

CMP: INR 160

Rating: Accumulate

Target Price: INR 185

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)	48,660
52w H/L (INR)	259/ 117
Avg Yearly Vol (in 000')	2955

Shareholding Pattern %

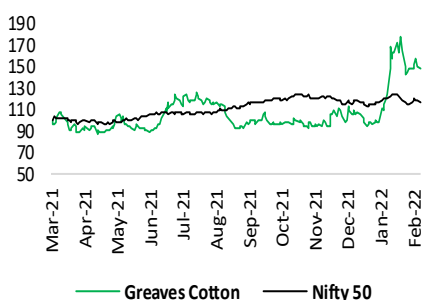
(As on Dec, 2021)

Promoters	55.62
FII	4.00
DII	9.02
Public & Others	31.36

Stock Performance (%)

	1m	3m	12m
Greaves Cotton	18.9	56.06	141.5
Nifty 50	-3.19	-4.56	14.0

Greaves Vs Nifty



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Greaves Cotton Limited (GCL) has reported Mixed performance during Q3 FY22 with PAT de-growth, margin, and revenue above estimate.

Net profit for the quarter de-grew by 70.8%/+0.6% of INR 83.9 mn in Q3FY22 against our estimate of INR 58 mn.

Standalone revenue from operations de-grew by 31.2%YoY/+5.8%QoQ stood at INR 3,005 mn in Q3FY22 against our estimate of INR 3,125 mn led by growth in the Engine, mobility, and other segments.

Gross margin of the company decreased by 18bps QoQ at 28.8%. Despite the decrease of the gross margin, the company's EBITDA margin expanded by 415bps QoQ to 5.7% Q3FY22 against our estimate of 3.2%.

EPS at INR 0.36 in Q3FY22 against INR 0.36 in Q2FY22 and INR 1.2 in Q3FY21.

Q3FY22 has seen a positive recovery with a host of activities; like the launch of our flagship model Magnus EX, the inauguration of EV mega factory in Ranipet, the launch of Ampere Experience Centre, and increasing demand for products across multiple segments boosted by an increase in network.

Q3FY22 Conference call Highlights:

- E-mobility business recorded the highest ever quarterly sales of ~22,000 units.
- Electric Mobility accounted for 37% of overall quarterly revenues. It recorded 213% YoY growth in revenues.
- During the quarter, the company inaugurated EV manufacturing facility and Experience Centre at Ranipet.
- It also launched Ampere Magnus Ex under the E2W brand. It was a popular launch and received a good response from the customers.

Outlook & Valuation

At a CMP of INR 160, GCL is trading at a P/E multiple of 40.4 to its FY24E EPS of INR 4. Considering the E-mobility and new initiatives businesses are driving the growth of the company. GCL is expected to concentrate on its non-core business going ahead due to a wide growth prospectus.

We believe EV and new initiatives businesses may provide upside despite engine business continuing to face headwinds and thus weighing on overall performance. We remain positive on the stock because its demand is continuing very strong for the hi-speed. **We have valued the standalone business to 11x its EBITDA of INR 1642 and Ampere's business at FY24E P/sales at 3x, yielding INR 91 per share. Our SOTP valuation yields a fair value of INR 185 per share. We maintain our Accumulate rating on the stock.**

YE	March (INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	P/E (x)
FY21		13,291	969	104	0.4	7.29%	356.7
FY22E		14,155	665	198	0.9	4.70%	186.6
FY23E		15,530	1,241	625	2.7	7.99%	59.1
FY24E		17,287	1,642	914	4.0	9.50%	40.4

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

Q3FY22 Conference call Highlights:

- It completed purchase of remaining 26% stake in Bestways (Ele) taking total stake to 100%. The company also subscribed to 26% equity stake in MLR Auto. Both of the transactions required a total investment of INR 320 Mn.
- It also launched AutoEVmart, which is a multi-brand experiential store for the E-Mobility ecosystem.
- In the E-mobility business, the quarterly run rate is USD 100 Mn. In terms of volume, the quarterly run-rate is 100,000 units.
- The free cash flow stood at INR 460 Mn and the company invested almost INR 550 Mn as debt in its subsidiary.
- The Pune land deal, which was done in the last quarter is progressing well. The due diligence was completed by the buyer and the land area was adjusted, subsequent to the due diligence. The second instalment of advance, which was 20% has been received from 31st December 2021. The company has received a total cash consideration of 30%, so far.
- The non-auto and retail business unit of the company have recovered to non-Covid levels and both of them continue their growth trajectory. They reported growth of 8% YoY for non-auto and more than 10% YoY for retail.
- Overall, the share of new business has grown to over 54% and that augurs well in terms of diversification strategy of the company, which it had undertaken a few years back.
- The management expects that the traction in E-mobility segment will continue with push from all the sides.
- Out of INR 1,810 Mn revenues in E-mobility, the share of E2W is 80% whereas the balance 20% is E3W.
- The Ranipet plant capacity started with 10,000 units per month and the company will ramp up and double it as the demand picks up. The timeline would be early next fiscal year.
- Sales volume in January and February 2022 are similar to the quarterly run-rate seen in Q3FY22.
- The share of high-speed continue to grow in the overall revenue mix.
- The MLR team will also build up revenues and volumes.
- At industry level, Diesel 3-W volumes were 45,000 in December. January also continued on the similar kind of numbers. Also, inventory in dealer network has been consumed through secondary sales.
- In terms of product strategy, the company is working on 1-2 product variant for next level of speed.
- The company is nearing the volumes in electric vehicles to achieve 4-5% operating margins.
- The company accrued benefits of INR 450 Mn by shifting to Aurangabad from Pune. Some of the savings have been booked in Q2 and Q4, while the remaining will come in Q4.
- In the E3W industry, within E-Rickshaw, the company market share has grown to 9%, driven by movement of unorganized sector to organized sector. Earlier the unorganized sector controlled 90% of the market, which has now reduced to 60%.
- Realization is primarily driven by factors like share of high speed. This has increased to 71% in Q3FY22 versus 30% in Q3FY21. The company has launched higher end models, which has also increased the realizations.
- There has also been an increase in price per unit, but this has been a relatively smaller contribution.
- The current level of realization is likely to be sustained and will increase as the company launches higher degree of variants.
- In the non-auto segment, overall genet's and industrial revenue and volume growth were as per expectation owing to product launches by the company.
- However, farm equipment's saw decline in volumes. Last year, some China-made models were introduced, but were discontinued during the current quarter.
- Going forward, majority of the capital allocation will be towards E-mobility. Greaves Finance is more of an enabler business to the primary business of E-mobility.
- The company has made requisite applications for PLI scheme, wherever it is applicable.
- In E3W, the brands include Ele (Bestways). Through the investments in MLR Auto, the company has got the Teja brand. Ele and Teja will have their own distribution channels.
- Ampere is a 2W brand and will have its dedicated distribution channel. It is present in 400 plus towns and cities and is growing.
- The company has access to 10,000 mechanics and 7,000 retailers pan India.
- Volumes in E-mobility has been increasing from 8,300 units in Q3FY21 to 22,000 in Q3FY22. However, the global chip shortage remains a challenge.
- The company is looking for partners for Ampere. The process is on and the timeline is around the first half of next fiscal year.
- For the investment in subsidiary, it is looking for a minority investor.
- The electric vehicle industry is evolving and standardization will take place in terms of charger and socket going forward.
- The company had undertaken price increase to offset the rise in raw material cost.

Quarterly Result

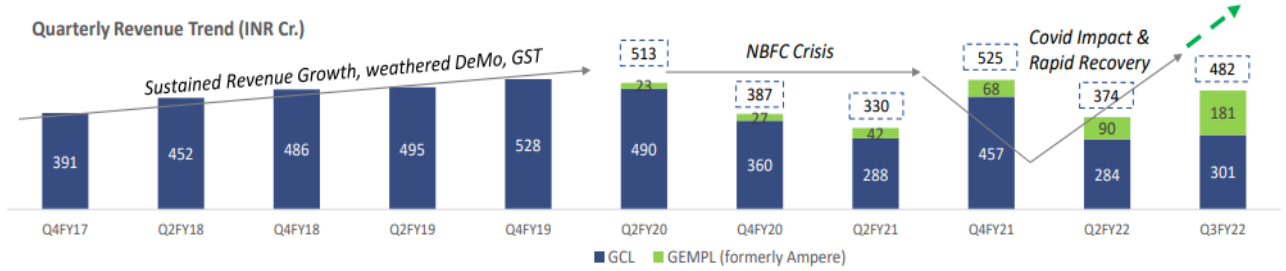
INR Mn (Standalone)	Q3FY22	Q2FY22	Q3FY21	Q-o-Q	Y-o-Y
Net Revenue	3,005	2,840	4,368	5.8%	-31.2%
Material Cost	2,139	2,045	3,100	4.6%	-31.0%
Employee cost	311	338	287	-8.0%	8.3%
Other Expenses	384	413	443	-6.9%	-13.2%
EBITDA	172	45	538	284.6%	-68.0%
EBITDA margin %	5.7%	1.6%	12.3%	415bps	-660bps
Other Income	63	76	24	-17.7%	158.0%
Depreciation	104	109	122	-5.0%	-15.2%
EBIT	131	12	440	992.5%	-70.2%
Finance cost	6	5	9	1.9%	-36.0%
Exceptional Item	-11	107	-39	-110.7%	-70.5%
PBT	114.2	113.4	393	0.7%	-70.9%
Tax Expense	30	30	106	1.0%	-71.4%
Effective tax rate %	26.5%	26.5%	26.9%	8bps	-41bps
Reported Net Profit	83.9	83.4	287.1	0.6%	-70.8%
<i>Net margin %</i>	<i>2.8%</i>	<i>2.9%</i>	<i>6.6%</i>		
<i>Reported EPS (INR)</i>	<i>0.36</i>	<i>0.36</i>	<i>1.2</i>	<i>0.0%</i>	<i>-71.0%</i>

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

Valuations	INR Mn	Basis of Valuation	Multiple	Total Value in Mn	FY24E
EV/EBITDA (x)					11.0
EBITDA					1642
EV					18065
Debt					0
Cash					3674
Market Cap					21740
No shares					231
Value/Share (INR)					94.0
Greaves Stake Valuation				FY24E sales at INR 7000 Mn	
Ampere Target Price (INR) (100% stake)					
Bestways		P/Sales	3x	21000	91
Greaves Target (INR)					185
CMP (INR)					160
Upside (%)					15.6%

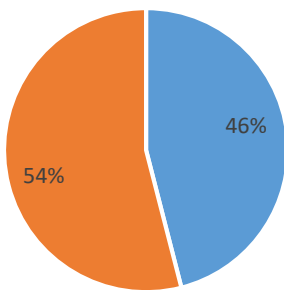
Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Investments in E-Mobility accelerates Group's revenue diversification plan



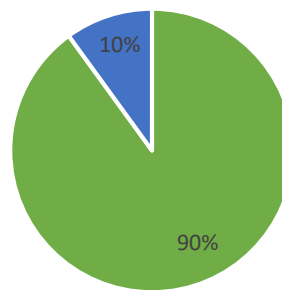
New business contribution increase to 54%. Auto business impacted by macro factors

Traditional Business

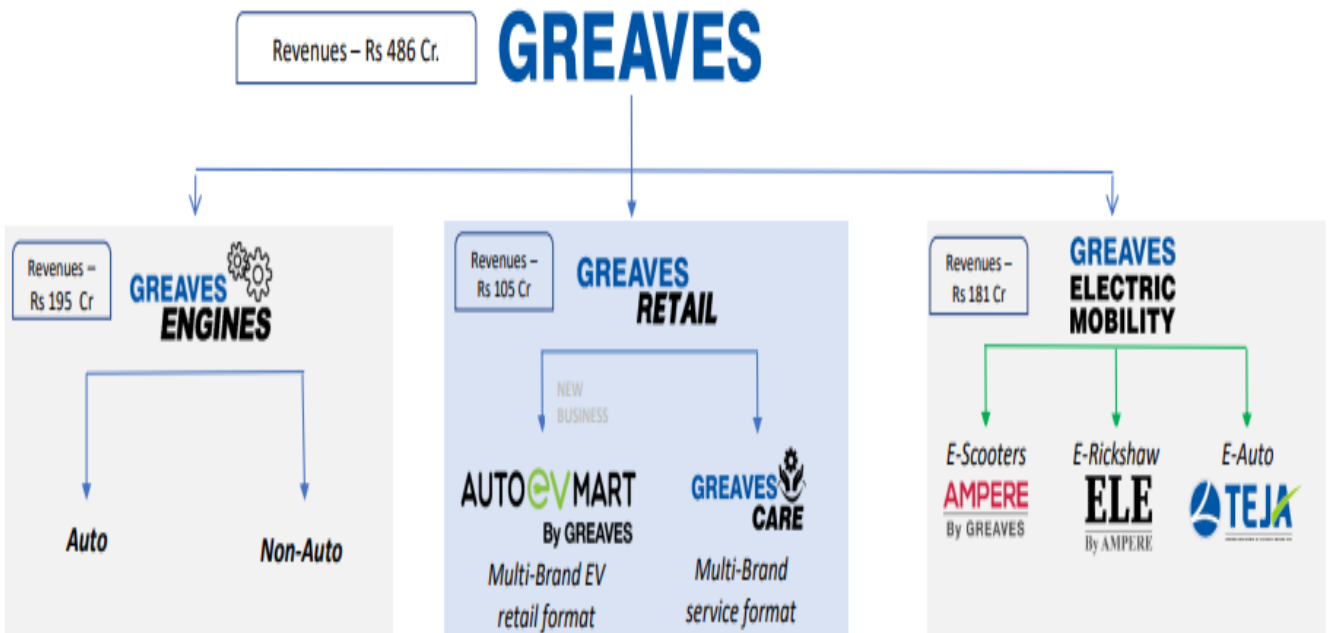


■ Q3 FY19 ■ Q3 FY22

New business



■ Q3 FY19 ■ Q3 FY22



Source: Arihant Research, Company Filings

Income Statement (INR Mn)

Year End-March	FY21	FY22E	FY23E	FY24E
Revenues	13,291	14,155	15,530	17,287
<i>Change (%)</i>	-27.0%	6.5%	9.7%	11.3%
Raw materials	9,414	10,474	11,104	12,274
Stock Adjustments	0	0	0	0
Employee costs	1,271	1,415	1,631	1,642
Other expenses	1,637	1,599	1,555	1,729
Total Expenses	12,321	13,489	14,289	15,645
EBITDA	969	665	1,241	1,642
EBITDA Margins	7.3%	4.7%	8.0%	9.5%
Other Income	100	134	148	164
Depreciation	484	486	493	521
Interest	56	48	51	52
PBT	529	266	844	1,233
Extra-ordinary	-345	0	0	0
PBT after ext-ord.	185	266	844	1,233
Tax	81	68	219	319
<i>Rate (%)</i>	43.9%	25.6%	25.9%	25.9%
PAT	104	198	625	914
Adjusted PAT	104	198	625	914
<i>Change (%)</i>	-93.0%	91.1%	215.8%	46.1%

Balance Sheet (INR Mn)

Year End-March	FY21	FY22E	FY23E	FY24E
Sources of Funds				
Share Capital	462	462	462	462
Reserves & Surplus	8,547	8,745	9,370	10,284
Net Worth	9,010	9,208	9,833	10,747
Loan Funds				
Deferred Tax & other liabilities	371	370	370	370
Capital Employed	9,342	9,540	10,165	11,079
Application of Funds				
Gross Block	5,518	6,018	6,517	7,015
Less: Depreciation	2,845	3,330	3,824	4,345
Net Block	2,673	2,687	2,693	2,670
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	4,137	4,142	4,119
Investments				
Debtors	2,030	2,327	2,553	2,889
Inventories	1,548	1,723	1,826	2,019
Cash & bank balance	2,758	2,976	3,674	4,604
Loans & advances & other CA	450	450	450	451
Total current assets	6,786	7,476	8,504	9,963
Current liabilities	3,697	4,203	4,611	5,133
Provisions	249	249	249	249
Net current assets	2,840	3,024	3,643	4,581
Total Assets	9,342	9,540	10,165	11,079

Cash Flow Statement (INR Mn)

Year End-March	FY21	FY22E	FY23E	FY23E
PBT	185	266	844	1,233
Depreciation	484	486	493	521
Interest & others	(44)	(86)	(97)	(112)
Cash flow before WC changes	625	665	1,241	1,642
(Inc)/dec in working capital	(1,787)	(71)	(454)	(829)
Operating CF after WC changes	(1,163)	594	787	813
Less: Taxes	(81)	(68)	(219)	(319)
Operating cash flow	(1,244)	526	568	494
(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)	26	69	(4)
Loan raised/(repaid)	0	0	0	2
Equity raised	0	0	0	0
Interest & others	2,662	284	722	1,024
Dividend	(92)	(92)	(92)	(92)
Cash flow from financing activities	2,569	192	629	934
Net inc /(dec) in cash	876	218	698	929
Opening balance of cash	1,882	2,758	2,976	3,674
Closing balance of cash	2,758	2,976	3,674	4,604

Key Ratios

Year End-March	FY21	FY22E	FY23E	FY24E
Per share (INR)				
EPS	0.4	0.9	2.7	4.0
CEPS	2.5	3.0	4.8	6.2
BVPS	39.0	39.8	42.5	46.5
DPS	0.4	0.4	0.4	0.4
Valuation (x)				
P/E	356.7	186.6	59.1	40.4
P/CEPS	62.9	54.1	33.0	25.8
P/BV	4.1	4.0	3.8	3.4
EV/EBITDA	31.0	44.9	23.5	17.2
Dividend Yield (%)	0.3%	0.3%	0.3%	0.3%
Return ratio (%)				
EBITDA Margin	7.3%	4.7%	8.0%	9.5%
PAT Margin	0.8%	1.4%	4.0%	5.3%
ROE	1.1%	2.2%	6.4%	8.5%
ROCE	5.2%	1.9%	7.4%	10.1%
Leverage Ratio (%)				
Total D/E	0.0	0.0	0.0	0.0
Net D/E	-0.3	-0.3	-0.4	-0.4
Turnover Ratios				
Asset Turnover (x)	1.4	1.5	1.5	1.6
Inventory Days	60	60	60	60
Receivable Days	56	60	60	61
Payable days	108	108	108	108

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

*One time Exceptional loss in FY21

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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%

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