

**CMP: INR 137**

**Rating: Hold**

**Target Price: INR 150**

**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)	31,964
52w H/L (INR)	158/ 66
Avg Yearly Vol (in 000')	1715

**Shareholding Pattern %**

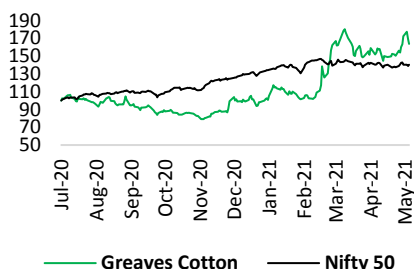
(As on March, 2020)

Promoters	55.63
FII	5.10
DII	12.88
Public & Others	26.39

**Stock Performance (%)**

	3m	6m	12m
Greaves Cotton	-10.4	-0.8	-38.4
Nifty 50	-2.05	20.6	58.7

**Greaves Vs Nifty**



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Greaves Cotton Limited (GCL) reported Q4FY21 results below our estimates. Standalone revenue from operations grew by 27.1% YoY/+4.6% stood at INR 4,570 mn in Q4FY21 against our estimate of INR 7,129 mn. EBITDA grew by 54.9%YoY/-12.0 QoQ to INR 473 mn against our estimate of INR 946 mn. EBITDA margin contracted by 524bps YoY/196QoQ to 10.4% Q4FY21 vs our estimate of 13.3% in Q4FY20. Company reported net Profit of INR 238.8 mn in Q4FY21 against our estimate of INR 675.1 mn. Recommended a dividend of INR. 0.2 per share (10%) of the face value of INR. 2 each for the financial year ended 31st March, 2021.

**Q4FY21 Conference call Highlights:**

**Outlook:** Greaves has committed in setting up the state-of-the-art EV manufacturing facility at Panipat and working furiously on getting incremental capacity so the company also transitions to digital multi brand retail outlet even in the middle of the pandemic. The Company continues to add that for Ampere the Fastest growing E-mobility retail network with 328+ dealers across 260+ cities & towns. One cab yard and on-going lockdown will have an impact on Q1FY22.

- **Auto-engine** volumes were dampened by sluggish passenger 3-W segments whereas demand for goods carrier segments in the 3-W space still remains strong.
- **Greaves Non-auto** engine reported strong volume increase of 56% led by shift from manual labour to mechanized labour in sectors such as agriculture, construction, etc, coupled with lower cost Chinese products getting replaced by high quality Indian products.
- **Capex** guidance of 400 Mn in the next two to three years on a standalone level. For e-mobility, the management has planned a 7000Mn capex (capex + working capital) on a proportionate basis for the next 10 years.
- **Working capital cycle** down to 11 days in Q4FY21 vs. 26 days in Q4FY20. Working capital declined from 840 Mn in December to 270Mn in the current quarter.
- Company continues to work on increasing localization with most of the critical components now being procured from domestic partners. Only major component imported remains lithium ion cells.
- **Green shoots** were visible towards the end of 2020 but the second wave of a Covid led lockdown impacted demand. Hence, Q1 can see some impact on account of that.

**Outlook & Valuation**

At CMP of INR 137, GCL is trading at, P/E multiple of 22.2 to its FY23 EPS of INR 6.2. Considering the ease in pandemic induced restrictions, Green shoots were visible towards the end of 2020 but the second wave of a COVID-19 led lockdown impacted demand. Hence, Q1FY21 can see some impact on account of that. While new business segments look promising, the traditional engine segment continues to remain stagnant.

**We value Greaves Cotton's base business at PE of 18x to FY23 EPS estimate of INR 6.2 and Ampere at 2x FY23 Sales, which yields a target price of INR 150. We maintain our Hold rating on the stock.**

## Quarterly Result

INR Mn (Standalone)	Q4FY21	Q3FY21	Q4FY20	Q-o-Q	Y-o-Y
<b>Net Revenue</b>	<b>4,570</b>	<b>4,368</b>	<b>3,596</b>	<b>4.6%</b>	<b>27.1%</b>
Material Cost	3,213	3,100	2,570	3.6%	25.0%
Employee cost	346	287	279	20.6%	24.0%
Other Expenses	538	443	441	21.6%	21.9%
<b>EBITDA</b>	<b>473</b>	<b>538</b>	<b>306</b>	<b>-12.0%</b>	<b>54.9%</b>
<b>EBITDA margin %</b>	<b>10.4%</b>	<b>12.3%</b>	<b>15.6%</b>	<b>-196bps</b>	<b>-524bps</b>
Other Income	37	24	33	51.9%	10.5%
Depreciation	120	122	144	-1.4%	-16.6%
<b>EBIT</b>	<b>390</b>	<b>440</b>	<b>195</b>	<b>-11.4%</b>	<b>100.2%</b>
Finance cost	6	9	11	-29.1%	-41.9%
Exceptional Item	5	-39	-50	-112.9%	-109.9%
<b>PBT</b>	<b>388.8</b>	<b>393</b>	<b>134</b>	<b>-1.1%</b>	<b>190.1%</b>
Tax Expense	150	106	34	41.6%	345.1%
Effective tax rate %	38.6%	26.9%	25.3%	1163bps	1331bps
Reported Net Profit	238.8	287.1	100.3	-16.8%	138.1%
<i>Net margin %</i>	<i>5.2%</i>	<i>6.6%</i>	<i>2.8%</i>	<i>-135bps</i>	<i>244bps</i>
<i>Reported EPS (INR)</i>	<i>1.0</i>	<i>1.2</i>	<i>0.4</i>	-	-

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

## Other Concall Highlights:

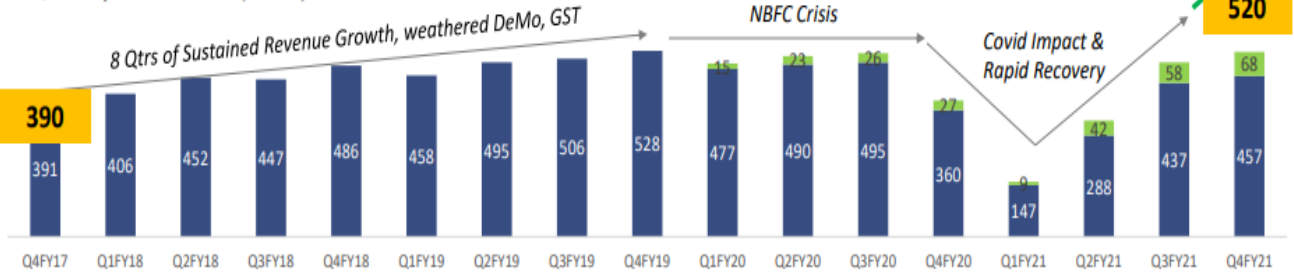
- **Volume Split:** E2W INR 8,210 units in Q4FY21 against INR 5,029 in Q4FY20. E3W INR 1,865 units in Q4FY21 against 918 in Q4FY20. In 3W Ampere has 74% stake in that.
- **Ampere:** Ampere has signed an MOU with the Tamil Nadu Government to set up an e-mobility manufacturing facility at Ranipet, with a proposed investment plan of INR 7000Mn to build capacity of producing one million e-2Ws in a phased manner over a period of 10 years
- **E3W strategy:** 3W auto engines have gone on this year because of the pandemic concerns. So, company strategy to look at E2W and e-rickshaw, which are expanding rapidly and largest part of the market today.
- **E-Mobility** segment continued its strong momentum with 69% increase in volume. The company now has 368 exclusive dealer networks across 200+ cities across country for E-2W and 165 for E-3W.
- Optically, e-mobility losses seem to have increased even though revenue almost doubled. This was largely due to a one-time exceptional item of 4.20 Mn. Hence, adjusted operating loss for e-mobility segment is south of 70 Mn.
- **Company strategy:** 1) Expand industry from 3-W diesel engine to last mile mobility. 2) Move beyond one product/application/fuel.
- Management says New business verticals continues to grow New business verticals include E-Mobility and Non-Auto Business New business verticals contributes 30% to overall business Ampere Electric Vehicles saw rise in demand for its electric 2 & 3 wheelers Agriculture equipment seeing traction due to favourable monsoon ahead.
- Competition :Ampere is a market leader with strong presence in both B2C and B2B segments

## Valuations

	Basis of Valuation	Multiple	Total Value in Mn	Per share value(INR)	Comments
<b>CMP</b>				137	
<b>Base Business</b>	P/E	18x	25622	111	FY23E sales at INR 4550 Mn
<b>Ampere (100% Stake)</b>	P/Sales	2.0x	9100	39	
			Total	150	

## Consolidation of manufacturing to provide long-term benefits

Quarterly Revenue Trend (INR Cr.)

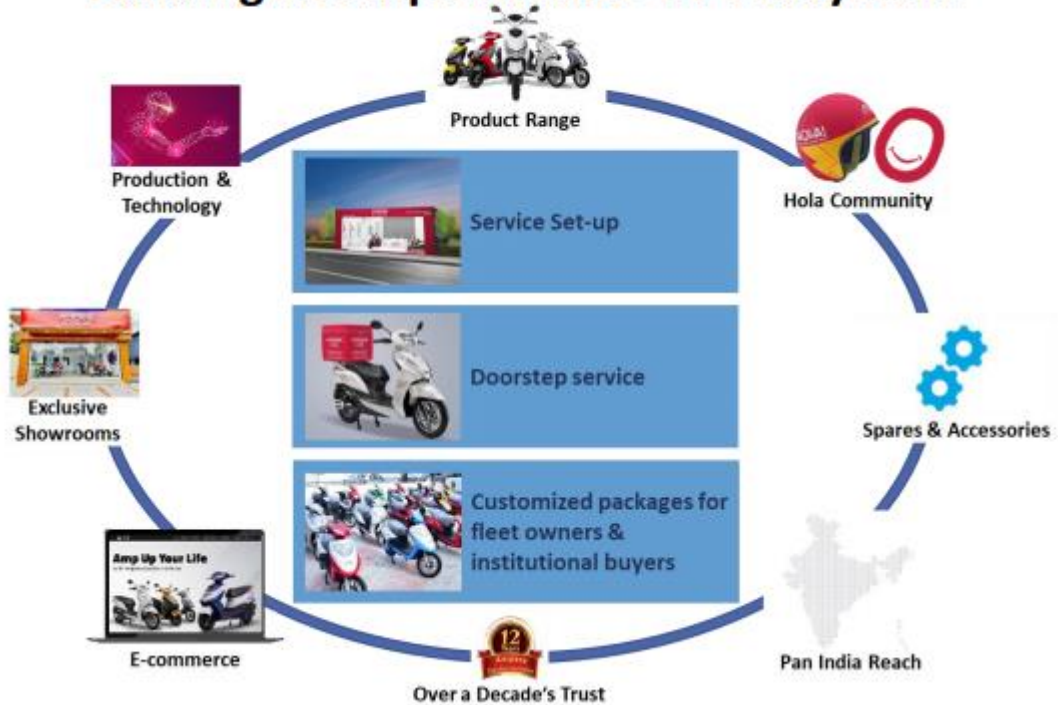


## Share of New Business initiatives Increases to 30% in FY21 as part of Greaves Diversification strategy

New Business as % consolidated Revenue



## Building a comprehensive EV Ecosystem



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

**Income Statement (INR Mn)**

Year End-March	FY19	FY20	FY21	FY22E	FY23E
<b>Revenues</b>	19,878	18,211	13,291	17,423	19,411
<i>Change (%)</i>	10.9%	-8.4%	-27.0%	31.1%	11.4%
Raw materials	13,585	12,492	9,414	12,371	13,413
Stock Adjustments	0	0	0	0	0
Employee costs	1,747	1,580	1,271	1,307	1,650
Other expenses	1,799	1,858	1,637	1,847	1,943
<b>Total Expenses</b>	<b>17,131</b>	<b>15,930</b>	<b>12,321</b>	<b>15,524</b>	<b>17,006</b>
<b>EBITDA</b>	<b>2,747</b>	<b>2,281</b>	<b>969</b>	<b>1,899</b>	<b>2,405</b>
Other Income	416	198	100	195	223
Depreciation	488	522	484	574	656
Interest	33	38	56	48	51
<b>PBT</b>	<b>2,642</b>	<b>1,920</b>	<b>529</b>	<b>1,472</b>	<b>1,921</b>
Extra-ordinary	-179	47	-345	0	0
<b>PBT after ext-ord.</b>	<b>2,463</b>	<b>1,967</b>	<b>185</b>	<b>1,472</b>	<b>1,921</b>
Tax	770	492	81	377	498
<i>Rate (%)</i>	31.3%	25.0%	43.9%	25.6%	25.9%
<b>PAT</b>	<b>1,693</b>	<b>1,475</b>	<b>104</b>	<b>1,095</b>	<b>1,423</b>
<b>Adjusted PAT</b>	<b>1,514</b>	<b>1,475</b>	<b>104</b>	<b>1,095</b>	<b>1,423</b>
<i>Change (%)</i>	-2.0%	-2.6%	-93.0%	957.4%	29.9%

**Cash Flow Statement (INR Mn)**

Year End-March	FY19	FY20	FY21E	FY22E	FY23E
<b>PBT</b>	<b>2,463</b>	<b>1,967</b>	<b>185</b>	<b>1,472</b>	<b>1,921</b>
Depreciation	488	522	484	574	656
Interest & others	-383	-160	-44	-147	-172
Cash flow before WC changes	2,569	2,328	625	1,899	2,405
<b>(Inc)/dec in working capital</b>	<b>1,654</b>	<b>-519</b>	<b>-1,787</b>	<b>-847</b>	<b>-1,239</b>
Operating CF after WC changes	4,223	1,810	-1,163	1,052	1,166
Less: Taxes	-770	-492	-81	-377	-498
<b>Operating cash flow</b>	<b>3,452</b>	<b>1,318</b>	<b>-1,244</b>	<b>675</b>	<b>668</b>
(Inc)/dec in F.A + CWIP	-313	-597	80	-500	-499
(Pur)/sale of investment	86	3,165	-530	0	0
<b>Cash flow from investing</b>	<b>-226</b>	<b>2,568</b>	<b>-449</b>	<b>-500</b>	<b>-499</b>
<b>Free cash flow (FCF)</b>	<b>3,204</b>	<b>886</b>	<b>-1,026</b>	<b>175</b>	<b>169</b>
Loan raised/(repaid)	0	0	0	0	0
Equity raised	0	-26	0	0	0
Interest & others	132	-614	-3	1,243	1,596
Dividend	-1,618	0	-92	-92	-92
<b>Cash flow from financing activities</b>	<b>-1,487</b>	<b>-640</b>	<b>-96</b>	<b>1,150</b>	<b>1,503</b>
<b>Net inc/(dec) in cash</b>	<b>1,739</b>	<b>3,246</b>	<b>-1,789</b>	<b>1,325</b>	<b>1,672</b>
Opening balance of cash	331	424	3,670	2,758	4,083
Closing balance of cash	2,070	3,670	1,881	4,083	5,756

**Balance Sheet (INR Mn)**

Year End-March	FY19	FY20	FY21	FY22E	FY23E
<b>Sources of Funds</b>					
Share Capital	488	462	462	462	462
Reserves & Surplus	9,203	8,420	8,547	9,643	11,066
<b>Net Worth</b>	<b>9,692</b>	<b>8,882</b>	<b>9,010</b>	<b>10,105</b>	<b>11,528</b>
<b>Loan Funds</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Deferred Tax & other liabilities	269	409	371	370	370
<b>Capital Employed</b>	<b>9,961</b>	<b>9,290</b>	<b>9,342</b>	<b>10,438</b>	<b>11,861</b>
<b>Application of Funds</b>					
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
<b>Net fixed assets</b>	<b>3,731</b>	<b>4,316</b>	<b>4,123</b>	<b>4,049</b>	<b>3,892</b>
<b>Investments</b>	<b>5,014</b>	<b>1,850</b>	<b>2,380</b>	<b>2,380</b>	<b>2,380</b>
Debtors	3,365	2,389	2,030	2,864	3,191
Inventories	1,200	1,712	1,548	2,035	2,206
Cash & bank balance	424	1,882	2,758	4,083	5,756
Loans & advances & other CA	317	752	450	450	450
<b>Total current assets</b>	<b>5,305</b>	<b>6,735</b>	<b>6,786</b>	<b>9,432</b>	<b>11,602</b>
Current liabilities	3,889	3,400	3,697	5,173	5,764
Provisions	201	210	249	249	249
<b>Net current assets</b>	<b>1,215</b>	<b>3,125</b>	<b>2,840</b>	<b>4,009</b>	<b>5,590</b>
<b>Total Assets</b>	<b>9,961</b>	<b>9,291</b>	<b>9,342</b>	<b>10,438</b>	<b>11,861</b>

**Key Ratios**

Year End-March	FY19	FY20	FY21	FY22E	FY23E
<b>Per share (INR)</b>					
EPS	6.2	6.4	0.4	4.7	6.2
CEPS	8.2	8.6	2.5	7.2	9.0
BVPS	39.7	38.4	39.0	43.7	49.9
DPS	6.6	0.0	0.4	0.4	0.4
<b>Valuation (x)</b>					
P/E	14.1	21.4	305.0	28.8	22.2
P/CEPS	10.7	15.8	53.8	18.9	15.2
P/BV	2.2	3.6	3.5	3.1	2.7
EV/EBITDA	11.9	13.6	31.0	15.1	11.3
Dividend Yield (%)	7.6%	0.0%	0.3%	0.3%	0.3%
<b>Return ratio (%)</b>					
EBITDA Margin	13.8%	12.5%	7.3%	10.9%	12.4%
PAT Margin	7.6%	8.1%	0.8%	6.3%	7.3%
ROE	15.6%	16.6%	1.1%	10.8%	12.3%
ROCE	22.7%	18.9%	5.2%	12.7%	14.7%
<b>Leverage Ratio (%)</b>					
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
<b>Turnover Ratios</b>					
Asset Turnover (x)	2.0	2.0	1.4	1.7	1.6
Inventory Days	32	50	60	60	60
Receivable Days	62	48	56	60	60
Payable days	75	72	108	108	108

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg  
 \*One time Exceptional loss in FY21

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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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