"Elgi Equipments Limited Q1 FY '19 Earnings Conference Call"

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MANAGEMENT: **MR. JAIRAM VARADARAJ, MANAGING DIRECTOR, ELGI EQUIPMENTS LIMITED**

MODERATOR: **MR. KAMLESH KOTAK, ASIAN MARKETS SECURITIES LIMITED**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Elgi Equipments Limited Q1 FY '19 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kamlesh Kotak from Asian Markets Securities Limited. Thank you and over to you, Sir.

Kamlesh Kotak: Thanks, Roy. Good Morning everyone. On behalf of Asian Markets, we Welcome you all to the 1Q FY '19 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 an 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. Good Morning, Ladies and Gentlemen. Thank you for taking your time to be with us for this call. As usual, I will take you through our consolidated results for this quarter in comparison with same quarter last year and talk a little bit about the business conditions and then open it up for questions. At a consolidated level, our sales grew by about 15% over the same quarter last year. Our contribution has been relatively the same. At a contribution level, we probably lost about 0.6%-0.7%, but that is primarily because of product mix and a little bit of a challenge on our commodity prices during the first quarter, taking some action to recover it and we are confident that the balance of the year we will come back. There is 15% growth in revenue assuming the same cost levels as the previous year, our EBITDA should have been 625 million whereas it has been only 394. There has been a cost impact to the extent of 231, which I will explain to you. Our biggest cost increase during this quarter has been in manpower cost and that to close to the extent of about 103 million and close to 65% of that increase has been from India. There is a pressure on people cost at more than from a point of view of attracting talent as well as retaining talent.

We expect this pressure to continue for the next few years. We are also working on alternate strategies to mitigate this. On the variable cost, we lost about 50 million and this is again due to the mix variation, which is not something that I am unduly worried about. On other fixed cost, there is another 50 odd million and that is primarily because we changed our accounting policy for R&D material. Earlier we used to expense off material acquired for R&D purposes at the time of actually issuing completion of the project, but from a prudency point of view this year onwards we have decided that we are going to write off everything that we buy for R&D, so out of that 50 close to about 20 million is because of that. We also had CRM implementation this year, which is a one-time expense, I do not see it repeating itself, so overall I would say it has been a good performance, it could have been a lot better. Even in the top line, we were probably 2% to 3% shorter than what we anticipate it to be, but basically both top line and bottom line have been reasonably good. In terms of our debt position, right now it still remains pretty flat at 1522 million.

This year, this quarter has been a significant increase in our inventory. We anticipated reduction which has not happened and that has really put a pressure on our inability to reduce our debt. We are still hoping that as promised by March '19, we will significantly reduce our debt. We were hoping that we will become debt free without the Pulford acquisition. On a business as usual mode, we expected that by March '19, we will be debt free, but I do not think we will be unless we are able to do something extraordinary in our working capital on inventory and receivables. We are working on it, we are hoping that something comes, but I am not at this point able to commit with conviction that we will extract that much cash from the system. There has been a bit of an anomaly which was there even last year, but it looks a little stark here between the consolidated results and the standalone results. There is a difference consolidated result was in terms of profit after exceptional item is 292 whereas the standalone profit after exceptional item is 308, so that is a natural thing is why is the consolidated profit lower than the standalone profit especially when all the subsidiaries have gone past the earlier period of making losses, and this is our first quarter phenomenon that if you look at last year's consolidated and standalone, you see the same anomaly and that is because of dividends coming in from subsidiary ATS during the first quarter in the consolidated books, it gets netted up whereas in standalone it comes in as a dividend.

Other than that, I am going to rely on your questions to clarify more on our results. In terms of the general business conditions, India continues to be rolling along. I would not say there is any significant increase in the intensity neither do I see any reduction in it, it is just rolling along. We are riding the wave of that. We have also got some strong processes in place in the market and we are beginning to see some results from that as well, so India has done well in the first quarter. Both the US and Europe continue to contribute for us. The growth rates have been pretty significant. The Southeast Asian and Australia market compared to last year has done much significantly better in this quarter and that has also contributed. Our challenge has been the Middle East and Brazil. Middle East as we have had issues with distributors, there are some receivables, we have had to curtail business with these distributors as the means to manage, reduce the risks on our receivables. We are working on some alternate go-to market methods to mitigate this. It is probably going to take us another six months to put that in place and start seeing some results. In the meantime, we are working with these distributors to see how to overcome this situation.

Brazil, the economy continues to be a challenge. In spite of the problems, we have done well in our industrial machines and supportable business that has been quite challenging in Brazil, but our aftermarket and our industrial has grown. We are maintaining our position in Brazil. We are trying our level best to ensure that there are no cash losses. We have to stay in that market, it is a significant market. The fundamentals of the economy are very sound. Once the political situation gets resolved, we expect that it will be a good market to be participating in, so no serious damage coming out of Brazil, but we are watching it very carefully. I will talk a little bit about our acquisition that was announced recently, which is Pulford in Australia. Pulford is a pretty significant size distributor of compressors and a service company in the market. They have been our distributor for a year now and this has given us a good opportunity for both Elgi to understand Pulford and for Pulford employees to come to appreciate the performance and quality of Elgi products. This has been a good platform based on which we went to the next step of acquiring the company. They have a very strong presence in the major industrial areas of New South Wales, Victoria, Queensland, and they have reseller network in other areas as well, but with this acquisition with Pulford being such a strong platform for Elgi, we can expand pretty significantly into the other areas in Australia. We have got a good leadership team in Pulford that has come onboard, so things look pretty good for our business in Australia. With this, I will conclude my conversation and I will rely on your questions to clarify. Thank you.

Moderator: Thank you very much. We will now begin with the question and answer session. We have the first question from the line of Aditya Bagul from Axis Capital. Please go ahead.

Aditya Bagul: Sir, it is about a year-and-a-half since we have tied up with BCG on the domestic front, can you give us some granularity as to what kind of developments have we brought in place and in your initial comments you talked about some improvement in processes, which has driven domestic growth, so if you can just elaborate a bit on that? Sir, my next question is actually a data point I just wanted to know why the tax rate was higher in this quarter and what is our guidance for FY '19?

Jairam Varadaraj: Aditya, I do not want to give granular details of what has been the impact of the BCG initiatives into our top line that would be even as both of us are conversing with each other, competition is going to get to hear this, so I would like not to feed into that, but what the process has helped us is to start participating in greater opportunities in the market regionally as well as the various customer segments. It has brought a certain robustness in the way we are having conversation with our customers vis-a-vis competition which again builds a certain credibility, and therefore, the effectiveness of the sales conversion, so it has been a very comprehensive and involved process and it just raised the game for Elgi in the market place and the results have been positive, but I do not want to talk about specifically what the percentage improvements are there. Coming to your tax rate, it is really if you look at the tax-paying entities alone are considered, the effective tax rate in Q1 is pretty much the same as the Q1 of last year as well as the whole year tax rate in '17-18.

Aditya Bagul: Sir, if you could give us some understanding on how our new oil-free compressors, what is the feedback in the first few months of putting the product in the market?

Jairam Varadaraj: I do not want to say the total number of machines, but a significant number of machines are already running in the market, zero complaints from customers, and the performance of the machines have been exactly as we expected them to be, so it is a very positive feedback so far. We have got orders from pretty large automotive OEs, which we hope to execute in the next few months, so things are actually looking good and they are on track.

Aditya Bagul: Sir, in the last quarter we have talked about our domestic growth of about 13% to 15% odd, do you think that with some improvement in the domestic ordering scenario, we would be able to surpass this number at least domestically this year?

Jairam Varadaraj: If you look at the first quarter in the domestic market, we have grown about 15% if you look at domestic, because standalone is not exactly domestic, so we do not see any reason why this rate should not get sustained over the next three quarters.

Moderator: Thank you. We have the next question from the line of Rohan Pinto from ICICI Direct. Please go ahead.

Rohan Pinto: Sir, just wanted to get some understanding on environmental control system equipments, so basically the ideology for this controlling soft emissions in power plant, you require an FGD technology. Now, from what I have read Sir, you also employ air compressor there, so just wanted to have your understanding is this a market that is addressable to us?

Jairam Varadaraj: You are talking about flue gas?

Rohan Pinto: Yes, flue gas.

Jairam Varadaraj: You do not need a compressor for flue gas treatment, no desulfurization we are not involved in that process at all. In the power plants primarily a compressor is used at two levels, one is that the instrumentation the air you need oil free and low-pressure air for ash handling.

Rohan Pinto: Sir, I had one more question on, this is with regard to aftermarket share of our company, from your previous con calls, I understand that we had around 20% to 25% aftermarket share in domestic and when it comes to our foreign subsidiaries, it was around 10%, so over the years I do not want the pointed numbers I understand you would not be able to give them, but have we improved our aftermarket share?

Jairam Varadaraj: I think we are in both the domestic and the international markets we have improved, but we believe the opportunity for that is even higher and we are working on very specific initiatives to be able to extract that value.

Rohan Pinto: Sir, the thing is the more compressors we manage to sell and that is basically our market, so the more we sell over a longer period of time, the more aftermarket service we can generate and these revenues are going to be stable, so what are your views over a decade or over next five years, how do you see this market panning out for Elgi?

Jairam Varadaraj: I do not understand the question in terms of…

Rohan Pinto: In terms of what I am trying to understand is say over the next five to 10 years, we have a of 20%-25% aftermarket share, what are the percentage share that we are looking to achieve and do we have a number in mind, that is where I am heading towards?

Jairam Varadaraj: The global benchmark at an average level is around 30% to 33% and that is not an unrealistic percentage to aspire for, but there are also companies that have as high as 60%, so it really depends on what value chain that you participated in the aftermarket. If you are only at the parts level then it is probably between 30% and 33%, but if you start offering even services which currently distributors offer then your percentage of aftermarket revenue could be higher, but as a principal, Elgi is more distribution oriented, we are distribution friendly, we want to be partner with distributors, so for us the 30 to 33 is the more relevant benchmark.

Moderator: Thank you. The next question is from the line of Aksh Vora from Praj Financial. Please go ahead.

Aksh Vora: Sir, I just wanted to know from which segments have we seen the growth coming in for domestic revenues, particularly which segment or sectors have done well for us?

Jairam Varadaraj: I would not say it as any one sector that has overwhelmingly stood out. We can say Power is one sector that has not contributed significantly, but pretty much all other sectors have, but having said that if I break it up a little bit more at an aggregate level break it up, the large infrastructure type of businesses like steel, cement, and power have not really contributed as much. It is the general small-to-medium sized industries that have really contributed, but having said that we are beginning to see an interest picking up in cement and steel, so in the future they should start contributing.

Aksh Vora: In past, we have seen good activities in construction, mining, textiles, and Pharma side, so is that growth continuing?

Jairam Varadaraj: Yeah, it is.

Aksh Vora: If you can just give me growth numbers in segments if possible?

Jairam Varadaraj: I would prefer not to do that, it is comparatively too sensitive.

Aksh Vora: Also, recently in competitor's annual report we have seen they saying that they have been losing market share because of pricing pressure, so just wanted a perspective how much have we gained market share in recent times from competition because of pricing thing?

Jairam Varadaraj: First of all, we do not lead with pricing, our entire sales program is not built around low price, so if the competition, I do not know which company's annual report you are referring to, but talking about losing market due to low price, I do not know who they are losing to because we certainly are not reducing our price. Also, I do not know whether the problem is with the price or cost, so I do not know. It is very difficult to talk about increase in percentage of market share firstly because in India there is no common body to whom all the manufacturers report their sales so that there could be a collective understanding of the market size and market share, it is very difficult to say. Second is we have some internal assessment by which we say how much we have gained and I really would not like to share that information here because that again like I said there are people listening and I would not like to them to know.

Aksh Vora: Lastly, what would be the utilization in domestic front, capacity utilization?

Jairam Varadaraj: Again, capacity is used across multiple products and depending upon given years of product mix, capacity utilization significantly varies for instance. If the water well segment is really firing on all cylinders, they need large machines, the capacity utilization will be pretty significant, when they are not firing right now, the capacity utilization is pretty low, so it is very difficult to give you a general answer, but we need significant capital to continue to serve this market and ride the future, no, earlier I have always maintained we need an ongoing investment of around 30 crores on an annual basis towards balancing equipment, quality improvement, R&D, that continues to remain valid. There are specific projects in any given year like right now we are setting up a motor manufacturing facility which will absorb the significant CAPEX beyond 30 crores that we normally do, so there is nothing. If your question was to understand if there are going to be a huge cash outcry because of capital, no, normal CAPEX.

Aksh Vora: Sir, you just mentioned that steel, cement have been little bit improved in the current quarter, do we see any, just when the three sectors are about to revive, you are the guys who will be seeing the growth signs at their initial movement, so do we see significant demand coming over the next couple of years?

Jairam Varadaraj: To set the facts right, the compressor is the last equipment that is bought, so we are not going to be the first guys to see it, but the fact that there are enquiries that are coming to us and we are the last guys generally that cement companies or steel company or any company talks to in terms of their overall CAPEX program, I think they must have quite further along on actually making decisions on investments.

Moderator: Thank you. The next question is from the line of Krishna Kumar from Sundaram Mutual Fund. Please go ahead.

Krishna Kumar: Sorry for the repetition, I just missed some part of the initial comments, so if you could just give us some color in terms of profitability improvement across, is it being led largely by product mix improvement or is it also to do with cost optimization, if you could give us some color on that would be helpful?

Jairam Varadaraj: The profitability actually like I explained to you at a margin level, we have actually improved a little bit in terms of percentage at a consolidated, in standalone we have probably deteriorated a little bit at the margin level, so I would not say that there is any deliberate attempt to either realize better crisis or any deliberate attempt to significantly reduce any input cost. It is a normal ongoing price increase initiatives, ongoing cost management initiatives, just the routine stuff, nothing significant.

Krishna Kumar: Going forward, do you see any mix change that will help the company in terms of products, in terms of as you see the customer demand into the next 12 months, is there any shift that you are seeing which can give you better margin profiles from a mix perspective?

Jairam Varadaraj: No, we do not see any significant shift in product mix that is going to happen in the next balance of this year, we do not see it.

Krishna Kumar: The water well segment particularly, how is the kind of demand in our key market, Sir?

Jairam Varadaraj: Water well is pretty dead, the demand is pretty dead, so it is almost non-existent right now in terms of people buying compressors.

Krishna Kumar: Lastly, the family as promoter are around 32%, which is far lower than probably most management would like to be, so is there any thoughts on that you would like to share in terms of taking it to higher level?

Jairam Varadaraj: Every percentage that we have to acquire is going to cost us close to about 60 crores and if you are able to give me a lot of money without asking me to return it back to you, then I would certainly look at improving my percentage, but as it stands we do not have the cash flow to look at those kind of opportunities.

Krishna Kumar: Sir, would we use the buyback route etc. to try and also distribute cash?

Jairam Varadaraj: The buyback at the current multiple, you got to look at how is your cash best used, is your cash best used in investing into the business and providing better return to your shareholders or is the cash better used to buy your shares, and therefore, better return to not only the exiting shareholders but the existing shareholders, but at the current pricing level it does not make any sense to do any buyback, but having said that even if there was an opportunity, today our biggest aspiration is to grow this business to a significant level globally, which means there are profitable investment opportunities either in the form of acquisitions or in the form of organic initiatives in different parts of the market and that is what we really look at using our cash for.

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

Aditya Bagul: Sir, just on your previous comments, just wanted to ask if you are contemplating any new inorganic opportunities and what segment or what geographies would you be targeting in this?

Jairam Varadaraj: Our strategic focus is North American, European, Indian, Australian, Indonesian, and Thailand markets, these are the markets that we have identified as strategic. Any inorganic activity is going to be within these geographical domains. Now, there is nothing that is concretized to the extent that I can make a communication about, there are multiple opportunities in the pipeline that we are exploring and having conversations with.

Aditya Bagul: Just a small clarification there, would you be predominantly looking at distributor/service agent kind of a model or would you also want someone who has some manufacturing capabilities?

Jairam Varadaraj: We have announced this before, we are not really interested in buying any manufacturing company. Our inorganic directions would be access to customer type of acquisition, so this will be primarily distribution service companies.

Aditya Bagul: Sir, you talked about a few geographies, if you can just talk a little on how you see China developing, and secondly, if you could talk about the performance of Rotair?

Jairam Varadaraj: China, we have hibernated and we have explained this on multiple occasions in the past. We are just hibernating in China, we are still remaining there to support our customers there. Our focus is going to be in these geographies that I mentioned, and therefore, China is not a focus for us even though it is a big market. It needs a different strategy and different set of competitive levers to win there, right now we are not interested in building those. Rotair has done well, it is manufacturing program is the portable business and it has done well in that segment that is worldwide. It also sells, it is our platform in Italy for selling our industrial machines, which have also done exceedingly well.

Moderator: Thank you. The next question is from the line of Harish Biyani from SBI Mutual Fund. Please go ahead.

Harish Biyani: Sir, this acquisition of Pulford you shared the turnover numbers in the press release of all 18 million, is this company profitable, one, and I am presuming that at this point in time the share of Elgi Compressors share would be fairly low, so how does it typically work out say two, three, five years time frame in terms of the increase of our compressors, one, and B, in terms of when we get into any distribution, what are we thinking of from a slightly medium-term outlook on how big can we scale up this kind of distributors?

Jairam Varadaraj: Profitability of Pulford is pretty strong, I do not want to give an exact number, but I can tell you it is better than Elgi's EBITDA, so it is a profitable organization. In terms of, yes, right now and again I do not want to give you the breakup of that 18 million in terms of products, aftermarket in products, what are the various brands, but you are right, right now the percentage of Elgi sales to Pulford sales is low, but that this gives us the headroom for increasing the Elgi sales to Pulford's while continuing to retain Pulford sales numbers and profitability under the assumption of no growth, that means, the entire system is going to earn more profit, even if Pulford does not grow, but like I said before, because of our product, our quality and our support on one side and the platform that Pulford has in Australia, it is easy to double the revenue of Pulford over the next two to three years' time, so we are going to be riding at multiple levels in terms of profitability.

Harish Biyani: Sir, previous participant had asked this question, all this bolt on acquisition that you will keep doing, hypothetically you get good valuation or it fits with our long-term strategy, is there a particular number that you have in mind over the next or these five geographies or six geographies that you talked about, you rightly want one each over the next couple of years you would want to acquire distributors in each of these?

Jairam Varadaraj: One is, we have put down our desire, the other is getting actually opportunities to acquire, they do not come in the timeframe and our desire, I think these things are opportunistic that come up, so it is very difficult to predict, but we do have an internal kind of a financial projection of what percentage of our growth is going to come from organic opportunities and what is the kind of commitment of money that we are going to have to make to acquire that, but that is again very confidential internal information, I do not like to share that on this call.

Harish Biyani: Sir, third question on the model distribution that you had setup in Coimbatore and you wanted to share the learning all across India, where are we in that particular journey, are there more model distributors that we would be setting up in India or overseas?

Jairam Varadaraj: We would not like to, what we did in Coimbatore was only a model, we did not want to replicate it by taking ownership in other distributors in India. Almost all of our major distributors have visited this facility, they have seen how successful it can be, and we are already beginning to see the fundamental change in beliefs followed by different kinds of action in these large distributors as a consequence of what they have seen with our distributor in Coimbatore, so it has been positive. Are we going to do something like this in other markets, there is a possibility that we could consider something like this in America where if we are not able to get distributors organically to support our products, if that is going to be a bottleneck in terms of achieving our sales targets, we will look at this as an option, yes, but it is still early days for something like that.

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

Manish Goyal: Sir, just wanted to get a sense, you mentioned that domestic sales have grown 15% and the standalone operations have overall seen a 18% growth, which implies that exports have grown much faster and which probably also would get reflected in the international subsidiaries, so can we expect that international subsidiaries to grow much faster than the 15%?

Jairam Varadaraj: Yes, absolutely.

Manish Goyal: Because, last year the growth rate was upwards of 25%, so can we maintain that similar number?

Jairam Varadaraj: At specific countries, yes, but when you have a challenge like what we are facing in the Middle East where there is payment issue and we have deliberately curtailed our sales, you cannot, if you put that into the mix there could be a bit of a depression in the percentage, but having said that the overall, I do not want to take away the overall optimism of very high double digit in the 20s growth in the international market.

Manish Goyal: What I probably also infer is from the numbers between consol and standalone is that margins for International have been much better as compared to because on a consol, we are seeing EBITDA margin improvement and standalone margins have declined, so just wanted to know that one is that are we kind of getting any benefit of Rupee depreciation into that or you probably have the top line momentum which itself is helping to give you a better margin?

Jairam Varadaraj: I think bulk of the improvement in EBITDA as they consolidate international level is the volume leverage, but there is no doubt that we have also gained from exchanges. Standalone is because like I explained to you at the standalone level there are certain expense items that we have taken on the way we are accounting our R&D expenditure, which specifically effects standalone numbers, more significantly.

Manish Goyal: In that context now going forward, do we expect like one particular R&D material cost impacted our Q1, do you expect it to continue in the coming quarters and the variable cost also wanted to get a sense that there has been a revenue exchange, so how do you see that going forward?

Jairam Varadaraj: On R&D expense, Manish, it is an accounting policy adoption that we have done, so therefore it is going to continue into the quarters, but it is only a timing of cash flow. Earlier, we used to carry it in the balance sheet and bring it into the P&L when we ship the goods off. Now, we are writing it off and we will recognize the income from the goods. In terms of variable cost, I do not see it affecting it because this is in just one quarter we have some shift in mix.

Manish Goyal: That would probably get taken care off in the coming quarters?

Jairam Varadaraj: Yeah.

Manish Goyal: Sir, on the employee cost absolute increase what we have seen even on quarter-on-quarter basis, so can we probably look at this quarter absolute number to continue in the remaining quarters or this absolute number will also increase?

Jairam Varadaraj: Absolute number will continue, I do not think it will increase.

Manish Goyal: What I am trying to say is that the absolute employee cost number what we are seeing on a consolidated basis in Q1 that absolute number is likely to be same for the remaining quarters or this absolute number itself can increase?

Jairam Varadaraj: There could be some marginal increase in the absolute number because we are bulking up on our talent in certain key markets and that will come, but there will be commensurate growth in revenue as well, so while you will not get the full leverage benefits falling into the bottom line, it is not going to be like it is going to beat it away completely.

Manish Goyal: Sir, on the Pulford acquisition when do we start consolidating from when?

Jairam Varadaraj: From August 1st is when it is going to get consolidated.

Manish Goyal: One housekeeping question Sir, in this quarter how much dividend we have received from ATS Elgi in our standalone, last year it was 4.95?

Jairam Varadaraj: Elgi and ATS put together, we have got 70 million.

Moderator: Thank you. The next question is from the line of Kashyap Pujara from Axis Capital. Please go ahead.

Kashyap Pujara: Just a follow up question more at a conceptual level, given that our product differentiation and value proposition is pretty much established, what is the challenge to scale up organically, I mean while you do mention your aspirations for inorganic growth across multiple geographies that you said, but do you think that having a distilled focus on a few geographies and getting them right and saturating them before going to other geographies would be a right strategy or do you think that going across the board would be a better strategy, and second is that would scale up organically be a challenge because we are focusing on inorganic growth by taking distributors onboard acquiring them, so do you see that even after establishing a product differentiation and value proposition, actually getting inroads into customers is so much of a challenge organically?

Jairam Varadaraj: I think multiple questions there, we will try and see that through and answer. One, do we focus on specific geographies or kind of do carpet bombing across the entire world. The key to success in any market is your access to a distributor. Now, getting access to a distributor is a big challenge because most distributors are already tied with existing brands of compressors. Now, if you try and go all over the world and try to get distributors to switch, the effectiveness of that effort is going to be very, very low. You need concentrated effort with repetitive conversations and visits and programs which focused, select distributor to be able to get them onboard. If you do not do that, you are not going to be successful, so that is to answer the first question. Second, in terms of having established value proposition and the value to the customer, do we need to acquire distributors, acquisition of a distributor has two purposes. One, if you take a country like Australia, a distributor itself becomes the platform for the whole country, and therefore, is a vehicle for us to expand our presence in that market. If you take a country like the United States, where there is no one distributor that you can use as a platform to launch into the entire market, there are large sub-geographies in that country, which are pretty significant enough to warrant a presence, warrant our presence there in order to fulfill our growth aspirations. Now, if you do not have a distributor willing to come onboard to sell your products in that specific sub-geography, then acquisition becomes an alternative for us to gain access to that sub-geography, so an acquisition is not about, just because you have the value proposition established, it does not mean distributors are going to come in hoards to take on the distribution of your product. You still need to go and engage much more granularly in the market and at that point, acquisition becomes an alternative when distributors do not come onboard.

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

Aruna Bharati: I have just couple of questions, one is on the other expenses, you talked about two elements, one is this R&D expenses which is basically written off as part of an accounting change and the next one was you talked about some implementation cost which is an one-off cost, I just want to get what is this all about, that is one? Second question is on this Pulford acquisition actually, I just want to get your qualitative thoughts on in terms of the current leadership team and given the fact that we have bought 100% of Pulford and how are they incentivized to work for Elgi?

Jairam Varadaraj: The implementation is for our CRM which we have rolled out in this quarter. It went live on the August 1st, but the bulk of the expenses in terms of implementation happened in the first quarter. In terms of Pulford, the management team of Pulford continues to stay on, that is going to be our talent platform for Australia at least. We are also in the middle of reorganizing our regional level structure for the business, which will bring in additional leadership specifically, deliberately for this region, so there are redundancies that are built-in at multiple levels. In terms of their incentives, these are all people who are quite young. They are not the people who started the business, they acquired this business a few years ago, I think seven or eight years ago. They come in from different backgrounds and their goal was to incubate and encash on business which they have done very successfully. Now, they want to looking at the professional challenge to be able to take this business to another level in the Australian market. Now, the incentive for them to stay on is the challenge of the business. We are not creating and we do not want to create any financial carrots as the means for people to stay on. We have not found it necessary with them in our conversation and we are not questioning them, so the downside you may ask, so what if they leave there is enough talent in the Australian market to be able to pick up the pieces and run.

Moderator: Thank you. That was the last question. I would now hand the conference over to Mr. Kamlesh Kotak for closing comments.

Kamlesh Kotak: Thanks, Roy. Thanks Jairam and team for providing all the insight. Thanks everyone for joining for that call. With that, we conclude the call.

Jairam Varadaraj: Thank you so much as always for organizing this, Kamlesh, and I do not have anything specific to add, and I appreciate everyone's time for being with us this Afternoon. Thank you.

Moderator: Thank you very much. On behalf of Asian Market Securities Private Limited, that concludes this conference. Thank you for joining us, Ladies and Gentlemen, you may now disconnect your lines.