

July 27, 2011

Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs88	Rs124
EPS change FY12E/13E (%)	NA
Target Price change (%)	NA
Nifty	5,547
Sensex	18,432

Price Performance (%)	1M	3M	6M	12M
Absolute	5	(5)	(6)	28
Rel. to Nifty	4	0	(4)	26

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Engineering & Capital Goods
Bloomberg	GRV@IN
Equity Capital (Rs mn)	488
Face Value(Rs)	10
No of shares o/s (mn)	49
52 Week H/L	462/68
Market Cap (Rs bn/US D mn)	21/443
Daily Avg Volume (No of sh)	4859978
Daily Avg Turnover (US\$m)	11.3

Shareholding Pattern (%)

	Mar-11	Dec-10	Sep-10
Promoters	51.5	51.5	51.5
FII/NRI	9.2	7.8	5.3
Institutions	27.6	29.0	28.5
Private Corp	2.7	2.5	4.1
Public	9.0	9.3	10.7

Source: Capitaline

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- Q1FY12 performance meets expectations (1) Revenue growth at 16% yoy to Rs4.0 bn (2) EBITDA margins up 110 bps yoy to 14.2% (3) APAT up 26% yoy to Rs350 mn
- Continued traction in both division (1) Engines – Revenues up 14% yoy with EBIT margins at 17.6% (2) Infrastructure – Revenues up 29% yoy with EBIT of Rs2 mn
- Reiterate that GCL is in a sweet-spot with strong growth drivers in Engines (automotive) and Infrastructure segment (turned profitable)
- Trading attractively at 9.3X FY13E earnings with healthy cash flow generation, +30% ROE. Retain BUY rating with price target of Rs124

On track - Revenues up 16% yoy, APAT up 26% yoy

Greaves Cotton (GCL) Q1FY12 performance met expectations – belying concerns on sustaining growth momentum and margins in presence of adverse business conditions. Revenues grew by 16% yoy to Rs4019 mn, in line with estimates – led by both Infrastructure (up 29% yoy) and Engines (up 14% yoy) segment. EBITDA margins expanded by 110 bps yoy to 14.2%, marginally lower than estimates owing to higher than expected other expenses. Consequently, EBITDA growth at 25% yoy to Rs570 mn was marginally below estimates. But, net profit growth at 26% yoy to Rs350 mn was in line with estimates – aided by lower than expected depreciation and interest charges.

Engines division – No breakdown – Revenue up 14%, EBIT% up 50 bps

The Engines division posted healthy revenue growth at 14% yoy to Rs3.4 bn (in line with estimates) on back of healthy volume growth in both automotive and non-automotive segments. The EBIT margins expanded by 50 bps yoy to 17.6% - contrary to our estimate of a decline in margins.

Infrastructure division – Steady improvement – Revenue up 29%, EBIT Rs3mn

Infrastructure division performance was in line with expectations with continued revenue growth momentum and corresponding improvement in profitability. It posted yet another quarter of strong revenue growth at 29% yoy to Rs486 mn – in line with estimates. It posted EBIT profit of Rs3 mn (Vs loss of Rs11 mn quarter ending Jun'11) – in line with estimates.

Attractive valuations at 9.3X FY13E; Retain BUY rating

Even in tough business environment, Greaves Cotton has reported a robust performance with no negative surprise. Further, Greaves Cotton is relatively well-placed in the ECG space with strong growth drivers in Engines and Infrastructure segment. We maintain our FY12E and FY13E earnings of Rs7.9 and Rs9.4 per share respectively. At CMP, GCL is trading attractively at 9.3X FY13E earnings given healthy cash flow generation, +30% ROE. We retain our BUY rating with price target of Rs124.

Financial Snapshot

Rs Mn

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
Mar										
FY10	13,923	2,139	15.4	1,175	4.8	116.3	29.0	18.2	11.5	5.2
FY11P (9M)	12,789	1,992	15.6	1,199	4.9	43.9	34.5	17.8	11.7	4.3
FY12E	19,606	3,249	16.6	1,922	7.9	13.4	33.9	11.1	7.3	3.4
FY13E	23,269	3,861	16.6	2,291	9.4	19.2	32.5	9.3	6.2	2.8

Quarterly Standalone Performance

YE-Mar (Rs mn)	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q1FY12	YoY (%)	QoQ (%)
Revenue	3,477	3,784	4,192	4,529	4,019	15.6	-11.3
Expenditure	3,023	3,185	3,479	3,862	3,449	14.1	-10.7
Consumption of RM	2,400	2,596	2,886	3,203	2,814	17.3	-12.1
as % of sales	69.0	68.6	68.9	70.7	70.0		
Employee Cost	295	263	277	292	287	-2.6	-1.7
as % of sales	8.5	6.9	6.6	6.4	7.1		
Other expenditure	328	326	316	367	348	6.0	-5.3
as % of sales	9.4	8.6	7.5	8.1	8.7		
EBITDA	454	599	713	667	570	25.4	-14.5
Depreciation	68	68	70	72	73	6.1	1.3
EBIT	386	531	643	595	497	28.8	-16.4
Other Income	38	17	26	34	18	-53.8	-47.9
Interest	27	22	26	24	12	-55.2	-50.0
PBT	397	525	643	604	503	26.7	-16.8
Total Tax	119	162	199	202	153	28.5	-24.3
Adjusted PAT	278	363	444	402	350	25.9	-13.0
Extra ordinary items	0	0	0	65	0	NA	-100.0
Reported PAT	278	363	444	467	350	25.9	-25.1
Adjusted EPS	1.1	1.5	1.8	1.9	1.4	25.9	-25.1
Margins (%)						(bps)	(bps)
EBIDTA	13.1	15.8	17.0	14.7	14.2	110	-50
EBIT	11.1	14.0	15.3	13.1	12.4	130	-80
PBT	11.4	13.9	15.3	13.3	12.5	110	-80
PAT	8.0	9.6	10.6	8.9	8.7	70	-20
Effective Tax rate	30.0	30.9	31.0	33.5	30.5	40	-300

Segmental Performance

YE-Jun (Rs mn)	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q1FY12	YoY (%)	QoQ (%)
Segment Revenues							
Engines	2,956	3,188	3,504	3,744	3,382	14.4	-9.7
Infrastructure	377	428	483	652	486	28.9	-25.5
Others	144	168	205	133	150	4.3	13.1
Less: Intersegment Rev.	0	0	0	0	0	-	-
Total	3,477	3,784	4,192	4,529	4,019	15.6	-11.3
Segment Results							
Engines	506	596	712	688	596	17.7	-13.5
Infrastructure	-11	0	3	6	3	-127.4	-46.6
Others	38	47	55	33	28	-26.3	-12.9
Total	533	643	769	727	627	17.6	-13.7
Add- Unall Income / (Exp)	109	96	101	33	112	-	-
Less- Interest Exp	27	22	26	24	12	-55.2	-50.0
PBT	397	525	643	604	503	26.7	-16.8
Seg. Capital Employed							
Engines	2,793	2,976	3,089	3,232	3,631	30.0	12.4
Infrastructure	807	977	966	872	1,019	26.2	16.8
Others	-33	-35	-8	-48	2	-105.5	-103.8
Unallocated	846	857	858	1,205	959	13.3	-20.4
Total	4,413	4,775	4,905	5,261	5,610	27.1	6.6
Segment Margins (%)						(bps)	(bps)
Engines	17.1	18.7	20.3	18.4	17.6	50	-80
Infrastructure	(3.0)	(0.1)	0.5	0.9	0.6	360	-30
Others	26.6	28.2	26.9	24.4	18.8	-780	-560
Average	15.3	17.0	18.3	16.0	15.6	30	-40

Note – Company has changed reporting period from June to March wef FY11. Hence FY11 is a 9 month reporting period

Key Financials

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Net Sales	13,923	12,789	19,606	23,269
<i>Growth (%)</i>	30.7	22.5	15.0	18.7
Expenditure	11,784	10,797	16,357	19,408
Materials Consumed	9,439	8,831	13,506	16,136
Employee Cost	1,162	926	1,385	1,628
Manufacturing Exp	453	422	636	754
Other Exp	730	618	830	890
EBITDA	2,139	1,992	3,249	3,861
<i>Growth (%)</i>	97.0	24.1	22.3	18.8
EBITDA margin (%)	15.4	15.6	16.6	16.6
Depreciation	305	236	397	467
EBIT	1,834	1,756	2,852	3,394
EBIT margin (%)	13.2	13.7	14.5	14.6
Other Income	34	85	90	90
Interest expenses	136	75	114	114
PBT	1,732	1,766	2,827	3,370
Tax	558	568	905	1,079
<i>Effective tax rate (%)</i>	32.2	32.1	32.0	32.0
Adjusted PAT	1,175	1,199	1,922	2,291
<i>Growth (%)</i>	172.9	36.0	20.3	19.2
Net Margin (%)	8.4	9.4	9.8	9.8
(Profit)/loss from JVs/Ass/MI	0	0	0	0
Adj. PAT After JVs/Ass/MI	1,175	1,199	1,922	2,291
E/O items	0	65	0	0
Reported PAT	1,175	1,263	1,922	2,291
<i>Growth (%)</i>	164.0	43.4	14.1	19.2

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
PBT	1,732	1,766	2,827	3,370
Depreciation	305	236	397	467
Interest Provided	136	75	114	114
Other Non-Cash items	-13	904	0	0
Chg in working cap	113	-718	157	-216
Tax paid	-460	-568	-905	-1,079
Operating Cashflow	1,814	1,695	2,591	2,655
Capital expenditure	-274	-438	-1,000	-400
Free Cash Flow	1,540	1,257	1,591	2,255
Other income	0	1	2	3
Investments	-636	-451	0	0
Investing Cashflow	-636	-450	2	3
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	-423.5	16	0	0
Interest Paid	-134	0	0	0
Dividend paid (incl tax)	-313	-421	-664	-791
Income from investments	0	0	0	0
Others	0	0	0	0
Financing Cashflow	-871	-405	-664	-791
Net change in cash	34	401	927	1,464
Opening cash position	192	225	626	1,553
Closing cash position	225	626	1,553	3,017

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Equity share capital	488	488	488	489
Reserves & surplus	3,722	4,559	5,817	7,317
Net worth	4,211	5,047	6,305	7,806
Minority Interest	-	-	-	-
Secured Loans	4	4	4	4
Unsecured Loans	143	159	159	159
Loan Funds	146	162	162	162
Net deferred tax liability	246	264	264	264
Total Liabilities	4,603	5,474	6,732	8,232
Gross Block	4,233	4,071	5,071	5,671
Less: Depreciation	1,710	1,945	2,342	2,809
Net block	2,523	2,126	2,728	2,862
Capital work in progress	282	882	882	682
Investment	983	532	532	532
Current Assets	5,003	6,529	7,693	10,305
Inventories	1,594	1,971	2,049	2,432
Sundry debtors	2,182	2,909	2,927	3,474
Cash & bank balance	225	626	1,553	3,017
Loans & advances	1,001	1,024	1,164	1,382
Other current assets	-	-	-	-
Current lia & Prov	4,188	4,595	4,990	5,921
Current liabilities	2,860	3,592	3,666	4,349
Provisions	1,328	1,003	1,324	1,571
Net current assets	815	1,934	2,704	4,384
Misc. exp	-	-	-	-
Total Assets	4,603	5,474	6,846	8,460

Key ratios

Y/E, Mar	FY10	FY11P	FY12E	FY13E
Profitability (%)				
EBITDA Margin	15.4	15.6	16.6	16.6
Net Margin	8.4	9.4	9.8	9.8
ROCE	39.4	46.5	46.7	45.4
ROE	29.0	34.5	33.9	32.5
RoIC	51.5	71.5	78.0	83.7
Per Share Data (Rs)				
EPS	4.8	4.9	7.9	9.4
CEPS	6.2	6.1	9.5	11.3
BVPS	16.9	20.3	25.5	31.6
DPS	5.4	1.5	2.4	2.8
Valuations (x)				
PER	18.2	17.8	11.1	9.3
P/CEPS	14.1	14.3	9.2	7.8
P/BV	5.2	4.3	3.4	2.8
EV / Sales	1.5	1.7	1.1	0.9
EV / EBITDA	11.5	11.7	7.3	6.2
Dividend Yield (%)	6.2	1.7	2.7	3.2
Gearing Ratio (x)				
Net Debt/ Equity	-0.3	-0.2	-0.3	-0.4
Net Debt/EBIDTA	-0.5	-0.5	-0.6	-0.9
Working Cap Cycle (days)	31.0	29.4	43.2	55.6

Note – Company has changed reporting period from June to March wef FY11. Hence FY11 is a 9 month reporting period. Correspondingly, FY11P and FY12E growth numbers calculated on annualized basis.

Recommendation History: Greaves Cotton Ltd – GRV IN

Date	Reports	Reco	CMP	Target
29/04/2011	Greaves Cotton Q3FY11 Result Update	Buy	94	124
03/02/2011	Greaves Cotton Event Update	Buy	92	111
21/01/2011	Greaves Cotton Q2FY11 Result Update	Buy	91	111
20/10/2010	Greaves Cotton Q 1FY11 Result Update	Buy	465	505

Recent Research Reports

Date	Reports	Reco	CMP	Target
26/07/2011	BHEL Q1FY12 Result Update	Hold	1,909	2,150
25/07/2011	Thermax Q1FY12 Result Update	Buy	610	735
01/06/2011	Punj Lloyd Q4FY11 Result Update	Hold	65	91
31/05/2011	Cummins India Q4FY11 Result Update	Buy	685	800

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