

Greaves Cotton

- Revenues at Rs4.4bn lower by 1.5% yoy; higher than our estimates, Robust growth in three-wheeler engine sales was offset by weakness seen in other segments
- OPM at 12.7% was higher by 149bps yoy and 166bps qoq, expansion was driven by better product mix and cost cutting initiatives implemented
- PAT was at Rs273mn as compared to a loss of Rs80mn in Q2 FY14 marred by Rs148mn exceptional item related to infrastructure equipment business exit
- Maintain our rating to BUY with a 2-year price target of Rs232

Result table

(Rs m)	Q2 FY15	Q2 FY14	% yoy	Q1 FY15	% qoq
Net sales	4,413	4,481	(1.5)	4,225	4.4
Material costs	(3,027)	(3,107)	(2.6)	(2,885)	4.9
Personnel costs	(371)	(395)	(6.0)	(435)	(14.7)
Other overheads	(453)	(474)	(4.5)	(438)	3.5
Operating profit	562	504	11.5	468	20.1
OPM (%)	12.7	11.3	149 bps	11.1	166 bps
Depreciation	(133)	(104)	27.4	(109)	22.1
Interest	(3)	(12)	(79.3)	(2)	8.7
Other income	59	64	(7.9)	44	33.1
PBT	486	452	7.5	402	21.1
Tax	(65)	(132)	(50.3)	(108)	(39.4)
Effective tax rate (%)	13.4	29.1		26.9	
Adjusted PAT	421	321	31.2	294	43.3
Adj. PAT margin (%)	9.5	7.2	238 bps	7.0	259 bps
Extra ordinary items	(148)	(401)	(63.0)	(6)	2,249.2
Reported PAT	273	(80)	(442.0)	287	(5.0)
Ann. EPS (Rs)	4.5	(1.3)	(442.0)	4.7	(5.0)
(Rs m)	Q2 FY15	Q2 FY14	% yoy	Q1 FY15	% qoq
Revenues					
Engines	4,243	3,992	6.3	3,922	8.2
Infrastructure	118	279	(57.7)	267	(55.8)
Others	52	217	(76.0)	36	43.5
Total	4,413	4,488	(1.7)	4,225	4.4
EBIT					
Engines	691	691	0.1	630	9.8
Infrastructure	(104)	(77)	36.5	(117)	(11.1)
Others	2	(6)	(127.4)	1	30.8
Total	589	608	(3.2)	514	14.6
EBIT Margins					
Engines	16.3	17.3	(101) bps	16.1	24 bps
Infrastructure	(88.6)	(27.4)	-	(44.0)	-
Others	3.3	(2.9)	612 bps	3.6	(32) bps
Total	13.3	13.5	(21) bps	12.2	119 bps

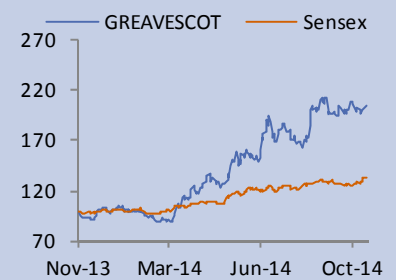
Source: Company, India Infoline Research

Rating: BUY
Target (2-year): Rs232
CMP: Rs140
Upside: 65.7%

Sector: Auto Ancillary
Sector view: Positive
Sensex: 27,860
52 Week h/l (Rs): 145 / 57
Market cap (Rscr) : 3,419
6m Avg vol ('000Nos): 361
Bloomberg code: GRV IS
BSE code: 501455
NSE code: GREAVESCOT
FV (Rs): 2

Price as on November 05, 2014

Share price trend



Share holding pattern

	Mar-14	Jun-14	Sep-14
Promoters	51.6	51.5	51.5
Institutions	36.0	36.5	36.5
Others	12.4	12.0	12.0

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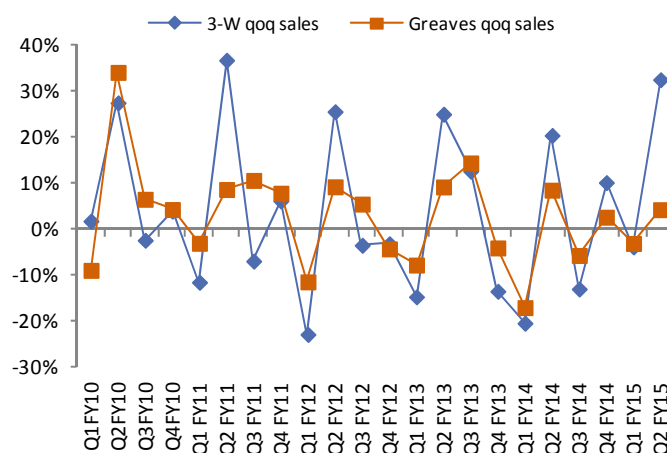
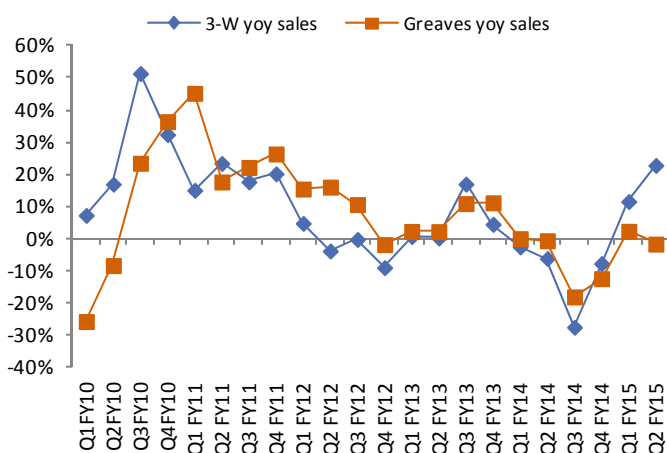
November 05, 2014

Strong revenue performance of three-wheeler engines offset by other segments

Greaves Cotton (GCL) reported better than expected revenues wherein it reported a decline of 1.5% yoy but a rise of 4.4% qoq. Engine segment revenues were higher by 6.3% yoy and 8.2% on qoq basis. This strong performance was driven by strong volumes in the three wheeler business wherein the volumes were at 94k for Q2 FY15 v/s 81k in Q2 FY14. However, most other businesses including the SCV engines, industrial engines, farm equipment business saw some weakness. Amongst pump sets, while petrol variants saw growth, diesel pump sets fell 20% yoy. Gensets witnessed 4-5% volume growth and the company hopes to see strong traction in Q4 FY15 when it completes its entire launch of CPCB II norms qualified products. In tillers business too the company sees strong recovery in H2 FY15. The company has closed down its infrastructure equipment business and sees a monthly loss of Rs15mn until the sale of business is through. Also the company has accounted for Rs150mn during the quarter as an exceptional item pertaining to the closure of the business.

Correlation between GCL’s revenue growth and 3-W industry sales on yoy basis

Correlation between GCL’s revenue growth and 3-W industry sales on qoq basis

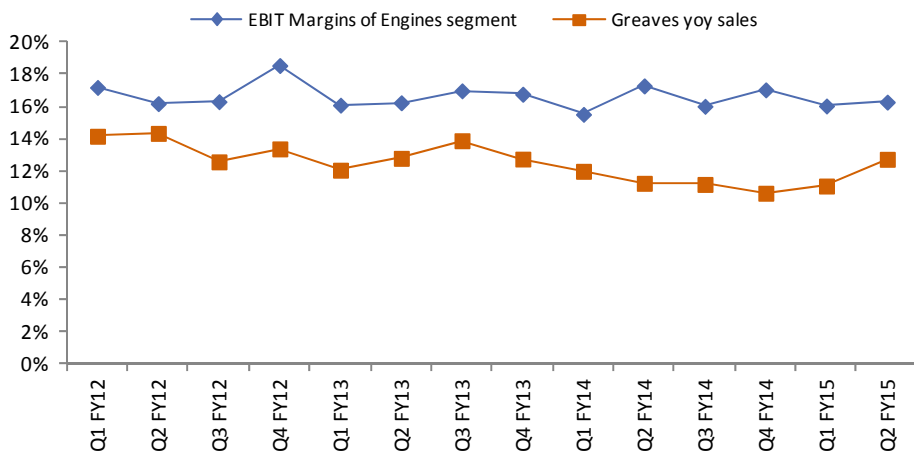


Source: Company, India Infoline Research

Cost cutting initiatives help margins come in better than expectations

GCL reported OPM of 12.7% compared to our expectations of 11.6% and were higher by 149bps yoy and 166bps qoq. Operating profit was higher by 11.5% yoy and 20.1% qoq. Margins were better on a sequential as well yoy basis owing to cost cutting initiatives implemented by the company. Also the company cited that margins are better for the new engines under the CPCB II norms. While gross margins expanded by 76bps yoy, personnel costs were lower by 40bps and overheads were lower by 32bps yoy respectively. The company attributed this to the cost cutting initiatives implementation.

Trend in EBIT margins of engines segment and OPM



Source: Company, India Infoline Research

Cost analysis

As a % of net sales	Q2 FY15	Q2 FY14	yoy	Q1 FY15	qoq
Raw material	68.6	69.4	-76 bps	68.3	-76 bps
Personnel Costs	8.4	8.8	-40 bps	10.3	-189 bps
Other overheads	10.3	10.6	-32 bps	10.4	-9 bps
Total costs	87.3	88.7	-149 bps	88.9	-166 bps

Source: Company, India Infoline Research

Maintain BUY

GCL over the past three years, when the CV sales and industrial activity in India witnessed a sharp slowdown, saw a valuation de-rating. It was justified then given the decline in revenue growth. However, in the years to come, we expect strong upsurge in CV sales, industrial activity and development of irrigation infrastructure. This should translate into large business opportunities for GCL. We expect 16% revenue CAGR for GCL during FY14-17E. With benefits of operating leverage, we see strong recovery in margins and resultantly a PAT CAGR of 30% during FY14-17E. In the previous bull cycle GCL had traded at an average P/E multiple range of 12-25x. We believe given the strong cash flow generation and RoCE of above 20%, we expect a re-rating in the stock. Maintain BUY.

Financial Summary

Y/e 31 Mar (Rs m)	FY13	FY14	FY15E	FY16E	FY17E
Revenues	18,733	17,189	18,564	21,906	25,849
yoy growth (%)	4.7	(8.2)	8.0	18.0	18.0
Operating profit	2,423	1,936	2,309	2,948	3,728
OPM (%)	12.9	11.3	12.4	13.5	14.4
Pre-exceptional PAT	1,556	1,211	1,549	1,949	2,507
Reported PAT	1,380	1,131	1,349	1,949	2,507
yoy growth (%)	(27.0)	(18.0)	19.2	44.5	28.6
EPS (Rs)	6.4	5.0	6.3	8.0	10.3
P/E (x)	22.0	28.2	22.1	17.5	13.6
Price/Book (x)	4.6	4.2	3.6	3.0	2.4
EV/EBITDA (x)	14.0	17.5	14.5	11.2	8.9
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
RoE (%)	22.4	15.5	17.5	18.6	19.7
RoCE (%)	29.5	21.6	23.0	25.3	26.9

Source: Company, India Infoline Research

IIFL Research won 3 awards at India's Best Market Analyst Awards 2013 by Zee Business for Banking, Oil & Gas and Pharma.

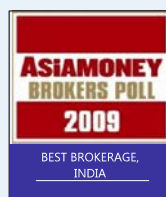
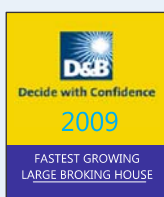
'Best Equity Broker of the Year' – Bloomberg UTV, 2011

IIFL was awarded the 'Best Equity Broker of the Year' at the recently held Bloomberg UTV Financial Leadership Award, 2011. The award presented by the Hon'ble Finance Minister of India, Shri Pranab Mukherjee. The Bloomberg UTV Financial Leadership Awards acknowledge the extraordinary contribution of India's financial leaders and visionaries from January 2010 to January 2011.

'Best Broker in India' – Finance Asia, 2011

IIFL has been awarded the 'Best Broker in India' by Finance Asia. The award is the result of Finance Asia's annual quest for the best financial services firms across Asia, which culminated in the Country Awards 2011.

Other awards



Recommendation parameters for fundamental reports:

Buy – Absolute return of over +15%

Accumulate – Absolute return between 0% to +15%

Reduce – Absolute return between 0% to -10%

Sell – Absolute return below -10%

Call Failure - In case of a Buy report, if the stock falls 20% below the recommended price on a closing basis, unless otherwise specified by the analyst; or, in case of a Sell report, if the stock rises 20% above the recommended price on a closing basis, unless otherwise specified by the analyst

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