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Stock Update

Event Update

Greaves Cotton Ltd

Timely investments in EV adding value

Automobiles	Sharekhan code: GREAVESCOT
Reco/View: Buy ↔	CMP: **Rs. 165**
	Price Target: **Rs. 196** ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- We maintain Buy on Greaves Cotton Limited (Greaves) with a revised PT of Rs. 196, owing to robust business outlook for its mobility business, new revenue streams, and better valuations.
- A well-known family-owned global investor, Abdul Latif Jameel, agreed to invest US$150 million in Greaves' EV arm to acquire 35.8% stake in the EV subsidiary at a post valuation money of US$419 million, valued at 6.2x its FY2022 sales of the EV arm.
- Management remains positive on its diversification strategy and continues to focus on the e-mobility space. Greaves is expected to deliver a 21.2% revenue CAGR during FY2021-FY2024E and see a sharp rise in margins, leading to an earnings CAGR of 108.2%.
- The stock trades at a valuation of P/E multiple of 27x and EV/EBITDA multiple of 15.7x its FY2024E estimates.

Greaves Cotton Limited's (Greaves') EV arm, Greaves Electric Mobility Limited (GEML) has announced a strategic investment by Abdul Latif Jameel, a well-known family-owned global investor in GEML. The investor has committed to invest up to US$ 220 million (~Rs. 1,700 crore) over the next one year in GEML, with initial investment of US$150 million for a 35.8% stake in GEML, the transaction being at valued at 6.2x its FY2022 sales. Post closing of the transaction, Greaves will have consolidated net cash of Rs. 1,300 crore (Rs. 56/share), which will be utilised for capacity enhancement, product development, associated technologies, and brand building. The scope of partnership could be potentially looking at not just fund infusion but also develop a global network to improve on research and development (R&D), technology, and geographical reach. E-mobility is showing strong growth with revenue contribution of 31% in FY2022 and 38% in Q4FY2022, despite supply constraints led by chips and parts shortage. GEML turned PBT positive in Q4FY2022, led by volume growth and favourable product mix. The company is expected to post a 21.2% revenue CAGR during FY2021-FY2024E and see a sharp rise in margins, leading to an earnings CAGR of 108.2%. We have fine-tuned our estimates to build faster-than-expected growth in the e-mobility business.

- **Transaction is value accretive for GEML:** A well-known family-owned global investor, Abdul Latif Jameel, has agreed to invest US$150 million in Greaves' EV arm to acquire a 35.8% stake in the EV subsidiary at a post valuation money of US$419 million, valued at 6.2x its FY2022 sales of the EV arm. The company will utilise funds for capacity enhancement, product development, associated technologies, and brand building.
- **E-mobility business turns PBT positive in Q4FY2022:** The e-mobility business turned PBT positive during Q4FY2022, with 4.6% EBITDA margin and 1.7% PBT margin, as dispatches recorded the highest quarterly sales volume of 24,953 units. E-mobility is showing strong growth with revenue contribution of 31% in FY2022 and 38% in Q4FY2022, despite supply constraints led by chips and parts shortage.
- **Diversification reaping benefits to Greaves:** Under the refocus strategy, 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. Persistent efforts from the management have paved a profitable growth path for the company.

Our Call

Valuation – Maintain Buy rating a revised PT of Rs. 196: 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 demand catalysts. Greaves will be the key beneficiary of 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. Investments in the company's EV arm, GEML, by Abdul Latif Jameel, would provide necessary funds to expand business and brand value at the right time, when the EV industry is at the verge of an inflection point for growth. The stock is trading at P/E multiple of 27x and EV/EBITDA multiple of 15.7x its FY2024E estimates. Improving financial performance of the e-mobility business through focusing on high-speed e-2Ws, increasing retail penetration, and new launches further provide comfort to its management team. Thus, we maintain our Buy rating on stock with a revised price target (PT) of Rs. 196.

Key Risks

The company's performance can be impacted adversely if commodity prices continue to rise at the current pace. With larger players getting aggressive on the EV space, competition is expected to intensify, which may affect the company's profitability in the medium term.

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Revenues	1,500	1,710	2,188	2,670
Growth (%)	(21.5)	13.9	28.0	22.0
EBIDTA	80	27	141	234
OPM (%)	5.3	1.6	6.4	8.8
Net Profit	16	(32)	75	141
Growth (%)	(87.2)	NA	NA	88.7
EPS	0.7	(1.5)	3.2	6.1
P/E	243.3	NA	50.9	27.0
P/BV	6.1	6.5	6.7	6.3
EV/EBIDTA	45.1	132.1	26.1	15.7
ROE (%)	2.5	-	5.2	15.4
ROCE (%)	3.8	-	7.4	19.1

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		↔	

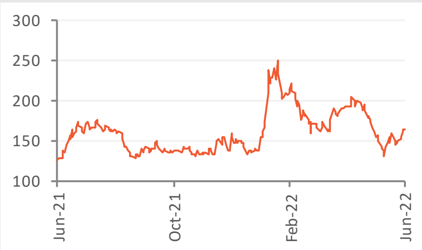
Company details

Market cap:	Rs. 3,815 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	7.4	-4.0	7.2	31.4
Relative to Sensex	7.3	-3.1	12.4	24.1

Sharekhan Research, Bloomberg

A global investor invests in Greaves' EV arm: Greaves' EV arm, GEML has announced a strategic investment by Abdul Latif Jameel. The investor has committed to invest up to US$220 million (~Rs. 1,700 crore) over the next one year in GEML, with an initial investment of US$150 million for a 35.8% stake in GEML, the transaction being valued at 6.2x its FY2022 sales. The post money equity value for GEML would be US$419 million (i.e., Rs 3,238 crore), which is ~85% of Greaves' market capital. Post-closing of the transaction, Greaves will have consolidated net cash of Rs. 1,300 crore (Rs. 56/share), which will be utilised for capacity enhancement, product development, associated technologies, and brand building. The strategic partnership between Greaves and the investor would be beneficial for the company's ways, as the investor on board would bring rich experience in the automotive business, including investment in Rivian, the third largest EV company in the US. The scope of partnership could be potentially looking at just not fund infusion but also develop a global network to improve on R&D, technology, and geographical reach. The e-mobility is showing strong growth with revenue contribution of 31% in FY2022 and 38% in Q4FY2022, despite supply constraints led by chips and parts shortage. GEML turned PBT positive in Q4FY2022, led by volume growth and favourable product mix.

Strong Q4 results, led by improvement in the e-mobility business: Greaves reported strong Q4FY2022 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 Rs. 621 crore in Q4FY2022, led by performance of the subsidiary businesses. E-mobility business accounts for 38% of overall revenue in Q4 and turned profitable. EBITDA margin for Q4FY2022 stood at 6.5%, reporting 370-bps q-o-q improvement, led by improved product mix, operating leverage benefits, and cost reduction.

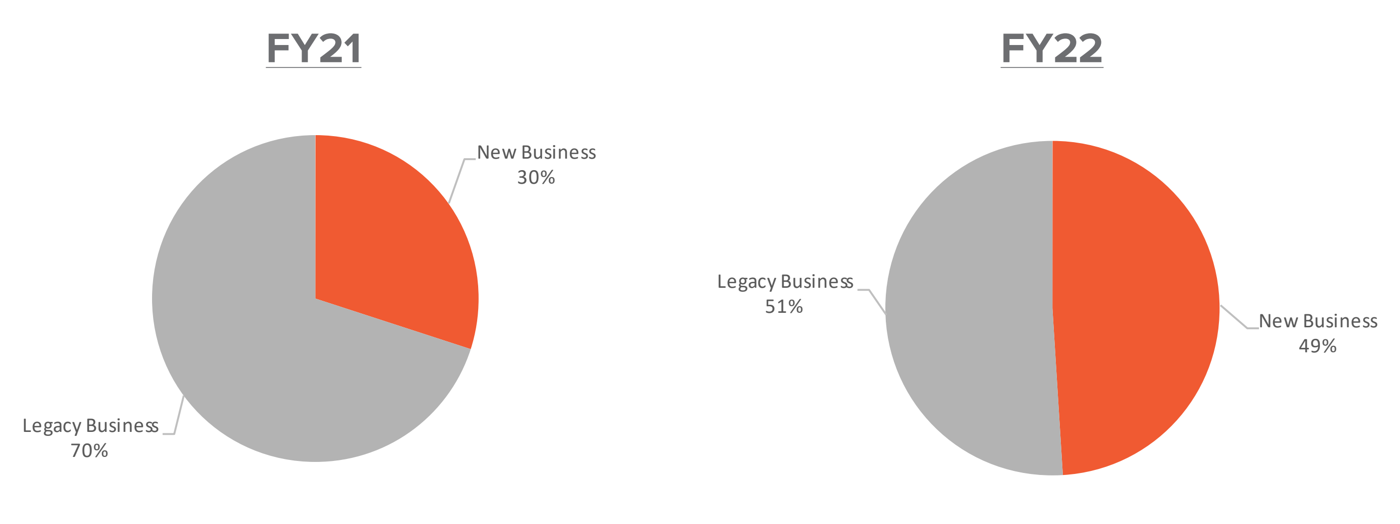
E-mobility business continues to grow strongly in Q4FY2022 and FY2022

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

E-mobility business turns PBT positive: The e-mobility business turned positive during Q4FY2022, with sales volumes (e-2W + e-3W) of 24,953 units, 148% y-o-y and 15% q-o-q growth. For FY2022, the company sold 62,142 units of e-mobility products, registering 128% y-o-y growth. e-3W sales contributed 11.2% in Q4FY2022, while it contributed 16.6% in FY2022. The company has augmented its manufacturing capacity of e-2W by operationalising Ranipet plant with the current production capacity of up to 2,50,000 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 Auto EV Mart, a multi-brand EV retail network. Passenger 3W sales are slated to improve with the normalcy in the situation. Contribution from new business increased to 49% in FY2022 from 30% in FY2021, reflecting the benefits of the company's diversification strategy.

Deal win momentum in UK public sector



Source: Company; Sharekhan Research

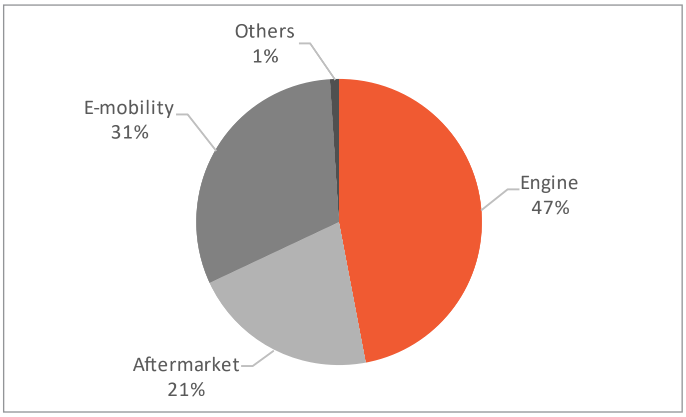
E-mobility business to drive growth in the next phase: Greaves is well poised to benefit from the faster adoption of EVs in India, especially in the e-2W and e-3W segments, where the company has a strong portfolio and growth strategies in place with the government pushing faster adoption of EVs in the 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. EVs are performing well, with 70% high-speed vehicle mix and 91% Lithium-ion vehicle mix. The company has strengthened its e-3W business with the subscription of a 26% stake in MLR Auto (which specialises in L5 cargo and passenger 3W) and acquiring the remaining 26% in Ele E-Rickshaw.

Focus on fast speed e-scooters: 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), 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.

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 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 report a 21.2% revenue CAGR during FY2021-FY2024E and see a sharp rise in margins, leading to an earnings CAGR of 108.2%.

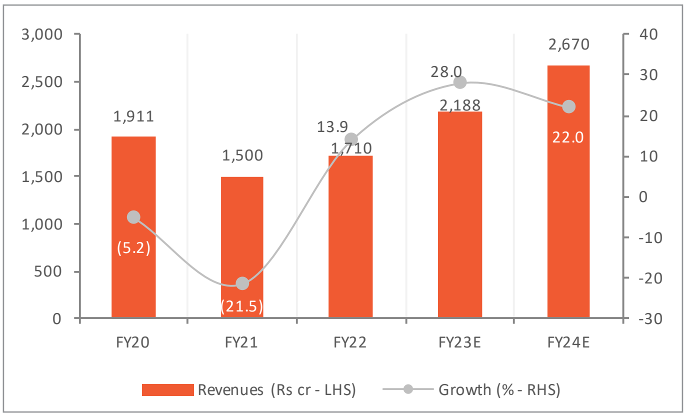
Financials in charts

Revenue Mix (%)



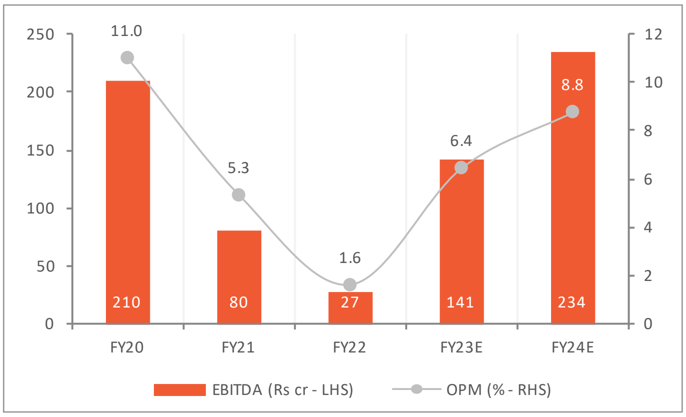
Source: Company, Sharekhan Research

Revenue and Growth Trend



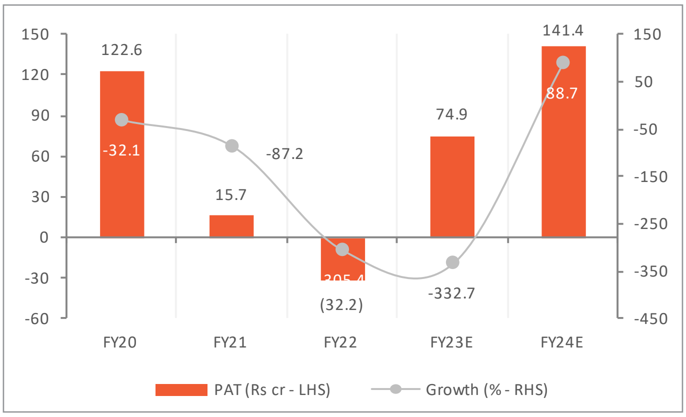
Source: Company, Sharekhan Research

EBITDA and OPM Trend



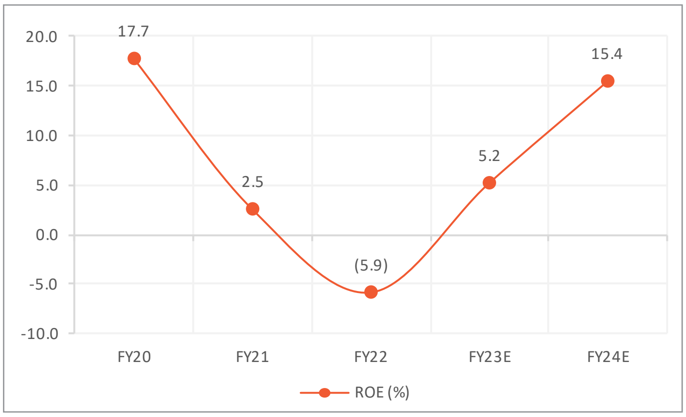
Source: Company, Sharekhan Research

Net profit and Growth Trend



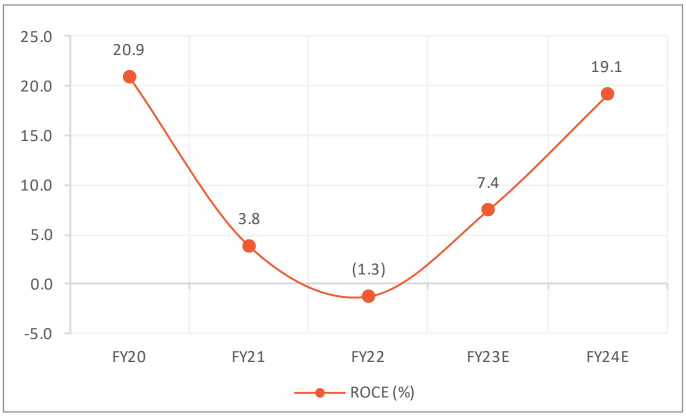
Source: Company, Sharekhan Research

RoE trend



Source: Company, Sharekhan Research

RoCE trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Demand picking up

Business outlook for the automotive segment is expected to improve with 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. 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.

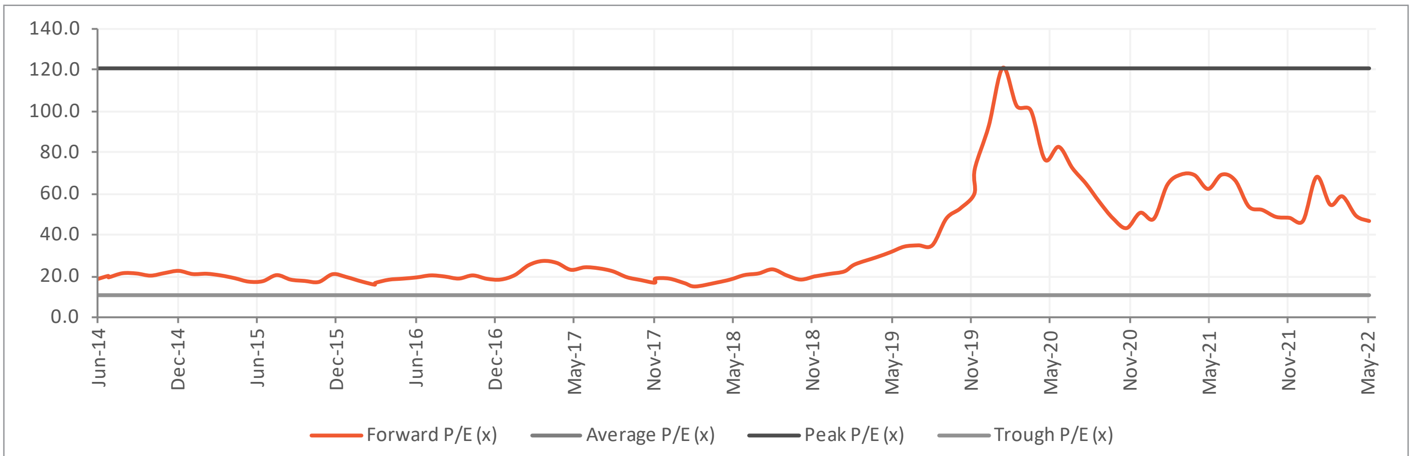
■ Company Outlook – Beneficiary of EV adoption in the 2W and 3W segments

Greaves is expected to benefit from improvement in business, driven by robust recovery in the 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. Investments in the company's EV arm, GEML, by Abdul Latif Jameel, would provide the company necessary funds to expand business and brand value at the right time, when the EV industry is at a verge of inflection point for growth. 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 improved new business outlook and expectations of improving 3W sales, we maintain our positive stance on the company.

■ Valuation – Maintain Buy rating a revised PT of Rs. 196

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 demand catalysts. Greaves will be the key beneficiary of 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. Investments in the company's EV arm, GEML, by Abdul Latif Jameel, would provide necessary funds to expand business and brand value at the right time, when the EV industry is at the verge of an inflection point for growth. The stock is trading at P/E multiple of 27x and EV/EBITDA multiple of 15.7x its FY2024E estimates. Improving financial performance of the e-mobility business through focusing on high-speed e-2Ws, increasing retail penetration, and new launches further provide comfort to its management team. Thus, we maintain our Buy rating on stock with a revised price target (PT) of Rs. 196.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Company	CMP (Rs)	P/E (x)			EV/EBITDA (x)			ROCE (%)		
		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Greaves Cotton	165	-	50.9	27.0	132.1	26.1	15.7	-	7.4	19.1
Alicon Castalloy	619	41.3	13.7	8.7	9.0	5.6	4.1	10.9	19.8	25.6
Gabriel India	117	18.8	13.5	10.8	10.5	7.6	5.9	16.8	20.7	22.9

Source: Company, Sharekhan estimates

About 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.
- With larger players getting aggressive on the EV space, competition is expected to intensify, which may affect the company's profitability in the medium term.

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

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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

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Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

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