

## CG Power and Industrial

## Inflows rises in Q1

## Loss from discontinued operation at INR 900mn in Q1

During Q1FY19, CG Power and Industrial Solutions (CGPOWER IN) reported a loss of INR 900mn from discontinued operations. This is due to: 1) a loss of INR 300mn in its Belgium unit which is expected to be weak in Q2 but recover in H2, 2) loss of INR 250mn in Hungary unit (vs loss of INR 1.1bn in Q4) which was sold in July 2018, and 3) INR 150mn towards one-time restructuring costs of Ireland business which was EBITDA positive. The management indicated that loss of upto INR 1bn could arise in Q2 on audit closure of Hungary unit.

## Industrials systems inflows up 79% and revenue up 26% in Q1

In Q1, industrial systems (IS) segment inflows rises by 79% YoY to INR 12.4bn. Order book stood at INR 18bn, up 27% QoQ as on June 2018. Parent IS revenue (48% of FY19E revenue), adj. for GST, was up 26% YoY to INR 6.5bn led by volume growth of 20% and price hike of 5-6%. The growth was similar across railways, motors and drives. As per management, market share in motors improved by 300bp over last two years. EBIT margin more than doubled to seven quarter high of 9.9%. The management expects revenue to grow by 15% in FY19 driven by railway (enhances product portfolio from traction equipment to electronics and propulsion system) and energy efficient motors.

## Power systems: inflow up 7% and revenue adj for GST up 8%

At parent level, power systems (PS) inflows is up 7% to INR 8.2bn. It has L1 position in GIS substation orders to be booked in Q2. Order book stood at INR 24bn, up 10% QoQ. PS business (52%) revenue, adj for GST, grew by 8% to INR 5.3bn as revenue of INR 1bn was deferred by local company. EBIT margin grew by 50bp YoY to 6.7%. The management guided PS to grow by 5% in FY19.

## Valuation: reiterate Buy with a TP of INR 85

We marginally raise our EPS by 3% in FY20E on refinancing of high cost long term debt but remain cognizant on the losses from discontinued operation in Q2. We maintain **Buy** a TP of INR 85 (unchanged) on 18x June 2020E P/E given a earnings CAGR of 93% over FY18-21E, exit from loss making operations in FY19 and an average ROE and ROCE of 10% each over FY19-21E.

## Rating: Buy

Target Price: INR 85

Upside: 39%

CMP: INR 61 (as on 20 August 2018)

## Key data\*

Bloomberg /Reuters Code	CGPOWER IN/CGPO.BO
Current/Dil. Shares O/S (mn)	627/627
Mkt Cap (INR bn/USD mn)	38/542
Daily Vol. (3M NSE Avg.)	8,969,278
Face Value (INR)	2

1 USD = INR 69.8

Note: \*as on 20 August 2018; Source: Bloomberg

## Price &amp; volume



Source: Bloomberg

Shareholding (%)	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Promoter	34.4	34.4	34.4	34.4
Institutional Investors	52.1	51.5	49.7	44.9
Other Investors	3.3	4.0	4.4	8.2
General Public	10.2	10.1	11.5	12.5

Source: BSE

Price performance (%)	3M	6M	12M
Sensex	9.8	13.6	21.4
CG Power	(17.7)	(26.5)	(25.7)
BSETCG Index	0.5	(1.7)	7.6
BSEMDCAP Index	3.7	0.3	8.3

Source: Bloomberg

Consolidated - YE March (INR mn)	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
Net Sales	14,901	13,390	11.3	18,143	(17.9)
EBITDA	1,192	492	142.3	1,435	(16.9)
Other Income	82	116	(29.1)	2	3,823.8
Interest	566	537	5.4	522	8.3
Depreciation	377	343	9.8	384	(1.8)
EO Income/(Exp)	-	-	-	(4,148)	-
PBT	332	(272)	(222.3)	(3,618)	nm
Tax Rate (%)	81.9	(53.6)		(7.9)	
Reported PAT	46	(424)	(110.8)	(3,896)	nm
Adjusted PAT	(856)	(860)	(0.5)	(1,489)	(42.5)

Note: \*revised Q2FY17 financials

Key Financials												
YE March	Net Sales (INR m)	YoY %	EBITDA (INR mn)	YoY %	Adj PAT (INR mn)	YoY %	DEPS (INR)	P/BV (x)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY18	61,886	8.3	4,550	(3.2)	494	(72.9)	0.8	1.4	1.8	7.4	77.3	10.7
FY19E	68,351	10.4	5,372	18.1	1,831	270.5	2.9	1.5	7.1	7.7	20.9	8.2
FY20E	76,898	12.5	6,278	16.9	2,982	62.8	4.8	1.3	10.4	8.5	12.8	6.5
FY21E	83,298	8.3	7,081	12.8	3,579	20.0	5.7	1.2	11.2	9.1	10.7	5.1

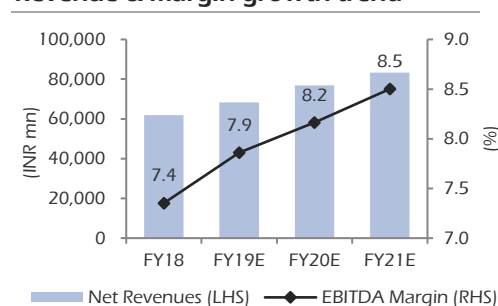
Note: pricing as on 20 August 2018; Source: Company, Elara Securities Estimate

## Financials (YE March)

Income Statement (INR m)	FY18	FY19E	FY20E	FY21E
Net Revenues	61,886	68,351	76,898	83,298
EBITDA	4,550	5,372	6,278	7,081
Add:- Non operating Income	395	227	236	247
EO income/(exp) as reported	(4,428)	-	-	-
OPBIDTA	518	5,599	6,514	7,328
Less: Depreciation	1,492	1,572	1,615	1,670
EBIT	(975)	4,027	4,899	5,658
Less: Interest Expenses	2,193	1,657	778	562
PBT	(3,168)	2,370	4,122	5,096
Tax	749	576	1,178	1,555
Tax Rate (%)	(24)	24	29	31
Minority Int	(17)	38	38	38
Reported PAT	(3,933)	1,831	2,982	3,579
Extra-ordinary inc/(exp)	(4,428)	-	-	-
Adj PAT	494	1,831	2,982	3,579
NPM (%)	1	3	4	4
Balance Sheet (INR m)	FY18	FY19E	FY20E	FY21E
Share Capital	1,254	1,254	1,254	1,254
Reserves	25,888	24,681	27,550	30,790
Net Worth	27,141	25,934	28,803	32,044
Borrowings	16,162	14,236	12,513	11,295
Deferred Tax Liability	80	80	80	80
Minority Interest	-	-	-	-
Capital Employed	43,384	40,251	41,397	43,419
Gross Fixed Assets	31,821	30,172	31,349	32,226
Less: Accumulated Depreciation	14,747	16,319	17,934	19,604
Net Fixed Assets	17,074	13,853	13,415	12,622
Capital WIP	724	471	421	421
Investments	1,454	1,584	1,834	2,084
Net Working capital	9,667	14,933	14,798	14,245
Cash & Bank Balance	6,934	9,410	10,929	14,047
Application of Funds	43,384	40,251	41,397	43,419
Cash Flow Statement (INR m)	FY18	FY19E	FY20E	FY21E
Cash Profit before non cash items	1,920	5,023	5,337	5,773
(Inc)/Dec in WC	11,214	(5,266)	135	553
CF from Operations	13,134	(244)	5,472	6,326
EO Income	(4,428)	-	-	-
CF from Oper. incl. EO Items	8,706	(244)	5,472	6,326
Capex	(2,365)	1,903	(1,127)	(877)
Free Cash Flow	6,341	1,659	4,345	5,449
Financing Cash Flow	(11,103)	(6,584)	(2,575)	(2,081)
Investing Cash Flow	1,374	(130)	(250)	(250)
Inc/Dec of Cash	(3,389)	(5,055)	1,520	3,118
Add: Beginning Balance	7,607	6,934	9,410	10,929
Closing Balance	4,218	1,880	10,929	14,047
Ratios	FY18	FY19E	FY20E	FY21E
<b>Profitability Ratios (%)</b>				
Revenue Growth	8.3	10.4	12.5	8.3
EBITDA Growth	(3.2)	18.1	16.9	12.8
PAT Growth	(72.9)	270.5	62.8	20.0
EBITDA Margin	7.4	7.9	8.2	8.5
Net Margin	0.8	2.7	3.9	4.3
<b>Per Share data and valuation ratios (%)</b>				
EPS (INR)	0.8	2.9	4.8	5.7
DPS (INR)	0.0	0.0	0.2	0.5
Book Value (INR)	43.3	41.4	46.0	51.1
P/E (x)	77.3	20.9	12.8	10.7
EV/EBITDA (x)	10.7	8.2	6.5	5.1
EV/Sales (x)	0.8	0.6	0.5	0.4
Price/Book (x)	1.4	1.5	1.3	1.2
Dividend Yield (%)	0.0	0.0	0.3	0.8
<b>Return and Liquidity Ratios (%)</b>				
Net Debt/Equity	0.3	0.2	0.1	(0.1)
RoE (%)	1.8	7.1	10.4	11.2
RoCE (%)	7.4	7.7	8.5	9.1
<b>Turnover Ratios</b>				
Debtors (Days)	119	119	115	115
Inventory (Days)	35	39	37	34
Creditors. (Days)	84	87	87	86
Asset Turnover (x)	1.4	1.7	1.9	1.9

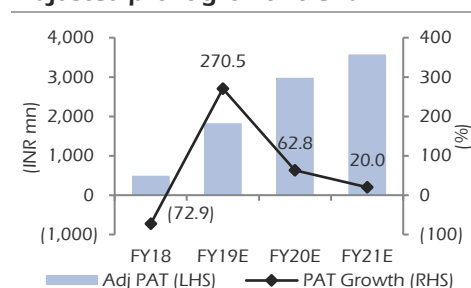
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## Revenue &amp; margin growth trend



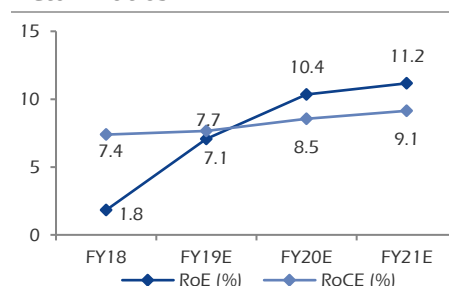
Source: Company, Elara Securities Estimate

## Adjusted profit growth trend



Source: Company, Elara Securities Estimate

## Return ratios



Source: Company, Elara Securities Estimate

## Company Background

CG Power and Industrial Solutions (CGPOWER IN), established in 1937, has been a pioneer and leader in electrical energy equipment in India and a leading engineering corporation in the world. The company's primary two segments are power systems and industrial systems. Power systems include transformers, switchgears, turnkey projects and power control systems like SCADA. Industrial systems include electric motors, alternators, drives and traction electronics. The company has manufacturing bases in India, Hungary, Sweden and Indonesia.

### Consolidate order book at three year high

During Q1, order inflows (parent) surges by 41% YoY to INR 20.6bn. Domestic orderbook rises by 17% QoQ to INR 42bn. Book-to-bill ratio was 0.75x FY19E sales. At consolidated level, inflows grew by 49% YoY to INR 24.4bn. Orderbook rose to three year high of INR 52.8bn, up 15% QoQ.

### Debt restructuring likely by Q2FY19

The consolidated gross debt stands at INR 25.4bn and net debt at INR 18.3bn as on June 2018. Of INR 25.4bn, 72% is towards continued business operations and balance from discontinued businesses. The company intends to replace high cost domestic debt of INR 11bn with overseas borrowing by Q2FY19. Lower rate can result in interest savings by INR 400mn along with longer tenure. The debt would be serviced through equally from Indonesia, India and other overseas operations. The net consolidated debt stands at INR 17.3bn in FY18.

### JV in Indonesia starts production; MoU in Malaysia

The PT CPSI, a JV of CG International (51% holding; a subsidiary of CG Power & Industrial) and PT Prima Layanan Nasional Enjiniring, a subsidiary of PT PLN Persero, Indonesia has commenced production of HV and EHV switchgear equipment at Banten in Indonesia in August 2018. The total investment stands at USD 22mn with equity investment of USD 9mn and balance as debt. The JV has received an order of USD 33mn in Q1FY19. Additionally, the company has entered into a MoU with TENAGA Switchgear Sdn. Bhd. (TSG) in Malaysia for supply of switchgear on CKD basis. The benefits from this MoU is expected from FY20.

### Consolidated recurring PAT turns black in Q1FY19

In Q1FY19, the parent net revenue was flat YoY to INR 12bn, 16% below our estimates. As RM/sales fell by 180bp to 67.9% and 9% decline in operating cost led to an EBITDA growth of 39% to INR 909mn. Accordingly, EBITDA margin expanded by 220bp YoY to 7.7%. Adjusted net profit almost doubled YoY to INR 354mn, well below ours and Street estimates. Consolidated revenue grew by 11% to INR 14.9bn with EBITDA of INR 1.2bn, up 143% and margin at 8%, up 430bp. Adjusting for loss of INR 896mn from discontinued operations, recurring profit from continued operations was at INR 46mn vs loss of INR 424mn in Q1FY18, well above ours and Street estimates.

### Exhibit 1: Elara assumptions

Assumptions	FY19E	FY20E	FY21E
<b>Parent</b>			
<b>Revenue growth (%)</b>			
Power systems	5.0	12.0	6.0
Industrial systems	15.0	18.0	10.0
<b>EBIT margin (%)</b>			
Power systems	6.8	7.0	7.3
Industrial systems	9.5	9.8	9.8
<b>Overseas</b>			
Revenue growth (%)	5.0	2.0	10.0
EBITDA margin (%)	10.0	11.0	12.0

Source: Elara Securities Estimate

**Key downside risks** include a higher than expected losses on financial audit from the sale of its Hungary business unit, delay in turnaround of overseas subsidiaries, sharp rise in commodity prices and slower capex in T&D industry.

## Exhibit 2: Quarterly performance

(INR mn)	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
<b>Quarterly performance (consolidated)</b>					
<b>Sales (net)</b>	<b>13,390</b>	<b>15,576</b>	<b>15,161</b>	<b>18,143</b>	<b>14,901</b>
YoY (%)	(12.1)	18.4	15.0	19.5	11.3
Operating expenses	12,898	14,257	13,890	16,708	13,709
% of sales	96.3	91.5	91.6	92.1	92.0
<b>EBITDA</b>	<b>492</b>	<b>1,319</b>	<b>1,271</b>	<b>1,435</b>	<b>1,192</b>
EBITDA margin (%)	3.7	8.5	8.4	7.9	8.0
Other income	116	300	10	2	82
Interest	537	569	566	522	566
Depreciation	343	382	383	384	377
EO income/(expenses)	0	(279)	0	(4,148)	0
<b>PBT</b>	<b>(272)</b>	<b>389</b>	<b>332</b>	<b>(3,618)</b>	<b>332</b>
Tax	146	216	(2)	285	272
Tax rate (%)	(53.6)	55.5	(0.5)	(7.9)	81.9
Minority interest/share of associates	7	551	(534)	(7)	14
<b>Reported PAT</b>	<b>(424)</b>	<b>(378)</b>	<b>868</b>	<b>(3,896)</b>	<b>46</b>
<b>Adjusted PAT</b>	<b>(860)</b>	<b>(4,419)</b>	<b>(286)</b>	<b>(1,489)</b>	<b>(856)</b>
NPM (%)	(6.4)	(28.4)	(1.9)	(8.2)	(5.7)
<b>Consolidated – segment-wise</b>					
<b>Revenue</b>					
Power division	8,047	9,598	8,613	10,623	7,685
Industrial division	6,295	5,935	6,507	7,479	7,182
Others	40	45	40	43	43
<b>Total</b>	<b>14,382</b>	<b>15,577</b>	<b>15,159</b>	<b>18,144</b>	<b>14,910</b>
Less: inter segment	3	1	0	1	8
<b>Net sales</b>	<b>14,379</b>	<b>15,576</b>	<b>15,159</b>	<b>18,142</b>	<b>14,901</b>
<b>EBIT margin (%)</b>					
Power division	5.3	11.4	8.8	7.9	8.8
Industrial division	2.6	7.1	6.8	8.4	8.7
Others	13.6	30.0	29.8	(1.6)	(18.3)
<b>Total</b>	<b>4.1</b>	<b>9.8</b>	<b>8.0</b>	<b>8.1</b>	<b>8.7</b>
<b>Quarterly performance (standalone)</b>					
<b>Sales</b>	<b>11,785</b>	<b>12,085</b>	<b>11,794</b>	<b>14,527</b>	<b>11,798</b>
YoY %	4.4	11.4	10.8	23.4	0.0
Operating expenses	11,132	11,314	10,923	13,370	10,889
<b>EBITDA</b>	<b>653</b>	<b>771</b>	<b>871</b>	<b>1,157</b>	<b>909</b>
EBITDA margin (%)	5.5	6.4	7.4	8.0	7.7
Other income	428	615	454	484	375
Interest	525	541	536	538	517
Depreciation	229	265	262	264	257
Exceptional items	(359)	(579)	(998)	(998)	(426)
<b>PBT</b>	<b>327</b>	<b>579</b>	<b>527</b>	<b>839</b>	<b>510</b>
Tax	142	(2)	10	212	156
Tax rate (%)	43.4	(0.3)	1.8	25.2	30.7
<b>Reported PAT</b>	<b>310</b>	<b>392</b>	<b>92</b>	<b>(3,417)</b>	<b>368</b>
<b>Adj PAT</b>	<b>185</b>	<b>281</b>	<b>518</b>	<b>474</b>	<b>354</b>
NPM (%)	1.6	2.3	4.4	3.3	3.0
<b>Order inflows and orderbook</b>					
Order inflows	16,370	13,000	17,080	12,960	24,370
Orderbook	48,710	44,870	45,600	45,830	52,840

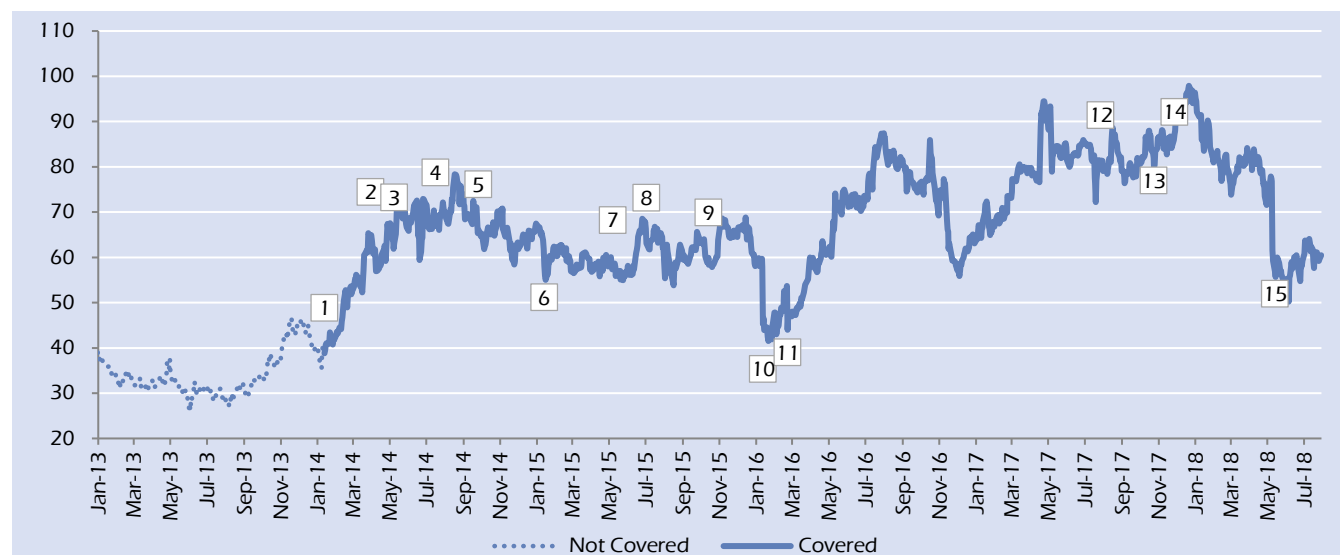
Source: Company, Elara Securities Research

**Exhibit 3: Change in estimates**

	Earlier			Revised			% Change		
(INR mn)	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
<b>Standalone</b>									
Sales	56,494	64,886	70,048	55,671	63,964	69,071	(1.5)	(1.4)	(1.4)
EBITDA	4,100	4,933	5,396	4,104	4,855	5,374	0.1	(1.6)	(0.4)
Margin (%)	7.3	7.6	7.7	7.4	7.6	7.8			
Net Profit	2,089	2,707	3,067	2,062	2,786	3,173	(1.3)	2.9	3.5
EPS (INR)	3.3	4.3	4.9	3.3	4.4	5.1	(1.3)	2.9	3.5
<b>Consolidated</b>									
Sales	68,811	77,819	84,275	68,351	76,898	83,298	(0.7)	(1.2)	(1.2)
EBITDA	5,331	6,356	7,103	5,372	6,278	7,081	0.8	(1.2)	(0.3)
Margin (%)	7.7	8.2	8.4	7.9	8.2	8.5			
Net Profit	1,782	2,902	3,472	1,831	2,982	3,579	2.8	2.7	3.1
EPS (INR)	2.8	4.6	5.5	2.9	4.8	5.7	2.8	2.7	3.1

Source: Elara Securities Estimate

## Coverage History



	Date	Rating	Target Price	Closing Price
1	03-Feb-2014	Accumulate	INR 125	INR 112
2	21-Apr-2014	Sell	INR 125	INR 186
3	30-May-2014	Sell	INR 160	INR 183
4	07-Aug-2014	Sell	INR 180	INR 198
5	17-Oct-2014	Sell	INR 175	INR 191
6	4-Feb-2015	Buy	INR 210	INR 168
7	29-May-2015	Buy	INR 215	INR 168
8	24-Jul-2015	Accumulate	INR 205	INR 182
9	4-Nov-2015	Accumulate	INR 200	INR 174
10	3-Feb-2016	Accumulate	INR 150	INR 131
11	3-Mar-2016	Accumulate	INR 49*	INR 44*
12	18-Aug-2017	Accumulate	INR 90	INR 82
13	14-Nov-2017	Accumulate	INR 95	INR 82
14	19-Dec-2017	Accumulate	INR 100	INR 89
15	4-June-2018	Buy	INR 85	INR 57

\*Price post demerger

## Guide to Research Rating

<b>BUY</b>	Absolute Return >+20%
<b>ACCUMULATE</b>	Absolute Return +5% to +20%
<b>REDUCE</b>	Absolute Return -5% to +5%
<b>SELL</b>	Absolute Return < -5%



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