

## Greaves Cotton (GC)

### Performance Highlights

#### Quarterly highlights - Consolidated

Y/E March (₹ cr)	1QFY17	1QFY16	% chg (yoy)
Gross Sales	444	422	5.1
EBITDA	59	59	0.3
Adj. PAT	44	36	21.0

Source: Company, Angel Research;

Greaves Cotton reported in-line gross sale numbers at ₹444cr. Reported sales were up 5.1% yoy. Engines segment (96% of 1QFY2017 revenues) reported 3.1% yoy increase in sales to ₹427cr. Others segment (4% of 1QFY2017 revenues) benefitted from strong performance seen across their Farm Equipment business & Auxiliary Power business. This segment on lower base, reported strong 68.6% yoy increase in revenues to ₹18cr.

GC reported 65bps yoy decline in its EBITDA margins during 1QFY2017 to 13.3%. Strategic initiatives to build the business for future led to increase in other expenses, which witnessed 13% yoy increase to ₹39cr (8.7% of 1QFY2017 sales).

If we look at segment-wise EBIT margins, then both, Engines & Others segment reported 31bps and 97bps, yoy decline in 1QFY2017 to 15.5% and 6.8%, respectively.

In-line with yoy EBITDA margin decline, PAT margins also declined 169bps yoy to 8.7%. On adjusting for exceptional items, Adj. PAT margins expanded 131bps yoy to 9.9% in 1QFY2017.

**Valuation:** Considering margin expansion scenario, debt free status and strong cash flow generating profile, we expect Greaves stock to trade at premium valuations. At CMP of ₹139, Greaves is trading at FY2017E and FY2018E, P/E multiple of 17.8x and 16.4x, respectively. **Given that the current valuations are capturing all the positives, we have NEUTRAL rating on the stock.**

#### Key financials (Standalone)

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17E	FY18E
Net Sales	1,873	1,719	1,689	1,655	1,755	1,881
% chg	7.0	(8.2)	(1.8)	(2.0)	6.0	7.2
Adj. Net Profit	150	121	147	181	191	207
% chg	6.5	(19.4)	21.8	22.7	5.7	8.5
EBITDA (%)	12.9	11.3	11.8	16.6	16.8	16.9
EPS (₹)	6.1	5.0	6.0	7.4	7.8	8.5
P/E (x)	22.6	28.1	23.0	18.8	17.8	16.4
P/BV (x)	4.1	3.7	3.7	3.4	3.2	3.0
Adj. RoE (%)	21.6	15.5	18.0	21.1	20.6	20.9
RoCE (%)	43.0	32.4	32.4	42.8	43.4	44.1
EV/Sales (x)	1.8	2.0	2.0	2.0	1.9	1.7
EV/EBITDA (x)	12.7	15.6	15.1	10.8	10.0	9.2

Source: Company, Angel Research; Note: nmf- Not Meaningful; CMP as of August 5, 2016

## NEUTRAL

CMP	₹139
Target Price	-

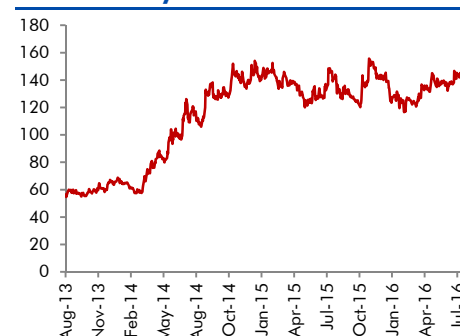
Investment Period	-
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Stock Info	
Sector	Capital Goods
Market Cap (₹ cr)	3,045
Net debt (₹ cr)	(90)
Beta	0.6
52 Week High / Low	162/114
Avg. Daily Volume	267,635
Face Value (₹)	2
BSE Sensex	28,078
Nifty	8,683
Reuters Code	GRVL.BO
Bloomberg Code	GRV@IN

Shareholding Pattern (%)	
Promoters	51.0
MF / Banks / Indian Fls	31.4
FII / NRIs / OCBs	4.9
Indian Public / Others	12.7

Abs. (%)	3m	1yr	3yr
Sensex	4.9	(0.8)	49.9
Greaves Cotton	1.5	(4.6)	146.4

#### 3-Year Daily Price Chart



Source: Company, Angel Research

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**Exhibit 1: Quarterly Performance (Consolidated)**

(₹ Cr)	1QFY17*	1QFY16*	% chg (yoy)
<b>Gross Sales</b>	<b>444</b>	<b>422</b>	<b>5.1</b>
Raw Material	307	290	5.9
Employee Cost	39	39	(0.2)
Other Expenses	39	34	13.0
<b>Total Expenditure</b>	<b>384</b>	<b>363</b>	<b>5.9</b>
<b>EBITDA</b>	<b>59</b>	<b>59</b>	<b>0.3</b>
<b>EBITDA %</b>	<b>13.3</b>	<b>14.0</b>	
Interest	0	0	(66.7)
Depreciation	11	11	(2.8)
Other Income	12	11	4.7
<b>PBT before Excep. Item</b>	<b>60</b>	<b>59</b>	<b>1.9</b>
Exceptional Item	(6)	7	nmf
<b>PBT after Excep. Item</b>	<b>55</b>	<b>66</b>	<b>(17.8)</b>
Total Tax	16	23	28.9
<b>Effective Tax rate (%)</b>	<b>26.7</b>	<b>38.3</b>	
<b>Rep. PAT (after Min. Int.)</b>	<b>39</b>	<b>44</b>	<b>(12.0)</b>
<b>PAT Margins (%)</b>	<b>8.7</b>	<b>10.4</b>	
<b>Adj. PAT</b>	<b>44</b>	<b>36</b>	<b>21.0</b>
<b>Adj. PAT Margins (%)</b>	<b>9.9</b>	<b>8.6</b>	<b>15.1</b>
<b>EPS (₹)</b>	<b>1.6</b>	<b>1.8</b>	<b>(11.7)</b>

Source: Company, Angel Research; Note: nmf- Not meaningful; \*Reported as per Ind AS, FY2016 numbers & other remaining quarters continue to be reported as per Indian GAAP; It needs to be noted that yoy growth for FY2017E is not comparable as FY2016 continues to be reported under Indian GAAP

**Others segment drive 5.1% yoy sales growth in 1Q**

Greaves Cotton reported in-line sale numbers at ₹444cr. Reported sale numbers were up 5.1% yoy. Engines segment (96% of 1QFY2017 revenues) reported 3.1% yoy increase in sales to ₹427cr. Others segment (4% of 1QFY2017 revenues) benefitted from strong performance seen across their Farm Equipment business & Auxiliary Power business. This segment on lower base, reported strong 68.6% yoy increase in revenues to ₹18cr. Also management attributed this growth to launch of new range of solutions (reported under Other's segment), enhancement in the service quality, and entry in to newer geographies.

**EBITDA margin declines to 13.3%**

GC reported 65bps yoy decline in its EBITDA margins during 1QFY2017 to 13.3%. Strategic initiatives to build the business for future led to increase in other expenses, which witnessed 13% yoy increase to ₹39cr (8.7% of 1QFY2017 sales).

If we look at segment-wise EBIT margins, then both, Engines & Others segment reported 31bps and 97bps, yoy decline in 1QFY2017 to 15.5% and 6.8%, respectively.

Expenses incurred with regards to product development initiatives, entering new geographies could have led to this margin compression in the Others segment.

## Adj.PAT margin expand to 9.9%

In-line with yoy EBITDA margin decline, PAT margins also declined 169bps yoy to 8.7%. PAT numbers benefitted from 4.7% yoy increase in other income to ₹12cr.

### Exhibit 2: Exceptional Item details

(₹ Cr)	1QFY17	1QFY16
Impairment of Assets	(3.4)	0.0
Employee Separation Cost	(4.0)	(0.6)
Profit on sale of Intangibles/ Properties	3.3	8.0
Provision for Inventory devaluation	(1.4)	0.0
<b>Exceptional Items</b>	<b>(5.5)</b>	<b>7.4</b>

Source: Company, Angel Research

On adjusting for exceptional items, Adj. PAT margins expanded 131bps yoy to 9.9% in 1QFY2017.

### Exhibit 3: Details of Other Comprehensive Income

PAT reconciliation (₹ Cr)	1QFY16
<b>PAT under IND-GAAP</b>	<b>43.34</b>
Interest Income due to fair valuation of interest free security deposit given	0.03
Effect of measuring investments at fair value through P&L account	0.94
Effect of measuring forward contract at fair value	0.08
Prepaid rent due to fair value of interest free security deposit amortized	(0.03)
Reclassification of actuarial gains/ losses (arising in respect of employee benefit schemes, to other comprehensive income)	(0.33)
Tax adjustments on above items	(0.22)
Total IND-AS Adjustments	0.47
<b>PAT as reported under IND-AS</b>	<b>43.81</b>
Other Comprehensive Income	0.21
<b>Total Comprehensive Inc. as reported under IND-AS</b>	<b>44.02</b>

Source: Company

## Risks & Concerns

- Delays in release of subsidies could impact demand for Farm Equipments, which could act as risk to our assumptions.
- Slower than expected demand for SCVs could act as risk to our assumptions.
- Shift in the mix in favor of Farm Equipments could act as risk to our earnings growth estimates.

## Outlook & Valuation

Margin recovery (owing to shut-down of Infrastructure Equipment division), coupled with improving demand scenario should help GC report 12% PAT CAGR during FY2015-18E. At CMP of ₹139/share, GC is trading at FY2017E and FY2018E, P/E multiple of 17.8x and 16.4x, respectively.

Given that GC has strong 70%+ market share in the 3W goods engine industry and it caters to almost all the leading OEMs, it indicates that GC enjoys strong market positioning within the space. In the back-drop of gradual revival in the business, we expect GC to report 3.7% top-line and 12% adj. bottom-line CAGR during FY2015-18E. Given their lean balance sheet (zero debt and cash balance of ₹21cr as of 4QFY2016) and strong cash flow generation potential (expect ₹748cr during FY2016-18E), we expect the strong to trade at higher valuations. On assigning 17.0x multiple to our FY2017E estimates, we arrive at price target of ₹133. Accordingly, we have Neutral rating on the stock.

## Company background

Founded in 1859, Greaves Cotton is a Thappar Group promoted company, which over the years has emerged as largest manufacturer of light weight single/dual cylinder's engines, used by Auto & Industrial sectors. The company enjoys a strong market positioning with in the 3-wheeler (3W) diesel engines market, given their exclusive diesel engines supply agreement with Piaggio and M&M. Over the years, the company has diversified to new verticals such as Infrastructure Equipments (Road Construction Machinery, Concrete Equipment Machinery & batching Plants), Agriculture Equipments (Power Tillers & Reapers), & Auxiliary Power & Industrial Equipments (Power gensets used across industrial applications). On incurring losses, GC in 2QFY2015 announced that it would shut-down its Infrastructure Equipments division.

**Profit & Loss (Standalone)**

Y E March (₹ cr)	FY13	FY14	FY15	FY16	FY17E	FY18E
<b>Net sales</b>	<b>1,873</b>	<b>1,719</b>	<b>1,689</b>	<b>1,655</b>	<b>1,755</b>	<b>1,881</b>
Growth %	7.0	(8.2)	(1.8)	(2.0)	6.0	7.2
Materials & Compo. Consumed	1,313	1,181	1,147	1,079	1,141	1,224
Employee cost	148	162	161	154	160	171
Other Operating Expenses	170	182	181	148	159	168
Total Operating Expenses	1,631	1,525	1,489	1,381	1,460	1,563
<b>EBITDA</b>	<b>242</b>	<b>194</b>	<b>200</b>	<b>274</b>	<b>295</b>	<b>317</b>
Growth %	1.4	(20.1)	3.2	37.1	7.8	7.5
EBITDA Margin %	12.9	11.3	11.8	16.6	16.8	16.9
Depreciation	39	43	47	47	50	52
<b>EBIT</b>	<b>219</b>	<b>177</b>	<b>177</b>	<b>256</b>	<b>278</b>	<b>301</b>
EBIT Margin %	11.7%	10.3%	10.5%	15.5%	15.8%	16.0%
Other Income	16	27	24	30	33	36
Interest	1	5	2	1	1	1
Exceptional Item	(18)	(8)	(66)	6	0	0
PBT	200	164	109	261	277	301
Tax	62	51	27	75	86	93
Effective tax rate %	31.1	31.2	25.0	28.6	31.0	31.0
<b>PAT</b>	<b>138</b>	<b>113</b>	<b>82</b>	<b>187</b>	<b>191</b>	<b>207</b>
<b>Adj. PAT</b>	<b>150</b>	<b>121</b>	<b>147</b>	<b>181</b>	<b>191</b>	<b>207</b>
Growth %	6.5	(19.4)	21.8	22.7	5.7	8.5
Adj. PAT margin %	8.0	7.0	8.7	10.9	10.9	11.0

**Balance Sheet (Standalone)**

Y E March (₹ cr)	FY13	FY14	FY15	FY16	FY17E	FY18E
<b>SOURCES OF FUNDS</b>						
Share Capital	49	49	49	49	49	49
Reserves & Surplus	693	769	771	849	911	976
Net Worth	742	818	820	898	960	1,024
Total Loan Funds	2	0	0	0	0	0
Total Deferred Tax	35	33	13	13	13	13
Provisions	13	13	10	10	10	10
Other Liabilities	4	4	4	4	5	5
<b>Total Liabilities</b>	<b>796</b>	<b>868</b>	<b>846</b>	<b>925</b>	<b>987</b>	<b>1,052</b>
<b>APPLICATION OF FUNDS</b>						
Gross Block	589	625	616	662	711	758
Accumulated Depreciation	221	257	290	338	388	440
<b>Net Block &amp; Cap. WIP</b>	<b>376</b>	<b>373</b>	<b>334</b>	<b>328</b>	<b>327</b>	<b>322</b>
<b>Investments</b>	<b>94</b>	<b>178</b>	<b>309</b>	<b>390</b>	<b>440</b>	<b>490</b>
Current Assets	709	647	511	541	572	618
Inventories	161	158	105	107	115	124
Sundry Debtors	375	333	237	236	250	263
Cash & Bank Balance	41	34	34	90	107	135
Loans & advances	131	122	135	109	100	97
Current Liab. & Provisions	384	332	310	336	355	380
Current Liabilities	296	252	220	249	263	282
Provisions	88	80	90	86	91	98
<b>Net Current Assets</b>	<b>325</b>	<b>315</b>	<b>202</b>	<b>206</b>	<b>218</b>	<b>238</b>
Other Assets	1	2	2	1	2	2
<b>Total Assets</b>	<b>796</b>	<b>868</b>	<b>846</b>	<b>925</b>	<b>987</b>	<b>1,052</b>

**Cash flow Statement (Standalone)**

Y E March (₹ cr)	FY13	FY14	FY15	FY16	FY17E	FY18E
<b>Profit before Tax</b>	<b>200</b>	<b>164</b>	<b>109</b>	<b>261</b>	<b>277</b>	<b>301</b>
Depreciation	39	43	47	47	50	52
Other adj. prior to WC changes	3	(3)	9	5	(13)	(14)
Changes in working capital	(78)	9	103	31	1	3
Tax	(60)	(58)	(44)	(75)	(86)	(93)
<b>Cash flow from Operations</b>	<b>105</b>	<b>157</b>	<b>223</b>	<b>270</b>	<b>229</b>	<b>249</b>
Capital expenditure	(66)	(10)	(45)	(42)	(50)	(47)
<b>Free Cash Flow</b>	<b>171</b>	<b>166</b>	<b>268</b>	<b>312</b>	<b>279</b>	<b>295</b>
Inc/Dec. in Investments	11	(113)	(119)	(64)	(33)	(32)
<b>Cash flow from Investments</b>	<b>(55)</b>	<b>(123)</b>	<b>(164)</b>	<b>(106)</b>	<b>(82)</b>	<b>(78)</b>
Equity capital raised	0	0	0	0	0	0
Inc./ (Dec.) in Borrowings	(18)	(2)	(0)	0	0	0
Dividend & Interest paid (incl tax)	(60)	(39)	(59)	(108)	(130)	(143)
Cash flow from Financing	(78)	(41)	(59)	(108)	(130)	(143)
Net change in cash	(29)	(7)	0	56	17	28
<b>Cash at the beginning of the year</b>	<b>70</b>	<b>41</b>	<b>34</b>	<b>34</b>	<b>90</b>	<b>107</b>
<b>Cash at the end of the year</b>	<b>41</b>	<b>34</b>	<b>34</b>	<b>90</b>	<b>107</b>	<b>135</b>

**Ratio Analysis**

Y E March	FY13	FY14	FY15	FY16	FY17E	FY18E
<b>Valuation Ratio (x)</b>						
Adj. P/E (on FDEPS)	22.6	28.1	23.0	18.8	17.8	16.4
Adj. P/CEPS	19.8	21.7	26.4	14.5	14.1	13.1
Dividend yield (%)	0.9	1.1	0.6	0.4	0.3	0.3
EV/Sales	1.8	2.0	2.0	2.0	1.9	1.7
EV/EBITDA	14.2	17.4	16.8	12.1	11.1	10.3
EV/Total Assets	2.8	2.8	2.9	2.6	2.5	2.3
<b>Per Share Data (₹)</b>						
Adj. EPS (fully diluted)	6.1	5.0	6.0	7.4	7.8	8.5
Cash EPS	7.0	6.4	5.3	9.6	9.9	10.6
DPS	1.6	1.3	2.5	3.7	4.5	4.9
Book Value	30	33	34	37	39	42
<b>Returns (%)</b>						
RoCE (Pre-tax)	43.0	32.4	32.4	42.8	43.4	44.1
Angel RoIC (Pre-tax)	19.1	15.3	19.0	29.2	31.0	33.0
Adj. RoE	21.6	15.5	18.0	21.1	20.6	20.9
<b>Turnover ratios (x)</b>						
Asset Turnover (Gross Block) (x)	1.6	1.4	1.5	1.3	1.3	1.3
Inventory / Sales (days)	32	34	28	23	23	23
Receivables (days)	62	75	62	52	51	50
Payables (days)	67	61	54	54	56	55
WC (days)	26	48	37	22	18	18



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### Greaves Cotton

1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

**Ratings (Based on expected returns over 12 months investment period):**

Buy (> 15%)

Accumulate (5% to 15%)  
Reduce (-5% to -15%)

Neutral (-5 to 5%)  
Sell (< -15)