Greaves Cotton Limited's Q3 FY14 Earnings Conference Call

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MODERATORS: **MR. SUNIL PAHILAJANI – MD & CEO, GREAVES COTTON**
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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Q3 FY14 Earnings Conference Call of Greaves Cotton Limited. We have with us Mr. Sunil Pahilajani – MD & CEO; and Mr. Narayan Barasia – CFO. As a reminder, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand over the conference to Mr. Sunil Pahilajani. Thank you. Over to you Sir.

Sunil Pahilajani: Good evening. At the outset, I will welcome you and thank you for joining us in this Q3 Call. The revenue for this quarter is Rs. 423 crores against revenue of corresponding quarter last year of Rs. 515 crores. The EBITDA was Rs. 47 crores against the previous year's EBITDA of Rs.72 crores. So there is a reduction. But, on the profit side, profit after tax for this quarter is Rs.38 crores as compared to Rs.34 crores last year. So we have increased on PAT whereas top line and EBITDA has reduced. Performance is largely affected due to industry situation as Capital Goods industry as well as Automotive industry is down. So our OEM schedule is reduced.

On the growth side we have added some products. We have added Boom Pump in Construction Equipment. We have introduced various Agri Equipments. We have introduced Petrol Engine for Quadricycle that is 265cc.

And we are also happy to announce that we have met CPCB norms for our Genset range for CPCB-2 which is going to be applied in next few months.

Internationally, we have been working to establish our channel, and other than Tanzania and Indonesia, these are the two countries we have established our channel in various equipments. We already have presence in Middle East as you know.

On the Aftermarket side we have brought more focus and creating wider range of products and transforming ourselves into a total service provider. The biggest benefit has been improvement in our contribution by cost optimization and focus on profitability. So you have seen a lot of cost reduction actions in the past few quarters and last year, and it continues, which has given improvement on profitability side. But it has not been able to compensate for the top line reduction this time. There are a lot of HR initiatives we are taking to retain good talent and keep workforce motivated and we are also working on skill enhancement and capability building programs all across organizations.

With these thoughts I would hand over to my colleague, Mr. Narayan Barasia – our CFO to take you through financials.

Narayan Barasia: Thank you, Sunil. Good evening and thank you very much for joining this quarterly earning call. I hope you got a copy of our 'Quarterly Earnings Update.' It has also been uploaded on our website for your reference. I will take you through the financial results of Greaves Cotton for the third quarter – October to December period for FY13-14. The net revenue for the company for the quarter is recorded at Rs.423 crores as against Rs.515 crores in the same period last year. EBITDA for the quarter is recorded at Rs.47 crores as against Rs.72 crores for the same period last year. EBITDA margin for the quarter is 10% as compared to 12.4% during the same quarter last year. The material cost reduction and the value engineering initiatives are giving good results and the material cost has reduced by 210 basis points from 70.5% to 68.3% during the quarter. Profit after tax for the quarter is reported at Rs.37.8 crores as against Rs.34.3 crores for the same period last year, giving us 10% growth at PAT level. We have taken plenty of initiatives on working capital reduction, and we are pleased to mention that we have been able to reduce inventory and debtors by about Rs.50 crores during this quarter. So at this point of time, let me open up for questions. Thank you.

Moderator: Thank you very much sir. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press '*' and '1' on the touchtone telephone. If you wish to remove yourself from the question queue you may press '*' and '2.' Participants are requested to use handsets while asking a question. First question is from the line of Sanjeev Zarbade from Kotak Securities. Please go ahead.

Sanjeev Zarbade: Could you share the volume figures for the nine months in Auto – Three Wheeler, Four Wheeler and Pumpsets and Stationary Engines?

Narayan Barasia: If you look at the growth over nine months, Three Wheeler is roughly about 6-7% decline, Four Wheeler decline has been much sharper – about 10-12% decline. Pumpsets also declined by almost about 17-18%.

Sanjeev Zarbade: And how was the Spares?

Narayan Barasia: Three Wheeler Auto Spares we got a little bit impacted. So we witnessed some decline of about 6% while the others Spares business actually grew.

Sanjeev Zarbade: Is it not possible to share the volume in numbers?

Narayan Barasia: Absolute term volume for nine months for the Three Wheeler is roughly in the range of 240,000 Units and Four Wheeler in the range of about 50,000 Units.

Sanjeev Zarbade: And the Kerosene and Diesel Pumpsets basically?

Narayan Barasia: Petrol Kerosene Pumpsets is in the range of about 20,000 Units for the 3-months period. Nine months it is almost in the range of about 75,000 Units.

Sanjeev Zarbade: And DG Sets would be around few hundreds probably?

Narayan Barasia: DG Sets is roughly about 2,000 Units.

Sanjeev Zarbade: If you could just give us an idea about overall cost cutting initiative, because the employee cost to some extent has eaten into our profitability in this quarter, so if you could just elaborate on that?

Narayan Barasia: We started our initiative on cost reduction particularly on the material and variable cost front, which includes value engineering initiatives, and we have consistently been able to report improvement in the material cost. Some of the employee costs is definitely higher at the range of about 10% over last year predominantly because of inflation and also because we invested more behind R&D. So the decline in the market was unanticipated and we were impacted. But the good thing is that our efforts on the material cost helped us to sustain this decline in the market.

Sanjeev Zarbade: In the last two November and December months we have seen a significant drop on year-on-year basis in the Three Wheeler volumes. What are you reading of this situation basically for the industry?

Narayan Barasia: You are right, last two months have been bad and that is the reason quarterly result is also equally bad. So we are reporting 18% drop in our numbers. I think it may be a temporary phenomenon. We do not expect the market to be as bad as we go along in future.

Moderator: Thank you. Next question is from the line of Sonam Maheshwari from Edelweiss. Please go ahead.

Sonam Maheshwari: My question pertains to DG Sets. I wanted to just understand that after the CPCB-2 norms implementation the cost of DG Sets is expected to go up by around 15-20%. I wanted to understand, the cost will be fully passed on or some cost will be absorbed by us also?

Sunil Pahilajani: I think because it is a change of technology. As far as margins are concerned we hope to improve on margins because we have done lot of innovation as compared to competition which we will announce as we announce products, and the sales price depends on competition, but we are also expecting some increase, I cannot say whether it will be 15% or 20% but whatever is the increase we will align with the competition.

Sonam Maheshwari: Whatever price is increased due to these technological changes it will be fully passed on, that will be our endeavor, right?

Sunil Pahilajani: Surely, I said further that our margins will increase.

Moderator: Thank you. Next question is from the line of Bhalchandra Shinde from Batliwala & Karani Securities. Please go ahead.

Bhalchandra Shinde: Regarding Engines, as you said that there was a decline majorly due to Three Wheelers and SUVs, but if we see in first half we were actually able to sustain the drop even through Three Wheelers and SUVs were declining. Did we see a drop in exports for Gensets and comparatively Pumpset decline was more than expected?

Narayan Barasia: International business also have done slightly lower than what we expected, but we are still positive; we actually got a positive growth in international business, so international business is still growing while the domestic business actually suffered badly because of our bad economic situation.

Bhalchandra Shinde: How much is the export currently as a percentage of sales?

Narayan Barasia: It is in the range of about 5%.

Bhalchandra Shinde: In Infrastructure Equipment, as you said that we have opened up in new markets like Tanzania and Bangladesh, but we have been continuing to decline because of the domestic economic environment, but do we see any offset in that Infrastructure Equipment growth or we continue to see that kind of decline?

Narayan Barasia: International business is growing. The base is small, but we are doing a pretty good job on international front. Bangladesh and even those markets which you talked about are growing and we are definitely doing well. Though we expected to do much better but we are still getting good growths coming from those countries.

Bhalchandra Shinde: But do we comparatively see Y-o-Y basis in Infrastructure Equipment growth to offset? The decline in this current quarter was around 45%. So do we see that kind of a decline to continue or it will be slightly offsetted by exports?

Sunil Pahilajani: We do not see the decline to continue, we see some improvement.

Bhalchandra Shinde: The other segment where especially we sell Power Tillers, this quarter was almost like nil or only Rs.5 crores. Any specific reason for that?

Narayan Barasia: We have done a bit of a reclassification. Power Tiller is not a part of trading business anymore. Trading is now completely non-core trading business and that is the reason that amount is too small. Power Tiller has done pretty well, that is one segment we have grown as well over last quarter. We have been discussing about localization of Power Tiller. Power Tiller always was for us trading goods. So we were importing and we were selling. And since now we are getting into localization we reclassified this to the business. It is no longer a trading opportunity for us.

Bhalchandra Shinde: How much was the growth and where we have reclassified?

Narayan Barasia: It is in the Engine segment.

Bhalchandra Shinde: And how much was the growth?

Narayan Barasia: We got almost about 2-3% growth on Power Tiller.

Bhalchandra Shinde: So with comparatively Engine segment decline was more if we do Y-o-Y comparison basis?

Narayan Barasia: Yes.

Bhalchandra Shinde: What is the outlook in the next 12 to 18 months, where do you see especially Auto Engines to pan out?

Sunil Pahilajani: Auto Engines we are the suppliers to OEMs. It is all driven by major OEM. It will be very tough to project for four quarters but at least this quarter also, may be one or two quarters we see quite flat, we do not see much improvement.

Bhalchandra Shinde: Sequential basis you see flat or Y-o-Y basis?

Sunil Pahilajani: Quarter-to-quarter I am saying. We do not see much improvement and this is I think quite evident all across automotive industry.

Bhalchandra Shinde: Regarding effective tax rate, why this time the tax rate was so low?

Narayan Barasia: If you remember in the last quarter we made some provisions for Germany investment. We have created a deferred tax as an asset for that.

Bhalchandra Shinde: So on annual basis we can assume 29% of tax rate?

Narayan Barasia: That is true.

Moderator: Next question is from the line of John Perinchery from Emkay Global. Please go ahead.

John Perinchery: My question is with respect to the sales performance in the quarter. You said that the Tillers have been reclassified in Engines, and then the drop in business obviously is far significant, if you could dwell a little bit more on which part of the Engines business actually declined. And if you put your comments on Auto and non-Auto separately, and within non-Auto, if you could cover the Agri portion and the DG Sets portion, because it is quite surprising Agri for some or most of the companies have done well, so if you could explain that part of the sales performance of the quarter?

Sunil Pahilajani: Mostly, it is Automotive because as I said it is linked with the OEM schedule, and you are aware of the automotive segment decline last quarter and so it is mostly linked with that, and all other segments I do not see a decline or a very marginal decline.

John Perinchery: Can you comment on the extent of decline in Auto in volumes and in value terms?

Narayan Barasia: Between volume and value, the difference is not much; it is almost the same number. As Mr. Sunil Pahilajani said, the decline is more on the Auto side, and non-Auto actually did well. Gensets for sure had some slower growth. On the Engine side I think it was more on the Auto side.

John Perinchery: Can you give the appropriate figures as to what was the volume decline in Auto in the quarter?

Narayan Barasia: It is almost in the range of about 15%.

John Perinchery: We used to run on a pricing increase of about a couple of percent, right?

Narayan Barasia: Yes but because of the tough market situation in this quarter we have not been able to take any price increase as of now and it is not factored stead.

John Perinchery: Can you give me the Three Wheeler and Four Wheeler volumes for the quarter. You gave for the nine months. If you could give us for the quarter and the decline?

Narayan Barasia: For the Three Wheeler it is almost about 90000 Units, Four Wheeler it is almost about 20,000 Units.

John Perinchery: And what is the corresponding decline?

Narayan Barasia: Decline in percentage is more on the Four Wheeler side. Last quarter we did almost about some 25,000 Units.

John Perinchery: So there is 20% decline in Four Wheelers. On Three Wheelers?

Narayan Barasia: In Three Wheelers again it is almost in the range of about 10 percentage points.

John Perinchery: Your comment was that Gensets has grown?

Narayan Barasia: No, I said Gensets also got impacted because of the market.

John Perinchery: How about the Agri portfolio in the Engines?

Narayan Barasia: Agri, in terms of Pumpsets, the decline was in the range of about 7-8 percentage points. Gensets was also in the range of about 7-8 percentage points.

John Perinchery: This is value decline?

Narayan Barasia: Between volume and value there is not much difference.

John Perinchery: This explains the segment one part. How about Infrastructure?

Narayan Barasia: Road definitely declined more. So Infrastructure by and large the economy has not done well. The market has declined and so we followed the decline. We maintain our market share, but between Road and Concrete, Road declined more than the Concrete.

John Perinchery: It is quite surprising because Agri for everyone else has gone through some growth. What it is for us in Agri portfolio that why we have declined by about 8% because if you just check from Tractors to Agrochemicals to Seeds, everywhere there is growth, so if you could explain?

Narayan Barasia: You are right; Tractors and those are the businesses have done well, not the segment we are into.

John Perinchery: So basically if you could tell us the reason why this segment of yours did not grow because a part of your segment is Pumpsets and the other part of your segment is small Agri Machineries for small land holdings. So if you could tell us why in your opinion this part of the business did not grow and actually declined?

Narayan Barasia: As you know this segment is very much dependent on the subsidy, and there was a delay in releasing those subsidies, and so we got impacted.

John Perinchery: But on the corresponding side, you actually have a working capital improvement where your inventory and debtors have come down, and if I recall last year we had a lot of capital being stuck there, and the reason probably was to do with extension of support to the dealer. Then there is on one hand reduction in inventory and freeing of our working capital, which means there was some cash flow coming into the system, and on the other hand the Agri is declining.

Narayan Barasia: Working capital reduction is more about tight working capital management in the business. Market decline is a different part and we responded quite well to the decline in market by still conserving our capital properly. We did not go for high risk sales and we contained ourselves quite well.

John Perinchery: Just a little bit on the Engines part in these three divisions, what would be the near term outlook – do you see a case for similar performance in Auto in the shorter term and Gensets have the CPCB changes and pricing increases, and if you could also tell for us Agri?

Sunil Pahilajani: As far as CPCB is concerned, it is not effective in this quarter. Once it is effective then we foresee improvement in margins. The sales price will go up, but still we see that margins will improve…

John Perinchery: So growth will also improve after this quarter?

Sunil Pahilajani: As far as the current quarter is concerned, we do not see much change because Automotive industry which is our largest segment is going to be in tough times, and other areas there may be marginal improvement, but in quarters to come that is Q1, Q2, hopefully it should be more positive.

John Perinchery: On the Infra side, will new products and the Samil arrangement that you have make a case for slightly higher top lines as you move forward? Because despite those arrangements the top line every quarter seems to be coming down, and now we are at about Rs.80 crores odd run rate?

Sunil Pahilajani: You are right, last quarter has been pretty bad on this, and this quarter should be better than last for sure, but then arrangement with Bomag and Samil have been in the past and now we have more or less localized those products.

Moderator: Thank you. Next question is from the line of Mahesh Bendre from Quantum Securities. Please go ahead.

Mahesh Bendre: What is the outlook for next year in non-Auto segment?

Sunil Pahilajani: It is too early to say because even Capital Markets and Infrastructure Market is still not great as you see, and as we know in the country situation may change after first or second quarter in terms of Infrastructure Investment, so that may help. So let us see. We can only foresee for one or two quarters very clearly.

Mahesh Bendre: Is it possible to share the total Engines we sold under Auto Engine segment because it includes Three Wheelers, Four Wheelers and some other Auto OEMs also?

Narayan Barasia: The total volume is about 110,000 Units.

Mahesh Bendre: And the corresponding figures of last year?

Narayan Barasia: The corresponding figure was in the range of about 120,000 Units.

Moderator: Next question is from the line of Bhargav Buddhadev from Ambit Capital. Please go ahead.

Bhargav Buddhadev: Are you seeing any kind of prebuying, given that CPCB is now officially nominated to get launched in April '14?

Sunil Pahilajani: So far we have not observed much trend like that, but may be towards end of the quarter we are also expecting.

Bhargav Buddhadev: Is it the case that possibly CPCB might get delayed by say around three months?

Sunil Pahilajani: That is also one more angle to it. So I think it is being discussed at government level and there is some chance that it may get delayed.

Bhargav Buddhadev: You mentioned that you expect margins to improve post the rollout of CPCB, but given the current trends in the market an increase of 15-20% on prices do you not think post the price increases possibly an expectation of increase in margins could be something more to….?

Sunil Pahilajani: It is because of our design. We have an efficient lighter design and much more innovative product, which, of course, we will share as we launch. So, we are confident on that part. Because, ultimately the sales revenue or sales prices to be compared with the competition, and competition has to increase the price. So, we have that much opportunity. And if the design cost or the cost of product is controlled better, then we have possibility of better margins.

Bhargav Buddhadev: In terms of the Southern Grid integration which is likely to happen in a year's time do you expect significant reduction in the market size of

Gensets or you think now the driver is more of a backup rather than a base load?

Sunil Pahilajani: In a country like India even with this integration the shortage is still very high. As you see still there is big gap, and moreover there is also need for backup with the safety norms increasing with the kind of construction in the number of cities increasing. I do not foresee reduction in market size. Markets should improve rather. The only thing is with the CPCB-2 and new emission norms we have better opportunity because then there is always a better consolidation in market and local manufacturing companies who do not meet these emission norms or who cannot invest in technology or unable to go to next level.

Bhargav Buddhadev: Would it be fair to say that the bulk of the market is backup rather than base load?

Sunil Pahilajani: Yes, that may be fair to say, that is still majority of the market is backup.

Bhargav Buddhadev: Lastly, any signs of renegotiations which you are seeing in your AMC contracts which you signed for Gensets in terms of clients are asking for reduction in the AMC?

Sunil Pahilajani: AMC is normally negotiated annually and we do not see reduction. In fact, the number of AMCs we are adding on. So a lot of institutions have now been taken up, some of the hotel chains or public sectors have also been taken up. So we are increasing on our service revenue side which is a good margin revenue.

Bhargav Buddhadev: During the renegotiations, are you seeing any pressure on pricing?

Sunil Pahilajani: In Gensets, yes. Today the market is quite tough, it is a competitive situation.

Moderator: Thank you. Next question is from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.

Madan Gopal: My question again is on the Power Gensets market. When you are saying you are compliant with the CPCB norms up to what kVA rating you will be able to meet the compliance?

Sunil Pahilajani: At this moment our range is up to 500 kVA, so it is within the complete range.

Madan Gopal: When you have developed this technology, have we gone with any systems with any other developer or was it completely in-house development?

Sunil Pahilajani: All our new engine range development has been in-house, but we have roped in quite a few international consulting companies or technical consulting companies who work with us. These are quite well known technologies.

Madan Gopal: What we have been made to understand from general opinion is that, in case of the new CPCB norm there will be a change in the fuel injection system, the filtration system. So probably we will be outsourcing these now, or is there going to be any change in the way we have been doing it?

Sunil Pahilajani: Design engineering is outsourced with a global consultant.

Madan Gopal: But you make it in-house the Fuel Injection System?

Sunil Pahilajani: Fuel Injection System is a bought out item. This is a very standard source as you know and we have other components which we source. Our in-house value addition is in many forms including machining, assembly and various other processes.

Madan Gopal: As a value of outsourced to the final price of the product post the norm, do you think the outsourced portion would increase?

Sunil Pahilajani: I do not think so much difference in percentage of outsource increase because it is the same kind of model, the base goes up.

Narayan Barasia: We do not expect any change from that point of view. In fact, the total bought outs should reduce because our margins should improve.

Madan Gopal: We had this Cummins call yesterday, they were referring to this particular norm change and then telling us that 25% increase in prices are possible. Are you also looking at same kind of price increase for your product?

Sunil Pahilajani: I would not put any number today because that may be wrong. We have to observe competition and we have to then position ourselves accordingly.

Madan Gopal: Have we taken any price cut in the Power Gensets?

Narayan Barasia: No price cuts have been taken.

Madan Gopal: Compared to the September quarter, how was the December quarter for your Power Gen business sequentially?

Narayan Barasia: Sequentially, it has been flat. Over the last year, if you were to compare, we are down by about 10 percentage points.

Madan Gopal: When you are saying that you will be able to beat the competition you are referring to the other smaller players, are you saying that you will be able to improve your competitive position compared to even companies like Kirloskar Oil Engines, Cummins. Do you have that level of confidence with the new product?

Sunil Pahilajani: Competition includes them also, and in CPCB-2 perhaps very small players may not exist because all may not invest into that.

Madan Gopal: So you are probably looking at capturing those players' market share?

Sunil Pahilajani: Let us see, that is part of competition.

Moderator: Thank you. Next question is from the line of Chirag Shah from ICICI Direct. Please go ahead.

Moderator: Thank you. Next question is from the line of Gagan Thareja from Comgest India. Please go ahead.

Gagan Thareja: To start with just a clarification, you indicated that inventory and debtors have been reduced by Rs.50 crores in the quarter. So the reference quarter is the September quarter?

Narayan Barasia: Yes, we have always been mentioning that we will tighten the inventory and debtors that is what we have been promising you. I think this quarter we have really worked hard very hard around it, and we have tried to conserve some more capital from the business.

Gagan Thareja: But if you look at the capital employed from September to December that has increased.

Narayan Barasia: What has happened is we reduced our procurement. Current creditors have come down, but if you look at the gross working capital, it has come down by Rs.50 crores.

Gagan Thareja: Could you maybe in days sales give us the inventory and the debtors' figures as it stands?

Narayan Barasia: In terms of days it is roughly about 60 days of inventory and about 60 days of debtors.

Gagan Thareja: I presume the Quadricycle norms have been approved by the government. How do you see this market evolving, by what time will it become commercially viable, and have you been approached for the Engine?

Sunil Pahilajani: We have already offered our solution on the Quadricycle platform and we are in discussion with all potential customers as I mentioned last time. Now it is a matter of going ahead, which customer goes ahead and when, I think that is what we have to see. As far as we are concerned we are ready with the solution.

Gagan Thareja: But when do you see the Quadricycle hitting the market – is it still some distance away before the launch?

Sunil Pahilajani: Lots of customers are working on it as we keep seeing and some we know and some we keep hearing, but the only company we know who is ready and going to launch is Bajaj, and they are certainly not our customer, but then among our customers most of them are still in progress.

Gagan Thareja: Going back to some more accounting related questions. If you look at the RM-to-sales ratio I think Y-o-Y we can see a decrease, but if you look at it from the September quarter it seems to have increased. Is it more a cost-related issue, or is it an average realization sort of coming down for you, how would you explain that?

Narayan Barasia: If you look at quarter and you compare with the last quarter of the last year you will see there is a reduction in the material cost, and even if you look at the nine months and you look at the comparison of the previous year's nine months there is a reduction in the material cost, so material cost actually has reduced. September to December is a mixed issue. Some of the businesses are in season and so there is a mix which also plays a role.

Gagan Thareja: A similar question related to the employee cost which is up from September to December. Is there a headcount increase or what is the cause for that?

Narayan Barasia: There was one settlement we had on employee, there was some negotiation in one of the factory we had and so there was a prior year payments which has to be done because of negotiation, so that was one-time impact we got here.

Gagan Thareja: How much was the one-time impact?

Narayan Barasia: That increase if you are seeing roughly is about Rs.1.5-2 crores, largely it is on that.

Gagan Thareja: What could be the capacity utilization levels right now for you across your facilities?

Sunil Pahilajani: Capacity utilization today if you are talking about current quarter it has gone down to close to 65-70% but over a year it has been 70-75% range. But then it varies plant-to-plant.

Gagan Thareja: If you look at the other expenditure, last quarter there was an explanation offered that Rs.3 crores included in the other expenditure in September quarter pertain to receivables and that could be one-off in nature. So if I adjust that out the quarter's other expenditure could have been of the order of Rs.44 crores, and from September to December the sales have gone down. Part of your other expenditure could be of a semi-fixed or a semi-variable nature. I was thinking that ideally given such a scenario your other expenditure should actually have been lower than the number that you have reported in the quarter.

Narayan Barasia: Again, in this quarter we had Rs.2 crores of one-time impact. So if you remove that it is still about in the range of Rs.43crores.

Gagan Thareja: What does that Rs.2 crores pertaining to?

Narayan Barasia: There was some settlement we had to do for some residential flat and that came as one of the impacts.

Gagan Thareja: When Mr. Pahilajani indicated that you perceive that the coming two quarters would be flat, again what is the reference quarter in mind – is it the December quarter and you feel that the sales going ahead in the next two quarters would be similar to the December quarter or are you keeping the previous year's quarter as a reference?

Sunil Pahilajani: My view is that this quarter automotive industry is not going great again. So it may be similar. But then from next quarter there is a hope for positive improvement and other industries there is some improvement that we see. This quarter there may be slight improvement and next quarter may be more. This is something we have to keep working on. But Automotive industry being the largest segment, we do not see great turnaround at present.

Gagan Thareja: So flat with reference to this bygone December quarter?

Sunil Pahilajani: I think roughly you can guess that.

Gagan Thareja: Lastly, could you give the cash and liquid investment numbers?

Narayan Barasia: Cash is upward to Rs.100 crores plus. These are generally invested in liquid funds.

Gagan Thareja: You also indicated that you had taken an ECB. So is there any foreign currency exchange gain or loss somewhere sitting in the other expenditure?

Narayan Barasia: We generally do not take currency exposure. We only hedge it.

Moderator: Thank you. Next question is from the line of Umesh Raut from Equirus Securities. Please go ahead.

Umesh Raut: My question is regarding your DG Sets business. Which would be your key markets geographically speaking?

Sunil Pahilajani: In India, we have distribution in most of the states, and then we export to Middle East and Africa.

Umesh Raut: And sir if you can give a break up between the domestic and the exports, percentage wise will do?

Sunil Pahilajani: 75-80% is domestic.

Umesh Raut: Any key geographies domestically states wise or is it pretty well distributed?

Sunil Pahilajani: It is quite distributed.

Moderator: Next question is from the line of Bharat Sheth from Quest Investment. Please go ahead.

Bharat Sheth: Last time in the beginning of the year we were talking lot on increasing R&D spend. Is there any substantial increase there has happened in this year?

Sunil Pahilajani: Yes, we have, which is reflected in fixed costs also – R&D resources and setting up R&D center in Agri business and enhancing other R&D facilities, which have actually resulted into launch of several products.

Bharat Sheth: One is on CAPEX side, and other I am talking of recurring expenses. How much increase has happened?

Narayan Barasia: In terms of CAPEX in the current year we would have done in the range of about Rs.20 crores investment in R&D, and the revenue part of the expenditures are captured in the employee cost.

Bharat Sheth: Is there a substantial increase?

Narayan Barasia: There is no substantial increase. Employee cost has just grown by about 11 percentage points which is a combination of inflation as well. It is not substantial but I think the direction the company has been, to continuously invest behind research and development. So we have been strengthening our team. The team size is going up in R&D, which is where we are investing our expenditure.

Moderator: Thank you. Next question is from the line of Bharat Gyani from Sharekhan. Please go ahead.

Bharat Gyani: I just wanted to understand the CAPEX till date what has been incurred by the company? Given that you have said that the outlook at least in the near term is not encouraging so to say, so can you give CAPEX number probably for FY15 as well?

Narayan Barasia: We do not give guidance numbers. CAPEX up to now for the three quarters has been in the range of Rs.40 crores, out of which Rs.20 crores is roughly in Research & Development.

Sunil Pahilajani: And this actually also includes the sustenance CAPEX, which is sustaining our existing operations.

Moderator: Thank you. We are going to take a follow up question from the line of Bhalchandra Shinde from Batliwala & Karani Securities. Please go ahead.

Bhalchandra Shinde: Regarding CAPEX in FY14 how much we are targeting?

Narayan Barasia: In the next three months it should be another in the range of maximum Rs.20 crores, something like that.

Bhalchandra Shinde: Currently what is our capacity right now in Auto and non-Auto?

Narayan Barasia: Capacity roughly is about 500,000 Units. That varies from factory-to-factory as what Mr. Pahilajani said earlier. Utilization, we have discussed is almost in the range of about 65-70%, and you know capacity is also a function of lot of engineering and improvements we can do, so at least for a couple of years I think we have enough capacity. So this capacity number can also be improved by line balancing and many other initiatives.

Moderator: Thank you. Next question is from the line of Vinay Rohit from ICICI Prudential Life Insurance. Please go ahead.

Vinay Rohit: What was the export revenue for nine months?

Narayan Barasia: Export revenue is in the range of 5 percentage to sales, we have seen a growth in terms of export revenues.

Moderator Thank you. I now hand the floor to Mr. Sunil Pahilajani for closing comments. Thank you.

Sunil Pahilajani Thank you very much for joining this call. What I would like to say is that though last quarter was challenging in terms of business, and this quarter looks like continuing to be challenging, but then we are, as a company, very strong on our product portfolio, we are adding more products, we are growing in new markets, we are working aggressively towards back end for cost control and efficiency improvement, taking all actions to protect profitability and protect our market share. All across businesses where you see business has declined, top line has declined, but our market share has either been the same or improved and I think we foresee turnaround in a quarter or two, we have chance to better utilize our capacities and better utilize our increased product range and efficiencies will give then better margins. The CPCB-2, I have already shared, is one opportunity for us to position ourselves better. Our focus continues to be there in improving our aftermarket business as well as international business. So these are two strong pillars which we have created and will be future growth engines. With that, I thank you all again.

Narayan Barasia: Thank you very much. We thank you for attending the session and we really appreciate your continued interest in our company.

Moderator: Thank you sir. On behalf of Greaves Cotton that concludes this conference call. Thank you for joining us. You may now disconnect your lines.