

Greaves Cotton Limited

Compressors Pumps & Diesel Engines

We interacted with management of Greaves Cotton limited, Mr. Sanjay Behl -CEO& Executive director of Greaves Electric Mobility, Mr. Chandrasekar Thyagarajan - CFO of Greaves Electric Mobility and Dr. Arup Basu - MD of Greaves Engineering. Greaves Cotton Limited manufactures internal combustion engines, power generation equipment and power transmission systems. The Company also manufactures mining, oilfield, construction and materials handling equipment, integrated systems and electronics. The Company operates in multiple segments: Automotive, Non-Automotive, Aftermarket, Retail, Electric Mobility, Technology and Finance. Presently, the company operates in five major sectors. Greaves Engineering, Greaves Electric Mobility, Greaves Retail, Greaves Finance, and Greaves Technologies. The company is transitioning from manufacturing diesel engines to new business ventures like EVs, retail, services, and spare components. Its engine portfolio caters to the diesel engine segment (3W, genset, and industrial solution), and now transitioning into CNG and electric motors. Greaves electric portfolio is catering to E-2W (under the brand name Ampere), E-3W/ e-passenger, and cargo segments. Greaves retail caters to a multi-brand product portfolio and greaves finance serves in auto financing. Excel Control linkage Pvt. Ltd Company's recent acquisition is in the business of sensors, push-pull cable levers, and motion controllers for PV, CV, and Industrial and sells to both B2B and B2C segment. Income from the automotive sector accounts for 50% of total income and the rest is from nonautomotive (Marine and Industrial). The international industry generates about 1/3rd of overall revenue.

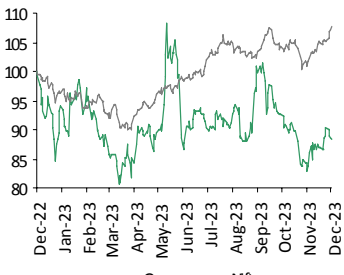
Electric Mobility Business:

Company plays in an important segment of under sub-1Lac price point segment which addresses the mass market where the first mover and switchers comes to the market. Company has scooters in all segment and formats from slow speed (25kmph) to city speed (45-65kmph) to high speed (75+kmph). Currently company has 500K unit's capacity for 2w at Chennai plant, for L3 capacity is of 24k units and for L5 capacity is of 18k units plants located in Noida and Hyderabad. The company previously held a commendable market share of 12% in the E2W market. However, due to deregistration from the FAME2 scheme initiated by The Ministry of Heavy Industries, the company's market share has diminished to 6%. Management has communicated that they have a strategic plan aimed to reclaiming its former 12% market share. To bolster its position, the company is gearing up to launch a new flagship model, the "NXG" scooter, positioning itself within the premium, high-speed, fully connected segment of electric scooters.

Notably, as per management the NXG model is expected to deliver a 110 km single-charge true range, placing it in direct competition with other prominent high-end offerings in the market such as the OLA S1 Pro and Ather 450x. One critical aspect highlighted by the management is the absence of issues related to FAME subsidy eligibility for the NXG model. Emphasizing their commitment to re-establishing themselves in the market, the management intends to apply for the FAME subsidy once the company is reinstated on the portal.

Greaves Engine Engineering Business:

Greaves' engineering arm thrives across automotive and non-automotive domains, strategically navigating the engine sector with a versatile fuel-agnostic approach, particularly excelling in the realm of three-wheeler engines. Through the recent integration of Excel, Greaves has diversified its revenue streams, tapping into various engine applications within the construction, railway, commercial vehicle, and aftermarket segments. Anticipating

Shareholding (%)	Sep-23	Key Data	
Promoters	56.00	BSE Code	501455
FII's	4.57	NSE Symbol	GREAVESCOT
DII's	3.42	Bloomberg Code	GRV IN
Others	35.99	Reuters Code	GRVL.NS
Relative Price Performance		Shares Outstanding (mn)	232
		Face Value	2
		Mcap (INR bn)	30.62
		52 Week H/L	165/118
		2W Avg. Qty.BSE (in .lakh)	7.67
		CMP	132
		Beta	0.8

Y/E (INR mn)	FY20	FY21	FY22	FY23
Total Income	19,818.30	15,087.90	17,363.80	27,666.70
Total Expenditure	17,515.40	14,207.60	16,868.30	25,661.50
Gross Profit	5,934.00	4,205.10	4,507.00	7,294.10
EBIDTA	2,302.90	880.3	495.5	2,005.20
EBIT	1,740.60	-68.6	-139.9	1,245.00
PBT	1,689.90	-137.9	-193.3	1,128.10
PAT	1,272.70	-187.8	-353	697.5
Cash Profit	1,882.10	416.5	234.3	1,264.30

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scalability, the management eyes global market penetration leveraging Excel's operations, while synergies post-acquisition are yet to be fully harnessed. Future prospects include an ambitious expansion into the domains of mechatronics and electronics. Notably, Excel's operations boast a substantial EBITDA margin of 32.4%, overshadowing the 10.5% margin within the core engine business.

Future Plans:

The management is indicated a strategic plan aimed at increasing the company's market share. Key focal points include a robust improvement in Research and Development (R&D) for superior product development. Additionally, enhancing after-sales services, refining battery management systems, and improving powertrain technology are pivotal areas of concentration. These initiatives are expected to be the cornerstone of the company's focus in upcoming quarters, playing a vital role in re-establishing its competitive edge and market positioning within the electric vehicle sector. Monitoring the execution and impact of these strategies will be crucial, as successful implementation could lead to substantial improvements in market share and overall performance.

FAME Subsidy Issue:

The company has settled around Rs.140 crore in claimed incentives, including interest. Looking ahead, if reinstated on the FAME portal, the company plans to reapply for the scheme for its upcoming scooters. Each scooter will undergo recertification to meet FAME subsidy eligibility. Monitoring the process is crucial, as successful qualification could positively impact the company's financials and its market share.

Our View:

Company Ebitda margins in engine business has improved from 2.9% in Q1FY23 to 10.5% in Q2FY24. Its retail business margins have also improved from 16.5% in Q1FY23 to 21% in Q2FY24. While EV business continue to be under pressure because of lack of Fame Subsidy its margin was at 3% in Q1FY23 but now is -18%. Enhancing the EV business stands as a pivotal precursor for substantial performance growth. Without this advancement, any progress made within the engineering business could be counteracted by the restrained performance of the EV business. Although the management holds a positive outlook on its growth strategy, they have refrained from disclosing specific guidance for the future. We believe monitoring the progress of the EV business would be crucial for further improvement in the valuation. Currently GCL is trading at P/E of 451 and P/S of 1.16.

Balance Sheet

Y/E (INR mn)	FY20	FY21	FY22	FY23
Share Capital	462.4	462.4	463	463.3
Share Warrants & Outstandings	3.5	19.1	51	137.7
Total Reserves	7,521.60	7,343.60	6,979.00	15,264.40
Shareholder's Funds	7987.5	7825.1	7493	15865.4
Minority Interest				3,810.20
Long-Term Borrowings				
Secured Loans			290.2	
Unsecured Loans			1,400.00	
Deferred Tax Assets / Liabilities	-6.5	-126.5	-110.8	-129.2
Other Long Term Liabilities	393.1	326.9	343.9	349.1
Long Term Trade Payables				
Long Term Provisions	13.4	15.5	24.1	21.3
Total Non-Current Liabilities	400	215.9	1947.4	241.2
Current Liabilities				
Trade Payables	2,986.50	3,564.30	3,785.50	4,413.60
Other Current Liabilities	620.8	660.2	2,272.00	1,898.20
Short Term Borrowings	95.7	35.7	266.4	33.9
Short Term Provisions	299.3	369.5	476.7	784.2
Total Current Liabilities	4,002.30	4,629.70	6,800.60	7,129.90
Total Liabilities	12,389.80	12,670.70	16,241.00	27,046.70
ASSETS				
Non-Current Assets				
Gross Block	6,179.40	6,388.70	6,386.40	6,662.00
Less: Accumulated Depreciation	2,374.60	2,666.50	2,742.90	2,962.60
Less: Impairment of Assets	-	-	8.5	12.6
Net Block	3,804.80	3,722.20	3,635.00	3,686.80
Lease Adjustment A/c	-	-	-	-
Capital Work in Progress	120.8	241.4	150.2	220.2
Intangible assets under development	564.9	508.1	666	605.4
Pre-operative Expenses pending	-	-	-	-
Assets in transit	-	-	-	-
Non Current Investments	0.3	0.6	163.8	95.6
Long Term Loans & Advances	753.6	962.8	801.2	1,098.70
Other Non Current Assets	5.6	3.3	3,439.90	4,975.40
Total Non-Current Assets	5,250.00	5,438.40	8,856.10	10,682.10
Current Assets Loans & Advances				
Currents Investments	28	4.5	-	1,137.70
Inventories	1,944.30	1,747.20	1,933.40	2,149.50
Sundry Debtors	2,549.90	2,089.50	1,863.70	1,661.50
Cash and Bank	1,896.90	2,803.40	1,003.80	5,394.50
Other Current Assets	73.9	44.5	1,322.10	3,811.30
Short Term Loans and Advances	646.8	543.2	1,138.80	2,079.40
Amt Due from firm (directors interested)				
Total Current Assets	7,139.80	7,232.30	7,261.80	16,233.90
Assets as Held for Sale and Discontinued Operations	-	-	123.1	130.7
Net Current Assets				
(Including Current Investments)	3,137.50	2,602.60	461.2	9,104.00
Total Current Assets Excluding Current Investments	7,111.80	7,227.80	7,261.80	15,096.20
Misc. Expenses not written off				
Total Assets	12,389.80	12,670.70	16,241.00	27,046.70
Contingent Liabilities	954.6	1,019.70	1,053.10	790
Total Debt (Long Term Plus Short Term)	95.7	35.7	2,325.60	33.9
Book Value	34.53	33.76	32.15	67.89
Adjusted Book Value	34.53	33.76	32.15	67.89

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Key Ratios

Y/E	FY20	FY21	FY22	FY23
Per Share Data (INR)				
Reported EPS	5.59	-0.81	-1.52	3.37
Adj.EPS	5.59	-0.81	-1.52	3.37
CEPS	8.14	1.8	1.01	5.46
DPS	0	0.2	0.2	0.9
BVPS	34.53	33.76	32.15	67.89
Return Ratios(%)				
RoACE	19.46	-0.86	-1.58	9.68
RoA	9.45	-1.5	-2.44	3.22
Liquidity Ratios				
Total Debt/Equity	0.01	-	0.31	-
Current Ratio	1.78	1.56	1.07	2.28
Quick Ratio	1.3	1.18	0.78	1.98
Interest Cover	34.33	-0.99	-2.62	10.65
Efficiency Ratios				
Asset Turnover Ratio	1.42	1.2	1.18	1.25
Inventory Days	31.34	44.9	39.29	27.6
Debtor Days	57.04	56.43	42.2	23.83
Creditor Days	86.26	110.71	106.54	75.95
Valuation Ratios				
P/E(x)	12.47	-	-	37.47
P/BV(x)	2.02	3.79	5.94	1.86
Dividend Yield(%)	0	0.16	0.1	0.71
EV/Net Sales(x)	0.75	1.78	2.66	0.88
EV/EBIDTA(x)	6.21	30.42	91.86	11.91

Cash Flow

Y/E	FY20	FY21	FY22	FY23
Profit Before Tax	1,689.90	-137.9	-193.3	1,128.10
Adjustment	455.6	771.2	690.3	608.8
Changes In working Capital	-425.5	1,051.80	-909.6	-2,626.10
Cash Flow after changes in WC	1,720.00	1,685.10	-412.6	-889.2
Interest Paid				
Tax Paid	-703.7	-217.1	-150.2	-462.4
Other Direct Expenses paid	-	-	-	-
Extra & Other Item	-	-	-	-
Cash From Operating Activities	1,016.30	1,468.00	-562.8	-1,351.60
Cash Flow from Investing Activities	2,550.30	-1,077.50	-2,381.20	-7,576.80
Cash from Financing Activities	-2,410.10	-199.9	2,100.20	8,885.90
Net Cash Inflow / Outflow	1,156.50	190.6	-843.8	-42.5
Opening Cash & Cash Equivalents	401.4	1,557.90	1,750.60	906.8
Cash & Cash Equivalent on				
Amalgamation / Take over / Merger	-	2.1	-	-
Cash & Cash Equivalent of				
Subsidiaries under liquidations	-	-	-	-
Translation adj. on reserves / op cash				
balances frgn subsidiaries	-	-	-	-
Effect of Foreign Exchange Fluctuations				
Closing Cash & Cash Equivalent	1,557.90	1,750.60	906.8	864.3

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