

August 13, 2010

BUY

Price Rs 374	Target Price Rs 433
Sensex	18,074

Price Performance

(%)	1M	3M	6M	12M
Absolute	7	4	31	181
Rel. to Sensex	7	(2)	17	133

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	386/129
Market Cap (Rs. bn/USD mn)	18/387
Daily Avg Volume (No of sh)	70128
Daily Avg Turnover (US\$m)	0.5

Shareholding Pattern (%)

	J'10	M'10	D'09
Promoters	51.4	51.4	51.4
FII/NRI	4.4	2.1	2.2
Institutions	29.9	31.4	32.1
Private Corp	3.5	3.6	3.3
Public	10.8	11.5	11.1

Source: Capitaline

Pritesh Chedda
pritesh.chedda@emkayglobal.com
+91 22 6612 1273

Aanchal Jain
aanchal.jain@emkayglobal.com
+91 22 6612 1251

- **Q4FY10 performance buoyed by Engines segment-revenues up 45.3% yoy to Rs. 3.5 bn and APAT up 123.2% yoy to Rs. 278 mn**
- **Growth drivers of Engines segment remain strong and Infrastructure segment likely to turn profitable next year**
- **Stock split in the ratio 1:5. Total dividend of Rs. 15/Share for FY10 translating into yield of 4%, includes special dividend of Rs. 7.5/Share**
- **Maintain earnings estimates for FY11E and FY12E of Rs. 30.7/Share and Rs. 36.1/Share and maintain BUY rating with target price of Rs. 433/Share**

Driven by engines segment, net profits grew by 123.2% yoy

Engines segment reported continued growth momentum, driving the Q4FY10 performance. Result snapshot (1) revenue grew by 45.3% yoy to Rs. 5 bn (2) Ebidta grew by 79.5% yoy to Rs. 454 mn and (3) APAT grew by 123.2% yoy to Rs. 278 mn. Though, revenue and APAT meets expectation, Ebidta was below estimates led by lower Ebidta margins. A 320 bps qoq reduction in Ebidta margins (13.1% v/s 16.3%) was negative surprise, led by increase in employee expenses and other expenses.

Engines grew 30.4% yoy to Rs.2.9 bn, resting on strong growth drivers

Engines segment grew by 30.4% yoy to Rs. 2.9 bn, led by growth in automotive, gensets and industrial engines. Ebit margin expanded 268 bps yoy to 17.1% yoy but contracted 251 bps qoq, led by one-off's in employee costs and other costs. Growth drivers in engines segment remain strong- (1) automotive will benefit from ramp-up in 4W and twin-cylinder engines – largely with new clients Tata Motors and Mahindra & Mahindra (2) auxiliary power will continue to ride on inherent growth driver of supply-demand gap and (3) industrial engines will benefit from anticipated uptick in capital expenditure. We maintain our growth assumptions of 21% and 15% in FY11E and FY12E, led by volume growth of 15% and 10% respectively.

Infrastructure run-rate improves to Rs. 377 mn, guides for enabling business environment versus FY09

Revenue run-rate of infrastructure segment improved to Rs. 337mn – though far lower than peak run-rate of Rs. 700-900 mn. Segment continues to report Ebit loss of Rs. 11mn, hit by low capacity utilization. However, there is definite improvement in revenue run-rate in FY10 over FY09 and reduction in Ebit loss. Company is eyeing conducive business environment - amidst government thrust on infrastructure and gradual pick-up industrial capex. Company is aiming to enrich product portfolio and plug the product gaps – either through own development or bought-outs. We maintain our growth assumptions of 20% and 15% for FY11E and FY12E. The segment would turn profitable in FY11E.

Financial Snapshot

Rs. Mn

YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs.)	% chg	(%)	P/E	EBITDA	P/BV
FY09	10,609	1,147	11.0	545	11.5	(41.0)	11.8	32.6	16.3	4.7
FY10P	13,472	2,065	15.3	1,180	24.2	110.4	27.5	15.5	9.4	3.8
FY11E	15,667	2,647	16.8	1,497	30.7	26.8	28.1	12.2	7.1	3.2
FY12E	18,090	3,058	16.8	1,762	36.1	17.6	27.9	10.4	5.9	2.7

Announces stock-split of 5:1, dividend of Rs. 15/Share for FY10

GCL has announced one-time special dividend of Rs. 7.5/Share to commemorate 150 years in operations. Thus, total dividend for the year stood at Rs. 15/Share, translating into dividend yield of 4%. To enhance liquidity, GCL undertook stock split of 5:1 – par value reduction from Rs. 10/Share to Rs. 2/Share.

Maintain positive bias; BUY rating with target price of Rs. 433/Share

We reiterate – GCL is in sweet-spot with strong growth drivers in Engines and Infrastructure segment. Engines segment will benefit from growth momentum in all segments – automotive, gensets and industrial engines. Infrastructure segment would turn profitable in FY11E. We maintain our earnings estimates for FY11E and FY12E of Rs. 30.7/Share and Rs. 36.1/Share. We continue to value GCL at 12X FY12E earnings. Maintain BUY rating with target price of Rs.433/Share.

Key Financials

Rs. mn	Q4FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10	YoY (%)	QoQ (%)	YTD'10	YTD'09	YoY (%)
Revenue	2,393	2,988	3,428	3,580	3,477	45.3%	-2.9%	13,472	10,408	29.4%
Expenditure	2,140	2,544	2,845	2,996	3,023	41.3%	0.9%	11,407	9,261	23.2%
<i>as % of sales</i>	<i>89.4%</i>	<i>85.1%</i>	<i>83.0%</i>	<i>83.7%</i>	<i>86.9%</i>			<i>84.7%</i>	<i>89.0%</i>	
Increase/Decrease in Stock	-101	3	23	59	-139			-53	-95	
Consumption of RM	1,668	1,949	2,217	2,323	2,407	44.4%	3.6%	8895.6	6,957	27.9%
<i>as % of sales</i>	<i>69.7%</i>	<i>65.2%</i>	<i>64.7%</i>	<i>64.9%</i>	<i>69.2%</i>			<i>66.0%</i>	<i>66.8%</i>	
Traded Goods	47	94	60	94	132	180.8%	39.7%	380	312	21.8%
<i>as % of sales</i>	<i>2.0%</i>	<i>3.1%</i>	<i>1.8%</i>	<i>2.6%</i>	<i>3.8%</i>			<i>2.8%</i>	<i>3.0%</i>	
Employee Cost	236	228	229	224	295	24.9%	31.3%	1,033	952	8.5%
<i>as % of sales</i>	<i>9.9%</i>	<i>7.6%</i>	<i>6.7%</i>	<i>6.3%</i>	<i>8.5%</i>			<i>7.7%</i>	<i>9.1%</i>	
Other expenditure	290	271	315	296	328	13.1%	10.9%	1,152	1,135	1.5%
<i>as % of sales</i>	<i>12.1%</i>	<i>9.1%</i>	<i>9.2%</i>	<i>8.3%</i>	<i>9.4%</i>			<i>8.6%</i>	<i>10.9%</i>	
EBITDA	253	444	583	584	454	79.5%	-22.2%	2,065	1,147	80.1%
Depreciation	64	69	67	66	68			270	252	
EBIT	189	375	516	518	386	103.9%	-25.5%	1,795	895	100.5%
Other Income	30	5	10	15	38			69	111	
Interest	44	38	33	30	27			129	222	
PBT	175	342	492	503	397	127.4%	-21.0%	1,734	784	121.1%
Total Tax	50	103	166	167	119			554	239	
Adjusted PAT	124	239	327	336	278	123.2%	-17.4%	1,180	545	116.3%
(Profit)/loss from JV's/Ass/MI										
APAT after MI	124	239	327	336	278	123.2%	-17.4%	1,180	545	116.3%
Extra ordinary items	8	0	0	0	0				15	
Reported PAT	133	239	327	336	278	109.6%	-17.4%	1,180	560	110.7%
Reported EPS	2.7	4.9	6.7	6.9	5.7			24.2	11.5	

Margins (%)						bps	bps			bps
EBIDTA	10.6%	14.9%	17.0%	16.3%	13.1%	249 bps	-20 bps	15.3%	11.0%	431 bps
EBIT	7.9%	12.6%	15.0%	14.5%	11.1%	319 bps	-23 bps	13.3%	8.6%	472 bps
EBT	7.3%	11.4%	14.4%	14.0%	11.4%	412 bps	-19 bps	12.9%	7.5%	534 bps
PAT	5.5%	8.0%	9.5%	9.4%	8.0%	245 bps	-15 bps	8.8%	5.4%	338 bps
Effective Tax rate	28.7%	30.1%	33.6%	33.1%	30.0%			32.0%	30.4%	

Segmental

Rs. Mn	Q4FY09	Q3FY10	Q4FY10	chnge yoy	chnge qoq
Segment Revenue					
Engines	2267	2999	2956	30.4%	-1.5%
Infrastructure	256	442	377	47.5%	-14.7%
Other	103	139	144	40.4%	3.9%
Total	2625	3580	3477	32.5%	-2.9%
Segment Results (PBIT)					
Engines	327	589	506	54.6%	-14.0%
Infrastructure	-34	-12	-11	-66.5%	-4.2%
Other	19	44	38	103.2%	-11.7%
Total	312	620	533	70.6%	-14.1%
PBIT Margins					
Engines	14.4%	19.6%	17.1%	268 bps	-251 bps
Infrastructure					
Other	18.4%	31.3%	26.6%	823 bps	-471 bps

Key Financials**Income Statement**

Y/E, Mar (Rs. mn)	FY09	FY10P	FY11E	FY12E
Net Sales	10,408	13,472	15,667	18,090
<i>Growth (%)</i>	-10.8%	29.4%	16.3%	15.5%
Expenditure	9,261	11,407	13,020	15,032
Materials Consumed	7,174	9,222	10,778	12,572
Employee Cost	952	1,033	1,043	1,132
Other Exp	1,135	1,152	1,199	1,329
EBITDA	1,147	2,065	2,647	3,058
<i>Growth (%)</i>	-32.7%	80.1%	28.2%	15.5%
EBITDA margin (%)	11.0%	15.3%	16.9%	16.9%
Depreciation	252	270	352	382
EBIT	895	1,795	2,296	2,676
EBIT margin (%)	8.6%	13.3%	14.7%	14.8%
Other Income	111	69	50	50
Interest expenses	222	129	101	84
PBT	784	1,734	2,245	2,642
Tax	239	554	748	880
<i>Effective tax rate (%)</i>	30.4%	32.0%	33.3%	33.3%
Adjusted PAT	545	1,180	1,497	1,762
<i>Growth (%)</i>	-42.1%	116.3%	26.9%	17.7%
Net Margin (%)	5.4%	8.8%	9.6%	9.7%
(Profit)/loss from JVs/Ass/MI	-	-	-	-
Adj. PAT After JVs/Ass/MI	545	1,180	1,497	1,762
E/O items	15	-	-	-
Reported PAT	560	1,180	1,497	1,762
<i>Growth (%)</i>	-40.5%	110.7%	26.9%	17.7%

Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10P	FY11E	FY12E
PBT (Ex-Other income)	673	1,734	2,245	2,642
Depreciation	252	270	352	382
Interest Provided	222	129	101	84
Other Non-Cash items	(38)	-	-	-
Chg in working cap	(855)	(326)	15	(205)
Tax paid	-121	-554	-748	-880
Operating Cashflow	132	1,253	1,964	2,023
Capital expenditure	(294)	(1,111)	(500)	(500)
Free Cash Flow	-162	141	1,464	1,523
Other income	66	-	-	-
Investments	469	(553)	-	-
Investing Cashflow	535	-553	0	0
Equity Capital Raised	(84)	-	-	-
Loans Taken / (Repaid)	-	749	(400)	(200)
Interest Paid	(222)	(129)	(101)	(84)
Dividend paid (incl tax)	(169)	(272)	(576)	(678)
Income from investments	-	-	-	-
Others	-	-	-	-
Financing Cashflow	-475	347	-1,077	-962
Net chg in cash	-102	-65	388	562
Opening cash position	297	196	131	519
Closing cash position	196	131	519	1,080

Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10P	FY11E	FY12E
Equity share capital	488	488	488	488
Reserves & surplus	3,403	4,293	5,215	6,300
Net worth	3,891	4,782	5,703	6,788
Minority Interest				
Secured Loans	218	818	418	218
Unsecured Loans	351	500	500	500
Loan Funds	569	1,318	918	718
Net deferred tax liability	256	256	256	256
Total Liabilities	4,716	6,356	6,878	7,762
Gross Block	4,089	5,323	5,823	6,323
Less: Depreciation	1,432	1,722	2,073	2,455
Net block	2,657	3,601	3,750	3,868
Capital work in progress	172	50	50	50
Investment	341	894	894	894
Current Assets	4,010	4,996	6,040	7,337
Inventories	1,512	2,140	2,483	2,867
Sundry debtors	1,539	1,959	2,272	2,624
Cash & bank balance	193	131	519	1,080
Loans & advances	767	767	767	767
Other current assets				
Current lia & Prov	2,463	3,186	3,856	4,387
Current liabilities	2,247	2,740	3,188	3,719
Provisions	217	446	668	668
Net current assets	1,546	1,811	2,184	2,950
Misc. exp				
Total Assets	4,716	6,356	6,878	7,762

Key ratios

Y/E, Mar	FY09	FY10P	FY11E	FY12E
Profitability (%)				
EBITDA Margin	11.0	15.3	16.9	16.9
Net Margin	5.4	8.8	9.6	9.7
ROCE	19.0	28.2	33.4	34.5
ROE	11.8	27.5	26.8	17.6
Per Share Data (Rs.)				
EPS	11.5	24.2	30.7	36.1
CEPS	16.6	29.7	37.9	43.9
BVPS	1.6	2.0	2.4	2.8
Valuations (x)				
PER	32.6	15.5	12.2	10.4
P/CEPS	22.5	12.6	9.9	8.5
P/BV	4.7	3.8	3.2	2.7
EV / Sales	1.8	1.4	1.0	0.9
EV / EBITDA	16.3	9.4	7.1	5.9
Dividend Yield (%)	1.1	4.0	6.7	7.9
Gearing Ratio (x)				
Net Debt/ Equity	0.2	0.2	0.2	0.1
Net Debt/EBIDTA	0.6	0.4	0.4	0.3
Inventory Cycle (days)	57.8	57.8	48.0	48.0

Recommendation History: Greaves Cotton Ltd – GRV IN

Date	Reports	Reco	CMP	Target
18.05.2010	Greaves Cotton Q3FY10 Result Update	Buy	350	433
01.02.2010	Greaves Cotton Q2FY10 Result Update	Buy	269	350
26.10.2009	Greaves Cotton Q1FY10 Result Update	Buy	205	265

Recent Research Reports

Date	Reports	Reco	CMP	Target
02.08.2010	Elecon Engineering Q1FY11 Result Update	Hold	93	96
29.07.2010	Voltas Q1FY11 Result Update	Buy	208	234
27.07.2010	Larsen & Toubro Q1FY11 Result Update	Accumulate	1,863	2,126
22.07.2010	Thermax Q1FY11 Result Update	Hold	792	790

Emkay Global Financial Services Ltd.

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

DISCLAIMER: This document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. No person associated with Emkay Global Financial Services Ltd. is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon. Neither Emkay Global Financial Services Ltd., nor any person connected with it, accepts any liability arising from the use of this document. The recipient of this material should rely on their own investigations and take their own professional advice. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender / borrower to such company(ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here. No part of this material may be duplicated in any form and/or redistributed without Emkay Global Financial Services Ltd.'s prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.