

13<sup>th</sup> August 2009**BUY**

Price	Target Price
<b>Rs 133</b>	<b>Rs 160</b>

Sensex – 15,020

**Price Performance**

(%)	1M	3M	6M	12M
Absolute	22	48	92	(24)
Rel. to Sensex	9	20	23	(23)

Source: Bloomberg

**Stock Details**

Sector	Engines
Reuters	GRVC.BO
Bloomberg	GRV@IN
Equity Capital (Rs mn)	488
Face Value (Rs )	10
No of shares o/s (mn)	49
52 Week H/L (Rs )	178/50
Market Cap (Rs bn /USD mn)	7/145
Daily Avg Vol (No of shares)	29471
Daily Avg Turnover (US\$ mn)	0.1

**Shareholding Pattern (%)**

	30/06/09	30/03/09	31/12/08
Promoters	52.0	52.0	51.8
FII/NRI	0.8	0.8	0.8
Institutions	31.7	31.5	32.2
Private Corp.	3.3	3.5	3.5
Public	11.8	12.2	11.7

Source: Capitaline

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# Greaves Cotton

**Maintain Buy, Target price upgraded to Rs.160**Result  
Update

Greaves Cotton Limited (GCL) reported results which were marginally below our expectations. Engines segment reported strong operating performance primarily driven by decline in the raw material cost. Though infrastructure segment reported PBIT loss, we believe improvement in the road and real estate segment (two key target sectors for the company) will drive growth over the next few quarters. During the quarter the company reported revenue of Rs.2.6bn, decline of 18.6%. Net profit declined by 35% to Rs.141mn.

During the quarter the company also started supplying twin cylinder engines to Piaggio for its newly launched commercial vehicle. We believe the twin cylinder engine and single cylinder engine supplies to Tata Motors that is expected to start from December 2009 would be volume growth driver for the company. With improvement in infrastructure activity, especially road construction and real estate we expect infrastructure segment to bounce back sharply. We expect the company to report revenue of Rs.12.7bn and net profit of Rs.629.8mn in FY10. The stock trades at 10.5x FY09. We are maintaining our Buy rating on the stock with revised target price of Rs.160 (12.5x FY10 earnings).

**Infrastructure segment to bounce back from hereon**

Infrastructure reported disappointing numbers during the quarter. Revenue of the segment was at Rs.255mn and PBIT loss of Rs.33.7mn. However, with improvement in the spending in the road making and real estate (two primary target segment) we expect the segment to break-even in the next quarter. The company is also witnessing increase in enquiries from its customers as also improvement in the order book.

**Engines business – twin cylinder supply starts to Piaggio**

During Q4FY09, Engines division reported a decline of 1.8% in revenue to Rs.2.2bn. However, PBIT increased by 20.7% to Rs.327mn. PBIT margins during the quarter were at 14.4%, highest in the last eight quarters. Reduction in the raw material cost and cost savings initiative are the main reasons for improvement in the margins. The company has also started supply of twin cylinder engine to Piaggio during the quarter.

**Tie-up with OEMs will be the future growth drivers**

The management of GCL is evaluating options of supplying the twin cylinder engine to various other OEMs apart from Piaggio. The company has already undertaken a capex of Rs.600mn by setting up a plant at Aurangabad. We believe tie-up with new OEMs for supply of SCV engines will be the growth driver for the company in the medium term. Further, the company is expected to start supply of single cylinder engines to Tata Motors from December 2009. Supply to Tata Motors would be a huge booster to the engine volumes.

**Worst may be over, Maintain BUY with target price of Rs.160**

We believe the worst may be over for both the engines and the infrastructure segment. While the engines segment will be driven by automotive engines as Piaggio and M&M increase its market share in 3 wheeler segment and supply of twin cylinder engine to Piaggio, infrastructure division shall witness demand for its equipment as construction activity picks up. We expect the company to report revenue of Rs.12.7bn and net profit of Rs.629.8mn in FY10. The stock trades at 10.5x FY09. We are maintaining our Buy rating on the stock with revised target price of Rs.160 (12.5x FY10 earnings).

June Year End (Rs.mn)	Q4FY08	Q4FY09	% chng
Sales Turnover	3213.4	2625.0	-18.3
Total Expense	2844.7	2378.7	
Operating Profit	368.7	246.3	-33.2
OPM %	11.5	9.4	
Interest	63.5	43.1	
Depreciation	53.3	63.7	
PBT before other income	251.9	139.5	
Other Income	16.2	35.0	
PBT	268.1	174.5	
Tax - Provision	75.5	50.1	
Tax Rate %	28.2	28.7	
Adjusted PAT	192.6	124.4	-35.4
Extraordinary income	71.9	8.1	
Reported PAT	264.5	132.5	-49.9
EPS	5.4	2.7	
Equity	488.4	488.4	

Source: Emkay Research

Segment Revenue (Rs.mn)	Q4FY08	Q4FY09
Engines	2307.1	2266.7
Infrastructure	838.4	255.6
Others	67.9	102.7
Total	3213.4	2625.0
PBIT		
Engines	271.0	327.2
Infrastructure	114.7	-33.7
Others	15.6	18.9
Total	401.3	312.4
PBIT%		
Engines	11.7	14.4
Infrastructure	13.7	-13.2
Others	2.3	1.8

Source: Emkay Research

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