

Weak Performance amid BS-VI & pandemic.

CMP: Rs 75

Rating: Not Rated

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)	17,329
52w H/L (Rs)	147 / 66
Avg Yearly Vol (in 000')	443

Shareholding Pattern %

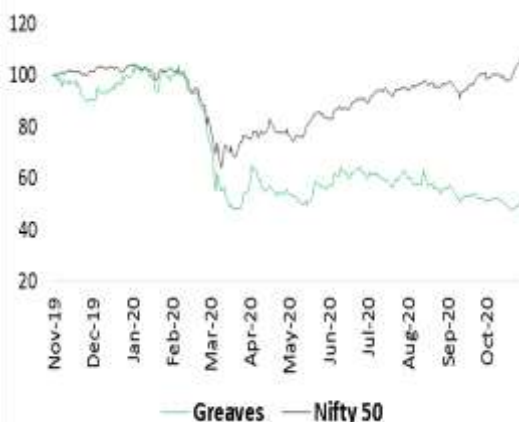
(As on September, 2020)

Promoters	54.82
FII	11.29
DII	12.15
Public & Others	21.74

Stock Performance (%)

	3m	6m	12m
Greaves Cotton	-8.3	0.8	-45.2
Nifty 50	13.6	46.6	8.8

Greaves Vs Nifty



Greaves Cotton Limited (GCL) reported muted set of numbers for Q2FY21, Revenue from operations fell by 41.2% YoY in Q2FY21 to Rs 2882 mn owing to BSVI transition and muted volumes in 3W segment amid pandemic. Engine segment revenue stood at Rs 2660 mn, down 40.4% YoY. On the other hand, e-mobility segment revenue grew 23.9% to Rs 425mn owing to pent-up demand. EBIDTA fell by 70.5%YoY to Rs 175 mn. While EBIDTA margin contracted by 600 bps YoY to 6.1%, impacted by higher operating expenses and lower top line growth. Company reported net loss of Rs 180 mn in Q2FY21 as compared to the profit of Rs 453 mn in Q2FY20. Company reported an exception item of Rs 311 mn which includes impairment loss of fixed assets & employee separation cost on account of closure of Ranipet facilities.

Auto volumes likely to be sluggish going ahead : In Q2Y21, GCL's auto engine volumes (3-W/4-W) fell 72% YoY to 19,234 units, impacted by BS-VI norms, 3-W, 4-W auto slowdown amid pandemic. On the other hand, others engine segment supported with volume growth of 27% YoY to 12,216 units. Overall engine volumes de-grew 59% YoY. On non-auto side, power genset volumes fell 41% YoY to 558 units. Overall agriculture (pumpset, power tiller, other) volumes fell by 42% YoY to 10,028 units. GCL may have to take a price hike for BS-VI compliant engines leading to significant volume reduction and margin stress as it is difficult to completely pass on the price increase amid slowdown.

Focus on new E-2W/3-W products, efficiencies to continue: GCL acquired Bestway Agencies (BAPL) to expand its presence in fast disrupting E-3-W market to become integrated player in last mile E-mobility in E-2W and E-3-W. Also, further launches in E2-W/3-W would help to expand market presence. Ampere market share was at 20% in E-2W amongst organised players. GCL is focusing on developing new partnership with diesel 3-W OEM and new global OEM for small 4-W. GCL's BS-VI diesel engine, CNG engine is likely to play key role in long term, while BS VI ready CREST CNG engines is under advanced stages of discussion. In electric mobility business (EMB), E-2-W volumes were at 6,033 units, up 25% YoY while E-3-W was down 19% to 1,145 unit on lower base, YoY. GCL aims to reduce operating costs via operational efficiencies over medium term.

Outlook & Valuation

At CMP of Rs 75, GCL is trading at, P/E multiple of 11.8x to its FY20 EPS of Rs 6.4. We believe Overall auto engine volumes may stay sluggish in the medium term due to BS-VI transition, 3-W, 4-W auto slowdown amid Covid-19. While Bestway acquisition would expand E-3-W base, new product launches in high speed E-2W vehicles at Ampere and new business initiatives (CNG engines, after market and B2C business) may provide much needed growth uptick in the long term. However, Company has incurred losses of Rs 422 mn in last two quarters. Considering company's below average performance in previous two quarters we would like to observe the company performance in the coming quarters before forming any view.

Quarterly Result

Rs Mn (Standalone)	Q2FY21	Q1FY21	Q2FY20	Q-o-Q	Y-o-Y
Net Revenue	2,882	1,471	4,900	95.9%	-41.2%
Material Cost	2,040	1,061	3,352	92.2%	-39.2%
Employee cost	291	347	427	-15.9%	-31.8%
Other Expenses	376	280	529	34.6%	-28.9%
EBITDA	175	-217	591	-	-70.5%
EBITDA margin %	6.1%	-14.7%	12.1%	2080 bps	(600 bps)
Other Income	18	22	62	-17.7%	-71.6%
Depreciation	124	118	143	5.6%	-13.3%
EBIT	68	-313	511	-	-86.7%
Finance cost	19	23	9	-15.9%	102.1%
Exceptional Item	-311	-	50	-	-
PBT	-262	-335	551	-	-
Tax Expense	-82	-93	99	-	-
Effective tax rate %	31.1%	27.8%	17.9%	330 bps	1320 bps
Reported Net Profit	-180	-242	453	-	-
Reported EPS (Rs)	-0.8	-1.1	1.9	-	-

Con-Call & Other Highlights

- For Q2FY21, revenue decline was mainly due to auto and industrial slowdown, which dragged overall volumes and the effect of transition to BS-VI. The company is expecting gradual recovery in H2FY21 as mobility (offices, schools and malls) are expected to open up further. Currently most dealerships are operational.
- EBITDA margin contracted by 600 bps YoY to 6.1% in Q2FY21, mainly impacted by higher operating expenses and lesser revenue booking. Company was unable to pass through incremental BS-VI engine cost and lesser booking of revenue. Margins may witness near term impact due to economic slowdown and BS-VI but are expected to gradually recover to normalised levels in the medium term.
- GCL reported an exceptional item of Rs 311 mn, which includes Rs 141 mn towards impairment loss on fixed assets and Rs 169 mn towards employee separation cost towards closure of Ranipet facilities
- In the auto category, cargo segment has improved and is gaining traction. However, passenger 3-W is still lagging behind. Green shoots are visible in aftermarket, farm and new mobility segments.
- Company is making strides to derisk its supply chain and reduce imports from China. Ampere and Bestway have also witnessed improved localisation. Further, B2B and B2C business is expected to improve, once dealerships start operating at normal levels
- In Q2FY21, on consolidated basis engines contributed 47% to revenues followed by aftermarket (25%), others (15%) and E-mobility (13%)
- Overall auto engine volumes fell 59% to 31,450 for Q2FY21. Genset volumes fell 41% for Q2FY21 to 558 units. Overall agri business (pumpsets, power tillers, others) volumes fell 42% for Q2FY21 to 10,028 units
- In electric mobility business (EMB), E-2-W volumes came in at 6033 units, up 25% YoY. The E-3-W segment registered a decline of 19% to 1145 unit YoY on a low base.

Annual Financials

Income Statement (Rs Mn)

Year End-March	FY18	FY19	FY20
Revenues	17,921	19,878	18,211
<i>Change (%)</i>	9.7%	10.9%	-8.4%
Raw materials	11,209	13,585	12,492
Stock Adjustments	230	0	0
Employee costs	1,673	1,747	1,580
Other expenses	1,597	1,799	1,858
Total Expenses	15,368	17,131	15,930
EBITDA	2,553	2,747	2,281
Other Income	453	416	198
Depreciation	524	488	522
Interest	8	33	38
PBT	2,474	2,642	1,920
Extra-ordinary	-482	-179	47
PBT after ext-ord.	2,956	2,463	1,967
Tax	930	770	492
<i>Rate (%)</i>	31.5%	31.3%	25.0%
PAT	2,026	1,693	1,475
Adjusted PAT	1,545	1,514	1,475
<i>Change (%)</i>	-13.3%	-2.0%	-2.6%

Source: Company, Arianth Research

Balance Sheet (Rs Mn)

Year End-March	FY18	FY19	FY20
Sources of Funds			
Share Capital	488	488	462
Reserves & Surplus	9,115	9,203	8,420
Net Worth	9,604	9,692	8,882
Loan Funds	0	0	0
Deferred Tax & other liabilities	271	269	408
Capital Employed	9,875	9,961	9,290
Application of Funds			
Gross Block	3,907	4,451	5,417
Less: Depreciation	1,351	1,839	2,361
Net Block	2,556	2,611	3,056
CWIP	581	710	686
Other non current assets	124	179	207
Deferred tax assets	221	230	367
Net fixed assets	3,483	3,731	4,316
Investments	5,101	5,014	1,850
Debtors	2,527	3,365	2,389
Inventories	1,094	1,200	1,712
Cash & bank balance	331	424	1,882
Loans & advances & other CA	881	317	752
Total current assets	4,833	5,305	6,734
Current liabilities	3,304	3,889	3,400
Provisions	237	201	210
Net current assets	1,292	1,215	3,124
Total Assets	9,875	9,961	9,290

Source: Company, Arianth Research

Annual Financials

Cash Flow Statement (Rs Mn)

Year End-March	FY18	FY19	FY20
PBT	2,956	2,463	1,967
Depreciation	524	488	522
Interest & others	-445	-383	-160
Cash flow before WC changes	3,035	2,569	2,328
(Inc)/dec in working capital	1,117	1,654	-520
Operating CF after WC changes	4,151	4,223	1,809
Less: Taxes	-930	-770	-492
Operating cash flow	3,222	3,452	1,317
(Inc)/dec in F.A + CWIP	-139	-313	-597
(Pur)/sale of investment	-957	86	3,165
Cash flow from investing	-1,096	-226	2,568
Free cash flow (FCF)	3,185	3,204	885
Loan raised/(repaid)	0	0	0
Equity raised	0	0	-26
Interest & others	-303	-1,514	-782
Dividend	-1,618	-1,618	-1,618
Cash flow from financing activities	-1,921	-3,133	-2,426
Net inc /(dec) in cash	204	93	1,459
Opening balance of cash	127	331	424
Closing balance of cash	331	424	1,882

Source: Company, Arianth Research

Key Ratios

Year End-March	FY18	FY19	FY20
Per share (Rs)			
EPS	6.3	6.2	6.4
CEPS	8.5	8.2	8.6
BVPS	39.3	39.7	38.4
DPS	6.6	6.6	7.0
Valuation (x)			
P/E	11.9	12.1	11.8
P/CEPS	8.9	9.1	8.7
P/BV	1.9	1.9	2.0
EV/EBITDA	7.0	6.5	6.8
Dividend Yield (%)	8.8%	8.8%	9.3%
Return ratio (%)			
EBIDTA Margin	14.2%	13.8%	12.5%
PAT Margin	8.6%	7.6%	8.1%
ROE	16.1%	15.6%	16.6%
ROCE	20.6%	22.7%	18.9%
Leverage Ratio (%)			
Total D/E	0.0	0.0	0.0
Net D/E	0.0	0.0	-0.2
Turnover Ratios			
Asset Turnover (x)	1.8	2.0	2.0
Inventory Days	33	32	50
Receivable Days	51	62	48
Payable days	72	75	72

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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