

CMP: INR 137

Rating: Buy

Target Price: INR 171

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)	31,860
52w H/L (INR)	210/ 124
Avg Yearly Vol (in 000')	1,813

Shareholding Pattern %

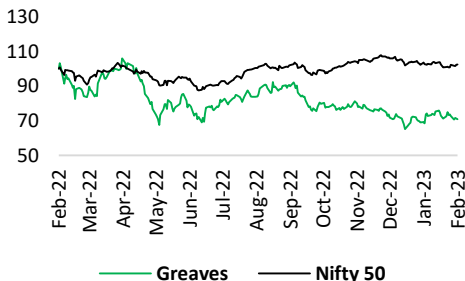
(As on Dec, 2022)

Promoters	55.54
FII	4.15
DII	5.10
Public & Others	35.20

Stock Performance (%)

	1m	6m	12m
Greaves Cotton	3.46	-15.5	31.3
Nifty 50	-0.12	2.05	1.63

Greaves Vs Nifty



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Greaves Cotton Limited (GCL) has reported decent revenue growth led by Engine business: Standalone revenue from operations grew by +21.5% YoY/-2.4% QoQ stood at INR 3,653 mn in Q3FY23 against our estimate of INR 3,685 mn led by growth in the engine business, which increased 23.3% YoY.

PAT above estimate in Q3FY23 led by higher other income: Net profit for the quarter grew by 20.9% QoQ/-69.4% YoY to INR 273.8 mn in Q3FY23 against our estimate of INR 245 mn.

Expansion in the margin led by new launch: EBITDA for the quarter stood at INR 389 against our estimate of INR 345 Mn registered growth of 17% QoQ/126.5% YoY. The company's EBITDA margin expansion by 176bps QoQ/494bps YoY to 10.7% Q3FY23 is well above our estimate of 9.4%.

Focus on Non-Auto: The Non-auto really focuses on getting a better quality of EBITDA and there are impending regulatory changes so better grey field and a fair amount of clarity the client wants. The demand will be there going forward. Main segment power solution, large customer improving the margin and non-auto farm equipment due to china issue and doing tie up with Indian companies. The farm is 10-15k per quarter and seeing good growth coming after the tie-up.

Investment in e-Mobility being utilized for new products, associated technologies, brand building and to enhance manufacturing capacity in e2W / e3W. The new product launched rolled out in this quarter only and booking is very encouraging.

Greaves Cotton will acquire 60% in Excel Controlinkage will enhance their performance: The acquisition of Excel Controlinkage Pvt Ltd. For a consideration of INR 385 Cr in four tranche deal. The company is doing >28% EBITDA Margin with significant growth. They are in the business of cable, electronics, steering, Marine, etc. 30% of business comes from internationally, and the rest from India, B2B synergy supply synergy.

Outlook & Valuation

We believe strong traction in e-mobility, reviving traditional business and a sound balance sheet make Greaves Cotton well-focused on a faster ramp-up and gaining the first-mover advantage in the EV space. The company is doing acquisition of Excel Controlinkage Pvt Ltd. for consideration of INR 3,850 Mn in four tranche deal. It will enhance Greave's performance going forward. EV and new initiatives businesses may provide upside going ahead. We expect GCL to deliver a 16.8% revenue growth CAGR over FY22-FY25E with an EBITDA margin in the range of 9.5-10.5% during FY23E-Y25E. **We have valued the standalone business at 6.0x its EBITDA of INR 1,970 Mn and Ampere's business at FY25E P/sales at 2x, yielding INR 93 per share. Our SOTP valuation yields a fair value of INR 171 per share (The previous target was 189 per share). We maintain our Buy rating on the stock.**

Exhibit 1: Financial Performance

YE March (INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	EV/EBITDA (x)	P/E (x)
FY22	11,776	447	271	1.2	3.80%	64.0	117.8
FY23E	15,233	1,447	938	4.1	9.50%	19.24	34.0
FY24E	16,901	1,690	1,140	4.9	10.00%	15.7	28.0
FY25E	18,760	1,970	1,352	5.8	10.50%	12.62	23.6

Source: Arihant Research, Company Filings

Exhibit 2: Quarterly Result					
INR Mn (Standalone)	Q3FY23	Q2FY23	Q3FY22	Q-o-Q	Y-o-Y
Net Revenue	3,653	3,741	3,005	-2.4%	21.5%
Material Cost	2,539	2,678	2,139	-5.2%	18.7%
Gross Profit	1,114	1,064	867	4.7%	28.5%
Gross Margin	30.5%	28.4%	28.8%	206bps	164bps
Employee cost	275	287	311	-4.2%	-11.6%
Other Expenses	450	444	384	1.2%	17.0%
EBITDA	389	333	172	17.0%	126.5%
EBITDA margin %	10.7%	8.9%	5.7%	176bps	494bps
Other Income	83	75	63	10.6%	32.7%
Depreciation	92	95	104	-3.1%	-10.8%
EBIT	380	313	131	21.6%	190.0%
EBIT Margin	10.4%	8.4%	4.4%	205bps	605bps
Finance cost	5	5	6	0.0%	-7.3%
Exceptional Item	-7	-2	-11	223.8%	-40.4%
PBT	368.3	305.5	114.2	20.6%	-69.0%
Tax Expense	95	79	30	19.5%	211.9%
Effective tax rate %	25.7%	25.9%	26.5%	-23bps	-87bps
Reported Net Profit	273.8	226.4	83.9	20.9%	-69.4%
<i>Net margin %</i>	7.5%	6.1%	2.8%	145bps	470bps
<i>Reported EPS (INR)</i>	1.18	0.98	0.36	20.4%	227.8%
INR Mn (Consolidate)	Q3FY23	Q2FY23	Q3FY22	Q-o-Q	Y-o-Y
Engines	3,321	3,450	2,694	-3.8%	23.3%
Electric Mobility	1,415	3,183	1,811	-1	-0
Others	399	355	359	12.4%	11.0%
Segment Volume					
Volumes (Units)	Q3FY23	Q2FY23	Q3FY22	Q-o-Q	Y-o-Y
Auto Engines	18,327	16,207	8,141	13.1%	125.1%
Non-Auto Engines	8,585	9,563	8,490	-10.2%	1.1%
Engines	26,912	25,770	16,631	4.4%	61.8%
Non Auto Application	5,759	3,704	9,803	55.5%	-41.3%
E-2W	12,160	30,873	18,108	-60.6%	-32.8%
E-3W	1,980	2,070	3,648	-4.3%	-45.7%
E-Mobility Products	14,140	32,943	21,756	-57.1%	-35.0%

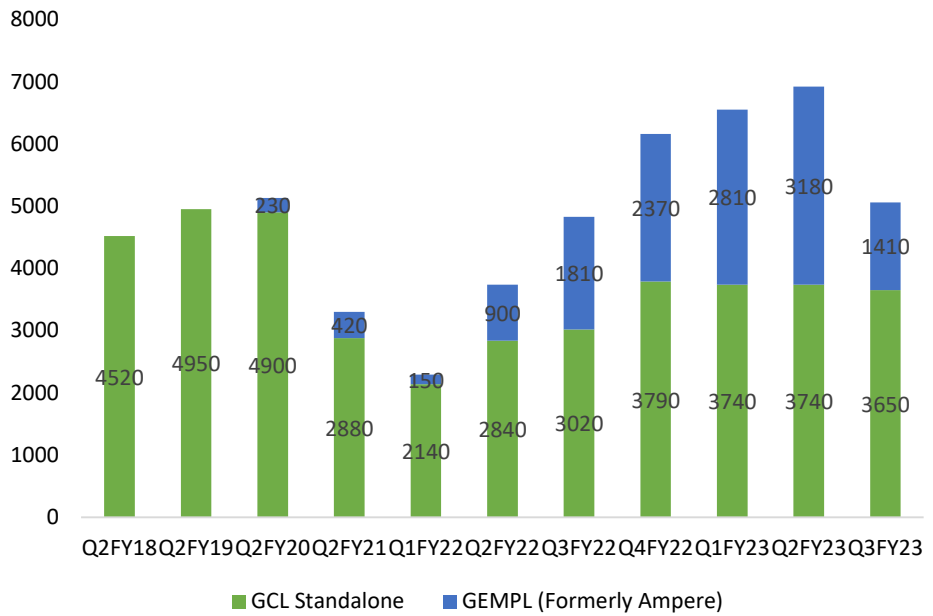
SOTP					
Valuations	INR Mn	Basis of Valuation	Multiple	Total Value in Mn	FY25E
EV/EBITDA (x)					6.0
EBITDA					1970
EV					11819
Debt					-
Cash					6341
Market Cap					18160
No shares					231
Value/Share (INR)					78.5
Greaves Stake Valuation					
Ampere Target Price (INR) (100% stake) Bestways P/Sales			2.0	21454	93
Greaves Target (INR)					171
CMP (INR)					138
Upside (%)					24%

Source: Arian Research, Company Filings

Q3FY23 Conference call Highlights:

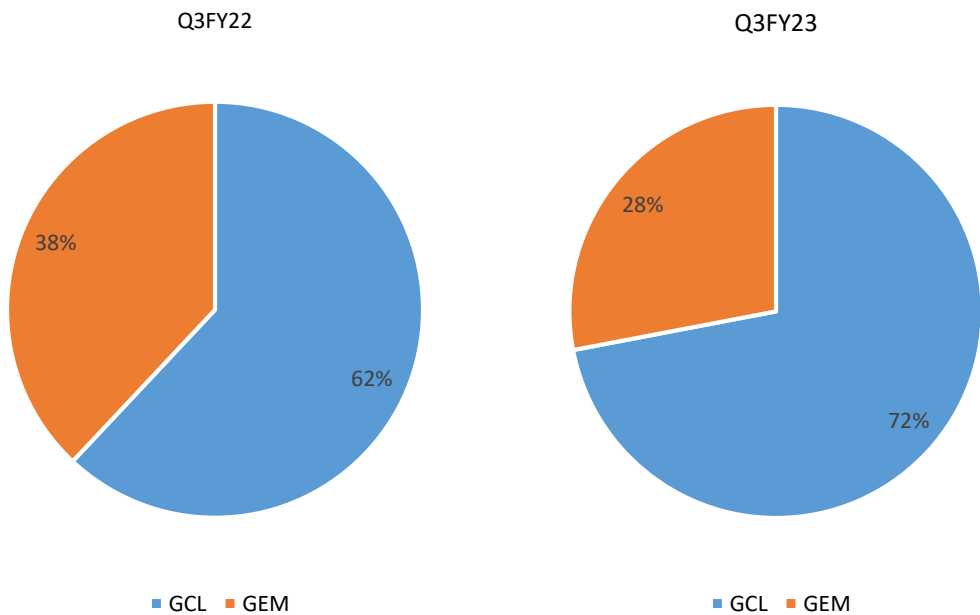
- Strong net cash position of INR 1171 cr as of 31st December 2022.
- Strengthening the clean tech portfolio with e-powertrains
- Greaves Retail, a promising business, will evolve to offer a best-in-class Omni channel retail experience.
- Accelerating EV adoption with 700+ outlets across the distribution chain.
- Greaves Finance team in place, and will offer tech-enabled financing solutions.
- GCL successfully developing the complete mobility Ecosystem.
- Partners with UK-based design firm, Eta Green Power Ltd to bring exclusive technology to the Indian market. Unveiled electric powertrain.
- Unveiled six new 2 & 3-wheeler EVs catering to diverse consumer segments and price points. Bookings are open for Ampere Primus.
- Anthemic “Har Gully Electric” campaign launched for Ampere, the flagship 2- wheeler brand.
- The recent budget was very encouraging and pushed for the new product GCL and GEV.
- The company dispatched 14500 vehicles in the month of January.
- The company move back to a double-digit EBITDA Margin.
- Auto applications business registered YoY growth of 136%.
- Powertrain business has registered Y-o-Y revenue growth of 26%.
- Greaves retail business registered YoY growth of 14%.
- Greaves Electric Mobility (GEM) recorded quarterly revenue of INR 142 crores
- Acquisition: The acquisition of Excel Controlinkage Pvt Ltd. The company is doing >28% EBITDA Margin with significant growth. They are in the business of cable, electronics, steering, Marine, etc. 30% of business comes from internationally, and the rest from India, B2B synergy supply synergy. The product portfolio is vast. Excel is India’s leading manufacturer of motion control systems with integrated capabilities to manufacture Push Pull Cables, Levers & Sensors. The growth is 22% last 3 years. They have a deep relationship with OEM and this business has built over decades. They have 5 plant in Nagpur area.
- Consideration & Payment Terms: Tranche 1: 60% equity stake at 7.5x of FY23 audited EBITDA (total enterprise valuation capped at INR. 385 Cr); max consideration of INR.231 Cr. for 60% Equity Stake in Excel. Tranche 1 will be completed by April 2023 and 2nd Tranche by Oct FY23. Tranche 1 payment is divided into 2 parts: (i) 70% of Tranche 1 on the Closing Date (ii) a balance of 30% after FY23 audited EBITDA and agreed adjustments Tranche 2 & 3: 10% equity stake each at an Enterprise Valuation of 7x FY24 and FY25 audited EBITDA, respectively Tranche 4: remaining 20% equity stake at an Enterprise Valuation of 7x FY26 audited EBITDA.
- 3W, the company is improving L3 (lower end) & L5 and last quarter done well in L5. The company is improving dealer and financing partners. The industry size is more or less the same L3 is growing but L5 is impacted due to the Covid era. The company has 220 dealers and now touches 400 almost double. The financing partner also improving. The company is very confident to see growth in the coming quarter
- Auto EV Mart: it is <3% total vehicle sales (consolidated).
- Capacity: With a capacity of 250,000 units p.a. Ranipet plant is well-equipped to cater to the growing demand. Capacity will be gradual ramped up to 1 mn units and monthly can go up to 4,50,000 units per annum multiple. 3W – L3 , 3000 per month similarly L5 same number of capacity.
- Battery: All the battery assembled by an Indian supplier but the material is sourced outside.
- As per the Vahaan data, although primary sales of EVs in Q3 were negatively impacted, the period witnessed strong secondary sales. The diversification strategy is contributing equally to the revenues.
- Price Increase: The price discovery yet. There is not much change from March to April.
- RM: The company mostly passes through so nothing much left.
- The company is working at both component and vehicle levels.
- Greenfield in the month of January. ~10,000 monthly sales run rate.
- Subsidy: The company has all the requirements that the government has asked. Magnus and new primer under the certification so got all the certification so allowed to apply for the subsidy. All the detailed submitted and the decision pending toward the government will start getting the money.
- Volume: January is very good and February is ticking better.
- The registration YTD 13% and the company is consistent and trend over the last 24% and again dips when involve in localization. Overall in double digits, supply, manufacturing, and the great team in place. In general unit economics. Data point optimization and viable growth and 80k and 1 lac where the co believes 30.2% sales will pick up going forward and No 2 in Nov and Number 3 YTD. The booking already started for the New product and over the course of the next 2 years.
- Farm equipment is doing decent.
- EBITDA Margin: Standalone 10.7% in Q3FY23, so if add the acquisition of Excel EBITDA is 12.8%.
- Guidance: The company’s 3w is improving as more favour on the CNG front and non-auto side profitability is improving so expecting a better quarter the raw material price is correcting which is augur well for the company. On the top line will add from Excel INR 200-250 cr apart from the company’s revenue.

Exhibit 3: Transitioning to meet the new battery norms impacted EV production and primary revenues in Q3 (INR Mn)



Source: Arianth Research, Company Filings

Exhibit 4: Business contribution - EVs



Source: Arianth Research, Company Filings

Income Statement (INR Mn)

Year End-March	FY22	FY23E	FY24E	FY25E
Revenues	11,776	15,233	16,901	18,760
Change (%)	-11.4%	29.4%	11.0%	11.0%
Raw materials	8,427	10,511	11,577	12,757
Employee costs	1,308	1,523	1,690	1,876
Other expenses	1,593	1,752	1,944	2,157
Total Expenses	11,329	13,786	15,211	16,791
EBITDA	447	1,447	1,690	1,970
EBITDA Margins	3.8%	9.5%	10.0%	10.5%
Other Income	316	427	507	563
Depreciation	424	589	639	688
Interest	20	20	20	20
PBT	319	1,265	1,539	1,825
Extra-ordinary	73	-	-	-
PBT after ext-ord.	393	1,265	1,539	1,825
Tax	122	328	399	473
Rate (%)	31.0%	25.9%	25.9%	25.9%
PAT	271	938	1,140	1,352
Adjusted PAT	271	938	1,140	1,352
Change (%)	161.4%	246.2%	21.6%	18.6%

Cash Flow Statement (INR Mn)

Year End-March	FY22E	FY23E	FY23E	FY23E
PBT	393	1,265	1,539	1,825
Depreciation	424	589	639	688
Interest & others	(296)	(407)	(487)	(543)
Cash flow before WC changes	521	1,447	1,690	1,970
(Inc)/dec in working capital	345	(1,075)	(981)	(1,183)
Operating CF after WC changes	866	372	709	787
Less: Taxes	(122)	(328)	(399)	(473)
Operating cash flow	744	45	311	314
(Inc)/dec in F.A + CWIP	(489)	(499)	(498)	(497)
(Pur)/sale of investment	(2)	-	-	-
Cash flow from investing	(491)	(499)	(498)	(497)
Free cash flow (FCF)	251	(454)	(187)	(183)
Loan raised/(repaid)	-	-	-	-
Equity raised	0.60	-	-	-
Interest & others	1,276	1,344	1,628	1,895
Dividend	(92)	(92)	(92)	(92)
Cash flow from financing activities	1,184	1,252	1,535	1,803
Net inc /(dec) in cash	1,437	798	1,348	1,620
Opening balance of cash	2,758	4,196	4,993	6,341
Closing balance of cash	4,196	4,993	6,341	7,961

Balance Sheet (INR Mn)

Year End-March	FY22	FY23E	FY24E	FY25E
Sources of Funds				
Share Capital	463	463	463	463
Reserves & Surplus	8,835	9,772	10,912	12,264
Net Worth	9,298	10,235	11,375	12,727
Loan Funds	-	-	-	-
Deferred Tax & other liabilities	370	370	370	370
Capital Employed	9,630	10,568	11,708	13,060
Application of Funds				
Gross Block	5,887	6,386	6,884	7,381
Less: Depreciation	3,269	3,858	4,497	5,185
Net Block	2,618	2,528	2,388	2,196
CWIP	784	784	784	784
Other non current assets	195	195	195	195
Deferred tax assets	512	512	512	512
Net fixed assets	4,108	4,019	3,878	3,687
Investments	1,768	1,768	1,768	1,768
Debtors	1,777	2,295	2,547	2,827
Inventories	1,397	1,742	1,919	2,115
Cash & bank balance	4,196	4,993	6,341	7,961
Loans & advances & other CA	529	529	529	529
Total current assets	7,899	9,560	11,336	13,432
Current liabilities	3,889	4,523	5,018	5,570
Provisions	256	256	256	256
Net current assets	3,754	4,781	6,062	7,606
Total Assets	9,630	10,568	11,708	13,060

Key Ratios

Year End-March	FY22	FY23E	FY24E	FY25E
Per share (INR)				
EPS	1.2	4.1	4.9	5.8
CEPS	3.0	6.6	7.7	8.8
BVPS	40.2	44.3	49.2	55.0
DPS	0.4	0.4	0.4	0.4
Valuation (x)				
P/E	117.8	34.0	28.0	23.6
P/CEPS	45.9	20.9	17.9	15.6
P/BV	3.4	3.1	2.8	2.5
EV/EBITDA	64.0	19.2	15.7	12.6
Dividend Yield (%)	0.3%	0.3%	0.3%	0.3%
Return ratio (%)				
EBIDTA Margin	3.8%	9.5%	10.0%	10.5%
PAT Margin	2.3%	6.2%	6.7%	7.2%
ROE	2.9%	9.2%	10.0%	10.6%
ROCE	0.2%	8.1%	9.0%	9.8%
Leverage Ratio (%)				
Total D/E	-	-	-	-
Net D/E	-0.5	-0.5	-0.6	-0.6
Turnover Ratios				
Asset Turnover (x)	1.2	1.4	1.4	1.4
Inventory Days	61	61	61	61
Receivable Days	55	55	55	55
Payable days	108	108	108	108

Source: Arian Research, Company Filings

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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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