

CMP: INR 134

Rating: Hold

Target Price: INR 149

Stock Info

| | |
|--------------------------|----------------------|
| BSE | 501455 |
| NSE | GREAVESCOT |
| Bloomberg | GRV IN |
| Reuters | GRVL.BO |
| Sector | Industrial Machinery |
| Face Value (INR) | 2 |
| Equity Capital (INR mn) | 464 |
| Mkt Cap (INR mn) | 31,157 |
| 52w H/L (INR) | 165/ 118 |
| Avg Yearly Vol (in 000') | 1503 |

Shareholding Pattern %

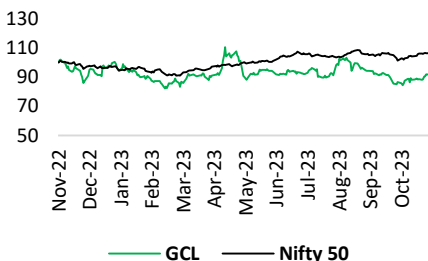
(As on Sept, 2023)

| | |
|-----------------|------|
| Promoters | 56.0 |
| FII | 4.5 |
| DII | 3.4 |
| Public & Others | 36.1 |

Stock Performance (%)

| | 1m | 3m | 12m |
|----------------|-----|------|------|
| Greaves Cotton | 5.8 | -6.6 | -9.1 |
| Nifty 50 | 4.8 | 3.2 | 7.3 |

Greaves Vs Nifty



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We attended Greaves Cotton Ltd Investor Day on 28th November 2023. The event was attended by the investors and Analysts. The session was handled by GCL and GEMPL management.

Investment Rationale

Navigating Commodity Challenges and Ensuring Stability in Raw Material Costs: The company faced pressure last year due to rising commodity costs, particularly in raw materials for certain product segments. The current softening of the commodity cycle is positively affecting them, and they anticipate stable raw material prices as a percentage of revenue in the upcoming quarters. Nevertheless, they are vigilantly assessing the ongoing geopolitical situation and its potential impact.

Subsidy impact on financial: As of September 30, 2023, the company holds an outstanding subsidy receivable of INR 3617.8 Mn under the FAME-II scheme from the Ministry of Heavy Industries. This includes INR 806.8 Mn for pending claims. In response to a May 25, 2023 notice, company offered an amicable resolution by refunding INR 1399.8 Mn (INR. 1249.1 Mn subsidy + INR. 150.7 Mn interest) on October 27, 2023. The company, believing in compliance, awaits MHI confirmation for resolution. The net amount of INR. 3373.4 Mn, including the refund and receivable, has been provisioned as an exceptional item in the financial statements for the current quarter and six months ending September 30, 2023. The company asserts compliance with the scheme, backed by legal advice, prioritizing consumer interests, while neither accepting nor prejudicing any allegations or contentions in the notice.

Strong EV Portfolio: The company boasts an encompassing electric portfolio for both 2-wheelers and 3-wheelers across various formats and price ranges. Their presence spans low, city, and high-speed scooters, alongside electric rickshaws catering to cargo and passenger segments within the EV market. In both B2C and B2B domains, Greaves EV contributes 40% of the deployed vehicles. In contrast to competitors, the company underscores its emphasis on cost leadership, as evidenced by profitable margins for 2-wheelers during the previous fiscal quarter.

Outlook & Valuation

We believe in 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. The company's decent performances in traditional business, e-mobility ventures, and Greaves Retail, marked by robust profitability and strategic shifts, underscore a promising trajectory for sustained growth. Despite facing challenges such as the absence of PLI benefits, the positive impact of the softening commodity cycle and prudent financial management further solidify the company's outlook for stability and resilience. In light of the recent subsidy removal causing an increase in vehicle prices, there are immediate concerns about the short-term impact. **We have valued the standalone business at 3.5x its EBITDA of INR 3,232 Mn, Ampere's business at FY26E P/sales at 1.5x, yielding INR 71 per share and Excel Control linkage business at FY26E P/sales at 1.5x, yielding INR 1.9. Our SOTP valuation yields a fair value of INR 149 per share. We downgrade our rating on the stock to Hold from Accumulate earlier.**

Exhibit 1: Financial Performance

| YE March (INR Mn) | Net Sales | EBITDA | PAT | EPS (INR) | EBITDA Margin % | EV/EBITDA | P/E (x) |
|-------------------|-----------|--------|-------|-----------|-----------------|-----------|---------|
| FY23 | 15,498 | 1,514 | 1,151 | 5.0 | 9.77% | 21.44 | 27.0 |
| FY24E | 18,822 | 2,372 | 1,399 | 6.1 | 12.60% | 10.8 | 22.2 |
| FY25E | 21,053 | 2,674 | 2,038 | 8.8 | 12.70% | 8.76 | 15.2 |
| FY26E | 23,589 | 3,043 | 2,332 | 10.1 | 12.90% | 6.90 | 13.3 |

Source: Arihant Research, Company Filings

Greaves Cotton Ltd– Analyst Day**Management Team****Dr. Arup Basu – MD (Greaves Engineering)****Akhila Balachandar (CFO, GCL)****Mr. Sanjay Behl – CEO (Greaves Electric Mobility)****Mr. Chandrasekar Thyagarajan (CFO, Greaves Electric Mobility)****E-mobility business**

•**Cargo:** The company also unveiled the new Electric Cargo Vehicle Greaves Eltra in three variants, flatbed, pickup, and delivery van. Currently, this vehicle is under trial with many B2B customers and should be commercially available soon.

•**Subsidy:** As of September 30, 2023, company holds an outstanding subsidy receivable of INR 3617.8 Mn under the FAME-II scheme from the Ministry of Heavy Industries. This includes INR 806.8 Mn for pending claims. In response to a May 25, 2023 notice, company offered an amicable resolution by refunding INR 1399.8 Mn (INR. 1249.1 Mn subsidy + INR. 150.7 Mn interest) on October 27, 2023. The company, believing in compliance, awaits MHI confirmation for resolution. The net amount of INR. 3373.4 Mn, including the refund and receivable, has been provisioned as an exceptional item in the financial statements for the current quarter and six months ending September 30, 2023.

•Ampere has expanded its retail presence through E-commerce, government engagements, and partnerships with Croma, backed by financing from Muthoot Finance, Bajaj Finserv, Hero Fincorp, Jana Small Financial Bank, and others, as well as collaborations with leasing firms like RevFin, Alt Mobility, and TWU for fleet customers.

•Ampere NXU is currently on hold.

•**EV Leadership:** Aspire to become a top player in electric vehicles, specifically in electric rickshaws. Target both B2B and B2C markets in 2-wheelers and 3-wheelers, incorporating a swap model.

•**Product Portfolio:** Offer 2-wheelers under Ampere and 3-wheelers branded as ELE and Greaves. Introduce REO for slow-speed, non-registration-required commuting and models like ZEEL and Magnus for city speed. Stylish SWAP/LT and NXG models to cater to diverse preferences. Conducting trials for Greaves Ultra Carbo.

•**Segment Strategy:** Initiate with a focused 2-3-wheeler approach, covering all formats, including electric rickshaws. Smart integration of data is integral to the strategy. Emphasis on sustainability with a commitment to zero emissions.

GCL-Traditional Business

•**Excel Controlinkage:** This business is growing pretty strongly. The synergy is that we work on the engine side, and engines require control through levers and sensors. The company's introduce the first fully IoT connected cargo electric three-wheeler vehicle on the road, which provides with a technological advantage. The momentum and getting back to the double-digit share.

•Strategic shift towards a fuel-agnostic product range, expanded global presence, and entry into new industry segments reflect the commitment to innovation and growth. Augmenting the Mechanical Engineering with Mechatronics and Electronics is accelerating the integration of electronic sensor-based controls from Excel Controlinkage.

•GCL is actively pursuing robust profit margins, with a current ROCE standing at 30%.

•**Margin:** Looking ahead, the company aims to sustain and enhance this healthy margin through the introduction of a new and diversified portfolio.

- The emphasis lies on the synergy of motor control, charger, and gear, with a notable focus on these components rather than prioritizing the battery aspect.

- Greaves Engineering**, a division of GCL, introduced Biofuel Gensets at the Agrovision India Agri Summit in Nagpur. This product operates seamlessly on biodiesel and ethanol-blended fuels, offering a total cost of ownership comparable to traditional high-speed diesel generators.

Greaves Retail

- Profitability remains robust with EBITDA margins exceeding 20%, and business is expanding both domestically and in exports for spare parts and services, with significant growth observed in multi-brand spare parts for 3w across diverse fuel types in markets like Sri Lanka, Bangladesh, and Africa.

Other highlights

- RM:** The softening commodity cycle is having a positive impact, and going forward, there is an expectation for raw material prices and raw material costs as a percentage of revenue to remain stable in the coming quarters.

- Technology Focus:** Establishing product platforms with a focus on component-led technology.

- Financials:** Maintaining mid-teen positive margins without subsidies, reflecting confidence in product quality. Achieving considerable sales volume with thousands sold monthly.

- Sales Strategy:** Invest in dealer networks and prioritize after-sales services. Magnus CS stands as the 2nd largest model with 86 RTOs, an 81-dealer network, and a significant market presence, especially in the 1 lac market.

- Supply Chain:** Localize everything in the supply chain except for batteries. 2-wheelers manufactured in Ranipet with a monthly output of 20k scooters, electric rickshaws in Noida, and diesel CNG production in Noida & Hyderabad (L5: 18k units, L3: 24k units).

- Capex** of INR 200 cr has been allocated, encompassing both the GCL and GEM business segments.

- Inventory:** Dealer and company inventory is maintained at 30-40 days, with a manageable 10-13 days at the company level, ensuring minimal impact from any fluctuations in FAME subsidy.

- **FAME III:** Regarding Fame 3, currently, they have no official notification, and the current timeline for the conclusion of Fame 2 is set for March 31, 2024. The entry-level price difference for electric 2w is ~20-25%, but when considering total cost of ownership EV 2W are more cost-effective, with a TCO of about INR 2.70 per kilometer, as opposed to INR 3.30 to INR 3.40 per kilometer for IC vehicles, making them 20-30% more competitive.

Exhibit 2: Quarterly Performance

| INR Mn (Standalone) | Q2FY24 | Q1FY24 | Q2FY23 | Q-o-Q | Y-o-Y |
|----------------------------|---------------|---------------|---------------|--------------|--------------|
| Net Revenue | 4,586 | 3,960 | 3,741 | 15.8% | 22.6% |
| Material Cost | 3,155 | 2,698 | 2,678 | 16.9% | 17.8% |
| Gross Profit | 1,431 | 1,262 | 1,064 | 13.4% | 34.6% |
| Gross Margin | 31.2% | 31.9% | 28.4% | -66bps | 278bps |
| Employee cost | 351 | 335 | 287 | 4.7% | 22.4% |
| Other Expenses | 445 | 481 | 444 | -7.5% | 0.2% |
| EBITDA | 636 | 446 | 333 | 42.5% | 91.0% |
| EBITDA margin % | 13.9% | 11.3% | 8.9% | 259bps | 497bps |
| Other Income | 84 | 97 | 75 | -13.4% | 11.7% |
| Depreciation | 97 | 94 | 95 | 3.1% | 1.6% |
| EBIT | 623 | 449 | 313 | 38.6% | 99.2% |
| EBIT Margin | 13.6% | 11.3% | 8.4% | 224bps | 523bps |
| Finance cost | 3 | 4 | 5 | -12.8% | -33.3% |
| Exceptional Item | 918 | 9 | -2 | 9773.1% | |
| PBT | 1,537.7 | 454.7 | 305.5 | 238.2% | 403.3% |
| Tax Expense | 303 | 117 | 79 | 159.6% | 283.3% |
| Effective tax rate % | 19.7% | 25.7% | 25.9% | -3217bps | -617bps |
| Reported Net Profit | 1,234.5 | 337.9 | 226.4 | 265.3% | 445.3% |
| Adjusted PAT | 497.3 | 331.0 | 228.0 | 50.3% | 118.2% |
| <i>Net margin %</i> | 26.9% | 8.5% | 6.1% | 384bps | 2087bps |
| <i>Reported EPS (INR)</i> | 5.32 | 1.46 | 0.98 | 264.4% | 442.9% |
| Segment Revenue | | | | | |
| | Q2FY24 | Q1FY24 | Q2FY23 | Q-o-Q | Y-o-Y |
| Engines | 4,142 | 3,640 | 3,450 | 13.8% | 20.1% |
| Electric Mobility | 2,003 | 1,290 | 3,182 | 55.3% | -37.1% |
| Cables & Control Levers | 677 | 388 | - | 74.8% | - |
| Others | 444 | 369 | 355 | 20.4% | 25.1% |

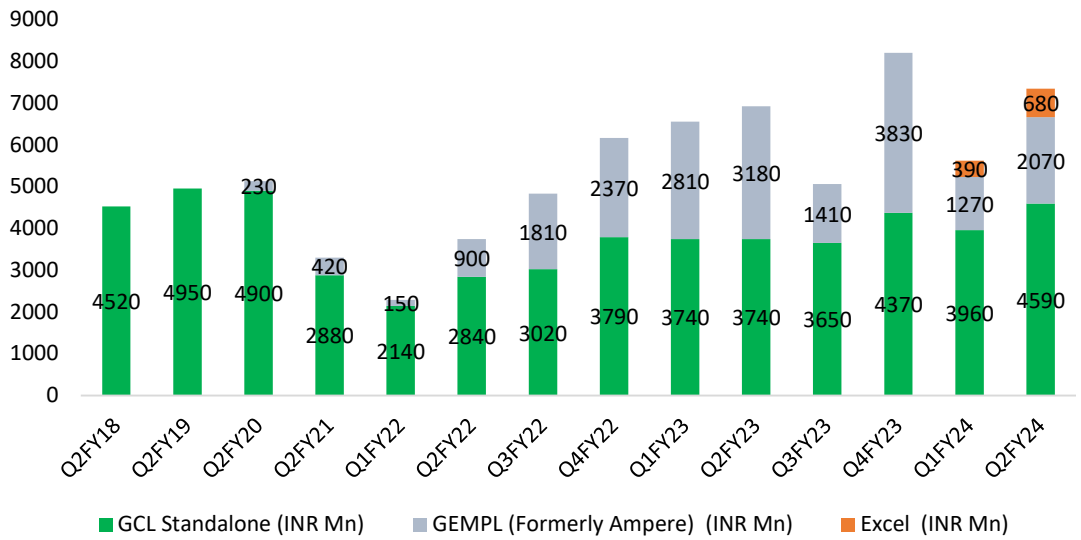
Source: Arianth Research, Company Filings

Exhibit 3: SOTP

| Valuations INR Mn | SOTP | | | |
|--|--------------------|----------------------|-------------------|--------------|
| | Basis of Valuation | Multiple | Total Value in Mn | FY26E |
| EV/EBITDA (x) | | | | 3.5 |
| EBITDA | | | | 3043 |
| EV | | | | 10651 |
| Debt | | | | - |
| Cash | | | | 7327 |
| Market Cap | | | | 17977 |
| No shares | | | | 231 |
| Value/Share (INR) | | | | 77.8 |
| Greaves Stake Valuation | | FY26E sales estimate | 11,897 | |
| Ampere Target Price (INR) (100% stake) Bestways | P/Sales | 1.5 | 17846 | |
| Less: Contigent refund provisioning (INR Mn) | 1,400 | | 16446 | 71 |
| Excel | | | | |
| Controlinkage (100% stake) FY26 sales Estimate | P/Sales | 1.5 | 430 | 1.9 |
| Greaves Target (INR) | | | | 149 |
| CMP (INR) | | | | 134 |
| Upside (%) | | | | 10.9% |

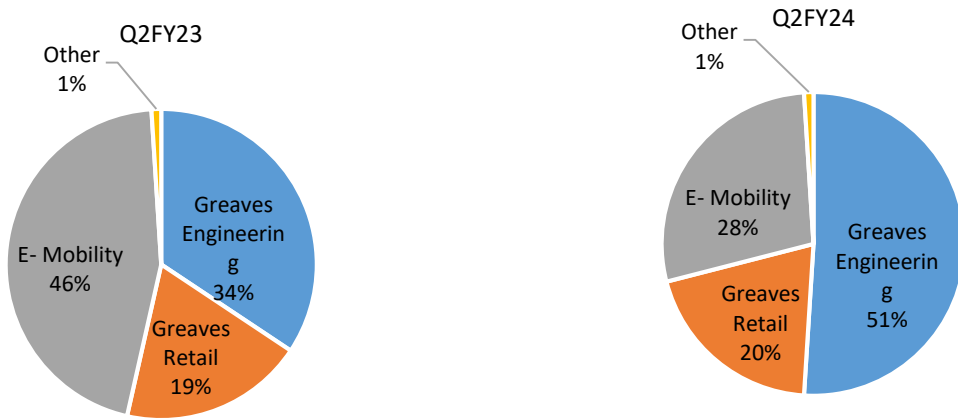
Source: Arianth Research, Company Filings

Exhibit 4 Regulatory pressures impacted EV revenues in Q2FY24



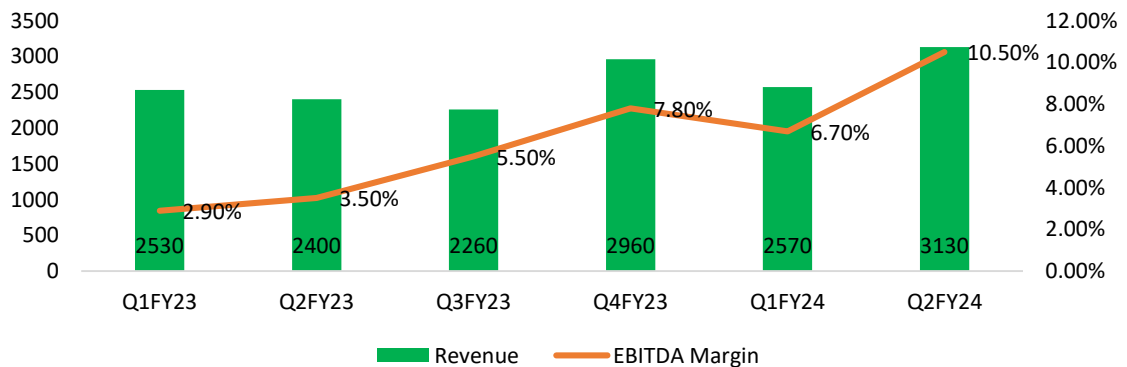
Source: Arihant Research, Company Filings

Exhibit 5: Business contribution



Source: Arihant Research, Company Filings

Exhibit 6: Greaves Engine



Source: Arihant Research, Company Filings

Exhibit 7: Greaves Retail

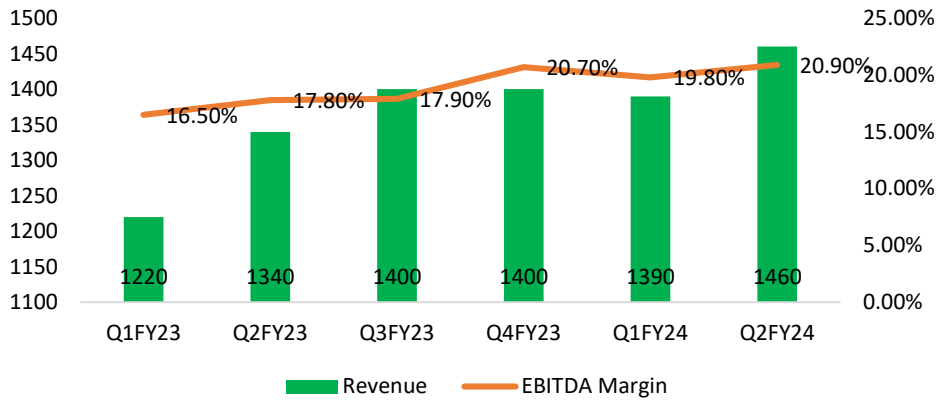


Exhibit 8: Greaves Cotton + Excel

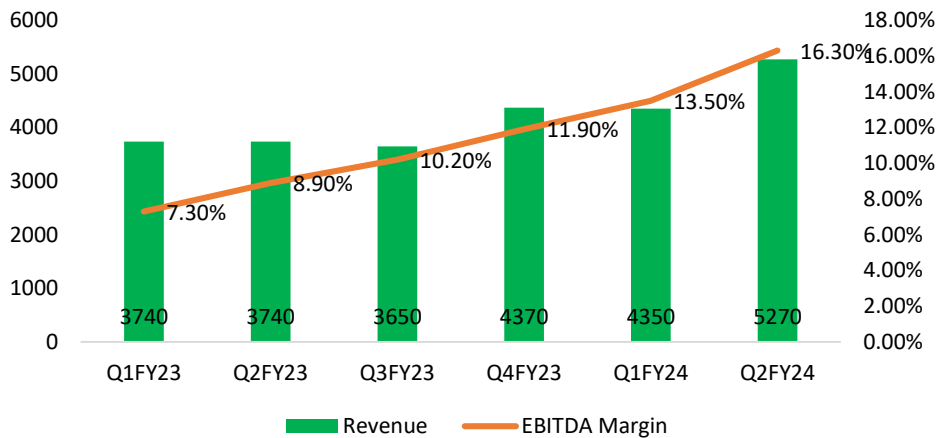
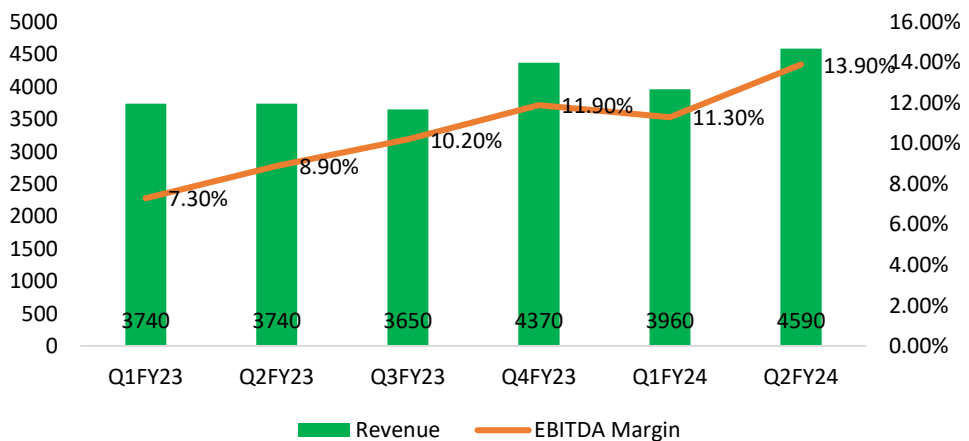


Exhibit 9: Greaves Cotton Standalone



Source: Arianth Research, Company Filings

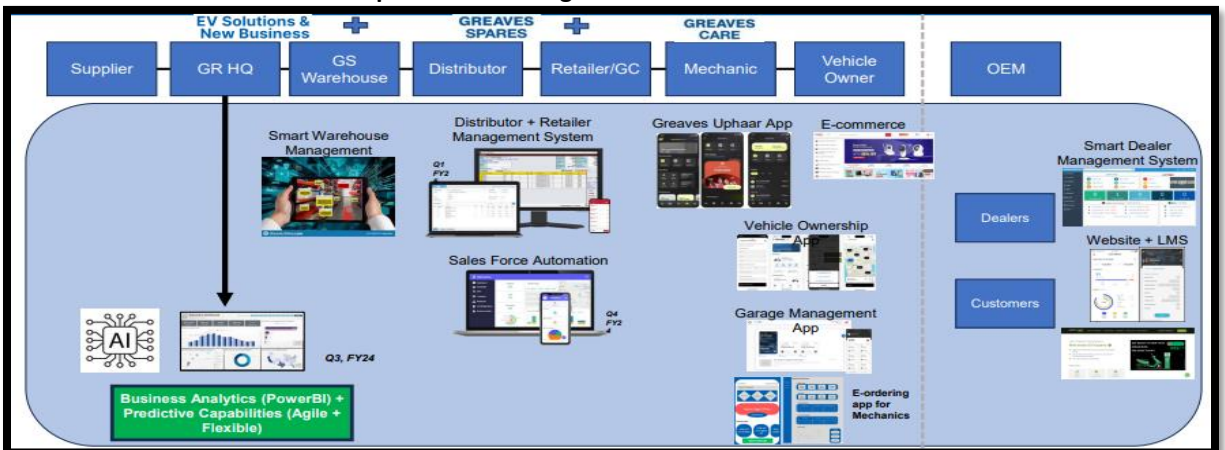
Exhibit 10: Drivers Of Current And Future Profit Pools



Exhibit 11: Greaves Retail: Competitive Advantages



Exhibit 12: Greaves Retail: Competitive Advantages



Source: Arihant Research, Company Filings

Income Statement (INR Mn)

| Year End-March | FY23 | FY24E | FY25E | FY26E |
|---------------------------|---------------|---------------|---------------|---------------|
| Revenues | 15,498 | 18,822 | 21,053 | 23,589 |
| <i>Change (%)</i> | 31.6% | 21.4% | 11.9% | 12.0% |
| Raw materials | 10,995 | 12,611 | 14,211 | 15,923 |
| Employee costs | 1,152 | 1,675 | 2,084 | 2,312 |
| Other expenses | 1,836 | 2,164 | 2,084 | 2,312 |
| Total Expenses | 13,984 | 16,450 | 18,379 | 20,546 |
| EBITDA | 1,514 | 2,372 | 2,674 | 3,043 |
| EBITDA Margins | 9.8% | 12.6% | 12.7% | 12.9% |
| Other Income | 425 | 753 | 526 | 590 |
| Depreciation | 381 | 268 | 387 | 417 |
| Interest | 21 | 21 | 21 | 21 |
| PBT | 1,537 | 2,835 | 2,792 | 3,194 |
| Extra-ordinary | 69.90 | 918 | - | - |
| PBT after ext-ord. | 1,607 | 1,917 | 2,792 | 3,194 |
| Tax | 456 | 518 | 754 | 862 |
| <i>Rate (%)</i> | 28.4% | 27.0% | 27.0% | 27.0% |
| PAT | 1,151 | 1,399 | 2,038 | 2,332 |
| Adjusted PAT | 1,151 | 1,399 | 2,038 | 2,332 |
| <i>Change (%)</i> | 325.0% | 21.6% | 45.6% | 14.4% |

Cash Flow Statement (INR Mn)

| Year End-March | FY23E | FY23E | FY23E | FY23E |
|--|----------------|--------------|----------------|----------------|
| PBT | 1,607 | 1,917 | 2,792 | 3,194 |
| Depreciation | 381 | 268 | 387 | 417 |
| Interest & others | (404) | (732) | (505) | (569) |
| Cash flow before WC changes | 1,584 | 1,453 | 2,674 | 3,043 |
| (Inc)/dec in working capital | (1,016) | (772) | (1,888) | (2,147) |
| Operating CF after WC changes | 568 | 682 | 786 | 896 |
| Less: Taxes | (456) | (518) | (754) | (862) |
| Operating cash flow | 112 | 164 | 32 | 34 |
| (Inc)/dec in F.A + CWIP | (426) | (498) | (497) | (496) |
| (Pur)/sale of investment | (337) | | | |
| Cash flow from investing | (762) | (498) | (497) | (496) |
| Free cash flow (FCF) | (320) | (334) | (465) | (462) |
| Loan raised/(repaid) | - | - | - | - |
| Equity raised | 0.30 | 0.70 | - | - |
| Interest & others | 1,545 | 7,286 | 2,543 | 2,901 |
| Cash flow from financing activities | 1,545 | 7,287 | 2,543 | 2,900 |
| Net inc/(dec) in cash | 894 | 6,953 | 2,078 | 2,438 |
| Opening balance of cash | 780 | 374 | 7,327 | 9,404 |
| Closing balance of cash | 1,675 | 7,327 | 9,404 | 11,842 |

Source: Arianth Research, Company Filings

Balance Sheet (INR Mn)

| Year End-March | FY23 | FY24E | FY25E | FY26E |
|----------------------------------|---------------|---------------|---------------|---------------|
| Sources of Funds | | | | |
| Share Capital | 463 | 464 | 464 | 464 |
| Reserves & Surplus | 9,992 | 11,392 | 13,429 | 15,761 |
| Net Worth | 10,456 | 11,856 | 13,893 | 16,225 |
| Loan Funds | | | | |
| Deferred Tax & other liabilities | 431 | 431 | 431 | 431 |
| Capital Employed | 10,850 | 12,250 | 14,288 | 16,620 |
| Application of Funds | | | | |
| Gross Block | 5,959 | 6,457 | 6,954 | 7,450 |
| Less: Depreciation | 3,650 | 3,918 | 4,306 | 4,723 |
| Net Block | 2,309 | 2,539 | 2,648 | 2,727 |
| CWIP | 740 | 740 | 740 | 740 |
| Other non current assets | 182 | 182 | 182 | 182 |
| Deferred tax assets | 519 | 519 | 519 | 519 |
| Net fixed assets | 3,750 | 3,979 | 4,089 | 4,168 |
| Investments | | | | |
| Debtors | 1,599 | 1,960 | 2,192 | 2,456 |
| Inventories | 1,540 | 1,766 | 1,990 | 2,230 |
| Cash & bank balance | 374 | 7,327 | 9,404 | 11,842 |
| Loans & advances & other CA | 536 | 536 | 536 | 536 |
| Total current assets | 4,049 | 11,588 | 14,123 | 17,065 |
| Current liabilities | 3,898 | 5,111 | 5,717 | 6,406 |
| Provisions | 311 | 311 | 311 | 311 |
| Net current assets | (159) | 6,166 | 8,094 | 10,347 |
| Total Assets | 10,850 | 12,250 | 14,288 | 16,620 |

Key Ratios

| Year End-March | FY23 | FY24E | FY25E | FY26E |
|---------------------------|-------|-------|-------|-------|
| Per share (INR) | | | | |
| EPS | 5.0 | 6.1 | 8.8 | 10.1 |
| CEPS | 6.6 | 7.2 | 10.5 | 11.9 |
| BVPS | 45.2 | 51.3 | 60.1 | 70.2 |
| Valuation (x) | | | | |
| P/E | 27.0 | 22.2 | 15.2 | 13.3 |
| P/CEPS | 20.3 | 18.6 | 12.8 | 11.3 |
| P/BV | 3.0 | 2.6 | 2.2 | 1.9 |
| EV/EBITDA | 21.4 | 10.8 | 8.8 | 6.9 |
| Return ratio (%) | | | | |
| EBIDTA Margin | 9.8% | 12.6% | 12.7% | 12.9% |
| PAT Margin | 7.4% | 7.4% | 9.7% | 9.9% |
| ROE | 11.0% | 11.8% | 14.7% | 14.4% |
| ROCE | 10.4% | 17.2% | 16.0% | 15.8% |
| Leverage Ratio (%) | | | | |
| Total D/E | - | - | - | - |
| Net D/E | 0.0 | -0.6 | -0.7 | -0.7 |
| Turnover Ratios | | | | |
| Asset Turnover (x) | 1.4 | 1.5 | 1.5 | 1.4 |
| Inventory Days | 51 | 51 | 51 | 51 |
| Receivable Days | 38 | 38 | 38 | 38 |
| Payable days | 99 | 99 | 99 | 99 |

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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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