

CMP: INR 241

Rating: Accumulate

Target Price: INR 279

Stock Info

BSE	501455
NSE	GREAVESCOT
Bloomberg	GRV IN
Reuters	GRVL.BO
Sector	Industrial Machinery
Face Value (INR)	2
Equity Capital (INR mn)	464
Mkt Cap (INR mn)	30,694
52w H/L (INR)	175.5 / 112.5
Avg Yearly Vol (in 000')	2,017

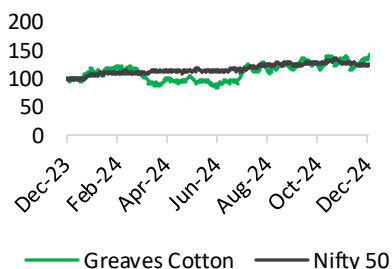
Shareholding Pattern %

(As on Sep, 2024)

Promoters	55.88
FII	1.04
DII	3.81
Public & Others	39.23

Stock Performance (%)	1m	3m	12m
Greaves Cotton	5.8	22.2	43.3
Nifty 50	-3.2	0.92	24.7

Greaves Vs Nifty



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Greaves Cotton Ltd (GCL) reported Revenue beat our estimates while bottom line missed out- Consolidated revenue of INR 7,506 Mn up by 6.42% QoQ / 12.81% YoY above our estimate of INR 7,123 Mn. - EBITDA stood at INR 397 Mn increased by 72.25% QoQ / up by 12.19% YoY, above our estimates of INR 379. EBITDA margin stood at 5.3% (flat sequentially and up by 202 bps YoY), inline with our estimate of 5.3%. - PAT stood at INR 67 Mn, down by 85.35% YoY below our estimate of INR 231 Mn due to higher tax expenses.- The Company has acquired an additional 10% stake in Excel for INR 623.8 Mn through a secondary route. This increases the Company's total shareholding in Excel to 70% as of August 13, 2024. The Company subscribed to a rights issue of Greaves Electric Mobility Limited (GEML), receiving an initial allotment of 2,99,337 shares. Following this transaction, the Company now holds 62.48% of GEML's equity shares, maintaining its status as a material subsidiary.

Investment Rationale

Diversification into Fuel-Agnostic Mobility Solutions:

Greaves Cotton has evolved into a fuel-agnostic mobility solutions provider, diversifying across electric mobility, gensets, and multi-sector applications. This approach continue to expand product portfolio of tailored multi-fuel solution for specific segments & appliance to meet the diverse energy need of the customer.

Momentum in Electric Mobility Growth:

Greaves Electric Mobility is progressing with promising solutions, including filing for a DRHP for a proposed IPO. Investments in technology development, in-house battery assembly, and digitization are boosting operational growth and aiming for market share gains. The company has 24 dealerships, including 3 for the Greaves 3W brand. E2w segments has achieved a MS of 3.4% in Q3FY25 reclaim the 5th position in the Vahan ranking for the December month.

Export is growing led by expansion in markets:

Multi-brand parts, particularly CNG and 2w, are growing well. Exports is growing strongly. Opened several new markets including Philippines and East Africa. There was a little bit of a reduction in terms of the export volumes as there was some inventory destocking taking place in some of customers supply chains. Over a period of time, the company is rebuilding the export portfolio, the company is expanding set of export customers, and also they see industry growing in India. So in the medium-term, the company is seeing that change already happening between Q3FY25-Q4FY25. Overall the company is positive about the demand side across all the sectors.

Outlook & Valuation

The company reported strong top line performance in Q3FY25, driven by growth across various segments. It maintained near-zero debt with INR 5030 Mn in cash reserves. Operationally, 64% of the business came from B2C segments, with Greaves Retail expanding in electric 3W parts and construction equipment. Greaves Engineering shifted its focus from automotive diesel engines to diverse applications, achieving over 30% revenue growth in non-automotive sectors and expanding its genset market share. Future plans include sustaining growth, improving margins, and exploring the aerospace segment. Concerns include a revenue decline in Excel Controlinkage due to the OEM industry slowdown. Greaves is transitioning towards sustainable mobility, showcasing hydrogen-powered engines and electric vehicle concepts, and working on hydrogen engine technology. The company is also moving towards full ownership of Excel Controlinkage. **We expect Greaves Cotton revenue/EBITDA to grow at a CAGR of 11.3, 16.1%, respectively, over FY25-27E. We upgrade our rating to an Accumulate from a "HOLD" earlier at a revised TP of INR 279 per share based on DCF; an upside of 15.8%.**

Exhibit 1: Financial Performance

(INR Mn)	Year-end March						
	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin (%)	EV/EBITDA	P/E (x)
FY23	26,995	1,334	698	3.4	4.9%	37.8	71.5
FY24	26,332	915	-3,673	-15.8	3.5%	58.1	-15.2
FY25E	28,715	1,329	72	0.3	4.6%	40.6	778.1
FY26E	31,821	1,536	680	2.9	4.8%	35.2	82.2
FY27E	35,602	1,790	926	4.0	5.0%	30.2	60.4

Source: Arihant Research, Company Filings

Greaves Cotton Q3FY25 Concall KTAs

The revenue mix across multiple streams has been diversified, and the YTD revenue is ahead by 2,000 cr, showing an 18% CAGR growth from FY22-25. The company has set ambitious targets, including both organic and inorganic growth.

The auto engine segment, including By mover, competes in the market and mirrors individual parts of their domain based on availability and sustainability. The industry needs risk mitigation for future growth.

The cash book stands at over 500 cr

Technology and value proposition: Magnus' new product is ready for immediate sale, while Nexus is also available soon.

The 3w segment can create large products, which are steadily being developed according to NTDA standards.

In engineering, there are concepts for hydrogen engines and Euro 5+ compliance engines.

Excel control engine capacity is expanding, with growth seen in gensets, auto, and non-auto sectors as demand increases.

Aerospace, an area with long lead times, is progressing in India with precision engineering. Early-stage work is underway to qualify and structure high-potential products.

Greaves is expanding its electric powertrain offerings, including energy management services and working with the railway and telecom sectors. Diversification includes diesel gensets and retail expansion.

The company is focusing on hydrogen engines, demonstrating environmental compliance and green fuel approaches. The availability of hydrogen and total cost management are key to repurposing efforts.

Excel control linkage primarily goes to OEMs in the commercial vehicle and tractor segments, with exports showing positive growth. Medium-term changes in demand are expected.

Capacity utilization is proactive, with no constraints in certain markets. The company continues to invest in organic growth, aiming for strong ROI and ROCE.

With a significant expansion in CNG and 3w growth, Greaves is leveraging Excel's aftermarket spare parts. The company has set a 1000 Mn capex target for FY25 for GECL and Excel. Upskilling mechanics on electric vehicles. 250 distributors, 10,000 retailers, and 25,000 mechanics. Growing multi-brand parts (CNG and two-wheeler) and exports to the Philippines and East Africa. Greaves Care leading in multi-brand servicing for three-wheelers, including electric vehicles, through over 225 franchise outlets

Regulatory norms for gensets are evolving, with large-scale infrastructure requirements. The export business is expanding significantly. Increased revenue from non-automotive applications by over 30%. Expanded genset market share to nearly 4%. Exploring multi-fuel solutions and exports made up 10% of revenues.

The EV segment is performing well, with 40% volume growth and 13% continued growth, focused on margin improvement and ongoing efforts in this area.

The diversification strategy is enhancing revenue resilience. The continued focus on margin improvement has led to growth in both EBITDA and margins. Investments across the group are being utilized for new product development, brand building, and expanding adjacencies.

EBITDA margin has shown sustainable improvement, with cost management contributing positively. ECL+Excel has contributed over 15% to the margin, effectively utilizing new strategic approaches and products.

Profitability reached 670Mn standalone and 1760 Mn in total, with a strategic focus on growing non-auto sectors, resulting in near-zero debt. The company is focused on driving innovation moving forward.

In engineering, double-digit revenue growth has been achieved. Internal factors, including diversification into automotive and non-automotive products and services, contributed to this growth, with 1/3 of revenue coming from automotive diesel engines and non-automotive sectors increasing by over 30% YoY.

The dealer network has expanded, increasing market share to 4% from less than 3% in Q3FY25. The product portfolio continues to grow, and exports account for 10%, with established partners in the EU and the US. Control linkage has risen by 15% QoQ, with 10% of Excel products now produced at Greaves' plant.

Greaves Retail has achieved 13% YoY growth and is now one of the top two players in the 3W aftermarket and powertrain sectors. The retail presence is expanding, particularly in the EV market, driven by quick commerce, and servicing both 2W and 3W EVs.

Greaves Electric Mobility is progressing with promising solutions, including filing for a DRHP for a proposed IPO. Investments in technology development, in-house battery assembly, and digitization are boosting operational growth and aiming for market share gains. The company has 24 dealerships, including 3 for the Greaves 3W brand.

Ampere Nexus&Magnus New are attracting demand with competitive pricing. The company is innovating in 2W and 3W designs for both B2B and B2C markets, with a strong focus on advancing the range of products.

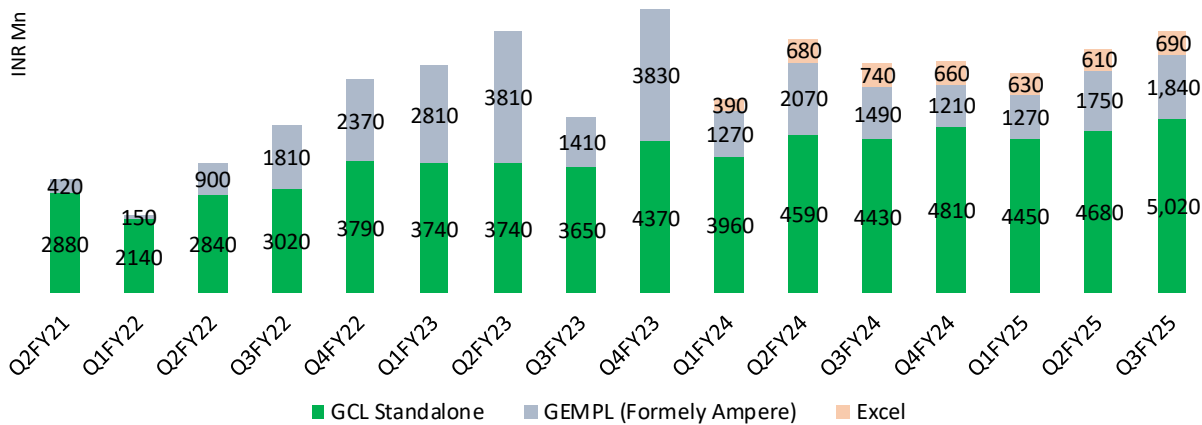
Exhibit 2: Quarterly Performance

INR Mn (Consolidated)	Q3FY25	Q2FY25	Q3FY25	Q-o-Q	Y-o-Y
Net Sales	7506	7053	6654	6.4%	12.8%
Material Cost	6239	5964	4242	4.6%	47.1%
Change in Inventory	-247	-147	135	68.4%	-282.5%
Gross Profit	2480	2188	2254	13.3%	10.0%
Gross Margin %	33.0%	31.0%	33.9%	201bps	-85bps
Employees benefits expense	858	846	824	1.5%	4.1%
Other Expenses	1225	1112	1077	10.1%	13.7%
EBITDA	397	230	354	72.3%	12.2%
EBITDA margin %	5.3%	3.3%	5.3%	202bps	-3bps
Depreciation	257	264	203	-2.6%	26.6%
EBIT	139	-34	150	-510.0%	-7.3%
EBIT Margin %	1.9%	-0.5%	2.3%	234bps	-40bps
[b] Other income	116	138	144	-15.5%	-19.3%
[f] Finance costs	32	43	23	-26.2%	38.8%
Exceptional Item	62	-43	472	-243.5%	-86.9%
PBT	286	18	743	1480.1%	-61.5%
Tax-Total	219	161	287	35.8%	-23.7%
Tax Rate (%) - Total	30.0%	891.7%	38.7%	-96.6%	-22.4%
Reported Net Profit	67	-143	456	-146.6%	-85.4%
PAT Margin %	0.9%	-2.0%	6.9%	-143.8%	-87.0%
Reported EPS (INR)	0.90	0.14	2.50	542.9%	-64.0%

	Q3FY25	Q2FY25	Q3FY25	Q-o-Q	Y-o-Y
RMC/Sales (%)	66.12	68.34	67.39	-3.2%	-1.9%
Employee exp/Sales (%)	11.43	11.99	12.38	-4.7%	-7.7%
Other exp/Sales (%)	16.32	15.77	16.19	3.5%	0.8%

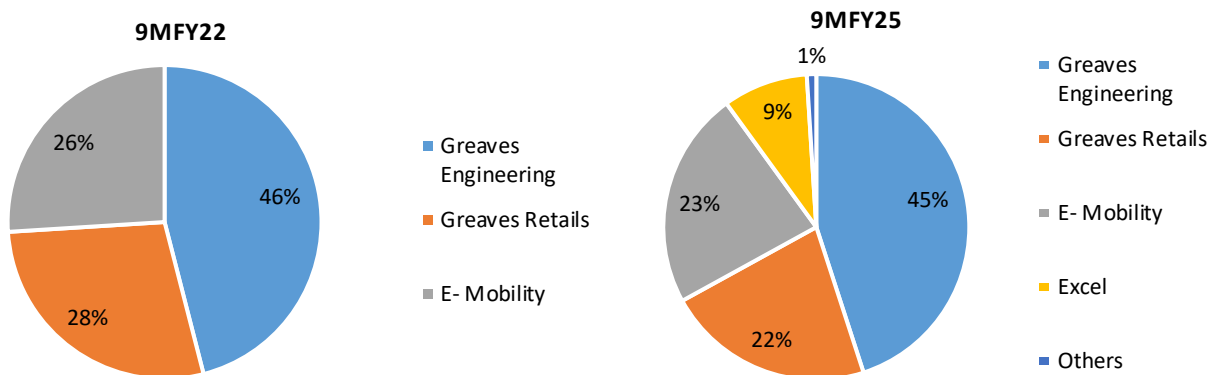
Source: Arihant Research, Company Filings

Exhibit 4: Diversification Strategy positively contributing to the business growth Q3FY25



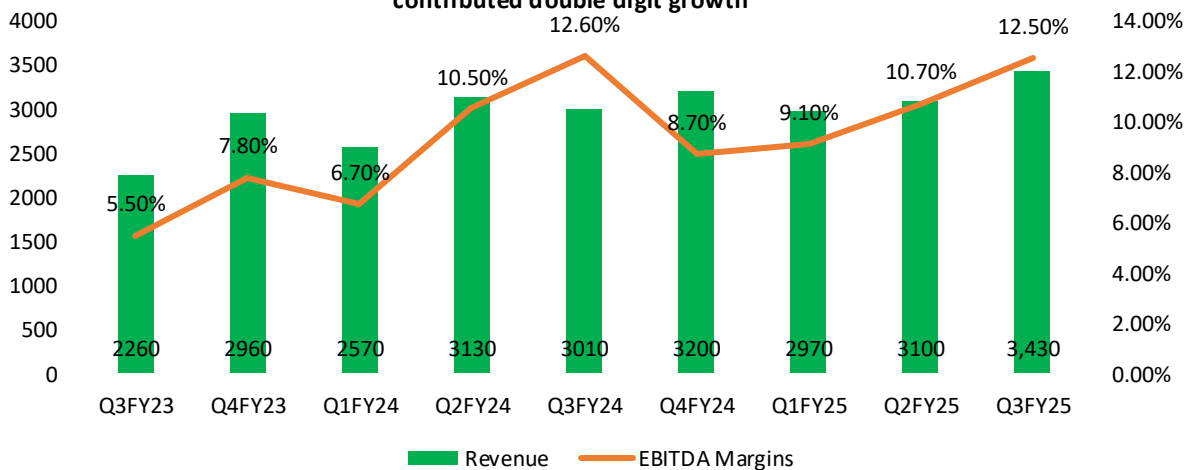
Source: Arihant Research, Company Filings

Exhibit 5: The diversification strategy is contributing to the resilience in revenues.

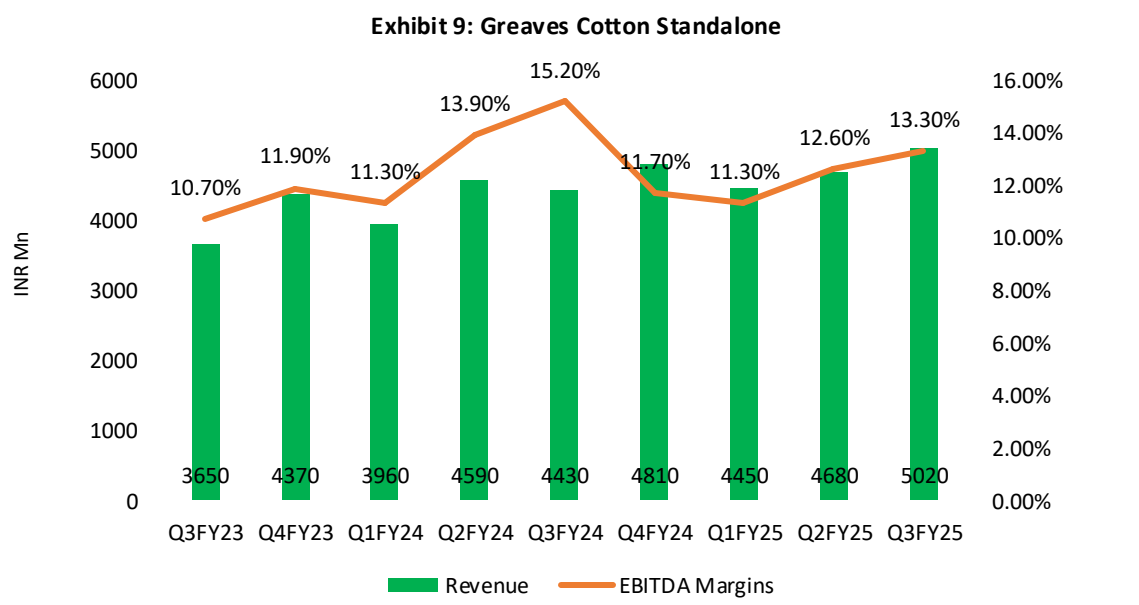
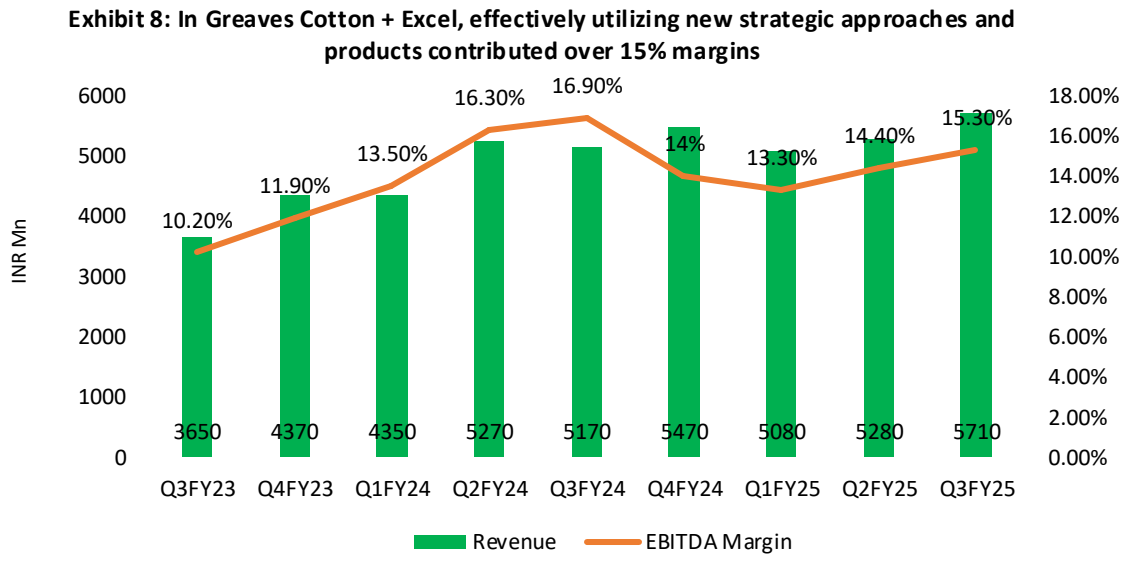
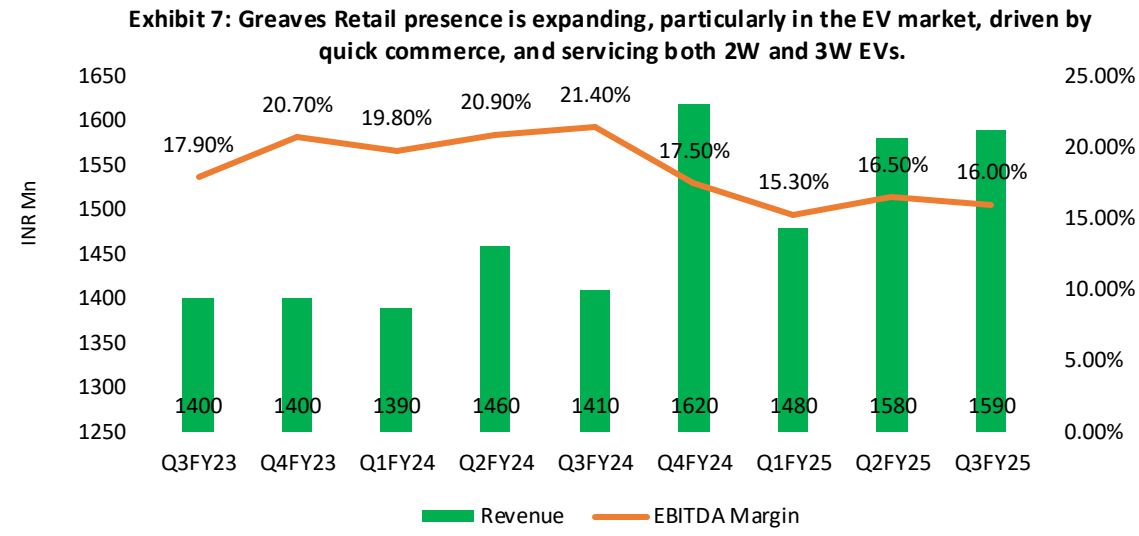


Source: Arihant Research, Company Filings

Exhibit 6: In Greaves Engine, diversification into automotive and non-automotive products and services, contributed double digit growth



Source: Arihant Research, Company Filings



Source: Arianth Research, Company Filings

DCF Valuation

Valuation Assumptions

g (World Economic Growth)	3%
Rf	7%
Rm	13%
Beta	0.9
CMP (INR)	241

WACC

We	99.1%
Wd	0.9%
Ke	12.3%
Kd	13.8%
WACC	12.30%

Valuation Data

Total Debt (long term borrowings) (2024)	493
Cash & Cash Equivalents (2024)	2,287
Number of Diluted Shares (2024)	232
Tax Rate (2024)	26%
Interest Expense Rate (2024)	19%

MV of Equity	55,912
Total Debt	493
Total Capital	56,405

FCFF & Target Price												
FCFF & Target Price	Explicit Forecast Period					Linear Decline Phase					Terminal Yr	
Year	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
EBIT * (1-Tax Rate)	164	328	511	761	1,085	1,475	1,910	2,348	2,732	3,001	3,100	3,202
Dep	1,107	1,093	1,100	1,640	2,762	3,371	4,447	5,602	6,374	7,050	7,304	7,513
Purchase of Assets	861	796	890	1,327	2,137	2,683	3,522	4,408	5,045	5,570	5,766	5,938
Changes in Working Capital	-940	-1,016	-1,124	-1,676	-2,389	-3,249	-4,206	-5,170	-6,016	-6,608	-6,826	-7,051
FCFF	1,350	1,642	1,845	2,750	4,099	5,412	7,041	8,712	10,077	11,089	11,464	11,829
% Growth in Post Tax EBIT		99.6%	55.6%	49.1%	42.5%	36.0%	29.5%	22.9%	16.4%	9.8%	3.3%	3.3%
As % of Post Tax EBIT												
Dep	673.3%	333.0%	215.4%	215.4%	254.6%	228.5%	232.8%	238.6%	233.3%	234.9%	235.6%	234.6%
Purchase of Assets	524.1%	242.4%	174.3%	174.3%	197.0%	181.9%	184.4%	187.7%	184.7%	185.6%	186.0%	185.4%
Changes in Working Capital	-571.9%	-309.6%	-220.2%	-220.2%	-220.2%	-220.2%	-220.2%	-220.2%	-220.2%	-220.2%	-220.2%	-220.2%
FCFF	1,350	1,642	1,845	2,750	4,099	5,412	7,041	8,712	10,077	11,089	11,464	11,829
Terminal Value												1,31,440
Total Cash Flow	1,350	1,642	1,845	2,750	4,099	5,412	7,041	8,712	10,077	11,089	11,464	1,43,269

Enterprise Value (EV)	62,937
Less: Debt	493
Add: Cash	2,287
Equity Value	64,730

Equity Value per share (INR)	279
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% Returns	15.8%
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Rating	Accumulate
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WACC (%)

279	Terminal Growth(%)							
	2.25%	2.50%	2.75%	3.30%	3.25%	3.50%	3.75%	4.00%
11.55%	283	289	296	311	310	318	326	335
11.80%	273	279	285	300	299	306	313	322
12.05%	264	270	275	289	288	295	302	309
12.30%	256	261	266	279	278	284	291	298
12.55%	248	252	257	269	268	274	280	287
12.80%	240	244	249	260	259	265	271	277
13.05%	233	237	241	252	251	256	261	267
13.30%	226	230	234	244	243	248	253	258

Source: Company reports, Arihant Capital Research, Figures are in INR Mn. except share price and percentage data

Income Statement (INR Mn)

Year End-March	FY23	FY24	FY25E	FY26E	FY27E
Revenues	26,995	26,332	27,735	29,512	31,533
YoY (%)	57.9%	-2.5%	5.3%	6.4%	6.8%
Adjusted COGS	19,700	17,994	18,702	19,841	21,137
Personnel/ Employee benefit expenses	2,119	3,112	3,371	3,587	3,832
Manufacturing & Other Expenses	3,841	4,311	4,513	4,803	5,131
Total Expenditure	25,661	25,417	26,586	28,231	30,101
EBITDA	1,334	915	1,149	1,281	1,432
EBITDA Margin (%)	4.9%	3.5%	4.1%	4.3%	4.5%
Depreciation	567	844	986	894	822
% of Gross Block	10.4%	9.5%	10.8%	9.6%	8.7%
EBIT	767	71	163	387	610
EBIT Margin (%)	2.8%	0.3%	0.6%	1.3%	1.9%
Interest Expenses	117	92	94	94	85
Non-operating/ Other income	671	648	604	643	687
PBT	1,128	-2,731	631	937	1,213
Extra -ordinary	-151	-3,348	-43	0	0
PBT after ext-ord.	977	-6,079	588	937	1,213
Tax-Total	431	942	454	281	364
Adj. Net Profit	697	-3,673	177	656	849
Reported Profit	698	-3,673	177	656	849
PAT Margin	2.6%	-13.9%	0.6%	2.2%	2.7%

Cash Flow Statement (INR Mn)

Year End-March	FY23	FY24	FY25E	FY26E	FY27E
Profit before tax	697	-3,673	177	656	849
Adjustments: Add					
Depreciation and amortisation	567	844	986	894	822
Interest adjustment	-555	-555	-511	-549	-602
Change in assets and liabilities	663	-3,593	420	722	768
Inventories	-216	-612	-978	-276	-316
Trade receivables	202	-703	-185	-447	-255
Trade payables	628	-553	480	149	301
Other Liabilities and provisions	-495	278	287	366	205
Other Assets	-8,401	8,364	-266	-459	-827
Taxes	-73	274	0	0	0
Net cash from operating activities	-7,692	3,457	-242	54	-125
Net Sale/(Purchase) of tangible and intangible assets,					
Capital work in progress	-562	-5,517	-392	-361	-422
Net Sale/(Purchase) of investments	-448	608	598	634	676
Others	0	-2,274	-162	-87	-89
Net cash (used) in investing activities	-1,010	-7,183	44	186	164
Interest expense	2,062	-1,126	202	291	418
Equity raised	0.30	0.70	0.00	0.00	0.00
Other financing activities	7,675	2,210	-232	-278	-302
Net cash (used) in financing activities	9,713	1,438	-113	291	418
Closing Balance	5,430	3,125	2,831	3,353	3,801

Balance Sheet (INR Mn)

Year-end March	FY23	FY24	FY25E	FY26E	FY27E
Sources of Funds	463	464	464	464	464
Equity Share Capital	19,212	16,278	16,223	16,600	17,148
Reserves & Surplus/ Other Equity	19,676	16,742	16,687	17,064	17,612
Networth	283	808	904	1,055	1,285
Loan Funds	261	805	501	515	531
Other Liabilities	27,244	24,644	25,337	26,614	28,170
Total Liabilities	54,050	48,285	49,878	52,272	55,151
Total Funds Employed					
Application of Funds	-260	-220	-316	-226	-166
Net Fixed Assets	220	316	226	166	106
Capital WIP	1,835	3,904	4,066	4,152	4,242
Other non-current assets	20,766	11,865	13,006	14,742	16,649
Current assets	2,150	2,761	3,739	4,015	4,331
Inventory	1,662	2,364	2,549	2,996	3,251
Debtors	1,060	933	979	1,175	1,528
Other Current Assets	864	1,478	451	534	1,798
Cash and Cash equivalent	7,130	6,900	7,854	8,594	9,369
Current Liabilities/Provisions	4,414	3,860	4,341	4,489	4,790
Trade Payables	1,924	1,612	1,923	2,312	2,538
Liabilities	13,636	4,965	5,152	6,148	7,280
Net Current Assets	27,228	24,644	25,329	26,595	28,171
Total Asset	13,592	19,679	20,177	20,447	20,891
Total Capital Employed	463	464	464	464	464

Key Ratios

Year-end March	FY23	FY24	FY25E	FY26E	FY27E
Solvency Ratios					
Net Debt / Equity	-0.3	-0.2	-0.1	-0.2	-0.2
Debt / EBITDA	0.0	0.5	0.4	0.3	0.3
Current Ratio	-4.0	-2.9	-2.0	-2.3	-2.4
DuPont Analysis					
Sales/Assets	1.0	1.1	1.1	1.1	1.1
Assets/Equity	1.4	1.5	1.5	1.6	1.6
RoE	3.5%	-21.9%	1.1%	3.8%	4.8%
Per share ratios					
Reported EPS	3.4	-15.8	0.8	2.8	3.7
Dividend per share	0.2	0.9	1.0	1.2	1.3
BV per share	84.9	72.2	71.9	73.6	75.9
Cash per Share	3.7	6.4	1.9	2.3	7.7
Revenue per Share	116.5	113.5	119.5	127.2	135.9
Profitability ratios					
Net Profit Margin (PAT/Net sales)	-2.1%	2.6%	-13.9%	0.6%	2.2%
Gross Profit / Net Sales	27.0%	31.7%	32.6%	32.8%	33.0%
EBITDA / Net Sales	4.9%	3.5%	4.1%	4.3%	4.5%
EBIT / Net Sales	2.8%	0.3%	0.6%	1.3%	1.9%
ROCE (%)	3.8%	0.4%	0.9%	2.2%	3.2%
Activity ratios					
Inventory Days	37.8	49.8	49.2	49.7	50.1
Debtor Days	23.8	27.9	33.6	37.1	37.6
Creditor Days	57.8	58.0	57.5	57.5	57.5
Leverage ratios					
Interest coverage	6.6	0.8	1.7	4.1	7.2
Debt / Asset	0.0	0.0	0.0	0.0	0.0
Valuation ratios					
EV / EBITDA	30.4	47.2	37.9	33.5	29.7
PE (x)	58.8	-12.5	259.2	70.1	54.1

Source: Arianth Research, Company Filings

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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