

Auto lags, non-mobility picks up...

Greaves Cotton's (GCL) standalone revenues came in at ₹ 457 crore, up 27.1% YoY, 4.6% QoQ. Consolidated revenue grew 35% YoY, 5.2% QoQ led by strong growth in the EV segment. Engine segment revenues came in at ₹ 425 crore, up 28% YoY, 3% QoQ. On the other hand, E-Mobility segment revenue grew 100% YoY, 19.5% QoQ to ₹ 69.09 crore. Standalone EBITDA increased 54.9% YoY to ₹ 47.3 crore and fell 12% QoQ. Standalone EBITDA margins improved 186 bps YoY to 10.4% whereas the same fell 196 bps on a QoQ basis. On a consolidated basis, EBITDA came in at ₹ 41.59 crore, up 76% YoY, down 15% QoQ. Consolidated EBITDA declined sequentially due to EBIT loss of ₹ 11.2 crore (exceptional item of ₹ 4.2 crore) in the EV segment. Adjusted PAT came in at ₹ 23.6 crore, up 71% YoY.

Auto volumes continue to struggle...

Q4FY21 engine segment volume came in at 43338 units vs. 46784 units in Q4FY20, down 7% YoY. A 22% fall in auto engine volume was supported by a 56% rise in non-auto engines volume. Auto engine segment was largely marred by a decline in passenger 3-W volumes. In turn, this was affected by social distancing norms and rise in personal mobility. However, the goods carrier portion on the 3-W side still remained buoyant. Non-auto engine reported strong growth led by shift from manual labour to mechanised labour in sectors like agriculture, construction, etc, coupled with lower cost Chinese products getting replaced by high quality Indian products. On non-auto side, power genset volumes grew 49% YoY to 1100 units whereas the light equipment business (pumpset, power tiller, other) volumes grew 30% YoY to 15557 units. Overall new business initiatives contributed ~30% to revenue in Q4FY21.

E-Mobility –Future ahead...

E-mobility segment registered 69% jump in volumes from 5947 units to 10075 units. Going ahead, we believe the momentum will continue with high speed segment in E-2W and E-Ricks contributing a larger share in the growth plan. The management has shared a ₹ 700 crore capex plan for 10 years (capex + working capital) on a proportionate basis. Further, the company is continuously working on increasing localisation with the only major import being lithium ion cells. Going ahead, increasing dealer network, Ampere Vehicle Finance along with continuous innovation and product improvement should propel future growth in e-mobility segment.

Valuation & Outlook

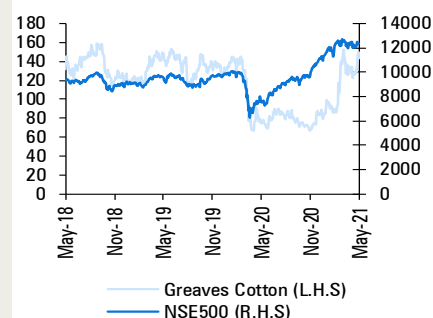
While new business segments look promising, the traditional engine segment continues to remain sluggish. We value GCL's base business at 18x FY23E EPS and Ampere at 2x FY23E Sales. We have a **BUY** rating (earlier HOLD) on the stock with a revised target price of ₹ 160 (earlier ₹ 90).



Particulars

Particular	Amount
Market Capitalization	₹ 3195 Crore
Total Debt (FY21)	₹ 0 Crore
Cash and Inv. (FY20)	₹ 168 Crore
EV	₹ 3048 Crore
52 week H/L	₹ 158 / ₹ 66
Equity capital	₹ 46.2 Crore
Face value	₹ 2

Price Performance



Key risk to our call

- Inability to sustain growth in EV-Mobility segment
- Sustained slowdown in auto engine sales, adverse raw material prices and headwinds in new initiatives may impact growth and profitability

Research Analyst

Chirag Shah
shah.chirag@icicisecurities.com

Amit Anwani
amit.anwani@icicisecurities.com

Key Financial Summary

Particulars (₹ crore)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-FY23E)
Net Sales	1,987.9	1,821.1	1,329.1	1,792.4	2,027.5	3.6%
EBITDA	274.7	228.1	96.9	194.7	249.5	3.0%
EBITDA Margin (%)	13.8	12.5	7.3	10.9	12.3	
Net Profit	169.3	147.5	10.4	114.0	151.4	0.9%
EPS (₹)	7.3	6.4	0.4	4.9	6.5	
P/E (x)	18.9	21.7	308.4	28.0	21.1	
RoNW (%)	18.7	16.3	3.3	12.4	16.0	
RoCE (%)	27.4	22.2	6.5	17.0	21.8	

Exhibit 1: Change in estimates

	Q4FY21	Q4FY21E	Q4FY20	YoY (Chg %)	Q3FY21	QoQ (Chg %)	Comments
Revenue	457.0	465.7	359.6	27.1	436.8	4.6	Rebound in revenue owing to better realisation and growth in non-auto segment. Meanwhile, 3-W continues to be sluggish amid pandemic
Other Income	3.7	3.0	3.3	10.5	2.4	51.9	
Employee Expenses	34.6	30.7	27.9	24.0	28.7	20.6	
Raw Material Expenses	321.3	331.6	257.0	25.0	310.0	3.6	
Other operating Expense	53.8	47.0	44.1	21.9	44.3	21.6	
EBITDA	47.3	56.4	30.6	54.9	53.8	-12.0	
EBITDA Margin (%)	10.4	12.1	8.5	186 bps	12.3	-196 bps	Margins reduce sequentially led by higher employee and other expenses
Depreciation	12.0	15.2	14.4	-16.6	12.2	-1.4	
Interest	0.6	0.5	1.1	-	0.9		
Exceptional Item	-0.5	0.0	0.0		3.9		
PBT	38.9	43.7	13.4	190.1	39.3	-1.1	
Total Tax	15.0	11.0	3.4	345.1	10.6	41.6	
PAT	23.9	32.7	10.0	138.1	28.7	-16.8	
Adj. PAT	23.6	32.7	13.8	70.9	31.5	-25.3	
Key Metrics							
Segmental Performance							
Engine Segment	424.7	423.8	331.1	28.3	412.0	3.1	Aided by growth in non-auto engines
E-Mobility	69.1	41.9	34.6	100.0	57.8	19.5	Strong momentum continues

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E			
	Old	New	% Change	Old	New	% Change	
Revenue	1,652.1	1,792.4	8.5	2,027.5	2,027.5	0.0	The 3-W engine segment volume is likely to decline owing to BS VI transition and impact of Covid-19
EBITDA	195.5	194.7	-0.4	249.5	249.5	0.0	
EBITDA Margin (%)	11.8	10.9	-97 bps	12.3	12.3	0 bps	Margins in FY22E to be impacted owing to BS-VI transition and economic slowdown
PAT	114.0	114.0	0.0	151.4	151.4	0.0	
EPS (₹)	5.2	5.2	0.5	6.9	6.5	-5.6	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier		
	FY20	FY21	FY22E	FY23E	FY22E	FY23E	
3-W Volumes (units)	246,418	100,645	182,022	216,661	188,202	NA	Revised volumes in line with expected auto sales slowdown and BS-VI transition and Covid-19 impact
4-W & Other Volumes (Unit	44,487	42,000	20,000	20,000	35,400	NA	
Overall Engine Volumes	290,905	142,645	202,022	236,661	223,602	NA	

Source: Company, ICICI Direct Research

Exhibit 4: Valuations

	Basis of Valuation	Multiple	Total Value (₹ crore)	Per share value(₹)	Comments
Base Business	P/E	18.0x	2,725	118	
Ampere (100% Stake)	P/Sales	2.0x	960	42	FY23E sales at ₹ 320 crore
Total			3,685	160	

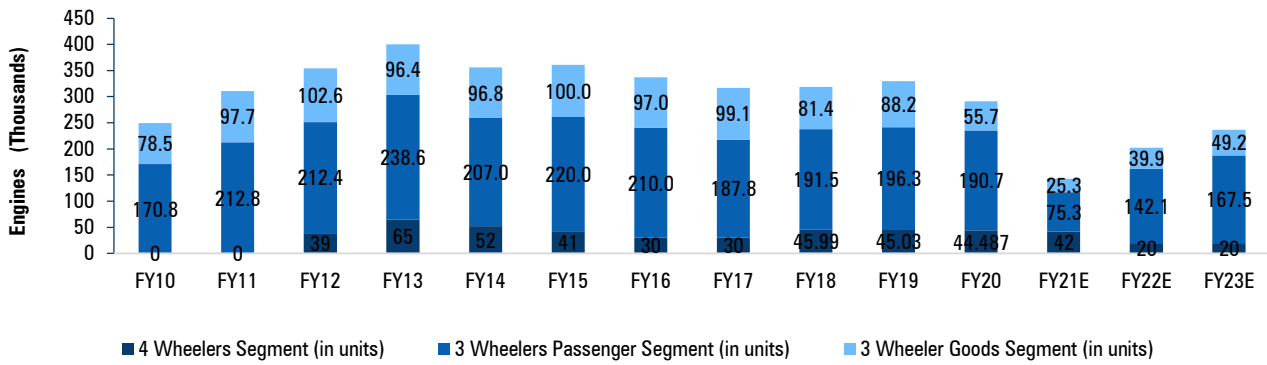
Source: Company, ICICI Direct Research

Conference call highlights

- Auto-engine volumes were dampened by sluggish passenger 3-W segment whereas demand for goods carrier segment in the 3-W space still remains strong
- Non-auto engine reported strong volume increase of 56% led by shift from manual labour to mechanised labour in sectors such as agriculture, construction, etc, coupled with lower cost Chinese products getting replaced by high quality Indian products
- E-Mobility segment continued its strong momentum with 69% increase in volume. The company now has 368 exclusive dealer networks across 200+ cities across country for E-2W and 165 for E-3W
- Optically, e-mobility losses seem to have increased even though revenue almost doubled. This was largely due to a one-time exceptional item of ₹ 4.2 crore. Hence, adjusted operating loss for e-mobility segment is south of ₹ 7 crore
- NWC came down to 11 days in Q4FY21 vs. 26 days in Q4FY20. Working capital declined from ₹ 84 crore in December to ₹ 27 crore in the current quarter
- GCL continues to work on increasing localisation with most of the critical components now being procured from domestic partners. Only major component imported remains lithium ion cells
- Capex guidance of ₹ 40 crore in the next two to three years on a standalone level. For e-mobility, the management has planned a ₹ 700 crore capex (capex + working capital) on a proportionate basis for the next 10 years
- Green shoots were visible towards the end of 2020 but the second wave of a Covid led lockdown impacted demand. Hence, Q1 can see some impact on account of that
- Aftermarket segment has rebounded sharply and has reached pre-Covid levels
- The company has added a couple of new OEMs in domestic and international markets
- Genset business recorded strong growth with launch of new range of products (smart gensets)

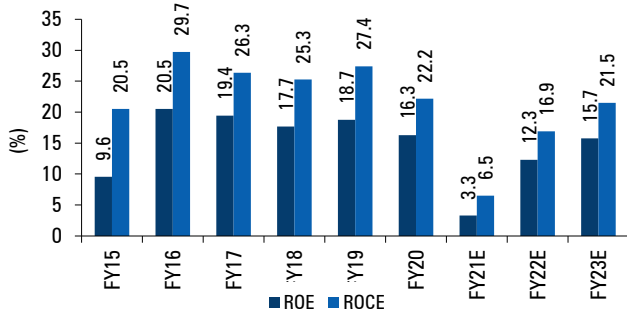
Financial story in charts

Exhibit 5: Trend in auto engine segment sales



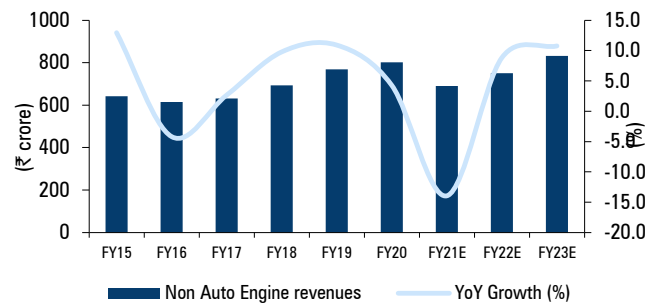
Source: Company, ICICI Direct Research

Exhibit 6: GCL commands superior return ratios



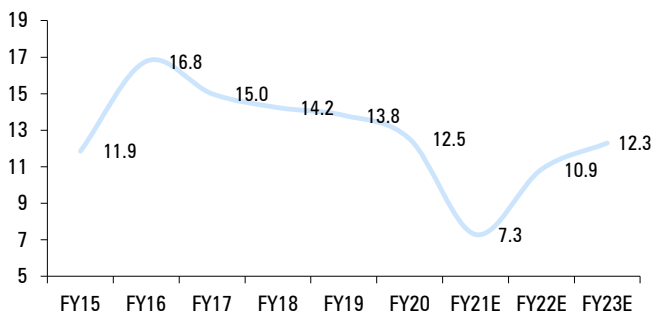
Source: ICICI Direct Research, Company

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)	FY20	FY21	FY22E	FY23E
Total operating Income	1,821.1	1,329.1	1,792.4	2,027.5
Growth (%)	-8.4	-27.0	34.9	13.1
Raw Material Expenses	1,249.2	941.4	1,272.6	1,401.8
Employee Expenses	158.1	127.1	138.7	173.2
Other Operating Expenses	185.8	163.7	186.4	203.0
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	228.1	96.9	194.7	249.5
Growth (%)	196.1	-57.5	100.8	28.2
Depreciation	52.2	48.4	57.6	66.0
Interest	3.8	5.6	4.8	5.1
Other Income	19.8	10.0	20.0	24.0
PBT	196.6	18.5	152.3	202.3
Others	0.0	0.0	0.0	0.0
Total Tax	49.2	8.1	38.3	50.9
PAT	147.5	10.4	114.0	151.4
Growth (%)	-12.9	-93.0	1,000.4	32.8
EPS (₹)	6.4	0.4	4.9	6.5

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	147.5	10.4	114.0	151.4
Add: Depreciation	52.2	48.4	57.6	66.0
(Inc)/dec in Current Assets	-1.8	82.4	-138.6	-59.9
Inc/(dec) in CL and Provisions	-47.9	33.8	40.9	57.8
Others	0.0	0.0	0.0	0.0
CF from operating act	153.7	180.6	78.7	220.4
(Inc)/dec in Investments	419.3	0.0	-5.0	-5.0
(Inc)/dec in Fixed Assets	-94.3	-15.4	-78.4	-62.0
Others	0.0	0.0	0.0	0.0
CF from investing act	194.4	-161.1	-35.0	-69.5
Issue/(Buy back) of Equity	-2.6	0.0	0.0	0.0
Inc/(dec) in loan funds	-7.0	0.0	2.0	2.0
Dividend paid & dividend tax	0.0	0.0	-111.3	-125.3
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	-239.8	-0.9	-94.7	-130.4
Net Cash flow	111.0	18.5	-50.9	20.5
Opening Cash	38.4	149.4	168.0	117.0
Closing Cash	149.4	168.0	117.0	137.6

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	46.2	46.2	46.2	46.2
Reserve and Surplus	837.1	852.1	876.2	902.3
Total Shareholders funds	883.3	898.4	922.4	948.6
Total Debt	0.0	0.0	0.0	0.0
Deferred Tax Liability	0.0	0.0	2.0	4.0
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	919.2	926.6	957.7	990.8
Assets				
Gross Block	581.3	628.3	690.3	752.3
Less: Acc Depreciation	219.2	270.7	328.3	394.4
Net Block	362.1	357.5	361.9	357.9
Capital WIP	0.0	0.0	0.0	0.0
Total Fixed Assets	374.2	341.1	361.9	357.9
Investments	210.5	281.9	286.9	291.9
Inventory	171.2	154.8	181.7	194.4
Debtors	238.9	203.0	270.1	305.5
Loans and Advances	0.0	0.0	0.0	0.0
Other Current Assets	20.6	24.7	30.2	34.2
Cash	149.4	168.0	117.0	137.6
Total Current Assets	634.6	570.8	658.4	738.9
Creditors	279.1	317.5	321.6	363.8
Provisions	20.6	24.7	30.2	34.2
Total Current Liabilities	365.8	399.7	440.6	498.4
Net Current Assets	268.8	171.1	217.8	240.5
Others Assets	0.0	0.0	0.0	0.0
Total Assets	919.2	926.6	957.7	990.8

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	6.4	0.4	4.9	6.5
Cash EPS	8.6	2.5	7.4	9.4
BV	38.2	38.9	39.9	41.0
DPS	0.0	0.0	4.0	4.5
Cash Per Share	6.5	7.3	5.1	5.9
Operating Ratios (%)				
EBITDA Margin	12.5	7.3	10.9	12.3
PBT / Total Operating income	8.1	0.8	6.4	7.5
PAT Margin	8.1	0.8	6.4	7.5
Inventory days	34.3	42.5	37.0	35.0
Debtor days	47.9	55.7	55.0	55.0
Creditor days	55.9	87.2	65.5	65.5
Return Ratios (%)				
RoE	16.3	3.3	12.4	16.0
RoCE	22.2	6.5	17.0	21.8
RoIC	25.4	7.6	18.4	24.7
Valuation Ratios (x)				
P/E	21.7	308.4	28.0	21.1
EV / EBITDA	13.4	31.2	15.8	12.2
EV / Net Sales	1.7	2.3	1.7	1.5
Market Cap / Sales	1.8	2.4	1.8	1.6
Price to Book Value	3.6	3.6	3.5	3.4
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.3	1.0	1.2	1.2
Quick Ratio	0.9	0.6	0.8	0.8

Source: Company, ICICI Direct Research

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Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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