

Performance aided by non-auto, new initiatives...

Greaves Cotton's (GCL) standalone revenues came in at ₹ 436.8 crore, down 11.7% YoY, (above our estimate of ₹ 353.1 crore). The engine segment revenues came in at ₹ 412 crore, down 7.5% YoY. On the other hand, e-mobility segment revenue grew 47.4% to ₹ 57.8 crore. EBITDA declined 30.3% to ₹ 53.8 crore YoY (above our estimate of ₹ 33.9 crore). EBITDA margins declined 330 bps to 12.3% (vs. our estimate of 9.6%) impacted by higher operating expenses and less revenue booking. Employee cost fell 31.1% to ₹ 28.7 crore amid restructuring efforts aiding margins. Adjusted PAT (adjusted for exceptional item) was at ₹ 31.5 crore, down 37.6% YoY (above our estimate of ₹ 19.4 crore) partly impacted by lower other income.

Auto volumes likely to stay sluggish due to pandemics...

In Q3Y21, GCL's auto engine volume (3-W, 4-W) fell 56% YoY to 34543 units, impacted by BS-VI norms, impacted shared mobility amid pandemic. On the other hand, non-auto engine segment supported with volume growth of 44% YoY to 12434 units. Overall engine volumes de-grew 46% YoY. On non-auto side, power genset volumes grew 17% YoY to 989 units. Overall light equipment business agriculture (pumpset, power tiller, other) volumes grew 26% YoY to 17653 units. Overall new business initiatives contributed ~25% to revenues in Q3FY21. Going forward, non-auto and new initiatives are expected to aid growth in the medium term. We build in overall engine volumes of ~142645, ~223602 units for FY21E, FY22E, respectively.

Focus on new E-2-W, 3-W products, operational restructuring...

GCL is focused on expanding its presence in fast disrupting e-mobility market to become integrated player in last mile e-mobility in E-2-W, E-3-W with further launches in E-2-W, 3-W helping expand market presence. To meet growth, it plans to expand EV manufacturing capacity in south India. It is focusing on new partnership with diesel 3-W OEM, new global OEM for small 4-W. Its BS-VI diesel engine, CNG engine is expected to play a key role in long term while BS-VI ready CREST CNG engines is in advanced stages of discussion. In e-mobility business (EMB), E-2-W volumes were at 6666 units, up 35% YoY while E-3-W grew 19% to 1639 unit on a low base YoY. GCL aims to reduce operating costs by ~10% via operational efficiencies, major manufacturing realignments & consolidation in medium term.

Valuation & Outlook

Overall auto engine volumes may stay sluggish in the medium term due to BS-VI transition, pandemic. New product launches in high speed E-2-W vehicles at Ampere and new business initiatives (CNG engines, after market, B2C business) may provide much needed growth uptick in the long term. We introduced FY23E and build revenue, EBITDA CAGR of 3%, 3.2% in FY20-23E, respectively. We value GCL (base business at 12.0x on FY23E and Ampere at 1.0x P/sales on FY23E) at ₹ 90 (earlier ₹ 75) and maintain **HOLD**.

Key Financial Summary

Particulars (₹ crore)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-FY23E)
Net Sales	1,987.9	1,821.1	1,343.2	1,759.8	1,989.1	3.0%
EBITDA	274.7	228.1	106.6	209.2	250.5	3.2%
EBITDA Margin (%)	13.8	12.5	7.9	11.9	12.6	
Net Profit	169.3	147.5	19.6	123.4	149.1	0.4%
EPS (₹)	7.3	6.8	0.9	5.7	6.8	
P/E (x)	11.9	12.9	96.6	15.4	12.7	
RoNW (%)	18.7	16.3	5.7	14.2	16.6	
RoCE (%)	27.4	22.2	7.6	19.4	22.6	

Source: Company, ICICI Direct Research



Particulars

Particular	Amount
Market Capitalization	₹2029 Crore
Total Debt (FY 20)	₹0 Crore
Cash and Inv. (FY 20)	₹149.4 Crore
EV	₹1879.6 Crore
52 week H/L	₹148 / ₹66
Equity capital	₹46.2 Crore
Face value	₹2

Key Highlights

- Overall engine volumes fell 46% to 46977 units, YoY. In e-mobility business, E-2-W volumes were at 6666 units, up 35% YoY while E-3-W grew marginally by 5% to 1639 unit on low base YoY
- While auto engine volumes to remain sluggish in medium term due to BS-VI transition and pandemic

Key risk to our call

- Rebound in 3-W auto engine volumes and cost restructuring initiative could propel growth in medium term
- Sustained slowdown in auto engine sales, adverse raw material prices and headwinds in new initiatives may impact growth and profitability

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Exhibit 1: Change in estimates

	Q3FY21	Q3FY21E	Q3FY20	YoY (Chg %)	Q2FY21	QoQ (Chg %)	Comments
Revenue	436.8	353.1	494.7	-11.7	288.2	51.5	Rebound in revenue owing to better realisation and growth in non-auto segment. Also, 3-W continues to be sluggish amid pandemic
Other Income	2.4	6.0	2.8	-14.4	1.8	37.3	
Employee Expenses	28.7	34.6	41.6	-31.1	29.1	-1.5	
Raw Material Expenses	310.0	248.9	332.7	-6.8	204.0	52.0	
Other operating Expense	44.3	35.7	43.2	2.5	37.6	17.6	
EBITDA	53.8	33.9	77.2	-30.3	17.5	208.1	
EBITDA Margin (%)	12.3	9.6	15.6	-328 bps	6.1	626 bps	Employee cost restructuring aided margins while gross margins still remained stressed
Depreciation	12.2	12.2	11.2	9.3	12.4	-1.8	
Interest	0.9	1.8	1.2	-	1.9		
Exceptional Item	3.9	0.0	0.0		31.1		
PBT	39.3	26.0	72.3	-45.7	-26.2	-250.1	
Total Tax	10.6	6.5	18.3	-42.1	-8.2	-229.9	
PAT	28.7	19.4	54.1	-46.9	-18.0	-259.2	
Adj. PAT	31.5	19.4	50.5	-37.6	3.4	832.6	
Key Metrics							
Segmental Performance							
Engine Segment	412.0	321.2	445.6	-7.5	266.3	54.7	Aided by growth in non-auto engines
Others segment	24.8	31.8	49.1	-49.5	21.9	13.1	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY21E			FY22E			FY23E	Comments
(₹ Crore)	Old	New	% Change	Old	New	% Change	Introduced	
Revenue	1,332.4	1,343.2	0.8	1,652.1	1,759.8	6.5	1,989.1	The 3-W engine segment volume is likely to decline owing to BS-VI transition and impact of Covid-19
EBITDA	105.3	106.6	1.2	195.5	209.2	7.0	250.5	
EBITDA Margin (%)	7.9	7.9	3 bps	11.8	11.9	5 bps	12.6	Margins in FY21E to be impacted owing to BSVI transition and economic slowdown
PAT	22.3	19.6	-11.9	114.0	123.4	8.2	149.1	
EPS (₹)	1.0	0.9	-9.9	5.2	5.7	8.7	6.8	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier		
	FY19	FY20	FY21E	FY22E	FY21E	FY22E	
3W Volumes (units)	284,454	246,418	100,645	188,202	137,352	188,202.0	Revised volumes in line with expected auto sales slowdown, BS-VI transition and Covid-19 impact
4W & Other Volumes (Units)	45,030	44,487	42,000	35,400	22,800	35,400.0	
Overall Engine Volumes	329,484	290,905	142,645	223,602	160,152	223,602	

Source: Company, ICICI Direct Research

Exhibit 4: Valuations

	Basis of Valuation	Multiple	Total Value (₹ crore)	Per share value (₹)	Comments
Base Business	P/E	12.0x	1,715	79	
Ampere (100% Stake)	P/Sales	1.0x	320	14	FY 23E sales at ₹320 crore
Total			2,035	92	

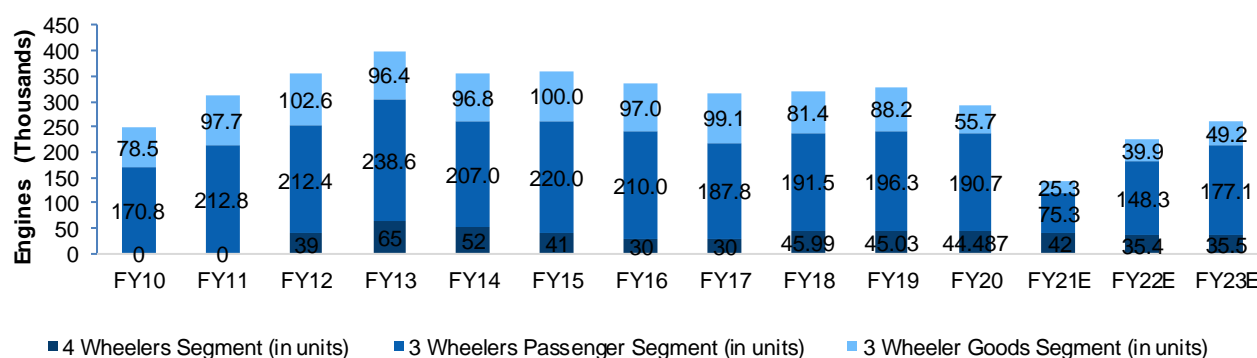
Source: Company, ICICI Direct Research

Conference call highlights

- For Q3FY21, revenue decline was mainly due to 3-W auto slowdown which dragged overall volumes and the effect of transition to BS-VI while non-auto and e-mobility aided the topline. The company is expecting a gradual recovery in H1FY22 as shared mobility (offices, schools and malls) are expected to open up further
- EBITDA declined 30.3% to ₹ 53.8 crore YoY (above our estimate of ₹ 33.9 crore). EBITDA margins declined 330 bps to 12.3% (vs. our estimate of 9.6%) impacted by higher operating expenses and lesser revenue booking. Employee cost fell 31.1% to ₹ 28.7 crore amid restructuring efforts aiding margins. However, it expects cost rationalisation of BS-VI engines as it matures in market. Employee cost restructuring aided the margins for Q3FY21
- GCL is focusing on long term operational efficiencies and cost reset with a target of ~10% reduction in operating cost through structural efficiencies and operational efficiencies over the medium term. GCL is planning a major operational realignment of manufacturing plants to Megasite in Aurangabad from Pune. It also plans to augment capacity in EV with a Megasite planned in southern India
- GCL reported an exceptional item of ₹ 3.9 crore, which includes an outgo of ₹ 8.4 crore towards employee separation cost and profit on sale of properties at ₹ 4.7 crore towards closure of Ranipet facilities
- In QFY21, on a consolidated basis engines contributed 50% to revenues followed by aftermarket (21%), others (17%) and e-mobility (12%)
- Overall auto engine volumes fell 46% to 31450 for Q2FY21. Genset volumes grew 17% for Q3FY21 to 989 units. Overall light equipment (pumpsets, power tillers, others) volumes grew 26% for Q3FY21 to 17653 units
- In electric mobility business (EMB), E-2-W volumes came in at 6666 units, up 35% YoY. The E-3-W segment registered a decline of 5% to 1639 unit YoY on a low base
- GCL aims to expand its presence in fast disrupting E-3-W market to become integrated player in last mile E-mobility with strong presence in E-2W and E-3-W. Also, new product launches in 3-W, 4-W would aid expand market presence. Ampere continues to accelerate with addition of new dealerships and now has pan-India presence with 300+ stores. It added 80+ dealers post unlock
- GCL is focusing on developing new partnership with diesel 3-W OEM and new global OEM for small 4-W. GCL's BS-VI diesel engine, CNG engine to play key role in long term while BS VI ready CREST CNG engines is under advanced stages of discussion. Further, the company has accelerated business developments with OEMs for BSVI engines
- Strong working capital continues with net working capital (NWC) days at 26 for Q3FY21, down seven days YoY. Efficient working capital helped in improving cash reserves to ₹ 212 crore as on Q3FY21.
- E-mobility business reported ₹ 57.8 crore of revenue for Q3FY21, up 47%, YoY while EBIT loss came in at ₹ 7.9 crore (vs. loss of ₹ 5.1 crore in Q3FY20)
- In the auto category, cargo segment has improved and is gaining traction. However, passenger 3-W is still lagging behind. Green shoots are visible in aftermarket, farm and new mobility segments

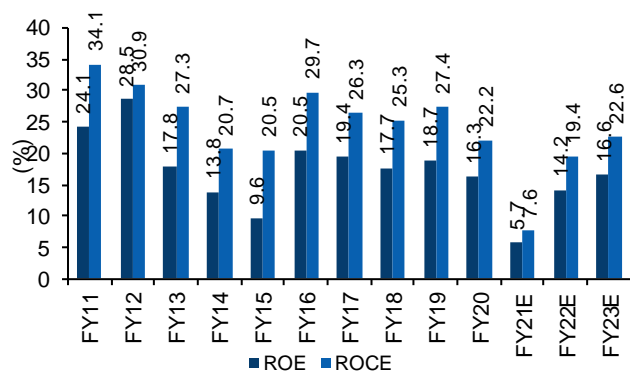
Financial Story in charts

Exhibit 5: Trend in auto engine segment sales



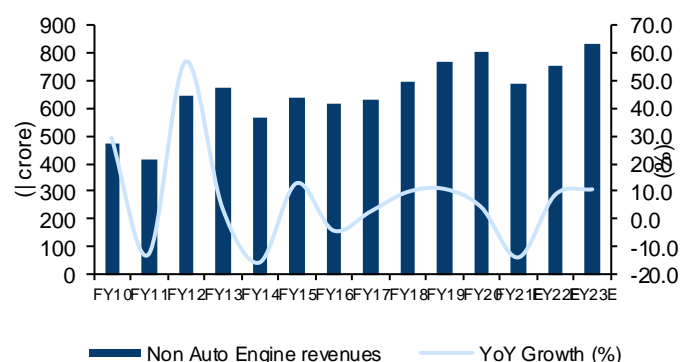
Source: Company, ICICI Direct Research

Exhibit 6: GCL commands superior return ratios



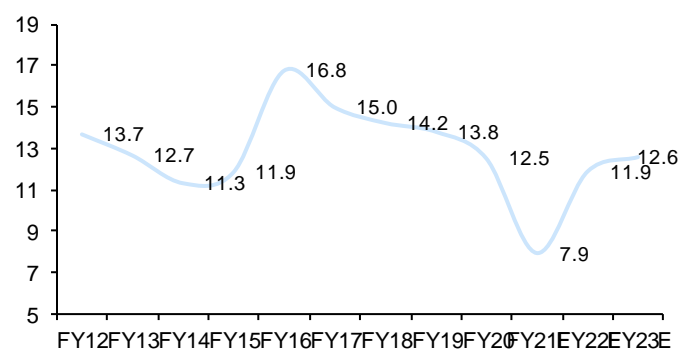
Source: ICICI Direct Research, Company

Exhibit 7: Non-auto engine segment revenue growth trend

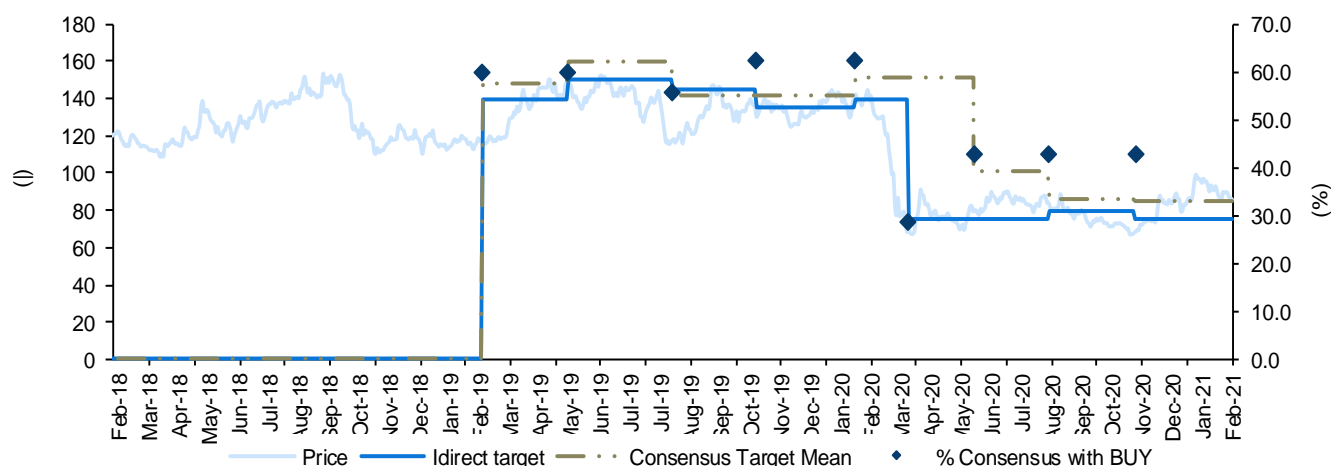


Source: ICICI Direct Research, Company

Exhibit 8: Trend in EBITDA margins



Source: Company, ICICI Direct Research

Exhibit 9: Recommendation History vs. Consensus


Source: Bloomberg, Company, ICICI Direct Research

Exhibit 10: Top 10 Shareholders

Rank	Investor Name	Filing Date	% O/S	Position (%)	Change
1	Dbh International Pv	26-Nov-20	43.3	100.13m	0.00m
2	Karun Carpets Pvt Lt	9-Dec-20	6.4	14.71m	0.00m
3	Bharat Starch Produc	30-Sep-20	6.0	13.78m	0.00m
4	Smallcap World Fund	16-Aug-18	5.8	13.40m	13.40m
5	Capital Group Compan	31-Dec-20	5.6	12.94m	(5.21)m
6	New India Assurance	30-Sep-20	2.8	6.48m	0.00m
7	L&T Mutual Fund	31-Dec-20	2.6	5.92m	0.00m
8	Life Insurance Corp	30-Sep-20	2.4	5.65m	0.00m
9	Massachusetts Inst T	30-Sep-20	2.3	5.28m	0.00m
10	General Insurance Co	30-Sep-20	2.0	4.69m	0.00m

Source: Reuters, ICICI Direct Research

Exhibit 11: Shareholding Pattern

(in %)	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoter	54.8	54.8	54.8	54.8	55.6
FII	15.0	15.6	14.3	11.3	5.0
DII	14.1	13.4	13.2	12.2	14.2
Others	16.1	16.2	17.7	21.7	25.2

Source: Company, ICICI Direct Research

Financial summary

Exhibit 12: Profit and loss statement ₹ crore				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Total operating Income	1,821.1	1,343.2	1,759.8	1,989.1
Growth (%)	-8.4	-26.2	31.0	13.0
Raw Material Expenses	1,249.2	955.6	1,231.4	1,369.0
Employee Expenses	158.1	123.6	136.2	170.0
Other Operating Expenses	185.8	157.5	183.0	199.7
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	106.6	209.2	250.5
Growth (%)	196.1	-53.3	96.2	19.8
Depreciation	52.2	51.6	57.6	66.0
Interest	3.8	5.5	4.8	5.1
Other Income	19.8	9.4	18.0	20.0
PBT	196.6	23.9	164.8	199.3
Others	0.0	0.0	0.0	0.0
Total Tax	49.2	4.3	41.5	50.2
PAT	147.5	19.6	123.4	149.1
Growth (%)	-12.9	-86.7	527.8	20.9
EPS (₹)	6.8	0.9	5.7	6.8

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement ₹ crore				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	147.5	19.6	123.4	149.1
Add: Depreciation	52.2	51.6	57.6	66.0
(Inc)/dec in Current Assets	-1.8	-33.4	-65.1	-76.1
Inc/(dec) in CL and Provis	-47.9	7.5	59.3	56.4
Others	0.0	0.0	0.0	0.0
CF from operating acti	153.7	50.8	179.8	200.6
(Inc)/dec in Investments	419.3	-20.0	-5.0	-5.0
(Inc)/dec in Fixed Assets	-94.3	-40.9	-56.0	-62.0
Others	0.0	0.0	0.0	0.0
CF from investing acti	194.4	-61.2	-60.8	-69.3
Issue/(Buy back) of Equit	-2.6	0.0	0.0	0.0
Inc/(dec) in loan funds	-7.0	2.0	2.0	2.0
Dividend paid & dividend	0.0	-78.8	-105.1	-118.2
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 acti	-239.8	-58.2	-109.8	-123.3
Net Cash flow	111.0	-68.5	9.2	8.0
Opening Cash	38.4	149.4	80.9	90.0
Closing Cash	149.4	80.9	90.0	98.0

Source: Company, ICICI Direct Research

Exhibit 14: Balance sheet ₹ crore				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	46.2	46.2	46.2	46.2
Reserve and Surplus	837.1	804.0	822.3	853.2
Total Shareholders funds	883.3	850.3	868.5	899.5
Total Debt	0.0	0.0	0.0	0.0
Deferred Tax Liability	0.0	2.0	4.0	6.0
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	919.2	891.7	917.0	954.9
Assets				
Gross Block	581.3	628.3	690.3	752.3
Less: Acc Depreciation	219.2	270.7	328.3	394.4
Net Block	362.1	357.5	361.9	357.9
Capital WIP	0.0	0.0	0.0	0.0
Total Fixed Assets	374.2	363.5	361.9	357.9
Investments	210.5	230.5	235.5	240.5
Inventory	171.2	174.1	186.1	210.4
Debtors	238.9	261.3	306.2	346.1
Loans and Advances	0.0	0.0	0.0	0.0
Other Current Assets	20.6	23.5	29.7	33.6
Cash	149.4	80.9	90.0	98.0
Total Current Assets	634.6	599.5	673.8	757.9
Creditors	279.1	276.0	315.8	357.0
Provisions	20.6	23.5	29.7	33.6
Total Current Liabilities	365.8	373.3	432.6	489.0
Net Current Assets	268.8	226.2	241.2	268.9
Others Assets	0.0	0.0	0.0	0.0
Total Assets	919.2	891.7	917.0	954.9

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios ₹ crore				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	6.8	0.9	5.7	6.8
Cash EPS	8.6	3.1	7.8	9.3
BV	38.2	36.8	37.6	38.9
DPS	0.0	3.0	4.0	4.5
Cash Per Share	6.5	3.5	3.9	4.2
Operating Ratios (%)				
EBITDA Margin	12.5	7.9	11.9	12.6
PBT / Total Operating inc	8.1	1.5	7.0	7.5
PAT Margin	8.1	1.5	7.0	7.5
Inventory days	34.3	47.3	38.6	38.6
Debtor days	47.9	71.0	63.5	63.5
Creditor days	55.9	75.0	65.5	65.5
Return Ratios (%)				
RoE	16.3	5.7	14.2	16.6
RoCE	22.2	7.6	19.4	22.6
RoIC	25.4	7.7	21.0	24.9
Valuation Ratios (x)				
P/E	12.9	96.6	15.4	12.7
EV / EBITDA	7.7	16.9	8.5	7.1
EV / Net Sales	1.0	1.3	1.0	0.9
Market Cap / Sales	1.0	1.4	1.1	1.0
Price to Book Value	2.1	2.2	2.2	2.1
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	1.4	1.3	1.3
Quick Ratio	0.9	0.9	0.9	0.9

Source: Company, ICICI Direct Research

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