

CMP: INR 142

Rating: Accumulate

Target Price: INR 160

Stock Info

BSE	501455
NSE	GREAVESCOT
Bloomberg	GRV IN
Reuters	GRVL.BO
Sector	Industrial Machinery
Face Value (INR)	2
Equity Capital (INR mn)	463
Mkt Cap (INR mn)	30,213
52w H/L (INR)	259/ 126
Avg Yearly Vol (in 000')	4169

Shareholding Pattern %

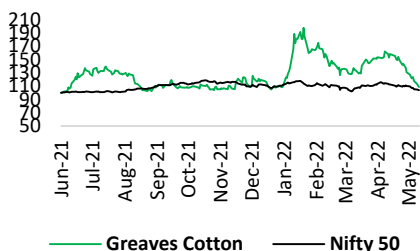
(As on March, 2022)

Promoters	55.55
FII	3.29
DII	9.36
Public & Others	31.80

Stock Performance (%)

	1m	3m	12m
Greaves Cotton	-29.0	-27.5	6.6
Nifty 50	-9.5	-8.7	7.6

Greaves Vs Nifty



Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114834

Greaves Cotton Limited (GCL) has reported weak performance in Q4FY22 as PAT, margins and revenue was below our estimates. Net profit for the quarter de-grew by 29.6% YoY while it grew by 100.5% QoQ at INR 168 mn was lower than our estimate of INR 280 mn. Standalone revenue from operations de-grew by 17.1%YoY/+26%QoQ stood at INR 3,787 mn in Q4FY22 against our estimate of INR 4,950 mn led by growth in the e-mobility business and reorganization of the 2W and 3W e-mobility businesses under Greaves Electric Mobility and higher revenue contribution from the auto engines business. Gross margin of the company decreased by 121bps QoQ at 27.6%/-344bps YoY. Decreased of the gross margin on sequentially basis, the company's EBITDA margin expanded by 196bps QoQ/-267bps to 7.7% Q4FY22 against our estimate of 9.5%.EPS at INR 0.73 in Q4FY22 against INR 0.36 in Q3FY22 and INR 1.2 in Q4FY21.In Q4FY22, retail sales of E-Mobility business stood at 62,000+ vehicles for FY22, increased by 128% from FY21 of 27,000+ vehicles. 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. The company has recommended a dividend of INR 0.2/share.

EV capacity 1) The company has ramped up 250k units and is today able to deliver 250k and as per the demand 250k-500k and when its need can go to the mn units and running in one shift. 2) The company has gone through localization and the company has sourced through localization.3) The only changes on the chip side that the company is managing very well.

Non-automotive engine: 12k+ in terms of volume post-Covid coming back due to farm equipment, and infrastructure construction. Challenges on the raw material side. In Q4FY22 revenue mix, ~30% and growth will be healthy going ahead

Acquisition: The company has completed the acquisition of E3W in the EV space where greaves EV will have a 100% stake and 26% stake in MLR auto to expand the last mile ecosystem.

Outlook & Valuation

At a CMP of INR 140, GCL is trading at a P/E multiple of 68.4 to its FY24E EPS of INR 2.1. Considering the E-mobility (Magnus EX) 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, consolidation of manufacturing operations into Megasites to bring higher operational efficiencies and reduced fixed costs in the long run, EV and new initiatives businesses may provide upside going ahead. **We have valued the standalone business to 11.5x its EBITDA of INR 752 and Ampere's business at FY24E P/sales at 3.5x, yielding INR 106 per share. Our SOTP valuation yields a fair value of INR 160 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%	316.7
FY22	11,776	447	271	1.2	3.80%	121.1
FY23E	13,583	611	364	1.6	4.50%	90.0
FY24E	15,030	752	480	2.1	5.00%	68.4

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

Q4FY22 Conference call Highlights:

- **EV (revenue mix increased to 38%):** The company's accelerated expansion into the e-mobility business and reorganization of the 2W and 3W e-mobility businesses under Greaves Electric Mobility and higher revenue contribution from the auto engines business.
- **Non-auto and retail** engine segments have bounced back and reached in pre-covid level.
- **Addition:** The addition of a new manufacturing plant for Ampere in the Ranipet Tamil Nadu plant. Whereas Auto EV mart in Bangalore and a lot of brands in EV. Management believes the Non-auto segment will be going to contribute to the company revenue going ahead and current revenue is growing by 3.5%.
- Auto segment continues to reach the significant mark on a sequential basis.
- Sustainable EV segment and vehicle service and Auto segment. And non-auto is expected to do well going forward.
- **R&D:** The company's focus on R&D and increasing operation efficiency and initiative taken to consolidate plants in one location structuring and focus on an individual basis.
- **2W realization:** Share of low speed and high speed grown 73% and share of 3W in the overall volume has increased and overall realization increased per vehicle realization 95k and standalone 86500 and spare sales also part of it.
- **Other financial assets-** Government subsidy 110 cr and it will take 90-120 days for the subsidy collection.
- **Supply chain:** This is an industry-wide issue. Greaves team working on it with suppliers and localized battery and its monitor on daily basis. Lots of uncertainty and geopolitical tension but the overall margin will improve on a full-year basis.
- **PLI:** Greaves cotton- OEM 1) Group revenue- was on the higher side and did not able to qualify on the 2) Started in last year- greaves already started many years back ago. On the OEM side, the discussion is going on with the management regarding the current status of the PLI scheme.
- **Subsidy:** FY22 total 60 cr in the high-speed side.
- **Stake sale:** Ampere sale stake is in process and will complete by Q2FY23. The interest is strong and will declare in Q2FY23.
- **Quality control:** 1) Technology team on the CQGlobal safety is of paramount importance and focuses on the entire vehicle.2) The company has 130,000 customers and an engineering team taking care of the quality check side.
- **Booking query:** 25k sales in Q4FY22 and not seeing any impact because of the fire incident but customer education and discussion are continuing.
- **EV Gross margin:** From the total EBITDA margin improvement of 5% driven by the operating efficiency. Overall, 3.5% from the gross margin improvement. Gross margin early to meet 20%.
- **Cost:** Greaves has adequate compensation as per the overall industry. Other expense it is less than 6% not going to see much impact and the main focus is on the raw material side.
- **Volume:** Greaves EV has done 25k in FY22 against 10k FY21 and 150% growth. Ampere sold >22k in FY22 against 8k in 170% increased full 52k FY22 vs 22k in FY21 years. EV-3w sold 10400 vs 4k and overall 62k in FY22 vs 27k significant growth as Magnus growth. Ampere has B2C and retail customers.
- **Investment:** Manufacturing capacity 50k investment and product technology. The company's continue to add talent and build talent.

Quarterly Result

INR Mn (Standalone)	Q4FY22	Q3FY22	Q4FY21	Q-o-Q	Y-o-Y
Net Revenue	3,787	3,005	4,570	26.0%	-17.1%
Material Cost	2,740	2,139	3,213	28.1%	-14.7%
Employee cost	303	311	346	-2.6%	-12.5%
Other Expenses	453	384	538	17.9%	-15.8%
EBITDA	291	172	473	69.2%	-38.5%
EBITDA margin %	7.7%	5.7%	10.4%	196bps	-267bps
Other Income	133	63	37	112.1%	260.4%
Depreciation	103	104	120	-0.8%	-14.6%
EBIT	321	131	390	145.0%	-17.6%
Finance cost	6	6	6	0.0%	-9.8%
Exceptional Item	-62	-11	5	447.4%	-1348.0%
PBT	253.3	114.2	388.8	121.8%	-34.9%
Tax Expense	85	30	150	180.9%	-43.3%
Effective tax rate %	33.6%	26.5%	38.6%	706bps	-498bps
Reported Net Profit	168.2	83.9	238.8	100.5%	-29.6%
Net margin %	4.4%	2.8%	5.2%	165bps	-78bps
Reported EPS (INR)	0.73	0.36	1.0	0.0%	-28.4%

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

Valuations INR Mn	Basis of Valuation	Multiple	Total Value in Mn	FY24E
EV/EBITDA (x)				11.5
EBITDA				752
EV				8643
Debt				0
Cash				3949
Market Cap				12591
No shares				231
Value/Share (INR)				54.5
Greaves Stake Valuation			FY24E sales at INR 7000 Mn	
Ampere Target Price (INR) (100% stake)				
Bestways	P/Sales	3.5	24500	106
Greaves Target (INR)				160
CMP (INR)				142
Upside (%)				13.1%

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

Income Statement (INR Mn)				
Year End-March	FY21	FY22	FY23E	FY24E
Revenues	13,291	11,776	13,583	15,030
Change (%)	-27.0%	-11.4%	15.3%	10.7%
Raw materials	9,414	8,427	9,712	10,672
Stock Adjustments	0	0	0	0
Employee costs	1,271	1,308	1,494	1,653
Other expenses	1,637	1,593	1,766	1,954
Total Expenses	12,321	11,329	12,972	14,279
EBITDA	969	447	611	752
EBITDA Margins	7.3%	3.8%	4.5%	5.0%
Other Income	100	316	312	331
Depreciation	484	424	412	415
Interest	56	20	20	20
PBT	529	319	492	647
Extra-ordinary	-345	73	0	0
PBT after ext-ord.	185	393	492	647
Tax	81	122	127	168
Rate (%)	43.9%	31.0%	25.9%	25.9%
PAT	104	271	364	480
Adjusted PAT	104	271	364	480
Change (%)	-93.0%	161.4%	34.6%	31.6%

Balance Sheet (INR Mn)				
Year End-March	FY21	FY22	FY23E	FY24E
Sources of Funds				
Share Capital	462	463	463	463
Reserves & Surplus	8,547	8,835	9,199	9,679
Net Worth	9,010	9,298	9,662	10,142
Loan Funds	0	0	0	0
Deferred Tax & other liabilities	371	370	370	370
Capital Employed	9,342	9,630	9,995	10,474
Application of Funds				
Gross Block	6,131	5,887	6,386	6,884
Less: Depreciation	2,845	3,269	3,681	4,096
Net Block	3,286	2,618	2,705	2,788
CWIP	738	784	784	784
Other non current assets	213	195	195	195
Deferred tax assets	499	512	512	512
Net fixed assets	4,736	4,108	4,195	4,278
Investments	1,766	1,768	1,768	1,768
Debtors	2,030	1,777	2,233	2,512
Inventories	1,548	1,397	1,610	1,769
Cash & bank balance	2,758	4,196	3,949	4,336
Loans & advances & other CA	450	529	529	530
Total current assets	6,787	7,899	8,320	9,147
Current liabilities	3,697	3,889	4,033	4,463
Provisions	249	256	256	256
Net current assets	2,840	3,754	4,032	4,428
Total Assets	9,342	9,630	9,995	10,474

Cash Flow Statement (INR Mn)				
Year End-March	FY21	FY22	FY23E	FY23E
PBT	185	393	492	647
Depreciation	484	424	412	415
Interest & others	(44)	(296)	(293)	(311)
Cash flow before WC changes	625	521	611	752
(Inc)/dec in working capital	(1,834)	345	(797)	(397)
Operating CF after WC changes	(1,209)	866	(185)	355
Less: Taxes	(81)	(122)	(127)	(168)
Operating cash flow	(1,290)	744	(313)	187
(Inc)/dec in F.A + CWIP	(533)	(489)	(499)	(498)
(Pur)/sale of investment	84	(2)	0	0
Cash flow from investing	(449)	(491)	(499)	(498)
Free cash flow (FCF)	(1,686)	251	(812)	(311)
Loan raised/(repaid)	0	0	0	2
Equity raised	0	1	0	0
Interest & others	2,662	1,276	657	789
Dividend	(46)	(92)	(92)	(92)
Cash flow from financing activities	2,615	1,184	565	698
Net inc/(dec) in cash	876	1,437	(247)	387
Opening balance of cash	1,882	2,758	4,196	3,949
Closing balance of cash	2,758	4,196	3,949	4,336

Key Ratios				
Year End-March	FY21	FY22	FY23E	FY24E
Per share (INR)				
EPS	0.4	1.2	1.6	2.1
CEPS	2.5	3.0	3.4	3.9
BVPS	39.0	40.2	41.8	43.9
DPS	0.2	0.4	0.4	0.4
Valuation (x)				
P/E	316.7	121.1	90.0	68.4
P/CEPS	55.8	47.2	42.2	36.7
P/BV	3.6	3.5	3.4	3.2
EV/EBITDA	31.0	64.0	47.3	37.9
Dividend Yield (%)	0.1%	0.3%	0.3%	0.3%
Return ratio (%)				
EBITDA Margin	7.3%	3.8%	4.5%	5.0%
PAT Margin	0.8%	2.3%	2.7%	3.2%
ROE	1.1%	2.9%	3.8%	4.7%
ROCE	5.2%	0.2%	2.0%	3.2%
Leverage Ratio (%)				
Total D/E	0.0	0.0	0.0	0.0
Net D/E	-0.3	-0.5	-0.4	-0.4
Turnover Ratios				
Asset Turnover (x)	1.4	1.2	1.4	1.4
Inventory Days	60	61	61	61
Receivable Days	56	55	60	61
Payable days	108	108	108	108

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

Arihant Research Desk

Email: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

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Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880