

E-mobility business steals the show...

About the stock: Greaves Cotton (Greaves) is a leading diversified engineering company with a presence in automotive, non-automotive, aftermarket, retail, electric mobility solution and finance.

- New business share increased to ~49% while engine reduced to ~48% in FY17-22
- E-mobility is expected to drive future growth (~38% of FY22 revenue)

Q4FY22 Results: Greaves reported a decent set of Q4FY22 numbers.

- Standalone revenue came in at ₹ 378.7 crore (vs. I-direct estimate of ₹ 441.2 crore), which declined 17.1% YoY
- Standalone EBITDA of ₹ 29.1 crore (vs. I-direct estimate of ₹ 44.6 crore) declined 38.5% YoY, impacted by restructuring, higher commodity prices. On a consolidated basis, EBITDA came in at ₹ 41 crore (vs. EBITDA of ₹ 42 crore in Q4FY21)
- Consequently, standalone PAT of ₹ 16.8 crore (vs. I-direct estimate of ₹ 20.6 crore) declined 29.6% YoY
- Engine (auto, non-auto) volumes declined 41% to 25469 units' YoY

What should investors do? E-mobility and new initiatives businesses may provide much needed long term growth uptick amid languishing engine volumes.

- We remain long term positive and change our rating on the stock from HOLD to **BUY**

Target Price and Valuation: We value Greaves at ₹ 180 on SoTP basis.

Key triggers for future price performance:

- Transformation strategy to increase E-mobility and new-initiatives business share to drive long term growth and help transform and de-risk its business
- Consolidation of manufacturing operations into Megafactories to bring higher operational efficiencies and reduced fixed costs in the long run
- We expect revenue, EBITDA to grow at CAGR of ~13.6%, 76.8%, respectively, in FY22-24E

Alternate Stock Idea: We also like ABB India in our coverage.

- It expects operating margins to improve with increase in capacity utilisation, change in revenue mix, cost optimisation programmes and localisation prospects
- BUY with target price of ₹ 2625



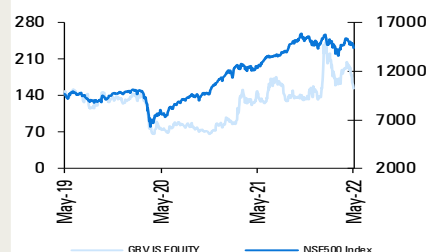
Particulars

Particular	Amount
Market Capitalization	₹ 3263 Crore
Total Debt (FY22)	₹ 0 Crore
Cash and Inv. (FY22)	₹ 179.9 crore
EV	₹ 3084 Crore
52 week H/L	₹ 259 / ₹ 125
Equity capital	₹ 46.2 Crore
Face value	₹ 2

Shareholding pattern

(in %)	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	55.6	55.6	55.6	55.6
FII	4.5	3.8	3.8	3.1
DII	11.7	9.4	9.2	9.5
Others	28.1	31.2	31.4	31.8

Price Graph



Recent events & Key Risks

- **Key Risks:** (i) Inability to sustain growth in EV-Mobility segment. (ii) Sustained slowdown in auto engine sales, adverse raw material prices

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Key Financial Summary

Particulars (₹ crore)	FY20	FY21	FY22	5 Year CAGR (FY17-FY22)	FY23E	FY24E	2 Year CAGR (FY22-FY24E)
Net Sales	1,821.1	1,329.1	1,177.6	-6.3%	1,493.0	1,601.2	16.6%
EBITDA	228.1	96.9	44.7	-28.8%	129.0	154.2	85.7%
EBITDA Margin (%)	12.5	7.3	3.8		8.6	9.6	
Net Profit	147.5	10.4	16.4	-41.6%	63.7	76.3	115.9%
EPS (₹)	6.4	0.4	0.7		2.8	3.3	
P/ E (x)	22.1	315.0	199.4		51.2	42.8	
RoNW (%)	16.2	3.3	1.4		7.5	8.9	
RoCE (%)	22.0	6.5	2.7		10.6	12.5	

Key takeaways of recent quarter & conference call highlights

Q4FY22 Results: Decent set of numbers, E-Mobility steal the show...

- Standalone revenue came in at ₹ 378.7 crore (vs. I-direct estimate of ₹ 441.2 crore), which declined 17.1% YoY
- Consolidated revenue grew 19.3% YoY to ₹ 620.8 crore. The engine segment revenues came in at ₹ 349.1 crore, declining 17.8% YoY. On the other hand, e-mobility segment revenue increased 243.5% to ₹ 237.29 crore. E-Mobility segment turns profitable in Q4FY22; EBIT came at ₹ 7.26 crore vs. loss of ₹ 11.2 crore in the same period last year. For FY22, E-mobility segment revenues crossed the ₹ 500 crore mark
- It reported standalone EBITDA of ₹ 29.1 crore (vs. I-direct estimate of ₹ 44.6 crore), down 38.5% YoY, impacted by restructuring, pandemic, higher commodity prices. On a consolidated basis, EBIDTA came in at ₹ 41 crore (vs. EBITDA of ₹ 42 crore in Q4FY21)
- The company reported standalone PAT of ₹ 16.8 crore (vs. I-direct estimate of ₹ 20.6 crore) down 29.6% YoY

Q4FY22 Earnings Conference Call highlights

- Q4FY22 engine segment volume came in at 25469 units, declining 49% YoY. Auto engine volumes declined 49% to 15068 units' YoY while non-auto engine volumes de-grew 24% to 10401 units' YoY. On the non-auto product/equipment side, power genset volumes grew 14% YoY to 1254 units whereas the light equipment business (pumpset, power tiller, other) volumes declined 31% YoY to 10748 units. Electric mobility accounts for 38% of overall revenue in Q4FY22. New business including e-mobility continues to accelerate with 49% contribution to overall business in FY22
- Non-auto segment this quarter bounced back and reached pre Covid level. E-mobility segment volumes registered strong growth. E-2W volumes grew by 170% YoY to 22,200 units while E-3-W volume came in at 2753 units, up 48% YoY. Unique presence in EV (E2W+E3W) with 85% coverage in last-mile mobility
- The company has augmented its manufacturing capacity of e-2W by operationalising 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, India's first set of multi-brand EV retail networks
- Annualised savings in fixed overheads of ₹ 40+ crore vs. FY20 with restructuring of business and consolidation of plants. EV margins improved 5% from operating efficiency and close to 3% from gross margin improvement
- The share of high speed vehicles was at 73% in FY22 vs. 37% in FY21. At the same time, lithium ion share has increased from 70% in FY21 to 90% in FY22
- The -2W realisations on consolidated level are close to ₹ 95000 and standalone 2-W realisation was at ₹ 86500. Out of ₹ 154 crore other assets, ₹ 110 crore came from subsidy from government. In FY22, the company received subsidy of ₹ 60 crore on high speed 2-W. Generally, it takes 90-130 days to get government subsidy. The company is confident that if demand increases, then they can manufacture from current run rate of 250,000 vehicles per year to 500,000 units per year

Exhibit 1: Variance Analysis

	Q4FY22	Q4FY22E	Q4FY21	YoY (Chg %)	Q3FY22	QoQ (Chg %)	Comments
Revenue	378.7	441.2	457.0	-17.1	284.0	33.3	Strong contribution of new businesses in driving revenue growth
Other Income	13.3	5.0	3.7	260.4	7.6	74.5	
Employee Expenses	30.3	31.8	34.6	-12.5	33.8	-10.4	
Raw Material Expenses	274.0	319.0	321.3	-14.7	204.5	34.0	
Other operating Expenses	45.3	45.9	53.8	-15.8	41.3	9.8	
EBITDA	29.1	44.6	47.3	-38.5	4.5	550.8	
EBITDA Margin (%)	7.7	10.1	10.4	-267 bps	1.6	611 bps	
Depreciation	10.3	21.0	12.0	-14.6	10.9	-5.7	
Interest	0.6	1.0	0.6	-	0.5		
Exceptional Item	6.2	0.0	31.1		-10.7		
PBT	25.3	27.6	38.9	-34.9	11.3	123.4	
Total Tax	8.5	7.0	15.0	-43.3	3.0	183.7	
PAT	16.8	20.6	23.9	-29.6	8.3	101.7	
Adj. PAT	21.0	20.6	3.4	520.0	0.5	4,218.9	

Key Metrics

Segmental Performance

Engine Segment	349.1		424.7	-17.8	269.4	29.6
E-Mobility/ other	29.6		32.3	-8.2	14.6	103.2

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
Revenue	1,493.0	1,493.0	0.0	1,601.2	1,601.2	0.0
EBITDA	129.0	129.0	0.0	188.1	154.2	-18.0
EBITDA Margin (%)	8.6	8.6	0 bps	11.7	9.6	-212 bps
PAT	63.7	63.7	0.0	101.6	76.3	-24.9
EPS (₹)	2.8	2.8	-1.6	4.4	3.3	-25.0

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier	
	FY21	FY22	FY23E	FY24E	FY23E	FY24E
3-W Volumes (units)	94,658	68,668	88,424	92,846	88,424	92,846
4-W & Other Volumes (Units)	43,629	41,500	47,500	47,500	47,500	47,500
Overall Engine Volumes	1,38,287	1,10,168	1,35,924	1,40,346	1,35,924	1,40,346

Source: Company, ICICI Direct Research

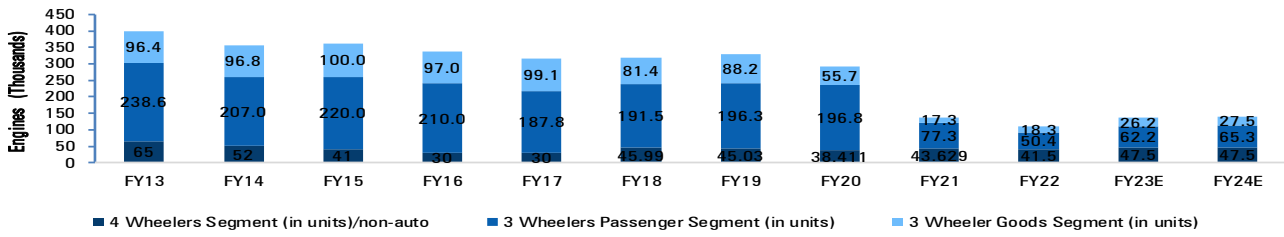
Exhibit 4: Valuations

	Basis of Valuation	Multiple	Total Value (₹ crore)	Per share value(₹)	Comments
Base Business	P/E	12x	915	40	
Ampere (100% Stake), Bestway	P/Sales	4.0	3200	138	
Total			4,115	179	

Source: Company, ICICI Direct Research

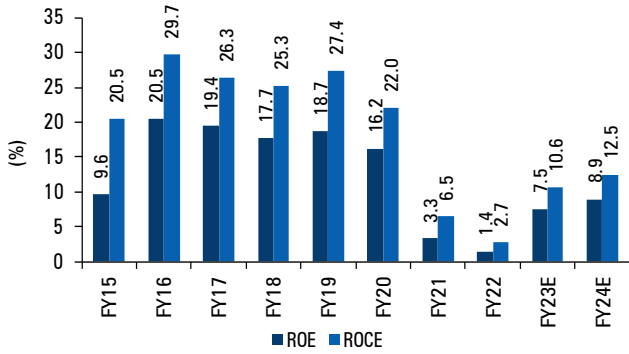
Financial story in charts

Exhibit 5: Trend in auto engine segment sales



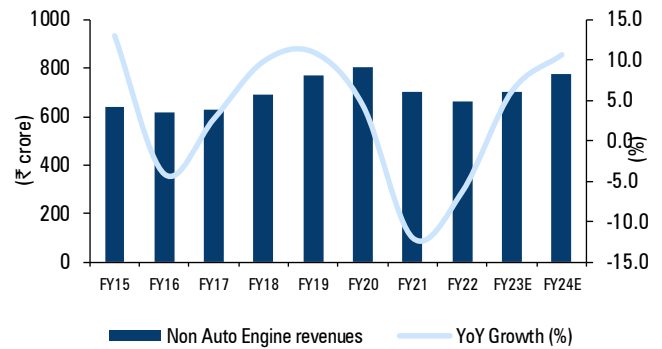
Source: Company, ICICI Direct Research

Exhibit 6: Commands superior return ratios



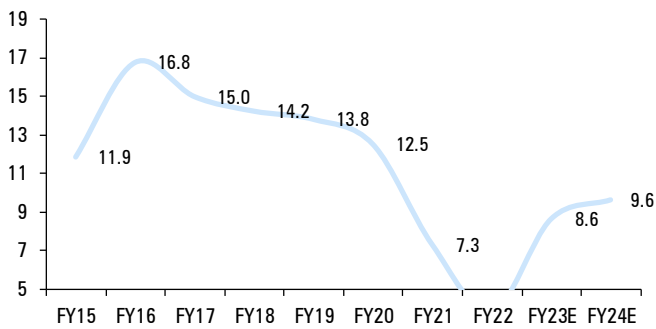
Source: ICICI Direct Research, Company

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

Financial summary

Exhibit 9: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Total operating Income	1,329.1	1,177.6	1,493.0	1,601.2
Growth (%)	-27.0	-11.4	26.8	7.2
Raw Material Expenses	941.4	842.7	1,045.1	1,120.8
Employee Expenses	127.1	130.8	147.1	156.0
Other Operating Expenses	163.7	159.3	171.8	170.2
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	96.9	44.7	129.0	154.2
Growth (%)	97.2	-53.9	188.3	19.6
Depreciation	48.4	53.1	61.7	70.1
Interest	5.6	2.0	5.1	5.1
Other Income	10.0	31.6	23.0	23.0
PBT	18.5	28.6	85.2	101.9
Others	0.0	0.0	0.0	0.0
Total Tax	8.1	12.2	21.4	25.7
PAT	10.4	16.4	63.7	76.3
Growth (%)	-93.0	58.0	289.4	19.7
EPS (₹)	0.4	0.7	2.8	3.3

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	10.4	16.4	63.7	76.3
Add: Depreciation	48.4	53.1	61.7	70.1
(Inc)/dec in Current Assets	82.4	67.2	-69.0	-29.3
Inc/(dec) in CL and Provisions	33.8	-107.1	45.6	24.5
Others	0.0	0.0	0.0	0.0
CF from operating act	180.6	31.5	107.2	146.7
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-15.4	-3.2	-65.0	39.6
Others	0.0	0.0	0.0	0.0
CF from investing act	-161.1	45.2	-72.0	31.2
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	0.0	2.0	2.0	2.0
Dividend paid & dividend tax	-4.6	-69.6	-69.6	-69.6
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 act	-3.3	-67.4	-74.7	-74.7
Net Cash flow	16.2	9.3	-39.6	103.2
Opening Cash	154.4	170.5	179.9	140.3
Closing Cash	170.5	179.9	140.3	243.4

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	46.2	46.2	46.2	46.2
Reserve and Surplus	854.7	805.7	799.8	806.5
Total Shareholders funds	900.9	851.9	846.0	852.7
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	929.2	885.1	886.3	900.0
Assets				
Gross Block	511.7	573.7	635.7	614.2
Less: Acc Depreciation	244.4	297.6	359.2	429.4
Net Block	267.3	276.2	276.5	184.8
Capital WIP	0.0	0.0	0.0	0.0
Total Fixed Assets	341.1	291.2	294.5	184.8
Investments	281.9	281.9	291.9	301.9
Inventory	154.8	129.0	137.0	147.0
Debtors	203.0	167.8	200.4	215.0
Loans and Advances	0.0	0.0	0.0	0.0
Other Current Assets	24.7	20.2	23.0	24.6
Cash	170.5	179.9	140.3	243.4
Total Current Assets	573.4	515.5	544.9	677.4
Creditors	317.5	219.4	249.5	267.6
Provisions	24.7	20.2	23.0	24.6
Total Current Liabilities	399.7	292.6	338.2	362.7
Net Current Assets	173.7	223.0	206.8	314.7
Others Assets	0.0	0.0	0.0	0.0
Total Assets	929.2	885.1	886.3	900.0

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	0.4	0.7	2.8	3.3
Cash EPS	2.5	3.0	5.4	6.3
BV	39.0	39.7	42.2	45.3
DPS	0.0	0.2	0.2	0.2
Cash Per Share	7.4	10.6	11.7	19.0
Operating Ratios (%)				
EBITDA Margin	7.3	3.8	8.6	9.6
PBT / Total Operating income	0.8	1.4	4.3	4.8
PAT Margin	0.8	1.4	4.3	4.8
Inventory days	42.5	40.0	33.5	33.5
Debtor days	55.7	52.0	49.0	49.0
Creditor days	87.2	68.0	61.0	61.0
Return Ratios (%)				
RoE	3.3	1.3	6.5	7.3
RoCE	6.5	2.5	9.2	10.2
RoIC	8.8	-1.4	10.6	15.1
Valuation Ratios (x)				
P/E	315.0	199.4	51.2	42.8
EV / EBITDA	31.9	67.5	23.2	18.3
EV / Net Sales	2.3	2.6	2.0	1.8
Market Cap / Sales	2.5	2.8	2.2	2.0
Price to Book Value	3.6	3.6	3.3	3.1
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.0	1.1	1.2	1.2
Quick Ratio	0.6	0.7	0.8	0.8

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (Capital Goods)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
L&T (LARTOU)	1537	1,930	Buy	215672	50.2	65.5	72.9	30.6	23.5	21.1	8.0	10.2	11.1	10.8	12.9	13.2
Siemens Ltd	2293	2,856	Buy	81658	29.5	37.8	45.6	77.8	60.7	50.3	13.9	16.1	17.5	10.1	11.9	13.0
AIA Engineering (AIAENG)	1790	1,895	Hold	16883	56.8	59.9	67.8	31.5	29.9	26.4	14.4	14.2	14.5	11.8	11.3	11.6
Thermax (THERMA)	1919	2,445	Buy	22866	27.4	42.5	48.9	70.1	45.2	39.2	12.1	17.2	18.1	9.5	13.4	13.9
KEC International (KECIN)	365	379	Hold	9374	12.7	15.8	25.3	28.7	23.1	14.4	12.3	13.3	16.9	10.7	11.0	15.4
Greaves Cotton (GREAVE)	143	179	Buy	3297	0.7	2.8	3.3	201.5	51.7	43.2	2.7	10.6	12.5	1.4	7.5	8.9
Elgi Equipment (ELGEQU)	257	410	Hold	8156	4.0	6.3	8.2	64.8	40.7	31.2	12.7	18.0	20.3	14.0	19.1	20.7
Bharat Electronics (BHAELE)	219	250	Buy	53361	9.4	11.2	12.5	23.4	19.5	17.6	26.2	28.7	28.6	19.4	21.4	21.3
Cochin Shipyard (COCSHI)	313	500	Buy	4121	44.0	55.6	-	7.1	5.6	-	15.2	16.0	-	13.0	14.7	-
SKF (SKFIND)	3169	3,720	Buy	15667	77.0	89.6	103.5	41.2	35.4	30.6	26.0	26.5	27.1	20.6	20.0	20.1
Timken India (TIMIND)	1820	2,405	Buy	13690	37.8	43.3	50.1	59.5	46.2	46.2	21.1	27.1	31.3	16.4	21.1	24.4
NRB Bearing (NRBBEA)	111	220	Buy	1074	7.8	9.2	12.1	20.6	17.3	17.3	15.0	15.3	19.2	12.6	12.6	14.8
Action Construction (ACTCON)	183	290	Buy	2182	9.8	12.7	16.2	18.7	14.4	11.3	22.5	24.4	25.9	15.1	16.6	17.7

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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