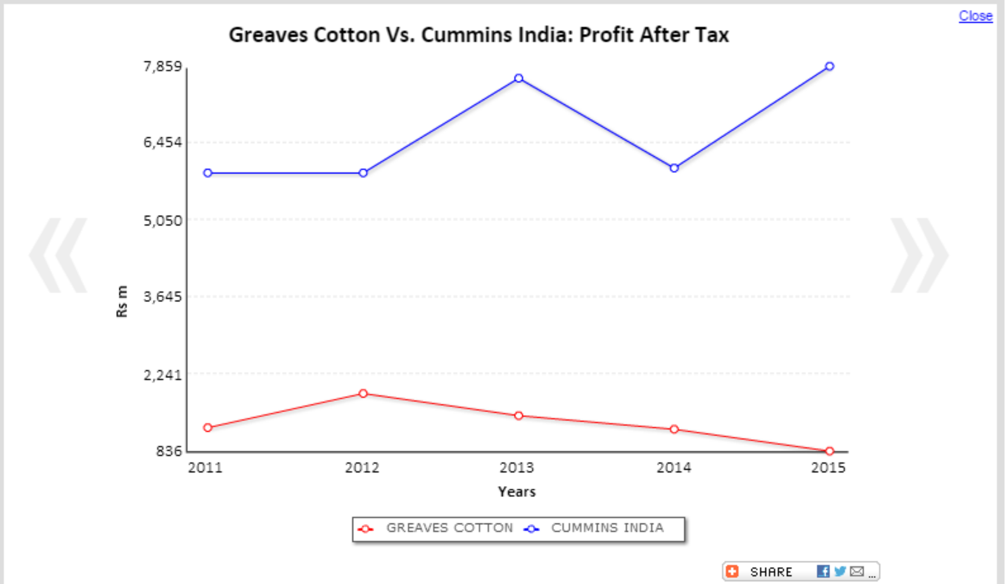
SWOT Analysis for Greaves Cotton

Strengths:

- Market share of about 80 per cent in the three-wheeler space.
- Supply of engines to three-wheelers and LCVs contribute 55 % of the revenues for Greaves Cotton. We see a revival in these segments and Greaves Cotton being a dominant engine supplier should benefit from this opportunity.
- Farm equipment contributes about 15-18 % of the revenues. Greaves Cotton being an established name in the rural areas through its pump set and other equipment will see large benefits accruing from this opportunity.
- Low capex requirement in the near term.
- Through value engineering, Greaves Cotton has been able to improve its gross margins consistently since FY12. With utilization levels below 70 %, we see benefits of operating leverage coming in.
- FY17E P/E multiple of 16.1x v/s 25.7x for Cummins India, the market leader.

Weakness:

- PAT and net profit margin declining continuously as compared to the market leader, Cummins.



Profit after tax (Rs m)	2011	2012	2013	2014	2015
GREAVES COTTON	1,263	1,889	1,480	1,234	836
CUMMINS INDIA	5,910	5,913	7,641	6,000	7,859

Plot chart on Base 100

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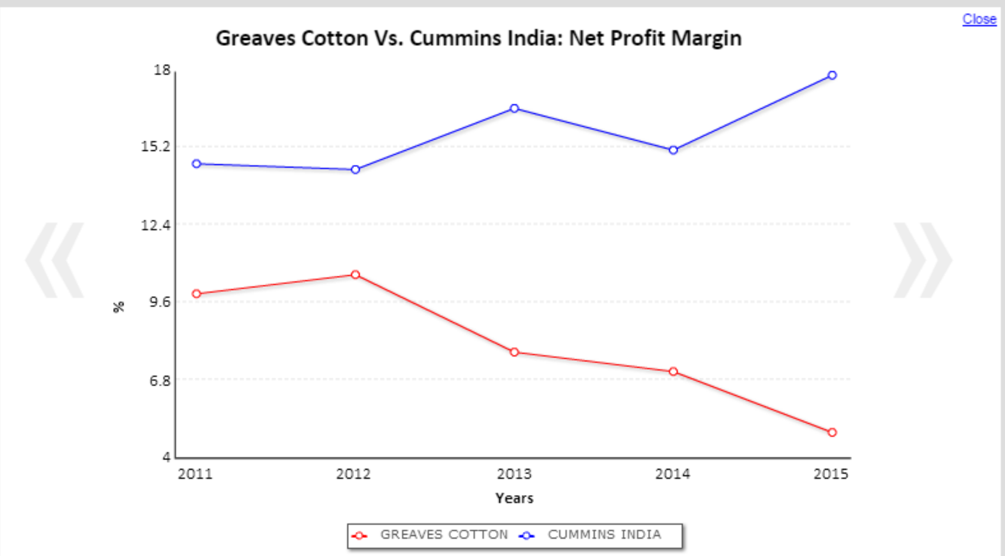

Net profit margin (%)	2011	2012	2013	2014	2015
GREAVES COTTON	9.9	10.6	7.8	7.1	4.9
CUMMINS INDIA	14.6	14.4	16.6	15.1	17.8

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- Relatively lower market share in segments other than three-wheeler engines.
- Low ROE and ROCE.

Opportunities:

- The three-wheeler demand in India will see a steady growth considering rapid urbanization and lack of public transport system even in the existing tier-I and tier-II cities. Also, export of three-wheelers from India is increasing at a fast pace. SCV demand should revive with expected revival in industrial activity, implementation of GST and improved finance availability.
- India continues to lag behind many emerging and developed economies leaving substantial headroom for growth in farm mechanization. This also provides a great opportunity for substantial growth in future.

Threats:

- Rising concerns over a global slowdown, particularly due to a possible hard landing in China, heightened geo-political tensions and lack of visible recovery in India Inc. earnings are the reasons for the on-going fall in the stock market. Thus, a weak overall economic progress could hurt returns for those who invest in Greaves Cotton.
- Further devaluation of Yen would result in currency wars among emerging markets to maintain their export market share.
- A further hike in rate by the US Fed for the second time in April or May is looking possible. This could lead to capital flight out of India.
- Political unrest in India could lead to a major turbulence and cause the company's market growth fall short of expectations.

Overall, the near and medium term prospects for Greaves Cotton are looking bright. Its margins, although declining and ROE and ROCE lower compared to Cummins, are better than any other large competitors like Kirloskar Bros. With strong earnings growth trajectory, exit from the infrastructure equipment business and renewed management focus on core business of engine manufacturing and allied operations, we may even see the gap between Greaves Cotton and Cummins get narrower in the future.

IIFL recommends BUY for Greaves Cotton with a one year target price of INR 190.