

## Strong trend in EV to resume...

**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)

**Q3FY23 Results:** GCL reported a mixed set of Q3FY23 numbers.

- Standalone revenue came in at ₹ 365.3 crore (vs. I-direct estimate of ₹ 386.4 crore), up 21.5% YoY
- Standalone EBITDA was at ₹ 38.9 crore (vs. I-direct estimate of ₹ 33.6 crore) and ₹ 17.2 crore in Q3FY22. On a consolidated basis, EBITDA came in at ₹ 3 crore (vs. EBITDA of ₹ 14 crore in Q3FY22)
- Consequently, standalone adjusted PAT was at ₹ 27.9 crore (vs. I-direct estimate of ₹ 20.4 crore) up 724.7% YoY
- Engine (auto, non-auto) volumes grew 62% to 26912 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 ₹ 194 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 ~9.8%, 19.2%, respectively, in FY23E-25E

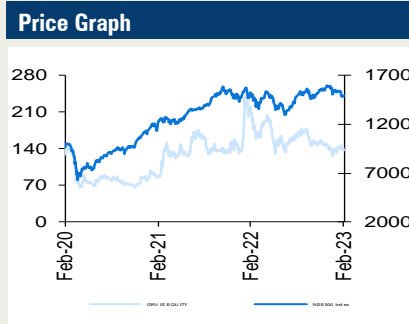
**Alternate Stock Idea:** We also like AIA Engineering in our coverage.

- We expect revenue, EBITDA to grow at a CAGR of ~20.5%, 30.5%, respectively, in FY22-25E aided by sustained margins in range of 22-23%
- BUY with target price of ₹ 3135



Particulars	
Particular	Amount
Market Capitalization	₹3217 Crore
Total Debt (FY22)	₹0 Crore
Cash and Inv. (FY22)	₹244.8 crore
EV	₹2972 Crore
52 week H/L	₹211 / ₹124
Equity capital	₹46.2 Crore
Face value	₹2

Shareholding pattern				
(in %)	Mar-22	Jun-22	Sep-22	Dec-22
Promoti	55.6	55.5	55.5	55.5
FII	3.1	3.5	3.9	4.2
DII	9.5	8.6	7.7	5.2
Others	31.8	32.4	32.8	35.2



### 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)	FY21	FY22	FY23E	5 Year CAGR (FY18-FY23E)	FY24E	FY25E	2 Year CAGR (FY23E-FY25E)
Net Sales	1,329.1	1,177.6	1,524.2	-3.2%	1,689.4	1,838.8	9.8%
EBITDA	96.9	44.7	140.8	-11.2%	170.9	199.9	19.2%
EBITDA Margin (%)	7.3	3.8	9.2		10.1	10.9	
Net Profit	10.4	16.4	110.4	-10.7%	109.5	127.9	7.6%
EPS (₹)	0.4	0.7	4.8		4.7	5.5	
P/E (x)	310.5	196.6	29.1		29.4	25.2	
RoNW (%)	3.3	1.3	9.4		9.7	10.2	
RoCE (%)	6.5	2.5	12.9		13.4	14.0	

## Key takeaways of recent quarter & conference call highlights

### Q3FY23 Results:

- Standalone revenue came in at ₹ 365.3 crore (vs. I-direct estimate of ₹ 386.4 crore) up 21.5% YoY
- Consolidated revenue grew 5.6% YoY to ₹ 513.5 crore. The engine segment revenues came in at ₹ 332 crore, up 23.3% YoY. On the other hand, E-Mobility segment revenue de-grew 21.8% to ₹ 141.5 crore. E-Mobility segment reported EBIT loss of ₹ 28.2 crore vs. loss of ₹ 7.26 crore in the same period last year. In 9MFY23, E-Mobility segment revenue grew 160% to ₹ 741 crore
- Standalone EBITDA came in at ₹ 38.9 crore (vs. I-direct estimate of ₹ 33.6 crore) vs. ₹ 17.2 crore in Q3FY22, with EBITDA margin of 10.7% expansion of 494 bps YoY
- The company reported standalone PAT of ₹ 27.9 crore (vs. I-direct estimate of ₹ 20.4 crore), up 724.7% YoY

### Q3FY23 Earnings Conference Call highlights

- The company announced the acquisition of a majority stake in Excel Controlinkage Pvt Ltd, a leading motion-control systems player. GCL also announced signing of a binding term sheet to acquire 100% stake through multiple tranches in Excel Controlinkage Pvt Ltd. The deal values Excel Controlinkage at 7.5x FY23 normalised EBITDA for the first tranche subject to maximum EV of ₹ 385 crore. Consideration of ₹ 231 crore needed for 60% equity stake in Excel by March 2023. Tranche 1 payment divided in two parts (i) 70% of tranche 1 on closing date (ii) balance 30% after FY23 audited EBITDA and agreed adjustments. Tranche 2 & 3: 10% equity stake each at an EV of 7x FY24 and FY25 audited EBITDA, respectively and Tranche 4: remaining 20% equity stake at an EV of 7x FY26 audited EBITDA. Excel had normalised EBITDA margins of 28%
- This acquisition is highly profitable and margin accretive at a consolidated level for GCL. It will enable GCL to build a complementary product portfolio with common customer segments, grow its international footprint and export revenues, and aid in the growth of the fuel-agnostic powertrain portfolio. As the company strengthens its mobility ecosystem, the latest acquisition also accentuates GCL's strategy of building mechanical to mechatronic to electronic capabilities
- Q3FY23 engine segment volume came in at 26912 units, up 62% YoY. Auto engine volumes grew 125% to 18327 units' YoY while non-auto engine volumes grew marginally by 1% to 8585 units YoY. Diesel 3-W segment has shown YoY & QoQ growth momentum. Rising CNG cost is a contributing factor. Electric mobility accounts for 28% of overall revenue in Q3FY23
- E-mobility segment volumes were impacted because the industry goes from transition of AIS phase-1 and Phase 2 will come into effect on March 31, 2023. E-2W volumes de-grew 33% YoY to 12160 units while E-3-W volume came in at 1980 units, down 46% YoY. Unique presence in EV (E2-W+E3-W) with 85% coverage in last-mile mobility. Primary sales of 14500 in January 2023 has picked. The same strength is expected to continue on the back of good response of the new models launched. Transition cost in phase 1 has been absorbed and is pegged at ₹ 2500-3000 per vehicle. Transition happened successfully for all the products. Till now, ₹ 225 crore subsidy is receivable for FAME

- In Auto-Expo GCL unveiled six of its new electric two and three wheelers. In entry into high margin electric powertrain business it partnered with ETA to bring exclusive technology to the Indian market
- The company aims to achieve EBIDTA margins of early teens over the next two years with medium term focus on scale. At peak utilisation, the current capacity is 250000 units per annum. It will gradually be ramped-up to 1 million units. Peak revenues can be ₹ 2000 crore. Balance sheet continues to be strong with a net cash balance of ₹ 1171 crore. The company wants to achieve profitable growth in this segment with strong focus on improving scale and volumes

#### Exhibit 1: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22	YoY (Chg %)	Q2FY23	QoQ (Chg %)	Comments
Revenue	365.3	386.4	300.5	21.5	374.1	-2.4	E-mobility segment volumes impacted because the industry goes from transition of AIS phase-1
Other Income	8.3	6.0	6.3	32.7	7.5	10.6	
Employee Expenses	27.5	35.9	31.1	-11.6	28.7	-4.2	
Raw Material Expense	253.9	274.4	213.9	18.7	267.8	-5.2	
Other operating Expen	45.0	42.5	38.4	17.0	44.4	1.2	
EBITDA	38.9	33.6	17.2	126.5	33.3	17.0	
EBITDA Margin (%)	10.7	8.7	5.7	494 bps	8.9	176 bps	Margins improved substantially
Depreciation	9.2	11.1	10.4	-10.8	9.5	-3.1	
Interest	0.5	1.3	0.6	-7.3	0.5	0.0	
Exceptional Item	0.7	0.0	0.7	0.0	0.2	223.8	
PBT	36.8	27.3	11.4	222.5	30.5	20.6	
Total Tax	9.5	6.9	3.0	211.9	7.9	19.5	
PAT	27.4	20.4	8.4	226.3	22.6	20.9	
Adj. PAT	27.9	20.4	3.4	724.7	22.8	22.3	
<b>Key Metrics</b>							
<b>Segmental Performance</b>							
Engine Segment	332.1		269.4	23.3	345.0	-3.8	
E-Mobility/ other	33.2		31.1	6.6	29.1	14.0	

Source: Company, ICICI Direct Research

#### Exhibit 2: Change in estimates

(₹C crore)	FY24E			FY25E		
	Old	New	% Change	Old	New	% Change
Revenue	1,689.4	1,689.4	0.0	-	1,838.8	-
EBITDA	162.7	170.9	5.0	-	199.9	-
EBITDA Margin (%)	9.6	10.1	52 bps	-	10.9	-
PAT	82.6	109.5	32.6	-	127.9	-
EPS (₹)	3.6	4.7	31.6	-	5.5	-

Source: Company, ICICI Direct Research

#### Exhibit 3: Assumptions

	Current				Earlier	
	FY22	FY23E	FY24E	FY25E	FY23E	FY24E
3-W Volumes (units)	68,668	91,699	92,846	97,488	91,699	92,846
4-W & Other Volumes (Un	41,500	47,500	47,500	47,500	47,500	47,500
Overall Engine Volumes	1,10,168	1,39,199	1,40,346	1,44,988	1,39,199	1,40,346

Source: Company, ICICI Direct Research

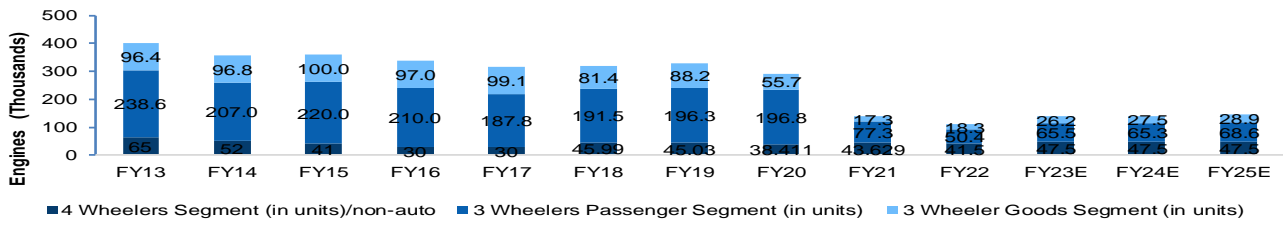
#### Exhibit 4: Valuations

	Basis of Valuation	Multiple	Total Value (₹crore)	Per share value(₹)	Comments
Base Business	P/E	10x	1,279	55	
Ampere (100% Stake), Bestway	P/Sales	3.5	3185	138	
<b>Total</b>			<b>4,464</b>	<b>194</b>	

Source: Company, ICICI Direct Research

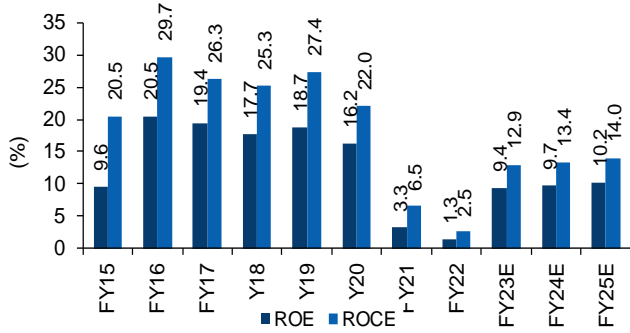
## Financial story in charts

Exhibit 5: Trend in auto engine segment sales



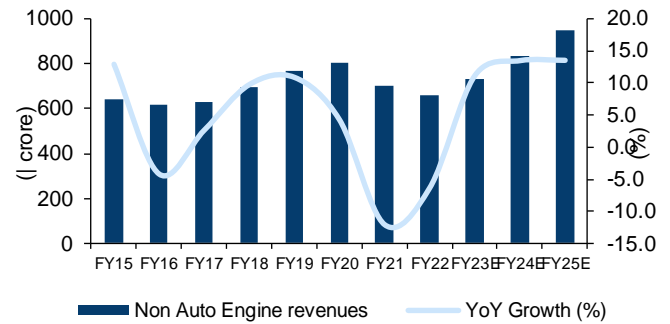
Source: Company, ICICI Direct Research

Exhibit 6: Commands superior return ratios



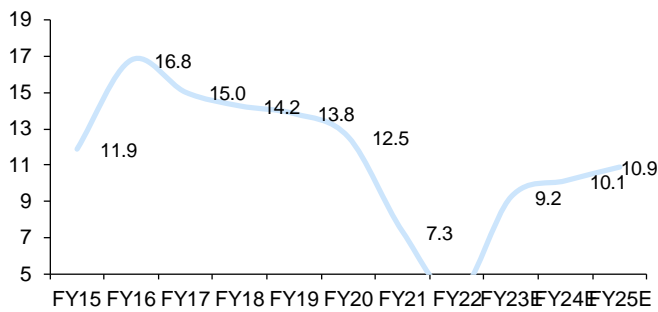
Source: ICICI Direct Research, Company

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)	FY22	FY23E	FY24E	FY25E
<b>Total operating Income</b>	<b>1,177.6</b>	<b>1,524.2</b>	<b>1,689.4</b>	<b>1,838.8</b>
Growth (%)	-11.4	29.4	10.8	8.8
Raw Material Expenses	842.7	1,077.8	1,174.4	1,264.3
Employee Expenses	130.8	122.4	164.5	179.1
Other Operating Expense:	159.3	183.2	179.6	195.5
Administrative Expenses	0.0	0.0	0.0	0.0
Other expenses	0.0	0.0	0.0	0.0
Total Operating Expenditu	0.0	0.0	0.0	0.0
<b>EBITDA</b>	<b>44.7</b>	<b>140.8</b>	<b>170.9</b>	<b>199.9</b>
Growth (%)	451.5	214.7	21.4	17.0
Depreciation	53.1	42.6	50.4	54.9
Interest	2.0	3.0	5.1	5.1
Other Income	31.6	34.6	31.0	31.0
PBT	28.6	148.7	146.3	170.9
Others	0.0	0.0	0.0	0.0
Total Tax	12.2	38.3	36.8	43.0
<b>PAT</b>	<b>16.4</b>	<b>110.4</b>	<b>109.5</b>	<b>127.9</b>
Growth (%)	58.0	574.6	-0.8	16.8
EPS (₹)	0.7	4.8	4.7	5.5

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY21	FY24E	FY25E
Profit after Tax	16.4	110.4	109.5	127.9
Add: Depreciation	53.1	42.6	50.4	54.9
(Inc)/dec in Current Assets	67.2	-77.4	-44.8	-40.5
Inc/(dec) in C.L and Provision	-107.1	52.7	37.4	33.8
Others	0.0	0.0	0.0	0.0
<b>CF from operating act</b>	<b>31.5</b>	<b>131.2</b>	<b>157.7</b>	<b>181.2</b>
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-3.2	-65.0	39.6	-72.0
Others	0.0	0.0	0.0	0.0
<b>CF from investing act</b>	<b>45.2</b>	<b>-73.6</b>	<b>28.3</b>	<b>-82.5</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	2.0	2.0	2.0	2.0
Dividend paid & dividend ta	-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>-2.4</b>	<b>-7.6</b>	<b>-9.7</b>	<b>-9.7</b>
Net Cash flow	74.3	50.1	176.2	89.0
Opening Cash	170.5	244.8	294.9	471.1
<b>Closing Cash</b>	<b>244.8</b>	<b>294.9</b>	<b>471.1</b>	<b>560.1</b>

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet				
	₹ crore			
(Year-end March)	FY22	FY22E	FY24E	FY25E
<b>Liabilities</b>				
Equity Capital	46.2	46.2	46.2	46.2
Reserve and Surplus	870.6	976.4	1,081.3	1,204.5
Total Shareholders funds	916.9	1,022.6	1,127.5	1,250.7
Total Debt	0.0	0.0	0.0	0.0
Deferred Tax Liability	2.0	4.0	6.0	8.0
Minority Interest/ Others	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>950.1</b>	<b>1,062.9</b>	<b>1,174.7</b>	<b>1,305.0</b>
<b>Assets</b>				
Gross Block	573.7	635.7	614.2	686.2
Less: Acc Depreciation	297.6	340.2	390.6	445.5
Net Block	276.2	295.6	223.6	240.7
Capital WIP	0.0	0.0	0.0	0.0
Total Fixed Assets	291.2	313.6	223.6	240.7
Investments	281.9	291.9	301.9	311.9
Inventory	129.0	139.9	155.1	168.8
Debtors	167.8	204.6	226.8	246.8
Loans and Advances	0.0	0.0	0.0	0.0
Other Current Assets	20.2	23.4	26.0	28.3
Cash	244.8	294.9	471.1	560.1
Total Current Assets	580.5	708.0	929.0	1,058.5
Creditors	219.4	254.7	282.3	307.3
Provisions	20.2	23.4	26.0	28.3
Total Current Liabilities	292.6	345.2	382.6	416.5
Net Current Assets	287.9	362.8	546.4	642.0
Others Assets	0.0	0.0	0.0	0.0
<b>Total Assets</b>	<b>950.1</b>	<b>1,062.9</b>	<b>1,174.7</b>	<b>1,305.0</b>

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	₹ crore			
(Year-end March)	FY22	FY22	FY24E	FY25E
<b>Per share data (₹)</b>				
EPS	0.7	4.8	4.7	5.5
Cash EPS	3.0	6.6	6.9	7.9
BV	39.7	44.2	48.8	54.1
DPS	0.0	0.2	0.2	0.2
Cash Per Share	10.6	12.8	20.4	24.2
<b>Operating Ratios (%)</b>				
EBITDA Margin	3.8	9.2	10.1	10.9
PBT / Total Operating incom	1.4	7.2	6.5	7.0
PAT Margin	1.4	7.2	6.5	7.0
Inventory days	40.0	33.5	33.5	33.5
Debtor days	52.0	49.0	49.0	49.0
Creditor days	68.0	61.0	61.0	61.0
<b>Return Ratios (%)</b>				
RoE	3.3	1.3	9.4	9.7
RoCE	6.5	2.5	12.9	13.4
RoIC	8.8	-1.4	15.0	20.1
<b>Valuation Ratios (x)</b>				
P/E	310.5	196.6	29.1	29.4
EV / EBITDA	31.4	66.5	20.8	16.1
EV / Net Sales	2.3	2.5	1.9	1.6
Market Cap / Sales	2.4	2.7	2.1	1.9
Price to Book Value	3.6	3.5	3.1	2.9
<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		Rating	M Cap		EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP (₹)		(₹cr)	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	
L&T (LARTOU)	2,164	2,795	Buy	303631	59.8	74.5	90.1	36.2	29.1	24.0	8.7	10.7	12.1	11.8	13.4	14.6	
Siemens Ltd	3,131	3,630	Buy	111492	35.4	46.4	53.8	88.4	67.5	58.2	15.6	18.2	19.1	11.3	13.4	14.0	
AIA Engineering (AIAENG)	2,788	3,230	Buy	26292	107.3	97.9	107.0	26.0	28.5	26.0	23.5	18.6	18.2	18.5	14.9	14.3	
Thermax (THERMA)	2,130	2,536	Hold	25375	36.5	51.7	61.0	58.3	41.2	34.9	14.6	18.3	18.7	11.4	14.3	14.4	
KEC International (KECIN)	477	545	Buy	12259	6.6	24.4	36.3	72.2	19.6	13.1	9.6	18.4	21.8	4.9	15.6	19.4	
Greaves Cotton (GREAVE)	139	194	Buy	3217	4.8	4.7	5.5	29.1	29.4	25.2	12.9	13.4	14.0	9.4	9.7	10.2	
Elgi Equipment (ELGEQU)	443	500	Buy	14030	7.5	10.2	11.9	59.3	43.3	37.3	21.2	25.9	24.8	20.4	22.6	21.3	
Bharat Electronics (BHAELE)	96	135	Buy	70357	3.2	3.8	4.5	30.1	25.3	21.4	26.1	28.4	30.0	19.5	21.2	22.4	
Cochin Shipyard (COCSHI)	479	745	Buy	6296	42.9	38.6	42.8	11.2	12.4	11.2	10.9	10.5	10.6	12.7	11.0	11.3	
SKF (SKFIND)	4,367	5,215	Buy	21591	77.0	108.7	130.3	56.7	40.2	33.5	26.0	30.7	31.3	20.6	23.3	23.4	
Timken India (TIMIND)	3,018	3,560	Buy	22704	43.5	61.3	71.2	69.4	49.2	42.4	25.3	36.2	42.0	19.7	27.9	32.2	
NRB Bearing (NRBBEA)	148	220	Buy	1430	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)	370	385	Buy	4405	8.8	15.1	19.2	42.0	24.5	19.3	23.0	25.6	26.7	13.9	18.3	18.9	
Data Patterns (DATPAT)	1423	1,555	Buy	7383	18.1	22.0	30.4	78.6	64.7	46.9	23.8	24.9	28.4	16.4	18.2	21.0	
HAL (HINAEER)	2,403	3,300	Buy	80352	151.9	132.7	145.0	15.8	18.1	16.6	27.4	30.5	30.1	26.3	23.1	22.8	
ABB (ABB)	3,166	3,275	Buy	67097	25.5	40.5	37.2	124.3	78.2	85.0	45.0	49.2	57.3	11.2	12.9	15.1	
Ador Welding (ADOWEL)	850	1,054	Buy	1156	33.2	34.2	49.3	25.6	24.8	17.2	19.9	21.6	26.7	13.6	15.8	19.6	
Bharat Dynamics (BHADYN)	833	1,200	Buy	15260	27.3	33.0	42.7	30.5	25.3	19.5	24.6	24.7	27.9	17.3	17.7	20.0	
Mazagon Dock (MAZDOC)	723	1,025	Hold	14580	30.3	39.8	46.6	23.9	18.2	15.5	20.0	22.9	23.5	16.1	18.2	18.5	
Solar Industries India (SOLIN)	3,788	4,700	Buy	34276	48.8	76.6	99.7	77.7	49.5	38.0	22.5	32.5	34.6	23.9	29.0	28.8	
Anup Engineering (THEANU)	1,140	1,080	Buy	1129	62.7	49.5	72.3	18.2	23.0	15.8	15.3	16.6	19.4	12.2	12.5	14.5	
Control Prints (CONTROLPR)	471	555	Buy	769	24.7	28.7	34.6	19.1	16.4	13.6	17.9	21.4	23.4	13.8	15.4	16.3	
KSB Ltd. (KSBPUM)	1,853	2,180	Buy	6447	43.7	50.0	62.2	42.4	37.1	29.8	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%

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