

## Execution in line; Power Systems margin shines

Engineering &amp; Capital Goods ▶ Result Update ▶ May 07, 2025

CMP (Rs): 598 | TP (Rs): 765

We maintain **BUY** on **CG Power & Industrial Solutions (CGPower)** with **TP of Rs765 (unchanged)**. Q4FY25 results were broadly mixed, with revenue in line with estimates and our PAT seeing a marginal miss. Consolidated revenue/EBITDA/PAT grew 26/28/23% YoY to Rs27.5/3.6/2.9bn, respectively. Both, the Industrial and Power System segments, reported strong revenue growth at 21% and 28% YoY. Industrial business profitability was impacted by rise in copper prices and losses in new businesses that are in investment mode. However, better profitability in Power Systems supported the overall EBITDA margin. The company indicated gaining further market share in the Industrial Motors space due to consistent product launches and go-to-market strategy. Order book remains healthy at Rs106bn (+66% YoY). The ongoing capex of ~Rs7bn (across segments), in our view, is well timed and perfectly aligned with industry tailwinds, offering multi-year growth prospects. This is also likely to address the company's plans of boosting exports. CG Power's recent entry into OSAT provides it an early mover advantage in India's journey toward building a full-scale semiconductor manufacturing ecosystem.

**Power Systems margin reflects cyclical upturn**

Power Systems margin for Q4FY25 came in at 21%, up by 250bps YoY/340bps QoQ. The management indicated that the better price realization and operating leverage led to the improvement. We expect margin to sustain at higher levels backed by the current cyclical upturn led by energy transition. Industrial Systems profitability was hit by rise in copper prices (a key raw material) and losses in new businesses that are in investment mode.

**Ongoing capex well timed, aligned with industry tailwinds**

Global markets are seeing a cyclical upturn in energy transition and efficiency. We believe CG's ongoing capex of Rs6.9bn over FY24-27E across the business points to a sizable market opportunity. Capex is spread across LT motors (Rs3.3bn), HT motors (Rs0.4bn), power transformers (Rs1.3bn), distribution transformers (Rs0.4bn), and switchgears (Rs1.6bn). We believe CG's well-timed capital allocation, perfectly aligned with industry tailwinds, presents multi-year growth prospects.

**Valuation and view**

We remain positive on CG, encouraged by its proven track record and strong growth visibility. We have broadly maintained our earnings estimates. CG Power continues to report healthy return ratios, with RoE/RoCE likely to log at 34%/44% in FY27E. Our SOTP-based TP of Rs765 is a summation of 55x Mar-27E PER for the Core business and Rs55/sh for the OSAT business. The stock currently trades at FY26E/FY27E PER of 60x/46x. Key downside risks: 1) slowdown in T&D capex; 2) increase in commodity prices.

Target Price – 12M	Mar-26
<b>Change in TP (%)</b>	<b>NA</b>
Current Reco.	BUY
Previous Reco.	NA
Upside/(Downside) (%)	27.9

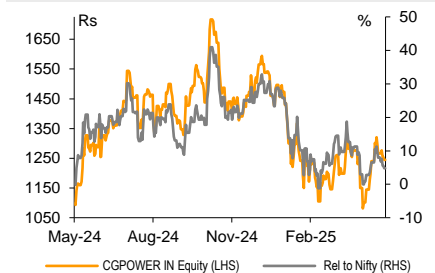
Stock Data	CGPOWER IN
52-week High (Rs)	875
52-week Low (Rs)	518
Shares outstanding (mn)	1,529.0
Market-cap (Rs bn)	915
Market-cap (USD mn)	10,837
Net-debt, FY26E (Rs mn)	(18,276)
ADTV-3M (mn shares)	3
ADTV-3M (Rs mn)	2,073.0
ADTV-3M (USD mn)	24.6
Free float (%)	0.0
Nifty-50	24,379.6
INR/USD	84.4

**Shareholding, Mar-25**

Promoters (%)	58.1
FPIs/MFs (%)	13.0/13.6

**Price Performance**

(%)	1M	3M	12M
Absolute	4.0	(2.6)	9.5
Rel. to Nifty	(2.3)	(5.7)	0.8

**1-Year share price trend (Rs)****CG Power: Financial Snapshot (Consolidated)**

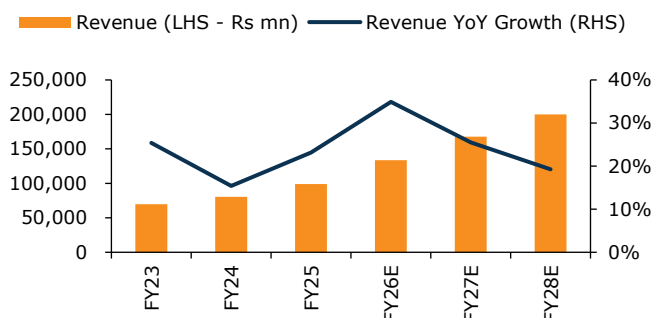
Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue	80,460	99,087	133,677	167,784	200,075
EBITDA	11,281	13,047	19,970	26,368	32,875
Adj. PAT	8,490	9,730	15,125	19,653	23,946
Adj. EPS (Rs)	5.6	6.4	9.9	12.9	15.7
EBITDA margin (%)	14.0	13.2	14.9	15.7	16.4
EBITDA growth (%)	13.6	15.7	53.1	32.0	24.7
Adj. EPS growth (%)	14.1	14.6	55.4	29.9	21.8
RoE (%)	35.3	28.4	34.2	34.4	32.7
RoIC (%)	87.0	52.7	60.5	60.6	58.2
P/E (x)	107.8	94.0	60.5	46.6	38.2
EV/EBITDA (x)	80.4	69.5	45.4	34.4	27.6
P/B (x)	30.3	23.8	18.3	14.2	11.2
FCFF yield (%)	0.3	-	0.9	0.9	1.4

Source: Company, Emkay Research

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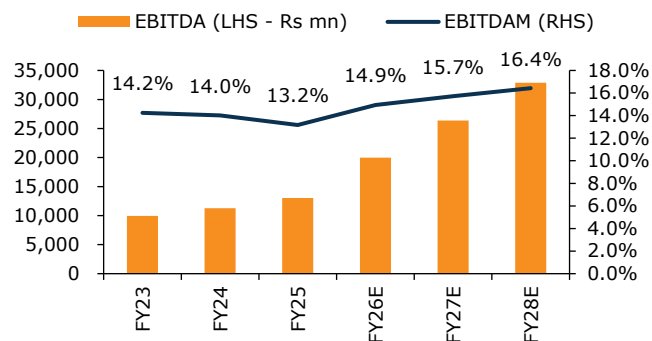
## Story in charts

**Exhibit 1: Revenue CAGR projected at Rs200bn (FY25-28E CAGR of ~26%)**



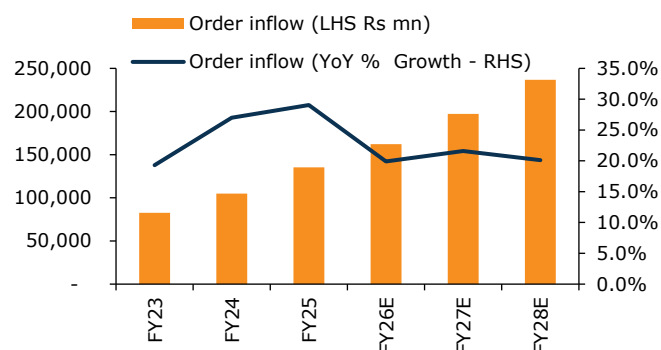
Source: Company, Emkay Research

**Exhibit 2: We estimate EBITDAM would improve to 16.4% (>300bps vs FY25)**



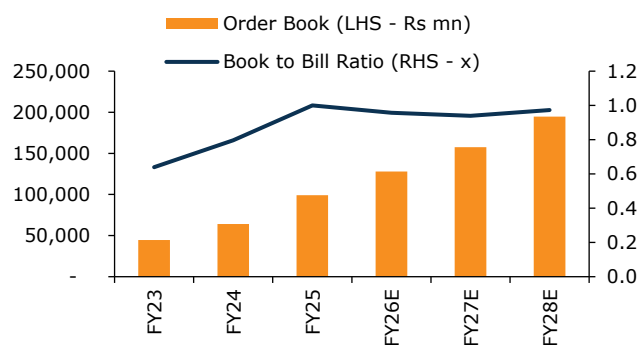
Source: Company, Emkay Research

**Exhibit 3: Order inflow projected to grow to Rs237bn (FY25-28E CAGR of >20.5%)**



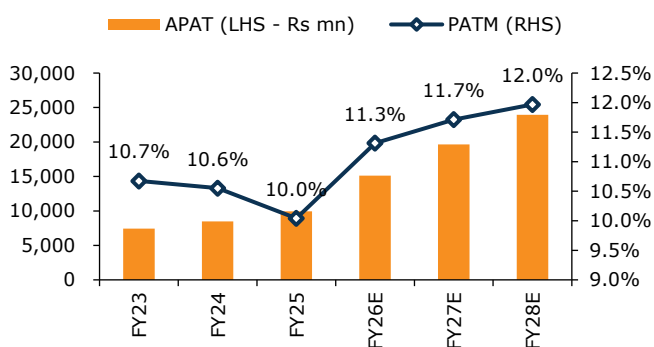
Source: Company, Emkay Research

**Exhibit 4: Order backlog to grow to Rs195bn (BB ratio of 1x)**



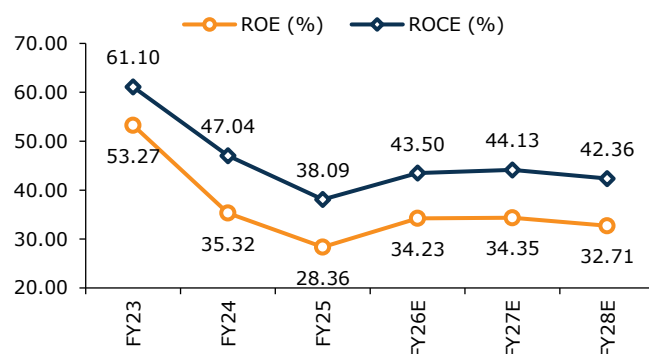
Source: Company, Emkay Research

**Exhibit 5: PATM to improve to 12% by FY28E**



Source: Company, Emkay Research

**Exhibit 6: We expect RoE/RoCE at 33%/42% by FY28E**



Source: Company, Emkay Research

## Concall KTAs

### Margin Story

- Margins were high in the Power Systems segment, primarily due to better price realization and operating leverage.
- The company has been able to balance market share gains with margin maintenance by passing on some, albeit not all, of the inflation due to increase in copper prices (a key raw material for the motor business).
- The company expects to see better margins in the Power Systems segment due to continued growth momentum and demand outpacing supply.
- The Motor segment has started showing signs of improvement in margin; the company aims to return to previous levels, though this will be a step-by-step journey.

### Recent M&As

- The company acquired controlling stake in GG Tronics (GGT) through the purchase of equity shares and compulsory convertible preferential shares for a total sum of Rs3.2bn, making GGT a subsidiary of CG.
- The company entered into a Definitive Agreement with Renesas Electronics America for the acquisition of the radio frequency components business through one or more of its subsidiaries.
- The company completed the acquisition of Axiro, with the team in place and an office and lab inaugurated in Bengaluru. The management expects to see revenue coming in Q1FY26 onward.
- The company signed a long-term agreement with a supply period of eight years, backed by a Maintenance cum Service Agreement (MCMA) with the Indian Railways which includes a 35-year service contract. The company will receive orders on an annual basis, with the first eight trainsets, valued at Rs4bn, to be supplied in the first year.

### Capital Allocation

- Rs1.7bn capex was made in subsidiary CG Semi, for FY25.
- The company is planning to invest in CG Semi with the commissioning of a project expected in the next couple of years.
- The government will provide a grant of subsidy toward capex of up to Rs35bn for the OSAT facility.

#### Exhibit 7: CG Power's SoTP-based valuation

	Valuation metric	PAT (Rs mn)	EPS (Rs)	PER (x)	Value/sh (Rs)
CG Power - Core business	Mar-27E PER (x)	19,653	12.9	55	710
OSAT business	Investment*Asset T/O*PATM	3,990	2.8	20	55
<b>Target Price</b>					<b>765</b>

Source: Company, Emkay Research

## CG Power: Consolidated Financials and Valuations

### Profit & Loss

Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
<b>Revenue</b>	<b>80,460</b>	<b>99,087</b>	<b>133,677</b>	<b>167,784</b>	<b>200,075</b>
Revenue growth (%)	15.4	23.2	34.9	25.5	19.2
<b>EBITDA</b>	<b>11,281</b>	<b>13,047</b>	<b>19,970</b>	<b>26,368</b>	<b>32,875</b>
EBITDA growth (%)	13.6	15.7	53.1	32.0	24.7
Depreciation & Amortization	949	1,118	1,415	1,909	2,505
<b>EBIT</b>	<b>10,332</b>	<b>11,929</b>	<b>18,555</b>	<b>24,459</b>	<b>30,370</b>
EBIT growth (%)	14.9	15.5	55.5	31.8	24.2
Other operating income	-	-	-	-	-
Other income	1,063	1,622	1,686	1,823	1,640
Financial expense	25	71	74	78	82
<b>PBT</b>	<b>11,369</b>	<b>13,480</b>	<b>20,167</b>	<b>26,204</b>	<b>31,928</b>
Extraordinary items	5,350	0	0	0	0
Taxes	2,873	3,750	5,042	6,551	7,982
Minority interest	(6)	0	0	0	0
Income from JV/Associates	0	0	0	0	0
<b>Reported PAT</b>	<b>13,841</b>	<b>9,730</b>	<b>15,125</b>	<b>19,653</b>	<b>23,946</b>
PAT growth (%)	61.1	(29.7)	55.4	29.9	21.8
<b>Adjusted PAT</b>	<b>8,490</b>	<b>9,730</b>	<b>15,125</b>	<b>19,653</b>	<b>23,946</b>
<b>Diluted EPS (Rs)</b>	<b>5.6</b>	<b>6.4</b>	<b>9.9</b>	<b>12.9</b>	<b>15.7</b>
Diluted EPS growth (%)	14.1	14.6	55.4	29.9	21.8
<b>DPS (Rs)</b>	<b>1.3</b>	<b>1.5</b>	<b>2.4</b>	<b>3.3</b>	<b>4.2</b>
<b>Dividend payout (%)</b>	<b>14.4</b>	<b>24.0</b>	<b>24.0</b>	<b>26.0</b>	<b>27.0</b>
EBITDA margin (%)	14.0	13.2	14.9	15.7	16.4
EBIT margin (%)	12.8	12.0	13.9	14.6	15.2
Effective tax rate (%)	25.3	27.8	25.0	25.0	25.0
<b>NOPLAT (pre-IndAS)</b>	<b>7,721</b>	<b>8,610</b>	<b>13,916</b>	<b>18,344</b>	<b>22,777</b>
Shares outstanding (mn)	1,529	1,529	1,529	1,529	1,529

Source: Company, Emkay Research

### Cash flows

Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
PBT (ex-other income)	10,306	11,858	18,480	24,381	30,288
Others (non-cash items)	-	-	-	-	-
Taxes paid	(2,873)	(3,750)	(5,042)	(6,551)	(7,982)
Change in NWC	(3,475)	(766)	(2,312)	(1,865)	(1,766)
<b>Operating cash flow</b>	<b>4,933</b>	<b>8,532</b>	<b>12,616</b>	<b>17,952</b>	<b>23,127</b>
Capital expenditure	(2,388)	(8,239)	(4,503)	(10,000)	(10,000)
Acquisition of business	(5,875)	1,509	0	0	0
Interest & dividend income	-	-	-	-	-
<b>Investing cash flow</b>	<b>(7,200)</b>	<b>(5,108)</b>	<b>(2,817)</b>	<b>(8,177)</b>	<b>(8,360)</b>
Equity raised/(repaid)	-	3	0	0	0
Debt raised/(repaid)	10	235	0	0	0
Payment of lease liabilities	0	0	0	0	0
Interest paid	(25)	(71)	(74)	(78)	(82)
Dividend paid (incl tax)	(1,990)	(2,330)	(3,630)	(5,110)	(6,465)
Others	5,767	-	-	-	-
<b>Financing cash flow</b>	<b>3,762</b>	<b>(2,163)</b>	<b>(3,704)</b>	<b>(5,188)</b>	<b>(6,547)</b>
Net chg in Cash	1,495	1,261	6,095	4,587	8,220
OCF	4,933	8,532	12,616	17,952	23,127
Adj. OCF (w/o NWC chg.)	8,408	9,297	14,928	19,817	24,893
FCFF	2,545	293	8,113	7,952	13,127
FCFE	2,520	222	8,039	7,874	13,045
OCF/EBITDA (%)	43.7	65.4	63.2	68.1	70.3
FCFE/PAT (%)	18.2	2.3	53.1	40.1	54.5
<b>FCFF/NOPLAT (%)</b>	<b>33.0</b>	<b>3.4</b>	<b>58.3</b>	<b>43.3</b>	<b>57.6</b>

Source: Company, Emkay Research

### Balance Sheet

Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Share capital	3,055	3,058	3,058	3,058	3,058
Reserves & Surplus	27,120	35,382	46,877	61,420	78,900
<b>Net worth</b>	<b>30,174</b>	<b>38,440</b>	<b>49,934</b>	<b>64,478</b>	<b>81,958</b>
Minority interests	13	1,937	1,937	1,937	1,937
Non current liabilities & prov.	(2,713)	(175)	(175)	(175)	(175)
<b>Total debt</b>	<b>174</b>	<b>410</b>	<b>410</b>	<b>410</b>	<b>410</b>
<b>Total liabilities &amp; equity</b>	<b>27,649</b>	<b>40,611</b>	<b>52,106</b>	<b>66,649</b>	<b>84,130</b>
Net tangible fixed assets	9,231	12,285	15,768	22,698	29,812
Net intangible assets	-	-	-	-	-
Net ROU assets	-	-	-	-	-
Capital WIP	659	3,552	3,156	4,317	4,698
Goodwill	1,638	2,811	2,811	2,811	2,811
Investments [JV/Associates]	5,885	4,375	4,375	4,375	4,375
<b>Cash &amp; equivalents</b>	<b>8,544</b>	<b>12,591</b>	<b>18,686</b>	<b>23,273</b>	<b>31,493</b>
Current assets (ex-cash)	27,584	37,500	50,591	63,499	75,720
Current Liab. & Prov.	25,890	32,502	43,282	54,325	64,780
<b>NWC (ex-cash)</b>	<b>1,694</b>	<b>4,998</b>	<b>7,310</b>	<b>9,175</b>	<b>10,940</b>
<b>Total assets</b>	<b>27,649</b>	<b>40,611</b>	<b>52,106</b>	<b>66,649</b>	<b>84,130</b>
Net debt	(8,370)	(12,182)	(18,276)	(22,864)	(31,083)
Capital employed	30,362	40,786	52,281	66,824	84,305
<b>Invested capital</b>	<b>12,562</b>	<b>20,093</b>	<b>25,889</b>	<b>34,683</b>	<b>43,563</b>
BVPS (Rs)	19.7	25.1	32.7	42.2	53.6
Net Debt/Equity (x)	(0.3)	(0.3)	(0.4)	(0.4)	(0.4)
Net Debt/EBITDA (x)	(0.7)	(0.9)	(0.9)	(0.9)	(0.9)
Interest coverage (x)	448.6	191.1	271.9	336.2	390.0
<b>RoCE (%)</b>	<b>47.0</b>	<b>38.1</b>	<b>43.5</b>	<b>44.1</b>	<b>42.4</b>

Source: Company, Emkay Research

### Valuations and key Ratios

Y/E Mar	FY24	FY25	FY26E	FY27E	FY28E
P/E (x)	107.8	94.0	60.5	46.6	38.2
P/CE(x)	96.9	84.3	55.3	42.4	34.6
P/B (x)	30.3	23.8	18.3	14.2	11.2
EV/Sales (x)	11.3	9.1	6.8	5.4	4.5
EV/EBITDA (x)	80.4	69.5	45.4	34.4	27.6
EV/EBIT(x)	87.7	76.0	48.9	37.1	29.9
EV/IC (x)	72.2	45.1	35.0	26.1	20.8
FCFF yield (%)	0.3	-	0.9	0.9	1.4
FCFE yield (%)	0.3	-	0.9	0.9	1.4
Dividend yield (%)	0.2	0.3	0.4	0.6	0.7
<b>DuPont-RoE split</b>					
Net profit margin (%)	10.6	9.8	11.3	11.7	12.0
Total asset turnover (x)	4.0	2.9	2.9	2.8	2.7
Assets/Equity (x)	0.8	1.0	1.0	1.0	1.0
<b>RoE (%)</b>	<b>35.3</b>	<b>28.4</b>	<b>34.2</b>	<b>34.4</b>	<b>32.7</b>
<b>DuPont-RoIC</b>					
NOPLAT margin (%)	9.6	8.7	10.4	10.9	11.4
IC turnover (x)	9.1	6.1	5.8	5.5	5.1
<b>RoIC (%)</b>	<b>87.0</b>	<b>52.7</b>	<b>60.5</b>	<b>60.6</b>	<b>58.2</b>
<b>Operating metrics</b>					
Core NWC days	7.7	18.4	20.0	20.0	20.0
<b>Total NWC days</b>	<b>7.7</b>	<b>18.4</b>	<b>20.0</b>	<b>20.0</b>	<b>20.0</b>
Fixed asset turnover	7.8	7.6	7.9	7.6	6.9
Opex-to-revenue (%)	17.0	16.9	16.4	16.0	15.8

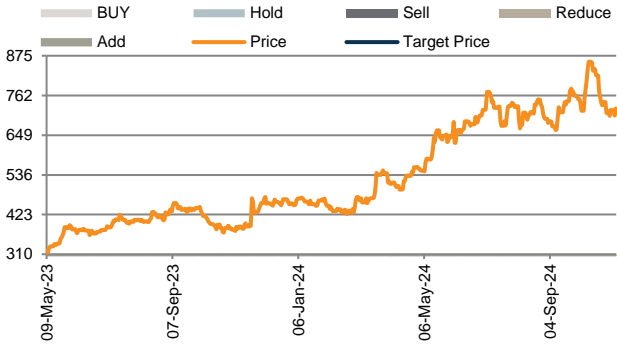
Source: Company, Emkay Research

RECOMMENDATION HISTORY – DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
04-May-25	622	765	Buy	Ashwani Sharma
04-May-25	622	765	Buy	Ashwani Sharma

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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