

Y 2012 Earnings Call - ELGI Equipments

Dt-15 May'12

Operator

Good afternoon, ladies and gentlemen. I am Daniel, moderator for this conference. Welcome to the 4Q, FY12 Earnings Conference Call of ELGI Equipments Limited, hosted by Asian Market Securities Private Limited. We have with us today, Mr. Kamlesh Kotak, Head of Research; and Mr. Harshit Kapadia, Equity Research Analyst 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. I would now like to hand over the conference to Mr. Kamlesh Kotak, Head of Research Asian Market Securities Private Limited. Go ahead sir.

Kamlesh Kotak

Hello. Good afternoon, everybody. On behalf of Asian Market we welcome you all to the 4Q, FY12 earnings conference call of ELGI Equipments Limited.

We have with us today Mr. Jairam Varadaraj, Chairman and Managing Director of the Company. I shall now hand over the floor to Mr. Varadaraj to get us through the company's 4Q and full year performance and then we shall begin the Q&A session. Over to you sir.

Jairam Varadaraj, Managing Director

And then talk about the fourth quarter in relation to the fourth quarter of last year. As a whole year, we are talking now standalone Elgi Equipments our sales have grown by 2.4% and our EBITDA has dropped in quantum terms by 20.9% and the percentage decrease in EBITDA on current year sales, percentage of it is 2.8%. And the contribution increased or the EBITDA increased due to increase in the 2.4% sales is 0.8%. So in fact, I have to explain to you where we went down to the extent of 3.6%.

Now, let me start with the sales. Sales growth of 2.4% despite the fact that our Waterwell business has dropped by 42% compared to the previous year. And our construction and mining segment has grown by 17%. Our industrial sales in the domestic market has grown by about 15%, and our export has grown by 20%. So, the net effect of these segmental changes has resulted in about 4% growth in sales.

Now, the good thing about it is the drop has been primarily because of a seasonal product and that means our regular industrial and sustainable sales have grown up. Now coming to why the EBITDA has dropped? Like in the previous conferences I am looking at the expenses categorized into recurring expense that have gone in one time cost that has gone up.

Now, on the recurring expense, the largest chunk has been because of materials. Material cost have gone up by 142 million or the equivalent sales and this has been primarily because of, I would say half of it is because of -- cost increases that have happened during the year and half of it is also because of product mix changes that have happened during the year.

The other major expenses are travel costs have gone up, because there has been increase in the number of locations that we have expanded our network in India. And the other expenses we had some issues in the field we did some proactive changes to our products, that's about 23 million. The rest of it are really made up of things like packing cost which was a wood costs have gone up and transport because of the fuel prices have gone.

In the second category of recurring expense, the big chunk has been our overseas manpower to the extent of 30 million. We have set up now offices in Brazil, in Australia, in the U.S. So, all these are staffed by people from the local markets where much more expensive.

So, and the businesses haven't really picked up yet because this is a initial phase of our entry into these markets. So, the recurring expenses together constitute about, have created a negative 3.4% on the EBITDA. And on one-time expense we have about 19 million, which is primarily legal and consultancy charges that we have been incurring as part of our acquisition process in various countries. So, that constitutes about 0.2 million.

So that together is about 3.6 million that explains why the EBITDA as a percentage is dropped. Now coming to the fourth quarter if you look at our sales our quarter sales has gone up by 12%. And our EBITDA in absolute terms has gone up by 0.6% compared to the previous year.

So the percentage decrease in EBITDA as a percentage is 0.1. And the additional EBITDA that we should have gained because of increase in sales is 3.5, so I need to give you an explanation for 3.4%. If I analyze the sales for the quarter Waterwell has dropped by 13% compared to the previous year. Construction and mining has gone up by 28%. Our industrial sales has gone by 15%. And our international business gone up by 20%.

Now, we finalize why the expenses have gone up, again recurring expense has been primarily compensation people cost is to the extent of 47 million for the quarter, that is higher than last year. Material has contributed marginally to around 10 million.

So, primarily it's been the people cost. And both put together as a recurring expenses is about 3%. On one-time expense it's still continues be the legal and consultancy expense, and we have some R&D expenditures that we have booked as revenue, that's 0.4%. So this literally sort of sums up our performance or comparison of our performance for the whole year, this year compared to last year and quarter four of this year compared to quarter four of last year.

So I will leave at this and talk about one critical thing which has been our tax efficiency. If you look at the PAT, drop in PAT has been not as severe as the drop in EBITDA. And that's because we during the year we've got ourselves registered as government recognize R&D center and we've been audited by DSIR, all our projects have been audited and they have been clear for the 200% depreciation that the government allows. And we're very confident this will go through because the approving authority has written this directly to the income tax authority, so I don't see any major issues here.

So that's the highlight in terms of the PAT. In terms of the overall market situation, things are a little uncertain. The last quarter was good, we really pushed hard, we were able to get some good results and we continue to keep that momentum going. But we are unable to read the market in terms of how India specifically is going to shape up for this year. As far as international markets are concerned, even though there are... things are not very bright, they quite bleak in Europe.

Things are okay, things are looking up in the U.S. Market, Brazil is good. China is really China is really struggling.

So, while all this is true, our base numbers in these markets are so small. These kinds of economic cycles in those countries on paper at least should not affect us. So, we are quite confident that our top line growth in the international markets, in the coming year will be good. But still 80% of the business still is India dependent and that is a area which is a little uncertain at this point in time. So, I will stop at this and then I will try my best to address your questions. Thank you.

Questions And Answers

Operator

Thank you, sir. Ladies and gentlemen, we will now begin question-and-answer session.[Operator Instructions]. Our first question comes from Anil Keeni from Envision Capital. Go ahead sir.

Anil Keeni

Yeah, good afternoon sir.

Jairam Varadaraj, Managing Director

Good afternoon.

Anil Keeni

You said that top line growth in the international business could be good in the coming years. But the profitability in this international business is still not looking up. What is your outlook on the profitability on this international business?

Jairam Varadaraj, Managing Director

The profitability in the international business has definitely -- at a contribution level is definitely lower than in India. But the coming year, it should be better for two reasons. One, we have gone about systematically to improve our price realizations in these markets. And two, the dollar is going to help us. So, net-net I think the profitability in international market international business in the coming year should be better than the last year.

Sure. Thanks so much for this. And secondly you also said that product mix in the domestic business has been, has been a change, so can you just elaborate a bit what kind of trends are you seeing, are you seeing the lower capacity compressors going in or what kind of changes have you seen in this domestic markets?

Jairam Varadaraj, Managing Director

I don't the market is shifted we have just started focusing on certain segments that we were weak in. We were a little weak on the larger machines and we have now created focus on building business in the larger machines. And contribution level on larger

machines are lower than the smaller machines.

So that has contributed to the change in product mix.

Anil Keeni

Sure. And then last question is, the other income, can you give us a breakup in the Q4 has been a larger other income, can you just give us a breakup on that?

Jairam Varadaraj, Managing Director

I will let Sriram answer that our CFO.

Sri. S. Sriram, Chief Financial Officer

Hi, this is mainly on account of your balancing figure for the last quarter consolidation you made the balancing year 41. That adjustment are not been done in - only the consolidation you will see that. Because all these Group companies have been regrouped according to the latest guidelines, little bit changes and all. So, accounting rates, just related to last -. That is much, I'd say.

Anil Keeni

Okay, sure. Thanks. Thanks so much and all the best.

Operator

Thank you sir. The next question comes from Mahesh Bendre from Quantum Securities. Go ahead sir.

Mahesh Bendre

Good afternoon sir.

Jairam Varadaraj, Managing Director

Good afternoon, Mahesh.

Sir, we would like to know, I mean, what is the compressor size market, market size for India as a whole and which are the sub-segment and where our strength lies?

Jairam Varadaraj, Managing Director

The total compressor market, air compressor market would be above 3,000 crores and our strength is primarily on the small to medium size industrial where our market share is probably in the mid to high 30%. Our strength lies in the construction and mining and Waterwell where again our market share is anywhere between 25% to about 60%, 70%.

Our weakness are larger machines which are big projects but we've beginning to gain ground there.

Mahesh Bendre

And sir, what could be the imports out of these 3,000 crores?

Jairam Varadaraj, Managing Director

Hardly anything

Mahesh Bendre

I think everything is manufactured in India, I mean mostly?

Jairam Varadaraj, Managing Director

Mostly, yes.

Mahesh Bendre

Okay. Thank you, sir.

Operator

Thank you, sir. The next question comes from Rajiv Bharati from Destimoney Securities. Go ahead sir.

Rajiv Bharati

Good afternoon, sir.

Jairam Varadaraj, Managing Director

Good afternoon, Rajiv.

Sir as you mention in the previous question that your portfolio is mostly due to it's medium and small compressors. So and your trying to move towards larger compressor, is the market in the high end compressors more cyclical than lower compressor in terms of, just - horsepower rating?

Jairam Varadaraj, Managing Director

I wouldn't say it's cyclical it is not as big as the market size and the smaller machines but you need to play in the entire spectrum of applications. The larger machines are split into two, so you have the large projects which is like power plants or steel plants, cement plants which could have a CapEx cycle. But we also have large machines going into one-off requirements of large factories.

Rajiv Bharati

And sir, if you purely look at Kirloskar or Atlas Copco and compare your realization versus them, the realization was I mean two or three as compared to -- if you compare as per the annual report, the number of units you produced and the sales done. So they are typically in two to three times of what ELGI does. I mean what is the denominator in that?

Jairam Varadaraj, Managing Director

I didn't get your question.

Rajiv Bharati

Sir, if you look at the realization of Kirloskar versus Atlas Copco

Jairam Varadaraj, Managing Director

Realization?

Rajiv Bharati

Realization per unit in the sense, because as you mentioned in your annual report number of units you have produced.

Jairam Varadaraj, Managing Director

Yeah, it is.

Rajiv Bharati

Because you don't categorize in terms of what horsepower is there. If I look at purely number of units produced and the sales you have done. What Kirloskar or Atlas realize -- I mean their sales value is two, three times of what -- what ELGI does in terms of per unit? Sure.

Rajiv Bharati

What's the denominator? Is it because of size or are they playing in different market altogether ?

Jairam Varadaraj, Managing Director

No, they are playing in the same market, the only thing is a we have a much wider range. We start from a 1 horsepower or even a 0.5 horsepower going up to 2000 horsepower, whereas Kirloskar and Atlas Copco really play in the larger size machines.

Rajiv Bharati

Okay. And this will be, the skewness in terms of small and medium will be about 70% for ELGI?

Jairam Varadaraj, Managing Director

No, I wouldn't think. So because we have also the construction and mining and waterwell, which are not small machines.

Rajiv Bharati

Alright, sir. And sir, going to your oil free compressors, who are we competing again in the oil free compressor market?

Jairam Varadaraj, Managing Director

Well Atlas Copco is the leader in the oil free segment.

Rajiv Bharati

And how is your difficult is to replicate let's say a new player has to come in their oil free compressor technology. And when we've tried into oil free space, what are the industries you're targeting and what is the market which is open to us? Purely by oil free.

Jairam Varadaraj, Managing Director

Yeah, we're not new to the market, we've been selling oil free machine for the last 12 years.

Rajiv Bharati

Right sir.

And under the license from Hitachi, right. So, right now we have a entrance position. It's not a big position, but we have an entrance position. Now, we're trying to expand on that entrance position with our own products which we have today. It gives us the ability to complete a little bit more than before.

Rajiv Bharati

I mean to say let's say there is another new player who comes into the market and how difficult is for him to develop the technology. I

mean it's a very new technology or it's not readily -- the customer is very vary about accepting a new player?

Jairam Varadaraj, Managing Director

Well, if it's an unknown player coming in without a pedigree, would be difficult. yeah. But if it's a known player and if they are able to convince the customer in terms of the application and the specifications of the product, I don't see that as an issue. It will take time but it's not going to be an impossibility.

Rajiv Bharati

And sir, elaborating on the application part can you give some examples of where this all the rotary and centrifugal compressors are used in the sense which all industries are primary takers of this?

Jairam Varadaraj, Managing Director

Quite a diverse set of applications you use oil free in some power plants for the instrumentation aid. You use oil free in textiles, you use oil free in some of the steel plants, you use oil free in pharmaceutical you use oil free in some food processing industry. So, it's a quite a diverse set of applications, it's not very industry focused.

Rajiv Bharati

And sir, centrifugal can you set a few examples?

Jairam Varadaraj, Managing Director

It's pretty much the same except the centrifugal is a larger version of a larger output machine.

Rajiv Bharati

Alright. And sir regarding that not done any in terms of the number of units being produced, the capacity expansion it has been from 1998 it's the same number of units. So, what is the kind of let's say, we have to look at five years CSR or same CSR and what is the outlook for the company and do you think how will the realization would look like?

Jairam Varadaraj, Managing Director

But it's not going to be a linear growth, it will be a like a hockey stick growth. We will have some issues initially as we go into the international markets and then once we gain some traction we will be able to grow. So, our aspirations continue to be at that level.

Rajiv Bharati

All right sir. And, sir in terms of margins, can you give some, a ballpark figure of what will be the EBIT margin with and without your Waterwell business?

Jairam Varadaraj, Managing Director

I have not done that analysis.

Rajiv Bharati

Sir, in terms of your, what is the logic, specific reason for the company to launch the low capacity Vayu air compressors and what is the market you are targeting n the size of the market in terms of Vayu?

Jairam Varadaraj, Managing Director

Sir, we have not launched the Vayu now, the Vayu it's been in the market for almost six, seven years.

Rajiv Bharati

Right, sir.

Jairam Varadaraj, Managing Director

And application for smaller tyre shops, mall, industrial listening and the oil free Vayu goes into the dental markets.

Rajiv Bharati

But I mean when we are saying the migrating, I mean we are trying to go towards higher end compressors is the Vayu not delivering those promise or this is additional business you are just targeting?

Jairam Varadaraj, Managing Director

No these are different verticals, we would like to play in all the verticals.

Rajiv Bharati Jairam Varadaraj, Managing Director

Well, the Chinese market is huge but also the number of competitors are also large, many local Chinese manufactures who sale machine at very low prices.

Rajiv Bharati

Right.

Jairam Varadaraj, Managing Director

Obviously the performance reliability and service of those machines are not so good, but there is enough market for them to play. So we really can't enter those kinds of segments, so we work on larger customers, customers who are looking at reliability, who looking at performance and then we would like compete to the multinationals and not to the local Chinese companies.

So it's a struggle, we realize it is a struggle and China is not something that is not happened in the short-term it's long-term play. So we are doing all the things to build the organization for the future rather than trying to do the sales for a particular year. And as far as receivables are concerned, yes it's a challenge, but it's not -- it doesn't, it's not unsafe. Thereon safe is just the key right now. But we have made substantial progress.

Operator

Thank you sir. The next question comes from Misal Singh from Religare Capitals. Go ahead sir.

Misal Singh

Yes. Good afternoon sir. I just -- you earlier said that the compressor market is about 3,000 crore in India the air compressor market. So, just wanted to understand would there be some classification in terms of the output or in terms of the various types of compressors, broad numbers?

Jairam Varadaraj, Managing Director

There are, but at the moment I don't have it in front of me.

Misal Singh

Okay. Alright sir. That's it from my side. Thanks.

Operator

Thank you sir. The next question comes from Dheeresh Pathak from Goldman Sachs. Go ahead sir.
Good afternoon. Thanks for taking the question.

Jairam Varadaraj, Managing Director

Good afternoon.

Dheeresh Pathak

The key revenues for the Waterwell business in FY12 would be in the range of about 70 crores, is that right number?

Jairam Varadaraj, Managing Director

I don't have the exact number but I don't want to share that also because its too competitive number.

Dheeresh Pathak

Okay because you talked about some 40% decline on the ?

Jairam Varadaraj, Managing Director

Yeah.

Dheeresh Pathak

120 crores of FY11? Sir what would be the CapEx in FY13 and what was it in FY12?

Jairam Varadaraj, Managing Director

Well, the total spend of capital that we did in the last financial year was about 32, of which about close to six or seven was carried over from the previous year. This year, the organization is always optimistic about spending more but I don't think there will -- we will spend more than about 30, 32 this year.

Dheeresh Pathak

Okay. So this...

Jairam Varadaraj, Managing Director

This is I am talking without our new plans, this is only ongoing CapEx.

Dheeresh Pathak Jairam Varadaraj, Managing Director

It is at the same.

Dheeresh Pathak

-- CapEx going in?

Jairam Varadaraj, Managing Director

Everything for capacity, quality, balancing, replacement, whatever it's.

Dheeresh Pathak

Okay.

Jairam Varadaraj, Managing Director

But this does not take into account our new factory, investment into our new factory.

Dheeresh Pathak

And what are the plans for investment of the new factory?

Jairam Varadaraj, Managing Director

We started to work with the total investment including our foundry for the plant is about 130 crores plant and for the building, foundry equipment, building for our first phase of the compressors plant going in, will be around 130 crores.

Dheeresh Pathak

And out of that, how much has been spent so far?

Jairam Varadaraj, Managing Director

We've spent around 20, 25.

Dheeresh Pathak

And that would be included in the 32 crore number you gave for FY12?

No, no, no. That's separate.

Dheeresh Pathak

So, this is separate, okay. And this 20 crore was spent this year or last year?

Jairam Varadaraj, Managing Director

Over the last one and half years.

Dheeresh Pathak

Okay. Sir for ELGI, what would be the product mix in terms of reciprocal, oil free, centrifugal in our revenues?

Jairam Varadaraj, Managing Director

I can't give you details in terms of technology, but I can tell you at a broad level, reciprocating compressor business would be around 10% to 12% of our total sales.

Dheeresh Pathak

Okay.

Jairam Varadaraj, Managing Director

Our -- compressors would make up to balance.

Dheeresh Pathak

Okay. So oil free would be very small in the entire scheme of things.

Jairam Varadaraj, Managing Director

Yeah.

Dheeresh Pathak

Okay. And any including centrifugal?

Jairam Varadaraj, Managing Director

Centrifugal -- at the moment are very small part of ELGI sales.

Okay. If I could take the confirm more question sir, for the industry what would be reciprocate as a percentage of the total industry sales in India?

Jairam Varadaraj, Managing Director

Well, it's a very difficult question to answer because more than 50% of the reciprocating compressor business is done by the unorganized sector. Now, you need to understand what reciprocate and reciprocating compressor is two broader definition. You have small bold machines going up to very large water cooled balanced-opposed compressors. Now, we are not in the water cooled balanced-opposed compressors, we are only in the air cooled small machines.

Dheeresh Pathak

Okay.

Jairam Varadaraj, Managing Director

And the large water cooled balance-opposed compressor really compete with this screw compressors. So there is really, it doesn't make any sense for us to have both these technologies.

Dheeresh Pathak

Okay.

Jairam Varadaraj, Managing Director

So, from what we define as piston compressor for our business it's very difficult to tell you what's the size because the unorganized segment there are probably 200 manufacturers of piston compressors in India, who make small machines, 2 horsepower and 3 horsepower and 4 horsepower machines in tonnes.

Dheeresh Pathak

Right. But that 3,000 crores as a whole would have included these unorganized people in the reciprocal category as well.

Jairam Varadaraj, Managing Director

No, we've not taken that because we don't really know that number.

Dheeresh Pathak

Okay, and lastly sir what would be the international mix for the company. I think you mentioned 20% of revenue from international but what would be the mix in terms of China, Europe, Brazil?

I think on at a consolidated level, I would say about other than India... about 20%, 25% will be Europe, Americas would be about another 10%, 12%, Asia would be another 10%, China will be another the 12%, Middle East and Africa will be another 10%, 15%.

Dheeresh Pathak

Okay. And Brazil is there anything in Brazil?

Jairam Varadaraj, Managing Director

I will included that in the America because the U.S. market is -- at the moment is nothing. We just start.

Dheeresh Pathak

Understood. Thank you so much sir. Thank you.

Operator

Thank you, sir. [Operator Instructions]. The next question comes from Ruchir Khare from Kotak Securities.

Ruchir Khare

Hello. Good morning sir. Thank you for taking my question. Sir could you please comment on the count tariff landscape in the European region currently and how do we plan to position ourselves and compete in that particular region?

Jairam Varadaraj, Managing Director

Well, the competitors in Europe in terms of number are more than number of competitors in India. And most of them are European companies. Our positioning is, we have a subsidiary in France which is got a good brand. And that is going to serve as our platform through put our products in because that company does not have the range that we have.

So right now we are in the process of introducing our full range of products into that company. And they will be able to enter into various markets

Ruchir Khare

Sir, do we have some cost advantage in terms of, are having a manufacturing facility in India would that be the proper way to look at it?

Jairam Varadaraj, Managing Director

Well, we do have a cost advantage but I don't think it is substantial at a material cost level I don't think it's very substantial. But right now probably our overall overheads are lower in quantum compared to multinationals but we also get lower prices compared to multinationals. So, I guess they negate each other out.

Ruchir Khare

Fine. And sir last question is on the CapEx which we have mentioned, expansion CapEx of 130 crores. So, what would be the year wise breakup like when is it scheduled to incur, like how much would be this year and next year?

Jairam Varadaraj, Managing Director

Well, our plan is to have the plant ready by next June. So, probably 90% of it will get spent by next -.

Ruchir Khare

Fine. Thank you very much, sir.

Operator

Thank you sir. The next question comes from Manish Goel from Enam Holdings. Go ahead sir.

Manish Goel

Yeah very good afternoons sir.

Jairam Varadaraj, Managing Director

HI, Manish.

Manish Goel

Hello, sir. Sir would it be possible to give a revenue contribution from overseas subsidiaries saying that will in, probably what the sense I get is it's roughly 40 crores?

Jairam Varadaraj, Managing Director

All the subsidiaries put together?

Manish Goel

Right, excluding the auto related business if you we were to look purely on our compressors business contribution from our various subsidiaries in China -?

Jairam Varadaraj, Managing Director

Much more than 40. It would be France would be about 50. There is -?

Jairam Varadaraj, Managing Director

One second, China and Gulf, close to about 80 crores, 90 crores.

Manish Goel

Okay. France, Brazil and China all three, sir?

Jairam Varadaraj, Managing Director

Right France, Brazil now Brazil has just started because it won't book effectively, it hasn't booked sales because even indirect but we have subsidiary in the Gulf, we have a subsidiary in France, we have a subsidiary in Australia.

Manish Goel

Okay. So all put together roughly 80 crores?

Jairam Varadaraj, Managing Director

Yeah.

Manish Goel

Okay. Because the press release what we have given is basically, what it says is that we are looking at fairly good growth from the international markets number one. And number two on a new product lines are also expected to see a very strong growth. So I just wanted to get a sense on.

Jairam Varadaraj, Managing Director

Yeah.

Manish Goel

Both of these? So, what kind of growth can we see in these overseas subsidiaries portion itself number one? And number two from the new product categories one is oil free screw compressors we were expecting strong growth. So, in both of the categories would it be able to quantify some numbers, sir?

Jairam Varadaraj, Managing Director

I can't give you a specific number but I can give you approximate percentages.
Sure.

Jairam Varadaraj, Managing Director

As far as the international business is concerned, we are looking at a growth of around 30 but the subsidiary, where we had subsidiaries probably the growth would be a higher percentage. As far as new products are concerned, as a company I think I don't have a specific number with me. But I think what we're planning is about 6% or 7% the overall level incremental growth.

Manish Goel

From the new products, especially the oil free Group?

Jairam Varadaraj, Managing Director

No, no, its not only oil free -, we are having it with our whole new platform of products which will replace our old machines.

Manish Goel

Okay, sir.

Operator

Thank you sir. The next question comes from Avinash Gupta from Globe Capital. Go ahead sir.

Avinash Gupta

Yeah, good afternoon, just one small question. You mentioned that the screw compressors are able to, I mean they and balance support large, balance support water-cool compressors.

Jairam Varadaraj, Managing Director

Yeah.

Avinash Gupta

They try to compete with each other. So, once we have this screw compressors the balance support does not, is not required. I find this screw compressors are put in the small levels of the, very small compressor that is used -. Is it but the screw compressors can handle the entire range from very small to very large?

Jairam Varadaraj, Managing Director

The smallest screw compressor that we sale right now is 5 horsepower but we also have a 3 horsepower machine.

Avinash Gupta

Okay.

Jairam Varadaraj, Managing Director

Now you don't have balance support in that size. You will have a air-cooled piston compressors in that size.

Avinash Gupta

This is the one your targeting?

Jairam Varadaraj, Managing Director

Sorry?

Avinash Gupta

The balance support is something like 500 horsepower is something like that?

Jairam Varadaraj, Managing Director

So it starts I think, if I am not mistaken at 75 horsepower.

Avinash Gupta

Okay. So one would I mean, is there power, I mean why people - by balance support of a a screw or is there some distinct advantages?

Jairam Varadaraj, Managing Director

Balance support machines are slowly going away - old technology. Some customers prefer it because it's something that they have used it from a long time.

Avinash Gupta

Okay.

Jairam Varadaraj, Managing Director

But increasingly they are getting replaced screw compressors.

Avinash Gupta Jairam Varadaraj, Managing Director

Yeah.

Avinash Gupta

Okay. Thanks.

Operator

Sir can we go to the next question?

Avinash Gupta

Sir just one more question. What is kind of market share you're looking from the overseas business, I mean what kind of overseas business would be as percentage of our total sales, what is three years down the line?

Jairam Varadaraj, Managing Director

Well, three down the line if India continues to grow at around 20% and our international business growth as we expect between 30%, 35%, organic then from the present 20% level I think it will go upto above 25% to 30%.

Avinash Gupta

Okay. Thank you.

Operator

Thank you sir. The next question comes from Preeti - from UTI. Go ahead.

Analyst

Hello? Hello?

Jairam Varadaraj, Managing Director

Yeah, Preeti?

Analyst

Good morning, sir. My question was, sir as per the latest press release, it said the aftermarket business contributes around 20% to the main business -- main sales?

Yeah.

Analyst

So, I mean how is the classification? You said it's 12% of the screw compressors. I mean what compressors contribute as a part from part of this aftermarket business?

And how do you see the future and as an outlook for this business? Despite the focus - margin with global standards?

Jairam Varadaraj, Managing Director

Yeah, well, after market business is towards screw compressors, oil free and centrifugal machines.

Analyst

Okay.

Jairam Varadaraj, Managing Director

Very small percentage is in the -- for the piston compressors.

Analyst

Okay.

Jairam Varadaraj, Managing Director

As far as global benchmarks are concerned, if you look at Atlas Copco or Ingersoll Rand -- there aftermarket business is 35% plus of the total sales.

Analyst

Okay.

Jairam Varadaraj, Managing Director

Now, that's a combination of two things. One is they have better kind of hold over their customers in terms of using even parts.

Analyst

Okay.

Second is their pricing of their parts is much higher than what how we price our parts.

Analyst

Okay, right.

Jairam Varadaraj, Managing Director

And that's because in India, you can't really price it very high because, if you price very high then there are spurious people.

Analyst

Right, sir.

Jairam Varadaraj, Managing Director

So, that's the reason. But as we go internationally, I think we would start seeing greater performance from the aftermarket. And that's the key initiative that we are driving.

Analyst

Sir, there is more question. Do you expect the waterwell business to revise in like 2014, believing the three year cycle that we have been observing in 2005 and '08.

Jairam Varadaraj, Managing Director

I am hoping, but I think right now it is doesn't seem to be there for the next couple of years, that's how it looks like.

Analyst

Okay. So, after last concall, you expected the sales growth to nearly 15% to 16% for the FY 2013...

Jairam Varadaraj, Managing Director

You mean this year or the future year?

Analyst

As in the coming 2013 FY? Sir is it...

Jairam Varadaraj, Managing Director Analyst

Okay. No, overall business, the sales?

Jairam Varadaraj, Managing Director

Overall yeah, we are still at that same percentage. We're trying to see if we get improve on that, but markets, we don't know.

Analyst

Alright. Thank you, sir.

Operator

Thank you, ma'am. The next question comes from Ms. Aruna Bharathi from Pari Washington Advisors Private Limited. Go ahead ma'am.

Aruna Bharathi

Yes. Good afternoon, Jai.

Jairam Varadaraj, Managing Director

Good afternoon, Arun.

Aruna Bharathi

I just have a few questions, some of them are housekeeping. You had mentioned that you're going to get this R&D certification. What kind of a sustainable tax rate does that lead to at the consolidated level?

Jairam Varadaraj, Managing Director

Well, as long as we continue to keep investing into R&D, we should be able to sustain right now our effective tax rate has gone down from 33% to 28%.

Aruna Bharathi

Okay. Sorry, go ahead please.

Jairam Varadaraj, Managing Director

So if we continue to investment in it then we should be able to maintain this 28. Okay and will it be reasonable to assume that you will continue to investment.

Jairam Varadaraj, Managing Director

Yes, we're continuing in to investment.

Aruna Bharathi

Excellent. Second question is on the working capital front. It seems like there has been a deterioration from last year to this year that is year ended fiscal '12, primarily led by your current liabilities going down substantially. What happens there -- you used to?

Jairam Varadaraj, Managing Director

It's not a current liabilities, it's a major issues. Primarily, our working capital has been substantial effect by receivables in the last quarter. Inventory of course has gone up. Liabilities, as far as supplier payments are concerned, pretty much been at the same level.

Aruna Bharathi

Jai, I am looking at your disclosed balance sheets.

Jairam Varadaraj, Managing Director

Yeah.

Aruna Bharathi

It looks like the inventory days is stays at 44 days, receivables have gone from 46 days to 50 days, your current liabilities have come from 124 days down 79 days as of loans and advances. So it seems like you have actually done okay your inventory, receivables has been somewhat alright.

Jairam Varadaraj, Managing Director

I don't know which number you are looking at, because I am looking at my current liabilities and...

Aruna Bharathi

I am looking at your consolidated balance sheet as disclosed to the stock exchanges.

Jairam Varadaraj, Managing Director

Which one is this? Our current liability...
Current liabilities and provisions.

Jairam Varadaraj, Managing Director

No, your liabilities provisions has gone down substantially on account of tax provision also. Your last year tax provisions has got 42 crores and compared to what you are having today. Today that major depend as a provisions.

Aruna Bharathi

Okay got it.

Jairam Varadaraj, Managing Director

You look at rate payables, they are pretty much out there.

Aruna Bharathi

Okay, okay, fair enough. Then in terms of cash consumption for fiscal '13, is it fair to presume, probably 120 crores, 130 crores of CapEx for the total year?

Jairam Varadaraj, Managing Director

Yeah, including the new plant, yes.

Aruna Bharathi

Yeah, so you will consume a good chunk of that 150 crores of cash which you have?

Jairam Varadaraj, Managing Director

Yeah.

Aruna Bharathi

Okay, fair enough. Can you comment a little bit on the overseas subsidiaries, which ones of those are not profitable today? I presume China is not, but could you talk about the rest?

Jairam Varadaraj, Managing Director

China is not, Australia is not, Brazil is not and France is just breaking or it's not.

Aruna Bharathi Jairam Varadaraj, Managing Director

Yeah.

Aruna Bharathi

Okay. Fair enough. And then India as if you look at the India business what portion of that business came from the aftermarket that is a spare and service revenue?

Jairam Varadaraj, Managing Director

About 18% or 20%.

Aruna Bharathi

18 or 20 okay, great. And last question is Jai, given that yourself into the broader Indian industry would like your thoughts on what's going on what do you see for India?

Jairam Varadaraj, Managing Director

I am not able to reach it Arun, there are too many conflicting factors one of things is there is really no strong policy direction. And as a consequence things are just meandering and let to - to their own. So, at this point what do we do? I mean they looked at cutting interest rates, which they did quite firstly.

And then when they thought inflation has maintained tamed to some extent, they bumped it backup. I mean dropped the interest rates down. Now they say, inflation is going up, so it's all kind of major stuff that's going around without a clear direction. So, very difficult to say. And most of our customers it's not like they don't have cash or the ability.

Aruna Bharathi

Hello?

Jairam Varadaraj, Managing Director

Most of our customers are just waiting.

Aruna Bharathi

Sure. So, that's what I was mostly interested in. So, your sales dialogue, the dialogue is there, but it's not translating into purchase orders as much as you would like?

Jairam Varadaraj, Managing Director

The velocity is dropped, yes.

Okay. Fair enough. Jai, I just have one question, I just wanted to confirm on number, you said the Waterwell compressor business declined by 13% between March '12 and March '11 right?

Jairam Varadaraj, Managing Director

Yeah.

Aruna Bharathi

Okay that fine. Thanks, Jai.

Operator

Thank you sir. The next question comes from Dheeresh Pathak from Goldman Sachs. Go ahead sir.

Dheeresh Pathak

Yeah, thanks for the follow-up. What is the full year R&D expense?

Jairam Varadaraj, Managing Director

It's about 18 crores.

Dheeresh Pathak

18 crores. And in terms of FY13 did I hear you correctly you talked about some 15% to 16% top line growth for FY13 is that what your looking at?

Jairam Varadaraj, Managing Director

Yeah, that's what we are looking at, yeah.

Dheeresh Pathak

Okay in terms of margins, is there a guidance there in terms of margins?

Jairam Varadaraj, Managing Director

I think margins will probably remain at current levels, I don't see a substantial improvement.

Dheeresh Pathak

Okay, okay. That's it from my side. Thank you, sir.

[Operator Instructions]. Next question comes from Mr. Mahesh Bendre from Quantum Securities. Go ahead.

Analyst

Sir, out of this 3,000 crore market, I mean given our product portfolio, is it fair to assume that we cover a more than 75% of the market?

Jairam Varadaraj, Managing Director

In terms of our presence?

Analyst

Yes.

Jairam Varadaraj, Managing Director

Yeah, I would say it's probably higher.

Analyst

80%?

Jairam Varadaraj, Managing Director

Yeah, round about 80%, 85%. Yeah, 80% is a fair estimate.

Analyst

Okay, okay. And sir what would be current capacity utilization in your factories?

Jairam Varadaraj, Managing Director

We there we don't have any idle capacity. Question really is it's very difficult to talk about capacity utilization because the same facilities are used for making multiple models. So sometimes the large machines go, sometimes the small machines go. So, if you ask me is there room to grow with the existing facilities? Yes. And how much can we grow without any further investment? Probably another 15%, 20% we can grow without investment.

Dheeresh Pathak

Okay. So is it fair to assume that we are operating more than 75%?

Jairam Varadaraj, Managing Director Dheeresh Pathak

Okay, okay. Yeah. Thank you, sir.

Operator

Thank yous sir. The next question comes from Rajiv Bharati from Destimoney Securities.

Rajiv Bharati

Thanks for the followup, sir. Sir, one quick question on the export. How are the exports hedge by ELGI.

Jairam Varadaraj, Managing Director

Exports?

Rajiv Bharati

The export sales. Do you have hedging policy there against currency?

Jairam Varadaraj, Managing Director

All our imports and exports are hedged at transaction level. We don't take any risks for exports.

Rajiv Bharati

Alright. And sir, one last question on your transition from -- towards high end compressors. How was their acceptance seen in market production?

Jairam Varadaraj, Managing Director

It's been good. It's been good, that's why we're growing there.

Rajiv Bharati

Right. Thanks a lot. That's all from my side.

Operator

Thank you, sir. There are no further questions. Now, I hand over the floor to Mr. Kamlesh Kotak for closing comments. Go ahead sir. I sincerely thanks Mr. Jairam and his team for taking time out for this conference call. We also thank the participants for attending this call. Thank you very much. Have a great day ahead. Thank you, sir.

Jairam Varadaraj, Managing Director

Thank you.

Kamlesh Kotak

Thank you.

Operator

Ladies and gentlemen, this concludes your conference call for today. Thank you for your participation and using Door Sabha Conference Call Service. You may disconnect your lines now. Thank you and have a pleasant day.