

## Strong show in EV business...

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

**Q1FY23 Results:** Greaves reported a good set of Q1FY23 numbers.

- Standalone revenue came in at ₹ 373.6 crore (vs. I-direct estimate of ₹ 380.7 crore), which grew by 74.3% YoY
- Standalone EBITDA of ₹ 27.4 crore (vs. I-direct estimate of ₹ 30.5 crore) vs loss of ₹ 6 crore in Q1FY22. On a consolidated basis, EBITDA came in at ₹ 38.4 crore (vs. EBITDA of ₹ 16.9 crore in Q1FY22)
- Consequently, standalone adjusted PAT of ₹ 21 crore (vs. I-direct estimate of ₹ 13.8 crore) grew 519% YoY
- Engine (auto, non-auto) volumes grew 39% to 26222 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 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 CAGR of ~19.8%, 90.7%, respectively, in FY22-24E

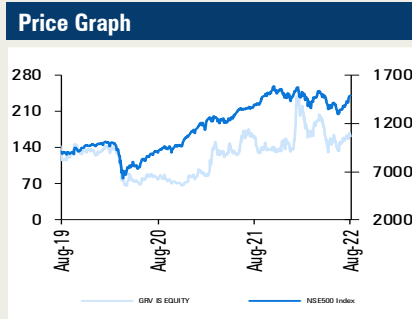
**Alternate Stock Idea:** We also like ABB India in our coverage.

- It expects operating margins to improve with increase in capacity utilisation, change in revenue mix, cost optimisation programmes and localisation prospects
- BUY with target price of ₹ 3275



Particulars	
Particular	Amount
Market Capitalization	₹ 3977 Crore
Total Debt (FY22)	₹ 0 Crore
Cash and Inv. (FY22)	₹ 244.8 crore
EV	₹ 3732 Crore
52 week H/L	₹ 259 / ₹ 126
Equity capital	₹ 46.2 Crore
Face value	₹ 2

Shareholding pattern				
(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	55.6	55.6	55.6	55.5
FII	3.8	3.8	3.1	3.5
DII	9.4	9.2	9.5	8.6
Others	31.2	31.4	31.8	32.4



### 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

### Q1FY23 Results: Strong show in EV business

- Standalone revenue came in at ₹ 373.6 crore (vs. I-direct estimate of ₹ 380.7 crore), up 74.3% on a YoY basis
- Consolidated revenue grew 88.3% YoY to ₹ 660.1 crore. The engine segment revenues came in at ₹ 346.7 crore, up 76.7% YoY. On the other hand, E-Mobility segment revenue grew 47.9% to ₹ 281.2 crore. EBIT came at ₹ 10.09 crore vs. loss of ₹ 15.27 crore in the same period last year
- It reported standalone EBITDA of ₹ 27.4 crore (vs. I-direct estimate of ₹ 30.5 crore) vs. loss of ₹ 6 crore in Q1FY22, with EBITDA margin of 7.3%. On a consolidated basis, EBITDA came in at ₹ 38.4 crore (vs. EBITDA loss of ₹ 16.9 crore in Q1FY22)
- The company reported standalone PAT of ₹ 21 crore (vs. I-direct estimate of ₹ 13.8 crore), up 519.7% YoY

### Q1FY23 Earnings Conference Call highlights

- Q1FY23 engine segment volume came in at 26222 units, up 39% YoY. Auto engine volumes grew 71% to 16112 units YoY while non-auto engine volumes grew 7% to 10110 units YoY. On the non-auto product/equipment side, power genset volumes grew 77% YoY to 1428 units whereas the light equipment business (pumpset, power tiller, other) volumes grew 18% YoY to 7851 units. Electric mobility accounts for 43% of overall revenue in Q1FY23. New business including e-mobility continues to accelerate with 56% contribution to overall business in Q1FY23
- E-mobility segment volumes registered strong growth. E-2W volumes grew 1981% YoY to 28787 units while E-3-W volume came in at 790 units, up 3% YoY. Unique presence in EV (E2W+E3W) with 85% coverage in last-mile mobility
- Gross margins in the EV segment were at 20% while EBITDA margins were at 5% for Q1FY23. The company aims to achieve peak EBITDA margins of early teens over the next two years with medium term focus on scale, volumes and new product offerings. At peak utilisation on the current capacity of 240000 units per annum, peak revenues can be ₹ 2000 crore. The company wants to achieve profitable growth in this segment with strong focus on improving scale and volumes
- Greaves has 288 active dealers on the EV segment with 100 plus dealers in south, 30 in east, 50 in north India and remaining in west. All dealers have the necessary spares offerings and servicing capability
- The management expects the 3-W EV sales to bounce back and have plans for new launches and capacity expansion plans on the MLR front
- In the base business, demand for diesel vehicles has gone up given higher prices of CNG

Exhibit 1: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (Chg %)	Q4FY22	QoQ (Chg %)	Comments
Revenue	373.6	380.7	214.4	74.3	284.0	31.6	Strong contribution of new businesses in driving revenue growth
Other Income	11.7	5.0	4.4	166.1	7.6	53.7	
Employee Expenses	29.3	40.0	35.7	-18.0	33.8	-13.4	
Raw Material Expenses	272.4	272.2	150.4	81.1	204.5	33.2	
Other operating Expenses	44.5	38.1	34.3	29.8	41.3	7.9	
EBITDA	27.4	30.5	-6.0	-555.6	4.5	513.6	
EBITDA Margin (%)	7.3	8.0	-2.8	1015 bps	1.6	577 bps	
Depreciation	10.2	15.7	10.9	-6.9	10.9	-6.6	
Interest	0.6	1.3	0.3	-	0.5		
Exceptional Item	-19.9	0.0	31.1		-10.7		
PBT	48.2	18.5	-8.8	-646.1	11.3	325.2	
Total Tax	12.6	4.7	-2.4	-635.7	3.0	319.7	
PAT	35.6	13.8	-6.5	-649.8	8.3	327.2	
Adj. PAT	21.0	13.8	3.4	519.7	0.5	4,217.2	

Key Metrics

Segmental Performance

Engine Segment	346.7		196.2	76.7	349.1	-0.7
E-Mobility/ other	26.9		18.2	47.9	-65.1	-141.4

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

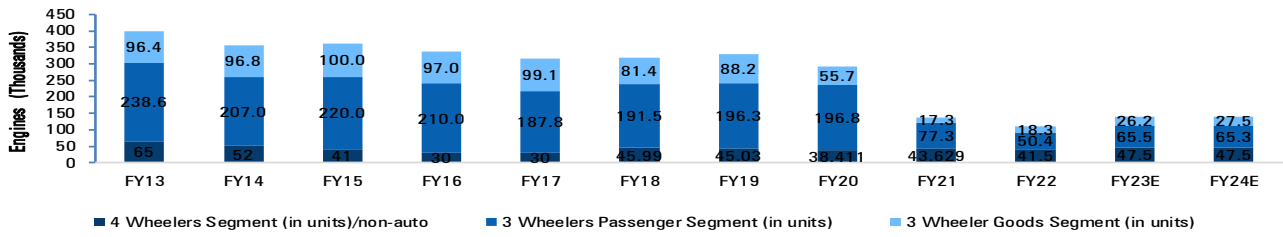
Exhibit 4: Valuations

	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

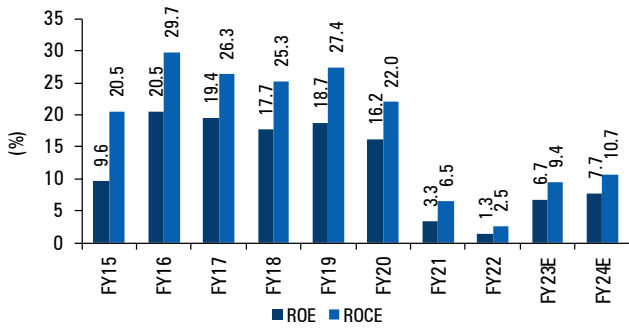
## Financial story in charts

Exhibit 5: Trend in auto engine segment sales



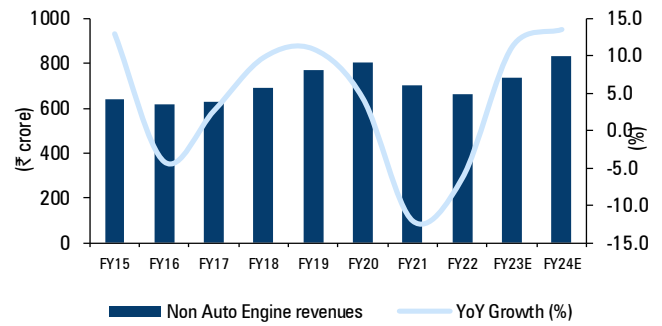
Source: Company, ICICI Direct Research

Exhibit 6: Commands superior return ratios



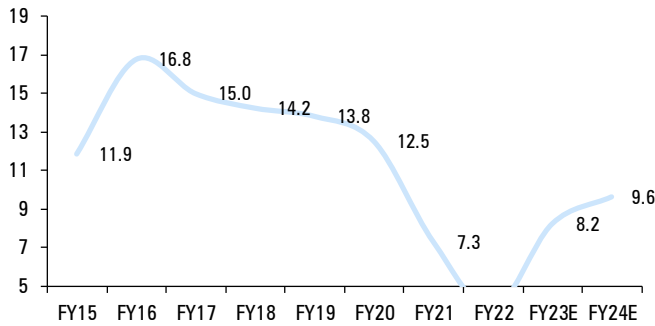
Source: ICICI Direct Research, Company

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)	1,850	2,175	Buy	259592	56.8	65.0	76.7	32.6	28.5	24.1	8.9	10.2	11.6	12.1	12.7	13.6
Siemens Ltd	2,835	3,040	Buy	100960	29.5	36.7	48.5	96.1	77.2	58.4	13.9	15.7	18.6	10.1	11.6	13.7
AIA Engineering (AIAENG)	2,555	3,011	Buy	24099	64.6	79.8	86.0	39.6	32.0	29.7	16.5	17.9	17.1	13.2	14.3	13.6
Thermax (THERMA)	2,111	2,405	Buy	25154	26.2	38.7	53.4	80.5	54.6	39.5	11.3	15.4	18.7	8.9	12.0	14.6
KEC International (KECIN)	391	474	Hold	10053	12.9	15.5	29.6	30.3	25.2	13.2	11.9	13.5	19.3	10.6	10.8	17.6
Greaves Cotton (GREAVE)	172	209	Buy	3977	0.7	3.5	3.6	243.0	48.8	48.1	2.5	9.4	10.7	1.3	6.7	7.7
Elgi Equipment (ELGEQU)	449	390	Buy	14229	5.7	6.6	8.7	78.6	68.1	51.7	18.9	17.8	20.2	18.7	18.5	20.3
Bharat Electronics (BHAELE)	291	315	Buy	70905	9.6	11.3	12.6	30.2	25.8	23.1	26.2	28.5	28.6	19.6	21.3	21.4
Cochin Shipyard (COCSHI)	336	340	Hold	4420	42.9	38.6	42.3	7.8	8.7	7.9	10.9	12.5	12.7	12.7	10.8	11.1
SKF (SKFIND)	4,500	4,920	Buy	22247	77.0	104.8	122.9	58.4	42.9	36.6	26.0	29.8	30.1	20.6	22.7	22.4
Timken India (TIMIND)	3,115	2,810	Buy	23431	43.5	54.8	62.5	103.4	82.1	72.0	25.3	32.3	36.8	19.7	24.9	28.4
NRB Bearing (NRBBEA)	140	220	Buy	1357	7.8	9.2	12.1	20.6	17.3	17.3	15.0	15.3	19.2	12.6	12.6	14.8
Action Construction (ACTCON)	230	230	Buy	2739	9.8	11.5	13.6	23.5	20.0	16.9	22.5	20.9	21.3	15.1	14.5	14.7
Data Patterns (DATPAT)	840	900	Buy	4358	18.1	21.7	28.0	46.4	38.7	30.0	23.8	24.4	26.4	16.4	18.1	19.6
HAL (HINAER)	2,282	2,200	Buy	76308	151.9	123.6	137.4	15.0	18.5	16.6	27.4	29.7	30.5	26.3	22.5	23.2

Source: Company, ICICI Direct Research

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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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