



“ELGi Equipments Limited
Q4 FY2019 Earnings Conference Call”

May 28, 2019



**ANALYST: MR. KAMLESH KOTAK - ASIAN MARKETS SECURITIES
PRIVATE LIMITED**

**MANAGEMENT: MR. JAIRAM VARADARAJ - MANAGING DIRECTOR –
ELGI EQUIPMENTS LIMITED**

Moderator: Ladies and gentlemen good day and welcome to the ELGi Equipments Limited Q4 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 phone. 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 Stanford. Good morning everyone. On behalf of Asian Markets, we welcome you all to the Q4 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 an overview of the quarterly and yearly results and then we shall begin the Q&A session. Over to you Sir! Thank you.

Jairam Varadaraj: Thank you Kamlesh. Good morning ladies and gentlemen. As always it is a pleasure to be with you on this call. Following our standard, I will take you through the quarter numbers and since it is a complete year, I will also talk about the full year.

For the quarter comparison, I have just included Pulford’s total EBITDA rather than the individual P&L to explain reconciliation between the current year’s performance of the quarter and previous year. So the previous year’s EBITDA which did not include Pulford’s was it is 506 million and the current year’s quarter EBITDA which includes Pulford is 626 million. The EBITDA should have been 777 considering the increase in sales and the decrease in the material cost. So the gap really is 151 million that we should have earned.

Now the biggest cost contributor for that 151 million is our employee cost increase of 127 of which 48 million is in India which is a normal increment that we process. Close to 40 million is exceptional increase in employee cost as part of our initiative in the US and partly because we have started the initiative in Europe, we have gotten certain people onboard and those costs are also reflected here.

So overall I would say it has been a good quarter, if you remove out the exceptional items, the total exceptional items come close to about 100 million. So, if you add that back to our EBITDA, we have got a healthy growth in our EBITDA for the quarter without exceptional items we have got a 48% growth in our EBITDA for the 14% growth in the topline. So I think the leverage has been pretty positive when you remove out the exceptional items.

Going through the full year again keeping only the EBITDA of Pulford’s into it, last year’s EBITDA without Pulford’s was 1761 million, this year’s EBITDA including Pulford’s is 1929 million. The EBITDA should have been 2858 considering the increase in sales of close to 16% and a marginal decrease in material cost to the extent of 121 million.

Here again we looked at the reconciliation, the employee cost contributes to about 455 of which India is 195 which is normal. I would say the exceptional increase in employee cost is close to about 55 million and the increase in fixed cost which is exceptional in nature is about 200 million. So if I add these exceptional cost back into our EBITDA, our EBITDA has grown 27% for the whole year on a growth of 16% on the topline. We could have done better, the first few quarters of the year, we did not really push certain price increases through as a consequence, our margins dropped during, which we came up, we did better at the Q4 and as a consequence, we see this.

So we have corrected these in the current year. So we expect that the contribution margin in the current year to be better than last year. So this is really the summary of our performance for the quarter and for the year. A little bit at the business level, India continues to be 50% of our revenue, but the growth in India in terms of percentage we have grown far better than the US. The percentage growth in the US was much more. We continue to see good traction there, our initiatives that we spent a significant amount of time and resources, we spent almost six months last year in building the process, building the team, we expect to see some good traction in the coming year from the US market.

In India, the economy kind of took a pause, now with the political results out and there is a general euphoria in terms of a positive sentiment, we expect the market to grow but even without the markets growing, we have identified areas where there are opportunities for ELGi to grow even in India and we are going to focus and drive on those.

By and large, our variable cost including material cost are in reasonable control, we do not see any surprises and like I said, we have corrected our prices to reflect past commodity price increases. So that should kick into a bottomline, increase in people cost, we do not see any big increase in head count in India, we expect to see the normal increase in the range of 8% to 10% in compensation, which is the industry standard.

Europe we have started like I explained in during the analysis of the quarterly performance, we have started our initiative in Europe, and we are in the middle of building the entire team. We have made a pretty ambitious plan for Europe, I will explain more about it in the next quarter's call where we will have greater clarity in terms of where we are in terms of building the team. Unlike the US where we went in through an acquisition of a distribution business, this I am talking for the industrial product and then grew the independent distribution network. In Europe it will be, we will start with building the distribution, we have identified select geographies rather than the all of Europe, select geographies that we want to focus on. We are in the middle of identifying talent for each of these geographies. We are looking at organic growth primarily. If there are inorganic opportunities which are currently not visible to us we will pursue them, but right now the entire focus is on building the team and that is really where our cost is going to be for the next year. So there is going to be a cost in part of again an exceptional kind that comes out of Europe.

So Australia continues to be strong, we are looking at growing it organically. There are some inorganic opportunities that are being presented, we are not clear how we are going to take it forward, but that is there, but they are not significant in value at the appropriate time I will come back and talk about that.

So this is really the synopsis. Overall I would say the company's position is getting stronger. As part of our initiatives, we are getting a greater traction in some of the markets. As investors you will continue to be looking at when we are going to start realizing the margins that should come out of all these initiatives and the growth in the topline. you will see that the consolidated profits are actually coming increased quite healthily in this year and we continue to believe that the consolidated profit will continue to improve, but nowhere near the kind of topline growth that we are getting outside India and that is because of these exceptional items that are invested because of the initiatives that we are driving. We will continue to do these initiatives for the next two to three years at least and therefore even while likely presented in the investor meet, it will be a hockey stick kind of a progression in our profitability and we are on track towards the hockey stick that we had projected during the investor meet.

Now if you look at our net debt position, without looking at the Pulford's acquisition we are at Rs.42 Crores, if we include the debt that we had taken up for Pulford's we are at Rs.98 Crores. The current debt of the company is at around 115 Crores I apologize for the wrong number. We have reduced our debt by Rs.42 Crores and if you remove Pulford's from that reduction, we have reduced our debt by almost Rs.99 Crores.

So this is the summary and I will be happy to take any questions. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: Hi Sir congrats on a good set of numbers. Sir we have seen a pretty decent growth in the domestic market in spite of when we speak to channel players in the capital goods space, Q4 had not been that great a growth for many of the equipment players, but still we have clocked 12% growth, where is the growth coming from, is it because of market share gains that we are doing and is it that infra-related equipment sales has not done well, but the other divisions are doing well and going forward can we maintain the same 15% kind of growth in the domestic market over the next two to three years, given the kind of visibility that is there because of the current government?

Jairam Varadaraj: I do not think there is any one sector that has grown, that has contributed to this growth, but we should be also honest that the Q4 is always a big kind of an orgasmic exit for the financial year. So it is a bit of that effect in the Q4 results, but even normalizing for that we have grown well in all the sectors. I cannot say that there is any one sector that has contributed more than the other. As far as whether we have gained market share, you need to go and talk to our competitors and

come back and tell me because I really do not know their numbers. I know their financials to the extent that they have published, but I do not know their quantity. So I cannot really say. In terms of our ability to grow at 15% is certainly there, like I said there are segments in the market that we have identified that we need to get a lot more, a lot and have a bigger presence, we have focused on that, which should yield us some results. We have got new technologies that we have launched that should give us some results and overall if the economy grows that should aid give us the tailwind to make that 15% growth.

Ravi Swaminathan: Okay and in terms of the international operation so basically US we have done well. Is there any impact of this trade war and if you can share the key topline numbers and the PBT and PAT numbers for Rotair, Patton's and...?

Jairam Varadaraj: I do not have it with me right now Ravi I think we will post it as part of our results, you should get it soon. I do not have the numbers in front of me.

Ravi Swaminathan: But is there any impact that is going to be there in US operations because of this trade war or is it like we have a very low market share. So it can keep...

Jairam Varadaraj: I do not think, if you look at the posturing of general GST had preferences that US is going to withdraw the size of that export is quite small compared to what is happening with China besides there is still an attempt by the two countries to come to some sort of an understanding. So as of now there is no impact, even if there is an impact on our pricing there will be some margin pressure, but we are already cognizant, taken cognizance of that and we are working on certain projects to compensate for that if at all it happens.

Ravi Swaminathan: And as you had mentioned pricing, so we are in the domestic market at a discount to many of the MNC brands. Can it get closed over the next one to two years? Is there headroom for price increase going forward for us in the domestic market?

Jairam Varadaraj: Ravi if you have some data on this I would love to have it, so that I can put it in the face of our sales guys to tell them that there is a huge gap between us and the other MNC brands in India because when I push for prices the our sales and distribution channels come back and say oh, we are already at a very high level. So if you have some data I would love to have it.

Ravi Swaminathan: These are all anecdotal evidence that dealers etc., were telling so that is why...?

Jairam Varadaraj: Okay, was it the dealers of our competitors who are saying that we are low?

Ravi Swaminathan: Yes.

Jairam Varadaraj: Okay good. So I will convey this on to our sales people.

Ravi Swaminathan: Yes, and this employee cost and other cost you were telling as one-off cost expenses were there. Employee cost are anyways would be sticky right so what is the one off in that and how much blended employee cost increase can be there next year at an overall company level and is there really a one off expense which is not going to occur next year in the other cost or is it like these are all general spends that we have done internationally and that will also be sticky?

Jairam Varadaraj: Well the one-off cost on people's side is about headcounts that we added in the US primarily for the purpose of our initiatives that we ran with BCG. So to that extent it is one off but for the year 2019-2020 that cost will remain, but the benefits coming out of the initiative will also come along with that in the topline, but for 2018-19 it stands out as one off because the commensurate gain on the topline did not get realized in 2018-19. Now in terms of general increase like I said we are increasing our headcount in Europe in 2019-20, so to that extent there will be an increase in the again one-off people cost in Europe which will not immediately produce results in 2019-20, but we will start seeing results in 2020-21. So other than that I do not see any additional one-off cost in other regions of our where we are operating.

Now the other one-off cost that we expect is also by virtue of this PF ruling that is come in the Supreme Court, we have made some provision in ATS years which is to the extent of about 14 million but that is because of an order and a demand notice has come. In ELGi we have not got an order or demand notice, we do not know how the government is going to clarify because we do not know whether it is retrospective, is it retrospective from September 2014 or is it retrospective for eight years or is it retrospective from 1952. Nobody really knows. So we have just created there is a possibility of a cost we do not know what that is going to be. This year it has been 14 million for our automotive equipment business. So that comes under the one-off kind of a category.

Ravi Swaminathan: This is regarding what Sir?

Jairam Varadaraj: PF law has been, PF ruling was made by Supreme Court in February of this year which said that all allowances should be added for the purposes of calculating PF earlier it was only basic and DA.

Ravi Swaminathan: Okay, I will come back in the queue Sir.

Moderator: Thank you. The next question is from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.

Bhavin Vithlani: Good morning Jai, congratulations on good set of numbers. My first question Jai, is what is your reading of the recent M&A in the industry Ingersoll-Rand and Dresser-Rand what in your view...?

Jairam Varadaraj: I mean Gardner Denver not Dresser-Rand.

Bhavin Vithlani: Sorry, yes, Gardner Denver and Ingersoll-Rand how do you believe the industry will react do you believe over time that leads to better pricing environment in the industry?

Jairam Varadaraj: I do not know about pricing but any consolidation is good for the consolidated entity in terms of taking cost out for them but also any consolidation provides opportunities for the other players in the market because the same synergy that takes cost out is the same synergy that presents opportunity. For instance you will take cost out by consolidating your distribution network. Now when you consolidate distribution network, distributors become available for other company's brands. So there is something that is beneficial, there are something's that are opportunities for the others. So same thing with talent, when two companies merge they are going to compress, collapse positions which means talent becomes available in the market. That is an opportunity for companies like us which are growing and we are looking for talents. So it is a mixed bag and it is certainly from a number two position, number two which was 1.8 billion now we have got potentially we are going to have our number two which is about 3.2 billion which is certainly a more symmetrical structure, so number one and number two the size has been reduced but still number two is going to be even after the merger 40% smaller than the number one and the number three is still going to be a very distant number to be. So opportunities for ELGi to maneuver into this range, CK2 the meaning of CK2 literally will no longer be relevant which was difficult to reach that position within the timeframe but CK2 for us has a directional target as an aspiration continues to remain.

Bhavin Vithlani: Thank you. The second question is continuing to what Ravi kind of asked and when we also check with a meet some of the competitors not the dealers, their view is that the ELGi's products are actually at a 15% to 25% discount on an apple-to-apple comparison especially on the Screw Compressors which goes on the industry's side. Would you actually buy that and do you see headroom for expansion of these screw compressors?

Jairam Varadaraj: Well that there are always opportunity I would not call it, I would not put this as a very strategic issue but this is a key operational factor there are definitely opportunities for us to improve our margin we continue to do it. There is a transformation that is happening that it is not going to happen in one year, we are transforming from customers' perception. We transformed ourselves from being an Indian company at a product level to a global company at a product level maybe four, five years ago but we have still not transformed the customers' perception that we have moved from an Indian company to a global company. Now that does not happen by this advertising and a turn off a switch. That transformation will happen through a whole series of activities including how our sales people talk to our customers, how are distributors talk to our customers, how the customers experience us the quality and of the experience in social media the touch point it is a combination of multiple things and that is the transformation we are going through, we hope that progressively the transformation will yield at the kind of price that we deserve to have from the market.

Bhavin Vithlani: My last question is so Cummins India in its earnings calls; we are expecting a 50% growth in the water well segment. So it will be helpful to get your view and how large is water well for us?

- Jairam Varadaraj:** I do not want to give the specific numbers for the water well business for obvious reasons, but I agree with you there is an uptick in the water well market compared to last year we started seeing the uptick even in the last quarter. The good thing is we are positioned very well compared to where we were two, three years ago. Our product has been well accepted, performance of the product is in fact better than the best in the market. So just we had a setback a few years ago and the hangover from the set back is the reason why there is inertia in the customers to consider that, but that inertia is breaking down quite significantly. So we should be riding that market well. Is this uptick going to sustain itself in the next 12 months, we have got to wait and see but if it does happen, we are well prepared.
- Bhavin Vithlani:** Thank you so much for taking my questions.
- Moderator:** Thank you. The next question is from the line of Ishit Sheth from Anvil Shares. Please go ahead.
- Ishit Sheth:** Hello, Sir good afternoon. Sir if you could just give us the growth number geography-wise like how much did say US grow for FY2019 and how much was Europe and the major geographies that we are in?
- Jairam Varadaraj:** I prefer not to give that level of granular data, it is not in our interest, but you will have whatever the legal entities that are there those numbers will get published. So you will get a sense from there, but the regional sales include something beyond the legal entities and those numbers are I would prefer that we do not talk about that.
- Ishit Sheth:** Sure, okay. Sir also on question on the employee cost at the consolidated level and the standalone as you mentioned that after this exercise that we had, the cost are likely to rise by normal rate of 8% to 10%, but what about the consolidated employee cost, how much would they rise because still we are in that phase of investment because of the BCG program, how much are they likely to go up for the next year?
- Jairam Varadaraj:** So we I do not see a big increase in employee cost in the US because that has been done, that has been absorbed and those are the exceptional costs that I talked about. They will continue, they are not going to go further and we expect that the investment into that cost will start seeing some results in 2019-20. But like I would say and we are starting our initiative in Europe and towards that end, we are creating a team there and on a steady state basis that team is going to cost us close to about 4 to 4.5 million Euros. So in rupee terms that is about 36 Crores. Now is that Rs.36 Crores going to come in one shot probably not, it is going to even if we try hard we probably would not be able to recruit everyone in one year. So progressively over the next two to three years, we will hit that level. Like I said I will be able to tell you in the next quarter specifically what will be the impact in 2019-20.
- Ishit Sheth:** And sir one question I had was on our oil-free compressor range that we were to launch in the Hannover show I am assuming it has already launched. So what is the feedback that we are

getting in terms of this product and how do you see this shaping for ELGi over the next couple of years?

Jairam Varadaraj:

Well the feedback in the show was outstanding, both from customers, distributors, and competitors. Now if you really look at it, our sales and marketing effort for this product has happened only in India. So we have got reasonably good installations in India and the good thing is there are repeat orders coming in from customers which for me is the ultimate indication of the acceptance of the product. Now we are in the middle of putting together a program of taking this product globally. Now again, we will be focusing on strategic markets to push this through. Unlike oil lubricated compressors, oil-free compressor is not that easy to get into the market. So there is a lot more that needs to be done and we are in the process of thinking through, putting those systems in place. I expect that in 2019-20 we will see some good results from this product in India and some initiation of good market development in the other strategic market.

In 2020-21, then we can start seeing more growth for this product in our strategic markets outside India.

Ishit Sheth:

So but directionally if I were to ask like how the overall industry has shaped up, in India as well as in US and for us also that majorly out of the overall compressor sales most of it is into the oil flooded compressors. Now if I were to look at say maybe four, five years down the line do you think this line of product can probably shift that balance in favor of oil free for us and for the entire industry?

Jairam Varadaraj:

See our goal like I have explained in the part in terms of our roadmap. Our goal is to make is to drive technology so that all products are oil free. Now what we have launched see oil lubricated is low cost, is very efficient, oil free is high cost and less efficient, you got to remember that life cycle, energy consumption is the biggest life cycle cost for a customer. So in order for the both these two segments to converge into one, the oil-free compressor should become as efficient as oil lubricated and it should become much lower in cost. Now that is the direction in which we are working and this product that we have launched kind of is closer to oil lubricated both in terms of efficiency and cost but still not there, we are probably around 5% to 6% off. And that is really what we are working on. Now we are hoping that in the next year and a half to two years, we will be able to achieve it and if we do then it is a bigger revolution than what we have launched just now.

Ishit Sheth:

Sir this 5% to 6% that you call that you spoke about is the total lifecycle cost or the upfront cost?

Jairam Varadaraj:

A specific efficiency, efficiency difference of 5% to 7%.

Ishit Sheth:

Sure and do you see any kind of development from our competition globally on this kind of a product line?

- Jairam Varadaraj:** We have not heard of it I am pretty sure they are working on things like that because everybody's dream is to have make all compressors oil free but we have not seen any evidence of it yet.
- Ishit Sheth:** Thank you Sir. I will get back in the queue for more questions.
- 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 to clarify you in your initial remarks you said India contributes 50% of revenue. So you were probably including the ATS ELGi numbers as and where you referring to that.
- Jairam Varadaraj:** No, I am looking at the compressor business; the compressor business in India is about 50%. You would not be able to see all that very specifically because if you take the standalone and consolidate it, on the standalone you have sales to subsidiaries increase...
- Manish Goel:** So that implies that exports have grown quite well this year to the subsidiaries because otherwise we were at 60/40 so I was just trying to...?
- Jairam Varadaraj:** While we were at around 55, 45, we were hovering around that so when I say 50/50 do not hold my neck to exactly 50, maybe 52 or 53, 47 in that range.
- Manish Goel:** Sure Sir. And just on the cost side as you were referring that now most of the investment-related or probably front ending cost in India and US has been done with and Europe is where you are looking for. So ideally going forward on margins front, if you probably look at India, last year India had probably some, one off cost because your other expenses have gone up by 23% as compared to your revenues of 17% and your EBITDA margins have been fairly stable at 12%. So now going forward Sir, if we look that most of the cost in terms of employee cost and other development cost have been incurred in India plus in US also you have kind of gone through that cycle then in that case sir even if you probably have some higher fixed cost from Europe with a decent topline growth, you should still be able to grow your EBITDA margins for FY2020 right Sir?
- Jairam Varadaraj:** Absolutely, so this is something that we presented during the investors meet but it is not going to touch that final number that we had presented in one straight line...
- Manish Goel:** So directionally Sir that at least we should now because India sales if we see growth and the fixed cost are more or less likely to remain where it is, then ideally if India and US margin start looking up, I think directionally we should probably see a decent improvement in margins if revenue growth supports.
- Jairam Varadaraj:** If you have seen it already in the Q4 and you are all and if you remove all the exceptional cost that I have talked about which are primarily in the US. You will see that India. Now the India the

fixed cost to increase that you are referring to had two major elements one is the cost that was paid on behalf of the US. So it is not an India-related cost and the second thing is that we changed our accounting policy on R&D material that we buy for R&D. So that cost is a significant cost because we were writing everything off. We are going back to our earlier stage-based write-off I mean up to a certain stage we will carry it as a stock beyond a certain stage we will write it off so that was a significant amount that has come in. So it is not a real impact on profit, it is a cash flow issue. So India if you normalize for all that, India has grown, the profits has been pretty good.

Manish Goel: So Sir in Q2 you had mentioned that there was probably Rs.9 Crores pertaining to one time, so probably if you can give a perspective then for entire year how much would you attribute this onetime cost in the standalone and then consol. I am not talking about employee cost but...?

Jairam Varadaraj: I do not have the standalone thing in front of me; I have looked at only the I have...

Manish Goel: Yes, so at consol level how much...?

Jairam Varadaraj: Consolidated I told you the exceptional items at a consolidated level have close to 255 million. So it is 25 Crores of which about 55 Crores is people related and 200 is about the initiatives that we have run. One is the initiative in the US and the second is the R&D cost that I explained to you, the third is the motor development which is one time where we had some design fees, and then the fourth is the Hannover Show expenses that were there. So, all of them are not going to be there for next year. Well some of our initiative cost in America will continue. Marginally they will still be there but it is not going to be the entire significant amount.

Manish Goel: Sure Sir and you also in your initial comments mentioned that you would continue to see strong growth momentum in US markets basically despite being on a low base the percentage of growth will continue to be higher than the India. So basically you are alluding to fact probably apart from US even Australian markets and other geographies overall as a percentage will probably see a higher growth rate?

Jairam Varadaraj: Yes, US for sure because we have now supplemented our low market share position with a very strong strategic initiatives so those things should start seeing results for us. Australia, our presence in Australia through the acquisition has increased our market share. So to that extent I do not think Australia will grow at the sense, it will definitely grow at a big percentage but it is not going to grow at a percentage of the US.

Manish Goel: And Sir when you are referring to US how has been now outlook for Patton's have we kind of manage to probably turn it around and probably see benefits coming in, in FY2020 and 2021?

Jairam Varadaraj: One part of the initiative was also Patton's. So a lot of process changes, lot of new leadership, new talent that has been brought in. So I would not, I do not want to comment on the results I would wait for the next probably by end of the Q2, we will be able to tell you clearly.

- Manish Goel:** And I had one more question apart from US which other markets like Middle East and probably South America and which are the markets you probably see growth coming in for us Sir?
- Jairam Varadaraj:** Well, South America is the only country we are in Brazil is in a tough situation right now which is we are in a holding position in that country. We have faith because of the natural resources and the basic capabilities in that country we believe it has possibilities in the future so we are just holding that we are not creating any investments we are cutting down cost and just holding. So I do not expect anything significant coming out of Brazil. Middle East in especially the UAE we have gone we have decided to go direct. We are building our team and our process even as we speak. So I expect that there will be some positive contributions from that market but again we are talking it in terms of scale value is nothing significant to talk about.
- Manish Goel:** Sure Sir and last question on India now how do you see like are we probably now with elections behind probably we were seeing that there were some slowdown in the month of April and May did you experience similar thing and do you expect that probably growth momentum to pickup in near-future or it will probably take some more time?
- Jairam Varadaraj:** I do not think it is going to get change in a month the sentiment I mean. Probably people will buy more biscuits and probably candy but compressor takes a little bit of time for them to think and then buy. So for them to come around create capital capacities and capital investments, sentiments have to drive that, sentiments are positive, but when will those sentiments convert into actual capacity creation investments, we have to wait and see.
- Manish Goel:** But, you are referring more on a project side, but on other side...?
- Jairam Varadaraj:** No, I am not even talking, it is any, and compressor is capital equipment which means either it is a new plant or a balancing investment to increase capacity of an existing plant. So the decision to do that is a function of one, one is sentiment and the other one is actual demand. So if the sentiments are positive then people will do it and then on the basis that the demand is going to pickup but right now everything is not just April and May but the whole thing started going slow from November, December onwards.
- Manish Goel:** Right Sir and really last question on Europe the hiring which we were planning this by over what duration you expect that you should complete that process, would it probably last over...?
- Jairam Varadaraj:** Like I said Manish I will be able to give a more coherent answer by the next quarter.
- Manish Goel:** Okay fine Sir. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Jasdeep Walia from Infina Finance. Please go ahead.

- Jasdeep Walia:** Good afternoon Sir, thanks for taking my questions. Sir what has been the growth in exports from India in the last year Sir.
- Jairam Varadaraj:** You need to take this offline. I do not have that number in front of me.
- Jasdeep Walia:** Got it Sir and sir in US when you were mentioning exceptional cost you said that you had some initiative in US in last year what was the nature of this initiative, is this expense led to some consulting exercise that you did?
- Jairam Varadaraj:** Yes I think you are new into the call we have been talking about this for the last almost three or four calls. This is an initiative that we have been working with BCG to build new go-to-market processes and systems, so that is the cost relating to that.
- Jasdeep Walia:** Got it Sir, thank you that is all from my side.
- Moderator:** Thank you. The next question is from the line of Kiran Naik from Modi Fincap. Please go ahead.
- Kiran Naik:** Thank you Sir for giving me an opportunity. Sir what is your market share in the industry?
- Jairam Varadaraj:** It is a good question, because it is the most elusive number nobody shares data, so it is very difficult to say what is the share of the market, but we can confidently say we are very close number two in the industrial compressor business, but if you ask me to put percentages that would be a very difficult one.
- Kiran Naik:** Sir at last Atlas Copco is our competitor?
- Jairam Varadaraj:** Yes.
- Kiran Naik:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Arun Varsi from Pari Washington. Please go ahead.
- Arun Varsi:** Good afternoon Jai. I just have one basic question, I missed out on the total debt number actually, and the gross debt number, can you just give me that?
- Jairam Varadaraj:** Our net debt at this point in time is Rs.115 Crores.
- Arun Varsi:** No I would prefer to have the gross debt number.
- Jairam Varadaraj:** Gross debt is 237.
- Arun Varsi:** Okay 237.

- Jairam Varadaraj:** Yes, you need to keep in mind that some of our borrowing strategy is also from a cost point of view is to create debt here and then use that as a collateral deposit for debt outside. So I would say net debt is the right number, 115.
- Arun Varsi:** Okay got it, okay then thanks Jai. And what is the capex plan for the next year actually for FY2020.
- Jairam Varadaraj:** Well the new capex that we are planning is around I think is around Rs.30 Crores but there will be some carryovers expenditure from commitments made from this year to the extent of maybe Rs.15, 16 Crores so maybe Rs.45 to 50 but Arun I will tell you every time these guys give me a capex number and they do not spend the whole thing. So you can be confident that...
- Arun Varsi:** I have seen that as a history, yes.
- Jairam Varadaraj:** Yes, so you can be very confident that you will have spare cash.
- Arun Varsi:** Got it, okay then thanks Jai.
- Moderator:** Thank you. Participants to ask a question please press "*" and "1".
- Kamlesh Kotak:** Jai, Kamlesh here, just couple of points, what was the spare sales for the year, if you can just share in terms of the overall share and how has been the growth there?
- Jairam Varadaraj:** The total sale of spare parts globally I do not have the number Kamlesh but our sale of aftermarket I would not even call it I do not want to go into parts and service separately. Our aftermarket in India has grown quite strongly. Today I would say our percentage of aftermarket is about 25%, 26%.
- Kamlesh Kotak:** Any ballpark range of global market Sir how it would have been for revenue side?
- Jairam Varadaraj:** I do not have it, I can give, we can take it offline and we can talk about that.
- Kamlesh Kotak:** And any color on the railway side of the business we are seeing from big ticket investments are now being planned already underway, so how that business must have done for us?
- Jairam Varadaraj:** It is good, we grow as long as the intercity the main government-owned railway business grows like I have said in the past calls our presence in the metro is very, very low and it is almost you say is zero. That is really the focus for us. It is not that easy because the suppliers of all the electrical multiple units that go into metros are all European, Korean and Japanese companies and they have got different brands of compressors that are homologated, so they do not accept our machines even though the performance of our machines are far better. So we are looking at certain opportunities like in the old metros like Kolkata or Delhi where they are coming up for overhaul or replacement, we are looking at those opportunities. We are also talking to some of

these EMU manufacturers to get our compressors homologated but it is going to take time, I would say railways is okay but metro is where we are quite weak.

Kamlesh Kotak: Okay, right. Any more question Stanford.

Moderator: Yes sir. We take the question from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.

Bhavin Vithlani: Thank you for this opportunity again. Jai can you speak about the infrastructure side of the business, some color on how large it will be and we are seeing new companies in the recent past like Sany and LiuGong, are they actually looking for our products and how do you see growth in that segment?

Jairam Varadaraj: What is the name that you mentioned I did not get you?

Bhavin Vithlani: Like the Sany, LiuGong.

Jairam Varadaraj: Okay. We have not heard of them. They are making those cranes and material movement stuffs; we have not really encountered them. So they are not in our customer list. Infrastructure has had a tremendous growth for about last two, three years, but it softened out for two reasons, one the budgets for roads got exhausted and it was not renewed, second is the banks really squeezed up on financing and many of the infrastructure stuff like roads, dams, airports, ports, the construction is all done by small to medium size contractors and their access to capital got curtailed because of which the overall market started softening a little bit. So I am hoping that in 2019-20 on both those dimensions, the new budget will bring in more investment into infrastructure and I am hoping that the banks kind of loosened their purse strings a bit.

Bhavin Vithlani: Who would be the key OEM suppliers, who are the OEMs where the ELGi is supplying on the infrastructure side?

Jairam Varadaraj: We do not have a big OEM, we are supplying directly to the contractors and end-users.

Bhavin Vithlani: Any plans that are you working of getting have been like in the construction equipment space where the compressors are used inside the construction equipment?

Jairam Varadaraj: No, that is a diversification for us that would be a distraction for us, we are focused on compressors and trying to build that market, so we will not get into those kinds of products.

Bhavin Vithlani: No, my question was like the compressor which goes inside a construction equipment likes of JCB maybe making supplying to the likes of JCB.

Jairam Varadaraj: We are doing that but it is not a big there are people who make drilling equipment who are our customers, but when you asked me OEs I was talking more from the point of view of the size of

the OEs, the size of the business is more direct, the size to customers like Schwing Stetter or some of the drill manufacturers that is very small as a percentage.

Bhavin Vithlani: Can that over a five-year basis become a reasonable size and you are making as a focused activity?

Jairam Varadaraj: I do not think it is small because we are not focused on that activity, the demand like for instance if you look at Atlas Copco, they have their own drilling equipment business and they put their compressors and drilling equipment together. Then you have companies like Revathi Equipment they are customers of our but and it is not like they sell a lot of equipment there, then there are small companies, small- to medium-size companies who make drilling equipment they are all customers of ours. So the size is not very big it is not because we are not engaged in that market that our revenues are small. It is just that that market itself is small and there are big players who have their own compressors. Then there are small- to medium-size players who buy from us.

Bhavin Vithlani: Okay sure, thank you so much Sir for taking my questions.

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

Manish Goel: Sir just two book-keeping questions, one is the depreciation in subsidiaries has gone up. So is it entirely due to Pulford acquisition or is there anything else Sir?

Jairam Varadaraj: It is the intangibles in the Pulford's acquisition.

Manish Goel: So we are taking a quarterly provision on that?

Jairam Varadaraj: Yes, the depreciation is done on that except the residual goodwill; there are other intangibles that we do, on the intangibles we depreciate.

Manish Goel: Sure and second question on the tax rate has come down at India level from 33% to 29.7%, so is it a function of change in R&D accounting Sir?

Jairam Varadaraj: No, R&D is only on a books level it is that is not the main factor. Tax lowered from the 30% to 25% for our ATS subsidiary and tax lowered in Italy and deferred tax asset of 20 million recognized in ELGi Australia for accumulated losses.

Manish Goel: So we will probably revert to normal taxation for FY2020?

Jairam Varadaraj: No, we still have some losses in Australia. We have some losses at Patton's. All that we will be absorbing it.

Manish Goel: Sure Sir. Thank you so much.

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

Kamlesh Kotak: Thanks everyone for joining for the call, special thanks to Mr. Jairam Varadaraj for providing us insight about the company's business and financial performance. Any closing remarks, Jai?

Jairam Varadaraj: No, thank you for organizing this Kamlesh as always and I appreciate your engagement with us. I think I do not have anything specific; I look forward to the next call.

Kamlesh Kotak: So with that we conclude the call, thank you and have a good day.

Moderator: Thank you very much Sir. Ladies and gentlemen on behalf of Asian Market Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.