

# Management Discussion and Analysis

## ECONOMIC OVERVIEW

### Global Economy

The global recovery that began at the end of 2016 gained traction in 2017 and continued to evolve on the growth trajectory even in the first three months of 2018. This recovery has been supported by higher commodity prices and growth in international trade volumes. According to IMF estimates, the global economy grew at 3.8% in 2017 and is expected to grow at 3.9% through 2018. The pace of economic recovery is likely to remain unabated on account of reducing supply-side excesses and revival in demand prompted by supportive monetary policies in the developed nations.

### Indian Economy

FY 2017-18 was an eventful year for the Indian economy. The country successfully implemented Goods and Services Tax (GST) – one of the biggest indirect tax reforms post-Independence. A continued recovery in consumer demand, signs of a turning investment cycle and sustained farm-sector growth, despite pockets of stress reflect growth drivers for the Indian economy. Besides this, India is expected to get a boost from a recovering rural demand due to higher foodgrain output, better Minimum Support Price (MSP) realisation, improvement in the livestock, forestry and fisheries segment and lastly, a construction surge across the country.

The waning of the transient impact of GST, recovery in credit growth, massive government spending on rural infrastructure development, prediction of a normal monsoon and the benign inflation outlook is likely to lift the business sentiment in FY 2018-19. The improvement in earnings is likely to be driven by a sustained improvement in consumption as well as investment demand.

As per the RBI's assessment, the Indian economy is likely to grow at 7.4% in FY 2018-19.

### Company Performance

Greaves Cotton Ltd ('the Company') is a large diversified engineering company that has business interest across Automotive Engine, Genset, Farm, Aftermarket Spares, Aftermarket Service Segment and International Business. The Company sustains its leadership through six manufacturing units which produce world-class products backed by comprehensive spares and service through its 3,500 plus service outlets across India.

In the Automotive Engine segment, the Company provides fuel agnostic powertrain solutions to three-wheeled passenger and cargo vehicles and four-wheeled mini-trucks. The Company has a history of 160 years and enjoys a leadership position, with around



75% market share in the 3-wheeler Diesel engines market. This segment provides affordable automotive engine solutions to the majority of population in India, moving more than 1 crore passengers and 5 lakh tonnes of cargo every day.

The Company's manufacturing facilities are supported by comprehensive R&D and testing capabilities. The Company has leveraged its pan-India network of over 3,500 dealers to grow its presence in aftermarket solutions and services. As part of its plan to be future-ready, the Company has collaborated with technology partners globally, to create high performance products with best-in-class ownership cost and environment-friendly solutions meeting future emission norms. The growth is planned by employing strong indigenous capabilities and leveraging strategic partnerships.

FY 2017-18 marked the beginning of a transformation at Greaves Cotton Ltd. The Company took several new initiatives to drive future growth and maintained growth momentum despite transient effects of macro-economic disruptions. The implementation of GST and lag effect of demonetisation capped the volume growth across business segments in the first-half, which in turn affected the top line growth. On the other hand, EBITDA margins marginally fell on account of rising commodity prices. The Consolidated revenues of the Company improved 9.7% in FY 2017-18 to ₹ 1,792.10 crore mark against revenue of ₹ 1,634.26 crore recorded in FY 2016-17. In accordance with Ind AS 18 on Revenue and Schedule III of the Companies Act, 2013, unlike Excise Duties, levies like GST, VAT etc. are not part of revenue. Accordingly, the revenue from operations as compared to previous year are not comparable and should be compared net of excise. PAT grew 12% to ₹ 202.62 crore on Y-o-Y basis. Irrespective of that, the Company accelerated the growth pace, increased operating profits and delivered a record last quarter growth after seeing stagnancy in the last 5 years.

In FY 2017-18, the Company demonstrated its future-readiness by showcasing powertrain solutions in the alternate fuel categories, new electric vehicle with possibility of charging infrastructure facility at Greaves Care and the ability to operate in the overall ecosystem at the Auto Expo 2018, the biggest show for Automotive industry in India. In parallel, the Company continued to launch new products across other business segments – Farm, Genset, Aftermarket and engage with its strategic alliance partners.

#### New Initiatives

In order to de-risk the current businesses and plan for future growth and sustainability, the Company has laid out a long-term strategic plan to become a fuel agnostic powertrain solutions and services player across Automotive Engine, Farm, Genset and Services segments. As part of the strategic road-map, the Company would move closer to the customer by enhancing the B2C play and leveraging the strong brand that has been built over the years. With a view to achieve the above strategic imperatives, the Company has been building capabilities and technologies in clean energy across its businesses.

The Company entered into a technological alliance with Pinnacle Engines of the U.S. and with Bangalore-based Altigreen Propulsion Labs. These partnerships will enable the Company to cater to the fast-growing alternate fuel segments and also capture opportunities in the Aftermarket with retrofit solutions.

Enhancing the aftermarket business, Greaves tied up with AMSOIL for premium synthetic Oil category and Fuchs for mineral oil category, catering to a wide range of consumer segments. Widening the Multi-brand portfolio, the Company introduced multiple new products including the 3W and 2W battery and tyres. The Company also started selling products in the light construction equipment segment through tie-ups with leading global organisations – Mikasa from Japan and Roxar from Italy.

As a new future-ready business initiative, the Company introduced **Greaves Care** - India's unique chain of multi-brand service outlets with proposition of superior lifetime value to the customer. With this, the Company aims to become a one-stop shop for all service and repair needs, quick turnaround time, and genuine spare parts, thus providing assurance of good service for the customers using Greaves engine, Farm and Genset products across India.

Besides the above initiatives, the Company made an impressive display at the Auto Expo 2018 with a full range of BS-VI ready solutions in the Automotive Engine space. Single cylinder to multi cylinder engines catering to vehicles from 2W, 3W, small 4W commercial vehicle and pick-up truck range (SCV range) – with a full portfolio of Diesel, Petrol and alternate fuel options, along with Greaves electric powertrain solutions in all new E3 – electric vehicle on display was key attraction at the Auto Expo 2018.

## AUTOMOTIVE ENGINE BUSINESS

India is now the 4<sup>th</sup> largest market of automobiles in the world by volumes and ranks first as far as the manufacturing of two-wheelers (2W), three-wheelers (3W) and tractors are concerned.

Improved safety standards, technological enhancements, environment-friendly policies and green automotive engine initiatives all aimed at reducing emissions will be the critical quality parameters for benchmarking future growth.

3W segment also recorded a stellar performance led by 28.7% growth in the passenger fleet and 7.9% in cargo. Pent-up demand on account of 3 years of stagnation and open permits issued by a few major cities shored up 3W demand.

#### Business Overview

In line with the Government's focus on reducing emissions and making last-mile automotive engine much safer, the Company took several steps in FY 2017-18 towards becoming a fuel agnostic powertrain solutions and services company.



In the automotive engine segment with an objective of de-risking the dependency on single cylinder diesel product, the Company announced wide product portfolio with multi cylinder and multi fuel options in tune with the upcoming BS-VI norms. The Company now has a superior powertrain solution offering for Diesel, CNG, Petrol, Hybrid and Electric– a healthy product mix well-aligned for the future opportunities. New strategic tie-ups will allow the Company to tap the new segment of alternate fuel.

Implementation of GST had a temporary negative impact on the Company's business in the H1 of FY 2017-18. However, the situation improved in H2. The division recorded 3% volume growth in FY 2017-18.

#### Risks and Concerns

**Rising commodity prices:** While higher crude oil prices may hamper the potential demand for automobile, rising commodity prices affect the margins. The Company has prepared to tackle this challenge through better efficiencies and strong risk mitigation policies.

**Change in the interest rate regime:** Interest rates have been on a downward spiral for over two years now. If borrowing costs

escalate in the future, it may have an adverse impact on the automobile demand.

**Rapidly changing fuel preferences:** As the Government has set April 2020 deadline for the implementation of BS-VI norms, demand for conventional 3W diesel engines is likely to be affected in the future. The BS-VI tie-up with several OEMs and tech partnerships mentioned above, de-risks and makes Greaves future-ready meeting in advance the April 2020 BS-VI mandate and tap high growth opportunities.

#### Outlook

In FY 2018-19, the Government is likely to spend ₹ 5.97 lakh crore on infrastructure development as against the estimated expenditure of ₹ 4.94 lakh crore it incurred in FY 2017-18. Faster economic growth and improvement in rural consumption is likely to drive the demand for last-mile automotive engine solutions. The Company may benefit from the broader economic trends.

Although changing environmental norms and fuel preferences pose challenges, they open up multiple growth opportunities as well. While the future belongs to electric and hybrid automotive engine vehicles for the last-mile automotive engine, the demand for an internal combustion engine is unlikely to dry up since affordability is a crucial determinant of choice. Power, performance and fuel economy are the critical parameters for making ownership of the automobile affordable. Government's emphasis on achieving 100% electric vehicles by 2030 is likely to aid the Company to achieve higher growth in future. With its extended range of future-ready engines, the Company is expected to remain a preferred OEM partner of automobile manufacturers.

#### AUXILIARY POWER BUSINESS

Indian auxiliary power market is dominated by the diesel gensets segment. Based on generation capacity, Indian diesel genset market can be divided into 4 segments – 5 kVA-75 kVA (low), 75 kVA-375 kVA (medium), 375 kVA-750 kVA (high), 750 kVA and above (very high). Nearly 85% gensets sold in India are used for back-up power applications. Thus, despite the improved electricity supply, its unpredictable nature drives the market growth, especially in the low kVA rating segment. Medium and high kVA rating segments are primarily driven by the pace of economic activity, infrastructure



development and capacity additions among others. In FY 2017-18, the industry continued to grow at a low single-digit rate.

### Business Overview

The Company offers CPCB-II compliant new generation gensets that meet the demand of hospitality, BFSI, retail, real estate, housing, telecom, railways and defence sectors. Besides, higher efficiencies, this Company-assembled gensets are compact, reliable, dependable, have a compact footprint with reliable after sales service. While the Company strengthens its base in the existing product range and bagged orders from some marquee customers.

With its superior technology, an expanded range and strong distribution network, the Company will keep providing uninterrupted power to growing customer base, thus powering progress in their lives.

The Company is also making keen progress to expand its product range in the above 500 kVA segment, thus increasing the addressable market and fuelling further growth and profitability in this business.

The Company also manufactures small engines for non-automotive applications and large industrial engines ranging from 4HP to 700HP. These engines are fuel-efficient and low on maintenance, thus making a great value proposition in their respective categories. They find applications primarily in agriculture, construction, defense, shipping, marine and railways among others.

### Risk and Concerns

**Growing penetration of renewable energy sources:** Renewable energy now accounts for 18% of India's total installed power capacity. The roof-top solar energy is also gaining traction as it is mandatory for smart cities to source 10% of total energy demand from roof top solar. Taking cognisance of these changing trends in consumer preference and environmental norms, the Company has been working to expand its product portfolio.

**Competition:** The lower kVA sector has become extremely price sensitive as organised players are trying to increase their market share. The Company has been expanding its product offerings to address specific demands of various industries and has also been growing its footprint in the higher kVA segments. Players from the organised sector with complete offering – Product Sales, Service and Spares are expected to gain traction. The Company has a comprehensive product portfolio to address the demand for lower kVA and medium kVA gensets.

### Outlook

The Indian economy has witnessed a tangible recovery from the third quarter (Q3) of FY 2017-18. As per the CSO (Central Statistics Office) estimates, the capacity utilisation levels have gone up substantially and are likely to improve further going forward. If the private sector capex cycle posts stronger-than-expected recovery, then that would be a positive for the genset industry. Further, front-loading of the government spending on infrastructure development and highest-ever allocations to the road and railways sector are likely to offer tailwinds to the Indian genset industry. Revival in the housing industry and the growing



count of data centres would further accelerate their demand. All the aforementioned factors are likely to boost the prospects for '750 kVA and above' segment. The Company is well-poised to take advantage of the uptick in the industrial cycle.

## FARM EQUIPMENT BUSINESS

### Industry Overview

India is an agrarian economy and has been the largest producer in many crop categories such as rice, wheat, sugarcane, fruits and vegetables. However, India ranks low in per hectare productivity. Increased fragmentation with rising population has made the landholdings small, calling for low-cost mechanised equipment for small and marginal farmers. Getting more produce from the farm is a challenge and there has been an increased focus on improving yield per acre. Shortage of labour is one of the key challenges the agriculture sector faces today.

India received normal rainfall in 2017 for the second consecutive year. As a result of a bumper harvest in many crop categories, farm realisations have been highly unremunerative. Several states were hit by climatic uncertainties in FY 2017-18. Owing to factors such as lower discretionary income, high indebtedness, delay in farm subsidy payments and loss in production on account of natural calamities, farmers made lower investments in farm mechanisation equipment in FY 2017-18.

On the positive side, the Government assured higher MSPs for all unannounced crops of kharif. The Government has also allocated higher monetary resources to increasing the penetration of crop insurance and irrigation facilities. The total layout for the agriculture and allied sectors will be 12.9% higher in FY 2018-19.

### Business Overview

The Company aims to increase farmers' productivity at each stage of the crop cycle – right from the soil preparation stage to the post-harvest stage through mechanisation. It offers a comprehensive

product portfolio of farm equipment consisting of power tillers, pump sets and light agri-equipment.

In FY 2017-18, the Company continued to invest in developing technological capacities for making more indigenous products in the farm equipment space. It launched 'The Bahubali' – India's first indigenously designed and manufactured 14HP high power tiller. In FY 2017-18, it also unveiled eHD (Electric Heavy Duty) series of electric pumps keeping in mind changing consumer preferences.

The first half of the year witnessed a slowdown in the market due to the macroeconomic environment. GST-related de-stocking also impacted the performance of the Company in the H1 of FY 2017-18. Floods in some agri-dominant states negatively affected the demand for pump sets and other light agricultural equipment due to loss of crop. The demand however, revived in H2 of FY 2017-18.

### Risks and Concerns

**Price sensitivity:** Since the Company offers most of its solutions to small and marginal farmers, the demand for its products is highly price sensitive. The Company endeavours to tackle this challenge through better products and services, value-engineering through localisation and cost-efficiencies.

**Farm distress:** Unremunerative prices for farm produce and unforeseen natural calamities have led to widespread farm distress especially among small and marginal farmers since they suffer the most during such situations. At the policy level, the Government has taken several steps such as revision in MSPs and higher budgetary allocation to alleviate farmers' pain.

### Outlook

The Company has been expanding its product portfolio keeping in mind the growth potential of the farm equipment industry.

# A PRODUCT FOR EVERY CROP CYCLE

LAND PREPARATION	IRRIGATION	SOWING	REMOVING WEEDS	CROP PROTECTION	REMOVING OF GRASS	HARVESTING
						
Power Tiller	Pumpsets	Transplanter	Weeder	Sprayer	Brush Cutter	Reaper





As the farm labour costs have nearly doubled over the last few years and are still ticking upwards, the wave of farm mechanisation is expected to emerge even stronger. Adding to this, a new wave of digitally-controlled farm productivity enhancement with advisory solutions is gaining traction. The Company with its comprehensive product portfolio is well-placed to ride this wave. The implementation of GST is likely to offer immense benefits to the players in the organised sectors in the long run. The Company is well poised to benefit from such opportunities.

## AFTERMARKET BUSINESS

Quality of spares is a critical factor in enhancing the life of an asset and protecting its value. As the market for autos and other high value engineering products across the Company portfolio is growing, the demand for high-quality spares is also fast catching up. Traditionally, unorganised players have dominated the Indian spares markets. Counterfeiting of products has been another critical area that has always haunted the buyer. After the implementation of GST, many players from the unorganised sector are now finding it difficult to sustain their operations.

### Business Overview

The Company holds a leadership position in 3W diesel engines and has been rapidly growing its presence in the farm equipment and genset market. The Company has also been growing its presence in the multi-brand spares business.

The Company offers wide range of spare parts for all the 3 business groups – Automotive Engine, Farm and Genset. In FY 2017-18, the Company added a new range of product categories and adopted a focussed approach to promoting multi-brand business and strengthening its network. In FY 2017-18,

the Company, in association with competing authorities, conducted raids at multiple locations against the spurious parts thereby protecting consumers from these unauthentic parts which can cause higher damage to the engine over a period of time.

### Risks and Concerns

**Changing preferences:** Diesel is becoming a less preferred fuel option due to growing environmental awareness. However, the Company has been rapidly growing its presence in alternate fuel categories. Multi-brand spares business is likely to offer better growth opportunities as it deals with parts of all fuel range (CNG, Petrol, etc.) and multiple products in the last-mile automotive engine segment.

**Counterfeiting:** At present, the counterfeit market impacts a big portion of the 3-wheeler spares market. Like all the other organised players, the Company also faces a major threat from the counterfeit industry. Nonetheless, the Company fights the danger of unauthentic products by conducting several raids, supported by the authorities.

**Rising commodity prices:** Spares is a price-sensitive business. Rising commodity prices can have a negative impact on margins. The Company tackles this challenge through greater efficiencies and better procurement strategies.

### Outlook

The Company has entered into strategic partnerships with multiple brands for the aftermarket products. Its strong distribution network is likely to facilitate further growth. Better prospects for the farm sector and heavy public spending on infrastructure are expected to drive the spares demand in agri-equipment and genset segments.

## INTERNATIONAL BUSINESS

### Industry Overview

In sync with the upsurge in global trade, India's merchandise exports grew by 9.8% in FY 2017-18. India's ranking improved by 30 places – from 130<sup>th</sup> to 100<sup>th</sup> on World Bank's Ease of Doing Business list as per its report titled 'Doing Business 2018'. The implementation of far-reaching reforms is likely to take India closer to the best business practices.

Engineering exports which contribute over 23% of India's total exports are estimated to have reached an all-time high in FY 2017-18. Various initiatives such as Make in India, Start-up India and Digital India have fuelled the growth in engineering exports.

### Business Overview

The exports business has shown a growth momentum despite political uncertainties in the Middle East and Africa coupled with currency devaluations. Improvement in Channel network and introduction of new distributors helped in strengthening the international business. Strong cost focus and improved product-mix led to a better growth than last year.

### Risks and Concerns

**Geo-political tensions:** A rift in international relations of some of the world's developed economies has been a sentiment damper. To negate the region-specific negatives, the Company exports to countries across the region with a lower concentration of revenues in any one region.

**Currency movement:** Although the Company hedges its currency positions, any unexpected rise in the value of Indian Rupee may adversely affect the Company's performance. The Company takes



all viable and appropriate measures to mitigate the impact of currency fluctuations.

### Outlook

India with its competitive advantages is likely to witness healthy growth in engineering exports in FY 2018-19 as well. Despite much-feared tariff wars, the global recovery is expected to stay on course. The Company is well-placed to explore the emerging opportunities in the export market.

### Commodity Prices & Fluctuations

Rising crude oil price poses a challenge. Aluminium, steel, copper and plastic are the primary raw material components for the Company. Since any significant fluctuation in the raw material prices can severely affect the Company's production performance and EBITDA margins, it follows a well-articulated and board-approved foreign exchange risk mitigation policy. The Company actively participates in the currency futures market, purely for the hedging purpose.

The Company also follows dynamic sourcing strategies and efficient inventory management practices to ensure smooth production.

## INTERNAL CONTROLS FRAMEWORK

The Company has a robust system of internal controls. Its internal audit programme is a vital part of its management control systems. The Company regularly upgrades its internal control systems and benchmarks them to ensure that they are in line with globally accepted framework as issued by the Committee of Sponsoring Organisations of the Treadway Commission (COSO) Internal Control - Integrated Framework (2013).



The Company maintains a system of internal controls designed to provide reasonable assurance regarding the following:

- Effectiveness and efficiency of operations
- Adequacy of safeguards for assets
- Prevention and detection of frauds and errors
- Accuracy and completeness of the accounting records
- Timely preparation of reliable financial information

Besides this, the Company also follows standardised operating procedures, policies and guidelines, including regular monitoring procedures and self-assessment exercises as a part of the overall internal control system. The Code of Conduct established by the Company guides the fundamental standards that all employees need to follow in their regular working.

The Company also has in place a well-defined whistle blower policy which encourages its employees to report activities which they suspect are unethical or have a potential conflict of interest. The Company is committed to enforcing the highest standards of integrity and transparency and has adopted a robust self-monitoring mechanism.

Key controls have been tested during the year and corrective and preventive actions are taken for any weakness identified. The effectiveness of the internal control systems is continuously monitored by the Internal Auditors and Corporate Audit Department of the Company. The primary function of the Internal Auditors is to provide the Audit Committee and the Board of Directors, an objective assurance of the adequacy and effectiveness of the organisation's risk management control and governance process. The Internal Audit group follows up on the implementation of the corrective actions and improvements in business processes. Compliance with laws and statutory requirements are also monitored and stringently adhered to.



## HUMAN RESOURCES

The Company firmly believes that people are critical to an organisation's growth and success. An organisation culture that fosters development and growth of the people, in turn, helps build organisational capability to meet the current and future business needs in complete alignment with interests of customers, shareholders and the community at large. The Company seeks to create an environment of fairness, transparency and mutual respect, wherein the aspirations of employees and goals of the enterprise are aligned to achieve mutual benefit on a continuous long-term basis.

With a view to creating a diverse workforce, the Company continued to induct technically qualified female employees in manufacturing operations last year. The Company also provided an opportunity for women to enrol as a part of the CSR programme on skill development and employability enhancement called DEEP (Development, Education, Empowerment, Progress) in Aurangabad.

In FY 2017-18, the relation of the Company with all its employees and trade unions remained harmonious. The payroll count of the Company's permanent employees was 1,750 as on March 31, 2018.

## INFORMATION TECHNOLOGY

IT has become an integral enabler of organisation for growth and sustenance. IT at Greaves is delivering advantages of automation, integration, collaboration, optimisation building security and controls for operations. This year, the key IT initiatives were IT enablement of core business processes for customer insight and new product introduction.

To comply with GST requirements, the Company has redefined and mapped changes in sales, purchase, financial reporting and tax filing processes in SAP ERP.

The Company is also reimagining and redefining core business processes and models with path-breaking digital technologies to achieve manufacturing and service excellence.

Productivity and engagement has been enhanced by setting up world-class collaboration communication systems. Appropriate infrastructure and controls are in place to combat cyber threats and information security with a fail-safe network that will ensure business processes continuity.