

"ELGi Equipments Limited Q4 FY2018 Earnings Conference Call"

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PRIVATE LIMITED

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Moderator:

Ladies and gentlemen good day and welcome to the ELGi Equipments Limited Q4 FY2018 Earnings Conference Call, hosted by Asian Market Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kamlesh Kotak from Asian Market Securities. Thank you and over to you Sir!

Kamlesh Kotak:

Thanks Aman. Good morning everyone. On behalf of Asian Markets, we welcome you all to the 4Q and financial year 2017-2018 earnings conference call of ELGi Equipments Limited. We have with us today Mr. Jairam Varadaraj, Managing Director representing the company. I request Mr. Jairam to take us through the overview of quarterly and the yearly results and then we shall begin the Q&A session. Over to you Sir! Thank you.

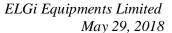
Jairam Varadaraj:

Thank you Kamlesh. Good morning ladies and gentlemen. It is a pleasure to be with you this morning, as always I will take you through the quarter results and considering the year end I will give you a summary of the year end results in relation to the previous year. We will talk in general about the business situation in India and the rest of the world and then we will open it up for questions.

Coming to the quarter our sales grew by 24% compared to the previous year same quarter. On reconciliation of profit EBITDA level, we should have made a profit EBITDA of close to Rs.68 Crores but our actual EBITDA was only about Rs.62 Crores so the gap of about Rs.16 Crores. The primary driver has been manpower cost increase of Rs.12 Crores and of this 12 Crores close to 16% of the increase has been in India. This is not a surprise. We have planned this so to that and my expectation is we are going to continue to face the pressure on manpower. I will come back and talk about it in the larger context of talking about the industry and challenges.

Really it is a very simple analysis a big cost is a manpower increase and we need to talk about how we go to mitigate that. At the full year level our sales grew by 17% and at a steady state operating parameters our EBITDA should have been were 223 Crores but our actual EBITDA is 181 Crores there is a gap of almost 41 Crores. How does this 41 Crores close to 30 Crores has been increased in manpower cost of which 70% is in India and the next biggest increase in manpower cost was in Rotair but a big part of that increase is just a restatement of our forex since the Euro appreciated quite significantly it is getting restated, but the real problem is in the real increase has been in India. So this is really the summary of our performance.

In terms of our debt currently our net debt position is about 150 Crores. This is a bit of disappointment for us. We expected that this would be closer to 120 Crores in line with a few conference calls ago we had made a commitment that we will get to zero debt by September and then subsequently we moved it to March of 2019 and to be in line with that we should been at 120 but we are at 150 but there are a specific issues that are there so it is not, it is a localized





problem it is not something that is spread over multiple areas. One big area has been our inventory. Inventory has gone up significantly disproportionate to the growth in our business. Our planning systems have to improve in order to get better control of our inventories. We know what defects are and we will start working on it and we will start seeing the results within the first two quarters of this year.

The other area is the increase in our debtors. Part of what you see in the year-end results is because of an increase in sales in March, so that for me is just a one-time thing. It is not a permanent situation. The more permanent structure that we need to deal with is a big part of our sales from Rotair goes to the US distributor where the credit terms are quite long and because of that and because of increased sales to that distributor we had an increase in inventory. We are working on some longer-term measures in that direction and I am unable to give you the specifics on that at this point in time but during the course of this year we should be able to announce something in that direction. So this is really a summary of our cash position and our operating performance.

As far as the markets are concerned, in India we performed well across all verticals this year compared to the previous year. Our disappointment has been primarily in the aftermarket, it is not so much a competitive problem rather than an internal issue, part of the problem is in the front end where our engagement has to become a lot more intense and part of the problem is our back end where we embarked in delivering as we should be, we are working on specific programs towards mitigating these issues and I am quite confident that we will come out of it.

The current situation in India continues to be positive barring any huge disruptions either economically or politically we see the markets continuing to grow. We are also seeing a lot of companies hitting the capacity limits and they beginning to look at building capacities, which is a good sign for us and therefore because we are in the capital goods business and any capital capacity increase will be a positive thing for our business, so we look at India in 2018-2019 with an optimistic outlook.

The rest of the world Australia has done well for us. Asia has not lived up to its promise. It has been better than the previous year but not really up to its promise. Middle East was a big disappointment for us it has been we are working on some specific program in specific countries to come back, Africa grew better than last year. US and Europe of course continue to surprise us from the positive side, we have grown well in both these territories. Brazil of course is small. It has not grown but the good thing about Brazil is we have been able to contain, we have been keeping still making a positive contribution we are not getting into loss situation. This year we are hoping that the economy turning around, Brazil would be better than the previous year.

This is really and in terms of looking forward I think we expect Australia and Southeast Asia to do better than the previous year and similarly Middle East and Africa and of course Europe and US we are looking at very specific initiatives in these two countries. So we are quite positive we will see good results there as well.





I talked about people cost as a challenge and I expect it to continue to be a challenge on multiple reasons; one of the key foundations for our aspirations is to get the right talent in place not only talent for the current level of business but talents for the future including succession at multiple clerical levels. In addition we are growing in Europe and in the US, which means we have to invest in people upfront and they are not people who are very expensive, so all these investments are going to be made in terms of getting our count levels up in India to market as much as possible. We have a long road ahead in making that happen we cannot do it overnight but progressively we need to push our compensation structures so that we enable the company to be able to attract talent. This is on the India side. In Europe and America, which are key geographies, we are going to invest in people, which mean there could be some pressures on our profitability in the short to medium term. But in India we need, while we work on improving our compensation structures we also need to work quite intensely on looking at how do we create an affordability within the organization, to be able to afford to pay top talents market salaries, so this is something that we are working on we need to evolve a plan and execute on it.

I will stop my presentation at this point in time then invite you to ask me questions or greater clarity. Thank you so much.

Moderator:

Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. Thank you. The first question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan:

Good afternoon. Congrats on a good set of numbers. Sir just wanted to know I mean the entire year is over so basically how the growth has been at the industry level for the entire compressor market or what is your sense we have been market share vis-à-vis competitors?

Jairam Varadaraj:

I do not know too much about what the competitors have done. I would really appreciate if you can do some spying and tell us how they have done.

Ravi Swaminathan:

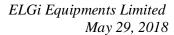
Some of the competitors have reported number listed in players they have grown as fast as ELGi so directionally some numbers we can see that ELGi has done relatively better, but I mean some of the large unlisted players also there so I just wanted to get a sense.

Jairam Varadaraj:

So we do not know the one listed entity has published or two listed entity has published their numbers and compared to that we, like you said we have done better but the other two unlisted entities are really the main competitors we need to see how they perform before we make any conclusion but my gut feeling is that we have done well.

Ravi Swaminathan:

Got it. Sir in terms of gross margins for the full year we have seen a compression so basically the thing is that our sales mix is improving in terms of screw compressors, which carries relatively higher margin than piston compressors I presume but in spite of that the gross level margins have





compressed a bit at least so is it because of the input cost going up or the pricing pressure being there etc., if you can give more sense it will be helpful?

Jairam Varadaraj:

Ravi, there are multiplicity of reasons one is the product mix. There are some verticals where our material cost traditionally at higher percentage of revenue they have grown a lot more than the others the others have grown as well but the growth percentage has been more in certain products that carry a higher raw material cost. The second thing is that we had planned a lot higher growth in our aftermarket which is a lot more profitable and that did not contribute as much as it should have and if it had then we could have mitigated this compression in our contribution. The third is of course there is been an increase commodity prices have gone up significantly across but it is not that we have not been able to recover these cost so I am not too worried about that so there is a challenge there is a pressure but I think recovering these cost in the market is especially when the market is growing is not difficult, so I do see continued pressure on our margins but I think not source of worry for me at this point in time.

Ravi Swaminathan:

Got it. Sir after sales how much we would have grown and was the impact was because of GST implementation?

Jairam Varadaraj:

No GST and all is a long drawn, I think it is purely an internal execution issue we need to get our acts together.

Ravi Swaminathan:

Okay and what would have been the growth in after-sales any sense or atleast as a percentage of sales if you can tell it will be helpful.

Jairam Varadaraj:

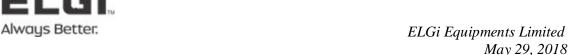
I would not like to go into the percentage of sales, Ravi but I think we could have grown we grew low double-digit, we should have done very high double-digit.

Ravi Swaminathan:

Sir in terms of exports what was the growth and what is a challenge with respect to Middle East and Africa so basically in the commentary you had mentioned that those two geographies are still weak in the press release that you have mentioned?

Jairam Varadaraj:

Exports is not measure, it is a question of how much is our business from the rest of the world and how much of it which is from India. If you look at our compressor business in 2016-2017 India was 64% and rest of the world was 36% today this year 2017-2018 India is 60% and the rest of the world is 40% which means really we are in spite of India growing we are able to increase the percentage of the contribution of the rest of the world to the total consolidated revenue, which means in real terms we are moving forward outside the country and if you combine that with looking at a profitability at the consolidated level you will see that we have improved our profitability at the consolidated level a lot more than we have increased our profitability at the standalone level, which really means that we are growing more and we are growing profitably more.



Ravi Swaminathan:

Got it. With regards to the employee cost, so basically what kind of increase further we would like to, we are going to see in standalone level at a consolidated level and this increase is blue collar or white collar jobs and is it to just match along with the peers MNC peers etc., so what is

the ratio behind this?

Jairam Varadaraj: It is not a blue-collar salary problem. It is more on a white collar. Our benchmarks in India are

> against multinational because that is where we compete with them at one level in a market and we need to compete with them for talent at another level in the job market and we are still quite a bit away from those benchmarks. As we upgrade the quality of our talent we should be able to create the affordability to pay for the talent which is like I said it is not a one year fixed it is ongoing problem, so if you look at our current manpower cost on a standalone basis, manpower cost on sales we are at around 13.2% or 13.3%. That could go up by another percent in this year on increased revenue so as a significant cost that will come up. As far as the future is concerned, I think for the next few years, we will continue to see these kinds of pressures but we will also have to work on specific initiative that increases the stamina within the company in terms of its

ability to afford this cost.

Ravi Swaminathan: Okay got it. Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Umesh Sanghvi from Prosperity. Please go

ahead.

Dhruvesh Sanghvi: Thanks for taking my question. Sir my first question is little lengthier. I was studying the

previous concalls and the boarder part, we have said that we started off becoming number two

globally.

Moderator: Your audio is breaking Sir.

Dhruvesh Sanghvi: I will join back the queue.

Moderator: Thank you. We will move to the next question that is from the line of Aditya Bagul from Axis

Capital. Please go ahead.

Aditya Bagul: Congratulations Sir on good set of numbers. Sir if we look at the last couple of quarters we have

> seen a stock improvement in the profitability of subsidiary especially the international one; however, this quarter if we look at the difference between the consol PAT and the standalone PAT the run rate of profitability has come up marginally, would you attribute that largely to the

apex or do you think there is something more to that?

Jairam Varadaraj: No I think the contribution of subsidiary to sales and profitability cannot be looked at from a

> quarter-to-quarter basis it is too shorter time frame to analyze. There are seasonality that contribute to it so I am not worried about there is nothing to be worried about in terms of

different between the second and third quarters contribution by subsidiaries to the Q4.



Aditya Bagul: Fair enough Sir. Sir in the same line, if you could just help me understand which of the

international subsidiaries now are still loss making on a PAT level?

Jairam Varadaraj: The only one that is loosing money at the PAT level would be China.

Aditya Bagul: Okay. Most of the other subsidiaries are now in the plan.

Jairam Varadaraj: Yes.

Aditya Bagul: That is great to hear. Sir my second question is in the last quarter and during your analyst meet

you highlighted little on your inorganic strategy can you talk about the same in a little more detail especially since you have talked about market share gains in the Western and Asian

markets do you think that could tie up with your inorganic strategy?

Jairam Varadaraj: I do not know whether it will tie up. Definitely our inorganic strategy if you look at it, it is a

surrogate for organic strategy to give us results in a quick order, so in that sense they are alternatives to the same end of result. In terms of specifics, I am not in a position to tell you exactly what is in the pipeline. We do have multiple opportunities in the pipeline and I am confident that during the next quarter or two, we will be able to make some specific

announcements but at this point in time I am unable to give any specifics.

Aditya Bagul: Great Sir, not a worry. My last question is actually on a data point, if you could just help me with

our capex plans for FY2019 and FY2020 I understand we have enough capacity at the moment

but is there something in the pipeline that you would like to add?

Jairam Varadaraj: We do have ongoing investments, capex investments, which are balancing equipment to keep

enhancing our capacity in we are not like an assembly line where you setup a capacity and you move towards it and you setup another line, another line then you move up, there are machines with differential capacity embedded in the line and we keep investing in balancing capital investment to keep increasing the capacity so it is only when we reach a point where all those balancing opportunities are exhausted we go for like a huge increase in capacity across the board. We have not reached that point yet. We are still investing and balancing equipment. We did some this year. We will continue to do it last year I mean next year as well. Probably for a year 2020-

2021 we may have to look at a significantly higher thing but again it is not going to be like a

game changing kind of investment, which we need to do.

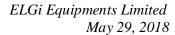
Aditya Bagul: Perfect Sir, that answers my question. Thank you and all the best for the quarters.

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

ahead.

Harish Biyani: Sir good afternoon. Sir on margins so since we have investment mode we would want to hire

more people so that we strengthen our future, does that kind of which you indicated that 100%





increase which is possible staff cost next year so all of the equal should we assume that there is going to be some margin decline next year versus this year?

Jairam Varadaraj:

I do not think there will be a margin decline but the growth is, again it is question of what do you define as margins. At the contribution margin level, I do not see any challenges if at all there could be a few percentage points, which I am not too worried about. At the EBITDA level we will grow but the growth rate in EBITDA will not be commensurate with the growth rate in our topline.

Harish Biyani:

Sorry I may have missed this earlier if you have spoken on this, what is the growth rate that we are looking at in 2019 and which are the areas both in domestic and international where we are looking at growth?

Jairam Varadaraj:

We are looking at a growth rate between 13% and 15% at the consolidated level. Like I said in the beginning of the conference, if India continues to grow the economy continues to hold strong and assuming 50% of our revenues comes from India, we should expect that same kind of growth rate in India, the balance 50% is from the rest of the world where our current growth rates are far higher so achieving 13% to 15% growth at a consolidated level is I would say is a reasonably good expectation.

Harish Biyani:

Thank you so much. All the best.

Moderator:

Thank you. The next question is from the line of Eshit Sheth from Annual Shares and Stocks. Please go ahead.

Eshit Sheth:

Thank you for taking my question and congratulations for very good numbers. Sir I had a question on subsidiary. I think someone asked about how the profits have been to the subsidiary, what we always track is if I take the consolidated segmental for a compression business and I remove the standalone revenue, I come at a number of about 108 Crores of topline for Q4 for the subsidiary compressor division in that in this quarter, we are back at negative point 29 Crores of PBIT the run rate for the last couple of quarters was upwards of I mean in Q3 it was 7.5 Crores Q2 it was 7 Crores so why is this gone back in the red?

Jairam Varadaraj:

You know you are overwhelming me with some matrix that I have not really prepared to; I have not prepared myself for this. What I suggest is tell us your question specifically offline and we will answer that.

Eshit Sheth:

Sure I will do that. Sir and also for the quarter what has been the growth rate in the US market and the Europe market for ELGi?

Jairam Varadaraj:

I do not want to talk about it at a quarter level but annually speaking in Europe we have grown 20% plus and in America we have grown 25% plus.



Eshit Sheth: Okay. And as you just eluded to your next year topline growth of 13% to 15% do you see that

being better chances because US as you were mentioning in the analyst meeting also there is a sharp uptick in terms of the product acceptance we have there so is US likely to continue to grow

at 20% plus for next year or next couple of years?

Jairam Varadaraj: Well I am optimistic but I would rather understate it overperform.

Eshit Sheth: Okay, sure I get that. Okay Sir that is it from my end and I take the questions offline later.

Moderator: Thank you. The next question is from the line of Abhishek Agarwal from Prithvi Finmart. Please

go ahead.

Abhishek Agarwal: Sir actually my question is regarding revenue growth in FY2017 we have guided that we will

2020 at level of 1800 so with this 13% to 14% growth what you are seeing right now so how it will possible to achieve that level, could you give sense on that and secondly on the EBITDA margins front as definitely employee cost is one of the factor, which is contributing lower

double our revenue from FY2017 level that was around 1500 that is around we will reach by

EBITDA margin for us so what are the other factor if I compare to our peer company like (inaudible) 32.31 which is the second large globally so and we are also have aim to takeover that

second position in a long run so and their EBITDA margin around 18% to 19% so what are the

other factor that our EBITDA margin on lower side?

Jairam Varadaraj: To answer your first question how are we going to grow to this aspiration number levels that we

have stated in the past? Like I said in my answering my earlier question, I would rather understated and overperform given years so this 13% to 15% if you look at it only isolated there

will be a big gap between what we will actually achieve at this rate and what we have stated we

will achieve. So we expect that we will grow more but we do not want to just commit those numbers in any given year. The second part of it our growth is also based on inorganic growth it

is not purely organic and like I explained we have inorganic opportunities in our pipeline at this

moment I am unable to talk specifically. As far as EBITDA margins are concerned, we are not a

company that I arrived yet, now in the process of getting to that point of a steady state we need to make certain investments that will not necessarily produce results in the short-term so those are

the kinds of expenses specifically one big area is people and the other area that we are going to

also invest in is in process, mainly our front end process where we did make some significant

investments in India two years ago and we have got some very good results out of it, we would

like to explore investing in a similar process or processes in other key geographies those

processes are expensive but they are all investments rather than ongoing permanent expenses.

Abhishek Agarwal: Sir like our next aim was to achieve a \$1 million turnover by 2023 and I think we had a plan to

do the capex of 1000 to 1200 Crores so we are stick with the capex or guidance or we will

require a more capex for that?



Jairam Varadaraj:

I do not know which document you are referring to but we talked about capital investment was not that amount. The total investment including inorganic opportunities based on certain assumptions of multiples that are prevailing in the market and the kind of growth that we need from inorganic opportunities we expected it but I do not know which specific document you are referring to.

Abhishek Agarwal:

Actually, I am referring one of the press release in that it was mentioned, but anyways Sir it is we can have more discussion on that is it possible to have a some offline discussion with someone because concall is not a platform to discuss everything.

Jairam Varadaraj:

Sure you can reach out to our CFO and we will see how to go about it.

Abhishek Agarwal:

Thanks a lot.

Moderator:

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

Kashvap Pujara:

Congratulations for a good set of numbers. I had just one question for you do not bother much with details and guidance's but my question is pertaining to working capital in the standalone business so what I am witnessing is that in the standalone business the topline increased by 130-135 Crores Y-o-Y but the corresponding increase in receivables has been to the tune of 94 Crores so it more or less implies that you know we have grown but we have grown on the back of higher credit extended so is this an aberration for would this normalize to what we were earlier how do we read this as a signal?

Jairam Varadaraj:

The couple of things, Kashyap one is what you are seeing is the year end kind of a spike that will get normalized and the second part of it is if you look at the growth that we have had in Western India primary growth have been driven by our subsidiary and our sales to our subsidiary has a long cycle time, so to that extent that part of the increase in our receivables is not going to go away but I am not too worried, but the biggest growth has been biggest absorption of receivables or cash is through receivables has been the year end spike so that will get normalized.

Kashyap Pujara:

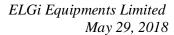
So essentially is the receivable in the domestic business we should be in the range of two months or so that two – two and half months that we have been seeing?

Jairam Varadaraj:

Yes, absolutely we should be able to maintain but like I said earlier our biggest challenge is overall working capital management, which we have already started putting emphasis on in that thing we will start reducing cash.

Kashyap Pujara:

Lastly given that you know we would be looking at a focused markets outside India and looking to grow there do you see situation where you know we might be aggressive in terms of letting the working capital a bit lose may be in terms of inventory or just to ensure that we grow better or





what are your thoughts on that, how do we see growth with working capital outside of the standalone business?

Jairam Varadaraj:

I do not think if you really, we had annualized how we are growing in some of the high growth subsidiaries and we have look at what is the cash that they are absorbing into it, we do not see any areas of concern, of course when there is a sudden spurt there will be a temporary disruption to your inventory, because we need to respond and there will be a bump up and then it gets normalized so I do not see anything that permanently damaging for us.

Kashyap Pujara:

Sure and last question I have is the way we see it is that you know all ELGi needs is topline growth most of the costs are in place the platform is set so if you are able to grow overseas and India at a mid teen or higher number so there should be a disproportionate waterfall to the EBITDA level purely because of the leverage we would have on the business, now obviously you are going to be reinvesting for the growth so what is the kind of reinvestment that you see may be in terms of higher R&D or in terms of higher ad spend that you know in the interim might keep that operating profit growth a bit muted so how do we read that because clearly if you were to invest money into the business some of the gains of the gross margins back into the business it is mainly to sustain a higher growth at some point in time so and that would not be the ideal metric then for us to look at and may be we should look at what kind of investments that you are doing in the business to ensure the future growth?

Jairam Varadaraj:

Yes, you are right. I mean the growth of 15% to the topline should have a huge leverage benefit to the bottomline at the EBITDA level but like as I said our biggest investment is going to be on people and the next big one is going to be on a process. As far as R&D is concerned it is that expense that has already embedded in our current cost structure so we do not see any big shift in that in the future so I do not see that kind of compressing or the leverage that we could otherwise have, so the compression is going to come primarily from people investment and process investment, I do not see it as a permanent problem. It is going to be for the few years that we need to do it as a foundational thing and then it will go away.

Kashyap Pujara:

Sure. Okay and all the best.

Moderator:

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

Manish Goel:

Very good afternoon Sir. Sir just earlier one more participant had asked about this international operation so I also have a similar observation where probably what I see is that the topline growth has been quite strong in our overseas compressor business but somehow margins have been quite weak so have you kind of observed that in the quarter?

Jairam Varadaraj:

In this specific quarter there could be some issues we have not really analyzed it. At an overall year at a year level the fact the growth in our consolidated margins is better than the growth in



the standalone margins I mean for me that is the proof that we are doing well but in the during shorter time frame in between there are variation for multiple reasons.

Manish Goel: Okay, so ideally with the growth momentum is what probably what I see is that the international

subsidiaries as per our calculation have gone up by 28% but as you mentioned that the growth rate in international would be much better can we expect that margins also to improve from the

overseas operations?

Jairam Varadaraj: Margins at what level?

Manish Goel: So probably at EBITDA level because so that is where I probably wanted some more clarity on a

consolidated level how do you see EBITDA margins because at standalone level manpower cost you guided on 100 BPS improvement but on a consolidated how would we see and is it possible that operating leverage benefit off overseas operation should be able to overcome the headwinds

on the India operations?

Jairam Varadaraj: No like I said we are going to invest in people and process not just in India but also in our key

markets. So what my expectation is we will grow our EBITDA but the growth rate will not be

proportionate to that increased in our topline.

Manish Goel: Okay. So that was at a consolidated level right?

Jairam Varadaraj: Yes. The contributing factor to the phenomenon is both standalone as well as our overseas

subsidiaries there are key markets especially in the US.

Manish Goel: Okay and basically this assumption is at the moment can I infer that is based with 13% to 15%

revenue growth and if we are able to see much better growth then is it possible that probably we

will get some operating leverage and we may have a inline revenue growth?

Jairam Varadaraj: Even in 13%-15% I expect the leverage to fall in and for EBITDA to grow but the percentage

growth may not be the same.

Manish Goel: No, Sir what I am trying to understand is that your guidance on EBTIDA growth rate to be lower

than the revenue growth is based on a 13% to 15% revenue growth. What I am trying to understand is that if we probably have, just a theoretical question that if we grow at 25%-30% then is it possible that probably the EBITDA growth rate may not be lower than the topline

growth?

Jairam Varadaraj: Manish you are trying to pull something out of my mouth, of course, from a pure mathematics it

obviously will be very high but we are not going to suck a very that much cost for that we will, if

we do not have that leverage at 30% growth that means at 13% growth we will make a loss.



Manish Goel: Sure. And last question on how do you see currency impact now with rupee depreciating and

probably going forward are you seeing any major benefit or impact?

Jairam Varadaraj: Currencies in the long-term kind of moderate themselves. In the short-term we have a very clear

policy of mitigating a risks so I do not see any big impact. Our import on foreign exchange is very limited. It is not a big number. It is in relation to what we export we have a natural hedge so as long as the rupee keeps depreciating then there will be only a net gain on the revenue side, but when we restate our subsidiaries especially the costs and the balances in our subsidiary they get

inflated.

Manish Goel: Right. I will come back on the queue.

Moderator: Thank you. The next question is from the line of Ujwal Shah from Quest Investments. Please go

ahead.

Ujwal Shah: Thank you for the opportunity Sir. During your initial remarks you did mention that you are

seeing some green shoots visible in terms of capex cycle reviving can you throw some light which are the sectors where you were actually seeing this kind of green shoots visible for the

year ahead?

Jairam Varadaraj: We are seeing it across all industries except may be the big ones like power and steel and we are

going to look at steel there is a huge activity and interest in buying the stressed assets that are there in the market, which clearly indicate that the current capacities are getting used up and next round of capacity build is going to happen. The big power is one sector where it is still kind of

stagnant but otherwise we see it across the board.

Ujwal Shah: Thanks Sir and you also mentioned you would be changing certain things to manage your

inventories better can you throw some light by when can we expect those to really fructify and

what are the changes that you are making?

Jairam Varadaraj: Well the specific changes I would not want to go into that detail but I think this is not anything

significant it is just an operating cycle that we need to go through, so I think in the next quarter or

two we should start seeing some results.

Ujwal Shah: Great Sir. That is all from my side. Thank you.

Moderator: Thank you. We have the next question from the line of Dhruvesh Sanghvi from Prospero Tree.

Please go ahead.

Dhruvesh Sanghvi: Hope I am audible now. Sir we were supposed to launch a new compressor on the oil free side

can you make some comments on that I mean are we on schedule and looking forward to it soon?





Jairam Varadaraj:

Yes, we are on schedule. The new oil free compressor launch is planned in July and we should. So we have already started booking orders for these machines so it is not like we are waiting for the mark for the official launch to get active in the market so it looks good.

Dhruvesh Sanghvi:

Okay and Sir in terms of it may sound like reputation but this is my first call so please pardon me, the targets that we have had in terms of the aspirational stuff about number two, somewhere in the past you have indicated to reach to those numbers may be over the ten year period we will have to have a 25% compounded growth so in that context Indian markets can we assume would be typically not to grow 15%-20% and therefore inorganically and organically together the exports market will have to grow for us at 30%-35% to probably have a 10% market share or number two slot, is that understanding correct?

Jairam Varadaraj:

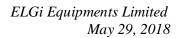
Yes, if you take it on a normalized annual basis your conclusion or your assumption is right but in any given year those percentages may not necessarily be consistent, so inorganic growth is the cornerstone of our strategy, one key corner stone not the only one and we are exploring opportunities. We have got some interesting possibilities in the pipeline and at the appropriate time we will announce that. So it is also a balance between, we need to make investments into capex, we got to make investments into systems and therefore and we have to be prudent in terms of what is the kind of leverage of the balance sheet that we are willing to take. We have got huge lessons from our past adventures in inorganic opportunities those are all embedded into our modeling so all this also puts some boundaries in terms of what is the cash that is available for our inorganic, so in one point I can make a plan but as time evolves that plan becomes more specific and it becomes specific by the boundaries that are created in that particular time context.

Dhruvesh Sanghvi:

Great Sir. One connecting thought on that line when we see (inaudible) 53.47 probably they are 75 to 100 old organizations and I think you have spoken in the past about the against the Indian made technology what are the parameters that we speeden up the negative bias against as big as we are not technology experts as investors and we understand that you are doing something great on the technological aspects for us it is very difficult to understand but if you can just, how this process can be cut short for us in terms of versus the 100 year old organizations positive bias that we have created in the minds of consumer?

Jairam Varadaraj:

These are the bias towards western, Japanese, Korean brand is not something that ELGi alone can overcome, India has to overcome it right and that India overcoming it is not in our hands so relying on that would be a little foolish. But I do not think it is a 100 year journey I mean if you look at the experience of the Japanese companies and the Korean companies they were able to move from being considered as cheap low quality products to very high quality value for money products all that happens in a period of about in a couple of decades, so I do not see that as a big challenge but we cannot be a cost driven company that does not worry about technology and quality if that is our end goal, we look at the Japanese companies and the Korean companies yes cost low cost was a window of an opportunity but that was not the foundation of that strategy. The foundation of the strategy was on technology and quality, which is exactly what we are doing, I mean we using cost as a window but we would like to shut that window unless before it





gets shut on us, but really leverage our technical capability and build quality which is the best in the world and evidence of that is the fact that our product is now well accepted and growing in Europe and in US where customers are very discerning in terms of the performance of the product as well as the quality of the product, and the fact that customers are doing repeat buying is a validation that we are on the right path.

Dhruvesh Sanghvi: Okay. And Sir do we see some kind of a complication on the aftermarket with Mumbai area

where I mean on the study that shows and when we spoke with the couple of vendors there is a huge demand for the product but you have not been able to deliver a reply in a proper way is what we get and I think you said something similar but how fast can we see this solving it seems

that it is under serviced?

Jairam Varadaraj: Yes, we have had some issues with the distributors in Mumbai we are in the middle of changing

the whole distribution network. It is an operational detail I would not get too worried about it.

Dhruvesh Sanghvi: Okay, I will join back the queue Sir.

Moderator: Thank you. We have a follow up question from the line of Abhishek Agarwal from Prithvi

Finmart. Please go ahead.

Abhishek Agarwal: Quick bookkeeping questions, first regarding the current portion of your long-term debt for the

financial year 2018, can you give the number please.

Jairam Varadaraj: Our long-term net debt position would be about 70 Crores.

Abhishek Agarwal: No Sir the current portion of long-term debt, like the other financial liabilities?

Jairam Varadaraj: That is what I said 70 Crores is our long-term debt.

Abhishek Agarwal: Okay and another thing the revenue numbers of your hidden subsidiaries like ATS, LG and all?

Jairam Varadaraj: ATS published in the segment results.

Abhishek Agarwal: ATS I mean overall subsidiaries like other JVs also overall Indian subsidiaries?

Jairam Varadaraj: We do not have any other subsidiary other than ATS in India which specifically are you talking?

Abhishek Agarwal: I need the Indian subsidiaries number like we have the foreign subsidiaries like in USA UK and

other countries.

Jairam Varadaraj: I think why do not we take it offline we will share that with you.

Abhishek Agarwal: Thank you.



Moderator: Thank you. We have a follow up question from the line of Manish Goel from Enam Holdings.

Please go ahead.

Manish Goel: Yes Sir, just wanted to you did mentioned in your initial remarks about the spares in terms of

growth rate was lower so were you referring to India or overseas of both one is that and second you probably already had a global distribution center at Coimbatore so what actually probably

challenges you are facing Sir?

Jairam Varadaraj: Our spare business has grown that was a challenge is primarily India because spare parts is a

function of your installed base and we had a highest number of installed base in India. The rest of the world is about creating that installed base so that in the future we will have a healthy growth in our aftermarket business. The real challenge is not anything strategic it is just operational stuff that we need to improve nothing strategic about it they are all things that we be done very

quickly.

Manish Goel: Okay so you did mention that probably in couple of quarters we should be back to kind of our

expectation of higher growth?

Jairam Varadaraj: So it is not only the distribution center but also the front-end engagement has to become more

intend it has improved but we need to move to another level. It is not about competing with any

one it is competing with ourselves.

Manish Goel: Sir in India business have we started seeing projects related ordering or business improving Sir?

Jairam Varadaraj: In some areas but not the big power projects.

Manish Goel: Okay so do you expect that probably things should start looking better in next couple of quarters?

Jairam Varadaraj: On power?

Manish Goel: For project related stuff like in power or probably demand coming in from the core sector?

Jairam Varadaraj: Power I do not see it Manish because it is still some what we are hearing we have enough

capacity in this country. The problem of lack of power distribution issue rather than a generation issue so I do not see anything happening there, but other types of industries, cement, steel they

could all be coming in so new projects.

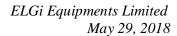
Manish Goel: So last question our ATS business, which has probably seen a very decent margin improvement,

so what is the outlook on topline and margin outlook Sir for ATS business?

Jairam Varadaraj: Well we are expecting that the vehicle market continues to grow as it has in the last couple of

years if it sustain itself we will ride on that but we are also working on some medium term strategy to mitigate ourselves from the dependent on the automotive segment which can be quite

volatile.





Manish Goel: Which other segments it could be Sir?

Jairam Varadaraj: No it is not a segment it is taking the product it will still be serving automotive but we are not

going to serve the automotive like OEs or distributors we could still go and serve the automotive

at different level.

Manish Goel: Thank you.

Moderator: Thank you. We take the follow up from the line of Dhruvesh Sanghvi from Prosper Tree. Please

go ahead.

Dhruvesh Sanghvi: Sir on the acquisition side, because of our aspiration of acquisition are we not facing competition

even on that angle and probably making our costs higher I mean or that is not at all the strategy

of the competitors that are existing in those markets?

Jairam Varadaraj: Well, I have a very difficult question to answer. Are we going to be competing with others to buy

a company? Sometimes yes, sometimes no. There is no clear answer on that but we have very clear boundaries on valuation and we believe that if we have to compete with someone we will

work within those boundaries and if there is pressure to go beyond that we will walk away.

Dhruvesh Sanghvi: Okay great. Sir just one comment and wish you a good luck ahead and just wanted to comment

on this that you know at last Ingersoll Rand the good news and the bad news is that they have not mentioned us a competition in their reports I wish that we see the name there as soon as possible.

Thank you.

Jairam Varadaraj: Thank you.

Moderator: Thank you. Ladies and gentlemen that was the last question and I hand the conference back to

Mr. Kamlesh Kotak for closing comments. Thank you and over to you Sir!

Kamlesh Kotak: Sir just one point if you can help us how has been the progress of the phase II of the business

realignment program we were talking with BSEG so how they role out and done out as an

execution if you can share some thoughts on that?

Jairam Varadaraj: There is been a good outcome Kamlesh. I do not want to give the specific things that we have

expanding that on our own initiative we are expanding it to other products in India and like I said we are going to invest in similar processes outside or India so we will probably use external help for designing something very similar in some of our key markets most likely in the US right, so the confidence with which we are making those significant investment really comes from good

been able to achieve, our focus on that has been for specific products in India now we are

the confidence with which we are making those significant investment really comes from good results that we have experienced in the process in India. We still think there is lot more to be to

be done, so that is a good part.



Kamlesh Kotak: Right. Great, so thank you very much Sir for providing a detail insight about the company's

business and financial performance. Any closing remarks Sir you would like to make?

Jairam Varadaraj: Nothing specific. Thank you so much for organizing this Kamlesh.

Kamlesh Kotak: Thank you very much. With that we conclude call thank you everyone and have a good day

ahead. Thank you.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Asian Markets Securities that

concludes this conference call. Thank you for joining us. You may now disconnect your lines.