GREAVES
SINCE 1859

28th December, 2022

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 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.

Thanking You,

Yours faithfully,
For Greaves Cotton Limited

ATINDRA NATH BASU

Digitally signed by ATINDRA NATH BASU
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Atindra Basu
General Counsel and Company Secretary

Encl.: a/a.

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India Ratings Revises Greaves Cotton's Outlook to Stable; Affirms 'IND AA'

Dec 27, 2022 | Auto Components & Equipments

India Ratings and Research (Ind-Ra) has revised Greaves Cotton Ltd.'s. (GCL) Outlook to Stable from Negative 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	-	-	-	INR230 (reduced from INR280)	IND AA/Stable	Affirmed; Outlook revised to Stable from Negative
Non-fund-based working capital limits	-	-	-	INR600 (reduced from INR620)	IND A1+	Affirmed
Commercial paper (CP)*				INR900	WD	Withdrawn

*no amount outstanding

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 between the entities.

The Outlook revision to Stable reflects GCL’s improved consolidated operating performance in 1HFY23, and Ind-Ra’s expectation of a continued improvement in 2HFY23 – FY24. The Outlook also factors in the positive business environment for the electric vehicle industry, exemplified by continued volume traction, resulting in an improved margin structure for the company. This will continue to enable revenue and profitability level diversification.

Key Rating Drivers

Improvement in Operating Performance in 1HFY23, Momentum to Continue in FY23-FY24: GCL’s consolidated EBITDA margin increased to 6.0% in 1HFY23 (1HFY22: negative 4.5%, FY22: 1.6%, FY21: 5.3%) 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 (3W), which has been conventionally a higher margin business for the company and 2) electric mobility (e-mobility) business turning EBITDA positive since 4QFY22, as the operating leverage improved with higher sales volumes.

Ind-Ra expects the consolidated margin to continue to improve to 6.0% - 7.0% in FY23 as 2HFY23 is likely to benefit from a moderation of raw material prices, as well as continued recovery in the volumes of diesel 3W industry with the reopening of educational institutes and work places. Moreover, continued penetration in the e- 2W / 3W industry will support volumes and hence, improve operating leverage. The margin improvement will also be supported by the consolidation of plants thus reducing fixed cost. However, the margins are likely to remain below the historical levels over the medium term. Margin improvement is a key monitorable for the agency.

Revenue Growth: Revenues doubled to INR13,590 million in 1HFY23 (1HFY22: INR6,020 million, FY22: INR17,097 million, FY21: INR15,004 million). The revenue growth momentum is likely to continue in FY23-FY24, supported by volume growth in auto engines and e-mobility business. However, there could be some intermittent disruptions in the e-mobility segment as the new battery norms have come into effect from 1 December 2022 and more amendments will be implemented 31 March 2022. Also, the revenue growth is likely to be offset by a volume decline in non-auto applications such as light farm equipment and gensets, as the company is shifting towards higher capacity gensets.

Diversification towards Non-Auto Segments Continues: GCL has been proactively diverting its growth focus to non-auto segments, including e- 2W/3W vehicles, diesel gensets, farm-equipment and marine engines. This is in view of a 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 to cushion its revenues from the cyclical nature of the automotive industry. The revenue contribution from new businesses continued to increase to more than 55% in 1HFY23 (FY22: 49%, FY21: 30%).

The contribution of its e-mobility segment to the consolidated revenues also increased to 44% in 1HFY23 (1HFY22: 17%, FY22:31%, FY21: 12%) while the share of the engine segment (including auto engines, non-auto engines and non-auto applications) declined to 51% in 1HFY23(1HFY22: 74.7%, FY22: 62.5%). The contribution of B2C business to the overall business has increased to 65% which mainly includes e-mobility business and aftermarket.

Ind-Ra believes the company is benefiting from its re-focused strategy on automotive, non-automotive, e-mobility, retail, and finance businesses. Greaves has managed to display a strong quarterly revenue run-rate despite lacklustre sales in 3W engines.

Strengthened E-Mobility Business: GCL operates in the e-mobility business with its subsidiary GEMPL, step-down subsidiary Bestway Agencies and a 26% associate MLR Auto Ltd, with brands ‘Ampere’ in -e-2Ws and ‘Bestway’ and ‘Ele’ in e-3W vehicles. The brands are among the top five players in both the categories. The company’s sales in e-mobility segment increased significantly to 62,520 units (e-2W + e-3W) (1HFY22: 15,433 units, FY22: 62,142 units). The company has also been expanding its product range in both the segments, especially with increased high-speed vehicles in e-2Ws and new variants in both e-rickshaws and e-autos (cargo and passenger vehicles).

The business turned profitable from 4QFY22 with better economies of scale and cost efficiencies and is likely to achieve an EBITDA margin of 5%-7% in FY23-FY24.

The growth momentum is likely to continue with robust growth expected in e-2W/e-3W industry over the medium term. Ind-Ra continues to believe that electrification could substantially pick up in the 2W and 3W segments in two – three 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; and (ii) low operational cost, amid increasing cost of ownership for internal combustion engine vehicles, due to the increase in fuel costs and prices undertaken by OEMs on account of increasing material costs.

Capital Infusion in E-Mobility Business to Support Debt Metrics and Expansion Plans: GCL divested 35.8% stake in GEMPL in June 2022, to a strategic investor Abdul Latif Jameel. This brings in an investment of USD150 million in GEMPL, which will be utilised for capacity enhancement, product development, associated technologies, and brand building. The investor has committed to further invest up to USD70 million over the next one year in GEMPL, although GCL would have an option to exercise the same. However, management has affirmed that even if GCL exercises the option, GCL's stake in GEMPL is likely to remain above 51%. As per management, the strategic partnership between GCL and the investor would not only be beneficial on the financial front, but also support on the business front as the investor on board would bring in rich experience in the automotive business, with earlier investments in e-mobility portfolio. It will also help to develop a global network to improve on R&D, technology, and geographical reach. While the management has not confirmed the plans of incremental cash deployment, Ind-Ra believes it will continue to focus on expanding its portfolio in e-mobility and advanced technology space.

Robust Credit Metrics: GCL has maintained its net cash position for over a decade. The consolidated interest coverage (operating EBITDA/gross interest expense) improved to 10.0x in 1HFY23 (FY22: 5.1x, FY21:11.5x), mainly on account of an increase in the EBITDA levels to INR813 million (INR272 million, INR797 million). The company's consolidated debt of (excluding lease liabilities) reduced INR680 million at 1HFYE23 (FY22: INR2,574 million, FY21: INR36 million), of which the long-term debt of INR504 million has been largely repaid by the company. Ind-Ra expects the company to maintain a net cash position over FY23-FY24, while the interest coverage is likely to remain above 20.0x.

Liquidity Indicator - Adequate: GCL's consolidated cash and equivalents were strong at INR13,398 million at 1HFYE23 (FY22: INR4,380 million, FYE21: INR2,774 million). The company's fund-based working capital limits at standalone level remained largely unused over the 12 months ended November 2022. The free cash flow turned (as per Ind-Ra's calculations) negative INR1289.5 million in FY22 (FY21: positive INR995.9 million), mainly due to the significant decline in profitability and higher capex of INR660 million (INR490 million). The working capital cycle of the company reduced to 6 days in FY22 (FY21: 15 days), mainly due to the change in sales mix towards cash and carry business model, thus leading to lower account receivables days.

Despite of an improvement in EBITDA, the free cash flow is likely to remain negative in FY23-FY24 due to higher capex of around INR2,000 million to INR3,000 million annually over FY23-FY24. The company has repaid a long-term debt in YTDFY23, and has no plans to raise further debt.

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

Subdued Prospects of 3W Diesel Engine Industry: Ind-Ra believes the 3W diesel auto demand in the industry would remain weak in the medium term due to the 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. Although the pricing gap between diesel and CNG has narrowed, the same is unlikely to benefit diesel engine 3Ws materially as the consumers could continue to prefer cleaner technology. While GCL has diversified its business and around 55% of revenue comes from new businesses, a material contribution at EBITDA level is yet to be witnessed. This remains a key monitorable for the agency.

Exposed to Regulatory Changes: Amid increasing instances of electric vehicles' batteries catching fire, the Ministry has announced additional battery safety norms, which have to be implemented in a phased manner from 1 December 2022 (phase 1) and 31 March 2023 (phase 2). This could lead to battery cost increasing from current levels along with some intermittent disruptions, as original equipment manufacturers could take time in seeking approval and managing the production levels with enhanced batteries. As per management, this is unlikely to have a material impact on GCL due to its established relationship with its suppliers and its ability to pass on the price increase to end-consumers, given its strong market position.

The electric mobility business is also dependent on subsidies, and any significant delay in receiving them could impact the credit profile of the company. Ind-Ra will continue to monitor for any material disruption or delay in receipt of subsidies.

Both electric mobility and the conventional diesel auto industry are subject to regulatory changes as witnessed in the past which could impact the company's revenue in case of any adverse regulatory changes.

Standalone Financials: GCL's standalone revenue was INR7,478 million in 1HFY23 (1HFY22: INR4,984 million, FY22: INR11,775 million, FY21: INR13,290 million) and EBITDA margin was 8.9% (1.6%, 3.4%, 7.3%). The company has a net cash position at standalone level.

Rating Sensitivities

Positive: Significant growth in the scale of operations and improved profitability from most of the segments and further revenue diversification, while maintaining strong credit metrics and liquidity could lead to a positive rating action.

Negative: Any of the following events could lead to a negative rating action:

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, or

inability of the company to scale up electric mobility operations or a material impact on the margins amid regulatory changes, or

deterioration in GCL's consolidated financial profile due to substantial debt-led organic or inorganic expansion, leading to the net debt/EBITDA exceeding 1.0x, on a sustained basis.

Company Profile

Formed in 1859, GCL manufactures diesel/petrol/CNG engines, engine applications, power gensets and spares related to engines. It is also involved in the trading of power tillers. The company also manufactures electric two-wheelers and electric three-wheelers through its subsidiary Greaves Electric Mobility Private Limited and step-down subsidiary Bestway Agencies Private Limited. The company's products are backed by a comprehensive network Greaves Retail Centers, Dealers and Distributors across the country. GCL divested 35.8% stake in GEMPL to Abdul Latif Jameel for USD150 million in 1QFY23. GEMPL acquired 74% stake in electric Bestway Agencies Private Limited (Bestway) in July 2020 and the remaining stake in 3QFY22, making it a 100% subsidiary. The company operates through six manufacturing plants.

FINANCIAL SUMMARY - CONSOLIDATED

Particulars	1HFY23	FY22	FY21
Revenue (INR million)	13,590	17,097	15,004
EBITDA (INR million)	813	272	797
EBITDA margin	6.0	1.6	5.3
Interest coverage (x)	10.0	5.1	11.5
Net adjusted leverage (x)	n.m	n.m	n.m
Source: GCL, Ind-Ra n.m: not meaningful			

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/Outlook			Historical Rating/Outlook/Rating Watch		
	Rating Type	Rated Limits (million)	Rating	28 December 2021	29 December 2020	3(Decer 20
Issuer rating	Long-term	-	IND AA/Stable	IND AA/Negative	IND AA/Stable	INI AA/St
Fund-based working capital limits	Long-term	INR230	IND AA/Stable	IND AA/Negative	IND AA/Stable	INI AA/St
Non-fund-based working capital limits	Short-term	INR600	IND A1+	IND A1+	IND A1+	IND /
CP	Short-term	INR900	WD	IND A1+	IND A1+	IND /

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.

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APPLICABLE CRITERIA

Evaluating Corporate Governance

Corporate Rating Methodology

Short-Term Ratings Criteria for Non-Financial Corporates

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