

CMP: INR 135

Rating: Accumulate

Target Price: INR 156

Stock Info

BSE	501455
NSE	GREAVESCOT
Bloomberg	GRV IN
Reuters	GRVL.BO
Sector	Industrial Machinery
Face Value (INR)	2
Equity Capital (INR mn)	462
Mkt Cap (INR mn)	33,201
52w H/L (INR)	184/ 66
Avg Yearly Vol (in 000')	2436

Shareholding Pattern %

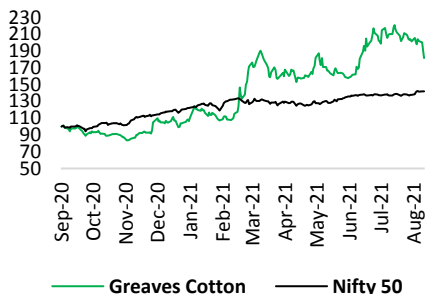
(As on June, 2021)

Promoters	55.63
FII	4.7
DII	11.57
Public & Others	28.1

Stock Performance (%)

	3m	6m	12m
Greaves Cotton	7.8	55.9	63.7
Nifty 50	11.3	7.92	44.7

Greaves Vs Nifty



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Greaves Cotton Limited (GCL) has reported weak performance during Q1 FY22 with revenue de-growth and margin contraction. Net loss for the quarter of INR 64.7 mn in Q1 FY22 against our estimate of INR 274 mn. Standalone revenue from operations de-grew by 53.1% QoQ/+45.8% YoY stood at INR 2,144 mn in Q1 FY22 against our estimate of INR 4,356 mn led by de-growth in the Engine, mobility and other segment. Gross margin of the company increased by 200bps YoY at 29.8%. Despite the increase of the gross margin, the company reported EBITDA margin contracted by 1316bps QoQ to -2.8% Q1 FY22 vs our estimate of 10.9% in Q1FY22 due to higher other expenses and employee cost. Higher other income at 104.7% YoY/19.2% QoQ at INR 44 mn has supported the earnings of the company. EPS at INR -0.28 in Q1 FY22 vs -1.1 / 1.0 in Q4FY21 / Q1FY21.

Q1FY22 Conference call Highlights:

- **Outlook:** Ranipet plant working furiously on expanding its capacity by end of this fiscal year and will be ready with additional 100k units. Plan of total capacity go up to 1m units. After the government announcement of the maximum incentive for EV 2W, the company has seen significant first-time buyers for EVs and sales traction happening in mid-range vehicles. However, Greaves is going up the value chain in terms of speed, technology, range, etc. ASPs have been steadily increasing in the EV 2W portfolio. New launch progress is going well The company also transitions to a digital multi-brand retail outlet for Ampere the Fastest growing E-mobility retail network with 328+ dealers across 260+ cities & towns.
- **2 enablers business** – 1) Greaves Fintech an NBFC which will primarily focus in financing for greaves 2) Greaves technologies - will be technology enabler for vehicles. This business would look beyond captives and there is synergies with other International OEM customer.
- **MOU** to sell land in Pune for INR 3.2b. Most of this would be invested as growth capital
- **Semiconductor:** The company is still protected on the supply chain side in the 2W for the next 2-3 quarters and the Company continues to work on increasing localization with most of the critical components now being procured from domestic partners.

Outlook & Valuation

At CMP of INR 135, GCL is trading at P/E multiple of 21.6 to its FY23 EPS of INR 6.2. Considering the ease in pandemic induced restrictions from June onwards, Green shoots were visible as the company made higher sales in the month of July. Hence, Q2 FY22 can witness some positive impact on account of that. While new business segments look promising.

We value the standalone business to 10x to its FY23E EBITDA of INR 2377 Mn and arrive at a fair value of INR ~127/share With Ampere's stake 100% in greave cotton. Ampere's has been valued at 1.5x FY23E sales. Our SOTP valuation yields a fair value of INR 156 per share. We assign Accumulate rating on the stock.

Quarterly Result

INR Mn (Standalone)	Q1FY22	Q4FY21	Q1FY21	Q-o-Q
Net Revenue	2,144	4,570	1,471	-53.1%
Material Cost	1,504	3,213	1,061	-53.2%
Employee cost	357	346	347	3.2%
Other Expenses	343	538	280	-36.2%
EBITDA	-60	473	-217	-112.7%
EBITDA margin %	-2.8%	10.4%	27.8%	-1316bps
Other Income	44	37	22	19.2%
Depreciation	109	120	118	-9.2%
EBIT	-125	390	-313	-132.1%
Finance cost	3	6	23	-47.5%
Exceptional Item	40	5	-	706.0%
PBT	-88.2	388.8	-335	-122.7%
Tax Expense	-24	150	-93	-115.7%
Effective tax rate %	26.6%	38.6%	27.8%	-1194bps
Reported Net Profit	-64.7	238.8	-242	-127.1%
<i>Net margin %</i>	<i>-3.0%</i>	<i>5.2%</i>	<i>-16.5%</i>	<i>-824bps</i>
<i>Reported EPS (INR)</i>	<i>-0.3</i>	<i>1.0</i>	<i>-1.1</i>	

Source: Aриhant Research, Company Filings, Ace Equity, Bloomberg

Other Concall Highlights:

- **Group Companies:** Ampere Electric (E-2W), Bestway (E-Rick), DeeGreaves (Tech Services), Greaves Fintech.
- **Company strategy:** 3W Cargo market is picking up. However, the shift from lead to lithium-ion is slow as customers are sticking to lead from the initial cost of acquisition perspective. Incrementally expect the shift to happen in 2 odd years. In EV 1000+ customers for financing multi-brand saver.
- **Market share:** Ampere market share at 18-20% and with production gradually recovering and the management expects it to inch up.
- Talent has been added in all areas E-mobility, finance, etc, and 12000+ technical employees.
- **July:** For 2W-3W- 4000 unit sales in July. This is after the plant was shut for 8 weeks. There is a healthy product pipeline and interest for dealership network expansion as well and 5000 units sales per month at Coimbatore. Aftermarket business: Grow from 3000+ to 7000+
- **EV Policy:** Electric vehicles in Maharashtra will attract financial incentives ranging from Rs 10,000 to INR 20 lakh, offering sops for fresh purchases, scrappage, and manufacturing of e-vehicles, components and batteries. The state hopes EVs will make up 10% of all new vehicle registrations by 2025. Separate targets have been laid down for 2W (10%). On the additional side the new and revised FAME II incentive policy has boosted the adoption of EV especially 2W-3W, as the people are becoming more health and environment-conscious post-pandemic. People are switching to personal mobility solutions after this announcement, the company saw good traction on the enquiry and demand side.

Valuations	INR Mn	Basis of Valuation	Multiple	Total Value in Mn	FY23E
EV/EBITDA (x)					10.0
EBITDA					2377
EV					23774
Debt					0
Cash					5520
Market Cap					29294
No shares					231
Value/Share (INR)					126.7
Greaves Stake Valuation					FY23E sales at INR 4550 Mn
Ampere Target Price (INR) (100% stake)	P/Sales		1.5x	6825	30
Greaves Target (INR)					156
CMP (INR)					135
Upside (%)					15.7%

Ola S1 vs Ampere Magnus

Ola's had first announced its entry into the Indian electric vehicle market. It was in May 2020, that Ola had acquired Etergo BV, an innovative electric scooter OEM based in Amsterdam, the Netherlands.

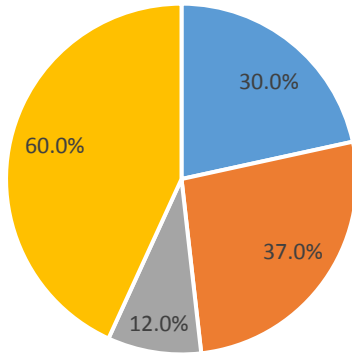
Launched in two variants – S1 and S1 Pro – with pricing of INR 99,000 and INR 129,999 respectively (ex-showroom, including FAME II subsidy but excluding state subsidy), the Ola electric scooter takes the pricing battle to the conventional IC-engined scooter segment.

In many States including Maharashtra, Gujarat, Tamil Nadu and Delhi, which have announced EV policies and are offering subsidies for purchase of electric two-wheelers, the Ola S1 will be much more affordable than many petrol scooters. For instance, after state subsidy in Delhi, the S1 would cost INR 85,009 whereas in Gujarat it would be only INR 79,000. This ex-showroom pricing of the Ola e-scooter ducks under the India's best-selling scooter the Honda Activa 125's on-road price in Gujarat ranges from INR 83,312 to INR 90,921.

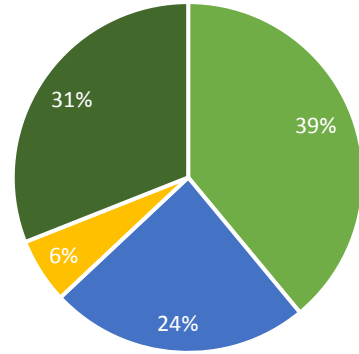
S1 vs Magnus

Key Highlights	S1	MAGNUS
Range	121 km/charge	45 - 50 km/Charge
Motor Power	8500 W	250 W
Motor Type	Mid drive IPM	BLDC
Charging Time	4.48 Hours	8 - 10 Hours
Basic Information		
On Road Price	INR 85,099 onwards	INR 49,999 onwards
Range	121 km/charge	45 - 50 km/Charge
Motor Power	8500 W	250 W
User Rating	4.3 Star	5 Star
Motor Type	Mid drive IPM	BLDC
Charging Time	4.48 Hours	8 - 10 Hours
Engine and Transmission		
Continuous Power		600W
Max Torque	58 Nm	12 Nm @ 440 rpm
Drive Type	Belt Drive	Hub Motor
Motor Type	Mid drive IPM	BLDC
Features and Safety		
Braking Type	Combine Braking System	Combine Brake System
Charging Point	Yes	Yes
Fast Charging	Yes	
Fast Charging Time	75 km in 18 min	
Internet Connectivity	Yes	
Operating System	Android Open, OS	
Processor	1.8 GHz Octacore	
Mobile Application	Yes	
Geofencing	Yes	
Gradeability	12°	
Mobile Connectivity	Bluetooth, WiFi	
Speedometer	Digital	Digital
Tripmeter	Digital	Digital
Console	Digital	Digital
Clock	Yes	Yes
Riding Modes	Yes	
Navigation	Yes	

Market Share (%)



Q1 FY22 Segment Revenues



■ New Businesses ■ Auto Engines ■ E-Mobility ■ B2C Play ■ Engines ■ Aftermarket ■ E-Mobility ■ Others

Greaves to expand play in 3W segment under Greaves Retail & Financing solutions under Greaves Fintech

3W ENGINES
65-70% market share in Diesel 3W engines

3W SPARES
6500+ spare parts retail outlets

3W SERVICE
12,000+ mechanics & 165+ care outlets

5 million ENGINES

5 LAKH TON OF CARGO TRANSPORTED EVERYDAY

1 CRORE PASSENGERS TRANSPORTED EVERYDAY

L5 AUTO GREAVES RETAIL

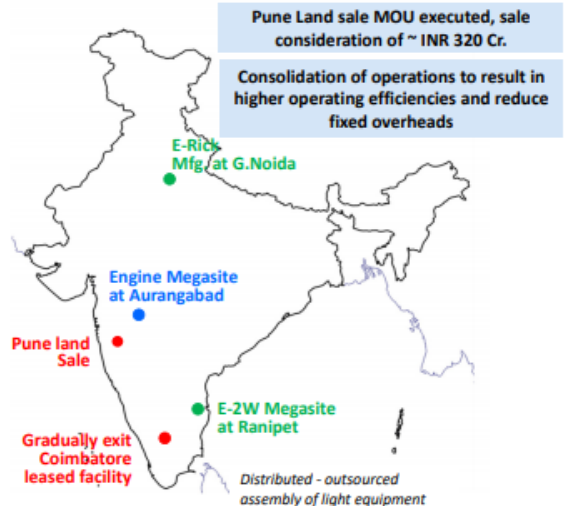
3W FINANCING GREAVES FINTECH

Mfg. footprint realigned in line with strategy, to provide long-term cost & operational benefit

Step 1 : Engine Consolidation @ Aurangabad



Step 2 : Re-aligned Mfg. Footprint



Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Income Statement (INR Mn)

Year End-March	FY19	FY20	FY21	FY22E	FY23E
Revenues	19,878	18,211	13,291	16,301	18,444
<i>Change (%)</i>	10.9%	-8.4%	-27.0%	22.7%	13.1%
Raw materials	13,585	12,492	9,414	11,574	12,745
Stock Adjustments	0	0	0	0	0
Employee costs	1,747	1,580	1,271	1,467	1,476
Other expenses	1,799	1,858	1,637	1,728	1,846
Total Expenses	17,131	15,930	12,321	14,769	16,066
EBITDA	2,747	2,281	969	1,532	2,377
Other Income	416	198	100	245	277
Depreciation	488	522	484	574	656
Interest	33	38	56	48	51
PBT	2,642	1,920	529	1,155	1,947
Extra-ordinary	-179	47	-345	0	0
PBT after ext-ord.	2,463	1,967	185	1,155	1,947
Tax	770	492	81	296	504
<i>Rate (%)</i>	31.3%	25.0%	43.9%	25.6%	25.9%
PAT	1,693	1,475	104	859	1,443
Adjusted PAT	1,514	1,475	104	859	1,443
<i>Change (%)</i>	-2.0%	-2.6%	-93.0%	729.4%	67.9%

Cash Flow Statement (INR Mn)

Year End-March	FY19	FY20	FY21	FY22E	FY23E
PBT	2,463	1,967	185	1,155	1,947
Depreciation	488	522	484	574	656
Interest & others	-383	-160	-44	-197	-226
Cash flow before WC changes	2,569	2,328	625	1,532	2,377
(Inc)/dec in working capital	1,654	-519	-1,787	-629	-1,259
Operating CF after WC changes	4,223	1,810	-1,163	903	1,119
Less: Taxes	-770	-492	-81	-296	-504
Operating cash flow	3,452	1,318	-1,244	608	614
(Inc)/dec in F.A + CWIP	-313	-597	80	-500	-499
(Pur)/sale of investment	86	3,165	-530	0	0
Cash flow from investing	-226	2,568	-449	-500	-499
Free cash flow (FCF)	3,204	886	-1,026	108	115
Loan raised/(repaid)	0	0	0	0	0
Equity raised	0	-26	0	0	0
Interest & others	-1,514	-2,402	2,662	1,056	1,668
Dividend	-1,618	0	-92	-92	-92
Cash flow from financing activities	-3,133	-2,428	2,569	963	1,576
Net inc /(dec) in cash	93	1,458	876	1,071	1,691
Opening balance of cash	331	424	1,882	2,758	3,829
Closing balance of cash	424	1,882	2,758	3,829	5,520

Source: Arian Research, Company Filings, Ace Equity, Bloomberg

*One time Exceptional loss in FY21

Balance Sheet (INR Mn)

Year End-March	FY19	FY20	FY21	FY22E	FY23E
Sources of Funds					
Share Capital	488	462	462	462	462
Reserves & Surplus	9,203	8,420	8,547	9,406	10,849
Net Worth	9,692	8,882	9,010	9,869	11,311
Loan Funds	0	0	0	0	0
Deferred Tax & other liabilities	269	409	371	370	370
Capital Employed	9,961	9,290	9,342	10,201	11,644
Application of Funds					
Gross Block	4,451	5,417	5,518	6,018	6,517
Less: Depreciation	1,839	2,361	2,845	3,419	4,075
Net Block	2,611	3,056	2,673	2,599	2,442
CWIP	710	686	738	738	738
Other non current assets	179	207	213	213	213
Deferred tax assets	230	367	499	499	499
Net fixed assets	3,731	4,316	4,123	4,049	3,892
Investments	5,014	1,850	2,380	2,380	2,380
Debtors	3,365	2,389	2,030	2,680	3,032
Inventories	1,200	1,712	1,548	1,904	2,096
Cash & bank balance	424	1,882	2,758	3,829	5,520
Loans & advances & other CA	317	752	450	450	450
Total current assets	5,305	6,735	6,786	8,863	11,098
Current liabilities	3,889	3,400	3,697	4,840	5,476
Provisions	201	210	249	249	249
Net current assets	1,215	3,125	2,840	3,773	5,373
Total Assets	9,961	9,291	9,342	10,201	11,644

Key Ratios

Year End-March	FY19	FY20	FY21	FY22E	FY23E
Per share (INR)					
EPS	6.2	6.4	0.4	3.7	6.2
CEPS	8.2	8.6	2.5	6.2	9.1
BVPS	39.7	38.4	39.0	42.7	48.9
DPS	6.6	0.0	0.4	0.4	0.4
Valuation (x)					
P/E	14.1	21.2	301.3	36.3	21.6
P/CEPS	10.7	15.6	53.1	21.8	14.9
P/BV	2.2	3.5	3.5	3.2	2.8
EV/EBITDA	11.9	13.6	31.0	18.9	11.5
Dividend Yield (%)	7.6%	0.0%	0.3%	0.3%	0.3%
Return ratio (%)					
EBITDA Margin	13.8%	12.5%	7.3%	9.4%	12.9%
PAT Margin	7.6%	8.1%	0.8%	5.3%	7.8%
ROE	15.6%	16.6%	1.1%	8.7%	12.8%
ROCE	22.7%	18.9%	5.2%	9.4%	14.8%
Leverage Ratio (%)					
Total D/E	0.0	0.0	0.0	0.0	0.0
Net D/E	0.0	-0.2	-0.3	-0.4	-0.5
Turnover Ratios					
Asset Turnover (x)	2.0	2.0	1.4	1.6	1.6
Inventory Days	32	50	60	60	60
Receivable Days	62	48	56	60	60
Payable days	75	72	108	108	108

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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