Questionnaires of ELGI Equipment Ltd

1. The company has plan of doubling the sales by FY2020 through organic and inorganic route, which will require capex. How will the company fund this capex. On the other hand, the company is planning to become debt free by Sept 2018?

   It was a stated objective of the Company to become debt free by Sept/Oct, 2018. We may miss the targeted date by a few months but are otherwise on track to achieve this milestone. However, because the Company is constantly scouting for inorganic growth opportunities, if a synergistic/strategic target is identified, then the Company will definitely have to revisit its goal of being debt free. Regular CAPEX for organic growth will be funded through internal accruals.

2. We have target to double our sale by FY 20. In which market do you see opportunity and we need to grow at CAGR of 40% to achieve this targeted sale. Is this possible?

   The Company has identified key markets, core products and key market segments where it has sensed opportunities. We had discussed this in length at our analysts conference held on 9th February, 2018. Our presentation is available in our web site. We believe it is possible to achieve our stated goals by implementing our well thought out global strategy.

3. When we say that capex will not exceed INR 30 cr? How the growth will come?

   The Company had created adequate and more capacity at its air compressor plant and foundry at the outskirts of Coimbatore, after reckoning the growth aspirations in the next few years. The Rs 30 Crs CAPEX mentioned is routine maintenance CAPEX. However, as and when needed, we will be creating further capacities.

4. On the other hand, in press release it is mentioned that the investment of around INR 1000-1200 crores over next 2-3 years for increasing its revenue to $1 bn in next 4-5 years, how is the company planning to invest these in - by building additional capacity or to acquire companies?

   The Company will adopt a multi pronged approach. Growth is expected to come from a combination of organic, inorganic initiatives and strategic partnerships. Investments will be made commensurate with needs to reach revenue targets.

5. The management mentioned in the Q3 concall regarding capacity that they are *"incrementally balancing our capacity so right now we have enough capacity to grow close to 30%-40%"*,but to achieve the higher level of sales of double what are the capex required?

   Please refer our answer to question no 3.

6. Are there any planned capex and if yes, can you give the idea for which product it may be? What is the annual maintenance capex?

   Yes, All CAPEX are planned.

   Please refer our answer to question no 3.

7. Production Capacity and its utilization rate?

   Current production capacity will be sufficient for another 30-40% growth

8. Which sector contributes the most of your revenue?

   The information is competitive and we will be unable to share it.

9. Australia and Brazil are the only International subsidiary which are earning negative profits, can we expect this to reverse in FY18 or in first or second quarter of FY19?

   We have already explained in our quarterly conference calls that Brazil continues to be a challenge though we are trying our best to optimize operational efficiencies there and turn it around. Many external factors are at play; so it may take a couple of years before we commence making profits in Brazil. Australia has become profitable in 2017-18 and the positive trend is expected to continue.

10. China operations are also in losses and your company plans to bring down the scale of operations there and to survive there, can we expect any profits from China operations?

    The Chinese operations will continue to incur marginal losses in the next few years. As we had already stated, we are in the process of re-designing some of our products to suit Chinese market and will resume our activities on a full fledged basis once we are ready.

11. Management aims to become #2 player globally by 2027, how much market share is your company planning to acquire?
    We aspire to garner about 10-12% of the global market.

12. Can you elaborate a little on the IOT enabled compressors – is that product commercialized and if yes, how is the performance? Is this a sector specific product?

    The IOT device can be fitted on any compressor. We have introduced this as a common feature in all compressors as a value added proposition for our customers. It's not a sector specific device. We don't intend to commercialize the same. Performance of the device has been very encouraging. We are able to alert customers in advance of issues/potential issues to enable timely measures to increase the compressor's life and efficiencies.

13. Capacity Utilization in Foundry is only 30%, is there any plan to increase the utilization and if yes, then at what rate?Foundry division is for captive consumption?

    The growing domestic and international demand and our stated long term revenue objectives will ensure that the foundry's capacity utilization will improve rapidly in the near future. Foundry is for captive consumption only as we don't wish to channel our energies on selling products outside, lest it diverts our focus.

14. Can you tell us something about the outcome from the consultancy of BCG, where is the benefit coming from?

    The project with BCG was quite successful and brought desired results.

15. The capex being underutilized so what is the scope for EBIDTA margins to expand from current level of ~10% once the utilization rate increases and what is your target EBIDTA margin going forward? Can we expect a high margin of around 20%?

    All depends on the topline and we did achieve in the past 17-18% also

16. EBIDTA margins for 9MFY18 is higher than FY17 margin despite the rising cost of raw materials, what is the main reason for such expansion? Where can we see the margin expansion coming from?

    Increase in margin is because of increase in Turnover with fixed overheads remaining in control.

17. What is the general life of your products and how much warranty period is provided by you for the products? Which services you provide after the completion of warranty period?

    Life and warranty of the product depends on nature of use and industry. Regular maintenance services are being extended after expiry of warranty period.

18. In the aftermarket and AMC segment, what is the future growth opportunity to expand these segments?

    We view after market and AMC segments as important links in our revenue growth. We expect these segments also to grow commensurate with the compressor sales. AMC off take may not match after market as customers have choice in opting in or opting out of it.

19. In manufacturing of compressor, is there any part in the process which we outsource it or the whole compressor is manufactured in-house?

    We outsource many components and most of these are not core to the performance of the compressor. The heart of the compressor is the air-end which we manufacture ourselves apart from some other components which are proprietary in nature.

20. What are the major raw materials requiredand is there any captive sourcing for the same?

    The key raw materials are cast iron and steel. Captive sourcing is only for castings from foundry.

21. Are we using any third-party technology for Air compressor or we have our own technology?

    No. The technology has been developed in house and we are pursuing R&D continuously to improve the product's quality and introduce new products.

22. What is your average cost of borrowings? And as of now is your debt free target the same or any changes we can expect?

    Less than 2%

    Please refer our answer to question No 1.

23. Can we expect any improvement in your working cycle days? Currently its 77 Days

    We are continuously working on improving the working cycle days.

24. The Other income in your P&L comprise majorly of Interest Income, can you guide me through the number from which Financial Assets (debt instrument as mentioned in notes to accounts) your company is earning the Interests

    Interest income comprises mainly of interest from bank fixed deposits.