

Institutional Equity Research

# CG Power

Capital Goods | India

4QFY18 Result Update | June 08, 2018

CMP* (Rs)	60
Upside/ (Downside) (%)	8
Bloomberg Ticker	CRG IN
Market Cap. (Rs bn)	38.4
Free Float (%)	65.6
Shares O/S (mn)	630

**HOLD** 

Target Price: Rs65

## One-time Cost Drags Bottom-line; Maintain HOLD

Consolidated revenue of CG Power & Industrial Solutions (CG Power) grew by 18.1% YoY to Rs17.9bn in 4QFY18 led by robust 22% YoY growth in domestic business, while its reported PAT declined sharply led by one-time cost. Consolidated PAT from continuing operations – adjusted for exceptional item of Rs4.14bn – fell by 10.8% YoY to Rs253mn, while its consolidated loss – including discontinued operations – dipped to Rs5.8bn vs. Rs4.4bn in 4QFY17. Industrial and Power System revenue grew by 15.8% YoY and 6.7% YoY to Rs7.3bn and Rs10.5bn, respectively. Looking ahead, we expect CG Power’s consolidated earnings to recover on low base and planned exit from loss-making assets in Hungary and Belgium. **We maintain our HOLD recommendation on the stock with a revised Target Price of Rs65.**

### Strong Revenue on Robust Domestic Biz; Operating Margins Improves

CG Power’s consolidated revenue grew by 18.1% YoY to Rs17.9bn owing to robust 22% YoY growth in domestic business, while international business grew by 6% YoY. Power Systems revenue grew by 7% YoY led by healthy switchgear and transformer sales in domestic market, while Industrial Systems revenue grew by 16% YoY led by Railways, Motors, Drives and Automation across geographies. EBITDA margin expanded by 98bps YoY (-40bps QoQ) to 8.0%. EBIT from Power Systems and Industrial Systems business improved 336bps YoY and 27bps YoY to 8.6% and 8.0%, respectively. Standalone order book stood at Rs36.0bn as of Mar’18-end. Power System and Industrial Systems order book stood at Rs22.0bn and Rs14.0bn, respectively.

### Exceptional Loss at Parent Level; Hungarian Biz Sale Delayed

CG Power reported an exceptional loss at parent level in Q4FY18 led by continued loss of Rs1.1bn at Hungary unit (sale spilled over to H1FY19 owing to General Elections), Rs1.6bn of inventory write-off in Power System Transformers segment in Latin America and inventory write down in domestic Power System book value and write-off of Rs1.5bn in Engineering Projects business. As per the Management, Hungary divestment is on track despite delay by a quarter due to General Elections. The Company expects the deal to sail through by Jun’18 and a quarterly loss of Rs1.0bn is expected from the Hungary operations to continue till the sale is fully completed.

### Other International Operations

Maintaining that Indonesian business (power transformers) and Swedish business (drives) are EBITDA positive, the Management stated that higher R&D spend in Drives business led to higher depreciation cost. With operational turnaround at EBITDA level in Belgium and cost restructuring in Ireland, CG Power would relook on selling stake in these subsidiaries. It expects geographies like South East Asia and Africa to drive growth for switchgears and transformers.

### Outlook & Valuation

Looking ahead, we expect CG Power’s consolidated earnings to recover owing to low base and exit from loss-making overseas power business in Hungary and Belgium, which have been dragging its profitability. **We maintain our HOLD recommendation on the stock with a revised Target Price of Rs65 owing to higher losses at subsidiary level.**

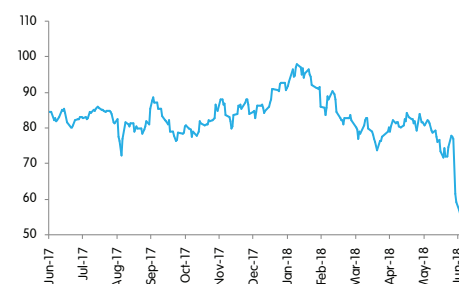
Key Financials (Rs mn)	FY17	FY18	FY19E	FY20E
Sales	61,198	64,002	70,736	80,156
EBITDA	4,702	4,736	5,659	6,493
Net Profit	1,100	1,504	2,151	2,611
EPS (Rs)	1.8	2.4	3.4	4.2
P/E (x)	47.9	-	29.4	19.4
P/B (x)	0.9	1.4	1.3	1.2
EV/EBITDA (x)	9.4	10.3	9.3	8.4
ROE (%)	2.7	3.5	4.8	5.5
ROCE (%)	5.3	4.3	5.3	5.8
EV/Sales	0.7	0.7	0.7	0.7

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	(29.2)	(27.5)	(31.7)
Relative to Nifty	(29.1)	(28.7)	(41.6)

Shareholding Pattern (%)	Dec'17	Mar'18
Promoter	34.4	34.4
Others	65.6	65.6

### 1 Year Stock Price Performance



Note: \* CMP as on June 08, 2018

Research Analysts  
Rupesh Sankhe  
Contact : (022) 33201606  
Email : rupesh.sankhe@relianceada.com

Arafat Saiyed  
Contact : (022) 33201192  
Email : arafat.saiyed@relianceada.com

Institutional Equity Research

**CG Power**

Capital Goods | India

CMP (Rs)	60
Upside/ (Downside) (%)	8
Bloomberg Ticker	CRG IN

**HOLD** 

Target Price: Rs65

**Risks to the View**

- ▶ **Downside Risks:** Lower-than-expected recovery in Power System business; inordinate delay in selling loss-making overseas assets; sustained weakness in Indonesian operations.
- ▶ **Upside Risk:** Faster-than-expected recovery in domestic Power System segment.

**Exhibit 1: Quarterly Performance**

(Rs mn)	4QFY18	4QFY17	YoY (%)	3QFY18	QoQ (%)
<b>Net Sales</b>	<b>17,924</b>	<b>16,279</b>	<b>10.1</b>	<b>15,161</b>	<b>18.2</b>
Operating Costs	16,489	15,212	8.4	13,890	18.7
<b>EBIDTA</b>	<b>1,435</b>	<b>1,066</b>	<b>34.5</b>	<b>1,271</b>	<b>12.9</b>
<b>EBIDTA Margin (%)</b>	<b>8.0%</b>	<b>6.6</b>	<b>1.45</b>	<b>8.4</b>	
Other Income	2	230	(99.1)	10	(78.6)
Interest	522	606	(13.7)	566	(7.7)
Depreciation	384	421	(8.8)	383	0.2
<b>Profit Before Tax</b>	<b>531</b>	<b>270</b>	<b>96.7</b>	<b>332</b>	<b>59.8</b>
Tax	285	(20)		(2)	
Tax Rate (%)	53.6	(7.3)		(0.5)	
Share of profit/loss in associates	6.70	(6.3)	0.0	534.1	0.0
<b>Minority Interest</b>	<b>0.00</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
PAT	(3,896)	(410)		868	
<b>Extraordinary Income</b>	<b>(4,148)</b>	<b>(693)</b>		<b>0</b>	
PAT	(3,896)	(410)		869	
Loss from discontinued operation	(2,104)	(4,092)		(1,147)	
Tax expenses on discontinued operations	(181)	(62)		4	
<b>Net profit discontinued operations</b>	<b>(1,923)</b>	<b>(4,030)</b>		<b>(1,150)</b>	
<b>Net profit</b>	<b>(5,818)</b>	<b>(4,440)</b>		<b>(282)</b>	

Source: Company, RSec Research

Institutional Equity Research

**CG Power**

Capital Goods | India

CMP (Rs)	60
Upside/ (Downside) (%)	8
Bloomberg Ticker	CRG IN

**HOLD** 

Target Price: Rs65

**Profit & Loss**

Y/E March (Rs mn)	FY17	FY18	FY19E	FY20E
<b>Net Sales</b>	<b>59,236</b>	<b>62,875</b>	<b>67,867</b>	<b>73,838</b>
Raw Materials	38,868	44,094	47,439	51,539
Employee Costs	5,133	5,320	5,769	6,276
Other Expenditure	10,810	8,912	9,637	9,968
<b>Total Expenditure</b>	<b>54,812</b>	<b>58,325</b>	<b>62,845</b>	<b>67,783</b>
<b>EBIDTA</b>	<b>4,424</b>	<b>4,550</b>	<b>5,022</b>	<b>6,055</b>
% of Sales	7.5	7.2	7.4	8.2
Other Income	676	395	355	365
Depreciation	1,429	1,492	1,637	1,658
<b>EBIT</b>	<b>3,670</b>	<b>3,453</b>	<b>3,740</b>	<b>4,762</b>
Interest	1,861	2,193	1,943	2,042
Extraordinary	(727)	(4,428)		
<b>PBT</b>	<b>1,082</b>	<b>(3,168)</b>	<b>1,798</b>	<b>2,720</b>
Total Tax	281	749	503	762
Tax Rate	26.0	(23.6)	28.0	28.0
<b>PAT</b>	<b>801</b>	<b>(3,916)</b>	<b>1,294</b>	<b>1,958</b>
PAT Margins %	1.4	(6.2)	1.9	2.7
Minority/profit from associate	(16)	(17)	(17)	(19)
Reported PAT	785	(3,933)	1,277	1,939
<b>EPS (Rs)</b>	<b>1.3</b>	<b>(6.3)</b>	<b>2.0</b>	<b>3.1</b>
Loss from discontinued oper.	(5,915)	(7,991)	-	-
Tax exp on discontinued oper	(223.6)	(265.5)	-	-
Net profit discontinued oper.	(5,691.3)	(7,725.5)	-	-
Net profit	(4,906)	(11,659)	-	-

Institutional Equity Research

# CG Power

Capital Goods | India

CMP (Rs)	60
Upside/ (Downside) (%)	8
Bloomberg Ticker	CRG IN

**HOLD** 

Target Price: Rs65

## Balance Sheet

Y/E March (Rs mn)	FY17	FY18E	FY19E	FY20E
<b>Share Capital</b>				
Equity	1,254	1,254	1,254	1,254
Reserves	39,857	25,888	27,165	29,104
<b>Net Worth</b>	<b>41,111</b>	<b>27,141</b>	<b>28,419</b>	<b>30,358</b>
Secured Loans	5,038	8,372	8,372	8,372
Unsecured Loans	7,107	7,790	9,290	10,190
Total Debt	12,145	16,162	17,662	18,562
Deferred Tax Liability	2,623	357	357	357
<b>Total</b>	<b>55,879</b>	<b>43,661</b>	<b>46,438</b>	<b>49,277</b>
<b>Assets</b>				
Gross Block	17,374	18,659	20,459	22,109
Less Acc. Depreciation	1,429	2,922	4,558	6,216
<b>Net Block</b>	<b>15,944</b>	<b>15,737</b>	<b>15,900</b>	<b>15,892</b>
Capital work In progress	282	388	1,295	1,575
Total Fixed assets	16,226	16,125	17,195	17,467
Goodwill	1,435	1,674	1,674	1,674
Investments	4,653	1,965	1,965	1,965
<b>Current Assets</b>	<b>79,566</b>	<b>71,431</b>	<b>73,992</b>	<b>77,103</b>
Inventory	8,821	5,876	6,887	7,428
Sundry Debtors	18,772	20,092	20,494	20,699
Cash	7,607	6,934	5,771	5,276
Loans & Advances, Prepaid Exp	44,367	38,529	40,840	43,699
<b>Current Liabilities &amp; Provisions</b>	<b>15,384</b>	<b>16,090</b>	<b>16,316</b>	<b>16,218</b>
Creditors	13,831	14,237	14,463	14,364
Provisions	1,553	1,854	1,854	1,854
Others	30,609	31,443	32,072	32,714
<b>Net current Assets</b>	<b>64,182</b>	<b>55,341</b>	<b>57,676</b>	<b>60,885</b>
<b>Total</b>	<b>55,879</b>	<b>43,661</b>	<b>46,438</b>	<b>49,277</b>

Institutional Equity Research

**CG Power**

Capital Goods | India

CMP (Rs)	60
Upside/ (Downside) (%)	8
Bloomberg Ticker	CRG IN

**HOLD** 

Target Price: Rs65

**Cash Flow Statement**

Y/E March (Rs mn)	FY17	FY18E	FY19E	FY20E
<b>Operating Activities</b>				
Net Income/(loss) before Tax & EO items	1,082	(3,168)	1,798	2,720
Depreciation and Amortization	1,429	1,492	1,637	1,658
Interest Expense	1,861	2,193	1,943	2,042
Operating profit before Working Capital Changes	4,372	518	5,377	6,420
Net Change in Working Capital	(152)	(9,004)	2,870	3,062
Cash generated from Operating Activities	4,525	9,521	2,507	3,358
Taxes paid	(281)	(749)	(503)	(762)
Cash Flow before Extra - Ordinary items	4,243	8,773	2,004	2,596
Minority interest in income/ associate	(5,527)	(13,329)	(2,589)	(2,702)
<b>NET CASH FLOW FROM OPERATING</b>	<b>(1,284)</b>	<b>(4,556)</b>	<b>(585)</b>	<b>(106)</b>
Purchase of Fixed Assets	(1,994)	(1,391)	(2,708)	(1,930)
Purchase of Investment	6,913	2,689	-	-
<b>NET CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>4,919</b>	<b>1,298</b>	<b>(2,708)</b>	<b>(1,930)</b>
Increase/(Decrease) of borrowing	(3,951)	4,017	1,500	900
Increase/(Decrease) of Unsecured loan	(804)	(2,266)	-	-
Others	757	835	629	641
<b>NET CASH FLOW FROM FINANCING</b>	<b>(3,998)</b>	<b>2,586</b>	<b>2,129</b>	<b>1,541</b>
<b>Increase/(Decrease) in cash</b>	<b>(363)</b>	<b>(672)</b>	<b>(1,164)</b>	<b>(494)</b>
<b>Cash at the beginning of the year</b>	<b>7,969</b>	<b>7,607</b>	<b>6,934</b>	<b>5,771</b>
<b>Cash at the end of the year</b>	<b>7,607</b>	<b>6,934</b>	<b>5,771</b>	<b>5,276</b>

**Key Ratios**

Y/E March	FY17	FY18E	FY19E	FY20E
EBITDA margin (%)	7.5	7.2	7.4	8.2
RoE (%)	1.9	(14.5)	4.5	6.4
RoCE (%)	4.7	(4.0)	5.8	6.9
EV/Sales (x)	0.7	0.7	0.7	0.7
EV/EBITDA (x)	9.5	10.3	9.9	8.4
P/E (x)	47.9	-	29.4	19.4
P/BV (x)	0.9	1.4	1.3	1.2

Institutional Equity Research

**CG Power**

Capital Goods | India

CMP (Rs)	60
Upside/ (Downside) (%)	8
Bloomberg Ticker	CRG IN

**HOLD** 

Target Price: Rs65

**Rating Guides**

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

Reliance Securities Limited (RSL), the broking arm of Reliance Capital is one of the India’s leading retail broking houses. Reliance Capital is amongst India’s leading and most valuable financial services companies in the private sector. Reliance Capital has interests in asset management and mutual funds, life and general insurance, commercial finance, equities and commodities broking, wealth management services, distribution of financial products, private equity, asset reconstruction, proprietary investments and other activities in financial services. The list of associates of RSL is available on the website [www.reliancecapital.co.in](http://www.reliancecapital.co.in). RSL is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014

General Disclaimers: This Research Report (hereinafter called ‘Report’) is prepared and distributed by RSL for information purposes only. The recommendations, if any, made herein are expression of views and/or opinions and should not be deemed or construed to be neither advice for the purpose of purchase or sale of any security, derivatives or any other security through RSL nor any solicitation or offering of any investment /trading opportunity on behalf of the issuer(s) of the respective security(ies) referred to herein. These information / opinions / views are not meant to serve as a professional investment guide for the readers. No action is solicited based upon the information provided herein. Recipients of this Report should rely on information/data arising out of their own investigations. Readers are advised to seek independent professional advice and arrive at an informed trading/investment decision before executing any trades or making any investments. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by RSL to be reliable. RSL or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of RSL shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way whatsoever from the information / opinions / views contained in this Report.

Risks: Trading and investment in securities are subject to market risks. There are no assurances or guarantees that the objectives of any of trading / investment in securities will be achieved. The trades/ investments referred to herein may not be suitable to all categories of traders/investors. The names of securities mentioned herein do not in any manner indicate their prospects or returns. The value of securities referred to herein may be adversely affected by the performance or otherwise of the respective issuer companies, changes in the market conditions, micro and macro factors and forces affecting capital markets like interest rate risk, credit risk, liquidity risk and reinvestment risk. Derivative products may also be affected by various risks including but not limited to counter party risk, market risk, valuation risk, liquidity risk and other risks. Besides the price of the underlying asset, volatility, tenor and interest rates may affect the pricing of derivatives.

Disclaimers in respect of jurisdiction: The possession, circulation and/or distribution of this Report may be restricted or regulated in certain jurisdictions by appropriate laws. No action has been or will be taken by RSL in any jurisdiction (other than India), where any action for such purpose(s) is required. Accordingly, this Report shall not be possessed, circulated and/or distributed in any such country or jurisdiction unless such action is in compliance with all applicable laws and regulations of such country or jurisdiction. RSL requires such recipient to inform himself about and to observe any restrictions at his own expense, without any liability to RSL. Any dispute arising out of this Report shall be subject to the exclusive jurisdiction of the Courts in India.

Disclosure of Interest: The research analysts who have prepared this Report hereby certify that the views /opinions expressed in this Report are their personal independent views/opinions in respect of the securities and their respective issuers. None of RSL, research analysts, or their relatives had any known direct /indirect material conflict of interest including any long/short position(s) in any specific security on which views/opinions have been made in this Report, during its preparation. RSL’s Associates may have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report. RSL, its Associates, the research analysts, or their relatives might have financial interest in the issuer company(ies) of the said securities. RSL or its Associates may have received a compensation from the said issuer company(ies) in last 12 months for the brokerage or non brokerage services. RSL, its Associates, the research analysts or their relatives have not received any compensation or other benefits directly or indirectly from the said issuer company(ies) or any third party in last 12 months in any respect whatsoever for preparation of this report.

The research analysts has served as an officer, director or employee of the said issuer company(ies)?: No

RSL, its Associates, the research analysts or their relatives holds ownership of 1% or more, in respect of the said issuer company(ies).?: No

Copyright: The copyright in this Report belongs exclusively to RSL. This Report shall only be read by those persons to whom it has been delivered. No reprinting, reproduction, copying, distribution of this Report in any manner whatsoever, in whole or in part, is permitted without the prior express written consent of RSL.

RSL’s activities were neither suspended nor have defaulted with any stock exchange with whom RSL is registered. Further, there does not exist any material adverse order/judgments/ strictures assessed by any regulatory, government or public authority or agency or any law enforcing agency in last three years. Further, there does not exist any material enquiry of whatsoever nature instituted or pending against RSL as on the date of this Report.

Important These disclaimers, risks and other disclosures must be read in conjunction with the information / opinions / views of which they form part of.

**RSL CIN: U65990MH2005PLC154052. SEBI registration no. ( Stock Brokers: NSE - INB / INF / INE 231234833; BSE - INB / INF / INE 011234839, Depository Participants: CDSL IN-DP-257-2016 IN-DP-NSDL-363-2013, Research Analyst: INH000002384); AMFI ARN No.29889.**