

CMP: INR 156

Rating: Buy

Target Price: INR 191

Stock Info

BSE	501455
NSE	GREAVESCOT
Bloomberg	GRV IN
Reuters	GRVL.BO
Sector	Industrial Machinery
Face Value (INR)	2
Equity Capital (INR mn)	463
Mkt Cap (INR mn)	36,060
52w H/L (INR)	185/ 119
Avg Yearly Vol (in 000')	3,457

Shareholding Pattern %

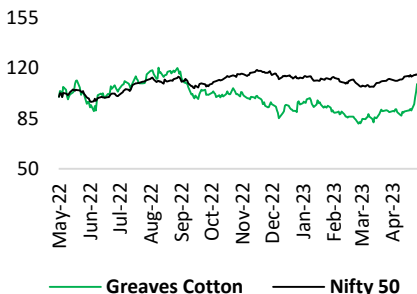
(As on March, 2023)

Promoters	55.54
FII	4.15
DII	5.10
Public & Others	35.20

Stock Performance (%)

	1m	3m	12m
Greaves Cotton	17.3	15.9	9.8
Nifty 50	3.20	2.01	16.1

Greaves Vs Nifty



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Greaves Cotton Limited (GCL) has reported strong revenue growth led by Electric Mobility: Standalone revenue from operations grew by +15.3% YoY/19.6% QoQ stood at INR 4,368 mn in Q4FY23 against Q4FY22 of INR 3,787 mn (Consolidated revenue grew by 33% YoY/61% QoQ to INR 8,269 Mn). The revenue growth led by Electric Mobility business 170.9% QoQ/61.5% YoY to INR 3,833 Mn and a volume of 39K units. (Above estimate Electric Mobility of INR 3250 Mn)

PAT above estimate in Q4FY23 led by higher other income: Net profit for the quarter grew by 7.6% QoQ/75% YoY of INR 294.5 mn in Q4FY23 against Q4FY22 of 168.2 mn. (Above our estimate of INR 152.2 Mn)

Expansion in the margin led by new launch: EBITDA for the quarter stood at INR 518 against Q4FY22 of INR 281 Mn registered growth of 33% QoQ/78% YoY. The company's EBITDA margin expansion by 120bps QoQ/417bps YoY to 11.9% Q4FY23 is well above our estimate of 6%. Gross margin contracted by 43 bps QoQ to 25.6%, which restricted EBITDA margin expansion.

Greaves Cotton's acquisition of a 60% stake in Excel Controlinkage is expected to enhance their performance and overall operational capabilities: GCL has successfully acquired a 60% stake in Excel Controlinkage, starting from May 8, 2023. Excel has been performing well and has a strong order book, resulting in a high operating margin. This is mainly due to its presence in the export market and aftermarket, in addition to its domestic original equipment manufacturers (OEMs). Around 40% of Excel's revenue comes from export markets. Considering this, the consolidated revenue for Q4FY2023 would be INR. 880 crore, compared to INR 827 crore without including Excel's performance. While the company has been focusing on new-age business for sustainable growth, it is also seeking sustainable growth in its engineering segment, which serves the automobile engine and industrial engine sectors. In FY2022, Excel achieved an EBITDA margin of 29%, surpassing GCL's peak margin of 14.9% in FY2017. The factors contributing to Excel's superior EBITDA margin include selective and strategic order bookings, exposure to export markets, technology-enhanced products, and a better customer mix.

Outlook & Valuation

We believe strong traction in e-mobility. Further, management is strategically looking to expand both in the B2B and B2C businesses and is looking to play on multiple price points in the E2W space, as the company is expected to expand its E2W portfolio. We expect the financial performance of the e-mobility business to strengthen going forward, driven by increasing contribution of high-speed E2Ws, increasing retail penetration, and new launches. While the company has been focussing on the new-age business for sustainable growth, it has been equally looking for sustainable growth in its engineering segment, where it has been catering to the automobile engine and industrial engine segment. Along with the EV business, consolidation of high-margin Excel's business would drive its overall profitability and customer profile in the engineering division. **We have valued the standalone business at 7x its EBITDA of INR 2,185 Mn and Ampere's business at FY25E P/sales at 2x, yielding INR 93 per share. Our SOTP valuation yields a fair value of INR 191 per share (The previous target was 171 per share). We maintain our Buy rating on the stock.**

Exhibit 1: Quarterly Result

INR Mn (Standalone)	Q4FY23E	Q3FY23	Q4FY22	Q-o-Q	Y-o-Y
Net Revenue	4,368	3,653	3,787	19.6%	15.3%
Material Cost	3,055	2,539	2,740	-27.7%	11.5%
Gross Profit	1,313	1,114	1,047	17.9%	25.5%
Gross Margin	30.1%	30.5%	27.6%	-43bps	242bps
Employee cost	298	275	303	8.6%	-1.4%
Other Expenses	497	450	453	10.5%	9.7%
EBITDA	518	389	291	33.0%	78.0%
EBITDA margin %	11.9%	10.7%	7.7%	120bps	417bps
Other Income	150	83	133	80.0%	12.6%
Depreciation	92	92	103	-0.7%	-10.7%
EBIT	576	380	321	280.0%	244.5%
EBIT Margin	13.2%	10.4%	8.5%	277bps	470bps
Finance cost	5	5	6	-5.9%	-12.7%
Exceptional Item	-120	-7	-62		
PBT	451.2	368.3	253.3	494.6%	-76.3%
Tax Expense	157	95	85	65.8%	84.1%
Effective tax rate %	34.7%	25.7%	33.6%	-28bps	113bps
Reported Net Profit	294.5	273.8	168.2	7.6%	75.1%
<i>Net margin %</i>	<i>6.7%</i>	<i>7.5%</i>	<i>4.4%</i>	<i>-75bps</i>	<i>230bps</i>
<i>Reported EPS (INR)</i>	<i>1.26</i>	<i>1.17</i>	<i>0.73</i>	<i>7.7%</i>	<i>72.6%</i>

Segment Revenue	Q4FY23	Q3FY23	Q4FY22	Q-o-Q	Y-o-Y
Engines	4,010	3,321	3,491	20.7%	14.9%
Electric Mobility	3,833	1,415	2,373	170.9%	61.5%
Others	427	399	345	6.9%	23.8%

Segment Volume	Q4FY23E	Q3FY23	Q4FY22	Q-o-Q	Y-o-Y
Volumes (Units)					
Auto Engines	20,147	18,327	15,068	9.9%	33.7%
Non-Auto Engines	13,579	8,585	10,401	58.2%	30.6%
Engines	33,726	26,912	25,469	25.3%	32.4%
Genset	-	-	1,254		
Light Equipment	-	-	10,748		
Non-Auto Products	-	-	12,002		
E-2W	36,890	12,160	22,200	203.4%	66.2%
E-3W	2,064	1,980	2,753	4.2%	-25.0%
E-Mobility Products	38,954	14,140	24,953	175.5%	56.1%

Source: Arihant Research, Company Filings

Greaves Cotton-Q4FY23 Concall KTAs**Acquisition**

- The company completed the acquisition of a 60% equity stake (In the first tranche) in Nagpur-based Excel Controlinkage. It is one of the most profitable companies engaged in manufacturing Push Pull cables, Motion sensors & Controls.
- If the company includes the revenue from Excel Controlinkage in the fourth quarter of the fiscal year 2023, the consolidated revenue is expected to reach INR 880 crore. This translates to an annual run rate of nearly INR 3,500 crore, indicating a strong overall performance for the quarter. Additionally, the standalone margin reaches a double-digit level, signifying a positive improvement in profitability.
- The company's business momentum reinforces confidence in the strategy of being a full-stack mobility ecosystem player with a growing global presence.

Distribution Network

- The Company has doubled its network in Pan India in the last 1 year. In e-3W with MBOs and EBOs, the greaves retail and Auto Mart is becoming platform e2W and e3Ws.
- The company would be growing in line with the market, the e2W's penetration is at 5% of 2W. Greaves expect to improve its market share.

Greaves Engineering

- Greaves Engineering registered revenue growth of 34%.
- The transformation from a B2B to a B2B+B2C company has been driven by the strength of our three main verticals: Greaves Engineering, Greaves Retail, and Greaves Electric Mobility. B2C, contributing to over 66%.

EV

- Ampere Two-wheeler registered over 1 lakh retail sales in FY 2023. Partners with Royal Challengers Bangalore as their official EV partner for the ongoing T20 season.
- The overall number of 2-wheeler electric vehicles (EVs) has tripled over the past 12 months, increasing from 256k to 770k. If this growth rate continues, Ampere is in 2nd position in the EV 2-wheeler market and poised for significant growth. In the 3-wheeler segment, e-rickshaws as well as L5 are experiencing rapid growth. As a result, the company anticipates significant future growth opportunities ahead.

EBITDA Margin in EV

- In Q2, it was around 2-3% and Q3 was at loss and in Q4, EBITDA is at breakeven level and is at ~1%. The PBT gas a bit of treasury income.

Margin

- Employee costs are higher due to hiring at the senior level and the headcount has reached to >500 level. Gross margin was impacted due to some of the changes in AIS 156 compliances that price not fully passed on but fixed overhead which has built so much higher level.
- The upcoming launches in the 2-wheeler and 3-wheeler segments will feature two new products that are designed in-house, ensuring greater efficiency and higher realization. These products are expected to cater to the high-end market, resulting in higher-margin. Over the next 12 to 24 months, the company anticipates reasonably strong double-digit margins for these products.

Subsidy

- The Ministry of Heavy Industry is doing a review of FAME-II compliance. The company is cooperative with the MOHI, this is ongoing an inquiry and the company has received AIS-156 compliant certificate.
- AIS-156 Phase-II Incremental Cost a The cost increment is at the same amount as Phase-I ie. e INR 3k-4k per unit. In phase-II need to do additional layer of thermal coating. The company took a price hike in 1st April in Magnus. From Dec-22, the company has taken INR 4k per unit of price hike.

Non-Auto Business

- Non-Auto Volume: Engines number contains Non-Auto small Engines and Industrial, Farm Equipment would be at 12.2k units.
- Engineering (Engines, Genset, Application Engineered end product (with Excel acquisition like cables, etc.)), Retail, and Electric are 3 verticals and 2 new businesses i.e. Retail and Finance.

Remaining subsidy in receivable in the consolidated INR 350 Cr post March.

ROCE

- Standalone 35% and consolidated 18% for FY23. Q4FY23 >30% ROCE

Cash

- Cash conversion of 90% augurs very well in terms of working capital and cash font.
- Net Cash Position INR 1,142 Cr as of 31st March.

Other Concall KTAs

New Launches

- The NX and Aero vision, the company launched the Zeal (sub RS70k product), Primus. The last product is Next Generation NX and it would be launch in FY25.
- Cash and Carry in emobility. The subsidy is under other financial assets which is INR 3.5bn, half of this is less than
- 90 days and other half is older than 90 days.
- 6 new E2W and E3W product was unveiled at Auto Expo.
- Expect EV margin to be achievable at par with ICE, on the back of operation of scale in sourcing, localization of battery cells, PLI incentives, and operating leverage.

Greaves Standalone Margins

- It was at ~13-15% range. The EBITDA margin is at 12%, along with Excel margin would be at 13%. Expect the standalone margin to improve beyond the pre-covid level, as the company is going into components, etc.

Abdul Jameel Investor

- Abdul Jamil is a strong investor with a long-term view in clean energy and has invested in India with Greaves. It was also an investor in Rivian. The company gets know-how in terms of technology and Industry, as it has penetration in EV Ecosystem, these give greaves the benefit of learning. It is also one of the big Toyota Distributor and Greaves can even partner for selling its e3Ws and e2Ws in the overseas market
- EV Consolidated financials lower than standalone on revenue and PBT level due to new business Greaves Finance and Greaves Technologies.

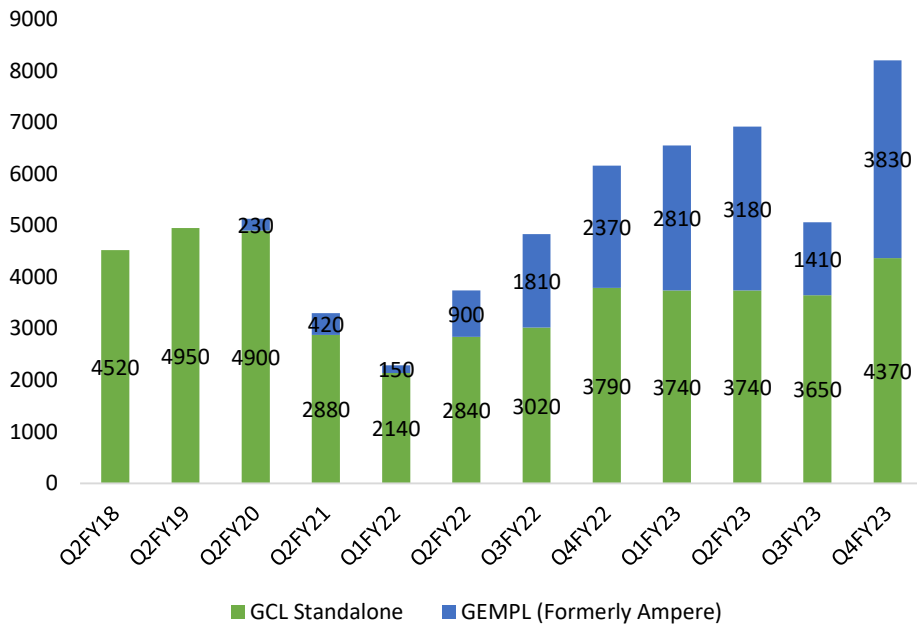
Capacity Utilization for Engines

- The volume has gone up, the capacity Utilization is at 60%, and 180k+ engines were produced. The company expects healthy growth going forward.

Retail Network

- The Company has a 9k retail network. 150 stores at Auto Retail Mart for Multi Brand network. 170 service network. 8k retailing network for spares. Engage with 20k mechanics.

Exhibit 2: Transitioning to meet the new battery norms impacted EV production and primary revenues in Q3FY23



Source: Arihant Research, Company Filings

Exhibit 3: Business contribution

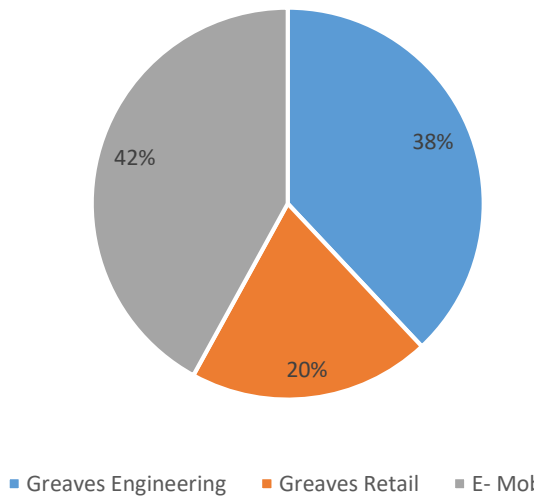
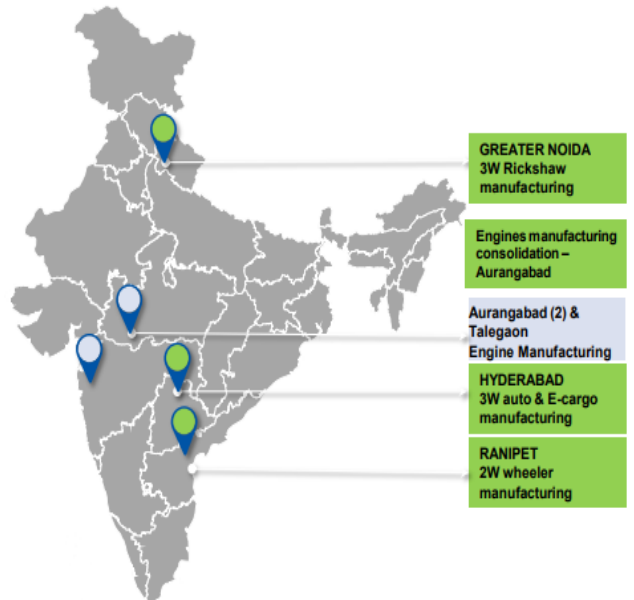


Exhibit 4: Robust Manufacturing Capabilities & Reach



Source: Arihant Research, Company Filings

Income Statement (INR Mn)

Year End-March	FY22	FY23	FY24E	FY25E
Revenues	11,776	15,498	17,772	19,862
<i>Change (%)</i>	-11.4%	31.6%	14.7%	11.8%
Raw materials	8,427	10,995	12,085	13,407
Employee costs	1,308	1,152	1,777	1,986
Other expenses	1,593	1,836	2,044	2,284
Total Expenses	11,329	13,984	15,906	17,678
EBITDA	447	1,514	1,866	2,185
EBITDA Margins	3.8%	9.8%	10.5%	11.0%
Other Income	316	425	533	596
Depreciation	424	381	655	710
Interest	20	21	21	21
PBT	319	1,537	1,723	2,049
Extra-ordinary	73	69.90	-	-
PBT after ext-ord.	393	1,607	1,723	2,049
Tax	122	456	482	574
<i>Rate (%)</i>	31.0%	28.4%	28.0%	28.0%
PAT	271	1,151	1,240	1,476
Adjusted PAT	271	1,151	1,240	1,476
<i>Change (%)</i>	161.4%	325.0%	7.8%	19.0%

Cash Flow Statement (INR Mn)

Year End-March	FY22E	FY23E	FY23E	FY23E
PBT	393	1,607	1,723	2,049
Depreciation	424	381	655	710
Interest & others	-296	-404	-512	-575
Cash flow before WC changes	521	1,584	1,866	2,185
(Inc)/dec in working capital	253	-1,016	-715	-1,310
Operating CF after WC changes	774	568	1,151	875
Less: Taxes	-122	-456	-482	-574
Operating cash flow	652	112	669	301
(Inc)/dec in F.A + CWIP	-489	-426	-498	-497
(Pur)/sale of investment	-2	-337	0	0
Cash flow from investing	-491	-762	-498	-497
Free cash flow (FCF)	158	-320	171	-196
Loan raised/(repaid)	-	-	-	-
Equity raised	0.60	0.30	-	-
Interest & others	1,313	1,545	6,907	2,050
Dividend	-0	-0	-0	-0
Cash flow from financing activities	1,313	1,545	6,907	2,050
Net inc/(dec) in cash	1,474	894	7,078	1,854
Opening balance of cash	2,758	780	374	7,452
Closing balance of cash	4,232	1,675	7,452	9,306

Balance Sheet (INR Mn)

Year End-March	FY22	FY23	FY24E	FY25E
Sources of Funds				
Share Capital	463	463	463	463
Reserves & Surplus	8,835	9,992	11,232	12,708
Net Worth	9,298	10,456	11,696	13,171
Loan Funds	-	-	-	-
Deferred Tax & other liabilities	407	431	431	431
Capital Employed	9,667	10,850	12,090	13,566
Application of Funds				
Gross Block	5,887	5,959	6,457	6,954
Less: Depreciation	3,269	3,650	4,306	5,016
Net Block	2,618	2,309	2,151	1,938
CWIP	784	740	740	740
Other non current assets	195	182	182	182
Deferred tax assets	512	519	519	519
Net fixed assets	4,109	3,750	3,592	3,379
Investments	1,768	2,105	2,105	2,105
Debtors	1,777	1,599	1,850	2,068
Inventories	1,397	1,540	1,692	1,878
Cash & bank balance	780	374	7,452	9,306
Loans & advances & other CA	529	536	536	536
Total current assets	4,484	4,049	11,531	13,787
Current liabilities	3,889	3,898	4,826	5,394
Provisions	256	311	311	311
Net current assets	339	-159	6,394	8,082
Total Assets	9,667	10,850	12,090	13,566

Key Ratios

Year End-March	FY22	FY23	FY24E	FY25E
Per share (INR)				
EPS	1.2	5.0	5.4	6.4
CEPS	3.0	6.6	8.2	9.5
BVPS	40.2	45.2	50.6	57.0
DPS	0.0	0.0	0.0	0.0
Valuation (x)				
P/E	133.2	31.3	29.1	24.4
P/CEPS	51.9	23.5	19.0	16.5
P/BV	3.9	3.4	3.1	2.7
EV/EBITDA	71.6	21.4	13.6	10.8
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%
Return ratio (%)				
EBITDA Margin	3.8%	9.8%	10.5%	11.0%
PAT Margin	2.3%	7.4%	7.0%	7.4%
ROE	2.9%	11.0%	10.6%	11.2%
ROCE	0.2%	10.4%	10.0%	10.9%
Leverage Ratio (%)				
Total D/E	-	-	-	-
Net D/E	-0.1	0.0	-0.6	-0.7
Turnover Ratios				
Asset Turnover (x)	1.2	1.4	1.5	1.5
Inventory Days	61	51	51	51
Receivable Days	55	38	38	38
Payable days	128	99	99	99

Source: Arianth Research, Company Filings

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Stock Rating Scale

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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