



“Greaves Cotton Limited Q1 FY14 Earnings Conference Call”

July 31, 2013



**MODERATORS: MR. SUNIL PAHILAJANI – MD & CEO, GREAVES COTTON.
MR. ASHOK KUMAR SONTALIA – CFO, GREAVES COTTON.**



Greaves Cotton Ltd.
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Moderator

Ladies and gentlemen, good day and welcome to the Q1 FY14 Earnings Conference Call of Greaves Cotton Limited. We have with us today on the call Mr. Sunil Pahilajani – MD & CEO and Mr. Ashok Kumar Sonthalia – CFO. As a reminder, all participants' 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 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 Mr. Sunil Pahilajani. Thank you and over to you sir.

Sunil Pahilajani

Good Morning, ladies and gentlemen. I am Sunil Pahilajani from Greaves Cotton. Regarding Q1 I would like to say the overall industry environment has been quite tough and challenging. But we have worked through several initiatives to protect profitability and still maintained our business position. I will explain a bit more in detail sector-wise. The Automotive sector, as you know, was quite weak but our overall volumes did not suffer much because of our multiple customers and products. Farm Equipment has been positive and with present monsoon, we expect it to do quite well. In relation with the Power Genset and Industrial Engine business, we found it flat but looking at our order book we see it growing in near future. The main disappointing area has been Infrastructure where overall Infrastructure market has been shrinking in India. We took certain initiatives on overseas sales successfully and some new product launches which added to our overall sales but still with the shrinking market and same market share, sales have been low. Our good initiative has been, as you see in results, material cost reduction and internal cost cutting. Improving efficiency helped us to protect our profitability. We have been strengthening R&D in new product development, keeping near future in mind. These initiatives are continued despite of market situation because we feel our entering into new market space or new market space within same sector will continue to help us and strengthen us in terms of our offering. We have offered some new Farm

Equipment products and Infra sector products like Tractor and S-Valve etc... In our effort, which I discussed last time also, to strengthen our footprint overseas, we have opened our office in Tanzania and we are strengthening our network in Africa through that. I think with these remarks, I will hand over to my colleague Mr. Sonthalia to take you through financial results.

Ashok Kumar Sonthalia Thank you Sunil. Good morning to all of you and thank you very much for joining this quarterly earning call. Net revenue for the company remained at the same level at Rs. 412 crores as in the same period last year. Similarly, EBITDA for the quarter also stood at the same level of Rs. 50 crores, same period last year. The EBITDA margin was 12% compared to 12.1% which was achieved during the same quarter last year. As mentioned by Sunil, the material cost reduction initiatives are giving good results. We have been working on them for the past couple of quarters and now we are seeing good results and because of that material cost reduced by 130 basis points from 70.1% to 68.8% in the current quarter. These savings could neutralize other cost increases that we were incurring in developing various capabilities in manpower, in R&D, in market development. Among the segments, Engine segment as well as Infra segment de-grew by 3% in this quarter compared to the same quarter last year and the other segment grew substantially though it is small but in percentage term it grew 78%. The Profit after Tax stood at 31.8 crores marginally higher compared to the same quarter a year ago. We have higher Other Income. It was due to sale of a small property and better treasury income. Over to you for questions.

Moderator Thank you very much sir. Participants, we will now begin with the question and answer session. We have the first question from the line of Ram Hegde from Primus. Please go ahead.

Ram Hegde On the material cost savings that you have shown. Is this some sort of decline or is this value engineering? Just want to understand whether you hope to retain these margins over time or give it away as it comes?

Sunil Pahilajani It is a companywide movement or I would say initiative to do innovation, value engineering, kaizens and several improvements. So, this is an ongoing movement and saving is sustainable and it is likely to increase further.

Ram Hegde On the Infra side where the volumes at present are tough, in terms of new product introductions, is there anything further in the pipeline from the Samil venture or it is more or less done?

Sunil Pahilajani On the Infra side, we are tied up with Samil for 2 major technologies, one is S-Valve and other is Boom Pump. Boom Pump is a very premium product. It is yet to be launched and it is in the process of manufacturing or development and we will be launching it somewhere towards the end of this year, by around December or so. So, that will complete our technology implementation.

Ram Hegde On the Auto Engine, you said the volumes of 3 wheelers LCV grew but marginally there was a volume decline. So did Piaggio the key customer see a sharp decline or what happened there?

Ashok Kumar Sonthalia As we mentioned in the opening remark, as far as Automotive Engine business is concerned, we didn't suffer. There was a drop of about 1% in overall volumes when combined with 4 wheeler offerings which Greaves does. In 3 wheelers, this drop was about 4% and this drop is across and not specific to Piaggio. More or less we saw some reduction in volume across the OEMs, some maybe slightly more, some maybe slightly less. It was not a significant drop in 3 wheeler, about 4% as far as our supply to our OEMs are concerned compared to Q1 of last year, but we had better supplies to Tata Motors compared to Q1 of last year and that is how our overall drop was 1%.

Moderator Thank you. We have the next question from the line of Pritesh Chheda from Emkay Global. Please go ahead.

Pritesh Chheda On the engine side could you tell us on the new OEM tie-ups if any? Second on the Auto Engine side, if you could tell us the volume number and the three sub categories?

Sunil Pahilajani On the new OEM side, we have a few small OEMs but the major name to share is TVS and we have started work with them.

Sunil Pahilajani So, within the current customers Piaggio has now taken up 4 wheeler porter, where they are using our other engine platform and likewise, there are some under developments.

Ashok Kumar Sonthalia To answer your question on volumes, we had 3 wheeler, about 66,000 – 67,000 in this quarter compared to about 68,000 year-on-year. We had over 15,000 engines to Tata Motors compared to about 12,000 last year and our other OEM, other non auto application of Auto engines unfortunately didn't grow this quarter, in fact there was a de-growth and that is the Marine Application and other Industrial Application.

Pritesh Chheda What was the number here, sir?

Ashok Kumar Sonthalia The number is about 5000 compared to about 8.5 thousand last year.

Pritesh Chheda With TVS, what vehicle have we tied up for?

Sunil Pahilajani Basically we are talking about 3 wheeler only.

Ashok Kumar Sonthalia It is a soft launch. About 300 vehicles are in field. Formally, no real announcements have happened from both sides. It is on a soft launch phase and for the full year we see some good numbers coming out of that.

Pritesh Chheda Does it include the green gas as well in terms of key supply of engine?

Sunil Pahilajani No, not yet.

Pritesh Chheda If you could tell us about working capital. What are we doing to improvement because QoQ there has not been any and if you recall at the end of last year, we had this jump in the debtors.

Ashok Kumar Sonthalia On working capital, yes, last year towards the end there was a jump. Some of it was deliberate and some of it was due to the slowdown in the environment, particularly in Farm Equipment where subsidies were coming late, so receivables were slightly going up. But in this quarter one, we have again controlled it and have started bringing it back to the normal level. Structurally, there are some changes which we did last year. They continue. Some of the direct sales or dealer-distributors related "stock and sale" arrangements which were done in construction, etc. So there is some increase which is going to stay. All other increase which is particularly Farm Equipment subsidy related are coming down and we hope to really come up with good improvement there because Farm Equipment is really doing well and collections are very good at this point of time.

Pritesh Chheda Sir at the aggregate level, there has not been any improvement in this quarter versus the last but for the full year, you see some improvement and that is the reading?

Ashok Kumar Sonthalia Yes.

Pritesh Chheda If you could tell us what was the Tillers' market growth and what was the Power Gensets' market growth and vis-à-vis what is our growth?

Ashok Kumar Sonthalia I do not have number with me for the market growth of Tiller, but we have at least grown 30- 40 percent in this quarter. We will know the market numbers in a couple of weeks. But we have grown very significantly in Tiller. As far as Power Genset, again our market numbers are just based on estimates. But we have been flat as far as this quarter is concerned.

Moderator Thank you. We have the next question again from the line of Vasudev Banerjee from Quant Capital. Please go ahead.

Vasudev Banerjee As you said that the supply to Tata Motors this quarter was 15,000 versus 12,000 a year back. How much was the number last quarter, sir?

Ashok Kumar Sonthalia Last quarter it was around 8000 going rate which should be about 22,000 – 24,000.

Vasudev Banerjee So, as you started the year with an expectation of around 75,000 – 80,000 unit supply to Tata Motors, any change to that number at current juncture looking at the weak demand environment?

Ashok Kumar Sonthalia I think right now we would not like to really change that number. The first quarter has been slow and it was slightly above 15,000. So, we would rather wait and watch and quarter three may see some improvement in automotive sector. We have to wait and watch. Very clear visibility is not there but we still believe with this very slow quarter, when the run rate is 5000 plus, so overall annual basis, it should be around 75,000 - 80,000.

Vasudev Banerjee Second thing as you said that you have been taking several cost management initiatives, kaizen, etc. to take down the RM cost. On the other side, will it be right to think that because the magnitude of drop of supply to Tata Motors QoQ was much higher than the supply to 3 wheelers and as you said several times that the margin for Tata Motors supply is relatively lesser. So, as the mix of Tata Motors reduced this quarter, that is why your RM by sales also came down accordingly?

Ashok Kumar Sonthalia No. We are comparing RM on year-on-year basis and our Tata Motors volume in the mix has in fact gone up. June quarter of last year, our MAT cost was 70.1% and this June quarter, we have 68.8% and that is the 130 basis points improvement and Tata Motors in terms of mix, is higher compared to last quarter one.

Vasudev Banerjee And steel cost correction... is that a reason behind that?

Ashok Kumar Sonthalia Not really. In our Automotive Engine, steel has some components but it really does not play a key role. We buy value added items. So, commodity prices have some impact but, after that a lot of value gets added. So, I do not think it immediately impacts too much.

Vasudev Banerjee And sir, this other expense, quarter-on-quarter coming down by almost 10%, so is this any structural re-structuring and reduction of fixed cost or is it just a one off and one should not infer anything from that?

Ashok Kumar Sonthalia We are keeping our cost under check depending on the environment and we have various scenarios how the year would unfold and then some of the initiatives can be triggered off. I would not say this is the level where normally we will operate but we are keeping our cost, wherever we can, under tight control to protect profitability.

Vasudev Banerjee How is the Agri segment engine growth considering the good monsoon and good tractor sales?

Ashok Kumar Sonthalia Agri segment is doing very well. I already spoke about Power Tillers. We had substantial growth there. For pump-set typically quarter two and quarter three are the main seasons. We also saw good traction in electrical pump-set which we had started seeding the market. So, quarter one was good. We started with eastern region which is the stronghold for our Farm Equipment business and now we are looking at Southern region to roll out distribution of our electrical pump-sets. So, that is another promising product segment where we hope to succeed. Of course, mini tractor is also there. It is a slow start. We started with Gujarat. Now, Maharashtra and going to Karnataka and by the year end, we hope to be in 5 states and doing well there also because product feedback is good and demand is there. Now it is for us to kind of ramp up supply quickly and feed that demand.

- Vasudev Banerjee** On TVS, down the line can we expect a long term development with TVS?
- Ashok Kumar Sonthalia** Yes.
- Moderator** Thank you. We have the next question from the line of Sanjeev Zarbade from Kotak Securities. Please go ahead.
- Sanjeev Zarbade** Could you please help me with the overall engine volumes sold during the quarter?
- Ashok Kumar Sonthalia** Pump-set petrol was about 20,000. Diesel was about 6000 – 6500 thousand. Electrical pump-set would be about 5000 - 5500.
- Sanjeev Zarbade** Okay and spares what could be the share of the revenue from spares?
- Ashok Kumar Sonthalia** Spares unfortunately in this quarter was not very good, though it had started showing signs of improvement. June month was good, better than May and May was better than April. But the year had started a little slow. We have seen demand pick up but Aftermarket share would be just 17% of our revenue compared to maybe 20% which was there earlier.
- Sanjeev Zarbade** How are we placed so far as the compliance emission compliance is concerned for the stationary engines?
- Sunil Pahilajani** We are in control of that as we go for new CPCB norms. We will be ready on time. But the timing is yet to be announced by our government.
- Moderator** Thank you. We have the next question from the line of Bhargav Buddhadev from Ambit Capital. Please go ahead.
- Bhargav Buddhadev** Sir, on CPCB, we are hearing possibly there has been a delay. CPCB was supposed to launch by January 2014. Just wondering have you heard something on that side? Second question, just wanted to have an update on that Tata Motors Brownfield expansion. There the existing factory was about 78,000 and they were looking at expanding that. What is the update? Thirdly

your employee expenses in 2 years' time have jumped by around 40%. If you look at Q1 '12, employee expenses were around 28 crores, now 30 crores but revenues have remained flat. So, just wanted to know your comments. Thank you.

Sunil Pahilajani

On the CPCB announcement, we do not know of a revised schedule. We are also waiting for that because lots of discussions are going on. But as I mentioned, we will be ready on time. It is likely to get delayed by 6 months or 1 year but exact timing is not known. On Tata Motors Brownfield expansion, yes they have their capacity already that is built at Dharwar. I think that is quite a large capacity close to 100,000 or so. So, that may be their long term thinking.

Ashok Kumar Sonthalia

On employee cost I think lot of water has flown after Q1 '12 and we have been talking every quarter what we have been doing in terms of strengthening manpower. So in 2 years, 20% is the normal correction through salary correction, increments, etc. Other cost is strengthening of R&D, market development, leadership strengthening which this company has seen at various management levels. So, all those costs have been added there. But if you look at the last 2-3 quarters, these numbers are stable. The normal corrections you see from 37 crores roughly to 40 crores were due to normal corrections – salary correction and some additions still are going on in R&D particularly and international business side. But now we do not expect the kind of increase you saw in the last 2 years.

Bhargav Buddhadev

Is there any new product offering in the pipeline because as analysts we do not have any visibility on that. So, if you can update something on that aspect?

Ashok Kumar Sonthalia

We have been announcing various new products. The mini tractor, S-valve pump, Boom Pump, the new OEMs, new vehicles. So all those things are there. Beyond that, in Farm Equipment, we have done Power weeder, Greaves Grass Cutter for the premium segment. Earlier there was a Grass

Cutter for economy segment. Now a premium segment Grass Cutter has been launched. Long handled Power Tiller particularly for African markets has been launched. So, there are several such things which are happening. Now we are positioned in Tanzania to exploit African potential. So all these things will gradually add to the growth which is apart from what the economic condition would provide to Greaves Cotton which will be common across the industry. In industrial engines, we are working on a new engine platform development and which will be ready soon. For some ratings, it is almost ready. For some ratings, it will be ready. This engine is going to be a very contemporary and competitive product.

Bhargav Buddhadev Sir, this engine would cater to which application?

Sunil Pahilajani It is mostly Genset application and other Industrial application like Construction and Agri.

Bhargav Buddhadev And lastly sir, what are the volumes for Atul Auto during the quarter?

Sunil Pahilajani I do not have a customer by customer number. But Atul is doing well. They have added capacity, they have added some models. So they are doing reasonably okay. That much I can tell you.

Bhargav Buddhadev So, there has been a decent growth this quarter?

Sunil Pahilajani They have not declined certainly.

Moderator Thank you. We have the next question from the line of Piyush Mittal from Franklin Templeton. Please go ahead.

Piyush Mittal The first question is on the exports side. If you can maybe dwell a little but more, beyond the move of opening base in Tanzania, where is the potential, I mean what are the discussions that are going on? And when do you seem to show some more off-take on that side?

Sunil Pahilajani

In Africa, we have chosen Tanzania as our main hub. It is a strategic location. We started our office... our approach has been that we do not just export products from India. We set up our base, understand the local market very carefully and set up our service network and have some of our people there at least who can support and look at the market carefully and then start supplying. So, we are at initial stage. We have started discussions with several potential partners on distribution and dealership business wise and various investors who are likely to invest as partners. So, I think in a year's time, you will see movement there and it is being done with a long term view. So, we want to have a meaningful market share. So, that is the way we are approaching 2 or 3 markets, including Indonesia, Middle East and Tanzania.

Piyush Mittal

What segments are you targeting?

Sunil Pahilajani

All the businesses we have. Generally, all the products we have, whatever is marketable. So, we have chosen these 3 strategic locations based on the potential of our range of products. So, we will be entering each of these markets with full range of products. All may not apply 100% to each market but generally yes, generally we will be setting up network for each business separately.

Piyush Mittal

Okay. Second question was on the Infrastructure business. I guess if I look at the company, let us say, 3-4 years back, and to the way I look at you guys today. You have launched a lot of new products. The question that I was trying to ask is from compared to let us say 4 years back to today, what portion of the market you used to address in the past, what do you address today? In terms of maybe percentage terms or value terms?

Ashok Kumar Sonthalia

In Infra business as you are aware we are present in 2 segments, road making and concrete segment and both put together maybe presenting an opportunity of about Rs 3500 Cr and about 18-20% of Infra market or 17-18% of Infra Equipment market. The journey so far and I would say in recent

past, which has been more pronounced, we were a big transit mixer company, we were number 2 in the country after Schwing Stetter and we were a good road company. In road, our portfolio was all compaction equipment and there we were number 3 or number 4 depending on which year we are talking about. The last few years we are playing in these 2 segments, we thought why we are not playing with the full range of products? Earlier more focus was on retail customers and when I say retail customers, the small contractors, the institutional customers were very less. Now the focus is on having a good balance of institutional customers in our portfolio. And you can get institutional customers to your portfolio only when you have a full range of products. You must have batching plants, you must have transit mixer and you must have concrete pumps. All these make the full suite of products as far as concrete is concerned. And as long as you are not able to supply the full range, institutional customers will not come to you. So we had just 30 cubic meter batching plant, now we have **20 and we have 60 also**. We of course have transit mixers, we were always strong in transit mixer and now we have concrete pump which we just got and there will be more variants which will be launched in the near future. And finally Boom Pumps will be launched. So we hope that with this our concrete portfolio is good and reasonable and appealing to the customers whom we want to service. Road portfolio as far as compaction is concerned was always good and that continues to be there but we are adding some more sophisticated equipment initially through trading route and from there we would see. Because now Indian markets are getting ready for those kind of equipment.

The overall market is very slow.

Piyush Mittal

Thank you! You gave very good perspective. I think you suggested 3000 crores of construction and road equipment. Based on your comment I understand you are only targeting a certain channel which was more retail, right?

Ashok Kumar Sonthalia Earlier we were targeting but now it is not.

Piyush Mittal Now you are targeting full. So, the question that I am trying to ask is of the overall sales, how much of this business goes to retail and how much is institutional? I would assume more of it is in the institutional bucket.

Ashok Kumar Sonthalia I think our current portfolio as far as concrete is concerned is still maybe 50-50 and road it may be slightly more to institutional but I would imagine right now it is 50-50.

Piyush Mittal And in the past, this was all retail based?

Ashok Kumar Sonthalia This was, yeah, it maybe 80-20 kind of thing.

Piyush Mittal On the TVS 3 wheeler, diesel I presume. Now, if I understand right, at least in Tamil Nadu, given that I am from Chennai, the licenses that are given out for diesel are not there anymore. So, is there going to be any change? Any understanding you have on that given that TVS has come and tied with you? What is the thinking that you have seen from them? Why has this thing happened?

Sunil Pahilajani For us, it is just one more customer. We already have 53 OEMs. But what is their condition or resolution, we have no idea, it is for them to decide how they sell and how they market or channelize.

Moderator Thank you. We have the next question from the line of Nitesh Shah from Novastar Fund. Please go ahead.

Nitesh Shah Can you help me to bifurcate Other's revenue into different segments of Tillers, Tractors and others?

Ashok Kumar Sonthalia Others is primarily Power Tillers only. There is hardly 2 crores revenue which would be international trading but rest of all is Power Tiller.

Nitesh Shah Can you help us with the Tractor volumes for this quarter?

Ashok Kumar Sonthalia As I told you, initially we had some supply side constraints and volume ramp up issues but right now they are about 35 tractors a month and from next month we want to do 50 and in two three months' time, to 100 tractors a month. That is the plan.

Nitesh Shah Are the tillers and tractors manufactured in house or it could be an outsource assembly model?

Ashok Kumar Sonthalia Tillers gradually we are moving to add more and more component in India from our own manufacturing and sourcing. Mini tractor for sometime will continue to be outsourced model.

Nitesh Shah How does this work?

Ashok Kumar Sonthalia In Power Tiller, we import substantial part but we do not import the complete Power Tiller. We import say 75% or 80% and some of the critical component we add here to improve the quality and longevity and better service aspect. So that is what gives us also price premium and give us a better market penetration.

Nitesh Shah Could the rupee depreciation impact the cost of the ship or it should not be?

Ashok Kumar Sonthalia We also export so we benefit from both sides. But yes, rupee depreciation does impact the margin slightly but we have been kind of good in this quarter. So, overall company basis, we are positive on foreign exchange account rather than being negative.

Moderator Thank you. We have the next question from the line of Balachandra Shinde from B&K Securities. Please go ahead.

Balachandra Shinde Just wanted to have a take on the margin trend. Do we see the margin improvement in FY14 or it will be in line with what we have seen in FY13?

Ashok Kumar Sonthalia FY13 was 12.9%. The year started with 0% growth with some improvement in material cost. As we stand today, we really do not have very clear visibility on the market. If market really improves as we progress in 2013, say towards second half of quarter two or three and four, of course, we can expect similar or slightly better margin.

Balachandra Shinde Okay but nothing lower than these margins? Or you expect margin deterioration?

Ashok Kumar Sonthalia We do not expect but if really sales do not materialize and market remains very slow, the way it is, then quarter one is the bottom of the channel at 12%. But as the first quarter is always the worst quarter for Greaves Cotton historically, we think we should improve from here.

Balachandra Shinde Sir, as monsoon is turning out good, if at all disposable income in rural areas increases, will it create an opportunity for 3 wheelers and SCVs or it is not that much inter-related?

Sunil Pahilajani We do hope, as these are more rural centric transportation vehicles and they are used for supplying the FMCG, cargo, etc., to rural market as well as a mode of transportation for people. So if there is high disposable rural income, the vehicle demand should increase and that is what we hope. We should see towards the end of Q2 and Q3. And that is why I think earlier in the call there was some question on Tata Motors volume reduction. -- Do we expect? We do not expect anything. We just want to go with the flow and see how monsoon puts money into the hands of rural folks and how their buying behavior emerges.

So, yes you are right there is some correlation. The negative side, what we are see in the economy is with the Infra and Investment cycle which may impact our other business to some extent like Infrastructure, Genset, etc., but Farm Equipment and Automotive can get some boost because of a good monsoon.

Balachandra Shinde For Piaggio porter, what are the target volumes for FY14?

Ashok Kumar Sonthalia We are right now 700-800 engine a month. It will progress to maybe a 1000 engine a month. So 10,000 - 12,000 or 8,000 – 10,000 would be good estimate for this year. Maybe slightly more. Again depends on the demand but the vehicle feedback we hear from the customer is good.

Balachandra Shinde Overall we expect Farm Equipments to do well, and other traded goods have increased just because of more Agri equipments traded?

Ashok Kumar Sonthalia Yes.

Balachandra Shinde Okay and Farm Equipments, do we expect around 15% - 20% growth?

Ashok Kumar Sonthalia Yes, this year looks like.

Moderator Thank you. We have the next question from the line of HR Gala from Quest Investment Advisors. Please go ahead.

HR Gala How much did we export in this particular quarter, out of the 410 crores total sales?

Ashok Kumar Sonthalia Export was about 20 crores. Compared to last year, the quarter was about 14.

HR Gala Okay and in the beginning you mentioned that our Other Income was higher at 7.4 crore because you had sold some property. So, how much was the profit we had on that?

Ashok Kumar Sonthalia Other income is about 6 crore, if I remember.

HR Gala I meant both put together, the Other Operating Income and Other Income.

Ashok Kumar Sonthalia 3 crore is property income and rest is treasury and other operating income.

HR Gala Okay. As far as the CAPEX and product development is concerned, what is your clear visibility to spend in current year? Will we be reaching close to 100 crore between CAPEX and R&D and do you have visibility as to out of the R&D spent, how much would be capitalized and how much would be charged to P&L, depending on the nature of spending?

Ashok Kumar Sonthalia When we said out of 100 crore about 40 crore is R&D, that will be capitalized. Apart from that revenue in any case is part of our revenue. You would have seen the year which we closed to 2012-2013, about 22-23 crore. So, we were about at 1.2% which was 22 crore. Out of the total 22 crore, I think 16 crore was revenue and about 6 crore was capital. And this 40 crore what we are talking about is complete capitalization.

HR Gala So, out of that, nothing is going to be charged off?

Ashok Kumar Sonthalia and R&D revenue, which was 16, may go up to 20 or 22 because we are strengthening our R&D. So that will be in addition to that which will be charged off to P&L.

HR Gala Okay, now it is very clear and CAPEX will be around 60 crore?

Ashok Kumar Sonthalia Yes, the other CAPEX would be around 60 crore. At this point of time, we continue to maintain that. But the R&D capex, as I told you the new product developments in Agri, the launching of new products etc., we do not have any intentions to roll back. But we will be very watchful and as months go and we see the economic situation and demand situation in the market, a few discretionary things or good to have things will be examined whether it is useful.

HR Gala As our chairman stated in his speech yesterday that we are holding back on the growth related capital expenditure. So, do you think if the visibility improves towards the end of financial year '14, will you be then tempted to spend that money next year?

Ashok Kumar Sonthalia Yes. our capacity related expenditures are not budgeted this time. These are more to do with technology, new products, de-bottle necking and modernizing some of the old equipments, those kind of CAPEXes planned for this year. Capacity related will be planned only when we have a complete view of demand situation.

HR Gala Understand. So, if at all it comes through then what kind of CAPEX we look at in FY15?

Ashok Kumar Sonthalia Right now it would be very difficult to tell because we are working on several projects. If some of the projects see the light of day then we will be in better position to share those numbers with you. But like I told you, Rs 100 crores is a normal rate. The way I see the growth ambition which our company has, about 80-100 crores is the least CAPEX planned every year, some rolling back can happen considering the demand situation.

HR Gala Last question from my side, do you expect any improvement in the Infrastructure segment? Because on one hand government is trying to push up and award projects but the ground reality seems to be totally different. People are so depressed they see no movement at all. So, what is your take on that sir?

Ashok Kumar Sonthalia We do not see much action as far as Infra is concerned. Road works which is happening is mostly state highways and in some of the states which are pro-active. They are awarding contracts at a certain level. At NHA level we do not see much movement and do not expect much to happen during the next 2-3 quarters till election time.

HR Gala Okay. A general question arises that the way in which RBI is following monetary policy to protect the rupee or to see that inflation does not go out of control; do you think that the capital goods industry will have better times even after general elections in 2014 when the interest rates rule so high?

Ashok Kumar Sonthalia I think RBI has made clear that these are temporary measures, so all of us will have to wait and watch. All of us understand that perhaps this temporary may not be that temporary.

When we started this year, we expected a good monsoon, a softening of interest rates, we expected election spending coming into the system. So we were very hopeful on these 2-3 positives. But after good Q3 and Q4 of last year, first quarter all of a sudden has been down. I think all of us have to wait and watch and see what RBI does. And if it is really temporary then I am not that pessimistic about the whole year but yes if interest rates remain high then Infra segment and Genset, etc., may get impacted. But Farm Equipment would remain positive irrespective of all this which is good for us and also in Automotive we are at the bottom of offerings, 3 wheelers and the small 4 wheelers. That is also reasonably stable to my mind and as we heard in the call earlier, good monsoon may benefit that segment.

Moderator Thank you. We have the next question from the line of Ashutosh Tiwari from Equirius. Please go ahead.

Ashutosh Tiwari Sir, first question is on Auxiliary Power business, was there any growth in the current quarter or last year?

Ashok Kumar Sonthalia There was no growth in the current quarter. It was flat, almost same level of sale.

Ashutosh Tiwari Okay. You mentioned earlier, account receivables had gone up as of March 13; at let us say around 375 crores. So, what would be that number right now and would it go down from here or it will remain at the elevated level because you said that you were really supplying at self level for few distributors and that has led to increase.

Ashok Kumar Sonthalia The December number was slightly higher than 375. It came to 375 and I think right now, it is less than 350. So there is improvement. In any case,

September we will come out with an exact number but we are controlling some things which happened due to economic conditions or slowdown in the market or competitors' activity like they extending higher credit. We want to remain financially disciplined irrespective of economic environment. So, we believe we will improve but if activity level goes up, then about 50-55 days of debtors is a comfort zone for us.

Ashutosh Tiwari And sir, looking at current scenario, what kind of revenue target are you working at in the Infra Equipment segment particularly for this year?

Ashok Kumar Sonthalia We started with the break even target, as we expected that we will break even and add some EBITDA contributions from that business. First quarter has been disappointing. We want to do well. We have launched some new products; have improved our market share in concrete or at least retained in road. So our business position remains either same or slightly improved. As long as industry is not growing it would be difficult for us also, but what we have done in the first quarter, if you look at only domestic market, then the performance would have been very bad. We could leverage our international business effort and out of 35 crore sales which you see in the current quarter, 5 crore is on account of exports. Last quarter, there was hardly any exports from this segment. So if the international business traction keeps on coming to us, we expect we will improve from here. But putting a number is very difficult at this point of time.

Ashutosh Tiwari Okay and which are the markets your export is mainly going to?

Ashok Kumar Sonthalia This has gone to Middle East and Tanzania, African market and some to Bangladesh.

Ashutosh Tiwari Okay and you had mentioned in the Analyst Meet of 4th quarter that 250 crores is a number at which you can breakeven in the Infra Equipment segment. So, that number holds true or any reduction into that?

Ashok Kumar Sonthalia I think we shared about 200 – 220 crore. This business like other businesses is working on its material cost very systematically. So, I think 200 crores remains breakeven point.

Moderator Thank you. We have the next question from the line of Gagan Thareja from Comgest India. Please go ahead.

Gagan Thareja If Greaves were to reach or maintain margins or maybe marginally improve margins, what kind of volume growth would you require for that to actually happen or materialize?

Ashok Kumar Sonthalia The question is very generic. We are in 5 segments, in 5 industries and all have different products, construction is very different from farm equipment. But we can talk only about value as far as company is concerned. At 1873 crore, we were at 12.9% and quarter one has I think at least illustrated that even some expenses have gone up, with the material cost savings, we are able to maintain the same level of EBITDA at the same level of sales. So normally, inflationary, employee related or other expenses have a tendency to go up, we are able to compensate them. So, as long as we are about 1850 crore, we would be at the same margin. We do better than that, our margin improves.

Gagan Thareja Secondly, you indicated the volume drop has been of the order of 1%. I am still unable to sort of reconcile the fact that the sales de-growth is of the order of 3% for the Engine segment. Because I recall that last year second half, you had announced that the company has taken price increases and if they have already been there in the base end, volume de-growth has been of the order of 1%, why does the value degrowth come to 3%?

Ashok Kumar Sonthalia Engine segment consists of Automotive, Farm Equipment pump-set which we manufacture, Genset and Industrial engine. 1% volume de-growth I talked about was for Automotive engine.

Gagan Thareja So, if I were to take the aggregate engine servicing then the volume growth would have been higher?

Ashok Kumar Sonthalia Engines are from 4HP to 500HP, from 20,000 to 10 lakhs. So, it will not be appropriate to put numbers like that.

Gagan Thareja Sir, there is a transition in mix? Is that the way to look at it?

Ashok Kumar Sonthalia Yes. There can be many issues like which rating we are selling more and we will change the revenue numbers.

Gagan Thareja Over the last 2 years, you have made provisions for diminishing value of investments in your Farymann subsidiary. What would be the outlook for Farymann this year and are the provisions going to continue or is there a decisive into that in this year?

Ashok Kumar Sonthalia Our investment in Farymann that was provided for was in 2 tranches. So the investment in our books is at zero value at this point of time. We are looking at various options. European market is difficult, losses are continuing there and we are working on that how to kind of resolve that issue in the best interest of Greaves Cotton and its shareholders.

Gagan Thareja Over the last, let us say, decade or so, the growth in the LCV space has something to do with your 3 wheeler and 4 wheeler market, has had something to do with the Hub and Spoke model coming into the transport segment with bigger trucks not being allowed into the city limits. So, that kind of gave a secular impact to growth. With these kind of evolutionary changes out, if the market were to return back to normal growth, what would be the sustainable market growth rate for your Automotive Engine segment?

Ashok Kumar Sonthalia I believe the evolution is not yet complete. It is never a straight line which all of us know. So every evolution has a curve, it comes down and again goes up. I believe long term trend is intact for evolution because the kind of capacity which you have for connecting hubs is far more than the spoke capacity what the vehicles have. And this is just I would say a blip which happens with every growth. This market is going to grow. Now the question is whether it will grow this year or the next year but overall 10%-15% long term growth rate should be there for at least next 3-5 years.

Gagan Thareja And lastly, for Tata's Zip and Iris model the CNG version was to be launched this year. If you could give the timeline of when this is sort of going to materialize?

Sunil Pahilajani Yes, it will materialize. It also depends on trials at customer end and their own internal strategy. So, it will be launched anytime in next 1 or 2 quarters.

Gagan Thareja In Auto market, the permit and non-permit markets would be seeing a different growth rate considering deteriorating markets across? What is your take on these 2 separate segments and how do you see them evolving over the next let us say, year or two?

Ashok Kumar Sonthalia We think this keeps on shifting and finally catches up. Some states are not giving, some states giving. We are really not very keenly tracking this because we look at our OEMs and what plan they have. It is for them to decide which state they sell and how do they manage their volume growth and practically, if you look at last 4-5 year.

Gagan Thareja Sir, what I was trying to understand is that for Greaves, is the exposure sort of equivalent in both the segments or is it heavily into the non-permit market?

Ashok Kumar Sonthalia We never tried to segment our market as permit versus non-permit.

Moderator Thank you. We have the next question from the line of Vinay Rohit from ICICI Prudential. Please go ahead.

Vinay Rohit Sir, just wanted to know, the quadricycle has been in process of approval, so is there something that we have in line along with our OEM or are we still in the wait and watch situation?

Sunil Pahilajani For quadricycle we have a very competitive and I think a better suitable solution which we are proposing to all the customers. So it is for individual customers to decide their strategy, how and when they want to implement it. So, as far as we are concerned, we are ready with solutions even before Bajaj had. So, only thing is we did not talk about it too much because we were waiting for government to take decision and Bajaj was always on the forefront on this. We have a solution which is competitive to Bajaj and we are offering this to all our customers.

Vinay Rohit Sir, this maybe a little elementary but just wanted to know how the quadricycle engine different from the engine that we have for 3 wheelers now?

Sunil Pahilajani Quadricycle is a gasoline engine. It is competitive to what Bajaj is offering and better performing engine, I would say in terms of our offering.

Vinay Rohit What is the CAPEX which we expect to spend this year?

Sunil Pahilajani We have mentioned this as approximately 100 crores, including development and sustenance.

Moderator Thank you. That was the last question. I would now like to hand the floor back to Mr. Sonthalia for closing comments. Over to you, sir.

Ashok Kumar Sonthalia We thank you all for attending this session and we appreciate your interest in the company. As mentioned by Sunil in his opening remarks that the environment has been quite tough and challenging at this point of time and



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it is not very clear to us that as we gradually progress in 2013 and then the first quarter of 2014, whether it is going to improve and how much it is going to improve. But we are taking several initiatives to strengthen company, to strengthen our R&D and technology, market development, international business. So, these are some of the things which we will continue to invest. We will rollback only few discretionary investments in CAPEX if at all market does not improve. The company remains financially solid, balance sheet remains very healthy. So, we are in a position to do what we want and what we feel appropriate for strengthening the company, so that it is ready when the environment turns favorable, we are in forefront to take advantage of those opportunities. So, with these words, I would thank you again for joining the call. Thank you very much.

Moderator

Thank you sir. Ladies and gentlemen, on behalf of Greaves Cotton Limited, that concludes this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.