

October 24, 2011

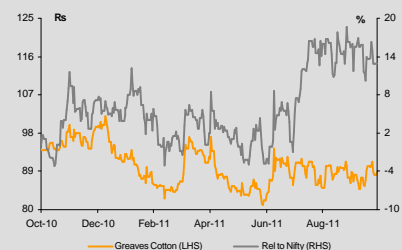
Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs89	Rs103
EPS change FY11E/12E (%)	-2/-4
Target Price change (%)	NA
Nifty	5,098
Sensex	16,939

Price Performance

(%)	1M	3M	6M	12M
Absolute	2	2	(4)	(5)
Rel. to Nifty	(3)	12	11	13

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Engines
Bloomberg	GRV@IN
Equity Capital (Rs mn)	488
Face Value(Rs)	2
No of shares o/s (mn)	244
52 Week H/L	112/80
Market Cap (Rs bn/USD mn)	22/441
Daily Avg Volume (No of sh)	122807
Daily Avg Turnover (US\$m)	0.2

Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	51.6	51.5	51.5
FII/NRI	7.4	9.2	7.8
Institutions	29.3	27.6	29.0
Private Corp	2.8	2.7	2.5
Public	8.8	9.0	9.3

Source: Capitaline

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- **Net Profit growth at 7% yoy to Rs386 mn meets expectations but (1) Revenues up 16% yoy to Rs4.4 bn and (2) EBITDA margins down 150 bps yoy to 14.4% below expectation**
- **Engines deliver despite tough business conditions – Sales up 22% yoy with EBIT margins at 16.6%. Infrastructure revenues fall 21% yoy with EBIT loss of Rs12 mn**
- **Commences sales to Tata Motors – supplied 6,000 units in Q2FY12. Expects to supply 30,000 to 35,000 units in H2FY12E**
- **Revise earnings down by 2% for FY12E to Rs6.9 and by 4% for FY13E to Rs7.9 per share. Retain BUY rating with price target of Rs103 per share – Reiterate top mid-cap pick**

Net profit growth at 7% yoy to Rs386 mn meets expectations

Greaves Cotton (GCL) reported mixed performance in Q2FY12 – (1) Revenues grew by 16% yoy to Rs4.4 bn (marginally ahead of estimates) – led by Engines segment (up 22% yoy) (2) EBITDA margins declined 150 bps yoy to 14.4% (Vs estimate of 15.7%) - attributed to (a) un-favorable revenue mix, (b) high input costs (gross margins reducing for past 5 quarters – 31.4% to 28.8% in Sep'11) and (c) time-lag involved in price hikes – undertaken in quarter end (3) EBITDA growth subdued at 5% yoy to Rs631 mn – below estimates (4) However, lower than expected depreciation offset decline in operating margins. Consequently, net profit growth at 7% yoy to Rs386 mn was in line with expectations.

Engines division – Strong growth with decline in Ebit margins

The Engines division continued to post healthy growth – despite moderate industry growth. Segment revenue grew by 22% yoy to Rs3.9 bn (above estimates) – led by commencement of engine supplies to Tata Motors, higher growth in 4W segment (Vs 3W) and newer applications for diesel engines (smaller tractors, fire-fighting and export to Sri-Lanka). However, EBIT margins declined 210 bps yoy to 16.6% (below estimates) - due to higher contribution of low margin products and high input costs.

Infrastructure division – Posts EBIT loss of Rs12 mn

Infrastructure division performance was affected by a prolonged monsoon, prevalence of high interest costs and continued delay in implementing emission norms, which adversely impacted demand for construction equipment. Consequently revenues declined 21% yoy to Rs339 mn (below estimates as well as break even level) and resulting in EBIT loss of Rs12 mn.

Commences supply to Tata Motors – September volumes at 4,000 units

GCL commenced supplies to Tata Motors (for Ace-Zip and Ace-Magic) – it supplied 6,000 units in Q2FY12 with September' 11 supplies reaching to 4,000 units. GCL expects to supply an additional 30,000 to 35,000 units in H2FY12E to Tata Motors – in line with our estimates. Further, GCL highlighted strong acceptance of the new launches by Tata Motors – hinting at robust growth momentum in FY13E.

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	1,167	4.8	115.2	28.8	18.6	11.7	5.3
FY11P (9M)	12,789	1,999	15.6	1,188	4.9	36.2	34.2	18.3	11.9	4.4
FY12E	18,878	2,897	15.3	1,682	6.9	5.5	30.1	12.9	8.5	3.6
FY13E	21,539	3,310	15.4	1,941	7.9	15.4	28.6	11.2	7.4	3.0

Quarterly Standalone Performance

YE-Mar (Rs mn)	Q1FY11	Q2FY11	Q3FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	Gr (%)
Revenue	3,784	4,192	4,529	4,019	4,396	16.2	9.4	8,414	7,261	15.9
Expenditure	3,185	3,479	3,862	3,449	3,765	18.2	9.2	7,214	6,208	16.2
Consumption of RM	2,596	2,886	3,203	2,814	3,131	20.6	11.2	5,945	4,996	19.0
as % of sales	68.6	68.9	70.7	70.0	71.2			70.7	68.8	
Employee Cost	263	277	292	287	302	15.0	5.4	589	558	5.7
as % of sales	6.9	6.6	6.4	7.1	6.9			7.0	7.7	
Other expenditure	326	316	367	348	332	1.7	-4.5	680	654	3.9
as % of sales	8.6	7.5	8.1	8.7	7.6			8.1	9.0	
EBITDA	599	713	667	570	631	5.4	10.7	1,201	1,053	14.0
Depreciation	68	70	72	73	75	9.7	2.9	147	136	7.9
EBIT	531	643	595	497	556	4.8	11.8	1,054	917	14.9
Other Income	17	26	34	18	19	11.4	5.7	36	55	-33.9
Interest	22	26	24	12	22	-3.1	78.5	34	49	-31.6
PBT	525	643	604	503	553	5.4	10.0	1,056	922	14.5
Total Tax	162	199	202	153	167	2.8	8.8	320	281	13.7
Adjusted PAT	363	444	402	350	386	6.5	10.6	736	640	14.9
Extra ordinary items	0	0	65	0	0	NA	NA	0	0	-
Reported PAT	363	444	467	350	386	6.5	10.6	736	640	14.9
Adjusted EPS	1.5	1.8	1.9	1.4	1.6	6.5	10.6	3.0	2.6	14.9

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	15.8	17.0	14.7	14.2	14.4	-150	20	14.3	14.5	-20
EBIT	14.0	15.3	13.1	12.4	12.7	-140	30	12.5	12.6	-10
PBT	13.9	15.3	13.3	12.5	12.6	-130	10	12.5	12.7	-10
PAT	9.6	10.6	8.9	8.7	8.8	-80	10	8.7	8.8	-10
Effective Tax rate	30.9	31.0	33.5	30.5	30.1	-80	-30	30.3	30.5	-20

Lower earnings by 2% in FY12E and by 4% in FY13E

We are lowering our earnings estimates led by reduction in operating margin assumptions, to factor (1) increasing revenue contribution from auto OEMs – which is expected to earn lower operating margins than traditional business and possible cannibalization of existing 3W volumes (2) sustained rise in input costs. We had already factored slowdown in Infrastructure business through our report dated 22 Oct'11 - *Delusional optimism to reality*. Consequently we have lowered our operating margins by 20 bps and 50 bps for FY12E and FY13E respectively. The corresponding revision in FY12E earnings estimates is 2% to Rs6.9 per share and that for FY13E by 4% to Rs7.9 per share.

Revision in Earning Estimates

Y/E, Mar (Rs. mn)	FY12E			FY13E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	18,878	18,878	0.0	21,539	21,539	0.0
EBITDA	2,944	2,897	-1.6	3,426	3,310	-3.4
EBITDA Margin (%)	15.6	15.3	-20 bps	15.9	15.4	-50 bps
APAT	1,714	1,682	-1.8	2,020	1,941	-3.9
EPS (Rs)	7.0	6.9	-1.8	8.3	7.9	-3.9

Retain BUY – Top pick in our mid-cap ECG universe

GCL has posted strong performance despite tough business conditions. We expect GCL to post healthy earnings growth at 11% CAGR during FY11-13E period alongside strong cash generation and return ratios (ROCE at +40% and ROE at +30%). At CMP, the stock is trading attractively at 11.2X FY13E earnings. Retain our BUY rating with price target of Rs103 – Reiterate as top mid-cap pick in our ECG universe.

Segmental Performance

YE-Mar (Rs mn)	Q1FY11	Q2FY11	Q3FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	Gr (%)
Segment Revenues										
Engines	3,188	3,504	3,744	3,382	3,887	21.9	14.9	7,269	6,143	18.3
Infrastructure	428	483	652	486	339	-21.0	-30.3	824	806	2.3
Others	168	205	133	150	170	1.3	13.2	321	312	2.7
Less: Intersegment Rev.	0	0	0	0	0	-	-	0	0	-
Total	3,784	4,192	4,529	4,019	4,396	16.2	9.4	8,414	7,261	15.9
Segment Results										
Engines	596	712	688	596	646	8.4	8.5	1,242	1,102	12.7
Infrastructure	0	3	6	3	-12	2825.0	-477.4	-9	-12	-26.5
Others	47	55	33	28	44	-8.0	54.1	72	86	-16.2
Total	643	769	727	627	678	5.5	8.2	1,305	1,176	11.0
Add- Unall Income / (Exp)	96	101	33	112	104	-	-	216	205	-
Less- Interest Exp	22	26	24	12	22	-3.1	78.5	34	49	-31.6
PBT	525	643	604	503	553	5.4	10.0	1,056	922	14.5
Seg. Capital Employed										
Engines	2,976	3,089	3,232	3,631	3,807	27.9	4.9	2,811	2,821	-0.3
Infrastructure	977	966	872	1,019	1,284	31.4	26.0	847	762	11.3
Others	-35	-8	-48	2	-41	16.7	-2394.4	-3	13	-126.8
Unallocated	857	858	1,205	959	833	-2.8	-13.1	939	1,250	-24.8
Total	4,775	4,905	5,261	5,610	5,883	23.2	4.9	4,595	4,845	-5.2
Segment Margins (%)										
						(bps)	(bps)			(bps)
Engines	18.7	20.3	18.4	17.6	16.6	-210	-100	17.1	17.9	-90
Infrastructure	(0.1)	0.5	0.9	0.6	(3.5)	-340	-410	(1.0)	(1.5)	40
Others	28.2	26.9	24.4	18.8	25.6	-260	680	22.4	27.5	-510
Average	17.0	18.3	16.0	15.6	15.4	-160	-20	15.5	16.2	-70

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

Key Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	13,923	12,789	18,878	21,539
<i>Growth (%)</i>	30.7	22.5	10.7	14.1
Expenditure	11,784	10,790	15,981	18,228
Materials Consumed	9,439	8,828	13,126	15,051
Employee Cost	1,180	945	1,381	1,562
Manufacturing Exp	421	388	567	646
Other Exp	744	630	907	969
EBITDA	2,139	1,999	2,897	3,310
<i>Growth (%)</i>	97.0	24.6	8.7	14.2
EBITDA margin (%)	15.4	15.6	15.3	15.4
Depreciation	305	236	400	466
EBIT	1,834	1,763	2,497	2,845
EBIT margin (%)	13.2	13.8	13.2	13.2
Other Income	27	67	72	105
Interest expenses	136	75	94	94
PBT	1,725	1,755	2,476	2,856
Tax	558	567	793	915
<i>Effective tax rate (%)</i>	32.3	32.3	32.0	32.0
Adjusted PAT	1,167	1,188	1,682	1,941
<i>Growth (%)</i>	175.3	35.7	6.2	15.4
Net Margin (%)	8.4	9.3	8.9	9.0
(Profit)/loss from JVs/Ass/MI	0	0	0	0
Adj. PAT After JVs/Ass/MI	1,167	1,188	1,682	1,941
E/O items	7	75	-1	-1
Reported PAT	1,175	1,263	1,682	1,940
<i>Growth (%)</i>	164.0	43.4	-0.1	15.4

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
PBT	1,732	1,831	2,476	2,856
Depreciation	305	236	400	466
Interest Provided	136	75	94	94
Other Non-Cash items	-13	-93	0	0
Chg in working cap	113	-307	274	-147
Tax paid	-460	-548	-793	-915
Operating Cashflow	1,814	1,193	2,450	2,353
Capital expenditure	-274	-363	-700	-500
Free Cash Flow	1,540	830	1,750	1,853
Other income	0	0	0	0
Investments	-636	469	0	0
Investing Cashflow	-636	469	0	0
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	-423.5	16	0	0
Interest Paid	-134	-89	-94	-94
Dividend paid (incl tax)	-313	-822	-581	-670
Income from investments	0	0	0	0
Others	0	0	0	0
Financing Cashflow	-871	-895	-675	-764
Net change in cash	34	401	1,076	1,089
Opening cash position	192	225	626	1,702
Closing cash position	225	626	1,702	2,791

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity share capital	488	488	488	488
Reserves & surplus	3,722	4,559	5,660	6,931
Net worth	4,211	5,047	6,148	7,419
Minority Interest	-	-	-	-
Secured Loans	4	23	23	23
Unsecured Loans	143	139	139	139
Loan Funds	146	162	162	162
Net deferred tax liability	246	264	264	264
Total Liabilities	4,603	5,474	6,575	7,845
Gross Block	4,233	4,652	5,452	6,052
Less: Depreciation	1,710	1,878	2,278	2,743
Net block	2,523	2,774	3,174	3,309
Capital work in progress	282	233	133	33
Investment	983	532	532	532
Current Assets	5,003	6,529	7,614	9,537
Inventories	1,594	1,971	1,973	2,252
Sundry debtors	2,182	2,909	2,818	3,215
Cash & bank balance	225	626	1,702	2,791
Loans & advances	1,001	1,024	1,121	1,279
Other current assets	-	-	-	-
Current lia & Prov	4,188	4,595	4,878	5,564
Current liabilities	2,860	3,592	3,584	4,088
Provisions	1,328	1,003	1,295	1,477
Net current assets	815	1,934	2,736	3,973
Misc. exp	-	-	-	-
Total Assets	4,603	5,474	6,575	7,846

Key ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	15.4	15.6	15.3	15.4
Net Margin	8.4	9.3	8.9	9.0
ROCE	39.4	46.7	41.5	39.5
ROE	28.8	34.2	30.1	28.6
RoIC	51.5	65.3	60.2	65.4
Per Share Data (Rs)				
EPS	4.8	4.9	6.9	7.9
CEPS	6.2	6.2	8.5	9.8
BVPS	16.9	20.3	24.8	30.0
DPS	5.4	1.5	2.1	2.4
Valuations (x)				
PER	18.6	18.3	12.9	11.2
P/CEPS	14.3	14.4	10.4	9.0
P/BV	5.3	4.4	3.6	3.0
EV / Sales	1.6	1.7	1.2	1.0
EV / EBITDA	11.7	11.9	8.5	7.4
Dividend Yield (%)	6.1	1.7	2.3	2.7
Gearing Ratio (x)				
Net Debt/ Equity	-0.2	-0.1	-0.3	-0.4
Net Debt/EBITDA	-0.3	-0.3	-0.6	-0.9
Working Cap Cycle (days)	31.0	29.4	45.1	56.8

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

Recommendation History: Greaves Cotton Ltd – GRV IN

Date	Reports	Reco	CMP	Target
19/10/2011	Engineering and Capital Goods Sector Update			
27/07/2011	Greaves Cotton Q1FY12 Result Update	Buy	88	124
29/04/2011	Greaves Cotton Q3FY11 Result Update	Buy	94	124
03/02/2011	Greaves Cotton Event Update	Buy	92	111

Recent Research Reports

Date	Reports	Reco	CMP	Target
21/10/2011	Thermax Q2FY12 Result Update	Accumulate	425	495
21/10/2011	Larsen & Toubro Q2FY12 Result Update	Accumulate	1,336	1,603
16/08/2011	McNally Bharat Q1FY12 Result Update	Buy	135	201
16/08/2011	Punj Lloyd Q1FY12 Result Update	Hold	56	76

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