



7th June, 2023

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 revised the credit rating of the Company for the Fund-based working capital limits as 'IND AA / Rating Watch with Negative Implications' and has affirmed rating for Non-Fund-based working capital limits as 'IND A1+'. Please find enclosed herewith the press release of the Credit Rating Agency in this regard.

Kindly take the same on record.

Thanking You,

Yours faithfully,
For Greaves Cotton Limited

Atindra Basu
General Counsel and Company Secretary

Encl:a/a

GREAVES COTTON LIMITED

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India Ratings Places Greaves Cotton on Rating Watch with Negative Implications

Jun 06, 2023 | Auto Components & Equipments

India Ratings and Research (Ind-Ra) has placed Greaves Cotton Ltd.'s. (GCL) Long-Term Issuer Rating of 'IND AA' on Rating Watch with Negative Implications. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Rating Watch	Rating Action
Fund-based working capital limits	-	-	-	INR230	IND AA/ Rating Watch with Negative Implications	Placed on Rating Watch with Negative Implications
Non-fund-based working capital limits	-	-	-	INR600	IND A1+	Affirmed

Analytical Approach: Ind-Ra continues to take a consolidated view of GCL, its 64.2%-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 among the entities.

On 26 May 2023, GCL, the parent of GEMPL, said in a filing on the stock exchange that the Ministry of Heavy Industries (MHI) has alleged that GEMPL purportedly failed to adhere to the Phased Manufacturing Programme Guidelines and allegedly proposed to deregister it from Faster Adoption and Manufacturing of Electric and Hybrid Vehicles India Scheme Phase II. The MHI has further directed GEMPL to deposit all the incentive claimed (around INR1.24 billion along with interest) under the said scheme to the MHI subject to the submission of necessary representation.

The Rating Watch with Negative Implications reflects Ind-Ra's expectation that the order would weaken the competitive position of Ampere, GEMPL's electric two-wheeler (e-2W) brand, against its peers, due to the lack of subsidies, thus impacting Ampere's effective customer price and market share. If GEMPL chooses not to take a complete price hike, then this could adversely impact its profitability. As GCL derives around 42% of its revenue from GEMPL, any impact on the profitability of the latter could substantially affect the consolidated profitability and business profile.

Key Rating Drivers

MHI Order to GEMPL: As per GCL's, the parent of GEMPL, filing on the stock exchange, the MHI has alleged that GEMPL purportedly failed to adhere to Phased Manufacturing Programme Guidelines and has allegedly proposed to deregister it from FAME India Scheme Phase II. The MHI has further purportedly directed GEMPL to deposit all the incentive claimed (around INR1.24 billion along with interest) under the scheme to MHI subject to the submission of

necessary representation.

Although GEMPL would be submitting required clarifications within the stipulated time, the order could hamper the receipt of subsidy until the issue is completely resolved. As a result, the effective customer price of the company's products may be higher than its peers which could, in turn, impact its market share. If GEMPL chooses not to pass on the complete price to its customers, then this could adversely impact its profitability.

The management has indicated that it does not anticipate a significant decline in its market share, as it has been working on cost efficiencies and hence would be in a position to survive even without subsidies or a delay in the receipt of subsidies. The order could also impact the receipt of INR3.5 billion in subsidy receivable due as of FY23.

Ind-Ra believes that the complete resolution could take some time, while the company's profitability could remain impacted in FY24. Ind-Ra will continue to monitor the developments regarding the MHI order as well as the impact of the order on Ampere's pricing, market share as well as profitability.

Impact on GCL's Operating Performance and Business Profile: GCL derives around 42% of its revenue from the electric mobility (e-mobility) business (i.e. GEMPL). Although the e-mobility's contribution to the consolidated profit before tax was miniscule for FY23 and lower than Ind-Ra's expectation, Ind-Ra was earlier expecting EBITDA margins to improve FY24 onwards. Ind-Ra believes that if GEMPL's turnaround does not happen as anticipated earlier, and the profitability remains subdued in FY24, it could, in turn, affect the consolidated profitability. Moreover, Ind-Ra considers GCL's entry into the electric vehicle business to be strategically important and key to its business diversification.

During FY23, the group's consolidated revenue grew 58% yoy to INR27.0 billion, led by strong growth across its key segments - auto engines and electric mobility.

The company's EBITDA margins improved to 4.9% yoy in FY23 (FY22: 1.6%) on account of improved margins especially in the standalone business (mainly the engine segment). The margin improvement was mainly on account of: 1) a volume increase in the engine business with the industry-wide recovery in the sales volumes of diesel three wheelers, which have been conventionally a higher margin business for the company; and 2) the e-mobility business turning EBITDA positive since 4QFY22, as the operating leverage improved with higher sales volumes. However, consolidated EBITDA margins were lower than Ind-Ra's expectation due to lower-than-expected EBITDA margins at the e-mobility business as margins were impacted in 2HFY23 after a plant shutdown to comply with phased battery safety norms.

Ind-Ra would be monitoring the event closely as well as any adverse impact of the same on the operational and business profile of GEMPL and GCL.

Subsidy Payout Unlikely to Impact Credit Metrics Materially: Ind-Ra does not expect the cash outflow regarding claimed subsidy incentive of INR1.24 billion and INR3.5 billion to have a material impact on the credit metrics of the consolidated entity, due to strong cash balance at the consolidated level of INR11.2 billion in FY23. The credit metrics remained strong with a net cash position and the interest coverage prevailing above 11.0x in FY23.

Liquidity Indicator: Adequate: GCL's consolidated cash and equivalents were strong at INR11.2 billion at FYE23 (FYE22: INR4.4 billion; FYE21: INR2.8 billion). The company has no long-term debt as of FY23, hence, there are no debt repayments likely in FY24-FY25. The company's free cash flow was negative at INR1.9 billion in FY23 (FY22: negative INR1.2 billion) despite an increase in its overall EBITDA levels (FY23: INR1.3 billion; FY22: INR0.3 billion), primarily on account of a delay in the receipt of subsidies from MHI as well as higher capex (FY23: INR0.8 billion; FY22 INR0.7 billion).

Standalone Financials: GCL's revenue stood at INR15.5 billion in FY23 (FY22: INR11.8 billion; FY21: INR13.3 billion) and EBITDA margin was 9.8% (3.4%; 7.3%). The company had a net cash position at the standalone level at FYE23.

For detailed rating drivers click [here](#).

Rating Sensitivities

The Rating Watch with Negative Implications indicates that the ratings may be either affirmed or downgraded upon getting further clarity on the implications of the MHI order.

The agency will continue to monitor the steps and developments pertaining to the MHI order. Ind-Ra aims to resolve the Rating Watch with Negative Implications once there is greater clarity on the impact of the MHI order on the

company's business profile diversification, the impact on GEMPL's operating performance and the market position in e-2W space and its impact on GCL's profitability.

Company Profile

Formed in 1859, GCL manufactures diesel/petrol/CNG engines, engine applications, power gensets and trading of power tillers, and spares related to engines. The company is also manufacturing electric two-wheelers and electric three-wheelers through its subsidiary GEMPL and its step-down subsidiary Bestway Agencies. GCL divested a 35.8% stake in GEMPL to Abdul Latif Jameel for USD150 million in 1QFY23. The company operates through six manufacturing plants.

FINANCIAL SUMMARY - CONSOLIDATED

Particulars	FY23	FY22
Revenue (INR million)	26,994	17,097
EBITDA (INR million)	1,333	272
EBITDA margin	4.9	1.6
Interest coverage (x)	11.6	5.1
Net adjusted leverage (x)	n.m	n.m
Source: GCL, Ind-Ra n.m: not meaningful		

Non-Cooperation with previous rating agency

Not applicable

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

Rating History

Instrument Type	Current Rating/Rating Watch			Historical Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating	27 December 2022	28 December 2021	29 December 2020
Issuer rating	Long-term	-	IND AA/Rating Watch with Negative Implications	IND AA/Stable	IND AA/Negative	IND AA/Stable
Fund-based working capital limits	Long-term	INR230	IND AA/ Rating Watch with Negative Implications	IND AA/Stable	IND AA/Negative	IND AA/Stable

Non-fund-based working capital limits	Short-term	INR600	IND A1+	IND A1+	IND A1+	IND A1+
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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

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

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APPLICABLE CRITERIA

Evaluating Corporate Governance

Policy for Placing Ratings on Rating Watch

The Rating Process

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

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