

E-mobility business continues growth momentum

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.

- Greaves Engineering business contributes to ~38% while Greaves Retail contributes to ~20% in FY23
- E-mobility is expected to drive future growth (~42% of FY23 revenue)

Q4FY23 Results: GCL reported a strong set of Q4FY23 numbers.

- Standalone revenue came in at ₹ 436.8 crore (vs. I-direct estimate of ₹ 411.2 crore), up 15.3% YoY
- Standalone EBITDA was at ₹ 51.8 crore (vs. I-direct estimate of ₹ 44.8 crore) and ₹ 29.1 crore in Q4FY22. On a consolidated basis, EBITDA came in at ₹ 49 crore (vs. EBITDA of ₹ 41 crore in Q4FY22)
- Consequently, standalone adjusted PAT was at ₹ 29.5 crore (vs. I-direct estimate of ₹ 29.4 crore) up 75.1% YoY
- Engine (auto, non-auto) volumes grew 32% YoY to 33,726 units

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 ₹ 215 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 ~8.9%, 14.9%, 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



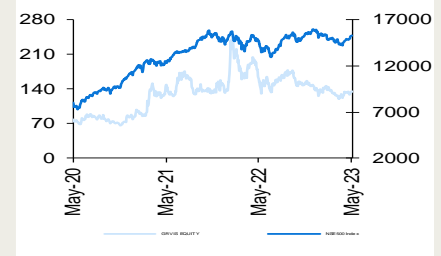
Particulars

Particular	Amount
Market Capitalization	₹3584 Crore
Total Debt (FY23)	₹0 Crore
Cash and Inv. (FY23)	₹546.2 crore
EV	₹3037 Crore
52 week H/L	₹185 / ₹118
Equity capital	₹46.2 Crore
Face value	₹2

Shareholding pattern

(in %)	Jun-22	Sep-22	Dec-22	Mar-23
Promoti	55.5	55.5	55.5	55.7
FII	3.5	3.9	4.2	4.5
DII	8.6	7.7	5.2	4.3
Others	32.4	32.8	35.2	35.5

Price Graph



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	FY23	5 Year CAGR (FY18-FY23E)	FY24E	FY25E	2 Year CAGR (FY23E-FY25E)
Net Sales	1,329.1	1,177.6	1,549.8	-2.9%	1,689.4	1,838.8	8.9%
EBITDA	96.9	44.7	151.4	-9.9%	170.9	199.9	14.9%
EBITDA Margin (%)	7.3	3.8	9.8		10.1	10.9	
Net Profit	10.4	27.1	115.1	-8.3%	121.6	141.9	11.0%
EPS (₹)	0.4	1.2	5.0		5.3	6.1	
P/E (x)	345.9	132.4	31.1		29.5	25.3	
RoNW (%)	3.3	2.4	10.8		10.9	11.4	
RoCE (%)	6.5	3.7	15.3		14.6	15.4	

Key takeaways of recent quarter & conference call highlights

Q4FY23 Results:

- Standalone revenue came in at ₹ 436.8 crore (vs. I-direct estimate of ₹ 411.2 crore), up 15.3% YoY. For FY23, revenues came in at ₹ 1,549.7 crore, up 31.6% on a YoY basis
- Consolidated revenue grew 33.2% YoY to ₹ 826.9 crore & for FY23 it came at ₹ 2699.4 crore, up 57.9% YoY. The engine segment revenues came in at ₹ 400.9 crore, up 15% YoY. On the other hand, E-Mobility segment revenue was up 61.6% to ₹ 383.3 crore with a volume of 39,000 units. For FY23, E-Mobility segment reported revenues of ₹ 1124.3 crore, which grew strongly by 115.3% on a YoY basis. In Q4FY23, E-Mobility segment reported EBIT of ₹ 5.7 crore vs. ₹ 7 crore in the same period last year. For FY23, E-Mobility segment reported EBIT of ₹ 78 lakh vs. EBIT loss of ₹ 34.45 crore
- It reported standalone EBITDA of ₹ 51.8 crore (vs. I-direct estimate of ₹ 44.8 crore) vs. ₹ 29.1 crore in Q4FY22, with EBITDA margin of 11.9% expansion of 417 bps YoY. For FY23, it reported EBITDA of ₹ 151.4 crore, up 238.7%
- Standalone PAT came in at ₹ 29.5 crore (vs. I-direct estimate of ₹ 29.4 crore) up 75.1% YoY. For FY23, PAT was at ₹ 115.1 crore, up 325.2% YoY

Q4FY23 Earnings Conference Call highlights

- In Q4FY23, E-2W volumes were up 66% YoY to 36,890 units, while for FY23 it crossed the 1 lakh mark and came in at 1,08,710 units, up 110% YoY. While E-3-W volume came in at 2,064 units, de-growing 25% YoY, and for FY23 it came at 6,904 units which de-grew 33%. Q4FY23 engineering segment (does not include power genset & farm equipment) volume came in at 33,726 units, up 32% YoY, and for FY23 it came at 1,12,630 units and grew 40%. Auto engine volumes grew 34% to 20,147 units YoY, while for FY23 it came in at 70,793 units, up 71% while non-auto engine volumes were up 31% YoY to 13,579 units, and for FY23 41,837 were up 6% YoY
- Investment in e-Mobility segment being utilised for new products, associated technologies, brand building, working capital and to enhance manufacturing capacity in e2-W/e3-W. The diversification strategy is contributing equally to revenues and in FY23 E-Mobility contributes about 42% to the overall revenue, 38% from Greaves Engineering and 20% comes from Greaves Retail
- E-Mobility margins were impacted as the company has filled key positions plus overall head count has reach more than 500. Hence, this led to the employee cost being higher. In terms of gross margin, some changes that have been done in AIS-156 related compliances that price has not been fully passed on to consumers (though the company took price hike of ~₹ 4,000 in December). This impacted margin, gross margins marginally but mainly it's the fixed overheads that have been built for a much higher scale, going forward
- Greaves Cotton completed the acquisition of a 60% equity stake in Nagpur-based Excel Controlinkage. It is one of the most profitable companies engaged in manufacturing push pull cables, motion sensors and controls. Excel's consolidated revenue for Q4FY23 would have been close to ₹ 880 crore, which is an annual run rate of close to ₹ 3500 crore and came back to double digit. The company expects the industry to continue to remain in a strong position
- Greaves Cotton's extensive pan India dealer network across Tier 1 to Tier 4 markets has played a pivotal role in its exponential growth in the electric vehicle segment. The company recently doubled its network for E2-W and

Greaves Cott - ESG Disclosure Score*

Score	FY20	FY21	FY22
Environmental	1.3	1.3	1.6
Social	13.7	22.0	22.0
Governance	78.6	78.6	78.6
Overall ESG Score	31.2	34.0	34.1

Source: Bloomberg, ICICI Direct Research, *Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures

E3-W. For Greaves Retail, it has 150 stores for auto EV brands and for spare parts. It has engaged ~20,000 mechanics for the same. Greaves care has 170 centres. In total, Greaves Cotton has 8,000+ network on a pan-India basis

- As on Q4FY23, Greaves had consolidated net cash of ₹ 1142 crore, which can be used for further expansion, going forward. Also, ₹ 350 crore subsidy is yet to be received from FAME subsidy. The company believes that margins are going to be accretive in the overall portfolio. As the company moves up the value ladder, a customer is ready to pay more premium for the same and is confident that they could be reasonably strong at double-digits in coming quarters

Exhibit 1: Variance Analysis

	Q4FY23	Q4FY23E	Q4FY22	YoY (Chg %)	Q3FY23	QoQ (Chg %)	Comments
Revenue	436.8	411.2	378.7	15.3	365.3	19.6	Strong contribution of new businesses in driving revenue growth
Other Income	15.0	9.0	13.3	12.6	8.3	80.0	
Employee Expenses	29.8	29.2	30.3	-1.4	27.5	8.6	
Raw Material Expenses	305.5	287.8	274.0	11.5	253.9	20.3	
Other operating Expense	49.7	49.3	45.3	9.7	45.0	10.5	
EBITDA	51.8	44.8	29.1	78.0	38.9	33.0	
EBITDA Margin (%)	11.9	10.9	7.7	417 bps	10.7	120 bps	Margins came to double digit and expanded annually as well as sequentially
Depreciation	9.2	13.7	10.3	-10.7	9.2	-0.7	
Interest	0.5	0.5	0.6	-12.7	0.5	-5.9	
Exceptional Item	12.0	0.0	0.7	1,661.8	0.7	1,661.8	
PBT	45.1	39.6	25.3	78.1	36.8	22.5	
Total Tax	15.7	10.3	8.5	84.1	9.5	65.8	
PAT	29.5	29.4	16.8	75.1	27.4	7.6	
Adj. PAT	37.3	29.4	3.4	1,002.2	27.9	33.7	

Key Metrics

Segmental Performance

Engine Segment	401.0		349.1	14.9	332.1	20.7
E-Mobility/ other	35.8		29.6	20.9	33.2	7.9

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ crore)	FY24E			FY25E		
	Old	New	% Change	Old	New	% Change
Revenue	1,689.4	1,689.4	0.0	1,838.8	1,838.8	0.0
EBITDA	170.9	170.9	0.0	199.9	199.9	0.0
EBITDA Margin (%)	10.1	10.1	2 bps	10.9	10.9	-3 bps
PAT	109.5	121.6	11.1	127.9	141.9	10.9
EPS (₹)	4.7	5.3	11.9	5.5	6.1	11.6

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current			Earlier		
	FY22	FY23	FY24E	FY25E	FY24E	FY25E
3-W Volumes (units)	68,668	91,699	92,846	97,488	92,846	97,488
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	1,40,346	1,44,988

Source: Company, ICICI Direct Research

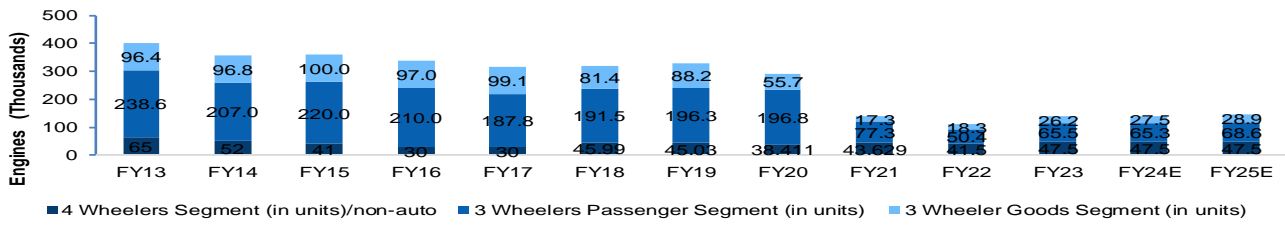
Exhibit 4: Valuations

	Basis of Valuation	Multiple	Total Value (₹ crore)	Per share value (₹)	Comments
Base Business	P/E	10x	1,419	61	
Ampere (100% Stake), Bestway	P/Sales	3.0	3540	153	
Total			4,959	214	

Source: Company, ICICI Direct Research

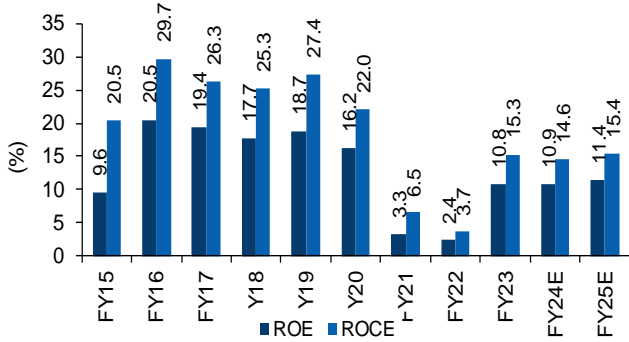
Financial story in charts

Exhibit 5: Trend in auto engine segment sales



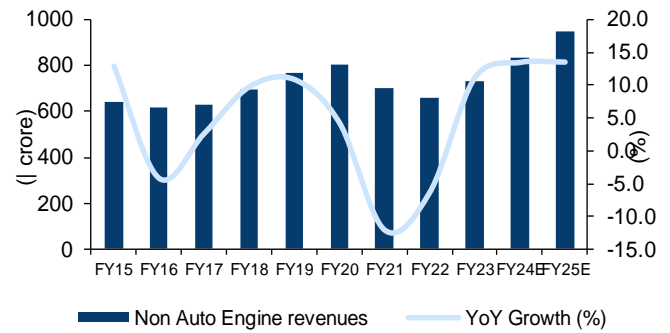
Source: Company, ICICI Direct Research

Exhibit 6: Commands superior return ratios



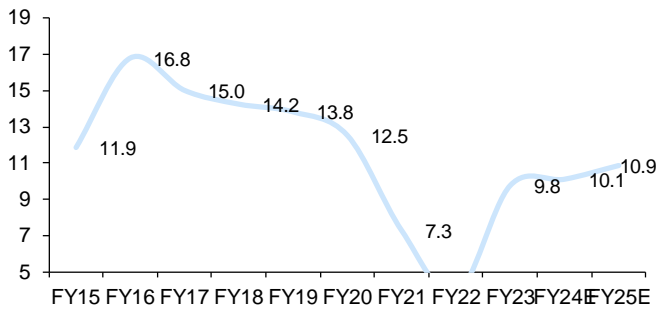
Source: ICICI Direct Research, Company

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	FY23	FY24E	FY25E
Total operating Income	1,177.6	1,549.8	1,689.4	1,838.8
Growth (%)	-11.4	31.6	9.0	8.8
Raw Material Expenses	842.7	1,099.5	1,174.4	1,264.3
Employee Expenses	130.8	115.2	164.5	179.1
Other Operating Expense:	159.3	183.6	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 Expenditure	0.0	0.0	0.0	0.0
EBITDA	44.7	151.4	170.9	199.9
Growth (%)	451.5	238.5	12.9	17.0
Depreciation	42.4	38.1	41.4	46.2
Interest	2.0	2.1	2.0	2.0
Other Income	31.6	42.5	35.0	38.0
PBT	39.3	160.7	162.5	189.6
Others	0.0	0.0	0.0	0.0
Total Tax	12.2	45.6	40.9	47.7
PAT	27.1	115.1	121.6	141.9
Growth (%)	161.3	325.2	5.7	16.7
EPS (₹)	1.2	5.0	5.3	6.1

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Profit after Tax	27.1	115.1	121.6	141.9
Add: Depreciation	42.4	38.1	41.4	46.2
(Inc)/dec in Current Assets	44.8	3.6	-223.7	-51.1
Inc/(dec) in CL and Provision	19.8	10.7	48.5	42.3
Others	0.0	0.0	0.0	0.0
CF from operating act	136.1	169.6	-10.3	181.3
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	111.8	-61.7	3.0	-72.0
Others	0.0	0.0	0.0	0.0
CF from investing act	247.2	-597.9	534.1	-82.5
Issue/(Buy back) of Equity	0.1	0.0	0.0	0.0
Inc/(dec) in loan funds	0.0	0.0	4.0	2.0
Dividend paid & dividend ta	-6.6	-20.8	-20.8	-23.1
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	0.0	7.6	0.0	0.0
CF from financing act	-7.6	-19.7	-22.8	-25.1
Net Cash flow	375.7	-448.0	500.9	73.8
Opening Cash	170.5	546.2	98.2	599.2
Closing Cash	546.2	98.2	599.2	672.9

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet				
	₹ crore			
(Year-end March)	FY22	FY22E	FY24E	FY25E
Liabilities				
Equity Capital	46.3	46.3	46.3	46.3
Reserve and Surplus	876.1	973.6	1,074.4	1,193.2
Total Shareholders funds	922.4	1,019.9	1,120.7	1,239.5
Total Debt	0.0	0.0	0.0	0.0
Deferred Tax Liability	0.0	0.0	4.0	6.0
Minority Interest/ Others	0.0	0.0	0.0	0.0
Total Liabilities	954.4	1,049.7	1,166.7	1,292.4
Assets				
Gross Block	454.7	516.7	531.7	603.7
Less: Acc Depreciation	290.6	324.1	365.5	411.7
Net Block	164.1	192.6	166.2	192.0
Capital WIP	0.0	0.0	0.0	0.0
Total Fixed Assets	186.9	210.6	166.2	192.0
Investments	176.8	210.4	196.8	206.8
Inventory	139.7	154.0	155.1	168.8
Debtors	177.7	159.9	347.1	377.8
Loans and Advances	0.0	0.0	0.0	0.0
Other Current Assets	25.3	30.9	34.1	37.1
Cash	546.2	98.2	599.2	672.9
Total Current Assets	904.2	452.7	1,177.4	1,302.3
Creditors	239.2	244.1	370.3	403.0
Provisions	25.3	30.9	34.1	37.1
Total Current Liabilities	419.5	430.2	478.7	521.0
Net Current Assets	484.7	22.5	698.7	781.3
Others Assets	0.0	0.0	0.0	0.0
Total Assets	954.4	1,049.7	1,166.7	1,292.4

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	₹ crore			
(Year-end March)	FY22	FY22	FY24E	FY25E
Per share data (₹)				
EPS	1.2	5.0	5.3	6.1
Cash EPS	3.0	6.6	7.0	8.1
BV	39.9	44.1	48.5	53.6
DPS	0.0	0.2	0.9	0.9
Cash Per Share	23.6	4.2	25.9	29.1
Operating Ratios (%)				
EBITDA Margin	3.8	9.8	10.1	10.9
PBT / Total Operating incom	2.3	7.4	7.2	7.7
PAT Margin	2.3	7.4	7.2	7.7
Inventory days	42.5	0.0	33.5	33.5
Debtor days	55.1	37.7	75.0	75.0
Creditor days	74.1	57.5	80.0	80.0
Return Ratios (%)				
RoE	3.3	2.4	10.8	10.9
RoCE	6.5	3.7	15.3	14.6
RoIC	8.8	0.8	34.6	28.0
Valuation Ratios (x)				
P/E	346.2	132.5	31.2	29.5
EV / EBITDA	35.2	68.0	23.0	17.5
EV / Net Sales	2.6	2.6	2.3	1.8
Market Cap / Sales	2.7	3.0	2.3	2.1
Price to Book Value	4.0	3.9	3.5	3.2
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt/Equity	0.0	0.0	0.0	0.0
Current Ratio	1.0	0.9	0.8	1.2
Quick Ratio	0.6	0.5	0.5	0.9

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)	2,235	2,650	Buy	313622	56.1	71.5	87.2	39.8	31.2	25.6	8.7	10.5	11.8	11.1	13.0	14.3		
AIA Engineering (AIAENG)	2,769	3,251	Buy	26117	114.0	98.5	107.7	24.3	28.1	25.7	24.7	18.5	18.1	19.4	14.8	14.2		
Thermax (THERMA)	2,424	2,372	Hold	28888	36.9	50.8	59.3	65.7	47.7	40.9	14.7	18.0	18.3	11.5	14.1	14.1		
KEC International (KECIN)	529	611	Buy	13606	4.8	18.7	35.9	109.8	28.3	14.7	9.6	17.1	22.9	3.5	12.6	20.0		
Greaves Cotton (GREAVE)	155	214	Buy	3574	5.0	5.3	6.1	31.1	29.4	25.2	15.3	14.6	15.4	10.8	10.9	11.4		
Elgi Equipment (ELGEQU)	474	500	Buy	15007	7.5	10.2	11.9	63.5	46.3	39.9	21.2	25.9	24.8	20.4	22.6	21.3		
Bharat Electronics (BHAELE)	108	130	Buy	78982	3.2	3.7	4.5	33.6	29.2	24.1	43.2	42.6	43.4	32.1	31.7	32.3		
Cochin Shipyard (COCSHI)	562	620	Buy	7386	42.5	39.6	41.1	13.2	14.2	13.7	11.4	10.8	10.4	12.7	11.1	10.9		
SKF (SKFIND)	4,355	5,215	Buy	21530	79.9	109.2	130.3	54.5	39.9	33.4	27.6	30.7	31.3	21.0	23.3	23.4		
Timken India (TIMIND)	3,200	3,560	Buy	24069	43.5	51.1	58.0	73.6	62.6	55.2	25.3	24.7	23.6	19.7	19.1	20.8		
NRB Bearing (NRBBEA)	152	220	Buy	1475	7.8	9.4	12.1	19.5	16.2	12.6	15.0	15.3	19.2	12.6	12.6	14.8		
Action Construction (ACTCON)	462	435	Buy	5504	8.8	15.4	20.1	52.5	30.0	23.0	23.0	29.8	29.7	13.9	18.6	19.6		
Data Patterns (DATPAT)	1570	1,670	Buy	8146	18.1	22.0	30.4	86.7	71.4	51.7	23.8	24.9	28.4	16.4	18.2	21.0		
HAL (HINAER)	3100	3,300	Buy	103656	151.9	177.4	143.9	20.4	17.5	21.5	27.4	32.8	28.0	26.3	28.6	21.2		
ABB (ABB)	3912	3,830	Hold	82900	26.3	48.4	44.7	148.9	80.8	87.6	46.6	57.8	49.9	11.6	15.6	16.2		
Ador Welding (ADOWEL)	1152	1,054	Buy	1567	33.2	34.2	49.3	34.7	33.7	23.4	19.9	21.6	26.7	13.6	15.8	19.6		
Bharat Dynamics (BHADYN)	1033	1,215	Buy	18940	26.8	18.8	40.4	38.5	54.9	25.6	24.7	15.5	28.7	17.0	11.0	20.6		
Mazagon Dock (MAZDOC)	823	745	Hold	16597	30.3	49.7	46.6	27.2	16.6	17.7	20.0	27.7	22.6	16.1	21.7	17.8		
Solar Industries India (SOLIN)	3768	4,700	Buy	34097	48.8	83.7	97.3	77.3	45.0	38.7	21.7	29.1	30.5	23.1	29.0	27.8		
Anup Engineering (THEANU)	1265	1,080	Buy	1252	62.7	49.5	72.3	20.2	25.6	17.5	15.3	16.6	19.4	12.2	12.5	14.4		
Control Prints (CONTROLPR)	610	690	Buy	996	24.7	32.4	39.2	24.7	18.8	15.5	21.7	26.8	28.4	14.6	17.9	17.8		
KSB Ltd. (KSBPUM)	2157	2,390	Buy	7507	42.9	52.5	66.3	50.3	41.1	32.5	16.4	17.6	19.8	14.8	16.0	17.6		
Garden Reach (GARREA)	526	520	Hold	6026	16.5	19.7	33.4	31.8	26.7	15.8	21.1	22.5	33.8	15.5	16.7	24.9		

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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