Greaves Cotton Limited

Earnings Conference Call
Q4 and Full Year FY2021

May 4, 2021

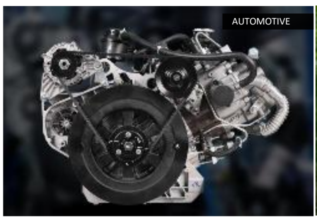
Management Representatives:

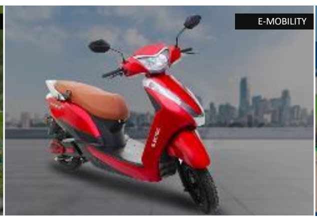
Nagesh Basavanhalli – Group CEO and Managing Director

Ajit Venkataraman – Executive Director and CEO Automotive Business

Arun Srivastava – Head Strategy and New Ventures

Dalpat Jain – Group CFO





Moderator: Ladies and Gentlemen, good morning and welcome to Greaves Cotton Limited's Q4 FY 2021 Earnings Conference Call. From the management, we have with us today. From the management, we have with us today, Mr. Nagesh Basavanhalli -- Group CEO and MD; Mr. Ajit Venkataraman -- Executive Director, Greaves Cotton Limited and CEO Automotive; Mr. Arun Srivastava -- Head Strategy and New Venture; and Mr. Dalpat Jain -- Group CFO.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask question after the opening remarks are concluded. Should you need assistance during the conference call, please signal the operator by pressing '*" then '0' on your touchtone phone.

I now hand the conference over to Mr. Nagesh Basavanhalli -- Group CEO and MD of Greaves Cotton Limited. Thank you and over to you, sir.

Nagesh Basavanhalli: Everybody is keeping well and staying safe in these difficult times. I take the pleasure and welcome you all to Greaves Cotton Q4 earnings calls.

To begin with, I will just give a brief overview, the detail deck was passed out. Hopefully, you have that. During most of fiscal year 2021, our resilience was tested due to the pandemic and earlier slowdown of economic activity. The team has shown enormous resurgence backed by a very strong strategy of diversification. This was mainly due to some of the business decisions and operational strength that the company focused on the things we control, building efficiencies, and bringing new avenues of growth in the future.

Some key highlights include, but not limited to, non-Auto, E-Mobility and retail. Some of our newer areas of business as part of our strategic pivot a couple of years ago in terms of diversification have now contributed to 30% of the overall revenue. So 30% of the revenue in a quarter when shared mobility on our core auto engines is down significantly. The new businesses have contributed 30%. Again, that trend continues quarter-on-quarter.

Company continues to maintain a strong net cash position. And as always, with the Greaves Cotton scheme of things, CAPEX and R&D and other staff are funded through internal accruals and robust cash management. We definitely believe that the slowdown in one segment in our case shared mobility has been overcome by the growth momentum in several other areas. And our focus will continue in some of these other areas. For example, in non-Auto, the auxiliary power segment of the genset division, I had a good market share increase and a good growth, partly because of the opening of the economy, but also because of new product offerings, i.e. the genius genset or the smart genset. Aftermarket segment has returned to pre-COVID levels. Our E-Mobility segment continues on its robust growth trajectory, almost doubling its top line.

As a token of our commitment and our transition to forward looking future businesses, Greaves has committed in setting up a state-of-the-art EV manufacturing facility at Ranipet. You will get to see a glimpse of how that plant will look. And we are working furiously on getting that started and getting incremental capacity. So we have also transitioned to digital, multi brand retail outlets. Even in the middle of pandemic, we continue to add that ampere today post of 328 outlets.

One caveat although there are a lot of green shoots when I look at Q4, the second wave of COVID. And ongoing lockdowns obviously will have an impact on Q1.

With that, I hand it over to my colleagues, Mr. Jain, who will walk us through the financials. Thank you.

Dalpat Jain: Thank you, Nagesh. Good morning, everyone. As Nagesh mentioned, FY 2021 has been a story of two-halves. First half, where the entire economy and business was severely impacted by the COVID; and the second-half where we saw business recovery and financial performance coming and moving back towards pre-COVID levels.

I am happy to mention in quarter four, company reported a 35% growth over last year of quarter four and we had a total revenue of Rs. 520 crores. Company's EBITDA was Rs. 42 crores at consolidated level and it had a PAT of Rs. 14 crores compared to Rs. 1 crore in quarter four of last year.

In the second-half, which is more comparable, company reported a revenue of Rs. 1,015 crores, which was a growth of 12%; and EBITDA of Rs. 91 crores. During the pandemic time, what company has been able to manage its working capital cycle, so overall working capital for the company came down to 11 days and that helped company generate operating cash flow of Rs. 169 crores in financial year 2021. We ended the year with Rs. 273 crores of cash and cash equivalents, which will help company to continue, to be able to fund the expansion opportunity.

Overall growth in E-Mobility, the revenues almost doubled from Rs. 34 crores last year, we reported Rs. 69 crores in quarter four of FY 2021. Company will continue to focus on its robust cash management and efficient conversion cycle as we move in FY 2022. There are headwinds from wave two of COVID which shall impact the company's financial performance may be in the first quarter of FY 2022. But as we move forward, the profitability trend will continue to remain in positive trajectory.

With this, I will open the floor for question answers. And will be happy to take the questions from all of you. Thank you. Stay safe.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Alok Nath, an Individual Investor. Please go ahead.

Alok Nath: My question to the team is like Ampere electric vehicle was already into the market almost like five years back itself. So now, like after Greaves Cotton has acquired the company, now like what are the steps you have taken in terms of the competition from the other peers? Like two years back itself, other major two-wheeler manufacturers like Tata, Bajaj or Hero, all these also like started entering into two-wheeler electric segment also. So, the competition in this segment is like increasing. So like coming to the price perspective or rather innovations kind of perspective, what are the plans from the Greaves Cotton team to take like neck to neck and increase their market share? That is my question.

Arun Srivastava: Hi, Arun here. Good morning, everyone. I will take this question. So one fact correction, Ampere has been in the market for almost 12 years now. So it is one of the pioneers in the electric two-wheeler space in the country. And we acquired ampere in 2018. And when we acquired Ampere that time, the business was around Rs. 18 crores in value and which we have steadily grown over the past two years to three years.

And in terms of our strategic approach, Ampere has been targeting the mass market segment, which is the middle of the income pyramid of bulk of people mobility happens in the country. In the past few years, what we have done is we have expanded the product range. When we acquired Ampere, Ampere had only slow speed lead acid base products. Today, Ampere has increased its portfolio to a much wider portfolio, which covers not just slow speed segment, but also the higher speed segment and also, increased its presence in the lithium-ion space and today, when we look at the market, the ampere portfolio, a bulk of the products are the lithium-ion higher technology product. So that is one change.

The second change is Ampere when we acquired was primarily a south based company and had around 70 odd dealerships primarily in Tamil Nadu area. Today Ampere has over 358 dealerships, exclusive dealerships plus also sales through some of the Greaves retail dealerships. So in all Ampere is selling through 500 plus dealerships today. And this is over around 260 plus cities all across the country.

There is a very strong demand from the market. Both in terms of product as well in terms of dealership inquiries, we have added 130 plus dealerships, since the unlock process began last year. And the third thing, which I would say is Ampere today has a facility at Coimbatore. We have anticipating this significant increase in market demand. We have in the last few months announced EV Mega site coming up at Ranipet, that will be a large volume mega site which will help Ampere transition significantly in terms of very high volume manufacturer.

The fourth part is control over supply chain. When we acquired Ampere, a lot of components were coming from being imported. And since then, we have been working on a very active localization. And today, most of our high speed product portfolio has significant amount of localization and with very good quality vendors in India. It is an ongoing journey, we continue to strengthen that. And we have also actively taken up strengthening of this localization of the slow speed segment.

The fifth part is we have built up the financing ecosystem throughout the country, which is helping accelerate Ampere sales. So these are the five key actions which we have taken and on the customer side, both B2C and B2B, we are focusing on and we have over 50 partners on the B2B side and that segment is also growing fairly well for us. So these are the five critical areas on the two-wheeler side.

And in addition, we have also expanded the Ampere portfolio to the three-wheeler side. Last year, we acquired a company, which sells E-rickshaws under the Ele brand. And that again, is becoming a good growth driver for Ampere businesses. So I hope, that answers your question?

Alok Nath: Sir, anything regarding the R&D also I just wanted to know. Like, since there are too many participants for the two wheeler segment currently, anything you are going like out of the box like mileage, like for EV that is something which is very concerning. Currently, like most of the companies are just giving like 100 kilometer range for them, like average, I am speaking. So anything in terms of R&D you are working on sir? Like something unique like patentable thing which is only with our company something like that?

Arun Srivastava: So, we are definitely working on technology and then the first is as we have also mentioned on the previous investor calls that a lot of focus has been in terms of improving the product capability and reliability. And some of this work is being done in-house. Some of the work we are working with the strategic partners in each of these areas and it is a constant endeavor to improve the product technology.

Like last year I gave example, before also that for our Magnus Pro, which is our flagship product, we introduced certain products which are gained from customer feedback like **limp home** feature were in the last 10% charge, the vehicle goes on to a power save mode so that the vehicle can deliver 10 kilometers additional range, so that the customer, the driver is not stranded in the middle of the road anywhere. Or we introduced a **software** controller based latest features, where if the vehicle is in a traffic jam on a flyover, it does not roll back or roll forward.

Similarly, every year we are improving the product capability. Our first generation Zeal to second generation Zeal, which was launched last year, there was a 10% improvement in range, using the similar power train. So it is a continuous evolution and we are working actively and investing behind the technology to improve the experience of the electric two-wheeler.

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

Vimal Gohil: Sir, my question was again on in relation to the previous participant's question on the competition that is coming up in two-wheelers. So, basically, just an extension of that, I mean, there is there is going to be an onslaught in terms of the kind of capital the competition had, be it new players or be it the legacy players, I think everyone has very strong balance sheet.

So, if at all, there is a scenario where there is cut throat competition in terms of price, how do we plan to counter that have we thought about this? I have two more questions after the that.

Arun Srivastava: Sure. So, in terms of capital, we have maintained that capital will not be a constraint for the growth for Ampere. Greaves itself has a strong balance sheet and we have the ability to bring in capital and if required, we are also open to bringing in external capital to fund Ampere's growth. So, capital will not be a constraint to growth. Like you rightly said, the competition is intensifying and we expect more people to come into the market.

So, what we have done is, (a) we have been ticking off the boxes in terms of the basics. We have brought in a fairly strong leadership team at Ampere which can drive the future growth for the business. Also, what we are kind of looking at is in terms of greater control over certain technology, we have mentioned in the past that some of the software and controller based technologies, which are need to electric two wheeler, those are some areas where we will have greater control, because it defines the experience of electric two wheelers.

Another important thing, I think we should all appreciate is that, electric two-wheeler market which is less than close to 150,000 units is expected to grow to anywhere between 3 million to 5 million over the next five years. That is a fairly exponential pace of growth. And I would say that it offers space for multiple people to be in the market and grow. And I am sure that if we are looking at this market in FY 2020, there will be some new age companies, there will be some traditional companies who will be there. And our intent is and our plan is to be there as a new age competitor in the market by FY 2026 with a strong positioning.

Vimal Gohil: Right. The question was actually more to while your insights are well taken. Sir, if at all the competition is sort of aggressive on the on pricing, will Greaves also look to be as competitive in terms of price or will we maintain our premium sort of whatever, if at all we are at a premium to competition will sort of continue to maintain that and focus on profitability? Or better-quality growth? What would be our approach there in that?

Nagesh Basavanhalli: This is Nagesh. So clearly, Ampere backed by Greaves ecosystem, right? But I am talking about Greaves ecosystem in addition to the technology, the people, the dealership that we also have 10,000 plus mechanic, 7,000 plus retail stores that can provide uninterrupted journey. And plus we have Greaves finance to back some of the financing needs. So when you look at the overall ecosystem or a solution is what the Ampere Greaves solution is offering. Point number one.

Point number two, we continue to strengthen the team, continue to invest in the technology. We play in the heart of the market. We have 75,000 customers and we have been in the market for 10 plus years, which means we understand the duty cycle requirement. So I am not going to answer hypothetical, but enough to say that our value proposition will remain strong.

Our product differentiation will continue to evolve and our customer connect especially our HOLA, H-O-L-A, Happy Owners League of Ampere that will continue that community connect will continue. That customer connect will continue. So we believe we offer a value proposition. And that value proposition as you have seen, through the last four quarters have increased from being a slow speed to high speed, lead acid to the lithium, pan India, over 260 cities available, B2B plus B2C. So I think our value proposition will continue. And that is kind of where I leave that.

Vimal Gohil: Fair enough, sir. Sir, just on the financials of Ampere, if I observe this time around our contribution margin from Ampere has sort of improved. But we are still not close to where the peak gross margin was in Ampere. So what is the outlook there? What is our sort of sustainable contribution margins we are looking at? For example, in this particular quarter, we have reported 20% sort of gross margin, which is significant improvement from the last quarter. But I observed that we have done somewhere near 28% - 24% as well. So should we expect an improvement going forward given the change in mix to high speed scooters going forward?

Arun Srivastava: Margins are a factors, one is volume and second is the supply base. So in the past few quarters, what we have done, like I said, we have accelerated our localization journey, we have started partnering with local suppliers and local vendors, which has exerted some sort of upward pressure on the cost, because like you know that Indian supply base is still emerging. So I would say that it is a journey, we are hopeful that the margins will improve. But right now, the thrust is on ensuring good quality suppliers and good quality components going into our products. Dalpat, you may want to add on that.

Dalpat Jain: Yeah. So Arun, I think you have well covered. But coming back to the question, yes, long-term, the margins will go back to where it was. In fact, you can go higher than that because this localization is short-term will have some impact, but in long-term, it will give more benefit than where we were earlier.

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

Ashutosh Tiwari: Leaving aside three-wheelers diesel engine across the region we have done very well in terms of Y-o-Y growth or Q-on-Q growth. The first question is on Ampere, what would have been the mix of high speed in this quarter?

Arun Srivastava: So roughly high speed is close to 40% of our portfolio now.

Ashutosh Tiwari: Okay. And Ampere losses, if I look at electric mobility EBITDA loss in this quarter versus last quarter despite the fact that things will improve, our losses have gone up. Any particular reason behind that? So I think the EBITDA loss is 11.2crore in the quarter versus Rs. 7.9 crores in previous quarter.

Dalpat Jain: Yeah, So Ashutosh, there is a Rs. 4.2 crores of a one-time accounting impact pursuant to India's adjustment. So that is a one-time component, the operating losses have reduced compared to the previous quarter, it has come down to below Rs. 7 crores,

Ashutosh Tiwari: Okay. And lastly, as we are doing quite well in this non-Auto as well I think quarter-on-quarter we are seeing good growth for us. So just to understand the potential of this market, what is the size of market and what is probably all market share and where we are looking forward say, where this volume can go to and I do not want to give numbers and all, but directionally where we are in terms of market share and what is the opportunity size for us?

Arun Srivastava: Sure. Ashutosh, this is one of the diversification areas which we have been very actively working upon on the non-Automotive engine side and now it has started to grow rapidly. In terms of market, etc., this is a market which is steadily evolving and like I have been mentioning in the previous calls that one of the major drivers for this market expansion is shift away from manual labor to mechanize labor in various segments be it like agricultural, like construction or sanitation works or various industrial application due to the engine's going to 100 plus applications. So, market is from manual to mechanize and second shift which is happening is earlier a lot of lower cost Chinese engines were coming in which are getting gradually replaced by better quality Indian engines as the markets have started maturing.

So, that is where I would lead the overall market size and it is still not very well determined, because it is a fairly large shift which is happening and still the unorganized play is fairly large in this. But in the organized players better quality products, we have started taking leadership position in this segment. But it is a growth story, it will continue to grow and expand as mechanization fix up in the country.

Moderator: Thank you. The next question is from the line of Amar Kant Gaur from PhillipCapital, please go ahead.

Amar Kant Gaur: My question is on localization. So, what are your localization levels currently and what are the components that you have to, you are sort of importing and what will be your priority in terms of localizing the components that are important right now?

Arun Srivastava: So in terms of localization levels for the high speed scooters, we are following the guidelines and then the scooters are in very advanced stages of localization and most of the critical components are from domestic partners now. The major component which gets imported is lithium-ion battery cells. Now, as you know that India still does not have a lithium-ion cell manufacturing. So, cells are getting imported with a pack and the BMS is localized. So, that is on the high-speed side.

So on the slow speed side, where there are no regulations on localization, there as part of our strategy, we have initiated the localization journey that may take slightly longer, but we are well on our path to localizing that as well.

Amar Kant Gaur: Okay. Thank you, sir. And the other is a little longer-term question. So we see a lot of new players coming in into the electrical two-wheeler vehicle space. So how do you see the industry shaping up in the next four years to five years say?

Arun Srivastava: Industry is expected to get into hyper growth mode as we go ahead into the next few years, so I would expect more competition to come in. But the way we are considering ourselves that we recognize that there will be certain asymmetric competition into this market, there will be some of the traditional players who will also expand their play on the electric side. So, we are kind of focusing on the basics what is required to be successful into the market. And also create a differentiation in the market through a stronger customer connect, through digital channels through unique financing things and ultimately, it is the product and technology which needs to perform.

So, we have right now positioned Ampere in four customer segments, which we say one is, on the slow speed side, which is the housewives, the schoolchildren, the retired people who want to cost convenience safety as a parameter and then, there is the office goer segment and there is a B2B segment and then there is a segment which requires a higher speed scooter, especially in urban markets and we are filling those product gaps.

We have consciously stayed away from top of the pyramid, which is a more of a niche segment with products which are going back 25,000 plus, we have consciousness stayed away from that segment and focusing on the mass market which drives mobility in the country today. So that is how we are approaching the market.

Moderator: Thank you. The next question is from the line of Basudeb Banerjee form Ambit Capital Private Limited. Please go ahead.

Basudeb Banerjee: Just wanted to understand few aspects. One, the previous question as you highlighted that value addition is the imported path and these are all localized. So are your products now eligible under FAME II subsidiaries.

Arun Srivastava: Yes. So products Ampere high speed products, if you recall, we were eligible for FAME II subsidy among the first company who became eligible for FAME II subsidy. So, absolutely our product, high speed products which are covered under FAME II all are eligible.

Basudeb Banerjee: So just from a long-term perspective, just trying to understand that with cell localization coming up and FAME II subsidiaries for few players being there. Say by next five years to six years with petrol, scooter normal inflation cost, inflation going up and deflation of E-two-wheelers, so there is convergence of the capital cost say after five year - six years. Do you see, extra demand elasticity for the industry, so say ICE-based two-wheeler market size would have been x and because E-two-wheelers are also coming rather than just clear substitution, the market size itself will expand because capital cost being say and TCO will be substantially lower improving the affordability. So as per your experience if you can highlight from that experience?

Arun Srivastava: So very good point. So, our expectation is twofold. One is if you look at mobility in the country, mobility still is unaddressed need in the country even today. So two-wheeler segment barring last two years, which because of the NBFC crisis and then COVID being slightly exception, the two-wheeler has been going in India for over a long term horizon as well. So that growth will continue. I would say there will be two part, in the higher speed the product capability will keep on going up and the value proposition we keep on expanding. So, the pricing levels may remain the same, but the value prop will go up.

The second part to this is to slow speed segment play in an area where virtually no engine based scooters are there. And that is a segment where people are shifting from walking and cycling towards entry level scooters. So that was that will continue to grow in especially in the tier-III tier-IV towns and cities.

Other two points in this is one is this entire B2B segment, which is E-commerce deliveries, food deliveries as well as the concierge services and rideshare This is an entirely new segment, which is opening up and two-wheeler is very well positioned to serve this market and this will also drive growth in the industry. So, I would say that two-wheeler will continue to play an important role in mobility in India and is likely to expand as we go ahead. So, the industry is fairly attractive.

Basudeb Banerjee: But if I see sir, I think E-two-wheeler segment despite being in the market for almost a decade and say the leader being there for a decade selling near 50,000 per annum volume and the market size is hardly 1,50,00 after being for so many years. So in the longer run how to look at the say low speed scooter serve that, is it not accepted by the market at all. And it just some mere presence sales kind of a serve, the moment normal high speed much affordable E-scooters are available that would be the right product for the market to scale up, rather than the low-speed stuff at all.

Arun Srivastava: See low speed scooters serve a particular niche market segments especially in tier-III, tier-IV where these products are available at Rs. 30,000 - Rs. 35,000. So they have their own market. But what will start happening as the lithium-ion costs start coming down, even those some of those products will start gradually transitioning to better a technology lithium-ion based batteries. So that shift will happen, but India will continue to have a play in both those low speed scooters and high speed scooters. But high-speed scooters will grow much more rapidly as we go ahead and future because they kind of close the gap between the engine based scooters and electric scooters.

Basudeb Banerjee: And lastly, sir, when will you see proper localization of cell manufacturing because if some new player is commenting on 10 million capacity, obviously, such scale is only possible through local manufacturing down the line it cannot be at an imported cost. So how do you see building capability of local cell manufacturing?

Arun Srivastava: So, local manufacturing of lithium-ion cells will start in India, it is a high investment game and there are some players who have already started announcing their plans, the government has also been given incentives through PLI scheme. So, there will be local manufacturing as we go ahead over the next few years. So I do want to comment on a timeline on anybody else's behalf. But as part of our stated strategies, since lithium-ion cell chemistry is also evolving fairly rapidly, we have stated in the past as well that we would like to remain cell agnostic, we would not get into the lithium-ion cell manufacturing it is the pack and BMS where we are looking at taking greater control going ahead in future. So whatever chemistry is suitable for the products, we will take the requisite sales from the market. Today it is imported, tomorrow it will be domestic partners.

Moderator: Thank you. Next question is from the line of Naitik Mody from OHM Portfolio. Please go ahead.

Naitik Mody: Sir, you said there are some 60 odd dealers is that correct?

Arun Srivastava: Ampere has around 328 exclusive dealers plus there are certain, there are Greaves retail outlet as well which sell Ampere. So overall it is 500 plus retail point.

Naitik Mody: Right. So out of the exclusive dealers, how many of them are actually active and how do you define active internally?

Arun Srivastava: So most of our dealers are active. So, they may be at various stages of evolution like I mentioned that one almost 130 out of that have been added in the since unlock process begin in H2 last year. But most of the dealerships are active today. And active is defined by their regular purchases.

Naitik Mody: And simply what is the profile of these dealers? Are they existing dealers of auto within the automotive segments or it is a mix?

Arun Srivastava: It is a mix.

Naitik Mody: Viability is the issue, right?

Arun Srivastava: So there are two parts, one is the dealerships are considered in a way that initial capital requirement is on the lower side. Also because unlike a engine based 2 wheeler, electric two wheeler, the service requirements also fairly lower so they are not built on lifecycle value extraction. So, we have consciously factored that and we should invest is low. The second part is most of the dealers were also coming in recognize that this industry is at a cusp of significant expansion going ahead in the next few years. So, they are also people who are willing to stay with us and stay invested over a longer-term. But the very fact that we do not see much dealer attrition, also shows that dealers are meeting their viability and you know are willing to stay invested with us. So, we have a very strong dealer demand.

Naitik Mody: Okay. And as you said, traditionally Ampere as a brand was more of a south based brand. So could you please give us the revenue split for region wise for two-wheeler.

Arun Srivastava: So I would say that, see, we do not give region wise split, I would say that from Tamil Nadu now it has expanded to entire southern market, west has picked up, north and east are the areas where we are now focusing on expanding our concentration.

Naitik Mody: So it is fair to say that most of the revenues primarily from south and west?

Nagesh Basavanhalli: And that's also true with the two-wheeler electric auto market as well right now.

Arun Srivastava: The three-wheeler market is much stronger in the north and east because that is where the bulk of the E-rickshaw market is there.

Naitik Mody: Okay. And what is the revenue split between two-wheeler and three-wheeler for us for the financial year 2021?

Arun Srivastava: So typically, revenue split we do not give but volume split we have given in the presentation.

Naitik Mody: Yeah. So, the three-wheeler company is a part of Ampere, is that correct?

Arun Srivastava: It is a subsidiary of Ampere, yes. Ampere owns 74% in the three-wheeler company.

Naitik Mody: So in the Ampere balance sheet it is consolidated?

Arun Srivastava: Yes.

Moderator: Thank you. The next question is from the line of Amitabha Chakraborty from Kitara Capital. Please go ahead.

Amitabha Chakraborty: See, what we are seeing is a diesel engine there is a slowdown right. I mean in your segmental thing. So, is there any plan to go for electrical three-wheeler? Because I believe as a strategy, I think is there any strategy towards that? Because you have been into Ampere it is two-wheeler and E-Rickshaw now. So what is the strategy of the electrical three-wheeler space? Second just, electric four-wheeler scope.

Arun Srivastava: Sure. So, like you said that the three-wheeler auto engines have gone down in this year because of various pandemic related shared mobility concerns. And our strategy till now has been, we have looked at two-wheelers, we have looked at E-rickshaw and as the market starts moving towards, our philosophy is that I think start getting ready into a commercialization ready stage, we will look at that. So, three-wheelers, electric auto richshaw is something a part of the future and at the right time, we may discuss that as well. But right now, our thrust is more towards electric two-wheeler and electric rickshaws which are expanding rapidly and are larger parts of the market today.

Moderator: Thank you. The next question is from the line of Bhargava from Emkay Global Financial Services. Please go ahead.

Bhargava: So, I wanted to know the CAPEX plan for the next two years to three years, if you can give any guidance on that? And wanted to know how much of the percentage would be made on the E-mobility part. And the second would be, how many of your Ampere vehicles are financed as a percentage of sales.

Dalpat Jain: So Bhargava, let me take the first part. In terms of the company's CAPEX plan, as you know in the GCL standalone, we have turned around Rs. 40 crores in FY 2021 and CAPEX around that should continue as we move forward, around Rs. 40 crores to Rs. 50 crores annual CAPEX depending on the market conditions. About E-mobility we had announced Rs. 700 crores of total investment in capital and working capital over a period of 10 years. So, that will be more or less proportionate as we go forward in next three years to five years time.

Arun Srivastava: Yeah, so, on the financing side, the financing penetration is gradually growing till for the past two years or three years when Ampere had a much more dominant, slow speed segment, where the financing levels were fairly low, because the slow speed vehicles are not registered. So that is where the financing beneficial is low. But on the high-speed side, it is gradually picking up. We do not want to give exact numbers, but it is starting to become an important constituent on the B2C side. So but the industry, I think the numbers are almost 30% to 40% are the financing levels on the electric two-wheelers, high speed.

Moderator: Thank you. The next question is from the line of Jayashankar Nair from IIFL Asset Management. Please go ahead.

Jayashankar Nair: My question was in terms of the segment, I mean on consol segment, the diesel is currently 48% in this pandemic gross is also fine with regard to auto and non-auto and how the achieved number has actually changed? I mean, if you can give some sense, because what we are observing is that the auto is coming down and non-auto is seeing opportunity going up in terms of your volumes what you can chase to get a broad sense as to how much it could go up?

Dalpat Jain: So, the change in the auto competition is linked with the temporary COVID situation and as we know, shared mobility has come down significantly and within the auto overall three-wheelers, passenger vehicles contribute to a significant part. Overall, from last year, it has come down from 54% to 48% in terms of overall engines business revenue and within that composition of non-Auto has increased in this financial year.

Next financial year, we expect with the recovery, it should move back to where it was though non-Auto applications will continue to grow faster, because we have increased offerings out there with smart IoT based engines and all. But overall, auto engines will continue to have dominant share in the overall engines as you move forward.

Arun Srivastava: So, that is one part and also, if you look at our longer time horizon, the engines business as a portfolio used to be 75% plus for us, if we go back a few years in the past. So, we have steadily been de-risking this. but like Dalpat said that as auto Indians come back in later part of the year, this will go back slightly up. And within this segment, there will be a diversification between auto and non-auto. And I think some of those are visible in the numbers, volume numbers.

Jayashankar Nair: Yeah. But would it be correct to say that of the total Rs. 520 crores in the quarter, this 10% to 12% was between non-auto?

Dalpat Jain: Yeah, those volumes are there in the presentation and you are right that kind of share which is there.

Jayashankar Nair: And my second question was with regard to the split on the cost front and referring on the standalone investment post the Ranipet where cost reduction comes down in terms of employee and other expenses and we are seeing it actually remain. So is it the more sustainable number what you are seeing the current quarter or there is any seasonality in it?

Dalpat Jain: So overall overheads have come down by 16% in FY 2021, out of that I would say as we had mentioned in the previous earnings calls also, there will be minimum 10% of reduction in the fixed cost base and that is something which is sustainable. Some part of the 16% reduction will come back because those were related to travel and other COVID linked reductions.

Jayashankar Nair: Yeah. And one last question with regard to I mean the tax rate was unusually high any particular for that in the current quarter?

Dalpat Jain: Because of PBT being smaller, there are few lines like 43B or CSR which continued at the same amount. Now they as a taxable PBT became a higher percentage. So nothing in terms of structural change, it was more the base becoming a smaller one.

Moderator: Thank you. The next question is from the line of Aditya Makharia from HDFC Securities. Please go ahead.

Aditya Makharia: I just wanted to understand what is the new capacity which we are setting up? And what is the CAPEX and the timelines for the same? Thanks.

Arun Srivastava: Yeah. So I think your question was for the electric vehicles part. So in terms of the capacity, what we have announced is that this plant can go up to a million units and there is a potential to go up even further as we go ahead in future. And we will move in phases. The initial part will be slightly lower, but it will ramp up. And like Dalpat mentioned earlier that we have kind of communicate around Rs. 700 crores of total capital and working capital investment over a 10 year horizon for this business.

Aditya Makharia: So by investing Rs. 700 crores you can reach a million units is basically what you are mentioning. So the CAPEX shall be staggered?

Dalpat Jain: No, see, our CAPEX will be staggered and for reaching 1 million you do not need CAPEX of that. It is a combination of CAPEX working capital investment overall. We are not giving specific breakup as you know, there are sensitivities around that number. But overall, CAPEX is going to be a smaller portion of that Rs. 700 crores.

Aditya Makharia: Okay. And you mentioned that you are localizing by only the cell is what you will import and the BMS and everything else you will make in house. So does this factor all this localization also or you are buying from vendors?

Dalpat Jain: So one correction, not everything will be in house. We have developed strategic vendors and as the volumes pick up in future we will look at selective in house capabilities. But right now, we are working through strategic vendors.

Aditya Makharia: Okay. Which includes for the BMS as well, right that is where you have a strategic vendor?

Dalpat Jain: Yes, today we are working to partners.

Aditya Makharia: Okay. So it is a fairly asset light business. I mean, that is just what I was trying to get, if you are going to reaching a million…

Dalpat Jain: That is correct. Yeah, but as we go ahead into the future certain key technologies, we will take some control in house and we will announce that at the right time.

Moderator: Thank you. The next question is from the line of Chetan Vora from Abakkus investments. Please go ahead.

Chetan Vora: I wanted to understand your view on two - three pointers. First of all, on the engine business which is roughly 50% of the overall volumes even in FY 2020, I would like to understand your view, how that will be shaping up going ahead. And the other two things were the quarterly thing, varying we saw the employee cost and the other expenses on a Q-o-Q basis have increased quite sharply, the other expenses have increased by Rs. 12 crores from Rs. 44 crores to Rs. 54 crores. Just wanted to understand whether there are on-off and even on your employee side the employee cost has also increased from Rs. 29 crores to Rs. 35 crores.

Dalpat Jain: It is a natural classification under our published results. So, total increases Rs. 16 crores between both these heads. Out of Rs. 16 crores, Rs. 5 crores is linked with the revenue growth. There are Rs. 7 crores of expenses which are one-time nature. So gratuity because of discount rate coming down, overall actuarial provisions going up and those kind of things, Rs. 3 crores is a recurring cost increase in this entire Rs. 16 crores.

Chetan Vora: Okay. And on the engine business?

Ajit Venkataraman: So Chetan, we did see some green shoots towards the end of 2020. But the second wave has and the swing lockdown will likely hamper the growth into short term. And we expect that the first quarter may be impacted because the lockdown have started since 15th of April. And it is a little bit of a prediction, tough to predict what will happen in the first quarter. Second quarter we expect it to be better and with demand resurging, hopefully once the lockdowns are taken off and vaccinations picks pace.

Chetan Vora: Okay. And whether that would be applicable for both the things, the auto thing and non-auto as well?

Ajit Venkataraman : Non-auto is impacted to a lesser extent with the lockdowns and personal mobility. The three-wheeler segment is far more impacted because of the social distancing norm and the restrictions. The goods carrier part of the three-wheeler is a little bit more robust in terms of taking on the COVID recent depression, whereas in the non-auto segments yes, it is getting impacted, but not to the extent of the previous year.

Arun Srivastava: Yeah. And for the non-auto segment, if you look at the volume summary, that segment has been growing fairly rapidly. So like I like Ajit it has slightly lower impact, but higher impact is on the passenger three-wheeler side where you know, because of the social distancing and the pandemic related concerns, the entire industry has nose dived.

Chetan Vora: Lastly, are we seeing any structural challenges on the auto thing because our portfolios more of on the diesel side? And that segment has not been able to grow where in the passengers which is largely petrol and slash CNG, so how do we cope with that?

Ajit Venkataraman: So, Chetan, we are looking at expanding the range of options. In terms of the diesel itself, we have a signed up a LOI with a new three-wheeler OEM. We have also got a four-wheeler microcar segment, international OE, who has signed up an MOU with us. In addition to that, we are also looking at expanding with the new opportunities and entering new segments as well. Our CNG portfolio is also quite strong, and we will be launching a product for large OEM this quarter.

Moderator: Thank you. That was the last question for today. Due to time constraint, we would request all other participants to please e-mail their queries and the company will revert as soon as possible. I would now like to hand the conference over to Mr. Nagesh Basavanhalli for closing remarks.

Nagesh Basavanhalli: Thank you all for joining us on the call. Please feel free to reach out to us if you have any further questions. In summary, we believe that some of the actions in terms of capability and addition in terms of the product portfolio and focusing on the clean mobility at the bottom of the pyramid and doing some of the things that we control, even in these tough times, will augur well for the future. So we remain committed to this journey. And we thank you all for joining today. Thank you all. Have a good day. Stay safe. Thanks.

Arun Srivastava: Thank you.

Moderator: Thank you. On behalf of Greaves Cotton Limited, we thank you once again. Stay safe. With this, we conclude this call. Thank you for joining us.

*****End*****

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Note: This transcript has been edited to improve readability