

Stable set of numbers, muted growth in after market dented margins; buyback to impart downside support to stock price, downgrade to Hold with a revised TP of Rs 165

Current	Previous
CMP: Rs 149	
Rating: Hold	Rating: Buy
Target: Rs 165	Target: Rs 159

(NR-Not Rated)

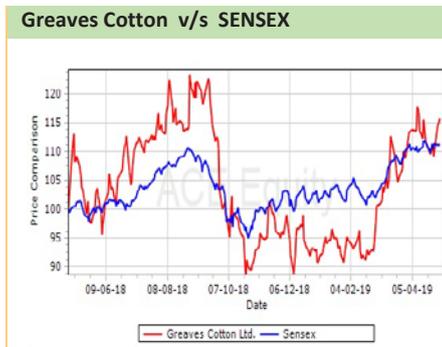
Stock Info	
INDEX	
BSE	501455
NSE	GREAVESCOT
Bloomberg	GRV IN
Reuters	GRVL.NS
Sector	Industrial Machinery
Face Value (Rs)	2
Equity Capital (Rs Mn)	488
Market Cap (Rs Mn)	36386
52w H/L (Rs)	165 / 111
Avg Weekly Vol (BSE+NSE)	15,152,490

Shareholding Pattern	%
(As on March, 2019)	
Promoters	51.9
Public & Others	48.1

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
GREAVES COTTON	22.1	24.6	18.9
SENSEX	6.9	11.3	10.8

Source: ACE Equity, Arihant Research



Source: ACE Equity, Arihant Research

Greaves Cotton came out with good set of numbers, revenue surpassed our estimate, however EBITDA and PAT were slightly below our estimate. Standalone revenue for Q4FY19 grew 8.6% YoY to Rs 5281 mn, ahead of our estimate of Rs 4740 mn, while EBITDA came at Rs 700 mn slightly below our estimate of Rs 760 mn. EBITDA margin contracted by 112bps YoY to 13.3% from 14.4% in Q4FY18, mainly due to high commodity prices and slower after market growth. Adjusted PAT (adjustment for exceptional item comprising of Rs 155mn provision for IL&FS exposure) for the quarter stood at Rs 503 mn below our estimate of Rs 570 mn. Key positive trigger going forward will be ramping up of its 200cc BSVI compliant CREST CNG engine volume (in prototype stage with positive customer feedback, though no lock-in as of now). The buyback offer (@175) at a premium to CMP will offer downside support to the stock in absence of near term trigger. We remain positive on Greaves Cotton from longer term perspective, however due to lack of near term trigger, downgrade our rating from Buy to Hold with a revised target price of Rs 165.

Q4FY19 Highlights

- Engine segment witnessed a volume growth of 6.8% YoY to 86,647 units from 81,130 units in Q4FY18. While for 3W the volume growth was 7.5% YoY to 74,060 units in Q4FY19 from 68,861 units in Q4FY18.
- EBIT of engine segment reported a rise of 3.9% YoY to Rs 821mn, with an EBIT margin of 16.7%, a contraction of 31bps YoY.
- In the agri equipment segment, GCL has seen decent volume growth of 26.9% YoY in pumpsets, with 25,319 units in Q4FY19 against 19,952 units in Q4FY18,
- **Ampere Update:** Standalone loss was at Rs 35mn during Oct-March 2019 period (after acquisition) while impact of Ampere on consolidated numbers was at Rs 24mn. Network and business ramp-up are on track with Ampere having 120 outlets now (v/s 75 in Q3FY19). Ampere did Rs 536mn revenue in FY19 against Rs 185mn in FY18, which shows Ampere performance clearly improved after acquisition by Greaves Cotton.

Valuations

At CMP of Rs 149, Greaves Cotton is trading at FY20E and FY21E, P/E multiples of 17.1x and 14.9x respectively. We have increased our target P/E slightly to 16.5x from 16x earlier and now value the stock at 16.5x FY21E earnings which yields a target price of Rs 165 per share. We have a Hold rating on the stock, with revised TP of Rs 165, giving an upside of 10.7%.

Financial Performance

YE March (Rs Mn)	Net Sales	EBITDA	PAT	EPS (Rs)	EBITDA Margin %	RoE (%)	P/E (x)
FY18	17,921	2,553	1,545	6.3	14.2	16.1	23.6
FY19	19,878	2,747	1,872	7.7	13.8	19.3	19.4
FY20E	21,537	3,096	2,127	8.7	14.4	20.5	17.1
FY21E	24,532	3,551	2,448	10.0	14.5	22.0	14.9

Source: Company, Arihant Research

Q4FY19 Financial Performance

Rs Mn (Standalone)	Q4FY19	Q3FY19	Q3FY18	Q-o-Q	Y-o-Y
Net Revenue	5,281	5,065	4,862	4.3%	8.6%
Material Cost	3,684	3,463	3,322	6.4%	10.9%
Employee cost	422	425	380	-0.5%	11.1%
Other Expenses	475	472	461	0.8%	3.1%
EBITDA	700	706	699	-0.8%	0.2%
EBITDA margin %	13.3%	13.9%	14.4%	-68bps	-112bps
Other Income	86	101	150	-14.9%	-43.0%
Depreciation	117	121	131	-3.1%	-11.0%
EBIT	669	685	717	-2.5%	-6.8%
Finance cost	5	10	6	-48.0%	-13.3%
Exceptional Item	-129	-50	133	-	-
PBT	535	625	844	-14.5%	-36.7%
Tax Expense	161	198	278	-19.0%	-42.2%
Effective tax rate %	30.1%	31.7%	32.9%	-165bps	-284bps
Reported Net Profit	374	427	567	-12.5%	-34.0%
Adj Net Profit	503	477	433	5.3%	16.0%
<i>Adj Net margin %</i>	<i>9.5%</i>	<i>9.4%</i>	<i>8.9%</i>	<i>10bps</i>	<i>60bps</i>
<i>Reported EPS (Rs)</i>	<i>1.5</i>	<i>1.7</i>	<i>2.3</i>	<i>-12.5%</i>	<i>-34.0%</i>
Adj EPS (Rs)	2.1	2.0	1.8	5.3%	16.0%

Source: Company, Aриhant Research

Post Result Conference Call Highlights

- After market growth has gone down in Q4FY19, due to liquidity issues faced by customers as well as higher inventory level at distributor level, though for FY19 the after-market segment has seen double digit growth.
- The company has recognised Rs 660mn exceptional loss due to IL&FS exposure.
- Q4FY19 saw margin pressure due to muted after market growth and high commodity prices. Management expects 13.5-14% margin to be maintained going forward, if commodities remain in this range.
- Ampere to breakeven at EBITDA level in FY20E while PAT level breakeven will come in FY21E, mainly due to goodwill, depreciation and interest costs consideration.
- Ampere is market leader in slow speed E-scooter segment, however in the high speed segment it has only 15% market share where it has competition from Hero and others.
- **FAME II scheme Update** – In the new scheme, 50% of parts to be procured locally and government is likely to give extension of six months for implementation. Greaves Cotton is well placed with more than 300+ retail outlets to take benefit of the opportunity for FAME subsidy and is currently working with suppliers. Also some pricing change will be there for electric 2-wheelers due to change in subsidy scheme under FAME II. As of now no pricing change has been taken by Greaves Cotton.
- Greaves is at present working with OEMs for single cylinder engines for BS-VI compliant transition. However, the potential cost increase on account of BS-VI transition has not been quantified yet by the company.

Standalone Financials

Income Statement (Rs Mn)

Year End-March	FY17	FY18	FY19E	FY20E	FY21E
Revenues	16,343	17,921	19,878	21,537	24,532
<i>Change (%)</i>	1.3%	9.7%	10.9%	8.3%	13.9%
Raw materials	9,886	11,209	13,585	14,645	16,657
Stock Adjustments	-59	230	0	0	0
Employee costs	1,593	1,673	1,747	1,831	2,085
Other expenses	1,714	1,597	1,799	1,965	2,239
Total Expenses	13,908	15,368	17,131	18,441	20,981
EBITDA	2,434	2,553	2,747	3,096	3,551
Other Income	502	453	416	538	613
Depreciation	467	524	488	534	594
Interest	8	8	33	18	22
PBT	2,462	2,474	2,642	3,082	3,548
Extra-ordinary	-60	-482	179	0	0
PBT after ext-ord.	2,521	2,956	2,463	3,082	3,548
Tax	680	930	770	956	1,100
<i>Rate (%)</i>	27.0%	31.5%	31.5%	31.0%	31.0%
PAT	1,841	2,026	1,693	2,127	2,448
Adjusted PAT	1,781	1,545	1,872	2,127	2,448
<i>Change (%)</i>	2.0%	-13.3%	21.2%	13.6%	15.1%

Source: Company, Arianth Research

Balance Sheet (Rs Mn)

Year End-March	FY17	FY18	FY19	FY20E	FY21E
Sources of Funds					
Share Capital	488	488	488	488	488
Reserves & Surplus	8,722	9,115	9,203	9,886	10,640
Net Worth	9,210	9,604	9,692	10,375	11,128
Loan Funds					
Deferred Tax & other liabilities	216	271	269	269	269
Capital Employed	9,426	9,875	9,961	10,644	11,397
Application of Funds					
Gross Block	3,331	3,907	4,451	4,951	5,451
Less: Depreciation	827	1,351	1,839	2,373	2,967
Net Block	2,504	2,556	2,611	2,577	2,483
CWIP	563	581	710	710	710
Other non current assets	56	124	179	179	179
Deferred tax assets	187	221	230	230	230
Net fixed assets	3,310	3,483	3,731	3,697	3,603
Investments					
Debtors	2,702	2,527	3,365	3,835	4,369
Inventories	1,294	1,094	1,200	1,003	1,141
Cash & bank balance	127	331	424	1,994	2,867
Loans & advances & other CA	815	881	317	317	317
Total current assets	4,938	4,833	5,305	7,149	8,693
Current liabilities	2,755	3,304	3,889	5,015	5,713
Provisions	211	237	201	201	201
Net current assets	1,973	1,292	1,215	1,933	2,780
Total Assets	9,426	9,875	9,961	10,644	11,397

Source: Company, Arianth Research

Cash Flow Statement (Rs Mn)

Year End-March	FY17	FY18	FY19	FY20E	FY21E
PBT	2,521	2,956	2,463	3,082	3,548
Depreciation	467	524	488	534	594
Interest & others	-494	-445	-383	-520	-591
Cash flow before WC changes	2,494	3,035	2,569	3,096	3,551
(Inc)/dec in working capital	-234	1,117	1,654	-1,472	-804
Operating CF after WC changes	2,260	4,151	4,223	1,624	2,747
Less: Taxes	-680	-930	-770	-956	-1,100
Operating cash flow	1,580	3,222	3,452	668	1,647
(Inc)/dec in F.A + CWIP	2	-139	-313	-500	-500
(Pur)/sale of investment	-526	-957	86	0	0
Cash flow from investing	-524	-1,096	-226	-500	-500
Free cash flow (FCF)	1,580	3,185	3,204	168	1,147
Loan raised/(repaid)	0	0	0	0	0
Equity raised	0	0	0	0	0
Interest & others	337	-303	-1,514	3,021	1,344
Dividend	-1,472	-1,618	-1,618	-1,618	-1,618
Cash flow from financing activities	-1,135	-1,921	-3,133	1,403	-275
Net inc/(dec) in cash	-79	204	93	1,571	873
Opening balance of cash	206	127	331	424	1,994
Closing balance of cash	127	331	424	1,994	2,867

Source: Company, Arianth Research

Key Ratios

Year End-March	FY17	FY18	FY19	FY20E	FY21E
Per share (Rs)					
EPS	7.3	6.3	7.7	8.7	10.0
CEPS	9.2	8.5	9.7	10.9	12.5
BVPS	37.7	39.3	39.7	42.5	45.6
DPS	6.0	6.6	6.6	6.6	6.6
Payout (%)	82.6%	104.8%	86.5%	76.1%	66.1%
Valuation (x)					
P/E	20.4	23.6	19.4	17.1	14.9
P/CEPS	16.2	17.6	15.4	13.7	12.0
P/BV	4.0	3.8	3.8	3.5	3.3
EV/EBITDA	14.9	14.1	13.1	11.1	9.4
Dividend Yield (%)	4.0%	4.4%	4.4%	4.4%	4.4%
Return ratio (%)					
EBIDTA Margin	14.9%	14.2%	13.8%	14.4%	14.5%
PAT Margin	10.9%	8.6%	9.4%	9.9%	10.0%
ROE	19.3%	16.1%	19.3%	20.5%	22.0%
ROCE	20.9%	20.6%	22.7%	24.1%	25.9%
Leverage Ratio (%)					
Total D/E	0.0	0.0	0.0	0.0	0.0
Net D/E	0.0	0.0	0.0	-0.2	-0.3
Turnover Ratios					
Asset Turnover (x)	1.7	1.8	2.0	2.0	2.2
Inventory Days	45	33	32	25	25
Receivable Days	60	51	62	65	65
Payable days	66	72	75	85	85

Source: Company, Arianth Research

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Stock Rating Scale

	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

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