"Greaves Cotton Q1 FY13 Earnings Conference Call "

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Moderator Ladies and gentlemen good day and welcome to the Greaves Cotton Q1FY13 earnings conference call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call, please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I will now like to hand the conference over to Mr. Ashok Kumar Sonthalia, CFO of Greaves Cotton. Thank you and over to you sir.

Ashok Kumar Sonthalia Good Morning Everybody! This is Ashok Kumar Sonthalia - CFO of Greaves Cotton Limited and along with me I have Mr. Sunil Pahilajani - Managing Director & CEO of Greaves Cotton Limited. I would request Sunil to give you a brief overview and after that I will give you a financial overview and there after we will be open to questions. Over to you Sunil.

Sunil Pahilajani Good Morning Everybody! We are talking about quarter one ending June 2012. We have slightly increased our turnover as compared to last year and there is a reduction in profitability. On the whole, automotive schedule and sales all over the industry have gone down which has affected our sales as well as profitability. But I would say it is also partially recovered by several initiatives taken by the company in terms of controlling cost and reduction/ rationalization on fixed cost as well as variable cost. So net-net we are at 31.6 crore of PAT which is approximately 3.5 crores lower than last time. Going forward I see the automotive industry partially recovering, which will be positive for us. More so the initiatives we have taken on various fronts including controlling material cost, fixed cost and variable cost will give better outcome in subsequent quarters and will further help us to protect profitability in the volatile business environment. So the management team is much focused to protect business and to protect profitability.

Ashok Kumar Sonthalia I will give you an overview of the financial highlights for April to June period of financial year FY12-13. Net sales for the company were at 409 crores compared to 402 crores in the same period last year, which is a growth of about 2%**.** The profit after tax stood at 31.8 crores compared to Rs. 35 crores in the same quarter a year ago. But EBITDA margin has come down by 1.5% from 14.3% to 12.8% same quarter last year. This was primarily due to high employee cost which was up by 1.8% of the net sale. We have recovered some margin loss from the cost control initiatives and finally ended up at an EBITDA margin which was 1.5% lower.

Talking on segments, the engine segment grew about 7% where as other segments like infra equipment and others de-grew. To give you some more flavor of the infra segment, road have started showing signs of improvement while concrete was down significantly during the first quarter . The other income was higher in our P&L which was due to better treasury income and interest on income tax refunds. Now we are open for questions and we will be happy to answer your questions to the extent we can.

Moderator Sure sir, thank you very much. Ladies and gentleman, we will now begin the question and answer session. The first question is from Bhalchandra Shinde from B&K Securities, please go ahead.

Bhalchandra Shinde Is the high employee cost a one of item or will employee costs remain at these levels for the whole year?

Ashok Kumar Sonthalia This cost is for building the organization and preparing it for the next level of growth. Some key talent gaps have been identified and accordingly required skill sets have been brought on board. So e, there are some one-off costs when an organization is being developed, but I don't expect the number of Rs 36.56 crores of employee cost for the quarter to come down significantly. Going forward, the employee cost will remain between 35 and 36 crores. I don't see it going down because we are still in the process of building the organization; the task is not fully over. Some rationalizations are on card, better skill sets are being brought in to prepare for the growth agenda. So I expect the employee costs to remain at these levels of about 35 crores.

Bhalchandra Shinde Do you see margins deteriorating in FY13 or will they be maintained at FY12 levels?

Ashok Kumar Sonthalia Margins should not contract if the sales target or sales volumes are higher and the net revenue is higher. That will take care of additional employee costs. Currently, the employee costs are higher because quarter one sales were low and historically quarter one has been a slow quarter from Greaves perspective. But as we move forward and if business grows, which we are working on, the margin can be restored as the employee cost is not going to go up from here with the sales revenues.

Bhalchandra Shinde Can you give us a break up of engines? How automotive engines have grown and how agri equipments and gensets have grown?

Ashok Kumar Sonthalia Overall engine segment in value terms was better at 7%. In terms of volume we are kind of flat. Marginal increase would be around 1%. Auto engines and farm equipments were kind of flat compared to quarter one of last year. In auto segment, three-wheeler was down, but for us it was compensated by Tata Motors' volume coming in.

Bhalchandra Shinde How did Genset business do in Q1?

Sunil Pahilajani In Gensets, the business has been slightly better. Industrial engines also have been slightly better.

Bhalchandra Shinde Can we say around 10-15% growth?

Sunil Pahilajani In industrial engine, the growth would be 10%, but genset would be single digit growth.

Moderator Thank you very much. The next question is from Pritesh Chheda from Emkay Global, please go ahead.

Pritesh Chheda My question is with respect to engines. We saw that there was 7% odd growth. Could you help us solve the asymmetry in terms of volume performance in engines? The data which we looked at had actually showed a decline in the engine volume. So one, if you could tell us where this growth came in from? Secondly, what would be Tata Motors ramp - up monthly sale for us now?

Ashok Kumar Sonthalia As I said value wise, we are 7% higher. Volume wise we are kind of flat. And the overall three-wheeler market came down during the quarter but it was compensated by Tata Motors. Tata Motors is running around 4000-5000 engines per month at this point of time. So in the last quarter, we would have dispatched 13000-14000 engines and that is what compensated volume of about 10000-11000 degrowth from three-wheeler..

Pritesh Chheda Any other segment within engine?

Ashok Kumar Sonthalia In auto, the other thing which has helped us as the three-wheeler segment was growing slowly, were non auto applications like small tractors, our pump-sets, and marine engines and of course the focus on spare sales. All these things have improved considerably compared to quarter one last year.

Pritesh Chheda So that offset the extent of decline which was seen in three-wheelers?

Sunil Pahilajani Right.

Pritesh Chheda Do you see this trend continuing? Also I wanted to understand what special you would be doing in the non auto applications now?

Ashok Kumar Sonthalia I think Sunil will answer that.

Sunil Pahilajani Yes sure. We are trying our best to find all the alternate markets for the existing set of products whatever application, engineering we use. This covers automotive as well as non automotive. In non automotive there are several applications some of which Ashok mentioned like tractors, stationary application, industrial application and marine application. So we are promoting these and we are also trying to promote the same products to more smaller OEMs to de-risk our fluctuation coming from 1-2 customer.

Pritesh Chheda Is there a scope of an MOU type arrangement in the non auto applications incrementally?

Sunil Pahilajani I don't think so. These are not so large customers, unless we come across one like that. So far we don't foresee any MOU kind of arrangement, but there is a possibility of repeat orders and retail sale.

Pritesh Chheda Is it fair to assume that this particular segment would have seen an increase in contribution within the autos?

Sunil Pahilajani Well it has meaningful contribution.

Pritesh Chheda Okay. What would be the spares growth for the quarter?

Ashok Kumar Sonthalia The auto division already had a good spares and services net work. They normally used to have 20-21% share in their top line, but this quarter they have ended up to 24%. This is because of more aggressive marketing and better infrastructure. We moved to fully IT enabled warehouse in Shendra and we also have a portal which directly connects our dealer/ distributor to us. The portal is available to all our other businesses also, but auto distributors are using it extensively. So all these initiatives are being taken to protect their revenue and profitability and auto division is able to improve spares quite a bit, roughly 24% of the revenue.

Pritesh Chheda 24% of engines or 24%?

Ashok Kumar Sonthalia 24% of the automotive business revenue.

Pritesh Chheda Okay. My second question is with respect to cost. Should we say that we have normalized cost after those one off exercises which we had last year in fiscal 12? We had some one off activities, costs which are obviously other than employee. You have already commented on the employee costs but have the other one off costs normalized?

Ashok Kumar Sonthalia The major head which you are looking at other than employee cost are other expenses. I think that is still at an elevated level which will come down gradually as there are certain initiatives being taken, but there are certain pluses and certain minuses. In quarter four there was a big amount of advertising which was not that much in quarter one. It may come up slightly. As far as quarter one is concerned, there is opportunity to improve other expenses, not very significasnt, but this is at a high level. It will slightly go down as we progress.

Pritesh Chheda Lastly could you share your outlook on the industrial portfolio incrementally for say next 3-4 quarters, the auto portfolio and obviously the auto engines? Now the first two portfolios from the prospective of what's happening in the market and how are we going to off set that and the auto engine portfolio with respect to augmentation of it in terms of OEM clients?

Ashok Kumar Sonthalia Is the first question was about industrial and?

Pritesh Chheda Industrial and Agri. So market is tough, what could we do to off set that?

Ashok Kumar Sonthalia Okay let's take this one by one. Industrial engine business is not very old as far as Greaves cotton is concerned. We have been working on that side of the portfolio for the last one and half to two years. Though on a small base it is growing reasonably well and we are entering into newer segments. One promising segment where we have already started supplying is construction equipment and our first customer of course is the internal division which is our construction equipment division for transit mixer. Other third party sales and trials are also in process. Due to the success of our engine on our own equipment some trials are in process and they will finally mature as an order to us and a regular supply. The other segment in focus where some of the products are under trial is the agri equipment - large equipments like harvesters, rippers. Other than that they have the segments where they have already stabilized like fire fighting, marine, and others like road sweeping. There are various kinds of applications which are coming in like compressor, drilling etc. and auxiliary power where they are established. They are trying hard because that is an industrial segment where I think there is tough competition but there is a possibility to gain some market share and establish ourselves. Farm equipment first quarter has been flat. The impact of monsoon is both ways. If crops get destroyed than crop irrigation or crop area becomes smaller which impacts sale of implements. But I think there are a few days or few weeks to watch and see really what would happen. On the other hand, government supports gets enhanced in terms of subsidies, in terms of reviving the whole activity. So it's very difficult to say whether the impact would be negative, positive or it may remain neutral. But again in agri now we are focusing on the pump-set market of petrol kerosene which is maturing. Diesel still is growing and where we are consolidating our presence. There are electrical pumpset markets and tiller markets which are large markets and are growing rapidly. And then there are small implements where we are positioning ourselves very well which are in the take off stage in India. So from that growth may come. But from the monsoon angle, how it will finally play out, one need to wait and watch. In automotive, the focus is on one large OEM which is Tata Motors. Its vehicles are accepted and is gradually ramping up. Currently the volumes are about 4000-5000. Towards third quarter we should be expecting higher numbers every month as we progress. We do see some signs, some increase in demand like the inventories where the channel has been emptied out and again we see increased off take from our OEM. But right now it's too early to conclude on that whether that is a sustainable thing or not, we need to watch. But non-auto like marine application, diesel pump set, tractors are doing well. So not too bullish on auto volume for the next quarter, but we are progressing from this date in the positive direction.

Pritesh Chheda Do you want to give a monthly number on Tata Motors ramp up by quarter three?

Ashok Kumar Sonthalia I don't think we will able to give you a number. You never know how the market would behave. Currently it's 4000-5000 and festive season is always a good season. It may go up to whatever level. My guess is as good as your guess. Currently it's very difficult to comment on those numbers.

Moderator Thank you. The next question is from Ashi Anand from Kotak India focus Fund, please go ahead.

Ashi Anand I had a couple of questions both around margins, segmental margins. Firstly engines EBIT, you had actually mentioned during the analyst meet that we are taking a price increase in fourth quarter which was one of the reasons for the increase in EBIT margin in the engine segment in 4 Q. Now despite the price increase, margins have come down in the first quarter. I wanted to one understand the reason for the same and what is the outlook for margins going forward on the engine segment?

Ashok Kumar Sonthalia Okay. I think we did mention and we still say that in quarter four we got price enhancement and also we mentioned that we got the price increase which were retrospective in nature. They were applicable for quarter four and some of the previous months and we have got all coming in quarter four. Though, some part accumulation in accounting was done on a conservative basis, we got slightly better than that. So that is why quarter four engine margin looks better because it didn't have only quarter four price increase, but it has slightly quarter three in some case, quarter two, quarter one price increase also. Sometime it does happen the negotiation takes too much time and you are not sure what you are going to get and then finally its comes with a retrospective impact. The same goes true for us also when we give price increase to our vendors and we have to give retrospective because negotiation have gone pretty long, till they are concluded. So that's the quarter four scenario. It's not really comparable to quarter one from that respect. But quarter one is the level to look at. The only further improvement which we see from here is that our efforts on material cost and efficiency which the company as a whole and auto division particularly is working on and may be some improvement can come towards quarter 3 and quarter 4.

Ashi Anand Sir if we look at the engines EBIT margin, how do we look at the declining from last level to what extend would it be 100 bps, 200 bps? What is the kind of extend of margin decline that you could see in this segment?

Ashok Kumar Sonthalia It's difficult to put a number. We don't see it really declining. It would lot depend on the mix and which division does well, because there are a little differences within divisions in the product profile and the inter division engines. There is an industrial engine, genset, farm equipment and automotive which has different margins for small OEMs, larger OEMs, and non auto application. So it really depends on the play out of all these vvariables. The margin of quarter four cannot be benchmarked, quarter one is the right margin to look at. From here on may be some improvement which will come through internal cost control majors.

Ashi Anand Sir the only reason I am asking is because are you expecting it to fall on year on year ? If you look at the quarter one margin its actually lower than any of the previous quarters and the whole of the financial year. So its fix in the first quarter. So given the fact that we expecting only gradual improvement?

Ashok Kumar Sonthalia No the first quarter always has a little softness. You need to look at the four quarter trend. If you plot all the four quarters, quarter one always has lower margins because the sales are typically lower and we gradually pick up in quarter two. Quarter three seems to be the best of the quarter and then quarter four is also slightly down from quarter three. It's not too much cyclical but has a impact on margin. Once the incremental sales come in, they really impact the margin. So the same trend from this level you can think that we will try to achieve during the year. So these are the margin on lower side for the year until unless something goes wrong further and from here the normal improvement because of higher sales would reflect on.

Ashi Anand I just wanted to understand the outlook on the infra EBIT? You mentioned that you see some improvement in road so based on what you have seen right now? What is the kind of outlook? Do you think the outlook kind of mentioned that you are hoping to breakeven in the current year? Do you still have visibility of that or do you think that could be challenging?

Ashok Kumar Sonthalia If you look at quarter one performance even almost at the same level of sales, we are able to improve margin though its still on the negative side. But we hoped that road improvement would be kind of incremental to the whole portfolio, but now concrete have come down. So right now it is kind of compensating like road is holding up and then concrete is down. So for the full year outlook, commenting right now is difficult, but we hope to be close to break even because some of the new products which we did with the Samil Technology of Korea should be available in quarter four for launch. They will not impact much profitability and sale, but some of the other initiative and some of the other in-house launches which we have done on the batching plant would help on the concrete side. So if the concrete market looks up post second quarter, typically monsoon quarter is a bit slow, we hope that will be very close to breakeven.

Moderator Thank you. The next question is from the line of Bhargav from Ambit capital, please go ahead.

Bhargav This is Bhargav calling from Ambit Capital. I have three questions, number one you highlighted that you are looking at recruiting employees for building organization for the next level of growth. If you can highlight in terms of what are the pedigree of these employees? Are these employees one which will help you in breaking open some other market so if you highlight something on that? Second we hear the Piaggio is looking at launching three new LCV model, half ton, one ton and one and a half ton. I was just wondering if Greaves Cotton would be supplying engines to them. And third is there any incremental development on the talks which we are having with the auto companies for supplying engines. Thank you.

Sunil Pahilajani About the team our goal is as follows: we are strengthening the areas of skill wherever we have gaps. We are strengthening ourselves for next level which means having more skills in the field of R&D, engineering and marketing skills. These are primarily the areas which give us growth and value. At the operation side, there is no need and other staff function side there is no need. We are also doing some rationalization and reduction based on improving efficiency. And third area where there is some increases addition of management strength, management bandwidth that is from the point of view of focusing on each of the business, to be able to improve profitability on each of the businesses in a focused manner.

Bhargav So sir you highlighted skills in R&D and engineering, can you be a bit specific I mean which particular segment you are trying to open up for Greaves Cotton?

Sunil Pahilajani As you are aware in construction equipment we are gone into technical collaboration and we are going to launch some new range of products in certain areas like automotive. We just mentioned that we are trying to do application of our existing products to other uses in industrial and non automotive area. So we have been sharing various product or application which we are offering to market and all this certainly need some backup engineering and R&D activities. And at the same time to implement it, it also needs sales and marketing force. So these are the two areas we are addressing or strengthening.

Bhargav So sir is there any gestation period? When can we see the next level of growth coming? In this year investing so in terms of your internal targets by when can we see this next level of growth coming in?

Sunil Pahilajani I think such activities give return two to three quarters' time, not pretty long but it takes two to three quarters and product modification and marketing activities or so on so forth.

Ashok Kumar Sonthalia **T**he other question I think you had about Piaggio launching LCVs half ton, one ton and one and a half ton. So keeping into consideration the confidentiality aspect of it one thing which I can tell you that as far as the larger LCV, I think they are trying to do on their own and we are in constant dialogue and touch with them for some of the other engines for which there is a potential to supply to them for their vehicle platform. We will not be able to give much detail on this right now, but we are in discussions with them and our partnership remains pretty strong and intact on that.

Bhargav Sir when you say large meaning 1.5 ton is out, but how much 1 ton?

Ashok Kumar Sonthalia That is what I cannot say much about and that at this stage**,** but we are in touch with them. We are in a constant dialogue with them when the appropriate time would be there and when we would sign something, we will definitely come to you informing about that. And similar thing is applicable for other OEMs also where we keep on talking. Something, which you know, has fructified to enhance the revenue visibility. Atul was always a customer, but in order to improve revenue visibility and the customer lock-in, we signed a seven year agreement and we informed everyone. Similarly where we are closer, when we are signing something with either Piaggio or someone else, we will definitely come back and inform.

Bhargav Sir lastly on the auto side, is there any development on the automobile segment?

Ashok Kumar Sonthalia By automobile what you mean?

Bhargav You highlighted that you are looking at the compact segment of four wheeler cars so is there any development on that front?

Sunil Pahilajani No there is no development so far. The only thing we are trying is to be specific is to use or applicate our existing engines to some of the products and if we are successful, we will be happy to share that.

Bhargav Sir up to what BHP can we go as far as our technical expertise is concerned?

Sunil Pahilajani There is no such limit on technical expertise. We do have certain products but, it does not limit our technical expertise in terms of the BHP.

Bhargav Just a last question, sir technically can we do a 37 BHP nano diesel engine?

Sunil Pahilajani Yes, if you are saying technically yes we can do any range but then to create a product it's a gestation period and investment. And that we do only when we are sure that we have some market or customers.

Moderator Thank you, the next question is from Akshay Soni from Morgan Stanley, please go ahead.

Akshay Soni Yes sir basically you have been talking about building up the organization so this might sound like a little bit of repetition. You did say that over the next two to three quarters, you are looking at getting some results here, but per se is there a long term goal also in mind typically or is it just looking at the next two or three quarters or do you have like a three to four year kind of target in mind which is basically the next level of growth that you are targeting?

Ashok Kumar Sonthalia Absolutely I think when we build organization and we strengthen product portfolio or we start looking into new markets, aim is always a medium term and long term. What I answered to that gentleman's question was, when will it start giving result. So it will start giving result in a few quarters that is what I mentioned and then we said that it will be growing step-by-step as we plan and all that has to be seen and worked out yet.

Sunil Pahilajani Now just to add here you know just for an incremental growth or growing along with economy would not require this kind of input to the organization. So that input is of course more than what is needed to maintain a status quo. So we are definitely for the longer term period and looking at a higher growth rates and trying to achieve that when the economy really present itself the opportunity. So it is that investment in the organization which is currently being done

Akshay Soni I have sir second question could you also tell me what is the size of the exposure that you would have in power gen today and what is your outlook would be on that?

Sunil Pahilajani Powergen, okay it has to be seen if you look at overall market. I think we doesn't have sizable presence but if you dissect that and if you look at 300 to 500 KVA I think we are reasonable player with 8-10% market but in the 25 to 200, we are establishing ourselves and the new engine which is a G series engines is getting accepted better we are working on the cost the and we are getting scale there and we will improve our presence but right now it may not be more than 4-5%. And the major volume which comes in terms of number of engine or number of gensets which is the sub-25 KVA range, they are the telecom towers and all the residential and commercial you know those 5-10-15-20 KVAs gensets and that is largest quantity where we are not present. So we are working on offering which perhaps will able to introduce to cater to the segment requirement and we are also working on how to go on the higher side of the range but these two things are again I would say not immediate may be we have to still wait for two quarters to see our offerings to be in the market on the lower range, where we are playing which is the 25 kva to 500 kva. In higher segment, we still are reasonable 8-10% and in the medium segment we are very small 4-5% player. Overall if you look at the genset market, it may be more than 2.5 to 3%, if you take the entire genset market in India.

Akshay Soni Understood sir and just in terms of the little bit of color on the 300-500 size, one if you could also say you know what proportion it is of your revenues and two you know the entire genset that you are in right now and two in terms of what's really driving the growth in the 300-500 and what would you expect going forward from here and when you said you are getting into larger size you are looking to get into larger size is also what might be the size numbers that you are thinking about at the top end?

Ashok Kumar Sonthalia Top end, we may go up to 1 megawatt. At the best 750 and 1 megawatt and on the lower side we are actually looking at 10 and 15 kind of KV where we hopefully be there during this financial year in the some form or the other. As far as the growth rates are concerned if you look at various market research reports on genset industry. They are not varying too much between these segments. They are all between 7-9% kind of growth rates which have been projected for various segments. But in terms of volume quantity I think the smaller segment would continue to drive and that is how if you look at the standing of various genset players in terms of quantity still dominated or led by Kirloskar then Mahindra and in terms of value it is led by Cummins and then Kirloskar and then other players falls into play, 300 KV to 500KV or 200 to 500 KV where we have some standing in the market. We are also expected to grow at a same 7-8% rate depending on ysometime it comes under pressure, in some quarter it goes better, but that is the long term growth rates which one can see here.

Akshay Soni Understood sir and just to repeat the last thing which I didn't get was if you could say what kind of number this might be as a proportion of your revenues?

Ashok Kumar Sonthalia The genset and industrial engine business is about 15% of our company revenue.

Moderator Thank you. The next question is from Aparna Shankar from SBI Mutual fund, please go ahead.

Aparna Shankar I just wanted to understand few strategic things most of our agreements are getting over by 2016. So how ally the management is for this agreement falling apart from then onwards. What are the de-risking arrangements you are doing? And second thing is that we are seeing it agreement done for seven years period what is the thought process behind it?

Ashok Kumar Sonthalia So first question you are talking about our automotive business contracts -mainly you are talking about Piaggio so in a way some are going up to 2016 to 2018 like that. So this is just because there have to be a period for your contract and we had a substantial period of contract. Now what matters is relationship and then continuation of that contract. We are pretty confident and we don't see any doubt in that. We are working on next level of regulatory requirements of engines and next level of need what is required. And coming to your point of Atul Auto, this was you can say just to firm up relationship which was already there and which was not penned down in the form of a contract, so we did it. From both sides, keenness was thereand therefore, we formalized it. And there was no other aspect to it.

Sunil Pahilajani Other that was to add you know like from any perspective you will appreciate that any thing beyond 5-year and 5 year and above start becoming a long term contract you know and even 3 year beyond and so every contract has to have a life and it is basically mutual discussion on that. No one dictates it. Neither we can dictate nor they. It has to be 10 years or 7 years. It is just it emerges out of discussion and then finally it is frozen. So that is why you have all sorts of agreement 8 years PVPL, 10 years Tata Motor, Mahindra & Mahindra 5 years and Atul is now 7 years and as it was mentioned we don't see any problem on renewal but anyone would not sign the 20 year contract. It is a too longer period to kind of commit to each other at least legally, but relationship wise I think we are going strong with each one of them with whom we have the contract.

Aparna Shankar Okay my second question is that what is going to be those factors which will vary the scale to OEM deciding in-house manufacturing than outsourcing it to you?

Ashok Kumar Sonthalia This we have talked many times and I think you also understand that these are two three thing in the certain niche which is small diesel engine. I think this segment has come to a stage where we own technology. We are able to evolve technology and we are able to successively meet f all regulatory requirement. And the business need in terms of efficiency, economy and all other thing like Tata Motors said they wanted, different kind of noise level, they wanted different kind of other features in their engine. All those things we are able to do and the kind of scale which we enjoy in this segment is unparalleled in India. So we have better cost, we have better speed to develop engine if a customer wants us to do so. And if suppose they want to use our ready engine with some adaptation, then the speed can be even higher. We are talking to say some of the OEMs who talk about our existing engines including Piaggio also is a possibility that y one more engine from our stable can go to them or to the other OEM. So its speed to have the right product and it's the cost. These are the two elements I think which drive the decision and of course investment is there. They have to create, if they don't have right capacity and right infrastructure, they have to do all those things. So, all these things are in our favor. These decisions are not easy decision that is why they take quite long time and that is how announcement are not every now and then that we have signed the contracts. It takes almost a year or two some time in a six months to sign up with someone and then to come up with supply.

Aparna Shankar Yeah but I mean tell me if I am wrong. As I understand only 15 to 20 % of the cost goes into setting of manufacturing base, 15-20% cost is what is required for engine manufacturing so in fact the body and paint short is a highest cost composition contributor for this. So I am really worried I mean when I am thinking about Tata Motors, if the scale up happens rapid and if you are god blessing if you do 2 lakhs units in some year or something like that, will that the point you fail would be little you know deciding factors when the Tata would start thinking of moving that manufacturing in-house.

Ashok Kumar Sonthalia I think no one can rule out but….

Sunil Pahilajani It just something very difficult to answer because one has to give a value proposition to be in business, is it not? It can be 2 lakh or it can be 20 lakhs. 2 lakh is a big number by Indian standard today but globally it is a very minor very small number and whether we continue to bring value proposition to customer, itwill keep us in business otherwise not. I think we are capable of doing that and let us see how we perform.

Aparna Shankar Okay and last question sir can you please give us the current capacities in different segment and what is the addition you are planning for this year and next year, like I would like to know what is automotive agro, equipment, auxiliary, industrial which is not there in the annual report?

Sunil Pahilajani Okay let me answer this. In farm equipment engine space where we manufacture those petrol kerosene engines we had almost created capacity last year for which the work almost got completed during initial part of this year. So now we have a capacity to produce 160,000 engines. From 110 it has gone up to 160,000 and that is in place if we want to do something. Right now of course demand is not reaching to that level. In terms of auto, we were working on Ranipet expansion which would have taken us to 0.5 million capacity for auto division manufactured engines which can be used for automotive purpose and non-auto also. But what we have done that we completed the Ranipet expansion in a manner where we have full assembly capacity of 525000 put together Aurangabad and Ranipet, but we have curtail or deferred some of the machining capacity in view of the kind of scenario which we are operating. Fortunately for us creating capacities are not very-very long gestation period thing and as the market demand improves, we will bring in that CAPEX. But for the time being, the machining capacity has been deferred and assembly capacity has been completed so that if the demand moves up certainly we still have ability to deliver our commitment and then work on our back-end of machinery.

Aparna Shankar So value wise its how much would be this machining capacity you would have spend?

Sunil Pahilajani You see Ranipet when we started you know from 500 engines a day to 1000 engines a day which was addition of 150000 engines and the budget was about 50 crores for that Brownfield expansion. So I think we will stop at about 30 crores or something. Keep 20 crores ….. So it does not mean it has been dropped but we would be watchful and may be the next quarter and take a call on that.

Moderator Thank you. The next question is from Ajay Vora from Enam Asset Management, please go ahead.

Ajay Vora Just want to understand what would be your CAPEX for this year and next?

Sunil Pahilajani When we had met in May after the closure of last financial year, we had mentioned that we intent to do about 150 crores and which was primarily to complete the capacity expansion which were under way and the technology R&D setups and some of the new series of engines which we are working on. But in view of the economic scenario and the demand scenario, which is going on and you would have heard my response to the last question that some of the capacity thing which we are seeing noncritical, we are kind of deferring them to the third quarter review and then take a call after second quarter. For R&D technology product development they will continue to happen. So we believe as we stand today for the year we have a visibility CAPEX depending on current environment should be about 90 crores.

Ajay Vora For FY13 this year.

Sunil Pahilajani But when we again review situation at the end of quarter 2 earlier or slightly later, and if there is a demand pickup then we may reinstate some of the things. But as of today it is between 90 to 100 crores.

Ajay Vora And next year?

Sunil Pahilajani Next year would be difficult to comment because we are in the planning process a bit long term and then we will able to form up what should be the next year CAPEX plan.

Ajay Vora Okay and sir generally at what utilization rate are each of the product categories operating right now? Or what visibility do we have on say utilization rates for each of the product category?

Sunil Pahilajani Like farm equipment as I said we have now capacity of 150,000 to 160000 engines and right now we are operating about 110,000-115,000. In auto, capacity is not fully integrated like I said machining we have not created. We have assembly. But if you look at the Shendra plant capacity, which was say 375,000 engines apart from Ranipet, then we are running at 100% and but now we have created some additional assembly capacity which is unused at this point of time. But that assembly capacity will get completed now, but it is expected to remain perhaps unused for few months. And in genset and construction we always said that in industrial engine we have enough capacity to take care of next one or two years of growth because those have been invested even pre-crisis level of 2008 and they are yet to reach particularly infra equipment segment and yet to reach to those levels.

Ajay Vora So what is the capacity we have over there?

Sunil Pahilajani Like in these jobs, defining capacity is extremely difficult. They are more fabrication assembly, but in terms of value I think construction business without major investment can go up to 400-500 crores.

Ajay Vora So all put together, sir what sort of growth have you looking at for the top-line?

Sunil Pahilajani It is not in our hand.

Ajay Vora No sir. Just a ballpark. Just the direction where you are heading currently?

Sunil Pahilajani We are going along with the economy and market and taking initiatives to protect our position and improve from there. It is very difficult to tell you what number we will achieve by end of FY13.

Ajay Vora And sir on margin you said that this quarter will be the lowest margin for the year. So can we say that margins for full year should be better from current levels?

Sunil Pahilajani	We are definitely trying to improve. Let me tell you and we believe first quarter typically is lowest sale value quarter for Greaves. The 400 whatever 9-10 crores we have clocked should be the lowest numbers and from here on we should improve. And that gives me the confidence that margin can be protected and slightly improved from here.
Ajay Vora	But generally on the environment do you see slow down so basically than can hit us to some extent?
Sunil Pahilajani	Historically, during quarter 1 to quarter 2 our growth is slightly muted but we will grow from here. You know quarter one always has agri business out of action. Construction, etc., also pick up. The quarter three is the best quarter where automotive, construction, farm equipment all businesses are running at their peak so we should see better margins.
Ajay Vora	And you are getting enough confidence from your customers for the full year. Right?
Sunil Pahilajani	So far it is okay with the automotive customers and others.
Moderator	Thank you. Ladies and gentleman due to time constrain we will take on last question from Sanjeev Zarbade from Kotak Securities, please go ahead.
Sanjeev Zarbade	Sir I wanted you response on one of the states who have probably mandated switching over to gas-based engines for three-wheelers. So how are we chased for that?
Ashok Kumar Sonthalia	We have just talked about that. We are yet to assess the impact and how it will play out. Gujarat is a good market but I think it's not something which will really impact us. To be frank and honest enough, we have also seen that, we are trying to assess the impact, we have not yet reached to a conclusion to whether it will have any significant impact or not. And what should be our strategy to counter such kind of developments which may be possible somewhere else also.
Sanjeev Zarbade	Okay. I just needed one data point. Is it possible to share the overall volumes engine numbers in this quarter and the full year in the previous fiscal?
Ashok Kumar Sonthalia	We can give you some flavor. Automotive engine was about 90-91000 during this quarter and last full year it was about 380,000 or 381,000. Farm equipment was about 105,000 engines and this quarter they would be about 27000-28000 engines. Others like IE and Genset are a few thousand, nothing which would be significant.
Moderator	Thank you. Ladies and gentleman that was the last question. I now hand the conference over to Mr. Ashok Kumar Sonthalia for closing comments.

Ashok Kumar Sonthalia Okay first of all, let me thank you all for joining this call. We have tried to answer your concerns and questions as far as possible. Just to reiterate or summarize the whole thing, as mentioned by Sunil, the company is taking several initiatives on organization building and market development and product development. This takes a few quarters in the short term to start showing results and of course these auger well for the long term growth sustainability point of view of the company. And, in terms of the operation, the economic environment is challenging. In spite of that we have tried to control our cost, improve our efficiency, working capital management has been tighter, and if you look at our working capital numbers they have improved. So the company is still generating healthy cash, still have strong balance sheets, still has ability to invest into areas where we are currently working. And therefore we are hopeful that second half of the year should bring some optimism in the environment and business demand and particularly quarter 3 and quarter 4 should auger well for the company. So thank you very much once again for joining the call.

Moderator Thank you very much gentleman of the management. On behalf of Greaves Cotton, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.