



“ELGi Equipments Limited Q1 FY2018  
Earnings Conference Call”

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**Moderator:** Ladies and gentlemen good day and welcome to the ELGi Equipments Q1 FY2018 Earnings Conference Call, hosted by Asian Market Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Kamlesh Kotak from Asian Market Securities. Thank you and over to you Sir!

**Kamlesh Kotak:** Thank you. Good afternoon everyone. On behalf of Asian Markets, I welcome you all to the 1Q FY2018 earnings conference call of ELGi Equipments Limited. We have with us today Mr. Jairam Varadaraj, Managing Director of the company. I request Mr. Jairam to provide us an overview of the quarterly results and then we shall begin the Q&A session. Over to you Sir! Thank you.

**Jairam Varadaraj:** Thank you so much Kamlesh for that introductory remarks and for hosting this con call and good afternoon everyone. It is a pleasure for me to connect with you. As our standard practice, I will take you through our consolidated results for the current quarter in comparison with the consolidated results of last year’s same quarter. At a sales level consolidated, we have grown about 4.5%. In fact the compressor business grew 6 plus percent across the world, but there was a significant reduction in the growth in the eight years business for various reasons, which I will cover in my explanation. So therefore at the consolidated level, we are at 4.5. At that level of sales if you had maintained the same contribution margin as last year our EBITDA should have been 395 whereas our EBITDA is only 323. We have lost about 60-odd million in contribution margin at material cost level primarily because of mix variation compared to the first quarter of last year. Nothing to be worried about we has had more of project type of sales in this quarter that was a carryover from the previous year. So it should get corrected as we go long. So it is not a major source of concern. In terms of price recovery in relation to material cost, we are on stream, we have really not done any increase in our realization, but we have been able to cover material cost and we are beginning to see a little bit of softening in commodity prices especially steel. So overall I think at the contribution level, material cost, we should be all right.

Now that leaves as a gap of close to about Rs. 71 million beyond the loss at the material cost level that we need to explain. Our biggest increase has been at manpower cost and that too primarily in India, actually exclusively in India. The rest of the areas have been actually quite leveled out. So the thing is in India, we did our once in five years, we reset the standard of living of our blue-collar employees and this year was that fifth year cycle so, we went through some corrections there. We have taken on some trainees graduate Engineers as well as management trainees this year significantly larger number compared to last year so that has increased our cost and overall in order as a larger plant to retain talents, we have had to make some corrections in the market. We did a minor voluntary retirement scheme wherein we had about 22 people who left us primarily at the blue-collar level. These are people who are health wise not doing too well. So it is not any regrettable attrition at that level. So this is the correction in manpower cost that

we will go through, but I must caution that we do look at increasing manpower cost in the future as part of our talent retention, but we will judiciously match those increases with revenue gain but at an absolute level, we see some need for having to move that forward, but it cannot be done in isolation. So besides that all other costs are pretty much in control and I do not see any issue so that is a kind of summary of Q1 of this year. Stepping back and looking at business performance, the challenges that we had in Q1. In the beginning of the year in April we moved from one ERP version to the latest ERP version of Baan. We are staying with the Baan but this is a new version, which had more features. It had greater functionality but more importantly the earlier version was not GST compatible, only the new version was. So by force we had to in preparation for the GST roll out we had to shift.

We did start the work almost six and seven months ago and we had made some plans based on timelines. We did all the preparatory work to do a smooth transition and when we switched it on in the first of April we thought in about a week's time, we should be able to settle down, but unfortunately it took us close to six to seven weeks. So, April actually was a bit of disastrous month for us. We recovered reasonably in May and quite a bit more in June. I still believe there could have been residual revenue of close to about Rs.5-6 Crores if that dislocation had not been there. Then of course come second week of June, we were hit with the demon of GST although prevailing in the market, people were either postponing or confused, but I must say in spite of all those thing, June was good month for us. We are actually facing a bit of dip in July because not across all products primarily in products that have an MRP sticker where there are changes in the pricing and transitions are not so clear, but I think those are getting resolved hopefully and I say hopefully with very tentatively that this month we will have all those issues resolved.

From our side, we are stable. We have got our systems up and running except for a few niggling issues, which are not big in nature. We are stable but the rest of the market has to come to terms and understanding of it. So that is on the India side. Internationally, Rotair has done well. We are growing on the back of all products. Almost all the products are doing well. US has done well except for our medical business, which is going through some transitions even with the confusion with ObamaCare or the new Trump medical thing. So there is a bit of pause in that. Brazil continues to be challenge not so much on operations but it is the Brazilian economy. We are doing all our best to prevent losses in that subsidiary. So we have paused all expenses so we are trying to prepare the company to sustain itself so that when the economy comes back, we will start riding those opportunities there. Africa has been marginally better than the last year, but Middle East continues to be a challenge, but nothing disturbing in terms of our ability. It is more the markets adjusting to the new realities of oil. Far East has been overall very good. There are specific pockets where we have done well, Australia, we have done well. So there is no major concerned here. China we continue to sustain at the levels that we had earlier planned. We are continuing to support and service our customers and parallel we are working on a plan to come up with a new strategy for China but that is not going to be immediate.

In the first quarter we also had a serious challenge besides the GST and our own ERP issues, ATS years was quite badly affected in terms of revenue. They have caught up quite smartly in

June and July but the first two months were quite bad because quite of a few of their customers were not sure what their investment plans for, but things are back to the normal. So that is one of the reasons why we had a bit of challenge there. So that is the summary and I will be happy to answer your questions that will clarify things more. Thank you so much.

**Moderator:** Thank you. Ladies and gentleman, we will now begin with the question and answer session. We will take the first question from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

**Ravi Swaminathan:** Hi Sir good afternoon, thanks for taking my question. Sir just wanted to get a sense on the entire compressor market, how it has been in the first quarter I mean excluding the impact of GST has it seen growth and second question is, the impact could have been more on dealer-based once because of the GST to my understanding compared to direct supplies, how they are growing?

**Jairam Varadaraj:** There have been bits and pieces you are right, dealer-based business has taken the biggest impact but there are things like railways. There is a fundamental kind of confusion of what is the GST relevant for supplies to railways. Compressors are 28% but there is some clause, which says parts in railways, is 5%. So we are stuck between two different legal opinions so that has got affected. I mean I am talking now in July, but in June besides the dealer business, they were a lot of other companies who thought that there could be a better pricing under the GST regime and therefore a little bit of deferment happened there, but to answer your question whether there has been industrial growth, I do not know about the competitors, but we have had growth.

**Ravi Swaminathan:** Okay and it would have been a healthy double digit growth, which could have been there I mean as underlying at least ....?

**Jairam Varadaraj:** I do not want to get in to that detail Ravi because there are too many fellows listening in on this conversation, which are not so good for us.

**Ravi Swaminathan:** Understood Sir.

**Jairam Varadaraj:** I can only say that we have grown, but I do not want to break it up further into any level of granularity.

**Ravi Swaminathan:** Understood and Sir regarding ATS ELGi last time you had mentioned that because of the appreciating rupee some imports are being made from Chief Chinese imports which were actually impacting the demand, so is it still on and it is one of the main reasons, which is leading to lowered growth and profitability in ATS. How to see this?

**Jairam Varadaraj:** No that is still continuing on but that is not fundamentally impact on the performance that of our first quarter in ATS. In the month of April, we were significantly strung by our ERP issue and the recovery that compressor business made in May and June, ATS, the automotive equipment business could not do primarily because the concern of many of the customers in terms of GST

and post GST what will be the savings that they could potentially have so that kind of dampened things a little bit and many of the passenger vehicle companies that were looking at expansion of the dealership did not go through with it. But June was good, July continues to be good. So we are back. We should be able to catch up what we lost in the first quarter in the balance nine months.

**Ravi Swaminathan:** Understood and Sir at a standalone level our gross margins had seen a contraction. You had told some level of project-level execution was happening. Is it related to say products like centrifugal compressors, which had led to the compression margin...?

**Jairam Varadaraj:** These are all regular compressors that were project tenders that had to be executed in the first quarter. So nothing to do with any specific product.

**Ravi Swaminathan:** Product... okay and have you seen the full hit of the input cost increasing in the sense or will we be able to pass on the prices to end customers say a few quarters down the line post GST the rate stabilizing and market also stabilizing?

**Jairam Varadaraj:** No like I explained to you I mean, we had taken estimate of our commodity prices based on, commodity prices as you will recollect started climbing from October, November of last year and we took a call in terms of how we should reset a pricing based on the trend, which we have implemented in this year, but we are beginning to see that there is softening of the commodity prices so net-net for the balance of the year at the worst case I do not see any deterioration on account of that. In the first quarter, we certainly did not have any of that.

**Ravi Swaminathan:** Got it, and my last question is in last year's annual report, there was a legal and consultancy charges of Rs.26 Crores, which I think a part of it would be related to the BCG-related consultancy charges. When it will start coming of?

**Jairam Varadaraj:** It has already started tapering off significantly. It is our last project will get over by about December-January. After that we will know.

**Ravi Swaminathan:** Okay and what could be...

**Jairam Varadaraj:** But it has already thinner version of our earlier project.

**Ravi Swaminathan:** Okay got it. What would have been the quantum last year?

**Jairam Varadaraj:** We have its agreement that we do not reveal that contract both with BCG and us, Ravi.

**Ravi Swaminathan:** Okay Sir thanks a lot Sir.

**Moderator:** Thank you. We take the next question from the line of Manish Goel from Enam Holdings. Please go ahead.

- Manish Goel:** Hi very good afternoon Sir. Sir on GST had couple of things, on tax rate how has it change for us pre-GST and post-GST on the product side number one and second, how has it changed for us input credit side as well Sir?
- Jairam Varadaraj:** It varies from state to state.
- Manish Goel:** Yes but generally on an average Sir?
- Jairam Varadaraj:** Generally on an average it is pretty neutral that could be a marginal point, 3.4% increase in our net cost to the customer, but the important thing is everything is creditable. On the part side, there is because of an MRP...Earlier we were trading parts we were not giving the credit to the customer. We were taking excised paid cost and we were passing it on as a net cost invoice price to the customer. Now that we are allowed to even have a trading warehouse within the existing manufacturing. We have started extending the credit to our dealers and customers. In that case actually the prices have come down. Now distributors are carrying inventory of the old parts where the MRP is higher where as now the MRP is lower. So we are trying to figure out those transitions, but the net difference is probably 1%. So it is not significant. In terms of input credit basically the only thing, basically what we are getting earlier and what we are getting now is a net set off. I do not think we have any benefit, but what we were buying from out of state, which had a 2% CST, which was our input cost earlier.
- Manish Goel:** Which was now it offsetted.
- Jairam Varadaraj:** It is now getting offsetted. So there is a benefit to that extend. But will you see it in a given year; it is very difficult Manish because it is a rolling account.
- Manish Goel:** Okay and so now basically compressors is at 28% and spare parts is at 5%?
- Jairam Varadaraj:** No spare parts is at 18%
- Manish Goel:** 18%?
- Jairam Varadaraj:** No, we have two categories, some parts are at 28%, and some parts are at 18%.
- Manish Goel:** Okay because on railways you said parts are at 5%?
- Jairam Varadaraj:** Railway Chittaranjan Locomotive Works is claiming that the definition of parts that go into railways is 5%. There is a section, which says parts of railways, but our lawyer is saying your classification is compressor. Is compressor a part? Is compressor a machine? So I do not think we should be debating this now. Whatever it is we have told the railways, this is government to government, you get a declaration tomorrow that it is 5% and you get the government to refund it to us, we will refund it to you. We do not get any benefit in terms of charging 28%.

**Manish Goel:** Okay and how is your on one side vendor ecosystem and on other side dealer ecosystem well connected now with you in terms of the online systems and everything?

**Jairam Varadaraj:** Well the online system is still not in fully in place, but our system between our vendors and us is pretty stable. But many of our distributors especially the smaller ones have to go through this new thing of 18 credit and keeping accounts of, so it is also for the company for instance now earlier our travel bills and our hotel bills were all could not take credit now you can take credit. For all that, ecosystem has to come into place but we are now talking about the gross ones like material and stuff like that, services that are big. We have the systems in place. Each one of the 300-400 employees who are traveling, that whole system has to be put in place.

**Manish Goel:** Okay and on GST last thing... basically on market dynamics like are you probably going to see a change with unorganized markets are not in terms of fully geared up or their cost going up and we being able to take advantage of that?

**Jairam Varadaraj:** Manish, in a principle of GST every unorganized player will have to confirm to the law and therefore on that principle, we will be in a better wicket because now those kinds of tax arbitrages will not be available but GST is only as effective as its implementation and policing. So I still hear people continuing the old practices now. If enforcement is kind of weak then all this is on paper, but it is still going to continue. I think government right now is busy getting the network up and running because that is the biggest challenge and then hopefully they will use both excise and the tax departments to get the enforcement up and running. If that happens then yes we will be in a good situation.

**Manish Goel:** Okay so you expect say probably a month or two to get normalized in terms of both at dealer level and institutional level.

**Jairam Varadaraj:** Manish they told me in May everything will be fine by last week of June. Then in June they said by the second week of July everything will be fine and all will be announced but we are muddling through it right but I cannot say that the problem does not remain as big as before. It is progressively coming down. Now code missing, data missing all that is coming down. Hopefully once the network is up and running, then there will be greater clarity.

**Manish Goel:** On overseas market, which are the markets in coming times you see will be showing a good growth Sir?

**Jairam Varadaraj:** In all the markets, there are two kinds of scenarios Manish, markets where we are big and markets where we are stable or not stable right. So the real situation is we have to focus on the big markets where we already have a stable business running. So if you look at those. Then there will be about a handful of countries that we need to focus on maybe about 15 or 16, but we cannot go and put resources in all 15 and 16. Finally it may come down to about three or four that we will focus on. Right now, we are in the middle of a detail study of where to play in a

focused manner and that we should complete by end September or October. Then there will be greater clarity and a strategic direction will be laid out.

- Manish Goel:** So basically this is with the BCG what we are implementing in overseas market?
- Jairam Varadaraj:** No, this is basically to step back and say our aspiration is to be number two. What is the path to that? Now one of the elements of the path is you cannot go and boil the ocean, you have to pick the battles, you want to fight. So therefore which markets do you want to focus on, in those markets which products, in those markets which region, so we are going down to that level of granularity. So that we have a clear executable plan rather than look at this aspiration at 30,000 feet, we need to look at this aspiration at the ground level.
- Manish Goel:** Sure, Sir just a couple of questions from the annual report, just want to clarify this ELGi Compressors Italy, is it a holding company of Rotair or it is a separate arm?
- Jairam Varadaraj:** It is a holding company of Rotair, because we had incorporated it and we had funneled our debt through that company.
- Manish Goel:** Okay. The reason I am asking is that the Italian subsidiary reported a Rs.7 Crores profit while Rotair reported Rs.4 Crores. So basically I should take only the holding company...?
- Jairam Varadaraj:** Both put together, Manish it has to be taken together because last time I remember some of the people wanted it separate. That is the reason why it has been shown separate.
- Manish Goel:** Okay, these are separately. So basically ELGi compressor numbers what you have given is a standalone number and not a console number?
- Jairam Varadaraj:** ELGi compressor is where you have seen, standalone is separate. Consolidated includes ATS also. Italy is not standalone. ELGi Compressor Italy is the dividend whatever they are receiving from Rotair they would have shown as an income.
- Manish Goel:** Okay, so that is what I am saying that it is a consol number, so I have to basically take that as a number. Thanks Sir.
- Jairam Varadaraj:** Both put together you have to take it.
- Manish Goel:** Okay, I will take it offline Shriram with you. I just wanted to know how much dividend we received from ELGi ATS in Q1 Sir in standalone?
- Jairam Varadaraj:** First Q1 about Rs.5 Crores.
- Manish Goel:** Thank you so much Sir. Thanks a lot.

- Moderator:** Thank you. We take the next question from the line of Ishet Seth and Anvil Shares and Stock. Please go ahead.
- Ishet Seth:** Good afternoon and thanks for taking my call. I had a question basically if you see our compressor business, which is the consolidated number that we get in segmental minus the standalone. This is the first quarter where we have broken the Rs.100 Crores quarterly mark and we are substantially about like Rs.114 Crores for this quarter? Which is almost like 26% kind of a growth year-on-year? In this scenario which is the biggest market which has contributed to this kind of growth?
- Jairam Varadaraj:** I need to first look at... get my head wrapped around that percentage, 26% growth will make me fall off my chair.
- Ishet Seth:** It actually 31.4% because what I do is, I take the consolidated compressor number for this quarter and I subtract it from the standalone revenue.
- Jairam Varadaraj:** Give me the number that you are looking at?
- Ishet Seth:** What I am looking at is compressor business sales from that segment like overseas segment is Rs.114 Crores versus Rs.87.58 Crores.
- Jairam Varadaraj:** What is the source of your information?
- Ishet Seth:** What I am saying is, if I take the consolidated compressor number for this quarter.
- Jairam Varadaraj:** Which is 3346?
- Ishet Seth:** Correct and I subtract it from the standalone sales number.
- Jairam Varadaraj:** Standalone sales would be...
- Ishet Seth:** Rs.220 Crores.
- Jairam Varadaraj:** That is 220.
- Ishet Seth:** Right.
- Jairam Varadaraj:** Okay.
- Ishet Seth:** What I am arriving at is Rs.114 Crores, which will be my compressor revenue from overseas.
- Jairam Varadaraj:** Not necessarily because it also includes ATS business, automotives, it has intercompany sales so it does not straightaway give you that overseas things right.

- Ishet Seth:** Because if I do the same exercise the previous quarters...
- Jairam Varadaraj:** Because what will happen is that intercompany sale is not a direct sale to the enduser. The intercompany sale is primarily replenishment of our inventory. So there is always a lag between what we sell and what the subsidiary entity sell to the end customer. So what gets reported at a consolidated level is net of intercompany transaction. So by just taking the consolidated number, the standalone number has India sales it has intercompany sales and direct sales by India directly to the some markets right. So taking the consolidated and then from there deducting the standalone, the net is not only the sales of compressors outside.
- Ishet Seth:** Sure, but Sir in that case what does this number imply. Does this imply that there was a heavy stocking that happened and this was the one of Rs.114 Crores kind of a number in this quarter?
- Jairam Varadaraj:** That is a drop in sales from – what I suggest is you take it offline with Shriram and get your number clarified, but there is no growth to the extent of 26, we need to moderate as to the actual facts.
- Ishet Seth:** Sure enough. Sir also one question what I had was on the gross margin basically for the consolidate like if I see the quarterly gross margins for standalone. What I am seeing is that sequentially like if I take Q4 to Q1, there has been improvement in the margins in standalone and if I see on the consolidated side what I am getting is basically that the RMC which has almost been flattish sequentially?
- Jairam Varadaraj:** You need to direct me to the specific numbers you are looking at in which statement?
- Ishet Seth:** Okay, sure. If I see the RMC to sales number for Q1 compared to Q4 of last year what I am at for the consolidate level is 56.04% for this quarter for consolidated and for standalone, it comes to 57.54% versus 60%. So, what I wanted to ask was that in the consolidated business has there been some deterioration of margin for this quarter as well?
- Jairam Varadaraj:** I explained this in my opening remark that there is a product mix variation compared to the last year same quarter.
- Ishet Seth:** So that project related this thing that you explained...?
- Jairam Varadaraj:** So that is why you see it more pronounced in standalone.
- Ishet Seth:** Okay, Sir. That is it from my side.
- Moderator:** Thank you. We take the next question from the line of Jasdeep Walia from Infina Finance. Please go ahead.
- Jasdeep Walia:** Thanks for taking my question Sir. I wanted to know how has been the growth in sales of ELGi branded compressors outside India for this quarter?

**Jairam Varadaraj:** That is the growth of our international business completely through our various subsidiaries right? So I do not want to give you details with respect to specifics, but overall I think ELGi branded compressor growth in our key markets has been high double digit.

**Jasdeep Walia:** Sir, why do not we see this kind of growth in the reported numbers because if I just subtract consolidate standalone?

**Jairam Varadaraj:** You would not see it, because like I said it is in certain key markets where our base numbers are small, so even if you are growing from one million to let say 1.2 million, it is still a high double-digit growth, but it is a larger scheme of things, it is still a small number.

**Jasdeep Walia:** Okay, got it. Which industry segments do you cater to outside India?

**Jairam Varadaraj:** All over the place. We have been really gone. When you enter a key market, you do not go into industry segmentation; you go in and start appointing... you go into a dealer base business. So the dealers pretty much cover all industrial segments, so we do not keep track at this stage of our entry into various markets. What is the industry level analysis, but as we progress into key markets, we will start setting up a systems that we have like we have in India where we track them at that level.

**Jasdeep Walia:** Got it. Sir, have you seen improvement in the demand scenario outside India from Q4 FY2017 level? I am asking this question because a lot of capital good companies like Caterpillar and Cummins have been indicating improving demand conditions and actually they have upgraded their sales guidance for this calendar year. So do you also see a similar kind of improvement in demand condition outside India?

**Jairam Varadaraj:** Like I said in our key markets, we have grown in high double digits. So it is coming on the back of two things. One is the general economic revival in all the key markets like US. US has been doing well for the last almost two to three years. Europe after prolonged thing from 2008 now they seem to be coming back, Australia after a long pause is beginning to invest, so part of our growth in these markets has been contributed by the revival of the economies and therefore investment in capital goods. The second part is we have such a small presence in these markets, so the opportunity for growth for a small player is much higher than the opportunity for growth for a player who has got a very high market share, so it is a combination of both these factors.

**Jasdeep Walia:** Thank you Sir. That is all from my side.

**Moderator:** Thank you. We take the next question from the line of Aditya Bagul from Axis Capital. Please go ahead.

**Aditya Bagul:** Good afternoon gentlemen. A couple of questions from my end Sir. Firstly on the overheads in the subsidiaries that is the consol minus standalone. We have seen that over the last two quarters, we have had an operating cost of something like Rs.25 Crores in the previous quarter and about

Rs.20 Crores in this quarter. Could you elaborate on what is the nature of this cost and because if I look at the previous few quarters, the cost has been something like Rs.15 Crores, Rs.16 Crores that has jumped to north of Rs.20 Crores. Can you just help us to understand this?

**Jairam Varadaraj:** Again you need to direct me to the numbers that you are looking at?

**Aditya Bagul:** Right Sir. I am looking at your consol minus standalone.

**Jairam Varadaraj:** Which element? Are you looking at fixed cost?

**Aditya Bagul:** Operating overhead Sir which is the 550 million number on the consol basis?

**Jairam Varadaraj:** Operating, we do not have that category, operating?

**Aditya Bagul:** Expense or overheads, so the expenses other than employee cost?

**Jairam Varadaraj:** Which statement are you referring to Aditya?

**Aditya Bagul:** Other expenses.

**Jairam Varadaraj:** Under total expenses, you are looking at other expenses, which is Rs 550 million?

**Aditya Bagul:** That Right Sir on the consol basis and on the standalone...?

**Jairam Varadaraj:** In the consolidated account.

**Aditya Bagul:** And on the standalone Sir it is 343?

**Jairam Varadaraj:** Correct.

**Aditya Bagul:** So the difference is about Rs.21 Crores that is 207 million and in the previous quarter that number was about 262 million?

**Jairam Varadaraj:** Previous the trailing quarter?

**Aditya Bagul:** No, the sequentially previous quarter March.

**Jairam Varadaraj:** That is what the trailing quarter; okay that is 628 minus 366.

**Aditya Bagul:** 262 million?

**Jairam Varadaraj:** Yes, the 262.

- Aditya Bagul:** What I am trying to understand Sir, what is the reason for the increase in cost because if I do the same calculation from March 2016 to December 2016, the average cost comes to around Rs.16 Crores or 160 million and the rate is...?
- Jairam Varadaraj:** I do not have all these numbers in front of me. May I suggest that you get in touch with Shriram, because this is a quite an elaborate explanation that we need to give you.
- Aditya Bagul:** No problem Sir. Second question would be on the tax outgo in the subsidiaries. Sir, if I see that we have made PBT loss at our subsidiary level, but we still have had tax provision of nearly Rs.2 Crores. Can you just help me understand what this is for and what the tax rate for FY2018 could be?
- Jairam Varadaraj:** I will let Shriram answer, our CFO.
- Shriram:** I will take it in the offline, but just immediate response in one or two issues is, our tax rate has gone up this time, because in India particularly our R&D benefits, taxation has been reduced from 200% to 100%, the weightage has been reduced that is one impact and the other impact is, I need to go through the individual P&L and need to tell you. You come back to me then because there are few factors you would need to take it. Some of the subsidiaries are making larger, some of the subsidiaries are making profits. When the profits are going up in subsidiaries where taxation is there, your tax percentage will go up and we are not providing for the deferred tax benefit in some of the subsidiaries, which is making loss, for instance, China though it is making a loss, we are not creating a deferred tax asset.
- Aditya Bagul:** Okay.
- Shriram:** Call me I will explain to you why it is coming.
- Aditya Bagul:** Yes Sir and just one last question on the broad BCG plan. Sir, can you share the broad contours of the BCG plan especially on the domestic front because I believe that has already been implemented and what is the steady state growth that we see in the domestic business over the next three, four years period?
- Jairam Varadaraj:** Yes, you are right. We have designed and implemented the program, which is basically the go to market program, structured processes, evaluation, and review systems. We have been running this program for a little less than a year and we have covered probably 60%, 70% of the market. We hope by about January, we will roll it out to the whole of the market. The intent is to grow, we are seeing results. I would not like to share what are the specific results we have been able to get out of this program, but we have got results out of this program. In terms of growth in India, I believe that the company is well poised, much better poised in terms of its readiness to catch the growth opportunities that come. What we are seeing is, there is a lot of promise on the ground, but action is still missing. There are still a lot of uncertainties, we have had multiple rounds of dislocations, demonetization, then there is the GST issue and there is a whole host of wait and

see that is on the large projects. On top of it some industrial sectors like power, steel have a long way to go to utilize the current capacities that they have, only then they will come back to the next round of investment. So those types of sectors are pretty debt. So what is really happening is small companies, small to medium size or even large companies that are looking at incremental investment those are the things that are happening and I would say they are pretty good, but nowhere near the kind of promise that everyone is waiting for India to deliver. We have to wait and see.

**Aditya Bagul:**

Great Sir. That is very helpful and good luck on the quarters to come.

**Moderator:**

Thank you. We take the next question from the line of Raghavan from Spark Capital. Please go ahead.

**Raghavan:**

Thanks for taking my question. Sir I want to check, in the domestic market, which has an enduser segment where we see demand visibility keeping better if you set aside the GST impact. We know cement, steel, power are still long way to go in terms of...you have really highlighted that. If I set aside these three sectors, which are the enduser segment where we see offtake in enquiry level Sir compared to last year?

**Jairam Varadaraj:**

Raghavan I would not like to talk about specific industry verticals but I will give you a general contour of it. Point here is, I would not say that there is anyone industrial segment that stands out or one specific industrial segment that stands down. All of them are in the market, but the nature of the investment is more of balancing investments rather than new capacities or new factories. So somebody for a new project may buy three compressors today they are buying one, two, balance the capacity of their existing factory, so that is happening across the board.

**Raghavan:**

Okay, I understood. My second question is as far as railways as a customer, what could be the size of opportunity for ELGi's products basically because railways is something which very difficult to track from our side. Have we mapped the opportunity size for ELGi specifically?

**Jairam Varadaraj:**

Opportunity is pretty big, because especially with all the cities investing into metros and the future of people transport is going to be mass transport system, cities have to invest but there is a significant amount of outlay we need to see when that is going to happen. All those are areas where ELGi is currently not participating, because these are tenders that are going to primarily international companies that have their own homologated vendors and is very difficult to get in. So we need to work on that for the longer term, but in the short term metro is not an opportunity for us. In the short term it is really the intercity railways, which are primarily run by the government right now.

**Raghavan:**

So it is not a major yield more for us as a segment right?

- Jairam Varadaraj:** In the medium to long term if we are able to get into the metro business, there could be a significant growth opportunity, but it is a percentage growth opportunity in terms of actual quantum, it is not going to be a game changing one.
- Raghavan:** I understood. Got it. Thanks. All the best.
- Moderator:** Thank you. We take the next question from the line of Ishet Seth from Anvil Shares and Stock. Please go ahead.
- Ishet Seth:** Thanks for taking my question again. In terms of growth, how do we see growth for the company as a whole for the next couple of years from now?
- Jairam Varadaraj:** Do you want me to talk about my aspiration or do you want to talk about what could happen?
- Ishit Seth:** What could happen?
- Jairam Varadaraj:** Right now I can say that we will grow well in certain markets in the world, but India I can say that any opportunity that exist, we will ride it right.
- Ishit Seth:** Sure.
- Jairam Varadaraj:** Because our market share in India is relatively large compared to markets outside. Unless there is a trigger in the economy in India we cannot predict the growth, whereas is in markets where our market share is almost nothing and we are beginning to have a strong presence, I can say we will grow very well and we will grow in double digits in those markets, but I am not able to say the same thing for India because we will have to wait and see when all the optimism converts to actual plans. There is too much flux right now in our economy.
- Ishit Seth:** Fair enough Sir. Thank you.
- Moderator:** Thank you. Well that was the last question. I now hand the floor over to Mr. Kamlesh Kotak for his closing comments. Over to you Sir.
- Kamlesh Kotak:** Thanks. On behalf of Asian Markets I sincerely thank everyone for joining for this call. A special thank to Mr. Jairam and his team for providing us the opportunity and insight about company's business and financial performance. With that we conclude the call. Thank you and have a great day ahead.
- Jairam Varadaraj:** Thank you so much Kamlesh and thank you for the rest for participating.
- Moderator:** Thank you. Ladies and gentlemen on behalf of Asian Market Securities that concludes today's conference. Thank you for joining us and you may now disconnect your lines. Thank you.