

"ELGi Equipments Limited Q2 FY 2017 Earnings Conference Call"

November 16, 2016





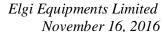


MR. KAMLESH KOTAK - ASIAN MARKETS SECURITIES **ANALYST:**

PRIVATE LIMITED

MANAGEMENT: MR. JAIRAM VARADARAJ - MANAGING DIRECTOR -

ELGI EQUIPMENTS LIMITED





Moderator:

Ladies and gentlemen. Good day and welcome to ELGi Equipments Limited Q2 FY2017 Earnings Conference Call, hosted by Asian Market Securities Pvt. Ltd. As a reminder, all participant lines will be in 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 would now like to hand the conference over to Mr. Kamlesh Kotak from Asian Markets Securities Pvt. Ltd. Thank you and over to you sir!

Kamlesh Kotak:

Thanks Rohan. Good afternoon everyone. On behalf of Asian Markets, I welcome you all to the 2Q FY2017 earnings conference call of ELGi Equipments Ltd. We have with us today Mr. Jairam Varadaraj, Managing Director, ELGi Equipments Ltd., and his team. I now request Mr. Jairam to provide us an overview of the quarter results and then we shall begin the Q&A session, over to you sir!

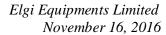
Jairam Varadaraj:

Thank you Kamlesh. Ladies and gentlemen, thank you very much for being with us this afternoon. As per our standard practice, I will take you through our consolidated results for this quarter in comparison to last year's same quarter.

So if you have seen the results. Our sales has been pretty much flat, but this needs to be viewed in the context of the fact that last year the same quarter we had the sales from Belair registered in our consolidated level. So to the extent of about 13 Crores, which was the sales in Belair last year in the same quarter. This quarter we do not have it, so to that extent there has been a growth. I will come back and talk specific about sales, but I will give you an overview of the overall profitability.

If I take last quarter's benchmark and work, this quarter's numbers against that, we have had an improvement due to a better contribution in percentage and as a consequence our EBITDA is about 343 Million. But if it had followed the same ratios as last year's same quarter, it would have been 257, so we have actually done better than last year in terms of the ratios.

And the primary reason is, compared to last year this year we have pretty much either eliminated subsidiaries that were making losses, or subsidiaries that we are still continuing with, we have substantially reduced the losses. The first one is Belair of course and the other one is both in Brazil and in China. Brazil has turned into profits and China has substantially dropped its losses, so that's pretty much the reason for why at the EBITDA level we are far better than last year's same quarter, in spite of almost the same level of sales. Now in terms of the business, it has been a bit challenging, we have grown in India, compared to last year, but the uncertainties in terms of the future continue to remain. Large projects are still non-starters, they are almost dead. Capital investment for balancing equipment is what is really driving this, so we will have to wait and see. In terms of specific segments all industrial small and medium size compressors have grown very well. The large machine, like I said, in projects have been quite depressed. Our construction and mining business has grown well and I think that is reflective of the infrastructure projects,





primarily road and construction that has been given out by the Government. Our waterwell continues to be a challenge, the overall market itself is quite low and our situation is quite at the bottom of the pyramid at the moment, but we are working on some plans to come back up.

Our parts business has grown smartly compared to last year, but still we have a long way to go in terms of improving it. Our Railway business has been quite solid, continues to remain as a consequence of budgetary support from the government to increase the production of locomotives. So this is really the overall synopsis of the financials at a very broad level of the business. So I will be happy to take on specific questions that you may have. Thank You.

Moderator: Thank you. We will now begin the question and answer session. We have our first question from

the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: Hi sir, good afternoon.

Jairam Varadaraj: Good afternoon Ravi.

Rayi Swaminathan: Sir had a few questions, you had mentioned that industrial small and medium size compressors

are seeing growth. Can you just throw some more light on which are the industries from which we are seeing demands and what kind of compressors they are, are they oil-free, oil-lubricated

compressors, which are seeing the demand currently.

Jairam Varadaraj: Like I said, there is no one specific industrial segment, pretty much all the industrial segments are

exhibiting reasonably good investment and balancing equipment. So I cannot highlight any one industry that stands out. In terms of size of the machine, they are not a large machine because most of the large machines tend to go towards projects and oil-free machines are large machines,

they are not small machines.

Ravi Swaminathan: Ok. So if you can give a HP range as to what will be the HP range which is fast moving now, and

what could have been the kind of growth in that?

Jairam Varadaraj: I would prefer not to go into such level of granular details, Ravi, if you do not mind.

Ravi Swaminathan: Sure, sir. Some of the engine suppliers like Cummins, they were talking about significantly

higher growth in the first half, (i.e., north of 50% year-on-year) engine suppliers to compressor a segment, but we had been, and I also believe, the industry has been seeing only limited growth

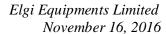
that is in the 10% range. So, any sense, where there could be a dichotomy, in the sense?

Jairam Varadaraj: No, there is nothing, like I told you, construction and mining is something that we are selling, has

grown very well for us, so we buy engines from Cummins for our construction and mining business as well, not just our water well. So sales of water well compressors, I do not think, have

been better than last year, at the industry level, I am not talking about company level. Because we

do know what are the total number of machines.





Ravi Swaminathan:

Okay. And Sir, there have been consecutively two years of drought previous years and this year monsoon has been good. Still if there is no major recovery in water well, is there an industry-level issue, which is happening there, or do you expect demands to see a recovery from hereon?

Jairam Varadaraj:

No, I think I have explained this in multiple occasions in the past. The water well business is not dependent on drought at all. It all depends on renewals of equipment and unfortunately, I do not know whether it is unfortunate, but historically this particular business has followed a pattern of accumulated renewals, that means, a set of people start buying new machines and then there is whole host of people, it results in them replacing our equipment. So equipment is pretty much replaced in 3 to 4 years' time and so the last probably the boom was maybe, 2 years ago or one and a half years ago. So, it may take a while for it to come back, I do not think it is anything to do with the monsoon. It has never been, we have the pattern for the last 20 years; it has never been linked to the monsoon.

Ravi Swaminathan:

So it has been 2 to 3 years since the demand has been generated form the segment. So next one year in your sense is there a very high probability that demand should start seeing a pickup, because replacement would start happening.

Jairam Varadaraj:

No the peak, like I said was about one and a half to two years ago. So if bulk of your machines have been replaced about one and a half to two years ago, and the life cycle is about 3 to 4 years, we have got to wait another year, year and a half before we see any significance in use.

Ravi Swaminathan:

Okay and in terms of centrifugal compressors, I understand that the large projects are almost dead. But is there any kind of replacement or efficiency improvement demand that has been generated in this particular category?

Jairam Varadaraj:

Nothing that is significant, Ravi.

Ravi Swaminathan:

Okay, so we had supplied couple of sets, I believe, do are they doing fine?

Jairam Varadaraj:

Yes, yes, they are doing fine. I mean we are going to get two more machines into the field very soon.

Ravi Swaminathan:

Okay and sir, just wanted to know how ATS-ELGi's performance has been, similarly rotar and patterns, directionally in terms of growth, profitability.

Jairam Varadaraj:

Well, ATS has grown, kind of in line with the growth in the automotive, may be marginally low than the growth in the automotive segment. So our market share is continuing to remain the same, and certain segments we have improved our market share. Profitability is a big challenge and that is primarily because of two things. One is our manpower cost in that business is high and it is high because we have seeded that business for much larger size of business than what it is today. So we got to wait that out and we are working on some initiatives for that to happen. The other reason is, we have seeded a new business called Auto Show, which I have explained to the





investors a year ago. We need to continue to fund that business, maybe for another year. We are working on different options, very promising ones, but we need to wait and see what happens. So those are the two reasons why the profitability is a little low and as far as Rotair is concerned, it lost a big customer in Algeria and that customer has not come back because of Algerian economy. Other than that, Rotair has done very well, it has grown in really strong significant markets, and the profitability of Rotair is better than what it was before. And in the US, direct operations are doing well, patterns continues to be at the same level. They are not recovering back to the original level, but we are working on different plans.

Ravi Swaminathan: And profitability at patterns is it stable?

Jairam Varadaraj: Profitability is better than last year.

Ravi Swaminathan: In terms of exports from the domestic market, what are the efforts that we are taking, given that

domestic market itself is slow growing, exports incrementally can be lead to better growth.

Jairam Varadaraj: I do not know about exports, Ravi. We are talking about international business. We are now

operating with direct presence in 18 countries. So for us, instead of trading type of exports, which is a very opportunistic, highly uncertain kind of a business. We focus on building markets in specific countries in a very detailed manner. We do have an International Division, that is a

trading kind of a business, but that is a very small part of our overall sales.

Ravi Swaminathan: Okay. No sir exports for us, last year it must have been around 150 Crores in the standalone

entity. I just wanted to know if there are any growth opportunities there, Middle East, Africa etc.?

Jairam Varadaraj: No, no. Like I said our export is primarily to our subsidiary companies in these 18 countries.

Ravi Swaminathan: Okay and in terms of spares, as a percentage, you used to say that it should be around 22% to

23% in the domestic market, how directionally it is improving?

Jairam Varadaraj: It continues to remain the same, so on a higher top line we are still growing at the same

percentage means we have grown in absolute value. But there are specific initiatives that are being rolled out as we speak, and we expect those initiatives to give us some real solid

transaction in 17-18.

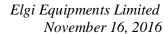
Ravi Swaminathan: Okay, so as a percentage wise, it is likely to go up directionally.

Jairam Varadaraj: Yes.

Ravi Swaminathan: At the market level, what would be the average spare sales, compared to revenue? Will it be as

high as 30%?

Jairam Varadaraj: At industry level?





Ravi Swaminathan: Industry level, yes.

Jairam Varadaraj: Well, I do not know about India. But if you look at worldwide, depending upon markets, some

markets are as low as 20%; some markets are as high as 55%. So international companies'

benchmark is about maybe, 30% to 33%, 34%.

Ravi Swaminathan: Thanks a lot, Sir. I will come back in the queue for further questions.

Moderator: Thanks. We have our next question from the line of Ranjit Shivram from Antique Stock Broking.

Please go ahead.

Ranjit Shivram: Hi Sir.

Jairam Varadaraj: Hi Ranjit.

Ranjit Shivram: Sir, just wanted to know, like, as a reiteration of the piecemeal, if you can give us some colour on

like, which specific industry segment if you can classify broadly also, it will be fine, where you are seeing some demand even in terms of this balanced equipment, which are more visible to

you.

Jairam Varadaraj: Well, I can tell you, why we are not growing. We are not growing that much in power, steel,

cement. So these are all large projects, where you know, there is still capacity. We are expecting cement to come around, because the capacity is getting quickly utilized with all these projects that have been rolled out by the government. So, other than that, all industry verticals,

automotive, textiles, pharmaceuticals, food processing, foundry, forge, everything is inside.

Ranjit Shivram: Ok, that was helpful, sir. Sir just wanted to know that because of this current initiatives of

demonetization there is a cash crunch which is visible, so what percentage of our dealer sales happen through cash, and do you see some impact at least temporarily, in the third quarter,

because of this policy.

Jairam Varadaraj: I do not think our business has any impact by cash. There could be some service revenue that

could be impacted, but that is again B to B and most of them are aligned to paying by the new

monetary units, I do not see a problem.

Ranjit Shivram: Okay. So even in the areas where your dealers are handling rural customers, there also you do not

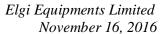
see any major impact because of this?

Jairam Varadaraj: No, no, nothing at all.

Ranjit Shivram: Okay, sir, overall if you can line in 2 to 3 years' perspective, how do you see your overall

overseas business; we had previously a strategy to make it a big portion of our overall revenue. How do you see that playing out and is there any hiccup there? Or will domestic will be the most

focused area for us because we are seeing more domestic based demand coming and export and





overseas businesses for most of the companies are drying out? Any change in the thought process there?

Jairam Varadaraj:

No Ranjit, what our strategy has always been, ring fence India even while we explore opportunities outside India. That fundamental premise has not changed. So what we are doing is, in the context of that, I would not say resurgence in India, but in the context of India looking relatively better than the rest of the world. We have taken a much more pro-active and offensive stand in what we mean by ring fencing. So we have rolled out multiple initiatives, spanning all the products, as well as the after-market and we expect to see good traction and results from these initiatives in 17-18. We are already seeing some, now, but in a consolidated nation-wide, we will see it in 17-18.

Our foray into international markets has been a bit of a broad blunt. We went into many markets simultaneously and we are now in the middle of evaluating what is the efficacy of that strategy. We personally believe at least at the preliminary level we should focus on picking a few markets and go deep rather than trying to go broad in multiple markets. It is more a question of leadership challenges, availability of leaders to drive, all these kinds of drive initiatives in multiple markets. So the original principle remains, we have committed, we stay committed to that, but the actual mechanics of how to make that principle work is getting adjusted to the current reality.

Ranjit Shivram:

Okay. So to extend that question, can we see we are moving out of some of the geographies where we do not see any revenue pickup or...

Jairam Varadaraj:

No, no. We will not move out of any geography. We may make, if there are strategic reasons, for instance China was a strategic reason. We have, kind of, temporarily withdrawn from that market. Other than that, we are not going to withdraw from any other geographies but the relative emphasis and focus of the organization will be more in certain geographies, in order to bring the depth of realization of results in some of those geographies.

Ranjit Shivram:

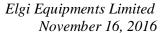
Okay. Sir, since India is seeing a far more better growth, are you seeking the competitive intensity from our MNC, pears and you are seeing because of that the pricing pressure, how do you see that and will that affect our margins?

Jairam Varadaraj:

If you look at our contribution, Ranjit, we have actually improved our contribution compared to last year, same quarter. Now, yet the competitive intensity is more because India is the favor of the year or decade or whatever, and there are lot more companies wanting to come and do business in India. They will nibble at our heels, and there will be some at losses of business, like I said, it is in response to exactly this that we are looking at a more proactive engagement in the market, which will give us the ability to counter these kinds of moves.

Ranjit Shivram:

Okay. Sir, finally if you can give some more clarity on the Railway, because we hear that railway and defence are the two areas where this government is putting a lot of emphasis in terms of investment in addition to roads. So what portion of your current revenue will be from railways





and how do you see that panning, will that become a seriously big chunk of your business going forward?

Jairam Varadaraj:

Well, I do not want to share percentage of business on railways that will be competitive information. It is not a significant percentage of our overall consolidated revenue, but it is a key business for us in India. In Railways, there are two segments, as we see it. One is the inter-city which is right now primarily run by the Central Government, which is the various Zonal Railway Organizations, whether it is Southern Railway, Western Railway, and the hardware manufacturing organisations like Chittaranjan Locomotive Works or Diesel Locomotive Works in Varanasi. So that is one segment, which is the inter-city. We have a dominant market share in this inter-city business and we are continuing to invest and engage with customers for holding on and growing in the "inter-city." Government's investments in expanding this segment is not yet clear, well quite a bit of plans have been made. The actual budgetary allocation for significantly expanding the capacity, rail network capacity, and the rolling stock capacity has not been announced yet. So when that happens, we are very certain that we will ride with that.

The other segment of the Railways is the" intra-city," which is really the metros. Now, our market share is almost zero in Metros for the simple reason, most of the metros are tendered global tenders and most of the manufacturers who supply to these metros, the Electrical Multiple Units (EMU) that are supplied for Metros come from international vendors like whether it is Kawasaki or Rotem or Bombardier and they have homologated brands of compressors that they been used to working for many many years. No for us to enter that business, we need to get our compressors homologated and these things do not happen in India, these happen in the respective home head offices of these EMU manufacturers.

We are now looking at what are the strategies that we need to follow or adopt, to make that homologation possible, but it is very preliminary; we do not have any insights into that.

Ranjit Shivram:

Thanks for the detailed explanation. Just to add on to this dedicated freight corridor is one major opportunity. So when the ordering for the rolling stock for DFCC happens? We have a major...

Jairam Varadaraj:

Absolutely, but the question is... Ranjit this dedicated freight corridor has been discussed for so many years. We have not seen it yet.

Ranjit Shivram:

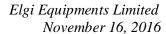
Because recently, I think yesterday, there was one order given for ABB for 800 Electric Locomotives for freight.

Jairam Varadaraj:

That's part of the project for bringing in investment for Locomotive production. Earlier, there was an order given to, and GE has started establishing a factory in Orissa and I think, two people were selected, one was ABB and the other one was GE. So I think this is part of that program.

Ranjit Shivram:

So, will we also have some orders from that?





Jairam Varadaraj: Absolutely. We are talking to them about our compressors, yes.

Ranjit Shivram: Ok sir. Thank you sir. I will rejoin for further questions.

Moderator: We proceed to the next question, as there is no response from Manish Bhandari. We have our

next question from the line of Aditya Bakul from Axis Capital. Please go ahead.

Aditya Bakul: Good afternoon gentlemen and congratulations on a good set of numbers.

Jairam Varadaraj: Good afternoon, Aditya.

Aditya Bakul: Sir two questions from my end, first of it, can you share the broad contours of the assignment

handed to BCG and the second question is on the standalone books, if I look at the investment amount that has increased form 90 Crores in March to about 144 Crores. Can you please explain

to us what the difference is?

Jairam Varadaraj: Ok, Aditya. First to answer the BCG thing, the BCG program is an India-centric program at one

level and the other one, the second part of that program is Organizational restructuring to prepare the company for its future aspirations. This is at a leadership level rather at the operating level. Now in the India specific market phasing program pretty much spans most of our industrial compressor business as well as the aftermarket business. Now the fundamental premise is can we improve our profits by which we engage with customers. Can we bring certain systems and processes to the way we go about engaging with customers, so that we are able to improve the efficiency of the entire network and the effectiveness of the entire network. So we have rolled out multiple pilots in the country and we hope to go nationwide between now and March. The full impact of this initiative where we can realize will be in 17 and 18. That is on the market phasing initiative. The other side is the organization. We have already finalized what should the structure look like, which is one, level below me and in certain functions multiple levels below me. So that has also been finalized. We will roll it out. This probably will take maybe 6-8 months because it is about restructuring the positions of current people then probably bringing in external talents at certain levels outside the country and that kind of stuff. So we have been quite happy with the progress in which this project has moved along. As far as your second question in investment, that is really the Ind-AS kind of adjustments that we have to do. There is nothing material in it. It

is just a restatement as per the new standards.

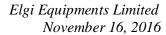
Aditya Bakul: Fair enough sir. Sir coming back to the first question would it be fair to assume that all the efforts

or whatever assignment is given to BCG is predominantly to revitalize our front end so to say.

Jairam Varadaraj: Yes.

Aditya Bakul: Great sir. Sir and just one last question. Taking off from one of the questions from the previous

participants what according to you would be the impact on the demand scenario especially because of this demonetization especially given that we are sitting on a very high base in





December and March so the growth that was seen in H2 in the standalone business was significantly higher than the H1 piece. So if I could have some comments from you on this.

Jairam Varadaraj:

We are not a very cash-sensitive business. I would say it is probably a business, if I have to even venture a guess it will be less than 1% right, where we are relaying on cash as a means to transact business. Now, if I have to I mean, you know, everybody has now got an economic theory about the impact of this demonetization. I think the world has not seen something like this in such a scale happen. So everyone has got a theory. It is a question of who is going to be right, we will know only when the dust settles down, but fundamentally a significant amount of the currency is going to go away, which means that the wealth that currency represented will be back in the hands of the government either in the form of taxes and penalties or in the form of just abandoning those currencies altogether. Now that capital has to come back into the economy. Now when that comes back I am betting that a big chunk of that will be towards investments and building capacity and infrastructure in the country, which will be good for all companies that are in the space that we are in, which is capital equipment, but when it is going to take and how long it is going to take is anybody's guess, but I think we are in the right direction.

Aditya Bakul: Great sir. Sir those were the questions from my end. Thank you so much and best of luck.

Jairam Varadaraj: Thank you.

Moderator: Thank you. We have our next question from the line of Manish Goel from Enam Holdings.

Please go ahead.

Manish Goel: Yes. A very good afternoon sir.

Jairam Varadaraj: Hi Manish, I was just waiting. I was wondering where you are hiding.

Manish Goel: No, very much here sir. Sir just taking queue from your press release what you have said that

India operations have grown, but rest of the world is quite subdued so first I just wanted to get a sense as to what is the now revenue breakup between international and domestic and if you can split the growth also seen in the say first half of the Q2 sir and how do you see the outlook

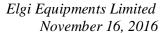
majorly on international side sir.

Jairam Varadaraj: At the sales level our international business has been kind of flat Manish.

Manish Goel: So if we exclude France and China, excluding that the sales are flat right.

Jairam Varadaraj: Yes. Excluding that flat, which means some of them have grown. If you look at China and France

it is close to about 15.5 Crores last year same quarter. So pretty much they have done 15.5 Crores additional sales in other geography. India on the other hand has grown, again I do not want to get into the percentages Manish, but it has been reasonably good growth, right. So in terms of the outlook, the first quarter India was actually better than the second quarter of India. Now I am not





sure with all these changes going, the demonetisation, the economy has to adjust to that. People are going to wait. GST is another big sword that is hanging over our head. We do not know if they are going to insist on implementation of GST from 1st of April. All the transitionary period issues like, past pre-forms accumulated credit in the current regimen, how are they going to do it, are customers going to defer purchases to the next regimen. These are all big questions for which we do not have the answer. There are some companies who feel that customers may stop buying anything that is delivered in March for the simple reason that the government today has not come out clearly and said how credits accumulated in the previous regimen are going to get set off in the next regimen. So with the absence of that, that is a significant amount. So we are ourselves are wondering if we buy raw material in March and we have accumulated credit from those purchasers end of March, how are we going to deploy or how are we going to get the benefit of those credits in April, this is not clear yet. So these are uncertainties both on the demonetisation and GST. So I am unable to say how India is going to respond. India fundamental seems to be all quite strong, but we have these temporary kinds of stoppages where people are stopping to think and reorient themselves. So that is a little difficult for me to predict right now.

Manish Goel:

And so now after scaling down, I am talking about international long-terms in terms of after scaling down operation at say there were plants in China, so how are we positioned like are we still having operations over there and are we looking to grow that market and what is the...

Jairam Varadaraj:

Yes, we are selling in France. We are selling in France through Rotair, nowhere near the levels at which we are selling in terms of revenue, but we are beginning to make some steps. We are in conversation with many of our old customers and the good thing is all of them like our products so they want to continue to do business with us, so that is a positive thing. As far as China is concerned, we are still retaining our entire aftermarket organization there to support customers in China and we are getting some orders for machines from existing customers by virtue of the support that we are providing to them on service. It is not something that I can write home and celebrate so it is small.

Manish Goel:

Okay. And on our Capex side sir what are the plans for current year and next year sir.

Jairam Varadaraj:

In the beginning of the year I had said that we had put a ceiling of about 30 Crores. I do not think we will exceed 30 Crores. I would be surprised if we even exceed half of that. So I think we will be well within our and in terms of capital management both our working capital and long term I think we are on a good wicket. So, next year is really a function of how the rest of the months are going to pan out in India. Today, we have adequate capacity to cater to at least a 25% - 30% growth.

Manish Goel:

On the existing base, sir.

Jairam Varadaraj:

On the existing base. So I do not think from the existing base to look beyond I do not think we need. So if at all we will spend any money next year on capacity will be primarily not for increasing the output, but more in terms of facilitation like IT. There will be some investments in



IT because the new initiatives we have run with BCG will require certain frontend software that we may invest in. We may invest in certain backward integration in our thing. We have talked about specialized motor production, so that may come in. We are still in the validation phase to check. So those are the things that will come in but for the basic business I will see very little back only balancing and replacement kind of equipment that will happen next year.

Manish Goel: Okay. And sir coming to international again you said Brazil operations have turned profitable in

the first half.

Jairam Varadaraj: Yes.

Manish Goel: Okay, so that has been driven by revenue or it is more on cutting cost and what has lead to this.

Jairam Varadaraj: Revenue has not been significant. It has been pretty much at the same level as last year, but what

we have done is we have done a balance sheet correction. We had debt in dollars and because of the volatility of the riyal we were taking significant losses in dollar repayments both to the parent company that we were shipping there as well as to the loans we had taken. So we have converted

all our debt into Riyals. So right now the exchange rate driven losses, which pretty much

removed the entire profit last year has now gone.

Manish Goel: Okay. And on US sir, a little surprised that patterns is not able to recover so what are challenges

one and on second you said our subsidiary in US is doing well. So what is the growth levels we

are seeing sir?

Jairam Varadaraj: Growth I would say about 10% growth in our subsidiary business. It is not significant, but we are

going through some new plans for that. As far as patterns are concerned, the disruption in business was quite significant. So we have now put in place a new leader for the entire US operation and we believe that we will set new direction for that business. So it is not a product

issue. It is not a pricing issue. It is not a reach issue. It is purely a business leadership issue.

Manish Goel: Sure. Thank you so much sir.

Moderator: Thank you. We have our next question from the line of Aruna Bharti from Pari Washington.

Please go ahead.

Aruna Bharti: Good afternoon Jai.

Jairam Varadaraj: Good afternoon, how are you.

Aruna Bharti: Good Jai, how about you.

Jairam Varadaraj: Good.



Aruna Bharti: Jai, I just have a couple of follow up questions. One is on the Bel Air side. What was the sales

done by Bel Air in the second half of last year actually.

Jairam Varadaraj: The whole of second half I do not have, you mean the second half of last year.

Aruna Bharti: Of last year.

Jairam Varadaraj: I do not have the number in front of me. You can call Sriram.

Aruna Bharti: Okay that is fine. I will follow up with Sriram and get the number from him. Then you talked

about the new leadership in US Jai.

Jairam Varadaraj: Yes, right.

Aruna Bharti: Where this gentleman has actually come from.

Jairam Varadaraj: Well he is not from the industrial compressor business, but he is from the portable compressors.

He understands compressors. He has worked for both Siemens and Ingersoll Rand.

Aruna Bharti: Okay, he worked for Siemens on the compressor side.

Jairam Varadaraj: No,no. On the power equipment side.

Aruna Bharti: Got it. Okay and my third question is where do we stand in terms of the debt actually at the

consolidated level and what is our plan for debt repayment.

Jairam Varadaraj: Right now we are at around 205 net debt. I think compared to the first quarter I think we have

reduced it by about 13.5 Crores to be exact. We are managing the business for cash so we are generating it. So our expectation is probably another 15 Crores is what we will reduce by March. Our plan was to be completely free of debt by the middle of 2018. Assuming we are able to grow

at a reasonable pace, I think that is realistically possible.

Aruna Bharti: Okay and how much of this is basically in the foreign currency debt actually.

Jairam Varadaraj: About 60 lakhs is local, but even that is foreign currency because it is post shipment credit in

foreign currency.

Aruna Bharti: Okay. My last question is Jai, if you can just talk about businesses in Indonesia and Australia,

how are the markets actually tracking for us.

Jairam Varadaraj: Australia has done well for us this year compared to last year. It has moved up. We have

completely eliminated losses and we are making profits now in Australia. Indonesia went you

know it was a peak business during the peak oil time now after the oil dropped, they went



through a thing. Now the industrial side is slowly coming back and we will do significantly better

than last year in Indonesia.

Aruna Bharti: Got it. That is all from my side Jai. Thank you very much.

Moderator: Thank you. We have our next question from the line of Vipul Shah from Sumangal Investment.

Please go ahead.

Vipul Shah: Hi good afternoon sir.

Jairam Varadaraj: Good afternoon.

Vipul Shah: Sir in earlier reply to one of the questions you mentioned that focus is shifting to certain

geographies as far as international business is concerned. So can you name which geographies

we will be concentrating from now on.

Jairam Varadaraj: What I said is we are going through a review of our performance where our earlier strategy was

to go quite broad into multiple markets. We are reviewing the performance of that decision or that strategy. At the preliminary level we are saying that that strategy may be a little flawed because if you really want to grow in any market you need to have focused recourses in that market and if we spread our recourses to thin across multiple markets, then the results that we can expect are very peripheral. So it is that we are right now in the middle of evaluating what should be our market portfolio that we should focus on. It does not mean that we are going to pull out of other markets. We will continue to remain in all the markets that we are in right now. It is a question of which are markets we should start emphasizing more in terms of resource commitment and managerial focus. I am hoping that by end of March we will have a clear idea of

what we want to do.

Vipul Shah: Okay sir and I missed your another point. Your international sales are slack means it is after

slipping out France and China.

Jairam Varadaraj: Yes that is what I said. It is after taking that out it is still slack, which means the others have

grown.

Vipul Shah: Okay, thank you sir and all the best for the future.

Moderator: Thank you. We have our next question from the line of Ashutosh Mehta from HDFC Securities.

Please go ahead.

Ashutosh Mehta: Hello good afternoon sir.

Jairam Varadaraj: Good afternoon Ashutosh.



Ashutosh Mehta: Sir, I just wanted to know that as you said the investments amount, which has increased to 144

Crores that is mainly related to IND AS adjustments right.

Jairam Varadaraj: Right.

Ashutosh Mehta: Sir, so we have no additional investments in first half during this period in any of the

subsidiaries?

Jairam Varadaraj: Our total Capex is probably around 5 Crores.

Ashutosh Mehta: Okay. So it is all exchange-related adjustments or anything if you can just elaborate a bit on it.

Jairam Varadaraj: No we had to restate our investment values certain stock, cost equity. Whatever loans has been

given if it is a long term loan as per the Ind-AS standards you need to look at it and convert into a cost equity that is about Ind-AS adjustments being done. It is basically a transit from loan to the

investment.

Ashutosh Mehta: Equity portion. You have converted the loan into equity.

Jairam Varadaraj: That is all. That is the statement of the shares that the company owns quoted shares.

Ashutosh Mehta: Okay fine sir. Sir other thing is when we look at the Chinese subsidiary is we planning to shut

down the trading entity there as well?

Jairam Varadaraj: We have started that process. It is right now with the Chinese government. We had two entities, a

manufacturing entity and the trading entity. We are shutting down the trading entity and have

surrendered our manufacturing license to the government, now the process is still on.

Ashutosh Mehta: Sir this will result in that we exist China as a geography.

Jairam Varadaraj: No, no. We have an 11-member team in China. We have our own office, a small warehouse. We

are continuing to export machines from here to our warehouse and reselling to costumers there.

Ashutosh Mehta: Okay, it will be working as a warehouse further.

Jairam Varadaraj: Yes, more importantly we have got people to support our existing customers there.

Ashutosh Mehta: Okay fine sir. Thank you so much sir. That was from my end.

Moderator: Thank you.

Kamlesh Kotak: Mr. Jai, Kamlesh here. Just one point sir. How has been the utilisation at the foundry level if you

can just?



Jairam Varadaraj:

Well the foundry utilisation has been quite flat Kamlesh. At EBITDA level we are probably losing about 80 lakhs to 90 lakhs a year, but this is based on the prices at which we were buying about two and a half years ago because that is our internal P&L we take the price at which the company was buying casting from outsiders. At that level we are losing about 80 lakhs to 90 lakhs, but the current buying price is much more than that. So if we set it at that price then it is contributing positively even at EBITDA level. The utilization of the foundry is still quite low. We are at around 30% and we are exploring how we can move many of our other parts also into the foundry. Some amount of improvement will happen in the next two quarters.

Kamlesh Kotak: So do you expect it to turn around maybe next year?

Jairam Varadaraj: In my opinion it has turned around. I mean there is nothing to turn, it is running well. We did not

set up the foundry to make a profit. We set up the foundry to improve the quality, which we have

achieved.

Kamlesh Kotak: Sure.

Jairam Varadaraj: But we wanted a certain payback in terms of the investment. We had set a payback at six to six

and a half years. That is not happening, if you are meaning that is the turn around, I think until we shape a capacity utilization of around 40% to 45% we will not be able to hit that payback

level Kamlesh.

Kamlesh Kotak: Do you expect it to happen maybe next year with the initiatives we have been talking.

Jairam Varadaraj: It is possible. I do not think in one year we will achieve it assuming the market does not grow

right, then we are really relying on internally converting many of the parts that alone is not going to give us the turnaround in one year, but the way things look I think 2017-2018 from a top line perceptive should be better than 2016-2017, which means then the foundry demand also will go up. Combined with this internal souring shift that we are working on, we should hopefully come

back on track of that repayment payback period.

Kamlesh Kotak: Okay. Rohan any other questions.

Moderator: Thank you. We have a follow up question from the line of Manish Bhandari from Vallum

Capital. Please go ahead.

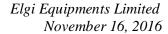
Manish Bhandari: Hi, sir my question is regarding you spoke about the realignment of business in the international

geography. Is there is a potential write down one should keep in mind when you are doing your

reorganization of the international business.

Jairam Varadaraj: Sorry. I did not get you.

Manish Bhandari: Write down sir.





Jairam Varadaraj: Write down.

Manish Bhandari: I mean to say the write off on the potential international business.

Jairam Varadaraj: Right now no. Whatever we had to do we have done already with Bel Air and China. The rest of

our businesses internationally are on sound wicket. What we talked about is relative focus. Can we give more emphasis in certain markets, which will give us greater results and faster results.

Manish Bhandari: Okay. My second question is how your dealership has expanded in last two years' timeframe.

Have you taken a significant expansion in domestic dealership.

Jairam Varadaraj: In India.

Manish Bhandari: Yes that is right.

Jairam Varadaraj: No we have traditionally had a pretty comprehensive network, which pretty much covered the

whole country, so we have really not expanded our dealer network in any significant way, maybe 5% to 6% expansion at best. The more important thing that we have done is to upgrade the

quality of the network.

Manish Bhandari: If you could elaborate that.

Jairam Varadaraj: Well there are certain dealerships that are peripheral weak. They are unable to invest. They are

not able to establish modern processes and systems. We either work on improving them or exiting them. Those are the qualitative changes that we have made in the last couple of years and

we continue to do that.

Manish Bhandari: And my last question is if it fair to assume you can testify that Ingersoll Rand has made

significant investment in the dealership across India. Is it my observation right.

Jairam Varadaraj: I do not know that anything stands out for me in that regard. Ingersoll Rand traditionally worked

out of very few dealers. I think when they started off they had only 2 or 3 dealers if I am not mistaken covering the entire country and somewhere a few years ago, they decided that kind of a limited structure was not the right way and they have been looking at going beyond those 2-3 dealers and maybe that is where everyone is getting the feeling that Ingersoll Rand. I am just

speculating here, I do not have facts to say one way or the other.

Manish Bhandari: Sir, if you have to rate between Atlas and Kirloskar and Ingersoll Rand, who would you compete

hands on.

Jairam Varadaraj: Our main competition most of the times when we are in front of the customer the name that

keeps repeating constantly is Atlas Copco.

Manish Bhandari: Okay Thank you. Thanks a lot.



Moderator: Thank you. As there are no further questions from the participants I now hand the conference

over to Mr. Kamlesh Kotak for closing comments.

Kamlesh Kotak: Thanks Rohan. On behalf of Asian Markets, I sincerely thank everyone for joining for this call.

We also thank the management Mr. Jairam for providing us the in site about the company's business and financial performance. With that we conclude the call. Thank you and have a good

day ahead.

Jairam Varadaraj: Thank you Kamlesh. Thanks everyone.

Moderator: On behalf of Asian Markets Securities that concludes this conference. Thank you for joining you

and us may now disconnect the lines.