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Greaves Cotton Limited Q4 FY15 Earnings Conference Call

May 15, 2015

Moderators:

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

Mr. Narayan Barasia - CFO, Greaves Cotton Limited.

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Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY15 Earnings Conference Call of Greaves Cotton Ltd. We have with us today on the call Mr. Sunil Pahilajani – MD & CEO and Mr. Narayan Barasia – CFO. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the 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 the conference over to Mr. Sunil Pahilajani. Thank you and over to you sir.

Sunil Pahilajani: Good afternoon, ladies and gentlemen. This is Sunil Pahilajani and thank you for joining our call. As you see this Quarter’s Annual Results, overall business environment is showing hope and recovery. We have seen in our businesses on automotive, power and aftermarket a growth and only area where we have yet to see recovery is farming equipment. We have been able to maintain our focus as promised in new development and extension of our markets. We have been able to deliver higher growth in bottom-line and we have been able to contain material cost and overhead cost and make it much tighter financial control. You have also seen that we have reduced Working Capital and generated Cash. We have maintained our market share in all the key segments. We have continued to invest in R&D and new product development and strengthening talent and distribution. So overall I am very hopeful that we are on right path and if it is getting better and better. With this I hand over this call to my colleague Narayan 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 earning update document. So I will quickly take you through the financial results for Greaves Cotton Ltd. for the 4th Quarter January to March 2015. As you may be aware that we have closed the manufacturing operation in infrastructure business and we should exclude infrastructure business to understand the true performance of the company.

The Net Revenue for the Company for the Quarter is recorded at 393 crores as against 435 crores in the same period last year recording a decline of 10%. However, the Net Revenue declined only by 3% for 12 month period ending 31st March 2015. The Net Revenue excluding infrastructure business, however, has grown by 3 percentage points for the 12 month period ending 31st March 2015. The material cost reduction and value engineering initiatives are giving good results. Employee cost and Other Expenses were also well in very tight control. The PAT for the quarter is reported at 24 crores as against 51 crores for the quarter previous year. EBITDA margin as you know has already improved from 11.5% as against 10.6% for the corresponding quarter last year.

So at this point of time let me open it for questions. Thank you.

Moderator: Thank you very much sir. Participants, we will now begin with the question and answer session. We have the first question from the line of Amit Mahawar from Edelweiss. Please go ahead.

Amit Mahawar: I wanted to ask a couple of questions. First one on the inventory write-off that we have taken, is it the same inventory write-off that we have taken in Q3 on account of gensets due to change in the compliance norms?

Narayan Barasia: Yes. This is inventory is for the change in the compliance norms, you are absolutely right.

Amit Mahawar: Because what I recollect in Q3 you mentioned that we won't be seeing any sort of inventory write-offs in coming quarters, so I was just trying to ask that it's again on the same thing?

Narayan Barasia: So in Quarter 3 the inventory provision was not for emission change but was largely for infrastructure business and what we said in the Quarter 3 was that no further write-off is expected on infrastructure business because of the closing down of the manufacturing operation in infrastructure business. And so if you look at the Quarter 4 financial there is no provision for any item under infrastructure business.

Amit Mahawar: Okay alright. Sir, going forward in the infra business what kind of losses because what I recollect is in earlier chat you actually broadly indicated that we should expect around 3 to 4 quarter of quarterly losses in the infra business?

Narayan Barasia: Yes, so that was for the period ending March 2015, now we don't expect any losses to come in infrastructure business.

Amit Mahawar: So infra business no losses as such?

Narayan Barasia: Yes.

Amit Mahawar: But I think we would be continuing some sort of trading business which you mentioned earlier.

Narayan Barasia: Yes. So trading business obviously are with very lower expenditure base, so if there is any losses it will be very minimal.

Amit Mahawar: Okay. Sir, my second question was on you have seen that the rule will demand has been slowing down considerably now so what is our outlook on the agri business?

Narayan Barasia: Agri business has been under pressure even for the last financial year because of the slowdown of the release of subsidy, so monsoon definitely is not that great this year so we are seeing some implications in the Quarter 1. We hope that things should improve by Quarter 2, Quarter 3 as we go along.

Sunil Pahilajani: In addition to what Narayan mentioned you can see all across country the agri business is suffering on various accounts, damage of crops and subsidy not getting released, a lot of unfortunate things happening with farmers, so overall business is very difficult and I think now it is being looked into by various state governments or governments and we hope that subsidies are coming through and then we can see this business recovering. The demand doesn't change, it's a question of deferring the demand due to release of subsidy.

Amit Mahawar: So definitely the first half looks very challenging in the agri business, the second half maybe the demand picks up.

Sunil Pahilajani: Yeah we hope so.

Amit Mahawar: Okay sir, finally if you can actually give us the volumes for the company and the industry for Q4 as well as for the full year FY15 between 3 wheeler and 4 wheeler.

Narayan Barasia: So 3 wheeler we did a volume of about 75,000 which is almost the same for the Quarter 4 last year. 4 wheeler is again the same volume about 10,000 engines for the quarter as well as the same number for the quarter for last year.

Amit Mahawar: Okay. And sir, if you can…..

Moderator: Sorry to interrupt Mr. Mahawar, sir for further question I will request you to come back in the queue?

Amit Mahawar: Sure. Thank you.

Moderator: Thank you. Our next question is from the line of Bhalchandra Shinde from Batlivala & Karani Securities. Please go ahead.

Bhalchandra Shinde: Good afternoon sir. Regarding rural income as we know that rural income has lowered down, how much impact we see in the diesel 3 wheelers because I think diesel 3 wheelers will be largely catering into the rural market?

Sunil Pahilajani: Rural market has a share of diesel 3 wheeler but it is lot of sub-urban, lot of cargo and lot of other applications also. So you are right it will affect its growth and it can affect its growth if rural income and low and any income from that matter can affect the transportation needs. You are right, but very difficult to project in terms of its implication, but it will certainly have some impact.

Bhalchandra Shinde: And sir in gensets we are introducing more products also as you had communicated last time also in further products for CPCB-II compliance, what kind of growth we see because of this new product introduction and are we picking up on the genset side?

Sunil Pahilajani: Yes you are right; with CPCB-II products now we have already almost launched all the products except one node which will be launched shortly, so we see very good profitability impact from that point of view. There will be sales impact but there is a bigger profitability benefit because of margins.

Bhalchandra Shinde: Okay. And sir, regarding customer additions have we seen or are we expecting any customer additions in automotive engines in near term?

Sunil Pahilajani: Yes we are expecting.

Bhalchandra Shinde: So by when we can say that we may expect, any timeline if you can specify?

Sunil Pahilajani: Yeah I think during course of next two quarters we should see some progress.

Bhalchandra Shinde: In automotive engines?

Sunil Pahilajani: Yes, I am hoping so.

Bhalchandra Shinde: Okay. And lastly sir just one thing, if you can give the numbers for pumpsets and gensets also, pumpset engines and genset engines?

Narayan Barasia: So pumpset was down by about 10% for the quarter, this quarter it is 22,000 and last quarter it was 25,000. Tiller is almost the same about 1000 units.

Bhalchandra Shinde: And gensets?

Sunil Pahilajani: Genset is again same. It didn’t grow, so for the year number was about 2000 and so for the quarter was roughly about 500-600.

Bhalchandra Shinde: Okay, thank you very much.

Moderator: Thank you. Our next question is from the line of Bhargav Buddhadev from Ambit Capital. Please go ahead.

Bhargav Buddhadev: Good afternoon sir, thank you for the opportunity. Sir what could be the sustainable EBITDA margin in FY16 now that the infra business is gone?

Narayan Barasia: EBITDA is continuously improving and so we expect all the good things we have done on material cost to sustain. Overhead reduction also has happened quite a bit in the last two years and we expect this overhead reduction to continue in the next year. So we expect the EBITDA margin excluding all the inventory write-offs etc., which we have gone through, should continue for the next financial year.

Bhargav Buddhadev: So what could be the number? Would it be around 15-16% EBITDA margin for FY16?

Narayan Barasia: Now in the quarter we are about 11.5% as you have seen 11.5, so we don't expect 15-16 but yes 11.5 excluding all the one-off issues we had we should be able to retain that.

Bhargav Buddhadev: But that is also including you're infra losses, so infra losses should continue or how does it work?

Narayan Barasia: We discussed in the first question, infra loss is almost over and we don't expect any further infra losses to continue.

Bhargav Buddhadev: Okay. And sir in terms of opening remarks you had highlighted that you have invested into new product developments, could you give some more clarity in terms of which area are you talking about, would it be 3 wheelers, 4 wheelers?

Sunil Pahilajani: In terms of new products it is almost all the segments of our business. In engines if you are saying we are yes, launching new engine solutions which will be available for all the 3 wheelers and 4 wheelers and higher tonnage 4 wheelers also and then we are also launching a range of new agri implements, agri mechanized equipment. We are also launching new range of water pumps. We are also launching new range of gensets, so it is I think all across our businesses.

Bhargav Buddhadev: So in 3 wheelers what could be the new product which you might be launching?

Sunil Pahilajani: We are looking at certain improved solutions. We are also looking at higher power solutions because today market need is quite varied, it is not one level power solution only, so we are looking at various options for customers.

Bhargav Buddhadev: And this new sign up which you are guiding for, would that be on the 3 wheeler side or on the 4 wheeler side?

Sunil Pahilajani: That is difficult to comment today but we are progressing well on new businesses.

Bhargav Buddhadev: Okay. And sir on Piaggio the contract is expiring I think in a year's time so what do you believe, would that get renewed?

Sunil Pahilajani: I think we have a long term relationship so that agreement timing should not matter.

Bhargav Buddhadev: Okay, so it shouldn't be a challenge to renew it?

Sunil Pahilajani: I don’t think so.

Bhargav Buddhadev: And sir you have accumulated lots of cash on the Balance Sheet but you haven't declared a lot of dividend, so what is the game plan for that additional cash which you have on the Balance Sheet? You have about 350 crores of cash.

Sunil Pahilajani: I think we have declared dividend as much as we could permissible. We have declared maximum dividend we could and certainly we have a game plan for growth and we will be working on that as well.

Bhargav Buddhadev: So basically if this new sign up happens you will have to deploy cash to set up a new assembly line, is it?

Sunil Pahilajani: Well, we already have lot of capacity. Let's see whether we need to invest much there, but then we are also investing in growth as I said, new products, new avenues and so ultimately we have to look at medium-term and long-term growth.

Bhargav Buddhadev: On the SCV side after Tata there hasn't been much success, so do you expect more OEMs to enter into this space, the Ace Zip kind of a space given that possibly in a year or two GST rollout might happen.

Sunil Pahilajani: You must have observed continuously and consistently this market trend is changing and there was a time when Ace was the winner, then there was a time when another Ashok Leyland vehicle became winner, Dost became winner, there will be something else later on, so that change will happen and then more solutions will come.

Bhargav Buddhadev: Right now on the SCV side we can go up to what tonnage?

Sunil Pahilajani: We are able to offer solution up to 3.5 tons.

Bhargav Buddhadev: 3.5 tons. So Ace Zip is a pretty small vehicle, right?

Sunil Pahilajani: Yes, a very small vehicle.

Bhargav Buddhadev: So have we had any success, we have a solution but is there any talks going on?

Sunil Pahilajani: Yes talks are going on and we have actually entered this range of solutions only now. We have been working on it for last two years as I shared with you earlier.

Bhargav Buddhadev: So you have entered meaning you have…

Sunil Pahilajani: Entered means we have started offering, we do not have anything….

Bhargav Buddhadev: No sign-ups?

Sunil Pahilajani: But as we succeed we will be happy to declare.

Bhargav Buddhadev: Okay, thank you for your time I will come back in the queue.

Moderator: Thank you. Our next question is from the line of Pritesh Chheda from Emkay Global. Please go ahead.

Pritesh Chheda: Thank you for the opportunity. Few data points I wanted to take. For the full year that is FY15 what would have been the auto growth, auto engines growth, what would have been the agri growth and what would have been the gensets growth?

Narayan Barasia: In terms of volume, the genset is almost flat, the farm overall as the portfolio declined by about 8 to 10% and 3 wheeler has grown by 5 to 6% but 4 wheeler declined by about 15 to 18%.

Pritesh Chheda: Okay. I will presume that this has to be similar for value as well there would be hardly any price changes.

Narayan Barasia: Yes, price always changes so generally a price will be a 1-2% plus minus.

Pritesh Chheda: Yeah okay. My second question is what is your assessment on the tillers market and what has been the performance in the tillers market in FY15 and what is your assessment in the due future?

Narayan Barasia: So, tiller is a very subsidy driven business and FY15 has seen a slowdown of subsidy release from the government so tiller business as an industry has suffered, so we also suffered as well so there was a decline by about 8 to 10% in volume term. Going forward there are two factors one is the subsidy continues to be a question and then the monsoon. We expect subsidy release to increase because of our poor monsoon and so tiller should actually get back to its own fort.

Pritesh Chheda: In your opinion what was the issue with respect to subsidy release, has there been review or some other….?

Narayan Barasia: No, there was just a slowdown of release of subsidy, that is all there was nothing else.

Pritesh Chheda: Okay, then how about the competition in this space?

Narayan Barasia: The competition also suffered equally, so the power tiller industry suffered and so everyone equally suffered.

Pritesh Chheda: Okay. What is the progress on the larger ambition that we have. This question is from Mr. Pulzani, that we a couple of years back talked about progress from say one cylinder and above in terms of product line and our vision moved instead of last mile transport to a much larger goal or ambitions, so what is the progress there on the product line side and what is the progress there on the commercial business side?

Sunil Pahilajani: So I just mentioned in the last question that we are now able to offer solution up to 3.5 tons so we have a full range of solutions which means not only single cylinder but multi-cylinders, engine solutions and we are trying to promote that. We do not have anything to declare in terms of success yet but we are offering a full range now.

Pritesh Chheda: Okay. Lastly just want to check what is your fair assessment for the LCV growth and the 3 wheeler growth and obviously at the beginning of the year you would have got some feelers on bookings etc. with you. So what should be the best guess for these two industries growth?

Sunil Pahilajani: 3 wheeler industry growth is in single digit. LCV we do not deal at all. So I do not have any idea about LCV.

Pritesh Chheda: Sorry SCV.

Sunil Pahilajani: SCV, if you are talking about our range of products, yes we see growth there at least in cargo we see good growth especially with the e-commerce and other opportunities coming.

Pritesh Chheda: Have the drop in volumes bottomed out because MHCV has started picking up it's been some months or quarters now but we don't see that happening in SCVs and LCVs.

Sunil Pahilajani: Yeah we hope in subsequent 2-3 quarters it should grow because there is every reason to grow.

Pritesh Chheda: Okay.

Moderator: Sorry to interrupt Mr. Chheda, for further questions I request you to come back in the queue. Our next question is from the line of Bharat Sheth from Quest Investments. Please go ahead.

Bharat Sheth: Hi Sir, the first question is on this EBIT margin. If you really look at in segmental results our EBIT margin for engine business full year also has dropped little, so whatever we are talking of initiative or value engineering so where is it really reflected, can you give some sense or why it has declined?

Narayan Barasia: You are talking about the quarter or you are talking about the year?

Bharat Sheth: Full year as well as quarter both.

Narayan Barasia: So EBIT margin has improved. What has happened is the overall profitability has declined and that has declined because of the topline overall getting declined. So if you look at the EBIT margin has actually improved.

Bharat Sheth: If we look at reported number the engine business the growth was 3% whereas margin has declined from 16.2 to 15.8%.

Narayan Barasia: That is for the quarter isn't it?

Bharat Sheth: No for full year. I am talking for full year. So what is the reason and how do we see there, I mean whatever initiative that we have taken.

Narayan Barasia: So when you look at EBIT margin I think what you are also doing is there is some inventory provision which we have made for the change engine emission we have got. So you are also deducting those provisions as well, isn't it?

Bharat Sheth: No whatever we have reported Sir.

Narayan Barasia: Yeah, so I am also talking of the same thing, so if you exclude the provisions we have made on the inventory, the EBIT margin has actually improved.

Bharat Sheth: Can you quantify how much provision that we made?

Narayan Barasia: If you look at the statement there is a detail given in terms of the provision we have made in inventory. So if you exclude that you will see that the EBITDA margin has actually improved.

Bharat Sheth: Going ahead how much CAPEX and on R&D side efforts, can you elaborate a little more?

Narayan Barasia: So we continue to invest behind product development on all fronts whether it is genset business, farm equipment and auto engines, so this is a continuous process these product development is a minimum 1.5 to 3 years for the product to get ready so these efforts are very continuous and continuously you have to invest in that.

Bharat Sheth: Sir, on genset can you give some sense how do we really look going ahead, are we seeing with the full range our growth is happening vis-à-vis and product-wise also we are competitive than the competitor.

Sunil Pahilajani: Our full range is up to 500 kVA as you are aware and we are able to offer complete range now. The CPCB-II we have launched all the nodes except 250 kVA which will also be launched shortly. With this range we think our product is positioned best in the market in terms of performance and competitiveness. Moreover our margins are also much higher, so we see taking bigger market share and we also see margins or profitability growing even more than that, so we are very hopeful in this.

Bharat Sheth: You expect even market is shrinking still or will be able to grow?

Sunil Pahilajani: It is a matter of market share, we will be able to take bigger market share and we are also now in export and so overall we will see our business will grow in absolute terms and also margins will grow even sharper.

Bharat Sheth: What is our current market share and where do we see in the next 2-3 years?

Sunil Pahilajani: Current position in terms of market share is different for different nodes. It is ranging between 2% to 10%. So on the 160 and above nodes our market share is between 5 to 10%. I think that is where we are focused and there I think we should reach 12-13% of share in three years and our margins should be much higher.

Bharat Sheth: We were expecting some consolidation to happen with the change in the CPCB norm in market place from the organized vis-à-vis unorganized, so how are we seeing that scenario panning out?

Sunil Pahilajani: I don't think we can predict just now because it has just begun and over a period we should see that because as emission norms becomes tighter and tighter the number of players always reduce, so that should happen.

Bharat Sheth: On export front how the things are shaping up where we have little ambitious growth plan?

Sunil Pahilajani: Yes, shaping up well, if you see our export percentage of business has reached 4% which was 1.5% two years ago, so which is a progress and our ambition has been to reach 10-12% in due course.

Bharat Sheth: Okay thank you and that is all from my side.

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

Gagan Thareja: Good afternoon sir, continuing on the margins you say that if you adjust for the inventory write-offs the EBIT margins will **(Inaudible 27.41)** but if I see your accounting, the inventory write-offs have been treated as an extraordinary item, isn’t it?

Narayan Barasia: Yes.

Gagan Thareja: So the reported margin in any case does not include the inventory write-offs.

Narayan Barasia: Now I understand what you are saying. So if you are excluding infrastructure business and you are also excluding exceptional item then probably you may see a drop in EBITDA margins because the turnover has not grown and so there is still an overhead which has grown by 2 to 3 percentage points without the growth in the turnover.

Gagan Thareja: If you look at the comparable quarter last year your sales has in the engine segment actually increased somewhat and yet your margins are down. I presume in the interim this will happen only if in the interim you have added capacity or if your overheads have gone up in excess of the sales growth?

Narayan Barasia: So if you are referring to quarterly numbers, Quarter 4 last year that is Quarter 4 of FY14 we have got some price increase which was higher than the price increase which we got in this Quarter 4 of FY15. So since the price increase take some time from the customer to come in there was a significant price increase we got in the Quarter 4 of FY14 which has slightly changed the EBITDA percentage for the Quarter 4 of last year. So if you look at the annualized number which is much better representation you would either see the EBITDA margin overall as the company going up because predominantly one is the infrastructure losses now getting eliminated and the second is the raw material cost has improved and third is the overheads becoming tighter and tighter.

Gagan Thareja: So for the full year the engine EBIT as you reported which is before the unallocable expenditure is actually north of 15.5% that is a sustainable figure?

Narayan Barasia: Yes.

Gagan Thareja: That should actually be improving; it should not just be sustainable because when you grow you absorb fixed cost better?

Narayan Barasia: Absolutely. You are absolutely right, but you should also look at Other Expenditures which are Corporate Expenditures and many other stuff where you will see that there is a very sharp reduction in Overheads, isn’t it?

Gagan Thareja: Okay, so then let me put it this way that if in the quarter if I adjust your reported EBITDA for the company before Other Income, if I adjust it for the infra losses, the EBITDA margins will move up from 11.5 to 13 roughly. Are you therefore saying that 13 would be the effective margin that we can see at the current sales run rate genuinely since the infrastructure should for the next year be out and there is therefore scope beyond 13 to move up maybe between 13 and 14 as you grow?

Narayan Barasia: Absolutely so as I said all the improvement which has happened in FY15 is sustainable and for long-term so definitely you should see the benefits in the financials.

Gagan Thareja: Can you give the full-year sales mix and also tell me how much has been your sales from the aftermarket?

Narayan Barasia: Aftermarket business is roughly 17-18% of total turnover and genset and farmp put together is about 30% of the turnover.

Gagan Thareja: Any opinions on why the fall in the four-wheeler SUV market is being much steep than the three wheeler market although I presume they service the same goods category in pay-load terms.

Narayan Barasia: So this is very hard for us to say so I think it is only about the customer preferences in some way.

Gagan Thareja: So that would be a sustainable phenomenon?

Narayan Barasia: Now in Quarter 4 we have seen that four wheeler has not declined which is I think a positive trend.

Sunil Pahilajani: I think it is going to grow; four wheeler market finally has to grow because demand is going up and as I just mentioned the biggest driver today being e-commerce and other last mile transportation of goods we are hopeful that it will grow.

Gagan Thareja: Is it fair to assume that growth is highly sensitive to the financing aspect of the business and therefore rate movements will actually lead to a significant push on growth.

Sunil Pahilajani: Yeah it is sensitive the financing certainly.

Narayan Barasia: It is definitely one of the factors.

Gagan Thareja: Is the current working capital situation that you've achieved sustainable going ahead?

Narayan Barasia: It is absolute sustainable if it can be done in the one of the bad year, it is definitely sustainable in good years.

Gagan Thareja: And effective tax rate finally?

Narayan Barasia: Tax rate is the same I think we are almost closer to 30%, slightly lower than the marginal tax rate because of we get some benefits on R&D investments.

Gagan Thareja: Thank you.

Moderator: Thank you. Our next question is from the line of Janakiraman from Franklin Templeton. Please go ahead.

Janakiraman: So this you were mentioning in the context of power-gen that the new emission norms which are getting tighter are benefiting companies like yours so has your competitive position advantage in the market increase post the introduction of the CPCB norms?

Narayan Barasia: Yes definitely at the market place we are now having much better solution, costs are much better, our product is much better. 6 to 9 months are too small to judge so we have not been able to see a market share improvement quite significantly. One of the node is still missing and we is still working on that so we expect as we go along the Genset business is going to be very strong, portfolio is definitely much more stronger than what we had in the previous financial year.

Janakiraman: Have you seen a reduction in the number of players in the segment after the norms are tightened especially among the smaller players?

Narayan Barasia: No we have not seen that still. All the important players are still there and strong enough.

Janakiraman: I have also heard that you've used a slightly different technology for complying with the new norms so you said it's been about 6 to 9 months P so has your approach to meet this new tighter norm has it been accepted by the customer segments?

Narayan Barasia: Yes absolutely and so that is the reason or market share is still intact.

Janakiraman: And aftermarket business which you said is about roughly 17% of revenue, roughly how much would it have grown by in fiscal 15, what percentage?

Narayan Barasia: It has grown almost about 10% over the last year.

Janakiraman: Thank you.

Moderator: Thank you. Next question is from the line of Manish Goel from Enam Holdings. Please go ahead.

Manish Goel: I just request you to please give us the absolute numbers for FY15 on the volumes for three wheelers, four wheelers and Agri.

Narayan Barasia: I just gave the volumes for the previous question so three wheelers for the quarter is about 75,000.

Manish Goel: No I'm looking for FY15 full-year, what is the volume of three wheelers and what was the comparative volume?

Narayan Barasia: So FY15 was 320,000 for three wheeler.

Manish Goel: Against last year?

Narayan Barasia: 300,000. So four wheeler was about 41,000 and previous year was 52,000.

Manish Goel: And for the Agri say pump-sets?

Narayan Barasia: For pump-set was about 85,000 versus 95,000.

Manish Goel: And Power tiller?

Narayan Barasia: About 5000 and previous was 6000.

Manish Goel: And gensets is roughly 2000 you said?

Narayan Barasia: Yes you are right.

Manish Goel: So basically on a full-year basis if we look at the pure engine volumes they have remained flat at 4,53,000-4,54,000.

Narayan Barasia: Yeah.

Manish Goel: So it implies that you have got a 2% price increase overall.

Narayan Barasia: Yeah.

Manish Goel: And in Gensets business you mentioned that we are predominantly present in 160 KVA to 500 KVA range, right?

Narayan Barasia: No of product ranges from 15 KVA to 500 KVA. The question was that where is our focus, our focus is more from 150 to 500 but our product ranges from 15 KVA to 500 KVA.

Manish Goel: Because some time back we were also planning probably to look more aggressively at the lower end of the segment and probably the launched Gensets over there so how is the progress because we have been seen competition also launching aggressively in this load, even Cummins is getting aggressive and Kirloskar Oil is also looking to launch below 10 KVA also.

Narayan Barasia: So definitely the product development work is happening below 10 KVA as well. So that is the part of the business and we are doing that so we are that so we are there at 15 so we have to go down to size as well so that work is happening in fact in Greaves.

Manish Goel: And for you what has been the price or cost increase for the engines and then the Gensets post CPCB-II because now it's almost nine months that has been through and lot of value in engineering would have also gone into it so finally what is the cost increases you are seeing on the engines due to CPCB-II and then impact on the Genset price?

Narayan Barasia: Overall if I have to tell you the margin in the Genset has improved post we went live in CPCB-II because we came with the solution which is much more cost effective and market has offered us some price increase so overall our margin has improved.

Manish Goel: Thank you so much.

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

Ashutosh Tiwari: Sir what would be the revenue coming in from the Genset division per se?

Narayan Barasia: It is roughly 15% of total business.

Ashutosh Tiwari: And what's the driver essentially if we see that the power supply in India improves, how would this market behave and what kind of growth we are looking at in overall segment?

Narayan Barasia: So the genset business we are in to is not a prime power it is still used as a backup so back up power will still be required in India even though the power situation improves so whether it is about hospitals or about commercial establishments or about malls or about anything we still in India need lot of backup power. So more and more GDP growth happens in India more and more backup power requirements will go up. If it is the industry of prime power then it gets impacted by improvement in power not the backup power industry. Backup power still grows with the growth in the industry.

Ashutosh Tiwari: So over the last 3-4 years what kind of growth rate we have seen in this segment and overall genset industry?

Narayan Barasia: FY15 has seen of growth, FY14 was struggling so FY14 was struggling because of larger economy issues but in FY15 we have started seeing growth coming up so now the economy is reviving; things are changing and improving so it definitely goes hand-in-hand with the economy.

Ashutosh Tiwari: And sir how much is your CAPEX for FY16 and towards what?

Narayan Barasia: FY16 will be also in the tune of about 50 to 100 crores of CAPEX.

Ashutosh Tiwari: And this will be towards what exactly?

Narayan Barasia: We don't need capacity expansion so most of the CAPEX is going to be around product developments and product improvement. We don't expect any CAPEX to come for capacity expansion; we have enough capacity for FY16.

Ashutosh Tiwari: And you mentioned that inventory write-off is now complete order we can expect further also in the engines or anything.

Narayan Barasia: So infrastructure business now we don't expect any further write-offs or expenditures. So far the routine business is concerned all the provisions for change in emission has already been made so I think that's what it is today.

Ashutosh Tiwari: So this Quarter 9 crores is related only to CPCB related engines, older engines.

Narayan Barasia: Absolutely because we are not allowed to sell those so anything which remains in the inventory has to be provided for.

Ashutosh Tiwari: And the last question the infra-segment losses, VID loss is around 5.5 crores in the current quarter, would that be nil going ahead or is still there will be some in this year also?

Narayan Barasia: No we don't expect any further overheads now.

Moderator: Thank you. Next question is from the line of Pranav Gokhale from Religare Invesco. Please go ahead.

Pranav Gokhale: If I look at your sales mix, the high margin portion of your business three wheelers as well as aftermarket has gone up; the low margin business has come down. On a gross margin basis still we don't see improvement, this is also that infra-business is no longer there or is very minimal contribution so what has resulted in gross margin not going up so significantly?

Narayan Barasia: But how are you seeing gross margins not improved. I thought the gross margin has improved in the business.

Pranav Gokhale: My numbers tell me that the improvement is from 31.3 to 31.7.

Narayan Barasia: So if you look at only the material cost which is if you have the quarterly statement with you and you look at A, B and C 2A, B and C as a percentage of net sales.

Pranav Gokhale: I was talking for the full-year.

Narayan Barasia: So add to 2A, B and C the material cost was at 68.6% last financial year and now it is at 67.9% so there is an improvement of 0.7% on material cost. It is improving for sure because of infrastructure you are absolutely right. It is also improving because of all the work happening on the material side.

Pranav Gokhale: So will lower commodity price overall and the change in mix lead to significant improvement in working capital from here on as well, sorry gross margin?

Narayan Barasia: So when the commodity cost goes up we have to also increase the prices with our OEMs and similarly if the commodity price comes down we also have to give them the benefit to the OEM. So commodity prices generally don't impact so much to us, it is all about what improvements we are able to deliver which then continues and are sustainable in the business.

Pranav Gokhale: The second question is on CPCB-II norms, now you have got a better solution as you claim versus our competitor. Now in that case the are you also looking to kind of go with the way the competition has gone and actually create a different kind of a product or different kind of a method in which the CPCB-II norms is actually implemented or you will still stick to your existing method?

Narayan Barasia: If I have got your question right, the product will definitely improve versus what we had earlier, both in terms of quality performance and cost. Definitely since we have a better product we are definitely going to strengthen our distribution and reach of the product, aftermarket, service so there are many other elements to the business. We are strengthening all parts of the business, our intention is to grow this business rapidly and so I think since the product portfolio is now better and superior it should help us to strengthen the business further.

Pranav Gokhale: Actually my question was, you have gone with a route to comply with CPCB-II norms which is different from competition. They have incurred significant R&D cost, there product pricing has gone up because cost has gone up. Now they have used a different method so my question was will you stick to your existing products or CPCB-II norms or you are also going and introducing products through the differential route which is the competition have also used?

Narayan Barasia: No so this product which we have been developed will continue. Product development in genset or any other business of our size takes a long time to develop. So it takes at least 2 to 3 years to develop any new product. So we will obviously continue in the product we have developed.

Moderator: Thank you. Our next question is from the line of Sanjeev Zarbade from Kotak Securities. Please go ahead.

Sanjeev Zarbade: It was regarding the growth rates in our key product segment for example how the industry is expected to shape up, not in the next one-year but over the three years, how do you see your key products segment as the three wheeler engine and four-wheeler engine and especially your DG sets are to grow over the three years kind of a CAGR?

Narayan Barasia: So we generally don't predict or forecast any growth. But yes we are very positive, economy is…

Sanjeev Zarbade: Do you see these in what ranges for example the three wheeler do you see it growing in the high teens or the high single digits and specially the DG sets in which you have plans how do you see that growing whether it is in the high teens or something of that kind of a color if you could give us?

Narayan Barasia: Sanjeev we don't give forecast on the numbers so it will be difficult for me to give you any particular growth number. But yes obviously we are doing quite a good job in terms of product development so this should definitely help us to grow in good time. Economy over the last couple of years has not been very supportive of. We all expect the economy to improve now going forward. So definitely genset and auto engine is two area where we expect strong growth to come from. Product line has been increased as Mr. Pahilajani was earlier talking about that we are now increase our product range which earlier was about 750 kg to now 3.5 tons so product range is also increasing and so our objective is to grow at much rapid pace.

Sanjeev Zarbade: Earlier some months back there were reports of Greaves being partnering with the Eicher for they were expected to be launched four-wheeler LCV, any status of that if you can comment?

Narayan Barasia: So we don't make comments on rumors so if there is anything there concrete we will definitely come back and speak to you and inform you about it.

Moderator: Thank you. We have the next question from the line of Prabhas Anand from Chola MS. Please go ahead.

Prabhas Anand: Sir I just wanted to clarify one thing, as of now we have under automotive segment, we have business for less than and equal to 800 CC engines only, right?

Narayan Barasia: Yes you are right.

Prabhas Anand: And previously before this new development of serving up to 3.5 ton capacity vehicles, we had capacity till what engine, per engine what capacity we were serving?

Narayan Barasia: So that was 750 kg so we were serving only up to 750 kg and now we have a solution up to 3.5 ton.

Prabhas Anand: So I just wanted to understand what is the economics behind it like recently few years like Tata Motors have launched their commercial vehicle for in the range of 1 ton so is it reasonable for them to take engines from companies like Greaves Cotton or it is feasible for them to manufacture in-house like what is the economics behind it?

Narayan Barasia: So economics is whether we are able to generate a solution which is far superior than the solution they have so that is about attractiveness of the product. So if we are able to do that then definitely the OEM will come for the solution we have. The second is the service, we guarantee and we promise a very good aftermarket spares availability and service so we have a very wide aftermarket reach and that is what they get in addition to the product. So these are the two things which make a big difference, third is definitely the cost and this we are going to supply engine to many OEMs together our cost and economics will be much-much better if they have to develop those products.

Prabhas Anand: And recently few OEMs have shown their interest which they are already in our client list to go into petrol based engines so what is our position in that, can we serve in that area?

Narayan Barasia: We can definitely so in that area but our focus remains on diesel because that is where we have a very strong foothold. Petrol is a market still which is dominated by players who have their own engines.

Moderator: Thank you. Next question is from the line of Viraj Kataria from Securities Investment Management. Please go ahead.

Viraj Kataria: Just a clarification on the Tiller volume which you provided. Is it possible for you to provide a market share in Tillers?

Narayan Barasia: We have roughly about 13 to 15% market share.

Viraj Kataria: And that will be for FY15, right?

Narayan Barasia: Yes.

Viraj Kataria: And the subsidy part which you said that FY15 was mostly impacted by slowdown in subsidies now seems going into FY15 just on the initial first one or two months because most of the key states have actually increased allocation for tillers so are we seeing any timely release of subsidies, what's your reading on the ground level?

Narayan Barasia: No we have not seen a very drastic change in the subsidy situation in the current one-one and a half months.

Viraj Kataria: So incrementally no such improvement in the flow from the subsidy?

Narayan Barasia: No we have not seen that

Viraj Kataria: And on the new Agri-implements which we talked about, can you just spell out what kind of products we have introduced in the market?

Narayan Barasia: So light-heavy equipment we have a plethora of product development happening and launch is happening so it is about power bidders and small equipments which we are manufacturing and localizing so those are getting launched so one example is power bidder.

Viraj Kataria: And even Tillers we have localized or we're still importing?

Narayan Barasia: It is still imported, we are working on the solution, it will take some more time for us to launch that product, but the work is happening on that.

Viraj Kataria: But we don't have any intentions through extend further intervening tractors or any other range?

Narayan Barasia: Our hands are full on the product development on the farm side so we have postponed mini-tractor discussion for some time.

Viraj Kataria: Last question on the quarter cycle, any new success in the client addition because we do have a product ready?

Narayan Barasia: Yes we have a product ready, I think our customers are also watching and seeing what is the development so I think the whole industry is still watching and waiting.

Viraj Kataria: But is it in advance stage, any rough indication here?

Narayan Barasia: So discussions are happening but there is nothing concrete for us to tell you now. But yes obviously discussions are happening and these are still not very serious enough.

Moderator: Thank you. Our next question is from the line of Pavan Kumar from Unifi Capital. Please go ahead.

Pavan Kumar: What would be our share in the genset segment and earlier we had expressed that we want to double our volume in this particular segment so what are the plans and which segment whether 500 KVA or low KVA which segment do we want to actually go?

Narayan Barasia: Our market share varies from node-to-node so as Mr. Pahilajani said earlier our overall market share will be about 2% in the 15 to 500 KVA but from 160 to 500 KVA we will be in the range of 8% market share. So yes you are right our volumes are less, market shares are less so opportunity to double or grow is high and that's what we are working on.

Pavan Kumar: Any internal target that we have for the timeline?

Narayan Barasia: So product has been released very distinctly post CPCB-II and there some product gap we still have, for product development lower than 15 KVA is also happening. So while the product development is happening a lot of work is also happening on the distribution reach and aftermarket so I think as a group of things we are doing lot of work around the genset business and all this would give us value and the benefits.

Moderator: Thank you. We have the next follow up question from the line of Manish Goel from Enam Holdings. Please go ahead.

Manish Goel: On the aftermarket you mentioned that share to the total revenue is 17 to 18%, was it for auto particularly or for overall revenue?

Narayan Barasia: It is overall so generally in our business aftermarket is good and very focused so it is overall 17-18%.

Manish Goel: And in auto I believe the revenue share is more than 21-22%?

Narayan Barasia: No it is in the same range, (+/-100) basis points so almost in the same range.

Manish Goel: If you can provide the Quarter 4 volume numbers really helpful, even the comparative number, three wheeler, four wheeler and Agri.

Narayan Barasia: Quarter 4 was 75,000 for three wheeler and 10,000 for four wheeler against the same number last quarter, Quarter 4 FYI 14 and so about 22,000 for Q4 FY15 and 25,000 for Q4 FY14.

Manish Goel: So when you say pumps it includes power tillers or not.

Narayan Barasia: Tillers in addition 1000 for Q4 FY15 and roughly the same number for Q4 FYI 14.

Manish Goel: Thank you so much.

Moderator: Thank you. We have the next follow-up from the line of Bhargav Buddhadev from Ambit Capital. Please go ahead.

Bhargav Buddhadev: In gensets what would be the price increase that we have taken?

Narayan Barasia: It ranges from 5 to 10% product-to-product.

Bhargav Buddhadev: Secondly volumes for the year in total is about 453 what would be the capacity?

Narayan Barasia: We are operating roughly at about 70-75% capacity level for auto which is our larger business, for gensets and farm we are operating at a 50 to 60% capacity.

Bhargav Buddhadev: So your overall margins in engines is about 15% odd so would it be fair to say that gensets and agri do lower than 15?

Narayan Barasia: We operate overall as a threshold margin so it will be around the same number, 100 basis points here and there but around the same number.

Bhargav Buddhadev: So you say you would do 14% margins in gensets and agri at the EBIT level?

Narayan Barasia: Yes.

Bhargav Buddhadev: And for three-wheeler, four-wheeler it could be around 17-18%.

Narayan Barasia: So we don't actually calculate EBIT margins at a product level so we don't do that so we only have the segment result for infrastructure separately, of course they are consolidated internally. So it's very difficult for us to give you EBITDA margin for each individual business.

Bhargav Buddhadev: But broadly what could be the difference say across core categories, would it be about 300-400 bps?

Narayan Barasia: The difference will not be much, it will be around 100-150 basis points here and there.

Bhargav Buddhadev: No because the reason I was wondering is that if you adjust the infra losses then for FY15 you've already done 13% margins so why can't we reach to about 14-14.5 in FY16 so that is where we were struggling because possibly you are indicating that FY16 should see a growth compared to 15 so there has to be some favorable operating leverage which could get your margins to around 14.5 and 16 so is it fair to say or it's too optimistic?

Narayan Barasia: That has nothing to do with the product mix, it has to do with operating leverage. **(Inaudible) 59.37** have got tighten and any good growth on the top line will definitely improve the EBITDA margin, isn't it that's a question and that's absolutely right, these are all sustainable efforts and we should see good benefits coming out in terms of margin towards the top line grows significant or grow at a particular good level.

Bhargav Buddhadev: What would be the price increase in auto starting FY16, any rough cut indication in auto engines?

Narayan Barasia: So the price increase don't happen in advance so a price increase follows the cost increase so once we have a good sense on the cost increase in FY16 then that's a point of time we take it up with our OEMs and discuss the price increase.

Bhargav Buddhadev: So April-May starting is it up on a Y-o-Y basis or flat?

Narayan Barasia: No, so no price increase discussions happening in April, that happens as you go along into the year.

Bhargav Buddhadev: Okay.

Moderator: Thank you. We will take the last question from the line of Pranav Gokhale from Religare Invesco. Please go ahead.

Pranav Gokhale: Do you use only EGR technology or have you use the catalytic converter technology as well?

Narayan Barasia: I'm sorry I will not be able to answer this Mr. Pahilajani has to leave today because he is not well. So maybe we will meet up sometime and discuss this.

Pranav Gokhale: Thank you.

Moderator: Thank you. I now hand the floor back to Mr. Narayan Barasiya for any closing comments. Thank you and over to you sir.

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