

CMP: INR 88

Rating: HOLD

Target Price: INR 95

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)	19880
52w H/L (INR)	148 / 66
Avg Yearly Vol (in 000')	992

Shareholding Pattern %

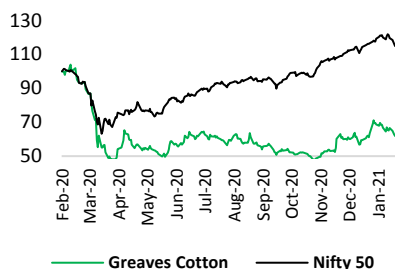
(As on Dec, 2020)

Promoters	55.63
FII	5.32
DII	13.93
Public & Others	25.12

Stock Performance (%)

	3m	6m	12m
Greaves Cotton	-10.4	-0.8	-38.4
Nifty 50	19.0	33.4	24.9

Greaves Vs Nifty



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Greaves Cotton Limited (GCL) reported good Performance on sequential basis and revenues back to pre-COVID levels in Q3 FY21 while weak numbers on YoY basis in Q3FY21. Standalone revenue from operations fell by -69.2% YoY/+51.5% stood at INR 4,368 mn in Q3FY21 against INR 4,947 mn in Q3FY20. While EBITDA fell by -30.3%YoY/+208.1 QoQ to INR 538 mn against INR 772 in Q3FY20. EBITDA margin contracted by 328bps YoY/+626QoQ to 12.3% Q3FY21 vs 15.6% in Q3FY20. Company reported net Profit of INR 287 mn in Q3FY21 as compared to the profit of INR 541 mn in Q3FY20.

Q3FY21 Conference call Highlights:

Outlook: E-mobility site clearly demand is coming in and consciously evaluating capacity expansion plans and company intent is to have a bigger plant in South India, which will help the company to meet the actual demand in the market.

- Company has Consolidated operations that are going to give long-term savings.
- Company has secured long-term contracts with some of the major's OEM for years. Company has also signed up with some International OEM and will announce it at the appropriate time.
- Greaves cotton hopeful and optimistic of the shared Mobility coming back in the next several quarters for the other businesses continue to grow with this.
- **Capex** likely to be in the range of INR 120 mn to INR 150 mn.
- Company is seeing margins improving with the contribution of new business is growing and also with the products on the BSVI maturing in the auto verticals.
- **Cash and cash** equivalents INR 212cr as on the 1st of December 2020 and the strong working Capital Management has worked very well in the covid-19. So, the company net working capital Days have reduced to 26 days which is almost seven days of reduction in the last 9M.
- **Restructuring cost:** As the company restructures the group and consolidates its Center location. There is exceptional cost incurred for the movement. So, in the quarter, we had the total exceptional cost of around INR 90 Mn and the gain is INR 40 mn so net impact in the quarter was INR 50 Mn.
- Ampere has over 300 plus dealerships and almost 80 of them have been opened since the unlock.

Outlook & Valuation

At CMP of INR 88, GCL is trading at, P/E multiple of 15.7x to its FY23 EPS of INR 5.6. Considering the unlock, seeing a revival coming in the following the coming quarters and see good growth potentially in the balance part of the year and also company aims to drive profitable growth. While Company has a strong product offering to OEM Partners via BSVI engines has performed very well in the bucket. The Company has also signed up with some International OEM which is yet to disclose. On the other verticals on the non-automotive side. The performance has been very well. However the company has an exceptional cost of INR 50 Mn. **We value Greaves Cotton at PE of 17x to FY23 EPS estimate of INR 5.6, which yields a target price of INR 95. We assign a Hold rating on the stock.**

Quarterly Result

INR Mn (Standalone)	Q3FY21	Q3FY20	Q2FY21	Q-o-Q	Y-o-Y
Net Revenue	4,368	4,947	2,882	51.5%	-69.2%
Material Cost	3,100	3,327	2,040	52.0%	-6.8%
Employee cost	287	416	291	-1.5%	-31.1%
Other Expenses	443	432	376	17.6%	2.5%
EBITDA	538	772	175	208.1%	-30.3%
EBITDA margin %	12.3%	15.6%	6.1%	626bps	-328bps
Other Income	24	28	18	37.3%	-14.4%
Depreciation	122	112	124	-1.8%	9.3%
EBIT	440	689	68	546.5%	-36.0%
Finance cost	9	12	19	-54.7%	-30.1%
Exceptional Item	-39	47	-311	-87.6%	-182.2%
PBT	393	723	-262	-250.1%	-45.7%
Tax Expense	106	183	-82	-229.9%	-42.1%
Effective tax rate %	26.9%	25.3%	31.1%	-418bps	167bps
Reported Net Profit	287	541	-180.3	-259.2%	-46.9%
Adj Net Profit	326	493	131	149.5%	-34.0%
<i>Adj Net margin %</i>	<i>7.5%</i>	<i>10.0%</i>	<i>4.5%</i>	<i>293bps</i>	<i>-251bps</i>
<i>Reported EPS (INR)</i>	<i>1.2</i>	<i>2.3</i>	<i>-0.8</i>	<i>-</i>	<i>-</i>

Other Highlights:

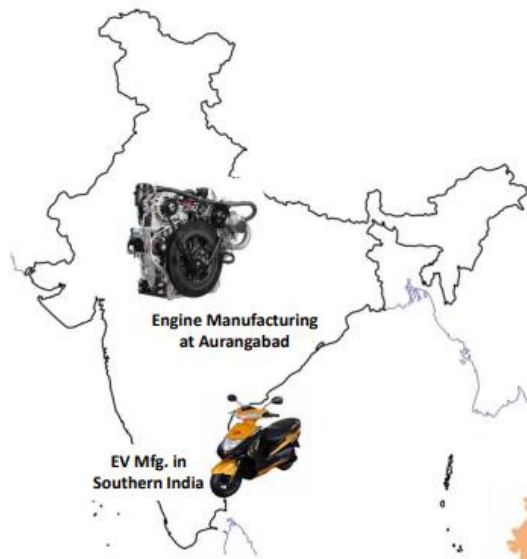
- New business contribution has led to an overall increase of 25% of the overall business and Company continue to evolve through these measures to become a future ready organization.
- Company did add leadership team members both in the e-mobility area as well as new CFO. Mr. Jane.
- 80 new Outlets were added after the unlock and the demand is looking healthy on the e-mobility side all this resulted in confidence and increases rapid increase in Channel Partners Etc.
- The EV Mass Mobility options in India both in the a2W as well as in the 3W company has seen growth in both the retail and overall customer engagement and obviously Because of the pull from the market customer will be hearing from Greaves cotton soon on additional capacity expansions in South for the e-mobility area given this background.
- Company talked about cost reset and have looked at two plants have gone down in terms of the plants and there is a permanent structural 10% Cost reduction. Company is growing and expect this trend to continue.

Auto Business

- In the auto business that cargo segment did see relatively good growth due to the last mind Mobility pick up and economic activity and e-commerce.
- Company is seeing revival coming in the following the coming quarters and see good growth potential in the balance part of the year and Company aims to drive profitable growth.
- Company has a strong product offering to OEM Partners via BSVI engines has performed very well in the bucket. Diversification Journey of Greaves Cotton.
- In Genset segment while the industry grew somewhere around 3% business grew almost 17% in Q3 over corresponding period last year and focus on the smart Genset is helping company to gain in significant traction with the customer base.
- On the Light Equipment side the business view more than 26% So on the non-auto side as a portfolio across various lines of business, there has been a good traction.
- Aftermarket business has been back to pre-covid levels and they are confident that as shared Mobility returns and the running of Auto rickshaws increases. This will start accelerating much faster along with the sales of Automotive engines.
- On the Electric Mobility side under amperes. The business continued its strong performance and delivered almost 2.25x growth over Q3FY20.

Consolidation of manufacturing to provide long-term benefits

Greaves Re-imagination Journey Gaining Pace



Major operational realignments in manufacturing footprint undertaken during COVID times

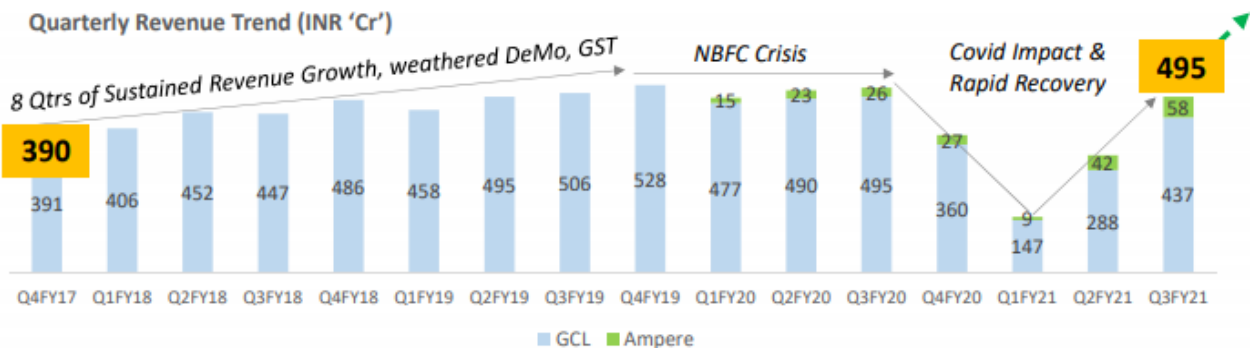
- 6 plants down to 1 location, future plan:
 - Engine Megasite at Aurangabad
 - EV Megasite in Southern India

10% + long-term reset in fixed cost base

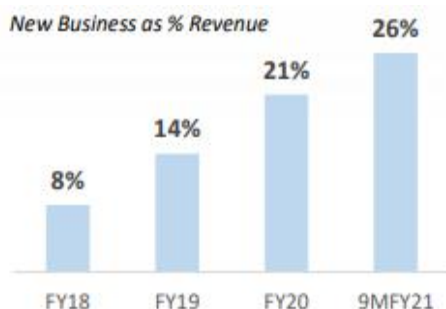
Exceptional items related to manufacturing realignment to be completed by FY22



Growth rebounding, despite sustained weakness in 3W Industry



Share of New Businesses increases to 25%+



INDIA'S TOP FORTUNE 500

Income Statement (INR Mn)						Balance Sheet (INR Mn)					
Year End-March	FY19	FY20	FY21E	FY22E	FY23E	Year End-March	FY19	FY20	FY21E	FY22E	FY23E
Revenues	19,878	18,211	15,850	17,141	18,855	Sources of Funds					
<i>Change (%)</i>	10.9%	-8.4%	-13.0%	8.1%	10.0%	Share Capital	488	462	462	462	462
Raw materials	13,585	12,492	11,412	11,999	13,198	Reserves & Surplus	9,203	8,420	9,230	10,398	11,691
Stock Adjustments	0	0	0	0	0	Net Worth	9,692	8,882	9,692	10,861	12,154
Employee costs	1,747	1,580	1,379	1,491	1,640	Loan Funds	0	0	0	0	0
Other expenses	1,799	1,858	1,617	1,748	1,923	Deferred Tax & other liabilities	269	409	446	445	445
Total Expenses	17,131	15,930	14,407	15,238	16,762	Capital Employed	9,961	9,290	10,101	11,269	12,562
EBITDA	2,747	2,281	1,442	1,903	2,093	Application of Funds					
Other Income	416	198	238	257	283	Gross Block	4,451	5,417	5,917	6,417	6,916
Depreciation	488	522	515	562	610	Less: Depreciation	1,839	2,361	2,875	3,437	4,047
Interest	33	38	40	40	41	Net Block	2,611	3,056	3,041	2,979	2,869
PBT	2,642	1,920	1,125	1,558	1,725	CWIP	710	686	686	686	686
Extra-ordinary	-179	47	0	0	1	Other non current assets	179	207	207	207	207
PBT after ext-ord.	2,463	1,967	1,125	1,558	1,724	Deferred tax assets	230	367	367	367	367
Tax	770	492	315	389	431	Net fixed assets	3,731	4,316	4,301	4,239	4,129
<i>Rate (%)</i>	31.3%	25.0%	28.0%	25.0%	25.0%	Investments	5,014	1,850	1,850	1,850	1,850
PAT	1,693	1,475	810	1,168	1,293	Debtors	3,365	2,389	2,605	2,818	3,099
Adjusted PAT	1,514	1,475	810	1,168	1,293	Inventories	1,200	1,712	813	855	940
<i>Change (%)</i>	-2.0%	-2.6%	-45.1%	44.2%	10.7%	Cash & bank balance	424	1,882	3,681	4,958	6,394
						Loans & advances & other CA	317	752	752	752	752
						Total current assets	5,305	6,735	7,851	9,382	11,185
						Current liabilities	3,889	3,400	3,691	3,992	4,391
						Provisions	201	210	210	210	210
						Net current assets	1,215	3,125	3,950	5,180	6,584
						Total Assets	9,961	9,291	10,101	11,269	12,562

Cash Flow Statement (INR Mn)						Key Ratios					
Year End-March	FY19	FY20	FY21E	FY22E	FY23E	Year End-March	FY19	FY20	FY21E	FY22E	FY23E
PBT	2,463	1,967	1,125	1,558	1,724	Per share (Rs)					
Depreciation	488	522	515	562	610	EPS	6.2	6.4	3.5	5.1	5.6
Interest & others	-383	-160	-198	-217	-242	CEPS	8.2	8.6	5.7	7.5	8.2
Cash flow before WC changes	2,569	2,328	1,442	1,903	2,092	BVPS	39.7	38.4	41.9	47.0	52.6
(Inc)/dec in working capital	1,654	-519	-1,153	497	357	DPS	6.6	0.0	7.0	7.0	7.0
Operating CF after WC changes	4,223	1,810	289	2,399	2,449	Valuation (x)					
Less: Taxes	-770	-492	-315	-389	-431	P/E	14.1	13.7	25.0	17.3	15.7
Operating cash flow	3,452	1,318	-26	2,010	2,018	P/CEPS	10.7	10.1	15.3	11.7	10.6
(Inc)/dec in F.A + CWIP	-313	-597	-500	-500	-499	P/BV	2.2	2.3	2.1	1.9	1.7
(Pur)/sale of investment	86	3,165	0	0	0	EV/EBITDA	11.9	13.0	19.2	13.9	12.1
Cash flow from investing	-226	2,568	-500	-500	-499	Dividend Yield (%)	7.6%	0.0%	8.0%	8.0%	8.0%
Free cash flow (FCF)	3,204	886	-526	1,510	1,519	Return ratio (%)					
Loan raised/(repaid)	0	0	0	0	0	EBITDA Margin	13.8%	12.5%	9.1%	11.1%	11.1%
Equity raised	0	-26	0	0	0	PAT Margin	7.6%	8.1%	5.1%	6.8%	6.9%
Interest & others	-1,514	-782	2,324	1,385	1,535	ROE	15.6%	16.6%	8.4%	10.8%	10.6%
Dividend	-1,618	0	-1,618	-1,618	-1,618	ROCE	22.7%	18.9%	9.2%	11.9%	11.8%
Cash flow from financing activities	-3,133	-808	706	-233	-83	Leverage Ratio (%)					
Net inc/(dec) in cash	93	3,078	180	1,277	1,436	Total D/E	0.0	0.0	0.0	0.0	0.0
Opening balance of cash	331	424	3,502	3,681	4,958	Net D/E	0.0	-0.2	-0.4	-0.5	-0.5
Closing balance of cash	424	3,502	3,681	4,958	6,394	Turnover Ratios					
						Asset Turnover (x)	2.0	2.0	1.6	1.5	1.5
						Inventory Days	32	50	26	26	26
						Receivable Days	62	48	60	60	60
						Payable days	75	72	85	85	85

Source: Arianth 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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