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Q1FY12 POST RESULT CONFERENCE CALL

HOSTED BY

PUG SECURITIES



Moderator: Ladies and gentlemen good day and welcome to the Elecon Engineering earnings conference call hosted by PUG Securities. As a reminder, for the duration of this conference call all participant lines will be in the listen only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need any assistance during this conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Vinay Pandit. Thank you and over to you Sir.

Vinay Pandit: Thank you. On behalf of PUG I welcome you all to the Q1FY'12 post results call of Elecon Engineering. Today we have with us Mr. P.B. Patel, Chairman, Managing Director, and Mr. H.C. Shah, CFO and Vice President commercial. I now request them to open the discussion with their opening remarks. A brief overview of the financial business performance and key dynamics of the business for the quarter and for the year; over to you sir.

P.B. Patel: Thank you Vinay. Good afternoon all of you. Well it gives me great pleasure to inform you that our Q1FY'12 results have shown a growth of 4% in turnover and profit before tax has shown a growth of 14%. On the other hand the profit after tax has also shown a growth of 12%. Right now the orders booked during the year up to July 31, 2011 has been Rs.518 Crores out of which gear is Rs.188 Crores and material handling is Rs.330 Crores. The unexecuted orders as on July 31, 2011 is Rs.1542 Crores out of which gear is Rs.363 Crores and material handling is Rs.1179 Crores. So this is the snap shot of the situation as of now. We have an overall target to reach the topline Rs.1450 – 1500 Crores by the end of the year which would give us a growth of about 25% and we would be able to maintain the profitability to the growth rate which we have achieved in Q1FY'12, which is PBT of 14% and PAT of 12%. Things overall look to be quite optimistic. There are large number of tenders also standing and we believe that the company is poised to get more orders and the situation seems to be reasonably good. There is the threat that interest rates are going to climb up or have already started climbing up but we believe that we would be able to maintain the profitability that we are targeting. So this is the scenario in the nutshell. We would be able to take any questions that you have based on the comments that I have made or based on the results that have been published. Thank you.

Moderator: Thank you. We will now begin the question and answer session. The first question comes from the line of Dhananjay Mishra of Susheel Finance; please go ahead.

Dhananjay Mishra: Can you comment on segmental results? We have seen very strong growth in gear side but material handling, decline of 4%. So, what went wrong in material handling and what was very good in gear segment?

P.B. Patel: No, actually material handling has shown a negative 8% and not 4%. Overall total growth is 4%, gear the growth is 20%. Now what has happened is that in material handling also you would have seen a reasonable growth, it is just that on analyzing the data we find that it is cyclical in nature.

What we believe is that there are equipments which are ready but which we have not been able to dispatch due to the clients being a little bit slow at the project site and also the engineering was a bit delayed because of certain approvals but I am presuming that we will be able to catch up in the next two or three quarters. So, I do not see a problem in that but gear has registered a healthy growth and we believe that it will continue further showing positive growth.

Dhananjay Mishra: Okay and on upcoming order booking, what are the prospects are you seeing in coming quarter in terms of order booking, on which sector you are looking for more orders?

P.B. Patel: See, the good part about the situation is that competitors who were quoting very low prices have suddenly realized that the projects that they have taken up at very low prices are going to incur negative margins and therefore they have started increasing their prices or firming up their prices on the higher side, which makes us to believe that we have a good opportunity of bagging more orders in the competition and we believe that the prospects look good and we should be able to get almost the same amount of orders that we have outstanding unexecuted right now by the end of the year.

Dhananjay Mishra: Okay and coming to this Benzler Radicon group, your target number you have given for turnover and PBT and PAT that includes or excludes this?

P.B. Patel: No, these are standalone results. The consolidation takes place only at the end of the year. So these are independent of Benzler Radicon however the Benzler Radicon results are also reasonably good which makes us to believe that at the end of year things will look even further better.

Moderator: The next question is from the line of Ankit Babel from Pinc Research; please go ahead.

Ankit Babel: Sir, my first question is that you have guided for a 25% growth in turnover but at the same time you are saying that profit will be increasing by just 12% for the full year. Just wondering that are you expecting some pressure on the margins in spite of the fact that the first quarter you have improved the margins?

P.B. Patel: No, what I am saying is we have achieved a growth rate of 12% and we will sustain the growth at the same level by the end of this year.

Ankit Babel: I am slightly confused. You mean to say that if your turnover is growing by 25%, your profit will also grow by 25%, is this you are trying to say?

P.B. Patel: No, what we are saying is the growth rate compared to the previous year, we have been able to achieve 12%-14%, PAT is 12%, PBT is 14%, and we will be able to maintain this kind of a growth by the end of the year also.

Ankit Babel: So, this means that the margins would be lower in FY'12 compared to FY'11? Then only the growth in profit would be 12%-14% as compared to 25% growth in...

H.C. Shah: This will be a conservative figure because this being the first quarter where the turnover growth is 4%, along with the 4% growth we were able to achieve the profit before taxes growth of 14% and profit after tax is 12%. This is the minimum what we will be able to achieve without any doubt but it will be definitely higher as the turnover it keeps on increasing and we reached to the 1450 and as compared to the previous year, it will be definitely improvement in the profit before tax, margin and profit after tax and that was what chairman wanted to convey without going into the percentage, the percentage imitating of the first quarter but what is it that 4% growth and 12% and 14% of growth in profit, that particular thing will continue when we reach a 25% of turnover, automatically the profit before tax and profit after tax will also in that proportion will go on, that is what it means. Are you getting my point?

Ankit Babel: I am sorry sir; I am still confused. The problem is that when we are guiding for 25% growth in turnover and 12% growth in...

H.C. Shah: Let me put in figures. . Now the profit before tax in the previous year it was Rs.100 Crores and that was around 8.5%-9%. We will try to have improvement in that 8.5%-9% also, and that will work out not to 12%-14%, it will work out to something 25%-30% growth. That is what I am trying to say.

Ankit Babel: So, the profit after tax excluding your exceptional item last year...

H.C. Shah: Of course, that I mentioned Rs.100 Crores.

Ankit Babel: So, on this Rs.100 Crores we are expecting a 25%-30% growth in PBT. So this can go to Rs.125-130 Crores?

H.C. Shah: Yes, as per projections it should be reaching that way.

Ankit Babel: Okay and my second question was, in the first four months, you have already received orders worth Rs.520 Crores. Now what kind of total order inflows are you expecting considering the orders in pipeline that Rs.4000 Crores, inquiries and your current L1 positions. In totality would it be in the range of Rs.1500 Crores or Rs.2000 Crores, order inflows I am talking about.

P.B. Patel: We have up till now unexecuted order was about Rs. 1100 Crores, Rs. 79 Crores in material handling and Rs. 363 Crores in gear totaling up to be Rs.1542 Crores. We are expecting that by the end of the year it should be double to about Rs.3000 Crores.

Ankit Babel: Your order book?

P.B. Patel: Order total inflow. Not unexecuted orders.

- Ankit Babel:** Order inflows, which you have already done Rs.520 Crores you, believe that this should get double like Rs.1000 Crore worth or more of orders you are expecting in the next nine months?
- P.B. Patel:** No, even slightly more than that.
- Ankit Babel:** So, around Rs.1600-1700 Crores order inflows can be expected in this full year?
- P.B. Patel:** In totality considering the Rs.518 Crores.
- Ankit Babel:** What is the current L1 position?
- P.B. Patel:** You are talking about...?
- Ankit Babel:** The bids you have already done and you have been considered as the lowest bidder.
- P.B. Patel:** Right now there is one particular order worth about, approximately Rs.250-300 Crores between that in which we are L1. There are some more bids going to go through.
- Ankit Babel:** And this would be near MHE division?
- H.C. Shah:** Yes, in MHE division.
- Ankit Babel:** And sir lastly what is your current debt on the books and the interest rates on them?
- H.C. Shah:** As of 30th June, the total borrowings stand at Rs.520 Crores and on an average, interest cost on working capital works out to around 10.5%-10.7%.
- Ankit Babel:** And how this has gone in the last few months?
- H.C. Shah:** It has gone up from at least 200 bps over a year. What was prevailing in the first quarter of the previous year, from that it has gone up by 200, at least a minimum, around that 200 bps.
- Moderator:** The next question is from the line of Madan Gopal from Sundaram Mutual Fund; please go ahead.
- Madan Gopal:** First question is on David Brown, can you give some numbers? What kinds of sales and margins this division had in the first quarter?
- H.C. Shah:** As for this particular quarter, they have generated revenue is of around Rs.62 Crores.
- Madan Gopal:** Okay and margins?
- H.C. Shah:** Whatever figures have been published, they are of standalone only.

- Madan Gopal:** Margin sir?
- H.C. Shah:** Margin is about, for the overall year projection, because quarterly I am not having the exact figures, but the projection for the FY'12 will be that around 5%-5.5%. Overall turnover what we are projecting to achieve around Rs.240 Crores.
- Madan Gopal:** You are expecting Rs.240 Crores for the full year in this business?
- H.C. Shah:** For the full year from that segment, from Benzler Radicon.
- Madan Gopal:** Okay, sir last year even when we were operating only part of the year, it gave Rs.113 Crores and that you expected growth of 20%-25%, they should be probably doing Rs.300 Crores, this number of Rs.240 crores looks conservative actually.
- P.B. Patel:** Whatever you have seen in the previous year, it was a consolidation of the JVs also. Over and above the Benzler Radicon, we have some JV and subsidiaries. At times our investment is there in those companies, portion of profit and turnover was consolidated in the results of the Radicon. So, that is why you must be getting the higher figure.
- Madan Gopal:** Okay, this year?
- P.B. Patel:** This year only I am telling you Rs.240 Crores of Benzler Radicon only.
- Madan Gopal:** Okay, got it. Thanks. Second is how confident are we in showing a 25% growth in gear segment, given that the industrial growth is at all time low and we are seeing inflation worrying every sector and whichever the manufacturers we talk also, is worried about these issues. So are there enough enquiries in hand that makes you feel comfortable about this 25% growth?
- P.B. Patel:** Right now, as of now, we see that things are continuing the same way. We are presuming that next quarter the inflow may reduce because of slowing down because the interest rates would go up and more projects would be delayed or would be shelved. So therefore, we believe that next quarter it may affect us but as of now things are looking reasonably okay.
- Madan Gopal:** Sir, as of now, your guidance for this particular division is more based on the existing situation. So when things change you might actually reduce your guidance as well for the gear division.
- P.B. Patel:** It may happen; it all depends on what the backlog of orders is. If I can sail through the entire year, then I would not have a problem. So it all depends in what is the backlog of orders and what is the situation after second quarter. What I believe is that this is a temporary situation and things may further improve, if it does then, you know, all will fall in line.
- Madan Gopal:** Sir, consolidated debt is how much at the end of this quarter?

- H.C. Shah:** With Benzler Radicon the debt is Rs.102 Crores plus Rs.520 Crores of Elecon.
- Moderator:** The next question is from the line of Sumit Poddar from Birla Sunlife Insurance; please go ahead.
- Sumit Poddar:** On the MHE side, how is the overall ordering environment as such, as you shared that the competitive position has kind of change and that is what is helping as far as the pricing is concerned, but overall availability of orders and things like that, how is that looking as such?
- P.B. Patel:** In material handling, we are not foreseeing any change. The reason is that they are large projects and if these projects have been approved in the entire time cycle, they do not believe in holding up the projects because either the interest rate has gone up slightly or that there has been any slowing down.
- Sumit Poddar:** Sure sir. So because the overall the power project would have actually kind of been completed 50%-60% and since we are on the BOP side, material handling is anyway required to start the project, so from that perspective and also to meet the 11th plan projections, the execution on the power side would have been pushed up as such and which is what is helping us, is that the way, am I reading it correctly?
- P.B. Patel:** Plus if you see the time cycle if you look at it and implementation of a power plant is normally a 3-5 year time cycle and one tends to believe that by the time you start the project the things may have improved by that time. So, people do not look at the present scenario as anything, which would trouble them when the power plant actually gets implemented.
- Sumit Poddar:** Okay thanks and do you see things to accelerate from here or be at the same level as it was, given the fact that last year 12 gigawatt got executed now and again there is a pressure to execute 12 gigawatt this year and overall every year this target is going up, so from here on you see the MHE pipeline looking upward of remaining at the same levels?
- P.B. Patel:** We believe that the trend should be going upward.
- Sumit Poddar:** Okay, and as you said that the interest rate scenario actually should not hamper the ordering in this particular segment because they would have already tied up the finances.
- P.B. Patel:** Exactly. Not only that, while the overall interest rates are high, for these kinds of projects, they do get soft loans or foreign currency loans, they might go for it. This may come to be cheaper.
- Sumit Poddar:** Sure, my colleague Vikram had some questions as well.
- Vikram:** One part is the excel environment Mr. Shah, second part is your internal improvement, I just want to talk on your debtors days or creditors days, what are the works you are doing around that inventory days has been falling in last year, so what is the internal kind of strength or internal

process by which you can improve your margin and the profitability? What are the works happening around that?

H.C. Shah: My debtor days as on June 30 is around 170 days and my inventory days have come down from 95 days to 87 days as of 30 June.

Vikram: Which has gone down over a year on year?

H.C. Shah: More or less, because 133 days has come down to 126 days. So, it is a marginal improvement but we would like to have it further by the end of this year, particularly more concentrating on the realization aspect of our debtors. We would like to definitely see that debtor days come down and the overall working capital cycle also stands improved.

Vikram: Okay, and what are the other business opportunities I mean this is about alternate energy, which is going to pick up over a period of time but what are the other opportunities you are seeing in a period of over next two to three years for which you are preparing right now when the things are not so good?

P.B. Patel: There are various areas that we are exploring but nothing has crystalized as yet. What we will do is as and when something concrete turns up we will keep you informed.

Deven Sangoi: One more question, in terms of the merger with the subsidiaries, can you give clarity on what is the status and how do you see that proceeding?

P.B. Patel: Yes, we had banked up on the exercise of a consolidation and restructuring which we had put it on hold because of the fact that there was one our sister company and Eimco Elecon also had foreign investment in it and it was necessary that the consolidation exercise was also involved Eimco Elecon but after looking at all the aspects, we have decided to pause it for a couple of years before we again take it up because we found that all our objectives that we had to meet with, they were not getting met with by this consolidation.

Deven Sangoi: So, next couple of years no merger?

P.B. Patel: No merger and also no consolidation; let us put it that way.

Deven Sangoi: You are likely to raise t some capital out of the market, so any clarity on raising capital?

P.B. Patel: Not as yet because though we are doing an internal exercise, but we have not come to a conclusion as yet, how we will go about doing this?

Deven Sangoi: Okay, can it be self funded, all the growth what you are planning for the next couple of years?

P.B. Patel: Sorry, I did not get you.

- Deven Sangoi:** Would you be able to fund it through your internal cash generation and debt, whatever growth you are planning for the next couple of years?
- P.B. Patel:** No, not really.
- Moderator:** The next question is from the line of Srinivas Rao from HDFC Mutual Fund; please go ahead.
- Srinivas Rao:** Hello sir, my question is on the material handling business. you said earlier your competition was high and now it is eased. If I understand correctly, earlier you were not so keen to take projects as margins were low but given the change in environment, are there an improvement in your ordering take also on project business? Can you tell us what will be the share of material handling order book, how much is now from project?
- P.B. Patel:** I would say that there were a couple of order projects that we bagged and we are likely to bag in the near future because we are also L1 but what has happened is that few tenders that have opened, we have seen that the pricing is becoming more and more attractive for us to go and get orders at that level. The reason is that certain competitors of ours were quoting extremely low prices and which they have realized that it has been resulting into losses for them and therefore they have corrected the situation.
- Srinivas Rao:** So, in your order book what is the percentage of project business now and what do you expect sir?
- P.B. Patel:** Last year we, if you want to know that, we had bagged one NMDC high-speed conveyor order which is to the tune of about Rs.176 Crores. Apart from that we are lower in one of the large NTPC jobs. We are the lowest and therefore we are seeing that the scenario is changing and we would be more competitive in the future.
- Srinivas Rao:** So, can it be 40%-50% of your order book?
- P.B. Patel:** I would say yes because I do not have the percentage-right now with me handy, broken up in that way but if you want we can e-mail it to you.
- Srinivas Rao:** The related question is how is the profitability in this business versus your traditional products business?
- P.B. Patel:** Profitability normally in the products businesses is higher but the way to look at it is you get additional incremental business and therefore your overall fix cost gets covered over a larger turnover.
- Srinivas Rao:** So, what I am trying to understand is the material handling business, EBIT margin that you report, are in the range of 12.5%-13.5%. So looking at the current order book and the pipeline that you have, where can this margins be?

- P.B. Patel:** These margins, because of the increase in turnover, we believe that we will be able to grow it to an extent but however, you have to also consider that input costs are all increasing including interest rates. So it is going to be a very challenging situation to keep on increasing the margins beyond a certain limit.
- Srinivas Rao:** No, I was wondering as the project share goes up, your margins will they come down, you were saying they will be maintained or be higher.
- P.B. Patel:** Yes, because of the increased turnover because this is an incremental increase in turnover. See on the other hand the products; I am not going to reduce the quantity of the intake as long as far as products are concerned.
- Srinivas Rao:** What is the utilization level of your old and new transmission facility now?
- P.B. Patel:** The utilization levels can I e-mail it to you.
- Srinivas Rao:** Is it above 50% or is it still lower in new facility?
- P.B. Patel:** It is more than 50% for sure.
- Questionnaire:** Even in the new facility?
- P.B. Patel:** Yes, Because we have got a larger number of sugar (ph) planetary gearboxes as well as vertical coal mill gearboxes because the facilities were common for all kinds of large sized planetary gearboxes.
- Moderator:** The next question is from the line of Arvind Joshi from Batalur Advisory. Please go ahead.
- Arvind Joshi:** I wanted your views on two recent developments and how they could probably affect the outlook for both our MHE and gearbox businesses. One is over nuclear power plants after the developments in Japan. Most European countries have also decided against expanding, probably closing down nuclear facilities and also the increasingly tightening supply constraints for imported coal, so this will probably imply more of Indian coal and more of coal pulverizing, coal washing and also ash handling requirements, so broadly that would imply significantly better opportunities as we look ahead or how do you look at the situation Sir?
- P.B. Patel:** You are absolutely right. We see a great opportunity coming because of both these changes. One is the fact that because imported coal would not be further imported to that an extent we believe that local production will have to continuously keep on improving. We are seeing that kind of upsurge in our sister company Eimco Elecon but same would be the case with surface mining and therefore there would be more requirement of material handling equipment, so overall we look at it optimistically. Similarly, the same situation lies with nuclear.

- Arvind Joshi:** Your coal pulverizing plant should also see more realistic outlook now, so probably our gear business should get positively impacted?
- P.B. Patel:** Yes, not only that coal washeries also takes a lot of material handling equipment also. So both these things put together it would mean larger business for material handling as well as for gears.
- Arvind Joshi:** We have very limited exposure to ash handling. Are we working on some technology tie up or something like that to get more serious involvement in the action?
- P.B. Patel:** We have already tied up with a company to work on projects together and at a later stage we may even look at some kind of investment in that area.
- Moderator:** The next question is from the line of Jinesh Kamani from Nirmal Bang Securities. Please go ahead.
- Jinesh Kamani:** Just you mentioned that couple of our equipment wash differ, since client would not want to take inventory or differ that what is the finished good inventory lying in our books and how is it comparable to the last quarter?
- H.C. Shah:** In MHE I think there is no such type of finished good inventory, whatever we manufacture is as per the clearances given.
- Jinesh Kamani:** Is there any work in progress?
- H.C. Shah:** Work in progress will be there but in MHE no significant increase has taken place, in gears we have seen some increase in the inventory both in WIT and finished gears.
- Jinesh Kamani:** So, rather than producing we just differ our existing cycle, is it safe to assume that? On account of delayed response from the client we have not executed our facility...
- H.C. Shah:** In MHE definitely there is always a linkage of the in-house manufacturing as well as the bought out. We have synchronized the thing in that manner, only the finalization on finishing of the in-house manufacturing is done at the receipt of the dispatch clearance or the inspection from the customer, so in that particular situation what I am trying to emphasize that there will be little finished goods inventory that will be nil finished goods inventory, it will be lying in the WIP but as such as of June 30 no such increase has taken place. In the gear division due to certain reason the gears manufactured or certain components manufactured might have remained in the inventory.
- Jinesh Kamani:** But it is neither the finished goods nor the work in progresses shown increment in the material handling?

- H.C. Shah:** Inventory, overall has remained below 90 days or around 90 days, so that has not gone up substantially.
- Jinesh Kamani:** So is it safe to assume that we underutilized our factory in the Q1?
- H.C. Shah:** I think that is not under utilization you must have seen and the reasons are already given that gear has shown the growth of 20%. MHE has shown negative growth of 8% only because of the reason of the product mix because the in-house manufacturing has been more, the equipment and in case of a project there is also a site activated which is not there in the first quarter, in MHE it is a cyclical thing and hence it should be viewed on a yearly basis rather than on a quarterly basis. Such type of a gap may be there quarter-on-quarter basis, so overall in a year we would be able to catch up with that.
- Jinesh Kamani:** Can you throw light on the BOP space because earlier we had planned to go in big way in BOP but we have not got any significant headwin on that so what is our strategy right now and how are we progressing on that?
- P.B. Patel:** We are setting up new infrastructure, new offices, recruiting more manpower to handle all this almost on the verge of getting completed. The entire exercise is almost on the verge of getting completed so that we can do it more aggressively, in the meantime we had quoted for certain BOP projects, however, we were not found to be L1 and therefore we did not stand a chance, but the quoting of jobs for BOP has already started. On the other hand this infrastructure is specially created.
- Jinesh Kamani:** Since we are one of the latest entrant how is pricing in terms of BOP. Have we planned to be little bit aggressive compared to the competitor to bag a new order because BOP is only the first order for us, so to test our market what are our plans?
- P.B. Patel:** I would not be able to dwell on the strategy a lot right now. It will depend on the collective decision of an entire group that has been set up but I would put it this way that we would like to be reasonably conservative rather than be extremely aggressive so that without knowing I would not like to jump into something.
- Jinesh Kamani:** So we would not bid aggressively just to get our first order in the BOP side?
- P.B. Patel:** I would not use the word aggressively. I would say we would try to see that we do not make huge losses in trying to get of this.
- Moderator:** The next question is from the line of Manish Maheshwari from Bluechip India. Please go ahead.
- Manish Maheshwari:** Is there any one off adjustment that we have done in this particular quarter. Other expenditure shot up 40% so is there any one off adjustment that has taken place?

- H.C. Shah:** We have return of certain investment which we had made in the foreign JV as per the advise of our consultant so that will be the thing otherwise there is no such extraordinary thing, which is included in that. There is such provision over the dilution in the value of investment in the foreign JV.
- Manish Maheshwari:** What CapEx are we going to incur for FY'12?
- H.C. Shah:** It will be in the range of 100 to 125 Crores approximately.
- Manish Maheshwari:** What will be the working capital requirement for FY'12? Working capital cycle seems to have deteriorated.
- P.B. Patel:** It has definitely improved except on the debtor days, inventory days have improved. Creditor days have also remained at the same level, only the debtor days, have remained at the same level, so overall net working capital days as on June 30 has remained at 126 days or 130 days compared to one year back or so when it was around 190 days or so. So we are trying to have it further improved year-end by exclusively concentrating on the debtor days, so overall improvement takes place in the net working capital.
- Manish Maheshwari:** What kind of revenue you would look for from material handling equipment for FY'12 as a whole, specifically any guidance on the material handling equipment?
- H.C. Shah:** Out of this 1450 to 1500 Crores out of which if we put in the material handling turnover in the range of 800 to 850 Crores, by gear 600 to 650 Crores.
- Moderator:** The next question is from the line of Chinmay Gandre from Asit C. Mehta. Please go ahead.
- Chinmay Gandre,:** Actually you were mentioning that the competition is easing up and pricing pressure has come down. I think only four or five NTPC bids have opened so far and I think you are L1 in one of them and no bids were opened after that, you are saying that pricing is rather easing out, can you just elaborate on the same?
- P.B. Patel:** I am not expecting the prices to improve in the NTPC jobs because of the fact that there are tier I and tier II companies. In NTPC the tier II companies are also there who are still aggressive and who are operating at pricing levels but there are lot of tenders where only tier I companies participated.
- Chinmay Gandre:** Which customers where only tier I companies would be participating?
- P.B. Patel:** There are certain state government and central government authorities apart from NTPC where only tier I gets qualified and that is where we believe that the pricing of the tier I company has now come to reasonable level which is going to be workable and profitable.

- Chinmay Gandre:** Any significant projects, could you share what projects are there from these states, which are lined up right now?
- P.B. Patel:** More on the Eastern and Northern sector rather than on the West.
- Chinmay Gandre:** Are you bidding for coal handling plant, the entire order, for these projects for the state utilities?
- P.B. Patel:** It would be material handling plants as well as BOP.
- Chinmay Gandre:** NTPC how many orders you expect of coal handling that they will give out this year? What is your take on the same? Could you throw some numbers?
- P.B. Patel:** We could list them out and send it to you but there are couple of projects coming up. Some of them have got delayed but they are anticipating that they would get finalized before coming March?
- Chinmay Gandre:** Roughly how many projects will be that?
- P.B. Patel:** I am presuming about at least I know of at least another three to four of them.
- Chinmay Gandre:** 3-4 NTPC projects .Regarding the project in which you are L1 considering that also that bid also got opened after quite a long time and the margins obviously would be very less on the lower side on that project because for a longtime no NTPC bid got opened and then three to four projects got opened up and you are L1 in one of them. So the margin would be not so great not on the higher side. Can we assume that?
- P.B. Patel:** I would say that the margins are average. They are not very high and very low.
- Chinmay Gandre:** Regarding the product orders in the MHE space are you seen decent flows coming in or whatever decent flow in the current quarter or may be the next quarter?
- P.B. Patel:** The situation is continuously growing and we are saying good inflow of orders coming in and I presume that that should continue.
- Moderator:** The next question is from the line of Ranchit Shivram from B&K Securities. Please go ahead.
- Ranchit Shivram:** . Sir, first of all I would like to ask our progress regarding the greenfield project which we are talking in the last concall regarding helical gear, so any progress on that have we put some money in that?
- P.B. Patel:** The project is on we are expecting that to get finished by let us say before Diwali. Those orders have been placed and the construction has already started.

- Ranchit Shivram:** We were talking about BOP, EPC venture with a Chinese partner, so any progress in that or still we are in the lookout?
- P.B. Patel:** That is carrying on, we have associated ourselves but it was not on an exclusive basis. So we are continuing to pursue jobs together with them.
- Ranchit Shivram:** Again sorry to harp on the same point, in our order book and also in the expected order inflow roughly if you want to put a number what percentage would be products and what percentage would be projects?
- P.B. Patel:** Going further we believe that the projects would further increase, so the percentage would be almost I would say 60% projects and 40% products.
- Ranchit Shivram:** Coming back in project business our margins are relatively less compared to products. So even though we will be able to increase our topline would not you see pressure in the margins also, project business calls for more working capital also?
- P.B. Patel:** Yes and no. The reason is no doubt the margins are less but the way I look at it is that it is an incremental turnover that I am getting, so the percentage may reduce overall in absolute terms the profit would definitely increase.
- Ranchit Shivram:** Finally there was some talks regarding bidding by Chinese companies in NTPC tenders it was told in TRF concall in the last quarter, so do you witness pressure from Chinese competitors in the BOP space also?
- P.B. Patel:** What we have found is that the Chinese companies have not yet got in aggressively especially into NTPC and what we find is that in case they do get in I am sure that their pricing is not going to be that cheap as what we are used to with the typical Chinese firm, the reason is that NTPC has its own requirements and a company who tries to mass produce and standardize on things does not work well with NTPC because NTPC is a very peculiar customer.
- Ranchit Shivram:** So we can be rest assured that we would not be seeing much of competition of Chinese at least in the NTPC bid space?
- P.B. Patel:** That is what I am presuming, you may have a situation where they may come and bag a few orders with extremely low prices and realize this fact and then come back again with higher prices that may also happen.
- Ranchit Shivram:** Final question from my side, in the gear segment Triveni has also planned for some tie up with the company and come out for low speed gears so are we in the same competition? Triveni Engineering is planning tie up with US Company looking for low speed gears, so does not that increase the competitive intensity in the gear space and what is our outlook on that?

- P.B. Patel:** Lufkin is not known for gearboxes of the type that we produce. We compete with them as long as high speed gear boxes are concerned but that is the area, where we have always been competing with Triveni, but that is a very small segment of our market right now, it is microscopic and Lufkin is not known for slow speed gearboxes and especially in an area that we are there so I do not envisage using that technology and using that now know how, Triveni will come into our area at all.
- Moderator:** The next question is from the line of Prerna Jhavar from Emkay Global. Please go ahead.
- Prerna Jhavar:** Could you give some sense to what could be the margin differential between projects and products in the MHE segments?
- P.B. Patel:** Products normally have more margins, I would say the difference, and the delta could be almost to the tune of 5% to 7%.
- Moderator:** The next question is from the line of Ashitosh Darud from Dalal & Broacha. Please go ahead.
- Ashitosh Darud:** I just wanted to know you mentioned that some of your equipment were not delivered in this quarter, which would come up in the subsequent quarters, just wanted to know what was the value of these finished goods, which would be coming up for sale in next quarter?
- P.B. Patel:** What we will do is can we email it you.
- Ashitosh Darud:** One more thing I wanted to know we have seen across the world that most of the companies have manufactured their equipment on time, but because of the delays from the client's side they have to bear the cost for delivery not going on time would Elecon be compensated by the client because you have done your job on time but the clients actually it is because of the fault of the client that you are not able to deliver it on time, so what is your take on that?
- P.B. Patel:** We have not been able to do so for various reasons, the reason is that it is an ongoing relationship with the client and if the delay is not very substantial it is not worth antagonizing the client, the other thing is that there is a very thin demarcation line, they quite often have very smart excuses for not doing that because they would send you the transport clearance a bit later saying so and so is out of station and so forth, they come up with all kinds of excuses and therefore what we normally do is if the delays are not very substantial we try to accommodate the customer.
- Ashitosh Darud:** One more thing the Rs.125 Crores of CapEx for the full year, can you just breakup it between MHE and gears or in any other segment specifically?
- P.B. Patel:** It will be in the range of 60% for gear 60%, 65% and 35%, 40% for MHE. I would say in the range of 60% and 40%.

- Moderator:** We have a followup question from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.
- Madan Gopal:** Sir, my question is on the David Brown you said you will make roughly Rs.250 Crores kind of revenue and 5% PAT that is what you said, right?
- H.C. Shah:** Rs.240 Crores on an annualized basis and the PAT will be in the range of around 5%.
- Madan Gopal:** The total loan outstanding in this 102 Crores compared to Rs.118 Crores at the beginning of the year, we have paid some 15 Crores this quarter or is it to do with the currency, the loan outstanding at the beginning of the year in David Brown was Rs.118 Crores, which has reduced to Rs.102 Crores?
- H.C. Shah:** The first installment is going to take place only in this year, it would be at the same level because we had a moratorium of one year, I mean we are wondering, and anyway we will check the figures and let you know.
- Madan Gopal:** But the interest cost is LIBOR plus 375 basis points?
- H.C. Shah:** LIBOR plus 375all inclusive.
- Moderator:** The next question is from the line of Nidhi Agarwal From Sharekhan. Please go ahead.
- Nidhi Agrawal:** I just wanted to know whether is there delay form the client side in making payments?
- P.B. Patel:** Normally no because the documents are routed through bank and since these projects have already been approved the financing is in place so normally we do not see these problems.
- Nidhi Agrawal:** I am asking because one of your competitor yesterday shared that they are seeing a problem particularly from the construction majors, I guess your exposure to construction is also limited?
- P.B. Patel:** Yes, majority of our clients are either steel plant companies or power companies.
- Nidhi Agrawal:** Again harping on the same point that same optimism you are sharing quite a good number for the year, but same optimism in terms of either in order inflow or the margins is not shared by your peers, not absolute peers but also they are exposed to the same sectors, you are doing something extra what is going right for you and wrong for others?
- P.B. Patel:** Well that is the difference between seeing the glass half full or half empty. I believe that the Indian economy is fairly strong economy and this inflation plus the tightening of the interest rates are going to be short lived and again India would have to bounce back because the overall demand situation is likely to remain high that is my general perception and therefore I believe that this is just a passing phase it is cyclical, it will go away pretty fast.

- Moderator:** Due to time constraints the last question will be from the line of Manish Goyal from Enam Holdings. Please go ahead.
- Manish Goyal:** Just to specify and clarify you said that competitors have stopped bidding aggressively, is it that basically these were the new players who had come in and were bidding aggressively or you are seeing this trend from the traditional players also number one and number two if you can clarify further that when you said that Tier-1 companies would get more priority to bid for state and central utilities why would it be so? Why would Tier-1 companies get a better opportunity to bid in state and central utilities going forward?
- P.B. Patel:** I will explain to you. First of all the trend that we saw where the prices were lower in the past was from established Tier-1 companies. Tier-1 means companies who had been in this business for fairly long period of time and who have had vast experience in the material handling sector and because of their fairly elaborate references they are considered to be Tier-1 because since the equipment or the project planning and design is all tailor made, it is important that the companies selected by the customer should have vast experience and therefore they give weightage to Tier-1 companies and therefore a lot of the customers do not allow Tier-2 companies to come in because what they find is that they are new in this business, they do not have a sustained interest in material handling and if they find that the margins are getting affected they quite often run away from this business leaving them halfway through.
- Manish Goyal:** Has there been any conscious decision taken by any of the utilities or NTPC?
- P.B. Patel:** No it is because of the fact that when the qualification bids come out they demand that level of experience and references.
- Manish Goyal:** Since when this started?
- P.B. Patel:** This has been going on for the last 25 to 30 years, then every company then like NTPC then dilutes it or makes it more rigid.
- Manish Goyal:** What impression we got is that off late we are seeing that these companies would get better priorities to bid for the projects?
- P.B. Patel:** Not better priorities. The Tier-1 companies first of all their prices have become firmer or have become higher, who were earlier bidding very aggressively at negative margins according to us and what we are saying is that if these Tier-1 company prices have gone up only where the Tier-1 companies get qualified for the job, we tend to stand a better chance.
- Manish Goyal:** And also if you can give us breakup of the order book between power, steel and cement?

- H.C. Shah:** In MHE the pending order position as of June 30, out of that 48% is from power, 17% from mining, and 12% from coal, 12% from cement and 5% from steel and 5 from others.
- Manish Goyal:** When you said going forward you expect 1600 to 1700 Crores of order flow assuming large part coming from MHE, would the trend be similar like power would be commanding the larger portion?
- P.B. Patel:** I would say power would be commanding almost 65% to 70% of this.
- Manish Goyal:** This would be largely driven by NTPC and state utilities?
- P.B. Patel:** Both that is also a private sector, NTPC and state utilities all of them put together.
- Manish Goyal:** Last question on this NTPC bulk tendering do you expect that large number of packages should open up for material handling and other BOP projects in the second half of the year?
- P.B. Patel:** As I had mentioned earlier that there are at least three to four jobs, which are likely to get finalized by the year end and there are possibilities that even a few more may get also done.
- Moderator:** Ladies and gentlemen due to time constraint that was the last question, I would now like to hand the floor over to Mr. Vinay Pandit for closing comments.
- Vinay Pandit:** On behalf of PUG I thank you all for participating on this call. I also thank the management of Elecon Engineering Mr. P.B. Patel and Mr. H.C. Shah for providing us their valuable time for this call. Thank you so much sir.
- H.C. Shah:** Thank you.
- Moderator:** Thank you. On behalf of PUG securities that concludes this conference call. Thank you for joining us and you may now disconnect your lines.