Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Greaves Cotton Limited

Refocussed strategy: Strong growth prospects

Automobiles	Sharekhan code: GREAVESCOT	Result Update

Stock Update

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		↑	

Reco/View	Change
Reco: **Buy**	↑
CMP: **Rs. 88**	
Price Target: **Rs. 110**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

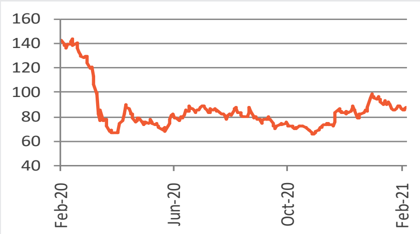
Company details

Market cap:	Rs. 2,030 cr
52-week high/low:	Rs. 147 / 66
NSE volume: (No of shares)	13.97 lakh
BSE code:	501455
NSE code:	GREAVESCOT
Free float: (No of shares)	10.3 cr

Shareholding (%)

Promoters	55.6
FII	5.0
DII	14.2
Others	25.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-7.3	26.9	6.9	-38.5
Relative to Sensex	-11.9	7.8	-28.6	-63.8

Sharekhan Research, Bloomberg

Summary

- We upgrade Greaves Cotton Limited (Greaves) to Buy with a revised PT of Rs. 110, factoring in faster than expected recovery in its business outlook and improved operational performance.
- Greaves reported strong set of numbers in Q3FY21, ahead of our expectations at both revenue and operational level.
- We expect Greaves' earnings to grow robust 92.4% in FY2022E and 35.4% in FY2023E, driven by 19.9% CAGR during FY2021E-FY2023E and 450 bps improvement in EBITDA margin.
- The stock is trading below its average historical multiple at P/E multiple of 13.6x and EV/ EBITDA multiple of 7.5x its FY2023E estimates. We upgrade our rating to Buy call.

Greaves Cotton Limited (Greaves) reported a strong set of numbers, ahead of our expectations at both revenue and operational level. The sequential improvement in business, was driven by robust recovery in non-auto business, electric mobility but a slower paced recovery in 3-wheelers. However, the y-o-y performance continues to remain lacklustre due to lower sales in three-wheeler industry, where Greaves has a significant exposure. Net revenue declined 11.7% y-o-y while it improved 51.5% q-o-q at Rs 437 crore in Q3FY21. In terms of the volumes, the company reported 44% y-o-y growth in non-automotive engines, 25% y-o-y growth in non-auto parts and 28% growth in E-mobility products, while the auto engines declined by 56% y-o-y. The E-mobility business contributed 12% of consolidated revenues, while engine and aftermarket businesses contributed 50% and 21% respectively during the Q3FY21. The operating profit margin for the Q3FY21 stood at 12.3% showing a decline of 328 bps y-o-y but significant improvement of 626bps on q-o-q. As a result, EBITDA declined 30.3% y-o-y while improved 208% q-o-q to Rs 53.8 crore in Q3FY21. Adj. PAT for the Q3FY21 was at Rs32.6 crore, a decline of 34% y-o-y and 149.5% growth y-o-y. We believe the company is benefitting from by its re-focus strategy on automotive, non-automotive, E-mobility, retail and finance businesses. Over the last 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 improved new businesses outlook and expectations of improving three wheeler sales, we have raised our estimates for the company. We expect Greaves' earnings to grow robust 92.4% in FY2022E and 35.4% in FY2023E, driven by 19.9% CAGR during FY2021E-FY2023E and 450 bps improvement in EBITDA margin. Hence, we upgrade the stock to Buy rating.

Our Call

Valuation – Upgrade to Buy with a revised PT of Rs. 110: Greaves' performance in Q3FF21 has improved substantially on a sequential basis by PAT improving 149.5% q-o-q, aided by 51.5% growth in revenues and 626 bps expansion in EBITDA margin. We expect 3W industry to gain demand, as the Covid-19 situation gets normalised and vaccines are rolled out through-out the country. The opening of schools, educational institutions, corporates, and local/metro trains will be the key catalysts for demand. Greaves will be key beneficiary of the recovery in 3W demand. Also the company's focus into new businesses provide room for strong growth. We expect Greaves' earnings to grow by a robust 92.4% in FY2022E and 35.4% in FY2023E, driven by 19.9% CAGR during FY2021E-FY2023E and 450 bps improvement in EBITDA margin. The stock is trading below its average historical multiple at P/E multiple of 13.6x and EV/EBITDA multiple of 7.5x its FY2023E estimates. We upgrade our rating to Buy with revised PT of Rs 110.

Key Risks

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

Valuation (Consolidated) Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenues	2,015	1,911	1,491	1,863	2,143
Growth (%)	12.5	(5.2)	(22.0)	25.0	15.0
EBIDTA	272	210	104	194	246
OPM (%)	13.5	11.0	7.0	10.4	11.5
Net Profit	181	123	57	110	150
Growth (%)	16.9	(32.1)	(53.1)	92.4	35.4
EPS	7.5	5.4	2.5	4.8	6.5
P/E	11.7	16.3	35.3	18.4	13.6
P/BV	2.2	2.9	3.0	3.2	3.1
EV/EBIDTA	6.2	8.4	17.0	9.5	7.5
ROE (%)	18.8	17.7	8.6	17.2	22.8
ROCE (%)	24.2	20.9	7.6	20.3	26.8

Source: Company; Sharekhan estimates

Q3FY21 results ahead of expectations: Greaves Cotton Limited (Greaves) reported strong set of numbers, ahead of our expectations at both revenue and operational level. The sequential improvement in business, was driven by a robust recovery in non-auto business, electric mobility but a slower paced recovery in 3-wheelers. However, the y-o-y performance continues to remain lacklustre due to lower sales in three-wheeler industry, where Greaves has a significant exposure. Net revenue declined 11.7% y-o-y while improved 51.5% q-o-q at Rs 437 crore in Q3FY21. In terms of the volumes, the company reported 44% y-o-y growth in non-automotive engines, 25% y-o-y growth in non-auto parts and 28% growth in e-mobility products, while the auto engines declined by 56% y-o-y. The e-mobility business contributed 12% of consolidated revenues, while engine and aftermarket businesses contributed 50% and 21% respectively during the Q3FY21. The operating profit margin for the Q3FY21 stood at 12.3% showing a decline of 328 bps y-o-y but significant improvement of 626bps on q-o-q. As a result, EBITDA declined 30.3% y-o-y while improved 208% q-o-q to Rs 53.8 crore in Q3FY21. Adj. PAT for the Q3FY21 was at Rs32.6 crore, a decline of 34% y-o-y and 149.5% growth y-o-y.

Positive outlook: The management of Greaves were positive on the growth registered in the Q3FY21, on back of robust demand witnessed across its segments. The company is expecting continued demand recovery in three wheelers, aided by normalisation of economic activities and rolling out COVI vaccines successfully throughout the country. The non-automotive business and e-mobility business will be the key growth driver for the company.

BS6 pricing not fully passed: Greaves stated it was not fully able to pass on BS6 pricing increases due to lower volume offtake due to COVID-19. Because of lower 3W demand, particularly in the passenger segment, Greaves would be unable to pass on entire price increases in the near term. Once the scenario for three-wheeler demand improves, we expect Greaves will take price hikes.

Ampere business: Greaves stated that electric 2W business "Ampere" is recovering given the opening up of economy and increasing preference for personal transport. The Ampere's share of business grew to 12% of Greaves portfolio. Greaves is working on localisation for the Ampere business which will improve profitability going ahead. The company has opened up 300+ Amphere retail stores, out of which 80 stores were added post unlock.

Crest engines: Greaves is in advanced negotiations with 3W manufacturers for its "Crest" engines for both Petrol and CNG variants.

Cost control measures: Greaves is working on improving operating efficiencies and reducing overhead costs. Greaves has launched a voluntary retirement scheme for its employees at its Ranipet plant and plans to close down the operations. Further, the company is working on overhead cost reduction and aims to reduce costs by about 10%.

Strong broad-based growth; Expect robust double-digit growth in FY2022: We believe the company is benefiting from its re-focus strategy on automotive, non-automotive, e-mobility, retail and finance businesses. Over the last 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 improved new businesses outlook and expectations of improving three-wheeler sales, we have raised our estimates for the company. We expect Greaves' earnings to grow robust 92.4% in FY2022E and 35.4% in FY2023E, driven by 19.9% CAGR during FY2021E-FY2023E and 450 bps improvement in EBITDA margin.

Results Rs cr

Particulars	Q3FY21	Q3FY20	y-o-y (%)	Q2FY21	q-o-q (%)
Revenues	436.8	494.7	(11.7)	288.2	51.5
EBITDA	53.8	77.2	-30.3	17.5	208.1
EBITDA margins (%)	12.3	15.6	(328 bps)	6.1	626 bps
Depreciation	12.2	11.2	9.3	12.4	(1.8)
Interest	0.9	1.2	(30.1)	1.9	(54.7)
Other income	2.4	2.8	-14.4	1.8	37.3
PBT	43.2	67.6	-36.2	4.9	779.2
Tax	10.6	18.3	-42.1	(8.2)	NA
Adjusted PAT	32.6	49.3	-34.0	13.1	149.5
Reported PAT	28.7	54.1	-46.9	(18.0)	NA
Adjusted EPS	0.7	1.0	-34.0	0.3	149.5

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector view - Demand picking up in domestic and export markets

The business outlook for the automotive segments is improving with a normalisation of economic activities. The automotive demand is witnessing strong recovery in two-wheeler and four-wheeler segments aided by pent-up demand and an increase in personal mobility transport. The rural and semi-urban remains 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. Also, the 3W industry is expected to gain demand, as the Covid-19 situation gets normalised and vaccines are rolled out through-out the country. The opening of schools, educational institutions, corporates, and local/metro trains will be the key catalysts for demand.

■ Company outlook - Beneficiary of 2W demand

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■ Valuation - Upgrade to Buy with a revised PT of Rs. 110

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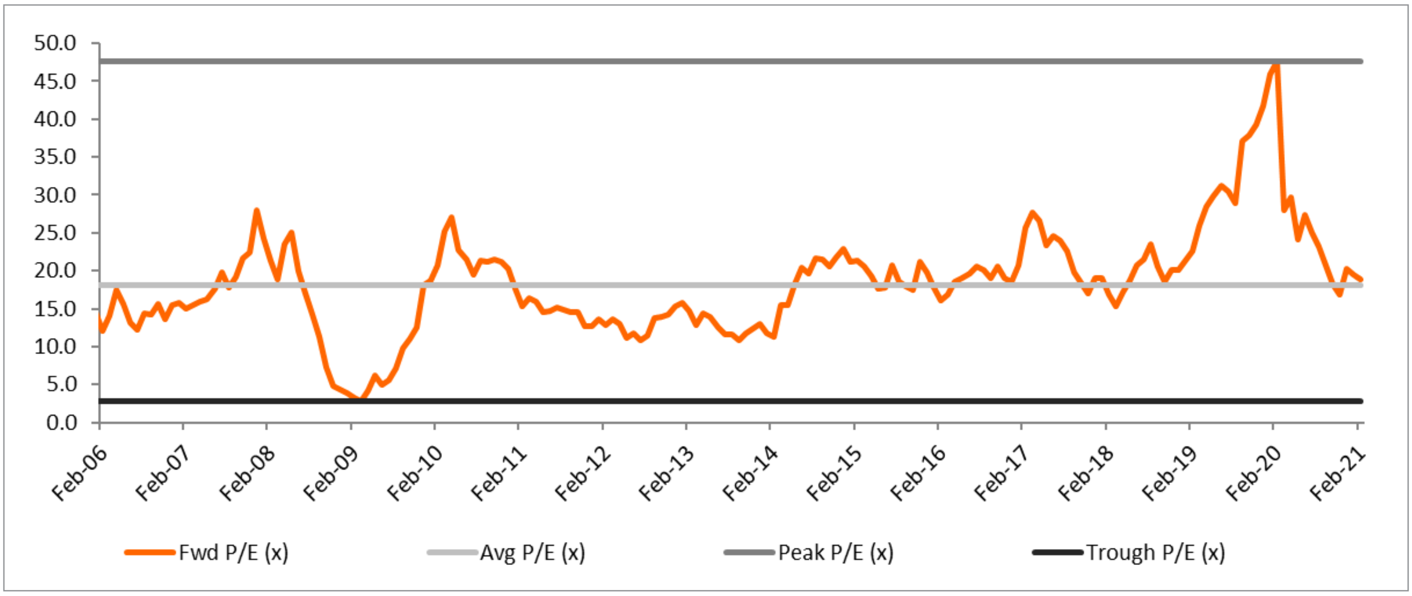
One-year forward P/E (x) band



Source: Sharekhan Research

About company

Greaves Cotton Limited (Greaves) is one of the leading suppliers of powertrain and related solutions to the auto OEM's. The company has a lion share in the 3-wheeler diesel segment. Its products can be classified in to three categories – Engines (56% of sales), Aftermarkets (21% of sales) and others (23% of sales). The others segment includes power Gensets, Agri-equipment and electric scooter business.

Investment theme

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Additional Data

Key management personnel

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

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	DBH International Pvt Ltd	42.71
2	Capital Group Cos Inc/The	8.84
3	KARUN CARPETS PVT LTD	6.15
4	Bharat Starch Products Ltd	5.96
5	SMALLCAP World Fund Inc/Fund Paren	5.8
6	New India Assurance Co Ltd/The	2.81
7	Life Insurance Corp of India	2.57
8	General Insurance Corp of India	2.23
9	L&T Mutual Fund Tustee Ltd/India	1.78
10	VANTAGE EQUITY FUND	1.69

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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