RETAILRESEARCH

Initiating Coverage

Greaves Cotton LTD.

September 22, 2021

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20 YEARS

Greaves Cotton Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Capital Goods	Rs. 134.6	Buy Band Rs. 130-135 & add more on dips to Rs. 116	Rs 141.5	Rs. 155.5	2 quarters

HDFC Scrip Code	GREAVES
BSE Code	501455
NSE Code	GREAVESCOT
Bloomberg	GRV IN
CMP Sep 21, 2021	134.6
Equity Capital (Rs cr)	46.2
Face Value (Rs)	2
Equity Share O/S (cr)	23.1
Market Cap (Rs cr)	3,109
Book Value (Rs)	33.6
Avg. 52 Wk Volumes	11,73,892
52 Week High	184.4
52 Week Low	66.0

Share holding Pattern % (Jun, 2021)	
Promoters	55.63
Institutions	16.27
Non Institutions	28.10
Total	100.0

* Refer at the end for explanation on Risk Ratings

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Our Take: .

With over 160 years of extraordinary legacy and brand trust, a multi-product and multi-location company - Greaves Cotton Limited (GCL)- is a diversified engineering company and a leading manufacturer of Cleantech Powertrain Solutions (CNG, Petrol and Diesel Engines), Generator sets, Farm equipment, E-Mobility, aftermarket spares and services.

With a market share of 65-70% in domestic diesel engines segment, Greaves Cotton is currently witnessing prolonged weakness due to slowdown in three-wheeler industry. We believe a recovery in three-wheeler sales will boost the core business of automotive engines.

In a strategic move - company has sought to expand its non-automotive business and that business is growing well. , We expect non-automotive segment to continue to do well and reduce seasonality/cyclicality in business.

The government, through its revised subsidy scheme, is seeking to provide a push for faster adoption of e-mobility. GCL is well-positioned to take benefit of e-mobility space. The acquisition of Ampere and E-rick will help it achieve strong growth in the EV space. The company has also taken a big bet on hyper growth e-mobility by investing Rs 700 crore in expansion of its megasite at Ranipet in Tamil Nadu. It has a wide range of product portfolio for e-2ws and e-3Ws, from slow to high speed, which can help inch up its market share.

Valuation & Recommendation:

GCL is ready to take off and achieve growth in e-mobility segment through its strong R&D capabilities, manufacturing capacity and inorganic expansion. We believe that recovery in 3W industry will boost its core business, even as growth of non-automotive business remains intact. GCL is a leading player in the automotive industry for over 160 years and has a high market share in domestic diesel engines segment, enabling it to deliver over 20% ROE and a net-cash balance sheet.

The restructuring activities undertaken by GCL over the past 4-years to achieve business diversification have started to bear the fruits, the new businesses now contribute 30% (FY21) of overall business. A gradual transition from diesel-based auto engines (reduced to 37% from 50%+) led business to E-mobility (rapidly increased to 12%) and non-auto segment is underway. GCL has added Fintech & Technology ventures as enablers to E-mobility and Retail solutions.

We estimate Revenue/EBITDA/ PAT will grow at CAGR 20%/81%/195% over FY21-FY23E, on account of the robust growth in non-automotive division, growth opportunity in e-mobility, and control over the operating cost.

The stock is currently trading at 19x FY23E EPS. We feel investor can buy the stock in Rs. 130-136 band (23-24x FY23E EPS) and add more on dips to Rs. 116 band (20.7x FY23E EPS) for the base target of Rs. 141.5 (25.3x FY23E EPS) and bull case target of Rs. 155.5 (27.8x FY23E EPS) over the next four quarters.

Financial Summary

Particulars	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY20	FY21	FY22E	FY23E
Operating Income	229.0	156.1	*46.7*	520.4	*-56.0*	1911.0	1500.4	1728	2086
EBITDA	-16.9	-26.7	*-36.7*	41.6	*-140.6*	210.0	79.7	137	237
Depreciation	14.7	13.8	*6.5*	16.2	*-9.3*	61.0	60.4	67	74
Other Income	3.1	2.2	*40.9*	2.5	*24.0*	20.0	8.3	14	19
Interest	0.8	2.5	*-68.0*	1.0	*-20.0*	5.1	6.9	7	9
PBT	-25.2	-40.8	*-38.2*	27.3	*-192.3*	167.9	-13.8	76	173
PAT	-22.5	-30.9	*-27.2*	13.7	*-264.2*	126.9	-18.8	57	131
EPS	-0.97	-1.30	*-25.4*	0.60	*-261.7*	5.49	-0.81	2.5	5.6
PE (x)						24.5	-	54.1	23.8
Ev/EBITDA (x)						13.9	35.5	20.6	12.4
RoE (%)						14.4	-2.4	7.4	16.6

(Source: Company, HDFC sec)

Recent Triggers

Greaves Cotton (GCL) reported a weak set of numbers for Q1FY22, as revenue declined 56% QoQ to Rs 229 cr. The company reported a loss of Rs 17 cr and a loss of Rs 23 cr at EBITDA & PAT level. The overall performance during the quarter was impacted by disrupted business activities due to second wave of Covid-19 pandemic. The poor performance of auto engines during Q1FY22 was reflected in volumes de-growth of 16% YoY to 9,426 units. The lower volumes in the first quarter of FY22, against Q1FY21, implies long-standing weakness in the automotive industry.

However, non-auto engines, non-auto products & E-mobility segment continued to witness traction during the quarter. We expect them to drive overall performance of the business going ahead. The engine segment recorded 14% YoY volume growth, whereas non-auto products grew by 13% YoY in the first quarter of FY22.

The non-auto engines division continued its stellar performance, as volumes were up 78% YoY. The resurgence in non-automotive products was mainly driven by the Genset volumes, which was up 193% YoY to 806 units.

E-mobility segment too continued its uptrend, with ~23% YoY volume growth to 2153 units. The company has sold approximately 4,000 units in July-21 under E-mobility, post unlocking of economy. The demand for electric mobility seems likely to sustain, as the enquiry levels of E-

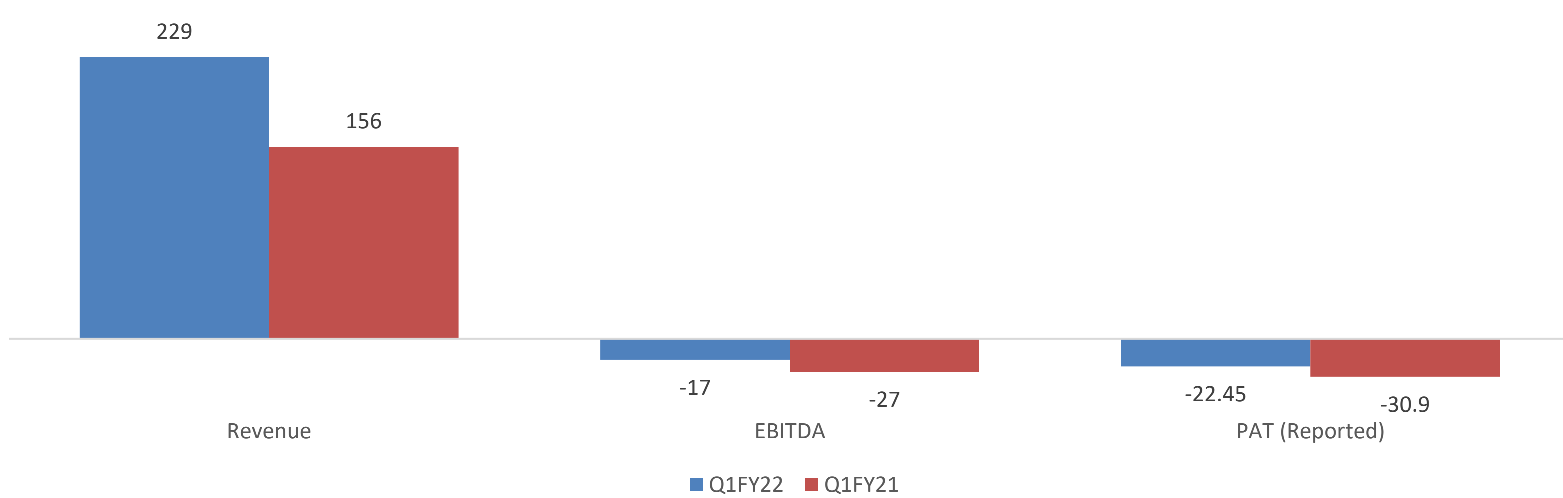
2W surpassed the March-21 enquiries amid substantial interest from dealers. The 3W segment continued to witness weakness, as pandemic led shared mobility and sales dropped 72% QoQ to 770 units. Ampere posted its best monthly sales in July as it sold around 4000 electric 2W and 3W.

Q1FY22 Volumes in Units

Particular	Q1FY22	Q1FY21	YoY (%)
Auto Engines	9426	11216	-16.0%
Non - Auto Engines	9,447	5,305	78.1%
Total Engines	**18,873**	**16,521**	**14.2%**
Genset	806	275	193.1%
Light Equipment	6,630	6,317	5.0%
Non - Auto Products	**7,436**	**6,592**	**12.8%**
E2W	1,383	1,752	-21.1%
E3W	770	-	
E-Mobility	**2,153**	**1,752**	**22.9%**

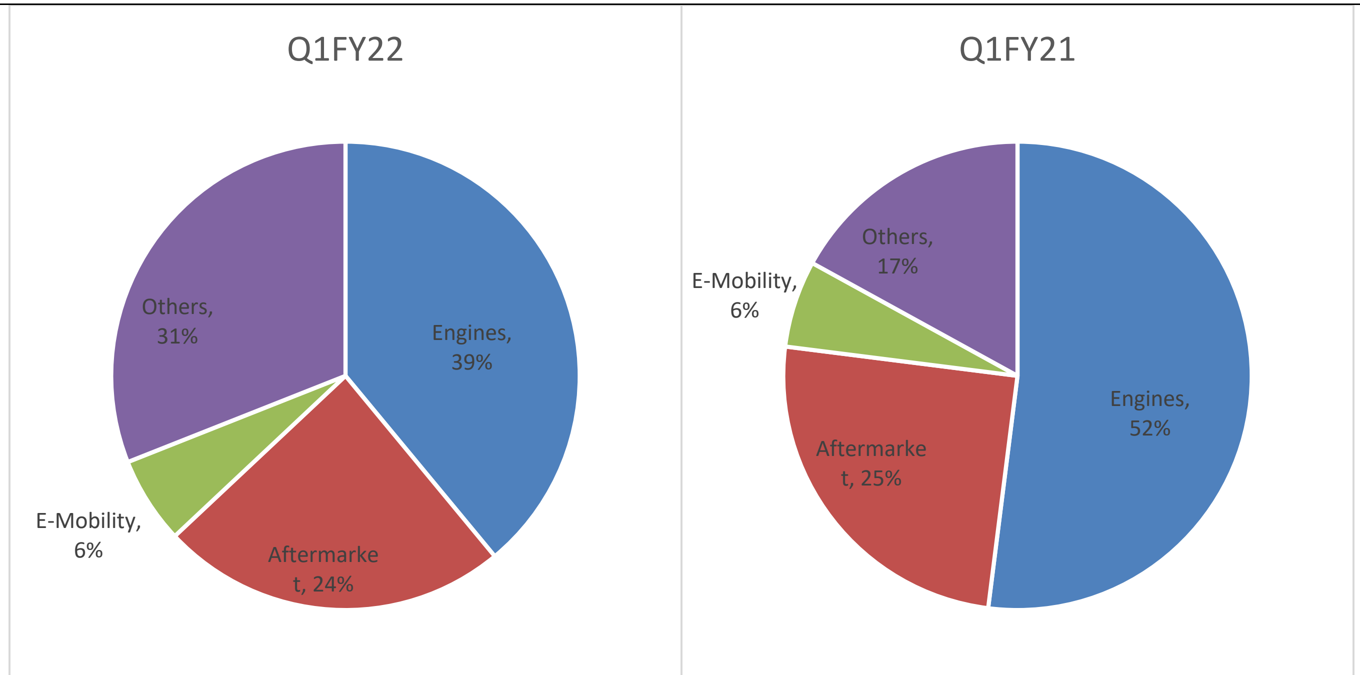
Q1FY22 Performance in Charts

Greaves Cotton Consolidated Results for Q1FY22



(Source: Company, HDFC Sec; Data in Rs Cr)

Q1FY22 Segmental Revenue

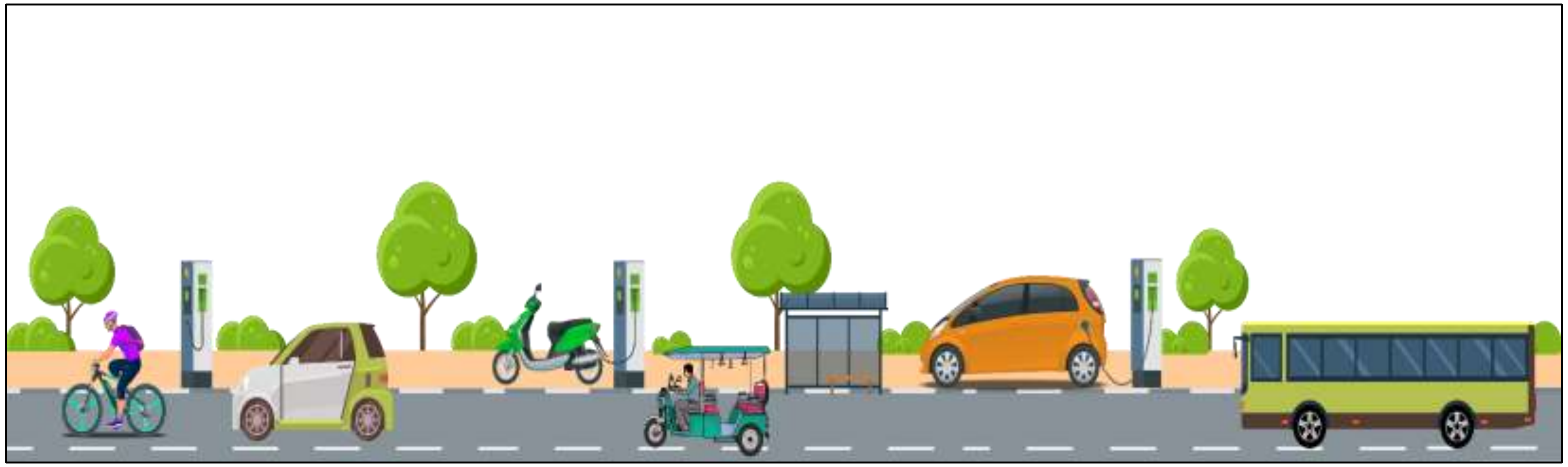


(Source: Company, HDFC Sec)

Key Triggers

Adoption of electric vehicles drives growth

GCL is well-positioned to benefit from faster adoption of EVs, especially in e-2W and e-3W segments, where the company has a good range of products portfolio and a strong strategy to capture the opportunities in the EV space. The company is 3rd largest player in e-2Ws, with a market share of ~17%. In their bid to provide a push for faster adoption of EVs, the department of heavy industry has revised scheme of FAME II (Faster Adoption and Manufacturing (Hybrid) and Electric Vehicles). This would further bring down the prices of e-2Ws. The limit on incentives has been increased up to 40% of the cost of vehicle, from the previous 20%. This would mean that one would be eligible to receive an incentive of Rs 15,000/- on purchase of an e-2W with a 1 kWh battery; Rs 30,000/- on purchase of an e-2W with a 2 kWh battery and Rs 45,000/- for purchase of an e-2W with a 3 kWh battery pack, as long as its ex-factory cost is over Rs. 1 lakh but below Rs. 1.5 lakh. Even, the state governments are providing additional incentives on electric vehicles for their faster adoption. The management expects that the government's push towards fast adoption of EVs would help them achieve a better result. The company expects that India would achieve 10-15% penetration of e-2ws by 2025 and 25-30% by 2030, in line with the government expectation. The company has ramped up its e-mobility business at a much faster pace and we believe that GCL is well positioned to benefit from this timely investment in e-mobility business and government push for EVs. We continue to maintain positive stance on e-mobility business for long term.

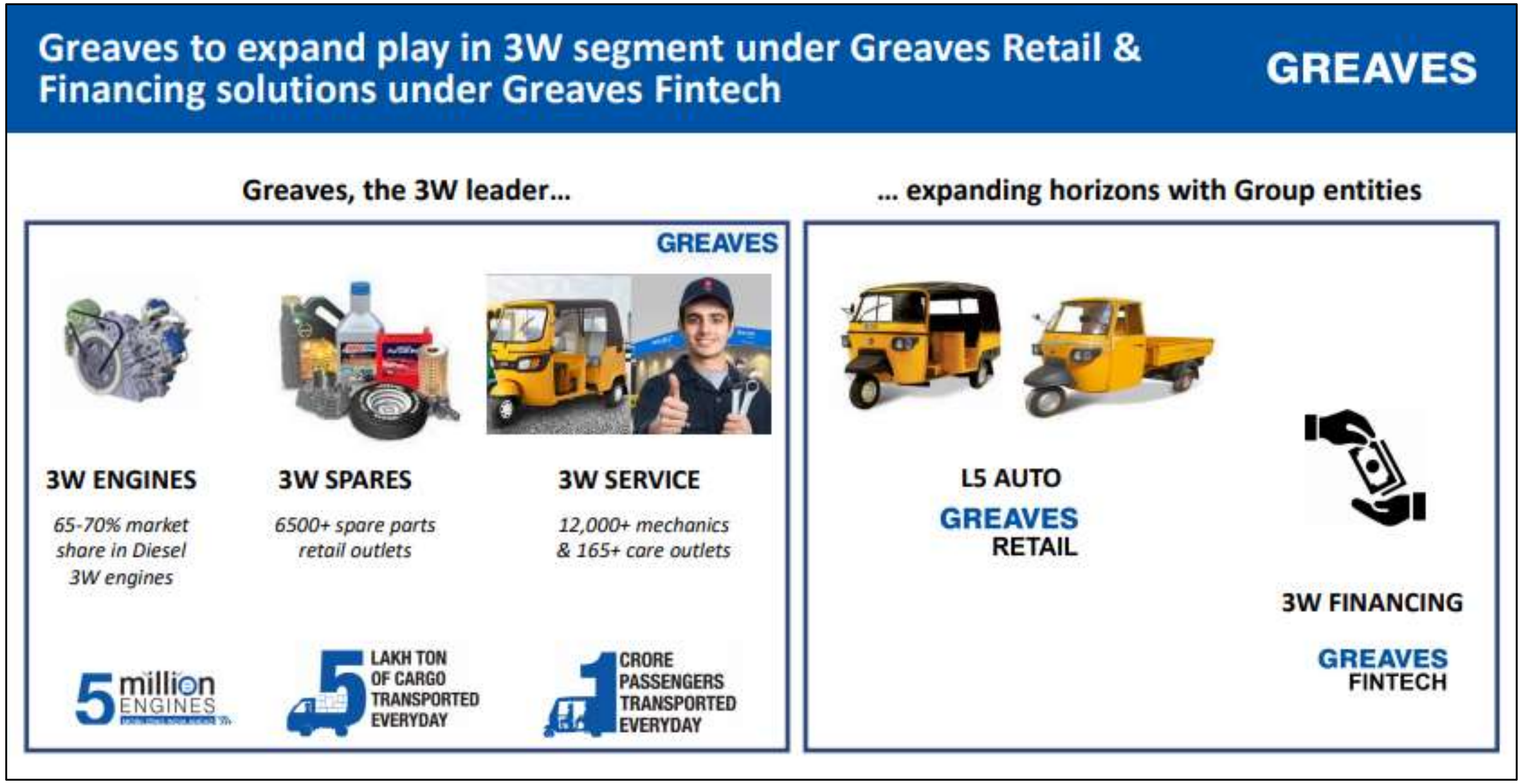


Increase share of e-2Ws in 2 Wheelers

(Source: Industry, HDFC sec)

Recovery in 3W sales to boost the core business

GCL continues to focus on its core engine business of diesel engines in the domestic market, where it enjoys a leadership position with 65-70% market share. The company is a global leader in manufacturing single cylinder engines and has a capability to produce one engine per minute. It manufactures engines from 7 HP to 700 HP, with an option of petrol, diesel and CNG. In FY21 and in Q1FY22, we saw company's core business performing poorly, owing to long standing weakness led by Covid-19 related lockdowns that had a negative impact on shared mobility. The automotive engine market is slowly recovering, with OEMs signaling positive growth. We expect the 3W industry to gain traction, as Covid infections taper off, schools, education institutes and corporates open for work and local/metro trains become operational. We believe recovery in 3W industry will boost company's core business. The company is in advanced negotiations with 3W manufacturers for its 'Crest' engines for both petrol and CNG variants, which could be a potential revenue driver in the long run.



Inorganic way to extend portfolio and growth in E-mobility

Greaves Cotton acquired e-2W firm Ampere in 2018. The company is setting up a mega manufacturing facility for EVs at Ranipet, Tamilnadu, with an investment of Rs. 700 cr. The installed capacity of this plant initially is 100,000 but would be ramped up over a decade acapacity to build 1 million e-2Ws annually. The company is well prepared to ramp up capacity to cater to the opportunities in EV segment. With the experience in EV technology, designing, manufacturing and strong distribution network over 12 years, acquisition of Ampere will help GCL achieve strong performance in the future. After the acquisition by Greaves, Ampere moved into the commuter segment (high speed e-scooters), focusing tier 1 and 2 cities and B-2-B clients. The company recently added E-Rickshaw to its e-mobility portfolio through the acquisition of E-Rick under Ele brand in 2021. We believe the company will continue to grow organically as well as in an inorganic manner, with strong financial position and a growth strategy for e-mobility business. We believe that e-mobility business is the key driver for GCL, with its revenues likely to achieve a 52% CAGR during FY21-FY23E, resulting in revenue contribution to rise from 12% in FY21 to 19% in FY23E.

Ampere recently picked up a 26 percent stake in the Hyderabad-based MLR Auto for Rs.18.8 cr to balance the B2C space with the imperatives of cargo movement. It can now expand its last mile mobility product and offer electric cargo 3W to its retail and B2B customers.

New branding of Ampere

(Source: Company, HDFC sec)

Non-automotive segment reduces seasonality impact

Greaves has a significant presence in non-automotive sectors as agriculture, construction, marine industries, gardening, micro-irrigation, railways and defence. The non-automotive engines used in these industries are fuel-efficient, compact and versatile. Other than Indian subcontinent, the Company offers a range of these products in overseas markets, including South-East Asia, Africa, Middle East and Europe. Based on the concept of "one engine, many applications", the Non-Automotive Small Engines (NASE) are effective tools for SMEs. The company moved in to the smart genset and industrial engines for fire pumps. Smart Gensets are well accepted by the market and GCL's gensets business outperformed the market. We believe non-automotive segments would continue to remain strong and will reduce seasonality impact for the company in the medium term.

Moving towards a future ready business portfolio

Greaves cotton's transformation of journey is accelerating and now become a last mile mobility solution company. The company is moving closer to customers though increasing value chain and future ready business portfolio. In FY16, company's 50% revenues came from auto engines and highly dependent to Diesel engine. The share from new businesses was negligible in 2016. During the period of FY2017-2021, Greaves' strategy has helped the company expand its play in the last-mile mobility ecosystem by addition of Electric Vehicles under Ampere, multi-brand service and sales under Greaves Retail and, just recently, vehicle financing under Greaves Finance.

The e-mobility segment continued its robust growth trajectory and increases its revenue share to 12%. The new business now contributing 30% of total revenues and reduce dependency on the auto engines (contributes ~37% of the revenue). Greaves cotton is now looking beyond FY22 and moving closer to customer through legacy business and new business. They are a market leader in 3W Diesel and wide body CNG engines. They have a strong hold in non-auto engines, power solutions and light equipment. The e-mobility business continues its robust growth from substantial role plays in Ampere (e-2w) and a newly acquired Ele (e-3w). They entered into multi-brand retail solutions for aftermarket sales services which stable growth business. Newly venture – NBFC (Finance) services of Greaves Cotton enables to B2C business and finances e-2W and e-3W for Ampere which create a forward solution for the company. They are foray into tech services as well. With the dedicated focus and strong & experienced management team, the new business provide significant opportunity and growth to the company.

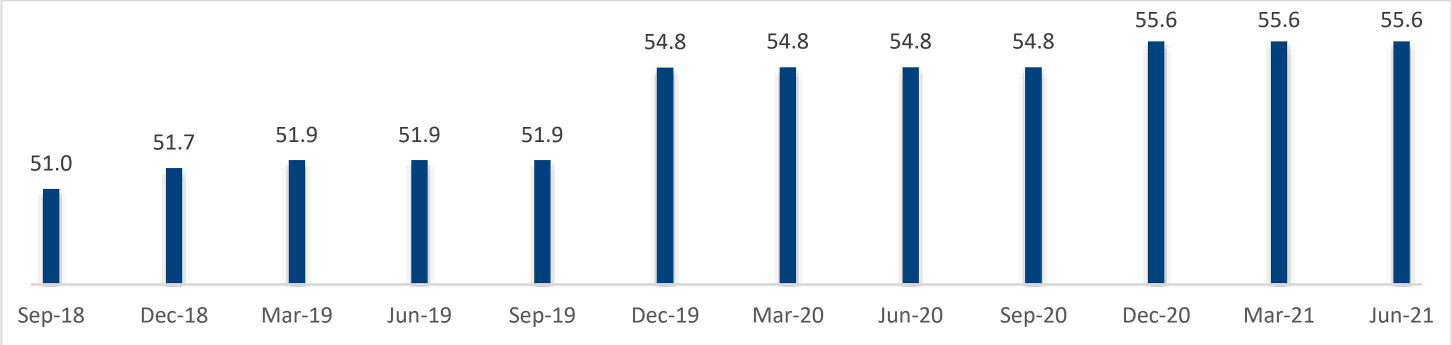
Entered in to MoU for Land Sale

Greaves cotton has signed MoU to sell around 27 acres of excess land at its Akurdi plant, off the old Pune-Mumbai highway, to Runal Developers in a deal value around Rs. 320 cr. The company said that they would receive the value of the sale in 3 tranches, and the entire transaction to be closed by end of FY22. The sale value of land will use in to development of new businesses.

Promoters are gradually increasing stake

Promoter of Greaves Cotton are gradually increase their stake in the company 51% in Q2FY19 to 55.6% in Q1FY22 which is indicating that futures prospects for the company is bright.

Promoters' holding in the company



(Source: Company, HDFC sec)

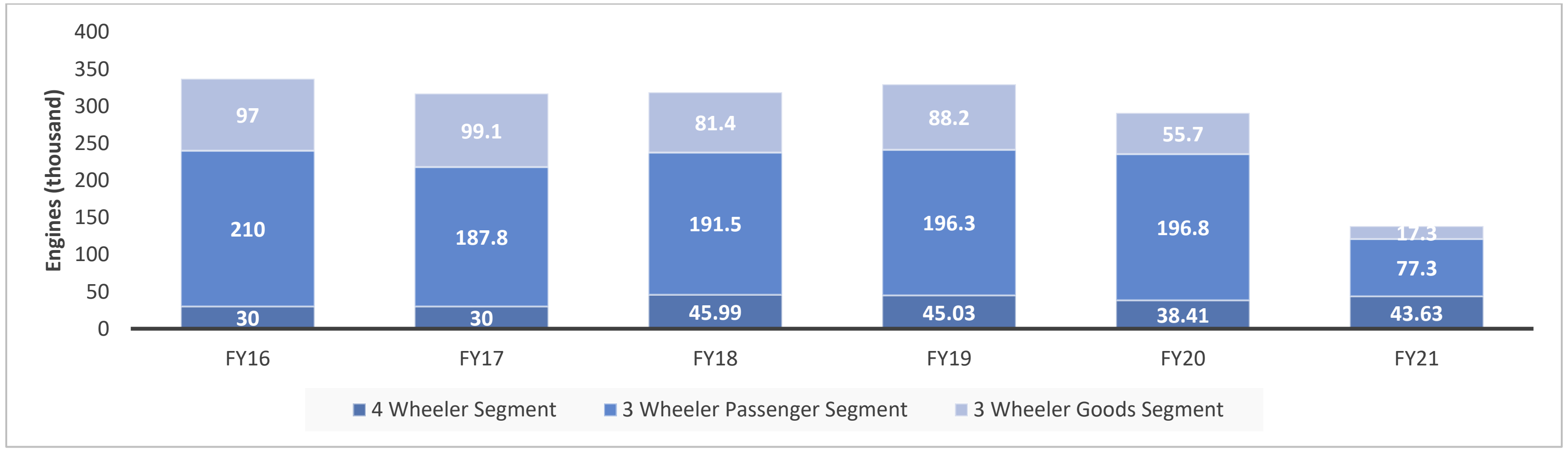
What could go wrong?

- The company's performance may be impacted adversely if it is unable to pass on the higher commodity prices.
- A chronic weakness in 3W industry can materially impact revenue projections.
- Increase in competition for e-2Ws space from the new entrant like OLA electric can impact the growth of e-mobility. However Ampere has an advantage thanks to the earlier founders and has been through a lot of learning on product, technology and supply chain along with the Greaves ecosystem. There is a better understanding of customer needs with supporting infra like retail and finance to help take the electric story forward. Ampere is present in 400 towns and will continue to grow which is evident from the growing dealer interest in participating in its story.
- Any slowdown in building of EV charging infrastructure can impact the growth in e-mobility space. Any hike in cost of EV charging equipment can also impact the business.
- A cut or pull back in any subsidy (FAME II) may also impact the sales on EVs. However there is an expectation that the FAME II scheme would be extended beyond 2022, as the benefits utilised under the scheme are less than 10% currently.

About the company

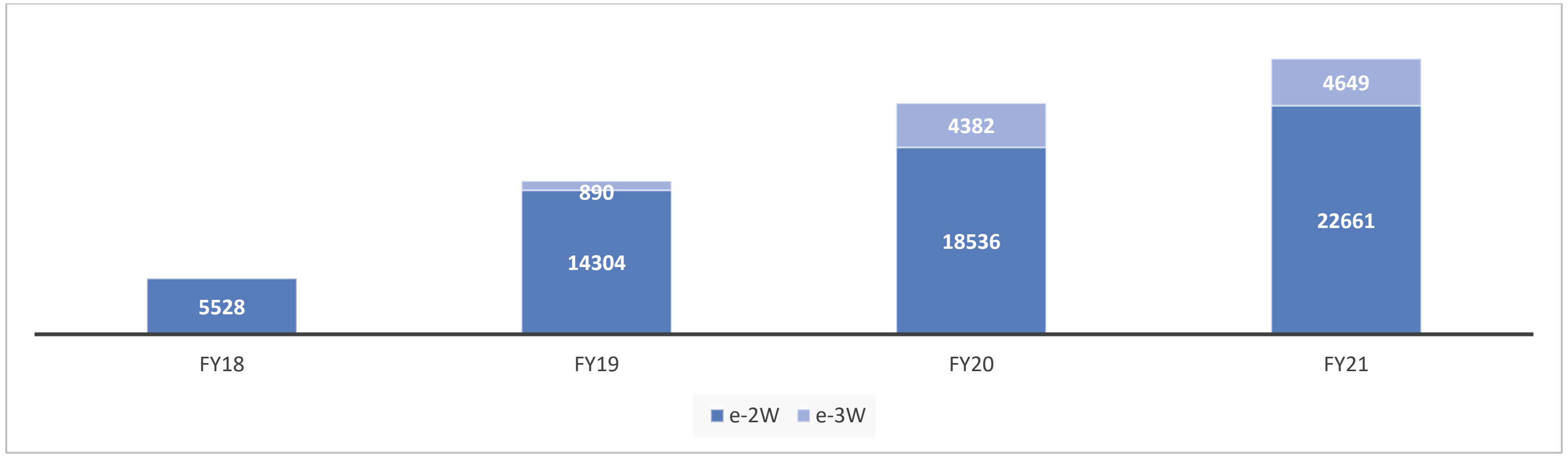
With over 160 years of extraordinary legacy and brand trust, Greaves Cotton Limited (GCL) is a diversified engineering company and a leading manufacturer of Cleantech Powertrain Solutions (CNG, Petrol and Diesel Engines), Generator sets, Farm equipment, E-Mobility, aftermarket spares and services. The Company today manufactures world-class products and solutions under various business units and is backed by comprehensive support from 500+ Greaves Retail Centres & 6300+ smaller spare parts retail outlets across the country. In the mobility segment, the Company provides low "Total cost of ownership (TCO) mobility solutions to the majority of Indian populace, moving more than 1 crore passengers and 5 lakh tonnes of cargo every day. Greaves Cotton augmented its clean technology portfolio in the last-mile affordable 2W personal mobility segment with acquisition of Ampere Vehicles in 2018 and now holds an 81.2% stake. Ampere extended play to E-3W with acquisition of E-Rick business under 'Ele' brand in 2021. The company has a strong e-mobility retail network with 328+ dealers across 260+ cities and towns. It has a strong presence in the B2B segment with more than 50 tie-ups in food retail, e-commerce, and ride sharing. In addition to its new venture in e-2W business, the company has incubated multibusinesses in-house, which includes non-auto engines, e-rick, mega/smart gensets, Greaves care (retail services arm), and multi-brand spares divisions. Collaboration and holistic approach have been in the DNA of the company's growth. The company works in a way that is beneficial to all the stakeholders – B2C segment, B2B segment suppliers, shareholders and communities at large. Greaves Cotton also plays a critical role in aiding growth of core sectors of the economy. Its presence in multiple sectors and wide range of superior quality affordable products lead to cascading benefits in many allied sectors.

Trend in auto engine segment Volumes



(Source: Company, HDFC sec)

Trend in e-Mobility Volumes



(Source: Company, HDFC sec)

Greaves Cotton Ltd.

Financials – Consolidated

INCOME STATEMENT

Particulars	FY19	FY20	FY21	FY22E	FY23E
Income from operations	**2015**	**1911**	**1500**	**1728**	**2086**
Material Cost	1382	1317	1080	1224	1443
Employee Cost	178	173	142	161	181
Other expenses	184	211	199	207	224
Total expenses	1744	1701	1421	1592	1849
EBITDA	**271**	**210**	**80**	**137**	**237**
Depreciation	52	61	60	67	74
EBIT	261	169	28	84	182
Other Income	42	20	8	14	19
Interest	4	5	7	7	9
Profit before tax	240	168	-14	76	173
Tax Expenses	78	41	5	19	42
Profit After Tax	**162**	**127**	**-19**	**57**	**131**
Adj. PAT	**162**	**127**	**-19**	**57**	**131**
EPS	6.6	5.5	-0.8	2.5	5.6

BALANCE SHEET

Particulars	FY19	FY20	FY21	FY22E	FY23E
Share Capital	48.8	46.2	46.2	46.2	46.2
Reserves and Surplus	920	753	736	724	758
Shareholders' Funds	**969**	**799**	**783**	**771**	**804**
Long Term borrowings	5	0	0	0	0
Deferred Tax Liabilities (Net)	3	-25	-39	-39	-39
Other Long Term Liabilities	20	40	35	40	48
Non-current Liabilities	**28**	**15**	**-5**	**1**	**9**
Short Term Borrowings	6	10	4	31	70
Trade Payables	324	299	356	402	486
Other Current Liabilities	70	62	66	76	91
Short Term Provisions	20	25	32	36	44
Current. Liabilities	**420**	**395**	**458**	**545**	**690**
TOTAL	**1417**	**1209**	**1235**	**1316**	**1503**
Gross Block	366	387	411	478	566
Less: Acc. Depreciation	127	160	220	287	360
Net Block	**239**	**228**	**200**	**191**	**205**
Capital work-in-progress	9	12	24	18	213
Other Non-current Assets	262	82	98	96	96
Non-current Assets	**39**	**82**	**98**	**97**	**96**
Inventories	134	194	175	189	211
Trade Receivables	342	255	209	232	280
Cash and Bank Balances	45	190	280	331	233
Other Current Assets	226	75	59	66	80
Current Assets	**556**	**711**	**723**	**819**	**805**
TOTAL	**1431**	**1209**	**1235**	**1316**	**1503**

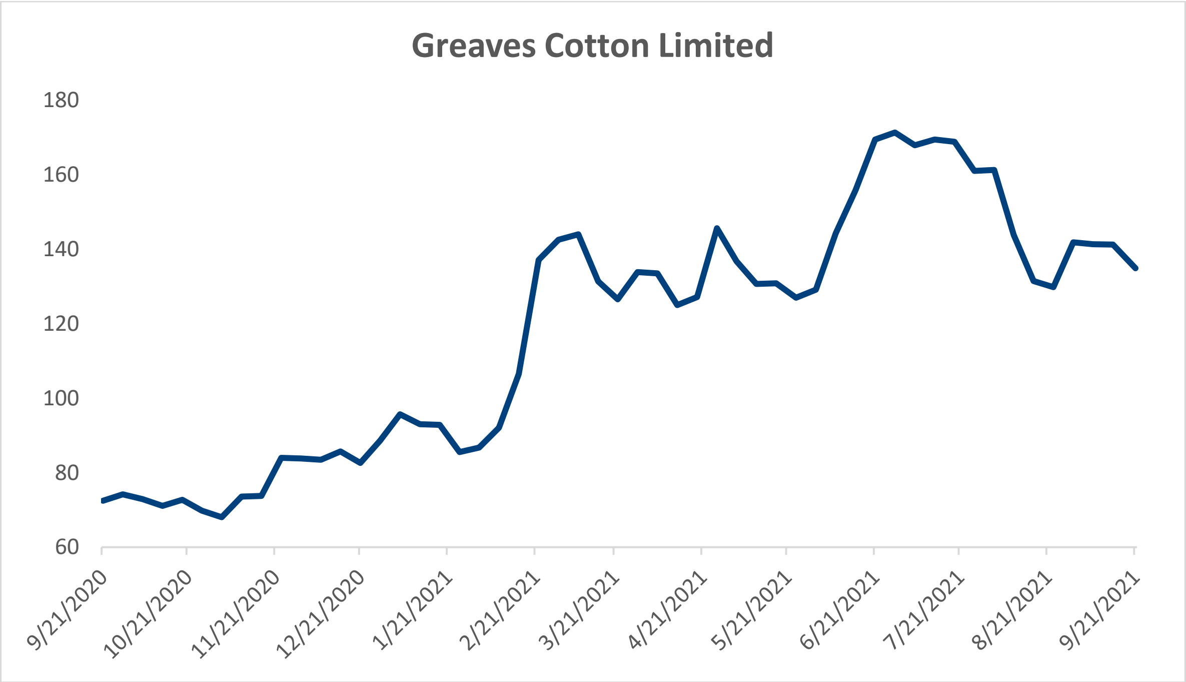
CASH FLOW ANALYSIS

Particulars	FY19	FY20	FY21	FY22E	FY23E
Profit Before Tax	163	127	-14	76	173
Depreciation	52	61	60	67	74
Others	66	26	17	14	18
Change in working capital	-43	-43	105	15	23
Tax expenses	-92	-70	-22	-19	-42
CF from Operating activities	**145**	**102**	**147**	**154**	**245**
Net Capex	-31	-37	-36	-60	-70
Other investing activities	155	399	-62	7	7
CF from Investing activities	**35**	**255**	**-108**	**-53**	**-63**
Proceeds from Eq Cap	0	-228	0	0	0
Borrowings / (Repayments)	-8	-2	-7	27	39
Dividends paid	-162	0	0	-69	-97
Interest paid	-4	-3	-5	-7	-9
CF from Financing activities	**-174**	**-241**		**-50**	**-67**
Net Cash Flow	**7**	**115**	**19**	**51**	**115**

FINANCIAL RATIOS

Particulars	FY19	FY20	FY21	FY22E	FY23E
EPS (Rs)	6.6	5.5	-0.8	2.5	5.6
Cash EPS (Rs)	8.8	8.1	1.8	5.4	8.8
BVPS (Rs)	39.7	34.6	33.8	33.3	34.8
PE (x)	20.3	24.5	-165.6	54.1	23.8
P/BV (x)	3.4	3.9	4.0	4.0	3.9
Mcap/Sales (x)	1.5	1.6	2.1	1.8	1.5
EV/EBITDA (x)	11.3	13.9	35.5	20.6	12.4
EBITDAM (%)	13.4	11.0	5.3	7.9	11.4
EBITM (%)	13.0	8.8	1.8	4.8	8.7
PATM (%)	8.0	6.6	-1.3	3.3	6.3
ROCE (%)	26.7	18.9	3.5	10.5	21.7
RONW (%)	16.7	14.4	-2.4	7.4	16.6
Current Ratio (x)	1.3	1.8	1.6	1.5	1.2
Quick Ratio (x)	1.0	1.3	1.2	1.2	0.9
Debt-Equity (x)	0.0	0.0	0.0	0.0	0.1
Debtor days	84	57	56	47	45
Inventory days	41	31	45	38	35
Creditor days	54	59	80	80	78

Stock Price chart



HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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