

Weak set of numbers, overall slowdown in auto ancillary space and pressure on margins took its toll on results; Maintain Hold with a revised target price of Rs 150

Current	Previous
CMP: Rs 136	
Rating: Hold	Rating: Hold
Target: Rs 150	Target: Rs 130

(NR-Not Rated)

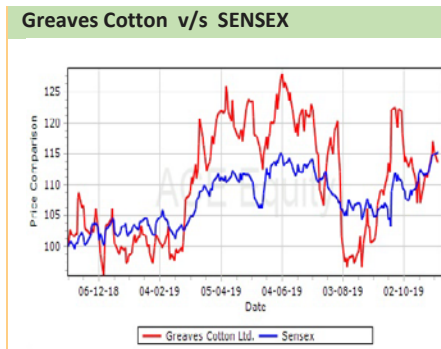
Stock Info	
INDEX	
BSE	501455
NSE	GREAVESCOT
Bloomberg	GRV IN
Reuters	GRVL.NS
Sector	Industrial Machinery
Face Value (Rs)	2
Equity Capital (Rs Mn)	488
Market Cap (Rs Mn)	33273
52w H/L (Rs)	157 / 112
Avg Weekly Vol (BSE+NSE)	2,32,598,590

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

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
GREAVES COTTON	16.7	-7.7	13.9
SENSEX	9.7	3.3	15.2

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 weak set of numbers, reflecting the overall slowdown in the auto ancillary space. Standalone revenue for Q2FY20 grew +2.8% QoQ/-1% YoY to Rs 4900 mn, below our estimate of Rs 5061 mn, due to slowdown witnessed both in engine and after-market segments. EBITDA came at Rs 591 mn, below our estimate of Rs 633 mn, while EBITDA margin contracted by 273 bps YoY/78 bps QoQ to 12.1% from 14.8% in Q2FY19, due to lower after market sales which carry higher margin as well as on account of higher other expenses (+20.6% YoY). PAT for the quarter stood at Rs 402 mn, below our estimate of Rs 430 mn registering a growth of +5.4% QoQ/-18.5% YoY. With overall slowdown in the auto & auto ancillary space and pressure on margins, near term trigger for the stock is missing. We cut our FY20E/FY21E estimates to reflect weak margin scenario, however due to inexpensive valuation, maintain our HOLD rating with a revised target price of Rs 150.

Q2FY20 Highlights

- Engine segment saw a volume de-growth of 8.9% YoY to 77,500 units from 85,111 units in Q2FY19. In engine segment, 3W sales declined by 11.9%, while non-auto engine sales saw robust growth of 90%.
- In the agri segment, both pump set and power tiller volume witnessed decline. Pumpsets volume declined 44.5% YoY to 15,912 units from 28,677 units in Q2FY19, while Power Tiller volume witnessed de-growth of 30.6% YoY to 694 units from 1000 units in Q2FY19.
- Electric Mobility segment registered a robust growth of 55.4% while sales of E-rickshaws crossed 2800 mark (1000 in Q1). Engine contributed 54% of total revenue, E-mobility 2%, while aftermarket and others (includes genset, agri equipment & trading) contributed 22% each.
- **Ampere Update:** Board has given in principle approval to increase stake in Ampere to 100%. Ampere reported Rs 224 mn of sales and a loss of Rs 42 mn in Q2FY20. During Q2FY20, strategic alliance was formed between Greaves Finance & Wheels EMI for Ampere E2W financing.

Valuations

At CMP of Rs 136, Greaves Cotton trades at FY20E and FY21E, P/E multiple of 16.7x and 13.6x respectively. After weak Q2 results, we cut our FY20E/FY21E estimates to reflect weak margin scenario, however due to inexpensive valuation raise our target multiple from 13x to 15x FY21E earnings to value the stock, which yields a target price of Rs 150 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	21.5
FY19	19,878	2,747	1,872	7.7	13.8	19.3	17.7
FY20E	20,863	2,691	1,880	8.2	12.9	18.5	16.7
FY21E	23,504	3,332	2,312	10.0	14.2	20.5	13.6

Source: Company, Arihant Research

Q2FY20 and H1FY20 Financial Performance

Rs Mn (Standalone)	Q2FY20	Q1FY20	Q2FY19	Q-o-Q	Y-o-Y	H1FY20	H1FY19	Y-o-Y
Net Revenue	4,900	4,768	4,951	2.8%	-1.0%	9,669	9,532	1.4%
Material Cost	3,352	3,243	3,345	3.4%	0.2%	6,595	6,438	2.4%
Employee cost	427	458	434	-6.7%	-1.5%	885	900	-1.7%
Other Expenses	529	456	439	16.2%	20.6%	985	853	15.5%
EBITDA	591	613	733	-3.5%	-19.3%	1,204	1,342	-10.3%
EBITDA margin %	12.1%	12.8%	14.8%	-78bps	-273bps	12.5%	14.1%	-163bps
Other Income	62	74	127	-15.9%	-50.8%	137	230	-40.6%
Depreciation	143	123	125	16.9%	14.4%	266	251	6.1%
EBIT	511	564	734	-9.5%	-30.5%	1,075	1,321	-18.7%
Finance cost	9	6	13	51.6%	-28.8%	16	18	-13.8%
Exceptional Item	50	-	-	-	-	50	-	-
PBT	551	558	721	-1.2%	-23.5%	1,109	1,303	-14.9%
Tax Expense	99	176	227	-44.0%	-56.6%	275	411	-33.1%
Effective tax rate %	17.9%	31.6%	31.5%	-1368bps	-1362bps	24.8%	31.6%	-676bps
Reported Net Profit	453	382	494	18.6%	-8.3%	834	892	-6.5%
Adj Net Profit	402	382	494	5.4%	-18.5%	784	892	-12.1%
Adj Net margin %	8.2%	8.0%	10.0%	+21bps	-176bps	8.1%	9.4%	-125bps
Reported EPS (Rs)	1.9	1.6	2.0	18.6%	-8.3%	3.4	3.7	-6.5%
Adj EPS (Rs)	1.6	1.6	2.0	5.4%	-18.5%	3.2	3.7	-12.1%

Source: Company, Arianth Research

Post Result Conference Call Highlights

- Board has given in principle approval to increase stake in Ampere to 100%.
- To increase B-2-C business enabled easy financing option through Greaves Care centres, basically to facilitate sales of 2W mainly Ampere and E-mobility.
- During the quarter the company had one-time expense (bad debt) of Rs 90 mn from one of the customer. The company is trying to recover the amount.
- Reversal of tax on account of Q1FY20, so effective tax this quarter came down.
- WC days gone up from 21 days in Q2FY19 to 44 days due to liquidity stress in the system, company is trying its best to bring it down going forward.
- E-rickshaw sell crossed 2800 unit numbers this quarter, with Ampere is having 18% share in E-mobility. Ampere 2W will be available on Amazon.
- Current cash in book is Rs 3500 mn, out of which around Rs 2270 mn will be used for buyback and Rs 600 mn will be used to raise stake in Ampere.
- Rs 150-200 mn capex to be incurred in next 18-20 months for E-mobility.
- Despite other auto makers reporting good tractor sales (like Escorts etc.), the company is not taking chances to push the tractors volume or sales as liquidity pressure is there, which might further elongate the WC cycle, so taking a wait and watch approach, as most of the tractor sales are subsidy based and government has not released the subsidy yet.
- Crest engine for 3W is in development phase and reached beta stage and discussions are on with OEMs. While larger 3W engines are being used in tier I and tier II cities (400 HP engine).
- Standalone capex will be Rs 750 mn for FY20.

Standalone Financials

Income Statement (Rs Mn)

Year End-March	FY17	FY18	FY19	FY20E	FY21E
Revenues	16,343	17,921	19,878	20,863	23,504
<i>Change (%)</i>	1.3%	9.7%	10.9%	5.0%	12.7%
Raw materials	9,886	11,209	13,585	14,291	15,983
Stock Adjustments	-59	230	0	0	0
Employee costs	1,593	1,673	1,747	1,857	2,045
Other expenses	1,714	1,597	1,799	2,024	2,145
Total Expenses	13,908	15,368	17,131	18,172	20,172
EBITDA	2,434	2,553	2,747	2,691	3,332
Other Income	502	453	416	313	470
Depreciation	467	524	488	534	594
Interest	8	8	33	30	40
PBT	2,462	2,474	2,642	2,440	3,168
Extra-ordinary	-60	-482	179	-50	0
PBT after ext-ord.	2,521	2,956	2,463	2,490	3,168
Tax	680	930	770	610	855
<i>Rate (%)</i>	27.0%	31.5%	31.5%	24.5%	27.0%
PAT	1,841	2,026	1,693	1,880	2,312
Adjusted PAT	1,781	1,545	1,872	1,880	2,312
<i>Change (%)</i>	2.0%	-13.3%	21.2%	0.4%	23.0%

Source: Company, Arianth 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	9,702	10,819
Net Worth	9,210	9,604	9,692	10,163	11,280
Loan Funds					
Deferred Tax & other liabilities	216	271	269	269	269
Capital Employed	9,426	9,875	9,961	10,432	11,549
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	4,144	5,101	5,014	5,014	5,014
Debtors	2,702	2,527	3,365	3,715	4,186
Inventories	1,294	1,094	1,200	979	1,095
Cash & bank balance	127	331	424	1,769	3,008
Loans & advances & other CA	815	881	317	317	317
Total current assets	4,938	4,833	5,305	6,780	8,606
Current liabilities	2,755	3,304	3,889	4,858	5,474
Provisions	211	237	201	201	201
Net current assets	1,973	1,292	1,215	1,721	2,931
Total Assets	9,426	9,875	9,961	10,432	11,549

Source: Company, Arianth Research

Cash Flow Statement (Rs Mn)

Year End-March	FY17	FY18	FY19	FY20E	FY21E
PBT	2,521	2,956	2,463	2,490	3,168
Depreciation	467	524	488	534	594
Interest & others	-494	-445	-383	-283	-430
Cash flow before WC changes	2,494	3,035	2,569	2,741	3,332
(Inc)/dec in working capital	-234	1,117	1,654	-1,238	-665
Operating CF after WC changes	2,260	4,151	4,223	1,503	2,667
Less: Taxes	-680	-930	-770	-610	-855
Operating cash flow	1,580	3,222	3,452	893	1,811
(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	393	1,311
Loan raised/(repaid)	0	0	0	0	0
Equity raised	0	0	0	-27	0
Interest & others	337	-303	-1,514	2,598	1,547
Dividend	-1,472	-1,618	-1,618	-1,618	-1,618
Cash flow from financing activities	-1,135	-1,921	-3,133	953	-72
Net inc /(dec) in cash	-79	204	93	1,345	1,239
Opening balance of cash	206	127	331	424	1,769
Closing balance of cash	127	331	424	1,769	3,008

Source: Company, Arianth Research

Key Ratios

Year End-March	FY17	FY18	FY19	FY20E	FY21E
Per share (Rs)					
EPS	7.3	6.3	7.7	8.2	10.0
CEPS	9.2	8.5	9.7	10.5	12.6
BVPS	37.7	39.3	39.7	44.1	48.9
DPS	6.0	6.6	6.6	7.0	7.0
Payout (%)	82.6%	104.8%	86.5%	86.1%	70.0%
Valuation (x)					
P/E	18.6	21.5	17.7	16.7	13.6
P/CEPS	14.8	16.1	14.1	13.0	10.8
P/BV	3.6	3.5	3.4	3.1	2.8
EV/EBITDA	13.6	12.9	11.9	11.0	8.5
Dividend Yield (%)	4.4%	4.9%	4.9%	5.2%	5.2%
Return ratio (%)					
EBIDTA Margin	14.9%	14.2%	13.8%	12.9%	14.2%
PAT Margin	10.9%	8.6%	9.4%	9.0%	9.8%
ROE	19.3%	16.1%	19.3%	18.5%	20.5%
ROCE	20.9%	20.6%	22.7%	20.7%	23.7%
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	2.0
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