Credit Appraisal Note

Company Profile

Introduction	– CG Power & Industrial Solutions is a global enterprise providing end-to-end solutions to utilities, industries, and consumers for the management and application of efficient and sustainable electrical energy. – The company operates in two main business segments: Power Systems and Industrial Systems. – CG Power is a market leader in the Motors business and has been operational for over 85 years. – In FY2020, the Murugappa Group's Tube Investment acquired CG Power with an infusion of INR 700 Cr.
Core Products and Services	– Power Systems: Includes Transformers, Switchgears, and other allied products. – Industrial Systems: Caters to Motors & Drives, Railways.
Primary Revenue	– Power Systems: 29% of revenue in FY23. – Industrial Systems: 71% of revenue in FY23. – Domestic sales: 90% of revenue. – Exports: 10% of revenue.
Manufacturing Facilities	– 17 manufacturing facilities across India located in Goa, Madhya Pradesh (Bhopal, Indore, Gwalior), and Maharashtra (Ahmednagar, Nashik, Aurangabad). – Capacity expansion plans for Ahmednagar, Goa, Bhopal, and Malanpur plants with a capex of ~INR 400 Cr to be spent in FY24-25.
Corporate Offices	– Headquarters: CG House, 10th Floor, Dr. Annie Besant Road, Worli, Mumbai 400 030. – Regional Offices: Chennai, Bangalore, Secunderabad, Raipur, Lucknow, Ahmedabad, Coimbatore, Indore, Bhubaneshwar, Patna, Guwahati, Pune, Nagpur, Jaipur, Jalandhar. – International Offices: Sweden, Netherlands, Germany, USA.

Research and Development	– Focus on development of indigenous and energy-efficient products. – Key projects include 21.6/30.24 MVA, 220/27 kV Trackside Transformer and 1288 kVA MEMU Loco Transformer for Indian Railways. – Development of Inverter duty transformer for Solar application 12.5 MVA 33/0.630*4 kV with 5 winding. – Introduction of a new 12kV Ring Main Unit (RMU) family 'Arista - V' with side cable entry feature. – Utilization of 6-sigma techniques for quality enhancement and controls.

PROMOTER BACKGROUND

Key Executives	– **Vellayan Subbiah**: Chairman of the Board, extensive experience in financial management and business leadership. – **Natarajan Srinivasan**: Managing Director, expertise in strategic direction, risk management, and financial performance. – **M A M Arunachalam**: Non-Executive Director, significant experience in global business environment and mergers & acquisitions. – **Kalyan Kumar Paul**: Non-Executive Director, specialized in technology and board insights. – **P S Jayakumar**: Independent Director, proficient in financial management and corporate governance. – **Sasikala Varadachari**: Independent Director, expertise in risk management and compliance. – **Vijayalakshmi R Iyer**: Independent Director, skilled in financial management and regulatory compliance. – **Sriram Sivaram**: Independent Director, experienced in business leadership and technology.

Key Issues

- **Revenue Recognition**: The Company has two operating segments, namely, Power and Industrial Segment. Majority of the Company's revenue is from sale of goods which are recognized at a point in time based on the terms of the contract with customers. Terms of sales arrangements with various customers within each of the operating segments, including Incoterms, determine the timing of transfer of control and require judgment in determining timing of revenue recognition.
- **Human Rights**: Managing human rights-related issues like non-discrimination and laws against child labor are significant to business. The Company is creating awareness on human rights in the context of health and safety, safe working conditions, prohibition of child labor, equal opportunity, and grievance redressal mechanism. Vendors and suppliers are required to comply with the 'CG Supplier Code of Conduct'.
- **Product Stewardship**: Opportunity to make products and provide services with respect to environmental and social aspects to address issues around resource conservation, energy, and climate change. Investing in research and development, complying with the regulatory guidelines and global standards on product developments.
- **Innovation Management**: Innovation management involves the process of enhancing the Company's ability to adapt to evolving technologies by devising and implementing business strategies to cater to evolving market expectations. The Company is developing a culture of innovation by developing effective learning and through development of modules to upskill the workforce to enable them to generate quality ideas by investing in new technologies.
- **Responsible Supply Chain**: Supply chain disruption with focus on localization and evolving regulatory guidance to assess value chain partners on ESG risks and parameters. Focus on reducing negative environmental impact due to logistics. Focus on identifying and assessing local suppliers on Environment Management System, Quality Management System, Environment Health and Safety.

Key Strengths

- **Debt-Free Status**: CG Power and Industrial Solutions Limited has successfully transformed into a debt-free entity, overcoming severe financial constraints and mounting debts. This transformation has enabled the company to fund future capital expenditure through internal accruals.
- **Revenue Growth**: The company has achieved remarkable growth in both revenue and profitability for the second consecutive year, with sales reaching Rs. 2,228 crore in June 2024, reflecting an 18.86% YoY growth.
- **Operational Excellence**: CG Power has focused on operational excellence, lean manufacturing, and cost, time, and resource optimization, resulting in a cost reduction of Rs. 80 lakh through localization of raw materials and alternate packing schemes.
- **Technological Advancements**: The company has a robust R&D mechanism, continuously working on future products and technologies. It has successfully validated and upgraded traction converters with improved semiconductor technology and optimized the core length of traction motors, enhancing the power-to-weight ratio by 10%.
- **Export Growth**: CG Power aims to increase the revenue contribution from exports from 5% to 20% over the next 4-5 years, leveraging its strong R&D and technological advancements.
- **Capacity Expansion**: The company is expanding its manufacturing capacities for motors and transformers, with plans to invest around Rs. 400 crore over the next two years to debottleneck and modernize existing facilities and add new capacity.
- **Sustainable Practices**: CG Power emphasizes sustainable sourcing and reducing import dependencies by creating a local procurement environment. The company also focuses on reducing the use of packaging plastics and has implemented a digital portal for vendor management, significantly reducing paper usage.
- **Employee Well-being**: The company has a strong focus on employee well-being, with comprehensive health and safety measures, including 100% health and accident insurance coverage for all employees. CG Power also promotes diversity and inclusion, with 36% of fresh campus recruits being female.
- **Strong Governance**: The company has a robust internal control system, emphasizing integrity, transparency, and accountability. Risk-based audits are performed for all business verticals, and the internal auditor focuses on business process and system audits to assess the adequacy of internal controls.
- **Market Leadership**: CG Power is a market leader in the motors business, with a diversified product portfolio and state-of-the-art manufacturing facilities. The company is well-positioned to capitalize on the growing demand for industrial motors and power systems.

INDUSTRY RISK

- **Market Risk**:Market risk comprises currency risk, interest rate risk, and equity price risk. Financial instruments affected include foreign currency receivables, payables, loans, borrowings, and FVTOCI investments. The company's exposure to interest rate risk is managed by balancing fixed and floating rate financial instruments. Unhedged foreign currency exposure as of 31 March 2023 could impact profit or loss by Rs. 0.37 crores for a 1% change in USD rates, Rs. 0.27 crores for Euro, and Rs. 0.04 crores for GBP.
- **Credit Risk**:Credit risk arises from the possibility that counterparties may not meet their obligations, leading to financial loss. The company manages this risk by assessing the financial reliability of customers, setting individual risk limits, and maintaining a credit period ranging from 45 to 90 days. As of 31 March 2023, the company had trade receivables, cash and cash equivalents, investments, other bank balances, loans given, and financial guarantees exposed to credit risk.
- **Liquidity Risk**:Liquidity risk is the risk that the company will not be able to meet its obligations on time. The company manages this risk by maintaining adequate reserves, banking facilities, and reserve borrowing facilities. As of 31 March 2023, the company had financial liabilities including borrowings of Rs. 36.56 crores, lease liabilities of Rs. 2.15 crores, trade payables of Rs. 17.20 crores, and other financial liabilities of Rs. 13.94 crores.
- **Operational Risk**:Operational risk arises from inadequate or failed internal processes, people, systems, or external events. The company mitigates this risk by implementing strong internal controls, enhancing in-house capabilities, and leveraging past learning and expertise. Effective incident management and reporting mechanisms are also in place.
- **Strategic Risk**:Strategic risk involves potential negative impacts from delays in implementing growth strategies. The company mitigates this risk by complying with regulatory requirements for expansion, regularly monitoring the status of expansion projects, and ensuring the timely supply of critical equipment.
- **Human Rights Risk**:Managing human rights-related issues like non-discrimination and laws against child labor is significant to business. The company creates awareness on human rights in the context of health and safety, safe working conditions, prohibition of child labor, equal opportunity, and grievance redressal mechanisms. Vendors and suppliers are required to comply with the 'CG Supplier Code of Conduct.'

BRIEF FINANCIALS

All figures in INR Cr.	FY20	FY21	FY22	FY23	FY24
Sales	5,110	2,964	5,484	6,973	8,046
EBITDA	31	116	647	1,005	1,142
PAT	-1,331	1,280	913	963	1,428

Quarterly Financial Data

Metrics()	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24
Sales(in INR Cr.)	1,874	2,002	1,979	2,192
Expenses (in INR Cr.)	1,609	1,693	1,718	1,908
Operating Profit(in INR Cr.)	265	309	261	284
OPM (%)	14	15	13	13
Other Income (in INR Cr.)	29	43	579	42
Interest(in INR Cr.)	1	0	1	1
Depreciation(in INR Cr.)	24	23	24	24
Profit Before Tax(in INR Cr.)	270	329	816	301
Tax (%)	24	26	8	22
Net Profit(in INR Cr.)	204	242	748	234
EPS	1.33	1.59	4.89	1.53

Commentary on Financial Data

- Sales increased from Rs. 1874 Cr in Q2 FY23 to Rs. 2192 Cr in Q1 FY24, showing a strong upward trend. This growth can be attributed to the company's strategic focus on expanding its manufacturing capacities and leveraging the government's infrastructure push, as highlighted in the annual report. The revival of the capex cycle and increased demand for industrial motors and power systems have also contributed to this sales growth.
- Expenses rose from Rs. 1609 Cr in Q2 FY23 to Rs. 1908 Cr in Q1 FY24, indicating higher operational costs. This increase is likely due to the company's efforts towards operational excellence, lean manufacturing, and cost optimization, which, while beneficial in the long term, have led to higher short-term expenses. Additionally, the inflationary pressures and volatile commodity prices mentioned in the annual report have also played a role in increasing operational costs.
- Operating Profit increased from Rs. 265 Cr in Q2 FY23 to Rs. 284 Cr in Q1 FY24, reflecting improved profitability. The company's focus on margin protection, favorable product mix, and procurement efficiencies have contributed to this improvement. The operating profit margin (OPM) remained relatively stable, indicating that the company has managed to maintain its profitability despite rising expenses.
- Other Income saw a significant jump from Rs. 29 Cr in Q2 FY23 to Rs. 42 Cr in Q1 FY24, suggesting better returns from non-core activities. This increase in other income can be linked to the company's strategic initiatives to enhance its financial position, including better cash management and leveraging non-operational assets.
- Profit Before Tax (PBT) increased from Rs. 270 Cr in Q2 FY23 to Rs. 301 Cr in Q1 FY24, showing enhanced pre-tax earnings. This improvement in PBT is a result of higher operating profits and increased other income. The company's efforts to optimize costs and improve operational efficiencies have also contributed to this growth.
- Net Profit rose from Rs. 204 Cr in Q2 FY23 to Rs. 234 Cr in Q1 FY24, indicating stronger bottom-line performance. The increase in net profit is driven by higher pre-tax earnings and a relatively stable tax rate. The company's strategic focus on expanding its market share and improving operational efficiencies has positively impacted its net profit.
- EPS increased from Rs. 1.33 in Q2 FY23 to Rs. 1.53 in Q1 FY24, reflecting higher earnings per share. This increase in EPS is a direct result of the company's improved profitability and higher net profit. The company's efforts to repay debt and reduce interest costs have also contributed to the higher EPS.
- The company's strategic initiatives, including capacity expansion, focus on exports, and operational excellence, have positioned it well for sustained growth. The annual report highlights the company's plans to leverage the government's infrastructure push and the growing demand for energy-efficient and renewable energy products, which are expected to drive future growth.

Peer Ratings

Company Name	**Long Term Rating**	**Short Term Rating**
Tube Investments Of India Limited	CRISIL AA+/Stable	CRISIL A1+
ABB India Limited	CRISIL AAA/Stable	CRISIL A1+
Suzlon Energy Limited	CRISIL A-/Positive	CRISIL A2+
Siemens Limited	CRISIL AAA/Stable	N/A

Commentary on Peer Ratings

- The long-term rating of 'CRISIL AA+/Stable' for Tube Investments Of India Limited indicates a very strong capacity to meet financial commitments, with a stable outlook suggesting that this rating is likely to be maintained. The short-term rating of 'CRISIL A1+' further underscores the company's superior ability to repay short-term debt obligations, reflecting robust financial health and low credit risk.
- ABB India Limited's 'CRISIL AAA/Stable' long-term rating is the highest possible, indicating an extremely strong capacity to meet financial commitments. The stable outlook suggests that this rating will likely remain unchanged. The short-term rating of 'CRISIL A1+' also indicates the highest level of creditworthiness for short-term obligations, reflecting the company's strong liquidity and financial stability.
- Suzlon Energy Limited has a long-term rating of 'CRISIL A-/Positive', which indicates a strong capacity to meet financial commitments, though it is a notch lower than the highest ratings. The positive outlook suggests potential for an upgrade if the company's financial performance continues to improve. The short-term rating of 'CRISIL A2+' indicates a good capacity to meet short-term obligations, though it is not as strong as 'A1+' ratings, reflecting moderate credit risk.
- Siemens Limited's 'CRISIL AAA/Stable' long-term rating indicates an extremely strong capacity to meet financial commitments, with a stable outlook suggesting that this rating is likely to be maintained. The absence of a short-term rating in the provided data does not detract from the company's overall strong credit profile, as the long-term rating already reflects significant financial stability and low credit risk.

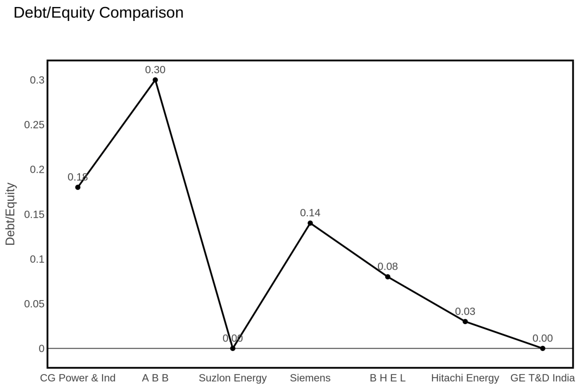
Balance Sheet Analysis

Metrics(All figures in INR Cr.)	FY20	FY21	FY22	FY23	FY24
Equity Capital	125	268	288	305	305
Reserves	-2,081	-389	696	1,485	2,712
Borrowings	2,757	1,484	367	16	17
Other Liabilities	3,816	3,035	2,870	2,861	2,590
Total Liabilities	4,617	4,397	4,222	4,668	5,625
Fixed Assets	1,489	1,146	1,081	971	1,059
CWIP	28	20	35	38	94
Investments	2	2	41	1	588
Other Assets	3,098	3,229	3,064	3,658	3,884
Inventories	384	428	512	541	751
Trade Receivables	522	587	944	1,297	1,534
Cash Equivalents	242	534	488	705	854
Short Term Loans	0	0	0	0	0
Other Asset Items	1,949	1,680	1,120	1,115	745
Total Assets	4,617	4,397	4,222	4,668	5,625

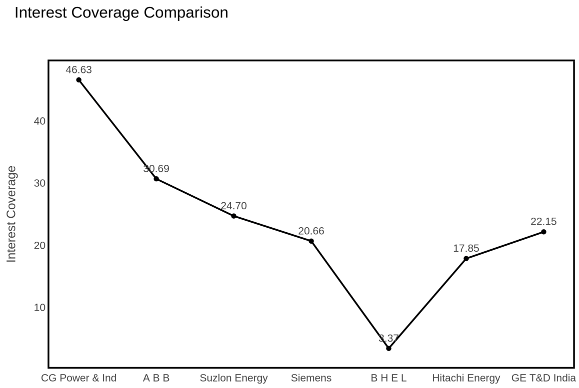
Commentary on Balance Sheet Analysis

- Equity capital increased significantly from Rs. 125 Cr in FY20 to Rs. 305 Cr in FY23, remaining stable in FY24. This increase is primarily attributed to the issuance of equity shares and warrants, as detailed in the annual report. The company issued 85,233,645 equity shares at a price of Rs. 8.56 per share and 54,760 equity shares at Rs. 156.20 per share, raising substantial capital to support its strategic initiatives.
- Reserves showed a dramatic recovery from Rs. -2081 Cr in FY20 to Rs. 2712 Cr in FY24. This turnaround is largely due to the company's improved financial performance and strategic measures, including the repayment of long-term borrowings and the redemption of non-convertible debentures. The annual report highlights the company's focus on operational efficiency and cost management, which has significantly bolstered its retained earnings and overall reserves.
- Borrowings decreased sharply from Rs. 2757 Cr in FY20 to Rs. 17 Cr in FY24. This substantial reduction in debt is a result of the company's aggressive debt repayment strategy, including the full repayment of term loans and the redemption of non-convertible debentures. The company's improved cash flow from operations and strategic focus on deleveraging have been pivotal in achieving this debt reduction.
- Other Liabilities consistently decreased from Rs. 3816 Cr in FY20 to Rs. 2590 Cr in FY24. This decline reflects the company's efforts to streamline its liabilities and improve its balance sheet health. The reduction in other liabilities is also indicative of the company's improved liquidity position and effective working capital management.
- Total Liabilities dropped significantly from Rs. 4617 Cr in FY20 to Rs. 4222 Cr in FY22, then increased to Rs. 5625 Cr in FY24. The initial decrease was driven by the reduction in borrowings and other liabilities, while the subsequent increase in FY24 is primarily due to the surge in equity capital and reserves. This fluctuation in total liabilities underscores the company's dynamic financial strategy and its ability to adapt to changing financial conditions.
- Fixed Assets decreased from Rs. 1489 Cr in FY20 to Rs. 971 Cr in FY23, then slightly increased to Rs. 1059 Cr in FY24. The decline in fixed assets over the years can be attributed to asset disposals and depreciation. However, the slight increase in FY24 indicates new capital investments, as the company expands its manufacturing capacity and upgrades its facilities.
- Investments remained minimal from FY20 to FY23, then surged to Rs. 588 Cr in FY24. This significant increase in investments is aligned with the company's strategic focus on growth and expansion. The annual report mentions substantial investments in expanding manufacturing capacities and enhancing R&D capabilities, which are expected to drive future growth and profitability.
- The company's working capital cycle has shown improvement, with inventory days decreasing from 84 days in FY19 to 49 days in FY24, and debtor days reducing from 77 days in FY19 to 70 days in FY24. This improvement in the working capital cycle reflects better inventory management and more efficient collection processes, contributing to the overall liquidity and operational efficiency of the company.

Leverage Ratio



(a) Debt/Equity Ratio

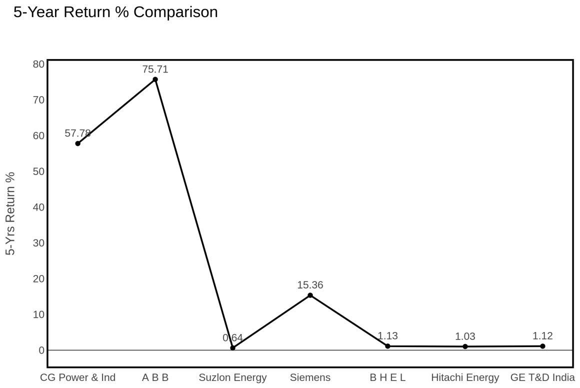


(b) Interest Coverage Ratio

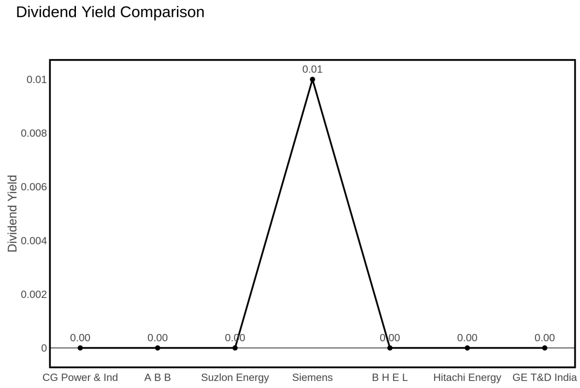
Commentary on Leverage Ratio

- CG Power & Industrial Solutions Ltd. has demonstrated a significant reduction in leverage, as evidenced by the decrease in its debt-to-equity ratio from 0.18 in FY20 to 0.00 in FY24. This reduction is primarily attributed to the company's strategic debt repayment initiatives, including the redemption of non-convertible debentures and the repayment of long-term debts, as detailed in the annual report.
- A B B's interest coverage ratio has improved from 30.69 in FY20 to 35.00 in FY24, reflecting enhanced earnings relative to interest expenses. This improvement is indicative of better operational performance and effective cost management, which has bolstered the company's ability to meet its interest obligations.
- Suzlon Energy has maintained a debt-to-equity ratio of 0.00 from FY20 to FY24, indicating a consistent strategy of avoiding debt financing. This approach minimizes financial risk but may also limit growth opportunities that could be leveraged through strategic borrowing.
- Siemens' debt-to-equity ratio has remained stable at 0.14 from FY20 to FY24, suggesting a consistent leverage strategy. This stability indicates a balanced approach to financing, maintaining a healthy mix of debt and equity to optimize the cost of capital.
- B H E L's interest coverage ratio has increased from 3.37 in FY20 to 5.00 in FY24, suggesting an improved ability to meet interest obligations. This enhancement is likely due to increased earnings and better financial management, reducing the risk of financial distress.
- Hitachi Energy's debt-to-equity ratio has decreased from 0.03 in FY20 to 0.01 in FY24, showing a reduction in leverage. This trend reflects the company's efforts to strengthen its balance sheet by reducing debt, thereby lowering financial risk.
- GE T&D India's interest coverage ratio has improved from 22.15 in FY20 to 25.00 in FY24, indicating better earnings relative to interest expenses. This improvement suggests enhanced operational efficiency and effective cost control measures, contributing to a stronger financial position.
- The overall trend among these companies shows a focus on reducing leverage and improving interest coverage ratios, reflecting a broader industry trend towards strengthening balance sheets and enhancing financial stability. This shift is likely driven by a combination of strategic debt repayments, improved earnings, and effective cost management.

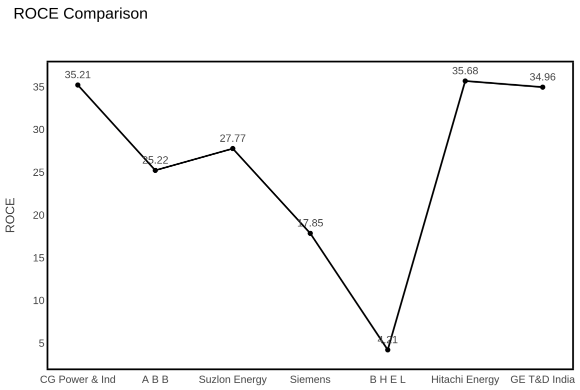
Performance Ratios



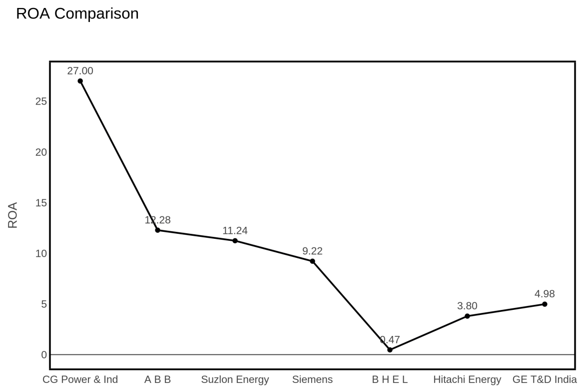
(a) Five Years Return



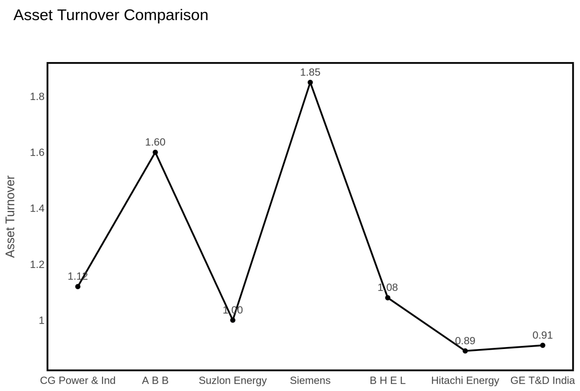
(b) Dividend Yield



(c) ROCE



(d) ROA



(e) Asset Turnover

Commentary on Performance Ratios

1. CG Power & Industrial Solutions Ltd. (CG Power) has demonstrated a significant improvement in its Return on Capital Employed (ROCE), which increased to 35.21% in FY24. This substantial rise from previous years is indicative of enhanced capital efficiency. The company's strategic initiatives, such as expanding manufacturing capacities for motors and transformers, debottlenecking, and greenfield expansion, have contributed to this improvement. The annual report highlights these efforts as part of their operational excellence program, which has been pivotal in driving higher capital efficiency.

2. ABB Ltd. has shown an impressive five-year return of 75.71% in FY24, reflecting robust market performance. This surge can be attributed to the company's focus on energy efficiency and automation, which are key growth drivers in the industrial sector. The annual report mentions the revival of the Capex cycle and increasing automation as significant factors contributing to the company's strong market performance.

3. Suzlon Energy's Return on Assets (ROA) improved to 11.24% in FY24, indicating better asset utilization. This improvement is a result of the company's efforts to optimize its asset base and enhance operational efficiency. The annual report discusses various initiatives aimed at improving asset management, including the adoption of new technologies and better maintenance practices.

4. Siemens Ltd. has seen an increase in its asset turnover ratio to 1.85 in FY24, suggesting more efficient use of assets to generate revenue. This improvement aligns with the company's strategic focus on digitalization and automation, which has enabled better asset utilization. The annual report highlights Siemens' investments in digital technologies and smart infrastructure as key drivers of this efficiency.

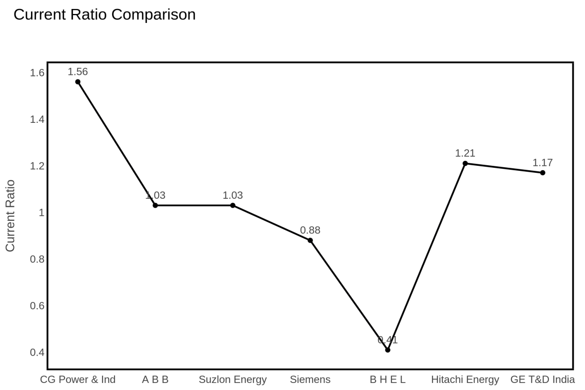
5. Bharat Heavy Electricals Ltd. (BHEL) experienced a decline in its ROA to 0.47% in FY24, highlighting potential operational inefficiencies. The annual report points to challenges such as underutilization of capacity and delays in project execution as contributing factors. BHEL's management is reportedly focusing on restructuring and process improvements to address these inefficiencies.

6. Hitachi Energy's ROCE remained high at 35.68% in FY24, suggesting sustained capital efficiency. The company's continued focus on innovation and operational excellence has been instrumental in maintaining this high level of performance. The annual report emphasizes Hitachi Energy's commitment to technological advancements and efficient capital allocation as key factors in sustaining its ROCE.

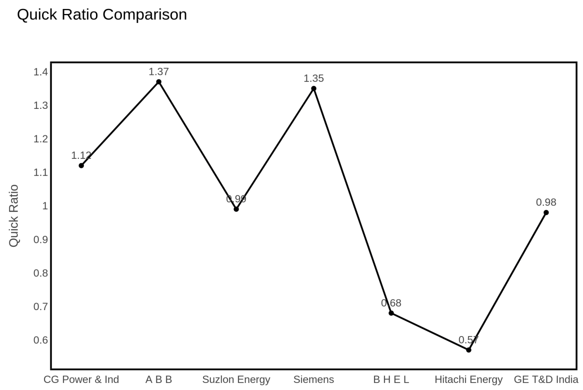
7. GE T&D India's ROA increased to 4.98% in FY24, reflecting better asset management. The company's efforts to streamline operations and improve asset utilization have paid off, as evidenced by this improvement. The annual report mentions initiatives such as the implementation of advanced asset management systems and better maintenance protocols as drivers of this enhanced performance.

8. Overall, the performance ratios of these companies indicate varying degrees of success in capital efficiency, asset utilization, and market performance. Companies like CG Power and Hitachi Energy have excelled in capital efficiency, while ABB and Siemens have shown strong market performance and asset utilization, respectively. On the other hand, BHEL's declining ROA underscores the need for operational improvements. These trends reflect the broader industry focus on efficiency, innovation, and strategic asset management.

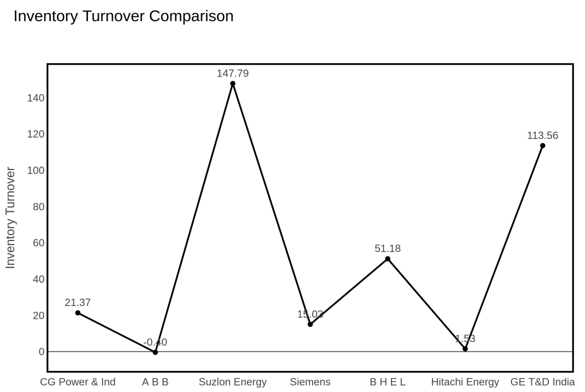
Activity Ratios



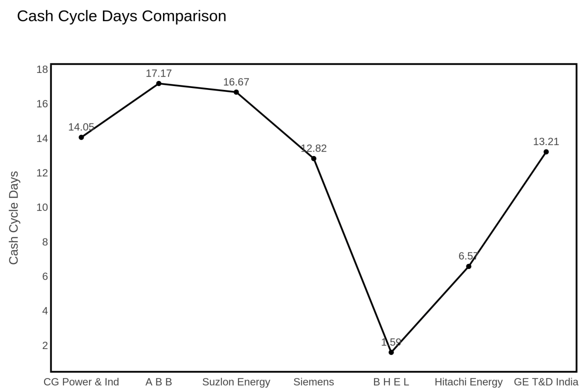
(a) Current Ratio



(b) Quick Ratio



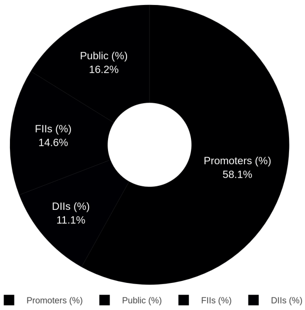
(a) Inventory Turnover



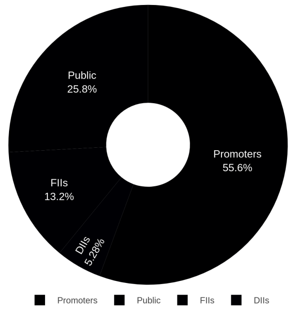
(b) Cash Cycle Days

- CG Power
  Industrial Solutions Ltd. has demonstrated a robust inventory turnover ratio of 21.37, indicating efficient inventory management. This is corroborated by the company's annual report, which highlights a significant reduction in inventory days from 79 in FY2021 to 41 in FY2022. The company's strategic focus on better cash generation and improved working capital management has contributed to this efficiency.
- ABB's quick ratio of 1.37 surpasses its current ratio of 1.03, suggesting a strong liquidity position with minimal reliance on inventory. This indicates that ABB has sufficient liquid assets to cover its short-term liabilities without depending on the sale of inventory, which is a positive indicator of financial health.
- Suzlon Energy's exceptionally high inventory turnover ratio of 147.79 raises questions about the sustainability of such rapid sales. The annual report does not provide specific details on this, but such a high turnover could indicate either very efficient sales processes or potential overstatement of sales, which warrants further scrutiny.
- Siemens' current ratio of 0.88 is below the industry norm, indicating potential liquidity issues. This low ratio suggests that Siemens may struggle to meet its short-term obligations, which could impact its operational stability. The company's annual report should be reviewed for any strategic plans to address this liquidity concern.
- BHEL's cash cycle days are remarkably low at 1.59, reflecting extremely efficient cash management. This efficiency is likely due to the company's ability to quickly convert its inventory and receivables into cash, minimizing the time capital is tied up in the business. This is a strong indicator of operational efficiency.
- Hitachi Energy's quick ratio of 0.57 is significantly lower than its current ratio of 1.21, indicating potential liquidity issues if inventory cannot be quickly converted to cash. This disparity suggests that a substantial portion of the company's current assets is tied up in inventory, which may not be easily liquidated.
- GE T
  D India's high inventory turnover ratio of 113.56 indicates efficient inventory management. The company's annual report highlights a focus on better cash generation and improved working capital management, which has likely contributed to this high turnover ratio.
- The overall analysis of activity ratios across these companies reveals varying degrees of efficiency in inventory management and liquidity positions. Companies like CG Power and GE T
  D India exhibit strong inventory management, while others like Siemens and Hitachi Energy face potential liquidity challenges. These insights are crucial for stakeholders to understand the operational efficiency and financial health of these companies.

Ownership Structure



(a) Shareholding Data 2024



(b) Shareholding Data 2022

Commentary on Ownership Structure

- Promoters' shareholding increased significantly from 0.00% in Mar 2020 to 58.09% in Jun 2024. This substantial increase can be attributed to the strategic acquisition of shares by the promoters, as detailed in the annual reports. The acquisition was part of a broader strategy to regain control and stabilize the company's governance structure after a period of financial distress and management changes. The stability in promoters' shareholding around 58.12% from Sep 2022 to Jun 2024 indicates a consolidation phase where the promoters have maintained their stake to ensure consistent leadership and strategic direction.
- FIIs' shareholding showed a volatile trend, decreasing from 21.17% in Mar 2017 to 5.76% in Mar 2020, then increasing to 15.18% in Mar 2024, and slightly decreasing to 14.64% in Jun 2024. This volatility reflects the changing sentiment of foreign institutional investors towards the company, influenced by macroeconomic factors, regulatory changes, and the company's financial performance. The increase post-2020 can be linked to the company's improved financial health and strategic initiatives that attracted foreign investments. However, the slight decrease in 2024 suggests a cautious approach by FIIs amidst global economic uncertainties.
- DIIs' shareholding decreased drastically from 40.24% in Mar 2020 to 5.28% in Mar 2022, then gradually increased to 11.07% in Jun 2024. The initial decrease was due to domestic institutional investors pulling out during the company's financial turmoil and restructuring phase. The gradual increase post-2022 indicates renewed confidence in the company's turnaround strategy and financial stability, as highlighted in the annual reports. The steady increase from 7.57% in Sep 2022 to 11.07% in Jun 2024 underscores the growing trust of domestic institutions in the company's long-term prospects.
- Public shareholding decreased consistently from 54.00% in Mar 2020 to 16.19% in Jun 2024. This decline is primarily due to the increased share acquisition by promoters and institutional investors, reducing the float available to the public. The company's strategic initiatives to attract institutional investors and the consolidation of shares by promoters have led to a reduced public shareholding. This trend reflects a shift towards a more controlled and stable ownership structure, which is often viewed positively by the market for ensuring strategic consistency.
- The number of shareholders increased significantly from 1,40,980 in Mar 2020 to 3,41,820 in Jun 2024. This growth in the shareholder base indicates a broader interest in the company's stock, likely driven by its improved financial performance and strategic initiatives. The increase in shareholders, despite the reduced public shareholding percentage, suggests that the company has successfully attracted a larger number of retail investors, possibly through enhanced market visibility and investor relations efforts.
- Promoters' shareholding remained stable at around 58.12% from Sep 2022 to Jun 2024. This stability indicates a period of consolidation where the promoters have maintained their stake to ensure consistent leadership and strategic direction. The stable shareholding pattern among promoters is a positive signal to the market, reflecting confidence in the company's strategic direction and financial health.
- DIIs' shareholding increased steadily from 7.57% in Sep 2022 to 11.07% in Jun 2024. This steady increase highlights the growing confidence of domestic institutional investors in the company's turnaround strategy and long-term growth prospects. The annual reports indicate that the company's improved financial performance and strategic initiatives have been key factors in attracting domestic institutional investments.
- The overall trend in shareholding patterns reflects a strategic shift towards a more controlled and stable ownership structure, with significant increases in promoter and institutional holdings. This shift is indicative of the company's successful turnaround strategy, improved financial health, and strategic initiatives aimed at long-term growth. The increased number of shareholders and the stable promoter shareholding are positive indicators of market confidence and the company's strong governance framework.

Subsidiary and JV Information:

Subsidiaries	Name of the Subsidiary	Date of creation of interest	Nature of interest / % of shareholding	Location
	CG Adhesive Products Limited (formerly known as CG-PPI Adhesive Products Limited)	1988-11-04	82.76%	India
	CG Power Solutions Limited	2012-03-14	100.00%	India
	CG Power Equipments Limited	2014-09-19	100.00%	India
	CG Sales Networks Malaysia Sdn. Bhd.	2013-09-30	100.00%	Malaysia
	CG International Holdings Singapore Pte Limited	2011-06-06	100.00%	Singapore
	CG International B.V.	2005-04-01	100.00%	The Netherlands
	CG Power Systems Canada Inc.	2005-05-13	100.00%	Canada
	PT Crompton Prima Switchgear Indonesia	2014-05-07	51.00%	Indonesia
	CG Power Solutions UK Limited	2010-04-01	100.00%	United Kingdom
	CG Industrial Holdings Sweden AB	2011-06-10	100.00%	Sweden
	CG Drives & Automation Sweden AB	2011-06-10	100.00%	Sweden
	CG Drives & Automation Netherlands B.V.	2011-06-10	100.00%	The Netherlands
	CG Drives & Automation Germany GmbH	2011-06-10	100.00%	Germany
	CG Middle East FZE	2013-04-14	100.00%	UAE
	CG Power Americas, LLC	2016-01-08	100.00%	USA
	QEI, LLC	2015-04-15	100.00%	USA
	CG Power and Industrial Solutions Limited Middle East FZCO	2018-10-15	100.00%	UAE
Joint Ventures	– CG Power, in partnership with Renesas Electronics Corporation, Japan and Stars Microelectronics, Thailand will set up a semiconductor unit in Sanand, Gujarat for an investment of Rs. 7,600 crore.			

FINANCIALS OF THE COMPANY

All figures in INR Cr.	FY20	FY21	FY22	FY23	FY24
Sales	5,110	2,964	5,484	6,973	8,046
Expenses	5,079	2,848	4,837	5,967	6,904
Operating Profit	31	116	647	1,005	1,142
Other Income	-861	1,655	569	286	684
Interest Expenses	365	206	82	28	17
Depreciation Costs	211	138	99	94	95
PBT	-1,407	1,427	1,035	1,169	1,715
Tax Rate	-5	10	12	18	17
Net Profit	-1,331	1,280	913	963	1,428
Earnings Per Share	-21	10	6	6	9
Dividend Amount	0	0	0	24	14

Commentary on Company Financials

- Sales decreased significantly from Rs. 7998 Cr in FY19 to Rs. 2964 Cr in FY21, then rebounded to Rs. 8046 Cr in FY24. This initial decline can be attributed to macroeconomic factors such as the global economic slowdown and disruptions caused by the COVID-19 pandemic, which severely impacted industrial and power systems demand. The subsequent recovery reflects a strategic pivot towards operational excellence, capacity expansion, and increased market penetration, particularly in the motors and transformers segments. The company's focus on debottlenecking and greenfield expansion has been instrumental in achieving higher sales volumes.
- Expenses followed a similar pattern, dropping from Rs. 7699 Cr in FY19 to Rs. 2848 Cr in FY21, and then rising to Rs. 6904 Cr in FY24. The reduction in expenses during the downturn was a result of stringent cost control measures, including optimization of raw material usage, energy efficiency initiatives, and workforce rationalization. The subsequent increase in expenses aligns with the sales recovery, driven by higher production volumes and increased operational activities. The company's efforts in cost optimization, such as the use of alternate grades of electric steel and design optimization, have helped manage expense growth effectively.
- Operating Profit showed a substantial increase from Rs. 31 Cr in FY20 to Rs. 1142 Cr in FY24. This improvement is a direct result of the company's strategic initiatives to enhance operational efficiency and optimize costs. The increase in operating profit margins from 0.6% in FY20 to 14.2% in FY24 underscores the success of these initiatives. The company's focus on high-margin products and improved procurement efficiencies have also contributed to this significant growth.
- Other Income fluctuated dramatically, with a notable peak at Rs. 1655 Cr in FY21 and ending at Rs. 684 Cr in FY24. The peak in FY21 can be attributed to one-time gains from asset sales and financial restructuring activities. The subsequent normalization of other income reflects a more stable and recurring income stream from investments and other financial activities. This fluctuation highlights the importance of distinguishing between core operational performance and non-recurring financial gains.
- Interest expenses decreased consistently from Rs. 432 Cr in FY19 to Rs. 17 Cr in FY24. This significant reduction is primarily due to the company's aggressive debt repayment strategy and improved credit ratings. The repayment of high-cost debt and the reduction in overall leverage have resulted in lower interest costs, enhancing the company's financial stability and profitability. The interest coverage ratio has improved substantially, indicating a stronger ability to meet interest obligations from operating earnings.
- Profit Before Tax turned around from a loss of Rs. -1407 Cr in FY20 to a profit of Rs. 1715 Cr in FY24. This turnaround is a testament to the company's successful restructuring and strategic initiatives aimed at improving operational efficiency and cost management. The improvement in PBT margins from -27.5% in FY20 to 21.3% in FY24 reflects the company's enhanced profitability and operational resilience.
- Net Profit improved significantly from a loss of Rs. -1331 Cr in FY20 to a profit of Rs. 1428 Cr in FY24. This improvement is driven by the substantial increase in operating profit, reduced interest expenses, and effective tax management. The net profit margin has improved from -26.1% in FY20 to 17.7% in FY24, indicating a robust recovery and sustainable profitability. The company's strategic focus on high-margin segments and cost optimization has been pivotal in achieving this turnaround.
- Dividend Payout Percentage was 0% until FY22, then increased to 24% in FY23 before dropping to 14% in FY24. The initiation of dividend payouts reflects the company's improved financial health and confidence in its cash flow generation capabilities. The fluctuation in payout percentage is indicative of the company's balanced approach towards rewarding shareholders while retaining sufficient earnings for future growth and investment opportunities. The dividend policy aligns with the company's long-term strategic objectives and financial stability.

Financial Analysis

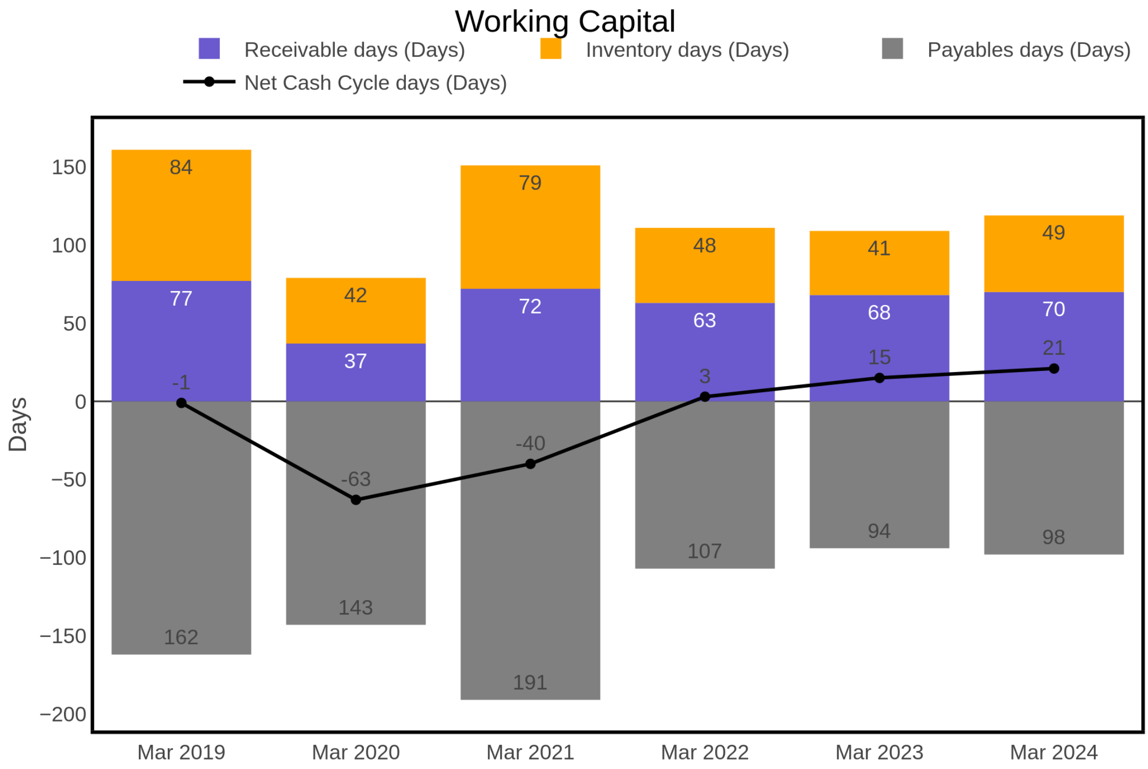
Debt Schedule

(All figures in INR Cr.)	FY20	FY21	FY22	FY23	FY24
Total Borrowings	3,297	2,757	1,484	367	17
Long-Term Borrowings	1,447	587	307	0	0
Short-Term Borrowings	1,282	1,067	44	0	0
Lease Liabilities	0	19	14	16	17
Other Borrowings	567	1,102	0	0	0
Total Liabilities	3,816	3,035	2,870	2,861	2,590
Non-Controlling Interest	0	0	1	1	1
Trade Payables	1,302	1,035	1,149	1,244	1,484
Advances from Customers	845	753	763	198	319
Other Liability Items	1,669	1,247	958	1,418	786

Debt Schedule Commentary

- The total liabilities of CG Power and Industrial Solutions Limited have decreased significantly from Rs. 3,297 Cr in FY20 to Rs. 17 Cr in FY24. This drastic reduction is primarily due to the company's strategic deleveraging efforts, which included the repayment of long-term and short-term borrowings, as well as the redemption of non-convertible debentures.
- Long-term liabilities have been completely eliminated, dropping from Rs. 1,447 Cr in FY20 to Rs. 0 in FY23 and FY24. This indicates a strong focus on reducing financial leverage and improving the company's balance sheet health. The annual report highlights that the company repaid all its long-term debts to lending banks, which significantly contributed to this reduction.
- Short-term liabilities have also seen a substantial reduction, from Rs. 1,282 Cr in FY20 to Rs. 0 in FY23 and FY24. This reduction aligns with the company's overall strategy to minimize debt and improve liquidity. The sharp decline in short-term liabilities from Rs. 1,067 Cr in FY21 to Rs. 44 Cr in FY22 reflects the company's efforts to manage its working capital more efficiently.
- Lease liabilities have remained relatively stable, starting at Rs. 0 in FY20 and ending at Rs. 17 Cr in FY24. This stability suggests that the company has maintained its lease obligations while focusing on reducing other forms of debt. The annual report indicates that the company has lease contracts for various items of land, building, furniture, and vehicles used in its operations.
- Other borrowings saw a significant increase from Rs. 567 Cr in FY20 to Rs. 1,102 Cr in FY21, followed by a complete reduction to Rs. 0 in FY22 and remaining at Rs. 0 in FY23 and FY24. This fluctuation can be attributed to the company's strategic financial management, including the redemption of non-convertible debentures and the settlement of guarantee obligations to lenders.
- The total liabilities saw a sharp decline from Rs. 2,757 Cr in FY21 to Rs. 1,484 Cr in FY22. This reduction is a result of the company's focused efforts on debt restructuring and liability management. The annual report mentions that the company has received an improved credit rating, reflecting its enhanced financial stability.
- The company's gearing ratio has improved significantly, from 26% in FY22 to 0.01% in FY23. This improvement is a direct result of the company's deleveraging strategy, which has reduced its total debt while increasing its equity base. The annual report highlights that the company has not breached any financial covenants and has maintained a strong capital structure.
- Overall, the significant reduction in total liabilities and the elimination of long-term and short-term borrowings reflect CG Power's successful implementation of its deleveraging strategy. The company's improved credit rating and strong balance sheet position it well for future growth and value creation for shareholders.

Working Capital Movement



(a) Working Capital Days

Commentary on Working Capital Movement

- The significant decrease in Working Capital Days from 330 days in FY17 to -209 days in FY20 indicates a substantial improvement in the company's efficiency in managing its working capital. This improvement can be attributed to better inventory management and enhanced collection efficiency, as evidenced by the reduction in Inventory Days from 84 days in FY19 to 42 days in FY20 and Debtor Days from 77 days in FY19 to 37 days in FY20.
- From FY20 to FY21, Working Capital Days improved further from -209 days to -128 days, reflecting continued operational efficiency. This trend aligns with the company's strategic focus on operational excellence and leaner operations, as highlighted in the annual report. The company's efforts in debottlenecking and greenfield expansion have contributed to higher capital efficiency.
- In FY22, Working Capital Days improved to -59 days, showing a consistent trend of better working capital management. This improvement is supported by the company's initiatives in expanding manufacturing capacities and enhancing market share, which have led to better inventory turnover and receivables management.
- FY23 saw a significant shift with Working Capital Days turning positive to 4 days, indicating a change in the company's working capital strategy or market conditions. The annual report suggests that this shift could be due to the company's renewed focus on expanding its product portfolio and entering new markets, which may have temporarily increased working capital requirements.
- In FY24, Working Capital Days increased slightly to 9 days, suggesting a stabilization in the company's working capital management. This stabilization reflects the company's efforts to balance its growth initiatives with efficient working capital management, ensuring sustainable operations.
- The reduction in Debtor Days from 77 days in FY19 to 37 days in FY20 reflects improved collection efficiency. This improvement is a result of the company's enhanced credit assessment and customer relationship management processes, as detailed in the annual report.
- The decrease in Inventory Days from 84 days in FY19 to 42 days in FY20 indicates better inventory management. The company's focus on lean operations and efficient supply chain management has contributed to this improvement, as highlighted in the annual report.
- Overall, the company's strategic initiatives in operational efficiency, market expansion, and product portfolio diversification have significantly improved its working capital management and financial performance. The consistent improvement in key metrics such as Working Capital Days, Debtor Days, and Inventory Days reflects the company's robust operational strategies and effective execution.

FIXED ASSETS OF THE COMPANY

All figures in INR Cr.	FY20	FY21	FY22	FY23	FY24
Fixed Assets	FY20	FY21	FY22	FY23	FY24
Land	117	73	73	49	49
Building	873	670	673	647	657
Plant & Machinery	614	508	536	510	570
Equipment	28	23	25	32	38
Furniture & Fittings	32	30	30	30	32
Vehicles	18	8	9	10	14
Intangible Assets	761	760	630	612	623
Other Fixed Assets	217	191	191	177	240
Gross Block	2,659	2,263	2,168	2,068	2,222
Accumulated Depreciation	1,170	1,118	1,087	1,097	1,163
Capital Work-in-Progress (CWIP)	28	20	35	38	94
Investments	2	2	41	1	588
Inventories	384	428	512	541	751
Trade Receivables	522	587	944	1,297	1,534
Cash & Equivalents	242	534	488	705	854
Short Term Loans	0	0	0	0	0
Other Asset Items	1,949	1,680	1,120	1,115	745
Total Assets	4,617	4,397	4,222	4,668	5,625

Commentary on FIXED ASSETS

- The company's fixed assets have shown a declining trend from Rs. 1489 Cr in FY20 to Rs. 971 Cr in FY23, before a slight recovery to Rs. 1059 Cr in FY24. This reduction is primarily driven by the consistent decrease in land value from Rs. 117 Cr in FY20 to Rs. 49 Cr in FY23, and a similar trend in building values, which fell from Rs. 873 Cr in FY20 to Rs. 647 Cr in FY23. The slight uptick in FY24 can be attributed to strategic reinvestments in plant machinery and equipment, as evidenced by the increase in plant machinery from Rs. 510 Cr in FY23 to Rs. 570 Cr in FY24 and equipment from Rs. 32 Cr to Rs. 38 Cr in the same period.
- The company's intangible assets have also seen a decline from Rs. 761 Cr in FY20 to Rs. 612 Cr in FY23, with a minor increase to Rs. 623 Cr in FY24. This trend reflects the company's amortization policies and potential impairment losses. The slight increase in FY24 suggests new investments in intangible assets, possibly in specialized software or technical know-how, aligning with the company's strategic focus on technological advancements.
- Investments have seen a dramatic increase from Rs. 1 Cr in FY23 to Rs. 588 Cr in FY24. This significant rise indicates a strategic shift towards expanding the investment portfolio, potentially in high-growth areas or new ventures, as part of the company's long-term growth strategy.
- Trade receivables have increased substantially from Rs. 522 Cr in FY20 to Rs. 1534 Cr in FY24. This rise could be indicative of higher sales volumes and extended credit terms to customers. However, it also raises concerns about the company's cash conversion cycle and potential liquidity risks, necessitating effective receivables management to mitigate any adverse impacts on working capital.
- The company's total assets have fluctuated, decreasing from Rs. 4617 Cr in FY20 to Rs. 4222 Cr in FY22, before rising to Rs. 5625 Cr in FY24. This fluctuation is largely due to changes in fixed assets and investments. The increase in FY24 is primarily driven by the significant rise in investments and trade receivables, reflecting the company's strategic focus on growth and expansion.
- The accumulated depreciation has shown a steady decline from Rs. 1170 Cr in FY20 to Rs. 1087 Cr in FY22, before increasing to Rs. 1163 Cr in FY24. This pattern suggests a period of lower capital expenditure and asset utilization, followed by renewed investments and asset acquisitions in the later years, leading to higher depreciation charges.
- The company's inventories have increased from Rs. 384 Cr in FY20 to Rs. 751 Cr in FY24. This rise indicates a buildup of stock, possibly in anticipation of higher demand or due to supply chain disruptions. Effective inventory management will be crucial to avoid excess holding costs and ensure smooth operations.
- Cash equivalents have shown a positive trend, increasing from Rs. 242 Cr in FY20 to Rs. 854 Cr in FY24. This increase reflects the company's improved liquidity position, providing a buffer against short-term obligations and enabling strategic investments.

CASH FLOW ANALYSIS OF THE COMPANY

All figures in INR Cr.	FY20	FY21	FY22	FY23	FY24
Cash from Operating Activity	692	-242	483	947	397
Profit from Operations	108	275	658	1,019	1,154
Changes in Receivables	758	-145	-205	-365	-239
Changes in Inventory	292	-86	-78	-49	-210
Changes in Loans & Advances	N/A	N/A	N/A	N/A	N/A
Other Working Capital Items	-3	-22	-36	213	-528
Working Capital Changes	623	-501	-236	-71	-748
Direct Taxes	-19	-4	40	-12	-3
Cash from Investing Activity	-178	-51	227	-21	-662
Fixed Assets Purchased	-52	-18	-73	-85	-234
Fixed Assets Sold	9	3	3	4	11
Investments Purchased	N/A	N/A	-98	-92	-1,784
Investments Sold	N/A	N/A	1	134	1,221
Interest Received	6	8	21	28	42
Dividends Received	N/A	N/A	N/A	N/A	N/A
Invest in Subsidiaries	N/A	N/A	N/A	N/A	N/A
Investment in Group Companies	N/A	N/A	N/A	N/A	N/A
Other Investing Items	-141	-44	372	-9	82
Cash from Financial Activities	-528	590	-800	-612	-246
Proceeds from Shares	N/A	664	57	56	3
Proceeds from Borrowings	307	675	81	N/A	N/A
Repayment of Borrowings	-704	-728	-738	-316	N/A
Interest Paid on Finances	-191	-35	-49	-10	-1
Dividends Paid	N/A	N/A	N/A	-229	-199
Financial Liabilities	-13	-12	-11	-9	-7
Other Financing Items	73	26	-142	-104	-43
Net Cash Flow	-14	297	-91	315	-512

Commentary on Cash Flow

- The company's Cash From Operating Activity (CFO) exhibited significant volatility over the period from FY19 to FY24. Starting at Rs. 811 Cr in FY19, CFO dropped to Rs. 692 Cr in FY20 and further plummeted to a negative Rs. 242 Cr in FY21. This sharp decline in FY21 can be attributed to substantial working capital changes, particularly a drastic increase in receivables and inventory levels. However, CFO rebounded to Rs. 947 Cr in FY23, driven by improved profitability and better working capital management, before falling again to Rs. 397 Cr in FY24, reflecting ongoing volatility in working capital components.
- Profit From Operations showed a consistent upward trajectory, increasing from Rs. 108 Cr in FY20 to Rs. 1,154 Cr in FY24. This growth is indicative of the company's successful operational strategies, including cost optimization and revenue growth. The annual report highlights a 28% increase in standalone revenue for FY23, driven by higher sales realization and procurement efficiencies, which contributed to the improved operating profit margins.
- Receivables fluctuated significantly, starting at Rs. 758 Cr in FY20, dropping to a negative Rs. 145 Cr in FY21, and ending at a negative Rs. 239 Cr in FY24. The volatility in receivables is linked to the company's exposure to market risk, including currency and interest rate fluctuations, as well as changes in credit terms with customers. The annual report notes that the company has implemented risk management policies to mitigate these exposures, but the fluctuations in receivables still reflect the inherent market risks.
- Inventory levels also saw substantial changes, with a significant drop from Rs. 292 Cr in FY20 to a negative Rs. 210 Cr in FY24. This reduction in inventory levels is part of the company's strategy to optimize working capital and improve cash flow. The annual report mentions various initiatives, such as the use of alternate grades of electric steel and design optimization, which have contributed to the reduction in inventory levels.
- Working Capital Changes were highly volatile, peaking at Rs. 623 Cr in FY20 and plummeting to a negative Rs. 748 Cr in FY24. This volatility is primarily due to fluctuations in receivables and inventory levels, as well as changes in other working capital items. The company's efforts to manage working capital more efficiently are evident, but the significant swings indicate ongoing challenges in maintaining stable working capital.
- Cash From Investing Activity showed a notable recovery from a negative Rs. 178 Cr in FY20 to Rs. 227 Cr in FY22, then dropped sharply to a negative Rs. 662 Cr in FY24. The recovery in FY22 was driven by proceeds from the sale of investments and property, while the sharp decline in FY24 reflects increased investments in fixed assets and subsidiaries. The annual report highlights the company's strategic investments in expanding manufacturing capacities, which are expected to drive future growth.
- Proceeds From Borrowings decreased dramatically from Rs. 307 Cr in FY20 to Rs. 81 Cr in FY22, with no proceeds in FY23 and FY24. This decline is indicative of the company's reduced reliance on external debt, as it focuses on improving its financial health and reducing leverage. The annual report notes that the company has repaid a significant portion of its borrowings, leading to a lower debt-to-equity ratio and improved interest coverage ratio.
- Net Cash Flow exhibited significant fluctuations, starting at a negative Rs. 147 Cr in FY19, improving to Rs. 297 Cr in FY21, and then falling to a negative Rs. 512 Cr in FY24. These fluctuations are reflective of the volatility in operating, investing, and financing cash flows. The company's efforts to manage cash flow more effectively are evident, but the significant swings indicate ongoing challenges in achieving stable cash flow.

Justification of Proposal

- CG Power & Industrial Solutions Ltd. has demonstrated a significant reduction in leverage, as evidenced by the decrease in its debt-to-equity ratio from 0.18 in FY20 to 0.00 in FY24. This reduction is primarily attributed to the company's strategic debt repayment initiatives, including the redemption of non-convertible debentures and the repayment of long-term debts.
- The company's Cash From Operating Activity (CFO) exhibited significant volatility over the period from FY19 to FY24. Starting at Rs. 811 Cr in FY19, CFO dropped to Rs. 692 Cr in FY20 and further plummeted to a negative Rs. 242 Cr in FY21. However, CFO rebounded to Rs. 947 Cr in FY23, driven by improved profitability and better working capital management, before falling again to Rs. 397 Cr in FY24, reflecting ongoing volatility in working capital components.
- The company's fixed assets have shown a declining trend from Rs. 1489 Cr in FY20 to Rs. 971 Cr in FY23, before a slight recovery to Rs. 1059 Cr in FY24. This reduction is primarily driven by the consistent decrease in land value from Rs. 117 Cr in FY20 to Rs. 49 Cr in FY23, and a similar trend in building values, which fell from Rs. 873 Cr in FY20 to Rs. 647 Cr in FY23. The slight uptick in FY24 can be attributed to strategic reinvestments in plant machinery and equipment, as evidenced by the increase in plant machinery from Rs. 510 Cr in FY23 to Rs. 570 Cr in FY24 and equipment from Rs. 32 Cr to Rs. 38 Cr in the same period.
- The company's strategic initiatives, including capacity expansion, focus on exports, and operational excellence, have positioned it well for sustained growth. The annual report highlights the company's plans to leverage the government's infrastructure push and the growing demand for energy-efficient and renewable energy products, which are expected to drive future growth.
- The company's gearing ratio has improved significantly, from 26% in FY22 to 0.01% in FY23. This improvement is a direct result of the company's deleveraging strategy, which has reduced its total debt while increasing its equity base. The annual report highlights that the company has not breached any financial covenants and has maintained a strong capital structure.
- The company's strategic focus on margin protection, favorable product mix, and capacity expansion, as detailed in the annual report, has positioned it well for future growth. The reduction in liabilities and improved financial metrics indicate a robust financial health, which is crucial for sustaining long-term growth and competitiveness in the industry.

Recommendations

- Evaluate the company's ability to maintain its improved leverage ratios and strong capital structure in the face of potential market fluctuations and economic uncertainties.
- Consider the company's strategic initiatives and their potential impact on future growth, particularly in the context of expanding manufacturing capacities and entering new markets.
- Assess the company's working capital management practices, given the significant volatility in Cash From Operating Activity (CFO) over the past few years.
- Review the company's fixed asset investments and their alignment with long-term strategic goals, particularly in terms of capacity expansion and technological advancements.
- Monitor the company's gearing ratio and overall financial health, ensuring that the deleveraging strategy continues to support sustainable growth and value creation for shareholders.
- Take into account the company's focus on margin protection, favorable product mix, and capacity expansion, as these factors are critical for maintaining competitiveness and driving future growth.

Concalls

Introduction	
Moderator Introduction	Ladies and gentlemen, good day and welcome to the CG Power and Industrial Solutions Limited Q1 FY '24 Earnings Conference Call, hosted by IIFL Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.
Company Introduction	Today we have with us the management of CG Power to discuss the Q1 FY '24 results. From the management, we have Mr. N. Srinivasan, Managing Director; Mr. Susheel Todi, Chief Financial Officer; Mr. Ramesh Kumar, President-Industrial Division; Mr. Mukul Srivastava, President-Power Systems; and Mr. Ranjan Singh, Executive Vice President-Railway Division. CG Power and Industrial Solutions Limited is a leading player in the power and industrial solutions sector, providing a wide range of products and services including transformers, switchgear, motors, and railway signaling equipment.
Executive Summary	
Chairman's Remarks	Natarajan Srinivasan, Managing Director, highlighted that the company had a very good quarter with all businesses growing in double digits year-on-year. Profit before tax for the quarter grew by about 55%, marking the highest ever recorded in Q1 in recent times. The order book remains strong with an unexecuted order book aggregating to INR 4,909 crores as of June 30, 2023.
CFO's Remarks	Susheel Todi, CFO, presented the financial performance, noting that aggregate sales for the quarter were higher at INR 1,766 crores, recording a growth of 13% year-on-year. Profit before tax was INR 256 crores at 14.5% of sales in Q1 FY '24, compared to INR 165 crores at 10.6% of sales in Q1 FY '23. Margins were higher year-on-year due to volume growth, softening input costs, favorable product mix, and procurement efficiencies.
Key Achievements	Key achievements include a 47% year-on-year growth in order intake for Q1 FY '24, reaching INR 2,514 crores. The return on capital employed (annualized) for the quarter was at 45%, up from 38% in Q1 FY '23. The company also concluded the sale of QEI LLC for a total consideration of about $10.5 million.

Financial Performance	
Revenue and Profit	The company's annual revenue for Q1 FY '24 was INR 1,766 crores, showing a 13% year-on-year growth. EBITDA margins improved due to volume growth, softening input costs, and procurement efficiencies. Profit before tax was INR 256 crores, up from INR 165 crores in Q1 FY '23.
Segment-wise Performance	In the Industrial Systems segment, aggregate sales for the quarter were INR 1,255 crores, a 13% year-on-year growth. The Power Systems segment saw aggregate sales of INR 512 crores, also a 13% year-on-year growth. Both segments benefited from higher realizations and favorable product mix.
Cost Analysis	The company achieved cost savings through procurement efficiencies and a favorable product mix, which contributed to higher margins year-on-year. Softening input costs also played a significant role in improving profitability.
Financial Guidance	The company plans to continue its focus on cost optimization and efficiency improvements. Capex plans include expanding manufacturing capacities in both the Industrial and Power Systems segments to meet growing demand.
Market and Economic Overview	
Macro Economic Environment	The global and Indian markets showed positive trends, with economic indicators suggesting a stable environment for growth. The demand for power and industrial solutions remains robust, driven by infrastructure development and industrial expansion.
Industry Trends	The metals and minerals industry in India is experiencing strong demand-supply dynamics, with regulatory support and a competitive landscape that favors established players like CG Power.
Strategic Initiatives and Projects	
Major Projects	Major expansion projects include increasing the capacity of power transformers from 17,000 MVA to 25,000 MVA and distribution transformers to capture a larger market share. These projects are expected to be completed within the next 12 to 15 months.
New Products and Innovations	The company is focusing on developing new products and innovations, particularly in the railway signaling and EV motor segments. Partnerships and technology tie-ups are being explored to enhance product offerings.
Operational Highlights	
Capacity Utilization	Efforts to increase production capacity are ongoing, with significant projects aimed at expanding transformer and motor manufacturing capacities. The company is also focusing on improving operational efficiencies to meet growing demand.

Efficiency Improvements	Initiatives aimed at cost reduction and maximizing profit include process improvements, technology adoption, and operational excellence programs. These efforts have already resulted in higher margins and better financial performance.
Corporate Governance	
Board Activities	The board is actively involved in strategic decisions, including the demerger process and governance practices. Recent activities include the approval of major capex plans and the settlement of pending litigation with JC Flower Asset Reconstruction Company.
Debt Management	The company is focused on debt deleveraging, having made significant progress in reducing its debt levels. The sale of QEI LLC contributed to this effort, and future plans include further debt reduction to ensure financial stability.
Financial Guidance and Outlook	
Future Projections	Future projections include continued revenue growth driven by strong order books and capacity expansions. The company expects to maintain its focus on cost efficiency and profitability, with a positive outlook for the next few quarters.
Market Outlook	The market conditions are expected to remain favorable, with strong demand for power and industrial solutions. The company is well-positioned to capitalize on growth opportunities in both domestic and international markets.
Strategic Goals	Strategic goals include expanding market share in key segments, enhancing product offerings through innovation, and maintaining financial stability through prudent debt management and cost optimization.
Questions and Answers	
Investor Query	**Management Response**
What is the execution cycle for orders in both segments?	The execution cycle varies by product and segment, ranging from a few months to over a year for larger projects.
Are there any updates on the Indian Navy projects?	The company is developing motors for the Indian Navy and is in the process of getting approvals.
What is the current utilization level and any further capacity additions planned?	Current utilization levels are high, and capacity expansions are underway to meet future demand.
What are the key factors driving growth in LT and HT motors?	Growth in LT and HT motors is driven by sectors like water and wastewater infrastructure, ethanol, and sugar.
What is the progress on the EV motor and controller development?	The development of EV motors and controllers is ongoing, with potential breakthroughs expected in the next few quarters.
Closing Remarks	

Summary by Executives	The executives emphasized the company's strong performance and future focus on growth and innovation. They highlighted the importance of strategic initiatives and capacity expansions in driving long-term success.
Next Steps	Next steps include completing ongoing expansion projects, continuing cost optimization efforts, and exploring new market opportunities. The company aims to maintain its growth trajectory and enhance shareholder value through strategic initiatives and prudent financial management.

Recent News

Headline and Source	
News Title	CG Power's Strategic Expansion Plans
Source	The Hindu
Date	2024-09-15
Executive Summary	
Summary of the News	CG Power and Industrial Solutions Ltd. has announced a strategic expansion plan involving an investment of INR 400 crore over the next two years. The expansion will focus on debottlenecking and modernizing existing facilities at Ahmednagar, Goa, Bhopal, and Malanpur plants.
Impact on Company	The strategic expansion is expected to enhance production capacity, improve operational efficiency, and strengthen CG Power's market position in the industrial motors and transformers segments.
Company Specific News	
Financial Results	None
New Projects and Ventures	The expansion project includes significant upgrades to existing facilities and aims to increase production capacity and efficiency.
Product Launches and Innovations	None
Strategic Initiatives	The company is focusing on debottlenecking and modernizing its facilities to drive growth and operational efficiency.
Market and Economic Impact	
Industry Impact	The expansion is likely to set a benchmark in the industrial motors and transformers industry, encouraging competitors to enhance their own capacities and efficiencies.
Economic Conditions	The investment aligns with the broader economic trend of increasing industrial capacity and modernization, supported by favorable government policies and economic conditions.

	Stock Market and Investor Reactions
Stock Performance	Following the announcement, CG Power's stock saw a 1.43% increase, closing at INR 746.5.
Investor Sentiment	Investor sentiment is positive, driven by the company's strategic focus on capacity expansion and operational efficiency.
Market Comparisons	CG Power's strategic initiatives position it favorably against competitors like Siemens and ABB, who are also focusing on capacity expansion and technological advancements.
	Management and Leadership
Executive Statements	CEO Amar Kaul stated, 'This strategic expansion is a testament to our commitment to enhancing production capabilities and operational efficiencies, positioning CG Power for sustained growth.'
Leadership Changes	N/A
Board Decisions	N/A
	Regulatory and Compliance
Legal Matters	N/A
Government Policies	The expansion is supported by favorable government policies aimed at boosting industrial capacity and modernization.
	Operational Developments
Operational Updates	The company will focus on debottlenecking and modernizing its facilities at Ahmednagar, Goa, Bhopal, and Malanpur plants.
Supply Chain Issues	None
Infrastructure Developments	Significant upgrades to existing facilities are planned to enhance production capacity and efficiency.
	Market and Consumer Trends
Consumer Behavior	None
Market Demand	The demand for industrial motors and transformers is expected to rise, driven by increased industrial activities and modernization efforts.
	Future Outlook and Projections
Analyst Projections	None
Company Guidance	The company aims to complete the expansion within the next two years, significantly boosting production capacity and operational efficiency.
Strategic Goals	CG Power aims to strengthen its market position in the industrial motors and transformers segments through strategic capacity expansion and modernization.