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Stock Update

Greaves Cotton Ltd

Positive on diversification strategy

Automobiles	Sharekhan code: GREAVESCOT

Reco/View	Reco: **Buy**	↔	CMP: **Rs. 131**	Price Target: **Rs. 178**	↓

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Company details

Market cap:	Rs. 3,029 cr
52-week high/low:	Rs. 184 / 66
NSE volume: (No of shares)	31.9 lakh
BSE code:	501455
NSE code:	GREAVESCOT
Free float: (No of shares)	10.3 cr

Shareholding (%)

Promoters	55.6
FII	3.8
DII	9.4
Others	31.2

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-2.2	-18.9	6.7	83.8
Relative to Sensex	-5.7	-34.3	-18.1	33.0

Sharekhan Research, Bloomberg

Summary

- We maintain a Buy on the stock Greaves Cotton Limited (Greaves) with a revised PT of Rs. 178, led by strengthening position in e-mobility and non-auto businesses.
- Greaves reported a weak performance in Q2FY22, led by lower-than expected sales and poor operational performance.
- Management remains positive on its diversification strategy and expects to normalize its sales and profitability. Greaves is expected to clock a 23% revenue CAGR during FY2021-23E also see a sharp rise in margins, leading to a 231% earnings CAGR.
- The stock trades below historical averages at a P/E multiple of 17.7x and EV/EBITDA multiple of 10.3x its FY2023E estimates.

Greaves Cotton Limited (Greaves) reported a weak performance in Q2FY22, led by lower-than expected sales and poor operational performance. The EBIDTA margin was significantly impacted due to negative operating leverage. At a consolidated level, the company reported a loss at EBITDA level. Net revenue was up 13.4% y-o-y and 63.1% q-o-q to Rs373.5 crore in Q2FY2022, while the company reported consolidated loss of Rs24.5 crore in the quarter. The management remains positive on its diversification strategy and expects to normalize its sales and profitability going forward. The e-mobility is showing strong growth, despite the supply constraints due to chips and parts shortage. We expect Greaves to clock a 23% revenue CAGR during FY2021-23E also see a sharp rise in margins, leading to a 231% earnings CAGR. The company's diversification strategy is reaping benefits with new businesses contribution increasing to ~43% of total revenue. Given the improved business outlook and expectations of improving 3W sales, we maintain our positive stance on the company and retain a Buy call.

Key positives

- The diversification strategy of Greaves' is reaping benefits with new businesses now contributing ~43% of total revenue.
- E-mobility business is getting strong traction from the customers with e-2W market share maintained at 15%, despite rising competition in the e-2W markets.
- Greaves has strengthened e-3W business with the subscription of 26% stake in MLR Auto (specializes in L5 cargo and passenger 3W) and acquiring remaining 26% in Ele E-Rickshaw.

Key negatives

- Adversely impacted by lower volumes and negative operating leverage, the company reported consolidated EBITDA loss of Rs10.2 crore and PAT loss of 24.5 crore.

Management Commentary

- The company's management is optimistic on growth outlook and expects sales to recover going forward.
- The management expects annualized fixed cost saving of Rs 45 crore versus FY2020, led by restructuring of business and consolidation of facilities. The cost restructuring has brought down break-even point in engines business vertical.

Revision in estimates - Given the weak performance in H1FY2022, we have reduced our FY2022E and FY2023E estimated earnings by 37% and 8.1% respectively. We have introduced FY2024E financial estimates.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 178: Greaves continues to grow strongly, aided by its timely investments and expansion in e-mobility and non-auto businesses. We expect the 3W industry to gain demand, as the COVID-19 situation normalises, and vaccines are rolled out throughout the country. The opening of schools, educational institutions, corporates, and local/metro trains will be the key catalysts for demand. Greaves will be the key beneficiary of a recovery in 3W demand. Additionally, the company's focus on new businesses, especially e-2Ws and e-3Ws, provides strong room for strong growth. In the e-2W segment, the company maintains its market share at 15%, despite rising competition. We expect Greaves to clock a 23% revenue CAGR during FY2021-23E also see a sharp rise in margins, leading to a 231% earnings CAGR. The stock is trading below its average historical multiple at P/E multiple of 17.7x and EV/EBITDA multiple of 10.3x its FY2023E estimates. The company also has a history of strong dividend pay-out ratio of 40-60%, which implies dividend yield of 3-3.2%. We retain a Buy on the stock with a revised PT of Rs. 178.

Key Risks

The company's performance can be impacted adversely if commodity prices continue to rise at the current pace. Moreover, a prolonged delay in the recovery of the 3W industry can materially impact our revenue projections.

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22E	FY23E	FY24E
Revenues	1,500	1,770	2,266	2,606
Growth (%)	(21.5)	18.0	28.0	15.0
EBIDTA	80	150	275	324
OPM (%)	5.3	8.5	12.1	12.4
Net Profit	16	77	171	203
Growth (%)	(87.2)	394.0	121.2	18.5
EPS	0.7	3.4	7.4	8.8
P/E	193.2	39.1	17.7	14.9
P/BV	4.9	4.9	4.3	3.8
EV/EBIDTA	35.3	19.0	10.3	8.5
ROE (%)	2.5	12.5	16.6	17.6
ROCE (%)	3.8	14.9	21.0	22.6

Source: Company; Sharekhan estimates

Weak performance in Q2FY2022: Greaves Cotton Limited ((Greaves) reported a weak performance in Q2FY22, led by lower-than expected sales and poor operational performance. The EBIDTA margin significantly impacted due to negative operating leverage. At the consolidated level, the company reported a loss at EBITDA level. Net revenue was up 13.4% y-o-y and 63.1% q-o-q to Rs373.5 crore in Q2FY2022, led by performance of subsidiary businesses. On a standalone basis, the revenues stood at Rs 284 crore, which a decline of 1.5% y-o-y and an improvement of 32.4% q-o-q. Standalone EBITDA margin declined 450 bps y-o-y to 1.6% in Q2FY22, largely due to negative operating leverage. The standalone gross margins declined 120 bps y-o-y to 28%. Consolidated EBITDA continued to be under pressure with an EBITDA loss of Rs 10.2 crore in Q2FY22 versus EBITDA loss of RS 15.4 crore in Q1FY22. Led by weak performance, the company reported consolidated loss of Rs24.5 crore.

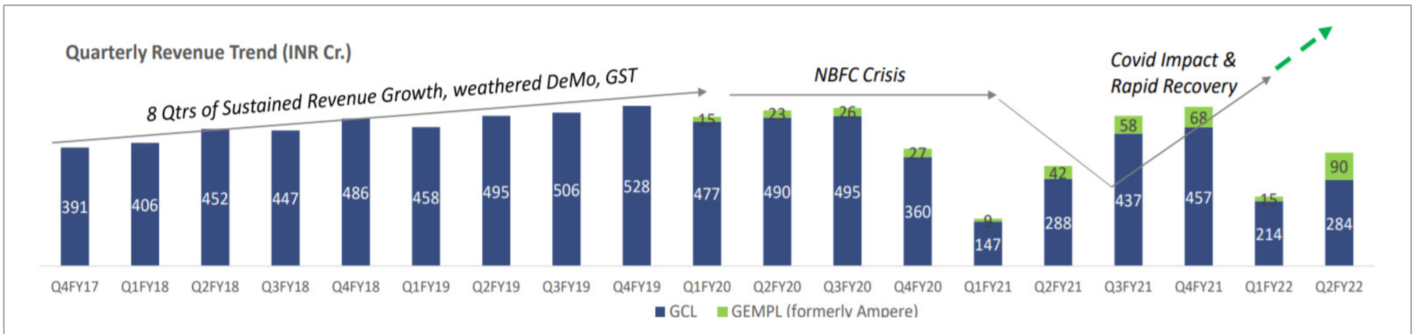
E-mobility business continues to grow strong in Q2FY2022

Volumes (Units)	Q2		Growth (%)	Q1	Growth (%)	H1		Growth (%)
	FY22	FY21	Y-o-Y	FY22	Q-o-Q	FY22	FY21	Y-o-Y
Auto Engines	8,667	19,234	(55%)	9,426	(8%)	18,093	30,450	(41%)
Non-Auto Engines	11,032	12,187	(9%)	9,447	17%	20,479	17,492	17%
Engines	19,699	31,421	(37%)	18,873	4%	38,572	47,942	(20%)
Genset	1,160	558	108%	811	43%	1,971	833	137%
Light Equipment	8,685	10,028	(13%)	6,630	31%	15,315	16,345	(6%)
Non-Auto Products	9,845	10,586	(7%)	7,441	32%	17,286	17,178	1%
E-2W	10,103	6,033	67%	1,383	631%	11,486	7,785	48%
E-3W	3,177	1,145	177%	770	313%	3,947	1,145	245%
E-Mobility Products	13,280	7,178	85%	2,153	517%	15,433	8,930	73%

Source: Company Investor PPT; Sharekhan Research

Management outlook: The company is witnessing a strong recovery in sales post the lockdown restrictions in the second wave of COVID. The Ampere EV sales were showing strong recovery, with October'21 witnessing one of the highest sales. The three-wheeler shared mobility is expected to gain volume momentum as the economy goes back to normalcy. The company's management is optimistic on the growth outlook and expects sales to recover going forward. Management expects annualized fixed cost saving of Rs 45 crore versus FY2020, led by restructuring of business and consolidation of facilities. The cost restructuring has brought down break-even point in engines business vertical

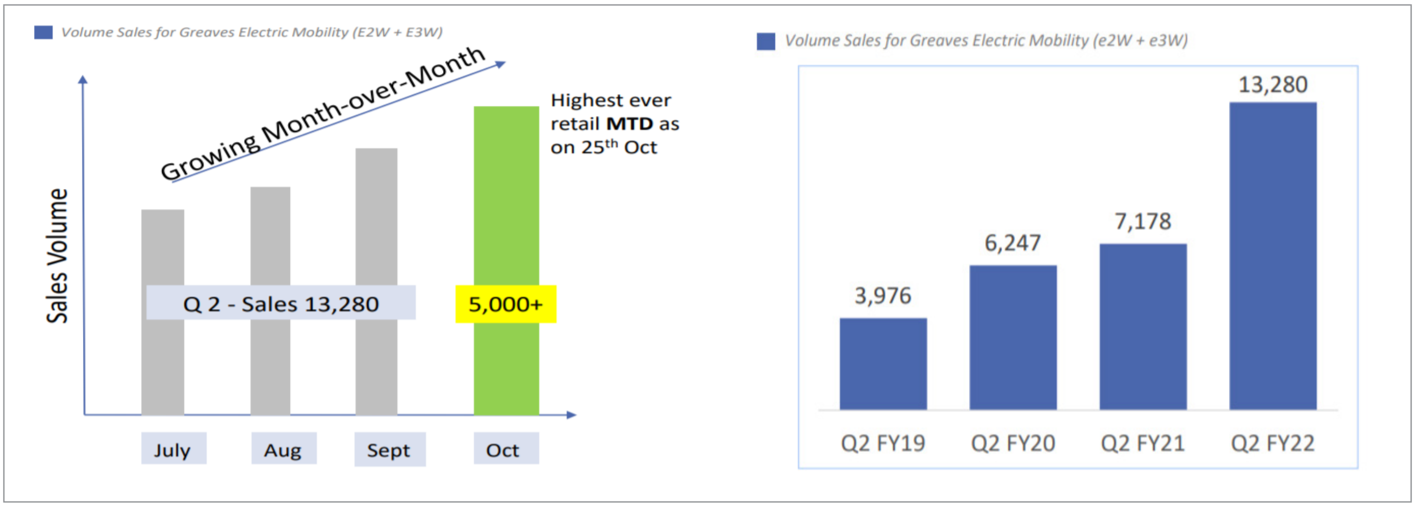
Diversification strategy reaping benefits for the company



Source: Company Investor PPT; Sharekhan Research

E-mobility business to drive growth in the next phase: Greaves is well poised to benefit from the faster adoption of EVs in India, especially in e-2W and e-3W segments, where the company has a strong portfolio and growth strategies in place with the government pushing faster adoption of EVs in the country. We expect the FAME II scheme to be extended beyond 2022, as the benefits utilised under the scheme are at a mere 5% currently. Besides these incentives, state governments are helping to drive faster EV adoption through additional incentives, such as additional subsidies on EV purchase, increased outlay for EV infrastructure, promoting EV start-ups, and exemptions from registration and other fees that are applicable to normal internal combustion engine (ICE) vehicles. Greaves has ramped up its e-mobility business at a much faster pace than we had anticipated earlier. We believe Greaves is well positioned to benefit from the government's push towards fast adoption of EVs. We continue to maintain our positive stance on Greaves because of its timely investments in the e-mobility business. The e-mobility business now contributes 24% of total consolidated sales. The company has strengthened e-3W business with the subscription of 26% stake in MLR Auto (specializes in L5 cargo and passenger 3W) and acquiring remaining 26% in Ele E-Rickshaw.

Increasing volumes for e-2W and e-3W vehicles led by government incentives and rising customer awareness



Source: Company Investor PPT; Sharekhan Research

Adoption of e-2Ws to be 10-15% of the 2W market size: The management expects that the government's push towards fast adoption of EVs in the automobile industry would yield better results. The company expects 10-15% penetration of e-2W by 2025 and 20-30% penetration by 2030, in line with the government's expectations. We believe Greaves is likely to be a beneficiary of the government's push. Besides the incentives under FAME-II (Faster Adoption and Manufacturing of EVs) scheme, the government has launched Go Electric media campaign to spread awareness on the benefits of e-mobility and EV charging infrastructure aiming key stakeholders. Moreover, the FAME-II scheme is focussed on E-2Ws and E-3Ws, with ~52% subsidies provided under the scheme. E-mobility business is getting strong traction from the customers with e-2W market share maintained at 15%, despite rising competition in the e-2W markets.

Ampere adds strong experience in EV technology: Greaves acquired Ampere in 2018 and now holds an 81.2% stake. Through its subsidiary Ampere, Greaves is setting up a EV mega site manufacturing facility at Ranipet, with a proposed investment plan of Rs. 700 crore to build capacity of producing one million e-2Ws in a phased manner over a period of 10 years. The plant will have initial installed capacity of 1,00,000 units of e-2Ws. The company is well prepared to ramp up production faster, if the Indian automobile markets witness a speedy EV adoption. The company has already invested Rs300 crore in e-mobility business and is open to growth through strategic and/or technology partner in future. Ampere is one of the leaders in e-mobility and has 12 years of experience in EV technology, designing, and manufacturing EVs. Ampere is a market leader with a strong presence in both B2C and B2B segments, with a strong network across India. Ampere extended play to E-3W with acquisition of E-Rick business under 'Ele' brand in 2021. The company has a strong e-mobility retail network with 328+ dealers across 260+ cities and towns. It has a strong presence in the B2B segment with more than 50 tie-ups in food retail, e-commerce, and ride sharing. Ampere has acquired a strategic stake in L5 e-3W manufacturer, MLR Auto, recently. With this strategic stake in MLR Auto, Ampere Electric gets ready to operate as a full range last mile electric vehicle company with mass mobility solutions in both E-2W & E-3W segment.

Focus on fast speed e-scooters: After acquiring a majority stake in Ampere Electric, Greaves has expanded the portfolio of its vehicles towards fast speed e-scooters. Traditionally, Ampere Electric used to target tier 3 and 4 cities and slow speed e-scooters. After the acquisition of Greaves, Ampere moved into the commuter segment (high speed e-scooters), focusing tier 1 and 2 cities and B-2-B clients. Currently, the company's e-mobility business has three business segments – e-2W, e-3W, and e-industrial solutions. Moreover, the company is in advanced negotiations with 3W manufacturers for its 'Crest' engines for both its petrol and CNG variants, which could be a potential revenue driver in the long run.

Strong broad-based growth; Expect robust double-digit growth in the medium term: We believe the company is benefiting from its re-focussed strategy on automotive, non-automotive, e-mobility, retail, and finance businesses. Over the past few years, the company has transformed its businesses to expand its markets from 3W diesel engines to last mile mobility, move beyond one product/application/fuel with focus on clean tech, increasing value to customers through B2C, expand products to solutions, and leverage the company's brand and penetration. The refocus strategy has played well for the company, as Greaves has managed to display a strong quarterly revenue run-rate despite lacklustre sales in 3W engines. Given the robust businesses outlook and expectations of improving 3W sales, we expect Greaves to clock a 23% revenue CAGR during FY2021-23E also see a sharp rise in margins, leading to a 231% earnings CAGR.

Results (Standalone) Rs cr

Particulars	Q2FY22	Q2FY21	YoY %	Q1FY22	QoQ %
Revenues	284.0	288.2	-1.5	214.4	32.4
Total operating costs	279.5	270.8	3.2	220.4	26.8
EBITDA	4.5	17.5	-74.4	(6.0)	NA
Depreciation	10.9	12.4	-12.3	10.9	-0.3
Interest	0.5	1.9	-71.6	0.3	68.8
Other income	7.6	1.8	330.5	4.4	73.2
PBT	0.7	4.9	-86.6	(12.9)	NA
Tax	3.0	(8.2)	NA	(2.4)	NA
Adjusted PAT	(2.3)	13.1	NA	(10.5)	NA
Reported PAT	8.3	(18.0)	NA	(6.5)	NA
Adjusted EPS	(0.10)	0.53	NA	(0.45)	NA

Source: Company Data; Sharekhan Research

Key ratios (Standalone)

Particulars	Q2FY22	Q2FY21	YoY (bps)	Q1FY22	QoQ (bps)
Gross margin (%)	28.0	29.2	-120	29.8	-180
EBIDTA margin (%)	1.6	6.1	-450	(2.8)	NA
EBIT margin (%)	(2.3)	1.7	NA	(7.9)	NA
Net profit margin (%)	(0.8)	4.5	NA	(4.9)	NA
Effective tax rate (%)	455	NA	NA	18.3	NA

Source: Company Data; Sharekhan Research

Results (Consolidated) Rs cr

Particulars	Q2FY22	Q2FY21	YoY %	Q1FY22	QoQ %
Revenues	373.5	329.4	13.4	229.0	63.1
Total operating costs	383.7	344.8	11.3	245.9	56.1
EBITDA	(10.2)	(15.4)	NA	(16.9)	NA
Depreciation	15.0	15.3	-2.2	14.7	1.5
Interest	1.2	2.2	-44.7	0.8	59.2
Other income	6.1	1.6	281.4	3.2	94.9
PBT	(20.2)	(31.2)	NA	(29.2)	NA
Tax	4.3	(8.7)	NA	(1.0)	NA
Adjusted PAT	(24.5)	(22.5)	NA	(28.2)	NA
Reported PAT	(23.3)	8.6	NA	(24.2)	NA
Adjusted EPS	(1.06)	(0.97)	NA	(1.22)	NA

Source: Company Data; Sharekhan Research

Key ratios (Consolidated)

Particulars	Q2FY22	Q2FY21	YoY (bps)	Q1FY22	QoQ (bps)
Gross margin (%)	25.5	28.3	-280	28.6	-310
EBIDTA margin (%)	(2.7)	(4.7)	NA	(7.4)	NA
EBIT margin (%)	(6.7)	(9.3)	NA	(13.8)	NA
Net profit margin (%)	(6.6)	(6.8)	NA	(12.3)	NA
Effective tax rate (%)	NA	NA	NA	3.5	NA

Source: Company Data; Sharekhan Research

Outlook and Valuation

■ Sector view - Demand picking up

Business outlook for the automotive segments is expected to improve with the normalisation of economic activities. Automotive demand is witnessing strong recovery in 2W and 4W segments, aided by pent-up demand and increased personal mobility transport. Rural and semi-urban markets remain buoyant on robust farm income this year. The recovery in export destinations is auguring well for the sector. The rolling out of COVID-19 vaccination programmes in the country are keeping overall outlook positive for the coming months, following the respective approval of various vaccines. In addition, the 3W industry is expected to gain demand, as the economy is getting normalised, and vaccines are getting rolled out throughout the country. The opening of schools, educational institutions, corporates, and local/metro trains will be key catalysts for demand.

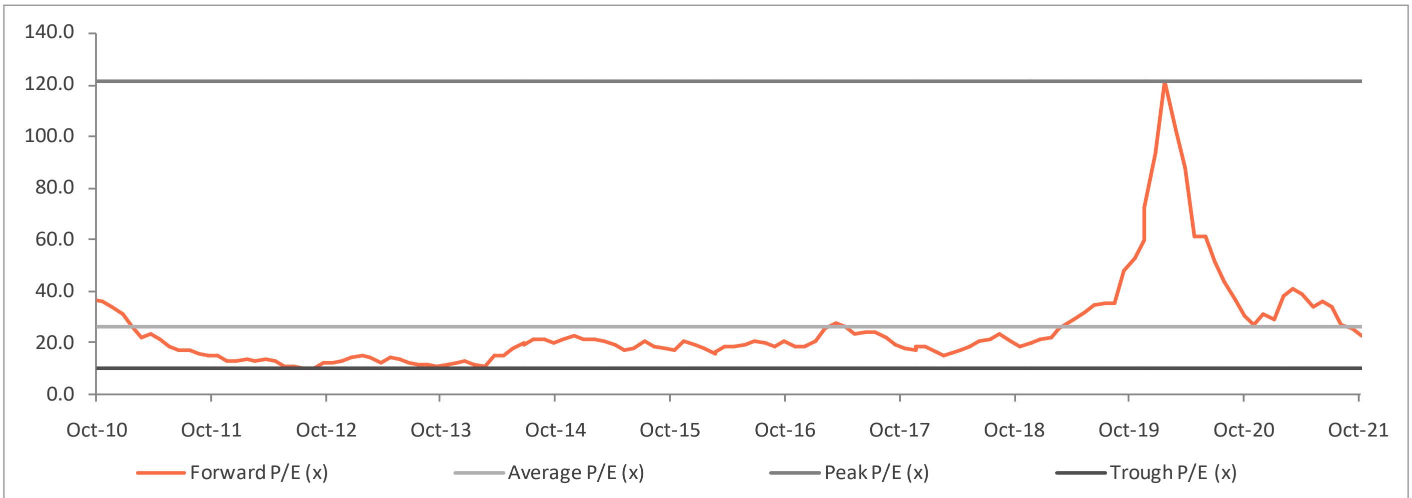
■ Company outlook - Beneficiary of EV adoption in 2W and 3W segments

Greaves is expected to benefit from improvement in business, driven by robust recovery in non-auto business, electric mobility but a slower paced recovery in 3W. We believe the company is benefiting from its re-focus strategy on automotive, non-automotive, E-mobility, retail, and finance businesses. In our view, the refocus strategy has played well for the company, as Greaves has managed to display a strong quarterly revenue run-rate despite lacklustre sales in 3W engines. Greaves is well positioned to benefit from the government's push towards faster adoption of EV, especially e-2Ws and e-3Ws, where the company has strong product lines. Given the improved new businesses outlook and expectations of improving 3W sales, we maintain our positive stance on the company.

■ Valuation - Maintain Buy with a revised PT of Rs. 178:

Greaves continues to grow strongly, aided by its timely investments and expansion in its e-mobility and non-auto businesses. We expect the 3W industry to gain demand, as the COVID-19 situation normalises, and vaccines are rolled out throughout the country. The opening of schools, educational institutions, corporates, and local/metro trains will be the key catalysts for demand. Greaves will be the key beneficiary of a recovery in 3W demand. In addition, the company's focus on new businesses, especially e-2Ws and e-3Ws, provides strong room for strong growth. In the e-2W segment, the company maintains its market share at 15%, despite rising competition. We expect Greaves to clock a 23% revenue CAGR during FY2021-23E also see a sharp rise in margins, leading to a 231% earnings CAGR. The stock is trading below its average historical multiple at P/E multiple of 17.7x and EV/EBITDA multiple of 10.3x its FY2023E estimates. The company also has a history of strong dividend pay-out ratio of 40-60%, which implies dividend yield of 3-3.2%. We retain Buy on the stock with a revised PT of Rs. 178.

One-year forward P/E (x) band



Source: Company Data; Sharekhan Research

Peer Comparison

Companies	CMP	P/E (x)			EV/EBITDA (x)			ROCE (%)		
		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Greaves Cotton	131	193.2	39.1	17.7	35.3	19.0	10.3	3.8	14.9	21.0
Alicon Castalloy	825	NA	20.5	12.0	15.9	8.5	6.1	5.9	19.1	26.2
Gabriel India	160	42.2	22.8	18.0	20.0	12.7	10.1	11.8	17.8	20.0
Lumax Auto Technologies	132	18.6	13.3	10.2	8.7	6.5	5.0	12.8	14.6	16.5

Source: Company Data; Sharekhan Research

About company

Greaves is one of the leading suppliers of powertrain and related solutions to auto original equipment manufacturers (OEMs). The company has a lion share in the 3W diesel segment. The company's products can be classified into four categories – engines (48% of sales), aftermarkets (23% of sales), e-mobility (12% of sales), and others (18% of sales). The others segment includes power gensets, agri-equipment, and other application-based engines.

Investment theme

Greaves is benefitting by its re-focus strategy on automotive, non-automotive, E-mobility, retail, and finance businesses. Over the past few years, the company has transformed its businesses to expand its markets from 3W diesel engines to last-mile mobility, move beyond one product/application/fuel with focus on clean tech, increasing value to customers through B2C, expand products to solutions, and leverage the company's brand and penetration. The refocus strategy has played well for the company, as Greaves has managed to display a strong quarterly revenue run-rate despite lacklustre sales in 3W engines in FY2021, which underpin our strong belief in the management. Given improved new business outlook and expectations of improving 3W sales, we expect the company's revenue and profitability to remain firm in the medium term. Moreover, its strategic move towards investment in Ampere has a huge potential for businesses as well as valuation multiple. The company is open for strategic and/or technical partner to strengthen its e-mobility business. Hence, we maintain our Buy rating on the stock.

Key Risks

- The company's performance can be impacted adversely if commodity prices continue to rise at the current pace.
- Prolonged delay in the recovery of the 3W industry can materially impact our revenue projections.

Additional Data

Key management personnel

Karan Thapar	Chairman
Nagesh Basavanhalli	Managing Director and CEO
Amit Mittal	Chief Financial Officer
Atindra Basu	Company Secretary

Source: Company

Top shareholders

Sr. No.	Holder Name	Holding (%)
1	KARUN CARPETS PVT LTD	55.6
2	L&T Mutual Fund Tustee Ltd/India	1.1
3	Life Insurance Corp of India	4.9
4	New India Assurance Co Ltd/The	1.8
5	Mukul Mahavir Agarwal	1.7
6	Massachusetts Institute Of Technology	1.3
7	General Insurance Corp of India	1.3
8	Mattew India Fund	1.4

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;

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