

Muted set of numbers, overall slowdown in auto & auto ancillary space took its toll on results; due to absence of near term triggers cut target price to Rs 130; Maintain Hold

Current	Previous
CMP: Rs 116	
Rating: Hold	Rating: Hold
Target: Rs 130	Target: Rs 165

(NR-Not Rated)

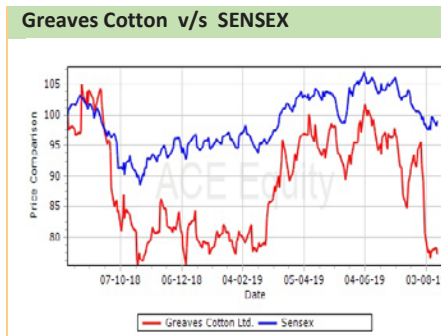
Stock Info	
INDEX	
BSE	501455
NSE	GREAVESCOT
Bloomberg	GRV IN
Reuters	GRVL.NS
Sector	Industrial Machinery
Face Value (Rs)	2
Equity Capital (Rs Mn)	488
Market Cap (Rs Mn)	36386
52w H/L (Rs)	165 / 111
Avg Weekly Vol (BSE+NSE)	15,152,490

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

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
GREAVES COTTON	-15.6	-0.7	-21.2
SENSEX	-0.0	4.0	-1.4

Source: ACE Equity, Arihant Research



Source: ACE Equity, Arihant Research

Monami Manna

Sr. Research Analyst

Tel: +91 22 42254817

monami.manna@arihantcapital.com

Greaves Cotton came out with muted set of numbers, reflecting the overall slowdown in the auto and auto ancillary space. Standalone revenue for Q1FY20 grew 4.1% YoY to Rs 4768 mn, below our estimate of Rs 4953 mn, due to lower power tiller volumes and sluggish growth in its after-market division. EBITDA came at Rs 613 mn, below our estimate of Rs 698 mn, while EBITDA margin contracted by 45bps YoY to 12.8% from 13.3% in Q1FY19, due to lower after market sales which carry higher margin as well as on account of higher raw material costs (+4.9% YoY) and other expenses (+10.1% YoY). PAT for the quarter stood at Rs 382 mn below our estimate of Rs 461 mn in line with lower EBITDA and also due to lower other income (-28.2% YoY). With overall slowdown in the auto & auto ancillary space, near term trigger for the stock is missing. We maintain our FY20E/FY21E estimates and Hold rating on the stock, however due to lack of near term trigger, cut our target price to Rs 130 from Rs 165 earlier.

Q1FY20 Highlights

- Engine segment witnessed a volume growth of 6.5% YoY to 79,687 units from 74,783 units in Q1FY19. Among engine segment, CNG engine sales grew by 43%, while non-auto engine sales seen robust growth of 195%.
- In the agri segment, both pump set and power tiller volume witnessed decline. Pumpsets volume declined 24.1% YoY to 18,268 units from 24,085 units in Q1FY19, while Power Tiller volume witnessed de-growth of 51% YoY to 880 units from 1796 units in Q1FY19.
- Electric Mobility segment registered a robust growth of 41% while sales of E-rickshaws crossed 1000 mark. Engine contributed 55% of total revenue, while aftermarket and others (includes genset, agri equipment & trading) constituted 22% and 23% respectively.
- **Ampere Update:** Greaves Cotton further increased its stake to 81% in Ampere in July 2019. Ampere has increased its market share to 18% in E-mobility business. Ampere reported Rs 153 mn of sales and a PAT loss of Rs 38 mn in Q1FY20. Despite challenges, management is hopeful of achieving break-even in Ampere at EBITDA level by Q4FY20E.

Valuations

At CMP of Rs 116, Greaves Cotton is trading at FY20E and FY21E, P/E multiples of 13.3x and 11.6x respectively. We keep our FY20E/21E estimates intact, however to factor in overall slowdown in auto & auto ancillary space, we have cut our target multiple from 16.5x to 13x FY21E earnings to value the stock, which yields a target price of Rs 130 per share. **Maintain Hold.**

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	18.3
FY19	19,878	2,747	1,872	7.7	13.8	19.3	15.1
FY20E	21,537	3,096	2,127	8.7	14.4	20.5	13.3
FY21E	24,532	3,551	2,448	10.0	14.5	22.0	11.6

Source: Company, Arihant Research

Q1FY20 Financial Performance

Rs Mn (Standalone)	Q1FY20	Q4FY19	Q1FY19	Q-o-Q	Y-o-Y
Net Revenue	4,768	5,281	4,582	-9.7%	4.1%
Material Cost	3,243	3,684	3,092	-12.0%	4.9%
Employee cost	458	422	466	8.4%	-1.8%
Other Expenses	456	475	414	-4.1%	10.1%
EBITDA	613	700	609	-12.5%	0.5%
EBITDA margin %	12.8%	13.3%	13.3%	-40bps	-45bps
Other Income	74	86	103	-13.3%	-28.2%
Depreciation	123	117	125	4.9%	-2.2%
EBIT	564	669	587	-15.6%	-3.9%
Finance cost	6	5	5	19.2%	26.5%
Exceptional Item	-	-129	-	-	-
PBT	558	535	582	4.4%	-4.2%
Tax Expense	176	161	184	9.7%	-4.1%
Effective tax rate %	31.6%	30.1%	31.6%	+154bps	+1bps
Reported Net Profit	382	374	398	2.1%	-4.2%
Adj Net Profit	382	503	398	-24.1%	-4.2%
<i>Adj Net margin %</i>	<i>8.0%</i>	<i>9.5%</i>	<i>8.7%</i>	<i>-151bps</i>	<i>-69bps</i>
<i>Reported EPS (Rs)</i>	<i>1.6</i>	<i>1.5</i>	<i>1.6</i>	<i>2.1%</i>	<i>-4.2%</i>
Adj EPS (Rs)	1.6	2.1	1.6	-24.1%	-4.2%

Source: Company, Arianth Research

Post Result Conference Call Highlights

- Ampere market share has gone up to 18%.
- For Greaves Cotton this is 9th consecutive quarter of revenue growth.
- 195% QoQ growth seen in non-automotive part of the business.
- PAT came down mainly due to lower other income.
- CNG engine volume has gone up by 43%.
- Engine business has seen growth, though other businesses have slowed down.
- 50% of the business in two wheeler industry happens in festive season, so hopeful of revival in the numbers for Ampere in upcoming quarters.
- Due to Fame II regulations for localisation, break-even for Ampere in PAT level in FY20E looks a bit challenging, however still hopeful of breaking even by Q4FY20E at the EBITDA level.
- Lots of pressure on margins in standalone business (@ 5 year low) mainly due to economic slowdown and lower topline growth. Once company achieves run rate of Rs 5000 mn of topline then margins will stabilise at 14% level
- The company launched E-scooter named 'Zeal' during the quarter under the FAME II scheme and currently giving Rs 18,000 discount on the model.
- Mainly in north and eastern markets selling E-rickshaws.
- 225 outlets among 350 total greaves care outlets are now selling Ampere products, aims to increase the outlets to 500 in 18-24 months time.
- Capex target maintained at Rs 750 mn.
- Expect agri equipment segment to remain muted this year due to rural slowdown.

Standalone Financials

Income Statement (Rs Mn)

Year End-March	FY17	FY18	FY19	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, Aриhant Research

Balance Sheet (Rs Mn)

Year End-March	FY17	FY18	FY19	FY20E	FY21E
Sources of Funds					
Share Capital	488	488	488	461	461
Reserves & Surplus	8,722	9,115	9,203	9,914	10,667
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, Aриhant 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	-27	0
Interest & others	337	-303	-1,514	3,048	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	15.9	18.3	15.1	13.3	11.6
P/CEPS	12.6	13.7	12.0	10.6	9.3
P/BV	3.1	2.9	2.9	2.7	2.5
EV/EBITDA	11.6	11.0	10.2	8.5	7.2
Dividend Yield (%)	5.2%	5.7%	5.7%	5.7%	5.7%
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

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office

#1011, Solitaire Corporate Park ,
 Building No. 10, 1st Floor,
 Andheri Ghatkopar Link Road
 Chakala, Andheri (E).
 Mumbai – 400093
 Tel: (91-22) 42254800
 Fax: (91-22) 42254880

Registered Office

Arihant House
 E-5 RatlamKothi
 Indore - 452003, (M.P.)
 Tel: (91-731) 3016100
 Fax: (91-731) 3016199

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%

Research**Analyst****Contact****Website****Email Id****Registration No.**

INH000002764

SMS: 'Arihant' to 56677

www.arihantcapital.comresearch@arihantcapital.com

Disclaimer:This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.

1011, Solitaire Corporate park, Building No. 10, 1st Floor,
 Andheri Ghatkopar Link Road Chakala, Andheri (E)
 Tel. 022-42254800 Fax. 022-42254880