"Elgi Equipments Limited Q4 FY-17 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Elgi Equipments' Q4 FY17 Earnings Conference Call hosted by Asian Market Securities Limited. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your Touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kamlesh Kotak from Asian Market Securities. Thank you and over to you, sir.

Kamlesh Kotak: Thank you. Good afternoon everyone. On behalf of Asian Markets, we welcome you all to the 4Q & FY17 earnings conference call of Elgi Equipments Limited. We have with us today Mr. Jairam Varadaraj – Managing Director of the company. I request Mr. Jairam to provide us with an overview of the quarterly and the yearly finances and then we shall begin the Q&A session. Over to you, sir.

Jairam Varadaraj: Thank you, Kamlesh. Good afternoon, ladies and gentlemen. It is a pleasure for me to be with you. As we normally do I will take you through the consolidated quarter results in comparison with last year's fourth quarter and also the consolidated results for the full financial year.

Now starting with the quarter, our sales has been marginally lower than compared to the last year fourth quarter. But the difference between last year's quarter and this quarter has to be moderated by the fact that last year's quarter had a little bit of residual sales from Belair which was shut down and we do not have any sales through that organization in this quarter.

Nevertheless the difference is about we are lower by about 5.5% in this quarter compared to the same quarter last year. Now if you look at the EBITDA, our EBITDA is 400. We have the same ratio of profitability considering the decline in sales and the better realization in material cost the EBITDA would have been 343 we have actually done 400. So actually the increase in EBITDA on our performance normalization basis is about 56. The biggest savings at a consolidated level is lower manpower cost which has been primarily through the shutdown of Belair, reduction in China and a little bit of rationalization in the US.

Our variable cost was lower but again that is in the US market. So by and large I would say the quarter performance has been from a profitability point of view has been pretty good. Out topline has been challenged but last year we had a little bit of water well business. But if we take the industrial side, this quarter has been better. Industrial and other non-water well business this quarter has been better than the last year's quarter.

Coming to the consolidated results for the full financial year. Our sales has been Rs. 1,370 crores for 2016-17 and the equivalent sales for last year without sales from Belair was Rs. 1,353 crores. So there has been a marginal growth of about 1%. If I go down to EBITDA, last year's EBITDA was at a consolidated level was Rs. 130 crores, this year's EBITDA at a consolidated level is Rs. 141 crores.

Maintaining the same ratio as last year the EBITDA would have been only Rs. 125 crores so we have done about close to Rs. 16 crores better this year and that has been primarily driven by reduction in manpower cost again from Belair and China primarily. We have reduced certain variable costs in the US and there has been increase in fixed cost in Elgi and ATS and that is primarily due to the manpower cost increase that we incurred as part of our normal salary increase this year.

So that is the summary. I will take specific questions and probably you will get to understand the business better through those questions. In terms of the overall economic situation in the various markets India has made all the right noises we are positive there is a certain quarter that looked very good and demonetization hit us there was a lot of uncertainty. We have come out of it. The sentiments are positive but the sentiments are yet to get converted into actual capacity building which is fundamental for our business.

It is also a fact that a lot of companies over the last three to four years have built a lot of capacity and those are getting utilized as well. So we have got to wait and see but generally the trend is pointing upwards and I would say I am more confident about 2017-18 than I was with 2016-17. We are a little concerned about two things, actually three things. One is we are worried about GST. We all recognize that this is a temporary thing in the long run hopefully it is good for the country.

But considering the current fluidity and lack of transparency in how it is going to get implemented the software that we developed for setting up credits and accounting we do not know what kind of issues we are going to come. So there is an overall nervousness about surrounding that in terms of how it will impact our business.

The second area is pertaining to commodity prices. We have experienced some very sharp increases in steel since December of last year. Whether they are going to revert back or whether they are going to stabilize is to be we have to wait and see there are no clear indications in any specific way. And unfortunately, the steel prices are specific to India and even import opportunities because of the anti-dumping duty are not available to us. We have corrected prices to the extent that the market will absorb. We are not too worried that if it is stabilizes at these levels, we are not too worried about any margin erosion compared to the margin levels in 2016-17.

But it is a word of caution we got to wait and see what happens to them. The third area is which is our manpower cost. There is going to be a significant increase in our manpower cost partly because our blue-collar employees are going through after five years there is a correction in our blue-collar employee cost which is part of our overall understanding with our employees. There is also a bit of correction in the white collar specifically in certain areas. So those cost is a chunky cost that is going to be coming in this year.

But overall then if we are able to get the support from the Indian market in terms of the way in terms of what we expect and our expectations have been tempered quite reasonably. We are looking at anywhere between 10% to 11% at a base level we are looking at growth. And if we do that actively we are still be in very good shape.

Europe specifically Rotair is showing very positive indications of improvement. We expect the Rotair to have a good year in 2017-18. Elgi's operations in US rather than patterns has grown very well in 2016-17 and we expect that momentum to continue. Patterns I believe that the bulk of the issues are behind us and we will start looking at improvement. So those two are looking good. Brazil is the economy is challenging continues to be a challenge very high levels of uncertainty. The market the economy is expected to grow by only 2%. More than that there is a huge liquidity problem in the country.

So we are tightening our belt and keeping the operations at the worst case which should not it will be a breakeven. So we are not too worried about any loss has been contributed by Brazil. Middle East, 2016-17 for us Middle East was a big challenging because for a good part of the year oil prices were quite unremunerative for them. But there is an uptake in oil but there are differing opinions in which direction the oil prices are going to go. But if they continue to sustain at these levels countries like Saudi Arabia which are one of the lowest cost producers should come back in to an investment mode. But we will have to wait and see.

The whole of Asia Pacific other than China we had a good performance from all the countries and the trend continues to look positive. So we expect those markets and that has been a long time in coming. So may be because our CFO has been looking after it may be he has been able to turn it around. So that is been a positive sign for us and we are looking quite optimistically in that region.

China we have like we did last year we have rationalized our cost. Our costs are under control. We continue to gain some revenue in the aftermarket and one-off products which we are supporting from here. We will continue to tread fresh water in China at the present level even while we build our product strategy and an entry strategy for China.

So this kind of summarizes our present situation and what we expect for 2017-18. In terms of the debt levels right now we are at Rs. 147 crores. At the current rate, even if we do not grow at 10% at the current level at which we are controlling our cash and generating cash I am still optimistic that we should be able to be debt free by September of 2018.

So this is really the highlight of our performance. So I will be happy to entertain questions. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question-and-answer session.

We take the first question from the line of Kashyap Pujara from Axis Capital. Please go ahead.

Kashyap Pujara: Sir, just wanted to understand two quick things on the number. The gross margin decline possibly on the standalone level, was that the outcome of a high steel prices, is that a correct understanding to have?

Jairam Varadaraj: At what level are you deciding gross margin, Kashyap?

Kashyap Pujara: Looking at the sharp increase in the RM cost so if you look at sales minus the RM cost the gross margins has declined by about 80%, 90%?

Jairam Varadaraj: Three-month period, right?

Kashyap Pujara: Yes, for the quarter sir?

Jairam Varadaraj: Now what we have done is we have taken one is there is a very marginal impact because of the steel prices. We have been able to recover most of it. The two things that we need to look at is one is we made a provision as per IndAS for certain of our R&D raw material. You know there was a prescription in terms of how we should account it, so there is an impact of that and there is a change in the mix between last quarter and this quarter, but that varies from quarter to quarter. So if you look at the for the year it is kind of held at the same level but if you go back and look at the four quarters there would have been variations. That is contributed by mix.

Kashyap Pujara: Right sir. That explains quite a bit. Sir, and the second question I had on the quarter was that there is a sharp reduction in the EBIT margins at the Elgi ATS level. So as you have highlighted in your opening remarks, does it predominantly got to do with the manpower cost or there are a few other items there as well?

Jairam Varadaraj: In ATS we have taken a significant impact on cost because of raw material. Because our competition there is primarily products that are imported and sold from China. There are no local manufacturers and Chinese steel prices there were two levels of impact, one is the Chinese steel prices are significantly lower than India. And second during the quarter we have had a significant appreciation of the rupee.

So because of which for the people importing from China it has been a windfall profit and they have been aggressive in their pricing and we decided in some key customers we will react and some we will not. So that is the primary impact at the material cost level. In ATS we have done a lot of correction in terms of provisioning for C-Form as well because with GST around the corner we are providing for C-Forms as well as for the R&D material. So this is non-cash really.

Kashyap Pujara: Okay that is quite helpful, sir. Just two more questions from my end. What would be our CAPEX pipeline for FY18? Any guidance on that?

Jairam Varadaraj: You know we said that we will not exceed Rs. 30 crores, Kashyap, but even this year we have not spend that kind of money. So I do not expect anything significant.

Kashyap Pujara: That is quite useful, sir. Sir, and just one last thing, at the Analyst meet in February you talked about the new range of centrifugal compressors. Sir, if you could just give us a few more insights into that, that would be very helpful?

Jairam Varadaraj: There is nothing significant in terms of progress on that in the quarter, Kashyap. The thing is we have got three machines running in the field, we have got one more framed develop and we are going to start testing it in June. The first level stage wise testing has been very positive so we will integrate the machines in testing soon.

Kashyap Pujara: Right sir. Sir and when would this come on stream, when would this be?

Jairam Varadaraj: We have already started selling the frames that we have produced so we have started that.

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

Jasdeep Walia: Sir, what has been the growth in exports from India in FY17 versus FY16?

Jairam Varadaraj: So it has been pretty flat this has been at the same level, but that is not a good indication because these are almost 90 plus percentage sales to subsidiaries which is really restocking inventory, it does not reflect the sales at the consolidated level it all gets netted off.

Jasdeep Walia: Got it. Sir, so if we have to measure any traction in your overseas subsidiaries with respect to sales of Elgi compressors, how do we measure that, I thought exports is a number that we can monitor?

Jairam Varadaraj: No, exports see for instance we are, our direct export to end customers is a very small percentage. We are selling to our subsidiaries and subsidiaries in turn stock and sell to end customers. So if you look at the specific performance of our major subsidiaries, it will give you a sense of what is the growth that is there.

Jasdeep Walia: Got it. Sir, so what has been the growth in the sales of Elgi compressors outside India in the last year?

Jairam Varadaraj: I do not have the number in front of me. We can do it offline if you want call our CFO.

Jasdeep Walia: Sure sir. Sometime back you said that you are planning to get your compressors rated in US, and there is some agency in US which rates all the compressors and does all the ranking. Can you expect a significant improvement in your brand profile once that rating you know once you have got that rating done?

Jairam Varadaraj: Testing has been done, Jasdeep and I do not have the latest update on when they are going to list us in their website. But I know the testing has been done but I can give you the actual status offline, I can ask our CFO to give you that.

Jasdeep Walia: Got it. Sir, do you expect substantial improvement in the sales after that rating is done?

Jairam Varadaraj: It will certainly help us because this is now an independent agency that is publishing our performance. So it is not necessary we do not have to rely on our brochures and the statements of our sales people which generally customers may look with a certain level of bias, right. So this agency that is accredited well accepted, reputed agency so it will certainly help but will it give us the right to win in the market, probably not but it gives us a substantial right to play.

Moderator: Thank you. We take the next question from the line of Ashi Anand from Allegro Capital Advisors. Please go ahead.

Ashi Anand: The first question I had is if I am not mistaken about three, four years back, we introduced oil seeds through compressors. Just want to understand how the progress has been on the same and what kind of market shares would we have in this segment?

Jairam Varadaraj: Just to give you a background we started selling oil free screw compressors with the license from Hitachi about 12, 13 years ago and at which point the program was we were selling, we were buying the critical parts which is the air ends or the air blocks which is the key technology of that product from Hitachi and the rest of it we were packaging in India. We started developing our own block subsequently and for the last almost three, four years, we have been selling our machines into the field.

The performance has been very good in terms of whichever customer we have sold to their level of satisfaction and appreciation of the product has been very good. Now in terms of our market share in India in that segment it is still very low. If you look at the oil free market it is perceived to be a very specialized highly delicate kind of sensitive product. So Elgi's credibility to fulfill those expectations though high levels of sensitivity and performance still there are certain segments of the market that still feel that we may not be there.

So there is a certain inertia in terms of convincing customers that is the phase that we are going through. But ironically, we are gaining better acceptance for our products outside the country than in the country which is good because it gives us a certain story to tell to build our own brand credibility inside India.

Ashi Anand: Okay. We are seeing a certain amount of decent traction in international markets in oil free?

Jairam Varadaraj: Absolutely. I would not write to my mother about it, but I would certainly significant compared to the previous period.

Ashi Anand: Perfect. Secondly, I was just wondering if you could give me some kind of a break up of our business in India across different client segments. So if you are looking at the construction, water well industrial railways mining approximately what percentage of revenues would be coming from each of these?

Jairam Varadaraj: I would not like to share that specific segment level because it is too sensitive an information. I can only say our industries have grown, our construction and mining has grown, water well has been quite it has been a drop but there are certain segments in water well that has grown well for us. Railways there has been marginal growth aftermarket has grown well for us. I do not want to give a breakup this is too sensitive.

Ashi Anand: We will appreciate that. But if I could just ask a follow up on that question when we are looking at the 10% to 11% base level growths that you mentioned is that broadly coming from the segments that you mentioned in terms of industrial construction, mining are those actually the segments that are driving growth?

Jairam Varadaraj: Yes, that is what we have been. As per our budget that we have planned we have, these are the segments that are going to be the growth engines for us.

Ashi Anand: Okay excellent. And just the last question from my side. Our margins have been improving over the last couple of years. Now if we are looking at FY18 we are in a situation where raw material have moved up and our currency is a bit volatile, employee cost as you mentioned may be going up and I am not sure if there is any incremental scope for cost reduction internationally. So just wanted some sense on what is your outlook for margins in FY18?

Jairam Varadaraj: You know if profitability if we are able to hit the topline growth that we have planned the profitability ratios can be maintained or slightly improved compared to the current year because there are certain provisions that we have made in the current year as part of IndAS which are not going to be we do not take that in this year C-Form and provisions for raw material and all that.

So there should be if we hit at a growth if the commodity prices maintain at current levels then we should be alright. But if there is upward volatility then this is something that we need to take stock of because there you cannot really pass on a marching kind of commodity prices it cannot all be passed on into our market.

Moderator: Thank you. We take the next question from the line of Renjith Shivram from Antique Stock Broking. Please go ahead.

Renjith Shivram: Sir, just wanted to know is there any play because some of the products which we used to previously forged we are moving to cast based application. So is there an improvement in margins because of this shift?

Jairam Varadaraj: There is certainly an improvement, Renjith, but we will see a lot more of it in the current year rather than in 2016-17 but in terms of a top line of 1,400 or 1,500 they are not going to convert into a significant percentage but they are all contributing factors.

Renjith Shivram: So what percentage of the revenue if you can give a ballpark number is currently forged and going forward how much of this will get into cast and because of that there can be an impact?

Jairam Varadaraj: I expect not more than about maybe Rs. 1.2 crores, Rs. 1.3 crores as the contribution in absolute levels.

Renjith Shivram: Okay and in terms of the drivers for growth did de-mon really impact us because now we are two quarters into it, so just wanted to get some idea did de-mon actually had any impact at all and?

Jairam Varadaraj: I do not think there was an impact in the sense it reversed our run rate at that time. But it has certainly dampened people’s decisions because people were not sure how the economy is going to look like when the dust settle down and the dust took a long time to settle down, right. So many of the customers who have in the pipeline for conversion kept postponing. So that had a cascading effect through.

Renjith Shivram: Okay and so can we expect that now it has settled down that next year there can be an incremental the growth can be better and also with GST are you seeing the unorganized trade the share of unorganized trade getting reduced and what is your overall sense on that unorganized portion of the trade because of GST?

Jairam Varadaraj: If you look at our current year the growth has been like I said about 1% and if you look at our expectation for 2017-18 is between 10% to 11%. So clearly we are looking at a very positive economic situation not only in India and but also in other markets that I mentioned. As far as GST is concerned and the impact of that in the unorganized sector, on paper it has to, but you know there is something called enforcement there is law and then there is enforcement. Now today the unorganized sector is doing whatever it is doing not because the law allows it, it is because the enforcement is just not good enough. Now we have not heard anything about how GST is going to get enforced. So we will have to wait and see there are too many moving parts here for which there are no explanations.

Renjith Shivram: Okay and one sector I think which is doing in terms of CAPEX is oil and gas, so do we have a good exposure in that because we are seeing couple of refinery projects getting sanctioned so will there be a positive impact because of those refineries?

Jairam Varadaraj: We are not in the oil and gas business at all and we do not supply compressors for the oil and gas but if there are non-API machine requirements for the refineries that is basically their maintenance part of the refinery, then yes, we will see opportunities but they are very small compared to the big machines that go into refinery requirements.

Renjith Shivram: So it will be largely road constructions and mining which will drive FY18 growth?

Jairam Varadaraj: No, industrial will be there all across industrial like it is happening now.

Moderator: Thank you. We take the next question from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: Sir, you were giving an idea about the growth in the various end segments that is construction equipment and mining equipment related sales. When we interact with other players in the market like Tata Hitachi, SYSKA and you have been talking about high teens growth in this particular driven by a particular segment driven by road construction. Are we also seeing such a kind of a growth and it is only the industrial and the water well business which is acting as a drag or is it like what would be the kind of pace of growth in each segment? You do not need to mention the numbers but higher teens, mid-teens single digit growth?

Jairam Varadaraj: I would kind of venture its higher teens and the industrial is not flat, Ravi. Industrials are not growing at the same higher teens but they are growing.

Ravi Swaminathan: Okay understood. So and water well business that is kind of acting as a drag this quarter that has acted as a drag and the drought situation which is prevailing in the southern markets is it impacting this thing or is it likely to bring in more business to us?

Jairam Varadaraj: We have to wait and see, normally the water well business and the rainfall and drought are not perfectly correlated. So there is enough capacity in the market every two to three years there is a replacement investment that happens. So we need to wait and see when that will comes in. Right now there is a reasonable demand.

Ravi Swaminathan: Okay understood. And are we launching any new products or new variants in each of the respective segments to keep the growth going?

Jairam Varadaraj: Which segment?

Ravi Swaminathan: In each of these I mean we are there present in piston, screw and centrifugal, are there any variants which we keep launching or is it like?

Jairam Varadaraj: Yes, constantly.

Ravi Swaminathan: Okay, we will keep launching new products?

Jairam Varadaraj: Yes, that is an ongoing process.

Ravi Swaminathan: Okay, got it. And sir, in terms of the employee cost you had mentioned that it is likely to increase. Can you tell the quantum as to what could be the hike that could be given to?

Jairam Varadaraj: We are looking at around 12% growth this includes also certain additional headcount that we are planning in certain verticals and certain geographies in sales and service.

Ravi Swaminathan: Okay this is at a console level we are looking at a 12%?

Jairam Varadaraj: No, this is at a standalone level.

Ravi Swaminathan: Standalone level, understood. And this quarter compared to last quarter there was a decrease in the other cost. Is it because of the absence of the consultancy charges that we had hired a consultant that has gone off or what, Rs. 53 crores is reading as Rs. 37 crores?

Jairam Varadaraj: You are looking at consolidated results?

Ravi Swaminathan: Standalone results sir standalone.

Jairam Varadaraj: Standalone for the quarter?

Ravi Swaminathan: Fourth quarter other expenses were Rs. 36 crores, the corresponding number last quarter was Rs. 53 crores. So there has been a sharp reduction.

Jairam Varadaraj: Other expenses Rs. 53 crores has become?

Ravi Swaminathan: Rs. 36 crores.

Jairam Varadaraj: This is Rs. 53 crores included provisions for I do not know when you remember the last con call we had a provisioning for Belair, that is not there in this quarter.

Ravi Swaminathan: Okay so that provisioning is part of the other cost, sir?

Jairam Varadaraj: Yes, if you look at the consolidated numbers it will get set up.

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

Aditya: This is Aditya. Two questions on the softer side of things. You have mentioned that you have a target of being the number 2 player globally and this includes a little bit of inorganic component as well. Can you just help us understand if you were to zero in on a target what would be the key characteristics of that target and probably what are your learnings from the previous inorganic acquisitions that you have done over the last few years?

Jairam Varadaraj: I had explained this in the analyst meet but I will go through it briefly. For us acquisitions of the kind which will give us access to customers will be what the focus that will be the focus for us. In terms of access to technologies, in terms of new things, we do not need it because we are quite happy with what we have, quite confident that we have the products and the technology to do aspire for our ambition. We may look at certain adjacent kind of investments like for instance there are air treatment products, which we are currently selling that we do not manufacture, there is an opportunity not only in India but globally.

The technology is not rocket science but it is reinventing the wheel if there are attractive opportunities in the air treatment space we will look at it right. So basically that will be the guiding factor. The lessons learnt for us is we will not look at very small acquisitions like we did with Belair and we will not look at acquisitions that have very thin profitability margins because we find that any time we do an acquisition, there will be a certain incremental cost that has to be incurred to get the acquisition aligned to our way of working systems and all that and anything that has thin margins tend to put additional stress on us.

Aditya: Great that is quite useful. Sir, one more question on that front. We have engaged BCG as our consultant, is there a chance you could help us understand what are the key recommendations they have given both on the domestic and the overseas front?

Jairam Varadaraj: Well they have given us a new organizational structure which we are now evaluating and in certain places progressively implementing. We have done quite a bit of that implementation in India sales and service. It is too elaborate for me to talk about in an open forum. In terms of our market sales and marketing we have come up with certain prophecies which we are in the middle of implementing. Hopefully in another year’s time I will be able to give you a very clear picture on how effective it is. But at the moment I can say that the initial responses have been very positive.

Moderator: Thank you. We take the next question from the line of Mohammad Mandasaur from Optimum Securities. Please go ahead.

Mohammad Mandasaur: Sir, just one question that can you just tell me that how are the EBITDA margins because of the shift in accounting policy from GAAP to Ind-AS, so in this year for FY17 we did about 10% margins so how would this number look had that not this accounting shift not happened?

Jairam Varadaraj: You are talking at a consolidated level?

Mohammad Mandasaur: Yes, sir.

Jairam Varadaraj: Okay right, the consolidated level we are at 10.3 compared to 9.3. So generally in consolidation there is not much of an impact because what is the provisioning that we have to do at the parent level gets set off when you consolidate with all the subsidiaries. But there have been some head office level specific provisioning pertaining to sales tax, pertaining to certain raw material in R&D they are all very marginal, nothing significant.

Mohammad Mandasaur: Right, and in the quarter you have given a reconciliation of the PAT of the quarter in FY16 as per IndAS and GAAP. So if I see that as per FY16 it is Rs. 63 crores as per GAAP and as per

Ind-AS it comes down to about Rs. 51 crores. So there are certain items that you have written as loss on deconsolidation of subsidiary that is Rs. 6 crores, then provisions on constructive obligations Rs. 2 crores. So can you just tell me or give me more clarity on what these items relate to and why the Rs. 13 crores difference?

Jairam Varadaraj: This is a very detailed response, Mohammad. Can you take it up with our CFO offline?

Mohammad Mandasaur: Sure, sir no problem.

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

Aruna Bharati: I just have a couple of questions. The first one is anything on the domestic competitive landscape?

Jairam Varadaraj: Well, nothing significant. The existing players are there and nobody has waned. Hitachi has bought Sculler globally so Sculler has an operation in India so we need to see what Hitachi does with that.

Aruna Bharati: Okay and Sculler is strong in which segment of the compressors actually?

Jairam Varadaraj: Well, they do in India they have been doing primarily the industrial, they have not brought their portable range. So we will have to wait and see what they do. There have been some few instances of cheap Chinese machines that have come in, but I would not say they are significant and it is not restricted to one brand, they have been kind of scattered opportunities in different parts of the market. So I do not see any big change in the competitive structure.

Aruna Bharati: And the second one is actually a book keeping question. At the consolidated level what is our gross debt actually total debt?

Jairam Varadaraj: It is Rs. 147 crores.

Aruna Bharati: No, I guess you are talking about the net debt number, I am talking about the gross debt number the total?

Jairam Varadaraj: Gross debt would be the debt amount is you add the two borrowings to borrowings only that is about Rs. 2,109 crores.

Aruna Bharati: No, if I add the two borrowings I get about Rs. 211 crores but my question is, is there something that is buried in current liability?

Jairam Varadaraj: That is about Rs. 41 crores, yes Rs. 251 crores will be the liability. You cannot take the debt as it is because there are margin money deposited against that debt in the banks, so you need to get it and see.

Moderator: Thank you. We take the next question from the line of Eshit Sheth from Anvil Shares. Please go ahead.

Eshit Sheth: Sir, just wanted to check on basically how do you see Elgi four years down the line I mean we have spoken about seeing increasing traction in India and our overseas market for our products and you are quite confident like you know in terms of the kind of stagnation we had over the last four five years, in terms of our top line growth, we are likely to see much higher growth from here on. So I mean how do you see that panning out just organically for us as a company?

Jairam Varadaraj: What I said that about 10% to 11% growth for this year 2017-18 is purely organic. We are looking at inorganic opportunities that will supplement this growth that we are talking about. What we think in our planning we are not taking very aggressive organic growth in India because we are unable to predict the growth in the economy.

Whereas we are looking at aggressive growth consistent with what we have done in the last three, four years in some of the large markets where the head room is very high. So if you look at US, you look at Europe, we have done well, our growth rates have been double-digits in most instances, high double-digits, high teens. So we in those markets we are looking at pretty aggressive organic growth percentages.

Eshit Sheth: Correct sir but in terms of US, say for example from 2016 subsidiary financials that I see, we were at about combined for both the subsidiaries in US, we were at about Rs. 226 crores, products and services included. Now product if I see it is around Rs. 172 crores. Now that market itself we are talking about a Rs. 5 billion plus kind of a market. So this Rs. 172 crores is kind of an insignificant number in terms of the US market.

So there do we see some kind of exponential growth happening in US because I mean we have gone through the learning curve and all of that in the last three years. So do we see any traction there basically?

Jairam Varadaraj: See the subsidiary books do not reflect the granular level performance of the various operating entities. So we have Elgi USA which is a separate entity which caters to other than PAT, besides patents to other distributors. Now patent has a significant market share in the four southern states so expecting patents to grow significantly is not realistic. We are planning to get patents back to the level it was before we bought it. Whereas Elgi USA on its sales other than to patents has been significant.

I do not want to give percentage growth but it has been a very, very high percentage of growth. Now that is for me if you want to call it exponential, it is exponential but unfortunately the base number is small, right. So that is the only way it will happen, unless we supplement it with certain inorganic opportunities.

Eshit Sheth: Okay. So in the inorganic what we can look at is again like acquiring a distribution network or are you also looking at acquiring a standalone compressor company also there?

Jairam Varadaraj: As I just explained in the call we are not looking to buy companies for products or technologies. We will be looking at acquisitions that give us adjacent entries into products, and for entry into adjacent products or entry into I mean acquisitions that give us access to customers.

Moderator: Thank you.

Kamlesh Kotak: Hi sir, Kamlesh here. Sir, couple of points. You touched upon GST. So sir, as we see there are going to be some shift in terms of the market shifting to organized players rather than unorganized, can you get us some sense as to how big could be that opportunity in unorganized to organized flavour of that and how we can gain some market share from them if you can help us on that?

Jairam Varadaraj: See we are facing unorganized competition at two levels, Kamlesh. One is in our piston compressors. We think the market size could be almost three to four times the organized market. So to what extent that market will completely out. But if you look at the pricing difference between us and the unorganized market this could be anywhere between 25% to 40%. So GST alone is not going to bridge the entire gap.

But if you take the unorganized segments that we are not catering to it is not all the customers are of the kind who are look or expecting that deeper difference in price. So with GST this 25% to 40% may narrow down to probably may be 15% to 30%. So customers in the lower end of the unorganized or upper end of the unorganized who are willing to pay that additional 15% for better quality, longer life, better energy consumption we could expect them to swing. But it is very difficult to predict that number. That is one part.

The second part is there are unorganized players in our aftermarket who are selling spurious pots. So there could be most of these parts are either primarily imported. So there has been all these taxes not being paid or cash transactions or whatever in those instances we will be in a strong wicket and that has already become a point of focus and initiative for us in our current year. So expect to see some good results there.

Kamlesh Kotak: But on the industrial the non-piston compressor side you do not have any major unorganized market?

Jairam Varadaraj: No, very, very small.

Kamlesh Kotak: Secondly sir, how much would be our aftermarket revenue for the year if you can say how that has grown spares and all?

Jairam Varadaraj: Our aftermarket is I do not have it with me. Kamlesh, can we get back to you on that?

Kamlesh Kotak: Sure. And secondly sir, is there any opportunity for us to cross sell? We talked about portable compressors of Rotair, so do you see that market now evolving in India how you see that opportunity for us?

Jairam Varadaraj: I do not see there is a big opportunity for Rotair portables in India, Kamlesh for the simple reason Rotair makes emission compliant and emission compliant engines are very expensive. And that would not be viable in Indian market. But we are selling Rotair machines in the Fareast, we are selling in the US and we are selling in Middle East where there is an higher level of acceptability for emission compliance machines and Australia.

Kamlesh Kotak: So how much would be Rotair's revenue from their own geography, Europe and other than Europe, sir?

Jairam Varadaraj: Good question. I would say Italy is about to see the electric machine industrial machines are almost 90% is Italy. Portable compressors I would say close to 30% is Italy. For Rampicar and breakers I would say close to 80% is Europe, not Italy. So in the main business which is portable compressors they are more international than in Europe.

Kamlesh Kotak: And even going forward the growth is also almost in the same lines in terms of other markets doing better?

Jairam Varadaraj: Yes, but there are indications that European economies are slowly coming back. So we need to wait and see.

Kamlesh Kotak: Stanford, any other questions?

Moderator: No sir, not now.

Kamlesh Kotak: Okay, so on behalf of Asian Market, I sincerely thank everyone for joining for this call. A special thanks to Mr. Jairam and his team for providing us the opportunity and getting an insight about the company's business and financial performance. With that we conclude the call. Any closing comments, sir?

Jairam Varadaraj: No, nothing. Thank you so much, Kamlesh and thanks everyone for being with us for an hour. Thank you.

Kamlesh Kotak: Thank you and have a good day ahead.

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