

Crompton Greaves

BSE Sensex
27,019

S&P CNX
8,083

CMP: INR203

TP: INR271

Buy



Stock Info

Bloomberg	CRG IN
Equity Shares (m)	626.7
52-Week Range (INR)	219/80
1, 6, 12 Rel. Per (%)	0/23/90
M.Cap. (INR b)	126.9
M.Cap. (USD b)	2.1

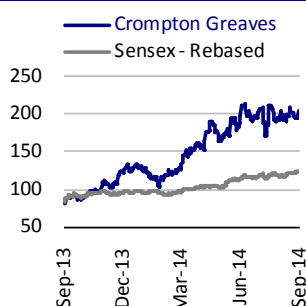
Financial Snapshot (INR b)

Y/E Mar	2015E	2016E	2017E
Net Sales	144.2	163.7	188.8
EBITDA	8.9	12.6	16.3
Adj PAT	3.9	7.4	10.5
EPS (INR)	6.4	11.8	16.8
Gr. (%)	53	86	42
BV/Sh (INR)	53	62	76
RoE (%)	11.4	20.4	24.1
RoCE (%)	11.0	17.4	21.6
P/E (x)	31.9	17.2	12.1
P/BV (x)	3.9	3.3	2.7

Shareholding pattern % (Mar-14)

	Jun-14	Mar-14	Jun-13
Promoter	42.7	42.7	41.7
DII	22.2	23.2	23.7
FII	20.1	19.5	15.5
Others	15.0	14.6	19.1

Stock Performance (1-year)



Riding a New Mustang

Consumer business demerger to unlock value; several triggers exist

Consumer demerger to unlock value, provide strategic possibilities

CRG has proposed the demerger of the consumer business into a separate listed company. The Committee of Directors was to examine all relevant aspects and make suitable recommendations to the Board; and we expect the process to be completed shortly. We believe that the transaction will unlock significant value, and also opens up strategic possibilities to accelerate growth.

Over the last 3 years, CRG has consistently reported above industry average growth rates in each of the key product segments. For instance, in Fans, CRG's market share increased substantially from lows of 21% in FY11 to 26.6% in FY14 given the improved reach, launch of premium products, etc.

We calculate CRG's consumer business to have reported EPS of INR3.9 in FY14 and estimate at INR4.5 in FY15; at benchmark PER of 25-30x FY15E (HAVL quotes at 31x FY15E), the possible value of the consumer business could be ~INR110-135/sh. The management recently stated that the medium term EBIT margin target for the consumer business is 15% (vs 11.9% in FY14).

Leveraging Indian Manufacturing: expect traction in FY15/16

CRG has been positioning to leverage the Indian manufacturing through increased exports, particularly in Power products (transformers from Kanjurmarg, GIS / RMUs / Circuit Breakers from Nashik, Automation products from Bangalore) and HT Motors / Drives (factories commissioned in July 2013). During FY14, while the exports (including deemed exports) increased 12% YoY, FOB exports were up sharply at 19% YoY. Several of the new product launches in industrial and switchgears require pre-qualifications, leading to a time-lag and thus, we expect a meaningful ramp up in exports in FY15/FY16.

Switchgears / Traction Electronics are key growth drivers

For CRG, switchgear revenues have increased by 15% YoY in FY14, largely led by strong traction in RMUs. In FY14, GIS capacity at Hungary / Nashik has been nearly doubled. Another important achievement has been the successful PQ from PGCIL for 765kva Circuit Breakers, and should increase the competitiveness in terms of bidding for system projects in India. Commissioning of the circuit breaker plant in Indonesia (51% JV with PLNE) and the existing capacity in Brazil should drive increased exports from Nashik. We expect the contribution of switchgears / traction electronics to increase from ~10% of consolidated power segment revenues to ~16-18% in the next 2-3 years.

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Investors are advised to refer through disclosures made at the end of the Research Report.

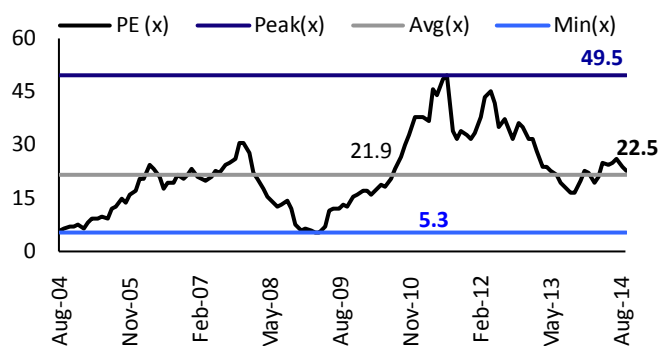
Automation business: high operating leverage, 50%+ margins

In smart meters, CRG participated in 10 Advanced Metering Infrastructure (AMI) projects in Europe, Asia and America. The most significant achievement was to secure the technical pre-qualification to participate in the ERDF Linky project for the deployment of smart meters in France. ZIV has recently been awarded contracts with a total of more than 2m meters. We understand that the automation business has a gross margin of ~50%+; and thus as these projects get executed in 2HFY15, margins in overseas business should report a noticeable increase.

Valuations and view, Maintain Buy

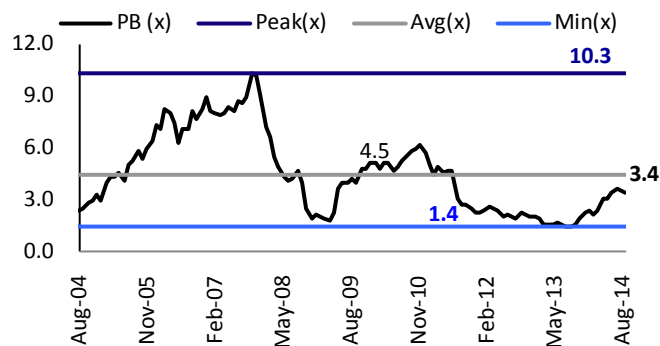
CRG's journey to emerge as a 'global corporation' from India continues to face multiple 'growth pangs'. Phase 1 of the restructuring program, encompassing the European operations had been largely completed; and the business reported EBIDTA breakeven in FY14. There had been initial successes in strategic areas like geography expansion, moving up the value chain, widening the production footprint, etc. Thus, FY15/FY16 should witness the gains of the fructification of these efforts over the last two years. Demerger of the consumer business will unlock shareholder value. Maintain **Buy**, with a revised Price target of INR271/sh (standalone business at 22x FY16E, overseas at 0.5x EV/Sales).

CRG: PER Band Chart (x)



Source: MOSL, Company

CRG PB Chart (x)



Source: MOSL, Company

Consumer demerger: unlock value, strategic possibilities

CRG has proposed the demerger of the consumer business into a separate listed company, with the intent to allow the businesses to pursue more ambitious growth. The Committee of Directors was to examine all relevant aspects of the process of demerger and listing and make suitable recommendations to the Board; and we expect the process to be completed shortly. We believe that the transaction will unlock significant value; and also opens up strategic possibilities.

We calculate CRG's consumer business to have reported EPS of INR3.9 in FY14 and estimate at INR4.5 in FY15; at PER of 25-30x FY15E (HAVL at 31x FY15E), the possible value of the consumer business could be ~INR110-135/sh.

Composition of Standalone EPS (INR/Sh, Calculated*)

	FY11	FY12	FY13	FY14	FY15E	FY16E	FY17E
Consumer	3.4	3.1	3.2	3.9	4.5	5.2	6.2
Non-Consumer	7.4	4.8	3.7	4.4	4.3	5.7	8.4
Total	10.8	7.9	6.9	8.3	8.7	10.9	14.5

* Consumer EPS calculated assuming Segment EBIT = PBT and approx tax rate of 27%

Source: MOSL, Company

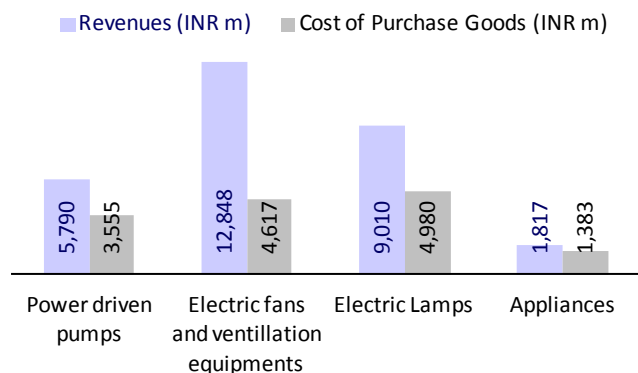
Consumer business has witnessed strong growth rates led by improved reach, premium products

- CRG has expanded its reach in the consumer business to 134,000 retailers in the distribution segment and 22,000 retailers in rural segment; by adding 11,150 retailers in FY14. Also, modern retail format was started, by setting up exclusive stores.
- In **Lighting**, CRG was the first to launch an LED flat panel luminaire in the branded category, and gained a market share of 25% within the first quarter. New products accounted for 17% of total sale of lighting and 24% of luminaires in FY14.
- In **Fans**, CRG's market share has increased from lows of 21% in FY11 to 26.6% in FY14, which is quite substantial. New product launches accounted for 30% of the revenues; and several premium products were launched.
- In **Pumps**, CRG's market share increased 50bps to 13.6% in FY14. In the residential segment, the company improved its leadership position with market share of 27%.

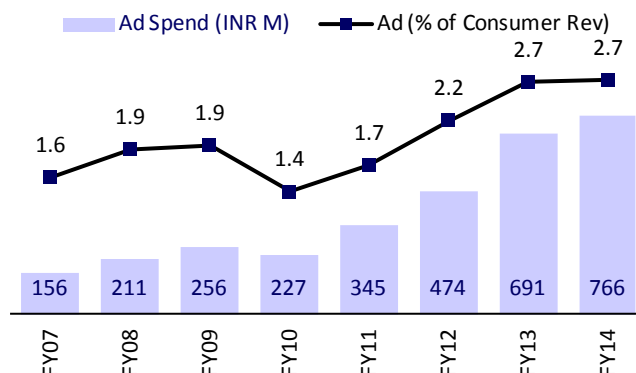
CRG's consumer business has outperformed industry growth rates in last three years

	FY12		FY13		FY14	
	Industry	CRG	Industry	CRG	Industry	CRG
Fans	-2%	2%	15%	22%	10%	15%
Lighting	12%	17%	12%	13%	2%	12%
Pumps	-8%	-4%	6%	26%	-10%	flat

Source: MOSL, Company

Productwise revenues and Traded Goods (INR m)

Source: MOSL, Company

Ad-spend witnessing an increased trend (INR m)

Source: MOSL, Company

Consumer business product-wise revenues (INR m)

	FY09	FY10	FY11	FY12	FY13	FY14
Fans and Ventilation equipments	6,032	7,645	9,097	9,122	11,138	12,848
Electric Lamps	4,636	4,923	5,703	6,667	7,689	9,010
Power driven Pumps	2,794	3,854	5,217	5,019	5,869	5,790
Appliances	210	683	969	1,211	2,120	1,817
Total	13,672	17,105	20,986	22,019	26,816	29,465

Source: MOSL, Company

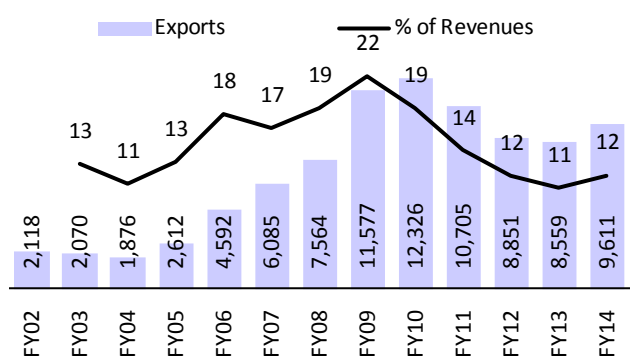
Several of the new product launches in industrial and switchgears require pre-qualifications, leading to a time lag and thus, we expect a meaningful ramp up in FY15/FY16

Leveraging Indian Manufacturing: expect traction in FY15/16

CRG has been positioning to leverage the Indian manufacturing through increased exports, particularly in Power products (transformers from Kanjurmarg, GIS / RMUs / Circuit Breakers from Nashik, Automation products from Bangalore) and HT Motors / Drives (factories commissioned in July 2013). During FY14, while the exports (including deemed exports) increased 12% YoY, FOB exports were up sharply at 19% YoY. Several of the new product launches in industrial and switchgears require pre-qualifications, leading to a time lag and thus, we expect a meaningful ramp up in exports in FY15/FY16.

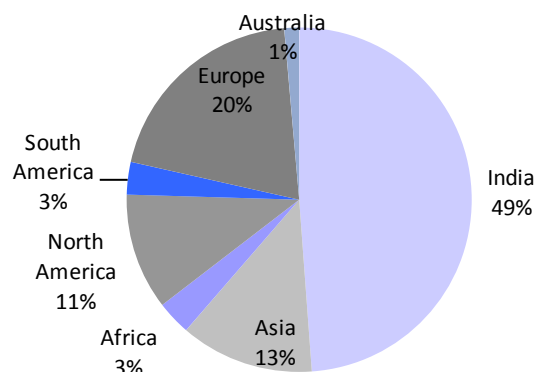
- In the **industrial business**, factories have been commissioned at Manideep (near Bhopal) to produce HT Motors and Drives for Europe, Middle East, Africa and South East Asia. During FY14, the company received approvals from 10 global OEMs apart from four large end users. In FY14, the MV and LV motors plant was also approved by GE Oil and Gas for global sourcing, and provides CRG a strategic vendor status for a high growth sector. Exports in industry segment were up just 9% in FY14; and we expect a meaningful traction in FY15/FY16.
- **Drives** business added 54 new customers, 25 OEMs, 3 new dealers, 5 system houses and 19 new end users in FY14. Orders received in FY14 includes: from Saudi Arabia for test bench and for crane applications in Germany. Exports should witness traction in FY15/FY16.
- Also, in **switchgears**, expansion of the GIS manufacturing capacity in India and setting up an AIS circuit breaker manufacturing facility in Indonesia (51% JV with PLNE) / Brazil will drive increased exports going forward.
- In the last few years, CRG established new plants in Brazil and Saudi Arabia, a marketing network in Africa and deepened the penetration in South East Asia markets by establishing presence in Malaysia and Vietnam. These initiatives have also supported expansion.

Exports (including Deemed) are up 12% YoY in FY14



Source: MOSL, Company

Revenue composition: Consolidated business, FY14



Source: MOSL, Company

Country-wise Exports Revenues (Standalone, INR m): Physical exports up 19% YoY in FY14, led by Asia, Africa and South America

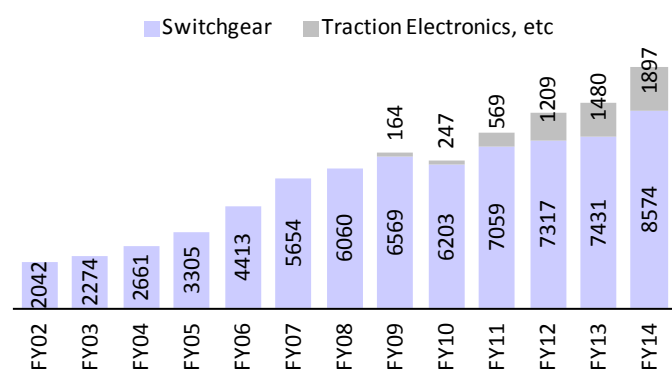
	FY08	FY09	FY10	FY11	FY12	FY13	FY14
Asia	4,000	4,488	5,122	3,567	3,103	2,562	3,485
Africa	676	2,429	2,070	2,726	2,146	1,920	2,302
North America	926	700	316	297	422	975	336
South America	999	2,139	2,233	1,978	1,702	1,676	2,258
Europe	762	845	642	505	391	426	591
Australia	281	297	55	55	56	84	82
Total	7,644	10,900	10,437	9,128	7,820	7,643	9,053
% YoY		42.6%	-4.2%	-12.5%	-14.3%	-2.3%	18.5%

Source: MOSL, Company

Switchgears / Traction Electronics are key growth drivers

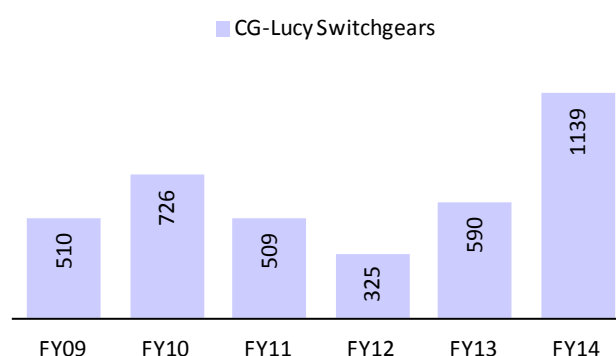
- For CRG, switchgear revenues have increased meaningfully by 15% in FY14 and the increase is largely led strong traction in **Ring Main Units (RMUs)**. RMUs are manufactured by CG-Lucy Switchgears (49%) and being marketed by CRG; the related party transactions indicate that RMU purchases by CRG has nearly doubled in FY14 to INR1.1b. In July 2014, the RMU manufacturing capacity at Nashik was doubled to 1000 per month; CRG has a market share of ~18% in distribution switchgears in India and thus is strongly positioned to benefit from the increased investments in the power distribution network.
- In FY14, Hungarian plant successfully completed the development of 245kv **GIS** for which it received a subsidy from the national government. This again is an important milestone, in our opinion. Also, CRG started commercial production of 36kv GIS, which is a key product addition in the distribution segment. The plant capacity at Hungary has been increased from 16 bays per month to 35 bays; and the expansion allowed the plant to produce 85 bays in 4QFY14 compared to a total of 82 bays for the whole of FY13. The GIS capacity in Nashik is also being expanded and should drive increased exports.
- Another important achievement in 4QFY14 has been the successful pre-qualifications from PGCIL for the 765kva **Circuit Breakers**. This should increase the competitiveness in terms of bidding for system projects in India, given that CRG was already pre-qualified for power transformers, instrument transformers and surge arrestors for upto 765kva. Commissioning of the circuit breaker plant in Indonesia (51% JV with PLNE) and the existing capacity in Brazil should drive increased exports from Nashik going forward.
- For **traction motors**, CRG developed an Integrated power supply system for railway signaling systems in FY14. Also, the first IGBT power converter was also successfully developed and supplied to Indian Railways.

Switchgears / Traction Electronics witness strong revenue increases (INR m)



Source: MOSL, Company

CG-Lucy Switchgear: RMUs a key driver (Purchases by CRG, INR m)



Source: MOSL, Company

Automation business: high operating leverage, 50%+ margins

FY14 has been an important milestone for ZIV as: i) Demand picked up in Europe, ii) the company has also been successful in entering the emerging economies, including India by bagging few initial projects iii) automation products unit at Bangalore has been commissioned, and will be exporting to South Asia, Middle East and South East Asia.

- In smart meters, the company has participated in 10 Advanced Metering Infrastructure (AMI) projects in Europe, Asia and America. The most significant achievement was to secure the technical pre-qualification to participate in the ERDF Linky project for the deployment of smart meters in France.
- ZIV was awarded significant contracts in FY14 from major European Utilities: Energias de Portugal, Iderdrola and Gas Natural Fenosa with a total of more than 2 million meters. We understand that the automation business has a gross margin of ~50%+; and thus as these projects get executed in 2HFY15, margins should report a quantum increase.
- Europe's installation base for smart meters is expected to rise sharply and hit 180 million by 2020; just as the Asian market will gain significant traction during the period. Whilst Spain continues its dominance as an active market in 2014, large-scale deployments in the UK, Germany and France will bring in the momentum by late 2015.

Key automation orders received in FY14

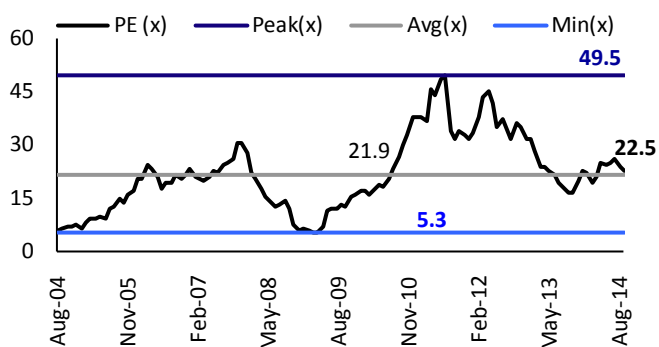
Company	Segment	Country
PGCIL	Protection and Control Devices (5 substations)	India
Saudi Electricity Company	Tap Changer Protection Relays	Saudi Arabia
Ministry of Electricity	Protection and Control Systems	Iraq
ERDF	Protection Devices	France
Companhia Hidro-Eletrica do Sao Fransico	Bus Bar Differential Systems	Brazil
Administracion Nacional de Electricidad	Smart Meters	Paraguay
Gas Natural Fenosa	Smart Meters	Spain
Iberdrola	Smart Meters, Concentrators and Distributed Automation Systems	Spain

Source: MOSL, Company

Valuations and View: Maintain Buy

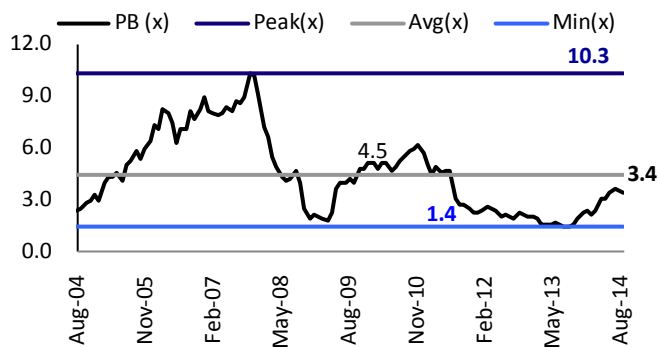
CRG's journey to emerge as a 'global corporation' from India continues to face multiple 'growth pangs'. Phase 1 of the restructuring program, encompassing the European operations had been largely completed; and the business reported EBIDTA breakeven in FY14. There had been initial successes in strategic areas like geography expansion, moving up the value chain, widening the production footprint, etc. Thus, FY15/FY16 should witness the gains of the fructification of these efforts over the last two years. Demerger of the consumer business will unlock shareholder value. Maintain Buy, with a revised Price target of INR271/sh (standalone business at 22x FY16E, overseas at 0.5x EV/Sales).

CRG: PER Band Chart (x)



Source: MOSL, Company

CRG PB Chart (x)



Source: MOSL, Company

Operating matrix

	FY11	FY12	FY13	FY14	FY15E	FY16E	FY17E
Revenues (INR m)							
Power Systems - Standalone	25,542	27,474	27,247	28,235	29,929	34,419	41,303
CG Global	40,536	47,632	49,591	59,910	64,091	79,990	88,464
Consumer Products	20,212	21,336	25,927	28,471	31,318	36,015	41,417
Industrial Systems	14,066	15,201	14,994	14,889	15,634	19,542	25,405
Others	171	1,299	3,768	3,847	3,847	3,847	3,847
Total sales	100,528	112,942	121,528	135,352	144,819	173,814	200,436
Less inter segment sales	-477	-456	-584	-547	-601	-661	-727
Total	100,051	112,486	120,944	134,806	144,218	173,152	199,708
Growth %	9.5	12.4	7.5	11.5	7.0	20.1	15.3
EBIT Margins (%)							
Power Systems - Standalone	18.0	11.6	8.5	9.2	9.5	10.0	10.5
CG Global	8.2	-1.6	-6.0	-1.0	0.3	2.4	3.3
Consumer Products	14.5	12.3	10.7	11.9	12.3	12.5	12.8
Industrial Systems	18.7	14.8	14.2	10.3	10.0	11.5	14.0
Unallocable exp	0.9	1.1	1.4	0.4	0.4	0.4	0.5
Adjusted EBIDTA %							
Standalone	15.7	11.1	8.3	8.9	9.1	9.7	10.5
Subsidiaries	10.1	1.7	-2.1	0.3	2.5	5.0	6.0
Consolidated	13.4	7.1	3.2	5.1	6.2	7.7	8.6
EPS (NR/Share)							
Standalone	10.8	7.9	6.9	8.3	8.7	10.9	14.5
Subsidiaries	3.6	-2.0	-3.9	-4.4	-2.4	0.9	2.3
Consolidated	14.4	5.8	3.0	3.9	6.4	11.8	16.8
Net (Debt) / Cash							
Standalone	5,401	8,198	7,756	4,329	8,859	12,082	17,670
Subsidiaries	(2,427)	(8,059)	(15,430)	(17,901)	(19,487)	(17,919)	(14,553)
Consolidated	2,974	138	(7,675)	(13,572)	(10,627)	(5,837)	3,117
Net Working Capital (Days)							
Standalone	27	34	25	34	32	26	20
Subsidiaries	33	32	24	26	32	33	30
Consolidated	29	33	25	30	32	29	24

Source: Company, MOSL

Financials and valuations

Income statement (INR Million)

Y/E Mar	2012	2013	2014	2015E	2016E	2017E
Net Sales	112,486	120,944	134,806	144,218	163,662	188,795
Change (%)	12	8	11	7	13	15
EBITDA	8,036	3,832	6,820	8,926	12,592	16,300
EBITDA Margin (%)	7.1	3.2	5.1	6.2	7.7	8.6
Depreciation	2,600	2,029	2,621	2,895	3,026	3,172
EBIT	5,437	1,802	4,198	6,031	9,566	13,128
Interest	567	955	1,366	735	663	574
Other Income	628	1,000	2,115	992	1,035	1,260
Extraordinary items	0	-1,207	0	0	0	0
PBT	5,497	640	4,947	6,288	9,938	13,814
Tax	1,821	1,009	2,361	2,333	2,597	3,354
Tax Rate (%)	33.1	157.6	47.7	37.1	26.1	24.3
Reported PAT	3,676	-369	2,587	3,955	7,341	10,460
Adjusted PAT	3,676	1,918	2,587	3,955	7,341	10,460
Change (%)	-60	-48	35	53	86	42
Minority Interest	-60	-7	143	-41	-82	-82
Adj Cons PAT	3,736	1,926	2,443	3,996	7,423	10,542

Balance sheet (INR Million)

Y/E Mar	2012	2013	2014	2015E	2016E	2017E
Share Capital	1,283	1,283	1,254	1,254	1,254	1,254
Reserves	34,826	34,332	35,192	31,776	37,832	46,551
Net Worth	36,109	35,615	36,446	33,029	39,086	47,805
Debt	9,849	18,515	21,930	21,009	19,444	18,036
Deferred Tax	-122	-1,681	-1,532	-1,553	-1,553	-1,553
Total Capital Employed	45,992	52,544	56,962	52,603	57,095	64,406
Gross Fixed Assets	44,087	53,424	59,233	54,473	55,547	56,957
Less: Acc Depreciation	23,005	24,726	26,825	30,218	33,572	37,072
Net Fixed Assets	21,083	28,699	32,408	24,255	21,975	19,885
Capital WIP	1,493	1,965	2,184	2,776	5,776	8,276
Investments	7,864	7,907	2,989	6,568	9,790	15,378
Current Assets	55,343	59,807	69,168	71,308	79,022	90,482
Inventory	12,233	16,367	16,714	18,104	20,481	23,129
Debtors	31,432	31,605	35,913	38,302	42,777	48,583
Cash & Bank	4,976	5,834	8,150	6,512	6,515	8,473
Loans & Adv, Others	6,702	6,002	8,392	8,389	9,248	10,296
Curr Liabs & Provns	40,186	45,834	49,787	52,303	59,468	69,615
Curr. Liabilities	36,395	41,612	45,723	48,006	54,775	64,436
Provisions	3,791	4,222	4,064	4,297	4,693	5,179
Net Current Assets	15,157	13,973	19,381	19,004	19,554	20,867
Total Assets	45,597	52,543	56,961	52,603	57,095	64,406

E: MOSL Estimates

Financials and valuations

Ratios

Y/E Mar	2012	2013	2014	2015E	2016E	2017E
Basic (INR)						
Standalone EPS	7.9	6.9	8.3	8.7	10.9	14.5
Consolidated EPS	5.8	3.0	3.9	6.4	11.8	16.8
Cash EPS	9.9	6.2	8.1	11.0	16.7	21.9
Book Value	56.3	55.5	58.2	52.7	62.4	76.3
DPS	1.4	1.2	0.8	1.5	1.9	2.5
Payout (incl. Div. Tax.)	27.9	46.6	24.0	27.4	18.4	17.3
Valuation(x)						
Consolidated P/E	34.9	67.8	52.2	31.9	17.2	12.1
Cash P/E	20.6	33.0	25.2	18.5	12.2	9.3
Price / Book Value	3.6	3.7	3.5	3.9	3.3	2.7
EV/EBITDA	16.8	37.4	20.7	15.9	11.2	8.4
Dividend Yield (%)	0.7	0.6	0.4	0.7	0.9	1.2
Profitability Ratios (%)						
RoE	10.7	-1.0	7.2	11.4	20.4	24.1
RoCE	13.1	3.7	7.7	11.0	17.4	21.6
Turnover Ratios (%)						
Asset Turnover (x)	2.7	2.5	2.5	2.6	3.0	3.1
Debtors (No. of Days)	102.0	95.4	97.2	96.9	95.4	93.9
Inventory (No. of Days)	39.7	49.4	45.3	45.8	45.7	44.7
Creditors (No. of Days)	73.6	76.7	79.1	76.6	78.5	80.7
Leverage Ratios (%)						
Net Debt/Equity (x)	0.1	0.4	0.4	0.4	0.3	0.2

Cash flow statement

(INR Million)

Y/E Mar	2012	2013	2014	2015E	2016E	2017E
OP/(Loss) before Tax	5,497	1,848	4,947	6,288	9,938	13,814
Depreciation	2,600	2,029	2,621	2,895	3,026	3,172
Others	0	0	0	0	0	0
Interest	567	955	1,366	735	663	574
Direct Taxes Paid	2,495	2,177	2,211	2,354	2,597	3,354
(Inc)/Dec in Wkg Cap	-2,310	2,046	-3,092	-1,261	-546	645
CF from Op. Activity	3,859	3,494	3,631	6,303	10,484	14,850
(Inc)/Dec in FA & CWIP	-5,758	-10,117	-6,550	4,666	-3,746	-3,582
(Pur)/Sale of Invt	-1,117	-43	4,919	-3,579	-3,223	-5,588
Others	0	0	0	0	0	0
CF from Inv. Activity	-6,875	-10,160	-1,631	1,087	-6,969	-9,170
Inc/(Dec) in Net Worth	725	709	-1,147	-6,277	82	82
Inc / (Dec) in Debt	5,894	8,666	3,415	-922	-1,564	-1,408
Interest Paid	567	955	1,366	735	663	574
Divd Paid (incl Tax)	1,044	897	587	1,095	1,366	1,822
CF from Fin. Activity	5,008	7,524	316	-9,028	-3,512	-3,722
Inc/(Dec) in Cash	1,992	857	2,316	-1,638	3	1,958
Add: Opening Balance	2,984	4,976	5,834	8,150	6,512	6,515
Closing Balance	4,976	5,833	8,150	6,512	6,515	8,473

E: MOSL Estimates

NOTES

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