Greaves Cotton Limited

Q2 FY2022 Earnings Conference Call

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Management Representatives:

Nagesh Basavanhalli – Group CEO and Managing Director

Dalpat Jain – Group CFO

Moderator: Ladies and gentlemen, good day and welcome to the Greaves Cotton Limited Q2 FY22 Earnings Conference Call. From the management we have with us Nagesh Basavanhalli – Group CEO and MD and Dalpat Jain – Group CFO. As a reminder, all participant lines will be in the listen-only mode 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. I would now like to 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: Thank you. Good afternoon everybody. I hope everybody is doing well, staying safe. I welcome you all to the Greaves Cotton Q2 FY22 Earnings Call. Let me begin by giving you a little bit of an overview on the business and Mr. Jain – our CFO will take you through the financials. As some of you recall, we started on a diversification journey from single customers, single PL, single industry four years ago, so where are we today? Our diversification strategy has positively paid off. There is a consolidated revenue growth of 13%. Getting into the key highlights, new business continues to accelerate. New business now accounts for 40% plus contribution in terms of the overall business.

As you may recall in the last quarterly call, we had talked about the restructuring of the groups in to Greaves engines, Greaves electric mobility, Greaves retail; three primary businesses and two small enabler businesses. So, let us talk about the three primary businesses. Greaves Electric mobility records an 85% increase in volume, 111% revenue growth in Q2 FY22 versus the previous year. In terms of the Greaves Retail Auto EVmart which is one of the multi brands EV players in the country, was launched this past quarter and it is receiving very good inputs. Restructuring in consolidation efficiencies which we have been working on for the last four quarters are expected to result in an annualized fixed cost reduction and Dalpat will talk about that.

With new products financing and higher demand coming from the growing network, in Greaves electric mobility today we have Ampere which is a two-wheeler, E-Rickshaw Ele brand and we have the MLR.In the case of October we are seeing good traction as well in addition to the best ever quarter the previous quarter. We have also invested more than 300 crores into the Greaves Electric Mobility business and we will continue to keep looking at forward-looking businesses and how to drive future growth. Then when we look at in terms of three-wheelers, this past quarter we have completed the acquisition of MLR auto which gives us access to L5 Cargo and the passenger three-wheeler, Ele E-Rickshaw. With this, we have strengthened our position to become one of the largest players now catering to roughly 85% of the last mile mobility segment.

We will continue to mobilize India, generate gainful employment for lower end of the pyramid especially with our E- three-wheeler users, as well as contribute towards building the nation responsibly. Greaves electric mobility now accounts for 25% of the overall revenue. Auto engines segment has had short term challenges post COVID 1 and 2 and we are watching that segment very carefully for a recovery going forward. We are also happy to state that the other businesses, the non-engines business as well as the Greaves Retail businesses have seen growth. In the past quarter we have also launched high speed E two-wheeler Magnus from the Ampere portfolio which is the Magnus EX with a 100 plus kilometer range and which is a comfortable family scooter.

With this extended range and now Ampere being available in diverse segments, both in the B2B and B2C sides, we have a good coverage now. This along with other ecosystem force multipliers, whether it is pairs or service or financing we believe this auger well for the Greaves Electric mobility. We had also talked about Ranipet factory which is our mega site and that is coming out well and we believe it is slightly ahead of schedule and we believe this will help us scale volumes and makes Greaves electric mobility where we really need to go. Commercial production in this case will follow shortly. We have also talked about the Auto EV Mart and the strategy to electrify India and get into multi brand retail. With this, let me hand it over to Mr. Dalpat Jain our CFO to go over the financials. Thank you very much.

Dalpat Jain: Thank you Nagesh. Good afternoon, everyone. As Nagesh has described the company is going through a transformation where we are seeing our core business having an impact on its revenue, but other businesses are fuelling the growth. So, in the quarter we had a consolidated revenue of 374 crores which is a 13% growth over last year same quarter and 63% growth compared to the preceding quarter that is Q1 of FY22. Out of the four business units that we have the three that was non-auto, the retail solutions and e-mobility reported healthy growth year-on-year. E-mobility grew by 111%, retail solutions had a 27% growth and non-auto had a 33% revenue growth. Auto engines continue to have the impact of surplus inventory which was there at the OEM and COVID impact on shared mobility, so there we had a degrowth of 57%.

Our focus on working capital and cash management helped in generating 35 crores of free cash flow during the quarter. We ended the quarter with 265 crores of cash and cash equivalent. In terms of share of e-mobility now its almost 24% to 25% of the company's revenue and its volume as well as revenue are growing month over month. The demand is quite high in this particular space. The restructuring exercise company had undertaken over last three years has started yielding result from the cost base. Compared to FY20 cost the overall annualized fixed cost has reduced by 45 crores and that is getting reflected in the P&L so the breakeven point for the engine business has come down with that. Company focusses on the new businesses particularly in the e-mobility space will continue. The investment that we have made so far as Nagesh mentioned are 300 crores and company is committed to further invest as we go forward.

The couple of development post quarter and company subscribed to 26% equity MLR auto and with that we have got the presence in L5 segment. The Company also completed the acquisition of remaining 26% stake in Bestway which has presence in e-rickshaw under Ele brand. So, with that we have further strengthened our e-mobility portfolio. With this, I will open the floor for questions and both Nagesh and I will be happy to take up any questions that you may have. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.

Ashutosh Tiwari: Firstly, on the electric mobility side, two-wheeler side volume is on 10,000 before the quarter, what would you share of the high speed because if I look at the Vahan data the volumes are not much so. Is the mix more towards close to this quarter?

Dalpat Jain: So, Ashutosh two factors the Vahan data speaks about, the retail sales and in Quarter 1 as we had seen because of COVID led shutdown the primary sale could not happen and that led to a shortage of high speed at the secondary end. In the quarter the high speed at almost 30% shares of the total volume and we are picking up further on the high speed production. So, that share will increase as we move forward in the third and fourth quarter. So, these are the factors between the volume that we have in our presentation versus the Vahan data.

Ashutosh Tiwari: Incrementally the share of this high speed will futher increase from October and all. Is it the correct assessment?

Dalpat Jain: That is correct. So, month-on-month between July, August, September this has increased. The average is 30% that I spoke about and as we move forward it is further increasing with the focus on the high speed production and localization major part has been completed now. Our supply chain support partners are also getting stable.

Ashutosh Tiwari: And this part is mainly facing issue in terms of shortage?

Dalpat Jain: To the chip led part. Particularly cluster so some of this specific component there was a problem in the past quarter.

Nagesh Basavanhalli: I think big picture, high speed is going to increase. I think the trend we are seeing month-on-month like Dalpat said, October where we have already recorded I think it is in the deck recorded over 5,000 plus sales, high speed is a much higher percentage as we have seen in the past and localization, the lot of the hard work is done with our partners here. Supply chains remains a concern globally for a lot of the industry not just us and we are dealing with people, either the chips, the ECUs. Basically, a lot of the components that we can work with Tier 2, Tier 3 so we are doing what we can to look at the needs not just for one month, but also for the next 12 months and how do we manage that. So, our supply chain teams are very active. We are definitely very high percentage of localization, but some of our Tier 1 have supplies coming from outside and in some of this constraint environment so we are management that. That is one risk we are managing right now, but demand continues to be very high, both for high speed and low speed and it is very evident with what we are seeing on the field.

Ashutosh Tiwari: Nagesh you mentioned that in October and all that high speed version has gone up a lot so is it now more than 40%, 50% of sales is coming from there in volume basically?

Nagesh Basavanhalli: So, it is early days as you can imagine it is just 26. Yes, the trend is there. The good news is the Magnus has been received very well. There is a wait list for Magnus and now with the addition of Magnus Ex we have a longer wait list. So, the demand is much higher and yes high-speed demand is there and it will continue to increase. I do not want to give a percentage right now, but in the next couple of days once we close the month we will know, but yes, it is definitely increasing and you should see that trend.

Ashutosh Tiwari: And lastly before I join the queue again, the losses in the electric mobility has widened. So once that option, stake increase so where did you exclude that 7.7 crores. First is that where that recorded, the cost item and even they remove them then also there is a loss of say 12 crores to 13 crores. So how do we look at the losses in this business going ahead?

Dalpat Jain: So, two factors in Q2 in terms of the mobility losses. One, the option where the final transaction is completed now, the differential of the valuation has got accounted in the other expenses and that is the impact of around 8.5 crores including the expenses which are incurred related to that transaction. So, once we exclude that, there is a loss and that loss is because of the investment which has gone in the people, the structure which has the higher revenue because quarter-on-quarter the traction is very high and we have readied our infrastructure, the people and marketing expense to lead to that higher revenue growth and the third factor is the commodity price increase which has impact on the RMC. So, the gross margins have been lesser than what we had in the same quarter last year. So 2% impact has been because of this commodity price increase which we will neutralize as we go in the coming quarter.

Moderator: Thank you. The next question is from the line of Ashwin Agarwal from Akash Ganga Investment. Please go ahead.

Ashwin Agarwal: Sir I just wanted to get a confirmation about the segmentation. Can you just give us the wide area of scope about the Tier 1 volumes and Tier 2, Tier 3 volumes about the mobility?

Dalpant Jain: Ashwin we do not give the breakup, but we have given the segment level volume in our investor presentation. What is the total two-wheeler volume, three-wheeler volume. So two-wheelers was at around 10,000 plus in the quarter. We have equally spread-out network across India and our distribution between Tier 1, Tier 2, Tier 3 is equally split. So, I would say between passenger and cargo, that is for three-wheeler between 55-45 and for rural versus urban is 70-30. So, 70% of the revenue of our sales is in the Tier 2 and Tier 3. 30% is in the Tier 1.

Ashwin Agarwal: My second question is, our nearby competitor has been spending a lot of cash-burn to regenerate this type of market growing on, so have we been planning for any cash burn or raise of any debt fund?

Dalpat Jain: Ashwin as you know we have enough cash flow and strong balance sheet. Whatever is required for the business we are going to have the needful resources, but at the same time Greaves has always been very focused on the right profitability and the cash flow. So, we are not going to have cash burn for the sake of it. We are going to invest behind marketing people, to have a long-term growth, but at the same time focusing on the profitability as early as possible.

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

Vimal Gohil: I could not find out a regular disclosure on the segment revenue breakup. If you could just help me what would be the contribution from engines, aftermarket, e-mobility and others?

Dalpat Jain: It is there in our investor presentation Vimal, but in the quarter the e-mobility had a total revenue of 90 crores out of 374 crores. The retail solutions had 88 crores of quarterly revenue and balance was from the Greaves Engine.

Vimal Gohil: And aftermarket?

Dalpat Jain: That is our retail solutions, aftermarket plus GCR. So that is a retail solution which was 88 crores in the quarter.

Vimal Gohil: Engines you said was 90?

Dalpat Jain: E-mobility 90 and balance out of 374 is the engine. So, 180 between these two segments and remaining 190 crores in the engine.

Vimal Gohil: The second questions is on the high speed segment. You said that this quarter it was 30%, what was the number for Q2 FY21 and Q1 FY22 last quarter and last year?

Dalpat Jain: So, Q2 FY22 as you know the hike was very low. I do not remember, but till H1 of last year we were at close to 15%, 20% in high speed. Q4 last financial year we were at 40%. Q1 this year was impacted by COVID, so from primary sale perspective there was nothing and COVID also had an impact on our supply chain and that is where local supplier base got impacted with the one overall supply issues which are there, like the global chip issue and that is where the share of high speed in Quarter 2 was at 30%, but like Nagesh mentioned with the increase focus on the high speed we are seeing month-on-month growth and higher manufacturing of the high speed vehicles.

Vimal Gohil: So, basically if I were to look at a trend in first half of FY21 you were at 15%, 20% you reached 40%.For Q1 it was negligible. For Q2 it was at 30% and now you expect it to go to whatever 50%-30%. Increased from year-on-year.

Nagesh Basavanhalli: And just to add to that for memory, Q1 because of Coimbatore having a very bad COVID influx. Our plans were down for 8 out of the 12 weeks .So Q1 in that sense was an aberration, but yes, the overall trend that you touched upon is correct.

Vimal Gohil: So, if I were to look at the wholesale market share. Total market share of electric vehicle, if you can just give me some numbers on Q2 or H2 of FY22?

Dalpat Jain: This is our the public data on Vahan, FADA and some of the internal data that we have. Our total share in Q2 was around 15% in two-wheeler including both high speed and slow speed.

Vimal Gohil: So, it is pretty much in line with what you had done in the full year of FY21. So you have maintained your market share?

Nagesh Basavanhalli: In Q2 we are back to the similar level with both segments together.

Vimal Gohil: Last question was on genset. So this government of India's paper on reducing your emission bigger due to your genset, so what is the recourse for this. How do we get impacted because of this number? Genset I believe is a good contributor and it has been growing well, so what are our plans? So some of our larger competitors have announced that we will be looking at gensets which are made from renewable energy etcetera, so what are our plans going forward?

Nagesh Basavanhalli: So about 4 years ago when we started the diversification we said we will go to a fuel agnostic approach. Obviously, in auto engines you are seeing that. In non-auto also, it will follow and clearly we are well aware and like you are saying I think we have seen a good uptake on genset sales especially in the last couple of quarters with hospitals and we will continue to evolve that technology as we go forward we clearly are committed, we are working on the CPC before in fact we will be ready ahead of time and the technology and the fuel type also we will continue to work and we will deal with any regulations that may come up.

Vimal Gohil: So, what you are saying basically you will be in line with your lower emission, the technology that will come up in this particular business will not get as impacted going forward?

Nagesh Basavanhalli: We will continue to keep investing in newer technologies like we have done on the auto side. That is the point.

Vimal Gohil: Sir, if I could push in one more Sir, in H1 of FY22 what was the CAPEX that went into Ranipet?

Dalpat Jain: Ranipet so far we have spent is around Rs. 8 crores.

Vimal Gohil: This is the total CAPEX in Ranipet?

Dalpat Jain: The actual spent that I am talking about.

Vimal Gohil: And by the end of the year how much do we expect to spend here?

Dalpat Jain: Vimal I am not in a position to answer this right now as you know we do not give this forward guidance. Overall CAPEX plan for the business as we have told earlier, total investment in the business we are going to upwards of 700 crore, more than 300 crore we have already invested in the business so far.

Vimal Gohil: But a 700 crore that was 10 years?

Dalpat Jain: Over a period of time, out of which 300 crores have got invested and lot of it will be front ended as we had spoken earlier.

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

Ashutosh Tiwari: So, on this non-auto engine volumes I think there is a fall YoY, is it the COVID impact or are you seeing that some stagnation is coming through this segment and how should we look going ahead?

Dalpat Jain: Two part. Genset has seen a very healthy growth and because of that overall pricing mix of the business we would have seen the volume versus revenue growth is far high in the non-auto. In the other segment which is in the farm equipment, there was a onetime impact last year because of the lockdown in the first quarter, there was a pent up demand which led to a high volume in the month of July and August. In the current year though the lockdown was there, but at the same time as you know the Quarter 1 numbers were much better in the non-auto. So, volume overall for non-auto we should look at from the half year perspectives and we expect the volumes to go up. Second issue was on the farm equipment, where some of the products were imported and there has been ban on the import linked product. So, now we have tied up with the local manufacturer and that volume will start from Quarter 3.

Ashutosh Tiwari: This is related to farm equipment you said?

Dalpat Jain: That is correct.

Ashutosh Tiwari: I was referring to non auto engines which are used in infra and all. So, there the drop is not related to rural?

Nagesh Basavanhalli: There the drop is related to the pent up as I mentioned in the Quarter 1 of last year where it was complete lockdown. So, Quarter 2 had a onetime impact this year, that is spread out between Quarter 1 and Quarter 2.

Ashutosh Tiwari: Secondly on this electric three-wheeler side probably we are doing 1,000 units per month right now. Which states you are seeing better traction and how do you see this whole space in two, three years? How do you see the volume ramping up in this initial segment and also you acquired this Teja brand for that L5 auto, so what is the plan over there say in one to three years period?

Dalpat Jain: Ashutosh I will reply on the first part of the question about the traction. So it is a Eastern and the Northern state where we see the highest traction and the growth in the West Bengal, UP, Bihar. So, that is the belt where e-rickshaw are very popular and we are seeing a good growth coming in from those states. Primarily the segment is catering to the guys who are having earlier hand rickshaws or the cycle rickshaws, they are now moving up to a e-rickshaw and the person who is earning let us say Rs. 100 a day now with the e-rickshaw he is able to earn more than Rs. 300, Rs. 400. So, that is the segment which is getting converted towards e-rickshaw. On the long-term part and the volumes this is one of the segments which is having a highest penetration of e-rickshaw. I will let Nagesh talk about the vision and the strategy which we towards e-rickshaw as well as the L5 the Teja that we have acquired now.

Nagesh Basavanhalli: Let me start with the e-rickshaw. The e-rickshaw itself at the bottom of the pyramid, I think it is a great success story I mean there is obviously the unorganized players and the organized players. Amongst the organized players we are one of those serious players in the top three or top four players and that the market share continues to grow in the e-rickshaw market and we are seeing the monthly trend go in terms of 1,000 plus units of sales that has been talked about. When you look at the monthly average from almost nothing now we have grown like 3 times, 4 times in terms of where the monthly average run rates are, the volumes also have grown in terms of roughly the 1,000 plus units that I was talking about. Where do we see the sales it is obviously in the North, in the East and a very strong focus in terms of lives and livelihoods. In fact right after COVID-2 also we saw lot of tractions. Financing is a key part in this and I think with additional financing this segment will continue to blossom. Longer term to answer your other question we see this market transition between led acid to also lithium, ion and some of the unorganized players moving away and organized players getting a lot more traction. The expected CAGR will be good and we believe the CAGR in this segment because it is again lives and livelihood and at the end of the day if you look at any of the analysis, third party analysis the e-rickshaw part continuous to grow and I think we are well positioned in this. We saw this early just like the two-wheeler, we saw this trend early and we are I think in a good position to capture the growth there. Now coming to the Teja or the three-wheeler, so this was part of our strategy. We started with two-wheeler and then we move to e-rickshaw and now the last piece was the E three-wheeler which is really the MLR brand and we are just getting started. We just close that a couple of days ago. So, I think as we look forward into Q3 and Q4 you are going to see a lot more action there in terms of the e-three-wheeler, electric three-wheeler as well as the traditional three-wheeler sales there as we go forward. In their financing will play a key and building the dealer ships will be the key so some things that I think Greaves Cotton has done well or Greaves electric mobility has done well. So, we are quite confident when you look at both two-wheeler plus three-wheeler that this addresses pretty much with our platforms now being available on two-wheeler, e-rickshaw on three-wheeler for both B2B and B2C applications it addresses a very wide market that is growing.

Ashutosh Tiwari: So, will you use the same yearly network for this as well, Teja vehicles?

Nagesh Basavanhalli: Simple answer is no. They have their exclusive e-rickshaw network, which is very, very strong in the North and the East. Some of the Greaves care stores due to synergies are selling that, but clearly Greaves retail and MLR will have their own network that we are leveraging the Greaves retail for. So, that is where some of the other synergies will come, but e-rickshaw and e-auto will probably be two different channels. So, in summary Greaves electric mobility will have the ampere, which is the two-wheeler brand, e-rickshaw which is the Ele brand and then the e-auto will obviously be that MLR brand.

Moderator: Thank you. The next question is from the line of Aman Pirani from JP Morgan. Please go ahead.

Aman Pirani: My question was actually on the e-three-wheeler side and pardon my ignorance if this has been asked before. On the EV two-wheeler side we have seen this evolution from lead assets to mainly lithium ion and also now from mainly low speed to an increasing share of high speed, within three-wheelers again I think it is started mainly as a lead acid and the e-rickshaw is not merely I think a comparable product to the auto rickshaw that we have. It is the e-auto if I not mistake it, so can you give us a sense of within the electric three-wheeler industry, what is the broad share between lead acid and lithium and also what is the share between really small slow speed e-rickshaws and e-auto and how is it trending?

Dalpat Jain: In terms of the evolution the three-wheeler also, the segment has started with the lead acid technology and today in the e-rickshaw we have 95% share of lead acid vehicles, and that trend is changing more and more. We are getting customer coming to lithium-ion batteries as you go forward. So, obviously there is a higher price difference between both and that price difference is almost 20% to 25%, but we are seeing increasingly consumers are coming for the lithium ion battery and that share will go up as we move forward. Today in two-wheelers as you know it is almost 50-50 and even in some cases 60-40. 60% in favor of lithium ion so that journey will be taken in e-rickshaw also. Also, the auto is the right comparable or e-auto is the right comparable product and that is where our entry into MLR. So, with MLR we are going to have presence in the e-auto segment also. Today it is a niche segment in terms of penetration of electric vehicles it is very small I would say less than 5%, in terms of e-auto. So, that penetration will increase with the products coming in from various OEMs and MLR is the early entry over there with the certified products. So, hopefully we will be able to make a increase the penetration out there with the lithium ion as well as lead acid battery product.

Aman Pirani: And on the lithium and on the e-auto side it is mostly the organized players who will be fighting it out right. I mean you are there and I am guessing we will see entry from say the Bajaj and TVS. Whereas e-rickshaw will remain more of an unorganized segment having with you there, but mostly unorganized?

Dalpat Jain: There are few players in the organized sector right now. We are the second largest and moving towards the largest in the e-rickshaw organized segment. Segment was 90% dominated by unorganized three years back today unorganized share has come down to 62% and 38% is with the organized. As we move forward we are expecting the share of organized increasing and within that with Ele we are bringing in new products with the better technologies to increase our share which is in single digit today

Nagesh Basavanhalli: And if I can just add in summary if you look at what we have done. We started with the electric two-wheeler about three plus years ago before all the hype on electric two-wheeler started because we were convinced that the shift was happening, disruption was happening, unit economics was going to get improve. Similarly, the e-rickshaw trend we got it early. So, the two-wheeler trend we were there early, e-rickshaw trend they are early and we also hope on the e-auto we are going to. So, the idea is whether it is lead acid or lithium, whether is the subsegments, the high speed, low speed and the two-wheeler or the lead acid versus lithium. Our team have caught the trends early and I think that is helping us grow from almost a non-existing base or very low base and that is kind of how we see and we are gaining valuable information in terms of customers, duty cycle, what works, what does not work and glad to report that our products are getting very good traction from the customers both B2C and B2B. So, I think that probably gives you a little bigger picture.

Moderator: Thank you. The next question is from the line of Ashvath Rajan from ULJK Financial Services. Please go ahead.

Ashvath Rajan: I wanted to get some clarity on the current tax of Rs.4.12 crores as we can see a loss of Rs. 1.98 crores on the balance sheet, so could you shed some light on the current tax asset?

Dalpat Jain: So that is the advance tax because as you know the advance tax is paid basis the projected profit for the full year. So, we have made the proportionate advance tax payment in June and September on the projected profit of the year whereas the profit is going to be in the second half.

Moderator: Thank you. The next question is from the line of Abhishek from Skyridge Wealth. Please go ahead.

Abhishek Rajan: I was asking if you could talk a little about your higher other expenses. I know you spoke it about earlier, but I had some trouble with my line.

Dalpat Jain: So, in the other expenses there are two factors at consolidated level, one there is a 8.5 crore of onetime expense due to fair value adjustment of 26% of call option that we exercised for Bestway. Our wholly owned subsidiary Greaves electric mobility exercised the option. So the difference between the originally considered value versus what is paid now that has been routed through P&L. So that's the 8.5 crore of onetime impact. The balance increase is due to the expansion of the people, marketing expense and the infrastructure in e-mobility which is geared for far higher revenue, and we are seeing quarter-on-quarter revenue growth as is reported in Quarter 4 to Quarter 2. So, the people and the infrastructure is geared so much higher revenue, where cost is getting incurred at the earlier stage.

Abhiskek Rajan: Sir my second question is regarding the standalone EBITDA margin. Sir can we expect some improvement going forward and are you able to pass on your cost increases to the customers?

Dalpat Jain: So, there are two factors which will lead. One, overall revenue as we know, if we look at the last year trend also, the third and fourth quarters have better revenue because of season part as well as we are seeing the post COVID normalcy coming in and that will have natural expansion. The second part, some of the initiatives which are taken up by the company to restructure businesses, consolidate auto and non-auto, is going to lead to almost 7% to 8% reduction in the fixed overhead and that efficiency will kick in from the month of December onwards. So that is the second part which will help in expansion of margin and third is raw material cost where the commodity price increases have impacted the RMC. Now with the vendors, the price settlement happens on quarterly basis whereas with the customer particularly in a OEM where we have an early price settlement contract. Some of those price settlement contracts have 1st October and 1st of December as the reinstatement date. So, these factors will help in margin improvement as we go in Quarter 3 and Quarter 4.

Abhishek Ranjan: Sir my last question is regarding your auto segment. Sir are we seeing auto coming back because I know we had struggled auto volumes in Q1 and Q2?

Dalpat Jain: Auto definitely we are seeing the traction, so there are two factors. One before the second wave of COVID in March and April we had seeing the business getting normalized. So, most of the OEMs had purchased and build their inventory, with the sudden lockdown that inventory remained in the dealer channel and at the OEM front. Post the lockdown opened, the first that inventory which was there in the channel that got liquidated and now we also started demanding from the suppliers like us on the engine front. So, to that extent there is going to be recovery as we go forward. Though the demand will not come back to what it was at the pre COVID level with the overall impact on the diesel, but we expect volumes to comeback at least to the last year levels as we go forward and one more part, company envisaged in 2017 and that is where we strategized to move towards e-mobility. Also, the plant consolidation and business restructuring has started. So, though I spoke about Quarter 4 additional reduction from the current level, but as you would have noticed in Quarter 2 and Quarter first half, already almost 12% cost has got reduced compared to what it was in 2020. So that plant consolidation, business restructuring at an aggregate level we will have a 16% to 17% reduction compared to FY20 cost level and that will completely come in the next financial year P&L versus FY20.

Nagesh Basavanhalli: Just to add to that in addition to the efficiency or restructuring what the CFO covered. Keep in mind as part of this also is the diversification strategy. So, one is the defence another one is the offence. Dalpat talked about the defence which consolidation gave us a 16% plus. On the offence obviously auto engines we expected diesel engine to go down. We invested in CNG and an electric then non-auto engine was a diversification. Now with the Greaves Electric Mobility and the Greaves Retail. So, I think that is kind of where three out of the four businesses right now are continuing to show growth and we hope on the auto engine side things will pick up post Diwali.

Moderator: Thank you. The next question is from the line of Pramod Amthe from InCred Capital. Please go ahead.

Pramod Amthe: First is just wanted to know what is your current local sourcing and what type of import and what you import? Wanted to know about that. Second is considering this act that there are some challenges in sourcing from China with the recent shutdown, so are you going to face any challenges in the short term for ramping up to meet the demand on the production front?

Dalpat Jain: So, first part of your question in terms of localization, the initiatives that the company took are in compliance with the FAME guidelines for the high-speed vehicles. So, almost all the supply chain is localized. Lithium sales which are not there in India as of now that continues to be imported and battery pack are done by the Indian supplier. So that is to answer to your localization part where high-speed vehicles are more or less now localized. So, still some component we continue to import. The second part in terms of supply chain issues, yes that is something which is continuing we saw that in Quarter 2. The demand was far higher than the volumes that we have reported. It is the supply chain issues which impacted some of the production and the demand could not be completely fulfilled. We are working with various supply partners and we are confident that volumes will be able to increase from here on and Quarter 3 and Quarter 4 we are going to see a much higher volume compared to what we have seen in Quarter 2, but at the same time supply chain related issues is one of the key monitorable in the e-mobility business for us.

Pramod Amthe: But when you say the localization even the FAME II says that about Tier 1 or Tier 2 that there are a lot of components which come at Tier 3 level still at an import, so when you look at overall as a system, does it still have a large proportion bearing on including sales. Is that the fair understanding?

Dalpat Jain: For high speed I would say that other than lithium sales there is no significant part which is as part of the imported components. Most of it is already localized.

Pramod Amthe: And the other question is you guys have been playing an active role during the domestic M&A and also consolidating the industry, wanted to know looking at your product strategy for next five years do you see a need to do any international acquisition which can help you to strengthen your product portfolio or the sourcing strategies globally to take it to a next level?

Dalpat Jain: It is difficult to answer though as you know these are part and parcel of the expansion strategy that company continues to pursue and with the management and boards consideration we continue to look at all the options which are available. The company will do everything that is required in terms of its technology superiority, acquiring the right to know how, but difficult to comment right now there is nothing which I can talk about the specific target.

Moderator: Thank you. The next question is from the line of Karthikeyan from Suyash Advisors. Please go ahead.

Karthikeyan: I had a couple of questions there with me. One is can you talk about your experience in terms of sales subsidiary collection and what timelines are you looking at currently. Another question can you profile your current set of customers for the high-speed vehicles, you said higher percentage is coming from Tier 2 and 3. Can you profile these customers?

Dalpat Jain: Let me take the first question about the subsidy so it is a cycle which is now well settled, where as a process once the secondary sale happens the dealer submits the documents. So, it is a entire cycle of 60 days to 90 days within which the money comes to the manufacturer's account. So that is on the first part in terms of subsidy. Second part in terms of the customer profile as I mentioned 70% is in the Tier 2 towns, Tier 3 towns, but at the same time it is the millennial, and I would request Nagesh to add on to the consumer profile part.

Nagesh Basavanhalli: So, I think we have been quite fortunate. We have two types of customers with the outset B2B and B2C. B2B is our application specific engineered products where we are providing vehicles to either right share carriers or cargo movers and stuff like that. On the B2C we are seeing actually, we are having a very good day. Last week we had 500 plus retails in one single day. Our Magnus Ex has been very received which is the extended range 100 plus that was launched a week and half ago. Our Magnus has had a wait list at our dealers right now and the typical customer is anywhere between the young millennials, the Gen-Z on one hand. On the other hand, we are also seeing office goers and people with family because our seats are wider, range is good, reliability is good and we are seeing a lot of traction in that sector as well. So, all in all I think our looks, design is good. So, we are seeing a lot of traction on both B2C and B2B as we speak. That's kind of at a high level and then when you look at website analytics, one in two users is below 34 years old. Top five states contribute to almost 73% of our traffic and we are seeing some very interesting dynamics because a lot of first time buyers are coming in and buying this product. First time I am talking about first wheeler to a two-wheeler. So, we are bringing in a new set of audience to this and that is what excites us and the demand is far higher.

Karthikeyan: And what is the price sensitivity of the customer in your assessment?

Nagesh Basavanhalli: Price sensitivity keep in mind over the years and I think this is very well demonstrated, our average ASP has gone up to almost Rs. 35,000, Rs. 40,000 to almost Rs. 66,000 plus and we also have a good range of products from the lower end slow speed to the higher end and depending on that of course the customer segmentation is also there.

Karthikeyan: I was asking you specifically on the high-speed vehicles?

Nagesh Basavanhalli: On the high speed specifically with the subsidiary and with the value addition I think our vehicles are slightly higher priced compared to the immediate. So, it is we believe we have the right value proposition and the demand far exceeding the supply is probably also indication of where the pricing is there.

Dalpat Jain: And prices are expected to come down with the time, with the battery technologies changing and it is coming in India. So, Indian consumer as you know is a value conscious consumer, so our focus will always be to provide the product at the right price point and that is the USP on which Ampere continues to work.

Nagesh Basavanhalli: The other thing is keep in mind Ampere or Greaves Electric Mobility plays in the heart of the market, the belly of the market right and so while post FAME II in general, the industry may have seen prices going down, our sales have gone up, our ASP has gone up, our value proposition has only improved and I think you will more of this as we go forward.

Karthikeyan: One last question kindly let your perspective on this, which is I have heard a startup I would not say startup really somewhat the company has made some progress, retrofitting e-rickshaw with lithium-ion battery so do you see threat to the organized players because in a certain sense the large population becomes a ready target to convert. Your current impression about this thing?

Nagesh Basavanhalli: I look at it slightly differently. This is an opportunity the market size when you look at two-wheeler is about 20 something million pre COVID. The market size for the three-wheeler is obviously another couple of million when you also add e-rickshaw. When I look at it any point of time. Now this is where our fundamental business model helps while Ampere is interested or Greaves Electric Mobility is interested in growing the new vehicles sales. Greaves Retail which does servicing multi brand service, multi brand spares, multi brand retail is also from time-to-time looking at retrofit also as an option because we are already talking. Are we doing that today to a big extent, we are not because it is also a commercially viable proposition, but that is something that we have been exploring for a while and if the right opportunity and the right technology comes in we see ourselves through our Greaves Retail outlets going after that. It again gets back to the right value proposition. Is the right value proposition there for the customer to pay that Rs. 1,000 or whatever it is and is there an ROI for that is where today the market is still struggling on that in fact we have been watching this segment very closely and if takes off from a commercialization, you will see a participation on retail Greaves Retail, but I do not see to answer your question I do not see the market rises so big Greaves Electric Mobility demand should not be impacted with this.

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

Vimal Gohil: In the last conference call you have indicated that currently Coimbatore has the capacity for about 5,000 units per month and if I were to look at the quarterly numbers and this is only for two-wheelers, so for the quarter we have done about 10,000 so if I were to assume that you had the available capacity of 15,000 and you have operated at 10,000 so would this purely be because of shortage or what could be the reason for operating at slightly lower capacity utilization?

Dalpat Jain: Yeah, Vimal you are right. It was primarily because of the supply chain issues. We had shortage of one part or the other that impacted the overall production.

Vimal Gohil: Just following up on the previous question that I asked on the breakup of your revenues, I think till the early quarter you used to also give out a segment which is others which included the revenue from genset, agri pumps etcetera, so if you can give me the breakup in the first half from engine and others is that possible?

Dalpat Jain: I will maybe talk to you on that because right now our three main pillars of the business, how we have restructured is these engines which includes all the engines as well as the other equipment associated with the engine and Greaves Retail is mainly from aftermarket and Greaves Care, Greaves Retail.

Moderator: Thank you. The next question is from the line of Jagannathan, Individual Investor. Please go ahead.

Jagannathan: Congratulations on launching Magnus Ex, happens also to be the best priced EV scooter. I just want to get a sense on the production capacity for Ex in particular and for other EV bikes, I mean both high speed as well as the ones that you cater to on lead acids and when do you think you are going to fill the pending demand for Ex as well as the Magnus pro as you mention there is a huge pending demand, so I would like to know when you fill the pending demand and what is the backlog, like what is the number that is likely that is required to be filled. The second part of the question is what is the total production capacities for the e-rickshaws that you have and I needed to get a sense on the total number of e-rickshaw that you produce and the last question would be with regard to what is the outlook for the engine business going forward and the margins for the next quarter and with regard to the financial partner you are talking about in an interview, is there any thought process in Greaves to get a financial partner or a technical partner for the EV business?

Nagesh Basavanhalli: Thank you for recognising the Magnus Ex, yes we are very excited with the response that we are getting. I will take a couple of questions and then Dalpat will jump in as well. In terms of the partner I am assuming, are you talking about the fund raise for the EV business, is that what you are talking about.

Jagannathan: The fund raise or if you need a technical partner to put a brand by your side to sell even more, but I am assuming that since you are selling whatever you produce you do not need a partner right away, but it could be financial partner or a technology partner?

Nagesh Basavanhalli: I think like I have said publicly I think we are open and if the right, we believe we have an exciting business case and the exciting model if the right partners comes along and it makes sense yes, I think we will be open is what I have said. Now coming to this capacity is not an issue going back to what we were saying earlier. Between Coimbatore and now Ranipet beginning to ramp up very quickly and will be ready, we are slightly ahead of schedule we will be ready by the end of the year and in addition to that e-rickshaw to answer your question I think also has the capacity. Our biggest challenge like Dalpat was eluding earlier is a supply chain. We have actively pursued localization, we have local suppliers, we are working with them, we are working with Tier 2, Tier 3, Tier 4 venders to secure our quantities, but not just for one quarter, but over the next four quarters we are doing everything we can. So, if supply chain is not a constraint I think the number should casie – in- -point being last quarter was a best ever quarter for Greaves Electric Mobility. October seems to be the best ever month until 25th we have not even finished the month. So, capacity is not an issue, the commitment from that group is not an issue, are we in the right place between two-wheeler, e-rickshaw, three-wheeler, I think the answer is yes. Supply chain is only thing I do not control and we are working very hard on that. We have moved from some of our best people from Greave side also into Ampere to help us with supply chain and you will see the numbers hopefully improve as the supply chain improves. I think I have covered everything.

Jagannathan: What is the total spending demand? What is the outstanding demand for Magnus because when we go to the dealers and check with the dealers the normal statement is I mean we have yet to deliver what we book three months back I mean there are different kind of feedback or some people converting from Magnus to Magnus Ex Pro to Magnus Ex because I say because anyway Magnus Ex is getting delivered so we would probably do Magnus Ex rather than Magnus Pro?

Nagesh Basavanhalli: It is about roughly about 8 weeks plus of demand and we are obviously working as fast and as furious as we can to fulfil the demand, but the good thing is we are delivering, we are working very hard every day, you can see the products on the ground, our products have been around, it is proven and tested. Our products are delivering and exceeding people's expectation, some of the product reviews I have seen and I think we will overcome the shortage as well, but it is a good problem to have we are working very hard to meet the customer demand.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference over to Mr**.** Nagesh Basavanhalli for closing comments. Over to you, sir.

Nagesh Basavanhalli: Thank you all for a very energetic and a very passionate discussion. In summary as we announced, I think our diversification effort, our consolidation is restructuring efforts are paving way both in terms of the offense and the defence that I touched upon. Four acquisitions done in the last four years I think it puts us in a 85% of the two-wheeler, three-wheeler category in the Greaves Electric Mobility and Greaves engines especially on the non-auto side is showing definitive increase traction. Our Greaves Retail on the spares is showing traction. In fact, when you look at the numbers you can see Greaves Retail as well as Greaves non-auto engines and Greaves Electric Mobility all tracking to ahead of Q3 of last year or in that range. Obviously, we are watching who are the auto engines demand very carefully and we will see how that evolves from a market standpoint, but all the things within our control whether it is offence or defence, I think we remain committed to executing that. Thank you for your attention, thank you for your time. Happy Diwali everybody.

Dalpat Jain: Wish you all a very Happy Diwali. Thanks a lot.

Moderator: Thank you. On behalf of Greaves Cotton Limited we conclude. We thank you all once again, stay safe, feel safe. This concludes investor call. Thank you for joining us.

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Note: This transcript has been edited to improve readability.