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Dear Sir/Madam

Sub: Transcript of Investors Call

Please find enclosed herewith the transcript of Investors Call held on 1st November, 2018.

Kindly take the same on record.

Yours faithfully,
For Greaves Cotton Limited

Atindra Basu
Head - Legal, Internal Audit
& Company Secretary

Encl.: a/a.

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Greaves Cotton Limited
Q2 & H1 FY19 Earnings Conference Call
1 November 2018

Moderator: Ladies and gentlemen, good evening and welcome to Greaves Cotton Limited's Q2 & H1 FY19 Earnings Conference call.

We have with us today from the management Mr. Nagesh Basavanhalli – Managing Director & CEO, Greaves Cotton Limited; Ms. Neetu Kashiramka – CFO; Mr. Tarun Khanna – Chief Marketing Officer & Head of Strategy and IT.

As a reminder, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions 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 the Managing Director & CEO, Mr. Nagesh Basavanhalli from Greaves Cotton Limited for opening remarks. Thank you and over to you.

Nagesh Basavanhalli: Thank you. Good afternoon all for joining us. Getting straight in to business. Our H1 FY19 revenue continues to show a positive trend in our growth story. We are executing to our strategic plan and sixth quarter in a row the growth continues. This is the sixth quarter where the growth has continued for Greaves Cotton.

When you look at the real numbers H1 FY19 revenue is up 11%, EBITDA is up 9%. This is the best quarter in terms of revenue for the last three years. The strategic initiatives that we have put in place the sharp focus on growth sectors of the business as well as improvement in operational efficiencies have helped us deliver this performance inspite of the overall macro challenges in the economy in terms of commodity inflation etcetera.

In terms of the Q2 FY19 revenue was up 9% to Rs. 495 crores and these numbers are GST compatible versus the Rs. 452 crores the year ago. The quarter also saw some key milestones. The acquisition of the Ampere Vehicles where we are going to play a role in affordable mobility as well as the announcement of the 100th Greaves Care Center which nationwide services thousands and thousands of customers every single month.

Overall Q2 19 has been an exciting quarter. We have reaffirmed the commitment for maximizing value to our end consumers and drive sustainable growth for the future. With that I hand it over to Neetu Kashiramka to take you through the financial. Thank you.

Neetu Kashiramka: Thank you, Nagesh. Good afternoon everyone and thanks for joining the quarterly earnings call. I will take you through the financial highlights. You already have the press release and investor presentation. I just take you through the quick highlights of the same. So quarter 2 revenue growth of 9%, EBITDA growth of 8% and PAT before exception is a 9% growth. Half year revenue growth of 11%, EBITDA growth of 9% and PAT before exceptional item again a growth of 9%.

All our businesses are showing good momentum. If you see the next chart which is the quarterly revenues, in FY17 our average quarterly sale was Rs. 408 crores which is now moving towards Rs. 477 crores. So Rs. 408 crores in FY17, FY18 it was Rs. 448 crores which is now in FY19 at Rs. 477 crores.

Business by revenue engine is at 50%, aftermarket at 24% and others which includes genset and agri is at 26%. So again I will reiterate on the fact that our PAT, the product PAT is after an exceptional item which is of Rs. 4 crores if you net off then the growth is 9%. So the apple-to-apple comparison if you do it is Rs. 49 crores for Q2 FY19 versus Rs. 45 crores for Q2 FY18.

Same way for the half year there is an exceptional income of net of taxes of Rs. 8 crores. So H1 FY19 PAT is 89 versus 82 which is again a 9% growth. If you see the balance sheet matrices again we have done a good thing. Net working capital of 21 days versus 43 days last year. EPS is flat because of the exceptional item Rs. 3.70. ROC at 26% versus 25%. Fixed asset turns again a good show with 6.1% versus 5.6%.

I now leave the floor for question-and-answers. Thank you.

Moderator: Thank you very much, ma'am. Ladies and gentlemen, we will now begin with the question-and-answer session.

The first question is from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.

Ashutosh Tiwari: Can you please provide the volume numbers, three-wheeler, four-wheeler, pumps, tillers and gensets?

Nagesh Basavanhalli: Neetu, can you take that?

Neetu Kashiramka: Engines 84,744 versus 86,920. For half year 159,324 in FY19, Tillers is for the half year 2796 and for quarter it is 1,000. PK pump set half year is 32,521 and quarter is 16,691. Diesel pump sets 6,193 for half year and 3,020 for quarter.

Ashutosh Tiwari: Can you provide the breakup between four-wheeler, three-wheeler engines?

Neetu Kashiramka: Three-wheeler is 136980 for FY19, half year.

Ashutosh Tiwari: And for quarter?

Neetu Kashiramka: It is 77,988.

Ashutosh Tiwari: If I look at the investment in subsidiaries it has gone from almost 0 to Rs. 44 crores, I thought we got closed in October. So what this reflects?

Neetu Kashiramka: We bought 51% on the secondary shareholder before October which was before September. So Rs. 44 crores was paid for that secondary shareholders. So basically 51% of equity of Ampere.

Ashutosh Tiwari: Then the employee cost has fallen on a Year-on-Year as well as Quarter-on-Quarter basis. Is there any one off over there or this is normalized cost?

Neetu Kashiramka: It is a normalized cost. So we are doing lot of work at around cost control and efficiency. So that is why.

Ashutosh Tiwari: Working capital has gone up basically. We have seen a good increase in the inventories and receivable while payable has not gone up that much. So any reason behind that?

Neetu Kashiramka: So basically working capital if you are comparing from March there is a four days of increase otherwise as compared to September because what happens is September and March sometimes are not comparable because now you have Diwali season so we will have some debtors and inventory for servicing the festive season.

Moderator: Thank you. The next question is from the line of Nirav Vasa from Batlivala & Karani Securities. Please go ahead.

Nirav Vasa: My first question pertains to the price hikes. Can you share some data with regard to price hikes? If it was taken in third quarter and how do we plan to pass on the increased commodity prices to customers?

Neetu Kashiramka: So we had taken price increases around April for majority of our businesses between 3% to 4%. So we have done two things. One increasing the prices and second ,we have done some work around hedging and also cost control measures. That is why if you see the commodity inflation which was 4% whereas our RMC has only impacted by 40 basis points.

Nirav Vasa: My second question would be pertaining to the onetime cost which we currently as we are doing undertaking alpha trials. So there must be some cost involved in it and I believe there is some kind of a sharing ratio between Greaves Cotton and the customer. So can you share some more light on that? What is the kind of cost that we are incurring per quarter on this testing mechanism and what percentage of it has been shared by your customers?

Neetu Kashiramka: So you are talking about the BS-VI?

Nirav Vasa: Yes.

Neetu Kashiramka: So this is basically a two year project which is currently on. So total investment in this will be Rs. 100 crores which will be over a period of two years. It includes creation of capacities. So this is not a P&L impact it is a CAPEX. So it will get in to the CAPEX.

Nirav Vasa: And any percentage of the cost would be borne by the customer?

Neetu Kashiramka: Some cost customers are bearing but we are not sharing the percentage as such because it will be different with different customers. I do not think that we can share with public.

Moderator: Thank you. The next question is from the line of Bharat Gianani from Sharekhan. Please go ahead.

Bharat Gianani: Just coming back on the diesel three-wheeler business that we have. I think that is about 40% of our total revenue. I just wanted to get a breakup between how much of the three-wheeler engines that we supply what is the split between the goods category and the passenger category if you have any classification for that?

Tarun Khanna: So typically the diesel market is about 60% to 65% passenger and about the balance is cargo and that is the mix that we are also selling in. Having said that obviously these are OEM vehicle sales that we are talking about and not directly in to those segments. But we are supplying to our OEMs and since we are 70% to 75% of the market which pretty much reflect the market mix at an overall level.

Bharat Gianani: And sir, my next question is if we have to about Rs. 75 crores to Rs. 80 crores is the investment that we have done in the Ampere vehicles. But apart from this what is our CAPEX for FY19 and FY20 apart from this investment that we have done in the business of Ampere Vehicles?

Neetu Kashiramka: In FY19 and FY20 we have Rs. 100 crores CAPEX each year.

Bharat Gianani: And this is excluding the Ampere investment, right?

Neetu Kashiramka: Yes, it is excluding.

Bharat Gianani: So FY19 also Rs. 100 crores and FY20 also Rs. 100 crores?

Neetu Kashiramka: Yes.

Moderator: Thank you. The next question is from the line of Rohit Balakrishnan from Vrddhi Capital. Please go ahead.

Rohit Balakrishnan: So my first question was can you give us any update on the BS-VI if you have signed up any new OEMs on a non-diesel platform? First one was that. If you can give any update on that.

Tarun Khanna: Is that your question on non-diesel platform for BS-VI in general?

Rohit Balakrishnan: So my question was specific to non-diesel?

Tarun Khanna: Okay so on non-diesel we have two CNG engines on the anvil in terms of BS-VI. One is our current in-house 400 TC in-house developed CNG engine where we have a host of OEMs from Continental to Piaggio taking that engine from us. That engine we are also taking to BS-VI and those OEMs will continue to be with us.

As far as the second engine is concerned which is the Pinnacle joint development with the 2XX engine to get into the lower part of the 3 plus 1 passenger three-wheeler market. That is something that is still in its early days. It is right now at an Alpha stage where we are building the first Alpha prototypes in India with support from Pinnacle. And it is still some distance away from OEM sign ups. That will happen subsequently over the next few quarters.

Rohit Balakrishnan: Just to understand that roll out so I believe BS-VI has to be planned by 2020. So I mean just to understand the timelines if at all we were to get a fresh on that, on the Pinnacle engine. So would not be OEMs want to sort of get their value chains and everything ready by at least six months before that. So if that is true then in that case would we be having a fair chance to be eligible to be available by then?

Tarun Khanna: Yeah, so see the first thing we need to understand is that this is a new technology. We are trying to bring in an engine which will be breakthrough in terms of the fuel efficiency and the customer value proposition that it brings. Our OEMs have been in touch with us since we started the development about a year back and we are talking to them on an ongoing basis.

By early calendar next year we will be starting with customer demos wherein we will be actually putting the engines on to our customer vehicles which is when the customers will experience the engines and thereafter we will get into the beta phase. So there is a development plan that we have shared with our OEMs going up to the BS-VI timelines. And as and when that the next milestones are achieved, we will keep you posted.

Rohit Balakrishnan: The next question was so we have been seeing from the monthly numbers there has been a decent growth in the three-wheeler volumes have started to come. And looking at the broad numbers it seems that, that Greaves' numbers are trailing those volume numbers even if you ex Bajaj. So just wanted to check is it because of the mix that is the issue there or what is the issue if you could just help us understand?

Tarun Khanna: So what is happening is that yes, you are right to an extent. A lot of the growth has coming in the CNG part of the market. Having said that while we are therefore in the outskirts of the cities or the smaller cities where there was no CNG earlier and only diesel was prevalent there is CNG infrastructure which is increasing and CNG is coming in. Having said that what we are losing on the diesel side we are gaining on the CNG side.

So our 400 CC CNG is seeing a big uptake from where we were last year and we are increasing our numbers month-on-month on that engine. So yes, we have lost out a bit on the diesel side but we are recovering that on the CNG side.

Rohit Balakrishnan: And just a follow to this. What percentage of our engine volumes would be CNG right now broadly?

Tarun Khanna: CNG is still very small for us. Like I said while we are increasing the numbers the base is still very small.

Rohit Balakrishnan: Would we meet single digits, is that would be a fair number to look?

Neetu Kashiramka: Lower than that.

Moderator: Thank you very much. The next question is from the line of Abhilasha Satale from Dalal & Broacha. Please go ahead.

Abhilasha Satale: I want to know how much has been Genset volume in this quarter as compared to the same quarter last year?

Neetu Kashiramka: 1,338 versus 1,084.

Abhilasha Satale: And have we taken any price cuts or are we giving any discount as far as Gensets are concerned?

Neetu Kashiramka: No, in fact we have taken 2%, 3% price increase in July.

Abhilasha Satale: In Gensets 2%, 3% price increase?

Neetu Kashiramka: Yes.

Abhilasha Satale: And how is like our pricing as compared to other competitors like Cummins and all? The industry is doing well so are we gaining market share in the industry?

Neetu Kashiramka: Yes.

Tarun Khanna: So we have been progressively gaining market share over the last 24 odd months. In each of the segments that we are expanding our footprint we have gained at an average about 0.5% share each quarter over the last eight quarters. So our share in our addressable market is now close to 6.5%. As far as the segments are concerned, we have now also gotten into the 500 KV and above segments. We have just started the first installations in that part of the market where we were not prevalent. So that also helping us gain share.

Abhilasha Satale: And my next question is what kind of price increase is likely to be witnessed in diesel as well as CNG engine in BS-VI era? So how will be the pricing different as far as diesel engine is concerned and CNG engine is concerned in BS-VI?

Tarun Khanna: I think it is still very early in the development stage. We are obviously talking closely with our OEM customers in terms of the price delta not just on the engine but also what the final impact on the vehicle price could be because there is after treatment involved. So it is very early to say because the overall value proposition in terms of the end customer at the final vehicle price level and the total cost of ownership level has to be evaluated before we get into these decisions.

Abhilasha Satale: Okay so have we got any idea as far as at least diesel engine is concerned because there like we have already developed that and we must be knowing the cost of it?

Tarun Khanna: So far as the BS-VI is concerned we are at a very early alpha prototype stage even on the diesel. So it is a new development in that sense from an R&D perspective. So it is still very early days to talk about the cost and thereafter the price increase.

Abhilasha Satale: Lastly how much is aftermarket sales can I know the exact number and the Year-on-Year increase?

Tarun Khanna: It is as Neetu said earlier it is about 25% of our overall revenue mix. That is growing at double digits.

Moderator: Thank you. The next question is from the line of Manish Goyal from Enam Holdings. Please go ahead.

Manish Goyal: Can I have the number for MPL how has it done in the first six months and comparable?

Neetu Kashiramka: So basically MPL is right on track and we are on our strategic goal. Number we will be starting to share from the next quarter that we have acquired only on 23 October. So we will give a quarterly update and the numbers from the next quarter onwards.

Manish Goyal: And ma'am, you had given the numbers volume breakup but bit confusing. So I would request you if you can repeat what was the three wheeler volume numbers and comparable as well for quarter and half yearly please?

Neetu Kashiramka: Okay so you want the engine?

Manish Goyal: Yeah, engine first three-wheeler and four-wheeler with the comparable for quarter and half year?

Neetu Kashiramka: Okay so engine total for half year is 159,324 comparable 158,535 and three-wheeler out of this is 136,980, 137,455.

Manish Goyal: And can you give us the similar number for quarter as well, ma'am?

Neetu Kashiramka: Yes. 86,920, 84,744.

Manish Goyal: Sorry 86920 for quarter 2, right?

Neetu Kashiramka: Quarter 2, yeah.

Manish Goyal: And comparable?

Neetu Kashiramka: 84,744.

Manish Goyal: And three-wheeler?

Neetu Kashiramka: 77,988.

Manish Goyal: And comparable?

Neetu Kashiramka: 78,450.

Manish Goyal: And last question ma'am, if you can give me the pump set number for quarter 2 and comparable number and for the half year as well?

Neetu Kashiramka: Yes, so pump set half year 32,521.

Manish Goyal: 32,521 is quarterly, right?

Neetu Kashiramka: You want quarterly first, 16,691 and 14,049.

Manish Goyal: And half yearly?

Neetu Kashiramka: 32,521 versus 30,971.

Manish Goyal: And earlier the gentleman had answered that there is big disconnect with what industry volume we see. So actually we have dissected the volumes non-Bajaj Auto and what we see is

a major customer what you have. This quarter also we see that what the industry volume growth we see and our volume numbers what we just now mentioned.

A bit lower again in the Q2 as well because you did mentioned that CNG is gaining market share but we are excluding Bajaj Auto and I believe Bajaj Auto is 90% of the CNG market. So there is a bit of disconnect. So is that probably at OE the channel basically the inventory buildup is reducing at the OEM level?

Tarun Khanna: One is there is some correction at the OEM level, yes. Secondly as you rightly alluded there is always a lag between the engine sales and the vehicles sales. So our numbers on engine sales are not always directly comparable with the vehicle sales in the market that the OEMs report. So there is always that gap. So this first half of the year the OEMs have held higher inventory so the engine sales have been on the lower side even in quarter 1 as compared to the vehicle sales.

Manish Goyal: And you do give the aftermarket you said double digit growth but somehow does not reflect on the margin side because aftermarket seems to be very decent margin for us and somehow it does not get reflected on the EBITDA level if the aftermarket is growing double digit?

Neetu Kashiramka: So there are two parts to it. 50% of our business is engine and 25% is aftermarket and equivalent is the farm and genset still we are growing at double digits. And therefore one is the high margin, one is low margin. So it is compensating.

Moderator: Thank you. The next question is from the line of Piyush Shah from Emkay Global. Please go ahead.

Piyush Shah: My questions have been answered. Thank you.

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

Ashutosh Tiwari: My question is on the rescale format. Just wanted to understand whether this year I think roll out on the franchise model do we charge with a franchise fee also to the partner or this only the space that you basically sources from this quarter that is the income that you realize?

Tarun Khanna: Yes, there is a franchise fee over and above the spare part margin. Over and above that we are looking at expanding the revenue streams and adding more streams of revenue like insurance, financing etcetera to tie up and there again there will be some fee that Greaves will take.

Ashutosh Tiwari: And evidence suggesting that surging income that you derive part of that also we get or this is?

Tarun Khanna: Yes, like I said earlier right in the beginning there is a franchisee fee on the service side.

Ashutosh Tiwari: And just wanted to know where this CNG volume for the quarter we did around 1,300 in the first quarter?

Neetu Kashiramka: It is 3,014.

Ashutosh Tiwari: This is first half number or second quarter number only?

Neetu Kashiramka: It is only quarter 2 number. Quarter 1 number was 2,288. So total half year number is 5,302.

Moderator: Thank you. The next question is a follow-up from the line of Rohit Balakrishnan from Vrddhi Capital. Please go ahead.

Rohit Balakrishnan: Just one question on Ampere. So while you have not consolidated the numbers but would you like to share any guidance I think you had shared that?

Neetu Kashiramka: Yeah, we have not consolidated because we acquired only on 23 October. So consolidation is not applicable.

Rohit Balakrishnan: I was just asking if you can just give some broad outlook in terms of how that segment is being doing and what is your expectation in the coming years?

Neetu Kashiramka: I think we will do that in the next quarter.

Tarun Khanna: Yeah, but just to add I can add to that. I think overall we are developing a strategic business plan for that division. And when we look at the consumer, we look at the market, we look at the products we are actually quite optimistic in terms of what we are seeing in terms of the demand situation there and the month-on-month growth that it can show. So the initial guidance that we had given stands and let me to say may be at the end of the quarter we will come back with an update.

Moderator: Thank you. The next question is a follow-up from the line of Manish Goyal from Enam Holdings. Please go ahead.

Manish Goyal: Just to clarify in agri pumps you mentioned that half yearly volumes have been 42,500 compared to roughly 31,000 which implies 37% growth. So am I right, ma'am?

Neetu Kashiramka: I have mentioned 32,521 for half year versus 30,971 for previous year.

Manish Goyal: So for the quarter it is 16,691, right?

Neetu Kashiramka: Correct versus 14,049.

Manish Goyal: Okay because the Q1 number what we have and the half yearly number is not matching so that is why I was a bit confused on that large growth what I was seeing. And how is it between petrol kerosene and the diesel pump how are they doing, can you share the numbers?

Neetu Kashiramka: Diesel pump set also I shared it is 3,020 for the quarter versus 1,913 for the previous quarter.

Moderator: Thank you. The next question is a follow-up from the line of Rohit Balakrishnan from Vrddhi Capital. Please go ahead.

Rohit Balakrishnan: Just one question. So this Greaves Care revenue this is part of the aftermarket or is it part of the others?

Neetu Kashiramka: Yeah, aftermarket. It is part of aftermarket business.

Rohit Balakrishnan: And ma'am, would it be possible to broadly give what share would that be of the aftermarket of the overall pie?

Neetu Kashiramka: As of now it is very small because see part sale happens from the distributor itself and then there is a sharing on them.

Moderator: Thank you. The next question is a follow-up from the line of Nirav Vasa from Batlivala & Karani Securities. Please go ahead.

Nirav Vasa: I just wanted to understand how is the market shaping up for the DG set? So would it be possible for you to share some industry wide growth that you are seeing and I believe most of the peers of yours have taken price hikes. So how do we intent to take price hikes going forward?

Tarun Khanna: I will talk about the market and then I will give it to Neetu in terms of the pricing phase. The Genset market is growing. So the market grew by about 7% in quarter 1. There is a lag in terms of quarterly numbers from a market perspective so we do not have quarter 2 numbers yet. We have gained about 0.5% share in that market and we have also grown along with the market. So our growth story on genset as I said earlier continues to be on the same trajectory.

Nirav Vasa: And this 7% growth that you have shared is up to which KVA notes?

Tarun Khanna: This is overall total market.

Nirav Vasa: And what would be your assessment for the next year and are you seeing some kind of I believe the genset market is seeing lot of demand drivers coming up with the infrastructure and especially railway story coming in. So are you seeing those having impact on our growth rates as well going forward?

Tarun Khanna: Yeah, so obviously we are looking at the overall economic growth and the sectors which support this and we are fairly optimistic about our growths prospects going forward as well.

Nirav Vasa: So are you seeing this 7% growth which has been reported in first quarter to increase going forward or like any broad range that you can share?

Tarun Khanna: I would not like to share a number.

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

Nagesh Basavanhalli: Thank you all for attending this session. We appreciate your continued interest in our company. We remain committed to executing our strategic business plan and delivering value to our shareholders. Thank you again.

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