

Muted volume growth in 3-W engine segment...

Greaves Cotton's (GCL) revenues were at ₹ 476.8 crore, up 4.1% YoY, below our estimate of ₹ 485.8 crore. EBITDA was flat at ₹ 61.3 crore YoY (below our estimate of ₹ 65.1 crore). EBITDA margins were at 12.8%, down 50 bps YoY, below our estimate of 13.4%. PAT came in at ₹ 38.2 crore, down 4.2% YoY (below our estimate of ₹ 45.2 crore). For Q1FY20, engines contributed 55% to revenues followed by aftermarket (22%) and others (23%).

Overall engine business aided by growth in others segment

In Q1Y20, GCL's engine volume (3-W, others) grew 6.6% YoY to 79687 units. The 3-W (passenger, goods) volumes declined marginally by 0.6% YoY at 65045 units while others engines segment (includes CNG engines) was supported by robust 56% YoY volumes growth. On non-auto side, power genset segment volume grew marginally by 0.9% YoY to 1102 units. Overall agriculture (pumpset, power tiller, other) volumes declined 24.3% YoY and are expected to remain weak. Pumpset and power volumes de-grew 24% to 18268 units and 51% to 880 units YoY, respectively. We build in 3-W volumes of ~339660 and ~355100 units in FY20E and FY21E, respectively.

New E-2-W products, non-auto, B2C to support growth

GCL is in testing and validation stage for BS VI compliant CREST CNG engines with its OEMs and is likely to move ahead in the next six months. It is integrating all its products and services into unified stores to also sell 2-W ampere vehicles and 3-W e-rickshaws by integrating all 350+ retail outlets to sell entire range of products including Ampere to reach the combined Greaves retail outlets of over 500+ over 12-18 months. In electric mobility business, E-2-W volumes came in at 3578 units, up 25.6% YoY, while GC achieved 1000+ unit mark for its E-rickshaws by selling 493 units in Q1FY20. It has planned a capex of ₹ 75 crore for FY20E. We believe the economics and scalability of the above tie ups could meaningfully add to growth over the next two to three years.

Valuation & Outlook

New product range of high speed E-2-W vehicles with the launch of Zeal and expected launch of another two products at Ampere coupled with new business initiatives (CNG engines, and B2C business) would aid revenue growth and boost the share of non-auto segment. Also, aftermarket sales may provide the much needed growth uptick. We build in 8.7% revenue CAGR in FY19-21E. We value GCL base business at 16x FY21E EPS to arrive at ₹ 145/share and revise our rating from HOLD to **BUY**.



Particulars

Particular	Amount
Market Capitalization	₹ 2857.1 Crore
Total Debt (FY19)	₹ 0 Crore
Cash and Investments (FY19)	₹ 532.2 Crore
EV	₹ 3389.2 Crore
52 week H/L	₹ 165 / ₹ 111
Equity capital	₹ 48.8 Crore
Face value	₹ 2

Key Highlights

- Revenues came in at ₹ 476.8 crore, up 4.1% YoY, below our estimate of ₹ 485.8 crore
- In electric mobility business, E-2W volumes came in at 3578 units, up 25.6% YoY while GC achieved 1000+ unit mark for its E-rickshaws by selling 493 units in Q1FY20
- We value GCL base business at 16x FY21E EPS to arrive at ₹ 145/share and revise our rating from HOLD to **BUY**

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Key Financial Summary

Particulars (₹ crore)	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-FY21E)
Net Sales	1,632.3	1,792.1	1,987.9	2,149.5	2,346.9	8.7%
EBITDA	244.9	255.3	274.7	293.7	324.5	8.7%
EBITDA Margin (%)	15.0	14.2	13.8	13.7	13.8	
Net Profit	180.7	202.6	169.3	195.1	213.8	12.4%
EPS (₹)	7.4	8.3	6.9	8.0	8.8	
P/ E (x)	15.9	14.2	17.0	14.8	13.5	
RoNW (%)	19.4	17.7	18.7	19.1	20.4	
RoCE (%)	26.3	25.3	27.4	27.7	29.5	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q1FY20	Q1FY20E	Q1FY19	YoY (Chg %)	Q4FY19	QoQ (Chg %)	Comments
Revenue	476.8	485.8	458.2	4.1	528.1	-9.7	Revenues were below our estimates
Other Income	7.4	14.0	10.3	-28.2	8.6	-13.3	
Employee Expenses	45.8	47.1	46.6	-1.8	42.2	8.4	
Raw Material Expenses	324.3	328.4	309.3	4.8	368.4	-12.0	
Other operating Expenses	45.6	45.2	41.4	10.1	47.5	-4.1	
EBITDA	61.3	65.1	60.9	0.6	70.0	-12.5	
EBITDA Margin (%)	12.8	13.4	13.3	-45 bps	13.3	-40 bps	Margins impacted by commodity price pressure and challenging market scenarios
Depreciation	12.3	12.7	12.5	-2.2	11.7	4.9	
Interest	0.6	0.3	0.5	-	0.5		
Exceptional Item	0.0	0.0	0.0		12.9		
PBT	55.8	66.1	58.2	-4.2	53.5	4.4	
Total Tax	17.6	20.9	18.4	-4.1	16.1	9.7	Effective tax rate was lower on account of lower tax shield on R&D expenses incurred
PAT	38.2	45.2	39.8	-4.2	37.4	2.1	
Adj. PAT	38.2	45.2	39.8	-4.2	46.4	-17.7	PAT impacted by margins and decline in other income

Key Metrics
Segmental Performance

Engine Segment	446.0	451.8	433.0	3.0	492.5	-9.4
Infrastructure & others segment	27.2	34.0	24.8	9.8	31.6	-13.9

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20E			FY21E			
	Old	New	% Change	Old	New	% Change	
Revenue	2,187.9	2,149.5	-1.8	2,412.8	2,346.9	-2.7	Growth in non-auto segment revenues will be higher while 3W engine may remain muted
EBITDA	303.6	293.7	-3.3	341.1	324.5	-4.9	
EBITDA Margin (%)	13.9	13.7	-21 bps	14.1	13.8	-27 bps	
PAT	205.0	195.1	-4.8	227.8	213.8	-6.1	PAT is declining on account of commodity pressure, other income
EPS (₹)	8.4	8.0	-4.9	9.3	8.8	-5.9	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier		
	FY18	FY19	FY20E	FY21E	FY20E	FY21E	
3W Volumes (units)	272,890	284,454	296,664	312,598	305,637	327,004.0	Revised volumes downwards in line with expected Auto sales
4W Volumes (Units)	45,990	43,147	43,000	42,500	43,000	43,000.0	

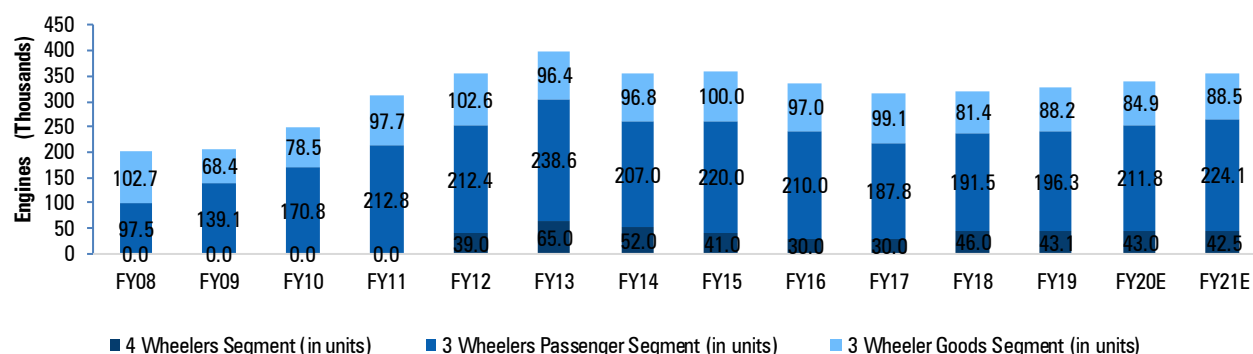
Source: Company, ICICI Direct Research

Conference Call Highlights

- EBITDA margins were impacted by commodity inflation and a change in commodity mix. However, EBITDA margins are expected to be in the range of 13.7% to 13.8% next year
- In Q1Y20, GCL's engine volume (3-W, others) grew 6.6% YoY to 79687 units. The 3-W (passenger, goods) volumes declined marginally by 0.6% YoY to 65045 units impacted by slowdown and tight liquidity scenario, while other engines segment (includes CNG engines) was supported by robust 56% YoY volumes growth
- On the non-auto side, power genset segment volume grew marginally by 0.9% YoY to 1102 units. Overall agriculture (pumpset, power tiller, other) volumes declined 24.3% YoY and is expected to remain weak. Pumpset and power tiller volume de-grew 24% to 18268 units and 51% to 880 units YoY, respectively, mainly due to the tight liquidity situation related to farmers
- In electric mobility business, E-2-W volumes came in at 3578 units, up 25.6% YoY, while GCL achieved 1000+ unit mark for its E-rickshaws by selling 493 units in Q1FY20
- Ampere launched ZEAL (a high speed E-2-W) with FAME II certification at a price point of around ₹ 67000 per unit. It is expected to launch two more E-2-W vehicles around the festive season. Ampere market share is now at 18% in E-2-W. GCL is adding a technology centre in Bengaluru for the electric mobility business
- GCL is in the process of integrating all its products and services into unified stores to also sell 2-W ampere vehicles and 3-W e-rickshaws by integrating all 350+ retail outlets to sell the entire range of products including Ampere and to reach the combined Greaves Retail outlets of over 500+ over 12-18 months
- CNG engine sales growth came in at 43% YoY. Non-auto engine segment reported healthy growth of 195% YoY
- Ampere reported ₹ 15.5 crore for Q1FY20 (vs. ₹ 28 crore revenue for 5.5 months in FY19) while GCL's share of net loss was at ₹ 3.8 crore

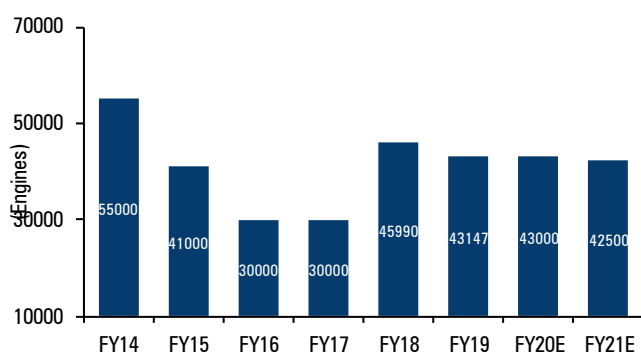
Financial story in charts

Exhibit 4: Trend in auto engine segment sales



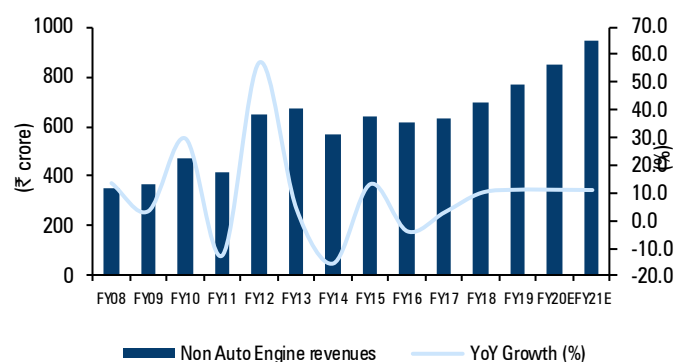
Source: Company, ICICI Direct Research

Exhibit 5: Trend in 4-W SCV sales in FY14-21E



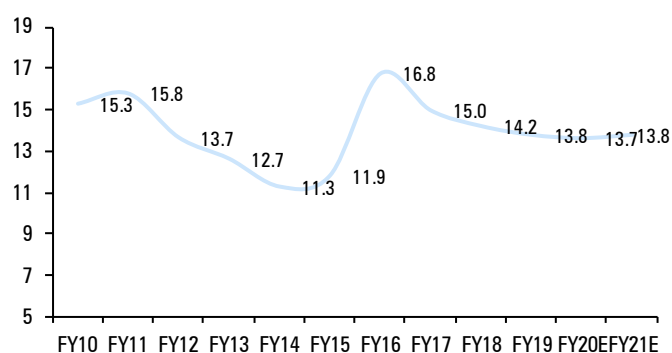
Source: ICICI Direct Research, Company

Exhibit 6: Non-auto engine segment revenue growth trend



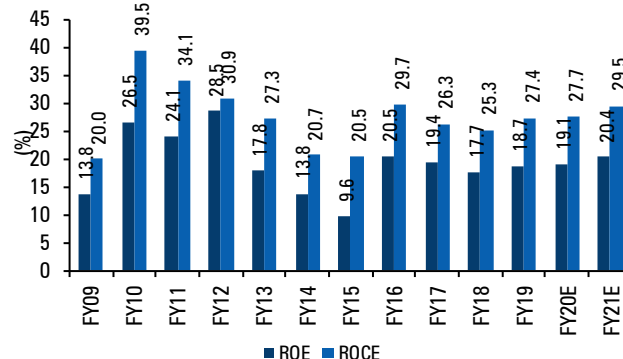
Source: ICICI Direct Research, Company

Exhibit 7: Trend in EBITDA margins



Source: Company, ICICI Direct Research

Exhibit 8: GCL commands superior return ratios



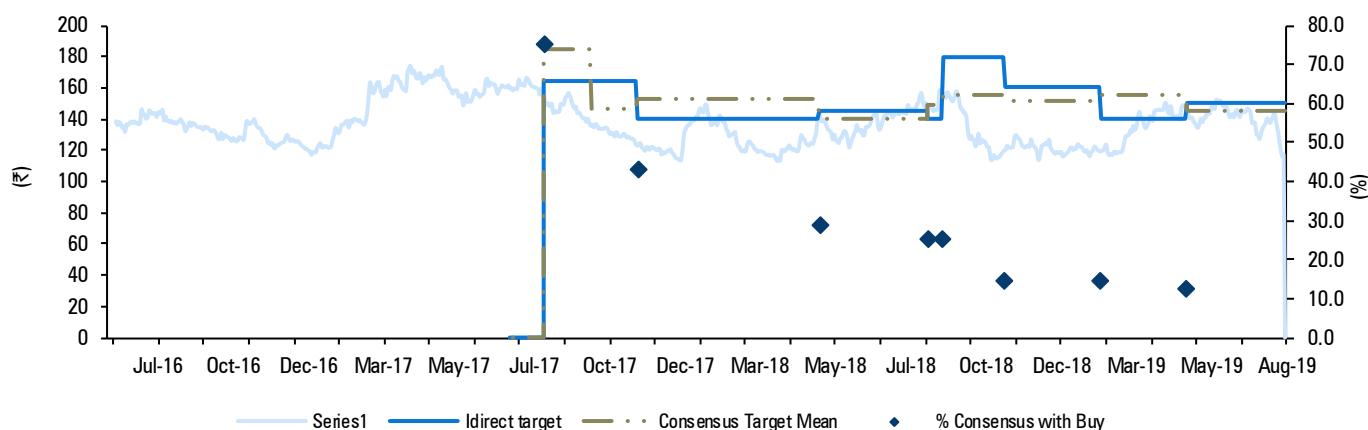
Source: Company, ICICI Direct Research

Exhibit 9: GCL Valuation

	Basis of	Multiple	Total Value (₹ crore)	Per share
Base Business	P/E	16x	3,421	140
Investment in Ampere (81% Stake)	Book Value	1x	116	4.7
Total			3,536	145

Source: ICICI Direct Research

Exhibit 10: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 11: Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S Position (m)	Change (m)
1	RDA Holding & Trading Pvt. Ltd.	30-Jun-19	57.1	64.3
2	ARA Trusteeship Company Pvt. Ltd.	30-Jun-19	8.5	9.5
3	SBI Funds Management Pvt. Ltd.	30-Jun-19	3.9	4.4
4	Matthews International Capital Management,	31-May-19	3.3	3.7
5	Kotak Mahindra Asset Management Compan	30-Jun-19	2.3	2.6
6	Goldman Sachs Asset Management Internati	30-Jun-19	2.1	2.4
7	Franklin Templeton Asset Management (India	30-Jun-19	1.8	2.0
8	Reliance Nippon Life Asset Management Lim	30-Jun-19	1.8	2.0
9	Life Insurance Corporation of India	30-Jun-19	1.6	1.8
10	Sundaram Asset Management Company Lim	30-Jun-19	1.5	1.7

Source: Reuters, ICICI Direct Research

Exhibit 12: Recent Activity

Buys			Sells		
Investor Name	Value	Shares	Investor Name	Value	Shares
SBI Funds Management Pvt. Ltd.	+30.33M	+1.98M	HDFC Asset Management Co., Ltd.	-9.34M	-0.67M
Franklin Templeton Asset Management (India) Pvt. Ltd.	+8.06M	+0.53M	Impax Asset Management Ltd.	-4.30M	-0.31M
Reliance Nippon Life Asset Management Limited	+6.71M	+0.44M	BNP Paribas Asset Management France SAS	-0.84M	-0.06M
Kotak Mahindra Asset Management Company Ltd.	+3.70M	+0.24M	Aberdeen Standard Investments (Asia) Limited	-0.45M	-0.03M
Gagrat (Binaifer)	+1.99M	+0.13M	The Vanguard Group, Inc.	-0.30M	-0.02M

Source: Reuters, ICICI Direct Research

Exhibit 13: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Promoter	62.0	62.0	62.0	62.0	62.0
FII	14.6	14.0	14.2	11.9	9.0
DII	12.2	12.7	12.0	13.9	16.5
Others	11.3	11.3	11.8	12.2	12.5

Source: Company, ICICI Direct Research

Financial summary

Exhibit 14: Profit and loss statement ₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
Total operating Income	1,792.1	1,987.9	2,149.5	2,346.9
Growth (%)	9.8	10.9	8.1	9.2
Raw Material Expenses	1,209.9	1,358.5	1,462.8	1,594.8
Employee Expenses	167.3	174.7	191.3	205.7
Other Operating Expenses	159.7	179.9	201.7	221.9
Administrative Expenses	0.0	0.0	0.0	0.0
Other expenses	0.0	0.0	0.0	0.0
Total Operating Expenditure	0.0	0.0	0.0	0.0
EBITDA	255.3	274.7	293.7	324.5
Growth (%)	275.0	7.6	6.9	10.5
Depreciation	52.4	48.8	54.2	63.4
Interest	0.8	3.3	1.4	1.0
Other Income	45.3	41.6	46.4	52.0
PBT	295.5	246.3	284.5	312.1
Others	0.0	0.0	0.0	0.0
Total Tax	93.0	77.0	89.4	98.3
PAT	202.6	169.3	195.1	213.8
Growth (%)	12.1	-16.4	15.2	9.6
EPS (₹)	8.3	6.9	8.0	8.8

Source: Company, ICICI Direct Research

Exhibit 15: Cash flow statement ₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
Profit after Tax	202.6	169.3	195.1	213.8
Add: Depreciation	52.4	48.8	54.2	63.4
(Inc)/dec in Current Assets	19.7	-33.8	-26.1	-40.0
Inc/(dec) in CL and Provisions	48.6	60.1	36.2	41.3
Others	0.0	0.0	0.0	0.0
CF from operating activities	324.0	247.7	260.8	279.4
(Inc)/dec in Investments	-95.3	83.1	-15.0	-20.0
(Inc)/dec in Fixed Assets	-50.5	-76.1	-87.1	-79.0
Others	0.0	0.0	0.0	0.0
CF from investing activities	-140.4	-75.3	-113.4	-100.1
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	4.5	-14.8	2.0	2.0
Dividend paid & dividend tax	-161.7	-161.9	-164.6	-182.3
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	0.0	7.6	0.0	0.0
CF from financing activities	-163.9	-163.9	-143.3	-188.3
Net Cash flow	19.8	8.5	4.1	-9.0
Opening Cash	10.0	29.8	38.4	42.4
Closing Cash	29.8	38.4	42.4	33.5

Source: Company, ICICI Direct Research

Exhibit 16: Balance sheet ₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
Liabilities				
Equity Capital	48.8	48.8	48.8	48.8
Reserve and Surplus	911.6	920.3	973.4	999.9
Total Shareholders funds	960.5	969.2	1,022.3	1,048.8
Total Debt	0.0	0.0	0.0	0.0
Deferred Tax Liability	21.8	7.0	9.0	11.0
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	989.5	987.9	1,046.0	1,077.5
Assets				
Gross Block	434.6	493.9	585.9	664.9
Less: Acc Depreciation	134.4	172.8	227.0	290.4
Net Block	300.3	321.2	358.9	374.5
Capital WIP	0.0	0.0	0.0	0.0
Total Fixed Assets	304.7	332.0	364.9	380.5
Investments	502.6	492.1	507.1	527.1
Inventory	109.4	115.2	129.6	141.5
Debtors	252.7	336.5	290.3	315.1
Loans and Advances	0.0	0.0	0.0	0.0
Other Current Assets	23.3	19.6	42.5	46.4
Cash	29.8	38.4	42.4	33.5
Total Current Assets	483.4	525.7	555.8	586.9
Creditors	273.0	319.4	326.8	356.9
Provisions	23.3	19.6	42.5	46.4
Total Current Liabilities	353.7	413.8	449.9	491.3
Net Current Assets	129.7	111.9	105.9	95.7
Others Assets	0.0	0.0	0.0	0.0
Total Assets	989.5	987.9	1,046.0	1,077.5

Source: Company, ICICI Direct Research

Exhibit 17: Key ratios ₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
Per share data (₹)				
EPS	8.3	6.9	8.0	8.8
Cash EPS	10.4	8.9	10.2	11.4
BV	39.3	39.7	41.9	42.9
DPS	5.5	5.5	5.6	6.2
Cash Per Share	1.2	1.6	1.7	1.4
Operating Ratios (%)				
EBITDA Margin	14.2	13.8	13.7	13.8
PBT / Total Operating income	11.3	8.5	9.1	9.1
PAT Margin	11.3	8.5	9.1	9.1
Inventory days	22.3	21.2	22.0	22.0
Debtor days	51.5	61.8	49.3	49.0
Creditor days	55.6	58.7	55.5	55.5
Return Ratios (%)				
RoE	17.7	18.7	19.1	20.4
RoCE	25.3	27.4	27.7	29.5
RoIC	50.7	48.3	48.4	51.3
Valuation Ratios (x)				
P/E	14.2	17.0	14.8	13.5
EV / EBITDA	9.2	8.7	8.1	7.3
EV / Net Sales	1.3	1.2	1.1	1.0
Market Cap / Sales	1.6	1.4	1.3	1.2
Price to Book Value	3.0	3.0	2.8	2.7
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.3	1.2	1.1	1.1
Quick Ratio	1.0	0.9	0.9	0.8

Source: Company, ICICI Direct Research

Exhibit 18: ICICI Direct coverage universe (Capital Goods)

Company	CMP			M Cap	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		(₹ Cr)	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E
L&T (LARTOU)	1370	1,675	Buy	190067	48.1	56.0	61.1	28.9	24.8	22.8	11.8	11.5	12.2	12.7	13.5	13.6
Bhel (BHEL)	58	75	Hold	20196	3.5	4.1	4.5	21.5	18.2	16.5	6.9	7.5	7.9	3.9	4.5	4.9
AIA Engineering (AIAENG)	1681	2,050	Buy	15855	54.4	59.6	68.2	32.2	29.4	25.7	18.9	19.9	20.3	14.6	14.7	15.1
Thermax (THERMA)	1075	1,170	Buy	12809	23.1	29.3	34.2	42.8	33.8	28.9	17.3	17.1	18.0	11.1	11.5	12.2
KEC International (KECIN)	293	330	Hold	7533	19.2	22.8	27.3	15.1	12.7	10.6	24.8	25.2	25.6	20.1	20.2	20.2
Kalpataru Power(KALPOW)	471	570	Buy	7228	26.1	30.7	36.4	17.8	15.2	12.8	19.6	19.3	20.1	12.7	12.7	13.2
Greaves Cotton (GREAVE)	118	145	Buy	2882	6.9	8.0	8.8	17.0	14.8	13.5	27.4	27.7	29.5	18.7	19.1	20.4
Elgi Equipment (ELGEQU)	245	300	Buy	3882	6.1	6.5	7.2	38.1	36.0	32.4	14.3	13.8	15.1	14.1	13.4	13.6
Bharat Electronics (BHAELE)	97	135	Buy	23635	7.9	7.4	8.2	12.6	13.5	12.2	30.0	26.2	27.0	21.4	18.1	18.3
Engineers India (ENGIND)	102	120	Hold	7141	5.9	6.6	7.8	19.3	17.0	14.5	21.3	23.3	24.2	16.3	18.0	20.1
VaTech Wabag (VATWAB)	286	270	Reduce	1629	19.2	18.8	24.3	15.6	15.9	12.4	14.6	17.7	20.3	9.5	9.2	11.0
Cochin Shipyard (COCSHI)	353	440	Buy	4,643	36.3	37.0	40.1	9.6	9.4	8.7	18.8	17.0	16.4	14.4	13.7	13.7
SKF (SKFIND)	1846	1,565	Reduce	9477	65.4	62.6	65.3	29.0	30.3	29.0	29.4	24.9	23.4	19.8	16.6	15.4
Timken India (TIMIND)	655	830	Buy	4927	19.8	24.1	27.7	34.9	28.6	24.9	15.7	17.0	17.3	11.1	12.0	12.3
NRB Bearing (NRBBEA)	86	185	Hold	834	11.2	10.1	12.2	15.2	16.9	14.0	21.0	20.0	21.3	19.5	18.3	19.3
Grindwell Norton (GRINOR)	543	635	Buy	6012	15.1	16.7	19.3	35.0	31.7	27.5	23.3	23.4	24.7	15.2	15.6	16.5

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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