

CMP: INR 153

Rating: Buy

Target Price: INR 189

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')	2,994

Shareholding Pattern %

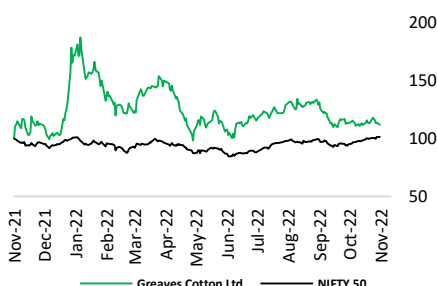
(As on Sept, 2022)

Promoters	55.54
FII	-
DII	7.68
Public & Others	36.78

Stock Performance (%)

	1m	3m	12m
Greaves Cotton	1.4	-10.7	14.9
Nifty 50	7.0	3.9	1.6

Greaves Vs Nifty



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Greaves Cotton Limited (GCL) has reported decent revenue growth led by Electric Mobility: Standalone revenue from operations flat by 0.1% QoQ/+31.7% YoY stood at INR 3,736 mn in Q2FY23 against our estimate of INR 3,800 mn led by growth in the e-mobility business.

PAT below estimate in Q2FY23 led by higher other expense: Net profit for the quarter de-grew by (36.5% QoQ)/(29.6% YoY) to INR 226.4 mn in Q2FY23 against our estimate of INR 295 mn.

Expansion in the margin as powertrain business growing with improved margins: EBITDA for the quarter stood at INR 333 against our estimate of INR 320 Mn registered growth of 21.3% QoQ/644.5% YoY. The company's EBITDA margin expansion by 155bps QoQ/732bps YoY to 8.9% Q2FY23 is well above our estimate of 8.4%.

EV battery safety norms are being brought into effect in two phases: Phase 1 will begin on 1 December 2022, and Phase 2 will come into effect on 31 March 2023. The Ministry of Road Transport and Highways (MoRTH) had announced safety measures in the battery safety standards to create a safe and clean mobility infrastructure in the country. The revised standards call for stricter cell-level safety checks, water ingress protection, better insulation, at least four temperature sensors for thermal monitoring, and thermal propagation tests to ensure that a thermal runaway in one cell doesn't spread to other cells in the battery. It also mandates adequate spacing of individual cells in a battery pack, fire resistance, 'suitable' sensors that can send out audio-visual warnings to detect and warn in advance of the onset of thermal runaway, smarter battery management systems (BMS) and chargers. We believe that Industry revenues may get impacted in Q3 due to the transition phase.

Outlook & Valuation

We believe strong traction rival in e-mobility, reviving traditional business and a sound balance sheet makes Greaves Cotton well-focused on a faster ramp-up and gaining the first-mover advantage in the EV space. New-initiatives business share to drive long-term growth and help transform and risk-free its 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. We expect GCL to deliver a 16.8% revenue growth CAGR over FY22-FY25E with an EBITDA margin in the range of 8.5%-9.5% during FY22-Y25E. We have valued the standalone business to 6.5x its EBITDA of INR 1,782 and Ampere's business at FY25E P/sales at 2x, yielding INR 113 per share. Our SOTP valuation yields a fair value of INR 189 per share (The previous target was 215 per share). We maintain our Buy rating on the stock.

YE March (INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	EV/EBITDA	P/E (x)
FY22	11,776	447	271	1.2	3.80%	64.0	130.9
FY23E	15,233	1,295	768	3.3	8.50%	21.6	46.2
FY24E	16,901	1,521	915	4.0	9.00%	17.7	38.8
FY25E	18,760	1,782	1,074	4.6	9.50%	14.3	33.0

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

Exhibit 2: Quarterly Result

INR Mn (Standalone)	Q2FY23	Q1FY23	Q2FY22	Q-o-Q	Y-o-Y
Net Revenue	3,741	3,736	2,840	0.1%	31.7%
Material Cost	2,678	2,724	2,045	-1.7%	31.0%
Gross Profit	1,064	1,012	795	5.1%	33.7%
Gross Margin	28.4%	27.1%	28.0%	134bps	42bps
Employee cost	287	293	338	-3.3%	-15.2%
Other Expenses	444	445	413	-1.7%	7.6%
EBITDA	333	274	45	21.3%	644.5%
EBITDA margin %	8.9%	7.3%	1.6%	155bps	732bps
Other Income	75	117	76	-35.8%	-1.3%
Depreciation	95	102	109	-6.3%	-12.5%
EBIT	313	290	12.0	7.9%	2505.8%
EBIT Margin	8.4%	7.8%	0.4%	60bps	794bps
Finance cost	5	6	5	-16.4%	-5.6%
Exceptional Item	-2	199	107	-101.1%	-102.0%
PBT	305.5	482.2	113.4	-36.6%	-34.9%
Tax Expense	79	126	30	-37.2%	163.7%
Effective tax rate %	25.9%	26.1%	26.5%	-22bps	-56bps
Reported Net Profit	226.4	356.3	83.4	-36.5%	-29.6%
<i>Net margin %</i>	<i>6.1%</i>	<i>9.5%</i>	<i>2.9%</i>	<i>-349bps</i>	<i>311bps</i>
<i>Reported EPS (INR)</i>	<i>0.98</i>	<i>1.54</i>	<i>0.36</i>	<i>-36.4%</i>	<i>172.2%</i>

Segment Volume

Volumes (Units)	Q2FY23	Q1FY23	Q2FY22	Q-o-Q	Y-o-Y
Auto Engines	16,207	16,112	8,667	0.6%	87.0%
Non-Auto Engines	9,563	10,110	11,032	-5.4%	-13.3%
Engines	25,770	26,222	19,699	-1.7%	30.8%
Non Auto Application	3,704	9,279	9,845	-60.1%	-62.4%
E-2W	30,873	28,787	10,103	7.2%	205.6%
E-3W	2,070	790	3,177	162.0%	-34.8%
E-Mobility Products	32,943	29,577	13,280	11.4%	148.1%

Segment Revenue

INR Mn (Consolidate)	Q2FY23	Q1FY23	Q2FY22	Q-o-Q	Y-o-Y
Engines	3,450	3,467	2,538	-0.5%	35.9%
Electric Mobility	3,183	2,812	895	13.2%	255.7%
Others	355	323	302	10.1%	17.6%

Source: Aриhant Research, Company Filings

SOTP Valuation

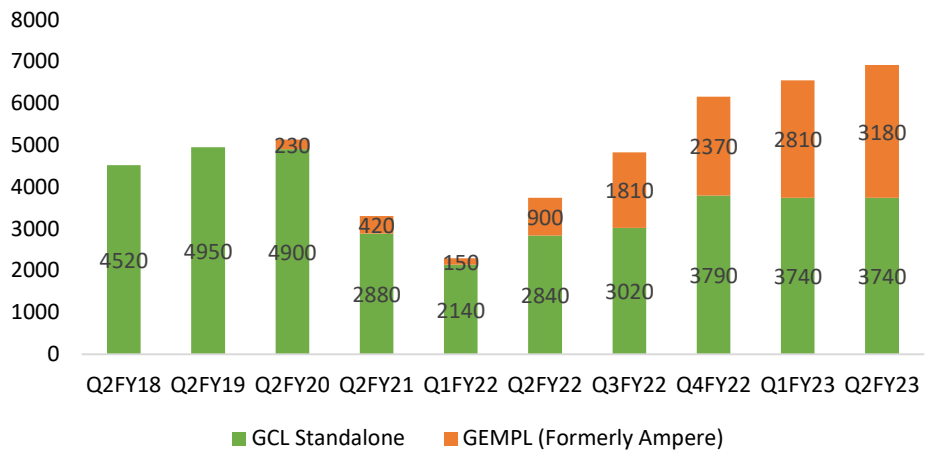
Valuations INR Mn	Basis of Valuation	Multiple	Total Value in Mn	FY25E
EV/EBITDA (x)				6.5
EBITDA				1782
EV				11585
Debt				-
Cash				5919
Market Cap				17503
No shares				231
Value/Share (INR)				75.7
Greaves Stake Valuation			FY25E sales at INR 13046 Mn	
Ampere Target Price (INR) (100% stake) BestwaysP/Sales		2.0	26092	113
Greaves Target (INR)				189
CMP (INR)				153
Upside (%)				23%

Source: Aриhant Research, Company Filings

Q2FY23 Conference call Highlights:

- Growth across the various unit and improvement in profitability. Greaves Electric Mobility (GEM) recorded the highest-ever quarterly revenue of INR 318 crores and EBITDA of INR 8 crores. Recorded strong QoQ growth across all business segments.
- **EV:** 256% growth over Q2FY22 to 33k units.
- **Ampere sales:** In FY21 62k unit's vs FY22 62k and 28000k Q1FY23 vs 33000 units during Q2FY23. Market share 14.8-15% .
- The company is launching 5 new products in last-mile mobility and will showcase them in an auto expo in January FY23. The last mile mobility segment is recovering, and reaching pre-covid levels, with increasing penetration of EVs. E-mobility business recorded the highest-ever sales of 33K units; H1 FY23 volume was higher than the full year of FY22. Hence, seeing traction in auto engines and e-mobility.
- The commodity prices seem to soften which is augur well for the company.
- GEMPL focusing on building a robust new product roadmap for electric 2 & 3-wheelers with indigenous technology & supply chain.
- In 2 wheelers, the company is designing & developing products across consumer categories & price segments.
- Accelerating EV adoption with nearly 700 outlets across the distribution chain and launch of E2W on the e-com platform.
- With the diversification strategy, H1 FY23 group revenue was 135% of the pre covid levels. The diversification strategy has delivered consistent growth amidst significant industry disruption.
- Financing part is doing well. Strong EV financing network in tier-II, tier-III, and tier-IV cities apart from metros with financing for both e2W & e3W. Finance penetration of e-mobility at 30% in Q2FY23. Overall financing is 30-35% in Ampere.
- Investment in e-Mobility to be utilized for new products, associated technologies, and brand building and to enhance manufacturing capacity in e2W / e3W.
- The company profitability has been improved in the engine and powertrain business seeing margin improvement with the reduction in the Raw material cost. As the revenue and volume have recovered the company impact of the fixed cost initiative that the company has taken was visible.
- The company has net cash INR 1268 cr as of 31st Sept. Aiming to invest in products, technology, people and power train application. M&A on the cards. Standalone cash has increased and utilization in the EV.
- **Contribution of B2C** 65% in consolidated business and new business contributed 55% of the revenue. B2C is steadily growing.
- There is a small drop in EBITDA margin due to an increase in advertising costs that the company did during the year for the branding. Going forward, 3w will do better margin once they build up volume. Margin will stabilize in 8-12 quarters.
- **Battery:** The new EV battery safety norms being brought into effect in two phases. Phase 1 will begin on December 1, 2022, and Phase 2 will come into effect on March 31, 2023. The company is fully geared up to meet the compliance deadlines for both phases. As per the company, industry revenues may get impacted in Q3 due to the transition phase.
- **Dealership:** Ampere exclusive showroom, 40+ greaves retail stores, and a total of 100 outlets. The company crossed 300 dealerships and reached the 500 level by FY23.
- **FAME:** at least 50% localization and compliance both fulfilled by the company. On 29th August, GOI has given a green chit.
- Cost structure: Profitability tracking very closely and price side ASP has gone up and cost side. Short-term expects some cost to increase but continue operating efficiency.
- **Auto Expo:** The getting closure to the customer as the company will be in an auto expo in January FY23. Continue to move as 5 products are coming mostly on the 2w.
- The localization is close to 60% for the greaves.
- **Low speed:** 5-7% is the slow speed of overall business and coming down to 10% and fame subsidy is challenging, costing standard and slow speed is relevant to India for the small distance.
- **Export:** The company is working on the export plan.

Exhibit 3: Consistent growth riding on strong brand traction and improved efficiency (INR Mn)



Source: Arianth Research, Company Filings

Exhibit 4: The diversification strategy has delivered consistent growth amidst significant industry disruption; B2C business contribution increased to 65%;



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	10,663	11,746	12,945
Employee costs	1,308	1,523	1,690	1,876
Other expenses	1,593	1,752	1,944	2,157
Total Expenses	11,329	13,938	15,380	16,978
EBITDA	447	1,295	1,521	1,782
EBITDA Margins	3.8%	8.5%	9.0%	9.5%
Other Income	316	350	372	375
Depreciation	424	589	639	688
Interest	20	20	20	20
PBT	319	1,037	1,235	1,449
Extra-ordinary	73	-	-	-
PBT after ext-ord.	393	1,037	1,235	1,449
Tax	122	269	320	375
Rate (%)	31.0%	25.9%	25.9%	25.9%
PAT	271	768	915	1,074
Adjusted PAT	271	768	915	1,074
Change (%)	161.4%	183.7%	19.1%	17.4%

Cash Flow Statement (INR Mn)

Year End-March	FY22E	FY23E	FY23E	FY23E
PBT	393	1,037	1,235	1,449
Depreciation	424	589	639	688
Interest & others	(296)	(331)	(352)	(356)
Cash flow before WC changes	521	1,295	1,521	1,782
(Inc)/dec in working capital	345	(931)	(758)	(908)
Operating CF after WC changes	866	364	763	874
Less: Taxes	(122)	(269)	(320)	(375)
Operating cash flow	744	95	443	498
(Inc)/dec in F.A + CWIP	(489)	(499)	(498)	(497)
(Pur)/sale of investment	(2)	0	0	0
Cash flow from investing	(491)	(499)	(498)	(497)
Free cash flow (FCF)	251	(404)	(55)	1
Loan raised/(repaid)	-	-	-	-
Equity raised	0.60	-	-	-
Interest & others	1,276	1,099	1,267	1,430
Dividend	(92)	(92)	(92)	(92)
Cash flow from financing activities	1,184	1,007	1,175	1,337
Net inc/(dec) in cash	1,437	603	1,120	1,339
Opening balance of cash	2,758	4,196	4,799	5,919
Closing balance of cash	4,196	4,799	5,919	7,257

Balance Sheet (INR Mn)

Year End-March	FY22	FY23E	FY24E	FY25E
Sources of Funds				
Share Capital	463	463	463	463
Reserves & Surplus	8,835	9,603	10,518	11,592
Net Worth	9,298	10,066	10,981	12,055
Loan Funds	-	-	-	-
Deferred Tax & other liabilities	370	370	370	370
Capital Employed	9,630	10,398	11,313	12,387
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	1,768	1,947	2,146
Cash & bank balance	4,196	4,799	5,919	7,257
Loans & advances & other CA	529	529	529	529
Total current assets	7,899	9,391	10,942	12,759
Current liabilities	3,889	4,523	5,018	5,570
Provisions	256	256	256	256
Net current assets	3,754	4,612	5,667	6,933
Total Assets	9,630	10,398	11,313	12,387

Key Ratios

Year End-March	FY22	FY23E	FY24E	FY25E
Per share (INR)				
EPS	1.2	3.3	4.0	4.6
CEPS	3.0	5.9	6.7	7.6
BVPS	40.2	43.5	47.5	52.1
DPS	0.4	0.4	0.4	0.4
Valuation (x)				
P/E	130.9	46.2	38.8	33.0
P/CEPS	51.0	26.1	22.8	20.1
P/BV	3.8	3.5	3.2	2.9
EV/EBITDA	64.0	21.6	17.7	14.3
Dividend Yield (%)	0.3%	0.3%	0.3%	0.3%
Return ratio (%)				
EBITDA Margin	3.8%	8.5%	9.0%	9.5%
PAT Margin	2.3%	5.0%	5.4%	5.7%
ROE	2.9%	7.6%	8.3%	8.9%
ROCE	0.2%	6.8%	7.8%	8.8%
Leverage Ratio (%)				
Total D/E	-	-	-	-
Net D/E	-0.5	-0.5	-0.5	-0.6
Turnover Ratios				
Asset Turnover (x)	1.2	1.5	1.5	1.5
Inventory Days	61	61	61	61
Receivable Days	55	55	55	55
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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