



Greaves Cotton Limited Q2 FY16 Earnings Conference Call
November 03, 2015

Moderators:

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

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Greaves Cotton Limited Q2 FY-16 Earnings Conference Call. We have with us today on the call Mr. Sunil Pahilajani – MD; and Mr. Narayan Barasia – CFO. As a reminder, all participants' 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 the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. 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 afternoon ladies and gentlemen and thank you for joining this call. We have reported revenue of Rs. 425 crores this quarter as compared to last year's same quarter revenue of Rs. 441 crores. EBITDA margins have moved up to 17.9% for Q2FY16 against previous one of 12.8% for the same period last year.

We continue to have our focus on few things which I mentioned earlier, one is growth and market development in key areas. Product development across Farm Equipment, Gensets and Automotive Application. Cost improvement as you see the impact on input cost and working capital improvement as you see our cash conservation. The company has showcased its first three cylinder engine publically in an auto show at Belgium and we have also demonstrated possibility of offering various other variants and we will now be taking these solutions forward.

With this background, I hand over to my colleague, Mr. Narayan Barasia our CFO to take this discussion forward. Narayan?

Narayan Barasia: Good afternoon, thank you very much for joining this conference call. The company has reported a revenue of 425 crores for the quarter ended 30th September 2015 as against 441 crores for the quarter ended September 30, 2014.

EBITDA for the quarter ended September 30, 2015 was 17.9% at Rs.76 crores as against 12.8% at Rs.56 crore for the same period last year, recording a growth of 36%. The profit before tax and exceptional item for the quarter is 75 crores as against Rs.49 crores for the corresponding period last year thereby recording a growth of 53%. The profit after tax for the quarter is 54 crores as against Rs.27 crore for the quarter ended corresponding period last year.

So with this we open the session for your questions.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question-and-answer. We will take the first question from the line of Swarnim Maheshwari from Edelweiss Securities.

Swarnim Maheshwari: Sir, my first question pertains to the EBITDA margins. We have seen a strong 5 bps to 20 bps of margin improve Y-o-Y. Apart from operational excellence which you talked about I believe there would be some sort of commodity benefit also which would have come in. If you can just quantify that, and the second question is on our capital employed, if you look our capital employed on a Y-o-Y basis there is an increase of 100 crores, so, if you can just tell us where this incremental capital is being deployed? Thank you.

Management: So coming to your first question obviously there is EBITDA also pertaining to the commodity increase. So you are actually right and which as we go along other two quarters probably some of it may be passed on to the OEMs based on the price division we have with them. But some of the large part of the margin improvement as we have always been talking about is because of value engineering and other initiatives we are running in the organization. Pertaining to your second question, overall there is no increase in the capital employed. The increase in the capital employed which you are seeing is only the surplus which is getting generated and invested in mutual funds. So overall there is no increase in capital employed.

Swarnim Maheshwari: Okay. So the capital deployed in the business remains same it is just that the cash flow that is limited.

Management: Absolutely, you are right.

Swarnim Maheshwari: Okay. Sir if you can just share on your bookkeeping, if you can share your three-wheeler and four-wheeler volume that would be great.

Management: Yes, so three-wheeler and four-wheeler volume is about 80,000 and 10,000 respectively for the quarter two of this year. The overall Pump business has been about 22,000 and the Tiller and Light Agri Equipment has been about 3,000.

Swarnim Maheshwari: Sir if you can just give us the comparative figure I mean that of corresponding quarter last year.

Management: Okay. So quarter two of last year corresponding for three-wheeler has been 90,000 and for four-wheeler has been about 20,000.

Swarnim Maheshwari: Okay. And for Pump and Tiller and Light Agri Equipment

Management: 25,000 for pump and 4,000 for Tiller and Light Agri Equipment for the corresponding quarter last year.

Moderator: Thank you. We will take the next question from the line of Sanjeev Zarbade from Kotak Securities.

Sanjeev Zarbade: It was regarding our Engine sales which has grown on a sequential basis. So, just wanted to understand do you see any uptick happening in the engine segment or how is the scenario looking?

Management: So the Engine segment if you are talking about automotive it is largely linked with the OEM sales and OEM sales is something we depend on them but what we foresee and what we hear that quarter three should have some turnaround and we should see something better than past.

Sanjeev Zarbade: Okay. So basically we did around 370 crores in Engines revenue and it has grown to 408 crores in the second quarter. So this is an uptick in that you are seeing so, just wanted to understand how the ground situation is.

Management: So what I understood from your question is you are asking about our view for next two quarters?

Sanjeev Zarbade: Yes.

Management: So next two quarter view is that we are hoping it is better. I mean last two quarters were not so aggressive.

Sanjeev Zarbade: Second-half should be better than first-half?

Management: Yeah, we hope so.

Sanjeev Zarbade: And sir regarding the engine suppliers to Eicher Motor's vehicle how is the situation panning out?

Management: Sir we have been nominated as supplier, they have their plan we will follow it.

Sanjeev Zarbade: Okay. And sir, lastly to what extent the margins that we have seen in the second quarter could be attributed to benign material prices so that in case material prices let us say reverse then to what extent margins could be affected?

Management: So there are always two factors to it you may recognize one is what improvements we do, whatever value engineering improvements we do those will not depend on the commodity index. So those will be improvements or value engineering aspects which we have been doing quarter-on-quarter and those improvements are sustainable. There are certain impacts of commodity which are of cyclic nature and then those will get adjusted.

Sanjeev Zarbade: Sir. Lastly, so for our product supplies we enter into price agreement once in a year or it happens on a regular basis?

Management: No, sir we always have very long-term agreement with all our customer and it is not once in a year and there are some commodity corrections we do year-on-year.

Sanjeev Zarbade: But that is not on a it can happen anytime depending upon on the negotiation between yourself and the customer

Management: Normally the trend the practice in automotive industry is to do once or twice in a year so we will follow that.

Moderator: Thank you very much. We will take the next question from the line of Laxminarayan from Catamaran.

Laxminarayan: This is your Auto business. Sir you mentioned that you have sold around 4,000 engines on the four-wheelers. Now just to understand you also mention that your market share in that segment is around 85% to 90%. So which type vehicles we supply to is it below 3.5 tonnes or what kind of vehicles and if you can just help me understand how is the market shaping up there?

Management: If you know we are in LCV segment these are mainly sub-one tonne vehicles.

Laxminarayan: Okay. On one of the calls you mentioned that you have the capability to offer solutions up to 3.5 tonnes.

Management: Yeah, we can offer and I just mentioned in the opening remarks that we have already displayed our new Three Cylinder Engine in Belgium this month which is actually 105 horsepower engine.

Laxminarayan: Okay. And since your display in Belgium is it for the export markets or how does it constitute this?

Management: Meant for showcasing our ability because most of international buyers or automotive community across the world come there.

Laxminarayan: And what is this industrial exhibition call sir?

Management: This is basically SAE conference.

Laxminarayan: Okay. Sir and is it in terms of Europe non-compliance rates so what kind of compliance this engine has? Is it BSIV or BSV?

- Management:** We are protected for all future compliances up to Euro 6.
- Laxminarayan:** Okay. Sir so if I understand your Three Cylinder Engine which you showcased is already compliance with the Euro 6.
- Management:** It is protected for that so, we can do it. We can do it Euro 4, Euro 5, Euro 6.
- Laxminarayan:** Okay. Sir one question on your three-wheeler business you mentioned you supply to around 80,000 Indian. What is your market share there sir?
- Management:** We have most of the market with us except Bajaj.
- Laxminarayan:** Okay. Sir, one last question related to your Industrial business where you actually make Single Cylinder and Twin Cylinder Engines. So if you can just help me understand what are the segments we are in? I understand it is Gensets and Pumps, am I right, sir?
- Management:** Yeah, there are a number of industrial applications Gensets, Pumps, and so many more.
- Laxminarayan:** And what is the revenue contribution from them for this quarter?
- Management:** So non-automotive businesses have generally 12% to 15% each in terms of their contribution in sales.
- Laxminarayan:** Okay. And Auto business is how much sir?
- Management:** Automotive business is almost half 55% or so.
- Moderator:** Thank you. We will take the next question from the line of Manish Goyal from Enam Holdings.
- Manish Goyal:** Sir, the volume you mentioned on the four-wheeler, what we see is that the number is constant at 10,000 whereas when we look at the industry sales for LCV, we continue to see a decline. So just wanted to get a sense that in your case how is it that our volumes are steady at 10,000 while industry has degrown?
- Management:** So it is actually based on OEM sales. LCV is a different segment so two segments are all together different.
- Manish Goyal:** Okay. And sir if we look at your Auto Engine the numbers what you gave us basically shows 10% decline in the volumes while our Engine revenue have declined by 4%. So just to get a sense how much was the price realization improvement number one? And number two, has the contribution from spares and services also increased further?

Management: Yes, so you are absolutely right. So there is definitely a growth in aftermarket business which is helping us to reduce the volume degrowth impact, so you are absolutely right and there is obviously some price increase which is also offsetting between the volume and the value.

Manish Goyal: The aftermarket would be growing at what rate?

Management: Aftermarket throughout the year has been growing anywhere between 5% to 10% depending on quarter-to-quarter, but it has been steadily growing between that rate.

Manish Goyal: Okay. So ideally the price realization would have been 3% to 4% higher?

Management: Yes.

Manish Goyal: And aftermarket would be contributing how much now?

Management: Aftermarket is around 18% to 19% of the business.

Manish Goyal: But ideally, it should have been more than 19% because we have been talking about this 19% since pretty long so ideally with your OEM sales not growing, your sales contribution should have grown.

Management: Yeah. So there is always a gradual increase as a percentage of overall basket. So earlier it was in the range of 15% to 16%, now it is moved up a bit more to 17% to 18% to 19%.

Manish Goyal: This 18% to 19% is to the overall sales?

Management: Yes.

Manish Goyal: But within Auto segment, I believe the aftermarket sales is more than 20%?

Management: No, it will be on the same band.

Manish Goyal: Okay. And sir, more to do with the industry in terms of what we have been reading off late is that recently even Delhi Government has banned diesel vehicles, the large vehicles. So number one, I just wanted to get a sense that because our large portfolio is into diesel what are the plans to have the multi fuel or say CNG engines and also petrol engines? And number two, on the passenger side, I would like to know that from the number of engines that we supply, how much would be split between the passenger and cargo? The reason for asking is that the three-wheeler permits which have been issued by states have been fairly erratic and uncertain and only recently we read that Maharashtra has also now decided to issue 100,000 permits for three-wheelers. So does it lead to a high volatility? That is what I would like to know.

Management: Can you repeat your first question, please?

Manish Goyal: It was basically diesel vehicle bans in the city and stricter implementation of the pollution norm, so if three-wheelers also are asked to move from a diesel to a CNG. Do we have a product? And how do you see that changing for us? And will we deal with multi fuel engines?

Management: So there can be two or three solutions to it. One is, Government in authorities regulate or may change to the stricter emission norms which we can handle. The other option can be, it can switch over to CNG for which again we have solution and if there is any third option of multi fuel or petrol or something and if it comes, we will find action for that. But the first two things, we are already ready.

Manish Goyal: So at the moment sir, are we supplying to anyone in terms of CNG and petrol?

Management: Yes, we are supplying. We have solution for all the engines.

Manish Goyal: So that is not a worry for us?

Management: It is not at all an issue. We are already supplying.

Manish Goyal: And sir, on the second question on the passenger and cargo if you can give us a split and how do you see that state permits which have been probably issued on a very erratic basis, does it create some volatility?

Management: Yeah. So in terms of our basket between the passenger and cargo, it is almost half-half. Yes, definitely volatility is there, if it is based on license, lease etc or it is seasonal product. So those volatility are part of the business.

Moderator: Thank you. We will take the next question from the line of Bhargav Buddhadev from Ambit Capital.

Bhargav Buddhadev: Sir, is there any update on the launch of this 220 kVA Genset which you are supposed to loan sometime in the second half of this year?

Management: 250 kVA?

Management: Yeah, 250 kVA. Yeah, we are likely to complete it within this year.

Bhargav Buddhadev: So this year meaning January to March, can we expect sales of that node coming in?

Management: Yeah, we hope so.

- Bhargav Buddhadev:** Okay. Secondly sir, in July CPCB had physically led to some product recalls because of some COP compliance test failure. So was Greaves Genset a part of any of these recalls?
- Management:** Absolutely not.
- Bhargav Buddhadev:** Okay. And what we hear is, this was primarily on account of EGR, is that correct?
- Management:** So I do not know the root cause but most of the competitors were defaulters in that.
- Bhargav Buddhadev:** Okay. Thirdly sir, Tata has recently launched the Ace Mega One Tonner Payload Vehicle. So the recent Three Cylinder Engine which you have showcased in Beijing, would that have qualified for this particular vehicle?
- Management:** No for this Tata have their own engine but we can always offer solution to similar vehicles.
- Bhargav Buddhadev:** Okay. But given that Tata has already launched an engine for this, would they come back to Greaves for any other?
- Management:** Yeah, they may not. But what I am saying is similar, there may be a more vehicles of similar nature.
- Bhargav Buddhadev:** Similar meaning higher than 1 tonner?
- Management:** Yeah. So anything up to 3.5 tonne, we have a solution.
- Bhargav Buddhadev:** Okay. And lastly sir, currently if you look at the space of 2 tonnage to 3.5 tonnage, it is about 2 lakh vehicles which get sold everywhere and if you look at below 2 about 1.5 lakh vehicles get sold. So in another three years time, how big can this market be according to you sir, any guidance would be really helpful?
- Management:** It is very difficult to project such things.
- Bhargav Buddhadev:** But sir, given that you are working hard on the solution. Obviously, you might have done some market study, so?
- Management:** Yeah, so we are hoping. Because it is linked with lot of things including economic activity, infrastructure development etc. So that is why I am saying it is hard to predict. But then with the hope that things go fine this range should improve because the activity or movement will require last mile transportation.
- Bhargav Buddhadev:** Yeah, the reason why I am asking is that sir if this market does not grow then is there a case where an OEM already has an engine comes to Greaves to replace that engine. Because that

is something which I do not think happens. So for you the market has to grow, for you to penetrate the segment? Is my thinking correct?

Management: Yes. We are ready with solution, if there is any opportunity we will go for it.

Bhargav Buddhadev: And the main advantage that we offer is on the cost size, right? I mean on cost, we will always be cheaper.

Management: Yeah. We are competitive but then we have many other merits besides cost in terms of engine performance, aftermarket support and service ability etc.

Moderator: Thank you very much. We will take the next question from the line of Viraj Kacharia from Securities Investment Management.

Viraj Kacharia: I have two questions. So one of them is on the Tiller side I mean you said a figure of 3,000 units for the quarter so that is primary Tiller, right?

Management: Yeah. Tiller and we also have Light Agri Equipments.

Viraj Kacharia: How much will be Tiller in this?

Management: Tiller will be close to about 1,000.

Viraj Kacharia: And comparable figure for last year?

Management: Will be roughly 2,000.

Viraj Kacharia: With a 50% degrowth?

Management: Yeah.

Viraj Kacharia: Okay. And when you say Light Agri Equipment what do they include?

Management: It includes all power weeders and thresher and all the mechanized equipment used for farming. There are many kinds of mechanized equipment other than power tiller which we use like planters, weeders.

Viraj Kacharia: So on the subsidy part, can you just provide any color on how the subsidy environment has been I mean the degrowth which you have seen on Tiller so how much is because of subsidy environment?

Management: Yes, you are right. So subsidy release has taken time and perhaps there are other priorities. So there is lack of subsidy release.

- Viraj Kacharia:** Okay. Just had a broader question on this, on increasing of our agri users driven by non-tiller. So broadly from a direction perspective that is how should we look at it going forward? I mean because you also mentioned in the press release that we have launched our indigenous mini Power Tiller. So what is your direction? How should one look at agri Equipment space for us?
- Management:** So in Agri Equipment you should see that we are gradually becoming strong in manufacturing and R&D. So we are designing, developing and launching full range of solutions for the crop cycle and then for various usage for farming, various stages of crop, various applications. We are introducing mechanized solutions. So Power Tiller is just one and there are so many of those.
- Viraj Kacharia:** Right. So this will primly being small farm implements phase?
- Management:** All for small and marginal farmers.
- Viraj Kacharia:** Right. And what is kind of revenue segment we are looking at in the next two years to three years from these kind of products?
- Management:** That is difficult to project today.
- Viraj Kacharia:** No, probably I am taking about the percentage of revenue. So are we looking at our agri share as a part of our a business increasing from 14%-15% to the 20% plus?
- Management:** So we are trying to grow both these auto engine segment as well as farm, right so there are initiatives around both the segments. It is all a matter of time that which grows faster than the other but from our point of view, I think both are important business to us and we would like to both the business to grow as fast as possible.
- Viraj Kacharia:** Right. Just last question was the Power Tiller which you mentioned in the press release it is indigenized version of the one which we were importing earlier, right? Or it is a new one altogether?
- Management:** No. This is a very small one. This is basically Power Weeder and we can also use it as a low horsepower Power Tiller.
- Viraj Kacharia:** Okay. And any update on quadricycle any traction on that one?
- Management:** We do not know anything about quadricycle.
- Viraj Kacharia:** No. We have the engine ready right? The combine engine ready for quadricycle?

Management: Yeah. But there is no news from market I mean, no customer is interested to make quadricycle so far to our knowledge.

Moderator: Thank you very much. We will take the next question from the line of Prayesh Jain from IIFL.

Prayesh Jain: Sir, I just wanted to check on one thing about your cost, the other expenditure is in an absolute terms, we have decline from a run rate of around Rs. 480 crores to Rs. 450 crores in H2FY15 to around 350 crores. So sir what is the reason for the decline and whether this rate kind of run rate is sustainable?

Management: So you are talking about the cost, is it?

Prayesh Jain: Yeah, other expenditure.

Management: Other expenditure. So other expenditure we have always maintained to our investors that we are squeezing the cost as much as possible and it was both on the raw material side as well as the other expenses side. But I think the squeeze has already been done. These things cannot go beyond the point, right.

Prayesh Jain: Okay. So this kind of run rate is sustainable at this percentage, 18.5% to 9% kind of run rate is sustainable?

Management: Absolutely.

Prayesh Jain: So in terms of tax rate also, this quarter it was around 26% so what kind of tax rate do we assume for the full year?

Management: So we enjoy some benefits for R&D investments we do. So our tax rates are anywhere between 26% to 29% depending on the R&D spends we have.

Prayesh Jain: Okay. And sir, what are your CAPEX plans for this year?

Management: So we have about 100 crore of CAPEX plan for the year which includes sustenance as well as the technology investment project.

Prayesh Jain: Okay. And what will be your utilization levels across plans, right now?

Management: So our capacity utilization is quite okay. The auto engine which is a larger part of the business will be around 75% so we have enough capacity for future growth.

Prayesh Jain: Okay. And sir just lastly, if I got your mix correct, 55% of your revenues from automotive, 18%-19% is from the replacement market and the remaining comes from Agri, right?

Management: Agri and Power Genset.

Moderator: Thank you very much. We will take the next question from the line of Srinath Krishnan from Sundaram Mutual Fund.

Srinath Krishnan: Sir, I wanted to understand the growth of the Power Genset business during the quarter and during the first-half sir? And would the contribution be approximately about Rs. 85 crores to Rs. 90 crores during the quarter?

Management: So Gensets for the quarter have been good because in the last quarter, quarter two for the last year there was a change in emission and so there were some issues in terms of overall invoicing. So the growth has been good for the Gensets. However the market was not very great. So from overall volume point of view I think we did about 7% to 8% growth in terms of volume over the quarter two of last year.

Srinath Krishnan: Okay. But where is the growth coming for us like the segments are growing in terms of kVA where has the growth come?

Management: Growth for us has come in the larger segments anywhere from 320 kVA to 500 kVA.

Srinath Krishnan: Okay. In terms of distribution how are we expanding the distribution in Gensets business?

Management: We are targeting state by state, we took up few states and we have established very good penetration then we are expanding that journey. It started with three states now we are going in more regions and expanding. Besides that we are working on institutional sales, I think these are the two directions.

Srinath Krishnan: Okay. And in terms of CAPEX for the next two to three years, apart from maintenance CAPEX you mentioned there certain technological areas where you are investing and where would your companies focus be?

Management: It depends on strategy, we are still working on various things, various solutions and various customer relationships. So it depends on so many things that we cannot project for next three years, may be for next six months, nine months one can estimate as my colleague Narayan just mentioned, over next one year it will be consolidated, may be around 100 crores kind of investment on sustenance and as well as technology.

Moderator: Thank you. We will take the next question is from the line of Mithun Soni from GeeCee Investment.

Mithun Soni: Would you be able to share like, what is a revenue mix from the Gensets and Pump side, you said?

Management: Both are between 12% to 15% of our turnover.

Mithun Soni: You mean Gensets and Pump each?

Management: Yeah.

Mithun Soni: Okay. And if you can share what is the plan and what are the new products, little bit about the strategy over two to three years in this category. What are the products and where do we see ourselves?

Management: Broadly it is like this, we are adding product range in every business and you can see Farming, you can see Power Gensets, you can see Engines also. We are adding more and more product and more and more new platforms. Second is we are adding new customers, you heard about Eicher you heard about TVS a year back and so on so forth it will continue, and we are expanding same way in channel distribution and then third is we are adding more geographies more regions.

Mithun Soni: What I mean to say in Gensets and Pumps category where would we like to focus and how do we intent to increase because this is a big space and given the capability what we have on the engine side how do we intend to exploit?

Management: So to do that we are actually increasing our penetration first of all to distribution and that is the main effort. We are also increasing product range in Pump Sets we have gone for higher Power Pumps, we have gone for various new designs we have improvised existing products also. So same way in Gensets we have launched new CPCBII range, we are actually offering various new solutions in that.

Mithun Soni: And what will be the highest selling in the Gensets category for us which range is that would be the highest selling, would you be able to share that?

Management: 500 kVA

Mithun Soni: 500 KVA, okay.

Moderator: Thank you very much. We will take the next question is from the line of Bharat Sheth from Quest Investment

Bharat Sheth: Initially you said that you are expecting from OEM side I mean next two quarters you are hoping to do better so can you just give some sense whether it is in three-wheeler, four-wheeler?

Management: So, three-wheeler, four-wheeler both next one quarter at least we are hoping that it will get better, what we hear from OEMs but it finally depends on market situation, finally depends

on OEM sales but this being the festive season and third quarter normally turns around so that is what I mean.

Bharat Sheth: Sir, on Genset prices earlier that we were expecting I mean with full range of product and expanding our distribution network. We were expecting some kind of increase in market share. So can you throw some light were exactly we are currently where were we year back and how do we see in next two years?

Management: So we are certainly improving and as we improve our penetration we are expanding our distribution channel and our reach is increasing and sales quantity is also increasing and hopefully it should grow.

Bharat Sheth: So currently what is our market share?

Management: So market share depends upon module we have market share ranges between say 3% to 5%.

Bharat Sheth: And where do you like to see yourself over next two years, I mean with the kind of competitiveness?

Management: Certainly, we want to increase market share to some 7%, 8% or 10%.

Management: Next two years.

Management: Two to three years yes.

Bharat Sheth: Sir, on export side can you throw some light, I mean how much currently and do what kind of growth we are seeing there?

Management: So three years ago we were almost at the start of our export business. Today our export sales is around 4% of sales, and we are hoping that it will enhance to a level of 10% of sales.

Bharat Sheth: What time frame do we expect?

Management: Say next three years again.

Bharat Sheth: Okay. And sir last question on this Three Cylinder Engine which we have launch I mean we have showcased, so we got any kind of enquiry or interests shown by any buyer?

Management: Yeah, so we are discussing with several potential buyers but there is no contract, there is no final arrangement yet.

Moderator: Thank you very much. We will take the next question is from the line of Raghu Nandan from Quant Capital.

Raghu Nandan: Sir, just wanted to understand on the Eicher's Multix LCV what kind of ramp-up you are seeing and any expectations there sir?

Management: Actually, we do not have any numbers to share. It is a new model and new model always has its own time to pick up and gear up and it is something which is Eicher's strategy on which I cannot comment. They may have their way to handle it and their plan. We just follow them I think that is all.

Raghu Nandan: Sure sir, fair point. Sir on the fresh opening of Permits in Maharashtra do you see just to clarify I think you did comment already on this, just to clarify it are you expecting any positive impact and what could be the quantum for the user?

Management: Opening of?

Raghu Nandan: Permits in Maharashtra? Three-wheeler permits.

Management: Okay, so I cannot comment. We do not actually deal with that, our customers deal with that and once they have then we will be able to supply. The release of permit is definitely positive for our industry

Moderator: Thank you. We will take the next question is from the line of Shrimant from Unifi Capital.

Shrimant: Sir, first of all I wanted to understand about the life of the product cycle in the sense, since we are saying we have a 3.5 tonne engine so, if we had to use this in any particular customers model how much time does it take for the whole in cooperation and the product to go through the market. What would be the life cycle in?

Management: It will take two to three years once the engine prototype is ready.

Shrimant: Okay. And presently are we in talks any customer. You do not need to give us names but are we in talks with anyone?

Management: We are taking efforts with several OEMs but then there is nothing which is meaningful to share today.

Shrimant: So sir low development, nothing in development phase is this what we are saying?

Management: So you know development starts only once we have contract or we have agreement once we have designed an engine and prepared the engine after that it is only integration with the particular vehicle or trail you know, adjustment with particular customer which can start only once we have a customer.

Shrimant: But you are saying that adjustment and everything takes two years?

Management: Yeah, it takes two to three years because it has validation cycle; it has several things to do in terms of regulation.

Shrimant: Okay. Sir, secondly I wanted to understand can you give us numbers on Gensets this quarter versus last quarter?

Management: Yeah, quarter two for last year was 420 versus now is 440.

Shrimant: Okay, 440 versus 420.

Moderator: Thank you very much. We will take the next question is from the line of Rahil Shah from Equirus Securities.

Ashutosh Tiwari: Yeah, this is Ashutosh here. Sir what is the engines that you supply to ES Ship and Multix, are we supplying BSIV to Indian BSIII as of now?

Management: Yeah, so we have both it depends on the city of use as you know there are different regulations depending upon the city in India so we have both the solutions for that.

Ashutosh Tiwari: But are we supplying BSIV also or BSIII only?

Management: BSIV is also available so as I said there are different regulations in different cities in India, depending on city of sale they will be using different solution.

Ashutosh Tiwari: Okay. And in terms of price you said that the price thing with the OEMs happens once or twice a year so with a large OEM like Piaggio when did it happened last time? Just trying to get sense as to when the price or something good happen in that space?

Management: That is very difficult to share because it is not so certain, I mean that date or month is not certain it varies every year it is difficult to predict.

Ashutosh Tiwari: So you mentioned that 3%-4% pricing increase happened in the current year in terms of realizations on engines, this is beside the fact that raw material price went down throughout last one year. So is this because other expenses are going up or what is the reason behind this?

Management: No, the whole reduction in the cost is not because of last year, cost reduction has happened over last two years. Your question was on raw material cost or other expenses, what was your question?

Ashutosh Tiwari: I am saying that you said that engine prices have gone up by 3% to 4% in the current year versus last year and this happened despite the fact that raw material prices were consistently falling over last one year

- Management:** Yeah, so the raw material prices have started falling from January or November or somewhere around November to January during that period, so by that time price increases had already happened. The other question was that there was no one-time issue in the cost; it is a pure reduction because of value engineering and the commodity reduction.
- Ashutosh Tiwari:** Okay, and sir my last question is if I look At Agri Pump Sets, sales is down due to rural slow down, or is there any reason like the market is shifting to Electric Pumps or Solar Pumps is that also a reason or is it just market decline?
- Management:** It is just market decline I think just one or two quarters here and there does not make long term direction change of any industry. So these are only seasonal factors. It is very small period to take judgment on.
- Moderator:** Thank you. We will take the next question is from the line of Chintan Sheth from SKS Capital & Research.
- Chintan Sheth:** You mentioned our capacity utilization currently stands at 75% last quarter you mentioned that it was 70%, so have we improved in terms of utilization levels?
- Management:** No, it is in same range what I always say is theoretical, it is about 75% but you know once you come close to utilizing the whole capacity there is always a capturing enhancement possible by smaller improvements. So we are in the range of 70% to 75%, you know that is much better way to say.
- Chintan Sheth:** Okay. And again sir on CAPEX last year quarter call you mentioned there would not be much CAPEX and now this quarter we mentioned that it will be 100 crore in R&D and technology. So anything specify? Would you want to throw light on where we are spending?
- Management:** These are maintenance itself which is appreciation, that is alone close to Rs. 50 crores normally and then rest is only on certain regulatory thing and certain new products or certain R&D expenses. So there is no substantial investment being done.
- Chintan Sheth:** So it would not be much on expansion because we already have ample capacity at hand? So no expansion may be on technology or for R&D for new products?
- Management:** Absolutely, you are right.
- Chintan Sheth:** Okay, cash finance is Rs. 485 crores which is mentioned in the balance sheet?
- Management:** Yes, you are absolutely right.
- Chintan Sheth:** Okay and on second half you mentioned that it would be better than first-half so we expect single to high single digit growth on volumes front from first half?

Management: It is difficult to give numbers but we all are optimistic about the market and probably the market seems to be showing signs of revival so let's see how the next two quarters go.

Chintan Sheth: Okay. And any pass through you mentioned that some value engineering benefit will be retained with the company but on the commodity side some margin you need to pass through to the OEM so are we seeing some treasure or OEM is demanding some rationalization in your pricing model?

Management: You are actually right these are governed by our agreements with the OEM so if there is commodity reduction then under the agreement we need to pass it on to the customers.

Chintan Sheth: Okay. Sir can we expect the mid 15%-16% margin blended of first quarter-second quarter for the full year or it will be bit lower because you have to pass through some?

Management: It is difficult for us to give any numbers, so let see how the quarter goes. There are many factors working now, we are working on further improvements and we are continuously trying to enhance our profitability and then there may be some adjustment due to commodity. Very difficult to give any view on precise numbers but one thing I can assure you and I have said in several quarters in past and you have seen it in reality that we as a team continue to have focus on enhancing profitability and that is coming through in spite of any difficult times and Greaves Cotton has continuously improved the profit.

Chintan Sheth: Correct Sir. Any plans for removing the way from three-wheelers, four-wheeler category or expending?

Management: What else is there three-wheelers, four-wheeler and..

Chintan Sheth: Any other auto, two-wheeler any?

Management: No, we do not have any plan.

Chintan Sheth: Right. So we will stick to better products and?

Management: So to clarify we are in SCV segments, Small Commercial Vehicles segment that is 3.5 tonne, commercial application. So we continue to serve that and mostly it has four wheeler and three-wheelers.

Moderator: Thank you. We will take the next question is from the line of Laxmi Narayan from Cadmium.

Laxmi Narayan: You mentioned in one of your answers that 3% market share in Gensets is it right?

Management: Yes. Depends on nodes some nodes we have 3%, some nodes we have 5% so at range we play.

Laxmi Narayan: Okay. Sir on the agriculture side where is the whole thing about the direct transfer of the subsidy beneficiary. Is there a reason why you mention the Tiller market has roughly slow down; it is because system is getting slightly smooth and or it is because of subsidy in general getting delayed?

Management: I think it is an impact of crop situation and the agriculture situation and subsidy combination of both the things. In certain areas there were some issues where crops did not do well, certain area there were subsidy issues and due to various reasons got delayed.

Laxmi Narayan: And which are the markets mostly on East India where you actually supply the Tiller broadly West Bengal, Orissa and?

Management: We are supplying all over India but large markets are North-East and South.

Laxmi Narayan: Okay. Last question on the three-wheeler thing. So when you say three-wheelers other than Bajaj it is only TVS, Atul and Piaggio right so these are the three guys whom we supply to?

Management: We supply to all the three-wheeler manufacturers in India except Bajaj.

Laxmi Narayan: Okay. So that is TVS, Atul and Piaggio right ?

Management: Sorry.

Laxmi Narayan: TVS, Atul and Piaggio?

Management: Yes, of course.

Laxmi Narayan: Got it. And you are if I understand right, it is a year of engine source supplier for them?

Management: Yes.

Laxmi Narayan: Got it. And your competitor is Kohler in India or is that anyone else?

Management: I do not know what is Kohler? Kohler is into sanitary fitments but then Kohler is not a competitor in India. Our only other player who is making their own engine is Bajaj.

Laxmi Naraya: Sorry, Kohler engines, so you are on the auto.

Management: So they are making engines for Gensets they do not have any solution for Automotives.

Moderator: Thank you. We will take the next question is from the line of Ishid Shaikh from Annual Share & Stock Broking.

Participant: Sir, just on the growth strategy of the company basically what we have envisaged is basically for next five years we are looking at doubling our turn over. Sir, just a broad sense basically where do you see the growth coming in? You see the growth coming in from existing clients or some addition from new clients in the Auto space?

Management: In Automotive space there can be more solutions, more vehicles which can help us in future. I am talking about medium term and long term, then there can be certain on Automotive applications, there can be some International opportunities so these are the two-three options on which we are working.

Participant: Okay. Sure sir, also our contract with Piaggio is ending somewhere in 2016. Sir, as we have seen in the past we have been successfully re-negotiating the contract do you see any change there or it should be re-negotiated?

Management: No we have long term relationship we do not see any issue.

Participant: Okay. You do not see any issue. Sir, one last question is on Spare Part sales basically what we are looking at is if you are doubling our Spare Part sales in next three years. Sir, broadly this will come on account of your distribution expansion, network expansion?

Management: Network expansion and product offering, being enhanced we are adding more and more product offerings, more and more solutions and we are also doing lot of promotion and we have very big action on addressing the spurious manufacturers and we have task force to take action on that and administration has helped us a lot to take action on that.

Moderator: Thank you very much. As there are no further questions from the participants I now hand the conference over to Mr. Narayan Barasia for closing comments.

Narayan Barasia: Thank you very much for joining this conference call. We wish you a very Happy Diwali. Thank you very much.