Y 2011 Earnings Call - Elgi Equipments Dt-28 Apr’11

Operator

Good evening, ladies and gentlemen. I am Ram, moderator for this conference. Welcome to the Conference Call of 4Q FY11 Earnings Elgi Equipments hosted by Asian Market Securities Private Limited. We have with us today Mr. Kamlesh Kotak, VP Research from Asian Market Securities Private Limited. At this moment, all participants are in listen-only mode. Later, we will conduct a question-and-answer session. Please note this conference is recorded. Now I would like to hand over the conference to Mr. Kamlesh Kotak. VP Research Asian Market Securities Private Limited. Please go ahead, sir.

Kamlesh Kotak

Thank you, Raghuram. Good evening everybody. On behalf of Asian Market Securities Private Limited Mumbai, we welcome you all to the 4Q earnings conference call of Elgi Equipments Limited. We have with us today, Mr. Jairam Varadaraj, Managing Director of the company. To begin with Mr. Varadaraj would take us through the company's 4Q financial performance and then we shall begin the Q&A session. Over to you Mr. Varadaraj.

Jairam Varadaraj, Managing Director

Thank you, Kamlesh. And good evening ladies and gentlemen and thank you for joining me in this conference call. Let me give you a brief overview on our fourth quarter performance and also our performance for the whole year. Our sales at a consolidated level is around 243 crores. And our profit for the period before tax is about 18.3 crores. We had, because of our, we had a allotment of sales to our employees as part of our 50th Anniversary. We did golden jubilee thing. And because of that from an accounting entry, we have taken an expense of 4.73 crores, which is lot of cash expenditures. It's an optional accounting expenditure. So, in light of that our profit for the period is 13.6 crores.

In terms of the performance for the year at a consolidated level, we have done 929 crores. And profit before the extraordinary item that I was telling you about is about 93.9 crores or around 94 crores. As far as the markets are concerned, the industrial markets continue to remain very buoyant. Our water well business clearly as indicated in my earlier conference call, it was beginning to slowdown and it has slowed down pretty substantially as we speak. But at the beginning we are also seeing quite healthy response in the market by the various industrial segments.

This is just a synopsis. I will leave it to your specific questions for a better understanding of our performance. Thank you.

Questions And Answers

Operator

Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions]. First question comes from Manish Goel from Enam Holdings.

Manish Goel

Hello?

Jairam Varadaraj, Managing Director

Hello, Manish.

Manish Goel

Yeah. Good evening, sir. Just because we haven't yet seen the results in detail.

Jairam Varadaraj, Managing Director

Yeah.

Manish Goel

Because they have not yet come on the stock exchange website. So, just wanted to get a sense on, just clarifying that your PBT you mentioned was for the quarter four at 18.3 crores?

Jairam Varadaraj, Managing Director

Yes.

Manish Goel

That is before ESO.

Jairam Varadaraj, Managing Director

Yes.

Manish Goel

Okay. So, what basically we're seeing is that on a Y-o-Y basis, if we were to look at PBT before extraordinary item last year, which was roughly 28 crores. So, we're seeing a substantial drop in the PBT number?

Jairam Varadaraj, Managing Director

No, no. What I told you was PAT, Manish. So, the compatible number for the previous year same quarter is 18.71.

Manish Goel

Okay. So, 18.3 is a PAT number?

Jairam Varadaraj, Managing Director

That's right. The equivalent number is 29.56 for this quarter before tax.

Manish Goel

PBT, is sorry?

Jairam Varadaraj, Managing Director

29.56.

Manish Goel

Okay, okay.

Jairam Varadaraj, Managing Director

And last year same period was 27.82.

Manish Goel

Okay. So, basically what we are seeing if we probably look at, on a Y-o-Y basis, we have seen marginal growth. So, basically there is some pressure on the margins.

Jairam Varadaraj, Managing Director

No. We have some extraordinary expenditure during this period. We have, we took a, we have provided for bad debts of about 1.6 crores. It's not, not all of it is bad, but the prudence is very good for that.

Manish Goel

Okay. And also in quarter three, you had some, basically charges relating to setting up of overseas office.

Jairam Varadaraj, Managing Director

Yeah.

Manish Goel

So, even in quarter four, do we have similar kind of expenses, sir?

Jairam Varadaraj, Managing Director

We are continuing those expense as I told you it is not just for the quarter.

Manish Goel

Sure.

Jairam Varadaraj, Managing Director

We expect that in the future, even in the coming year we expect to see certain expenditure, which is relating to building the future of the company in overseas markets.

Manish Goel

Okay. Right, sir. And also on the business front and apart from this 1.6 crore bad debt, is there any other extraordinary or?

Jairam Varadaraj, Managing Director

No, no, no.

Manish Goel

Okay, okay. And sir, if you can just throw some more light on the water well rig business, where you said there has been substantial slowdown. So, just wanted to get a sense in FY11 what was the quantum of this business? And how do we see in terms of FY12, what kind of rough estimates on that number, sir?

Jairam Varadaraj, Managing Director

See, I don't want to give you the specifics of the water well segment numbers, but I would say at the moment it is, for the coming year I expect it to go back to a normal level of around 30, 40 crores, it is where we used be normally. And it's going to reverse back to those levels that's what our expectations are.

Manish Goel

So, this 30, 40 crores was probably in FY09 or FY08, that is what we are trying to get?

Jairam Varadaraj, Managing Director

FY11.

Manish Goel

Okay, okay. So, that means we are seeing a substantial degrowth?

Jairam Varadaraj, Managing Director

Yeah.

Manish Goel

And what could be the reason for such a drop, sir?

Jairam Varadaraj, Managing Director

As I explained on many conference calls, this is the way this business behaves that is the four year, three to four years of capacity build up and then there is a three to four year life in procurement before all customers come back to buy machines.

Manish Goel

Okay.

Jairam Varadaraj, Managing Director

So, if you trace back the history of this company, this is probably the fourth such cycle that we have faced.

Manish Goel

Sure. And also would appreciate if you can give us some sense on the industrial segments. How do we see growth going forward? And how is the market shaping up?

Jairam Varadaraj, Managing Director

All segments are quite buoyant at this point in time. The inquiry levels are continue to remain good, but personally I believe that if a government takes a very strong corrective action on containing inflation, there could be pressure on growth. I personally think that containing inflation in the long-term for the country is a better option than to allow this kind of growth at the cost of legislation.

Manish Goel

Okay. Right, sir. Also like, so in quarter four, did we face any inflationary pressure on the raw material cost, sir?

Jairam Varadaraj, Managing Director

It is not for quarter four, but it was for the whole year. I mean we have got inflation in metal cost, we have inflation in raw material cost also there for the whole year.

Manish Goel

And are you able to pass it on, sir?

Jairam Varadaraj, Managing Director

To some extent we did this year, that's why you will see when you look at our raw material cost and sales, we have been able to maintain ourselves reasonably well in spite of the increase in steel and chemical and copper and aluminium prices.

Manish Goel

Okay, okay. And sir, coming back to say for FY12 as a whole year, if our water well business has come down, is expected to come down.

Jairam Varadaraj, Managing Director

Yeah.

Manish Goel

So, despite that do you expect that for the full year as a whole, we should be able to report double-digit growth, sir?

Jairam Varadaraj, Managing Director

Organically, I don't think it will be double-digit, but it will be close to double-digit.

Manish Goel

Okay.

Jairam Varadaraj, Managing Director

But inorganically it is something where I can't commit anything, because we are in the process of making, going through the acquisition.

Manish Goel

Yeah. But sir, in last call you had mentioned that probably in quarter one of this year, you should be able to announce one of the two acquisitions. So, any progress on that, sir?

Jairam Varadaraj, Managing Director

Like I said, we are in the advance stage of due diligence. So, we need to wait and see how valuation agreements come through.

Manish Goel

Okay. And sir, if you can comment on the overseas, how the Belair France operations have done and also on the Chinese operations, sir?

Jairam Varadaraj, Managing Director

Belair has grown close to about 15, 16%. We are investing quite a bit into the company to prepare it for the future. So, we have, in terms of profitability it remains pretty much at the same level. But we're quite confident that we're in the right track as far as that company is concerned.

Manish Goel

Okay. And on the Chinese venture, sir?

Jairam Varadaraj, Managing Director

Chinese venture has grown as well, but not as much as we budgeted. But that was a conscious decision to make sure that there is a balance between sales and managing our cash and receivables, because China is quite famous for receivables. So, we have to be very careful. So, the caution sort of prevented us from making our sales target to perform better than last year. Our losses are lower than what we have planned. So, we are okay. We are on the right track.

Manish Goel

Okay. And on Brazil, you were probably in the midst of setting up. So, when do you think the Brazil operations could start, sir?

Jairam Varadaraj, Managing Director

The company has been set up and we have already beginning to start building the organization in terms of our own sales and service. So, I expect during the first quarter we will have our basic infrastructure in place and then things will start moving from thereon.

Manish Goel

Sure. And last question on the, sir new products which were probably on the screw compressors, which we were marketing.

Jairam Varadaraj, Managing Director

Yeah.

Manish Goel

So, are we probably at advance stage of introducing them into the market and probably ramp up volumes?

Jairam Varadaraj, Managing Director

We have already introduced them and the market has already got orders for our machines. And we are getting a high priority as well in the coming financial year.

Manish Goel

Okay. So, can we see a significant contribution in current year itself, sir?

Jairam Varadaraj, Managing Director

It won't be significant in terms of the overall sales, but it will be significant in, as a strategic business elements for the future.

Manish Goel

Sure.

Jairam Varadaraj, Managing Director

So, in relation to what we have achieved so far in screw compressor, we will see a significant contribution coming in from our own products.

Manish Goel

And sir, if you can just share the data point on the cash balance as on March?

Jairam Varadaraj, Managing Director

At a consolidated level, we have close to about 140 crores.

Manish Goel

And CapEx program for FY12, sir?

Jairam Varadaraj, Managing Director

Sorry?

Manish Goel

Capital expenditure plan for FY12?

Jairam Varadaraj, Managing Director

At the moment besides our foundry project, the capital expenditure plan is between 50 to 60 crores.

Manish Goel

That includes a new facility also?

Jairam Varadaraj, Managing Director

No, no. That doesn't include the new facility.

Manish Goel

So, with new facility, how much do you think you will be spending in the current year?

Jairam Varadaraj, Managing Director

The new facility is there a cost of about between 100 to 120 crores, but over a period of two and half to three years.

Manish Goel

So, I believe we have acquired the land and we processed..

Jairam Varadaraj, Managing Director

That's right. That's right.

Manish Goel

So, in terms of CapEx, do you think we should be spending anything significant in the current year?

Jairam Varadaraj, Managing Director

There will be a reasonable amount of money that goes into this, but I can't tell you exactly. We have finalized our architect design, design organization as well as our project management company for executing this project.

Manish Goel

Right.

Jairam Varadaraj, Managing Director

And hopefully by the architectural design and existing layouts, the space recognition everything, I am hoping that by July, we will have a better handle on it.

Manish Goel

Thanks, sir. Thank you very much for that.

Operator

Thank you, sir. Next question comes from Mr. Alkesh Jain from UTI Mutual Fund.

Alkesh Jain

Yeah. Thanks a lot. All my questions have been answered.

Operator

Thank you, sir. Next question comes form Ms. Jayashree from Pari Washington.

Analyst

Jai, good evening. This is Arun, here.

Jairam Varadaraj, Managing Director

How are you?

Analyst

Yeah, good. Jai, just a couple of questions. One is we didn't get the breakup of revenues between compressors, auto equipments and others. It will be helpful if you can just give those numbers to us, Jai?

Jairam Varadaraj, Managing Director

Segment, which was I don't know, but our sales, one second let me just have the right page for that. Our automotive equipment business is around 114 crores.

Analyst

No, for this quarter?

Jairam Varadaraj, Managing Director

For the quarter?

Analyst

Yeah.

Jairam Varadaraj, Managing Director

That is about 30 crores for the quarter, automotive equipments.

Analyst

Okay.

Jairam Varadaraj, Managing Director

And the balance with compressors and others is about very small number.

Analyst

Okay. So, about couple crores, Jai, 2 to 3 crores?

Jairam Varadaraj, Managing Director

Yeah, the others is about, for the quarter is about 7 crores.

Analyst

7 crores.

Jairam Varadaraj, Managing Director

7 crores, difference between last year which was about 10 crores.

Analyst

Okay. Others are 10 crores. That's for a year or for the quarter?

Jairam Varadaraj, Managing Director

For the quarter.

Analyst

Okay.

Jairam Varadaraj, Managing Director

Because our Belair business has, piping business which we have decided to classify not as compressors, but as a piping business.

Analyst

Okay, okay. So, basically you have 243 crores in sales in the quarter.

Jairam Varadaraj, Managing Director

Yeah.

Analyst

3 crores from auto, 10 comes from others, leaving your compressor business at about 203 crores, which is flattish with last quarter?

Jairam Varadaraj, Managing Director

As we can say in quarter it is flattish, yeah.

Analyst

Jai, will it be fair to say that the domestic business center also declined?

Jairam Varadaraj, Managing Director

No, because the water well business compared to the third quarter has been substantially lower in the fourth quarter. So, in spite of that we've been able to keep it at the same level as the third quarter that means our industrial products have grown.

Analyst

And when do you expect, on a quarterly basis, when do you expect the water well business to bottom next year?

Jairam Varadaraj, Managing Director

Already, it's at that stage now, Arun.

Analyst

Okay, terrific. Jai, could you also tell us what percentage of your sales in the quarter was international?

Jairam Varadaraj, Managing Director

Well, I think I mean I don't have the numbers in front of me, I don't know, but I think it's about at annual level our international business is around, it's about, other than the automotive business, in our compressor business it would be about 18%, 18 to 19%.

Analyst

Perfect. And when I say exactly, I am referring to not just exports from India, I am referring to Belair.

Jairam Varadaraj, Managing Director

Yeah. I mean that as well.

Analyst

Terrific. And I just want to make sure I heard this right Jai. On this cool air compressor side, oil free. You said you are shipping or you said you are sampling the customers?

Jairam Varadaraj, Managing Director

Sorry?

Analyst

You said you are shipping the customers, or you said you are sampling your products, testing your product to customers?

Jairam Varadaraj, Managing Director

Testing is already involved to customers.

Analyst

Okay. And can you give us the capacity range these products operate under? Because I think you have... as we have talked your relationships with others where you resell the product in India, was in the range that your product operates in?

Jairam Varadaraj, Managing Director

That operates in pretty much the same range, except we don't operate in the high range that we have a partnership with Hitachi.

Analyst

Okay.

Jairam Varadaraj, Managing Director

So there are basically four trends that we sell.

Analyst

Okay.

Jairam Varadaraj, Managing Director

Actually have the bottom three frames.

Corporate Participant

Okay. And you know the bottom three frame, right? You have the bottom three frames and Hitachi it has top most one, in terms of the range. Hello?

Jairam Varadaraj, Managing Director

Yes.

Corporate Participant

Okay.

Analyst

That's fair enough and these oil free square compressors that you are selling, is it just being sold in India today or you are also exporting? Where are the customers coming from, Jai?

Jairam Varadaraj, Managing Director

Right now, we are selling them only in India but we ave already started the validation of these units in China.

Analyst

Okay.

Jairam Varadaraj, Managing Director

Very soon we'll start the validation of the machines in Brazil.

Analyst

Okay, terrific. And to the extent that you can comment I would appreciate it. So, if you look at a similar product that Atlas Copco has out in the market, would you say that yours is more feature rich or is it the similar type of product line that it consumes less power, is it less noisy? Could you give us some sense there, and also obviously on price, how do you compare?

Jairam Varadaraj, Managing Director

As far as Atlas Copco's machines are concerned, the basic technology is the same.

Analyst

Okay.

Jairam Varadaraj, Managing Director

Our performance is in terms of what we call a specific power.

Analyst

Yes.

Jairam Varadaraj, Managing Director

Our specific power is low.

Analyst

Okay.

Jairam Varadaraj, Managing Director

Which means customer gets the benefit of that.

Analyst

Yes.

Jairam Varadaraj, Managing Director

The machines are less noisy.

Analyst

Yes.

Jairam Varadaraj, Managing Director

And I believe they are substantially lower cost.

Analyst

Okay, perfect, terrific. That's all I had. Sorry, Arun has a couple of questions.

Analyst

Yeah, Jai it would be helpful if you can just give the year-end data and the inventory numbers, Jai?

Jairam Varadaraj, Managing Director

The year end data is 117 crores.

Analyst

Okay.

Jairam Varadaraj, Managing Director

And our inventory is 114.

Analyst

140?

Jairam Varadaraj, Managing Director

114.

Analyst

114. Okay. Great.

Analyst

We certainly appreciate it. And to the extent it's possible the next time around, it has a good results out in the stock exchanges. A little bit before we call we very much appreciate it.

Jairam Varadaraj, Managing Director

We'll try because we send it at the same time as we did the last call. But for some reason they did not. So, we just finished Board meeting at around 4 o' clock.

Analyst

Okay. Okay. Is it then possible to have the call maybe a couple of hours later. We don't mind staying late. I certainly don't mind staying late or maybe even early in the morning till the next day? If we are better prepared we don't have to go through a lot of basics we are viewing. Its more efficient for your time and ours.

Jairam Varadaraj, Managing Director

Absolutely.

Analyst

Thanks a lot Jai.

Jairam Varadaraj, Managing Director

All right. Thanks.

Operator

Thank you, sir. [Operator Instructions]. Next question comes from Ms. Rinki Gureja from Enam Direct.

Analyst

Hello. Just wanted to know sir, what is the CapEx that have incurred this year?

Jairam Varadaraj, Managing Director

Total capital expenditure this year is around 50 crores.

Analyst

Okay. And sir what is the margin in this quarter?

Jairam Varadaraj, Managing Director

Pardon me?

Analyst

EBITDA margin?

Jairam Varadaraj, Managing Director

I got it. 50 crores is the commitment, actual investment of cash out is around 20 crores.

Analyst

So the CapEx this year is only 20 crores, is it?

Jairam Varadaraj, Managing Director

The cash out is 20 crores.

Analyst

Okay.

Jairam Varadaraj, Managing Director

But the commitment is 50, which means we have paid advances, that means you are going to buy it anyways, so.

Analyst

Okay. And what's the margin in this quarter? What is the EBITDA margin in this quarter?

Jairam Varadaraj, Managing Director

EBITDA margin?

Analyst

Yeah.

Jairam Varadaraj, Managing Director

For the quarter, it's 16... almost 17%.

Analyst

Okay. In this quarter it's 17%. So, your EBITDA margin is higher if I see Q-on-Q, is that because of the product mix?

Jairam Varadaraj, Managing Director

I have compared to this last year same quarter, right?

Analyst

Okay. Even last year same quarter was 14%.

Jairam Varadaraj, Managing Director

Yeah, because we have a volume leverage this quarter.

Analyst

Okay. So, it's basically the 300 which is due to the operating leverage? Hello?

Jairam Varadaraj, Managing Director

Yeah. Yeah, yeah, yeah.

Analyst

Okay, okay. That's it from my side.

Operator

Thank you, ma'am. [Operator Instructions]. Next question comes from Mr. Ram Hegde from Primus Investment.

Ramchandra Hegde

Good evening sir. Just wanted your take on the competitive landscape on the compressed side. We heard players like Kaeser and Boge, they got aggressive in all of that. Could you just give us a sense of how the landscape is emerging?

Jairam Varadaraj, Managing Director

Well, Kaeser has been in this market for a long time, it's not a new entrant. And they are continuing to sell. But I don't think from information that we have got, I don't think that growth has been what has been our growth. And we know Boge has entered the market. They have, as I understand, their sale is about 5 crores or 6 crores to equipment.

Ramchandra Hegde

Okay.

Jairam Varadaraj, Managing Director

So, I mean this is something that I said almost seven, eight years ago that with India opening up, we will see a lot more people wanting to come into business here, and especially the China losing steam, I think India is the preferred destination for a lot of people. This is something that we recognized a long time ago and that's why we are trying to build a company to do business outside the country.

Ramchandra Hegde

Okay. Thanks a ton for this.

Operator

Thank you, sir. [Operator Instructions]. Next follow-up question comes from Mr. Manish Goel from Enam Holdings.

Analyst

Yes, sir. Sorry, I am harping a lot on the financials. But you mentioned that EBITDA margin has been nearly 17%. So on a higher top-line of say roughly 243 crores, if we had the EBITDA margin of say 17% that means have we incurred higher expenses? Basically I am not able to connect because our profits are up by only 1.5 crores, whereas our EBITDA is up by almost 12 to 13 crores.

Jairam Varadaraj, Managing Director

You need to tell me what are the numbers you are looking at.

Analyst

I, sir, on last year quarter four, our EBITDA number is 28.5 crores, so what is it for the current year?

Jairam Varadaraj, Managing Director

One second. Let me calculate. I don't have the EBITDA in front of me.

Analyst

Because I am extremely sorry, but results are still not there on the stock exchange.

Jairam Varadaraj, Managing Director

I understand. So, the last year's EBITDA margin is about 15, sorry 14.2%.

Analyst

Right.

Jairam Varadaraj, Managing Director

Okay?

Analyst

Sure.

Jairam Varadaraj, Managing Director

And this year EBITDA margin for the same period is about 12.3 as per the numbers, right?

Analyst

Okay. It's 12.3.

Jairam Varadaraj, Managing Director

Yeah. I told you have taken a write offs of 4 crores as fees. Yeah.

Analyst

Sorry sir?

Jairam Varadaraj, Managing Director

Sorry 1.6 crores the data is write-off in the third quarter, I mean in the last quarter.

Analyst

Right sir. Yeah, that can swing the margins only by 0.6%. So?

Jairam Varadaraj, Managing Director

Yeah. So, and that is one. And I'll try to... I don't have the EBITDA numbers. So, I am not able to give you a breakup of the previous years.

Analyst

Okay. Okay.

Jairam Varadaraj, Managing Director

which is giving a problem, so let me.

Analyst

Yeah. Yeah, yeah. Or else, may be if you want to run down the quarter four numbers. If someone can run down the quarter four numbers, sir?

Jairam Varadaraj, Managing Director

One second. Okay. I can give you a more detail if we had some time to sit and compare, Manish. But what I can tell you is if you look at our previous year, it's 13.7% sorry... yeah 13.2%.

Analyst

Right.

Jairam Varadaraj, Managing Director

Okay? And this year equivalent is 12.2%, right?

Analyst

Okay, okay.

Jairam Varadaraj, Managing Director

In that if you take out the write-offs that adds to almost 0.6 or 0.7%.

Analyst

Yeah, roughly 13% as compared to 14% that some percent of -

Jairam Varadaraj, Managing Director

Right.

Analyst

And... but if you probably look on a sequentially basis, we have seen from 15.4% it's come down to 13%.

Jairam Varadaraj, Managing Director

That sequential basis is primarily because of the write-offs that we have done, okay. And if you look at the top-line, the top-line is pretty much the same, yeah.

Analyst

Yeah, yeah.

Jairam Varadaraj, Managing Director

For both the periods.

Analyst

Yeah, sure.

Jairam Varadaraj, Managing Director

We've had a product mix which is contributing to almost 1%.

Analyst

Okay, okay.

Jairam Varadaraj, Managing Director

Our people cost compared to the sequential as well as to the previous year, right?

Analyst

Okay.

Jairam Varadaraj, Managing Director

There is a 1.2% increase. And that 1.2% increase is because we have a policy of side we have worked with, okay.

Analyst

Okay.

Jairam Varadaraj, Managing Director

Now, we are not been able to fulfill that size because of the capacity issues in our plant, okay.

Analyst

Okay.

Jairam Varadaraj, Managing Director

Okay. So, there is a onetime additional leave that we gave to people that can dealing the cash, right?

Analyst

Okay, okay.

Jairam Varadaraj, Managing Director

But that is getting hopefully in the fourth quarter, that's to the extent of 1.2%.

Analyst

Okay, okay, okay.

Jairam Varadaraj, Managing Director

Right? So if you normalize for all that, we are at the same level, right?

Analyst

Okay.

Jairam Varadaraj, Managing Director

Out of 17% that I was telling your colleague comes from the accounting issues. Many of our CapEx expenditure.

Analyst

Right.

Jairam Varadaraj, Managing Director

If you get the revenue major, right? You remember diluted on the capital, right?

Analyst

Yeah.

Jairam Varadaraj, Managing Director

It's booked into revenue.

Analyst

Okay, okay.

Jairam Varadaraj, Managing Director

For our internal admires, we don't look at it that way.

Analyst

Sure, sure.

Jairam Varadaraj, Managing Director

On an accounting publications, we put it that way.

Analyst

We also would love to that number, sir.

Jairam Varadaraj, Managing Director

Well, see it varies from year-to-year. For instance, tools right?

Analyst

Yeah.

Jairam Varadaraj, Managing Director

Cutting tools, yeah? We don't like to put it on revenue budget because that's not a right way to climb, yeah.

Analyst

Okay.

Jairam Varadaraj, Managing Director

So, we have asked our manufacturing guys to budget it as a capital expenditure, right?

Analyst

Okay, okay.

Jairam Varadaraj, Managing Director

A cutting tool is a consumable, right?

Analyst

Okay.

Jairam Varadaraj, Managing Director

So in the accounting parts, this thing we treat it as a revenue expenditure, right?

Analyst

Okay.

Jairam Varadaraj, Managing Director

So, I was referring to my internal amortization that have done that.

Analyst

And sir, so going forward sir, on a steady state for next year, can we look at 14 to 15% as steady state margin, sir? 14 to 15% EBITDA margin?

Jairam Varadaraj, Managing Director

That's possible. 14% EBITDA, 14 to 15 is possible.

Analyst

Okay. Okay. Fine, sir. Thank you very much.

Operator

Thank you, sir. Next follow-up question comes from Ms. Jayashree Bandido from Pari Washington.

Analyst

I think we covered, Jay. Thank you.

Operator

[Operator Instructions]. Thank you, sir. There are no further questions. Now, I hand over the floor to Mr. Kamlesh Kotak for closing comments.

Kamlesh Kotak

Hello?

Jairam Varadaraj, Managing Director

Yeah, Kamlesh.

Kamlesh Kotak

Yeah. Sir, before we conclude, I would I have couple of questions. Firstly, is the sales growth whatever we have seen in this year, how much of that you could attribute to the volume part and how much is that because of price revision or the price increase?

Jairam Varadaraj, Managing Director

Come it again Kamlesh, I didn't get you.

Kamlesh Kotak

I mean the total revenue whatever increase that has happened year-on-year on Q-on-Q for this quarter, is it because of the revising of prices because of cost plus or is it a volume growth how do you differentiate between them?

Jairam Varadaraj, Managing Director

This is for the quarter you talk -

Kamlesh Kotak

As well for the year

Jairam Varadaraj, Managing Director

For the whole year?

Kamlesh Kotak

Yeah. So, just wanted to understand the pricing scenario in that context sir?

Jairam Varadaraj, Managing Director

We believe not more than about 5 to 5.5%.

Kamlesh Kotak

Okay. So rest is all volume growth. And sir, any particular segment or sub-segment which is showing better traction in terms of sales or may be growth from here onwards?

Jairam Varadaraj, Managing Director

See as we stand today Kamlesh all the industrial work is being done on borrowing point, okay. The borrowing fee is that much more acute in cases like power and steel whereas infrastructural investment is quite significant. But I am waiting to see how the government manages this inflation.

Kamlesh Kotak

All right.

Jairam Varadaraj, Managing Director

If they do, they will progressively doing things willingly in terms of reducing the CRR and then or increasing the CRR and then they'll reduce... increasing the lending rates, the prime lending rates. I think in spite of all that the inflation is not giving any content in any significant way.

Analyst

True.

Jairam Varadaraj, Managing Director

So, at some point in time that there will be a compulsion to take a much more stronger intervention, right? And when that happened, I don't know how the companies going to react, yeah?

Analyst

Right, right.

Jairam Varadaraj, Managing Director

See, at that point I expect, sectorally I would expect assuming there is a uniform intervention I would expect all the sectors to serve a uniformly dumped down a little bit.

Analyst

Okay.

Jairam Varadaraj, Managing Director

There are some segment like railways, I mean railways even in this period exhibit it only normally for us, not like the other segments, right?

Analyst

Sure.

Jairam Varadaraj, Managing Director

So, they will continue to grow.

Analyst

And sir, how is the automotive and the construction and mining side, I mean the demand?

Jairam Varadaraj, Managing Director

Demand has been pretty strong, not only for our own, for our compressor business but also for our automotive recruitment business.

Kamlesh Kotak

Right.

Jairam Varadaraj, Managing Director

But again the question is what's going to happen. That we don't know. I mean if you look at Brazil, they have already started throttling back wise significantly because again inflationary purchase wasn't very high. So from a 8% growth... 8 to 9% growth that they experienced last year, the government is looking at to revised provision of between 5 and 6% growth because they really put the breaks on funds availability. I don't know what our government is going to do. We'll have to wait and see.

Kamlesh Kotak

Right. And any traction from construction mining side or still it's not... execution is not yet picking up that?

Jairam Varadaraj, Managing Director

I am sorry, I don't understand that.

Analyst

Your construction and mining segment demand, is it picking up or there also you have some kind of a slowdown or may not be that pickup?

Jairam Varadaraj, Managing Director

No. We continue to see the I think there as well.

Analyst

Okay. Right.

Kamlesh Kotak

Alright, sir. So, on behalf of Asian Markets, very sincerely thank Mr. Jairam for taking time out for this conference call. We also thank all the participants who are attending the call.

With that, we conclude the call. Good evening and thank you again.

Operator

Thank you, sir. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant day.

Jairam Varadaraj, Managing Director

Thank you. Thank you.