Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Greaves Cotton Ltd

E-mobility business turns positive in Q4

Automobiles	Sharekhan code: GREAVESCOT
Reco/View: Buy ↑	CMP: Rs. 142 / Price Target: Rs. 178 ↓

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- We upgrade our rating to Buy on Greaves Cotton Limited (Greaves) with a revised PT of Rs.178, on a strong business outlook and comfortable valuation.
- Greaves reported strong Q4FY22 results, with better-than-expected revenue, EBITDA and PAT. E-mobility business turns positive during the Q4.
- Management remains positive on its diversification strategy and continues to focus on the e-mobility space. Greaves is expected to clock a 20.5% revenue CAGR during FY2021-24E also see a sharp rise in margins, leading to an earnings CAGR of 103.4%.
- The stock trades at a comfortable valuation of a P/E multiple of 24.8x and EV/EBITDA multiple of 14.2x its FY2024E estimates.

Greaves Cotton Limited (Greaves) reported strong Q4FY22 results, with better than expected revenue, EBITDA and PAT. Net revenue was up 19.3% y-o-y and 27.6% q-o-q to Rs621 crore in Q4FY22, led by the performance of subsidiary businesses. E-mobility business accounts for 38% of overall revenue in Q4 and turned profitable. EBITDA margin for Q4FY22 stood at 6.5%, which is a 370-bps q-o-q improvement, led by improved product mix, operating leverage benefits and cost reductions. 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 20.5% revenue CAGR during FY2021-24E and also see a sharp rise in margins, leading to an earnings CAGR of 103.4%. The company's diversification strategy is reaping benefits with new businesses contribution increasing to ~49% of total revenue in FY22 versus 30% in FY21. The stock price has corrected ~32% over the last three months, making valuation comfortable at P/E multiple of 24.8x and EV/EBITDA multiple of 14.2x its FY2024E estimates. Thus, we upgrade our rating to Buy with a revised PT of Rs178.

Key positives

- The diversification strategy of Greaves is reaping benefits with new businesses now contributing ~49% of total revenue in FY22 as compared to 30% in FY21.
- E-mobility business turns positive during the Q4FY22, with sales volumes (e-2W + e-3W) of 24,953 units, a growth of 148% y-o-y and 15% q-o-q.
- The company has also strengthened its presence across the entire value chain of last-mile mobility by launching AutoEVMart, a of multi-brand EV retail network.
- EBITDA margin for Q4FY22 stood at 6.5%, which is a 370bps q-o-q improvement, led by improved product mix, operating leverage benefits and cost reductions.

Key negatives

- The chips shortage is impacting its e-mobility sales.

Management Commentary

- The company's management is optimistic about growth outlook and expects sales to recover going forward.
- The company has augmented its manufacturing capacity of e-2W by operationalizing the Ranipet plant with the current production capacity of up to 250,000 vehicles per year and expanding the product portfolio with the introduction of Ampere Magnus EX
- Sales of the 3W passenger segment are recovering on the openingthe of economy, while e-commerce is likely to further grow, ensuring sustained 3W cargo growth

Revision in estimates – We have fine-tuned our estimates in light of the improved operational performance of the e-mobility business. Greaves is expected to clock a 20.5% revenue CAGR during FY2021-24E and also see a sharp rise in margins, leading to an earnings CAGR of 103.4%.

Our Call

Valuation – Upgrade to 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 economy moves towards normalcy. 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, despite rising competition. The stock price has corrected ~32% over the last three months, making valuation comfortable at P/E multiple of 24.8x and EV/EBITDA multiple of 14.2x its FY2024E estimates. Improving the financial performance of the e-mobility business through focusing on high-speed e-2Ws, increasing retail penetration and new launches further provides comfort to its management team. We, thus, upgrade our rating to Buy with a revised PT of Rs178.

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	FY22	FY23E	FY24E
Revenues	1,500	1,710	2,154	2,628
Growth (%)	(21.5)	13.9	26.0	22.0
EBIDTA	80	27	131	222
OPM (%)	5.3	1.6	6.1	8.5
Net Profit	16	(32)	68	133
Growth (%)	(87.2)	NA	NA	95.6
EPS	0.7	(1.5)	2.9	5.7
P/E	209.4	NA	48.4	24.8
P/BV	5.3	5.6	5.8	5.6
EV/EBIDTA	38.5	112.6	23.9	14.2
ROE (%)	2.5	NA	4.0	14.6
ROCE (%)	3.8	NA	6.2	18.1

Source: Company; Sharekhan estimates

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		↑	

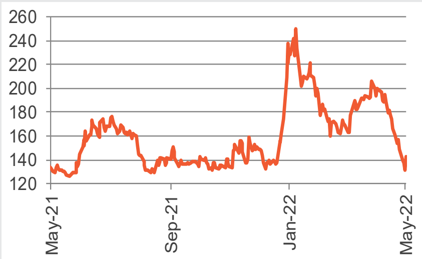
Company details

Market cap:	Rs. 3,283 cr
52-week high/low:	Rs. 259 / 126
NSE volume: (No of shares)	46.3 lakh
BSE code:	501455
NSE code:	GREAVESCOT
Free float: (No of shares)	10.3 cr

Shareholding (%)

Promoters	55.6
FII	3.1
DII	9.5
Others	31.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-30.8	-32.0	5.1	3.9
Relative to Sensex	-19.6	-23.6	17.2	-3.3

Sharekhan Research, Bloomberg

Q4FY22 results beat expectations: Greaves Cotton Limited (Greaves) reported strong Q4FY22 results, with better-than-expected revenue, EBITDA and PAT. Net revenue was up 19.3% y-o-y and 27.6% q-o-q to Rs621 crore in Q4FY22, led by the performance of subsidiary businesses. E-mobility business accounts for 38% of overall revenue in Q4 and turned profitable. EBITDA margin for Q4FY22 stood at 6.5%, which is a 370bps q-o-q improvement, led by improved product mix, operating leverage benefits and cost reductions. As a result, the company reported an EBITDA decline of 2.2% y-oy and a PAT increase of 78% y-o-y at Rs40.7 crore and Rs 24.3 core respectively. There was an exceptional item of Rs6.2 crore related to impairment loss and profit on sale assets.

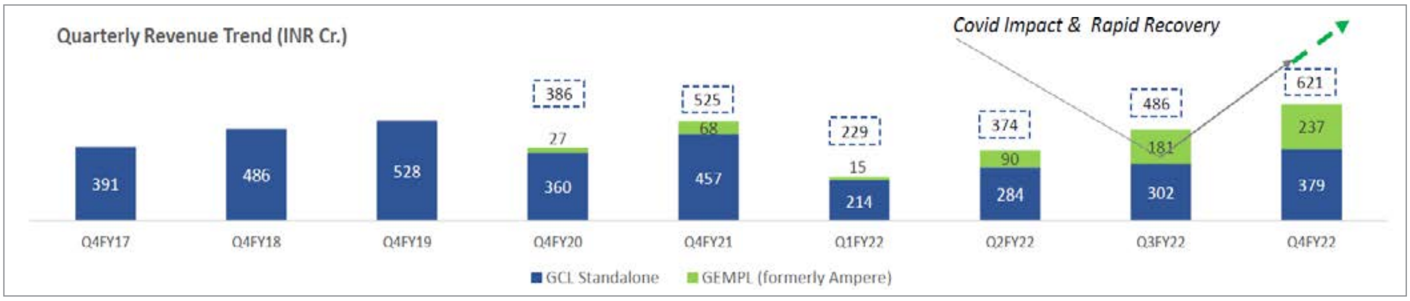
E-mobility business continues to grow strong in Q4FY2022

Volumes (Units)	Q4		Growth (%)	Q3	Growth (%)	Full Year		Growth (%)
	FY22	FY21	Y-o-Y	FY22	Q-o-Q	FY22	FY21	Y-o-Y
Auto Engines	15,068	29,665	(49%)	8,141	85%	41,302	94,658	(56%)
Non-Auto Engines	10,401	13,673	(24%)	8,490	23%	39,370	43,599	(10%)
Engines	25,469	43,338	(41%)	16,631	53%	80,672	1,38,257	(42%)
Genset	1,254	1,100	14%	1,170	7%	4,395	2,922	50%
Light Equipment	10,748	15,557	(31%)	8,633	24%	34,696	49,555	(30%)
Non-Auto Products	12,002	16,657	(28%)	9,803	22%	39,091	52,477	(26%)
E-2W	22,200	8,210	170%	18,108	23%	51,794	22,661	129%
E-3W	2,753	1,865	48%	3,648	-25%	10,348	4,649	123%
E-Mobility Products	24,953	10,075	148%	21,756	15%	62,142	27,310	128%

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 Q4FY22 having higher ever quarterly 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 about the growth outlook and expects sales to recover going forward. The restructuring of business and consolidation of plants helped the company to save fixed overheads of ~Rs 40 crore, which is 2.3% of sales. The cost restructuring has brought down a break-even point in the engines business vertical.

Diversification strategy and investments in e-mobility reaping benefits for the company

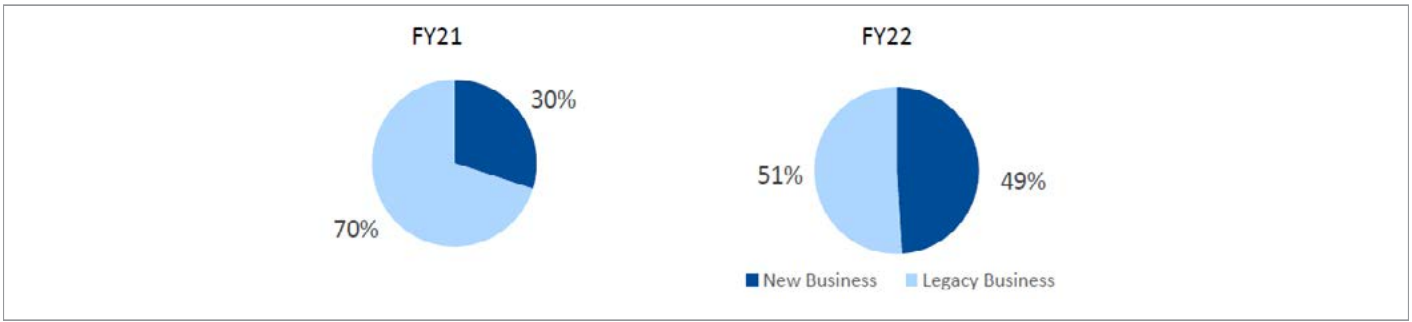


Source: Company Investor PPT; Sharekhan Research

E-mobility business: E-mobility business turns positive during the Q4FY22, with sales volumes (e-2W + e-3W) of 24,953 units, a growth of 148% y-o-y and 15% q-o-q. For FY22, the company sold 62,142 units of e-mobility products, registering a growth of 128% y-o-y. e-3W sales contributed 11.2% in Q4FY22, while it contributed 16.6% in FY22. The company has augmented its manufacturing capacity of e-2W by operationalizing the Ranipet plant with the current production capacity of up to 250,000 vehicles per year and expanding the product portfolio with the introduction of Ampere Magnus EX. The company has also strengthened its presence across the entire value chain of last-mile mobility by launching AutoEVMart, an multi-brand EV retail network.

The passenger 3W sales are slated to improve with the normalcythe in situation. The contribution from new business increased to 49% in FY22 from 30% in FY21, reflecting the benefits of the company's diversification strategy.

New businesses contributing 49% of total revenue



Source: Company Investor PPT; Sharekhan Research

Engine business: Auto and non-auto engines businesses witness sequential growth while declining on yearly comparison. Auto engine volumes grew 85% q-o-q to 8,141 units in Q4FY22, while the non-auto engine volumes grew 23% q-o-q to 8,490 units.

Non-Auto products: Gensets and light equipment business verticals also grew by 7% q-o-q and 24% q-o-q to 1,254 units and 10,748 units respectively during Q4FY22. This segment caters to diversified customer segments with applications across farming, marine, construction, auxiliary power, industrial, defence, railways, etc.

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 the 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. 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 the fast adoption of EVs. We continue to maintain our positive stance on Greaves because of its timely investments in the e-mobility business. The electric vehicles are performing well, with 70% high-speed vehicle mix and 91% Lithium-ion vehicle mix. The company has strengthened e-3W business with the subscription of a 26% stake in MLR Auto (which specializes in L5 cargo and passenger 3W) and acquiring the remaining 26% in Ele E-Rickshaw.

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),on 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.

Other key highlights: Greaves Electric Mobility expands its retail network with more than 600+ touchpoints. Greaves Finance is helping the growth by providing financing services to customers. The financing penetration of Ampere e2W is at 22% in FY22. Also, the company partnered with Mesha Energy to identify advanced technology enabled solutions for creating features in its products.

Strong broad-based growth; Expect robust double-digit growth in the medium term: We believe the company is benefiting from its re-focused 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 a focus on clean tech, increase 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 business outlook and expectations of improving 3W sales, we expect Greaves to clock a 20.5% revenue CAGR during FY2021-24E and also see a sharp rise in margins, leading to an earnings CAGR of 103.4%.

Results (Consolidated) Rs cr

Particulars	Q4FY22	Q4FY21	YoY%	Q3FY22	QoQ%
Revenues	620.8	520.4	19.3	486.4	27.6
Total operating costs	580.2	478.8	21.2	472.8	22.7
EBITDA	40.7	41.6	-2.2	13.6	198.3
Depreciation	15.0	16.2	-7.7	14.1	6.3
Interest	2.2	1.0	112.7	1.2	80.8
Other income	9.6	3.0	223.5	3.4	181.9
PBT	33.2	27.3	21.3	1.8	NA
Tax	8.8	13.7	-35.5	5.6	58.3
Adjusted PAT	24.3	13.7	78.3	(3.8)	NA
Reported PAT	16.7	13.5	24.0	(6.2)	NA
Adjusted EPS	1.05	0.59	78.1	(0.16)	NA

Source: Company, Sharekhan Research

Key Ratios (Consolidated)

Particulars	Q4FY22	Q4FY21	YoY (bps)	Q3FY22	QoQ (bps)
Gross margin (%)	26.3	28.5	-220	26.0	30
EBIDTA margin (%)	6.5	8.0	-140	2.8	370
EBIT margin (%)	4.1	4.9	-70	(0.1)	NA
Net profit margin (%)	3.9	2.6	130	(0.8)	NA
Effective tax rate (%)	27	50	-2,350	314.7	NA

Source: Company, Sharekhan Research

Results (Stand-alone) Rs cr

Particulars	Q4FY22	Q4FY21	YoY%	Q3FY22	QoQ%
Revenues	378.7	457.0	-17.1	300.5	26.0
Total operating costs	349.6	409.7	-14.7	283.3	23.4
EBITDA	29.1	47.3	-38.5	17.2	69.2
Depreciation	10.3	12.0	-14.6	10.4	-0.8
Interest	0.6	0.6	-9.8	0.6	0.0
Other income	13.3	3.7	260.4	6.3	112.1
PBT	31.6	38.4	-17.7	12.6	151.4
Tax	8.5	15.0	-43.3	3.0	180.9
Adjusted PAT	23.1	23.4	-1.4	9.5	142.0
Reported PAT	16.8	23.4	-28.1	8.4	100.5
Adjusted EPS	1.00	1.01	-1.5	0.41	141.7

Source: Company, Sharekhan Research

Key Ratios (Standalone)

Particulars	Q4FY22	Q4FY21	YoY (bps)	Q3FY22	QoQ (bps)
Gross margin (%)	27.6	29.7	-210	28.8	-120
EBIDTA margin (%)	7.7	10.4	-270	5.7	200
EBIT margin (%)	5.0	7.7	-280	2.3	270
Net profit margin (%)	6.1	5.1	100	3.2	290
Effective tax rate (%)	27	39.1	-1,210	24.1	280

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector outlook – Demand picking up

The business outlook for the automotive segments is expected to improve with the normalisation of economic activities. Automotive demand is witnessing a 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. 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.

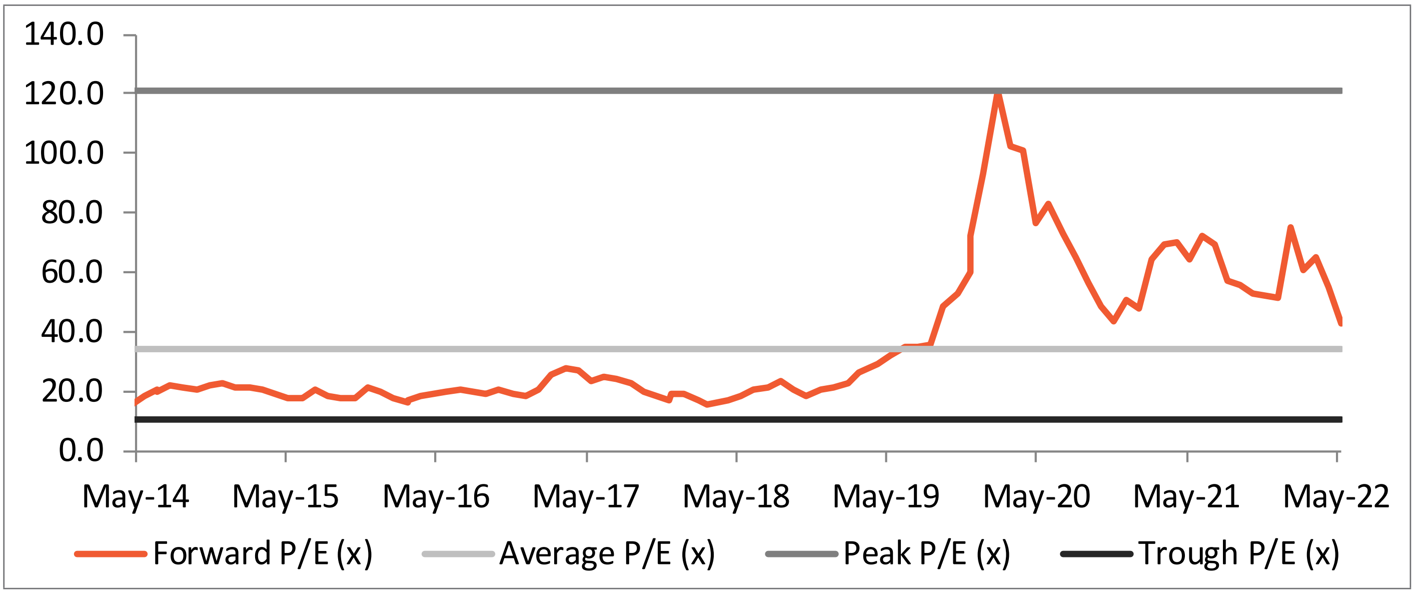
■ Company outlook – Beneficiary of EV adoption in 2W and 3W segments

Greaves is expected to benefit from improvement in business, driven by a robust recovery in non-auto business, and 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 refocused 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 EVs, 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 – Upgrade to 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 economy moves towards normalcy. 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, despite rising competition. The stock price has corrected ~32% over the last three months, making valuation comfortable at P/E multiple of 24.8x and EV/EBITDA multiple of 14.2x its FY2024E estimates. Improving the financial performance of the e-mobility business through focusing on high-speed e-2Ws, increasing retail penetration and new launches further provides comfort to its management team. We, thus, upgrade our rating to Buy with a revised PT of Rs178.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Company	CMP (Rs)	P/E (x)			EV/EBITDA (x)			ROCE (%)		
		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Greaves Cotton	194	286.1	NA	49.8	53.6	113.9	26.5	3.8	-	11.5
Alicon Castalloy	813	NA	20.2	11.8	15.7	8.4	6.0	5.9	19.1	26.2
Gabriel India	129	34.0	18.4	14.5	15.9	10.0	8.0	11.8	17.8	x

Source: Company, Sharekhan estimates

About the company

Greaves is one of the leading suppliers of powertrain and related solutions to auto original equipment manufacturers (OEMs). The company has a lion's 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 gen sets, agri-equipment, and other application-based engines.

Investment theme

Greaves is benefitting from 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 a focus on clean tech, increase 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 the 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 a valuation multiple. The company is open to 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 & CEO
Amit Mittal	Chief Financial Officer
Atindra Basu	Company Secretary

Source: Company Website

Top shareholders

Sr. No.	Holder Name	Holding (%)
1	KARUN CARPETS PVT LTD	55.6
2	Life Insurance Corporation Of India	2.4
3	Matthews India Fund	1.8
4	L And T Mutual Fund	1.7
5	The New India Assurance Company Limited	1.5
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

Sharekhan

by BNP PARIBAS

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