

Weak Performance amid auto slowdown and Covid related lockdown

CMP: Rs 84

Rating: Hold

Target Price: Rs 88

Stock Info

BSE	501455
NSE	GREAVESCOT
Bloomberg	GRV IN
Reuters	GRVL.BO
Sector	Industrial Machinery
Face Value (Rs)	2
Equity Capital (Rs mn)	462
Mkt Cap (Rs mn)	19,375
52w H/L (Rs)	154 / 66
Avg Yearly Vol (in 000')	343

Shareholding Pattern %

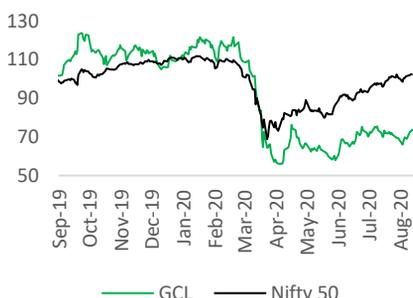
(As on June, 2020)

Promoters	54.82
FII	14.34
DII	13.13
Public & Others	17.71

Stock Performance (%)

	3m	6m	12m
Greaves Cotton	14.3	-39.7	-29.6
Nifty 50	24.0	-6.9	1.8

Greaves Vs Nifty



Greaves Cotton (GCL) reported weak set of numbers during Q1FY21, impacted due to Covid related disruption amid auto slowdown. Revenue for the quarter fell by 69% YoY/59% QoQ to Rs 1,471 mn, due to significant decline in sales volumes across the segment. Gross margin of the Company fell by 416 bps YoY/69bps QoQ to 27.8%, primarily, due to high material cost. Sharp decline in revenue and fall in gross margin leading to EBITDA loss during the quarter. Company has reported EBITDA loss of Rs 217 mn vs. EBITDA gain of Rs 613 mn YoY. Loss for the quarter stood at Rs 242 mn as against profit of Rs 382 mn in Q1FY20.

Volumes remained under pressure

- Overall Engine segment registered a volume de-growth of 80% to 16,371 units from 79,686 units YoY. In the engine segment, 3W sales volume declined by 83% YoY to 11,216 units while 4W witnessed Nil sales during the quarter.
- In the Agri segment, both pump set and power tiller volume declined by 77% & 51% respectively.
- E-Mobility segment registered a de-growth of 58% YoY to 1,752 units.

Ampere update (As on Q1FY21): Ampere by Greaves reported revenue declined by 41% YoY to Rs 89 mn. Company has reported EBITDA loss of Rs 48 mn. Reported loss for the quarter stood at Rs 54 mn vs. Rs 38 mn YoY. Ampere market share has increased to 24% in E-2W from 21% in previous quarter.

Key takeaways from Conference call:

- Company has introduced Greaves 'Genius' IOT enabled smart Genset.
- Company has also launched Ampere Magnus pro high speed Scooter.
- Company has added 40 new Ampere dealers.
- 3W segment is witnessing more stress than other segment because of social distancing norms.
- 75% of dealership networks are operational now.
- Margins deterioration was primarily due to BS VI transition. Company is stabilizing its supply chain cost and has taken active cost reduction measures which will help in margins improvement going forward.
- In next 4-6 quarter, margins are expected to inch back to its previous level, once cost will stabilize for BS-VI engine.
- GCL imports certain material part from China for power tillers but it has started doing some indigenization to mitigate the risk.
- Ampere would achieve breakeven point at EBITDA level in next few quarters.

Outlook & Valuation

At CMP of Rs 84, GCL is trading at FY21E and FY22E, P/E multiple of 14.5x and 12.8x respectively. After factoring in Q1FY21 result, we further downgrade our revenue estimates by 10%/11% and PAT estimates by 15%/14% respectively for FY21E and FY22E. We believe near term outlook of the company to remain sluggish owing to weakness in the auto industry coupled with BS-VI transition and covid-19 related disruption. We maintain our Hold rating on the stock with a revised target price of Rs 88, valuing it at PE multiple of 13.5x to its FY22E EPS of Rs 6.5, which yields a target price of Rs 88 per share.

Quarterly Result

Rs Mn (Standalone)	Q1FY21	Q4FY20	Q1FY20	Q-o-Q	Y-o-Y
Net Revenue	1,471	3,596	4,768	-59.1%	-69.2%
Material Cost	1,061	2,570	3,243	-58.7%	-67.3%
Employee cost	347	279	458	24.2%	-24.3%
Other Expenses	280	441	456	-36.6%	-38.6%
EBITDA	-217	306	613	-	-
EBITDA margin %	-14.7%	15.6%	13.3%	-	-
Other Income	22	33	74	-35.6%	-71.0%
Depreciation	118	144	123	-18.4%	-4.1%
EBIT	-313	195	564	-	-
Finance cost	23	11	6	115.2%	264.5%
Exceptional Item	-	-50	-	-	-
PBT	-335	134	558	-	-
Tax Expense	-93	34	176	-	-
Effective tax rate %	27.8%	25.3%	30.1%	-	-
Reported Net Profit	-242	100	382	-	-
Adj Net Profit	-242	151	382	-	-
<i>Adj Net margin %</i>	<i>-16.5%</i>	<i>4.2%</i>	<i>8.0%</i>	-	-
<i>Reported EPS (Rs)</i>	<i>-1.1</i>	<i>0.4</i>	<i>1.6</i>	-	-
Adj EPS (Rs)	-1.0	0.6	1.6	-	-

Source: Company, Arianth Research

Volumes by Business Segment

Business Volume	Q1FY21	Q4FY20	Q1FY20	QoQ	YoY
Auto	16,371	46,784	79,686	-65.0%	-79.5%
- 3W	11,216	37,516	65,045	-70.1%	-82.8%
- 4W	-	529	3,279	-	-
- Others	5,155	8,739	11,362	-41.0%	-54.6%
Auxiliary Power	275	736	1,102	-62.6%	-75.0%
Agri	6,317	11,928	20,211	-47.0%	-68.7%
- Pumpset	4,264	11,283	18,268	-62.2%	-76.7%
- Tiller	436	112	880	289.3%	-50.5%
- Other LAE	1,617	533	1,063	203.4%	52.1%
EMB	1,752	5,947	4,215	-70.5%	-58.4%
- E2W	1,752	5,029	3,728	-65.2%	-53.0%
- Others	-	918	487	-	-

Source: Company, Arianth Research

Annual Financials

Income Statement (Rs Mn)

Year End-March	FY19	FY20	FY21E	FY22E
Revenues	19,878	18,211	16,229	17,283
<i>Change (%)</i>	10.9%	-8.4%	-10.9%	6.5%
Raw materials	13,585	12,492	11,312	11,925
Stock Adjustments	0	0	0	0
Employee costs	1,747	1,580	1,396	1,504
Other expenses	1,799	1,858	1,558	1,577
Total Expenses	17,131	15,930	14,266	15,006
EBITDA	2,747	2,281	1,964	2,277
Other Income	416	198	406	432
Depreciation	488	522	596	651
Interest	33	38	40	40
PBT	2,642	1,920	1,734	2,018
Extra-ordinary	-179	47	0	0
PBT after ext-ord.	2,463	1,967	1,734	2,018
Tax	770	492	433	505
<i>Rate (%)</i>	31.3%	25.0%	25.0%	25.0%
PAT	1,693	1,475	1,300	1,514
Adjusted PAT	1,514	1,475	1,300	1,514
<i>Change (%)</i>	-2.0%	-2.6%	-11.9%	16.4%

Source: Company, Aриhant Research

Balance Sheet (Rs Mn)

Year End-March	FY19	FY20	FY21E	FY22E
Sources of Funds				
Share Capital	488	462	462	462
Reserves & Surplus	9,203	8,420	5,880	6,921
Net Worth	9,692	8,882	6,343	7,384
Loan Funds	0	0	0	0
Deferred Tax & other liabilities	269	408	445	444
Capital Employed	9,961	9,290	6,788	7,828
Application of Funds				
Gross Block	4,451	5,417	5,917	6,417
Less: Depreciation	1,839	2,361	2,957	3,607
Net Block	2,611	3,056	2,960	2,809
CWIP	710	686	686	686
Other non current assets	179	207	207	207
Deferred tax assets	230	367	367	367
Net fixed assets	3,731	4,316	4,220	4,069
Investments	5,014	1,850	1,850	1,850
Debtors	3,365	2,389	2,668	2,841
Inventories	1,200	1,712	1,085	1,143
Cash & bank balance	424	1,882	144	1,085
Loans & advances & other CA	317	752	752	752
Total current assets	5,305	6,734	4,708	6,144
Current liabilities	3,889	3,400	3,779	4,025
Provisions	201	210	210	210
Net current assets	1,215	3,124	718	1,909
Total Assets	9,961	9,290	6,788	7,828

Source: Company, Aриhant Research

Annual Financials

Cash Flow Statement (Rs Mn)

Year End-March	FY19	FY20	FY21E	FY22E
PBT	2,463	1,967	1,734	2,018
Depreciation	488	522	596	651
Interest & others	-383	-160	-366	-392
Cash flow before WC changes	2,569	2,328	1,964	2,277
(Inc)/dec in working capital	1,654	-520	-271	118
Operating CF after WC changes	4,223	1,809	1,693	2,395
Less: Taxes	-770	-492	-433	-505
Operating cash flow	3,452	1,317	1,260	1,891
(Inc)/dec in F.A + CWIP	-313	-597	-500	-500
(Pur)/sale of investment	86	3,165	0	0
Cash flow from investing	-226	2,568	-500	-500
Free cash flow (FCF)	3,204	885	760	1,391
Loan raised/(repaid)	0	0	0	0
Equity raised	0	-26	0	0
Interest & others	-1,514	-782	-879	1,169
Dividend	-1,618	-1,618	-1,618	-1,618
Cash flow from financing activities	-3,133	-2,426	-2,498	-449
Net inc / (dec) in cash	93	1,459	-1,738	941
Opening balance of cash	331	424	1,882	144
Closing balance of cash	424	1,882	144	1,085

Source: Company, Arianth Research

Key Ratios

Year End-March	FY19	FY20	FY21E	FY22E
Per share (Rs)				
EPS	6.2	6.4	5.6	6.5
CEPS	8.2	8.6	8.2	9.4
BVPS	39.7	38.4	27.4	31.9
DPS	6.6	7.0	7.0	7.0
Valuation (x)				
P/E	13.5	13.2	14.9	12.8
P/CEPS	10.2	9.7	10.2	9.0
P/BV	2.1	2.2	3.1	2.6
EV/EBITDA	11.9	13.0	15.9	13.3
Dividend Yield (%)	7.9%	8.3%	8.3%	8.3%
Return ratio (%)				
EBIDTA Margin	13.8%	12.5%	12.1%	13.2%
PAT Margin	7.6%	8.1%	8.0%	8.8%
ROE	15.6%	16.6%	20.5%	20.5%
ROCE	22.7%	18.9%	20.3%	20.9%
Leverage Ratio (%)				
Total D/E	0.0	0.0	0.0	0.0
Net D/E	0.0	-0.2	0.0	-0.1
Turnover Ratios				
Asset Turnover (x)	2.0	2.0	2.4	2.2
Inventory Days	32	50	35	35
Receivable Days	62	48	60	60
Payable days	75	72	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% to -12%
SELL	<-12%

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