



**Greaves Cotton Limited Q4 FY-16 Earnings Conference Call
May 09, 2016**

Moderators:

**Mr. Sunil Pahilajani – MD & CEO, Greaves Cotton Limited
Mr. Narayan Barasia – CFO, Greaves Cotton Limited**



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Moderator:

Good Day, ladies and gentlemen and welcome to the Q4 FY-16 earnings conference call of Greaves Cotton Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, you may signal an operator by pressing '**' then '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. Thank you for joining us in this earnings call today. As we all can see that the economic environment still continues to be subdued and we have seen a minor decline in turnover in the last quarter however, last quarter onwards we have started pulling back and started growing. But overall there has been a slight decline.

We continue to maintain our market share in all the products despite of that and we continue to increase our margin and over year it has increased substantially from 12% to 17%. One of the key elements today in engine business and all our other engineering product business is related with emission and we are now ready to offer BS-IV and going forward BS-VI automotive engines as per schedule. We have been able to maintain focus on new customer development, new product development and expanding our sales to new geographies. The biggest focus has now come to agriculture business where we see big opportunity and we have started enhancing through various product launches that you will see during the course of next two years. We will support that through our R&D.

The auxiliary power business has also started showing encouraging results. And besides that on the operational front we have been consistently containing input cost; we have demonstrated same again by using value engineering and all other innovative efforts. We have improved EBITDA margins and have also controlled working capital quite significantly during the year. The margins have overall increased from 12% to 17%.

We continue to invest in R&D and we continue to expand in new geographies and new customer segments. We continue to offer new products and we continue to contain input cost, and with that we continue our journey and as economic situation shows upturn we will have opportunity to grow even the top-line.

With this, I hand over this conversation to my colleague, Mr. Narayan Barasia, to take you through financials. Narayan?

Narayan Barasia:

Thank you Sunil. Good morning and thank you very much for joining these quarterly earnings call. I hope you got a copy of our quarterly earnings update. I will be taking you through the financial results of Greaves Cotton Limited for the fourth quarter and the annual result for FY2016.

The net revenue for the Company for the quarter is recorded at Rs. 405 crores as against Rs. 394 crores in the same period last year recording a growth of 3%. The material cost reduction and value engineering initiatives are giving good results. Employee cost, overheads and other expenses are well within tight control. This has helped the EBITDA margin to improve from 12% for the quarter ending March, 2015 to 17% for quarter ending March, 2016. The profit after-tax for the quarter is reported at Rs. 38 crores against Rs. 24 crores for the same quarter previous year.

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

- Moderator:** Thank you very much Sir. Ladies and gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Ashutosh Tiwari from Equirus. Please go ahead.
- Ashutosh Tiwari:** Sir, if I look at the numbers there is a good jump in other expenses on a quarter-on-quarter basis. What is the reason behind that while sales remaining kind of flat?
- Narayan Barasia:** There is a reduction of about Rs. 1.3 crores. It has come down to Rs. 42.7 crores from Rs. 44 crores
- Ashutosh Tiwari:** I am looking at third quarter to fourth quarter FY'16.
- Narayan Barasia:** So quarter-to-quarter there may be variations but overall if you look at other expenses have been down, both on a quarter for March as well as for the 12 months for the year.
- Ashutosh Tiwari:** Yeah, the last year numbers they were down from there but anyways. Second thing, if I look at the balance sheet there is a good jump in short-term loans and advances from Rs. 69 to Rs. 121 crores.
- Narayan Barasia:** I am sorry, short-term loans and advances in terms of borrowing are you saying?
- Ashutosh Tiwari:** No, loans in the current asset side.
- Narayan Barasia:** Right. So this will be typical deposits et cetera, I think there is nothing material enough here.
- Ashutosh Tiwari:** So almost Rs. 50 crores from last year levels.
- Narayan Barasia:** Yeah, so I am not able to recollect what this is for, let me revert back to you later Ashutosh.
- Ashutosh Tiwari:** Sure. Sir, three wheelers are shifting from BS-III to BS-IV next year for FY'17. So what kind of price increase do you expect over the year and can we make more profit per engine once that happens?
- Narayan Barasia:** Based on regulator requirement we are ready with the amended engine format. Pricing in the market will be governed more by OEMs, this is difficult to comment on and too early to say but certainly we will protect our margins.
- Ashutosh Tiwari:** So what I am saying is that definitely pricing will increase but can we, because that can make more profit per engine as we are shifting from different norm and technology, there no competition for you in that segment, right?
- Narayan Barasia:** Well our end product ranges in price sensitive segment and we have to maintain value for money proposition for end customers as you know whether it is three wheeler or small four wheelers, we should remain competitive though we will protect our margin. I think I can only say that much at this stage.
- Ashutosh Tiwari:** Okay sir, can you please provide the volume numbers for Three Wheelers, Four Wheelers and Pumpsets?

- Narayan Barasia:** Yeah, Ashutosh, this increase in the advances has been because of the higher pay out of the advance income tax. The profit is almost more than two times. Now coming to your volume data so in terms of Three Wheelers the quarterly number is 71,000 and the Four Wheelers is about 9,000.
- Ashutosh Tiwari:** And Pumpsets?
- Narayan Barasia:** Pumpsets is about 20,000 and Tiller is about 5,000.
- Ashutosh Tiwari:** So what were the numbers last year?
- Narayan Barasia:** Last year was about 84,000 for Three Wheelers and Four Wheelers put together and Pumpset was about 22,000.
- Ashutosh Tiwari:** And Tillers?
- Narayan Barasia:** Tiller was the same number 5,000.
- Moderator:** Thank you. The next question is from the line of Manish Goyal from Enam Holdings. Please go ahead.
- Manish Goyal:** On Farm Equipment sir, if you can throw some more light as to what you said that a lot of focus could be over the next two years on new products and increasing geographies and that was the first question. And in respect to that if you can also share in terms of what is the addressable market size and what kind of market share we would be looking at?
- Sunil Pahilajani:** So we are now working on various mechanized equipment being introduced and we have done some of these in the past. There is a very wide range of mechanized equipment on which we are now working step-by-step and eventually Greaves should be able to offer full suite of products to farmers for complete crop cycle that is our vision. In terms of market we are among the top three players in country and in some of the products like pumpsets we are leaders. In terms of market share it varies from product to product and with a variety of products it is very difficult to give one number but for example in pumpsets alone we are holding more than 40% market share today, so that you can take as one example. And rest of the products we want to be among top two or three leading players.
- Manish Goyal:** Sir, I was more referring to in terms of the new product categories what you are entering into and what would be the market size of those products, all the mechanized products that you are looking at like you had introduced weeder in September and low horse power tiller also. So just trying to get a sense of how big is the market for mechanized equipment which we are targeting?
- Sunil Pahilajani:** So size of market as you know is growing rapidly and it is at a nascent stage today. It will be difficult to name all the products today because we would like to announce as we launch each product but eventually, we are going to gain very substantial size in this market.
- Manish Goyal:** Sir, how have these two products done for us? Mini power tiller, 7 HP and paddy weeder which we had launched....
- Sunil Pahilajani:** These are doing fine, these are doing very well and we are as I said, in every product, we are one of the top three market share holders.

- Manish Goyal:** Sir, how has overall Power Tiller market in FY'16 been and how do you see it going forward?
- Sunil Pahilajani:** FY'16 the market has de-grown because of various short-term reasons related with government measures and also related with the weather calamities across the country, but essentially Power Tiller is a product which has to grow in Indian condition and has very good future.
- Manish Goyal:** Sir, you had mentioned in the press release that we have shifted petrol engine manufacturing to a light weight facility at Ranipet so, what was the rational for that? And second question, what would be annual cost savings we will probably have?
- Sunil Pahilajani:** Yeah, so rational is multiple because this facility at Gummidipoondi was not viable with the scale and size economically. We have very pretty large presence and manufacturing set-up having similar facilities in Ranipet. So we have just integrated two without diluting any business and 100% we have shifted with an aim to optimize and improve efficiency to make that business viable. In terms of savings, yeah, annualized savings we will be able to comment may be by next quarter as we are still in process to do that.
- Manish Goyal:** So this is the petrol engine which were used for pumpsets?
- Sunil Pahilajani:** Yeah, all petrol engines and all other mechanized equipment.
- Manish Goyal:** So this was largely, I think you sell hundred thousand Petrol Engines, everything was manufactured at this facility?
- Sunil Pahilajani:** Yeah.
- Manish Goyal:** Okay. So this could probably lead to a substantial saving for us going forward, right, sir?
- Sunil Pahilajani:** We are envisaging that and we are still in process of completing that integration so probably we will come back by next quarter.
- Manish Goyal:** So, will it impact our future capacity requirement from this Ranipet facility? Will we have to do CAPEX over there say in terms of demand improves for the overall market?
- Sunil Pahilajani:** That would not change, whichever location it is, it is just relocation.
- Manish Goyal:** So you have shifted the plant and machinery to this facility?
- Sunil Pahilajani:** Yes, we have shifted plant and machinery.
- Moderator:** Thank you. Next question is from the line of Mithun Soni from GeeCee Investments. Please go ahead.
- Mithun Soni:** If you can share some idea on the next two years or three years which segments we feel is going to drive strong growth? Farm equipment, you said that you are going to come up with a lot of products, but if you can just give some flavor on the Four Wheelers engine side as well, as well as how are you looking the improvement coming on to three wheeler engines?
- Sunil Pahilajani:** Okay, so this consists of multiple questions, I will answer all of these. We have various businesses, in each business we have certain opportunities on which we are working. So first

you mentioned, Farm Equipment. Yes, farm equipment or farm mechanized equipment is a very big opportunity in India, as we are moving very fast now from manual work to mechanized work across the country and mechanization is also being supported by government through various incentives. Putting these things together we have started introducing solutions which I just mentioned. There will be range of solutions we will be offering over the next two years. We have strengthened our R&D to do the same and we have brought in a lot of technologies for that. So this is one opportunity which will take Greaves forward in terms of it strengthening this one vertical of business very well. Second, you mentioned about four wheelers, so four wheelers is a small four wheeler, medium size four wheeler and our LCV or SCV segment up to 3.5 tonne pay load. We have offered 1.5 liter diesel engine which is state of the art globally benchmarked engine. We are also offering various other multi cylinder engines. We have already demonstrated these engines in various forum and we are working on looking for business for this. As far as single cylinder and the three wheeler business is concerned, opportunity lies in improving further in existing solution and also opportunity lies in being ready with the next level of emission whether it is BS-IV immediately or going forward BS-VI as you hear a lot of sentiment against diesel and against emission today. And we are sensitive to that and we have made ourselves ready to offer very effective solutions, I think these are the opportunities and we are very much ready.

- Mithun Soni:** Just one question here, so in the four wheeler segment, if we say below 3.5 tonne segment there are two parts below 2 and 2 to 3.5 say, in one place it is Tata which is strong and the other side where Mahindra is strong. Are we supplying to Mahindra for this 2 to 3.5 segment or we will have to find new companies who are coming in the market to target towards there.
- Sunil Pahilajani:** At this moment it's a new engine we are not supplying to anyone and we are in process to arrange with some of the OEMs.
- Mithun Soni:** Is Mahindra possible or that will be a little difficult and we will have to get...
- Sunil Pahilajani:** It is very difficult to answer this and there is something we have to see whether our value proposition suits the customer and they are in agreement to take our engine forward so....
- Mithun Soni:** Okay. And sir, if you can just throw some light on Gensets growth that would be my last question.
- Narayan Barasia:** So Genset has grown by about 10% in terms of volume for us 540 units we sold in quarter four in FY'15 and we sold 580 units now in this quarter FY'16.
- Mithun Soni:** And how we see the growth over there what are the new products or anything we are launching?
- Narayan Barasia:** Yeah, we are launching some 10 kVA Gensets, but I think more than the launch we are too small in terms of market share and we are putting more efforts around service and the market, that is where we are putting a lot of effort. Product improvement is a continuous process which we are doing anyway but we are not looking to launch any new products in this range today.
- Moderator:** Thank you. The next question is from the line of Deepesh Agarwal from Ambit Capital. Please go ahead.
- Deepesh Agarwal:** Sir, one question, on the sequential basis, if I see the EBIT margin of engine segment, it is declined by 220 basis points. Is it because of change in mix or transfer of the lower commodity prices to customer?



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- Narayan Barasia:** We kind of have a seasonal business so if you look at it from quarter two to quarter four that number is also less. So because of the seasonality this fluctuation happens. If you eliminate the seasonality I think you will find the same EBITDA percentages.
- Deepesh Agarwal:** Okay. Sir, in some of the past conference calls, you have highlighted that the negotiation with the customer for adjusting the lower commodity prices happens once or twice in a year so, when is it expected or is it that, it has already happened recently?
- Narayan Barasia:** We have a set of 50 plus customers and this get scheduled during different parts of the year. So it is a continuous process many are done, many are in the pipeline.
- Deepesh Agarwal:** If I see in terms of your large customers something like the Piaggio, M&M so has it happened or it will be happening in the coming months?
- Narayan Barasia:** So no, so Piaggio's negotiation is complete.
- Deepesh Agarwal:** Okay, it is complete.
- Narayan Barasia:** Yes.
- Deepesh Agarwal:** Okay. And sir, can you please give me the FY'16 volume numbers, break-up?
- Narayan Barasia:** I just gave it earlier. So FY'16 is about 80,000 volumes between Three Wheeler and Four Wheeler.
- Deepesh Agarwal:** Sir, that is 4Q or FY'16?
- Narayan Barasia:** You want FY'16 total?
- Deepesh Agarwal:** Yes, sir.
- Narayan Barasia:** FY'16 is 337 so 3,37,000.
- Deepesh Agarwal:** Total Three Wheeler plus Four Wheeler.
- Narayan Barasia:** Three Wheeler plus Four Wheeler and all the pumps put together is about 90,000.
- Deepesh Agarwal:** And Gensets?
- Narayan Barasia:** Genset is about 2,000.
- Deepesh Agarwal:** 2,000, okay. And sir, have you launched that 250 kVA Gensets in the market
- Narayan Barasia:** Yes, 250 has already been launched
- Deepesh Agarwal:** And have you taken any price cut because what we understand that some of the competitors Cummins, Kirloskar, have already announced price cut in 4Q. So is it same with Greaves, because you have also grown at a good pace of 10%?
- Narayan Barasia:** No, we have not taken any price cuts.

- Deepesh Agarwal:** You have not taken any price cut?
- Narayan Barasia:** No.
- Deepesh Agarwal:** Okay. Can just give the multix volume number for the year and the guidance for next year?
- Narayan Barasia:** No, so we generally do not give guidance, our business is very much dependent on the economy and economy is now probably looking up quite well. Things are definitely in a good shape in terms of growth. We are very optimistic about the next year.
- Deepesh Agarwal:** No, so of 337 thousand engines what could be the contribution from Multix?
- Narayan Barasia:** Multix has been small, it has just been launched and it was almost like a pilot launch, so it does not contribute a big volume there today.
- Deepesh Agarwal:** Okay. And lastly, do you plan to ramp-up dividend payout or go for any inorganic expansion, given the large cash and liquid investments of Rs. 380 crores?
- Narayan Barasia:** So dividend, we are paying in line with the maximum dividend which we can pay today, is not it? So there is nothing much we can do on the dividends.
- Deepesh Agarwal:** So any acquisition or large CAPEX in pipeline?
- Narayan Barasia:** No, we do not have any significant CAPEX lined up today.
- Moderator:** Thank you. The next question is from the line of Charanjeet Singh from B&K Securities. Please go ahead.
- Charanjeet Singh:** Sir, if you can just help us understand about the aftermarket sales, what has been the contribution in the last quarter?
- Sunil Pahilajani:** So it is around 17%-18%.
- Charanjeet Singh:** sir, if we look at what we are now focusing on, the SCV segment, what is the outlook on that particular segment in terms of how large that segment will be and what are the growth prospects going forward in FY'17 from market perspective?
- Sunil Pahilajani:** That is something we are also wondering, because that is something only vehicle manufacturers can comment on. We go by their schedules and I can only say we are trying to support all the OEM customers as they plan.
- Charanjeet Singh:** And sir, in the tiller space the government subsidies play an important role and we have been seeing some of the subsidies they are just close to finalizing. If you can just highlight in terms of how this can back the volumes going forward in FY'17 as government subsidies get finalized?
- Sunil Pahilajani:** So how government subsidies get finalized and when they actually disburse is difficult to guess, but we follow with each state and our distributors and dealers work closely with each block or each village and we personally overall at county level we foresee growth in tiller business. We see substantial growth over the next three years.

- Moderator:** Thank you. The Next question is from the line of Bharat Ginani from Sharekhan. Please go ahead.
- Bharat Ginani:** Just a question on the three wheeler side I mean amongst the customers, we know that we are a 100% supplier to Piaggio. But as far as M&M, Atul Auto and TVS is concerned, just wanted to get a broader sense on what percentage of their sourcing is done through us or just a ball park number?
- Sunil Pahilajani:** I have perhaps not understood well, but I will try to address around that. We supply engine and the engine as a package so, percentage wise I do not know what else they source from where because our business is limited to the engine business. And whatever is related to their three wheeler engine business we supply 100% of that, I mean three wheeler diesel engine business, we supply 100% of their requirement. Is that what you are asking?
- Bharat Ginani:** Okay, fine. So petrol they might be sourcing from someone else as well I mean...
- Sunil Pahilajani:** Yes, petrol they might be sourcing or making or whatever.
- Bharat Ginani:** Okay. But Piaggio petrol plus diesel 100% is with us.
- Sunil Pahilajani:** At Piaggio also we supply only diesel.
- Bharat Ginani:** Okay, only diesel, okay, fine. And sir, also on the four wheeler side apart from the Tata Ace, any progress on the M&M front have they launched couple of products in the sub 2 ton segment as well. So any break through on that front?
- Sunil Pahilajani:** No, there is nothing to announce today.
- Bharat Ginani:** Okay. And sir, lastly, my question is in the power tiller segment what would be our market share currently?
- Sunil Pahilajani:** We are in the range of say around 16% to 18% today and we are among the top three players and we are hoping to strengthen our position.
- Moderator:** The next question is from the line of Sandeep Baid from Quest Investments. Please go ahead.
- Sandeep Baid:** Sir, if you can give some color on your export business for this quarter.
- Sunil Pahilajani:** This quarter.
- Narayan Barasia:** Export has been doing well, we have grown by single-digit growth, it remains about 4% to 5% of our total turnover today.
- Sandeep Baid:** And our target is to take it to about 10% over the next two years - three years?
- Narayan Barasia:** Yes, absolutely.
- Moderator:** Thank you. Next question is from the line of Sanjeev Zarbade from Kotak Securities. Please go ahead.

- Sanjeev Zarbade:** Yes, sir, my question was regarding the segment revenues. So In the others segment the revenues have grown quite significantly from Rs. 50 crores to Rs. 84.5 crores. What is that on account of?
- Narayan Barasia:** Yeah, this is some of the trading products we source, so power tiller point comes here. So anything which we trade upon and which we source is a part of this. But you know this is a small base, you are talking about Rs. 50 crores number this is Rs. 5 crores, right, so this is in lakhs.
- Sanjeev Zarbade:** Okay.
- Narayan Barasia:** Rs. 35 crores for the whole year.
- Sanjeev Zarbade:** Okay. And sir, regarding the power tiller volumes for the quarter it has grown by 5,000 so are these volumes very kind of fluctuating across quarters or is it because in third quarter we had around 500 volumes in power tillers.
- Narayan Barasia:** Yeah, so this is a kind of product it does not fluctuate so much but in some quarter the season is quite good and so we sell more so, quarter-to-quarter there is definitely a seasonal fluctuation.
- Moderator:** Thank you. Next question is from the line of Bhalchandra Shinde from Anand Rathi. Please go ahead.
- Bhalchandra Shinde:** Sir, regarding receivable deal, I wanted to understand, our receivable deals have comparatively, gradually declined over last two years. So will we be able to maintain and what we have done exactly to reduce this?
- Narayan Barasia:** Yeah, we will definitely be able to maintain to this level, a lot of hygiene has been brought in and a new way of looking at outstanding has been looked into and this is a good process we have implemented, we will continue with this process.
- Bhalchandra Shinde:** Okay. And regarding margins after the price revisions with different customers, do we see any impact for next year or we will be able to maintain the annual margins what we are having currently.
- Narayan Barasia:** We expect this margin level should continue.
- Bhalchandra Shinde:** Okay. So there were not any price cuts to the OEMs park through?
- Narayan Barasia:** No, so we do not expect the margins to come down from here.
- Bhalchandra Shinde:** Okay. And sir, regarding gensets, after the introduction of this product, I would like to know if we have changed our total strategy also, earlier used to supply engines, now we are supplying a total diesel genset as a package to the customer. So how have we changed our distribution network and what we are seeing in future two to three years?
- Narayan Barasia:** So our distribution is very-very well geared up for both sales and service which is required in selling genset, we have to continuously strengthen; we do not have a pan India presence. Objective will be to strengthen as we keep on moving forward.

- Bhalchandra Shinde:** But have we faced any hick-ups because of changing the strategy from as an engine supplier to a genset supplier?
- Narayan Barasia:** No, we have not faced any hick-ups
- Sunil Pahilajani:** And actually you know we are doing both if you are aware, we are also supplying engine in a limited way, but we are supplying engines and we are also having our distribution of gensets so we have both channels.
- Moderator:** Thank you. Next question is from the line of Jigar Shah from Antique Stock Broking. Please go ahead.
- Jigar Shah:** A couple of questions sir, if one sees your other expenses post separation of the construction equipment business have been uniformly moving up across last four quarters and even in this quarter it was significantly higher quarter-on-quarter. So there can be few one-offs in specific quarters but the overall trend is pretty much uniformly rising, any comments on that, sir?
- Narayan Barasia:** So just there can be some small one-off in the quarter, for instance, this as you heard about that we are shutting down this factory and so some provision would have been made for some of asset which you cannot move like electrifications et cetera, but if you remove all this, you will not find an upward move in the other expenses, other expenses are quite in control and it is actually from our side, it is actually not going up.
- Jigar Shah:** Okay, sir. Second thing sir like as per the commentaries by many other auto OEMs players were, metal inflation is now expected to start impacting gross margins from Q1 or Q2 going ahead. And I see, you have already improved your gross margin by almost 400 basis points in last five quarters. So now where is the visibility in terms of your contracts of steel down the line, any visibility that there can be some risk through gross margin in the coming quarter?
- Narayan Barasia:** We actually do not expect margins to come down as we go along. I think we should be able to maintain at 16% to 17% EBITDA.
- Jigar Shah:** Okay. And last question, sir, if we see the three wheeler industry, broadly all Atul Auto, even Piaggio, Mahindra, TVS, few of them getting impacted by Bajaj entering to the goods three wheeler or overall permit is not coming up. To compensate that also we saw Tata's SCV volume in April not picking up and again going back to those lower levels, so what kind of outlook do you have in the three wheeler plus Tata as a portfolio in the auto segment growth outlook for the year, sir?
- Sunil Pahilajani:** Overall market seems to be going positive because we see upward trend in LCV, HCV now which is always a leading indicator and then our SCV should follow. Greaves has a very strong position in terms of supplying, having 100% market share other than Bajaj. So you know some customers may gain or lose market share but we always are able to supply engine to all of them. And from their point of view we are not affected. Only thing is what you are saying Bajaj entering into diesel engine but then it has been there for long and then you know...
- Jigar Shah:** But they moved out in between for long and again re-entering as such.
- Sunil Pahilajani:** So we are pretty strong, we are pretty confident about our solution and our kind of engine and our quality of product and performance which is unmatched and it will be very difficult for anyone to match that.
- Jigar Shah:** And how has been the quarterly off-take from Multix that is Eicher Polaris JV product?

- Sunil Pahilajani:** It is a new model and it is still in the process of establishing itself and they have their own strategy so maybe you know their product strategy from Eicher itself but then we just follow and continue to support them. Personally we feel Eicher is a great company and they have their strategy and their market strategies have always been very successful over medium-term and long-term, we are very confident that they will be a strong player eventually.
- Jigar Shah:** Sir, can you share some ballpark figure, how has been the off-take this quarter from customers?
- Sunil Pahilajani:** Yeah, last quarter, I think you can see the production numbers, et cetera, but it is a very minor thing, it is still in the beginning of production there....
- Jigar Shah:** 3,000 in the quarter?
- Sunil Pahilajani:** No, I do not have numbers here but it is only a few, I will leave it at a few hundred...
- Jigar Shah:** Okay, sure.
- Sunil Pahilajani:** So, I do not know but if you see the SIAM production data, you will be able to figure out perhaps.
- Moderator:** Thank you. Next question is from the line of Pawan Kumar from Unifi Capital. Please go ahead.
- Pawan Kumar:** Sir, my first question was, you paid out around Rs. 160 crores of dividends this year how sustainable is that? And what are the CAPEX plans going forward in the sense we had expected around 100 crores to 150 crores CAPEX but this year nothing substantial has come in, so can you throw some light on what are the CAPEX plans going forward in the next two years?
- Narayan Barasia:** So CAPEX as we always said, will be in the range of Rs. 50 crores to Rs. 100 crores which comprises of some technology based investments and also some maintenance CAPEX as what we call. So we are in the range of about Rs. 50 crores to Rs. 100 crores and we will continue that range. In terms of dividend, dividend depends on the Board and recommendations, but as of now there is no change in our dividend policy.
- Pawan Kumar:** Okay. So yearly, what is your view? Is it sustainable or?
- Narayan Barasia:** Yeah, it should be sustainable, absolutely.
- Pawan Kumar:** Okay. And my second question, would be regarding the manufacturing unit if it needs to set-up say we find a solution, find a customer for our four wheeler 3 tonne engine. How much is it going to cost in CAPEX for us regarding that, if any opportunity does turn up?
- Sunil Pahilajani:** That will depend totally on the scale and size of business and nature of business, so difficult to say but we are very well placed for incurring any such CAPEX requirement and if you see our, as Narayan mentioned our cash flows and other situation you can see is very strong.
- Pawan Kumar:** And one last question if I can squeeze in, so whatever expenses that have been already incurred for this 3 tonne engine have already gone through the P&L, is my understanding right?

- Sunil Pahilajani:** Yeah, so the R&D expenses we have incurred must have been already capitalized. Have already been capitalized, is what I mean.
- Pawan Kumar:** Okay, they have been capitalized on the balance sheet you mean.
- Narayan Barasia:** Absolutely, yes.
- Narayan Barasia:** This project is still going on, right, so once everything is over then we will capitalize it but today it is lying in capital work in progress.
- Moderator:** Thank you. Next question is from the line of Sarvesh Gupta from Trivantage Capital. Please go ahead.
- Sarvesh Gupta:** My first question is regarding conversion from BS-III to BS-IV. Since the past few quarters, you have been guiding that you will maintain your margins. Now, when you enter into a negotiation with your customer with an intension of maintain your margins you must be having an idea about the cost increase per engine that you will incur as you move from BS-III to BS-IV. What is that cost increase and if you can throw some color on that as to where exactly that cost increase will come from?
- Sunil Pahilajani:** So I can only answer generally and not in numbers, because we have 53 OEMs and you know engine format changes with every vehicle and engine packaging and the range of components we supply, it also changes with every customer. It is not a very general answer which I can give here. But when we say we will maintain our margin it is true, we have to work hard to maintain our margin and under this conflicting situation where we are offering a solution for a vehicle or a product which is value for money product and which has to compete in market. So we have to keep price sensitivity in mind which means we have to keep price as tight as possible. We have to maintain our profitability as a business so, between the two we have to work on a lot of innovations which we have done. This is how we go forward.
- Sarvesh Gupta:** But is it going to be a substantial hike or is it going to be a very marginal hike if you can just give us that sense?
- Sunil Pahilajani:** You know change of emission; so again, not putting a number but change of emission is always a substantial change.
- Sarvesh Gupta:** Understood. Secondly sir, in the M&HCV segment what people have been talking is that because BS-IV is going to come. Hence, there is a lot of pre-buying which is happening which is also helping the growth rates in some way. So is that also going to be the flavor for the coming year in three wheelers and the SCVs? Do you think you know pre-buying would be one of the factors which....
- Sunil Pahilajani:** But I do not know how pre-buying is possible in this segment because it is already controlled by so many other regulations permits, et cetera. I really wonder how much of pre-buying can happen in this It sounds difficult but there may be small fluctuation because of that.
- Sarvesh Gupta:** Understood. Sir, this time when I was travelling through some of the northern cities and these were not just the metros but also the Tier-I cities, I saw that, there has been a massive proliferation of E-Rickshaws and when I try to see what brands they are coming from these were almost completely unbranded. So in the passenger segment at least; one, we are seeing a lot of passenger segment being taken over by the E-Rickshaw segment and that looks like something which is going to take up very well and secondly, we are also seeing that this is all coming from unorganized segment, some non-descript guys making and supplying these E-

Rickshaws to the drivers. So how is that going to impact you and three wheeler segment in general?

Sunil Pahilajani:

Okay. So I will try to explain. First of all, what E-Rickshaw is, E-Rickshaw is battery operated rickshaw, you see there were manual rickshaws and there were various forms of rickshaws, tanga's et cetera. It is E-Rickshaw which is run through battery. How you manufacture it? You can just assemble it like you assemble a PC in any small room and it does not need any great skill. Kits are available and you can do that anywhere and several manufacturers across India are doing it. So it does not need brand. Government has permitted it, so it is just to facilitate small local transport. Now, the limitation of E-Rickshaw is that, it cannot run beyond few kilometers and then it needs to be charged again for several hours which is very big constraint. So it has no kind of comparison with a vehicle which is full-fledged vehicle running on engine and can run, can carry weight and you know, so that dependability, reliability or usage pattern is not possible. It can only be a point to point over short distances for short time then it goes again for charging. This is the comparison. So we personally do not see any such threat to our business from that, it is an interesting development and if it facilitates transport of people, I think let it be.

Sarvesh Gupta:

So, sir, how much you think that this will be substantial portion of the passenger value because the drivers were purchasing these E-Rickshaws, they have already taken into account the fact that it has to be charged from time to time. Even in spite of all these factors and now we have seen even the PM kind of giving away these E-Rickshaws as a major source of employment for people. So it looks like it will have a big push from the government as well?

Sunil Pahilajani:

So a big push is there in cities like Delhi, primarily affected with environment sensitivity as you know, certainly it is interesting as I said and it creates employment and it facilitates people to be transported. But I was only seeing and talking from perspective of our business threat or opportunity so, we do not have any conflict with this as far as our business is concerned. So if that segment is growing, it has no bearing on our business. So from that point of view I am saying. And then yes, people who are buying it must have factor the charging part that is fine. But then their limitation is that it can run only 80 kilometers or 60 kilometers with one charging.

Moderator:

The next question is from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia:

Just a couple of questions on the farm mechanization on the tiller space. First one is on the, subsidy environment. Can you provide more color on the subsidy environment in Orissa, Assam and West Bengal? I mean these are elections state, so how is the subsidy environment going and how is the pricing we are seeing right now in terms of rate contracts set-up key subsidiary sales, that is the first question.

Narayan Barasia:

So subsidy environment is not that bad, I think subsidies are getting released, the manner of subsidy release also has improved quite significantly, we see everything that is positive to our business.

Viraj Kacharia:

And in pricing of rate contracts?

Narayan Barasia:

No, we have not seen any issues in the pricing on the tiller side.

Viraj Kacharia:

No, what I mean to say is that we are witnessing a mark down because of the low RM cost everyone is enjoying or are the state government's is seeing a market down of the prices of Tillers in those key states.



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- Narayan Barasia:** No, we have not witnessed that mark down as yet.
- Viraj Kacharia:** Is it by and large stable or can have an increase.
- Narayan Barasia:** Yes, it is by in large stable.
- Viraj Kacharia:** Okay. Second question is that a couple of months back we were seeing this trend of various players launching a sub-8 or a sub-10 HP Tillers. Now, what is driving the demand for the Mini Tillers? Is it subsidiary or increased demand for marginal farmers? And would this be sold primarily under the subsidiary programs or this will primarily be a non-subsidiary sales?
- Narayan Barasia:** To my knowledge these are all covered in the subsidiary program, but the larger chunk of the Tiller remains 14 HP Tiller which are small Tillers for very small farms, but for two acres of land which India has a dominant position between one acres to two acres of land, 14 HP Tiller is what is required.
- Viraj Kacharia:** If we see Tillers again, a lot of players have entered into the space in the last 2 years. If we see the overall subsidy for difference states, it has been very static. But a number of players in the Tiller space have increased, traditionally in this space the sales are driven by subsidy. So how do we see growth panning out for Greaves and for industry over next 1-2 years?
- Narayan Barasia:** The Tiller penetration in India is still very low. By any mechanism you look at, the penetration is quite low. So there is a huge room for growth, and the new trends in the market are also suggesting that people have a lot of conviction on the long-term growth prospect of the market. Still we are among the top three players and our position is quite strong. We see that the Tiller is definitely an opportunity in times to come and is not a threat.
- Viraj Kacharia:** No, what I really meant is that if we see the industry structure so far more than 85%-90% of the industry sales for Tillers is subsidiary driven.
- Narayan Barasia:** Absolutely, correct.
- Viraj Kacharia:** If we see the trend in terms of the subsidy allocations of key government, it has not changed much in the last couple of years. New players are entering into the space, are we seeing a trend of non-subsidy sales increasing and therefore, growth which we for Greaves which we are seeing for next 1-2 years for Tillers will be primarily non-subsidy driven. So if you can just provide your perspective on that part.
- Narayan Barasia:** No, Tiller will remain a subsidy driven business, right so, and this will a lot will depend on how the subsidy release in the quantum of subsidy getting release. So with the farm mechanization going to be the forecast for the government as we go along, we expect that may be more allocation of subsidy will happen in this direction. So growth will improve as we keep on moving forward.
- Viraj Kacharia:** Okay. And when we talk about farm mechanization, as one of the major drivers for us in next two years to three years. Is it primarily small farm mechanization which we are looking at. You mentioned about some of the products being introduced while some are being planned, are these in the small farm mechanization space and therefore, this is what we are focusing on when you say farm mechanization?
- Narayan Barasia:** Yes, we are looking to have products around any Tiller which can cater up to four acres to five acres of land, because beyond that then it is the tractors which take over. We want to be in that band. And largely in India, it is all about one acre and two acres of land.

- Moderator:** Thank you. The next question is from the line of Mahesh Bendre from Way2Wealth Securities. Please go ahead.
- Mahesh Bendre:** I just wanted to know what the capacity utilization of our factories currently is.
- Narayan Barasia:** Since the volumes are almost stagnant the capacity utilization remains at 75% level.
- Mahesh Bendre:** How much, sir?
- Narayan Barasia:** 75% level.
- Moderator:** Thank you. Next question is from the line of Manish Goyal from Enam Holdings. Please go ahead.
- Manish Goyal:** Sir, on the Power Tillers just wanted to ask a question since we have been largely trading the product. Are we looking at manufacturing the product in-house and what is the strategy out there?
- Narayan Barasia:** Yes. Power tiller we would like to manufacture and we have been maintaining that. We are still in development program, and are developing our own Tiller. Once that is ready we will manufacture that Tiller.
- Manish Goyal:** Okay. And sir, some confusion on the number what you gave for the quarter, you said 5,000 numbers for Power Tiller for the quarter or for the entire year?
- Narayan Barasia:** No, for the entire year it is about 20,000; for the quarter it is 5,000.
- Manish Goyal:** So this actually includes other equipments also, right?
- Narayan Barasia:** No, it does not include other equipments like Weeders, et cetera.
- Manish Goyal:** Okay, fine. And sir, in the third quarter you had sold some piece of land, was it Chennai land which we vacated for the Construction Equipment or it was other property?
- Narayan Barasia:** No, it was not a sale of land, it was a sale of a property only. We had an office there and we sold that office. It was not in use.
- Manish Goyal:** Okay. So the Chennai land, any plans to monetize that?
- Sunil Pahilajani:** Yes, we eventually wish to.
- Moderator:** Thank you. Next question is from the line of Manish Bhandari from Vallum Capital. Please go ahead.
- Manish Bhandari:** I wanted to know your views on the emphasis led by the government on Solar Pumps; can the market be big enough? How would you react to it?
- Sunil Pahilajani:** Solar Pumps is a solution we already have and have offered to the consumers. In terms of market growth there has been much more progress on electric pumps these days because of availability of electricity which is increasing its reach in even the remote parts of India. With

respect to the Solar Pump growth, I do not think that we have any ready data to offer at this moment.

Manish Bhandari: My second question is: as we introduce new products in the tiller side and agri side, does your distribution need to go completely overhaul and you need to build new distribution? How you have built new distribution in comparison with the last year in FY'16? If you dissect India into four parts, which is the weakest area which you would want to expand?

Sunil Pahilajani: It is not a question of being weak or strong, the question is of the nature of distribution. So we had distribution network earlier for Water Pumps which has very different nature of dealers and distributors as you can imagine due to the product. Once we go for large size mechanized equipment, these are more like vehicles and we need to have much larger, much better dealers and distributors presenting this and displaying these and also being supported by financing etcetera. Different nature of distributors will be required across India and we have already started working on it over since the last two years. We have already gained some and have already put on the ground and some places I think it is being strengthened further.

Manish Bhandari: Sir, if you permit me, may I ask one more question? Since moderator allows only two per person. Do you think that you are exiting the infrastructure equipment business at the wrong set of time and there would be a likely upturn in the economy? May be in the last four years or five years the downturn would be behind us?

Sunil Pahilajani: We have not exited infrastructure equipment business for a temporary reason of downturn or upturn. Greaves is a 150 years old company and we have sustained through various business cycles. If you see, we were very small in construction business and today with who's who of the world being in India the amount of R&D investment and amount of technology employed is pretty advanced. So irrespective of how economy performs and I wish it goes higher. We are not worried since we think we have taken the right decision in interest of business and have increased our focus on our existing businesses where we have strategic opportunities to grow.

Moderator: Thank you. Next question is from the line of Girish Raj from Quest Investments. Please go ahead.

Girish Raj: So of these six key applications in the farm mechanization, what are we focusing on? We understand that there is Power Tiller as one. Which are the other products that way we would be focusing?

Sunil Pahilajani: Every crop has various stages and cycle whether it is planting, tilling, or harvesting. For every stage and kind of crop, there are certain mechanized equipments. There are more than 200 types of equipments so it will be difficult to name just one. We are now consciously working over next two years to three years to offer very wide range of solutions for the complete crop cycle. For host of the crops which are prevailing in India.

Girish Raj: Okay. So what proportion would be in-house manufacturing currently?

Sunil Pahilajani: These equipment will be largely manufactured in-house. We have a strong R&D and have a strong manufacturing base. We recently moved to Ranipet and thus majority of the equipments will be manufactured in-house manufacture.

Girish Raj: So currently, in what proportion would it be?



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- Sunil Pahilajani:** Currently, we have two kinds of businesses, one is of manufacturing in-house and the other business line is of import where we import some of the equipment which we are selling. So eventually, our aim is to position our self as someone who is manufacturer.
- Girish Raj:** Okay, so this would be two years to three years.
- Sunil Pahilajani:** Yes, absolutely.
- Narayan Barasia:** Yes, you are right.
- Girish Raj:** Yeah, okay, so the next question is on the revenue mix if you can share - on a full basis Engine, Genset, and Farm Equipment in after market?
- Narayan Barasia:** The engine business continues to be about 55%-60%, Farm remains at about 12%-13%, Genset is at 12%-13% and on top of that there is after market which is about 17%-18%.
- Girish Raj:** Okay. So last question if I may ask about the margin profile change. What are the margin profile in the farm mechanization business currently and post manufacturing. How will it change?
- Narayan Barasia:** We maintain our business at the same EBITDA level, and we are very profit focus as an organization, and that is what we keep doing.
- Girish Raj:** No, what I am trying to understand is, if we go to manufacturing, will there be a delta and how much?
- Narayan Barasia:** I am sorry, I am not.... Please repeat your question again.
- Girish Raj:** What I am saying is, if we have only in-house manufacturing completely over next two years to three years, what delta would there be in terms of margin improvement?
- Narayan Barasia:** I think it is the question more than margin because once we have the technology in-house then we also look at product reliability, and quality as well and I think it is good for the business both in terms of margin as well as for the customer from a quality, and performance perspective.
- Moderator:** Thank you. Ladies and gentlemen, due to time paucity of time that was the last question. I now hand the conference over to Mr. Barasia for his closing comments.
- Narayan Barasia:** Thank you very much for attending this session. We appreciate your continued interest in our company. Thank you once again. Thank you.
- Sunil Pahilajani:** Thank you. (Not there)
- Moderator:** Thank you very much, members of the management. Ladies and gentleman on behalf of Greaves Cotton Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.