

CMP: INR 116

Rating: Accumulate

Target Price: INR 138

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)	30,694
52w H/L (INR)	175.5 / 112.5
Avg Yearly Vol (in 000')	2,017

Shareholding Pattern %

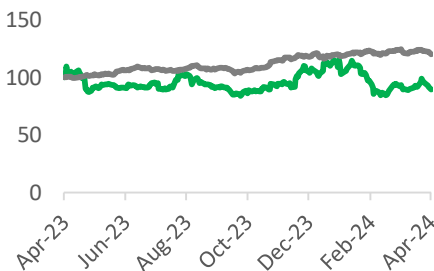
(As on March, 2024)

Promoters	56.0
FII	2.18
DII	3.75
Public & Others	37.43

Stock Performance (%)

	1m	3m	12m
Greaves Cotton	-3.49	-20.73	-10.82
Nifty 50	-3.03	0.80	20.21

Greaves Vs Nifty



— Greaves Cotton — Nifty 50

Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114834

Source: Arihant Research, Company Filings

Greaves Cotton Ltd (GCL) reported Mixed Q4 standalone number & reported a loss on a consolidated level led by one-off, the Vice-Chairman announced their retirement, so the company is looking to promote someone from within to take over the role. Standalone reported revenue of INR 4,813 Mn growth of 8.7% QoQ / +98.1% YoY. The consolidated reported revenue stands at INR 6,725 Mn, reflecting a 19% decrease YoY but showing a slight increase of 1% QoQ. Standalone EBITDA stood at INR 562 Mn down by 16.2% QoQ / up by 66.7% YoY. EBITDA margin stood at 11.7% (down by 347bps QoQ, 220bps YoY). EBIT Margin stood at 11.6% (down by 329 bps QoQ, 470bps YoY) in Q4FY24. Consolidated EBITDA stood at INR 240 Mn down by 52% YoY/ 33% QoQ. EBITDA margin stood at 3.5% (down by 240bps YoY, 180bps QoQ) in Q4FY24. Standalone PAT stood at INR 395 Mn, down by 54.9% QoQ / up by 245.8% YoY. Consolidated PAT stood at INR (133.5) Mn. The new acquisition, Excel, has demonstrated impressive growth, with its revenue reaching INR 2,630 Mn, reflecting a substantial YoY increase of 41%. Furthermore, Excel maintains robust profit margins, standing at 31%.

Investment Rationale

Promising Growth Prospects in Electric Mobility: The EV market in India is growing rapidly due to environmental concerns and government incentives. Greaves Cotton Ltd. is well-positioned with its dedicated electric mobility business, recording INR 1,210 Mn in revenue in Q4FY24. Its innovative products like the "Nexus" electric two-wheeler and "Eltra" electric three-wheeler enhance its market presence. The company is further exploring fundraising options including a potential IPO for its electric mobility business which could further fuel growth in this promising segment.

Aftermarket and Distribution Network: Greaves Cotton Ltd.'s aftermarket division, Greaves Retail, shows resilience and growth potential through diversification into spare parts for electric vehicles and construction equipment. Digital initiatives like the Greaves Upar Mechanic Loyalty Program and Greaves Care Outlets strengthen its position in the evolving market. With a 10% YoY revenue growth in FY24, the aftermarket business demonstrates strategic importance and promising prospects for continued expansion.

Diversification and Transformation Strategy: Greaves Cotton Ltd. is undergoing a strategic transformation journey, moving away from being a pure diesel engine manufacturer to a diversified and fuel-agnostic organization. The company is expanding its product portfolio to cater to CNG, biodiesel, and ethanol-blended fuel engines, as well as electric mobility solutions. This diversification strategy positions the company to capitalize on the evolving industry trends and changing customer preferences, reducing reliance on a single product line and expanding its addressable market.

Outlook & Valuation: We have a strong focus on advancing in the e-mobility sector. Additionally, the company's engine business is undergoing a significant transformation, shifting from solely producing diesel engines to becoming a versatile organization offering multiple fuel options. We anticipate electric mobility to play a crucial role in the company's growth, particularly with the favorable reception of our new high-performance products like the Nexus e-scooter and Eltra e-rickshaw. The company's goal is to expand their market presence across various electric vehicle segments, ranging from L2 to L5, through a comprehensive product strategy. However, the company is contingent on receiving delayed subsidies from the government for which all formalities have been completed. **We expect Greaves Cotton's revenue, EBITDA, and PAT to grow at a CAGR of 9.58%, 13.5%, and 18%, respectively, over FY25-FY27E. We used DCF model to arrive at a target price of INR 138 per share. Accordingly, we maintain an "Accumulate" rating on the stock.**

Exhibit 1: Financial Performance

YE March (INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	EV/EBITDA	P/E (x)
FY23	26,995	1,334	698	3.4	4.9%	16.1	34.4
FY24	26,332	915	-3,673	-15.8	3.5%	26.5	-7.3
FY25E	27,667	1,134	813	3.5	4.1%	20.7	33.1
FY26E	30,047	1,261	941	4.1	4.2%	18.4	28.6
FY27E	33,223	1,462	1,132	4.9	4.4%	15.7	23.8

Greaves Cotton Q4FY24 Concall KTAs

The company expects electric mobility as a key growth driver with new high-performance products like Nexus e-scooter and Eltra e-rickshaw receiving positive market response. They also aim to increase its market share across L2, L5 and L3 electric vehicle segments through a comprehensive product roadmap. However, the company is contingent on receiving delayed subsidies from the government for which all formalities have been completed.

Greaves Retail

Expanding into spare part distribution for electric vehicles like motors, controllers, and batteries, targeting the growing e-rickshaw market. Achieved a 10% YoY revenue growth in FY24, reaching INR 5880 Mn.

Engine

Exports of engines have started increasing, which accounted for 12.5% of total revenue in FY24, aiding growth. Overall volumes grew 26% YoY in the auto engines segment and 13% in the non-auto engines segment. The company is focused on manufacturing, supply chain, and profitably delivering castings, precision machining, forgings etc. for the components business.

Export Control linkage

Excel Control Linkage has demonstrated strong profitability, with robust margins of 31% in FY24. It has a significant export presence, with approximately one-third of its revenues coming from the export market, contributing to Greaves Cotton's overall export growth.

E- Mobility Business

- They are awaiting government subsidy approvals, which could impact pricing by around INR 10,000.
- The company is well-positioned with a strong product portfolio and distribution network across different electric vehicle segments.
- The board is evaluating various options for raising funds in the electric mobility business.
- In 2-wheelers, the Nexus model is positioned as "India's first family scooter" with high performance and build quality to compete in the middle/high-speed segment. Other models like Magna, Primus, and Rio are being worked on.
- Recorded sales of 61,000 units of 2w and 3w combined in FY24.
- In L5 3w, the Eltra model delivers maximum range per charge and the company aims to increase market share as distribution expands.
- In L3 3w, the company has a strong presence in northern and eastern states and is working on new products.

CNG Vehicle Segment Trends

They are focusing on creating a portfolio that is energy-agnostic, catering to diesel, CNG, and electric variants in the three-wheeler segment. The company is witnessing the growth of the three-wheeler industry, and its participation in this segment is expected to grow as well.

Distribution

The company has strengthened its distribution network in India and overseas. It is also making digitalisation efforts and upskilling of mechanics to cater to the evolving product portfolio.

Other Highlights

- The company is focusing on margin improvement journeys, targeting a return to pre-COVID levels of 13-15% EBITDA margins.
- The company is expanding its customer base to include construction majors like JCB, Caterpillar, and commercial vehicle manufacturers like Daimler, Scania.
- The company is exploring fundraising options for the electric mobility business.
- The board has recommended a final dividend of 100%.

Exhibit 2: Quarterly Performance

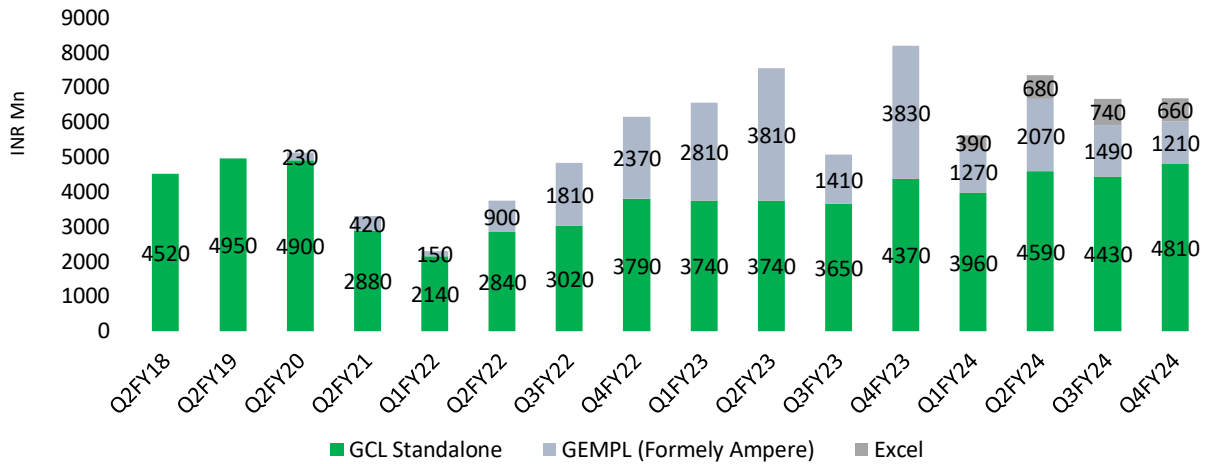
INR Mn (Consolidated)	Q4FY24	Q3FY24	Q4FY23	Q-o-Q	Y-o-Y
Net Sales	6,725	6,654	8,269	1.1%	-18.7%
Material Cost	4,248	4,264	5,984	-0.4%	-29.0%
Change in Inventory	288	135	167	112.6%	72.3%
Gross Profit	2,189	2,254	2,118	-2.9%	3.3%
Gross Margin %	32.6%	33.9%	25.6%	-132.8	693.6
Employees benefits expense	843	824	634	2.3%	33.0%
Other Expenses	1,109	1077	995	3.0%	11.4%
EBITDA	237	354	490	-32.9%	-51.5%
EBITDA Margin %	3.5%	5.3%	5.9%	-178.4	-239.1
Depreciation	282	203	152	38.6%	85.4%
EBIT	-44	150	338	-129.5%	-113.2%
EBIT Margin %	-0.7%	2.3%	4.1%	-291.9	-474.3
Other income	134	144	238	-7.1%	-43.6%
Finance costs	30	23	12	33.9%	164.3%
Exceptional Item	-24	472	-120	105.1%	79.8%
PBT	35	743	444	-95.3%	-92.1%
Tax-Total	168	287	154	-41.4%	9.6%
Tax Rate (%) - Total	27.0%	38.7%	34.6%	-30.2%	-22.0%
Reported Net Profit	-134	456	272	-129.3%	-149.0%
PAT Margin %	-2.0%	6.9%	3.3%	-883.8	-527.7
<i>Reported EPS (INR)</i>	0.11	2.50	1.15	-95.6%	-90.4%
Segment Revenue	Q4FY24	Q3FY24	Q4FY23	Q-o-Q	Y-o-Y
Engines	4,338	4,027	4,010	7.7%	8.2%
Electric Mobility	1,197	1,468	3,833	-18.5%	-68.8%
Cables & Control Levers	654	738	-	-11.3%	
Others	536	421	427	27.3%	25.7%

Source: Arianth Research, Company Filings

Segment Volume	Q4FY24	Q3FY24	Q4FY23	Q-o-Q	Y-o-Y
Engines					
Auto	22,974	24,735	20,147	-7.1%	14.0%
Non-Auto	14,323	9,992	13,579	43.3%	5.5%
Engines	37,297	34,727	33,726	7.4%	10.6%
E-2W	8,948	10,464	36,890	-14.5%	-75.7%
E-3W	2,574	3,633	2,064	-29.1%	24.7%
Electric Mobility	11,522	14,097	38,954	-18.3%	-70.4%

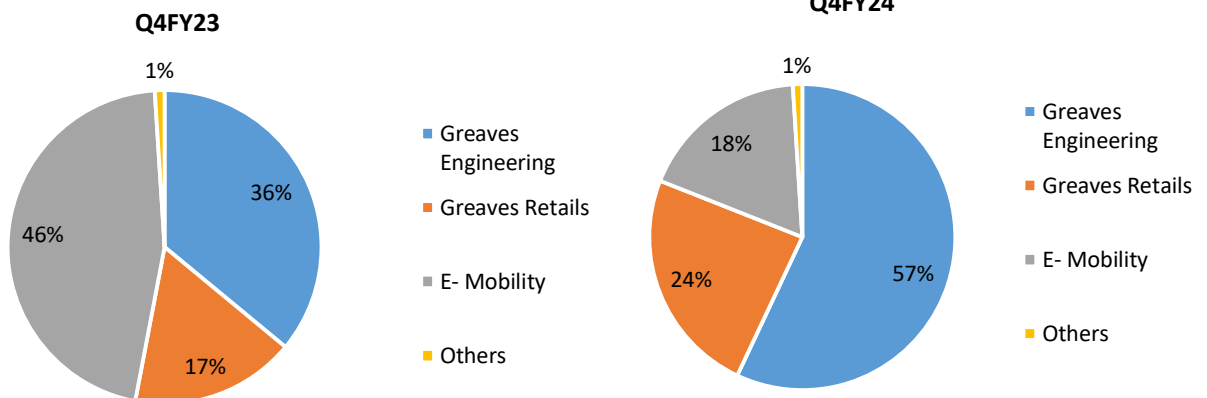
Source: Arianth Research, Company Filings

Exhibit 4: Diversification Strategy positively contributing to the business growth Q4FY24



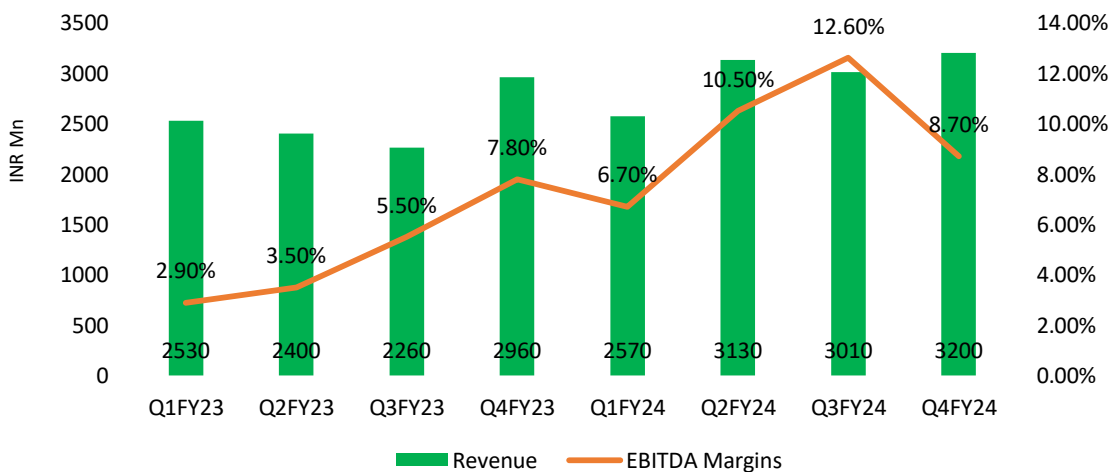
Source: Arianth Research, Company Filings

Exhibit 5: Business contribution



Source: Arianth Research, Company Filings

Exhibit 6: Greaves Engine



Source: Arianth Research, Company Filings

Exhibit 7: Greaves Retail margin trend

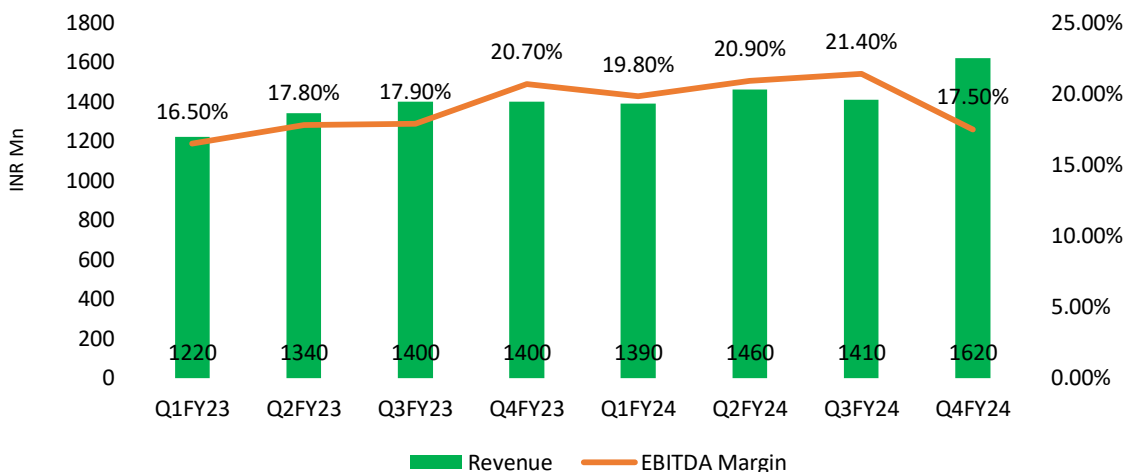


Exhibit 8: Greaves Cotton + Excel

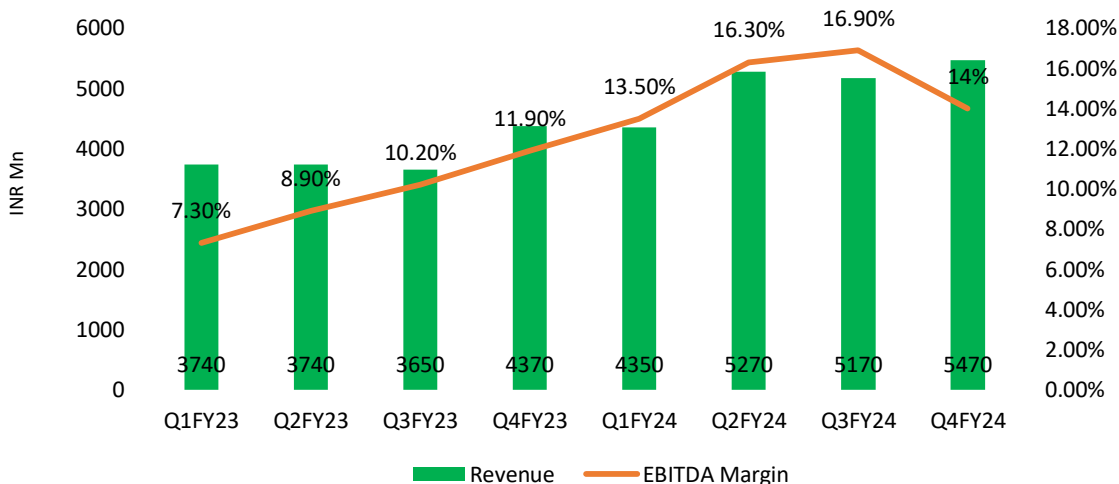
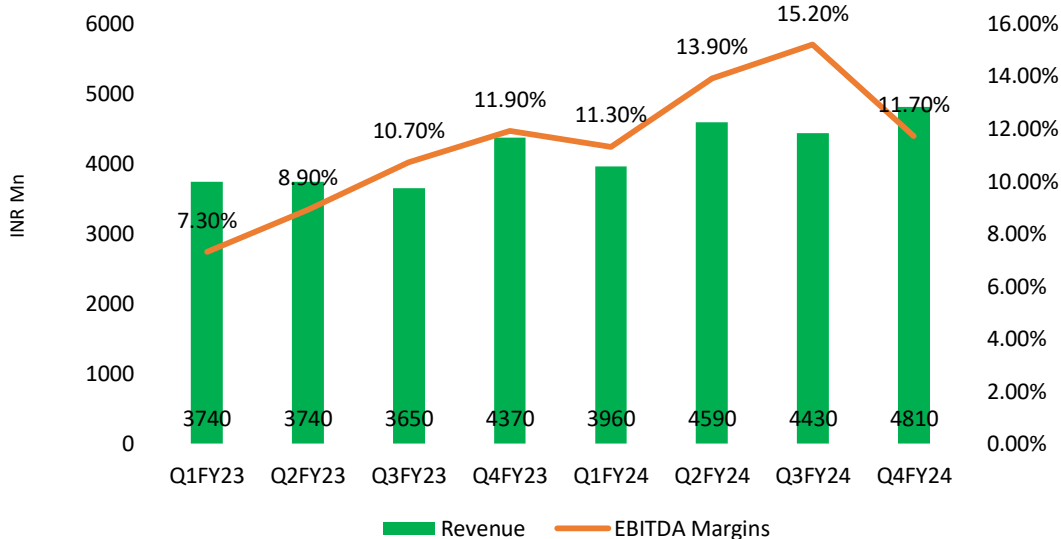


Exhibit 9: Greaves Cotton Standalone



Source: Arihant Research, Company Filings

Exhibit 10: Fuel-Agnostic Solutions Represent Current and Future Profit Pools

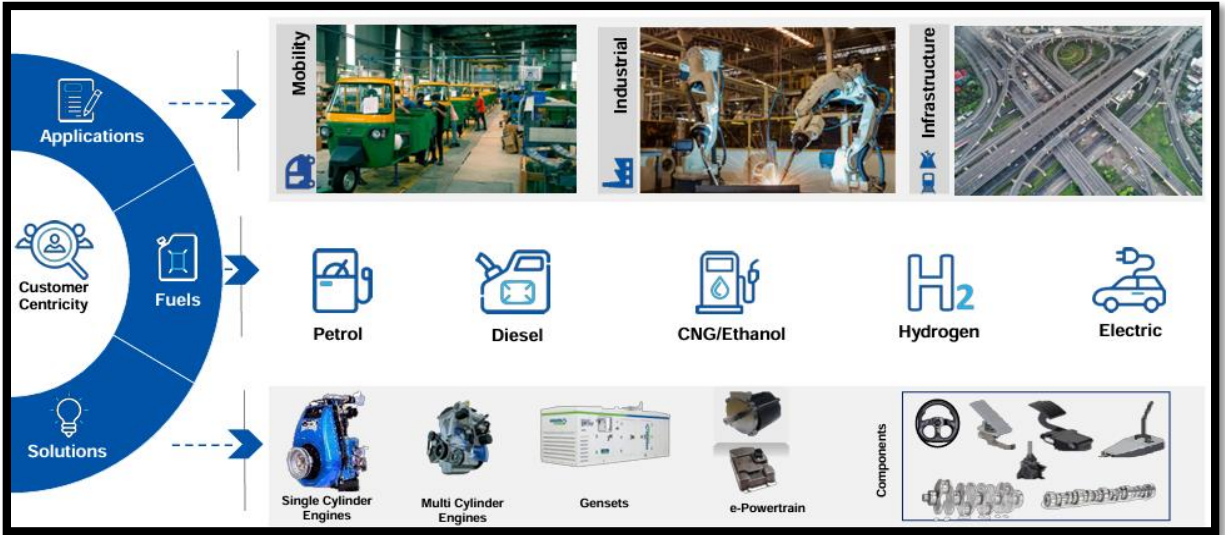


Exhibit 11: Last Mile Ecosystem

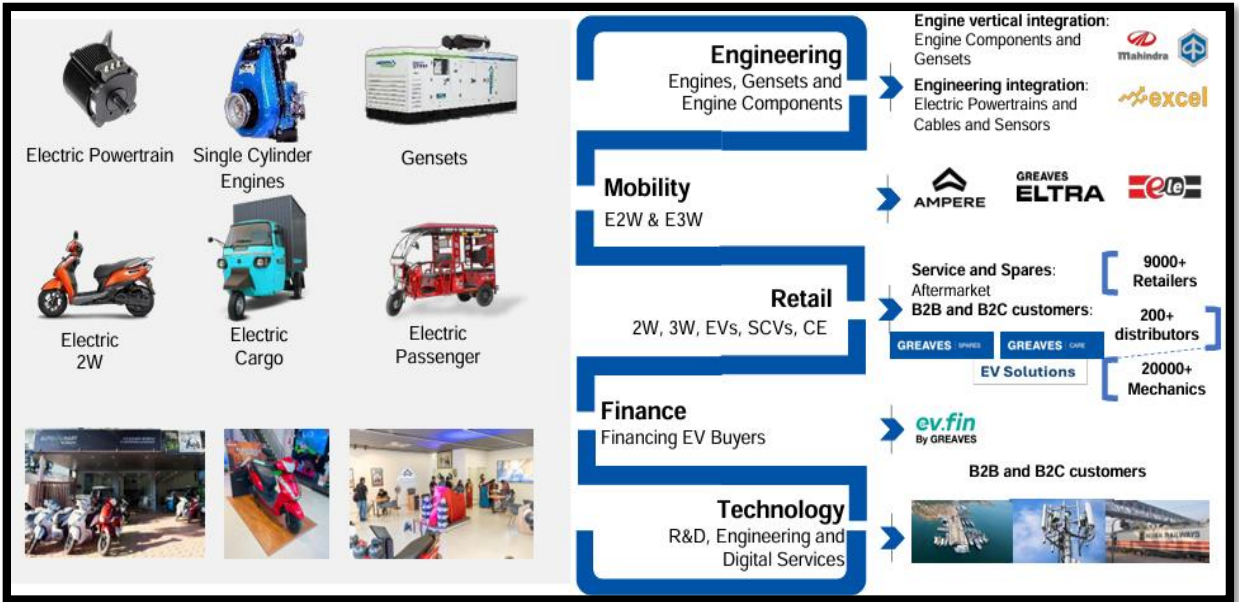
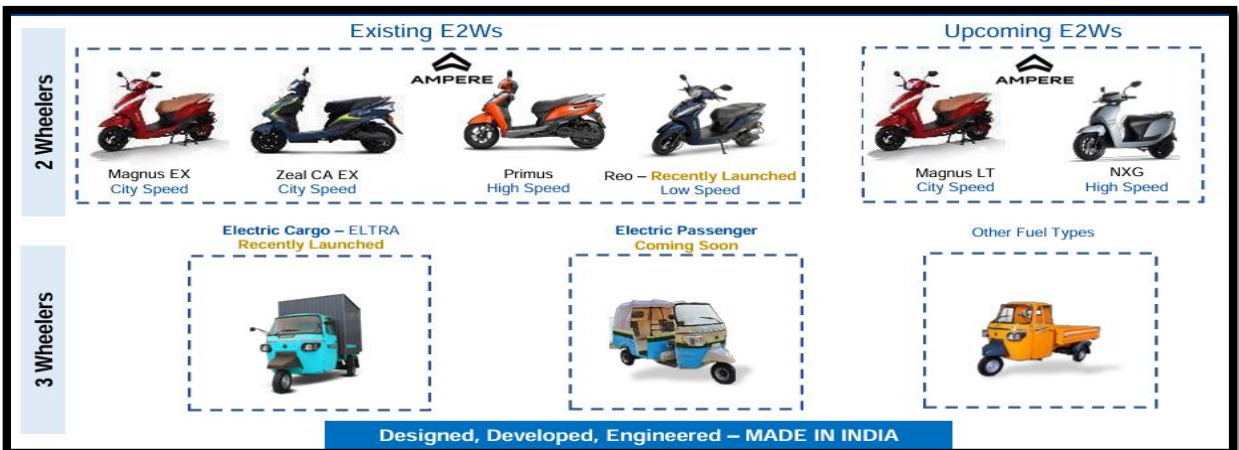


Exhibit 12: Last Mile Ecosystem



Source: Arihant Research, Company Filings

DCF Valuation

Valuation Assumptions

g (World Economic Growth)	3%
Rf	7%
Rm	13%
Beta	0.9
CMP (INR)	116

WACC

We	98.2%
Wd	1.8%
Ke	12.3%
Kd	7.0%
WACC	12.19%

Valuation Data

Total Debt (long term borrowings) (2024)	491
Cash & Cash Equivalents (2023)	3,141
Number of Diluted Shares (2023)	232
Tax Rate (2024)	26%
Interest Expense Rate (2024)	10%

MV of Equity	26,871
Total Debt	491
Total Capital	27,362

FCFF & Target Price												
FCFF & Target Price	Explicit Forecast Period					Linear Decline Phase						Terminal Yr
Year	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
EBIT * (1-Tax Rate)	353	441	574	728	899	1,080	1,260	1,427	1,567	1,667	1,717	1,769
Dep	657	666	686	686	1,268	1,486	1,809	2,008	2,203	2,362	2,421	2,496
Purchase of Assets	830	751	831	1,336	1,495	1,779	2,160	2,389	2,630	2,816	2,887	2,977
Changes in Working Capital	-657	-622	-877	-1,098	-1,919	-2,299	-2,810	-3,088	-3,407	-3,651	-3,737	-3,856
FCFF	837	978	1,307	1,177	2,592	3,085	3,719	4,133	4,547	4,863	4,989	5,144
% Growth in Post Tax EBIT		24.7%	30.3%	26.9%	23.5%	20.1%	16.7%	13.2%	9.8%	6.4%	3.0%	3.0%
As % of Post Tax EBIT												
Dep	186.0%	151.2%	119.5%	152.2%	141.0%	137.6%	143.6%	140.7%	140.6%	141.7%	141.0%	141.1%
Purchase of Assets	235.0%	170.5%	144.7%	183.4%	166.2%	164.8%	171.4%	167.5%	167.9%	168.9%	168.1%	168.3%
Changes in Working Capital	-186.0%	-141.2%	-152.8%	-160.0%	-151.3%	-154.7%	-155.3%	-153.8%	-154.6%	-154.6%	-154.3%	-154.5%
FCFF	837	978	1,307	1,177	2,592	3,085	3,719	4,133	4,547	4,863	4,989	5,144
Terminal Value												55,961
Total Cash Flow	837	978	1,307	1,177	2,592	3,085	3,719	4,133	4,547	4,863	4,989	61,105

Enterprise Value (EV)	29,432
Less: Debt	491
Add: Cash	3,141
Equity Value	32,083
Equity Value per share (INR)	138
% Returns	19.4%
Rating	Accumulate

WACC (%)

	Terminal Growth(%)									
	138	2.25%	2.50%	2.75%	3.00%	3.25%	3.50%	3.75%	4.00%	138
11.45%	143	146	149	153	156	160	163	168	11.45%	
11.70%	139	142	145	148	151	154	158	161	11.70%	
11.95%	135	137	140	143	146	149	152	156	11.95%	
12.20%	131	133	136	138	141	144	147	150	12.20%	
12.45%	127	129	132	134	137	139	142	145	12.45%	
12.70%	124	126	128	130	133	135	138	141	12.70%	
12.95%	120	122	124	126	129	131	134	136	12.95%	
13.20%	117	119	121	123	125	127	130	132	13.20%	

Source: Company reports, Arihant Capital Research, Figures are in INR Mn. except share price and percentage data

Income Statement (INR Mn)

Year End-March	FY23	FY24	FY25E	FY26E	FY27E
Revenues	26,995	26,332	27,667	30,047	33,223
YoY (%)	57.9%	-2.5%	5.1%	8.6%	10.6%
Adjusted COGS	19,700	17,994	19,161	20,780	22,911
Personnel/ Employee benefit expenses	2,119	3,112	3,306	3,593	3,975
<i>Manufacturing & Other Expenses</i>	3,841	4,311	4,066	4,412	4,875
Total Expenditure	25,661	25,417	26,533	28,785	31,761
EBITDA	1,334	915	1,134	1,261	1,462
EBITDA Margin (%)	4.9%	3.5%	4.1%	4.2%	4.4%
Depreciation	567	844	657	666	686
% of Gross Block	10.4%	11.5%	8.3%	7.9%	7.7%
EBIT	767	71	477	595	776
EBIT Margin (%)	2.8%	0.3%	1.7%	2.0%	2.3%
Interest Expenses	117	92	44	44	42
Non-operating/ Other income	671	648	680	738	816
PBT	1,128	-2,731	1,113	1,289	1,550
Extra -ordinary	-151	-3,348	0	0	0
PBT after ext-ord.	977	-6,079	1,113	1,289	1,550
Tax-Total	431	942	301	348	418
Adj. Net Profit	697	-3,673	813	941	1,132
Reported Profit	698	-3,673	813	941	1,132
PAT Margin	2.6%	-13.9%	2.9%	3.1%	3.4%

Cash Flow Statement (INR Mn)

Year End-March	FY23	FY24	FY25E	FY26E	FY27E
Profit before tax	697	-3,673	813	941	1,132
Adjustments: Add					
Depreciation and amortisation	567	844	657	666	686
Interest adjustment	-555	-555	-636	-694	-774
Change in assets and liabilities	663	-3,593	602	635	743
Inventories	-216	-612	-969	-287	-425
Trade receivables	202	-703	-179	-489	-321
Trade payables	628	-553	471	247	490
Other Liabilities and provisions	-495	278	287	366	205
Other Assets	-8,401	8,364	-266	-459	-827
Taxes	-73	274	0	0	0
Net cash from operating activities	-7,692	3,457	-55	13	-134
Net Sale/(Purchase) of tangible and intangible assets, Capital work in progress	-578	-5,501	295	-691	-795
Net Sale/(Purchase) of investments	-448	608	674	729	804
Others	0	-2,274	-162	-87	-89
Net cash (used) in investing activities	-1,026	-7,167	807	-48	-80
Interest expense	2,062	-1,126	249	341	463
Equity raised	0.30	0.70	0.00	0.00	0.00
Other financing activities	7,675	2,210	-232	-278	-302
Net cash (used) in financing activities	9,713	1,438	-66	341	463
Closing Balance	5,414	3,141	3,827	4,132	4,381

Balance Sheet (INR Mn)

Year-end March	FY23	FY24	FY25E	FY26E	FY27E
Sources of Funds					
Equity Share Capital	463	464	464	464	464
Reserves & Surplus/ Other Equity	19,212	16,278	16,858	17,521	18,352
Networth	19,676	16,742	17,322	17,985	18,816
Loan Funds	283	808	902	1,053	1,285
Other Liabilities	261	805	501	515	531
Total Liabilities	27,244	24,644	25,960	27,621	29,652
Total Funds Employed	54,050	48,285	51,127	54,289	58,115
Application of Funds					
Net Fixed Assets	-260	-220	-316	-226	-166
Capital WIP	220	316	226	166	106
Other non-current assets	1,835	3,904	4,066	4,152	4,242
Current assets	20,766	11,865	13,996	15,568	17,422
Inventory	2,150	2,761	3,730	4,017	4,442
Debtors	1,662	2,364	2,543	3,032	3,352
Other Current Assets	1,060	933	979	1,175	1,528
Cash and Cash equivalent	864	1,478	611	660	2,061
Current Liabilities/Provisions	7,130	6,900	7,845	8,683	9,648
Trade Payables	4,414	3,860	4,331	4,578	5,069
Liabilities	1,924	1,612	1,923	2,312	2,538
Net Current Assets	13,636	4,965	6,151	6,885	7,774
Total Asset	27,244	24,644	25,960	27,621	29,652
Total Capital Employed	13,608	19,679	19,809	20,736	21,878

Key Ratios

Year-end March	FY23	FY24	FY25E	FY26E	FY27E
Solvency Ratios					
Debt / Equity	0.0	0.0	0.0	0.0	0.0
Net Debt / Equity	-0.3	-0.2	-0.2	-0.2	-0.2
Debt / EBITDA	0.0	0.5	0.4	0.4	0.3
Current Ratio	-4.0	-2.9	-3.0	-2.9	-2.7
DuPont Analysis					
Sales/Assets	1.0	1.1	1.1	1.1	1.1
Assets/Equity	1.4	1.5	1.5	1.5	1.6
RoE	3.5%	-21.9%	4.7%	5.2%	6.0%
Per share ratios					
Reported EPS	3.4	-15.8	3.5	4.1	4.9
Dividend per share	0.2	0.9	1.0	1.2	1.3
BV per share	84.9	72.2	74.7	77.5	81.1
Cash per Share	3.7	6.4	2.6	2.8	8.9
Revenue per Share	116.5	113.5	119.3	129.5	143.2
Profitability ratios					
Net Profit Margin (PAT/Net sales)	-2.1%	2.6%	-13.9%	2.9%	3.1%
Gross Profit / Net Sales	27.0%	31.7%	30.7%	30.8%	31.0%
EBITDA / Net Sales	4.9%	3.5%	4.1%	4.2%	4.4%
EBIT / Net Sales	2.8%	0.3%	1.7%	2.0%	2.3%
ROCE (%)	3.8%	0.4%	2.6%	3.1%	3.9%
Activity ratios					
Inventory Days	37.8	49.8	49.2	48.8	48.8
Debtor Days	23.8	27.9	33.6	36.8	36.8
Creditor Days	57.8	58.0	57.5	57.5	57.5
Leverage ratios					
Interest coverage	6.6	0.8	10.8	13.4	18.4
Debt / Asset	0.0	0.0	0.0	0.0	0.0
Valuation ratios					
EV / EBITDA	16.1	26.5	20.7	18.4	15.7
PE (x)	34.4	-7.3	33.1	28.6	23.8

Source: Arianth Research, Company Filings

Arihant Research Desk

Email: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

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Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880