

CMP: INR 172

Rating: Buy

Target Price: INR 215

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) | 40,060 |
| 52w H/L (INR) | 259/ 126 |
| Avg Yearly Vol (in 000') | 3,457 |

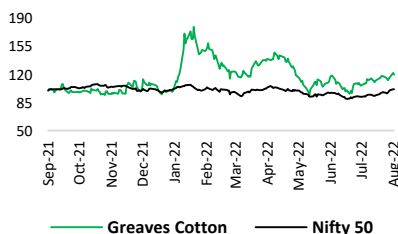
Shareholding Pattern %

(As on June, 2022)

| | |
|-----------------|-------|
| Promoters | 55.54 |
| FII | 3.63 |
| DII | 8.42 |
| Public & Others | 32.41 |

| Stock Performance (%) | 1m | 3m | 12m |
|-----------------------|------|------|------|
| Greaves Cotton | 8.6 | 31.0 | 19.5 |
| Nifty 50 | 10.2 | 11.9 | 8.1 |

Greaves Vs Nifty



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Greaves Cotton Limited (GCL) has reported a decent set of Numbers; Margin & PAT well above our estimates: Greaves Cotton Limited (GCL) has reported weak performance in Q4FY22 as Net profit for the quarter grew by 111.8% QoQ of INR 356.3 mn in Q1FY23 against our estimate of INR 194 mn. EBITDA for the quarter stood at INR 274 against our estimate of INR 142 Mn registered de-growth of 5.7% QoQ. The company's EBITDA margin contraction by 34bps QoQ to 7.3% Q1FY23 is well above our estimate of 3.7%.

Revenue below estimate in Q1FY23: Standalone revenue from operations de-grew by 1.3% QoQ/+74.3% YoY stood at INR 3,736 mn in Q1FY23 against our estimate of INR 3,816 mn led by growth (18.5% QoQ) in the e-mobility business.

Recent investment: The investment partner Abdul Latif Jameel has more fruitful results. Abdul Latif Jameel's commitment of a total of US \$220mn out of which 1st launch of US \$150 mn has been commissioned and will be used for expanding product development, Manufacturing expansion, R&D activity, Brand building, etc. Greaves electric mobility does have the option to draw down the additional stake of US \$75mn within a period of 12 months if, the company wants to do it.

The company is rolling out the 50k Ampere electric scooter from the newly set-up Ranipet facility on June 16, completing of growth capital infusion with Abdul Jameel Latif's investment under the electric mobility segment, expansion of the multi-brand EV retail stores, and higher earnings from the non-auto engine business.

Outlook & Valuation

We believe, a strong traction rival 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 EV space. New-initiatives business share to drive long-term growth and help transform and risk-free it's business. Consolidation of manufacturing operations into Megasites to bring higher operational efficiencies and reduced fixed costs in the long run, EV and new initiatives businesses may provide upside going ahead. However, it will face competition from other industry players like HeroMotoCorp, who is likely to launch EVs in the upcoming festive season. We expect GCL to deliver a 8.3% revenue growth CAGR over FY21-FY24E with an EBITDA margin of 9.4% over FY21-Y24E. **We have valued the standalone business to 11x its EBITDA of INR 1,268 and Ampere's business at FY24E P/sales at 4.5x, yielding INR 136 per share. Our SOTP valuation yields a fair value of INR 215 per share. We upgrade our rating from an Accumulate to Buy rating on the stock.**

| YE March (INR Mn) | Net Sales | EBITDA | PAT | EPS (INR) | EBITDA Margin % | P/E (x) |
|-------------------|-----------|--------|-----|-----------|-----------------|---------|
| FY21 | 13,291 | 969 | 104 | 0.4 | 7.29% | 383.8 |
| FY22 | 11,776 | 447 | 271 | 1.2 | 3.80% | 146.8 |
| FY23E | 15,233 | 1,066 | 730 | 3.2 | 7.00% | 54.5 |
| FY24E | 16,902 | 1,268 | 893 | 3.9 | 7.50% | 44.5 |

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

Q1FY23 Conference call Highlights:

- **Guidance:** Targets over 30000 units/Qtr in Evs. Non-EV Biz has achieved EBITDA break-even, will sustain. The company will develop retail channels for Ampere, and spend 4-6% on Ads. Expect Q2FY23 & Q3FY23 margin to be better.
- **Q1FY23:** The other part of the business did well. Engines performed well. The company saw consistent performance of diesel 3w segment YoY basis this segment was worst hit during covid. As school and colleges coming back, the company is seeing demand improvement in that sector.
- **Gross margins:** In the EV segment were at 20% while EBIDTA margins were at 5% for Q1FY23. The company aims to achieve peak EBIDTA margins in the early teens over the next two years with a medium-term focus on scale, volumes, and new product offerings. At peak utilization on the current capacity of 240000 units per annum, peak revenues can be INR 2000 crore. The company wants to achieve profitable growth in this segment with a strong focus on improving scale and volumes.
- **Non-Auto sector:** The company, non-auto sector did well partially because of the cleverness which engineers has used of different application and non-auto application in marine defence and engines etc.
- **Retail Segment:** Has been doing well, multi-brand service and multibrand retail has done well. few exciting and continue to maintain success stories.
- **Diversification:** The company has potential of growth and market expansion that the diversification strategy that company undertook including 2w electric mobility. The share of new business grown to 56% of consolidated reported revenue.
- **B/S:** The company has strong balance sheet and cash position to drive future expansion.
- The retail sales of the electric mobility business stood at 29,577 units Q1 FY2023, up by 19 % against Q4FY22. Ampere Electric increased its market share to 15.5% as of End-June 2022.
- **Engine segment:** Q1FY23 engine segment volume came in at 26222 units, up 39% YoY. Auto engine volumes grew 71% to 16112 units YoY while non-auto engine volumes grew 7% to 10110 units YoY. On the non-auto product/equipment side, power genset volumes grew 77% YoY to 1428 units whereas the light equipment business (pumpset, power tiller, other) volumes grew 18% YoY to 7851 units. Electric mobility accounts for 43% of overall revenue in Q1FY23. New business including e-mobility continues to accelerate with 56% contribution to overall business in Q1FY23
- **E-mobility** segment volumes registered strong growth. E-2W volumes grew 1981% YoY to 28787 units while E-3-W volume came in at 790 units, up 3% YoY. Unique presence in EV (E2W+E3W) with 85% coverage in last-mile mobility.
- Greaves has 288 active dealers on the EV segment with 100 plus dealers in south, 30 in east, 50 in north India and remaining in west. All dealers have the necessary spares offerings and servicing capability.
- The management expects the 3-W EV sales to bounce back and have plans for new launches and capacity expansion plans on the MLR front.
- In the base business, demand for diesel vehicles has gone up given higher prices of CNG.

SOTP-Valuation

| Valuations | INR Mn | Basis of Valuation | Multiple | Total Value in Mn | FY24E |
|---|--------|--------------------|----------|----------------------------|-------------|
| EV/EBITDA (x) | | | | | 11.0 |
| EBITDA | | | | | 1268 |
| EV | | | | | 13944 |
| Debt | | | | | 0 |
| Cash | | | | | 4337 |
| Market Cap | | | | | 18281 |
| No shares | | | | | 231 |
| Value/Share (INR) | | | | | 79.1 |
| Greaves Stake Valuation | | | | FY24E sales at INR 7000 Mn | |
| Ampere Target Price (INR) (100% stake) | | | | | |
| Bestways | | P/Sales | 4.5 | 31500 | 136 |
| Greaves Target (INR) | | | | | 215 |
| CMP (INR) | | | | | 172 |
| Upside (%) | | | | | 25% |

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

Quarterly Result

| INR Mn (Standalone) | Q1FY23 | Q4FY22 | Q1FY22 | Q-o-Q | Y-o-Y |
|----------------------------|--------------|--------------|--------------|---------------|---------------|
| Net Revenue | 3,736 | 3,787 | 2,144 | -1.3% | 74.3% |
| Material Cost | 2,724 | 2,740 | 1,504 | -0.6% | 81.1% |
| Employee cost | 293 | 303 | 357 | -3.3% | -18.0% |
| Other Expenses | 445 | 453 | 343 | -1.7% | 29.8% |
| EBITDA | 274 | 291 | -60 | -5.7% | - |
| EBITDA margin % | 7.3% | 7.7% | -2.8% | -34bps | - |
| Other Income | 117 | 133 | 44 | -12.0% | 166.1% |
| Depreciation | 102 | 103 | 109 | -1.0% | -6.9% |
| EBIT | 290 | 321 | -125 | -9.8% | - |
| EBIT Margin | 7.8% | 8.5% | -5.8% | -73bps | - |
| Finance cost | 6 | 6 | 3 | 10.9% | 90.6% |
| Exceptional Item | 199 | -62 | 40 | -418.3% | - |
| PBT | 482.2 | 253.3 | -88.2 | 90.4% | -34.9% |
| Tax Expense | 126 | 85 | -24 | 47.9% | - |
| Effective tax rate % | 26.1% | 33.6% | 26.6% | -749bps | -53bps |
| Reported Net Profit | 356.3 | 168.2 | -64.7 | 111.8% | -29.6% |
| <i>Net margin %</i> | <i>9.5%</i> | <i>4.4%</i> | <i>-3.0%</i> | <i>509bps</i> | - |
| <i>Reported EPS (INR)</i> | <i>1.54</i> | <i>0.73</i> | <i>-0.28</i> | <i>111.0%</i> | - |

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

Segment Revenue

| INR Mn (Standalone) | Q1FY23 | Q4FY22 | Q1FY22 | Q-o-Q | Y-o-Y |
|---------------------|--------|--------|--------|-------|---------|
| Engine | 3467 | 3491 | 1962 | -0.7% | 76.7% |
| Electric Mobility | 2812 | 2373 | 145 | 18.5% | 1842.2% |

Segment Volume

| Volumes (Units) | Q1FY23 | Q4FY22 | Q1FY22 | Q-o-Q | Y-o-Y |
|---------------------|--------|--------|--------|--------|---------|
| Auto Engines | 16,112 | 15,068 | 9,426 | 6.9% | 70.9% |
| Non-Auto Engines | 10,110 | 10,401 | 9,447 | -2.8% | 7.0% |
| Engines | 26,222 | 25,469 | 18,873 | 3.0% | 38.9% |
| Genset | 1,428 | 1,254 | 806 | 77.2% | 77.2% |
| Light Equipment | 7,851 | 10,748 | 6,630 | 18.4% | 18.4% |
| Non-Auto Products | 9,279 | 12,002 | 7,436 | -22.7% | 24.8% |
| E-2W | 28,787 | 22,200 | 1,383 | 29.7% | 1981.5% |
| E-3W | 790 | 2,753 | 770 | -71.3% | 2.6% |
| E-Mobility Products | 29,577 | 24,953 | 2,153 | 18.5% | 1273.8% |

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

Income Statement (INR Mn)

| Year End-March | FY21 | FY22 | FY23E | FY24E |
|---------------------------|---------------|---------------|---------------|---------------|
| Revenues | 13,291 | 11,776 | 15,233 | 16,902 |
| Change (%) | -27.0% | -11.4% | 29.4% | 11.0% |
| Raw materials | 9,414 | 8,427 | 10,892 | 12,000 |
| Stock Adjustments | - | - | - | - |
| Employee costs | 1,271 | 1,308 | 1,523 | 1,690 |
| Other expenses | 1,637 | 1,593 | 1,752 | 1,944 |
| Total Expenses | 12,321 | 11,329 | 14,167 | 15,634 |
| EBITDA | 969 | 447 | 1,066 | 1,268 |
| EBITDA Margins | 7.3% | 3.8% | 7.0% | 7.5% |
| Other Income | 100 | 316 | 350 | 372 |
| Depreciation | 484 | 424 | 412 | 415 |
| Interest | 56 | 20 | 20 | 20 |
| PBT | 529 | 319 | 985 | 1,205 |
| Extra-ordinary | -345 | 73 | 0 | 0 |
| PBT after ext-ord. | 185 | 393 | 985 | 1,205 |
| Tax | 81 | 122 | 255 | 312 |
| Rate (%) | 43.9% | 31.0% | 25.9% | 25.9% |
| PAT | 104 | 271 | 730 | 893 |
| Adjusted PAT | 104 | 271 | 730 | 893 |
| Change (%) | -93.0% | 161.4% | 169.5% | 22.3% |

Balance Sheet (INR Mn)

| Year End-March | FY21 | FY22 | FY23E | FY24E |
|----------------------------------|--------------|--------------|---------------|---------------|
| Sources of Funds | | | | |
| Share Capital | 462 | 463 | 463 | 463 |
| Reserves & Surplus | 8,547 | 8,835 | 9,564 | 10,457 |
| Net Worth | 9,010 | 9,298 | 10,027 | 10,920 |
| Loan Funds | 0 | 0 | 0 | 0 |
| Deferred Tax & other liabilities | 371 | 370 | 370 | 370 |
| Capital Employed | 9,342 | 9,630 | 10,360 | 11,253 |
| Application of Funds | | | | |
| Gross Block | 6,131 | 5,887 | 6,386 | 6,884 |
| Less: Depreciation | 2,845 | 3,269 | 3,681 | 4,096 |
| Net Block | 3,286 | 2,618 | 2,705 | 2,788 |
| CWIP | 738 | 784 | 784 | 784 |
| Other non current assets | 213 | 195 | 195 | 195 |
| Deferred tax assets | 499 | 512 | 512 | 512 |
| Net fixed assets | 4,736 | 4,108 | 4,195 | 4,278 |
| Investments | 1,766 | 1,768 | 1,768 | 1,768 |
| Debtors | 2,030 | 1,777 | 2,504 | 2,825 |
| Inventories | 1,548 | 1,397 | 1,805 | 1,989 |
| Cash & bank balance | 2,758 | 4,196 | 4,337 | 5,137 |
| Loans & advances & other CA | 450 | 529 | 529 | 530 |
| Total current assets | 6,787 | 7,899 | 9,176 | 10,481 |
| Current liabilities | 3,697 | 3,889 | 4,523 | 5,019 |
| Provisions | 249 | 256 | 256 | 256 |
| Net current assets | 2,840 | 3,754 | 4,397 | 5,207 |
| Total Assets | 9,342 | 9,630 | 10,360 | 11,253 |

Cash Flow Statement (INR Mn)

| Year End-March | FY21 | FY22E | FY23E | FY23E |
|--|---------------|--------------|---------------|--------------|
| PBT | 185 | 393 | 985 | 1,205 |
| Depreciation | 484 | 424 | 412 | 415 |
| Interest & others | -44 | -296 | -331 | -352 |
| Cash flow before WC changes | 625 | 521 | 1,066 | 1,268 |
| (Inc)/dec in working capital | -1,834 | 345 | -1,139 | -810 |
| Operating CF after WC changes | -1,209 | 866 | -73 | 457 |
| Less: Taxes | -81 | -122 | -255 | -312 |
| Operating cash flow | -1,290 | 744 | -328 | 145 |
| (Inc)/dec in F.A + CWIP | -533 | -489 | -499 | -498 |
| (Pur)/sale of investment | 84 | -2 | 0 | 0 |
| Cash flow from investing | -449 | -491 | -499 | -498 |
| Free cash flow (FCF) | -1,686 | 251 | -827 | -353 |
| Loan raised/(repaid) | - | - | - | - |
| Equity raised | - | 0.60 | - | - |
| Interest & others | 2,662 | 1,276 | 1,061 | 1,245 |
| Dividend | -46 | -92 | -92 | -92 |
| Cash flow from financing activities | 2,615 | 1,184 | 968 | 1,153 |
| Net inc/(dec) in cash | 876 | 1,437 | 141 | 800 |
| Opening balance of cash | 1,882 | 2,758 | 4,196 | 4,337 |
| Closing balance of cash | 2,758 | 4,196 | 4,337 | 5,137 |

Key Ratios

| Year End-March | FY21 | FY22 | FY23E | FY24E |
|---------------------------|-------|-------|-------|-------|
| Per share (INR) | | | | |
| EPS | 0.4 | 1.2 | 3.2 | 3.9 |
| CEPS | 2.5 | 3.0 | 4.9 | 5.7 |
| BVPS | 39.0 | 40.2 | 43.4 | 47.2 |
| DPS | 0.2 | 0.4 | 0.4 | 0.4 |
| Valuation (x) | | | | |
| P/E | 383.8 | 146.8 | 54.5 | 44.5 |
| P/CEPS | 67.7 | 57.2 | 34.8 | 30.4 |
| P/BV | 4.4 | 4.3 | 4.0 | 3.6 |
| EV/EBITDA | 31.0 | 64.0 | 26.7 | 21.8 |
| Dividend Yield (%) | 0.1% | 0.2% | 0.2% | 0.2% |
| Return ratio (%) | | | | |
| EBITDA Margin | 7.3% | 3.8% | 7.0% | 7.5% |
| PAT Margin | 0.8% | 2.3% | 4.8% | 5.3% |
| ROE | 1.1% | 2.9% | 7.3% | 8.2% |
| ROCE | 5.2% | 0.2% | 6.3% | 7.6% |
| Leverage Ratio (%) | | | | |
| Total D/E | 0.0 | 0.0 | 0.0 | 0.0 |
| Net D/E | -0.3 | -0.5 | -0.4 | -0.5 |
| Turnover Ratios | | | | |
| Asset Turnover (x) | 1.4 | 1.2 | 1.5 | 1.5 |
| Inventory Days | 60 | 61 | 61 | 61 |
| Receivable Days | 56 | 55 | 60 | 61 |
| Payable days | 108 | 108 | 108 | 108 |

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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