



“Greaves Cotton Q3FY16 Earnings Conference Call”

February 08, 2016



MODERATORS: MR. SUNIL PAHILAJANI – MD & CEO, GREAVES COTTON
MR. NARAYAN BARASIA – CHIEF FINANCIAL OFFICER, GREAVES COTTON

Moderator: Good Day Ladies and Gentlemen and Welcome to the Q3 FY-16 Greaves Cotton Limited 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 phone. I now hand the conference over to Mr. Sunil Pahilajani thank you and over to you, Sir.

Sunil Pahilajani: Good morning ladies and gentlemen. So as you see our business performance for quarter three generally the economic environment continues to be still subdued and there is decline in turnover but simultaneously we have been able to maintain and improve our profitability by almost 5% and we have maintained market share in all the key products. The most critical thing today as we are in engine business and automotive engine business is the ongoing discussions nationally around pollution and engine emission levels so, I am happy to tell you that we are fully geared up to achieve next levels of emission up to BS-VI and we working consistently on that and I will keep you updated from time to time and this will actually protect our business for very-very long-term. We have been able to maintain focus on new customer development and new product development and various new geographies which have actually helped us. We have been able to cut down material cost throughout which has reflected in our EBITDA margins clearly and this is sustainable. We have significantly reduced on our capital. We have as I said maintained on market share and strengthening R&D and new product development strengthening wherever required in channel. So overall, all efforts are very positive and we are all set to move forward and I mean company is getting stronger.

With this, I hand over this to my colleague, Narayan Barasia.

Narayan Barasia: Thank you, Sunil. Good afternoon, thank you very much for joining this quarterly earnings call. I hope you got a copy of our quarterly earnings update document. It has also been uploaded on our website. I will take you through the financial results for Greaves Cotton Limited for the third quarter October 2015 to December 2015.

Net revenue for the quarter is recorded at Rs.406 crores as against Rs.431 crores in the same period last year recording a decline of 6%. The material cost reduction and value engineering initiatives are giving good results. Employee cost and other expenses were as well in very tight control. This has helped the EBITDA margin to improve from 11.8% for the ending 31st December, 2014 to 16.7% for quarter ending 31st December, 2015. The PAT

for the quarter is reported at Rs.63 crores against Rs.2 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. The first question is from the line of Ashutosh Tiwari from Equirus. Please go ahead.

Ashutosh Tiwari: Sir, regarding this I mean you already got BS-IV compliant in three-wheelers in the single cylinder as well, right?

Sunil Pahilajani: Yes.

Ashutosh Tiwari: So how much will be the cost increase happening from the existing pricing?

Sunil Pahilajani: So that is difficult to give in terms of numbers because it is depending on configuration different from customer to customer and we have 53 OEMs but it has substantial increase.

Ashutosh Tiwari: So it will be upwards of 30% from current levels?

Sunil Pahilajani: Yeah, very difficult may be but it is substantial increase I would say certainly. I am trying to say that a number cannot be put because customer to customer it will vary and vary a lot.

Ashutosh Tiwari: Okay. And see BS-IV you already developed but for BS-V and BS-VI government later on may be four years - five years down the line how would that change equation I mean can you enhance this engine to that kind of capacity and will that lead to substantial cost increase?

Sunil Pahilajani: I already said, I already said in my opening...

Ashutosh Tiwari: But that is what you said for I think the three cylinder engine that you developed right or this is for this thing...

Sunil Pahilajani: I said for all the offerings across.

Ashutosh Tiwari: Okay. But that will be substantial cost increase of BS-IV also?

Sunil Pahilajani: Yes, certainly, it has a lot of different technology and components and important thing is to achieve it. I think cost impact is across board in all the engines, all the vehicles in country. It is not about Greaves it is more about change of shift of technology so it will impact every vehicle and every engine.

- Ashutosh Tiwari:** Sure. And sir, are we going to supply this BS-IV compliant engine to Eicher Polaris as a plan to launch in Tier-I cities in all?
- Sunil Pahilajani:** So since their customer and any continuation if requires emission level change will be taken care depending on the requirement.
- Ashutosh Tiwari:** Okay. And this BS-V and BS-VI ready engine that you showed at Auto Expo what is CC of that engine and what kind of customers you are looking for that engine?
- Sunil Pahilajani:** So I do not know which engine you have seen at Auto Expo.
- Ashutosh Tiwari:** BS, this is three cylinder engine that you showed at Auto Expo.
- Sunil Pahilajani:** Okay. So three cylinder engine which is kind of model which is displayed at Auto Expo is 1.5 liter engine and basically it is only to communicate that we have capability to delivery multi cylinder engine. It does not mean that we have capability to deliver only three cylinder engine. It means we can deliver any multi cylinder engine be it two cylinder, three cylinder or four cylinder, okay so this what, and in Auto Expo since it is exhibition you can only display limited things so that is what it means.
- Ashutosh Tiwari:** And so are we in decision with some other players for this engine I mean because as of now we are mainly selling single cylinder engine so we in touch with anybody for this engine?
- Sunil Pahilajani:** Certainly we are offering it and we are trying to sell it.
- Ashutosh Tiwari:** Okay. And can you also please share the volume numbers for the current quarter versus last year three wheeler, four wheelers and all?
- Narayan Barasia:** So three wheeler volume is 80,000 now versus the earlier quarter of 85,000. Four wheeler is about 7,000 versus 10,000 earlier.
- Ashutosh Tiwari:** And agri pumps and all?
- Narayan Barasia:** Pumps is about 29,000 and it was the same number last quarter, quarter three of last year.
- Moderator:** Thank you. Next question is from the line of Bhalchandra Shinde from Centrum Broking. Please go ahead.
- Bhalchandra Shinde:** Regarding customer addition I would like to know, are you seeing any new customer addition or what are the current plans?

- Sunil Pahilajani** Yeah, we are hoping more accounts and more customers so we are trying for it and whatever is update so far we have shared but as and when we finalize any customer we will be very happy to share that.
- Bhalchandra Shinde:** But is there any new products which we are developing or we are trying to gain customer addition into existing...
- Sunil Pahilajani** So are you only talking only in context of automotive engine or are you talking...
- Bhalchandra Shinde:** Yeah, only on the automotive engine.
- Sunil Pahilajani** Only automotive engine, okay. So regarding automotive engine there are two kinds of opportunity: one is that we are now working to achieve the next level of emissions so which means there is a potential for us to offer engine whosoever needs it for next level of emission, that is one opportunity because it is not easy for everyone to achieve and we have that capability, we are confident. Second is that we are now into multi cylinder engine a while ago, one gentleman mentioned about seeing our engine in Auto Expo and I explained that. So multi cylinder engine is another family of engines in automotive which we are offering. So these are two opportunities we are exploring now.
- Bhalchandra Shinde:** Okay. And sir, regarding profitability we would like to know how much will be the component because of the commodity prices softening and will we see effect of price escalation in first quarter FY17, means will we pass through the commodity prices softening to the customer by end of this year?
- Narayan Barasia:** So the first question of yours was about the commodity benefits already flowing the P&L so, since we have a pass through arrangement the commodity benefit has also been passed to the OEMs but you know all the work we do in terms of value engineering and some strategic cost reduction with us. The commodity benefits and the commodity increase gets passed on to the customers.
- Bhalchandra Shinde:** So whatever the profitability improvement is largely because of the value engineering and productivity improvement?
- Sunil Pahilajani** So value engineering or innovation is something we share with customer partly and the commodity is pass-through as my colleague just mentioned. So we always have some benefit through innovation and that is the sustainable part which you are seeing.
- Moderator:** Thank you. The next question is from the line of Bhargav Buddhadev from Ambit Capital. Please go ahead.

- Bhargav Buddhadev:** Sir, has Greaves launched their 250 kVA Gensets which was one of the gaps in the product portfolio?
- Sunil Pahilajani** Not yet, we are about to launch very soon probably next quarter.
- Bhargav Buddhadev:** Okay. And sir, if we look at one of your largest competitors performance in Gensets they have reported a strong growth in the domestic market more than 20% volume growth whereas we have basically reported a decline so any comments on that, sir?
- Sunil Pahilajani** So Bhargav, in terms of the volume there is no much of a decline on Genset in fact the quarter numbers have shown a growth in the Genset volume.
- Bhargav Buddhadev:** No, so nine months basically.
- Narayan Barasia:** So nine months is not a very significant decline and anyway our base is too small, right. So overall industry as Genset has not been growing much and we are too small in that whole basket. So the quarter has been pretty good for us, yearly yes, Y-T-D there is a slight decline and we expect that with the 250 kVA launch we are going to do soon which we will be able to get it back.
- Bhargav Buddhadev:** And sir, have we cut any prices in Gensets in this year so far?
- Narayan Barasia:** No, not to my knowledge. No, we have not cut any prices.
- Sunil Pahilajani** No, we have not cut any prices.
- Bhargav Buddhadev:** Okay. And sir, on the automotive engine side we were talking to some of your customer and they were saying that till date is there no pass-through of commodity prices which has happened, so just wanted to check on that data point because they have not seen any reduction in prices of engines until December.
- Sunil Pahilajani** So I do not know why you have to talk to our customers and give their feedback to us because we very well deal with them and we deal in interest of company so, we do have understanding on passing-through basically commodities and part of innovation work which we do regularly and we have full record of it.
- Bhargav Buddhadev:** So basically sir these EBITDA margins are sustainable, right, I mean I was more keen to know that...
- Sunil Pahilajani** Yeah, that is fine.
- Bhargav Buddhadev:** Okay. And on the Multix side sir can we get some volume numbers I mean what has been the number of engine dispatched?

- Sunil Pahilajani** Which one?
- Bhargav Buddhadev:** Multix the Eicher Polaris JV what has been the volume of engines dispatched?
- Sunil Pahilajani** That is very small I think it is just beginning of the production so I do not have numbers right now but can be shared later on. It is very-very minor number I would say.
- Bhargav Buddhadev:** And what could be potential sir for next year I mean...
- Sunil Pahilajani** So that depends on their production that certainly is in control of customer how they grow and...so they are great company so we have good confidence in their growth plan so probably you can see their production volumes and accordingly we will follow.
- Bhargav Buddhadev:** Okay. And sir I looked at un-employed capital employed has grown up significantly possibly that could have been on account of cash so any plans in terms of utilization of that cash?
- Sunil Pahilajani** Yeah, so certainly we will not deploy it unnecessarily we will deploy it only when we see the right opportunity. We are exploring those potential opportunities.
- Bhargav Buddhadev:** So any CAPEX plan sir? What is the CAPEX plan?
- Sunil Pahilajani** No, there is no such plan immediately and as I said we are examining opportunities if we have some opportunity we will do. We are certainly not in hurry to spend.
- Bhargav Buddhadev:** Okay, understood. And sir, in terms of timelines is there any guidance from your front in terms of addition of new customers or you will have to still wait in terms of the feedback?
- Sunil Pahilajani** So there is no announcement so far.
- Moderator:** Thank you. Next question is from the line of Pavan Kumar from Unifi Capital. Please go ahead.
- Pavan Kumar:** My first question would be sir, regarding are the three wheeler volumes this particular quarter affected by the Chennai flood situations primarily affected TVS volumes?
- Sunil Pahilajani** Chennai flood situation certainly has affected business in somewhere but it is okay, that is a natural calamity and we are more concerned about the loss of life and other damages and we have been actually looking into affecting people rather than business player so that is part of life.

- Pavan Kumar:** Right. Sir, secondly, I wanted to understand regarding the employee expenses, with the new bonus provision right now in place are our employee cost expected to go up going forward or how are we expected to deal with it?
- Sunil Pahilajani** So we have already provided for the retrospective bonus in our accounts in the month of December and if you look the employee cost in December quarter it is still lower than December 2014 quarter. So we are having a very good control and tight control over the employee expenditures though there is some impact it is not very material overall if you look at the numbers.
- Pavan Kumar:** Okay. And sir, since we are almost in the third quarter, can you give us what our outlook is regarding FY17 in terms of any kind of scale-up that we see on the three wheeler or four wheeler side or any kind of venture into the four wheeler mid size truck had made?
- Sunil Pahilajani** You are talking about new opportunities is it?
- Pavan Kumar:** Yes, sir new opportunities in FY17 where some delta in growth can come.
- Sunil Pahilajani** So there is no such announcement as I said so far we are making effort and if you see we just mentioned somebody mentioned about Auto Expo display of our engine so we are doing all kind of efforts to explore and have opportunity and we are in discussion and we are trying so there is nothing to announce so far.
- Pavan Kumar:** One question sir, it is like if we get into an agreement with any customer right now, say if it happens. How much time does it take for our production line to start producing the producing and that part of particular production impacting our revenues?
- Sunil Pahilajani** It depends on the nature of the engine, if it is engine which is not validated it takes a vehicle not yet validated it takes two years to three years but two years for sure but then if it is something ready engine like we are selling now then it can happen in shorter time.
- Pavan Kumar:** Shorter time in the sense sir, it can take six months or one year may be?
- Sunil Pahilajani** Six months to one year. It is a business which needs a lot of validation and approval, okay so that always and if it is integrated with vehicle then the vehicle also needs validation so, this is the minimum time required.
- Moderator:** Thank you. Next question is from the line of Aman Batra from Goldman Sachs. Please go ahead.

- Aman Batra:** Of the roughly something like 3.5 lakh engine you sell for three wheelers and four wheelers, how much would be currently that you are selling it would be BS-III and BS-VI compliant and how much would be it?
- Sunil Pahilajani** So all our compliant either BS-III or BS-VI but which how many are BS-VI that breakdown I may not have right now.
- Aman Batra:** Okay. And if you can also throw some light on the dividend that you have declared Rs.4.50 so, is there kind of some one-off element build into it because of the sale of property or that is kind of a regulatory will it?
- Sunil Pahilajani** So dividend is as approved from time to time we have been to my knowledge paying dividend quite consistently year-on-year so, our profitability has improved so we have paid more.
- Aman Batra:** Sure, understood. Just one last data point on Genset and Tiller volumes for this quarter and previous period?
- Sunil Pahilajani** Yeah, so in terms of Tiller it is about 500 Tillers we sold in this quarter and it was the same number last quarter as well, okay. On Genset front there is slight growth about 7%-8% we did about 460 Gensets in this quarter.
- Moderator:** The Next question is from the line of Manish Goyal from ENAM Holdings. Please go ahead.
- Manish Goyal:** Sir, I have a couple of questions on the CAPEX front for BS-V and BS-VI norms would company have to undergo a high CAPEX probably next two years to three years?
- Sunil Pahilajani** Yes, so for emissionizing there is a CAPEX requirement I would not say it is too high but then there is a reasonable CAPEX requirement and we do it as innovatively as possible and we do it all in house.
- Manish Goyal:** Okay. So would it be in range of say 50 crores to 60 crores, sir?
- Sunil Pahilajani** Yeah, so CAPEX that work is happening now, we expect it will be anywhere between 50 crores to 100 crores.
- Sunil Pahilajani** But what we are mentioning is over a period of three years - four years.
- Sunil Pahilajani** Yeah, so it will be spread over the period.
- Sunil Pahilajani** No, it is not one time.
- Manish Goyal:** Sure, okay. So sir, now with BS-IV kicking-in for the entire industry and the cost have gone up so this year in FY17 would it lead to a double-digit growth largely on base of the increase in the prices of engines should we refer that?

- Sunil Pahilajani** So BS-IV has happen in only some of the vehicles and we are I mean that impact is not so significant for this year.
- Manish Goyal:** No, going forward sir, for FY17 when it gets implemented across the board so, can we see impact of higher cost engine basically a **price led** growth in the coming year?
- Sunil Pahilajani** Absolutely, so to the extent the price goes up there will be a **price led** growth and there will be a **volume led** growth. BS-IV may not be in all cities across the next year, right so to that extent you need to look at the numbers but yes, what you are saying is right.
- Manish Goyal:** Sure. And we would be able to maintain our margins?
- Sunil Pahilajani** Obviously, yes.
- Manish Goyal:** Okay. And sir, sorry, can you please repeat the numbers for auto engine volumes in the current quarter as compared to last quarter and I request you to give us the nine month numbers also.
- Sunil Pahilajani** So 80,000 was three wheeler diesel number versus 85,000 quarter three last year. Four wheeler was about 7,000 versus 10,000 quarter three last year.
- Manish Goyal:** And can you please give the number for nine months auto number sir?
- Sunil Pahilajani** Nine months was about 230,000 versus 245,000 last year and was 25,000 versus 31,000 last year.
- Manish Goyal:** Sorry, the four wheeler was?
- Sunil Pahilajani** 25,000 versus 31,000 last year quarter so these are nine months number.
- Manish Goyal:** And agri if you can please give us the number for nine months sir?
- Sunil Pahilajani** So agri is about 63,000 versus 70,000-75,000 last year.
- Manish Goyal:** This is only Pumpsets you said?
- Sunil Pahilajani** Pumpsets, yeah.
- Manish Goyal:** Okay. And Power Tiller would be 5,000?
- Sunil Pahilajani** Tiller has been about 3,000 versus 4,000 last year.
- Manish Goyal:** Okay. And how has been the so agri pump we were probably what we are seeing is a trend towards electric pumps increasing because of better power

ability so, are we seeing impact of that on our sales as far as petrol and kerosene pumps are concerned?

Sunil Pahilajani So the business of pump is to do with also subsidy and farm, right so it is not so much about electric so diesel pump as a market has always been growing. Current year impact is more because of subsidy as well as the farm produced.

Manish Goyal: Okay. And last question on the aftermarket sales what are the growth we are seeing in aftermarket sales in the current quarter and the nine months sir?

Sunil Pahilajani Aftermarket we have seen a very consistent growth of anywhere between 7% to 10% quarter-on-quarter.

Manish Goyal: And this is largely auto right sir?

Sunil Pahilajani This is largely auto but it also has other aftermarket as well which is Farm and Genset.

Manish Goyal: Okay. And aftermarket sales would be contributing more than 20% of overall revenue sir?

Sunil Pahilajani No, it is about 18% to 20% of the sales.

Moderator: Thank you. The next question is from the line of Ranjit Shivram from Antique Stock Broking. Please go ahead.

Ranjit Shivram: Just wanted to get some idea regarding this by what timeframe do you see this market moving to BS-V, BS-VI and is there any possibility then it will directly go to BS-VI because there was some talks and the minister was telling that we might bypass BS-V and go for BS-VI so any color on that can you share something?

Sunil Pahilajani Sir, actually we also exactly what you mentioned and unless Government or ministry takes a decision we would not know. What we can do is only gear up to deliver that so which we are doing.

Ranjit Shivram: Okay. And sir lastly, any color on your infrastructure equipment what is your outlook there and in terms of profitability can you share some?

Sunil Pahilajani Infrastructure equipment you are talking about construction equipment...

Ranjit Shivram: Yeah.

Sunil Pahilajani So that has been closed now, now that is no more in existence so I do not have any view I mean going forward, we already exited that business.

- 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 engines segment wherein the news report indicates different types of fuels to be preferred in the future for like E-Rickshaws which would may be run on electric batteries and some rickshaws on ethanol. How do you see this trend as far as our business is concerned?
- Sunil Pahilajani:** So our business is concerned there will be no negative impact because we are prepared and we are ready to handle all the solutions you mentioned, the only thing is that now based on Government publicities and customer choice we have to work. So far we also hear everything and we hear debate and we are observing everything but we have not seen any customer opting for anything else so if we see customer is opting for something else we will offer that. So all the multi fuel options all kinds of solutions we can offer.
- Sanjeev Zarbade:** And sir, regarding we have done some property sales during the quarter, how much more such monetization assets do we have or we are done in the motive?
- Sunil Pahilajani:** So we are not doing it something which is kind of regular affair or we have too many properties like that, it is only once a while when we see properties underutilized or not utilized, we exit because and then it is better to in cash it.
- Sanjeev Zarbade:** Okay. And what is the cash sir, lastly?
- Sunil Pahilajani:** So on 31st December we had about 500 crores of cash.
- Moderator:** The next question is from the line of Bharat Sheth from Quest Investment. Please go ahead.
- Bharat Sheth:** Sir on power I mean say we were taking of we are having around 2%-3% kind of market and say we were looking for our next three years - four years - five years around 10% kind of market share. So can you more elaborate a little more on that strategy how we are progressing and...
- Sunil Pahilajani:** Yeah, so as far as is strategy is concerned it is there and we have started working on it, this year we have launched all the new models and I just mentioned 250 kVA is also about to join that and then we have very detailed channel strategy and promotion strategy to capture bigger market share.
- Bharat Sheth:** Currently sir, we are I mean present over distribution network is in Pan India or it is restricted to certain?
- Sunil Pahilajani:** It is Pan India.

- Bharat Sheth:** So how would we then I mean we have gained the market share I mean what will be our USP so to gain that market share?
- Sunil Pahilajani** So USP is our product strength, after this new emission norms our product is very strong and very well accepted and we have also positioned ourselves as very premium product so, we see good response coming we have to gear up to strengthen our channel and distribution and make our presence bigger.
- Bharat Sheth:** So currently we have around 500 distribution network correct for Genset?
- Sunil Pahilajani** I cannot have number but they are not 500 certainly, we have state to state a few distributors so, all over India it will not be 500.
- Sunil Pahilajani** No, no way so our distribution is relatively small today so we are strong in some states like Gujarat, Maharashtra we are very very strong we have a very strong market share as well in some state. In West Bengal we have a very good distribution as well. So generally we have one or two distributor in every state, right. So it will be in the range of somewhere around 25...
- Bharat Sheth:** How do we plan to expand that, where do we like to see in next couple of years?
- Sunil Pahilajani** So it is a combination of many things, right, distributions are combination of product service infrastructure so, we have consistently improved our product over the last couple of years and now we are focusing on improving our market share in the areas of strength so we are very strong in some three states, four states, five states and we are continuously improving our service deliveries et cetera et cetera in those states. So the first step will be to improve the distribution and penetration in those states and then to take it forward from there.
- Bharat Sheth:** So have we seen in last one year our market share improvement?
- Sunil Pahilajani** No, last one year our market share has not improved because one of the important product 250 kVA was not there with us, right so overall market share has there been flat. The important point is in spite of this product we have not lost on volumes so we have been able to maintain the volumes once the 250 kVA comes on board we will probably get the market share back.
- Bharat Sheth:** And second on export side how the things are moving I mean how much our contribution has come from export this year I mean nine months?
- Sunil Pahilajani** So our export contribution is around 4%.
- Bharat Sheth:** Which we wanted again I mean to take it 10% so are we seeing some improvement?

- Sunil Pahilajani** So you see we started with less than 1% and we have vision to grow this to 10% or more over a period and we are working towards that.
- Bharat Sheth:** And that will be mainly for which product line that we are looking for...
- Sunil Pahilajani** It is across the products, it is Gensets, it is Engines, it is Farm Equipment, it is combination of all the products we produce.
- Bharat Sheth:** Sir we were also looking for expanding our farm product range so, have we added any new products and how we response that we have already added?
- Sunil Pahilajani** Yeah, I think we have made announcements from time to time we have added many new products and we have launched in market many light Agri Equipment some of the new Pumpsets. We have launched from time to time last one year also we have done and in near future also we will add more
- Bharat Sheth:** So how is the response I mean to that and is it really adding some growth for the company?
- Sunil Pahilajani** Yes, certainly.
- Bharat Sheth:** So currently I mean what is the size of agri if you really remove this Pumpset and Power Tiller.
- Sunil Pahilajani** So size of agri business is around 15%, you are right almost half of that is Pumpset and rest is...
- Bharat Sheth:** And profitability wise at corporate level or...
- Sunil Pahilajani** Yeah, it is good.
- Bharat Sheth:** Okay. And sir, how this LCV that we were I mean talking of I mean logistics solution that we were talking we are logistic solution provider more let us say with **0:34:42** coming so still I mean that are we seeing declining when would I mean see that there we will be expecting some kind of growth?
- Sunil Pahilajani** So you know we only supply engine and we supply engine to various vehicle manufacturer so, it is up to their business model and their approach on that and we just follow their volumes and so it for them to comment on the volume growth.
- Bharat Sheth:** Auto I mean four wheeler there is some decline which we have seen is it because of also the Tata Ace new model which they have their own engine so is it because of that also?
- Sunil Pahilajani** No, idea I mean I cannot comment because it is very complex market which model is affected due to which model we really cannot figure out.

- Bharat Sheth:** But are we seeing growth in that four wheeler market that we are catering?
- Sunil Pahilajani** We are hopeful that it will grow, we see potential of growth as Indian economy's growth we see that potential.
- Moderator:** Thank you. The next question is from the line of **Sherry0:36:06** from Edelweiss. Please go ahead.
- Swarnim Maheshwari:** Hello, sir this is Swarnim here. Sir, my question actually pertains to the growth on SCV industry outlook, so we are seeing the SCV industry actually declining by almost around 1% to 15% in the first nine months and we have seen the HCV actually growing by almost around 25% to 30% so I mean would you like to comment on what is actually your outlook on the SCV industry that is one and second is if you would not have the fair idea on this, so you would be actually receiving some sort of improved demand from the OEMs is it the case?
- Sunil Pahilajani** Yes, so we are hopeful that year-on-year there is growth and there can be various drivers of SCV industry getting affected maybe financing is one area, infrastructure is another area and so on so forth and alternative options of public transport and rest are also **factor0:37:06** so as I said, it is very complex and every vehicle manufacturer is doing its homework to prepare the plan overall we see fore see growth because we are supplying engine to so many of them so we do not fore see any downside.
- Swarnim Maheshwari:** As sir, while we are speaking have you seen any improvement demand from your OEMs at this point in time?
- Sunil Pahilajani** At this point of time no, I am talking about another one year.
- Swarnim Maheshwari:** FY17 another two quarters - three quarters from here, okay. And sir, my second question would be on we are almost selling close to the 3 lakh - 3.5 lakh of three wheelers. So just wanted to understand what is the mix of petrol and diesel over there?
- Sunil Pahilajani** So we largely sell diesel though we also sell some few petrol but it is largely diesel.
- Sunil Pahilajani** So it is I mean almost in petrol is negligible amount I mean basically largely it is diesel.
- Sunil Pahilajani** Yeah.
- Swarnim Maheshwari:** So I think safe to say sir 80%-85% would be diesel and the balance would be CAG or something else?
- Sunil Pahilajani** Perhaps.

Swarnim Maheshwari: Okay, more.

Moderator: Thank you. Next question is from the line of Vaibhav Baid from Motilal Oswal. Please go ahead.

Vaibhav Baid: Sir, what would be our market share currently?

Sunil Pahilajani In what?

Vaibhav Baid: In the engines BS-IV engines?

Sunil Pahilajani Okay. So in this SCV segment in our size of our relevant market we have market share close to 80%.

Vaibhav Baid: 80%, okay. And sir, do we expect this when do we expect this BS-V or BS-VI to kick-in?

Sunil Pahilajani So that depends on actually Government's decision but we heard so far through news and through all the communication and various forum that it is likely to happen 21 or so.

Vaibhav Baid: And sir, the CAPEX of 5,200 crores we are doing that for the specific engine the new on the compliant norms to be compliant with new norms?

Sunil Pahilajani Emissionizing, yes.

Vaibhav Baid: Okay. And sir, this 80K that you have reported numbers was say 85,000 so decline in which customer are we seeing?

Sunil Pahilajani That was across the board.

Vaibhav Baid: Across the board, not any specific OEM, right?

Sunil Pahilajani No, specific OEM, no.

Vaibhav Baid: Okay. And sir, in that segment only I mean who is the biggest customer of our?

Sunil Pahilajani It is Piaggio.

Moderator: Thank you. The next question is from the line of Nik Hanim from AIMS Asset Management. Please go ahead.

Nik Hanim: I joined the meeting late so, if you can let me know is there a turnaround in the auto industry as you expected I think in the last quarter you mentioned that you are expecting a turnaround in the third quarter so, has there been a turnaround?

- Sunil Pahilajani** It is very difficult to answer this because automotive industry is very lag there are various segments which are...
- Nik Hanim:** I mean sorry, for the three wheeler, sorry, I should have described.
- Sunil Pahilajani** Three wheeler is consistently no, we feel that it will grow over a period of one year or two years but the growth rate is not very high but yes, it will grow.
- Nik Hanim:** So far you have not seen it yet, I mean the turnaround yet?
- Sunil Pahilajani** Yeah, turnaround means growth but then it is not going to be very high growth, this is what we foresee. It is very difficult for us to say in anything definitive way because this is a industry we are...there are so many players and they are best people to comment on that.
- Nik Hanim:** I see. Can you tell me what is the breakdown in terms of three wheelers in terms of the fuel whether petrol, CNG or diesel, what is the breakdown?
- Sunil Pahilajani** So largely it is diesel and there is small volume of CNG very small volume there is no petrol.
- Nik Hanim:** Not for yourself but for the market?
- Sunil Pahilajani** For market, may be you need to refer the Society of Indian Automobile Manufacturers data they give very correct data in their SIAM data if you can search you can see that.
- Nik Hanim:** Okay. And do you sell diesel are engines for passenger three wheelers or just cargo?
- Sunil Pahilajani** So engine is same and it is only the application is different.
- Nik Hanim:** Okay. So you sell for both types of three wheelers?
- Sunil Pahilajani** Yes, absolutely.
- Nik Hanim:** Do you have the breakdown?
- Sunil Pahilajani** Sorry.
- Nik Hanim:** Do you have the breakdown in terms of how many engines go to passenger three wheelers and the other one?
- Sunil Pahilajani** No, we do not have those breakdowns.

- Sunil Pahilajani** That also again this SIAM data can show you because that depends on vehicle manufacturers which application the make since engine is same for us it is difficult to identify that.
- Moderator:** Thank you. The next question is from the line of Chintan Sheth from SKS Capital. Please go ahead.
- Chintan Sheth:** On cash you did mention 500 crores, so post that we declare dividend so it will come down to that extent, right?
- Sunil Pahilajani** Yes, you are right.
- Chintan Sheth:** Okay. And sir, when you mention that our volume growth would not be that significant in terms of numbers going forward as you foresee from the off-takers OEMs. So how are we basically maintained our margin because you did mention that our value engineering and product quality improvement has been sustainable and has been came in our margin but on the operational side if we do not improve our utilization level then there is still scope of if the volumes are not picking up and utilization are not significantly improving given the subdued off-take in environment right now. So how confident that margins will sustain if given the MIP recently got announced by the steel company so raw material price will start moving up again for say six months as they mentioned in MIP document, so how confident we can maintain 16%-17% margin on engine overall?
- Sunil Pahilajani** So we make effort in every possible way it deepens on various factors so we cannot predict but certainly volumes remain same or go up since we are continuing to do innovation since we are continuing to do better and better in terms of internal cost so, that is the way we try and maintain margins so confidence is reasonably good.
- Chintan Sheth:** Okay. And sir, what will be the utilization it has come down from last year I guess because of the volumes are de-growing so what will be our utilization?
- Sunil Pahilajani** Our utilization is about 70% today.
- Chintan Sheth:** 70%, okay. And sir one more thing on engines, you did mention you are ready with all the variance in terms of petrol, diesel, there were talks of 100% ethanol based engines, is this possible in terms of engine manufactured based on 100% ethanol?
- Sunil Pahilajani** So I have to explore that, I have to examine that. But we have capability to offer various fuel options.
- Chintan Sheth:** Okay, so it is still work in progress can be ready...
- Sunil Pahilajani** Sorry, cannot answer that just now because I have to examine it.

- Chintan Sheth:** Okay. And sir, lastly on the price increase due to BS-IV what you expect next year in terms of adoption across India from current say 10% to 20% volumes BS-IV compliant and balance is BS-III and we assume that if there were no volume growth happens next year then the BS-III volumes will come will transform to BS-IV will give us some escalation in price and subsequent our volume will...
- Sunil Pahilajani** Yes, so obviously the price will happen and it will definitely help us to get a growth in terms of volume, you are right.
- Chintan Sheth:** So any ball park number or expectation you have of conversion of BS-III to BS-IV in terms of percentages will also help.
- Sunil Pahilajani** So no we do not have any number because this is still in process and not all across the board BS-IV adoption will happen across the India, there are cities who are going through so it will be phase, so it a combination of the actual we increase we get and negotiation as well as the different cities who adopt these four.
- Chintan Sheth:** So if you can show more light say currently around 10 odd percent or 12 odd percent of our portfolio has been BS-IV and you expect at least the bling of that in next year if we can safely assume that 10% to 12% current and that way at least that is the point I wanted to make.
- Sunil Pahilajani** So Chintan, obviously the volume in BS-IV will go up next year, right how much it will go up what percentage will go up it is very difficult to calculate and give it you now but obviously it will be very very sharp increase in BS-IV volumes.
- Moderator:** Thank you. The next question is from the line of Harshal Patil from Sharekhan. Please go ahead.
- Harshal Patil:** Sir most of my questions are answered but just wanted to have a flavor of you on the auto engines basically a short while ago we just discuss that the engines are also going into the passenger car segment. So just wanted to have a flavor with this new licensing and permits being open up., do you see **spar** in demand and something like that?
- Sunil Pahilajani** Yes, these new licensees actually come in action we certainly have business.
- Harshal Patil:** Okay. So may be initial **spar** is something that you are seeing right now because there were some news in the media which suggested towards opening up of lack of licenses and all towards Maharashtra state and all?
- Sunil Pahilajani** We also have the same news but we do not know beyond that.

- Harshal Patil:** Okay. Sir, and just color on your debt side sir, would we continue to see reduced levels of debt going ahead may be 2017-2018?
- Sunil Pahilajani** There is no debt actually, I do not know.
- Sunil Pahilajani** No, we do not have any debt.
- Sunil Pahilajani** Which debt are you mentioning?
- Harshal Patil:** Okay. Sir, I was actually referring to the interest cost and wanted to kind of relate to that.
- Sunil Pahilajani** So these will be not the interest cost but some bank charges et cetera.
- Moderator:** Thank you. The next question is from the line of Gagan Thareja from Comgest India. Please go ahead.
- Gagan Thareja:** Is it possible to get a break-up of your sales customer wise how much would be Piaggio be, how much would Tata and M&M be?
- Sunil Pahilajani** It will be difficult to share that kind of pick-up.
- Gagan Thareja:** But is it possible to understand Piaggio alone because Piaggio has been a significant customer for you.
- Sunil Pahilajani** I think it is very easy, I will tell you, you look at the volumes of each of these customers that will give you...
- Gagan Thareja:** But you would not be servicing the entire requirements of each of these no, so...
- Sunil Pahilajani** We serve almost all the requirements, all the diesel requirement. That gives very very clear idea.
- Gagan Thareja:** Second, you talk of an improvement in sales realization leading up to the BS-IV emission norms but how much of that would sort of slow down to your operating line or profit line because it could be that the incremental requirement to comply with emission norms would require you to increase largely on brought out or traded items if you could may be elaborate a bit and this?
- Sunil Pahilajani** So certainly there are additional things to be done and hopefully we maintain our margin so, since it is still work in progress I cannot comment, but we are hoping that we maintain our margin.
- Gagan Thareja:** But there is no scope to take the margins up because of...

- Sunil Pahilajani** So when I am saying we maintain our margins it means same, I mean maintain percentage margin. Taking up will be very difficult to commit because rather it is additional work that which just additional work...
- Gagan Thareja:** Okay. And the dividend payouts that you have year-to-date given are sustainable payout ratios?
- Sunil Pahilajani** That depends on profitability so far if you see our past track record, we are doing good and then we hope that we should continue to do good, do better.
- Gagan Thareja:** What would be the CAPEX requirements for you, going ahead?
- Sunil Pahilajani** CAPEX requirement we just mentioned largely on account of emissionizing and some R&D projects.
- Gagan Thareja:** Yeah, that is 50 crores - 60 crores or spread over a period of three years to four years but over and above that you would have...
- Sunil Pahilajani** Probably year end would be the right time to give some idea because we are still in the process of planning our budget for next year so, probably next quarter we can discuss that.
- Moderator:** Thank you. The next question is from the line of Bhargav Buddhadev from Ambit Capital. Please go ahead.
- Bhargav Buddhadev:** Sir, wanted to ask you on this Piaggio agreement has that been renewed?
- Sunil Pahilajani** So we are in discussion and you may basically you may see that our relationship is very strong so I do not see any reason.
- Bhargav Buddhadev:** So sir, would you be informing via a Press Release once the agreement is renewed?
- Sunil Pahilajani** Probably we can do that but then it is a ongoing relationship so there is nothing like new milestone and that.
- Bhargav Buddhadev:** No, because some investors were a bit concerned so given that it is your largest customer.
- Sunil Pahilajani** So I can certainly give you confidence there is nothing to be concerned in this, they are ongoing relationship.
- Bhargav Buddhadev:** Okay. And secondly sir, we were reading some media articles wherein that was mentioned that Greaves is also looking to sign-up four wheeler passenger car OEMs, so are these rumors are we considering them as well?

- Sunil Pahilajani:** So we have now placed ourselves in range of multi cylinder engine which are actually suitable for various kind of vehicles including some cross over vehicles which is car segment. So in a way I do not know what that news I do not remember but then just to give objectively that we have range of engines which we can offer to complete SCV segment and to some of the passenger vehicle segment also.
- Bhargav Buddhadev:** Yeah, so I mean are these OEMs okay with the idea of outsourcing engines basically the passenger car OEMs?
- Sunil Pahilajani:** So some of the OEMs do outsource even today and you must be aware that internationally it is proven model to outsource engine and even in India some of the OEMs are outsourcing engines, so it is not a new thing to propose.
- Moderator:** Thank you. Ladies and gentlemen, due to time constraint we will be taking the last question from the line of Manish Goyal from ENAM Holdings. Please go ahead.
- Manish Goyal:** Sir, just wanted to get a sense on the aftermarket sales is it entirely through our dealer network or it is a combination of through OEs also?
- Sunil Pahilajani:** It is combination of both.
- Manish Goyal:** So largely, how many dealer network we would be having exclusively for servicing sir?
- Sunil Pahilajani:** How many dealers?
- Sunil Pahilajani:** So we give over 50 dealers across India and we have more than 1,000 plus authorized trade mechanics so, we supply spares through our channel and we also supply spares through **OES** channel as well?
- Manish Goyal:** You said 1,000...
- Sunil Pahilajani:** Authorized trade mechanics.
- Moderator:** Thank you. I now hand the conference over to Mr. Barasia for his closing comments.
- Narayan Barasia:** So, thank you very much for joining this call. We appreciate your time and interest in the company. Thank you very much.
- Moderator:** Thank you very much, members of the management. Ladies and gentleman, on behalf of Greaves Cotton we conclude this conference call. Thank you for joining us and you may now disconnect your lines.



Greaves Cotton Ltd.
February 08, 2016