

Current	Previous
CMP : Rs 121	
Rating : BUY	Rating : BUY
Target : Rs 159	Target : Rs 171

(NR-Not Rated)

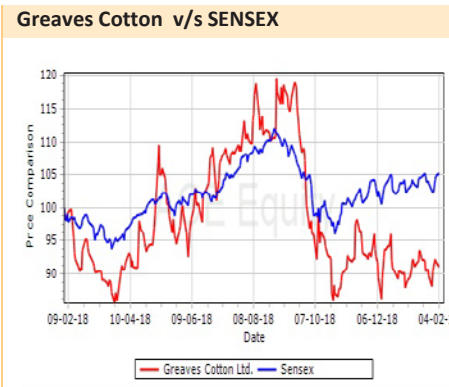
STOCK INFO	
INDEX	
BSE	501455
NSE	GREAVESCOT
Bloomberg	GRV IN
Reuters	GRVL.NS
Sector	Capital Goods
Face Value (Rs)	2
Equity Capital (Rsmn)	488
Mkt Cap (Rsmn)	29,548
52w H/L (Rs)	165 / 111
Avg Monthly Vol (BSE+NSE)	13,74,120

SHAREHOLDING PATTERN		%
(As on December, 2018)		
Promoters		51.6
Public & Others		48.4

Source: ACE Equity, Arihant Research

STOCK PERFORMANCE(%)	3m	6m	12m
Greaves Cotton	1.3	-17.2	-10.1
SENSEX	4.5	-2.6	4.3

Source: ACE Equity, Arihant Research



Source: ACE Equity, Arihant Research

Greaves Cotton came out with its Q3FY19 results, which were slightly ahead of our expectations. Revenue saw a 13.2% YoY growth to Rs 5065mn while EBITDA grew 13.4% YoY to Rs 706mn. EBITDA margin was mostly stable at 13.9% (1bps YoY decline) as the company was able to contain the high raw material cost (14.8% increase in RM cost YoY) by increasing efficiency. Adjusted PAT for Q3FY19 grew 44.6% YoY to Rs 477mn. We maintain Buy with revised TP of Rs 159.

Q3FY19 and 9MFY19 Highlights

- In Q3FY19 engine segment contributed 49% of the revenues while aftermarket and others (including agri equipment, genset and trading) contributed 25% and 26% respectively to the overall revenue.
- Engine segment witnessed a volume growth of 3% YoY to 81,622 units from 79,215 units in Q3FY18. While for 3W the volume growth was 3.8% YoY to 69,097 units in Q3FY19 from 66,573 units in Q3FY18.
- EBIT of engine segment reported a rise of 12.7% YoY to Rs 786.5mn, with an EBIT margin of 16.7%, an expansion of 40bps YoY.
- In the agri equipment segment, GCL has seen decent volume growth of 5.2% YoY in pumpsets, with 17,356 units in Q3FY19 against 16,496 units in Q3FY18, while for electric pumps volume was 9000 units in Q3FY19 (YTD 14,000 units) from zero in Q3FY18 (electric pumpset introduced from last quarter).
- Ampere acquisition (67% stake by GCL) was closed in last quarter, and network and business ramp-up are on track with Ampere having 75 outlets now, Ampere did Rs 410mn revenue in 9MFY19 against Rs 180mn in full year FY18 as shared in post result conference call by management.
- With increasing focus on ramping up of Greaves Care centre, the company now boasts of 250+ outlets servicing more than 15,000 vehicles every month.
- In the CNG engine space the company has already started selling its 400cc engine which are BSIV compliant (especially for Piaggio) in the semi-urban and rural areas. The CNG engine volume in Q3FY19 was 2500 units (YTD 9200 units). Other than this GCL is working with Pinnacle in developing its 200cc BSIV compliant smaller engines and for its prototype engine CREST CNG, customer demo is in progress and the company is getting positive feedback.

Valuations

At CMP of Rs 121, GCL is trading at FY19E, FY20E and FY21E, P/E multiples of 15.2x, 13.9x and 12.2x respectively. After incorporating Q3FY19 results in our model, we have revised our estimates for FY19E and FY20E upwards and introduced FY21E estimates. We have also reduced our target P/E multiple to 16x from earlier 20x and rolled it over to FY21E. We now value the stock at 16x FY21E earnings which yields a target price of Rs 159 per share. Maintain Buy.

Financial Performance

YE March (Rs Mn)	Net Sales	EBITDA	Adj.PAT	Adj.EPS (Rs)	EBITDA Margin %	RoE (%)	Adj.P/E(x)	EV/EBITDA (x)
FY17	16343	2434	1781	7.3	14.9	19.3	16.6	12.1
FY18	17921	2553	1545	6.3	14.2	16.1	19.1	11.4
FY19E	19334	2803	1941	7.9	14.5	18.6	15.2	10.3
FY20E	21537	3096	2130	8.7	14.4	20.0	13.9	9.5
FY21E	24532	3551	2431	10.0	14.5	21.0	12.2	8.2

Source: Company, Arihant Research

Q3FY19 and 9MFY19 Financial Performance

Rs Mn (Standalone)	Q3FY19	Q2FY19	Q3FY18	Q-o-Q	Y-o-Y	9MFY19	9MFY18	Y-o-Y
Net Revenue	5,065	4,951	4,473	2.3%	13.2%	14,597	13,060	11.8%
Material Cost	3,463	3,345	3,016	3.5%	14.8%	9,901	8,777	12.8%
Employee cost	425	434	424	-2.1%	0.1%	1,325	1,293	2.5%
Other Expenses	472	439	410	7.4%	15.0%	1,324	1,136	16.6%
EBITDA	706	733	622	-3.7%	13.4%	2,048	1,854	10.4%
EBITDA margin %	13.9%	14.8%	13.9%	-87	1	14.0%	14.2%	-17
Other Income	101	127	90	-20.7%	12.3%	331	303	9.2%
Depreciation	121	125	132	-3.7%	-8.2%	371	392	-5.3%
EBIT	685	734	581	-6.6%	18.1%	2,007	1,765	13.7%
Finance cost	10	13	2	-24.2%	426.3%	28	2	1238.1%
Exceptional Item	-50	-	226	-	-	-50	349	-
PBT	625	721	805	-13.3%	-22.3%	1,929	2,112	-8.7%
Tax Expense	198	227	249	-12.8%	-20.2%	610	652	-6.5%
Effective tax rate %	31.7%	31.5%	30.9%			31.6%	30.9%	
Reported Net Profit	427	494	556	-13.5%	-23.2%	1,319	1,460	-9.6%
Adj Net Profit	477	494	330	-3.3%	44.6%	1,369	1,111	23.2%
<i>Adj Net margin %</i>	<i>9.4%</i>	<i>10.0%</i>	<i>7.4%</i>	<i>-55</i>	<i>204</i>	<i>9.4%</i>	<i>8.5%</i>	<i>87</i>
<i>Reported EPS (Rs)</i>	<i>1.7</i>	<i>2.0</i>	<i>2.3</i>	<i>-13.5%</i>	<i>-23.2%</i>	<i>5.4</i>	<i>6.0</i>	<i>-9.6%</i>
Adj EPS (Rs)	2.0	2.0	1.4	-3.3%	44.6%	5.6	4.5	23.2%

Source: Company, Arianth Research

Conference Call Highlights

- Q3FY19 marks seventh quarter of consecutive revenue growth, all businesses showing good momentum and growth. In Engine Segment, Total engine volume 81622 in Q3FY19 v/s 71295 in Q3FY18, while in 3W volume of 69097 in Q3FY19 v/s 66573 in Q3FY18, presently having 70% + share in diesel engine market
- Pk pumpset volume 17356 in Q3FY19 v/s 16496 in Q3FY18, while electric pumpset has seen good volume growth with 9000 units in Q3FY19 (YTD 14,000 units) from zero in Q3FY18 (electric pumpset introduced from last quarter, so previous year same quarter volume was zero)
- Power tiller sales grew 83% in YTD FY19 with market share gain of 6%, Tiller volume is 655 units in Q3FY19 v/s 324 units in Q3FY18, while Genset volume for Q3FY19 was 1516 units v/s 1096 units in Q3FY18
- Quarterly revenue run rate increased from Rs 408cr in FY17 to Rs 486cr in FY19 and slowly inching towards Rs 500cr mark. New business (CNG/Small & large engine/Ampere) accounted for 9% of YTD revenue in FY19, compared to 2% in FY17YTD, clocking a CAGR of 132%
- In the CNG engine space company's strategy is working well, with 2500 units in Q3FY19 (YTD 9200 units), this is largely BSIV compliant larger 400cc engine mostly for Piaggio
- For smaller CNG engine of 200cc company is working with Pinnacle which are BSVI compliant and have introduced CREST CNG engine for which customer demo is in progress with positive feedback
- Ampere to breakeven in EBITDA level in FY19, while PAT level breakeven will be in FY20
- Currently 250+ integrated greaves outlets selling E-Rickshaws, 2W spare parts etc.
- FY20 capex guidance Rs 75cr for Greaves Cotton and Rs 8-10cr for Ampere.

Valuations

At CMP of Rs 121, GCL is trading at FY19E, FY20E and FY21E, P/E multiples of 15.2x, 13.9x and 12.2x respectively. After incorporating Q3FY19 results in our model, we have revised our estimates for FY19E and FY20E upwards and introduced FY21E estimates. However, we reduced our target P/E multiple to 16x from earlier 20x to factor in the slowdown in the automobile space. We have rolled over our target P/E to FY21E and now value the stock at 16x FY21E earnings which yields a target price of Rs 159 per share. We maintain our Buy rating on the stock with revised TP of Rs 159, giving an upside of 31.4%.

Standalone Financials

Income Statement (Rs Mn)

Year End-March	FY17	FY18	FY19E	FY20E	FY21E
Revenues	16,343	17,921	19,334	21,537	24,532
<i>Change (%)</i>	1.3%	9.7%	7.9%	11.4%	13.9%
Raw materials	9,886	11,209	13,050	14,645	16,657
Stock Adjustments	-59	230	0	0	0
Employee costs	1,593	1,673	1,740	1,831	2,085
Other expenses	1,714	1,597	1,740	1,965	2,239
Total Expenses	13,908	15,368	16,530	18,441	20,981
EBITDA	2,434	2,553	2,803	3,096	3,551
Other Income	502	453	483	538	613
Depreciation	467	524	508	529	619
Interest	8	8	20	18	22
PBT	2,462	2,474	2,759	3,087	3,523
Extra-ordinary	-60	-482	-75	0	0
PBT after ext-ord.	2,521	2,956	2,834	3,087	3,523
Tax	680	930	893	957	1,092
<i>Rate (%)</i>	27.0%	31.5%	31.5%	31.0%	31.0%
PAT	1,841	2,026	1,941	2,130	2,431
Adjusted PAT	1,781	1,545	1,941	2,130	2,431
<i>Change (%)</i>	2.0%	-13.3%	25.7%	9.7%	14.1%

Source: Company, Arian Research

Balance Sheet (Rs Mn)

Year End-March	FY17	FY18	FY19E	FY20E	FY21E
Sources of Funds					
Share Capital	488	488	488	488	488
Reserves & Surplus	8,722	9,115	9,948	10,163	11,088
Net Worth	9,210	9,604	10,436	10,652	11,577
Loan Funds					
Deferred Tax & other liabilities	216	271	259	259	259
Capital Employed	9,426	9,875	10,695	10,911	11,836
Application of Funds					
Gross Block	3,331	3,907	4,407	5,157	6,157
Less: Depreciation	827	1,351	1,859	2,388	3,006
Net Block	2,504	2,556	2,548	2,770	3,151
CWIP	563	581	836	1,006	1,026
Other non current assets	56	124	143	193	243
Deferred tax assets	187	221	221	231	241
Net fixed assets	3,310	3,483	3,748	4,200	4,661
Investments	4,144	5,101	4,958	5,058	5,158
Debtors	2,702	2,527	2,913	3,245	3,697
Inventories	1,294	1,094	1,251	1,404	1,597
Cash & bank balance	127	331	644	274	461
Loans & advances & other CA	815	881	1,384	1,387	1,535
Total current assets	4,938	4,833	6,193	6,310	7,289
Current liabilities	2,755	3,304	3,973	4,425	5,041
Provisions	211	237	232	232	232
Net current assets	1,973	1,292	1,988	1,653	2,016
Total Assets	9,426	9,875	10,695	10,911	11,836

Source: Company, Arian Research

Cash Flow Statement (Rs Mn)

Year End-March	FY17	FY18	FY19E	FY20E	FY21E
PBT	2,521	2,956	2,834	3,087	3,523
Depreciation	467	524	508	529	619
Interest & others	-494	-445	-463	-520	-591
Cash flow before WC changes	2,494	3,035	2,878	3,096	3,551
(Inc)/dec in working capital	-234	1,117	-718	-547	-989
Operating CF after WC changes	2,260	4,151	2,161	2,549	2,562
Less: Taxes	-680	-930	-893	-957	-1,092
Operating cash flow	1,580	3,222	1,268	1,592	1,470
(Inc)/dec in F.A + CWIP	2	-139	-565	-830	-1,080
(Pur)/sale of investment	-526	-957	142	-100	-100
Cash flow from investing	-524	-1,096	-423	-930	-1,180
Free cash flow (FCF)	1,580	3,185	722	822	450
Loan raised/(repaid)	0	0	0	0	0
Equity raised	0	0	0	0	0
Interest & others	337	-303	1,086	587	1,516
Dividend	-1,472	-1,618	-1,618	-1,618	-1,618
Cash flow from financing activities	-1,135	-1,921	-533	-1,032	-102
Net inc /(dec) in cash	-79	204	313	-370	187
Opening balance of cash	206	127	331	644	274
Closing balance of cash	127	331	644	274	461

Source: Company, Aриhant Research

Key Ratios

Year End-March	FY17	FY18	FY19E	FY20E	FY21E
Per share (Rs)					
EPS	7.3	6.3	7.9	8.7	10.0
CEPS	9.2	8.5	10.0	10.9	12.5
BVPS	37.7	39.3	42.7	43.6	47.4
DPS	6.0	6.6	6.6	6.6	6.6
Payout (%)	82.6%	104.8%	83.4%	76.0%	66.6%
Valuation (x)					
P/E	16.6	19.1	15.2	13.9	12.2
P/CEPS	13.1	14.3	12.1	11.1	9.7
P/BV	3.2	3.1	2.8	2.8	2.6
EV/EBITDA	12.1	11.4	10.3	9.5	8.2
Dividend Yield (%)	5.0%	5.5%	5.5%	5.5%	5.5%
Return ratio (%)					
EBIDTA Margin	14.9%	14.2%	14.5%	14.4%	14.5%
PAT Margin	10.9%	8.6%	10.0%	9.9%	9.9%
ROE	19.3%	16.1%	18.6%	20.0%	21.0%
ROCE	20.9%	20.6%	21.5%	23.5%	24.8%
Leverage Ratio (%)					
Total D/E	0.0	0.0	0.0	0.0	0.0
Net D/E	0.0	0.0	-0.1	0.0	0.0
Turnover Ratios					
Asset Turnover (x)	1.7	1.8	1.8	2.0	2.1
Inventory Days	45	33	35	35	35
Receivable Days	60	51	55	55	55
Payable days	66	72	75	75	75

Source: Company, Aриhant 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 Ratlam Kothi
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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

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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