GREAVES
SINCE 1859

29th December, 2021

The Manager - Listing
BSE Limited
BSE Code - 501455

The Manager - Listing
National Stock Exchange of India Limited
NSE Code - GREAVESCOT

Dear Sir/Madam,

Sub: Intimation of Credit Rating pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform that India Ratings and Research Pvt. Ltd, a SEBI registered Credit Rating Agency has reaffirmed the credit rating for the Fund-based and Non-Fund based working capital limits and Commercial Papers of the Company. Please find enclosed herewith the press release of the Credit Rating Agency in this regard.

This is for your information and record.

Thanking You,

Yours faithfully,
For Greaves Cotton Limited

Atindra Basu
General Counsel and Company Secretary

Encl.: a/a.

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India Ratings & Research
A Fitch Group Company

India Ratings Revises Greaves Cotton's Outlook to Negative; Affirms 'IND AA'; CP Affirmed at 'IND A1+'

28

DEC 2021

By Shruti Saboo

India Ratings and Research (Ind-Ra) has revised Greaves Cotton Ltd's. (GCL) Outlook to Negative from Stable while affirming the Long-Term Issuer Rating at 'IND AA'. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Fund-based working capital limits	-	-	-	INR280 (reduced from INR680)	IND AA/Negative	Affirmed; Outlook revised to Negative
Non-fund-based working capital limits	-	-	-	INR620 (reduced from INR763)	IND A1+	Affirmed
Commercial paper (CP)	-	-	Up to 360 days	INR900	IND A1+	Affirmed

Analytical Approach: Ind-Ra has taken a consolidated view of GCL, its 100% owned subsidiary, Greaves Electric Mobility Pvt Limited (GEMPL, erstwhile Ampere Vehicles Private Limited), and 100% step-down subsidiary, Bestway Agencies Private Limited to arrive at the ratings in view of the strong legal and strategic, and moderate-to-strong operational linkages between the entities.

The Outlook revision reflects the significant decline in the consolidated profitability during FY21-1HFY22 as well as the fall in revenue and the likelihood of the profitability remaining under stress over near term, much below historical peaks.

KEY RATING DRIVERS

Sharp Fall in EBITDA Margins during FY21–1HFY22: GCL's consolidated EBITDA margin declined to 5.3% in FY21 (FY20: 11%; FY19: 13.5%), and the company incurred an EBITDA loss of INR186 million in 1HFY22 (after adjusting for a one-time cost of INR85 million; 1HFY21: EBITDA loss of INR110 million). The margin has been impacted primarily due to prolonged weakness in the three-wheeler (3W) industry impacting the sales volume and operating leverage in its legacy automotive diesel engine product. Moreover, the transition of the product portfolio towards cleaner technology products, including electric mobility and non-auto segments, has led to higher fixed costs, as the new segments are either low on profitability or yet to break-even so far. In 1HFY22, the profitability was also impacted by the lockdown in Tamil Nadu amid the second wave of the pandemic, and increasing raw material cost, resulting from input price inflation and the local procurement of certain components.

While the engine and electric mobility segments reported losses in 1HFY22, the company's aftermarket segment continued to record double-digit EBITDA margins. GCL had undertaken cost-reduction initiatives over FY21-1HFY22, including consolidation of manufacturing facilities/businesses, overhead cost rationalisation and price renegotiation with the customers, which are likely to bring in significant cost synergies during 2HFY22-FY23. Moreover, with the improved profitability in the non-auto engine business as well as ramping up of production in its Ranipet facility, the electric mobility segment is also likely to see increased volumes, supporting the overall profitability from 2HFY22. Ind-Ra expects the consolidated margin to remain below FY21 levels in FY22.

Decline in Revenue; Subdued Prospects of 3W Diesel Engine Industry: The cyclical three-wheeler (3W) industry's sales volumes dropped by 66% in FY21 (FY20: around 9%) primarily due to the impact of COVID-19-led disruption. Consequently, GCL consolidated revenues declined by 21.5% yoy to INR15 billion in FY21 (INR19.1 billion), while the revenue from the engine business declined by around 28% yoy to INR10.2 billion (INR14.2 billion). Ind-Ra believes the 3W diesel auto demand in the industry is likely to remain weak in the medium term due to shifting of preferences towards compressed natural gas (CNG) engine and battery-operated vehicles and increased competition from the light commercial vehicle segment in goods carrier segment.

Diversification Towards Non-Auto Segments Continues: Amid the likely weakening in 3W diesel engine demand in the medium-to-long term as the 3W industry shifts further towards cleaner fuel (CNG/electric) and in order to cushion its revenues from the cyclical nature of the automotive industry, GCL has been proactively diverting its growth focus to non-auto segments, including electric 2W/3W, diesel gensets, farm-equipment and marine engines.
The revenue contribution from new businesses increased to 43% in 2QFY22 (FY21: 30%, FY20: 21%). The contribution of its aftermarket and electric mobility segments to the consolidated revenues also increased to 24% and 17%, respectively, in 1HFY22 (1HFY21: 23%, 10%), while the share of the engine segment reduced to 59% (67%). However, the aftermarket segments accounted for a major portion of the EBITDA in 1HFY22. Ind-Ra believes it could take an

additional couple of years for GCL to start deriving any material results from this diversification, which has been affected by the COVID-19 related slowdown. This remains a key rating sensitivity.

In the engine segment, the company plans to continue focusing on developing fuel-agnostic last-mile transport solutions. GCL has started production of 399 cubic centimetres CNG engine in 1HFY22, and is working on a sub 200 cubic centimetres CNG engine that has a larger market. However, GCL has a minuscule market share in the CNG segment.

Expansion in Electric Mobility: In line with its strategy to invest in advanced clean energy technologies, GCL now holds 100% stake in GEMPL, which is among the top three leading electric two-wheeler (2W) OEMs in India. The company enhanced its presence in the electric three-wheeler (3W) market over FY21-FY22 by acquiring 100% stake in Bestway and 26% stake in MLR Auto Limited. This makes GCL an integrated last mile player.

Ind-Ra believes that electrification could substantially pick up in the 2W and 3W segments in three-to-four years, led by the following factors: (i) the reduced upfront pricing differential between an internal combustion engine 2W and e-2W post the increase in the subsidy for e-2W under Faster Adoption and Manufacturing of Electric Vehicles II by 50% to INR15,000/kWh in June 2021, (ii) no significant requirement of battery charging infrastructure; (ii) low operational cost, amid increasing cost of ownership for internal combustion engine vehicles, due to increase in fuel costs and prices undertaken by OEMs on account of increasing material costs. This is evident from the volume growth of more than 48% in e-2Ws and 245% in e-3Ws in 1HFY22.

GCL is well positioned to benefit from this industry growth, led by i) its acquisition of Ampere, which held around 14% market share in the e-2W segment in FY21(FY20: 12%), ii) new launches in the high-speed category, iii) the large capacity expansion planned to manage competition, and iv) the expansion into the e-3W space through Bestway and MLR Auto.

Robust Credit Metrics: GCL has maintained its net cash position for over a decade. The consolidated interest coverage (operating EBITDA/gross interest expense) was also strong at 11.5x in FY21 (FY20: 41.4x), though it declined on a yoy basis due to lower EBITDA (FY21: INR797 million; FY20: INR2101 million). The company had consolidated debt of (excluding lease liabilities) of INR140 million at 1HFYE22 (FY21: INR36 million; FY20: INR 96 million), and a large part of the interest expense is related to the bill discounting facility. Ind-Ra expects the interest coverage to reduce temporarily below 5.0x in FY22 before improving sharply over 18.0x in FY23 on account of the likely recovery in profitability. Furthermore, GCL has entered into a binding agreement for the sale of its land in Pune for a total consideration of INR3,200 million, the proceeds of which are likely to come in FY22 (INR320 million advance received in 1HFY22). This along with the absence of any debt-funded capex could help GCL remain net cash positive in the medium term.

Liquidity Indicator - Adequate: GCL's cash and equivalents were strong at INR2824 million at 1HFYE22 (FYE21: INR2774 million; FYE20: INR1886 million). The company's fund-based working capital limits remained largely unused over the 12 months ended September 2021. Despite the decline in profitability, the free cash flow remained positive (as per Ind-Ra's calculations) at INR970 million in FY21 (FY20: INR287 million), mainly due to lower capex as well as favourable changes in the working capital. The working capital cycle of the company reduced to 11 days in FY21 (FY20: 32 days), mainly due to an increase in the payable days to 92 days (64 days), resulting from the incremental procurement done in 4QFY21 in view of higher anticipated demand. Ind-Ra expects the company to undertake capex of INR800 million–1,000 million over FY22-FY23, mainly towards the electric mobility division, which is likely to be funded largely through internal accruals. This along with a further drop in profitability levels could lead to the free cash flow turning negative in FY22, as per Ind-Ra's calculation. However, the aforementioned proposed sale of land is likely to augment the liquidity position.

Leadership Position in Niche Segment: GCL continues to remain one of the leading companies in India's 3W engine market. GCL supplies engines to around 30 OEMs in India, such as Piaggio Vehicle Limited, Mahindra & Mahindra Limited ('IND AAA'/Stable), and Atul Auto Limited.

RATING SENSITIVITIES

Positive: Sustained growth in the scale of operations and improved profitability from most of the segments and further revenue diversification, along with maintaining strong credit metrics and liquidity, could lead to the Outlook being revised back to Stable.

Negative: A sharper-than-expected decline in the operating profitability due to a significant drop in offtake from end-customers and/or the loss of a major customer and/or the inability to scale up new operations as expected could result in a negative rating action. Deterioration in GCL's financial profile due to substantial debt-led organic or inorganic expansion, leading to the net debt/EBITDA exceeding 1.0x, on a sustained basis, could also lead to a negative rating action.

COMPANY PROFILE

Formed in 1859, GCL manufactures diesel/petrol/CNG engines, diesel gensets and farm equipment at four manufacturing units in India (three in Aurangabad, one in Pune) and has an extensive marketing and services network of over 6,300 dealers and 380 Greaves retail stores throughout India. GCL acquired electric 2W manufacturer, GEMPL in September 2018 (100% in November 2019). GEMPL acquired 74% stake in electric 3W manufacturer Bestway Agencies Private Limited (Bestway) in July 2020 and the remaining stake in 3QFY22, making it a 100% subsidiary.

FINANCIAL SUMMARY

Particulars	FY21	FY20
Revenue (INR million)	15,004	19,110
EBITDA (INR million)	797	2,101
EBITDA margin	5.3	11.0
Interest coverage (x)	11.5	41.4
Net adjusted leverage (x)	n.m	n.m

Source: GCL, Ind-Ra n.m: not meaningful

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Ratings/Outlook		
	Rating Type	Rated Limits (million)	Rating	29 December 2020	30 December 2019	25 February 2019
Issuer rating	Long-term	-	IND AA/Negative	IND AA/Stable	IND AA/Stable	IND AA/Stable
Fund-based working capital limits	Long-term	INR280	IND AA/Negative	IND AA/Stable	IND AA/Stable	IND AA/Stable
Non-fund-based working capital limits	Short-term	INR620	IND A1+	IND A1+	IND A1+	IND A1+
CP	Short-term	INR900	IND A1+	IND A1+	IND A1+	-

BANK WISE FACILITIES DETAILS

Click here to see the details

COMPLEXITY LEVEL OF INSTRUMENTS

Instrument Type	Complexity Indicator
Fund-based working capital limits	Low
Non-fund-based working capital limits	Low
CP	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

SOLICITATION DISCLOSURES

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Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

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India Ratings is a 100% owned subsidiary of the Fitch Group.

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Applicable Criteria

Corporate Rating Methodology
Short-Term Ratings Criteria for Non-Financial Corporates

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