Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

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		↔	

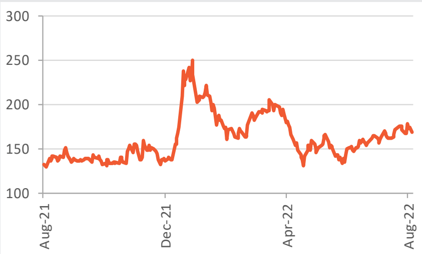
Company details

Market cap:	Rs. 3,907 cr
52-week high/low:	Rs. 259 / 129
NSE volume: (No of shares)	22.5 lakh
BSE code:	501455
NSE code:	GREAVESCOT
Free float: (No of shares)	10.3 cr

Shareholding (%)

Promoters	55.5
FII	3.5
DII	8.6
Others	32.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	5.8	12.1	-7.0	27.4
Relative to Sensex	0.9	6.5	-7.1	23.8

Sharekhan Research, Bloomberg

Stock Update

Analyst Meet

Greaves Cotton Ltd

Riding high on rising EV wave

Automobiles	Sharekhan code: GREAVESCOT
Reco/View: Buy ↔	CMP: **Rs. 169**
	Price Target: **Rs. 212** ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- We maintain Buy on Greaves Cotton Limited (Greaves) with a revised PT of Rs.212, owing to a robust business outlook for its mobility business, expanding retail business and improving traction in the engine business.
- Greaves to be a great beneficiary of faster EV adoption in India, led by its timely investments in the EV segment, compassionate investors and capabilities to increase market share in a highly competitive market.
- Management remains positive on its diversification strategy and continues to focus on the e-mobility space. Greaves is expected to deliver a 22.3% revenue CAGR during FY2021-FY2024E and see a sharp rise in margins, leading to an earnings CAGR of 113.8%.
- The stock trades at a valuation of P/E multiple of 25.5x and EV/EBITDA multiple of 12.1x its FY2024E estimates.

On investor's day, Greaves Cotton Limited (Greaves) continued to emphasise on its new revenue streams, led by its Electrical Vehicle (EV) business, which is well poised to be a significant beneficiary of EV adoption in India. Along with its strong product portfolio in e-2W and e-3W, the company is lately focusing on developing EV retail brand, Auto EV Mart arm, which is focusing on retailing multiple brands in e-2Ws. The company's EV arm, Greaves Electric Mobility Limited (GEML) has received a strategic investment of Rs. 1,171 crores for a 35.8% stake in GEML by Abdul Latif Jameel, a well-known family-owned global investor. Post the deal, the company has consolidated net cash of Rs 1,350 crore (Rs 56/share), which will be utilised for new product and technology (~35%), new opportunities (~25%), capacity expansion (~20%) and brand building (10%). The management remains positive on its diversification strategy and expects to normalize its sales and profitability going forward. The e-mobility is showing strong growth, despite the supply constraints due to chips and parts shortages. The company's diversification strategy is reaping benefits with new businesses contribution increasing to ~56% of total revenue in Q1FY23 versus 22% in Q1FY22. The company is expected to deliver a 22.3% revenue CAGR during FY2021-FY2024E and see a sharp rise in margins, leading to an earnings CAGR of 113.8%. We reiterate a Buy on the stock with a revised price target (PT) of Rs212. We have fine-tuned our estimates to build faster-than-expected growth in the e-mobility business.

- **GEML is a value accumulator:** A well-known family-owned global investor, Abdul Latif Jameel, has invested 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. Post the deal, the company has consolidated net cash of Rs 1,350 crore (Rs 56/share), which will be utilised for new product and technology (~35%), new opportunities (~25%), capacity expansion (~20%) and brand building (10%).
- **E-mobility business turned EBIT positive in Q4FY22:** E-mobility business continues to be EBIT positive in Q1FY23 after turning EBIT positive in Q4FY22, with sales volumes (e-2W + e-3W) of 29,577 units in Q1, a growth of 1274% y-o-y and 19% q-o-q. For FY22, the company sold 62,142 units of e-mobility products, registering a growth of 128% y-o-y.
- **Diversification reaping benefits to Greaves:** Under the refocus strategy, the company has transformed is 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.212: 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 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 the 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. We expect the financial performance of the e-mobility business to strengthen going forward, driven by the increasing contribution of high-speed e-2Ws, increasing retail penetration, and new launches. The stock is trading at P/E multiple of 25.5x and EV/EBITDA multiple of 12.1x its FY2024E estimates. Thus, we maintain our Buy rating on the stock with a revised PT of Rs.212.

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

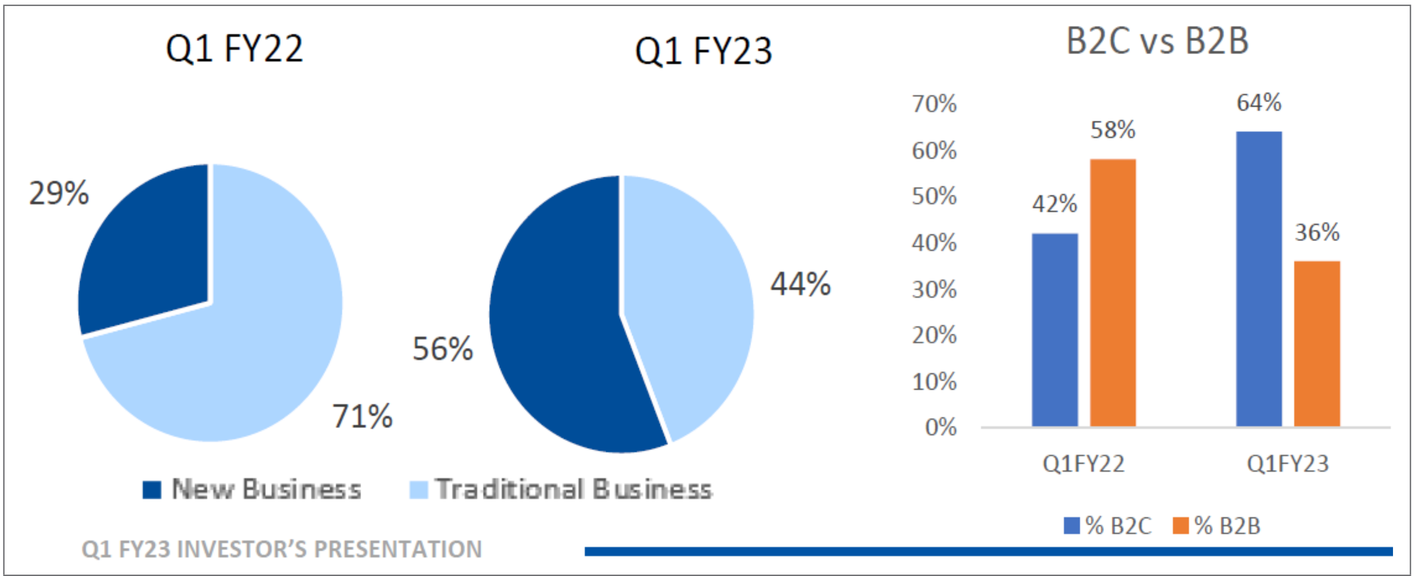
Particulars	FY21	FY22	FY23E	FY24E
Revenues	1,500	1,710	2,223	2,745
Growth (%)	(21.5)	13.9	30.0	23.5
EBIDTA	80	27	144	250
OPM (%)	5.3	1.6	6.5	9.1
Net Profit	16	(32)	77	153
Growth (%)	(87.2)	NA	NA	98.6
EPS	0.7	(1.5)	3.3	6.6
P/E	249.2	NA	50.7	25.5
P/BV	6.3	6.6	3.0	2.9
EV/EBIDTA	46.3	135.5	21.0	12.1
ROE (%)	2.5	-	5.8	11.2
ROCE (%)	3.8	-	7.6	14.2

Source: Company; Sharekhan estimates

Greaves Cotton (Greaves) held its investor corporate day on 25th August, 2022 to update its strategy and business direction going forward. The company remains committed to enhance capabilities in the EV segment and aims to emerge as a strong player in the segment. The company also remain focused on its other new businesses (including non-auto business vertical), which continues to be growth driver for the company. The key highlights of the analyst meet are discussed below.

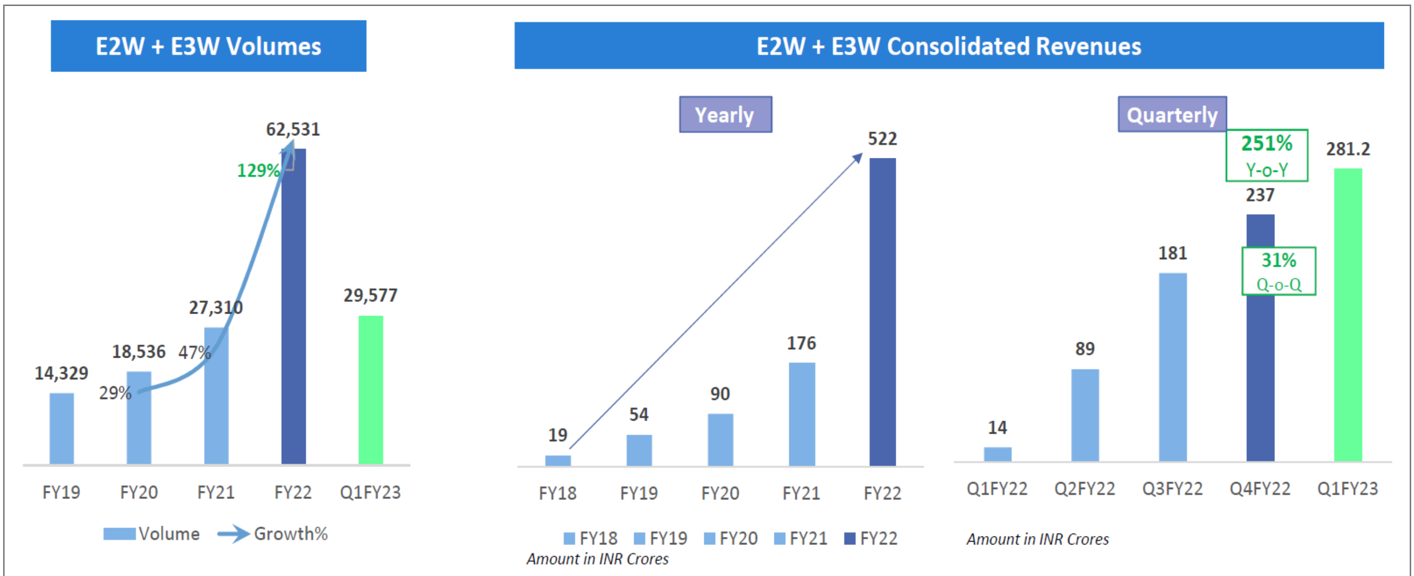
E-mobility business turned EBIT positive in Q4FY22: E-mobility business continues to be EBIT positive in Q1FY23, with sales volumes (e-2W + e-3W) of 29,577 units, a growth of 1274% y-o-y and 19% q-o-q. For FY22, the company sold 62,142 units of e-mobility products, registering a growth of 128% y-o-y. The company has augmented its manufacturing capacity of e-2W by operationalizing 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 in Q4. The company has also strengthened its presence across the entire value chain of last-mile mobility by launching AutoEVMart, a multi-brand EV retail network. The passenger 3W sales are slated to improve with the normalcy in the situation. The contribution from new business increased to 56% in Q1FY23 from 30% in FY21, reflecting the benefits of the company's diversification strategy.

Contributions from new businesses and B2C segments continues to increase



Source: Company Investor PPT; Sharekhan Research

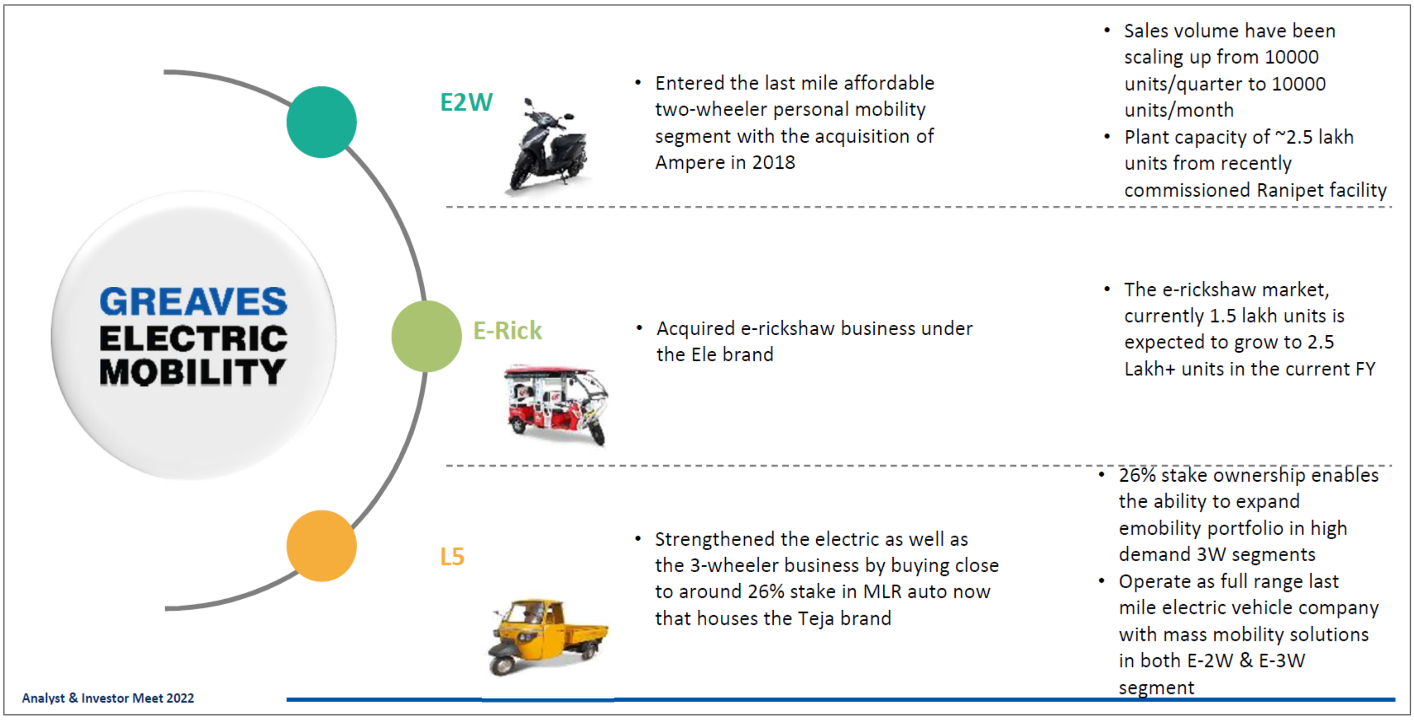
Company's EV business gaining traction



Source: Company Investor PPT; Sharekhan Research

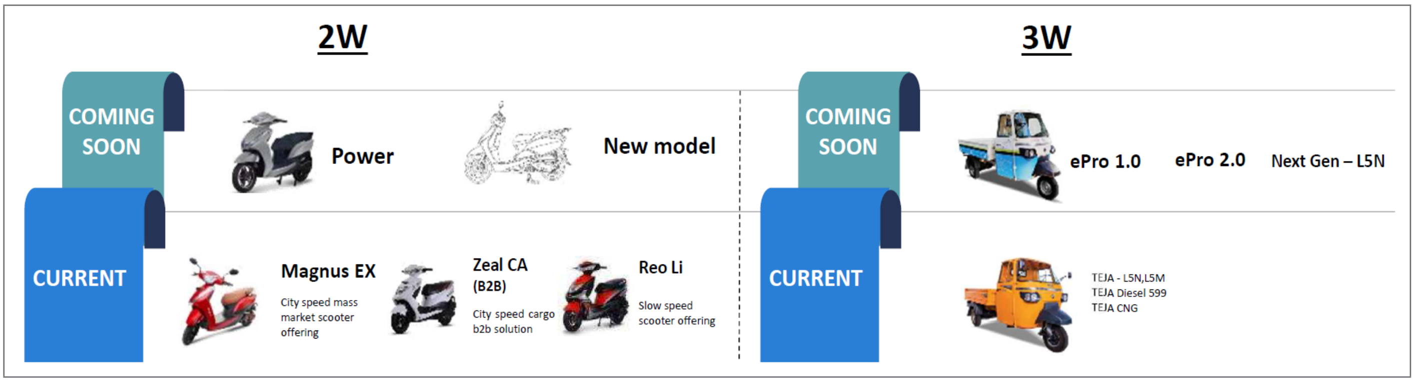
E-mobility business to drive growth in the next phase: Greaves is well poised to benefit from the faster adoption of EVs in India, especially in the e-2W and e-3W segments, where the company has a strong portfolio and growth strategies in place with the Government pushing faster adoption of EVs in the 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. The electric vehicles are performing well, with 79% high-speed vehicle mix and 100% Lithium-ion vehicle mix. The company has strengthened e-3W business with the subscription of a 26% stake in MLR Auto (which specializes in L5 cargo and passenger 3W) and acquiring the remaining 26% in Ele E-Rickshaw.

Company's strong and fast paced growing EV



Source: Company Investor PPT; Sharekhan Research

Company's planned new launches in EV portfolio



Source: Company, Sharekhan Research

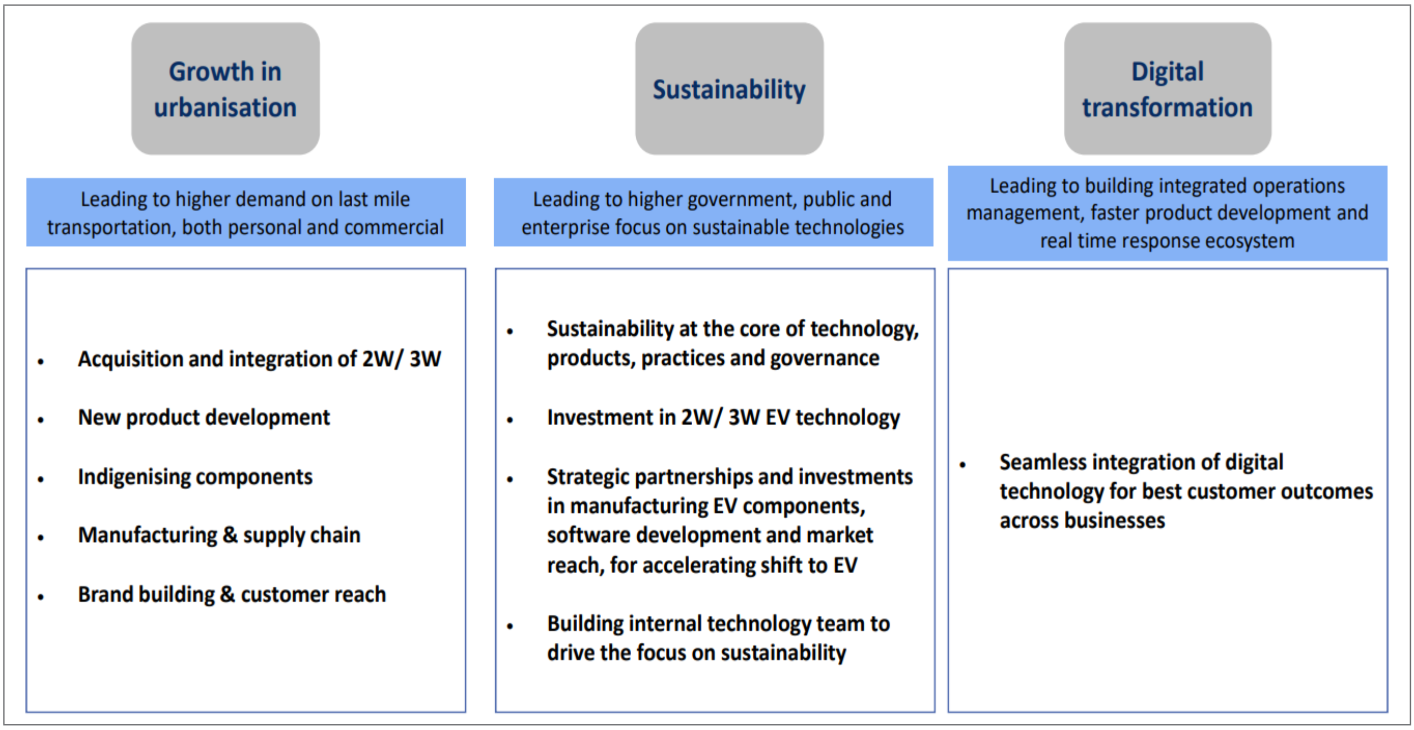
GEML is a value accumulator: A well-known family-owned global investor, Abdul Latif Jameel, has invested US$150 million in Greaves' EV arm to acquire a 35.8% stake in the EV subsidiary at a post valuation money of US$419 million, valued at 6.2x its FY2022 sales of the EV arm. Post the deal, the company has consolidated net cash of Rs 1,350 crore (Rs 56/share), which will be utilised for new product and technology (~35%), new opportunities (~25%), capacity expansion (~20%) and brand building (10%)..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 developing a global network to improve on R&D, technology, and geographical reach.

Focus on fast speed e-scooters: After acquiring a majority stake in Ampere Electric, 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) on 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. Moreover, the company is in advanced negotiations with 3W manufacturers for its 'Crest' engines for both its petrol and CNG variants, which could be a potential revenue driver in the long run.

Diversification reaping benefits to Greaves: Under the refocus strategy, the company has transformed is 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.

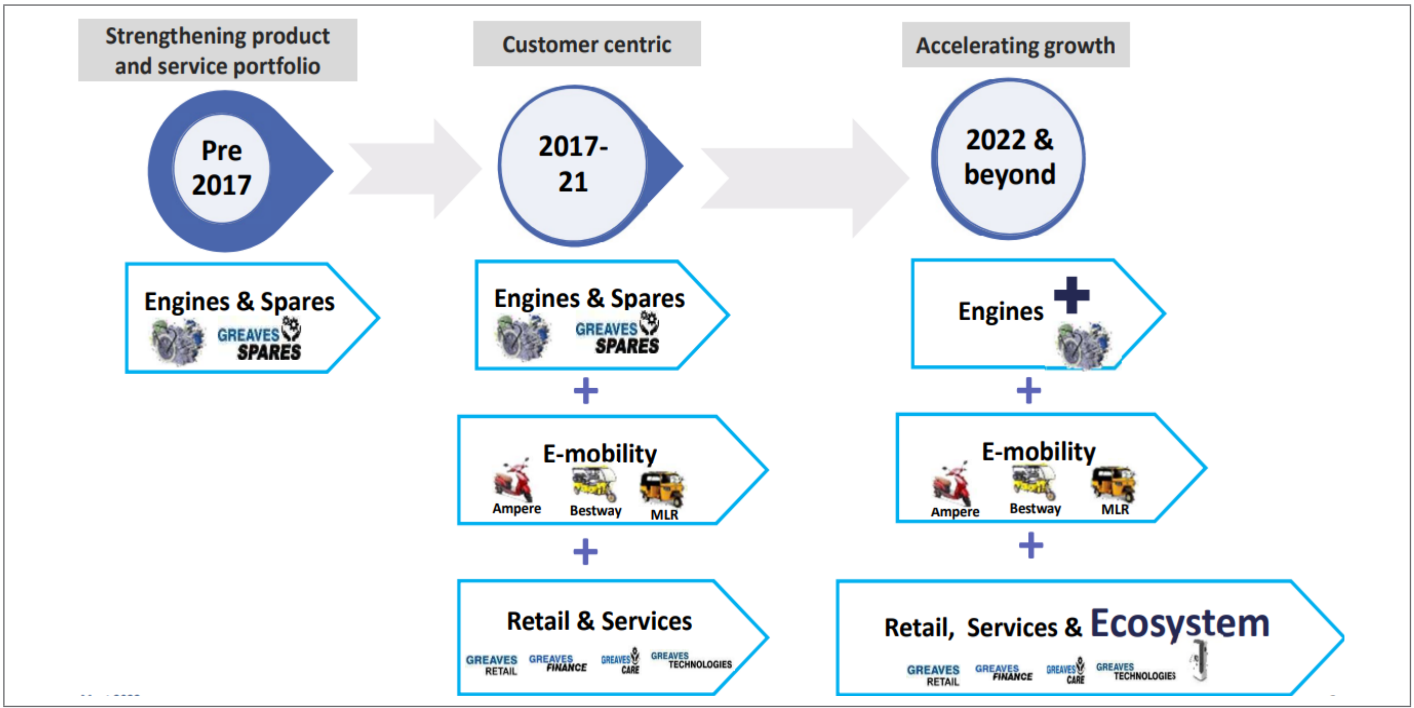
Management outlook: The company is witnessing a strong recovery in sales post the lockdown restrictions in the second wave of COVID. The Ampere EV sales were showing strong recovery, with Q1FY23 having higher ever quarterly sales. The three-wheeler shared mobility is expected to gain volume momentum as the economy goes back to normalcy. The company's management is optimistic about the growth outlook and expects sales to recover going forward. The restructuring of business and consolidation of plants helped the company to save fixed overheads of ~Rs 40 crore, which is 2.3% of sales. The cost restructuring has brought down a break-even point in the engine business vertical. Management expects the next decade would be led by urbanisation and sustainability, driven by e mobility. 2Ws contribute 80% to overall industry volumes. The company aims to align its growth with the global EV megatrends through acquisition, enhancing capabilities, investing in EV businesses through partnerships and focus on technology and digitalisation.

Aligning company's growth to industry megatrends



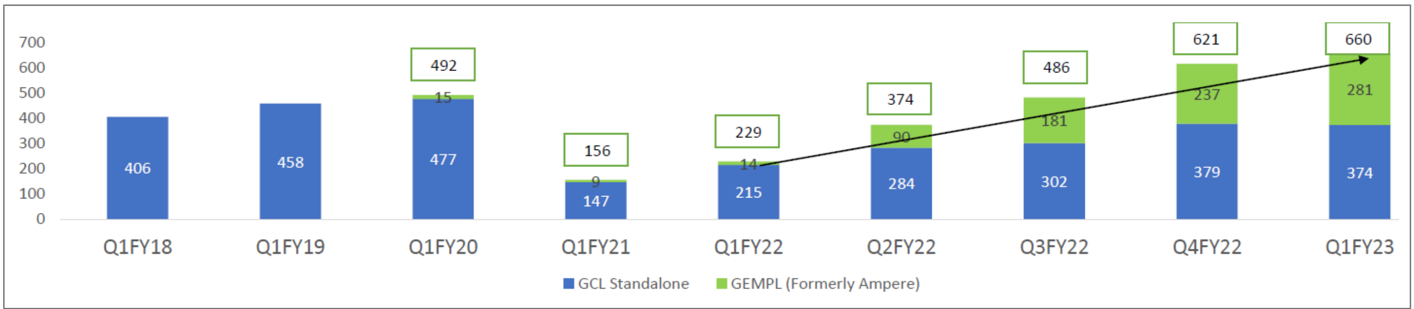
Source: Company Investor PPT; Sharekhan Research

Greaves Cotton's diversification strategy on tracks



Source: Company Investor PPT; Sharekhan Research

Diversification strategy and investments in e-mobility reaping benefits for the company

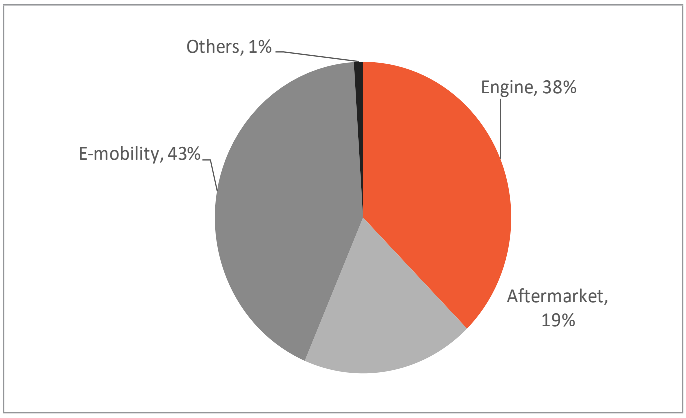


Source: Company, Sharekhan Research

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%.

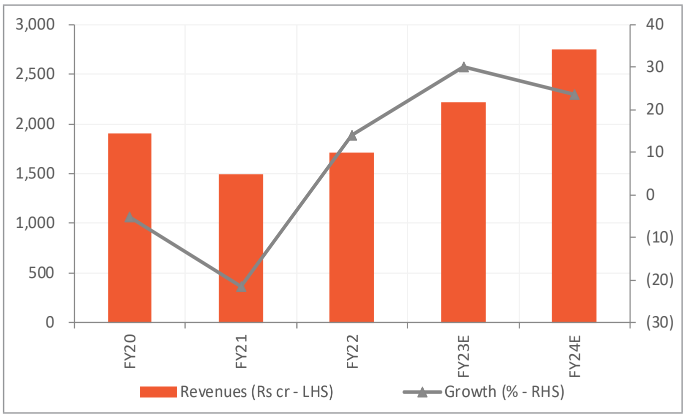
Financials in charts

Revenue Mix (%)



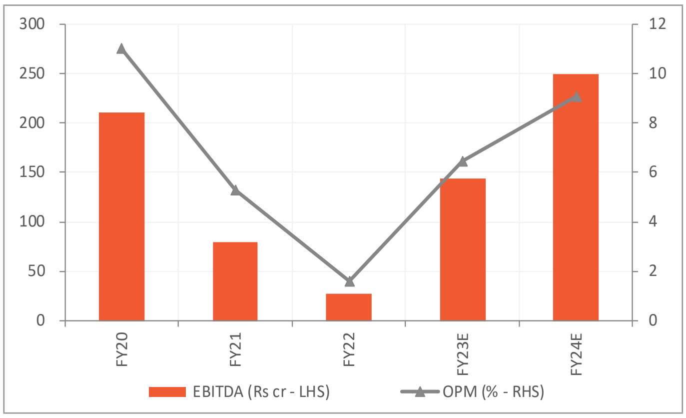
Source: Company, Sharekhan Research

Revenue and Growth Trend



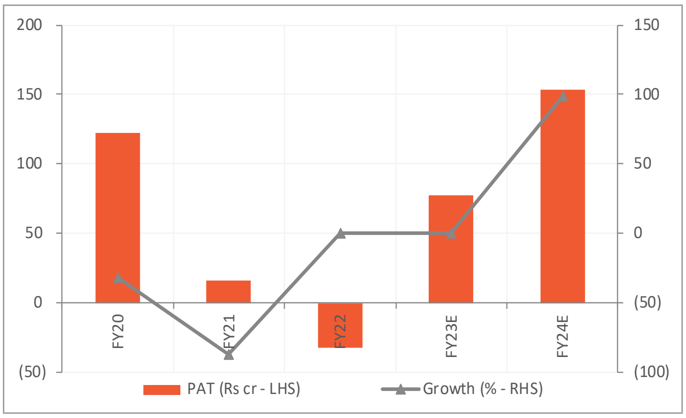
Source: Company, Sharekhan Research

EBITDA and OPM Trend



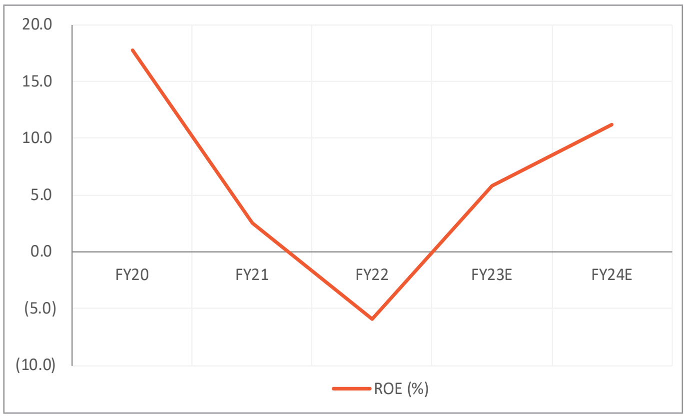
Source: Company, Sharekhan Research

Net profit and Growth Trend



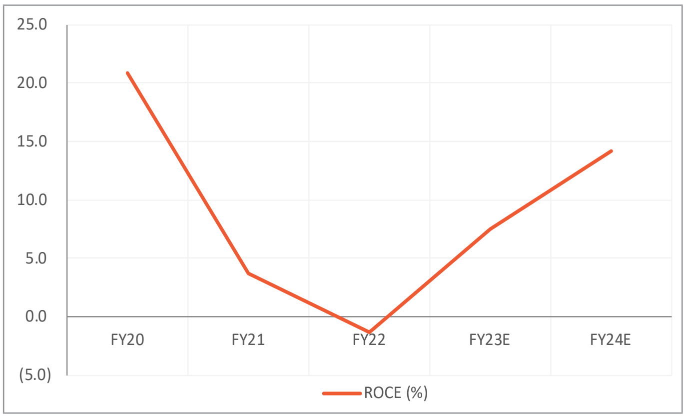
Source: Company, Sharekhan Research

RoE trend



Source: Company, Sharekhan Research

RoCE trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Demand picking up

The business outlook for the automotive segments is expected to improve with the normalization 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. The 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 normalized, 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.

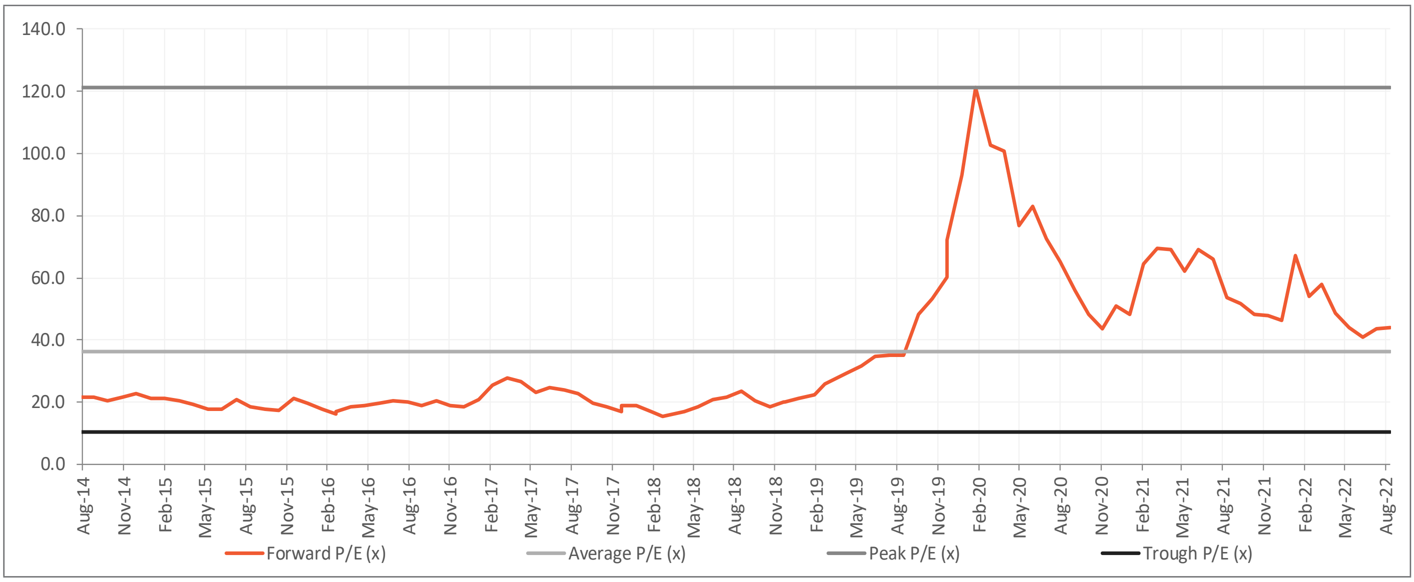
■ Company Outlook – Beneficiary of EV adoption in 2W and 3W segments

Greaves is expected to benefit from its improvement in business, driven by a robust recovery in 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 despite lacklustre sales in 3W engines. 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 the 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.212

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 the 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. We expect the financial performance of the e-mobility business to strengthen going forward, driven by the increasing contribution of high-speed e-2Ws, increasing retail penetration, and new launches. The stock is trading at P/E multiple of 25.5x and EV/EBITDA multiple of 12.1x its FY2024E estimates. Thus, we maintain our Buy rating on the stock with a revised PT of Rs.212.

One-year forward P/E (x) band



Source: Company, Sharekhan Research

Peer Comparison

Particulars	CMP	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	Rs/Share	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Greaves Cotton	169	-	50.7	25.5	135.5	21.0	12.1	-	7.6	14.2
Alicon Castalloy	803	53.5	17.7	11.3	11.2	7.0	5.1	10.9	19.8	25.6
Gabriel India	154	24.7	16.6	12.7	14.1	9.6	7.3	16.8	22.0	25.0

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 (21% of sales), e-mobility (31% of sales), and others (1% of sales). The other 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 lackluster 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 partners 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 again starts to rise in the near term.
- Prolonged delay in the recovery of the 3W industry can materially impact our revenue projections.

Additional Data

Key management personnel

Karan Thapar	Chairman, GCL
Nagesh Basavanhalli	Executive Vice Chairman, GCL
Dr Arup Basu	Managing Director, GCL
Dalpat Jain	Group CFO, GCL
Sanjay Behl	CEO and ED, GEMPL

Source: Company Website

Top 8 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

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

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

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that neither he or his relatives or Sharekhan associates has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either, SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Ms. Priya Sonavane; Tel: 022–61150000; email id: compliance@sharekhan.com;

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

Registered Office: Sharekhan Limited, The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai–400028, Maharashtra, INDIA, Tel: 022–67502000 / Fax: 022–24327343. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183.

Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com; Investment in securities market are subject to market risks, read all the related documents carefully before investing.