

Greaves Cotton Limited
Q2 FY21 Results Conference Call
November 09, 2020

Moderator: Ladies and gentlemen, good morning and welcome to the Greaves Cotton Limited Q2 FY21 Earnings Conference Call. From the management we have with us Nagesh Basavanhalli - Group CEO, Ajit Venkataraman - Executive Director, Arun Shrivastava - Head of Strategy. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nagesh Basavanhalli - Group CEO of Greaves Cotton Ltd. Thank you and over to you sir.

Nagesh Basavanhalli: Thank you. Good morning everybody thank you for joining us today. Hope everybody is doing fine, staying safe and healthy amongst this challenging times. Greaves has transformed multiple times during its 160 years journey, we are at the cusp of a lot of disruption and as a part of that, the pace of technology change intensifies. Post COVID there has been a lot of challenges and opportunities. We continue to strive to create a comprehensive ecosystem which will be focused on several different areas; clean mobility, retail expansion, finance availability for enabling our businesses and developing our core businesses of engines, after market gensets and farm. With that, we aim to drive agility and drive the transformation which is so very essential in these destructive times. The company has made significant investments over the last 3-4 years in terms of building a clean tech portfolio. Starting with the BS-6 engines which is now out on the road and Mr. Ajit Venkataraman will talk more about it, the CREST technology which is undergoing various stages of testing, the e-mobility division which has spawned off into both the two-wheeler and the three-wheeler division as well as the B2C place which is into Greaves Retail and now into the Greaves Finance. As we look forward, the focus areas for the company are sharp, regarding the core engines, extending the engine capability towards a global engine play; both auto segment, non-auto segment. Strengthening and growing the aftermarket as well as an on-auto product portfolio given some of the opportunities post COVID. Also, looking at industrial engines both small and large.

Regarding the newer mobility businesses in terms of e-mobility multi-brand service which is our Greaves care, multi-brand retail, our Greaves retail. Our mantra of getting closer to the customer, organizing the unorganized, extracting more value through the value chain continues. So, the expansion across the length and breadth of the country in these areas will continue, whether it is the two-wheeler, e-mobility store, the multi-brand service stores, the

multi-brand retail stores and over the journey of the next couple of quarters you will hear more about this.

The team as you are aware, has worked very hard, the last couple of quarters has been tough and I am confident that based on the prior experience where we had 9-10 quarters of continuous growth that this team have the depth and will continue this transformation, so today I feel very proud that we have organized the teams, Mr. Ajit Venkataraman who was announced the Executive Director back in August continues to lead the Greaves Cotton core businesses which is the Engines, the aftermarket gensets, farm, etc. and grow those businesses. Sunil Shahi who was heading our non-auto business moves on to take a bigger role in the new mobility area, especially in the three-wheeler business areas. Mr. Mohanam who was a KMP steps down from the Board to focus more on his core area of manufacturing, supply chain and operations as we continue to grow. There was another KMP change, our CFO Mr. Amit Mittal who had come from Private Equity background decided to go back to Private Equity, hence he has decided to leave for personal reasons, that CFO position will obviously be filled shortly and we will announce it when we are ready.

I would take this opportunity to thank all the customers, our OE partners, our suppliers and employees during these tough last 8-9 months post COVID who have stood together and we are trying to comeback stronger as the market recovers. Greaves is going to do both the offense and the Defense so that post COVID we come out stronger. With that overview, let me hand it over to Mr. Ajit Venkataraman who will talk to us about our Greaves core business, followed by Arun Shrivastava who is going to talk to us about the new mobility businesses. Ajit over to you.

Ajit Venkataraman:

Thank you Nagesh and good morning to everyone in the call. And Thank you Nagesh for giving an overview of the strategic direction we are heading. We are not immune to the COVID led market slowdown, we have consciously invested in building capabilities, strengthening partnership and collaboration. We are also removing redundancies, sharpened our focus on cash conservation all to make the core stronger, leaner and more flexible. This will help us to focus on newer strategic projects, our focus is to improve and grow. We will be scaling up these projects to build a stronger business portfolio with higher focus on value creation and profitability with all structural changes we have gained efficiencies at multiple levels. The recovery in Q2 has been positive but slow, the Q2 revenues as you must have seen has shown a growth of 96% over Q1 of this financial year. This quarter also saw close __07:29 facility and we are working to further realign locations ensuring productivity levels are getting in sync with demand. With revival seen across core sectors of the economy, we remain optimistic about the positive growth across various businesses we are in, in the balance part of the year and aim to drive the profitable growth. While COVID has created a short-term dent, we believe that the company will comeback much stronger. Market is slowly recovering with OEM confidence signaling positive growth in the rest of the year. We have leveraged this period to engage better with customers, channel partners, suppliers, employees. Today we are stronger and financially

stable owing to the realignment of various structural cost and shift the focus with several initiatives like closure of the Ranipet factory. Optimizing people plan productivity levels to meet our new demands. We are also happy to mention that we have locked in a leading Indian OEM for our engine business as well this quarter.

On the financial side, we reported a revenue of Rs. 288 crore in Q2 FY21 as against a Rs. 490 crore in Q2 FY20, a degrowth of about 41%. The revenue for H1 FY21 was about Rs. 435 crore against Rs. 967 crore for this corresponding period last year. Just to give you a quick update of various businesses, the auto market is dependent upon the three-wheeler industry and as I had mentioned we are seeing strong comeback in the cargo segment especially where it has reached the pre-COVID levels. The passenger segment continues to have a slow recovery due to social distancing norms. We are seeing a good comeback in October but whether this momentum continues depend upon post Diwali sale. In the non-auto segment, infrastructure is picking up, our non-auto engines have seen a robust growth of almost 2x compared to pre-COVID levels. Our aftermarket has reached pre-COVID levels. In terms of new business investment one of it we have already mentioned that we have a new partnership with a three-wheeler OEM for IC engines. These are also in advance stages of conversations with a small four, a global OEM for small four wheelers. The CREST CNG engines we are also in advance stages of discussions with a three-wheeler of OEM.

Last quarter we also launched a couple of new products in the non-auto segment Duramaxx pumpset and we also have won several Defense wins deepening the play in the non-auto segment. With the economy opening up, opening up of offices, metros, schools, colleges we anticipate a stronger recovery in the second half. A renewed investment in genset business is going to be there in Q3 and Q4. With that I would end. Thank you very much and I will hand it over to Arun.

Arun Shrivastava:

Thank you Ajit. Good morning everyone and I hope that all of you are doing well. Ajit covered the Greaves part, I will be covering our new mobility businesses. An important part of our B2C and clean tech play is our e-mobility play under Ampere which has two businesses which is the electric two-wheeler under the Ampere brand and the electric three-wheeler under the ELE brand that we just acquired through Bestway in the last quarter. When we started working with Ampere early 2018, the business was at a monthly run rate of around Rs. 2 crore and this has steadily improved over the past couple of years and has now reached closed to a Rs. 19 crore monthly run rate in September '19. This represents almost a 10x growth over the past couple of years, while this is at a slightly lower pace but we expect the growth momentum of this business to continue further. Ampere three-wheeler business has further consolidated its positioning and increased its market share to 20% of the overall market in last quarter. The business opened almost 60 new dealerships since the unlock began and now has 265 dealerships across the country. Ampere has also built a very strong portfolio of B2B customers with Ampere vehicles powering people mobility as well as e-commerce delivery for customers like Bounce, eBikeGo, Amazon, Big Basket, Dominos, Reliance Retails amongst a lot of other

customers. We have seen a very strong response and support from some of our B2B customers including the large repeat orders, we expect that this part of the business will also continue to grow and deliver a lot of momentum over the next couple of years as we go ahead. To enable different customer needs, Ampere has also built a very strong financing, leasing and exchange programs which can serve the needs of various customer segments. On the product portfolio side, Ampere has ended the product portfolio from slow speed lead acid products towards much healthier mix of Lithium-ion and high-speed products. Now, if I look at it our Lithium-ion product portfolio is more than 60% of the portfolio and if you recall lead acid used to be almost 100% of the portfolio when we acquired. So, the portfolio is very steadily shifting towards better technology Lithium-ion products. Also, the higher speed portfolio which we entered the market sometime last year has been growing fairly steadily and almost 30%-35% of our sales are now coming from higher speed leaders. Our recent product; high speed scooter the Magnus Pro has seen a very strong response from our customers and we believe that now we are in the sweet spot of the market to market mobility in the Rs. 35,000 to Rs. 80,000 price range and this we believe is a positioning which we have taken to help the overall two-wheeler industry transition strongly towards electric as we go ahead in this decade.

On the operational front. Ampere started building a team to deliver operational excellence and this has also started giving results now. Ampere has progressed significantly on product technology and substantially increased the localization content in its products. The front-end and backend controls along with improving sales has helped the business deliver a positive EBITDA for the month of September' 20, so this being the milestone for Ampere in terms of delivering an EBITDA positive performance. And there are lot of factors which have gone into it. Also, notable for Ampere is that, on the back of strong operational controls the working capital which used to be close to 108 days a year back in September' 19 has been brought down to 53 days. With improved profitability the cash position has also improved and Ampere has now steadily started delivering positive cash flows for the second quarter now. On the E-three-wheeler front, we acquired Bestway in the month of July and Bestway is a very strong player in some of the eastern pockets of the country and the Eastern UP. We are expanding the channel for Bestway into other bigger markets of Northern part of the country as well as some of the emerging markets in the Southern and Western parts of the country. So, this business is also experiencing a good traction, post-acquisition we had the two months of full play in the month of August and September, we have seen that the business has delivered almost 600-700 e-rickshaw sales per month. So, this again makes Ampere an integrated last mile mobility player with both two-wheeler as well as three-wheeler play and will constitute a very important part of our overall portfolio.

As we look ahead into the world post COVID as the unlock process further intensifies and it is almost and where the economy completely opens up over the next couple of months. Safe, clean and affordable transport will be an important lever for the country going ahead and all our Ampere businesses be it the two-wheeler or three-wheeler in uniquely poised in driving

this momentum, so we are fairly confident that Ampere businesses will continue its strong growth thrust and become a very strong arm as we move ahead. Thank you and Ashok I think we can open up for questions now.

Moderator: Thank you very much. We will now begin the question and answer session. Anyone who wishes to ask a question may press '*' and '1' on their touchtone telephone. An operator will take your name and announce it on in the question queue. Participants are requested to only use handsets while asking a question. In the interest of time and fairness to all participants, each participant will be allowed one question and a supplementary question if needed. If participants still have more questions, they can join the queue afresh. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Manish Goel from Enam Holdings. Please go ahead.

Manish Goel: I have couple of questions, first on the opening remarks it was mentioned that we have logged in our leading OEM, so if you can provide more insight as to what fuel based it is and if you can share more details as well as on the global OEM for the four-wheeler which was mentioned? And in that related question, on the progress for the CNG engine tie-ups?

Ajit Venkataraman: Sure, Thank you Manish for the question. As I mentioned, we have tied up with a leading engine OEM for three-wheelers, this is for the diesel engine and this we will be announcing in detail at an appropriate time fairly soon, at this point of time I am not able to reveal the name but it is something which we have locked in and we need consent from the other party as well. Second one was with respect to the global OEM, it is in a similar state but we are in the final stages of discussion and again at an appropriate time very soon we will make an announcement as well on that.

Manish Goel: Sorry to interrupt, but this four-wheeler engine is again for a diesel portfolio or?

Ajit Venkataraman: It is currently for the diesel portfolio. And for the CREST CNG engine, well we are in advance stages of discussion again with a three-wheeler OEM and we will be coming up with the details at an appropriate time.

Manish Goel: Sorry to harp on this, but we have been kind of hearing about the tie up at least for the CNG for quite a long time and nothing material has been happening, so any timelines would you like to spell out please?

Ajit Venkataraman: This is a new technology and therefore it takes a little bit of a time for signing of the contracts and I appreciate your patience but at this point of time it is difficult to exactly say what time frame it will be done but we will be making that announcement fairly soon.

Nagesh Basavanhalli: And in fact, if I can just jump in Ajit. Thank you Ajit I think you have covered it well. For the gentleman who is asking the question on the CNG, I think on the diesel side Ajit has more than

amplified. On the CREST, since there is an historical element to it, this is a transformational technology first time in this part of the world, clearly the alpha and the beta stages of the pilot have gone very well. There are not one but two OEMs who are working with us very closely like Mr. Venkataraman was talking about, right and at the end of the day the BS-6 launch and then the COVID obviously caused a couple of quarters of delay and at the end of the day as you are all aware we are in the business of providing engines and at the end of the day we need to work with our OEMs, so we are working very closely. I think the team in terms of the delivery, the solution, the value proposition absolutely on track. In terms of the final sign off like Ajit said I think we will announce it hopefully sooner than later but once we get a final confirmation, today we do not have the final confirmation although actual results are meeting or exceeding the goals of the fuel economy that was initially set. So we will keep you updated; we are also as eager to kind of move with this transformational technology and bring it to India. Obviously as a company, from a CAPEX standpoint we have made a decision that we will want to give a couple of customers finance before we invest any money, any additional CAPEX, so hence you can appreciate that, that we are being very prudent, we will work with our customers and announce at the right time, Yes.

Manish Goel:

Okay and last question on electric vehicles, just want to know how are we positioned on say strategy to replace the imports from China, especially the batteries and other things, so if you can just highlight the company's strategy on?

Arun Shrivastava:

It is a very important question because it is one of the pillars of our strategy that how do we reduce dependence on a single country and build a much superior supply chain. So, in fact we started on this journey almost couple of years back and if you recall our product high speed scooter Zeal was amongst the first scooters in the country to get the seeing through approval complying with some of the phased manufacturing plant guidelines which were imposed last year. We have continued that journey and it is in a fairly advanced stage right now, so for our high-speed scooters the localization levels are fairly high, a lot of critical components are coming from our partner ecosystem in India and also this journey is not a simple and easy journey because as you all would know that the component ecosystem in the country is for the electric vehicle side is still fairly nascent, so we have worked with a lot of OEMs to co-develop components which would be suitable for the Indian market and in the Indian driving conditions. So, as we look at, in the next 3-6 months we will largely complete our localization journey on the high speed side, we have proactively taken up the localization for slow speed scooters, now there is no regulatory requirement for slow speed scooters but as part of our supply chain strategy that has also been initiated, slow speed may take slightly longer but overall in the next 18 months or so we expect to complete the journey for the slower speed as well. So, that is in a nut shell in the next 6 months, largely for high speed and slightly longer for the slower speed.

Moderator:

Thank you. The next question is from the line of Anish Jobalia from Banyan Capital Advisors. Please go ahead.

Anish Jobalia: Good morning. Thanks for the opportunity. My question is, what is going to be our strategy going forward given the outlook on the passenger three wheelers is slightly negative, so how do we plan to reach the pre-COVID levels at the revenue and margin levels?

Nagesh Basavanhalli: The call was little muted, can somebody repeat the question, please we could not hear the question properly?

Anish Jobalia: Yes, my question is what is going to be our strategy going forward given the outlook around the passenger three-wheelers is slightly negative, so what is going to be our strategy around this, so that we reach our pre-COVID levels sooner than later?

Nagesh Basavanhalli: So, Ajit Venkataraman addressed this earlier, Ajit you want to talk about the cargo and the passenger and by what quarter you see the market coming back pre-COVID levels?

Ajit Venkataraman: Thank you for the question Anish. As you must have seen that the three-wheeler market, especially it constitutes of both the cargo segment and the passenger segment as a whole. Passenger segment constitutes roughly 65% and cargo segment about 35%. The cargo segment has almost recovered to the pre-COVID level and the passenger's is not, which is going to take some time given the social distancing norms and the vaccines are a bit far away from now. So, the good news is that our dependence is not just on the automobile segment. As you would have noticed, we have the aftermarket business and the non-automotive business. The aftermarket business has bounced back to pre-COVID level and we expect a strong growth going forward in the remaining part of the year and going forward as well. The bright side is in the non-automotive segments and especially in the size of engines we deal with as high volumes engines we deal with, it is the non-automotive segment which constitutes the majority of the business both domestically and internationally, as that is going to be our renewed focus. The second aspect of it is that we are not just going to focus on the product which is the engine, you might have noticed that we have also started getting very seriously into the equipment business as well, whether it is the light construction business or it is the farm equipment business. Those are strong growth areas, we call it the non-automotive small engines segment and this has shown some phenomenal growth and we expect that segment to grow as well. The other area which we are looking at is to try and find out new applications for our core small engines segment and this we see has got a large opportunity in the overseas market and which is where we will be focusing going forward.

Anish Jobalia: Sir, so when do you expect to reach the pre-COVID levels given the uncertainty around the auto engine business? That is my follow up and that is my last question.

Ajit Venkataraman: See, Anish I have to give you this answer with a little bit of a disclaimer, based on the performance so far in this quarter, the expectation is that Q4 is going to be, we are going to have a strong exit in Q4 but a lot is dependent upon how on the market sustains after the Diwali

festival and this is something which is quite unpredictable and therefore I have to say this with abundant caution.

Moderator: Thank you. The next question is the follow up question which is from the line of Manish Goel from Enam Holdings, please go ahead.

Manish Goel: Thank you. Sir what kind of benefits on cost savings we see due to closure of the Ranipet plant, if you can kind of provide more insights on this?

Ajit Venkataraman: Thank you for your question Manish. We have stopped operations in the Ranipet facility and which will be consolidating most of the operations which were happening in Ranipet into our Aurangabad facility. So, we have been consolidating our operations to make sure that structurally our costs are reduced and we have synergies going forward in terms of more efficient operations, for the volumes we are doing right now we will be consolidating our small engine operations into the Aurangabad facility, so this should bring about a significant reduction in the overall fixed overhead cost and in terms of manpower cost and which we should be seeing from the next financial year onwards because as you can see we have taken a Rs. 31 crore of exceptional item which is there in our P&L this time, so you can expect that the benefits from this will be starting to flow from next year onwards.

Manish Goel: But can you quantify in absolute terms what would be the saving on fixed cost?

Ajit Venkataraman: At this point of time, I would refrain from doing that, we are still in the process of evaluating the company's impact but let me tell you that we will have a significant impact.

Nagesh Basavanhalli: Ajit if I can just jump in directionally it would be, I know where you are getting at and let the team work on the numbers but directionally it would be higher than 10% of the overall fixed cost, I know where you are getting at. That is the goal, that is the intent.

Manish Goel: And on the farm business sir, we did see some recovery on quarter on quarter basis but somehow despite rural economy doing well and looking at other companies' numbers as well we have had a not so strong recovery, so if you can kind of highlight on what is the strategy over there and if you can also share the volume breakup for the light Agri and power tiller volumes as well?

Ajit Venkataraman: As you can, as I had mentioned there are several new products which we have launched recently, as then the other aspect of our strategy going forward is not just to sell engines but to sell equipment as well. I do understand your question asking, you must have seen the classes segment showing phenomenal growth in the last few quarters, one we have to mention that most of it have been impacted by the **(Inaudible) 35:46** to not operating at optimal levels almost for the first two quarters. We are doing some of those dealership conditions which is

opening up in the last few months or so and so going forward you should see several, shall see the performance improvement as we go forward.

Manish Goel: Okay, would it be possible to share the breakup of the numbers; power tillers and pump sets and the light Agri equipment.

Ajit Venkataraman: If you can just hold on for a minute, we have shared it in the path of the presentation but no we do not have the background of Agri this time.

Management: Ajit, if I can just comment. So if you look at the volumes one, in volumes today what you are seeing in the light equipment category is primarily the Agri machinery but a quarter future you know, as Ajit was mentioning there are increased cost on the non-auto small products. We are also looking at adding some more product categories into this and that is where the grouping has changed to light equipment but today that is primarily the various Agri equipment related volumes. So we are now looking at it as a, more as an aggregated level.

Manish Goel: Okay fine and last question on the electric vehicle, I believe government is contemplating to launch PLI schemes over here as well. So are we also kind of considering to bid for it or take the opportunity?

Ajit Venkataraman: Sorry I missed it, which scheme were you talking about?

Manish Goel: Production Linked Incentive schemes, there was some news article where even government ..

Ajit Venkataraman: Okay, so that was a lot on the Lithium-ion battery, there have been incentives announced for the cell manufacturing in India, so as part of our strategy currently, we are not looking at Lithium-ion cell manufacturing obsess, it is a very different ball cake and we remain agnostic to, you know or budget to a particular technology, we will be looking at the best technology solution in terms of the battery chemistry. So we will be sourcing from these different partners. Having said that, on the manufacturing side for the vehicles for certain critical components, in some of the Lithium-ion battery packs, etc. Those are the things which we are looking ahead in future as the volumes built up and the viability starts coming in, that is something which we will be actively looking at but not on the Lithium-ion cell manufacturing.

Moderator: Thank you, that was the last question. I now hand the conference over to Mr. Ajit Venkataraman for closing comments.

Ajit Venkataraman: Nagesh do you want to take down?

Nagesh Basavanhalli: Yes, okay. Thanks, Ajit, thank you all for your time and attention today, especially in these tough times. In summary, what I can say is, we are dealing with the Pandemic, we are coming out with both offense and defense mechanisms, both in terms of newer areas of market, newer businesses as well as structural efficiencies, that is some of you asked about. Stay tuned, we

will continue to keep you updated as we go on our journey, our lines and communications are remains open, our communication team will be available in case you have follow up questions or need any specific answers, feel free to reach out to us. Thank you all, have a great day and a great week ahead. Thank you and also please do have a good Diwali weekend and a Diwali festival coming up ahead, thank you.

Moderator:

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