

## Top Research Picks

- ➔ **Crompton Greaves (CRG IN, BUY):** Stock to trade ex-consumer; maintain BUY

## Other Research

- ➔ **India Economics:** Feb'16 CPI surprises positively... raising expectations of a rate cut

15 March 2016



**14 March 2016**
**BUY**
**TP: INR 55.00**
**▲ NA**

# Crompton Greaves

**CRG IN**

## Stock to trade ex-consumer; maintain BUY

**With effect from 15 Mar'16, CRG's shares will trade ex-consumer business (record date: 16 Mar'16). Also, the demerged power & industrial business will be debt-free post conclusion of the recently announced sale of international businesses. This along with CRG's renewed focus on the B2B business would lead to a meaningful improvement in its return ratios from here on. We value the consumer business at Rs 115/sh and the power & industrial business at Rs 55/sh (or 13x FY18 PE). BUY; Mar'17 TP Rs 55.**

- ➔ **Traction in domestic business to improve:** CRG's domestic power/industrial businesses are likely to report topline growth of 5%/10% and PAT growth of 26%/19% over FY16-FY18E led by the Govt.'s continued thrust on power transmission capex. We expect Rs 44bn/Rs 2.7bn of revenues/PAT from domestic operations in FY18. With renewed management focus, ROCE for the power/industrial segments is set to touch 12%/30% by FY18 from ~5%/28% in 9MFY16.
- ➔ **Drives/automation businesses retained:** CRG will continue to operate its overseas drives and automation businesses (ZIV) for now; however, management has indicated that ZIV could also be monetised over time. EBITDA margins for the automation and drives businesses hover between 8-9% and PBT margins between 3-4%. We expect these businesses to post revenue/EBIT of Rs 12bn-13bn/Rs 240mn-260mn in FY18.
- ➔ **International power systems to weigh on profitability:** CRG's overseas operations would also comprise power systems (€20-30mn) until the business is shut down/sold off. While the Brazil business has already been shut down, the US Power Solutions business is likely to be sold by Jun'16; however, winding down of the UK Power Solutions business could still be some time away. Thus, we estimate lower FY17 EBITDA margins (4%) for the power segment as closure of the systems business may not be completed within specified timelines.

### Financial Highlights

Y/E 31 Mar	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue (INR mln)	134,806	140,131	87,070	53,244	56,076
EBITDA (INR mln)	6,820	6,424	1,741	3,911	4,425
Adjusted net profit (INR mln)	2,443	1,841	(1,558)	2,060	2,598
Adjusted EPS (INR)	3.9	2.9	(2.5)	3.3	4.1
Adjusted EPS growth (%)	194.1	(24.2)	(184.6)	(232.2)	26.1
DPS (INR)	1.2	1.2	1.2	1.2	1.2
ROIC (%)	4.4	3.2	(1.6)	5.5	8.4
Adjusted ROAE (%)	6.8	4.9	(4.9)	7.9	9.5
Adjusted P/E (x)	40.1	52.9	(62.5)	47.3	37.5
EV/EBITDA (x)	16.1	17.3	66.5	27.6	21.6
P/BV (x)	2.7	2.6	3.8	3.7	3.4

Source: Company, Bloomberg, RCML Research



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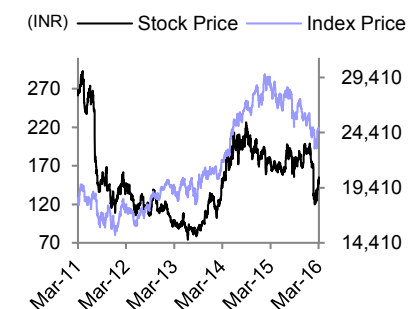
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**PRICE CLOSE (14 Mar 16)**
**INR 155.30**
**MARKET CAP**
**INR 97.3 bln**
**USD 1.5 bln**
**SHARES O/S**
**626.8 mln**
**FREE FLOAT**
**54.0%**
**3M AVG DAILY VOLUME/VALUE**
**7.4 mln / USD 15.7 mln**
**52 WK HIGH**
**INR 203.80**
**52 WK LOW**
**INR 113.50**


BUY

TP: INR 55.00

▲ NA

Crompton Greaves

CRG IN



Company Update

INDIA

CAPITAL GOODS

## Per Share Data

Y/E 31 Mar (INR)	FY14A	FY15A	FY16E	FY17E	FY18E
Reported EPS	3.9	2.9	(2.5)	3.3	4.1
Adjusted EPS	3.9	2.9	(2.5)	3.3	4.1
DPS	1.2	1.2	1.2	1.2	1.2
BVPS	58.2	60.9	40.5	42.4	45.2

## Valuation Ratios

Y/E 31 Mar (x)	FY14A	FY15A	FY16E	FY17E	FY18E
EV/Sales	0.8	0.8	1.3	2.0	1.7
EV/EBITDA	16.1	17.3	66.5	27.6	21.6
Adjusted P/E	40.1	52.9	(62.5)	47.3	37.5
P/BV	2.7	2.6	3.8	3.7	3.4

## Financial Ratios

Y/E 31 Mar	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Profitability &amp; Return Ratios (%)</b>					
EBITDA margin	5.1	4.6	2.0	7.3	7.9
EBIT margin	3.1	2.7	(0.9)	4.7	5.3
Adjusted profit margin	1.8	1.3	(1.8)	3.9	4.6
Adjusted ROAE	6.8	4.9	(4.9)	7.9	9.5
ROCE	3.9	2.8	(1.4)	4.2	5.6
<b>YoY Growth (%)</b>					
Revenue	11.5	4.0	(37.9)	(38.8)	5.3
EBITDA	78.0	(5.8)	(72.9)	124.6	13.2
Adjusted EPS	194.1	(24.2)	(184.6)	(232.2)	26.1
Invested capital	3.9	11.9	(35.6)	(31.1)	(0.3)
<b>Working Capital &amp; Liquidity Ratios</b>					
Receivables (days)	91	95	126	128	97
Inventory (days)	66	60	70	74	53
Payables (days)	75	72	92	102	100
Current ratio (x)	1.4	1.7	1.5	2.2	2.2
Quick ratio (x)	0.2	0.2	0.2	0.8	0.7
<b>Turnover &amp; Leverage Ratios (x)</b>					
Gross asset turnover	2.5	2.4	1.6	1.2	1.7
Total asset turnover	1.3	1.3	0.9	0.8	0.9
Net interest coverage ratio	4.3	3.6	0.0	3.2	4.7
Adjusted debt/equity	0.4	0.5	0.4	(0.1)	(0.1)

## DuPont Analysis

Y/E 31 Mar (%)	FY14A	FY15A	FY16E	FY17E	FY18E
Tax burden (Net income/PBT)	49.4	45.7	311.6	68.0	70.7
Interest burden (PBT/EBIT)	117.8	106.0	67.3	120.4	123.0
EBIT margin (EBIT/Revenue)	3.1	2.7	(0.9)	4.7	5.3
Asset turnover (Revenue/Avg TA)	127.4	127.3	92.8	77.3	93.1
Leverage (Avg TA/Avg equities)	293.8	295.0	295.3	264.9	219.1
Adjusted ROAE	6.8	4.9	(4.9)	7.9	9.5

BUY

TP: INR 55.00

▲ NA

## Crompton Greaves

CRG IN



Company Update

INDIA

CAPITAL GOODS

## Income Statement

Y/E 31 Mar (INR mln)	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Total revenue</b>	<b>134,806</b>	<b>140,131</b>	<b>87,070</b>	<b>53,244</b>	<b>56,076</b>
EBITDA	6,820	6,424	1,741	3,911	4,425
EBIT	4,198	3,804	(743)	2,515	2,987
Net interest income/(expenses)	(967)	(1,047)	(1,050)	(793)	(633)
Other income/(expenses)	1,716	1,274	1,293	1,306	1,319
Exceptional items	0	0	0	0	0
EBT	4,947	4,031	(500)	3,028	3,673
Income taxes	(2,361)	(2,220)	(1,372)	(964)	(1,045)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	(143)	30	315	(4)	(30)
<b>Reported net profit</b>	<b>2,443</b>	<b>1,841</b>	<b>(1,558)</b>	<b>2,060</b>	<b>2,598</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>2,443</b>	<b>1,841</b>	<b>(1,558)</b>	<b>2,060</b>	<b>2,598</b>

## Balance Sheet

Y/E 31 Mar (INR mln)	FY14A	FY15A	FY16E	FY17E	FY18E
Accounts payables	27,737	25,281	17,533	10,137	10,613
Other current liabilities	17,120	14,356	11,455	6,623	6,934
Provisions	3,333	3,470	2,214	1,280	1,340
Debt funds	21,930	25,265	17,765	11,765	9,666
Other liabilities	3,474	3,183	3,233	3,285	3,337
Equity capital	1,254	1,254	1,254	1,254	1,254
Reserves & surplus	35,192	36,906	24,157	25,345	27,098
Shareholders' fund	36,446	38,159	25,411	26,598	28,352
<b>Total liabilities and equities</b>	<b>110,159</b>	<b>109,916</b>	<b>77,829</b>	<b>59,920</b>	<b>60,488</b>
Cash and cash eq.	8,150	6,893	7,042	13,717	13,511
Accounts receivables	35,913	37,318	22,662	14,587	15,363
Inventories	16,714	14,552	9,287	5,369	5,621
Other current assets	8,102	15,093	7,261	6,065	6,249
Investments	2,780	2,806	2,806	2,806	2,806
Net fixed assets	32,408	28,634	24,151	12,755	12,317
CWIP	2,184	1,267	1,267	1,267	1,267
Intangible assets	0	0	0	0	0
Deferred tax assets, net	3,410	3,116	3,116	3,116	3,116
Other assets	499	237	237	237	237
<b>Total assets</b>	<b>110,159</b>	<b>109,916</b>	<b>77,829</b>	<b>59,920</b>	<b>60,488</b>

## Cash Flow Statement

Y/E 31 Mar (INR mln)	FY14A	FY15A	FY16E	FY17E	FY18E
Net income + Depreciation	5,065	4,461	926	3,456	4,036
Interest expenses	(749)	(227)	(243)	(513)	(686)
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(2,252)	(9,919)	15,849	1,025	(364)
Other operating cash flows	0	0	0	0	1
<b>Cash flow from operations</b>	<b>2,064</b>	<b>(5,685)</b>	<b>16,532</b>	<b>3,968</b>	<b>2,986</b>
Capital expenditures	(2,963)	(2,126)	(3,000)	(1,000)	(1,000)
Change in investments	121	(26)	0	0	0
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(2,842)</b>	<b>(2,152)</b>	<b>(3,000)</b>	<b>(1,000)</b>	<b>(1,000)</b>
Equities issued	(1,336)	0	0	0	0
Debt raised/repaid	3,415	3,335	(7,500)	(6,000)	(2,100)
Interest expenses	749	227	243	513	686
Dividends paid	(876)	(876)	(876)	(876)	(876)
Other financing cash flows	1,142	3,924	(5,221)	10,099	124
<b>Cash flow from financing</b>	<b>3,094</b>	<b>6,609</b>	<b>(13,354)</b>	<b>3,735</b>	<b>(2,165)</b>
<b>Changes in cash and cash eq</b>	<b>2,316</b>	<b>(1,228)</b>	<b>178</b>	<b>6,704</b>	<b>(179)</b>
<b>Closing cash and cash eq</b>	<b>8,150</b>	<b>6,922</b>	<b>7,071</b>	<b>13,746</b>	<b>13,538</b>

14 March 2016

## Feb'16 CPI surprises positively...

### ...raising expectations of a rate cut

**CPI inflation slid to 5.2% (our/consensus estimate: 5.6%/ 5.5%) in Feb'16 from a 17-month high of 5.7% in Jan'16, as food inflation declined sharply. This positive surprise further lends support to industry's demand for a rate cut, post the recent moderation in IIP and Govt.'s decision to stick to fiscal targets in Budget FY17. While the RBI may cut policy rates in the April policy, the room for monetary easing is limited by upside risks to food inflation and large second-round effects of sustained high food inflation on core inflation in India.**

- ➔ **Feb CPI inflation at 5.2%:** CPI inflation slid to 5.2% YoY in Feb'16 (our/consensus estimate: 5.6%/5.5%) from a 17-month high of 5.7% in Jan'16. After consistently rising from the levels of 3.7% in Aug'15, CPI inflation declined for the first time in last eight months. While a slight moderation was expected, the extent of decline surprised positively.
- ➔ **Food inflation pulls down headline number...:** Food inflation declined by a sharp 5.3% YoY in Feb'16 from 6.8% in the preceding month, albeit off a favourable base (limited to fruits & vegetables). Inflation in pulses also moderated to 38.3% from >40% in last four months. Apart from a favourable base, a divergence from the sequential trend also helped control food inflation – on a MoM basis, food inflation tumbled 1.4% in Feb'16 vis-à-vis an average rise of 0.2% in last five years.
- ➔ **...but core inflation rises:** Core inflation (excl. food and fuel & power) rose from 4.9% in Jan'16 to 5.2% in Feb'16 – the highest in last eight months. Retail prices of petrol increased YoY in Feb'16 after declining for 17 straight months, while deflation in retail prices of diesel moderated during the month. This in turn pushed up inflation in transport & communication group to 2.4% from 1.6% in January.
- ➔ **Positive CPI data boosts expectations of a rate cut:** The Govt. had stuck to the fiscal consolidation roadmap in Budget 2016-17. Besides, IIP has slowed down from 4.2% in H1FY16 to 1% in Q3FY16 before declining by 1.5% in Jan'16. This along with below-expected Feb'16 CPI numbers lend further support to the industry's demand for a rate cut.
- ➔ **Food inflation is the key...:** Retail inflation has oscillated in a 200bps range (3.7%-5.7%) during last 12 months due to a gyration in food inflation (range: 2-7%), which accounts for ~40% of the CPI basket. In contrast, core inflation has remained sticky at ~5%.
- ➔ **... limiting the role of interest rate as monetary policy tool:** In the Indian context, sustained high food inflation has large second round effects on core inflation (Anand et. al., IMF Working Paper 2014). Empirically, interest rate change is seen to have limited impact on food inflation, with largely inelastic demand for food for a large proportion of the population and mostly cash transaction based consumption. Liquidity measures are more effective in such a scenario.

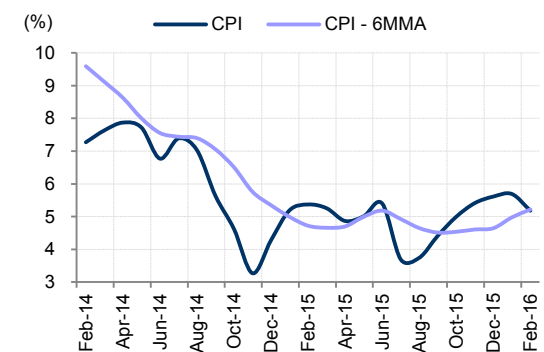


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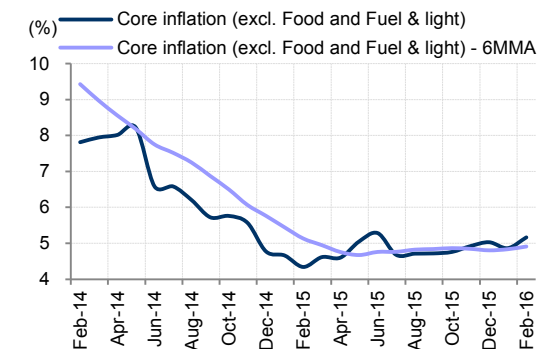
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#### CPI inflation moderates to 5.2% in Feb'16



Source: MOSPI, RCML Research

#### Core CPI edges up to 5.2% in Feb'16



Source: MOSPI, RCML Research

# Feb'16 CPI surprises positively...

...raising expectations of a rate cut



Economics  
INDIA

- ➔ **Upside risks to inflation in near term:** While the room for a rate cut appears large at this juncture, there are significant upside risks to the RBI's desired inflation trajectory over near term. These risks emanate from the implementation of the 7<sup>th</sup> Pay Commission and the impact of current unseasonal rains and hailstorm on the standing *rabi* crop in North India.
- ➔ **Dichotomy between expectations:** The CPI is more of an inflation indicator on the radar of policymakers, even though it is the WPI that is more relevant for India Inc. which is making a strong pitch for a rate cut. This wedge – between WPI and CPI inflation (Fig. 7) and more importantly on which inflation indicator is relevant or being targeted – is at the core of the dichotomy between expectations from the industry and responses from policymakers.
- ➔ **Data conundrum:** There is a strong divergence between different macro indicators such as the GDP and IIP. In fact, data on petroleum consumption released by the PPAC indicates that economic activity is picking up on all fronts. Fuel consumption has grown by ~10% YoY during Apr'15-Feb'16. Moreover, as per our energy analyst Rohit Ahuja, the growth is comprehensive, and steeper in industrial/commercial fuels such as diesel, ATF and Bitumen. This renders difficulty in making the monetary policy decision – enhancing the role of discretion (*vis-à-vis* rules).
- ➔ **Rate cut in April, but limited room for easing:** In view of a declining IIP and low Feb'16 CPI number, besides the Govt. deciding to stay on course the fiscal consolidation roadmap at least on paper, the RBI may choose to cut key policy rates in the April policy. However, low capacity utilisation levels and weakness in external and domestic demand may limit the role a rate cut in stimulating investment demand. The emerging upside risks to inflation may also limit the room for monetary easing.

Fig 1 - Trends in CPI inflation

	Weight	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16
<b>CPI</b>	<b>100.0</b>	<b>5.0</b>	<b>5.4</b>	<b>3.7</b>	<b>3.7</b>	<b>4.4</b>	<b>5.0</b>	<b>5.4</b>	<b>5.6</b>	<b>5.7</b>	<b>5.2</b>
<b>Food and beverages</b>	<b>45.9</b>	<b>5.1</b>	<b>5.7</b>	<b>2.8</b>	<b>2.9</b>	<b>4.3</b>	<b>5.3</b>	<b>6.1</b>	<b>6.3</b>	<b>6.7</b>	<b>5.5</b>
of which											
Cereals and products	9.7	2.1	2.0	1.1	1.2	1.4	1.5	1.7	2.3	2.2	2.2
Pulses and products	2.4	16.6	22.2	22.9	25.8	29.8	42.4	46.1	45.8	43.3	38.3
Vegetables	6.0	4.7	5.3	(8.0)	(6.3)	0.1	2.3	3.9	4.4	6.4	0.7
<b>Pan, tobacco and intoxicants</b>	<b>2.4</b>	<b>9.5</b>	<b>9.7</b>	<b>9.8</b>	<b>9.4</b>	<b>9.3</b>	<b>9.4</b>	<b>9.4</b>	<b>9.4</b>	<b>9.0</b>	<b>8.4</b>
<b>Clothing &amp; footwear</b>	<b>6.5</b>	<b>6.0</b>	<b>6.3</b>	<b>5.9</b>	<b>5.9</b>	<b>5.9</b>	<b>5.6</b>	<b>5.8</b>	<b>5.7</b>	<b>5.7</b>	<b>5.5</b>
<b>Housing</b>	<b>10.1</b>	<b>4.6</b>	<b>4.5</b>	<b>4.4</b>	<b>4.7</b>	<b>4.7</b>	<b>4.9</b>	<b>5.0</b>	<b>5.1</b>	<b>5.2</b>	<b>5.3</b>
<b>Fuel &amp; light</b>	<b>6.8</b>	<b>6.0</b>	<b>5.8</b>	<b>5.4</b>	<b>5.8</b>	<b>5.3</b>	<b>5.3</b>	<b>5.3</b>	<b>5.5</b>	<b>5.3</b>	<b>4.6</b>
<b>Miscellaneous</b>	<b>28.3</b>	<b>3.9</b>	<b>4.2</b>	<b>3.4</b>	<b>3.1</b>	<b>3.3</b>	<b>3.5</b>	<b>3.8</b>	<b>4.0</b>	<b>4.0</b>	<b>4.4</b>
Household goods and services	3.8	5.4	5.7	5.3	5.5	5.6	5.4	5.2	5.2	5.2	5.0
Health	5.9	5.3	5.5	5.6	5.4	5.4	5.3	5.3	5.5	5.6	5.3
Transport and communication	8.6	0.6	1.0	(0.4)	(1.0)	(0.6)	(0.4)	0.6	1.3	1.6	2.4
Recreation and amusement	1.7	4.6	4.8	4.6	4.6	4.6	4.8	4.8	5.0	4.8	4.7
Education, stationery etc.	4.5	7.4	7.2	6.5	6.0	6.0	6.0	6.1	5.6	5.5	5.8
Personal care and effects	3.9	2.9	4.2	2.8	2.2	3.6	3.9	4.3	3.6	3.4	4.8
<b>Core CPI (excl. food and fuel &amp; light)</b>	<b>54.1</b>	<b>5.0</b>	<b>5.3</b>	<b>4.7</b>	<b>4.7</b>	<b>4.7</b>	<b>4.8</b>	<b>4.9</b>	<b>5.0</b>	<b>4.9</b>	<b>5.2</b>

Source: MOSPI, RCML Research

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