

January 25, 2012

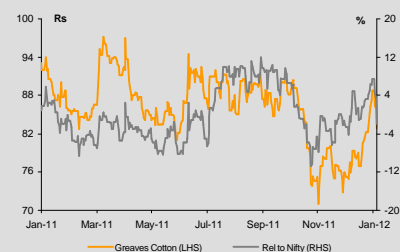
Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs83	Rs90
EPS change FY12E/13E (%)	-13/-9
Target Price change (%)	-13
Nifty	5,158
Sensex	17,077

Price Performance

(%)	1M	3M	6M	12M
Absolute	11	(8)	(5)	(11)
Rel. to Nifty	2	(7)	2	(2)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Engines
Bloomberg	GRV@IN
Equity Capital (Rs mn)	488
Face Value(Rs)	2
No of shares o/s (mn)	244
52 Week H/L	101/70
Market Cap (Rs bn/USD mn)	20/399
Daily Avg Volume (No of sh)	85838
Daily Avg Turnover (US\$m)	0.1

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	51.6	51.6	51.5
FII/NRI	7.7	7.4	9.2
Institutions	29.2	29.3	27.6
Private Corp	2.9	2.8	2.7
Public	8.6	8.8	9.0

Source: Capitaline

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- Net profit declines by 23% yoy to Rs342 mn – led by 440 bps drop in EBITDA margin (due to one-offs & lower gross margins). Adjusting for one-offs, APAT meets expectations
- Led by supply ramp-up to Tata Motors, Engines delivers (Sales up 17% yoy, EBIT margins at 16.7%). Infrastructure revenues fall 25% yoy with EBIT loss of Rs28 mn
- Supply to Tata Motors ramps-up to 5,500 units per month (Vs 4,000 supplied in Sep'11). GCL expects to further ramp-up to 8,000 units per month in FY13E
- Reduce earnings down by 13% for FY12E to Rs6.0 and by 9% for FY13E to Rs7.2 per share. Retain BUY rating with price target of Rs90 per share

Net profit declines by 23% yoy – Due to one-offs & input cost pressures

Greaves Cotton (GCL) Q3FY12 performance was impacted by one-off expenditures and sharp rise in input prices – leading to a 23% yoy decline in net profits. Revenue growth was healthy at 11% yoy to Rs4.6 bn, marginally below estimates. EBITDA margins fell 440 bps yoy to 12.6% - attributed to (1) Rise in raw material prices – 200-300 bps (largely factored in our estimates) (2) One-offs on brand building exercise and inventory write-downs – 100-200 bps and (3) Ramp-up of new facility – 40 bps. Consequently, EBITDA declined by 18% yoy to Rs584 mn. Led by sharp drop in EBITDA margins and high depreciation and low other income, net profit fell sharply by 23% yoy to Rs342 mn – below estimates. But adjusting for the one-offs, net profits meet expectations.

Engines division – Benefits from supply to Tata, but margins decline

Engines division posted healthy revenue growth at 17% yoy to Rs4.1 bn – led by pick-up in engine supplies to Tata Motors and commissioning of new facility. EBIT margins declined by 360 bps yoy to 16.7% (in line with estimates) - due to rising OEM sales, high input costs and one-off expenditure.

Infrastructure division – EBIT loss rises sequentially to Rs28 mn

Infrastructure division performance was impacted by low offtake amidst high interest costs scenario and continued delay in implementing emission norms. GCL highlighted slowdown in both roads and concrete equipment segments. Consequently revenues declined for second consecutive quarter by 25% yoy to Rs363 mn (revenue below estimates and break even level increases) while EBIT loss increased sequentially to Rs28 mn.

Tata Motors supply ramps up to 5,500 units per month

GCL showed ramp-up in supplies to Tata Motors (for Ace-Zip and Ace-Magic) → it supplied 5,500 units per month (or about 200 units per day) in Q3FY12 Vs 4,000 units supplied in Sep' 11. GCL expects to ramp-up supplies to about 8,000 units per month (or 300 units per day) in FY13E. GCL reiterated strong acceptance of the new launches by Tata Motors – hinting at robust growth momentum in FY13E.

Financial Snapshot

Rs Mn

YE-	Net	EBITDA		EPS	EPS	RoE		EV/		
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY10	13,923	2,139	15.4	1,167	4.8	115.2	28.8	17.3	10.9	4.9
FY11 (9M)	12,789	1,999	15.6	1,188	4.9	36.2	34.2	17.0	11.1	4.1
FY12E	18,525	2,486	13.4	1,462	6.0	(8.3)	26.5	13.8	9.3	3.4
FY13E	21,047	2,976	14.1	1,767	7.2	20.8	26.8	11.4	7.7	2.9

Quarterly Standalone Performance

YE-Mar (Rs mn)	Q2FY11	Q3FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	Gr (%)
Revenue	4,192	4,529	4,019	4,396	4,644	10.8	5.6	13,058	11,453	14.0
Expenditure	3,479	3,862	3,449	3,765	4,059	16.7	7.8	11,273	9,687	16.4
Consumption of RM	2,886	3,203	2,814	3,131	3,338	15.6	6.6	9,283	7,883	17.8
as % of sales	68.9	70.7	70.0	71.2	71.9	31.1		71.1	68.8	
Employee Cost	277	292	287	302	344	24.1	13.7	933	834	11.8
as % of sales	6.6	6.4	7.1	6.9	7.4			7.1	7.3	
Other expenditure	316	367	348	332	378	19.6	13.9	1,058	971	9.0
as % of sales	7.5	8.1	8.7	7.6	8.1			8.1	8.5	
EBITDA	713	667	570	631	584	-18.1	-7.4	1,785	1,766	1.1
Depreciation	70	72	73	75	83	17.7	10.7	230	207	11.2
EBIT	643	595	497	556	502	-22.0	-9.8	1,555	1,559	-0.3
Other Income	26	34	18	19	12	-53.7	-35.1	48	80	-40.3
Interest	26	24	12	22	26	1.6	20.8	60	75	-20.3
PBT	643	604	503	553	488	-24.2	-11.9	1,543	1,565	-1.4
Total Tax	199	202	153	167	146	-26.8	-12.5	466	481	-3.1
Adjusted PAT	444	402	350	386	342	-23.0	-11.6	1,078	1,084	-0.6
Extra ordinary items	0	65	0	0	0	NA	NA	0	0	#DIV/0!
Reported PAT	444	467	350	386	342	-23.0	-11.6	1,078	1,084	-0.6
Adjusted EPS	1.8	1.9	1.4	1.6	1.4	-23.0	-11.6	4.4	4.4	-0.6

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	17.0	14.7	14.2	14.4	12.6	-440	-180	13.7	15.4	-170
EBIT	15.3	13.1	12.4	12.7	10.8	-450	-190	11.9	13.6	-170
PBT	15.3	13.3	12.5	12.6	10.5	-480	-210	11.8	13.7	-180
PAT	10.6	8.9	8.7	8.8	7.4	-320	-140	8.3	9.5	-120
Effective Tax rate	31.0	33.5	30.5	30.1	29.9	-110	-20	30.2	30.7	-50

Reduce FY12E earnings by 13% and FY13E earnings by 9%

We have reduced our FY12E earnings estimates by 13% to Rs6.0 per share to factor (1) lower gross margins in 9MFY12 (2) expected one-offs in Q4FY12E (3) slow revival in infrastructure sector and (4) muted performance in industrials and auxiliary power business. We have also revised our FY13E earnings by -9% to Rs7.0 per share to factor (1) higher revenue contribution from auto OEMs (Tata) – which has lower gross margins than traditional business (2) lower growth expectations in engines business (barring Auto) and (3) slower turnaround of infrastructure business.

Revision in Earning Estimates

Y/E, Mar (Rs. mn)	FY12E			FY13E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	18,878	18,525	-1.9	21,539	21,047	-2.3
EBITDA	2,897	2,486	-14.2	3,310	2,976	-10.1
EBITDA Margin (%)	15.3	13.4	-190 bps	15.4	14.1	-120 bps
APAT	1,682	1,462	-13.1	1,941	1,767	-9.0
EPS (Rs)	6.9	6.0	-13.1	7.9	7.2	-9.0

Retain BUY with price target of Rs90 per share

Adjusting for one-offs, GCL posted strong performance despite tough business conditions. We expect GCL to post healthy earnings growth at 21% in FY13E period alongside strong cash generation and return ratios (ROCE at +35% and ROE at +25%), despite the current earnings downgrades. At CMP, the stock is trading attractively at 11.4X FY13E earnings. Retain our BUY rating with revised price target of Rs90.

Segmental Performance

YE-Mar (Rs mn)	Q2FY11	Q3FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	Gr (%)
Segment Revenues										
Engines	3,504	3,744	3,382	3,887	4,094	16.8	5.3	11,364	9,647	17.8
Infrastructure	483	652	486	339	364	-24.8	7.4	1,188	1,289	-7.8
Others	205	133	150	170	195	-4.8	14.6	516	517	-0.3
Less: Intersegment Rev.	0	0	0	0	9	-	-	0	0	-
Total	4,192	4,529	4,019	4,396	4,644	10.8	5.6	13,058	11,453	14.0
Segment Results										
Engines	712	688	596	646	684	-3.9	5.8	1,926	1,814	6.2
Infrastructure	3	6	3	-12	-28	-1228.0	141.0	-37	-9	300.0
Others	55	33	28	44	6	-89.3	-86.5	78	141	-44.8
Total	769	727	627	678	662	-14.0	-2.5	1,967	1,945	1.1
Add- Unall Income / (Exp)	101	33	112	104	148	-	-	364	306	-
Less- Interest Exp	26	24	12	22	26	1.6	20.8	60	75	-20.3
PBT	643	604	503	553	488	-24.2	-11.9	1,543	1,565	-1.4
Seg. Capital Employed										
Engines	3,089	3,232	3,631	3,807	4,007	29.7	5.3	4,007	3,089	29.7
Infrastructure	966	872	1,019	1,284	1,303	34.8	1.5	1,303	966	34.8
Others	-8	-48	2	-41	-50	497.6	20.1	-50	-8	497.6
Unallocated	858	1,205	959	833	850	-0.9	2.1	850	858	-0.9
Total	4,905	5,261	5,610	5,883	6,110	24.6	3.9	6,110	4,905	24.6
Segment Margins (%)										
						(bps)	(bps)			(bps)
Engines	20.3	18.4	17.6	16.6	16.7	-360	10	16.9	18.8	-190
Infrastructure	0.5	0.9	0.6	(3.5)	(7.8)	-830	-430	(3.1)	(0.7)	-240
Others	26.9	24.4	18.8	25.6	3.0	-2390	-2260	15.1	27.2	-1220
Average	18.3	16.0	15.6	15.4	14.2	-410	-120	15.1	17.0	-190

Note – Company has changed reporting period from June to March wef FY11. Hence FY11 is a 9 month reporting period

Key Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	13,923	12,789	18,525	21,047
Growth (%)	30.7	22.5	8.6	13.6
Expenditure	11,784	10,790	16,039	18,071
Materials Consumed	9,439	8,828	13,096	14,891
Employee Cost	1,180	945	1,411	1,590
Manufacturing Exp	421	388	556	631
Other Exp	744	630	975	958
EBITDA	2,139	1,999	2,486	2,976
Growth (%)	97.0	24.6	-6.7	19.7
EBITDA margin (%)	15.4	15.6	13.4	14.1
Depreciation	305	236	359	411
EBIT	1,834	1,763	2,127	2,566
EBIT margin (%)	13.2	13.8	11.5	12.2
Other Income	27	67	72	72
Interest expenses	136	75	94	94
PBT	1,725	1,755	2,105	2,544
Tax	558	567	643	777
Effective tax rate (%)	32.3	32.3	30.5	30.5
Adjusted PAT	1,167	1,188	1,462	1,767
Growth (%)	175.3	35.7	-7.7	20.9
Net Margin (%)	8.4	9.3	7.9	8.4
(Profit)/loss from JVs/Ass/MI	0	0	0	0
Adj. PAT After JVs/Ass/MI	1,167	1,188	1,462	1,767
E/O items	7	75	-1	-1
Reported PAT	1,175	1,263	1,462	1,767
Growth (%)	164.0	43.4	-13.2	20.9

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
PBT	1,732	1,831	2,105	2,544
Depreciation	305	236	359	411
Interest Provided	136	75	94	94
Other Non-Cash items	-13	-93	0	0
Chg in working cap	113	-307	402	-170
Tax paid	-460	-548	-643	-777
Operating Cashflow	1,814	1,193	2,317	2,102
Capital expenditure	-274	-363	-700	-500
Free Cash Flow	1,540	830	1,617	1,602
Other income	0	0	0	0
Investments	-636	469	0	0
Investing Cashflow	-636	469	0	0
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	-423.5	16	0	0
Interest Paid	-134	-89	-94	-94
Dividend paid (incl tax)	-313	-822	-505	-610
Income from investments	0	0	0	0
Others	0	0	0	0
Financing Cashflow	-871	-895	-599	-704
Net change in cash	34	401	1,019	898
Opening cash position	192	225	626	1,645
Closing cash position	225	626	1,645	2,543

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity share capital	488	488	488	488
Reserves & surplus	3,722	4,559	5,516	6,673
Net worth	4,211	5,047	6,004	7,161
Minority Interest	-	-	-	-
Secured Loans	4	23	23	23
Unsecured Loans	143	139	139	139
Loan Funds	146	162	162	162
Net deferred tax liability	246	264	264	264
Total Liabilities	4,603	5,474	6,430	7,587
Gross Block	4,233	4,652	5,452	6,052
Less: Depreciation	1,710	1,878	2,237	2,648
Net block	2,523	2,774	3,215	3,404
Capital work in progress	282	233	133	33
Investment	983	532	532	532
Current Assets	5,003	6,529	7,447	9,135
Inventories	1,594	1,971	1,936	2,200
Sundry debtors	2,182	2,909	2,766	3,142
Cash & bank balance	225	626	1,645	2,543
Loans & advances	1,001	1,024	1,100	1,250
Other current assets	-	-	-	-
Current lia & Prov	4,188	4,595	4,896	5,516
Current liabilities	2,860	3,592	3,597	4,052
Provisions	1,328	1,003	1,299	1,464
Net current assets	815	1,934	2,551	3,619
Misc. exp	-	-	-	-
Total Assets	4,603	5,474	6,431	7,588

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	15.4	15.6	13.4	14.1
Net Margin	8.4	9.3	7.9	8.4
ROCE	39.4	46.7	35.7	36.6
ROE	28.8	34.2	26.5	26.8
RoIC	51.5	65.3	51.9	59.7
Per Share Data (Rs)				
EPS	4.8	4.9	6.0	7.2
CEPS	6.2	6.2	7.5	8.9
BVPS	16.9	20.3	24.2	29.0
DPS	5.4	1.5	1.8	2.2
Valuations (x)				
PER	17.3	17.0	13.8	11.4
P/CEPS	13.3	13.4	11.1	9.3
P/BV	4.9	4.1	3.4	2.9
EV / Sales	1.5	1.6	1.1	1.0
EV / EBITDA	10.9	11.1	9.3	7.7
Dividend Yield (%)	6.5	1.8	2.2	2.6
Gearing Ratio (x)				
Net Debt/ Equity	-0.2	-0.1	-0.3	-0.4
Net Debt/EBIDTA	-0.3	-0.3	-0.7	-0.9
Working Cap Cycle (days)	31.0	29.4	44.2	53.5

Note – Company has changed reporting period from June to March wef FY11. Hence FY11 is a 9 month reporting period. Correspondingly, FY11 and FY12E growth numbers calculated on annualized basis.

Recommendation History: Greaves Cotton Ltd – GRV IN

Date	Reports	Reco	CMP	Target
23/01/2012	Engineering and Capital Goods Sector Update			
24/10/2011	Greaves Cotton Q2FY12 Result Update	Buy	89	103
27/07/2011	Greaves Cotton Q1FY12 Result Update	Buy	88	124
29/04/2011	Greaves Cotton Q3FY11 Result Update	Buy	94	124

Recent Research Reports

Date	Reports	Reco	CMP	Target
23/01/2012	Larsen and Toubro Q3FY12 Result Update	Accumulate	1,278	1,603
03/01/2012	TRF Event Update	Hold	209	282
21/12/2011	Blue Star Management Meet Update	Hold	159	185
15/11/2011	McNally Bharat Q2FY12 Result Update	Buy	107	147

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