	-51	-89	-64	24.3%	-28.6%	-153	-83	85%
Purchase of Finished Goods	243	220	310	243	10.9%	-21.6%	554	462	20%
Employee Expenses	287	283	299	309	9.4%	3.3%	609	569	7%
Other Expenses	306	261	287	292	11.6%	1.6%	579	567	2%
Total Expenditure	1950	1882	2005	2065	9.7%	3.0%	4070	3832	6%
PBIDT	272	323	317	356	10.4%	12.4%	673	595	13%
Interest	5	5	5	5	-5.8%	-3.2%	10	10	2%
PBDT	268	318	312	351	10.6%	12.7%	663	585	13%
Depreciation	37	39	42	46	18.1%	10.3%	87	76	15%
Tax	62	81	78	82	1.9%	5.8%	160	142	12%
Deferred Tax	8	4	2	10	128.1%	467.1%	12	12	-3%
Reported Profit After Tax	161	194	191	214	10.2%	11.9%	405	355	14%
Net Profit after Minority Int.	160	193	191	214	10.5%	11.9%	404	354	14%
EPS (Adj)(Unit Curr.)	2.5	3.02	2.98	3.33	10.3%	11.7%	6.31	5.52	14%

Consolidated Segment Wise Quaterly Income Statement

Particulars	Q1	Q2	Q1	Q2	Y-o-Y	Q-o-Q	H1	H1	Y-o-Y
	FY10	FY10	FY11	FY11			FY11	FY10	
Revenues									
Revenue from Operations	2206.83	2197.61	2317.8	2410.76	9.7%	4.0%	4729	4404	7%
Power Systems	1483.77	1477.28	1456.41	1577.81	6.8%	8.3%	3034	2961	2%
Consumer Products	412.87	373.98	531.8	463.43	23.9%	-12.9%	995	787	26%
Industrial Systems	279.38	321.67	321.02	360.61	12.1%	12.3%	682	601	13%
Others	30.81	24.68	8.57	8.91	-63.9%	4.0%	17	55	-68%
Less: Inter Segment									
Revenues	9.31	8.57	15.59	12.88	50.3%	-17.4%	28	18	59%
Total Segment Revenue	2197.52	2189.04	2302.21	2397.88	9.5%	4.2%	4700	4387	7%
Net Revenue from									
Operations	2197.52	2189.04	2302.21	2397.88	9.5%	4.2%	4700	4387	7%
Profit/Loss Before									
Interest and Tax	255.27	304.99	297.24	331.69	8.8%	11.6%	629	560	12%
Power Systems	139.46	179.18	155.58	193.46	8.0%	24.3%	349	319	10%
Consumer Products	58.04	52.35	80.29	67.07	28.1%	-16.5%	147	110	33%
Industrial Systems	52.61	70.45	59.78	70.16	-0.4%	17.4%	130	123	6%
Others	5.16	3.01	1.59	1	-66.8%	-37.1%	3	8	-68%
Less: Interest	4.51	5.15	5.01	4.85	-5.8%	-3.2%	10	10	2%
Other Un-allocable Exp.	20.86	21.76	23.12	21.47	-1.3%	-7.1%	45	43	5%
Net Profit/Loss Before Tax	229.9	278.08	269.11	305.37	9.8%	13.5%	574	508	13%

Financials

Consolidated Segment Revenue (Cr\$)

	FY09	FY10	FY11E	FY12E
Revenue from Operations				
Power System	6174.48	6204.46	6614.85	7401.10
% Growth	32%	0%	7%	12%
Consumer Products	1321.82	1611.93	1952	2393
% Growth	18%	22%	21%	23%
Industrial System	1149.77	1258.65	1462.09	1723.83
% Growth	19%	9%	16%	18%
Power System	624.97	769.35	794	888
PBIT Margin	10%	12%	12%	12%
Consumer Products	146.28	229.86	273	335
PBIT Margin	11%	14%	14%	14%
Industrial System	213.27	275.98	263	328
PBIT Margin	19%	22%	18%	19%

Source: Company & Keynote Capitals Institutional Research

Standalone Segment Revenue (Cr\$)

	FY09	FY10	FY11E	FY12E
Revenue				
Power System	2316.61	2448.77	2883.64	3371.40
Power System Total	2224.26	2510.2	2884	3371
% Growth	23%	13%	15%	17%
Consumer Products	1346.24	1642.25	1952	2393
Total Consumer Products (Domestics)	1321.82	1611.93	1952	2393
% Growth	18%	22%	21%	23%
Industrial Systems	1107.86	1187.05	1336	1588.4
Industrial System	1024.2	1136.96	1336	1588
Net Revenue from Operations	4610.66	5283.99	6233	7426
	19%	15%	18%	19%
PBIT				
Power System	349.28	462.17	519.1	606.9
PBIT %	16%	18%	18%	18%
Consumer Products	146.28	229.86	263.6	323.0
PBIT %	11%	14%	14%	14%
Industrial System	203.84	259.98	280.5	349.5
PBIT %	20%	23%	21%	22%
Profit/Loss Before Interest & Tax	700.15	953.02	1063	1279

Source: Company & Keynote Capitals Institutional Research

Consolidated Income Statement

(₹Cr)

	2008	2009	2010	2011E	2012E
Net Sales	6832	8737	9141	10172	11678
Other Income	67.22	58.7	132.04	132	152
Total Income	6899	8796	9273	10304	11829
Raw Material Consumed	3622.96	4584.4	4624.03	5188	5956
Stock Adjustment	-80.69	-24.13	22.47	22.47	22.47
Purchase of Finished Goods	861.46	932.1	945.81	1017	1168
Employee Expenses	796.81	1064.62	1113.14	1241	1425
Other Expenses	885.85	1185.58	1158.47	1271.48	1459.708
Total Expenditure	6086.39	7742.57	7863.92	8739.71	10030.23
EBIDTA	813	1053	1409	1564	1799
EBIDTA Margin	11.90%	12.06%	15.41%	15.38%	15.41%
Depreciation	126.26	121.6	155.09	162.00	168.30
EBIT	687	932	1254	1402	1631
Interest	69.96	65.51	26.49	27.2	31.9
PBT	617	866	1227	1375	1599
Tax	197.04	261.3	313.72	454	528
Reported Profit After Tax	416	567	862	921	1071
PAT Margin	6%	6%	9.43%	9.06%	9.17%
EPS (Unit Curr.)	11.1	15.27	13.4	14.36	16.70

Consolidated Balance Sheet

(₹Cr)

	2008	2009	2010	2011E	2012E
SOURCES OF FUNDS :					
Share Capital	73.32	73.32	128.3	128.3	128.3
Reserves Total	1228.47	1757.73	2375.98	3191	4139
Total Shareholders Funds	1302	1831	2504	3319	4267
Total Debt	842	718	501	495	490
Total Liabilities	2156	2563	3010	3818	4761
APPLICATION OF FUNDS :					
Gross Block	2685	3029	2986	3086	3206
Less: Accumulated Depreciation	1483	1704	1723	1885	2054
Net Block	1197	1325	1262	1200	1152
Capital Work in Progress	47.58	53.7	113.69	93.0	76.0
Investments	93.43	167.21	553.57	554	554
Inventories	1066	1095	1041	1338	1728
Sundry Debtors	1720	2056	2146	2592	3167
Cash and Bank	244	566	669	801	1171
Loans and Advances	370	229	246	509	584
Total Current Assets	3401.64	3945.17	4101.84	5239	6649
Current Liabilities	2100	2602	2657	2909	3311
Provisions	542.53	373.87	360.25	360	360
Total Current Liabilities	2642	2976	3017	3269	3671
Net Current Assets	759.34	969.15	1084.87	1970	2978
Total Assets	2156	2563	3010	3817	4760

Consolidated Cash Flow (Cr)

	2008	2009	2010	2011E	2012E
PBT & Extraordinary Items	615.24	867.17	1189.05	1375	1599
Add: Depreciation	126	122	155	162	168
Add: Interest Expense	70	66	26	27	32
Less: Tax Paid	197	261	314	454	528
Operating Profit Before Working Capital Change					
Capital Change	616	792	1095	1111	1272
(Increase)/Decrease in Inventories	151	29	-54	296	390
(Increase)/Decrease in Sundry debtors	299	335	91	445	576
(Increase)/Decrease in loans & advances	6	-141	17	263	75
Increase/(Decrease) in sundary creditors/liabilites/provision	407	334	41	252	402
Change in Working Capital	-48	111	-13	-753	-639
Net Cash from Operating Activities	578.81	944.38	1056.09	358	633
Net Cash Used in Investing Activities	-346.91	-321.56	-575.07	-100	-120
Net Cash Used in Financing Activities	-228.88	-301.67	-377.84	-126	-143
Net Inc/(Dec) in Cash and Cash Equivalent	3	321	103	132	370
Cash and Cash Equivalents at End of the year	244	566	669	801	1171

Ratio Analysis

Particulars	2008A	2009A	2010A	2011E	2012E
Profitabilty Margins					
EBIT Margin	10.1%	10.7%	13.7%	13.8%	14.0%
EBITDA Margin	11.9%	12.1%	15.4%	15.4%	15.4%
PAT Margin	6.1%	6.5%	9.4%	9.1%	9.2%
Coverage Ratio					
Interest Coverage ratio	10.8	15.3	48.7	48.9	48.6
Profitability Ratios					
ROE	32%	31%	34%	28%	25%
ROCE	35%	39%	43%	35%	33%
Asset Turnover Ratio	2.54	2.88	3.06	3.30	3.64
Leverage Ratios					
Debt Equity Ratio	0.65	0.39	0.20	0.15	0.11
Debt/PAT	2.02	1.27	0.58	0.54	0.46
Current Ratio	1.29	1.33	1.36	1.60	1.81
Efficiency Ratios					
Inventory Turnover Days	57	46	42	48	54
Debtors Days	92	86	86	93	99
Creditor Days	266	237	238	230	225
Valuation Ratios					
P/E	29.3	21.3	24.2	22.7	19.5
P/BV	16.04	11.41	8.34	6.29	4.90
EV/EBIDTA	26.44	19.99	14.71	13.16	11.23
EPS	11.1	15.27	13.44	14.36	16.70

Source: The company & Keynote Capitals Institutional Research

Annexure:

In power industry, every 1 MW of the generating capacity addition entails an addition of 7 MVA of transformer capacity. According to 11th Plan, the power capacity addition target is about 78,577 MW. However, we believe that the capacity addition for this period is expected to be 50 -60% of the target taking into consideration implementation record of government. Thus, it will result into demand of 60,500 MVA of transformers each year. Further, the average demand for special transformers is approximately around 30,000 MVA. Additionally, a transformer has a useful life of about 25-30 years. Hence, the transformers installed in 8th Plan (1980-85) 88,000 MVA are now coming up for replacement which will create a replacement demand of 17,700 MVA each year.

And finally there is export demand of 10,000 MVA/annum. Thus, total demand estimation equals to 1, 18,200 MVA/annum. These estimates have been made on conservative basis considering the global recession and slowdown in project execution in power sector. However, the total capacities of transformer manufacturers add up 1, 10,000 MVA, which means a demand supply gap, is of ~8,000 MVA each year. The favorable demand dynamics will give pricing power to transformer manufactures and thus the realizations are also expected to remain firm in the near future.

List of Shareholder holding more than 1%

Description	%
Azim Hasham Premji	1.22
Birla Sun Life Trustee The company Pvt Ltd A/C Birla Sun Life Frontline Equity Fund	1.65
Corella Investments Ltd	1.12
HDFC Standard Life Insurance The company Ltd	2.66
HDFC Trustee The company Ltd HDFC Top 200 Fund	4.7
HSBC Global Investment Funds	1.19
Life Insurance Corporation of India Profit plus	4.89
Lustre International Ltd	0.67
Penbryn International Ltd	1.54
Reliance Capital Trustee Co Ltd A/C Reliance Diversified Power Sector Fund	1.52
SBI MF Magnum Sector Funds Umbrella Emerging Businesses Fund	2.2
Solaris Holdings Ltd	39.13
Tata Young Citizens Fund	1.3
Templeton Mutual Fund A/c Franklin India Opportunities Fund	1.8

