

## Uncertainty looms over FAME II violations...

**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

**Event:** The Ministry of Heavy Industries has proposed to deregister the company from FAME II as it failed to adhere to PMP guidelines and asked to deposit all the incentives claimed (~₹ 124 crore along with interest) under the said scheme.

The central government in its second round of investigation into the alleged violation of Phased Manufacturing Programme (PMP) guidelines under the Faster Adoption and Manufacturing of Electric Vehicles in India (FAME-II) scheme has found four more original equipment manufacturers (OEM) not conforming to the norms. The Automotive Research Association of India (ARAI) has found Greaves Electric Mobility (GEMPL) allegedly violating the localisation norms. ARAI, a statutory body under the Ministry of Heavy Industry (MHI), is handling the probe into the allegations of EV makers flouting the local equipment usage norms. The Ministry of Heavy Industries said it has proposed to **deregister** the company from FAME II as it failed to adhere to PMP guidelines. Also, the Ministry of Heavy Industries has directed GEMPL to deposit all the incentives claimed (~₹ 124 crore along with interest) under the said scheme to the MHI subject to submission of necessary representation. Also, the company is yet to receive ~₹ 350 crore from the FAME II subsidy.

### Our View

This will negatively impact Greaves Cotton. In FY23, Greaves Cotton's E-Mobility segment reported revenues of ₹ 1124.3 crore, which grew 115.3% on a YoY basis. EBIT was ₹ 78 lakh vs. EBIT loss of ₹ 34.45 crore.

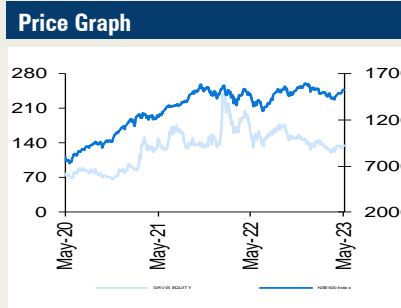
In the medium term it is important to look at whether the company manages to register again for FAME II subsidy and reclaim the amount.

In Q4FY23, the company had a cash balance of ₹ 1142 crore. However, with the government asking it to deposit all incentives claimed (~₹ 124 crore along with interest) under the said scheme plus the company yet to receive ~₹ 350 crore from the FAME II subsidy, that will negatively impact the working capital as well as the sales of EV and it may lose its market share. We remain cautious with a negative bias till we get the more clarity on the issue. Hence, we downgrade the stock from BUY to **UNRATED** till further clarity emerges on the issue.



Particulars	
Particular	Amount
Market Capitalization	₹3114 Crore
Total Debt (FY23)	₹0 Crore
Cash and Inv. (FY23)	₹546.2 crore
EV	₹2568 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	



### 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)	FY18	FY19	FY20	FY21	FY22	FY23	5 Year CAGR (FY18-FY23)
Net Sales	1,792.1	1,987.9	1,821.1	1,329.1	1,177.6	1,549.8	-2.9%
EBITDA	255.3	274.7	228.1	96.9	44.7	151.4	-9.9%
EBITDA Margin (%)	14.2	13.8	12.5	7.3	3.8	9.8	
Net Profit	202.6	169.3	147.5	10.4	27.1	115.1	-10.7%
EPS (₹)	8.3	7.3	6.4	0.4	1.2	5.0	
P/E (x)	16.2	18.4	21.1	300.6	115.0	27.1	
RoNW (%)	17.7	18.7	16.2	3.3	2.4	10.8	
RoCE (%)	25.3	27.4	22.0	6.5	3.7	15.3	

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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