



Greaves Cotton Limited
Q1 FY17 Earning Conference Call
September 27th, 2016

Moderator: Ladies and Gentlemen, Good Morning and Welcome to Greaves Cotton Limited Q1 FY17 Earning Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing '*' followed by '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to the Managing Director, Greaves Cotton Limited. Thank you and over to you.

Sunil Pahilajani: Good Morning, Ladies and Gentlemen and thanks to all of you for joining this earning call today.

Before we get into the details and discussion on business, I wanted to share with you that we have leadership change here and I have for my own reasons decided to move on and not continue after five-year tenure in Greaves Cotton and I am being succeeded by Mr. Nagesh Basavanhalli who is a professional of very exemplary record and experience. I wanted to introduce him to you first. Nagesh?

Nagesh Basavanhalli: Thanks, Sunil. Good Morning, Everybody. This is Nagesh Basavanhalli and I am glad to be on the call today. It is indeed a privilege and honor to be part of the Greaves Cotton family and I do look forward to talking to you, working with you in the future. Thank you. Over to Sunil.

Sunil Pahilajani: Now coming back to last quarter's performance and our thoughts on that, as far as business is concerned, as you know the market has been tough and economic environment has been difficult; however, we have witnessed minor growth in first quarter revenue as compared to similar quarter of last year. This is in continuation to our growth trend that we have witnessed in last quarter of previous fiscal also. In terms of EBITDA margin, we have remained healthy at 13.6% in Q1 of FY16-17. As we have discussed earlier in terms of our readiness on Emission Regulation, we are ready for BS-IV and we are also working on schedule for

achieving BS-VI Automotive Engine Regulation and we have invested and prepared our strength accordingly. So continuation of business is assured.

We have been able to maintain our focus on customer development and various product developments and geography expansion in various products and growth has been reasonably good and all segments other than Automotive which is largely dependent on OEM schedule.

We hope to see revival in Agriculture sector. We have lined up range of new products which are being launched in the course of coming one year. Mini Power Tiller has been undergoing series of field trials and is in advanced stage. We are happy that this product has come up very well.

In Auxiliary Power business also our focus in marketing and service has helped to grow the business quite well and response has been very encouraging and we are actually gaining on market share.

Our Aftermarket business as you know is already strong and is getting stronger with Multi Brand offerings. We are now also getting into Multi Brand servicing and we are setting up some model workshops which will then get into countrywide network and this can be additional source of revenue.

We continue to invest and strengthen our technology and R&D backbone as it helps us to develop new products and strengthen us for future.

So with these thoughts, I hand over to my colleague, Narayan Barasia to take you through Financial Results.

Narayan Barasia:

Thank you, Sunil. A Very Good Morning and thank you very much for joining this quarterly earnings call. I will take you through the financial results of Greaves Cotton Limited for the First Quarter FY16-17. Gross revenue for the company for the quarter ending June 2016 is at Rs.445 crore as against Rs.424 crore in the same period last year, recording a growth of 4.9%, this growth has been recorded after series of quarters of zero growth and it is a very good positive sign for the business. EBITDA for the quarter ended June 30, 2016 is at Rs.60 crore as against Rs.61.5 crore for the same period last year. Profit after tax for the quarter ended June 30, 2016 is at Rs.38.5 crore as against Rs.43.8 crore for the corresponding period last year.

At this point of time, let me open it up for your questions. Thank you.

Moderator:

Thank you. We will now begin with the Question-and-Answer Session. We take the first question from the line of Ashutosh Tiwari from Equirus. Please go ahead.

Ashutosh Tiwari:

Sir, what kind of growth we saw in say Gensets, Farm, Tillers, we said that we saw good growth?

- Narayan Barasia:** Gensets business has grown by about 20% and the Farm business has grown by about 30-35% in terms of volume. So both these businesses have done pretty well for Greaves.
- Ashutosh Tiwari:** So Aftermarket has grown, Genset has grown, Farm has grown. Then have you seen very sharp decline in the three wheeler and four wheeler volumes?
- Narayan Barasia:** Yes, absolutely right, Ashutosh, the three wheeler business has declined by about 7% from 70,000 volumes to 66,000 volumes.
- Ashutosh Tiwari:** Do you see revival happening on the diesel side because lot of places diesel engines are getting banned, so do you think it can revive after the monsoon?
- Sunil Pahilajani:** Actually it is not a constraint from Greaves side. What happens is that we are supplying to all the 55 OEMs across country and it is up to their market strategy and their situation of market share. So we have to go by their schedule. As you know, we are supplying to everybody except Bajaj. So we are only supporting them so that they take bigger and bigger market share and we can accordingly grow in business. So it is largely dependent on OEM initiatives.
- Ashutosh Tiwari:** Tillers how much growth you saw?
- Narayan Barasia:** Tiller has grown from 1,100 volume to about 1,800, we have seen a whopping growth of about 60%.
- Ashutosh Tiwari:** So mini still not launched, right?
- Narayan Barasia:** Yes, the 14 HP Tiller which we are developing in-house is yet to be launched.
- Ashutosh Tiwari:** Under the BS-IV norm, effective from April '17, what kind of price increase we can see in the engine?
- Sunil Pahilajani:** So price increase is substantial but it is customer-to-customer changing and we protect our margin. This is all I can say.
- Ashutosh Tiwari:** But broadly some minimum price increase happen?
- Narayan Barasia:** The development work is still going on and the negotiation is still going on. So it is very difficult to tell exactly what is the percentage increase.
- Sunil Pahilajani:** So it would not be right to put any number because customer-to-customer packaging and the scope of supply is different. But as we said, substantial change is there in terms of price.
- Ashutosh Tiwari:** Can that lead to incremental profitability increase per engine basis, is that possible?

- Sunil Pahilajani:** As I said, we will maintain our profit percentage margin.
- Moderator:** Thank you. The next question is from the line of Nirav Vasa from B&K Securities. Please go ahead.
- Nirav Vasa:** Can you please help me with the exact volume numbers for 1QFY17 and the corresponding numbers for 1QFY16 in terms of breakup between Engine, Farm Equipment's, Gensets and Aftermarkets?
- Narayan Barasia:** Three Wheeler has degrown from 70,000 to 66,000, Four Wheeler is 9,000 to 7,000, Farm Equipment is 14,000 grown to 19,000, Power Tillers have grown from about 1,000 to 2,000, Gensets have moved from 500 units to 600 units.
- Moderator:** Thank you. The next question is from the line of Balchandra Shinde from Anand Rathi. Please go ahead.
- Balchandra Shinde:** Sir, regarding new products and new avenues, in which fields we are actually adding up the products like we are trying for higher capacity engines but are we looking out for any other sectors to introduce any products?
- Sunil Pahilajani:** As I shared briefly, we are actually working on three directions – one is we are adding new products in every segment of business we are growing, we are adding new customers, and we are also adding new geographies. So as far as products are concerned, in Farm Equipment, we have range of products, we are designing and developing and launching now, you will see this quarter-to-quarter and we have already launched new set of Gensets with CPCB-II and then we are trying to bring more variants in that depending on market needs. Same way on engine side, we have several programs running today not only for our single cylinder engine and our full range of smaller engines, but also with this leap engine being launched, we have several variants in offering depending on what customer may need. So there is whole host of products in every segment of business.
- Balchandra Shinde:** Sir, we have read it on the BSE announcement that you have resigned, have you finalized a new MD or CEO or is it in the process?
- Sunil Pahilajani:** I think you joined this call a bit late, I introduced my successor, Mr. Nagesh Basavanhalli who is already on this call and listening to this conversation. So I just wanted to reassure you that we have a very smooth and professional change and the company's continuation and growth story will be stable.
- Moderator:** Thank you. The next question is from the line of Bhargav Buddhadev from Ambit Capital. Please go ahead.

Bhargav Buddhadev: Sir, on the Spares business, just wanted to check that Greaves has already been present in this business. So what is the incremental market opportunity Greave enjoys by being present in the Multi Brand Spares business?

Sunil Pahilajani: It is altogether different market. So far Greaves supplying solutions or spare parts and service to only the products which were produced and supplied by Greaves. Now, we are Multi Brand means it is actually serving other OEM brands. So all other competitor brands and all other OEM brands also we will be supplying Greaves brands spares parts suitable for them and these will be produced and supplied by Greaves through Greaves channel. The advantage is that we have channel which is far-far superior and reach is very high as compared to anybody in the country. So we unlock value from this channel. Second is we also enhance value for our dealership and our system by giving several solutions through same shops and then we also added now servicing network. So we service not only Greaves products, we also service various other OEM products. So it is additional revenue stream.

Bhargav Buddhadev: So this entire 35 billion opportunity which you have mentioned in the press release is completely new opportunity, right?

Sunil Pahilajani: It is a new opportunity.

Bhargav Buddhadev: When we say that we have tied up with these 40 vendors, does this cover pan India or right now it has been....?

Sunil Pahilajani: We have started in a phased manner but it will eventually cover pan India in three years' time we are envisaging to gain substantial market share.

Bhargav Buddhadev: I would presume our spare parts would be at a fairly large discount compared to the OEM, otherwise nobody would possibly entice to buy, is it true?

Sunil Pahilajani: No, that is not true. We are not in the price war, we are actually offering value. First of all, we offer reach where everyone does not have reach. Second, we offer quality and service which is very competitive and much better. So it is not selling on discount.

Bhargav Buddhadev: Obviously Bajaj Auto would have a fairly large reach I would presume. I am not so sure if you are trying to take Bajaj Auto's market then I mean what will be the rationale that you offer at a slight discount to what Bajaj Auto sells?

Sunil Pahilajani: So I would say yes or no, I am not taking name of any OEM because it would not be fair, we are working on various brands now. So what happens that brand-to-brand the reach is different. You mentioned one example, but then everyone is not having similar reach. Second thing is that even in the brands where they have reach, there are complementing areas where we actually can add value. Certainly if pricing strategy needs some attention like what

you are saying, we will see that case-to-case. That depends on the situation. But principally we are not in the business of discounting it, we are mainly in the business of offering good value.

Moderator: Thank you. The next question is from the line of Viraj Kacharia from Securities Investment. Please go ahead.

Viraj Kacharia: Just had a couple of questions: First is on Tillers and Farm Mechanization. For Tillers, what has led this growth of 60%? So have we entered into new territories? Apart from the 14 HP which you are planning to launch is there any other product been launched? So if you can just provide one on the growth which has driven in Q1 for Tillers? What is the product plan for Tillers like, you talked about 14 HP, but also on the mini Tillers side, have you any plans this sub-8 HP Power Tiller cum weeder, is that are we looking to launch? Second is on the Farm Equipment. Can you elaborate a bit more like what potential segments we would be looking at – would it be on the small farm mechanization space or would it be crop-specific? Third is on the Gensets. What kind of variants we would be launching given our current product range in Gensets, are we looking to further move up in terms of kVA segment, what is the thought process there?

Sunil Pahilajani: I will try to cover these questions. So first and second question I can answer in a combined way; now Farm Equipment, your subject of discussion is very interesting and very important from Greaves business point of view. Now, Farm Equipment is a very big opportunity for us where we are a player and we are one of the key players in India. Now, we have transformed our business model from trading to manufacturing and evolving our own R&D strength and now designing and launching our own Greaves in-house made and developed product. Now that you have observed over last year or so. That momentum will go on and actually accelerate. We have Power Tillers, in the process we have already launched some of the equipment. Coming to crop cycle, for various crops, there are various stages and at every stage we need different mechanization or different kind of mechanized equipment. Our focus as Greaves has been only on the small and marginal farmers and small and marginal farms where smaller equipment are used and not that tractor range. So we are not in the tractor kind of range requirement, we are up to maximum power tiller and I would say below that range of mechanized equipment. So it is a very wide range of equipment. Crop-to-crop and stage-to-stage which we have plan and a few equipment's have been launched over last one year. You will see several such launches in next one year and then subsequently. So we are investing in a very serious way into this in R&D and development of farm equipment mechanized solutions and we want to be a full range solution provider for small and marginal farmers. That is our vision in this. We see this market is growing and growing substantially and we are a serious player in this. Coming to your Genset question, as far as variants are concerned, I talked about variants to markets because like Middle East market needs different kind of Genset in the same kVA because all the features and validation requirements are different. But domestic market or say market in Southeast Asia has different requirement.

So depending on market regulation, market need, duty cycle and nature of use, we have to create various variants. So when I mention this, I meant that we are trying to offer solution for every market so that we can expand our presence.

Viraj Kacharia: Just one follow up question on this; on the Tillers, were there have been product launches in this quarter or will there be a new market that we enter into?

Sunil Pahilajani: So we are envisaging it sometimes next year. So we will be announcing once we are sure about it, but certainly not early.

Viraj Kacharia: So the current product which we sell in Tiller is still on imported basis, it is not indigenous completely?

Sunil Pahilajani: The validation and approval processes are there for such equipment prescribed by government and we have to follow those.

Viraj Kacharia: So still not launched, that is what I meant indigenous product in Tillers?

Sunil Pahilajani: We are only sharing that we are in process of development. As we come through, we will share with you again.

Viraj Kacharia: These Spare Parts is on the three wheeler and four wheeler side, we are not extending to two wheelers, the new Spare Parts Aftermarket initiative?

Sunil Pahilajani: At this moment, it is limited to three wheelers but eventually yes, two wheelers is also one can evaluate.

Moderator: Thank you. The next question is from the line of Neeraj Marathe from HU Consultancy. Please go ahead.

Neeraj Marathe: Just had two questions: First is on the Spares business, completely new segment we are adding. So, just wanted to get an idea on what kind of working capital requirement would there be in simple terms let us say for Rs.100 of sales to be achieved?

Narayan Barasia: Aftermarket business does not need a very high working capital. So we operate at a very thin working capital on Aftermarket. So Multi Brand Aftermarket will also follow the same principle. We do not expect a very high infusion of working capital.

Neeraj Marathe: We have been very generous with the dividend this year. Now recently SEBI came out with a draft regulation for listed companies where the listed companies will have to adopt a proper dividend distribution policy which has not been made **into a law** yet but it will be soon it seems so. Do we have a proper disclosed dividend distribution policy in place or would we still want to take a call on year-after-year?

- Narayan Barasia:** We are formulating this, we are under discussion and once it is finalized, we will communicate to you as well as the exchange.
- Moderator:** Thank you. The next question is from the line of Pavan Kumar from Unifi Capital. Please go ahead.
- Pavan Kumar:** Sir, first question regarding your Spares business. So we were even talking about production. So is there anything that we are going to produce or we are going to channelize from the 300 vendors we are talking about?
- Narayan Barasia:** This whole Aftermarket Multi Brand will be sourced from the vendor. So we will develop vendors and develop relationships with the vendors from where we will source and supply. So we do not intend to manufacture those in our factory.
- Pavan Kumar:** So the incremental investment will only be towards whatever working capital and maybe additional employees, right?
- Narayan Barasia:** Absolutely.
- Sunil Pahilajani:** That is very minor as Mr. Narayan just mentioned, actually not significant.
- Pavan Kumar:** On the Farm Equipment, what is the growth rate we are looking forward for the full year sir?
- Sunil Pahilajani:** For next year the growth number is difficult to project, but we are hoping to continue to expand. As I said, we have all the three dimensions we are now working in terms of customers markets, geographies and products. So hopefully you will see meaningful growth.
- Moderator:** Thank you. The next question is from the line of Girish Raj from Quest Investment. Please go ahead.
- Girish Raj:** Just wanted to understand on our products. In the Automotive Engine, what are the existing solutions that we have in terms of tonnage and in the new solution that we have developed what solution we have in tonnage and the applications if you can elaborate on that?
- Sunil Pahilajani:** Our solution range is (SCV) Small Commercial Vehicle. When we say Small Commercial Vehicle, it is up to 3.5-ton pay load range. Up to there we can offer solutions. Historically, we have been only in sub-1 ton kind of range with single cylinder solution, but then eventually with the launch of Leap and a new platform, now we are a full solution provider to SCV segment.
- Girish Raj:** So is there a standard from the existing OEM supply that we have, is there any standard 0.35 or 0.5, can you please explain us that tonnage capacity of the existing?

- Sunil Pahilajani:** I just now said that at this moment we have whole range of sub-1 ton range of vehicle engines which we have been supplying for almost two decades, but now we have made a conscious entry into complete SCV segment through this Leap engines platform. So now we cover the whole range up to 3.5 tons.
- Girish Raj:** When we say SCV, it is not a passenger vehicle I am assuming?
- Sunil Pahilajani:** When we say passenger vehicle it is normally private car or something, it is not that, it is a passenger vehicle on commercial sense like three wheeler and other shared four wheeler taxis are also passenger vehicles but those are considered as commercial range.
- Girish Raj:** In CNG sir, other than Bajaj and Greaves, who else is the supplier?
- Sunil Pahilajani:** We do not know, you can see that.
- Girish Raj:** In the Aftermarket of Rs.3,500 crore, what would be our fair share that we can target because there is OEMs also?
- Sunil Pahilajani:** Now it is difficult to define number, but we are confident with our present situation, perhaps you can make out from that, that we will be taking a substantial share.
- Moderator:** Thank you. The next question is from the line of Bharat Gianani from Sharekhan. Please go ahead.
- Bharat Gianani:** I had just one more question on the Multibrand Aftermarket Spares market that we are targeting, obviously we are sourcing it from a vendor. So I am just trying to understand the margin profile would be in mid single digits, is that the right assumption because since we are not manufacturing in-house and we are just sourcing it from a vendor, so is that assumption correct if you can highlight?
- Sunil Pahilajani:** So that assumption, I am not sure if it is correct, because it is difficult to give a general answer to all the kind of components, but our margins we protect the way we are today and our overall margins will be maintained and we will be offering as I said it is not competitive or discounted sale and it is not a sourcing business, it is a business where we offer value through our channel, where we offer value in terms of reach, in terms of service and in terms of quality. Perhaps we can earn good margin on that account.
- Bharat Gianani:** But sir, would it be fair to say that the margins in this kind of business would be less than the current margins of 13% to 15% that we are making or it would be of the similar levels, just a directional thing I want?
- Sunil Pahilajani:** I agree with you maybe marginally less, but it would not go substantially different because we know this business so well and our efficiency is increasing by adding this range. You should

also understand that we are utilizing most of the existing channel and that improves our efficiency of delivery so much.

Moderator: Thank you. The next question is from the line of Ashutosh Tiwari from Equirus. Please go ahead.

Ashutosh Tiwari: If I look at R&D expenses they have been coming off the last two years. So I think FY'14 would have been higher because of the Genset development that we did. But what is your outlook on the R&D expenses going ahead – will it be around 1-1.5% of sales?

Sunil Pahilajani: We would actually love to do it as much as possible which can offer more solutions to market and we can grow. Depending on market need and depending on our strategy we are adding it. You have seen year-on-year growth in that. So it will continue to marginally increase. It will also mean that our top line or our product range will also be benefited through that.

Ashutosh Tiwari: This year there was a drop YoY also in absolute amount?

Sunil Pahilajani: That is perhaps because some programs were launched two years ago or three years ago. So benefit comes only two-three years later. Due to emission change of this CPCB-II larger investment was done three years ago. Perhaps you are referring to that.

Ashutosh Tiwari: If I look at the margins, they are coming off now, even the gross margins declined YoY and QoQ in first quarter. So is it a product mix also or also because the price revisions are due with some of the customers that got defective?

Sunil Pahilajani: There is cyclical in price correction process as you know. We have shared many times before. But then Q1 impact is just a matter of product mix and it is not a substantial impact if you see we are still in a very good range.

Moderator: Thank you. The next question is from the line of Rajiv Mehra from JM Financial. Please go ahead.

Rajiv Mehra: Sir, just wanted to understand with the incremental sign up with Eicher, what are the incremental volumes you are looking at adding in your four wheeler segment and currently what are you supplying right now to Tata Motors the number if you could just share?

Sunil Pahilajani: So first part I will answer and second part I will pass on to my colleague, Narayan. First part, Eicher relationship is a very important and very key relationship for us because Eicher is a very successful company in its own standing and supplying engine to Eicher-Polaris multi-utility vehicle is again even more important because this engine was jointly accepted and approved by not only Eicher but also Polaris of US in competition with various other options they had. So that gives Greaves a very strong position. Now, coming to volumes, sales projections it is more depending on OEM and depending on Eicher's own strategy, we are

fully geared up to supply them any volume and we are also ready with now BS-III and BS-IV solution and we are actually very keen to see that it grows well but finally what volume or what numbers come is Eicher's own strategy.

Rajiv Mehra: But I think earlier the number which you were looking was around 10,000 to 12,000 units. Does that number remain?

Sunil Pahilajani: So based on the capacity requirement which OEMs give us, we certainly gear up but then we also understand that if there is a ramp up cycle, there is a learning curve for that. So customers are going through that.

Moderator: Thank you. The next question is from the line of Akshay Sharma from HDFC. Please go ahead.

Akshay Sharma: A couple of questions: One, actually both futuristic in nature. So the first question is on the BS-IV to BS-VI. Whenever the change happens, we know it is a long drawn process. So just wanted to get a sense, what is the kind of CAPEX that we anticipate that we might need to incur to change to BS-VI if at all those estimates are handy and how do we plan to fund in case that is a major one? Second, again a futuristic question on the whole electric vehicle components getting prominence globally. So do we intend to start having a parallel product line which moves away from ICE engines to electric battery enabled engines as well? Your views on both these questions.

Sunil Pahilajani: First question is about BS-VI. Now, BS-VI we have evaluated our readiness and we are actually very clear and ready to implement it. In terms of CAPEX, we are still not clear on numbers which I can share and eventually we will know it and we will be happy to share it. But technology wise, we are ready. We are also working on various innovations so that we offer a very cost-effective solution to customer. That is why I am saying that CAPEX part is not yet worked out. Now, in terms of your discussion on alternate solutions or alternate technologies, we have been always evaluating all the possible technologies or all the trends which are going on in terms of engineering. We have also been ready with various fuel solutions. Main thing is for us as an engine supplier main point is that what customer wants, we actually can only go ahead with that. So far there has been heavy demand on diesel engine. So we have been focusing on diesel engines. We are able to offer CNG, we are able to offer petrol engine, and we are able to offer multi-fuel options. So, as Greaves, in terms of technology, we are very much strong to offer what customer wants. In terms of electric or hybrid or any future solutions, we will actually look forward for customer need and then accordingly be able to offer. But we are well versed with all the technologies and we are very much aware of the changes happening.

Moderator: Thank you. The next question is from the line of Pavan Kumar from Unifi Capital. Please go ahead.

- Pavan Kumar:** Sir, apart from the diesel engines we are already making, if I presume we also have a petrol engine and CNG engine with us. So are there any steps we are taking to push that particular engine more aggressively into the market?
- Sunil Pahilajani:** Actually, I just now explained the same thing that it is all based on customer need and customer choice and customer commercial viability. So far in Indian condition and especially the segment of last mile transportation where we are present. Diesel has been the preferred option. We are always happy to give other options.
- Pavan Kumar:** But sir, I wanted to understand why in the industry there is more penchant towards developing own petrol engine by the OEM and sourcing on the diesel side from somebody else, is there any kind of technology difference or what is it exactly?
- Sunil Pahilajani:** No, there is no such pattern. You must have observed it in one or two cases, it is a coincidence because customer owned engine historically which was petrol engine so they continue to use and diesel engine they bought from us so they continue to buy. But we have equally good ability to offer petrol engine and very efficient solutions for that.
- Pavan Kumar:** I just wanted your view on when we can maybe see a say 2-ton or 3-ton Greaves engine maybe in some OEM vehicle out there on the road?
- Sunil Pahilajani:** The whole team is working very aggressively on that. As you are aware that we have a full platform of engine solutions which we have offered to the customers and these engines are globally best benchmarked engines. So I am very happy that you pointed out this and then as we are working on marketing side, we will be happy to share as success comes. But so far there is nothing to share.
- Pavan Kumar:** In 1.5-2-years sir maybe?
- Sunil Pahilajani:** It is not possible to define a time. As I said, we have solution is ready and we are working on this. So it can be depending on success we have.
- Moderator:** Thank you. The next question is from the line of Rajiv Mehra from JM Financial. Please go ahead.
- Rajiv Mehra:** This is just a follow up question which I had earlier asked about the ramp up in volumes for Tata Motors? Currently, what is the market share which you are holding in the sub-ton segment – is it still 80 to 90% of the market share and above the 1-ton market shares?
- Narayan Barasia:** Our market share is roughly in the range of 80%. So some months it goes to 78% and moves up to 82% in that range for three wheeler range. What we sell is 600 Kg Pay load and that is where the market share is almost 100%.

- Rajiv Mehra:** What about the volumes for Tata Motors which you were going to share?
- Narayan Barasia:** Volumes is about 7,000 we sold in the Q1 of this year.
- Moderator:** Thank you. The next question is from the line of Nirav Vasa from B&K Securities. Please go ahead.
- Nirav Vasa:** Sir, I just wanted to get some idea specifically for Agri Pumps. Because as we understand ESL is trying to come out with big tenders for Agri Pumps and have their set standards and if I study their history of the product segments in which they have entered the pricing have in those product ranges have been dropped significantly. So just wanted to get some idea as to what kind of action are we seeing in this particular segment of business based on ESL tenders...petrol kerosene pump.
- Sunil Pahilajani:** Petrol kerosene pump market has been almost flat. We have always had substantial market share, we have been leaders in India and we have continued to maintain that leadership despite of players like Honda and several other players. Now we have tried to innovate and improve products and we have been actually working continuously on it and our position in terms of tenders and whatever you mentioned has been very good. We are maintaining large market share. The only thing is that since market is flat, we are not able to grow much in that particular segment. So as a result we have started working on diesel pump, electric and several other solutions.
- Nirav Vasa:** Just continuing on that question, the pricing discovery typically as we have seen in ESL tenders is very-very aggressive and it is mainly downward trending. So are we seeing the same thing happening in Agri Farms as well?
- Sunil Pahilajani:** Yes, there is competition, but it is not based on just price, I think there is a qualification requirement in government tenders and you get market share or a share of business based on your qualification, even the higher price holders get some share.
- Nirav Vasa:** Sir, in this pending part of the year and next year which states according to us are expected to give subsidies for purchase of Tillers?
- Sunil Pahilajani:** Generally across country it should happen, but which state releases at what time it depends on the fiscal policies and financial conditions, etc., for each state and these are also politically influenced decisions. So very difficult for me to comment.
- Moderator:** Thank you. The next question is from the line of Bhargav Buddhadev from Ambit Capital. Please go ahead.

Bhargav Buddhadev: Sir, in terms of understanding on this new Leap engine platform, when we try to market this engine, is the engine used in an existing vehicle or is there a new vehicle which will be designed to run on this engine?

Sunil Pahilajani: So normally engine and vehicle are co-designed and co-developed. You cannot retrofit engine into a vehicle. It is possible but that also amounts to almost full new design because it goes to validation, approval and all sorts of processes. So to answer your question in short, it is normally a new vehicle.

Bhargav Buddhadev: When we say that we are ready with the engine, typically why the gestation period is in the range of 1 to 3-years, I mean, fundamentally when we say we are prepared, then why does it take such a long time?

Sunil Pahilajani: For example, we find a customer, then customer is ready to put engine in a vehicle, even if that vehicle is in advanced stage of concept, it will still need some work to design, it will still need some work to integrate engine and vehicle, it will need then time to validate and then go to market. I think this whole process takes between 18-months to 3-years depending on case-to-case. So that much of gestation period is there in vehicle and engine business always.

Bhargav Buddhadev: So is it just possible to share whether we are in talks with three OEMs, four OEMs, five OEMs, what is the stage at which we have reached ...?

Sunil Pahilajani: How will it help? We are in talks with several OEMs and we are making effort all across. Only thing is unless we have success ...

Bhargav Buddhadev: Then what would be our value proposition we would be offering to the OEM– would our mileage be better, would our cost be lower?

Sunil Pahilajani: Our engine today I would say globally is best benchmarked engine in terms of performance and all parameters generally including NVH fuel efficiency and all other and we have demonstrated it and we have presented this engine in various shows and exhibitions and all this information is easily available.

Bhargav Buddhadev: So this would be similar to Ashok Leyland Dost or something, catering to that segment?

Sunil Pahilajani: It is not possible to compare one-on-one because these are different levels of engines.

Moderator: Thank you. The next question is from the line of Raghunandan from Quant Capital. Please go ahead.

Raghunandan: Sir, my first question was like who are your customers for the petrol engine? Second question, the current quarter margins in engines is lower than that of margins witnessed in last three quarters. Any one-offs there or do you expect a recovery ahead? Thirdly, my

question was to Mr. Nagesh Basavanhalli. Earlier sir, you have been with Allianz, Fiat and Chrysler. So just wanted to understand your key strategic areas of focus here?

Nagesh Basvanhalli: I am just starting my innings here at Greaves Cotton today. As we can see, I think becoming of a strong quarter and strong performance, a great legacy here in the Greaves brand and together like you said with my previous Automotive experience as well as Aftermarket experience I believe the teams will be coming back in the future to discuss where we grow from here. Obviously, give us some time and we will be back.

Sunil Pahilajani: So you asked about petrol engine. We have been working with one of the large OEMs in terms of validation. So I think it will be fair to announce a name once we are through with it and then we are able to start supplying commercial but we are in an advanced stage.

Raghunandan: One of your long time customers Atul Auto instead of sourcing the petrol engine from you, has gone ahead and indigenously developed an engine. That was where my query was coming from sir.

Sunil Pahilajani: Atul Auto and some OEMs do have their own engines, they have decided to source it the same from elsewhere. So as I said that happens, some OEMs develop their own engines, some have different competing sources, we are also a credible source and we have a very large market share there. So this is a matter of competition.

Narayan Barasia: In terms of margin, there is a mix; Genset and Farm has grown much faster than the Auto business. So there is a product mix impact in terms of EBITDA which is very marginal.

Moderator: Thank you. The next question is from the line of Manish Goyal from Enam Holdings. Please go ahead.

Manish Goyal: Sir, just wanted to know about the Multi Brand strategy. Over there being a traded product, will we continue to enjoy the company level margins as well?

Sunil Pahilajani: In terms of margins, we will maintain good level of margin. Only thing is it should be marginally lower but we will certainly maintain our ROC.

Manish Goyal: I believe as you said it will not entail into any major capital requirement?

Sunil Pahilajani: Yes certainly.

Manish Goyal: On the four wheeler volumes, is it that because in certain cities the BS-IV norms were already implemented from the 1st April 2016 whereas for three wheelers I think it will get implemented from and that could have impacted the volumes in the Q1 for four wheelers? #2, related to is what is the price increase we have seen for that particular engine which has already been now implemented for BS-IV?

- Narayan Barasia:** No, some market has moved to BS-III and some markets are in BS-IV even for four wheelers. Even in BS-III there is a decline in the market. So your assumption of BS-IV leading to decline is not right.
- Sunil Pahilajani:** Price increase will be substantial, but it will be difficult to give numbers, because it varies from customer-to-customer based on packaging.
- Manish Goyal:** Sir, on the EBITDA margin again just seeing that other expenses have increased YoY because in last year also we have seen some cost increase in terms of new product development and legal and consultancy expenses. Is it continuing in the Q1 as well?
- Narayan Barasia:** Yes, Q1 also there is some impact.
- Manish Goyal:** So is it likely to continue or we are done with the initiatives?
- Sunil Pahilajani:** Such initiatives do come from time-to-time. This is neither continuous or nor I can say that it will never happen because these were done with a view of futuristic growth or some kind of consultation as we need.
- Moderator:** Thank you. The next question is from the line of Gurpreet Arora from Quest Investment. Please go ahead.
- Gurpreet Arora:** Two set of questions: What was the volume sales of BS-IV in Q1 FY17 and what is the outlook for the remainder of the year? Second question is towards our exports. We have an aspiration to move our exports to 10% of sales and we have also mentioned that we have entered into some very competitive European markets. So what sort of capital we are looking to deploy there and what sort of margins can be looked to made from that segment?
- Sunil Pahilajani:** In terms of international business, I will answer, then other part my colleague will share with you. So international business we actually if you recall we started from almost zero level in last two-three years, we have reached a level of 3% to 4% of our sales and we do have ambition to do 10% or more of our sales in a profitable way through international business. At this moment, our presence is only in a limited number of countries in South Asia and Southeast Asia. Europe, we have just started exploring in terms of engine OEMs in Italy, Turkey and these kinds of markets which are well known for OEM products. So we have just made a beginning and these markets are certainly premium markets and margins should be better than what we have today.
- Gurpreet Arora:** If you categorize up to what engine level are you looking for these markets?
- Sunil Pahilajani:** OEM sales is about our small engines.

Narayan Barasia: BS-IV volumes, I do not have the exact number, but BS-IV out of 7,000 will be in the range of 3,000 volume in the Q1.

Gurpreet Arora: Outlook for the remainder of the year for BS-IV?

Narayan Barasia: As we keep on going forward, BS-IV volume should increase, that ratio will change, I cannot give you exact number for future, but today it is at the range of 45% of four wheeler and that will go up in future.

Moderator: Thank you. The next question is from the line of Bharath Seth from Quest Investment. Please go ahead.

Bharath Seth: Mr. Pahilajani say that we are in a business of last mile connectivity and with the implementation of GST so how do we see the change in the way of doing business currently and how we will benefit because of this last mile connectivity solution, can you throw some color on that like we have been listening that lot of hub-and-spoke model will develop with GST implementation?

Sunil Pahilajani: So for example, if there is a large trailer, it brings some goods to serve those goods further to the next station or smaller station is kind of last mile. It needs smaller trucks or smaller commercial vehicles. Whether GST are not GST, this transportation or logistics requirement will be there, in fact, with rationalization of tax and structure and improvement of infrastructure, the last mile transportation requirement is going to only go up. Only thing will be that the power rating or the power requirement of size of solution may also go up and that is why we enhance our range of solutions up to 3.5-tons. So we see last mile transportation is the need which is going to only grow with more and more logistics requirements and in a country like India, logistics requirements will certainly be improving with time.

Moderator: Thank you. That was the last question. I now hand the conference over to the management for their closing comments. Over to you.

Narayan Barasia: We thank you very much for attending the session and we really appreciate your continued interest in our company. Thank you and see you soon.

Moderator: Thank you. On behalf of Greaves Cotton Limited I thank you all for joining. You may now disconnect your lines.