"Greaves Cotton Limited Q2 FY13 Earnings Conference Call"

November 5, 2012

MODERATORS: MR. SUNIL PAHILAJANI – MANAGING DIRECTOR & CEO
MR. A K SONTHALIA – CFO

**Moderator** Ladies and gentlemen good day and welcome to the Greaves Cotton Limited's Q2 FY13 earnings conference call. We have with us today on the call, Mr. Sunil Pahilajani, M.D and C.E.O and Mr. Ashok Kumar Sonthalia, C.F.O. of Greaves Cotton Ltd. As a reminder, for the duration of this conference, all participant lines will be in a listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference Mr. Sunil Pahilajani. Thank you and over to you sir.

**Sunil Pahilajani** Good Evening, ladies and gentlemen. The situation of the business at this moment, since past last two quarters, is challenging. We have seen some improvement in automotive business recently which we feel is partly due to festival demand or may be some correction in inventory. But still overall, I do not think we have recovered from slowdown. In terms of farm equipment business, we do see progress vis-à-vis last year due to our product portfolio getting expanded and we capturing better market share. But overall market is still down. On industrial and infrastructure business, our market share has remained same. But since the whole market has gone down in absolute terms we are also down. The overall situation of business I would say is in slowdown mode. In this situation we have been able to maintain our top line or slightly improve it by working hard on various opportunities and new avenues. Our major focus has been on the new initiatives to protect our profitability. The initiatives on material cost reduction have now started showing some fruits. More impact of the same will be seen going forward. There has been strengthening and rationalisation of manpower, which is building talent for future and reducing overhead manpower, reducing indirect manpower to make organisation more efficient. So, all such initiatives is helping organisation either in reducing our cost at present or focussing on future businesses from R&D and the market perspective. Going forward, our investment focus will be on the products and R&D and also strengthening our technology. We are focussed on market development activities and rebuilding our distribution networks to grow our business. Now I hand over to Mr.Sonthalia to take you through the financial results.

**Ashok Kumar Sonthalia** Thank you Sunil. Good Evening to all of you and thank you very much for joining the call. I would like to take you through the financial results for Greaves Cotton for the Q2FY13. Net revenue for the company was at Rs.450 crore against Rs.440 crore in the same period last year, up 2.2%. The profit after tax after taking into account the exceptional item of Rs.3.4 crore on account of employee separation cost stood at Rs.33.6 crore compared to Rs.38.6 crore in the same period last year, down by 13%. The EBITDA margin has come down from14.2% to 12.8%. This is primarily due to high employee cost which is responsible for 1% margin erosion. And there are other expenses which are also responsible for 1.6% margin erosion. But as mentioned by Sunil, with initiative on material costs and other cost improvement, which have started giving results, the final EBITDA margin erosion was limited to 1.4%.

Among the segments, engine segment grew by about 5.5% whereas other segments which is infra and others de-grew in this quarter. In infra segment, road has started showing signs of improvements while concrete is significantly down. The other income was slightly higher during the quarter due to better treasury income. The finance cost was almost negligible as we continue to maintain our zero debt status. With this, we would like to open the session for questions and we will be happy to answer and provide you some more details as we go along.

**Moderator** Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session.Our first question is from Nirav Vasa of SBI Cap Securities. Please go ahead.

**Nirav Vasa** My first question pertains to the manpower cost. In this quarter there was a onetime exception of around Rs.3.43crore. Can I request you to elaborate a bit more on this expense? Is this a onetime VRS expenditure that was done or what was the kind of this?

**Ashok Kumar Sonthalia** This was onetime employee separation cost. It has element of VRS and separation cost which was onetime because we did some rationalization in our Pune plant and also in our regional and head offices, which you can consider as indirect staff cost also. Having said it onetime, there may be a few more opportunities of further rationalization in future. However, right now we do not have a specific plan or a clear visibility on what we can do.

**Nirav Vasa** Would it be possible for you to give me a concrete number, as to how many manpower have been relieved and what is the actual manpower that we have on rolls right now?

**Ashok Kumar Sonthalia** This cost represents about 80 employees getting separated. Our employee strength is a mix of our own employees, temporary employees and some contract employees. We started the year at about 4,400 head-count and right now we are just above 4,000.

**Nirav Vasa** My second question pertains to the volume which was despatched in the first quarter. Would it be possible for you to share with me the actual number of volumes of engines that was despatched in the first quarter and if possible for the first half?

**Ashok Kumar Sonthalia** Overall engine what we dispatched in the second quarter stood at about 1,30,000 compared to 1,10,000 during Q2FY12.

First half would be about 2,38,000 compared to 2,30,000 during H1FY12.

**Nirav Vasa** And Sir, what kind of the guidance are you getting from customers at this point of time? By when are they expecting any kind of equipment off take to increase?

**Sunil Pahilajani** I mentioned in the beginning itself that we see the slowdown to continue. The whole industry sees that. However, there was an improvement in this quarter and some improvement is projected in Q3 due to festival demand. Q4 is difficult to project today.

**Ashok Kumar Sonthalia** Just to add on this, as Sunil mentioned about automotive engine vehicle manufacturers, who are our OEMs, definitely they feel they would be able to do more. Q2 was kind of a run up for Q3 where demand improved because of the festive preparations. Q3 is also a season time for our farm equipment business. We expect demand to improve. So both put together, Q3 in terms of number, at this point of time, looks definitely better than Q2.

**Moderator** Thank you very much. Our next question is from Mr. Bhalchandra Shindhe of B&K Securities. Please go ahead.

**Bhalchandra Shindhe** In last quarter, Piaggio launched three products. I want to know, are we supplying any engines to any of these product and are we expecting any tie-ups with any new clients?

**Ashok Kumar Sonthalia** Ape City is with us. Ape mini is not with us right now. But we keep discussing such opportunities and Piaggio is a very valuable and important customer for us. So there may be possibility of doing something more with them.

**Bhalchandra Shindhe** Sir, in infrastructure equipment, we have been posting losses since past five quarters. In fact, they have been declining for past five quarters. Where we exactly see bottoming out of revenues? Do we expect any recovery from infrastructure equipment or we expect more pain in there?

**Ashok Kumar Sonthalia** This is just a coincidence that the two segments, which is concrete and road, where we are present and we would like both of them to grow simultaneously or improve simultaneously. But unfortunately for us when concrete was doing well, road was significantly down and now road has started showing signs of improvement, concrete is significantly down. So, that is what has been affecting us for the last couple of quarters. Both the verticals if they improve together, I think this business can breakeven. But yes, we still see some pain remaining. Though roads have started doing well, concrete is yet to pick up. We expect some improvement in next two quarters. But whether we will breakeven, for the full year, is difficult to comment on.

**Bhalchandra Shindhe** Other segments like our Gensets and Agri, in this quarter, how much was the growth in them?

**Ashok Kumar Sonthalia** Farm equipment showed some improvement compared to the last quarter and last year. Even the whole industry may not have grown, but our diesel pump set portfolio grew pretty well and we are gaining market share. As far as our Genset demand is concerned, Genset also grew, though we still remain a small player in that segment.

**Bhalchandra Shindhe** How was the growth? Can you quantify?

**Ashok Kumar Sonthalia** Volume wise, Agri business grew by roughly 7% compared to last year and the Genset business grew almost by 20% compared to last year.

**Bhalchandra Shindhe** Last question. How much was the Tata Ace ZIP volumes for this quarter? And where we expect it to reach by FY13 end?

**Ashok Kumar Sonthalia** IN Q2FY13, running rate was about 5,000 every month. In the first quarter, it was about 4,000. This quarter it should be around 6,000 to 7,000. But again, we must watch every month carefully. How the sales during Diwali and the post Diwali season pan-out. If you look at the whole automotive industry or the 4-wheelers small commercial vehicles which starts from Tata Ace ZIP and Magic Iris and going upwards to 1 tonne is growing pretty well. Others are slow, they are witnessing slowdown on growth rate or de-growing.

**Moderator** Thank you. Our next question is from Mr. Bhargav Buddhadev of Ambit Capitals. Please go ahead.

**Bhargav Buddhadev** I have a couple of questions. One is, recently Tata Motors have entered into an agreement with Westport possibly for developing a new engine platform on the light duty truck side. Just wanted to know what the read across is for Greaves Cottons. Second, in the last quarter's conference call, you had highlighted that you had recruited certain employees for taking the organisation to the next level of growth. So just wanting to know, if there is any update on that front.

**Sunil Pahilajani** While Tata Motors may have quite a few engine projects on going, we may not have all the details what you are mentioning but we will check. Our existing contract is for a very long term and we are fine and Tata Motors is fine with that too. As far as employees are concerned, certainly we have strengthened management team, on R&D and marketing side. So, that is for the future strategy, in three years' time, we have started working on it and as time goes by, I think business performance will show up on that.

**Bhargav Buddhadev** In terms of the new products, you highlighted last quarter that possibly in Q3 or Q4 we could come up with some announcements. Do we expect some announcements form Greaves Cotton on that front? Because, recently there were some media articles on Greaves talking to the super compact car segments. We were just wondering if there is any update on that front.

**Sunil Pahilajani** There is nothing like that. If there is anything we materialise we will be happy to share. As I said the management team when you build and it is working, it takes a while to bring anything substantially different.

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

**Pritesh Chheda** In volume numbers which you gave for 130 versus 110. Just wondering these were purely auto engine numbers or this included everything? And if you could give us what would be the auto engine's volume growth in this quarter just like agri and gensets you gave.

**Ashok Kumar Sonthalia** This included everything. Automotive engine grew by 7% year-on-year basis and quarter-on-quarter basis, about 22-23%.

**Pritesh Chheda** Within the auto engines, is it fair to assume again that it is non-OEM? Also which must have contributed far significantly in the growth alongside the four wheelers?

**Ashok Kumar Sonthalia** Yes, they have contributed but I would remove the 'far' word. They have contributed but not far significantly. They have also contributed; four wheelers of course have also contributed.

**Pritesh Chheda** Okay. And just wondering, what is the capacity utilisation in the new facility? If I recall, last time we said that we are not doing the full engine manufacturing in new capacity. So, what is the status there?

**Ashok Kumar Sonthalia** Recently we also did some of the cost improvement initiative in terms of capacity. In auto division, there was a small capacity in a fragmented manner in rented premises which has been shifted to our Aurangabad Shendra plant. So we are kind of consolidating all capacities together. With regard to Ranipet's expansion, we had told you that we have done the assembly part and for machining capacity we are waiting for some upturn in the industry. We are quite fine to handle with all the volume increase which is getting indicated by our OEMs. And simultaneously lot of work is happening on de-bottlenecking existing capacity and that is how creating some capacity without incurring CAPEX. So, lot of work is happening around that and hopefully we will have some results there also. We are quite comfortable with capacity as far as this financial year is concerned and may be next also, at least for the first six months.

**Pritesh Chheda** Which means that if I understand properly, Ranipet is where we are only doing partial work on the engines but there will be some cost associated with the P&L, right?

**Ashok Kumar Sonthalia** No. Ranipet is the one of the largest locations of automotive engine business. It had a capacity of more than 500 engines every day, fully integrated machining and assembly.

Now they have added another about 300 to 400 assembling capacity without machining capacity. There is no extra cost.

**Pritesh Chheda** Last question is, if I look into this numbers obviously if the volume ramp ups happen from here, the associated cost will not be in sync with the volume ramp up?

**Ashok Kumar Sonthalia** Yes. We should have some operating cost advantage. You would have seen from our profit and loss which we have declared, there is some improvement in material cost which has started happening because of certain initiatives taken or which are continued to be taken in the last 6 to 8 months. And we believe those material cost improvement should also reflect little bit more as we go forward. And as production volume improves, operating cost will also be at our advantage.

**Pritesh Chheda** Lastly what is the course here on for the infrastructure business?

**Ashok Kumar Sonthalia** Infrastructure, a bit difficult to say. But we surely see a sign of improvement as far as road construction activities are concerned. And we are seeing growth happening in that segment. Concrete is a bit difficult to take a call, when will it start improving.

**Pritesh Chheda** And how about your tie-up with the Korean company?

**Ashok Kumar Sonthalia** That is progressing well and I am sure we will introduce our new concrete pump through the next quarter or early fourth quarter. And we will also come up with larger concrete pumps towards the end of Q4 or Q1 of next financial year.

**Pritesh Chheda** These would be imported or assembled?

**Ashok Kumar Sonthalia** These would be largely assembled, sourcing would happen through both routes, there will be some import of kits, other component mostly will be done through indigenous routes. But that will be a journey again. You start with higher import content but gradually you move towards more and more indigenisation.

**Moderator** Thank you. Our next question is from Aparna Shanker of SBI Mutual Funds. Please go ahead.

**Aparna Shanker** We were looking exports for our next leg of growth, so what is happening on that front? Second is that with Tata's Ace ZIP and Iris ramping up, we have seen some cannibalization in the segment, so can you give us a feel which other new models are different players planning to launch and what is the role Greaves would like to play in that?

**Sunil Pahilajani** To answer your second question, there is a marginal de-growth or I would say the growth has slow down in the 3-wheeler market. Tata's Iris and Ace ZIP are in a 4-wheeler segment which is growing aggressively. As a sum total, our business sensitivity is not an issue, because over a period four wheeler segment is growing much more than de-growth in 3-wheeler.

As a total business volume we are quite protected. So, in terms of pain, yes if we were only in 3-wheeler it could have been a serious issue, but that is not the situation. We have to keep strengthening our product portfolio going forward based on the trends, technology and markets so that we can make it more and more robust business.

Now coming to your point on exports, we have a very minimal export share today for the reason that we have been focussed on the Indian markets so far. We do have ambition to grow and we are exploring those markets. But I think that is a journey which is going to take time. And we are exploring various markets for our businesses. We see a very good potential for our Genset market. We have gone a few steps ahead in exploring markets, developing or a kind of redoing products for those markets and starting in a small way. But it is going to take time to show any substantial results. But we are giving enough attention to those markets. That is all I can say.

**Aparna Shanker** About the market, I was just trying to understand, the way Tata's Ace ZIP and Iris have been successful, are there some other OEMs which are planning or trying to put more products in those segments whereby they are taking away 3-wheeler markets graduate towards to 4-wheelers?

**Sunil Pahilajani** My sense would be no. Though there are not too many options today because Tata's already have a first mover's advantage.

And even if more players come, they may take some market share from Tata's. That may happen if this hypothesis is true. But whatever is the impact on 3-wheeler market is here, I do not think impact will be more.

**Aparna Shanker** Right Piaggio is one of our large customers. However, may be in two three years' time, with Tata's ramping up and may be Piaggio not growing so much, do you think Tata will be an important OEM as what Piaggio today is?

**Sunil Pahilajani** I do not think so. Piaggio still continues to be a very important customer and as extremely important customers they are still having a very large market. Our business share is very substantial out of our total business. Even next 5 years I do not see anything going drastically down in this. Though Tata Motors is another important client and we continue to grow with them, over a period we may strengthen our business models further. But Greaves as growing may have more customers. That is all. I do not think any customer is less or more important from that point of view.

**Aparna Shanker** No, I am just trying to understand, is that Piaggio in their international website, they usually have a presentation about their expectations about growth in India and different market 3- wheelers and 2-wheelers and others. They had some time back may be around 9 to 10% expectation of growth which has gone down to 2-3%. And post that we have seen going down in

Piaggio's 3-wheelers sale. Have you come across the factors which have put Piaggio on a backseat and some other OEMs are taking market shares from them?

**Sunil Pahilajani** Three wheeler market growth rate slowing down is a market situation. It does not diminish our attention to Piaggio because it is a very large account, in terms of numbers, financial, in all aspects and a very long relationship. So, importance of that does not go down in any manner. And Piaggio is there to stay; maybe they may keep working on their products also in years to come. But if growth rate in one particular sector is going down, they are also launching 4-wheelers and they are also entering other products where we are there. So, in a way, Piaggio continues to be an important customer.

**Aparna Shanker** Basically that is what I wanted to understand. These OEMs are launching different products and where does Greaves stand in that?

**Ashok Kumar Sonthalia** Just to add on this, even if you look at the overall 3-wheeler market, I think right now as far as the first 5- 6 months of this financial year are concerned, the more pain is in the petrol and alternate fuel. I think Diesel portfolio has still grown. It is a very slow rate may be 4 to 5%, but diesel three wheeler has managed to grow and Piaggio's share vis-à-vis other OEM customer may have slightly gone down. And Tata's would have certainly improved. As we hope to keep on adding more customers, both Tata motors and Piaggio continue to be gaining importance in the next two to three years which is the horizon which you are talking about.

**Moderator** Thank you very much. Our next question is from Punit Chokhani of Axis Capital. Please go ahead.

**Punit Chokhani** We just have two questions more in the strategy front. One is with regards to infrastructure business. If you look at the overall capital employed, it is close to Rs.150 odd crore. And you also mentioned that you are expanding into certain other product categories, to basically fulfil your product gaps. So, what is the kind of capital intensity we see going forward? And broadly what is the management thought process in terms of overall capital commitments to this segment considering that it has not done so great over the last couple of years? Second is in the engine segment. When we are talking of 4-wheelers, especially the Tata Ace family, looks like that segment overall will be a larger proportion going forward. So, what is the profitability in that side versus the traditional engines that you are doing? Is it better or is it lower, if you can through some light in here?

**Ashok Kumar Sonthalia** As far as infrastructure equipment is concerned, you would see that if you compare our capital employed number, it was at Rs.128 crore at September 2011 and now is Rs.112 crore. So, it has come down and it has come down through very strong management around our working capital which we have worked quite hard to optimise it. Some fixed capital investment has happened to the extent of say about Rs.7-8 crore in the last one year. What I can say, all the new products which we are talking about, they can be manufactured largely in our existing facility with some add on equipment. It is not a major investment. Of course, there will not be any major capital investment undertaken by us until we are very clear about the sustainability and financial growth of this business. At the same time, we continue to explore possibility how we release fund from working capital from that business. I think we have been successful in last one year to reduce working capital quite significantly there. So that is the infrastructure. As far as auto is concerned, automotive engine, we will not exactly be able to share the margin but yes, the fact would remain that 4-wheeler business proportions would grow compared to three but still 3-wheeler is a substantial portion. I do not see in a few quarters it is changing immediately. It will continue to grow and the only thing that I can tell you is that larger OEMs of course command finer prices from us and so is Tata Motors. But whether we make better margin on them or lesser margin on them will be difficult to share.

**Punit Chokhani** We had one more question pertaining to technology, you had mentioned in the starting commentary that the focus for the company would be on technology as well. We just wanted to understand if you have to specifically look at auto and if you have to look at farm equipments, how large or how small the technology gaps and what are you working on at this point of time?

**Sunil Pahilajani** Technology focus is to expand our product portfolio. As such for the existing products, there are no gaps, but when we want to expand our product portfolio, we need to bring in new technology like we have gone into buying new technology from Samil for S-Valve and boom pump. And those products will come in the market sometimes next year. Same way in each part of business we are exploring options. This is what I would say and the second aspect of technology is emission norms that we have to keep pace with.

**Moderator** Thank you very much. Our next question is from Rahul Hegde of Primus Investment Advisors. Please go ahead.

**Rahul Hegde** Sir, just a couple of questions. One is could you give a sense of how large is automotive as a percentage of your total Indian sales, for the first half?

**Ashok Kumar Sonthalia** Automotive to the whole company is about 60%. It includes spares.

**Rahul Hegde** On the infra division, given that your run rate now is down to Rs.30 crore level, at this run rate, the loss of Rs.3 crore at EBIT is that one should run with? Do you think is there some one-off there in that?

**Ashok Kumar Sonthalia** If we do Rs.31-33 crore this is the loss which we will incur, except we are working very aggressively on material cost in that division also and we are very hopeful to achieve that. You will see going forward margin improving slightly there through our own effort on material cost reduction. But the question is that this Rs.31-32 crore has to move per quarter to Rs.40 and Rs.45 crore in a quarter to breakeven. And I think we are trying for that and we believe that Q3 should show some uptick from here. For infra business we think we have reached to the bottom. I do not see this should go down any further. We should rather start improving from here, because of two reasons. We clearly see signs of road equipment related activities moving up. The other thing is that our introduction of new products in the concrete segment. In the concrete segment, we were largely present in transit mixer. And transit mixer is right now down and that is why our business is getting impacted. With the concrete boom pumps, the batching plants where business is still not that much down and where we are introducing our products. So, concrete pumps are getting introduced, batching plant we only had one model, now we have three and we plan to introduce fourth one. Through all these things, I believe concrete should also show improved results. My hope is that Q3 will be slightly better than this and

Q4 if everything remains the way they are should be further improvements from there.

**Rahul Hegde** In terms of your automotive capacity as we talk, what is that?

**Ashok Kumar Sonthalia** Capacity is more than 500,000 engines almost in terms of assembling capacity. Machining we can do about 450,000. As we are talking there are certain initiatives around debottlenecking capacities is going on. So, as I mentioned we are comfortable even if our run rate crosses 500,000 per annum. We will be able to service that demand.

**Moderator** Thank you. Our next question is from Manish Goyal of Enam Holdings. Please go ahead.

**Manish Goyal** Could it be possible to give the spare parts revenue contribution? Because I believe in Q1 we had seen contribution going up to 24% of the engine sales. So, how was it in this quarter?

**Ashok Kumar Sonthalia** Minor correction, 24% was revenue contribution for auto business. So auto business spares contributed 24% to auto business in Q1, in Q2 they have contributed about 21% to auto business. And over all at a company level, I would believe it should be anywhere around 13 to 14%. I do not have the exact number with me.

**Manish Goyal** This is only for engines or overall revenue sir?

**Ashok Kumar Sonthalia** I am talking about overall revenue, because construction equipment also has share of spares which is the same range 12-13%.

**Manish Goyal** How has it grown in first 6 months, Y-o-Y basis?

**Ashok Kumar Sonthalia** Auto business is doing pretty well. They are growing and others are almost at the same level.

**Manish Goyal** Would it be a double digit growth?

**Ashok Kumar Sonthalia** I would say auto division would have grown about 9 to 10%.

**Manish Goyal** Would it be possible to give us a revenue break up in terms of various businesses?

**Ashok Kumar Sonthalia** I can give you some break up which I told you. 60% is auto division. Now construction is about 8% only. Farm equipment is 15 to 16% and rest is between our auxiliary power and industrial engine business.

**Manish Goyal** I believe you have taken a price increase in Q1 or was it in the beginning of Q2?

**Ashok Kumar Sonthalia** We are running the businesses in various industries. Price increase or rationalisation keeps on happening. I am not sure which price increase you are referring to. With every customer this is very different. So, there is no one price increase which Greaves say look now we have taken a price increase. Like in farm equipment we took a certain price increase in Q2, in Genset business we took a certain price increase in Q1. So, it is very difficult to answer your question.

**Manish Goyal** Sir, particularly for auto engines business?

**Ashok Kumar Sonthalia** Auto engines also, for different customers it is different. But I think we got price increase in Q4 last year and we got some minor increase with few customers in Q1 also.

**Manish Goyal** Can you quantify the volume de-growth we saw for 3-wheeler sales in Q1?

**Ashok Kumar Sonthalia** In fact if you talk about 3-wheeler as far as we are concerned, Q2 this year versus Q2 last year, the de-growth is hardly anything. It would be 0.2% or 0.3% as far as we are concerned. As far as growth compared to Q1 is concerned, it is substantial growth. It is I would imagine more than 20%.

**Manish Goyal** Last question, the other expenses have gone up. So, would it be possible to throw some light on that?

**Ashok Kumar Sonthalia** Other expenses, I would say 1/3rd of the growth of other expenses is on account of fuel related, power expenses and freight charges. 2/3rd of that growth is because of our various initiatives we are running, in some cases we are taking external help on cost optimisation and various other things which we are doing. So, going forward, there is some reduction possible on that 2/3rd of the increase.1/3rd is mostly fuel related, power and freight where reduction is not expected. But other initiatives, which are being done or organisation related or market development related expenses, they may gradually come down to some extent. I believe there is possibility of some reduction in this expense as we move forward.

**Moderator** Thank you very much. Our next question is from Abhijit Vora of Equiries Securities. Please go ahead.

**Abhijit Vora** My first question is Capex requirement for this year and next year. You are planning to introduce some new products. So is there some Capex going there? And also whatever Capex you are doing for which platforms is it, broadly if you could tell us auto or infra or industrial?

**Ashok Kumar Sonthalia** We talked about our Capex for this year to be in the range of about Rs.90 crore which we continue to hold. There is no change in that. As far as next year is concerned, right now the numbers are yet to be finalized. But to give you some flavour, this year we are investing into R&D capabilities building up in farm equipment business. We are working on a new engine platform in our industrial engine business and we are working on certain product launches in our construction infrastructure business. But those are not very expensive as far as infra is concerned. We need to do some of the balancing equipment, so that expenditure is not more than Rs.5-7 crore. The engine platform at industrial engine is a significant investment by us and R&D at farm equipment is an investment. Going forward we believe our investment would go in farm equipment business, some of the products which we have been trading we want to indigenize them and bring down cost and improve quality there. And some of the more new products we want to introduce based on our R&D capability. So, next year farm equipment will receive attention in terms of capital expenditure. The industrial engine platform development would continue because that is a long project and we will also take up in automotive engine, capacity related investment if the market environment supports that.

**Abhijit Vora** What about functionally power generators? You said you are planning to introduce some lower ranges, less than 125 KVA?

**Ashok Kumar Sonthalia** That does not require much investment. It is when you come to Genset business, the engine sourcing is critical. So, we have a range of engines to supply to them in house and for smaller we may have to either do some work on our small engines or we have to source it from outside. So, that work is on. But that is not capital intensive.

**Abhijit Vora** The roadmaps are gaining more market shares, so how is that coming along?

**Ashok Kumar Sonthalia** Wherever we are already having very large market share, like petrol kerosene, strategy is to defend that market share and by introduction of new products and concentrating on our diesel pump set we are gaining market share. In power tiller also we do some amount of indigenisation and we are taking it forward further and that is the investment we are doing next year in power tiller. Through power tiller, through diesel pump set and we are also looking at electrical pump set market. How do we play that game because we do not have manufacturing capability there. May be we will start with a trading kind of thing. So, that is how in the farm equipment we hope to increase our overall market share. In automotive engine, one of our key OEM Tata is ramping up very well. That gives us improved volume and improved market shares and we are working on other market oriented development on other OEMs. And as we are successful somewhere and we are able to sign contract we will certainly get back to you. But we are working quite aggressively on that front. As far as other industrial and auxiliary power, auxiliary power is basically through distribution network and introducing smaller Genset from our portfolio is the initiative. And industrial engine business is not very old play for us. We are seeing signs of success. It is that the environment has to improve, like we started getting into construction equipment market, we started supplying engine to our own division and we are in advance stage to supply engines to other players also in construction equipment. So, those things are in trial mode right now. Those are avenues which would provide further growth to industrial engine business. So, these are some of the things which I talked about. There are more things like international business, may take some more time but we are working very aggressively on that because we see large opportunities for our products. The other thing, which is aftermarket, is spare sales, spares and service. We have created and we are designing a vertical in our organisation which just focuses on that business. And we are going to improve that. We believe with all these initiatives, in spite of slowdown being there, Greaves should able to gain from here in terms of revenue growth and in terms of market penetration.

**Abhijit Vora** Within your engine division, which specific segment declined to a large extent?

**Ashok Kumar Sonthalia** Industrial engine division declined slightly.

**Abhijit Vora** What is the rate of decline?

**Ashok Kumar Sonthalia** It is about 5-6% of decline.

**Abhijit Vora** Okay. The new platforms which you are working, the CNG platforms for Tata Motors, any update on that?

**Ashok Kumar Sonthalia** It is progressing and is on track and hopefully we believe, although it is not appropriate for me to decide on this, Tata Motor would decide when they want to launch, but we are ready and kind of getting ready in just few months, a couple of months.

**Moderator** Thank you very much. Our next question is from Srinivas Rao of Deutsche Bank. Please go ahead.

**Srinivas Rao** My question was that on the Tata Motors side. The Ace engine supply you have, how does the raw material pricing reset for you? Is it based on certain index or is it negotiable every quarter or so?

**Ashok Kumar Sonthalia** Let me tell you, in automotive industry there are no negotiations happening on quarterly basis. The price increase happens far and few, because the vehicle prices do not go up and down like that and same way the engine manufacturer also have to follow a discipline. Typical price discussions happen at the best twice a year, if there are really some pressing circumstances otherwise not more than that. So, that holds true for Tata Motors also. As far as Tata Motors is concerned, fortunately for us they themselves are engine manufacturer also, so they exactly know what is happening in the market and if something becomes which we cannot absorb. So the negotiations are very transparent, and increase happens. One increase with Tata Motors had happened, I think in early Q1 or end of Q4 last year. So, I expect now anything would happen either the end of this financial year or early next financial year.

**Moderator** Thank you very much. Ladies and gentlemen, due to time constraint that was the last question. I would now like to hand the floor back to Mr. Ashok Kumar Sonthalia for closing comments.

**Ashok Kumar Sonthalia** Once again thank you very much to all of you for joining this call and showing interest in our company. As mentioned earlier during the call there are certain things, certain initiatives which are happening in the company. On the material cost improvement, we are working very hard. On the market development, things are happening, hopefully we will be able to announce certain results in next two – three quarters. International business is another focus area which we continue to work on. Though the environment is challenging in Q3, we started seeing some upturn towards end of Q2 and I think that was more to prepare automotive industry for managing festive sales and we are very closely watching how this kind of pans out in next one or two months and whether those kind of numbers are sustained beyond that. If they are sustained beyond that, of course that is good news for us as well as for our customers. On constructional equipment and industrial equipment and auxiliary power division, we are taking initiatives to introduce new products, working on new engine platform. Similarly in farm equipment business we are doing. So, even if the market environment remains challenging, we believe that we will be able to sustain our situation and grow from there. So, with this note, I still believe that Greaves cotton has got capability to invest. We continue to be a zero debt balance sheet and we will continue to invest in building up our technological capability and we will continue to invest in organisational and market development activities and prepare the organisation so that as the environment start becoming more conducive to the growth, we capture those opportunities. With these words I would like to bring it to an end and would like to thank you very much. Have a good day.

**Moderator** Thank you very much sir. Ladies and gentlemen, on behalf of Greaves Cotton Ltd, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.