

Q4FY11 Conference Call Transcript

24 May, 2011

Moderator

Ladies and gentlemen good day and welcome to the Q4 FY11 Results Conference call of TIL Ltd hosted by Emkay Global Financial Services. As a reminder for the duration of this conference all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Pritesh Chedda of Senior Research Analyst at Emkay Global. Thank you and over to you sir.

Pritesh Chedda

Thank you Marina. Good morning everybody. Thank you for joining us today. We would like to welcome the management of TIL Ltd and thank them for giving us this opportunity to host the call. We have from the management side Mr. Alok Banerjee President and CFO and Ms Shreya Mukherjee – Business Analyst Corporate Service form TIL Ltd. I would now like to handover the call to Mr. Banerjee who would give the opening remarks and the analysis of the performance of the year gone by. Over to you Mr. Banerjee.

Alok Banerjee

Thank you Pritesh and good morning to all the participants. This is Alok Banerjee and I have with me Shreya Mukherjee who is the Business Analyst.

Just to give you an update on the financial result most of you have see that results in the newspaper, the press release where the consolidated results have been announced and it has been seen that the top-line has grown by 30%. But the point that needs to be seen is that although there is a growth in the top-line but the profit before tax or PAT has remained at the same level of last year. It is in the context of a firming which needs to be noticed. Especially when we speak of 30% growth in terms of top-line large number of prime products have been sold in both in the construction mining as well as in the power systems is point one. Secondly we have invested a large amount of money in resources, we have recruited large amount of people in the financial year 2010-11 for which our staff cost has also gone up. And the third point is that we have invested funds in our new project, against which the revenue has still not cropped in. So therefore in the total scenario it can be seen that there have been certain initiatives taken by the organization, by the company, by the management in order to ensure that our future benefits are reaped because there are prospects of good orders coming in and we hope that we will be in a position to deal with these orders when they come in because just recruiting people is not good enough but the people whom we recruit has to undergo a very rigorous training period before they are sent to the field so that taken serve our customers in terms of servicing the machines and equipments that are already there.

With this background I would like to share with you the overall TIL and TIPL performance now, this is a figure which is not been announced in the paper but people will therein proceed through the balance sheet once the balance sheet is printed and circulated. But as to just give you an idea in the TIL and TIPL performance it is like this that last year we did a turnover of 871 Crores and this year 1130 Crores and our profit before tax last year was 75.5 and this year it is at the same level of 75.8 this is profit before tax which is before the before consolidation this performance but if you take the group performance the total turnover has been 1087 last year the, vis-à-vis 1405 in the current year and profit before tax last year has been 91.4 and this year it has been 90.1. When I referred to the year it is a full financial year.

Coming to the material handling growth the sales in terms of the last year was 182.4 and this year it is 219.5 and profit before tax last year was 25.6 and this year it is 30.2 in the material handling group. In the power systems the top-line turnover was 211.8 and this year it has been 246.6 and profit before tax last year was 10.8 and this year it is 12.7. But in this year we have sold 604 engines in the market that's prime product vis-à-vis last year the number of engines that were sold were 503. In the construction mining the sales income last year was 477 cr and this year it has been 654 cr that is a growth of 37%. Profit before tax there is a dip last year it was 23.7 and this year it is 22.2 and here also the number of equipments that we have sold in the current year is 1181 vis-à-vis 923. It may kindly be noted that the total number of equipments that we have sold between 2009-10 and 2010-11 in the construction mining is about 2000 equipments because it has gone up from 923 to 1121. And in the power system the number of that we have sold is 503 last year vis-à-vis 604 current year. So lots of equipments are in the market and this will give us revenue in terms of parts and service in the future. The expenses that have gone up is primarily in the employee cost, staff cost, which includes lot of recruitment and in the over head also expenses have gone up. We have opened up 19 branches in the Caterpillar business and there would be a portion of the expenses which are not repetitive in nature. But staff cost may be repetitive, I'm quite sure that this year possibly we will not be recruiting as many people as we have done.

With this I would now like to come to the balance sheet. The balance sheet TIL and TIPL taken together the loan funding standing at 234 Crores, the fixed assets is at 185 Crores, inventories at 293, debtors at 179 and liabilities are 200 Crores. EBITDA for the financial year 2010-11 has been 10.1, PBT at 6:40 percentage is 6.7 and PAT is 4.5 percentage. Debtors days cover is 58 days and inventory cover has been 127 days. The total outside liability that is a debt equity ratio but this is in terms of the total liability of the company which vis-à-vis the net worth is 1.71 and out of the total debt of 234 Crores we have invested roughly about 60 Crores in our new project which has been financed from the existing loan funds. In this introductory content of the financial result- I will also give you the order backlog position for the total company as on 31st March is 168 Crores out of which material handling is 45 Crores, power systems is 84 Crores and construction mining is 39 Crores. So with these introductory remarks I will request the participants to start the question-and-answer session.

Moderator

Thank you very much. The first question is from Nirav Vasa from SBI Cap Securities . Please go ahead.

Question and Answer Session

Nirav Vasa

My first question pertains to the information that you shared recently. You have informed that there are certain amounts of expenses which are often on repetitive nature; can I please request you to quantify the amount of those expenses?

Alok Banerjee

When you speak of opening of branches etc the amount of money that we spent in the initial spending of the branch opening, just give you an idea for the 19 branches that we have opened the same sort of expenses will not happen in the current year and that is just one of these secondly the number of people that we have recruited and against that the corresponding related expenses in terms of travelling, in terms of posters any thing related expenses to those recruitment that we have done will not happen. We are not going to recruit so many people in the current financial year. So this year the related expenses have gone up, we have seen that but we are hopeful that in the current financial year we should be able to contain those expenses.

Nirav Vasa

No sir I get that point because opening stores requires onetime expenses. I just wanted some number related to those amounts of non-repetitive expenses if you can share that number please?

Alok Banerjee

I don't have that number straightaway but we can get back to you on that.

Nirav Vasa

My second question is related to the manpower cost, can you tell me what was the manpower on rolls in FY10 and what is it in FY11?

Alok Banerjee

Opening number of people that we have as on 1st of April 2010 was 1672 at against which we have 1898 so we have recruited 226 people.

Nirav Vasa

If you can allow me to ask some questions related to your rental business. Sir in rental business what would be your fleet inventory and this point of time?

Alok Banerjee

The rental business fleet inventory would be roughly between 70 to 80 Crores.

Nirav Vasa

Can I get that in terms of number of fleet?

Alok Banerjee

In number of units in the power systems it has crossed 100 numbers, the construction mining it will be close to 60-70 numbers.

Nirav Vasa

And what are your plans to expand this fleet?

Alok Banerjee

So far the power systems is concerned the fleet is expanding and we are taking adequate steps to see that as and when the requirement is there we do it but in the construction mining it is like that we are slightly selective while increasing the fleet because we need to see that the machines that has being sent are not being abused by the people who are using it. So we are slightly conservative in increasing the fleet numbers in the construction mining but not so much in the power systems. The reason being in the power systems equipments are in a particular location for rental use whereas in the construction mining there is the movement of the equipment from one location to another location. So that is a plan we have.

Nirav Vasa

Thank you very much sir, my queries have been answered.

Moderator

Thank you. The next question is from Manish Goyal from Enam Holdings. Please go ahead.

Manish Goyal

On the breakup on revenues you gave number for Indian operations, can you give the number four subsidiaries also?

Alok Banerjee

In subsidiaries I can tell you my top-line and PBT for Myanmar tractors and TIL overseas the alongwith Singapore operations are top-line for last year has been 213.7 and the current year it is 272.8.

Manish Goyal

And for Nepal?

Alok Banerjee

Nepal last year was 2.5 and this year it is 1.8.

Manish Goyal

And PBT numbers sir?

Alok Banerjee

PBT number last year TIL Myanmar and TILO was 14.5 and this year is 14.1 and TNPL is 1.4 and 0.2.

Manish Goyal

On the top-line year earlier we were expecting to report nearly 1500 Crores of turnover and what I can see is that in our quarterly numbers inventory is showing outstanding of 121 Crores. So is it that some order has not dispatched in quarter 4?

Alok Banerjee

Two things are there, firstly we were expecting that Jan to March would be a better quarter because normally the 4th Quarter than the remaining 3 quarters and of course that did not meet the expectation levels as we had witnessed in 2009-10. So certain amounts of orders that were expected did not happen, they have been deferred. Now it has not happening in April also and the other part is that whatever inventory we were carrying from December onwards there was a particular focus to liquidate the inventory as on December end position. But there have been further purchases between January to March and that we have taken into stock. So my stock levels have also gone up. The point that I am trying to make is that the December position inventory has been significantly liquidated. In other words the inventory that is being held today are more of the current dispatches or the current intakes, they are not very old.

Manish Goyal

But have you not seen a pickup in the bulk orders what you were mentioning basically the infrastructure spend has not been growing?

Alok Banerjee

No, Manish, we have not seen that, that is very unfortunate. We have not seen that spurt in the off takes of the equipment. This is another point which is very important, the government has been discussing that lot of spends will happen in the infrastructure space and certain amount of spending has definitely has happened but it is not at the levels where the people in our space would have got bulk orders, in terms of say, 30-40 numbers of exhibitors or 50-60 numbers of those other things like that. So nothing of bulk order has taken place. What has happened is maybe 1's and 2's and 3's and 4's things like that and that has needed this increase of top-line of 30%. In terms of the equipment that has been dispatched between the last financial year there has been a significant growth. But we will say that if this had constituted bulk numbers then possibly our growth would have been much more than what has happened in 2010-11.

Manish Goyal

Can you give us the number for spare parts sales in Quarter 4 and as well as for the full year?

Alok Banerjee

Manish I do not have those specifics, I can get back to you on those, I do not have the details figures on the spare parts.

Manish Goyal

How do you see going forward in FY12, what kind of revenue growths can we expect?

Alok Banerjee

Well I would still say that we should be able to maintain a growth of 30 to 35%. Given the present situation under the present circumstances of 2010-11 to the top-line and still has grown 30%.

Manish Goyal

So again are you factoring any major bulk orders or it is entirely driven by your initiatives on retail and as well as...?

Alok Banerjee

We have got 2 orders from Essel and BCCL, two large orders we have got a supply of equipments and there is also marky contract with maintenance and repair contract with these two companies. But taking everything into consideration these are the initial things that have happened in the month of April and today we are on 24th of May. So I would still say even if the level at which 20010-11 has passed, if we continue to be in the same level we will still have 30 to 40% growth. Because these come out from the level of dispatches that are taking place in small numbers, they are not adding in bulk. Suppose we have large bulk orders then the growth would have been phenomenal.

Manish Goyal

These two orders what could be the size, one you said is from Essel and other one is from?

Alok Banerjee

Bharat Coking Coal India.

Manish Goyal

What would be the size of these orders which you have got recently?

Alok Banerjee

The size of these orders for the machines is 156 crores and these mark contracts is 286 crores. The two new mark contracts from Essel Mining and BCCL, but these would be in the span of five years.

Manish Goyal

Just to clarify, the total order is 286 crores from both these companies and out of which machines is 156 crores, and the balance portion would basically be executed over a period of five years.

Alok Banerjee

No, not the balance, maintenance and repair contract is separate.

Manish Goyal

That is over and above 286 crores.

Alok Banerjee

Correct.

Manish Goyal

So this 286 crores you will supply in five years?

Alok Banerjee

That is the maintenance and repair contract.

Manish Goyal

Also on balance sheet numbers, just to clarify you gave the numbers for the consolidated or the standalone?

Alok Banerjee

Indian operations, TIL and TIPL taken together.

Manish Goyal

Can you probably share the numbers on the consolidated front, loans?

Alok Banerjee

On the consolidated front on loans there is no increase because the subsidiary company operates without any loans.

Manish Goyal

Would appreciate if you can just repeat the numbers, loans you said 234 crores, fixed assets?

Alok Banerjee

185, inventory 293, sundry debtors 179 and liabilities 200.

Manish Goyal

What is your CapEx program this year, for your existing...?

Alok Banerjee

The CapEx which includes the new project, the total expenses would be roughly between 175 to 200 crores. But out of that let me give you this brief, out of that we have already spent about 60 crores. So balance would be roughly about 140 crores remaining which we will have to spend.

Manish Goyal

But how much would be in this year FY12?

Alok Banerjee

140 crores.

Manish Goyal

The entire thing will be spent in FY12?

Alok Banerjee

Yeah, this will come in this year itself.

Manish Goyal

Any other CapEx apart from this new facility?

Alok Banerjee

There will be certain amount of spending on terms of rental assets. And that would be mostly in the power systems group and some in the construction mining but all these taken together in the Caterpillar business would not be more than 50 to 60 crores. I am saying the outer limit.

Manish Goyal

We were expecting the new facility Phase 1 to start in July-August, so what is the status on that?

Alok Banerjee

We are still maintaining the facility for the new project should start by end of July.

Manish Goyal

Thank you very much.

Moderator

Thank you. The next question is from H. R. Gala from Quest Investment Advisors. Please go ahead.

H. R. Gala

Thanks for giving a broad guidance that you will be able to grow at around 30-35% per annum even in FY12, despite the difficult situation that you are facing. What will be your take on the EBITDA margin?

Alok Banerjee

First let me re-emphasize your statement. I am telling you from the experience of 2010-11. Having seen 2010-11, having seen the growth based on that we feel that in 2011-12 also the same level of growth should happen, considering that the government investment will be at the same levels if not improved - then the growth will be much higher. And secondly, the EBITDA margin as on 31st of March, 2011 is 10.8. And we would like to improve the EBITDA margin, now how far would that be possible that we have to see. Let us also understand and this is for clarification for the participants that if our prime product sale is on the higher number, then obviously my EBITDA will come down, because the margins in the prime product sales is not high, appreciate that. Secondly, I have done a quick calculation and I found that 64% of my turnover has come from the prime product sales. So 64% of the turnover is on a single-digit margin contribution obviously my EBITDA will come down, so that has to be there but nonetheless our endeavor would be to improve the EBITDA margin for FY11-12.

H. R. Gala

Now looking at the competitive position a number of new players have emerged in all these lines of businesses who were previously not there. Now how do you see the price war or the price squeeze that you face especially when the cost of capital is going up and the project CapEx cycle also seems to be getting deferred because of that, so how do you see the overall scenario emerging?

Alok Banerjee

So far as the new players are concerned Caterpillar products are always at a 10 to 15% premium over the competition. This is something which our people have already faced for a number of years. TIL has been there in the Caterpillar business since 1944. We have been there for 66-67 years; we have been doing this business. And that is something which our people are well aware that they have to face competition, they have to sell a product which is at least 10 to 15% higher than the competitor. So we are well equipped we have been facing this. Secondly, on the high interest cost borrowing, the average cost of borrowing for TIL and TIPL taken together, as on 31st of March has been 9.46%. We have been still able to contain our financing cost at a single-digit. But I do not foresee that because after 31 March, lots of other things are happening, maybe the financing cost will go up. But the point that we are also focusing on two other factors. One is the, improvement in the working capital situation because if we are able to liquidate a significant part of our inventory and debtors, a significant portion of the money would be released and that would help us, for whatever capital expenditure plans we have. It is a combination of management of the working capital, realizing the cash as quickly as possible and utilizing it for long-term financing, and all these are internally to be done. I am saying internally done because these are established numbers from the balance sheet, we are not dependent on the economy or something else. We are particularly paying tremendous focus on this and we expect these numbers should improve.

H. R. Gala

My question was more pertaining to TIL as such, because we know that we have been managing the affairs quite efficiently. My question was mainly related from the customer's point of view, they must be finding it difficult, because of the increase in cost of funding?

Alok Banerjee

Please appreciate, the financing cost over a period of time, over a period of 24 to 36 months has gone up and the customers are facing problems. But at the same time when they get a product where through the lifecycle costing of the product they are able to manage the product, they are able to reduce the cost of operations, by that they also gain, so maybe there are certain customers I do appreciate your comment that they are feeling the heat of increased cost. So maybe there are a certain customers, I do appreciate your comments that they are feeling the heat of the increased interest cost. But at the same time there are also a lot of other customers who are trying to recover it through efficient running of the equipment and reducing the operating cost and thereby still maintaining profits for their respective business.

H. R. Gala

In January we had taken one resolution to raise 250 crores through QIP, did we go ahead with it?

Alok Banerjee

No, the reason being again we come back to the balance sheet. As on 31st of December balance sheet and vis-à-vis the customer the level of borrowing had that come down and even today my debt equity ratio is at 1.71, just what I mentioned a little while earlier. We still have some resources that we want to borrow but then we will borrow money only for the CapEx, that is one. Secondly, this is not the right time for raising any sort of funds because as we all know that the Sensex has fallen significantly. Our TIL share price has also been hovering around 500. It is not the appropriate time. But for that the project has not come to a standstill etc. because we have generated some cash between January to March and that has been the focus. If the management of the working capital generating up that cash, investing in the fixed assets of the company, investing in the long term assets of the company and trying to generate revenue from their which will help us in the long run.

H. R. Gala

Thank you very much and wish you all the best.

Moderator

Thank you. The next question is from Madan Gopal from Sundaram Mutual Fund, please go ahead.

Madan Gopal

My first question is, you guided for the particular percent growth in the sales for next year. Which are the segments that you expect to do very strong in this? If you can speak about segments like power segments what kind of growth and where you see the growth coming from and then mining as well as the other material handling operations.

Alok Banerjee

So far the material handling operations are concerned it is quite widespread. It could be customer like ONGC, Oil India, it could be customers like Gammon, SCC, anybody. But for the construction mining we would say more on the construction sector where we see that a lot of growth and also in the mining sector we expect the mining to open up in 2011-2012. The mining sector should improve.

Madan Gopal

Supported by CapEx from Coal India?

Alok Banerjee

Supported by CapEx from Coal India, supported by the infrastructure facilities to be provided by Coal India, supported by the clarity to be given by the Coal India people.

Madan Gopal

Recently NTPC has placed an order with an international company for the mining operations. Is there any possibility that we will bag those orders, like the Pakri Barwadih mines?

Alok Banerjee

Pakri Barwadih mines, we are in negotiation. Right now it is slightly premature, I cannot comment on it but we are in dialogue this much I can tell you. But there is nothing to report as of now.

Madan Gopal

Our margins have come down in almost all the segments, but you are saying that you are still in maintaining a 10.8%, is there any threat to our margins from the mining and construction where we depend more on CAT and we basically played with the products, do we see any further possibility of margin coming under pressure?

Alok Banerjee

If you speak of EBITDA margins of 10.8, as I was telling you suppose this year we have sold in the construction mining 1181 equipments for discussion. Suppose if we sell 1400 equipments and in the power systems we sell 700 or 800 equipments and let me tell you our EBITDA margins may still fall because the prime product sale percentage is not high it is a single-digit therefore it may fall, but on like-to-like basis our endeavor will be if you recollect in March 2010 our EBITDA was 12.5%, in spite of selling equipment that is why our endeavor will be to increase the margin.

Madan Gopal

But that would depend on the product mix that's what you're saying?

Alok Banerjee

It will depend on the product mix and let me tell you that there will be no pressure because today as I was telling earlier that Caterpillar branded products are still being sold at a 15% premium, I mean our people still have to sell, even if competition comes we still have to sell. There is no second alternative to it.

Madan Gopal

Sometime back CAT had acquired one of the businesses of Bucyrus or Trexi I am not exactly getting the name. And Voltas was trading some of their products in India and Voltas was telling that there can be some kind of arrangement done where Voltas will get a share of the Indian market as well from CAT is there anything of that sort happening or what is the current status on that issue?

Alok Banerjee

I cannot comment on that you have to ask Caterpillar people. We have no information on that. I cannot comment on that.

Madan Gopal

Thank you.

Moderator

Thank you. The next question is from Balachandran Shinde from BNK Securities. Please go ahead.

Balachandran Shinde

I wanted to know our construction mining segment revenue net sales has come down on the quarter-on-quarter basis and I think most of the Caterpillar products are sold in construction mining, right?

Alok Banerjee

But in Q3 versus Q4 there is a growth from 179 crores it has gone up to 181 crores top-line, 1% increase of course very marginal.

Balachandran Shinde

No I did not get it because in the segmental highlights you have given that in 3rd Quarter it is 281 crores and Quarter 4 it is 186 crores?

Alok Banerjee

That is consolidated means where Myanmar Tractors and Singapore will also come in. But on an Indian operation the number that I have for Q3 is 179 crores, it is the same level.

Balachandran Shinde

This is because our order levels have gone down on Myanmar?

Alok Banerjee

In Myanmar the operations for the 4th Quarter has not been that high.

Balachandran Shinde

You were talking about the Reliance Power order in the last conference call, that you are expecting that Caterpillar had bagged that order, so you are expecting that it may go through you and you will come to know by the end of May-June, the con-call you told us, so is there any update on that side?

Alok Banerjee

I am sorry I do not recollect this, because I am not aware of this, are you sure you are speaking of this con call.

Balachandran Shinde

Last con call.

Alok Banerjee

I do not think so because Reliance Power is in the West and in South there is another dealer, Gemco, TIL does not operate in west and south for the Caterpillar branded products.

Balachandran Shinde

What kind of growth you see in order inflows for the next 2-3 quarters?

Alok Banerjee

Very difficult question I have no answer. I can only tell you that it should be doing better than last year. It is very difficult to tell you that these are the inflows of the orders we have because the market is highly uncertain.

Balachandran Shinde

On the material handling solutions what kind of growth do you see, what we were expecting in 5-6 years we will be contributing around 50% of the revenues I think that will get postponed or you think that things will improve and we will start contributing in that way?

Alok Banerjee

We still maintain that, we would say that by the year 2015 we should have 50-60%.

Balachandran Shinde

Thank you, that is all.

Moderator

Thank you. The next question is from the line of Nirav Vasa from SBI Capital Securities. Please go ahead.

Nirav Vasa

In terms of the growth scenario that you have guided us can I just request if you can share the guidance that you have given to Caterpillar for this year's equipment that you would be procuring?

Alok Banerjee

I do not have that number with me. I mean that is a procurement number which I just do not have with me. If you could send me a mail or something I can tell you. But let me tell you whatever numbers that we are speaking of we get those equipments from Caterpillar. There should not be any constraint for dispatches from Caterpillar.

Nirav Vasa

As you just informed that the proposed fund raising program that you are doing, that is strictly and strictly for your new plant? And your Phase 1 would be self-funded through internal accruals. Am I right?

Alok Banerjee

Not 100% but the majority part of it because I have also taken a loan from the bank so there is a debt portion already into it. Significant part of it should be through cash generation, provided we do good PBT for the next 6-9 months.

Nirav Vasa

So funding for the Phase 2 would happen in the next eight months, right? Once the Phase 1 is successfully over?

Alok Banerjee

I would say after six months onwards we should be looking into Phase 2 fund sourcing.

Nirav Vasa

So that is the time when you would be looking for some kind of fund raising exercise?

Alok Banerjee

You are absolutely right.

Nirav Vasa

Thank you very much, my queries have been answered.

Moderator

Thank you, the next question is from the line of Sai Anjali from Capital Markets. Please go ahead.

Sai Anjali

This is actually just a follow-up to what the previous question that you had answered, you had said that the fund-raising is majority for the project that will be coming up in July, right?

Alok Banerjee

No I said six months, tentatively may be October-November would be the time frame we can consider raising of the funds because by that time the Phase 1 most of the CapEx would have been completed and then we would see that where we are standing, what is the strength of the balance sheet and what is the position of the market in terms of share prices, etc., and then come to a conclusion whether to go ahead and raise funds or have another resources. That is the time when these points will come into consideration.

Sai Anjali

Just to get a clear understanding, do clarify, you said that the CapEx for this year is 200 crores, including for the new project. Out of this how much goes to the new project, is the whole amount to the new project?

Alok Banerjee

Roughly 140 crores. 60-70 as I mentioned may be utilized for the rental business and for some other infrastructure facility.

Sai Anjali

So this 140 crore you were talking about would be like partly for the Phase 2?

Alok Banerjee

No, this 140 crores, whatever I am speaking same phase, within September –October. This is for Phase 1. As we discussed a while ago we will consider raising a fund for the Phase 2 project sometime in October-November.

Sai Anjali

Okay, you have not decided how much would it go into the Phase 2 project, how much would be required?

Alok Banerjee

It is like this, that first thing we need to see, we have invested 200 crores already, discussion by September October. So we would like to see what is the revenue that is coming in, what is the cash generation that we are having from the existing business, how much we can take loans, etc., what would be the strength of the balance sheet at that point of time. So all these points will come into consideration and then only we will think of raising the fund and also the quantum because our production will start once through this. In the new plants the production will already start so there I am not getting held up so my capital expenditure will also depend how the economy is facing, etc., for the Phase 2. The other words what I am trying to say is, the minimum requirement which the company has is starting of the Phase 1 and which we are starting now, end of July.

Sai Anjali

Thank you so much for clarifying.

Moderator

Thank you. The next question is from Chavi Agarwal from Ambit Capital, please go ahead.

Chavi Agarwal

I had a question. We are already two months in Q1 FY12. Can you tell me how is the scenario is compared to last year, in the sense are we selling more products in the construction segment and are the inquiries higher, because what you are saying is that you are looking more of FY12 is very uncertain so you were expecting it to be similar tough times as FY11 was in terms of macro picture. So if already in two months can you tell us what is the scenario, how is it being compared to FY11 last year?

Alok Banerjee

It is not good. I cannot tell you about May but April, vis-à-vis 2010 has not been that good. But of course the first month of any financial year is not indicative but maybe when May ends or when the 1st Quarter ends, will get the clearer picture. But April has not been as good as April 2010.

Chavi Agarwal

One more question I understand that NHAI had given this guidance last year as well but if you still look at there is an uptick in the construction activity and in the project awarded by NHAI. So are you getting any enquiry for your construction equipment rental and is that increasing by any chance?

Alok Banerjee

You will appreciate that by the time the orders are decided by NHAI and the time the PAR put in to action there is a time lag. So far I have not received any such indication. But I may not be right also because I have not checked with the marketing people. Maybe I can get back to you on this whether there are enquiries coming up from NHAI.

Chavi Agarwal

Can you give me the sales numbers for your products in the CMS segment for April this year and for April last year?

Alok Banerjee

I can mail it to you. You have my mailing address?

Chavi Agarwal

Yes sir I will drop in a word.

Alok Banerjee

You can get it from Pritesh; he will give it to you. You send me a mail I will respond to that.

Chavi Agarwal

One more question from my end, if you look at the two orders that you talked about, one was from Bharat Coking Coal, other order was from whom?

Alok Banerjee

Essel Mining.

Chavi Agarwal

There was a slowdown in the mining sector, if you look at last year, probably in the last six months, do you see your picture improving in that segment or it would be mostly the construction sector which would be driving the CMS in the near term?

Alok Banerjee

In the construction mining it would be the construction sector that would drive but there are good prospects of mining also financial year, it may not happen in the 1st Quarter but definitely in the 2nd and 3rd Quarter we should have it.

Chavi Agarwal

If I recollect correctly in the construction also it is the sale of specialized products like the excavators or the gentle products like the back backhoe loaders is what you are looking at because those are the primary products that I think have a single digit margin is what I believe.

Alok Banerjee

In the mining there are mining equipment that will be.....

Chavi Agarwal

Mining equipment would be more of specialized products, right?

Alok Banerjee

Yeah they will be specialized products. They will not be the normal standard excavators, or backhoe loaders.

Chavi Agarwal

That's what I am saying. Even in the construction sector, which are the enquiries from all the orders from large clients they are more specialized as compared to the retail or the first time entrant. So even for the current year when you talk about that your drivers for the growth of the CMS segment would be construction so are you looking at more of the sale of the backhoe loaders or the generalist products or more of the specialized products?

Shreya Mukherjee

This is Shreya Mukherjee. In front of the first three months, it has been mostly an increase in these constructions such as backhoe loaders. Through December of last year let us say, a little over 1000 a month. And as of January of this year they have been selling over 2000. Most of the fund increase has been in the construction part.

Chavi Agarwal

Thank you, that's it from my side.

Moderator

Thank you. The next question is from Shejraj Bariya from Angel Broking. Please go ahead.

Shejraj Bariya

Looking at your number from FY11 and the balance 9 months would it be fair to say you had a top-line of 355 crores in 4th Quarter and an EBITDA of somewhere in the region of 45 crores?

Alok Banerjee

Tell me what are you saying?

Shejraj Bariya

As per my calculation I am getting revenue of 355 crores in 4th Quarter and an EBITDA of 45 crores which gives me EBITDA margin of 12.7%. So I was just trying to understand sequentially if I look at the margin trend it has been in the region of 8% and suddenly in 4th Quarter it comes to 13% EBITDA.

Alok Banerjee

You may be taking the consolidated numbers.

Shejraj Bariya

I believe the balance Q1, Q2, Q3 that company has been releasing were also consolidated only sir?

Alok Banerjee

Yeah they are consolidated but you see when you take consolidated then the margins in the dealership business for Myanmar and Singapore is higher than India. Because the number that I have I can share with you, in the 4th Quarter turnover has been 339 crores. I do not have the EBITDA for the 4th Quarter. The profit has been 34.4, PBT, but I do not have the EBITDA. We can work that out.

Shejraj Bariya

I am getting almost 12-13% of EBITDA. So that is also reflected if you see in your segmental, MHE if you see, your segmental MHE had a PBT margin of 23% in FY10 while FY11 it was almost 13%. So a sudden drop has come in.

Alok Banerjee

The point I am making is in the consolidated results because all the papers that has come out is consolidated. Tractor India, TIL and TIPL that the Indian operations numbers are not there. So therefore whenever you do this then there is chance that you will get a higher EBITDA margin. Even if you do on a quarter-to-quarter basis because the overall Indian operations I am getting an EBITDA of 10.1 and December was 8.8. So there has been an improvement between December and March, not at the level of 13% that is point I am making.

Shejraj Bariya

Just to understand your business, more fundamentally we operate in East and South.

Alok Banerjee

For our Caterpillar business.

Shejraj Bariya

Yeah for Caterpillar business I want to know. If a tender comes out the company is based in west and so if it is an east operation so how exactly is it categorized, whether you can bid for the order or not, I was just trying to understand that part.

Shreya Mukherjee

The south and west dealers and ourselves, we work together - it is not like that we work in silos. So any time there is a cross over deal of that nature both the dealers and us work together and get a solution.

Shejraj Bariya

Sorry I was not able to understand.

Alok Banerjee

See its like this, suppose there is a prospect coming up in the west, an enquiry is made to an office of TIL we ask the customers you please go ahead and speak to the dealer in Gemco who operates in western south. So it depends. And this is a fairly agreement and understanding. So that's how it happens.

Shejraj Bariya

Thanks a lot.

Moderator

Thank you. The next question is from Dhananjay Mishra from Susheel Financial Services, please go ahead.

Dhananjay Mishra

Just one question. For Phase I we are looking at 140 crores of cash, so would you be able to generate enough cash for this Phase I?

Alok Banerjee

CapEx is 140 crores.

Dhananjay Mishra

Would you be able to generate enough cash for this Phase I or would you need to increase your borrowing?

Alok Banerjee

The way we look at it, we should be able to liquidate our debtors and inventory position and reduce the debt which in other words would be invested for my CapEx and of course, we would be generating some sort of money between now and September. It is tough to tell you at this point but this is how the module will work. Liquidating of the inventory and the debtors and also generating cash for the business.

Dhananjay Mishra

And what kind of revenue you are looking from the Phase I capacity in this year provided it will start in July.

Alok Banerjee

We expect a 200 crore turnover in the first year.

Dhananjay Mishra

Eight months of this year would generate around 200 crores.

Alok Banerjee

Yeah 7 to 8 months there will be starting time etc but roughly that is the plan, 200 crores.

Dhananjay Mishra

And margin would be more, I mean because it is our own manufacturing compared to the dealership business margin should be more so that will help us to improve overall margin in FY12?

Alok Banerjee

We will also be manufacturing certain new products. So it would be a combination of good margin and also moderate margin considering that certain new products will be entering into the market for the first time. So we will have to see how it goes.

Dhananjay Mishra

And which are the products you would be selling. Can you name some main products that you would be selling from this new capacity?

Alok Banerjee

We plan to manufacture the reach stackers from there. Crushing and screening, the rubber tyre gantry crane and hot mix asphalt plant, these are the few products that we are planning to manufacture from the new plant.

Dhananjay Mishra

And for Phase 2, what is our investment target, what kind of investment are we looking at for Phase 2?

Alok Banerjee

Phase 2, from memory I am telling you, it is roughly about Rs250 crores.

Dhananjay Mishra

So that we will see after October November when it will start?

Alok Banerjee

That is after October November.

Dhananjay Mishra

Thank you.

Moderator

Thank you. The next question is from Madan Gopal from Sundaram Mutual Fund. Please go ahead.

Madan Gopal

I just want more clarity on this consolidation that you have done. You have just explained to previous caller, what is included in the number that you have reported and what is that has been excluded from the numbers reported?

Alok Banerjee

If it is in the business it has to be reported on a consolidated basis. There is no question of exclusion.

Madan Gopal

You said your margins on a consolidated basis is 10.8% and we are getting a margin of 9.2%. So where is the difference?

Alok Banerjee

What I am discussing is only the Indian operations, what has been reported in the newspapers, it is consolidated which includes the overseas operations. My discussion in this conference is only for the Indian operations. TIL and Tractor India Pvt. Ltd. that is why I said my EBITDA is at 10.1 whereas if you take an overall consolidated position which includes the foreign subsidiaries the EBITDA is on a higher percentage.

Madan Gopal

But what has been reported includes all the three operations, Indian as well as the overseas operations as well?

Alok Banerjee

That is our statutory requirement. Here why I'm giving this because the Indian business analysts, they would like to understand Indian operations more.

Moderator

Thank you. Ladies and gentlemen that was the last question. I would now like to hand over the floor back to Mr. Pritesh Chheda for closing comments.

Pritesh Chheda

Thank you Marina. On behalf of Emkay I thank the Management of Tractors India for coming on the call and giving a brief on the performance. Thank you Mr. Banerjee and Ms. Mukherjee. Over to you sir, if you have any closing remarks.

Alok Banerjee

I think whatever I mentioned in the beginning I will just repeat it for the better understanding that this year's performance top-line, yes there is a growth but the bottom-line there has not been a significant growth. There are particularly reasons for it and the way we look at it to understand in a simple understanding is, there have been investments for the future, the infrastructure space in India has to boom and therefore I think it is also important that we place ourselves in the appropriate position so that when the opportunities come we do not have to look back and start afresh. So with this closing remark, I would also thank all the participants for coming up and attending this TIL teleconference and of course, thank you Pritesh.

Pritesh Chheda

Thank you sir.

Moderator

Thank you. On the behalf of Emkay Global Financial Services that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.
