

CMP: INR 166

Rating: Hold

Target Price: INR 179

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)	3,708
52w H/L (INR)	181 / 112
Avg Yearly Vol (in 000')	2,036

Shareholding Pattern %

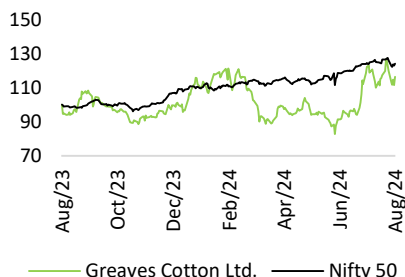
(As on March, 2024)

Promoters	55.88
FII	1.15
DII	3.76
Public & Others	39.18

Stock Performance (%)

	1m	3m	12m
Greaves Cotton	-6.75	22	13.96
Nifty 50	-0.10	11	24.32

Greaves Vs Nifty



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Greaves Cotton Ltd (GCL) reported Revenue is above estimate, but EBITDA is below our estimate, and net loss has narrowed down. GCL approved the adoption of a new ESOP (2% of the paid-up share capital) and the subscription to shares offered through right issues in its subsidiaries, Greaves Electric Mobility (~INR 1200 Mn) Private Limited and Greaves Finance Limited (~INR 380 Mn) GCL reported numbers, Q1FY25 revenue stood at INR 6,397 Mn (up 12.5% YoY/ down 4.9% QoQ); above our estimates of INR 5964.05 Mn. The growth led by the Engine (+10.9 YoY/down 75% QoQ) and Cables & Control Levers (+58% YoY/down 75.1%) Gross Profit stood at INR 2086 Mn (+25.5% YoY/-4.7% QoQ); above our estimates of INR 1761 Mn. Gross margins expanded by 337bps YoY (up by 5bps QoQ) to 32.6% vs 29.2% in Q1FY24. EBITDA stood at INR 273 Mn (+15% QoQ). EBITDA margin expanded by 74bps QoQ to 4.3%. (Below our estimate 45% in EBITDA) Net loss narrowed to INR 2 Mn (Net loss 249Mn YoY/ Net loss 134 Mn QoQ)

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%, 11.2%, and 40%, respectively, over FY25-FY27E. We used DCF model to arrive at a target price of INR 179 per share. Accordingly, we downgrade to a "Hold" rating on the stock (Earlier Accumulate).**

Exhibit 1: Financial Performance

(INR Mn)	Year-end March						
	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin (%)	EV/EBITDA	P/E (x)
FY23	26,995	1,334	698	3.4	4.9%	24.8	49.3
FY24	26,332	915	-3,673	-15.8	3.5%	39.1	-10.5
FY25E	27,667	1,429	592	2.6	5.2%	25.0	65.0
FY26E	30,047	1,580	923	4.0	5.3%	22.0	41.7
FY27E	33,223	1,767	1,166	5.0	5.3%	19.3	33.0

Source: Arihant Research, Company Filings

Greaves Cotton Q1FY25 Concall KTAs

Excel Controlinkage

The company's newly acquired Excel Controlinkage revenue was INR 630 Mn in Q1FY25, up 13% YoY. EBITDA margin of 27.6% QoQ, based on growth and future business development projections.

Aurangabad Factory

Companies Aurangabad factory produces 300 engines for Assam's internal waterways and is driving robust marine expansion. It also led in increased efficiencies and better inventory management, which boosted working capital. The company continued to expand EBITDA, which is expected to climb by 30% YoY

Digitalization

The company is also emphasizing digitalization and customer engagement through apps and loyalty programs and is transforming into a diversified last-mile mobility solutions provider.

Product portfolio

The company is focusing on innovation-led product portfolio renewal in areas such as alternative fuels and electric components.

Growth across the segment

Aside from 3w, the company has grown into 2w multi-brand components, EV parts, and construction equipment parts. The construction equipment business has also expanded to include an Excel range that caters to the home sector, with 163 new greave care outlets.

Volume

The company's volume increased by 10% and 19% QoQ in the 2W and 3W segments, respectively.

Ampere Nexus

Nexus is a high-performance family scooter with safety features and double suspension, priced at INR 1,09,000 in the Ex showroom. The company is ranked as the top 5 electric 2W with a market share of 3.4%.

Distribution Network

The company had issues with its distribution network and dealers, thus company resolved re-establishing the entire distribution network, mostly in larger cities. The company handled this issue by implementing centralized service backups to address consumer complaints and improve response times.

Excel

The company has focused on certain niche areas in terms of speciality sub-assemblies as its headroom for growth is quite substantive across the applications.

Electric Mobility's

EBITDA loss has been reduced by 20% resulted from cost optimization, and the company anticipates positive results in the future quarters.

The company's guidance for CGL EBITDA margin is 13% QoQ due to shifts and cyclicity in product mix.

FAME 3

The company is eligible for a FAME 3 subsidy on a 2W vehicle and is nearing completion of the certification procedure.

Exhibit 2: Quarterly Performance

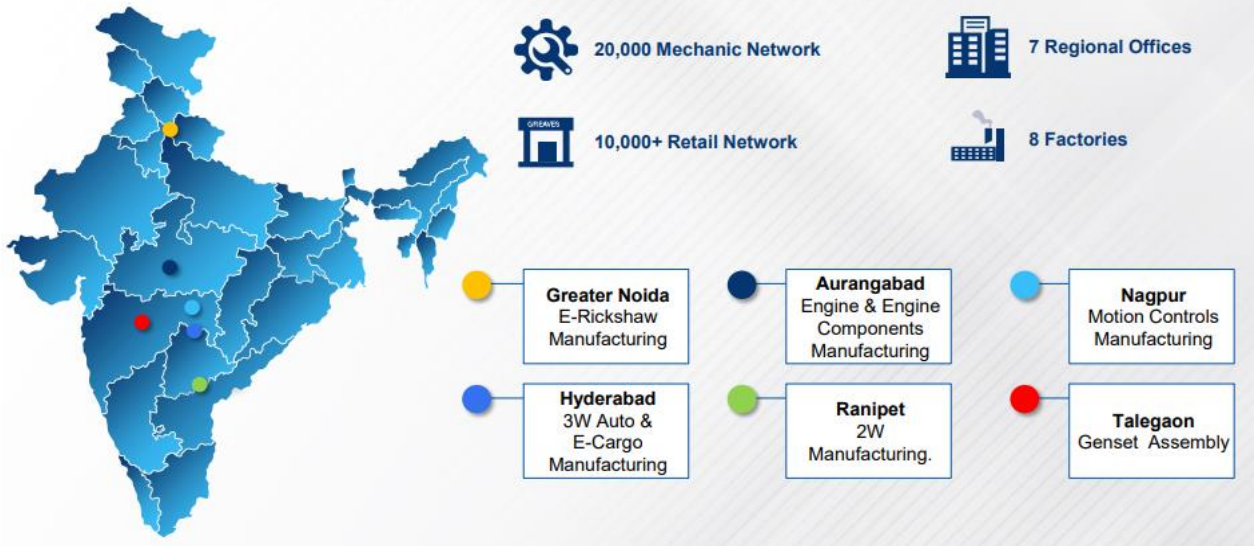
INR Mn (Consolidated)	Q1FY25	Q4FY24	Q1FY24	Q-o-Q	Y-o-Y
Net Sales	6397	6725	5686	-4.9%	12.5%
Material Cost	4271	4248	5535	0.5%	-22.8%
Change in Inventory	40	288	-477	-86.0%	-108.4%
Gross Profit	2086	2189	1662	-4.7%	25.5%
Gross Margin %	32.6%	32.6%	29.2%	5bps	337bps
Employees benefits expense	746	843	719	-11.6%	3.7%
Other Expenses	1067	1109	1078	-3.7%	-1.0%
EBITDA	273	237	-135	15.0%	-302.0%
EBITDA margin %	4.3%	3.5%	-2.4%	74bps	664bps
Depreciation	261	282	167	-7.6%	55.7%
EBIT	12	-44	-302	-127.9%	-104.1%
EBIT Margin %	0.2%	-0.7%	-5.3%	85bps	551bps
[b] Other income	170	134	215	26.7%	-21.2%
[f] Finance costs	29	30	17	-3.3%	71.9%
Exceptional Item	153	-24	9	-730.6%	1540.9%
PBT	153	35	-95	337.2%	-260.5%
Tax-Total	154	168	145	-8.4%	6.2%
Tax Rate (%) - Total	27.0%	27.0%	-152.7%	0.0%	-117.7%
Reported Net Profit	-2	-134	-249	-98.8%	-99.4%
PAT Margin %	0.0%	-2.0%	-4.4%	-98.7%	-99.4%
Reported EPS (INR)	0.44	0.11	-0.22	300.0%	-300.0%

	Q1FY25	Q4FY24	Q1FY24	Q-o-Q	Y-o-Y
RMC/Sales (%)	70.47	72.38	70.77	-2.6%	-0.4%
Employee exp/Sales (%)	11.65	12.54	12.65	-7.0%	-7.9%
Other exp/Sales (%)	16.69	16.49	18.96	1.2%	-12.0%

Source: Arianth Research, Company Filings

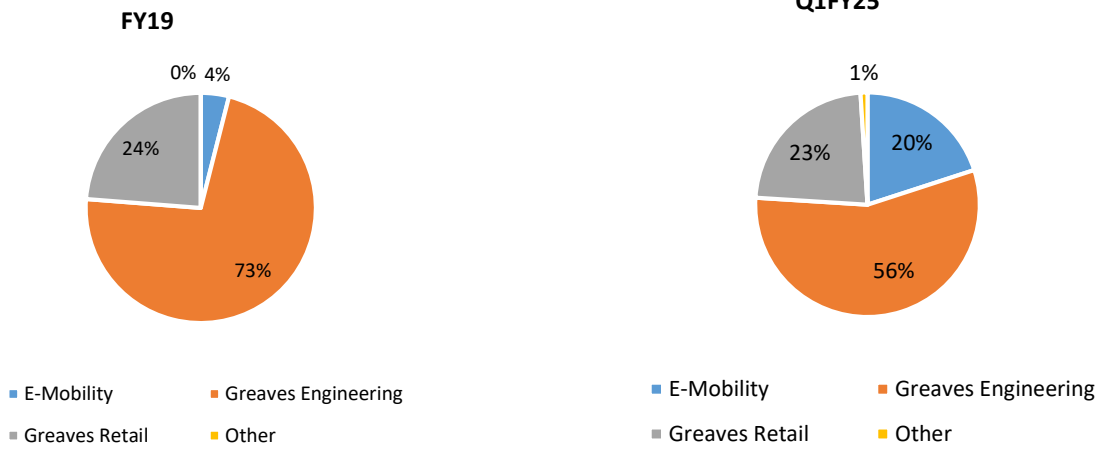
Exhibit 4: Manufacturing & Distribution footprint

Manufacturing & Distribution footprint



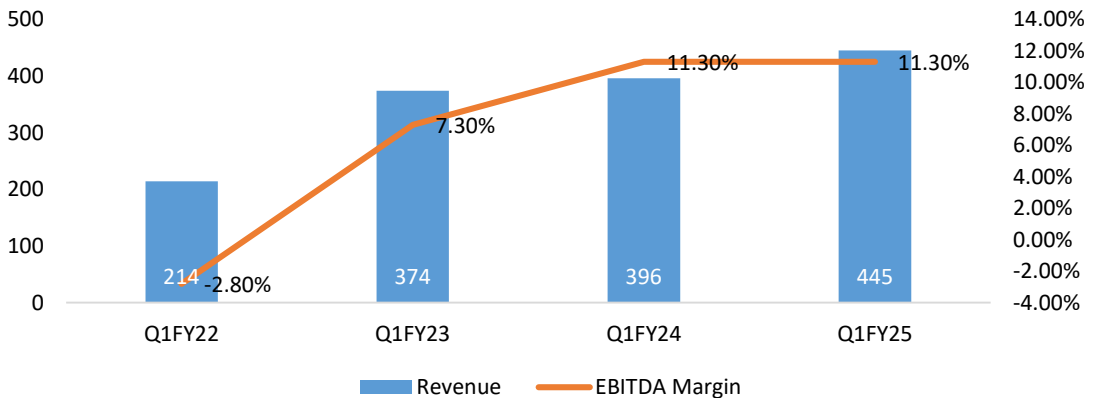
Source: Arianth Research, Company Filings

Exhibit 5: Business contribution



Source: Arianth Research, Company Filings

Exhibit 6: Revenue & EBITDA



Source: Arianth Research, Company Filings

Exhibit 7: Segment Revenue

Greaves Engines INR Mn	Q1FY22	Q1FY23	Q1FY24	Q1FY25
Revenue	1530	2530	2570	2970
EBITDA	-140	70	170	270
EBITDA Margin (%)	-9.2%	2.8%	6.6%	9.1%

Greaves Retail INR Mn	Q1FY22	Q1FY23	Q1FY24	Q1FY25
Revenue	610	1210	1390	1480
EBITDA	80	200	270	230
EBITDA Margin (%)	13.1%	16.5%	19.4%	15.5%

GCL INR Mn	Q1FY22	Q1FY23	Q1FY24	Q1FY25
Revenue	2140	3740	3960	4450
EBITDA	-60	270	450	500
EBITDA Margin (%)	-2.8%	7.2%	11.4%	11.2%

Excel INR Mn	Q1FY24	Q1FY25
Revenue	390	630
EBITDA	140	170
EBITDA Margin (%)	35.9%	27.0%

GCL + Excel INR Mn	Q1FY24	Q1FY25	Q1FY24	Q1FY25
Revenue	2140	3740	4350	5080
EBITDA	-60	270	590	680
EBITDA Margin (%)	-2.8%	7.2%	13.6%	13.4%

E Mobility INR Mn	Q1FY24	Q1FY25	Q1FY24	Q1FY25
Revenue	150	2810	1350	1270
EBITDA	-110	80	-710	-390
EBITDA Margin (%)	-73.3%	2.8%	-52.6%	-30.7%

Source: Arianth Research, Company Filings

The company continued focus on margin improvement yielding results both in terms of growth in EBITDA & improvement in margin

Exhibit 8: Gensets span from 5 kVA to 500 kVA, offering ~90% reductions in NOx and particulate matter, significantly lowering greenhouse gas emissions



Exhibit 9: offering controls and cables for commercial vehicles, industrial machines, construction equipment, boats and special purpose vehicles



Exhibit 10: Portfolio Of 2 & 3 Wheelers – Across All Speeds & Use-Cases



Source: Arianth Research, Company Filings

DCF Valuation

Valuation Assumptions

g (World Economic Growth)	3%
Rf	7%
Rm	13%
Beta	0.9
CMP (INR)	166

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)	17%
MV of Equity	38,449
Total Debt	491

Total Capital 38,940

WACC

We	98.7%
Wd	1.3%
Ke	12.3%
Kd	12.6%

WACC 12.29%

FCFF & Target Price												
FCFF & Target Price	Explicit Forecast Period											Terminal Yr
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	
Year												
EBIT * (1-Tax Rate)	319	500	689	920	1,187	1,481	1,783	2,070	2,312	2,482	2,556	2,633
Dep	998	905	835	1,887	2,008	2,446	3,207	3,547	3,979	4,329	4,413	4,556
Purchase of Assets	830	751	831	1,628	1,772	2,206	2,826	3,151	3,542	3,837	3,920	4,048
Changes in Working Capital	-703	-626	-875	-1,449	-1,622	-2,079	-2,583	-2,910	-3,282	-3,536	-3,622	-3,740
FCFF	1,190	1,280	1,569	2,627	3,044	3,800	4,748	5,376	6,030	6,509	6,671	6,881
% Growth in Post Tax EBIT		56.9%	37.8%	33.5%	29.1%	24.8%	20.4%	16.1%	11.7%	7.4%	3.0%	3.0%
As % of Post Tax EBIT												
Dep	313.3%	181.0%	121.2%	205.2%	169.1%	165.2%	179.8%	171.4%	172.1%	174.4%	172.6%	173.1%
Purchase of Assets	260.5%	150.2%	120.5%	177.1%	149.3%	149.0%	158.4%	152.2%	153.2%	154.6%	153.4%	153.7%
Changes in Working Capital	-220.7%	-125.2%	-127.0%	-157.6%	-136.6%	-140.4%	-144.9%	-140.6%	-142.0%	-142.5%	-141.7%	-142.0%
FCFF	1,190	1,280	1,569	2,627	3,044	3,800	4,748	5,376	6,030	6,509	6,671	6,881
Terminal Value												74,075
Total Cash Flow	1,190	1,280	1,569	2,627	3,044	3,800	4,748	5,376	6,030	6,509	6,671	80,957

Enterprise Value (EV)	38,849
Less: Debt	491
Add: Cash	3,141
Equity Value	41,499
Equity Value per share (INR)	179
% Returns	7.9%
Rating	HOLD

		Terminal Growth (%)								
		179	2.25%	2.50%	2.75%	3.00%	3.25%	3.50%	3.75%	4.00%
WACC (%)	11.45%	188	192	196	200	205	210	215	220	
	11.70%	182	186	189	193	198	202	207	212	
	11.95%	177	180	183	187	191	195	200	204	
	12.20%	171	174	178	181	185	189	193	197	
	12.45%	166	169	172	176	179	183	186	191	
	12.70%	161	164	167	170	173	177	180	184	
	12.95%	157	160	162	165	168	171	175	178	
	13.20%	153	155	158	160	163	166	169	173	

Source: Company reports, Arianth 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	18,623	20,193	22,306
Personnel/ Employee benefit expenses	2,119	3,112	3,214	3,493	3,864
Manufacturing & Other Expenses	3,841	4,311	4,401	4,781	5,287
Total Expenditure	25,661	25,417	26,238	28,466	31,456
EBITDA	1,334	915	1,429	1,580	1,767
EBITDA Margin (%)	4.9%	3.5%	5.2%	5.3%	5.3%
Depreciation	567	844	998	905	835
% of Gross Block	10.4%	9.5%	10.9%	9.7%	8.8%
EBIT	767	71	431	676	931
EBIT Margin (%)	2.8%	0.3%	1.6%	2.2%	2.8%
Interest Expenses	117	92	79	79	72
Non-operating/ Other income	671	648	615	667	738
PBT	1,128	-2,731	966	1,264	1,597
Extra -ordinary	-151	-3,348	153	0	0
PBT after ext-ord.	977	-6,079	1,119	1,264	1,597
Tax-Total	431	942	374	341	431
Adj. Net Profit	697	-3,673	592	923	1,166
Reported Profit	698	-3,673	592	923	1,166
PAT Margin	2.6%	-13.9%	2.1%	3.1%	3.5%

Balance sheet					
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	16,638	17,282	18,146
Networth	19,676	16,742	17,102	17,746	18,610
Loan Funds	283	808	902	1,053	1,285
Other Liabilities	261	805	501	515	531
Total Liabilities	27,244	24,644	25,694	27,332	29,399
Total Funds Employed	54,050	48,285	50,594	53,711	57,609
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	13,375	15,489	17,890
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	512	647	2,282
Current Liabilities/Provisions	7,130	6,900	7,798	8,633	9,600
Trade Payables	4,414	3,860	4,285	4,528	5,021
Liabilities	1,924	1,612	1,923	2,312	2,538
Net Current Assets	13,636	4,965	5,577	6,857	8,290
Total Asset	27,244	24,644	25,694	27,332	29,399
Total Capital Employed	13,608	19,679	20,117	20,475	21,109

Source: Arianth Research, Company Filings

Cash Flow Statement					
Year End-March	FY23	FY24	FY25E	FY26E	FY27E
Profit before tax	697	-3,673	592	923	1,166
Adjustments: Add					
Depreciation and amortisation	567	844	998	905	835
Interest adjustment	-555	-555	-536	-588	-666
Change in assets and liabilities	663	-3,593	823	961	1,034
Inventories	-216	-612	-969	-287	-425
Trade receivables	202	-703	-179	-489	-321
Trade payables	628	-553	424	244	493
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	120	335	159
Net Sale/(Purchase) of tangible and intangible assets, Capital work in progress	-578	-5,501	-400	-366	-434
Net Sale/(Purchase) of investments	-448	608	609	658	726
Others	0	-2,274	-162	-87	-89
Net cash (used) in investing activities	-1,026	-7,167	46	206	203
Interest expense	2,062	-1,126	214	306	434
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	-101	306	434
Closing Balance	5,414	3,141	3,207	4,053	4,849

Key Ratios					
Year-end March	FY23	FY24	FY25E	FY26E	FY27E
Solvency Ratios					
Debt / Equity	0.00	0.03	0.03	0.02	0.02
Net Debt / Equity	-0.3	-0.2	-0.2	-0.2	-0.2
Debt / EBITDA	0.0	0.5	0.3	0.3	0.2
Current Ratio	-4.0	-2.9	-1.9	-2.3	-2.5
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%	3.5%	5.2%	6.3%
Per share ratios					
Reported EPS	3.4	-15.8	2.6	4.0	5.0
Dividend per share	0.2	0.9	1.0	1.2	1.3
BV per share	84.9	72.2	73.7	76.5	80.2
Cash per Share	3.7	6.4	2.2	2.8	9.8
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%	2.1%	3.1%
Gross Profit / Net Sales	27.0%	31.7%	32.7%	32.8%	32.9%
EBITDA / Net Sales	4.9%	3.5%	5.2%	5.3%	5.3%
EBIT / Net Sales	2.8%	0.3%	1.6%	2.2%	2.8%
ROCE (%)	3.8%	0.4%	2.4%	3.6%	4.7%
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	5.4	8.5	13.0
Debt / Asset	0.0	0.0	0.0	0.0	0.0
Valuation ratios					
EV / EBITDA	24.8	39.1	25.0	22.0	19.3
PE (x)	49.3	-10.5	65.0	41.7	33.0

Source: Arihant 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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