

October 20, 2010

Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs465	Rs505
EPS change FY11E/12E (%)	NA
Target Price change (%)	NA
Nifty	5,982
Sensex	19,872

Price Performance

(%)	1M	3M	6M	12M
Absolute	9	38	42	116
Rel. to Nifty	9	24	24	85

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Engines
Bloomberg	GRV@IN
Equity Capital (Rs mn)	488
Face Value(Rs)	10
No of shares o/s (mn)	49
52 Week H/L	470/180
Market Cap (Rs bn/USD mn)	23/518
Daily Avg Volume (No of sh)	122407
Daily Avg Turnover (US\$m)	1.1

Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	51.5	51.4	51.4
FII/NRI	5.3	4.4	2.1
Institutions	28.5	29.9	31.4
Private Corp	4.1	3.5	3.6
Public	10.7	10.8	11.5

Source: Capitaline

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- **Strong all-round performance – (1) Revenues up 27% yoy to Rs3.8 bn (2) 100 bps yoy expansion in EBITDA margins to 15.8% (3) Net profits up 52% yoy to Rs363 mn**
- **Continued traction in Engines division – Revenues grew 25% yoy to Rs3.2 bn while EBIT margins improved 50 bps yoy**
- **Infrastructure division heading towards break-even with 46% yoy revenue growth and EBIT loss at a mere Rs0.4 mn**
- **Maintain our earnings estimates of Rs30.7 for FY11E and Rs36.1 for FY12E. Reiterate BUY with target price of Rs505/Share (at 14X FY12E earnings)**

Strong performance – Revenues up 27% yoy, APAT up 52% yoy

Greaves Cotton (GCL) posted yet another quarter of strong all-round performance – ahead of estimates. Net profits grew by 51.8% yoy to Rs363 mn on the back of - (1) 26.7% yoy growth in revenues to Rs3784 mn - led by 25% yoy growth in Engines division (2) 100 bps yoy improvement in operating margins to 15.8% - attributed to favourable revenue mix and operating leverage (3) 42% yoy decline in interest charges and high other income. The operating profits grew by a robust 34.9% yoy to Rs599 mn. EPS for the quarter was Rs7.4 per share.

Engines division – Firing on all cylinders

The engines division continued to benefit from all-round demand from automotive and non-automotive segments. Revenues increased 25.4% yoy to Rs3188 mn, above estimates. Led by robust revenue growth and 50 bps yoy improvement in EBIT margins, segment EBIT increased 29% yoy to Rs596 mn – ahead of estimates.

Infrastructure division – heading towards right direction

Led by strong demand, Infrastructure division continued to witness strong growth momentum. Revenue growth was robust at 46.1% yoy to Rs428 mn (up 13.6% qoq), in line with estimates. On back of strong revenue growth, the division is heading towards EBIT break-even and reported reduction in EBIT loss. Segment EBIT loss stood at a mere Rs0.4 mn in Q1FY11 (our estimate – loss of Rs6 mn) versus loss of Rs11 mn in Q4FY10 and loss of Rs22 mn in Q1FY10.

Retain BUY rating with target price of Rs505/Share

We reiterate our positive bias on GCL in view of (1) Strong growth drivers in both segments – Engines (automotive and non-automotive engines) (2) Infrastructure segment expected to turn profitable in FY11E (3) Robust cash generation in business - annual run rate of Rs1.9 bn in FY11E and FY12E (4) Healthy return ratios at 37.5% ROCE and 28.4% ROE in FY12E - amongst the best in ECI industry. We maintain our earnings estimates of Rs30.7/Share and Rs36.1/Share for FY11E and FY12E respectively. We maintain BUY rating with target price of Rs505/Share (at 14X FY12E earnings).

Financial Snapshot

Rs Mn

YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY09	10,408	1,147	11.0	545	11.5	(52.7)	11.9	50.3	21.3	5.8
FY10P	13,472	2,065	15.3	1,180	24.2	165.2	27.5	19.0	10.8	4.7
FY11E	15,667	2,647	16.9	1,497	30.7	26.3	28.8	14.9	8.6	4.0
FY12E	18,090	3,058	16.9	1,762	36.1	17.7	28.4	12.7	7.2	3.3

Quarterly Performance

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
Revenue	2,988	3,428	3,580	3,477	3,784	26.7%	8.8%
Expenditure	2,544	2,845	2,996	3,023	3,185	25.2%	5.4%
as % of sales	85.1%	83.0%	83.7%	86.9%	84.2%		
Increase/Decrease in Stock	3	23	59	-139	-35		
as % of sales							
Consumption of RM	1,949	2,217	2,323	2,407	2,526	29.6%	4.9%
as % of sales	65.2%	64.7%	64.9%	69.2%	66.7%		
Traded Goods	94	60	94	132	105	12.5%	-20.0%
as % of sales	3.1%	1.8%	2.6%	3.8%	2.8%		
Employee Cost	228	229	224	295	263	15.4%	-10.8%
as % of sales	7.6%	6.7%	6.3%	8.5%	6.9%		
Other expenditure	271	315	296	328	326	20.7%	-0.5%
as % of sales	9.1%	9.2%	8.3%	9.4%	8.6%		
EBITDA	444	583	584	454	599	34.9%	31.8%
Depreciation	69	67	66	68	68		
EBIT	375	516	518	386	531	41.5%	37.5%
Other Income	5	10	15	38	17		
Interest	38	33	30	27	22		
PBT	342	492	503	397	525	53.5%	32.2%
Total Tax	103	166	167	119	162		
Adjusted PAT	239	327	336	278	363	51.8%	30.6%
(Profit)/loss from JV's/Ass/MI							
APAT after MI	239	327	336	278	363	51.8%	30.6%
Extra ordinary items	0	0	0	0	0		
Reported PAT	239	327	336	278	363	51.8%	30.6%
Reported EPS	4.9	6.7	6.9	5.7	7.4		

Margins (%)						bps	bps
EBIDTA	14.9%	17.0%	16.3%	13.1%	15.8%	96	275
EBIT	12.6%	15.0%	14.5%	11.1%	14.0%	147	292
EBT	11.4%	14.4%	14.0%	11.4%	13.9%	242	246
PAT	8.0%	9.5%	9.4%	8.0%	9.6%	159	160
Effective Tax rate	30.1%	33.6%	33.1%	30.0%	30.9%	78	87

Key Financials

Income Statement

Y/E, Jun (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	0	0	0	0
Adjusted PAT After JVs/Ass/MI	545	1,180	1,497	1,762
E/O items	15	0	0	0
Reported PAT	560	1,180	1,497	1,762
<i>Growth (%)</i>	-40.5	110.7	26.9	17.7

Cash Flow

Y/E, Jun (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	0	0	0
Chg in working cap	-855	-326	15	-205
Tax paid	-121	-554	-748	-880
Operating Cashflow	132	1253	1964	2023
Capital expenditure	-294	-1111	-500	-500
Free Cash Flow	-162	141	1464	1523
Other income	66	0	0	0
Investments	469	-553	0	0
Investing Cashflow	535	-553	0	0
Equity Capital Raised	-84	0	0	0
Loans Taken / (Repaid)	0	749	-400	-200
Interest Paid	-222	-129	-101	-84
Dividend paid (incl tax)	-169	-272	-576	-678
Income from investments	0	0	0	0
Others	0	0	0	0
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, Jun (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	0	0	0	0
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	0	0	0	0
Total Assets	4,716	6,356	6,878	7,762

Key ratios

Y/E, Jun	FY09	FY10P	FY11E	FY12E
Profitability (%)				
EBITDA Margin	1101.8	15.3	16.9	16.9
Net Margin	538.0	875.7	955.7	974.2
ROCE	18.9	32.7	35.7	37.5
ROE	11.9	27.5	28.8	28.4
ROIC	22.8	39.0	43.3	48.4
Per Share Data (Rs)				
EPS	11.5	24.2	30.7	36.1
CEPS	14.9	29.7	37.9	43.9
BVPS	78.8	97.0	115.9	138.1
DPS	4.0	7.5	9.1	10.7
Valuations (x)				
PER	50.3	19.0	14.9	12.7
P/CEPS	30.7	15.4	12.1	10.4
P/BV	5.8	4.7	4.0	3.3
EV / Sales	2.1	1.7	1.5	1.2
EV / EBITDA	21.3	11.4	8.6	7.2
Dividend Yield (%)	0.9	1.6	2.0	2.3
Gearing Ratio (x)				
Net Debt/ Equity	0.1	0.2	0.1	-0.1
Net Debt/EBITDA	0.4	0.5	0.2	-0.1
Working Capital Cycle (days)	27.7	36.7	36.5	35.7

Recommendation History: Greaves Cotton Ltd – GRV IN

Date	Reports	Reco	CMP	Target
13/08/2010	Greaves Cotton Q4FY10 Result Update	Buy	374	433
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
19/10/2010	Larsen & Toubro Q2FY11 Result Update	Accumulate	2,013	2,129
24/09/2010	ECI Strategy			
04/08/2010	Punj Lloyd Q1FY11 Result Update	Hold	121	132
29/07/2010	Voltas Q1FY11 Result Update	Buy	208	234

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