

CMP: INR 131

Rating: Accumulate

Target Price: INR 148

Stock Info

BSE	501455
NSE	GREAVESCOT
Bloomberg	GRV IN
Reuters	GRVL.BO
Sector	Industrial Machinery
Face Value (INR)	2
Equity Capital (INR mn)	462
Mkt Cap (INR mn)	31,360
52w H/L (INR)	184/ 66
Avg Yearly Vol (in 000')	2949

Shareholding Pattern %

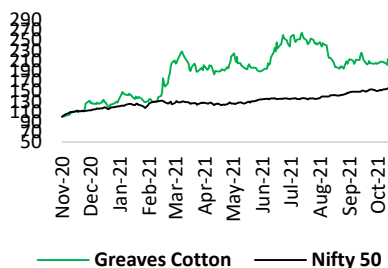
(As on Sep, 2021)

Promoters	55.63
FII	3.98
DII	9.20
Public & Others	31.19

Stock Performance (%)

	1m	3m	12m
Greaves Cotton	-0.8	-18.8	88.9
Nifty 50	1.9	14.9	54.5

Greaves Vs Nifty



Greaves Cotton Limited (GCL) has reported Mixed performance during Q2 FY22 with PAT de-growth, margin contraction but revenue above estimate.

- Net profit for the quarter of INR 83.4 mn in Q2FY22 against our estimate of INR 152 mn.

- Standalone revenue from operations grew by 32.4% QoQ/-1.5% YoY stood at INR 2,840 mn in Q2FY22 against our estimate of INR 2,450 mn led by growth in the Engine, mobility and other segment.

- Gross margin of the company decreased by 184 bps QoQ at 28%. Despite the decrease of the gross margin, the company EBITDA margin expanded by 438bps QoQ to 1.6% Q2FY22 (it came in positive after the loss -2.8% in Q1 FY22) against our estimate of 12.4% in Q2FY22 due to higher other expenses and employee cost.

- Higher other income at 330.5% YoY/73.2% QoQ at INR 76 mn has supported the earnings of the company.

- EPS at INR 0.36 in Q2FY22 against -0.28 / -0.78 in Q1FY22 / Q2FY21.

Q2FY22 Conference call Highlights:

- The company diversification strategy has resulted in accelerated growth across all business areas with higher operational efficiencies and surplus cash to drive transformative growth with new agility & resilience in future.
- **Investment:** out of the 700 cr, the company has invested more than INR 300 Cr in EV business and further will invest going forward. Actual spend till INR 8 cr for Ranipet.

Outlook & Valuation

At CMP of INR 131, GCL is trading at P/E multiple of 23.1 to its FY24 EPS of INR 5.7. Considering the E-mobility and new initiatives businesses is driving the growth of the company. We believe that the company's Ranipet plant is coming out very well this will help them create more volume going forward. Good demand traction for Magnus & Magnus(EX) (In high-speed segment). We remain positive on the stock because its demand continues to be very high for both hi-speed as well as for low speed. **We value the standalone business to 10x to its FY24E EBITDA of INR 2330 Mn and arrive at a fair value of INR ~122/share With Ampere's stake 100% in Greaves Cotton. Ampere's has been valued at 1.5x FY24E sales. Our SOTP valuation yields a fair value of INR 148 per share. We maintain an Accumulate rating on the stock.**

Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114834

YE March (INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	P/E (x)
FY21	13,291	969	104	0.4	7.29%	301.3
FY22E	15,094	1,540	789	3.4	10.20%	38.5
FY23E	17,818	1,940	1,039	4.5	10.89%	29.2
FY24E	21,377	2,330	1,312	5.7	10.90%	23.1

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Q2FY22 Conference call Highlights

- Greaves diversified the business into auto engines, greaves retail, Pre-primary business, and 2 small enabler business. Pre-primary business: Greaves E-mobility business grew by 85% and 101% revenue growth. In terms of the auto EV, retail Multi-brand players were last in the past quarter and it's receiving very good inputs.
- **Restructuring:** The company expected annualized savings of INR 45 Cr. against FY21 with the restructuring of business and consolidation on plants. Cost restructuring has brought down break-even points in the Engines business. Ampere and greaves GEMPL best ever quarter as compared to the previous quarter.
- **3W:** The company has completed the acquisition of the 26% stake in MLR Auto for INR18.8 Cr, which gives the access of the specializes in L5 cargo and passenger 3W and acquiring the remaining 26% in Ele E-Rickshaw. With this, the company has strengthened its Unique presence in EV (E2W + E3W) with 85% coverage in Last-mile mobility. GEMPL (Greaves Electric Mobility) accounts for 25% of overall revenue. Engine segment has short-term challenges after the Covid-19, which the company is noticing carefully and recovery in going forward.
- **Other businesses:** Auto business and greaves engine business have shown traction.
- **Ranipet Plant:** Ranipet is coming out very well this will help them create more volume and commercial production in this case will follow shortly.
- **Outstanding demand for Magnus & Magnus(EX) (In high-speed segment):** shortage of 8 weeks + demand and working as fast as the company can do that. Magnus & Magnus (EX) is doing quite well. Magnus (EX) is available in the 100 range for both B2B&B2C along with multiple system financing. Monthly 1000 units MoM sales and growing 3-4 times of the volume, east after covid2 saw good demand.
- **Losses:** Q2FY22 e-mobility losses...1) final transaction completed differential of the accounted in the other expenses 8.5 cr and, 2) The losses has incurred because of the infrastructure spends, 3) Commodity price increase and the impact on the raw material (so 2% impact and it will be neutralized going forward in the coming quarter) INR 265 Crore of cash available to drive transformative growth.
- **Revenue:** Genset solutions saw very good growth and last year and the 1-time impact was there due to the Farm equipment business as imports were closed during the Covid-19. After that, the company has started using products from the local vendors so this impact will be going to show from Q3FY22 onward.
- **Vahan Data:** Q1FY22 due to Covid led to shutdown primary sales could not happen this led to a shortage of the High-speed in the primary and secondary market (in the quarter hi-speed almost 30% share of the total volume and picking up further in hi-speed production) so that share will move forward in Q3&Q4 FY22. MoM (October) share has increased of hi-speed and picking up further in hi-speed production as localization almost completed so support partner also getting stable.
- **Supply chain** (Chip-led shortage) remains a concern for overall the industry. The company is working on a lot of the components with tier 2&3 to look into the needs for the next 12 months. The company is getting supply from tier 1 so managing from them.
- **Demand:** Demand is continuing very high for both high-speed and low speed.
- **Distribution:** Passenger & cargo 3W 55%-45%, Urban and rural 70% from tier 2&3 -30% from tier 1.
- **Margin:** Significant Margin Improvement in EV business despite challenges in Supply chain & delayed start of production in TN (owing to Covid)

Quarterly Result

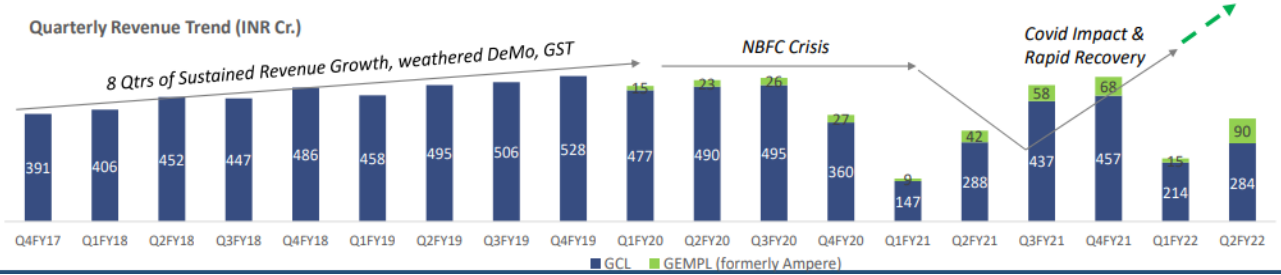
INR Mn (Standalone)	Q2FY22	Q1FY22	Q2FY21	Q-o-Q	Y-o-Y
Net Revenue	2,840	2,144	2,882	32.4%	-1.5%
Material Cost	2,045	1,504	2,040	35.9%	0.2%
	72.0%	70.2%			
Employee cost	338	357	291	-5.4%	16.0%
	12%	17%			
Other Expenses	413	343	376	20.3%	9.6%
	15%	16%	13%		
EBITDA	45	-60	175	-174.4%	-74.4%
EBITDA margin %	1.6%	-2.8%	6.1%	438bps	-448bps
Other Income	76	44	18	73.2%	330.5%
Depreciation	109	109	124	-0.3%	-12.3%
EBIT	12	-125	68	-109.6%	-82.4%
Finance cost	5	3	19	68.8%	-71.6%
Exceptional Item	107	40	-311	165.0%	-134.4%
PBT	113.4	-88.2	-262	-228.6%	-143.3%
Tax Expense	30	-24	82	-227.7%	-63.2%
Effective tax rate %	26.5%	26.6%	-31.1%	-19bps	5759bps
Reported Net Profit	83.4	-64.7	-180.3	-228.9%	-146.3%
<i>Net margin %</i>	<i>2.9%</i>	<i>-3.0%</i>	<i>-6.3%</i>		
<i>Reported EPS (INR)</i>	<i>0.36</i>	<i>-0.28</i>	<i>-0.78</i>		

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Valuations	INR Mn	Basis of Valuation	Multiple	Total Value in Mn	FY24E
EV/EBITDA (x)					10.0
EBITDA					2330
EV					23301
Debt					0
Cash					4977
Market Cap					28278
No shares					231
Value/Share (INR)					122.3
Greaves Stake Valuation				FY23E sales at INR 4000 Mn	
Ampere Target Price (INR) (100% stake)	P/Sales		1.5x	6000	26
Greaves Target (INR)					148
CMP (INR)					131
Upside (%)					12.9%

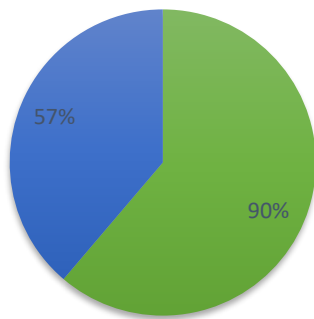
Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Growth rebounds riding on strong brand pull and efficiency improvements



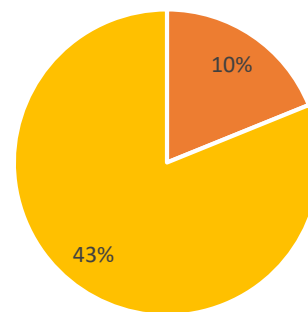
New business revenue as % of Consolidated Revenue has increased from 10% in Q2 FY19 to ~43% in Q2 FY22

Traditional Business



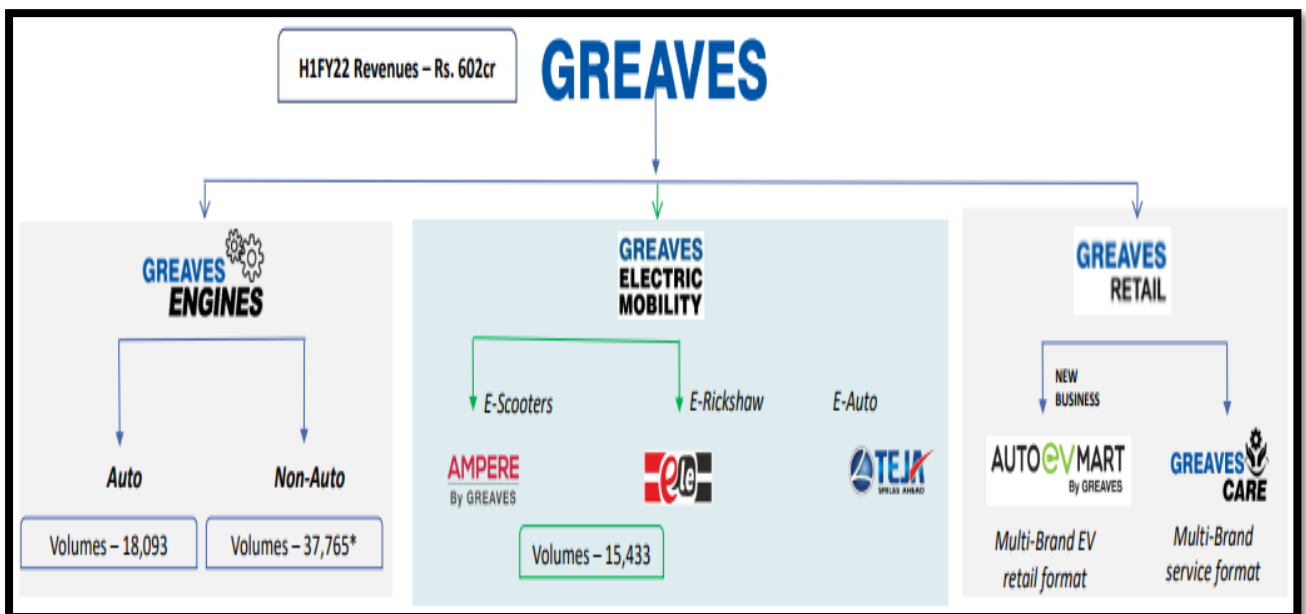
■ Q2 FY19 ■ Q2 FY22

New business



■ Q2 FY19 ■ Q2 FY22

Source: Arianth Research, Company Filings



Source: Arianth Research, Company Filings

Income Statement (INR Mn)

Year End-March	FY21	FY22E	FY23E	FY24E
Revenues	13,291	15,094	17,818	21,377
<i>Change (%)</i>	-27.0%	13.6%	18.0%	20.0%
Raw materials	9,414	10,732	12,668	15,199
Stock Adjustments	0	0	0	0
Employee costs	1,271	1,313	1,425	1,710
Other expenses	1,637	1,509	1,784	2,138
Total Expenses	12,321	13,554	15,877	19,047
EBITDA	969	1,540	1,940	2,330
Other Income	100	143	169	203
Depreciation	484	574	656	710
Interest	56	48	51	52
PBT	529	1,061	1,403	1,771
Extra-ordinary	-345	0	0	0
PBT after ext-ord.	185	1,061	1,403	1,771
Tax	81	272	363	459
<i>Rate (%)</i>	43.9%	25.6%	25.9%	25.9%
PAT	104	789	1,039	1,312
Adjusted PAT	104	789	1,039	1,312
<i>Change (%)</i>	-93.0%	662.0%	31.6%	26.3%

Balance Sheet (INR Mn)

Year End-March	FY21	FY22E	FY23E	FY24E
Sources of Funds				
Share Capital	462	462	462	462
Reserves & Surplus	8,547	9,337	10,376	11,688
Net Worth	9,010	9,799	10,838	12,150
Loan Funds				
Deferred Tax & other liabilities	371	370	370	370
Capital Employed	9,342	10,132	11,171	12,485
Application of Funds				
Gross Block	5,518	6,018	6,517	7,015
Less: Depreciation	2,845	3,419	4,075	4,785
Net Block	2,673	2,599	2,442	2,230
CWIP	738	738	738	738
Other non current assets	213	213	213	213
Deferred tax assets	499	499	499	499
Net fixed assets	4,123	4,049	3,892	3,679
Investments				
Debtors	2,030	2,481	2,929	3,573
Inventories	1,548	1,765	2,084	2,500
Cash & bank balance	2,758	3,738	4,977	6,499
Loans & advances & other CA	450	450	450	451
Total current assets	6,786	8,434	10,439	13,023
Current liabilities	3,697	4,482	5,291	6,347
Provisions	249	249	249	249
Net current assets	2,840	3,703	4,900	6,426
Total Assets	9,342	10,132	11,171	12,485

Key Ratios

Year End-March	FY21	FY22E	FY23E	FY24E
Per share (INR)				
EPS	0.4	3.4	4.5	5.7
CEPS	2.5	5.9	7.3	8.7
BVPS	39.0	42.4	46.9	52.6
DPS	0.4	0.4	0.4	0.4
Valuation (x)				
P/E	301.3	38.5	29.2	23.1
P/CEPS	53.1	22.3	17.9	15.0
P/BV	3.5	3.1	2.8	2.5
EV/EBITDA	31.0	18.9	14.4	11.3
Dividend Yield (%)	0.3%	0.3%	0.3%	0.3%
Return ratio (%)				
EBIDTA Margin	7.3%	10.2%	10.9%	10.9%
PAT Margin	0.8%	5.2%	5.8%	6.1%
ROE	1.1%	8.1%	9.6%	10.8%
ROCE	5.2%	9.5%	11.5%	13.0%
Leverage Ratio (%)				
Total D/E	0.0	0.0	0.0	0.0
Net D/E	-0.3	-0.4	-0.5	-0.5
Turnover Ratios				
Asset Turnover (x)	1.4	1.5	1.6	1.7
Inventory Days	60	60	60	60
Receivable Days	56	60	60	61
Payable days	108	108	108	108

Cash Flow Statement (INR Mn)

Year End-March	FY21	FY22E	FY23E	FY23E
PBT	185	1,061	1,403	1,771
Depreciation	484	574	656	710
Interest & others	(44)	(95)	(118)	(151)
Cash flow before WC changes	625	1,540	1,940	2,330
(Inc)/dec in working capital	(1,787)	(581)	(904)	(1,224)
Operating CF after WC changes	(1,163)	959	1,036	1,106
Less: Taxes	(81)	(272)	(363)	(459)
Operating cash flow	(1,244)	687	673	648
(Inc)/dec in F.A + CWIP	80	(500)	(499)	(498)
(Pur)/sale of investment	(530)	0	0	0
Cash flow from investing	(449)	(500)	(499)	(498)
Free cash flow (FCF)	(1,026)	187	174	150
Loan raised/(repaid)	0	0	0	2
Equity raised	0	0	0	0
Interest & others	2,662	885	1,158	1,463
Dividend	(92)	(92)	(92)	(92)
Cash flow from financing activities	2,569	792	1,065	1,373
Net inc / (dec) in cash	876	980	1,239	1,523
Opening balance of cash	1,882	2,758	3,738	4,977
Closing balance of cash	2,758	3,738	4,977	6,499

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

*One time Exceptional loss in FY21

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

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Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880