Elecon Engineering
Q4 FY12 Post Results Conference Call
Hosted by: PUG Securities

May 14, 2012

ELECON ENGINEERING
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Moderator Good evening ladies and gentlemen good day and welcome to the Q4 FY12 Post Result Conference Call for Elecon Engineering hosted by PUG Securities. I would now like to hand the conference over to Mr. Vinay Pandit. Thank you and over to you, sir.

Vinay Pandit Thank you. Ladies and gentlemen I welcome you all to this Q4FY12 Conference Call of Elecon Engineering being conducted by PUG Securities. We have with us Mr. Prayasvin Patel – Chairman & Managing Director and Mr. H. C. Shah, Vice President, Commercial and Finance. I would now like to hand over the call to them.

Prayasvin Patel Yes. Good afternoon all of you. Well gives me pleasure to tell you that Elecon has achieved standalone figures of Rs. 1,332 crores of turn over compared to Rs. 1,174 crores of financial year 2011. There has been a growth of 13% compared to last year. Out of which 16% of growth has been for the material handling division while 10% has been growth in the gear division overall totaling up to 13%.

The profit before tax has been 109.8 crores compared to 120.4 crores of last year and the profit after tax has been this year 69.6 crores compared to 87.9 crores of last year. This is subject to an extraordinary gain from the sale of investments last year of 20.7 crores. So if you eliminate the extraordinary income from last year, the figures compare as follows, for FY12, PBT is 109.8 crores compared to 99.7 crores for the previous year and the PAT is 69.6 crores compared to FY11 67.2, a growth if you eliminate the extraordinary gain works out to be 10% in PBT and 4% in PAT.

The outstanding order booking as of 11th May 2012 is at 1,522 crores out of which material handling is 1,216 crores and gear is 306 crores. So this is the scenario as of now and we have recommended a dividend of 90% which is the same as last year. Now I would be ready to take on any question and answers that would come up.

Moderator Thank you very much. We will now begin the question and answer session. We have the first question from the line of Sudhakar Prabhu from Span Capital. Please go ahead.

Sudhakar Prabhu Thanks for the call. My first question would be regarding your order book. You mentioned that you have order book of around 1,500 crores. What would be the time line for…

Prayasvin Patel 1,522 to be exact.

Sudhakar Prabhu What would be the likely time in for the execution of these orders?

H. C. Shah Normally the execution cycle is anywhere for material handling, the outstanding is 1,216 crores would be at an average anywhere between two to three years. You can take it as any where between 24 to 30 months generally speaking.

Sudhakar Prabhu And, secondly from your consolidated results comparing you with the standalone numbers, I find that the subsidiary has made a loss in the full year, so, any reasons for that?

Prayasvin Patel Yes, there have been extraordinary expenses because of the shifting of the premises. These are all one time expenditure. We have carved out the standard product division from David Brown what we got, which is Benzlers – Radicon and that division since it was carved out did not have its own premises, did not have its own set up. So a lot of expenditure has been IT related to isolate it from the old parent company. Then there has been moving charges in United States and in the UK and so forth. So these are the one time expenditure and I am sure that these would not be repeated this year.

Sudhakar Prabhu Would you mind quantifying the number, please? The one time expenses.

Prayasvin Patel Yeah.

H. C. Shah One time expenses are around Rs. 6.5 crores.

Sudhakar Prabhu 6.5 crores.

H. C. Shah Approximately.

Sudhakar Prabhu Okay and thirdly my question is regarding your debtors in your books after the debt of around 780 crores, how much would be more than 90 days outstanding?

Prayasvin Patel Just a minute hold on. For 90 days and above will be we will have to calculated and give it to you because the balance sheet will always have for 180 days and more but in that particular thing the retention money is amounting to 230 to 240 crores. And that is the total amount of the company as a whole and out of which 170 crores was the last month sale.

Sudhakar Prabhu Sorry, how much?

Prayasvin Patel More than 200 crores was the last month's sale which is sitting as a detail simply because which are going to become due only after somewhere mid May or end of May.

Sudhakar Prabhu So then I believe there won't be any slow moving debtors in this right, which will subsequently write it off

Prayasvin Patel Absolutely no.

Sudhakar Prabhu Okay. And lastly would you like to give any guidance for the current year in terms of revenue growth and margins?

Prayasvin Patel We are expected to grow to about 1,500 crores this year and we are expected to retain similar kind of margins as last year's.

Sudhakar Prabhu Last year full year's margins, right?

Prayasvin Patel Yes, FY12.

Sudhakar Prabhu Thank you and all the best.

Prayasvin Patel This is excluding the foreign company and on standalone basis.

Sudhakar Prabhu And can we expect profitability in your subsidiary this year?

Prayasvin Patel Yes. Definitely.

Sudhakar Prabhu Okay. Thanks and all the best.

Prayasvin Patel Thank you.

Moderator Thank you. The next question is from the line of Vaibhav Bharadia from Violet Arts Securities. Please go ahead.

Vaibhav Bharadia Yes thank you for taking my question. Sir, first of all regarding the order book, what kind of order inflows looking at the current scenario, are you expecting and majorly from what industries? And from what industries are you seeing contraction happening? If you can please specify that.

Prayasvin Patel At presently outstanding order as I had mentioned is 1,522 crores compared to March 2011 which was 1,384 crores. We have recently got an order from NTPC which is around 200 odd crores, 272 crores to be exact. But we are expected that if we have given various bids for projects, we are hopeful that we would be able to get at least 1,200 crores worth of orders this year.

Vaibhav Bharadia 1,200 crores worth of order inflows.

Prayasvin Patel Yes.

Vaibhav Bharadia And sir you are talking about this industrial, only MHE, right?

Prayasvin Patel Yes. And this would not include any BOP projects that we have today. If we get those than actually sum total might be almost double of that even if we get one BOP project.

Vaibhav Bharadia Okay but BOP projects are actually huge so basically the size would increase. And sir industrial gear are you seeing some kind of because I see normally it has been very stable, stable order inflows like not very huge fluctuations and switch gears.

Prayasvin Patel Basically I will tell you we had seen an upsurge in March but again April has been slow and I don’t think looking at the present scenario what it looks like is that we do not expect any thing more than 10% growth next year in the gear sector would be difficult.

Vaibhav Bharadia Okay so you are expecting not even 10% growth you will be able to achieve in terms of order inflows from the gear division.

Prayasvin Patel Yes, however, we have approximately 40 to 50 crores worth of defense gears which would get invoiced this year.

Vaibhav Bharadia Sir how many again can you give me that number?

Prayasvin Patel 40 to 50 crores. This is excluding that. So if you consider let us say both put together you can expect anywhere between 15% to 20% growth.

Vaibhav Bharadia 15% to 20% growth overall.

Prayasvin Patel Yes because I am excluding the, let' say the defense gears which as I told you is anywhere between 40 to 50 crores.

Vaibhav Bharadia Okay. And sir our international subsidiary so what kind of top-line growth can we expect?

Prayasvin Patel Last year in FY12 they have generated top line revenue up to 255 crores.

Vaibhav Bharadia So for FY13 what kind of?

Prayasvin Patel We are expected to do 10% growth even in that subsidiary.

Vaibhav Bharadia Okay and maintaining the same margins?

Prayasvin Patel We would be naturally positive in that because this year we have had a loss in that because of the extraordinary expenses as mentioned earlier.

Vaibhav Bharadia Yeah true sir apart from that.

Prayasvin Patel It will go back to the normal profitability that has been there in the previous years. In the meanwhile this year break even and then the next year onwards we will definitely have a EBIDTA margins in the range of 5% to 7%.

Vaibhav Bharadia That is fair and sir any kind of CAPEX investment which is with complete planning for any regarding the new like as I just said there was a movement like reallocation for the international subsidiary. Any kind of additional CAPEX is required over there?

Prayasvin Patel No.

Vaibhav Bharadia No. So basically no CAPEX plans for FY13?

Prayasvin Patel No.

Vaibhav Bharadia Okay sir. Thank you for answering my questions. I will come back if I have some more.

Prayasvin Patel Okay thank you.

Moderator Thank you. We have the next question from the line of Khadija Bohra from Marwadi Shares and Finance Limited. Please go ahead.

Khadija Bohra Good afternoon sir.

Prayasvin Patel Good afternoon.

Khadija Bohra Just wanted to know this NTPC issue.

Prayasvin Patel Sorry we can't hear you properly.

Khadija Bohra I just wanted to know that NTPC order of 272 crores which Elecon has received. When do you begin the execution of the order? And what is the timeline for completion of the project?

Prayasvin Patel Normally this project should take anywhere between 2 to 3 years and the execution would start after normally speaking after 2 to 3 months.

Khadija Bohra Okay but I understand that LOI for the BTG order for the same project have also been awarded recently. So you expect that the execution of the BOP orders also begin simultaneously.

Prayasvin Patel Yes.

Khadija Bohra Okay and one more thing in the Q4 numbers the tax rate is quite high more than 35%.

Prayasvin Patel In that region there is a provision on account of such a decision by the court of around 1.67 crores.

Khadija Bohra Okay.

Prayasvin Patel So, that's why it seems to be little bit high otherwise it is the normal tax rate which we are subject to.

Khadija Bohra Okay that's 33%.

Prayasvin Patel Yeah.

Khadija Bohra Okay fine. And sir going forward in FY13, FY14 the tax rate should be around 30% to 32%?

Prayasvin Patel We are subject to normal range of tax.

Khadija Bohra Within the normal range.

Prayasvin Patel Yeah.

Khadija Bohra Okay and sir what would be your outlook for the ordering for the company as a whole?

Prayasvin Patel Sorry as you know because I can barely hear you.

Khadija Bohra Hello.

Prayasvin Patel That's much better.

Khadija Bohra Yeah I just wanted to know your outlook for order inflows going forward for FY13?

Prayasvin Patel As I have mentioned we are expected to receive orders any where between 1,200 to 1,500 crores in material handling this year and which has already started by 273 crores order inflow.

Khadija Bohra Okay sir. Thank you so much.

Moderator Thank you. The next question is from the line of Kaushal Shah from Dhanki Securities. Please go ahead.

Kaushal Shah Thank you for the opportunity. I have two questions. One is the guidance for the order inflow that you mentioned just now of around 1,200 crores in MHE. If I contrast that with the order booking for last year 2010-11 it seems to be a significant jump over last year. So can you throw more color on why you are expecting this kind of a strong traction.

Secondly what is your outlook on the margins this year because last year clearly there was some pressure on margins? So overall for the company as well as for MHE and gear what is your outlook on the operating margins?

Prayasvin Patel The reasons why we are expected to do more this year as long as order inflow is concerned and also the fact that our outstanding enquiries of 1,000 crores but there are some attractive projects where we are hopeful that we would stand a much better chance compared to other competition. The other thing is that we are also aggressively looking at some export projects which have come up. There also we believe that we are better positioned compared to the competiton. Based on that this is what we have estimated.

Secondly you were talking about the pressure of the margins. Yes there is definitely a pressure because of two reasons. One is that there is slowing down compared to what was happening two years ago. Apart from that what we believe is that some material handling orders being deferred which means that lot of my competitors have got spare capacity available for executing more orders and therefore they would normally under those circumstances bid very aggresively. So putting all these into consideration we will try to make the margins as what we had previous year. However, there is a likelihood that it may drop by a 1% or 2%.

Kaushal Shah Okay. One additional thing, the current unexecuted order book that you have, is it possible for you to give me a break up as to how much of this would have some kind of a price variation clause built in and how much would be without the price variation clause?

Prayasvin Patel Yes sir that can be done. If you give us, otherwise can you send this in an e-mail to us then I will reply to you in a day.

Kaushal Shah Okay thank you for the opportunity.

Prayasvin Patel Thank you.

Moderator Thank you. The next question is from the line of Sricharan from B&K Securities. Please go ahead.

Sricharan Sir, can you please give us the cost of debt for your long term borrowings and short term borrowings?

Prayasvin Patel For long term borrowings our average rate of interest works out to around 11.25 to 11.50. While increase of working capital borrowings it works out to around 10.5 to 10.6. It has worked out to that level.

Sricharan And sir seeing at your consol levels your investments like noncurrent and current investments has gone up. May I know what is the reason behind it, can you give us light on that?

Prayasvin Patel That I think I will have to send it across through e-mail only. It may not be readily available now so can I request you to send me the exact query?

Sricharan Yes sure sir.

Prayasvin Patel Definitely I will answer your query with breakup whatever you require.

Sricharan Yeah okay sir.

Prayasvin Patel This is the first time revised Schedule-6 and that's why that break up we are planning it on the basis of the timing what are due or receivable within 12 months is the current and which are likely to be paid beyond 12 months or likely to be received beyond 12 months are noncurrent. So I think a particular thing will require little bit working and the breakup can be given definitely once you send us the exact requirement.

Sricharan Okay sir I surely send and that's it from my side.

Moderator Thank you. The next question is from the line of Abhijit from Equirus Securities. Please go ahead.

Abhijit Thanks for taking my question. Sir could you please provide me sector wise break up for your revenue in the fourth quarter or full year FY12? And also the order book set-wise breakup?

Prayasvin Patel Yeah. The last year invoicing in case of MHE the Power Sector accounts were 71%, Cement is 10%, Port is 6%, Mining is 4%, Steel is 4% and others is 5%. That is for MHE. Similarly for gear turnover it is for Material Handling and power it is 22%, Steel Conversion is 13%, Sugar is 12%, Plastic and Rubber is another 9%, Cement is 8%, lift Gear is 5%, Chemical and Fertilizer is 4%, Mining 4%, marine 4%, Sponge Iron is 3% and the balance others 16%. What is the next requirement that you mentioned?

Abhijit Order book breakup, sector-wise?

Prayasvin Patel Order book, I mean, new order or pending order position should I give you/

Abhijit Yes sir unexecuted order book.

Prayasvin Patel Unexecuted order for MHE as on 31st March, the Power is 46%, Mining is 25%, Cement is 12%, Port is 8%, Steel is 5% and others 4%. The same is in case of a gear, the material Handling Segment and Power is 21%, marine is 13%, Steel Conversion is 12%, Plastic and rubber 9%, Cement is 9%, Sugar is 8%, lift gears is 4%, Windmill 4%, Sponge Iron 3%, Chemical and Fertilizers 2%, Mining 2% and the rest is 13%.

Abhijit Okay thank you sir. And then my second question is if I take your segmental profitability that has actually improved sequentially both for material handling as well as transmissional gears. Just wanted to understand is it because of economies of scale or is it pricing better for this quarter. What is it actually helping you in terms of….

H. C. Shah I said that the pricing was better and that led to improvement in margins.

Abhijit Okay and how is the pricing scenario now for the unexecuted orders?

H. C. Shah We have time to be conservative. However, we feel that the inflow has reduced. So we may have to become more competitive. Now it all depends on case to case basis. So it is very difficult to comment but I would say that the company is trying quite hard to ensure that the profitability does not go down.

Abhijit Okay usually for MHE also you gave the outstanding order book, project orders versus equipment orders. Would you have that break up available now?

Prayasvin Patel It is normally in the proportion of 70:30.

Abhijit 70% project.

Prayasvin Patel Yes.

Abhijit Okay fine sir thank you.

Prayasvin Patel Thank you.

Moderator Thank you. The next question is from the line of Meeta Thar from IL&FS Investments. Please go ahead.

Meeta Thar Just two minutes check, when is the revenue from the windmill gear boxes expected?

Prayasvin Patel See what has happened I will tell you. The plant that we have set up has been a common facility for all planetary gears. These planetary gears are going into three basic sectors. One is the Power and Cement which are the vertical coal mill gear boxes and cement mill gear boxes. The other one is the Sugar sector where large size planetaries are being used. And the third one is the Windmills. Now why we find that the windmill gear boxes have gone have gone on trial which is taking about a transition of almost 1 to 1.5 years before it materializes into a definite sizeable inflow of orders. So we have done trials or our gear boxes have been put on trial for customers after which they will be placing orders for regular requirement of this. In the meantime we have been selling gearboxes in the sugar sector which is quite attractive as well as a small amount in cement and power.

Meeta Thar When is the trial period ending?

Prayasvin Patel The trial period for one of our major customer should end in another 4 months or so.

Meeta Thar The customer is in the windmill sector, right?

Prayasvin Patel Yes.

Meeta Thar Thank you.

Prayasvin Patel Thank you.

Moderator Thank you.

Vinay Pandit Yes, Shyama I will ask a question.

Moderator Alright.

Vinay Pandit Sir this is Vinay here.

Prayasvin Patel Yeah Vinay.

Vinay Pandit Sir in your current order book, which is the unexecuted 1,522 crores, does that include the NTPC order of 272 crores?

Prayasvin Patel Yes it does because this 1,522 is as of 12th May.

Vinay Pandit Now what I wanted to understand from you sir is that in this recent order of NTPC, 272 crores, roughly minus the 272 the balance 1,200 crores order book, how is the margin profile different? Are you seeing any pressure on margins in these orders due to competitive bidding?

Prayasvin Patel Vinay more pressure will build up over a period of time because as of now the order that we have received from NTPC that was quoted by us almost a year ago. The whole project had got delayed and the ordering had got further delayed. That is the reason why we have received it so late. But what we expect is that the new order as I told you, the competitors also has a low order booking level and therefore we believe that they will be bidding very aggresively.

Vinay Pandit And sir any plans to introduce any new technologies on the equipment side of the business?

Prayasvin Patel We are developing a new series of gearboxes in the gear division as well as setting up a new plant with modern technology for production which is the state-of-the-art which would go into operation by September end. In, let's say material handling there are new jobs which are coming up which are requiring some unique technologies like pipe conveyors and high speed conveyors which have got its own intercacies for which the customer need is to design them very uniquely which we are persuing this with the Americans or the South Africans depending upon where they have the best expertise.

Vinay Pandit Okay Shyama that is from my side.

Moderator We have the next question from the line of Manish Goel from Enam Holdings. Please go ahead.

Manish Goel Would it be possible to give the current debt, short term and long term on standalone and consol, both.

Prayasvin Patel The borrowings stands at, on a standalone basis 539 crores out of which the working capital is 366 crores and the long term borrowing is 173 crores and my total consol debt is working out to, as of now it is 665 crores.

Manish Goel And working capital would be how much, sir?

Prayasvin Patel Working capital I think there the rate will be around 5 to 7 crores and the balance is in the long term.

Manish Goel And how much would be the retention money in the standalone's number, sir?

Prayasvin Patel It is in the range of 230 to 240 crores.

Manish Goel And how it has gone up in the last one year, sir?

Prayasvin Patel Because of the model, which we are doing for the MHE business, whatever we do the invoicing 10% is rejected as the retention money so whatever additional we have done in this current year, it is around 758 crores. And that is whatever we have invoiced. 75 crores is going to sit there at simple calculation out of which some amount has been realized so it has increased from around 190 or 195 or around 200 to 230 to 240 crores.

Manish Goel And sir based on the FY13 outlook on the top-line growth, what are we expecting on a standalone basis?

Prayasvin Patel We are expected to do 1,500 crores on a standalone basis around 850 crores for MHE and 650 crores for gears.

Manish Goel Sorry, MHE, how much you said?

Prayasvin Patel 850 crores.

Manish Goel And gears?

Prayasvin Patel Gears 650 crores, around.

Manish Goel So basically we are looking at 10% kind of a growth.

Prayasvin Patel Yes because as I explained considering the present market conditions we believe that we won't have enough inflow coming. However, we are trying our utmost to ensure that we get maximum inflow of orders.

Manish Goel Okay and sir, sorry for repeating the order book break up for MHE and gears if you can give me please?

Prayasvin Patel Sure. As of 11th May, 2012, the unexecuted orders in material handling equipments is 1,216 and gears it is 306 totalling up to 1,522.

Manish Goel No I wanted the order book breakup of MHE and gears which you mentioned but we missed certain numbers so if you can repeat?

Prayasvin Patel Industry-wise or segment-wise?

Manish Goel Yeah segment-wise.

Prayasvin Patel As of 31st March whatever the MHE got pending order out of which power is having 46%, Mining is 25%, Cement is 12%, port is 8%, Steel is 5% and others 4%. And Gears as of 31st March the pending order position in Material Handling and Power is contributing 21%, Marine is 13%, Steel Conversion 12%, Plastic and Rubber 9%, Cement is 9%, Sugar is 8%, lift gears is 4%, Windmill is 4%, Sponge Iron 3%, Chemical and Fertilizers to 2%, Mining is 2% and the Rest is 13%.

Manish Goel Okay fine sir. Thank you very much.

Prayasvin Patel Thank you.

Moderator Thank you.

Vinay Pandit Yeah we can end it Shyama.

Moderator As there are no further questions I would now like to hand the floor back to Mr. Vinay Pandit for closing comments.

Vinay Pandit Ladies and gentlemen on behalf of PUG Securities I thank you all for participating on this call. I also thank the management of Elecon Engineering for providing us their valuable time. Thank you sir.

Prayasvin Patel Thank you.

H. C. Shah Thank you.

Moderator Thanking all on behalf of PUG Securities. That concludes this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.