"ELGi Equipments Limited Q3 FY2019 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the ELGi Equipments Limited Q3 FY2019 Earnings Conference Call, hosted by Asian Market Securities Limited. As a reminder all participant 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kamlesh Kotak from Asian Market Securities Limited. Thank you and over to you Sir!

Kamlesh Kotak: Thanks Aman. Good morning everyone. On behalf of Asian Markets, we welcome you all to the Q3 FY2019 earnings conference call of ELGi Equipments Limited. We have with us today Mr. Jairam Varadaraj, Managing Director representing the company. I request Mr. Jairam to take us through the overview of the quarterly results and then we shall begin the Q&A session. Over to you Sir! Thank you.

Jairam Varadaraj: Thank you Kamlesh. Thank you ladies and gentlemen for taking the time off to be with us. Like it is our normal practice, I will take you through reconciliation between our performance in the current year Q3 in comparison with the last year Q3.

Sales has improved by 13% on a consolidated basis, contribution at a material cost level has been almost the same slightly better and has a consequence the overall performance at an EBITDA level seems to be almost the same level as the previous year and this is where I would like to pause and provide a larger explanation. We have been in touch with multiple investors and analysts in terms of our understanding their perceptions and expectations from our company and one of the points that has been coming up is the promise of profitability in relation to be increase in revenue has been a bit disappointing in the company, I want to put that in context and explain to you that that is not the case. We need to look at the numbers a little deeper to understand the largest trends of the company in which is what I will let them to do using the Q3 numbers as a context.

Now the EBITDA in the current quarter or Q3 of the current year compared to Q3 of the previous year has been pretty flat when in reality we have grown our sales by 13% and our contribution margin has been marginally better. Why is it that EBITDA is flat is really the question that I would like to give a context through. As you know as part of our global strategy we have been creating any initiatives both in terms of process and people and on the process side, we have been using external consultant and we have been increasing our head count very judiciously, but very strategically in specific locations to support the process and really role out the strategy. So in this quarter you are seeing a significant impact of these initiatives. So if I take those one time cost, which are really the strategic investments that we are doing both in process and people, we have effectively close to about 138 million, which is the additional cost that has been booked in this quarter and if I take those cost as something that is nonrecurring on a steady state basis and I will come back and talk about when we will reach that steady state.

We are talking about an EBITDA of close to 610 millions, which is yearly a growth of 30%, which I believe this is a very healthy representation of performance considering 13% growth in topline, now what are these one-time cost and when do we expect these cost to taper off. These one-time cost like I said I do not want to be very specific in terms of what we have gained through BCG because of the agreement that we have with them, but the one-time cost and the investment in people to support that one-time cost has been to the extent of close to about both combined put together at about 110 million in the quarter. This is people that we have added in the US to rollout the initiatives.

In addition, we have add certain one-time expenses that are more of timing in nature for instance, our repair and maintenance in the quarter has been high, but that is more of a timing issue, it will get leveled out for the year and we are doing a big show in Hanover in April for which we have created provisions equated throughout the 12 months, so that is also sitting there. That is to the extent of about 5 million. So if I normalize for all that, I think the operating profit is a healthy 30% growth. Now when do we expect these costs to go away on the process cost, which we are paying to an external consultant, we will continue on for the next year because of the way we have structured the contractors, the payment is even though initiative is for about eight months, we are looking at a payment that is stretched over two financial year. So the initiative will get completed end of March, but the payment is partly in 2018-2019 and the other part is in 2019-2020. So to that extent we will see the continuation of these costs into the next year.

As far as the people cost is concerned, there are two aspects to it, one is the actual people cost in terms of increase in head count, which we expect will get normalized with the increased revenue growth that we have planned for next year. So once that growth happens these upfront investments in people that we have done in 2018-2019 will get absorbed into the operational performance. So I do not expect these costs to stand out in next year's results. It will get normalized and we do not see the impact of it. I also want to highlight that out of the total expenses that have gone up 18 million is also because of foreign exchange restatement of our salary cost worldwide, which is because that when last year they exchange rate was Rs.64 now it is at Rs.70. So the difference of Rs.6 but that is par for the course because we have got the gain on the topline also. So the summary of it is while the numbers that have been presented, but published look as though the profitability is under pressure, the reality is the profit is extremely healthy at an operating level. The real issue is that we have made certain strategic event, this is part of no surprises and everything is as per our plan. So there is no need to be concerned about it. We are looking at a more detailed explanation and context during our investor and analyst meet that we have planned for end of this month. So at that point we will provide larger context and detailed explanation, the trading carefully between what is healthy to be revealed and what is not healthy from a competitive point, we will make that right balance and present that. So that is the summary of it and of course I will rely on your questions to clarify my statements further.

Stepping back in terms of our overall business performance, the standalone growth has been only 10% and that is because the quarter last year was an extremely good quarter and as a consequence the growth of 10% is on a runrate basis seems to be lower, but you need to normalize for the fact that we had a good quarter last year. Without going into the specifics, I want to say that October and November were weak months, but December was an outstanding month and we are continuing on that trajectory. So therefore my expectation is the Q4 would be far better than the Q3. Now the fact that we have grown at a consolidated level and 13% by the standalone instead is the reflection that we are gaining some significant traction in our international market. I will start from Australia and move all the way to North America. In Australia our organic growth in Elgi Australia has been very good, we have gained good traction. Pulford has been an added entity for this year, which was not there in previous year. Pulford's by and large is tracking to performance. There are some challenges in terms of timing of conversion of orders, but the team has assured us that these are normal and there is no big concern there.

Coming into Southeast Asia, it is almost marginally better than the last year nothing significant but we expect that the balance of the previous will be good. So there will be growth in that region as well. India has done exceedingly well for us. All these verticals have done well. The exception has been water well and there it is not because the company has not done well, the overall market for water well has been quite subdued. Compared to last year, our share of the market has significantly improved. So we are on the right track and if very deepened when the market picks up here in a good position to gain reasonable share of the market. So overall, India story has been pretty positive. Middle East has been a significant challenge there were issues with receivables at multiple location over the last couple of years so as a consequence we consciously decided to curtail shipments and pullback supplies and that really affected us, but in the larger context and the longer term interest of the company, this is a good thing. We are working on multiple means to bring the receivables down, they have come down, but we still have some ways to go. On a longer term basis we have taken UAE as a market where we were going to go direct because we have had challenges with existing distributors really not committing themselves to the market in spite of repeated attempts to partner with them over the last year and a half. So that has also contributed a bit to the cost because we have added to our own sales and service team in that country, the results are yet to come and I am very confident 2019-2020 we will see results, but some of the cost had been front ended in 2018-2019.

Moving to Europe, two segments of operation, one is Rotair, which is more than Italy worldwide on portable compressors and the other two products. Rotair has done well, but their growth rate has not been in the same rate as last year, which was a significant growth, but they have grown and they are doing well and besides the US, we have gained certain market other than US. As far as Elgi's products in Europe are concerned, we are continuing to grow at an extremely good pace. Things are very positive. We have got European leader in place, now and we expect that 2019-2020 will be a period where we will start exploring our strategic direction for Europe. This will also be consistent with the fact that we are participating in Hanover which is a significant European show where will be showcasing our products. So it will be a good starting point to start drafting out strategic direction for Europe in 2019-20.

Coming to the US, the not so good story has been performance of Patton's, it has been disappointing in relation to our expectation, but that is exactly the reason why we created the initiative. We have understood the weaknesses and where we need to bring in certain strategic support and I am very confident that 2019-20 will be a year of consolidation for Patton's and 2020-

21 we expect to see significant growth in performance; 2019-2020 itself we will start seeing growth; 2020-21, we will see a significant uptick. Elgi US has a standalone nonPatton's territory has been outstanding for us. We are growing at significant double-digit percentages and with the additional initiatives that we are doing through process and strategic go-to market processes, we expect 2019-20 to be better than 2018-19. Brazil continues to be a challenge, we have done significant reduction in cost just to keep the operation and breakeven. We are very close to that but the projections are with these elections in place that next year the economy will come back and we are doing this very carefully because the payment system in Brazil are very dangerous. So we need to be very careful. So we have been very cautious about it. So this is really the summary of our performance across the regions in the world.

In terms of market India for the most of this year was very positive, but we are beginning to see some hesitation in terms of conversion. The conversions are taking longer. Enquiry still continues to be healthy, but we are beginning to see that customers are taking a little longer. They are little hesitant to put money on the table. So these are just starting signals, we will have to wait and see whether they are just temporary and they go away or whether this is something that everyone is going to wait and watch in terms of the results of elections and policies that are growing to rollout as a consequence. We are reasonably confident that we have taken cognizant of all these factors. We are looking at initiatives that will help us to grow independent of that. So I am reasonably confident that Q4 at least will be strong and in 2019-20 ,we are taking cognizance of this possibility and we are seeing where all we can create new initiatives to sustain the momentum. The rest of the world, US has been on a hot streak for too long such a large economy growing at 3%, and for so long, it is something that is causing a lot of concern for most of the people in the know of things. So they expect that there will be a slowing down in 2019-20, but we do not see the impact of it yet. Europe is not so unstable I think we will continue to see some good movements in Europe. So this is really the summary of the market, our performance and the financials. So if there are any questions I will be happy to answer. Thank you so much.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. The first question is from the line of Vinod Chari from Dolat Capital. Please go ahead.

Vinod Chari: Good morning Jairam, you summarized markets very well, in your closing comment you mentioned that while US is not showing any kind of slow down as such despite rapid growth, you mentioned that Europe might see some kind of recovery from the bottom, is my understanding is right, what cases that confidence that Europe is going to recover, have you seen more enquires coming in from Europe or healthy level of activities started picking up at the ground?

Jairam Varadaraj: Vinod, I think the recovery of Europe started two years ago what I was mentioning is that it did not grow at the pace of the US for everyone to be concerned that that would be slowing down. So the recovery from Europe has been moderated so as a consequence everyone expects that there will be continuity of this moderated growth.

Vinod Chari: Okay fine. My second question is I wanted to your view on the domestic capex cycle. You yourself mentioned that in a standalone you are growing slower than the controlled entity primarily because the traction is much higher on the international side. So if I have to look at the capex cycle over a long term and it has gone through an up-cycle say from 2005 till 2012 and then probably a prolonged down cycle across the industry more on a broad-based scenario, so as of today where would you put your figure in terms of where the cycle is in your personal opinion?

Jairam Varadaraj: It is a very difficult question I will try to answer it with some anecdotes. The first point is the Q3 was standalone or the domestic sales was not, I would not say it is bad, but it is the growth rate compared to the previous quarter was, it looks lower than the consolidated primarily because the Q3 of last year was a very strong quarter, the timing. So I would not say that there is a slowing. The slowing down is the reason for standalone being a lower percentage of growth than the consolidated. Having said that to answer your question about where we are, when we started I think the journey for India's exuberance in capital formation and capacity investments started about three years ago in the year 2016-17 and you will look at our performance, which is we have been continuing to grow. Now it is that it would have completed the three-year cycle by 2018-19. So anecdotally you would see is three year sufficient for capacity formation in a country like India.

Now one would say is traditional sense yes, but if you look at what is the trajectory of the GDP and in that context, capacity formation has to be continuous process. So as of now when based on our behavior of our customers, the optimism and desire to create capacity continues to be that, that is where we are seeing enquiries continuing the same healthy rate, but there is a hesitation in terms of how the chips are going to fall in July. So to answer your question, in the current trajectory of the economy there is enough to be done in terms of capacity formation, but if there is anything that going to happen to disrupt the growth of the GDP then there could be some slowing down in capacity formation.

Vinod Chari: Fine. There is always enough to be done in India, I think as you just mentioned the will to do that or will to commit balance sheet from corporate India is something which is very crucial for the cycle to pickup and if I break up you business broadly into two verticals, you have infrastructure/government projects, has one set of customers. You have industry, has another set of customers. My lay understanding would be that infrastructure would see higher traction because of the spending happening in the government and PSU sectors, but is traction also happening in industry broad-based maybe selective verticals there might be some traction, but is there any broad-based capex recovery that one can may be visualize two or three or even four quarter down the line?

Jairam Varadaraj: Vinod actually contrary to that expectations in fact it is a private sector that has given us biggest growth. Infrastructure was doing exceedingly well in our construction and mining where the investments in roads and dams and all that civil infrastructure that the government had funded and created a demand, but two things happen one those budget got exhausted, they were not renewed and two, we find many of these players in this business are contractors who rely on financing and the financing has dried up a bit. So there is a bit of a slowing down there. As far as the PSU kind of investment, railways is separate that goes with the budget and we are continuing to grow well by virtue of that budget, but other than that if you look at public sector enterprises investing we do not see, we have not seen much of that.

Vinod Chari: Because if I look at broad macro data what have been supporting capex has been more of government spending and the PSU capex, very limited private capex, anecdotally we do not see it happening here, you rate across some of the companies as they talk about the capex, so I was just framing that question in that context?

Jairam Varadaraj: We are seeing it the opposite. We are seeing private capacity buildup.

Vinod Chari: Which verticals would you pinpoint as a private capacity?

Jairam Varadaraj: It is pretty much across all, because no one vertical dominates a topline. So we are seeing it across all lenders. If you really look at government spending, a lot of the government spending has not been on capacity and infrastructure, it is more of social spending, it is a lot longer for it to trickle down into capacity.

Vinod Chari: Correct, that is true. Thanks Jairam. I think I just wanted to get your perspective on the industry.

Moderator: Thank you. The next question is from the line of Jasdeep Walia from Infina Finance. Please go ahead.

Jasdeep Walia: Good morning Sir. Thanks for taking my question. Sir could you give us numbers for growth in exports from India for Q3 as well as for nine months?

Jairam Varadaraj: In our standalone business, I do not have it with me, I am quite happy to take it offline and if you can contact our CFO, we are quite happy to share that with you.

Jasdeep Walia: Sure Sir. As far as Patton is concerned, it looks like there has been a change in your commentary on the way the business is performing. So till I think Q2 you were quite beat upbeat about Patton doing well and now you are indicating some weakness in the business model which you are trying to address. So can you please elaborate why has Patton not delivered as per your expectation and what weakness have you identified and how are you proposing to solve it?

Jairam Varadaraj: Just to correct the perception that I may have inadvertently created, there is nothing new in the Q3 and Patton’s that has made us change our point of view. So if you look at the history of Patton’s after we have acquired them, we were disrupted by certain competitive moves and we lost some headcount, we lost some customer contracts, so right from the beginning, it has been a story of rebuilding Patton’s. We did some, we showed up some of our areas where we got hit badly and since then we have been looking at ways and means by which we can regrow to the past size. Now last year that we decided that incremental interventions were inadequately needed some transformational intervention and which is what we put in place, this year starting from July, August through an external consultant for process improvement. So what I mentioned as Patton's thing is it is not done well in the quarter, it does not mean that it is done worst than in the previous quarter, it continues to remain at the same level not a surprise for us, because this is the reason why we have created this process and we are quite confident that with that initiatives we will start seeing better results in 2019-2020.

Jasdeep Walia: Got it and could you elaborate on what kind of inefficiencies that are there in the process right now, which you are trying to address through this initiative through an external consultant?

Jairam Varadaraj: Without going into details, broadly Patton was a distributor, offers a brand which was well known in the US and as a consequence, there was a certain inertial business development that was happening by virtue of the strength of that brand and by virtue of the presence in the market for many years. Now the minute that brand got pulled out and was replaced with Elgi, the organization went through a different phase where it had to actually go out rather than get pulled by the customers for orders it had to go push itself, so it had to learn new things which is the struggle and on top of it, we lost some of our sales and service people who are connected with the customers, so it was a combination of these two, but in spite of the drop of the brand, Elgi as a brand on the product side, we have performed exceedingly well on the Patton's revenue side. The main problem has been on our aftermarket. Now the aftermarket business earlier in Patton's was coming in by virtue of their brand association and when the brand disconnect happened many of the customers mistakenly thought that Patton did not have ability to provide service, so this whole process is about going to the fundamentals of go to market and build processes of customer engagement which will rebuild and what we have found in the Patton's territories whenever we have engaged with customers consciously in a very determinant deliberate way, the results have been positive. So what we are basically doing is creating that entire process of making that happen.

Jasdeep Walia: Got it Sir. Thank you for taking my question.

Moderator: Thank you. We have the next question from the line of Aditya Bagul from Axis Capital. Please go ahead.

Aditya Bagul: Good afternoon gentlemen and thank you for taking my question. Two questions Sir. First is on the data point. Is there a chance you can help us understand this incremental cost of about Rs.14 Crores odd, can you help us understand how much is the attributable to India business and how much would be on the international books?

Jairam Varadaraj: I would say out of the Rs.14 Crores almost 12, 12.5 towards the US.

Aditya Bagul: Okay Sir.

Jairam Varadaraj: I just want to highlight here. In addition to that Rs.14 Crores, there is Rs.2 Crore additional charge this year on R&D which is more an accounting treatment. I explained this in the prior quarters. From April of this year, we adopted an accounting policy of writing off all the material that we buy for R&D purposes in the year of purchase itself. Earlier we were keeping it in inventory and writing off only when the actual scrapping of material still such time it was sitting in inventory. The auditors came and made a suggestion that that is not the most prudent way to account for consumption of material in R&D. They proposed a stage-based write-offs up to a certain stage keep it in inventory and beyond a certain stage write it off. We found that that could be a very cumbersome process and had a potential for mistakes. So therefore we took a pretty drastic decision to write off and that is a consequence that we are facing every quarter of a significant write off due to the thing. So it is really not a material thing, it is an accounting difference. We are in fact re-engaging with our auditors to see whether there is a simpler way of doing it. So, next year there may be a change in the accounting policy on this.

Aditya Bagul: R&D would be only a timing difference and it would probably get offsized from…?

Jairam Varadaraj: Absolutely.

Aditya Bagul: Q1 onwards?

Jairam Varadaraj: Yes.

Aditya Bagul: Fair enough Sir. My second question was on ATS Elgi. We have seen that the performance has been slightly muted this quarter and when we look at the last 10 odd quarters we have been accelerating between that Rs.43 Crores to Rs.50 Crores kind of a quarterly revenue numbers. Can you help us understand a little more as to what is happening there and what is the kind of profit you would look at in the next few quarters?

Jairam Varadaraj: Just to give a context to this Aditya, the automotive equipment business is strongly on the growth of the automotive growth in the country. So the first two quarters of this year, we have had a strong growth in the automotive segment, it started slowing down sometime in July of this year and the Q3 has been particularly bad in terms of the automotive market. The only segment that has been growing has been two wheelers. We do not have a very strong presence in two wheelers, the passenger vehicle market has been very muted, commercial vehicles where we have a reasonable presence has been good, but the demand of equipment from commercial vehicles is not as much as in the passenger vehicles, so that is the fundamental reason why the growth rate in the automotive ATS had been muted. Now we have been talking too many of our OE customers, they are also seeing a very muted demand for automobiles for the next few quarters at least and everyone is talking about we need to wait and see how the dust settles down after the elections to see where the economy is growing and therefore the consumption of automobiles. So on an ongoing basis, we have started exploring opportunity for growth outside of the automotive space, but using our own equipment, we are now discovering opportunities where there are latent possibilities, latent opportunities for our product, outside of automotive, the typical automotive vertical, these are opportunities we are exploring.

Aditya Bagul: Okay Sir, that is fair. Just one last question and apologies probably reading too much into this. In your opening comments you have talked a little on gaining more strategic direction in the European market, would you be looking at inorganic acquisition or would you think that our current business and Rotair together would be sufficient to fuel our strategic ambitions?

Jairam Varadaraj: I cannot comment whether we have anything on the pipeline Aditya, but our strategy overall across the world is a mixture of organic and inorganic, but inorganic is not a big chunk of our overall growth plan. Now having said that there is a bit of a context for Europe. Europe, we tend to refer to Europe as one entity, but in reality it is an amalgam of multiple countries which are very, very different in their behavior, business practices, cultural staff and the way they perceive an Indian product with an unknown brand name. So right now our significant presence is only in Italy, Italy is probably the third or the fourth largest compressor market in Europe. Now strategically if you want to grow in Europe, we need to start looking at the larger markets. Now we have to be very careful in making choices of which we cannot boil the ocean and play in all the European countries, it is just not possible, so we need to pick the battles we want to engage in, in terms of which countries we want to play in, which is the part of the strategic process. Now to answer your question will there be inorganic presence that could be but it is all part of how it fits into our overall strategy of where we want to play in Europe and if we choose the country and if there is a strategic opportunity in that country for an inorganic presence, we will certainly consider that. But again our inorganic strategy is not to buy other compressor companies. We are really looking at acquiring distributors in service companies like we have done with Pulford's and Patton's.

Aditya Bagul: That is all. That is quite helpful. Thank you so much and I look forward to meeting you at the end of the month.

Jairam Varadaraj: I look forward too. Thank you.

Moderator: Thank you. The next question is from the line of Aruna Bharati from Pari Washington. Please go ahead.

Aruna Bharathi: Good morning Jai. Just a minor clarification. This Rs.14 Crore cost what we have talked about this is basically the cost that staff cost plus other expenses correct?

Jairam Varadaraj: People cost and process cost in terms of what we are paying to the external consultant for the process design.

Aruna Bharathi: That is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Eshit Sheth from Anvil. Please go ahead.

Eshit Sheth: Thanks for taking my question. Sir I had a couple of questions. One is what was the percentage of spare sales for the company in this quarter in standalone as well as consolidated?

Jairam Varadaraj: I should have prepared for that question I have not, I am quite happy to take that offline and we can give you the details.

Eshit Sheth: Sure, okay. That is it from my side. Thank you.

Moderator: Thank you. Ladies and gentlemen as there are no further questions from the participants I now hand the conference over to Mr. Kamlesh Kotak for closing comments. Thank you and over to you Sir.

Kamlesh Kotak: A couple of points I wanted to have your give on. How much capex we have planned for this year and how much of that has already been invested?

Jairam Varadaraj: Kamlesh I think our plan for the year was close to about Rs.90 Crores including our investment into our motor plant. We expect that we will close the year with including the motor plant at around Rs.55 Crores and just in line with that our net debt position including the debt that we have taken for the acquisition of Pulford's is about Rs.150 Crores.

Kamlesh Kotak: Net debt Rs.150 Crores as of now right?

Jairam Varadaraj: Including the debt taken for Pulford's, so I have to give you context for that, our Pulford's acquisition was about Rs.60 Crores. In the last quarter, our net debt position was about Rs.130 Crores if I am not mistaken, so Rs.130 Crores without the Pulford's acquisition. So that was actually Rs.190 Crores. So we have brought it down to Rs.150 Crores. So effectively in the quarter we have reduced to about Rs.40 Crores to 45 Crores as debt. So we are working on improving. There are opportunities like I said in our receivables as well as inventory. We are also looking quite sharply into capex considering the overall market situation. We are looking at it carefully, so I think the cash generation from the business for the quarter of Q4 as well as for the next financial year should be pretty solid.

Kamlesh Kotak: Okay, second point on the BCG program, how you see qualitatively it is facing out and how you see that how much part of that is still remaining to be completed?

Jairam Varadaraj: Well as far as India is concerned, the project has been completed from a design and rollout point of view, we have gained traction of that process in India, but there is continuing opportunity for further increased traction in the market. Just to give a perspective, we have been tracking the ROI on investments like these. We have taken very conservative estimation of what the incremental business performance has been in India because of this initiative. Like I said I cannot tell you how much we invested but I can tell you our return on this investment has been between 8 to 9 months and we are tracking it in a very conservative way, so it has been good. So I will just answer your question India has gained traction, but there is a lot more that we can do, we are confident that we can gain more traction. We have got the people, the organization in place. It is a matter of execution. Based on the success of what we have been able to achieve is really what we have looked in the US in terms of basically at both the market. The design of the US program is still another two months away, design and piloting and then 2019-2020 will be really the year in which we roll it out in the Patton's territory in the rest of the US and that is when we will be able to look at the actual gains. Now we have done some estimates based on expectation and cost. We believe that the ROI in the US it would not be 8 to 9 months, it will be probably around a couple of years and this includes the investment in people as well.

Kamlesh Kotak: And how much part of this total cost is still to go. Is it significantly done or major part of that is still to come?

Jairam Varadaraj: Like I explained Kamlesh, we are looking at a total cost, we wanted to spend it... the program is for eight months, it started in July, but we wanted to pay them over a two year period, so this year we would paid about half and the next year will be half. So the cost towards that will continue into next year as well.

Kamlesh Kotak: And entire US would come over the next two years, 2020 and 2021?

Jairam Varadaraj: US, the rollout of this will happen in 2019, 2020, we will start seeing traction there and continue to improve over the years.

Kamlesh Kotak: So cost also will go commensurately in those two years right?

Jairam Varadaraj: No, the cost will be only 2019, 2020, it is a fixed cost, nothing to do with our increased performance.

Kamlesh Kotak: Got it. Amar any more questions.

Moderator: Yes Sir, we just have one more question which is from the line of Vipul Shah from Sumangal Investments. Please go ahead Vipul.

Vipul Shah: Can you break up what is the service component in this revenue?

Jairam Varadaraj: There was a question earlier Vipul that I do not have that number in front of me.

Vipul Shah: But can you give any rough estimate percentage wise, 15%, 20% or something like that?

Jairam Varadaraj: It is very different in our standalone, very different from our consolidated. I will venture a guess that our standalone business is at around 22% to 23% and our consolidated would probably be 10% to 11%.

Vipul Shah: So that will be for only our products or we do any third party service also?

Jairam Varadaraj: In India we do only our products, in Patton's and Pulford we do other peoples compressor as well, rest of the world is only our products.

Vipul Shah: Okay Sir. Thank you and all the best.

Jairam Varadaraj: And your question was service, I cannot break it up because this is aftermarket consolidated.

Vipul Shah: Okay Sir. Thank you.

Moderator: Thank you. Sir that was the last question. Mr. Kotak would you like to add any closing comments?

Kamlesh Kotak: On behalf of Asian Markets we thank everyone for joining for this call. Special thanks to Jairam and his team for providing us the insight about the company's business and financial performance. Any closing comment Sir?

Jairam Varadaraj: Nothing Kamlesh. Thank you so much for organizing I appreciate you will continue to do this. I look forward to seeing you at the end of this month.

Kamlesh Kotak: Sure Sir. See you. Thank you everyone. With that, we conclude the call.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Asian Market Securities Limited that concludes today's conference. Thank you all for joining us and you may now disconnect your lines.