

Muted performance amid lockdowns...

About the stock: Greaves Cotton (Greaves) is leading diversified engineering company with presence in automotive, non-automotive, aftermarket, retail, electric mobility solution and finance.

- New business share increased to ~30% while auto engine reduced to ~37% from FY17 to FY21. Overall, B2C share increased to ~60% in FY21
- E-mobility is expected to drive future growth (~12% of FY21 revenue)

Q1FY22 Results: Greaves reported a subdued Q1FY22 amid supply disruptions.

- Standalone revenue at ₹ 214.4 crore, up 45.8%, YoY despite very low base
- Standalone EBITDA loss was at ₹ 6.0 crore (vs. loss of ₹ 21.7 crore in Q1FY21) impacted by pandemic, higher commodity prices
- Consequently, adjusted net loss came in at ₹ 9.4 crore
- Engine (auto, non-auto) volumes grew merely 14% to 16521 units YoY

What should investors do? E-mobility and new initiatives businesses may provide much needed long term growth uptick amid languishing engine volumes.

- We remain long term positive and retain our BUY rating on the stock

Target Price and Valuation: We value Greaves at ₹ 190 on SoTP basis

Key triggers for future price performance:

- Transformation strategy to increase E-mobility and new-initiatives business share to drive long term growth and help transform and de-risk its business
- Consolidation of manufacturing operations into Megasites to bring higher operational efficiencies and reduced fixed costs in the long run
- We expect revenue, EBITDA to grow at CAGR of ~22.9%, 57.1%, respectively, in FY21-23E on a very low base amid pandemic impact

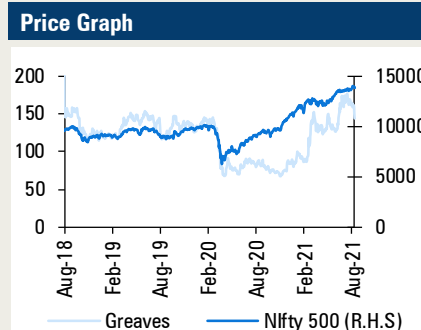
Alternate Stock Idea: We also like Elgi Equipment in our coverage.

- Among the leaders in domestic compressor market with strong b/s and return ratios, gaining traction in international markets to drive growth
- BUY with target price of ₹ 260



Particulars	Amount
Market Capitalization	₹ 3329 Crore
Total Debt (FY21)	₹ 0 Crore
Cash and Inv. (FY21)	₹ 170.5 crore
EV	₹ 3159 Crore
52 week H/L	₹ 184 / ₹ 66
Equity capital	₹ 46.2 Crore
Face value	₹ 2

Shareholding pattern				
(in %)	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	54.8	55.6	55.6	55.6
FII	11.3	5.0	4.9	4.5
DII	12.1	14.2	13.0	11.7
Others	21.8	25.2	26.5	28.2



Recent events & Key Risks

- **Key Risks:** (i) Inability to sustain growth in EV-Mobility segment. (ii) Sustained slowdown in auto engine sales, adverse raw material prices

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Key Financial Summary

Particulars (₹ crore)	FY19	FY20	FY21	5 Year CAGR (FY16-FY21)	FY22E	FY23E	2 Year CAGR (FY21-FY23E)
Net Sales	1,987.9	1,821.1	1,329.1	-3.8%	1,724.9	2,007.3	22.9%
EBITDA	274.7	228.1	96.9	-18.6%	148.4	239.3	57.1%
EBITDA Margin (%)	13.8	12.5	7.3		8.6	11.9	
Net Profit	169.3	147.5	10.4	-30.4%	82.6	141.5	269.5%
EPS (₹)	7.3	6.4	0.4		3.6	6.1	
P/E (x)	19.7	22.6	321.4		40.3	23.5	
RoNW (%)	18.7	16.2	3.3		8.7	14.7	
RoCE (%)	27.4	22.0	6.5		12.0	20.1	

Key takeaways of recent quarter & conference call highlights

Q1FY22 Results: Subdued performance amid pandemic impact...

- Standalone revenue came in at ₹ 214.4 crore, up 45.8% YoY despite very low base (vs. I-direct estimate of ₹ 340.5 crore)
- Consolidated revenue grew 46.7% YoY, impacted by lockdowns despite very low base. The engine segment revenues came in at ₹ 196.2 crore, up 40% YoY. On the other hand, E-Mobility segment revenue grew 62% YoY to ₹ 14.5 crore whereas it fell 79% QoQ. Despite revenue growth in EV segment, EBIT losses increased from ₹ 7.5 crore in Q1FY21 to ₹ 15.3 crore in Q1FY22
- It reported standalone EBITDA loss of ₹ 6.0 crore (vs. loss of ₹ 21.7 crore in Q1FY21) impacted by pandemic, higher commodity prices. On a consolidated basis, EBITDA loss came in at ₹ 16.9 crore (vs. EBITDA loss of ₹ 26.7 crore in Q1FY21)
- The company reported exceptional items worth ₹ 4 crore during the quarter toward profit on sale of immovable properties & PPE
- Greaves reported a net loss (adjusting for exceptional item) of ₹ 9.4 crore (vs. net loss of ₹ 24.2 crore in Q1FY21)

Q1FY22 Earnings Conference Call highlights

- Q1FY22 engine segment volume came in at 18873 units, up only 14% YoY. Auto engine volumes declined 16% to 9426 units YoY while non-auto engine volumes grew 78% to 9447 units YoY. Auto engine segment was largely marred by a decline in passenger 3-W volumes amid pandemic restrictions. On non-auto product/equipment side, power genset volumes grew 193% YoY to 806 units whereas the light equipment business (pumpset, power tiller, other) volumes grew mere 5% YoY to 6630 units. Overall new business initiatives contributed ~30% to revenue in Q1FY22
- E-Mobility segment volumes impacted by plant shutdown for eight weeks amid pandemic. E-2-W volumes declined 21% YoY to 1383 units while E-3-W volume came in at 770 units on zero base. The company now has 400 exclusive dealer networks across 200+ cities across country for E-2W
- Planned consolidation of engine manufacturing facilities at Aurangabad Megasite and E-Mobility Megasite at Ranipet is on track. EV-Megasite is expected to be operational by year end with initial capacity of 100000 units, gradually exiting Coimbatore leased EV facility
- In E-mobility business, it has established a strong phygital network and development of new businesses like fintech and finance arms to focus on building product portfolio by investing in technology and will act as enabler
- It has entered into an MoU for sale of land in Pune for consideration of ₹ 320 crore, which is expected to be received in three tranches and likely to be utilised towards new businesses
- Greaves continues to work on increasing localisation with most of the critical components now being procured from domestic partners. Only major component imported remains lithium ion cells

Exhibit 1: Variance Analysis

	Q1FY22	Q1FY22E	Q1FY21	YoY (Chg %)	Q4FY21	QoQ (Chg %)	Comments
Revenue	214.4	340.5	147.1	45.8	457.0	-53.1	Subdued revenue growth owing to pandemic restrictions affecting demand and manufacturing
Other Income	4.4	5.0	2.2	104.7	3.7	19.2	
Employee Expenses	35.7	33.0	34.7	3.0	34.6	3.2	
Raw Material Expenses	150.4	241.1	106.1	41.7	321.3	-53.2	
Other operating Expenses	34.3	37.1	28.0	22.6	53.8	-36.2	
EBITDA	-6.0	29.3	-21.7	-72.2	47.3	-112.7	Operating losses owing to lesser revenue booking leading negative operating leverage, higher commodity prices
EBITDA Margin (%)	-2.8	8.6	-14.7	1192 bps	10.4	-1316 bps	
Depreciation	10.9	12.2	11.8	-7.1	12.0	-9.2	
Interest	0.3	1.0	2.3	-	0.6		
Exceptional Item	-4.0	0.0	0.0		-0.5		
PBT	-8.8	21.1	-33.5	-73.7	38.9	-122.7	
Total Tax	-2.4	5.7	-9.3	-74.8	15.0	-115.7	
PAT	-6.5	15.4	-24.2	-73.2	23.9	-127.1	
Adj. PAT	-9.4	15.4	-24.2	-61.0	23.6	-140.0	
Key Metrics							
Segmental Performance							
Engine Segment	196.2	310.3	140.0	40.1	388.0	-49.4	Aided by growth in non-auto engines
E-Mobility	14.5	30.7	8.9	62.9	69.1	-79.0	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E			
	Old	New	% Change	Old	New	% Change	
Revenue	1,792.4	1,724.9	-3.8	2,027.5	2,007.3	-1.0	The 3-W engine segment volume is likely to decline owing to BS VI transition and impact of Covid-19
EBITDA	194.7	148.4	-23.8	249.5	239.3	-4.1	
EBITDA Margin (%)	10.9	8.6	-226 bps	12.3	11.9	-39 bps	Margins in FY22E to be impacted owing to BS-VI transition and pandemic restrictions affecting demand
PAT	114.0	82.6	-27.6	151.4	141.5	-6.6	
EPS (₹)	5.2	3.6	-31.3	6.5	6.1	-5.9	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier		
	FY20	FY21	FY22E	FY23E	FY22E	FY23E	
3-W Volumes (units)	2,52,495	94,658	1,26,442	1,54,060	1,82,022	2,16,661	Revised volumes in line with expected auto sales, BS-VI transition and Covid-19 impact
4-W & Other Volumes (Units)	38,411	43,629	48,000	56,000	20,000	20,000	
Overall Engine Volumes	2,90,906	1,38,287	1,74,442	2,10,060	2,02,022	2,36,661	

Source: Company, ICICI Direct Research

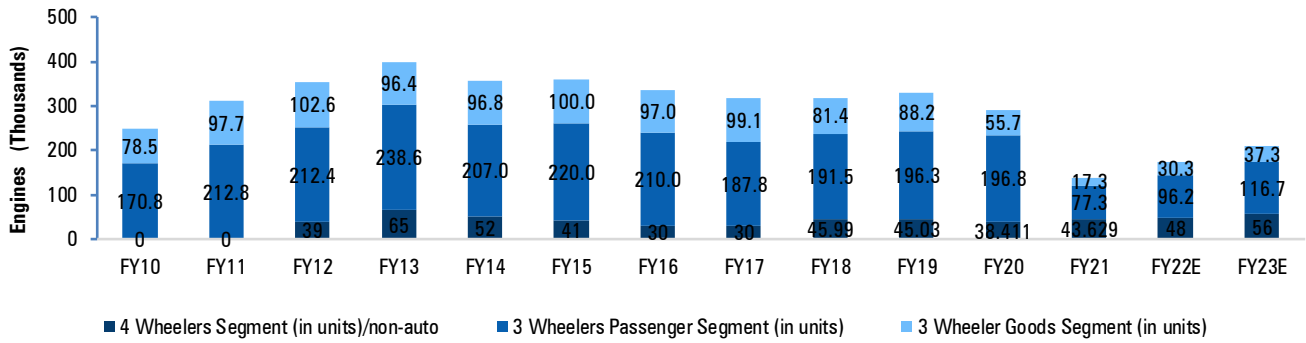
Exhibit 4: Valuations

	Basis of Valuation	Multiple	Total Value (₹ crore)	Per share value(₹)	Comments
Base Business	P/E	18x	2,546	110	
Ampere (100% Stake), Bestway	P/Sales	4.5x	1800	78	FY23E sales at ₹ 400 crore
Total			4,346	189	

Source: Company, ICICI Direct Research

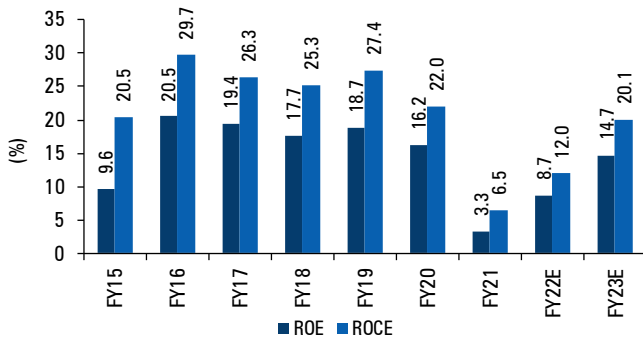
Financial story in charts

Exhibit 5: Trend in auto engine segment sales



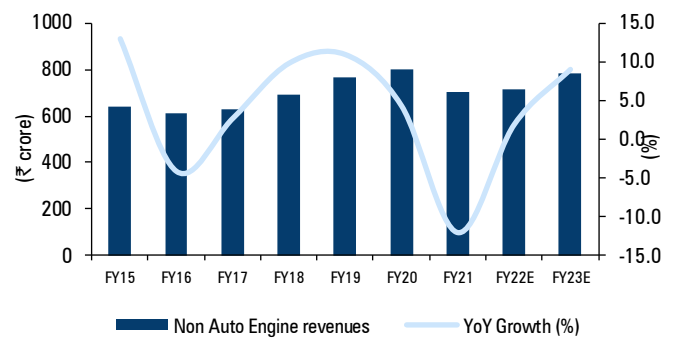
Source: Company, ICICI Direct Research

Exhibit 6: Commands superior return ratios



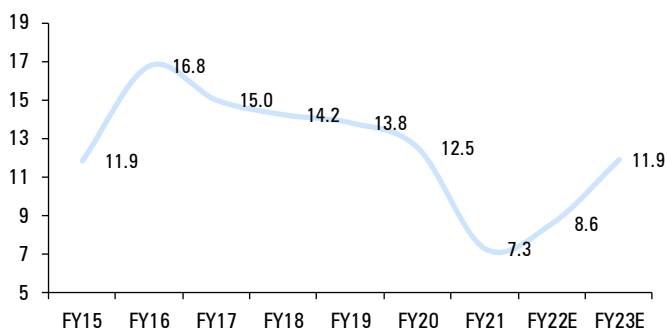
Source: ICICI Direct Research, Company

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

Financial summary

Exhibit 9: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total operating Income	1,821.1	1,329.1	1,724.9	2,007.3
Growth (%)	-8.4	-27.0	29.8	16.4
Raw Material Expenses	1,249.2	941.4	1,233.8	1,389.9
Employee Expenses	158.1	127.1	151.4	172.0
Other Operating Expenses	185.8	163.7	191.4	206.1
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	228.1	96.9	148.4	239.3
Growth (%)	196.1	-57.5	53.1	61.2
Depreciation	52.2	48.4	56.5	65.1
Interest	3.8	5.6	3.8	5.1
Other Income	19.8	10.0	18.4	20.0
PBT	196.6	18.5	110.4	189.0
Others	0.0	0.0	0.0	0.0
Total Tax	49.2	8.1	27.9	47.6
PAT	147.5	10.4	82.6	141.5
Growth (%)	-12.9	-93.0	697.1	71.3
EPS (₹)	6.4	0.4	3.6	6.1

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	147.5	10.4	82.6	141.5
Add: Depreciation	52.2	48.4	56.5	65.1
(Inc)/dec in Current Assets	-1.8	82.4	-55.8	-82.7
Inc/(dec) in CL and Provisions	-47.9	33.8	18.6	36.4
Others	0.0	0.0	0.0	0.0
CF from operating act	153.7	180.6	105.7	165.4
(Inc)/dec in Investments	419.3	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-94.3	-15.4	-3.2	-65.0
Others	0.0	0.0	0.0	0.0
CF from investing act	194.4	-161.1	3.7	-47.2
Issue/(Buy back) of Equity	-2.6	0.0	0.0	0.0
Inc/(dec) in loan funds	-7.0	0.0	2.0	2.0
Dividend paid & dividend tax	0.0	-4.6	-69.6	-97.4
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 act	-234.8	-3.3	-69.2	-102.6
Net Cash flow	116.0	16.2	40.2	15.7
Opening Cash	38.4	154.4	170.5	210.7
Closing Cash	154.4	170.5	210.7	226.4

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	46.2	46.2	46.2	46.2
Reserve and Surplus	842.0	854.7	871.9	915.9
Total Shareholders funds	888.2	900.9	918.1	962.1
Total Debt	0.0	0.0	0.0	0.0
Deferred Tax Liability	0.0	0.0	2.0	4.0
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	924.2	929.2	951.3	1,002.4
Assets				
Gross Block	581.3	511.7	573.7	635.7
Less: Acc Depreciation	219.2	244.4	301.0	366.1
Net Block	362.1	267.3	272.8	269.7
Capital WIP	0.0	0.0	0.0	0.0
Total Fixed Assets	374.2	341.1	287.8	287.7
Investments	210.5	281.9	281.9	301.9
Inventory	171.2	154.8	165.4	181.5
Debtors	238.9	203.0	236.3	269.5
Loans and Advances	0.0	0.0	0.0	0.0
Other Current Assets	20.6	24.7	28.7	30.9
Cash	154.4	170.5	210.7	226.4
Total Current Assets	639.5	573.4	669.3	767.7
Creditors	279.1	317.5	311.9	335.5
Provisions	20.6	24.7	28.7	30.9
Total Current Liabilities	365.8	399.7	418.2	454.7
Net Current Assets	273.7	173.7	251.1	313.1
Others Assets	0.0	0.0	0.0	0.0
Total Assets	924.2	929.2	951.3	1,002.4

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	6.4	0.4	3.6	6.1
Cash EPS	8.6	2.5	6.0	8.9
BV	38.4	39.0	39.7	41.6
DPS	0.0	0.2	2.5	3.5
Cash Per Share	6.7	7.4	9.1	9.8
Operating Ratios (%)				
EBITDA Margin	12.5	7.3	8.6	11.9
PBT / Total Operating income	8.1	0.8	4.8	7.0
PAT Margin	8.1	0.8	4.8	7.0
Inventory days	34.3	42.5	35.0	33.0
Debtor days	47.9	55.7	50.0	49.0
Creditor days	55.9	87.2	66.0	61.0
Return Ratios (%)				
RoE	16.2	3.3	8.7	14.7
RoCE	22.0	6.5	12.0	20.1
RoIC	25.4	8.8	15.4	26.5
Valuation Ratios (x)				
P/E	22.6	321.4	40.3	23.5
EV / EBITDA	13.9	32.6	21.0	13.0
EV / Net Sales	1.7	2.4	1.8	1.5
Market Cap / Sales	1.8	2.5	1.9	1.7
Price to Book Value	3.7	3.7	3.6	3.5
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.3	1.0	1.1	1.2
Quick Ratio	0.9	0.6	0.7	0.8

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (Capital Goods)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
L&T (LARTOU)	1624	1,870	Buy	227880	81.9	46.7	52.9	19.8	34.8	30.7	7.4	8.0	8.8	18.8	10.2	11.0
Siemens Ltd	2197	2,550	Buy	78240	28.3	37.9	45.1	77.7	57.9	48.8	13.5	16.3	17.4	9.9	12.1	13.0
AIA Engineering (AIAENG)	1950	2,275	Buy	18392	60.0	58.7	71.0	32.5	33.2	27.5	16.5	15.1	16.7	13.3	12.2	13.3
Thermax (THERMA)	1392	1,680	Buy	16587	17.3	26.8	40.0	80.3	51.9	34.8	9.8	11.9	16.3	7.6	9.3	12.7
Kalpataru Power(KALPOW)	433	550	Buy	6699	41.3	33.9	42.0	10.5	12.8	10.3	15.9	16.6	17.6	12.7	11.5	12.7
KEC International (KECIN)	395	485	Buy	10155	21.5	23.3	32.2	18.4	16.9	12.3	19.4	18.3	20.9	16.5	15.9	18.3
Greaves Cotton (GREAVE)	144	190	Buy	3329	0.4	3.6	6.1	321.4	40.3	23.5	6.5	12.0	20.1	3.3	8.7	14.7
Elgi Equipment (ELGEQU)	209	260	Buy	6623	3.2	3.9	6.2	64.6	53.3	34.0	11.7	12.8	18.1	11.8	13.9	18.7
Bharat Electronics (BHAELE)	174	205	Buy	42397	8.5	9.5	10.8	20.5	18.2	16.1	27.1	26.7	27.7	19.1	19.7	20.5
Cochin Shipyard (COCSHI)	362	500	Buy	4730	46.4	44.0	55.6	7.8	8.2	6.5	14.4	15.2	16.0	15.3	13.0	14.7
SKF (SKFIND)	2800	3,300	Buy	13800	60.2	72.0	94.0	46.5	38.9	29.8	24.8	25.0	28.0	19.0	19.0	21.0
Timken India (TIMIND)	1552	1,740	Hold	11540	19.0	28.2	36.3	81.5	55.0	42.8	13.7	18.3	23.5	10.7	14.0	18.0
NRB Bearing (NRBBEA)	126	175	Buy	1180	5.6	8.0	9.8	22.5	15.8	12.9	11.8	15.8	17.2	10.4	13.1	14.1
Action Construction (ACTCON)	231	300	Buy	2450	7.1	9.4	13.7	32.5	24.6	16.9	26.9	25.8	30.7	15.3	17.1	20.3

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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