

## Weak performance amid BS-VI, Covid-19...

Greaves Cotton's (GCL) standalone revenues came in at ₹ 359.6 crore, down 32% YoY vs. I-direct estimate of ₹ 428.2 crore, impacted by dismal engine volumes amid auto slowdown and Covid-19 lockdown. Declining topline and recurring fixed costs impacted the operating performance. EBITDA de-grew 56.3% YoY to ₹ 30.6 crore (vs. I-direct estimate of ₹ 51.4 crore). Further, EBITDA margins contracted 475 bps YoY to 8.5% (vs. I-direct estimate of 12%) as GCL was unable to pass through the price increase for BS-VI engines. PAT came in at ₹ 10 crore, down 73.2%. Decline in PAT is largely attributable to a weak operating performance, exceptional item of ₹ 5.0 crore and a decline of 61% in other income that came in at ₹ 3.3 crore.

## Auto volumes to be impacted by BS-VI, slowdown in FY21E

In Q4Y20, GCL's engine volume (3-W) fell 49% YoY to 37516 units while 4-W volumes fell 87% YoY to 529 units. They are likely to be impacted by strict BS-VI norms in FY21E and auto slowdown. Other engines segment de-grew 7% YoY to 8739 units. Overall engine volumes de-grew 46% YoY. On non-auto side, power genset volumes declined 35% YoY to 736 units. Overall agriculture (pumpset, power tiller, other) volumes declined 68% YoY to 11928 units. GCL may have to take a price hike of 35-50% for BS-VI compliant engines leading to significant volume reduction and margin stress as it is difficult to completely pass on the price increase amid economic slowdown. We build in overall engine volumes of ~172346, ~224002 units in FY21E, FY22E, respectively.

## New E-2W products, B2C business to aid long term growth...

Ampere is expected to launch High range E-2W product 'Magnus' in June 2020 at price point of ₹ 80000-85000/unit. Ampere market share has now improved to 21% in E-2W from 18% in previous quarter. GCL has launched clean BS VI diesel engine while BS VI ready CREST CNG engines is in pre-beta phase with OEMs and likely to move ahead soon. In electric mobility business (EMB), E-2W volumes were at 5029 units, up 46% YoY and 18536 units, up 30% for FY20. While E-3-W segment achieved 4382 units for FY20 by selling E-rickshaws registering significant volume growth amid low base.

## Valuation & Outlook

Overall auto engine volumes may remain sluggish in the medium term due to BS-VI transition and economic slowdown amid Covid-19. While new product launches in high speed E-2W vehicles (launch of Magnus high speed E-2W soon) at Ampere and new business initiatives (CNG engines, after market and B2C business) may provide much needed growth uptick in the long term. We build revenue, PAT CAGR of -4.6%, -7.4% over FY20-22E, respectively. We value GCL (base business at 12.5x on FY22E and Ampere at 1.5x P/sales on FY22E) at ₹ 75/ share and maintain **HOLD** rating.



### Particulars

Particular	Amount
Market Capitalization	₹1723.8 Crore
Total Debt (FY 20)	₹0 Crore
Cash and Inv. (FY 20)	₹330.9 Crore
EV	₹1495.6 Crore
52 week H/L	₹154.2 / ₹66.3
Equity capital	₹46.2 Crore
Face value	₹2

### Key Highlights

- In electric mobility business, E-2W volumes came in at 5029 units, up 46% YoY, while E-3W segment achieved 4382 unit mark for FY20 for its E-rickshaws
- Overall auto engine volumes to remain sluggish in medium term due to BS-VI transition and Economic slowdown amid Covid-19
- Value GCL at ₹ 75/share and maintain HOLD rating

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### Key Financial Summary

Particulars (₹ crore)	FY18	FY19	FY20P	FY21E	FY22E	CAGR (FY20P-FY22E)
Net Sales	1,792.1	1,987.9	1,821.1	1,352.1	1,656.6	-4.6%
EBITDA	255.3	274.7	228.1	119.5	195.6	-7.4%
EBITDA Margin (%)	14.2	13.8	12.5	8.8	11.8	
Net Profit	202.6	169.3	147.4	60.2	116.8	-11.0%
EPS (₹)	8.3	6.9	6.4	2.6	5.1	
P/E (x)	8.4	10.1	11.0	26.9	13.9	
RoNW (%)	17.7	18.7	15.7	7.0	14.0	
RoCE (%)	25.3	27.4	21.4	9.5	18.8	

Source: Company, ICICI Direct Research

Exhibit 1: Change in estimates

	Q4FY20	Q4FY20E	Q4FY19	YoY (Chg %)	Q3FY20	QoQ (Chg %)	Comments
Revenue	359.6	428.2	528.1	-31.9	494.7	-27.3	Revenue decline owing to BS-VI transition and economic slowdown.
Other Income	3.3	12.0	8.6	-61.0	2.8	17.6	
Employee Expenses	27.9	45.0	42.2	-33.9	41.6	-33.0	
Raw Material Expenses	257.0	286.0	368.4	-30.2	332.7	-22.8	
Other operating Expense	44.1	45.8	47.5	-7.1	43.2	2.2	
EBITDA	30.6	51.4	70.0	-56.3	77.2	-60.4	
EBITDA Margin (%)	8.5	12.0	13.3	-475 bps	15.6	-710 bps	Margins impacted as company was unable passthrough increased cost
Depreciation	14.4	15.4	11.7	23.4	11.2	29.2	
Interest	1.1	0.3	0.5	-	1.2		
Exceptional Item	5.0	0.0	0.0		-4.7		
PBT	13.4	47.7	53.5	-74.9	72.3	-81.5	
Total Tax	3.4	12.3	16.1	-79.0	18.3	-81.6	
PAT	10.0	35.4	37.4	-73.2	54.1	-81.4	
Adj. PAT	13.8	35.4	39.8	-65.4	50.5	-72.7	

**Key Metrics**

Segmental Performance

	Q4FY20	Q4FY20E	Q4FY19	YoY (Chg %)	Q3FY20	QoQ (Chg %)	Comments
Engine Segment	331.1	393.8	480.5	-31.1	444.6	-25.5	
Others segment	20.6	30.0	47.5	-56.7	49.4	-58.4	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	1,406.6	1,352.1	-3.9	1,711.2	1,656.6	-3.2	The 3-W engine segment volume is likely to decline owing to BS-VI transition and economic slowdown
EBITDA	131.0	119.5	-8.8	213.7	195.6	-8.5	
EBITDA Margin (%)	9.3	8.8	-46 bps	12.5	11.8	-69 bps	Margins in FY21E to be impacted owing to BS-VI transition and economic slowdown
PAT	73.6	60.2	-18.2	132.2	116.8	-11.7	PAT declining on account of higher operating expenses and overall slowdown in automotive and margin stress amid Covid-19
EPS (₹)	3.2	2.8	-13.8	5.7	5.4	-6.1	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY19	FY20E	FY21E	FY22E	FY21E	FY22E	
3W Volumes (units)	284,454	246,418	147,646	188,202	170,520	234,900.0	Revised volumes downwards in line with expected auto sales slowdown, BS-VI transition and Covid-19 impact
4W & Other Volumes (U	45,030	44,487	24,700	35,800	25,480	35,100.0	
Overall Engine Volumes	329,484	290,905	172,346	224,002	196,000	270,000	FY21E engine volumes to decline significantly owing to economic slowdown and price hike of 35-50% for BSVI engines from April 1, 2020, which is unlikely to be passed on to customers

Source: Company, ICICI Direct Research

Exhibit 4: Valuations

	Basis of Valuation	Multiple	Total Value (₹ crore)	Per share value (₹)	Comments
Base Business	P/E	12.5x	1,460	63	
Ampere (100% Stake	P/Sales	1.5x	300	12	FY 22E sales at ₹200 crore
<b>Total</b>			<b>1,760</b>	<b>75</b>	

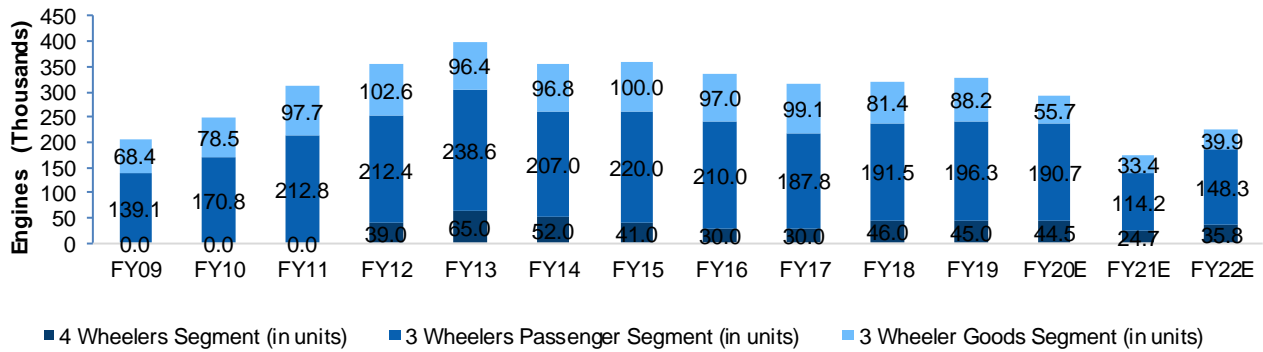
Source: Company, ICICI Direct Research

## Concall Highlights

- For Q4FY20, revenue decline was mainly due to auto and industrial slowdown, which dragged overall volumes and the effect of transition to BS-VI
- EBITDA margins for the quarter came in at 8.5% (vs. 13.3% YoY) increased operating cost. It was unable to pass through incremental BS VI engine cost. Margins may witness near term impact due to economic slowdown and BS-VI but are expected to gradually recover to normalised levels in the medium term
- New business initiatives contributed ~21% to revenue for FY20 at the standalone level and are likely to sustain at this level for the next two to three years
- For FY20, engines contributed 56% to revenues followed by aftermarket (22%), others (20%) and E-mobility (2%) on a standalone basis
- Overall auto engine volumes declined 46% to 46784 for Q4FY20 and by 12% to 290905 units for FY20. Genset volumes declined 13% for FY20 to 4158 units. Overall agri business (pumpsets, power tillers, others) volumes declined 49% for FY20 to 63551 units
- In electric mobility business (EMB), E-2W volumes came in at 5029 units, up 46% YoY and 18536 units, up 30% for FY20. While E-3-W segment achieved 4382 units for FY20 by selling e-rickshaws, registering significant volume growth amid low base
- Ampere is expected to launch high range E-2W product 'Magnus' in June 2020 at a price point of ₹ 80000-85000 per unit. Ampere market share has now improved to 21% in E-2W from 18% in the previous quarter. With this, it will have a product for every customer price point in the affordable mobility space ranging in the price band of ₹ 35,000-85,000. The company is also building on new launches in e-rickshaw segment with lithium ion e-rick and e-loader.
- GCL has launched new generation BS-VI Diesel engine 3-W engine and is ramping up supplies to some bigger OEMs, which could have better clarity on response in Q1FY21E. Fuel efficient CREST engines enter pre-beta stage while non-auto engines growth momentum continues
- Aftermarket retailers increased to 6000+ in FY20. GCL is likely to focus on further strengthening distribution network for Ampere vehicles
- Net working capital (NWC) days for Q4FY20 has reduced from 33 days in 26 days, on a sequential basis
- Ampere reported ₹ 89.8 crore of revenue for FY20 (vs. ₹ 53.6 crore revenue in FY19) and the EBITDA loss came in at 17.2 crore. Ampere is expected to achieve EBITDA break even by H1FY22E
- Overall new mobility contributed ₹ 145 crore (~8%) to consolidated business with close to 385+ outlets reaching 20,000 customers per month
- **FY21E outlook:** It is difficult to provide any sort of guidance while GCL will continue to focus on cost management, enhancing supply chain flexibility, accelerate channel expansion & customer acquisition and to have efficient working capital management

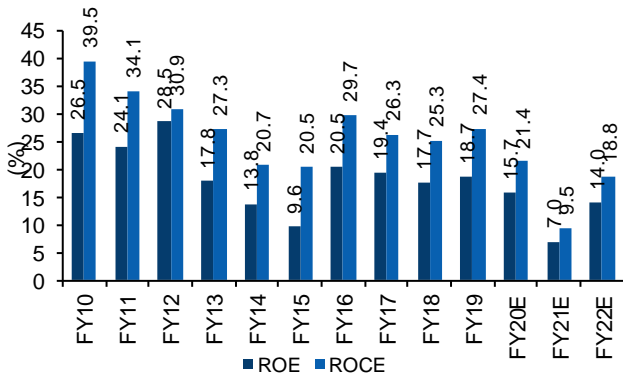
## Financial Story in charts

Exhibit 5: Trend in auto engine segment sales



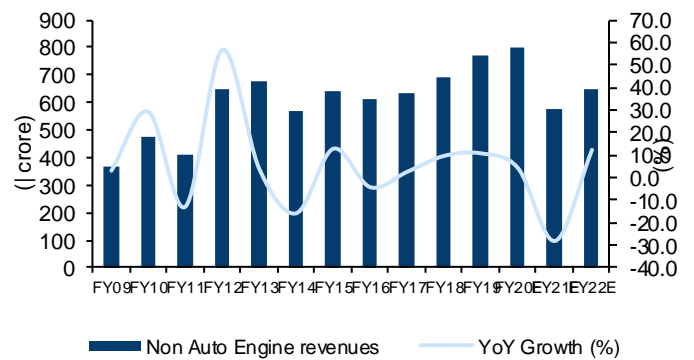
Source: Company, ICICI Direct Research

Exhibit 6: GCL commands superior return ratios



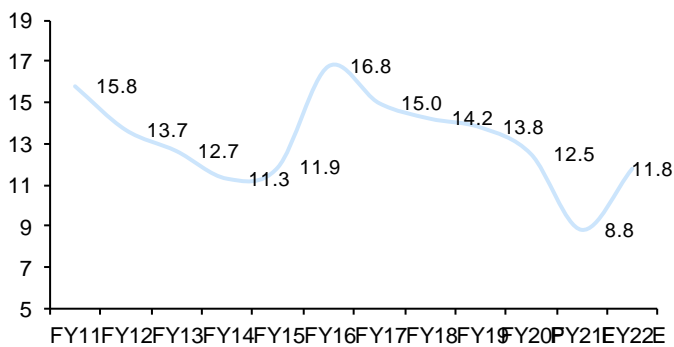
Source: ICICI Direct Research, Company

Exhibit 7: Non-auto engine segment revenue growth trend



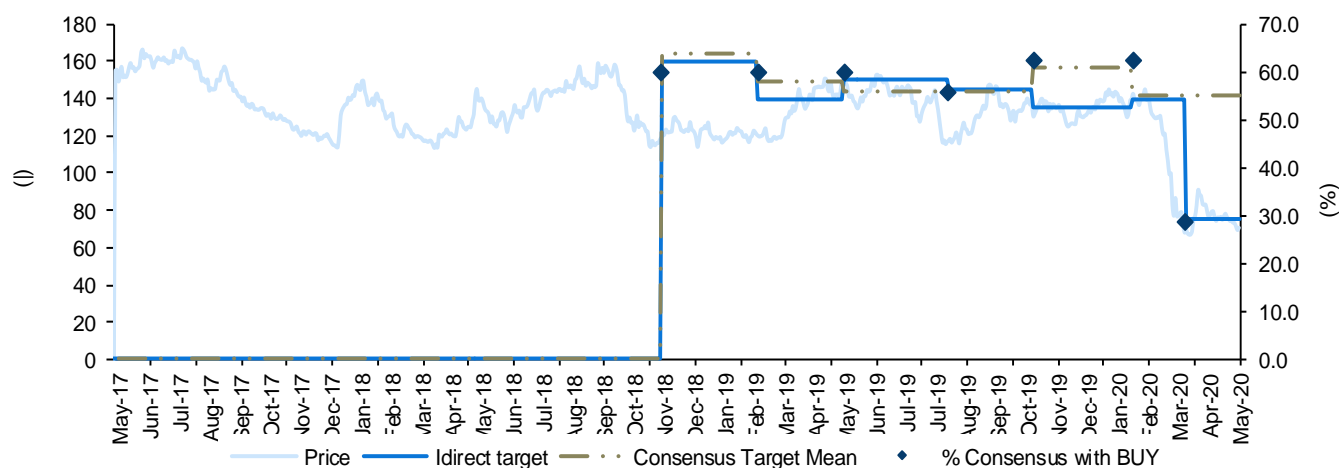
Source: ICICI Direct Research, Company

Exhibit 8: Trend in EBITDA margins



Source: Company, ICICI Direct Research

Exhibit 9: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 10: Top 10 Shareholders

Rank	Investor Name	Filing Date	% O/S	Position (%)	Change
1	Dbh International Pv	23-Mar-20	42.7	98.76m	0.02m
2	Capital Group Compan	31-Mar-20	8.8	20.44m	0.00m
3	Karun Carpets Pvt Lt	31-Dec-19	6.2	14.21m	0.00m
4	Bharat Starch Produc	31-Dec-19	6.0	13.78m	0.00m
5	Smallcap World Fund	16-Aug-18	5.8	13.40m	13.40m
6	New India Assurance	31-Dec-19	2.8	6.48m	(0.01)m
7	Life Insurance Corp	31-Dec-19	2.4	5.65m	(0.29)m
8	General Insurance Co	31-Dec-19	2.0	4.69m	(0.46)m
9	Massachusetts Inst T	31-Dec-19	1.9	4.39m	1.39m
10	Vantage Equity Fund	31-Dec-19	1.5	3.35m	(0.55)m

Source: Reuters, ICICI Direct Research

Exhibit 11: Shareholding Pattern

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	51.9	51.9	51.9	54.8	54.8
FII	14.0	14.9	14.6	15.0	15.6
DII	15.6	15.7	16.0	14.1	13.4
Others	18.5	17.6	17.6	16.1	16.1

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 12: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20P	FY21E	FY22E
<b>Total operating income</b>	<b>1,987.9</b>	<b>1,821.1</b>	<b>1,352.1</b>	<b>1,656.6</b>
Growth (%)	10.9	-8.4	-25.8	22.5
Raw Material Expenses	1,358.5	1,249.2	926.5	1,131.5
Employee Expenses	174.7	158.1	150.3	164.3
Other Operating Expenses	179.9	185.8	155.7	165.3
Administrative Expenses	0.0	0.0	0.0	0.0
Other expenses	0.0	0.0	0.0	0.0
Total Operating Expenditure	0.0	0.0	0.0	0.0
<b>EBITDA</b>	<b>274.7</b>	<b>228.1</b>	<b>119.5</b>	<b>195.6</b>
Growth (%)	195.5	-17.0	-47.6	63.7
Depreciation	48.8	52.2	58.0	64.0
Interest	3.3	3.8	1.0	1.0
Other Income	41.6	19.8	20.0	25.5
PBT	246.3	196.6	80.5	156.0
Others	0.0	0.0	0.0	0.0
Total Tax	77.0	49.2	20.2	39.3
<b>PAT</b>	<b>169.3</b>	<b>147.4</b>	<b>60.2</b>	<b>116.8</b>
Growth (%)	-16.4	-12.9	-59.2	94.0
EPS (₹)	6.9	6.4	2.6	5.1

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20P	FY21E	FY22E
Profit after Tax	169.3	147.4	60.2	116.8
Add: Depreciation	48.8	52.2	58.0	64.0
(Inc)/dec in Current Asset	-33.8	-31.8	-36.6	30.3
Inc/(dec) in CL and Provis	60.1	-51.9	22.0	20.4
Others	0.0	0.0	0.0	0.0
<b>CF from operating activ</b>	<b>247.7</b>	<b>119.7</b>	<b>104.6</b>	<b>232.4</b>
(Inc)/dec in Investments	83.1	419.3	-20.0	-5.0
(Inc)/dec in Fixed Assets	-76.1	-95.2	-40.9	-56.0
Others	0.0	0.0	0.0	0.0
<b>CF from investing activ</b>	<b>-75.3</b>	<b>202.8</b>	<b>-57.8</b>	<b>-55.3</b>
Issue/(Buy back) of Equity	0.0	-2.6	0.0	0.0
Inc/(dec) in loan funds	-14.8	-7.0	2.0	2.0
Dividend paid & dividend t	-161.9	0.0	-111.3	-139.2
Inc/(dec) in Sec. premium	0.0	-224.9	0.0	0.0
Others	0.0	7.6	0.0	0.0
<b>CF from financing activ</b>	<b>-163.9</b>	<b>-206.6</b>	<b>-119.3</b>	<b>-140.2</b>
Net Cash flow	8.5	115.9	-72.6	37.0
Opening Cash	29.8	38.4	154.3	81.7
<b>Closing Cash</b>	<b>38.4</b>	<b>154.3</b>	<b>81.7</b>	<b>118.7</b>

Source: Company, ICICI Direct Research

Exhibit 14: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20P	FY21E	FY22E
<b>Liabilities</b>				
Equity Capital	48.8	46.2	46.2	46.2
Reserve and Surplus	920.3	867.5	809.4	787.0
Total Shareholders funds	969.2	913.8	855.6	833.2
Total Debt	0.0	0.0	0.0	0.0
Deferred Tax Liability	7.0	0.0	2.0	4.0
Minority Interest/ Others	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>987.9</b>	<b>930.5</b>	<b>877.9</b>	<b>862.5</b>
<b>Assets</b>				
Gross Block	493.9	587.9	634.9	696.9
Less: Acc Depreciation	172.8	225.0	283.0	347.0
Net Block	321.2	362.9	351.9	349.9
Capital WIP	0.0	0.0	0.0	0.0
Total Fixed Assets	332.0	375.0	357.9	349.9
Investments	492.1	176.6	196.6	201.6
Inventory	115.2	171.1	174.1	163.4
Debtors	336.5	238.9	266.7	304.1
Loans and Advances	0.0	0.0	0.0	0.0
Other Current Assets	19.6	20.5	24.2	28.0
Cash	38.4	154.3	81.7	118.7
Total Current Assets	525.7	673.4	637.4	644.1
Creditors	319.4	279.1	285.2	295.0
Provisions	19.6	20.5	24.2	28.0
Total Current Liabilities	413.8	361.8	383.8	404.2
Net Current Assets	111.9	311.6	253.6	239.9
Others Assets	0.0	0.0	0.0	0.0
<b>Total Assets</b>	<b>987.9</b>	<b>930.5</b>	<b>877.9</b>	<b>862.5</b>

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios				
	₹ crore			
(Year-end March)	FY19	FY20P	FY21E	FY22E
<b>Per share data (₹)</b>				
EPS	6.9	6.4	2.6	5.1
Cash EPS	8.9	8.2	4.8	7.4
BV	39.7	37.4	35.0	34.1
DPS	5.5	5.5	0.0	4.0
Cash Per Share	1.6	6.3	3.3	4.9
<b>Operating Ratios (%)</b>				
EBITDA Margin	13.8	12.5	8.8	11.8
PBT / Total Operating inc	8.5	8.1	4.5	7.0
PAT Margin	8.5	8.1	4.5	7.0
Inventory days	21.2	34.3	47.0	36.0
Debtor days	61.8	47.9	72.0	67.0
Creditor days	58.7	55.9	77.0	65.0
<b>Return Ratios (%)</b>				
RoE	18.7	15.7	7.0	14.0
RoCE	27.4	21.4	9.5	18.8
RoIC	48.3	25.2	8.8	20.3
<b>Valuation Ratios (x)</b>				
P/E	10.1	11.0	26.9	13.9
EV / EBITDA	4.6	6.4	12.7	7.5
EV / Net Sales	0.6	0.8	1.1	0.9
Market Cap / Sales	1.0	0.9	0.9	1.2
Price to Book Value	1.8	1.8	1.9	1.9
<b>Solvency Ratios</b>				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.2	1.4	1.4	1.3
<b>Quick Ratio</b>	<b>0.9</b>	<b>1.0</b>	<b>1.0</b>	<b>0.9</b>

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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