

Muted performance amid BS-VI, pandemic...

Greaves Cotton's (GCL) standalone revenues came in at ₹ 288.2 crore, which fell 41.2% YoY (vs. our estimate of ₹ 298.7 crore). Engine segment revenues came in at ₹ 266 crore, down 40.4% YoY. On the other hand, e-mobility segment revenue grew 23.9% to ₹ 42.5 crore owing to pent-up demand. EBITDA fell 70.5% to ₹ 17.5 crore YoY (vs. our estimate: ₹ 13.7 crore). While EBITDA margins fell 600 bps to 6.1% (vs. our estimate of 4.6%) impacted by higher operating expenses and lesser revenues. Adjusted PAT (adjusted for exceptional item) was at ₹ 3.4 crore, down 91.5% YoY (below our estimate of ₹ 4.1 crore). It reported an exceptional item of ₹ 31.1 crore.

Auto volumes likely to stay sluggish due to slowdown in FY21E

In Q2Y21, GCL's auto engine volume (3-W/4-W) fell 72% YoY to 19234 units, impacted by BS-VI norms, 3-W, 4-W auto slowdown amid pandemic. On the other hand, others engine segment supported with volume growth of 27% YoY to 12216 units. Overall engine volumes de-grew 59% YoY. On non-auto side, power genset volumes fell 41% YoY to 558 units. Overall agriculture (pumpset, power tiller, other) volumes fell 42% YoY to 10028 units. GCL may have to take a price hike of 35-45% 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 slowdown. We build in overall engine volumes of ~160152, ~223602 units for FY21E, FY22E, respectively.

Focus on new E-2W/3-W products, efficiencies to continue...

GCL acquired Bestway Agencies (BAPL) to expand its presence in fast disrupting E-3-W market to become integrated player in last mile E-mobility in E-2W and E-3-W. Also, further launches in E2-W/3-W would help expand market presence. Ampere market share was at 20% in E-2W among organised players. GCL is focusing on developing new partnership with diesel 3-W OEM and new global OEM for small 4-W. GCL's BS-VI diesel engine, CNG engine to play key role in long term while BS VI ready CREST CNG engines is under advanced stages of discussion. In electric mobility business (EMB), E-2-W volumes were at 6033 units, up 25% YoY while E-3-W was down 19% to 1145 unit on low base, YoY. GCL aims to reduce operating costs by ~10% via operational efficiencies over medium term.

Valuation & Outlook

Overall auto engine volumes may stay sluggish in the medium term due to BS-VI transition, 3-W, 4-W auto slowdown amid Covid-19. While Bestway acquisition would expand E-3-W base, new product launches in high speed E-2W vehicles 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 -4.8%, -7.4% over FY20-22E, respectively. We value GCL (base business at 12.0x on FY22E and Ampere at 1.5x P/sales on FY22E) at ₹ 75/ share and maintain **HOLD** rating.

Key Financial Summary

Particulars (₹ crore)	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-FY22E)
Net Sales	1,792.1	1,987.9	1,821.1	1,332.4	1,652.1	-4.8%
EBITDA	255.3	274.7	228.1	105.3	195.5	-7.4%
EBITDA Margin (%)	14.2	13.8	12.5	7.9	11.8	
Net Profit	202.6	169.3	147.5	22.3	114.0	-12.1%
EPS (₹)	8.3	7.3	6.8	1.0	5.2	
P/E (x)	8.3	9.4	10.2	67.4	13.2	
RoNW (%)	17.7	18.7	16.3	5.7	13.2	
RoCE (%)	25.3	27.4	22.2	7.5	17.9	

Source: Company, ICICI Direct Research



Particulars

Particular	Amount
Market Capitalization	₹1505.6 Crore
Total Debt (FY 20)	₹0 Crore
Cash and Inv. (FY 20)	₹149.4 Crore
EV	₹1356.2 Crore
52 week H/L	₹148 / ₹66
Equity capital	₹46.2 Crore
Face value	₹2

Key Highlights

- Overall engine volumes declined by 59% to 31450 units, YoY. In electric mobility business, E-2W volumes came in at 6033 units, up 25% YoY, while E-3W was down 19% to 1145 unit on low base, YoY.
- Overall auto engine volumes to remain sluggish in medium term due to BS-VI transition and 3W/4W Auto slowdown amid Covid-19
- Value GCL at ₹ 75/share and maintain HOLD rating

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Exhibit 1: Change in estimates

	Q2FY21	Q2FY21E	Q2FY20	YoY (Chg %)	Q1FY21	QoQ (Chg %)	Comments
Revenue	288.2	298.7	490.0	-41.2	147.1	95.9	Revenue declined owing to BS-VI transition, muted volumes in 3-W segment amid pandemic
Other Income	1.8	7.0	6.2	-71.6	2.2	-17.7	
Employee Expenses	29.1	37.0	42.8	-31.9	34.7	-15.9	
Raw Material Expenses	204.0	209.1	335.2	-39.2	106.1	92.2	
Other operating Expense	37.6	38.8	52.9	-28.9	28.0	34.6	
EBITDA	17.5	13.7	59.1	-70.5	-21.7	-180.6	
EBITDA Margin (%)	6.1	4.6	12.1	-600 bps	-14.7	2078 bps	Margins impacted as unabsorbed operating cost and inability to pass through complete cost of BS-VI
Depreciation	12.4	13.1	14.3	-13.3	11.8	5.6	
Interest	1.9	2.2	0.9	-	2.3		
Exceptional Item	31.1	0.0	0.0		0.0		
PBT	-26.2	5.4	55.1	-147.5	-33.5	-21.9	
Total Tax	-8.2	1.4	9.9	-182.5	-9.3	-12.6	
PAT	-18.0	4.1	45.2	-139.9	-24.2	-25.5	
Adj. PAT	3.4	4.1	39.8	-91.5	-24.2	-114.0	
Key Metrics							
Segmental Performance							
Engine Segment	266.0	274.8	446.3	-40.4	140.1	89.8	
Others segment	22.2	23.9	43.7	-49.2	7.0	219.0	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore)	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	1,348.0	1,332.4	-1.2	1,657.4	1,652.1	-0.3	3-W engine segment volume likely to decline owing to BS-VI transition and impact of Covid-19
EBITDA	108.8	105.3	-3.2	195.7	195.5	-0.1	
EBITDA Margin (%)	8.1	7.9	-17 bps	11.8	11.8	2 bps	Margins in FY21E to be impacted by BS-VI transition and economic slowdown
PAT	53.1	22.3	-58.0	117.1	114.0	-2.7	PAT declining on account of higher operating expenses and overall slowdown in automotive and margin stress amid pandemic
EPS (₹)	2.4	1.0	-57.4	5.4	5.2	-3.3	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY19	FY20	FY21E	FY22E	FY21E	FY22E	
3W Volumes (units)	284,454	246,418	137,352	188,202	147,646	188,202.0	Revised volumes in line with expected auto sales slowdown, BS-VI transition and Covid-19 impact
4W & Other Volumes (Units)	45,030	44,487	22,800	35,400	23,700	35,900.0	
Overall Engine Volumes	329,484	290,905	160,152	223,602	171,346	224,102	

Source: Company, ICICI Direct Research

Exhibit 4: Valuations

	Basis of Valuation	Multiple	Total Value (₹ crore)	Per share value (₹)	Comments
Base Business	P/E	12.0x	1,367	63	
Ampere (100% Stake)	P/Sales	1.5x	300	13	FY 22E sales at ₹200 crore
Total			1,667	76	

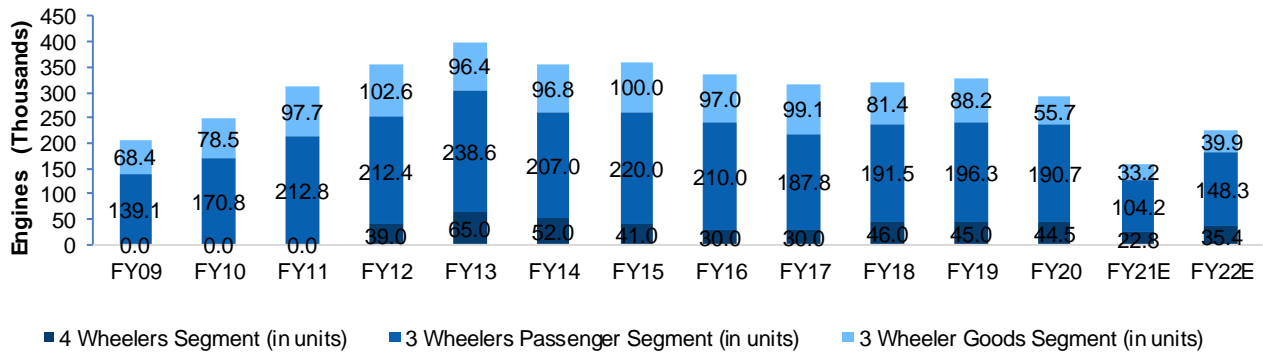
Source: Company, ICICI Direct Research

Conference call highlights

- For Q2FY21, revenue decline was mainly due to auto and industrial slowdown, which dragged overall volumes and the effect of transition to BS-VI. The company is expecting gradual recovery in H2FY21 as mobility (offices, schools and malls) are expected to open up further. Currently most dealerships are operational
- EBITDA margins declined 600 bps to 6.1% (vs. our estimate of 4.6%) impacted by higher operating expenses and lesser revenue booking. It was unable to pass through incremental BS-VI engine cost and lesser booking of revenue. 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
- GCL is focusing on long term operational efficiencies and cost reset with a target of ~10% reduction in operating cost through structural efficiencies and operational efficiencies over medium term
- GCL reported an exceptional item of ₹ 31.1 crore, which includes ₹ 14.1 crore towards impairment loss on fixed assets and ₹ 16.9 crore towards employee separation cost towards closure of Ranipet facilities.
- In Q2FY21, on consolidated basis engines contributed 47% to revenues followed by aftermarket (25%), others (15%) and E-mobility (13%)
- Overall auto engine volumes fell 59% to 31450 for Q2FY21. Genset volumes fell 41% for Q2FY21 to 558 units. Overall agri business (pumpsets, power tillers, others) volumes fell 42% for Q2FY21 to 10028 units
- In electric mobility business (EMB), E-2-W volumes came in at 6033 units, up 25% YoY. The E-3-W segment registered a decline of 19% to 1145 unit YoY on a low base
- GCL acquired Bestway Agencies (BAPL) to expand its presence in fast disrupting E-3-W market to become integrated player in last mile E-mobility with strong presence in E-2W and E-3-W. Also, new product launches in 3-W, 4-W would aid expand market presence. Ampere market share is now at 20% in E-2-W among organised players. Ampere continues to accelerate with addition of new dealerships and now has pan-India presence with 265 dealers
- GCL is focusing on developing new partnership with diesel 3-W OEM and new global OEM for small 4-W. GCL's BS-VI diesel engine, CNG engine to play key role in long term while BS VI ready CREST CNG engines is under advanced stages of discussion. Further, the company has accelerated business developments with OEMs for BSVI engines
- Strong working capital continues with net working capital (NWC) days at 27 for Q2FY21 significant reduction sequentially. While NWC at Ampere has reduced to 53 days in Q2FY21 (Vs. 120 days in Q1FY21). With continuous efforts GC has been able to improve cash and receivables
- Ampere reported ₹ 32.5 crore of revenue for Q2FY21, up 44%, YoY and the EBITDA loss came in at ₹ 1.9 crore (vs. loss of ₹ 3.8 crore in Q2FY20). Ampere is expected to achieve EBITDA break even by FY22E
- In the auto category, cargo segment has improved and is gaining traction. However, passenger 3-W is still lagging behind. Green shoots are visible in aftermarket, farm and new mobility segments
- GC is making strides to derisk its supply chain and reduce imports from China. Ampere and Bestway have also witnessed improved localisation. Further, B2B and B2C business is expected to improve, once dealerships start operating at normal levels

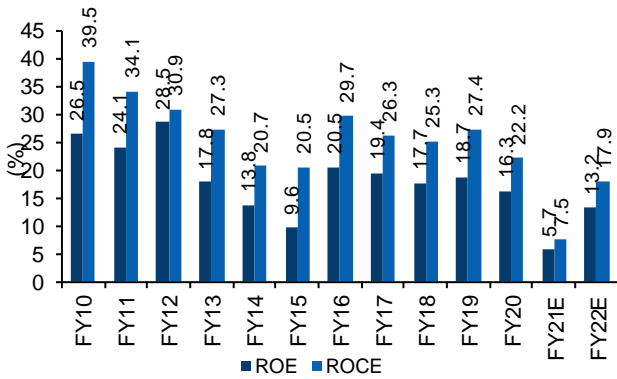
Financial Story in charts

Exhibit 5: Trend in auto engine segment sales



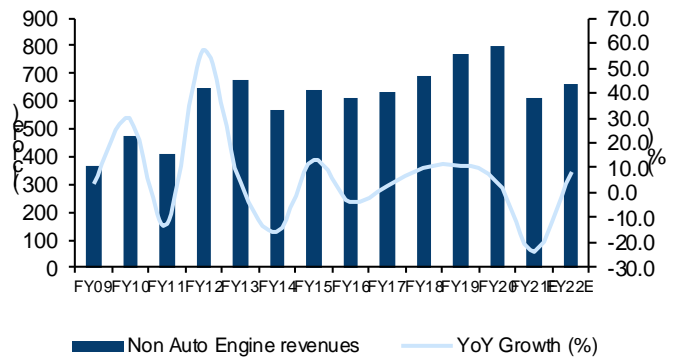
Source: Company, ICICI Direct Research

Exhibit 6: GCL commands superior return ratios



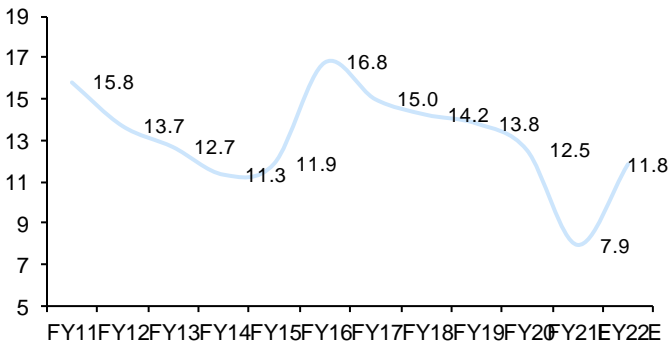
Source: ICICI Direct Research, Company

Exhibit 7: Non-auto engine segment revenue growth trend



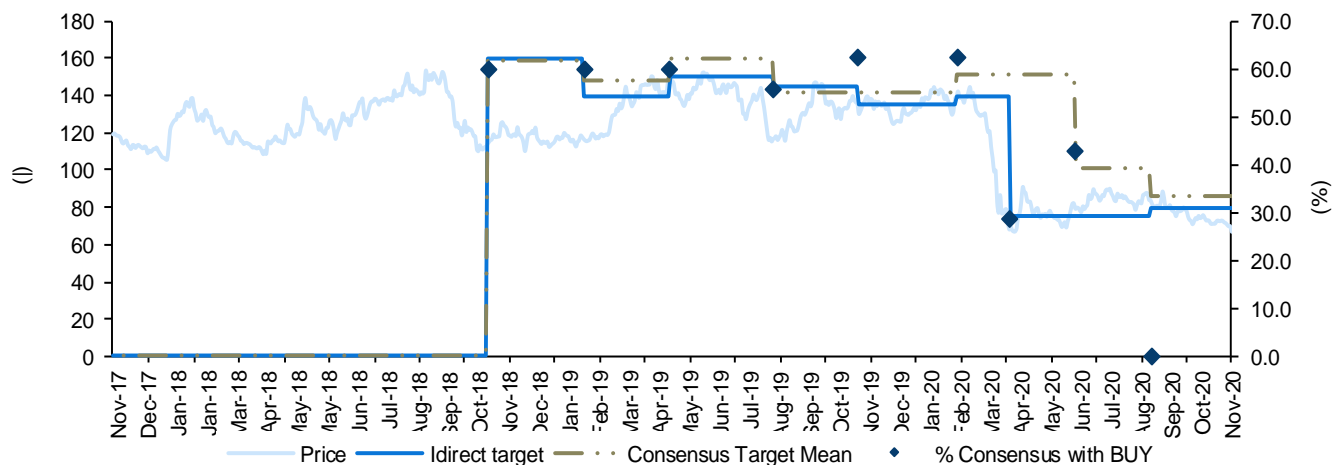
Source: ICICI Direct Research, Company

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	30-Jun-20	42.7	98.76m	0.00m
2	Capital Group Compan	30-Sep-20	7.4	17.18m	(3.26)m
3	Karun Carpets Pvt Lt	30-Jun-20	6.2	14.21m	0.00m
4	Bharat Starch Produc	30-Jun-20	6.0	13.78m	0.00m
5	Smallcap World Fund	16-Aug-18	5.8	13.40m	13.40m
6	New India Assurance	30-Jun-20	2.8	6.48m	0.00m
7	Massachusetts Inst T	30-Jun-20	2.5	5.88m	0.00m
8	Life Insurance Corp	30-Jun-20	2.4	5.65m	0.00m
9	General Insurance Co	30-Jun-20	2.0	4.69m	0.00m
10	Vantage Equity Fund	30-Jun-20	1.2	2.65m	(0.60)m

Source: Reuters, ICICI Direct Research

Exhibit 11: Shareholding Pattern

(in %)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoter	51.9	54.8	54.8	54.8	54.8
FII	14.6	15.0	15.6	14.3	11.3
DII	16.0	14.1	13.4	13.2	12.2
Others	17.6	16.1	16.2	17.7	21.7

Source: Company, ICICI Direct Research

Financial summary

Exhibit 12: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Total operating income	1,987.9	1,821.1	1,332.4	1,652.1
Growth (%)	10.9	-8.4	-26.8	24.0
Raw Material Expenses	1,358.5	1,249.2	924.1	1,128.4
Employee Expenses	174.7	158.1	145.4	163.4
Other Operating Expenses	179.9	185.8	157.7	164.9
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
EBITDA	274.7	228.1	105.3	195.5
Growth (%)	195.5	-17.0	-53.8	85.7
Depreciation	48.8	52.2	55.2	61.2
Interest	3.3	3.8	6.4	3.0
Other Income	41.6	19.8	13.9	21.0
PBT	246.3	196.6	26.6	152.3
Others	0.0	0.0	0.0	0.0
Total Tax	77.0	49.2	4.2	38.3
PAT	169.3	147.5	22.3	114.0
Growth (%)	-16.4	-12.9	-84.9	410.5
EPS (₹)	7.3	6.8	1.0	5.2

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit after Tax	169.3	147.5	22.3	114.0
Add: Depreciation	48.8	52.2	55.2	61.2
(Inc)/dec in Current Assets	-29.8	-1.8	-29.3	-33.6
Inc/(dec) in CL and Provis	60.1	-47.9	4.5	35.8
Others	0.0	0.0	0.0	0.0
CF from operating acti	251.7	153.7	59.1	180.3
(Inc)/dec in Investments	83.1	419.3	-20.0	-5.0
(Inc)/dec in Fixed Assets	-76.1	-94.3	-40.9	-56.0
Others	0.0	0.0	0.0	0.0
CF from investing acti	-80.7	194.4	-60.6	-57.0
Issue/(Buy back) of Equit	0.0	-2.6	0.0	0.0
Inc/(dec) in loan funds	-14.8	-7.0	2.0	2.0
Dividend paid & dividend	-161.9	0.0	-78.8	-105.1
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	0.0	7.6	0.0	0.0
CF from financing acti	-163.9	-239.8	-59.1	-108.1
Net Cash flow	7.1	111.0	-60.6	15.3
Opening Cash	31.3	38.4	149.4	88.8
Closing Cash	38.4	149.4	88.8	104.1

Source: Company, ICICI Direct Research

Exhibit 14: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Liabilities				
Equity Capital	48.8	46.2	46.2	46.2
Reserve and Surplus	920.3	837.1	806.7	815.6
Total Shareholders funds	969.2	883.3	852.9	861.8
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
Total Liabilities	995.4	919.2	894.4	910.3
Assets				
Gross Block	493.9	581.3	628.3	690.3
Less: Acc Depreciation	172.8	219.2	274.3	335.5
Net Block	321.2	362.1	353.9	354.7
Capital WIP	0.0	0.0	0.0	0.0
Total Fixed Assets	332.0	374.2	359.9	354.7
Investments	496.0	210.5	230.5	235.5
Inventory	115.2	171.2	172.7	174.7
Debtors	336.5	238.9	259.2	287.4
Loans and Advances	0.0	0.0	0.0	0.0
Other Current Assets	19.6	20.6	23.3	27.9
Cash	38.4	149.4	88.8	104.1
Total Current Assets	521.8	634.6	603.3	652.2
Creditors	319.4	279.1	273.8	296.5
Provisions	19.6	20.6	23.3	27.9
Total Current Liabilities	413.8	365.8	370.3	406.1
Net Current Assets	108.0	268.8	232.9	246.1
Others Assets	0.0	0.0	0.0	0.0
Total Assets	995.4	919.2	894.4	910.3

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	7.3	6.8	1.0	5.2
Cash EPS	9.4	8.6	3.4	7.6
BV	41.9	38.2	36.9	37.3
DPS	5.5	5.8	0.0	3.0
Cash Per Share	1.7	6.5	3.8	4.5
Operating Ratios (%)				
EBITDA Margin	13.8	12.5	7.9	11.8
PBT / Total Operating inc	8.5	8.1	1.7	6.9
PAT Margin	8.5	8.1	1.7	6.9
Inventory days	21.2	34.3	47.3	38.6
Debtor days	61.8	47.9	71.0	63.5
Creditor days	58.7	55.9	75.0	65.5
Return Ratios (%)				
RoE	18.7	16.3	5.7	13.2
RoCE	27.4	22.2	7.5	17.9
RoIC	48.3	25.4	7.1	19.0
Valuation Ratios (x)				
P/E	9.4	10.2	67.4	13.2
EV / EBITDA	4.5	5.9	13.3	7.0
EV / Net Sales	0.6	0.7	1.0	0.8
Market Cap / Sales	0.9	0.8	0.8	1.1
Price to Book Value	1.6	1.7	1.8	1.7
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.2	1.3	1.4	1.3
Quick Ratio	0.9	0.9	0.9	0.9

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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