

## Results Review

# Greaves Cotton Ltd

Bloomberg Code: GRV IN

India Research - Stock Broking

**BUY**

## Greaves Sails Through Three Major Changes

In the past 9 months, market went through three major changes; Demonetisation in November 2016 impacted volumes significantly and market crept through gradually to switch from BS-III to BS-IV emission norms beginning April 2017 which ushered in price hike in the range of 8.0%-10.0%; and with the introduction of GST, beginning July 2017 volumes were further depressed. Greaves management continues to be hopeful of recovery in rest of FY18E for its base business and expect further traction from the new initiatives.

**Realisation Gain Off-sets for Lower Volume in Q1FY18:** Greaves standalone revenue (net) remained flat at 1.4% at Rs.4,063mn on YoY basis in Q1FY18. In terms of volume during Q1FY18, 3-wheeler (3w) volumes witnessed a YoY drop of 3.1% to 63,000; 4-wheeler (4w) volumes dropped by 7.7% to 6000; Pumps volumes drop of 8.7% to 21000; Power tillers volumes drop of by ~50.0% to 1000 and PowerGen volumes grew by 22.2% on YoY basis to 1,100.

**Cost pressure continues; Profits drop in Q1FY18:** Operating costs as a percentage of sales increased by 139bps with material margins continued to be suppressed over several quarters as commodity cycle has turned and inert lag effect in pass-on of costs to customers which are normalised on contractual terms ranging between quarterly to annual.

Absolute EBITDA, Adj. EBIT and Adj. PAT de-grew on YoY basis by 8.0%, 10.8% and 14.6% to Rs.554mn, Rs.537mn and Rs.372mn respectively. In terms of margins EBITDA, Adj. EBIT and Adj. PAT dropped by 139bps, 181bps and 172bps to 13.6%, 13.2% and 9.2% respectively on YoY basis during Q1FY18.

**Estimates revised for FY18E and FY19E:** We expect volumes to pick-up going forward; and with continued and phased pass-on of costs to customers in FY18E and FY19E have been considered while revising estimates. Our Revenue (net), EBITDA and PAT for FY18E stand revised at Rs.17,799mn, Rs.2,750mn and Rs.1,901mn respectively; and for FY19E, the same have been revised to Rs.20,184mn, Rs.3,143mn and Rs.2,201mn respectively.

## Valuation

At CMP of Rs.157, Greaves is currently trading at 17.4x FY19E EPS of Rs.9.0 and we value Greaves at 21x FY19E EPS with a 'BUY' rating for revised target of Rs.189 representing an upside potential of 21%.

### Exhibit 1: Valuation Summary

YE Mar - Consolidated (Rs. Mn)	FY15	FY16	FY17	FY18E	FY19E
Net Sales	16977	16161	16344	17799	20184
EBITDA	1991	2674	2434	2750	3143
EBITDA Margin (%)	11.7	16.5	14.9	15.5	15.6
Adj. Net Profit	836	2009	1807	1901	2201
EPS (Rs.)	3.4	8.2	7.4	7.8	9.0
RoE (%)	10.0	23.0	19.9	19.2	19.4
PE (x)	42.5	15.0	19.4	20.1	17.4

Source: Company, Karvy Research, \*Represents multiples for FY15 & FY17 FY16 are based on historic market price

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### Recommendation (Rs.)

CMP (as on Aug 08, 2017)	157
Target Price	189
Previous Target Price	203
Upside (%)	21

### Stock Information

Mkt Cap (Rs.mn/US\$ mn)	38243 / 600
52-wk High/Low (Rs.)	179 / 115
3M Avg. daily volume (mn)	0.3
Beta (x)	0.9
Sensex/Nifty	32006 / 9979
O/S Shares(mn)	244.2
Face Value (Rs.)	2.0

### Shareholding Pattern (%)

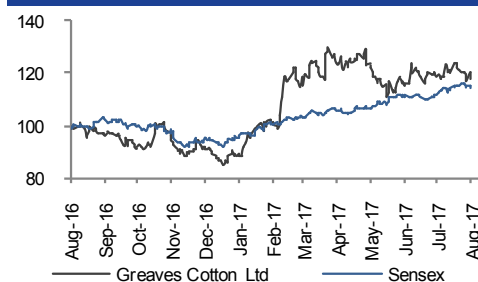
Promoters	51.0
FIIs	7.2
DIIs	26.9
Others	14.9

### Stock Performance (%)

	1M	3M	6M	12M
Absolute	(2)	(6)	13	13
Relative to Sensex	(4)	(12)	(1)	(0)

Source: Bloomberg

### Relative Performance\*



Source: Bloomberg; \*Index 100

### Earnings Revision (%)

YE Mar	FY18E	FY19E
Sales (%)	↓ (3.5)	↓ (4.6)
EBITDA (%)	↓ (4.4)	↓ (5.4)
PAT (%)	↓ (5.4)	↓ (6.6)

Source: Karvy Research

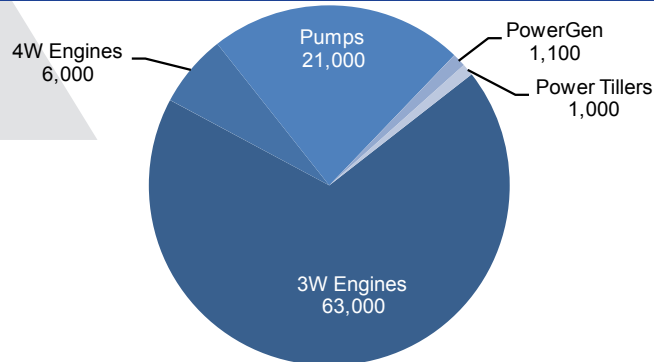
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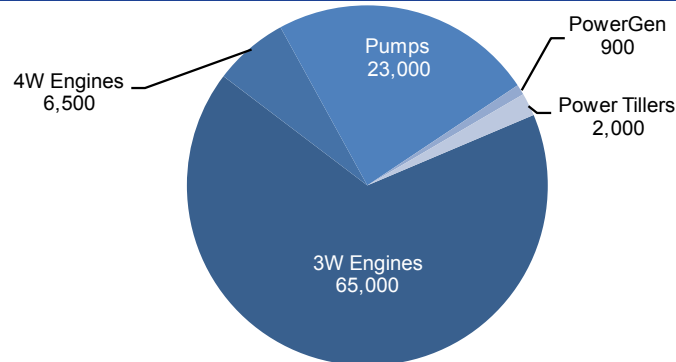
**Exhibit 2: Realisation Gain Off-sets for Lower Volume in Q1FY18**

YE Mar - Standalone (Rs. Mn)	Q1FY18	Q1FY17	YoY (%)	Q4FY17	QoQ (%)
Turnover (net)	4063	4006	1.4	3907	4.0
Op. Expenditure	3509	3404	3.1	3374	4.0
EBITDA	554	602	(8.0)	533	3.8
Depreciation	120	109	9.5	125	(4.5)
Interest	2	1	250.0	2	(12.5)
Other Income	103	110	(6.0)	158	(34.6)
PBT (before exceptional items)	535	602	(11.1)	564	(5.1)
Exceptional items	60	(21)	NM	66	(8.5)
PBT (after exceptional items)	595	581	2.5	629	(5.4)
Tax (net)	184	161	14.3	160	14.7
PAT (from continuing operations)	412	420	(2.0)	469	(12.3)
Loss from discontinued operations after tax	0	(35)	NM	(2)	NM
Adj. PAT	372	436	(14.6)	423	(11.9)
PAT	412	385	6.8	468	(12.0)
EBITDA Margin (%)	13.6	15.0	(139) bps	13.6	(2) bps
Adj. EBIT Margin (%)	13.2	15.0	(181) bps	14.5	(126) bps
EBIT Margin (%)	14.7	14.5	19 bps	16.2	(165) bps
Adj. PAT Margin (%)	9.2	10.9	(172) bps	10.8	7 bps
PAT Margin (%)	10.1	9.6	51 bps	12.0	(183) bps

Source: Company, Karvy Research, Adjusted for exceptional items & loss from discontinued operations

**Exhibit 3: Q1FY18 Volume Break-up**


Source: Company, Karvy Research

**Exhibit 4: Q1FY17 Volume Break-up**


Source: Company, Karvy Research

**Exhibit 5: Segment-wise break-up**

YE Mar - Standalone (Rs. Mn)	Q1FY18	Q1FY17	YoY (%)	Q4FY17	QoQ (%)
<b>Segment-wise Revenue</b>					
Engines	4390	4264	2.9	4123	6.5
Others	149	181	(17.7)	227	(34.3)
<b>Segment-wise EBIT</b>					
Engines	618	622	(0.8)	616	0.2
Others	2	32	(92.5)	9	(73.9)
<b>Segment-wise EBIT Margin (%)</b>					
Engines	14.1	14.6	(52) bps	15.0	(88) bps
Others	1.6	17.6	(1595) bps	4.1	(244) bps

Source: Company, Karvy Research

**Exhibit 6: Change in Earnings Estimates**

YE Mar - Consolidated (Rs. Mn)	FY18E			FY19E		
	Old	New	% Change	Old	New	% Change
Net Sales	18449	17799	(3.5)	21161	20184	(4.6)
EBITDA	2878	2750	(4.4)	3322	3143	(5.4)
EBITDA Margin (%)	15.6	15.5	(15) bps	15.7	15.6	(13) bps
Adj. PAT	2010	1901	(5.4)	2357	2201	(6.6)
EPS (Rs.)	8.2	7.8	(5.0)	9.7	9.0	(7.1)

Source: Karvy Research

## Key Risk

- Slowdown in the revival of economic activity significantly impacting volumes.
- Rising costs could reduce margins further.

## Consolidated Financials

### Exhibit 6: Income Statement

YE Mar (Rs. Mn)	FY15	FY16	FY17	FY18E	FY19E
Revenues	16977	16161	16344	17799	20184
Growth (%)	(2.2)	(4.8)	1.1	8.9	13.4
Operating Expenses	14986	13487	13911	15049	17041
EBITDA	1991	2674	2434	2750	3143
Growth (%)	6.1	34.3	(9.0)	13.0	14.3
Depreciation & Amortization	477	456	469	544	591
Other Income	249	485	505	436	505
EBIT	1764	2703	2470	2642	3056
Interest Expenses	24	10	8	8	8
PBT	1110	2944	2487	2633	3048
Tax	273	935	680	732	847
Adjusted PAT	836	2009	1807	1901	2201
Growth (%)	(35.2)	140.3	(10.1)	5.2	15.7

Source: Company, Karvy Research

### Exhibit 7: Balance Sheet

YE Mar (Rs. Mn)	FY15	FY16	FY17	FY18E	FY19E
Cash & Inventories	217	133	27	1462	2869
Sundry Debtors	2314	2006	2702	2585	2931
Inventory	1064	1081	1294	1274	1443
Loans & Advances	375	398	346	346	346
Investments	3496	4591	4661	4661	4661
Gross Block	6241	6621	7040	7543	8193
Net Block	3248	2874	2921	3174	3232
CWIP	23	34	79	79	79
Miscellaneous	514	659	404	182	76
<b>Total Assets</b>	<b>11251</b>	<b>11775</b>	<b>12435</b>	<b>13763</b>	<b>15638</b>
Current Liabilities & Provisions	2401	2516	2865	2862	3197
Debt	0	0	0	0	0
Other Liabilities	121	190	173	173	173
<b>Total Liabilities</b>	<b>2522</b>	<b>2706</b>	<b>3037</b>	<b>3034</b>	<b>3370</b>
Shareholders Equity	488	488	488	488	488
Reserves & Surplus	8064	8423	8765	10095	11636
Miscellaneous	176	158	144	144	144
<b>Total Networth</b>	<b>8552</b>	<b>8911</b>	<b>9253</b>	<b>10584</b>	<b>12124</b>
<b>Total Networth &amp; Liabilities</b>	<b>11251</b>	<b>11775</b>	<b>12435</b>	<b>13763</b>	<b>15638</b>

Source: Company, Karvy Research

**Exhibit 8: Cash Flow Statement**

YE Mar (Rs. Mn)	FY15	FY16	FY17	FY18E	FY19E
PBT	1110	2944	2487	2633	3048
Depreciation	477	456	469	544	591
Interest	24	10	8	8	8
Tax Paid	(441)	(851)	(737)	(732)	(847)
Inc/dec in Net WC	1051	387	(576)	135	(181)
Others	31	(645)	(507)	(436)	(505)
<b>Cash flow from operating activities</b>	<b>2251</b>	<b>2301</b>	<b>1144</b>	<b>2153</b>	<b>2115</b>
Inc/dec in capital expenditure	(553)	(351)	(434)	(650)	(544)
Inc/dec in investments	(1111)	(17679)	(12923)	0	0
Others	(126)	17330	13715	436	505
<b>Cash flow from investing activities</b>	<b>(1790)</b>	<b>(700)</b>	<b>359</b>	<b>(214)</b>	<b>(40)</b>
Inc/dec in borrowings	(1)	0	0	0	0
Dividend paid	(571)	(1654)	(1471)	(570)	(660)
Interest paid	(24)	(10)	(8)	(8)	(8)
<b>Cash flow from financing activities</b>	<b>(596)</b>	<b>(1664)</b>	<b>(1479)</b>	<b>(579)</b>	<b>(668)</b>
Net change in cash	(135)	(62)	24	1360	1407

Source: Company, Karvy Research

**Exhibit 9: Key Ratios**

YE Mar	FY15	FY16	FY17	FY18E	FY19E
EBITDA Margin (%)	11.7	16.5	14.9	15.5	15.6
EBIT Margin (%)	10.4	16.7	15.1	14.8	15.1
Net Profit Margin (%)	4.9	12.4	11.1	10.7	10.9
Dividend Payout Ratio (%)	68.3	82.3	81.4	30.0	30.0
Net Debt/Equity (x)	(0.03)	(0.01)	(0.00)	(0.14)	(0.24)
RoE (%)	10.0	23.0	19.9	19.2	19.4
RoCE (%)	15.3	31.0	27.2	26.6	26.9

Source: Company, Karvy Research


**Exhibit 10: Valuation Parameters**

YE Mar	FY15	FY16	FY17	FY18E	FY19E
EPS (Rs.)	3.4	8.2	7.4	7.8	9.0
DPS (Rs.)	2.3	6.8	6.0	2.3	2.7
BVPS (Rs.)	35.0	36.5	37.9	43.3	49.6
PE (x)*	42.5	15.0	19.4	20.1	17.4
P/BV (x)*	4.2	3.4	3.8	3.6	3.2
EV/EBITDA (x)*	17.7	11.2	14.4	13.4	11.3
EV/Sales (x)*	2.1	1.9	2.1	2.1	1.8

Source: Company, Karvy Research, \*Represents multiples for FY15, FY16 & FY17 are based on historic market price

Stock Ratings	Absolute Returns
Buy	: > 15%
Hold	: 5-15%
Sell	: <5%

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