"ELGi Equipments Limited Q2 FY2019 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the ELGi Equipments Limited Q2 FY2019 Earnings Conference Call, hosted by Asian Market Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kamlesh Kotak from Asian Market Securities. Thank you and over to you Sir!

Kamlesh Kotak: Thanks Lizaan. Good afternoon everyone. On behalf of Asian Markets, we welcome you all to the 2Q FY2019 and H1 FY2019 earnings conference call of ELGi Equipments Limited. We have with us today Mr. Jairam Varadaraj, Managing Director representing the company. I request Mr. Jairam to take us through the overview of the company results and then we shall begin the Q&A session. Over to you Sir! Thank you.

Jairam Varadaraj: Thank you so much Kamlesh. Good afternoon ladies and gentlemen. I would like to first apologies for having shifted this call from the date of our board meeting today. Unfortunately, there were some delays in the both BSE and NSE stock exchange service in terms of getting documents served up; so I appreciate you are understanding around it.

Going into the quarter results, I would like to as usual look at consolidated numbers comparing them with the previous year's second quarter as well, sales has increased by 18%. Our material cost as a percentage on sales has remained constant and as a consequence actually quantum of contribution has been significantly better, but our EBITDA has been actually slightly lower than the last year's Q2 and I would like to take you through what are the base major reasons for that.

Two major factors are one is employee cost to the extent Rs.120 close to Rs.120 million and other fixed expenses of about Rs.140 million so if I look at the employee cost about half of it or may be 45% of it is the normal increase in India close to 40% of that is increase in the US primarily because we are adding some headcount in the US operation as part of our overall big initiatives that we have started about a month ago to increase to change or go-to market process. Otherwise the rest of it is pretty normal. India increase is consistent with the general salary increases in the country, which I explained to you even in the previous quarter.

On other fixed cost really 53 million orders out of 142 million, 53 million is really the increase in operational related cost, which include additional travel, which included besides travel there was also maintenance expenses, regular repairs and maintenance so the balance 90 million, they are all either timing issue or one-time issue or an accounting issue, accounting issue is this year onwards we have started writing off all our material procured for the purposes of R&D. We believe that is more prudent way in any case whatever prototypes, we develop are eventually sold in the market and at that point we will book the profits at 100% it will be booked as profit so we are writing it off because we believe it is best most prudent way of managing our accounts.

One time expenses have been consultancy charges that we are incurring in the US and India for the major initiatives that we are doing in the US. It is going to continue for the next may be quarter and quarter-and-a-half and then it will stop and there were some recruitment related expenses for additional headcounts that we have done.

We have implemented a new CRM. There was some implementation expenses on the CRM so those are major one time expenses. There are few timing issues like repairs and maintenance certain additional expenses have been incurred in the first two quarters, which is not really getting out in the balanced two quarters.

By and large would say even though the bottomline is not as good I think the overall profitability structure of the company is very solid, I am quite happy with the performance done so the rest of the expenses I am expecting in the quarters it will come down. This is on the general operations. Two months of this year we had Pulford, they have done revenue of Rs.126 million, not as satisfactory as we would like it to be but I think things are falling into place, I am quite confident things will improve towards the intent with which we acquired the company.

In terms of net debt in the last almost six to eight months, we had a huge change in the foreign exchange depreciation of the rupee so if I remove normalize it for the excessive depreciation the debt as of end of September was lower to the extent of about Rs.12 Crores as of March closure so March we had done Rs.157 Crores was the closing balance this is without Pulford, same number is about Rs.145 in constant dollar terms so we have reduced by Rs.12 Crores so this is really the summary of the financials.

In terms of further reduction on debt, first we had committed by September of this year, we would be debt free but that we revised it to March of 2019, but I believe that even that would not be possible. We are starting some very strong initiatives on the backend to reduce inventory, we are also expect quite a significant reduction in this receivable by virtue of certain arrangement we have done in the Middle East where we had from previous increase in receivables, but in spite of all these efforts we do see debt becoming zero by March 2019 and considering the fact that I have broken my commitments twice I do not want to make another commitment in terms of when we will bring it down to zero, but I am very confident that overall control of the cash flow is there, it will continue to get better in the future.

As far as the markets are concerned both are European and US operations are doing exceedingly well. India as you know has done very well you looked to standalone numbers. In the standalone export is a very small difference between the previous quarter to this quarter so it is driven primarily by India performance and we are quite pleased with all the initiatives that we are running. We are continuing to push for it.

Economy seems to be indicative of some rumpling on the construction and mining there seems to be slowing down or growth projects significant slowing down in road project, industrial certain verticals are beginning to show some signs of wanting to go slow so we will have to wait and see what economic situation is but our presence in the market and processes continue to grow from strength to strength. I am quite confident that the next two quarters will be equally strong compared to what we have done so far.

I will stop it this and I will rely on your questions for further clarifications. Thank you.

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

Ravi Swaminathan: Thanks for taking my question. Just wanted to know you had given a broad outline and the last statement as to how the demand scenario is, first half we have seen good growth in the standalone business so that is the domestic business, can we expect similar kind of growth momentum in the second half or as you have told there is kind of, some kind of slowing down in terms of demand, etc.?

Jairam Varadaraj: Well Ravi like I said I cannot put up exact number on it. I am just telling you what is the general sentiment in the market, but so far we are not seeing any impact of that in our performance so as of now I am expecting the second half to continue the same momentum.

Ravi Swaminathan: Okay, but if you could give a sense as to say basically say next 12 to 18 months so basically the infra side, the industrial side and general retail led demand as it was likely to see sustained momentum in terms of growth it will be really helpful?

Jairam Varadaraj: Well I am not an expert on the economy Ravi.

Ravi Swaminathan: Compressor demand for these segments?

Jairam Varadaraj: Yes. I cannot tell you much about retails, because we do not do much of retail, but in the construction and mining like I said there are some headwinds on the road construction sector, significant reduction in outlay combined with the fact quite a bit of lending to the sector, which has been perceived as a high risk sector has been significantly thoughtful so there has to be an impact of this in some form or the other, but the road construction and generally the construction segment of the business to our total is not significant that is why I am not going to make a huge change in what my expectations for the balance six months of, they are based on that. Industrials continue to, the enquiry levels continued to be healthy, but there are customers who are wanting to delay purchases so we have to wait and see what the impact is, automotive is clearly showing signs of slowing down so our automotive equipment business is indicative or is reflective of that in second quarter and I expect that in the next two quarters also there will be significant pressure on our automotive equipment business.

Ravi Swaminathan: In this kind of scenario your sense on your ELGi’s market would have increased or we would have been able to maintain market share in the compressors base?

Jairam Varadaraj: I do not think we have lost market share that much I can tell you but competitors do not necessarily share their numbers very honestly with us so we find it very difficult to come up with the exact share of the market, but considering if I take into account the GDP growth or an industrial production index growth, apply a certain factor to our inflation to it, I think we are doing good, but I cannot put a number on the table and say this is really a market share, may be you can help us, you can go talk to our competitors and figure out, come and tell us what their numbers are.

Ravi Swaminathan: Sure sir, we will do that, Sir and my last question is at subsidiary level also there has been something like 20%-21% kind of growth of subsidiary level, that is would it have been contributed by strong growth in US, so how was the scenario there, how is the profitability scenario?

Jairam Varadaraj: Except our operations in the Middle East and Brazil, Brazil has been pretty flat. Middle East has been lower than last quarter, but except for that all our other subsidiaries have grown, so it is not just one subsidiary is contributing, but like I said Europe and America have done a big contribution to that.

Ravi Swaminathan: And there too in US, so past few quarters we have seen very good growth, do you see such kind of growth sustaining in patterns and ELGi USA, given the robust growth outlook that is there in that country?

Jairam Varadaraj: The economy is the largest economy in the world by far and if it is growing at 3% for the last almost year-and-a-half to years, it is a scary prospect I mean such a large economy growing at such a high percentage is something that we all have to watch out for, but our position in that market like I have always explained, our position in the market is low in terms of share, economy growing or not growing will have a lesser impact, I am not saying there is going to be no impact, but we will have a lesser impact on our growth because our growth rates in the US have been, even before US economy is started growing so I am reasonably confident that we gain fraction there.

Ravi Swaminathan: Got it Sir, thanks a lot, I will come back in the queue.

Moderator: Thank you. The next question is from the line of Amarjeet Singh from Pantomath Asset Management. Please go ahead.

Amarjeet Singh: Good afternoon Sir. Could you please give us some guidance on with the implication of the BS-VI norms and basically it was supposed to come by April 2020, is there any demand by OMCs or oil refinery companies and what you have seen there?

Jairam Varadaraj: See first of all we do not supply to the oil and gas industry inside the refinery complex, we supply only outside so we have not see any surge, we have not participated in that surge, so that is not our business.

Amarjeet Singh: Okay got it Sir.

Moderator: The next question is from the line of Eshit Sheth from Annual Shares and Stock Broking. Please go ahead.

Eshit Sheth: Good afternoon Sir. Just wanted to check in terms of our cost structure if you look at the overall cost of, you mentioned there were a couple of one-offs in terms of the consultancy charges and the employee cost being higher for our Indian business, how are we supposed to look at this cost structure, for example the consultancy charges that we are paying for various activities, which we did first at the standard one business and now at the subsidiary business, that has been going on a fairly long period of time, now you said in approximately two quarters it will come down to negligible, could you quantify what this amount would be in the consolidated expense?

Jairam Varadaraj: The total amount in the consolidated so far is about 46 million.

Eshit Sheth: 46 million for this quarter.

Jairam Varadaraj: Sorry I did not get the number. It is about 33 million for a quarter.

Eshit Sheth: Sir if I were to remove this 33 million, the other expenses are still very high for example.

Jairam Varadaraj: Like I said that is only consultant fees, relating through our business. There are other expenses relating to our CRM implementation that we did. There is some recruitment related costs that we have incurred, R&D expense in both ELGi and ATS from the first of April of this year, we are writing it off and supposed to just taking it as a provision, right? There is also some one time expenses on training, on provisions for next year’s expenses in Hannover show there are some maintenance, which is a timing issue, we are within budget and within last year but it has been front-end spent so it is not just one thing it is a multiplicity of many things.

Eshit Sheth: Okay all those expenses combined as you mentioned would be to the tune of 14 odd Crores, for this quarter, okay, fair enough and also second question in terms of the employee cost if I were to look at as you mentioned in the standalone business at least for the next couple of years’ your employee you need to match it to at least to some international standard because of which the employee cost are likely to remain higher, is that correct?

Jairam Varadaraj: Right.

Eshit Sheth: Even in the consolidated side the employee cost for this quarter as again shot up very significantly, if I were to remove the standalone from it?

Jairam Varadaraj: Correct, so as part of our initiatives in the US for which we have incurring the consultancy fee, we have increased the certain amount of headcount. So the impact of that we will see next year.

Eshit Sheth: Okay, so that impact on the topline we will see next year basically.

Jairam Varadaraj: Yes.

Eshit Sheth: Okay, fair enough. So that is it from my side. Thank you so much.

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

Manish Goel: Very good afternoon Sir. Sir just continuing from the previous speaker, so to get a sense that out of this one-time related, how much do you think would not be recurring in say probably H2 or say Q3 and Q4, but there was certain like you mentioned about some maintenance related expenses, which were higher in the current quarter, so I believe that will probably not recur to similar extent in Q3 and Q4 or if you can quantify that Rs.9 Crores number what you said was something timing and accounting related issue, how much of it do you think will leak and will probably not be?

Jairam Varadaraj: In the second quarter we will have a recurrent of probably – I mean second quarter and second half I cannot say exactly when because it is growth across. In the second half we will have a recurrence of about another 40, after that it should go away.

Manish Goel: Okay, next year we will probably not see similar numbers?

Jairam Varadaraj: Unless I create new adventures in different places Manish, it is realistically possible right? That is growing right?

Manish Goel: Agree, okay, so that is probably also impacted if I probably look at our international margins, which has gone down it is a kind of a function of some headcounts increase in US and some onetime expenses?

Jairam Varadaraj: Yes.

Manish Goel: And would it be possible to share now what is our international sales contribution in Q2 or first half as compared to also last year and how much is the domestic sales Sir?

Jairam Varadaraj: Percentage of sales, this year India in 2018-2019 remains pretty much the same as last year, it is about 58, 42 Manish.

Manish Goel: 58 is pure domestic, which excludes exports right?

Jairam Varadaraj: Right.

Manish Goel: Okay, 58, 42 it has not changed much.

Jairam Varadaraj: No.

Manish Goel: Because you mentioned in your initial remark that domestic growth has been quite strong and exports have been kind of flattish?

Jairam Varadaraj: No, but the subsidiary sales are included in the 42.

Manish Goel: Correct, so overseas?

Jairam Varadaraj: They are selling from past sales to the inventory that was there.

Manish Goel: Sure, right Sir and in domestic the growth what we have seen is, has it like we have seen from any particular segment like industrial or railways or something, which has done extremely well or if you can just probably give some more granularity in terms of what is driving the growth?

Jairam Varadaraj: All the sector has grown, the industrials have grown, construction mining has grown, railways have grown, even water well has grown marginally, so I would not say that there is any one sector. Even within industrial we have seen growth across all industry groups whether in textile, in sugar, in cement, in steel, we have seen growth everywhere, so it is not any one product vertical or an industry vertical that has contributed in any significant.

Manish Goel: Has the project sales also picked up Sir?

Jairam Varadaraj: Very, very, very, very little, you can say it is negligible.

Manish Goel: But are we seeing enquiries improving because steel industry seems to be started doing well?

Jairam Varadaraj: Enquiries are coming, but like I said conversion times are taking long, enquiries are there.

Manish Goel: Sir on spare parts we were kind of trying to restructure and redo our strategy, so how was the spare parts business doing Sir?

Jairam Varadaraj: Spare parts as group has grown higher than the product.

Manish Goel: Overall?

Jairam Varadaraj: Yes, so I do not want to get into the exact numbers Manish for cognitive reasons. It is a healthy growth, we still pushing it, we still see projections and we will continue to grow in that area.

Manish Goel: Sure Sir. Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Kirthi Jain from Sundaram Mutual Fund. Please go ahead.

Kirthi Jain: First question is on the air audit initiatives, which we are undertaking, Sir have we achieved significant breakthrough through those initiatives and secondly we were trying to prove that we have the most energy efficient product, are we getting success in the US market because of those initiative Sir, these are two questions from my side?

Jairam Varadaraj: The air audit is not a blanket strategy we created, it is more of a specific thing that we do for specific customers as part of our efforts to reduce the overall lifecycle cost to the customer. There are still a large segment of customers are not really open to doing an air audit before making a purchase decision, we are working at it, but wherever we have done it, there has been significant savings for customer, which has been appreciated by the customers, so our long-term goal is to see how to increase the percentage of every sales with an air audit, which an audit based sales rather than proforma invoice based sale. The second question having an highly efficient product in many categories, the most efficient, is for ELGi just a right to play, it does not give us the right to win, so it gives us the ability to play in the US market, but a winning in the US market is not just because of the product, we have network, we have people, we have process, which we are trying to improve through the consultancy, so the combination of multiple things and no doubt the product has contributed, but it is just one piece of the right to play rather than to win.

Kirthi Jain: Sir but we got the certification, which certifies that ELGi is the most air efficient energy efficient?

Jairam Varadaraj: There is no certification anywhere about this, it is an independent body that independently measures the performance of the compressors and it is published, so they do not rate it, it is up to the customer to go and look at the published numbers.

Kirthi Jain: But that process is over, right Sir?

Jairam Varadaraj: Yes.

Kirthi Jain: Thank you Sir.

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

Harish Biyani: Thank you. Sir we had a medium term target to achieve a revenue of USD $475 million presuming rupee remains at Rs.65 USD to INR, so based on this where are we in that journey right now, so we had reworked on the entire strategy with the consulting firms and you also shared a lot of details in the analyst meet, so as of today where are we in that journey, what are the key things that would be required incrementally to achieve that particular number and how long as of today, where we are and what you see, how long should it take for us to achieve that particular target Sir?

Jairam Varadaraj: The first answer your question in a summary we are on track towards moving to that number, unfortunately I gave you the number in dollars, but thankfully you have normalized it to 65 and that we are moving a lot. In terms of the timeframe, our goal is 2020 to 2023 that is what I had projected in the analyst meet and we are well on the way there is no problem and our initiatives in the US that we have started for which the expenses have been booked this quarter as part of that goal we are very confident that we will see significant traction, of course we have to go through this phase of having to invest some money towards realizing it, but we are in the right track. I am optimistic Europe will start expanding further for our business from next financial year onwards. We are getting the leadership team in place and the organization in place. Once that is there I expect that to also start looking as good as in the US. Australia with Pulford we have got a very strong foundation, we are pushing hard in both Indonesia and Thailand. We have got a new strategy that we are working on in the middle east and we have already recruited people and the team augmented the team there, so all these put together will only kind of accelerate our movement from where we are today towards that goal, so we were on the way.

Harish Biyani: Is it safe to kind of say that all the investment that you are doing, one is obviously the balance sheet investment, but the P&L investment that you are doing that should continue a little higher than normal at least till 2020 and the benefits of those will be realized over 2021-2022 onwards?

Jairam Varadaraj: I think the expense that you have seen this quarter like I was answering to someone else's question you will see it to the extent of about may be 40 million, 45 million in the second half, after that we do not have anything visible in terms of a significant expense that is being planned as far as the US is concerned. Now Europe is a different thing, we still have not finalized a very clear strategy, so what we are going to do in Europe is something that we will know closure towards the first quarter of next year at which point we will create the necessary budgets for making that happen, but till then I do not see beyond the next half 45 I do not see a reputation.

Harish Biyani: Sure Sir. Thanks so much and all the very best.

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

Ravi Swaminathan: Thanks for taking my question again. This is just a followup to the previous question. So the target of 475 million, how much of it would be inorganics plus organic kind of a growth and if you pencil in the kind of revenue CAGR say by 2022 that one needs to do it is like around 17%, 18% kind of a growth at consolidated level that we need to look at, so basically if you see how much of it would be driven by India revenue because historically over a four-to five-year period the industry has not grown that fast except for the period between 2003 to 2007, so how much of it would be driven by India growth, how much of it would be driven by outside India kind of acquisitions further if you can throw some light it would be really helpful?

Jairam Varadaraj: The acquisition part like we can only talk about what our expectations are provided the guy want to buy is willing to sell, Ravi I would not venture to make any firm statements. As far as 495 is concerned, we have really not planned any significant achievement as part of our number, it is not 475 by the way, it is 495. The compounded average growth rate is anywhere between 17% to 19% and we are tracking to that percentage of growth and with the initiatives happening in large markets like the US and some of the negative markets like the middle east coming back upon and with the acquisition in Australia contributing to that as well doing that 17% to 19% compounded growth rate I do not see a challenge without any inorganic. Any inorganic opportunity is come along I will be just on top of that.

Ravi Swaminathan: Got it.

Moderator: Thank you. The next question is from the line of Arun Bharti from Pari Washington. Please go ahead.

Arun Bharti: I have a couple of questions actually. The first is on this Pulford while talking about Pulford you talked about number and then you said it is not as satisfactory as you would have liked, I just wanted to get some colour on that that is my first piece then the next piece is on the balance sheet I see some movement in the consolidated balance sheet between March 31, 2018 and September 30, 2018 in property plans and equipment, goodwill and as well as in other intangible assets I just wanted to know whether this is driven by Pulford or is this driven by some other capex, which we are incurring in the international market?

Jairam Varadaraj: Revenue is not as per our budget we have our own internal budget based on which we look at it and we were not happy with the performance in the first two months, but there are assignable causes for this, there has been some transition in terms of time of the management team to comply with all the accounting requirements, the audit requirements and the acquisition completion, so a bit of a distraction from the management that has cost a little bit of that, so we are reasonably sure in the next couple of months it should be back on track, things are happening. We are also spending a lot more time with them in helping them get to those levels and we are reasonably confident that is just an aberration. As far as the goodwill, the main thing is Pulford thing, we have done some investments in plant and equipment as part of our ongoing balancing like I explained our capacity growth does not happen with linear investments, it is not an employee’s investment that happens, so we have started a few investments in that this year, we also have started investing into our motor project, which are enough from the previous quarter, it is getting ready we are hoping that production at least trial production will start this quarter and some amount of regular production will happen next quarter, so these are basically nothing significant, but the goodwill comes from Pulford acquisition.

Arun Bharti: And what is other intangible assets, it is actually gone up something like Rs.5.3 Crores through Rs.42 Crores odd, this is also driven by Pulford?

Jairam Varadaraj: Yes.

Arun Bharti: Got it and what is our total capex plan for the year actually all put together?

Jairam Varadaraj: Total plan that we had, we had earlier projected including the motor plans, we thought it will be about, normal is about between Rs.35 Crores to Rs.40 Crores this year may be a little bit more because of the balancing, so overall I think it will be about Rs.60 Crores, between Rs.55 Crores and Rs.60 Crores is what I expect.

Arun Bharti: Got it including this motor project right?

Jairam Varadaraj: Yes.

Arun Bharti: Got it. My next question is on the debt side, on the liability side of the balance sheet.

Jairam Varadaraj: Only two questions.

Arun Bharti: Can I ask one more or should I come back?

Jairam Varadaraj: Go ahead.

Arun Bharti: On the liability side of the balance sheet, our debt has gone up from Rs.60 Crores on the long term borrowing under the noncurrent section, this has gone up from Rs.60 odd Crores to about Rs.104 odd Crores correct?

Jairam Varadaraj: Yes.

Arun Bharti: Similarly, on the current side, it has actually gone up from something like Rs.162 odd Crores to Rs.182 odd Crores, can this be completely explained by the currency depreciation or have we taken on some more debt actually?

Jairam Varadaraj: The additional debt was taken on primarily for the Pulford's acquisition. The currency depreciation that has impacted is close to Rs.20 Crores is the change in the rupee value of the debt because of currency. We have not taken any additional debt for normal operations. The only debt we have taken is for Pulford.

Arun Bharti: That is fine. That is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Ritwik Sheth from Deep Finance. Please go ahead.

Ritwik Sheth: Just one question. Sir right now we are investing in our capabilities so in the long run say three years or may be even further down the road what is the kind of margin profile that we are looking at once we start reaping the benefits of all the current investments?

Jairam Varadaraj: At what level?

Ritwik Sheth: At consolidated EBITDA margin.

Jairam Varadaraj: EBITDA margin. What we are investing right now is not going to change our contribution margin significantly and it certainly does not affect any of our fixed cost and therefore the EBITDA. Our investment in the motor plant will give us some marginal benefits in terms of cost. The entire motor industry or the motor efficiencies are moving up. We have planned for IE2 and IE3 standards of efficiencies, but already the standards are moving to IE3 and IE4, so at this point in time I do not know what will be the extent of additional profit we can earn by making our own higher efficiency standard motor. It should be only higher, so there will be some improvement may be to the extent, the motor constitutes only 30% of the total cost of the compressor less than 30%, so in that we may end up saving about 4% to 5%, so 1% to 1.5% is what we can get, but not across the entire turnover because we are selling. We are going to make only motors up to 45 kilowatt, so that could be 0.4% or 0.5% impact on our contribution margin. I do not expect anything significant beyond that, but more important is we will be able to improve the quality of our product because of the designs that we have created as well as the manufacturing standards that we are putting into the plant.

Ritwik Sheth: Any ballpark figures say three years down the line we are looking at 12% plus EBITDA margin is it possible to do that?

Jairam Varadaraj: Our EBITDA should have been close to about 16%. It is only these expenses that are one time in nature that have really cut that down, our goal is upwards beyond 16% over the next two to three years.

Ritwik Sheth: Sir you mean to say that in H1 FY2019 if we normalize all the onetime cost that you said, our EBITDA in absolute terms would have been around Rs.120 odd Crores?

Jairam Varadaraj: It would have been close to about 16%. I do not have the numbers.

Ritwik Sheth: So that is a 500 basis point impact for the first half?

Jairam Varadaraj: I do not have the number, but last year I did the calculation of the EBITDA percentage, we said that if we add back the one third expenses we should be able to get.

Ritwik Sheth: We are confident to do that in FY2020 once all these onetime costs go?

Jairam Varadaraj: Yes.

Ritwik Sheth: Great. Thank you Sir and all the best.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. Kamlesh Kotak for his closing comments.

Kamlesh Kotak: A couple of points if you can help us how have been the railway segment and the spare parts business this quarter and how we see them going ahead?

Jairam Varadaraj: Both have been very good Kamlesh. The railway business has been good because there has been quite a bit of budgetary support for building more locomotives so that has done well. After market like I explained to you we are continuing to grow, our percentage of growth is higher than the product percentage, so it has been good.

Kamlesh Kotak: Sir how has been the utilization at compressor are we close to any high utilization, which will entail further bigger capex next year how we stand there?

Jairam Varadaraj: No big capex next year. Like I said this year we have got more than normal levels of capital investment that is something that we started last year, part of it was invested, this year it will get completed this year, some more has been invested this year. So like I said it is not a linear movement in capacity and investment, so there is a step, so we have to invest in this step to extract some more capacity that was available in the plant with other machinery. Now once this is done maybe in another year or a year-and-a-half we may have to again do some balancing investment to extract some more capacity.

Kamlesh Kotak: Optimally what would be utilization level currently in compressor and foundry both plants?

Jairam Varadaraj: Foundry utilization is only about 35% because we are running only one shift. We have capacity for two shifts. The compressor plant is very difficult to say exactly what is the utilization because the same equipment is used for so many different products and different sizes of compressors, so in a given year let us say for instance if the borewell compressor market picks up they are all large errands, the capacity demand suddenly will go up, but because the borewell market is down now, the capacity utilization looks like it is lower, but actually the number of compressors that we produce is much more, so it is very difficult to say.

Kamlesh Kotak: Any colour on the oil free compressor demand how has that segment done?

Jairam Varadaraj: We have done well. Like I said in the past it is an initiative that we have been running in India, India focus. It has had a pretty significant growth in the first half. We expect that momentum to continue. We have also started selling our new technology of oil free technology. We have already got quite a few installations in the field. We are going to launch that in Hannover in Germany. We are all getting ready for that, so it is quite exciting there, so all looking good on the oil free side.

Kamlesh Kotak: Any specific factor, which looks to be promising in terms of the demand for oil free currently or may be the way forward?

Jairam Varadaraj: There are only three or four segments that are big consumers of oil free Kamlesh besides the project businesses like power and steel if you take that out on regular products sales it is food and beverages, pharmaceutical and these are the two big ones and then you have textiles, you have a little bit of automotives, but food and beverage and pharmaceuticals are the big industry.

Kamlesh Kotak: Great. Thanks Jai for all those insights, about the company's business and financial performance. With that we conclude the call. Thank you everyone for joining the call. Have a great day Sir.

Moderator: Thank you. Ladies and gentlemen on behalf of Asian Market Securities that concludes today's conference. Thank you for joining us. You may now disconnect your lines.