INVasset Corporate Insights

CG Power Solutions

24th June, 2024

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Powering the Future: The Evolution and Expansion of CG Power & Industrial Solutions

Heritage and Acquisition: With over 85 years of industry experience, CG Power & Industrial Solutions has evolved through various managements. Recently, Tube Investment of the Murugappa Group acquired the company with a significant investment of INR 700 Cr in FY2020. This strategic acquisition has strengthened CG's position in the market, enhancing its capabilities and expanding its reach in the electrical energy sector.

Business Segments and Market Leadership: CG Power operates through two main business segments: Power Systems and Industrial Systems. The Industrial Systems division, which includes Motors & Drives and Railways, contributes significantly to the company's revenue. Meanwhile, the Power Systems division focuses on products like Transformers and Switchgears. CG Power is recognized as a market leader in the Motors business, underlining its dominance and expertise in this segment.

Revenue Mix and Market Focus: In FY23, CG Power's revenue mix was dominated by the Industrial Systems segment, which accounted for 71% of total revenue, while Power Systems contributed 29%. The company primarily serves the domestic market, with 90% of its revenue generated within India and 10% from exports. This focus on domestic sales underscores CG Power's strong presence and demand within the country.

Manufacturing Facilities and Expansion Plans: CG Power boasts 17 manufacturing facilities across India, located in regions such as Goa, Madhya Pradesh, and Maharashtra. To enhance its production capabilities, the company plans to debottleneck and modernize its existing facilities and significantly expand capacity in plants at Ahmednagar, Goa, Bhopal, and Malanpur. The planned capital expenditure for these expansions is approximately INR 400 Cr, to be executed over FY24-25.

Global Presence and Export Strategy: CG Power has a notable global presence, with operations in countries including Burkina Faso, Cameroon, Congo, Greece, Kenya, Paraguay, Philippines, Suriname, Tunisia, UAE, and Uganda. The company aims to increase its export contribution from the current 10% to 20% over the next 4-5 years, reflecting its strategic focus on expanding international markets.

Capital Reorganization and Financial Management: In FY23, CG Power's Board of Directors approved a capital reorganization scheme, transferring INR 400 Cr from General Reserves to Retained Earnings. This financial restructuring is pending necessary approvals. Additionally, the company redeemed 20,000 Non-Convertible Debentures worth INR 200 Cr, demonstrating its commitment to prudent financial management and strengthening its balance sheet.

Subsidiaries and Divestments: As of FY23, CG Power has three Indian and 18 foreign subsidiaries. The company has also completed the liquidation process of its step-down subsidiary in Dubai, UAE. The active subsidiaries include CG Adhesive Products Limited, CG International Holdings Singapore Pvt. Ltd.

Stock Data	
CMP	680
52 Week High/Low	700/359
Face Value	2.00
Market Cap (In Crs)	1,03,909
Enterprise Value (In Crs)	1,03,072
NSE	CGPOWER
BSE	500093
Bloomberg	CGPOWER:IN
Sector	POWER GENERATION & DISTRIBUTION

Shareholding Pattern (in %)		
	MAR 24	DEC 23
Promoter	58.11	58.12
FII	15.18	16.05
DII	10.09	9.15
Public	16.61	16.69

Price Performance (in%)			
(%)	1M	6M	1Yr
Nifty 50	4.00	10.08	25.20
CGPOWER	5.76	45.28	81.96

Key Ratios	
P/E	122
P/S	12.9
P/B	34.4
Debt To Equity	0.01
ROE	35.6%
ROCE	47.0%
Dividend Yield	0.22%

Q4 FY 24 Result Update

Q4 FY24 Result Comparison (In Rs Cr)					
	Q4 FY24	Q3 FY24	Q4 FY23	QOQ	YOY
Sales	2,192	1,979	1,903	10.76%	15.19%
Expenses	1,908	1,718	1,627	11.06%	17.27%
EBITDA	326	841	474	-61.19%	-31.22%
Other Income	42	579	199	-92.75%	-78.89%
Net Profit	234	748	426	-68.72%	-45.07%
EPS	1.53	4.89	2.79	-68.71%	-45.16%

Result Highlights

Mixed Performance: Analyzing Q4 FY24 Financial Results

Sales Growth: In Q4 FY24, sales reached ₹2,192 Cr, a 10.76% increase compared to Q3 FY24's ₹1,979 Cr, and a 15.19% rise from Q4 FY23's ₹1,903 Cr. This growth indicates a strong demand for products and services, contributing positively to the company's revenue. The consistent increase in sales across quarters and years demonstrates the company's ability to capture market opportunities and expand its customer base. This sustained growth highlights the effectiveness of the company's sales strategies and market positioning, further solidifying its market presence.

Rising Expenses: Expenses in Q4 FY24 totaled ₹1,908 Cr, showing an 11.06% increase from Q3 FY24's ₹1,718 Cr, and a 17.27% jump from Q4 FY23's ₹1,627 Cr. The significant rise in expenses highlights the challenges faced in managing operational costs. The company needs to address these increasing costs to maintain profitability and improve operational efficiency, ensuring sustainable growth in the future. Proactive measures to streamline operations and reduce unnecessary expenditures could help in managing these rising costs, thereby enhancing overall financial performance.

EBITDA Decline: The EBITDA for Q4 FY24 was ₹326 Cr, a substantial 61.19% decrease from Q3 FY24's ₹840 Cr, and a 31.22% drop from Q4 FY23's ₹474 Cr. This decline in EBITDA suggests a reduced operational profitability, indicating that the rise in expenses outweighed the increase in sales. The company must focus on cost control measures and enhancing operational efficiencies to improve its EBITDA performance. Strengthening core business processes and leveraging technology could be key to reversing this trend, thereby stabilizing the company's financial health.

Other Income Reduction: Other income in Q4 FY24 was ₹42 Cr, experiencing a dramatic 92.75% decrease from Q3 FY24's ₹579 Cr, and a 78.89% fall from Q4 FY23's ₹199 Cr. The significant reduction in other income could be attributed to lower investment returns or fewer non-operational revenue streams. Diversifying income sources and optimizing investment strategies could help mitigate the impact of such fluctuations. Exploring new revenue streams and enhancing existing ones may stabilize other income in the future, ensuring a more balanced financial structure.

Net Profit Drop: Net profit in Q4 FY24 was ₹234 Cr, reflecting a 68.72% decline from Q3 FY24's ₹748 Cr, and a 45.07% decrease from Q4 FY23's ₹426 Cr. The substantial drop in net profit indicates the challenges faced in maintaining profitability amid rising expenses and lower other income. Strategic initiatives focused on cost management and revenue diversification could help stabilize and enhance net profit margins. The company might also consider strategic partnerships or acquisitions to boost profitability, ensuring long-term financial stability.

EPS Decrease: The earnings per share (EPS) for Q4 FY24 stood at ₹1.53, showing a 68.71% decline from Q3 FY24's ₹4.89, and a 45.16% drop from Q4 FY23's ₹2.79. The decreased EPS reflects the overall decline in profitability, impacting shareholder returns. The company needs to implement measures to improve its financial health and restore investor confidence, ensuring a positive impact on EPS in the upcoming quarters. Reassessing financial strategies and focusing on long-term growth could potentially enhance EPS performance.

Concall Highlights

Impressive Financial Performance of CG Power & Industrial Solutions Limited in Q4 Fy24: CG Power & Industrial Solutions Limited delivered robust financial results in Q4 FY24, with sales surging by 17% and profit before tax growing by 25%. For the full financial year 2023-24, sales increased by 16%, while profit before tax rose by 24%. This growth is driven by higher realizations, a favorable product mix, and improved cost efficiencies. Additionally, the unexecuted order book as of March 31, 2024, was 45% higher year-on-year, indicating strong future growth prospects. These results highlight CG Power's effective strategies and solid market positioning, reinforcing its industry leadership.

Industrial Systems Segment Achieves Notable Growth in Q4 Fy24: CG Power & Industrial Solutions Limited's Industrial Systems segment reported notable growth in Q4 FY24, with aggregate sales increasing by 6% year-on-year. The segment achieved a Profit Before Interest and Tax (PBIT) of ₹175 crores, reflecting strong operational efficiency and profitability. Additionally, the unexecuted order book as of March 31, 2024, was 25% higher than the previous year, indicating robust future demand. This significant increase highlights the successful execution of CG Power's strategic initiatives. The consistent performance underscores the company's commitment to enhancing its industrial solutions and maintaining a leading market position, paving the way for sustained growth.

Power Systems Segment Drives Significant Growth in Q4 Fy24: In Q4 FY24, CG Power & Industrial Solutions Limited's Power Systems segment achieved impressive growth, with aggregate sales increasing by 39% year-on-year. The segment recorded a Profit Before Interest and Tax (PBIT) of ₹152 crores, reflecting strong profitability and operational efficiency. Additionally, the unexecuted order book as of March 31, 2024, was 64% higher compared to the previous year, indicating robust future demand. This significant increase underscores CG Power's effective strategic execution within the Power Systems segment. The strong performance reaffirms the company's commitment to providing efficient and sustainable electrical energy solutions, ensuring continued growth and success.

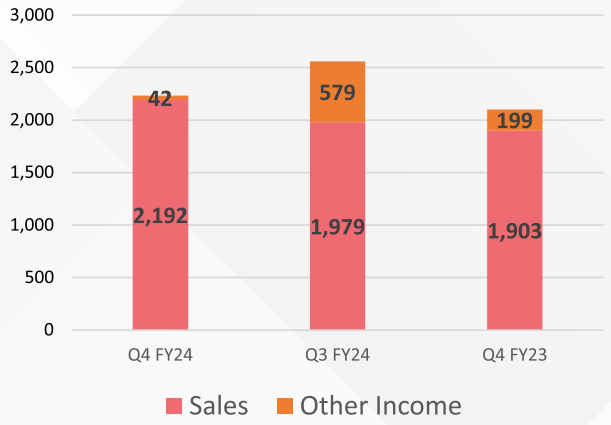
Consolidated Performance Highlights Strong Growth for CG Power & Industrial Solutions Limited in Q4 Fy24: CG Power & Industrial Solutions Limited is executing a well-defined business strategy focused on sustainable growth and profitability. The company is prioritizing selective orders with high margins and secure payments for its export market, ensuring financial stability and maximized returns. While actively working on expanding its Drives business, concrete actions are yet to be finalized. In the Industrial Systems segment, CG Power plans to enhance its consumer product portfolio, catering to diverse market needs. Additionally, the company is taking significant steps to enter the Vande Bharat and other train sets in the Railways segment, aiming to capitalize on the growing transportation infrastructure. These strategic initiatives highlight CG Power's commitment to innovation, market expansion, and maintaining its competitive edge, positioning the company for continued success and growth in the future.

Strategic Initiatives Propel CG Power & Industrial Solutions Limited Towards Future Growth: CG Power & Industrial Solutions Limited is implementing a business strategy focused on sustainable growth and profitability. The company prioritizes selective high-margin orders with secure payments for its export market to ensure financial stability. While working on expanding its Drives business, concrete actions are yet to be finalized. In the Industrial Systems segment, CG Power plans to enhance its consumer product portfolio. Additionally, significant steps are being taken to enter the Vande Bharat and other train sets in the Railways segment, aiming to leverage the growing transportation infrastructure.

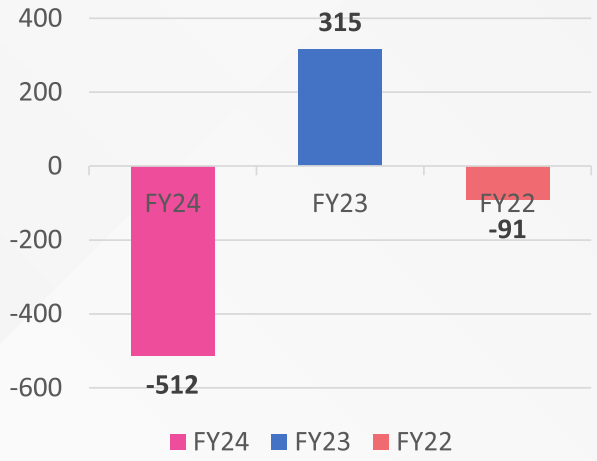
Ambitious Capacity Expansion Plans to Boost CG Power & Industrial Solutions Limited's Revenue: CG Power & Industrial Solutions Limited is undertaking significant capacity expansion initiatives to enhance its market position and revenue potential. The company plans to double its Power Transformer manufacturing capacity from 17,000 MVA to 35,000 MVA, addressing the increasing demand for high-capacity transformers. Additionally, CG Power is set to increase its Distribution Transformer capacity by 50%, aligning with its growth strategy in the electrical infrastructure sector. The expected revenue potential from the expanded Power Transformer capacity is approximately ₹1,800 crores, while the new Distribution Transformer capacity is projected to generate around ₹700 crores. These ambitious expansion plans underline CG Power's commitment to scaling its operations and capitalizing on market opportunities, ensuring robust growth and a strengthened presence in the industry. This expansion not only boosts production capabilities but also positions the company to meet future market demands effectively. By increasing its manufacturing capacities, CG Power is poised to significantly enhance its competitive edge and drive substantial revenue growth in the coming years

Strategic New Developments Propel CG Power & Industrial Solutions Limited Forward: CG Power & Industrial Solutions Limited is embarking on several new initiatives to drive growth and innovation. The company is expanding its Drives business and entering the Outsourced Semiconductor Assembly and Test (OSAT) facility. Additionally, CG Power plans to enhance its consumer product portfolio within the Industrial System. Strong growth is anticipated in the Railways segment, and there is a focused effort to increase exports in the Motors business.

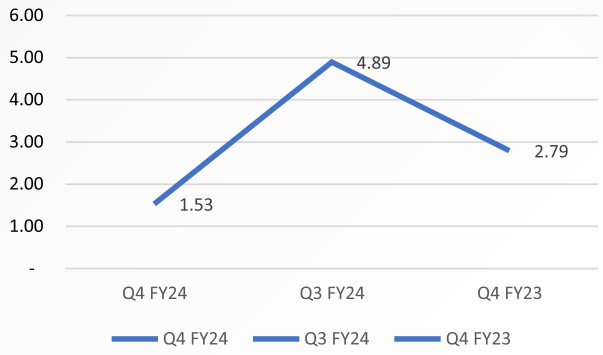
Sales & Other Income (In Cr)



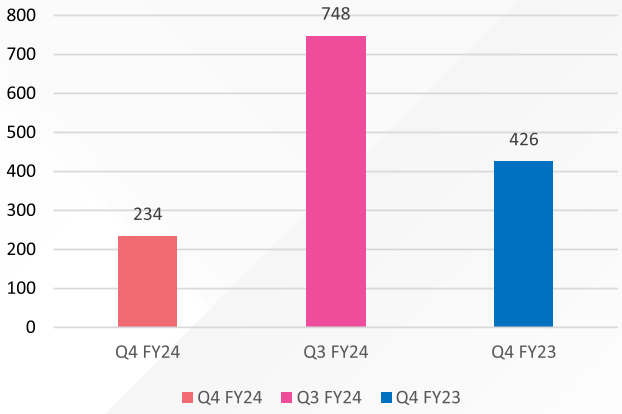
Cashflow (In Cr)



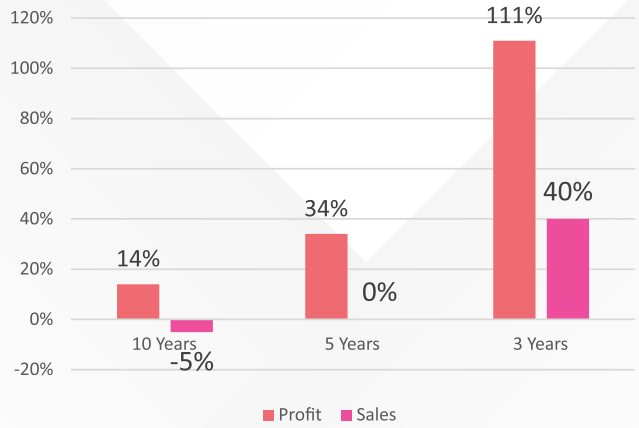
EPS



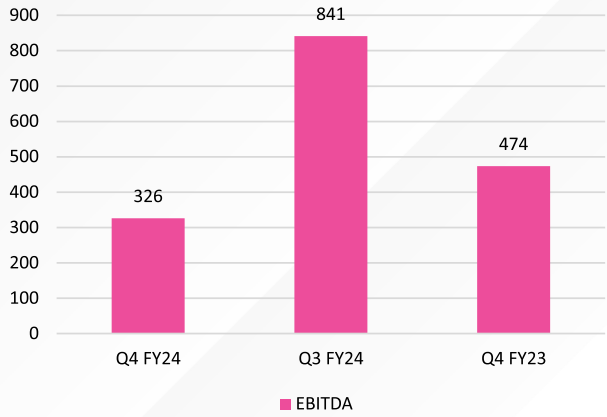
Net Profit (In Cr)



Compounded Growth (In %)



EBITDA (In Cr)



Technical Outlook



CG Power and Industrial Solutions Ltd has shown a consistent uptrend over the past year. It has made significant gains, breaking through multiple resistance levels, indicating strong bullish momentum. Key support zones are highlighted, which the stock has respected and bounced back from, demonstrating robust demand at these price levels. In the earlier part of the year, the stock encountered a significant resistance around the 470 mark, which it eventually broke through with high trading volumes, signaling a strong buying interest. The stock continued to climb, establishing new support levels around 510 and 560. The recent price action shows the stock trading near its all-time high around 680, with minor pullbacks being bought into, indicating sustained investor confidence. Overall, CG Power and Industrial Solutions Ltd appears to be in a strong uptrend, supported by solid volume trends and consistent breakouts, making it a compelling stock to watch for potential investors.

Based on the technical analysis of CG Power & Industrial Solutions Ltd., the stock is showing positive momentum. The moving averages reveal an upward trend with the 5-day SMA at 682.1 and EMA at 678.2, indicating strong short-term performance. The 20-day SMA is 658.6 and EMA is 657.9, confirming continued strength. The 50-day SMA is 604.7 and EMA is 613, while the 100-day SMA is 536.2 and EMA is 561.1, suggesting sustained long-term growth.

Additionally, the Relative Strength Index (RSI) suggests robust momentum, with a daily RSI of 61.70 and a weekly RSI of 74.23, indicating the stock is approaching overbought conditions.

Moving Averages Days	Simple Moving Average	Exponential Moving Average
5	682.1	678.2
10	672.5	672
20	658.6	657.9
50	604.7	613
100	536.2	561.1
200	483.5	500.4

Pivot Levels : FIBONACCI		
R1 689.8	Pivot 681.30	S1 671.9
R2 699.2		S2 663.4
R3 707.7		S3 654

	Daily	Weekly
Relative Strength Index (RSI)	61.70	74.23

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