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Greaves Cotton Limited

Q4 FY2022 Earnings Conference Call

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Management Representatives:

Nagesh Basavanhalli – Group CEO and Managing Director

Dalpat Jain – Group CFO

Moderator: Ladies and gentlemen, good morning and welcome to Greaves Cotton Limited Q4 FY22 Earnings Conference Call. From the management we have with us, Mr. Nagesh Basavanhalli – Group CEO and MD and Mr. Dalpat Jain – Group CFO. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the opening remarks are concluded. Should you need assistance during the conference call, please 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. Nagesh Basavanhalli – Group CEO and MD of Greaves Cotton Limited. Thank you and over to you, Sir.

Nagesh Basavanhalli: Thank you. Good morning everybody. I hope you are all staying well and staying safe. I welcome you all to Greaves Cotton Q4 Earnings Conference Call. Let me begin by giving an overview of the business and our CFO Mr. Dalpat Jain will take you through the financials of the quarter. FY2022 has been a pivotal year for us for many reasons. In no particular order, it has been the turnaround in our EV segment where the team has done a remarkable story in terms of building the EV line of business and building that to one of the top players in the EV industry. This is a clear outcome of our product diversification strategy.

In addition to that, I would like to reiterate that the non-auto engine segment and the retail segments have also bounced back and are reaching pre COVID levels. Other noteworthy mentions during the year include the addition of a new manufacturing plant and an experience center for Ampere at Ranipet in Tamil Naidu. The inauguration of our multi brand EV retail platform which was AutoEVMart in Bengaluru which sells us lot of brands in claim mobility. These initiatives are consolidated are positioned in the EV segment from an ecosystem standpoint where we offer vehicles, spares, service, financing for the entire EV ecosystems.

We are also pleased to announce the performance of our auto segment has continued to reach the quarterly benchmark and CFO will get into some of the details on the numbers. The non-auto and the retail business like I said before are returning to pre COVID levels and we believe that will contribute to our top line growth going forward. During the quarter we have also incorporated a wholly owned subsidiary in Delaware, US under Greaves Technology Inc. as it called or a Greaves Technologies Limited.

GLT is dynamic innovation, technology oriented global engineering services company with offices both in now in India and in the US and the MNC customers doing engineering services. We also did acquisition or we completed an acquisition in the E three-wheeler space under the ELE brand name for the E rickshaws where Greaves electric mobility now moves 100% of that brand and 26% stake in another electric three-wheeler company called MRL auto, to expand our last mile ecosystem. This will get us into newer geographies and of course starting to newer demographics over a period of time. We will continue to work to build a comprehensive ecosystem focusing on several areas including mobility, be it engines, be it electric vehicles etc, retail expansion through multi brand retail as well as our Greaves Retail. Finance reliability through our Greaves Finance and development of our core engine business as well over a period of time. Let me now hand it over to the CFO to talk about the financial performance. Thank you.

Dalpat Jain: Thank you Nagesh. Good morning, everyone. Happy to talk about the financial numbers that company reported in Q4 FY2022. After at least 6 quarters of COVID impacted business environment in Q4 company reported the highest ever revenue of 621 crores and within the three main business segments that we have engines, retail and e-mobility, we have seen significant growth in e-mobility with revenue growing three and half times compared to last year Q4 and the share of e-mobility in the group revenue has now grown to 38%. Our consolidated EBITDA was at 41 crores and if we look at the revenue growth both year-on-year as well as sequential quarter, on a year-on-year basis it grew by 19% and sequentially, it reported a growth of 28%.

If I talk about full financial year, company had a 14% growth in consolidated revenue and reported 1,710 crores. If we look at balance sheet, with the cash flow management which company has been focusing on and also the focus on working capital, company 's liquidity position has improved, the standalone net cash position is 416 crores as on 31st of March. At consolidated level including the external debt that our subsidiaries have taken, the consolidated net cash position was 205 crores. Company's focus on R&D and increasing the operational efficiencies continued. The initiatives which were taken to consolidate plants at one location, the business restructuring focusing on individual businesses, helped company save close to 45 crores compared to pre COVID annual fixed overhead and that augers well as we go into normalized business environment, we expect margin to improve from where we have closed Q4 of FY22. The company has also strengthened its management team and with the appointment of some of the leadership position. We will continue to focus on each of the business segment that Nagesh spoke about. With that, we will be happy to open the session for interactive question and answer. Over to you, Lizan.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.

Ashutosh Tiwari: Firstly, on this two-wheeler realizations I think, I see it that there is a significant increase versus third quarter as well is it like around Rs. 95,000 per vehicle, two-wheeler realization in the quarter?

Dalpat Jain: If you look at the share of city speed or high speed portfolio in our e-mobility, that has now grown to 73% and also share of three-wheelers in the overall volume has increased. So, as a combination the per vehicle realization you are right, is now close to Rs. 95,000 which is combination of both two-wheelers and three-wheelers. If I look at standalone two-wheelers, it is close to Rs. 80,000.

Ashutosh Tiwari: How much is for standalone two-wheeler?

Dalpat Jain: Close to Rs. 80,000.

Ashutosh Tiwari: Rs. 80,000 will not work out to I think this quarter we have seen a fall in two-wheeler, three-wheeler volumes quarter-on-quarter?

Dalpat Jain: That is correct that is because of the festive season versus, the peak was in the festive season of the third quarter and then in the fourth quarter it has grown.

Ashutosh Tiwari: What is the relation in three-wheelers particularly e-rickshaws?

Dalpat Jain: Typically, e-rickshaw will be anywhere between 1,10,000 to 1,25,000 depending on the model that we have.

Ashutosh Tiwari: Then also I think Rs.80,000 will not give this number of 240 crores?

Dalpat Jain: 240 is both combination of two-wheelers and three-wheelers.

Ashutosh Tiwari: If I assume 1.2 lakh as well on three-wheelers that is probably be 33 crores almost 207 crores is from two-wheelers on 20,000 volumes I guess realization should this way it is coming out to be around Rs. 91,000 - Rs. 92,000?

Dalpat Jain: So Ashutosh to be exact it is around 86,500 per vehicle realization and then there is a sale of spares which is also part of that.

Ashutosh Tiwari: Is that also growing well, spare sales?

Dalpat Jain: That is growing now though the numbers are not very significant in the overall two-wheeler revenue, but as the time period is increasing the spare sales is also increasing in the overall portfolio.

Ashutosh Tiwari: I think 73% share of high speed for the full year, but in Q4 was it significantly higher?

Dalpat Jain: In Q4 the same share was around close to 80%.

Ashutosh Tiwari: And one more thing if I look at this console balance sheet, there is other financial asset of 154 crores, is it related to subsidies which are due from government?

Dalpat Jain: That is correct, so 154 crore includes close to 110 crores of subsidies and that is part of it.

Ashutosh Tiwari: And generally how much time it takes for government to get such a deal, like payment?

Dalpat Jain: Normal cycle it is between 90 to 120 days, but there were certain and you know this all goes through a portal. In Q4 there were certain technical hitches where government was also upgrading the portals, so number of days were more as at 31st of March, but in a normal cycle between 90 to 120 days is the subsidy collection cycle.

Ashutosh Tiwari: This should come down basically in the Q1?

Dalpat Jain: That is correct.

Ashutosh Tiwari: And lastly in terms of supply chain especially battery sourcing, is there any issues right now or cost has gone up, any color on that?

Nagesh Basavanhalli: Supply chain like for the entire industry remains a challenge. Our supply chain team fully aided by the Greaves Cotton supply chain expertise has been working with our suppliers who are localized plus, the source itself outside the country, for example, you asked such type of questions on battery cells and to look at one quarter ahead or two quarters ahead so that is kind of how we are trying to manage the situation, but clearly supply chain is something that we continue to monitor very closely and it is monitored on a daily basis.

Ashutosh Tiwari: But because that there will not be any margin issues like the margins we delivered in this quarter, into subsequently in the next year?

Nagesh Basavanhalli: There are two parts to it. One, in the short term or in between because right now there are lot of uncertainties considering the overall geopolitical situation. So, there may be disruption in a short term considering the lag in recovery of the pricing, but if you see from a full year perspective, the overall gross margin should improve for e-mobility business.

Moderator: Thank you. The next question is from the line of Gaurav Chopra from Union Asset Management. Please go ahead.

Gaurav Chopra: I just have two questions, firstly this government PLI scheme which was announced, our name was not there, could you sort of highlight why we are not there?

Dalpat Jain: So Gaurav, there are two parts of the PLI scheme, one which was at the OEM levels, where there were two criterias, either the group revenue should be more than 10,000 crore or you should be a startup in the last financial year and that is where Ampere did not qualify because as a group, on the revenue criteria also the qualifications criteria was a higher number and from startup perspective the company has already been started many years back and it was earning revenue from the e-mobility. The second part was on the component front and there is a technical discussion which is happening with the authorities on qualification criteria so that is where the current status is on the PLI scheme.

Gaurav Chopra: Secondly sir, from the perspective of the EV news and of course we have not had any incidence so far, just want to understand where do you procure our battery cells or do you have the BMS inhouse, wanted to get some sense on quality control from your side. That was the last question from my side.

Nagesh Basavanhalli: I think our technology team starting with our CTO, we have a global CTO. Obviously safety is a paramount importance and validation and focusing of the vehicle from the entire level, from the cell quality all the way to battery pack design, to like you are saying BMS are all things that the engineering teams are working on, point number one. Point number two keep in mind we have been very fortunate, we have more than 130,000 plus customers working with them over several years and Ampere here is a 13-year-old company now and understanding the duty cycles at different temperature. So, our engineering teams are taking this very seriously and all the rigor of validation and safety and protocols are being looked at.

Gaurav Chopra: Is the BMS been sort of taken care by NPL by the in-house team or it is outsourced?

Nagesh Basavanhalli: It is a combination, we have capability in house plus we work with strategic supplier partners, who give us the BMS side, so we do both.

Moderator: Thank you. The next question is from the line of Dhananjay Mishra from Sunidhi Securities and Finance Limited. Please go ahead.

Dhananjay Mishra: Just wanted to check after these fire incident happened, so have we seen any impact on booking queries of late in last two months in our case also?

Nagesh Basavanhalli: In general, demand has held up, as evidence by our 25,000 plus sales in the last quarter, point number one. Point number two, yes there have been customer questions, customer education, customer discussions so we are working with our sales partners and be the partners and a comprehensive training, awareness education is in process, but no we are not seeing any significant change as of now.

Dhananjay Mishra: And you said this 110 crores subsidy is outstanding from government so how much subsidy you have received in FY22 full year?

Dalpat Jain: So, in FY22 the total subsidy that we have received in cash was close to 60 crores, as you know the high-speed share started increasing from October onwards and subsidies are eligible on the high speed vehicle. So, out of the total 170 crores or 180 crores, close to 60 crore was collected during the year.

Dhananjay Mishra: In stake sale in Ampere, when is it going to happen?

Dalpat Jain: Currently right now process is on and as we had spoken in the last quarter concall, we expect the process to get completed by Q2 of this financial year. So, the progress is being made accordingly.

Nagesh Basavanhalli: And the only other thing I will add is, there is strong interest and that interest continues and I think that process plays us out, we will announce as and when we are ready.

Moderator: Thank you. The next question is from the line of Amin Pirani from JP Morgan. Please go ahead.

Amin Pirani: My first question was on the EV gross margins, so can you help us understand the improvement in profitability that you have seen how much is operating leverage driven and how much is gross margin driven and hence what is the kind of outlook given what you are seeing in the global side or commodities as well as on supplies on the cell side?

Dalpat Jain: Around 5% out of the EBITDA margin improvement is driven by the operating efficiency improvement as we had said earlier also. We had built the scale for much higher revenue and as the revenues have grown ,5% has come from the operating efficiencies, close to 3.5% is from the gross margin improvement.

Amin Pirani: I do not know if you can share this number, gross margins right now would be what like in the range of 20% higher if you can give an indication?

Dalpat Jain: It is between early to mid-20s in that range and actually those numbers we have in our consolidated minus standalone financials.

Amin Pirani: Second question was on the cost inflation on the non raw material side, because the commodity inflation is I think well understood, but I think we are seeing inflation across the board at least in the economy, I do not know if you are seeing that in your company as well as other expenses there has been worries around power cuts and power cost going up, so can you give us some indication as to how things are looking for you and how you are managing that inflation going forward?

Dalpat Jain: So, on the first part which is related to manpower, Greaves has adequate or the overall compensation mechanism where according to performance and other criteria the annual increments are given and those are in line with the industry, as you know in the manufacturing industry the overall increase is typically lesser than what you are seeing in the software maybe your question is more from the IT and other industries point of view. The second piece on the other expense is overall the weight in the total P&L if you look at from other expense point of view it is less than 6% or 7%. So, to that extent we are not going to see a significant impact, the main monitory for us is now how the RMC behaves and that is where the focus of the entire management is.

Moderator: Thank you. The next question is from the line of Bharat Jain from Ventura Investment. Please go ahead.

Bharat Jain: Sir just wanted to understand that there have been recent incidence with products of other companies, so do you have any such complaints on our product line and what are the steps taken to ensure that we get good product for a customer?

Nagesh Basavanhalli: I thought we answered this question earlier, basically like we said, we are looking at everything from a battery cell, BMS, our testing validation transfer, we are in Gen 2 of our products, so it is all of those steps that I repeated earlier I think they are taking all of those steps and obviously Ampere is a company that has been around 13 years we are into Gen 2 of our products and working with our customer base of greater than 1 lakh customers, so we continue to keep working on all the customer needs.

Bharat Jain: And also there has been recent moments on like CXO level, so any guidelines on that if you can share?

Nagesh Basavanhalli: We have brought in significant leadership capability both at the GCL level, Dr. Arup Basu who joined us who was running formal listed company before. He has joined us to lead the GCL side of the house and on the GEM side too we have brought in a dedicated leadership at the CEO level. So, you will see us strengthening the portfolio, you will see us focusing on talent, building capacity in fact we have already announced that we have gone up to the 250,000 mark, the 20,000 plus more month in Ranipet higher than the 10,000 per month that was last year. We will continue to invest in products and we will continue to keep focusing on some of those.

Moderator: Thank you. The next question is from the Chirag Shah from Edelweiss. Please go ahead.

Chirag Shah: So my question was on EV two-wheeler capacity, given that we are now ramping up the volumes, how are you looking at your capacity, one and secondly between insourcing and outsourcing how are you thinking about, what basis of ramp up you have more in sourcing, vs in out sourcing?

Nagesh Basavanhalli: So couple of things, one is on the capacity, we have ramped up to about 250,000 units. So, as we said when we built Ranipet we have built a brick and mortar that will go up one million units over two shelves. Today, we are comfortably able to deliver 250,000 units which we believe should hold us in good step in the near term. As we foresee the demand coming up, we will add more capacity in a very short time, we have demonstrated that, we went from 10,000 to 20,000 a month, we are already there. So you can expect us to go to next increment of 250,000 to 500,000 in a very short time, anticipating the demand as and when its needed. Because the brick and mortar is there, point number one. Point number two, in terms of in sourcing vs out sourcing, we clearly work with, we have gone through a deep localisation drive and we have localised suppliers here. Now one of the things is, we have strategic suppliers who are our partners and as the volume increases, just like we do in the Greaves Cotton in the Engines side, we will look at it as a business case perspective, make vs buy, certain components that makes sense and we could bring it in house, but it would be purely commercial discussion and based on what it makes. So, for eg, paint shop, some of that I anticipate over a period of time we are going to bring it in house. So, things like that, we will do it based on commercial problems and as the volumes pick up you will see some of that but we will continue to keep working with our strategic partners.

Chirag Shah: So not only the critical volume level that we are looking to have more of enforcing of in-shop and assembly lines it is 500,000-indicator a right number or it could be a higher number?

Nagesh Basavanhalli: Like I said, I think we can very quickly go up the million unit as the demand comes. The brick and mortar is ready on plant one and right now like I said, we have gone up to 250 and we are running in one shift and as and when we need to, we will increase the capacity by adding incremental conveyor line. So, I think that in house capacity from a manufacturing, I am not too concerned about. Like I mentioned earlier I think our global supply chains and the challenges that we have in shifts, the challenges that we have in cells globally I think gives a challenge that we are all facing as an industry. So, to us we need to manage that very closely and as and when that situation improves, we will add capacity based on demand as needed that would not be a constraint.

Chirag Shah: Second question was on the engine side and on the non-automotive engine if you can add some color how should we look at the growth from here on?

Nagesh Basavanhalli: Yeah the non-auto engine business did about, if I look at the non-auto products did about totally 12,000 plus units in terms of volumes. When I look at it, I think the non-auto business post COVID is coming back because of the onset of construction, infrastructure, farm equipment. So, some of the engine usage we expect it to grow obviously our non-auto small engines are Gen Set engines we are seeing good traction post COVID and we expect that to continue. The challenge again same thing here with the supply chain of the commodity price rise, there has been obviously our RMC challenge, that is something that the team is monitoring both by taking internal efficiency measures as well as price increases that is how I look at that.

Dalpat Jain: And if just add numbers for this, in the Q4 the non-auto share in the consolidated revenue was close to 30% and that share we expect to remain or grow from here on as we move forward.

Chirag Shah: Can non-auto stabilize at a much higher level current 30%, or at a number realized 40%, 45% can it go at both levels, given the near term tailwind on the demand side?

Dalpat Jain: One part is on the share side where we have emobility also growing quarter-after-quarter in overall revenue. So, share may not be a right indictor, but from growth perspective we definitely expect non-auto business to grow at a healthy rate.

Moderator: Thank you. The next question is from the line of Jyoti Singh from Arihant Capital Markets Limited. Please go ahead.

Jyoti Singh: Sir, if you can throw some light on Ampere and Bestway sales for the current year how much we are expecting going forward on FY23-24?

Nagesh Basavanhalli: I will start with the Greaves electric mobility. Greaves electric mobility roughly did about 27,000 vehicles in 22. This was against 10,000 vehicles in ‘21 so that was roughly about 150% growth year-over-year. When you talk about Ampere, it is a two-wheeler brand and Ampere sold more than 22,000 vehicles in ‘22 and versus 8,000 vehicles, roughly 170% increase and again what I am giving you is the Q4 numbers when you look at full year, Ampere sold roughly 52,000 vehicles versus ‘22 the year before EV or our three-wheeler sold 10,400 versus 4,000 and total GEM sold about 62,000 vehicles versus 27,000. So, all in all I think it is a significant growth aided by good acceptance of our product the Magnus Ex that was launched on the two-wheeler and our ELE products and I think that compliments us because ELE is at the bottom of the pyramid giving lives and livelihood both to the B2C and B2C customers and B2C in terms of the people carrying capability as well as the cargo carrying capability and then when you look at the Ampere it is both the B2C customers, the retail customer as well as the institutional customer.

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

Ashutosh Tiwari: Diesel three-wheeler volume that was 3,000 last quarter, how do you see it ramping up in subsequent month and can you see improvement in Q4 now?

Nagesh Basavanhalli: Yes I think we are definitely seeing with the advent of schools and colleges that have been opened, office being opened, the last mile connectivity especially the shared mobility is coming back and as we all know this industry was very badly hit almost (+70%) down during the COVID era. So, we do definitely see when you look at Q4 versus Q3 numbers and then we are going and clearly we can see the numbers, auto engines did about 15,000 plus units. So, we see the trend line especially month-on-month the industry size when I look at diesel plus CNG was roughly about 600,000 pre COVID had gone down to 200,000 in the COVID era, we see that getting back up to 400,000. So, I think we definitely see signs and CNG is coming back and I think our OEMs depending on the success of our OEMs we anticipate that auto engine business should continue that recovery.

Ashutosh Tiwari: Can we go about the 25,000 run rate number or be 24,000, 23,000 number over next one or two quarters is it possible?

Nagesh Basavanhalli: I do not want to give you future guidance on this the reason being this is as you know purely OEM driven, but what we are working with the OEM we are realizing this there is optimism month after month we are seeing the difference, the order book that we are seeing 30 days, 60 days there is optimism, so we have capacity we can bring in. Now the question can the demand come back to that level I think it is a question of time, but what we are also seeing is obviously the mix is changing, diesel is coming back, but CNG is coming back stronger over a period of time, we see electric also in this business going up which will help our MLR business as CNG and electric come up.

Ashutosh Tiwari: What is share of CNG in our volumes?

Dalpat Jain: So, it was close to 20% Ashutosh in Q4.

Ashutosh Tiwari: And non-auto engines we did very well last year, this year we have seen almost 10% decline, so why are we seeing this, what are the reason for decline in this current financial year?

Dalpat Jain: In FY22 the two segments which contributes the volumes for non-auto engines. So, there are three part of overall non-auto business. One is the light equipment which goes for farm equipment business and then the power Gen Set which have high value and that is where the overall revenue once every unit contributes a higher revenues and then there are small engines which get used for purposes in the industrial places and also in the small location. There we saw little bit of we can say weaker market situation, but in the overall broader scheme of things, we expect this volumes to come back and that should not be a problem. There is no fundamental shift it is only a timing gap which we saw between last year and this year. Last year the lockdown being of a longer period the growth was mainly in the third and fourth quarter, this year the volumes were also in second, third and fourth quarter. So, overall on a full year basis if you look at it yes there is a 10% reduction, but we do not expect it to remain at that level on a permanent basis, the volume should go back towards where it has been in the pre COVID period.

Ashutosh Tiwari: You mean to say this is mainly small engine used in industrials where the demand is particularly weak?

Dalpat Jain: Exactly, so these are basically small engine used for the purpose of marine for the purpose of some of the industrial purposes and that is where we saw the quarterly spread being different than what it was in FY21 considering the overall COVID situation. On a long term basis we do not see a permanent reset in the volumes.

Ashutosh Tiwari: And agri related products that you supply, are we seeing some pickup over last two, three months because this is again a market which is not doing well so is there a improvement over last two, three months in that?

Dalpat Jain: Here the main issue was so there are two parts. One is related to overall industry and there the pickup is going to be more driven by the cycle. The second piece which was specific to Greaves was the product that was earlier being imported from China and we have now localized it. The new product is being registered with various government authorities as you know farm equipment have subsidy elements and the products need to be registered with the various state governments. So, many of the state government it has got the permission and registration some are still pending and that is where that part is a temporary or a short-term factor.

Ashutosh Tiwari: Lastly on this electric two-wheeler is Magnus EX now our largest selling product?

Nagesh Basavanhalli: Yes, that is correct on the two-wheeler.

Ashutosh Tiwari: People are preferring that is long range rather than low range, the Magnus EX is doing better basically, the customers would you pay the higher premium for the range?

Nagesh Basavanhalli: EX is doing well, but keep in mind as part of our strategy we were very clear. We operate at the lower end as well as we operate in the what we call the city speed. It is our hypothesis that it is in the city speed that lot of customers prefer and of course with a FAME-II to subsidy and petrol prices going up. The unit economics are very favorable hence there is a lot of pull in the product there.

Moderator: Thank you. The next question is from the line of Sonal Gupta from L&T Mutual Fund. Please go ahead.

Sonal Gupta: Just continuing on the non-auto, the light equipment I mean is that largely power trailer or is there some other product?

Nagesh Basavanhalli: These are mainly pump sets and power trailers.

Sonal Gupta: Just in terms, on the EV side could you sort of indicate what sort of price increase you have been able to put through, in terms of given the commodity cost pressures and we understand battery prices etc and all these going up?

Dalpat Jain: Nagesh could you take the pricing part, Sonal before that if you look at the realization increase and when we were talking about in the earlier question, the per unit realization is on a full year basis has gone up from 60,000 to close to 81,000 and for the Q4towards 86,000 that is the combination of increase in shares from a slow speed to a city speed and high speed and with the increase of our higher end model Magnus EX within that at the price increase part it has been corresponding to the inflation that we saw though there has been time lag maybe of a month or a two month, but team has been able to get the price increase corresponding to what we saw as a inflation in the commodity price increases.

Nagesh Basavanhalli: I can just add to that. Qverall, I think like Dalpat said we have been very conscious that at this segment with our price value proposition we continue to look at the market and we have taken price increases appropriately. Yes we have taken price increases because the commodity prices have gone up, but when you also look at our history and that is one of the things I leave you with. Our average ASP has gone from the traditional Rs 30,000 plusa couple of years ago where we are traditionally playing, now like the CFO was saying about Rs 86,000 Rs. 87,000. So, I think we have continuously believed in understanding the consumer, adding the value that the customer cares for, or customer wants and taking price appropriately. In fact on a like-to-like basis, our model is slightly more expensive than probably top two, three competitors in that space I am talking about, like-to-like model at a city-speed to city-speed.

Sonal Gupta: So, basically to understand, I mean you have been able to pass on the increased supply chain cost I mean primarily on battery and some of these prices to the consumers?

Nagesh Basavanhalli: Yes.

Sonal Gupta: Just in terms of broader question in terms of what would your key objective in terms of for FY23 growth on the EV side I mean what are the key milestones you are looking to achieve here?

Nagesh Basavanhalli: So, clearly like we have said obviously we have taken the capacity to 50,000 units. We have the Magnus EXthat's doing well and we continue to keep investing on new products at the appropriate time we will talk about it. So, investing in planned capacity, investing in the people, investing in new products and technology front and leading market share or leading a scale because this is a scale driven business and also working on the customer centricity. I think those will be the priority for this year and clearly right now we are in an investment phase. This is a growing business, we do the traction coming in and we will continue to focus on that, both in the two-wheeler and on the three-wheeler side.

Sonal Gupta: And just last question on the E three-wheelers, what portion would now be still lead acid?

Nagesh Basavanhalli: E three-wheeler on the lower end E rickshaw, its in the majority by the way. It also moving towards lithium on as we move towards the L5 category. So, the L3 category, which is the e-rickshaw category, is still in our case lead acid, but I expect over a period of time that it is beginning to move we have already seen early signs of lithium. Keep in mind that is a very price sensitive segment because like I said it is lives and likelihood of people did that and earn livelihood out of that. So, we have to be very sensitive what the customer wants in that segment and on the L5 segment which is a typical auto which is an electric auto there I see it is moving very heavily towards lithum.

Sonal Gupta: Because your presentation shows 10% share of lead acid, so just trying to understand?

Dalpat Jain: That is only two-wheeler side.

Moderator: Thank you. The next question is from the line of Akshay Kothari from Envision Capital Services Private Limited. Please go ahead.

Akshay Kothari: Sir, I wanted to understand like in the e-mobility space where are we seeing traction from geography wise, either Tier-1 cities or Tier-2 cities could you give a sense of that?

Nagesh Basavanhalli: The good part is Ampere which traditionally started out with South India based couple of years ago, 30 months ago. We are now very equally distributed, I think when you look at our North and our West and our South gets almost equally distributed and East is coming up very rapidly, point number one. So, our customers are coming from all the regions, customers are definitely coming in from both Tier-1 and Tier-2 and so I think I anticipate that from big town obviously the towns like Bangalore, Bombay, Pune obviously our obvious choice is Chandigarh, but we also see the second Tier-towns coming up quite strongly. So, in our case we are seeing actually traction happened on both sides and our dealer network growing, we are capturing some of that.

Moderator: Thank you. The next question is from the line of Yashwant a Retail Investor. Please go ahead.

Yashwant: So, I have couple of questions, one is with respect to that model that we are planning for the future coming future so that is first question and the second question is with respect to after sales income, some of these are otherwise spares, so how much as a percentage do we see on a overall revenue?

Dalpat Jain: So, Yashwant as you know if you look at our overall volumes they have been growing in last couple of years and most of the vehicles are in the initial period. So, right now the income towards spares and services is in early single digit as a percentage of the overall Ampere revenue, but as we look at the future and if you go by the trends what has been in the ICE industry, maybe in electric mobility we will not see those kind of percentages considering the moving parts are lesser, but still we expect in our business plan that number to be closed in the early double digit.

Yashwant: Nagesh, on the new models?

Nagesh Basavanhalli: On the new model like I said before, I think on the two-wheeler side we are working on actually two new products, but we are not ready to announce as yet at the right time and as we get closer we will talk about it. So, rest assured I think we have introduced several new products the Magnus EX was in the last year and we continue to keep working on that as and when we are ready we will talk about that. On the electric three-wheeler I think we are working on the L5 and as and when we are ready to launch that, we will talk about that. So, clearly product development focus will continue and as we get closer to the launch then we will talk more about it.

Yashwant: Are we targeting any specific numbers that you would want to do each year going forward I mean the number of models with respect to new models?

Nagesh Basavanhalli: No, it is not categorized by that, I think we would rather focus on the customer, what the customer needs are and focus on kind of growing our volumes in our market share, that is kind of what we will drive that. So, we are going to continue seeing some of that.

Yashwant: Are we considering bike segment as such in near future?

Nagesh Basavanhalli: I think it is a little premature to talk about that like I said when it comes to product strategy, I would rather talk about it as we get closer not for anything else, but the team is working on many product strategy related stuff and from a competitive advantage we would like to get talked about it as we get closer.

Moderator: Thank you. The next question is from the line of Chirag Shah from Edelweiss. Please go ahead.

Chirag Shah: Sir just a follow up on the profitability of the subsidiary, the improvement that we have seen in the quarter, can we attributable to the ramp up of the EV business that is the current EV two-wheeler volume, is that right understand so around 12 crore of EBITDA that we have generated versus same time last year will be more largely flattish, so the question sir as you ramp up this revenue Rs. 242 crores of subsidiary revenue, how should we look at this operating leverage benefit?

Dalpat Jain: Chirag I will start and maybe Nagesh can talk on a broader part, but company's focus as we have spoken in several of the last few quarter calls also, profitability and Greaves have been talking about it that we do not want to burn too much of money, but at the same time our focus will remain on also continuing the market leadership and being in the top four or five. So, in the short to midterm the focus will not be only on improving the margins or increasing the profitability. It will also be to reinvest those profit and build the brand, reinvest on the marketing activities and some of the other fundamental things that we are working on. So, from margin point of view, yes this quarter we have seen close to 11 crore in the e-mobility business as you saw from our financial results, the EBITDA and that was the result of operating efficiency and also the gross margin improvement, but going forward company will also do investment in the marketing activities.

Chirag Shah: Sir, directionally the operating leverage that we generally look at, we have still not hit the sweet spot to focus on operating leverage, that is the right way to look at it, the reinvestment would be reasonably high?

Dalpat Jain: That is correct, operating leverage from a fixed expenses point of view is there and that is kicking in and we are going to continue building on that, but on the expenses which are going to drive the revenue, that is where we will continue to invest, that is an area where we have to do lot more as we go forward.

Chirag Shah: And what are the area that you are looking to invest, if you can just broadly indicate?

Nagesh Basavanhalli: So, clearly one area would be the manufacturing capacity and which we continue to grow like I said growing to 250,000. It is the localization of working with us on buyers and bringing at a new price. So, product, technology would be second. Third and probably most important would be the talent, we continue to keep adding talent both from India and global and building strong team of professionals who have not only got us here, but also will take us to the next level. So, we will continue to invest on all of this and keep investing in the GEM business as we move forward.

Moderator: Thank you. The next question is from the line of Aditya Joshi from Alchemy Capital Management Private Limited. Please go ahead.

Aditya Joshi: My question is with respect to the dealer network, where it is right now and where do you expect this by the end of the year in electric two-wheeler?

Nagesh Basavanhalli: The overall level we are over 600 and let me explain that, it includes the two-wheeler network under the brand name of Ampere which are Ampere exclusive, plus the EV network, which is the e-rickshaw plus the Greaves Retail Network and we will continue to keep adding that every month we are continuing to have the good part is we are getting a lot of interest from dealer partners across the country, point number one and so that will continue and we will add, we are very cognizant of two things, we want to make sure our dealer partners are viable and are successful. Hence we will add as and when the demand in that particular city exceeds, point number one. Point number two in some cases what we are doing is we are taking existing dealers with whom we are very grateful because they have been with us from day one, but they may not have to bandwidth to grow to the next level. So, they along with a local partner and we look at how do we expand together. So, we are using various strategies especially on a two-wheeler side. either through the exclusive Ampere network or through the multi brand Greaves Retailer network so that is one thing and MLR through the three-wheeler network it just beginning to ramp up from almost nothing we are growing to 50 plus now and it will continue. So, you will see us ramp up on two-wheelers - Ampere, e-rickshaw – ELE and on the three-wheeler MLR products, on all the three you will see the network growing across. Last, but not the least we are a firm believer especially in two-wheeler, that not all the business happens just by old brick and mortar story. It is a phyigital showroom, meaning our experience is showing that the customer is almost doing 50%, 60% plus of the work online and doing the research. So, how do we also have access to the online or what we call the phyigital i.e the physical plus the digital stores is I think also the purpose kind of where we are going. We believe this business will need a combination of both to make it successful.

Aditya Joshi: And second question with respect to your recently announced tie up with bounce infinity, can you please explain the tie up in detail and any financial guidance?

Nagesh Basavanhalli: Yes in the high level I can cover in the interest of time. So, we have been very careful from day one that in some of this faster moving technology areas whether it was fast charging or battery swapping, especially in the case of battery swapping where it could be asset heavy, that we would go with partners. So, we have been working with a series of partners, both of those companies that you talked about and our products as you know we were one of the few people who got a removable battery for this place, from an innovation standpoint. Now own battery swapping is a logical step and we are obviously willing to offer that to customers who want that. So, you will see us more and more working with partners like that in certain areas where we may not want to take on the investment ourselves, from an asset standpoint. So, I think you will continue to see that. So, perhaps it is a strategic way of making sure that our B2B or B2C customers if that is what they want we will deliver it through our partners.

Aditya Joshi: So there is a capital which is invested by Bounce and not us?

Nagesh Basavanhalli: It is individual yes, it could be a combination but let us see how it develops, lot of discussion under this, but yes our principle in some of these areas, we will not be capital heavy let us put it that way.

Aditya Joshi: And this would be for both two-wheelers and three-wheelers?

Nagesh Basavanhalli: Yes ultimately for both, it will probably start with two-wheelers first.

Moderator: Thank you. The next question is from the line of Dipen Sheth from Buoyant Capital. Please go ahead.

Dipen Sheth: Just a quick check on the electric mobility business we have done in the quarter ended March 22 as per the segment numbers Rs. 237 crores of revenues right.

Dalpat Jain: That is right.

Dipen Sheth: I know this is a gross various products, various lines at more than one location, but still a rough ballpark of what kind of capacity utilization does this or load on the lines does this correspond to? Are we at 50%, 60%, 80%, 100% where are we?

Dalpat Jain: Dipen this is made up of two main product segments, two-wheelers and three-wheelers. In the two-wheelers if demand is higher than the supply so that we have a capacity utilization and that is where company has been ramping up from a 10,000 to close to 20,000 a month that is what Nagesh was talking about and when

I am talking about capacity utilization it is not only the element of what manufacturing capacity we have, it is also linked with all the supply chain partners. So, there I would say that we are at the maximum level of capacity from a supply side point of view where there the issue is more with the demand. Similarly in ELE also, the supply is at a higher end in terms of the overall utilization?

Dipen Sheth: So this corresponds to an annual run rate, now I know I should not be doing this, but theoretically this corresponds to an annual run rate of about a 1,000 crore of revenues and earlier in the call somebody mentioned that the simplest way to look at the EV business is to just look at console minus standalone and when I do console minus standalone on your balance sheet numbers the net block which I would assign to the EV business is just 40, 45 crores I think it is about 40 crores if I just take the difference of the two net block number, so you mean to tell me you can run a 1,000 crore EV business with a 40 crore net block in the EV business?

Dalpat Jain: So, there are two parts there, one as you know this was an inorganic acquisition in 2018 and close to 200 crores were paid which as you know in consolidation gets eliminated and as part of that there was a lot of R&D and machinery, technology etc which has come as part of that.

Dipen Sheth: So, lot of IPR which was capitalized on the balance sheet which does not figure in net block, but I am just looking at from a manufacturing perspective?

Dalpat Jain: No, there is a second part also. The second part is related to Ranipet plant which was as you know the Greaves had that and Greaves had sold it to **GMPL**. So, when you are doing console minus standalone this transaction also gets eliminated into inter company. So, close to 100 crore would be the right number if you look at.

Dipen Sheth: But still a 10x gross block to revenue, so after all how much of value add can you achieve by being that intensive?

Dalpat Jain: That is where there is lot of new investment as we were talking in earlier calls which is going to go into expansion of capacities, bringing some of the strategic parts in house and that is where the investment is being planned as we go forward. So, that investment is for the e-mobility will continue.

Moderator: Mr. Basavanhalli can you give your closing remarks.

Nagesh Basavanhalli: Thank you all for your continued interest and we would like to thank each one of you, in case of additional queries you can always reach our teams. Thank you so much have a great day.

Moderator: Thank you. Ladies and gentlemen on behalf of Greaves Cotton Limited we thank you once again stay safe with that we conclude this investor call. Thank you for joining us and you may now disconnect your lines. Thank you.

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Note: This transcript has been edited to improve readability.

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