

## Good show across the board...

**About the stock:** Greaves Cotton (GCL) 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)

### Q2FY23 Results: GCL reported decent Q2FY23 numbers.

- Standalone revenue came in at ₹ 374.1 crore (vs. I-direct estimate of ₹ 386 crore), up 31.7% YoY
- Standalone EBITDA was at ₹ 33.3 crore (vs. I-direct estimate of ₹ 33.2 crore) vs. ₹ 4.5 crore in Q2FY22. On a consolidated basis, EBITDA came in at ₹ 43 crore (vs. EBITDA loss of ₹ 10 crore in Q2FY22)
- Consequently, standalone adjusted PAT was at ₹ 22.6 crore (vs. I-direct estimate of ₹ 15 crore) up 171.5% YoY
- Engine (auto, non-auto) volumes grew 31% to 25770 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 retain our **BUY** rating on the stock

**Target Price and Valuation:** We value Greaves Cotton at ₹ 210 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 a CAGR of ~19.8%, 90.7%, respectively, in FY22-24E

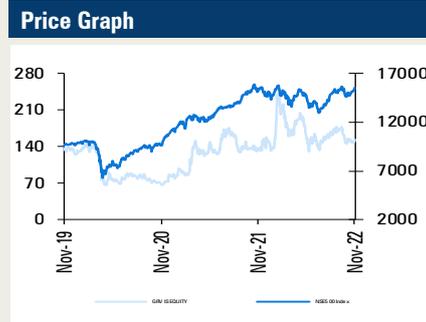
**Alternate Stock Idea:** We also like AIA Engineering in our coverage.

- We expect revenue, EBITDA to grow at a CAGR of ~14.2%, 20.5%, respectively, in FY22-24E aided by sustained margins in range of 20-22%
- BUY with target price of ₹ 3420



Particulars	
Particular	Amount
Market Capitalization	₹ 3535 Crore
Total Debt (FY22)	₹ 0 Crore
Cash and Inv. (FY22)	₹ 244.8 crore
EV	₹ 3290 Crore
52 week H/L	₹ 259 / ₹ 129
Equity capital	₹ 46.2 Crore
Face value	₹ 2

Shareholding pattern				
(in %)	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	55.6	55.6	55.5	55.5
FII	3.8	3.1	3.5	3.9
DII	9.2	9.5	8.6	7.7
Others	31.4	31.8	32.4	32.8



### 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%	1,532.9	1,689.4	19.8%
EBITDA	228.1	96.9	44.7	-28.8%	126.1	162.7	90.7%
EBITDA Margin (%)	12.5	7.3	3.8		8.2	9.6	
Net Profit	147.5	10.4	16.4	-41.6%	81.5	82.6	124.7%
EPS (₹)	6.4	0.4	0.7		3.5	3.6	
P/E (x)	27.0	383.8	243.0		48.8	48.1	
RoNW (%)	16.2	3.3	1.3		6.7	7.7	
RoCE (%)	22.0	6.5	2.5		9.4	10.7	

## Key takeaways of recent quarter & conference call highlights

### Q2FY23 Results: Good show across the board

- Standalone revenue came in at ₹ 374.1 crore (vs. I-direct estimate of ₹ 386.4 crore), up 31.7% on a YoY basis
- Consolidated revenue grew 87% YoY to ₹ 699 crore. The engine segment revenues came in at ₹ 345 crore, grew by 36% YoY. On the other hand, E-Mobility segment revenue substantially grew by 255.7% to ₹ 318.2 crore with a volume of 33,000 units. E-mobility segment reported EBIT of ₹ 13.1 crore vs. loss of ₹ 18.9 crore in the same period last year. In H1FY23, E-mobility segment revenue grew 477% to ₹ 599.4 crore with volume of 62,520 units vs. 15,433 units H1FY22
- It reported standalone EBITDA of ₹ 33.3 crore (vs. I-Direct estimate of ₹ 33.2 crore) vs. ₹ 4.5 crore in Q2FY22, with EBITDA margin of 8.9% expansion of 732bps YoY. On a consolidated basis, EBITDA came in at ₹ 43 crore (vs. EBITDA loss of ₹ 10 crore in Q2FY22)
- The company reported standalone PAT of ₹ 22.6 crore (vs. I-Direct estimate of ₹ 15 crore) up 171.5% YoY

### Q2FY23 Earnings Conference Call highlights

- Q2FY23 engine segment volume came in at 25770 units, up 31% YoY. Auto engine volumes grew by 87% to 16207 units' YoY while non-auto engine volumes de-grew 13% to 9563 units' YoY. Electric mobility accounts for 46% of overall revenue in Q2FY23. New business including e-mobility continues to accelerate with 59% contribution to overall business in Q2FY23
- E-mobility segment volumes registered strong growth. E-2W volumes grew 206% YoY to 30,873 units while E-3-W volume came in at 2,070 units, de-grew 35% YoY. Unique presence in EV (E2W+E3W) with 85% coverage in last-mile mobility
- The new EV battery safety norms being brought into effect in two phases. Phase 1 will begin on December 1, 2022, and Phase 2 will come into effect on March 31, 2023. The company is fully geared up to meet the compliance deadlines for both phases. As per the company, industry revenues may get impacted in Q3 due to the transition phase
- Ampere, the E 2-wheeler brand, continued its leadership position and remained within top three players in e2W segment. (Source – Vahan Portal). The company has a robust new product roadmap for electric two and three wheelers with indigenous technology & supply chain and accelerating EV adoption across India with nearly 700 outlets across distribution chain
- The company aims to achieve EBITDA margins of early teens over the next two years with medium term focus on scale. At peak utilisation on the current capacity of 240000 units per annum and will be gradually ramped-up to 1 million units. The peak revenues may be ₹ 2000 crore. The company wants to achieve profitable growth in this segment with strong focus on improving scale and volumes
- At the end of September 2022, the company has net cash of ₹ 1268 crore. Also there is increase in working capital due to higher subsidy receivables

Exhibit 1: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	YoY (Chg %)	Q1FY23	QoQ (Chg %)	Comments
Revenue	374.1	386.4	284.0	31.7	373.6	0.1	Strong contribution of new businesses in driving revenue growth
Other Income	7.5	5.0	7.6	-1.3	11.7	-35.8	
Employee Expenses	28.7	32.5	33.8	-15.2	29.3	-2.1	
Raw Material Expenses	267.8	272.4	204.5	31.0	272.4	-1.7	
Other operating Expenses	44.4	48.3	41.3	7.6	44.5	-0.2	
EBITDA	33.3	33.2	4.5	644.5	27.4	21.3	
EBITDA Margin (%)	8.9	8.6	1.6	732 bps	7.3	155 bps	
Depreciation	9.5	17.0	10.9	-12.5	10.2	-6.3	
Interest	0.5	1.3	0.5	-	0.6		
Exceptional Item	0.2	0.0	31.1		-19.9		
PBT	30.5	20.0	11.3	169.4	48.2	-36.6	
Total Tax	7.9	5.0	3.0	163.7	12.6	-37.2	
PAT	22.6	15.0	8.3	171.5	35.6	-36.5	
Adj. PAT	22.8	15.0	3.4	574.1	21.0	8.8	

Key Metrics

Segmental Performance

Engine Segment	345.0		253.8	35.9	346.7	-0.5
E-Mobility/ other	29.1		30.1	-3.5	26.9	8.1

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
Revenue	1,493.0	1,532.9	2.7	1,601.2	1,689.4	5.5
EBITDA	129.0	126.1	-2.3	154.2	162.7	5.5
EBITDA Margin (%)	8.6	8.2	-42 bps	9.6	9.6	0 bps
PAT	63.7	81.5	27.9	76.3	82.6	8.3
EPS (₹)	2.8	3.5	25.9	3.3	3.6	8.3

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier	
	FY21	FY22	FY23E	FY24E	FY23E	FY24E
3-W Volumes (units)	94,658	68,668	91,699	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	1,39,199	1,40,346	1,35,924	1,40,346

Source: Company, ICICI Direct Research

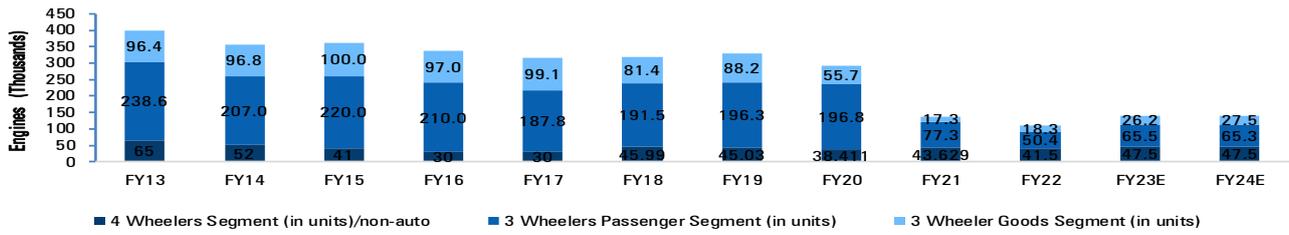
Exhibit 4: Valuations

	Basis of Valuation	Multiple	Total Value (₹ crore)	Per share value(₹)	Comments
Base Business	P/E	11x	909	39	
Ampere (100% Stake), Bestway	P/Sales	5.0	3900	169	
<b>Total</b>			<b>4,809</b>	<b>209</b>	

Source: Company, ICICI Direct Research

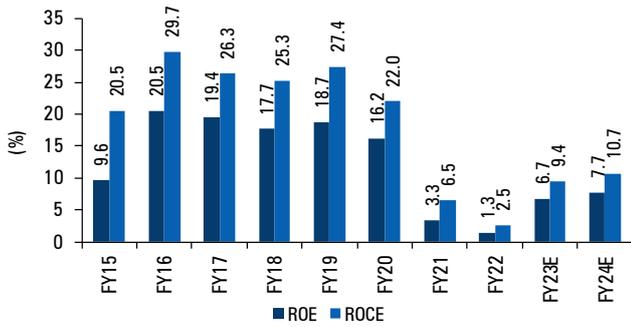
## Financial story in charts

Exhibit 5: Trend in auto engine segment sales



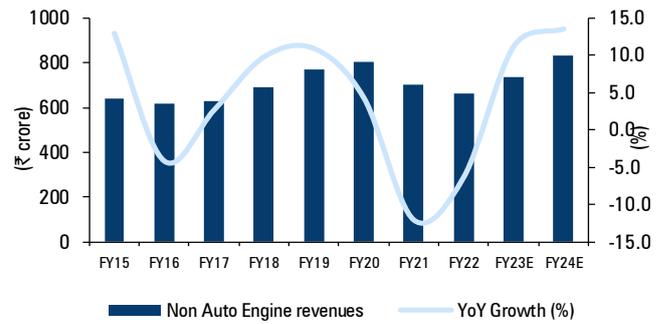
Source: Company, ICICI Direct Research

Exhibit 6: Commands superior return ratios



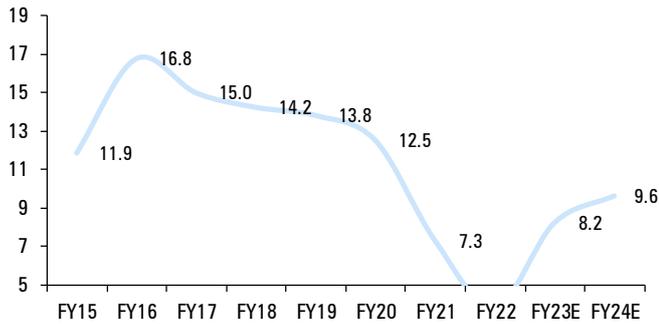
Source: ICICI Direct Research, Company

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
<b>Total operating Income</b>	<b>1,329.1</b>	<b>1,177.6</b>	<b>1,532.9</b>	<b>1,689.4</b>
Growth (%)	-27.0	-11.4	30.2	10.2
Raw Material Expenses	941.4	842.7	1,083.9	1,182.6
Employee Expenses	127.1	130.8	139.3	164.5
Other Operating Expenses	163.7	159.3	183.6	179.6
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
<b>EBITDA</b>	<b>96.9</b>	<b>44.7</b>	<b>126.1</b>	<b>162.7</b>
Growth (%)	97.2	-53.9	181.9	29.0
Depreciation	48.4	53.1	61.7	70.1
Interest	5.6	2.0	4.5	5.1
Other Income	10.0	31.6	29.7	23.0
PBT	18.5	28.6	109.5	110.4
Others	0.0	0.0	0.0	0.0
Total Tax	8.1	12.2	28.0	27.8
<b>PAT</b>	<b>10.4</b>	<b>16.4</b>	<b>81.5</b>	<b>82.6</b>
Growth (%)	-93.0	58.0	397.9	1.4
EPS (₹)	0.4	0.7	3.5	3.6

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	81.5	82.6
Add: Depreciation	48.4	53.1	61.7	70.1
(Inc)/dec in Current Assets	82.4	67.2	-79.8	-42.4
Inc/(dec) in CL and Provisions	33.8	-107.1	54.6	35.4
Others	0.0	0.0	0.0	0.0
<b>CF from operating act</b>	<b>180.6</b>	<b>31.5</b>	<b>122.5</b>	<b>150.9</b>
(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
<b>CF from investing act</b>	<b>-161.1</b>	<b>45.2</b>	<b>-74.0</b>	<b>28.7</b>
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	-4.6	-4.6	-4.6
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	0.0	7.6	0.0	0.0
<b>CF from financing act</b>	<b>-3.3</b>	<b>-2.4</b>	<b>-9.1</b>	<b>-9.7</b>
Net Cash flow	16.2	74.3	39.4	169.9
Opening Cash	154.4	170.5	244.8	284.2
<b>Closing Cash</b>	<b>170.5</b>	<b>244.8</b>	<b>284.2</b>	<b>454.1</b>

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
<b>Liabilities</b>				
Equity Capital	46.2	46.2	46.2	46.2
Reserve and Surplus	854.7	870.6	947.5	1,025.5
Total Shareholders funds	900.9	916.9	993.7	1,071.7
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
<b>Total Liabilities</b>	<b>929.2</b>	<b>950.1</b>	<b>1,034.0</b>	<b>1,119.0</b>
<b>Assets</b>				
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	140.7	155.1
Debtors	203.0	167.8	205.8	226.8
Loans and Advances	0.0	0.0	0.0	0.0
Other Current Assets	24.7	20.2	23.6	26.0
Cash	170.5	244.8	284.2	454.1
Total Current Assets	573.4	580.5	699.7	912.0
Creditors	317.5	219.4	256.2	282.3
Provisions	24.7	20.2	23.6	26.0
Total Current Liabilities	399.7	292.6	347.2	382.6
Net Current Assets	173.7	287.9	352.5	529.4
Others Assets	0.0	0.0	0.0	0.0
<b>Total Assets</b>	<b>929.2</b>	<b>950.1</b>	<b>1,034.0</b>	<b>1,119.0</b>

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	0.4	0.7	3.5	3.6
Cash EPS	2.5	3.0	6.2	6.6
BV	39.0	39.7	43.0	46.4
DPS	0.0	0.2	0.2	0.2
Cash Per Share	7.4	10.6	12.3	19.6
<b>Operating Ratios (%)</b>				
EBITDA Margin	7.3	3.8	8.2	9.6
PBT / Total Operating income	0.8	1.4	5.3	4.9
PAT Margin	0.8	1.4	5.3	4.9
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
<b>Return Ratios (%)</b>				
RoE	3.3	1.3	6.7	7.7
RoCE	6.5	2.5	9.4	10.7
RoIC	8.8	-1.4	10.1	16.5
<b>Valuation Ratios (x)</b>				
P/E	383.8	243.0	48.8	48.1
EV / EBITDA	39.3	83.4	29.3	21.7
EV / Net Sales	2.9	3.2	2.4	2.1
Market Cap / Sales	3.0	3.4	2.6	2.4
Price to Book Value	4.4	4.3	4.0	3.7
<b>Solvency Ratios</b>				
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
<b>Quick Ratio</b>	<b>0.6</b>	<b>0.7</b>	<b>0.8</b>	<b>0.8</b>

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)	1,998	2,355	Buy	280359	56.8	66.1	76.7	35.2	30.2	26.1	8.9	9.3	11.6	12.1	12.9	13.6
Siemens Ltd	2,850	3,660	Buy	101494	29.5	36.7	50.5	96.7	77.6	56.4	13.9	15.7	19.2	10.1	11.6	14.2
AIA Engineering (AIAENG)	2,674	3,239	Buy	25221	64.6	89.8	92.5	41.4	29.8	28.9	16.5	19.9	17.9	13.2	15.8	14.3
Thermax (THERMA)	2,255	2,536	Hold	26870	36.5	51.7	61.0	61.8	43.6	37.0	14.6	18.3	18.7	11.4	14.3	14.4
KEC International (KECIN)	429	515	Buy	11030	12.9	15.4	30.3	33.2	27.8	14.2	11.9	13.8	20.5	10.6	10.7	17.9
Greaves Cotton (GREAVE)	153	209	Buy	3537	0.7	3.9	3.6	216.2	39.4	42.8	2.5	10.4	10.6	1.3	7.5	7.7
Elgi Equipment (ELGEQU)	509	520	Hold	16121	7.2	9.4	11.4	71.1	54.2	44.6	19.0	21.4	22.0	19.8	21.3	21.1
Bharat Electronics (BHAELE)	107	135	Buy	78215	3.2	3.8	4.5	33.4	28.2	23.8	26.1	28.4	30.0	19.5	21.2	22.4
Cochin Shipyard (COCSHI)	675	745	Buy	8876	42.9	38.6	42.8	15.7	17.5	15.8	10.9	10.5	10.6	12.7	11.0	11.3
SKF (SKFIND)	4,865	5,215	Buy	24052	77.0	108.7	130.3	63.2	44.8	37.3	26.0	30.7	31.3	20.6	23.3	23.4
Timken India (TIMIND)	2,935	3,561	Buy	22077	43.5	61.3	71.2	67.5	47.9	41.2	25.3	36.2	42.0	19.7	27.9	32.2
NRB Bearing (NRBBEA)	147	220	Buy	1429	7.8	9.2	12.1	18.9	16.0	12.2	15.0	15.3	19.2	12.6	12.6	14.8
Action Construction (ACTCON)	333	365	Buy	3965	8.8	15.1	19.2	37.8	22.1	17.3	23.0	25.6	26.7	13.9	18.3	18.9
Data Patterns (DATPAT)	1397	1,555	Buy	7250	18.1	22.0	30.4	77.2	63.6	46.0	23.8	24.9	28.4	16.4	18.2	21.0
HAL (HINAER)	2,523	2,860	Buy	84367	151.9	130.9	143.1	16.6	19.3	17.6	27.4	30.6	30.8	26.3	23.2	23.4
ABB (ABB)	3,020	3,275	Buy	63996	25.5	38.9	43.7	118.6	77.7	69.1	45.0	49.2	64.9	11.2	13.0	17.6
Ador Welding (ADOWEL)	860	890	Buy	1169	33.2	37.5	49.3	25.9	22.9	17.4	19.9	23.8	26.8	13.6	17.1	19.3
Bharat Dynamics (BHADYN)	924	1,200	Buy	16935	27.3	33.0	42.7	33.9	28.0	21.7	24.6	24.7	27.9	17.3	17.7	20.0
Mazagon Dock (MAZDOC)	841	562	Buy	16964	30.3	31.2	40.1	27.8	27.0	21.0	20.0	18.1	20.9	16.1	14.6	16.6
Solar Industries India (SOLIN)	4,050	4,701	Buy	36648	48.8	76.6	99.7	83.1	52.9	40.6	22.5	32.5	34.6	23.9	29.0	28.8
Anup Engineering (THEANU)	890	1,085	Buy	881	62.7	49.5	72.3	14.2	18.0	12.3	15.3	16.6	19.4	12.2	12.5	14.5
Control Prints (CONTROLPR)	414	520	Buy	676	24.7	28.7	34.6	16.7	14.4	12.0	17.9	21.4	23.4	13.8	15.4	16.3
KSB Ltd. (KSBPUM)	1,964	2,180	Buy	6835	43.7	50.0	62.2	44.9	39.3	31.6	15.7	16.0	18.3	14.7	14.9	15.9

Source: Company, ICICI Direct Research

## RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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## ANALYST CERTIFICATION

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