



“Elecon Engineering Limited Q1 FY13  
Earnings Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to Q1 FY'13 earnings conference call for Elecon Engineering hosted by Ambit Capital Private Limited. As a reminder for the duration of the conference, all participants' lines are listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call please signal an operator by pressing "\*" and then "0" on your touchtone phone. Please note that this conference is being recorded. At this time, I would now like to hand the conference over to Mr. Bhargav Buddhadev. Thank you and over to you Sir.

**Bhargav Buddhadev:** Good evening everybody. I would like to thank Mr. P. B. Patel, Mr. Prashant Amin, and Mr. H. C. Shah for giving Ambit an opportunity to host the post result conference call. I would now request Mr. P.B. Patel to give us a brief on the current quarter results. Over to you Sir.

**Prayasvin Patel:** I will give you information regarding the first quarter results for FY'13. The total turnover has been 236 Crores out of which material handling equipment has done 111 Crores and gears have done 125 Crores. Compared to Q1 FY'12 results, the growth has been negative 7.3%. The profit before tax for this year FY'13 Q1 has been 9 Crores and PAT has been 6 Crores. Compared to the Q1 results of FY'12, the PBT was 22 Crores and the PAT was 15 Crores.

There has been a negative PAT growth of 57%. The situation is such that right now the conditions are very poor in India as well as abroad, in Europe as well as United States. What we find is that in the projects that we are doing everyone seems to be on the go-slow mode and there are materials, which are ready for dispatch at our place, but the customers are not taking them up. As we have almost 35 to 36 Crores of equipment ready in material handling division, which the customers are not picking up, so, due to this reason the turnover has dropped, and in turn, because the fixed cost being high, we find that the profit before tax has reduced drastically.

We expect that even the second quarter would be a bit slow, but we have high expectations that we will be able to catch up by the third quarter and ensure that we at least grow by 7-8% by the end of the year. So, this seems to be the situation as of now.

The good part is also that we have bagged orders in the first quarter of 667 Crores out of which material handling is 534 Crores and gears is 133 Crores. Now, if you compare this with last year the first quarter sales orders received were to the tune of 329 Crores for MHE and 150 for gears totalling up to be 479, so compared to that 667 seems to be a very healthy inflow of orders. We believe that we are pursuing further inflow of orders and I believe that

by the end of second quarter it would even look much healthier. So, this is the situation in a nutshell.

The unexecuted orders that we have on hand as of June 30, 2012 is right now 1629 Crores. While at the end of March 31, 2012 it was 1212 Crores. So, with this remark I would like to hand over the microphone for any questions. After which there has been also an announcement that we have made to Bombay Stock Exchange regarding restructuring and consolidation for which I am sure that you would be having further questions. Thank you.

**Moderator:** Thank you gentlemen. We have our first question from the line of Prerna Jhawar from Emkay Global. Please go ahead.

**Prerna Jhawar:** I missed out on your opening comments. So, could you please repeat the headline number and tell us why have they been lower?

**Prayasvin Patel:** The first quarter 2013 results have seen a turnover of 236 Crores out of which material handling has been 111 Crores and gear has been 125 Crores. If you compare this with the FY'12 first quarter it is 133 for material handling and 121 for gears totalling up to be 254 Crores a negative of 7.3%. The results and the notification are already on the NSE website.

**Prerna Jhawar:** NSE. I have been looking at BSE. I will check up with NSE. So, what has been the reason for the decline sir?

**Prayasvin Patel:** The decline has been because of the fact that projects have been going slow and the customers have not been picking up the equipments, which are being manufactured for them. We have almost 35 Crores of ready line material available with us in the material handling division ready for dispatch.

**Prerna Jhawar:** Are there any one-off or extraordinary items or provisions or something forex losses?

**Prayasvin Patel:** No, there is no extraordinary item in this quarter.

**Moderator:** Thank you. Our next question is from the line of Chinmay Gandre from K R Choksey. Please go ahead.

**Chinmay Gandre:** Actually even on the BSE we were not able to get your announcement regarding the restructuring so could you throw some light?

**Prayasvin Patel:** It is available on NSE. It is already appearing.

- Chinmay Gandre:** In your results your interest cost has gone up quite drastically so what is the debt position as of now?
- Prayasvin Patel:** As on June 30, the borrowing is at the level of 566 Crores out of which 399 Crores are for working capital and 167 Crores on a long-term borrowing.
- Chinmay Gandre:** This is on standalone basis and what about on consolidated basis?
- Prayasvin Patel:** Standalone only.
- Chinmay Gandre:** Consolidated you will not give the numbers?
- Prayasvin Patel:** That I can give you via email
- Chinmay Gandre:** What would be the average cost of borrowings?
- Prayasvin Patel:** Average cost of borrowing for working capital is around 10.75% and for a long term it is 11.75% on an average.
- Chinmay Gandre:** Could you also throw some light on the Benzlers Radicon subsidiary
- Prayasvin Patel:** For Q1 it is exactly 75 Crores in the first quarter and a growth of 4%. We expect to reach the turnover level of 290 Crores.
- Chinmay Gandre:** What about the margins because last time basically the margins were not there because of the reallocation of funds?
- Prayasvin Patel:** Last year, there was one-time expense. In current year, we will not have such expenses and we expect to have a breakeven for the current year and from next year definitely we will be adding to our profitability.
- Chinmay Gandre:** So, now in first quarter how much EBITDA margin has the business earned?
- Prayasvin Patel:** That we will have to give you through email. Right away the information is not handy.
- Moderator:** Thank you. The next question is from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.
- Madan Gopal:** Just going through the way you has transferred the business. Can you explain what these companies Aakaish and EMTICI currently what is the business they do?

- Prayasvin Patel:** See what we are planning to do is we will answer all the questions regarding the Q1 results right now and then we have with us one of our Executive Directors Mr. Prashant Amin who will go through with you the entire restructuring process and after which you can even ask questions in that regard.
- Moderator:** Thank you. The next question is from the line of Bhoomika Nair from IDFC Securities. Please go ahead.
- Bhoomika Nair:** You said in this quarter that they were certain clients, which actually picked up a little late if you could give us some sense on which sector and which clients actually delayed deliveries?
- Prayasvin Patel:** See basically the majority of the clients are from the power and mining sector and what we find is that overall there is a slowness in the market especially in the business that we are in because either the projects are going slow or either people are waiting for certain clearances or we find that the clients have a situation where they are tight on money and therefore they want to delay the supplies coming to them because their overall project is getting delayed. So, this is the scenario right now, but we expect that over a period of another 90 to 100 days, maybe to 120 days things should start improving.
- Bhoomika Nair:** On back of what do you get the comfort that you know things will pick up in the next two three months as you mentioned right now?
- Prayasvin Patel:** Overall the investment by our final customer is fairly large and we believe that they just cannot afford to waste time because it costs them a lot of money and some of them are issues, which are minor issues whereby the project is getting delayed.
- Bhoomika Nair:** Would it be fair to say that probably the execution cycle that was given to you was slightly early and perhaps now it has been delayed?
- Prayasvin Patel:** No what I would say is that the execution cycle, which was given to us before was a correct cycle but now considering the present scenario which prevails in the country there have been certain delays which I am sure that the customer should be able to iron out because these are projects, which are ongoing
- Bhoomika Nair:** On back of this basically you are reducing your guidance for the current year, now earlier you were guiding for about 1450 to 1500-Crore kind of revenue, now what kind of revenues are you looking at and from each segment?
- Prayasvin Patel:** We are not revising our final figures for the topline; it is just that we believe that the first quarter has been slow. We have also not slowed down our manufacturing because we have

ready line goods, which are of a reasonable value so it is just that the dispatches that have to take place from our company have reduced for the time being and we are confident enough that we should be able to catch up at least latest by the end of third quarter if not earlier.

- Bhoomika Nair:** And what about margin?
- Prayasvin Patel:** We expect margins to be maintained at FY12 levels.
- Bhoomika Nair:** Why has the debt gone up in the current quarter?
- Prayasvin Patel:** Only because of the working capital.
- Moderator:** Thank you. The next question is from the line of Dhananjay Mishra from Sushil Finance. Please go ahead Sir.
- Dhananjay Mishra:** Apart from power sector, which other sectors you are seeing slow down in this quarter or may be last six months?
- Prayasvin Patel:** Basically we are seeing a slow down in all major projects because of the fact that today the economic scenario in the country has not been looking very bright. Cement is not doing so good, neither is steel and neither the power sector, so it is not that they are stopping their expansions or changing their plans, it is just that things have slowed down. I would say that a sizeable contribution to this slowing down is the Government and its policies.
- Dhananjay Mishra:** But in power sector we have good orders and Government is taking steps in terms of fuel supply? With all this do you see these things improving in a three to six months period?
- Prayasvin Patel:** Well, let us hope so. We are all very anxious to get back and roll up our sleeves and do better but the question is the Government has to play its own part and help facilitate the industry.
- Dhananjay Mishra:** What is your order inflow target for this whole year, we have already done about 70 Crores so what is our order inflow and in terms of pipeline you are having about 5000 Crores live enquiry so what could be materialized?
- Prayasvin Patel:** Well it would be difficult for me to say because it all depends on not only my pricing but also the competitors pricing but I believe that we should at least be doing 30%-40% better than what we did last year.
- Moderator:** Thank you. The next question is from the line of Kamlesh Kotak from Asian Markets Securities. Please go ahead.

**Kamlesh Kotak:** I just wanted to understand could you just let us know how is the order pipeline and the over next two to three quarters?

**Prayasvin Patel:** We are expecting some good orders to come in this quarter also and as I have mentioned earlier that by the end of the year we are expected to do 30%-40% better than what we did last year as long as order booking is concerned.

**Kamlesh Kotak:** And which segments will see order intake?

**Prayasvin Patel:** Basically power sector. The reason is that the order finalization cycle has been considerably delayed because a lot of ongoing projects have been delayed so in trying to cut down the overall time of the project once the customers feel that it is an appropriate time they will start speeding up the process and that speeding up will finalize various orders simultaneously.

**Kamlesh Kotak:** Do you see NTPC tenders are to be finalized may be in the near two to three quarters?

**Prayasvin Patel:** Yes, some of them will definitely get finalized. As you know, one of them has already got finalized in our favour and there are some still in the pipeline.

**Kamlesh Kotak:** How is the competitive intensity in terms of the margins and overall kind of business environment with orders coming in not that big quantum, we see most players chasing the orders how you see the margin panning out?

**Prayasvin Patel:** Right now they seem to be at a reasonable level but if the process of ordering gets delayed further then the margins will go under pressure because everyone will be hungry to get more orders since their bellies would be empty and in that case we believe that the margins will get affected.

**Kamlesh Kotak:** Are you also looking at bidding in terms of a consortium? As a BOP player?

**Prayasvin Patel:** We have also made a few bids as a consortium leader and we are keeping our fingers crossed hoping that something would get finalized our way.

**Kamlesh Kotak:** Any major orders lined up from port or metal sectors?

**Prayasvin Patel:** No, not as of now.

**Kamlesh Kotak:** From mining side also?

**Prayasvin Patel:** Mining side we are right now executing one order of NMDC. This is the long distance conveyer, but nothing major except for that.

**Kamlesh Kotak:** How is the outlook for the transmission gear business?

**Prayasvin Patel:** Transmission has been reasonably good up till now. The order inflow has improved temporarily, but as you know it fluctuates from month to month so it is very difficult to say. It will all depend on what kind of projects are going further and what is the situation of the economy because the advantage that you have in gears is that they go to multi-ferrous industries so there is always silver lining on at least some of the clouds, which keeps you going.

**Kamlesh Kotak:** So, overall when you say you are expecting to grow 7% to 8%, is it from both the segments you are talking?

**Prayasvin Patel:** Yes.

**Moderator:** Thank you. Next question is from the line of Kartik Mehta from Sushil Finance. Please go ahead.

**Kartik Mehta:** Are you guiding for maintaining margins in FY13?

**Prayasvin Patel:** Yes, but Second quarter will be bad. However, second half will compensate.

**Kartik Mehta:** So that means second half has to be much better than first half so that means you are looking at flattish kind of a margin compared to last year despite of deterioration in the margin in the first half due to higher fixed cost and less of the revenue generation so you will be having much better margin in the second half that is what is the right assumption?

**Prayasvin Patel:** Yes, that is the right assumption.

**Kartik Mehta:** I was just going through your order inflow for last couple of quarters I think in these quarters order inflow is at multi quarter high at least last four to five years I understand. The highest ever order inflow in the single quarter.

**Prayasvin Patel:** Right, you are absolutely right.

**Kartik Mehta:** So that is the first sign of probably hope and going ahead as you have guided 30% to 40% growth we can see even positive surprise in that front or you would like to keep it as of now at 30% to 40%.

- Prayasvin Patel:** I would say at least we are confident of this, it could be even better.
- Kartik Mehta:** On the working capital front since last two years we are not borrowing much, more or less standalone level I am talking. Our borrowings are more or less flattish but if we improve upon the working capital we can actually improve our return on capital employed, which has been dragging due to heavy CapEx so if you can just throw light on working capital as well as CapEx part?
- Prayasvin Patel:** Yes. This year the company has decided to minimize its capital expenditure and so we are presuming that our long term borrowings will reduce over a period of time and on the other hand as soon as the customer starts lifting the goods and they are in a reasonably healthy position as long as their finances are concerned we would see to it that our working capital borrowings will also reduce.
- Kartik Mehta:** By this year-end, we can see these things to surface out actually?
- Prayasvin Patel:** I presume. That is what our expectations are.
- Kartik Mehta:** Any ballpark number on the capital expenditure front for this year?
- Prayasvin Patel:** The board has approved a capex of about anywhere between 56 and 60 Crores.
- Kartik Mehta:** Year after that?
- Prayasvin Patel:** That has not been finalized as yet. It will all depend upon the economic scenario and the situation.
- Kartik Mehta:** That is all from my side. Thank you.
- Prayasvin Patel:** Mr. Buddhadev. We want to comment on the Group restructuring. Please go ahead.
- Bhargav Buddhadev:** Thank you Mr. Patel for your thoughts on the 1Q FY'13 results. Can I now request Mr. Prashant Amin who will now take us through the group restructuring exercise and once Mr. Prashant Amin is done we can again open the floor for Q&A. Mr. Prashant Amin.
- Prashant Amin:** I will run through the group restructuring scheme that has been approved by the board of directors of Elecon, Prayas Engineering, EMTICI Engineering and Aakaish Project Limited, and give you a few highlights and then I will take on the questions.
- The presentation to that fact is already up on both the stock exchange sites and also on the company website. So, if you have any questions to any query we will take it up once I go

through the highlights. Basically we started out on this exercise of restructuring with an objective of consolidating material handling and power transmission business. The idea is to create a focused and a separate material handling and power transmission entities and to eliminate majority of intragroup transactions by Elecon Engineering and thereby enhance the value to the minority shareholders. Also, the other objective is to keep in mind deleveraging in the balance sheet for raising funds at appropriate evaluation for both the businesses.

We do expect quite a few synergies to give better profit margins and stronger financial positions for placing the competition more effectively in the future. So, these were the basic objectives of the restructuring exercise.

To give you some highlight of the company's involved in restructuring I will start. I am sure most of you know about Elecon Engineering Company as a whole so I will move to the first company Prayas Engineering. That is part of restructuring group.

Prayas Engineering has a ferrous and nonferrous and steel foundry and they also have a very modern fabrication as well as machining capabilities. Over the last four or five years, Prayas Engineering itself has spent and invested to the tune of Rs.50 to Rs.70 Crores in modern equipments and machineries.

Prayas Engineering has two businesses, one is which supports the material handling business and the other is which does subcontracting for the power transmission business. It has a very healthy three-year CAGR of 26% and the sales to the Elecon group grew at CAGR of 11% over the past three years. To give you an idea it also has lot of outside customers and the ratio is roughly 65% of the Elecon business and 35% of the business is the customers outside of the group companies. Also, it has a very healthy EBITDA margin.

The other company involved in this restructuring is EMTICI Engineering Company, which is sales, marketing and servicing arm of Elecon group of companies and it has sales engineering staff of approximately 120 people spread over 17 branch offices throughout the country and also it has a staff of 170 service engineers, which supports both the material handling business as well as the power transmission business. It has service centers, which supports regionally the requirements of people in the different regions of the country.

Running through the current group structure probably all of you know that public shareholders are 54% in Elecon Engineering Company and the promoter group holds roughly 46% of the shareholding. The proposed restructure, will have transferring of the material handling business of Elecon Engineering Company, Prayas Engineering and EMTICI to Akaaish Projects (which is a subsidiary of Elecon Engineering Company).

The other bit is transfer of the power transmission business of Prayas and EMTICI into power transmission business of Elecon Engineering Company. Elecon Engineering Company and Akaaish Projects will issue shares to the promoters of Prayas Engineering and EMTICI for transferring their Material Handling and Power transmission business.

At the end of this exercise, the public shareholding in the Elecon Engineering Company would be 46% and the promoter group will hold 54%. In Akaaish, Elecon Engineering would hold roughly 60.5% of the shareholding and the promoters group will directly hold 39.51% of the shareholding.

I will give you an idea about the agencies involved in carrying out this exercise. The valuation advisor for this has been SSPA & Company, the chartered accountants. We have independent fairness opinion advisors as Keynote Corporate Services Private Limited. From the tax and regulatory we have Price Waterhouse Coopers as advisors and financial advisor for this transaction are Ambit Corporate Finance Private Limited.

So, this is in a nutshell what has been approved by the receptive board of directors. This exercise will be carried out over the next four to five months and we expect to complete the legal formalities by the end of this year approximately I think expecting the date to be about in December of this year. On a proforma basis we expect Elecon power transmission business to gain 11% in revenue (on FY12 basis) and EBITDA to increase by 29.5% (on FY12 basis).

Profit before tax for the power transmission business will go up from 37 Crores to 49 Crores that will be an increase of 30%. These are the highlights of the restructuring exercise that we have decided and we will move forward in a month. I will now invite any one of you if you have any questions or clarifications that you need relating to this restructuring proposal.

**Moderator:** Thank you sir. We have first question from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.

**Madan Gopal:** I wanted to understand what will be the total diluted number of shares post all these restructuring exercise at the Elecon level?

**Prashant Amin:** Roughly we will issue 1.6 Crores shares of Elecon Engineering Company.

**Madan Gopal:** You have given numbers like 148 Crores for proforma consolidated financials in the presentation how much of that would be the gear business and how much would be coming in because of the consolidation from those two businesses?

- Prashant Amin:** Are you referring to page 21 in the presentation?
- Madan Gopal:** Page 4.
- Prashant Amin:** If you go to page 21 and page 22 you have the details of how much of it is coming from which company, page 21 will give you at the Elecon level which is the power transmission business.
- Madan Gopal:** This is for FY'12 so total PBT coming to?
- Prashant Amin:** 49 Crores. The FY'11-12 pre-restructuring PBT is 37 Crores on standalone basis for the power transmission business.
- Madan Gopal:** That is like the 37 Crores in the gears business and through addition it will go to 49 Crores?
- Prashant Amin:** Then Prayas Engineering's contribution on the power transmission business would be 7 Crores on a PBT basis and in the sales and marketing and servicing will give 4 Crores PBT.
- Madan Gopal:** So Elecon will have 49 and the 60% holding in Akaaish that will contribute how much?
- Prashant Amin:** If you go to the next page 22 you see the present FY'11-12 pre-restructuring revenues is 745 Crores, giving PBT of 73 Crores will go to 108 Crores.
- Madan Gopal:** This is total PBT or you say 60% holding?
- Prashant Amin:** This is total.
- Madan Gopal:** 60% holding we will get 64 Crores to the parent company?
- Prashant Amin:** To the parent company yes.
- Madan Gopal:** So 113.8 Crores is PBT that you are looking at post restructuring? Am I right in what I am saying?
- Prashant Amin:** Right
- Moderator:** Thank you. Next question is from Bhoomika Nair from IDFC Securities. Please go ahead.
- Bhoomika Nair:** Basically I was just trying to understand we are only having 60% holding in Akaaish, which is MHE subsidiary and the balance 40% is being held by the promoter group. Now, what I wanted to understand was why this is not being entirely held by Elecon itself?

- Prashant Amin:** The first objective was to consolidate the power transmission and the MHE activity of the group within Elecon and Akaaish projects, which is subsidiary of Elecon and at the same time they wanted the transaction to be cash neutral. Paying cash consideration to the promoter group entities was not an option. Therefore, the business of Prayas and EMTICI was transferred via demerger of Elecon and Akaaish. Consequently, Elecon and Akaaish issued shares to the shareholders of Prayas and engineering and the purchase consideration became cash neutral.
- Bhoomika Nair:** If I add the total 100% of 108 and 49 it comes to 157, which is power transmission and MHE is Akaaish business. It comes to 157 but on this slide it says 148 so I just wanted to understand why that difference?
- Prashant Amin:** The number that you see on slide #4 is on a consolidation, which includes the foreign subsidiary.
- Bhoomika Nair:** Radicon Group acquisition, which was loss making that is why.
- Prashant Amin:** On a consolidated basis was opposed to the ones that you are looking on slide 21 and 22.
- Bhoomika Nair:** This is not adjusted for the proportionate stake that Elecon will have in the MHE segment.
- Prashant Amin:** Yes.
- Bhoomika Nair:** Basically if I look at it, if do a proportionate number for 108 that comes to about 66 for the 60% share for Elecon so the PBT comes to about 114, this without that Radicon Group. That is largely similar to the actual number of 110 that Elecon had reported as PBT level in FY'12. While there is a 17% dilution so how does it become EPS accretive?
- Prashant Amin:** We expect it to be in neutral EPS for FY13 on account of synergies.
- Bhoomika Nair:** What year will be the consolidated debt posts the entire restructuring from the current levels?
- Prashant Amin:** Post restructuring in the power transmission business Elecon Engineering will have net debt of 297 Crores.
- Moderator:** Thank you. Next question is from the line of Abhijith Vara from Equirus Securities. Please go ahead.
- Abhijith Vara:** In the press release you have mentioned that Akaaish will pay cash to Elecon I just wanted to clarify on this how much amount will be the cash consideration?

- Prashant Amin:** It is 130 Crores.
- Abhijith Vara:** Regarding Akaaish would it be possible for you to give me what is the net worth of the company and currently what exactly are its financial?
- Prashant Amin:** The present net worth is 0.
- Abhijith Vara:** Whatever asset you will be transferring to Akaaish that much cash will be replaced in Elecon parent company?
- Prashant Amin:** Yes.
- Abhijith Vara:** For this particular thing, Akaaish raised any debt?
- Prashant Amin:** That is to come through subsequent fund raising exercise.
- Abhijith Vara:** Because there was no issue of shares by Akaaish to external party so I have assumed that Akaaish might be raising debt to give the cash to Elecon parent company.
- Prashant Amin:** The debt would be serviced at the time of fund raising.
- Abhijith Vara:** Earlier to one question after the restructuring how many shares will be outstanding further you have given the answer 1.6 Crores so this 1.6 will be in addition to whatever is current year outstanding right?
- Prashant Amin:** Yes.
- Moderator:** We have a follow up question from Madan Gopal from Sundaram Mutual Fund. Please go ahead.
- Madan Gopal:** I take the numbers as another analyst was highlighting, the EPS does not come to 7.5 as you are claiming to be EPS neutral it is coming to roughly some Rs. 6.9 or Rs.7?
- Prashant Amin:** It is EPS neutral in FY13. In 2011-12 it can be a bit dilutive.
- Madan Gopal:** Okay 2011-12 it is lesser than what we have made EPS in parent right?
- Prashant Amin:** About 10% less.
- Madan Gopal:** Yes, that is what I am saying is against dilution you will get of 130 crs from Akaaish?

- Prashant Amin:** Yes, aside from this we also expect synergies to kick in. This is likely to improve the market competitiveness of Elecon, Prayas Engineering and EMTICI. Synergies will help the power transmission division to book the additional orders because we expect it to be more competitive in securing the orders. Also the corporate management style which is good for individual entity may not be there for the group, so this is also going to change going forward and the manpower rationalization in terms of functional roles and greater managerial responsibility is very much possible and will definitely happen and we obviously expect a better material flow and process control and inventory management to bid the cost of goods sold down by at least 8% resulting in a cost saving of between 10 to 15 Crores and these synergies are definitely expected.
- Madan Gopal:** This is direct cost savings that you are talking about?
- Prashant Amin:** Yes. The whole restructuring exercise is to facilitate the fund raising and the fund rising is the next step.
- Moderator:** Thank you. The next question is from the line of Sundeep Patel from IL&FS. Please go ahead.
- Sundeep Patel:** We have now 60% owned subsidiary and that subsidiary will be issuing some shares to the promoters and Akaish will also make a cash payment to Elecon for the transfer of the business. We have not just issued the share of the listed company to the promoters to the transfer of the unlisted business then both these could have been in the listed company and entirely even in listed company and your shareholding could have been gone up in the listed company, any reason not to follow that?
- Prashant Amin:** The group wanted to keep the entire value of MHE within the Elecon Engineering business, the demerger would have resulted in two listed entities with parallel surroundings that was not there. We do understand that the investors are more likely to be interested in acquiring substantial minority shareholding in the unlisted entities, which also do not trigger any take over. So keeping those things in mind we have selected this route.
- Moderator:** Thank you. The next question is from the line of Kamlesh Kotak from Asian Markets Securities. Please go ahead.
- Kamlesh Kotak:** Two points are dwelled upon one is fund raising, so could you just throw some more details about how you are planning to go for the fund raising and the quantum of it and the time lag?

- Prashant Amin:** The fund raising and other activities would be carried out once we complete the group restructuring process and once that pans out we will evaluate the best fund raising options, which we expect it towards the end of year.
- Kamlesh Kotak:** Could you quantify the amount?
- Prashant Amin:** That is under evaluation as to the requirement and also would see what the opportunities available are at that time. We will also determine what kind of fund raising we want to go for.
- Kamlesh Kotak:** So what it would be towards the further expansion or M&A kind of opportunity are you looking it?
- Prashant Amin:** It would be a combination of debt reduction and opportunities in the market in terms of acquisitions and also for any capital expenditure that we may require looking into the future in that point in time.
- Kamlesh Kotak:** Secondly, now with this restructuring we have two entities, EIMCO Elecon also is there, where also all the three entities are holding some or other aspects, so are you looking at any synergy between these two entities now?
- Prashant Amin:** No, they are in separate business and we are not evaluating EIMCO Elecon to be a part of it.
- Kamlesh Kotak:** There is no synergies between these two?
- Prashant Amin:** No and also there are no transactions or any intercompany transactions also between these two companies.
- Kamlesh Kotak:** So, what will happen to the shareholding, which is lying in both these entities for each Akaaish, Prayas and Elecon, so they also would be merged together or they would remain as they are?
- Prashant Amin:** Prayas Engineering is transferring business, EIMCO Elecon is an independently listed company, so that has nothing to do with the transaction, and so I am not clear as to whose shareholding that you are referring to.
- Kamlesh Kotak:** It means there is no change as far as EIMCO Elecon is concerned.
- Prashant Amin:** No.

- Moderator:** Thank you. We have a next followup question from Bhoomika Nair from IDFC Securities. Please go ahead.
- Bhoomika Nair:** Just wanted to check there are some assets in Prayas Engineering and EMTICI Engineering which remain as part of the promoter group itself and has nothing to do with Elecon?
- Prashant Amin:** Only business that relates to material handling business of Elecon as well as power transmission business of Elecon is being transferred to Elecon Engineering Company. The EMTICI Engineering will continue doing the other businesses that we are in and any other real estate type of business that we are in as well as the hotel.
- Bhoomika Nair:** Okay, the other question is related to taxation, all these numbers out here that you have mentioned is all related to PBT, so are they paying Prayas and EMTICI are they paying similar taxes of 35% of Elecon Engineering?
- Prashant Amin:** Yes.
- Bhoomika Nair:** So the PAT level would be the similar to that extent?
- Prashant Amin:** In proportion.
- Bhoomika Nair:** In proportion, okay, now sir you have mentioned we are issuing about 1.6 Crore shares to the promoter group, now 1.6 that is basically means about 88 Crores worth of shares that we are actually issuing and if I look at the proportionate, if I take 11 Crores of the power transmission, PBT?
- Prashant Amin:** It is 1.60 Crore share.
- Bhoomika Nair:** Yes sir, so basically 1.65 if I do into the current market value it is about 88 Crores right Sir? Market cap 88 Crores worth of shares value, not number of shares?
- Prashant Amin:** 52 whatever.
- Bhoomika Nair:** 52 to 55 basically round number I have taken 55 and 1.6 Crores. So basically if I look at on the PBT basis there is 11 Crores of addition that is coming in from on the power transmission side and for the proportionate taken the MHE segment of 60% it is 21 Crores, so we are adding about and adjusted for taxes about 20 Crores of PAT addition.
- Prashant Amin:** Are you referring to the 21 and 22?

- Bhoomika Nair:** Yes, yes, if I look at it, the new businesses are getting in which is Prayas and EMTICI for the power transmission are getting 11 Crores of PBT and for MHE they are getting in 35, so for the proportionate stake of 60% of Elecon it will be about 21 Crores, 11 Crores of the power transmission, so that is a total of 32 Crores adjusted for tax that would mean about 20 Crores of PAT to be added broadly.
- Prashant Amin:** On consolidation, yes.
- Prashant Amin:** One thing that I would like to add there have been some questions on the EPS dilution Akaaish will pay interest on the 130 Crores to Elecon and therefore the EPS dilution comes down substantially in FY12 itself but after FY12 EPS will be more or less flat going forward once debt has been repaid.
- Moderator:** Thank you sir. We have a next question from the line of Sumit Mangal from Birla SunLife Mutual Fund. Please go ahead.
- Sumit Mangal:** I just wanted to understand one thing just carrying forward Bhoomika's question, see 11crs and 35crs, it is 46crs what we adding on the PBT level, but we are giving away close to 40% for the MHE business, so from 73crs if I reduce 40% of that so net-net Elecon is getting a 17 Crores on PBT level, so on PAT level is close to 11 Crores for which we are paying 85 Crores or something, is it right Sir?
- Prashant Amin:** No, we will have to review the numbers with you again.
- Sumit Mangal:** 11 is what we are getting and we are in PT business, which is like transmission business 7 plus 4.
- Prashant Amin:** Actually if you net of off everything the way we look at it is profit before tax margins are actually increasing by almost 30% on power transmission at the Elecon group level and they are also going up by 48%.
- Sumit Mangal:** I completely agree on the margin front, but I just wanted to know the calculation that I am doing it right or wrong, 11 Crores is what Elecon is getting 7 plus 4 on the transmission side and then you are actually doing this 14 plus 21 is what you are actually getting on the MHE side, so that is in all what you are getting is 46 and at the same time it is giving up earlier it is to make 73 Crores of PBT in MHE, so now 40% will be shared by promoters, so 40% has to be given back to the promoters of this, so net-net 46 minus 27 is 17 Crores.
- Prashant Amin:** The 130 Crores, which is part of the transaction, is what we are not highlighting.
- Sumit Mangal:** So, what is the 130 Crores?



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**Prashant Amin:** That is consideration for Elecon MHE business

**Sumit Mangal:** Sorry sir, I did not get you, 130 Crores is?

**Prashant Amin:** Akaaish has to pay 130 Crores and pay interest on it till the money is pay back.

**Moderator:** Thank you. Ladies and gentlemen due to time constraints that was the last question. I now will handover the conference to Mr. Bhargav Buddhadev. Thank you and over to you sir.

**Bhargav Buddhadev:** Thank you very much. We would like to thank the management for taking out time to talk for investors on Q1 FY 2013 results and also group restructuring in place. Thank you very much.

**Moderator:** Thank you gentlemen and thank you management. On behalf of Ambit Capital that concludes this conference. Thank you for joining us.