

21 January 2008

**BUY**

Price	Target Price
<b>Rs363</b>	<b>Rs442</b>

<b>Sensex</b>	<b>19,014</b>
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**Price Performance**

(%)	1M	3M	6M	12M
Absolute	(7)	0	(3)	3
Rel. to Sensex	(6)	(5)	(21)	(23)

Source: Capitaline

**Stock Details**

Sector	Engines
Reuters	GRVC.BO
Bloomberg	GRV@IN
Equity Capital (Rs mn)	488
Face Value (Rs)	10
52 Week H/L	Rs422/230
Market Cap (Rs bn)	17.7
Daily Avg Vol. (No of shares)	54940
Daily Avg Turnover (US\$mn)	0.4

**Shareholding Pattern (%)**

Promoters	45.5
FII/NRI	0.5
Institutions	25.7
Private Corp.	11.8
Public	16.6

# Greaves Cotton

Result  
Update**Attractive valuation**

Greaves Cotton Limited (GCL) reported results broadly in-line with our expectations. Though the infrastructure equipment division reported robust growth, engines segment reported subdued numbers. We believe the key trigger for the stock going ahead will be the success of the twin engine cylinder that the company has launched. We maintain BUY with target price of Rs.442

**Infrastructure business maintains strong growth**

Infrastructure business division registered 55.8% and 69.5% increase in revenues and PBIT respectively. Revenue from the segment stood at Rs.877.1mn in Q2FY08 compared to Rs.562.8mn in Q2FY07. With continuing demand from the construction boom, we expect this division to be the growth driver in the coming years.

**Engines business – yet a another quarter of subdued performance**

Engines division reported decline in revenues of 3.7% during the quarter due to slowdown in the automotive engines. Automotive engine that represents ~60% of the total engines sales has de-grown due to lower growth in the three wheeler industry. The company has launched its twin engine cylinder used for four wheeler Small Commercial Vehicle (SCV) which will be the growth driver going ahead.

**Margins take a hit due to decline in the margins of the engines segment**

During Q2FY08, GCL's EBITDA declined by 9.4% to Rs.429.4mn. EBITDA margins declined by 210bps to 12.5%, primarily due to decline in the margins of the engines segment. Due to lower sales and high operating leverage, PBIT of engines segment were down from Rs.441.1mn in Q2FY07 to Rs.327.4mn in Q2FY08. However, infrastructure equipment division reported EBIT expansion of 121bps to 13.1%.

**Higher return ratio**

Greaves will generate RoE of 39.5% and ROCE of 39.5% in FY08E and shall improve once the Aurangabad facility attains full capacity utilisation. We believe strong cash flows and higher return ratios warrants for a higher valuation multiple.

**Maintain BUY with Target price of Rs. 442**

We expect the company to report revenue of Rs.15.4bn in FY08 as compared to Rs.121.1bn. A large part of the growth will be driven by the infrastructure equipment division. We expect the company to report revenues of Rs.15.4bn in FY08 and net profit of Rs.1.3bn. The stock trades at 13.2x FY08 earnings. We maintain BUY with target price of Rs.442.

**Financials (Rsmn)**

YE-Jun	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	AEPS (Rs)	RoCE (%)	EV/ EBITDA	P/BV (x)	Div Yld (%)	P/E (x)
FY05	6523	940	14.4	484	10.6	36.5	16.3	11.6	1.9	32.0
FY06	9396	1325	14.1	768	15.7	44.0	12.8	8.2	1.9	21.6
FY07	12158	1621	13.3	1223	25.0	40.0	10.0	6.3	2.1	13.6
FY08E	15437	2194	14.2	1338	27.4	37.7	6.7	4.8	3.3	11.5

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### 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.

Y/E June	Q2FY08	Q2FY07	% chng
Revenue	3422.5	3233.3	5.9
Expense	2993.1	2759.1	
EBITDA	429.4	474.2	-9.4
EBITDA %	12.5	14.7	-2.1
Other income	21	27.9	
Depreciation	50.8	38.9	
PBIT	399.6	463.2	
Interest	49.4	51.4	
PBT	350.2	411.8	-15.0
Tax	55.6	113.6	
% of PBT	15.9	27.6	
PAT	294.6	298.2	-1.2

Y/E June	Q2FY08	Q2FY07	% chng
Engines	2467.9	2563.1	-3.7
Infrastructure	877.1	562.8	55.8
Others	78.3	134.9	-42.0
PBIT			
Engines	327.4	444.1	-26.3
Infrastructure	114.6	67.6	69.5
Others	29.4	12	145.0
PBIT%			
Engines	13.3	17.3	
Infrastructure	13.1	12.0	
Others	37.5	8.9	

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