

CMP: INR 165

Rating: Accumulate

Target Price: INR 186

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)	30,213
52w H/L (INR)	259/ 126
Avg Yearly Vol (in 000')	3,714

Shareholding Pattern %

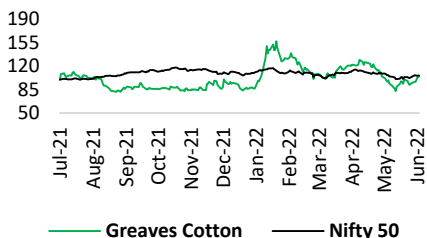
(As on March, 2022)

Promoters	55.55
FII	3.29
DII	9.36
Public & Others	31.80

Stock Performance (%)

	1m	3m	12m
Greaves Cotton	2.7	-1.0	29.2
Nifty 50	-2.8	0.5	5.7

Greaves Vs Nifty



Greaves Cotton Limited (GCL) has announced an investment in its subsidiary i.e Greaves Electric Mobility (GEM), where, Jameel will initially invest US\$150 mn, for a stake of 35.8% in the company. The balance stake of 64.2% will remain with the GCL. We believe, this investment will benefit the company to expand on the domestic level as well international market and also it will provide cash cushion to GEM to invest across business function in the EV space.

Conference call Highlights

- About Investment:** Abdul Latif Jameel, an independent, family-owned, diversified global investor and operator has announced its commitment to invest \$220 mn (INR 1700 cr) in GEM. Abdul Latif Jameel will initially invest \$150 mn (INR 1160 cr) for a 35.8% fully diluted stake making it the 2nd-largest shareholder in Greaves Electric Mobility.
- Valuation:** The implied valuation of the EV subsidiary is around 3.4x sales, which is in line with the estimate. The conventional auto and genset business of Greaves Cotton is valued at over INR 40 per share while the EV subsidiary attracts a value of around INR 130 per share.
- Greaves Electric** has an option to draw down US\$70 million within 12 months at a pre-agreed valuation formula. Post money enterprise value will be \$451 mn.
- Strategic Rationale:** 1) GEM will utilize the proceeds for investment in E2W/E3W for new products, 2) Associated technologies, 3) Money will be used for the brand building for the Ampere and to enhance manufacturing capacity, 4) Scaling up the business on the international and domestic, 5) Manufacturing capacity up to desire of \$1mn level, 6) Leverage Abdul Latif Jameel's extensive global experience in the automotive market and early-stage growth journey.
- Greaves Electric Mobility** is profitable after this agreement. Overall level, GEM will have INR 900 cr net of existing debt and this capital will be used for growth investment. GEM has its own capital to fund future growth opportunities. While at the group level, Greaves cotton's cash is to be used in hence future growth.

Outlook & Valuation

We believe, a strong traction rival in e-mobility, reviving traditional business and a sound balance sheet makes Greaves cotton well focused on a faster ramp-up and gaining the first-mover advantage in EV space. After this investment, expecting a positive surprise on the volume front, with additional capital coming in expected accelerate EV penetration of 2W and 3W segments. Also, semiconductor availability is likely to hit in the H2FY23 which, would help the company to grow its margin going ahead. However, it will face competition from other industry players like HeroMotoCorp, Bajaj Auto, and TVS Motors, who are likely to launch EVs in 6 weeks to one month.

We expect GCL to deliver a ~6-7% revenue growth CAGR over FY21-FY24E with an EBITDA margin of 7%-7.5% over FY21-Y24E. We value the standalone business to 11.5x its EBITDA of INR 1,212 mn and Ampere's business at FY24E P/sales at 3.5x, yielding a target price of INR 107 per share. **Our SOTP valuation yields a revised fair value of INR 186 per share (earlier target price; INR 160 per share). We maintain our Accumulate rating on the stock.**

Exhibit 1: Financial Snapshot

YE March (INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	P/E (x)
FY21	13,291	969	104	0.4	7.29%	368.2
FY22	11,776	447	271	1.2	3.80%	140.9
FY23E	14,592	1,021	686	3.0	7.00%	55.6
FY24E	16,165	1,212	840	3.6	7.50%	45.4

Source: Arihant Research, Company Filings, Ace Equity

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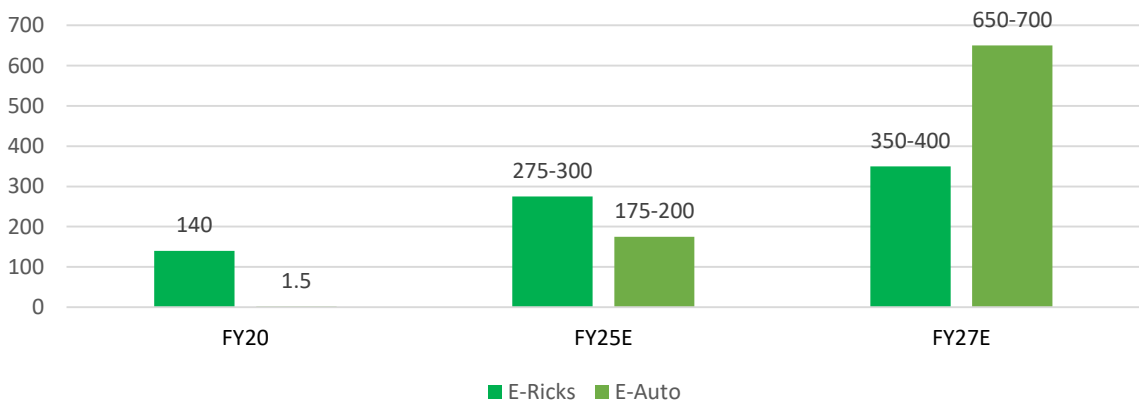
Exhibit 2: Valuation

Valuations	INR Mn	Basis of Valuation	Multiple	Total Value in Mn	FY24E
EV/EBITDA (x)					11.5
EBITDA					1212
EV					13942
Debt					0
Cash					4261
Market Cap					18203
No shares					231
Value/Share (INR)					78.7
Greaves Stake Valuation				FY24E sales at INR 7000 Mn	
Ampere Target Price (INR) (100% stake) Bestways		P/Sales	3.5	24710	107
Greaves Target (INR)					186
CMP (INR)					165
Upside (%)					12.5%

Source: Arianth Research, Company Filings, Ace Equity

Exhibit 3: Market penetration of E3W expected to increase significantly

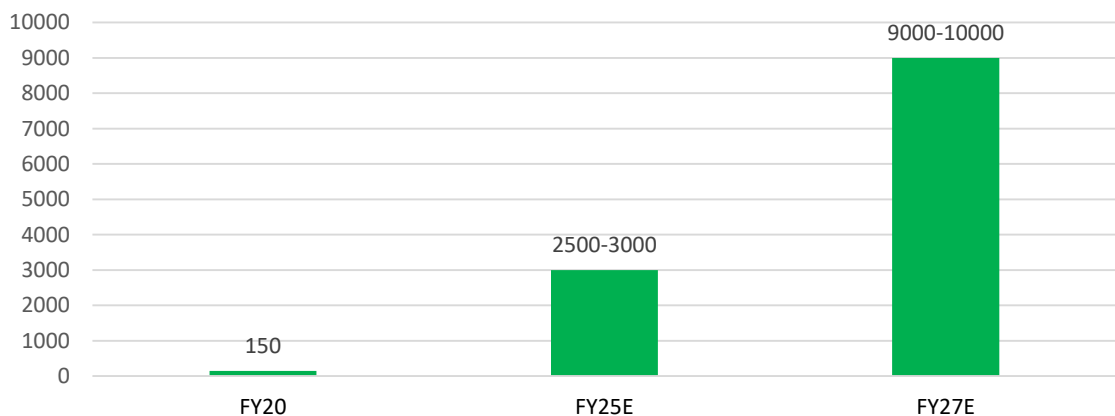
E3W Market Outlook (In 000 units)



Source: Arianth Research, Company Filings, Ace Equity

Exhibit 4: Market penetration of E2W expected to increase significantly

E2W Market Outlook (In 000 units)



Source: Arianth Research, Company Filings, Ace Equity

Income Statement (INR Mn)

Year End-March	FY21	FY22	FY23E	FY24E
Revenues	13,291	11,776	14,592	16,165
<i>Change (%)</i>	-27.0%	-11.4%	23.9%	10.8%
Raw materials	9,414	8,427	10,433	11,477
Employee costs	1,271	1,308	1,459	1,616
Other expenses	1,637	1,593	1,678	1,859
Total Expenses	12,321	11,329	13,571	14,952
EBITDA	969	447	1,021	1,212
EBITDA Margins	7.3%	3.8%	7.0%	7.5%
Other Income	100	316	336	356
Depreciation	484	424	412	415
Interest	56	20	20	20
PBT	529	319	925	1,133
Extra-ordinary	-345	73	0	0
PBT after ext-ord.	185	393	925	1,133
Tax	81	122	240	294
<i>Rate (%)</i>	43.9%	31.0%	25.9%	25.9%
PAT	104	271	686	840
Adjusted PAT	104	271	686	840
<i>Change (%)</i>	-93.0%	161.4%	153.2%	22.5%

Cash Flow Statement (INR Mn)

Year End-March	FY21	FY22	FY23E	FY24E
PBT	185	393	925	1,133
Depreciation	484	424	412	415
Interest & others	-44	-296	-316	-336
Cash flow before WC changes	625	521	1,021	1,212
(Inc)/dec in working capital	-1,834	345	-1,104	-757
Operating CF after WC changes	-1,209	866	-82	455
Less: Taxes	-81	-122	-240	-294
Operating cash flow	-1,290	744	-322	162
(Inc)/dec in F.A + CWIP	-533	-489	-499	-498
(Pur)/sale of investment	84	-2	0	0
Cash flow from investing	-449	-491	-499	-498
Free cash flow (FCF)	-1,686	251	-821	-336
Loan raised/(repaid)	0	0	0	2
Equity raised	0	1	0	0
Interest & others	2,662	1,276	1,002	1,174
Dividend	-46	-92	-92	-92
Cash flow from financing activities	2,615	1,184	909	1,083
Net inc/(dec) in cash	876	1,437	88	747
Opening balance of cash	1,882	2,758	4,196	4,284
Closing balance of cash	2,758	4,196	4,284	5,031

Balance Sheet (INR Mn)

Year End-March	FY21	FY22	FY23E	FY24E
Sources of Funds				
Share Capital	462	463	463	463
Reserves & Surplus	8,547	8,835	9,520	10,360
Net Worth	9,010	9,298	9,983	10,823
Loan Funds	0	0	0	0
Deferred Tax & other liabilities	371	370	370	370
Capital Employed	9,342	9,630	10,316	11,155
Application of Funds				
Gross Block	6,131	5,887	6,386	6,884
Less: Depreciation	2,845	3,269	3,681	4,096
Net Block	3,286	2,618	2,705	2,788
CWIP	738	784	784	784
Other non current assets	213	195	195	195
Deferred tax assets	499	512	512	512
Net fixed assets	4,736	4,108	4,195	4,278
Investments	1,766	1,768	1,768	1,768
Debtors	2,030	1,777	2,399	2,702
Inventories	1,548	1,397	1,730	1,903
Cash & bank balance	2,758	4,196	4,284	5,031
Loans & advances & other CA	450	529	529	530
Total current assets	6,787	7,899	8,941	10,165
Current liabilities	3,697	3,889	4,333	4,800
Provisions	249	256	256	256
Net current assets	2,840	3,754	4,353	5,110
Total Assets	9,342	9,630	10,316	11,155

Key Ratios

Year End-March	FY21	FY22	FY23E	FY24E
Per share (INR)				
EPS	0.4	1.2	3.0	3.6
CEPS	2.5	3.0	4.7	5.4
BVPS	39.0	40.2	43.2	46.8
DPS	0.2	0.4	0.4	0.4
Valuation (x)				
P/E	368.2	140.9	55.6	45.4
P/CEPS	64.9	54.9	34.8	30.4
P/BV	4.2	4.1	3.8	3.5
EV/EBITDA	31.0	64.0	27.9	22.9
Dividend Yield (%)	0.1%	0.2%	0.2%	0.2%
Return ratio (%)				
EBITDA Margin	7.3%	3.8%	7.0%	7.5%
PAT Margin	0.8%	2.3%	4.7%	5.2%
ROE	1.1%	2.9%	6.9%	7.8%
ROCE	5.2%	0.2%	5.9%	7.1%
Leverage Ratio (%)				
Total D/E	0.0	0.0	0.0	0.0
Net D/E	-0.3	-0.5	-0.4	-0.5
Turnover Ratios				
Asset Turnover (x)	1.4	1.2	1.4	1.4
Inventory Days	60	61	61	61
Receivable Days	56	55	60	61
Payable days	108	108	108	108

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

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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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